

Dynamics of Monetary Indicators in January-July 2015

In January-July 2015 the growth rate of the economy (according to preliminary data of NSC) amounted to 7.1 percent (in January to July 2014 it made 4.1 percent), excluding *Kumtor*, the real GDP increased by 4.5 percent (in January to July 2014 it amounted to 3.3 percent).

In January-July 2015 there was the 0.2 percent decrease in general price index, while in July 2015 inflation was 5.0 percent in annual terms (in January to July 2014 inflation made 5.0 percent, while in annual terms it amounted to 7.8 percent). As described in the IMF, core inflation in January to July 2015 amounted to 3.4 percent; while in annual terms it made 7.4 percent (in January to July 2014 it accounted for 3.8 percent, while in annual terms it made 7.5 percent).

From the beginning of 2015, the official rate of USD to KGS increased by 3.6 percent and amounted to KGS 61.0213 per USD (in January to July 2014 it made 5.1 percent).

Monetary base in January to July 2015 increased by 3.3 percent and amounted to KGS 66,598.0 million (in January to July 2014 it decreased by 0.2 percent); in particular, money in circulation increased by 2.2 percent against the 11.4 percent increase in the reserves of other depository corporations.

For the end of July 2015, the structure of monetary base was as follows:

- The share of money in circulation was 87.6 percent;
- The share of reserves of other depository corporations was 12.4 percent.

In the structure of ODC reserves the required reserves increased by 3.5 percent to make KGS 6,925.2 million from the beginning of the year, while the excess reserves increased by 87.3 percent up to KGS 1,318.7 million (in January-July 2014 the required reserves increased by 9.1 percent, and excess reserves increased by 10.9 percent).

The monetary base increment was due to the Government operations, which increased the monetary base by KGS 8.8 billion from the beginning of the year. The National Bank operations, by contrast, reduced the monetary base by KGS 6.7 billion.

In January-July 2015, the monetary base was mainly influenced by the following National Bank's measurements:

- foreign exchange intervention reduced the monetary base by KGS 8.5 billion;
- credit auctions: gross disbursed funds in January-July amounted to KGS 1.5 billion;
- purchase of gold in the domestic market – by KGS 0.3 billion.

In January-July, the NBKR also performed sterilization operations (open market operations and “overnight” deposits): the average daily volume of which amounted to KGS 1.5 billion.

Net foreign assets (NFA) in January-July 2015 increased by 2.4 percent (or by KGS 2,511.3 million), mainly due to the KGS 2,164.4 million increases in the net international reserves (NIR). Cash proceeds from development of *Jeruy* and *Kumtor* Gold Deposits had a major contribution to the NIR growth.

In January-July 2015, the gross international reserves in dollar terms decreased by USD 67.0 million amounting to USD 1,891.6 million.

Net domestic assets (NDA) in January-July 2015 increased by 3.7 percent or by KGS 1,501.7 million (by 26.6 percent in the same period of the last year). The main contribution to the NDA growth was made by the KGS 8,487.8 million increases in capital accounts related to revaluation of foreign currency assets and gold due to the changes in exchange rates and precious metal prices. Another factor increasing the NDA included the KGS 2,681.5 million increase in Government deposits. An increase in liabilities to other financial institutions associated with receipt of funds for capitalization of the Russian-Kyrgyz Development Fund in the amount of KGS 6,747.5 million contributed to the NDA decrease.

Changes in Monetary Aggregates

Monetary aggregate M2, which consists of cash outside banks and deposits in the national currency¹, decreased by 0.4 percent and made KGS 82,049.9 million in January-July 2015 (in January-July 2014 it made 0.1 percent).

¹ Deposits of individuals and legal entities as well as other financial institutions excluding deposits of the Government and non-residents.

Broad money M2X in January-July 2015 increased by 5.4 percent and amounted to KGS 131,231.0 million, which was mainly due to the 6.5 percent growth of ODC deposits up to KGS 77,335.1 million (in January-July 2014 M2X increased by 2.1 percent).

The structure of broad money M2X is as follows:

- the share of cash outside banks made 41.1 percent (49.8 percent as of 01.08.2014);
- the share of deposits in national currency made 21.5 percent (23.8 percent as of 01.08.2014);
- the share of deposits in foreign currency accounted for 37.5 percent (26.4 percent as of 01.08.2014).

Deposits in foreign currency increased by 16.7 percent to make KGS 49,181.2 million, excluding the impact of exchange rate – by 8.7 percent; deposits in national currency decreased by 7.6 percent down to KGS 28,153.9 million. As a result, total deposits in January to July 2015 increased by 6.5 percent and amounted to KGS 77,335.1 million (in January-July 2014, it increased by 5.0 percent).

The level of deposits' dollarization included in M2X at the end of July 2015 increased by 5.6 percentage points compared with the level at the beginning of this year to make 63.6 percent.

*Credit to the economy*² in January-July 2015 increased by 10.8 percent to make KGS 91,021.1 million, excluding the impact of exchange rate it increased by 8.7 percent (in January-July 2014 the credit to the economy increased by 23.4 and 20.1 percent respectively).

In January-July 2015, net foreign assets of the banking system decreased by KGS 1,865.8 million (1.7 percent) to make KGS 106,723.8 million (in the same period of the last year it increased by 2.9 percent).

At the end of July 2015, net domestic assets (NDA) of the banking system amounted to KGS 24,507.2 million having decreased by KGS 8,552.5 million or by 53.6 percent (in the corresponding period of the last year they are decreased by 3.8 percent).

The discount rate at the end of July 2015 made 8.00 percent in accordance with the decision of the National Bank Board (reduced by 150 percentage points in comparison with the level of end-June 2015). In this regard, the rates of the upper and lower limits of interest rate corridor on "overnight" credits and deposits were reduced by 100 pp and each set at 11.00 and 2.00 percent, respectively.

At the end of July 2015 the yield of 7-day notes was 8.00 percent.

The multiplier of broad money M2X characterizing the level of financial intermediation amounted to 1.97 on 01.08.15, while the multiplier M2 made 1.232 (on 01.08.2014 - 1.691 and 1.245 respectively).

At the end of July, the coefficient of economy monetization calculated by the monetary aggregate M2X amounted to 29.0 percent and by the M2 aggregate - 18.9 percent (end of July 2014 - 32.1 and 23.5 percent respectively).

Money Velocity

Due to a decrease in money supply in the economy against the background of observed economic growth rate, money circulation increased by 0.1 compared to the beginning of the year and amounted to 3.4 (on M2X) at the end of July.

In January-July 2015, The National Bank's vault received KGS 33,362.7 million; compared to the corresponding period of 2014 it decreased by KGS 6,849.8 million or by 17.0 percent. The money issuance decreased by KGS 4,819.5 million or by 12.2 percent to make KGS 34,636.0 million.

In January-July 2015, the offices of commercial banks received KGS 557,725.4 million; in comparison with the corresponding period of the last year, the increase made KGS 25,668.2 million or 4.8 percent. The money issuance increased by KGS 26,912.8 million or 5.0 percent to make USD 560,649.4 million.

The level of financial risks remained minimal in the payment system in January-July 2015. Turnover ratio at the end of July amounted to 0.57, while the liquidity ratio was 1.76.

² Credits of individuals and legal entities as well as other financial institutions excluding deposits of the Government and non-residents.