

National Bank of the Kyrgyz Republic

Inflation Report

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Inflation Report

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Annual Report of the National Bank of the Kyrgyz Republic

The annual report of the National Bank of the Kyrgyz Republic is a complete report on the work of the National Bank done during the reporting year. It contains a brief description of developments in the real sector of economy, as well as the description of decisions and actions of the National Bank in the monetary sphere. It includes the information on economic development and monetary policy, financial statements, general information about the National Bank, statistical annexes. The report is published in Kyrgyz, Russian and English languages.

Bulletin of the National Bank of the Kyrgyz Republic

"The Bulletin of the NBKR" contains macro-economic indicators of the Kyrgyz Republic on the real sector, financial sector, external sector, information on prices and social indicators. The bulletin is published monthly in the Kyrgyz, Russian and English languages.

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"The Balance of Payments of the Kyrgyz Republic" reflects the latest trends in development of the external sector and contains tables with data in analytical and neutral formats of the balance of payment, the structure of external trade, international reserves, external debt, the methodology and the information base for preparation of the balance of payments, as well as the international investment position of the Kyrgyz Republic. It is published quarterly in January, May, July and October.

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The purpose of the "Banking System Development Trends" is to study assess the development of the banking system in Kyrgyzstan. It is published on half year basis in Kyrgyz and Russian.

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The purpose of the edition is the official publication of statutory acts of the National bank for informing commercial banks and the public and propagation of the bank legislation of the Kyrgyz Republic. It is published once a month in the Kyrgyz and Russian languages.

Press release of the National Bank of the Kyrgyz Republic

"The Press-Release of the NBKR" contains the weekly chronicles of the developments in the National Bank and major data of the financial market. It is published quarterly in the Kyrgyz and Russian languages.

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1. CURRENT DEVELOPMENTS OF INFLATION

For 9 months 2003 gross domestic product gained 5.1 percent compared with corresponding period of the last year. The value added in industry grew by 14 percent, and it increased by 9.6 percent excluding output of the Kumtor gold-mine enterprise. Non-ferrous metallurgy, the food-processing industry, electric power industry made the most contribution into growth. Agriculture grew by 0.3 percent.

The trade balance remained negative as a result of outstripping growth of imports against exports. The increase in exports is caused by restoration of gold export as well as the price factor. Exports excluding gold reduced concerning the third quarter of the previous year. Mineral oil and consumer goods basically drove growth in imports.

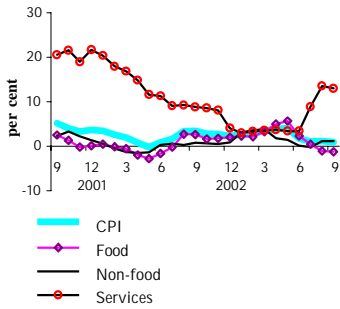
The nominal effective rate of a Som become stronger by 4.2 percent due to strengthening in foreign currency inflow and easing of US dollar in the international financial market. The real effective rate of a Som has insignificantly decreased in result because of higher inflation in basic partners on trade compared with Kyrgyz Republic.

Annual monetary aggregates growth rates were still high, though the tendency to slow down revealed. The monetary aggregates basically grew due to interventions of the National bank by amount of 9.2 million US dollars. Banking system liquidity was unstable. As far as amount of participants was insufficient all notes auctions of the National bank are recognized not taken place. Interest rates on T-bills continue to grow.

For the third quarter 2003 consumer prices decreased by 2.5 percent. The food stuff prices determined CPI developments. Seasonal decline in food prices were more pronounced, so consumer price index for 9 months decreased by 0.1 percent. Inflation outlook for the fourth quarter is sensitive to commodity markets conditions, first of all for grain and potato. Adverse weather in the spring of the current year and a poor grain harvest in Ukraine and in Moldova create risks of destabilization at separate markets. In this connection the inflation outlook for the fourth quarter makes 3.7 percent.

