



FOREIGN DIRECT INVESTMENTS IN THE ECONOMY OF KYRGYZSTAN

During the last few years, the economy of Kyrgyzstan has grown due to the significant increase in gold exports and trade with the neighbouring countries. Although the economic recession in Russia led to a decline in the demand for Kyrgyz goods, which caused a reduction in non-gold exports of the country in 2015, economic growth rate increased from 3.6% in 2014 to 7.3% in 2015. Especially the structural reforms and the public investment program implemented by the Kyrgyz Government have significantly contributed to the high performance of economic growth.

The structural reforms include the following: (i) the implementation of public sector reform road map, which was adopted in May 2014. This road map identifies the policy actions to increase the coordination in anticorruption activities between the government agencies, to revise the system of public services and to establish a more professional management in energy and mining sectors. (ii) The implementation of a new procurement law that meets international standards. This law has been enacted to remove loopholes in public procurement and decrease opportunities for corruption. (iii) The important steps, which have been taken to improve business regulation. This is especially for foreign investors. As the new law on licensing and permits was passed, regulations have been drafted to make clear the requirements for specific business, to establish procedures for overseeing license holders and to introduce a licensing roster. (iv) The adoption of the Private Sector Development Strategy, which was approved in February 2015. This strategy aims to remove impediments to business activities and improve the investment climate. It should also reinforce current reforms in public-private partnership and inspections as a part of regulatory reform. It is clear that all these structural reforms have been enacted to improve domestic conditions to attract foreign direct investments (FDI) to the economy. On the other hand, the Kyrgyz Government has strongly been supporting the policies to attract FDI in order to in-

crease the competitiveness and to improve the investment climate in the country. In this sense, it is important to note that Kyrgyzstan has been presenting an open FDI regime since the adoption of the Foreign Investment Law of 2003. This Law has been providing the ability to freely undertake transactions to repatriate profits and national treatment for foreign investors. It should be emphasized that investment incentives for foreign investors include tax incentives for private partner under a Public Private Partnership (PPP) Agreement. In this regard, corporate income tax (at a rate of 10%) and Value-Added Tax (VAT) (at a rate of 12%) are implemented in the framework of tax incentives. As a result of the improved FDI climate, FDI inflows to the economy of Kyrgyzstan have grown at a rapid pace in the past decade. Between 2001-2013 period, FDI inflows have grown at a Compound Annual Growth Rate of around 52%. Tax incentives have made a significant contribution to this growth. In this sense, with the help of these incentives, FDI increased from 292.6 million dollars in 2013 to 757.6 million dollars in 2014 and to 818 million dollars in 2015. Besides, with a number of confirmed foreign projects and Russia's commitment to support Kyrgyzstan's accession to the Eurasian Economic Union (EEU) by establishing 1 billion dollar Russian-Kyrgyz Fund, FDI are expected to reach 5% of GDP between 2016-2019.

In Kyrgyzstan, foreign investors have been mostly interested in tourism and mining sectors. According to the data from World Travel and Tourism Council (WTTC), direct contribution of tourism sector to GDP was 92.8 million dollars in 2015 and it is expected to increase to 147.4 million dollars by 2025. The tourism sector in the country is expected to grow at an annual rate of 5% between 2015-2025. While in 2015, the capital investments and business spending in the sector amounted to 72.3 million dollars and 235.2 million dollars respectively, these figures are expected to increase to 107.5 million dollars and 366.2 million dollars by 2025. On the other hand,

foreign investment opportunities in the mining sector is of great importance for the investment climate. As known, Kyrgyzstan has one of the largest mineral deposits in Central Asia. Exploration and production of gold is essential for the economy, especially as a major export. Besides, 60 mineral deposits are explored. In non-ferrous metals, 7 large deposits of antimony and 3 large deposits of tin and tungsten have been found. Regarding these activities, FDI inflows of about 218 million dollar have been attracted into the mining sector between 2010-2015. The public investment program implemented by the Kyrgyz Government also supports the activities in both tourism and mining sectors.

However, this program was financed by external debt. As a result, net external debt to GDP ratio increased from 76.3% in 2014 to 81.2% in 2015. It should be mentioned that a high net external debt, which constitutes approximately 80% of current account receipts (CARs) will take place in 2016-2019 period although this ratio was only 30% in 2012-2015 period. In this regard, the government should find new ways to keep external debt at sustainable levels without discouraging FDI. In this sense, the Kyrgyz Government has been implementing a public debt policy in order to stabilize public debt. This policy includes three steps: (i) evaluating the importance of the project, (ii) deciding to borrow from external or domestic markets and (iii) deciding on an affordable interest rate. Moreover, the government should give priority to growth-enhancing projects.

In time, Kyrgyzstan's business environment has become more business friendly with the government signing more trade and investment agreements with other countries and providing incentives to foreign investors. Therefore, we can expect that with the policies mentioned above, the government can keep public debt at sustainable levels without discouraging FDI and the overall long term trend of increased FDI inflows could continue.

