

**NATIONAL BANK  
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report  
Quarter 1, 2021**

**Bishkek  
May 2021**

Monetary Policy Report is released by the National Bank on a quarterly basis. The objective of this Report is to inform the public about the decisions made by the National Bank in the sphere of monetary policy, which are based on analysis and forecast of the main inflation factors and assessments of the economic situation development in the external environment and in the Kyrgyz Republic.

### *Monetary policy in the Kyrgyz Republic*

**The objective of the monetary policy** is to achieve and maintain price stability through appropriate monetary policy.

**The policy rate of the National Bank is the main instrument of the monetary policy.** In 2014, the National Bank moved to a new monetary policy framework - when the National Bank policy rate serves as a target for the funds value in the money market - to improve and increase the effectiveness of the monetary policy. The short-term interest rates of the money market are the operational goal of the monetary policy. The purpose of the aforementioned movement is to strengthen the impact of the interest rate channel of the monetary policy, aimed at development of the inter-bank credit market and support for the real sector of economy.

**Quantitative benchmark of the monetary policy is to keep inflation rate within 5-7 percent in the medium term.** Development and implementation of the monetary policy is carried out within the framework of the Main Directions of the Monetary Policy for the medium term.

**Monetary policy of the National Bank is focused on the future,** as the decisions made in the field of the monetary policy affect the key macroeconomic indicators of the country with a certain lag. Development of the monetary policy is based on the inflation forecasts for the short and medium term, resulting from consistent and economically reasonable forecast of the economic situation development in the Kyrgyz Republic and in the external environment.

**Communication policy is among the main instruments of the monetary policy conducted by the National Bank.** The National Bank regularly issues press releases and holds press conferences on the monetary policy to inform the public and form adequate inflationary expectations among the population. Assessment of the current and expected macroeconomic situation in the country made by the National Bank is published in the Monetary Policy Report at the beginning of the third month of each quarter. The schedule of meetings held by the National Bank Board on the size of the policy rate is published on the bank's official website.

Monetary Policy Report for Q1 2021 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2021-II-07/29-1-(ДКП) dated May 31, 2021.

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## Summary

The restrictive measures taken due to the spread of the COVID-19 new strains and the slower vaccination of the world's population still have a restraining effect on the global economic growth.

At the same time, the price environment in the world food markets, characterized by growth in prices for basic types of goods, and increased volatility in the global financial markets remain the key factors that affect the scale of recovery in the Kyrgyz Republic's trading partner countries and, as a result, the economic development of the Kyrgyz Republic.

There are positive trends in resumption of the economic activity in the Kyrgyz Republic. Despite the positive growth rates of remittances to the country (+22.4 percent in January-March 2021), domestic demand is recovering more slowly. The growth rates of the real GDP in the Kyrgyz Republic remain negative: according to the results of January-March 2021, the economy decreased by 9.4 percent compared to the same period in 2020 (excluding the enterprise of the Kumtor Mine, the economy decreased by 4.5 percent).

In Q1 2021, the trade balance was formed under the influence of a decrease in export and import operations. Exports decreased by 8.8 percent due to a reduction in supplies of gold. Imports decreased by 1.9 percent due to a decline in the supplies of consumer goods and energy products. As a result, the trade balance deficit of the country amounted to USD 466.0 million. The volume of foreign trade turnover decreased by 4.3 percent and amounted to USD 1.3 billion.

The fiscal deficit is still observed mainly due to an increase in the budget capital expenditures. At the end of Q1 2021, the state budget deficit amounted to 2.7 percent to GDP (in the same period of 2020, the budget deficit was 4.8 percent to GDP).

Various non-monetary factors continue to influence the consumer prices in the country. In March 2021, the annual inflation rate was 10.3 percent. The global rise in prices for food products and previously increased meat export from Kyrgyzstan were the main factors that influenced an increase of consumer prices in the country.

Tightening of the monetary conditions was continued in the context of increasing inflationary processes in the Kyrgyz Republic. The banks became more active in the interbank credit market, mainly in the short segment, as a result of a decrease in excess liquidity in the banking sector. In general, the short-term money market rates demonstrated an upward trend and were mainly formed near the key rate within the interest rate corridor set by the National Bank.

There was an increased demand for foreign currency amid influence of the external economic conditions on the domestic foreign exchange market. The National Bank continued to conduct foreign exchange interventions to smooth sharp fluctuations of the exchange rate.

The market for deposits and loans still demonstrated a positive dynamics. The depository base was growing amid a faster increase in the foreign currency deposits. At the same time, the banks' credit portfolio grew due to an increase in the share of lending in the national currency.

## Chapter 1. External Environment

### 1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

In Q1 2021, there was a recovery trend in economic activity in the Kyrgyz Republic's main trading partner countries.

The economic recovery in Russia has become more stable. An improvement was observed in the external and internal conditions for economic development in Russia, as a result, in Q1 2021, the GDP decline in Russia slowed down to (-) 1.3 percent.

The economic recovery was observed in Kazakhstan, where, the rate of economic recession was (-) 1.6 percent at the end of Q1 2021.

In Belarus, there was a slight economic recovery, while, according to experts' expectations, in 2021, economic activity in Belarus will remain below the pre-crisis level.

Restrained economic activity was observed in Armenia due to the negative consequences of the coronavirus pandemic and internal challenges. The inflation rate in Armenia still accelerated amid weakening Armenian dram and rising inflationary expectations.

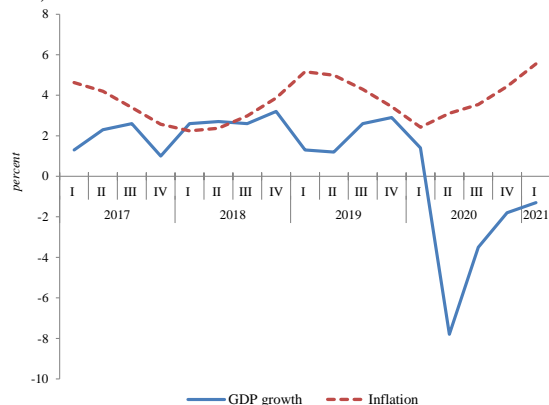
In Q1 2021, China still demonstrated high rates of economic recovery.

GDP positive growth was observed in Q1 2021 amid the large-scale measures taken to support the US economy.

#### Russia

##### Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



Source: Ministry of Economic Development of the Russian Federation, IA Bloomberg, Russian Federal State Statistics Service

According to the Ministry of Economic Development of the Russian Federation, in Q1 2021, the decline in Russia's GDP slowed down to (-)1.3 percent in annual terms. The country's economy demonstrated active economic recovery. GDP was mainly supported by manufacturing and related industries. There was an improvement in dynamics of the processing industry, freight turnover of transport, agriculture, the volume of construction work, as well as a slowdown in the decline in the mining sector.

According to the Bank of Russia, at the end of Q1 2021, the retail trade turnover approached the pre-pandemic level. There was an active recovery in the sector of services rendered to the population due to the gradual lifting of restrictive measures. Investment demand still increased in Q1 of the current year. The unemployment rate was characterized by the stable downward trend.

In addition to the above, the foreign demand, which continued to grow, despite the current difficult epidemic situation in the world, also provided the recovery support for the Russian economy.

According to the Russian Federal State Statistics Service, in Q1 2021, the inflation rate in Russia was 5.6 percent to the corresponding quarter of the previous year. Rapid resumption of aggregate demand made the main contribution to inflation acceleration. Population's inflationary expectations were increased compared to the pre-pandemic period.

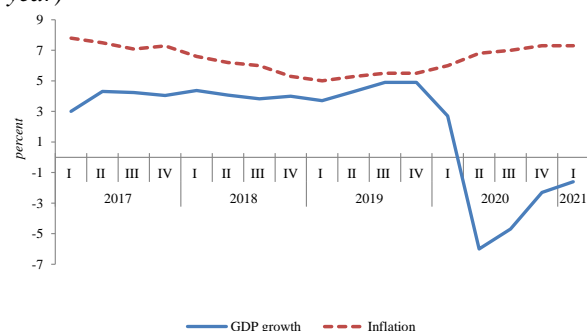
The consumer prices for food products increased by 3.1 percent (3.5 percent – in Q4 2020 compared to the previous period, 2.2 percent – in Q1 2020), non-food products –

1.8 percent (1.7 percent – in Q4 2020, 0.8 percent – in Q1 2020), services – 1.2 percent (0.3 percent – in Q4 2020, 0.7 percent – in Q1 2020).

## Kazakhstan

**Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan**

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBKR calculations

and agriculture (+ 2.8 percent) made the main positive contribution to economic growth in the country. Measures of the state economic support, positive indicators of the country's creditworthiness and an increase in investment in the non-extractive sectors of the economy were the main factors behind for economic recovery.

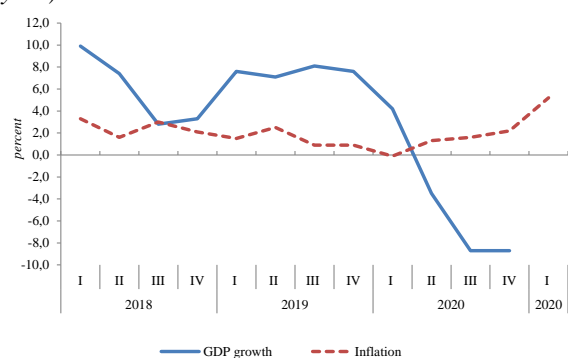
According to the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, in January-March 2021, the CPI constituted 107.3 percent. The annual inflation dynamics was below the estimates of the National Bank of the Republic of Kazakhstan, slowing down to 7.0 percent at the end of March of the current year compared to 7.4 percent in February and January 2021. At the same time, there are the external and internal pro-inflationary risks, as well as there is an increase in inflationary expectations, therefore the subsequent decline in the annual inflation rate may demonstrate slowdown.

## Armenia

**The economic indicators of Armenia for January-March 2021 have not yet reached the previous year's values due to the consequences of the pandemic and geopolitical difficulties.**

**Chart 1.1.3. Growth of GDP and Inflation in Armenia**

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Service of the Republic of Armenia, IA Bloomberg, CB RA

**At the end of Q1 2021, the economy of the Republic of Kazakhstan retained its recovery dynamics.**

GDP growth rate improved from (-)2.9 percent in January-February of the current year to (-)1.6 percent in January-March. Growth accelerated to 7.9 percent in the real sector, excluding mining. The economic contraction rates slowed down in February after GDP decrease in January. In March, the GDP dynamics was characterized by the upward trend.

The processing industry (+7.5 percent), construction (+13.1 percent)

According to the preliminary data, in January-March 2021, the indicator of economic activity in Armenia decreased by 2.0 percent. Domestic demand remained moderate due to the current weak private consumption.

In January-March of the current year, the industrial production output decreased by 3.9 percent, the gross agricultural output decreased by 1.0 percent compared to the same period of the previous year. The construction sector (+4.7 percent) demonstrated a positive growth rate of economic activity.

In January-March, the trade turnover decreased by 5.6 percent, and the volume of

services provided (excluding trade) decreased by 8.1 percent. At the same time, export increased by 3.4 percent, while import decreased by 8.7 percent.

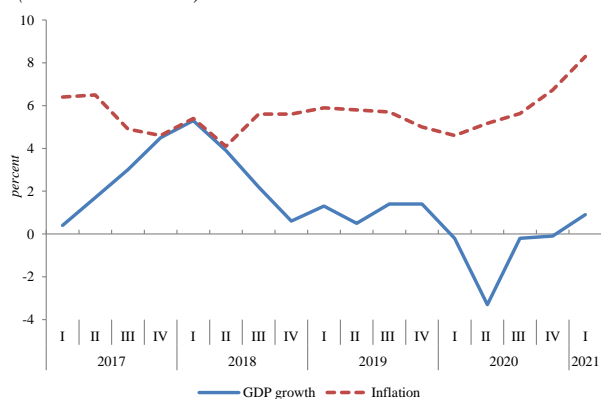
The economic growth will resume mainly due to the gradual neutralization of the negative demand factors amid gradual restraint of fiscal policy in the medium term.

In Q1 2021, consumer prices increased by 5.2 percent partly due to an increase in the world food prices and the USD exchange rate. The Central Bank of Armenia expects the inflation rate to exceed the planned 4 percent during 2021. At the same time, the regulator emphasized that in the coming years, as a result of the policy conducted by the Central Bank of Armenia, it will be possible to return it to the level of 4 percent per annum.

## Belarus

**Chart 1.1.4. Growth of GDP and Inflation in Belarus**

(in annual terms)



Source: National Statistical Committee of the Republic of Belarus

**In Q1 2021, there was slight economic recovery.**

GDP of Belarus increased by 0.9 percent in annual terms. The processing and the energy sector made the main contribution to economic growth amid increase in external demand and a cold winter (1.9 and 0.5 percent, respectively).

The analysts assume that consumer and investment activity in Belarus is due to increased uncertainty and a decrease in lending. At the same time, the experts are confident that due to the effect of the low base of 2020, in the near future, the annual GDP growth rate will increase and by the end of the first half of 2021 will be at the

level of 1.5-2 percent.

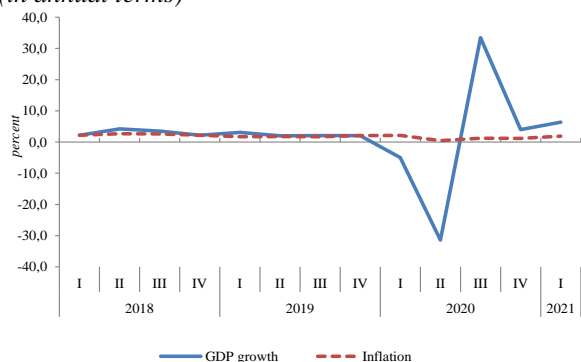
According to experts' expectations, economic activity in Belarus in the current year will remain below the pre-crisis level, primarily amid weak investment activity. In 2021, the economy of Belarus will be supported by resumed business activity in the trading partner countries, as well as gradual easing of the sanitary restrictions as the epidemiological situation improves. The EDB forecasts an increase in GDP of Belarus by 0.1 percent, the government forecast is 1.8 percent.

In March 2021, there was weakening in growth of the consumer prices down to 8.5 percent (in February - 8.7 percent), prices for the socially important goods (SIG) increased by 7.1 percent during 12 months (7.2 percent during the previous month). The seasonal decrease in prices for the goods in the segment of fruits and vegetables, stabilization of the situation in the foreign exchange market and measures taken for price regulation contributed to slowdown in the growth of consumer prices in annual terms. According to the experts, the annual growth rate of prices will increase in Q2 2021 compared to the current value and then it will decrease by December 2021, meanwhile an increase in consumer prices is estimated at about 7.0 percent. The National Bank of Belarus believes that increased inflationary expectations will restrain the inflation slowdown. In addition, uncertainty of the external factors, in particular, the world food price movement will affect the inflation dynamics.

