

**Joint Statement  
of the Government of the Kyrgyz Republic and  
the National Bank of the Kyrgyz Republic on Economic Policy for 2012**

**Introduction**

After the events of 2010, economical and social policy of the Kyrgyz Republic was focused on overcoming the social consequences and putting the national economy on stable vector of development as well as improving the budget state.

The main result of the Kyrgyz Republic Government's activity was surmounting the threat of economic recession and attaining stable trends in social and economic development against the background of the improved parameters of macroeconomic stability and easing domestic policy tension.

The year of 2011 was marked by economic growth. As per results for January to December 2011, on preliminary estimate, the volume of gross domestic product amounted to 273.1 USD. The real growth amounted to 105.7 %, while for the comparable period of 2010 this figure made 99.5%. Without regard to the enterprises exploring the gold deposit "Kumtor", real GDP growth made 105.6% (99.0% in 2010).

The main sectors that influenced on achievement of positive development trends in January to December 2011 were industry and sphere of services, while the input of construction was negative.

In 2011, the inflation level (December 2011 against December 2010) made 5.7%., while for 2010 this indicator amounted to 19.2 %.

The main factors that impacted on improvement of economical environment were as follows:

- stable economical growth in the key trading partner countries of the Kyrgyz Republic (Russia – 4.2%, Kazakhstan – 7.5%, China – 9.2%);
- moderate inflation measures in the key trading partner countries of the Kyrgyz Republic (Russia, Kazakhstan);
- moderate price dynamic in the international commodity and raw materials markets (food products, energy sources);
- tax preferences for entrepreneurship entities (facilitation and simplification of taxation of sewing and textile industries, exemption from VAT: specialized goods for construction and reconstruction of glass-furnace, supplies and export of gold and silver alloys and refining gold and silver, as

well as entering the Limited Liability Company (LLC) “Mailuu-Suu Electric-Bulb Plant” in the List of Taxable Entities, etc.);

- simplifying conditions of doing business through decrease in inspections and the number of licenses as well as other government regulation measures with view of reducing the level of corruption and shadow economy;
- restructuring accounts payable of a number of enterprises (Open Joint Stock Company (OJSC) “Kasiet”, OJSC “Ak-Tilek”, Plant “Dostuk”);
- rise in prices for gold at the level of 1326 – 1652.3 USD per ounce (January to December 2011);
- abolition of export duties for oil products supplied to Kyrgyzstan on the part of Russia;
- increase in the volume of credit financing in the economy and inflow of investment in processing and mining industry.

With purpose of prompt decision of pressing problems and prevention of economic recessions as well as maintaining budget sustainability and financial system as a whole, and revitalization of economic activity during 2011, the Government of the Kyrgyz Republic implemented the 2011 short-term Action Plan “Economy and Security”. Social policy was oriented at rise in salary and pensions; in particular, the amount of salary for teachers and doctors increased twice and more, while that of pensions – by 30%. A number of regulatory documents specified tax and customs preferences for business entities suffered in southern regions; besides, there were adopted regulatory and legal acts intended at support of entrepreneurship entities and etc.

At present day, society and business need both medium-term and long-term orienting points of development in the Kyrgyz Republic. Therefore, the Regulation of the Jogorku Kenesh of the Kyrgyz Republic approved the Kyrgyz Republic Government’s Program “Stability and Dignified Life” (No. 1451-V dated December 23, 2011). This Program defined the goals, purposes and key measures, which would be implemented by the Government of the Kyrgyz Republic during the period of its activity. The Program has been developed based on the principles of continuity and reflection of public interests. It also takes into consideration the Medium-Term Development Program of the Kyrgyz Republic for 2012-2014 approved by the Kyrgyz Republic Government’s Regulation No. 540 dated September 8, 2011, election agenda of the parties included in the majority coalition of the Jogorku Kenesh of the Kyrgyz Republic, and election agenda of the President of the Kyrgyz Republic.

The present Joint Statement on 2012 Economical Policy 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”) was developed subject to the aforementioned as well as with view of maintaining economic stability in different sectors of economy.

## **1. Macroeconomic Policy**

The main goal of macroeconomic policy in 2012 implies strengthening of macroeconomic stability for sustainable economic growth as well as creating core conditions for economic and social development in the medium-term period.

