

General information about Kyrgyz Republic

Kyrgyzstan (officially – Kyrgyz Republic) is a country in Central Asia. The capital is Bishkek, the most populated city of the republic.



Geographic situation

Kyrgyz Republic has borders with Kazakhstan to the north, Uzbekistan to the west, Tajikistan to the southwest, and the People's Republic of China to the east. The country is divided into seven regions, which are Batken, Chuy, Djalal-Abad, Issyk-Kul, Naryn, Osh and Talas. The total area of Kyrgyz Republic is about 199, 900 km², making it the second smallest of the Central Asian countries.

The Tien Shan mountain range covers approximately 95% of the whole territory limiting the amount of land available for agriculture. The country's area is made up of about 191,300 km² of land and 7,200 km² of water, but arable land makes up only about 7%.

The climate in Kyrgyz Republic varies regionally and is influenced partly by its mountains and partly by its continental location. The climate is subtropical and extremely hot in summer in the Fergana Valley region, temperate in the northern foothills, and dry continental to polar in the mountainous region of Tien Shan.

Political System

The political system of the Kyrgyz Republic is defined in the Constitution. According to separation of powers principle set forth in the Constitution, the state power of the Kyrgyz Republic is represented by legislative, executive, and judicial branches.

The President is the head of state and the top official of the Kyrgyz Republic elected for a period of 6 years. Jogorku Kenesh – Parliament of the Kyrgyz Republic – is a representative body in charge of legislature.

The executive power of the Kyrgyz Republic is represented by the Cabinet of Ministers of the Kyrgyz Republic, line ministries, state committees, other executive

authorities and bodies of local state administration subordinate to the Cabinet of Ministers.

Overall economic development

The Gross Domestic Product was worth 5,1 billion US dollars in January – June 2023, real growth rate is estimated at 103,9%. Economic growth achieved by all sectors: industry production increased by 0,5%, agriculture by 2,5%, construction by 11,2%, services sector by 4,7%.

in January-June 2023, industrial enterprises produced products in the amount of 2,3 billion US dollars, the volume of production compared with the corresponding period of 2022 increased by 0,5%.

The volume of foreign and mutual trade in January-February 2023 amounted to 1717, 6 million US dollars and compared to January-February of the previous year increased by 22,7%. Exports of goods amounted to 255.6 million US dollars, increased by 2,2% and imports amounted to 1462.0 million US dollars, increased by 27, 2% compared to January 2022.

The inflow of foreign direct investment in first quarter of 2023 amounted to 170 897,0 million US dollars. At the end of 2022 total amount of FDI reached 1 202 599,0 billion US dollars. Main types of economic activity include agriculture, manufacturing, financial intermediation and insurance, professional, scientific and technical activity, wholesale and retail trade.

Investment climate

Currently, as a strategic direction of economic development, work is underway to create a favorable business environment for entrepreneurs and investors.

In order to provide constitutional guarantees for the protection of property, stimulate sustainable economic growth, exclude unjustified state interference in the economic activities of business entities, as well as increase investor confidence, the Decree of the President of the Kyrgyz Republic "On the protection of property and support of entrepreneurs and investors" was issued.

Within the framework of the Decree, a ban is established on unjustified interference of law enforcement, fiscal and regulatory bodies in the activities of business entities, obstruction of entrepreneurial activity and violation of the legal rights of owners, including due to non-fulfillment and impossibility of fulfilling contractual obligations, and also ensures the safety of the activities of investment objects and property investors.

In connection with incoming complaints about illegal actions of law enforcement agencies during inspections of economic activities of economic entities and business structures, as well as requests to eliminate unjustified and unnecessary interference of authorized bodies in the activities of business entities, in order to improve the investment climate, the Decree of the President of the Kyrgyz Republic was issued "On additional measures to protect business entities".

As part of the Decree, law enforcement agencies are advised to suspend the initiation and investigation of criminal cases on economic crimes, which are subject

to resolution in civil administrative procedure and consideration in civil and economic cases.

At the same time, the Constitution of the Kyrgyz Republic introduced a norm on guarantees for the protection of investments and subjects of investment activity.

In order to further support small and medium-sized businesses in the Kyrgyz Republic and their withdrawal from the unobserved sector of the economy, insurance premium rates for small and medium-sized businesses have been reduced from 27.25 percent to 22 and 14 percent, depending on the number of employees and the accrued wages for three years from 2022 to 2024.

