

Dynamics of Monetary Indicators in January-April 2016

In January-April 2016, the slowdown in economy (according to the preliminary data of the National Statistical Committee) amounted to 4.9 percent, meanwhile, in January-April 2015, the economic growth rate made 6.5 percent. Excluding production of the “Kumtor” Gold Company, the economic growth was equal to zero (in January-April 2015, the economic growth rate made 2.9 percent).

In April 2016, the annual inflation rate amounted to 0.6 percent; the average annual value was 0.8 percent. In April 2016, the core inflation, calculated according to the IMF methods¹, amounted to 7.7 percent (in April 2015 – 7.3 percent in annual terms).

The situation in the domestic foreign exchange market was relatively stable since the beginning of the current year, meanwhile, the trend of decline in USD/KGS exchange rate was observed. During January-April 2016, the National Bank conducted operations on purchase and sale of foreign currency in order to mitigate sharp fluctuations of the exchange rate in the domestic foreign exchange market. Net volume of purchased foreign currency amounted to USD 16.8 million. In January-April 2016, the exchange rate decreased by 9.9 percent and at the end of April amounted to KGS 68.4200 per USD 1 (in January-April 2015, US dollar strengthened against Kyrgyz som by 2.0 percent).

Taking into account the existing macroeconomic conditions, a relatively stable situation in the foreign exchange market and forecasts for inflation, the policy rate was decreased by 200 basis points down to 8.00 percent since March 29, 2016 in accordance with the decision of the Board of the National Bank. The rates for upper and lower limits of the interest rate corridor for “overnight” credits and deposits has not changed and made 10.00 percent and 1.00 percent, respectively, at the end of April 2016 (at the end of April 2015 - 14.00 and 5.00 percent, respectively).

In January-April 2016, the rates of the interbank credit market were within the limits of the interest rate corridor set by the National Bank, except for the certain credit transactions in the national currency, which were concluded for longer periods and the maximum rate for which amounted to 16.0 percent. Meanwhile, the downward trend was observed in the interest rates of repo operations. In January 2016, the average weighted interest rate on repo operations made 9.96 percent (average maturity was 4 days), in April, this rate made 2.09 percent (average maturity was 14 days). Generally, during the reporting period, the domestic interbank credit market activity decreased amid high liquidity of the commercial banks. In January-April 2016, the total volume of transactions decreased by 77.6 percent compared to the same indicator of 2015 and amounted to KGS 3.7 billion, meanwhile, in April, the amount of concluded transactions totaled KGS 475.2 million.

In January-April 2016, the monetary base increased by 6.2 percent or KGS 4.2 billion and amounted to KGS 71.2 billion (in January-April 2015, it decreased by 5.3 percent and amounted to KGS 61.0 billion). The volume of reserve money increased by 16.7 percent in annual terms, meanwhile, in April 2015, this indicator decreased by 12.2 percent (April 2015/April 2014).

In January-April 2016, the monetary base increased due to the Government operations in the amount of KGS 5.9 billion, the National Bank transactions reduced the monetary base by KGS 1.7 billion.

The National Bank conducted the sterilization operations during January-April 2016 due to the availability of high excess liquidity in the banking system. In January-April 2016, the average daily volume of the excess reserves prior to sterilization operations amounted to KGS 8.2 billion, which exceeds 2.8 times the same indicator of 2015. At the end of April, the amount of excess liquidity was at the level of KGS 12.4 billion.

Despite the decline of the rates on “overnight” deposits in March 2016, the volumes of such deposits increased in the reporting period. In January-April 2016, gross volume of placed funds amounted to USD 413.4 billion, in April 2016 – KGS 192.5 billion (in January-April 2015, gross

¹ Food products and electricity, gas and other types of fuel are completely excluded from the general inflation.

volume amounted to KGS 84.4 billion). Taking into account the high demand from the auction participants for the 7-day notes of the National Bank, at the end of April, the yield of the 7-day notes was 1.00 percent. The gross volume of the National Bank notes placement amounted to KGS 35.3 billion (in January-April 2015 – KGS 21.7 billion).

Thus, in January-April 2016, the average daily volume of the sterilization operations (sale of the National Bank notes and placing of “overnight” deposits in the National Bank) amounted to KGS 7.2 billion (in January-April 2015 – KGS 2.3 billion).

In order to maintain measures to stimulate the real sector of economy amid slowdown in the domestic economy growth rates, in January-April 2016, the National Bank conducted lending transactions that provided contributions to expansion of the monetary base:

- volume of credits issued by credit auctions (for financing of agriculture in the remote regions of the republic) made KGS 1.07 billion;

- volume of credits issued to the international organizations established by the Kyrgyz Republic jointly with other states as part of Eurasian Economic Union amounted to KGS 350.0 million;

- volume of credits, issued within the program for conversion of the mortgage loans from foreign currency into the national currency, made KGS 1.9 billion;

Purchase of foreign currency in the domestic foreign exchange market also influenced the expansion of the monetary base and amounted to KGS 797.7 million (net position).

In January-April 2016, obligatory reserves decreased by 11.0 percent and amounted to KGS 7.3 billion as of the end of April (in January-April 2015, obligatory reserves increased by 3.1 percent).

