

**National Bank of the Kyrgyz Republic**

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**Inflation Report  
Fourth Quarter of 2008**

**February 2009**

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**Bishkek**

## ***Kyrgyz Republic Inflation Report***

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This edition contains the description of the consumer price trends in the Kyrgyz Republic and its regions, analysis of major inflation factors, decisions made by the National Bank of the Kyrgyz Republic on monetary policy, and also presents inflation forecast for the upcoming period. It is published on a quarterly basis in Kyrgyz, Russian and English languages.

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## **Other Publications of the National Bank of the Kyrgyz Republic**

### ***Annual Report of the National Bank of the Kyrgyz Republic***

This publication is a last year statement of the National Bank of the Kyrgyz Republic (NBKR). It contains brief information about the country's economic development and monetary policy, financial statements of the NBKR, general information about the NBKR, and statistic annexes. It is published in Kyrgyz, Russian and English languages.

### ***Bulletin of the National Bank of the Kyrgyz Republic***

This monthly publication contains statistic data for major macroeconomic indicators and sectors of economy of the Kyrgyz Republic. It is published in Kyrgyz, Russian and English languages.

### ***Balance of Payments of the Kyrgyz Republic***

Balance of Payments of the Kyrgyz Republic reflects trends of external sector development, data of the payment balance, foreign trade, international reserves, external debt, and international investment position of the Kyrgyz Republic. It is published on quarterly basis in January, May, July, and October in Kyrgyz, Russian and English languages.

### ***Banking System Development Trends***

This publication provides an analysis and assessment of the development of Kyrgyz banking system as a financial intermediary, and components of its stability. It is published semiannually in Kyrgyz, Russian and English languages.

### ***Statutory Acts of the National Bank of the Kyrgyz Republic***

The objective of this document is to officially publish the statutory acts of the NBKR in order to provide commercial banks and general public with regulatory documents and information about NBKR activities, and to popularize the banking legislation of the Kyrgyz Republic. It is published, as a rule, once a month in Kyrgyz and Russian languages.

### ***Press Release of the National Bank of the Kyrgyz Republic***

Press Release of the NBKR contains the description of events related to the National Bank and banking system, major financial market data for the week and other information for mass media, legal entities and individuals. It is published on a weekly basis in Kyrgyz and Russian languages.

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## Part 1. Economic situation of the Kyrgyz Republic

### 1.1. Demand and supply on the goods and services market

#### 1.1.1. Demand

In the fourth quarter of 2008, GDP in real terms increased by 11.6 percent in comparison with the corresponding period of 2007. Changes in GDP structure by expenditure types in the third quarter<sup>1</sup> was provided by continuing growth of domestic demand, caused by increase in expenses of households for final consumption. In 2008 GDP volume per capita batch increased by 6.8 percent and amounted to 35.1 thousand soms (959 USD).

**Table 1.1.1. GDP by expenditure types**  
(in current prices, million soms)

	2007	2007				2008				
		9 months of 2007	I	II	III	IV	9 months of 2008	I	II	III
<b>GDP</b>	<b>139 749,4</b>	<b>99 784,4</b>	<b>22 241,5</b>	<b>27 626,0</b>	<b>48 686,9</b>	<b>41 195,0</b>	<b>129 390,2</b>	<b>28 143,9</b>	<b>37 192,7</b>	<b>62 299,4</b>
Final consumption	166 145,2	104 635,3	29 626,2	34 331,9	53 907,6	48 279,5	149 788,8	40 333,4	48 482,3	62 416,9
Individual consumption										
Households	154 582,3	97 952,1	27 830,4	31 596,9	51 393,6	43 761,4	140 296,5	37 791,9	45 046,1	58 937,7
NCO servicing households	138 652,0	86 940,8	24 745,0	27 554,7	47 246,0	39 106,3	126 224,9	34 143,1	39 690,1	53 755,3
Governmental institutions	2 683,7	2 294,9	584,0	667,8	738,0	693,9	2 818,4	747,9	849,3	1 078,2
Collective consumption	11 562,9	6 683,2	1 795,8	2 735,0	2 514,0	4 518,1	9 492,3	2 541,5	3 436,2	3 479,2
Gross savings	36 793,5	25 218,3	3 083,3	7 539,0	12 478,5	13 692,7	29 153,9	4 078,5	9 684,2	15 630,9
Net export of goods and services	-63 168,0	-30 069,2	-11 260,7	-15 308,7	-17 712,4	-18 886,2	-52 628,3	-17 224,9	-19 929,5	-17 045,3
Export	62 446,5	54 090,3	13 098,3	14 851,2	19 224,8	15 272,2	69 792,4	15 214,1	23 621,1	28 047,1
Import	-125 614,5	-84 159,5	-24 359,0	-30 159,9	-36 937,2	-34 158,4	-122 420,7	-32 439,0	-43 550,6	-45 092,4
Statistical discrepancy	-21,3		792,7	1 063,8	13,2	-1 891,0	3 075,8	956,9	-1 044,3	1 296,9

*NCO – non-commercial organizations*

*According to the National Statistics Committee*

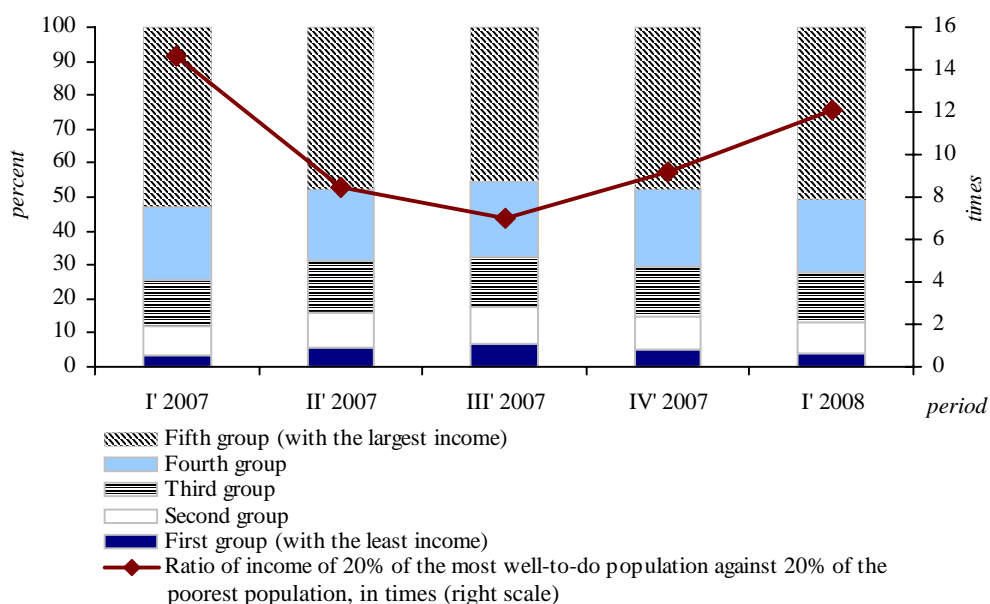
Increase in private consumption became possible mainly due to maintained income growth dynamics of the population. A monthly average nominal wage of an employee in 2008 (excluding small enterprises) amounted to 5 422.0 soms, having increased by 36.0 percent in comparison with the previous year. Real growth of the nominal wage, calculated with regard to CPI, constituted 9.2 percent. On the basis of the official exchange rate, set by the National Bank of the Kyrgyz Republic, an average monthly wage in January-December 2008 amounted to 148.3 US dollars. Increase in consumption expenditures of the population contributed to the increase in retail trading turnover volumes by 9.1 percent, including retail trading with food and non-food products, the volume of which increased by 6.1 and 12.9 percent correspondingly in

<sup>1</sup> Hereinafter, the reference to the early periods is determined by the absence of data for the fourth quarter of 2008.

comparison with 2007 and amounted to 52.9 percent and 47.1 percent in the gross volume of retail trading correspondingly.

Herewith as per results of sample observation of households in the first quarter of 2008, as well as with regard to indirect indices of the population wellbeing, the population income differentiation is rather high in the republic. Distribution of the overall volume of cash earnings on 20-percent groups of the population still remains in favor of high-yielding groups. Thus, the share of income of the most well-to-do group decreased by 2.4 percentage points in comparison with the corresponding period of the previous year and as per results of the first quarter of 2008 constituted 50.4 percent out of the overall population's income volume. The share of income of 20 percent of the poorest population increased by 0.6 percentage points and constituted 4.2 percent.

**Figure 1.1.1. Structure of pecuniary gains of the population by quintile groups**  
(from the beginning of the year, in percent)



Continuing growth of consumer credits testifies an increase in households' consumption. The volume of loans, issued by commercial banks for consumer purposes in the fourth quarter of 2008 constituted increased by 62.8 percent in comparison with the corresponding period of the previous year. As a result their share in the total flow of loans increased from 6.4 to 10.0 percent. However, the volume of mortgage and trade credits decreased. The overall volume of the loans, issued in the fourth quarter of 2008, increased by 4.2 percent.

A considerable factor for the population income and private consumption growth was the increase in money transfers from abroad. In 2008, there was a considerable increase in cash inflow from individuals by transfer systems. Thus their overall amount constituted 1 134.3 million US dollars in 2008, having exceeded the correspondent rate of the previous year by 81.3 percent (the increment rate constituted 45.5 percent in 2007).

