



КЫРГЫЗ БАНКЫ

Monetary Policy Report.

Quarter 2, 2023

Bishkek
August 2023

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.

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Summary

Global economy maintained slow growth rates amid tight monetary policy conditions and restricted lending. Global inflation slowed down, however core inflation, which excludes volatile energy and food prices, still demonstrated high values. Exchange rate volatility in many emerging economies posed additional challenges for stabilization of price movement.

Economic activity in the Kyrgyz Republic was largely supported by relatively strong internal demand from public and private consumption. Growth in wages and expansion of consumer lending still supported internal demand. In terms of sectors, the services sector (2.6 percentage points) made the main contribution to GDP growth. At the end of the first half of 2023, real GDP increased by 3.9 percent compared to the same period of the previous year, excluding “Kumtor” gold-mining enterprises – by 5.2 percent.

In Q2 2023, trade balance was formed under the influence of stable growth in import supplies. Finally, the trade deficit of the country increased by 28.7 percent compared to Q2 2022 and amounted to USD 2,003.7 million. The volume of foreign trade turnover increased by 37.2 percent and amounted to USD 3.7 billion. Net inflow of individuals’ remittances through transfer systems decreased by 33.2 percent in Q2 of the current year.

In general, the inflationary environment in the Kyrgyz Republic was gradually weakening due to stabilization of the situation in the global food markets and the monetary policy measures taken earlier. However, internal factors related to an increase in a number of administered prices (tariffs) and gradual increase of domestic demand remained pro-inflationary. In Q2 2023, the annual inflation rate (Q2 2023 to Q2 2022) decreased down to 10.8 percent.

Monetary policy conditions were aimed at decreasing the inflation rate down to 5-7 percent in the medium term. At the same time, in order to limit the monetary component of inflation, the National Bank actively increased the volume of its sterilization operations amid existing high level of excess liquidity in the banking system. Short-term rates in all segments of the money market were close to the key rate.

The situation in the money and foreign exchange markets remained relatively stable due to measures taken by the National Bank. During some periods, the demand for foreign currency prevailed in the domestic foreign exchange market over its supply. Under these conditions, in the reporting quarter, the National Bank conducted foreign exchange interventions on sale of foreign currency in non-cash form to the amount of USD166.8 million to smooth sharp fluctuations of the exchange rate.

There was stable expansion of lending and deposit base of the commercial banks. Growth of deposits was provided by inflow of deposits in the national and foreign currencies. In turn, growth of the credit portfolio was mainly due to an increase in the volume of credits in the national currency.

Chapter 1. External Environment

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

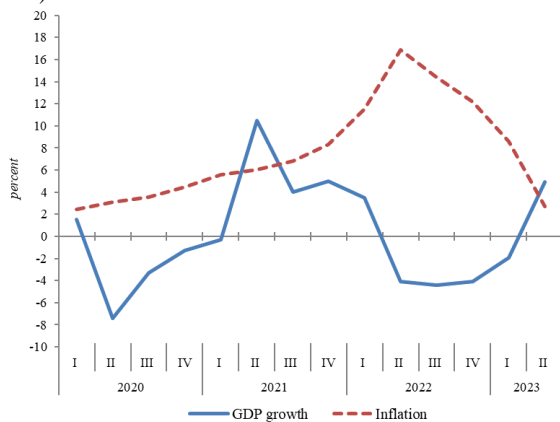
Global economy maintained slow growth rates amid tight monetary policy conditions and restricted lending. Global inflation slowed down, however core inflation, which excludes volatile energy and food prices, still demonstrated high values.

Increase in consumer expenditures supported the economy of the USA, meanwhile weak internal and export demand had a negative impact on economic activity in China. All EAEU member states demonstrated positive GDP growth dynamics.

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 preliminary data of the Russian Federal State Statistics Service, at the end of Q2 2023, GDP grew by 4.9 percent compared to the same period of 2022 and increased by 1.4 percent in annual terms at the end of the first half of the year.

Contribution to GDP growth was observed in almost all sectors. The main drivers are: industrial production, where the indicator of the first half of 2023 grew by 2.6 percent compared to the same period of 2022; processing production grew by 6.2 percent, the machine-building and metallurgical complexes contributed to improvement of the processing sector. At the end of the first half of 2023, the mining industry demonstrated a decline in production output by 1.2 percent due to voluntary reduction in oil production. At the same time, coal production

increased by 1.2 percent in annual terms.

The construction sector (+9.2 percent), wholesale trade (+0.4 percent) and agriculture (+2.9 percent) also made a positive contribution to GDP change. Consumer demand was still at a high level, the largest contribution was observed in the segment of retail trade. Real monetary incomes of the population increased by 3.9 percent at the end of the first half of 2023. The unemployment rate decreased in June and reached a new historical minimum of 3.1 percent of the labor force.

By the end of the reporting period, the inflation rate increased amid depreciation of the Russian ruble and rise in consumer activity due to growth of wages. In April and May 2023, the inflation rate reached a minimum of 2.3 percent and 2.5 percent, respectively, however in June 2023, the inflation rate demonstrated acceleration and was 3.3 percent. Generally, there was an increase in prices for tourism services and non-food products in the structure of inflation.

Kazakhstan

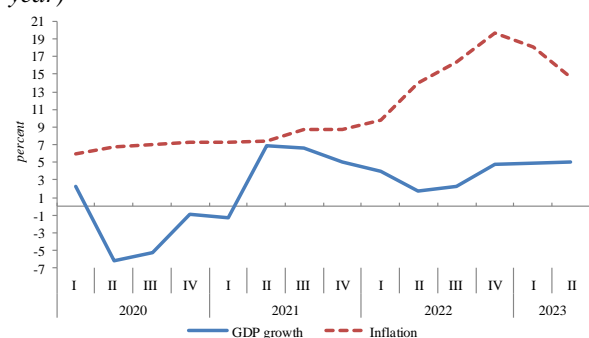
Economic growth demonstrated stable positive dynamics amid high investment activity. Inflation slowed down significantly, however there were pro-inflationary risks.

In the first half of the current year, real GDP of Kazakhstan increased by 5.0 percent maintaining the growth rate of Q1 2023 (in January-March 2023, an increase by 4.9 percent). The sectors of trade (+10.4 percent) and construction (+12.3 percent) still demonstrated double-digit growth rates. The factor of large-scale increase in budget expenditures significantly influenced the dynamics in these sectors. In the first half of 2023, the growth rates of industrial production accelerated up to 3.8 percent from 2.8 percent in Q1 2023.

In Q2 2023, the average nominal wage increased by 17.1 percent, in real terms – by 1.2 percent. The sectors of information and communication, transport and warehousing, agriculture and trade demonstrated the largest increase in average monthly wages.

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, National Bank's calculations

In June 2023, the inflation rate demonstrated moderate downward trend, to make 14.6 percent in annual terms from 18.1 percent in March 2023.

In January-June 2023, the price growth rate for food products slowed down to 14.6 percent; for non-food products – down to 15.8 percent; and for paid services – down to 13.3 percent. Food products and non-alcoholic beverages (+6.0 percentage points), housing services (+1.9 percentage points) and clothes and footwear (+1.4 percentage points) made the largest contribution to the annual inflation rate.

The main reason for slowdown of the inflation rate was improvement of the foreign economic situation, which was reflected through a decrease in prices for food products, the downward trend of inflation in the trading partner countries, as well as through the restrictive nature of monetary conditions and high base of the previous year.

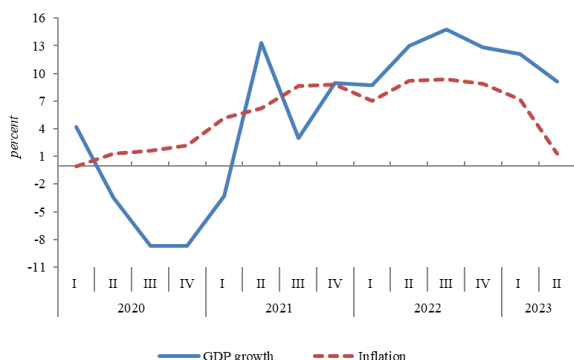
Armenia

In Q2 2023, economic activity in Armenia remained high, having increased by 11.4 percent due to high growth in the services and construction sectors. Strong external demand and income growth in the economy had a positive impact on expansion of internal demand. According to the assessment of the Central Bank of Armenia, the current positive changes in the labor market and productivity growth also condition a certain increase of the potential economic growth in the country.

Since the beginning of 2023, the inflation rate decreased rather rapidly, and in June 2023, the deflation rate was 0.5 percent in annual terms due to easing of inflationary influence from the external sector, conducted contractionary monetary policy and strengthening of the Armenian dram. However, inflation is adjusted slower in the sector of services and some goods amid strong demand and inflation expectations. From the beginning of 2023, the Central Bank of Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)

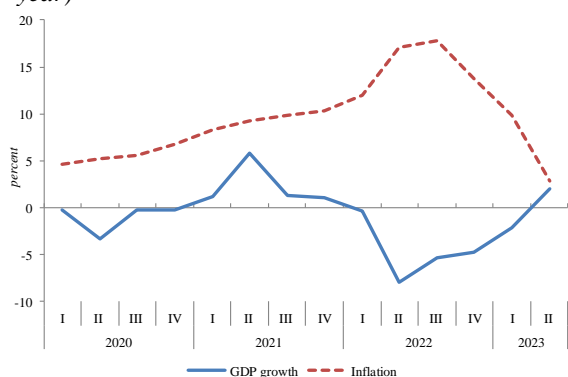


Source: National Statistical Service of the Republic of Armenia, IA Bloomberg, CB RA

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Republic of Belarus

decreased the key rate from 10.75 percent to 10.50 percent¹ for the first time. The regulator expects the inflation rate to remain below the target in the near term with gradually increase to be formed near 4.0 percent in the medium term.

Rapid economic recovery was observed almost in all sectors. The inflation rate decreased amid stable price control and slowdown of price growth in the key trading partner countries. The regulator gradually reduced the interest rates.

In the first half of 2023, real GDP growth in Belarus was 2.0 percent compared to the same period of the previous year (in January-June 2022, a decrease by 4.7 percent).

Processing sector (+7.6 percent), wholesale and retail trade (+5.5 percent), and construction (+6.1 percent) played a key role to return economic growth to the zone of positive values, meanwhile there was decline in the sector of information and communication (-17.3 percent) and in the transport

segment (-5.8 percent). In general, the economy, excluding the sectors of information technology and transport, demonstrated strong recovery after recession in 2022, indicating adaptation to external constraints and stimulus from domestic economic policy.

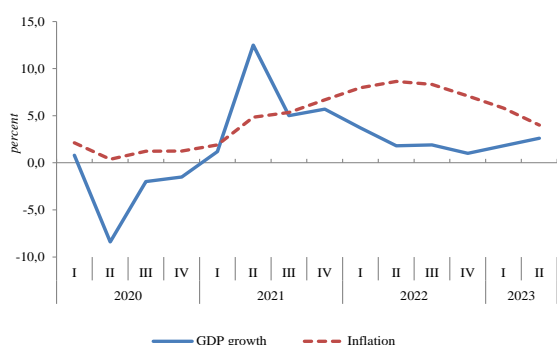
The inflation rate slowed down to 2.9 percent by the end of Q2 2023. A decrease in the rate of price growth reflects low intensity of inflationary developments in the segments of food products (+3.6 percent) and non-food products (- 1.0 percent). Slowdown of inflationary developments was supported by the Belarusian ruble strengthening against the Russian ruble - the currency of the main trading partner, as well as the low inflation rate in Russia and stable slowdown in growth of the world prices for raw materials and food products. Nevertheless, recovery of consumer demand may become a factor for accelerated price growth by the end of 2023.

¹ As of the end of June 2023

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(quarter to the corresponding quarter of the previous year)



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

In the reporting quarter, the unemployment rate in the USA increased slightly from 3.5 percent in March up to 3.6 percent in June 2023.