The 2012 macroeconomic policy will be oriented at addressing the following major concerns:

- ensuring real growth rate of the gross domestic product (GDP) by at least 7.5%, in particular, due to:
  - increase in industrial sector products by 7.6%;
  - expansion of agricultural production by 3.5%;
  - increase in construction sector by 24.6%;
  - increase in services sector at least by 7.5%;
- maintaining inflation at the level of no more than 9%;
- retention of budget deficit within the limits of 5.0% to GDP;
- rise in monthly average salary by 15.5%;
- complete and timely implementation of all means of social guarantees of the state.

Improvement of macroeconomic stability in the country, stable economic growth, decrease in prices in the international food and raw materials markets create prerequisites for rather low inflationary background in 2012. The Government and the National Bank recognize that actual value of inflation may be higher than the specified inflationary orienting point; therefore, a range of measures aimed at curbing the rate of price increase in the country will be taken in 2012, which will allow to decrease inflation down to univocal level.

## **2. Monetary Policy**

In 2011 economic recovery started taking stable form. Efforts of the Government and the National Bank focused on development and implementation of a range of economic policy's measures to recover macroeconomic stability made their own contribution to economic growth. At the same time, there was observed a considerable decrease in growth rates of the overall price level; however, the inflation situation still claimed close attention. The consumer price dynamic observed in the recent years showed that, to a greater degree, it was the volatility of prices for food products (caused by price fluctuations in the international commodity and raw materials markets) that conditioned significant inflation fluctuations, rather than monetary factors.

Despite some decrease in prices for the group of food products, the prices for important food products still remain at rather high levels in the medium-term. Besides the factor of continuing dependence on external price environment, the domestic price environment will, in many respects, be predetermined by such factors as structural reforms of agricultural sector, enhancing production capacity

and competitiveness of domestic products as well as changes in external economic position of the country, including that in connection with the process of joining the Customs Union, balance between the demand and supply of goods and services, and rates prescribed by the administration. Influence of monetary inflationary factors will take place, to a greater degree, due to the indicators of budgetary deficit in the public finance sector.

In these conditions, the National Bank's measures will be focused on curbing monetary factors of inflation by applying monetary policy instruments in order to retain inflation at the level of 9% by the end of 2012. In this regard, the primary tasks include formation of adequate inflationary expectations and restoration of confidence to the banking system.

One of the major medium-term purposes of the National Bank is further enhancement of monetary policy efficiency, in particular, through improving the operation of percent transmission mechanism, developing financial markets and strengthening competition in the banking sector. Policy of floating exchange rate, under which currency interventions will be performed not to allow sharp fluctuation of exchange rate, will be continued. In case of increase in pressure on exchange rate, the National Bank will avoid considerable reduction of international reserves, which are managed with observance of main principles of liquidity and security insurance.

Necessity to develop early respond system to prevent system risks in the banking system and improvement of regulatory legal base to conduct the procedure of troubled banks' reorganization within the short terms defines the following priority areas in the National Banks' activity in the field of supervisory functions: a) development of Banking Code; b) improvement of regulatory and normative base on issues relating to supervision of commercial banks' operation; c) development of consolidated supervision system; d) introduction of separate elements of risk-oriented supervision; e) improvement of the system for banking risks' assessment, analysis and prevention.

With view of recovering the banking system, the National Bank will solve the problems relating to banks that have been placed under special management until their attainment of full compliance with regulatory requirements or until the beginning of their closing down.

Continuation of positive growth trends in indicators of microfinance sector is expected in 2012. In connection with expanding the list of rendered microfinance services and application of consumer protection principles, in order to increase transparency of services rendered and competition in the micro-financing market, the improvement of regulatory and legal framework that regulates the activity of non-banking financial institutions will be the key direction for the development. In terms of improving the regulatory function there will be taken activities to apply the method of risk-oriented supervision over the non-banking financial institutions' operation.

The National Bank will continue regular work on development of retail payments market in the country and improvement of quality of banking services provided to population. Improvement of regulatory legal base and close cooperation with public bodies and business circles will be oriented at support of competition and insurance of end consumer protection. Recommencement of the second stage of the National Program of Activities to Increase the Share of Non-Cash Transactions and Settlements from 2012 to 2017 will contribute to insuring transparency of money circulation and achievement of optimal balance between cash and non-cash money circulation.

