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Press Release

National Bank of the Kyrgyz Republic keeps its policy rate unchanged at 5.0 percent

On January 25, 2021, the Board of the National Bank of the Kyrgyz Republic decided to keep the policy rate (key rate) unchanged at 5.0 percent. The decision becomes effective as of January 26, 2021.

Spread of the COVID-19 pandemic worldwide, volatility of the global prices on the commodity markets and multidirectional world economic development still have negative effect on economic development of the countries of the region and the Kyrgyz Republic, in particular.

Economic activity in the Kyrgyz Republic remains low. Almost all sectors of economy demonstrate a significant decline in the output, excluding agriculture. Return of the economy in the Kyrgyz Republic to the path of sustainable economic growth will largely depend on the epidemiological situation in the country and economic recovery rate in the trading partner countries.

There is an increase in prices for certain goods on the world food and commodity markets. Moreover, the prices for oil-bearing crops and sugar in the countries supplying these goods to the Kyrgyz Republic demonstrate sustainable growth. This factor, as well as continued increased demand for domestic meat products in the neighboring countries, conditions the current growth in the general price level in the country. In January 2021 (as of January 15) the annual inflation rate was 9.9 percent. In Q1 2021, planned increase in excise taxes on alcohol and tobacco products will be an additional factor in the upward dynamics of inflation throughout the year. In the current economic conditions, after slight acceleration, the inflation rate will become stable by the middle of the year and it will be within single-digit values by the end of the year.

Generally, the monetary factors did not suffer significant changes. Short-term interest rates in the money market have approached the policy rate of the National Bank and are still fluctuating within set interest rate corridor. Participants' activity increased in the short segment of the money market, mainly in the open market operations.

Lending to the economy is still growing and deposit base of the banks continue expanding. Interest rates on loans demonstrate a downward trend: in January-November 2020, the average weighted interest rate on loans in the national currency decreased by 1.3 percentage points, down to 16.2 percent, on loans in foreign currency - by 0.4 percentage points, down to 9.3 percent. At the same time, there was a slight increase in the share of overdue and extended loans in respect of the loan portfolio (at the end of November 2020, it constituted 2.6 percent (+0.8 percentage points year-to-date) and 14.1 percent (+11.5 percentage points year-to-date), respectively).

The level of dollarization of the economy remains low: by the end of 2020, the dollarization of the deposits¹ increased over the year by 4.7 percentage points and amounted to 42.9 percent, meanwhile dollarization of the loans¹, on the contrary, decreased by 2.2 percentage points, down to 32.9 percent.

Volatility in the commodity markets, existing restrictions in a number of countries due to the COVID-19 pandemic and related restrained expectations of global economic growth determine volatility in the world financial markets. During 2020, there was an excess of demand for foreign currency over supply thereof in the domestic foreign exchange market, which conditioned foreign exchange interventions conducted by the National Bank to smooth sharp fluctuations in the exchange rate. In 2020, the volume of foreign exchange interventions on sale of foreign currency amounted to USD 518.5 million. International reserves are sufficient – USD 2.8 billion and cover about 6 months of the future imports of goods and services.

There was a positive trend in the inflow of individuals' remittances to the country. At the end of January-November 2020, the net inflow of remittances increased by 1.2 percent compared to the same period in 2019 and amounted to USD 1.7 billion.

Taking into account prerequisites for development of the external environment and emerging internal economic conditions, the National Bank decided to keep its policy rate unchanged at 5.0 percent. In case of any risks, the National Bank does not rule out the possibility of adjusting the current monetary policy.

The National Bank will continue to regular assess the external and internal factors influencing inflation and, depending on the economic situation, will make relevant monetary policy adjustments.

Briefing:

The next meeting of the Board of the National Bank of the Kyrgyz Republic on monetary policy rate is scheduled for February 22, 2021.