## USA

**Chart 1.1.5. Growth of GDP and Inflation in the USA**

(in annual terms)



Source: the U.S. Department of Commerce, the U.S. Department of Labor, IA Bloomberg

Since the beginning of 2021, GDP positive growth was recorded in the United States after three quarters of decline<sup>1</sup> in 2020. According to the Bureau of Economic Analysis of the U.S. Department of Commerce, in Q1 2021, real GDP in the USA increased by 0.4 percent<sup>2</sup> compared to the same period of 2020. In the reporting period, GDP growth reflected the current economic recovery, resumption of business activities and ongoing government measures related to the COVID-19 pandemic. During the reporting period, there was an increase in expenditures for personal consumption, capital investment, imports, federal government expenditures, and the states and the local government authorities' expenditures, which were partially offset by a decrease in private investments in inventories and exports.

The US inflation accelerated amid economic recovery. In March 2021, the US consumer prices increased by 2.6 percent in annual terms (maximum since August 2018), and the prices rose by 0.7 percent in monthly terms. The core inflation rate in the USA, excluding food and energy prices, was 1.6 percent in March in annual terms and 0.4 percent in monthly terms. In the reporting month, prices for food products increased by 3.5 percent in annual terms, and prices for energy resources increased by 13.2 percent.

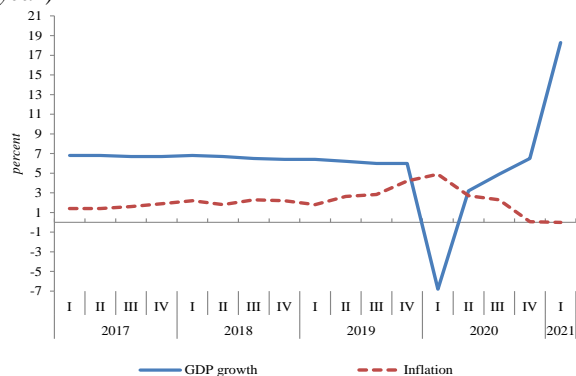
## China

At the end of Q1 2021, China's economic growth rate reached a record high and amounted to 18.3 percent in annual terms<sup>3</sup>.

China's economy continued to recover after the recession due to the pandemic in early 2020, driven by increased demand in the country and abroad, as well as stable state support from the government.

**Chart 1.1.6. Growth of GDP and Inflation in China**

(quarter to the corresponding quarter of the previous year)



Source: National Bureau of Statistics of the PRC, IA Bloomberg

At the end of three months, there was a positive trend in such sectors as industrial production (+ 24.5 percent in annual terms), retail sales of consumer goods (+33.9 percent), capital investments of the Chinese commercial organizations, excluding agricultural households (+25.6 percent). Exports grew by 38.7 percent, while imports increased by 19.3 percent. Thus, China managed to continue the favorable recovery trend of Q4 2020, which can be called a success amid economic recession in other large countries.

Experts emphasize that such significant increase in annual terms is primarily due to the effect of a low base and they expect that, given the expected reduction in

<sup>1</sup> Quarter to the corresponding quarter of the previous year.

<sup>2</sup> Preliminary estimate.

<sup>3</sup> This is an absolute record since 1993, when the National Bureau of Statistics of the People's Republic of China began providing quarterly economic reports. The previous record was 15.3 percent.



economic stimulus, the economic recovery rate in China may further slow down, but it is likely to exceed the official target of “more than 6 percent”<sup>1</sup> of GDP growth set for 2021.

China’s inflation data for March of the current year confirmed the start of expected rise in prices in annual terms. Producer price inflation (PPI) increased by 4.4 percent in annual terms, being the fastest growth since July 2018 and well ahead of expectations. Meanwhile, the consumer price inflation (CPI) recovered from (-) 0.2 percent in February of the current year, up to 0.4 percent in March in annual terms. The recovery was mainly due to the low base effect caused by the decrease in oil prices in 2020. The prices for food products decreased by 0.7 percent, while prices for non-food products increased by 0.7 percent; prices for consumer goods and services increased by 0.6 and 0.2 percent, respectively. In Q1 2021, consumer prices in China did not change compared to the same period of the previous year.

## 1.2. World Commodity Markets

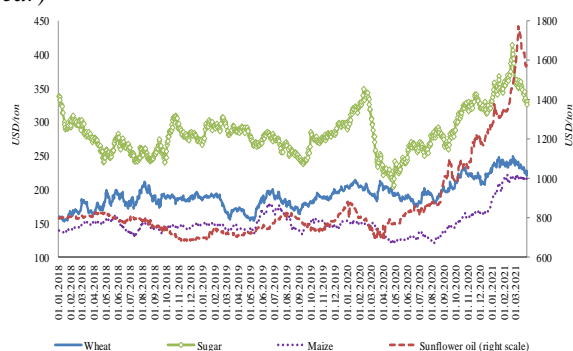
The world prices for food products have increased for the tenth consecutive month and have reached their highest values within the past seven years. It put significant upward pressure on prices in the Kyrgyz Republic. Prices for basic food products in Kyrgyzstan follow world prices as a significant part of these products is imported.

In the reporting period, there was an increased demand in the oil market amid recovery of the world economy, meanwhile, prices in the gold market decreased.

### Food Market

#### Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



**In Q1 2021, the global food market still demonstrated an upward trend in prices.**

The overall growth in the cost of the global food basket is due to an increase in prices for vegetable oils, cereals and sugar. In the reporting period, prices for vegetable oils were the highest, meanwhile a significant increase in prices was observed for sunflower oil (quotations increased from USD 810.5 up to USD 1,465.7 per ton) by 80.8 percent compared to the same period of 2020. A sharp increase in prices for vegetable oils was due to a decrease in palm

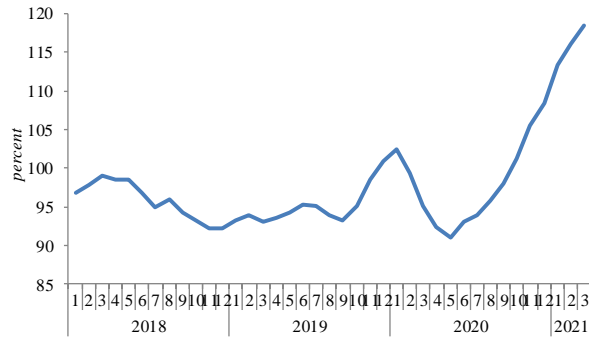
oil production in Malaysia in 2020/2021 marketing year, a decrease in the oil-bearing crops harvest in Ukraine and an increased global demand.

Sugar prices continued growing (+ 18.4 percent compared to Q1 2020) due to the current concerns about limited supply amid decline in the production output in the key producing countries and strong import demand from Asian countries. At the same time, further increase in prices was restrained by the forecasts of production recovery in Thailand and a record harvest in India.

The world wheat quotations increased by 17.5 percent compared to the same period in 2020. However, in March 2021, prices for wheat decreased amid large stocks in the world and the expectations of a good harvest in 2021.

<sup>1</sup> According to the country’s economic development plan for 2021, approved by the National People’s Congress of China.

**Chart 1.2.2. Dynamics of FAO Food Price Index**



In Q1 2021, the average FAO food price index increased by 17.2 percent compared to the corresponding quarter of 2020 and amounted to 115.9 points. During the reporting period, an increase in prices for vegetable oils (+52.6 percent compared to Q1 2020) provided the main contribution to the FAO food price index. At the same time, there was an increase in the FAO food price index for all food products, excluding meat products.

According to the FAO data, deterioration of the harvest amid poor weather and climatic conditions, as well as disruption of supply chains and increased demand from China are among the economic factors for acceleration in the growth of world food prices. The world analysts and the experts of the financial institutions forecast continued pressure on domestic inflation in almost all countries of the world, both food importers and exporters.

### Energy Market

**Chart 1.2.3. Dynamics of Oil Prices (in USD)**



Since the beginning of Q1 2021, the world oil prices demonstrated an upward trend, however, by the end of the reporting period, volatile dynamics were observed due to the restrictive measures in the world amid the third wave of the coronavirus pandemic.

In Q1 2021, the average price of Brent oil increased by 35.5 percent compared to the previous quarter and amounted to USD 61.3 per barrel (the price increased by 20.7 percent compared to the same period of the previous year).

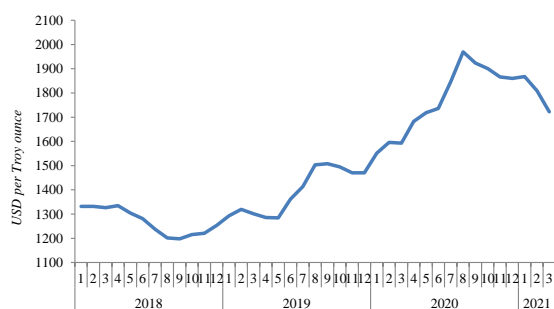
Since the beginning of 2021, the improvement in the fundamentals of supply and demand in the world oil market, unprecedented global fiscal and monetary stimulus, and economic recovery in China, the world's largest commodities importer were the main drivers of an increase in oil prices. At the same time, the OPEC+ decision to increase oil production output by 2.1 million barrels per day (until August 2021) and restrictive measures imposed in some European countries put pressure on oil quotations by the end of the reporting period.

According to the OPEC's forecast, in 2021, global demand for oil will increase by 6 million barrels per day and will amount to about 96.5 million barrels per day due to the global economic recovery and vaccination initiation globally. The analysts assume that more intensive economic recovery, population's vaccination and lifting of the restrictive measures in the OECD countries will have a positive impact on the global demand for oil. At the same time, OPEC expects that oil demand in 2021 will not be equal to the pre-crisis level of 2019 due to the consequences of the current coronavirus pandemic.

The Saxo Bank's analysts assume that a favorable forecast for global economic growth will balance the effects of the coronavirus third wave and OPEC + plans to increase oil supply in the coming months. The bank's analysts forecast the price of Brent oil for 2021 within the range of USD 60 - USD 65 per barrel.

## Gold Market

**Chart 1.2.4. Dynamics of Prices for Gold**



Источник: ИА «Блумберг»

**Since January of the current year, the world gold market demonstrated a downward trend amid strengthening of the USD and the growth of yields on the US government bonds due to the recovery of the global economy.**

According to the World Gold Council (WGC), in Q1, global demand for gold was 815.7 tons and was approximately the same as in the previous quarter, but it decreased by 23.0 percent compared to Q1

2020. In Q1, the average price for gold increased by 13 percent compared to the same period of the previous year, however it decreased by 4.0 percent compared to the previous quarter.

At the same time, the recovery of economic activity globally and the low price for gold created conditions for the long-term investors to build up their positions. The analysts assume that stabilization of the interest rates amid growing money supply and accelerating inflation rate in the United States will result in an increase in demand for investment products related to gold in the medium and long term.

In the reporting period, the central banks of several countries continued to maintain high levels of precious metal net purchases: the global official gold reserves increased by 95.5 tons, which is 23.0 percent lower compared to the same period of the previous year, but 20 percent higher compared to the previous quarter.

## Chapter 2. Macroeconomic Development

### 2.1. Demand and Supply in the Commodities and Services Market

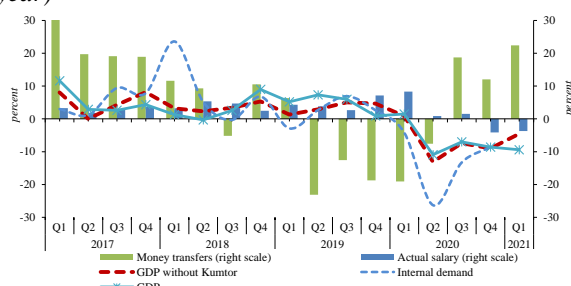
A gradual recovery of economic activity was observed in the Kyrgyz Republic, however, the rates of economic growth were still in the negative zone. Domestic demand remained restrained, but the remittances' inflow into the country demonstrated a positive trend. A decrease in production output at the country's largest gold mining enterprise "Kumtor" conditioned a decrease in the gross domestic product of the Kyrgyz Republic in Q1 2021.

At the same time, high uncertainty was observed in the country's economy amid an ambiguous situation in the external economic environment and the current negative impact of the consequences of the coronavirus infection pandemic.

#### Demand

#### Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

**dynamics.** According to the preliminary results of Q4 2020, domestic demand<sup>1</sup> decreased down to (-)8.6 percent from (-)13.3 percent in Q3 2020. The slow recovery in domestic demand was mainly due to a moderate growth in remittances (+2.0 percent at the end of 2020). Since the beginning of 2021, net inflow of individuals' remittances via the money transfer systems in USD in Q1 2021 increased by 22.4 percent compared to the same period of 2020.

At the end of January-March 2021, the average monthly nominal wage per one employee<sup>2</sup> amounted to KGS 18.9 thousand, having increased by 6.2 percent compared to the same period of 2020. The largest increase in the growth rate of average monthly wages was observed in the sector of information and communication (26.9 percent), transport and storage of goods (11.5 percent), and hotels and restaurants (11.1 percent). At the same time, in January-March 2021, the real wages decreased by (-) 3.7 percent compared to the same period of 2020.

During January-March 2021, the economy of the Kyrgyz Republic demonstrated a decrease at the level of (-)9.4 percent compared to the same period of 2020.

At the same time, according to the results of Q1, GDP, without the enterprise of the Kumtor Mine, returned to the value of January 2021 in the amount of (-)4.5 percent after a decrease by 5.3 percent in February.

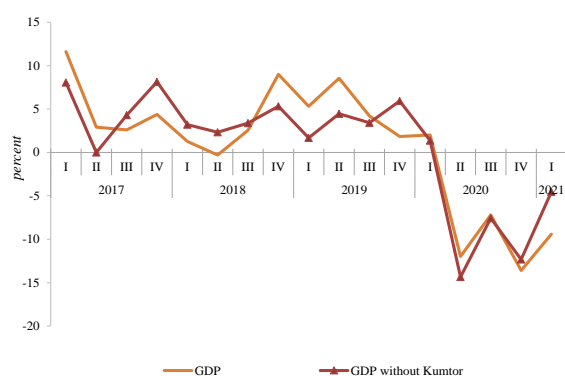
At the same time, domestic demand demonstrates a slow recovery

<sup>1</sup> According to the NSC KR, reference to the data for the earlier period is given due to the lack of more up-to-date data.

