

Press Release
The NBKR Board Meeting on consideration
of the NBKR Monetary Policy Report for the 9 months of 2010

On December 1, 2010, the Board of the National Bank of Kyrgyz Republic considered the monetary policy report for the 9 months of 2010.

The report noted that the political events of April and June 2010 and their consequences introduced considerable adjustments into the monetary policy. In terms of risks, related to systemic crisis in the banking system and the threat of more deeper stagnation against the background of moderate inflation rates during the first months after April the actions of the National Bank were aimed primarily at ensuring stability of the banking and financial system, as well as at supporting economic growth. Thus, during the 2nd quarter the National Bank of the Kyrgyz Republic considerably reduced volume of notes in circulation up to 200 million Som at the end of June from 1 billion Som as of the end of March. In May, the size of the required reserves for commercial banks decreased from 9.5 percent to 8 percent and the base rate for activity of the Special Fund for Banks Refinancing decreased from 8 percent to 7 percent.

Acceleration of inflation processes started in July and occurred as a result of external price shocks caused by climatic cataclysms in large countries – manufacturers of cereal crops, against growth of prices for energy carriers, provided activation of the NBKR activities on excess liquidity sterilization. National Bank increased supply of the NBKR notes, volume of which in circulation increased to 335 million Som.

In the domestic foreign exchange market there was a stable excess of demand for foreign currency against its supply, herewith there was not the seasonal summer strengthening of the national currency. In order to smooth sharp fluctuations of the exchange rate, the NBKR performed foreign exchange interventions: the NBKR net sale amounted to US\$ 186 million within the first 9 months and exchange rate of US dollar increased by 5.8 percent to 46.6377 KGS/USD.

Monetary base for the 9 months increased by 7.4 percent. Consumer price index amounted to 10.3 percent (September 2010 / December 2009), the annualized inflation rate was 12.1 percent (September 2010 / September 2009).

In January-September there was decrease in GDP in real terms by 0.5 percent due to reduction of trade and agricultural production. State budget deficit amounted to 5.4 billion Som or 3.7 percent from GDP. Preliminary data of the external sector of the economy showed an increase in the volume of foreign trade by 8.2 percent, while export increased by 11.4 percent and import increased by 6.5 percent. There was also increase in the inflow of money transfers.

The report noted that in recent months against increased inflationary pressure in combination with downfall of GDP the National Bank has to solve difficult tasks related to balancing between the risk of inflationary burst and the risk of economic recession.

In the course of discussion of the report by the Board Members it was noted that a low level of savings and high level of consumption is still preserved at low productivity, which is a structural problem of the economy. During exchange of opinions about the situation in the banking sector it was noted that at relatively high level of excess liquidity the banks activity in the government securities market remained rather low.

There were some opinions that in future year the demand for money will be supported due to works on restoration of Osh and Jalal-Abad cities, arrangement of presidential election; also growth of money supply will be performed due to the sector of governmental finances. It was noted that planned volumes of governmental expenses and deficit of the state budget in 2011 cause some concerns as they may become one of the key internal factors for inflation risks. The Board Members noted that in current conditions availability of the Government mid-term economic program is of high importance.

The perspectives of further cooperation with the International Monetary Fund were discussed in the course of consideration of the monetary policy report.

As per results of arranged discussion, the Board Members approved the monetary policy report for the 9 months of 2010.