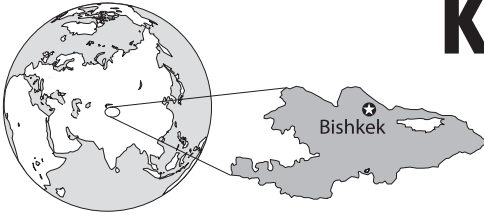


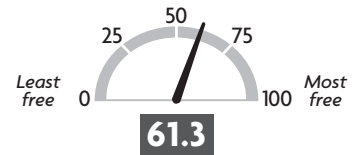
# KYRGYZ REPUBLIC



World Rank: **80**

Regional Rank: **11**

## Economic Freedom Score



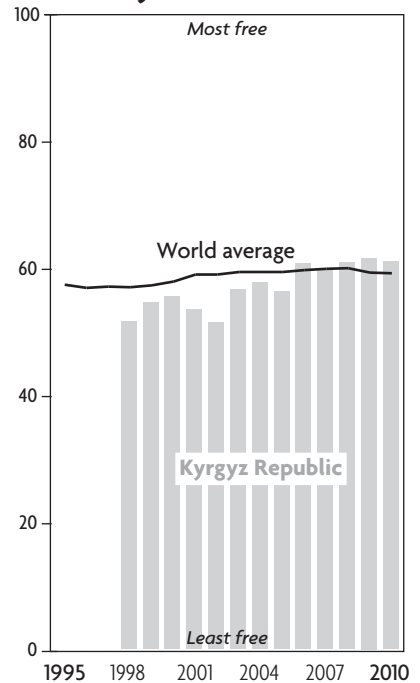
The Kyrgyz Republic's economic freedom score is 61.3, making its economy the 80th freest in the 2010 *Index*. Its score is 0.5 point worse than last year, reflecting decreases in trade freedom and freedom from corruption. The Kyrgyz Republic is ranked 11th out of 41 countries in the Asia-Pacific region, and its overall score is slightly above the world average.

The Kyrgyz Republic's transition to greater economic freedom has progressed slowly. Some reforms have been implemented, but overall progress has been uneven. The country rates relatively well in business freedom, fiscal freedom, labor freedom, and government spending. The labor market is flexible; despite some remaining restrictions, implementation of a new labor code has helped to tailor employment to free-market conditions. Taxation has been simplified with a competitive personal and corporate flat rate of 10 percent. Government spending is also moderate. A new law governing internal audits of government agencies and institutions establishes a framework for conducting audits in line with international best practice.

The Kyrgyz Republic's property rights and freedom from corruption remain weak. Lax rule of law fosters pervasive corruption and insecure property rights, which jeopardize prospects for long-term economic growth and development.

**BACKGROUND:** President Kurmanbek Bakiyev's party won early parliamentary elections in December 2007, but political stability remains precarious because of rampant crime and religious extremism in the South. Ongoing concerns include a large external debt, heavy dependence on foreign aid, informal economic activity, and drug smuggling. GDP growth, buoyed by a strong recovery in gold production, was expected to fall to around 1 percent in 2009. In January 2009, Bakiyev announced the closure of the U.S. air base at Manas after Russia offered grants and loans of over \$2 billion. Financial aid from Russia has helped the Kyrgyz Republic to offset some of the effects of the economic crisis.

## Country's Score Over Time



## Quick Facts

**Population:** 5.3 million

**GDP (PPP):** \$11.5 billion

7.7% growth in 2008

4.7% 5-year compound annual growth

\$2,188 per capita

**Unemployment:** 8.1% (2007)

**Inflation (CPI):** 24.5%

**FDI Inflow:** \$233.0 million

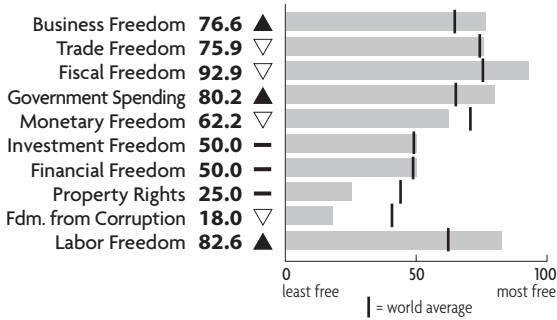
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## KYRGYZ REPUBLIC'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 76.6

The overall freedom to start, operate, and close a business is relatively well protected under the Kyrgyz Republic's regulatory environment. Starting a business takes an average of 11 days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 218 days.

