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of the Government  
of the Kyrgyz Republic  
and of the National Bank  
of the Kyrgyz Republic  
as of February 27, 2018

**Joint Statement  
of the Government of the Kyrgyz Republic and the National  
Bank of the Kyrgyz Republic on the Main Directions  
of the Economic Policy for 2018**

In 2017, the national economy developed under the conditions of economic activity recovery in the main trading partner countries of the Kyrgyz Republic amid global economic recovery and the reduction of geopolitical risks in the region.

The actions of the Government of the Kyrgyz Republic (hereinafter referred to as the “Government”) and the National Bank of the Kyrgyz Republic (hereinafter referred to as the “National Bank”) were aimed at timely and qualitative implementation of the Action Plan of the Government of the Kyrgyz Republic on implementation of the Program of the Government of the Kyrgyz Republic “Trust and Unity” for 2017 (Resolution of the Government of the Kyrgyz Republic No. 53 dated January 30, 2017) and the Plan of Priority Measures of the Government of the Kyrgyz Republic on implementation of the Program of the Government of the Kyrgyz Republic (Decree of the Prime Minister of the Kyrgyz Republic No. 609 dated September 7, 2017), Main Monetary Policy Guidelines for the Medium Term (Resolution of the Board of the National Bank of the Kyrgyz Republic No. 55/3 dated December 17, 2014).

In 2017, the coordinated economic policy of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic contributed to ensuring macroeconomic stability in the country.

At the end of 2017, economic growth made 104.5 percent, the gross domestic product (hereinafter - GDP) formed in the amount of KGS 493.3 billion. Excluding the enterprises of the Kumtor Mine, real GDP grew by 104.5 percent. In December, the annual inflation rate was 3.7 percent (December 2017 against December 2016), and the average annual inflation rate was 3.2 percent (compared to the same period of 2016).

In January-November 2017, the state budget deficit made 2.4 percent of GDP. As of November 30, 2017, the level of state debt to GDP was 62.7 percent.

Maintaining macroeconomic and financial stability by supporting positive dynamics of economic growth, increasing the competitiveness of the national

economy and ensuring price stability will be the main goals of the policy of the Government and the National Bank of the Kyrgyz Republic for 2018.

Economy will develop in the forecast period under influence of the external (possible increase in the rate of the US Federal Reserve System, progressive development of the world economy, continued economic growth in the countries - major trading partners, changes in world prices for commodities, including oil, exchange rate volatility of the key strategic partners) and internal (the risk of possible adverse natural and climatic conditions, preservation or slow overcoming of barriers in the border and external trade, moderate growth of remittances, recovery of consumer demand, change in tariff policy) factors through the trade channels and remittances.

In these conditions, in 2018, the economic policy will be aimed at mitigating the consequences of possible external shocks to ensure macroeconomic stability in the country.

The main directions of economic policy in 2018 will be:

- ensuring macroeconomic stability in the country by achieving and maintaining sustainable economic growth and price stability within the range of 5-7 percent in the medium term;
- maintaining financial stability through strengthening the financial sector of the economy;
- balanced regional development.

Ensuring macroeconomic stability in the country by achieving and maintaining sustainable economic growth and price stability in the range of 5 to 7 percent in the medium term

The policy of the Government and the National Bank will be aimed at achieving the target parameters of real economic growth through coordinated monetary and fiscal policies and keeping the inflation rate within the target range.

The priority objective of the Government will be effective implementation of the Program of the Government of the Kyrgyz Republic “Jany doorgo - kyrk kadam 2018-2023” (40 steps to the new epoch) (Resolution of the Jogorku Kenesh of the Kyrgyz Republic No. 1836-VI as of August 25, 2017), consisting of three main areas - ensuring the economic welfare of the population, social well-being, safe and supportive environment, as well as promotion of high-tech projects on digital transformation and construction of an open and transparent state within the framework of the Program.

During 2018, the monetary policy of the National Bank will be aimed at ensuring price stability in the country within 5-7 percent in the medium term. The situation in the economy and the trends in the external and internal markets will be taken into account when making tactical decisions on monetary policy instruments.

Monetary policy will be aimed at realizing the goals and objectives of the medium-term national development strategy of the Kyrgyz Republic. At the

same time, development of the monetary policy will be forward-looking in view of availability of time intervals (lags) in its impact on the country's key macroeconomic indicators.

Fiscal policy of the Kyrgyz Republic will be formed and carried out within the framework of the Concept of the Fiscal Policy of the Kyrgyz Republic for 2015-2020 (Resolution of the Government of the Kyrgyz Republic No. 455 as of July 7, 2015) as well as aimed at effective implementation of the developed public policy measures and ensuring balanced economic growth.