The rate of price growth slowed down due to measures taken by the US authorities, as well as gradual recovery of the global supply chain. In June 2023, the annual inflation rate in the USA slowed down to 3.0 percent minimum during two years. Consumer prices still increased due to stable demand and growth in expenditures. In general, production costs, not related to labor force, increased, meanwhile price pressures decreased and there was decline in prices for delivery and some raw materials. In June 2023, energy prices decreased by 16.7 percent in annual terms after decline by 6.4 percent in March, meanwhile growth of prices for food products slowed down from 8.5 percent to 5.7 percent in annual terms.

China

The dynamics of China's GDP demonstrated slight slowdown due to weak domestic demand, which conditioned slowdown of the inflation rate.

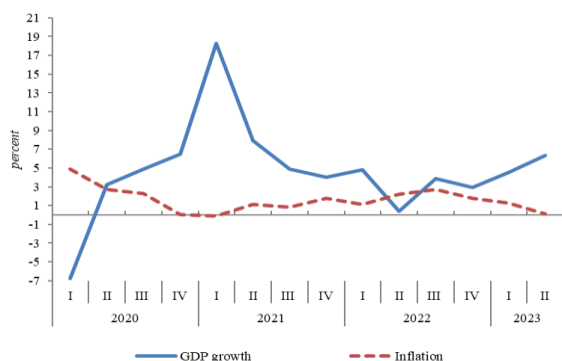
In Q2 2023, China's economy grew by 6.3 percent compared to the corresponding quarter of 2022. However, growth was 0.8 percent compared to the previous quarter, slowing down from 2.2 percent in Q1.

There was weak domestic and export demand in the reporting period. A decline in prices in the real estate market negatively affected the country's construction sector, which occupies about one fourth of the economy and has an impact on related industries. There was slowdown in investment, industrial production and retail sales. Youth unemployment rate reached 21.3 percent in June of the current year.

The inflation rate in China slowed down to zero from 2.1 percent in January of the current year due to a decrease of the price index in the group "transport and communications", the indicators of rise in prices were weak or moderate in other groups of goods and services.

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

¹ Preliminary data from the U.S. Bureau of Economic Analysis.

1.2. World Commodity Markets

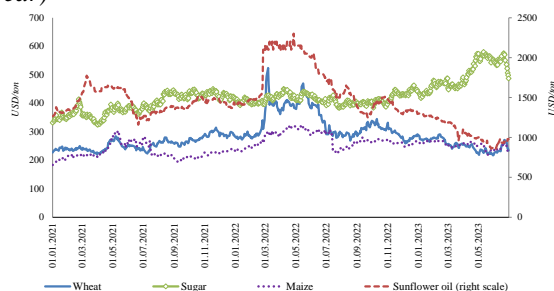
Prices in the world food market demonstrated stable decline during the last twelve months, meanwhile domestic prices in many countries remain above the level of the previous year. The main factors are deterioration of the macroeconomic situation in the countries, conflicts, high prices for agricultural resources, as well as volatility of the national currencies against USD or euro.

There was a positive dynamics of prices in the world oil market amid decrease in supply. In the reporting period, the world gold market demonstrated multidirectional price movement amid existing geopolitical risks and high inflation rate.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



In the reporting period, the world prices for basic food products demonstrated stable decline, mainly due to a decrease in the world prices for crops and vegetable oils, meanwhile there was stable growth in prices for sugar.

The factors for decline in the world food prices remained the same: large volumes of supply worldwide, low import demand and extension of the Black Sea Grain Initiative.

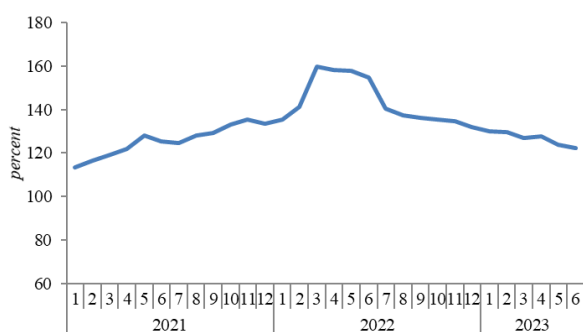
The world prices for crops decreased significantly due to decline in the world prices for maize amid increased seasonal supply in Argentina

and Brazil and weak demand for import, as well as a decrease in the world prices for wheat conditioned by sufficient supply from the importing countries and extension of the Black Sea Grain Initiative.

In the reporting period, there was a decrease in prices in the vegetable oil markets. Prices for sunflower and palm oils decreased due to significant export supply. At the same time, the world prices for soybean and rapeseed oils increased amid unfavorable weather conditions in the main production regions.

Possible decrease in global supply due to the effects of a natural phenomenon which had a significant impact on climate change to result in decrease of yields in the current 2023-2024 season is the main factor for increase in prices for sugar.

Chart 1.2.2. Dynamics of FAO Food Price Index



In Q2 2023, the average value of the FAO food price index¹ decreased by 3.4 percent compared to Q1 2023 and amounted to 124.7 points. At the same time, this index decreased by 20.6 percent compared to the same quarter of 2022. In the reporting quarter, the FAO index continued to decrease amid decline in the world prices for vegetable oils and dairy products, slight decrease in prices for crops. However, prices were partially neutralized by an increase in prices for sugar and slight growth in prices for meat.

Prices in the world food markets have a significant impact on inflation in the Kyrgyz Republic and often play a decisive role in CPI dynamics. This is due to a significant dependence of prices in the country on foreign markets, as well as the fact that food products, occupying about half of the consumer basket, make a significant contribution to overall inflation.

¹ The FAO food price index is a weighted average indicator that tracks international price movements for five major food commodity groups (meat, dairy products, crops, vegetable oils and sugar).

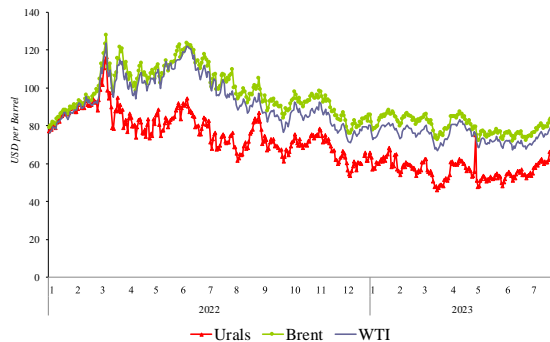
Energy Market

In Q2 2023, there was volatility in oil prices amid decrease in oil production output and USD strengthening.

The world prices for oil decreased amid weakening of recovery trend in the Chinese economy and an increase of the Federal Reserve System's interest rate, which strengthened USD. In Q2 2023, the average price for Brent oil decreased by 5.3 percent compared to the previous quarter and amounted to USD 77.7 per barrel (the average price decreased by 30.6 percent compared to the same period of the previous year), meanwhile the maximum price for Brent oil in the amount of USD 87.3 per barrel was recorded on April 12, 2023. Russian Urals oil was sold at a discount of USD 20- 25 per barrel compared to Brent oil.

On April 2, 2023, after the meeting of OPEC+ countries, a decision was made to decrease oil production by 1.66 million barrels per day besides existing reductions by 2 million barrels per day (decision dated October 5, 2022) as a precautionary measure to maintain market stability. In June 2023, prices for oil increased up to a new three-month maximum, reflecting the sharpest monthly increase since January 2022, being facilitated by the signs of reduction in global supply and rise in demand till the end of the year.

Chart 1.2.3. Dynamics of Oil Prices
(in USD)

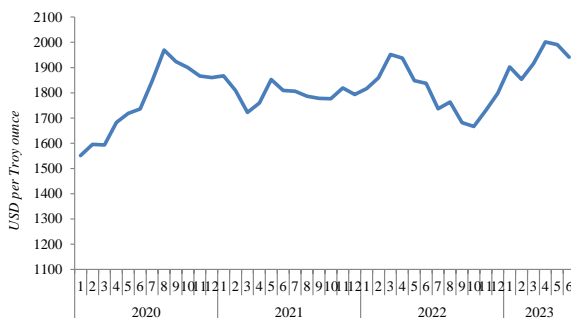


World oil prices have a significant impact on the formation of export prices in the POL producing countries and often play a decisive role in price formation at the oil refineries in Russia, from which the Kyrgyz Republic imports almost 95 percent of the total volume of imported POL.

In Q2 2023, there was a decrease in POL prices by 1.8 percent compared to the previous quarter due to a decrease in prices for gasoline and gas oil.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

In the first half of 2023, the price for gold in the world market was within the range of USD 1,811-2,050 per Troy ounce. The value of this asset increased by 5.2 percent since the beginning of 2023 and amounted to USD 1,919.4 per Troy ounce at the end of June 2023. In Q2 2023, demand for gold in the world market increased by 7.0 percent, up to 1,255.2 tons compared to 2022. In general, growth of demand from the central banks, jewelry industry and growth of investments in bars and coins provided slight support to the quotations of the precious

metal.

The total supply of gold in the world market also increased by 7.0 percent. Gold production is estimated to reach the highest level of 1,781 tons for the first half of 2023. In Q2 2023, the average price for gold increased by 4.5 percent compared to the previous quarter. In the first half of the reporting quarter, price for gold demonstrated upward trend in the world market, exceeding USD 2 thousand per Troy ounce, amid instability in the US banking sector, increased risk of recession and global uncertainty, as well as expectations of the market participants on suspension in increase of the key rate by the US Federal Reserve System. In the second half of the reporting quarter, the price for gold in the world market decreased slightly due to weakening of risks for development prospects resulted from resolution of disagreements regarding the threshold level of the US debt, as well as firm measures taken by the US official authorities to limit unrest in the US banking sector.

In general, the international analysts have a positive forecast for gold in 2023-2024, given that the cycle to complete tightening the monetary policy of the US Federal Reserve System is approaching and the balance of risks for growth of the global economy is still shifted towards deterioration of the situation.

Geopolitical risks, monetary policy of the US Federal Reserve System and the dynamics of global inflation are still the main factors affecting the gold price movement in the world market.

Chapter 2. Macroeconomic Development

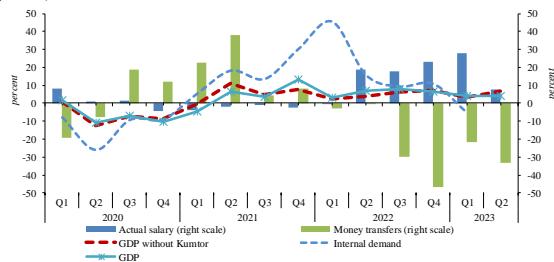
2.1. Demand and Supply in the Commodities and Services Market

By the end of the first half of 2023, there was slowdown in economic growth of the Kyrgyz Republic due to low production output at “Kumtor” gold-mining enterprises. The services sector made the main input to economic growth. There is stable reduction in the individuals’ remittances inflow into the country.

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: National Bank

Increased investment activity (+10.4 percent at the end of the half-year of the current year) is expected to be an impulse for further growth in domestic demand.

High growth rates of the nominal and real wages observed in Q1 of the current year demonstrated downward trend by the end of the first half of the current year. Thus, at the end of the first half of the current year, the average monthly nominal wage increased by 29.1 percent after growth by 42.5 percent in Q1 of the current year. Growth of real wages repeats the trend of price growth, having decreased down to +14.6 percent by the end of the half-year after +24.2 percent at the end of Q1 of the current year. Despite the downward trend, the positive growth rates in wages compensate the decline in the volume of individuals’ cash inflow into the country also affecting the consumer demand of the population.

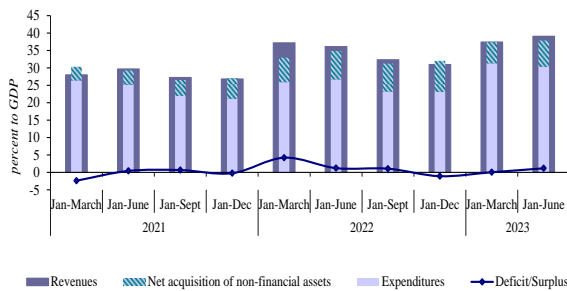
During six months of 2023, net inflow of individuals’ remittances through money transfer systems decreased by 33.2 percent compared to January-June 2022, while gross inflow of remittances decreased by 40.5 percent with a significant reduction in the outflow rates. Moreover, there are risks of further decline in remittances inflow, which may result in reduction of consumer demand.

