

The impact of factors on GDP in Kyrgyzstan

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Abstract.

The purpose of the article is to show the negative impact of the COVID-19 on GDP (Gross Domestic Product) growth in Kyrgyzstan. The research methodology is based on the works of domestic scientists and information and analytical reviews regarding GDP in Kyrgyzstan. An analysis was made of GDP growth after the country's accession to the EAEU (Eurasian Economic Union). Our country sought to join this union, and as it turned out, not in vain. The positive results from the performance in the EAEU are shown, especially for such a macroeconomic indicator as GDP. The negative impact of the COVID-19 pandemic on GDP in Kyrgyzstan and in other countries has been revealed. The consequences of the pandemic have been devastating for almost all countries. An analysis was made of the decline in GDP during the pandemic in Kyrgyzstan. Measures are given to ensure positive dynamics of the economic growth, such as the creation of favorable conditions for entrepreneurship; improving the business and stimulating investment activity; creating conditions for increasing productivity in the real sector of the economy; strengthening foreign trade relations and developing the domestic market. The obtained scientific results can be used in the program to improve the economic situation in the country.

Keywords: Kyrgyzstan, GDP, macroeconomics, efficiency, analysis, pandemic.

1 Introduction

Kyrgyzstan is a Central Asian republic with a mountainous landscape and agricultural and mining economy.

To solve economic, social and environmental problems in the country, it is necessary to establish competitive advantages and increase efficiency of the economic system.

For the achievement of positive dynamic in the country's economic growth, and growth in major macroeconomic indicators, especially in GDP, entry into the Eurasian Economic Union became an effective solution for Kyrgyzstan. In the long run, all expectations regarding the stable growth of macroeconomic indicators were assumed and subsequently realized. Integration expectations of Kyrgyzstan were formed against the background of relatively stable dynamics of the main macroeconomic indicators. At the same time, the level of such indicators

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in quantitative terms remained low in comparison with similar data in the EAEU member-states.[1]

For example, in 2010 the volume of GDP in Kyrgyzstan was USD 4.8 billion, while in Belarus - USD 56.9 billion, in Kazakhstan - USD 148.1 billion, in Russia - USD 1,525.3 billion. Thus, in Belarus this indicator is almost 12 times higher than in Kyrgyzstan, in Kazakhstan - more than 31 times, in Russia - 318 times more [2], [3].

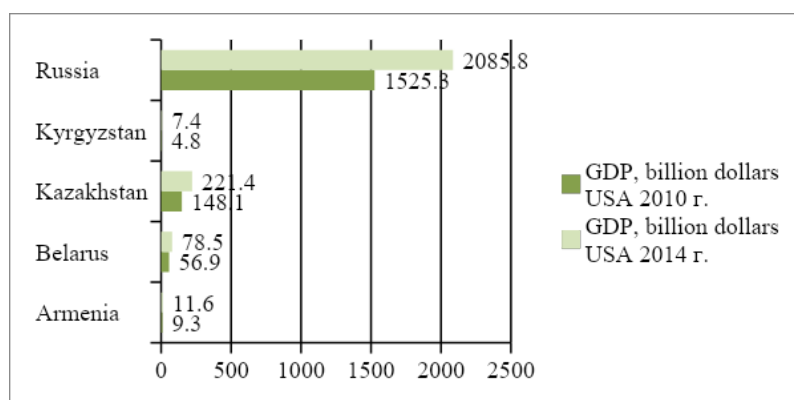


Fig. 1. GDP, billion dollars USA. [4] Socio-economic statistics of the EEC, time series: "Gross domestic product at current prices in US dollars 2005-2016"

http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Pages/national.aspx

EAEU - the Eurasian Economic Union - is an international economic union that enables the free movement of goods, services, capital and work force. Its member states are Russia, Belarus, Kyrgyzstan, Kazakhstan, Armenia. Observer states - China, Cuba, Vietnam, Iran. [5], [6]

In a relatively short period of time the Kyrgyz Republic has managed to implement set objectives. Kyrgyz parliamentarians jointly with the economic block of the Government of the Kyrgyz Republic, brought the national legislation in line with the law of the Union in the process of the country's accession to the EAEU. [7] By the end of 2014, amendments were made and about 43 new laws and 60 decrees of the Government of the Kyrgyz Republic were developed. Large-scale work was carried out to improve the customs infrastructure, including equipping checkpoints and debugging information systems, etc.[8]

The management of the Kyrgyz Republic demonstrated a dedication to sign the accession Treaty by the end of 2014 and intensified work on the draft document in November - December 2014.[9]

The draft Treaty on the accession of the Kyrgyz Republic to the Treaty on the EAEU was discussed in detail at meetings of the working groups (14th meeting - December 2, 2014, 15th meeting - December 9, 2014, 16th meeting - December 22, 2014), as well as at the meetings of the Council of the Eurasian Economic Commission on December 10 and 23, 2014.[10]

2 Materials and Method

With the help of informative-analytical reviews and based on the works of national scientists the positive dynamics of Kyrgyzstan's accession to the EAEU was analyzed, a comparative analysis before and after joining this union was made. The scientific approaches of objectivity, comprehensiveness and systematicity were used to study the dynamics of GDP. In addition, calculation and analytical, statistical and logical methods were used.

