INTRODUCTION TO THE KYRGYZ REPUBLIC

GENERAL INFORMATION

- **Official name:** Kyrgyz Republic
- **Form of government:** Parliamentary republic
- **Language:** Kyrgyz (state) Russian (official)
- **Currency:** KGS
  - 1 USD = 67.68 KGS
  - 1 Euro = 73.85 KGS
- **Financial and cultural centers:** Bishkek city and Osh city

- **Capital:** Bishkek
- **Total territory:** 199.9 thous. sq.km
- **Population:** 6 million
- **Average age:** 27 years
- **Time zone:** UTC+6
- **Climate:** moderate continental
**BASIC MACROECONOMIC INDICES**

**GROSS DOMESTIC PRODUCT (bln. USD)**

In 2015-2016 GDP in USD decreased due to USD strength in global market, however annual growth of GDP in absolute terms is 104%.

**PER CAPITA GDP (in USD)**

Stable growth of quality of life as an indicator of dynamic emerging economic growing.

**STRUCTURE OF THE GDP**

- Services: 50%
- Agricultural industry: 13%
- Industry: 17%
- Construction: 11%
- Others: 9%
BASIC MACROECONOMIC INDICES

FOREIGN DIRECT INVESTMENTS INFLOW (MLN. USD)

The Kyrgyz Republic makes efforts towards creation of favourable business climate. Owing to these efforts, the volume of the foreign investments for the last 10 years has increased more than 4 times.

UNEMPLOYMENT LEVEL (%)

According to official statistics, the unemployment level for the last 5 years averaged at 8,5 %. In 2013, it fell by 0,8% to the level of 7,7%. The forecasted level of unemployment in the following years is expected to reduce up to 7,1% in 2016.
**ACCESS TO EXTERNAL MARKETS**

- **The Kyrgyz Republic** is in the center of Eurasian continent and has advantageous geographical location that makes it possible to access large markets of the neighboring countries. The Republic takes strategic position between the CIS and Asia-Pacific Economic Cooperation Society, being the one of the main transit routes through Central Asian corridor. The Republic builds mutual trust relations not only with the countries of the region, but also with the far abroad countries.

- Goods from the Kyrgyz Republic have the access to the **markets with population of more than 2 bln. people**.

- The Republic is planning to enter into the **Customs Union of Russia, Kazakhstan and Belarus** that will facilitate the entry of the goods to the large market. As a result, it is expected that the investments to the manufacturing industry will yield high rate of return.
STRATEGIC LOCATION AND BENEFICIAL CO-OPERATION

THE REPUBLIC IS THE PARTICIPANT OF THE FOLLOWING INTERNATIONAL ASSOCIATIONS:

- Multilateral Investment Guarantee Agency (MIGA)
- International Development Association (IDA)
- The Shanghai Cooperation Organization (SCO)
- The United Nations
- The World Trade Organization (WTO)

The countries of CIS free trade regime

The countries of EurAsEC Customs Union

The countries of WTO the most favored nation treatment

The Least Developed Countries preferential regime

IN RELATION TO ITS TRADE PARTNERS THE KYRGYZ REPUBLIC APPLIES THE FOLLOWING TRADE REGIMES:
FAVOURABLE INVESTMENT CLIMATE

LIBERAL LEGISLATION

- Most favored nation treatment regime
- Equal conditions for activity of foreign and local companies
- Right of access of the investors to international arbitrage
- Guarantees of export or repatriation of investments, property and information outside the Kyrgyz Republic
- Guarantees of protection from expropriation of investments and compensation of losses to the investors
- Freedom of monetary operations, etc.
- Wide protection of foreign investors rights by law on investments of the Kyrgyz Republic
- Access to all sectors of economics
- Participation in privatization, purchase of shares and securities of Kyrgyz companies
- Opportunities of wide cooperation with the state under the law on state and private partnership in the Kyrgyz Republic, guarantees of profit and fiscal preferences under the creation and operation of the state objects
- Freedom of choice for form and objects of investments
FAVOURABLE INVESTMENT CLIMATE

FREE ECONOMIC ZONES

“Bishkek” is in the capital of the Republic, an economic and political center of the country in Chui Region

“Karakol” offers huge opportunities for tourism development in Issyk-Kul region

“Maimak” is conveniently located at the intersection of routes of international transport communication in Talas region

“Naryn” has significant potential for development of tourism and mining industry in Naryn region. Area is of 47 thous. sq.km that is about 1/4 of all territory of the country.

