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Press Release

National Bank of the Kyrgyz Republic keeps its policy rate unchanged at 4.75 percent

On November 26, 2018, the Board of the National Bank of the Kyrgyz Republic decided to keep the policy rate unchanged at 4.75 percent. The decision becomes effective as of November 27, 2018.

Inflation in the Kyrgyz Republic has remained stable at a low level for the last three quarters. Annual inflation made up 0.2 percent in November (as of November 16). Low inflation was caused by decrease in food prices due to sufficient supply of both domestic and imported food products. Non-food prices have remained moderate.

The combination of continuing negative output gap and a stable external inflationary environment caused low inflation in the current year. Inflation is expected to be in line with the previous inflation assessments made by the National Bank and to be around 2.0 percent by the end of the year. In the absence of external and internal shocks, economic activity expansion at a gradual pace in the country and in the region will lead inflation to reach the targeted range of 5-7 percent in the middle of 2019.

The economic activity in the country is still supported by the positive contribution of all sectors of the economy, excluding the industrial, information and communication sectors. Increase in real wages and the positive dynamics in inflow of remittances are the main factors of domestic demand growth. In January-October 2018, real GDP increased by 2.0 percent, excluding the data on the “Kumtor”¹ economic growth was 2.6 percent. According to the estimates of the National Bank external economic environment, primarily the level of economic activity in the main trading partners, which mainly determined by sanctions pressure on the Russian economy are expected to be the most influential factors for the economic development of the Kyrgyz Republic in the medium term.

Monetary conditions continue to have stimulation effect. Money market rates are within the interest rate corridor set by the National Bank, and are slightly moving towards the policy rate. There is the interbank credit market activity growth accompanied by an increase in the number of participants. Maintaining soft monetary conditions have resulted in expansion of loan portfolio and an increase in deposit base of the commercial banks. The banking system has an excess liquidity that conditioned the National Bank to conduct sterilization operations.

From the mid-August of this year, the domestic foreign exchange market has shown an excess of demand for foreign currency over its supply. Under these circumstances, in order to smooth sharp exchange rate fluctuations, the National Bank conducted interventions on sale of

¹ The real GDP value without Kumtor enterprises is more indicative for the monetary policy purposes.

foreign currency, including USD in cash. In general, domestic foreign exchange market remains stable and does not cause inflationary risks.

Stable growth of domestic aggregate demand, as well as estimates of the external environment development predetermine inflationary dynamics in the Kyrgyz Republic within the monetary policy target of 5-7 percent in the medium-term. In this regard, the decision to keep the policy rate unchanged was taken. However, in case of realization of concerns about increasing the sanctions pressure on Russia's economy, which may change the situation in the region, the National Bank does not exclude the possibility to adjust its monetary policy.

The National Bank assesses external and internal inflation factors on a regular basis and depending on the economic situation will take relevant monetary policy measures.

Briefing:

The next meeting of the Board of the National Bank of the Kyrgyz Republic on the monetary policy is scheduled for December 24, 2018.