3 Results

GDP growth in the Kyrgyz Republic was analyzed using objective analysis and comparative analysis methods. Scientific approaches of objectivity, complexity and consistency were used to study the GDP growth rate. The main directions and mechanisms of sustainable GDP growth in the context of deepening economic integration are substantiated using the calculation and analytical method, statistical and logical methods. [11]

As a result of the operational work and cooperation of the Eurasian Economic Commission, the Member-states and the Kyrgyz Republic, it was succeeded by the end of December 2014 to reach the signing of the document by the heads of states.[12]

The results were immediate, already in 2016 Kyrgyzstan reached positive dynamics in key macroeconomic and socio-economic indicators, wherein the growth of majority of them in the real sector was higher than the average in the Union (GDP - 4.3% more, industrial production - 5.9% more, agriculture - 2.9% more).[13] In 2017 the tendency continued. The positive dynamics in GDP growth in our country can be seen in the table below.

Table 1. Analysis of GDP growth in Kyrgyzstan in 2016 - 2019 (million KGS-Kyrgyz soms)

#	Indicators	2016	2017	2018	2019
		Actual	Actual	Actual	Prelim. Actual
	GDP, mln. KGS	476331,2	530475,7	569385,6	590042,4
	Real growth rate in % to the corresponding period of the previous year	104,3	104,7	103,8	104,5

[4] Eurasian Development Bank Eurasian Economic Commission (EDB, EEC). 2016. System of analysis and macroeconomic forecasting of the Eurasian Economic Union

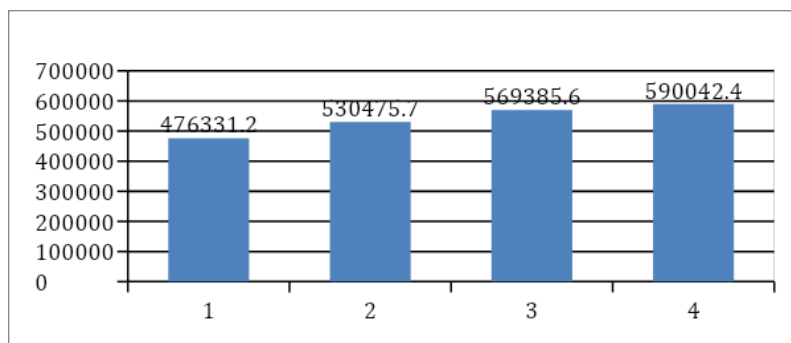


Fig. 2. Dynamics of GDP growth in Kyrgyzstan in 2016 - 2019 (million Kyrgyz soms)

Not so significant, but stable growth of GDP in Kyrgyzstan for the period in 2016-2019, was a consequence of the membership in the EAEU.[14]

The main result for the national economy in 2019 was the retention of positive dynamics in growth and the achievement of the forecasted level of economic growth. In 2019, macroeconomic and social stability were ensured in the country.

By the end of 2019 the volume of gross domestic product, according to preliminary estimates of the National Statistical Committee of the Kyrgyz Republic, summed up in the amount of 590 bln. KGS, and the real GDP growth rate was 4.5 %, and growth rate was 3,8 % if

exclude enterprises on exploitation of Kumtor mine.

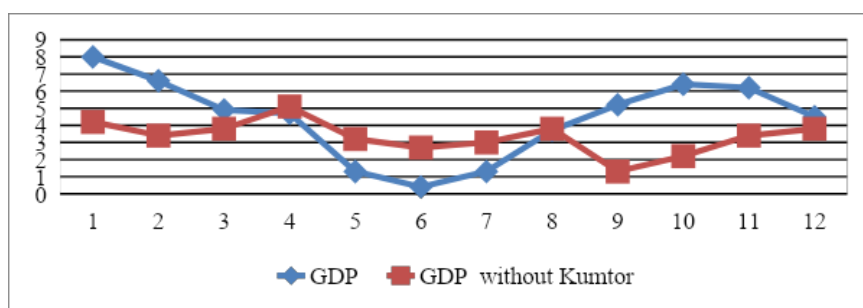


Fig. 3. The growth rate of the GDP of Kyrgyzstan from 2017 to 2019 (%) [4]

Economic growth was ensured by all economy sectors: in agriculture actual volumes increased by 2.6 %, in construction - by 10.6 %, in industry - by 6.9 %, and in services - by 2.9 %.

