



The National Bank of the Kyrgyz Republic

Activities of licensed exchange bureaus in Bishkek

**Economic Research Center
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Introduction

- The size of the shadow economy in the Kyrgyz Republic, according to various estimates, has reached significant volumes, making it difficult to define the true extent of the country's economy.
- According to various data, the size of the shadow economy was: 41.7 percent (Yktybayev, 2010), 39.0 percent (Khasanov, 2012), 19.9 percent (NSC, 2013).
- Licensed exchange bureaus under-report currency turnover
- There is no methodology for assessing the turnover of exchange bureaus.
- **Unknown real turnover of the exchangeable currency in the exchange offices of the republic and the city of Bishkek.**

Introduction

- Exchange bureaus turnover amounted to 97 billion soms in 2014 in the Kyrgyz Republic. According to the National Bank, the amount of taxes paid (compulsory patent) in the budget was to be 36.6 million soms, whereas the State Tax Service reports actual payments of 24.4 million soms.

1. Object, purpose, objectives and hypothesis

The *object* of the study is the licensed exchange bureaus in Bishkek, which submit reports to the National Bank.

The *subject* of research is the accounting of exchange operations of licensed exchange bureaus.

The *purpose* of the work is to study the activities of licensed exchange bureaus in Bishkek for possible non-disclosure of turnover.

2. Object, purpose, objectives and hypothesis (continuation)

In accordance with the stated purpose the following goals have been identified:

- the study of literature, which describes the informal financial (including foreign exchange) operations and activities of exchange bureaus;
- preparation of research instruments of the exchange bureaus activities in Bishkek;
- analysis of interviews with experts and reported data of exchange bureaus;
- development of proposals and recommendations on the activities of exchange bureaus.

The results of this study should confirm the hypothesis that licensed exchange bureaus conceal the real volume of sales of foreign currency.

3. Literature review

- Sh. M. Ibragimova, et al. Results of a survey of cross-border trade and re-export of goods not covered by official statistics, NBKR, B 2012
- A methodological provision on assessment of the size of the non-observed economy (NSC, 2009)
- Parameters of the shadow economy in Kyrgyzstan, NSC KR, B., 2000.
- Dornbush, Rudiger, et al. (1983) 'The Black Market for Dollars in Brazil', The Quarterly Journal of Economics, Vol.98, No.1, Feb., 1983, pp.25-40.
- Grosse R. Jamaica's foreign exchange black market // The Journal of Development Studies. – 1994. – T. 31. – №. 1. – C. 17-43.
- Jianping, Ding (1998) 'China's Foreign Exchange Black Market and Exchange Flight: Analysis of Exchange Rate Policy', The Developing Economies, XXXVI-1, March 1998, pp. 24-44.

4. Methodology

Cost-based method

The peculiarity of the cost method is that it only shows the conditional break-even point. The latter is achieved by the sale of a minimum amount of foreign currency at a certain amount of margin, which would just cover an aggregate cost of maintaining the exchange bureau. Conditional minimum value of the sale of foreign currency to get non-negative profit is defined as equality of costs and revenues:

$$C=R$$

- Some minimum amount is required for the monthly maintenance of the i th exchange bureau. It consists of the following costs:
 - - the cost of a patent;
 - - rent for the premises of the exchange bureau;

4. Methodology (continuation)

- payment for workers of the exchange bureau;
- payment of utility bills;
- other expenses

$$C_j = \sum_{k=1}^n C_k$$

The size of the exchange bureau revenue is determined as the volume of m th foreign currency sold multiplied by the margin per unit of currency sold :

$$R = V_{i,j,m}^s * \pi_{i,j,m}$$

5. Data

- Sample N=243 (2013-2014), including:
 - Center 1 – 78 exchange bureaus (32,1 percent).
 - Center 2 – 18 exchange bureaus (7,4 percent).
 - Periphery 1 – 36 exchange bureaus (14,8 percent).
 - Periphery 2 – 111 exchange bureaus (45,7 percent).
- Regionalization of exchange bureaus by value of patents (SOT, 2009). Period: 2013-2014 years.
- Working period: March-May 2015.

