

**National Bank of the Kyrgyz Republic**

---

# **Inflation Report**

**April 2010**

**Bishkek**

## ***Inflation Report***

Editorial Board:

Chairman: Abdybaly tegin S.  
Board members: Urustemov S.A.  
Isakova G.A.  
Aidarova A.K.

Executive Secretary Amanov B.K.

On issues related to the contents of the publication, please, contact:

101, Umetaliev Str., Bishkek  
National Bank of the Kyrgyz Republic  
Phone: (996 312) 669 052  
Fax: (996 312) 610 730  
e-mail: bamanov@nbkr.kg

On issues related to dissemination of the publication, please, contact:

101, Umetaliev Str., Bishkek  
National Bank of the Kyrgyz Republic  
Phone: (996 312) 669 009  
Fax: (996 312) 610 730  
e-mail: pr@nbkr.kg  
<http://www.nbkr.kg>

This publication contains a description of consumer price developments in the republic and its regions (oblasts), the analysis of key inflation factors, informs on monetary policy decisions of the National Bank of the Kyrgyz Republic and provides an inflation forecast for the forthcoming period. The report is published quarterly in Kyrgyz, Russian and English languages.

The last update is as of April 26, 2010.

Founder: National Bank of the Kyrgyz Republic.

The publication is registered with the Ministry of Justice of the Kyrgyz Republic, registration certificate of the mass media #628.

Printed by "Next Print"

Number printed: 130 copies.

© The National Bank of Kyrgyz Republic, 2010.

The present publication is not subject to reproduction and distribution in any form and by all funds without the permission of the National Bank of the Kyrgyz Republic. When reprinting and translating excerpts, a reference to the "Inflation Report" issued by the National Bank of the Kyrgyz Republic is compulsory.

## **Other Publications of the National Bank of the Kyrgyz Republic**

### ***Annual Report of the National Bank of the Kyrgyz Republic***

This publication is a last year statement of the National Bank of the Kyrgyz Republic (NBKR). It contains brief information about the country's economic development and monetary policy, financial statements of the NBKR, general information about the NBKR, and statistic annexes. It is published in Kyrgyz, Russian and English languages.

### ***Bulletin of the National Bank of the Kyrgyz Republic***

This monthly publication contains statistic data for major macroeconomic indicators and sectors of economy of the Kyrgyz Republic. It is published in Kyrgyz, Russian and English languages.

### ***Balance of Payments of the Kyrgyz Republic***

Balance of Payments of the Kyrgyz Republic reflects trends of external sector development, data of the payment balance, foreign trade, international reserves, external debt, and international investment position of the Kyrgyz Republic. It is published on quarterly basis in January, May, July, and October in Kyrgyz, Russian and English languages.

### ***Banking System Development Trends***

This publication provides an analysis and assessment of the development of Kyrgyz banking system as a financial intermediary, and components of its stability. It is published semiannually in Kyrgyz, Russian and English languages.

### ***Statutory Acts of the National Bank of the Kyrgyz Republic***

The objective of this document is to officially publish the statutory acts of the NBKR in order to provide commercial banks and general public with regulatory documents and information about NBKR activities, and to popularize the banking legislation of the Kyrgyz Republic. It is published, as a rule, once a month in Kyrgyz and Russian languages.

### ***Press Release of the National Bank of the Kyrgyz Republic***

Press Release of the NBKR contains the description of events related to the National Bank and banking system, major financial market data for the week and other information for mass media, legal entities and individuals. It is published on a weekly basis in Kyrgyz and Russian languages.

## CONTENTS

<b>CHAPTER 1. ECONOMIC SITUATION IN THE KYRGYZ REPUBLIC .....</b>	<b>5</b>
1.1. Demand and supply on commodities and services market .....	5
1.1.1. Demand .....	5
1.1.2. Supply .....	9
1.2. Monetary trends .....	11
1.3. External economic conditions .....	15
1.4. Exchange rate .....	18
<b>CHAPTER 2. INFLATION AND ITS COMPONENTS .....</b>	<b>20</b>
2.1. Consumer price index development 1 .....	20
2.1.1. Food products .....	20
2.1.2. Non-food products .....	22
2.1.3. Services .....	23
2.1.4. Consumer prices in regions .....	23
2.2. Core inflation .....	24
<b>CHAPTER 3. MONETARY POLICY DECISIONS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC .....</b>	<b>26</b>
3.1. Major decisions of the NBKR Board .....	26
3.2. Major decisions of the Monetary Policy Committee .....	26
<b>CHAPTER 4. INFLATION FORECAST .....</b>	<b>28</b>
4.1. Forecast of key inflation factors developments .....	28
4.2. Inflation forecast for 2010 and quarter II of 2010 .....	30
<b>STATISTICAL ANNEX .....</b>	<b>34</b>
<b>GLOSSARY .....</b>	<b>38</b>
<b>ABBREVIATIONS .....</b>	<b>41</b>

