Economic Report 2023

KYRGYZ REPUBLIC

30 Juni 2023

Executive Summary

Growth in 2022 was stronger than initially expected, driven by consumption, supported by remittance inflows, largely from Russia, and public investment. Inflation increased sharply, and the external position weakened significantly. Fiscal outcomes were favourable thanks to improved revenue performance. Growth is expected to be moderate in 2023 and inflation to remain high. Driven by higher spending, the fiscal deficit will remain high.

- Economic growth in 2022 reached an impressive 7% (almost doubled from the previous year - 3.6%), which was much stronger than expected prior to Russia's invasion of Ukraine.
- Current account deficit has widened to 27% of GDP from 8.6% a year earlier due to the fact that gold exports fell down by 99% as domestic gold was sold to the National Central Bank.
- Exports have shrunk by 25%, whereas imports grew by 73%, mainly due to increased shipment of goods from China.
- Inflation reached 14% in 2022 mainly driven by rises in global food and fuel prices and by higher domestic demand stemming from increased public wages and inflows of Russian citizens.
- The fiscal deficit increased to 2.5% of GDP in 2022 from 0.3% a year earlier; the fiscal expansion was less than projected due to strong revenue performance.
- As a share of GDP, public debt has fallen to 47% in 2022 compared with 59% in 2021. However, there is still a risk of debt distress due to exchange rate fluctuations.

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1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

The Kyrgyz Republic is a small land-locked country with the open economy that is vulnerable to economic fluctuations with major trading partners, such as Russia, China and Kazakhstan. Besides, it is a lower-middle income country with one of the lowest gross domestic products among Central Asian countries. Economic growth reached 7%[1] in 2022, which is above the average (3-4%) growth rate and much stronger than was forecasted prior to Russia's invasion of Ukraine. Robust growth was driven by gold production, agriculture, and the services sectors. The latter was supported by trade-related services and additional demand boosted by the (mostly transitory) relocation of Russian citizens to the Kyrgyz Republic.

Kyrgyzstan's economic system is highly informal (50-70%) and is currently characterised by limited public-private dialogue, regulatory and enforcement constraints that limit economic growth and employment. Critical impediments for further private sector development as identified by the private sector are corruption, legal uncertainty, skills and attitude, market accessibility, and access to finance.

After independence in 1991, Kyrgyzstan has earned income in great majority by transit trade and remittances, such as re-export of goods imported from China to Russia and Kazakhstan (thanks to the country's accession to WTO back to 1998), and sending labor migrants to Russia. Industrial production decreased sharply after the collapse of the Soviet Union. Other than mining (especially gold), agriculture and livestock, there are no other major industries in the country, and employment opportunities in the country are structurally insufficient. Sectors like textiles and tourism cannot compensate this tendency because they consist mostly of micro- and small enterprises requiring less labor force.

Official government data proves that the economic structure of the country is sub-optimal as industry/manufacturing accounts only for one fourth of the country's GDP mainly because of Kumtor (biggest gold mine). Agriculture, forestry, and fisheries altogether account for 13%[2] only. At the same time, the service sector accounts for almost 65% of GDP. With such unbalanced structure of economy, it is difficult to ensure steady economic growth and inclusive development as the service sector is very dependent on market fluctuations caused by regional (external) and domestic shocks, and does not provide many jobs, unlike industrial and agricultural sectors. According to the Government there was a 5% reduction in the number of unemployed people in 2022[3]; in fact, very few people in Kyrgyzstan have stable full-time employment. More than 1.2 million working-age people left the country long-term for better employment abroad (mainly in Russia) and send remittances back home - which accounts for 25-30% of country's annual GDP (or in average USD 2.8 billion each year). This economic system relying predominantly on gold and migrant remittances is vulnerable to shocks in international market prices of resources and the economic conditions of the destination country of labor. It is an urgent issue to foster domestic industry.

While gold production is still strong, gold exports fell by almost 100% as all produced domestic gold was sold to the Central Bank (NBKR[4]) who has a right of first emption in the law. As a result, the current account deficit is estimated to have widened by three times from last year. Total exports are estimated to have shrunk by approx. 25%, whereas imports grew by almost 75%, mainly due to increased shipment of goods from China. FDI has been a financing source of the current account deficit. However, a large share of the Balance of Payment (BoP) financing has not been identified, leaving errors and omissions at 30% of GDP.

