

# The monetary policy report for January-September 2013

Adopted by the  
Resolution of the NBKR Board  
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## Major trends in monetary policy

In accordance with the purposes determined in the Major trends in monetary policy for 2013-2015, in January-September 2013, the National Bank of the Kyrgyz Republic conducted appropriate monetary policy aimed at retention of growth rates in general consumer prices within one-value index. The NBKR carried out operations on sterilization of excess liquidity through sales of the NBKR note, the volume of circulation thereof as of the end of September constituted 2.7 billion KGS. The NBKR additionally carried out reverse repo operations in the beginning of the current year for withdrawal of excess liquidity. The monetary base has increased by 6.9 percent since the beginning of 2013, in annual terms – by 14.6 terms.

The relative balance of demand and supply of foreign currency in the internal market allowed the National Bank to reduce its presence in the interbank foreign exchange market. In April 2013, the NBKR once conducted interventions for foreign exchange sales to the amount of 14.7 million USD. The USD/KGS exchange rate increased by 2.6 percent in the reporting period, meanwhile seasonal fluctuation in the exchange rate was not strongly demonstrated compared to the previous years. The factors, having influence on the current dynamics, were priority growth rates of imported goods compared to inflow of money transfers and export earnings.

Measures taken by the NBKR earlier aimed at stabilization of excess reserves in the banking system combined with stable dynamics in the world commodity markets on the background of expected good yield of crops in the republic contributed to decrease of inflation rates. As of the end of September 2013, inflation rate constituted 6.0 percent (in annual terms).

The NBKR provided commercial banks with funds to the amount of 775.8 million KGS for the purposes of supporting banking system with regard to economy crediting and strengthening operation of interest transmission channel within the framework of credit auctions aimed at refinancing and liquidity supporting. The weighted average rate on the funds actually provided within the framework of credit auctions constituted 5.76 percent. The accounting rate as of the end of the reporting period constituted 4.25 percent against 2.64 percent as of the beginning of the current year.

In January-September 2013, the economic growth was 9.2 percent, primarily due to rehabilitation of production at “Kumtor” mine, excluding production of enterprises on exploitation of “Kumtor” gold mine, GDP increased by 6.1 percent. Thus, a great contribution to GDP growth was provided by increase of added value in the manufacturing industry (+34.7 percent), construction (+20.4 percent), servicing sphere (+5.6 percent) and agriculture (+4.2 percent).

At the end of nine months of 2013, the state budget deficit constituted 5.2 billion KGS or 2.2 percent of GDP<sup>1</sup>, meanwhile in the same period of 2012, the deficit was in the amount of 11.6 billion KGS or 5.5 percent of GDP.

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<sup>1</sup> Hereinafter for data comparison – according to the NBKR calculations based on “old” methodology applied by the Ministry of Finance of the Kyrgyz Republic.

According to the preliminary data, growth of trade deficit as of the end of nine months of 2013 can result in increase of current account deficit by 18.5 percent of GDP. In the period under review, increase of trade deficit of the Kyrgyz Republic is expected at the level of 2 340.8 million USD (increase by 22.1 percent).

### **Dynamics of monetary indicators**

High levels of state budget deficit for the current year (4.8 percent of GDP) and budget deficit draft project for 2014 (4 percent of GDP) determined within legal frameworks are among the major risk factors, taken into account during conducting monetary policy. In this respect, the NBKR conducted active sterilization operations by selling NBKR notes and government securities under the repo terms.

The monetary base within the period from January till September 2013 increased by 4.4 billion KGS or by 6.9 percent, and as of the end of September amounted to 68.9 billion KGS (in the same period of 2012 – by 9.8 percent). Government operations have increased the monetary base by 2.4 billion KGS, and the National Bank operations – by 2.0 billion KGS. The NBKR sterilized 2.7 billion KGS by means of carrying out operations in the open market and foreign exchange operations. The major volume of the NBKR operations, which increased money supply, was accounted for purchase of gold in the internal market to the amount of 0.9 billion KGS and banks refinancing operations to the amount of 0.5 billion KGS.

Broad money M2X, including foreign currency deposits, at the end of September 2013 amounted to 113.3 billion KGS, having increased since the beginning of the year by 15.1 percent (in the same period of 2012 – by 18.9 percent). The main contribution to the growth of M2X was made by increase of deposits<sup>1</sup> by 24.9 percent (in the same period of 2012 – by 36.2 percent), meanwhile increase of deposits in foreign currency amounted to 38.1 percent, deposits in national currency – by 12.7 percent (in the same period of 2012 – by 35.0 percent and 37.7 percent, respectively). Without regard to influence of exchange rate change, the total volume of deposits increased by 23.2 percent. Generally, dynamics of the depositary base development indicates preserved confidence in the banking system.