## Chapter 1. Economic situation in the Kyrgyz Republic

### 1.1. Demand and supply on commodities and services market

#### 1.1.1. Demand

According to the preliminary data, in January to March 2010 the volume of nominal GDP at current prices was Som 38.8 billion, having increased by 16.4 percent in real terms against the volume of GDP for the comparable period of 2009 (In January to March 2009 GDP decreased by 1.3 percent).

Such growth rates were achieved mainly due to active gold mining in the first quarter of the current year (a considerable share of GDP growth (about 45 percent) was insured by planned scheduled increase in the volumes of gold mining in the Kumtor Goldfield) as well as due to low growth rates in the previous year caused by the decline in manufacture and general growth retardation in services sector (“low base” effect). A moderate contribution was marked in construction, which was connected with development of investment in hydro-power facilities as well as in transport and communication sectors.

Changes in the GDP structure by expenditure for 2009 also indicated gradual revitalization of total demand. Thus, according to the preliminary results for 2009<sup>1</sup>, final consumption expenditures decreased by 2.6 percent on the whole. However, final consumption expenditures increased by 2.3 and 2.5 percent correspondingly in the third and fourth quarters of 2009. Therefore, the negative economic situation in the region was one of the main reasons for decrease in consumer demand in 2009, and its peak fell on the first half of 2009.

**Table 1.1.1. Real GDP growth rates by expenditure**  
(quarter/period to the corresponding quarter/period of the previous year, percent)

	2008				2008	2009				2009
	I	II	III	IV		I	II	III	IV	
<b>Consumed GDP</b>	<b>6,7</b>	<b>8,5</b>	<b>6,7</b>	<b>11,2</b>	<b>8,4</b>	<b>-1,3</b>	<b>-2,1</b>	<b>4,5</b>	<b>5,1</b>	<b>2,3</b>
Final consumption	16,5	16,7	6,6	7,0	10,8	-7,9	-9,9	2,3	2,5	-2,6
Individual consumption	17,5	18,1	6,8	7,4	11,5	-8,8	-11,4	1,9	2,8	-3,2
Households	20,0	21,0	7,7	9,3	13,4	-9,8	-13,0	1,9	2,8	-3,7
NCOSH	-11,8	-11,1	-7,5	-23,1	-14,4	-0,2	1,5	1,0	3,1	1,5
Public institutions	0,8	1,4	0,0	0,6	0,7	0,0	1,1	1,8	2,5	1,5
Collective consumption	1,4	0,1	2,0	4,0	2,3	6,7	7,0	8,6	0,4	5,0
Gross capital formation	10,9	5,8	22,3	12,5	13,9	-51,1	-52,5	-26,6	-25,1	-34,3
Net export of services and goods	38,0	29,7	26,7	-0,4	21,2	-33,7	-55,9	-47,5	-30,5	-42,3
Export	-13,2	1,1	1,1	40,2	9,1	6,6	8,7	-7,1	-16,5	-4,6
Import	6,4	12,5	8,7	23,8	13,6	-14,2	-22,6	-21,8	-21,5	-20,5

Source: NSC

GDP deflator amounted to 103.5 percent in January to March 2010.

<sup>1</sup> Hereinafter: reference to earlier periods is conditioned by lack of information for the first quarter of 2010.