With view of consumer protection and decrease in financial risks in payment system, the National Bank will carry out activities related to supervision of the payment system operation in the country and provision of control over the correspondent relations and technical infrastructure of the payment system in the Kyrgyz Republic. The supervision (oversight) policy in payment system will be improved subject to innovation technologies appeared in the market.

In 2012 the National Bank plans to finish the project for implementation of automated banking information system and modernization of financial market infrastructure; while in the medium term it expects to complete the updating of information systems and technologies.

Coordination of activities conducted by the Government and the National Bank to ensure macroeconomic stability will be performed in two areas at a minimum: development of agreed macroeconomic forecasts within the interdepartmental working group and coordination of monetary and fiscal policies within the interdepartmental coordination board of the Ministry of Economy and Antimonopoly Policies of the Kyrgyz Republic, the Ministry of Finance of the Kyrgyz Republic and the National Bank.

Parameters of monetary policy depend on the indicators of national finance sector. As of the time of adopting the present Statement, the draft law that specified parameters of the republican budget for 2012 had not yet come through the approval procedure. Another significant uncertainty factor is unfinished process of coordination of the conditions of the country's joining the Customs Union. These circumstances predetermine that the forecasts of macroeconomic indicators, including inflation assessment, may be revised.

### **3. Fiscal Policy**

Primary areas of fiscal policy for 2012 will include: a) development of the tax and customs administration system; b) achievement of reasonable balance between the entrepreneur rights and supervising bodies; c) decrease in corrupt practices; d) insuring transparency and enhancing operating efficiency of supervisory bodies, improving quality of the services provided by the customs authorities and decrease in the expenses of the external economic activity participants related to customs clearance.

Tax policy will be focused on ensuring completeness of return on duties and creating efficient management system. To achieve this goal it is necessary to:

- apply unified and simplified taxation in terms of its administration that will facilitate legal business;
- improve patenting regime oriented at high-quality administration;
- transfer majority of imported goods from weight-based estimation to cost estimate;
- concentrate administration of social charges and accountability in the State Tax Service under the Government, which will lead to decrease in the number of inspecting authorities and in the load on business;
- transfer from holding inspections to the risk management system in the customs and tax procedures;
- optimize control over customs value of imported goods;
- strengthen control over authenticity of goods entering;
- perform large-scale operations to prevent contraband flow of goods and transport vehicles through the customs border.

Modernization of the tax and customs services provides for the following:

- 1) implementing the automated information customs service system that comprises the system of customs entries' electronic submission and facilitates information exchange between the participant of external economic activity (EEA) and customs authorities;
- 2) implementing the automated information tax service system to submit tax reporting in electronic form as well as state-of-the-art technology in tax administration to simplify the procedure of discharging tax obligations by tax payers;
- 3) automating tax control procedures with implementation of the efficient system of tax inspections subject to the risk factors (creating the system of electronic monitoring to inspect tax payers);
- 4) system-based identification of new methods and schemes applied for tax avoidance, and further introduction of measures to eliminate the grounds that facilitated their application;
- 5) introducing new high technology of customs administration.

To enhance the people's confidence in the tax and customs services as well as to decrease the level of corruption it is planned to:

- 1) establish 3 customs entries' processing centers (in southern, northern and eastern regions);
- 2) equip many-sided border checkpoints with video surveillance systems
- 3) develop and introduce information programs for preventing corruption aspects in the tax and customs services

- 4) apply persistent questionnaire of tax payers and EEA participants about the level of corruption in the tax and customs authorities;
- 5) ensure openness of administration processes of the tax service by way of notifying tax payers about its services, the samples of documents to be completed, possibilities of fulfilling and submitting electronic documents, the procedure of documents circulation, and the procedure of contestation and appeal of decisions.

To improve the quality of services provided by the customs authorities and decrease expenses of EEA participants related to customs clearance and customs inspection, provision is made for:

- increase in flow capacity at the State border checkpoints, in particular, at the many-sided checkpoint 'Ak-Jol Avtodorozhny';
- segregation of passenger flow and freight traffic to decrease the time of border passing;
- specifying maximum possible waiting and inspection time;
- improving practice of information and consultation of EEA participants;
- tackling the issue of GPS (Global Positioning System) system application and full rejection of customs escort.