5. Data

Zoning chart of the exchange bureaus in Bishkek



"Dordoi" bazaar

Legend

- Center 1: L.Tolstoy Street-Erkindik blvd.-M.Frunze Street-S.Ibraimov Street
- Center 2: K.Skryabin Street-Ala-Archa river-K.Minin Street-N.Isanov Street-Jibek-Jolu avenue-A.Suyumbayev Street-railroad-T.J.-Pudovkin Street
- Periphery 1: I.Ahunbaev Street-Sh.Rustaveli Street-J.Turusbekov Street-M.Kurenkeev Street-Alamedin market-"Dordoi" bazaar
- Periphery 2: Other areas of the city, including "Manas" airport
- Railroad



6. Results (continuation)

Expenditure items of exchange bureau by regions

#	Cost item	Сумма
1	Patent	
	Center 1: L.Tolstoy Street-Erkindik blvd.-M.Frunze Street-S.Ibraimov Street	15 000
	Center 2: K.Skryabin Street-Ala-Archa river-K.Minin Street-N.Isanov Street-Jibek-Jolu avenue-A.Suyumbaev Street-railroad-T.J.-Pudovkin Street	12 000
	Periphery 1: I.Ahunbaev Street-Sh.Rustaveli Street-J.Turusbekov Street-M.Kurenkeev Street-Alamedin market-“Dordoi” bazaar	10 000
	Periphery 2: Other areas of the city, including “Manas” airport	6 000
2	Rent of premises for the exchange bureau	
	«Dordoi»	12 000-24 000
	«Mossovet»	from 90 000
	Other parts of the city	12 000-30 000
3	Salary for one worker	20 000
4	Utility bills and other expenses	5 000

6. Results (continuation)

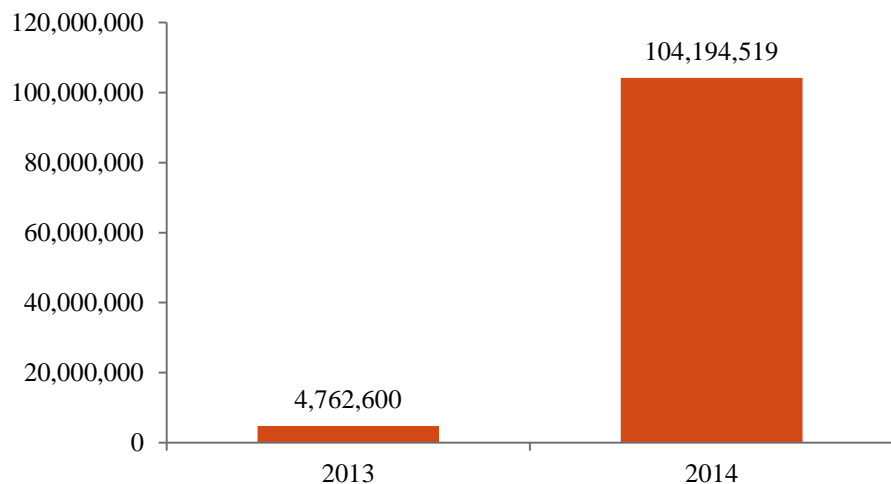
Expenditure items of exchange bureau by regions

#	Cost item	Name of the area			
		Center 1	Center 2	Periphery 1	Periphery 2
1	Patent	15 000	12 000	10 000	6 000
2	Rent of premises for the exchange bureau	90 000	12 000	12 000	12 000
3	Workers salary	40 000	40 000	40 000	40 000
4	Utility bills and other expenses	5 000	5 000	5 000	3 000
5	Total	150 000	69 000	67 000	61 000

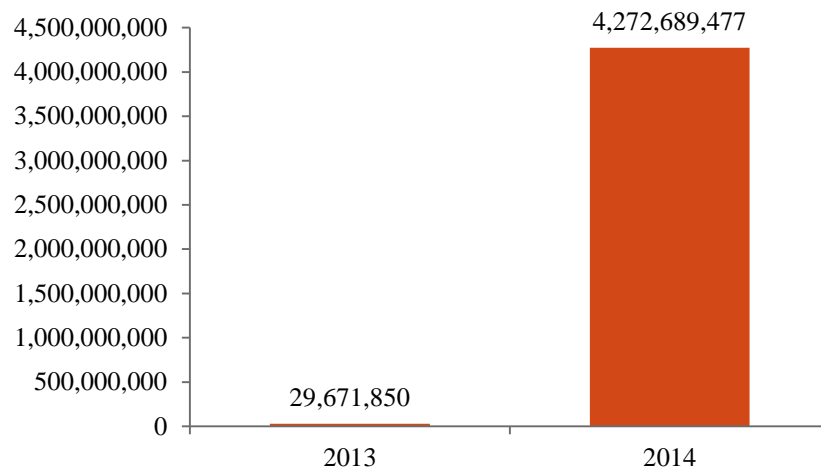
6. Results (continuation)