The FX market was broadly stable although NBKR had to intervene more intensively to avoid sharp fluctuations. Over 2022, both nominal and real exchange rates depreciated only by

[1] Economic growth in Kyrgyzstan accounts in average 4.2% per annum over 2015–2019 but is subject to up and down fluctuations.

[2] Agriculture, forestry and fisheries used to be 35% of GDP in 2001.

[3] Official unemployment rate is 9% according to the Government statistics in 2022.

[4] Gold purchasing by NBKR (instead of selling it on the markets) may be a driver of inflation.

1%. International reserves remained unchanged at 4 months of import cover at end-2022. Inflation reached almost 14% in 2022. Rising inflation was driven by rises in global food and fuel prices and by higher domestic demand stemming from increased public wages and inflows of Russian citizens. NBKR raised its policy rate to 14% in 2022 from 8% in end-2021 and reduced it to 13% in November of 2022, even though inflation remains double digits.

The fiscal deficit increased to 5.2% of GDP in 2022 from 0.3% a year earlier. The fiscal consolidation was less than projected due to high public expenditures (e.g. civil servants' salary increase, debt repayment). Even strong revenue performance (mainly tax revenues that increased from 25% to almost 30% of GDP) could not counterweight increased spending. Expenditures increased from 33% to 38% of GDP following significant wage increases for public servants, doctors, teachers, and social workers, and higher capital spending. As a share of GDP, external debt declined to 47% in 2022 from 51% in 2021.

GDP growth for 2023 is expected to moderate to 3.5% as gold production contracts and agriculture and services sector experience a slowdown. On the demand side, growth is expected to be supported by consumption and investment while net exports are expected to be negative contributors. GDP is expected to converge to a potential growth rate of 4% in the medium-term. Inflation is expected to remain two-digit - at about 11% - in 2023, driven by the necessary rising tariffs for electricity (by almost 30%) and other utilities. Assuming the Central Bank maintains its monetary policy, inflation is projected to moderate gradually to 8% by end-2024. The current account deficit is projected to reach about 10% of GDP in 2023 and narrow slightly to 9% in 2024-2025 as external demand for non-gold goods improves and export of services increases.

The deficit is expected to be financed by FDI and external borrowing. The fiscal deficit is projected to remain at 4.5% to GDP level in 2023-2024 due to increases in public sector wages and social benefits. However, the fiscal position is expected to be consolidated in 2024-2025 due to higher revenues from the mining sector and the containment of expenses on goods and services, and lower capital spending. High food prices and job insecurity will continue to be the most significant concern for the welfare of the population in 2023. Government measures increasing pensions and the scaling up and extension of coverage of social protection programs targeting the poor will help to mitigate adverse effects on the poor. Risks and uncertainties remain high: the slowdown of the global economy may reduce demand for Kyrgyz export and a further deterioration of the Russian economy and effect of sanctions may lead to a decline in remittances (of which only a quarter represents contributions from salaries et the majority trade).

The pandemic and the war against Ukraine have shown how the country's vulnerability to shocks has increased due to an economic growth pattern that relies heavily on migration and remittances, a limited number of large capital-intensive enterprises, and the dependency of large sections of the workforce on the re-export market, as well as other semi-formal forms of unprotected employment. This growth model has come with high social costs.

The new administration announced an ambitious reform program to modernise the economy with green and digital ambitions and to fight corruption. The Kyrgyz Government's new mid-term Development Plan (2022-2026) is in line with the National Development Strategy (NDS) 2018-2040 and it adheres to principles of systemic changes towards responding to crisis, optimisation of resource use, digitalisation, regional development, good governance, enabling business environment and green economy. Despite all of this, this is not the path taken so far and the reforms remain only on paper.

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

Swiss investments in the Kyrgyz Republic remained modest over the last decade. To increase these investments in Kyrgyz Republic would require the government to tackle some of the major institutional issues related to regulatory implementation gap, lack of rule of law and the limited or ineffective investor protection framework. Financial transactions are also important risks for any foreign and domestic investor in the Kyrgyz Republic because the banking system does not comply with international standards in terms of Anti-Money Laundering and Combating Financing Terrorism (AML/CFT) issues. Therefore, wire transfers through Western banks are nearly impossible. The only intermediary (South Korean) bank that provides corresponding accounts services for wire transfers is very small, and hence poses a problem for the security and high costs of financial transfers. And even though Kyrgyzstan has the most liberal tax regime in Central Asia[5] region, Swiss investors are reluctant to enter the local market due to above mentioned reasons.

