

## **Joint statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on the economic policy for 2013**

### **Introduction**

Government of the Kyrgyz Republic notes that in 2012 it failed to overcome the threat of recession of economic growth and keep positive rates of economic growth, which were set in 2011 at a rate of growth of 6.0%.

From the beginning of 2012 negative tendency of decrease of actual production has been observed and remained almost until the end of the year in the economy of country. By the results of 2012 the volume of gross domestic product (GDP), according to preliminary estimate was formed in the amount of 304.4 billion KGS, where the real GDP decline amounted 0.9% against growth by 6.0% in 2011. Excluding enterprises on development of “Kumtor” deposit the growth of actual GDP amounted 105.0%. GDP deflator was at the level of 107.4%.

The main reasons for the decline of economy by 0.9% were domestic adverse conditions, the decline in manufacturing enterprises on development of “Kumtor” deposit, the decline of production volume in agricultural sector due to severe weather conditions (early winter, which did not let to finish autumn sowing, lack of water, heavy rains, abnormal dry weather conditions).

Over-dependence of the economy on the functioning of only giant – enterprises for development of “Kumtor” deposit demonstrates the necessity for targeted governmental policy of diversification and modernization of economy in order to ensure sustainable economic growth of the country. It is extremely important due to the diversification of the economy to reduce the dominant share of enterprises for development of “Kumtor” deposit in GDP.

Quickly taken compensatory measures by the Government of the Kyrgyz Republic (hereinafter – the Government) to support the economy allowed to prevent further decline of the economy and to keep GDP on the level of 99.1% at the end of the year.

Major sector constraining significant economic downturn was the service sector, the contribution of which is estimated at 2.79 percentage points. Actual growth in the service sector from the beginning of the year amounted 6.1%, the share of it in GDP amounted 46.6%. In the structure of the service sector there was growth in trade by 10.1%, hotel and restaurant services – by 11.9%, in the sphere of transport and communication – by 8.8%.

Development of services sector was influenced by such favorable factors as:

- increase of consumer demand for goods and services (actual growth of the average monthly salary by 15.9%);
- increase of consumer loans in January-November of 2012 by 26.9% compared to the same period of 2011;
- increase of the net inflow of money transfers of individuals by 18.0% (for January-November of 2012 total amount was 1624.2 mln. US dollars).

Growth in retail sales and market services is provided mainly by improving of trade infrastructure, tax incentives for businesses (facilitating and simplifying of taxation of textile industry, the VAT exemption of specialized products for construction etc.), ease of doing business by reducing of inspections, the number of licenses and other government regulations, increase of business activity of the population and improvement of quality of service.

Total budget revenues increased by 11.2% and amounted 86.1 billion KGS, share to GDP amounted 28.3%. In accordance with the set parameters for 2012 full and timely funding of the state social safeguards. Two-stage increase of the pension allowed to increase it by 14% compared to the previous year, which provided coverage of the subsistence minimum.

A positive dynamics of development of the banking sector is noted, which is accompanied by an increase of total assets of the banking system from the beginning of the year by 29.8%, the volume of loans to customers as of 30<sup>th</sup> of November of 2012 – by 26.7%, and the deposit growth is noted: of legal entities – by 44.0%, of individuals – by 29.5%, reflecting increased confidence to the banking system.

The financial stability of the country provides a significant accumulation of international reserves as of 31<sup>st</sup> of December of 2012, – 2066.6 mln. US dollars, increased from the beginning of the year by 12.7%, in comparison to 2009 almost in 1.3 times.

Effective actions of the Government and the National Bank of the Kyrgyz Republic (hereinafter – the National Bank) allowed to keep the inflation level in the planned corridor of 7-9%. The level of inflation by the results of 2012 amounted 7.5% by December of 2011.

In 2012, the main activities of the Government were focused on removing barriers and simplifying the business environment, formation and acceptance of new “rules”/laws for the smooth business development and inflow of foreign capital into the country that may have an impact on the economy in 2013.

In order to conduct negotiations on accession to the Customs Union work on analysis of the national legislation was actively done to check accordance to the contractual-legal base of the Customs Union, including a comparison of the obligations of the Kyrgyz Republic and the Russian Federation on customs tariffs for the World Trade Organization, and also preparation of a package of regulations and international treaties.