#### **4. Budgetary Policy**

The 2012 government expenditures policy will be aimed at full and timely financing of the government's social protection, creation of favorable conditions for economic development, enhancement of efficient use of government resources applying the system of their economic assessment.

The primary areas of budgetary policy for 2012 include:

- encouraging efficient use of government resources;
- fulfilling government obligations and social protection;
- decreasing inter-regional differentiation in living standards of the population;
- decreasing budgetary deficit;
- activating investment process.

The activity for perfection of the format and procedures of the Medium-Term Budgetary Forecast that specifies budgetary policy of the country will be continued in 2012. The Program format of expenditures presentation enabling to enhance efficiency and transparency of budgetary funds will continue to be introduced.

Currently, the growth trend of expenditure commitments continues causing an increase in budgetary deficit from year to year. A considerable budget deficit dictates necessity of its optimization both by way of advancing the traditional mechanisms and by way of searching the alternative income sources. This implies an increase in budgetary receipts through attraction of additional investments in

the real sector of economy, revision of tax benefits, simplification of tax procedures, and improvement of the whole management system.

Expenditure reduction policy will be oriented at the decrease in the number of licenses and permissions, at the reform in control and supervision sphere, harmonization in public services, and reduction of public officers' staff.

For efficient management of public finances there will be improved the Medium-Term Action Plan for Reforming the Management System of Public Finances of the Kyrgyz Republic for 2009-2013.

The Budgetary Code of the Kyrgyz Republic will be developed as well as the activity on automation of budgetary process and improvement of the inter-budgetary relations system will be performed within the management system of public finance.

Reformation of the non-tax payment structure will be oriented at optimization of fee-based public services as well as at efficient management of public property and natural resources.

A special program to improve administration from the tax and customs authorities will be adopted as well as all the Government's obligations to provide grants' receipts to the budget from the agreements with international organizations will be discharged. Fiscal revenues will take into account provisions of the Memorandum with the IMF.

In order to insure efficient management of public finance, besides reduction of the state machinery structure, there will be introduced a mechanism of budget costs effectiveness that foresees planning and allocation of budget costs for specific programs and projects. This will enable to use the released funds for the economy development, which consequently will result in the growth of yield income.

Within the improvement of budgetary policy, the approaches to management of state debt will be revised. To improve the external debt situation, there will be developed and adopted a new State Debt Management Strategy in 2012.

## **5. State Debt**

The state debt management will consist in gradual decrease in debt burden, in particular, due to a reduction of external borrowings at simultaneous observance of the established external debt pay schedule. Within the new State Debt Management Strategy of the Kyrgyz Republic and with view of achieving a stable level of the state debt, optimization of its structure and creating the basis of efficient management of the state debt the following measures are expected to be taken in the medium term:

- decrease in the burden of external state debt;
- timely service of the state debt;
- consider a possibility of further restructuring the external debt;
- perform conversion operations with bilateral creditors;

- attract soft external credits with grant element of at least 35% for efficient and economically sound projects;
- expand the range of state securities' holders through development of both primary and secondary state securities market;
- increase the volume of internal borrowings through issue and placement of state securities;
- adoption of risk management practice.

## 6. Real Sector Development

### 6.1. Industry

**The industrial sector**<sup>1</sup> is expected to have **7.6%** growth with specific weight of **19.9%** to GDP in 2012. Without regard to the enterprises exploring the gold deposit “Kumtor”, the growth of industrial production is forecasted at the level of 10.8% due to stable work of mining and processing industries.

An 8.0% output growth is forecasted in the *processing industry* due to an increase in the output of food products, including drinks and tobacco by 6.8%, in textile and sewing industries – by 7.8%, in chemical industry – by 29.7%, in production of other nonmetallic mineral products – by 26.1%, and in metallurgic production – by 6.9%.

An increase in the processing of agricultural products is expected due to an increase in food products output, including drinks and tobacco, sugar, flour, and vegetable oil, as well as due to a decrease in shadow activities in alcoholic and tobacco fields. Implementation of the forecasted indicators is expected within the Development Program of Food and Processing Industries for 2012-2015.

The forecasted indicators of textile and sewing production are planned to be achieved in 2012 due to an increase in overall production of the operating enterprises – OJSC “Kasiet”, LLC “Rozkvit”, the Bishkek Hemp Factory, OJSC “Ilbirs”, LLC “Kara-Balta Kilem”, and others – as well as due to expanding the sales markets and increase in export supplies and establishing new industries.