At present, almost all Swiss investments were directed to the following two sectors: i) telecommunication and information technology and ii) finance and insurance. With regard to new potential areas for Swiss investments, agro-processing/agri-business, tourism and infrastructures (dams) are top priorities for the government and can be considered as the most promising sectors for Swiss investors, provided the country remains politically stable and secure in the medium- and long-term. The textile and clothing sector is fairly well developed and could open interesting investment opportunities considering the existing export markets to Russia and Kazakhstan, especially in the light of Kyrgyzstan's membership in the EAEU and possibility to enter EU market (GSP+); so far, the sector is not targeted by sanctions on Russia. Since 2019, the Swiss Government launched two new initiatives in the tourism sector aiming at developing a sustainable and competitive winter tourism value chain in Kyrgyzstan, attractive for potential investments and growth. Swiss potential investors could also consider ICT solutions aimed at improved connectivity within the country and hydropower, not only Kambarata-1 but also small hydropower plants.

The investment climate has not improved significantly since the last report. Opportunities for Swiss companies (incl. SMEs) for entering the Kyrgyz market are not very promising: the small size of the market, the large size of the informal economy and poor governance (endemic corruption) are serious problems that impede Swiss private sector to enter the Kyrgyz market. Besides, there are several serious systemic challenges regarding Government low capacities to enforce legislation (rules and regulations), contracts, and the inability to properly protect foreign investors' rights and property.

The Government outlined recently the following four priority sectors in the National Development Strategy (2018-2040): *agriculture/agro-processing, mining, light industry (garment industry) and tourism*. To ensure sustainable and inclusive economic growth, the Government plans to develop these priority sectors by mainly small and medium-sized enterprises (with the focus on export-oriented enterprises), expect for mining. There also is a plan to develop the digital industry in the country, for which the whole Ministry of Digitalization was recently established.

None of these sectors are recommended for potential investors from Switzerland wanting to operate in Kyrgyzstan, despite several favorable factors such as human capital (skillful and relatively cheap labor force), lowest tariffs for energy and water, innovative and a flexible private sector. Negative systemic issues persisted over the last several years: 1) wide-spread corruption; 2) political instability (there were roughly 35 Prime-ministers over 32 years of country's independence/history since 1991); 3) inefficient public administration and lack of capacities within the administration due to high staff turnover; 4) heavy regulatory burden and Government interference into local business operations. The lack of political willingness to push for reforms (including water, energy, business climate, public finance management) seems to be addressed, especially in the energy and utilities sectors but the difficulties/inability to develop long-term vision and implementation plans remain. This lack of planning capacities affects the national authorities but also local ones, the short-term vision and interest to have quick wins/benefits are also major constraints to systemic changes. For Swiss investors, all this pleads for identifying opportunities to provide goods or services on a contract basis, rather than investing in permanent operations – provided the engagement is based on a sound analysis

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[5] The total tax rate is 29% in Kyrgyzstan while it is 32.1% in Uzbekistan, 67.3% in Tajikistan and 29.4% in Kazakhstan, according to the rating of Paying Taxes 2019 conducted by PwC in collaboration with the World Bank.

of risks and a robust mitigation strategy; without this any investment is at high risk.

The mining sector is extremely high risk for potential Swiss investors. The Kumtor mine was first seized (May 2021) and then handed over after an agreement with Centerra Gold. This is perceived by the country's leadership and the majority of the population as a significant achievement but also raised and raises concerns by investors about operational risks for foreign businesses in the mining sector. The full details of the agreement with Centerra (April 2022) are not available to general public and only time will tell how secure investments in this sector will be.

The textile and clothing industry is one of the drivers of the country's industrial development: while it accounts for only about 3% of the volume of industrial production in the country, it employs up to 30% of the total industrial workforce. The sector as it consists mainly of micro- and small-sized companies which makes it less attractive for Swiss investors. Besides, there is almost no local sources of fabrics for the garment industry as Kyrgyzstan does not produce good quality fabrics.