According to the preliminary results of Q1 2023¹, domestic demand increased by (-)5.6 percent in annual terms, mainly due to high base in Q1 2022 (45.3 percent). At the same time, in the reporting period, domestic demand remains high due to, among other things, high growth rates in the nominal and real wages in Q1 of the current year (+42.5% and +24.2%, respectively). At the same time, high indicators of domestic demand are conditioned by increased economic activity in the services sector, particularly in trade (+12.3 percent at the end of the half-year of the current year).

¹ Reference to the data for the earlier period is given due to the lack of more up-to-date data.

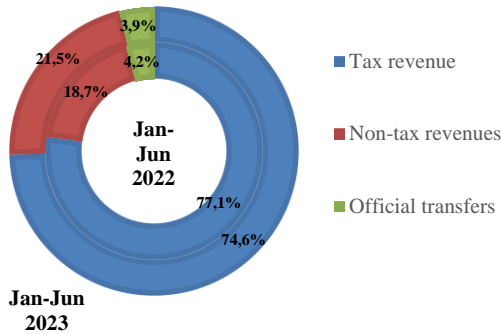
Public Finances Sector

Chart 2.1.2. Execution of the State Budget
(period to the corresponding period of the previous year, accumulatively)



Source: CT MFKR, National Bank

Chart 2.1.3. Structure of the State Budget Revenues



Source: CT MFKR

budget surplus is expected in 2024-2025 that will be used to repay public debt as well as to finance expenditures aimed at economic development. The main directions of fiscal policy of the Kyrgyz Republic for 2023-2027 emphasize that the stimulating role of fiscal policy will remain in the medium term.

In January-June 2023, the state budget was executed with a surplus of 1.2 percent being equal to the same period of the previous year, which is a seasonal phenomenon.

The budget surplus was conditioned by higher revenues compared to expenditures. Tax revenues increased due to revival of foreign trade. Thus, the state budget revenues from operating activities increased by 30.7 percent compared to 2022 and amounted to KGS 177.1 billion (39.1 percent to GDP). The increase was mainly due to growth of revenues from VAT and non-tax revenues.

The state budget expenditures for operating activities increased by 37.2 percent in annual terms and amounted to KGS 137.5 billion (30.3 percent to GDP). The increase was observed in all items of expenditures: the largest growth was observed on the items “public services of general purpose” (+35.6 percent) and “education” (+29.0 percent) due to increase in the public sector workers’ payroll fund (+42.5 percent).

Net acquisition of non-financial assets increased by 11.7 percent compared to 2022 and amounted to KGS 34.2 billion or 7.5 percent to GDP.

At the end of 2023, the republican budget deficit is expected at 2.3 percent to GDP¹ and

¹ According to the Law of the Kyrgyz Republic “On Republican Budget of the Kyrgyz Republic for 2023 and Forecast for 2024-2025”

Investments

Table 2.1.4. Capital Investments by Sources of Financing
(millions of KGS, percent)

	January-June			
	2022	2023	2022	2023
	millions of KGS		share, percent	
Total	41 274,9	47 807,6	100,0	100,0
Internal investment	33 333,7	40 695,3	80,8	85,1
Republican budget	1 754,5	4 179,0	4,3	8,7
Local budget	406,3	725,4	1,0	1,5
Funds of enterprises and organizations	14 503,1	18 065,7	35,1	37,8
Banks' credits	250,8	392,5	0,6	0,8
Population funds including beneficent help of KR residents	16 419,0	17 332,7	39,8	36,3
External investment	7 941,2	7 112,3	19,2	14,9
Foreign credit	4 580,1	3 474,9	11,1	7,3
Direct foreign investments	1 786,1	1 397,3	4,3	2,9
Foreign grants and humanitarian aid	1 575,0	2 240,1	3,8	4,7

Source: NSC KR

Source: NSC KR

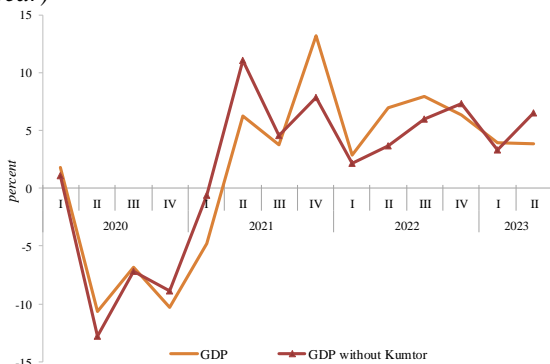
(an increase by 23.6 percent). Reduction of investments in the construction of wholesale and retail trade facilities by 21.8 percent, art, entertainment and recreation facilities – by 9.2 percent, and health care facilities – by 6.7 percent had limiting influence on growth of the index.

Supply

According to preliminary data of the NSC KR, in the first half of 2023, the nominal GDP increased by 3.9 percent in real terms compared to 2022 and amounted to KGS 562.9 billion. The growth rate of GDP, excluding the “Kumtor” gold-mining enterprises, was 5.2 percent in the reporting period.

Chart 2.1.5. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: National Bank

processing industry (-0.4 percent) conditioned by reduction of production output at “Kumtor” gold-mining enterprises (-13.9 percent), as well as in the sectors of water supply (-7.4 percent) and electricity provision (-1.0 percent).

There was an increase in the level of capital investments exploitation.

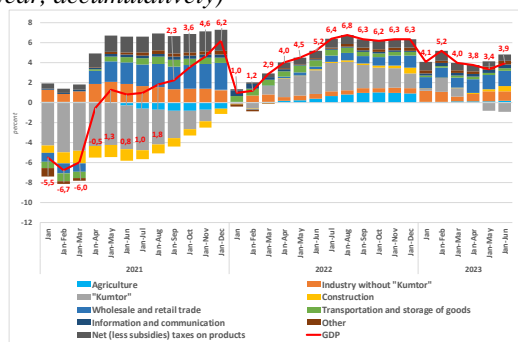
In January-June 2023, the level of capital investments exploitation increased by 10.4 percent compared to 2022. Capital investments financed from the domestic sources increased by 16.3 percent. At the same time, investments financed from foreign sources decreased by 14.7 percent.

Investment activity was concentrated in the sectors of water supply (an increase by 2.2 times), education (an increase by 1.9 times), and mining

The services sector was the main driver of economic growth. Thus, the services sector demonstrated growth by 4.7 percent mainly due to an increase in the wholesale and retail trade turnover (+12.3 percent compared to January-June 2022), the share thereof in the first half of the current year was 12.9 percent in total GDP. At the same time, there was an increase in the growth rates of the information and communication and transport sectors by 13.0 and 6.5 percent, respectively. Industrial production growth rates demonstrated slowdown by the end of the reporting period (+0.5 percent at the end of the half-year). There was a decrease of production in

Chart 2.1.6. Input of Main Sectors in GDP Growth

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



Data for 2022 and 2023 are recalculated by the NSC KR according to the international standard SNA-2008
Source: NSC KR, calculations: National Bank

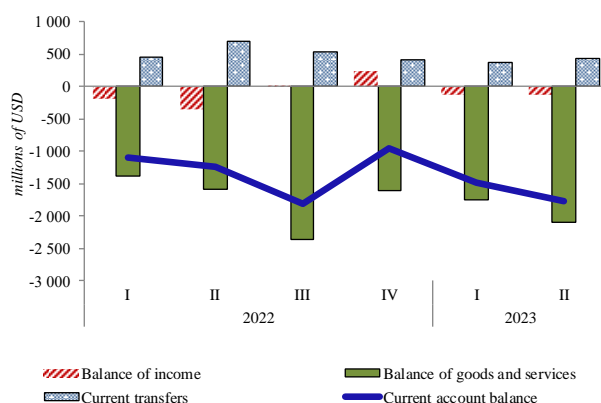
The services sector made the largest input to GDP growth in the amount of 2.6 percentage points, while the input of industry, declining since January 2023, was 0.1 percentage point. At the same time, the share of the services sector in the GDP structure still remains significant, having increased up to 53.3 percent in the reporting period.

The GDP deflator was positive and amounted to 16.2 percent, having increased by 1.1 percentage points compared to January-June 2022.

2.2. External Sector¹

As before, a significant size of the negative trade balance predetermined the current account deficit in Q2 2023.

Chart 2.2.1. Current Account



Note: According to the preliminary and forecasted data.

According to the preliminary and estimated data, in Q2 2023, the current account deficit constituted USD 1,765.5 million or 48.4 percent to GDP².

In the reporting period, the trade balance deficit of the Kyrgyz Republic was formed in the amount of USD 2,003.7 million amid significant growth of imports and exports.

Exports of goods (in FOB prices) increased by 48.5 percent and amounted to USD 869.1 million. Exports excluding gold increased by 5.4 percent, to make USD 616.6 million. Supplies of gold (non-monetary), motor cars, coal, packaging and wrapping machines, as well as ore and concentrates of precious metals had the main impact on the current export volumes.

Imports of goods (in FOB prices) increased by 34.1 percent, to make USD 2,872.8 million. Trade restructuring in the region still affects the growth of import operations. Such commodity items as motor cars, parts for equipment, fabrics and telephone sets contributed to an increase in imports in the reporting period. At the same time, in the reporting period, import of energy products decreased by 14.6 percent due to reduction in their physical volume and value.

In the structure of current transfers, there is a decrease in private transfers, meanwhile the balance of public sector transfers remains insignificant. In Q2 2023, weaker inflow of remittances had a significant impact on the negative dynamics of the net inflow of private transfers (a decrease by 36.6 percent). The dynamics of official transfers, as before, was conditioned by the receipt of cash grants and contributions to the international organizations.

In the reporting quarter, the balance of services' deficit is expected to increase dramatically up to USD 91.9 million (by 2.9 times), whereas the negative balance on the item "income" is estimated to decrease by 67.1 percent, down to USD 115.6 million.

¹ 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.

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

According to the preliminary and forecast estimates of the National Bank, in Q2 2023, capital inflow on the capital and financial account is expected in the amount of USD 1,716.4 million.

The capital account surplus will make USD 63.4 million. The positive balance on the financial account will be formed in the amount of USD 1,652.9 million as a result of an increase in other investments in the form of private sector liabilities to non-residents. Foreign assets of residents will grow mainly at the expense of cash and deposits of the banking sector.

Thus, at the end of Q2 2023, the balance of payments of the Kyrgyz Republic will develop with a negative balance to make USD 49.1 million.

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		
	2021 (aver.) (January-December)	2022 (aver.)* (January-December)	%	December 2022	June 2023	%
REER	115.8	122.5	5.8	123.8	132.0	6.6
NEER	119.6	125.8	5.2	123.8	125.3	1.3
RBBER to CNY	74.4	87.5	17.5	94.7	98.5	4.0
NBBER to CNY	51.7	54.3	4.9	55.9	55.1	-1.5
RBBER to EUR	96.7	116.6	20.5	117.8	113.9	-3.3
NBBER to EUR	60.8	68.8	13.2	67.7	64.4	-5.0
RBBER to JPN	119.8	160.1	33.7	168.8	177.6	5.2
NBBER to JPN	67.9	81.6	20.2	83.1	84.0	1.1
RBBER to KZT	133.9	144.5	7.9	140.9	130.8	-7.2
NBBER to KZT	157.0	170.9	8.9	171.1	159.4	-6.8
RBBER to RUB	123.2	115.2	-6.5	112.8	140.4	24.4
NBBER to RUB	131.8	123.3	-6.5	116.6	142.0	21.8
RBBER to TRY	187.0	235.1	25.7	237.4	244.6	3.0
NBBER to TRY	317.2	601.0	89.5	668.6	785.5	17.5
RBBER to USD	81.3	86.5	6.4	88.6	88.9	0.3
NBBER to USD	54.3	54.6	0.6	54.0	52.5	-2.9

The indexes of nominal and real effective exchange rate demonstrated strengthening year-to-date. According to the actual data, the index of nominal effective exchange rate (NEER) of KGS increased by 1.3 percent year-to-date and constituted 125.3 at the end of June 2023. The index increase was a result of KGS appreciation in the aforementioned period against the Russian ruble by 21.8 percent, the Turkish lira – by 17.5 percent and slightly against the Japanese yen – by 1.1 percent amid depreciation¹ of KGS against the Kazakh tenge

by 6.8 percent, the euro – by 5.0 percent, the U.S. dollar – by 2.9 percent, and the Chinese yuan – by 1.5 percent. Along with the NEER increase, a higher inflation rate in Kyrgyzstan² conditioned growth of the real effective exchange rate (REER) index by 6.6 percent, to make 132.0 at the end of June 2023.

