



КЫРГЫЗ БАНКЫ

Monetary Policy Report.

Quarter 4, 2022

Bishkek
February 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 interbank credit market and support for the real sector of economy.

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

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

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

Monetary Policy Report for Q4 2022 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2023-II-07/13-1-(ДКП) dated February 27, 2023.

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Summary

The global economy continued to slow down amid persistently high inflation rate, increase in the interest rates, reduced investment, and disruption of the goods supply chains due to change in the nature of the foreign trade relations. The annual inflation rates of many countries were at a high level exceeding the medium-term inflation targets of the central banks, which, in turn, stimulated them to tighten monetary conditions. The FAO price index remained at a rather high level, with a gradual downward trend from the highest values in the first half of 2022.

The GDP growth rate of the Kyrgyz Republic increased compared to expectations. At the end of 2022, GDP increased by 7.0 percent, excluding “Kumtor” gold-mining enterprises – 5.9 percent. The main sectors of the economy demonstrated an increase in production output, meanwhile, the most significant growth was observed in industry, construction, agriculture and services sector. The economic activity in the country was supported by increased domestic demand resulted as well from growth of wages. The positive indicators of tax revenues to the state budget of the country were neutralized with an increase in the budget expenditures due to growth in wages of the public sector employees, benefits and pensions.

The trade balance of the country was characterized by growth of import supplies. In Q4 2022, the trade deficit of the country increased by 55.7 percent compared to Q4 2021 and amounted to USD 1,623.1 million. The volume of foreign trade turnover increased by 56.6 percent and amounted to USD 3.2 billion.

Inflation in the Kyrgyz Republic, as before, remained sensitive mainly to the impact of external factors. Residual effects of the sharp increase in the world food prices observed in the first half of 2022, as well as the impact of the exchange rate shock in February-March 2022 and increase of wage still influenced the inflation indicator. In December 2022, the annual inflation rate was formed at 14.7 percent, meanwhile, in Q4 2022, the inflation rate was 15.0 percent in annual terms (Q4 2022 / Q4 2021).

Under these conditions, conducted monetary policy was focused on limiting pro-inflationary factors in the economy of the Kyrgyz Republic. In the monetary sector, excess liquidity remained at a high level, mainly due to the effect accumulated during 2022. This factor affected the investment behavior of the money market participants, and, as a result, the market participants’ preferences were in favor of the National Bank’s sterilization instruments. There was a decrease in short-term money market rates due to a significant increase in demand. At the same time, rates varied within the interest rate corridor around the key rate. The deposit base and the credit portfolio continued to grow in the banking system. Long-term government securities were still more attractive for the investors than the short-term ones.

In certain periods, demand for foreign currency exceeded its supply due to increased influence of external factors in the domestic foreign exchange market. Under these conditions, in the reporting quarter, the National Bank conducted foreign exchange interventions to sell foreign currency in non-cash form in the amount of USD 202.2 million to smooth sharp fluctuations of the exchange rate.

Chapter 1. External Environment

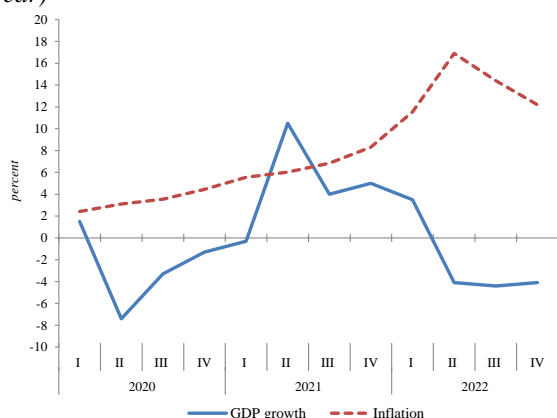
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

Global economy demonstrates stable slowdown. Slight economic growth is observed in the USA and China; however, China's macroeconomic indicators demonstrate the signs of weakness. There is multidirectional dynamics of GDP growth rates in the EAEU member states: Russia and Belarus demonstrated decline, meanwhile, there was positive dynamics in Kazakhstan and Armenia. At the same time, global inflation demonstrated multi-year highs. Acceleration of price growth was observed in almost all concerned countries with a slight decline in inflationary pressures in Russia, Armenia and Belarus.

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

In 2022, Russia's economy decreased by 2.1 percent. Given that in January-September 2022, GDP decreased by 1.6 percent, the annual indicator shows that economic activity will demonstrate stable decline.

Activity declined significantly in the trade sector (-12.7 percent), as well as in the processing and transport sectors. A decrease in the household consumption expenditures by 1.8 percent indicates restrained domestic demand. Agriculture, construction and the public sector, in particular the military sector, contributed positively to the economy.

The inflation rate in Russia demonstrated stable and smooth slowdown.

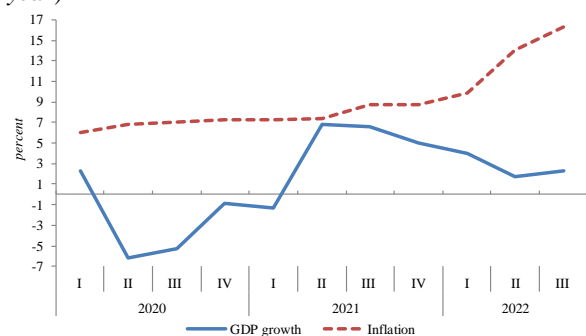
The inflation rate decreased down to 11.9 percent in December 2022, after a decline by 12.0 percent in November 2022.

The residual effects of a sharp rise in prices in spring 2022 made the main contribution to the annual inflation rate, generally, the inflation rate declined since May 2022. The Bank of Russia emphasizes that inflation expectations of the households and business decreased, however they remained at a high level. There were signs of recovery in consumer activity. In these circumstances, the Bank of Russia decided to keep its key rate unchanged at 7.5 percent. According to the regulator's forecast, taking into account the current monetary policy, the annual inflation rate will decrease below 7.0 percent in 2023 and will be about 4.0 percent in 2024.

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBRK calculations

Economy of Kazakhstan demonstrated an increase in growth rates.

In January-December 2022, GDP of Kazakhstan increased by 3.2 percent in real terms compared to the corresponding period of the previous year.

Non-oil sectors make the main positive contribution to GDP dynamics. Construction demonstrated the largest growth by 9.4 percent, as well as agriculture – by 9.1 percent amid unprecedented cereal harvesting. Moreover, growth in the services sector was provided by trade, transport and communications sectors.

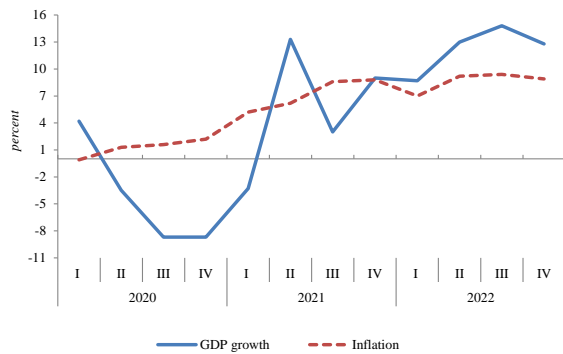
In December 2022, the annual inflation rate in Kazakhstan was

20.3 percent: the most significant growth was observed in prices for food (by 25.3 percent) and non-food products (by 19.4 percent). Inflation of paid services remained unchanged compared to November 2022 (14.1 percent) amid a decline in rental cost for comfortable housing and suppressed growth of regulated prices. In December 2022, industrial producer prices increased by 9.4 percent in annual terms.

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

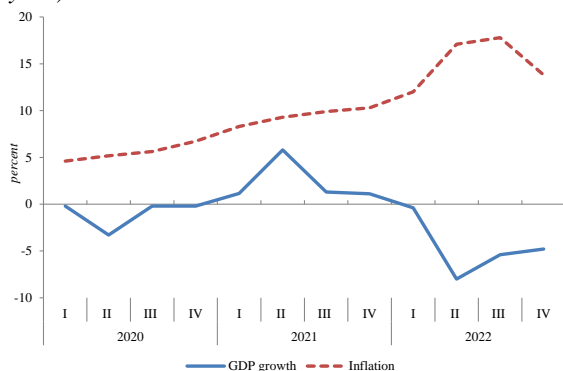
however, it is still expected to remain high due to growth of public capital expenditures and increase of labor productivity.

The inflation rate in Armenia slowed down gradually due to increase of the regulator's key rate, strengthening of the national currency, as well as easing of external inflation pressure. However, strong labor market demand contributes to rise in wages and increase in domestic consumption. In December 2022, the inflation rate reached 8.3 percent in annual terms with the target of 4.0 percent (+/-1.5 percentage points) for the medium term. Inflationary pressure on the Armenian economy from the external sector is expected to decrease in the nearest time and the inflation rate is expected to approach the target in the second half of 2023 amid stable tightening of global monetary conditions worldwide and weakening of global demand.

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

Economic activity in Belarus remained restrained. Inflation slowed down sharply due to introduction of a new price regulation system.

At the end of 2022, Belarus GDP decreased by 4.7 percent in real terms, meanwhile, there was slowdown in economic recession (in October and November, a decrease by 4.7 percent, in December – 4.9 percent).

The economic recession is conditioned by loss of export earnings due to sanctions and supply chain disruptions. However, the economy was supported by the expansion of trade and economic relations with Russia: in 2022, Belarus received a positive balance in trade relations with Russia for the first time in its history.

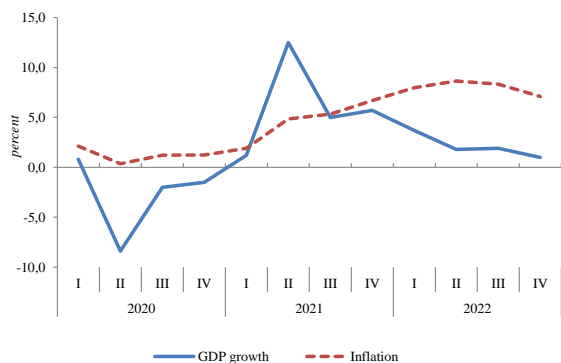
The EDB emphasizes that the speed of arranging production and logistics chains remains a key factor of uncertainty for the economy of Belarus. Many experts agree that many aspects in Belarus will depend on the situation in the Russian economy.

In December 2022, the inflation rate in Belarus slowed down to 12.8 percent from 13.3 percent in November and 15.2 percent in October. There was a decrease in prices in recent months due to introduction of a new system of price regulation, which includes coordination of increase in sale prices by the producers with the senior state bodies, setting maximum marginal mark-ups for the importers and trade, as well as other measures. The impact of the regulatory measures was more significant compared to the stable pro-inflationary effect of higher inflation expectations and a significant difference in prices in Russia and Belarus due to weakening of the Belarusian ruble against the Russian ruble in the first half of the current year. According to the EDB analysts' expectations, the annual inflation rate is forecasted to decrease sharply in spring 2023 and this rate can drop temporarily down to 4 percent y/y in summer. By the end of 2023, rise in price may accelerate due to the weakening disinflationary impact of domestic demand and price regulation.