The IT sector deserves more attention amongst sectors for potential Swiss investments as it characterized by a solid infrastructure and skilled labor force:

- >5,000 highly qualified local IT specialists (programmers);
- >300 registered IT companies in Kyrgyzstan;
- Less control by Government on internet contents than in other countries in the region;
- Relatively higher speed/traffic of internet than in the neighbouring countries at reasonable (low) price for the internet services;
- Low electricity tariff/cost (2.2 SOM(≒2.3 CHF-cents)/kWh for businesses)[6];
- Expanding investments from overseas (unprecedented growth of investments into IT sector from over the last few years);
- Legal framework that regulates operations of "High-Tech/Industrial Park" - online-based government-affiliated organization that was established in 2011 which aims to foster a knowledge-intensive industry cantered on the IT industry and support the economy led by highly intelligent human resources; and
- Well-formulated Government policy in digitalization.

The digitization policy ("Taza Koom" or Clean Society) of Kyrgyz Government was first formulated and presented back to 2017. This policy aims at improving the efficiency of public sectors for the entire society, promoting foreign investments and fighting against corruption. As a part of e-government initiative, a data sharing system among ministries - "Tunduk" was launched in 2018. The system is said to follow the example of Estonia's "X-road".

Having said this, the Embassy is of an opinion that for Swiss potential investors the IT infrastructure is still under-matured (especially in the countryside where internet and mobile coverage is not enough to connect all the users), general low implementation (and enforcement) capacity of Government and hence, limited support by the Government towards the IT sector, the recent arrival of thousands of Russian IT experts ('IT nomads') who settled in Kyrgyzstan. While helpful to the country in the short-term, such soft invasion of IT experts could damage the small local IT market.

Kyrgyzstan has considerable untapped renewable energy potential. Existing renewable energy consists of large HPPs, which account for 30% of total energy supply, but only 10% of the hydropower potential has been developed. Opportunities to develop decentralised renewable energy technologies are especially promising, primarily small hydropower stations on rivers in the mountains. In 2016, there was approximately 40 MW of small hydro capacity. Other viable options for renewable energy development in Kyrgyzstan include generating heat from solar energy and biogas, and electricity from wind and solar resources; no projects so far exploit

[6] In Switzerland businesses have to pay 16 CHF-cents per 1 KWh.

these technologies. The Government supports the construction of approximately 100 small hydroelectric plants with total capacity of 180 MW, and of one bigger installation (Kambarata-1) with the same capacity. As above, Swiss investors should favour provision of goods and services rather than operation.

3 FOREIGN ECONOMIC POLICY

3.1 Host country's policy and priorities

The foreign economic policy of Kyrgyzstan for the short term should take into account the sanctions imposed on Russia due to aggression against Ukraine. Within the next year or two, the Kyrgyz economy could be sucked into a vortex of powerful crises, if the Russian government fails to cope with consequences of sanctions. However, in 2023-24 the country's main foreign economic policy challenge will be to maintain its relationship with neighboring China in view of high levels of debt owed by the Kyrgyz Republic to China because of costly investments of infrastructure projects, and to continue the decrease of debt they have started.

Since its independence in 1991, Kyrgyzstan is a signatory to 27 international conventions on human rights, good governance, labor and environmental standards as well as 28 double taxation avoidance agreements. Kyrgyz Republic signed 32 Bilateral Investment Treaties. Besides, the country is a member of various international (WTO, Bretton Woods Institutions, UNO, WHO, EBRD, ADB, AIIB, OSCE), as well as regional unions and organizations (CIS, Shanghai Cooperation Organization (SCO)[7], CACO (Central Asian Cooperation Organization)[8], Russian-led Eurasian Economic Union (EAEU) and "CASA-1000" regional project.

Kyrgyzstan's development context - a landlocked situation, shared issues with neighboring countries on natural resources, like water, the opening up of Uzbekistan - provides ample opportunities for a closer than before regional integration. Agro-processing/agri-business followed by tourism, the top priorities for Kyrgyz Government, should be further developed to unfold the potential of the country in the regional and other markets in the future. Yet, so far, in spite of existing regional organizations like the EAEU, less than 10% of trade is conducted between countries of the region (against 60% for intra-EU trade). Kyrgyzstan, in particular, has not been able to take full advantage of its accession to the EAEU, due to issues of certification, quality and competitiveness.