The budgetary policy will be implemented in accordance with the Strategy for the Development of Public Finance Management of the Kyrgyz Republic for 2017-2025 (Resolution of the Government of the Kyrgyz Republic No. 696 as of December 22, 2016), the Main Directions of the Fiscal Policy of the Kyrgyz Republic for 2018-2020 (Resolution of the Government of the Kyrgyz Republic No. 423 as of July 5, 2017) and will be aimed at achieving budget sustainability.

With regard to improving the structure of public finance management and the legislative base, work will be continued to improve the Budget Code of the Kyrgyz Republic and to bring regulatory legal acts in accordance with the Budget Code of the Kyrgyz Republic.

The policy on public debt management in the Kyrgyz Republic will be implemented in accordance with the Kyrgyz Republic Public Debt Management Strategy (updated on a regular basis) and will be aimed at reducing the risks associated with attracting loans. The Government's efforts in the area of public debt management will be directed to attracting preferential government external borrowings and development of the government securities market.

Work will be continued to improve business climate through improvement of the licensing system as well as the control and supervision activities of the state bodies. The Government's program for development of the small and medium-sized businesses in the Kyrgyz Republic will be developed and adopted in order to support the development of entrepreneurial activities, this program will continue the reforms to improve the conditions for doing business.

It is planned to conduct a comprehensive and sectoral study of the non-observed economy and develop a draft Action Plan to reduce the shadow economy.

In terms of increasing investment attractiveness, improving business climate and creating favorable business environment, the focus will be concentrated on improving the investment potential and attractiveness of the country's remote regions, taking into account the existing advantages and peculiarities of each region; further improvement of the legislation regulating investment activity; improvement of the procedures for preparation and implementation of the public-private partnership (hereinafter referred to as the PPP) projects, implementation of the Public-Private Partnership Development Program in the Kyrgyz Republic for 2016-2021 (Resolution of the Government of the Kyrgyz Republic No. 327 as of June 16, 2016), activation of the investment process through attraction of investments for development of the

housing and communal services as well as road facilities on the PPP terms, the removal of administrative barriers that limit the intensive development of entrepreneurship and investment in the remote regions.

In order to improve the country's investment climate, work will be continued to implement the Action Plan to improve the indicators of the Kyrgyz Republic in the Doing Business rating.

The work on integration into the Eurasian Economic Union will be continued. The main activities will include further increase of exports to the EAEU member countries, elimination of technical and other barriers in mutual trade in the Eurasian space, a step-by-step movement towards a unified electricity market, as well as digital reformatting of the economy.

Creation of the conditions for formation, development and protection of competition remains one of the important priorities of the state policy, in 2018, the main areas of antimonopoly and competition policy will be aimed at: creating favorable conditions for the development of entrepreneurship; achieving a balance of interests of consumers and subjects of natural monopolies, ensuring the availability of the goods sold to the consumers, as well as the effective functioning of the natural monopoly entities; ensuring the completeness of payment of indirect taxes through implementation of the Procedure for determination, application and control of the minimum level of control prices for the goods imported to the territory of the Kyrgyz Republic from the member states of the Eurasian Economic Union (Resolution of the Government of the Kyrgyz Republic No. 537 as of October 12, 2016).

In order to ensure energy security of the Kyrgyz Republic, sustainable development, as well as stable and reliable operation of the energy sector in the country, a new Medium-Term Tariff Policy of the Kyrgyz Republic for Electric and Heat Energy for 2018-2023 will be developed, the stages of tariff changes will be determined in this Policy.

Improving the efficiency of state property management will be carried out through measures to regulate the functioning of state enterprises aimed at increasing the transparency of the state enterprises, strengthening control over their financial and economic activities and introducing the principles of strategic planning into the activities of the state enterprises. There will be constant monitoring of the effectiveness of the measures taken to reduce state participation in the economy by tracking the amount of revenue from the state enterprises to the state budget, which will optimize the number of the state enterprises.

The main directions of the intellectual property protection and innovation system development are reflected and will be implemented in accordance with the Action Plan for implementation of the State Program for Development of Intellectual Property in the Kyrgyz Republic for 2017-2021 (Resolution of the Government of the Kyrgyz Republic No. 424 as of July 6, 2017) and the Concept for Innovative Development of the Kyrgyz Republic until 2022 (Resolution of the Government of the Kyrgyz Republic No. 79 as of February 8, 2017).