Favorable position for the development of cross-border trade

- Favorable position for the development of cross-border trade
- FEZ entities perform trade with 68 countries of the world
- Export supplies to 27 countries of the world
- FEZ goods turnover with the countries of the world has grown 3 times and amounts 300 mln. USD

Profits from FEZ activity:
- All types of taxes, dues, payments and fees reductions and exemptions
- Customs duties of commodities exemption
- Quote allocation and licensing exemption
- Simplified regime of entry and exit for foreign employees
- Simplified and accelerated registration of economic entity
- Simplified customs clearance procedures
- Direct access to infrastructure necessary for the activity performance

Trade structure of export and import operations of FEZ entities

- Food products and farm raw materials: 50%
- Textile and textile products: 19%
- Metals and metal products: 67%
- Machines, equipment, transport vehicles: 3%
- Mineral products: 6%
- Others: 5%
FAVOURABLE INVESTMENT CLIMATE

BILATERAL INTERNATIONAL AGREEMENTS

Double taxation risk protection:
Russia, Kazakhstan, Turkey, Korea, China, Canada, Switzerland, Belarus, Uzbekistan, Tajikistan, Ukraine, Malaise, Mongolia, Austria, Poland, Finland, Moldova, Latvia, Lithuania, Pakistan, India, Germany.

Foreign investment encouragement and protection:
China, Turkey, USA, Iran, Pakistan, Malaysia, Armenia, Azerbaijan, France, Ukraine, Indonesia, Uzbekistan, Great Britain, Kazakhstan, Georgia, India, Germany, Switzerland, Belarus, Mongolia, Tajikistan, Swiss, Moldova, Finland, Austria, the Czech Republic, Slovakia

TAXATION
The most profitable tax rate in the region:

<table>
<thead>
<tr>
<th>Tax</th>
<th>The Kyrgyz Republic</th>
<th>Tajikistan</th>
<th>Uzbekistan</th>
<th>Kazakhstan</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>12%</td>
<td>20%</td>
<td>20%</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>10%</td>
<td>8-13%</td>
<td>10%</td>
<td>10%</td>
<td>5-45%</td>
</tr>
<tr>
<td>Profit Tax</td>
<td>10%</td>
<td>25-30%</td>
<td>9-35%</td>
<td>10-20%</td>
<td>15-25%</td>
</tr>
</tbody>
</table>

There only 8 types of taxes in the country:
- VAT
- Income tax
- Business tax
- Excise tax
- Tax on subsoil use
- Sales tax
- Land tax
- Wealth tax

LOW ELECTRICITY COST

<table>
<thead>
<tr>
<th>Country</th>
<th>Price for 1 kw/h (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Kyrgyz Republic</td>
<td>0.03</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>0.07</td>
</tr>
<tr>
<td>Russia</td>
<td>0.05</td>
</tr>
</tbody>
</table>

LOW WAGES

<table>
<thead>
<tr>
<th>Country</th>
<th>Average monthly wage (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Kyrgyz Republic</td>
<td>201</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>465</td>
</tr>
<tr>
<td>Russia</td>
<td>563</td>
</tr>
</tbody>
</table>
CHEAP AND QUALIFIED LABOR FORCE

WAGES

Average monthly wage **in 2016 was 201 USD.**

Average monthly wage on types of economic activity (USD)

- Financial activity: 431 USD
- Transport and communication: 376 USD
- Mining industry: 373 USD
- Electricity, gas and water supply: 257 USD
- Construction: 197 USD
- Manufacturing industries: 190 USD
- Real estate operations: 174 USD
- Hotels and restaurants: 169 USD
- Health and education: 145 USD
- Agriculture: 133 USD

Average monthly wage of **small businesses at the territory of the Kyrgyz Republic (USD)**

Average monthly wage of small businesses through the Republic in 2016 made **116 USD.** However wages in all regions besides Bishkek city is significantly lower than average in the Republic.
There are 52 higher education schools and 231 elementary and secondary professional educational institutions functioning in the Kyrgyz Republic. 52,800 specialists of elementary and secondary educational levels and 41,700 specialists of high educational level have been graduated during the passed year only.
TRADE OASIS IN CENTRAL ASIA

INTERNATIONAL TRADE

The Kyrgyz Republic was the first country among the CIS countries that joined the WTO in 1998. Currently, the Kyrgyz Republic has the most liberal trade conditions in Central Asia.

