

## Press-release of the meeting held by the Board of the National Bank of the Kyrgyz Republic on the size of discount rate

On May 26, 2014, the Board of the National Bank of the Kyrgyz Republic held a meeting, in the course of which such issues as monetary policy report for the 1<sup>st</sup> quarter, macro-economic forecast and the size of discount rate were considered.

It was emphasized in the report that in the 1 quarter of 2014 the National Bank commenced introduction of a new operational basis of monetary policy at which interest rates are used as an intermediate reference point. The mechanism of definition of discount rate was changed for these purposes, new monetary policy instruments were introduced and existing instruments were modified. The purpose of transition is strengthening of operation of interest rate transmission channel of monetary policy and approach of rates used in the monetary market to the level of the National Bank discount rate.

Changes introduced to the basis of monetary policy gave an impulse for development of the interbank market: volumes and number of transactions in this market grew by more than seven times. Rates of the interbank market were within the limits of created “corridor” (where the “ceiling” is the rate on the “overnight” credit, which is equal to 9.0 percent, and the “floor” – the rate on the “overnight” deposit, which is equal to 1.5 percent), their average value made about 8.0 percent. In January-March, 2014, the average level of excess liquidity of the banking system decreased by 37.4 percent as compared to the same indicator in 2013.

Decrease in external demand due to slowdown of economic development in the countries - main trade partners resulted in reduction of current account deficit up to 13.4 percent to GDP (according to preliminary data). Trade balance deficit decreased by 1.6 percent. Net inflow of the current transfers in the U.S. dollars decreased by 8.5 percent, however increased remained in the currency denomination.

Growth of the national economy in the first quarter of 2014 constituted 5.6 percent. Postponed effect in the construction sector was one of growth factors in January-March. GDP deflator developed at the level of 2.5 percent.

At the end of the first quarter the state budget was executed with surplus in the amount of KGS 2.0 billion or 2.9 percent to GDP.

Due to preservation of high dependence of economy on import the attention was focused on obligatory continuous monitoring of prices in the world food markets and study of their possible changes in the medium-term period.

Impact of external shocks connected with the situation in the foreign exchange market of Russia and Kazakhstan resulted in increase of the exchange rate volatility in the first quarter. The NBKR carried out currency interventions on sale of the U.S. dollars to smooth sharp fluctuations and remove speculative component, in January-March, 2014 their volume made USD 198.1 million US dollars of. Operations in the foreign exchange market along with other operations in the open market contributed to reduction of pressure upon an exchange rate. Devaluation of the Kyrgyz som in January-March made 10.8 percent.

The monetary base in the 1<sup>st</sup> quarter of 2014 decreased by KGS 5.8 billion to KGS 67.4 billion (-7.9 percent). The volume of broad money M2X decreased by 1.9 percent and amounted to KGS 118.7 billion.

During discussion it was emphasized that risks of acceleration of inflationary processes in economy in the medium-term period remain. The average quarterly inflation rate exceeded the forecasted rate by 0.4 percentage points and made 4.7 percent. In annual terms, the inflation rate was 6.3 percent.

In view of a ratio of inflationary risks and risks of external demand reduction, the Board of the NBKR unanimously made the decision to keep discount rate intact at the level of 6.0 percent.