Due to more rapid rates of money supply growth compared to rates of GDP growth, coefficient of the economy monetization, calculated by the M2X monetary aggregate, within the period since January till September 2013 increased from 29.0 percent as of the beginning of the year to 31.0 percent as of the end of September. Therefore, the speed of circulation, calculated by the M2X monetary aggregate, decreased from 3.4 as of the beginning of the year to 3.2 as of the end of September.

M2X broad money multiplier characterizing the degree of financial intermediation has increased from 1.527 as of the end of 2012 to 1.644 as of the end of September 2013 due to deposits growth in the volume of the M2X broad money.

### **Inflation: Results and trends**

According to the National Statistics Committee, the inflation rate at the end of September 2013 (September 2013 to September 2012) was 6.0 percent; the annual average inflation rate was at the level of 7.4 percent.

In the period under review, prices for foodstuffs group, which have approximately 48 percent in the consumer goods basket, increased by 5.0 percent in annual terms. Consumer prices index for non-food products increased in annual terms by 7.1 percent, for paid services – by 4.2 percent. Due to increase of excise duty imposed on alcohol beverages and tobacco products, significant rise in prices for alcohol beverages and tobacco products – by 11.0 percent was observed in annual terms.

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<sup>1</sup> Excluding deposits of the government and non-residents.

**Table 1. Consumer price index in the Kyrgyz Republic**

	September 2013 to			January-September 2013 to January-September 2012
	August 2013	December 2012	September 2012	
<b>All goods and services</b>	<b>100.5</b>	<b>101.6</b>	<b>106.0</b>	<b>107.4</b>
including				
Food products and soft drinks	100.4	99.3	105.0	106.4
Alcohol beverages, tobacco products	101.0	105.7	111.0	111.2
Non-food products	100.6	103.5	107.1	107.8
Services	100.3	102.6	104.2	107.7

In the structure of food products, the major share is accounted for bakery products and cereals. According to the results of September 2013, the prices for bakery products and cereals increased in annual terms by 4.4 percent, moreover, the price for wheat first grade flour increased by 6.9 percent. In January-September 2013, dynamics of prices for cereals was stable and was characterized by downward trend on the background of expectations of rich yield in 2013. Thus, for example import prices of Kazakhstan (supplies to Lugovaia station) for wheat with gluten of 23-24 percent decreased by 51.1 percent since the beginning of the year.

According to the results of September 2013, prices for fruits and vegetables increased in annual terms by 15.6 percent (the same index of 2012 increased by 3.9 percent), moreover, prices for fruits increased by 30.9 percent, vegetables increased by 10.3 percent.

Prices for sugar in Kyrgyzstan decreased in annual terms by 2.2 percent. Prices for the “oils and fats” group increased in annual terms by 0.7 percent. The current dynamics of prices for the “oils and fats” group is primarily conditioned by persistent effect of rich yield of oilseed crops in the last season.

Index of prices for dairy products increased by 8.7 percent (in September 2012 decrease was 5.9 percent). However, decrease of prices for this group of products by 5.2 percent is observed since the beginning of the year. Prices for dairy products decreased to a certain degree due to saturation of internal market with dairy products on the background of restrictions imposed on imports of these products by Kazakhstan.

According to the results of September 2013, prices for meat products increased in annual terms by 6.1 percent.

High dependence of internal prices for food products on the dynamics of world prices is primarily conditioned by high import dependence of the economy of Kyrgyzstan. Thus, according to the NSC KR data, the share of import in the structure of bakery products consumption constituted 56.3 percent, import of vegetable fats in consumption constituted 71.8 percent, consumption of sugar was provided by import by 90.9 percent.