**Table 1.1.2. Structure of GDP deflator**  
(year-to-date, percent to the corresponding period of the previous year)

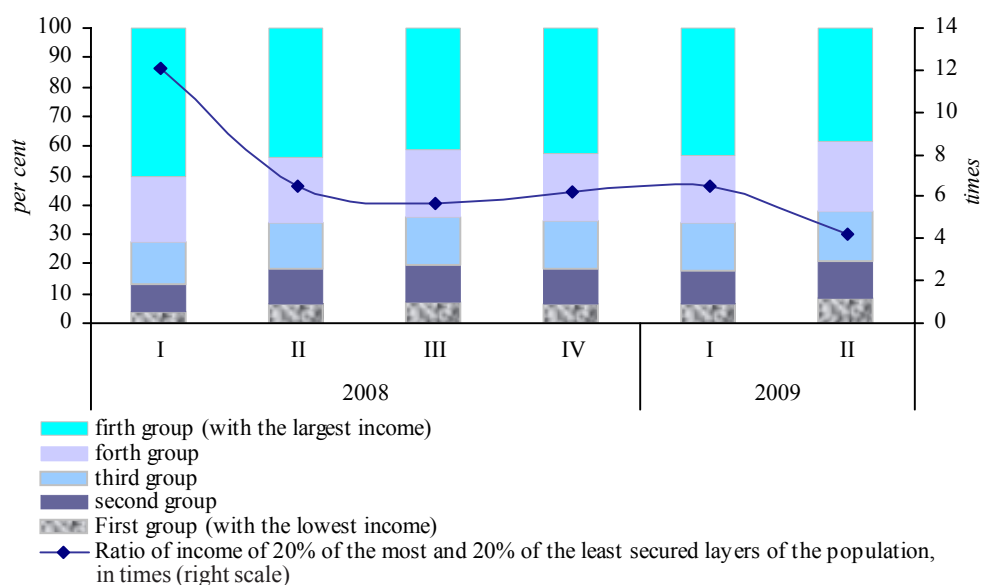
	2009				2010
	I	II	III	IV	I
<b>Gross Domestic Product</b>	<b>109,3</b>	<b>107,9</b>	<b>101,9</b>	<b>102,1</b>	<b>103,5</b>
Agriculture, hunting & forestry	104,2	102,8	91,5	91,5	98,6
Mining industry	121,5	124,5	122,7	117,5	105,1
Processing industry	96,9	103,9	101,7	107,3	110,3
Electricity, gas, and water generation and distribution	139,4	132,1	131,7	126,4	149,5
Construction	117,0	111,9	109,0	107,0	105,7
Trade, repair	111,4	107,3	104,2	103,0	102,7
Hotels and restaurants	116,6	112,1	108,3	105,6	100,4
Transport and communication	123,3	120,1	117,2	115,1	108,4
Financial activity	110,3	91,5	90,8	88,9	95,8
Real estate transactions, rent	110,8	110,1	109,5	107,2	101,2
Public administration	147,9	137,5	131,6	135,5	95,4
Education	133,9	137,9	123,4	116,2	89,9
Health and provision of social services	84,0	86,6	82,4	81,0	88,8
Provision of utility and personal services	131,2	126,4	122,2	120,0	109,2
Net tax on products	86,8	85,9	87,1	86,5	94,5

Source: NSC

According to the preliminary data, in January to February 2010 real wages showed a 10.4 percent growth against 5.0 percent in the same period of 2009.

A differentiation of household income has still remained high. A distribution of the total volume of cash earnings by 20 percentage groups of population develops in favor of highly remunerative groups. For instance, according to the first half of 2009, the share of income of the most well-to-do group accounted for 38.6 percent of the total volume of household income, having thus decreased by 0.6 percentage points compared to this indicator in the similar period of 2008. The share of income of 20 percent of the least privileged population increased by 2.0 percentage points and amounted to 8.2 percent.

**Chart.1.1.1. Composition of household money income by quintile groups**  
(year-to-date)



According to the preliminary data, in January to March 2010, an inflow of funds of individuals through transfer systems was noted to increase. The total volume of net inflow in January to March 2010 increased by USD 45.4 million or by 30.9 percent compared to this parameter in 2009.

**Table 1.1.3. Remittances of individuals in money transfer systems\***  
(*mln. USD*)

	2006	2007	2008	2009	Jan-Mar 2009	Jan-Mar 2010 **
<b>Balance</b>	<b>430,3</b>	<b>625,5</b>	<b>1 138,2</b>	<b>893,2</b>	<b>146,8</b>	<b>192,2</b>
<b>Inflow</b>	<b>470,0</b>	<b>688,2</b>	<b>1 205,5</b>	<b>966,7</b>	<b>160,8</b>	<b>211,3</b>
CIS countries	436,7	648,8	1 141,4	894,4	144,0	198,0
Kazakhstan	0,0	7,0	27,9	31,4	4,9	5,5
Russia	436,6	641,8	1 113,5	862,9	139,0	192,4
Other	0,0	0,0	0,1	0,0	0,0	0,0
Non-CIS countries	33,4	39,4	64,1	72,3	16,9	13,3
Belgium	0,0	0,1	0,5	0,5	0,2	0,1
Great Britain	0,9	0,9	1,8	1,4	0,3	0,3
Germany	0,0	0,1	0,2	0,7	0,1	1,7
USA	32,2	38,3	61,4	69,5	16,2	11,2
Other	0,1	0,0	0,2	0,3	0,1	0,0
<b>Outflow</b>	<b>39,7</b>	<b>62,7</b>	<b>67,3</b>	<b>73,6</b>	<b>14,0</b>	<b>19,1</b>
CIS countries	38,5	60,2	65,0	71,8	13,7	18,6
Kazakhstan	0,0	0,2	2,5	0,7	0,1	0,0
Russia	38,4	60,0	62,5	71,1	13,6	18,6
Other	0,0	0,0	0,0	0,0	0,0	0,0
Non-CIS countries	1,2	2,5	2,3	1,8	0,4	0,5
Belgium	0,0	0,1	0,1	0,2	0,0	0,1
Germany	0,0	0,2	0,4	0,4	0,0	0,0
USA	1,1	2,1	1,7	1,1	0,3	0,2
Other	0,1	0,1	0,1	0,1	0,0	0,1