**Table 1.1.2. Money transfers of individuals by transfer systems**

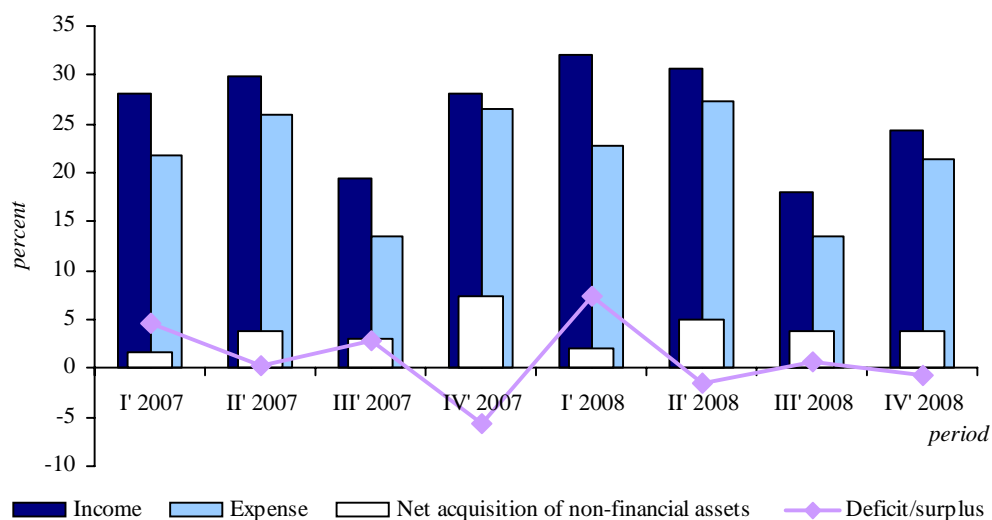
	2005	2006	2007	2008
<b>Net inflow</b>	<b>270,8</b>	<b>429,9</b>	<b>625,6</b>	<b>1 134,3</b>
<b>Inflow</b>	<b>297,7</b>	<b>469,6</b>	<b>688,2</b>	<b>1 200,8</b>
<i>including:</i>	262,8	436,3	648,8	1 135,1
Kazakhstan	0,2	0,0	7,0	24,3
Russia	262,6	436,2	641,8	1 110,7
Other countries	34,9	33,4	39,4	65,8
<b>Outflow</b>	<b>26,9</b>	<b>39,7</b>	<b>62,6</b>	<b>66,5</b>
<i>including:</i>	25,2	38,5	60,2	64,5
Kazakhstan	0,0	0,0	0,2	2,5
Russia	25,2	38,4	60,0	62,0
Other countries	1,7	1,3	2,5	2,0

According to the Ministry of Finance of the Kyrgyz Republic, as per results of 2008, the state budget expenditures in the fourth quarter of 2008 constituted 11 444.5 million soms or 21.3 percent to GDP. As usual the largest share of governmental expenditures was performed in the last month of the quarter.

The largest share of the budget expenditures was still directed at consumption and coverage of current expenses, which were not reduced due to structural problems. Thus, expenditures for wages and assessments to the Social fund of the Kyrgyz Republic constituted 39.7 percent in the reporting period out of the overall volume of governmental expenditures for operation activity (in the fourth quarter of 2007 – 29.6 percent). Also the share of expenses for social allowances and subsidies increased and constituted 14.4 percent (in the fourth quarter of 2007 – 12.7 percent).

Total income and received official transfers of the state budget constituted 13 103.8 million soms or 24.4 percent to GDP in the fourth quarter. On transactions of non-financial assets acquisition, which are the Government capital outlays, the net cash outflow constituted 2 012.1 million soms.

**Figure 1.1.2 State budget implementation**  
(in percent to GDP)



As a result of inconsiderable exceed of the Government cash outflow over its inflow, the state budget in the fourth quarter of 2008 was formed with a deficit of 352.8 million soms or 0.7 percent to GDP (in the fourth quarter of 2007 – the deficit amounted to 5.7 percent to GDP).

According to the data of the third quarter of 2008, the gross savings increased by 2.6 percent (in the previous quarter there was a certain decrease by 13.4 percent). At that the investments into fixed capital decreased by 5.6 percent in 2008 mainly due to reduction of construction works volume in the mining industry and of home construction activity. Priority trends for investments into the fixed capital were home construction activity and the industry of transportation and communication.

By financing sources of investment to the fixed capital in the fourth quarter of 2008, internal funds still prevailed, including assets of enterprises, organizations and population, which share constituted 59.8 percent out of total investments volume. The share of investments from external sources constituted 24.7 percent in the fourth quarter.

**Table 1.1.3. Investments to the fixed capital by sources of financing**  
(in percent)

	2007	I	II	III	IV	2008	I	II	III	IV
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>Internal investments</b>	<b>81,6</b>	<b>89,9</b>	<b>85,4</b>	<b>71,0</b>	<b>86,9</b>	<b>66,3</b>	<b>83,4</b>	<b>71,6</b>	<b>59,2</b>	<b>75,3</b>
State budget	8,0	7,8	6,8	11,7	5,6	9,8	4,7	11,5	10,1	13,2
Assets for emergency situations	0,7	0,9	0,8	0,6	0,7	0,0	0,0	0,0	0,0	0,0
Local budget	2,3	0,4	2,6	2,2	2,7	1,7	1,7	1,4	1,8	2,0
Assets of enterprises/organizations	47,8	43,1	45,5	36,8	58,8	25,3	37,6	28,2	20,8	31,8
Bank credits	0,0	0,0	0,0	0,0	0,0	0,8	0,6	1,2	0,5	0,3
Assets of the population and others	23,4	38,5	30,5	20,3	19,9	28,7	38,7	29,4	26,0	28,0
Beneficent aid of resident	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>External investments</b>	<b>18,4</b>	<b>10,1</b>	<b>14,6</b>	<b>29,0</b>	<b>13,1</b>	<b>33,7</b>	<b>16,6</b>	<b>28,4</b>	<b>40,8</b>	<b>24,7</b>
Foreign loans	11,7	5,9	6,4	16,8	11,0	15,8	5,6	17,4	17,3	11,1
Direct international investments	3,0	2,9	6,4	5,3	-0,4	14,9	10,2	9,5	19,0	3,9
Foreign grants and humanitarian aid	3,8	1,3	1,8	6,9	2,5	3,0	0,9	1,5	4,4	9,7

Source: National Statistics Committee, NBKR estimations

### 1.1.2. Supply

In the fourth quarter of 2008, the major volume of aggregate supply of goods and services was mainly provided by trade sector (20.8 percent out of the total GDP volume), processing industry production (14.1 percent), and transportation and communication industry (8.5 percent). These branches made the major contribution to the total GDP growth rates in the reporting period.

In the processing industry, the output growth was mainly provided by metallurgy industry and production of finished metal goods. In 2008 the gross output of agriculture, hunting and forestry industries increased by 0.7 percent in comparison with 2007. Out of the total volume of production the share of plant industry constituted 57%, livestock sector – 41.5 percent, services – 1.4 percent and hunting and forestry – 0.1 percent.

The total agricultural crop area increased by 2.8 percent in comparison with the past



**Table 1.1.4. Contribution to GDP growth/reduction by sector of production**  
(in percent)

	Growth rates in 2008					Contribution to growth				
	Jan-Dec	I quarter	II quarter	III quarter	IV quarter	Jan-Dec	I quarter	II quarter	III quarter	IV quarter
<b>Gross domestic product</b>	7,6	6,1	7,9	6,2	11,6	7,6	6,1	7,9	6,2	11,6
Gross value added	7,6	6,1	7,9	6,2	11,5	6,5	5,1	6,6	5,5	10,0
Agriculture, hunting and forestry	0,7	1,7	3,8	1,9	-1,9	0,2	0,3	0,7	0,9	-0,4
Mining industry	6,4	-11,4	12,5	-9,2	28,2	0,0	-0,1	0,1	0,0	0,1
Processing industry	23,6	4,5	13,0	20,9	44,6	2,3	0,5	1,5	1,4	4,7
Production and distribution of electric power, gas and water	-7,5	4,7	-12,5	-7,3	-20,5	-0,2	0,3	-0,3	-0,1	-0,5
Building and construction	-10,8	2,2	9,6	-12,0	9,7	-0,4	0,0	0,3	-0,4	0,4
Trade, repair	9,2	5,5	7,8	8,8	12,8	1,7	1,2	1,5	1,2	2,6
Hotels and restaurants	13,2	7,8	14,5	10,3	20,4	0,2	0,1	0,2	0,1	0,3
Transport and communication	29,7	24,0	26,3	39,6	29,3	2,2	2,3	2,3	2,2	2,1
Financial activity	15,8	15,9	23,6	20,0	15,8	0,1	0,1	0,1	0,1	0,1
Transactions with real estate and lease	7,8	5,0	5,0	5,0	7,7	0,2	0,2	0,2	0,1	0,2
Public administrations	1,9	1,2	0,9	1,0	2,4	0,1	0,0	0,0	0,0	0,1
Education	1,2	1,5	1,5	0,9	1,1	0,1	0,1	0,1	0,0	0,1
Public health and social services	-0,3	-1,0	0,0	-0,2	-0,2	0,0	0,0	0,0	0,0	0,0
Provision of communal and personal services	3,9	4,0	0,3	2,0	4,5	0,1	0,1	0,0	0,0	0,1
Net taxes for products	7,6	6,1	7,9	5,8	11,7	1,0	1,0	1,3	0,6	1,6

Source: National Statistics Committee, NBKR estimations

year due to necessity of food safety internal provision. Area of cereal crop fields increased by 8.8 percent, vegetable fields by 3.1 percent, forage crop fields by 1.2 percent.

