



TRADE POLICY REVIEW

REPORT BY

KYRGYZ REPUBLIC

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Kyrgyz Republic is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on the Kyrgyz Republic.

Contents

1 INTRODUCTION	4
2 ECONOMIC ENVIRONMENT	4
2.1 Economy Development over 2006-12	4
2.2 Current Economic Situation in 2013	6
2.3 Trade in Goods over 2006-12	6
2.4 Trade in Services over 2006-12	8
2.5 Foreign Investments Trends and Structures over 2006-12	9
3 OUTCOMES OF ECONOMIC REFORMS	9
3.1 Monetary and Currency Policy	9
3.2 Fiscal Policy	10
3.3 Taxation.....	11
3.4 Industrial Policy	11
3.5 Electric Power	13
3.6 Fuel Sector	13
3.7 Privatization	14
3.8 Restructuring of Public Service and Good Governance	14
4 TRADE POLICY AND RELATED ISSUES	15
4.1 Trade Policy.....	15
4.2 Customs and Tariff Regulation	16
4.3 Non-Tariff Regulation	16
4.3.1 Safeguard measures	16
4.3.2 Seasonal duties	17
4.3.3 Quota allocation	17
4.3.4 Import licensing	17
4.3.5 Export prohibition	18
4.4 Customs Procedures and Customs Valuation	18
4.5 Technical Regulation	19
4.5.1 Standardization	20
4.5.2 Metrology	20
4.5.3 Accreditation.....	20
4.5.4 Labelling and packing requirements.....	21
4.6 SPS Measures, Environmental Protection Legislation, including Forestry.....	21
4.7 Investment Policy	22
4.8 Intellectual Property Protection.....	24
4.9 Agriculture	25
4.10 Competition Development Policy	25
4.11 Competition Protection and Development, and Anti-Monopoly Regulation	26
4.12 State Enterprises	27
4.13 Public Procurement	28

4.14	Banking Policy	28
4.15	Non-Banking Financial Sector	30
4.16	Transport	30
4.16.1	Motor transport	30
4.16.2	Railway transport.....	31
4.16.3	Air transport.....	31
4.17	Telecommunications.....	32
4.18	Tourism.....	33
4.19	Regional Trade Agreements.....	34
4.20	Free Economic Zones	35
4.21	Mining Industry	36
5	ECONOMIC DEVELOPMENT AND TRADE PROSPECTIVE	36
5.1	Medium-Term Economic Forecast.....	36
5.2	Trend of Future Trade Policy	37
6	LIST OF ABBREVIATIONS	39
7	ANNEXES.....	41

1 INTRODUCTION

1.1. This Trade Policy Report by the Government of the Kyrgyz Republic represents the second report produced. The first Trade Policy Review of the Kyrgyz Republic was conducted in 2006, which covered the period from 1998 through 2005. In the course of the first review, the WTO member-countries gave a positive appraisal to the economic reforms held in the country, which seek to liberalize trade and attract investments into the economy. WTO Members observed that the Republic implements its commitments.

1.2. This Report covers economic development, trade policy achievements during the period from 2006 to 2012, the future directions of the economic development and trade policy priorities of the Kyrgyz Republic. During the period of the Kyrgyz membership in the WTO the fundamental changes have occurred both in geographic trade patterns, and the foreign trade regime. The commodities flow structure has also undergone certain changes.

1.3. Accession to and participation of the Kyrgyz Republic in the WTO had explicitly facilitated the reforms in the country that were to lay down the required basis for a flexible re-orientation of the country's economy to the use of new external opportunities, which are defined by the world trade development trends.

1.4. Despite that the specific difficulties exist as a result of the political events in 2005 and 2010, and the ensuing economic problem, the Kyrgyz Republic continues to maintain the liberal trade policy to create conditions for fair competition and ensure a favorable environment for investments attraction into the country.

2 ECONOMIC ENVIRONMENT

2.1 Economy Development over 2006-12

2.1. From 2006 the economic and investment recovery has been marked in the Kyrgyz Republic. Gross Domestic Product has increased by 3.1% in real terms, and average GDP growth rate in 2007-2008 was 8.5% per year (Please refer to Table 1). In 2009 because of the adverse effect of the world financial crisis, the economic growth in the country has been slowed down, with only 2.9% of GDP growth.

2.2. The positive contribution to the GDP growth during these three years has made the sectors of agriculture, trade, hotel and restaurant services, transport and communications. The gold mining sector's contribution to the economic growth was about 4% of GDP. In 2010 the real sector has experienced the internal shock due to political instability in the country. GDP volume in 2010 has declined in real terms by 0.5%, compared to the last year. In 2011 the recovery has been noted throughout all economic sectors, except for construction industry. The results for the year 2011 show that GDP in real terms has increased by 6.0%. In 2012, because of production output decline at "Kumtor" gold mining enterprise, the economic growth has been considerably slowed down. Meanwhile, contributions of other sectors into GDP were positive, in particular, contribution of services and construction sectors. Yet, GDP volume in 2012 has decreased by 0.9% in real terms against the last year. GDP real growth rate was 5.0%, excluding Kumtor deposit enterprises.

2.3. Public budget revenue over the period 2006-2012 has increased from 22.2% to 28.5% of GDP, i.e. from KGS25.08 billion to KGS86.8 billion in nominal terms, or by 3.2 times. The principal portion of the budget revenue is generated by tax receipts. Tax collections in the revenue structure made 79.7% in 2006. From 2009, the decrease of tax receipts share up to 65.3% has been observed that was driven by the introduction of the new Tax Code. Thus, VAT share has declined because of its lowered rate. From 2010 a slight growth of tax collections into the public budget revenue has been recorded.

2.4. In response to the social and economic instability in 2010, the growth rate of tax revenue has decreased; the public expenses for social protection, ensuring public order and safety, for capital construction and repairs have increased. Consequently, the public budget imbalance has substantially expanded. The budget deficit growth was 6.6% in 2012 against 0.1% in 2006.

2.5. Over the period 2006-12, GDP per capita has reached a two-fold increase, and today, it exceeds the level of 2006 by USD643. From 2006 a serious effect on the population income growth, and respectively, on the living standard improvement, had cash transfers of labor migrants, which have increased from 15% to 29.3% of GDP over the period 2006-12. These funds suppress the decrease of living standard of the entire population. Poverty level during the years from 2006 to 2012 has declined from 39.9% to 36.8%.

2.6. The considerable growth of the services sector has been noted, with 46.6% share of GDP in 2012 (compared to 40.4% in 2006). Trade constitutes the largest share in the services sector. Because of successful reforming and outreach of market services, expansion of trade and paid services supported by the appropriate domestic demand, the services sector growth has been kept at 7.5% on average a year until 2010. Real growth of the services sector in 2012 made 6.1%. No economic sector in Kyrgyzstan, except for the construction sector, has demonstrated such impressive growth rates.

2.7. 1.6 In 2006 the inflation rate was 5.1%. From 2007 the rise in inflation has been noted –by 20.7% and 20.0% in 2007 and 2008, accordingly. Inflation was driven by price increase for food products and energy resources that have been invoked by the world market processes. The strong effect, which is difficult to assess, continues to have the shadow economic sector. Shadow sector estimates vary and may reach up to 50% of GDP according to different methods applied¹. Over the period under review the monetary and fiscal policies of the country were directed at restraining the inflation processes in the country. As a result, the inflation in the country has declined to zero in 2009. However, in 2010, the inflation has risen up to 19.2% because of political instability. In the years to follow, the situation has improved; the inflation has declined by the one-digit level.

2.8. Structural measures in the monetary regulation that have been undertaken from 2006 through 2008, have allowed to strengthen the national currency; the Kyrgyz som exchange rate against US dollar was 40.16 to 36.57. From autumn of 2008, the national currency has tended to be weak because of external factors while in 2010 domestic factors affected its rate. In 2012 the exchange rate of Kyrgyz som has reached 47.01 to 1USD.

2.9. Because of intensified investments and construction activity in the Republic, the volume of investment use over 2007-2011, except for 2010, has been steadily increasing. Over the period from 2006 to 2009, the capital investments share of GDP was 16.5%-19.7% in Kyrgyzstan. The principal funding sources are the equity capital of enterprises (mainly, enterprises with foreign capital). In 2008 and 2009 the financing drop was marked at the expense of company's funds with concurrent funding increase from other sources, of them the foreign investments have considerably increased. This increase was due to investments into transport and communications, hotel and restaurant business, and real estate transactions.

2.10. The country's economy at the present-day development stage is open and the indicator of openness is improving. In 2006, commodities exports and imports made 31.3% and 67.8%, accordingly, whereas in 2012 these indicators were 30.5% and 78.8% of GDP. Foreign trade turnover increase was both resulted by the commodities export growth (2.1% of average growth rate) and import growth (2.8% of average growth rate). Over the period 2006-12, imports increased by 2.8 times, while exports by 2.1 times only. Over the period from 2006 to 2012, agriculture ratio has decreased from 28.7% to 17.5% of the country's GDP.

2.11. Industrial sector weighted share of GDP, during the period from 2006 through 2012, was 14.9%-16.8% due to increase in gold mining and light industry output, as well as electricity, gas and water generation and distribution. Average industrial growth over the period made about 2%, except for the years 2010 and 2012. The key issue with the risk of underdevelopment of industrial production of the Republic represents the high concentration of real production and its extreme dependence on the operation of isolated base enterprises (energy sector, gold).

2.12. Average annual growth rate of construction gross output over 2006-09 was high – 21.1%. This sector's ratio of GDP structure averaged 5.2%. For the most part, electricity facilities, transport and communications facilities, trade, and residential housing facilities were built. In 2010

¹ Undocumented economy's share in 2006 was 53% of GDP. Source: *Shadow Economy in the Kyrgyz Republic: Tendencies, Estimates and Policy Options*, Bishkek, UNDP, 2006.

the growth rate of construction gross output has declined and made 0.5% in real terms compared to the last year. The situation has been gradually stabilized in the following years.

2.13. Employment of population over the period under review has increased by 8.7% (from 2,096.1 thousand to 2,277.7 thousand people). The employment ratio was about 37% of the country's total population. The principal economic areas, which employ the largest number of employees, are represented by the services and agriculture sectors (about 90% of total employed population). The number of unemployed population was estimated at 8.5% in 2011.

2.2 Current Economic Situation in 2013

2.14. 2.1 The results for the period from January through June of 2013 demonstrate that the nominal GDP volume was KGS133.9 billion and increased de facto by 7.9%, as against the decline in real value by 6.9% during the same period in 2012. The growth of real GDP was 5.5%, excluding Kumtor mining enterprises. Over the relevant period of 2012, the same indicator was 3.4%. GDP price deflator was 4.6%. The structural analysis by the sectors' input has demonstrated that the economic growth has been assured by all economic sectors. Agriculture (0.2 percentage point), manufacturing industry (3.1 percentage point), construction sector (0.6 percentage point), and services (2.8 percentage point) made their positive contribution to the economic growth.

2.15. The overarching aim of the macroeconomic policy for the year 2013 is to restore the macroeconomic stability and create the baseline conditions to achieve the sustainable economic growth rates. Macroeconomic stability will be expressed by achievement of the following key quantitative parameters: no less than 7.0% of economic growth is to be ensured, including 17.9% of industrial sector output growth, 1.0% agricultural production increase, 10.5% construction sector growth, and increase in services sector by no less than 5.0%. The targets to be achieved also embrace maintaining the inflation level at no more than 8%, keeping the budget deficit within 5.0% of GDP, holding the public debt-to-GDP ratio at the level not aggravating the economic safety; increase of population income by 6.2%, complete and timely implementation of all social security measures by the state.

2.16. GDP profile of production, similar to previous years, will be dominated by the services, manufacturing and agriculture sectors, with the ratios of 50%, 18.4% and 17.5%, respectively. In 2013 the real growth of the services gross output is anticipated to be 5.2%. This growth will be secured by trade (6.0% increase), transport and communications sector (7.7% growth), financial services (increase by 4.8%), and hotel and restaurant services (6.5% increase). The main share in the services sector will belong to trade (31.2%), transport and communications (22.4%), and their real growth will be maintained by 6.2% increase of population income in 2013.

2.17. With respect to the foreign trade sector, it is projected that export growth rate will outrun import. This situation will contribute to the improvement of the net export indicator up to (-25-27%) of GDP in 2013. The import growth is forecasted at 1.5-2% on average a year. It will be ensured by the consumer demand in the private sector. The increase of exports in 2013 will be 1-1.5% on average.

2.3 Trade in Goods over 2006-12

2.18. The liberal trade regime has urged the growth of the republican foreign trade turnover, which was USD7,267.7 million in 2012 or had increased by 2.6 times as compared to 2006 and was accompanied by expansion of trade geography (Please refer to Table 2). In 2012 the Kyrgyz Republic has kept up trade relations with 147 countries of the world trading community; the country has been exported to 86 countries and imported from 139 countries (in 2006 these indicators were 120, 76 and 111 countries, respectively). Such expansion of trade geography occurred because the Kyrgyz exports enjoy the MFN treatment in all WTO member countries. However, the foreign trade growth trend was unstable in 2009 and 2010 due to the impact of external and internal factors. The total trade turnover growth has been reported from 2010. The decline of WTO countries' share has been observed in 2012 in comparison with the last year because of decrease of export by 36.7% (related to gold supply), and import has increased by 28.3%.

2.19. Over the last years, the trade turnover of the Kyrgyz Republic with WTO member countries and CIS countries has been roughly the same – around 50%. Although absolute values of export and import operations of Kyrgyzstan with these countries tend to grow, their relative values fluctuate from year to year because of the dependence on negligible quantity of exported goods, in particular, supplies of agricultural goods and electric power, which are prone to the climate conditions.

2.20. WTO countries dominate in export and CIS countries in import pattern. This situation is induced by the fact that the primary export product of the Republic, i.e. gold, is exported to WTO countries, whereas the CIS countries dominate in import supplies due to the energy dependence of Kyrgyzstan. Outstripping growth rates of imports over exports have caused the growth of negative balance of turnover of commodities during 2006-12.

2.21. By geographical distribution of turnover of commodities of Kyrgyzstan the concentration has been kept on a few countries. The key trading partners in 2012 were Russia (27.6%), China (17.5%), Switzerland (7.7%), Kazakhstan (12.7%), Turkey (3.1%), Uzbekistan (3.5%), USA (3.5%), Germany (3%), Japan (3.0%), Belarus (2.4%), etc.

2.22. The principal consumers of the Kyrgyz products in 2006 were from Switzerland (26.2%), Kazakhstan (20.5%), Russia (19.4%), China (4.8%), Tajikistan (4.4%), Uzbekistan (3.5%), Turkey (3.4%), etc.; in 2012 - Switzerland (28.9%), Kazakhstan (21.4%), Russia (11.6%), Uzbekistan (10.0%), China (3.2%), Turkey (2.6%), Tajikistan (2.1%). Geographical direction of the Kyrgyz export has not changed, except for slight changes in the export volume over the period under review (Please refer to Chart 1). The leading partner is Switzerland, along with Russia, Kazakhstan and Uzbekistan, whereto the main export product, gold, is exported.

2.23. Traditional suppliers of import goods both in 2006 and in 2012 have yet been Russia (33.8%, 33.2%) China (12.8%, 22.5%), Kazakhstan (10.3%, 9.7%), Uzbekistan (4.8%, 1.2%), USA (5.6%, 4.7%), Germany (3.1%, 3.7%), Turkey (2.0%, 3.3%) (Please refer to Chart 2). Russia and Kazakhstan are also the principal partners in geographical distribution of import. China has gained the status of the high valuable partner among foreign countries as a result of fast growth of import volume.

2.24. The dominant export item of the Kyrgyz Republic over the period under review was gold, with 29.7% share in total export volume in 2012 (28.2% in 2006). The export basis of Kyrgyzstan constitute about ten commodities groups (except for gold), such as vegetables and fruits, milk and dairy products, tobacco, cotton, textile, non-organic chemicals, electric power, cement, electric filament bulbs, with over 50% of export. If gold is accounted together with these commodities groups, the aggregate ratio would be 90% of total export operations. Ratio of traditional export goods, such as electric power, cotton fiber and tobacco, has decreased in the total exports.

2.25. The export growth of the limited range of commodity items (gold and non-organic chemicals) is reported. WTO membership has facilitated establishment of a number of enterprises of clothing and knitwear manufacture by easing the access of raw materials, supplies, equipment and components to the national market. Another factor was enactment of the regulatory legal acts to legalize light industry production², thus enabling export growth of textile and knitwear manufacturing products by two times. In 2012, this sector's export was 10.8% of total country's export (in comparison with 2006).

2.26. Increase of export of energy products, in particular, re-export of petroleum products, including for fueling of foreign military aircrafts on the country's territory, as well as for re-export to neighboring countries, has been observed until 2009. The ratio of these products in total exports was about 20% in 2007-2008, and it has been declining from 2009.

2.27. The primary import items are mineral products (fuel and energy resources), products of chemical industry, machinery and mechanical appliances, electrical equipment, base metals and

² Regulation No. 378 of 12 August 1996 "On introduction of modifications and supplements to the Regulation of the Government of the Kyrgyz Republic "On declaring incomes and payment of the income tax by natural persons carrying out their activity on the basis of patents in the Kyrgyz Republic" of 23 December 2005, No. 615 (abolished on 30 December 2008), Regulation No. 844 of 12 December 2006 of the Government of the Kyrgyz Republic "On Measures for Further Development of Clothing Industry of the Kyrgyz Republic".

articles thereof, wood and pulp and paper products, products of light industry, land transport vehicles, plastic and articles thereof, rubber and articles of rubber, food products. The growth of import of meat and edible offal represents a concern, as there is the domestic capacity for self-production.

2.28. Chart 2 illustrates that the share of processed goods is extremely small in export commodities profile of Kyrgyzstan. On the contrary, import commodity structure shows a considerable share of high conversion products, import of machinery, equipment and motor vehicles, with the growth trend.