<sup>2</sup> Generally in the republic, excluding small enterprises.

### Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

The volumes of the services and construction sectors decreased by 5.5 and 19.8 percent, respectively, which indicate the current impact of the negative consequences of the coronavirus pandemic.

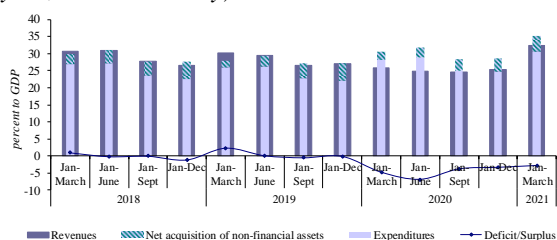
### Public Finances Sector

At the end of Q1 2021, the state budget deficit amounted to KGS 3.2 billion, or 2.7 percent to GDP (in Q1 2020, the state budget deficit was KGS 5.6 billion or 4.8 percent to GDP).

The primary state budget deficit (excluding interest payments for servicing the state debt) amounted to KGS 0.8 billion or 0.6 percent to GDP.

### Chart 2.1.3. Execution of the State Budget

(period to the corresponding period of the previous year, accumulatively)



Source: CT MEF KR, NBKR

the amount of 1.5 and 1.4 percentage points, respectively.

The state budget expenditures for operating activities increased in annual terms by 9.9 percent or KGS 3.3 billion and amounted to KGS 36.3 billion or 30.7 percent to GDP. In the structure of expenditures by economic classification, there is an increase in expenditures on all items as well as due to the fact that since January 2021, the expenditures from the “special account”<sup>1</sup> are classified according to the corresponding expenditure items (wages, subsidies, social benefits, etc.). In the structure of expenditures by functional classification, the largest contribution to the increase in expenditures was made by expenditures for civil service, economic issues, health care, social protection, public order and safety.

In general, the current negative economic growth rate is due to a decline in production output almost in all main sectors of the economy, excluding agriculture.

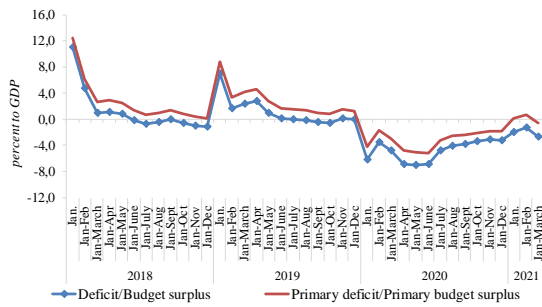
The negative growth rates in the industrial sector are conditioned by the production indicators at the enterprise of the Kumtor Mine. According to the official website of Centerra Gold Inc., in Q1 2021, production output at the enterprise of the Kumtor Mine decreased by 40.8 percent compared to Q1 2020 (152.3 thousand ounces) and amounted to 90.2 thousand ounces. In Q1 2021, low production output complied with the company’s forecast.

The state budget revenues from operating activities increased by 26.7 percent or KGS 8.1 billion compared to Q1 2020 and amounted to KGS 38.5 billion or 32.5 percent to GDP. Tax revenues with the largest share in the structure of current revenues (77.7 percent) made the most important positive contribution to the growth of budget revenues in the amount of 23.8 percentage points. Non-tax revenues and official transfers also made a positive contribution in

<sup>1</sup> Special accounts are the accounts with the receipts recorded in the following forms: a) provision of paid state and municipal services; b) sponsor support and voluntary contributions; c) guardianship fees; d) charitable or grant aid; e) deductions from the international institutions for joint research work; f) funds from the sale of own-produced goods.

### Chart 2.1.4. Budget Deficit

(period to the corresponding period of the previous year, accumulatively)



Source: CT MEF KR, NBKR

**Table 2.1.1. Capital Investments by Sources of Financing**  
(millions of KGS, percent)

	January-March			
	2020	2021	2020	2021
	millions of KGS		share, percent	
<b>Total</b>	<b>17 941.9</b>	<b>13 777.6</b>	<b>100.0</b>	<b>100.0</b>
<b>Internal investment</b>	<b>14 486.8</b>	<b>12 675.0</b>	<b>80.7</b>	<b>92.0</b>
Republican budget	290.7	453.7	1.6	3.3
Local budget	15.0	67.4	0.1	0.5
Funds of enterprises and organizations	7 143.1	5 702.9	39.8	41.4
Banks' credits	159.8	208.6	0.9	1.5
Population funds including beneficent help of KR residents	6 878.2	6 242.4	38.3	45.3
<b>External investment</b>	<b>3 455.1</b>	<b>1 102.6</b>	<b>19.3</b>	<b>8.0</b>
Foreign credit	2 067.7	808.2	11.5	5.9
Direct foreign investments	820.4	70.5	4.6	0.5
Foreign grants and humanitarian aid	567.0	223.9	3.2	1.6

Source: NSC KR

Source: NSC KR

financed from the domestic (-12.7 percent) and foreign (3.1 times) sources. At the same time, the investments financed from the local budget increased by 4.5 times, from the republican budget – by 1.6 times, from the bank loans – by 1.3 times being the evidence of the stimulating fiscal policy conducted by the Government of the Kyrgyz Republic.

### Supply

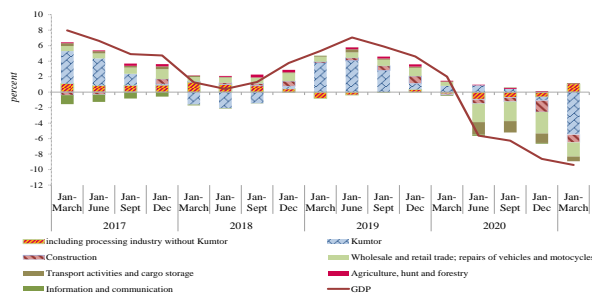
According to preliminary data of the National Statistical Committee of the Kyrgyz Republic, in January-March 2021, the nominal GDP decreased by 9.4 percent in real terms compared to 2020 (according to updated data for January-March 2020 an increase was 2.0 percent) and amounted to KGS 118.4 billion.

The sectors of industry (-4.6 percentage points), services (-2.8 percentage points) and construction (-1.0 percentage point) made the largest negative input in economic growth. Agriculture made a small positive input of 0.1 percentage point.

Growth of gross agricultural output increased by 0.9 percent compared to January-March 2020 was due to an increase in livestock production (by 0.9 percent).

**Chart 2.1.5. Input of Main Sectors in GDP Growth**

(period to the corresponding period of the previous year, accumulatively)



Source: NSC KR, calculations: NBKR

Net outflow of budget funds for operations related to acquisition of non-financial assets (including operations in the following groups: fixed assets, reserves, land) increased by 1.9 times, or by KGS 2.5 billion compared to Q1 2020 and amounted to KGS 5.4 billion or 4.5 percent to GDP. The bulk of capital expenditures falls on acquisition of buildings and structures.

### Investments

**In January-March 2021, the level of capital investments exploitation decreased by 23.4 percent compared to the same period of 2020.**

Decrease of capital investments was observed in the sectors such as the construction of many types of economic activity facilities, excluding agriculture, provision (supply) of electricity, gas, steam and conditioned air, transport activities, as well as the public administration and defense.

At the end of Q1 2021, there was a decrease in the volume of capital investments

financed from the domestic (-12.7 percent) and foreign (3.1 times) sources. At the same time, the investments financed from the local budget increased by 4.5 times, from the republican budget – by 1.6 times, from the bank loans – by 1.3 times being the evidence of the stimulating fiscal policy conducted by the Government of the Kyrgyz Republic.

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The sectors of industry (-4.6 percentage points), services (-2.8 percentage points) and construction (-1.0 percentage point) made the largest negative input in economic growth. Agriculture made a small positive input of 0.1 percentage point.

Growth of gross agricultural output increased by 0.9 percent compared to January-March 2020 was due to an increase in livestock production (by 0.9 percent).

**In January-March 2021, production in the industrial sector reduced compared to January-March 2020 due to a decrease in output of basic metals and finished metal products, excluding machinery and equipment (by 38.4 percent), chemical products (by 27.8 percent), as well as textile, clothes and footwear, leather and leather products (by 14.6 percent).**

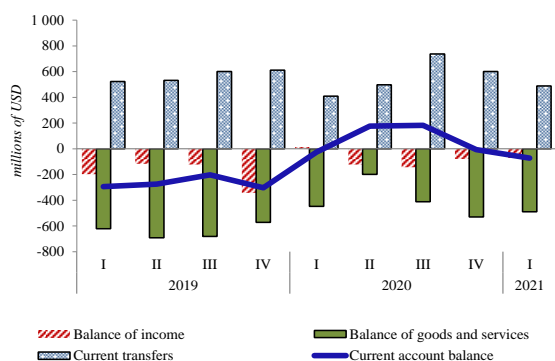
The volume of wholesale (by 15.4 percent) and retail (by 14.4 percent) trade decreased due to a reduction in the

turnover of trade, repair of motor vehicles and motorcycles compared to January-March 2020.

The GDP deflator was positive and amounted of 11.6 percent, having increased by 8.8 percentage points compared to January-March 2020 (in January-March 2020, the deflator was also positive at 2.8 percent).

## 2.2. External Sector<sup>1</sup>

**Chart 2.2.1. Current Account**



Note: According to the preliminary and forecasted data

**In Q1 2021, an increase in the current account deficit was mainly due to growth in the negative balance of income, goods and services trade.**

According to the forecasted and preliminary data, in Q1 2021, the current account deficit constituted USD 71.8 million. The ratio to GDP remained positive (3.8 percent), as the calculations are based on sliding data<sup>2</sup>.

In the reporting period, the trade balance of the Kyrgyz Republic was formed with a negative balance and increased by 5.8 percent compared to the same period in the previous year, to make USD 466.0 million. The decline in exports due to a reduction in gold supplies was the determining factor in the upward dynamics of the trade deficit.

**Table 2.2.1. Trade balance of the Kyrgyz Republic<sup>3</sup>**

(millions of USD)

	2018	2019	2020	2020 Q1	2021* Q1	Change in %	Change in millions
Trade balance	-3 033,8	-2 626,0	-1 412,9	-440,6	-466,0	5,8	-25,4
Export (FOB)	1 916,0	2 042,9	2 009,6	483,5	440,8	-8,8	-42,7
Gold	664,2	832,9	987,0	212,9	140,3	-34,1	-72,6
Import (FOB)	4 949,9	4 669,0	3 422,5	924,1	906,9	-1,9	-17,2
Energy products	809,6	627,2	490,9	164,1	160,5	-2,2	-3,6

\*Preliminary data

In the reporting period, the export of goods (in FOB prices) decreased by 8.8 percent, to make USD 440.8 million. In the reporting period, the dynamics of exports were primarily influenced by a decrease in supplies of gold by 34.1 percent due to a reduction in the physical volume of supplies. At the same time, there was a decrease in supplies of clothes, fruits and vegetables, nuts, ores and concentrates of precious metals. Meanwhile, there was an increase in the volume of export of rolled glass and glass with a polished surface, portland cement, metal scrap and ferrous and non-ferrous base metal waste.

In Q1 2021, imports of goods (in FOB prices) decreased by 1.9 percent compared to the same period of the previous year, to make USD 906.9 million. The dynamics of imports are still significantly affected by the restrictions imposed at the borders due to measures to prevent the spread of the COVID-19 disease. There was a decline in imports of footwear, cast iron and steel, medicines (including veterinary), diesel fuel and other items.

**In the reporting period, the net inflow of current transfers increased compared to the same period of 2020 due to an increase in the volume of received private transfers.** The net inflow of private transfers increased by 21.3 percent and amounted to USD 488.7 million.

<sup>1</sup> According to the preliminary and forecasted data, including additional estimates of the National Bank of the Kyrgyz Republic. Period of comparison is the quarter to the corresponding quarter of the previous year.

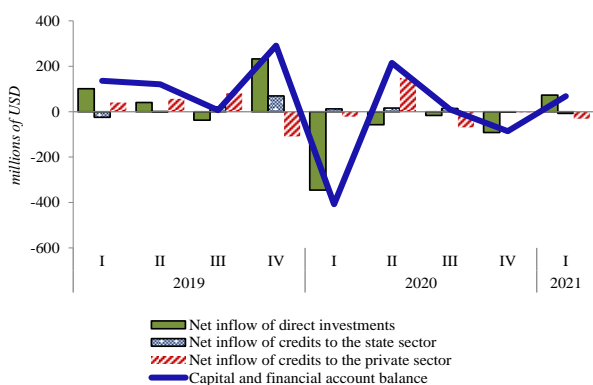
<sup>2</sup> Ratios to GDP are calculated based on sliding annual data, including the last four quarters.

<sup>3</sup> The data on the foreign trade are given taking into account the NSC KR additional estimates for sampling survey of mutual trade with the EAEU member states and the NBKR additional estimates on exports.

In the reporting quarter, the deficit in the balance of services is estimated at USD 23.4 million, meanwhile the negative balance of income is expected at USD 71.1 million.

**According to preliminary forecast estimates of the National Bank, in Q1 2021, the current account deficit will be accompanied by a net capital inflow on the capital and financial account in the amount of USD 68.4 million.** The capital account surplus will make USD 22.6 million, meanwhile the positive balance on the financial account is expected at USD 45.8 million.

**Chart 2.2.2. Capital and Financial Account**



In the context of the current trends in economic development, the item “other investments” is expected to develop negative under the influence of reduction in foreign assets and residents’ foreign liabilities amid limited inflow of loan capital. Net inflow of direct foreign investment is forecast at USD 73.1 million.

Thus, the balance of payments of the Kyrgyz Republic will be formed with a negative balance to make USD 166.0 million at the end of Q1 2021.

