



THE IMPLEMENTATION OF FISCAL POLICIES IN THE ECONOMY OF KYRGYZSTAN

As Kyrgyzstan is an oil importer country, low oil prices in the world market have contributed to high consumption and growth in the country. As a result of a significant increase in gold exports, economic growth was also driven by net trade. Despite the recession in Russian economy, which caused a decline in the demand for Kyrgyz goods resulting a reduction in non-gold exports of the country in 2015, economic growth rate increased to 7.3% in 2015 from 3.6% in 2014, mainly due to the high performance in gold production.

Recently, Kyrgyzstan has started to implement an enormous public investment program (heavily on infrastructure and energy sector), most of which was financed by external debt, mainly from China, Russia and the International Monetary Fund. While net external debt to GDP ratio was 76.3% in 2014, it increased to 81.2% in 2015. It should be emphasized that Kyrgyzstan will face a high net external debt which constitutes approximately 80% of current account receipts (CARs) between 2016-2019 while this ratio was 30% between 2012-2015. Due to high external debt together with depreciation of Kyrgyz som, gross government debt to GDP ratio is expected to reach 70% of GDP between 2016-2019 compared to 55% between 2012-2015.

Besides, net foreign direct investments (FDI) increased from \$292.6 million in 2013 to \$757.6 million in 2014 and to \$818 million in 2015. As a result of a number of confirmed foreign projects and Russia's commitment to support Kyrgyzstan's accession to the Eurasian Economic Union (EEU) by establishing \$1 billion Russian-Kyrgyz Fund, net FDI are expected to reach 5% of GDP between 2016-2019.

On the other hand, the fiscal deficit to GDP ratio reached 5.8% in 2015, compared to 4.1% in 2014 due to increases in capital expenditures and recurrent expenditures (such as wage increases for some civil services ahead of parliamentary elections and an important increase in purchases of goods and services). The fiscal deficit is expected to increase to 6% between 2016-2017 due to high infrastructure spending plans. In order to

reduce the government debt to sustainable levels, the government is working on a medium-term debt management strategy, which would restrict borrowing projects that will help to enhance economic growth and promote social development. That's why, for 2018-2019 period, the fiscal deficit to GDP ratio is expected to reduce to the average of 3.5% with the recovery in public revenues triggered by economic growth and higher customs receipts.

The public expenditures to GDP ratio increased from 38.8% in 2014 to 39.1% in 2015. The factors that cause total expenditures to increase are as follows: (i) the pressure on the public budget in connection with the parliamentary elections, (ii) the uncertainty over the share of pooled EEU customs revenues which Kyrgyzstan accepted according to the new arrangement, (iii) the increases in wages without increasing productivity and goods and services, (iv) the wage bill without increasing productivity also contributes to this increase. For example, the wage bill in Kyrgyzstan amounts over 9% of GDP in 2015 compared to the other regional countries where the wage bill is about 6%. In order to reduce the bill, the government has been implementing the Program for Enhancing Civil Service Pay for 2013-2020 aimed at improving fairness, transparency and predictability of civil service salaries and the wage bill.

On the public revenues side, the public revenues to GDP ratio increased slightly from 33% in 2014 to 34% in 2015. Over the past 10 years, tax revenues to GDP ratio increase from 12% to 21% in 2015. The factors that affect the performance of the public revenues are as follows: (i) the tax collection on goods and services has a good performance. For instance, value-added tax (VAT) collection has performed about 1% of GDP, the VAT tax rate in Kyrgyzstan is 12%, which is low compared to the average rate (18%) in the region countries, (ii) there is an increase in excise tax rates for tobacco and alcohol, (iii) the tax revenues increased from 31% in 2014 to 32% in 2015 and (iv) due to the grant support, the share of grants in public budget increased from 2.4% in 2014 to 2.5% in

2015, (v) the accession to the EEU is expected to increase the customs revenues by about 1.5% of GDP. But VAT collection can decline due to the shift in VAT collection from the customs service where the VAT was paid at the border, to the state tax services where VAT is now paid based on the declaration after the good enters the territory, (iv) the performance of personal and corporate income tax is poor due to the narrow tax base which causes a high unfairness in the tax system, especially the tax exemptions which are applied mostly in agriculture and processing sectors and which represent about 3.5% of GDP have been destabilizing the tax system rather than improving the revenue performance.

In conclusion, due to the robust measures that should be taken to reduce public expenditures and increase public revenues, the fiscal balance in the economy can recover slightly in the medium-term in Kyrgyzstan. Although the slow growth in the domestic economy and in regional economies can hinder this process, implementing robust fiscal policies can help to stabilize both the fiscal balance and the real economy. In this respect, fiscal policies need to be carefully redesigned. On the public expenditures side, the government should streamline the public expenditures by rationalizing the expenditures on goods and services and keeping an eye on the country's share in the EEU customs revenues. On the public revenues side, the government should strengthen the public revenues by expanding its tax base and improving the performance of corporate and personal income taxes. The government also should stabilize the public debt policy. Regarding the process of establishing a medium-term debt management strategy, firstly, the government should evaluate the importance of an infrastructure project, secondly, decide to borrow from external or domestic markets and thirdly, decide on an affordable interest rate. Besides, while deciding on public investment projects, the government should establish priorities and growth-enhancing projects should be given priority.