The year 2008 was characterized by prohibitive measures of the Government for export of cereal crops, oil-yielding crops and forage crops, to prevent internal deficit caused by a high external demand.

Increase in livestock number in 2008 as well as unfavorable natural-climatic situation in spring and summer in the north of Kyrgyzstan and south of Kazakhstan created conditions for supply expansion and correspondingly reduction of prices for livestock and meat in the domestic market.

From the ripped area, 1510.9 thousand tonnes of seed was harvested (weight of initially received crop) or 101.3 percent to the level of the previous year. An average yielding capacity of cereal crops in the republic constituted 23.8 centners from a hectare (initially received weight) against 24.3 centners from a hectare as of the corresponding date of the previous year.

In comparison with 2007, the tobacco production decreased and constituted 94.4 percent against the volume of the last year harvest. Raw cotton harvest remained at the rate of 2007. Production of oil-yielding crops constituted only 88.2 percent against corresponding period of the previous year. Potato crop constituted 2.8 percent less than the crop of the corresponding period of the previous year. Vegetables harvest increased by 4.1 compared to the previous year.

In the period of January-December 2008, the export supply of fruits increased by 2

times in natural terms and by 1.9 times in value terms and the export supplies of vegetables decreased – by 13.2 percent in natural terms and by 18.4 percent in value terms.

The unemployment rate decreased a little. Thus in accordance with the information, provided by the State Committee of the Kyrgyz Republic on migration and employment, as of January 1, 2009, the number of unoccupied people looking for job decreased by 2.2 percent in comparison with the corresponding date of 2008 and the number of unemployed population decreased by 5.7 percent. The registered level of unemployment constituted 2.9 percent of economically active population.

## **1.2. Money and credit trends**

### **Monetary base**

As of January 1, 2009, the monetary base was 3 5150.8 million soms, having increased in the fourth quarter of 2008 by 0.6 percent in nominal terms (in the fourth quarter of 2007 the increase constituted 15.2 percent) and in real terms in decreased by 3.1 percent against the increase (in the fourth quarter of 2007) of 5.8 percent.

In the fourth quarter of 2008, the change of monetary base in the view of transactions (207.6 million soms) was mainly influenced by transactions of the Kyrgyz Republic Government, which increased the monetary base by 781.4 million soms as well as by transactions of the National Bank, which reduced the monetary base by 573.8 million soms. For comparison, in the fourth quarter of 2007, the monetary base increase by 4168.3 millions soms was influenced by transactions of the National Bank of the Kyrgyz Republic (991.9 million soms) and transactions of the Government of the Kyrgyz Republic (3176.4 million soms).

Currency in circulation in the fourth quarter of 2008 increased by 0.6 percent and as of January 1, 2008 constituted 30803.3 million soms (in the corresponding period of 2007 the increase constituted 13.3 percent).

In the monetary base structure and in comparison with the beginning of 2008, there was an increase of the share of cash in circulation from 87.3 to 88.9 percent as of the end of December 2008. Accordingly, the share of funds on the commercial banks correspondent accounts in the National Bank of the Kyrgyz Republic decreased from 12.7 to 11.1 percent.

### **M2**

As of January 1, 2008, the M2 aggregate constituted 38209.3 million soms. The decrease of M2 in the fourth quarter of 2008 constituted to 2.8 percent (in the fourth quarter of 2007 the M2 increased by 15.4 percent). The decrease of the M2 aggregate in the reporting period was caused by reduction of deposits in the national currency by 12.3 percent (in the fourth quarter of 2007 the increase constituted 23.3 percent) with the growth of currency outside the banks by 0.4 percent (in the fourth quarter of 2007 the increase constituted 13.2 percent). At the same time, the decrease in transferable (on-demand) deposits constituted 8.5 percent and of other (time deposits) deposits the

decrease amounted to 16.6 percent (in the fourth quarter of 2007 there was a certain increase which constituted 20.9 and 27.2 percent correspondingly).

## M2X

M2X, including deposits in a foreign currency, in the fourth quarter of 2008 decreased by 1.9 percent and as of January 1, 2009 constituted 48453.2 million soms (as of January 1, 2008, the M2X aggregate constituted 43018.0 million soms, having increased by 11.6 percent). In comparison with the third period of 2008, in the reporting period there was a change of broad money M2X due to decrease in the overall deposits amount<sup>2</sup> by 5.4 percent with the increase of cash outside the banks by 0.4 percent. Herewith there was a certain growth of deposits in foreign currency by 1.5 percent. In the corresponding period of 2007, the growth of wide money was due to increase of currency outside the banks by 13.2 percent and of the total deposits volume by 9.1 percent, at that the deposits in foreign currency decreased by 1.9 percent.

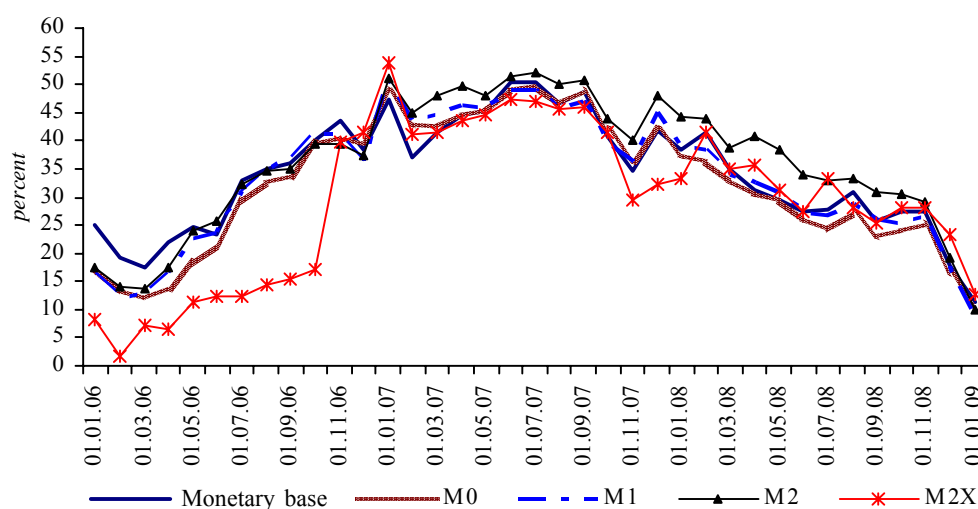
As a result the structure M2X as of the end of December 2008 and in comparison with the beginning of the year changed in the following way:

- Share of currency outside the banks decreased from 61.2 to 61.0 percent;
- Share of deposits in the national currency decreased from 18.6 to 18.3 percent;
- Share of deposits in a foreign currency increased from 20.2 to 20.7 percent.

The broad money multiplier, which indicates the level of financial intermediation, decreased in comparison with the beginning of the year and as of January 1, 2009 constituted 1.378 (as of January 1, 2007 it was – 1.362).

As of January 1, 2009, the circulation rate of M2X broad money constituted 4.1 (against 4.0 percent as of January 1, 2008). The economy monetization ratio calculated on the basis of M2X monetary aggregate constituted 24.5 percent (against 25.3 percent as of January 01, 2008).

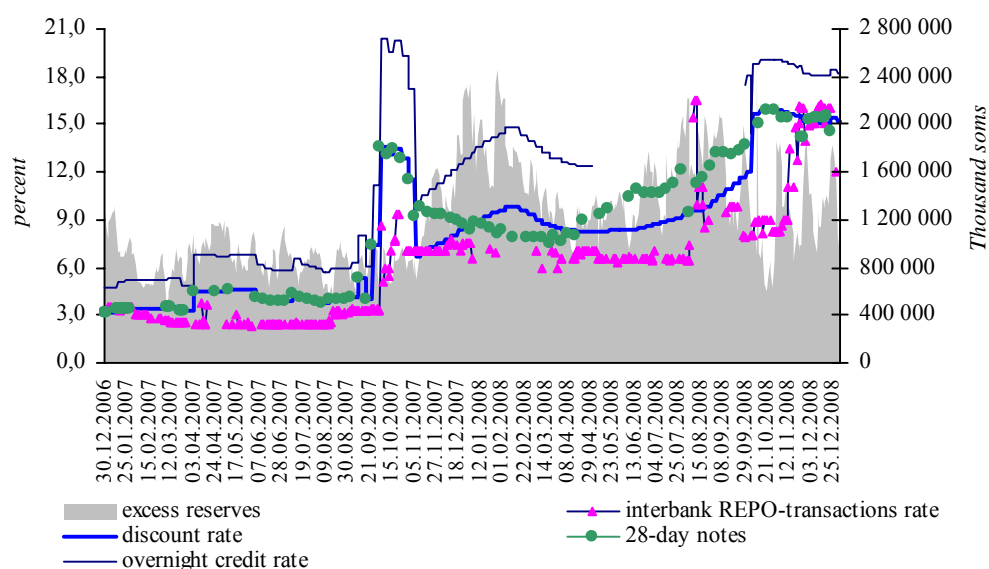
**Figure 1.2.1. Annual nominal growth rates of monetary aggregates**



<sup>2</sup> According to analytical balance of the banking system, it includes only the deposits of legal entities and individuals as well as the deposits of other financial and credit institutions, excluding the deposits of the Government and non-residents.

In the fourth quarter of 2008, in conditions of remaining high inflation rates, the National Bank of the Kyrgyz Republic continued taking measures on tightening of the monetary policy, which influenced the formation of the financial market situation. Moreover the current situation was influenced by the liquidity level fluctuation and its concentration in the commercial banks.