Table 2. Growth of GDP of the Kyrgyz Republic and the GDP-forming sectors, in %

Indicators	2018 actual			2019 prelim. actual			Share of input to growth of GDP
	Mln.KGS	Growth rate, %	in % to GDP	Mln. KGS	Growth rate, %	in % to GDP	
GDP	569385,6	103,8	100,0	590042,4	104,5	100,0	4,5
Industry	105072,2	105,1	18,5	105409,8	106,9	17,9	1,27
Agriculture	66477,4	102,6	11,7	71335,2	102,6	12,1	0,30
Construction	51386,5	107,8	9,0	57479,3	110,6	9,7	0,96
Services	265883,3	102,8	46,6	276797,7	102,9	46,9	1,35
Clean taxes for products	80566,2	103,8	14,2	79020,4	104,5	13,4	0,64

[16] <http://mineconom.gov.kg/ru/direct/3>

The positive dynamics in macroeconomic indicators allowed the Government of the Kyrgyz Republic ensure timely implementation of all planned state obligations in the area of social protection and pension provision. [15]

Looking ahead till 2030, the country's GDP was expected to grow at a faster pace, according to report of the Eurasian Economic Commission in 2018. In particular, one of the expected effects from membership in the EAEU was supposed to be a 13 % increase in GDP of all member states. [16]

But, unfortunately, in 2020 the situation around the world has changed dramatically, and as it turned out, not for the better.

In 2020 the COVID-19 pandemic became the most powerful shock for the world community, spread of which led to a quick recession in the economies of many countries of the world.

"Many middle- and low-income countries are now in desperate need of liquidity to avoid defaulting on their debts, the UN Secretary-General emphasized in his remarks. - We see an urgent need for solidarity and financial support from all stakeholders, including private creditors. The main purpose of this consolidation is to relieve the debt burden on vulnerable countries so that they do not have to choose between providing vital services to people and servicing their own debts." [17]

According to the World Bank's (WB) June review "Global Economic Prospects" (GEP), global GDP will shrink by 5.2 % in 2020 - the fastest pace since World War II. However, the decline in GDP per capita is expected to affect the largest number of countries since 1870. [18]

Economic activity in developed countries this year is likely to decline by 7% amid serious shocks affecting domestic supply and demand, trade and finance, noted by the WB. In emerging market and developing economies (EM and DE), GDP is expected to decline by 2.5 % this year.

And since Kyrgyzstan is one of the countries that are strongly dependent on world trade, tourism, export of raw materials and external financing, it is assumed that it will be quite difficult. [19]

The global pandemic COVID-19 will have a widespread negative impact on trade in a globalized world, which together with other adverse factors may lead to the imminent onset of an economic crisis or even super crisis. [20]

The results of the socio-economic development of the Kyrgyz Republic for the first half of 2020 demonstrated, as expected, a negative tendency of economic growth. From April 2020 the COVID-19 pandemic has provoked a recession in the economy (in January-March 2020, real growth was 101.5 %), adoption of necessary measures by the Government to contain the spread of coronavirus infection has led to a rapid contraction of economic activity. [4]

According to preliminary estimates of the National Statistical Committee of the Kyrgyz Republic, in January-June 2020 the gross domestic product amounted in 228.3 billion KGS and compared to the corresponding period in 2019, decreased by 5.3 % (the real growth rate was 94.7 %), and if exclude enterprises on exploitation of Kumtor mine - decreased by 6.9 % (real growth rate was 93.1 %). [21]

Table 3 Structure and growth rates by sectors that form GDP

Indicators	January-June 2019, prelim.actual			January-June 2020, prelim.actual			
	Mln. KGS	Growth rate, %	In % to GDP	Mln. KGS	Growth rate, %	In % to GDP	Share of input to growth of GDP
GDP	234713,8	106,4	100,0	228300, 7	94,7	100,0	-5,3
Industry	48297,1	120,3	20,6	57658,5	100,1	25,3	0,02
Agriculture	20209,7	102,0	8,6	21385,0	101,6	9,4	0,14
Construction	15860,5	105,8	6,8	14584,9	90,9	6,4	-0,62
Services	114318,2	101,5	48,6	109271, 2	91,8	47,9	-4,02
Clean taxes for products	36028,3	106,4	15,4	25401,1	94,7	11,1	-0,81

