

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 4, 2018**

**Bishkek
February 2019**

Monetary Policy Report is released by the National Bank on a quarterly basis. The objective of this Report is to inform the public about the decisions made by the National Bank in the sphere of monetary policy, which are based on analysis and forecast of the main inflation factors and assessments of the economic situation development in the external environment and in the Kyrgyz Republic.

Monetary policy in the Kyrgyz Republic

The objective of the monetary policy is to achieve and maintain price stability through appropriate monetary policy.

The policy rate of the National Bank is the main instrument of the monetary policy. In 2014, the National Bank moved to a new monetary policy framework - when the National Bank policy rate serves as a target for the funds value in the money market - to improve and increase the effectiveness of the monetary policy. The short-term interest rates of the money market are the operational goal of the monetary policy. The purpose of the aforementioned movement is to strengthen the impact of the interest rate channel of the monetary policy, aimed at development of the inter-bank credit market and support for the real sector of economy.

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

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

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

Monetary Policy Report for Q4 2018 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2019-II-07/8-1-(ДКП) dated February 25, 2019.

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Summary

In Q4 2018, macroeconomic development of the Kyrgyz Republic generally corresponded to the assumptions of the baseline scenario approved by the Board of the National Bank in November 2018.

In general, the external environment remained stable. Positive growth rates were supported in the countries - main trading partners of Kyrgyzstan. The world commodity markets pose no significant risks: the price environment in the food markets was stable; the oil market demonstrated a downward trend in prices.

During the reporting period, the downward inflationary dynamics was still observed in the country, mainly due to a decline in prices for food products, meanwhile non-food inflation also remained low. Significant supply of domestic and imported food products, as well as fiscal consolidation carried out in the country, were the main factors for the inflation formation. In December 2018, the annual inflation rate was 0.5 percent, and its average annual value in 2018 was at the level of 1.5 percent, which corresponds to the forecast values of the baseline scenario approved in November.

The updated assessment of the inflation outlook for the coming period is slightly adjusted downward and suggests low inflationary dynamics during the first half of 2019, with slight acceleration by the end of the year, provided that there are no external and internal shocks. In 2019, the average inflation rate (period by period) is expected at 3.0 percent, at the end of 2019, the inflation rate (December 2019 to December 2018) may approach the level of about 6.0 percent.

In the reporting quarter, positive trends remained in the economy of the country, due to stable growth of aggregate domestic demand and the positive input of the Kumtor Mine in the industrial sector. Growth in real wages and an increase in migrant workers' remittances were the main factors supporting domestic demand. In 2018, GDP grew by 3.5 percent.

In Q4 2018, the trade balance was formed under the influence of growth in the export and import operations. Exports increased by 2.2 percent due to growth in gold supplies, meanwhile the increase in imports by 2.6 percent was due to an increase in the supplies of consumer goods and energy products. Finally, the trade deficit of the country amounted to USD 594.2 million. The volume of foreign trade turnover¹ increased by 2.4 percent and amounted to USD 1.8 billion.

The assessment of the inflation dynamics for the medium term, the development trends of the external environment and the emerging domestic economic conditions allowed the National Bank to maintain the direction of its monetary policy conducted in Q4 2018. The financial intermediation rates were improved through maintaining a moderate monetary environment. There was a trend of improved activity in the interbank credit market; meanwhile the banking sector was characterized by the expansion of lending volumes and the increase of the resource base. In general, the interest rates of the money market were within the interest rate corridor set by the National Bank, continuing to shift towards the key rate.

¹ Data are given in FOB prices, taking into account NBKR additional estimates.

Chapter 1. External Environment

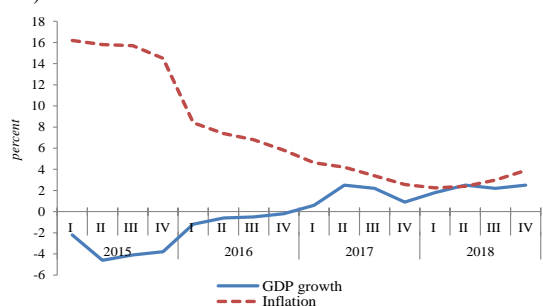
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

The recovery of economic activity persisted in the countries-main trading partners of the Kyrgyz Republic. Slight slowdown in the economic growth and a temporary acceleration in the inflation rate are expected in Russia, due to VAT growth. Economic growth in Kazakhstan was encouraged by increase in production output in all sectors of the economy, meanwhile the downward trend of the KZT exchange rate increased inflationary expectations in the country. The economic growth in the Republic of Belarus was due to increase in production output in all sectors of the economy, except agriculture, as well as favorable external conditions and a stimulating policy of the state, meanwhile there was acceleration in the inflation rate amid expanding internal demand and depreciation of the national currency. Positive economic growth rates were still observed in Armenia, the inflation rate was below the target level. Assumptions about gradual slowdown in economic growth of China in the long term have not changed.

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 the reporting period, relatively high rates of economic growth were observed in Russia despite changed external conditions.

According to the first estimate of the Russian Federal State Statistics Service, in 2018, GDP of the country grew by 2.3 percent compared to the previous year. Generally, this growth was formed amid clarifying the indicators in the construction industry for 2017-2018. Moreover, sectors such as industry, services, transport and trade made a positive input.

Consistently low unemployment level, an increase in capital investments, continued expansion of consumer lending, export growth, and real wage growth supported consumer demand. In 2018, a significant outflow of capital from Russia amid tightening anti-Russian sanctions and growing market expectations of the global investors regarding tightening of the USA monetary policy affected the volatility of the financial market; meanwhile, the impact on economic growth of Russia was limited.

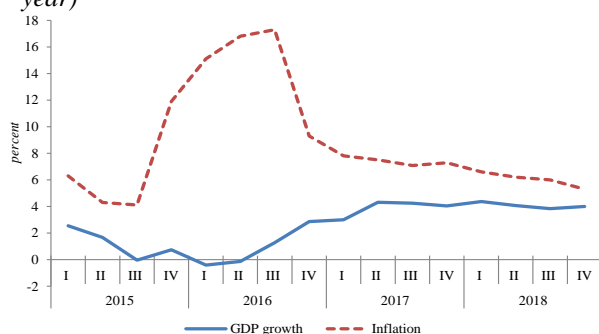
In Q4 2018, the inflation rate continued approaching the target of 4.0 percent under the influence of temporary pro-inflationary factors, having exceeded the target level at the end of December 2018 (4.3 percent in annual terms).

Finally, in Q4 2018, the inflation rate was at the level of 3.9 percent compared to the same period of 2017. Acceleration of the inflation rate was mainly due to the prices increase for food products (3.6 percent compared to the corresponding indicator of 2017) and the Russian ruble depreciation. In the reporting period, the prices for non-food products increased by 4.1 percent and the prices for services increased by 3.9 percent.

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, NBKR calculations

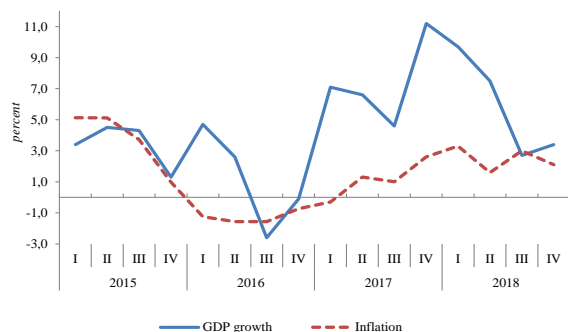
Russian Federation and China.

In Q4 2018, the inflation rate in Kazakhstan to the corresponding quarter of 2017 was at the level of 5.3 percent against 7.4 percent in the same period of 2017. According to the estimates of the National Bank of the Republic of Kazakhstan, the slowdown in price growth was largely due to the decrease in prices for fruits, vegetables and gasoline.

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

In Q4 2018, there was the positive economic growth in Kazakhstan. In 2018, GDP in Kazakhstan grew by 4.1¹ percent compared to 4.0 percent in 2017. The increase in production output in all basic sectors of the economy amid growth in internal, investment (an increase in investments by 17.2 percent) and external demand (an increase in exports by 26.4 percent) were the main factors of economic growth in Kazakhstan. Moreover, economic growth was supported by high oil prices during 2018 and improvement of the economic situation in the countries-main trading partners of Kazakhstan - the EU, the

Armenia demonstrated moderate economic growth in Q4 2018.

According to preliminary data of the NSS of Armenia, the index of economic activity in Armenia increased by 5.8 percent in 2018. The increase in the volume of services (without trade) (+18.8 percent), trade turnover (+8.7 percent) amid weaker growth in the construction sector (+4.5 percent) and industrial products (+4.3 percent) were the main sources of economic growth. At the same time, the volume of gross agricultural output (-7.6 percent) made a negative input in economic growth due to adverse weather conditions.

In 2018, the volume of foreign trade turnover in Armenia amounted to USD 7.4 billion, having increased by 16.4 percent over the year mainly due to an increase in imports by 21.1 percent.

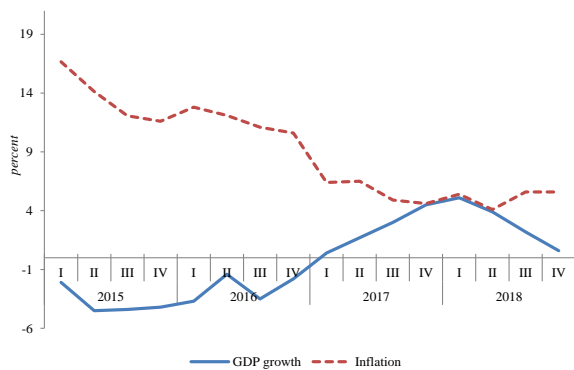
In general, the economic growth in the country was supported by stimulating monetary conditions and the expansion of lending, the growth of real wages, a decrease in unemployment level and an increase in exports of goods and services.

In the reporting period, there was slowdown in the inflation rate due to lower growth in prices for seasonal goods. In December 2018, the inflation rate in Armenia was 1.8 percent compared to December 2017: the prices for food products (including alcohol drinks and tobacco products) increased by 1.8 percent, non-food products - by 3.2 percent and services - by 0,8 percent.

¹ According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus
(in annual terms)

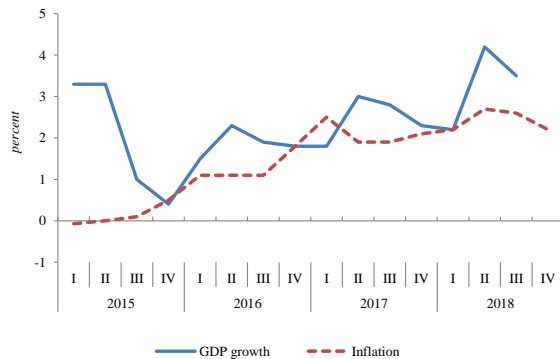


Source: National Statistical Committee of the Republic of Belarus

Republic of Belarus was at the level of 4.9 percent compared to 6.0 percent in 2017. In 2018, a conjuncture shock in the meat products market, a low crops harvest, an increase in administratively regulated prices, and higher consumer and lending activity, and also a slight depreciation of the national currency had the main impact on the annual increase of the consumer prices.

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA
(in annual terms)



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

In December 2018, the annual inflation rate was at 1.9 percent to be the lowest value for the year. Core inflation was relatively stable at 2.2 percent in December.

