

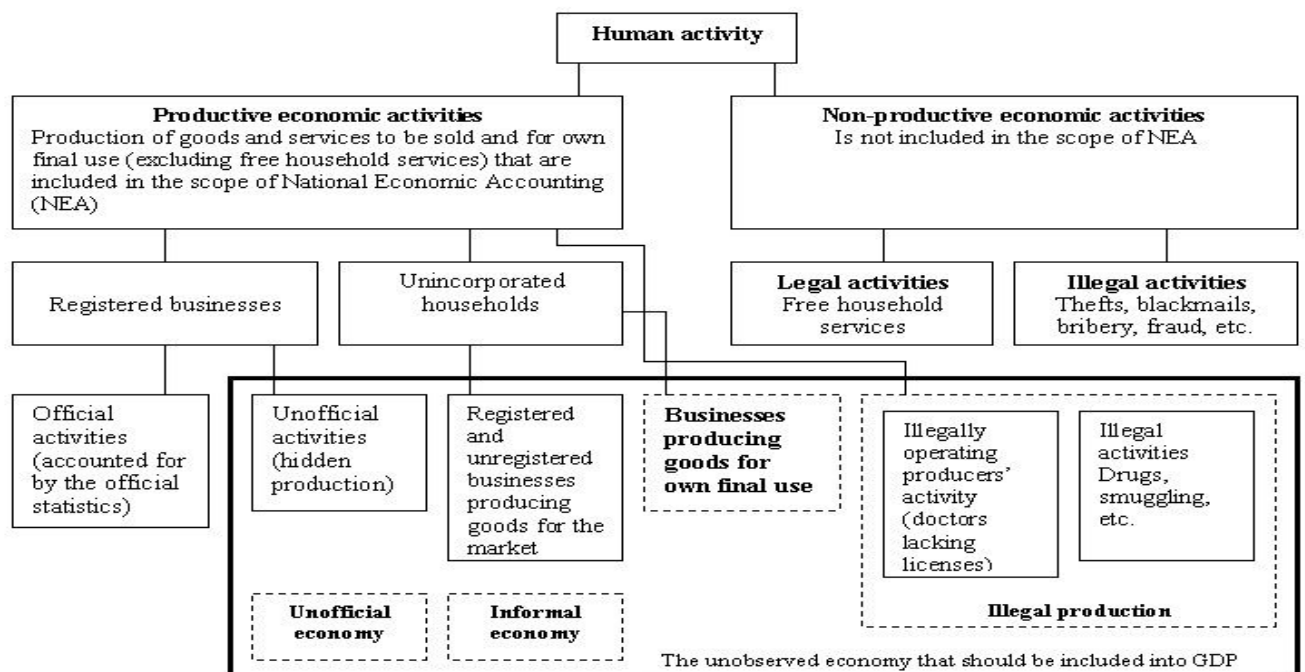
Shadow economy in Kyrgyzstan

Currently, users of statistical data show an interest in sections of statistics related to the non-observed part of the economy, due to its possible impact on issues such as the labor market, consumption, investment, income distribution, the problem of poverty. Therefore, it is necessary to take into account the so-called non-observed or “shadow economy” when calculating the most important macroeconomic indicators, the main of which is the gross domestic product. As a rule, the shadow economy occurs at all stages of economic activity: production, income generation and consumption. This phenomenon is especially characteristic of unstable economies and economies in transition.

The shadow economy is presented in almost any country in the world, however, for developing and transitional countries, in many cases, the size of this phenomenon has become threatening.

The statisticians divide the reasons of the shadow economy into objective and subjective. For example, in the case of transition countries, the objective factors include the rapid and cardinal nature of reforms in the economic and public spheres, the imperfection of the legal and regulatory framework, the “weakness” of the executive power, the lack of necessary experience of government agencies and economic actors in the transition period. Similarly, an important factor is the rapid growth in the number of small enterprises, especially in the sphere of trade and services. The collapse of other industries, characteristic of transition countries, forces many people to look for additional sources of income. Subjective reasons include a high level of corrupt government and insufficient actions to combat organized crime, which in some countries has gained significant influence in the economic sphere.

Fundamental theoretical approaches to the definition of the shadow economy are coordinated at the international level and found application in the methodological guide for compiling the System of National Accounts, developed by the joint effort of the UN, the IMF, the World Bank, the OECD and the Commission of the European Communities. However, these approaches cannot solve all the problems, because each country can have its own demonstration of elements of the shadow economy.



The national statistical committee include in the shadow economy: hidden production (unofficial activities), registered and unregistered businesses producing goods for the market, businesses producing goods for own final use, illegally operating producers activity (doctors lacking licenses), illegal activities such as drugs, smuggling etc.