**Table 2. Food balance of the Kyrgyz Republic on basic food products***(thousand tons)*

	Bakery products in terms of grain, thousand tons				Vegetable fats thousand tons				Sugar and confectionery in terms of sugar, thousand tons			
	II'2010	II'2011	II'2012	II'2013 <sup>1</sup>	II'2010	II'2011	II'2012	II'2013 <sup>1</sup>	II'2010	II'2011	II'2012	II'2013 <sup>1</sup>
<b>Receipt</b>	<b>1 860.1</b>	<b>1 680.1</b>	<b>1 671.2</b>	<b>1 483.1</b>	<b>67.8</b>	<b>59.7</b>	<b>53.6</b>	<b>36.6</b>	<b>74.4</b>	<b>56.3</b>	<b>54.9</b>	<b>51.4</b>
Stocks at the beginning of the year	1 654.2	1 453.8	1 295.6	1 182.9	40.3	36.0	26.4	9.3	46.7	15.9	10.4	5.6
Food products produced in the country	11.3	14.6	4.6	10.6	9.5	8.1	6.8	7.2	0.0	0.0	0.0	0.0
Imported food products	194.6	211.7	371.0	289.6	18.0	15.6	20.4	20.1	27.7	40.4	44.5	45.8
<b>Consumption</b>	<b>1 109.2</b>	<b>1 102.2</b>	<b>1 096.1</b>	<b>1 047.6</b>	<b>30.0</b>	<b>31.4</b>	<b>31.9</b>	<b>28.0</b>	<b>51.8</b>	<b>53.5</b>	<b>53.0</b>	<b>50.5</b>
Costs for seeds	72.4	76.1	87.7	86.2	-	-	-	-	-	-	-	-
Fodder for cattle	480.0	454.3	470.0	417.1	-	-	-	-	-	-	-	-
Losses	32.2	29.1	6.4	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exported food products	30.5	43.3	25.3	23.9	0.0	0.0	0.0	0.0	0.3	0.4	0.3	0.1
Consumption by the population	494.1	499.4	506.7	514.7	30.0	31.4	31.9	28.0	51.5	53.1	52.7	50.4
<b>Stocks at the end of the period</b>	<b>750.9</b>	<b>577.9</b>	<b>575.1</b>	<b>435.5</b>	<b>37.8</b>	<b>28.3</b>	<b>21.7</b>	<b>8.6</b>	<b>22.6</b>	<b>2.8</b>	<b>1.9</b>	<b>0.9</b>
<b>Share of import in total consumption, %</b>	<b>39.4</b>	<b>42.4</b>	<b>73.2</b>	<b>56.3</b>	<b>60.0</b>	<b>49.7</b>	<b>63.9</b>	<b>71.8</b>	<b>53.8</b>	<b>76.1</b>	<b>84.4</b>	<b>90.9</b>
<b>Dependence ratio on import</b>	<b>110.9</b>	<b>115.7</b>	<b>105.9</b>	<b>104.8</b>	<b>65.5</b>	<b>65.8</b>	<b>75.0</b>	<b>73.6</b>	<b>101.1</b>	<b>101.0</b>	<b>100.7</b>	<b>100.2</b>
<b>Adequacy ratio</b>	<b>6.4</b>	<b>8.0</b>	<b>1.3</b>	<b>3.8</b>	<b>34.5</b>	<b>34.2</b>	<b>25.0</b>	<b>26.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Ratio of stocks to demand, %</b>	<b>67.7</b>	<b>52.4</b>	<b>52.5</b>	<b>41.6</b>	<b>126.0</b>	<b>90.1</b>	<b>68.0</b>	<b>30.7</b>	<b>43.6</b>	<b>5.2</b>	<b>3.6</b>	<b>1.8</b>

<sup>1</sup> Preliminary data

Prices for non-food products in annual terms increased by 7.1 percent, which is 2.9 percentage points lower than the same index of 2012. The largest price increase occurred in the “clothing and footwear” group, which grew by 13.7 percent. Prices for household goods and appliances increased by 6.1 percent. Prices for lubricants increased in annual terms by 2.9 percent, including prices for gasoline increased by 3.0 percent, prices for diesel fuel increased by 2.2 percent.