Thus, the specific results were achieved in the last year despite the presence of negative tendency of economic growth.

In these conditions, the main directions of economic policy in 2013 will be:

- restoration of macroeconomic stability and sustainable economic growth at the planned level;
- the fulfillment of social obligations;
- further development of regional policy;
- continuation of the integration processes in the framework of the Common Economic Space;
- modernization of the public administration system.

This joint statement defines the main directions and priorities of development of the Kyrgyz Economy and creates basis for development of appropriate measures including a set of economic, organizational and legal measures for a phased development.

## 1. Macroeconomic policy

The main objective of macroeconomic policy in 2013 will be the restoration of macroeconomic stability and creation of basic conditions for achieving of sustainable rates of economic growth. To do this, the Government will carry out its primary regulatory function, which is to create an effective business environment in the economy. On one hand, the maintenance of a healthy and sustainable macroeconomic situation by means of monetary, fiscal and other types of economic policy. On the other hand, the establishment of common rules of business for all participants, ensuring a competitive environment, development and control of compliance with regulations and standards, licensing, and also reorientation of domestic business due to perspectives of joining the Customs Union and the integration in the future Eurasian economic union.

Work will be continued in such areas of economic policy as stimulation of economic growth through an even distribution of the tax burden on the economy, attracting foreign and domestic investments in the infrastructure, improvement of the business and investment climate, and the integration of the economy into a regional economic system, and the implementation of structural reforms for development of key sectors of economy (energy, mining, agro-processing, transport, financial services, etc.); providence of food security through an increase of volume of domestic production and creation of state reserves in sufficient volume; effective management of personal assets; support of liberal trade regime, establishment of new and development of traditional bilateral and multilateral mutually beneficial economic connections, access to new markets of domestic production, increased exports and a gradual reduction in the deficit of the trade balance.

Economic development will be supported by outrunning improvement of legislation and judicial system, parallel transformations in governance, strengthening the rule of law, the achievement of stability in society.

Coordination of the monetary and fiscal policy will allow ensuring macroeconomic stability.

Macroeconomic stability will be expressed in achievement of the following key quantitative parameters:

- providence of economic growth not less than 7.0%, including:
  - growth of the industrial sector by 17.9%;
  - growth of the agricultural production by 1.0%;
  - growth of the construction sector at 10.5%;
  - growth of the service sector is not less than 5.0%.
- containment of inflation in the planned corridor that doesn't exceed single digits;
- containment of budget within 5.0% of GDP;
- retention of public debt to GDP ratio at a level that doesn't exceed the threshold of economic security;
- the growth of population income by 6.2%;
- the full and timely implementation of all state social securities.

Successful implementation of the economic priorities will have a positive impact on reducing the deficit of the state budget, reduce social tension in society through employment growth, create conditions to predict and contain inflation, and for living "within our means".

## **2. Monetary policy**

To reduce inflation to one-digit level on average for over a three year period the National Bank will continue conducting balanced monetary policy aimed at limiting the monetary component of inflation by controlling the monetary base through the usage of the monetary policy instruments.

The floating exchange rate regime will continue, if necessary currency interventions to smooth sharp fluctuations of its dynamics will be conducted. With increasing pressure on the exchange rate, the National Bank will avoid significant reduction of international reserves and will take steps to tighten the monetary policy.

In order to replenish gold reserves, gold will be bought for national currency on the domestic market, taking into account the situation on the world financial markets.

Work on legal reform will be continued for systematization and harmonization of all parts of the banking legislation. Development of the draft of Banking Code of the Kyrgyz Republic, the codified legal act will allow to bring the banking legislation to a new level, and also will identify way of its further improvement.

As the authority for banking regulation and supervision the National Bank will focus on implementation of activities on development of a competitive environment, strengthening confidence to the banking sector by investors, creditors and depositors. Integration of principles of system of early intervention will be continued on the basis of risk-based supervision and application of complex assessment of activity of commercial banks, including assessment of the quality of management and internal control system.

Together with international donors in 2013 the work on preparation of the project of the national program of increase of financial literacy and protection of consumers of financial services will be continued. To further improve the mechanism on exchange of credit information as instrument of reduction of credit risks the legislation framework for the credit bureaus will be developed.

