

## Dynamics of monetary indicators in January-August of 2015

In January-August of 2015, the growth rate of the economy (according to the preliminary data of the National Statistical Committee) amounted to 6.8 percent (in January-August of 2014 - 4.4 percent); excluding production of the “Kumtor” gold-mining company, the growth rate in real GDP made 4.5 percent (3.6 percent - in January-August of 2014).

In January-August of 2015, the inflation was 0.1 percent, meanwhile, in August of 2015, the annual inflation made 5.8 percent (in January-August of 2014, the inflation was 4.5 percent, in annual terms – 7.5 percent). In January-August of 2015, the core inflation according to the IMF<sup>1</sup>, methods was 4.1 percent, in annual terms – 7.3 percent (in January-August of 2014 – 4.5 percent, in annual terms – 7.9 percent).

From the beginning of 2015, the official exchange rate of US dollar against KGS increased by 10.5 percent and amounted to 65.0953 KGS per 1 US dollar (in January-August of 2014 it increased by 7.5 percent).

In January-August of 2015, the monetary base increased by 6.3 percent and amounted to 68,502.5 million KGS (in January-August of 2014 it decreased by 0.6 percent); particularly, money in circulation increased by 4.3 percent when the reserves of other depository corporations (ODC) increased by 21.1 percent.

Outstripping growth rates of other depository corporations’ reserves compared to growth of money in circulation conditioned increase in the share of other depository corporations’ reserves, in addition, the structure of monetary base as of the end of August of 2015 was as follows:

- the share of money in circulation amounted to 86.9 percent;
- the share of reserves of other depository corporations amounted to 13.1 percent.

In the structure of reserves of other depository corporations, obligatory reserves increased by 6.4 percent and amounted to 7,119.9 million KGS, excess reserves (upon sterilization) increased by 161.0 percent and amounted to 1,837.8 million KGS since the start of the year (in January-August of 2014, obligatory reserves increased by 9.2 percent, while excess reserves increased by 62.8 percent).

An increase in the monetary base was conditioned by transactions of the Government, which increased it by 9.0 billion KGS since the start of the year. On the contrary, the National Bank transactions decreased monetary base by 4.9 billion KGS.

In January-August of 2015, the monetary base was mainly influenced by the following transactions of the National Bank:

- currency interventions decreased the monetary base by 8.3 billion KGS;
- credit auctions – gross value of funds issued in January-August amounted to 1.5 billion KGS;
- purchase of gold at the domestic market – by 0.4 billion KGS.

In January-August, the National Bank also conducted sterilized transactions (transactions at the open market and “overnight” deposits), which average daily volume amounted to 1.3 billion KGS.

Net foreign assets (NFA) increased by 5.1 percent (or 5,347.0 million KGS) in January-August of 2015, mainly due to the decrease in net international reserves (NIR) by 5,086.4 million KGS. The main contribution to growth in NIR was cash inflow from development of gold ore fields, credits and grants for support of the state budget.

In January-August of 2015, gross international reserves in dollar terms decreased by 101.0 million USD and amounted to 1,857.6 million USD.

Net domestic assets (NDA) decreased by 3.3 percent, or 1,316.4 million KGS in January-August of 2015 (in the same period of the prior year they increased by 29.7 percent). A decrease in NDA was mainly caused by the decrease of capital accounts by 3,828.0 million KGS connected with revaluation of assets in foreign currency and gold due to change of foreign currency exchange rates and prices for precious metals, decrease in other items by 2,862.1 million KGS and increase in obligations towards other financial institutions connected with operations of the Russian-Kyrgyz

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<sup>1</sup> Food products, electric energy, gas and other types of fuel are entirely excluded from the general inflation

Development Fund (RKDF) in the amount of 3,258.2 million KGS. Increase in obligations towards other depository corporations contributed to growth of NDA by 1,200 million KGS.

### **Change in monetary aggregates**

*Monetary aggregate M2*, which consists of money out of banks and deposits in the national currency<sup>2</sup>, increased by 0.8 percent in January-August of 2015 and made 83,041.9 million KGS (in January- August of 2014 it decreased by 0.7 percent).