Implementation of the above policies will serve as a basis for further development of the economic sectors.

The agro-industrial sector of the economy will remain the key sector in ensuring food security in the country and employment of the population, the main goal of which will be to create conditions for production growth and improving the quality of the products. The development of agriculture will be concentrated on the following priority directions: providing the population of the country with the necessary volume of the basic food products; providing the processing enterprises with the raw materials; increasing the profitability of the agricultural production; increasing in the share of processed domestic agricultural raw materials and production of the food products; support for the growth of production and exports of agro-industrial products; provision of agricultural production with the services; increasing the efficiency of rational use of water and land resources.

The development of industrial production will be carried out within the framework of the Program for Development of the Food and Processing Industry of the Kyrgyz Republic for 2017-2021 and the Action Plan for Implementation of the Program for Development of the Food and Processing Industry of the Kyrgyz Republic for 2017-2021 (Resolution of the Government of the Kyrgyz Republic No. 191 as of 30 March 2017); the Project “Financing Export-oriented and Import-substituting Enterprises – 1” (Decree of the Government of the Kyrgyz Republic No. 272-r as of July 4, 2017). It is planned to develop the Sustainable Industrial Development Program of the Kyrgyz Republic for 2018-2022, where measures will be envisaged to create an adequate, viable and competitive production potential in industry.

Continuation of the work on the step-by-step formation of the common electric power market of the EAEU in accordance with the Program for Formation of the Common Electric Power Market of the EAEU (approved by the decision of the Supreme Eurasian Economic Council No. 20 of December 26, 2016) will be the priority activity within the framework of the EAEU for the energy sector.

Development of the construction sector in the economy will become one of the important directions ensuring sustainable growth of the national economy by continuing/completing the implementation of the major investment projects in the transport and energy sectors that will make a major contribution to the development of construction. In 2018, priority directions in construction will be as follows: objects of construction of individual housing; objects of the main traffic artery and electric power industry (works on the construction of power transmission lines); objects of agriculture (irrigation facilities), etc.

In 2018, capital investments from the state budget will be sent first of all for the construction and reconstruction of the objects of socio-economic importance, including the sphere of education, health, culture, sports, and housing construction.

In 2018, the main directions of the road sector will be as follows: continuation of works to ensure repair and maintenance of public roads,

improvement of the internal road networks, and development of the country's transit potential.

In 2018, the state policy in the sphere of tourism will be implemented in accordance with the Program of the Government of the Kyrgyz Republic for development of the tourism until 2020 (Resolution of the Government of the Kyrgyz Republic No. 192 as of April 11, 2016) and aimed at creating favorable conditions for development of the domestic tourism industry in order to increase the image of the country in the international arena and contribution of the tourism to the economy through an increase in the share thereof in GDP by at least 7 percent, as well as the state policy will be focused on the comprehensive development of various types of tourists activity in order to ensure the year-round use of the tourist potential of the republic.

In 2018, development of the foreign trade activities will be aimed at developing and regulating the trade relations with other countries, creating favorable conditions for growth of exports and development of the industrial production within the country. Building up the country's export potential through development of the existing priority sectors will be the main type of activity. The new Export Development Program in the Kyrgyz Republic for 2018-2023 will be adopted; it will be aimed at supporting sectors that produce products with high added value, at expanding and diversifying the range, improving the quality of exported products, and expanding the geographical structure of exports.

In 2018, the social development policy will be focused on complete fulfilling the guaranteed social obligations of the state, raising the standard of living and improving the situation of socially unprotected categories of citizens, taking into account the real capabilities of the state.

Financial stability will be preserved through strengthening the financial sector of the economy.

The National Bank will focus on improving the transmission mechanism of monetary policy and increasing its impact on the financial and real sectors of the economy. The National Bank will continue strengthening the effectiveness of the monetary policy main instrument - the National Bank's policy rate and increasing the efficiency and flexibility of other monetary policy instruments to increase the activity of the interbank money market and ensure the balance of liquidity in the banking system. Work will be intensified in this direction to expand the model apparatus in terms of improving the forecasting of liquidity in the banking system.

If the liquidity surplus remains in the banking system, the National Bank will increase the operations on sterilization to withdraw excess liquidity, mainly within the framework of open market operations, which will also contribute to formation of an effective yield curve as a tool for analyzing and implementing monetary policy measures.

The National Bank will contribute to formation of an equilibrium level of money supply in the economy to promote economic growth in the long term.