### Indexes of Real and Nominal Effective Exchange Rate of KGS

**Table 2.2.2. Key Values for Exchange Rate**

	year (average)			month to the beginning of the year		
	2019 (aver.) (January- December)	2020 (aver.)* (January- December)	%	December 2020	March 2021	%
REER	115,7	115,7	0,0	112,4	113,5	1,0
NEER	122,5	122,6	0,0	116,4	117,3	0,8
RBBER to CNY	84,5	79,2	-6,3	72,8	72,9	0,1
NBBER to CNY	67,1	60,8	-9,4	53,1	52,0	-2,0
RBBER to EUR	108,2	101,7	-6,0	93,2	94,7	1,6
NBBER to EUR	78,0	69,5	-10,9	60,0	60,2	0,3
RBBER to KZT	141,7	137,3	-3,0	132,1	132,0	-0,1
NBBER to KZT	171,0	166,7	-2,5	156,7	154,5	-1,4
RBBER to RUB	122,0	125,7	3,1	123,4	123,6	0,1
NBBER to RUB	140,4	140,9	0,4	133,9	132,7	-0,9
RBBER to TRY	165,8	174,3	5,1	177,1	166,7	-5,9
NBBER to TRY	247,6	275,3	11,2	284,6	269,1	-5,4
RBBER to USD	87,6	83,1	-5,2	80,4	80,6	0,3
NBBER to USD	65,8	59,6	-9,5	54,8	54,2	-1,2

\* Preliminary data

↓ - Som devaluation, competitiveness improvement  
↑ - Som strengthening, competitiveness deterioration

By the end of Q1 2021, there was an increase in the nominal and real effective exchange rates compared to December 2020. According to the preliminary data, the index of the nominal effective exchange rate (NEER) of KGS increased by 0.8 percent year-to-date and constituted 117.3 at the end of March 2021. The increase in the index was due to the strengthening<sup>1</sup> of KGS in March 2021 compared to the average exchange rate in December 2020 against the euro by 0.3 percent, amid depreciation against the Russian ruble by 0.9 percent, the US dollar - by 1.2 percent, the Turkish lira - by 5.4 percent, the Chinese yuan - by 2.0 percent

and the Kazakh tenge - by 1.4 percent.

The strengthening of the NEER index and a higher inflation rate in Kyrgyzstan<sup>2</sup> conditioned an increase in the real effective exchange rate (REER) index, which increased by 1.0 percent since December 2020 and constituted 113.5 at the end of March 2021.

<sup>1</sup> The data are given for the nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for the calculation of the index.

<sup>2</sup> In Q1 2021, the inflation rate in the Kyrgyz Republic was formed at 3.2 percent, meanwhile, the average inflation rate in the main trading partner countries according to the preliminary calculations was 3.1 percent.



## Chapter 3. Monetary Policy

### 3.1. Monetary Policy Implementation

The continuing ambiguous situation in the external economic environment, including volatility in the world commodity markets and existing upward price dynamics in the global food markets, conditioned an increase in inflationary processes in the Kyrgyz Republic.

In Q1 2021, in order to limit the inflationary pressure in the country, the National Bank continued to adhere to the monetary policy initiated in March 2020 and aimed at limiting the influence of the monetary inflation factor. In the reporting period, the interest rate policy of the National Bank was tightened – the key rate was increased up to 5.50 percent.

Tactical monetary policy measures were taken with regard to the behavior of the money market participants operating in the context of maintaining excess liquidity in the banking system accumulated during 2020 as a result of measures taken by the authorities (mainly the fiscal sector) to prevent the COVID-19 spread.

The domestic foreign exchange market was quite active amid an excess of the market participants' demand for foreign currency over supply thereof. The National Bank conducted foreign exchange interventions to smooth sharp fluctuations of the exchange rate.

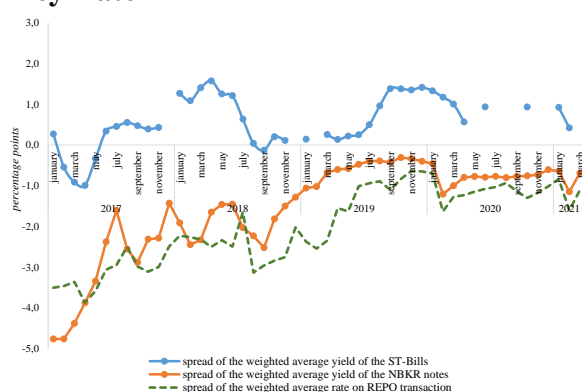
Under the activation of the banks in the domestic foreign exchange market, there was rise in demand for short-term liquidity in the national currency, which led to a significant growth in the volume of transactions in the short segment of the interbank credit market. In general, the short-term money market rates still demonstrated their upward trend and stood mainly near the key rate within the interest rate corridor set by the National Bank.

#### Interest Rate Policy of the National Bank

Taking into account the strengthening of inflationary processes in the country and its estimates for the medium term at the end of February 2021, the National Bank's main rates were increased once again. In particular, the policy rate was increased by 50 basis points, up to 5.50 percent, by the decision of the National Bank Board in order to limit inflationary pressures, as well as the spillover effects from price increase in the world food markets.

The rates of the interest rate corridor were adjusted due to the change of the key rate: the rate on "overnight" deposits was increased from 2.75 to 3.25 percent, the rate on "overnight" credits – from 5.75 to 6.00 percent.

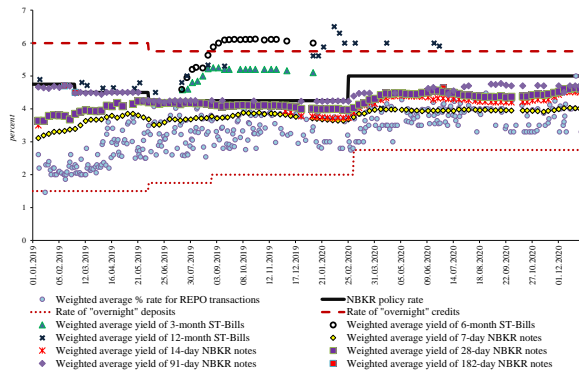
**Chart 3.1.1. Spread between the Short-Term Rates of the Money Market and the Key Rate**



In Q1 2021, in the context of emerging general upward trend in the short-term money market rates, the gap between the short-term rates and the key rate of the National Bank demonstrated further reduction, excluding a temporary increase in the spread at the end of February.

In the reporting quarter of 2021, the average spread of the rate on REPO transactions in the interbank credit market to the policy rate of the National Bank remained practically unchanged and stood at the level of the previous quarter at (-)1.18 percentage points. At the same time, the average spread of the yield of the National Bank's notes to the policy rate was slightly higher (+0.1 percentage points) and amounted to (-)0.8 percentage points.

**Chart 3.1.2. Money Market Rates**



After the re-tightening of monetary conditions at the end of February 2021, the short-term money market rates continued to transmit retaliatory signals, in particular, there was an increase in the rates of the interbank credit market and the National Bank’s note market.

Under these conditions, the short-term money market rates approached the key rate, meanwhile they continued fluctuating within the interest rate corridor set by the National Bank.

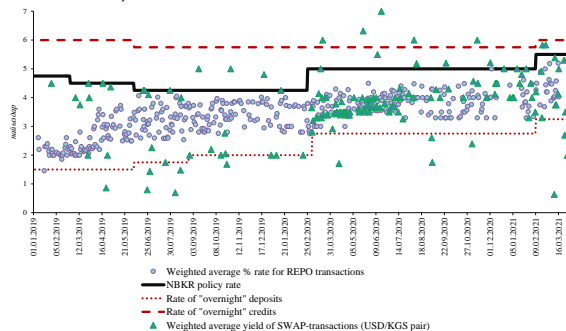
In the reporting period, the market of the National Bank’s notes was characterized by preserved high activity of the participants. The yield of the National Bank’s notes for all maturities demonstrated an upward trend following the main rates of the National Bank. The total weighted average yield of notes increased from 4.39 percent in December 2020 up to 4.81 percent in March 2021 (in the reporting period, the total yield varied within the range of 4.24-4.97 percent). At the same time, in terms of maturities, the most significant growth was observed on the rates of 28- and 91-day notes of the National Bank. During Q1 2021, the average auction volumes of demand exceeded the volumes of supply, mainly on 7-, 14- and 28-day notes of the National Bank.

Starting from February 2020, the short-term segment of government securities was represented only by the ST-Bills with a maturity of 12 months. In the reporting period, only three auctions were held (the last one was held on February 11, 2021) for sale of 12-month ST-Bills out of seven auctions of the Ministry of Economy and Finance of the Kyrgyz Republic due to low demand from the financial market participants. As a result of these auctions, the weighted average yield constituted 5.92 percent, exceeding the upper rate of the interest rate corridor.

During Q1 2021, in the context of a slight decrease in the overall level of excess liquidity in the banking sector, the participants in the interbank credit market actively increased the volume of transactions, the peak of concluded transactions was recorded in March 2021. REPO transactions mainly concluded for 1-3 days prevailed (the share of transactions with this maturity constituted 50 percent of the total number of transactions) due to increased demand of the commercial banks for short-term liquidity in the national currency. The upward factor in demand for borrowed funds conditioned an increase in the drawing price from 3.98 percent (at the end of Q4 2020) to 4.39 percent (at the end of Q1 2021).

In the reporting period, foreign exchange transactions on a swap basis (USD/KGS pair) were an additional source of attracting liquidity in the national currency for the commercial banks. The total volume of SWAP transactions conducted by the commercial banks in the domestic market amounted to KGS 3.6 billion (in Q4 2020 – KGS 2.1 billion).

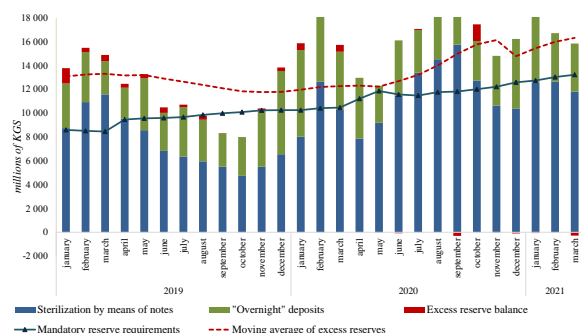
**Chart 3.1.3. Rates of the Interest Rate Corridor, REPO and SWAP transactions**



In general, the rates on SWAP transactions (USD/KGS pair) were at the level of the interbank rates on REPO transactions (excluding certain cases when the transactions were concluded for a term of more than 30 days) and varied from 3.3 percent to 7.0 percent depending on the term of transactions. At the same time, the average spread between rates on these transactions and the key rate constituted (-)2.1 percent.

## Liquidity Regulation in the Banking Sector

**Chart 3.1.3. Excess Reserves of the Commercial Banks**



After significant growth in 2020, excess liquidity in the banking system has demonstrated a downward trend since the beginning of 2021.

During Q1 2021, the operations conducted by the National Bank to sell foreign currency in the interbank foreign exchange market contributed to reduction of excess liquidity in the banking sector. Liquidity in the amount of KGS 13.4 billion was withdrawn from the banking system as a result of conducted operations.

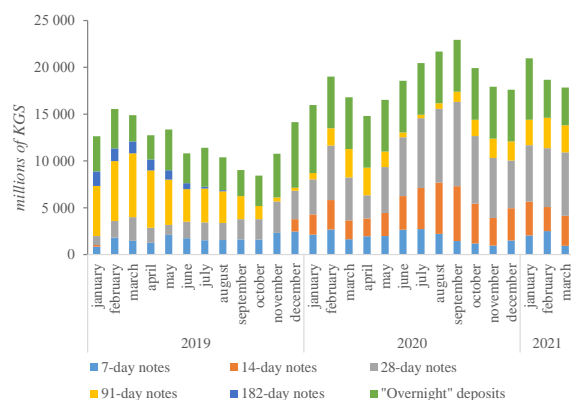
The operations of the Government of the Kyrgyz Republic were an additional restraining factor to increase excess liquidity in the banking system. At the end of Q1 2021, the government's profitable operations exceeded its expenditure operations, reducing the monetary base by KGS 2.9 billion.

During Q1 2021, a decrease in the amount of money outside banks by 5.6 percent or KGS 7.0 billion (in Q4 2020, M0 decreased by 0.3 percent) and the operations conducted by the National Bank in the open market with securities in the amount of KGS 0.7 billion made a positive contribution to the increase in excess liquidity in the banking sector.

In general, in the reporting period, the banking system continued to function in the conditions of excess liquidity. The average daily volume of this indicator, prior to the sterilization operations conducted by the National Bank, increased by KGS 1.0 billion compared to the indicator for the previous quarter and stood at KGS 17.1 billion.

In order to limit inflationary pressure, the National Bank continued to conduct the operations to absorb excess liquidity. In Q1 2021, the average daily volume of sterilization operations conducted by the National Bank amounted to KGS 17.2 billion (in Q4 – KGS 15.7 billion).

**Chart 3.1.4. Structure of Sterilization**



The National Bank's notes were the main instrument to withdraw excess liquidity. The average daily volume of notes in circulation amounted to KGS 12.3 billion in the reporting quarter. At the same time, in Q1 2021, the share of the National Bank's notes in the structure of sterilization operations did not change significantly and remained at the level of the previous quarter, to make approximately 71.5 percent.

The National Bank's notes with the maturities of 14 and 28 days were the most investment-attractive due to the short

maturity of the commercial banks' available surplus funds (the total share in the sterilization structure was approximately 65.8 percent due to the notes of this maturity).

A monetary instrument – “overnight deposits” is an alternative opportunity for the commercial banks to place their available funds. In Q1 2021, the share of “overnight” deposits in the absorption structure constituted approximately 28.5 percent (in Q4 2020 – 28.3 percent). Meanwhile, in the reporting period, the average daily placement of the commercial banks' available funds on “overnight” deposits with the National Bank amounted to KGS 4.9 billion.

## **Credit Policy of the National Bank**

As part of tightening monetary conditions, in the reporting quarter, the National Bank limited the refinancing operations, primarily, provision of the credit funds through the National Bank credit auctions. This measure is conditioned by the current high level of excess liquidity in the banking system, which is among the factors of inflationary pressure.

In Q1 2021, within the framework of the current window of permanent access, “overnight” loans were issued to the banks, the gross volume thereof amounted to KGS 224.2 million, to cover short-term liquidity gaps.

## **Foreign Exchange Policy of the National Bank**

During Q1 2021, the KGS exchange rate against the USD demonstrated a relatively stable dynamics. However, during some periods, the demand for foreign currency exceeded its supply in the domestic foreign exchange market amid influence of external economic conditions.

Within the framework of the adopted floating exchange rate regime, the National Bank periodically participated in the foreign exchange auctions to prevent sharp fluctuations in the exchange rate. In the reporting quarter, the total volume of the National Bank’s interventions on sale of foreign currency in the domestic foreign exchange market amounted to USD 158.0 million (in Q4 2020 - USD 227.0 million). In the reporting period, the National Bank did not conduct transactions on purchase of foreign currency, as in the previous quarter.

In Q1 2021, the USD/KGS exchange rate was fluctuating within the range KGS 83.0773-84.8113 per USD 1 to increase by 1.53 percent at the end of the reporting quarter.