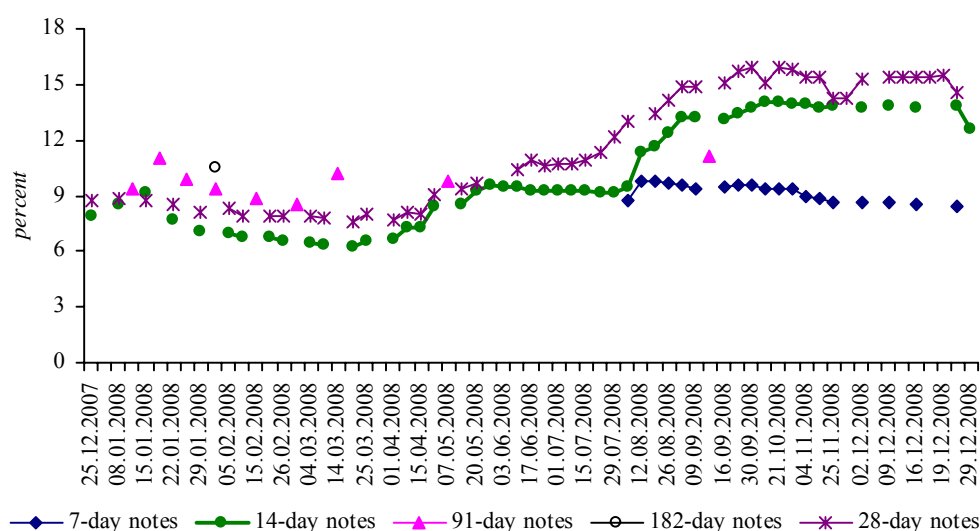
**Figure 1.2.2. Changes in money market rates**



In the reporting period, the National Bank of the Kyrgyz Republic in order to absorb the excess liquidity from the banking system continued using the NBKR notes, but reducing their demand volumes in comparison with the previous quarter. At the same time in conditions of commercial banks liquidity level decrease, the demand for notes within the whole period remained not high. This provided the increase in profitability rate of all types of notes, excluding 7-day notes, the demand for which remained at a rather high level due to short-term character of the commercial banks excess liquidity. Auctions on allocation of the NBKR 182 day notes were not performed in the fourth quarter, whereas in the segment of the NBKR 91-day notes, 3 out of 6 announced auctions were performed. In the fourth quarter, the profitability rate of 7-day notes decreased by 0.7 percentage points in comparison with the third quarter and amounted to 8.9 percent, the profitability rate of 14-day notes increased by 2.5 percentage points and amounted to 13.8 percent whereas in the segment of 28-day notes, the profitability rate increased by 2.1 percentage points and amounted to 15.5 percent. As per results of three auctions, the profitability rate of the NBKR 91-day notes increased by 5.4 percentage points in comparison with the previous quarter and amounted to 16.6 percent. In comparison with the fourth quarter of 2007, the profitability rate of the NBKR 14-day notes increased by 4.5 percentage points and profitability rate of 28-day notes increased by 5.1 percentage points.

Discount rate, earlier determined as an average profitability rate of the NBKR 28-day notes, registered in last 20 auctions, from October 6, 2008 started to be calculated as an average value of the NBKR 28-day notes registered in the last 4 auction. As of the end of the reporting period, the discount rate constituted 15.2 percent, having increased

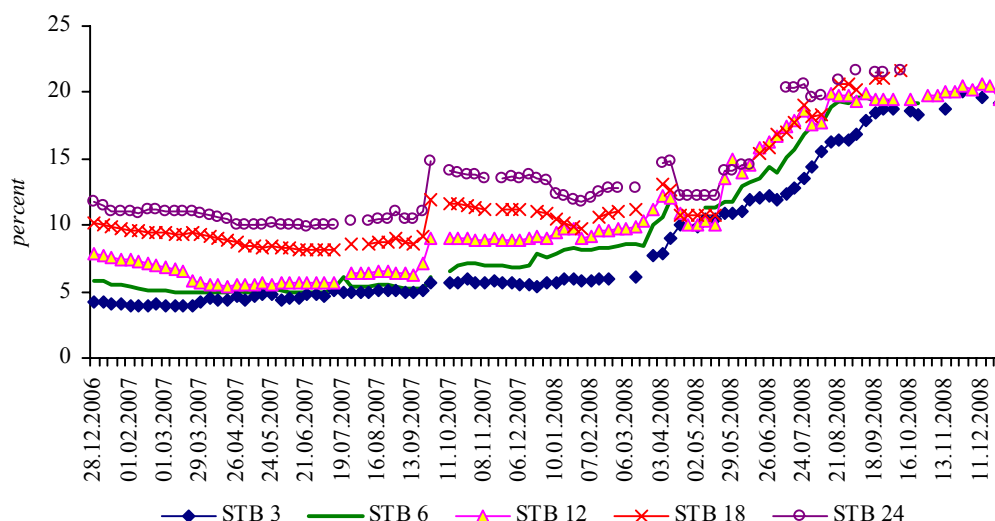
Figure 1.2.3. NBKR notes income flows



by 3.6 percentage points in comparison with the beginning of the quarter. Overnight loans interest rate, earlier was equal to the discount rate with the coefficient 1.5, from October 6, 2008 started to be calculated with the coefficient of 1.2 and as of the end of the reporting period it constituted 18.3 percent. In the reporting quarter that National Bank of the Kyrgyz Republic issued the overnight loans for the sum of 370.2 million soms, the weighted average rate on them constituted 18.4 percent.

In the fourth quarter the Ministry of Finance reduced the volumes of weekly STB emission changing from October 2008 the practice of weekly allocation of bills. Thus in the first month of the quarter the following bills were allocated for tender: in the first and third weeks of the month – 3-, 6- and 12- month STB, in the second week – 18- and 24-month STB, in the fourth week – 3- and 6-month STB and in the fifth week – 12-month STB. In November and December 18- and 24-month STB were not allocated. This led to reduction of long-term STB share. In general in the quarter the general weighted average profitability rate constituted 19.5 percent having increased by 1.6 percentage points; profitability rate growth was noted in all segments of the STB market. In comparison with the corresponding period of 2007, the general level of STB profitability rate increased by 10.6 percentage points; profitability growth was also registered in all segments of the market.

The cost of inter-bank credits in the national currency and its volatility in the fourth quarter of 2008 increased considerably that was determined by fluctuation of excess reserves and demand for borrowed resources. On average, in the reporting quarter, the interest rate in the segment of REPO-transactions increased by 2.9 percentage points in comparison with the previous quarter and constituted 12.1 percent. The cost of inter-bank credits in the national currency increased by 2.7 percentage points and constituted 9.8 percent. In comparison with the corresponding period of 2007, the average interest rate in the segment of REPO-transactions increased by 4.9 percentage points, and in the segment of inter-bank credits in the national currency this rate increased by 5.1 percentage points.

**Figure 1.2.4. STB income flows**

In the segment of transactions in a foreign currency in the domestic inter-bank credit market, the level of rates fluctuated from 3.5 to 12.0 percent depending on terms of the concluded transactions. On average, in the reporting quarter, the cost of inter-bank credits in a foreign currency constituted 4.7 percent, having decreased by 2.7 percentage points in comparison with the previous quarter due to decrease of the concluded transactions terms. In comparison with the corresponding period of 2007, the rate on these credits decreased by 1.8 percentage points.

Moreover in order to absorb the excess liquidity in the banking system, the National Bank of the Kyrgyz Republic conducted STB(s) auctions under REPO terms, concluding reverse REPO-agreements with commercial banks for the sum of 482.0 million soms that is 6.9 percent less than their volume in the previous quarter. The weighted average interest rate on them decreased by 0.3 percentage points and constituted 8.6 percent, and the maturity constituted 10 days, having decreased by 12 days.

In the reporting period the National Bank of the Kyrgyz Republic could absorb 520.0 million soms of excess banking liquidity in the reporting quarter by conducting reverse SWAP transactions (for the amount of 13.5 million US dollars). An average maturity of such transactions constituted 35 days.

### 1.3. External environment

#### Trade balance

According to the preliminary data, trade balance<sup>3</sup> of the Kyrgyz Republic in the fourth quarter of 2008 recorded a deficit of 454.8 million USD having decreased by 2.7 percent in comparison with the corresponding period of 2007.

External trade<sup>4</sup> in fob prices as per results of the fourth quarter of 2008 increased by

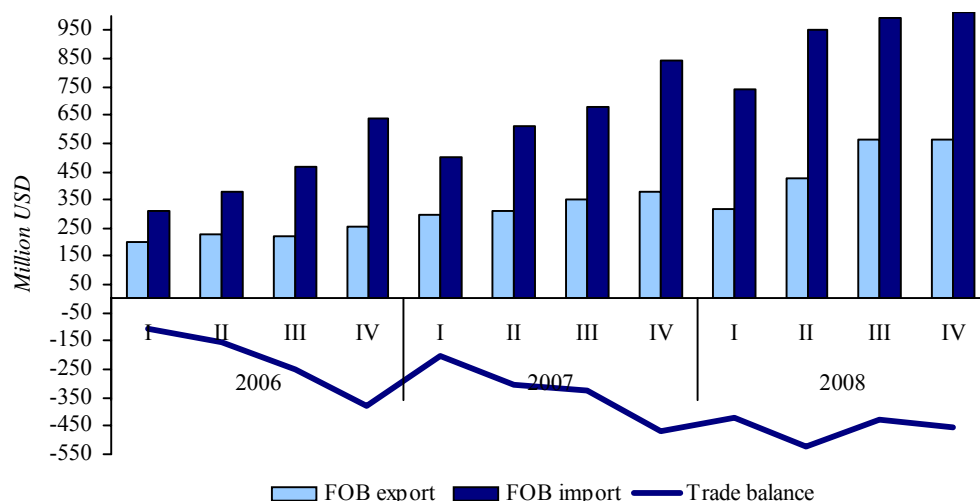
<sup>3</sup> In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic, with regard to the NBKR additional evaluations

<sup>4</sup> In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic, with regard to the NBKR additional evaluations

29.2 percent as compared to the corresponding period of 2007 and amounted to 1 574.5 million USD.

