

**NATIONAL BANK  
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report  
Quarter 2, 2019**

**Bishkek  
August 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 Q2 2019 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2019-II-07/44-1-(ДКП) dated August 26, 2019.

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## Summary

In Q2 2019, macroeconomic development of the Kyrgyz Republic generally corresponded to the assumptions of the baseline scenario approved by the Board of the National Bank in May 2019.

In general, the external conditions for economic development of the Kyrgyz Republic were stable. A certain slowdown in economic activity was still observed in the countries-main trading partners of Kyrgyzstan, meanwhile there were positive economic growth rates. Assessments of the external environment development, including price movement in the world food markets, met the expectations of the National Bank. The emerging trend in global and regional markets is assumed not to bear significant inflation risks for the economy of the Kyrgyz Republic in the coming periods.

Positive trends remained in the economy of the country. In the reporting quarter, the economic growth of the Kyrgyz Republic was largely due to an increase of production output in the industrial sector and growth in real wages. In the first half of 2019, real GDP grew by 6.4 percent, excluding the enterprises of the Kumtor Mine - by 2.1 percent. The fiscal sector does not cause inflation risks, the fiscal consolidation policy is still conducted. However, there is a downward trend in the inflow of remittances to the country, which results in weakening of domestic demand.

The value of the existing inflation rate does not exceed the medium-term monetary policy targets and remains weakly positive amid a high supply of domestic and imported food products. In June 2019, the annual inflation rate was at the level of 0.9 percent; meanwhile its average value in the first half of the year (period to period) was -0.1 percent. The updated assessment of the inflation outlook made by the National Bank of the Kyrgyz Republic suggests low inflationary dynamics: provided that there are no shocks the average inflation rate (period by period) is expected at 1.2 percent, at the end of 2019, the inflation rate (December 2019 to December 2018) may approach the level of about 3.5 percent.

In Q2 2019, the trade balance was forming under the influence of decline in the export and import operations. Exports decreased by 4.6 percent due to reduction in supplies of consumer goods. The reduction in imports amounted to 13.2 percent due to lower volumes of supplies of consumer goods and energy products. Finally, the trade deficit of the country amounted to USD 672.2 million. The volume of foreign trade turnover decreased by 10.9 percent and amounted to USD 1.6 billion.

Low inflation risks from the external sector, as well as assessments of the economic growth in the Kyrgyz Republic, determined maintaining of stimulating monetary conditions. This monetary policy direction contributed to further expansion of the commercial banks' resource base and lending to the economy. In general, the money market showed stable dynamics: short-term interest rates were formed around the key rate. There was an upward trend in the participants' activity in the interbank credit market. At the same time, the National Bank conducted sterilization operations due to liquidity surplus existing in the banking sector.

## Chapter 1. External Environment

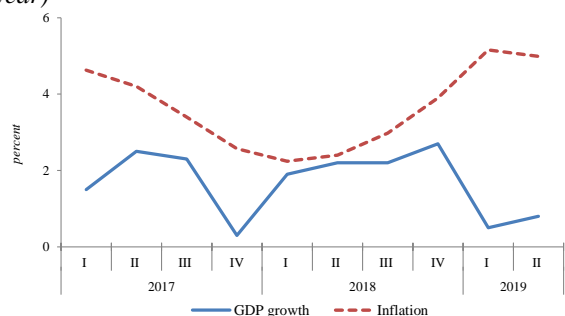
### 1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

Economic activity was still observed in the countries-main trading partners of the Kyrgyz Republic. There was a weak economic growth in Russia under the influence of temporary factors amid a slowdown in the inflation rate. In Kazakhstan, economic growth was provided by the expansion of investment, internal and external demand, and the inflation was due to rise in prices for food products, meanwhile the measures taken by the Government of the Republic of Kazakhstan to reduce tariffs were a restraining factor. The economic growth of Belarus slowed down due to temporary factors, the inflation rate developed above the target level. The economic growth is still observed in Armenia, the inflation rate is below the target level. There are assumptions about smooth slowdown in economic growth of China.

#### 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

##### GDP of Russia still showed weak dynamics amid temporary factors.

According to the Ministry of Economic Development of Russia, in Q2 2019, GDP of the country grew by 0.8 percent compared to the corresponding period of 2018. The sector of industry (0.8 percentage points) made the main input to GDP growth, while the inputs of other basic industries (trade, construction, transport) were close to zero. This situation reflected a low level of consumer and investment demand in the economy. The assumption of weak demand was also confirmed by such factors as: a sharp slowdown in the inflation rate, a decrease in

the number of vacancies in the labor market, a decline in imports and weak external demand for Russian goods and services amid a slowdown in the world economic growth.

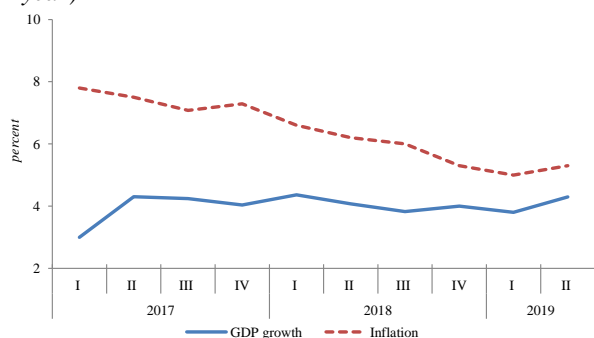
A favorable situation has developed in the foreign exchange and stock markets of Russia amid softening of rhetoric about the monetary policy of the developed countries, thereby reducing the risks of capital outflows.

There was a steady trend of the inflation rate slowdown in Q2 of the current year. According to the Bank of Russia, the inflation peak was in March, when the inflation rate constituted 5.3 percent. Thereafter, the VAT effect on inflation was exhausted and the inflation risks decreased. During the reporting period, the annual inflation rate was 5.0 percent after 5.2 percent in the previous quarter. At the same time, the prices for food products increased by 6.0 percent, for non-food products – by 3.9 percent, in the services sector – by 5.0 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

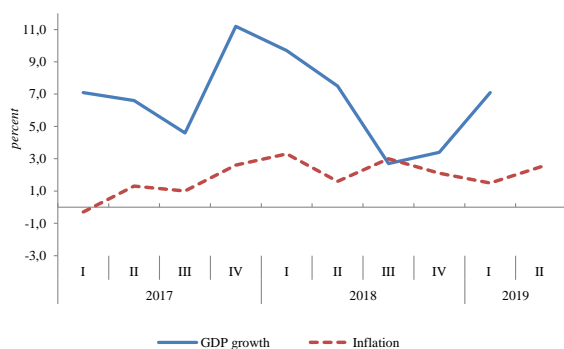
with a relatively high oil price environment, while the share of oil in the structure of exports from Kazakhstan fell down to 56.7 percent compared to 59.7 percent in the same period of the previous year.

In the first half of 2019, the inflation rate in Kazakhstan to the corresponding period of 2018 was at the level of 5.1 percent compared to 6.4 percent in the same period of 2018 and was mainly due to rise in prices for provisions. Moreover, the expansion of internal demand puts the inflationary pressure. At the same time, in the reporting period, a slowdown in the growth of prices and tariffs for paid services due to the measures taken to reduce tariffs for services of the natural monopolies was a restraining factor for the inflation rate.

## 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

suspended, the Ministry of Agriculture of Armenia was liquidated. Shutdown of a nuclear power plant due to planned work, which resulted in a sharp reduction in electric energy exports to the Islamic Republic of Iran was among the reasons for the decrease in electric energy production (-5.5 percent). Slowdown of growth in the construction sector (1.4 percent) was mainly due to a reduction in the volume of private investments.

The inflation rate in Armenia in the first half of 2019 was 2.0 percent compared to the same period of the previous year. In the first half of the year, the highest increase

**In Q2 2019, there was the positive economic growth in Kazakhstan.** In general, in the first half of 2019, GDP of Kazakhstan amounted to 4.1 percent<sup>1</sup>, which coincided with the value of this indicator in the corresponding period of 2018. The economic growth in Kazakhstan was provided by positive dynamics in all main sectors of the economy amid significant volumes of investment, internal and external demand.

The expansion of internal demand was encouraged by the budget social support programs, as well as short-term consumer loans. In addition, the growth was supported by the increase in the volume of commodities

**In Armenia, there is a slowdown in economic activity, although the economic growth rate remains high.**

According to preliminary data of the NSS of Armenia, the index of economic activity increased by 6.5 percent in January-June 2019, and by 7.3 percent in January-May 2019. A decline in agriculture and electric energy production, as well as a slowdown of growth in the construction, trade and service sectors had a significant impact on the decline of semi-annual economic activity. Incorrect agricultural policy, primarily aimed at supporting rich and large farmers, was the reason for decline in the agricultural output. Moreover, a number of programs was

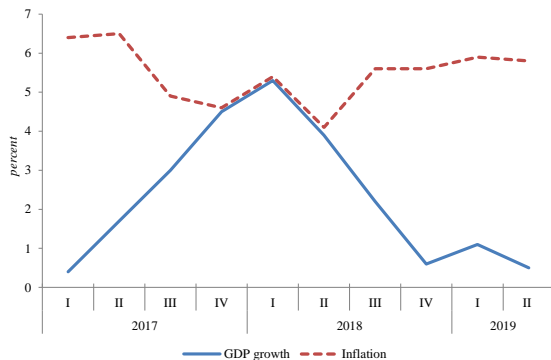
<sup>1</sup> According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan.

demonstrated the prices for alcohol drinks and tobacco products - 4.2 percent. The prices for food products increased by 3.5 percent, clothes and footwear - 3.1 percent, health services - 2.3 percent, restaurant and hotel services - 2.2 percent.

## Belarus

**Chart 1.1.4. Growth of GDP and Inflation in Belarus**

(in annual terms)



Source: National Statistical Committee of the Republic of Belarus

**In Q2 2019, the slowdown in the economic growth of Belarus was still observed.** In January-June of the current year, the GDP growth in the country made 0.9 percent, which is significantly lower compared to the same indicator of 2018 (4.6 percent). Positive dynamics was observed in retail trade turnover (+5.5 percent), in agricultural production (+0.2 percent) and in the mining industry (+0.1 percent). Transportation of goods (-8.2 percent), freight turnover (7.6 percent) and wholesale turnover (3.7 percent) had a negative impact of the GDP growth amid unfavorable external conditions. In these conditions, economic growth was supported by internal demand, provided by the

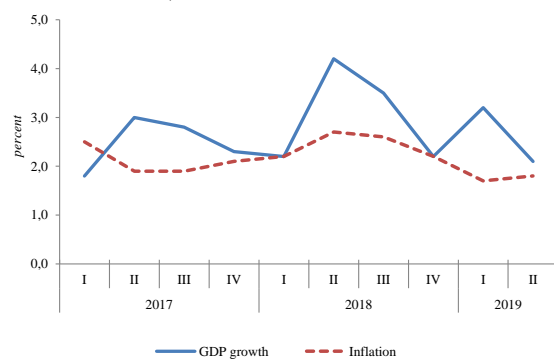
positive dynamics of retail turnover and investment in fixed assets.

In Q2 2019, inflation continued to form at a higher level compared to the target level of 5 percent. In January-June 2019, the inflation rate in Belarus was 5.9 percent compared to the same period of the previous year (4.7 percent). Food prices rose by 6.5 percent, non-food prices increased by 3.9 percent, the cost of paid services increased by 7.3 percent.