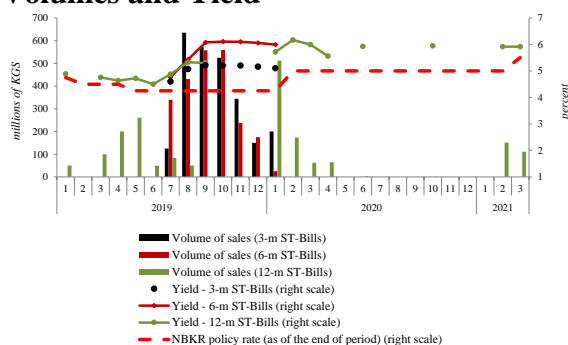
## **Monetary Policy Measures in Q1 2021**

<p>The decisions were made on the size of the National Bank policy rate and the rates of the interest rate corridor</p>	<p>The Board of the National Bank twice considered the issue on the size of the policy rate – on January 25 and February 22, 2021. Based on the results of the meeting held in January, the decision was made to keep the policy rate unchanged at 5.00 percent. Based on the results of the meeting held in February, the decision was made to increase the policy rate by 50 basis points, up to 5.50 percent.</p> <p>The rates of the interest rate corridor were adjusted to strengthen the work of the interest rate channel of the monetary policy transmission mechanism: the rate on “overnight” deposits, being the lower rate, was increased up to 3.25 percent, the rate on “overnight” credits, determining the upper rate, was kept unchanged at 6.00 percent.</p>
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## 3.2. Financial Market Instruments

### Government Securities Market

**Chart 3.2.1. Dynamics of ST-Bills Sales Volumes and Yield** *ST-Bills*

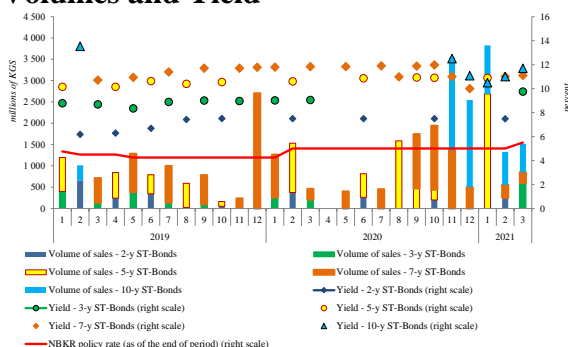


in general, in the reporting period, the volume of supply amounted to KGS 640.0 million, the volume of demand – KGS 442.0 million, and the volume of sales amounted to KGS 261.8 million.

In the reporting period, the total weighted average yield was 5.92 percent (-0.03 percentage points compared to Q4 2020).

The volume of ST-Bills in circulation decreased by 59.5 year-to-date, down to KGS 330.2 million, due to reduction in their sales volumes compared to Q1 2020.

**Chart 3.2.2. Dynamics of ST-Bonds Sales Volumes and Yield** *ST-Bonds*



having exceeded the proposed volume of ST-Bonds placement, amounted to KGS 5.4 billion (+27.0 percent). The demand for 10-year securities constituted 45.6 percent of the total demand for ST-Bonds, the demand for 5-year securities constituted 25.3 percent. Taking into account the additional placements, the total sales of ST-Bonds amounted to KGS 6.7 billion.

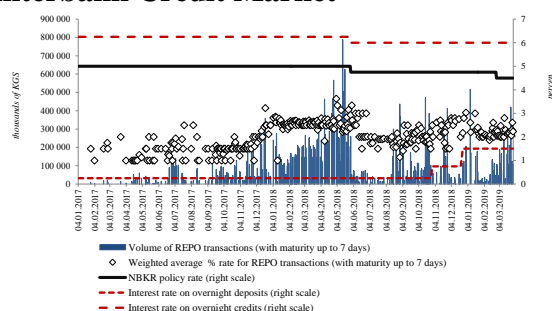
The overall weighted average yield did not change significantly compared to the corresponding period of 2020 and amounted to 10.5 percent.

At the end of the reporting period, the volume of ST-Bonds<sup>1</sup> in circulation increased by 10.7 percent year-to-date, up to KGS 58.6 billion, due to an increase in the portfolio of the institutional investors and resident legal entities.

<sup>1</sup>Excluding ST-Bonds nominated in foreign currency

## Interbank Credit Market

**Chart 3.2.3. Dynamics of Rates and Volume of Repo Transactions in the Interbank Credit Market**



In Q1 2021, the participants' activity in the interbank credit market increased compared to the previous quarter.

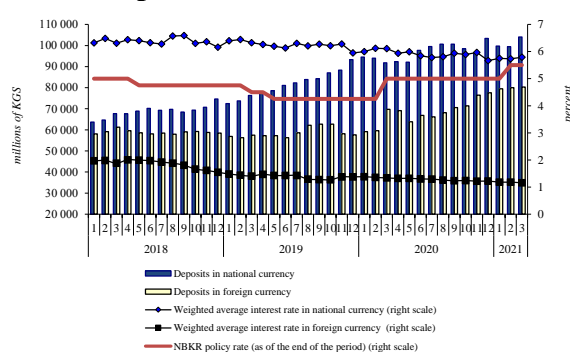
In January-March 2021, the volume of transactions conducted in the interbank market increased by 31.7 percent compared to Q4 2020 and amounted to KGS 7,613.8 million. All transactions (131) were REPO transactions. The standard transactions in the national currency were not conducted since April 2019. The standard transactions in

foreign currency were conducted for the last time in October 2020.

In Q1 2021, the weighted average interest rate in the interbank market increased by 0.36 percentage points compared to the indicator in Q4 2020 and stood at 4.15 percent. The weighted average maturity of the interbank credits decreased down to 6 days (in October-December 2020, 7 days).

## Deposit Market

**Chart 3.2.4. Dynamics of Commercial Banks' Deposits**



At the end of Q1 2021, the depository base increased, meanwhile there was a steady upward trend in deposits in foreign currency.

As of the end of March 2021, the banks' depository base increased by 1.9 percent compared to December 2020 and amounted to KGS 184.4 billion. An increase of deposits in foreign currency by 3.5 percent, up to KGS 80.3 billion made the main contribution to the growth of the depository base. At the same time, deposits in US dollars

increased by 2.0 percent in nominal terms year-to-date, and dollarization of deposits increased by 0.7 percentage points and amounted to 43.6 percent, the exchange rate weakening made input at 0.6 percentage points.

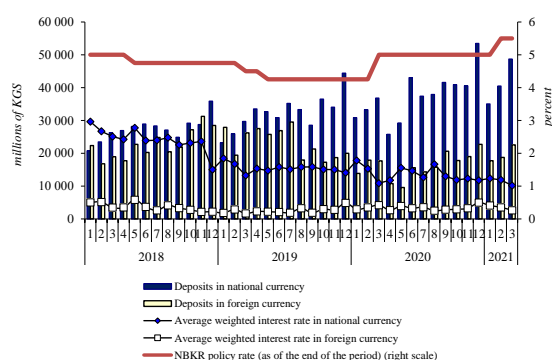
In general, at the end of March 2021, deposits in the national currency demonstrated an increase by 0.7 percent year-to-date, up to KGS 104.1 billion, while in January and February, they decreased by 3.5 and 3.8 percent compared to the end of 2020.

At the end of Q1 2021, the share of time deposits in the structure of the depository base in the national currency increased by 0.8 percentage points compared to the end of 2020 and stood at the level of 47.4 percent. The share of deposits with a maturity of up to 6 months increased by 4.7 percentage points year-to-date, up to 38.0 percent in the structure of time deposits in the national currency. The share of time deposits in foreign currency decreased by 0.5 percentage points, down to 26.2 percent. With respect to the preference for the maturity of deposits in foreign currency, there is the opposite picture: the share of deposits with a maturity of 1 year or more increased by 4.9 percentage points, up to 33.4 percent.

In the reporting quarter, there was a noticeable increase in the volume of new deposits by 21.9 percent compared to the corresponding quarter of the previous year, up to KGS 183.2 billion. The volume of new deposits in the national currency increased by 23.2 percent, up to KGS 124.2 billion, deposits in foreign currency increased by 19.3 percent, up to KGS 59.0 billion

The total duration of the depository base was 5.1 months at the end of March 2021 (unchanged year-to-date), the duration of time deposits decreased down to 13.5 months (-0.1 months).

**Chart 3.2.5. Dynamics of Commercial Banks' Deposits Flows**

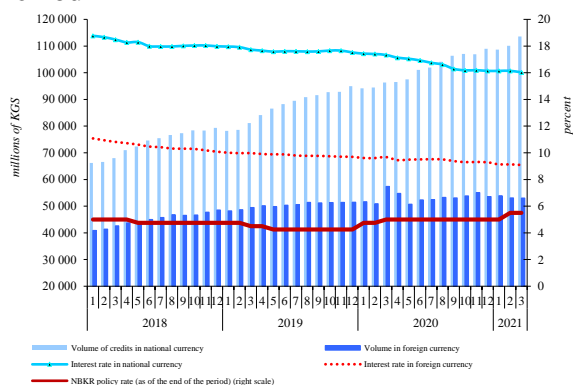


0.29 percentage points, up to 9.24 percent, those in foreign currency increased by 0.07 percentage points, up to 2.95 percent due to growth in the share of time deposits which high interest rates. The weighted average interest rates in the national currency increased for all maturities, excluding the deposits with a maturity up to 1 month, while those in foreign currency decreased for all maturities.

The concentration index<sup>1</sup> in the deposit market increased by 0.01 percentage point year-to-date, up to 0.10 as of the end of the reporting period, which corresponds to the average level of concentration with ten participants with equal shares in the market.

## Credit Market

**Chart 3.2.6. Dynamics of Commercial Banks Credit Debt as of the End of the Period**



**In Q1 2021, the commercial banks' credit portfolio continued to demonstrate growth.**

As of the end of March 2021, the commercial banks' credit portfolio increased by 2.5 percent compared to the end of December 2020 and amounted to KGS 166.6 billion. An increase of the credits in the national currency by 4.2 percent, up to KGS 113.6 billion, made the main input to the growth of the credit portfolio. The credit portfolio in foreign currency decreased by 1.0 percent, down to KGS 53.0 billion. Credits denominated in US dollars in nominal

terms were generally characterized by downward dynamics since March 2020, when depreciation of the national currency was observed.

Dollarization of the credit portfolio decreased by 1.1 percentage points as of the end of March 2021, down to 31.8 percent, updating its historically low value. At the same time,

<sup>1</sup> This index shows the degree of concentration in the portfolio of the banks. The concentration index is calculated by the method of calculating the Herfindahl-Hirschman index and is the sum of the squares of specific weights of the indicator in the total volume. The index takes values from 0 to 1. Index value less than 0.10 corresponds to a low level of concentration; from 0.10 to 0.18 - the average level of concentration; over 0.18 - high level of concentration. For example, a concentration index of 0.50 is equivalent to the presence of 2 participants with the same shares in the market, and 0.3 - 3 participants, etc.

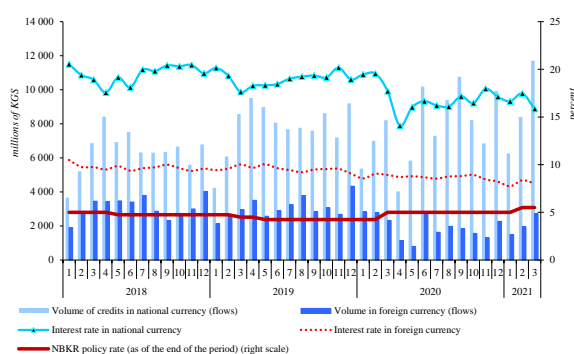
dollarization adjusted for changes in the US dollar exchange rate decreased by 2.0 percentage points, down to 31.3 percent.

In Q1 2021, the volume of new credits significantly increased compared to the corresponding quarter of 2020, having increased by 14.2 percent and amounted to KGS 32.5 billion. At the same time, there was a significant increase in the volume of new credits in the national currency by 28.2 percent compared to the corresponding quarter of 2020, up to KGS 26.4 billion, an increase was observed for all maturities. Credits in foreign currency still demonstrated downward trend, their volume decreased by 22.2 percent, down to KGS 6.2 billion. This decrease was observed for all maturities.

In Q1 2021, new credits in the national currency mainly demonstrated a decline in industry (-22.8 percent) compared to the corresponding period of 2020. Growth of activity was observed in the sphere of trade (+40.7 percent) and agriculture (+35.6 percent) amid a low base of the last year due to the coronavirus pandemic. In the structure of new credits in foreign currency, the volume of credits decreased significantly in all sectors, excluding transport (+96.6 percent).

In Q1 2021, duration for new credits in the national currency decreased by 1 month compared to the corresponding quarter of 2020 and amounted to 24 months, in foreign currency it decreased by two months and was at the level of 31 months.

**Chart 3.2.7. Dynamics of Commercial Banks New Credits for the Period**



In January-March 2021, the weighted average rates on new credits in the national currency decreased by 2.25 percentage points compared to January-March 2020, down to 16.65 percent. A decrease in the interest rates was observed in all sectors, excluding industry and mortgage, as well as communication. Among the main sectors, the interest rates decreased significantly in the sectors of procurement and processing (5.85 percentage points), consumer credits (-3.48 percentage points), and trade

(-3.19 percentage points). The interest rates in foreign currency decreased by 0.79 percentage points, down to 8.04 percent, mainly due to a decrease of the interest rates on credits by 1.10 percentage points in the sector of trade, which comprises the main share of all credits in foreign currency.

The credit market general concentration index was stable and formed at the level of 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among eleven banks. The sectoral concentration index was 0.31, which is equivalent to three main credit sectors.

At the end of March 2021, the qualitative characteristics of the credit portfolio were as follows: the share of overdue credits in the credit portfolio increased by 0.3 percentage points year-to-date and amounted to 2.6 percent. The share of extended credits in relation to the credit portfolio is still at a high level; nevertheless, there is a downward trend from almost historically highest 15.9 percent in January, 15.2 percent in February - down to 14.6 percent at the end of March (+1.0 percentage point year-to-date), which reflects a decrease of the stability risks in the banking system.

### 3.3. Dynamics of Monetary Indicators

#### Monetary Base

After a short cycle of increase at the beginning of Q1 2021, the monetary base demonstrated a downward trend during the remaining period due to the transactions conducted by the National Bank and the government authorities.



According to the results of Q1 2021, the monetary base decreased by 3.7 percent or KGS 5.5 billion compared to Q4 2020 and amounted to KGS 141.8 billion.