For non-bank financial institutions (NBFI) the National Bank will continue the work to improve legislation to develop mechanisms to protect consumers of NBFIs, including integration of such principles of good crediting in order to reduce credit risk in the system. The development of the microfinance sector will be based on the expansion of services provided by participants of microfinance sector for population, as adopted by the Parliament of the Kyrgyz Republic of amendments to existing legislation.

Systematic work will be continued in terms of relevant activities of the State Program to increase the share of non-cash payments and settlements in the Kyrgyz Republic for 2012-2017. In order to protect consumers and reduce financial risks in the payment system, oversight of functioning of the payment system will be done. In conditions of the development and application of innovative forms of activity in the sphere of payments and settlements, work on improvement of legal regulation of payment services market will be continued.

In 2013, with a moderate increase of food prices, decrease of the accumulated inflation expectations of population and absence of any significant external and internal shocks of demand and supply, inflation will not exceed single digits, which is a quantitative criteria of the monetary policy.

In the case of revision of the tariff policy of the Government, a significant change of situation on the world commodity markets, in the investment policy and public finance sector

actual inflation may be higher than indicated inflation benchmark, so the assessment of the inflation may be revised.

### **3. Fiscal policy**

The main objective of the fiscal policy is to ensure sustainable economic growth by reducing the tax burden on the economy, creation of favorable conditions for activation of foreign business entities, stimulation of investment activity and improvement of procedures of collection and administration of taxes.

The main directions of the fiscal policy in 2013 will be: a) improvement of the system of tax and customs administration; b) achievement of a reasonable balance of rights of entrepreneurs and regulatory agencies; c) reduction of corruption; d) ensure transparency and increase of effectiveness of the regulatory agencies, increase the quality of services provided by Customs authorities, and reduction of expenses of participants of foreign economic activity, related to customs registration.

The fiscal policy will be directed to ensure an increase of tax revenues, adjustment of privileges and exemptions, reduction of budget deficit, creation of effective management system. To achieve this objective it is necessary:

- the use of standardized and simplified taxation, in terms of administration, stimulating legal business;
- improvement of the patenting regime aimed at high-quality administration;
- transfer of the majority of imported goods from the estimates based on the weight to the price estimate;
- determining the state strategy for development and change in attitudes to special tax regimes for small and medium businesses;
- development of methods for evaluating the real estate cadaster and techniques for inspecting results of the cadastral evaluation of real estate;
- legislative resolution of issues, related to interbudget relations and development of regions, with a transfer of the collection of certain taxes for the benefit of the local budget (for example: income tax, income from patents, land tax, property tax, and certain types of non-tax payments);
- maximum simplification of taxation, accounting, all tax procedures and reviewing of them from the point of view of tax payers;
- a complete transition to audits in customs and tax services through the integration of inspection system based on risk assessment;
- creation of competitive conditions in the economy by tightening control of the tax evaders, elimination of the shadow economy and the strengthening of the struggle with doing double-entry bookkeeping and gray schemes, and further implementation of measures to eliminate the causes contributing to their appearance;
- optimize control of the customs cost of imported goods;
- strengthening of control over the reliability of the declaration of goods.

To modernize the tax and customs services, it is foreseen: a) integration of automated information system including a system for electronic filling of customs declarations and facilitate exchange of information between participants of foreign economic activity (FEA) and the customs authorities; b) integration of automated information system of tax service for filling tax declarations in electronic form and integration of modern technologies for

facilitating procedures of implementation of tax obligations by tax payers; c) automation of procedures of tax control with the introduction of an effective system of tax inspections considering the risk factors (creation of a system of electronic monitoring of audits of tax payers); d) integration of new progressive technologies of customs administration.

In order to increase public confidence to the tax and customs services and decrease level of corruption it is planned: a) create 3 centers for processing of tax declarations (by south, north and eastern regions); b) equip multilateral points with video surveillance systems; c) develop and implement in the bodies of tax and customs services outreach programs for prevention of corruptions aspects of service; d) integrate systematic survey of tax payers and subjects of FEA on degree of corruption in tax and customs administration; e) to ensure transparency of administrative processes of tax services by informing tax payers about its services, sample of document forms, possibilities of filling and submitting documents in electronic form, procedures of document flow, procedures to challenge and appeal decisions.