In order to achieve the forecasted indicators it is expected to continue implementing the Development Strategy of Textile and Sewing Industry for 2011-2013 as well as taking measures for expanding the existing clothing manufactures and establishing the new ones; promoting sewing products in the international markets and creating favorable conditions to increase export.

An increase in overall production in chemical industry is expected due to performance activation of the Closed Joint Stock Company (CJSC) “Tash-Kumyr Solar” (OJSC “Kristal”) and activity stabilization at the enterprises LLC “KHMZ-Astra” and Khaidarkan Mercury JSC.

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<sup>1</sup> Exclusive of the cost of unmanufactured raw products

In the construction materials industry the forecasted considerable output growth will be conditioned, to a greater extent, by opening the glass plant LLC “Interglass” in May to June 2012, after the long-lasting restoration (its specific weight in the overall production of construction materials makes about 20%), as well as by continuing brining of cement output to the designed figures (the greatest specific weight in the industry of more than 50%), in particular, brining the CJSC “Yuzhno-Kyrgyzsky Cement” to the mark. With view of providing state support to the LLC “Interglass”, the Kyrgyz Republic Law dated June 9, 2011, made revisions and amendments to the Tax Code of the Kyrgyz Republic in terms of VAT removal for imported equipment used for modernization of the glass industry. Mastering the new types of construction products is continued; for example, the 1.5 times growth is forecasted in sand blocks, 1.7 times growth in plaster stone extraction and 3 times growth in products made of it.

An increase in metallurgic production is expected mainly due to an increase in the production of gold industry, the major share of which falls on the enterprises exploring the gold deposit “Kumtor” with real growth of 5.0%. Meanwhile, operation of the enterprises of OJSC “Kyrgyzaltyn” is expected with a 20.0% increase in gold extraction. Moreover, the increase in output of metallurgic production is forecasted due to development of, and gold extraction in, the deposits Ishtamberdy, Jamgyr, Bozymchak, and Karakazyk.

The *mining industry* is forecasted to have the rates of real growth of 7.8%, which will be achieved due to: a) 1.2 times increase in extraction of coal, lignite and peat; b) 4.7 % increase in oil extraction through technological upgrade of oil extraction equipment and the most complete workload of oil refinery.

## **6.2. Agriculture**

Agriculture will remain the priority sphere as one third of the population is engaged in this sector and 65% of the population lives in rural area. The rate of real growth is forecasted in 2012 at the level of 3.5% due to the 4.9% increment in plant growing and 2.0% increment in cattle breeding.

The expected growth rates in plant growing will be provided in 2012 owing to a decrease in unused plough land, restoration of soil fertility of agricultural lands, and taking a range of protective measures to fight with especially dangerous depredators, diseases and weed plants; creating favorable agrochemical and phyto-sanitary environment in plant growing; increasing the specific weight of sowed conditioned seeds of spiked cereals; improvement of the material and technical foundation of agriculture; deepening the land reform; harmonious exploitation of pastures; increasing the yield of technical crops; timely implementation of spring farm work; optimization of the structure of areas under crops; facilitating access to credit resources, improvement of seed varieties, and upgrading the machine and tractor park.

The real growth in cattle-breeding will be provided by an increase in livestock number and development of the selection and pedigree activity due to expanding the network of zoological veterinary services and private veterinary services.

In regional terms, the greatest input in agricultural production is planned from the activities held in Chui, Issyk-Kul, Jalal-Abad, and Osh Oblasts, the total share of which will amount to 75.2 % of the gross agricultural output. This sector's risk consists in the rise of prices for fuel and lubricants as well as deficit of mineral fertilizers, and natural and climatic factor.

For realization of the planned measures, a considerable support will be provided within the implemented projects of the public investment programs: "Agro-business and Marketing", "Agricultural Investments and Services Project", "Second Project of Domestic Irrigation", "Improvement of Water Management", and others.

Besides, the agricultural growth is expected taking into account planned provision of soft credits to agricultural producers in the amount of 1 billion Soms within the Project on Credits Available to Farmers-2 developed with the purpose of rendering public support for domestic producers during the spring farm work in 2012 and for developing cattle breeding in 2012-2013.