## 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

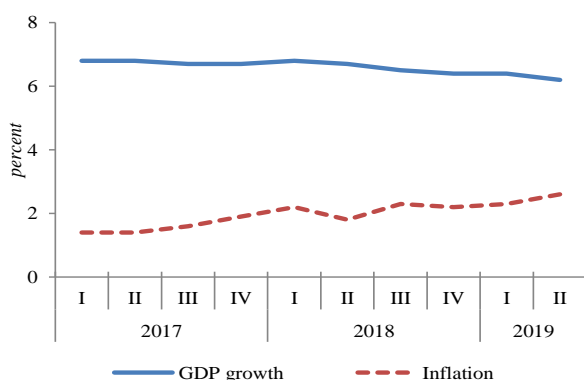
**In Q2 2019, there was slowdown in the US economic growth; however it was formed above the analysts' expectations.** According to the first estimate of the US Department of Commerce, in Q2 2019, the US GDP growth made 2.1 percent (compared to the previous quarter in annual terms), demonstrating slowdown compared to Q1 2019, when the growth made 3.1 percent, however exceeding experts' forecasts. The US economic growth was provided by increased consumer and Government expenditures. The volume of private investments, on the contrary, declined.

In general, in June, consumer prices increased by 1.6 percent in annual terms after rise by 1.8 percent in May. A decrease in prices for gasoline and food products contributed to slowdown of the inflation rate. Prices excluding energy and food prices (Core CPI) increased by 0.3 percent in June.

## 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

In Q2 2019, the rate of economic growth in China slowed down to the minimum values of the last 27 years due to ongoing trade war with the USA for more than six months. According to the Statistics Bureau of the PRC, in Q2 2019, GDP growth made 6.2 percent compared to 6.7 percent in the same period of the previous year.

The slowdown of GDP growth in China was mainly due to decrease in exports, as well as low rates of housing construction. At the same time, economic growth was mainly supported by the expansion of consumption and investment, as well as stimulating measures by the Government to reduce taxes and fees and moderate the

monetary policy. Sectoral breakdowns showed high growth rates of industrial production and in sector of services.

In June 2019, the CPI growth in annual terms made 2.7 percent compared to 1.9 percent in June of the previous year. Increase in prices for food products due to the significant rise in prices for fresh fruits (+42.7 percent) and pork (+21.1 percent) resulted from spread of the African swine fever made the main input into inflation. Moreover, the annual inflation rate remains below the target set at the level of “around three percent”.

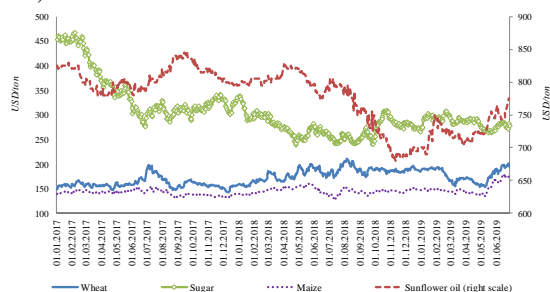
## 1.2. World Commodity Markets

The situation in the world commodity markets did not cause concerns in the reporting period. Generally, price movement in the food market was within the expected range of fluctuations. There was multidirectional price movement in the world oil market amid slowdown in the world economic growth and increased geopolitical uncertainty. Generally, prices for gold demonstrated an upward trend.

### Food Market

**Chart 1.2.1. Dynamics of Prices for Food Products**

(month to the corresponding month of the previous year)



The prices in the world food market were volatile due to weather conditions in the exporting countries. However, generally, there was a moderate increase in prices.

Since the beginning of Q2 2019, prices for crops grew due to deteriorated expectations for maize harvest in the United States, as well as decreased forecast for crops harvest in Russia and Kazakhstan. However, at the end of June of the current year, the world prices for wheat and maize decreased

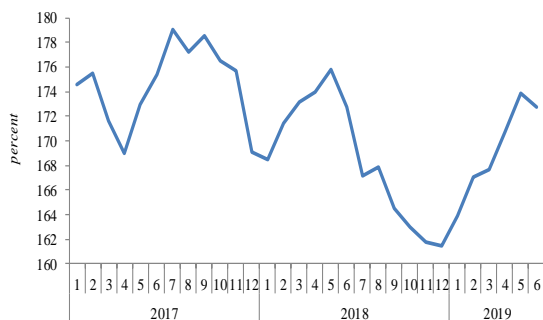
due to sufficient export stock in Argentina and Brazil, as well as the expectation of a maximum production output, which continued to have a restraining effect on the prices in the world crops market.

Generally, the prices were stable in the vegetable oil markets due to sufficient volumes of stock, as well as due to the seasonal increase in production output. At the same time, prices for soybean and sunflower oil increased slightly due to a reduction in the sunflower output in the Black Sea region amid active global demand.



There was a slight decrease of prices in the sugar market due to the forecast for a high sugar cane harvest in India, being the largest sugar producer in the world. However, the increase of the Brazilian real exchange rate to the US dollar had a restraining effect on price reduction to cause reduced sugar exports from Brazil.

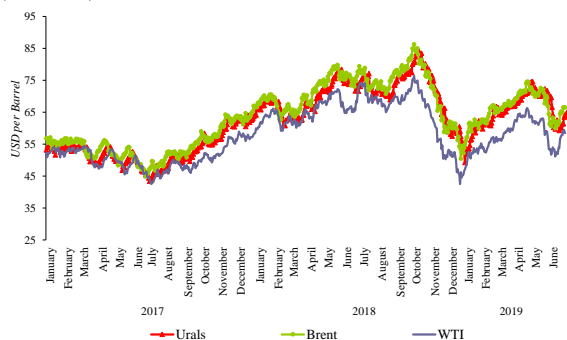
**Chart 1.2.2. Dynamics of FAO Food Price Index**



In Q2 2019, the average FAO food price index decreased by 1.0 percent compared to the same period of the previous year due to a reduction in prices for crops, dairy products and sugar and constituted 172.4 points. At the same time, rise in prices for meat and vegetable oils had the most significant influence.

### Energy Market

**Chart 1.2.3. Dynamics of Oil Prices (in USD)**



**In Q2 2019, there was multidirectional movement of oil prices due to market factors.** From the beginning of the reporting period, the upward trend was still observed due to overfulfilment of obligations to reduce oil production under the OPEC+ agreement, however in the second half of May and the first half of June 2019, there was a sharp decrease in oil prices (more than USD 10) amid increased risks for the global economy due to aggravated trade confrontation between the United States and China. Since mid-June 2019, the oil prices

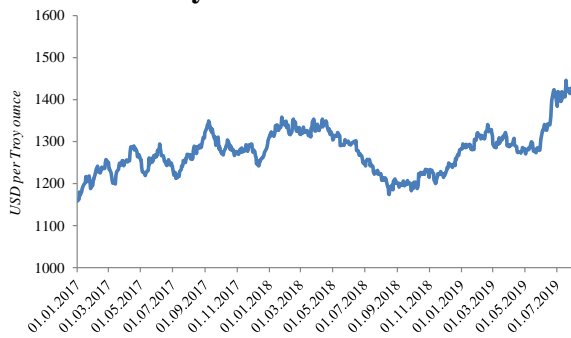
have been supported by a decrease of production in Iran and toughening the US sanctions against Iran and Venezuela, a decrease in US oil reserves, the expected extension of the OPEC+ agreement to reduce oil production, as well as analysts' expectations for a decrease of the key rate of the US Federal Reserve System.

In Q2 2019, the average price for Brent oil increased by 7.2 percent compared to the previous quarter and amounted to USD 68.4 per barrel (the price decreased by 8.7 percent compared to the same period of the previous year). In general, the price for Brent oil increased by 23.7 percent from USD 53.8 to USD 66.6 in the first half of 2019.

Amid increasing uncertainty in the world economy in the oil market, in 2019, the International Energy Agency decreased forecasts for growth of demand for oil from 1.2 to 1.1 million barrels per day. According to OPEC forecasts, in 2020, world demand for oil will increase by 1.1 million barrels per day up to 101.0 million barrels per day. Non-OPEC countries will increase supply by 2.8 million barrels per day.

## Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

tons. A significant share was formed by the central banks, which purchased a total of 374.1 tons for their reserves in the first half of the year. There was a rapid and large-scale growth in world prices for gold since early summer to reach a six-year maximum of USD 1,500 per Troy ounce.

Devaluation of the Chinese yuan to the minimum value of 2008, sharply increased uncertainty after 12<sup>th</sup> unsuccessful round of negotiations between the USA and China, increased protectionism and sanctions in the world, clearer prospects for a slowdown in the world economy influenced the prices for the precious metal.

**In Q2 2019, the prices for gold were volatile; however they demonstrated stable growth since June.** In April and May 2019, the price movement for gold was multidirectional mainly due to the US dollar stability, as well as the absence of events that significantly increased risks and uncertainty in the securities markets and in the global economic situation.

In Q2, world demand for gold grew by 8.0 percent compared to the same period of the previous year and made 1.123 thousand

## Chapter 2. Macroeconomic Development

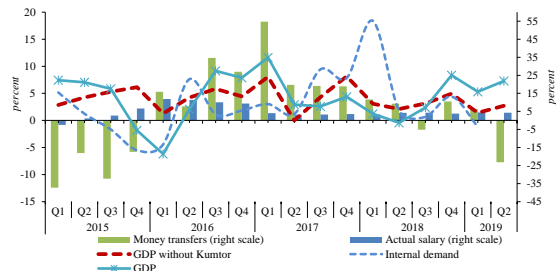
### 2.1. Demand and Supply in the Commodities and Services Market

In Q2, the positive economic growth was still observed in the Kyrgyz Republic. The increase in the production output of the basic metals at the enterprises developing the Kumtor deposit had a positive impact on the economic growth in the country.

#### Demand

**Chart 2.1.1. Dynamics of Internal Demand and Money Transfers**

(quarter to the corresponding quarter of the previous year)

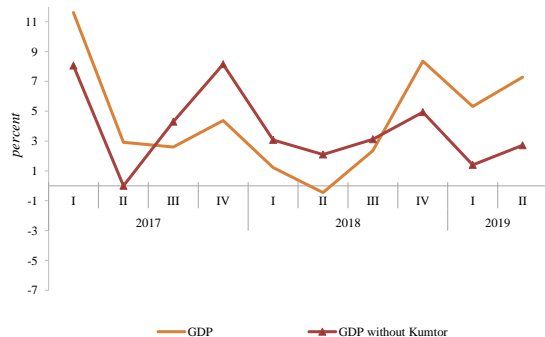


Source: NSC KR, calculations: NBKR

(-16.2 percent) and net exports of goods and services (-13.2 percent). The negative dynamics of remittances also contributed to the decrease in domestic demand (in Q2 2019, the net inflow of remittances decreased by 23.2 percent compared to the same period of 2018).

**Chart 2.1.2. GDP Dynamics**

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

At the end of January-June 2019, the average monthly nominal wage of one employee<sup>3</sup> amounted to KGS 16.3 thousand, having increased by 4.2 percent compared to the same period of 2018. The largest increase in the average monthly wages was observed in the sphere of mining (12.0 percent) and construction (8.9 percent). At the same time, in January-June 2019, the real wages increased by 4.3 percent compared to the same period of 2018.