Broad money supply M2X increased by 8.0 percent in January-August of 2015 and made 134,526.9 million KGS, which is mainly due to increase of deposits of other depository corporations by 9.6 percent, to 79,595.3 million KGS (M2X increased by 3.2 percent in January-August of 2014).

The structure of M2X money supply is as follows:

- the share of money out of banks – 40.8 percent (as of September 1, 2014 – 48.9 percent);
- the share of deposits in national currency – 20.9 percent (as of September 1, 2014 – 23.4 percent);
- the share of deposits in foreign currency – 38.3 percent (as of September 1, 2014 – 27.7 percent).

Deposits in foreign currency increased by 22.1 percent and made 51,485.0 million KGS, without regard to the impact of exchange rate – by 11.3 percent, deposits in national currency decreased by 7.6 percent, to 30,482.3 million KGS. As a result, total volume of deposits in January-August of 2015 increased by 9.6 percent and made 79,595.3 million KGS (in January-August of 2014 it increased by 8.1 percent).

As of the end of August 2015, the level of dollarization of deposits to be included in M2X amounted to 64.7 percent, having increased by 6.7 percentage points as compared to the level at the beginning of the current year.

*Credit into economy*<sup>3</sup> in January-August of 2015 increased by 14.4 percent and made 93,939.8 million KGS, without regard to the impact of exchange rate - by 8.5 percent (in January-August of 2014, the credit into economy increased by 27.4 and 22.7 percent, respectively).

In January-August of 2015, net foreign assets of the banking system increased by 1,913.6 million KGS (by 1.8 percent) and made 110,503.2 million KGS (in the same period of the prior year – by 2.2 percent).

As of the end of August 2015, net domestic assets (NDA) of the banking system amounted to 24,023.7 million KGS, having increased by 8,068.9 million KGS or by 50.6 percent (in the same period of the last year - by 10.5 percent).

At the end of August 2015, the discount rate was set at the level of 8.00 percent consistent with the decision of the Board of the National Bank (the same as compared to the level as of the end of July 2015). In this connection, cap and floor of the interest passage on “overnight” credits and deposits were set at the level of 11.00 and 2.00 percent respectively (without changes).

As of the end of August 2015, the yield on 7-day notes amounted to 7.99 percent. In August, average weighted rate on REPO transactions at the interbank credit market was below discount rate and made 6.66 percent.

As of September 1, 2015, the multiplier of M2X broad money, which is a degree of financial intermediation, amounted to 1.964, the multiplier of M2 – 1.212 (as of September 1, 2014 – 1.717 and 1.242, respectively).

As of the end of August, coefficient of the economy monetization, calculated based on the M2X monetary aggregate, amounted to 29.0 percent, calculated based on the M2 monetary aggregate – 18.6 percent (as of the end of August 2014 – 32.1 and 23.4 percent, respectively).

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<sup>2</sup> Deposits of individuals and legal entities, and other financial-credit institutions except for deposits of the Government and non-residents.

<sup>3</sup> Loans to individuals and legal entities, and other financial-credit institutions except for loans to the Government and non-residents.

## **Velocity of money circulation**

Velocity of money circulation increased by 0.2 as compared to the level at the beginning of the current year and amounted to 3.4 at the end of August (on M2X). This situation was conditioned by outstripping growth rates of the nominal GDP as compared to increase of money supply in economy.

Within January-August of 2015, receipt of cash in the cash departments of the National Bank amounted to 37,314.0 million KGS, in comparison with the corresponding period of 2014, the amount decreased by 9,239.2 million KGS, or 19.8 percent, issuances decreased by 5,305.3 million KGS, or 11.8 percent, and amounted to 39,777.9 million KGS.

In January-August of 2015, receipt of cash in the cash departments of commercial banks amounted to 645,087.1 million KGS; in comparison with the corresponding period of the previous year, the amount increased by 19,594.6 million KGS, or 3.1 percent, issuances increased by 22,355.8 million KGS, or 3.6 percent, and amounted to 649,407.9 million KGS.

In January-August of 2015, the level of financial risks in the payment system was kept to a minimum. A turnover ratio at the end of August amounted to 0.53, a liquidity ratio – 1.89.