

## Credits (First half of 2012)

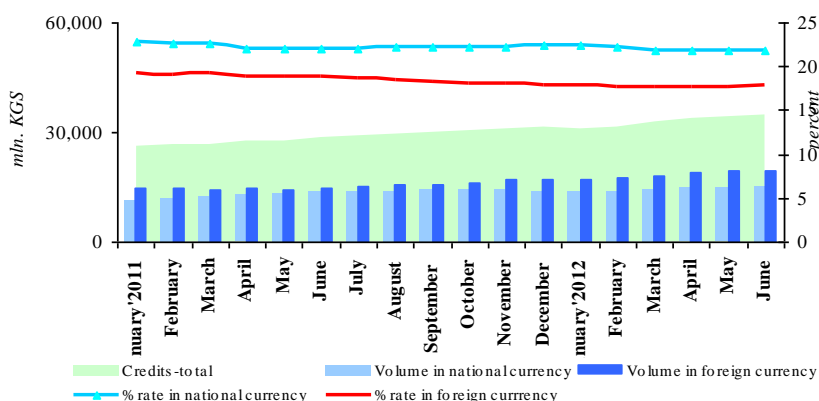
In the first half of 2012 the situation in the market of bank crediting was characterized by preservation of the upward trend that began in the second half of 2011 on the background of the absence of significant fluctuations in liquidity in the banking system, a relatively stable exchange rate, socio-political stability in the country and the low base effect. The cost of credits remained relatively high. At the same time, in the reporting period, there was a slight decrease in the average value of the interest rate on new credits in the national currency, while the rates on credits in foreign currency, in contrast, increased. The main contribution to the formation of the portfolio was introduced by the crediting of trade sector. Actions of the Government directed to subsidize the agricultural sector contributed to the increase in the share of credits to agriculture in the structure of credit portfolio of banks. Besides, there was an improvement of qualitative characteristics of the loan portfolio of the banking system in the form of decrease in the share of values of outstanding and extended credits.

The credit portfolio of commercial banks at the end of the first half of 2012 amounted to 34.9 billion KGS having increased since the beginning of the year by 11.8 percent (taking into account the adjustments for the change in the exchange rate, the credit portfolio grew by 10.8 percent). At the same time, the KGS part of credit portfolio increased by 8.9 percent and constituted 15.2 billion KGS. The volume of credits issued in foreign currencies at the end of June amounted to 19.7 billion in KGS equivalent, exceeding the corresponding figure at the beginning of the year by 14.1 percent (based on the strengthening of the US dollar, the increase constituted 12.3 percent).

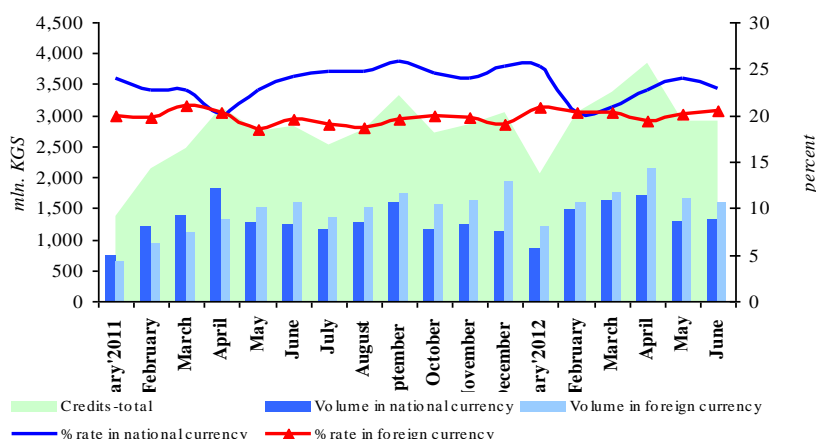
In January-June 2012, the weighted average interest rate of bank credits in the national currency decreased by 0.6 percentage points to 21.8 percent, and foreign currency rate remained at the level of the indicator as at the beginning of the year at 17.8 percent.

At the end of the reporting period, the credit portfolio of banks by sectors was as follows. The share of credits for trade sector that took the major part of the credit portfolio decreased by 1.1 percentage points (up to 41.8 percent). Besides, the share of credits for the industry decreased from 5.3 to 5.0 percent; construction from 5.6 to 5.3 percent; and mortgage from 9.6 to 9.4 percent. The share of agricultural (by 0.7 percentage points to 13.4 percent) and consumer credits (by 0.3 percentage points to 9.1 percent) increased. Credits for transportation, communications, procurement

**Chart 1. Dynamics of credits, issued by the commercial banks over a period**



**Chart 2. Dynamics of credits, issued by the commercial banks over a period**



and processing and social services, as before, constituted around 3.0 percent in total. The share of “other” credits in January-June 2012 increased from 12.9 to 13.0 percent.

Within the framework of the state program aimed to support the agricultural sector, “Available credits for farmers -2”, 6.3 thousand privileged credits were issued for the total amount of 700.4 million KGS out of 1 billion KGS allocated for these purposes in the first half of 2012. Terms of resources provided under 7 percent per annum were 12 months for credits to support the development of the crop sector and 2 years for the livestock sector (in 2011 the credit funds were provided under 9 percent per annum for a period of 1 year). In terms of share, the credits under this project constituted 3.9 percent of the total volume of credits for the period under review.

