

Monetary Policy Report

(Review of Inflation of the Kyrgyz Republic).

Quarter 1, 2015

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Summary

During Q1 2015, the value of consumer price index was within the benchmark determined by the Joint Statement of the National Bank and the Government of the Kyrgyz Republic about economic policy for 2015 and the Main monetary policy guidelines for the medium-term period. Meanwhile, the annual inflation value decreased from 10.5 percent at the beginning of the current year to 8.5 percent in March. Generally, in the reporting period, inflation rate was primarily conditioned by increase in prices for non-food products (due to introduction of adjustments into the parameters of the consumer goods basket by the NSC KR on the tariffs for electric power, increase in prices for alcohol drinks, tobacco products and paid services). Moreover, there was seasonal rise in prices for fruits and vegetables aggravated by decrease in agricultural production output of the country in 2014. Downward dynamic of the world prices in the commodity and raw stock market still has restraining influence on the internal prices.

Economic growth of the country in Q1 of the current year made 7.0 percent; it was primarily due to the increase in production output at the enterprises of Kumtor Mine. Excluding Kumtor, GDP real growth made 3.4 percent, which is lower than the index of 4.4 percent in 2014.

At the end of Q1 2015, the state budget surplus made KGS 0.5 billion or 0.7 percent to GDP (in Q1 2014, the deficit made KGS 2.0 billion or 2.9 percent to GDP). Revenues increased by 3.7 percent against the same value of 2014, meanwhile, the overall state budget expenditures increased by 11.1 percent. In January-March of the current year, execution of the republican budget revenues constituted 105.8 percent, which resulted from implementation of the plan of collection of tax revenues by 104.8 percent and non-tax revenues by 114.5 percent. Financing of the republican budget spending was executed by 96.4 percent.

At the end of Q1 2015, the balance of payments of the Kyrgyz Republic was negative and amounted to USD 136.3 million. Current account deficit is expected to decrease by 42.0 percent to make USD 144.9 million (14.1 percent to GDP). Observed dynamic is mainly connected with upside of the trade balance account, the balance thereof will decrease by 40.7 percent.

In main trading partner countries the economy growth slowdown was observed. At the end of Q1 2015, economic development of China made 7.0 percent, in Kazakhstan it made 2.2 percent, in Russia decline by 2.2 percent was observed.

The NBKR continued pursuing the policy of floating exchange rate; its participation in the FX market was more active to smooth acute fluctuations. In Q1 the net position of the NBKR currency intervention amounted to USD 160.9 million. KGS depreciated by 8.5 percent in Q1.

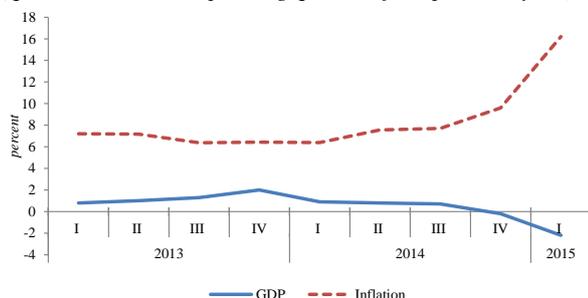
The monetary base decreased by 12.5 percent in Q1. An increase of deposits in foreign currency determined insignificant reduction rates of M2X broad money supply, which decreased by 3.8 percent within the quarter.

Chapter 1. External Environment

1.1. Economic Development of Main Trading Partner Countries

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 RF, IA Blumberg

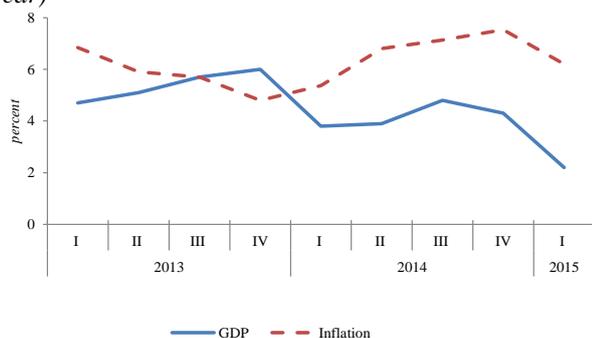
Russia

According to assessment of the Russian Federation Ministry of Economic Development, in Q1 2014 the rate of economic growth in Russia decreased to 2.2 percent, meanwhile, in the corresponding period of 2014 economic growth constituted 0.9 percent. Observed decrease is the effect of crisis resulted from structural issues combined with mutual sanctions imposed by Russia and Western countries, as well as decrease in prices for oil in 2014. In January-March 2015, negative dynamic was observed on all main economic indicators, excluding agriculture, meanwhile, significant decrease was observed in the turnover of retail trade, real salaries, investments in fixed capital and, as a consequence – decrease in construction.

According to assessment of the Russian Federal State Statistics Service, the average inflation rate made 16.2 percent in Q 1 against 6.4 percent in the comparable period of 2014. In March 2015, the inflation rate reached its highest pick of 16.9 percent in annual terms (in April 2015 this index decreased down to 16.4 percent), meanwhile, slowdown in growth of consumer prices was observed every month: thus, monthly inflation rate made 1.2 percent in March 2015 having decreased by 1.0 p.p. against the comparable value in the previous month and by 2.7 p.p. in January. Strengthening of the Russian ruble in February-March 2015 upon its sharp devaluation in December 2014, decreased impact from food embargo with regard to the West and reduction of consumer demand primarily contributed to slowdown of inflation rates.

Chart 1.1.2. GDP Growth and Inflation in Kazakhstan

(period to the corresponding period of the previous year)



Source: RK Statistics Agency

Kazakhstan

According to preliminary data, economic growth in Kazakhstan, which depends on the world prices for oil and metals, made 2.2 percent in Q1 2015 against 3.8 percent in January-March of the last year. In January-March of the current year, the most significant growth of production was observed in the communication sector – by 7.3 percent, in transport sector – 7.0 percent, in trade – 3.1 percent, in agriculture – 3.0 percent, in construction – 1.9 percent. New trend was observed in industry: previously, development of manufacturing industry exceeded growth rates of raw materials sector, currently, this ratio has changed: according to the results of the first quarter production output in the

mining industry increased by 1.1 percent, meanwhile, this index in the manufacturing industry increased by 0.5 percent. Decrease of oil refining, production of food, beverages, tobacco products, paper, pharmaceuticals and machinery production was observed in the manufacturing industry, meanwhile the main driver of growth was increase in output of non-ferrous metal industry, primarily, due to growth in production of refined copper.

Decline in the world prices for energy carriers, petrol and diesel fuel, decrease of purchasing capacity of the population had a restraining influence of the inflation rate: prices for consumer goods and services in Q1 slowed down from 7.5 percent in January to 6.1 percent in February and 5.2 percent in March of the current year. In March 2015, prices for food products slowed down to 6.2 percent, for non-food products – to 3.8 percent, for paid services – 5.2 percent.

USA

In Q1 2015, unexpectedly sharp slowdown of economic growth was observed in the USA. GDP growth decreased to 0.2 percent from 2.2 percent in Q4 of the previous year; meanwhile the financial and information institutions expected increase of activity at the level, which exceeds 1.0 percent. In Q1 2015, growth of consumer expenses slowed down; investments into the fixed capital demonstrated decrease primarily due to reduction of investments into the mining industry against lower prices for oil in the world markets. Foreign-trade transactions deficit increased under the influence of strengthened US dollar exchange rate and low indices of activity in the external markets, which had a negative contribution in GDP growth.

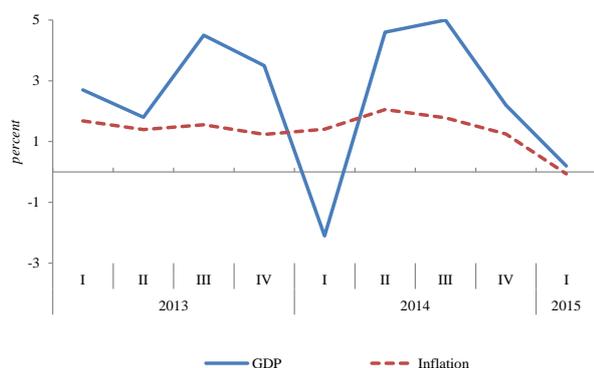
In March 2015, the US consumer price index (CPI) decreased by 0.1 percent as compared to the corresponding month of the last year, primarily, due to decrease of price index for the fuel and energy group. CPI increased by 0.2 percent as compared to February.