In Q4 2018, there was some slowdown in the economic growth of Belarus. In 2018, the economy in Belarus grew by 3.0 percent against growth by 2.4 percent in 2017, due to an increase in production output in all sectors of the economy, excluding agriculture. The decline in agricultural production by 3.4 percent was caused by a decrease in crop-growing production by 6.1 percent due to low crop harvest. At the same time, the economic growth was supported by favorable external conditions and the stimulating policy of the state, as well as growth of internal demand amid rise in wages and lending to the population.

In 2018, the inflation rate in the

The rates of economic growth in the USA were at a relatively high level in 2018.

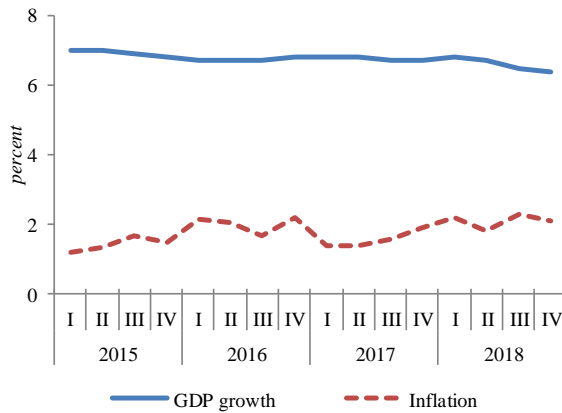
According to analysts, the economic growth in the last quarter of 2018 was about 2.8 percent, and the indicator for the whole year was about 2.9 percent. Private consumption likely remained the main driver of economic growth. Data on foreign trade demonstrated a reduction in the foreign trade deficit amid high tariffs for the Chinese imported goods, which will have a positive effect on GDP indicators.

In Q4 2018, the inflation rate in the United States slowed down due to a decrease in energy prices amid decline in global oil

China

Chart 1.1.6. Growth of GDP and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: National Statistics Bureau of the PRC, IA Bloomberg

the Chinese goods by the United States.

In December 2018, inflation in China slowed down to 1.9 percent from 2.2 percent in November. In 2018, the average annual inflation rate was 2.1 percent, which is below the target set by the government of the country at around three percent. Generally, the growth rates of prices in the majority of the commodity groups were homogeneous and moderate. The decline in the price index in the “transport and communications” group amid the decrease in the global oil prices primarily had the downward pressure on inflation.

In 2018, the economic growth rate in China continued to slow down gradually.

GDP growth for the year stood at 6.6 percent, having decreased from 6.8 percent in 2017. In Q4 2018, GDP grew by 6.4 percent to coincide with analysts’ expectations and be lower than the indicators of the previous quarters. The key macroeconomic indicators showed a significant slowdown in economic growth in the second half of the year due to weakened investments and consumption, as well as uncertainty related to foreign trade disputes with the United States. Investments in the real estate market demonstrated sustainable dynamics. At the end of Q4, export growth slowed down due to the effect of an increase in customs duties imposed on

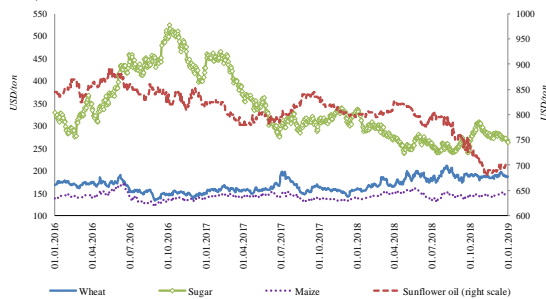
1.2. World Commodity Markets

There were no significant risks from the main commodity markets. Fluctuations of quotations in the world food market did not cause concerns for the food market of Kyrgyzstan. Downward price movement was observed in the world oil market. Generally, prices for gold increased in Q4 2018.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



more than sufficient.

The situation in the vegetable oil market did not cause concern due to sufficient supply.

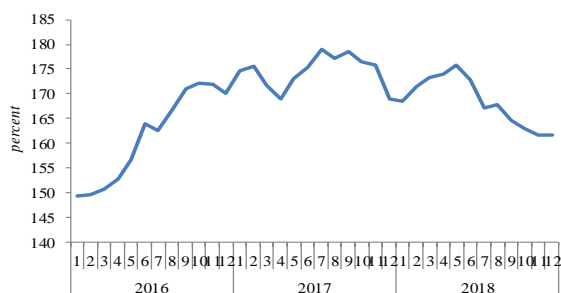
In Q4, the decline in world sugar prices resulted from the information about higher growth rates of sugar output in the sugar producing countries during the last months of 2018. The decline in the world oil prices contributed to the decrease in sugar quotations, since low energy prices result in reduced use of sugar cane for ethanol production.

In 2018, the world food market maintained relative stability.

Generally, there was a slight downward trend in prices for the main food products throughout the year, excluding prices for crops. Q4 2018 was also characterized by relative price stability.

During 2018, prices for crops remained above the average level of 2017 resulting from the concerns about low harvest due to adverse weather conditions and increasing demand. Nevertheless, the total supply of all main crops in the world was

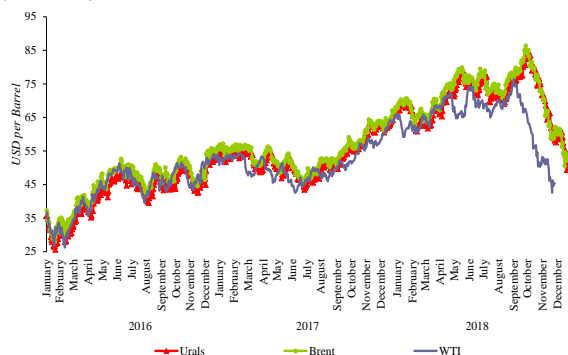
Chart 1.2.2. Dynamics of FAO Food Price Index



vegetable oil, meat and dairy products decreased compared to the previous year. At the same time, world prices for main crops increased in 2018.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices (in USD)

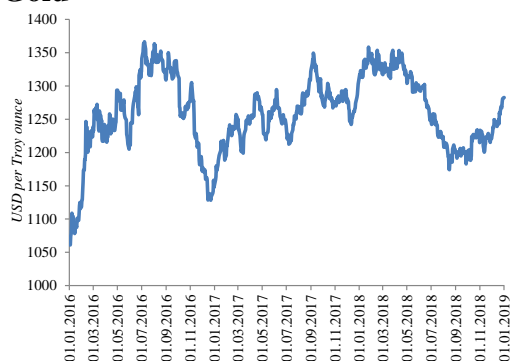


In Q4 2018, the oil prices declined due to a number of negative factors, such as a record increase in the volume of commercial oil reserves in the United States, as well as the actual increase of oil production in Saudi Arabia and other OPEC countries.

OPEC maintained its forecast for growth in demand for oil in the world in 2019 at the level of the previous estimate of 1.3 million barrels per day. Thus, according to the OPEC expectations, the average annual demand for oil in 2019 will be 100.1 million barrels per day. According to the OPEC report, the demand for oil in 2019 will grow mainly due to the Asian countries headed by India and China, as well as the states of North America and South America.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

growth in the USA and volatility in the stock markets. The decrease in the expected return on investment in the US securities contributed to the increase in prices for the precious metal.

In Q4 2018, the average FAO food price index decreased by 2.6 percent compared to the previous quarter and made 162.1 points, mainly due to persistence of the downward trend in quotations until the end of 2018.

In 2018, the average FAO food price index decreased by 3.5 percent compared to 2017 to make 168.4 points. In 2018, prices for sugar were characterized by the most significant decrease; moreover, prices for

In Q4 2018, there was a downward trend in the world oil market. The prices for Brent oil fell from their three-year maximums (about USD 86.3 per barrel) at the beginning of the quarter to the minimum value of 2018 (about USD 50.5 per barrel) near the end of the quarter, having decreased by 41, 5 percent. In Q4 2018, the average price of Brent oil decreased by 9.5 percent compared with the previous quarter and amounted to USD 68.6 per barrel. In 2018, the average price for Brent oil was 71.7 percent.

Generally, the prices for gold increased in Q4 2018. Unresolved trade disputes between the United States and China, and the negotiations about withdrawal of Great Britain from the EU represented uncertainty for the investors and increased the demand for gold as a relatively reliable asset during periods of turbulence. The USD index declined at the end of the reporting quarter, and the investors' assumptions about the growth trajectory of the US Federal Reserve System base rate were revised downward due to concerns about the prospects of economic

Chapter 2. Macroeconomic Development

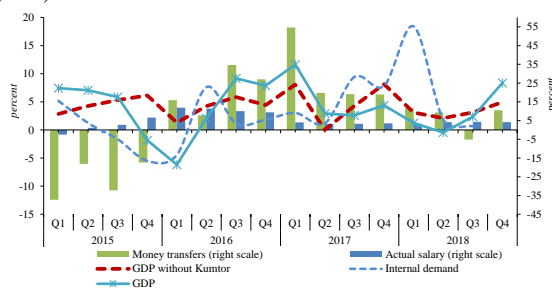
2.1. Demand and Supply in the Commodities and Services Market

Positive rates of economic growth were observed in Q4. Economic growth in the main trading partner countries of Kyrgyzstan and the positive inflow of remittances into the country had a positive impact on the demand.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)

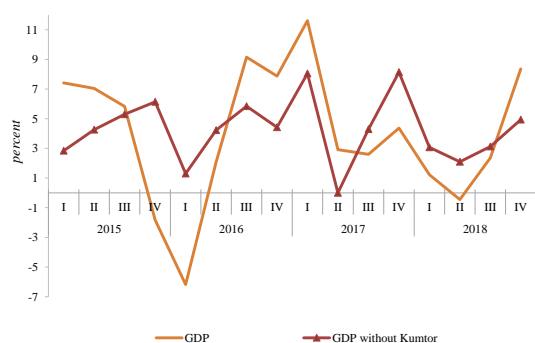


Source: NSC KR, calculations: NBKR

fixed assets (+0.8 percent) and inventories (by 1.9 times). The increase in domestic demand is also related to the positive dynamics of remittances (at the end of January-September 2018, the growth rate was 3.9 percent). In general, at the end of 2018, net inflow of the individuals' remittances through the money transfer systems increased by 5.5 percent compared to the same period of 2017.

Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

ounces) and amounted to 228.1 thousand ounces.

At the end of 2018, the average monthly nominal wage of one employee³ amounted to KGS 16,218, having increased by 5.4 percent compared to 2017. The largest increase in salaries was observed in the sphere of construction (11.0 percent), information and communication (9.8 percent), in the sphere of public administration and defense, compulsory social security (9.2 percent).

In 2018, the real wage increased by 3.8 percent compared to 2017.

In Q4 2018, the economic growth still demonstrated the upward trend of Q3. The dynamics of the labor migrants' remittances inflow remained positive. The real wages of the population were boosted by the moderately low inflation.

According to the preliminary results of January-September 2018, growth of the domestic demand¹ amounted to 5.5 percent compared to the same period of 2017. An increase was due to growth of final consumption (+3.3 percent) and gross accumulation (+13.0 percent), which is a result of an increase in gross accumulation of

In general, the current economic growth in 2018 was conditioned by a positive input from all main sectors of the economy, excluding information and communication. At the same time, there was a low industrial growth during nine months to make a positive input in GDP only by the end of the year. Such dynamics of industrial indicators was mainly conditioned by the indicators of production output at the enterprises of the Kumtor Mine. Namely, in Q4 2018, production output at the enterprises of the Kumtor Mine² increased by 44.2 percent compared to Q4 2017 (158.2 thousand

¹ According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for 2018.