In Q2 2019, the economic growth was higher than in the same period of 2018 and was 7.3 percent (excluding the enterprises of the Kumtor Mine - 2.7 percent). The dynamics of the labor migrants' remittances from is in the negative zone.

According to the preliminary results of Q1 2019, reduction of the domestic demand<sup>1</sup> in annual terms amounted to -1.1 percent. A decrease was mainly due to a reduction in gross accumulation (-7.8 percent), which was a result of a reduction in inventories

In general, the current economic growth in Q2 2019 was conditioned by a positive input from all main sectors of the economy, excluding the sector of information and communication. At the same time, high growth rates were observed in the industrial sector during the reporting period, which was mainly due to an increase in production output at the enterprises of the Kumtor Mine. Namely, in Q2 2019, gold production at the enterprises of the Kumtor Mine<sup>2</sup> increased by 1.8 times compared to Q2 2018 (83.8 thousand ounces) and mounted to 151.3 thousand ounces.

<sup>1</sup> According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for Q2 2019.

<sup>2</sup> According to the press releases of Centerra Gold Inc.

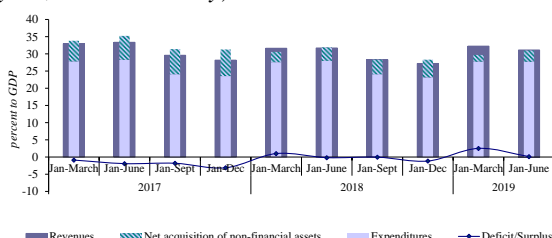
<sup>3</sup> Generally, in the republic, excluding small enterprises.

## Public Finances Sector

At the end of the first half of 2019, the state budget surplus amounted to KGS 0.3 billion or 0.1 percent to GDP (in the first half of 2018, a budget deficit amounted to KGS 0.4 billion or 0.2 percent to GDP). The primary state budget surplus (excluding interest payments for servicing the public debt) amounted to KGS 4.2 billion or 1.8 percent to GDP.

### Chart 2.1.3. Execution of the State Budget

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



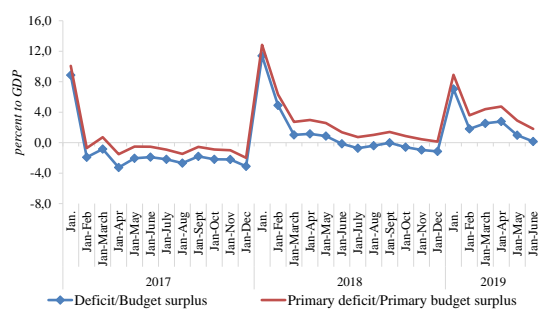
Source: CT MFKR, NBKR

The state budget revenues from operating activities increased by 2.6 percent or KGS 1.8 billion compared to the same indicator of the first half of 2018 and amounted to KGS 72.4 billion or 31.1 percent to GDP. Official transfers (2.2 percentage points) and non-tax revenues (1.9 percentage points) provided the largest input to the growth of budget revenues. Despite a significant share in the structure of current revenues (75.2 percent), tax revenues still demonstrate negative growth (-1.9 percent or KGS 1.1 billion).

The state budget expenditures for operating activities increased in annual terms by 3.5 percent or KGS 2.2 billion, and amounted to KGS 64.4 billion or 27.7 percent to GDP. The increase in state budget expenditures was mainly due to the growth in labor costs and payment of interest on government liabilities. It should be noted that the expenditures on functional classification changed due to implementation of the new budget classification. Thus, transfers to the budgets of the Social Fund and the Mandatory Health Insurance Fund (MHIF) are reflected in the section “general public services”, however in the previous year they were reflected in the sections “social protection and healthcare”, respectively.

### Chart 2.1.4. Budget Deficit

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



Source: CT MFKR, NBKR

The net outflow of budget funds for operations related to acquisition of non-financial assets amounted to KGS 7.7 billion or 3.3 percent to GDP.

At the end of the first half of 2019, execution of the state budget resources amounted to 92.7 percent. Failure to comply with the plan was due to a reduction in customs (-7.9 percent) and tax (-2.7 percent) revenues. Non-tax revenues increased by 10.3 percent compared to the first half of 2018. Execution of the budget expenditures constituted 99.8 percent, mainly due to

reduction in expenditures on “purchase of goods and services” (-65.7 percent), “grants to other units of government” items (-6.0 percent) and an increase in expenditures on “salaries” (+4.3 percent), “benefits for social assistance to the population” (+20.9 percent) and “use of goods and services” (+37.8 percent) items.

## Investments

**In January-June 2019, the level of capital investment exploitation increased by 6.8 percent compared to January-June 2018.**

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

	January-June			
	2018	2019	2018	2019
	millions of KGS		share, percent	
<b>Total</b>	<b>45 998.0</b>	<b>49 117.8</b>	<b>100.0</b>	<b>100.0</b>
<b>Internal investment</b>	<b>35 695.7</b>	<b>34 514.3</b>	<b>77.6</b>	<b>70.3</b>
Republican budget	2 597.0	922.5	5.6	1.9
Local budget	497.0	333.1	1.1	0.7
Funds of enterprises and organizations	16 063.6	15 623.8	34.9	31.8
Banks' credits	1 321.2	843.2	2.9	1.7
Population funds including beneficent help of KR residents	15 216.9	16 791.7	33.1	34.2
<b>External investment</b>	<b>10 302.3</b>	<b>14 603.5</b>	<b>22.4</b>	<b>29.7</b>
Foreign credit	6 124.0	6 397.7	13.3	13.0
Direct foreign investments	2 594.9	2 712.0	5.6	5.5
Foreign grants and humanitarian aid	1 583.4	5 493.8	3.5	11.2

Source: NSC KR

Source: NSC KR

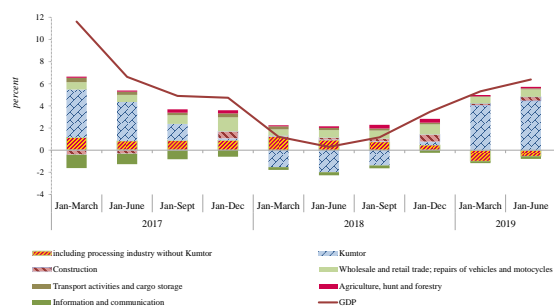
(1.7 times), in the facilities to supply electric energy, gas, steam and air conditioned air (by 28.2 percent), in construction of manufacturing facilities (1.7 times).

The volume of capital investments financed from domestic sources decreased by 3.3 percent compared with January-June 2018, that from the bank loans and the republican budget – by 54.9 percent, from the funds of the enterprises and organizations – by 2.7 percent. The investments financed from the local budget decreased by 33.0 percent, meanwhile the personal funds increased by 10.3 percent. The investments financed from the foreign sources increased by 41.7 percent, from the foreign grants and humanitarian aid – by 3.5 times, that from the direct foreign investments – by 4.5 percent, meanwhile the investments financed from the foreign loans also increased by 4.5 percent.

## 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

due to an increase in livestock production (by 2.0 percent).

The production in the industrial sector grew compared to January-June 2018 due to an increase in output of basis metals (by 51.2 percent), extraction of metal ores (by 44.3 percent), coal (by 22.6 percent), crude oil and natural gas (by 14.1 percent).

The turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased compared to January-June 2018 mainly due to growth in the wholesale (by 5.5 percent) and retail (by 3.9 percent) trade.

The decline in the sector of information and communication made -6.3 percent due to a decrease in the revenues received from mobile services rendering.

In January-June 2019, the GDP deflator was negative and amounted to -1.8 percent, having decreased by 7.8 percentage points compared to the same indicator of January-June 2018.

Growth of capital investments was mainly observed in the construction and reconstruction of mining operations facilities (1.4 times), in water supply, waste treatment (9.2 times), wholesale and retail trade (12.7 percent).

Meanwhile, capital investments decreased mainly in the following sectors: construction and reconstruction of agricultural, forestry and fishery facilities (13.8 percent), manufacturing sector (1.7 times), in the facilities to supply electric energy, gas, steam and air conditioned air (by 28.2 percent), in construction of manufacturing facilities (1.7 times).

**In January-June 2019, a positive GDP growth was due to a positive input of almost 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, the nominal GDP increased in real terms by 6.4 percent compared to the same period of the previous year (in January-June 2018, growth was 0.3 percent) and amounted to KGS 232.6 billion.

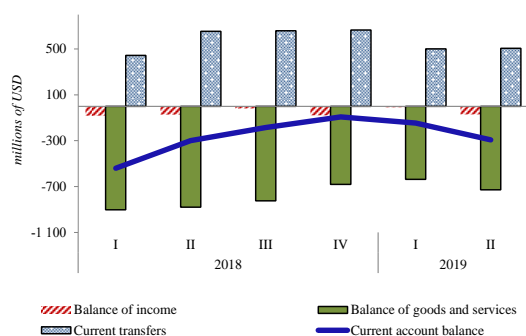
In the reporting period, growth in gross agricultural output compared to January-June 2018 by 1.7 percent was mainly

Such sectors as industry (4.1 percentage points), wholesale and retail trade (0.7 percentage points), construction (0.4 percentage points) and agriculture (0.1 percentage points) made the main positive input into the economic growth, however, the sectors of information and communication (-0.2 percentage points) made a negative input.

## 2.2. External Sector<sup>1</sup>

In Q2 2019, the current account deficit was formed lower compared to the same period in 2018 under the influence of the decrease of the trade balance of goods and services amid the decline in the net inflow 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 decreased down to USD 293.3 million and constituted 8.8 percent to GDP<sup>2</sup> in Q2 2019.

In the reporting period, the trade deficit of the Kyrgyz Republic decreased by 18.1 percent and made up USD 672.2 million. This trend was caused by the significant decrease of imports in absolute values compared to the decline in exports.

### 2.2.1. Trade balance of the Kyrgyz Republic<sup>3</sup>

  
(millions of USD)

	2016	2017	2018	2018 Q II	2019 * Q II	Change in %	Change in millions of USD
Trade balance	-2 136,5	-2 383,3	-3 113,5	-820,9	-672,2	-18,1	148,7
Export (FOB)	1 607,9	1 813,9	1 836,4	465,9	444,7	-4,6	-21,2
Gold	701,6	700,4	664,2	133,2	199,4	49,8	66,3
Import (FOB)	3 744,4	4 197,2	4 949,9	1 286,8	1 116,9	-13,2	-169,9
Energy products	467,4	567,2	809,6	200,9	126,9	-36,9	-74,1

In the reporting period, exports of goods (in FOB prices) decreased by 4.6 percent and made up USD 444.7 million. Exports were primarily affected by decrease in exports of clothes, metal scrap, rolled glass, etc. Moreover, exports of gold increased by 49.8 percent, due to the growth in physical supplies and an increase in world prices.

In Q2 2019, imports of goods (in FOB prices) decreased by 13.2 percent, to make USD 1,116.9 million. There was decrease in imports of such goods as clothes and clothing accessories, footwear, woven fabrics, essential oils, etc. Imports of energy products decreased by 36.9 percent compared to Q2 2018, to make USD 126.9 million.