The National Bank will continue to follow the regime of the floating exchange rate adopted by the Kyrgyz Republic. The actions taken by the National Bank in the domestic foreign exchange market will be aimed at smoothing the sharp fluctuations in the exchange rate. International reserves management will be based on compliance with the basic principles of maintaining liquidity and ensuring the safety of reserve assets. Operations will still be conducted to purchase gold in the domestic market of the country in the national currency of the Kyrgyz Republic in order to replenish the volume of international reserves taking into account the situation in the world financial markets.

Work will be continued on development of the precious metals market. In order to provide the population of the country with alternative savings and investment instruments, the stock of refined gold small bars issued by the National Bank will be replenished on a regular basis and the regulatory framework for further development of operations with depersonalized metal accounts will be improved.

In 2018, the National Bank, in cooperation with the banking sector and the microfinance sector, will continue work on implementation of the main directions for development of the banking and microfinance sectors, as well as the payment systems for the medium-term period. The targets of these programs will be as follows: development of a competitive environment in the financial sector, creation of the prerequisites for increasing the level of financial intermediation, including through introduction of the innovations in the banking and microfinance sectors, creating the conditions and prerequisites to decrease the interest rates on loans, improving the quality of banking services and expanding access to them, introduction of the principles of responsible lending, creation of the conditions for apex institutions and self-regulatory organizations, promoting the expansion of application of the principles of Islamic finance. The Program on Increase of Financial Literacy of the Population of the Kyrgyz Republic for 2016-2020 will still be implemented (Resolution of the Government of the Kyrgyz Republic No. 319 as of June 15, 2016).

In order to minimize risks in the activities of the commercial banks, special attention will be focused on strengthening the risk management system. Work will be continued on introduction of risk-based supervision, which will assess the degree of risks and quality of risk management in the activities of the commercial banks and microfinance organizations, which will contribute to further development of the financial sector.

As part of the reform of the banking legislation in the Kyrgyz Republic, further development and improvement of the regulatory legal acts will be carried out on the basis of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” in order to bring it in line with amendments introduced in the legislation of the Kyrgyz Republic, as well as within the framework of further introduction of the risk-based supervision.

In 2018, the priority directions are as follows: an increase in the share of non-cash payments and settlements and ensuring the security of the payment

system, including improvement of the regulatory mechanisms and interaction in the field of information security for the financial and payment organizations, implementation of measures to ensure a single settlement space in the territory of the Kyrgyz Republic.

In order to form a single coordinated macroeconomic policy of the state, close interaction will be carried out with the government bodies in the financial and economic sphere. Coordination of actions of the National Bank and the Ministry of Finance of the Kyrgyz Republic on the monetary and fiscal policy issues will be continued within the framework of the Interdepartmental Coordination Council.

To further develop the integration processes, work will be continued on interaction with the central (national) banks of the Eurasian Economic Union member states in the areas stipulated by the relevant agreements.

Through an active communication policy, the National Bank will facilitate the formation of rational inflation expectations and expectations for future decisions in the monetary sphere among the economic entities. Active coverage of information on economic trends and monetary policy decisions will be continued.

#### Balanced regional development

In 2018, efforts will be directed to development of the remote regions that provide for improvement of the population's well-being, the economic condition of the remote regions, creation of a competitive investment and business environment. In order to implement the main directions of the Regional Policy Concept of the Kyrgyz Republic for 2018-2022 (Resolution of the Government of the Kyrgyz Republic No. 194 as of March 31, 2017), the regional economic centers – the cities of development will be established, the Program “City - Points (Steps) for Regional Development” will be drawn up, this Program will improve the conditions for development of the economic sectors through the use of fiscal policy tools, improved access to financial resources, moreover this Program will improve the access of the population to the public services in the remote regions.

Thus, in 2018, the joint economic policy of the Government and the National Bank will allow ensuring macroeconomic stability in the country and preserving the positive dynamics of economic growth that will be supported by all sectors of the economy that form GDP of the country. Inflation will be kept within the medium-term goal of 5-7 percent.

The identified policy measures will be balanced; it will help to ensure further stable and sustained economic growth.

To effectively implement announced measures, the Government and the National Bank will carry out constant monitoring of the economic situation in the country and the development trends of the world economy. In the event of occurrence of the additional imbalances/risks in the world economy and in the external economic environment that can adversely affect the domestic economy,

appropriate adjustments will be introduced into the economic policy of the Kyrgyz Republic for 2018 and the necessary measures will be taken.

In turn, the Government and the National Bank rely on the support of the legislative authorities, the business community in implementing the main directions provided for in the Joint Statement and the program documents.

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