

Approved
by the Resolution of the Government
of the Kyrgyz Republic and the
National Bank of the
Kyrgyz Republic
No. 164-2/1 dated March 26, 2015

**Joint statement
of the Government of the Kyrgyz Republic and
the National Bank of the Kyrgyz Republic on the main directions
of economic policy for 2015**

The economic policy, implemented by the Government of the Kyrgyz Republic (hereinafter - the Government) and the National Bank of the Kyrgyz Republic (hereinafter - the National Bank) in 2014, has helped maintain the outlined positive dynamics of economic development, macroeconomic and social stability in the country, despite the negative impact of the ongoing global economic slowdown, including in the countries - main trading partners - the Russian Federation and Kazakhstan.

According to the preliminary estimates, economic growth in the country at the end of 2014 amounted to 103.6 percent.

Inflation in 2014 varied within a range from 3.6 percent to 10.5 percent, and its average annual value amounted to 7.5 percent. The joint activities by the Government and the National Bank, due to acceleration of the inflation processes in the country, which were caused by both endogenous (decline in the agricultural production due to the climatic conditions, increase in the tariffs for housing and communal services, growth of the inflation expectations in connection with the accession of the Kyrgyz Republic into the EAEU) and exogenous factors (strengthening of the US dollar in relation to som and other currencies; increase in the selling prices for petroleum, oil and lubricants by the Russian petroleum refineries, increase in the cost of imported wheat due to the decline in the volume of grain harvest in Kazakhstan), were aimed at stabilization of prices.

Against the background of the global trend towards the strengthening of the US dollar, as well as the events taking place in the Russian economy, the country observed a surge of the inflation expectations, which led to the increased demand for foreign currency and, accordingly, the pressure on the exchange rate. In these circumstances, the Government and the National Bank promptly took measures to minimize the risks that might have affected the change in the indicators of the socio-economic development of the country. In order to mitigate acute fluctuations in the exchange rate of the national currency, to prevent speculative transactions in the domestic currency market, to prevent a sharp rise in prices for goods and services, the Ministry of Economy of the Kyrgyz Republic in cooperation with ministries and agencies developed a plan

of priority measures. The National Bank was taking measures to mitigate acute fluctuations in the exchange rate by making the currency interventions, by increasing the discount rate up to 10.50 percent (in the beginning of 2014, the discount rate was 4.16 percent), by introducing the daily minimum threshold of mandatory reserve requirements for commercial banks.

The banking sector demonstrated a stable dynamics of development, which is accompanied by an increase in total assets of the banking system, which during 2014 increased by 23.9 percent and amounted to 137.6 billion soms. The total deposit base of the banking sector amounted to 82.5 billion soms, having increased since the beginning of the year by 22.6 percent; deposits of the population also increased by 22.1 percent.

The volume of the loan portfolio (excluding loans granted to banks and other financial and credit institutions) of the banking sector, as of December 31, 2014, amounted to 78.8 billion soms, having increased since the beginning of the year by 45.9 percent.

Securing the positive dynamics of economic growth has been actively promoted within the framework of the Action Plan of the Government of the Kyrgyz Republic for 2014 on the implementation of the Program on transition of the Kyrgyz Republic to sustainable development for 2013-2017, the predominant part of which is focused on removing the barriers and simplifying the business environment and implementation of the investment projects of the national scale for the development of strategic sectors of the economy. During 2014 there were implemented 15 projects, of which 7 projects - in the agricultural sector, 4 projects - in the energy sector, 4 projects – in the sphere of transport and communications.

In order to stimulate the agricultural production, a project "Financing agriculture-2" (Government Resolution No. 61 dated January 31, 2014) has been implemented, within the framework of which six banks of the country granted to farmers 15525 soft loans for a total amount of 5300 million soms.

Activities aimed at creation and maintenance of favorable conditions for doing business continued. An information system on inspection of the activities of business entities was created, which allows the government regulatory bodies to reduce the degree of risk of objects and their frequency, reduce unreasonable and excessive inspections. Objects will be subject to inspection based on the degree of risk: "with high risk profile" - no more than once a year; "with medium risk profile" - no more than once every three years; "with low risk profile" - no more than once every five years. Twice are reduced the terms for inspections of legal entities up to 15 days, of small businesses - up to 5 working days. In order to improve the quality of normative legal acts that regulate business activities, to create favorable conditions for doing business, a new Methodology is adopted for analysis of the regulatory impact of normative legal acts on the activity of business entities (Resolution of the Government of the Kyrgyz Republic No. 559 dated September 30, 2014).