Illegal production is defined in the System as follows:

- a) the production of goods and services, the production of which, as well as the possession of which are prohibited by law;

b) production activities, usually related to legal activities, which, when carried out by unauthorized manufacturers, become illegal (for example, the production of goods and services by unlicensed entities).

However, it should be clarified that some sections of the non-observed economy may be of considerable size, but do not necessarily affect the level and quality of the main indicators of national accounts, such as, for example, gross national income or national savings. These include theft, fraud, extortion and many other unlawful acts. Although they are connected to a certain extent with transactions with economic assets (money, property), they are not economic in nature and are not included in the boundaries of production.

Hidden production (unofficial economy) : some types of activity can be both productive in the economic sense and quite legal (provided that they meet certain norms and regulations), but they are hidden from state bodies for the following reasons:

- a) avoidance of payment of income tax, value added tax or other taxes;
- b) avoidance of paying social security contributions;
- c) concealment of violation of certain legal standards, for example, minimum wage, maximum working hours, safety standards, sanitary norms, etc .;
- d) avoidance of certain administrative procedures, such as filling out statistical questionnaires or other forms of reporting.

In addition to illegal and hidden production, there is a concept of **informal production**. Informal production is considered to be in the informal sector or the Households sector. The definition of the term “informal sector” includes economic units that produce goods and services primarily for the purpose of securing employment and income for the persons concerned.

In order to make GDP of the economy more consistent, National Statistical Committee of Kyrgyzstan make some corrections to GDP: by assessing the shadow economy based on production method and income method.

Assessment of shadow economy elements based on production method.

The GDP calculated from the production method perspective describes the main features of gross output and intermediate consumption. It is known for being a summary indicator of the residents' production activity results, that measures a newly made value for particular period of time and that is identified as a difference between gross output and intermediate consumption, and is widely used as a composite indicator of an economy condition because the level of production to a significant extent defines a level of consumption, prosperity and employment.

In parts of production, the data corrections on shadow economy are made towards industrial production indicators, construction, transport, trade, market consumption services including financial services.

- Industry (informal activity)- based on special sample surveys. All products manufactured by individuals are tracked (easy, food, printing, woodworking, etc.industry)
- Construction (informal activity) -based on customer surveys on construction volumes. Also, re-equipment of buildings (office shops, space,cafes) are determined. The construction of houses by individuals are not included in shadow economy- only capital repairs provided by firms are included