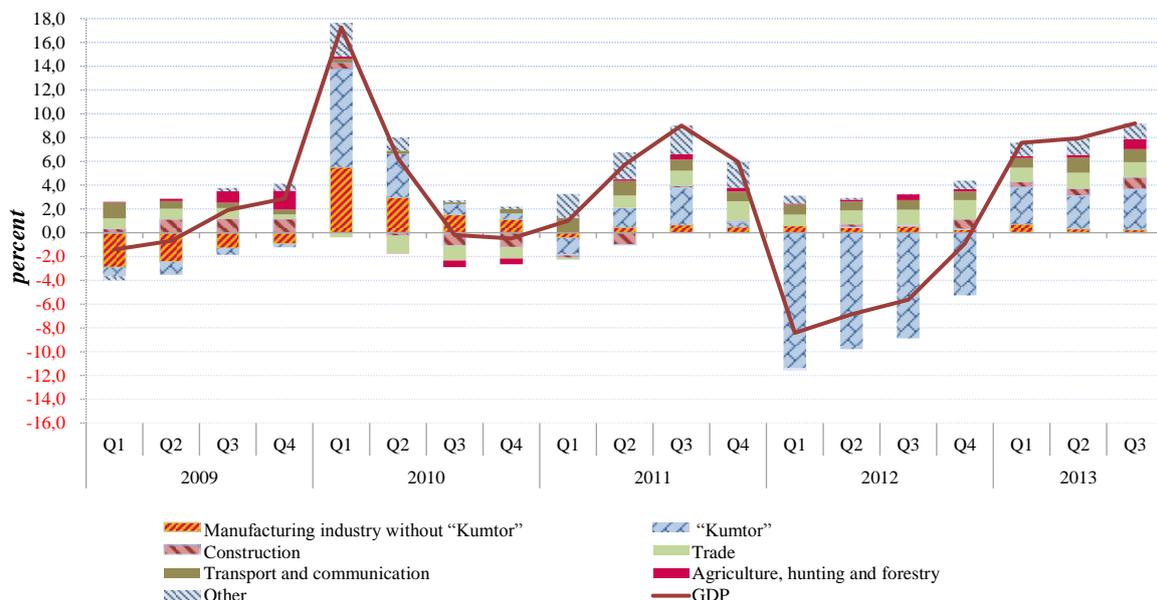
In September 2013, the index of prices for paid services increased in annual terms by 4.2 percent (in September 2012 – by 10.0 percent). Index growth in this group was mainly due to increase in cost of services in restaurants and hotels by 7.7 percent, educational services (+2.4 percent) and transport services (+1.8 percent). Health services increased by 10.3 percent.

### Real sector

In January-September 2013, GDP in current prices amounted to 236.9 billion KGS, having increased in real terms by 9.2 percent compared to the same index of 2012 (in January-September 2012, real GDP decreased by 5.6 percent). High level of growth was primarily conditioned by rehabilitation of production at “Kumtor” mine. Excluding enterprises, which exploit “Kumtor” gold mine, GDP grew by 6.1 percent (according to the results of January-September 2012, the same index was 3.7 percent). The GDP deflator was formed at the level of 3.4 percent compared to 10.5 percent in January-September 2012.

In the period under review, GDP growth was primarily provided by increase of added value in the manufacturing industry (+34.7 percent), construction (+20.4 percent) and service sphere (+5.6 percent). Moreover, agriculture significantly contributed to GDP formation, where physical volume of production in January-September 2013 increased by 4.2 percent. Decline in the volume of production was observed in such sectors as “mining” (-1.7 percent) and “production and distribution of electric energy, gas and water” (-3.1 percent).

**Chart 1. Contribution of the Kyrgyz Republic economy sectors to GDP increase**



In the period under review, industrial enterprises production increased by 23.5 percent, excluding enterprises, which exploit “Kumtor” gold mine, in the general structure of industry decline constituted 0.4 percent. High level of growth observed in the industry is primarily conditioned by the effect of the manufacturing industry low base in January-September 2012 (negative contribution in GDP growth in January-September 2012 constituted -8.3 p.p.) and increase in the volume of metallurgical production and production of finished metal products (1.9 times) due to rehabilitation of production at “Kumtor” gold mine. Generally, 8.2 tons of gold alloy

(dore) were produced in the republic in the period under review compared to 4.3 tons produced in January-September 2012. Decline of textile and clothing production was observed in the manufacturing industry (-12.3 percent), as well as due to reduction of export demand for clothing products.

Gross output of agricultural products, the share thereof in the total GDP constitute 18.8 percent, in January-September 2013, increased in real terms by 4.2 percent, having provided positive contribution in GDP growth at the level of 0.8 p.p., primarily by means of crop-growing sector (in January-September 2012, growth constituted 2.8 percent). Favorable weather conditions in the republic contributed to upward dynamics of agricultural output in January-September 2013, as well as implementation of “Financing Agriculture” project on subsidy of interest rates on credits of agricultural producers (in January-September 2013, 14 138 credits to the total amount of KGS 3.0 billion were provided within the framework of the project). Generally, increase of crediting growth rates is observed in the agriculture during the last three years. In January-September 2013, growth of credits in the agricultural sector constituted 46.7 percent (the same index of 2012 constituted 26.0 percent, in 2011 – 21.4 percent), meanwhile the share of agricultural credits in the total volume of credit portfolio of the commercial banks increased from 12.7 percent as of the end of 2011 to 17.8 percent as of the end of September 2013.

In the sphere of trade, gross turnover of operations conducted in January-September 2013 constituted 213.1 billion KGS, having increased by 7.7 percent compared to the same period of 2012 (according to the results of January-September 2012, trade growth constituted 9.5 percent).