3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

Since the establishment of bilateral diplomatic relations back to 1992, Switzerland and Kyrgyzstan signed more than 20 agreements on issues of bilateral cooperation, incl. the bilateral agreement on mutual protection of investments ratified in 2003. A Double Taxation Agreement (DTA) agreement was signed by parties in 2001 and ratified in 2002. However, since 2016 the Swiss side has been trying to amend it by adapting the exchange of information provision to the international standards. The Swiss Government also added some other provisions which are the new minimum standard resulting from the OECD/G20 project on "base erosion and profit shifting". However, due to frequent changes within the Ministry of Economy and Commerce - the lead agency for tax policy, no progress on the proposed by Swiss side amendments into DTA has been observed so far despite renewed discussions.

Due to the small volumes (if one excepts gold) of both bilateral trade and investment flows between KG and CH, there is no potential for discrimination regarding Swiss exporters and investors. For the same reasons, there are no also comparative advantages/disadvantages or implications these bilateral agreements provide for Swiss businesses.

4 FOREIGN TRADE

4.1 Developments and general outlook

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[7] China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan + Uzbekistan, Indian, Pakistan, (2017).

[8] Dieser Organisation gehören - neben Kirgistan – auch Russland, Usbekistan, Kasachstan und Tadschikistan an.

4.1.1 Trade in goods

The Kyrgyz Republic has a large trade deficit owing to its reliance on energy, machinery and food imports. Falling exports and rising imports yielded a current account deficit equal to approx. 27% of GDP in 2022, increasing from 8.7% a year earlier. Exports amounted in absolute terms to USD 2.19 billion (2021: USD2.75) with approx. 25% decline with the previous year, mainly because of a fall in gold exports. Imports totaled in absolute figures up to USD 9.63 billion (2021: USD 5.58 billion). Higher imports of machinery and equipment, apparel, and food boosted total imports by 73%, supported by a rise in remittances. Thus, the overall trade turnover (export and imports) in 2022 amounted in absolute figures to USD 11.82 billion (2021: USD8.33 billion), with the trade balance is being negative – USD 7.44 billion.

The current account deficit is expected to narrow down from 27% in 2022 to 10% and 9% to GDP for 2023 and 2024 respectively. Increased gold exports should boost export growth by 5% in both years, and the resumption of delayed infrastructure projects should similarly boost imports. However, as Russia is the country's export trade partner with almost one third of all external trade, economic sanctions on it may harm exports but also imports in the medium-run. Besides, Chinese imports which totals between USD 4 and 15 billion[9] annually makes China important and influential actor for the Kyrgyz trade and economy in general.

Taking full control of Kumtor gold mine last year appeared to have eased the Kyrgyz government's perennial cash-flow crisis[10]. But the government remains secretive in terms of data related to Kumtor. According to official (Government) data, Kumtor produced 17.3 tons of gold in 2022, almost three tons more than the previous year, still this is below than annual average of gold production at Kumtor mine – approx. 20 tons a year[11]. This may be linked in part to the question of the longevity of this mine that began production as Kyrgyzstan's first major foreign investment in the 1990s - reserves should only last until 2031 according to the open sources (company's web-site). According to the ex-CEO (Mr. Bolturuk), Kumtor is also suffering from a severe deficit of qualified staff. Together with environmental risks, this may mean that Kumtor will have to stop work in 2025 due to a build-up in its tailings dam.

An analysis of trade statistics in 2022 indicates no major changes in trade flows of goods over 2022 as well as trends in trade over several few years. As usually, Kyrgyzstan exported its goods to more than 90 states and imported goods from around 110 countries around the world in 2022. The main destinations of Kyrgyz exports in 2022 according to the government trade statistics were: Russia (44% of total export), Kazakhstan (20%), Uzbekistan (11%), Turkey (6%), UAE (5%) and China (3%). Among the main export goods are ore and concentrates, dairy products, cement, metals, textiles and clothing, cotton, fruits and vegetables. Besides, exports to these and other countries comprises of chemical, pharmaceutical industries, machinery and manufacturing as well as agriculture. However, exports of Kyrgyzstan have to be further diversified and increased.