As part of the fiscal policy pursued to improve the on-going tax policy, the system of tax and customs administration, a number of normative legal acts is adopted. With the adoption of the Law of the Kyrgyz Republic "On

amendments and changes to some legislative acts of the Kyrgyz Republic" No. 57 dated April 11, 2014, citizens (including civil servants) have the opportunity to legalize their income through the voluntary declaration of cash, real estate, securities, owned capital shares in enterprises and other kinds of movable property for the latest reporting periods.

In accordance with the parameters set for 2014, the full and timely financing of the state social guarantees is ensured.

The Action Plan ("roadmap") on the accession of the Kyrgyz Republic to the Common Economic Space of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation has been actively implemented, considering the formation of the Eurasian Economic Union (hereinafter - EAEU), approved by the Decision of the Supreme Eurasian Economic Council No. 75 dated October 10, 2014. The large-scale work on bringing the national legislation in line with the regulatory framework of the EAEU was conducted, which the framework of which amendments and additions were made to 112 normative legal acts (38 laws, 74 other normative legal acts).

The main event of the year was signing on December 23, 2014 the Treaty of Accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union from May 29, 2014. On January 1, 2015, the largest integration association - EAEU started to operate on the former Soviet Union space, which will ensure the freedom of movement of goods, services, capital and labor resources between the participating countries - members. After completion of all procedures it is expected that in May 2015 Kyrgyzstan will become a full member of the EAEU. This is a new stage of economic integration for the country. The country is facing new horizons of social and economic development; prerequisites for the growth of business activity in the economy, as well as challenges are emerging for the domestic agricultural production, food and processing enterprises, businesses.

Thus, in 2014, certain results were achieved. However, internal and external risks that may affect development of the economy in 2015 remain.

The tendency to decline remains in the global economy. The forecasts for development of the global economy for 2015 have been reconsidered towards the decline up to 3.8 percent at the previously projected 4.0 percent growth, of the Eurozone – up to 1.3 percent compared with the April forecast at 1.5 percent (the forecast of the International Monetary Fund). In addition, for 2015 the indicators of the economic growth have been revised towards a decline in the countries - main trading partners of the Kyrgyz Republic.

The recent changes in the geopolitical and economic situation in the countries - main trading partners once again demonstrate the degree of dependence of the Kyrgyz economy from external factors. For example, in Russia the prices on the world commodity markets have significantly decreased; the price for Brent petroleum in 2014 decreased by 46.57 percent (from 107.7 dollars per barrel to 57.54 dollars per barrel; in 2015, the risks of further reduction of petroleum prices remain); the US dollar against the ruble for 2014 has strengthened by 71.89 percent; inflation has accelerated, which, as of

December 31, 2014, amounted to 11.4 percent, the capital outflows have intensified.

In 2015, the Russian economy can move from the stagnation phase to the recession phase (according to the assessment of the Central Bank of the Russian Federation (CBRF), at the average price for petroleum at 60 US dollars per barrel a decrease in the GDP could reach (-) 4.8 percent, which could lead to a further decline in the economic growth of the countries - participants of the EAEU, including the Kyrgyz Republic.

Against the background of such events, the main influencing factors on the socio-economic development are: the growth of the inflationary pressure; integration processes within the EAEU framework; growth of prices for imported goods, which leads to the slowdown of growth of wholesale and retail trade, transport services; reduction of income of private transfers.

Under these conditions, the main objectives of the economic policy in 2015 will be to maintain macroeconomic stability and achieve a positive dynamics of the economic growth.

The main directions of the economic policy in 2015 will be:

- creation of basic conditions for preservation of the positive trends in the economic growth;
- maintaining macroeconomic stability by keeping the state budget deficit at the level that ensures financial stability;
- keeping macroeconomic stability by achieving and maintaining the price stability as a result of the coordinated economic policy of the Government and the National Bank;
- active promotion of activities on continuation of the integration processes within the EAEU framework;
- formation of an effective system of governance;
- improving the quality of social services through the adoption of specific measures and activities aimed at subsistence of the population.

In 2015, the economic development of the country will be based on the guidelines, which are incorporated in the National Sustainable Development Strategy of the Kyrgyz Republic for the period of 2013-2017, approved by the Decree of the President No. 11 dated January 21, 2013 (hereinafter - NSDS), and on the conditions of accession of the Kyrgyz Republic in the EAEU.