**In the reporting period, the net inflow of current transfers was formed below the level of the same period in 2018.** The negative dynamics of the net inflow of private transfers, which decreased by 22.9 percent influenced the formation of this index.

In the reporting quarter, the balance of services deficit is forecasted at USD 56.6 million, however, the deficit of “income” item is expected at USD 70.3 million.

<sup>1</sup> 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.

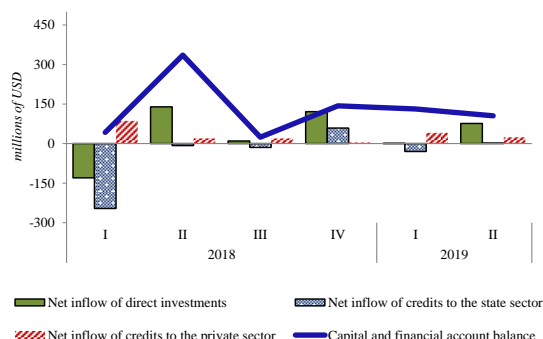
<sup>2</sup> Ratios to GDP are calculated based on sliding annual data, including the last four quarters.

<sup>3</sup> 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.



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 101.1 million in Q2 2019. The capital inflow on the capital account amounted to USD 19.6 million, and the financial account surplus stood at USD 81.4 million.

**Chart 2.2.2. Capital and Financial Account**



Net inflow of direct investments into the country is forecasted to decrease by 45.1 percent compared to the same period of the previous year, to make USD 75.6 million. In the reporting quarter, the balance of “other investments” item will be formed below the level of Q2 2018 under the influence of the growth of foreign assets abroad amid a smaller inflow of borrowed funds and an increase in the volumes of servicing the public and private sector credits.

Thus, the balance of payments of the Kyrgyz Republic was formed with a negative balance to make USD 46.6 million at the end of Q2 2019. Gross international reserves covered 4.6 months of the future imports of goods and services<sup>1</sup>.

### 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)		
	2017 (aver.) (January-December)	2018 (aver.) (January-December)	%	December 2018	June 2018 *	%
REER	111,4	114,5	2,8	117,3	115,0	-1,9
NEER	110,7	116,1	4,8	120,5	121,2	0,5
RBBER to CNY	85,6	83,6	-2,3	85,9	85,1	-0,9
NBER to CNY	66,7	65,2	-2,2	67,1	67,1	0,0
RBBER to Euro	109,2	104,3	-4,5	107,0	106,9	-0,1
NBER to Euro	78,6	74,9	-4,7	76,7	77,5	1,2
RBBER to KZT	132,5	134,4	1,4	140,1	141,0	0,6
NBER to KZT	147,5	155,8	5,6	165,5	170,6	3,1
RBBER to RUR	116,2	123,2	6,0	128,1	120,5	-6,0
NBER to RUR	128,3	137,3	7,0	145,1	139,3	-4,0
RBBER to TRY	140,5	160,8	14,4	163,3	168,0	2,9
NBER to TRY	161,5	212,1	31,4	230,8	255,2	10,6
RBBER to USD	89,9	89,5	-0,4	88,7	87,0	-1,8
NBER to USD	66,7	66,7	0,0	65,8	65,7	-0,1

\* Preliminary data

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

At the end of Q2 2019, the index of nominal and real effective exchange rate decreased compared to December 2018. According to the preliminary data, the index of nominal effective exchange rate (NEER) of KGS increased by 0.5 percent ear-to-date and constituted 121.2 by the end of June 2019. The increase in the NEER index was due to KGS strengthening<sup>2</sup> in June 2019 compared to the average exchange rate for December 2018 against the Kazakh tenge – by 3.1 percent, the Turkish lira – by 10.1 percent, the euro – by 1.2 percent.

Despite the increase in the NEER index, lower inflation rate in the Kyrgyz Republic<sup>3</sup> influenced the decline of the real effective exchange rate (REER) index, which decreased by 1.9 percent since December 2018 and constituted 115.0 at the end of June 2019.

<sup>1</sup> Taking into account non-convertible currencies.

<sup>2</sup> 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.

<sup>3</sup> In Q2 2019, the inflation rate in the Kyrgyz Republic was formed at 0.2 percent, meanwhile, according to the preliminary calculations, the average inflation rate in the main trading partner countries was 2.7 percent.

## Chapter 3. Monetary Policy

### 3.1. Monetary Policy Implementation

During Q2 2019, the National Bank continued its stimulating monetary policy due to the low inflation rate and forecast estimates of its dynamics in the medium term and generally emerging trends in the macroeconomic development of the Kyrgyz Republic. Monetary conditions were mitigated, in particular, the policy rate of the National Bank was decreased and credit operations were continued to support measures on stimulating the real sector of the economy.

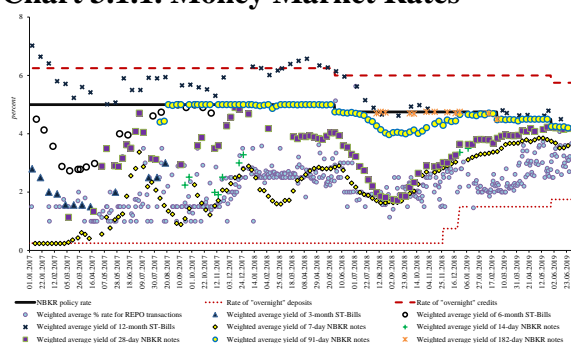
Tactical monetary policy measures were taken in the conditions of preserving excess liquidity in the banking system, as well as within the framework of measures to further increase the influence of the National Bank on the money market.

Generally, money market interest rates were still fluctuating within the interest rate corridor set by the National Bank, mainly near the key rate. Finally, the monetary measures narrowed the gap between the money market rates and the key rate. There has been a steady trend of an increase in the participants' activity in the interbank credit market.

#### Interest Rate Policy of the National Bank

In Q2 2019, the National Bank continued to moderate its interest rate policy, reducing the key rate by 25 basis points to 4.25 percent amid a slowdown in inflationary processes in the country and relatively weak aggregate demand. The levels of the interest corridor were adjusted: the rate of “overnight” credits was decreased from 6.00 percent to 5.75 percent, and the rate on “overnight” deposits was increased from 1.50 percent to 1.75 percent due to the change in the policy rate, as well as due to strengthening of the impact thereof on the money market rates.

**Chart 3.1.1. Money Market Rates**

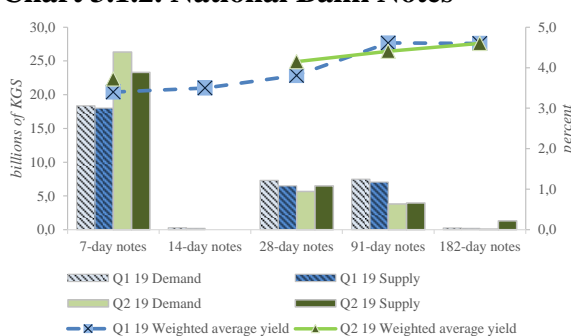


In Q2 2019, the money market short-term rates were formed mainly near the key rate of the National Bank due to measures taken by the National Bank to increase the impact of the monetary policy interest rate channel on the financial sector.

There was an upward trend in yields in the market of the National Bank notes, meanwhile the rates, on the contrary, decreased in the market of the Kyrgyz Republic Government securities (ST-Bills).

In Q2 2019, the volumes of borrowed funds increased from KGS 4.8 billion to KGS 16.6 billion, mainly on repo terms in the interbank credit market, amid a significant increase in the participants' activity. There was an increase in the value of loans approximately from 2.2 percent to 3.0 percent per quarter, and there was a trend to extend the terms of transactions to a range of 3-5 days, meanwhile the average term of transactions was 2-3 days in Q1.

**Chart 3.1.2. National Bank Notes**



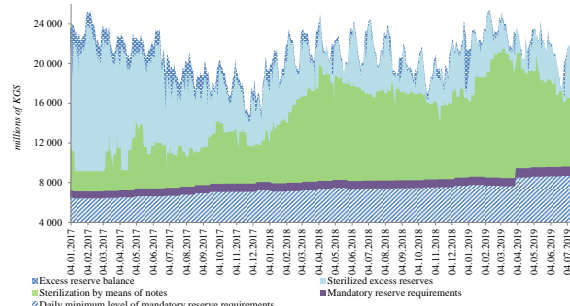
In Q2 2019, the total yield on the National Bank instruments to withdraw liquidity still demonstrated an upward trend. The weighted average yield on 7-day notes was 3.73 percent (in Q1 2019 - 3.40 percent), on 28-day notes - 4.15 percent (in Q1 2019 - 3.81 percent), 91-day notes - 4.41 percent (in Q1 2019 - 4.61 percent). During the reporting period, the commercial banks showed a low investment interest in 182-day notes due to high concentration of short-term excess



liquidity in the banking system. Generally, the yield curve remained flattened, demonstrating an increase in the rates in the short term, amid a decrease in the rates in the long-term segment.

### Situation with Liquidity of the Commercial Banks

**Chart 3.1.3. Excess Reserves of the Commercial Banks**



**In Q2 2019, the liquidity surplus was still observed in the banking system, to have a downward trend during almost all reporting period.** In Q2 2019, the average daily volume of excess liquidity decreased by KGS 2.6 billion and amounted to KGS 12.0 billion.

During the reporting quarter, against the backdrop of an increase in money outside banks (by KGS 7.7 billion) and withdrawal of KGS liquidity, the excess liquidity of the

commercial banks was reduced due to the operations of the National Bank in the foreign exchange market (by KGS 3.5 billion).

At the same time, the inflow of resources through monetary and budget channels mainly affected the formation of excess liquidity in the banking sector.

The National Bank continued conducting operations to absorb excess liquidity in the banking system by conducting operations in the open market and the commercial banks' available funds placement on the "overnight" deposits in the National Bank. In Q2 2019, the average daily volume of excess liquidity withdrawal from the banking system decreased by KGS 2.2 billion compared to the same indicator of Q1 2019 and amounted to KGS 11.7 billion.

At the same time, the volume of placement of the National Bank notes in the commercial banks decreased in Q2 2019. The average daily volume of notes in circulation decreased from KGS 10.4 billion in Q1 2019 down to KGS 8.3 billion in Q2 of the current year amid the downward dynamics of excess liquidity in the banking sector.

In Q2, 91-day notes (an average of 54.0 percent) and 7-day notes (an average of 19.2 percent) shared the biggest part of the notes in circulation. At the same time, the structure of the sterilization operations of the National Bank did not suffer significant changes: the share of notes still prevails in it (70.9 percent), meanwhile the share of "overnight" deposits amounted to 29.1 percent.

### Credit Policy of the National Bank

In the reporting quarter of 2019, the National Bank continued to finance priority sectors of the economy as part of the monetary policy stimulating direction, as well as to provide development for the regions in the country.

In Q2 of the current year, the National Bank conducted 13 credit auctions, two auctions thereof were aimed at promoting implementation of the state program "Financing of Agriculture-7" and 11 - at development of the regions in the country.

Based on the results of the auctions, the volume of supply amounted to KGS 19.5 billion; the demand for credit resources from the commercial banks amounted to KGS 1.2 billion, meanwhile the total amount of loans approved for issuance amounted to KGS 1,015.0 million. The interest rate for the end consumers on these credit resources was limited to 10-12 percent.