By sources of the monetary base formation, a change in the net foreign assets (+1.5 percentage points) and the net domestic assets (+4.7 percentage points) contributed to an increase of the monetary base (by 6.2 percent).

In January-April 2016, the net foreign assets (NFA) grew by 0.8 percent (or by KGS 1.0 billion) mainly due to the exchange rate differences, the commercial banks’ collateral in the foreign currency and other revenues to the budget. In January-April 2016, gross international reserves in dollar terms increased by USD 196.0 million and amounted to USD 2.0 billion.

An increase in the net domestic assets by 5.7 percent or KGS 3.2 billion was mainly due to a decrease in the capital accounts by KGS 13.4 billion or 35.2 percent and a reduction of the Government deposit balances in the National Bank by KGS 404.4 million or 2.7 percent.

Changes in Monetary Aggregates

In January-April 2016, broad money M2² increased by 13.1 percent and made KGS 93.0 billion at the end of the period, in annual terms increase made 21.6 percent (April 2016/April 2015), meanwhile, in April, M2 increased by KGS 8.0 billion.

In the reporting period, broad money M2X decreased by 0.6 percent and made KGS 142.2 billion (in January-April 2015, it decreased by 0.7 percent). In April 2016, M2X annual growth made 15.0 percent. Without regard to the exchange rate changes monetary aggregate M2X increased by 4.2 percent (annual growth rate made 10.6 percent).

M2X reduced mainly due to decrease of the deposits in foreign currency by 19.1 percent and made KGS 49.2 billion in January-April 2016, without regard to the exchange rate changes the deposits in foreign currency decreased by 10.6 percent (annual growth was 4.3 percent). Meanwhile, the deposits in the national currency, on the contrary, increased by 23.2 percent and made KGS 35.9 billion (annual growth was 28.7 percent). In the reporting period, the total volume of deposits³ decreased by 5.4 percent and made KGS 85.1 billion at the end of April.

By sources of broad money formation, negative growth rates thereof by 0.6 percent were due

² Includes cash outside banks and deposits of individuals and legal entities and other financial-credit institutions in the national currency with the exception of deposits of the Government and non-residents.

³ Deposits included into M2X broad money.

to the contribution of net foreign assets (hereinafter - NFA) (-5.5 percentage points) and net domestic assets (hereinafter - NDA) (+4.9 percentage points) in the banking system.

In the reporting period, credit to economy⁴ decreased by 2.8 percent and made KGS 93.6 billion in the structure of banking system NDA (in January-April 2015, credit to economy increased by 9.4 percent). The annual growth rates of credit to economy decreased from 17.2 percent at the beginning of 2016 to 4.1 percent in April 2016.

In January-April 2016 the credits in foreign currency decreased by 19.2 percent (annual decrease made 8.3 percent), meanwhile, the credits in the national currency increased by 16.2 percent at the end of January-April 2016 (annual increase made 17.0 percent). Without regard to the exchange rate changes the total volume of credits to the economy increased by 3.4 percent (in January-April 2015, increase made 8.2 percent). The share of credits in foreign currency in the total structure of credits decreased from 53.7 percent at the beginning of 2016 to 44.7 percent at the end of April.

In January-April 2016, the level of credits and deposits dollarization decreased as a result of the policy on economy dedollarization. At the end of April 2016, credits dollarization amounted to 44.7 percent (-9.0 percentage points since the beginning of the year), deposits dollarization included in M2X amounted to 57.8 percent (-9.8 percentage points since the beginning of the year).

As of the end of April 2016, coefficient of the economy monetization, calculated by the monetary aggregate M2X, amounted to 31.8 percent, by the monetary aggregate M2 – 19.1 percent (in December 2015 – 30.5 and 18.6 percent, in April 2015 – 29.6 and 20.0 percent, respectively).

Velocity of Money Circulation

At the end of April 2016, the velocity of money circulation made 3.1 (under M2X). Broad money multiplier M2X⁵ made 1.997 on May 01, 2016, multiplier M2 – 1.306 (on May 01, 2015 – 2.027 and 1.253, respectively).

In January-April 2016, receipt of cash in the cash department of the National Bank amounted to KGS 19.4 billion; in comparison with the corresponding period of 2015, the amount decreased by KGS 1.8 billion or 8.6 percent, money issuances increased by KGS 6.8 billion or 40.1 percent and amounted to KGS 23.6 billion.

In January-April 2016, receipt of cash in the cash departments of the commercial banks amounted to KGS 335.9 billion; in comparison with the corresponding period of the previous year, the amount increased by KGS 34.0 billion or 11.2 percent, money issuances increased by KGS 42.6 billion or 14.3 percent and amounted to KGS 341.5 billion.

In January-April 2016, the level of financial risks in the payment system was kept to a minimum. A turnover ratio amounted to 1.22 (compared to the previous period, it increased by 24.3 percent, and by 289.5 percent compared to the same period of 2015), a liquidity ratio – 0.82 (in comparison with the previous period, it decreased by 19.5 percent, and decreased by 74.3 percent compared to the same period of 2015).

⁴ Loans to individuals and legal entities, and other financial-credit institutions except for loans to the Government and non-residents.

⁵ This indicator characterizes the level of financial intermediation