The volume of investments into the fixed capital in January-September 2013 increased by 13.8 percent in real terms and in nominal terms it amounted to 41.3 billion KGS (in the same period 2012 increase constituted 2.5 percent). Priority sphere of investments in fixed capital was mining sector (27.7 percent), transport and communication (15.6 percent) and manufacturing industry (13.3 percent). In the period under review, investments into fixed capital funded by means external sources of financing increased by 1.5 times, among them by means of foreign credits – by 2.3 times, by the article “foreign grants” and “humanitarian aid” – by 1.9 times, meanwhile be means of direct investments decrease constituted 25.1 percent.

### **External economic sector<sup>1</sup>**

According to preliminary data, at the end of nine months of 2013, increase in the trade deficit is likely to result in growth of negative current account balance to 18.5 percent to GDP. In the period under review, trade deficit of the Kyrgyz Republic is expected to increase to 2 340.8 million USD (growth by 22.1 percent) due to the following major factors:

- increase in the value of imported oil products by 106.6 million USD;
- reduction in exports of clothing and clothing accessories by 38.0 million USD and reduction in exports of other commodities;

In January-September 2013, export of goods (in FOB prices) will amount to 1 610.6 million USD, having increased by 3.6 percent compared to the same index in the corresponding period of 2012. The volume of exported gold is expected to increase by 11.8 percent (by 31.3 million USD in absolute terms). Export excluding gold and recalculations of oil products re-export is expected to decrease by 2.3 percent and amount to 1001.0 million USD. Decrease will be primarily preconditioned by decline in the volume of clothes and clothing accessories sold abroad (by 30.5 percent or 38.0 million USD), ores and concentrates of precious metals (by 65.9 percent or 24.6 million USD) and current (by 33.1 percent or 15.2 million USD).

In January-September 2013, import of goods (in FOB prices) will increase by 13.8 percent and amount to 3 951.4 million USD. The structure of import, change will be primarily characterized by increase of imported oil products by 17.2 percent or by 119.4 million USD in

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<sup>1</sup> According to preliminary and forecast data, taking into account recalculation of oil products re-export in 2012.

absolute terms. Moreover, increase will be observed in the supplies of construction from cast iron, steel and aluminum (by 3.0 times or by 58.5 million USD), cast iron and steel (by 19.3 percent or 31.2 million USD), aviation fuel (by 40.3 percent or 28.2 million USD) and other commodities.

Balance of services (taking into account recalculation) in January-September of the current year is expected negative at the level of 113.0 million USD, having increased by 27.4 percent compared to the comparable index of 2012.

In the period under review, revenues negative balance is expected to increase by 71.7 percent (to 217.8 million USD). It will become the result of increase in the revenues of direct foreign investors from investment activity in Kyrgyzstan expected primarily due to growth of reinvested revenue of enterprises from 66.0 million to 163.8 million USD (growth by 2.8 times).

Net inflow of current transfers will develop in the amount of 1 609.5 million USD, having increased by 12.3 percent compared to the index of nine months of 2012. The major increase in this article in the reporting period will be traditionally provided by private transfers, net inflow thereof will increase by 9.1 percent and amount to 1 560.8 million USD.

According to the results of nine months of 2013, the capital and financial operations account will form a surplus in the amount of 782.7 million USD, having increased by 3.4 percent compared to the same index of January-September 2012.

The balance of capital account is expected positive in the amount of 258.2 million USD, having increased by 3.2 times compared to the same index of nine months of the last year. The main reason for growth of capital account surplus was reflection of operation on forgiveness of state debt of the Kyrgyz Republic in the amount of 188.9 million USD by the Russian Federation in the second quarter of the current year.

In the period under review, surplus of the financial account decreased by 28.2 percent and constituted 524.5 million USD. Direct and other investments will have major influence on the financial account balance.

Net inflow of direct investments in the republic will increase by 2.3 percent (318.0 million USD), primarily due to growth of net volume of reinvested earnings from 66.0 million to 163.8 million USD. Net inflow of direct investments into other capital will decrease by 33.6 percent and amount to 151.7 million USD.

In the reporting period, net inflow of capital under the article “other investments” will decrease by 49.7 percent and amount to 208.3 million USD. Increase of residents’ assets by 62.6 million USD, provided primarily by growth of assets in the commercial banks by 116.0 million USD will have dominating influence on the aforementioned dynamics. Liabilities of residents will also increase by 270.9 million USD, which is expected to be the results of increase in the credit debts of enterprises by 152.9 million USD and net inflow of capital for external debt settlement in the amount of 107.5 million USD.