² According to the press releases of Centerra Gold Inc.

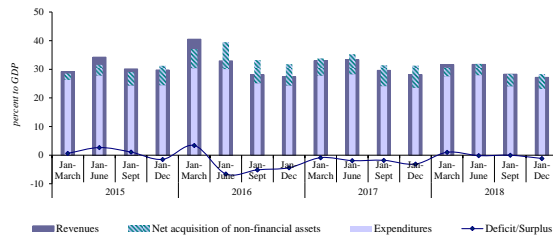
³ Generally, in the territory of the republic, excluding small enterprises.

Public Finances Sector

At the end of 2018, the state budget deficit was reduced to KGS 6.4 billion or 1.1 percent to GDP due to significant decrease in capital expenditures and expenditures for state procurements amid positive growth rates of tax revenues. The primary state budget surplus (excluding interest payment for servicing the public debt) was formed at 0.1 percent to GDP also due to fiscal consolidation conducted during the year.

Chart 2.1.3. Execution of the State Budget

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



Source: CT MFKR, NBKR

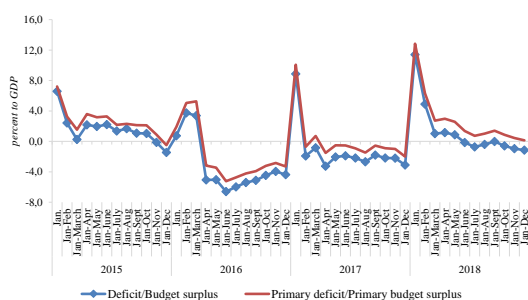
The state budget revenues from operating activities increased by 1.3 percent or KGS 2.0 billion and amounted to KGS 151.5 billion, or 27.2 percent to GDP. Tax revenues were the main factor to support the growth of budget revenues. Higher tax revenues resulted from improved tax administration, as well as favorable external economic environment. At the same time, a reduction in non-tax revenues and official transfers had a restraining impact on the growth rate of total revenues. This reduction was formed mainly due to the high base of indicators for 2017, when the state budget

received one-time payments.

Generally, the state budget expenditures decreased by 4.9 percent mainly due to the reduction of capital expenditures, i.e. the expenditures in the sphere of infrastructure: net outflow of budget funds for the operations on non-financial assets purchase decreased by 30.0 percent or KGS 12.3 billion compared to 2017 and amounted to KGS 28.7 billion or 5.2 percent to GDP. At the same time, the current expenditures of the state budget, i.e. expenditures that can put inflationary pressure on the economy, were still growing, however, the growth rates thereof slowed down: the increase was 3.3 percent compared to 7.7 percent in the previous year. This slowdown is due to reduction in expenditures for public procurement by 38.2 percent or KGS 11.8 billion. At the same time, the upward trend in labor costs was observed during the year, it was also confirmed by statistics from the real sector - the nominal increase in average monthly wages was 5.9 percent¹.

Chart 2.1.4. Budget Deficit

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



Source: CT MFKR, NBKR

At the end of 2018, execution of the state budget resources amounted to 96.0 percent. The lack of tax revenues, as well as grants was the main cause of non-fulfillment of the budget revenues plan. Execution of the budget expenditures constituted 92.6 percent, mainly due to reduction in expenditures on “purchase of goods and services” item.

¹ Data for January-November 2018 (excluding small enterprises).

Investments

In 2018, the level of capital investment exploitation increased by 3.3 percent (in comparable prices) compared to 2017.

Table 2.1.1. Capital Investments by Sources of Financing
(millions of KGS, percent)

	January-December			
	2017		2018	
	millions of KGS		share, percent	
Total	145 226.9	150 825.9	100.0	100.0
Internal investment	87 108.9	108 612.9	60.0	72.0
Republican budget	8 399.3	6 214.3	5.8	4.1
Local budget	1 536.7	1 254.6	1.1	0.8
Funds of enterprises and organizations	36 750.8	50 152.0	25.3	33.3
Banks' credits	3 205.7	6 514.7	2.2	4.3
Population funds including beneficent help of KR residents	37 216.4	44 477.3	25.6	29.5
External investment	58 118.0	42 213.0	40.0	28.0
Foreign credit	33 975.0	19 732.5	23.4	13.1
Direct foreign investments	17 573.6	13 155.1	12.1	8.7
Foreign grants and humanitarian aid	6 569.4	9 325.4	4.5	6.2

Source: NSC KR

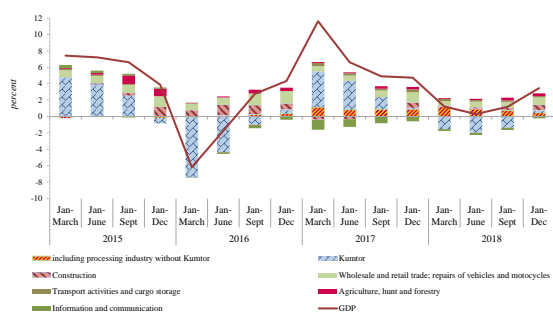
electric energy, gas, steam and conditioned air (by 2.5 times), in mining operations (by 8.7 percent), as well as in education (by 28.1 percent).

The volume of capital investments financed from domestic sources increased by 24.0 percent compared to 2017, that from the bank loans – by 2.0 times, from the funds of the enterprises and organizations – by 35.7 percent, that from the personal funds – by 18.9 percent, meanwhile, the investments financed from the republican budget decreased by 26.4 percent, from the local budget – by 18.8 percent. The investments financed from the foreign sources decreased by 27.8 percent, from the foreign loans – by 42.2 percent, that from the direct foreign investments – by 25.5 percent, the investments financed from the foreign grants and humanitarian aid, on the contrary, increased by 1.4 times.

Supply

Chart 2.1.5. Input of Main Sectors in GDP Growth

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



Source: NSC KR, calculations: NBKR

Growth of capital investments was mainly observed in the construction and reconstruction of agriculture, forestry and fishery facilities (by 2.2 times), manufacturing facilities (by 14.1 percent), (in the wholesale and retail trade (by 1.6 times), healthcare (by 6.4 percent), in the activities of hotels and restaurants (by 1.8 times).

Meanwhile, capital investments decreased in the construction and reconstruction of the facilities for supply of

In 2018, GDP increased due to a positive input of all sectors of economy, excluding the sphere of information and communication.

According to the preliminary data of the National Statistical Committee of the Kyrgyz Republic, in 2018, GDP grew by 3.5 percent compared to the same period of the previous year (in 2017, growth was 4.7 percent) and amounted to KGS 557.1 billion. Excluding the enterprises of the Kumtor Mine, GDP grew by 3.5 percent (in 2017, growth was 5.1 percent).

In the reporting period, growth of production in the agricultural sector by 2.7 percent was due to an increase in the output of crop-growing (by 3.4 percent) and livestock (by 2.2 percent) production.

Growth of production in the industrial sector by 5.5 percent compared to the previous year was due to an increase in output of basic metals and finished metal products, food products (including drinks) and tobacco products, rubber and plastic products, other non-metallic mineral products, refined petroleum products, textile, clothing and footwear production, leather and other leather products, mining, as well as in providing (supply) electric energy, gas and steam.

In 2018, the turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased by 5.1 percent due to growth in wholesale (by 7.5 percent) and retail (by 5.1 percent) trade.

In the reporting period, the volume of cargo transportation increased by 3.9 percent compared to the same period of the previous year.

The decline in the sector of information and communication made 7.5 percent due to a decrease in the revenues received from mobile services rendering.

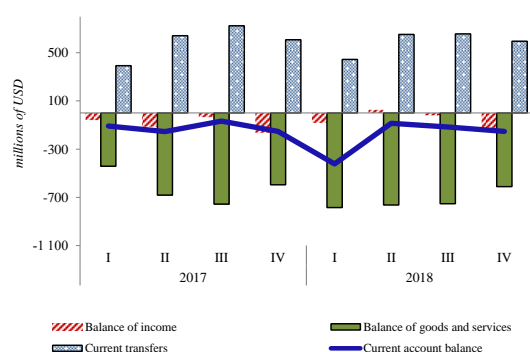
The GDP deflator decreased by 4.8 percentage points compared to the same indicator of 2017 and was 1.5 percent.

Such sectors as industry (1.0 percentage point), trade (0.9 percentage points), construction (0.7 percentage points) and agriculture (0.3 percentage point) made the main positive input to the economic growth, however, the sectors of information and communication (-0.2 percentage points) made a negative input.

2.2. External Sector¹

In Q4 2018, the current account deficit slightly increased under the influence of the growth in the trade deficit and the decrease in the positive balance of current transfers.

Chart 2.2.1. Current Account
(millions of USD)



Note: According to the preliminary and forecasted data.

According to the forecasted and preliminary data, the current account deficit increased up to USD 153.2 million and constituted 9.6 percent to GDP² in Q4 2018.

The trade deficit of the Kyrgyz Republic increased mainly due to the growth in imports in the reporting period. The net balance of trade was formed negative in the amount of USD 594.2 million, having increased by 2.9 percent compared to the same period of 2017.

Table 2.2.1. Trade balance of the Kyrgyz Republic³
(millions of USD)

	2015	2016	2017	2017 IV q.	2018 [*] IV q.	Change in %	Change in millions of USD
Trade balance	-2 240,8	-2 136,5	-2 383,3	-577,5	-594,2	2,9	-16,8
Export (FOB)	1 619,0	1 607,9	1 813,9	565,6	578,1	2,2	12,5
Gold	665,4	701,6	700,4	239,7	281,6	17,5	41,9
Import (FOB)	3 859,8	3 744,4	4 197,2	1 143,1	1 172,3	2,6	29,2
Energy products	830,0	467,4	467,4	177,5	181,6	2,3	4,1

* Preliminary data

In the reporting period, exports of goods (in FOB prices) increased by 2.2 percent to make USD 578.1 million. Exports were primarily affected by increase in imports of gold by 17.5 percent amid negative dynamics of other goods. Exports, excluding gold, decreased by 9.0 percent, mainly due to the decrease in supplies of clothes, vegetables, cast iron and steel, etc.

In the reporting period, imports of goods (in FOB prices) increased by 2.6 percent, to make USD 1,172.3 million. The growth in imports was due to an increase in supplies of energy products and other goods. Imports, excluding energy products amounted to USD 990.8 million, increased by 2.6 percent compared to Q4 2017.

¹ According to the preliminary and forecasted data, including additional estimates of the National Bank of the Kyrgyz Republic. Period of comparison is the quarter to the corresponding quarter of the previous year.

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

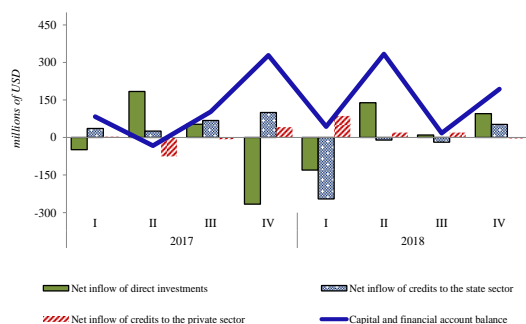
³ The data on the foreign trade are given taking into account the NSC KR additional estimates for agricultural products (till 2017), mutual trade with the EAEU member states (since Q3 2015) and the NBKR estimates.