Politics, Foreign Affairs and Security

- The Central Electoral Commission of Azerbaijan announced that over 84% of voters supported the adoption of the set of amendments to the Constitution. As a result of the referendum, 29 proposals were approved including raising the presidential term from five years to seven, granting the President the right to dissolve Parliament and schedule an early presidential election and introducing two vice-presidential positions. The changes mean that Ilham Aliyev will run for the new presidential term in 2020, instead of 2018.
- During his official visit to Tehran, the Deputy Foreign Minister of Kazakhstan, Akylbek Kamaldinov, and his Iranian counterpart, Ebrahim Rahimpour exchanged views on issues of mutual interest, and discussed ways to expand bilateral cooperation in areas such as politics, economy and trade areas as well as cooperation in banking, transit, rail and marine transport, energy and agriculture sectors.
- During his official visit to Baku, the Chairman of the House of Representatives of the Supreme Assembly of Tajikistan, Shukurjon Zuhurov, and the Prime Minister of Azerbaijan, Artur Rasizade, discussed the opportunities for boosting beneficial cooperation between two countries. The parties also touched upon the Nagorno-Karabakh conflict highlighting the necessity to solve the problem within the norms of international law.
- During his visit to Moscow, Special Representative for Korean Peninsula Peace and Security Affairs of South Korea, Kim Hong-kyun, and the Deputy Minister of Foreign Affairs of Russia, Igor Morgulov, exchanged views on the situation in the Korean peninsula in the light of North Korea recent nuclear missile test. The parties expressed concerns over the ignorance by Pyongyang of the demands of respective resolutions of the UN Security Council.
- The Head of the OSCE Center in Ashgabat, Natalya Drozd, reported that in order to contribute to ensuring border security in the Central Asian region, the Center organized a series of training courses for the State Border Service of Turkmenistan. It was stated that international experts introduced participants to the types and forms of border patrols, including reconnaissance and tracking patrols, border patrol routine and techniques, information collection and terrain analysis.

- During the 2nd Azerbaijan International Defence Exhibition, ADEX 2016, the Minister of Defense Industry of Azerbaijan, Yaver Jamalov, stated that the country's enterprises producing military equipment, weapons and ammunition have been completely reconstructed in order to create 125 products of military purpose, which reached the level of NATO standards.

Economy, Finance and Energy

- According to the Oil and Gas Complex of Turkmenistan, the Turkmenoil State Concern continues to drill the first ultra-deep exploratory well to search for new hydrocarbon fields on the Uzynada prospective area. To date, the drillers reached a depth of 4,500 meters, while the total depth of the well is 7,150 meters.
- The Member of Board of the Russian state-owned gas company, Gazprom, Vsevolod Cherepanov, estimated reserves of the newly discovered Yuzhno-Lunskoye field in the Sea of Okhotsk at 40 billion cubic meters of gas. It was noted that the estimations are preliminary, actual reserves might be even more. The field does not contain any oil.
- The Head of the International Monetary Fund (IMF) Mission in Kyrgyzstan, Edward Gemayel, reported that the country's state debt reached 70% of GDP or \$4.72 billion. It was noted that two years ago, the state debt of Kyrgyzstan was 43-44% of GDP. According to the report, the debt corresponds to moderate risk of debt sustainability, and the IMF recommends fiscal consolidation and gradual reduction of the budget deficit.
- The Asian Development Bank (ADB) announced that it approved a loan and grant amounting to \$95.1 million to rehabilitate a 70-kilometer section of the North-South Alternate Road Corridor in Kyrgyzstan.
- During the 12th Intergovernmental Uzbek - Turkmen Commission on Trade - Economic, Scientific - Technical and Cultural cooperation, the issues of increasing mutual trade, regulating of property and debt relations were discussed. Representatives of the Governments of Uzbekistan and Turkmenistan identified carrying out coherent policy for rational usage of water resources as the priority area of cooperation in the region. In addition, the sides discussed the continuation of mutually beneficial cooperation in the transport-transit sphere by providing mutual preferences for transportation of foreign trade freights.

- According to the National Bank of Kazakhstan, in August 2016 the country's gold and foreign currency reserves increased by 1.09% month on month and by 10.15% to \$30.71 billion in January-August 2016, which is the highest amount for the last 4 years. Growth in the price of gold this year helped to increase the country's gold reserves to \$10.31 billion, or by 36.13% in January-August 2016. Foreign exchange reserves increased by 0.46% year on year and 1.81% month on month to \$20.39 billion. In addition, in August 2016 assets of the National Fund increased by 0.2% month on month and by 2.12% to \$64.85 billion in January-August 2016.

Society and Culture

- The Eurasian Summer School initiative was launched by the Eurasian Research Institute in Kazakhstan in 2016. The Summer School in Kazakhstan was organized jointly by the Turkic International Academy and was financed by the Presidency for Turks Abroad and Related Communities. Under the project, 20 students from 10 different countries participated in the Summer School and meetings with key institutions of Kazakhstan were conducted.
- According to the Global Competitiveness Report 2016-2017, which was released during the World Economic Forum, Azerbaijan took the 37th place out of 138 countries and held the highest position among the CIS. The country is followed by Russia (43rd place) and Kazakhstan (53rd place).
- The Regional Emergency Situations Department of the Mangistau region of Kazakhstan reported about an accident occurred at Karazhanbas oil field. An emission of gas and water mixture occurred at the Karazhanbas field's well №5529. No one was injured.
- On the sidelines of the General Assembly in New York, the Foreign Minister of Turkmenistan, Rashid Meredov, signed the Paris agreement on climate change. To date, the representatives of 191 countries signed the document.
- During the meeting held in Shanghai, the representatives of the Russian Federal Air Transport Agency (Rosaviatsia), the State Air Traffic Management Corporation of Russia and the Chinese Civil Aviation Administration discussed new routes and sites of border crossing including the possibility to provide more detailed information on each other's flights.