China

Downward trend of economic growth was still observed in China. According to the data provided by the authorities of the country, in Q1 2015 economic growth made 7.0 percent in annual terms, it corresponds with the targets of the government for the current year – about 7.0 percent, however, it is lower than the index of Q4 in the last year (7.3 percent). Decline in the upward trend is primarily conditioned by structural economic reforms

Chart 1.1.3. GDP Growth and Inflation in the USA

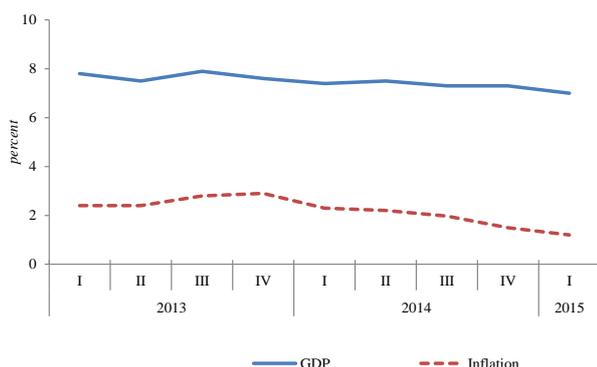
(in annual terms)



Source: Ministry of Trade of the USA, Department of Labor of the USA, IA Blumberg

Chart 1.1.4. GDP Growth and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: The National Statistics Bureau of the PRC, IA Blumberg

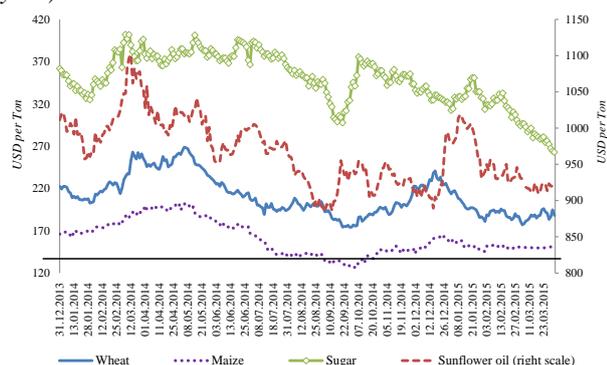
conducted by the government of the country, which are focused on increase of the significance of consumption, sector of services and innovations for economic development. In Q1 2015, economy slowdown was conditioned by decrease in the indices of real estate sector development, slowdown in industrial output and investments in the fixed capital.

In March 2015, CPI in the PRC increased by 1.4 percent, primarily, due to increase in prices for food products by 2.3 percent. In March, prices decreased by 0.5 percent in monthly terms. In January-March, the average level of prices increased by 1.2 percent as compared to the corresponding period of the last year.

1.2. International Commodity and Raw Stock Market

Chart 1.2.1. Dynamic of Prices for Food Products

(month to the corresponding month of the previous year)



Food Market

In Q1 2015, the international food market demonstrated volatile dynamic of prices with observed downward tendency by the end of the reporting period. Increase in the world production of main types of food products as well as availability of significant volumes of residual inventory were the major factors of downward dynamic in prices. Meanwhile, decline in the world demand was observed on the part of partner countries.

Price volatility in the international grain crops market observed in Q1 2015 is, on the one part, due to growth in prices for wheat exported from the USA and France against decrease in prices exported from Russia; on the other part due to decrease in quotations against improvement of experts assessment of the harvest in 2015 and availability of the current export stocks in the main countries producing wheat and maize (EU, USA and separate SIC countries).

In Q1 2015 world prices for sugar demonstrated steady decrease. High volume of sugar supply on the part of producers from Brazil, India and Thailand was the factor of decrease in prices. Moreover, world forecasts for harvesting sugarcane improved for the current marketing season.

Extension of areas for planting oil-bearing crops in the USA, availability of significant stocks and decrease in the world demand for sunflower oil from the importers result in decline of world prices for sunflower oil in Q1 2015.

At the end of Q1 2015, the FAO's (Food and agriculture organization) average value of food price index decreased by 15.4 percent against the corresponding value of 2014 to make 176.4 points.

Chart 1.2.2. Dynamic of FAO Food Price Index

(month to the corresponding month of the previous year)

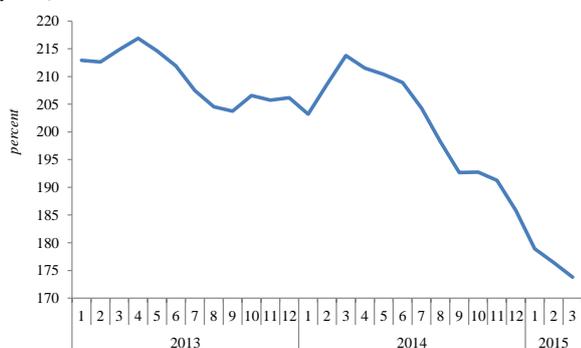
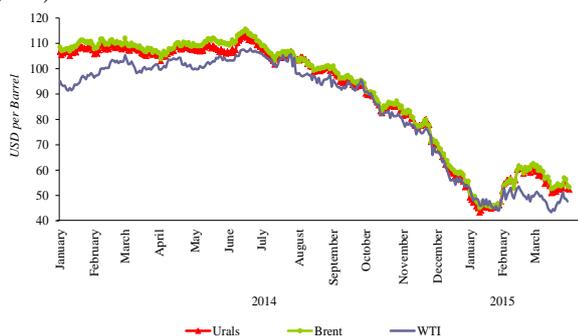


Chart 1.2.3. Dynamic of Prices for Oil
(month to the corresponding month of the previous year)

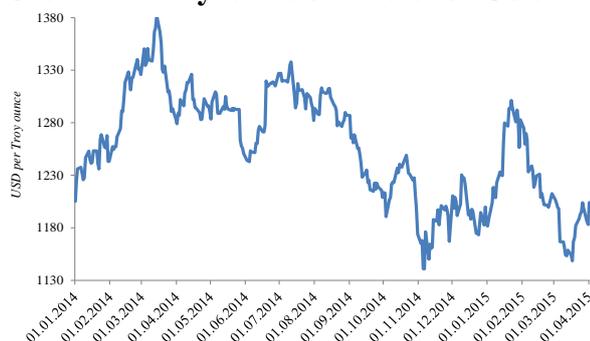


Energy Market

Generally, insignificant increase in prices was observed in Q1 despite volatility in the international oil market upon long and rapid decline in prices in the international market in Q4 and reaching bottom at the beginning of the year.

Increase in supplies at the beginning of the year, insignificant growth of demand, the decision of OPEC made in January not to decrease oil extraction, as well as active sale of oil resulted in preserving downward trend at the beginning of the year. Moreover, due to aforementioned factors many shale oil extraction enterprises in the USA started decreasing or winding up this production for uncertain period, it resulted in upward tendency in prices. Besides decrease of production, fluctuations of the US dollar and conflicts in Middle East made additional contribution into upward tendency of prices for oil. Thus, prices for principal oil grades (Urals, Brent, WTI) fluctuated within the range of USD 43.3-62.54 per Barrel in Q1 2015.

Chart 1.2.4. Dynamic of Prices for Gold



Source: IA Reuters

Gold Market

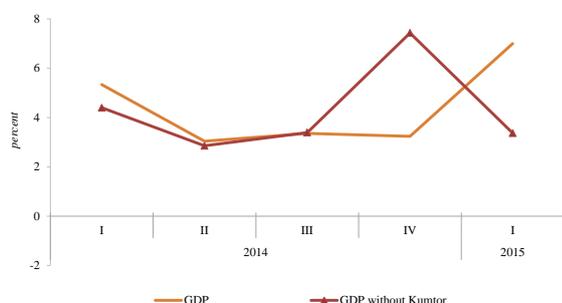
In Q1 2015, growth in prices for gold in January resulted from financial risks and volatility in the foreign exchange market during following months was replaced by stabilization of prices at the level of far below USD 1,200 per Troy ounce. Uncertain situation in the financial markets in January was primarily due to threaten of deflation in Europe and concerns about possible withdrawal on the part of Greece from Euro-zone. Finally, demand for gold, as more secure asset, increased. Moreover, growth of demand for USD was observed against relatively optimistic prospects of economic growth in the USA and expected increase in interest rates in 2015, it restrained growth in prices for gold in the US dollar equivalent. In February and March of the current year, the news, related to determination of time for initiation of increase in the US FRS accounting rate, were the main factor of change in quotations for gold.

Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodity and Service Market

Chart 2.1.1. GDP Dynamic

(quarter to the corresponding quarter of the previous year)



Demand

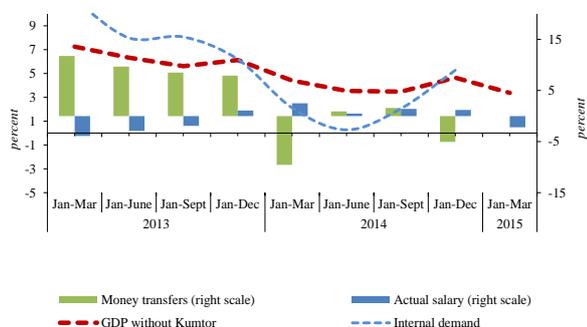
Multi-trend dynamic of GDP and GDP without regard for the Kumtor was observed in Q1 2015 primarily conditioned by high growth rates in industry due to activities of the Kumtor. Meanwhile, decline was observed in the manufacturing industry since the beginning of the reporting period, without regard for the Kumtor.

Thus, in January-March 2015, GDP growth made 7.0 percent, having increased by 1.7 p.p. compared to increase by 5.3 percent in Q1 2014. Without regard for the Kumtor, GDP decreased as well and made 3.4 percent compared to growth by 4.4 percent in 2014.

According to the Centerra Gold Inc Press Release, the Kumtor's production amounted to Troy ounce 164.3 thousand or 9.1 tons in Q4 2014, and Troy ounce 567.7 thousand in Q1 2015, having increased by 60 percent compared to Q1 2014.