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 2022, economic activity in the USA slowed down compared to the previous year amid escalating global geopolitical situation, tightening of the monetary policy by the U.S. Federal Reserve System, high inflation rate, and tense labor market situation.

In 2022, the U.S. Federal Reserve System increased the key rate by 7 times, up to 4.25-4.50 percent (the highest level since 2007). Tight monetary conditions and high inflation rate conditioned slowdown in economic growth. In Q4 2022, the U.S. real GDP growth slowed down to 1.0 percent¹ compared to the same period in 2021 due to slowdown in consumer expenditures growth, which accounts for more than two-thirds of economic activity. At the end

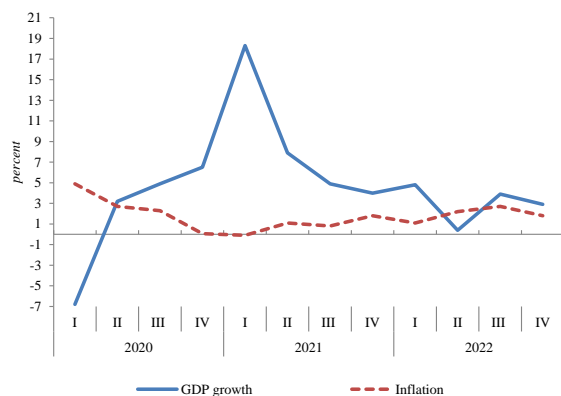
of 2022, real GDP in the USA increased by 2.1 percent after growth by 5.9 percent in 2021.

In December 2022, the inflation rate slowed down slightly, to make 6.5 percent in annual terms, due to measures taken by the U.S. Federal Reserve System, weakening demand, as well as some recovery in the global supply chain in the second half of 2022.

China

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

In Q4 2022, economy of China increased by 2.9 percent in annual terms, growth rate slowed down compared to 3.9 percent in the previous quarter.

At the end of 2022, the Chinese economy grew by 3.0 percent, being below growth target of 5.5 percent set by the Chinese government. The growth rate was the lowest since the 1970s, with the exception of pandemic year in 2020, primarily due to China's zero-Covid policy, which forced the Chinese authorities to regularly impose lockdowns, the stable decline in the real estate market and deteriorating export and import indices.

China's business activity indicators reflected slight improvement of the situation in

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

December 2022 as China reopened its international borders for the first time within three years, demonstrating deviation from its “zero-COVID-19” policy. However, overall economic activity still remains contracted.

In 2022, China’s consumer inflation rate decreased by 3.0 percent compared to the target, to make 2.0 percent in annual terms. In December 2022, the inflation rate increased by 1.8 percent in annual terms from 1.6 percent in November against expectations of a monthly decline. Inflation acceleration suggests that lifted COVID-19 restrictions indeed have a positive effect on the Chinese economy and can contribute to stronger economic recovery in the current year. The economy will also demonstrate recovery when the stimulus measures taken during the pandemic become effective and the government begins to increase expenditures to support growth.

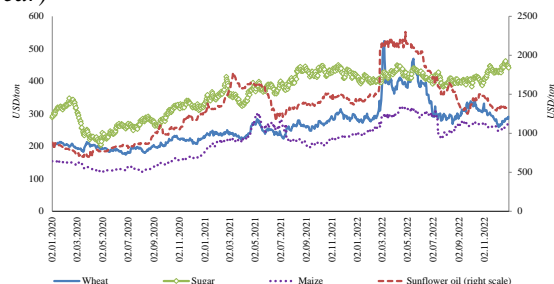
1.2. World Commodity Markets

Prices in the world food market were multidirectional and had no significant downward impact on prices in the Kyrgyz Republic. In the reporting period, oil market demonstrated relative tension: against expectations of global recession, prices decreased down to USD 53.7 per barrel. In the reporting period, there was rise in prices for gold in the world market due to slowdown of capital outflow from the exchange-traded funds secured by gold resulted from inflation slowdown in the USA, the USD index weakening, decrease in the U.S. ST-Bonds rates and the market participants’ expectations of smoother increase in the U.S. Federal Reserve System’s key rate.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



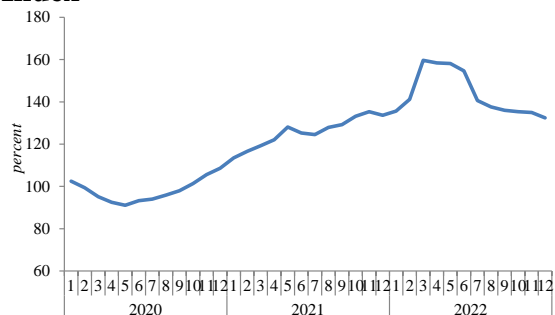
In the reporting quarter, prices in the world food market were multidirectional while remaining rather volatile and vulnerable, reflecting weather conditions in the exporting countries and tensions in geopolitical relations.

There are main prerequisites affecting the world prices: strong global demand, unfavorable weather in some large producing countries, high production costs, as well as uncertainty over the situation around Ukraine.

In December 2022, increase in price index for the FAO crops was conditioned by a number of factors, including significant markets malfunction, increased uncertainty, rise in prices for energy and manufacturing resources, adverse weather conditions in some main producing countries, and stable strong world demand for food products.

In the reporting quarter, prices were multidirectional in the vegetable oil markets, however, at the end of the quarter, prices decreased to the lowest level since February 2021 due to decline in the world prices for palm, soybean, rape-seed and sunflower oils.

Chart 1.2.2. Dynamics of FAO Food Price Index



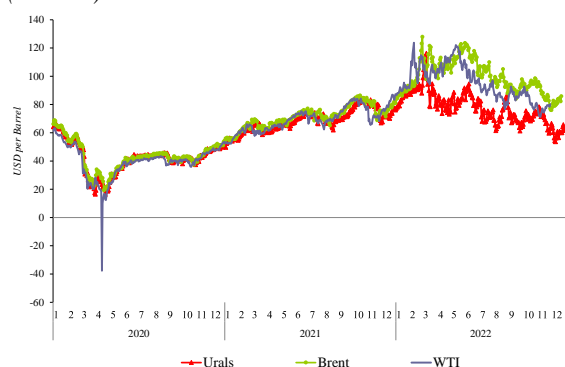
In December 2022, prices for sugar reached the highest level within the previous six months due to concerns about the impact of adverse weather conditions for the harvest in India, the world’s second largest sugar exporter, and delays in sugarcane processing in Thailand and Australia.

In Q4 2022, the average value of the FAO food price index¹ decreased by 2.8 percent compared to Q3 of the current year and amounted to 134.2 points. At the same time, this index increased by 0.1 percent compared to the same quarter of 2021. In the reporting period, the significant impact was conditioned by sharp decrease in the world prices for vegetable oils as well as slight decrease in prices for crops and meat. However, these processes were partially neutralized by moderate increase in prices for sugar and dairy products.

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 degree of dependence of prices in the country on the external markets and the fact that food products, occupying about half of the consumer basket, make a significant contribution to overall inflation.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices
(in USD)



In Q4 2022, the volatility of oil prices was determined by expectations of economic and political development worldwide.

In the reporting period, prices for the main oil grades (Urals, Brent, WTI) fluctuated within the range of USD 53.7-98.6 per barrel. Since the beginning of March 2022, Russian Urals oil was sold at a discount of USD 20-35 per barrel, and since September, Brent oil was sold at USD 20.0 per barrel due to sanctions imposed against Russia. In Q4 2022, the average price for Brent oil decreased by 9.4 percent compared to the previous quarter and amounted

to USD 97.7 per barrel (the price increased by 11.2 percent compared to the same period in 2021). Generally, since the beginning of 2022, the average price for Brent oil amounted to USD 99.0 per barrel (in 2021 – USD 70.8).

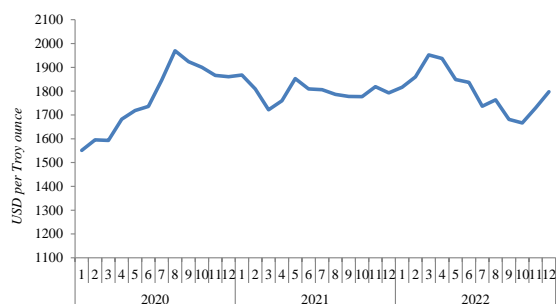
In Q4 2022, measures of coronavirus restrictions in China and concerns about high risks of a global recession influenced price formation in the commodity market. Additionally, the market was destabilized by the news about oil sold by the USA from the strategic reserves.

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 the formation of prices at the oil refineries in Russia, from which the Kyrgyz Republic imports almost 95 percent of the total volume of imported POL.

In addition to the inflation component, prices in the world energy markets largely determine the level of economic activity in Russia and Kazakhstan, which is among the most important demand factors in the domestic economy.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

In 2022, the dynamics of gold price in the world market was volatile amid escalation of the geopolitical situation and tightening of monetary conditions worldwide due to accelerating inflation.

At the same time, in Q4 2022, there was an upward trend in the price for gold worldwide due to slowdown in capital outflow from exchange-traded funds secured by gold, resulted from inflation slowdown in the USA, weakening of the USD index, reduction of the US ST-Bonds

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).

rates and expectations of the market participants of a smoother increase in the US Federal Reserve System's key rate. Additional support to quotations of the precious metals was provided by strongest demand of the central banks in many countries worldwide and the jewelry sector, as well as stable uncertainty about the prospects for global economic recovery, however, the monetary policy of developed countries remained the determining factor.

Thus, at the end of 2022, the price for this asset remained at a high level, having decreased only by 0.3 percent year-to-date, meanwhile, in Q4, it increased by 9.8 percent, up to USD 1,824.0 per Troy ounce at the end of the year. The international analysts expect that the price for gold can remain high in 2023 if there are no negative shocks.

Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodities and Services Market

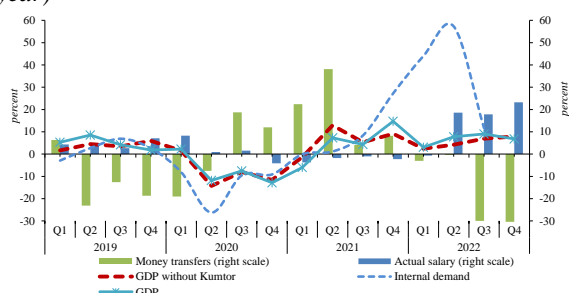
In the reporting period, the economic activity in the Kyrgyz Republic demonstrated stable recovery. Generally, the results of 2022 demonstrated high rates of economic growth due to growth of production output in industry, construction, agriculture, and increased activity in the services sector of capital investment.

At the same time, there are external risks amid stable geopolitical tensions. In this environment, growth factors such as domestic demand, remittances, etc. may be subject to adverse changes.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

At the end of 2022, the economic growth indicators of the Kyrgyz Republic were higher compared to expectations.