In the reporting period, the net inflow of current transfers was formed below the level of the same period in 2017 by 1.9 percent. Decrease in the inflow of grants received by the public sector had an impact on the dynamics of current transfers.

In the reporting quarter, the balance of services deficit decreased by 8.5 percent compared to Q4 2017 and amounted to USD 16.8 million. The deficit of “income” item decreased down to USD 138.3 million.

According to the preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, the capital inflow on the capital and financial accounts will cover the current account deficit in the amount of USD 193.5 million in Q4 2018. The capital inflow on the capital account amounted to USD 30.0 million, and the financial account surplus is expected at USD 163.5 million.

Chart 2.2.2. Capital and Financial Account



Net inflow of direct investments into the country is forecasted at USD 95.5 million, whereas in the same period of the previous year net outflow of direct foreign investments was observed. In the reporting quarter, the balance of “other investments” item was formed positive to make USD 68.0 million, having significantly decreased compared to the same indicator of the previous year. Net inflow of other investments decreased due to a smaller reduction in the foreign assets of the residents compared to the same period of the

previous year. There was slowdown in the inflow of credits to the private and public sectors in the reporting period, while the volume of payments to service credits remained at the same level compared to the previous year. Thus, the balance of payments of the Kyrgyz Republic was formed with a positive balance to make USD 45.2 million at the end of Q4 2018. Gross international reserves covered 3.9 months of the future imports of goods and services¹.

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 (as of the end of month)		
	2016 (aver.)	2017 (aver.)	%	December 2017	December 2018 *	%
REER	113,7	111,4	-2,1 ↓	112,6	117,4	4,3 ↑
NEER	112,8	110,7	-1,8 ↓	112,3	120,9	7,7 ↑
RBER to CNY	80,8	85,6	5,9 ↑	83,3	85,9	3,2 ↑
NBER to CNY	64,5	66,7	3,4 ↑	64,2	67,1	4,4 ↑
RBER to Euro	107,2	109,0	1,6 ↑	103,1	105,9	2,7 ↑
NBER to Euro	78,8	78,6	-0,2 ↓	73,9	76,7	3,8 ↑
RBER to KZT	141,7	132,5	-6,5 ↓	132,2	140,1	6,0 ↑
NBER to KZT	152,1	147,5	-3,0 ↓	149,1	165,5	11,0 ↑
RBER to RUR	131,4	116,2	-11,6 ↓	116,5	128,1	9,9 ↑
NBER to RUR	144,8	128,3	-11,4 ↓	127,3	145,1	14,0 ↑
RBER to USD	87,2	89,9	3,0 ↑	90,1	88,7	-1,4 ↓
NBER to USD	65,7	66,7	1,5 ↑	66,0	65,8	-0,4 ↓

* Preliminary data

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

At the end of Q4 2018, the index of nominal and real effective exchange rate increased compared to December 2017. According to the preliminary data, the index of nominal effective exchange rate (NEER) of KGS increased by 7.7 percent from the beginning of 2017 and constituted 120.9 by the end of December 2018. The increase in the NEER index was due to KGS appreciation² in December 2018 compared to the average exchange rate for December 2017 against the Turkish lira – by 36.4 percent, the Russian

ruble – by 14.0 percent, the Kazakh tenge – by 11.0 percent, the Chinese yuan – by 4.4 percent.

Despite lower inflation rate in the Kyrgyz Republic³, the increase in the NEER index influenced the growth of the real effective exchange rate (REER) index, which increased by 4.3 percent since December 2017 and constituted 117.4 at the end of December 2018.

¹ Not taking into account non-convertible currencies.

² The data are given for nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for calculation of the index.

³ According to the preliminary calculations, the average inflation rate in the main trading partner countries of Kyrgyzstan was 3.9 percent, meanwhile, at the end of Q4 2018, the inflation in the Kyrgyz Republic was formed at 0.7 percent compared to December 2017.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

Low inflation rate maintenance in the country and relatively stable prices in the international commodity markets created the conditions to support the stimulating direction of monetary policy in Q4 2018.

Tactical decisions of monetary policy were made considering the high level of excess liquidity in the banking system, which tend to increase by the end of the reporting period due to the seasonal factor. This situation resulted the conduction of operations on sterilization by the National Bank in Q4 2018.

The interbank credit market demonstrated increased activity because of both the rise of market participants number and the volume of operations.

Generally, the money market interest rates had been still within the interest rate corridor set by the National Bank, and had been moving towards the policy rate.

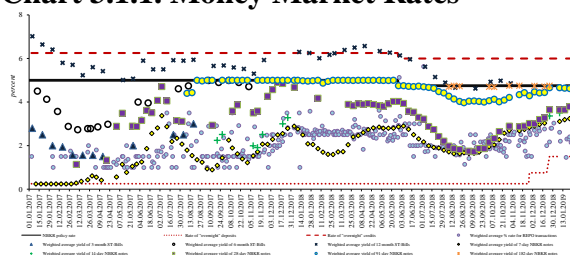
During Q4 2018, in order to continue developing the monetary policy transmission mechanism and the interbank money market, the National Bank increased the lower level of the interest rate corridor (the rate on “overnight” deposits) twice from 0.25 to 1.5 percent that narrowed a gap between money market rates and the key rate.

Interest Rate Policy of the National Bank

In Q4 2018, the National Bank continued to adhere to the monetary policy outlined year-to-date with the focus on supporting measures to stimulate the real economy amid low actual inflation rate and its estimates for the future. In the reporting period, the policy rate of the National Bank was kept unchanged at 4.75 percent.

The National Bank took measures to make money market rates approach (in the short-term segment) to the policy rate of the National Bank to enhance the impact of the monetary policy mechanism on the financial and real sectors of economy. Therefore, the lower level of the interest rate corridor (the rate on “overnight” deposits) was adjusted twice: first in November from 0.25 percent to 0.75 percent, second in December up to 1.50 percent. The upper level of the interest rate corridor (the rate on “overnight” credits) was kept unchanged at 6.00 percent.

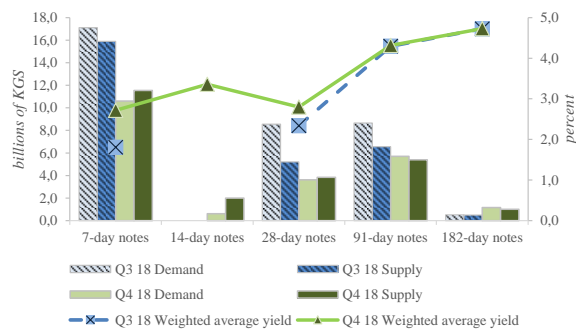
Chart 3.1.1. Money Market Rates



In the reporting period, the money market short-term rates were gradually approaching the key rate of the National Bank, excluding the interbank credit market short-term rates (up to 7 days). The rates on open market operations with a maturity of 3 and 6 months almost approached to the key rate by the end of Q4, that caused the displacement of the 12-month ST-Bills with

the yield being at the level of the key rate. In the reporting period, the National Bank continued to issue 182-day notes, that were issued for the first time in Q3, however the demand from the commercial banks remained low due to high concentration of short-term excess liquidity in the banking system.

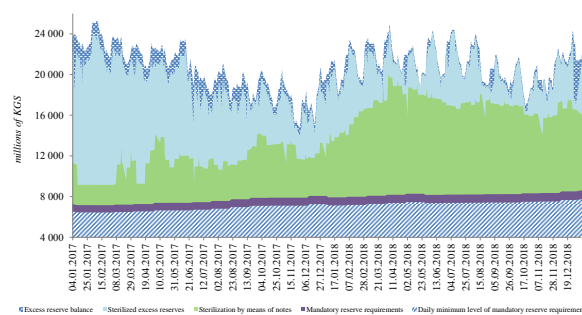
Chart 3.1.2. National Bank Notes



2018 – 4.72 percent).

Situation with Liquidity of the Commercial Banks

Chart 3.1.3. Excess Reserves of the Commercial Banks



Generally, the level of excess liquidity in the banking system had remained at the high level. Slight downward trend in the level of excess liquidity, that had been observed since the beginning of Q3, was replaced by an upward trend in the middle of the reporting quarter amid a seasonal increase in expenditures of the Government of the Kyrgyz Republic. In Q4 2018, the average daily volume of excess liquidity decreased down to KGS 11.9 billion (a decrease by KGS 1.0 billion compared to the same indicator of Q3 2018) compared to the previous quarter. This happened mainly due to foreign exchange interventions of the National Bank on the foreign currency sale (contribution to decrease by KGS 8.1 billion) and the growth of money outside the banks (by KGS 1.4 billion), having a downward effect on the excess liquidity of the banks. Meanwhile, the operations conducted by the Government of the Kyrgyz Republic contributed to accelerated growth of the excess liquidity.

Based on the existing level of the excess liquidity in the banking system, the National Bank conducted operations to absorb the excess liquidity through the auctions of the National Bank’s notes and the commercial banks’ available funds placement on the “overnight” deposits in the National Bank. During Q4 2018, the average volume of the excess liquidity absorbed on a daily basis decreased by KGS 1.1 billion down to KGS 11.2 billion compared to Q3 2018. The volume of placement of the National Bank notes decreased slightly compared to the previous quarter, however, 91-day notes shared the biggest part of the notes in circulation (an average of 66.6 percent in the reporting quarter), just as in the previous quarter. The average share of 182-day notes, that were issued for the first time in August 2018, increased from 2.6 percent in Q3 up to 10.6 percent in Q4. Generally, in the reporting quarter, the average daily volume of sterilization by means of the National Bank notes was KGS 7.8 billion (KGS 0.8 billion lesser than in Q3 2018), the volume of placements of “overnight” deposits in the National Bank was KGS 3.5 billion (KGS 0.2 billion lesser than in Q3 2018).

Credit Policy of the National Bank

Credit policy of the National Bank in the reporting period was moderate due to the excess liquidity existence in the banking system. In the reporting period the National Bank provided funds to the Russian Kyrgyz Development Fund in the amount of KGS 50.0 million for further lending of the economy in the national currency.

Foreign Exchange Policy of the National Bank

In Q4 2018, there was an excess of demand for foreign currency over its supply in the domestic foreign exchange market. Therefore, the National Bank conducted interventions on foreign currency sale for USD 116.0 million in the domestic foreign exchange market to smooth sharp fluctuations of the exchange rate. Generally, the situation remained stable; the KGS exchange rate was fluctuating within the range of KGS 68.81 – 69.85 per USD 1, and increased by 0.8 percent in the reporting period.

