

## **Dynamics of monetary indicators in January-May 2016**

### **Interbank Credit Market**

In early 2016, the rates approximated the upper limit of the set interest rate corridor at the interbank credit market. In January 2016, the weighted average interest rate on REPO operations amounted to 9.96 percent. In May 2016, it was at the level of 1.52 percent approximating the lower limit of the interest rate corridor. The downward dynamics of the interest rates at the interbank credit market is driven by decrease of the National Bank's discount rate as well as decline in the activity of the market players amid high excess liquidity in the banking system. Total volume of the transactions for January-May 2016 amounted to KGS 4.4 billion, which is by 80.0 percent less compared to the same period in 2015, in May there were concluded the transactions for KGS 668.5 million.

### **Changes in Monetary Base**

In January-May 2016 the average daily volume of the excess reserves before sterilization operations amounted to KGS 8.8 billion (after sterilization – KGS 1.1 billion), which is by 3,2 more compared to the same period in 2015. As of the end of May the volume of the excess liquidity before sterilization amounted to KGS 12.6 billion (after sterilization – KGS 2.8 billion).

Taking into account the high excess liquidity, the National Bank carried out the sterilization operations through the auctions of 7-day notes and deposit operations.

Overall, for January-May 2016 total volume of the National Bank's 7-day notes sales amounted to KGS 41.3 billion (in January-May 2015 – KGS 24.3 billion). Due to the ongoing high demand, the profitability of the 7-day notes decreased and amounted to 0.77 percent as of the end of May. In addition, in the period under review the volumes of the funds placed by the commercial banks with the National Bank to "overnight" deposits increased. In January-May 2016 total volume of the funds placed to the "overnight" deposits amounted to KGS 562.7 billion, including in May 2016 - KGS 149.3 billion (in January-May 2015 total volume amounted to KGS 96.1 billion). Thus, the average daily volume of the sterilization operations (the National Bank's notes and "overnight" deposits) amounted to KGS 7.7 billion (in January-May 2015 – KGS 2.1 billion).

As the measures stimulating the real sector of economy against the slowdown of the national economy, the National Bank during January-May 2016 carried out the following operations:

- within the frameworks of the program on mortgage loans conversion from the foreign currency into the national currency, the commercial banks were provided with the loans for KGS 1.9 billion;
- for purposes of further financing of agriculture and processing in the regions of the country KGS 1.1 billion was provided to the commercial banks within the credit auctions;
- the volume of the loans to the international organizations created by the Kyrgyz Republic jointly with other states as a part of the Eurasian Economic Union amounted to KGS 350.0 million (overall KGS 1 550.0 million was provided upon introduction);
- gold was purchased at the domestic market for KGS 304.8 million.

In order to supply the banks with the short-term liquidity in January-May 2016 the National Bank issued the "overnight" loan for KGS 2.0 billion.

Besides, the net purchase of the foreign currency at the interbank foreign exchange market that in the KGS equivalent amounted to KGS 899.8 million influenced the monetary base increase.

Overall, the National Bank's operations reduced the monetary base by KGS 243.6 million, the Government's operations increased it by KGS 5.1 billion.

As of the end of May 2016 the monetary base amounted to KGS 71.9 billion and increased by 7.3 percent from the beginning of the year (in January-May 2015 it decreased by 3.9 percent). On a year-on-year basis the monetary base increased by 16.1 percent.

The downward trend of the exchange rate USD to KGS rate was observed at the domestic foreign exchange market. For January-May 2016 the exchange rate decreased by 10.0 percent from KGS 75.8993 to KGS 68.2986 per USD 1 (in January-May 2015 the decrease amounted to 1.3 percent). In the period under review, the National Bank acted primarily as a buyer of the foreign currency, the volume of the foreign currency net purchase amounted to USD 18.3 million.

The gross international reserves of the National Bank for January-May 2016 increased by USD 184.0 million and amounted to USD 2.0 billion. At that, increase of the net international reserves of the National Bank by 8.5 percent up to KGS 117.7 billion, by the foreign exchange difference, the collateral of the commercial banks in the foreign currency; and other inflows to the budget.