Taxation in the Kyrgyz Republic is regulated by the Tax Code of the Kyrgyz Republic and other regulatory legal acts.

According to the Tax Code, nowadays, the following taxes paid under the general tax regime:

1. Income Tax – 10%
2. Value Added Tax – 12%
3. Excise Tax. Excise rates may vary within the established base rate.
4. Sales Tax

For the sale of goods, works or services subject to and/or exempt from VAT and payable in cash (except banks and mobile operators):

- a. 1% for trading activities,
- b. 2% for other activities, aside from trading activities.

For the sale of goods, works or services payable in cash, if such sale of goods, works or services is not a supply subject to or exempt from VAT (except banks and mobile operators):

- a. 2% for trading activities,
- b. 3% for non-trading activities.

For the sale of goods, works or services subject to and/or exempt from VAT and payable in non-cash (except banks and mobile operators) – 0%.

For banks – 2%

For mobile operators -5%

5. Profit Tax – 10%.
6. Mining taxes

Rates of bonuses and procedures for their calculation for all types of minerals according to the classification table depending on the amount of mineral reserves to be mined, as well as the size of the license area for prospecting and exploration of minerals and the collection of mineralogical, paleontological samples for commercial purposes and stone material for decorative purposes and use as ornamental stones and building materials.

Rates of royalties are set as a percentage of proceeds or as the amount in KGS per unit of volume depending on the type of a mined (extracted) mineral and the amount of mineral services.

7. Land Tax. Land Tax is calculated according to the formula, by multiplying the area of the land plot by the basic rate of the land plot and applicable coefficients.
8. Property Tax.

The property tax rates are:

- 1) for residential buildings and premises - 0.35 percent;
- 2) for non-residential buildings, structures and premises - 0.8 percent;
- 3) for land plots, except for agricultural land - 1 percent;
- 4) for agricultural land - 0.01 percent;
- 5) for vehicles, including aircraft and watercraft:
 - a) powered by internal combustion engine with an established engine displacement - 1 percent;
 - b) powered by internal combustion engine, for which the working volume of the engine has not been established, as well as those who do not have an internal combustion engine - 0.5 percent

Key industries

➤ Agriculture

As per Government's Development Programs, agriculture is considered to be key sector to focus on and under state support. Kyrgyz Republic has very advantageous position for development of agriculture industry for its favorable climate, naturally cultivated agro products, and territorial advantage. The territory of Kyrgyz Republic is divided into regions that have distinct geographic and climate conditions that offers comparative advantages. For example, in Chuy region the dominant agricultural product is sugar beet; Issyk-Kul region is famous with apples and pears; in Batken region farmers grow apricot (dried); Osh and Jalal-Abad regions are the largest producers of cotton and walnut, Naryn region is famous for cattle farming; and Talas region is the biggest exporter of kidney and soya beans.

Agriculture is comprised of production and processing of agricultural products. It draws more value adding and labor-intensive characteristics to this industry. Labor intensity could be sustained through rural population as majority population of the country live in rural areas.

Within the economic context, the Kyrgyz Republic can meet all requirements of being a producer of organic agricultural products. Because most agricultural products produced by the Kyrgyz farmers such as apple, melon, cotton, rice, potato, honey, other fruits and vegetables are mainly exported to neighboring countries and also to developed countries.

The Kyrgyz farmers, particularly in Naryn region, plant their land with potatoes in high demand in the Republic Kazakhstan. In addition to this, in the country approximately 1'000 farmers grow organic products mainly to export as part of such international programs like USAID, GIZ or donor countries such as Germany, Switzerland and some others.

Besides, taxation regime for agriculture sector is the most favorable with respect to other sectors of the economy. Government pays full attention to the development of the sector through increase of production, quality improvements, food security, capacity building.

In Kyrgyz processing sector, the food and beverages industry – which builds on the various agro-food value chains – plays a key role in terms of production, employment and exports. Kyrgyz Republic processed food industry does exhibit a number of promising factors, including its membership in Eurasian Economic Union that helps strengthen integration within regional value chains, GSP + status with European Union market, its comparatively low cost-base for processing and comparative advantages such as a positive reputation for processed traditional agro goods. Kyrgyz Republic is mostly recognized by its processed foods like: meat, honey, canned fruits, vegetables, dried fruits and vegetables, nuts and dairy products.