### Foreign Exchange Policy of the National Bank

In certain periods of Q2 2019, the National Bank conducted interventions on foreign currency sale in the domestic foreign exchange market to smooth sharp fluctuations of the exchange rate, amid excess of demand for foreign currency over its supply. At the end of the

reporting quarter, the total amount of sales of foreign currency amounted to USD 49.8 million.

Generally, the situation in the foreign exchange market of the country remained relatively stable. The KGS exchange rate was fluctuating within the range of KGS 69.49 - 69.85 per USD 1 and decreased by 0.5 percent in the reporting quarter.

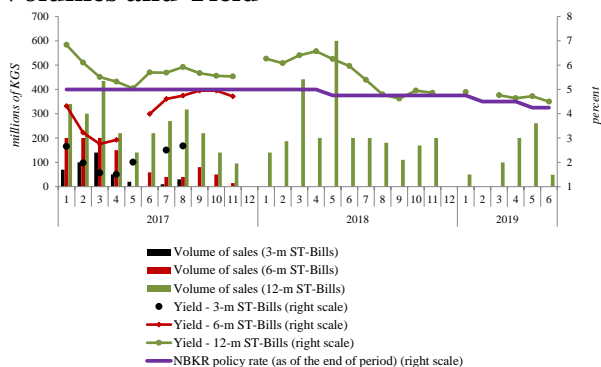
### Monetary Policy Measures in Q2 2019

<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 May 27 and June 24, 2019.</p> <p>Based on the results of the National Bank Board meeting held in May, the decision was made to lower the policy rate by 25 basis points, down to 4.25 percent. Based on the results of the National Bank Board meeting held in July, the decision was made to keep the policy rate unchanged at 4.25 percent.</p> <p>The levels of the interest rate corridor were adjusted: the rate on “overnight” deposits was increased up to 1.75 percent, and the rate on “overnight” credits was decreased down to 5.75 percent.</p>
<p>The decisions were made to conduct the credit auctions</p>	<p>The National Bank announced credit auctions 13 times for the banks refinancing. Five auctions were held out of announced 13 ones with approved credits to the amount of KGS 1,015.0 billion. The total volume of supply of the credit resources by the National Bank amounted to KGS 19.5 billion.</p> <p>The weighted average interest rate on these credits constituted 4.40 percent.</p>

## 3.2. Financial Market Instruments

### Government Securities Market

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



### ST-Bills

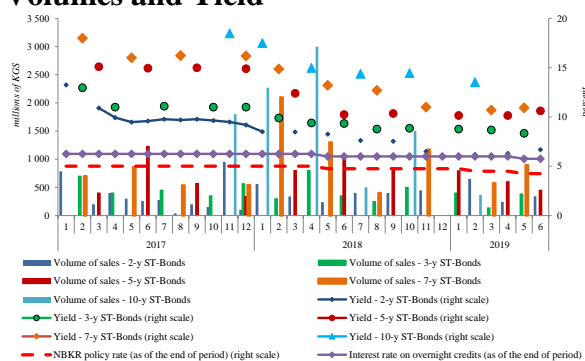
**In the reporting period, a decrease in supply was observed in the ST-Bills market, amid decreased activity of the participants. The downward trend in the weighted average yield was still observed.**

In the reporting period, the Ministry of Finance of the Kyrgyz Republic placed ST-Bills in the amount of KGS 800.0 million, by 20.0 percent less compared to the same period of the previous year, to cover the current budget deficit. At the same time, the demand

from the participants significantly decreased (by -67.1 percent, down to KGS 658.0 million) compared to the same period of the previous year in the primary market for the placement of this asset. Based on the results of the auctions, the volume of securities sales decreased by 49.0 percent and amounted to KGS 509.7 million. Thus, there was a decrease of the weighted average yield by 1.6 percentage points, down to 4.6 percent.

By the end of the reporting period, the total volume of ST-Bills in holders' circulation decreased by 42.2 percent year-to-date, down to KGS 1.5 billion.

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



### ST-Bonds

In the reporting period, there was a decrease in the supply of these securities compared to the same period of the previous year in the ST-Bonds market amid a decline in demand and sales. The downward trend in the ST-Bonds yield of all maturity rates was still observed, excluding a slight increase on 5-year securities.

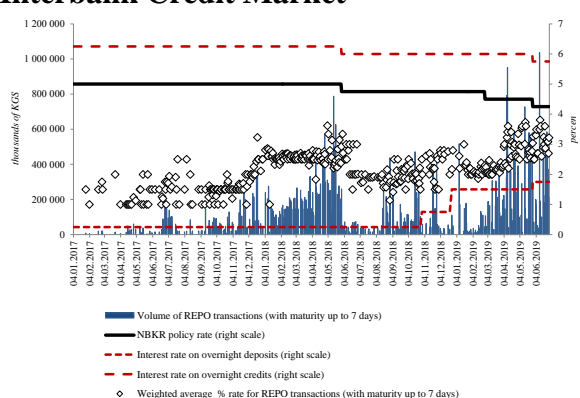
In the reporting period, the total volume of supply of the ST-Bonds, issued to finance the current budget deficit amounted to KGS 3.7 billion, having decreased by 29.5 percent compared to the same period of 2018 due to a reduction in the supply of 3- and 7-year ST-Bonds and lack of supply of 10-year securities.

The volume of demand from the participants in this market decreased by 72.7 percent, down to KGS 2.8 billion. Therefore, in the reporting period, the volume of the ST-Bonds placed at the auctions held by the National Bank decreased by 53.6 percent (down to KGS 3.1 billion at the weighted average interest rate of 9.5 percent) compared to the same period of the previous year. In terms of maturity, the most significant demand was observed for 5-year ST-Bonds, despite their decrease by 32.9 percent.

At the end of the reporting period, the total volume of ST-Bonds<sup>1</sup> in circulation increased by 9.9 percent year-to-date and amounted to KGS 41.4 billion due to an increase in the portfolio of the institutional investors (+7.1 percent), commercial banks (+21.8 percent) and resident legal entities (+17.3 percent).

### Interbank Credit Market

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



In Q2 of the current year, there was a significant increase of activity in the interbank credit market.

The volume of transactions amounted to KGS 16.6 billion at the end of the quarter, which is the highest value since Q3 2014 and is 32.7 percent higher than the value in the same quarter of 2018. The weighted average interest rate increased up to 3.0 percent, from 2.4 percent in Q2 2018, meanwhile the weighted average maturity of the interbank credits increased from 3 to 4 days.

The increase of activity in the interbank credit market was due to an increase in the volume of REPO transactions by

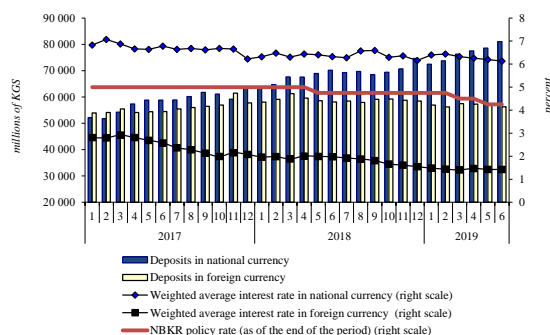
31.6 percent, up to KGS 16.3 billion, with the share thereof constituting 98.6 percent of the interbank market.

<sup>1</sup> Excluding ST-Bonds denominated in foreign currency

In Q2 2019, one standard transaction was conducted in the national currency to the amount of KGS 31.1 million at the rate of 2.3 percent and eight standard transactions were conducted in foreign currency to the amount of KGS 195.3 million at the rate of 2.9 percent.

## Deposit Market

**Chart 3.2.4. Dynamics of Commercial Banks' Deposits**



**In Q2 2019, the depositary base still demonstrated a steady upward trend due to the growth of deposits in the national currency, however deposits in foreign currency decreased.**

As of the end of June 2019, the volume of the commercial banks' depositary base increased by 3.2 percent year-to-date and amounted to KGS 137.4 billion. The deposits in the national currency increased by 8.6 percent, up to KGS 81.1 billion, however, the deposits in foreign currency decreased by

3.8 percent, down to KGS 56.3 billion. Dollarization of the deposits decreased by 3.0 percentage points year-to-date and amounted to 41.0 percent, still reaching new historical minimums. At the end of the reporting quarter, dollarization of the individuals' and legal entities'<sup>1</sup> deposits decreased by 2.6 and 2.8 percentage points, respectively year-to-date (amounting to 33.4 and 47.7 percent, respectively).

In April-June of the current year, the volume of new deposits increased by 16.3 percent compared to the previous quarter. The volume of the new deposits increased by 22.5 percent compared to the same quarter of 2018 and amounted to KGS 177.2 billion, meanwhile the volume of new deposits in the national currency increased by 15.5 percent and amounted to KGS 97.0 billion, and the volume of new deposits in foreign currency increased by 32.1 percent, up to KGS 80.2 billion. In terms of maturity, demand deposits, with the share of about 90.8 percent of all new deposits, increased by 23.7 percent, which was the main reason for an increase in the total volume of new deposits. The share of demand deposits in the national currency constituted 87.8 percent, and in foreign - 94.5 percent.

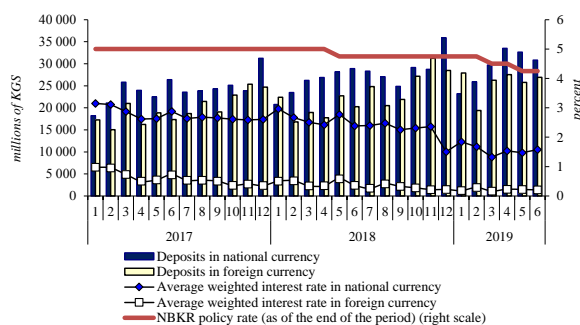
The volume of new deposits with a maturity of 1 year or more increased compared to Q2 2018, meanwhile there was a decrease in the share of deposits with a maturity of up to 1 year. It was due to an increase in the share of new long-term deposits in the national currency by 6.1 percentage points, up to 41.0 percent and growth in the share of these deposits in foreign currency by 3.5 percentage points, up to 42.7 percent.

At the end of the reporting period, the share of long-term deposits (from 1 year and more) in the structure of the deposit base increased by 1.1 percentage points year-to-date, up to 32.2 percent with a corresponding decrease in the share of long-term resources. It was caused by the increase in the share of long-term deposits in the national currency by 2.4 percentage points, up to 32.6 percent, meanwhile the share of deposits in foreign currency decreased by 1.5 percentage points, down to 31.3 percent.

The total duration of the deposit base increased up to 5.2 months (+0.3 months year-to-date) at the end of the reporting period, the duration of time deposits decreased down to 13.0 months (-0.2 months).