<sup>1</sup> *Anelik, Blizko, Contact, Migom, MoneyGram, Western Union, Unistream, Zolotaya Korona, Leader, Sibcontact, Bystraya Pochta, Allyur and other money transfer system and remittances via the PE "Kyrgyzpochtasy"*

\*\*preliminary data

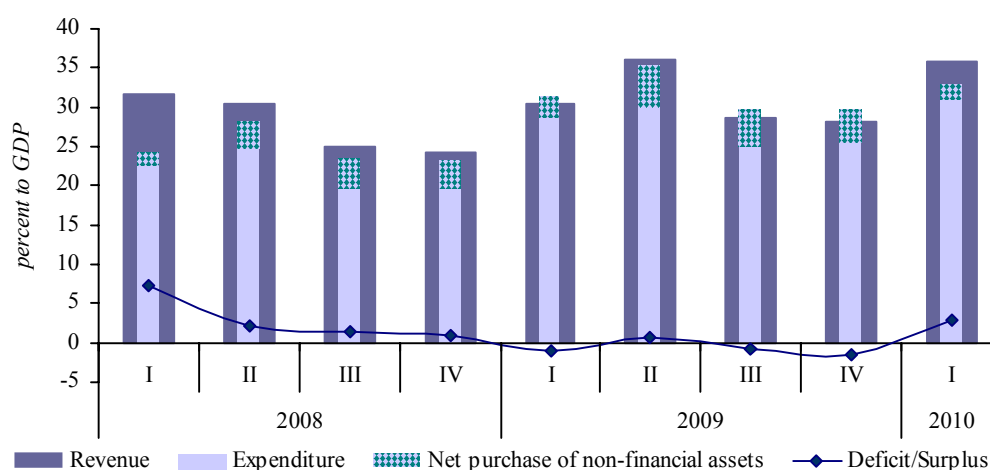
According to the preliminary data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, the state budget surplus was Som 1.1 billion or 2.8 percent to GDP in the first quarter of 2010 (in the comparable period of 2009 state budget deficit amounted to Som 352.1 million or 1.1 percent to GDP). Meanwhile, excluding the tax on Kumtor gross income which started to be levied from April 30, 2009, after adoption of the Law No. 142 *On Ratification of the Agreement on New Conditions for the Kumtor Project*, state budget was run with deficit of Som 707.2 million or 1.8 percent to GDP.

Total state budget expenditures for operating activities were Som 12.0 billion or 30.9 percent to GDP, having increased by Som 2.8 billion or 2.2 p.p. to GDP against the comparable indicator for the first quarter of 2009. Increase in budget current expenditures tends to continue. For instance, expenditures for wages and contributions to the Social Fund of the Kyrgyz Republic, as well as to social benefits, accounted for 49.7 percent of total state budget expenditure for operating activities.

In the reporting period, the net outflow of funds for operations on purchases of non-financial assets amounted to Som 792.8 million and that was by 10.4 percent lower as compared to the first quarter of 2009.

State budget revenue and received official transfers amounted to Som 13.9 billion or 35.8 percent to GDP. Compared to this parameter of the corresponding period of the previous year, the growth amounted to 41.9 percent. In this case, the positive growth rates for state budget revenue were mainly due to receipt of the Kumtor gross income tax in the amount of Som 1.8 billion.