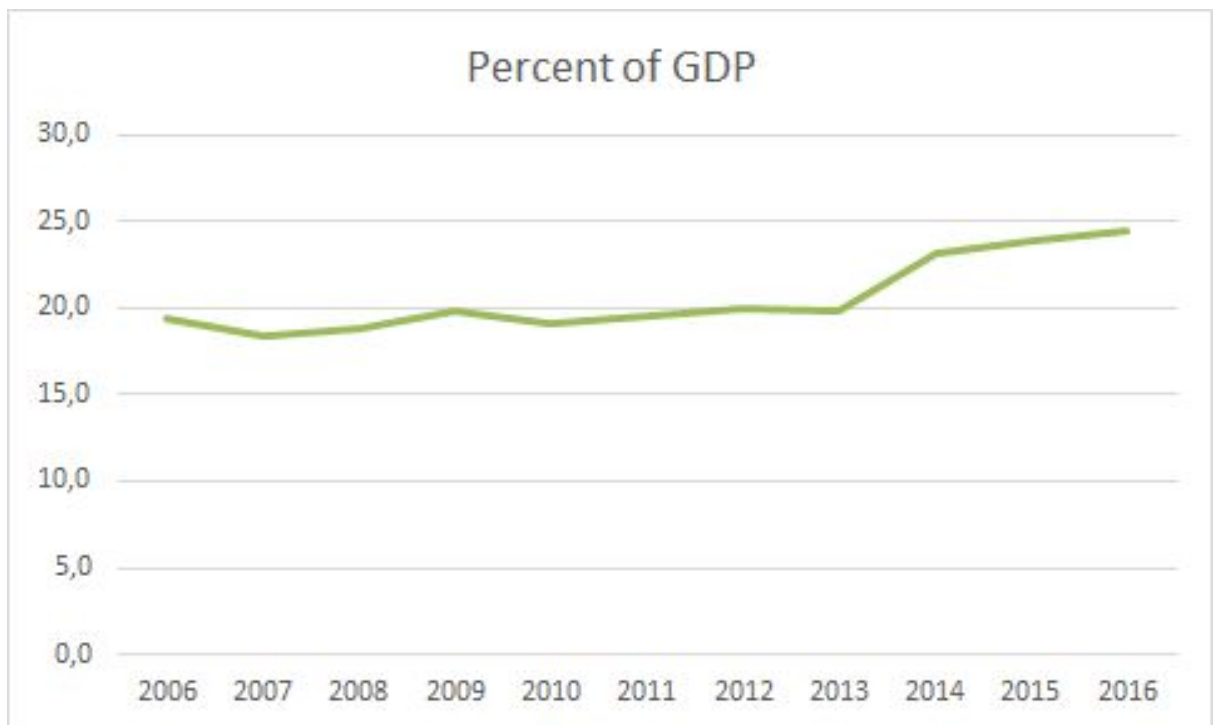
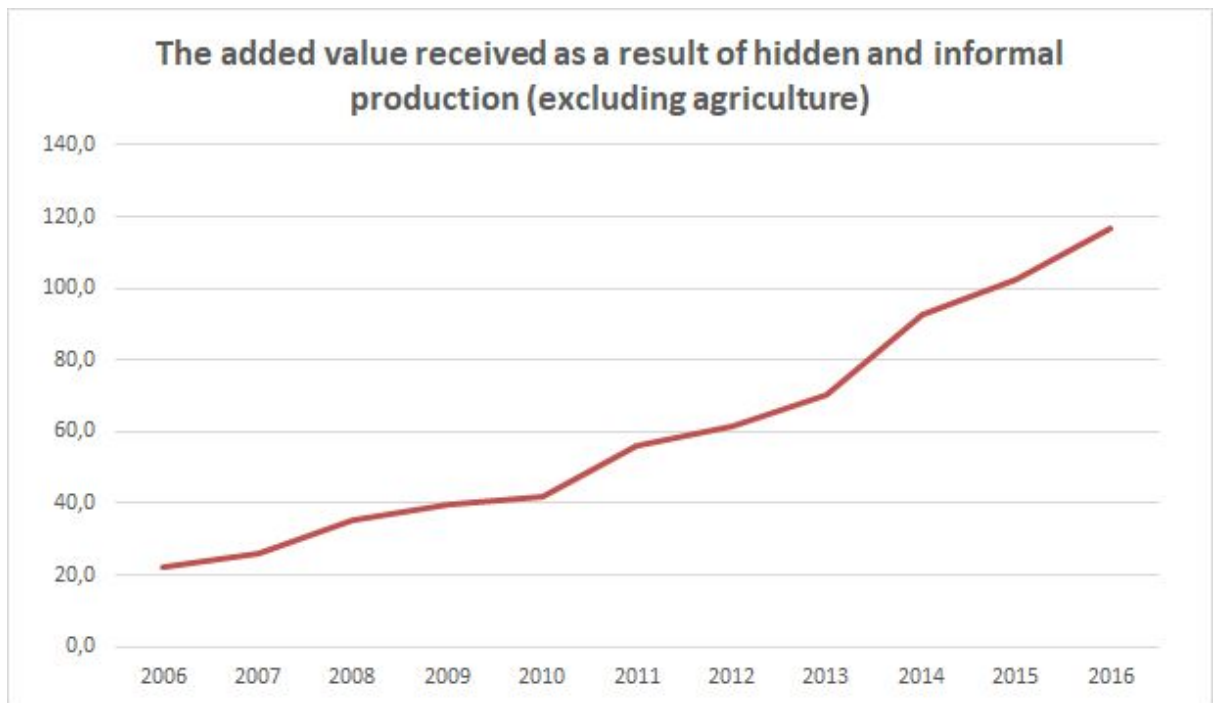
- Agriculture-not included in SE, but changes are made based on natural indicators.
- Trade (informal activity)- according to the results of market surveys and budget investigation of population.
- Trade (hidden activity) based on one-time accounting data with the usage of price indices
- Transportation (informal activity)-based on special investigations on the volume of shippings, mean productivity of cars and etc.
- Households (informal activity)- based on survey data “Poverty Monitoring”, Tax Inspection, calculations. Income from rents are included.

Assessment of shadow economy elements based on consumption method

The gross domestic product using the method of expenditures is the sum of expenditures for usage (personal, government, non-profit organizations and etc), gross fixed capital formation, changes in inventories, net acquisition of valuables and net export of good and services.

- In terms of expenditures, major changes are made to indicators of household expenditures for final consumption, because this value is calculated on the basis of trade indicators and fully linked to production indicators. This also include informal consumption of own production.
- For indicator of fixed capital, changes are due to the construction of private houses. Hidden part include understatement of the cost of housing.
- For exports- values are used that are provided by customs committee in an official manner.

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