### **6.3. Construction**

The real growth rate is forecasted at the level of 124.6% in construction sector in 2012. The expenditures for capital investments are planned to be allocated for construction and reconstruction of social and economic entities (in education, healthcare, culture, sports, and residential construction), as well as for construction and reconstruction of automobile roads in the country. Funds designated for reconstruction and development of the cities of Osh and Jalal-Abad will be allocated for continuing the works on reconstruction and development of dwelling as well as social and engineering infrastructure of urban areas.

The expenses will be primarily allocated for:

- incomplete construction projects financed from the republican budget to be finished in the planning year;
- for construction sites and projects, for which money obligations of the republican budget assumed within the limits of budgetary obligations, remained unfulfilled by the reason of insufficiency of funds allocated;
- for implementation of measures within the Program of Waterworks Facilities and Development of New Irrigated Lands in the Country;
- for construction of engineering and social infrastructure in the areas of mass individual building-up in Bishkek;
- for construction sites and projects, for which the customer has attracted other additional sources of financing.

An increase in the volumes of capital investment is planned in 2012 up to Soms 63.6 billion or its real growth by 23.4% as against 2011. In this period the following large investment projects will make the major contribution in the construction: construction of Datka Substation-500 kV and OHL-220 kV, and reconstruction of the existing facilities of 220 kV in the south of the republic as well as construction of gold mining projects in the Ishtamberdy and Jamgyr fields. The projects on construction of Datka-Kemin HVL-500 kV and Verkhne-Narynsky Chain of Power Plants are planned to be launched. The works on implementation of Datka-Khudzhent OHL-500 kV (CASA-1000 Project) and construction of Kambarata HPP-1 will be continued.

As to the regional development, the progressive growth trend of investment in fixed capital is expected. The principal contribution is forecasted from Jalal-Abad, Issyk-Kyl, and Osh Oblasts as well as Bishkek and Osh Cities; their aggregate share in investment to fixed capital will make 84.8%. A decrease in investment receipts in the construction due to a decrease in confidence of foreign investors has remained a negative factor for the construction sector. An increase in contributions to repair the existing roads and road communications is the priority; therefore, in 2012 the reconstruction of such roads as Taraz-Talas-Suusamyr, Bishkek-Naryn-Torugart, Osh-Isfana, Osh-Sarytash-Irkeshtam, Tyup-Kegen, Southern Transport Corridor as well as roads rehabilitation within the Project on Improvement of Regional Road Corridor are expected to be continued.

#### **6.4. Services Sector**

In 2012 a stable growth trend will be continued in the services sector owing to a) further development of regulatory and legal framework that regulates entrepreneurship sphere; b) expansion of services sector as a result of the growth of new, rapidly developing services including telecommunication and tourism.

An increase in the gross output in services sector will be achieved mainly due to an increase in market services: trade, transport and communication, hotel and restaurant services. Demand for the services will be supported by an increase in the population income.

The domestic trade services will be oriented at insuring availability of consumer market for the population, restoration of financial control over goods turnover, development of a network of big retail enterprises and transformation of the sector into a modern service industry.

In order to achieve accelerated economical development it is planned to improve transport infrastructure and integrate it into the international transport network.

Dynamic development of the mail and electrical communication will be continued on the basis of creating a high-technology telecommunication system that provides a wide range of services and facilitates the country' integration into the global information space.

Tourism development that has a great capacity in the republic will contribute to further development of the services sector.

### **6.5. Investment Policy**

In order to improve business environment and investment climate, the goals of creating favorable conditions for conducting entrepreneurship activity, enhancing investment attractiveness of the country and insuring growth of direct foreign investment by more than 1.5 times in the nearest three years are set.

In this regard, the measures for deregulation of economy and exclusion of unjustified interventions of public authorities in the operation of entrepreneurship entities are taken, administrative hindrances and restrictions in investment and other entrepreneurship activities are eliminated as well as new approaches to regulating market relations are applied.

With view of improving the investment climate in the country there was developed a package of regulatory and legal acts oriented at simplification of the authorization system in the sphere of construction.

Another efficient method of attracting investments and implementing socially sound projects implies public-private partnership. The mechanisms of public-private partnership are focused on creating brand new relationship system between business and the government, which has opportunities for more efficient use of business and the government capacities on the consumption of solving social and infrastructural tasks.