**Chart.1.1.2. State budget implementation**  
(year-to-date)



In January to March 2010, the volume of investments in fixed assets increased by 19.8 percent against the comparable period of the previous year and made Som 4.7 billion. The volume of investments in fixed assets out of internal financing increased by 1.4 times. In the first quarter of 2010, the highest share of investments in fixed assets fell on branches of manufacture and electric power, gas and water distribution (22.2 percent) as well as on transport and communication (20.5 percent).

**Table 1.1.4. Investments in fixed assets by sources of financing**

	mln. Som		percent to total	
	Jan-Mar 2009	Jan-Mar 2010	Jan-Mar 2009	Jan-Mar 2010
<b>Total</b>	<b>3 715,1</b>	<b>4 699,5</b>	<b>100,0</b>	<b>100,0</b>
<b>Domestic investment</b>	<b>2 680,0</b>	<b>3 863,5</b>	<b>72,1</b>	<b>82,2</b>
State budget (including emergency funds)	483,8	101,4	13,0	2,1
Local budget	31,9	50,1	0,9	1,1
Funds of enterprises and organizations	820,1	869,2	22,1	18,5
Bank credit	5,5	905,3	0,1	19,3
Population assets	1 338,7	1 937,5	36,0	41,2
<b>Foreign investment</b>	<b>1 035,1</b>	<b>836,0</b>	<b>27,9</b>	<b>17,8</b>
Foreign credit	776,5	535,1	20,9	11,4
Foreign direct investment	181,6	230,7	4,9	4,9
Foreign grants and humanitarian aid	77,0	70,2	2,1	1,5

Source: NSC



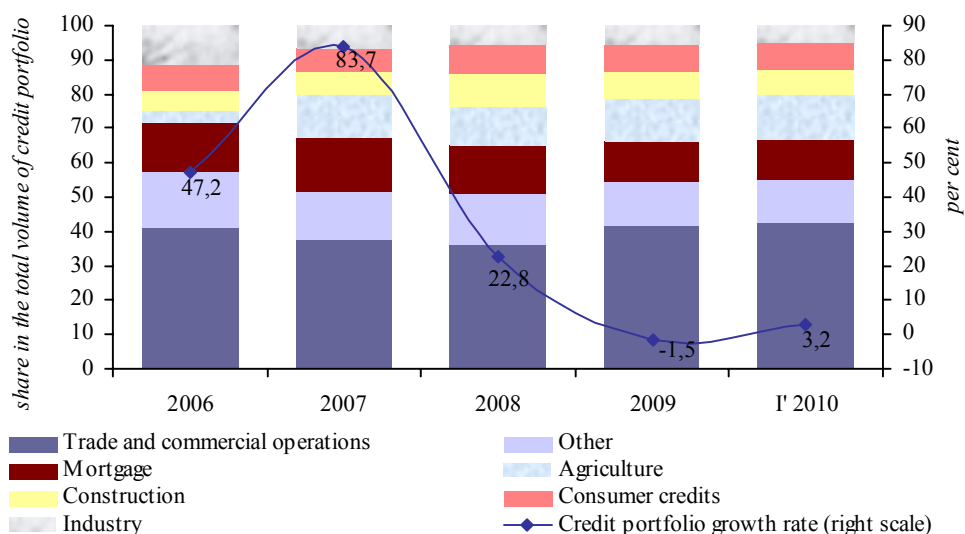
The volume of commercial banks' credit portfolio increased by 3.2 percent (in 2009 the growth of similar indicator amounted to 0.6 percent) to make Som 26.0 billion as of the end of March 2010. The budding revitalization of economy in the country and the region was the main reason for increase in loans.

**Table 1.1.5. Sectoral commercial bank loan portfolio allocation**

	Jan-Mar 2009		2009		Jan-Mar 2010	
	total, <i>mln.som</i>	rate of growth, <i>percent</i>	total, <i>mln.som</i>	rate of growth, <i>percent</i>	total, <i>mln.som</i>	rate of growth, <i>percent</i>
Trade and commercial operations	9 352,1	1,3	10 457,7	13,2	11 099,3	6,1
Agriculture	3 056,1	4,1	3 084,3	5,1	3 338,0	8,2
Industry	1 551,5	5,9	1 388,8	-5,2	1 378,3	-0,8
Mortgage	3 576,6	-0,5	3 087,9	-14,1	2 997,0	-2,9
Construction	2 559,1	5,3	1 950,3	-19,8	1 971,7	1,1
Consumer credits	1 945,8	-8,2	2 028,0	-4,3	1 962,8	-3,2
Other	3 726,4	-2,7	3 217,4	-16,0	3 268,4	1,6
<b>Credit portfolio</b>	<b>25 767,5</b>	<b>0,6</b>	<b>25 214,3</b>	<b>-1,5</b>	<b>26 015,6</b>	<b>3,2</b>

**Chart 1.1.3. Sectoral commercial bank loan portfolio allocation**

(end of period)



### 1.1.2. Supply

As it was marked, the major contribution to GDP growth in January to March 2010 was made by processing industry, construction, and transport and communication. The volume of total supply of goods and services was provided by the products of processing industry (20.7 percent), trade (16.5 percent of GDP total volume) as well as by transport and communication sectors (by 12.3 percent) and agriculture (by 10.5 percent).