The main sources of imports in 2022 were China (42%), Russia (24%), Kazakhstan (8%), Turkey (5%) and Uzbekistan (4%), USA (3%), Germany (1.7%) and South Korea (1.6%). Main imported goods are oil, construction materials, textiles, food, and consumer goods.

Regarding food security, in 2020 the Kyrgyz Government announced a ban on meat export to Kazakhstan and Uzbekistan, followed by significant hike of meat prices. This measure was not appreciated by farmers whose main income source is meat. In 2022, the Government introduced a zero-(tax) rate for imported flour, vegetable oil and sugar aimed at contained prices for basic food-stuffs. At the end of 2021, it had already introduced zero-(tax) rate for

[9] These discrepancies in (mirror) trade statistics are allegedly explained by 'different' methodology of capturing export-import operations by Kyrgyz and Chinese Customs authorities.

[10] Some local experts and analysts noted that the period of state administration of Kumtor had coincided with increased state salaries and surprising infrastructure drives.

[11] As of January 1, 2022, Kyrgyzstan had 133 gold deposits with an estimated 734 tonnes of proven reserves, the official said. Of these, 723 tonnes of bedrock gold and 6.7 tonnes of crude gold. In average Kyrgyzstan produces up to 25 tons of gold every year.

imported electro-cars followed also by increased quota (from 5,000 to 10,000) for imported e.cars as part of the 'Green Economy' measures in the country.

For more detailed information on foreign trade of Kyrgyz Republic see *Annex 3 "Trade partners 2022".*

4.2 Bilateral trade

According to Kyrgyz official data on trade, in 2022 the trade turnover of the Kyrgyz Republic with the Swiss Confederation made up USD10.2 million[12] (versus USD 65.5 million in 2021) and hence, decreased by almost 6.5 times.

However, according to the official data of the Swiss Government trade statistics, in contrary the trade turnover between the Swiss Confederation and the Kyrgyz Republic *increased* (by almost 45%) from USD10.0 million in 2021 - up to USD14.5 million (2022), including USD13.9 million (or 42% increase from the previous year) exports of the Swiss Confederation, and USD0.6 million (or 145% increase with 2021) imports from the Kyrgyz Republic. There is a positive trade balance of USD13.3 million.

4.2.1 Trade in goods[13]

The main traded goods grouped by the main economic categories are as follows below (*in the order of trade turnover volumes*):

1) Consumer goods (USD11.5 million);
2) Capital goods (USD2 million);
3) Raw materials and semi-finished products (USD0.9 million); and
4) Energy sources (USD0.05 million);

The above breakdown of trading goods by main categories has not been changing from year to year over the last few years.

5 DIRECT INVESTMENTS

5.1 Developments and general outlook

Kyrgyzstan is ranked very poorly in terms of investment climate, and poorly for governance, and economic freedom in various surveys and studies conducted by international organizations. Despite all the measures declared by the Kyrgyz government and supported by number of international organizations, the inflow of Foreign Direct Investments (FDIs) did not soar in 2022, despite amounting to USD1.20 billion (a 20% increase compared to 2021, which was a bad year due to Kumtor seizure).

According to the Kyrgyz National Statistics Committee, the main investors in 2022 were Turkey (28% of total FDIs inflows), followed by China (27%), then Russia (12%), Kazakhstan (8%) and Netherlands (5%). For more detailed information on FDIs by countries see Annex 5. The bulk of all FDIs were directed for: 1) mining and geological exploration (42%); 2) manufacturing and processing (28%); 3) finance and insurance (10%); 4) wholesale and retail trade (9%); 5) professional and technical science (5%); and 6) ICT (3%).

Since its independence, the Kyrgyz Republic has always struggled to attract and retain FDIs due to an adverse investment climate, the small size of the domestic market, and the low attractiveness of sectors beyond mining/extractive industries. FDIs have lagged behind the level of regional peers, and this has led to underdeveloped exports outside of commodities. Despite the numerous efforts and declarations of the country's management to convert Kyrgyzstan into an 'investment paradise', we can't observe steady growth of investment inflows over the last years. The take-over of the Kumtor sent negative signals to existing and potential investors. Besides, the increasing pressure of the new Government on small- and medium

[12] The bilateral trade figures do not include trade of gold which was recorded at the amount of approx. USD 80 million in 2022.