Like in previous years, the investment policy of the Kyrgyz Republic will be oriented at decrease in foreign borrowings attracted against the government's safeguard (PGI) as well as at facilitation of the external investment inflow to the economy of the country on grant basis and private investment due to the measures oriented at improvement of investment attractiveness of the country.

Further liberalization of the national economy for investors is expected; in this regard, the Kyrgyz Republic will pursue an open-door policy in the field of attracting direct investments.

## **7. Social Policy**

Maintenance of social stability and creation of core conditions for stable social and economical development of the country in the medium term has remained the principle objective of social policy for 2012. One of the main conditions of maintaining stability is curbing inflation at an acceptable level as a high level of consumer prices decreases real growth of income, wages and pension of the population, thus devaluating their nominal growth.

Besides maintenance of social guarantees in full scale and support of vulnerable group of population that need government support, the social development policy for 2012 will be oriented at:

- enhancing efficiency of social services provision. Development of regulatory and legal framework that ensures provision of high-quality services, including those at local level, is foreseen in this area. To ensure quality of social services and their development there will be founded the institute of social worker that will enable to enhance the status and potential of social workers who provide these services in places. Moreover, with view of enhancing capacity of the non-government sector and ensuring its interaction with public and local government bodies, the mechanisms of social services purchase through the government social procurement will be developed;
- strengthening financial stability of pension system, reduction of unemployment and migration outflow of the population by enhancing active measures in the labor market.

In 2012 the main steps in social sphere will be towards enhancing the population's standard of living and improving the status of socially vulnerable citizens; harmonization of payments and increase in the amount of child allowances; exclusion of the better-off families from the recipients and increase in the allowance amounts as a result of annual increase in the amount of guaranteed minimum income.

Along with rise in pension amounts, the issue of timely financing of pensions and other social transfers as well as accomplishing the plan for the state social insurance fees will remain the primary task in social insurance.

In order to ease tension in the labor market, active measures to reduce unemployment level will be taken, including: professional training, advanced training and retraining of unemployed citizens; arrangement of fee-based made works; assistance to entrepreneurship initiative as well as support of independent employment of the unemployed people by providing micro-credits.

The problems of actual availability of medical services will be addressed in the healthcare. With view of high-quality and efficient provision of medical services, it is proposed to introduce private medical insurance and set principles of national social insurance.

Changes in education will be aimed at the reform in secondary education, modification of the education financing and management system, modernization of the assessment system for pupils' achievements, and creation of motivation system for teachers and schools. Government support will also be focused on providing access to education for capable youth from distant regions.

Further distribution of the per capita financing mechanism in the schools of Osh and Talas Oblasts will be the fundamental principle.

For efficient regulation of migration processes and provision of social protection of labor migrants there will be implemented a system of temporal contract

employment for migrant workers abroad as a mean of expanding, creating and gaining skills that further will be in demand at the national labor market.

The following measures will be taken to improve the state of socially vulnerable group of the population of the republic:

- timely and full financing of social guarantees of the state;
- advancing the methodology of defining population's demand in governmental support;
- insuring financial sustainability of the pension system and increase in average amount of pensions.

### **Conclusion**

Achievement of the objectives of stable economic growth by 7.5% in average suggests that the growth will be maintained by all real economy sectors that form the country's GDP. Maximum contribution is forecasted from the operation of enterprises engaged in services sector. Real contributions from the industrial production and agriculture will be moderate. Contribution of the construction sector, despite rather low specific weight in the GDP structure, will be increased due to the planned launch of new investment projects.

The Government and the National Bank will develop a range of measures oriented at mitigation of potential shock effect of negative factors on the economy connected with worsening of the international business environment. The Government and the National Bank will pursue coordinated monetary and fiscal policy oriented at curbing the inflation at the level of at least 9% in 2012. Achieving balance between the economy's demands in liquidity and necessity to curb inflation will be one of the key areas of monetary policy.

To achieve the aforementioned macroeconomic figures there will be taken measures, the primary principles of which are described in the State Program Stability and Dignified Life. The major factor of increase in the country's revenues, decrease in external debt, and avoiding deficit of the national budget is the economical basis of the Kyrgyz Republic that provides for:

- economy development through implementation of major national projects;
- efficient management of governmental assets;
- reforming the system of governmental regulation to boost all sectors of economy.