In geographic structure<sup>5</sup>, the trade growth was registered mainly for the non-CIS countries – by 40.2 percent: in 2.1 times due to export transactions and in 14.3 times due to import transactions. Growth rates of trade turnover with the CIS countries were almost 2 times less and constituted 19.9 percent, including due to export volume increase by 8.0 percent and import – by 25.8 percent.

**Figure 1.3.1. External trade**



Export of goods<sup>6</sup> in the fourth quarter of 2008 constituted 559.8 million US dollars, having increased by 49.0 percent in comparison with the fourth quarter of 2007.

In accordance with the functional structure<sup>7</sup>, the major export items in the reporting period were intermediate goods (46.4 percent), energy products (21.6 percent out of the total volume of goods export) and consumer goods (16.0 percent).

In the fourth quarter of 2008, despite a certain increase in consumer goods export volume by 15.5 percent, the share of this group of goods decreased from 21.7 to 16.0 percent (in comparison with the fourth quarter of 2007) and constituted 81.1 million USD. In the reporting period the share of food products export decreased from 42.4 to 36.5 percent (in comparison with the fourth quarter of 2007) out of the overall export of consumer goods. In the structure of food products, under the influence of supply physical volume decrease, the export value of vegetables decreased by 29.4 percent, milk and dairy products by 40.1 percent. The export of precious metal jewelry goods export increased from 0.4 million USD to 12.1 million USD, which provided growth of non-food products share from 57.6 to 63.5 percent out of the overall export volume of consumer goods.

<sup>5</sup> In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic, with regard to the NBKR additional evaluations

<sup>6</sup> In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic, with regard to the NBKR additional evaluations

<sup>7</sup> In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic, with regard to the NBKR additional evaluations

Considerable increase in raw material export (by 71.2 percent) provided the growth of this group contribution into the overall export volume by 1.1 percentage point (up to 13.2 percent) that is equal to 67.1 million US dollars. This increase is explained by price growth for radioactive chemical elements and isotopes in 4 times.

Export of intermediate goods in the fourth quarter of 2008 constituted 235.0 million USD, having increased by 77.3 percent in comparison with the base period. A large share of gold in this group of goods (81.9 percent), the export volume which increased in 2.5 times, determined the growth of export share of intermediate goods from 41.0 to 46.4 percent out of the overall goods export volume.

It should be noted that alongside with this, the supplies of cement decreased by 32.1 percent and glasses by 50.1 percent.

Volume of energy products supplies increased by 57.8 percent in comparison with the base period and amounted to 109.4 million US dollars. At that the largest part of such supplies is accounted for oil products (98.6 percent), directed for re-export. The physical volume of oil products in the reporting period increased by 18.3 percent whereas their prices growth constituted 38.7 percent in comparison with the base period. The share of energy products export in comparison with the fourth quarter of 2007 remained at the same level.

According to preliminary data, the import of goods<sup>8</sup> in FOB prices increased by 20.3 percent in comparison with the corresponding period of 2007 and amounted to 1 014.7 million US dollars. From the CIS countries, goods for the sum of 555.5 million US dollars were imported. Import from non-CIS countries constituted 459.1 million US dollars.

In the functional structure<sup>9</sup> of import CIF in the fourth quarter of 2008 there was a growth tendency in all groups of goods. The largest import share was accounted for consumer goods (32.6 percent), energy products (27.1 percent) and intermediate goods (19.6 percent).

In the reporting period, the domestic demand for foreign production of consumer use increased by 85.2 percent in comparison with the fourth quarter of 2007. Herewith, the majority of imported goods was accounted for non-food products (67.9 percent in the total volume of consumer goods). The share of food products constituted 32.1 percent correspondingly. In the structure of non-food products, the shares of previously used cars, imported from Germany and Japan increased in 8.4 times that was mainly explained by the expansion of statistic coverage. In the reporting period the share of food products decreased from 46.1 to 32.1 percent out of the overall volume of consumer goods. This was explained by reduction of the imported sugar, sugar products and honey volume (by 7.7 percent).

In the fourth quarter of 2008, the share of energy products in the overall volume of

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<sup>8</sup> Import of CIF with regard to additional evaluations constituted 1065.3 million US dollars; the deficit of trade balance – 504.1 million US dollars.

<sup>9</sup> In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic.



goods import decreased by 3.0 percentage points and in value terms the import of energy products constituted 298.4 million USD. This group includes the import of oil products (the share of which in the overall volume of this group constituted 80.1 percent) and natural gas.

In the fourth quarter of 2008, the import of intermediate goods increased by 21.9 percent in comparison with the corresponding quarter of 2007. In the structure of this group, the import of textile fabric increased in 2.4 times in natural terms.

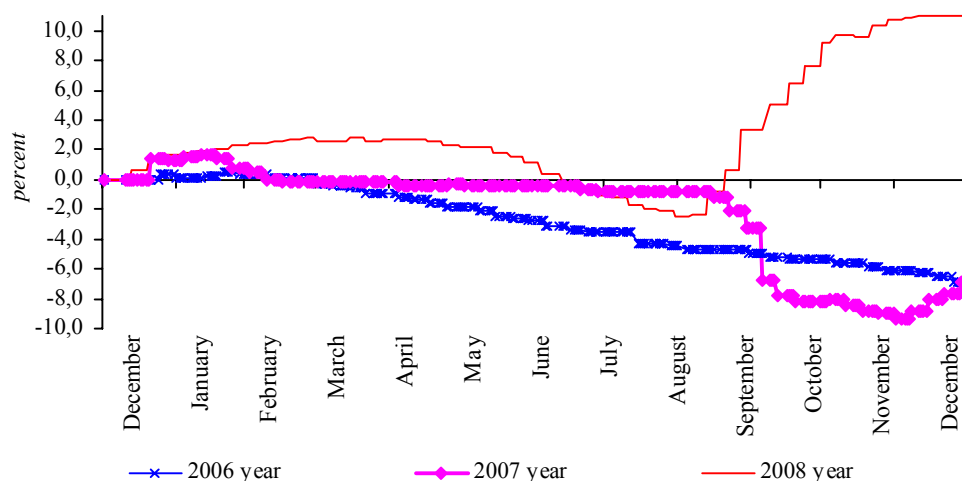
The import of investment goods increased by 72.2 percent and constituted 150.9 million USD. This growth was mainly explained by the increase in car supplies for transportation of cargos and special purpose vehicles (in 5 times), aircraft plane and equipment (in 8.5 times), electric telephone sets (in 2 times). The major reason for such growth is in quantitative increase of goods, imported earlier in fewer volumes.

### 1.4 Foreign exchange rate

In the fourth quarter of 2008 in the foreign exchange market there was kept a tendency for the USD exchange rate growth, formed in September of 2008. This was provided first of all by a continuing high demand for US dollars on part of market participants in conditions of the increased negative trade balance as well as under the influence of prevailing tendency of USD strengthening against other world currencies in external markets. To prevent violent fluctuations of the exchange rate, the National Bank of the Kyrgyz Republic performed currency interventions acting as a purchaser and seller of US dollars on foreign exchange markets. In general, in the fourth quarter of 2008, the volume of NBKR transactions on USD sale constituted 71.2 million US dollars and on USD purchase – 41.6 million US dollars.

The weighted average USD exchange rate in the foreign exchange market as of the end of the reporting period constituted 39.5934 KGS/USD, having increased by 8.1 percent. The USD selling rate at the exchange offices increased by 9.4 percent and constituted 39.7217 KGS/USD as of the end of December.

Figure 1.4.1. Trend of the USD discount rate



The USD discount rate within the fourth quarter increased by 7.5 percent and in comparison with the beginning of 2008 – by 11.4 percent and constituted 39.4181 KGS/USD as of the end of December (35.4988 KGS/USD as of the end of December 2007).

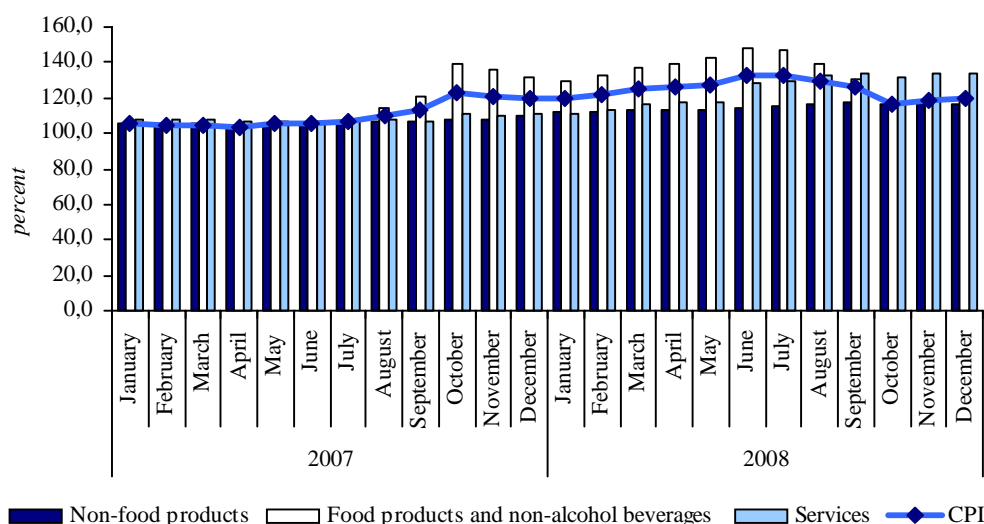
The dynamics of EUR exchange rate as usual was mainly formed under the influence of EUR rate fluctuations in foreign markets as well as the changes of KGS exchange rate against USD in the domestic market. Thus, the EUR exchange rate within 2 months (October-November) was mainly decreasing, however in December it considerably increased. In general within the quarter, the EUR selling rate at exchange offices increased by 5.4 percent and by the end of the reporting period it constituted 55.2291 KGS/EUR. The discount rate constituted 55.4790 KGS/EUR by the end of the period, having increased by 3.4 percent within the quarter.