According to the results of 2022, GDP increased by 7.0 percent¹ (in 2021 – by 6.2 percent²). According to the preliminary data, in January-September 2022, domestic demand increased by 33.2 percent (an increase by 3.8 percent in the same period of 2021) mainly due to an increase in gross capital formation and individual consumption³, which demonstrated growth mainly in the first half of 2022.

Domestic demand was also supported by increased household expenditures due to growth of wages. There was the trend of high growth rates of the nominal and real wages compared to the previous year. According to the results of 2022, the average monthly nominal wage of one employee⁴ increased by 31.8 percent compared to the previous year and amounted to KGS 26,6 thousand (in 2021, an increase by 9.4 percent). The level of real wages calculated by taking into account the consumer price index increased by 15.7 percent (in 2021, a decrease by 2.2 percent).

Increased number of employed people provided additional support for domestic demand. As of the beginning of 2023, the number of unemployed people registered with the public employment services in search of work decreased by 0.6 percent compared to 2022 and amounted to 98,8 thousand unemployed people. At the end of 2022, the level of registered unemployment in the total number of labor force decreased by 0.1 percentage point compared to the previous period and constituted 2.8 percent.

The current negative trend in the net balance of remittances did not have a significant impact on domestic demand due to stable positive dynamics in their gross inflows. In 2022, net inflow of individuals' remittances decreased by 21.2 percent amid significant increase of outflow by 113.3 percent, demonstrating increased activity after Q1, meanwhile gross inflow increased by 6.2 percent.

¹ According to the preliminary data of the NSC KR

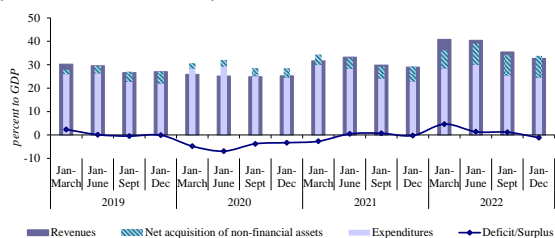
² According to the verified data of the NSC KR

³ Reference to the data for the earlier period is given due to the lack of more up-to-date data

⁴ Generally, in the republic, excluding small enterprises

Public Finances Sector

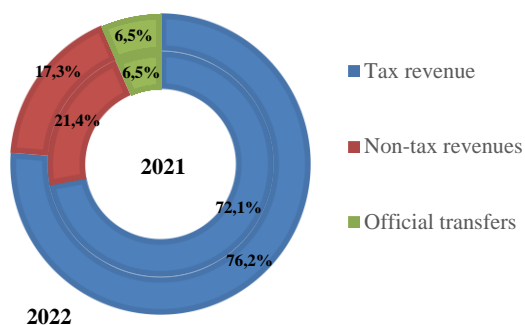
Chart 2.1.2. Execution of the State Budget
(period to the corresponding period of the previous year, accumulatively)



Source: CT MFKR, NBKR

fulfilled and expenditures decreased compared to the budget target specified in the Law of the Kyrgyz Republic “On Amendments to the Law of the Kyrgyz Republic “On Republican Budget for 2022 and Forecast for 2023-2024”.

Chart 2.1.3. Structure of the State Budget Revenues



Source: CT MFKR

state budget expenditures increased by 46.9 percent, up to KGS 311.0 billion.

Expectations for 2023-2025

According to the Law of the Kyrgyz Republic “On Republican Budget for 2023 and Forecast for 2024-2025”, at the end of 2023, budget deficit is expected at 2.3 percent to GDP, and since 2024 – budget surplus to be used to repay public debt as well as to finance expenditures for economic development. The fiscal policy is expected to be expansionary in the medium term, which will support domestic demand.

Investments

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

	January-December		share, percent	
	2021	2022	2021	2022
	millions of KGS			
Total	122 843,3	138 333,0	100,0	100,0
Internal investment	91 012,4	101 269,2	74,1	73,2
Republican budget	4 822,4	8 302,3	3,9	6,0
Local budget	2 027,8	2 793,1	1,7	2,0
Funds of enterprises and organizations	38 964,8	44 235,6	31,7	32,0
Banks' credits	1 235,1	593,3	1,0	0,4
Population funds including beneficent help of KR residents	43 962,3	45 344,9	35,8	32,8
External investment	31 830,9	37 063,8	25,9	26,8
Foreign credit	14 398,3	19 753,7	11,7	14,3
Direct foreign investments	11 012,7	9 531,6	9,0	6,9
Foreign grants and humanitarian aid	6 419,9	7 778,5	5,2	5,6

Source: NSC KR

to the construction of manufacturing facilities increased by 1.4 times. The volume of investments exploitation for construction of hotels and restaurants increased by 11.8 percent. Reduction of

In the reporting period, there was stable positive fiscal impulse. It was indicative of expansionary fiscal policy and brought upward pressure on inflation.

In 2022, the state budget deficit increased from 0.2 percent to GDP (KGS 1.8 billion) in 2021 up to 1.1 percent to GDP (KGS 10.4 billion) as a result of increased expenditures due to growth in wages of public sector employees, increased social benefits and capital expenditures. Budget revenues were over-

During 2022, state budget revenues grew at a high rate (+43.2 percent, up to KGS 300.5 billion) amid growth of economic activity, fiscalization of the tax and customs procedures, as well as significant tax revenues from Kumtor Gold Company CJSC. Tax revenues with the main share in the structure of budget revenues, increased by 51.4 percent.

In terms of budget expenditures for operating activities, significant growth was observed in the public sector workers' payroll fund, followed by grants and contributions, acquisition and use of goods and services, among others. Capital expenditure also increased by 1.9 times at the end of 2022. Total

There was an increase in the level of capital investments exploitation. In 2022, the level of capital investments exploitation increased by 3.0 percent compared to 2021 (-6.2 percent). The increase was due to the growth of investments by 1.9 percent financed from the domestic sources, and by 6.4 percent from foreign sources.

Investments directed to the construction of educational facilities increased by 1.9 times, meanwhile, investments directed

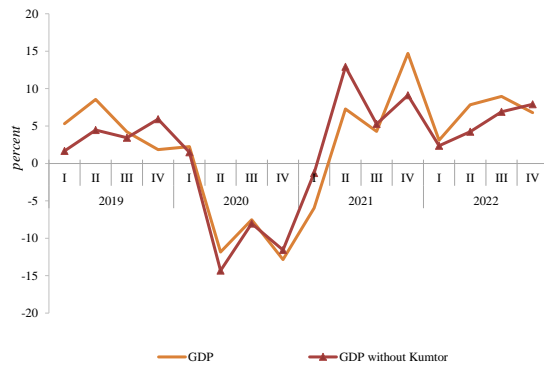
capital investments in the construction of agricultural facilities by 23.4 percent, wholesale and retail trade facilities – by 15.4 percent, and health care facilities – by 16.2 percent had limiting influence on growth of the index.

Supply

According to preliminary data of the National Statistical Committee of the Kyrgyz Republic, at the end of 2022, the nominal GDP increased by 7.0 percent in real terms compared to 2021 and amounted to KGS 919.4 billion. The growth rate of GDP, excluding the “Kumtor” gold-mining enterprises, was 5.9 percent in the reporting period.

Chart 2.1.5. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

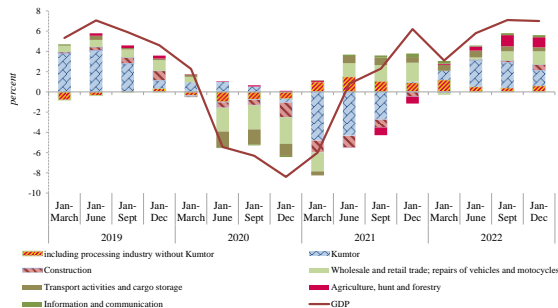
(-8.3 percent) and water supply (-8.7 percent) demonstrated negative growth rates due to shortage of water.

In construction, commissioning of the social and cultural facilities provided growth of this sector by 8.0 percent. The positive input of this sector in GDP formation was at the level of 0.6 percentage points compared to the negative input of 0.5 percentage points in the previous year.

In 2022, gross agricultural output increased compared to 2021 due to an increase in the production of grain crops by almost two times, as well as the low base of the previous period (-4.6 percent). Positive input of agriculture to GDP growth made 1.0 percentage point, meanwhile the share of this sector in GDP structure decreased by 1.7 percentage points compared to the previous year and amounted to 12.1 percent.

Chart 2.1.6. Input of Main Sectors in GDP Growth

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



Source: NSC KR, calculations: NBKR

0.3 percentage points compared to the end of 2021.

Almost all sectors of the economy demonstrated active growth. The industrial, construction, agricultural and services sectors demonstrated the highest growth rates. The processing industry at “Kumtor” gold-mining enterprises (+22.5 percent) was still the key driver of growth in industry (+12.2 percent). Among the industrial sectors, which contributed to GDP growth at the rate of 2.2 percentage points, the processing industry demonstrated positive input (2.1 percentage points), meanwhile the contribution of “Kumtor” gold-mining enterprises thereof made 1.5 percentage points. However, during the reporting period, such sectors as electricity provision

(-8.3 percent) and water supply (-8.7 percent) demonstrated negative growth rates due to shortage of water.

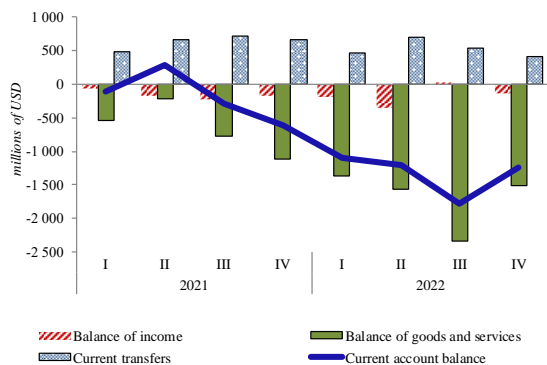
The services sector made the largest input to GDP growth in the amount of 2.3 percentage points, having increased by 4.8 percent in real terms during the reporting year. Growth in the services sector was conditioned by an increase in the volume of transportation activities by 10.1 percent and growth in trade turnover by 7.7 percent. As before, the share of the services sector in the GDP structure remains significant, which increased by 1.9 percentage points, up to 49.1 percent in the reporting year.

The GDP deflator was positive and amounted to 16.1 percent, having increased by

2.2. External Sector¹

A significant trade deficit predetermined the current account deficit in Q4 2022.

Chart 2.2.1. Current Account



Note: According to the preliminary and forecast data.

footwear.

Imports of goods (in FOB prices) increased by 56.3 percent and amounted to USD 2,422.4 million. Growth in import was due to the restructuring of logistics chains in the region and the recovery of trade volumes after the pandemic period. Such commodity items as cars, fabrics, locksmith's ware, safes and hardware, electrical apparatus for line telephony, footwear and medicaments contributed to an increase in import in the reporting period. At the same time, in the reporting period, import of energy products decreased by 10.5 percent mainly due to reduction in the physical volume and average prices for petroleum products supplies.