[13] For more detailed information on bilateral Swiss-Kyrgyz trade see Annex 4.

enterprises since late 2020 has a direct negative impact on both domestic and foreign investment position of the country.

In general, investors are not protected well. This may be changing due to some action taken by the government, but in general we still observe that investors local or foreign face a lot of red tape, attempts at extortion under various guises, great difficulty to settle disputes in courts (which mostly favor locals over foreigners), very limited accountability of state structures regarding their dealings with investors, despite the existing Business Ombudsman Institution. Turkish, Chinese companies are not spared, despite the huge importance of these two countries.

5.2 Bilateral investment

In 2022, according to the data of Kyrgyz National Statistical Committee the inflow of Swiss FDIs totalled USD16.4 million (2021: USD9.3 million). This accounts for only 1.4% of the total FDIs inflow (USD1,202.6 million), and places Switzerland at 9th rank in terms of FDIs inflows over the past (2022) year. The relatively strong Swiss presence in the country through the SDC-SECO development programs and projects counterbalance an insignificant presence of Swiss private sector in the country, and provide some opportunities for Swiss potential investors.

6 ECONOMIC AND TOURISM PROMOTION

6.1 Swiss foreign economic promotion instruments

Given the small size of the Kyrgyz economy, Swiss Government and Switzerland Global Enterprise (S-GE) do not run a Swiss Business Hub in the country. Swiss firms with questions or problems can directly address Swiss Embassy or alternatively S-GE in Switzerland (S-GE) [www.s-ge.com]. Besides, there is the Joint Chamber of Commerce Switzerland - CIS (JCC) [www.jointchambers.ch] in which Kyrgyzstan is the permanent member. Unfortunately, the Kyrgyz Republic is not yet pro-actively involved in the activities of these regional organizations.

On a positive side, since 2019 the Economic Diplomacy Department (so to call 'Department VI') under the Kyrgyz Ministry of Foreign Affairs (MoFA) is operational with an aim to intensify economic diplomacy by fulfilment of the main three tasks: i) attraction of foreign investments, ii) promotion of tourism, and iii) promotion of export of domestic products abroad.

6.2 The host country's interest in Switzerland

Despite extremely little presence of the Swiss private sector in Kyrgyzstan, Switzerland has a good reputation in the Kyrgyz Republic concerning tourism (esp. winter tourism), watch industry, jewellery, electrical equipment and machinery, pharmaceutical industry, financial services and banking sector, education, agro-processing (mainly dairy/cheese products) and other services.

The Kyrgyz financial system is very shallow and bank-dominated, therefore none of the existing local financial and microfinance institutions[14] would be interesting for Swiss banks or other financial institutions. Therefore, there are no favourable conditions in place at present for correspondent banking relationships between Kyrgyz and international (mainly European and U.S.) banks. Almost all financial institutions in the country are local ones and hence, they are mainly oriented for the domestic market.

[14] The Kyrgyz financial sector is represented by 24 commercial banks with 323 branch offices, around 150 micro credit/finance institutions, more than 100 credit unions and nearly 20 insurance companies.

ANNEX 1 – Economic structure

Economic structure of the host country

	2018	2023
Distribution of GDP		
Primary sector	**15%**	**13%**
Manufacturing sector	**29%**	**24%**
Services	**56%**	**63%**
- of which public services	**5%**	**12%**

Distribution of employment		
Primary sector	**30%**	**28%**
Manufacturing sector	**20%**	**18%**
Services	**50%**	**54%**
- of which public services	**5%**	**10%**

Source(s): Host country's government agencies (National Statistical Committee, National Bank of Kyrgyz Republic, Ministry of Economy and Commerce, Ministry of Finance).

