THE KYRGYZ REPUBLIC
KEY SECTORS REVIEW

Business Sweden Central Asia & Azerbaijan

March, 2017
KYRGYZ REPUBLIC ECONOMY FORECAST TO GROW BY 2% IN 2017

MACROECONOMIC SITUATION

GDP recovery
- Gold production is projected to recover over the second half of the year (declining overall by 3.2%)

Fiscal balances
- Expected to deteriorate relative to 2015, with the overall deficit reaching 7.4% of GDP

State programme
  - Agro-industrial complex - 24 projects
  - Energy sector - 16 projects
  - Transport and communications - 17 projects
  - Production and logistics - 4 projects
  - Mining sector - 16 projects

Status as of today
- Completed projects: 20 projects out of 77 (planned)
- Utilised finance: USD 3.05 billion out of USD 11.9 billion (total budget)
AGRICULTURE IS THE SECOND LARGEST COMPONENT OF NATIONAL GROSS DOMESTIC PRODUCT

The agricultural sector is the largest employer in the Kyrgyz Republic and accounts for an estimated 17% of GDP. Engaging 40 percent of the labor force, low productivity growth is slowing the reduction of poverty and food insecurity in rural areas.

**Examples of Projects**

*State programmes*
- Under implementation process: 6 projects (with a total budget of USD 15.18 million) for the construction and rehabilitation of irrigation systems
- Preparatory work: on 4 projects, the planned total cost is USD 17.8 million for the rehabilitation of irrigation systems and canals
- ‘Financing of Agricultural sector’ project approved on January, 2016
- Given credits: USD 69 million for 13,246 business assets in 2016

*USAID Agriculture and Food Security Programs*
- Farmer-to-Farmer (October 2013 - September 2018)
- Agro Horizon Project (October 2014 - September 2018)
CONSTRUCTION SECTOR IS IN ITS GROWTH

- The impact of the construction sector on the economic growth rate was positive, and the contribution to GDP formation was 0.62%, the share of which in GDP 2016 structure was 8.5%, an increase of 0.1% compared to 2015.

- In the construction complex, there is an increase in the volume of capital investments. At the end of 2016, the volume of investments in fixed assets due to all sources of financing amounted to USD 1.9 billion and increased by 3.8% from previous year.

- Growth in construction was noted in:
  - agricultural, forestry and fishery facilities by 32.7%
  - transportation and storage of goods - 37.8%
  - housing construction - 17.2%
  - provision (supply) with electricity, gas, steam and air conditioning by 7.4%
  - Other - 4.9%

- In the regional context Bishkek city and Jalal-Abad region had a growth in the volume of construction – 145.6% and 157.0% respectively.
MUCH OF THE KYRGYZ REPUBLIC’S TRANSPORT INFRASTRUCTURE IS IN NEED OF REHABILITATION

- The latest available World Bank Logistics Performance Indicator (LPI 2016) places Kyrgyzstan in a relatively poor position, ranked number 146 among 160 countries, with an overall score of quality assessment of trade and transport related infrastructure of 1.9 on a scale from 1 to 5.

- The road network comprises 34,000 km of paved and unpaved roads, of which about half (18,810) is under the jurisdiction of the Ministry of Transport and Communications:

<table>
<thead>
<tr>
<th>Road Type</th>
<th>Length (km)</th>
<th>Paved (%)</th>
<th>Unpaved (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International</td>
<td>4,163</td>
<td>71.8</td>
<td>28.2</td>
</tr>
<tr>
<td>National</td>
<td>5,678</td>
<td>38.2</td>
<td>61.8</td>
</tr>
<tr>
<td>Local</td>
<td>8,969</td>
<td>24.2</td>
<td>75.8</td>
</tr>
<tr>
<td>Total</td>
<td>18,810</td>
<td>39.0</td>
<td>61.0</td>
</tr>
</tbody>
</table>

- After adopting the National Sustainable Development Strategy of the Kyrgyz Republic for the period 2013-2017, seventeen investment projects in the sphere of transport and communications began to be realized. As of 2016 only six of them were finished, 11 projects for the total amount USD 773 million will be implemented during 2017-2018.

- There are 11 airports in the Kyrgyz Republic, of which 4 (i.e., Issyk-Kul, Karakol, Manas, and Osh) receive regular international flights.

- Railway services operate a very limited domestic and international passenger service, as the vast majority of travelers prefer road or air transport, but the country depends on rail links for the importation of certain commodities.

TRANSPORT INFRASTRUCTURE IS WORN OUT, WHICH CREATES BARRIERS TO THE DEVELOPMENT OF FOREIGN AND DOMESTIC TRADE AND TRANSPORTATION

SOURCE: MINISTRY OF ECONOMY OF THE KYRGYZ REPUBLIC, 2017; ASIAN DEVELOPMENT BANK, 2017
MAJOR INTERNATIONAL INFRASTRUCTURE IMPROVEMENT PROGRAMS

CONSTRUCTION

- The Asian Development Bank (ADB) has approved the third and final phase of financial support to complete the rehabilitation of Toktogul hydropower plant (HPP), the largest and most important power plant in the Kyrgyz Republic, to increase reliability of national and regional power systems. ADB support includes a loan of USD 100 million, project will be putted into operation during 2017.