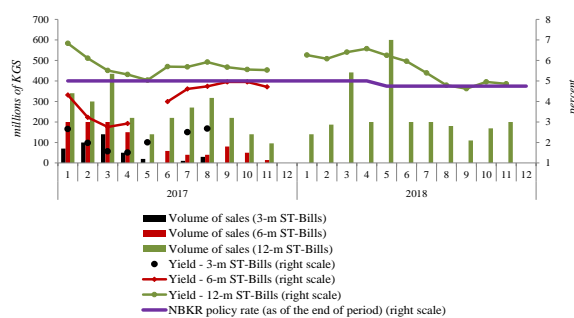
Monetary Policy Measures in Q4 2018

<p>The decisions were made on the size of the National Bank policy rate</p>	<p>The Board of the National Bank considered the issue on the size of the National Bank policy rate twice: on November 26 and December 24, 2018. The decision was made to keep the policy rate unchanged at 4.75 percent.</p> <p>The lower level of the interest rate corridor was changed: the rate on “overnight” deposits was increased twice: up to 0.75 percent on November 26, 2018, up to 1.50 percent on December 24, 2018. The rate on “overnight” credits was kept unchanged at 6.00 percent.</p>
<p>The National Bank issued credits to the international organizations established by the Kyrgyz Republic jointly with other countries within the framework of the Eurasian Economic Union</p>	<p>The amount of issued credits was KGS 50.0 million.</p>

3.2. Financial Market Instruments

Government Securities Market

Chart 3.2.1. Dynamics of ST-Bills Sales Volumes and Yield



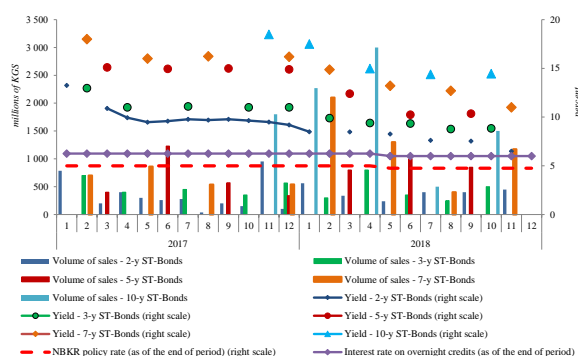
ST-Bills

The ST-Bills market demonstrated an increase in sales of such securities with subsequent decrease in the weighted average yield thereof despite slight decline in supply of such securities compared to the same period of the previous year.

The Ministry of Finance of the Kyrgyz Republic placed ST-Bills in the amount of KGS 400.0 million, by 39.4 percent less compared to the same period of the previous year, due to placement of only 12-month ST-Bills (in Q4 2017, 3- and 6-month ST-Bills were also placed), to cover the current budget deficit in the reporting period. Thus, the total volume of the ST-Bills sales increased by 23.2 percent compared to the same period of the previous year, to make KGS 369.1 million. The weighted average yield of the ST-Bills decreased by 0.5 percentage points, down to 4.9 percent due to excess of demand for such securities over supply thereof.

By the end of the reporting year, the total volume of ST-Bills in circulation decrease by 10.1 percent year-to-date and amounted to KGS 2.6 billion. In 2018, there was a downward trend in the ST-Bills portfolio of the commercial banks amid an increase of the investment portfolio by the institutional investors and resident legal entities.

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



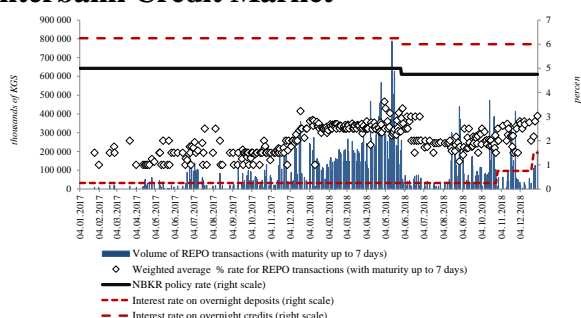
compared to the same period of 2017. However, in the reporting period, the volume of placement decreased by 24.6 percent (down to KGS 3.6 billion) compared to the same period of the previous year due to decreased demand for 2- and 3-year ST-Bonds, and lack of supply of 5-year ST-Bonds at the auctions. Meanwhile, there was a significant growth of supply of 7- and 10-year ST-Bonds accompanied by an increase in demand for such securities in this market mainly from the institutional investors.

Based on the results of the auctions, the number of the participants in the ST-Bonds market decreased from 13 in Q4 2017 to 8 in the reporting period due to the aforementioned conditions. The weighted average yield on all maturities decreased to form at the level of 11.4 percent (-0.6 percentage points) in the reporting period amid excess of demand for the ST-Bonds over supply thereof.

At the end of the reporting period, the total volume of the ST-Bonds¹ in circulation increased by 58.5 percent year-to-date and amounted to KGS 37.6 billion mainly due to an increase in the institutional investors' portfolio (+42.5 percent) and demand from the non-resident legal entities.

Interbank Credit Market

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



resources, there was a slight increase in the cost of loans in the interbank credit market from 2.2 to 2.4 percent in the reporting period.

In the reporting period, the total volume of concluded REPO transactions decreased down to KGS 5.2 billion (-by 9.6 percent) compared to the same indicator of 2017.

In Q4 2018, standard transactions in the national and foreign currency were not conducted.

ST-Bonds

In 2018, the participants significantly increased their investment portfolios in the ST-Bonds market due to the growth of supply and demand for such securities. Therefore, there was a downward trend in the ST-Bonds yield of all maturity rates.

In Q4 2018, the total volume of supply of the ST-Bonds, issued to finance the current deficit of the republican budget and refinance the public debt, amounted to KGS 3.8 billion, having increased by 65.2 percent

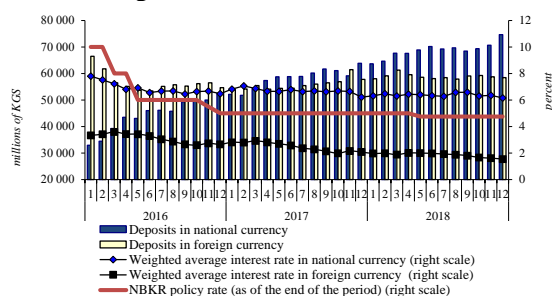
In the reporting period, an upward trend was still observed in the interbank credit market.

The total volume of transactions in the interbank credit market increased by 38.1 percent compared to the previous quarter. However, the volume of transactions in this segment of the market decreased by 11.1 percent compared to the same quarter of 2017, down to KGS 5.2 billion (in Q4 2017 – KGS 5.8 billion), caused by the increase of REPO transactions. However, despite existing demand for the interbank credit

¹ Excluding ST-Bonds nominated in foreign currency

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits



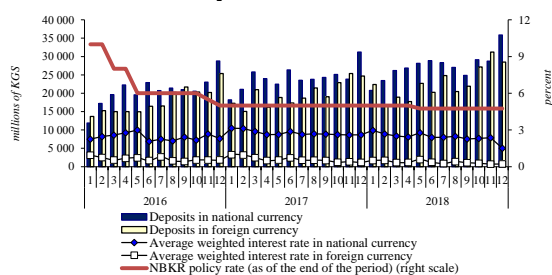
In Q4 2018, the upward trend of the bank's depositary base demonstrated gradual slowdown in the growth rates of deposits in the national currency. At the end of Q4 2018, the volume of the commercial banks' depositary base increased by 9.5 percent year-to-date and amounted to KGS 133.1 billion due to the growth of the deposits in the national currency by 16.9 percent, up to KGS 74.6 billion, in foreign currency – by 1.3 percent, up to KGS 58.5 billion. Dollarization of the deposits decreased by 3.6 percentage points year-to-date and amounted to 43.9 percent, having reached the historical minimum since 1999. At the end of 2018, dollarization of the individuals' and legal entities' deposits decreased by 5.1 and 3.8 percentage points, respectively (to make 36.0 and 50.6 percent).

The upward trend was still observed in the deposits of the commercial banks in the reporting period. In Q4 2018, the volume of the new deposits¹ increased by 17.9 percent compared to the same period of 2017 and amounted to KGS 180.6 billion. It was caused by the growth of deposits in the national currency up to KGS 93.7 billion (+16.9 percent) and in foreign currency up to KGS 86.9 billion (+19.1 percent). In terms of structure, the increase of new deposits was mainly caused by the growth of demand deposits by 18.1 percent, the share thereof constituted 91.5 percent of all deposits. The volume of the new time deposits increased by 16.1 percent (the share thereof was 8.5 percent). The share of short-term deposits constituted 58.6 percent in the total stock of time deposits (-0.3 percentage point compared to the same period of 2017) with a proportional increase in the share of long-term deposits up to 41.4 percent.

In terms of maturity the share of short-term deposits (up to 1 year) decreased down to 68.9 percent (-0.1 percentage point) year-to-date with a proportional increase in the share of long-term resources up to 31.1 percent demonstrating an increase in the population's deposits for a shorter term.

In Q4 2018, the main share among the new deposits in the national currency accounted for the deposits from 1 to 3 years (39.4 percent) and from 6 months to 1 year (37.6 percent), in foreign currency the main share accounted for the deposits with the same maturity with the share of 43.3 percent and 27.1 percent, respectively. Therefore, the total duration of the deposit base was 5.0 months (+0.2 months year-to-date) at the end of the reporting period, the duration of time deposits was 13.2 months (remaining unchanged year-to-date).

Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows



In the reporting period, the weighted average interest rate on the new deposits in the national currency constituted 2.06 percent (-0.54 percentage points compared to the same period of 2017), this rate on the deposits in foreign currency constituted 0.24 percent (-0.14 percentage points). In the reporting period, the weighted average interest rate on the time deposits in the national currency constituted 9.81 percent, having decreased by 0.34 percentage points due to a decrease of all maturity rates, except for the deposits with a maturity from 3 to 6 months. Moreover, the weighted average interest rate on the time deposits in foreign currency made 3.27 percent, having decreased by 0.26 percentage points, due to a

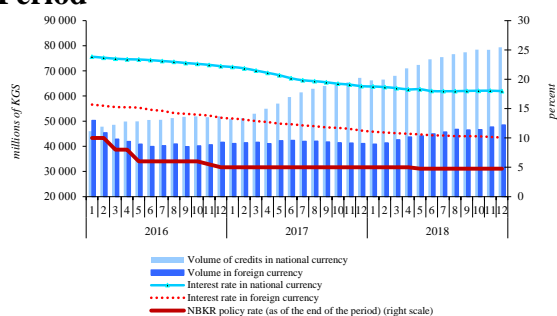
¹ Settlement accounts of the banks' clients are not taken into account in the volume of new deposits.

decline of all maturity rates, excluding deposits with a maturity from 1 to 3 months and more than 3 years.

The concentration index¹ in the deposit market was at the level of 0.09 at the end of the reporting period, which corresponds to the low level of concentration with eleven participants with equal shares present in the market.

Credit Market

Chart 3.2.6. Dynamics of Commercial Banks Credit Debt as of the End of the Period

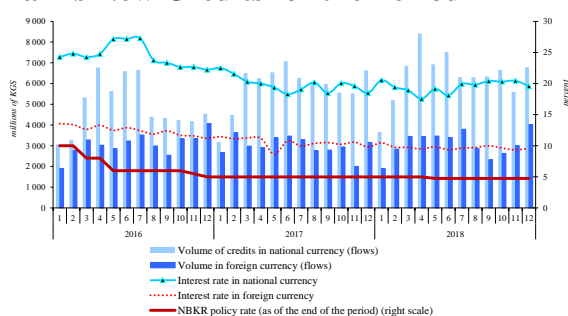


In Q4 2018, build-up of the credit portfolio was accompanied by a significant increase in the volume of credits issued in the national currency.

Thus, the volume of the commercial banks' credit portfolio increased by 18.1 percent year-to-date and amounted to KGS 127.9 billion at the end of the reporting period. Meanwhile, the credits in the national currency increased by 18.1 percent, to make KGS 79.4 billion, however, the credits in foreign currency increased by 18.0 percent, to

make KGS 48.5 billion. Dollarization of the credits decreased by 0.1 percentage point year-to-date, down to 37.9 percent, due to a decrease in dollarization of the credits with all maturities, except for the credits with a maturity from 1 to 3 years.