In the structure of current transfers, there was a decrease in private transfers and an increase in transfers of the public sector. In Q4 2022, an increase in outflow of remittances significantly influenced the negative dynamics of the net inflow of private transfers (a decrease by 42.3 percent). The receipt of cash grants provided growth of official transfers.

In the reporting quarter, the balance of services' surplus is expected due to an increase in revenues on the item "travels" conditioned by removal of restrictions related to COVID-19, as well as an increase in the number of Russian migrants. The negative balance on the item "income" is estimated to decrease to USD 139.6 million.

According to the preliminary and forecast estimates of the National Bank, in Q4 2022, capital inflow on the capital and financial account is projected at USD 1,208.5 million. The capital account surplus will make USD 51.8 million, whereas the positive balance on the financial account is expected at USD 1,156.8 million. The main capital inflow on the financial account is expected from other investments in the form of increased private sector liabilities to non-residents. Foreign assets of residents will grow mainly due to cash and deposits of the banking sector. Net inflow of direct foreign investments is forecasted at USD 149.3 million.

Thus, at the end of Q4 2022 the balance of payments of the Kyrgyz Republic is expected to be formed with a negative balance in the amount of USD 33.6 million.

¹ According to the preliminary and forecast 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.

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		
	2020 (aver.) (January- December)	2021 (aver.) ² (January- December)	%	December 2021	December 2022	%
REER	115.7	115.8	0.1	121.1	123.8	2.2
NEER	122.7	119.6	-2.5	124.8	123.8	-0.8
RBER to CNY	79.2	74.4	-6.0	76.7	94.7	23.5
NBER to CNY	60.8	51.7	-15.0	51.0	55.9	9.6
RBER to EUR	101.7	96.7	-4.9	104.3	117.4	12.6
NBER to EUR	69.5	60.8	-12.5	63.6	67.7	6.6
RBER to KZT	137.4	133.9	-2.5	137.9	140.9	2.2
NBER to KZT	166.7	157.0	-5.9	159.6	171.1	7.2
RBER to RUB	125.7	123.2	-2.0	124.6	112.8	-9.5
NBER to RUB	141.0	131.8	-6.5	132.0	116.6	-11.7
RBER to TRY	174.2	187.0	7.3	245.9	237.4	-3.5
NBER to TRY	275.3	317.2	15.2	483.5	668.6	38.3
RBER to USD	83.1	81.3	-2.1	82.4	88.7	7.6
NBER to USD	59.6	54.3	-8.9	54.2	54.0	-0.3

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

the NEER index decrease, a higher inflation rate in the Kyrgyz Republic² conditioned growth in the real effective exchange rate (REER) index by 2.2 percent, to make 123.8 at the end of December 2022.

By the end of Q4 2022, the nominal effective exchange rate index weakened and the real effective exchange rate index strengthened compared to December 2021.

According to actual data, the index of nominal effective exchange rate (NEER) of KGS decreased by 0.8 percent year-to-date and constituted 123.8 at the end of December 2022. The index decrease was conditioned by depreciation¹ of KGS in December 2022 compared to the exchange rate of the same period in 2021 against the Russian ruble by 11.7 percent and against the US dollar – by 0.3 percent. Amid

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 Q4 2022, the inflation rate in the Kyrgyz Republic was formed at 14.7 percent, meanwhile, the average inflation rate in the main trading partner countries according to the preliminary calculations was 11.3 percent.

Chapter 3. Monetary Policy

Monetary policy of the National Bank was focused, as before, on restraining inflationary processes amid high uncertainty in the impact of external risks on the economy of the Kyrgyz Republic.

Tactical monetary policy decisions were made taking into account the level of liquidity in the banking system, trends in the monetary and foreign exchange markets, as well as depending on assessments of the economic situation and its development prospects in the Kyrgyz Republic and trading partner countries.

Increased level of excess liquidity in the banking system remained the key factor affecting the behavior of the money market participants. Due to its short duration, the commercial banks preferred to place available funds on short-term sterilization instruments of the National Bank. The short-term rates of the money market demonstrated downward trend to be formed within the interest rate corridor.

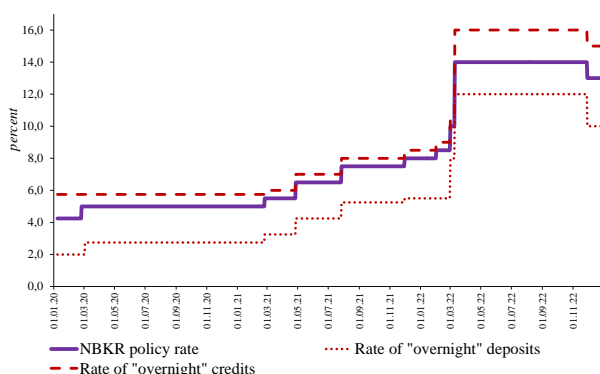
The domestic foreign exchange market demonstrated slight volatility in certain periods. The National Bank conducted foreign exchange interventions to sell foreign currency to mitigate sharp fluctuations in the exchange rate.

Despite negative external shocks and increased inflation expectations, implemented monetary policy minimized pressure on the national currency and provided favorable conditions for an increase in the funding base of the banking sector and for growth of lending to the economy.

3.1. Monetary Policy Implementation

Interest Rate Policy

Chart 3.1.1. Interest Rate Policy of the National Bank



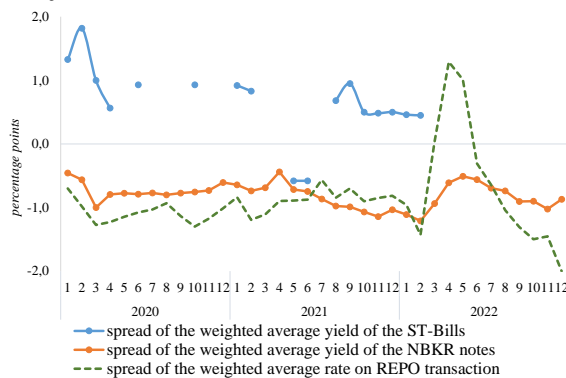
The National Bank slightly relaxed the interest rate policy taking into account the dynamics of economic development in the Kyrgyz Republic and the structure of emerging inflation in the Kyrgyz Republic in the middle of Q4 2022. After a long period of keeping the key rate unchanged at 14.00 percent, the policy rate was decreased down to 13.00 percent on November 28, 2022. The rates of the interest rate corridor were also revised: the rate on “overnight” deposits was decreased by 200 basis points, down to 10.00 percent and the rate on “overnight” credits – by 100 basis points,

down to 15.00 percent.

In response to change of the National Bank’s key rates, there was adjustment of the short-term rates in the money market.

In Q4 2022, the gap between the key rate and the short-term rates of the money market was formed in the negative zone due to taken measures of the interest rate policy as well as a significant increase in excess liquidity of the banking system.

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



The average spread between the National Bank’s policy rate and the rates on REPO transactions was (-)1.65 percentage points (in Q3 2022 – (-)1.0 percentage point). At the same time, during the reporting quarter, the spread increased from (-)1.50 percentage points in October up to (-)2.00 percentage points in December. The main reason for this situation remained low activity of participants in the interbank market of credit resources in the national currency amid significant liquidity surplus in the banking sector. An additional factor was a decrease of the key interest rates of the National Bank. The weighted average rates

on REPO transactions decreased from 12.50 down to 11.0 percent.

The rates in the market of the National Bank’s notes demonstrated stable decline upon adjustment of the key rates, as well as amid increased demand from the market participants. In the reporting quarter, the weighted average yield of notes decreased from 13.10 percent down to 12.13 percent. Moreover, this factor conditioned a decrease in the average spread of the notes rates down to (-)0.93 percentage points (in Q3 2022 – (-)0.78 percentage points).

In Q4 2022, ST-Bills still were in little demand among the market participants. Due to the low yield, the spread between ST-Bills’ yield and the policy rate decreased from (-)5.52 percentage points in the previous quarter down to (-)4.60 percentage points.

Liquidity in the Banking Sector

Excess liquidity of the banking sector remained at a high level demonstrating steady upward trend during Q4 2022. Liquidity increased mainly due to the operations of the monetary and public sectors. In the reporting quarter, the average daily excess liquidity indicator of the banking system increased by 36.9 percent compared to Q3 and amounted to KGS 48.0 billion. At the same time, during the reporting quarter, the level of excess reserves increased by KGS 10.9 billion and amounted to KGS 54.5 billion by the end of the quarter.

There was an increase in sterilization of excess liquidity in the banking system through monetary instruments as a related measure of the National Bank to limit inflationary pressure. As in the previous period, commercial banks preferred to place available funds on longer-term sterilization instruments of the National Bank due to stable situation in the money market. In Q4 2022, the average daily volume of sterilization operations of the National Bank increased significantly by 35.9 percent, up to KGS 47.7 billion (in Q3 – KGS 35.1 billion).

The National Bank’s notes prevailed in the structure of sterilization operations, the average daily volume of sterilization increased up to KGS 28.5 billion, or 59.7 percent (in Q3 – KGS 18.5 billion, or 52.7 percent).

Thus, in the reporting quarter, the average daily volume of absorption on account of “overnight” deposits amounted to KGS 19.3 billion, or 40.3 percent respectively (in Q3 – KGS 16.6 billion, or 47.3 percent).

Chart 3.1.3. Excess Reserves of the Commercial Banks

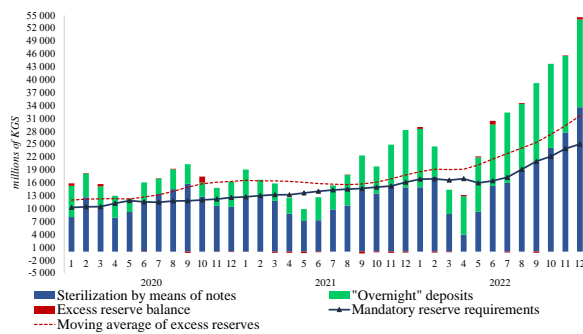
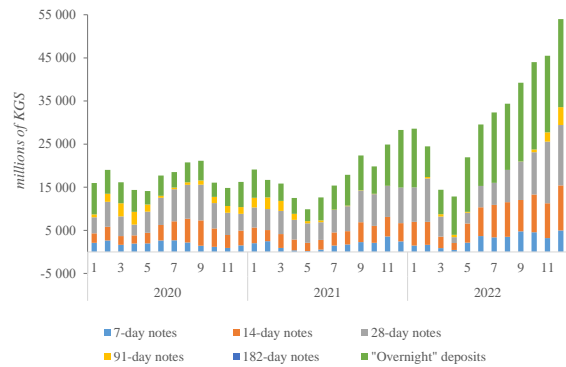


Chart 3.1.4. Structure of Sterilization



In the reporting quarter of 2022, there was no demand for “overnight” credits from the banking sector, this window of permanent access was active until July 2022.