- The World Bank–financed Third Village Investment Project (VIP-3) aims to alleviate rural poverty by building local self-government and village-level capacity to plan and implement local development programs. VIP-3 will be implemented between 2016 and 2020 in four northern regions (Naryn, Issykkul, Chui, and Talas oblasts) and will directly benefit 266 communities with nearly 29,000 residents.

TRANSPORT

- In 2016, construction work was started in the framework of the first phase of the Central Asia Roads Links Program, to be implemented in the Kyrgyz Republic in 2014-2019. At the end of 2016, about 8% of the planned works were performed on the site. The World Bank Group’s approved an allocation of USD 45 million to rehabilitation of about 56 km.

- The Asian Development Bank (ADB) and the Government of the Kyrgyz Republic on 1st December 2016 signed the financing agreement amounting to USD 95.1 million to rehabilitate a section of the North-South Alternate Road Corridor in the Kyrgyz Republic. The project will rehabilitate an estimated 70 km section connecting CAREC Corridors 1 and 3 in the center of the country.
INTERNATIONAL FINANCIAL INSTITUTIONS ACTIVELY SUPPORT THE POWER SECTOR OF KYRGYZ REPUBLIC

EXAMPLES OF PROJECTS

**EBRD financed projects**
- Vostokelectro Rehabilitation
  - Period: 2017 – 2019
  - Budget: USD 7 million
- Oshelectro Rehabilitation
  - Period: 2017 - 2018
  - Budget: USD 6 million

**ADB financed projects**
- Power Sector Rehabilitation
  - Period: 2016 - 2019
  - Budget: USD 62 million

**WORLD BANK financed projects**
- Electricity Supply Accountability and Reliability Improvement
  - Period: 2014 - 2019
  - Budget: 25 million

**KEY FACTS**
- Access of population to electricity: **100%**
- Power generation capacity: **3.9 GW** in 2016
- Transmission and distribution lines length: **87,000 km**
- Electric power transmission losses: **22.3%**
- Power sector is owned by: National Electrical Grid of Kyrgyzstan (NEGK)

**HYDROPOWER IS THE PRIMARY SOURCE OF POWER GENERATION, ACCOUNTING FOR 93% OF TOTAL POWER GENERATION**

SOURCE: MINISTRY OF ECONOMY OF THE KYRGYZ REPUBLIC, 2017; EBRD, 2017; ADB; BMI POWER REPORT 2017
INDUSTRIAL AND MINING SECTORS OF THE KYRGYZ REPUBLIC

VOLUME OF MINING SECTOR, 2016

USD million

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>Contribution to GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metal ores</td>
<td>84.4</td>
<td>84.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Crude oil</td>
<td>35.6</td>
<td>35.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Coal and lignite</td>
<td>29.9</td>
<td>29.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Other minerals</td>
<td>15.0</td>
<td>15.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Total</td>
<td>115.9</td>
<td>115.9</td>
<td>3.8</td>
</tr>
</tbody>
</table>

- Mining in the Kyrgyz Republic is a sensitive area and major investors must consider politics and economics when making a decision. However, supplying the current mining industry provides an excellent opportunity for exporters. The country is home to a plethora of minerals, including gold, iron, copper, coal, and antimony.
- The government has worked hard to improve transparency in the sector, but it has a long way to go before meeting international standards. The Kyrgyz Republic is currently a member of the Extractives Industry Transparency Initiative (EITI), but was recently downgraded and remains in serious danger of losing its status.
- Results of the year 2016 showed positive dynamics of growth rates in the output of industrial production, overcoming negative trends that persisted for the past two years.
- Level of depreciation of fixed assets at enterprises for the extraction of other minerals amounted to 30% in relation to the value of the fixed assets at the end of 2015.
- However, in 2015, volume of utilisation of investments in fixed assets on the construction of facilities for the extraction of minerals grew to 8.8% compared to 2014, and in the total volume of investments in industry, amounted to 42.6%.
- Positive contribution to the GDP formation by industrial production is estimated at 0.9 p.p., including enterprises developing the Kumtor deposit (a positive contribution of 0.44 p.p.), the share of industry in the total GDP amounted to 17.5%.
- The economic output of the Kumtor gold mine is greater than all other mines in the country combined. It produces 15-23 metric tons of gold per year. The Kyrgyz Republic owns 32.6% of the shares of Centerra Gold, the Canadian parent of Kumtor Operating Company. The macroeconomic impact of the mine comprises a significant share of the industrial sector and 8-11% of GDP.

SOURCES: EXPORT.GOV, THE WORLD BANK, 2017; NATIONAL STATISTICS COMMITTEE, 2017