¹ 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.

² In Q2 2023, the inflation rate in the Kyrgyz Republic was formed at 5.1 percent, meanwhile, the average inflation rate in the main trading partner countries according to the preliminary calculations was -0.2 percent.

Chapter 3. Monetary Policy

During Q2 2023, foreign economic conditions, which have direct and indirect impact on the economy of the Kyrgyz Republic, were still under the influence of uncertainty factor and remained ambiguous. At the same time, the external financial markets still demonstrated changing situation, which conditioned slight volatility in the domestic foreign exchange market.

In general, the inflationary environment in the Kyrgyz Republic was gradually weakening due to stabilization of the situation in the global food markets and the monetary policy measures taken earlier. However, internal factors related to an increase in a number of administered prices (tariffs) and gradual increase of domestic demand remained pro-inflationary.

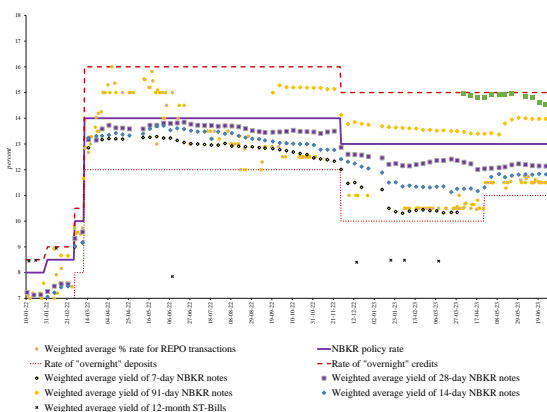
In these circumstances, the National Bank, in response to the pro-inflationary risks, maintained appropriate monetary policy conditions. In order to limit the monetary component of inflation, the National Bank actively increased the volume of its sterilization operations amid existing high level of excess liquidity in the banking system. Short-term rates in all segments of the money market were close to the key rate. The situation in the money and foreign exchange markets remained relatively stable due to measures taken by the National Bank.

3.1. Monetary Policy Implementation

Interest Rate Policy

The National Bank still conducts the interest rate policy to achieve the target medium-term inflation rate of 5-7 percent. The National Bank’s policy rate was kept unchanged at 13.00 percent during the reporting period, reflecting the policy of the National Bank on existing risks in the economy.

Chart 3.1.1. Interest Rate Policy of the National Bank

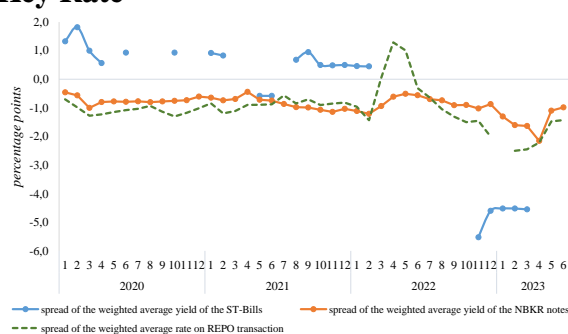


In Q2 2023, the National Bank twice considered the issue of the policy rate (on April 24 and May 29), finally, the policy rate was kept unchanged at 13.00 percent.

In order to strengthen operation of the interest rate channel in the transmission mechanism and to increase predictability of the future path in the monetary policy, on April 24, 2023, the lower rate of the interest rate corridor (the rate on “overnight” deposits) was adjusted upward from 10.00 to 11.00 percent and remained at this level. At the same time, the rate on “overnight” credits was kept unchanged at 15.00 percent throughout the reporting quarter.

During the reporting quarter of 2023, the short-term money market rates demonstrated upward trend due to implementation of this measure. At the same time, the rates fluctuated near the key rate within the interest rate corridor set by the National Bank. As before, the short-term segment of the money market was in maximum demand among the market participants under the conditions of prevailing short-term excess liquidity in the banking system.

Chart 3.1.2. Spread between the Short-Term Rates of the Money Market and the Key Rate



The spread between the short-term rates of the money market and the key rate was still formed in the negative area, demonstrating slight narrowing. Thus, the average spread in the market of notes decreased by 0.10 percentage point, down to (-)1.41 percent. During the quarter, the weighted average yield of notes increased from 10.84 percent in April up to 12.02 percent in June (in May, the weighted average yield of the National Bank’s notes was 11.90 percent).

The yield of interbank REPO transactions also demonstrated upward trend during the quarter. Despite the high level of excess reserves

in the banking system, at the end of the reporting period the volume of transactions increased by more than 4 times and amounted to KGS 12.1 billion. As a result, the average spread decreased down to (-)1.71 percent in the market of credit borrowing through REPO transactions. In general, ST-Bonds of the Ministry of Finance of the Kyrgyz Republic and the National Bank’s notes were the main assets used by the commercial banks in REPO transactions.

Under the conditions of measures implemented by the Cabinet of Ministers of the Kyrgyz Republic on development of the stock market of the Kyrgyz Republic, the short-term government securities – ST-Bills with a maturity of 12 months were presented on the trading platform of Kyrgyz Stock Exchange CJSC since the second half of Q2 2023. After a long period of relatively low demand, the attractiveness of these securities increased, therefore the weighted average rate was 11.97 percent at the end of the reporting quarter (at the end of Q1 2023, this indicator was 8.45 percent).

Liquidity Regulation in the Banking Sector

Excess liquidity in the banking system demonstrated downward trend after a cycle of steady growth during the first ten-day period of Q2 2023. However, during the last ten-day period of the reporting quarter, this trend changed to its further growth due to influence of internal factors. Under these conditions, the money market participants still gave preference to the National Bank’s sterilization instruments (mainly to the National Bank’s notes).

In general, during Q2 2023, the excess liquidity was formed in the banking system due to the inflow of resources through the monetary and the budgetary channels. At the same time, net input of the National Bank’s operations in the precious metals market to the growth of excess liquidity amounted to KGS 22.1 billion. Whereas, at the end of the quarter, the government sector operations and the growth of money outside banks had a downward effect on the commercial banks’ liquidity by KGS 11.5 billion and KGS 10.2 billion, respectively. The foreign exchange operations in the amount of KGS 9.7 billion conducted by the National Bank put additional restraining effect on the growth of excess liquidity in the banking system.

In general, as before, the value of excess liquidity still remains relatively high. In the reporting quarter, the average daily volume of this indicator, prior to the sterilization operations conducted by the National Bank, increased by KGS 4.9 billion compared to the previous quarter and stood at KGS 64.4 billion (in Q2 2022, KGS 21.9 billion). At the same time, during the period from April till June 2023, the level of excess reserves decreased by KGS 5.3 billion and amounted to KGS 62.8 billion by the end of the quarter.

As an accompanying measure to limit the monetary component of inflation, the National Bank continued to actively expand absorption of excess liquidity from the banking system. Thus, in Q2 2023, the average daily volume of sterilization operations conducted by the National Bank increased up to KGS 64.9 billion from KGS 60.1 billion in the previous quarter (in Q2 2022, KGS 21.5 billion). Temporary withdrawal of excess liquidity from the banking system was implemented through:

- the operations in the open market - issue of the National Bank's notes, in the reporting quarter, the average daily volume of sterilization thereof increased up to KGS 49.8 billion from KGS 42.7 billion in Q1 2023 (in Q2 2022, KGS 9.5 billion). In the reporting quarter, the share of these operations in the total structure of sterilization operations increased up to 76.8 percent from 71.0 percent in the previous quarter (in Q2 2022, 44.3 percent);

- placement of the commercial banks' available funds on "overnight" deposits with the National Bank, in the reporting quarter, the average daily volume thereof decreased down to KGS 15.0 billion from KGS 17.4 billion in Q1 (in Q2 2022, KGS 12.0 billion). In the reporting quarter, the share of these operations in the total structure of sterilization operations decreased down to 23.2 percent from 29.0 percent in the previous quarter (in Q2 2022, 55.7 percent).

Chart 3.1.3. Excess Reserves of the Commercial Banks

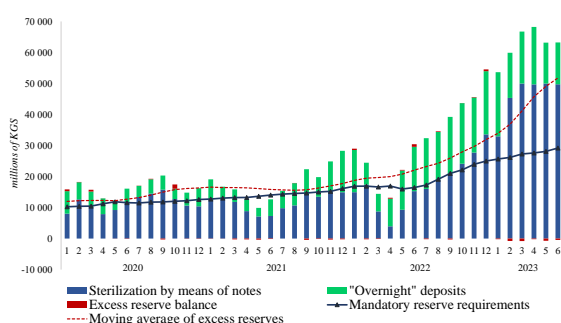
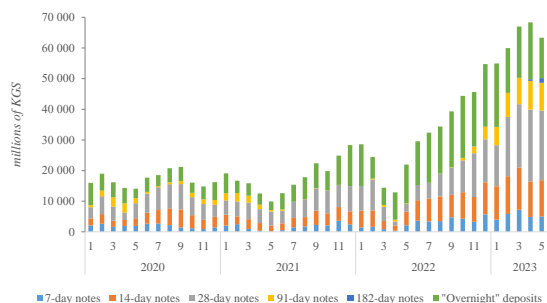


Chart 3.1.4. Structure of Sterilization



Credit Policy of the National Bank

In Q2 2023, the banking sector attracted short-term credit resources of the National Bank within the framework of "overnight" credits, the gross volume thereof amounted to KGS 297.6 million, as well as interbank borrowings, to cover temporary gaps in liquidity (in Q2 2022, "overnight" credits were not extended to the commercial banks). At the same time, long-term resources in the national currency were not provided through refinancing instruments as part of the current monetary policy.

Foreign Exchange Policy of the National Bank

The situation in the domestic foreign exchange market remained relatively stable. During the reporting quarter, the demand for foreign currency and supply thereof were balanced, excluding the first half of the reporting quarter. This situation was conditioned by the influence of external factors and ongoing volatility in the global financial markets.

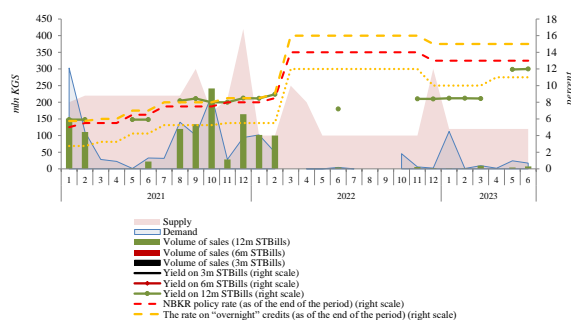
Within the framework of the floating exchange rate regime, the National Bank participated in the foreign exchange auctions to prevent sharp fluctuations in the exchange rate. In the reporting quarter, the total volume of the National Bank's interventions on sale of foreign currency in the domestic foreign exchange market amounted to USD 166.8 million (in Q2 2022, transactions on purchase of foreign currency were conducted in the amount of USD 178.5 million). In the reporting period, the National Bank did not conduct transactions on purchase of foreign currency, as in the previous quarter.

In general, in Q2 2023, the volatility of the USD/KGS exchange rate decreased compared to the previous quarter. Thus, the USD/KGS exchange rate was fluctuating within the range of KGS 87.2267-87.5900 per USD. The average exchange rate increased by 0.9 percent (in Q2 2022, this indicator decreased by 9.1 percent) and amounted to KGS 87.4650 per USD.