Foreign Exchange Policy of the National Bank

Demand for foreign currency exceeded supply in some periods of the reporting quarter, in the domestic foreign exchange market due to increased external and seasonal factors. Under such conditions, the National Bank conducted foreign exchange interventions to sell foreign currency in non-cash form in order to smooth sharp fluctuations of the exchange rate. In the reporting quarter, the total sales of foreign currency in the domestic foreign exchange market amounted to USD 202.2 million (no foreign exchange interventions were conducted in the previous quarter).

Generally, in Q4 2022, the volatility of the USD/KGS exchange rate increased compared to the previous quarter. Thus, the USD/KGS exchange rate was fluctuating within the range of KGS 80.1763-85.6800 per USD. The average exchange rate increased by 3.1 percent (in Q3 2022, this indicator decreased by 0.5 percent) and amounted to KGS 83.8039 per USD.

Monetary Policy Measures in Q4 2022

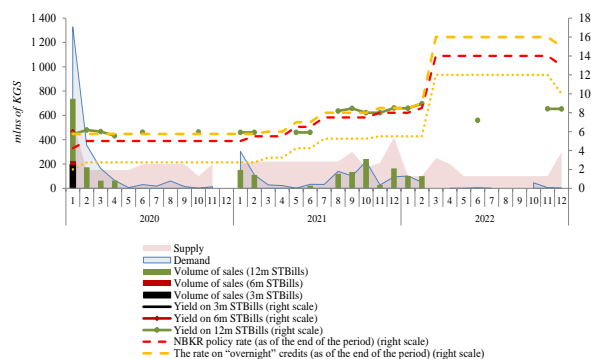
<p>The decisions were made on the size of the National Bank policy rate and the rates of the interest rate corridor</p>	<p>The Board of the National Bank twice considered the issue of the policy rate – on October 31 and November 28, 2022.</p> <p>On October 31, 2022, the Board of the National Bank decided to keep the policy rate unchanged at 14.00 percent due to stable pressure of global inflation on the economy of the Kyrgyz Republic amid geopolitical uncertainty.</p> <p>On November 28, 2022, the decision was made to decrease the policy rate by 100 basis points down to 13.00 percent.</p> <p>When changing the key rate, the rates of the interest rate corridor were adjusted accordingly: the interest rate on “overnight” deposits, being the lower level, was decreased from 12.00 down to 10.00 percent, the interest rate on “overnight” credits, determining the upper rate, was decreased from 16.00 down to 15.00 percent.</p>
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3.2. Financial Market Instruments

Government Securities Market

ST-Bills

Chart 3.2.1. ST-Bills Market Indicators



In Q4 2022, 12-month ST-Bills were in little demand.

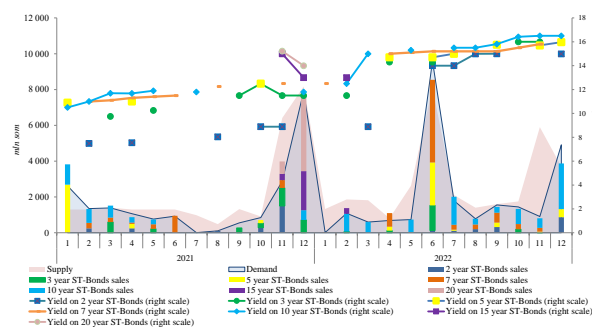
Two out of six announced auctions were not conducted due to lack of demand and one auction thereof was not conducted due to insufficient number of participants. The total volume of supply amounted to KGS 500.0 million (+66.7 percent as compared to Q3), meanwhile the total demand amounted to KGS 53.6 million and was satisfied by 14.3 percent.

The lack of demand for ST-Bills on the part of the market participants, most likely, is connected with the greater attractiveness of shorter-term products with higher yield compared to ST-Bills, and the policy of increasing the total circulation period of the government securities by increasing the share of longer-term securities - ST-Bonds - in the total structure of annual issues of government securities.

The volume of ST-Bills in circulation decreased by 78.0 percent year-to-date due to a decrease in the volume of sales and an increase in the volume of redemption and amounted to KGS 213.8 million. The structure of holders moved towards a decrease in the share of commercial banks and an increase in the share of institutional investors, which was mainly conditioned by a decrease of ST-Bills in the portfolio of commercial banks and institutional investors due to redemption of the available securities.

ST-Bonds

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



In Q4 2022, 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 amid expected budget deficit and increase of the public debt.

Totally, 9 auctions were conducted (including 12 additional placements), one thereof was not held due to lack of demand. The participants' activity decreased compared to the

highest indicators of Q2, however it was at an average level.

The total weighted average yield of ST-Bonds increased due to larger share in the sales structure of securities with longer maturities (10-year ST-Bonds) and, accordingly, higher yield, and fluctuated near the upper rate of the policy rate corridor (16.17 percent in October, 16.25 percent in November and 16.11 percent in December) as a result of sale of securities with higher yield.

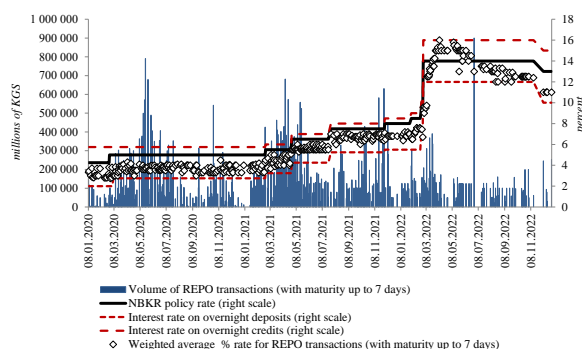
The demand was primarily focused (58 percent) on the long-term ST-Bonds (10 years), the demand was satisfied by 82.8 percent. Accordingly, 10-year ST-Bonds were mainly sold, their aggregate share constituted approximately 65.4 percent of the total volume of sales over the entire quarter.

ST-Bonds in circulation still demonstrate upward trend. The volume of ST-Bonds in circulation increased by 25.6 percent year-to-date. The structure remained almost unchanged: the share of institutional investors constitute, as before, about half (about 49.7 percent), the share of

commercial banks constitute one third, and other participants hold one fifth of all ST-Bonds in circulation.

Interbank Credit Market

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



In December 2022, as well as, generally, in 2022, activity in the interbank market was low due to excess liquidity in the banking system. In 2022 there were no standard transactions in the national and foreign currencies, only REPO transactions were conducted. In 2022, the volume of transactions decreased by 56.1 percent compared to 2021 and amounted to KGS 14.9 billion. In December 2022, the volume of transactions increased more than two times compare to November, however it decreased compared to all other months of 2022 and amounted to KGS 702.8 million. In December, the weighted average rate decreased

by 1.5 percentage points compared to the previous month and stood at 11.0 percent. The weighted average maturity of loans did not change and remained at the level of the previous period – 1 day.

USD/RUB SWAP transactions were in low demand with a surplus of liquidity and a relatively stable foreign exchange market. The volume of USD/RUB SWAP transactions dominated as in the previous periods. The market of SWAP transactions is an alternative source of attracting funds for the commercial banks. During the periods of high levels of excess liquidity, there was a decline in the volume of REPO and SWAP transactions, such situation was observed during last two quarters of 2022. In the reporting quarter, the volume of SWAP transactions increased by KGS 1.1 billion, up to KGS 1.9 billion (in Q3 – KGS 0.9 billion). The weighted average rate decreased from 12.5 percent down to 4.2 percent (-8.31 percentage points), meanwhile the weighted average maturity increased up to 13 days (in Q3 – 7 days).

In the reporting period, the volume of USD/RUB SWAP transactions decreased by 62.4 percent and amounted to RUB 14.9 billion. Since the beginning of 2022, the volume of RUB/RUB SWAP transactions amounted to RUB 101.0 billion compared to KGS 30.4 billion in USD/RUB pair.

Chart 3.2.4. Market of REPO and SWAP Transactions

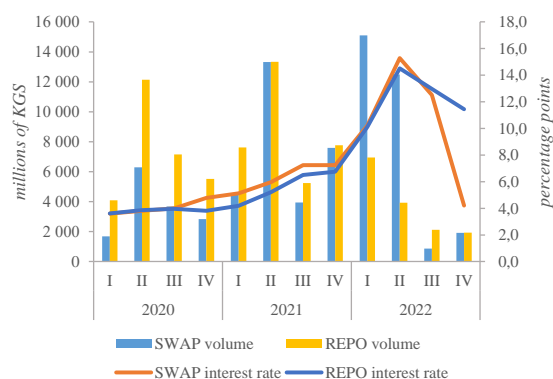
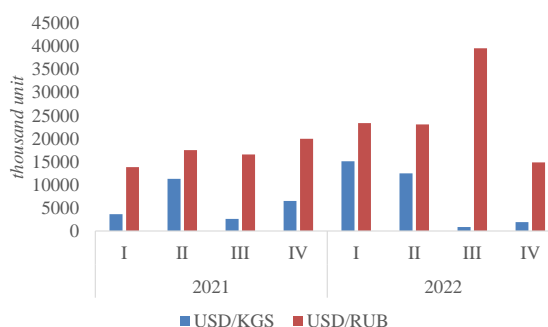
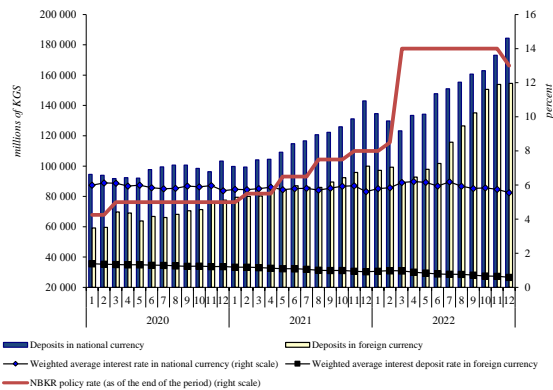


Chart 3.2.5. Dynamics of SWAP Transactions in USD/RUB and USD/KGS Pairs



Deposit Market

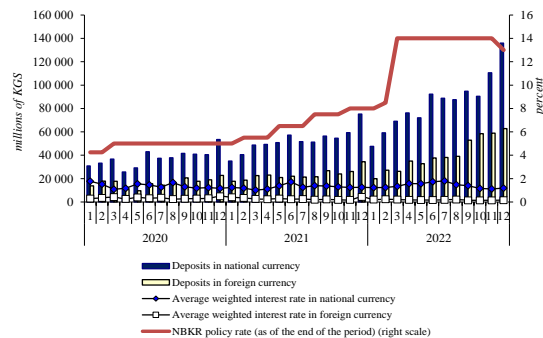
Chart 3.2.6. Dynamics of Commercial Banks' Deposits



growth in the settlement accounts by 56.6 percent and an increase in demand deposits by 74.3 percent, meanwhile time deposits increased by 17.6 percent.