With the breakdown into the sources of the monetary base formation, the change of net foreign assets (+0.2 p.p.) and net domestic assets (+7.1 p.p.) contributed to its increase (by 7.3 percent).

### **Changes in Monetary Aggregates**

From early 2016, the growth rate of the monetary aggregates compared to the same period in 2015 accelerated. This dynamics was mainly influenced by the deposit increase in the national currency (+22.1 percent), up to KGS 35.6 billion (on a year-on-year basis, the growth amounted to 34.3 percent). Accordingly, the monetary aggregate M2<sup>1</sup> in January-May 2016 increased by 12.5 percent up to KGS 92.5 billion, on a year-on-year basis the growth amounted to 20.9 percent.

In January-May 2016 the broad money supply M2X decreased by 2.0 percent to KGS 140.2 billion (on a year-on-year basis it increased by 15.8 percent without regard to the exchange rate change – by 10.2 percent). With the breakdown into the sources of the broad money supply formation, the change of net foreign assets (-6.5 p.p.) and net domestic assets (+4.5 p.p.) contributed to its decrease (by 2.0 percent).

The decrease of the deposits in the foreign currency (-21.7 percent) in the banking system had a restraining influence on the dynamics of the broad money supply M2X in the reporting period.

The decrease of the foreign-currency deposits influenced the change of total deposits of other deposit corporations included into the broad money supply M2X that as of the end of May 2016 amounted to KGS 83.3 billion and decreased by 7.5 percent.

In the reporting period, the slow annual growth rate of the credit to the economy<sup>2</sup> continued in the banking system from 17.2 percent in January 2016 to 4.6 percent in May 2016. As of the end of May the credit to the economy amounted to KGS 92.4 billion decreasing from the beginning of the year by 4.0 percent (in January-May 2015 the growth rate amounted to 7.5 percent). Without regard to the exchange rate influence, total volume of the credit to the economy increased from the beginning of the year by 2.3 percent (in January-May 2015 the increase amounted to 8.1 percent).

Reduction in the foreign-currency loans on a year-on-year basis by 7.5 percent had the greatest influence on the slow growth of the credit to the economy (in January 2016 the annual growth amounted to 13.7 percent). The annual growth rate of the loans in the national currency slowed from 21.4 percent in January to 16.7 percent in May 2016.

Due to the taken measures on dedollarization of the economy, the downward trend of loan and deposit dollarization continued in the reporting period. Loan dollarization as of the end of May 2016 amounted to 44.1 percent (-9.6 p.p. year-to-date), deposit dollarization, included into M2X, amounted to 57.3 percent (-10.4 p.p. year-to-date).

As of the end of May 2016, the upward trend of the economy monetization is noted that reflects the degree of its saturation with liquid money. The monetization ratio calculated as per the monetary aggregate M2X amounted to 32.0 percent, as per the monetary aggregate M2 –

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<sup>1</sup> It includes cash outside the banks and deposits of individuals and legal entities and of other financial and credit institutions in the national currency save for deposits of the Government and non-residents.

<sup>2</sup> Loans of individuals and legal entities and of other financial and credit institutions save for loans of the Government and non-residents.

19.4 percent (as of May 2015 – 29.3 and 19.6 percent, respectively).

As of the end of May 2016, the money velocity as per M2X amounted to 3.1. The multiplier of the broad money M2X<sup>3</sup> amounted to 1.949; the multiplier M2 – 1.286.

### **Cash Turnover**

For January-May 2016, KGS 24.6 billion receipt of cash in the cash department of the National Bank decreasing by KGS 99.6 million or by 0.4 percent compared to the same period in 2015. Disbursement increased by KGS 3.8 billion or by 13.2 percent and amounted to KGS 28.4 million.

In January-May 2016, receipt of cash in the cash departments of the commercial banks amounted to KGS 336.0 decreasing by KGS 43.0 million or by 11.3 percent compared to the same period in the previous year. Disbursement increased by KGS 42.6 million or by 12.7 percent and amounted to KGS 378.6 million.

In the payment system in May 2016, the financial risks in the system were maintained at the minimum level. The turnover ratio amounted to 1.24; the liquidity ratio – 0.81.

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<sup>3</sup> This figure characterizes the degree of the financial intermediation