Chart 2.1.2. Dynamic of Internal Demand and Money Transfers

(period to the corresponding period of the previous year)



Source: NBKR

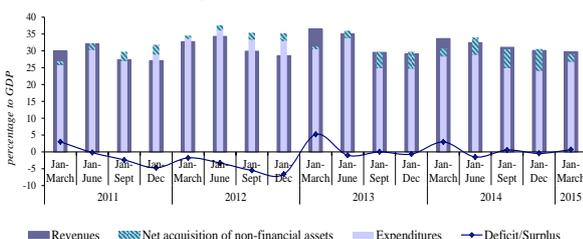
In 2014, domestic demand was still moderate (5.3 percent) due to slowdown in the growth rates of consumption (4.4 percent) compared to 2013, which was resulted from moderate growth of expenses in households (5.3 percent). Decrease of actual salary and decline of individuals' money transfers were the factors of more moderate expenses of households.

Nevertheless, consumption still remains the main component of GDP (1024 percent to GDP).

At the end of 2014, the net inflow of money transfers in the US dollar equivalent decreased by 5.0 percent against the same period of the previous year. The decrease in growth rates of money transfers in 2014 was mainly conditioned by devaluation of the Russian ruble and slowdown of the Russian economy.

Chart 2.1.3. Execution of the State Budget

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



Source: CC MFKR, NBKR

State Finances Sector

According to preliminary data of the Central Treasury of the MF KR, the state budget was executed with the profit in the amount of KGS 0.5 billion (0.7 percent to GDP) at the end of Q1 2015. Meanwhile, at the end of Q1 2014, the deficit amounted to KGS 2.0 billion or 2.9 percent to GDP.

Overall revenues of the state budget, including revenues from sales of non-financial assets constituted KGS 23.6 billion (29.7 percent to GDP), having increased by 3.7 percent or KGS 838.5 billion as compared to the same value for January-March 2014. Tax revenues made the most significant contribution

to increase of operating revenues (7.9 p.p.), contribution of non-tax revenues made 3.0 percentage points, meanwhile, contribution of received official transfers was negative and made (-) 7.2 percentage points.

In January-March of the current year, implementation of the revenue side of the republican budget made 105.8 percent was the result of implementing the plan on collection of tax revenues by 104.6 percent and non-tax revenues by 114.5 percent. Meanwhile, the plan of the State Tax Service on tax collection was implemented by 107.0 percent, while the plan of the State Customs Service was implemented by 102.3 percent.

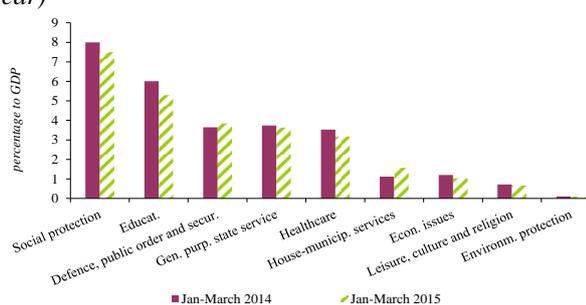
At the end of Q1 2015, there was an increase in overall expenditures of the state budget, including growth of expenditures from acquisition of non-financial assets by 11.1 percent to make KGS 23.1 billion (29.0 percent to GDP). High share of expenses directed for the current consumption is still observed in the structure of expenditures by economic classification. Subsidies and social securities (4.5 p.p.), expenditures for remuneration (3.2 p.p.), as well as expenditures for acquisition and use of goods and services (2.2 p.p.) made the most significant contribution to growth of expenditures. Expenditures for defense, public order and safety (2.9 p.p.), social protection, housing and utilities services (2.0 p.p. per each), public services of general purpose (1.7 p.p.) made the most significant contribution to growth of expenditures by functional classification. Financing of the expenditure side of the budget is implemented by 96.4 percent.

According to preliminary data of the KR Social Fund, the Social Fund budget surplus (inclusive of the pension fund balance as of the beginning of the year) made KGS 0.7 billion at the end of Q1 2015 (0.9 percent to GDP). Revenues of the Social Fund budget (inclusive of the pension fund balance as of the beginning of the year) made KGS 10.3 billion (11.7 percent to GDP), having increased by 4.3 percent as compared to the same value of 2014. Expenditures of the Social Fund budget increased by 7.1 percent as compared to the same value of 2014 to make KGS 9.5 billion (12.0 percent to GDP)

The level of implementing investment in capital stock increased by 5.9 percent (in comparable prices) in January-March 2015 to make KGS 16,312 billion in nominal terms.

Investments in capital stock in the sphere of services were directed for construction of facilities in the sphere of trade, transport activities, hotels and restaurants, information and communication. There

Chart 2.1.4. Execution of the State Budget
(period to the corresponding period of the previous year)



Source: CC MFKR, NBKR

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

	January-March			
	millions of KGS		share, percent	
	2014	2015	2014	2015
Total	14 663.7	16 312.0	100.0	100.0
Internal investment	10 339.0	12 008.1	70.5	73.6
Republican budget	62.3	156.3	0.4	1.0
Local budget	4.0	57.1	0.0	0.3
Funds of enterprises and organizations	5 476.5	6 413.7	37.4	39.3
Banks' credits	17.7	12.6	0.1	0.1
Population funds including beneficent help of KR residents	4 778.5	5 368.4	32.6	32.9
External investment	4 324.7	4 303.9	29.5	26.4
Foreign credit	3 055.1	3 297.5	20.9	20.2
Direct foreign investments	1 221.4	527.6	8.3	3.2
Foreign grants and humanitarian aid	48.2	478.8	0.3	3.0

Source: NSC KR

was significant increase in the investments for construction of facilities in the sphere of education (by 4.3 times) and health care (by 3.7 times).

The volume of investments distribution for construction of facilities in the agriculture, forestry and fishery increased by 5.9 times.

Financing was still carried out at the expense of internal sources, where the main share was accounted for the funds of enterprises and organizations, as well as funds of the population.

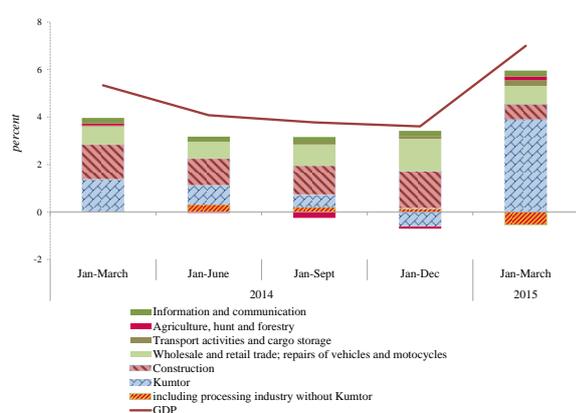
Supply

In Q1 2015, generally, positive contribution was observed from all sectors of economy. However, the main contribution in GDP growth was made by the sector of industry (3.7 percent), the sphere of services (1.4 percent) and the sector of construction (0.7 percent).

In the industrial sector, increase by 20.7 percent was primarily connected with growth in production of the main metals and finished metal products (increase in production output at Kumtor Mine), refined products and extraction of minerals.

The main component in the sphere of services is still wholesale and retail trade, except for trade in cars and motorcycles, with increase by 4.8 percent and the share in the structure of services of 71.5 percent.

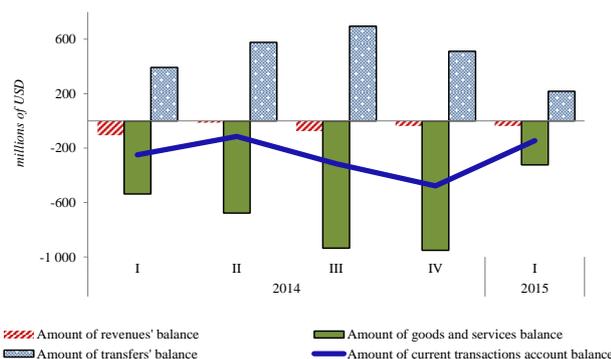
Chart 2.1.5. Input of Major Sectors in GDP Growth
(period to the corresponding period of the previous year)



Source: NSC KR

2.2. External Sector

Chart 2.2.1. Current Transactions Account



Remark: According to preliminary and forecasted data, taking into account additional settlements for re-export of oil products and trade of "suitcase traders"

According to the preliminary and forecasted data, at the end of Q1 2015 the current account deficit will decrease down to 42.0 percent and make USD 144.9 million (without regard to additional settlements of USD 263.8 million, decrease by 28.4 percent) or 14.1 percent to GDP. The deterioration of the current transactions account negative balance will be determined mainly by the dynamic of trade balance.

In the reporting period, the KR trade deficit is expected to be lower than the level of Q1 2014 by 40.7 percent to make USD 277.1 million (without regard to additional settlements of USD 396.0 million) The decrease of trade balance deficit will be primarily conditioned by the following key factors:

- the 23.2 percent decrease in imports without regard to energy products (by USD 187.6 million in absolute terms);
- the increase in exports of gold.