2.29. The imbalance in the foreign trade development of the Republic has been observed over the period under review, along with the clear tendency for gap increase between import and export, and this gap tends to be aggravating. Such a situation has been induced, to some extent, by introducing by the Kyrgyz Government the rules on the simplified procedure of customs clearance of goods imported by natural persons enacted in 2004 (the value of goods imported under this scheme has increased by 3.8 times over this period).³

2.30. Because of the reforms on foreign trade liberalization conducted, the Kyrgyz Republic became a regional center of re-export of Chinese goods to Central Asian countries and Russia. Revenue from re-export of Chinese goods is substantial, and it is one of the sources for compensation of the escalating balance-of-payments deficit and improvement of the population employment in the country.

2.4 Trade in Services over 2006-12

2.31. The services sector has been recorded by its share increase in the Gross Domestic Product over quite a long period (by more than 30% on average according to the official data). The specific services sub-sectors are considered in more details below. However, it is worth to mention that whereas the trade policy in respect to foreign goods trade has existed in Kyrgyzstan prior to its accession to the WTO, the situation in the services area has been different. The services sector has been strongly developing as the foreign trade component after the market reforms were introduced; thereby the formation of the services sector trade policy is still going on.

2.32. Foreign trade turnover of services has reached USD4,197.1 million in 2012, which makes six times increase as compared to 2006. The major portion of geographical distribution of services have CIS countries (more than 60%), that is caused by domination of export of services to CIS countries, with an unstable growth trend (Please refer to Table 3). Geographical distribution of import of services to CIS countries and foreign (non-CIS) countries is almost equal and no explicit trend has been reported. The balance of services sector is negative, except for the years 2007-2009.

2.33. Generally, the services sector has expanded due to wholesale and retail trade increase, as well as because of improvement of transportation and communication systems. More than a half of total exports of services are accounted to travel (tourist services), the second ranked export item is transportation services, followed by the business services.

2.34. The largest share in import of services is accounted for transportation services, which constitute less than a half of total imports, followed by tourism and business services (Please refer to Chart 4).

2.35. Thus, the most important services sectors of Kyrgyzstan are wholesale and retail trade services, transportation, tourism and business services. Other types of services have a small share (from 0.1% to 8%). The share of tourism services have tended to grow both in total exports and imports over the period 2006-2012. Meanwhile, the share of transportation services has gone down over the same period.

³ Pursuant to the Regulation of the Government of the Kyrgyz Republic "On introduction of the Instruction on Hauling of goods and automotive transport through the National Border of the Kyrgyz Republic by natural persons" No.976 of 31 December 2004.

2.36. In the long term period, the expectation is that the services sector will have the largest impact among the real sectors of economy, which form the GDP. This sector will develop faster in comparison with other economy sectors of the country.

2.5 Foreign Investments Trends and Structures over 2006-12

2.37. The overall investment trends demonstrate an uneven inflow of foreign investments to Kyrgyzstan. Foreign investments for the years 2006-12 have increased by 1.7 times, with 12.1% average annual growth rate (from USD2,514.4 to 4,335.8 million). The share of other investments has remained high at 80.8% in 2006 and 84.6% in 2012 in total volume, the share of Foreign Direct Investments was 13.4% and 14.0%, grants and technical assistance made 2% and 1.2%, and portfolio investments were 0.02% and 0.2%, accordingly.

2.38. Inflow of Foreign Direct Investments has also uneven trends (Please refer to Table 4), which were within the range of 9-17% of the GDP. The value of this index is below the threshold value of indicator of FDI sufficiency that makes 25% of GDP according to international practice. FDI inflow over the last years has been mostly from non-CIS countries, among which Canada and China should be stressed. Canadian investments make a contribution into the mining industry, and China is represented in the large-scale investments projects, as well as in small and medium business. The main FDI source from CIS countries until 2010 was Kazakhstan.

2.39. The processing industry, which accounts for the largest part of Foreign Direct Investments, continues to be the most attractive sector for foreign investors; trade sector holds its ground in services; the sector of transactions with real estate, rent and customer services has a growth trend, while the financial sector portion is decreasing from 2010 (Please refer to Table 5).

3 OUTCOMES OF ECONOMIC REFORMS

3.1 Monetary and Currency Policy

3.1. The activity of the Kyrgyz Republic's government body in the monetary policy over the period 2006-2012 has been implemented against the background of several factors, which had a considerable impact on formulation of the monetary policy. The policy's formulation was carried out in the context of internal shocks with continuing unstable external environment. The political events in the Republic had a serious effect on the changes in conditions and the nature of monetary policy performance. In terms of a risk of the system crisis in the banking system and a threat of deep economic stagnation in the face of the moderate inflation rates, the actions by the National Bank of the Kyrgyz Republic were mostly focused at ensuring the stable banking and financial systems and encouraging the economic growth.

3.2. The actions to stimulate lending undertaken by the National Bank of the Kyrgyz Republic and the Government of the Kyrgyz Republic in the context of the intricate domestic policy and economic environment, have enabled a gradual recovery of increase of business loans after its recession in 2009 because of the adverse effect of the world economic crisis. The loans growth rate into the economy during 2010 was 6.3%.

3.3. For the purpose of prevention of sharp exchange rate fluctuations, in 2010 the National Bank of the Kyrgyz Republic has increased the amounts of currency interventions to sell US dollars. Net sales of US dollars by the NBKR equaled USD234.8 million throughout the year. The official US dollar exchange rate to Kyrgyz som has gone up by 6.8% that is from 44.0917 KGS/USD to 47.0992 KGS/USD (by 11.9% over the same period in 2009). Despite that the pressure on Kyrgyz som has aggravated, the National Bank has managed to maintain and, even to increase the international reserves amount by USD131.7 million or 8.3%, bringing it up to USD1.7 billion at the end of December of 2010, and thus covering 4.3 months of future import of goods and services.

3.4. In 2010, the positive trade surplus was gained, amounting to USD56.1 million. In the meantime, a considerable increase of the current account deficit by USD508.5 million or 11.1% of GDP has been noted.

3.5. Taking into consideration the high inflation rate in the country and continued considerable inflation risks in 2011, including the risks caused by an anticipated heavy public budget deficit, on

December 30, 2010 the Committee of Monetary Regulation of the KR's National Bank has adopted the decision to increase the base rate from 7 to 8% for the purpose of lending the Special Fund of Bank Refinancing for January 2011. This decision has been made in line with the tightened monetary policy, and pursuant to the "Principal Directions of Monetary Policy for 2011-2013".

3.2 Fiscal Policy

3.6. Over the period 2006-2012, the budget revenues have tended to increase. Consolidated budget revenues over this period have increased by 6.6 percentage points of GDP – from 21.9% in 2006 to 28.5% of GDP in 2012. The expenses have also gone up. Public budget deficit in 2010 was 5.1% to GDP, whereas in 2009 it was utilized with the deficit of 1.5% of GDP. In 2010, according to the NSC's data, the general price level increase was 19.2%.

3.7. Inflation processes in the country mainly occur because of impact of non-monetary factors. Estimates show that out of 19.2% inflation, 9.8% explicitly belong to non-monetary factors, inflation expectations contribution is 4.8%, and 4.6% is monetary factors impact⁴. As reported by the Central Treasury of the Ministry of Finance, the public budget deficit in 2012 was KGS20.2 billion or 6.6% of GDP that is by KGS1.4 billion less than the budget deficit level set forth by the law. The year-end deficit was the highest during the last years in the country.

3.8. Budget deficit funding by the external sources amounted KGS15.6 billion or 5.1% of GDP; domestic funding made KGS4.7 billion or 1.5% of GDP.

3.9. The most visible contribution was made by tax receipts, which remain the principal source for budget replenishment. The tax revenues share in the GDP volume has increased from 17.6% in 2006 to 21% in 2012. Tax receipts ratio in the general budget revenues structures over these years averaged 72.8%.

3.10. Public expenditures policy of Kyrgyzstan, over the period from 2006 to 2012, has been targeted at full and timely funding of all social security aspects of the state and creation of favorable conditions for economic growth.

3.11. The budget policy was concentrated at priority funding of social sectors and fiscal deficit decrease.

3.12. The KR's Ministry of Finance has implemented a mid-term financial forecast into the budgeting process as a tool allowing to form the Republic's budget in the context of priority directions of the social and economic development. The introduction of such system enabled to set the fair marginal expenses (norms) for ministries and other budget organizations for the mid-term period based on sectoral strategies.

3.13. In 2010, the significant increase of the general price level has been marked compared to the same indicator in 2009. As reported by the National Statistical Committee, the general price level growth in 2010 was 19.2 %, whereas it made 0.0 % in 2009. The reasons for accelerated inflation processes in the economy were high global and domestic market prices for food products and energy resources because of the low agricultural harvest and recovering world demand for oil products, change in the tariff policy for electric and thermal power, partial closure of borders and tightened border control regime with neighboring countries, as well as degraded trading conditions in the Republic as a result of unstable public and political situation⁵.

3.14. Data of the National Statistical Committee shows that Consumer Price Index has increased (the index which depicts the inflation rate). As of the beginning of 2012, the CPI was 7.5% (December 2012 against December 2011) and it was 5.7% over the same period in 2011. Average annual inflation rate was 2.8%, and this indicator in 2011 was 16.6%.

⁴ Data of the NBKR report for 2010.

⁵ Data of the NBKR report for 2010.

3.3 Taxation⁶

3.15. New version of the Tax Code has been effectuated in 2009 in the country aimed at supporting tax payers in order to develop small and medium entrepreneurship. The number of taxes has been reduced by eight, including six nation-wide types of taxes and two local types of taxes. The Value-Added Tax rate (VAT) has been decreased from 20% to 12%.

3.16. In 2012, the State Tax Services under the Kyrgyz Government has collected taxes and duties in the amount of KGS35,069.2 million, with the forecast of KGS35,832.6 million. The plan's implementation was 97.9% or KGS763.4 million less were received. Tax and duties collections increased by KGS4,765.8 million or 15.7% as compared to 2011. Revenue share of GDP was 11.52% and compared to the same period of the last year, it has been increased by 0.93 percentage points.

3.17. To improve performance in the process of reforming and modernization of tax administration, the following measures have been undertaken:

- Software complex has been developed and partially introduced into 60 territorial units of the STS. This software enables full automation of the tax administration processes and electronic document flow;
- A new organizational structure of tax bodies is being introduced, which is built upon the up-to-date functional work principles;
- A new website of the STS has been launched. On this website the users may get any information about regulatory legal acts that govern taxation area, about all types of taxes, and draft regulatory legal acts. The users may also read the news, learn about tax bodies activity, search by the Tax Payer Identification Number, VAT invoice, check a warrant issued to perform inspection, get information related to regulation and turnover of alcohol products, review the property tax calculator, tax payers calendar, get access to the knowledge database, and other reference materials.

3.4 Industrial Policy

3.18. Despite the low ratio of industry in GDP, it yet provides over a half of the budget revenues and represents an essential source of jobs, taking into that the Government of the Kyrgyz Republic does not provide subsidies to the industrial sectors, in particular, the subsidies which fall within the scope of the WTO TRIMS Agreement.

3.19. Today, the industrial structure of the country consists of 17 sectors, including two mining industries, 14 sectors in manufacturing industry, and electricity. The largest contribution to the industrial growth continues to make the manufacturing industry, with its ratio over 80%. Of them only five sectors are economy and tax forming, namely, metallurgy and food processing industries, textile and clothing industry, production of other non-metallic mineral products, and energy sector. These sectors' output is over 90 % of industrial products. Over the period under review, increase of the number of re-commissioned enterprises has been marked in several branches. In total, there are 2090 enterprises and manufacturers, employing 201 thousand people.

3.20. Over the last years, there has been the upward tendency of industrial contribution into the economy, which allows to conclude on its capacity. Over 2009-2011, up to 20% growth of the sector's ratio in GDP of the country has been noted. In 2010, the decline by 16.8% was caused by the internal factors. The reason for decline was decrease of production volume at Kumtor mine deposit because the glaciers covered the metalliferous open cuts. Excluding Kumtor mine enterprises output in 2012, the industrial products amounted to KGS83.1 billion, at 118.7% growth rate. The volume index has reached 106.1%, and the volume index in 2010-2011 made 111.7% and 118.8%, accordingly (Please refer to Chart 3).

3.21. The main share in the export profile of the country represents the manufactured products – 85%. These are mostly gold, food processing products and clothing articles, and building materials. Clothing articles export ranked third after exports of gold, food products and agricultural products.

⁶ Based on the Performance Report of the State Tax Service under the Government of the Kyrgyz Republic for 2012.

3.22. With the current industrial pattern, the diversification strategy has been carried out over the last years with the focus placed on the high value-added sectors. Such sectors include textile and clothing, agri-industrial, energy, mining and construction. These sectors largely utilize the local resources, but are not always oriented at their deep processing.

3.23. Textile and clothing industries are the priority industrial sectors. In the process of textile products manufacturing the local raw materials are used (wool, cotton) and the clothing sector secures jobs and has a high export capacity. Over the last five years, the textile and clothing products output has been increased by more than a half due to clothing industry. From 2006 over 80 % of this sector's products constitute clothing articles and 20% are textile products.

3.24. Proceeding from the significance of this sector, the Government of the Kyrgyz Republic has built up favorable conditions for its development. In particular, the simplified taxation system, i.e. the patent-based system, and the privileged system of social contributions has been introduced for individual entrepreneurs in textile and clothing industry.

3.25. The textile and clothing industry ratio was 6.9% of total manufacturing volume in 2012. The output has amounted KGS9.2 billion, with 12.5% growth rate, including clothing industry output of KGS8 billion, with 17% growth rate. At present, the textile industry declines, except for the knitted garments sector. Manufacture of cotton and silk fabric has stopped. About 90-95 % of cotton fiber is exported as raw materials. The textile industry revival requires investments.

3.26. For the purpose of further stable development of textile and clothing industry, Resolution No. 123 of the Government of the Kyrgyz Republic, dated 6 March 2013, approved the Program for Development of Textile and Clothing Industry in the Kyrgyz Republic over the period from 2013 to 2015.

3.27. Food and processing industries are among the strategic economic sectors. The development level of these sectors identifies the life support level of the population and has a huge social importance in solution of the population employment issue. Food production and processing industries engage 9,388 large-scale, medium-scale and mini enterprises. Of the stated number of food processing enterprises, 457 are large and medium-scale and 8,931 are mini-enterprises (95%).

3.28. Upward trend of food products output, including beverages and tobacco, has been observed from 2006. In 2008-10 average annual growth rate in the sector was 4.4%. Food processing sector in the industrial output of the Republic makes about 12-14%. The sector generates about 17% of all taxes paid by the industry of the Republic, taking into account that turnover, production, export and import of spirit and alcohol products is the licensed type of activity. However, agricultural products processing is below 15%. The key task in this sector is to improve processing level. Therefore, the "Program for Development of Food and Food Processing Industry of the Kyrgyz Republic over the period 2012-2016" has been submitted for consideration, but not introduced yet.

3.29. Mining industry of Kyrgyzstan has a high capacity. International experts continuously stressed that the country's capacity is still sufficiently underutilized, given the enormous territory and a good state of geological exploration. Today, the mining industry ratio in the total industry volume is about 2%. Mining industry employs over 15,000 people. The average monthly wage is about four times higher than the average monthly wage in the country.

3.30. Nowadays, the mining sector development policy is being developed with the focus on promotion of small and medium explored deposits with their vast reserves. The contradictions in the current legislative acts on subsoil use with the Constitution and other laws of the Republic are being removed.

3.31. Building materials ratio of the Republic's GDP is about 6%. The work of the sector's enterprises is mainly based upon its own raw materials resource base. Foreign markets oriented products comprise cement, sheet glass, and walling and facing tiles made of natural stone. Over the last years, attraction of Foreign Direct Investments and own funds of entrepreneurs has allowed to launch enterprises on production of import-substituting building materials, such as cement, fire brick, polystyrene concrete, dry concrete mix, etc.

3.32. From 2006, the situation in the building materials industrial sector has been started to stabilize. At present, there are nearly 200 economic entities engaged into building materials production, with total 10,000 people employed. From 2010 there has been the upward trend in building materials output. This is due to development of new capacities of cement production, and launch of sheet glass production in 2012.

3.33. Upgrade of existing and construction of new enterprises of industrial building materials is carried out at the expense of domestic and foreign investments. Small, medium and individual business entities are mostly established for this purpose.

3.34. To develop manufacturing industry, which ratio is over 80% of manufactured products, Resolution No. 133 of the Government of the Kyrgyz Republic, dated 14 March 2013, approved the "Program of Development of Manufacturing Industry over the period 2013-2015". The objective of this Program is to increase output and export of industrial products, ensure competitiveness of the Kyrgyz industrial products on the markets of the Customs Union, rise the ratio of the industrial products in GDP, generate additional jobs, etc.

3.5 Electric Power

3.35. Electricity sector share in GDP of the Kyrgyz Republic is 2%, 16% of the industrial volume, 10% of the public budget revenue (1990-2000) and about 1.7-2% of population employment in the sector. This sector is the multiplier as it ensures the industrial processes in associated sectors. The experts' estimates show that one of the reasons of rapid development of clothing industry and increase of population employment in the Republic over the last years was the availability of cheap electricity.

3.36. In general, the Kyrgyz energy system comprising generation, transmission and distribution systems, meets the country's demand for electricity. However, in 2008-2009 the electricity generation decrease has been noted. During that period, because of dry years the electricity consumption was curtailed. In 2010, the limitations were canceled. Therefore, there has been the production growth over the following years, which made 16,393.28 million kWh in 2012 (113% to the level of 2006). The expansion of generating capacities because of commissioning of the first hydro unit at Kambaratinskaya HPP-2 in 2010 has also had some effect. The electricity losses have reduced from 4.7 billion kWh in 2006 to 3.2 billion kWh in 2012 (by 32%). (Please refer to Table 6).

3.37. In 2011, electricity exports were the highest over the period under review that is 2.9 billion kWh. In 2012, export volume was 1.6 billion kWh, which was caused by the domestic consumption growth and the beginning of a dry-year period. In general, electricity export of Kyrgyzstan has tended to reduce; over the period 2006-2012, it has decreased by 1.7 times – from 2,682.5 to 1,592.95 million kWh.

3.38. The following measures have been carried out to develop the energy sector: expansion of generating capacities by construction of new and reconstruction of existing hydro power plants, development of transmission lines to ensure a reliable power supply for the domestic consumers and for the export purpose, encouragement of private investments into the generating companies.