**Table 1.1.6. Contributions to growth/reduction in GDP**

	Jan-Mar 2009		Jan-Mar 2010	
	rate of growth, percent	contribution, p.p.	rate of growth, percent	contribution, p.p.
<b>Gross Domestic Product</b>	<b>-1,3</b>	<b>-1,3</b>	<b>16,4</b>	<b>16,4</b>
Gross added value	-1,3	-1,1	16,4	14,2
Agriculture, hunting & forestry	1,8	0,2	2,4	0,3
Mining industry	10,6	0,1	-5,1	0,0
Processing industry	-18,8	-2,9	104,7	11,6
Electricity, gas, and water generation and distribution	-22,3	-0,7	16,5	0,5
Construction	-15,6	-0,5	35,1	1,0
Trade, repair	4,2	0,8	0,9	0,2
Hotels and restaurants	4,5	0,1	2,4	0,0
Transport and communication	12,9	1,3	4,9	0,6
Financial activity	9,6	0,1	4,4	0,0
Real estate transactions, rent	4,2	0,2	1,4	0,1
Public administration	4,1	0,2	-1,0	-0,1
Education	1,2	0,1	-0,2	0,0
Health and provision of social services	-0,4	0,0	-0,2	0,0
Provision of utility and personal services	-0,4	0,0	-3,7	-0,1
Net tax on products	-1,3	-0,2	16,4	2,2

Source: NSC

In the first quarter of 2010, physical volume index of industrial production amounted to 178.8 percent against 80.8 percent in the first quarter of 2009. Growth of industrial production was marked both for enterprises dealing with developing the *Kumtor* gold-ore field and for enterprises not engaged in gold extraction. For instance, in January to March 2010, the growth of industrial production excluding *Kumtor* enterprises made 143.8 percent..

The increase in the volume of industrial products was achieved due to a considerable growth in metallurgic production and in metallic finished-product output (by 2.6 times), other nonmetallic mineral products (by 4.1 times), textile and clothing manufacture (152.2 percent), food industry (112.8 percent) as well as in production of electric power, gas and water (116.5%).

In the reporting period, the turnover of trading operations increased by 0.6 percent, to a far greater degree due to the increase in the volumes of wholesale trade (by 0.5 percent) and retail trade (by 1.2 percent).

**Table 1.1.7. Dynamics and structure of trade operations**

	Jan-Mar 2009		Jan-Mar 2010	
	share, percent of the total	rate of growth, percent	share, percent of the total	rate of growth, percent
<b>Trade</b>	<b>100,0</b>	<b>104,1</b>	<b>100,0</b>	<b>100,6</b>
Trade in cars and their spare parts	3,5	107,8	3,6	99,8
Car maintenance	0,5	110,6	0,5	110,9
Retail trade in motor oil	6,4	129,6	7,8	96,8
Wholesale trade	36,8	101,4	36,0	100,5
Retail trade	52,5	102,0	51,8	101,2
Repair of household appliances	0,2	106,6	0,2	92,2

Source: NSC

## 1.2. Monetary trends

### Monetary base

Monetary base decreased by 4.2 percent in the first quarter of 2010 (in the first quarter of 2009 the decrease was 14.3 percent) and made Som 39.4 billion as of April 1, 2010; the year-on-year monetary base decreased by 32.9 percent.

In the first quarter of 2010, the monetary base changed (by Som -1.7 billion), to a far greater degree, due to the National Bank's operations that decreased the monetary base by Som 2.1 billion, whereas the Government's operations increased the monetary base by Som 426.3 million (in the first quarter of 2009, the monetary base decrease made Som 5.4 billion; meanwhile, the National Bank's operations decreased the monetary base by Som 5.5 billion, whereas the Government's operations increased the monetary base by Som 89.9 million).

In the first quarter of 2010, the money in circulation decreased by 3.4 percent (in the first quarter of 2009, the decrease made 16.3 percent) to make Som 34.5 billion as of April 1, 2010. Year-on-year, the increase in money circulation made 33.9 percent.