To improve the quality of services by customs authorities and reduce costs of FEA participants, related to customs clearance and customs control, it is foreseen: a) increase of the capacity of border entry points, particularly multipoint border entry point “Ak-Jol road”; b) conducting activities to transfer the border entry point to the balance of customs service and bridging into service weigh equipment, particularly on the multilateral border entry point “Torugart”; c) creation of temporary bonded warehouses and establishment of the place of customs clearance and cleaning in the Naryn area; d) separation of passenger and freight flow to reduce time of crossing the border; e) establishment of a time out and audit; f) development of the draft of the Law of the Kyrgyz Republic “On customs consultants”; g) expansion of practice of informing and consulting of participants of FEA; k) review of the issue of integrating GPS system (GPS -Global Positioning System); l) development of the draft of the manual on customs maintenance;

#### **4. Budget policy**

The objective of the policy of budget spending in 2013 will be full and timely financing of social obligations of the government, creation of favorable conditions for economic growth, increase of effectiveness of usage of public resources with integration of the system of economic evaluation.

The main objectives of the budget policy for 2013 are:

- adhere the principle of “living within our means”;
- to continue the practice of anti-corruption budget;
- integration of the system of evaluation of effectiveness of budget spending by non-financial indicators for monitoring and implementation of the budget;
- completion of analysis of spending efficiency in the sector of education and health and development of relevant sectoral policies;
- further improvement of the system of targeted access to social benefits and a shift to identifying of needs based on the family;
- integration of unique card of tax payer;
- development of the fiscal strategy that foresees alignment of tax burden between the sectors of economy and reduction of the tax burden;
- decentralization of interbudget relations and further strengthening of the financial independence of local self-government;

- ensure of effective management of state property and assets.  
The main directions of the budget policy for 2013 are:
- more efficient usage of public resources;
- fulfillment of state obligations and social safeguards;
- reduction of interregional differentiation of living standards;
- reduction of the budget deficit;
- intensification of the investment process.

Following will be continued: a) work to improve the format and procedures for developing a medium-term budget which determines the budget policy of the country, b) introduction of elements of budget programming which allows increasing effectiveness and transparency of budget spending.

Remaining significant budget deficit calls the necessity of its optimization, as by seeking traditional mechanisms for improvement, as well by seeking alternative sources of revenue: increase of budget revenue by attracting additional investments to the real sector of economy, reviewing tax exemptions, simplification of tax procedures, improvement of the management system.

For an effective management of public finance measures for implementation of medium-term plan on reforming the system of management of public finance of the Kyrgyz Republic for 2012-2015 will be taken, approved by Resolution of the Government of the Kyrgyz Republic No. 675 dated October 3, 2012.

As part of the reform of the system of management of public finance, work will be continued on the draft of the Budget code of the Kyrgyz Republic, work on automation of the budget process and improvement of the system of interbudget relations will be done.

For an effective management of public finance the mechanism of budgetary expenditure will be gradually integrated, it foresees planning and usage of budget expenditures for specific programs and projects. This will let to send released funds for economic development that will lead to growth of revenues.

## **5. Public debt management**

Public debt management will be carried out in the direction of a gradual reduction of the debt burden, including by reduction of the external debt, while respecting the established schedule of payments on the external debt.

In terms of the current Strategy of the management of the public debt of the Kyrgyz Republic for the medium term and to achieve a sustainable level of public debt, optimization of its structure and creation of the basis for effective management of public debt, it is assumed:

- reduce the burden of foreign debt;
- timely servicing of the public debt;
- consideration of the possibility of further debt restructuring;
- conduct conversion operations with bilateral creditors;
- attraction of privileged external creditors with a grant-element of at least 35% efficient and economically sound projects;
- expansion of the holders of state securities through the development of both primary and secondary markets of state securities;
- growth of domestic lending by the issuance and placement of state securities;

- integration of risk management practice.

## **6. Investment policy**

The objective of investment policy is improvement of conditions of investment attractiveness of the country and targeted investment of national projects aimed at economic development.

The main objectives to achieve the goal will be: 1) improvement of legislation of safety of private property; 2) reduction of government interference in regulation of business activity; 3) providence of financial-credit support and insurance of entrepreneur activity.