Thus, according to the results of nine months of 2013, payment balance of the Kyrgyz Republic formed with surplus in the amount of 115.0 million USD. “Mistakes and omissions” are expected at the level of 394.4 million USD, which indicates incomplete statistical accounting of operations<sup>1</sup>. The volume of gross international reserves will cover 3-4 months of future import of goods and services.

According to preliminary data, the index of nominal effective exchange rate (NEER) of KGS since the beginning of 2014 increased by 1.4 percent and as of the end of September constituted 112.4. Increase was conditioned by KGS strengthening<sup>2</sup> in September of the reporting year compared to the average exchange rate in December 2012 in relation to the Turkish lira by 9.8 percent and the Russian ruble – by 3.1 percent. Moreover, KGS devaluation was observed in relation to the Chinese yuan and the Euro by 4.9 percent, in relation to the U.S. dollar – by 3.1 percent, to the Kazakh tenge – by 1.3 percent.

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<sup>1</sup> According to the NBKR, the statistics of payment balance does not completely reflect the data on shadow re-export of consumer products (border trade), with regard to travel services export and net inflow of external loans into the private sector.

<sup>2</sup> The data are given on the KGS nominal bilateral exchange rate; the year of 2000 is used as the base period for index calculation.

Along with strengthening NEER index of KGS, lower level of inflation<sup>1</sup> in Kyrgyzstan resulted in decrease of real effective exchange rate (REER), which since December 2012 decreased by 0.5 percent and constituted 112.1 percent as of the end of September of the current year.

### **Public finance sector**

According to the results of January-September 2013, the state budget deficit amounted to 5.2 billion KGS or 2.2 percent of GDP, while in the same period of 2012 budget deficit was at the level of 5.5 percent of GDP.

The total funding of budget was carried out through internal sources in the amount of 3.4 billion KGS (1.4 percent of GDP) and through external sources in the amount of 9.0 billion KGS (3.8 percent to GDP).

In the period under review, the net outflow of budget funds for purchases of non-financial assets (including operations on the following groups: fixed assets, stocks, land) constituted 6.7 billion KGS or 2.8 percent of GDP, increase compared to the same period of 2012 amounted to 2.1 billion KGS. Increase of costs is primarily due to growth of expenditures for purchase and construction of facilities, purchase of vehicles, mechanisms and equipment, as well as overhaul of roads.

According to preliminary data of the Social Fund of Kyrgyz Republic, the surplus of Social Fund budget in January-September 2013 amounted to 0.2 billion KGS or 0.1 percent of GDP, revenues – 24.3 billion KGS or 10.2 percent of GDP, expenditure – 24.1 billion KGS or 10.2 percent of GDP.

Thus, deficit of the consolidated budget (state budget + Social Funds budget) at the end of the period under review amounted to 5.0 billion KGS or 2.1 percent of GDP. Revenues amounted to 83.7 billion KGS or 35.3 percent of GDP and expenditures – 88.7 billion KGS or 37.4 percent to GDP.

In January-September of 2013, the state budget revenues from operations increased by 14.2 percent as compared to the same period in 2012<sup>2</sup> and amounted to 71.5 billion KGS or 30.2 percent of GDP (in 2012 increase amounted to 13.9 percent).

The receipt of tax revenues amounted to 51.7 billion KGS, having increased by 13.4 percent or by 6.1 billion KGS as compared to the same period in 2012. The share of tax revenues in total budget revenues from operations decreased by 0.5 percentage points as compared to the same period in 2012 and constituted 72.3 percent. Receipt of tax revenues contributed to growth of state budget revenues from operations by 9.8 percentage points.

Tax revenues were provided by the proceeds from the State Tax Service by 50.3 percent and by 49.7 percent from the State Customs Service. The plan of SCS taxes collection in January- September of the current year was implemented at the level of 97.4 percent, the plan of STS – at the level of 98.3 percent.

In the reviewed period, non-tax revenues amounted to 14.4 billion KGS having increased by 6.7 percent as compared to the corresponding index in 2012. The main contribution to growth of these revenues was provided by the revenues from provision of paid services in the sphere of healthcare, education and culture, as well as revenues in profit of state. Thus, the non-tax revenues provided the least contribution to the growth of the state budget from operations – 1.4 percentage points.

Receipt of official transfers amounted to 5.3 billion KGS, having increased by 53.3 percent or 1.9 billion KGS. Contribution of official transfers to growth of operating incomes of the state budget amounted to 3.0 percentage points.