Politics, Foreign Affairs and Security

- The Chairman of the Central Election Commission Tajikistan, Bakhtiyor Khudoyorzoda, announced that according to the preliminary results of the Constitutional Referendum which aimed to allow the President of the country, Imomali Rakhmon, to lift presidential term limits, the legal reform won support of 94.5% of voters.
- During the meeting of the Eurasian Economic Union (EEU) Supreme Council held in Astana, the leaders of the EEU member states, namely, the President of Armenia Serzh Sargsyan, the President of Belarus, Alexander Lukashenko, the President of Kazakhstan, Nursultan Nazarbayev, the President of the Kyrgyzstan, Almazbek Atambayev, and the President of Russia, Vladimir Putin, discussed prospects for boosting integration within the Union, including the formation of single oil and gas market, expansion of the EEU's trade and economic ties with third countries.
- During his first official visit after being elected as the Prime Minister of Turkey, Binali Yildirim, and the President of Azerbaijan, Ilham Aliyev, discussed further development of friendly and fraternal relations, economic cooperation and other issues of mutual interest including the Nagorno-Karabakh conflict.
- During his two-day trip to Bishkek, the Prime Minister of Russia, Dmitry Medvedev, and the President of Kyrgyzstan, Almazbek Atambayev, discussed key issues on the bilateral agenda including the Russian-Kyrgyz cooperation in fields such as trade, investment, energy and culture. As a result of negotiations, the parties signed five cooperation agreements in the energy, labor, investment and other areas including Agreement between Kyrgyzstan and Russia on cooperation in the sphere of oil and oil products.
- The Spokesman of the Border Guard Service of Tajikistan, Muhammad Ulugkhodzhaev, reported that due to security threats from armed smugglers, kidnappers and radical extremists the number of Tajik troops at its Afghanistan border was boosted.
- The International Exhibition of Weapons Systems and Military Equipment KADEX-2016 was held in Astana, Kazakhstan. The KADEX-2016 brought together nearly 350 Kazakhstani and foreign companies and over 3,500 participants from

more than 40 countries. Demonstrational program of the exhibition included display of newest technical units of land and aviation forces, tactical operations of Kazakhstan.

Economy, Finance and Energy

- The President of Turkmenistan, Gurbanguly Berdimuhamedov, signed a decree on the allocation of more than \$45 million to finance the initial stage of construction of the Turkmenistan – Afghanistan – Pakistan – India Natural Gas Pipeline (TAPI) at the Afghanistan – Pakistan section.
- The First Vice-President of Azerbaijan's state oil company SOCAR, Khosrbakht Yusifzade, stated that the oil production at the Azeri – Chirag – Guneshli (ACG) block of fields currently stands at 90,000 tons of oil and 36 million cubic meters of associated gas per day. In January-May 2016, 13.5 million tons of Azeri Light oil was produced at the ACG.
- The Russian Federal Statistics Service, Rosstat, reported that the country surpassed Saudi Arabia in oil production in March 2016. According to the service, Russia produced 10.93 million barrels per day (bpd), while Saudi Arabia produced 10.12 million bpd. It was also noted that Russia sold oil worth more than \$10 billion in March 2016. Russia's oil export accounted for 23% of total country's export in the first quarter of 2016, while it accounted for 25.2% in the same period of 2015.
- The Ministry of Oil and Gas of Turkmenistan reported that the Turkmenbashi Complex of Oil Refineries (TCOR) is planning to increase the volume of refined oil and to produce new types of oil products which will expand the status of the TCOR in the international markets. According to the forecasts, the TCOR will increase its capacity from current 10 million tons of hydrocarbons per year to 20 and 30 million tons of refined oil by 2020 and 2030 respectively.
- During the meeting of Russian – Qatari Commission of Trade, Economic and Technical Cooperation, the Minister of Energy of Russia, Alexander Novak, and the Minister of Energy of Qatar, Mohammad bin Saleh al-Sada, pointed out the necessity to boost their mutual trade to \$500 million.
- According to the Deputy Chairman of the State Revenue Committee of the Ministry of Finance of Kazakhstan, Gosman Amrin, the country reduced the time spent on customs in-

spection of cargo arriving from the Baku International Sea Trade Port in Azerbaijan's Alyat settlement by 5-6 times. To date, the cargo verification process took about 2 hours while earlier it was up to 10-12 hours.

- The First Vice-President of Russian Railways state-owned company, Alexander Misharin, announced that China would grant a 20-year loan worth \$5.9 billion for the Moscow – Kazan high-speed railroad project. \$3.7 billion will be allocated for the first section as a 20-year loan while \$2.2 billion will be allocated for the second section.
- According to the report of the Accounting Chamber of Azerbaijan, in 2015 over \$4.97 billion or 62% of the international financial institutions' funds were directed to finance the projects in the field of transport. It was also noted that \$1.88 billion and \$355.9 million were invested on water and energy supply sectors respectively while \$345.4 million was used to finance the agriculture sector.
- The Ministry of Finance of Uzbekistan reported that in January-March 2016 the surplus of the public budget amounted to \$9.99 million. In the reporting period, the revenues of the public budget reached \$2.96 billion while the public expenditures stood at \$2.95 billion.

Society and Culture

- According to the Spokesman of the Ministry of Interior of Kazakhstan, Almas Sadubayev, during the anti-terrorist operation in Aktobe caused by the attacks on arms shops and military unit, 4 criminals were killed and 7 others were detained including 2 injured. It was announced that a set of operational and investigative measures would be taken in order to detain the rest of the criminals.
- The President of Turkmenistan, Gurbanguly Berdimuhamedov, approved National Plan to fight human trafficking in 2016-2018 which aimed to ensure human rights and freedom in the country and to strengthen the social and legal protection of the population.
- The Deputy Chairman of the Aerospace Committee of the Ministry of Investment and Development of Kazakhstan, Meirbek Moldabekov, and the Chairman of the Space Agency of the United Arab Emirates, Khalifa Al Rumaithi, signed a Memorandum of Understanding (MoU), which provides collaboration of the parties in space exploration, space science, research and technology.