During the last 10 years the Kyrgyz Republic turnover with countries worldwide has been exceeding the GDP level indicating economy openness.

The Republic traded with 145 countries worldwide, exported goods to 82 countries in 2013. Export was oriented to both neighboring countries and far-abroad countries.
TRADE OASIS IN CENTRAL ASIA

MAJOR TRADE JUNCTIONS

Two large markets Dordoi and Kara Suu are the major trade centers in Central Asia. These markets are re-export centers of goods from China to Tajikistan, Uzbekistan, Kazakhstan, Russia and other countries.

Dordoi
Dordoi market is one of the major transit points, via this market, consumer goods from China come to Kazakhstan and Russia markets.

According to WTO data there are 800 thousand people acting at the market directly or indirectly (13% of population). Employment is 54 000 people. The market turnover is approximately 4 billion USD.

Kara-Suu
Kara-Suu market is the major trade center in the South of the Kyrgyz Republic. It is an important center of Chinese goods re-export to Uzbekistan and Tajikistan.

Employment is more than 16 000 people. Annual sales volume is more than 600 million USD most of it goes abroad.
EFFECTIVE INVESTMENTS IN THE KYRGYZ REPUBLIC SINCE INDEPENDENCE

“Coca-Cola bottlers” is the largest enterprise specializing on the production and distribution of alcohol free drinks of The Coca-Cola Company, successfully operating at the country market for more than 15 years.

Golden Tulip - the first international four-star hotel in Kyrgyzstan.

Centerra Gold Inc. is one of the largest gold-mining company in the world operating at the territory of the Kyrgyz Republic since 1992.

Chaarat Gold Holdings Limited is one of the largest gold-mining investors in the Kyrgyz Republic since 2002.

Demir Kyrgyz International Bank was established in 1997. It is the first bank in the Kyrgyz Republic consisting of 100% foreign capital.

Wimm Bill Dann was established in 1998. The Company is a leader at the market of dairy production and child nutrition.

Oil Company Gazpromneft Asia Ltd is the largest operator at wholesale and retail markets of oil products and liquefied hydrocarbon gas operating since 2006.

Beeline is a large mobile operator of the Kyrgyz Republic with covered territory up to 90% of the country population.

The Hotel Hyatt Regency Bishkek is a five-star hotel, a leader of hotel business.

Russia Investment Bank OJSC is the first bank of Russia in the Kyrgyz Republic which is one of the largest banks in the bank sphere of the country.
According to the World Bank Report on “Doing business” and International Index of Economic Freedom, calculated by the Heritage Foundation Research Centre, in 2016 the Kyrgyz Republic is a leader among other countries of the region on the following criteria:

**INDEX OF ECONOMIC FREEDOM**
- Taxation system
- Ease of doing business
- Labor market freedom
- Free trade
- Free investment activity
- Favorable financial policy of the government

**DOING BUSINESS**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of steps to open business</th>
<th>Number of days to open business</th>
<th>Number of procedures to get permission for construction</th>
<th>Average number of days to get permission for construction</th>
<th>Number of days necessary for property registration</th>
<th>The extent of rights protection in credit operations (according to 10 point scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyrgyz Republic</td>
<td>4</td>
<td>2</td>
<td>11</td>
<td>13</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>4</td>
<td>2</td>
<td>14</td>
<td>22</td>
<td>22</td>
<td>6</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>4</td>
<td>2</td>
<td>14</td>
<td>23</td>
<td>23</td>
<td>6</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
<td>2</td>
<td>22</td>
<td>27</td>
<td>27</td>
<td>6</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>5</td>
<td>2</td>
<td>22</td>
<td>27</td>
<td>27</td>
<td>6</td>
</tr>
<tr>
<td>Russia</td>
<td>9</td>
<td>2</td>
<td>23</td>
<td>27</td>
<td>27</td>
<td>6</td>
</tr>
<tr>
<td>China</td>
<td>9</td>
<td>2</td>
<td>23</td>
<td>27</td>
<td>27</td>
<td>6</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
<td>2</td>
<td>23</td>
<td>27</td>
<td>27</td>
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</tr>
<tr>
<td>Uzbekistan</td>
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<td>2</td>
<td>23</td>
<td>27</td>
<td>27</td>
<td>6</td>
</tr>
</tbody>
</table>