### TRADE FREEDOM — 75.9

The Kyrgyz Republic's weighted average tariff rate was 7 percent in 2008. Import bans and restrictions, import fees and taxes, export and import licensing requirements, complex regulations and standards, weak enforcement of intellectual property rights, and corrupt customs administration add to the cost of trade. Ten points were deducted from the Kyrgyz Republic's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 92.9

The Kyrgyz Republic has relatively low tax rates. The income and corporate tax rates are a flat 10 percent. As of January 2009, the value-added tax (VAT) rate was reduced from 20 percent to 12 percent. In the most recent year, overall tax revenue as a percentage of GDP was 22.6 percent.

### GOVERNMENT SPENDING — 80.2

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending equaled 25.7 percent of GDP.

### MONETARY FREEDOM — 62.2

Inflation has been very high, averaging 19.3 percent between 2006 and 2008. Many price controls and subsidies have been eliminated, but the government regulates or influences prices through state-owned industries, including electricity, agriculture, telecommunications, water, and energy. Ten points were deducted from the Kyrgyz Republic's monetary freedom score to account for remaining price controls.

### INVESTMENT FREEDOM — 50

Most of the economy is open to foreign investment, but rules and regulations are non-transparent and arbitrarily applied. Corruption remains a disincentive, red tape is burdensome, and contract enforcement is weak. The judi-

cial system is underdeveloped and lacks independence. Foreign investors lack the knowledge needed to work the system. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on payments and transfers, but most capital transactions must be registered with the relevant government authority or are subject to controls. Foreign investors may lease but not purchase land.

### FINANCIAL FREEDOM — 50

The Kyrgyz Republic has been trying to modernize and restructure its financial system. Financial intermediation has continued to increase, but high credit costs remain a barrier to entrepreneurial activity. Banking dominates the financial sector, and domestic credit provided by the banking sector amounted to about 12 percent of GDP in 2008. There are 21 banks, half of which are majority foreign-owned and account for more than 70 percent of total assets. Subsidiaries of Kazakhstan's banks have a large presence. There are no limits on foreign ownership of banks and microcredit institutions. The central bank has improved supervision and established minimum capital requirements, but the sector remains vulnerable to executive and legislative interference. Non-performing loans reached about 7 percent in early 2009. Capital markets are not fully developed, but there is a small stock exchange. In 2008, the parliament approved privatization of Aiyl Bank, one of the largest micro-finance institutions. A deposit insurance scheme came into effect in 2009.

### PROPERTY RIGHTS — 25

Property right protections are slowly emerging, but the judicial system remains underdeveloped and lacks independence. Court actions can force the sale of property to enforce payments and other contractual obligations. Licensing, registration, and enforcement of contracts are prone to dispute. The Kyrgyz Republic is obligated to protect intellectual property rights as a member of the WTO. However, an estimated 98 percent of DVDs, CDs, and other audiovisual products sold are counterfeit.

### FREEDOM FROM CORRUPTION — 18

Corruption is perceived as pervasive. The Kyrgyz Republic ranks 166th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a decline from 2007. Corruption is endemic at all levels of society. Tax and customs agencies, law enforcement bodies, courts, and agencies controlling construction and the issuance of business licenses are notably corrupt. Thousands of cases of suspected official bribe-taking, negligence, fraud, embezzlement, and malfeasance have reportedly led to hundreds of arrests but no convictions.

### LABOR FREEDOM — 82.6

Labor regulations are relatively flexible. The government has adopted a new labor code to further improve labor market flexibility. The non-salary cost of employing a worker is moderate, but restrictions on work hours remain rigid.