Dollarization of deposits increased up to 45.6 percent (+4.4 percentage points since December 2021), meanwhile dollarization adjusted for the policy rate increased by 4.2 percentage points, up to 45.3 percent.

Chart 3.2.7. Dynamics of Commercial Banks' Deposits Flows



increased by 1.5 percentage points, up to 11.8 percent.

At the end of the reporting period, the concentration index¹ in the deposit market decreased by 0.01 percentage points from the beginning of 2022, down to 0.11, which corresponds to the average level of concentration with nine participants with equal shares in the market.

Credit Market

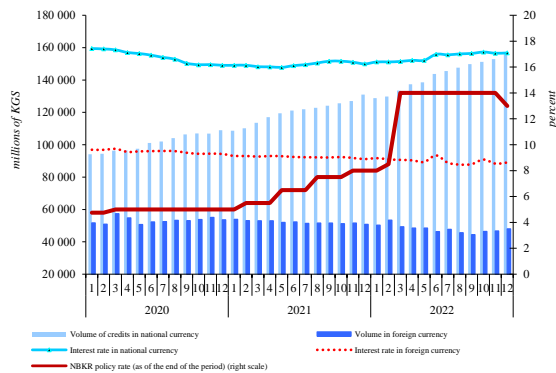
The commercial banks' credit portfolio continued to grow mainly due to an increase of the credits in the national currency, meanwhile credits in foreign currency resumed growth.

In Q4 2022, there was stable accelerated growth in the deposit base mainly due to the settlement accounts and the demand deposits. As of the end of 2022, the deposit base in the national currency increased by 29.0 percent compared to December 2021 and amounted to KGS 184.4 billion. Worth noting is that this growth was mainly due to an increase in demand deposits by 44.0 percent since December 2021 and in settlement accounts by 34.5 percent, while time deposits increased by 16.1 percent. The deposit base in foreign currency increased by 54.6 percent due to

The interest rates on time deposits in the national currency continued to grow, reflecting increased competition among the banks to receive population's deposits amid the monetary policy conducted by the National Bank and high inflation. In December 2022, the interest rate on time deposits in the national currency (balances) increased by 1.4 percentage points compared to December 2021 and constituted 12.2 percent. The interest rates on new deposits in the national currency also demonstrated growth, having

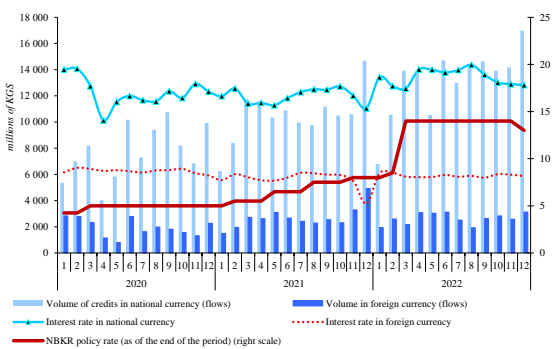
¹ This index shows the degree of concentration in the portfolio of the banks. The concentration index is calculated by the method of calculating the Herfindahl-Hirschman index and is the sum of the squares of specific weights of the indicator in the total volume. The index takes values from 0 to 1. Index 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.

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



adjusted for the exchange rate decreased by 4.6 percentage points, down to 23.3 percent.

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



concentration and is equivalent to the division of the market among twelve banks. The sectoral concentration index was 0.33, which is equivalent to three main credit sectors.

At the end of December 2022, the qualitative characteristics of the credit portfolio were as follows: the share of overdue credits in the credit portfolio increased by 0.2 percentage points year-to-date and amounted to 2.7 percent. The share of extended credits in relation to the credit portfolio decreased compared to 2021, but still remains at a high level, the value of the indicator amounted to 8.9 percent in December 2022, having decreased by 3.1 percentage points since December 2021.

3.3. Dynamics of Monetary Indicators

Stable accelerated growth of reserve money is conditioned by the transactions conducted by the National Bank and the Government sector. The annual growth rates of monetary aggregates demonstrated upward trend, except for M2X due to growth of all components.

The monetary base demonstrates significant growth, since the beginning of 2022, this indicator increased by 44.9 percent and amounted to KGS 227.4 billion by the end of the period. Meanwhile, during the reporting quarter the growth made 9.4 percent, having reached historically maximum values.

The annual growth rates of monetary aggregates demonstrated stable acceleration due to the growth of money outside banks and the deposit base, meanwhile, growth of deposits in foreign currency was mainly due to change in value due to revaluation. The volume of money supply (monetary aggregate M2X) increased by 9.0 percent and amounted to KGS 443.7 billion at the end of the period (annual growth – 30.6 percent). Money outside banks (M0) increased by 5.6 percent during the quarter and amounted to KGS 176.4 billion at the end of the period.

As previously noted, implemented monetary policy created conditions to attract funds by the commercial banks. Thus, the total volume of deposit base increased by 11.4 percent compared

to the previous period, moreover, there was an increase of the deposits in the national currency (by 17.8 percent) and in foreign currency (by 3.2 percent).

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

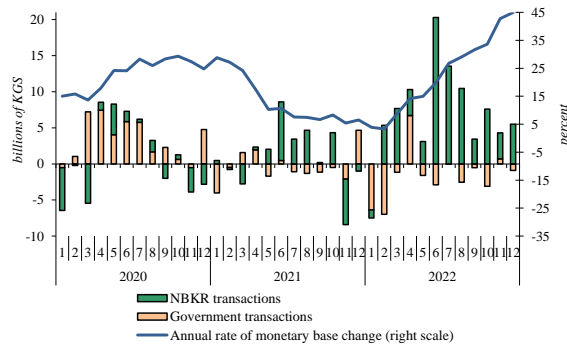
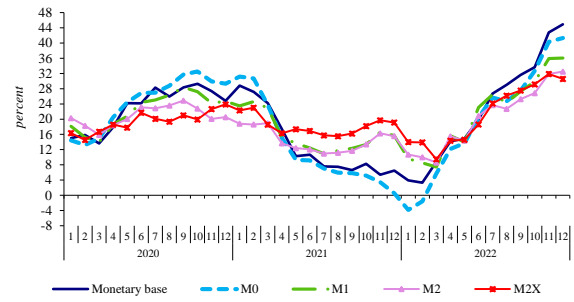


Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



Chapter 4. Inflation Dynamics

In the reporting period, inflation in the Kyrgyz Republic demonstrated the growth rate equal to the level of Q3 2022 despite a decrease in the FAO food price index for the ninth consecutive month. Stable geopolitical tension worldwide, volatility in the world energy markets and acceleration of inflation in most countries still put upward pressure on prices in the Kyrgyz Republic.

4.1. Consumer Price Index

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

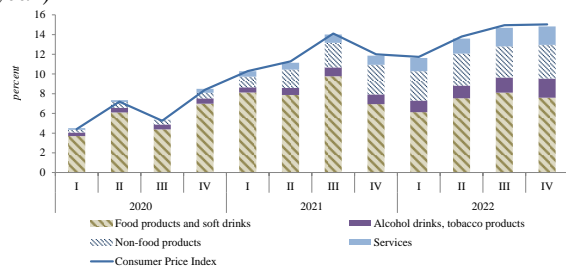


Chart 4.1.2. Dynamics of CPI Contributions
(year-to-date)

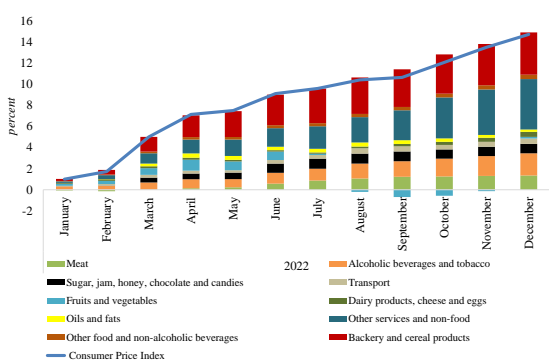
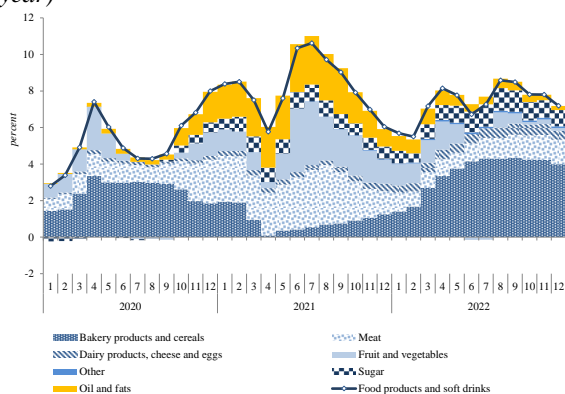


Chart 4.1.3. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



In Q4 2022, the inflation rate was **15.0 percent (Q4 2022 / Q4 2021)**, however, the annual inflation rate (December 2022 to December 2021) was **14.7 percent amid rise in prices for all main inflation components**. An increase in prices in the world commodity markets made the main contribution to inflation in the first half of 2022 amid geopolitical tensions worldwide. High world food prices affected socially important goods in our country.

An increase in food prices by **16.7 percent made the main contribution to the CPI acceleration (contribution to the CPI – 7.6 percentage points)**. There was an increase in prices for bakery products and cereals, meat and dairy products, as well as rise in prices for sugar in the structure of the food products group. Rise in prices, on the one hand, was conditioned by global inflationary movements and, on the other hand, by the factors resulted from an increase in domestic demand due to growth of wages in the public and private sectors. The price environment in other countries had some influence on the price environment in the domestic market amid integration with the world market.

Contribution of non-food products increased from 3.1 percentage points in Q3 2022 up to 3.4 percentage points, meanwhile, prices increased by 11.8 percent. There was an acceleration in import prices for non-food products due to slight weakening in the nominal exchange rate of KGS in Q4 2022, growth in domestic demand supported by a significant increase in consumer lending.