Moreover, trade balance in the reporting period was formed under the downward effect of the following factors:

- increase in exports of electric energy;

2.2.1. KR Trade Balance ¹ (millions of USD)

	2013	2014	2014	2015 *	Change	Change
			Q1	Q1	in %	in millions of USD
Trade balance (with additional assessments)	-2 815,4	-2 771,5	-467,4	-277,1	-40,7	190,3
Trade balance ¹	-3 565,2	-3 398,6	-586,3	-396,0	-32,5	190,3
Exports (FOB) (with additional assessments)	2 798,2	2 518,7	550,2	580,7	5,5	30,4
Exports (FOB) ¹	2 048,4	1 891,6	431,4	461,8	7,0	30,4
Gold	736,8	716,9	168,6	256,2	52,0	87,6
Imports (FOB)	5 613,6	5 290,2	1 017,6	857,7	-15,7	-159,9
Energy products	1 186,7	925,1	174,4	171,9	-1,4	-2,5

¹ Based on the NSC actual data from January to February and the SCS preliminary data for March 2015 without regard to the NBKR additional settlements for re-export of oil products and trade of the suitcase traders"

- decrease in exports without regard to gold and the NBKR additional settlements.

Goods exports (in FOB prices¹, with regard to the NBKR additional settlements) in Q1 2015 will make USD 580.7 million (without regard to additional settlements of USD 461.8 mln) and will increase by 5.5 percent against the comparable period of 2014.

According to expectations, due to the 58.5 percent increase in physical volume of supplies against the 4.1 percent decrease in actual average export price of supplies, the export volume of gold will be increased by 52.0 percent. Export will be decreased by 21.8 percent without regard to gold and the NBKR additional settlements and will make USD 205.6 million As per the NBKR assessments, this will be promoted by a decrease in supplies of vegetables, rubber tires, articles of clothing and clothing accessories, aircrafts and associated equipment. At the same time, the increase in the export volume of vehicles for cargo transportation and special-purpose vehicles, fruits and nuts.

Goods imports (in FOB prices) will be decreased by 15.7 percent in the reporting period to make USD 857.7 million percent in the reporting period to make USD 857.7 million The decrease in imports will be mainly determined by a decrease in supplies of pre-owned motor-cars, articles of clothing and clothing accessories, fertilizers and natural gas. Besides, the imports of oil products are expected to decrease by 1.8 percent, due to decrease in contract prices for supplies of oil products by 28.2 percent, meanwhile, the physical volume of supplies increased by 36.9 percent. Moreover, in the reporting period, the increase was observed in the supplies of electric power (increase was conditioned by necessity in the imports of electric power from the Republic of Kazakhstan in the first quarter of 2015 in order to cover the electric power deficit in the aforementioned period), sugar, trucks for construction and mining industry, vehicles for cargo transportation and special-purpose vehicles.

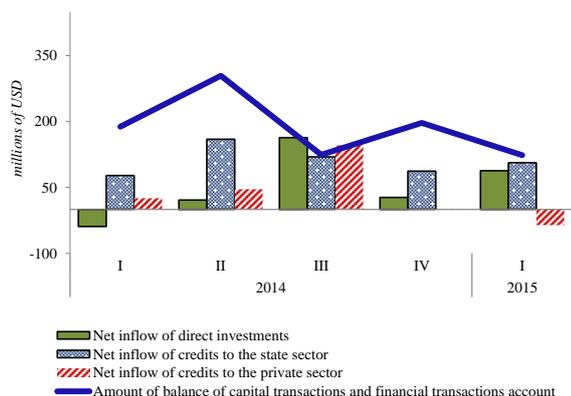
According to the forecasts, a balance of services will be formed negative at the level of USD 47.0 million and will decrease by 32.5 percent in Q1 2015.

The 64.3 percent decrease (down to USD 37.3 million) of income deficit is expected in the reporting period, which is conditioned by a decrease in income of direct foreign investors gained from the investment activities in Kyrgyzstan.

According to assessments of FSRD, net inflow on the current transfers to the official and privates

¹ Price at the boundary of exporting country (free on board).

Chart 2.2.3. Capital Transactions and Financial Transactions Account



sectors will decrease and form at the level of USD 216.9 million

In Q1 2015, the capital transactions account and financial transactions account will be formed with positive balance in the amount of USD 123.4 million, which will be by 34.6 percent lower than the comparable value of Q1 2014.

Balance of the capital transactions account increased by 25.2 percent against the comparable value of the first quarter in 2014 and is expected to be positive to make USD 17.3 million

In the reporting period, positive balance of the financial account is expected to be decreased by 39.3 percent to make USD 106.1 million Direct and other investments will have a principal influence on the financial account in the reporting period.

Therefore, at the end of Q1 2015 the Kyrgyz Republic payment balance was formed with negative balance to make USD 136.3 million The volume of gross international reserves will cover 3.6 months of future imports of goods and services.

Indexes of Real and Nominal Effective Exchange Rate of KGS

According to preliminary data, the index of nominal effective exchange rate (NEER) of KGS decreased by 0.2 percent year-to-date and made 122.4 late in March 2015. The decrease was determined by KGS depreciation¹ in March compared to the average exchange rate for December 2014 in relation to the US dollar by 6.5 percent, to the Chinese yuan – by 5.6 percent and to the Kazakh tenge – by 4.6 percent. At the same time, there was 6.2 percent appreciation of KGS in relation to euro, 3.5 percent strengthening to the Russian ruble, due to more significant depreciation of aforementioned currencies to the US dollar as compared to KGS weakening to the US dollar.

Higher inflation rate² in the trading partner countries in parallel with depreciation of the KGS NEER index conditioned a decrease in index of real effective exchange rate (REER), which decreased by 2.3 percent from December 2014 and amounted to 125.7 percent as of the end of March 2015.

Table. 2.2.2. Key Values for Exchange Rate

	year (average)		month to beginning of the year (as of the end of month)			month to previous month (as of the end of month)			
	2013 (aver.) (Jan-Dec)	2014 (aver.) (Jan-Dec)	December 2014	March 2015	%	February 2015	March 2015	%	
REER	111.9	117.2	4.8	128.8	125.7	-2.3	132.2	125.7	-4.9
NEER	111.4	114.4	2.7	122.6	122.4	-0.2	122.6	122.4	-0.2
REER to CNY	141.4	135.6	-4.8	130.7	124.0	-5.1	126.7	124.0	-2.1
NEER to CNY	73.2	66.3	-9.4	61.3	57.9	-5.0	59.3	57.9	-2.2
REER to Euro	142.4	137.1	-3.7	143.1	153.8	7.2	151.7	153.8	1.4
NEER to Euro	68.4	61.8	-9.7	61.4	65.2	6.2	63.9	65.2	2.1
REER to KZT	111.9	117.2	4.8	128.8	125.7	-2.3	132.2	125.7	-4.9
NEER to KZT	105.5	112.1	6.3	105.0	100.1	-4.6	102.2	100.1	-2.1
REER to RUR	73.7	80.1	8.7	103.6	101.5	-2.1	113.0	101.5	-10.2
NEER to RUR	111.5	121.5	9.0	158.5	163.9	3.5	180.4	163.9	-9.1
REER to USD	188.3	179.8	-4.5	174.7	166.1	-4.9	171.4	166.1	-3.1
NEER to USD	98.5	89.1	-9.5	82.1	76.7	-6.5	78.5	76.7	-2.3

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

* preliminary data

¹ The data are given for nominal bilateral exchange rate of KGS; the year of 2000 is used as the base period for calculation of the index.

² For January to March 2015, the KR inflation amounted to 1.5 percent, whereas average level of inflation in major trading partner countries made 3.8 percent according to preliminary calculations.

Chapter 3. Monetary Policy

3.1. Pursuing Monetary Policy

In the reporting quarter, the NBKR Board made the following decisions for the size of policy rate: 50b.p. increase up to 11.00 percent in January due to persistent pressure on the inflation and exchange rate; remain unchanged taking into account slowdown of economic growth and relieved pressure on the inflation in February and March. As to the interest rates “corridor” related to the policy rate, a decision was made in January, to increase the rates by 50b.p., i.e. overnight deposits up to 5.0 percent and those of overnight credits – up to 12.0 percent; a decision was made in February, to preserve the rates of overnight deposits and those of overnight credits unchanged; a the rates of overnight credits was increased in March by 200b.p. up to 14.0 percent due to pressure on the exchange rate.

When making this decision, the degree of risks balance related to a decrease in external demand, on the one side, and the rise in consumer prices, on the other side, was taken into account.

The scenario of economic development assumed as a basis at the NBKR Board meeting held in February 2015 implied enhancement of pressure on the exchange rate, moderate increase in interest rate and decrease in increment rate of monetary base in the average-term period .

According to actual data, in Q1 2015 KGS was weakened by 8.5 percent; the monetary base volume decreased by 12.5 percent against Q4 2014 to make KGS 56.4 billion as of the end of March 2015; annually, the decrease made 16.2 percent.