ANNEX 2 – Main economic data

Host country's main economic data

	2022	2023 (est.)	2024 (proj.)
GDP (USD bn)*	10,061.0[15]	11,275.0	11,969.0
GDP per capita (USD)*	1,481	1,627	1,691
Growth rate (% of GDP)*	7.0%	3.5%	3.8%
Inflation rate (%)*	13.5%	12.4%	7.8%
Unemployment rate (%)*	9.0%	9.1%	9.0%
Fiscal balance (% of GDP)*	-5.2%	-4.6%	-4.4%
Current account balance (% of GDP)*	-26.8%	-9.7%	-9.0%
Total external debt (% of GDP)**	46.9%	44.1%	41.1%
Debt-service ratio (% of exports)**	151.4%	n/a	n/a
Reserves (months of imports)**	3.6	2.9	2.4

***** Source: IMF, World Economic Outlook (April, 2023): https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023

** Source: IMF, World Economic Outlook (April, 2023): https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023

[15] According to the Government official statistics, actual GDP for 2022 - USD 919.4 billion. However, due to the recent changes in the methodology of National Statistcs Committee of the Kyrgyz Republic on National Accounts Statistics, GDP data is somehow lower than WB/IMF data.

ANNEX 3 – Trade partners

Trade partners of the host country   Year: 2022

Rank	Country	Exports *from the host country* (USD million)	Share	Change[16]	Rank	Country	Imports *to the host country* (USD million)	Share	Change[10]
1	Russia	963.6	44.1%	2,5 times	1	China	4,069.5	42.3%	2,8 times
2	Kazakhstan	438.2	20.0%	15%	2	Russia	2,270.9	23.6%	18.8%
3	Uzbekistan	236.6	11.0%	31%	3	Kazakhstan	749.9	7.8%	13.3%
4	Turkey	140.7	6.4%	55%	4	Turkey	488.3	5.1%	51.8%
5	United Arab Emirates	101.0	4.6%	84%	5	Uzbekistan	362.6	3.8%	14.5%
6	China	60.8	3.0%	-5%	6	USA	242.0	2.5%	2,4 times
..		..			..		..		
52	***Switzerland***	**0.45**	***0.02%***	-121 times	**35**	**Switzerland**	**9.7**	**0.1%**	**-12.2%**
	EU	75.9	3.5%	60%		EU	526.9	5.5%	1,8 times
	….	…				….	…		
	Total	**2,186.7**	**100%**	**-26%**		**Total**	**9,629.1**	**100%**	**72.6%**

Source: Host country's government agencies (National Statistical Committee of the Kyrgyz Republic).

[16] Change from the previous year in %

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and the host country

	Export (CHF million)	*Change (%)*	**Import** (CHF million)	*Change (%)*	**Balance** (in million)	**Volume** (in million)
2018	9.80	-37.3	0.30	-79.1	9.50	10.11
2019	9.09	-7.3	0.12	-59.1	8.96	9.21
2020	8.60	-5.4	0.13	2.9	8.47	8.72
2021	8.97	4.3	0.21	67.4	8.75	9.18
2022 *(Total 1)**	**13.2**	**47.2**	**0.55**	**156**	**12.6**	**13.74**
2023 (I-IV)**	**4.04**	**133.5**	**0.09**	**-52**	**3.94**	**4.13**

*) ‘Economic’ total (total 1): not including gold bars and other precious metals, currencies, previous stones and gems, works of art and antiques

**) Change (%) from the previous year

Exports	**2021** (% of total)	**2022** (% of total)
1. Raw materials and semi-finished products	88.9	90.3
2. Energy sources	99.8	99.7
3. Capital goods	87.9	87.3
4. Consumer goods	90.3	90.2

Imports	**2021** (% of total)	**2022** (% of total)
1. Raw materials and semi-finished products	86.3	84.0
2. Energy sources	99.8	100.0
3. Capital goods	82.5	81.4
4. Consumer goods	86.4	87.2

Source: Federal Office for Customs and Border Security

ANNEX 5 – Main investing countries

Main investing countries in the host country **Year: 2022**

Rank	Country	Direct investment (mln. USD)	Share	Inflows over past year (mln. USD)
1	Turkey	341.2	28.4%	237.9
2	China	326.0	27.1%	334.7
3	Russia	145.6	12.1%	147.2
4	Kazakhstan	90.5	7.5%	65.6
5	Netherlands	62.1	5.2%	64.9
6	Germany	38.6	3.2%	11.0
7	United Kingdom	37.8	3.1%	54.7
8	Cyprus	33.6	2.8%	30.6
9	***Switzerland***	**16.4**	**1.4%**	**9.3**
	….			
	Total	**1,202.6**	**100%**	**1,006.1**

Source: Host country’s government agencies (National Statistical Committee of the Kyrgyz Republic).