To form a stable regulatory environment that contributes to economic development and considers the opinion of business community, conditions for cancelation and prevention of acceptance of regulations, which violate requirements of the legislation in the sphere of entrepreneurship, will be created through: a) reformation of the system assessment of regulatory impact of the development and decision-making; b) conducting the audit of the legislation in the sphere of entrepreneurship and development of recommendations to eliminate unnecessary and market-oriented regulations through regular meeting with the business community.

To reduce the level government intervention to the regulation of entrepreneur activity measures will be taken, which will receive a legal and procedural consolidation.

Reformation of the state regulation will be continued in licensing-permitting and compliance-enforcement areas, in the system of technical regulation by: a) reducing the number of current licenses and permissions; b) reduction of redundant control-oversight functions; c) creation of updated audit mechanism, based on the system of risk criteria; d) modernization of testing laboratories and upgrade of the standard base.

It is expected to form a single and comprehensive list of licensed activities, and develop full package of by-laws for its implementation.

Decisive actions will be taken, related to liquidation of basis for exposure of corruption by stimulating transparency, accountability, and tightening control over the work of the executive power and the responsibility of public servants involved in the regulation of business.

The policy related to development of mechanism of the financial-credit support will include: a) simplification of the taxation procedures and increase of availability of credit resources to support the private sector; b) growth of volume of micro-crediting; c) support and promotion of issuance of high quality environmentally friendly products and services.

Careful work of investment opportunities of economic sectors and private sector, the selection of priority projects and the provision of necessary information to entrepreneurs and other services will be continued.

Work will be focused on reduction and reorientation of the Public Investment Program (PIP). Preference will be given to projects, which have the most financial, economic, and social efficiency. Monitoring of implementation of PIP projects (both credit and grant based) and the selection of investment projects will be significantly strengthened.

Mechanism of state – private partnership (further SPP) will be developed. The main objectives of integration of the SPP mechanism are: a) ensure economic growth through concentration of material and financial resources of the state and private sector for

implementation of investment projects; b) reduce the burden for the state budget and reallocation of the budget funds.

Issues of implementation of projects with application of mechanisms of SPP on a pilot basis will be worked through. For a practical implementation of these projects decisions will be taken by the Government aimed at creation of a tender commission for the selection of private partners, development of the procedure for preparation of rules for tenders and tender documentation of SPP projects.

Regular monitoring will be done to keep and improve positions in the international ratings, related to business and economy, and acceptance of operational decisions on elimination of the problems identified during monitoring.

## **7. Development of the real sector**

Provision of favorable conditions of making business, creation of conditions for protection, warranties of the rights for property and attracting direct investments are the essential conditions for development of prioritized economic sectors. The main criteria for choosing economic priorities are high value added cost, tax capacity, creation of jobs.

### **7.1 Industry**

In the industrial sector<sup>1</sup> for 2013 actual growth of volume of production is projected by 16.2%, with a share in a total volume of GDP of 18.4%, due to the stable operation of existing industrial enterprises and start of new minefields, revitalization of enterprises to develop the “Kumtor” deposit. Excluding enterprises of developing the “Kumtor” deposit, growth of industrial production is projected at a level of 7.1%.

Projected significant growth of index of the physical volume of the industrial production for 2013 is due to the low base, which was formed in 2012 due to the decrease in industrial production in the steel industry.

The growth will be achieved by:

- increase of production in the manufacturing industry by 20.3%, which will be achieved by restoration and revitalization of the work on the “Kumtor” deposit, increase of production and introduction of new minefields – “Ishtamberdi”, “Jamgir” and increase the volume of production on JSC “Kyrgyzaltyn” (on the minefields Solton-Sari, Makmalzoloto and Tereksai mine); increase of volume of production of LLC “Interglass”, capacity development of CJSC “South Kyrgyz Cement”, LLC “Technolin”; stable operation of the textile and clothing manufacturing; real production growth of food products, including beverages and tobacco.

- real growth of production and distribution of electricity, gas and water by 0.9%. Electric power generation is projected at a level of 2012, which is calculated with regard of mean annual inflow to Toktogul hydroelectric station and a risk of occurrence of low water periods over the period under review;

- output growth in the mining industry at a level of 3.2% due to the increase of production: (1) crude oil by 10.4% by attracting of investors to develop oil and gas fields, in particular, JSC “Batkenneftegaz”, CJSC “Kyrgyz Petroleum Company”, CJSC “Gidrokarbons”, LLC “Consultant-Center” (“Jibek Resources”), CJSC “Southern Oil

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<sup>1</sup>Excluding the cost of recycled raw materials.