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<sup>1</sup> Inflation rate in the Kyrgyz Republic in January-September 2013 constituted 1.5 percent, while average inflation rate in the countries-major trade partners, according to preliminary estimates, constituted 3.5 percent.

<sup>2</sup> In real terms (adjusted for CPI) increased by 6.3 percent.

The state budget expenditures for operating activities amounted to 69.9 billion KGS, having increased by 0.4 percent<sup>1</sup> or 0.3 billion KGS.

High proportion of expenditures aimed at current consumption is still preserved in the structure of expenditures by economic classification. In opposition to decrease in the share of expenditures within the framework of state investments, increase in the share of expenditures for payment of subsidies and social benefits by 3.5 percentage points was observed in the reviewed period. The major contribution into increase of this group of expenditures was made by expenditures for payment of basic pension component for social insurance of the population, financing thereof under the Decree of the President of the Kyrgyz Republic №252 dated May 26, 2009 shall be executed in the amount of 80 percent from the republican budget (in 2012 financing of the republican budget was implemented in the amount of 60 percent).

At the end of September 2013, the public debt amounted to 159.2 billion KGS or 3.3 billion USD out of which the external debt amounted to 145.4 billion KGS, while the internal debt amounted to 13.8 billion KGS. Interest payments on public debt servicing for January-September 2013 amounted to 2.2 billion KGS, whereof the share of payments on internal and external debt amounted to 57.6 and 42.4 percent of the total interest payments, respectively.

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<sup>1</sup> In real terms (adjusted for CPI) decreased by 6.5 percent.

## **Financial sector**

### ***Banking system***

As of September 30, 2013, 23 commercial banks operated in the territory of the Kyrgyz Republic (including Bishkek branch of the National Bank of Pakistan) and 282 branches of commercial banks. Generally, the banking sector received 1 894.4 million KGS of net profit (in the same period in 2012, 22 commercial banks and 269 branches conducted their operations, profit by the results of their activity constituted 1 823.0 million KGS).

As of September 30, 2013, the total assets of the banking system amounted to 105.3 billion KGS; in the same period of 2012 this index was equal to 81.0 billion KGS, assets increased by 29.9 percent or 24.2 billion KGS.

At the end of the reporting period, the amount of depositary base of commercial banks amounted to 62.2 billion KGS, having increased by 22.8 percent since the beginning of the year. Thus, increase was due to growth of both the foreign exchange component of the depositary base by 35.3 percent and by increase of deposits in KGS by 11.7 percent (excluding USD strengthening, the depositary base increased by 24.4 percent).

In the reviewed period, there was increase in the inflow of deposits to commercial banks. The volume of newly accepted deposits<sup>1</sup> amounted to 199.6 billion KGS, having increased compared to the same index of 2012 by 15.7 percent. The volume of newly accepted deposits in national currency was 103.6 billion KGS (+18.2 percent), while in foreign currency – 96.0 billion in KGS equivalent (+13.0 percent).

The weighted average interest rate on newly accepted deposits in national currency was 2.3 percent, remaining unchanged compared to the same index during nine months of 2012. Meanwhile, the weighted average interest rate on fixed deposits in national currency was 9.7 percent (-0.1 percentage point).

The rate on newly accepted deposits in foreign currency remained at the level of the same period in 2012 of 0.8 percent. Meanwhile, the weighted average interest rate on demand deposits in foreign currency also remained at the level of the previous year of 0.1 percent, on fixed in foreign currency decreased by 0.9 percentage points, up to 5.9 percent.

In terms of banks the average level on newly accepted fixed deposits in foreign currency decreased from 12 from 23 operating banks<sup>2</sup>, rates increased in other banks.

In January-September 2013, the banks continued increasing loan portfolio on the background of the interest rate decrease on the borrowings both in the national and in the foreign currency. In the period under review, one of the peculiarities of the loan portfolio growth was significant increase of loans volume in the agriculture, which has become possible due to implementation of measures on the government support of this sector.

In the current year, "Financing Agriculture" state project is being implemented, the purpose of which is to support agricultural producers of the republic for timely carrying out of spring field works and further development of animal husbandry and processing sector in agriculture. Under the terms of the project the government subsidizes the commercial banks and specialized financial institutions for placement of soft loans at the rate of 10 percent per annum from the national budget funds. At the end of September, the total loan debts on the project amounted to 2.8 billion KGS or 5.5 percent of the total banking credit portfolio.