3.2. Financial Market Instruments

Government Securities Market

Chart 3.2.1. ST-Bills Market Indicators



ST-Bills

In Q2 2023, 12-month ST-Bills were in weak demand, sales were at a low level. Since May 2023, 12-month ST-Bills and 2-year ST-Bonds were placed and circulated on the trading platform of Kyrgyz Stock Exchange CJSC¹.

Only 3 auctions were conducted out of 5 offered ones, all of them – on the basis of the stock exchange. The monthly volume remained at the level of KGS 120.0 million, meanwhile the

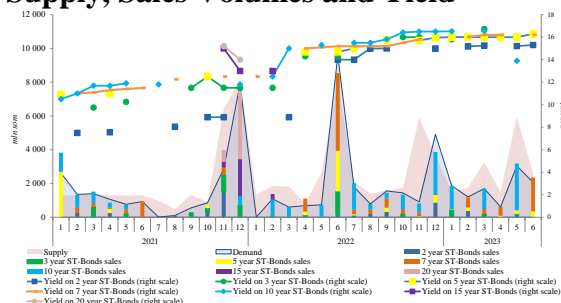
total demand amounted to KGS 43.3 million and was satisfied by 26.3 percent.

Low demand for ST-Bills on the part of the market participants, most likely, is due to the greater attractiveness of short-term products with equal or higher yield compared to the weighted average yield of ST-Bills (in Q2, 12.0 percent) and the policy of increasing the total circulation period of the government securities by increasing the share of longer-term securities – ST-Bills – in the total structure of annual issues of government securities.

The volume of ST-Bills in circulation (excluding 12-month ST-Bills placed since May 2023) decreased by 91.0 percent year-to-date due to a decrease in the volume of sales and an increase in the volumes of redemption and amounted to KGS 19.3 million.

ST-Bonds

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



In Q2 2023, the ST-Bonds market was represented by the securities of all types of maturities, excluding 15- and 20-year maturities. The participants' activity remained moderate. The weighted average yield of ST-Bonds continued to grow due to the main sale of securities with longer maturities.

Totally, 7 auctions were conducted on the trading platform of the National Bank (including additional placement – 8) and 3 auctions – on placement of 2-year ST-Bonds on the trading

platform of the stock exchange.

The total weighted average yield of ST-Bonds increased due to larger share in the sales structure of securities with longer maturities (7- and 10-year ST-Bonds) and, accordingly, higher yield (16.17 percent in April, 14.09 percent in May, 16.22 percent in June).

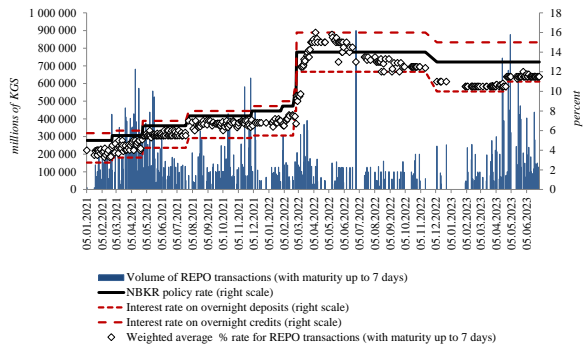
The demand was primarily focused on the long-term ST-Bonds (7 and 10 years), and it was almost completely satisfied. Accordingly, 7- and 10-year ST-Bonds were mainly sold: their aggregate share constituted approximately 81.8 percent of the total volume of sales over the entire quarter.

ST-Bonds in circulation still demonstrate upward trend. The volume of ST-Bonds in circulation (excluding 2-year ST-Bonds placed since May 2023) increased by 9.0 percent year-to-date. The structure of ST-Bonds holders remained virtually unchanged: as before, the share of institutional investors constitute more than half of all the holders (51.1 percent), the share of commercial banks constitute about one fourth (24.8 percent), totally, other participants hold one fourth of all ST-Bonds in circulation.

¹ The auctions were conducted as part of a pilot project of the Ministry of Finance of the Kyrgyz Republic on placement of the government securities on the trading platform of the licensed auction organizer – Kyrgyz Stock Exchange CJSC.

Interbank Credit Market

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



meanwhile, in February-March 2023 (transactions were not conducted in January), the average rate was 10.5 percent. The weighted average maturity of loans was 3 days in April, May, and June. The transactions were conducted on pledge of notes, ST-Bonds and treasury bills.

In Q2 2023, the market of SWAP transactions, acting as an alternative source of attracting funds, was characterized by increased activity of its participants. The volumes of transactions in USD/KGS and USD/RUB pairs increased compared to the previous period. In the reporting period, the volume of KGS/KGS SWAP transactions increased slightly by more than 3 times and amounted to KGS 7.7 billion (in Q1, KGS 2.5 billion). The volume of USD/RUB SWAP transactions also demonstrated significant increase and amounted to RUB 3.2 billion (in Q1, RUB 142.4 million).

Chart 3.2.4. Market of REPO and SWAP Transactions

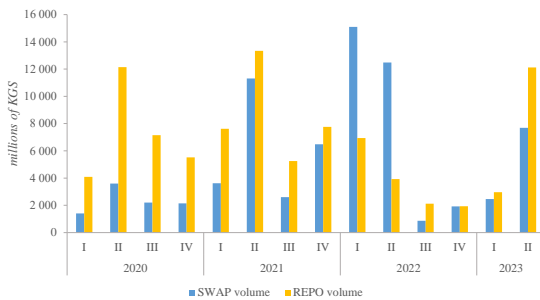
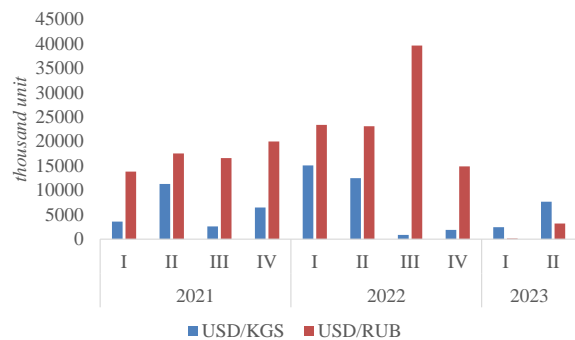
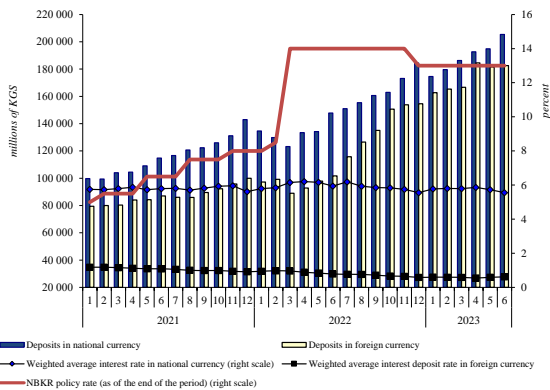


Chart 3.2.5. Dynamics of SWAP Transactions in USD/RUB and USD/KGS Pairs



Deposit Market

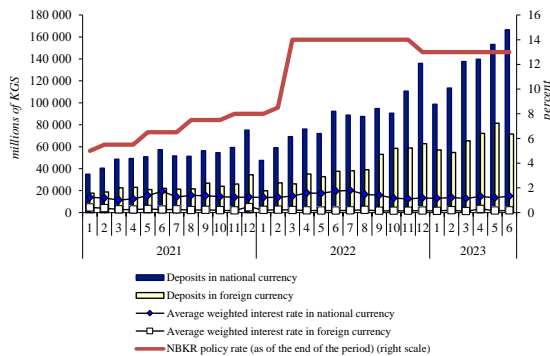
Chart 3.2.6. Dynamics of Commercial Banks' Deposits



increased by 18.1 percent due to growth of non-time deposits, with a share of 82.3 percent of the deposit base in foreign currency. Current accounts increased by 18.4 percent, demand accounts – by 12.9 percent, and time deposits – by 30.1 percent.

Dollarization of deposits increased up to 47.1 percent (+1.6 percentage points since December 2022), meanwhile dollarization adjusted for the policy rate decreased by 2.1 percentage points, down to 46.3 percent.

Chart 3.2.7. Dynamics of Commercial Banks' Deposits Flows



In Q2 2023, there was stable growth of the deposit base mainly due to an increase in deposits in foreign currency. As of the end of June 2023, the deposit base in the national currency increased by 11.4 percent year-to-date and amounted to KGS 205.4 billion. Worth noting is that this growth was mainly due to an increase in non-time deposits with a share of 63.0 percent in the deposit base in the national currency. Demand deposits increased by 24.1 percent since December 2022, current accounts – by 4.0 percent, meanwhile time deposits increased by 10.5 percent. The deposit base in foreign currency

The interest rates on time deposits in the national currency remained high demonstrating slight downward trend. In June 2023, the interest rate on time deposits in the national currency (balances) decreased by 0.2 percentage points compared to December 2022 and constituted 12.1 percent. The interest rates on new time deposits in the national currency decreased by 1.1 percentage points, down to 10.7 percent.

At the end of the reporting period, the concentration index¹ in the deposit market decreased by 0.01 percentage point from the

beginning of 2023, down to 0.10, which corresponds to the average level of concentration with nine participants with equal shares in the market.

¹ 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.

Credit Market

The commercial banks' credit portfolio increased due to an increase of the credits in the national currency.

Chart 3.2.8. Dynamics of Commercial Banks Credit Debt as of the End of the Period

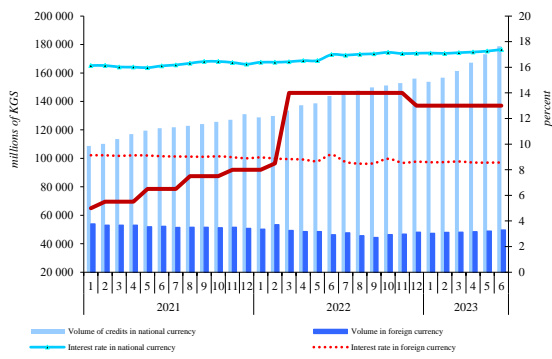
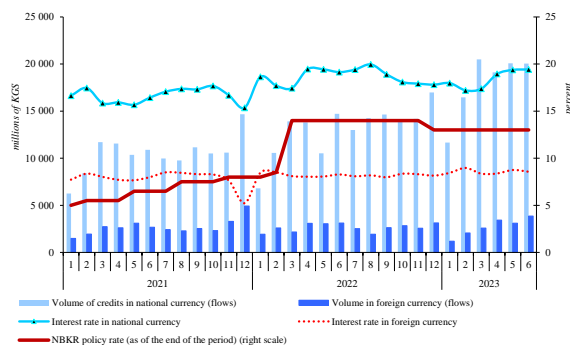


Chart 3.2.9. Dynamics of Commercial Banks New Credits for the Period



In June 2023, credits in the national currency increased by 14.6 percent since December 2022, up to KGS 178.7 billion. Consumer credits (+27.4 percent) and trade (+15.9 percent) still demonstrated high growth rates among the main sectors, meanwhile credits to agriculture increased by 12.5 percent and mortgage credits – by 8.9 percent. The credit portfolio in foreign currency increased by 3.3 percent, mainly due to an increase in credits to trade by 11.6 percent.

Dollarization of the credit portfolio still demonstrates its downward trend: in June 2023, it decreased by 1.8 percentage points, down to 21.7 percent. Dollarization adjusted for the exchange rate decreased by 2.1 percentage points, down to 21.4 percent.

The interest rates of the credit portfolio in the national currency still remained at high level, given existence of the current monetary conditions. The interest rates on credits in the national currency increased by 0.3 percentage points and made 17.4 percent in June 2023. The interest rates on credits in foreign currency decreased slightly compared to December of the previous year (-0.1 percentage points) and made 8.6 percent.

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 twelve banks. The sectoral concentration index was 0.32, which is equivalent to three main credit sectors.

At the end of June 2023, the qualitative characteristics of the credit portfolio were as follows: the share of overdue credits in the credit portfolio increased by 0.1 percentage point year-to-date and amounted to 2.8 percent. The share of extended credits in relation to the credit portfolio continued to decline, but still remains at a high level, the value of the indicator amounted to 6.8 percent in June 2023, having decreased by 2.1 percentage points since December 2022.