Company”, etc.; (2) pellet, stone powder, pebbles, gravel, crushed stone by 18.2%, clay and kaolin – by 5.6% due to an increase of demand from companies, specializing on the production of steel concrete products, concrete, mortar, sand blocks, polymer tiles; (3) the development of capacities of the enterprises, which develop coal deposit “Kara-Keche” to ensure the demand for coal of thermal power station of Bishkek, as well as coal supply to the population of the northern region through the fuel bases and points of coal sale to the budget consumers, by the results of participation in relevant tenders; maintain market of solid fuel for the southern region by increasing production rates on the coal mine “Besh-Burhan”, on the minefield “Kyzyl-Bulak” LLC “Periti Coal”, development of mining and extraction operation at existing coal plans JSC “Jyrgalan”, JSC “Suluktakomur”, JSC “Suluktashaktakurulush”.

## **7.2 Agriculture**

Real growth in gross output of agriculture, hunting and forestry for 2013 is projected at a level of 1.0%, with a share of 17.5% in the total volume of GDP, due to the increase in crop production by 1.6% and livestock – by 0.5%.

Policy of development of agriculture in 2013 will be directed for solution of the following main tasks: 1) increase of production volume and quality of agricultural products; 2) increase of productivity of crop and livestock production; 3) the development of cooperatives; 4) improvement of access of rural producers to financial resources, development of crediting and leasing; 5) development of organic farming.

For the increase of production volume assistance in the increase of availability of financial, material, technical resources, the expansion of product market will be promoted. The Government will continue to provide privileges in access to financial resources and fuel products. The important direction will be promotion of growth of production of ecologically clean production of crop, using technology of organic farming for export.

Measures of strengthening the production potential of seed and breeding farms, improvement of registration of pedigree animals, support of development of agriculture will contribute to enhance the productivity of crop and livestock, improve protection of plants and animals. The State breeding station at the State selection-breeding center of the Ministry of agriculture and melioration of the Kyrgyz Republic will be created for these purposes, which will deal with artificial insemination of farm animals.

Cooperative development will be supported by the improvement of the legislation in the area of protection of property and interests of potential participants in the cooperative relationship. Procedures of primary state support of rural cooperatives will be developed, which provide increase of production volume and create new jobs.

Access to credit places will be provided as the direct financial governmental support, and as well as creation of conditions to decrease interest rates of credit organizations.

The main risks in this sector will be adverse climatic conditions, the unpredictability of prices for fuel products, and also deficit of mineral fertilizers.

## **7.3 Construction**

In the construction sector of the country in 2013 increase of capital investments is expected by 12.5%. The major share of the total volume of investment funds hold companies, organizations and population amounting nearly 60%.

Based on planned volume of capitalization of economy, the actual growth of total gross output of construction for 2013 is projected at 10.5% and will amount 63.7 billion KGS, the share of construction in the structure of GDP – 5.7%.

Priority areas in the building in 2013 will be objects of building of individual housing construction; objects of thoroughfare (continuation of implementation of the projects of road rehabilitation of “Bishkek-Naryn-Torugart”, “Taraz-Talas-Suusamyр”, “Sary-Tash-Karamyk”, “Osh-Batken-Isfana”); energy subjects (construction of power lines, linking the country into a single power ring – the projects “Modernization of power lines in the south of Kyrgyzstan”, “Construction of 500 kV power lines “Datka-Kemin” and 500 kV “Kemin””, “Development of the energy sector”, “Improving the efficiency of power distribution networks”; the projects “Improvement of the local network of mountains of Bishkek”, “Improvement of power supply of mountains of Bishkek and mountains of Osh”, “Rehabilitation of the energy sector”). Investment will be utilized during construction of the objects of the mining industry – development of gold deposits “Ishtamberdi”, “Jamgir”.

To create favorable conditions for development of construction industry the authorization procedures were significantly simplified, time and number of required documents are reduced. One of the priority tasks is the construction of affordable housing. Mechanism of mortgage lending for population will be launched; identification of areas of construction considering earthquake resistance and provision with communications and engineering networks, information data bank of land for construction in the settlements of the Kyrgyz Republic was developed.