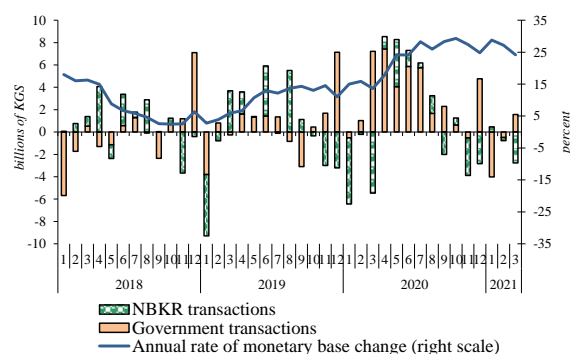
The National Bank transactions on the sale of foreign currency in the domestic foreign exchange market in the amount of KGS 13.4 billion was the main factor that influenced the reduction in reserve money.

At the same time, the government transactions also had a negative effect on the expansion of reserve money by KGS 2.9 billion.

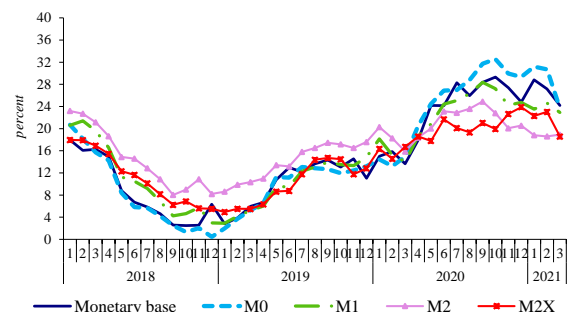
Reserve money maintained an upward trend and increased by 24.2 percent or KGS 27.6 billion in annual terms.

### Monetary Aggregates

**Chart 3.3.1. Input of the Government's and NBKR Transactions in Change of Monetary Base**



**Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)**



**In Q1 2021, the monetary aggregates, demonstrated a gradual slowdown in the growth rates after a significant acceleration during the past years.**

Growth of money outside banks by 23.7 percent in annual terms contributed to the increase in monetary aggregates. At the same time, in the reporting quarter, this monetary indicator decreased by 5.6 percent.

In Q1 2021, the monetary aggregate M2X increased by 18.6 percent, the same level as in the previous quarter, and amounted to KGS 281.4 billion at the quarter-end. At the same time, the monetary aggregate M2X decreased by 1.3 percent during the reporting period.

In the reporting period, deposits<sup>1</sup> included in M2X increased by 15.1 percent, mainly due to the growth of deposits in the national currency by 13.5 percent and deposits in foreign currency by 17.5 percent. Meanwhile, deposits in the national currency increased by 1.3 percent, and deposits in foreign currency increased by 2.8 percent during the quarter.

Lending to the economy still demonstrated positive growth rates. In Q1 2021, the total volume of credits to the economy<sup>2</sup> increased by 10.2 percent and amounted to KGS 173.5 billion at the quarter-end. The banking sector's credit portfolio increased due to credits in the national currency (+19.0 percent), while lending in foreign currency made a negative input to the growth of this indicator (-5.0 percent). The volume of credits to the economy increased by 2.7 percent since the beginning of the reporting quarter.

<sup>1</sup> Deposits of individuals, legal entities and other financial-credit organizations, excluding deposits of the Government of the Kyrgyz Republic and non-residents.

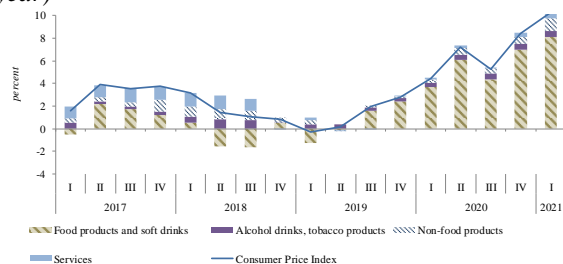
<sup>2</sup> Credit to the economy is an indicator that reflects all the requirements of the banking system to the individuals, legal entities and other financial-credit institutions, in the form of issued credits, deposits and securities, accounted for together with their accrued interest, excluding credits to the Government of the Kyrgyz Republic and non-residents.

## Chapter 4. Inflation Dynamics

Since the beginning of 2021, at the background of rising prices in the world food market, there has been an acceleration in food inflation in the Kyrgyz Republic. In the reporting period, there was an increase in prices particularly for socially significant goods in all countries of the world, as well as in the EAEU countries. There was stable upward trend in prices for vegetable oil and sugar, the cost of which depended on the price situation in the global food market.

### 4.1. Consumer Price Index

**Chart 4.1.1. Dynamics of CPI Structure**  
(quarter to the corresponding quarter of the previous year)



In Q1 2021, (quarter to the corresponding quarter), the annual inflation rate was 10.3 percent. During the reporting period, various factors, mostly non-monetary, influenced the level of consumer prices.

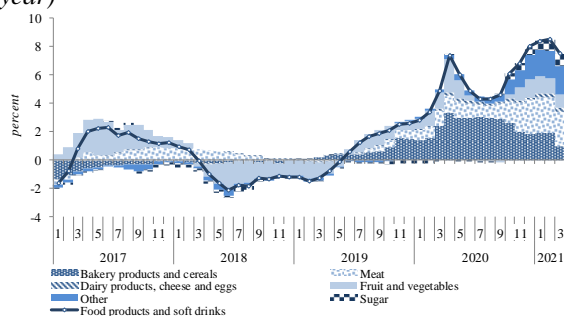
In the reporting period, there was an increase in prices mainly in the groups “oils and fats”, “fruits and vegetables”, “meat” and “sugar”. There was no sharp increase in prices in the groups “bakery products and cereals” and “fish products”. In the reporting period, the global growth in prices for food products, as well as the previously increased meat export from Kyrgyzstan, were the main factor that influenced the growth of consumer prices.

In the reporting quarter, the food price index increased by 17.9 percent compared to the corresponding quarter of 2020.

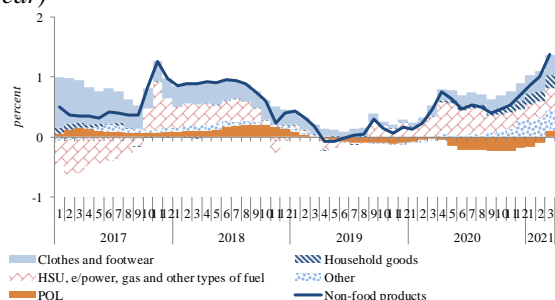
In Q1 2021, prices for non-food products increased by 3.7 percent compared to Q1 2020. Rise in prices for the commodity group “clothes and footwear” by 3.2 percent and the group “gas, natural and liquefied” by 13.3 percent made the most significant contribution to increase in prices for non-food products. Household items and household appliances rose in price by 4.7 percent.

Prices for petroleum, oil and lubricants were lower compared to the corresponding quarter of the previous year due to a high base. However, there was an upward trend in the world oil prices since the beginning of 2021, as well as an increase in

**Chart 4.1.2. Dynamics of Food Prices’ Contribution to Annual CPI**  
(month to the corresponding month of the previous year)

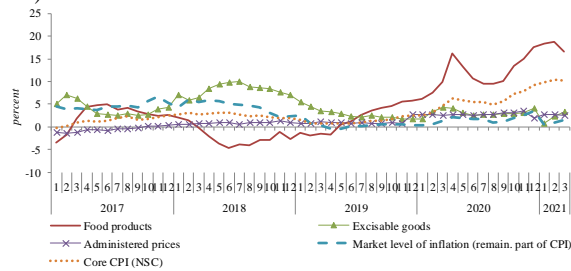


**Chart 4.1.3. Dynamics of Non-Food Prices’ Contribution to Annual CPI**  
(month to the corresponding month of the previous year)



the wholesale selling prices at the Russian refineries, which together put pressure on the domestic market.

**Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities**  
(month to the corresponding month of the previous year)

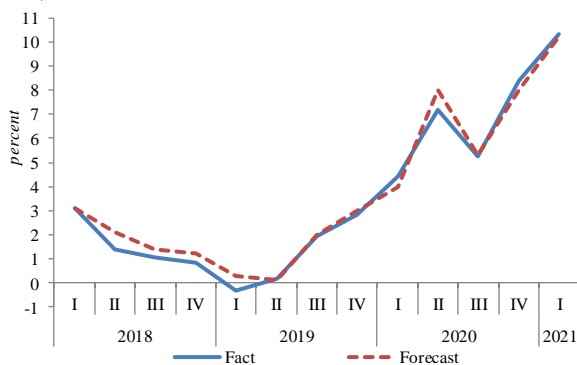


1.6 percent in March 2021. In Q1 2021, the core inflation indicator<sup>1</sup> (excluding food and energy products), calculated by the National Statistical Committee of the Kyrgyz Republic, was 10.2 percent in annual terms.

#### 4.2. Comparison of Forecast and Facts

**Chart 4.2.1. Actual and Forecasted CPI Values**

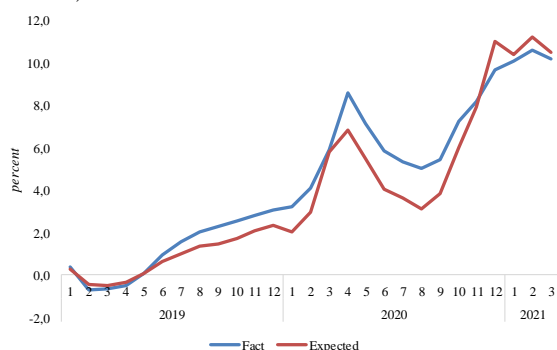
(quarter to the corresponding quarter of the previous year)



#### 4.3. Inflation Expectations<sup>2</sup>

**Chart 4.3.1. Actual Inflation Value and Expected Inflation of Enterprises**

(percent)



There was a moderate rise in prices for paid services due to an increase in prices for the group of “transport” services (8.3 percent), as well as an increase in prices for the group “restaurants and hotels” (1.4 percent). In the reporting quarter, the price index for alcoholic drinks and tobacco products increased by 6.0 percent due to the planned increase in excise rates for tobacco products in January 2021.

Market inflation demonstrated acceleration year-to-date and amounted to

acceleration year-to-date and amounted to 0.1 percentage point compared to the expectations of the National Bank.

The deviation of the expected inflation rate from the actual value was due to the accelerated rates of food inflation amid long-lasting increase in prices in the world food market.

The level of inflationary expectations in the Kyrgyz Republic is assessed through the survey of households (5,000 respondents) and enterprises (250 enterprises). The household sector survey has been conducted by a commercial organization since 2015 on a quarterly basis.

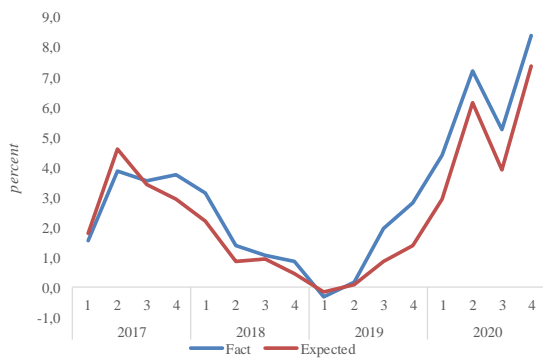
Since 2018, the survey of households has been conducted by the National Statistical Committee of the Kyrgyz Republic on a quarterly basis, enterprises – on a monthly basis.

<sup>1</sup> Calculations of the NSC KR, according to the methodology No. 9 dated April 29, 2010, exclude certain names of food products, clothes, footwear, housing and public utilities services, medical services, transport goods and services, as well as communication services subject to significant fluctuations in price indices (share in CPI - 19.4 percent).

<sup>2</sup> According to the data provided by the NSC KR

In Q1 2021, the inflationary expectations of enterprises were slightly higher compared to the actual inflation rate (10.5 percent in March 2021).

**Chart 4.3.2. Actual Inflation Value and Expected Inflation of Households**  
(percent)



At the end of Q4 2020 (quarter to the corresponding quarter of the previous year), the households expected the inflation rate to be at the level of 7.4 percent. At the same time, the actual value was 8.4 percent.

## Chapter 5. Medium-Term Forecast

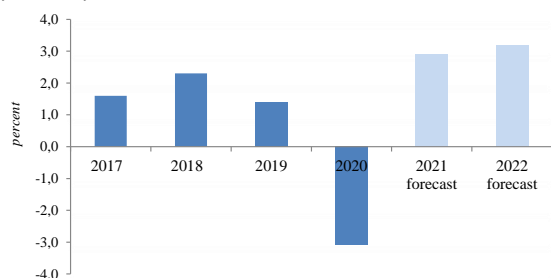
### 5.1. External Environment Proposals

#### 5.1.1. Development Forecast of Main Trading Partner Countries

##### Russia

**Chart 5.1.1.1. Real GDP Growth in Russia**

(year to year)



Source: IMF, IA Bloomberg, Ministry of Economic Development of the Russian Federation, Bank of Russia

The Ministry of Economic Development of the Russian Federation informs that there is current increased uncertainty of the economic development trend in the short and in the medium term, which will be determined by the economic and epidemiological factors. In the early 2021, the key economic indicators remain close to the levels of the late 2020, however, the economic recovery has not yet been completed.

The Ministry of Economic Development of the Russian Federation assumes that in 2021-2023, Russia's real GDP will grow by 2.9; 3.2 and 3.0 percent, respectively. The Ministry of Economic Development of the Russian Federation adjusted the GDP forecast for 2021 from 3.3 to 2.9 percent amid an increase in the base of 2020 and a smoother increase in oil production under the OPEC+ agreement. Growth in consumption of goods and services, an increase in fixed assets investment are expected make the main contribution to GDP growth. Meanwhile, net exports will make a negative contribution to GDP, taking into account the outstripping resumption of imports in the current year, as well as maintaining the export of oil and oil products at a decreased level.

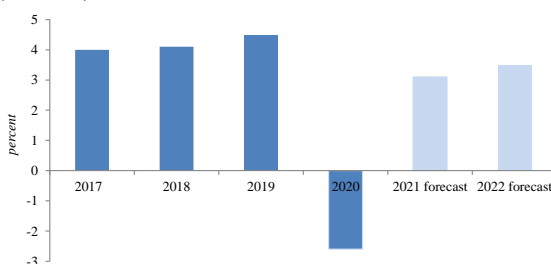
The Bank of Russia kept its forecast for GDP growth unchanged for 2021 within the range of 3-4 percent. Due to higher demand, the Russian economy is expected to reach a pre-pandemic level in the second half of the current year through more active recovery in the household consumption, an increase in disposable income, retail lending, and a decrease in the savings rate.