**DOING BUSINESS 2017**

- The Kyrgyz Republic: 4 steps, 2 days, 11 procedures, 6 days to get permission for construction, 22 days to get permission for property registration, 11 points for rights protection.
- Tajikistan: 4 steps, 2 days, 14 procedures, 14 days to get permission for construction, 15 days to get permission for property registration, 4 points for rights protection.
- Uzbekistan: 4 steps, 2 days, 14 procedures, 14 days to get permission for construction, 15 days to get permission for property registration, 4 points for rights protection.
- China: 5 steps, 2 days, 22 procedures, 23 days to get permission for construction, 28 days to get permission for property registration, 22 points for rights protection.
- Kazakhstan: 5 steps, 2 days, 22 procedures, 23 days to get permission for construction, 11 days to get permission for property registration, 22 points for rights protection.
The Kyrgyz Republic is one of the largest mineral deposits in Asia. The country is rich with mineral resources and well known for its gold reserves and deposits of rare metals.

Currently, the mining industry is represented by the following sectors:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>More than 60 gold deposits have been explored in the country;</td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>There are 7 large deposits of antimony and 3 major deposits of tin and tungsten;</td>
</tr>
<tr>
<td>Coal</td>
<td>Geological reserves and projected reserves of coking coal reach 260 million tons, which makes it possible to begin work on their exploration and the construction of coke and by-product process;</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>15 oil and gas fields are developed in Jalal-Abad, Osh and Batken oblasts;</td>
</tr>
<tr>
<td>Deposits of construction materials</td>
<td>Hundreds of deposits of construction materials, mining and chemical raw materials. Three operating cement plants with capacity of 1.37 million tons per year, dozens of brick factories;</td>
</tr>
</tbody>
</table>
The level of investment inflow to the sector was 359.9 mln. USD from 2010 to 2016 and has a tendency of growth.
ECONOMIC SECTORS: TOURISM

- Over 100,5 thousand operating companies
- 5.2% of all workers of the country
- Exports of services is 560,0 million dollars, 7.8% of country's GDP
- More than 3 million foreign visitors in a year

LARGE POTENTIAL OF THE INDUSTRY

- Health tourism
- Extreme tourism
- Mountain tourism
- Diving
- Water tourism
- Sports tourism
- Cultural tourism (sightseeing)
- Business tourism
- Event tourism

Unique Issyk-Kul Lake is the second largest alpine lake in the world
The country is crossed by the Great Silk Road which attracts thousands of tourists
The growing trend of outbound tourism of nearby Southeast Asia and India
The rating of the Globe Spots international group of independent travelers includes the Kyrgyz Republic in a list of 10 countries to visit in 2016

Visa-free travel for 61 countries:

Australia, Austria, Belgium, Bosnia and Herzegovina, Vatican, Great Britain, Hungary, Germany, the Netherlands, Denmark, Greece, Iceland, Ireland, Italy, Spain, Canada, South Korea, Kuwait, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, New Zealand, Norway, UAE, Poland, Portugal, Saudi Arabia, Singapore, Slovakia, Slovenia, the USA, Finland, France, Croatia, Czech Republic, Switzerland, Sweden, Estonia, Qatar, Brunei, Bahrain, Japan, Azerbaijan, Armenia, Georgia, Moldova, Belarus, Kazakhstan, Russia, Tajikistan, Vietnam, North Korea, Cuba, Malaysia, Turkey, Ukraine, Uzbekistan, Mongolia.
The construction sector of the Kyrgyz economy has a high potential. The scale of construction in the Kyrgyz Republic increases every year.

- More than 700 operating companies
- Contribution to GDP of the country is 8.3%
- In 2013, the growth of the industry was 15%
- Forecast: in the next 3 years, industry growth will be 21%

The structure of the construction costs (at cost)

- 16% Depreciation of fixed assets
- 7% Other costs
- 65% Material costs
- 2% Labor costs
- 10% Social insurance costs
ECONOMIC SECTORS: AGRICULTURE

- Contribution to the economy - 14% of GDP
- 32% of the country's workforce is employed in the industry
- More than 383 thousand agricultural subjects is registered in 2012
- The annual gross output of products is 3.0 billion U.S. dollars
- All agricultural products are exempted from 12% VAT (Value Added Tax)

Legend:
- Grain
- Wheat
- Barley
- Corn
- Rice
- Milk
- Sugar beet
- Cotton
- Tobacco
- Oilseeds
- Potatoes
- Eggs (mln. pieces)
- Vegetables
- Melons and gourds
- Fruits and berries
- Grapes
- Meat
- Wool
Total cultivation area, occupied with agricultural crops is **1.2 min ha**.

