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Press Release

National Bank of the Kyrgyz Republic increased its policy rate up to 7.50 percent

On July 26, 2021, the Board of the National Bank of the Kyrgyz Republic decided to increase the policy rate (key rate) by 100 basis points, up to 7.50 percent. The decision becomes effective as of July 27, 2021.

The global economy is recovering from the pandemic effects at a faster pace due to the incentive measures of state support and easing of the quarantine restrictions amid the ongoing mass vaccination of the population. The accelerated business recovery in the trading partner countries also contributes to restoration of the trade and economic relations in the Kyrgyz Republic. However, there is high uncertainty regarding development of the global and regional economies, given the risks of new strains of COVID-19.

In the Kyrgyz Republic, there is a recovery in economic activity (in the first half of 2021, the growth in real GDP, excluding the data of the “Kumtor” gold-mining enterprises, was 3.7 percent). At the same time, the decline in industrial and construction production limits the full-scale recovery of the country’s economy. Domestic consumption remains relatively weak and is supported by the positive dynamics of the remittances inflow to the country. In January-May 2021, the net inflow of individuals’ remittances increased by 45.3 percent and amounted to USD 778.1 million.

The growth in consumer prices in the Kyrgyz Republic is developing above expectations, mainly due to the global rise in food prices. In July 2021 (as of July 16), the annual inflation rate was 15.0 percent. The current increase in prices for food products in the world markets and their limited supply in the producing countries determine the risk of continued growth in consumer prices in the Kyrgyz Republic in the second half of 2021.

Generally, monetary conditions did not have significant changes. Overall, the short-term money market rates demonstrated the upward trend and continued to fluctuate within the interest rate corridor set by the National Bank. The money market participants’ activity increased in the short segment, mainly on the open market operations. The banking system continued to build up the level of excess liquidity. Under these conditions, the National Bank continued to withdraw excess liquidity to limit inflationary pressure in the country.

The situation in the domestic foreign exchange market is relatively stable. The volume of gross international reserves as of July 24, 2021 amounted to USD 2.7 billion, which covers about 6 months of imports.

The recovery of the global economy largely depends on the spread of new more dangerous strains of COVID-19 and, as a result, the introduction of new restrictive measures, as well as the scale of vaccination of the world's population. There is an ambiguous situation in the external commodity markets (due to unfavorable weather conditions in the food-producing countries). Against this background, there is an increase in the world prices for certain types of food. These factors continue to create inflationary risks in our country in the medium term.

Taking into account prerequisites for development of the external environment and internal economic conditions, the National Bank decided to increase its policy rate up to 7.50 percent. In case of any risks, the National Bank does not rule out the possibility of making additional adjustments to the current monetary policy.

The National Bank will continue to regular assess the external and internal factors influencing inflation and, depending on the economic situation, will make relevant monetary policy adjustments

Briefing:

The next meeting of the Board of the National Bank of the Kyrgyz Republic on monetary policy rate is scheduled for August 30, 2021¹.

¹ If the date is declared a public holiday in the Kyrgyz Republic, the meeting of the Board of the National Bank of the Kyrgyz Republic will be held on the next business day.

Chart 1. Overall inflation in the Kyrgyz Republic

(%, month to the corresponding month of the previous year)