3.6 Fuel Sector

3.39. The share of coal in the fuel and energy balance of the Kyrgyz Republic is up to 9.5%. The Kyrgyz local coal in the consumption structure was 25.5% in 2006 and it amounted 56.6% in 2012. Thus, import coal share in the domestic consumption is reducing, and, accordingly, coal imports have declined by 1.2 times. It is further planned to gradually decrease coal import and, instead, increase coal export to China and neighboring countries, namely, Tajikistan and Uzbekistan.

3.40. Forecast shows that the reserves of non-explored oil and gas resources in the Kyrgyz Republic are about 289 million tons of reference fuel. In the territory of Jalal-Abad, Osh and Batken oblasts 15 oil and gas deposits are being explored. Oil and natural gas are produced in insufficient quantity, although certain increase in production has been marked over 2006-12. Over the period under review (2006-12) the following has been observed: growth of coal extraction and

production by 344.4%, oil – by 118.1%, natural gas – by 146.9% (Please refer to Table 7). Coal import increase up to 116.84% and decrease of oil import by 46.5% and natural gas by 45.3% have been recorded. Export supplies of coal have gone up to 554.6%, oil and natural gas – 0, and electricity – up to 72.8%. Energy resources consumption has the following pattern: coal consumption increase up to 152.9%, oil consumption growth up to 100.8%, natural gas – up to 51%, and electricity – up to 152.7%.

3.41. Kyrgyzstan needs to increase imports in order to meet demand for petroleum products. The country may not ensure domestic supplies of the natural gas in the long-term period, and will stay dependent on import.

3.7 Privatization

3.42. Three privatization programs have been introduced during 2006-12; each of them has been carried out based on the accumulated experience and the findings of the previous stages of privatization. At present time, the major directions of the state property reform under the privatization programs include privatization of state property by efficient owners, attracting investments into the public sector, streamlining the state property structure and privatization of the state property objects which have not been sold at the previous stages.

3.43. The distinctive feature of the Privatization Program is the transparency and accountability of the privatization process to the *Jogorku Kenesh* of the Kyrgyz Republic. Deputies of the *Jogorku Kenesh* of the Kyrgyz Republic or local *kenesh*, representatives of business community and the civil sector are included into the Assessment and Privatization Committees. Enterprises of a strategic importance for the national economy may be privatized in accordance with the programs (concepts) approved by the *Jogorku Kenesh* of the Kyrgyz Republic.

3.44. As of 1 January 1991, 9,989 state property items were registered in the country that had been taken as a base and are currently used for the analysis of the privatization process and the appraisal of its scope. As a result of the proprietary relationships transformation in the Kyrgyz Republic, the overall level of privatized enterprises was 73.6%, as of December 31, 2012. The state participates (owns) in 60 joint-stock companies, and it has the controlling block of shares in 43 joint stock companies.

3.8 Restructuring of Public Service and Good Governance

3.45. The presidential system of government has been implemented in the country until June 2010 referendum. After the referendum, it has turned into the parliamentary republic. The new Constitution allowed the Parliament to elect a Prime Minister and play the key role in formation of a new government and re-structuring of the public service.

3.46. For the purpose of efficient reforming processes in the Kyrgyz Republic supported by the majority of citizens, the task was to form the mobile and compact public governance. To this end, the Commission for Optimization of the Public Administration System was instituted by Resolution No. 41 of the Government of the Kyrgyz Republic, dated 11February 2011. The number of ministries and agencies was reduced from 20 to 16, and 1,794 civil servants were dismissed by the proposal of this Commission during the first half of 2012. In addition, the number of inspecting government bodies was reduced from 21 to 12.

3.47. In the course of the Commission's operation the tasks and functions of dissolved and restructured government bodies were re-distributed, as well as of the new authorities, such as the State Inspectorate of Environmental and Technical Safety and the State Inspectorate of Food, Veterinary and Phytosanitary Safety that were created to withdraw the control and supervision functions from various ministries and agencies and concentrate them in two authorities only.

3.48. The analysis of 1,176 functions, which have an effect on the performance of 40 ministries and agencies, was conducted. As a result, 176 problematic areas were detected, which were then grouped into 10 types on the basis of similarity.⁷

3.49. Under the government bodies operate Public Supervisory Councils consisting of representatives of the civil sector, business and the governmental units, which seek to monitor the work of government bodies with the right to submit recommendations on various issues of the public service.⁸

4 TRADE POLICY AND RELATED ISSUES

4.1 Trade Policy

4.1. The main body that coordinates the foreign trade policy formulation is the Ministry of Economy of the Kyrgyz Republic. Trade-related policy formulation and its implementation engage the Ministry of Foreign Affairs, the Ministry of Agriculture and Land Development, the Ministry of Energy and Industry, the Ministry of Transport and Communications, the Ministry of Finance, the National Bank of the Kyrgyz Republic, the State Customs Service, Chamber of Commerce and Industry.

4.2. The Kyrgyz trade policy is based upon the Constitution of the country, the laws regulating trade relationships, the legal acts of the Government, and on the compliance with principles and norms of international law, WTO commitments, and regional economic unions.

4.3. Accession of Kyrgyzstan to the WTO has facilitated ensuring of freedom of trade to the national businessmen, thus, it has opened access both to foreign and domestic markets, creating the competitive environment for the domestic producers. Among the Central Asian countries Kyrgyzstan applies a highly liberalized trade regime. Consequently, the fundamental for safe and predictable trading system has been established in the Republic, the geography has been expanded, and the foreign trade turnover profile has changed.

4.4. With respect to trading partners Kyrgyzstan applies the following trade regimes: free trade regime for CIS countries, the Most-Favored National Treatment (MFN) for the WTO members, and preferential treatment for the Least Developed Countries (LDC).

4.5. Regional free trade agreements with CIS countries⁹ are primarily implemented in customs, tariffs, other duties, taxes and transit aspects.

4.6. The Kyrgyz Republic, being the beneficiary of the preferential system of the European Union (EU), Japan and USA under the Generalized System of Preferences, provides the preferential treatment for 47 LDCs in the form of customs duty exemption.

4.7. The Kyrgyz Republic maintains the bilateral agreements with third countries in trade and economic cooperation area, thereby provides the MFN treatment¹⁰. In addition, under the Memorandum on Mutual Understanding between the Government of the Kyrgyz Republic and the

⁷ Unfair fulfillment of functions and lack of coordination with other bodies (78), insufficient financing and poor material and technical base (52), separation of related functions between different public authorities (18), the issues caused by the general social and economic situation (landscape conditions and external challenges-12), staff shortages and weak educational system (8), prolonged decision-making procedures (2), insufficient status of a public authority (2), lack of mechanisms (2), corruption in the judicial system (1), lack of staffing (1).

⁸ Decree of the President of the Kyrgyz Republic "On Improvement of Interaction between Government Bodies with the Civil Society" dated 29 September 2010, No. 212.

⁹ Free Trade Agreement with Russia (8 October 1992); Free Trade Agreement with Kazakhstan (22 June 1995); Free Trade Agreement with Uzbekistan (24 December 1996); Free Trade Agreement with Azerbaijan (12 January 2004); Free Trade Agreement with Armenia (4 July 1994); Free Trade Agreement with Moldova (26 May 1995); Free Trade Agreement with Ukraine (26 May 1995); Free Trade Agreement with Belarus (30 March 1999); Free Trade Agreement with Tajikistan (19 January 2000). In addition, the country grants free trade treatment to Georgia and Turkmenistan on the basis of the CIS Agreement on Creation of Free Trade Area, dated 15 April 1994.

¹⁰ Latvian Republic, Swiss Confederation, USA, Slovak Republic, People's Republic of China, Republic of Bulgaria, Republic of Cuba, Mongolia, Islamic Republic of Pakistan, the Republic of Tajikistan.

Government of the Islamic Republic of Iran on mutual trade preferences (3 November 2008), the country provides trade preferences for mutually imported goods.

4.8. Pursuant to WTO commitments, the differentiated import customs tariff is applied. Customs duties for export of goods and quantitative export/import restrictions have not virtually been applied. No quota was introduced with respect to import from the WTO member-countries. The enterprises choose their trading partners by themselves. The state and private companies have the right to participate in import/export operations with no special registration or restriction, except for operation with goods subject to import and export licensing.

4.9. Licensing in order to control export/import of licensed goods does not intend to restrict imported goods by quantity or the value of export and imported goods.

4.2 Customs and Tariff Regulation

4.10. According to WTO commitments on access to goods market, the Kyrgyz Republic reviews the customs tariff for imported goods on an annual basis, which is then to be approved by the KR *Jogorku Kenesh*. Average tariff rate over the period 2006-12 was about 5%, and the maximum customs duty rate was 20%.

4.11. Tariff structure under MFN has not been streamlined to a great extent from 2006. The number of categories of ad-valorem duties has reduced from seven in 2006 to six in 2012. (Please refer to Table 8). MFN 10% modal tariff rate in 2006 covered 33.8% of all tariff goods (31.6% in 2006). About 46% of tariff items are duty exempted (42% in 2006), whereas 5% of them were imposed at 12% or 15% rate (5.8% in 2006). The scope of application of 5% and below duty has reduced up to 58.6% of all tariff items (61% in 2006), and mainly reflected the higher share of duty-free goods and lower share of 10% rated goods. Non-ad valorem duty rates are applied to 1.3% of all tariff items only. They have the form of several special types of duties (11 tariff commodities groups) and mostly, the alternative duties (143 tariff groups) for alcohol products.

4.12. It should be stressed that the applied customs tariff for imported goods is much lower than the commitments undertaken by the Republic. For example, up to date, under WTO commitments, average rate for agricultural goods is 12.1%, but the applied rate is 8.1%; and average rate for the manufactured products is 6.4%, and the applied rate is 4.1%. This approach allows to ensure a certain degree of freedom in tariff increase within the currently bounded rates. This is largely because export products manufacturers depend on the import of raw materials and supplies, which are not produced in the Republic.

4.13. Regarding the goods originating from the territories of a country, in the trade and political relationships with which the Most-Favored Nation Treatment is not applied (non-WTO members) or when a country of origin is not specified, the maximum 35% customs duty rate shall be applied.

4.14. Customs duties at 0.15 % of customs value of goods and transport vehicles will be levied for the purpose of customs clearance of goods, transport vehicles declared as goods.

4.3 Non-Tariff Regulation

4.15. Over the period under review the non-tariff regulation legislation has been amended to exclude power of ministries and agencies to issue regulatory legal acts within their competence, including investigation procedures: the Law No. 28 "On Introducing Amendments into the Law of the Kyrgyz Republic 'On Safeguard Measures'" (dated 15 February 2010), the Law No. 44 "On Introducing Amendments into the Law of the Kyrgyz Republic "On Anti-Dumping" (dated 4 March 2010) the Law No. 43 "On Introducing Amendments into the Law of the Kyrgyz Republic "On Subsidies and Countervailing Measures" (dated 4 March 2010).

4.3.1 Safeguard measures

4.16. The investigations preceding introduction of safeguard measures were carried out with respect to wheat flour (2009), white sugar (2009), poultry eggs (2010) being imported into the territory of the Kyrgyz Republic. The investigations on white sugar and poultry eggs being imported into the territory of the Kyrgyz Republic had been completed with no application of

safeguard measures. Safeguard measures in the Kyrgyz Republic are introduced against imported goods regardless of a country of origin.

4.17. In relation to imported wheat flour, the safeguard duties were introduced. Provisional special duties at KGS3 per 1 kg had been effective during five months of the investigative procedures. Following the results of investigation the safeguard duties had been introduced for one year period (from November 2009 through November 2010). Total period of safeguard duties application was 17 months. Initial rate of the safeguard duty (KGS3 per 1 kg) has been reviewed within the period of its validity, and reduced up to KGS1 per 1 kg (August 2010).

4.3.2 Seasonal duties

4.18. Pursuant to the Law of the KR "On Customs Tariff of the Kyrgyz Republic", the seasonal duties for import of wheat flour into the territory of Kyrgyzstan have been applied during two months in 2012. Seasonal duty rate was KGS2.5 per 1 kg, which does not exceed 10% of value of wheat flour imported into Kyrgyzstan.

4.3.3 Quota allocation

4.19. To encourage alcohol market development and prevent unfair practice, and to fight against counterfeit and smuggling of products, the quota for import of alcohol products has been effective in Kyrgyzstan from 2004. This measure does not apply to importation of products originating from WTO member-countries.

4.20. Anti-dumping and countervailing duties have not been applied in Kyrgyzstan.

4.3.4 Import licensing

4.21. The list of goods, which import is subject to licensing, was approved by Resolution No. 1101-I, 8 June 1998 of the *Jogorku Kenesh* of the Kyrgyz Republic. The expert's assessment is issued by the Ministry of Internal Affairs, the Ministry of Economy, the Ministry of Emergencies, the Ministry of Agriculture and Land Development, the Ministry of Defense, the Ministry of Health Care, the Ministry of Foreign Affairs, the State Committee of National Security, and the National Academy of Science.

4.22. 17 commodity groups are subject to import licensing¹¹. Licensing is performed to protect the national economy and security of the country, the interests of the Kyrgyz Republic, life and health of population, flora and fauna, and ensure environmental protection. Licensing is also aimed at maintaining the public law and order, securing the financial situation and support of the balance of payments of the Republic, fulfillment of requirements of international treaties on non-proliferation of weapons of mass destruction, their transportation means, and on control over export, import, re-export and transit of controlled products.

4.23. According to legislation, single and general licenses are issued for goods intended for foreign trade in Kyrgyzstan. The validity of general license to perform export/import operations does not exceed one calendar year and it may be extended under the reasoned request by an applicant. In cases when an applicant is refused from issuance of a license and he/she believes this refusal to be unjustified, the issue will be settled judicially.

¹¹ Encryption tools, weapons and military equipment, means of protection against chemical warfare agents, uniforms, clothes and attributes to it, normative and technical documentation for military products, gunpowder, explosives, explosives and pyrotechnics, nuclear materials, technology, equipment and installations, special non-nuclear materials, radioactive sources, including radioactive waste, materials, equipment and technologies that have a peaceful purpose, but can be used to develop weapons of mass destruction, certain types of raw materials, supplies, equipment, technology, and scientific and technical information, that can be used to make weapons and military equipment, precious metals, alloys, metals clad with precious metals, ores, concentrates, scrap and wastes, narcotic and psychotropic substances, high potent and intoxicate substances, precursors, virulent poisons, hazardous wastes, service and non-military weapons, tobacco, spirit, alcoholic beverages and beer, ozone-depleting substances and products containing them.

4.3.5 Export prohibition

4.24. With a view to prevent the critical shortage of the goods on the domestic market, which are of a substantial value for the country, it had been temporarily prohibited to export fuel and lubricants (2011-2012), wheat grain and wheat flour (2012) from the territory of Kyrgyzstan. Export duties have been applied for coal, non-treated animals skins, wool and woolen fabric, scraps and wastes of lead, wheat flour, wheat grain, sunflower seeds, vegetable oil (2008), recovered paper and paperboard (2009 to present), hay and forage for animal breeding purpose (2010), mineral fertilizers (2012). The above listed export duties were eliminated, except for export duty of KGS10 per 1 kg of recovered paper and paperboard (CCFEA code 4707)¹².

4.4 Customs Procedures and Customs Valuation

4.25. Over the period from 2006 to 2012 under the renewed Customs Code of the Kyrgyz Republic the advanced customs procedures have been introduced. These procedures are based on the independent appraisal, selectivity and post-customs control. Pursuant to the revised International Convention on the Simplification and Harmonization of Customs Procedures (revised Kyoto Convention) that regulates customs clearance processes and other customs formalities, the procedure for customs control, levying customs duties and taxes by customs authorities, relationships between the customs bodies and third parties, the procedure for appealing the customs-related decisions, and application of information technologies had been improved.

4.26. The participation of the State Customs Service under the Government of the Kyrgyz Republic (hereinafter referred to as the Customs Service) in the work of the Council of Heads of Customs Services of EurAsEC member-states and the Council of Heads of Customs Service of CIS (CIS CHCS) allows harmonizing the Kyrgyz customs legislation with the provisions of the Customs Union and the Commonwealth of Independent States. Within the framework of these councils over 30 documents and 150 documents regulating customs affairs matters in this region have been adopted.

4.27. The Customs Service of the Republic also maintains cooperation with the customs services of the Central Asian Regional Economic Cooperation (CAREC)¹³. Within the CAREC two bilateral international treaties have been developed and approved. From 2006 the Customs Service has been involved into drafting of two agreements as a member of the Council of Heads of Customs Services of the Organization for Economic Cooperation (ECO)¹⁴. Four documents related to customs affairs were adopted under the Shanghai's' Cooperation Organization (SCO)¹⁵.

4.28. The State Customs Service signed 38 agreements on bilateral cooperation with customs services of CIS countries and 13 agreements on bilateral cooperation with customs authorities of non-CIS countries.

4.29. The cooperation is ongoing with the donors of the European Union, US State Department programs and projects on upgrade of customs services by assistance with border strengthening (reconstruction, equipping the customs checkpoints), and fight against illegal drug trade, etc.

4.30. Regulation No. 556 of the Government of the Kyrgyz Republic "On Measures to Arrange Operation of the State Border Checkpoints Designated for International Motor, Air and Rail Road Traffic, and Domestic Fixed Points on Motor Roads of the KR" was adopted on 19 November 2007. This Resolution approves the list of checkpoints where the complex initial control will be introduced. The Resolution also envisages creation of a technological map of interaction between the state supervisory bodies (customs, border service, sanitary service, quarantine, standards and quality control services). Because of lack of funding that limits the possibility to ensure sanitary control throughout all checkpoints, the sanitary control was introduced only at selected locations. The criterion for selection of checkpoints was checkpoint bordering the countries, which export high risk products.

¹² Resolution No. 610 of the KR Government dated 30 September 2009. The objective is to saturate the domestic goods producers with raw materials, promote production and increase exports of finished products.

¹³ Azerbaijan, China, Kyrgyzstan, Kazakhstan, Tajikistan, Uzbekistan, Mongolia.

¹⁴ Turkey, Iran, Pakistan, Afghanistan, Azerbaijan, Kyrgyzstan, Kazakhstan, Turkmenistan, Tajikistan, Uzbekistan.