Maximum sales of currency in 2013-2014

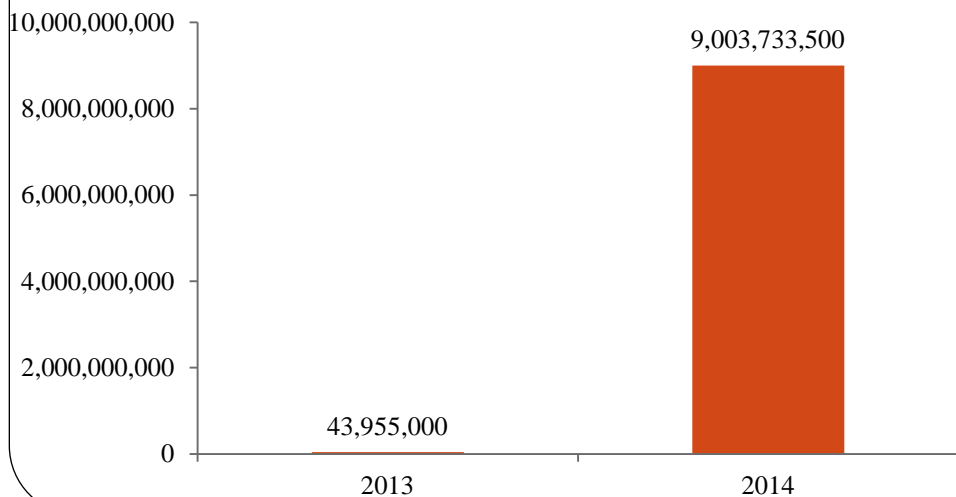
dollars



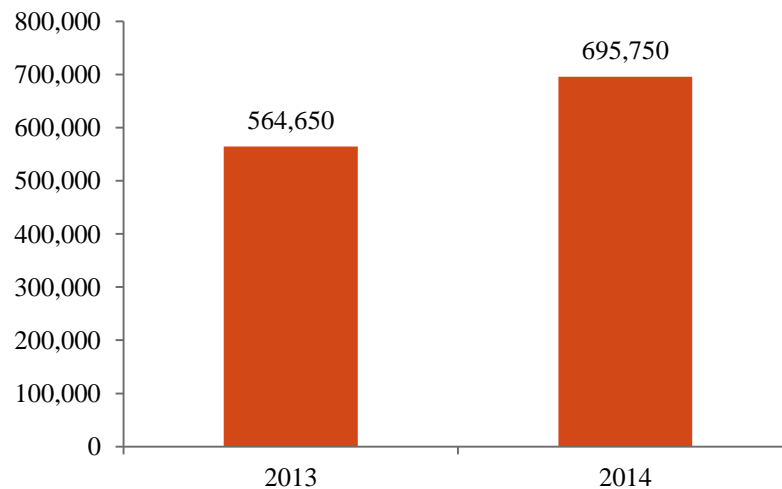
rubles



tenge



euro



6. Results (continuation)

Maximum sales of currency in 2013-2014

- It was assumed that the sale of foreign currency increased due to the activities of exchange bureaus and increased number of inspections.
- However, the increase in sales of foreign currency in 2014 was achieved mainly by 18 exchange bureaus only (out of 243).

6. Results (continuation)

Conditionally loss-making exchange bureau

#	District	Number of exchange bureaus	On average, they were conditionally loss-making	
			2013	2014
1	Center1	78	12	32
2	Center 2	18	5	9
3	Periphery 1	36	7	12
4	Periphery 2	111	18	43
5	Total	243		

6. Results (continuation)

Suspicious exchange bureaus

#	District	Number of exchange bureau	Number of suspicious exchange bureaus	
			2013	2014
1	Center 1	78	14	43
2	Center 2	18	9	11
3	Periphery 1	36	8	19
4	Periphery 2	111	23	70
5	Total	243	54	143

6. Results (continuation)

Interview results

- A number of banks, when establishing exchange rates, are guided by the exchange rates of the Mossovet bureau;
- Exchange rate: actions of exchange bureaus are coordinated;
- Exchange rate fluctuations depend on the speculation of commercial banks;
- Exchange bureaus act as authorized representatives of commercial banks for the purchase and sale of currency;
- Exchange rate operations in Bishkek are controlled by well-established regional groups;
- Many economic agents prefer the anonymity of operations that's why they choose exchange bureaus.

7. Conclusions

- The results confirmed the hypothesis posed: exchange bureaus conceal their actual sales of foreign currency. For example, exchange bureaus continue to operate even being conditionally loss-making.
- The increase in sales of foreign currency in 2014 was mainly ensured by 18 exchange bureaus. Under conditions of increased activity of foreign exchange operations on the market the number of conditionally loss-making exchange bureaus increased by 1.6-2.8 times in 2014.
- Checks (and their number) of exchange bureaus are not effective and do not contribute to the disclosure of information about turnover.

8. Reference list

- Sh. M. Ibragimova, et al. Results of a survey of cross-border trade and re-export of goods not covered by official statistics, NBKR, B 2012
- <http://www.int.nbkr.kg/DOC/13062012/0000000000016215.pdf>, дата обращения: 29.11.2014.
- A methodological provision on assessment of the size of the non-observed economy (NSC, 2009)
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