As of the end of March 2010, in the structure of monetary base, the share of money in circulation increased from 87.0 to 87.7 percent as compared to early-2010. Correspondingly, the share of funds on correspondent accounts of commercial banks in the National Bank decreased from 13.0 to 12.3 percent.

### M2 Aggregate

M2 money supply was Som 42.8 billion as of April 1, 2010, and decreased by 1.7 percent in the first quarter of 2010 (in the first quarter of 2009 the reduction of M2 was 17.5 percent). Year-on-year, growth of M2 money supply was 35.7 percent

A decrease in the volume of the M2 monetary aggregate was caused by the decrease in currency in hands by 3.9 percent and an increase in deposits in national currency by 6.2 percent, including the increase in the volume of other deposits (time deposits) by 16.5 percent and of transferable (demand deposits) by 0.8 percent.

## M2X Aggregate

Having decreased by 1.4 percent in the first quarter of 2010, the volume of M2X broad money, comprising the deposits in foreign currency, was Som 56.3 billion as of April 1, 2010, (in the similar period of 2009, the reduction of M2X was 15.1 percent); by contrast, year-on-year M2X broad money increased by 37.0 percent.

A change in M2X broad money in the first quarter of 2010 resulted from the 3.9 percent decrease in money in hands and the 2.3 percent increase in the total volume of deposits<sup>1</sup>; meanwhile, deposits in national currency increased by 6.2 percent, and those in foreign currency decreased by 0.5 percent (in the first quarter of 2009, the change in M2X was observed due to the decrease in currency in hands by 16.3 percent and the decrease in the total volume of deposits by 13.3 percent).

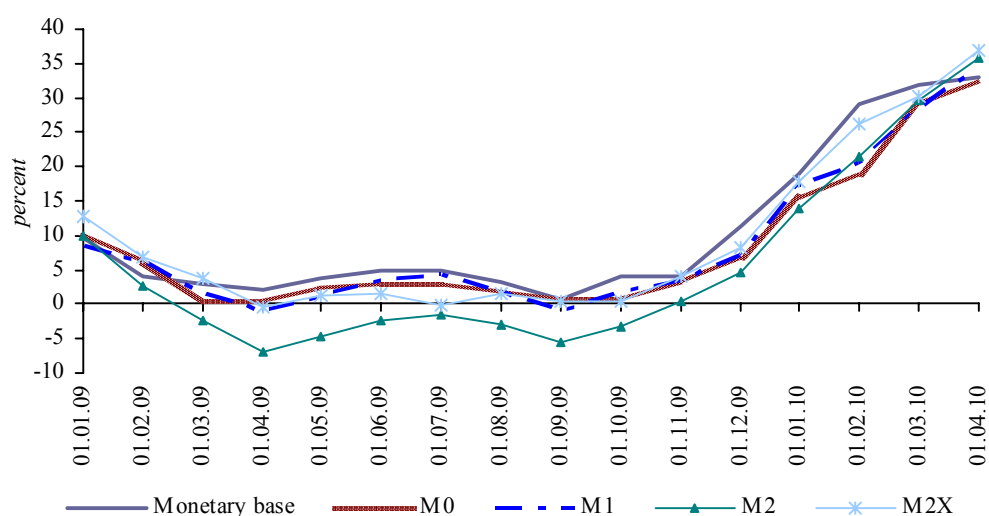
As compared to the early in 2010, the M2X currency mix changed as follows as of end-March 2010:

- the share of currency in hands decreased from 59.3 to 57.8 percent;
- the share of deposits in national currency increased from 16.8 to 18.1 percent;
- the share of deposits in foreign currency increased from 23.9 to 24.1 percent.

The multiplier of M2X broad money, as an indicator of financial intermediation degree, increased compared to the beginning of the year and was 1.431 as of April 1, 2010 (1.391 as of January 1, 2010).

Velocity of M2X broad money circulation remained unchanged year-to-date and amounted to 4.2 percent as of April 1, 2010. The monetization of the economy coefficient, calculated based on M2X monetary aggregate, kepted unchanged as well, being 23.9 percent as of April 1, 2010.