<sup>1</sup> Excluding FCO (financial-credit organizations) and state authorities

**Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows**

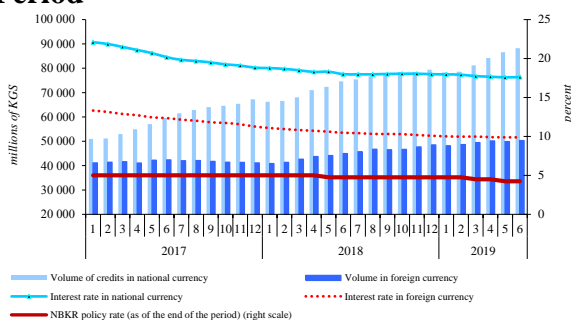


The reduction in deposit rates continued, thus, in April-June of the current year, the average weighted interest rate on the new deposits in the national currency constituted 1.53 percent (-1.00 percentage points compared to the same period of 2018), this rate on the deposits in foreign currency constituted 0.22 percent (-0.21 percentage points). The average weighted interest rate on the new time deposits in the national currency decreased by 0.84 percentage points, down to 9.39 percent, in foreign currency - by 0.12 percentage points, down to 3.51 percent. The weighted average interest rates decreased for all maturities in the national currency, meanwhile, in April-June of the current year, the interest rates in foreign currency increased for deposits with a maturity of 6-12 months compared to the corresponding period of the previous year.

The concentration index<sup>1</sup> in the deposit market remained 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**



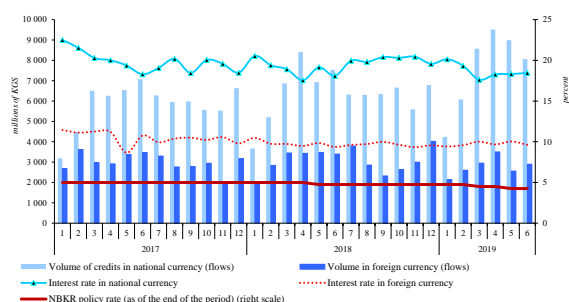
### Steady growth in the credit portfolio was still observed in Q2 2019.

The volume of the commercial banks' credit portfolio increased by 8.3 percent year-to-date and amounted to KGS 138.5 billion at the end of the second quarter of the current year. The credits in the national currency increased by 11.2 percent, up to KGS 88.2 billion, the credits in foreign currency increased by 3.7 percent, up to KGS equivalent of 50.3 billion. Dollarization of the credit portfolio decreased by 1.6 percentage points year-to-date, down to 36.3 percent. Change in the level of dollarization was multidirectional by maturities, meanwhile dollarization of the credits with a maturity of more than 3 years decreased by 3.5 percentage points, down to 51.5 percent.

<sup>1</sup> 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.



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



maturities of 1-3 months and 6-12 months. High growth rates and a significant input into the growth of the total volume of issued credits were observed in the sectors of trade and commercial operations, consumer credits, as well as procurement and processing.

There was a significant decrease in the volume of new credits in foreign currency with a maturity of more than 3 years. In terms of sectors, there was a decrease in the volume of credits in foreign currency issued in the sectors of trade and commercial operations, construction and industry.

Following the results of the quarter, duration of new credits in the national currency remained at the level of 25 months, in foreign currency - decreased by 2 months, down to 31 months.

In Q2, the weighted average interest rates on new credits in the national currency increased by 0.08 percentage points compared to the same indicator of 2018, up to 18.35 percent, the most significant increase was observed in the sectors of construction and agriculture. The rates in foreign currency increased by 0.22 percentage points, up to 9.78 percent, mainly due to an increase in the interest rates on credits in the sectors of industry and consumer credits.

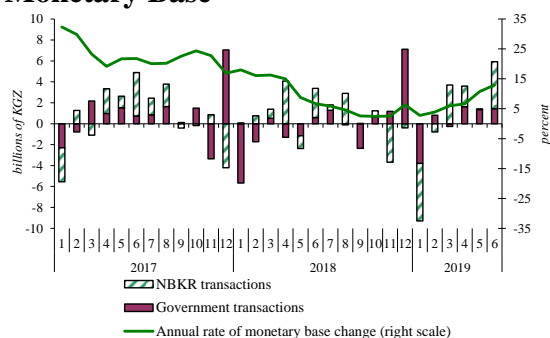
The credit market general concentration index was stable and stood at the level of 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market between eleven banks. The sectoral concentration index was 0.32, thus indicating three major credit sectors.

### 3.3. Dynamics of Monetary Indicators

#### Monetary Base

In the reporting quarter of 2019, after a significant slowdown, the annual growth rates of monetary reserves showed recovery of the previous dynamics since the second half of 2018.

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



**The increase in the Government expense transactions and the transactions of the National Bank had a positive impact on accelerating the growth of the monetary base by 10.9 percent in Q2 (compared to the previous quarter), meanwhile the annual growth of monetary reserves was 13.0 percent.**

The monetary base increased by KGS 6.5 billion due to the transactions of the National Bank, and by KGS 4.4 billion due to the transactions of the Government of the Kyrgyz Republic.

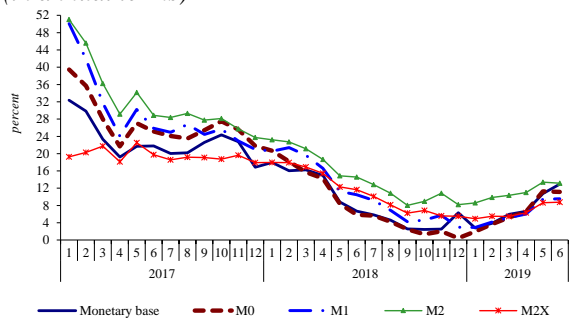
Generally, the ratio of reserves of other depository corporations and currency in circulation in the structure of the monetary base has not changed. As before, the bulk of the currency was in circulation (88.2 percent at the end of the quarter), while the share of reserves of other depository corporations made 11.8 percent.

### Monetary Aggregates

During the reporting quarter, monetary aggregates still demonstrated an upward trend, which was mainly determined by an increase in the amount of money outside banks.

**Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates**

(in annual terms)



Monetary aggregates, after a gradual slowdown in the growth rates observed during the previous years, in Q2 2019, as well as in Q1, demonstrated a transition to a stable upward trend.

The expansion of monetary aggregates was due to the annual growth of money outside banks by 11.1 percent. At the same time, this indicator increased by 9.3 percent during the reporting quarter, meanwhile, in Q1, on the contrary, money outside banks decreased by 2.8 percent.

The monetary aggregate M2X increased in annual terms by 8.8 percent and amounted to KGS 213.5 billion at the end of the reporting quarter. In Q2, the monetary aggregate M2X increased by 5.0 percent compared to the previous quarter.

In Q2 2019, deposits<sup>1</sup>, included in M2X, still demonstrated an upward trend. This monetary indicator increased in annual terms by 7.1 percent, mainly due to growth of the deposits in the national currency by 15.7 percent. Meanwhile, reduction was still observed in the deposits in foreign currency (-4.3 percent).

Lending to the economy, as compared to the previous quarter, demonstrates positive growth rates while maintaining the stimulating direction of the monetary policy. At the end of the reporting quarter, the total volume of credits to the economy increased by 15.9 percent (in annual terms) and amounted to KGS 141.4 billion. This indicator has grown by 5.7 percent since the beginning of the reporting quarter.

Credits in the national currency prevail in the general structure of credits to the economy and increased by 18.7 percent over the year, meanwhile credits in foreign currency increased by 11.1 percent.

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

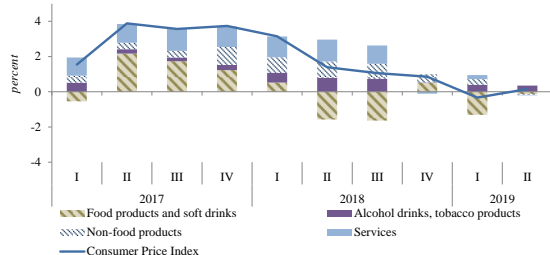
## Chapter 4. Inflation Dynamics

In Q2 2019, a reversal towards a slightly positive increase in prices was observed in Kyrgyzstan due to the rise in prices of food and services. Nevertheless, generally, the inflationary conditions did not cause concerns due to sufficient domestic production and sustainable imports of fruits and vegetables into the country, as well as the stable dynamics of prices in the world food market.

### 4.1. Consumer Price Index

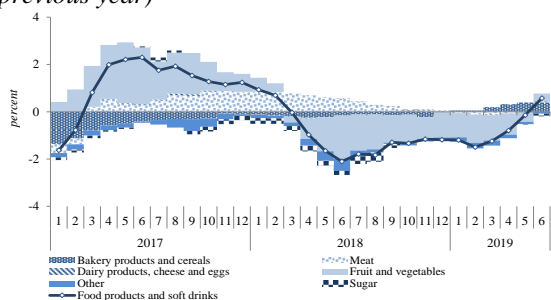
**Chart 4.1.1. Dynamics of CPI Structure**

(quarter to the corresponding quarter of the previous year)



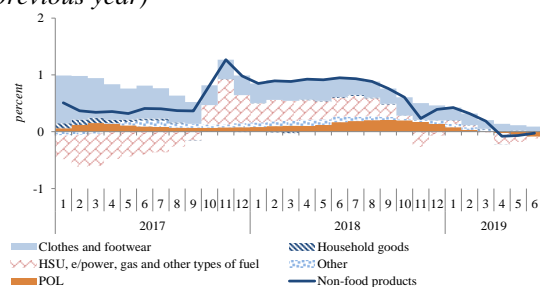
**Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI**

(month to the corresponding month of the previous year)



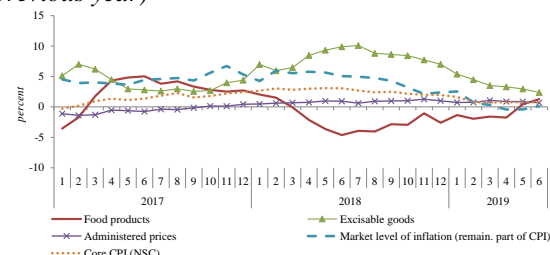
**Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI**

(month to the corresponding month of the previous year)



**Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities**

(month to the corresponding month of the previous year)



In Q2 2019, the consumer price index (quarter to the corresponding quarter) was 0.2 percent due to a slight increase in food prices. In January-June of the current year, the consumer price index was -0.1 percent, in June 2019, in annual terms – 0.9 percent. The prices for fruits and vegetables made the main input to the CPI growth, an increase in prices for bakery products and cereals, dairy products, gas and tobacco products made a secondary input to the CPI growth.

In June, the price index for food products increased in annual terms by 1.3 percent compared to the same month of 2018. Low prices for this commodity group in the previous year caused a significant increase in prices for fruits and vegetables, bakery products, cereals and dairy products in the current year. Oils, fats and sugar had a downward impact on food inflation. The increase in livestock production resulted in a near-zero increase in prices for meat.

There was a slight decrease in prices (-0.1 percent) in the non-food commodity group for the third straight month, due to price fluctuations at the level of “about zero” for the main commodity items in this group. Moreover, an increase in prices for clothes, footwear, and gas had an upward pressure on prices.

Market inflation remains low, and in June 2019 was 0.1 percent.

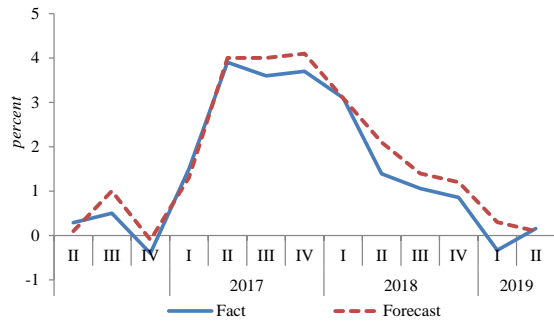
In June 2019, the core inflation index (excluding food and energy products) calculated by the National Statistical Committee of the Kyrgyz Republic decreased by 2.3 percentage points compared to June 2018 and was 0.8 percent in annual terms.