In 2013, using budget funds capital expenditures will be directed for:

- construction and reconstruction of infrastructure and social and cultural facilities, construction of educational objects, roads, etc.
- implementation of activities under the State program of construction of water facilities and development of new irrigated lands in the Kyrgyz Republic for 2011-2015, approved by the Resolution of the Government of the Kyrgyz Republic N0.229 dated May 16, 2011.

#### **7.4 Services sphere**

The services sector is the main sector in formation of GDP, the share of it in the structure of GDP is nearly 50%.

For 2013 the actual growth of 5.2% is projected. The sources of growth are: trade, where the growth is expected by 6.0%, transport and communications – by 7.7%, financial services – by 4.8% and hotel and restaurant services – by 6.5%.

The main share in the structure of services will take trade (31.2%), services of transport and communications (22.4%), actual growth of them will be supported by an increase in income of population by 6.2% in 2013.

Policy in services sector in 2013 will be aimed on improvement of access to essential services and expanding it on the entire territory of the Kyrgyz Republic, including communication services, transport, financial services of microcredit companies, trade and others. Measures will be taken to reduce the level of informal activity to increase tax revenues in this area.

Tourism is reviewed as one of the main economic priorities. Creation of specialized extraterritorial zone in the Issyk-Kul region with preferential taxation will contribute to attraction of tourists. On the territory of this zone cultural, entertainment, recreational,

rehabilitation centers, hotel and restaurant business will be created. It is expected that this area will become a popular place to visit by foreign citizens with middle and high income. Active and constant advertising abroad of touristic possibilities of Kyrgyzstan through the embassies of the Kyrgyz Republic in foreign countries will be continued. For the development of tourism in all regions it is expected to create an institute of “free tourist zones” on the basis of touristic clusters.

## **8. Social development policy**

Development of priority sectors of the economy will stimulate creation of new work places, increase of budget revenues, and will lead to expansion of the Government’s possibilities to solve social issues, improvement of social help to pensioners and other low income groups of population.

The main objective of the social policy in 2013 is the preservation of the social stability and creation of conditions for sustainable socio-economic development of the country. One of the main conditions of stability is to keep inflation at a reasonable level, since the high level of consumer prices reduces real growth of income, salary and also pensions, depreciating their nominal growth.

One of the main objectives of the Government is the reduction of poverty in the country. According to preliminary data, 36.8% of the population lives below the poverty line. Taking into account that the issue of poverty requires a comprehensive approach, in 2013 reforms in the sphere of social protection, health care, social security, education, labor market, and gender policy will be continued. Particularly, it is planned to increase the effectiveness of social protection of socially vulnerable segments of the population through the provision of timely and qualified social services. Concept document in the sphere of social protection is the accepted Strategy of the development of the social protection of the Kyrgyz Republic for 2012-2014, approved by the Resolution of the Government of the Kyrgyz Republic No.755 dated December 13, 2011.

Also, as in previous years, the Government foresees preservation of state social guarantees in full volume and increase of level of support of vulnerable categories of population which need public support.

To improve the situation of socially vulnerable groups of population of the republic the following things should be implemented: a) timely and full funding of social state guarantees; b) improvement of mechanisms of low income families with children; c) provision of timely and qualified social services.

The main object of the state’s care will be children, who are in difficult situation, persons with disabilities, senior citizens, and persons in the risk group (homeless).

To improve the quality of the system of social protection it is planned to carry out the development of minimal social standards and methods of calculating the cost of social services. To reform the address system there will be developed the systems of social work on the local level, based on the needs of families which are in difficult situation. Work on development and integration of different forms of children arrangement who are in a difficult situation (day-care centers, foster homes, adaptation and rehabilitation centers etc.). Social protection will be strengthened by integration of low income people to employment by giving them micro-credits.

To improve the quality of social services for people with disabilities the new forms and methods of work will be integrated in stationary social care centers, modern technologies of manufacturing the technical means of rehabilitation, and also the new system of determining the degree of disability, at the same time access to information and educational programs will be improved. Development and integration of new forms and methods of work in social care centers and organizations of senior citizens is planned.

For efficiency of the pension system it is planned to increase the pensions by 10% bringing the average monthly pensions to the subsistence minimum.

The main objectives for 2013 are:

- provision the financial sustainability of the pension system;
- increase of pensions for state social insurance.