➤ **Hydro energy**

Kyrgyz Republic has a great number of large and medium sized rivers offering significant hydropower potential, estimated at 140-170 TWh. Kyrgyz Republic has sufficient quantities of water of excellent quality for municipal and industrial use for the foreseeable future. The energy mix is highly dependent on hydropower, which produces majority share of electricity generated.

The Government has identified energy sector development as a national priority, noting its potential to be a major export commodity. Currently, only about 30 percent of Kyrgyz Republic's hydropower potential is currently being utilized. The remaining 70 per cent has never been exploited.

The Kyrgyz Republic has about 30% of the hydropower resources of the entire Central Asian region. The technological hydropower potential is estimated at 142 billion kWh / year and the economic or production potential is 60 billion kWh. Hydropower provides more than 90% of domestic electricity consumption. The total design capacity of the power plants is 3,640 MW, of which hydroelectric power is produced up to 79.9%, thermal stations up to 19.7, and 12 small Hydroelectric Power Stations (HEPS) of up to 0.4%.

Near-term objectives for new capacity include construction of the remaining two 120 MW units at Kambarata-2. Long-standing plans to develop the 1,860 MW Kambarata-1 HPP and the Upper-Naryn HPP cascade (over 200 MW), offering an additional 5 TWh of generation. Other proposed developments include the Kazarman and Suusamyр - Kokomeren hydropower plant cascades which together would add over 2,465 MW.

Major investment opportunities:

- New infrastructure for the production of hydro energy;
- New infrastructure for the transmission of electricity, natural gas pipelines, natural gas distribution systems;
- Renewable energy projects (Mini Hydro, Small Hydro);
- Energy efficient enterprises;
- Main grid interconnectivity, modernization and development of cross-border electrical connections.

➤ **Tourism**

Kyrgyz Republic is a unique place all around the year. Travelers visit beautiful lakes such as Issyk-Kul, Sary-Chelek, and Son-Kol. Amazing chain of mountains are the best destination for alpinists in summer and for skiers in winter. Moreover, history of Kyrgyz Republic and historical findings in the country make it more preferable as tourism destinations.

Kyrgyz Republic's tourism industry represents a priority interest and a great prospect. Because of the uniqueness of Kyrgyz Republic, many tourists from CIS and countries beyond have made Kyrgyz Republic as the main destination to exploration and traveling.

Kyrgyz Republic has strong competitive advantages in tourism. It has a rich, lively, original culture and traditions, history and wilderness including wild forests, mountainous lakes and rivers, mineral sources what could be considered as great potential to develop different types of tourism, even adventure holidays such as mountainous tourism and alpinism.

The Issyk-Kul Lake is the largest natural resource in Kyrgyz Republic for tourism purposes. The lake region has a unique combination of mountainous and maritime climates, magnificent beaches, crystal-clear water mineral sources, mud and thermal sources. This region has the great potential for further development as a world-class spa.

Kyrgyz Republic is blessed with a stunning variety of landscapes and ecosystems including lofty mountain peaks and glaciers, alpine pastures and lakes, flower-covered valleys and rivers, arid canyons and semi-deserts. Kyrgyz Republic is one of the 200 priority ecological regions of the planet. The country has a high tourist potential, covering 22 diverse ecosystems, and a network of specially protected natural areas, including state reserves, nature parks and reserves. The Kyrgyz Republic is located along the Great Silk Road, on the roads of which there are 583 historical and cultural monuments and archaeological sites, some of which (Suyab, Balasagyn, Sulaiman-Too) are of global importance and included in the UNESCO World Heritage List. In the Kyrgyz Republic there are more than a thousand beautiful lakes, the main one being Lake Issyk-Kul, one of the largest and deepest mountain lakes in the world.

The territory of the country is one of the oldest centers of human civilization. Individual objects of the intangible cultural heritage such as the trilogy of the epic Manas, the traditional home of the nomadic peoples of Yurt, the types of felt carpet Shirdak and Ala Kiyiz are included in the UNESCO World Heritage List.

The tourism sector is currently represented by the following:

- Resort-recreational (mainly concentrated around Lake Issyk-Kul and characterized by the presence of the resort and recreational facilities and beaches);
- Active-Adventure (mountain, hiking, horseback riding, cycling, ecotourism, photo hunting, mountaineering, rafting, caravanning, rural tourism, diving, hang-gliding and other outdoor activities);

- Cultural and educational (including tourism along the Silk Road – familiarity with the culture, customs and traditions of the people living on the Great Silk Road etc.);
- Winter (winter tourism – skiing, heli-skiing);
- Business tourism (international summits, forums, conferences);
- Event tourism (traditional ethno-games, national holidays, creative festivals, competitions, exhibitions, sports events).