3.3. Dynamics of Monetary Indicators

There was stable general trend of reserve money growth (in annual terms) in the reporting quarter of the current year (+22.5 percent). In general, the transactions of the monetary sector expanded the monetary base.

In the reporting quarter, the monetary base grew by 4.9 percent (KGS+10.6 billion) and amounted to KGS 224.8 billion (in Q2 2022, this indicator increased by 18.9 percent or KGS 29.2 billion). The transactions of the National Bank (KGS 22.1 billion) made the main contribution to growth of the monetary base. At the same time, during the reporting quarter, the excess of the state budget revenues over the state budget expenditures had a restraining effect and made a negative input into the monetary base growth in the amount of KGS 11.5 billion.

The monetary base with the share of 86.9 percent (as of the end of Q2 2023) is traditionally formed by money in circulation, and the remaining part of 13.1 percent is accounted for the reserves of other deposit corporations.

Monetary Aggregates

In Q2 2023, the annual growth rates of monetary aggregates demonstrated stable slowdown, however they were in the positive zone. This dynamics of monetary aggregates was conditioned by the influence of all components.

The upward dynamics of monetary aggregates during the reporting quarter was mainly due to growth of money outside banks (M0) by KGS 10.2 billion (+6.2 percent compared to Q1 2023), up to KGS 174.4 billion (in annual terms, growth by 16.0 percent). Monetary aggregate M1 (narrow money) increased by KGS 19.3 billion (+7.6 percent) and amounted to KGS 273.5 billion (in annual terms, growth by 22.7 percent). Broad money (M2) increased by KGS 20.3 billion (in annual terms, growth by 21.6 percent) and amounted to KGS 336.6 billion, and M2X, including deposits in foreign currency, increased by KGS 34.6 billion and amounted to KGS 465.9 billion by the end of the period.

The total volume of the deposit base increased by 38.9 percent in annual terms and amounted to KGS 291.5 billion. It should be noted that since the beginning of 2023, deposits in foreign currency increased by more than 10 times compared to corresponding deposits in the national currency.

Chart 3.3.1. Input of the Government Sector and National Bank Transactions in Change of Monetary Base

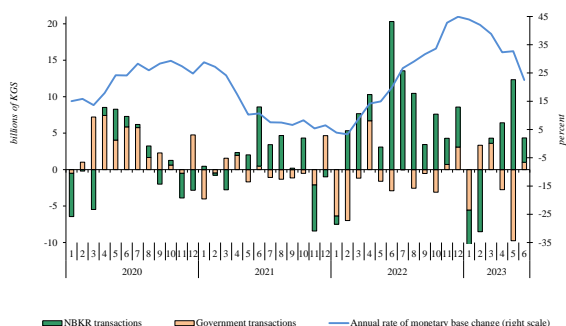
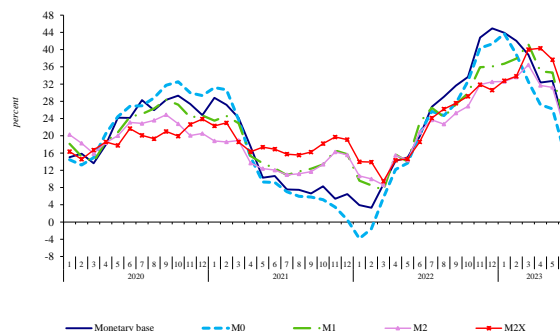


Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



Chapter 4. Inflation Dynamics

In Q2 2023 in Kyrgyzstan there was a slowdown in the CPI growth rate in annual term due to lower growth in food prices, while uncertainty and geopolitical risks remain in the external economic environment, which continue to pose upward risks to inflation.

4.1. Consumer Price Index

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

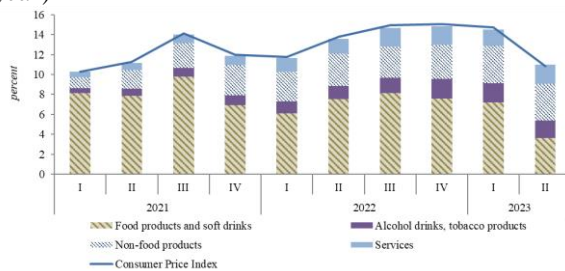


Chart 4.1.2. Dynamics of CPI Contributions
(year-to-date)

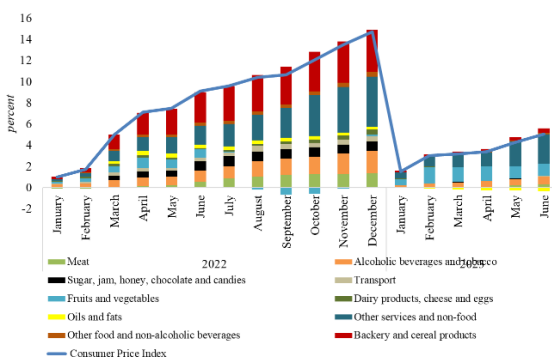
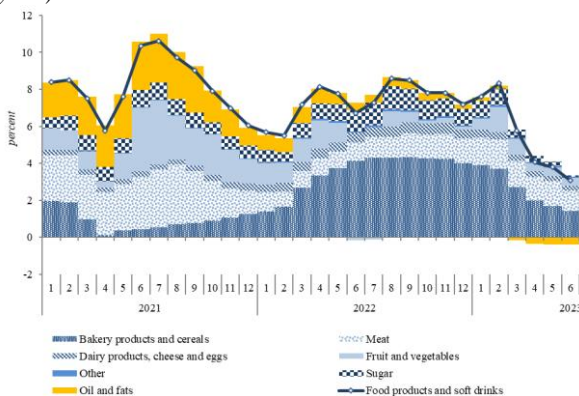


Chart 4.1.3. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



In Q2 2023, price growth slowed down to 10.8 percent from 14.7 percent in Q1 2023 compared to the corresponding quarter of the previous year.

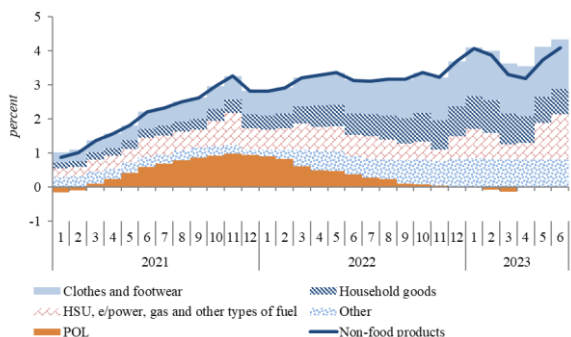
In June 2023, the annual inflation rate was 10.5 percent. In general, prices for non-food products and services influenced the formation of inflation.

Contribution of the food products to the CPI decreased from 7.2 percentage points in Q1 of the current year down to 3.6 percentage points in Q2. Prices of food products and non-alcoholic beverages decreased from 16.8 in January 2023 down to 6.7 percent in June in annual terms due to high base of the previous year and decrease of prices in the world food markets. Bakery products, meat, dairy products, fruits and vegetables made the main upward contribution to the CPI in the commodity group.

Contribution of the non-food products to the CPI remained at a rather high level – 4.1 percentage points in annual terms. In June 2023, prices for non-food products increased by 14.1 percent. Geopolitical tension worldwide and the effects of exchange rate volatility on prices in early 2023 were the factors of non-food inflation. A decrease in prices for gasoline had a slight downward effect on non-food inflation.

In June 2023, an increase in prices for clothes and footwear (+13.8 percent), household goods and household appliances (+18.9 percent), electricity, gas and other fuels (+13.3 percent) and other goods had the greatest impact on rise in prices for non-food products. In the reporting quarter, prices for petroleum, oil and lubricants decreased by 7.0 percent.

Chart 4.1.4. Dynamics of Non-Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



In Q2 2023, prices for paid services increased by 11.2 percent (in Q1 2022 – 9.0 percent), which was mainly supported by rise in prices for services in the groups “various goods and services”, “restaurants and hotels”, “education” and “recreation, entertainment and culture”.

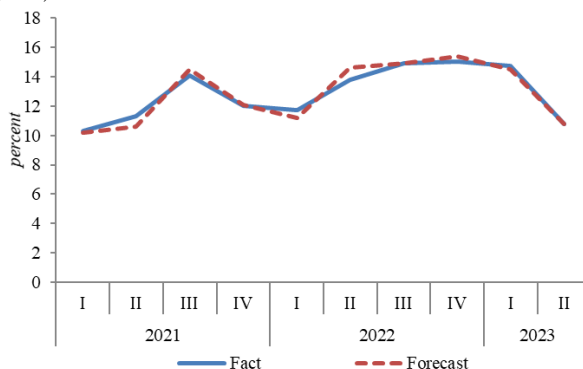
In Q2 2023, the core inflation compared to the same period of 2022, calculated according to the methodology of the NSC KR, was 11.8 percent. In June 2023, the market inflation rate continued to grow and amounted to 14.2 percent in annual terms. Increased rate of market inflation reflects the impact of high consumer demand, monetary factors and smooth increase of the USD exchange rate.

Chart 4.1.5. Dynamics of CPI by Groups of Commodities
(month to the corresponding month of the previous year)



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)



In Q2 2023, the actual inflation rate generally coincided with the National Bank’s forecast.

According to the National Bank’s forecasts, in Q2 2023, CPI increased by 10.8 percent compare to the corresponding quarter of 2022.

Inflation Expectations

In Q2 2023, inflation expectations of the population, according to the surveys of the NSC KR, remained at high levels. The gap between expected and actual inflation was positive, which reflects a stable trend of high prices expectations among the population (Chart 4.2.2). Despite decline in price expectations among the enterprises, they are still high compared to the actual inflation rate and significantly above the target of 5-7 percent (Chart 4.2.3).

Chart 4.2.2. Actual Inflation Value, Observed and Expected Inflation of Households

(quarter to the corresponding quarter of the previous year)

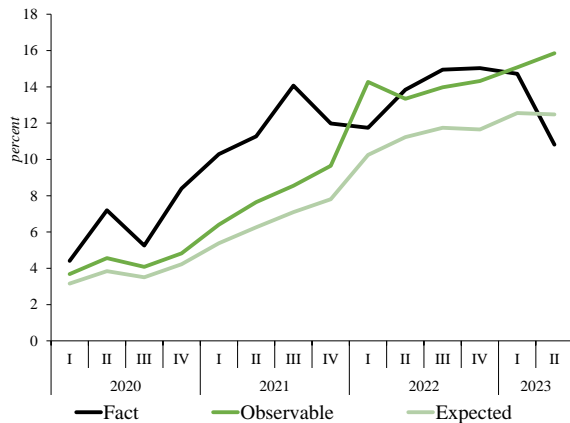
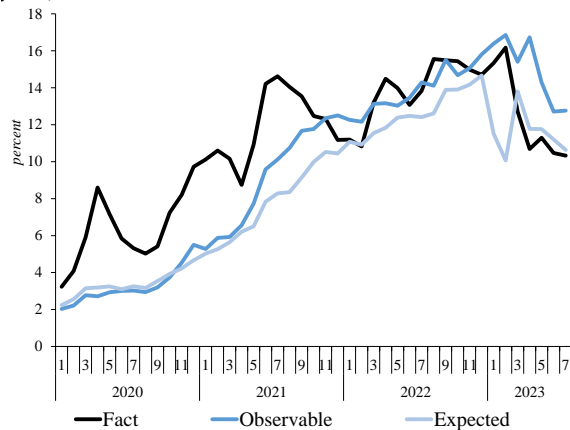


Chart 4.2.3. Actual Inflation Value, Observed and Expected Inflation of Enterprises

(month to the corresponding month of the previous year)



In Q2 2023, inflation expectations of the households increased compared to the actual inflation rate. The share of respondents expecting accelerated increase in prices is still high and remains at the levels of Q1 2023. High actual inflation rate in Q1, an increase in tariffs for electricity, water, heating and active discussion regarding the increase in public transportation fares partly explain relatively high value of inflation expectations in Q2 2023.