[16]<http://mineconom.gov.kg/ru/direct/3>

The main factors that led to a decrease of production and export-import operations, and consequently, consumer demand for goods, were the economic consequences of the COVID-19 pandemic, which led to economic recession in the countries - the main trade partners; decrease in real income and the introduced measures in the countries – the main trade partners (decrease in economic growth compared to the first half of 2019 in the Russian Federation by 4.2 %, in the Republic of Belarus - by 1.7 %, in the Republic of Kazakhstan - by 1.8 %, in the Republic of Armenia - by 12.8 %⁴, in China - by 1.6 %). [22]

4 Discussion

The global economy has entered a protracted recession due to the spread of the coronavirus pandemic. The new virus shattered the illusion of resilience in a global peace that seemed to be solid. In a few days were stopped the free movement of people, goods and capital around the world. The decline of economic activity led to a significant reduction of external demand.

According to IMF estimates, crisis is expected to be deeper than the previous one of 2008-2009, when the global economy contracted 1.7 %. The extraordinary nature of this situation is confirmed by the statement of the IMF that over 80 developing countries have requested financial assistance from the Fund in the total amount of 2.5 trillion USD.[18]

When the first data on China came in after January - February everyone predicted that one day of lockdown would affect around 40% of GDP.

But China had a very hard lockdown, so there really was a 40% drop per day in GDP. Similar numbers were during the first wave in Italy. But as it turned out, all the subsequent lockdowns were with much less GDP loss, and the recovery was quite rapid. [23] "

Despite everything, Kyrgyzstan believes in the revival and further prosperity of the country's economy.

Return to the previous macroeconomic indicators, and even their growth is possible!

In 2021, after waiting for the cessation and stabilization of the situation caused by the outbreak of coronavirus infection COVID-19, the economy is predicted to start gradual recovery. [22]

Table 4 Growth rates in sectors of the economy that form GDP, in % [5]

Name	2019	2020	2021	2022	2023
	Prelim. actual	Expect.	Predict.	Predict.	Predict.
GDP	104,5	94,7	105,0	105,6	101,6
GDP excluding enterprises on development of Kumtor mines	103,8	95,1	105,8	104,8	105,0
<i>Including:</i>					
Industry	106,9	95,0	103,3	110,7	86,8
Agriculture, forestry and	102,6	102,0	103,0	102,9	103,5

fishing					
Construction	110,6	102,9	109,8	108,5	110,6
Services	102,9	91,0	105,1	104,0	104,8

[24]Resolution of the Government of the Kyrgyz Republic No. 461 "On the Mid-term forecast of the socio-economic development of the Kyrgyz Republic for 2021-2023" dated from September 01, 2020.

5 Conclusion

The main goal of macroeconomic policy for 2021 will be to ensure positive dynamic of economic growth and establish conditions for the restoration of the country's economic development. [13]

- 1) creation of favorable conditions for entrepreneurship;
- 2) improvement of the business climate and stimulation of investment activity;
- 3) creation of conditions to increase productivity in the real sector of the economy;
- 4) strengthening of external trade relations and development of the internal market. Target

macroeconomic indicators will be achieved through the continuation of the implementation of large national projects, effective management of state assets of the country, reform of the state regulation system to stimulate all sectors of the economy.

Economic policy will be aimed at stimulating of development of those industries, which have high potential for import substitution, create jobs and increase the people's welfare. Foreign investments will be attracted, while a reasonable balance will be built between attracting external borrowings and use of own resources for development. The borrowing policy will be structured in such a way as to prevent overdependence on any country in the world.

Investors, small and medium-sized businesses will be assured with guarantees, mechanisms for access to financial resources for long-term period will be developed, scope of the OJSC "Guarantee Fund" will be expanded.

Economic development in 2021 and in the forecasted horizon (2022–2023) will be based on the hypothesis that both external and internal factors continue to influence the development of the national economy. An improvement in the trend in external economic indicators is expected due to the stabilization of the economy in the region. [4]

In 2022–2023 the main goals of economic policy will be to maintain positive economic growth tendency, prevent possible problems and ensure sustainable economic growth.

In general, for the period 2022–2023, the inflation rate is projected at the single-digit level, if there are no other shocks; the basis is the continuation of a coordinated monetary and fiscal policy aimed at strengthening trends in macroeconomic stability. At the same time, the main goal of monetary policy will remain the achievement and maintenance of price stability.

Growth rates are projected in all sectors of the economy.

The current crisis will leave deep scars and cause major global problems. It is necessary to join forces to find ways to revive the economy as quickly and sustainably as possible.

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