## 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 Q2 2019, the actual inflation rate was 0.1 percentage point above the National Bank's expectations.** In Q2, the prices for the majority of food products, in particular for fruits and vegetables, were higher compared to the same quarter of the last year, which caused the difference between the actual and forecasted CPI.

## Chapter 5. Medium-Term Forecast

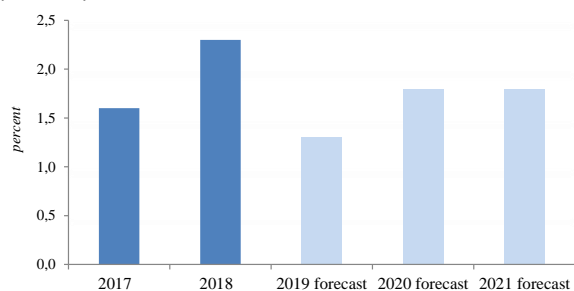
### 5.1. External Environment Proposals

#### 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

geopolitical uncertainty will have a restraining effect on the dynamics of economic activity in the medium term. Moreover, the risks of a significant outflow of capital from the country are reduced due to revision of the interest rate paths by the developed markets in the first half of 2019.

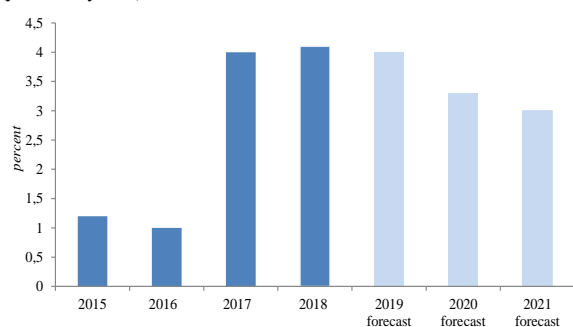
In 2020-2021, GDP growth rates are expected at 1.8 percent in the absence of significant external shocks in Russia.

The inflation rate is expected to be near the target level in the medium term (4 percent) due to formation of a steady inflation slowdown amid passed inflation peak and a decrease of the pro-inflationary risks.

##### Kazakhstan

**Chart 5.1.1.2. Real GDP Growth in Kazakhstan**

(year to year)



Source: IA Bloomberg, international financial institutions

the economy. At the same time, in the medium term, growth is expected to slow down to 3.0 percent in 2021.

Slowdown in price growth is expected in the medium term. The inflation rate is forecasted within the target corridor close to its upper level, taking into account the influence of internal and external factors. Moreover, the risks in the world commodity markets are increasing and pro-inflationary pressure from expanding consumer demand is growing.

In the first half of the year, the forecast for GDP growth in Russia in 2019 was reduced from 1.3 percent to 1.2 percent amid weak economic growth. Starting from the second half of 2019, according to previous forecasts, some acceleration of GDP growth is expected due to increased consumer activity, as well as transition to more intensive implementation of national projects and growth in public investment. At the same time, a moderate slowdown in the world economic growth, a gradual decline in the world oil prices and

geopolitical uncertainty will have a restraining effect on the dynamics of economic activity in the medium term. Moreover, the risks of a significant outflow of capital from the country are reduced due to revision of the interest rate paths by the developed markets in the first half of 2019.

In 2020-2021, GDP growth rates are expected at 1.8 percent in the absence of significant external shocks in Russia.

The inflation rate is expected to be near the target level in the medium term (4 percent) due to formation of a steady inflation slowdown amid passed inflation peak and a decrease of the pro-inflationary risks.

In the medium term, there are forecasts for the economic growth in Kazakhstan in the absence of significant shocks. Expectations for economic growth in Kazakhstan in 2019 were slightly adjusted upward - to 4.0 percent (instead of 3.7 percent) due to higher than expected oil prices and recovery in oil production in the country. The economic growth will also be supported by expansion of domestic demand amid rising incomes of the population, implementation of the large investment projects and government programs to support

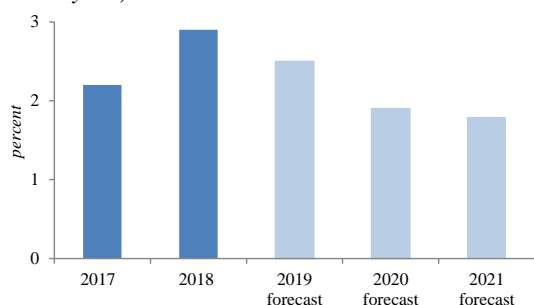
the economy. At the same time, in the medium term, growth is expected to slow down to 3.0 percent in 2021.

Slowdown in price growth is expected in the medium term. The inflation rate is forecasted within the target corridor close to its upper level, taking into account the influence of internal and external factors. Moreover, the risks in the world commodity markets are increasing and pro-inflationary pressure from expanding consumer demand is growing.

## USA

**Chart 5.1.1.3. Real GDP Growth in the USA**

(year to year)



Source: IA Bloomberg

FRS will be forced to decrease the rates again at the meeting to be held in September.

**Slowdown of economic growth is expected to continue in the USA.** News and financial agencies expect a continued slowdown in the US GDP growth amid increasing slowdown in the world economy and uncertainty around trade negotiations between the USA and China.

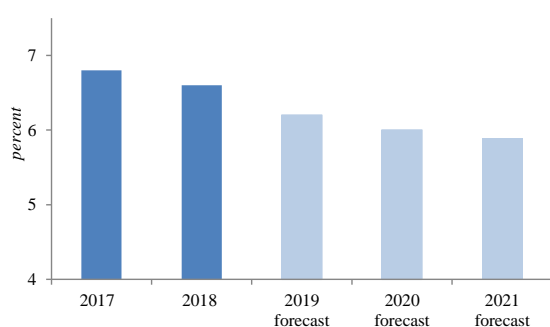
According to a study on consumer expectations<sup>1</sup> conducted by the Federal Reserve Bank of New York, the forecast for consumer inflation fell in the short and medium term amid a decrease in the FRS rate.

According to the market expectations, the

## China

**Chart 5.1.1.4. Real GDP Growth in China**

(year to year)



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

high level of total debt and a reduction of the working population in the country.

In the medium term, the average annual inflation rate in China is expected to be slightly above two percent, with the target set by the Government of “about three percent”. In 2019-2021, the general price level is expected to increase by approximately 2.3 percent.

**Slowdown of economic growth is expected to continue in China.** In the medium term, the economic growth path will demonstrate a downward trend. GDP growth in China is still forecasted at 6.2 and 6.0 percent, respectively in 2019-2020. Significant support to economic growth in China will be provided by the stimulating measures of the Government to support the economic growth and sustainable consumption in the country. At the same time, there are risks and uncertainties for the Chinese economy amid trade conflict with the USA, a

## 5.2. Medium-Term Forecast

Assumptions about development of external and internal conditions of economic growth in the Kyrgyz Republic in Q2 2019 to the greatest extent were consistent with the baseline scenario, approved at the meeting of the National Bank Board held in May 2019.

Development trends of the production factors remain within their potential, the prospects for economic growth in the Kyrgyz Republic in 2020-2021 are limited by the growth of aggregate demand and existing upward trend in the production factors.

Foreign economic environment remains among the main characteristics of economic activity in the Kyrgyz Republic. The main trading partner countries (Russia and Kazakhstan) are approaching the expected levels amid rather high prices in the world energy markets. Current forecasts for economic growth in the trading partner countries preserve assumptions regarding the possible expansion of sanctions against Russia - the largest economy in our region.

<sup>1</sup> The inflation survey conducted by the Federal Reserve Bank of New York, based on a group of approximately 1300 household heads, is among the indicators being considered by the FRS along with other price pressure data.

In Q2 2019, the dynamics of remittances showed a significant decrease, which may cause a slowdown in aggregate demand in the economy of the country. At the same time, in accordance with our estimates, a significant part of the aggregate demand provided by the inflow of remittances stimulates growth of imports, thus, the slowdown in aggregate demand caused by the decrease in remittances will not cause a significant fluctuation in the GDP of the Kyrgyz Republic in the short term.

Price movement in the world commodity markets remains another important factor to determine economic growth in the Kyrgyz Republic in the medium term.

Assumptions regarding stable price movement in the world food markets in the current agricultural season have been maintained as part of the current forecast round. Taking into account the forecasts of market analysts, the emerging trend in the global and regional agricultural markets does not bear significant inflation risks for the economy of the Kyrgyz Republic. Thus, stable prices for food products are expected to remain until the end of the first half of 2020.

In Q2 2019, the oil price in the world energy market demonstrated significant volatility and was under the negative influence of the consequences of the “trade war” between the United States and China. Market concerns about the prospects for economic growth in the USA caused a decrease in demand for oil and a corresponding reduction in prices: in the first half of August 2019, the price for Brent oil was below 60 USD per barrel, having decreased by 20 percent compared to the maximum value of the current year - 75 USD per barrel in April-May 2019. Despite the high volatility in the energy market in Q2 2019, the oil prices are rather high to ensure the economic growth in the countries-main trading partners of the Kyrgyz Republic (Russia, Kazakhstan).

The structure of the Kyrgyz Republic economy determines the particular role of the external sector parameters in developed forecasts. Assumptions on such parameters of the external economic sector as the price movement in the world commodity markets, prospects for economic development of the countries-trading partners of the Kyrgyz Republic and other important indicators of the world economy development are set based on the forecasts made by the world research agencies/institutes, official authorities of the countries and expert evaluations.

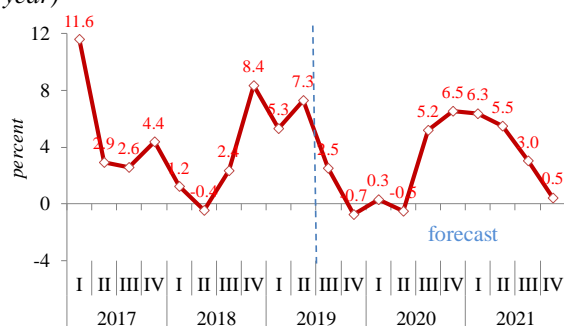
The National Bank of the Kyrgyz Republic implements assessment of the economic behavior scenarios in the Kyrgyz Republic under the influence of various combinations of external economic conditions and develops appropriate options for monetary policy implementation.

Taking into account the current prospects for development of the world commodity markets, as well as the conditions for the economic growth in the trading partner countries, the economic background in the trading partner countries of the Kyrgyz Republic is the most significant factor of the 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 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 2019-2021.