The enterprises' inflation expectations demonstrate stable decline and since March 2023 and in July constituted 10.6 percent in annual terms. However, they remain above the medium-term target of 5-7 percent. Decline in expectations should not be forecasted in the near future due to the fact that the inflationary environment is formed depending on the intensity of new tariffs adoption by the government authorities, as well as uncertainty in the foreign exchange market.

Keeping the inflation expectations high for a long period of time can potentially change the behavior of economic agents. If such situation develops, the attempts of the National Bank to achieve the medium-term inflation target will be complicated.

Chapter 5. Medium-Term Forecast

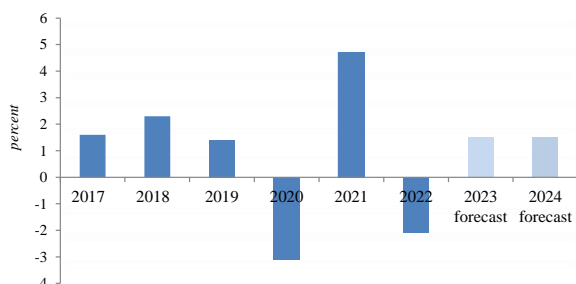
5.1. External Environment Proposals

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

Generally, according to the assessment of the Bank of Russia, the recovery phase of the Russian economic development is completing.

According to the Bank of Russia's forecasts, taking into account the actual data of Q1 and preliminary data of Q2, economic growth in 2023 will amount to 1.5-2.5 percent. According to the results of 2023, the phase of economic recovery will be completed, and in 2024-2025 the growth rates will be more moderate. In 2023, growth in economic activity will be mainly provided by domestic demand.

The IMF increased GDP forecasts (3 times since the beginning of 2023) from 0.8 percent up to 1.5 percent in 2023 and up to 1.3 percent in 2024.

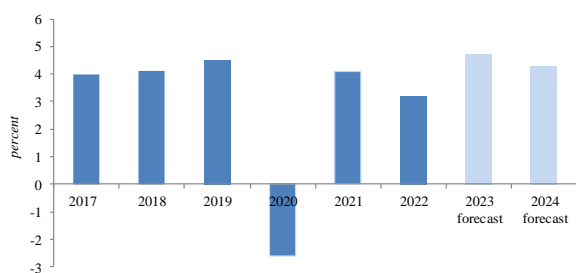
The IMF experts suggest high indicators of the first half of the year due to the stable situation in the sectors of trade, services and industry as the main reasons for forecasts improvement.

Inflation expectations of the population increased, mainly due to weakening of the Russian ruble and expansion of demand, which may exceed the possibilities for increase in supply. At the same time, shortage of labor force may result in increase of inflationary pressure. Taking into account these factors, the Bank of Russia increased its inflation forecasts by 0.5 percentage points, up to 5.0-6.5 percent.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

A moderate increase in the rates of economic growth is expected in Kazakhstan.

The EDB forecasts economic growth in Kazakhstan in 2023 by 4.3 percent and in 2024 – by 4.4 percent. Assessment for the current year was increased by 0.1 percentage point compared to the previous forecast due to implementation of additional government measures aimed at mitigating external negative shocks. The key factor in strengthening economic growth will be new capacities launched at Tengiz oil field to increase oil production by 12 million tons per year.

According to the baseline scenario of the Ministry of National Economy of the Republic of Kazakhstan, in 2023, GDP will grow by 4.2-5.2 percent due to stable upward trend in domestic demand, which will make the main contribution to economic growth.

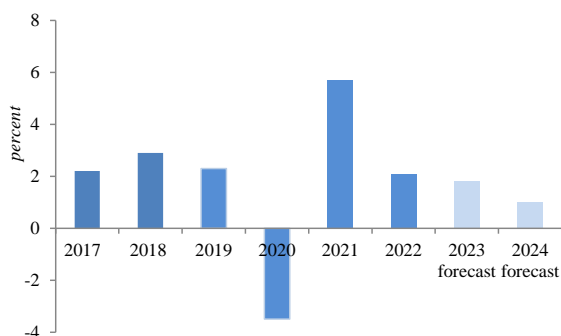
According to forecasts, the inflation rate in Kazakhstan will approach the target range only in 2025. The inflation rate, according to the NB RK forecast, will remain above the target range of 5.0 percent and will be 11.0-14.0 percent in 2023 due to planned increase of top prices on tariffs for regulated services, secondary effects from increase in prices for gasoline on the general price level, as well as higher fiscal impulse. The inflation rate is expected to decrease down to 9.0-11.0 percent by 2024 and down to 5.5-7.5 percent by 2025. It will be facilitated by fading of supply

chain disruption shocks together with normalization of commodity-logistics routes operation and stabilization of inflation expectations.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg, international financial institutions

Expectations of economic growth in the USA during 2023 were slightly increased, taking into account the actual GDP in the first half of the year and expected positive growth rates till the end of the year. However, GDP growth is forecasted to slow down in 2024, due to possible decline in private consumption and investment growth in response to tightening of the monetary and financial conditions, as well as due to reduction in savings accumulated during the pandemic.

Resolution of disagreements regarding the threshold level of the US debt and firm measures taken by the official authorities earlier in the current year to limit unrest in the US banking sector

reduced the immediate risks of shocks in the financial sector. It mitigated unfavorable risks for development prospects.

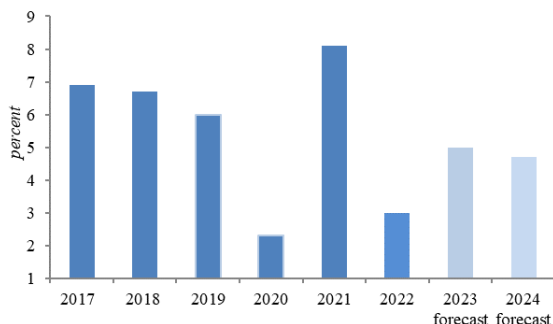
In 2023, the US Federal Reserve System forecasts GDP to increase by 1.0 percent, in 2024 – by 1.1 percent, and in 2025 – by 1.8 percent. The IMF increased its US GDP forecast for 2023 by 0.2 percentage points, up to 1.8 percent and decreased forecast for 2024 by 0.1 percentage point, down to 1.0 percent. The OECD improved its forecast for US economic growth in 2023 by 0.1 percentage point, up to 1.6 percent, and in 2024 – by 0.1 percentage point, up to 1.0 percent.

The annual inflation rate gradually approached the US Federal Reserve System’s target when this indicator exceeded the rate of 9.0 percent in 2022. Despite a decline in overall inflation, core inflation remains high (in June 2023, 4.8 percent), suggesting that the US Federal Reserve System may need to increase interest rates more. The US Federal Reserve System slightly decreased the median forecast for PCE inflation¹ in 2023 from 3.3 percent down to 3.2 percent, and maintained it at 2.5 percent and 2.1 percent for 2024-2025, respectively. The US Federal Reserve System’s updated median forecast suggests the key rate at 5.6 percent by the end of 2023, 4.6 percent – by the end of 2024, and 3.4 percent – by the end of 2025.

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 experts revised downward the country’s economic development prospects based on lower than expected indicators of the Chinese economy.

Bloomberg analysts expect China’s GDP to increase by 5.2 percent in 2023 (increase by 5.5 percent was forecasted in the previous quarter), and by 4.7 percent in 2024 (5.0 percent).

Given significant slowdown in inflation year-to-date, it is forecasted to reach 0.5 percent in 2023 and increase up to 2.0 percent during subsequent years.

¹ The Personal Consumption Expenditure Price Index (PCE inflation) is among inflation indicators in the USA that tracks changes in prices of goods and services purchased by the consumers throughout the economy. PCE includes the broadest set of goods and services among all indicators of consumer price inflation.

5.2. Medium-Term Forecast

The National Bank of the Kyrgyz Republic relies on the results of modeling different scenarios of economic processes development in the medium term in monetary policy development. Forecasting is made taking into account as many shocks and preconditions of the current period as possible, as well as based on expert assessments and forecasts of the world research agencies and institutions.

Assumption on development of external conditions and domestic conjuncture for Q2 2023 primarily corresponded to the baseline scenario approved at the meeting of the Board of the National Bank in May 2023.

Thus, current monetary conditions existing in Q2 2023 and stimulating fiscal policy still had corresponding effect on aggregate demand, and, accordingly, on economic activity in the Kyrgyz Republic. The current dynamics of domestic production still outstripped the rates of economic growth in the trading partner countries, which was also determined by the upward dynamics of consumer lending.

In Q2 2023, volatility of the world oil prices was observed amid geopolitical risks and uncertainty in the international banking sector. In particular, forecasts for oil were decreased due to reduced demand and slowdown in global economic growth. However, subsequent decline in oil production is likely to result in price volatility in the future.

There was a favorable price situation for the main agricultural crops in the world food markets, being a signal for the expectations of downward adjustments in prices for food products in the current year.

Stably high external and internal inflationary environment, as well as consistently high inflationary expectations of the economic agents condition the current inflation rate in the country.

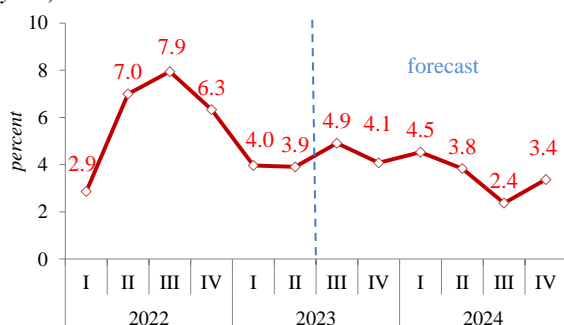
Baseline scenario of the medium-term forecast takes into account geopolitical tension, stable price movement in the world commodity markets, stable high inflation expectations and expansionary fiscal policy.

The following forecast of the key macroeconomic indicators of the Kyrgyz Republic for 2023-2024 was developed considering the emerging trends in the economies of the trading partner countries, as well as the price movement in the world commodity markets in the medium term.

In 2023, real sector of economy in Kyrgyzstan will demonstrate growth.

Chart 5.2.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



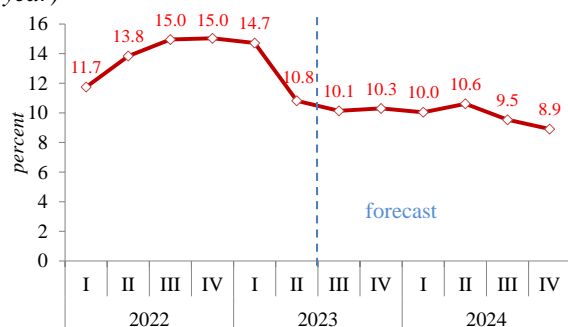
about 3.5 percent.

At the end of 2023, the real GDP growth will be at about 4.0 percent, excluding “Kumtor” gold-mining enterprises, GDP growth will be at about 5.0 percent. Production output at “Kumtor” gold-mining enterprises is expected to decrease compared to the forecasts of the previous quarter. In terms of sectors, economic growth in the current forecast is supported by the sectors of agriculture (due to livestock production), services and construction.

In 2024, the real GDP growth is expected at about 3.5 percent, excluding “Kumtor” gold-mining enterprises, GDP growth is expected at

Chart 5.2.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



Despite expected decline in prices in the world food market in the short term, during 2023, food inflation will have a significant impact on price growth in the Kyrgyz Republic. It is primarily due to adverse climatic conditions which resulted in shortage of irrigation water in the agricultural sector compared to the previous year.

Forecast for non-food inflation remains moderately high (in 2023, about 12.0 percent) with gradual decline by the end of 2024.

Contribution of the administrative prices increased in the current forecast due to relatively high actual increase in tariffs for electricity (in May 2023), heat energy and hot water (in June 2023) compared to expectations in the previous forecast round.

The inflation forecast for the end of 2023 were not changed much compared to the previous Monetary Policy Report of the Kyrgyz Republic. Despite high base due to abnormally high rise in prices during 2022, the inflation rate (December 2023 to December 2022) is forecasted within the range of 10-12 percent conditioned by existing high inflation expectations and depreciation of the KGS/USD exchange rate since the beginning of 2023.