¹⁵ China, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan.

4.31. Regulation No. 587 of the Government of the Kyrgyz Republic "On Approval of the Requirements to the Construction (Reconstruction) and Equipping of Motor Road Checkpoints at the KR's State Border" and "Requirements to Equipping Motor Road Checkpoints at the KR's State Border with Information and Technical Facilities" was adopted on 13 December 2007.

4.32. Regulation No. 72 of the Government of the Kyrgyz Republic adopted on 5 March 2008, intends to reduce the number of documents to be submitted by businessmen to obtain certificates and other permits for export/import, as well as to shorten the period for issuance.

4.33. By Decision No. 15 of the Presidium of the Chamber of Commerce and Industry (dated 19 February 2008), the number of required documents to receive the certificate of goods origin was reduced by 60%.

4.34. In accordance with the Loan Agreement between the Government of the Kyrgyz Republic and ADB (2005), which envisages improvement of performance of the customs service and trade facilitation, the Unified Automated Information System of the Customs Service (UAIS) has been developed and is being introduced for test operation from 2012. In 2013, it is planned to install and adjust the equipment, to train the staff and deploy the system for commercial operation throughout the territory of the Republic.

4.35. Regulation No. 342 of the Government of the Kyrgyz Republic (dated 30 December 2010) approved the Strategy of Customs Service Development in the Kyrgyz Republic over 2011-2013 and the Action Plan to Implement the Strategy of Customs Service Development in the Kyrgyz Republic for the period from 2011 to 2013. This Plan is a document that details the objectives and key areas of improvement of customs administration for the short-term and mid-term periods, as well as funding and mechanisms for implementation of the specified actions. One of the key activities according to this Plan is to simplify customs procedures.

4.36. The regulatory legal framework for the customs valuation of goods is the "Instruction on Methods of Customs Valuation of Imported Goods into the Kyrgyz Republic" approved by Resolution No. 961 of the Government of the Kyrgyz Republic on 28 December 2004. This Instruction has been drafted pursuant to the WTO Customs Valuation Agreement and sets forth six methods of customs valuation of imported goods being applied in a strict sequence. The fundamental rule is that the customs valuation of import goods shall be the transaction value of the goods, i.e. the actual price for imported goods paid or to be paid at the moment of selling for export to the Kyrgyz Republic (Method 1). When application of this method is not possible, the other methods will be applied on a sequential basis: transaction value of identical goods, transaction value of similar goods, deductive value, computed value and reserve method.

4.5 Technical Regulation

4.37. The Ministry of Economy of the Kyrgyz Republic is the body responsible for implementation of the uniform policy in the area of technical regulation.

4.38. The Law of the Kyrgyz Republic "On the Fundamentals of Technical Regulation in the Kyrgyz Republic" (No. 67, dated May 22, 2004) and the Programmes on development of technical regulations for 2006-2011 (approved by the Kyrgyz Government Resolution of 14 August 2009, No. 533), for 2012-2013 (approved by the Kyrgyz Government Resolution of 11 November 2011, No. 714) stipulate step-by-step drafting of the national technical regulations. These regulations are to set the mandatory and binding requirements to products, processes (methods) of production, storage, transportation, sales, operation and utilization, and compulsory procedures for conformity assessment through harmonization with international requirements for products and services safety. Technical regulations are adopted by the laws of the Kyrgyz Republic or regulations of the Government of the Kyrgyz Republic. Over the period from 2006 to 2012, the Government of the Kyrgyz Republic adopted 43 technical regulations and nine TR's were adopted in 2013 (Please refer to Table 9). The ongoing technical regulation reform rests upon the principles of voluntary standards application and the limitation of the state control.

4.5.1 Standardization

4.39. The Center of Standardization and Metrology under the Ministry of Economy of the Kyrgyz Republic (CSM under the KR ME) serves as the national body on standardization and is held responsible for drafting and approval of standards. The Kyrgyz Republic is in the process of transition from the state standards (GOST) to application of international standards. The CSM is an associate member of the International Standardization Organization (ISO) and a member of the Interstate Commission on Standardization, Metrology and Certification of CIS countries. The latter was recognized by the ISO as the regional organization responsible for progressing to the final approval and the use of international standards.

4.40. Technical standardization committees develop the national standards. The Committees are represented by goods producers, scientific and research organizations, consumer rights protection public organizations, executive bodies and other organizations. Each year technical standardization committees develop (review, amend) about 60 national standards. Within the current framework the national standards are harmonized with international, such as ISO and IEC, Codex Alimentarius. The Kyrgyz Republic has also adopted 200 standards of the International Electrotechnical Commission (IEC).

4.41. As of January 1, 2013, the National Fund of Technical Standards consists of 22,524 standards. Of them 20,372 are GOST standards, 1,280 national standards of other countries (GOST R, STB, etc.), 592 national standards of the Kyrgyz Republic, and 298 international standards. The general harmonization level with the international and European standards is 46% and the inter-state standards have the highest portion of the standards being in use on the territory of the Kyrgyz Republic. The drafting, update and harmonization of interstate standards with the international and European is ensured at the level of the Interstate Council for Standardization and Metrology of CIS countries.

4.42. Pursuant to the Code of Good Practice for Adoption, Approval and Application of Standards, the notifications on drafted standards are posted on the CSM website and sent to the ISO/IEC Information Center in Geneva.

4.5.2 Metrology

4.43. The Center of Standardization and Metrology under the Ministry of Economy of the Kyrgyz Republic (CSM under the KR ME) acts as the national metrology body and performs works to develop, purchase, improve, keep the national etalon (standards) units and approve a type, verification and calibration of measurement units. The Ministry of Economy of the Kyrgyz Republic is an associate member of the International Organization of Legal Metrology (OIML). The CSM is a member of Euro-Asian Cooperation of State Metrological Institutions (COOMET).

4.44. Under the World Bank Project "Reduction of Technical Barriers in Entrepreneurship and Trade", the CSM etalon (standard) laboratories have been reconstructed. Laboratories of mass, temperature, pressure, physical and chemical measurements, length, time and frequency, electric and radiotechnical measurements have been upgraded.

4.45. Pursuant to international requirements, liquid-in-glass thermometers ranged -40 to 250°C, E2 type weights ranged 1mg to 20 kg, humidity sensors ranged 5 to 95% of relative humidity are being calibrated.

4.5.3 Accreditation

4.46. Accreditation of certification bodies and testing laboratories has been performed by the Accreditation Center of the Ministry of Economy of the Kyrgyz Republic (CSM under the KR ME) from 4 December 2009. Prior to that, from 16 November 2006 this Center had been acted as the national body for accreditation of Conformity Assessment Bodies (CAB) in the Kyrgyz Republic.

4.47. Mandatory certification is performed in the form of certification and acceptance of conformity declaration. The conformity declaration and the certificate of compliance are of equal legal force on the territory of the Kyrgyz Republic. The Government of the Kyrgyz Republic has established the uniform procedure for recognition of the results of mandatory confirmation of

conformity issued by the conformity assessment bodies of exporting countries on the basis of multilateral, bilateral agreements or on a unilateral basis. The Kyrgyz Republic acknowledges certificates of compliance, conformity declarations and test certificates issued in Azerbaijan, Georgia, China, Armenia, Belarus, Kazakhstan, Moldova, Russia, Tajikistan, Uzbekistan, Turkmenistan, and Ukraine, if requirements set to these products are equivalent. Conformity assessment results by the Kyrgyz Republic are recognized on a unilateral basis regarding products from Iran, Slovak Republic, and Turkey on the basis of interagency agreements on mutual recognition of bodies on certification, test laboratories (centers), test results and certificates, certificates of compliance and conformity marks.

4.48. The list of products subject to mandatory conformity assessment has been considerably shortened from 7,000 to 364 items. The procedure for goods conformity assessment is being streamlined. Introduction of the form for receipt of conformity declaration for food products and consumer goods complies with the up-to-date international requirements set to conformity assessment. This enables the foreign economic entities to choose the conformity assessment form, either certification or declaration, which is critical at exportation of goods, in particular, to the Customs Union countries (Russia, Kazakhstan, Belarus).

4.49. Today, the conformity assessment of the Accreditation Center with the requirements of international standard ISO/IEC 17011 and IAF/ILAC A2:07/2010 "IAF/ILAC Multi-Lateral Mutual Recognition Arrangements: Requirements and Procedures for Evaluation of a Single Accreditation Body" has been completed by appraisals of International Laboratories Accreditation Cooperation (ILAC). The Center now may join as a full member to ILAC MRA Agreement.

4.50. As of January 1, 2013, the register of accredited conformity assessment bodies include 14 accredited certification bodies, seven testing laboratories, one calibration laboratory and four providers of ILC programs (Inter-Laboratory Comparisons).

4.5.4 Labelling and packing requirements

4.51. Pursuant to Article 28 of the KR Law "On the Fundamentals of Technical Regulation in the Kyrgyz Republic" and Regulation No. 639 of the Government of the Kyrgyz Republic "On mandatory conformity assessment of products" dated 30 December 2005, the products subject to mandatory certification and for which the certificate of compliance has been issued, shall have the conformity mark. An article and/or its container, and its packaging should have the conformity mark. No additional conformity mark is required for a good, which conformity mark has been recognized on the territory of the Kyrgyz Republic.

4.52. The labelling of a good with the conformity mark shall be done by a producer (a seller), who has got the right to use it; a producer determines the placement of the conformity mark and is held liable for its illegal use. The rules and methods of applying the mark of conformity with the mandatory requirement for a specific product shall be stipulated by the technical regulations. Prior to adoption of technical regulations, these requirements shall be spell out by regulatory legal acts and/or standards for this product, as well as by products certification procedures. The execution of the conformity mark shall be one color (any color) and contrasting against the background of an item, clear and easily visible.

4.53. The Law No. 86 of the Kyrgyz Republic "Technical Regulation on Labelling of Foodstuff" was adopted on 30 May 2013.

4.6 SPS Measures, Environmental Protection Legislation, including Forestry

4.54. Application of sanitary measures in the country is regulated by Law No. 248 of the Kyrgyz Republic "On Public Health Care" (dated 24 July 2009) which, in fact, represents the framework law and contains a lot of references. The national inquiry information service under the Ministry of Economy of the Kyrgyz Republic serves as the inquiry point for SPS-measures, because a notification body and SPS enquiry point have not been established yet.

4.55. Over the period from 2006 through 2012, 14 technical regulations were adopted and 12 draft technical regulations were developed in the area of food products safety. These regulations are either at the process of endorsement or approval. Technical regulations provisions are

harmonized with the requirements of European Union`s directives, Codex Alimentarius standards. The work is ongoing to review sanitary norms and rules (SanPiN) and harmonize them with international requirements and then transform into the regulatory acts of the Kyrgyz Republic.

4.56. Application of veterinary measures is regulated pursuant to Law No. 61 of the Kyrgyz Republic "On Veterinary" (dated 12 April 2005), which envisages the general, legal, organizational and financial basis of the veterinary service, its legal status and structure, prescribes the required veterinary and sanitary provisions and the fundamentals of the veterinary surveillance.

4.57. In the area of veterinary service, 12 veterinary and sanitary requirements and technical regulations were developed related to the safety of feed and feed additives, pharmaceuticals for veterinary use, meat and the products of its processing. These requirements and technical regulations are to be endorsed with the ministries and agencies.

4.58. Law No. 26 of the Kyrgyz Republic dated 27 June 1996 "On Plant Quarantine" regulates phytosanitary issues according to the provisions of the International Plant Protection Convention (IPPC), FAO international standards for phytosanitary measures and the regional standards of EPPO (European and Mediterranean Plant Protection Organization). The Kyrgyz Republic is the EPPO member.

4.59. It should be noted that the legal framework in the area of phytosanitary quarantine provision does not fully comply with international phytosanitary rules. It has no requirements to implement an analysis of phytosanitary and economic risks regarding cargoes subject to quarantine from countries of dissemination of extremely hazardous quarantine items. The Kyrgyz Republic also lacks the up-to-date schemes for phytosanitary risk analysis. The list of quarantine pests, which are absent in the territory of the Kyrgyz Republic, and the list of quarantine pests, which are disseminated on the territory of the country to a limited extent, have not been justified yet.

4.60. One of the constrains to the agricultural products export growth is non-compliance with the International Recognition of Surveillance System in the area of Veterinary and Plant Quarantine, which implies zoning by a disease and pest dissemination, determination and recognition by a trading partner and free zones from disease and quarantine pests, animals identification, international accreditation of laboratories for veterinary and phytosanitary quarantine purpose, and a supervision system.

4.61. The following laws of the Kyrgyz Republic were adopted: "On Protection of Ozone Layer" on 18 December 2006, No. 206 "On Ratification of Stockholm Convention on Persistent Organic Pollutants" signed by the Kyrgyz Republic on 16 May 2002 adopted on 22 May 2011, No. 114 "On the State Regulation and Policy for Emission of Greenhouse Gases" on 25 May 2007, No. 71 "On Introducing Amendments and Additions into the KR Law "On Environmental Protection" of 4 February 2002, No. 22, the Law on joining to the "Convention on International Trade in Endangered Species of Wild Fauna and Flora" (CITES), signed on 3 March 1973 in Washington City, adopted on 30 November 2006, No. 192.

4.62. On 11 August 2008, the Law of the KR No. 200 "On Charges for Use of Flora and Fauna Items" was adopted.

4.63. In 2009, to implement the Plan on Technical Regulations Drafting, the Law of the Kyrgyz Republic "General Technical Regulation on Ensuring Environmental Safety in the Kyrgyz Republic" was adopted (Decree of the GoKR No. 151, dated 8 May 2009). In 2011, the Law of the Kyrgyz Republic "On Specially Protected Natural Sites" was effectuated (by Decree No. 18 of the GoKR, dated 3 May 2011).

4.7 Investment Policy

4.64. The investment policy of the Kyrgyz Republic has been lately focused on decrease of foreign sovereign borrowings under the Public Investments Program (PIP) and encouragement of the private investments growth, including foreign investments.

4.65. Foreign investors' activity is regulated by the Constitution of the Kyrgyz Republic, the Land Code, the Tax Code, the Law of the Kyrgyz Republic "On State Registration of Legal Entities" of 20 February 2009, No. 57, and other regulatory legal acts of the Kyrgyz Republic. However, the superior regulatory document in the area of investment activity in the Kyrgyz Republic is the Law "On Investments in the Kyrgyz Republic" adopted on 27 March 2003, No. 66. This Law rests upon the national treatment and regulates the relationships between the government bodies and investors. The key distinctions of this Law are as follows: an opportunity to get preferences (following the state development programs investors in the priority economic sectors and on specific territories of the Republic may be granted investment benefits envisaged by the KR's legislation); the guarantee of firmness of the legislation within 10 years (this right does not cover changes in the Constitution), the investor's right to address the International Arbitration Court, the guarantee of timely repayment of appropriate and efficient compensation in case of expropriation, the freedom of capital repatriation, the right to get dividends and profit.

4.66. To promote Public-Private Partnership (PPP) mechanisms in the country, Law No. 7 of the Kyrgyz Republic "On Public-Private Partnership in the Kyrgyz Republic", dated 22 February 2012, was approved. This Law is seen as a tool to implement pilot projects aimed at improvement of economic infrastructure of the country.

4.67. To improve the investment climate in the Kyrgyz Republic and its competitiveness, the Government of the Kyrgyz Republic has taken measures to create a favorable business environment and improve the process of attracting investment into the country by the following means: conducting measures to eliminate unnecessary intervention by the government bodies into the business activity, eliminating administrative barriers and restrictions in investment and other business activities, introduction of new approaches to the regulation of market relations, implementation of measures to improve the country's banking system in order to enhance its reliability and credibility for businessmen and investors. Foreign investors are granted investment visas, if they invest no less than USD 300.0 thousand.

4.68. In order to integrate into the global community, as well as to build the international legislative framework, Kyrgyzstan signed intergovernmental agreements with a number of foreign countries related to the mutual protection and encouragement of investments, avoidance of double taxation and transit transportations. CIS countries Convention "On Protection of Investors' Rights" and other agreements have also been ratified. Kyrgyzstan has adopted bilateral investment agreements with several countries¹⁶, as well as agreements on avoidance of double taxation¹⁷. The Agreement between the United States of America and the Soviet Union on the Avoidance of Double Taxation was signed in 1973, but it is still effective for the United States and the Kyrgyz Republic. The Framework Agreement on Trade and Investments signed in June 2004 is currently in force (FATI's objective is to build a forum to address trade issues and enhance trade and investment between the United States and Central Asia¹⁸).

4.69. In 2013, Kyrgyzstan has been ranked 12th on protection of investors out of 185 countries in "Doing Business 2013" World Bank's rating¹⁹. Among 24 countries of the Eastern Europe and the Central Asia (EECA), Kyrgyzstan ranked 2nd.

4.70. In order to attract foreign investment in tourism facilities, improve the attractiveness of the tourism market, the visa-free regime was adopted for citizens of 44 countries.

4.71. To reduce the costs of compliance with regulatory requirements a certain work has been carried out, thus simplifying the business registration process by introducing new legislation that has abolished several requirements, such as the need for notarized signatures of the founders, the minimum stock capital for non-financial companies, various post-registration fees, and the requirement to open a bank account prior to a company's registration.

¹⁶ USA, Armenia, Azerbaijan, Belarus, China, Finland, France, Georgia, Germany, India, Indonesia, Iran, Kazakhstan, South Korea, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Sweden, Switzerland, Tajikistan, Turkey, United Kingdom, and Uzbekistan.

¹⁷ Iran, Kazakhstan, South Korea, Lithuania, Malaysia, Moldova, Mongolia, Pakistan, Sweden, Switzerland, Tajikistan, Turkey, United Kingdom and Uzbekistan.

¹⁸ USA, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan.

¹⁹ WB and IFC *Doing Business* 2013 rating of 185 countries. Kyrgyzstan has been included into the *Doing Business* from 2011, and ranked 67th of 183 countries.

4.8 Intellectual Property Protection

4.72. TRIPS Agreement related issues are resolved by the State Service of Intellectual Property and Innovation of the Government of the Kyrgyz Republic (Kyrgyzpatent). Kyrgyzpatent's powers include creation of a legal foundation for the protection of intellectual property (IP), and the provision of rights for intellectual property. The prevention of IP rights infringement is the responsibility of other government bodies (law enforcement, control, customs and the judiciary bodies).