At the end of September of 2013, the loan portfolio of operating commercial banks amounted to 50.1 billion KGS, having increased by 24.9 percent since the beginning of the year (including adjustment for change of exchange rate, loan portfolio increased by 26.6 percent). The loan portfolio in KGS increased by 30.9 percent and amounted to 24.3 billion KGS. At the end of September, the volume of provided loans in foreign currency amounted to 25.8 billion KGS, exceeding the corresponding index as of the beginning of the year by 19.8 percent (taking into account USD strengthening, increase amounted to 22.9 percent).

At the end of the period under review, loan portfolio of banks by industry was

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<sup>1</sup> Settlement accounts of the banks' clients are not taken into account in the volume of newly accepted deposits.

<sup>2</sup> In January-September 2013, 4 banks out of operating ones did not attract fixed deposits in foreign currency.

distributed in the following manner. The share of loans in the trade occupying the most part of the loan portfolio decreased by 9.3 percentage points, up to 37.0 percent. In addition, there was a decline in other loans till 9.3 percent (-1.1 p.p.) and for consumer purposes from 9.4 to 9.1 percent. Moreover, there was an increase in the share of loans for social services, their share decreased up to 1.5 percent. The share of loans for communication decreased by 0.1 percent, up to 0.1 p.p. Moreover, there was increase in the shares of loans for agriculture (by 2.6 percentage points, up to 17.8 percent), mortgage (by 0.3 p.p., up to 9.9 percent), industry (by 1.6 p.p., up to 7.2 percent) and construction (by 2.6 p.p., up to 17.8 percent). The share of loans for transport and procurement has not changed since the beginning of the year, constituting 2.4 and 0.2 percent, respectively.

In January-September 2013, the volume of newly issued credits amounted to 42.1 billion KGS, having increased by 56.4 percent compared to the amount issued in the same period of 2012. The loans in national currency increased by 56.7 percent, and in foreign currency – by 56.2 percent. Increase in the volumes of credits issued to the trading sector with growth of credits observed in the agricultural sector are the most significant sectoral factors of growth of the total index for loans issued by the banks.

In January-September 2013, the average weighted interest rate on newly issued loans in national currency decreased compared to the same index in 2012 by 1.7 percentage points up to 21.2 percent, while in foreign currency – 0.5 percentage points up to 18.6 percent.

#### ***Non-bank financial institutions licensed by the National Bank of the Kyrgyz Republic***

As of September 30, 2013, the number of non-banking financial institutions (NBFIs) in the Kyrgyz Republic was 774 out of which: OJSC “Financial Company of Credit Unions” (FCCU) – 1, credit unions (CUs) – 157, microcredit companies (MCC) – 215, microcredit agencies (MCA) – 66, microfinance companies (MFC) – 4, exchange bureaus – 331 (in the same period of 2012 the number of FCCUs was 833).

Since the beginning of 2013, the total loan portfolio of NBFIs increased by 3.3 billion KGS or by 21.5 percent and as of September 30, 2013 constituted 18.7 billion KGS. Moreover, since the beginning of the year the number of NBFI borrowers increased by 10 076 people or 2.3 percent, up to 444 225 people (as of December 30, 2012 – 434 149 people).

The weighted average interest rate on NBFI loans as of September 30, 2013 was: on loans of Financial Company of Credit Unions (FCCU) – 15.16 percent, on microfinance institutions (MFIs) – 31.28 percent and credit unions (CUs) – 27.80 percent (weighted average interest rate as of September 30, 2012: FCCU – 15.98 percent, MFI – 34.71 percent and CU – 28.40 percent, respectively).

**Table 3. Credit portfolio of NBFİ\* (in million KGS)**

Name of NBFİ	30.09.2012	%	31.12.2012	%	30.09.2013	%
FCCU	437.9	0.7	409.2	-5.9	424.2	3.7
MFI (MFC/MCC/MCA)	16 799.9	15.9	14 060.9	-3.1	17 281.0	22.9
Credit Unions	1 299.7	5.5	1 344.6	9.2	1 430.7	6.4
Total*	18 099.6	15.1	15 405.5	-1.9	18 711.8	21.5

\* The data are presented excluding FCCU since FCCU were granted to credit unions

Since the beginning of the year, the depositary base of NBFİ (credit unions)<sup>1</sup> increased by 7.7 percent or by 3.9 million KGS and as of September 30, 2013 constituted 55.3 million KGS (as of December 31, 2012 –51.3 million KGS). Meanwhile, deposits as of June 30, 2013 constituted 64.7 million KGS.

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<sup>1</sup> As of 30.09.2013 the deposits attract 12 credit unions (under the license issued by the NBKR).