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

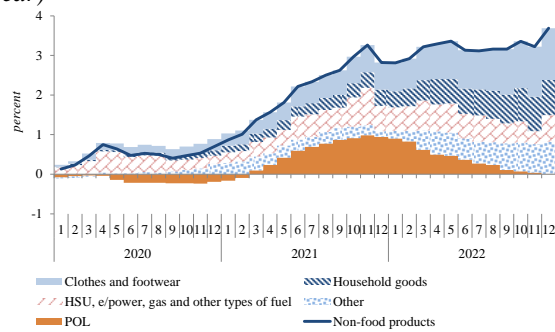
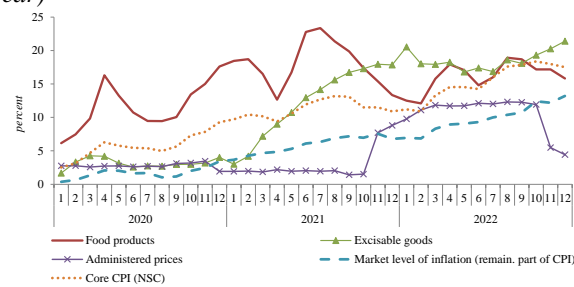


Chart 4.1.5. Dynamics of CPI by Groups of Commodities
(month to the corresponding month of the previous year)

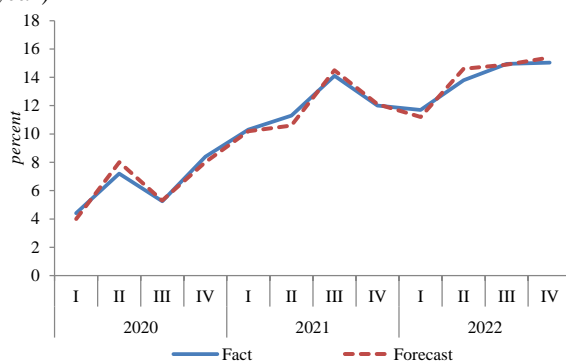


In the reporting quarter of 2022, growth in prices for clothes and footwear (+11.9 percent), household appliances (+22.0 percent), coal (+4.6 percent) and other goods made the largest contribution to the rise in prices for non-food products. In the reporting quarter, prices for petroleum, oil and lubricants increased by 8.2 percent, meanwhile, price for diesel fuel grew by 37.8 percent due to reduced exports of diesel fuel by the Russian refineries amid rising world prices.

In Q4 2022, prices for paid services increased by 11.0 percent (in Q4 2021 – 5.4 percent). Rise in prices for transport services (+16.0 percent), restaurants and hotels services (+14.2 percent), and increase in prices for recreation services (+15.2 percent) made significant contributions to paid services inflation. In Q4 2022, the core inflation compared to the same period of 2021, according to the methodology of the NSC KR, was 18.0 percent. In December 2022, market inflation continued to increase and amounted to 13.2 percent in annual terms, meanwhile, the average annual market inflation rate increased by 9.9 percent.

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)



Inflation Expectations

In Q4 2022, inflation expectations of the population and enterprises, according to the surveys of the NSC KR, remained at a relatively high level. The population's expectations of price growth slowed down to 15.0 percent (Chart 4.3.1). However, price expectations of the enterprises continue to grow and constitute about 15.7 percent (Chart 4.3.2). Due to the revision of the calculation methodology the numerical values of inflation expectations differ from the results of the previous Monetary policy reports of the Kyrgyz Republic, but the main sense and the narration consequence remain unchanged.

The average quarterly inflation rate decreased by 0.4 percentage points compared to the National Bank's expectations. Besides the current effect of KGS nominal exchange rate weakening, inflation was also conditioned by increase in prices for fruits and vegetables due to seasonal factor, rise in prices for bakery products and non-food products amid growth of import prices.

Chart 4.3.1. Actual Inflation Value and Expected Inflation of Households
(quarter to the corresponding quarter of the previous year)

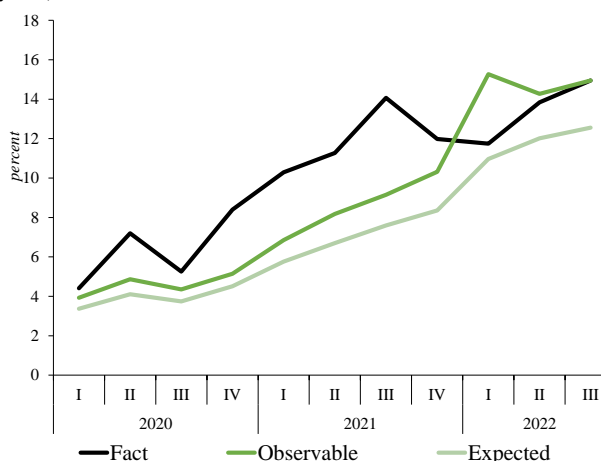
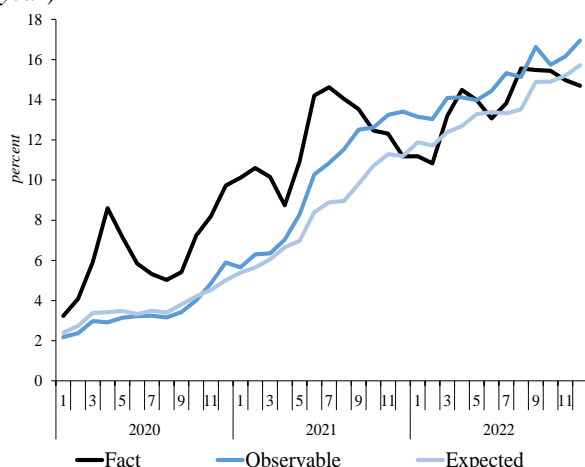


Chart 4.3.2. Actual Inflation Value and Expected Inflation of Enterprises
(month to the corresponding month of the previous year)



In Q4 2022, inflation expectations of the population remained at a high level. At the same time, the share of respondents expecting accelerated price growth decreased down to 41.9 percent (-6.1 percentage points compared to Q2). This is due to slowdown in price growth at the end of 2022, which naturally affected the current inflation. Taking into account significant rise in prices in early 2023, as well as movement of the national currency exchange rate, steady high inflation expectations of the population should be forecasted.

The enterprises' inflation expectations grew steadily during the previous year. The share of enterprises expecting general rise in prices in 2022 did not change much, remaining at relatively high levels. Such dynamics is conditioned by significant increase in inflation rate being observed by the enterprises. This is due to increased costs of the domestic producers of goods and services. A decrease in inflation expectations of the enterprises is not expected in the near future considering the active fiscal policy in the coming year and plans to increase a number of administrative tariffs.

If inflation expectations remain high for a long period of time, it may potentially change the economic agents' behavior. Such situation may complicate achievement of the medium-term inflation target by the National Bank.

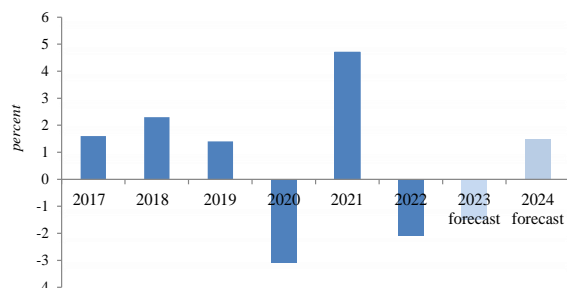
Chapter 5. Medium-Term Forecast

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

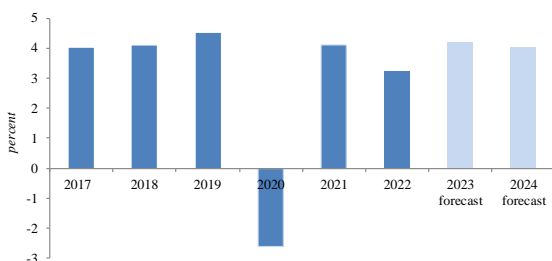
In 2022, the rates of economic recession in Russia increased compared to the forecasts of many institutions and analysts. The economy is expected to demonstrate upward trend in the coming years.

The Bank of Russia emphasizes the signs of recovery in consumer demand amid improving consumer sentiment. The expansion of public investments increases the input of fiscal policy to growth of aggregate demand. Given stable economic restructuring, economic recession will slow down in 2023 and Russia's GDP will start growing in 2024.

According to the forecast of the Bank of Russia, given conducted monetary policy, the annual inflation rate will decrease below 7.0 percent in 2023 and will be at about 4.0 percent in 2024.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan
(year to year)



Source: IA Bloomberg, international financial institutions

Stable economic growth is expected in Kazakhstan in the medium term in the absence of significant shocks.

According to the analysts' estimates, stable growth is expected in the long term, however, there are risks of decline. Increasing influence of geopolitical tensions may affect the growth rate through reduction of export volumes due to suspension of Caspian Pipeline Consortium (CPC) operation. On the other hand, negative changes in external conditions may result in a decrease in oil prices. According

to the IMF estimates, in 2023-2024, the GDP growth will be at 4.3 percent and 4.4 percent, respectively.

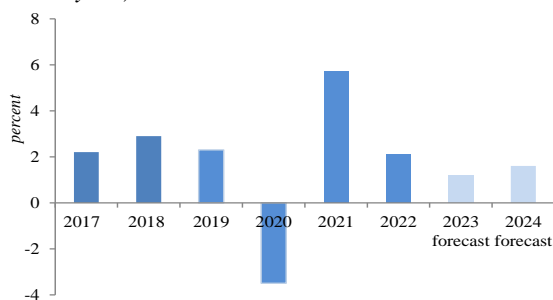
According to the forecast of the World Bank, GDP growth is expected up to 3.5 percent in 2023 and up to 4.0 percent in 2024. Additional oil production from the Tengiz field expansion project will contribute to such growth, provided that oil shipment through the CPC pipeline is maintained.

The medium-term forecasts of annual inflation were not significantly changed compared to the previous assessment. In 2023, inflation will gradually slow down to 7.5-9.5 percent amid the high base of the current year and conducted monetary policy. At the same time, the World Bank forecasts the inflation rate at 8.2 percent in 2023.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



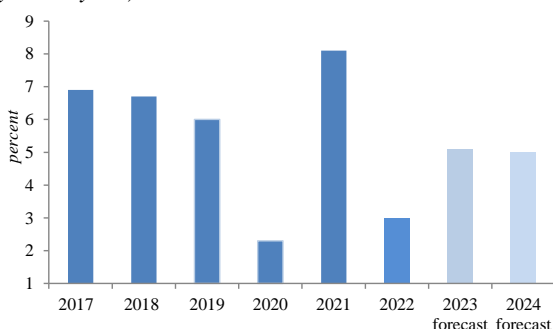
Source: IA Bloomberg, international financial institutions

inflation slowdown by the end of 2022, its level remains the highest for the previous 40 years with a target of 2 percent. Under these conditions, the U.S. Federal Reserve System is expected to continue increasing its key rate, and its reduction is not expected before 2024. Due to tightening of monetary policy affecting weakening of demand, such situation is expected to decrease prices in the world commodity markets in the long term and gradual recovery of global production and supply chains will contribute to inflation slowdown in the United States.

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



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

Many analysts improved forecasts for the Chinese economy since the Chinese government began easing quarantine restrictions in December 2022.

Consensus forecast of the experts surveyed by Bloomberg suggests that China's GDP will increase by 5.1 percent in 2023 and 5.0 percent in 2024.

The IMF expects China's economy to accelerate after full opening of the country up to 5.2 percent in 2023 and to increase by 4.5 percent in 2024.

The U.N. expects the Chinese economy to grow by 4.8 percent in 2023, however, this rate is still lower than the average rate for the PRC economy prior to the coronavirus pandemic.

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. The forecast is based on expert assessments and forecasts of the world research agencies and institutions.

In Q4 2022, relative easing of monetary conditions and expansionary fiscal policy had a positive effect on aggregate demand and, accordingly, on economic activity, as testified by high economic growth of the Kyrgyz Republic. The current dynamics of domestic production outstripped the rates of economic growth in the trading partner countries. The upward dynamics of consumer lending was an additional factor supporting demand and economic activity.