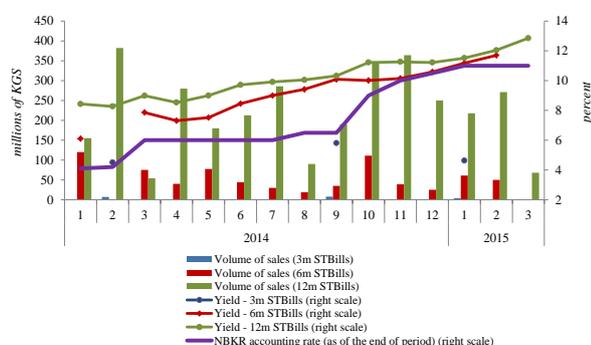
In Q1 2015 the NBKR performed the following monetary transactions:

- at the inter-bank foreign-exchange market the NBKR performed US dollar sales transactions for the amount of USD 160.9 million;
- the volume of NBKR notes in circulation amounted to KGS 1,576.0 million as of the end of Q1;
- the daily average volume of overnight deposits amounted to KGS 1,193.2 million, while the gross volume made KGS 70,396.7 million;
- the daily average volume of overnight credits made KGS 361.2 million, while the gross volume amounted to KGS 12,641.1 million;
- refinancing credits were issued to the amount of KGS 600.0 million, the outstanding debt of commercial banks for refinancing credits amounted to KGS 3,768.1 million as of the end of March 2015;
- purchase of gold by the National Bank in the internal market made KGS 149.8 million.

3.2. Financial Market Instruments

Government Securities Market

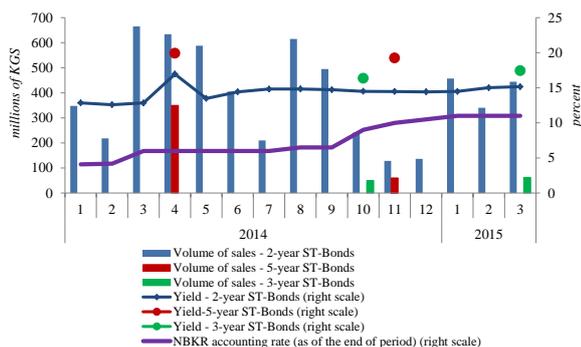
Chart 3.2.1. Dynamic of ST-Bills Sales Volumes and Yield



ST-Bills

The Ministry of Finance suggested placing 3-, 6-and 12-month bills in Q1. The total volume of the announced emission of the bills made KGS 1.6 billion in January to March 2015 having increased by 5.9 percent against the comparable period of 2014. The volume of papers in circulation decreased by 0.1 percent year-to-date and amounted to KGS 3.0 billion as of the end of the period. Due to a decrease in demand volume (-64.9 percent) the sales volume decreased as well (-15.3 percent). In Q1 the sales volume made KGS 671.8 million. In the reporting period the monthly average yield of ST-Bills increased in all segments of papers placed in the market. Thus,

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

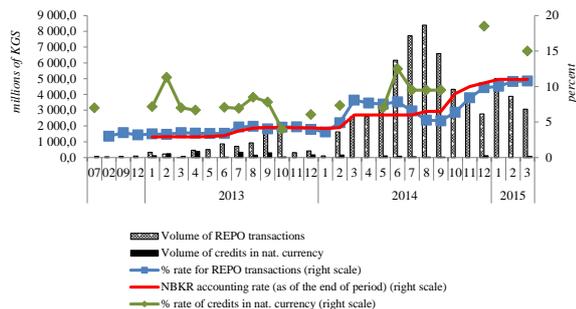


the total average weighted yield of ST-Bills amounted to 12.1 percent (+ 4.1 p.p.).

ST-Bonds

In Q1 of the current year the state treasury bonds (ST-Bonds) market was presented by 2- and 3-year papers. As of the end of March 2015, the volume of ST-Bonds in circulation increased by 13.2 percent year-to-date to make KGS 8.1 billion. The announced volume of ST-Bonds emission made KGS 1.4 billion in Q1 2014 having increased by 2.4 times against the comparable value of 2014. Despite the decrease in demand volumes (-26.9 percent) and there was the increase in sales volumes (by 5.9 times). In the reporting period there was observed increase in the level of average weighted yield (+2.8 p.p.). Sales volume made KGS 1.3 billion in Q1 2015. The average weighted yield of all ST-Bonds amounted to 15.6 percent in the reporting period.

Chart 3.2.3. Activity in the Interbank Credit Resource Market



Inter-Bank Credit Resource Market

In Q1 2014, activity level of participants continued growing in the international credit resource market. The total volume of KGS credits, including the NBKR credits, amounted to KGS 25.6 billion in the reporting period primarily due to the 3 times increase in the volume of overnight credits up to KGS 12.4 billion as well as due to the 4.2 times increase in REPO transactions up to KGS 11.9 billion (weighted average rate - 10.5 percent). In the reporting period, the credits were issued to the amount of KGS 600.0 million under the auction conditions. The volume of credits issued in national currency under standard conditions decreased down to KGS 60.8 million. Transactions in foreign currency were carried out to the amount of KGS 420.8 million.

Chart 3.2.4. Rates of NBKR and Inter-Bank Transactions

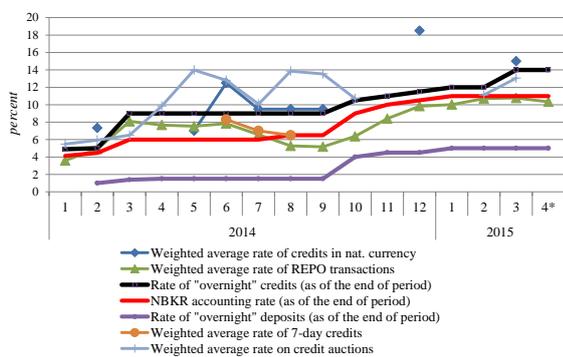


Chart 3.2.5. Dynamic of Rates and REPO Transactions in the IBCRM

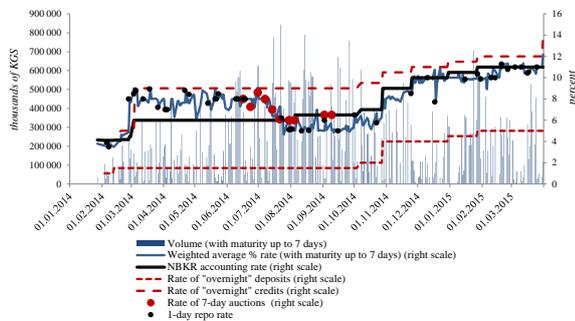


Chart 3.2.6. Dynamic of Commercial Banks Deposits

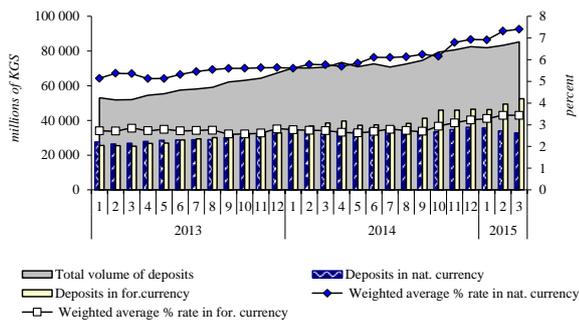


Chart 3.2.7. Dynamic of New Deposits

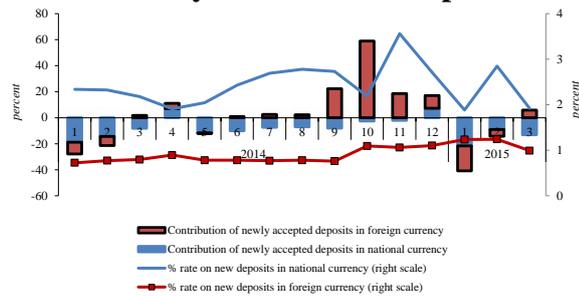


Chart 3.2.8. Rates of New Deposits in National and Foreign Currency in Terms of Maturity

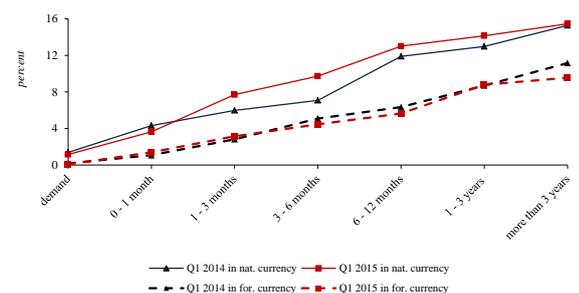


Chart 3.2.9. Dynamic of Credit Debt of Commercial Banks as of the End of the Period

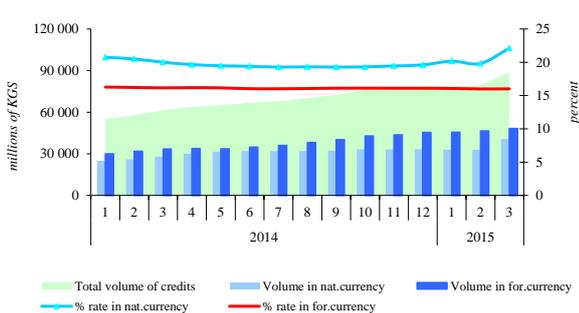
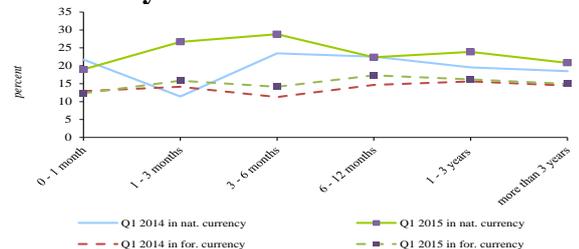


Chart 3.2.10. Rates of New Credits in National and Foreign Currencies in Terms of Maturity



Deposit Market

The volume of deposit base of the commercial banks increased by 3.3 percent year-to-date to make KGS 82.3 billion as of the end of Q1 2015. Foreign currency deposits increased by 13.0 percent up to KGS 52.5 billion. The national currency deposits decreased by 9.2 percent down to KGS 32.7 billion.