Chart 3.2.7. Dynamics of Commercial Banks New Credits for the Period



The volume of new credits in the national currency amounted to KGS 19.0 billion in the reporting period, having increased by 7.4 percent compared to the same period of 2017 due the growth of credits with a maturity of up to 3 years. Meanwhile, in terms of sectors, this growth was mainly caused by an increase in the volume of credits in the sectors of “communication”, “consumer credits”, and “procurement and processing”.

The volume of credit flows in foreign currency increased up to KGS 9.6 billion (+19.0 percent) due to the growth of credits with a maturity from 1 month. Meanwhile, in terms of sectors, there was an increase in the volume of credits in the following sectors: “communication”, “agriculture”, “procurement and processing”.

Thus, following the results of the quarter, duration on new credits in the national currency decreased by 3 months year-to-date (down to 25 months), in foreign currency – remained unchanged (34 months).

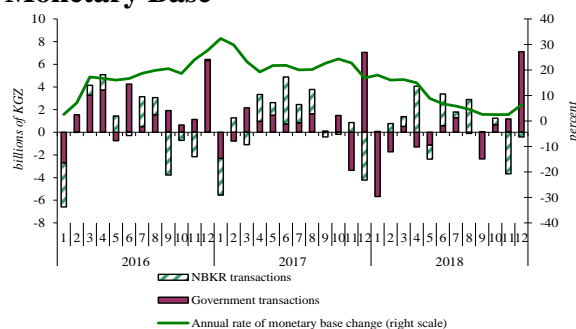
In Q4 2018, the weighted average interest rate on new credits in the national currency increased by 0.74 percentage points compared to the same indicator of 2017, up to 20.11 percent (mainly due to an increase in the rates on such sectors as “consumer credits”, “procurement and processing”, “construction”), this rate in foreign currency decreased by 0.69 percentage points, down to 9.51 percent (mainly due to a decrease of the rates on such sectors as “agriculture” and “procurement and processing”).

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.

The credit market general concentration index was 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among eleven banks. The sectoral concentration index was 32.9 percent, thus demonstrating the main three credit sectors.

3.3. Dynamics of Monetary Indicators

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



Monetary Base

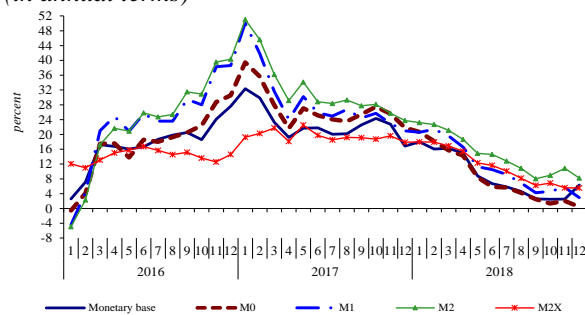
In the reporting quarter, the seasonal growth of expenses of the Government of the Kyrgyz Republic contributed to growth of the monetary base by 5.4 percent compared to the previous quarter or by 6.3 percent compared to December 2017. The transactions of the National Bank had a restraining effect of the growth of the monetary base (-KGS 3.5 billion) in the reporting quarter, however, the transactions

of the Government of the Kyrgyz Republic increased the monetary base by KGS 9.0 billion.

The structure of monetary base did not suffer significant changes. At the end of the reporting period, the share of reserves of other depository corporations in the structure of monetary base made 12.0 percent, meanwhile, the share of currency in circulation was 88.0 percent.

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates

(in annual terms)



Monetary Aggregates

In the reporting quarter, there still was a slowdown in the annual growth rates of monetary aggregates. A decrease in the annual growth rate of money outside banks was the main reason for the slowdown in the growth of monetary aggregates. In the reporting quarter, money outside banks increased by 1.7 percent, meanwhile, in the same period of 2017, this indicator increased by 3.7 percent. The annual growth of money outside banks made 0.4 percent at the end of

the reporting quarter (at the end of Q3 2018, this indicator made 2.5 percent).

During the reporting quarter, the monetary aggregate M2X increased by 3.2 percent and amounted to KGS 204.1 billion at the end of the reporting period. Meanwhile, the annual growth rate of the monetary aggregate M2X made 5.5 percent.

Deposits¹, included in M2X, increased by 9.5 percent over the year due to the growth of deposits in the national currency by 19.4 percent, meanwhile, deposits in foreign currency decreased by 2.1 percent.

The total volume of credits to the economy² increased by 18.2 percent over the year and amounted to KGS 130.5 billion at the end of period. Meanwhile, credits in the national currency increased by 18.5 percent and credits in foreign currency increased by 17.6 percent. Credits to the economy increased by 3.1 percent since the beginning of the reporting quarter.

¹ Deposits of individuals, legal entities and other financial-credit organizations, excluding deposits of the Government of the Kyrgyz Republic and non-residents.

² Credits of individuals, legal entities and other financial-credit organizations, excluding credits of the Government of the Kyrgyz Republic and non-residents.

Chapter 4. Inflation Dynamics

In 2018, the inflation in the Kyrgyz Republic was characterized by the low growth rates in prices and did not exceed the targets set by the National Bank. The inflationary conditions remained stable being supported by the favorable development in the world food market.

4.1. Consumer Price Index

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

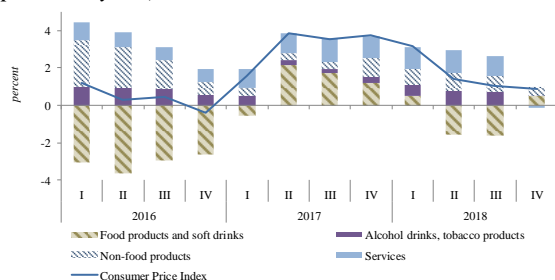


Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

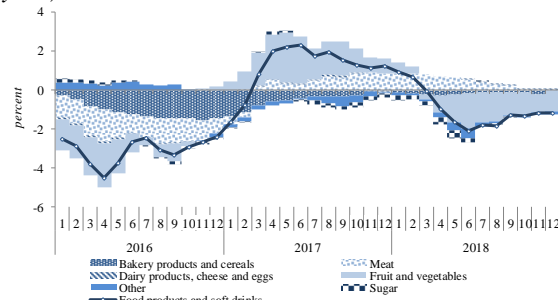
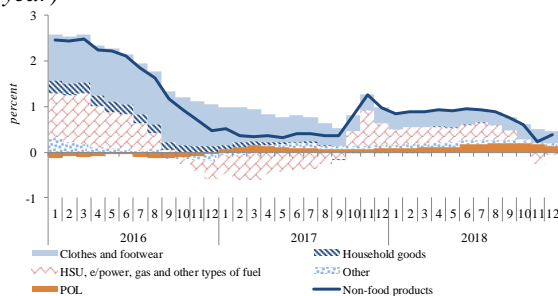


Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



The inflation rate was low throughout 2018. The inflationary conditions remained stable. The average annual inflation rate was 1.5 percent, however, in December 2018 the annual inflation rate was 0.5 percent, being within the target set by the National Bank at 5-7 percent. Low inflation rate was formed due to low prices for fruits and vegetables, bakery products, sugar, etc. At the same time, there was moderate increase in prices for meat, fuels and lubricants, alcohol drinks and tobacco products in 2018.

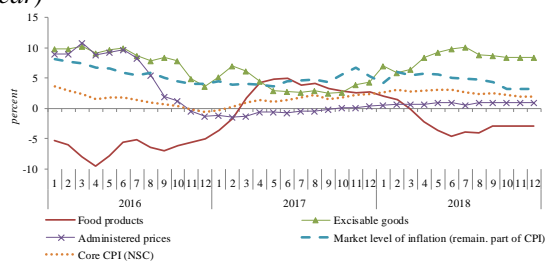
Inflation kept moderate growth rates in Q4 2018. In Q4, the growth of CPI was 0.9 percent compared to Q3 2018, having decreased from 1.1 percent.

In Q4, the price index for food products increased slightly by 1.1 percent compared to Q3 due to the seasonal rise in prices for vegetables, bakery products, and sugar. Low prices for food products in Q4 are also supported by stable prices in the world food market.

In Q4, impact of excise rates for tobacco products increased in January 2018 was mainly observed in the commodity section "alcohol drinks and tobacco products".

Non-food commodity group demonstrated slight increase in prices for the main commodity groups; meanwhile the increase in prices for clothes and footwear, gas, fuels and lubricants put the upward pressure on prices.

Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities
(month to the corresponding month of the previous year)

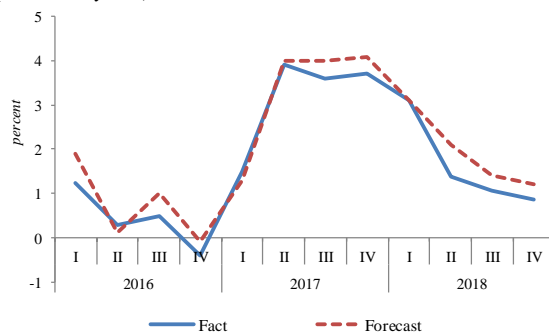


The decrease in inflationary expectations amid stable dynamics of the national currency, moderate consumer demand compared to the previous periods, and saturation of the domestic market cause a decrease in the market inflation rate. According to the National Bank estimates, core inflation (excluding food and energy products) was near the lower rate of the interest rate corridor.

4.2. Comparison of Forecast with Fact

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



In Q4 2018, the actual inflation rate was 0.3 percentage points below the National Bank's expectations. The current lower prices for food products, weak domestic demand, and moderate increase in prices in the non-food CPI group were the main reasons for the difference between the actually established and forecasted CPI.

Chapter 5. Medium-Term Forecast

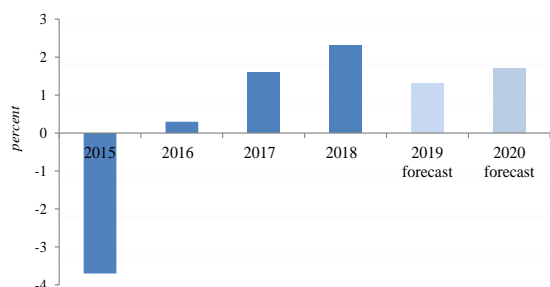
5.1. External Environment Proposals

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

In the medium term, expectations for economic growth still exist in Russia. Thus, in 2019, slowdown in GDP growth is expected at 1.3 percent in Russia, however, accelerate economic growth is forecasted in the future, in the absence of shocks.

In the first half of 2019, there are expectations of the negative impact on economic growth of the factors such as geopolitical uncertainty, the situation in the developing countries, slowdown in the investment activity, VAT increase in the country, resulting in acceleration of the

inflation rate, price volatility in the commodity markets and, as a result, a decrease in demand for the Russian export products. Meanwhile, the second half of 2019 is expected to be more positive. However, the decline in oil prices and persistence of negative expectations related to fears of imposing new sanctions may result in a less significant acceleration of GDP.