In 2013 activities of revising the tariff rate of insurance contributions for peasant farmers are planned. Tariffs of insurance contributions for peasant farmers with a legal entity are set at a size of base rate of land tax for the current year. Work will be carried out to improve legislation norms, regulating legal relationship to pension social insurance, and also reviewing the possibility of reduction of pension benefits.

In terms of improvement of the management of the educational system it is planned to develop regulations, aimed at improving the quality of the decision making and strategic planning system in the educational sector on the basis of monitoring and evaluation of results for all levels of education.

Basic directions of the policy of development of the health care system will be concentrated on improvement of the quality of medical-sanitary services with orientation of health care system to achieve Millennium Development Objectives; improvement of the material and technical bases; improvement of the quality of medical and pharmaceutical education.

Policy measures taken in the area of employment of the population will be directed on creation of new jobs in regions and reduction of unemployment by giving micro-credits to start own business, training of unemployed of occupations, which are in demand on the local markets, integration of regional employment agencies to the work, making agreements with employers on probation and further employment.

## **Conclusion**

Thus, the successful implementation of the economic policy by the Government and the National Bank in 2013 will ensure economic growth at a level of at least 7.0% and containing inflation in the planned corridor, which does not exceed single digits.

Based on the National Strategy for Sustainable Development of the Kyrgyz Republic for the period of 2013-2017 the Government will prepare the Action Plan for 2013 for implementation of the Governmental Program, where the key task is the recovery of the macroeconomic stability and creation of the base conditions for achieving sustainable economic growth. The main condition for achieving macroeconomic stability is to ensure social and political stability in the country, effective usage of internal resources and own potential.

However, there are risks that could have an impact on the economy of the country: unfavorable tendency of growth of world prices for food (according to the UN – FAO estimate, price for food in the medium and long term will remain relatively high,

approximately the next decade); dependency of the domestic market of bread products from import of grain and flour; uncertainty of trade conditions with major trading partner countries (electricity, gas).

The consequences of the negative impact of rising world food prices (particularly for wheat), due to low yield of crop in the last marketing year, may increase the inflation expectations of economic agents in 2013 and provide additional influence on macroeconomic situation.

Food and Agriculture Organization of UN (FAO) predicts decline of production of grain in 2013 to 2284 mln. tonnes, mainly due to the decline of production volume of grain by 5.5% and reduced production of coarse grain by 2.5%. At the same time, the demand for grain in 2013 will exceed their production by 29.9 mln. tonnes.

Forecast of the global grain reserves, by the end of agricultural season, ending in 2013, amounts currently 499 mln. tonnes, which is 5% lower than its level at the beginning of the season. The most significant reduction of trade reserves of grain is noted in Kazakhstan, Russian Federation and Ukraine, also in China (continental), the EU and the United States of America.

It is expected that the global ratio of volume of global stocks to the level of consumption will amount 24.8%, which is lower than the estimated rate of 28.1% in 2011-2012.

In addition, there is still a recession tendency in global economy, which may lead to a recession in economies of the EU and the US and decrease rates of economic growth of the main trade partners – Russia, Kazakhstan and China. International organization revised their forecasts for the development of global economy to the downside. International monetary fund decreased forecast of the growth of global economy for 2013 to 3.6%, at the previously projected growth rate of 4.1%, Eurozone – to 0.2% compared to the forecast of 0.9%, China – to 8.2% from 8.8%. Russia also revised forecasts to the downside from 3.7% to 3.6%, and Kazakhstan – from 6.5% to 6.0%.

Possible repletion of the crisis in the global economy with a concomitant reduction in consumption would slow the growth of the domestic economy.

Forecast of socio-economic development of the Kyrgyz Republic for 2013 can be specified with the identification of new trends to changes of domestic and external factors of economic functioning, the emergence of new risks.

The Government and the National Bank will take cooperative actions for minimization of influence of risk factors, formation of modern competitive banking sector, meeting the strategic economic interests.

Implementation of measures of the Government and the National Bank should provide qualified improvement of crediting conditions of the Kyrgyz economy, incremental and sustainable development of the domestic market, and become a solid basis for balance economic growth.

In turn, the Government and the National Bank are counting on the support of the legislature, the whole business community in the implementation of the tasks foreseen in the Joint statement and policy documents.