4.73. The national legislative framework in the field of intellectual property has been almost elaborated; it comprises 14 laws and more than 100 by-laws, which mainly correspond to the TRIPS Agreement standards and requirements. In addition, the Kyrgyz Republic is a party to 23 international multilateral agreements in the IP area. The intensive work is ongoing to cooperate and strengthen international relations with the World Intellectual Property Organization (WIPO), the European Patent Office (EPO), the Eurasian Patent Organization (EAPO), the International Confederation of Societies of Authors and Composers (CISAC), the Interstate Council on the Protection of Industrial Property (ICPIP), and the patent offices of the CIS and foreign countries.

4.74. TRIPS Agreement commitments may be divided into two main parts: ensuring the protection of intellectual property rights by bringing a national legislation into conformity with the TRIPS Agreement and ensuring the enforcement by clear definition of the civil, administrative and criminal liabilities for violations of intellectual property rights pursuant to the TRIPS Agreement. This also includes the customs services' actions to prevent the movement of counterfeit goods across the borders of the country. In practice, this means that adequate provisions are available in a number of codes, such as the Civil, Administrative, Criminal, Criminal Proceeding, and Customs Codes, etc.

4.75. With respect to the first part (ensuring the protection of IP rights), Kyrgyzstan has fulfilled its commitments and has adopted a number of special-purpose laws on different IP objects that contain the fundamental principles of the protection of IP objects in accordance with the requirements of the TRIPS Agreement. Today, the system of legal protection for IP functions effectively in the country.

4.76. As for the second part of the obligation to enforce IP protection, despite that the provisions for ensuring protective measures are set forth by the legislation, there are issues in the law enforcement practice, which lead to high levels of piracy and import/production of counterfeit goods. To address these issues, the National Strategy for the Development of Intellectual Property and Innovation in the Kyrgyz Republic for 2012-2016 was approved. This Strategy lists a number of actions to improve IPR protection.

4.77. Since the last Trade Policy Review significant changes in the area of IP are observed. Some laws has been adopted mainly concerning the provision of improved protection to IP covered items.

4.78. Thus, IP law is being constantly improved to accommodate the current enforcement practice in the country and the world experience.

4.79. The National Development Strategy for Intellectual Property and Innovation in the Kyrgyz Republic for 2012-2016 (approved by Resolution #593 of the KR's Government, dated 23 September 2011) is focused on the economic priorities of the Kyrgyz Republic. The National Strategy is designed to ensure the continued improvement of the legal framework and procedures for granting of legal protection for intellectual property, increase the level of protection of intellectual property items, build up the State Patent Fund, promote intellectual creative work and commercialize intellectual property items. The National Strategy includes five major projects that will be implemented in the following areas: support for young innovators, increasing the possibilities of using intellectual property by small and medium businesses, raising public awareness of the importance of intellectual property rights, strengthen enforcement practices in the field of intellectual property, and the fight against piracy and counterfeiting of products.

4.80. Kyrgyzpatent, being the competent authority for the IP legal protection, continues examination of applications received and the issuance of titles of protection for intellectual

property. As of 31 December 2012, on the territory of the Kyrgyz Republic the protection has been granted for 3003 inventions, including 2,662 Eurasian patents, 44 utility models, 5,458 industrial designs, of them 5,370 under the procedure of Hague Agreement, 8,850 trademarks under the national procedure, 49,215 trademarks under the Madrid Agreement, 326 brand names, 13 appellations of origin, 660 innovations, 9 well-known trademarks, four traditional knowledge, and 11 selection achievements.

4.9 Agriculture

4.81. The government's policy of Kyrgyzstan in the area of agriculture is formulated taking into consideration the fact that the majority of population lives in rural area, and this is where one fifth of the country's Gross Domestic Product is being generated. The weather conditions should be also regarded. The country's terrain is predominantly mountainous, with dry continental climate and cold winters and hot summers against insignificant precipitations. Poor transport communications between the regions of the country, low capital/labor ratio in rural areas, lack of farmers' access to infrastructure, including irrigation water, as well as high loan interests against the poor productivity are the starting points for the policy formulation by the Government of the Kyrgyz Republic. The effect of the measures by the Government may not be called protectionist or based on the provision of subsidies to agricultural entities.

4.82. Agricultural production growth rates are low, with an average indexed increase of 101-105% per year (in KGS, the effective exchange rate of KGS to the U.S. dollar is not accounted). The share of livestock production in 2012 amounted to 47.8%, 50.5% of plant growing, 1.6% of agriculture-related services, 0.1% of forestry and hunting.

4.83. From the moment of the TPR held in 2006, the Laws "On Pastures" of 26 January 2009, No. 30, "On Peculiarities of Plant Growing Insurance" of 26 January 2009, No. 31, "On Livestock Breeding" of 27 April 2009, No. 133, "On the Development of Agriculture in the Kyrgyz Republic" of 26 May 2009, No. 166 were adopted in the Kyrgyz Republic. In addition, the draft Strategy of Agricultural Sector Development until 2020, the State Program of Development of the Cooperative Movement until 2016 and draft Program of Development of the Food Processing Industry in the Kyrgyz Republic for 2013-2017 were elaborated.

4.84. Pursuant to the Law "On Livestock Breeding" the National Strategy for the Development of Livestock Breeding for the years 2011-2015 has been developed and adopted (Regulation of the Kyrgyz Government of 5 July 2011, No. 367). Under this Strategy the work is carried out to establish 7-9 breeding farms, open about 300 artificial insemination stations.

4.85. In order to support agricultural producers the Government has developed and implemented the Program of preferential loans "Available Loans to Farmers" in 2011. Under this Program KGS 1.0 billion with 9% annual interest rate were allocated. In 2012, this Program has been continued with the same amount of loan, but at 7% annual interest rate. In accordance with Regulation #10 of the Government of the Kyrgyz Republic (dated January 12, 2013) commercial banks funds will be issued to farmers on preferential conditions for a period of 12 to 24 months, for the purpose of the development of the manufacturing sector, livestock and plant growing.

4.10 Competition Development Policy

4.86. Anti-monopoly legislation of the Kyrgyz Republic consists of the Constitution of the Kyrgyz Republic, the Law of the Kyrgyz Republic "On Competition" of 22 July 2011, No. 116. Following the adoption of this law, the Law of the Kyrgyz Republic "On Natural and Authorized Monopolies in the Kyrgyz Republic" of 8 August 2011, No. 149 was adopted. Legislation in the area of competition also consists of the Law "On Protection of Consumers Rights" of 10 December 1997, No. 90 "On Advertising" of 24 December 1998, No. 155 and other legal documents.

4.87. The constitutional provisions, which guarantee the freedom of economic activity, have served as a legal basis for the formation of system of antimonopoly legislation in the Kyrgyz Republic.

4.88. The Law of the Kyrgyz Republic "On Competition" envisages the organizational and legal fundamentals for the protection and development of competition and is aimed at the prevention,

restriction, suppression of the monopolistic activity and unfair competition, as well as at enabling formation and effective operation of the markets in the Kyrgyz Republic.

4.89. The provisions of the Law of the Kyrgyz Republic "On Competition" were approximated to the legislation of the European Union within the framework of implementation of "Support to the Implementation of the Agreement on Partnership and Co-operation between the European Communities and the Kyrgyz Republic" Project in 2002-04. They are also approximated to the legislations of the CIS countries. This work has been accomplished within the framework of cooperation with the Interstate Council for Antimonopoly Policy.

4.90. Application of anti-monopoly policy measures towards the monopolistic actions of entities and competition restrictions is based on the information about competitive environment on a specific product market and certain enterprises operating on it. The study is based on the selection of the relevant market where the relations of competition and monopoly develop regarding a certain particular subject, on determination of trade and geographical market borders and the list of acting sellers and buyers of certain types of products, as well as the degree of openness of the market for inter-regional (international) trade.

4.91. In line with the current anti-monopoly legislation of the Kyrgyz Republic, an economic entity that has over 35% of market share is recognized as the dominant economic entity.

4.92. Approval of Law of the Kyrgyz Republic No. 106 "On Natural and Authorized Monopolies in the Kyrgyz Republic" in 1999 has allowed to expand the legal framework for implementation of the state competition policy, which ensures protection for economic entities and population from unlawful actions of monopolistic companies. It should be noted that the concept of "authorized monopoly" was introduced for the first time in the world practice. This concept allows for regulating both the entities holding the dominant position on the market (over 35% share) and the natural monopolistic entities.

4.93. This Law stipulates the methods of regulation of natural and permitted monopolistic entities activity. Along with price regulation other methods are stipulated, such as determining the marginal level of profitability, setting the trade mark-up value, identification of customers to be serviced on a compulsory basis and/or establishment of the minimal level of services provision in case of impossibility to meet the needs of customers for a product (service) in full volume, which is produced/rendered by natural and permitted monopolistic entities, as well as setting obligations for engineering and technical services of natural monopolistic entities. The mechanism of the implementation of this Law is the formation of the State Registry of Natural and Permitted Monopolistic Entities and entities holding above 35% of the market and wielding power in the market.

4.11 Competition Protection and Development, and Anti-Monopoly Regulation

4.94. The State Agency of Anti-monopoly Regulation under the Government of the Kyrgyz Republic (hereinafter referred to as the Antimonopoly Body) implements measures in the competition area and regulates the activity of natural and permitted monopolies.²⁰ Natural (the only supplier due to technological factors) and permitted (over 35% of market share or other % of share set by the Agency) monopolies are recorded each year on the State Registry.²¹ Monopolies cover goods and services sectors. Legitimate profit margin of non-natural permitted monopolistic companies varies 25 to 50%. Prices and/or profit of natural monopolies are subject to control. Mandatory minimal services may also be established. Monopolistic companies may supply only agreed and specified goods to prevent monopoly on complementary goods and may not suspend supplies to create the shortage or be engaged in the cross-subsidizing.

4.95. The anti-monopoly body coordinates an accounting policy, revaluation of fixed assets, contract forms for supply (purchase) of goods (works and services) of natural and permitted monopolistic entity, and the methodology of separate accounting of income, expenses and employed assets by types of regulated goods (works, services) of natural and permitted

²⁰ The Law on Natural and Authorised Monopolies, October 1999 undergone several revisions, the last version adopted in August 2011.

²¹ Permitted monopolies also include entities, which activity is regulated to control the prices and prevent inflation, and in the areas and sectors where their presence is conditioned by reasons of public welfare.

monopolistic entities, included in the State Registers. The anti-monopoly body performs state control over procurements by natural and permitted monopolistic entities, transactions and investments of entities, over acquisition of shares in the stock capital of economic entities. This body also supervises the terms and conditions of contracts between natural and permitted monopolistic entities and consumers of their services, and tender procedures held by monopolistic entities (entered in State Registries of natural and permitted monopolistic entities) to procure goods (works, services), the cost of which is accounted in prices (tariffs) for regulated goods (works, services).

4.96. The anti-monopoly body makes a decision on application of a regulation method in relation to a particular natural and permitted monopolistic entity on the basis of analysis of its activities with account of the incentive to improve the quality of produced/realized goods (works, services) and satisfy the demand. Justification of costs composition is assessed on the basis of the data provided by natural and permitted monopolistic entities.

4.97. The anti-monopoly body may determine the range of consumers subject to compulsory service by a monopolistic company. Natural and permitted monopolistic entities are prohibited to provide services not related to the areas of natural and permitted monopolies, subsidize competition-based production and supply of goods (works, services) at the expense of proceeds from the state-regulated activity, to export goods (works, services) in case of inadequately met domestic market demand, alienate a property item designated for production and provision of regulated goods (works, services), except for cases of transfer of property to state ownership, and to export goods (works, services) at prices (tariffs) not approved by the competent authority.

4.98. If the violations of the antimonopoly legislation are detected, a monopolistic company gets an order to rectify such violations. The penalty is charged on a monopolistic company or its manager if they have failed to comply with the order, along with other measures to be applied in accordance with the antimonopoly legislation.

4.99. At present time, 198 economic entities are being regulated. Of them 60 economic entities are entered into the State Republican Registry of the Natural and Permitted Monopolistic Entities, and 138 economic entities are listed by the regional-wide Registers.

4.100. The Agency also controls the state monopoly in gas and energy resources, including their prices. The restriction to the profit margin is set at 5%.²² The main objectives in the fuel and energy sector regulation are to balance off the interests of consumers and producers, and develop the competitive market. The Agency monitors fuel prices by setting the limits on the profit amount. The price of water for municipal consumption, heating, hot water supply and public transportation services are established by city or regional state administrations and are regulated as permitted monopolies by local authorities of the antimonopoly body. Domestic air flights and prices of the national air carrier "Kyrgyzstan Aba Joldoru" are regulated by the Antimonopoly Policy Agency. Most of other prices, including agriculture, have been set without the participation of the Government in the beginning of the country's economic transition. In addition, the list of state enterprises or state-owned joint stock companies on the Republican Registry of Natural and Permitted Monopolies also includes enterprises producing alcohol, tobacco and providing communications services, trading metals with respect to which the current legislation on competition promotion is also applied.

4.12 State Enterprises

4.101. At present, 158 state-owned companies operate in the Kyrgyz Republic. Pursuant to the Constitutional Law No. 85 of the Kyrgyz Republic "On the Government of the Kyrgyz Republic", dated 18 June 2012, the Government exercises the ownership rights of the state property, establishes the state-owned enterprises in the Kyrgyz Republic. The overall management and

²² Following the amendments introduced in 2004 to the 1994 Law on Restriction of Monopoly Activity, Development and Protection of Competition of 1994, the functions of antimonopoly activity in the area of communications and energy (except for heating) were transferred to the sectoral regulating authorities, i.e. the State Agency of Energy and the National Communications Agency. However, the right to regulate these services, including the appropriate prices, was transferred back to the Agency of Antimonopoly Policy (Regulation of the National Commission on Protection and Development of Competition under the President of the Kyrgyz Republic of 10 May 2010, No. 50).

coordination of the state enterprises activities is carried out by a ministry, a state committee, an administrative agency, other executive body, a local public administration, which were empowered thereof and their competence covers supervising the operation of a state-owned enterprise.

4.102. Over 20 years from the moment of gaining independence, the Kyrgyz state-owned enterprises have retained the net profit. However, the Regulation No. 62 of the Government of the Kyrgyz Republic "On Improving the State Enterprises Management", dated 22 February 2011, with a view of rational management of the state enterprises profit and support to the state budget, has resolved that the state enterprises shall transfer at least 50% of the net profit to the state budget following the yearly financial and economic performance. Thus, in 2011 the cash transfer to the state budget from the state enterprises net profit amounted to KGS257.5 million (KGS758.9 million in 2012).

4.13 Public Procurement

4.103. To date, about 3000 purchasing organizations, including ministries, agencies, other public entities, state and municipal enterprises, joint stock companies with 50% of the state shares, foundations, schools, hospitals, etc.

4.104. Every year, goods, works and services are procured through a tender and equal to a quarter of the national budget. According to current data for 2012, the tender protocols amounting to KGS 26.2 billion were recorded.

4.105. For the purpose of improvement of procurement procedures, within the framework of implementation of the Government Procurement Development Strategy in the Kyrgyz Republic for 2012-2014 (approved through the Regulation of the Government of 27 September 2012, No. 661), the Ministry of Finance is actively performing the following actions:

- Since 2010 all the activities with respect to invite procuring entities to bids have been transferred to electronic format, such as an Internet portal for public procurement;
- From 19 January 2013 a new public procurement portal of Kyrgyzstan has been launched. It is customized to conduct electronic public procurement and electronic reverse auctions. This portal provides an open and transparent tendering process, as all stages of tenders may be viewed;
- Review of legislation and other regulatory legal acts related to public procurement;
- Work with the procuring entities, advising on the public procurement procedures;
- Review of complaints by suppliers against the actions of procurement organizations and their address.

4.14 Banking Policy

4.106. The monetary policy of the National Bank of the Kyrgyz Republic (NBKR) over the period from 2006 to 2012 was concentrated on achievement and maintaining the stability of the overall prices level, on the one hand, and the implementation of tasks to preserve the stability of the financial and banking system and promote long-term economic growth of the country, on the other hand. Whereas in 2006 the Kyrgyz economy was characterized by overall recovery of economic and investment activity on the background of low prices level and lack of considerable exchange rate fluctuations of the national currency (NBKR had increased the volume of reverse repo transactions, the volume of the NBKR' notes and currency swap transactions to sell the foreign currency), the period from 2007 to 2010 has been marked by the difficult macroeconomic situation as a result of the adverse effect of the global economic and financial crisis, with the manifestation of the domestic political turmoil.

4.107. From 2007 through 2008, the Kyrgyz economy and the world economy, as a whole, have been influenced by the global rise in food prices and energy prices. To this end, the National Bank had significantly increased its sterilization operations, where the main instrument has remained to be the NBKR's notes: the NBKR's sales of notes in 2008 were 4.5 times the volume in 2007. The

inflation rate in 2007 and 2008 was 20.1 and 20.0%, respectively. In 2009, the Bank had been implementing the monetary policy with the focus on tightening the monetary component of inflation, which has eventually led to the inflation rate of 19.2%. From the year 2011, the NBKR has been carried out the moderate monetary policy taking into account the economic growth signs: the increase in the sterilization of excessive liquidity, the increase of the size of required reserves for commercial banks from 8 to 9%. With the close coordination of efforts by the NBKR and the Government of the Kyrgyz Republic, it had been managed to keep inflation at a rate of 5.7% in 2011. In 2012, the inflation rate was recorded at 7.5%.

4.108. The stimulating monetary policy was reflected in the reduction of the discount rate, the reserve requirement decrease from 10 to 9.5% in order to increase the lending capacity of the commercial banks. In addition, the Special Fund for Refinancing of Banks was established. This Fund had operated by mid-2011 and distributed KGS2.6 billion. The objective of this Fund was to encourage local banks to lend the economy and to maintain their liquidity.

4.109. Under the current floating exchange rate policy for the period from 2006 to 2012, the volatile trends of the U.S. dollar to Kyrgyz som exchange rate have been reported. Gross international reserves at the 2012 year-end amounted to USD2,066.59 million, that is an increase by USD1,249.45 million from 2006.

