

Press-release
The NBKR Board Meeting on consideration
of the NBKR Monetary Policy Report for the first quarter of 2011

On June 01, 2011 the monetary policy report of the National Bank for the first quarter of 2011 was considered by the Board of the National Bank of the Kyrgyz Republic:

The report noted that in conditions of high inflation in the country, the NBKR continued to accept measures to tighten the monetary policy. In order to limit the inflation monetary component in the first quarter of this year, the NBKR increased operations to sterilize excess liquidity in the banking system: the volume of the NBKR notes increased by 1.7 times up to Som 1,165.2 million, and the volume of repo operations by 3.3 times to Som 230.8 million. The discount rate increased from 5.5 percent at the beginning of the year to 6.9 percent as of the end of the 1st quarter.

Moreover, within the framework of the monetary policy tightening, the NBKR increased the reserve requirements for the commercial banks from 8 to 9 percent from the estimated base from March 14, 2011 and increased the base rate for crediting purposes of the SFBR from 7 to 8.25 percent.

In order to prevent acute fluctuations of the exchange rate, the NBKR in January-March 2011 conducted foreign exchange interventions: the net sale of foreign currency amounted to 62.5 million USD; the USD exchange rate against KGS increased by 0.3 percent from 47.0992 KGS/USD to 47.2448 KGS/USD.

For the first quarter of 2011, the monetary base decreased by 7.2 percent to make 45.1 billion soms. Broad money M2X decreased for the reporting period by 3.7 percent to make 66.6 billion soms. Meanwhile, the indicator of the economy monetization increased by 0.5 percentage point and constituted 28.4 percent.

In the first quarter of 2011, there was a turn of the economy towards economic development: the recession was replaced by the growth which totaled to 0.4 percent.

Balance of payments was formed positive at the amount of US\$ 27 million. Meanwhile, the worsening of the current account was noted: the deficit increased by 4.3 percent to GDP. However, there was a significant increase in money transfers of labor migrants.

According to the preliminary data of the Central Treasury of the Ministry of Finance, the government budget surplus in January-March 2011 amounted to Som 1.5 billion or 3.2 percent to GDP. The report expressed some concerns about the fact that the main share of government expenditures would be made in the second half, and that the 3-year budget did not include the budgetary consolidation.

The report noted that the consumer price index in the first quarter of 2011 constituted 6.4 percent, which was primarily associated with high growth in prices for food products such as fruits and vegetables, bakery products, cereals and sugar, against increase in prices on the world commodity markets.

In the course of discussion it was noted that under current conditions the National Bank jointly with the Government had to take all necessary measures to stabilize the price situation. Moreover, an important condition consists in the uniform distribution of expenditures by the Government in 2011 and coordination of fiscal and monetary policies.

The prospects of further cooperation with the International Monetary Fund were discussed at the meeting. According to preliminary data, on June 20, 2011, the Executive Board of Directors of the IMF will consider the draft Memorandum of Economic and Financial Policy of the Kyrgyz Republic for the period of 2011-2014. That can be supported by mid-term arrangement with the International Monetary Fund under the Extended Credit Facility (ESF).

During discussion of the situation on the domestic market, it was noted that in April-May 2011 it has been changed to opposite direction: the supply of foreign currency started to exceed the demand, and there was the trend of the national currency strengthening. The primary analysis showed that one of the factors for such growth included increase in supply of foreign currency remittances from labor migrants. Distinct signs of speculation on the market were not

observed. Macroeconomic analysis of the exchange rate dynamics may be performed upon receipt of the balance of payments. In order to prevent acute strengthening of the Som, the NBKR mainly bought the foreign currency in April and May. In this regard it was noted that in the conditions of the budget expenditures increase, it was necessary to carry out interventions, which required further sterilization by activation of the operations on the open market in order to retain growth rates of the money supply and thus the overall price level increase.

As a result of the discussion, the Board members approved the monetary policy report for the first quarter of 2011.