Taking into account increased inflationary expectations and processes in general, the Bank of Russia increased the inflation forecast for 2021 up to 4.7-5.2 percent, which is by 1.0 percentage point higher compared to expectations made in February of the current year. The annual inflation rate is expected to return to the Bank of Russia's target under the current monetary policy in the middle of 2022 and to remain close to 4.0 percent thereafter.

##### Kazakhstan

**Chart 5.1.1.2. Real GDP Growth in Kazakhstan**

(year to year)



Source: IA Bloomberg, international financial institutions in 2021).

The current economic forecasts in Kazakhstan for 2021 are higher compared to the previous ones, while the uncertainty regarding the pandemic and fluctuations in the world oil prices is likely to introduce adjustments to the economic dynamics.

The National Bank of the Republic of Kazakhstan informs that the situation in the domestic economy is gradually improving and developing in accordance with the forecasts of the National Bank (growth is expected within the range of 3.4-3.7 percent

The Ministry of National Economy of the Republic of Kazakhstan assumes that, in 2021, the economic growth in Kazakhstan is expected at 3.1 percent (instead of 2.8 percent).

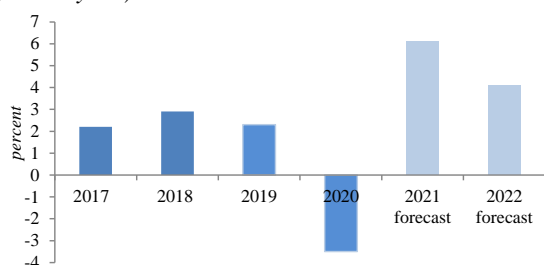
According to the updated report of the World Bank, Data, Digitalization and Governance (April 2021), the national economic growth in Kazakhstan is expected at 3.2 percent in 2021 (instead of the earlier forecast at 2.5 percent), in 2022 - at 3.5 percent, in 2023 - at 4.3 percent. At the same time, the International Monetary Fund forecasts a similar growth rate in 2021, and in 2022 – by 4.0 percent.

Medium-term forecasts for the annual inflation rate were not changed significantly compared to the previous estimate. The annual inflation rate is assumed to slow down gradually to the upper limit of the target range of 4.0-6.0 percent by the end of 2021. Slowdown in growth of the prices for food products is the key factor, being still high, to achieve the inflation target of 4-6 percent in 2021.

## USA

**Chart 5.1.1.3. Real GDP Growth in the USA**

(year to year)



Source: IA Bloomberg

**The forecasts for economic growth in the USA were improved due to the current vaccination campaign and the large-scale budgetary measures to provide support to the economy and the population. However, there are risks of further coronavirus infection spread.**

The analysts forecast that a slowdown of the coronavirus spread in the world since Q2 2021, large-scale vaccination of the population, easing of the quarantine restrictions in the world's largest economies,

together with maintaining stimulating fiscal and monetary policies - all this will generally contribute to resumption of the consumer and investment demand as well as the international trade. Current social distancing and increased uncertainty after lifting the restrictions are likely to restrict the rate of the global economic recovery.

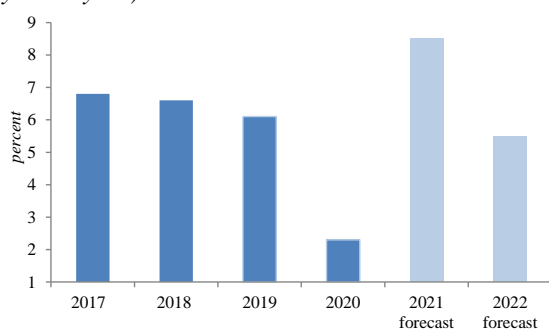
The IMF assumes that the new economic stimulus package in the amount of USD 1.9 trillion adopted by the US Congress can result in an increase of the country's GDP by 5-6 percent during three years.

The US Federal Reserve has improved its forecast for the US GDP growth in 2021 from 4.2 to 6.5 percent and in 2022 - from 3.2 to 3.3 percent.

The US Federal Reserve System clarified that it intends to maintain low interest rates until approaching the maximum level of employment and inflation rate at about 2 percent. The gradual resumption of business activity, an increase in energy prices and the effects of rise in food prices in the global market will be the key factors for accelerating the inflation rate in 2021. The US Federal Reserve System's inflation forecast for 2021 was increased from 1.8 to 2.4 percent and for 2022 - from 1.9 to 2.0 percent, for 2023 - from 2.0 to 2.1 percent.

## China

**Chart 5.1.1.4. Real GDP Growth in China**  
(year to year)



Source: National Bureau of Statistics of the PRC, IA Bloomberg

### **The forecasts for economic growth in China remained unchanged.**

In general, the experts forecast the economic growth in China within the range of 8.0-9.0 percent in 2021. According to China's socio-economic development plan, in 2021, the country's GDP growth rate will be more than 6.0 percent. The Swiss bank UBS increased its forecast for China's GDP growth rate in 2021 up to 9.0 percent, the Reuters survey showed analysts' expectations for the country's economic growth by 8.6 percent.

According to the analysts, including the International Monetary Fund, the economic growth in China will be expected at 8.4 percent.

According to the report of the Center for Economic and Business Research (CEBR) in Great Britain, China is expected to outrun the United States in 2028, five years ahead of schedule, to become the world's leading economy. The economy of China will demonstrate annual growth by 5.7 percent until 2025, thereafter it will slow slightly down to 4.5 percent in 2026-2030. The analysts concluded that the effective measures taken by the Chinese authorities to combat the pandemic contributed to such growth.

According to the country's economic development plan for 2021, approved by the National People's Congress of the country, the country's government has set an inflation target for 2021 at 3.0 percent. According to the IMF forecasts, the inflation rate in the PRC will slow down in 2021 to 1.2 percent from 2.4 percent in 2020, and in 2022 it will accelerate up to 1.9 percent.

## **5.2. Medium-Term Forecast**

In Q1 2021, the external and internal conditions for economic development in the Kyrgyz Republic remained affected by the COVID-19 pandemic shocks. The current resumption of globaleconomic activity as well as ofthe Kyrgyz Republic's trading partner countries conditioned a recovery trend in the domestic economy. However, the slow rates of vaccination in the republic and in the trading partner countries, together with the growth of the COVID-19 disease incidence at the end of Q1 of the current year, restrict the full-scale strengthening of the trade relations and economic activity in the country.

During Q1 2021, the world commodity markets, in particular the energy markets, demonstrated a stable upward trend, mainly amid expected resumption of the global economic activity. The world oil prices are expected to remain at the level of about 65 US dollars per barrel in the medium term in the context of the prospects for the world economic recovery.

In Q1 2021, the world food prices still demonstrated the upward trend observed in the second half of the last year. An increase in prices is mainly due to the poor harvest of oil-bearing crops and the negative consequences of the COVID-19 pandemic. The upward trend in the prices of the global food market is expected to be observed during 2021.

The recovery of global economic activity and the corresponding rise in prices in the world energy markets conditions the strengthening of the economic growth of the Kyrgyz Republic's trading partner countries.

In 2021, GDP growth in Russia is expected at about 3 percent, against a decline by 3.0 percent in 2020. Thus, the economy of Russia is expected to recover to pre-coronavirus levels by the end of the current year. Taking into account retained foreign economic relations,

the economic recovery in Russia will result in an increase in the remittances' inflow to the Kyrgyz Republic by about 5.5-6.0 percent in 2021.

In 2021, the economic recovery in Kazakhstan will also be associated with higher prices in the world commodity markets and the revitalization of the world economy. In 2021, Kazakhstan's GDP growth is expected to reach 3.4 percent after a fall by 2.6 percent in 2020.

The global rise in food prices, together with the negative consequences of the COVID-19 pandemic, will create the preconditions to maintain increased inflationary pressure in Russia and Kazakhstan in 2021. In 2021, the current expectations assume the inflation rate in the trading partner countries to exceed the medium-term targets: in 2021, Russia's inflation rate is expected within the range of 4.7-5.2 percent, in 2021, Kazakhstan's inflation rate is forecasted at about 6.0- 6.5 percent. Thus, a high inflationary environment in the trading partner countries will condition an additional contribution to inflation in the Kyrgyz Republic in 2021.

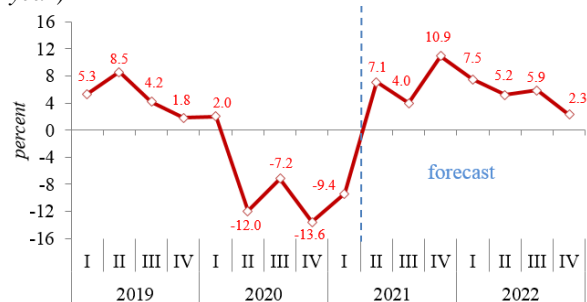
The economic structure of the Kyrgyz Republic predetermines the special role of the external sector parameters in the elaborated forecasts. Such parameters acquire a decisive importance in the context of a global economic shock. Assumptions on the parameters of the foreign economic sector such as the price movement in the world commodity markets, the prospects for economic development in the Kyrgyz Republic's trading partner countries and other important indicators of the world economic development are determined based on the forecasts made by the world research agencies/institutions, official bodies of the countries and expert assessments.

The National Bank of the Kyrgyz Republic evaluates scenarios of the economic behavior in the Kyrgyz Republic under the influence of various combinations of external economic conditions and develops appropriate options for the monetary policy directions.

The following 2021-2022 forecast was made for the key macroeconomic indicators development in the Kyrgyz Republic taking into account the outlined trends in the trading partner countries' economic growth in 2021-2022, as well as the price movement in the world commodity markets in the medium term.

### Chart 5.2.1.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



In Q1 of the current year, the economic activity in the Kyrgyz Republic was still negatively affected by consequences of the COVID-19 pandemic.

However, the recovery in the trading partner countries and the gradual elimination of the coronavirus border-crossing regime for the goods and passengers will condition increased economic activity in the Kyrgyz Republic in 2021. The GDP growth in April 2021 compared to April 2020 at the level of +14.6 percent is the evidence of an emerging

trend towards increased economic activity in the current year. This growth was mainly due to resumed production in the sectors of trade, transport and industry, excluding the enterprises of the Kumtor Mine.

In the context of maintaining current trend for economic activity recovery in the country, in 2021, GDP growth in the Kyrgyz Republic is expected at approximately 4.0-4.5 percent (-2.0 percentage points compared to the previous forecast). In 2021, real GDP growth excluding the Kumtor Mine is expected at about 5.8 percent (the previous forecast assumed GDP growth excluding the Kumtor Mine by 1.1 percentage points in 2021).

The main factors to revise the forecast for GDP growth in 2021 are as follows: (i) persisting complexity of the border crossing procedures for the goods and passengers during the whole Q1 of the current year, (ii) an adjustment towards lower expectations for gold production at the Kumtor Mine in the current year.

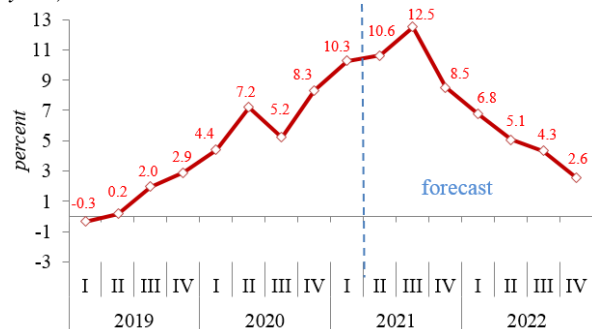


Taking into account the assumption of economic recovery trend, in 2022, the real GDP growth rates are expected at about 5.0 percent, GDP growth excluding the enterprise of the Kumtor Mine is expected at 5.5 percent.

*In 2021, the inflationary pressure in the economy of the Kyrgyz Republic is expected to increase, mainly due to external factors: growth of prices in the world food markets and an increase in the inflation “imported” from the trading partner countries.*

### Chart 5.2.1.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



Rise in prices for food products, observed at the end of 2020, conditions an increase in inflationary pressure in the country and is mainly the result of restricted supply: there was a decrease in the production of sunflower oil and sugar in the agricultural season of 2020-2021.

Taking into account the experts' forecasts of the world food markets, we can expect that the world prices for certain food products will be characterized by the upward trend until the end of the current year.

Thus, taking into account all expected internal and external factors and risks, the inflation rate at the end of 2021 (December 2021/December 2020) is forecasted at about 9.0 percent. The average annual inflation rate is expected at approximately 10.0 percent.

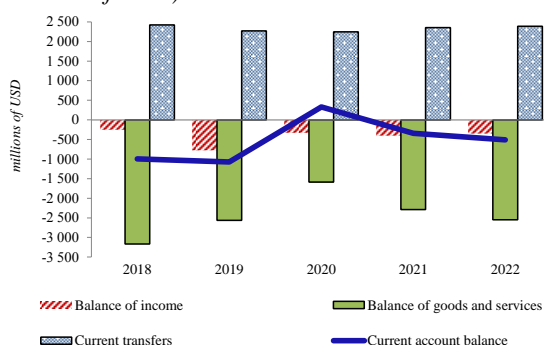
### Forecast for the Balance of Payments in 2021-2022 (baseline scenario)<sup>1</sup>

The expectations for the external sector for 2021 were adjusted taking into account the data of the actual period and the updated trends in the economic development of the region amid deteriorating epidemic situation globally and the slow rates of vaccination. In the actual period, there were some signs of recovery in the foreign economic activity. However, there are assumptions that the economies of the partner countries and Kyrgyzstan will recover gradually. Therefore, the forecast for the balance of payments indicators for 2021 remains restrained.

The current account deficit for 2021 is forecasted at 4.2 percent to GDP. It was adjusted due to the expectation of a higher growth rate in labor migrants' remittances. Furthermore, the updated estimates for the forecast of the trade balance of goods and services influenced the indicator. According to such estimates the deficit expansion will decrease compared to previous expectations.

### Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)



The export forecast, as before, was formed under the influence of an assumed recovery of external demand and a decrease of other obstacles for the international trade in the course of eliminating the consequences of the restrictive measures taken in 2020.

The forecasted export volumes for 2021 were adjusted taking into account the data of the actual period, thereby resulting in an increase by 3.7 percent. Exports are expected to increase due to the traditional export items of textile and apparel sectors, agricultural goods, as well as re-export items. At the same time, a forecasted decline in gold production at the enterprises of the country will make a negative input to the country's exports.