4.110. In order to diversify the structure of reserve assets and increase international reserves, in December 2011, the NBKR has resumed the purchase of gold in the domestic market. As a result of the NBKR's purchases of gold, its share in the international reserves at the 2012 year-end was 7.9%. International reserves will be managed in compliance with the fundamental and priorities principles of liquidity and safety.

4.111. The banking system of the Kyrgyz Republic, as of 31 December 2012, consists of 23 commercial banks and 278 branches of commercial banks located throughout the country. There is no restriction to opening and operation of foreign commercial banks, bank subsidiaries and branches of banks in Kyrgyzstan. The share of foreign capital in the total capital of the banking system had decreased by 36.1% at the end of 2012 in comparison with 59% at the end of 2006.

4.112. By the end of 2012, the ratio of assets, loans and deposits to nominal GDP was 28.5%, 13.1% and 15.8%, respectively. As of 31 December 2012, the total assets of the banking system have increased by three times in comparison with 2006 and amounted to KGS86.7 billion. As of 31 December 2012, the volume of customer loans (loans receivable balances) of the banking system amounted to KGS40.0 billion, with increase by 3.5 times against 2006 (KGS11.3 billion at the end of 2006). As of 31 December 2012 the corporate and household deposits of the banking system made KGS43.3 billion, having increased by 2.6 times in comparison with 2006. As of 31 December 2012, liquidity ratio of the banking system amounted to 80.0% (77.9% at the end of 2006) compared to a standard 30%.

4.113. The banking system of the Kyrgyz Republic operates in line with efficiency, safety and reliability based on the principles of the Basel Committee on Banking Supervision, provisions of the banking legislation and the provisions of the Law "On Combating Terrorism Financing and Legalization (Money Laundering) of Proceeds from Criminal Activity" of 8 August 2006, No. 58.

4.114. In order to promote competition and expand the banking services the implementation of the Islamic banking and financing principles has been initiated in Kyrgyzstan. In this regard, the NBKR has developed the necessary legal framework.

4.115. In Kyrgyzstan the system of protection of deposits of individuals is effective pursuant to the Law "On Protection of Bank Deposits" (dated 7 May 2008, No. 78). In the warranty event, as specified by the acting legislation, each depositor will be paid out the compensation of no more than KGS100,000 in the aggregate, including interest on deposits. The Law provides for the compulsory participation of all resident banks, branches of foreign banks located in the Kyrgyz Republic, in the system of deposit protection.

4.15 Non-Banking Financial Sector

4.116. The development of non-banking financial institutions (NBFIs) has begun in 1997, when the first credit unions were established. As of 31 December 2012 the system of non-banking financial institutions subject to licensing and regulation by the NBRK included:

- A specialized financial institution of "FKKS" OJSC;
- 183 credit unions;
- 320 microfinance institutions (including four micro-finance companies, 242 micro-credit companies and 74 micro-credit agencies) and 306 exchange offices.

4.117. Credit portfolio of non-banking financial sector amounted to KGS15.4 billion. Agriculture loans (44.4%) and trade loans (25.3%) constituted the main share in the loan portfolio structure. Principal activity of NBFIs was micro-crediting. The total number of borrowers was over 434 thousand people. The Mid-Term Strategy for Microfinance Development for the period 2006 to 2010 had been implemented with success. This Strategy is aimed at the development of micro-finance institutions, credit unions and other financial institutions operating on the basis of micro-financing. In 2012, the Strategy for Microfinance Development over the period from 2011 through 2015 was adopted (Kyrgyz Government Regulation of 28 February 2012, No. 150/40/6).

4.16 Transport

4.16.1 Motor transport

4.118. The Kyrgyz Republic is a land-locked country, and thus, it is connected with the world land transport trunk roads through the territory of neighboring republics. That is why, the land transport plays the key role in the social and economic development of the country and motor transportations are the priority, with the share above 95% of the total cargo transportations by all types of transport vehicles. The Ministry of Transport and Communications is responsible for the policy and regulation in the transport area.

4.119. 16.2 The Kyrgyz Republic is actively engaged into the activity of international organizations and donor countries to build the legislative framework for development of transit motor road systems, which may ensure an exit to the global markets. In order to develop the international motor transportations and increase participation of domestic carriers, the Kyrgyz Republic concluded bilateral agreements on international motor road traffic with 20 countries, and eight multilateral agreements on international motor road traffic. The agreements on motor road traffic with Bulgaria, Hungary, Lithuania, the Republic of Finland, Norway, Czech Republic, Slovakia and Estonia are in the process of conclusion. The Kyrgyz Republic has joined the main nine international Conventions in motor transport area, thereby fulfilling UN ESCAP Resolution No. 48/11.

4.120. Pursuant to the bilateral agreements, the Department of International Freight Carriers "KyrgyzInTrans" under the Ministry of Transport and Communications issues the special transit permits. The Association of International Carriers (KyrgyzASMAP) issues the TIR carnets.

4.121. The Law of the Kyrgyz Republic "On Joining of the Kyrgyz Republic to the Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be used for such Carriage (ATP) done in Geneva on 1 September 1970" was adopted on 30 June 2011, No. 63. Nowadays, the actions and practical measures to implement this Law are being worked out in the Kyrgyz Republic. After adoption of this ATP Agreement, the task to certify equipment for carriage of perishable foodstuffs by local road carriers has been simplified. Thus, domestic carriers have got the access to perishable foodstuffs transportations to the countries, which ratified the ATP Agreement.

4.122. With a view to bring the transport corridors up to the international level, Kyrgyzstan continuously work on the infrastructure development employing both its own resources, and the assistance, financial and technical support from international organizations, such as SPECA, TRACECA and CAREC (total motor roads length is 34,000 km). Currently, Kyrgyzstan jointly with

the Economic Cooperation Organization (ECO) works on full-scale connection to the railway container link by route "Istanbul- Almaty". Within the CAREC framework, the Kyrgyz Republic has been intensively engaged into four of six competitive transport corridors, which go across the territory of the country.

4.123. To settle the issues related to crossing the territories and enclaves of neighboring countries, maintaining the transport independence of the Kyrgyz Republic and connections with neighboring states, the rehabilitation of roads "Osh- Batken- Isfana" and "Taraz- Talas- Suusamy" is in progress.

4.124. Today, there are no state companies engaged neither in cargo transportations, nor in public passenger transportations in Kyrgyzstan. The cargo transportations exports have increased by 1.6 times over the period 2006-12 (282.2 thousand tons in 2006, 454.0 thousand tons in 2012), and imports has gone up by 2.2 times (515.5 thousand tons in 2006 and 1,152.3 thousand tons in 2012).

4.125. In Order to ensure sustainable transport traffic, particularly, domestic traffic, the work is ongoing to allocate funding, including loans, to continue repair and upgrade of traffic network in the regions, and supply the sector with the required machinery and equipment.

4.16.2 Railway transport

4.126. Length of available general use rail road network in Kyrgyzstan is 424.6 km only. It is interrupted and divided into two sectors, namely, the northern sector of 323.4 km long (including 60.3 km through the territory of Kazakhstan) and the southern sector of 101.2 km long. The entire railroad is diesel traction.

4.127. The Kyrgyz railway road is the participant of the Central Council of Railway Transport of CIS and Baltic member-states (CCRT), the Organization of Railway Road Commonwealth (ORRC), the Economic Cooperation Organization (ECO). All railway administrations solve the issues emerged and are guided by the same normative documents concerning the international goods and passenger traffic, tariffs and international transport corridors.

4.128. The railway cargo transportations are very responsive to the economic status of the country. That is why over the period 2006-2008, the cargo turnover and transportations by railway has tended to increase. Between 2009-2010 under exposure to the external and domestic factors the cargo turnover and transportations have declined. From 2011 the growth has been marked, with the cargo turnover increase by 15.6% in 2012, and cargo transportations growth by 17.6% in comparison with 2011 (Please refer to Table 10).

4.129. The growth in passenger transportations has been observed from 2006-2009, with its turnover increase by 1.7 times. In the following years, the turnover has been declined (Please refer to Table 11). The reduction of passenger transportations was driven by decrease of the long distance train transportations in comparison with the similar period during 2010-11. This was caused by the loss of competitiveness of railway transportations due to railway charges rise.

4.130. Today, the issues of implementation of a strategic investment project in the Republic are elaborated. This implies the Project of the Chinese – Kyrgyz – Uzbek trunk railway and railway line Balykchy- Kochkor- Karakeche- Arpa connecting the southern and the northern parts of Kyrgyzstan. These projects implementation would allow Kyrgyzstan to integrate into the global transport infrastructure, to establish new commercial and economic contacts with the rest of the world, to begin intensive development of regions adjacent to the trunk railway, to extend export/import operations with CIS and foreign countries. It would also enable formation of an independent domestic railroad network by linking currently isolated sections in the north and the south of Kyrgyzstan.

4.16.3 Air transport

4.131. Three independent economic entities operate in the civil aviation – airports, air navigation services and air carriers. The Department of Civil Aviation of the Ministry of Transport and Communications is responsible for the civil aviation policy and regulation of this sector. The state

enterprise "Kyrgyz aero navigation" deals with the use of air space and air traffic supervision. The transportations are regulated by the carriers.

4.132. Up today, the Kyrgyz Republic concluded Agreement on Air Traffic with 26 countries²³, and creates the favorable conditions for international flights through its air space. Being the member of ICAO, the Republic adopted the worldwide strategy for safety of aircrafts flight by application of the standards set and the recommended practice by ICAO in the air navigation system development.

4.133. At present, there are four domestic and 32 international routes in the Kyrgyz Republic. 11 airports operate, including four international and seven airports of domestic air lines. 16 air companies have been registered. The main aircraft fleet of the national carriers is outdated. Some air companies had renewed their aircraft fleets in 2011.

4.134. Over the last years, the passenger transportations volume by international airlines in Kyrgyzstan has been increased more rapidly (in comparison with domestic airlines). This is the reason for the high ratio of international air lines - 74%. Domestic airlines hold only 26%. 97.3% of the total passengers are transported by the scheduled flights in Kyrgyzstan.

4.135. Kyrgyzstan is engaged into the implementation of fundamental documents within the framework of EurAsEC, which are focused on the development of the Single Transport Area (STA).

4.136. The measures to expand capacity of the civil aviation sector and construction of airport infrastructure with a view to develop international and regional terminal centers of air traffic are planned to be undertaken.

4.17 Telecommunications

4.137. The legal framework in the communications area, which defines the basis of market relations, is Law #31 of the Kyrgyz Republic "On Electric and Postal Communications" (dated 2 April 1998). This Law separates the functions of the public governance and regulation. In addition, the legal framework in the telecommunications includes Law "On Licensing" and the Law on Restriction of Monopolistic Activity, Competition Development and Protection" (of 3 March 1997, No. 12) and other by-laws also stipulate telecommunications activities.

4.138. The government body is the Ministry of Transport and Communications of the Kyrgyz Republic, which determines the policy in the sector, develop and implement de-monopolization and privatization, draft laws and other regulatory legal acts. The regulatory body is the State Communications Agency under the Government of the Kyrgyz Republic, which performs licensing, certification, radio frequency management, control over the quality of services provided, tariffs setting for monopolistic companies. This body is an independent and not accountable to any suppliers of telecommunication services. It employs the legal ways for regulation of disputes and the national treatment principle to all market participants. This principle is being followed in the licensing area as well.

4.139. Licensing in the communications sector covers postal and electronic communication, data transfer with the use of radio frequency spectrum or cable gears, including design, manufacturing, construction, installation of required grids, lines, installations, systems and devices (except for arrangement of the communication for technological and in-house purpose), except for TV and radio broadcasting.

4.140. Communications and services operators are isolated and do not depend on the Ministry of Transport and Communications or the Communications Agency. Today, competitive market has been formed in all communications subsectors, where, as of 1 January 2013, 312 electric communication operators and services hold 492 licenses. As compared to 2006, the number of functional communications operators has increased by 18% (265), the number of issued license is

²³ Ukraine, the Islamic Republic of Iran, the Republic of India, the Islamic Republic of Pakistan, Turkmenistan, the Republic of Kazakhstan, the Republic of Turkey, United Kingdom of Great Britain and Northern Ireland, the Republic of Indonesia, China, Uzbekistan, Georgia, Federal Republic of Germany, Austria, Belarus, Malaysia, Thailand, the Republic of Armenia, the Swiss Federation, Czech Republic, the Republic of Tajikistan, the Hellenic Republic (Greece), the Republic of Korea.

33% more, a wide variety of communications services have emerged, and some operators hold several licenses to provide different services. Total volume of communications operators services in 2012 was KGS21,148.3 million, by 3.9 times more than in 2006 (KGS5,411.8 million).

4.141. Today, the largest ratio by volume of services rendered on the communications market has the mobile communications – 74.1% (in 2006 this indicator was 48.2%), which is provided by seven operators. The mobile communications coverage is 95.7% of the inhabited territory of the country. In 2012, the volume of mobile operators' services has increased by 6 times against 2006. Mobile companies, gradually reducing tariffs and building networks in regions, attract more customers. In 2006, there were 985,000 mobile users, that is 17.5% of coverage of the entire population in Kyrgyzstan. At present, the mobile users number is 6,797.852 that is 122.4% of coverage of population. This is explained by the fact that currently the population of the Republic has the opportunity to use the services of two to four mobile companies equally.

4.142. The policy of frequency spectrum allocation is open and transparent. When the spectrum is allocated for users to introduce the broadband access, they are not limited in use of any standards (WiMax, LTE, etc.). In addition, the use of spectrum for Wi-Fi standard is not licensed. The total mobile users have 13.9 times exceeded the subscriber base of fixed networks. It should be noted that the subscriber base of fixed networks has declined because of development and expansion of mobile communication range of services, and introduction of innovation wireless technologies, such as WiMax, 3G, LTE.

4.143. Currently, the number of Internet-services users has reached 3,493.143, which means increase by 148.8 times as compared to 2006 (23,480). Access to Internet is 50.8%. The provision of Internet access is one of the most rapidly developing segments of the telecommunications market in Kyrgyzstan. The market capacity of these services is enormous, but it is limited by the population's capability. The majority (about 72%) of Internet access points is concentrated in Bishkek City. Internet use in regions is promptly developing, including due to expansion of coverage with mobile communication.

4.144. TV broadcasting sector consists of the National TV and Radio Broadcasting Corporation, and independent TV and radio companies. For the most part, these companies render services in Bishkek City and Chui oblast (region). Today, 91 licensees operate in this segment, providing TV and radio programs broadcasting services, including 41 radio broadcasting licensees, and 50 TV broadcasting licensees. Four operators are license holders for provision of cable TV services. All regions of the Republic are covered with the TV services, both provided by Kyrgyz telecom JSC, and independent private TV and radio companies.

4.145. Telecommunications equipment is not produced in the Kyrgyz Republic and therefore, the quality and safety of imported equipment is monitored with the use of certification of communication devices.

4.146. The number of issued frequency domains has risen and made 6,157 in 2012, that is 5.8 times more than in the similar period in 2006 (1054).

4.147. Five commercial operators rendering services of receipt, transportation and delivery of domestic and international express mail operate on the postal communications market along with "Kyrgyzpochtasy" State Enterprise.

4.18 Tourism

4.148. Tourism is the sector of economy which, on one side, makes a considerable contribution into population employment, especially in the holiday season, as well as capital private investments into the infrastructure facilities construction. But, on the other side, there is no clear line to position the country for provision of international-level tourism services. However, the Mid-term Program for Tourism Development in the Kyrgyz Republic with involvement of private companies, tourist associations, and the state agencies is worked out. Within the framework of this Program, there is also an intention to elaborate the Strategy of the Sector's Development until 2020. In addition, the tourist sector has been integrated into the National Export Promotion Strategy (NES).

4.149. On the regular basis various events are arranged to attract foreign companies and tourists to the tourism market of the country on a regular basis.

4.150. In 2012, the tourism sector gross value added was KGS14,267.9 million (increase by KGS10,252.1 million in comparison with 2006). The taxes and payments receipts from the tourist sector in 2012 was KGS341,601.3 thousand (the rise of indicator is KGS206,611.1 thousand as compared to 2006).

4.151. Along with some positive improvements in the sector's operation, the Department of Tourism has marked the following problems, which need the timely solution:

- Insufficient recognition of tourism as the economic sector;
- Poor physical infrastructure;
- Low level of consumer service and the culture of guests service;
- Low level of hospitality, which is the key consumer properties in tourism organizations;
- The pressing issue of incomparability of the quality and the price of services;
- Lack of awareness about Kyrgyzstan on the international tourism market;
- Natural hazards in the mountain regions.

4.19 Regional Trade Agreements

4.152. From 1994 the Republic is the party to the Free Trade Agreements (FTA) between the Commonwealth of Independent States. In addition, Kyrgyzstan is the member of several preferential trade agreements with CIS countries:

- The Free Trade Agreement was signed
 - with Russia on 8 October 1992;
 - with Kazakhstan on 22 June 1995;
 - with Uzbekistan on 24 December 1996;
 - with Azerbaijan on 12 January 2004;
 - with Armenia on 7 July 1994;
 - with Moldova on 26 May 1995;
 - with Ukraine on 26 May 1995;
 - with Belarus on 30 March 1999;
 - with Tajikistan on 19 January 2000.

4.153. In addition, the Republic grants free trade regime to Georgia and Turkmenistan on the basis of the Agreement on Creation of Free Trade Area (15 April 1994). Kyrgyzstan adheres to the principle of mutual beneficial cooperation in its trade and economic relation, and grants the free trade regime to goods originating from CIS countries. The WTO Regional Trade Agreements Committee was notified on the listed agreements.

4.154. In 2011, Kyrgyzstan has expressed its intention to join the Customs Union (CU) and the Common Economic Area (CEA). On 11 April 2011 the KR Government's session took place, where the address of the KR Government to the superior CU`s body was approved. This address stated

the Kyrgyz Republic's intention to start negotiating process to accede the CU and the CEA. The Regulation No. 150 of 11 April 2011 of the Government "On Interagency Committee under the Government of the Kyrgyz Republic for Negotiations on Accession of the Kyrgyz Republic to the Customs Union (CU) of the Republic of Belarus, the Republic of Kazakhstan, and the Russian Federation, and to the Common Economic Area (CEA)" was adopted.