2. CONSUMER PRICE INDEX AND ITS COMPONENTS

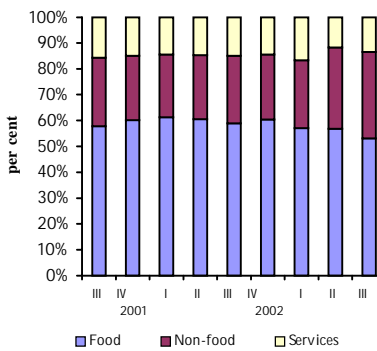
Chart 1: CPI and its components, percentage changes on a year earlier



In the third quarter 2003, there was decrease in consumer price index, which is typical for this period. According to the data of the National statistical committee it decreased by 2.5 percent (in the third quarter 2002, registered deflation by 1.7 percent). Deflation has been influenced by seasonal reduction in prices on foodstuff, which declined by 7.7 percent, while non-food and service prices rose by 2.3 and 11.8 percent, respectively.

2.1. COMPONENTS OF CONSUMER PRICE INDEX

Chart 2: Structure of CPI, per cent



2.1.1. FOOD PRODUCTS

Foodstuff, which dominated in the consumer's basket, are volatile a lot due to seasonality. Accordingly, foodstuff price developments determine movements in consumer price index. In the first half of current year the seasonal factor was amplified by low crop of fruit-and-vegetable in 2002 because of adverse weather conditions that caused delay of sowing works in 2003 by 15-20 days. It transformed into high price expectations and as a result there was growth in fruit and vegetables prices by 74.1 percent in April - May. Since June when new crop was carried to market fruit and vegetables prices rebounded and decreased by 31.6 percent. Seasonal fluctuations were almost the same in comparison with the corresponding period of the last year (in the third quarter of 2002, fruit and vegetables prices decreased by 31.3 percent). The growth on meat and the meat product prices was 2.4 percent. The prices on other foodstuff items changed insignificantly.

Chart 3 : Food Prices, percentage changes on a year earlier

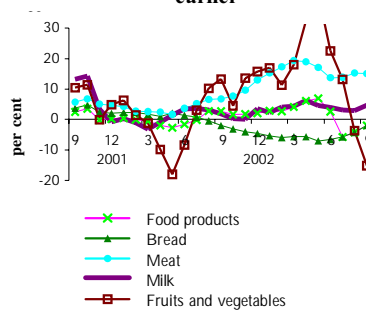
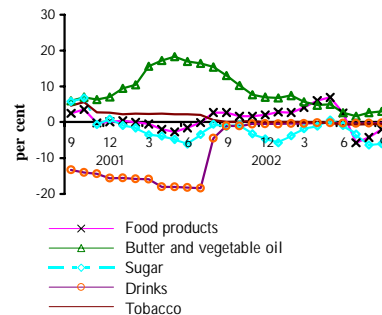


Chart 3b: Food Prices, percentage changes on a year earlier

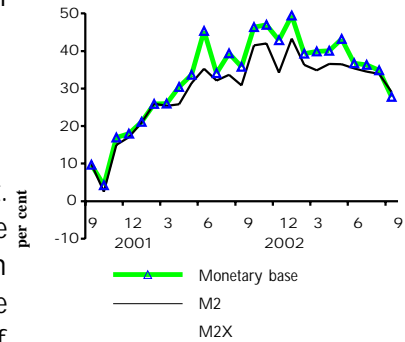


3. INFLATION FACTORS

3.1. MONETARY AGGREGATES

Monetary aggregates grew insignificantly faster than in the corresponding period of 2002. The greatest growth was registered for monetary aggregate M_2 that was caused by significant inflow in foreign currency to the banking system.

Chart 7: Monetary aggregates, percentage changes on a year earlier



3.1.1. MONETARY BASE¹

The monetary base for the third quarter of 2003 increased by 2.9 percent. Thus, year-on-year growth of monetary base gained 27.8 percent. The money in circulation grew by 3.5 percent. Share of money in circulation increased from 96 percent on the end of June up to 96.6 percent on the end of September. Accordingly, share of correspondent accounts of commercial banks in the National bank reduced from 4 to 3.4 percent.