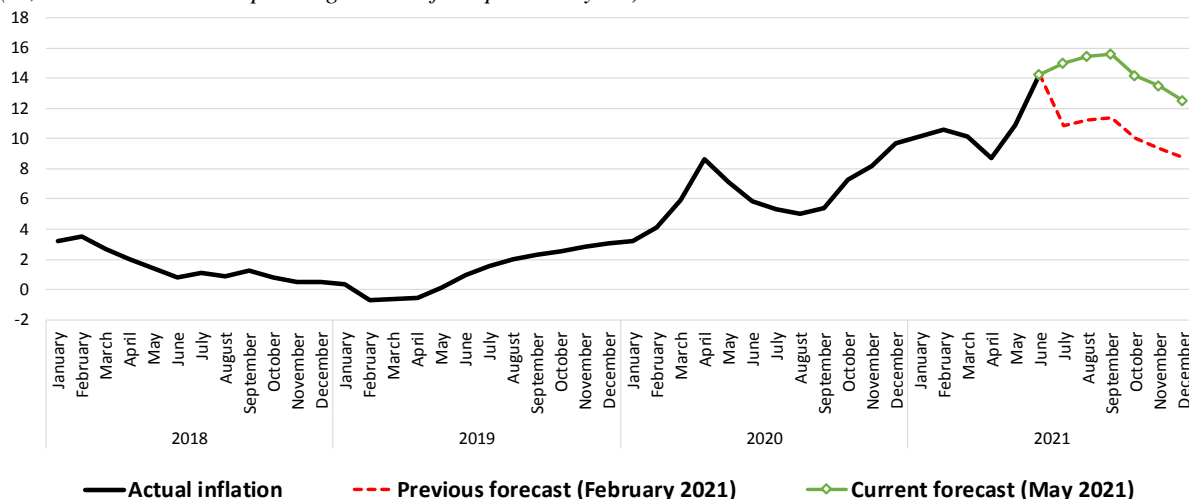
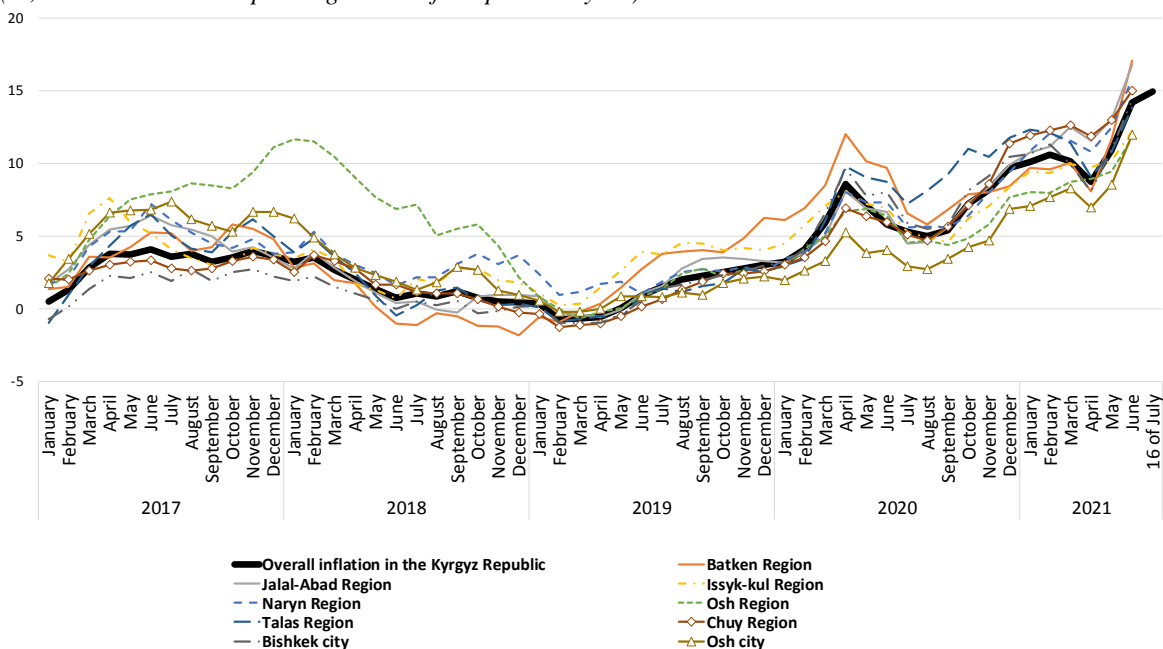


Chart 2. Inflation in the Kyrgyz Republic in regions

(%, month to the corresponding month of the previous year)



*based on data from the National Statistical Committee

Chart 3. Policy rate of the National Bank of the Kyrgyz Republic

(percent)