<sup>1</sup> The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic

**The National Bank decreased its estimates for the volume of imports for 2021, as the country’s economy is recovering more slowly compared to previous expectations, and as a result, generates lower internal demand.**

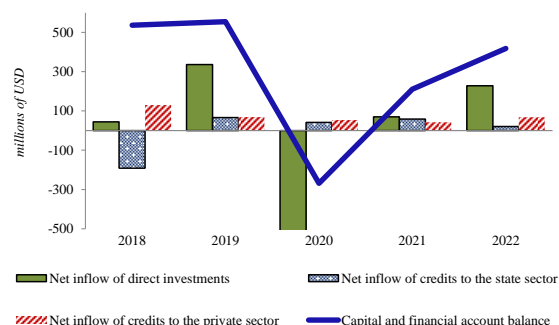
**In addition, quarantine measures for the supplies of goods to the country at the border check points restrict the border capacities.** Nevertheless, the low base of 2020 and an assumed improvement in the situation by the end of the year suggest that imports will grow by 22.5 percent exceeding the level of 2020. An increase in imports is expected mainly due to the consumer goods and the intermediate goods. An increase in the supplies of energy products to the country is forecasted at the level of 32.1 percent. According to the analysts’ estimates, import of other goods will increase by 20.8 percent.

**In Q1 2021, labor migrants’ remittances increased compared to the forecasts in the previous report, as a result, the volumes of private transfers were revised upwards.** An increase in the net inflow of transfers to the private sector is expected at 5.9 percent, while the official transfers are expected to be below the level of 2020.

The slow rates of vaccination and the depreciation of epidemic situation in some countries are still the restraining factors for recovery of the tourism sector and the inflow of tourists into the country. Thus it contributes to the low export volume of services on the item “travels”. In turn, the items “transport services” will be formed under the influence of the recovery in passenger and cargo transportation.

**Chart 5.2.1.4. Forecast Data on Capital and Financial Account**

(millions of USD)



**The consequences of the COVID-19 pandemic and political events at the end of 2020 still have a negative impact on capital flows in 2021.**

The net direct investment inflow is forecasted to resume gradually, and the bulk of capital inflows on the financial account is expected to be provided by other investments. The balance of the item “other investments” will be formed under the influence of an increase in foreign liabilities of the public and private sectors. Servicing of previously obtained private sector loans will remain significant with a moderate inflow of private

foreign investment.

Thus, the balance of payments will be formed negative, which implies financing the gap from the international reserves of the National Bank.

**The revised initial conditions for economic development and the updated forecasts for the balance of payments indicators for 2021 introduced adjustments in the assessment of the external sector indicators for 2022.** The current account deficit is expected to continue expanding in 2022 and constitute 5.8 percent of GDP. The growing trade balance deficit, positive dynamics in the inflow of private transfers and the gradual recovery of some types of international services will influence this indicator. The forecast for economic activity recovery will contribute to the growth of the trade turnover in the country. In the context of expected growth in external demand, export is forecasted to increase by 10.4 percent due to traditional export items. The economic growth in the country and an increase in incomes of the population, including through the labor migrants’ remittances, will create preconditions for growth in imports by 11.5 percent.

Thus, the trade balance deficit is expected to increase by 12.6 percent. A positive dynamics of current transfers due to the labor migrants’ remittances is forecasted to increase by 3.4 percent compared to the level of 2021.

In 2022, inflow of foreign capital on the capital and financial account is expected to be more stable, a significant part of the proceeds thereon will be provided by direct foreign

investments and other investments to the private sector. Public sector liabilities will continue increasing in 2022. The upward trend in servicing previously received loans and borrowings will remain stable.

The following risks are still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2021-2022:

- uncertainty associated with the COVID-19 pandemic in the world and the political situation in the country;
- the risks associated with the Kumtor Mine development and other precious metal deposits;
- volatility in the world prices for oil and gold;
- deterioration of the economic situation in the trading partner countries;
- volatility in the exchange rate of the main trading partner countries;
- growing debt burden of the public and private sectors.

# Annex 1. Key Macroeconomic Indicators

(quarter to the corresponding quarter of the previous year, if otherwise is not indicated)

Indicator	Unit of measure	2019				2020				2021
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>1. Demand and supply<sup>1</sup></b>										
<i>(real growth rates, if otherwise is not indicated)</i>										
Nominal GDP, per quarter	mln. KGS	111 636,3	134 036,0	175 516,0	197 914,4	117 073,2	124 716,3	173 357,9	183 197,1	118 362,0
GDP	%	5,3	8,5	4,2	1,8	2,0	-12,0	-7,2	-13,6	-9,4
GDP, excluding Kuntor	%	1,7	4,5	3,4	5,9	1,4	-14,3	-7,6	-12,3	-4,5
Domestic consumption	%	0,4	1,4	0,8	0,4	3,7	-24,0	-12,1	-2,3	
Investment	%	-10,3	6,5	29,7	7,8	-23,7	-33,1	-16,9	-22,5	
Net export	%	-17,7	-1,1	2,0	9,3	-16,3	-74,0	-26,8	1,2	
<i>GDP production:</i>										
Agriculture	%	0,6	4,3	1,3	4,7	1,3	0,8	1,0	1,4	0,9
Industry	%	15,0	25,5	10,5	-13,7	3,8	-3,2	-8,8	-18,9	-17,9
Construction	%	3,0	7,1	12,1	13,2	-2,5	-12,7	-5,7	-25,6	-19,8
Services	%	1,7	3,5	2,0	4,7	1,7	-17,9	-10,8	-10,6	-5,5
including trade	%	4,3	4,9	5,0	7,7	3,4	-31,2	-16,0	-15,4	-12,1
<b>2. Prices<sup>2</sup></b>										
CPI	%	99,7	100,2	101,9	102,8	104,4	107,2	105,3	108,4	110,3
CPI, in annual terms as of the end of period	%	99,3	100,9	102,3	103,1	105,9	105,8	105,4	109,7	110,2
Core inflation	%	101,0	100,8	101,2	102,2	103,5	105,8	105,3	108,1	110,1
<i>CPI by main groups of goods and services:</i>										
Food products	%	97,1	99,7	103,5	105,3	108,1	113,4	109,7	115,4	117,9
Non-food products	%	101,1	99,8	100,4	100,4	100,9	102,1	101,6	102,0	103,7
Alcohol drinks and tobacco products	%	104,7	104,0	103,8	103,5	104,2	105,3	105,7	106,3	106,0
Services	%	101,3	99,9	99,8	100,3	101,0	101,0	100,0	102,3	103,3
<i>CPI, classified by character:</i>										
Excisable goods	%	104,5	102,9	102,2	101,8	103,1	103,3	102,8	103,4	102,1
Regulated prices	%	100,9	100,8	100,9	101,5	102,7	102,7	102,8	102,8	102,7
Market inflation rate (the rest of CPI)	%	101,2	99,8	100,3	100,5	100,8	101,9	101,3	102,6	101,0
<b>3. External sector<sup>3</sup></b>										
<i>(in percent to GDP)</i>										
Trade balance	% to GDP	-34,3	-32,2	-30,7	-29,6	-27,5	-22,3	-18,3	-18,4	-19,3
Current transaction account	% to GDP	-9,7	-9,5	-9,7	-12,1	-9,0	-4,1	0,4	4,3	3,8
Export of goods and services	% to GDP	34,4	34,5	35,8	35,2	34,6	34,3	33,4	31,7	32,2
Import of goods and services	% to GDP	69,8	67,3	66,4	64,1	61,4	56,4	53,1	52,3	54,1
<b>4. USD exchange rate, as of the end of period</b>										
	KGS	69,8496	69,4928	69,7039	69,6439	80,8100	75,9887	79,6000	82,6498	84,7792
<b>5. Monetary sector</b>										
NBKR policy rate, as of the end of period	%	4,50	4,25	4,25	4,25	5,00	5,00	5,00	5,00	5,50
Rate of "overnight" deposit, as of the end of period	%	1,50	1,75	2,00	2,00	2,75	2,75	2,75	2,75	3,25
Rate of "overnight" credit, as of the end of period	%	6,00	5,75	5,75	5,75	5,75	5,75	5,75	5,75	6,00
Average interest rates of operations in the interbank credit market, per quarter	%	2,26	3,02	3,26	3,50	3,55	3,85	3,79	3,79	4,15
<i>of which:</i>										
of REPO transactions	%	2,25	3,02	3,27	3,50	3,55	3,85	3,97	3,84	4,15
of credits in national currency	%	2,30	2,30	-	-	-	-	-	-	-
of credits in foreign currency	%	3,50	2,88	3,36	-	-	-	2,50	2,50	-
Weighted average yield of 7-day notes, as of the end of period	%	3,67	3,59	3,79	3,76	3,97	3,95	3,95	4,01	4,50
Weighted average yield of 14-day notes, as of the end of period	%	-	-	-	3,78	4,15	4,32	4,20	4,50	5,03
Weighted average yield of 28-day notes, as of the end of period	%	3,93	4,18	4,10	4,00	4,31	4,52	4,37	4,62	5,15
Weighted average yield of 91-day notes, as of the end of period	%	4,48	4,20	4,25	4,23	4,48	4,65	4,70	4,70	5,45
Weighted average yield of 182-day notes, as of the end of period	%	4,50	-	-	-	-	-	-	-	-
Monetary base	%	6,0	13,0	14,3	11,0	13,6	24,1	28,3	24,8	24,2
Money outside banks (M0)	%	5,2	11,1	12,7	13,2	14,9	26,9	31,7	29,3	23,7
Monetary aggregate (M1)	%	5,2	9,6	13,9	14,8	14,0	24,4	28,4	24,7	22,9
Narrow money supply (M2)	%	10,3	13,2	17,4	17,6	15,9	23,1	24,9	20,5	18,9
Money supply (M2X)	%	5,5	8,8	14,7	12,8	16,7	21,7	21,0	23,9	18,6

<sup>1/</sup> Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic

<sup>2/</sup> Source: National Statistics Committee of the Kyrgyz Republic

<sup>3/</sup> Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q1 are preliminary

## Annex 2. Glossary

**Balance of payments** is a report, which reflects aggregate economic transactions between the residents and non-residents within a certain period of time.

**Consumer price index** reflects changes in the prices for goods and services purchased by the standard consumers for non-production purposes. This index is among inflation rate measures, which is based on comparing the value of basic goods basket consumed by the population and weighted in accordance with the share of these goods in the aggregate consumption.

**Core inflation** is inflation, which excludes short-term, structural and seasonal changes of prices: the growth in prices of goods due to the seasonal, the external factors and the administratively established tariffs is excluded from the calculation of the inflation rate.

**Core CPI index** is a price excluding the cost of food products, electric energy, gas, and other fuels.

**Deposits included in M2X** are the deposits of the individuals and legal entities, as well as the deposits of other financial-credit institutions, however, the deposits of the government and nonresidents are excluded.

**Dollarization** is extensive use of the US dollars in the domestic currency circulation of the country, which possess own national currency.

**Inflation** is the upward trend in the general level of prices within the certain period of time, which is determined based on the value calculation for the basket of goods and services weighted by the structure of consumer expenses of the standard household. The consumer price index is an indicator, which characterizes the inflation rate in the Kyrgyz Republic.

**Monetary aggregate** is the money supply classified according to degrees of liquidity: M0; M1; M2; M2X. M0 – cash in hands.

M1 – M0 + residents' transferable deposits in the national currency.

M2 – M1 + residents' time deposits in the national currency.

M2X – M2 + settlement (current) accounts and residents' deposits in foreign currency.

**Monetary base** is the obligations of the National Bank on cash in circulation, and the obligations of the National Bank to other depository corporations in the national currency.

**Net balance of payments** is a difference between receipts from the foreign countries and payments transferred to the foreign countries.

**Net balance of trade** is a difference between the cost of export and import.

**Nominal effective exchange rate (NEER) index** is a weighted average value of the nominal exchange rates, which excludes the price tendency in the country under review with respect to the prices in the trading partner countries.

**Notes** are the discount securities, issued in circulation by the National Bank of the Kyrgyz Republic. By decision of the Monetary Regulation Committee of the National Bank, the notes can be issued for the period from 7 to 364 days. The notes maximum profitability is set to be equal to the policy rate as of the auction day.

**Other depositary corporations** are all resident financial corporations, except for the central bank, which main activities are aimed at financial intermediation and which issue obligations included into the national definition of the broad money stock (M2X).

**Policy rate** is a monetary policy tool, which represents an interest rate set by the central bank and is used as the basic reference point when determining the value of monetary resources in the economy.

**Real effective exchange rate (REER) index** represents the weighted average value of the nominal effective exchange rates adjusted by the value corresponding to the relative change in prices in the trading partner countries. REER is determined by calculation of the weighted real exchange rates of the currency in the country with respect to the currencies of the main trading partner countries.

**REPO transactions** are the operations on purchase/sale of the government securities in the secondary market with an obligation of their resale/repurchase on a certain date in the future at the pre-agreed price.

**State Treasury Bills** are the short-term (3-, 6-, 12-month) discount government securities of the Government of the Kyrgyz Republic. The Ministry of Finance of the Kyrgyz Republic is the issuer of the ST-Bills. Placing issues of the ST-Bills is made through weekly auctions conducted by the National Bank of the Kyrgyz Republic. Direct participants enjoy the right to participate in the auctions. The owners of the ST-Bills of the Kyrgyz Republic can be both the legal entities and the individuals. The admission of the foreign investors to the market of the ST-Bills is not limited. The transactions in the secondary market of the ST-Bills are conducted through the electronic trading system of the National Bank of the Kyrgyz Republic, which allows the participants to conduct transactions on purchase/sale of the ST-Bills from their workplaces.

**State Treasury Bonds** are the long-term government securities of the Government of the Kyrgyz Republic with the interest income (coupon) and maturity over one year. The issuer of the ST-Bonds is the Ministry of Finance of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic is the general agent servicing the issues of the ST-Bonds.

### **Annex 3. Abbreviations**

ADB	Asian Development Bank
CBRF	Central Bank of the Russian Federation
COVID-19	COrona VIRus Disease 2019
CPI	Consumer Price Index
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
ES	Emergency Situation
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCM	Inter-Bank Credit Market
IEA	International Energy Agency
IMF	International Monetary Fund
KR	Kyrgyz Republic
LA	Lending to Agriculture
MNE RK	Ministry of National Economy of the Republic of Kazakhstan
NBKR	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NEER	Nominal Effective Exchange Rate
NSC	National Statistical Committee
OPEC+	Organization for Petroleum Exporting Countries
POL	Petroleum, oil, lubricants
PRC	People's Republic of China
RA	Republic of Armenia
RB	Republic of Belarus
REER	Real Effective Exchange Rate
RK	Republic of Kazakhstan
SE	State of Emergency
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America
VAT	Value Added Tax