To ensure the sustainable economic growth, the Government will focus on continuation of the implementation of 77 main investment projects; in order to enhance the export potential, a large-scale modernization of agriculture will begin, aimed at improving the competitiveness of the agricultural sector and the development of the food processing. The project "Financing of export-oriented industries" will be launched.

In order to ensure the sustainable economic growth based on the rational use of natural resources of the country, the Government in 2015-2017 will implement the development program for the mining industry of the Kyrgyz Republic, the energy conservation and policy planning on energy efficiency in the Kyrgyz Republic for 2015-2017, within the framework of which will begin the formation of a completely new system of management of natural resources,

reduction of energy consumption and increase in energy efficiency of the economy, development of renewable sources of energy and reduction of the environmental pollution.

In order to create favorable conditions for the development of business, the activities of the Government will focus on timely and quality implementation of measures outlined in the Program on transition of the Kyrgyz Republic to sustainable development for 2013-2017, approved by the Resolution of the Jogorku Kenesh of the Kyrgyz Republic No. 3694-V dated December 18, 2013.

In general, the fiscal policy for 2015 will remain stable and will focus on the implementation of such measures, as: the improvement of the tax legislation; development of existing and assimilation of the new management tools to ensure the successful integration with the member states of the Eurasian Economic Union; the maximum alignment of the tax burden; ensuring completeness of the tax collection; improvement and automation of the tax reporting system.

The public expenditure policy in 2015 will be aimed at preservation of the social orientation of the public spending along with reduction of inefficient and non-priority spending through improving the budget planning; management of foreign debt of the country with consideration for the work conducted by the Government, aimed at ensuring the strict discipline of spending and attracting foreign loans; management and control of the use of internal and external funds of the Public Investment Program (PIP) portfolio; ensuring the deficit of the state budget at a reasonable level.

The public debt management will be carried out towards preservation of the sustainable level of public debt and the gradual reduction of the debt burden, including through optimization of external borrowing while respecting the established schedule of payments on external debt.

The foreign economic activity in 2015 will be aimed at creation of favorable conditions for the growth and development of the export potential of the country. The main directions will be ensuring the implementation of the process and procedures for the accession of the Kyrgyz Republic in the EAEU, the harmonization of normative legal acts of the Kyrgyz Republic with the EAEU documents, continuation of expansion of the cooperation and active promotion of the interests of Kyrgyzstan in the framework of integration associations and bilateral cooperation, formation of the liberal trade and economic relations, increasing the work efficiency of intergovernmental trade and economic commission with consideration for economic feasibility.

Achieving and maintaining the price stability in the medium term through the implementation of the appropriate monetary policy is the objective of the National Bank in accordance with the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic". The policy measures and instruments, provided in the selected monetary policy regimes, will be aimed at realization of the tasks defined by the NSDS.

Forecasts of macroeconomic performance of countries - trading partners indicate that in 2015 the situation will continue to be difficult, which determines the preservation of the increased inflationary pressure in the country. Accession

of the Kyrgyz Republic in the integration associations may lead to an additional increase in the prices, the effect of which will have a short-term nature. In accordance with the Mid-term tariff policy of the Government of the Kyrgyz Republic for electric and thermal energy for 2014-2017, approved by the Resolution of the Government No. 660 dated November 20, 2014, the increase in tariffs, which began in 2014, will continue in 2015 as well.

Taking into account the large share of food products in the consumer basket and a high dependence on import, the price dynamics on the global food markets and the degree of saturation of the domestic market with goods of this group are considered as the essential factor for the price stability. Under these conditions, the price situation will be largely affected by the performance of production in the agricultural sector of the country and the foreign economic conjuncture.

Taking into consideration the preservation of external and internal factors of the inflationary pressure, a significant change in the macroeconomic forecasts for the development of countries - main trading partners of the country, due to the influence of negative factors, during 2015 inflation will be above the medium-term benchmark 5-7 percent, defined by the NSDS. The monetary policy measures will aim at reducing in 2015 the inflation rate below 11 percent. Such dynamics should allow in the future bring the inflation to the established benchmark.

The work on the development of the framework for monetary policy, which uses interest rates as an interim milestone for the policy, and the modernization of the employed instruments of monetary policy will continue. In the medium term this will strengthen the work of the percentage transmission channel and the impact of the discount rate of the National Bank on the market rates.