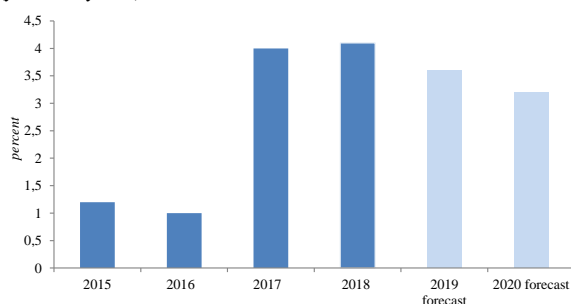
Expectations of exceeding the target inflation rate set by the Bank of Russia for 2019 are preserved amid the influence of temporary factors. Geopolitical factors, volatility outbursts in the financial markets, rising inflationary expectations of businesses and people amid the increase in the VAT base rate in Russia from 18 to 20 percent since the beginning of 2019 are the main inflation risks.

As the effect of temporary factors is exhausted, inflation is expected to stabilize at around 4 percent in 2020. The policy of the Bank of Russia will contribute to reducing inflation risks and fixing the inflation at a level close to the target.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

In the medium term, the economy in Kazakhstan is expected to grow in the absence of shocks. The economic growth forecast in Kazakhstan for 2019 was slightly adjusted up to 3.6 percent (instead of 3.0 percent) due to the increased economic sustainability of Kazakhstan to price shocks in the oil market, which was observed in Q4 2018, as well as taking into account higher forecasts of the market analysts (3.5-3.8 percent). The economic growth forecast for 2020 remains at 3.2 percent. The economic growth of Kazakhstan will be

supported by expansion of domestic demand amid rising incomes of the population, implementation of the large investment projects and government programs to support the economy and increase the volume of extraction, production and export of mineral resources.

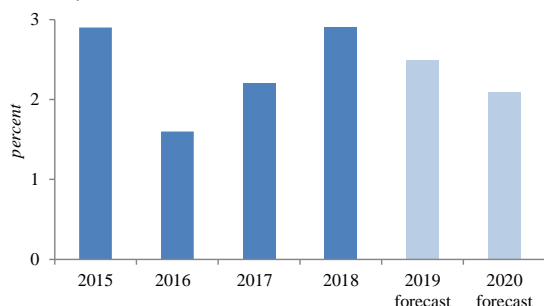
Slowdown in price growth is expected in Kazakhstan in the medium term in the absence of external shocks. In 2019, the inflation rate is forecasted within the target corridor of 4.0-6.0 percent. The main risks of accelerated inflation in Kazakhstan relate to the unfavorable

external environment, namely, a possible devaluation of the Russian ruble amid tightening sanctions against Russia and a possible reduction in energy prices.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg

rates, due to wage growth and low unemployment.

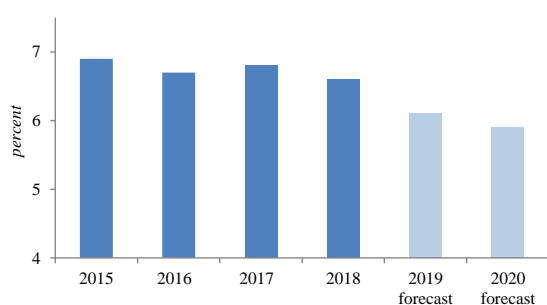
A decrease in energy prices amid decline in the world oil prices will have a downward impact on the US inflation in 2019. The headline inflation rate will be at 2.0 percent in 2019 and at 2.2 percent in 2020.

GDP growth in the USA will slow down in the coming years. The positive effect of decreased tax rates and reduced regulatory burden, which significantly contributed to acceleration of GDP growth in 2018, will decrease in 2019 and 2020. The downward revision of the growth forecasts for the world economy and the uncertainty related to the foreign trade disputes negatively affected the economic growth prospects in the USA. At the same time, private consumption, which is the main driver of the US economy, will continue demonstrating steady growth

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



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

The downward trend in economic growth of China is expected to continue in the coming years. In 2019, the government intends to take monetary and fiscal stimulus measures to support the economy. The risks of downward pressure on economic activity are related to the uncertainty of foreign trade relations with the United States, a decrease in investments due to stricter control over expenditures of the local authorities to keep debt growth. GDP growth in 2019 is forecasted at 6.1 percent, in 2020 – at 5.9 percent.

The inflation rate in China will demonstrate stable dynamics in the coming years; in 2019-2020 it will stand at approximately 2.2 percent. The inflation rate below the target set at about three percent will allow the government of China to loosen the monetary policy to stimulate the real sector of economy.

5.2. Medium-Term Forecast

Assumptions about development of the external conditions and internal environment in Q4 2018 to the greatest extent were consistent with the baseline scenario, approved at a meeting of the National Bank Board held in November 2018.

The prospects for economic growth in the Kyrgyz Republic in 2019 remain under the influence of external economic conditions. Economic activity in the main trading partner countries (Russia and Kazakhstan) at the end of 2018 demonstrated growth above the expected, which had a positive impact on economic growth rates in the domestic economy. Planned upward trend in the economies of the trading partner countries is expected to develop in 2019. At the same time, there are several factors limiting economic growth in Russia - the largest economy of our region. The existing threat of imposing additional sanctions from the United States and Europe is among external limiting factors: generally, the year of 2018 demonstrated

the sensitivity of the Russian ruble and the financial market to such restrictions. An increase in the tax burden - an increase in VAT, which, in addition to contributing to inflation, will negatively affect the growth of consumption and aggregate demand of the Russian economy - is among the most important internal factors limiting the economic growth of Russia in 2019.

In mid-February 2019, regular discussion of the DASKAA¹ set of sanctions against Russia was conducted in the US Congress. A new version of the DASKAA 2.0 draft law was submitted for consideration by the American Parliament. DASKAA 2.0, similar to the first version of the draft law, contains sanctions against the new sovereign debt of Russia and blocking the operations of the Russian state banks if their participation in the activities against the United States is proved. However, the DASKAA 2.0 draft law expands the scope of anti-Russian sanctions. Thus, the sanctions were defined in respect of the Russian liquefied natural gas projects, the Russian shipbuilding sector if the situation in the Kerch Strait is aggravated, and the sanctions were extended in respect of the Russian oil projects inside Russia and abroad.

The Russian market responded to the second round of the discussion of the DASKAA project by weakening of the Russian ruble against the US dollar. Thus, the Russian ruble exchange rate against the US dollar fell by 2 percent on February 14, despite the emerging upward trend in oil prices.

Currently, the DASKAA 2.0 draft law as amended is likely to be approved. However, forcing the DASKAA 2.0 draft law can be used as a lever of pressure on the “pro-Russian” US President amid increasing confrontation between the democrats and the US President. Such sanctions against Russia will have primarily negative effect on the investment attractiveness of the Russian projects thereby weakening the Russian ruble exchange rate and conditioning slowdown in economic activity in Russia. Such consequences will affect the economies of the countries-trading partners of Russia, including the economy of the Kyrgyz Republic.

The National Bank of the Kyrgyz Republic conducts assessments of the behavior scenarios for the domestic economy influenced by various combinations of external economic conditions and develops appropriate monetary policy directions.

Price dynamics in the world commodity markets is another important factor determining economic growth in the Kyrgyz Republic in the medium term.

Price dynamics in the world food markets will remain stable until the end of the current agricultural season (July 2018 – June 2019). The emerging trend in the global and regional agricultural markets does not bear significant inflation risks for the economy of the Kyrgyz Republic until the end of the first half of 2019. In the second half of 2019 - the first half of 2020, prices for food products will be influenced by the upcoming sowing campaign.

The oil prices in the world energy market started increasing in February 2019, having approached the amount of 65.5 USD per barrel. Oil quotations have increased by approximately 23 percent year-to-date after a sharp fall at the end of 2018, amid a decline in oil supplies by the main producers. In December, OPEC + countries reduced oil production by 1.2 million barrels of oil per day until the end of the first half of 2019. In addition to the reduction in oil production, the rise in oil prices are driven by the US sanctions against Venezuelan and Iranian oil. The upward trend in oil prices supports economic activity in Russia and Kazakhstan, which has corresponding effect on the economic growth prospects of the Kyrgyz Republic.

The structure of Kyrgyz Republic economy highlights particular role of external sector parameters in developing forecasts.

Due to the current development prospects in the world commodity markets, as well as the dynamics of the economic growth in the trading partner countries, the economic background in the countries-trading partners of the Kyrgyz Republic is expected to be the most significant factor of economic development in our country in the medium term.

Taking into account the assumption about persistence of the emerging upward trend in the economic growth of the trading partner countries in 2019–2020, as well as maintaining price

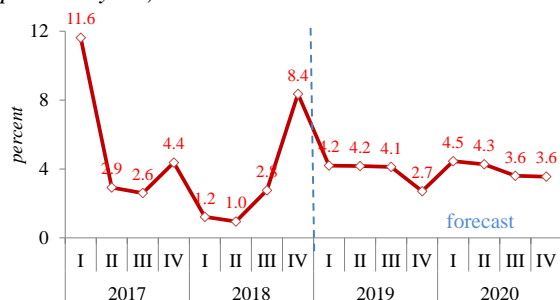
¹ Defending American Security from Kremlin Aggression Act – DASKAA.

stability in the world commodity markets, the following forecast was developed for the key macroeconomic indicators of the economic development in the Kyrgyz Republic in 2019-2020.

In 2019, the real sector of the economy of the Kyrgyz Republic will close a negative GDP gap. In the second half of 2019 and in 2020, the economic growth is expected around its equilibrium value.

Chart 5.2.1.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



The negative GDP gap will be eliminated by the end of 2019 provided that the current external and internal conditions of economic growth are retained.

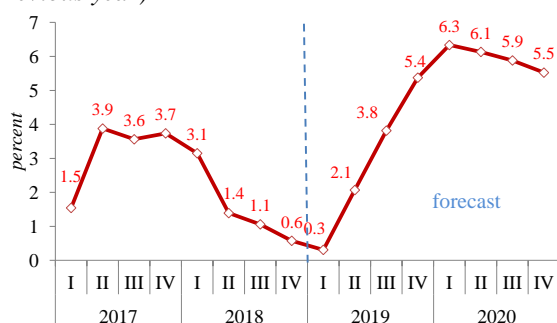
In 2019, the real GDP growth is expected at 3.7 percent; the GDP growth excluding the enterprises of the Kumtor Mine will be approximately 3.8 percent. The increase in production output at the enterprises of the Kumtor Mine in 2019 is forecasted to be equal to the production of the previous year.

In 2020, the real GDP growth is expected at 3.9 percent, excluding Kumtor, the GDP growth is forecasted at approximately 4.8 percent.

Taking into account assessments of the external environment and internal conditions development in the medium term, the inflation rate in the economy of the Kyrgyz Republic is expected to remain within the target of 5-7 percent. The decreasing negative GDP gap and stable external inflation determined a low inflation rate in the current year. In the absence of external and internal shocks, a gradual economic recovery in the country and the region will contribute to the entry of inflation into the target range by the end of 2019.

Chart 5.2.1.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



In 2019, the average inflation rate (period to period) is expected at approximately 3.0 percent, at the end of 2019 (Dec 2019/Dec. 2018), it can approach the level of approximately 6.0 percent. In 2020, the average inflation value will be approximately 6.0 percent.

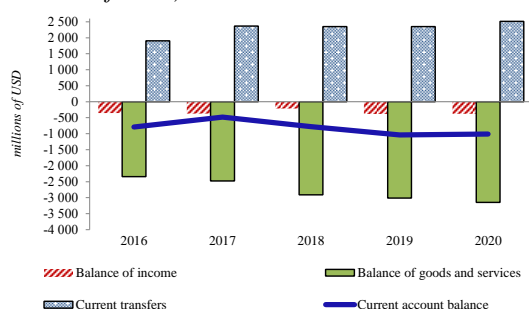
Forecast for the Balance of Payments in 2018-2020¹.