4.155. The Interagency Committee is the authorized body of the Kyrgyz Republic's Government, which is accountable for negotiations with the Customs Union's Member States and the Eurasian Economic Commission.

4.156. On 19 October 2011, the heads of governments of EurAsEC countries approved the application submitted by Kyrgyzstan and made decision to create the authorized Working Group responsible for negotiations with the Kyrgyz Republic on accession to the CU. The Council of the Eurasian Economic Commission (EEC) on 25 April 2012 has formed the EEC Working Group for this purpose.

4.157. The Kyrgyz party conducts a joint work with the EEC Working Group to draft the Road Map of Accession by the Kyrgyz Republic to the CU. This document is anticipated to be approved by the end of 2013.

4.20 Free Economic Zones

4.158. FEZs have a special legal status, which creates the special regime for registration of trade and industrial activity, and foreign companies, for labor force immigration, tariff duties, taxes, land property, and international trade. FEZs offer to the local and foreign investors a compelling package of benefits and provide premises for warehousing, wholesale export and import trade, banking operations, production of goods for export and transportation services.

4.159. Five FEZs were initially established in different parts of the country – "Bishkek", "Karakol", "Naryn", "Makmal" and "Leilek" FEZs – to encourage production, employment and increase manufactured products share by the local companies, as well as for export growth.

4.160. The companies registered on a FEZ territory had been granted the privileged taxation treatment. However, from January 2009 the privileged regime applies only to companies operating at FEZ "Bishkek". The other Free Economic Zones have been failed to comply with requirements of Article 1 of the Law "On Free Economic Zones in the Kyrgyz Republic" of 16 December 1992, No. 1076-XII and Article 372 of the Tax Code of the Kyrgyz Republic. Therefore, the ordinary taxation regime is now effective for these FEZs.

4.161. From 2006 through 2012 exports from FEZs has steadily increased, from USD 76 892.8 thousand to USD167,079.7 thousand in 2012. Meanwhile, import has exceeded export supplies from USD103,598.1 thousand in 2007 to USD179,680.3 thousand in 2012.

4.162. The key FEZ-produced export groups of commodities are as follows: plastics and articles thereof, rubber and articles thereof, machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles, vehicles, aircrafts, vessels, and associated parts and accessories.

4.163. Other commodities include vegetable products, mineral products, leather and leather raw materials, textile and textile articles, paper and paperboard carton and articles thereof, base metals and articles of base metals, etc.

4.164. The main groups of commodities imported into FEZs of Kyrgyzstan constitute plastics and articles thereof, rubber and articles thereof; machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles, vehicles, aircrafts, vessels, and associated parts and accessories and other commodities.

4.21 Mining Industry

4.165. Mining in Kyrgyzstan remains one of the most promising sectors of the economy, which forms the national budget revenue, generates jobs, and enables diversification of the economy with the potential emergence of industries with high value added. The Government continues its work to attract foreign investors into the sector on the terms of mutual benefits and long-term cooperation. Thus, the KR's Government has the intention to strengthen the potential of the mining sector due to launch of deposits "Jerui", "Taldy-bulak left bank". At present, a lot of enterprises, including foreign-owned, operate in the country.

4.166. The industry is currently regulated by the Laws "On Subsoil" of 9 August 2012, No. 160, "On Investments" of 27 March 2003, No. 66 "On Licensing" of 3 March 1997, No. 12 and other regulatory legal acts regulating the relations between the state, the developers of the subsoil and other parties concerned.

4.167. According to the Tax Code of the Kyrgyz Republic, the mining industry is subject to taxation in the following way:

- Income tax;
- Income tax for gold mining companies (entered into force in January 2013);
- Subsoil use tax (royalties, bonuses);
- Sales tax;
- Land tax;
- Property tax;
- Value added tax (VAT);
- Profit tax (with the exception of gold mining companies).

4.168. Supply and export of gold and silver alloys and refined gold and silver are exempt from VAT pursuant to Article 256 of the Kyrgyz Tax Code. This benefit does not apply to other metals and ores. At the same time, the VAT on acquired material resources are not subject to offset regarding the material resources, which were not acquired for production of taxable supplies. This provision complies with Part 1 of Article 271 of the Tax Code. Under the KR's Law "On Licensing" the licenses for the exploration, development and extraction of mineral resources are issued within 30 days. No restrictions for participation are set. Re-licensing is transparent.

5 ECONOMIC DEVELOPMENT AND TRADE PROSPECTIVE

5.1 Medium-Term Economic Forecast

5.1. Over the medium term period (2014-2016 years), the primary economic policy objectives will be securing the positive trends in the social and economic development, proactive approach to the anticipated problems and ensuring the sustainable economic growth by an average of 7.5% per year.

5.2. The medium-term macroeconomic targets will be achieved through the implementation of the major national projects, efficient management of the country's state assets, and the reform of the regulatory system to stimulate all sectors of the economy.

5.3. It is forecasted that the inflation rate during this period will not exceed one-digit level, in the range 7-9%. This forecast is based on the assumption that the Government of the Kyrgyz Republic will continue the coordinated monetary and fiscal policies with the focus placed on strengthening the macroeconomic stability. The overarching goal of the KR National Bank's monetary policy will be to achieve and maintain the price stability in the country.

5.4. The moderate price increase for some food products group is forecasted. In the medium-term period prices for essential food products may still remain at relatively high levels. Along with continuing dependence on foreign price trends, the domestic price situation will be predetermined by several factors, such as the structural reform of the agricultural sector, increased production capacity and competitiveness of domestic products, changes in the foreign economic position of the country, including in connection with the accession to the Customs Union, and the balance between demand and supply of goods and services, tariffs imposed on the administrative basis.

5.5. The main factors that will have an effect on the balance of payments of the Kyrgyz Republic in the medium-term period will be as follows: (i) continuing trend of trade deficit; (ii) the volume of transfers of migrant workers, which influences on the size of the current account balance; (iii) the level of liquidity and safety of reserve assets; (iv) the amount of international reserves, which will be maintained at the level of at least three months of the critical volume of imports of goods and services.

5.6. The development of sectors that form the GDP production side will be influenced by the demand for the goods and services produced in the domestic and foreign markets.

5.7. The real contribution of industry and agriculture into the country's GDP will not be significant and will amount to 0.8 and 0.7 percentage points, and their share in the GDP will be over 18.8% and 14.7%, respectively.

5.8. The greatest influence on the GDP formation is anticipated from the services sector, which will develop at real growth of 7.7% on average a year, and its share in the GDP structure will be more than 46%, whereas its contribution to GDP will be 3.5 percentage points. The growth of the services sector is projected mainly due to the expansion of market services, which have the largest share in the sector's structure. The main sources of market services growth and expansion are trade, transport and communication services.

5.9. Forecast shows that the nominal volume of foreign trade and the trade deficit will increase by 1.3 times in 2015. Gold will remain the main export item, with its 50% share in the export's profile. Growth of gold exports will be ensured after commissioning of new gold deposits. Import growth will be traditionally associated with increasing supplies of petroleum products, investments and intermediate goods. Imports of capital goods in terms of anticipated improvement of the business environment will increase by 22.8% on average a year. The import share of investment goods will increase by 20.2% in 2015. The share of consumer goods will decline gradually and reach a level of 25.4% by 2015. The balance of net export of goods and services will increase from (-) 33.8% of GDP in 2013 to (-) 34.7% of GDP in 2015 due to higher imports of capital goods and intermediate goods, raw materials and energy products required for the production.

5.10. By the regional breakdown, almost 80% of GDP will be traditionally generated in Bishkek and Chui, Issyk-Kul, Jalal-Abad regions.

5.2 Trend of Future Trade Policy

5.11. The key factors of impact on the foreign trade development in 2013-2015 will be the following: (1) the benefits of the WTO membership, (2) negotiating the accession of the Kyrgyz Republic to the Customs Union (CU) and the EEA, and (3) bilateral mutually beneficial cooperation with CIS countries and other foreign countries, and (4) the participation of Kyrgyzstan in the EurAsEC, SCO, ECO, OIC and other international and regional organizations, (5) an increasing importance of exports of goods and services, including tourism, (6) an active search and attraction of foreign direct investment; (7) the interaction of the Kyrgyz Republic with the worldwide and regional financial institutions, such as ADB, World Bank, EBRD, IDB, ACG, IMF, IFC, etc.

5.12. In order to expand export opportunities and improve the competitiveness of domestic producers in foreign markets, in 2013 the Ministry of Economy of the Kyrgyz Republic in partnership with the International Trade Centre (ITC) and the German Agency for International Cooperation (GIZ) with the use of the ITC experience and methodology (which focuses on consideration of trade within the wider framework of its development, taking into account the issues of poverty reduction, strengthening the women's capacity, conservation and sustainable

development of the environment and other developmental issues) has been developing the national Strategy on Export Promotion.

5.13. With respect to the participation of the Kyrgyz Republic in the WTO, the work will continue to participate in the Doha Round negotiations, in particular, in the area of trade facilitation, agriculture, market access for non-agricultural products, as well as "Aid for Trade" initiatives, etc.

6 LIST OF ABBREVIATIONS

ADB	Asian Development Bank
WB	World Bank
GDP	Gross Domestic Product
WTO	World Trade Organization
WIPO	World Intellectual Property Organization
SAEPF	State Agency of Environmental Protection and Forestry under the Government of the Kyrgyz Republic
SAGMR	State Agency of Geology and Mineral Resources under the Government of the Kyrgyz Republic
STS	State Tax Service
PPP	Public-Private Partnership
UAIS	Unified Automated Information System
EPPO	European and Mediterranean Plant Protection Organization
EBRD	European Bank for Reconstruction and Development
CTA	Common Transport Area
EC	European Commission
EU	European Union
EEC	European Economic Commission
IDB	Islamic Development Bank
ILAC	International Laboratory Accreditation Cooperation
ISO	International Standardization Organization
Volume index	Volume index
KyrgyzASMAP	Association of international carriers
IMF	International Monetary Fund
ITC	International Trade Center
IPPC	International Plant Protection Convention
ICPIP	Interstate Council on the Protection of Industrial Property
NES	National Export Promotion Strategy
NBKR	National Bank of the Kyrgyz Republic
NSC	National Statistical Committee
OIC	Organization for Islamic Cooperation
CAB	Conformity Assessment Bodies
OEC	Organization for Economic Cooperation
OECD	Organization for Economic Cooperation and Development
ORRA	Organization of Rail Road Association
FDI	Foreign Direct Investments
MFN	Most-favored National Treatment
FSCS	Food Safety Certification System
FEA	Free Economic Area
SPS	WTO Agreement on Application of Sanitary and Phytosanitary Measures
CIS	Commonwealth of Independent States
SPECA	Special Program for Central Asian countries
CISAC	International Confederation of Societies of Authors and Composers.
CTC	Chamber of Trade and Commerce
TRACECA	European Commission Program for CIS countries
TRIPS	Trade-related Aspects of Intellectual Property Rights Agreement
TRIMS	Trade-related Investment Measures Agreement
CU	Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation
CCFEA	Commodities Classifier of Foreign Economic Activity
FAO	UN Food and Agricultural Organization
AC	Accreditation Center
CAREC	Central-Asian Regional Economic Cooperation
CSM	Center of Standardization and Metrology
CCRT	Central Council on Railroad Transport

SCO	Shanghai's Cooperation Organization
GOST	State Standard – Gosudarstvenniy Standard (in former USSR and presently in the Russian Federation and regional standard among CIS Member States)
GOST R	State Standard of the Russian Federation
STB	Standard of the Republic of Belarus
TPR	Trade Policies Review

7 ANNEXES

Table 7.1 Selected macroeconomic indicators over 2006-12

	2006	2007	2008	2009	2010	2011	2012
Standard population growth (%)	101.1	100.8	101.1	101.3	101.1	101.4	102.0
GDP in market prices (US\$ million)	2,849.6	3,827.6	5,143.5	4,666.4	4,778.2	6,222.5	6,469.8
GDP per capita	566.1	757.1	1013.0	910.0	920.2	1183.1	1209.7
Real GDP (change as % of the previous year)	3.1	8.5	8.4	2.9	-0.5	6.0	-0.9
Consumer Price Index	105.1	120.1	120.0	100.0	119.2	105.7	107.5
Employment (%) (change as % of the previous year)	100.9	102.7	101.5	101.5	101.2	101.5	-
Unemployment (as % of population)	8.2	8.2	8.4	8.5	8.6	8.5	-
Poverty level (%)	39.9	35.0	31.7	31.7	33.7	33.7	36.8
GDP by principal sectors (as % of the previous year)							
Gross Domestic Product	3.1	8.5	8.4	2.9	-0.5	6.0	-0.9
Agriculture, hunting and forestry	1.7	1.6	0.9	6.7	-2.6	1.8	1.2
Mining	-7.5	-3.2	9.1	7.7	-3.6	19.5	22.5
Manufacturing	-14.1	6.3	21.2	-9.3	11.3	5.2	-27.2
Electricity, gas and water generation and distribution	-0.7	7.5	-7.4	-2.6	11.2	21.9	5.2
Construction	19.1	32.3	10.8	22.1	-18.5	2.5	17.3
Trade, repair of motor cars, household and personal use items	14.9	10.9	9.6	2.3	-5.6	10.2	10.5
Hotels and restaurants	19.7	13.0	13.3	4.2	-9.5	16.9	11.7
Transport and communications	9.5	44.4	31.1	5.1	4.2	9.5	8.9

Source: National Statistical Committee of the Kyrgyz Republic.

Table 7.2 Foreign trade in goods of Kyrgyzstan, 1998 and within the period 2006-12

Year	Unit	Trade Turnover			Export			Imports		
		Total	WTO	CIS	Total	WTO	CIS	Total	WTO	CIS
1998	US\$ Million	1,355.1	606.9	671.2	513.6	259.2	230.5	841.5	348.7	440.7
	%		44.9	49.5		50.8	44.0		41.4	52.4
2006	US\$ Million	2,822.4	1,052.5	1,469.9	891.2	333.2	476.1	1,931.2	719.2	993.8
	%		37.3	52.1		37.4	53.4		37.2	51.5
2007	US\$ Million	4,109.6	1,326.2	2,274.9	1,321.1	476.1	753.6	2,788.5	888.5	1,521.3
	%		32.3	55.4		36.0	57.0		31.8	54.6
2008	US\$ Million	5928	2664	3,198.6	1,855.6	786.8	1011.7	4,072.4	1,877.2	2,186.9
	%		44.9	53.9		42.4	54.5		46.1	53.7
2009	US\$ Million	4,713.2	2,304.7	2,470.2	1,673.0	886.9	752.8	3040.2	1,407.8	1,717.4
	%		48.9	52.4		53.0	45.0		46.3	56.5
2010	US\$ Million	4,982.9	2,546.9	2,499.7	1,759.8	958.6	788.1	3,223.1	1,588.3	1,711.6
	%		51.1	50.2		54.5	44.8		49.3	51.1
2011	US\$ Million	6,503.4	3,393.5	3,197.8	2,242.2	1,193.9	1,019.6	4,261.2	2,199.6	2,178.1
	%		52.2	49.2		53.2	45.5		51.6	51.1
2012	US\$ Million	7,267.7	3,577.0	3,774.2	1893.8	755.5	1,092.6	5,373.9	2,821.5	2,681.8
	%		49.2	51.9		39.9	57.7		52.5	49.9

Source: National Statistical Committee of the Kyrgyz Republic.