¹ Preliminary data

Chart 1. Overall inflation in the Kyrgyz Republic

(%, month to the corresponding month of the previous year)

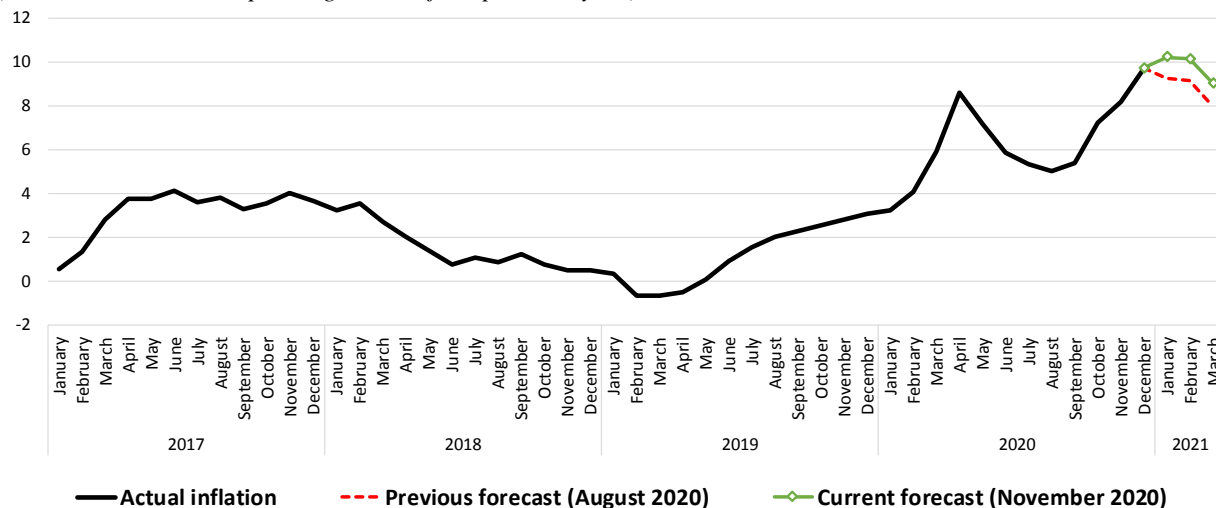
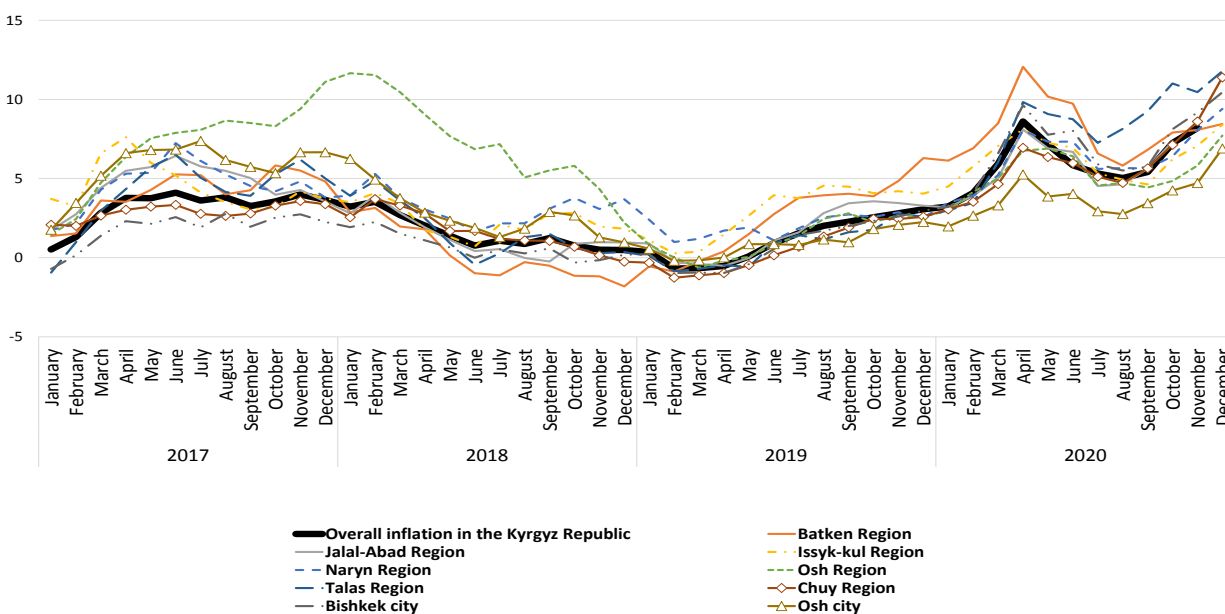


Chart 2. Inflation in the Kyrgyz Republic in regions

(%, month to the corresponding month of the previous year)



*based on data from the National Statistical Committee

Chart 3. Policy rate of the National Bank of the Kyrgyz Republic

(percent)