## Part 2. Inflation and its components<sup>1</sup>

### 2.1. CPI analysis by components and regions

In the fourth quarter of 2008, the inflation rate constituted 3.9 percent (in the fourth quarter of 2007 this rate constituted 8.9 percent). In the reporting period there was a seasonal increase in prices as compared to the previous quarters. The key factor, determining the price dynamics, was an increase of prices for services by 5.2 percent and goods – by 3.7 percent. The CPI for food products in the fourth quarter of 2008 constituted 104.1 percent, for non-food products – 103.4 percent and for paid services – 105.2 percent.

Figure 2.1.1. CPI and its components dynamics on an annualized basis

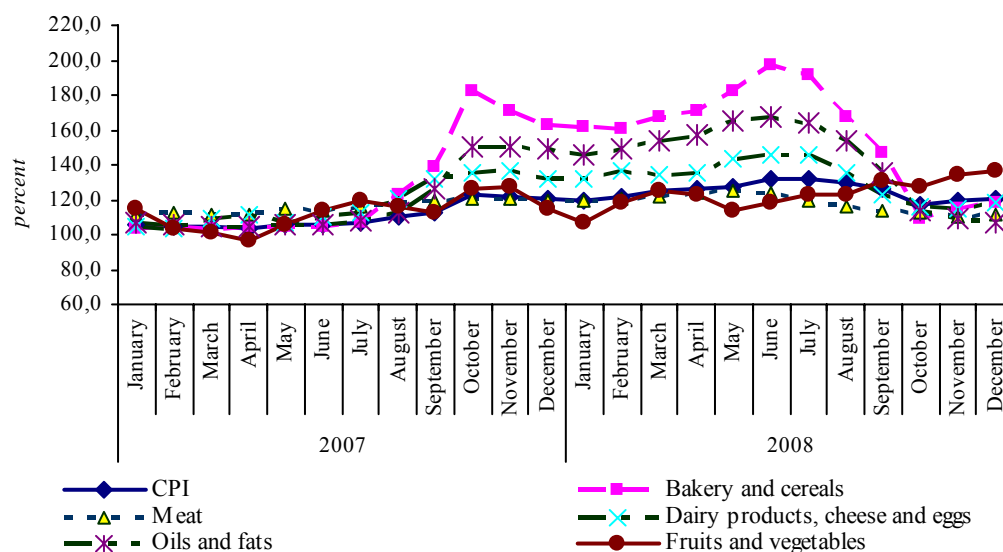


On an annualized basis (December 2008 to December 2007) the inflation rate constituted 20.0 percent (corresponding index of 2007 – 20.1 percent). The largest increase in prices for registered for paid services – 34.4 percent, the increase for goods constituted 18.5 percent including food products – 20.9 percent and non-food products – 16.0 percent. The dynamics of the general prices level was determined by the dynamics of prices for food products due to their large share in consumer expenses.

#### 2.1.1. Food products

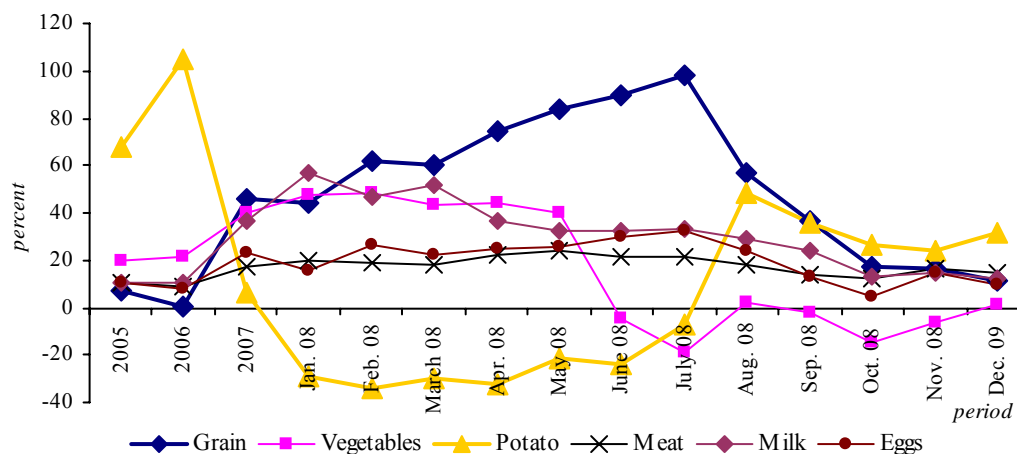
Prices for food products were characterized by a high seasonal volatility that traditionally affected the prices increase in the fourth quarter of 2008. Prices increment rate for food products in the fourth quarter constituted 4.1 percent (12.8 percent in the fourth quarter of 2007). Prices growth for food products was influenced by a seasonal price increase for fruits and vegetables as well as dairy products and sugar. Against the background of a considerable prices growth in previous periods, there was a continuing decrease in prices for bakery and oils/fats.

<sup>1</sup> Due to the National Statistics Committee data.

**Figure 2.1.2. Annual dynamics of prices for food products**

Dynamics of prices for food products was determined by the production volume as well as by demand of external and internal consumers. Moreover alleviation of negative external price shocks for individual food products and energy carriers provided the decrease in the producers' products cost.

Producer prices for agricultural products increased by 6.4 percent in the fourth quarter. The largest price growth was registered for vegetables (by 24.8 percent), milk (by 19.9 percent) and eggs (by 14.4 percent).

**Figure 2.1.3. Dynamics of producer prices for individual types of agricultural products**

The tendency for grain price increase in 2007 and in the first half of 2008 in the world and especially in Kazakhstan and Russia was changed by depreciation in the second half. The overall annual increase in year-on-year prices for bread, bakery and cereal constituted 18.2 percent (in the corresponding period of 2007 – 62.6 percent), including the price increase for bread by 16.3 percent. Estimating contribution of this group of products into the annual inflation rate constituted about 2.5 percentage points. In the fourth quarter of 2008, the group of bakery and cereal products continued decreasing in prices; in the end the decrease in prices made up 3.8 percent within the quarter. The

largest decrease in price was registered for first grade flour and high-grade flour – by 9.9 percent and 4.3 percent correspondingly. In the fourth quarter there was a seasonal increase in prices for fruits and vegetables by 27.4 percent in comparison with the previous quarter, including prices for fruits increased by 28.3 percent and for vegetables by 26.8 percent. Fruits-and-vegetables increased in year-on-year prices by 37.1 percent.

Lack of domestic raw materials and as a consequence dependence on the imported production was the main reasons for sugar price increase, the price for which followed the world price dynamics. Thus in 2008 the price increase for sugar totaled 30.9 percent including 11.4 percent for the reporting quarter of 2008.

Growth of livestock population and livestock production was the deterrent factor against meat products price increase. Thus, in the fourth quarter, the prices for meat inconsiderably decreased (by 0.1 percent). At the same time year-on-year, the prices for meat products increased by 11.9 percent against 19.1 percent of 2007.

Negative influence of internal and external factors that provided the increase in consumer prices for oils and fats in 2007 and in the first half of 2008, decreased by the beginning of the reporting period. Thus in 2008, the group of oils and fats grew in prices by 7.1 percent, herewith in the reporting period the prices for oils and fats decreased by 2.1 percent.

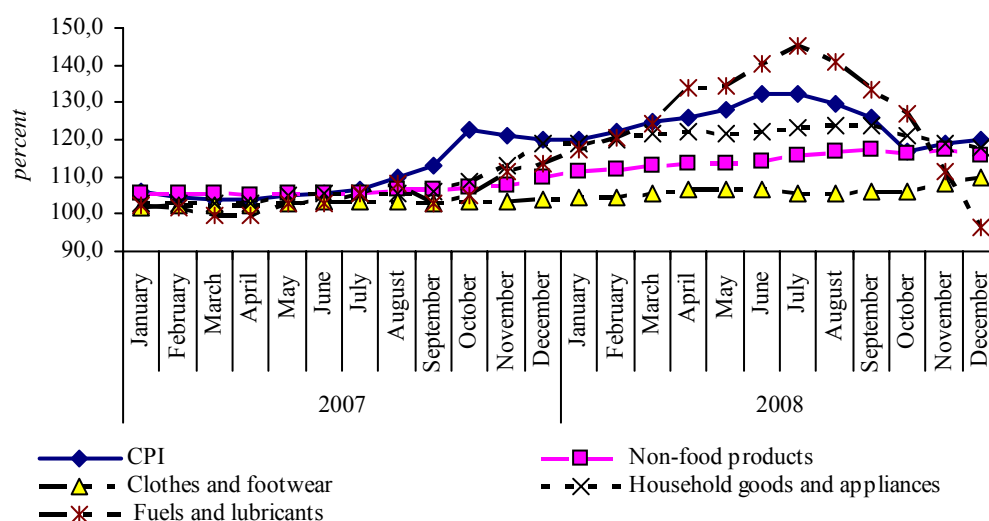
In the fourth period of 2008, there was a traditional seasonal price increase for dairy products, which constituted 9.3 percent. Year-on-year, the dairy products increased in prices by 17.9 percent (in the corresponding period of 2007 – this rate was 32.4 percent).