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

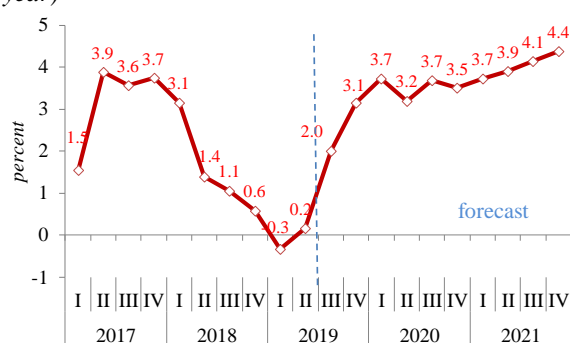
**Chart 5.2.1. Forecast of Real GDP**  
(quarter to the corresponding quarter of the previous year)



In 2020, the real GDP growth is expected at 3.0 percent, excluding Kumtor, the GDP growth is expected at approximately 3.5 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 determine 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 5.2.2. Inflation Forecast**  
(quarter to the corresponding quarter of the previous year)



The negative GDP gap will be eliminated by the end of 2020 provided that the current external and internal conditions of economic growth are retained.

In 2019, real GDP growth is expected at 3.2 percent, the GDP growth excluding the enterprises of the Kumtor Mine will be approximately at 3.0 percent. The increase in production output at the enterprises of the Kumtor Mine in 2019 is forecasted to be 7-8 percent higher compared to the production of the previous year.

In 2019, the average inflation rate (period to period) is expected at approximately 1.2 percent; at the end of 2019, inflation (December 2019/December 2018) may approach the level of approximately 3.5 percent.

In 2020, the average inflation rate is expected at approximately 3.5 percent.

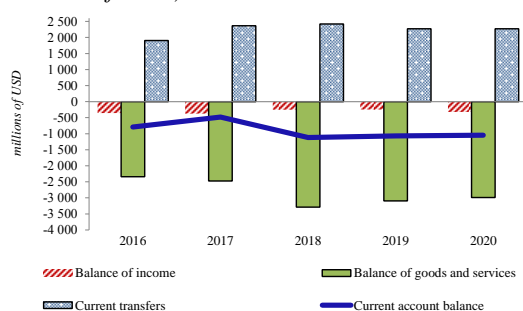
### Forecast for the Balance of Payments in 2018-2020<sup>1</sup>

In this report, the determining factors for development of the external sector of the economy for 2019 were revised taking into account the data of the actual period and adjusted expectations for economic growth in the trading partner countries and in the Kyrgyz Republic. In 2019, the current account deficit was estimated at 13.0 percent to GDP, which in value terms amounted to USD 1,070.5 million (a decrease by 4.2 percent). A decrease in the trade deficit amid a reduction in the labor migrants' remittances is expected to affect the current account dynamics. Forecast for a decrease in the trade deficit was due to expectations of lower volumes of imports.

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

**Chart 5.2.3. Forecast Data on Current Account**

(millions of USD)



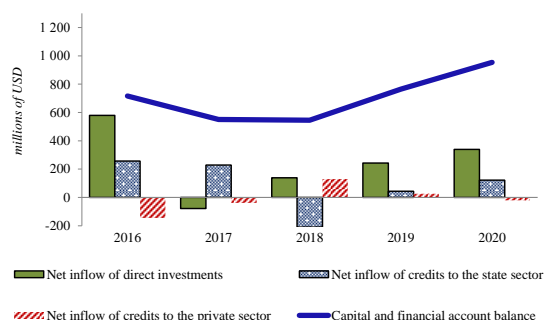
The results of the first half of 2019 were used as the reason to reduce the forecast for export growth down to 1.0 percent. Decline in exports excluding gold, which, according to revised forecasts, will decrease by 11.3 percent was the main factor to influence this trend. This decrease will be offset by an increase in the forecast for the growth of gold exports by 22.6 percent due to the revised volumes of gold production for 2019 at the enterprises of the Kumtor Mine.

**Forecast for the indicator for 2019** was adjusted to decrease by 2.5 percent according to the expected economic growth in the country and the downward trend in imports during six months of the current year. these dynamics will develop mainly due to decrease in imports of the consumer goods. Moreover, petroleum products are expected to grow in the forecast period due to increase in prices and growth in their physical volume.

The forecast for the private transfers' inflow was adjusted taking into account the data of the actual period. As a result, the net inflow of transfers to the private sector is expected to decrease by 10.0 percent compared to the level of 2018.

**Chart 5.2.4. Forecast Data on Capital and Financial Account**

(millions of USD)



In 2019, the current account deficit will be financed through capital inflows from the capital and financial account to the amount of USD 765.9 million. The bulk of capital inflows on the financial account expected to provide 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 significant level.

Thus, according the results of 2019 the balance of payments is expected to be negative in the amount of USD 151.7 million. Meanwhile, international reserve assets<sup>1</sup> are expected to cover 4.0 months of the future imports of goods and services.

The dynamics of external sector indicators in 2020 will be formed under the influence of revised forecasts of the balance of payments in 2019 and adjusted external economic conditions . The positive dynamics of the current transfers and growth of the trade deficit will affect the current account formation in the amount of 11.9 percent to GDP. Expected growth in external demand amid development of domestic production will contribute to an increase in exports by 2.3 percent. The stable economic growth in the country conditioned imports forecasting of at the level of 2018. Thus, the negative trade balance is expected to increase in 2020.

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 4.3 percent.

<sup>1</sup> 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.

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

In 2020, the overall balance of payments is expected to be negative in the amount of USD 91.1 million. International reserve assets will cover 3.6 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	2017				2018				2019	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>1. Demand and supply<sup>1</sup></b> (real growth rates, if otherwise is not indicated)											
Nominal GDP, per quarter	mln. KGS	94 072,4	115 331,6	151 977,4	169 094,3	102 353,2	120 280,5	157 424,1	177 055,5	104 527,2	128 032,9
GDP	%	11,6	2,9	2,6	4,4	1,2	-0,4	2,4	8,4	5,3	7,3
GDP, excluding Kuntor	%	8,1	0,0	4,3	8,1	3,1	2,1	3,1	4,9	1,4	2,7
Domestic consumption	%	4,0	4,6	8,8	3,7	1,9	4,3	3,3	2,6	1,7	
Investment	%	-0,9	-8,0	11,5	18,3	88,4	-5,9	-7,9	8,4	-7,8	
Net export	%	-2,5	-6,3	35,7	11,8	69,6	12,5	-2,8	3,1	-13,2	
<i>GDP production:</i>											
Agriculture	%	1,3	1,0	2,6	3,0	1,2	2,0	2,6	4,2	1,8	1,6
Industry	%	32,9	24,5	3,0	-8,3	0,6	-8,2	1,4	22,6	15,7	25,6
Construction	%	-5,9	-3,7	5,0	20,7	1,4	4,2	5,0	12,6	3,1	7,7
Services	%	8,4	-3,0	2,2	6,3	1,5	1,5	2,0	2,8	1,1	1,5
including trade	%	3,9	4,0	5,9	11,1	3,7	4,8	4,7	6,2	3,9	4,6
<b>2. Prices<sup>2</sup></b>											
CPI	%	101,5	103,9	103,6	103,7	103,1	101,4	101,1	100,9	99,7	100,2
CPI, in annual terms as of the end of period	%	102,8	104,1	103,3	103,7	102,7	100,8	101,2	100,5	99,3	100,9
Core inflation	%	100,3	101,3	101,9	102,1	102,8	103,1	102,5	100,4	101,0	100,8
<i>CPI by main groups of goods and services:</i>											
Food products	%	98,8	104,7	103,8	102,7	101,2	96,5	96,4	101,1	97,1	99,7
Non-food products	%	101,3	101,2	101,3	103,4	103,0	103,2	103,0	101,6	101,1	99,8
Alcohol drinks and tobacco products	%	105,7	102,8	102,3	103,3	106,5	109,1	108,4	100,3	104,7	104,0
Services	%	106,9	107,1	108,3	107,7	106,9	107,3	106,1	99,4	101,3	99,9
<i>CPI, classified by character:</i>											
Excisable goods	%	106,1	103,4	102,7	103,7	106,5	109,2	109,2	107,7	104,5	102,9
Regulated prices	%	98,7	99,4	99,7	100,2	100,6	100,9	100,8	101,1	100,9	100,8
Market inflation rate (the rest of CPI)	%	104,2	104,0	104,6	105,9	105,3	105,5	104,7	102,6	101,2	99,8
<b>3. External sector<sup>3</sup></b> (in percent to GDP)											
Trade balance	%	-29,9	-28,3	-30,4	-30,9	-35,6	-37,5	-38,2	-38,5	-36,4	-34,2
Current transaction account	%	-9,6	-7,1	-6,3	-6,2	-11,7	-13,4	-14,7	-13,8	-8,9	-8,8
Export of goods and services	%	35,1	35,9	34,8	34,3	33,2	33,9	32,5	32,6	34,2	33,5
Import of goods and services	%	67,7	66,7	67,2	66,4	70,6	73,6	72,6	73,2	71,6	68,6
<b>4. USD exchange rate, as of the end of period</b>											
	KGS	68,6069	69,1367	68,6585	68,8395	68,4325	68,1800	69,2773	69,8500	69,8496	69,4928
<b>5. Monetary sector</b> (real growth rates, if otherwise is not indicated)											
NBKR policy rate, as of the end of period	%	5,00	5,00	5,00	5,00	5,00	4,75	4,75	4,75	4,50	4,25
Rate of "overnight" deposit, as of the end of period	%	0,25	0,25	0,25	0,25	0,25	0,25	0,25	1,50	1,50	1,75
Rate of "overnight" credit, as of the end of period	%	6,25	6,25	6,25	6,25	6,25	6,00	6,00	6,00	6,00	5,75
Average interest rates of operations in the interbank credit market, per quarter	%	2,08	1,65	2,33	2,19	2,73	2,40	2,17	2,22	2,26	3,02
<i>of which:</i>											
of REPO transactions	%	1,56	1,50	2,19	2,14	2,73	2,48	2,17	2,22	2,25	3,02
of credits in national currency	%	2,11	3,10	5,06	6,50	-	0,00	-	-	2,3	2,30
of credits in foreign currency	%	-	4,00	-	1,25	-	-	-	-	3,5	2,88
Weighted average yield of 7-day notes, as of the end of period	%	0,61	2,81	1,44	2,79	2,40	2,31	1,90	3,03	3,67	3,59
Weighted average yield of 14-day notes, as of the end of period	%	-	-	2,51	3,28	-	-	-	3,36	-	-
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	3,93	4,18
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	4,48	4,20
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	4,73	4,75	4,50	-
Monetary base	%	23,3	21,8	22,6	16,9	16,2	6,7	2,6	6,3	6,0	13,0
Money outside banks (M0)	%	28,0	25,1	25,4	21,8	15,7	5,8	2,5	0,4	5,2	11,1
Monetary aggregate (M1)	%	31,7	25,9	24,4	21,0	19,6	10,5	4,2	3,0	5,2	9,6
Narrow money supply (M2)	%	36,2	28,8	27,8	23,7	21,1	14,6	8,0	8,2	10,3	13,2
Money supply (M2X)	%	21,7	19,8	19,1	17,9	16,9	11,6	6,2	5,5	5,5	8,8

<sup>1/</sup> 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

<sup>2/</sup> Source: National Statistics Committee of the Kyrgyz Republic

<sup>3/</sup> Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q2 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 (CPI)** 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 CPI index** is the prices except for the prices for the food products, electric energy, gas and other types of fuel.

**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
IEA	International Energy Agency
KR	Kyrgyz Republic
LA	Program "Lending to Agriculture"
MNE RK	Ministry of National Economy of the Republic of Kazakhstan
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
VAT	Value Added Tax