In 2019, current expectations for the economic development in the trading partner countries and in the Kyrgyz Republic will be the determinants of the external sector development. In 2019, the current account deficit was estimated at 12.4 percent of GDP in the amount of USD 1,040.4 million (an increase by 34.0 percent). The trade deficit is expected to increase amid migrant workers' remittances kept at the level of 2018 in the projection period.

¹ The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic

Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)



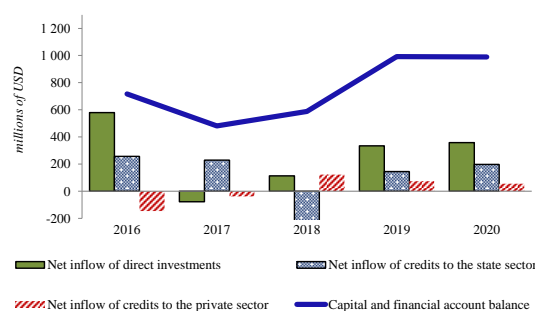
Exports are expected to increase by 5.0 percent in 2019. This trend will be supported by an increase in gold exports due to expected growth in gold production at the Kumtor Mine compared to 2018. At the same time, increase in exports excluding gold is expected at 2.2 percent at the end of the year under the influence of an increase in the external demand for domestic products, due to the traditional export positions of the industrial sector and agriculture.

Imports are expected to keep positive growth rates in 2019 amid projected economic growth in the country. The increase in imports is estimated at 4.0 percent due to all functional categories of imports. Positive increase in imports of petroleum products is expected mainly due to the growth of physical volume. Imports of other goods are expected to increase by 3.7 percent.

Moderate economic growth in Russia and Kazakhstan will have a positive impact on the private transfers' inflow. The net inflow of transfers to the private sector is estimated at the level of 2018.

Chart 5.2.1.4. Forecast Data on Capital and Financial Account

(millions of USD)



In 2019, the increase of the current account deficit will be financed through capital inflows from the capital and financial account. The bulk of capital inflows on the financial account is expected to be provided by direct investments. Balance of "other investments" item will be formed under the influence of increase in the foreign liabilities of the private and public sector. At the same time, the volume of servicing the previously received loans will remain at a significant level.

Thus, according to the results of 2019 the balance of payments is expected to be negative in the amount of USD 48.6 million. Meanwhile, international reserve assets¹ are expected to cover 3.7 months of the future imports of goods and services.

In general, the economic environment in 2019 will provide favorable conditions for stable economic development in 2020. The positive dynamics of current transfers and growth of the trade deficit will lead to the current account formation in the amount of 10.9 percent to GDP. Expected growth in external demand amid further development of domestic production will contribute to an increase in exports by 2.7 percent. The upward trend in the economy of the country will cause an increase in imports by 4.5 percent. Thus, the negative trade balance is expected to increase by 5.6 percent.

The economic growth in the migrant workers' recipient countries will have a positive impact on the volume of private transfers inflow, the growth rate thereof is expected at 6.5 percent.

Inflows on the capital and financial account are expected to increase. The basic amount of funds on financial account will be provided by the inflow of foreign direct investments, as well as the loans to the public sector. Upward trend was still observed in loan servicing by the private sector.

¹ In accordance with the IMF methodology, only assets in convertible currencies (US dollar, euro, pound sterling, Japanese yen, Swiss franc, Australian dollar and Canadian dollar) are included in the international reserve assets.

In 2020, the overall balance of payments is expected to be negative in the amount of USD 21.2 million. International reserve assets will cover 3.7 months of the future imports of goods and services.

There are following risks still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2019-2020:

- the risks associated with the Kumtor Mine exploration;
- volatility in the world prices for oil and gold;
- deterioration of the economic situation in the trading partner countries;
- incomplete disbursement of the planned amounts of foreign credits to the public sector;
- volatility in the exchange rate of the main trading partner countries.

Annex 1. Key Macroeconomic Indicators

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

Indicator	Unit of measure	2016				2017				2018			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Demand and supply¹													
<i>(real growth rates, if otherwise is not indicated)</i>													
Nominal GDP, per quarter	mln. KGS	79 821.8	107 696.7	139 395.8	149 416.9	94 072.4	115 331.6	151 977.4	169 094.3	102 353.2	120 280.5	157 424.1	177 055.5
GDP	%	-6.2	2.1	9.2	7.9	11.6	2.9	2.6	4.4	1.2	-0.4	2.4	8.4
GDP, excluding Kumtor	%	1.3	4.2	5.8	4.4	8.1	0.0	4.3	8.1	3.1	2.1	3.1	4.9
Domestic consumption	%	-2.4	4.6	-0.2	-2.7	4.0	4.6	8.8	3.7	1.9	4.3	3.3	
Investment	%	-11.4	16.3	5.4	15.3	-0.9	-8.0	11.5	18.3	88.4	-5.9	-7.9	
Net export	%	16.0	21.8	-11.2	-15.2	-2.5	-6.3	35.7	11.8	69.6	12.5	-2.8	
<i>GDP production:</i>													
Agriculture	%	0.7	1.6	3.6	3.2	1.3	1.0	2.6	3.0	1.2	2.0	2.6	4.2
Industry	%	-29.8	-7.7	33.1	31.6	32.9	24.5	3.0	-8.3	0.6	-8.2	1.4	22.6
Construction	%	13.3	26.5	11.7	-0.3	-5.9	-3.7	5.0	20.7	1.4	4.2	5.0	12.6
Services	%	2.4	2.3	4.6	3.7	8.4	-3.0	2.2	6.3	1.5	1.5	2.0	2.8
including trade	%	5.0	5.3	12.6	7.5	3.9	4.0	5.9	11.1	3.7	4.8	4.7	6.2
2. Prices²													
CPI	%	101.2	100.3	100.5	99.6	101.5	103.9	103.6	103.7	103.1	101.4	101.1	100.9
CPI, in annual terms as of the end of period	%	100.5	101.3	99.7	99.5	102.8	104.1	103.3	103.7	102.7	100.8	101.2	100.5
Core inflation	%	103.0	101.8	101.0	99.9	100.3	101.3	101.9	102.1	102.8	103.1	102.5	100.4
<i>CPI by main groups of goods and services:</i>													
Food products	%	93.6	92.3	93.8	94.4	98.8	104.7	103.8	102.7	101.2	96.5	96.4	101.1
Non-food products	%	108.5	107.6	105.3	102.4	101.3	101.2	101.3	103.4	103.0	103.2	103.0	101.6
Alcohol drinks and tobacco products	%	111.7	110.8	110.0	106.5	105.7	102.8	102.3	103.3	106.5	109.1	108.4	100.3
Services	%	106.5	105.2	104.6	104.4	106.9	107.1	108.3	107.7	106.9	107.3	106.1	99.4
<i>CPI classified by character:</i>													
Excisable goods	%	110.0	109.6	108.3	105.4	106.1	103.4	102.7	103.7	106.5	109.2	109.2	107.7
Regulated prices	%	109.6	109.3	105.2	99.8	98.7	99.4	99.7	100.2	100.6	100.9	100.8	101.1
Market inflation rate (the rest of CPI)	%	107.8	106.4	105.5	104.2	104.2	104.0	104.6	105.9	105.3	105.5	104.7	102.6
3. External sector³													
<i>(in percent to GDP)</i>													
Trade balance	%	-35.3	-36.2	-33.8	-31.1	-29.9	-28.3	-30.4	-30.9	-34.7	-35.2	-34.8	-34.6
Current transaction account	%	-14.1	-14.7	-11.8	-11.5	-9.6	-7.1	-6.3	-6.2	-10.2	-9.2	-9.7	-9.6
Export of goods and services	%	38.2	37.2	37.3	35.7	35.1	35.9	34.8	34.3	33.8	34.6	33.0	32.9
Import of goods and services	%	75.7	75.6	73.6	69.8	67.7	66.7	67.2	66.4	69.8	71.4	69.3	68.9
4. USD exchange rate, as of the end of period													
	KGS	70,0158	67,4860	67,9346	69,2301	68,6069	69,1367	68,6585	68,8395	68,4325	68,1800	69,2773	69,8500
5. Monetary sector													
<i>(real growth rates, if otherwise is not indicated)</i>													
NBKR policy rate, as of the end of period	%	8,00	6,00	6,00	5,00	5,00	5,00	5,00	5,00	5,00	4,75	4,75	4,75
Rate of "overnight" deposit, as of the end of period	%	1,00	0,50	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	1,50
Rate of "overnight" credit, as of the end of period	%	10,00	7,50	7,25	6,25	6,25	6,25	6,25	6,25	6,25	6,00	6,00	6,00
Average interest rates of operations in the interbank credit market, per quarter	%	10,50	2,70	3,76	2,32	2,08	1,65	2,33	2,19	2,73	2,40	2,17	2,22
<i>of which:</i>													
of REPO transactions	%	9,44	1,59	1,76	1,61	1,56	1,50	2,19	2,14	2,73	2,48	2,17	2,22
of credits in national currency	%	13,25	7,84	4,11	2,67	2,11	3,10	5,06	6,50	-	0,00	-	-
of credits in foreign currency	%	-	-	-	2,0	-	4,00	-	1,25	-	-	-	-
Weighted average yield of 7-day notes, as of the end of period	%	2,18	1,44	0,27	0,24	0,61	2,81	1,44	2,79	2,40	2,31	1,90	3,03
Weighted average yield of 28-day notes, as of the end of period	%	-	-	-	-	1,14	4,08	2,94	4,85	3,83	3,30	1,86	3,65
Weighted average yield of 91-day notes, as of the end of period	%	-	-	-	-	-	-	5,00	5,00	4,99	4,73	4,00	4,66
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	-	-	4,73	4,75
Monetary base	%	17,2	16,7	20,5	27,6	23,3	21,8	22,6	16,9	16,2	6,7	2,6	6,3
Money outside banks (M0)	%	17,5	18,6	20,6	30,5	28,0	25,1	25,4	21,8	15,7	5,8	2,5	0,4
Monetary aggregate (M1)	%	21,0	25,5	29,4	38,6	31,7	25,9	24,4	21,0	19,6	10,5	4,2	3,0
Narrow money supply (M2)	%	17,2	25,8	31,5	40,3	36,2	28,8	27,8	23,7	21,1	14,6	8,0	8,2
Money supply (M2X)	%	13,1	16,7	15,2	14,6	21,7	19,8	19,1	17,9	16,9	11,6	6,2	5,5

^{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 Q4 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.

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 government 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 of time, 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 of the Government of the Kyrgyz Republic. The Ministry of Finance of the Kyrgyz Republic is the issuer of the ST-Bills. 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 of the Government of the Kyrgyz Republic with the interest income (coupon) and maturity over one year. The issuer of the ST-Bonds is 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

CBRF	Central Bank of the Russian Federation
CPI	Consumer Price Index
ECB	European Central Bank
EAEU	Eurasian Economic Union
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCM	Inter-Bank Credit Market
KR	Kyrgyz Republic
LA	Lending to Agriculture
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
REER	Real Effective Exchange Rate
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America