The National Bank will continue to maintain the regime adopted by the Kyrgyz Republic in relation to a floating exchange rate and will intervene only in order to mitigate acute fluctuations in the exchange rate of the national currency. The management of international reserves will be subject to the basic principles of maintaining liquidity and ensuring safety of reserve assets.

The purchases of gold in the domestic market with the national currency will be carried out for the purposes of replenishing the volume of international reserves with consideration for the situation on the global financial markets. In 2015, gold bullions will be issued for the purposes of creating alternative savings instruments and investing for the population through the establishment and development of the market of banking precious metals.

The National Bank jointly with the Ministry of Finance of the Kyrgyz Republic will carry out on a regular basis the coordination of monetary and fiscal policy measures in the framework of the permanent Interagency Coordinating Council.

The practice of holding an active communication policy, which provides access to information on the ongoing monetary policy, will remain. The timely and transparent disclosure to the public will assist in reducing the inflation expectations of the public.

The work will continue on organization and making economic research, including in collaboration with research institutions, international organizations, central banks of other states.

In order to strengthen the transmission mechanism of monetary policy, activities will continue to increase the share of cashless payments. In this direction will be carried out the further coordination and monitoring of the implementation of the State Program on increasing the share of non-cash payments and settlements in the Kyrgyz Republic for 2012-2017, approved by the Resolution of the Government and the National Bank No. 289/5/1 dated May 14, 2012. The priority area is the development of the market of retail payments, an increase in the degree of penetration of the payment services in the territory of the Kyrgyz Republic.

Within the framework of the legal reform in the banking sector, the National Bank jointly with the Government will organize events to promote the bill of the Banking Code of the Kyrgyz Republic, the adoption of which will bring the banking legislation of the country to a new level, eliminate existing contradictions and gaps, establish a clear legal regulation of relations arising in the implementation and regulation of banking activities.

The implementation of the key objectives identified by the NSDS will continue in terms of developing the competitive environment in the financial sector, introducing the reduction mechanisms for the interest rates on loans of commercial banks and other financial institutions, which will create conditions for increasing the level of financial intermediation of financial institutions in 2015.

In order to maintain stability and integrity of the banking system, the work aimed at changing the requirements for the minimum charter capital of banks will continue towards the gradual increase up to 300 million soms in 2015 in order to establish by 2017 the unified capital requirements for both the existing and the newly opened banks. Strengthening the protection of the consumer rights in the banking, microfinance and payment services, introduction of the risk-based supervision, which provides the assessment of the levels of risks and the quality of the risk management in commercial banks, will contribute to the development of the given sector.

In 2015, the National Bank jointly with the Government and with the support of international financial institutions will continue to develop the draft of the National program for improving the financial literacy of the population.

The implementation by the Government and the National Bank of the coordinated macroeconomic policy will ensure the sustainable operation of all the sectors of the economy, which will allow fulfill our social obligations before citizens of the country.

The social policy of the Government will focus on continuation of the quality growth of the human capital through the further development of social protection systems, education and health care, improving the pension system.

The social development policy in 2015 will focus on the provision of social guarantees and obligations to the full extent, including support for socially vulnerable categories of citizens; creating conditions for the development and

livelihood of children and families in difficult life situations, and providing them with quality social services; increasing the targeting of monthly benefits to low-income families with children and increasing their amount; ensuring an equal access to basic services and creation of the affordable living environment for individuals with disabilities for their effective integration into society; providing each senior citizen with social benefits and access to quality social services; maintaining the positive dynamics and further development of the social development system.

Measures will be implemented to ensure the financial sustainability of the pension system, the increase in pensions and improvement of relations in the field of state social insurance; in addition, the investment of the means of pension savings has been planned.

As before, dependency of the economic growth on external factors, development trends in the economies of the main trading partners will remain. The Government and the National Bank will develop a system of measures aimed at mitigating the possible shocks on the economy by negative processes related to the deterioration of the global conjuncture and emerging domestic adverse conditions.

Thus, the economic policy of the Government and the National Bank conducted in 2015 will help achieve the positive levels of economic growth, which will be maintained by all sectors of the economy forming the country's GDP, and the retention of the moderate rates of inflation.

The main condition for achieving macroeconomic stability will be ensuring the socio-political stability in the country, the effective use of internal resources and their potential, the formation of an effective system of governance.