In the fourth quarter, the prices for fish increased by 10.8 percent and on an annualized basis – by 18.8 percent.

### 2.1.2. Non-food products

Against the background of general prices growth, the non-food products continued the tendency of moderate growth. Thus CPI for non-food products increased by 3.4 percent

Figure 2.1.4 Annual dynamics of prices for non-food products



within the reporting period and in general as per results of the year the increment rate constituted 16.0 percent (9.8 percent within the corresponding period of 2007).

The annual prices growth for non-food products was formed mainly due to the prices growth for household goods (117.7 percent), clothes and footwear (109.8 percent) and materials for maintenance and repair of housing (103.2 percent).

The deterrent factor of prices growth for non-food goods was the decrease in prices for fuels and lubricants (by 3.8 percent). In the fourth quarter there was the prices growth retardation for energy carriers against general world tendencies. Thus after price increase for the whole group of fuels and lubricants in the first half of 2008 mainly due to price increase for diesel fuel, in the reporting period there was a decrease in prices by 24.5 percent.

### 2.1.3. Services

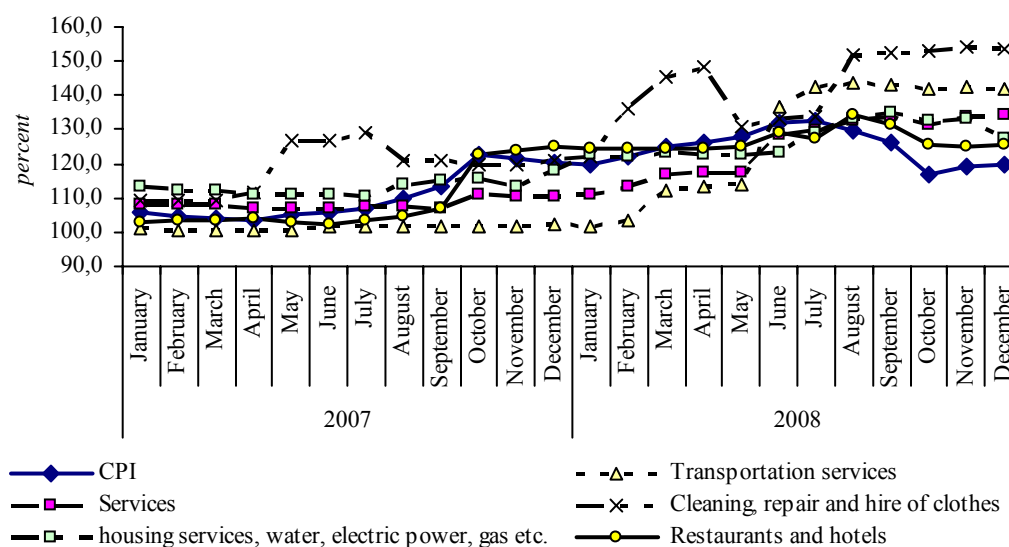
In the fourth quarter of 2008, the price index for paid services increased by 5.2 percent (in the fourth quarter of 2007 – 4.5 percent). The growth of index for this group of goods was due to price increase for education services. Thus as a result of measures taken by the Kyrgyz Republic Government on improvement of the education services quality, the prices for this commodity line increased by 10.2 percent in the reporting period.

Moreover in the reporting quarter, the rental housing prices increased by 32.1 percent and prices for public catering increased by 11.9 percent. There was also a continuing prices growth for services on cleaning, repair and hire of clothes (by 2.2 percent).

Cost of public transportation services decreased by 0.6 percent due to depreciation of energy sources.

On an annualized basis, the index price for paid services increased considerably – by 34.4 percent. The major contribution was made by the price growth for education services (by 44.1 percent), public transportation services (by 41.6 percent) and services

Figure 2.1.5. Annual dynamics of prices for paid services



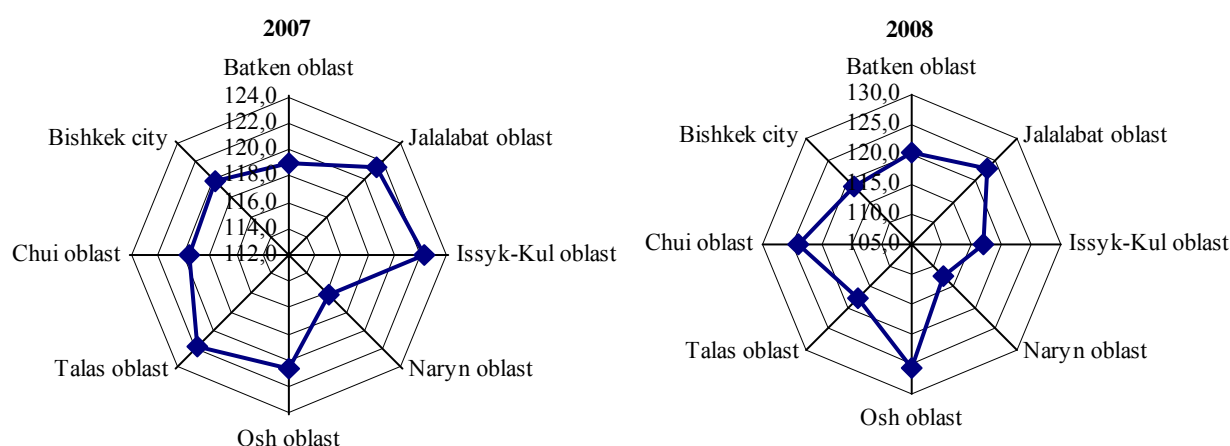
of restaurants and hotels (by 25.5 percent). The prices for services on cleaning, repair and hire of clothes increased by 53.4 percent.

### 2.1.4. Dynamics of consumer prices in regions

In the regional view, prices growth for goods and services was fluctuating in the range of 2.3-6.3 percent depending on the region. The largest prices increase was registered in Osh, Jalalabat and Talas oblasts where prices increment constituted 6.3, 5.7 and 5.3 percent correspondingly. The main factor for prices increase in these oblasts was price increase for food products. The least CPI growth rates were registered in the Issyk-Kul and Naryn oblasts – 2.3 and 2.7 percent correspondingly due to low rates of food-products price increase.

In Chui oblast, CPI increased by 4.9 percent at that price increase for alcohol and tobacco products constituted 8.0 percent. In Bishkek city there was prices growth by 3.1 percent, herewith the prices for food products increased by 2.8 percent, whereas for non-food products and for paid services by 3.3 and 5.8 percent correspondingly.

Figure 2.1.6. CPI for the reporting quarter in regions

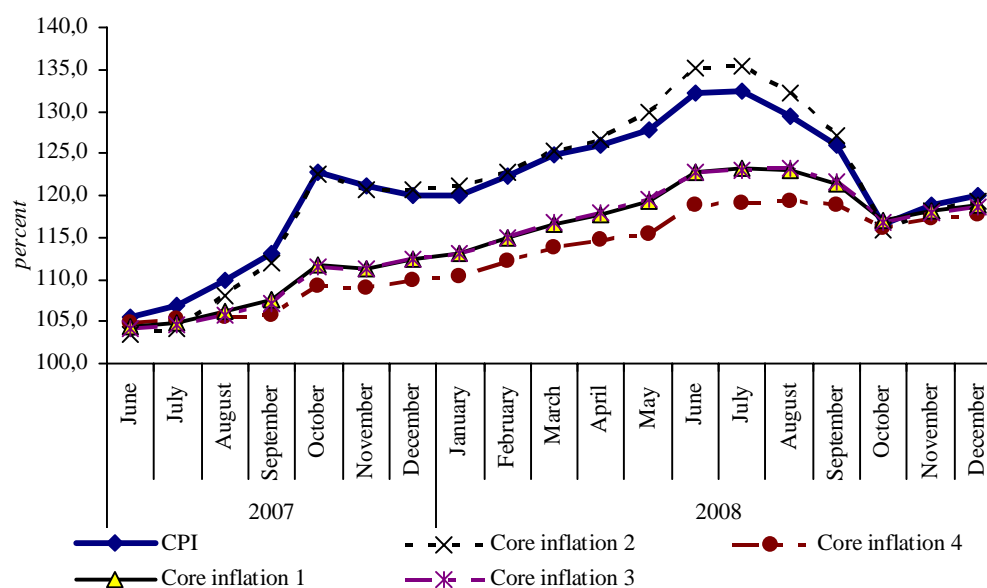


## 2.2. Core inflation

The inflation rate index – CPI dynamics is deficient index of the inflation trend, especially when observed on a monthly or quarterly basis. This relates to the fact that inflationary processes are considerably influenced by the factors of short-term and seasonal nature.

Core inflation may be determined as the inflation trend, excluding short-term, structural or seasonal changes of prices, i.e. settlement of inflation rate excludes prices increment rate for goods, determined by seasonal or external factors, such as poor harvest, price shock on the fuels and lubricants market, administrative change of tariffs for gas and electric energy etc.