Under the impact of the US dollar strengthening, dollarization of deposits increased from 56.3 percent to 61.6 percent year-to-date.

Weighted average interest rate for new deposits in the national currency amounted to 2.22 percent in Q1 2015 having decreased by 0.06 p.p. against the comparable value of 2014; for the foreign currency deposits - 1.16 percent having increased by 0.39 p.p.

Credit Market

In Q1 2015, credit portfolio continued growing due to issuing credits both in the national and foreign currencies. One of the factors of increase in credit financing was implementation of the Project for Financing of Agriculture-3, which initiated loans issue since March 2015. In March, the volume of issued credits made KGS 386.0 million.

As of the end of the reporting period, the volume of credit portfolio of the commercial banks increased by 12.9 percent year-to-date and amounted to KGS 88.9 billion. Among them, the credits in national currency increased by 21.9 percent to make KGS 40.7 billion, while those in foreign currency made KGS 48.2 billion (+6.3 percent).

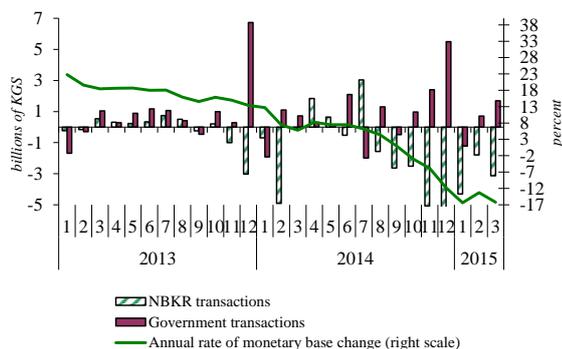
As of the end of the reporting period, the credit portfolio dollarization decreased by 3.4 percentage points year-to-date to make 54.3 percent.

Weighted average interest rate for new credits in the national currency increased by 2.82 percentage points to make 22.46 percent in Q1 2015, while for those in foreign currency increased by 0.04 percentage points up to 14.59 percent.

The share of overdue credits accounted for 2.2 percent late in the reporting period (without changing year-to-date), while the share of prolonged credits made 2.4 percent (-0.6 p.p.).

3.3. Dynamic of Monetary Indicators

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



Monetary Base

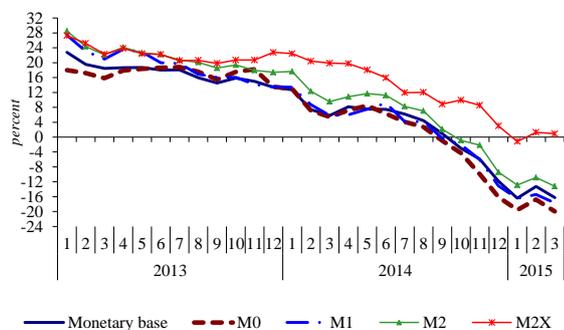
Monetary base decreased by 12.5 percent or by KGS 8.0 billion in Q1 2015. In Q1, the decrease in monetary base was influenced by the National Bank's transactions, which decreased monetary base by KGS 9.2 billion; the transactions carried out by the Government of the Kyrgyz Republic increased monetary base by KGS 1.2 billion.

The impact of the National Bank's transactions on the monetary base decrease was mainly conditioned by transactions in the foreign exchange market, net contribution thereof made KGS 9.8 billion.

Monetary Aggregates

Nominal rates of changes in monetary aggregates had a downward trend in Q1 2015. Money in hands (M0), narrow money (M1) and broad money in the national currency (M2) decreased in Q1 by 13.3, 13.9 and 11.9 percent correspondingly (in annual terms by 19.9, 17.7 and 13.2 respectively). While the growth of deposits in foreign currency determined lower decrease rates in broad money stock M2X that comprises deposits in foreign currency – by 3.8 percent (in annual terms the volume of M2X increased by 0.9 percent).

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



Chapter 4. Inflation Dynamic

4.1. Consumer Price Index

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

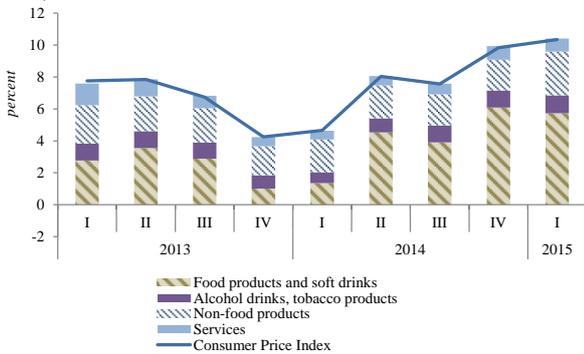


Chart 4.1.2. Dynamic of Food Products Price Input in Annual CPI

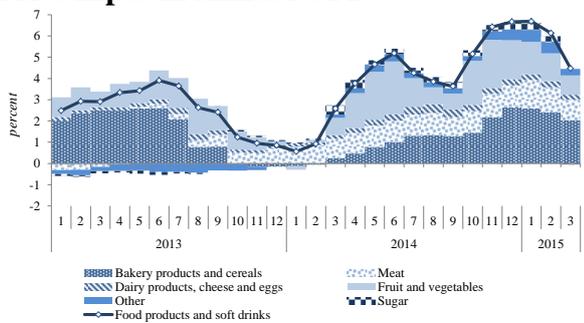


Chart 4.1.3. Dynamic of Non-food Products Price Input in Annual CPI

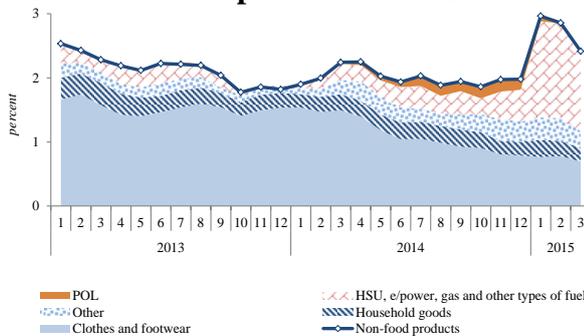
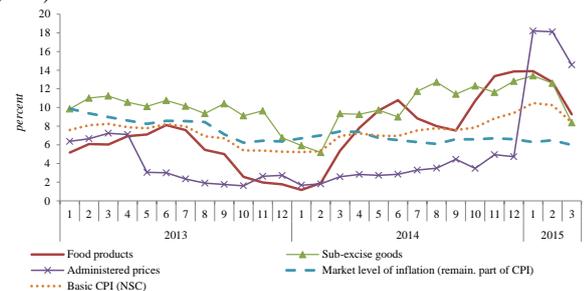


Chart 4.1.4. Dynamic of Consumer Price Index by Groups of Commodities
(month to the corresponding month of the previous year)



According to the National Statistical Committee, inflation made 10.3 percent in Q1 2015 (Q1 2015/Q1 2014), the similar value of 2014 was at the level of 4.7 percent. Meanwhile, annual inflation rate decreased from 10.5 percent at the beginning of the current year to 8.5 percent in March.

In Q1 2015, inflation rate was primarily formed by increasing non-food component as a result of rise in tariffs for electric energy, growth in prices for alcohol drinks and tobacco products, as well as increase in prices for services. Moreover, there was increase in internal prices for fruits and vegetables against reduction of production output in the agricultural sector of the country in 2014, thereby providing the main contribution in growth of food inflation in Q1 2015.

Decrease in internal prices for POL due to decline of wholesale selling prices in the Russian oil products market and fall of the world prices for crude oil was the factor restraining growth in prices. Generally, relative steady dynamic of export prices in the corn market of Kazakhstan as well as downward tendency of quotations in the international food markets conditioned decrease of inflation pressure in the country.

Prices for food products increased by 11.9 percent in Q1 2015 as compared to Q1 2014. Growth of price index for bakery products made 13.2 percent. Prices for fruits and vegetables increase by 19.9 percent, dairy products – 10.9 percent, meat – 9.8 percent.

Prices for non-food products increased by 9.5 percent in Q1 2015 as compared to Q1 2014. The most significant input in the increase in prices for non-food products was made by the 6.7 percent increase in prices for “clothes and footwear” commodity group, and the 15.6 percent increase in prices for “electric power” category. Household utilities and home appliances increased in prices by 6.2 percent.