### Agricultural crops (thous. ha)

- Cereal crops
- Feed crops
- Potato
- Oil-bearing crops
- Pulse crop
- Vegetable crops
- Cotton plant
- Other crops
- Sugar beet

### Total output of agricultural industry products in 2016 (bln. USD)

- Plant production 51%
- Cattle production 49%

### Meat production

- Beef or veal 50%
- Pork 11%
- Mutton or chevon 8%
- Horsemeat 27%

### Cropping and cropping capacity

<table>
<thead>
<tr>
<th>Crop</th>
<th>Cropping (thous. tonnes)</th>
<th>Cropping capacity (centner per 1 ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
<td>1813,0</td>
<td>29,7</td>
</tr>
<tr>
<td>Sugar beet</td>
<td>195,4</td>
<td>363,0</td>
</tr>
<tr>
<td>Raw cotton</td>
<td>68,6</td>
<td>30,9</td>
</tr>
<tr>
<td>Tobacco</td>
<td>6,5</td>
<td>23,5</td>
</tr>
<tr>
<td>Potato</td>
<td>1332,0</td>
<td>165,1</td>
</tr>
<tr>
<td>Vegetables</td>
<td>881,5</td>
<td>192,3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Meat Type</th>
<th>(thous. tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef or veal</td>
<td>96,9</td>
</tr>
<tr>
<td>Pork</td>
<td>15,1</td>
</tr>
<tr>
<td>Mutton or chevon</td>
<td>51,8</td>
</tr>
<tr>
<td>Horsemeat</td>
<td>22,2</td>
</tr>
<tr>
<td>Poultry meat</td>
<td>6,8</td>
</tr>
</tbody>
</table>
Based on simplified taxation system, the industry actively developing in the last couple years by using cheap raw materials.

- Increase in volume of output – **59% in 5 years**
- Output of products per year – **375 mln USD**
- Employment in the sector – **90000-150000 persons**
- Average monthly wages – **170 USD**
- Export directivity – **90%** of products goes to markets of **Russia, Kazakhstan and Europe**
- Clothes export – **2nd place** by volumes after gold
- More than **35000** continuing companies
- There is a simplified taxation system based on patent
ECONOMY SECTORS: TRANSPORT

- Incomes from freight traffic activity in 2016 – 149 mln USD
- Cargo transportation volume in 2016 29 mln tonnes
- The most widespread cargo transportation type – motor, 28,1 mln tonnes in 2016

Incomes from freight traffic activity

- Inland water: 52.4
- Air: 96.4
- Railway: 0.6
- Motor: 0.53

Annual cargo transportation volumes (mln tonnes)

- Inland water: 1.279
- Air: 28,158
- Railway: 12.2
- Motor: 0.2
Electric-power industry is a strategic branch of the economy of the Kyrgyz Republic. Hydroelectric potential allows for providing electricity both to our country and to the nearest countries.

- **Hydraulic Power Industry** – 53% of the total volume of energy resources
- There is 2% of the country’s GDP per sector
- 16% of the industrial output volume of the country
- The sector provides 10% of the country’s budget
- Hydroelectric potential of the country – **142.5 billion kWh**
- Country potential is engaged for 8-9.5%

There is a big potential for the development of **small-scale and medium-scale power generation**. Water resources of minor rivers are developed for 3%.
WHY THE KYRGYZ REPUBLIC?

10 FACTORS OF SUCCESSFUL INVESTMENTS IN THE KYRGYZ REPUBLIC:

- Stable macroeconomic indicators and growth in the next 3 years
- Strategic location and potential of foreign markets
- Beneficial cooperation with international organizations
- Visa-free access to 61 countries
- The lowest tax rates in the region

- Free international trade
- Cheap and skilled labor force
- Free economic zones with tax and customs preferences
- The easiest place to do business within the region
- Cheap electricity