Core inflation dynamics, calculated by simple exclusions method, is presented below. This method involves exclusion of specified categories or a group of goods and services, the prices for which are sensitive to shocks, from the CPI. Traditionally such goods include certain food-products, energy sources and administrative tariffs.

**Figure 2.2.1. Core inflation dynamics**

Core inflation 1 – the following types of goods were excluded:

- 1) bakery products and cereals
- 2) oils and fats
- 3) fruits and vegetables
- 4) gas
- 5) materials for repair and construction

Core inflation 2 – the following types of goods were excluded:

- 1) meat
- 2) fruits and vegetables
- 3) gas
- 4) materials for repair and construction

Core inflation 3 – the following types of goods were excluded:

- 1) bakery products and cereals
- 2) dairy products
- 3) fruits and vegetables
- 4) gas
- 5) materials for repair and construction

Core inflation 4 – excludes all food-products as well as electric energy, gas and other fuel types.



## **Part 3. Decisions of the National Bank of the Kyrgyz Republic on monetary policy**

### **3.1. Major decisions of the Board members of the National Bank**

The following is the list of decisions made by the NBKR Board during the fourth quarter of 2008:

1. On October 22, 2008 the NBKR Board regarded and accepted the following resolutions :
  - Resolution №38/1 “On introduction of changes into the Provision on issuance, allocation, circulation and redemption of notes of the National Bank of the Kyrgyz Republic”;
  - Resolution №38/2 “On introduction of changes into the Provision on performance of auctions on allocation of State Treasury Bills of the Kyrgyz Republic through the National Bank of the Kyrgyz Republic”.
2. On November 26, 2008 the NBKR Board regarded and approved the Report on monetary policy for the period of January-September 2008 and the monetary-and-credit program for the following period. Abridged version of the report on monetary policy for the period of January-September 2008 was sent for information purposes to the Kyrgyz Republic President Administration, the Kyrgyz Republic Government, the Kyrgyz Republic Jogorku Kenesh, the Kyrgyz Republic Ministry of Finance and the Kyrgyz Republic Ministry of Economic Development and Trade. (resolution №42/1).
3. On November 26, 2008, the NBKR Board accepted:
  - Resolution №42/2 “On introduction of changes into the resolution of the Kyrgyz Republic Government and the National Bank of the Kyrgyz Republic” dated March 27, 2008 №102/11/2 “On joint statement of the KR Government and NBKR about major trends of the economic policy for 2008”;
  - New edition of the Resolution “On obligatory reserves”. Changes relate to transfer of commercial banks to independent accounting scheme from January 1, 2008 (resolution №42/3);
  - Resolution №42/4 “On approval of the Provision on the procedure of allocation, repeated tender, additional allocation, reverse repayment and financial settlement of the State Treasury Bills of the Kyrgyz Republic through the National Bank of the Kyrgyz Republic”.
4. On November 28, the NBKR Board regarded and approved the Major trends of the monetary policy of the Kyrgyz Republic for 2009-2011. This document includes the main aims and objectives on inflation and intermediate orienting points of the monetary policy for 2009-2011. According to this document, the monetary policy in the mid-term period will be aimed at systematic reduction of inflation rates in order to bring it to one-digit indices by 2011, which is one of the major conditions for stable economic growth development. At that the NBKR major purpose will be to find the optimum balance between the risk of inflationary pressure and the risk of economic growth redemption (resolution №43/1).

5. On December 10, 2008, the NBKR Board passed the resolution №45/2 “On approval of the list of liabilities for calculation of obligatory reserves”.
6. On December 17, 2008, the NBKR Board regarded and approved the following:
  - Statement of the National Bank of the Kyrgyz Republic on monetary policy for 2009. The major purpose of the monetary policy for 2009 is control over inflation rate and maintenance of the general prices level stability, as one of the major conditions for stable economic growth in a long-term perspective (resolution №47/1);
  - Changes and additions into the NBKR Board Resolution No.32/2, dated October 30, 2006 “On the Provision “On realization of Islamic financing principles in the Kyrgyz Republic within the framework of a pilot project”, registered in the Kyrgyz Republic Ministry of Justice on November 30, 2006; registration number №120-06 (resolution №47/3).

### 3.2. Major decisions of the Monetary Regulation Committee

The Monetary Regulations Committee (hereinafter referred to as Committee) develops and adopts current decisions in the monetary sphere. The decisions are made weekly on the basis of the assessed monetary market situation. Volumes of transactions are determined by the Committee on the basis of purposes and objectives, established by the NBKR Board and specified in the NBKR Statement on the monetary policy and the monetary policy major trends as well as with regard to the current situation in the banking and fiscal systems.

In the reporting period 13 meetings of the Monetary Regulation Committee were performed. The major decisions of the Monetary Regulation Committee in the fourth quarter were aimed at regulation of liquidity in the banking system by means of use of the following instruments:

1. performance of weekly tenders for the NBKR notes with the maturity of 7, 14, 28 and 91 days; indicative sales volume – 11.2 billion soms;
2. performance of reverse REPO-transactions for 5, 42 and 63 days with the overall volume of 400 million soms;
3. performance of reverse SWAP-transactions with foreign currency with the maturity date of 1 and 2 months in case of demand on part of commercial banks.

The Monetary Regulation Committee also made decisions on participation in the Interbank foreign exchanges to smooth acute fluctuations of the KGS exchange rate<sup>1</sup>.

In the fourth quarter, the actual sales volume of the NBKR notes constituted 6.8 billion soms, the volume of reverse REPO and SWAP transactions constituted 482.0 and 520.0 million soms correspondingly. In the reporting period, the NBKR net sale of USD constituted 1233.0 million soms in equivalent.

<sup>1</sup> The National Bank of the Kyrgyz Republic follows the policy of floating exchange rate, accepted by the Kyrgyz Republic

## Part 4. Inflation forecasting

### 4.1. Dynamics forecast of key inflation factor in 2009

According to the NBKR estimates, in 2009 in Kyrgyzstan a certain deceleration of economic growth and general decrease in business activity is expected in 2009. The major factors underlying this forecast include the internal and external background, caused by the world financial crisis.

However there are some perspectives for economic growth. The key factor, supporting the economic activity in the country, will be a continuing domestic consumer demand, caused by the population income growth.

Moreover it is expected that the state budget expenditures will increase in the first quarter of 2009, considering that influential lag will affect the formation of the inflation rate in the second half of 2009.

**Crude oil.** According to the results of the reporting period, an average price for oil of WTI brand decreased by 34.7 percent in comparison with the fourth quarter of 2007 and as of December 31, 2008 constituted 44.6 US dollars per barrel.

As for the oil prices forecast, it should be noted that the majority of experts believe that the oil prices reached the bottom line. Traders doubt that demand for oil decreased so much that it became possible to justify oil prices downturn up to 5 years minimum. That's why, as the market participants suppose, in the nearest months, the prices for oil start increasing. According to the new OPEK president, in 2009 the oil prices may amount to 75 US dollars per barrel.

In January 2009, Russia made a decision to develop a new forecast for the country economic development on the basis on the oil price equal to 41 US dollars per barrel of Russian crude oil.

**Natural gas.** Within 2008 the Kyrgyz Republic purchased natural gas from Uzbekistan at the price of 145 US dollars per 1 thousand of cubic meters.

On December 31, 2008, the Kyrgyz and Uzbek parties concluded the contract on natural gas supply for 2009 as the price of 240 US dollars per a thousand of cubic meters. Supply volume will constitute 650.0 million cubic meters.

**Gold.** An average world price for gold was fluctuating at the level of 794.8 US dollars per a troy ounce, that was 1.1 percent higher than the corresponding rate of 2007. The world price for gold as of December 30, 2008 constituted 869.8 US dollars per a troy ounce.

According to the Head of the Board of Directors of the company Peter Hambro Mining, producing gold in Russia, the gold prices will exceed 1000 US dollars per ounce in 2009.

**Wheat.** In 2008, the wheat decreased in prices by 33 percent on average. This

was partially related to the fact that the maximum wheat harvest was gathered in 2008. The worldwide consumption of wheat in 2008-2009 will constitute about 654.88 million tonnes, which is 5,7 percent higher than in the period of 2007-2008, at that the accumulated reserves will constitute 139.88 million tonnes of wheat, that is 18 percent higher than the rate of the previous period.

Grain Union of Kazakhstan forecasts that the prices will increase up to 250 US dollars per a tonne as a minimum at grain storages by spring 2009 and the export prices will increase up to 280 US dollars due to transportation costs.

Source: Reuters

#### **4.2. Inflation forecast for 2009 and the 1<sup>st</sup> quarter of 2009**

According to the National Bank Statement on the monetary policy for 2009, the target inflation value was established in the amount of not higher than 15 percent (December 2009 against December 2008). According to the National Bank estimations, CDI increment rate for the first quarter of 2009 is projected to be around 2.0 percent.

The major risk of the inflation intensification is possible on the part of natural gas tariffs price increase. Thus, the procurement prices growth for gas will have both a direct influence on the consumer expenditures level and indirect influence by means of creation of the conditions for producer price index increase.

Seasonal factors may also have an influence on ascendant dynamics of the consumer prices in the first quarter of 2009. At the same time it is necessary to consider the increase in agricultural crop in 2008 after downfall in 2007, which will allow expanding the domestic production supply. However the risk of additional pressure on CPI growth is possible on the part of the sugar prices, because the republic imports the raw material for sugar production. This growth tendency may also be applied to meat and dairy products.

Reduction of prices for fuels and lubricants may have a restraining influence on prices growth, in accordance with the world tendency and prices for grain crops due to increased supply in the region and the world market.