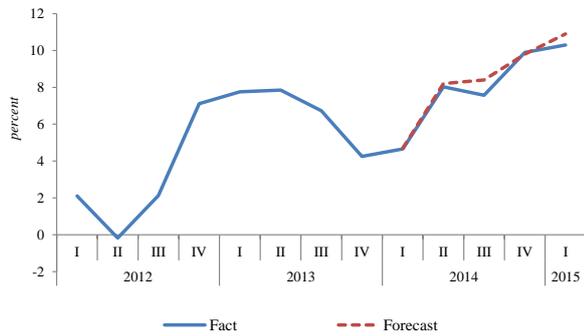
Growth in prices for paid services made 6.0 percent in Q1 2015 (Q12014 – 4.0 percent). Index rise in this group is primarily due to growth in prices for services related to leisure (+11.3 percent) and education (+7.9 percent).

Base inflation calculated by the NSC KR methodic amounted to 9.7 percent in Q1 2015 against Q1 2014.

4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



Quarterly average level of inflation was by 0.6 p.p. lower than the forecasted one and made 10.3 percent (Q1 2015/Q1 2014). Deviation of the forecasted value of inflation from the actual one was conditioned by slower rates of food inflation compared to the expected rates against long-lasting decline in world prices for food products and earlier stabilization of prices for wheat exported from Kazakhstan.

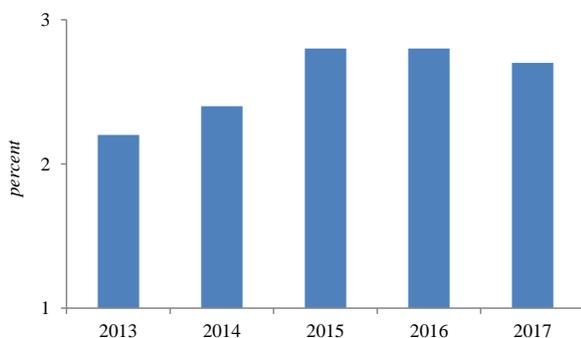
Chapter 5. Medium-Term Forecast

5.1. External Environment Proposals

5.1.1. Development Forecast of Major Trading Partner Countries

Chart 5.1.1.1. Real GDP Growth in USA

(year to year)



Source: IA Blumberg

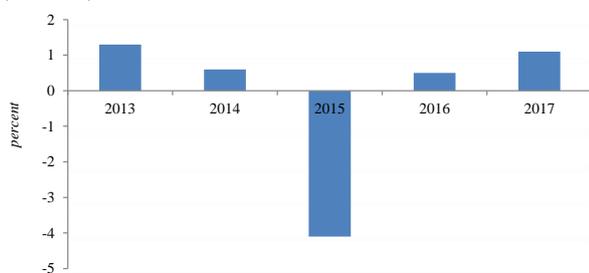
USA

According to the forecasts of financial and information institutions, rehabilitation of the US economy will remain steady in the medium-term perspective. Growth slowdown in Q1 was primarily conditioned by the following time factors: unfavorable weather conditions and irregularities in ports operation, which had a negative effect on growth of consumer expenses. Recovery of internal consumption will contribute to further growth of employment and release of funds available for use as a result of determination of lower prices for fuel. Influence of stronger US dollar on the foreign trade and negative effect of relatively low prices for oil on the volume of investments in the manufacturing industry are the risk factors.

The US inflation rate is expected to increase up to the FRS reference mark of approximately 2.0 percent in the medium-term prospect.

Chart 5.1.1.2. Real GDP Growth in Russia

(year to year)



Source: IA Blumberg

Russia

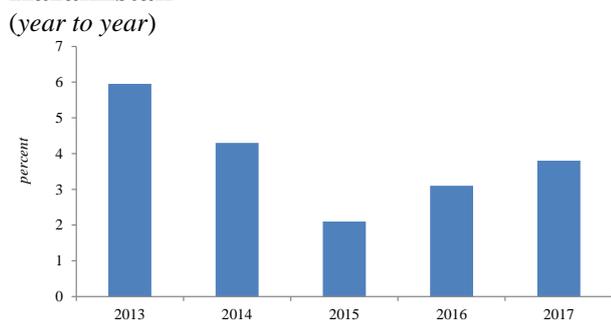
Forecasts related to economic growth in Russia in 2015-2017 were insignificantly improved primarily due to such factors as decrease of the risk of imposing new sanctions on the part of the West (as a result of improvement in the geopolitical situation in the region), slight increase in prices for oil and slowdown in capital outflow (at the end of Q12015 – USD 32.6 billion, decrease by 1.5 times as compared to the same value of 2014). Thus, decline of economy in the Russian Federation down to 4.1 percent is expected in 2015 (instead of decrease by 5.2 percent), in 2016 – increase up to 0.5 percent (instead of decrease down to 3.4 percent) and in 2017 – increase up to 1.1 percent.

Russian ruble exchange rate has become steady however, as this exchange rate is floating it will continue fluctuating in the future being affected by different factors, the main factors are as follows: dynamic of prices for oil, imposing new sanctions or cancellation of the sanctions imposed by the West and further monetary policy conducted by the Bank of Russia.

Inflation rate in Russia at the end of Q1 reached its highest pick and then will start slowing down due to stabilization of the Russian ruble exchange rate, reduction of consumer demand and decrease

of effect from import restrictions with respect to the Western countries and in 2017 it can reach its target of the Bank of Russia – 4.0 percent.

Chart 5.1.1.3. Real GDP Growth in Kazakhstan

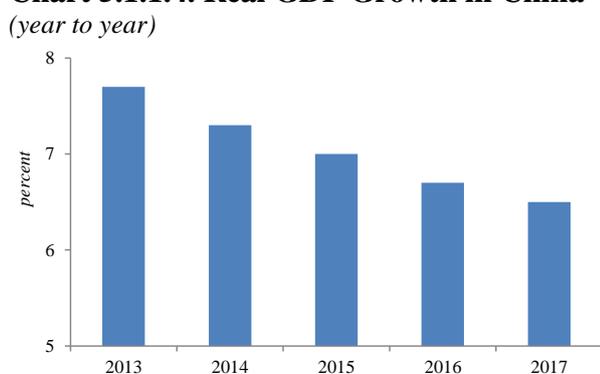


Source: IA Blumberg, international financial institutions

International financial institutions and leading rating agencies revised downward the forecasts for economic growth of Kazakhstan down to the level of approximately 2.1 percent, which is explained by decrease in prices for oil down to USD 50 in 2015 as well as reflects prospects of significant economic decline in Russia, deterioration in competitiveness of export from Kazakhstan to the European Union countries. Meanwhile, the economic prospects of economic growth in the country in 2016-2017 reflect adaptation of economy to low prices for oil and positive influence of stimulating measures of 5-year state program “Nurly Zhol” aimed at diversification of economy through development of private sector, financial infrastructure and support of labor market, as well as putting into operation oilfield “Kashagan” by the end of 2016.

In 2015, slowdown of inflation rate is forecasted down to 6.0 percent accompanied by low prices for food products, slower growth of incomes, cheaper export from the RF and joining Kazakhstan EEU. The National Bank of Kazakhstan sets an objective to restrain annual inflation rate within the range of 5.0-8.0 percent. Moreover, the National Bank of the Republic of Kazakhstan is expected to carry out slight adjustment of the Kazakh tenge exchange rate to the level of KZT 210 per USD 1 by the end of 2015 with long-lasting decline of average annual price for oil below USD 50 per Barrel, however, there are risks of subsequent wave of the foreign exchange purchase.

Chart 5.1.1.4. Real GDP Growth in China



Source: IA Blumberg

China

Economic growth in China is expected to slow down gradually while the government of the country will carry out economic reforms, take measures on reduction of excessive production capacities, restriction of environmental pollution and combating against corruption. Additional risk factors for economy are as follows: effect of the Chinese yuan strengthening along with other currencies, relatively weak demand in some external markets and continuing influence from reduction of real estate market. Meanwhile, the PRC authorities adhere to the position, which stipulates carrying out proactive fiscal policy and introduction of corresponding adjustments into

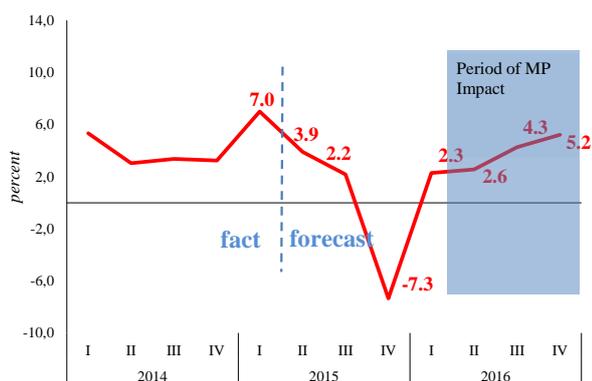
monetary policy depending of the needs of economic development. In 2015, GDP growth in the PRC is expected to reach the government target of 7.0 percent with subsequent slowdown in 2016-2017.

Gradual increase of inflation rate from 2.0 percent in 2015 to approximately 3.0 percent in 2017 is forecasted in the medium-term prospect.

5.2. Medium-Term Forecast

Chart 5.2.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



Development of Real Economy

Despite deterioration of external conjuncture (in Q1 2015 goods turnover was reduced by 14.5 percent), GDP growth without Kumtor was registered within positive zone at the level of 3.4 percent in Q1 2015 in annual terms. Total GDP increased by 7.0 percent in real terms.