➤ **Processing – Textile**

Kyrgyz Republic's textile industry is labor-intensive, and the general ratio of labor costs within the overall costs is high. The textile industry is expanding. The expansion is mainly caused due to available labor force among young generation and cheap labor.

There are vast garment companies that operate mainly for only export to Russia and Kazakhstan. There is a long history of garment manufacturing in the Kyrgyz Republic. Within the highly competitive current economic landscape, the Kyrgyz garment manufacturing industry has reinvented itself, growing six-fold in eight years. Local businesses benefit from relatively low labor costs and favorable customs agreements with Russia and China, as well as from their cultural familiarity with large nearby consumer markets. Exports to regional markets such as Russia and Kazakhstan have driven the industry's development.

Opportunities:

- Kyrgyz Republic has been developing its competitiveness by focusing on creativity, innovation, value-added products and technologies;
- Kyrgyz textile products are widely known within Eurasian Economic Union and other neighboring countries. Export makes more than 90% of the products of textile industry;
- Kyrgyz government is providing additional incentives along with infrastructure developments to further support growth in the country's textile industry. The Government provides tax and non-tax incentives for boosting investments;
- Kyrgyz Republic's textile industry has been significantly improving both in terms of its variety and functionalities;
- Kyrgyz Government has been actively engaged in supporting textile industry stakeholders for value added products for export purposes.

Trade Hub

Kyrgyz Republic is the most important transit country in Central Asia region, as the main freight transportation routes are located along its territory. Moreover, land transport of the Kyrgyz Republic plays growing role in development of effective Europe and Asia transport communication links.

Kyrgyz Republic functions as the biggest regional re-export hub for Chinese products heading to Kazakhstan and the Russian Federation.

Roads – Osh-SaryTash-Irkeshtam and Bishkek-Naryn-Torugart ensure transit traffic through territory of the Kyrgyz Republic, and are potentially crucial international transport corridors and which form the main volume of budget receipts in the form of customs duties, collected for transportation of freights and entry of freight transit transport.

International road – Bishkek-Naryn-Torugart was assigned with the following corridor code under CAREC: CAREC 1 – Europe – East Asia. This road goes through Chui, Issyk-Kul and Naryn regions and ensures links with neighboring countries – Kazakhstan, China and along Karakorum highway with Pakistan and India with access to Indian ports. Rehabilitation of road “Osh-Sarytash-Irkeshtam” ensure reliable traffic communication between China, Kyrgyzstan and Tajikistan and provide with access to Afghanistan and Pakistan, as well as promote more sustainable social and economic development through increase of transit freight and passenger transportations.

Road corridor – China-Kyrgyzstan-Tajikistan, length of which is about 550 km, is the main traffic artery for two countries, which do not have access to the sea – the Kyrgyz Republic and Republic of Tajikistan for trade purposes with China. It also forms an essential part of regional road network in Central Asia, which connects the Kyrgyz Republic, China, Tajikistan, Afghanistan, Uzbekistan and Turkmenistan. In a broad sense it is considered to be as part of Asian road network, which through Afghanistan connects ocean ports of Iran and Pakistan with Kazakhstan and the Russian Federation.

Free Economic Zones

Free economic zones provide special customs privileges to exporting and importing companies. Companies operating in these zones may import, store, produce or sell goods in the territory of the zone without paying taxes or customs duties.

Kyrgyz Republic has a number of export promoting and facilitating schemes including free economic zones. Moreover, the entities may sell goods from the free economic zone to the domestic Kyrgyz market, providing that their products have undergone significant processing in the zone. In total, five such zones have been created in the border regions.

The Kyrgyz Government has undertaken a number of steps to facilitate and streamline trade procedures. Notably, it has initiated the “single window”, the project of “paperless trade”.

Kyrgyz Republic has a multi-faceted stance on trade focusing on the promotion of liberal, market-oriented and private sector driven growth. It pursues this through multilateral trade agreements, under the auspices of WTO, as well as with regional and bilateral trade pacts.

By joining the Eurasian Economic Union, the country aimed at reinforcing economic and trade ties with Kazakhstan, Russian Federation, Belarus and Armenia to develop cooperation with its regional partners on such issues as international transport corridors, the creation of a common energy market, energy transportation, mutual investments and labor migration issues.