3.1.2. AGGREGATE M2

M2 increased by 3.8 percent, its year-on-year growth rate made 29 percent. Deposits in national currency increased by 3.6 percent, while settlement accounts of legal persons increased by 9.8 percent and time deposits reduced by 3.9 percent.

3.1.3. AGGREGATE M2X

M2X under the current exchange rate increased by 8.1 percent. Broad money grew mainly due to growth of cash outside of banks, increased by 3.8 percent. Also, deposits in commercial banks rose by 16.2 percent.

The M2X growth rate outpaced M2 growth rate because deposits in foreign currency rose by 19.9 percent.

Changes in the structure of M_2 for the third quarter were following:

- the share of cash outside of banks reduced by 2.2 percentage points and reached 62 percent;
- the share of deposits in national currency reduced by 0.5 percentage points and achieved 12 percent;
- the share of deposits in foreign currency increased by 2.6 percentage points and made 26 percent.

It is worth to note broad money growth occurred due to increase in net foreign assets of the National bank. The National bank increased purchasing

¹ Excluding deposits in foreign currency in commercial banks.

² Including commercial banks, which license is withdrawn, but process of liquidation is not completed.

of foreign currency, which led international reserves and reserve money to grow, by the reason of reduced demand for foreign currency, easing of US dollar on the global financial markets, and foreign currency inflow into banking system as a result of trade operations. Money demand remained strong that was reflected through increase in cash and corporate deposits.

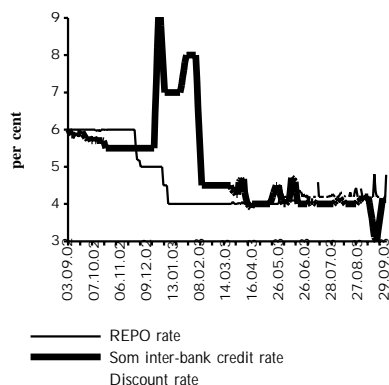
Also, it is worth to note that operations of the National bank directed on liquidity contraction in connection with delivery of tax revenues and other payments on the account of the Central Treasury led to decrease in reserves of commercial banks that was a principal cause of money multiplier growth.

3.2. INTEREST RATES

3.2.1. MONEY MARKET INTEREST RATES

The interest rates reflecting cost of monetary resources in economy, in the third quarter were changing in rather narrow range, despite of appreciable changes of liquidity in the banking system. Liquidity contracted significantly at last days of September that has led cost of credit resources grew up to 4.5 - 5 percent. Interest rates on foreign exchange inter-bank credit fluctuated from 3 up to 11 percent, reflecting specific characters in maturity and collateral of transaction.

Chart 8: Discount rate of the NBKR, inter-bank credit and REPO interest rates, per cent



All 14 auctions on notes of the National bank were recognized not taken place because of insufficient number of participants. Thus it is necessary to note, that at the end of September the National bank changed maturity of notes. On September 23 and on September 30 it offered notes with 14 day and 7-day maturity instead of 28-day maturity notes. However, commercial banks did not revealed any demand, so during third quarter discount rate remained to be constant at 3.99 percent.

3.2.2. STATE TREASURY BILLS

In July, T-bill yields demonstrated low volatility within 0.08 - 0.3 percentage point range. However, at the middle of August yield started to grow due to low liquidity as well as fluctuations in T-bill, which continued to increase up to the end of quarter despite of some correction in the beginning of September.

During the third quarter three-month T-bill yield increased from 9.5 up to 10 percent, six-month - from 12.4 up to 13.9 percent, and twelve-month - from 13.2 up to 16.4 percent. The weighted average yield increased from 12.8 percent by the beginning of July up to 14.3 percent by the end of September. It was affected by the Ministry of Finance that changed T-bill supply structure decreasing three-month T-bill to issue, which had the lowest yield.

