

Approved by  
the Resolution of the Board  
of the National Bank of the  
Kyrgyz Republic  
No.55/3 dated December 17, 2014

**NATIONAL BANK  
OF THE KYRGYZ REPUBLIC**

**MAIN DIRECTIONS  
OF THE MONETARY POLICY  
FOR THE MEDIUM-TERM**

**Bishkek  
December, 2014**

According to Article 105 of the Kyrgyz Republic Constitution, Articles 1, 6 of the Law “On the National Bank of the Kyrgyz Republic”, the National Bank of the Kyrgyz Republic (NBKR) is a central bank of the country, which independently arranges and conducts its activity within its powers established by the laws, determines and carries out monetary policy in the Kyrgyz Republic, develops and implements common monetary policy.

This document determines major directions of the monetary policy of the NBKR for the medium-term and serves as a basic document for the decision-making process while implementing monetary policy.

### *Purposes and objectives of the monetary policy*

1. Activities of the National Bank in the Kyrgyz Republic in the medium-term will be focused on achieving and maintaining price stability, as determined by the Law “On the National Bank of the Kyrgyz Republic” as the purpose of activity carried out by the NBKR.
2. Price stability is regarded as the behavior of the consumer prices general level in the medium-term period, which does not have significant effect on the economic decisions of business entities. Price stability is among necessary conditions providing macroeconomic sustainability, which, in its turn, is a fundamental factor determining the potential of economic growth in the Kyrgyz Republic.
3. The main objective, subjected to the purpose of the NBKR activity, is to support purchasing power of the national currency, to provide efficiency, safety and reliability of the banking and payment system. Contribution to long-term economic growth in the republic is made in order to provide achievement of the purpose of the NBKR activity.
4. Development and implementation of the monetary policy will be focused on fulfillment of the objectives determined by the National Strategy for the Sustainable Development of the Kyrgyz Republic for 2013-2017. Quantitative target of the monetary policy will be in maintaining inflation rate within the range of 5-7 percent in the medium-term period. Consumer price index will be used as an indicator of inflation rate, calculated and published by the National Statistics Committee of the Kyrgyz Republic.
5. Taking into account the fact that the Kyrgyz Republic is a small open economy, high dependence of the country on imports, unstable character of macroeconomic situation in the country and price dynamics is subjected to significant influence of changes, which can be resulted from impact of external and internal risk factors of nonmonetary character. In cases when such risks will appear and it will result in stable removal of inflation rate from its quantitative target, monetary policy measures will be focused on returning inflation rate to the quantitative target.
6. The medium-term objective of the monetary policy is to strengthen operation of the interest rate channel in the transmission mechanism. Significance of this objective is determined by

the necessity to increase influence of the NBKR decisions in monetary policy on the value of financial resources for the real sector of economy.

7. Strengthening operation of the monetary policy transmission mechanism will allow increasing the level of monetization in the economy and the level of financial intermediation in the banking system.

### *Operational basis of the monetary policy*

8. Development of the monetary policy will be carried out on the basis of the interest rates targeting. Use of interest rates as the target for the monetary policy will allow the National Bank affecting the short-term market rates, thereby creating conditions for convergence of the rates in the money and lending market.
9. The NBKR discount rate (policy rate) will be an intermediate target of the monetary policy, which is regarded as the target for the value of funds in the money market. Policy rate will be regularly established by the NBKR Board.
10. Interest rates of the money market will be the operational target of the monetary policy. The NBKR will determine the values of the interest rates in the corridor around the policy rate. The rate of the NBKR monetary instrument “overnight” deposit will be regarded as the lowest level of the corridor (floor), the rate of the NBKR monetary instrument “overnight” loan will be regarded as the highest level (cap).
11. The width of the interest rate corridor will be established in order to contribute to intensive activities in the interbank market. The values of the lowest and highest levels of the rates corridor will be regarded as the indicators of rates limits for the participants of the money market; it will allow them making transactions in the money market based on the rates within the interest rate corridor.
12. In the process of monetary policy implementation the NBKR will use the whole range of the monetary policy instruments. Existing instruments will be modified and the new ones will be introduced if necessary.
13. Generally, monetary policy will be implemented by means of automated trading system, which contributes to providing reliability, safety and rapidness of transactions made in the financial markets and settlements thereon.
14. Development of the monetary policy will be carried out based on the macroeconomic forecasting and policy analysis system, as well as other systems, which allow using up-to-date methods of analysis and forecasting. Carrying out surveys, participation in operation of the scientific conferences, expert meetings will be a significant factor, which contributes to development of the scientific basis for implementation of the monetary policy.
15. The results of monitoring financial stability will be taken into account in development and implementation of the monetary policy.

### *Exchange rate policy and international reserves*

16. The National Bank will continue following approved floating exchange rate regime. Currency interventions will be carried out in order to smooth sharp fluctuations of the exchange rate.
17. Management of the international reserves will be carried out in compliance with the major principles, which consist in maintaining liquidity and providing security of reserve assets. The NBKR will purchase gold for the national currency in the internal market in order to smooth effect of fluctuations of the foreign currencies exchange rate in the external markets, diversifications of risks that the value of the NBKR reserve assets will deteriorate, and accumulation of gold and foreign exchange reserves.

### *Cooperation with executive authorities*

18. The National Bank cooperates with the Government of the Kyrgyz Republic while implementing the monetary policy. Within the framework of this cooperation, the NBKR will participate in development of joint statements on economic policy, forecasts for social and economic development of the country, other joint documents related to the issues of the monetary policy.
19. The National Bank will carry out regular meetings with the Ministry of Finance within the framework of the Interagency Coordination Council in order to provide coordinated implementation of the monetary and fiscal policies.

### *Communication policy*

20. In development and implementation of the monetary policy the National Bank will carry out active communication policy in order to provide transparency and openness of the decision-making process, as well as submit information on the issues connected with the monetary policy to the general public.
21. The National Bank will publish beforehand the schedule of meetings carried out by the NBKR Board on the issue of the policy rate for the upcoming year. For the purposes of formation of the adequate inflation expectations of the economic agents, the NBKR will publish press-releases and carry out press-conferences in order to clarify the reasons for the decisions made on the policy rate within two working days after each meeting held by the NBKR Board on the issue related to the policy rate.
22. Every quarter, the National Bank will publish the document “Monetary policy report (Inflation Report)”, which comprises review of external and internal economic environment, assessment of economic prospects, trends and inflation forecasts.