There was stabilization of prices for energy resources, which, according to the experts, will be observed in the near future in the world commodity markets. 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,

which exceeds the equilibrium level. The above-mentioned factors slow down the rate of approaching the medium-term inflation target of 5-7 percent.

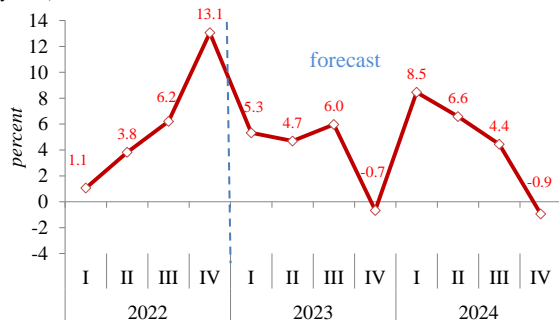
Basic scenario of the medium-term forecast takes into account geopolitical tension, price stabilization in the world commodity markets, stable high inflation expectations and expansionary fiscal policy.

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 lower than average values.

Chart 5.2.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)

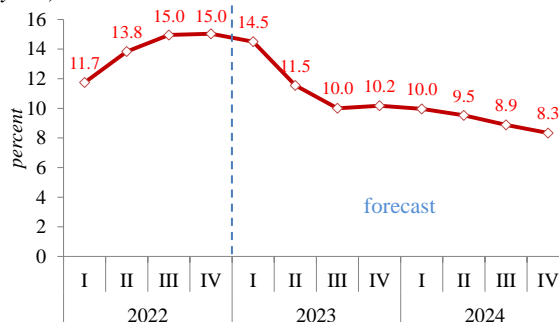


At the end of 2023, the real GDP growth will be at about 3.4 percent, excluding “Kumtor” gold-mining enterprises, GDP growth will be at about 3.6 percent. Growth of production output at “Kumtor” gold-mining enterprises will not exceed the indicators of production output in 2022. In terms of sectors, economic growth in the current forecast is supported by agriculture (due to livestock and crop production), industry (due to resumption of idle and maintaining stability of production output at the existing enterprises), services and construction sectors.

In 2024, the real GDP growth is expected at about 3.8 percent, excluding “Kumtor” gold-mining enterprises GDP growth is expected at about 4.0 percent.

Chart 5.2.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



At the end of 2023, the inflation rate (December to December of the last year) is forecasted within the range of 10-12 percent. The current forecast was revised upward compared to the previous Monetary Policy Report of the Kyrgyz Republic, which is largely due to accelerated rise in prices for publicly administered goods and services.

The current forecast took into account an increase in tariffs for a number of public utility services, as well as an increase in tariffs for public transport in Bishkek. Additionally, in

2023, a relatively good harvest is expected in the Central Asian region at the level of average yield indices during the past five years. It will potentially contribute to restraining of growth in prices for food products. Inflationary environment will be formed depending on the intensity of new tariffs adopted by the state bodies, as well as on the dynamics of the KGS/USD exchange rate.

Forecast for the Balance of Payments in 2023-2024¹.

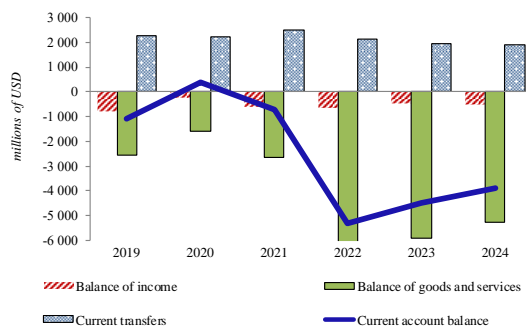
The forecast of the country’s balance of payments indicators for 2023 was adjusted considering the data of the actual period and clarified initial development conditions of the Kyrgyz Republic’s trading partner countries. The data of the actual period demonstrate changed conditions in external trade.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

At the end of the year, the negative balance of goods and services is expected to be the determining factor for the current account deficit at 39.1 percent to GDP.

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

Chart 5.2.3. Forecast Data on Current Account

(millions of USD)



Data of the actual period determined the updating of expectations for external trade due to logistics chains restructuring in the region. Moreover, the situation with world prices for food and energy resources significantly influenced the indicators of export and import. The trade deficit is expected to remain high, however, slowdown in growth of import and growth of export in general is forecasted to condition improvement of this indicator compared to the previous year.

At the end of 2023, export is expected to increase by 34.3 percent compared to 2022. Supplies of goods of the textile, clothing and footwear and processing industry, as well as agriculture, will provide significant support to export.

Import is expected to remain at the same high level as in 2022. Consumer and intermediate goods will also prevail in the structure of import. Energy product supplies are forecasted at the level of the previous year.

The data of the actual period served as the basis for revision of the forecast on the net inflow of current transfers. According to the revised forecast, the net inflow of private transfers will decrease by 6.7 percent. Inflow of official transfers is expected to decrease compared to the level of the previous year.

The balance of the item “services” will develop positive under the influence of growth of services related to foreign citizens’ travels to the Kyrgyz Republic (exports of travels). The volume of transport services will remain at a high level due to forecasted goods turnover.

Expected current account deficit will require a significant amount of financing from the financial and capital account. Direct and other foreign investments are expected to 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 significant level.

Revised forecast for development of the external economic sector in 2023 determined inherent expectations for further development of the balance of payments in 2024. Generally, there are assumptions about positive rates of economic development in the Kyrgyz Republic amid uncertainty worldwide due to geopolitical events.

In 2024, the current account balance is expected at 24.2 percent to GDP under the influence of a combination of factors resulted from a relative reduction of the trade deficit amid stable moderate negative dynamics of private transfer inflow and further growth of travels. Forecasted growth of exports and restrained dynamics of imports is estimated to predetermine a decrease of the negative trade balance by 9.3 percent compared to 2023. Current transfer receipts are expected to decline by 1.5 percent due to a decrease in remittance inflow by 0.6 percent and a reduction in the public sector cash grants. In 2024, there is a risk of insufficient inflow of foreign capital on the capital and financial account, which may require additional financing by the NBKR’s international reserves. A significant share of capital inflows is expected to be provided by 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 will increase, and the trend of increased servicing of previously received loans and borrowings will remain at a significant level.

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

- high geopolitical uncertainty;
- volatility in the world prices for petroleum, gold and food products;
- deterioration of the economic situation in the trading partner countries;
- volatility in the exchange rate of the main trading partner countries;
- growing debt burden of the public and private sectors.

Annex 1. Key Macroeconomic Indicators

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

Indicator	Unit of measure	2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Demand and supply¹ (real growth rates, if otherwise is not indicated)													
Nominal GDP, per quarter	mln. KGS	117 150,9	122 725,1	173 410,8	188 533,5	121 427,5	155 416,7	210 061,2	236 216,8	145 869,2	189 451,0	270 129,4	296 874,5
GDP	%	2,3	-11,8	-7,5	-12,8	-8,4	5,1	1,6	11,9	4,5	7,8	9,0	6,8
GDP, excluding Kuntor	%	1,5	-14,3	-8,0	-11,6	-4,0	10,3	2,3	6,0	3,8	4,0	6,9	7,9
Domestic consumption	%	5,0	-19,0	-2,5	-8,3	-1,9	26,3	4,6	15,8	4,2	9,3	5	-
Investment	%	-40,0	-47,2	-30,1	-10,8	8,0	-116,1	24,1	54,8	207,3	573,4	38,4	-
Net export	%	-27,1	-67,2	-27,4	14,1	30,2	10,8	67,3	93,6	152,2	312,1	173	-
<i>GDP production:</i>													
Agriculture	%	0,6	0,7	1,0	0,7	1,7	-1,5	-7,6	-5,0	2,3	1,8	8,3	8,0
Industry	%	4,4	-2,7	-8,2	-18,6	-15,2	-5,2	1,3	44,9	8,3	20,6	20,5	2,0
Construction	%	-2,5	-12,7	-5,7	-25,0	-19,8	-12,7	-3,3	1,9	2,2	4,1	2,3	14,6
Services	%	1,9	-17,8	-11,7	-9,4	-5,1	14,6	8,5	7,3	3,4	4,6	6,7	6,7
including trade	%	3,6	-30,9	-14,8	-14,2	-12,2	35,2	12,3	12,2	6,3	6,8	11,0	10,4
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
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
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
<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
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
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
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
<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
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
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
3. External sector³ (in percent to GDP)													
Trade balance	% to GDP	-27,5	-22,3	-18,3	-18,6	-19,6	-19,4	-23,5	-28,3	-37,2	-50,5	-62,7	-61,8
Current transaction account	% to GDP	-9,0	-4,0	0,4	4,8	3,8	4,9	-1,1	-8,7	-19,7	-36,2	-48,6	-48,4
Export of goods and services	% to GDP	34,7	34,3	33,5	31,6	31,0	39,2	39,9	38,6	37,7	30,2	28,7	32,6
Import of goods and services	% to GDP	61,5	56,3	53,2	52,5	53,5	61,4	65,8	69,5	77,6	83,9	94,3	94,3
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
5. Monetary sector													
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
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
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
Average interest rates of operations in the interbank credit market, per quarter	%	3,55	3,85	3,79	3,79	4,15	5,30	6,50	6,76	10,12	14,51	12,97	12,00
<i>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
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
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
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
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
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	-	-	-	-
Monetary base	%	13,6	24,1	28,3	24,8	24,2	10,7	6,6	6,5	8,8	19,8	31,7	44,9
Money outside banks (M0)	%	14,9	26,9	31,7	29,3	23,7	9,2	5,8	0,5	5,7	20,5	27,5	41,3
Monetary aggregate (M1)	%	14,0	24,4	28,4	24,7	22,9	12,4	12,3	15,7	7,4	23,1	27,3	36,1
Narrow money supply (M2)	%	15,9	23,1	24,9	20,5	18,9	12,0	11,7	15,6	8,6	20,8	25,3	32,5
Money supply (M2X)	%	16,7	21,7	21,0	23,9	18,6	16,9	16,2	19,1	9,5	18,6	27,5	30,6

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 the deposits of 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
COVID-19	CO rona VI rus D isease 2019
CPI	Consumer Price Index
EAEU	Eurasian Economic Union
EDB	Eurasian Development Bank
EU	European Union
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCM	Interbank Credit Market
IMF	International Monetary Fund
KR	Kyrgyz Republic
MFKR	Ministry of Finance of the Kyrgyz Republic
NBKR	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NEER	Nominal Effective Exchange Rate
NSC	National Statistical Committee
OPEC	Organization for Petroleum Exporting Countries
POL	Petroleum, oil, lubricants
PRC	People's Republic of China
RA	Republic of Armenia
RB	Republic of Belarus
REER	Real Effective Exchange Rate
RK	Republic of Kazakhstan
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America