In Q1 2015, net inflow of money transfers of migrant workers from Russia decreased by 38.9 percent in US dollar equivalent. Insignificant rehabilitation of growth rates of this index is expected in the short-term prospect, inflow of money transfers decreased by 24.3 percent at the end of Q2 2015. In the short-term prospect money transfers will not contribute to purchasing power of the population.

Assessments of further economic growth of the domestic economy for the medium-term prospect are based on outlined trends in separate sectors of economy and dynamic of newly issued credits. The possibilities of increasing production output at Kumtor Mine despite existing risks of man-made factors were taken into account. In 2015, production output at the mine is expected to decrease by 5.0 percent in real terms, this forecast is higher than the expectations made in February by 12.0 p.p. Assessments on gold production in 2016-2017 remained unchanged: average annual production output is expected to decrease at the level of 2.0 percent.

Additional indirect impact on GDP will be made by gradual devaluation of KGS exchange rate through increase of competitive advantage of the production output in Kyrgyzstan in the medium-term prospect.

In general, the forecast of economic growth in the Kyrgyz Republic in 2015 is revised upward from -0.9 to 0.4 percent, in 2016 – towards increase from 7.0 to 3.8 percent.

Inflation

The world prices for oil of Brent grade were at

the level of USD 53 per Barrel in Q1 2015 that is much lower than the forecasts made in February. Downward trend was observed in the international food market.

Forecast of prices for energy carriers and food products for medium-term prospect are described by gradual upward trend. Meanwhile, decrease in prices against expected good harvest is anticipated in the international food market and in Kazakhstan, which is among the main countries supplying wheat, in the short-term prospect.

Unfavorable weather conditions in early spring were taken into account with regard to the “fruits and vegetables” commodity group (contribution in inflation makes approximately 1.0 p.p. in annual terms). Besides, risk of customs duties growth in Q2 and Q3 2015 was taken into account in the current forecast, contribution in inflation will make 1.8 p.p., and 0.7 p.p. respectively, however, the main contribution will be made by growth in prices for non-food products.

Existing inflation pressure on the part of KGS exchange rate, which will smooth gradually, is expected in the medium-term prospect. Thus, inflation rate will make 8.5 percent in Q2 2015, instead of previous forecasted level of 10.0 percent. Generally, average annual inflation rate will make approximately 10.0 percent at the end of 2015. Inflation rate assessments are revised upward for the medium-term prospect. Thus, new forecast of inflation rate will make approximately 9.4 percent in 2016.

Chart 5.2.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)

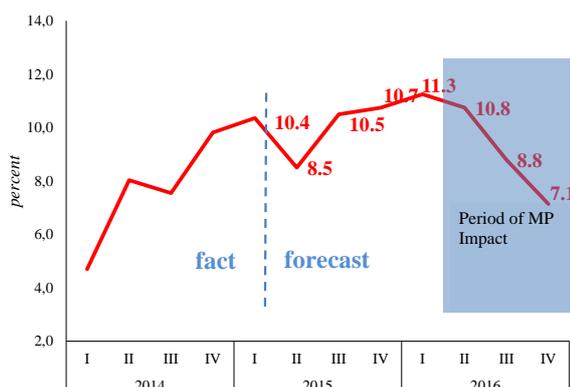
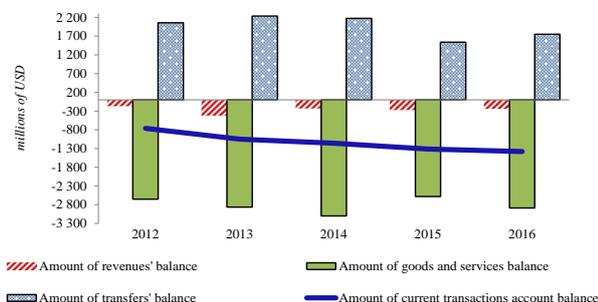


Chart 5.2.3. Forecast Data on Current Transactions Account

(millions of USD)



Payment Balance¹

In 2015, the entry of the Kyrgyz Republic into the Eurasian Economic Union (hereinafter-EEU) will become the major factor defining a condition of the balance of payments.

At the end of the financial year, deficit of the current transactions account is expected at the level of 17.9 percent to GDP, exceeding the level of 2014 by 2.4 percentage points.

Deterioration will be conditioned by reduction in net inflow of current transfers.

The total volume of import is expected to decrease by 11.5 percent in the forecasting period. Increase in the cost of import due to rise of tariff rates² upon entry the EEU will become the main

¹ Forecast is composed taking into account additional calculations on re-export of oil products and business of “suitcase traders”.

² According to the NBKR assessments, the increase in customs rates for imports from the EEU non-participant countries may cause a decrease in imports from the far abroad countries by 7.4 per cent in 2015. A decrease in import of such largest commodity positions as clothes, footwear, meat and prepared meat, structures made of cast-iron, steel and aluminum; medicines, cast-iron and steel, vehicles and wood substance is anticipated.

factor of reduction in import supplies from non-CIS countries by 15.3 percent. Despite the fact that decrease of import supplies from non-CIS countries will be partially compensated by the supplies from the countries of the EEU, decrease in the world prices for oil and further reduction in the volume of energy products import will play a key role in reduction of import supplies from CIS countries at the level of 7.5 percent.

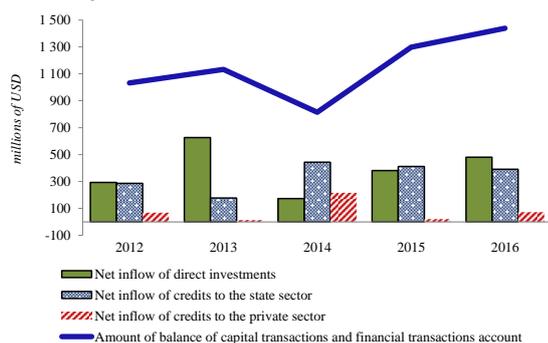
Decrease in the volume of additional calculations on business of “suitcase” traders by 35.9 percent due to new conditions of trading within the EEU will have the main influence of the export dynamic in 2015. Forecasted decrease in gold production at Kumtor Mine in 2015 will be compensated by insignificant growth in the world prices for gold, as a result the volume of exported precious metal in the reporting period will remain at the level of the previous year (USD 716.7 million). Meanwhile, export volume exclusive of gold and additional calculations will also decrease by 9.8 percent due to expected reduction in supplies of commodities of the agriculture and light industry in the conditions of adaptation to new rules of business within EEU (the requirement of certification, the competition on the part of enterprises - EEU member countries, etc.)¹.

Negative trend of economic development in the Russian Federation will contribute to decrease in receipts of private transfers by 27.3 percent. Moreover, monetary grants received by the official sector are expected to decrease by 58.5 percent. Finally, net inflow on “current transfers” item is expected to decrease by 29.1 percent in the reporting period as compared to the previous year.

Traditionally, financing of the current account deficit will be performed through capital inflow on the capital transactions and financial transactions account, which is expected to increase by 59.4 percent in 2015 against the level of 2014. Growth in net inflow of direct investments (up to USD 381.1 million), as well as will receipt of funds from the Kyrgyz-Russian Development Fund and grants provided by the Russian Federation and the Republic of Kazakhstan intended for border management prior into the EEU. Meanwhile, it should be noted about forecasted decrease in net inflow on external credits by 34.6 percent due to growth of payments on the principal amount of debt of private and public sector.

Chart 5.2.4. Forecast Data on Capital Transactions and Financial Transaction Account

(millions of USD)



¹Meanwhile, it should be noted that according to the preliminary conditions of technical assistance for joining EEU by the Kyrgyz Republic (a grant of the RF – USD 200.0 million and a grant of the RoK – USD 100.0 million for resolving issues related to border management, technical, sanitary, veterinary control, etc.), measures on technical assistance will be implemented during the period from one to three years.

Finally, the total amount of payment balance is anticipated to be positive and to make USD 136.0 million in 2015, meanwhile, the criterion of reserve assets sufficiency to cover future import of goods and services is forecasted at the level of 4.0 months of import¹. Stabilization of the situation in the countries of trading partners and successful adaptation of the Kyrgyz Republic to the business conditions within the framework of the EEN are the main prerequisites of the forecast for payment balance for 2016.

Positive changes are expected in the exports excluding gold and additional calculations (growth at the level of 5.8 percent), as well as recovery in growth of current transfers receipts (growth at the level of 13.5 percent). Nevertheless, recovery of import growth at the level of 6.5 percent, as well as reduction in the volume of additional calculations on business of «suitcase» traders and the exports of gold will result in insignificant increase deficit of the current transactions account in absolute terms (in percentage to GDP, negative current account balance will decrease by 17.4 percent).

Increase in the net inflow of direct investments up to USD 480.6 million, as well as net volume of received external credits in the amount of USD 464.3 million will provide the main amount of receipts to the financial account.

The total amount of the payment balance at the end of 2016 is expected to be positive in the amount of USD 202.5 million. Reserve assets will cover 4.2 months of the future imports of goods and services.

¹ Growth in the volume of international reserves in 2015-2016 will be provided by the funds from the Kyrgyz-Russian Development Fund, as well as grants of the RF and RK for border management within the framework of entry into the EEU.