In turn, the portfolio of most banks remained highly concentrated in certain industries. Thus, the index showing the concentration of banks’ credit portfolio in the industry constituted 0.45, which indicates to the distribution of credits of most banks mainly between the two industries. In addition, the concentration of credits separately in each sector was also high: 7 out of 11 sectors of the index were 0.18, which indicates to the presence of a small number of banks in these sectors.

The total concentration of the credit market remained at the level of 0.10, which is equivalent to division of the market between 10 banks.

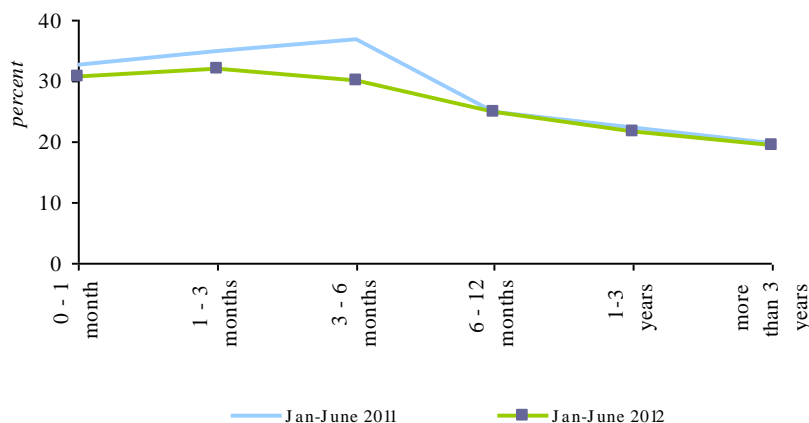
In the time structure of the credit portfolio of banks, decline in credits issued for a period of from 0 to 1 month 1 to 3 months was observed, which affected the decrease in the share of these credits. In the context of share, there was decline in the share of long-term credits for more than 3 years; while the share of remaining credits increased compared to the beginning of the year. Despite this the overall share of long-term credits including credits from 1 to 3 years increased to 73.7 percent (+0.5 percentage points), which in turn led to an equivalent reduction in the share of short-term component in the banking credit portfolio. Thus, the index duration in the first six months of the year fell slightly from 28.3 to 28.0 months, which generally reflects the situation with relatively more active growth of credits issued for a period of at least 3 years.

In this period, there was improvement in the quality of the credit portfolio: by the end of June, the share of outstanding credits constituted 3.5 percent (at the beginning of 2012 - 3.9 percent), while the share of extended credits constituted 4.3 percent (at the beginning of 2012 - 4.7 percent).

The volume of newly issued credits in the first half of 2012 amounted to 18.2 billion KGS, which is 23.5 percent higher than the amount issued in the same period of 2011. Credits in the national currency increased by 7.9 percent; and in foreign currency by 40.3 percent. This increase in the volume of trade credits is still the most important factor in the growth of the total credit portfolio of banks.

The weighted average interest rate on newly issued credits in the national currency for the first half of 2012 decreased compared to the same

**Chart 3. Average level of interest rates on new credits in national currency by term categories**



period in 2011 by 0.1 percentage points and constituted 22.6 percent. In the foreign exchange, the rate on the other hand, increased by 0.4 percentage points to 20.2 percent.

The main volume of credits was issued for a period from one to three years, but due to the increase in the share of short-term lending, the share of long-term credits in the time structure of newly issued credits fell by 3.6 percentage points to 69.6 percent. In the structure of short-term credits, the share of credits issued for a period of 0-1 months and 1-3 months increased by 2.2 and 2.6 percent respectively. For this reason the duration of the index of newly issued credits fell from 25.8 to 24.9 months.

The volume of credits for trade increased by 14.8 percent; this industry is still the most significant in the structure of newly issued credits (50.7 percent). In this period, there was an increase in lending to agriculture (23.6 percent) with preserving the share of these credits in the amount of 13.7 percent. Consumer credits increased by 36.6 percent, resulting in an increase in their share by 1.1 percentage points to 11.0 percent. In addition, there was an increase in the volume of mortgage credits by 27.8 percent, while their share increased from 4.2 to 4.3 percent. The share of credits to industry, transport, communications, procurement and processing, construction and social services constituted 9.5 percent. The share of “other” credits increased by 1.8 percentage points and amounted to 10.8 percent.

In terms of sectors, changes in interest rates on newly issued credits both in national and foreign currencies were diverse. On credits in the national currency the rate reduction was noted in such fields as communications, trade, and construction and “other” credits. In this case, credits under the lowest rates in the national currency were issued to agriculture and “other” credits (average for the period - 20.4 and 20.1 percent, respectively), under the highest - for consumer purposes (27.5 percent).

In foreign currency rates fell in all sectors, except for trade and harvesting and processing. Rate on credits issued for communication was 15.3 percent, while in the same period of 2011 credits for such purposes were not issued. Highest rate credits in foreign currency were issued for the trade and transport (average 22.0 percent), while the lowest rate credits were issued for construction (on average over the period to 14.5 percent).

The average value of real interest rates on credits in the national currency in the first half of 2012 amounted to 21.5 percent compared to 14.4 percent in the same period of the previous year.

**Chart 4. Average level of interest rates on new credits in foreign currency by term categories**