Taking into account the monetary policy conducted by the National Bank and in case of situation development in accordance with the forecast of the baseline scenario, the annual inflation rate will return to the targets of 5-7 percent by the end of 2025.

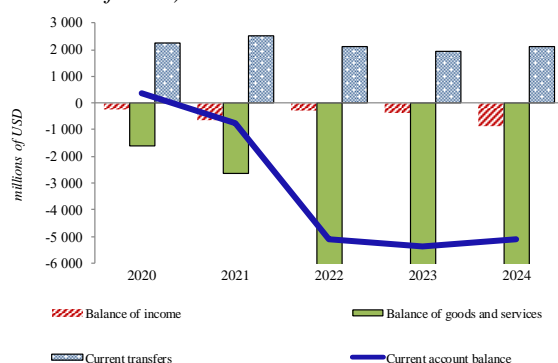
2023-2024 Balance of Payments forecast¹

The forecast of the country's balance of payments indicators for 2023 was adjusted considering the data of the actual period and specified initial development conditions of the Kyrgyzstan's trading partner countries. The data of the actual period still demonstrate changed external trade conditions. Assessments of economic growth in the Kyrgyz Republic, as well as in the main trading partner countries were revised towards improvement, however, the external sector is still characterized by a high degree of uncertainty.

At the end of 2023, the negative balance of goods and services is expected to be the determining factor for the formation of the current account deficit at 46.9 percent to GDP.

Chart 5.2.3. Forecast Data on Current Account

(millions of USD)



Data of the actual period adjusted expectations on external trade. In particular, the situation with global food and energy prices, as well as resumption of gold export by the Kyrgyz Republic substantially influenced the indicators of exports and imports. The trade deficit is expected to remain high in consequence of stable terms of trade.

In accordance with forecast, at the end of 2023, exports will exceed the level of 2022 by 56.3 percent.

Supplies of consumer goods, as well as resumed supplies of intermediate goods will traditionally provide considerable support to

exports.

Imports is expected to remain at the high level (import is projected to go up by 14.6 percent compared to 2022). Consumer and intermediate goods will remain prevalent in the structure of

¹ The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic used in the actual period.

imports. Energy product supplies are forecasted to decrease compared to the level of the previous year due to a reduction in the physical volume, as well as due to a decline in the world prices for energy carriers.

The actual data of the period under review served as a basis for actualization of the forecast on the net inflow of the current transfers. According to the updated forecast, the net inflow of private transfers will decrease by 6.1 percent. The inflow of official transfers is expected to decline vastly compared to the level of the previous year.

The balance of the item “services” will develop negative under the influence of stable high volumes of transport services received owing to forecasted goods turnover and a decrease in receipts on the item “travels”.

Expected current account deficit will require a significant amount of financing from the financial and capital account. Direct and other foreign investments as expected will be the main source of financial capital inflow. The volume of servicing previously received loans of the public and private sectors will remain at a high level.

Revised forecast for development of the external sector of the economy in 2023 determined inherent expectations for further dynamics of the balance of payments in 2024.

In 2024, the current account balance is expected to be formed at 39.3 percent of GDP under the influence of a combination of factors associated with a relative reduction of the trade deficit, as well as the positive dynamics of private transfer inflow. Growth of exports and moderate fall of imports is estimated to predetermine a decline of the negative trade balance by 9.8 percent compared to 2023. Current transfer receipts are assumed to increase by 11.1 percent as a result of increase in remittance inflow by 11.3 percent.

In 2024, there is still a risk of insufficient inflow of foreign capital on the capital and financial account, which may require additional financing by the National Bank’s international reserves. A significant share of capital inflows is expected to be provided through direct foreign investments and other investments to the private sector. There will be an increase in the liabilities of the public and private sectors on external borrowed capital, and the growth trend in servicing previously received loans and borrowings will remain at a substantial level.

The following risks persist in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2023-2024:

- high degree of geopolitical uncertainty;
- volatility in the world prices for petroleum, gold and food products;
- 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	2020				2021				2022				2023	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1. Demand and supply¹ (real growth rates, if otherwise is not indicated)															
Nominal GDP, per quarter	mln. KGS	128 187.0	133 001.6	181 575.6	196 924.4	137 662.6	172 402.9	224 058.7	248 730.1	160 365.4	215 084.8	280 052.3	315 532.4	198 927.2	254 442.3
GDP	%	1.9	-10.7	-6.8	-10.3	-4.8	6.3	3.8	13.3	2.9	7.0	7.9	6.3	4.0	3.9
GDP, excluding Kumtor	%	1.1	-12.8	-7.2	-8.9	-0.6	11.1	4.6	7.9	2.2	3.7	6.0	7.3	3.3	6.6
Domestic consumption	%	5.0	-19.0	-2.5	-8.3	8.4	10.7	6.5	38	-0.9	1.3	4.9	4.1	-0.3	
Investment	%	-40.0	-47.2	-30.1	-10.8	-9.7	52.1	42.3	11	314.7	71.2	25.3	31.5	-21.9	
Net export	%	-27.1	-67.2	-27.4	14.1	31.5	164.2	47.8	92.8	149.7	574.1	167.5	54	13.4	
<i>GDP production:</i>															
Agriculture	%	0.6	0.6	1.0	0.8	1.2	-5.2	-6.7	-2.0	1.5	6.5	8.3	8.0	1.9	2.8
Industry	%	4.9	-2.1	-7.7	-18.0	-15.6	-5.8	0.6	43.9	8.4	23.1	20.4	2.0	7.5	-4.7
Construction	%	-1.1	-11.5	-4.4	-26.4	-20.3	-13.2	-4.0	2.7	-1.4	5.2	2.3	14.6	2.4	16.5
Services	%	1.6	-14.7	-10.0	-7.0	-2.7	13.1	8.8	8.0	1.5	2.3	5.1	5.9	3.2	5.8
including trade	%	3.7	-31.0	-15.0	-14.2	-7.5	38.8	15.4	16.6	0.3	3.3	9.8	10.8	7.9	15.6
2. Prices²															
CPI	%	104.4	107.2	105.3	108.4	110.3	111.3	114.1	112.0	111.7	113.8	115.0	115.0	114.7	110.8
CPI, in annual terms as of the end of period	%	105.9	105.8	105.4	109.7	110.2	114.2	113.5	111.2	113.2	113.1	115.5	114.7	112.7	110.5
Core inflation	%	103.5	105.8	105.3	108.1	110.1	110.6	113.0	111.3	111.8	114.4	117.4	118.0	115.6	111.8
<i>CPI by main groups of goods and services:</i>															
Food products	%	108.1	113.4	109.7	115.4	117.9	117.3	121.5	115.3	113.5	116.6	117.9	116.7	115.9	108.0
Non-food products	%	100.9	102.1	101.6	102.0	103.7	106.4	108.6	110.4	110.3	111.2	110.9	111.8	121.9	120.5
Alcohol drinks and tobacco products	%	104.2	105.3	105.7	106.3	106.0	108.3	110.4	111.3	113.6	114.9	117.8	122.5	112.9	112.7
Services	%	101.0	101.0	100.0	102.3	103.3	104.1	105.0	105.4	107.9	109.0	111.1	111.0	109.9	111.2
<i>CPI, classified by character:</i>															
Excisable goods	%	103.1	103.3	102.8	103.4	102.1	102.3	115.5	117.7	118.8	117.5	117.9	120.3	117.9	116.0
Regulated prices	%	102.7	102.7	102.8	102.8	102.7	102.7	101.8	106.0	110.9	111.9	112.2	107.0	103.1	108.1
Market inflation rate (the rest of CPI)	%	100.8	101.9	101.3	102.6	101.0	102.2	106.8	107.1	107.4	109.1	110.4	112.6	114.5	114.1
3. External sector³ (in percent to GDP)															
Trade balance	% to GDP	-27.1	-21.6	-17.5	-17.5	-18.3	-18.0	-21.7	-26.2	-34.6	-46.5	-57.8	-58.7	-59.6	-61.9
Current transaction account	% to GDP	-8.9	-3.9	0.4	4.5	3.5	4.5	-1.0	-8.0	-18.3	-32.4	-44.0	-43.7	-45.1	-48.4
Export of goods and services	% to GDP	34.1	33.2	32.0	29.7	28.9	36.4	36.8	35.7	35.0	28.9	27.4	30.7	32.7	34.7
Import of goods and services	% to GDP	60.5	54.5	50.8	49.4	50.0	57.0	60.8	64.2	72.0	77.4	87.0	90.3	92.8	97.6
4. USD exchange rate, as of the end of period															
	KGS	80.8100	75.9887	79.6000	82.6498	84.7792	84.6640	84.7907	84.7586	83.3090	79.5000	80.1829	85.6800	87.4200	87.2267
5. Monetary sector (real growth rates, if otherwise is not indicated)															
NBKR policy rate, as of the end of period	%	5.00	5.00	5.00	5.00	5.50	6.50	7.50	8.00	14.00	14.00	14.00	13.00	13.00	13.00
Rate of "overnight" deposit, as of the end of period	%	2.75	2.75	2.75	2.75	3.25	4.25	5.25	5.50	12.00	12.00	12.00	10.00	10.00	11.00
Rate of "overnight" credit, as of the end of period	%	5.75	5.75	5.75	5.75	6.00	7.00	8.00	8.50	16.00	16.00	16.00	15.00	15.00	15.00
<i>Average interest rates of operations in the interbank credit market, per quarter of which:</i>															
of REPO transactions	%	3.55	3.85	3.97	3.84	4.15	5.32	6.52	6.76	10.12	14.51	12.97	12.00	10.52	11.29
of credits in national currency	%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of credits in foreign currency	%	-	-	2.50	2.50	-	-	7.00	-	-	-	-	-	-	-
Weighted average yield of 7-day notes, as of the end of period	%	3.97	3.95	3.95	4.01	4.50	5.26	6.08	6.57	11.86	13.11	12.82	11.41	10.35	11.57
Weighted average yield of 14-day notes, as of the end of period	%	4.15	4.32	4.20	4.50	5.03	5.64	6.50	6.93	11.45	13.57	13.11	12.17	11.27	11.82
Weighted average yield of 28-day notes, as of the end of period	%	4.31	4.52	4.37	4.62	5.15	6.12	6.87	7.26	11.09	13.82	13.46	12.57	12.37	12.16
Weighted average yield of 91-day notes, as of the end of period	%	4.48	4.65	4.70	4.70	5.45	5.43	7.45	-	-	-	15.19	13.81	13.52	13.98
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	-	-	-	-	-	14.67
<i>Monetary base</i>															
Money outside banks (M0)	%	13.6	24.1	28.3	24.8	24.2	10.7	6.6	6.5	8.8	19.8	31.7	44.9	38.8	22.5
Money aggregate (M1)	%	14.9	26.9	31.7	29.3	23.7	9.2	5.8	0.5	5.7	20.5	27.5	41.3	32.5	16.0
Narrow money supply (M2)	%	14.0	24.4	28.4	24.7	22.9	12.4	12.3	15.7	7.4	23.1	27.3	36.1	41.2	22.7
Money supply (M2X)	%	15.9	23.1	24.9	20.5	18.9	12.0	11.7	15.6	8.6	20.8	25.3	32.5	36.5	21.6
	%	16.7	21.7	21.0	23.9	18.6	16.9	16.2	19.1	9.5	18.6	27.5	30.6	40.0	29.4

¹ 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

² Source: National Statistics Committee of the Kyrgyz Republic

³ Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q2 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 other financial-credit institutions, however, the deposits of the state administration bodies and non-residents 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, 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 issued by the Ministry of Finance of the Kyrgyz Republic. 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 with the interest income (coupon) and maturity over one year issued by 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
CPI	Consumer Price Index
EAEU	Eurasian Economic Union
EDB	Eurasian Development Bank
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IMF	International Monetary Fund
KR	Kyrgyz Republic
MFKR	Ministry of Finance of the Kyrgyz Republic
National Bank	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NEER	Nominal Effective Exchange Rate
NSC	National Statistical Committee of the Kyrgyz Republic
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
RF	Russian Federation
RK	Republic of Kazakhstan
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America