Chart 7.1 Key partners of the Kyrgyz Republic over 2006 and 2012

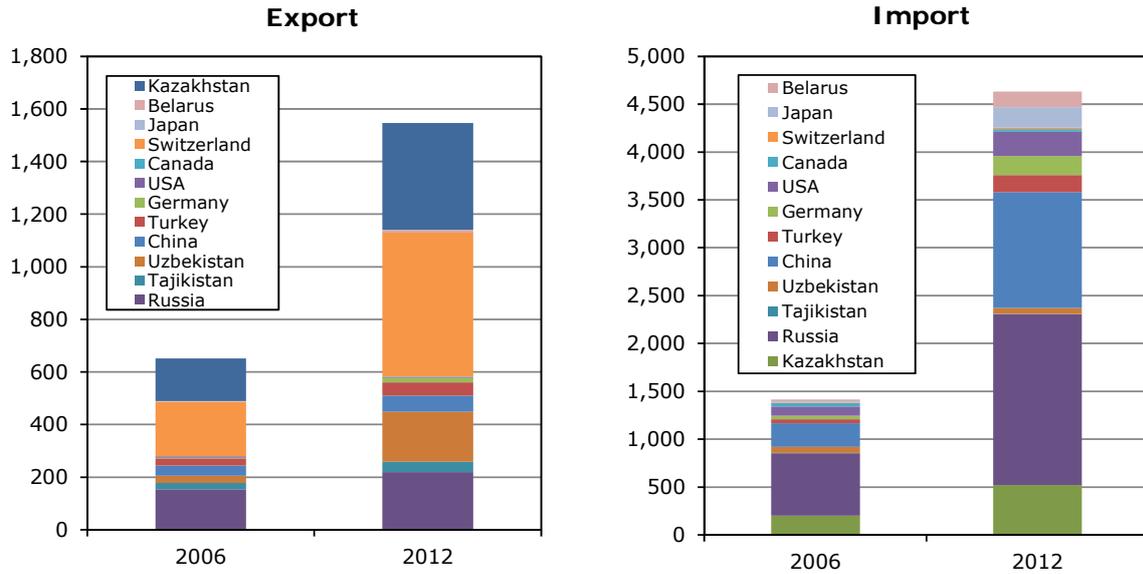
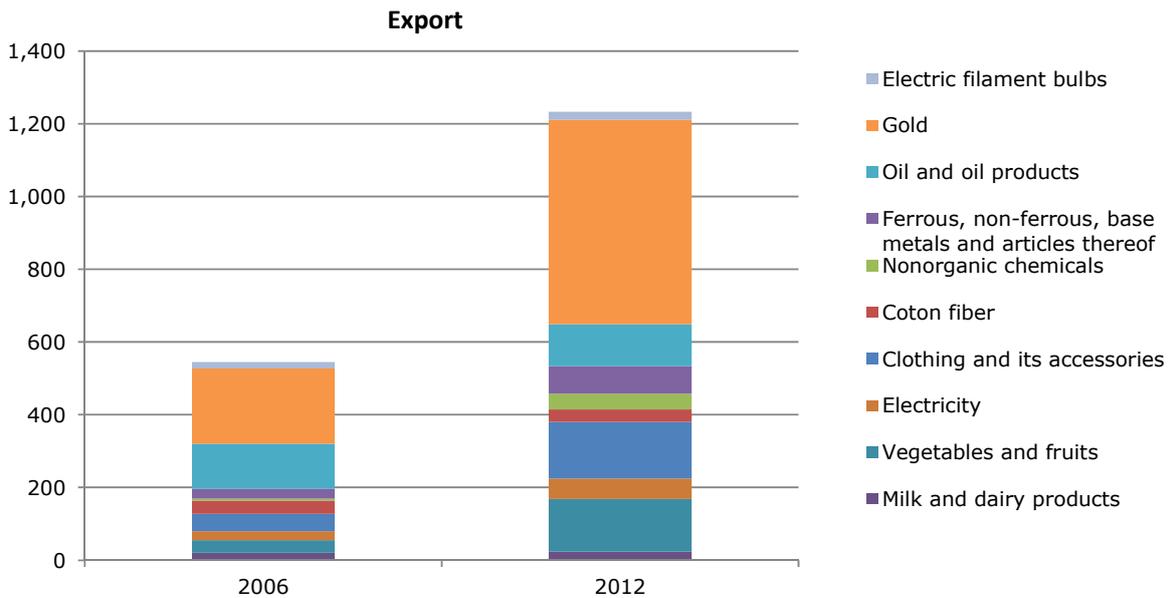


Chart 7.2 Key export and import goods over 2006 and 2012



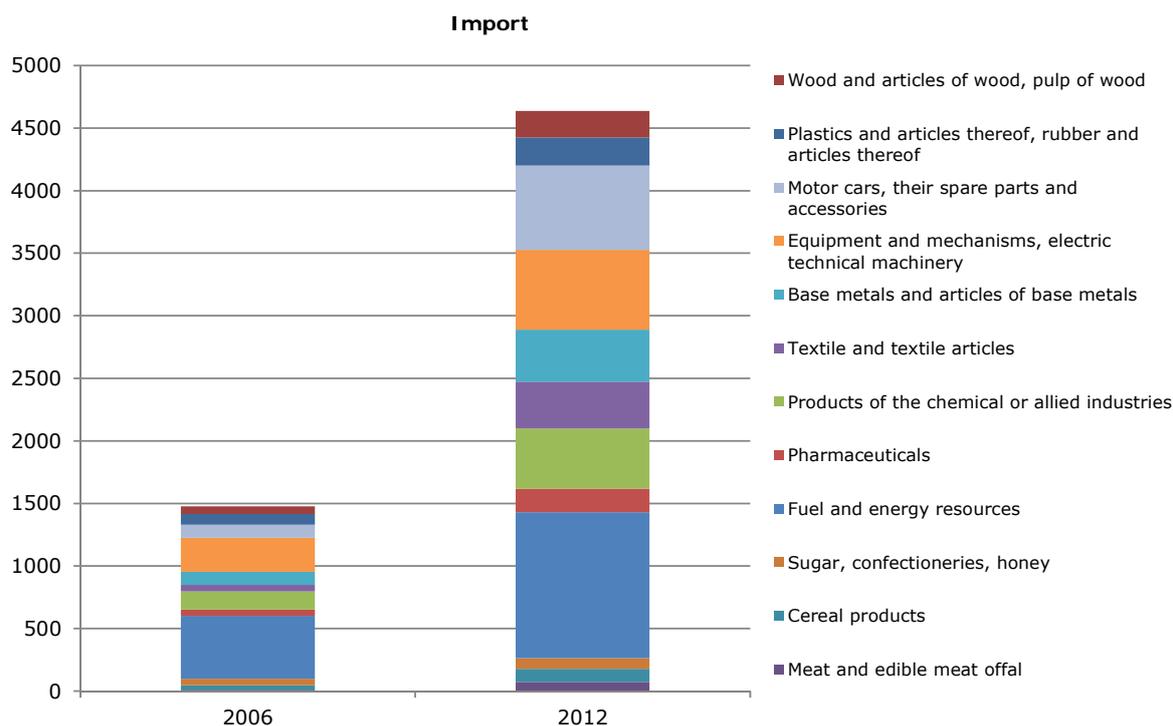


Table 7.3 Foreign trade in services in 1998, and within the period from 1998 and 2006 to 2012

Years	Unit	Goods Turnover			Export			Imports		
		Total	CIS	Non-CIS	Total	CIS	Non-CIS	Total	CIS	Non-CIS
1998	US\$ Million	238.3			62.8			175.5		
	%	100			100			100		
2006	US\$ Million	835.4			374.5			460.9		
	%	100			100			100		
2007	US\$ Million	1,289.6	798.7	490.9	684.8	437.6	247.2	604.8	361.1	243.7
	%	100	61.9	38.1	100	63.9	36.1	100	59.7	40.3
2008	US\$ Million	2,857.4	1,975.9	881.5	1,654.6	1,370.3	284.3	1,202.8	605.6	597.2
	%	100	69.2	30.8	100	82.8	17.2	100	50.3	49.7
2009	US\$ Million	2,210.7	1,369.9	840.8	1,217.7	901.4	316.3	993.0	468.5	524.5
	%	100	62.0	38.0	100	74.0	26.0	100	47.2	52.8
2010	US\$ Million	1,952.3	1,053	899.2	930.7	592.9	337.7	1,021.6	460.1	561.5
	%	100	54.4	45.6	100	63.7	36.3	100	45.0	55.0
2011	US\$ Million	2,255.1	1,510.9	744.2	1,117.1	751.8	365.3	1,138.0	759.1	378.9
	%	100	67.0	33.0	100	67.3	32.7	100	66.7	33.3
2012	US\$ Million	4,197.1	2,583.4	1,613.7	2,065.9	1,627.3	438.6	2,131.3	956.1	1,175.1
	%	100	61.6	38.4	100	78.8	21.2	100	44.8	55.2

Source: National Statistical Committee of the Kyrgyz Republic.

Table 7.4 Sources of foreign direct investments inflow, 2006-12

Indicator	2006	2007	2008	2009	2010	2011	2012
CIS, in %	46.8	45.4	46.7	39.2	20.8	8.5	10.2
Kazakhstan	40.7	41.8	41.7	32.2	6.2	4.7	5.8
Russian Federation	5.9	3.1	4.2	6.6	14.6	3.7	4.3
Belarus	0.1	0.2	0.4	0.1	0.0	0.0	0.001
Non-CIS countries, in %	53.2	54.6	53.3	60.8	79.2	91.5	89.8
Australia	1.0	1.3	2.1	3.6	2.8	2.1	1.5
Great Britain	11.3	13.8	8.5	16.7	11.1	8.9	11.9
Germany	15.9	6.6	5.5	1.3	1.8	5.8	5.5
Canada	2.6	1.4	11.1	12.2	30.8	42.6	22
China	2.2	6.7	6.6	7.8	10.6	15.2	23.9

Indicator	2006	2007	2008	2009	2010	2011	2012
USA	1.9	3.0	0.7	3.5	1.8	2.7	0.1
Turkey	3.8	3.8	1.5	5.7	1.2	1.0	3.7
Total, USD million	335.6	436.8	866.2	660.9	666.1	849.2	590.7
FDI inflow of GDP, in %	11.8	11.4	16.8	14.2	13.9	13.5	9.1

Source: National Statistical Committee of the Kyrgyz Republic.

Table 7.5 FDI's Breakdown by types of economic activity, 2006-12

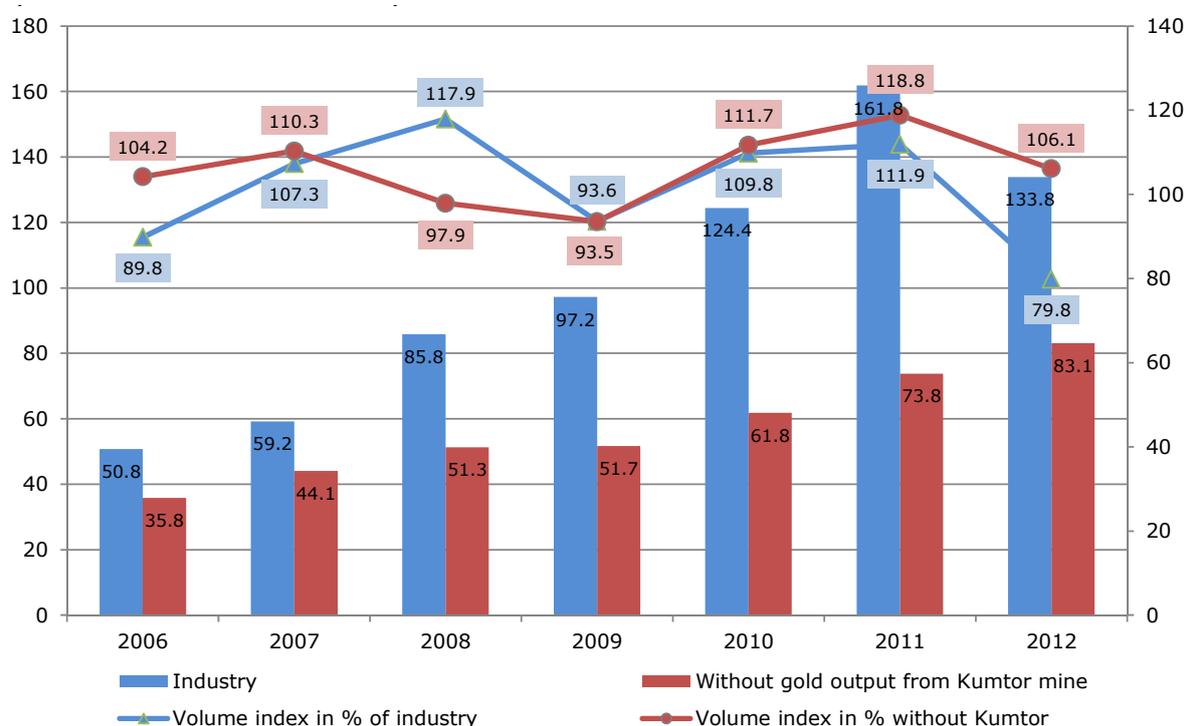
(As percentage)

Type of activity	2006	2007	2008	2009	2010	2011	2012
FDI breakdown by economic sectors, including:	100	100	100	100	100	100	100
Agriculture, hunting and forestry	1.1	1.0	0.1	0.0	0.0	0.0	0.4
Mining industry	16.6	12.5	0.9	1.0	0.2	5.3	4.7
Manufacturing industry	42.0	30.9	27.8	25.2	49.7	48.6	43.2
Total services, including	40.1	55.6	71.2	73.8	50.1	46.1	51.7
Trade, repair of motor cars, household, and personal use items	8.0	9.1	6.5	8.0	8.0	11.9	5.5
Financial activity	18.4	25.9	39.8	35.8	5.8	5.7	7.2
Real estate transactions, lease, and consumer services	7.5	13.7	16.9	22.4	32.9	20.0	36.6
Other	6.2	6.9	8.0	7.6	3.4	8.5	2.4

Source: National Statistical Committee of the Kyrgyz Republic.

Chart 7.3 Manufacturing production trend, 2006-12

(KGS billion and volume index)



Customs duty rate	Number of commodity items								
	1999	2000	2006	2007	2008	2009	2010	2011	2012
Specific	14	11	11	11	11	11	11	11	11
Combined			143	143	143	143	143	143	143
TOTAL	10,569	10,574	11,196	11,196	10,972	11,100	11,100	11,100	11,100
Average customs duty rate	9,18%	5,2%	5,06%	5,06%	5,0%	5,1%	5,1%	5,04%	5,04%

Table 7.9 List of technical regulations adopted by the Kyrgyz Republic over 2006-12

	Name of regulatory legal document	Date
1.	Law of the KR "General Technical Regulation On Safe Operation and Utilization of Machinery and Equipment"	No. 280, dated 29 December 2008
2.	Law of the KR "General Technical Regulation On Environmental Safety"	No. 151, dated 8 May 2009
3.	Law of the KR "Technical Regulation Safety of Land Transport Vehicles"	No. 178, dated 29 May 2009
4.	Law of the KR Technical Regulation Safety of Building Materials, Installations and Structures"	No. 18, dated 29 January 2010
5.	Regulation of KR Government "Technical Regulation On Safety of Construction of Buildings for Various Purposes from Modern Pre-Fabricated Structures and Materials"	No. 143, dated 2 August 2010
6.	Regulation of KR Government "Technical Regulation On Safety of Bottled Natural Mineral, Natural Drinking and Table Waters"	No. 139, dated 6 April 2011
7.	Regulation of KR Government "Technical Regulation On Safety on Pharmaceuticals for Medicine Purpose"	No. 137, dated 6 April 2011
8.	Regulation of KR Government "Technical Regulation On Safety of Confectionary Products"	No. 163, dated 18 April 2011
9.	Regulation of KR Government "Technical Regulation On Safety of Juices, Nectars and Juice containing beverages of fruits and vegetables"	No. 172, dated 19 April 2011
10.	Law of the KR "Technical Regulation On Drinking Water Safety"	No. 34, dated May 30, 2011
11.	Law of the KR "Technical Regulation "Safety of Buildings and Constructions"	No. 57, dated 27 June 2011
12.	Regulation of KR Government "Technical Regulation On Safety of Ethyl Spirit, Vodka and Liquor Articles"	No. 357, dated 5 July 2011
13.	Regulation of KR Government "Technical Regulation On Safety of Winemaking Products"	No. 356, dated 5 July 2011
14.	Regulation of KR Government "Technical Regulation On Safety of Beer"	No. 388, dated 14 July 2011
15.	Law of the KR "Technical Regulation On Fire Safety"	No. 142, dated 26 July 2011
16.	Regulation of KR Government "Technical Regulation On Safety of Sugar"	No. 437, dated 1 August 2011
17.	Regulation of KR Government "Technical Regulation On Safety of Lifting and Transporting Equipment and their Operation Processes"	No. 587, dated 23 September 2011
18.	Law of the Kyrgyz Republic "Technical Regulation On Radiation Safety"	No. 224, dated 29 November 2011
19.	Law of the KR "On Introducing Amendments and Additions into the Law of the Kyrgyz Republic "General Technical Regulation On General Technical Regulation on Environmental safety"	No. 11, dated 1 March 2012
20.	Law of the KR "On Introducing Amendments and Additions into the Law of the Kyrgyz Republic "General Technical Regulation On General Technical Regulation on Land Transport Vehicles Safety"	No. 61, dated 18 May 2012
21.	Regulation of KR Government "Technical Regulation "On Electromagnetic Compatibility"	No. 24, dated 12 January 2012
22.	Regulation of KR Government "Technical Regulation "On Safety of Health Care Products"	No. 74, dated 1 February 2012
23.	Regulation of KR Government "Technical Regulation "Introducing Amendments and Additions into Technical Regulation "On Sugar Safety" of August 1, 2011, No. 437"	No. 83, dated 3 February 3, 2012
24.	Regulation of KR Government "Technical Regulation" On Safety of Pharmaceuticals Produced at Pharmacies"	No. 320, dated 26 May 2012
25.	Regulation of KR Government "Technical Regulation "On Safety of Alcohol-Free Beverages"	No. 474, dated 5 July 2012
26.	Regulation of KR Government "Technical Regulation "On Safety of Iodized Food Salt"	No. 456, dated 28 June 2012

	Name of regulatory legal document	Date
27.	Regulation of KR Government "Technical Regulation" On Safety of Bread, Pastry and Macaroni Products"	No. 502, dated 17 July 2012
28.	Regulation of KR Government "Technical Regulation "On Electrical Safety"	No. 359, dated 2 June 2012
29.	Regulation of KR Government "Technical Regulation "On Safety of Enriched Flour"	No. 569, dated 16 August 2012
30.	Regulation of KR Government "Technical Regulation "On Safe Storage of Pharmaceuticals Produced by Pharmaceutical Organizations and Health Care Organizations and Sanitation regime of Pharmaceutical Organizations"	No. 646, dated 25 September 2012
31.	Regulation of KR Government "Technical Regulation "On Safety of Children Clothing and Footwear"	No. 704, dated 10 October 2012
32.	Regulation of KR Government "Technical Regulation "On Safety of Baby Food Products"	No. 792, dated 23 November 2012
33.	Regulation of KR Government "Technical Regulation "On Safety of Furniture"	No. 805, dated 30 November 2012
34.	Regulation of KR Government "Technical Regulation "On Safety of Water, Gas, Electric and Thermal Power Meters"	No. 779, dated 20 November 2012

Source: Ministry of Economy of the Kyrgyz Republic.

Table 7.10 Trends in change in cargo transportations volume, 2006-12

	2006	2007	2008	2009	2010	2011	2012
Cargo turnover (million tons-km)	751.6	855.7	945.5	744.5	737.7	798.3	922.7
Freight carried index (thousand tons)	5,522.5	6,905.1	7,435.2	5,981.6	5,523.9	5,879.0	6,912.9
Loading (thousand tons)	1,911.5	2,284.8	1,816.3	1,044.4	1,032.1	1,033.7	1,119.3
Unloading (thousand tons)	4,320.2	5,357.5	5,948.2	5,263.2	4,908.2	5,246.3	6,296.5

Source: Ministry of Transport and Communications of the of the Kyrgyz Republic.

Table 7.11 Trends in change in passenger transportations volume, 2006-12

	2006	2007	2008	2009	2010	2011	2012
Passenger turnover (million passengers-km)	60.4	59.9	90.2	106.1	98.7	82.8	75.8
Passengers traffic (total (people)	445,374	435,503	646,433	751,465	711,325	596,865	549,237
Including international traffic (people)	328,314	377,171	460,528	400,319	351,642	233,112	183,411
Domestic traffic (people)	117,060	58,332	185,905	351,146	359,683	363,753	365,826

Source: Ministry of Transport and Communications of the Kyrgyz Republic.