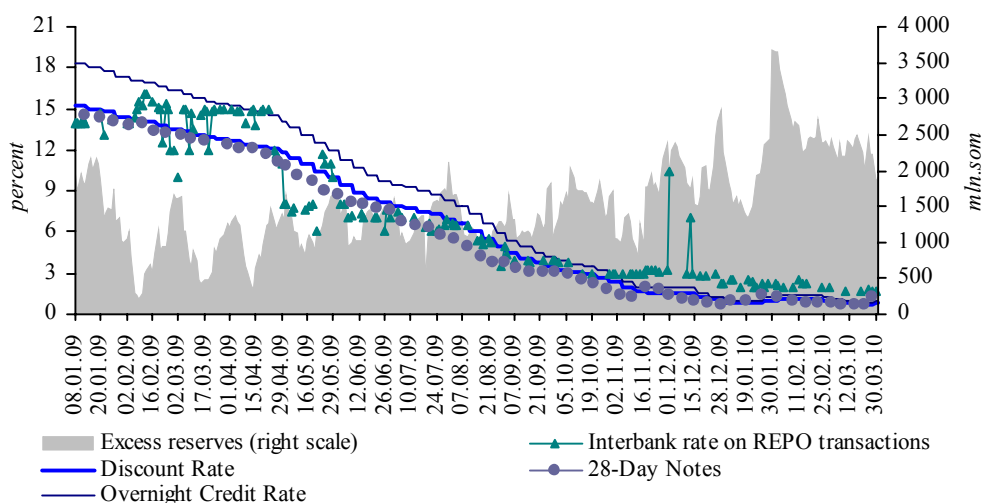
**Chart 1.2.1. Annual nominal growth rates of monetary aggregates**



<sup>1</sup> According to the banking system analytical data sheet, the deposits comprise only the deposits of individuals and legal entities, as well as the deposits of other finance and credit institutions, with the Government deposits and the deposits of nonresidents excluded.

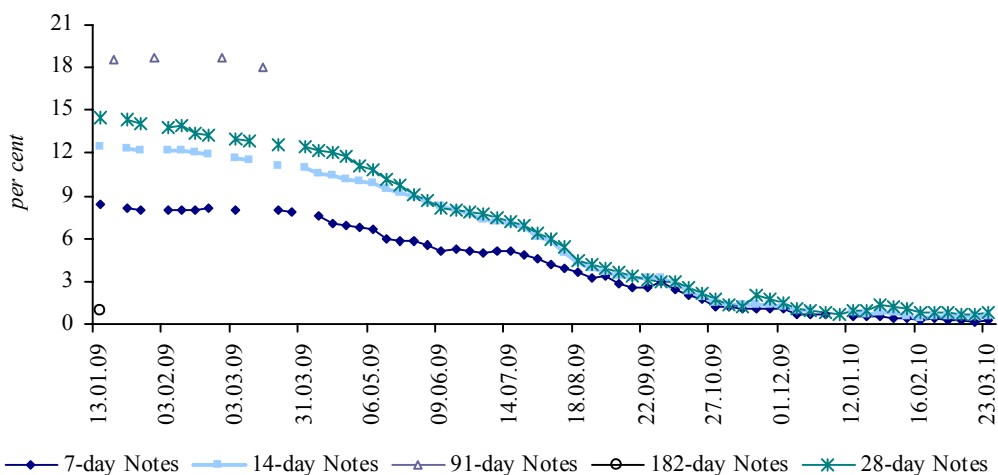
In the first quarter of 2010, the financial market situation, as before, was formed under the influence of fluctuations in the level of excess reserves in commercial banks. Given the high liquidity in banks, the demand for public securities remained high, while for the inter-bank borrowed funds it decreased.

**Chart 1.2.2. Dynamics of money market rates**



In January to March 2010 the National Bank continued to use NBKR notes as a monetary policy tool for withdrawal of excess liquidity from the banking system, having remained the volumes of their sales unchanged. At the same time, the demand for notes fluctuated subject to change in the level of liquidity in some commercial banks. As a result, the dynamics of notes' yield was multidirectional during the reporting period. However, a decrease in the yield of all segments of this market was observed as a whole. Weighted average yield of the 7-day notes decreased by 0.9 pp against the yield of the fourth quarter of 2009 down to 0.4 percent; as to the NBKR 14-day notes, it decreased by 0.9 pp down to 0.6 percent, and for segment of the 28-day notes it decreased by 0.7 pp down to 1.0 percent. Against the comparable period, the yield of the NBKR 7-day notes decreased by 7.6 pp, that of the 14-day notes decreased by 11.3 pp, and as to the 28-day notes, the yield decreased by 12.6 pp. Auctions for placement of the 91- and 182-day NBKR Notes were not conducted.

**Chart 1.2.3. Dynamics of the yield of NBKR notes**

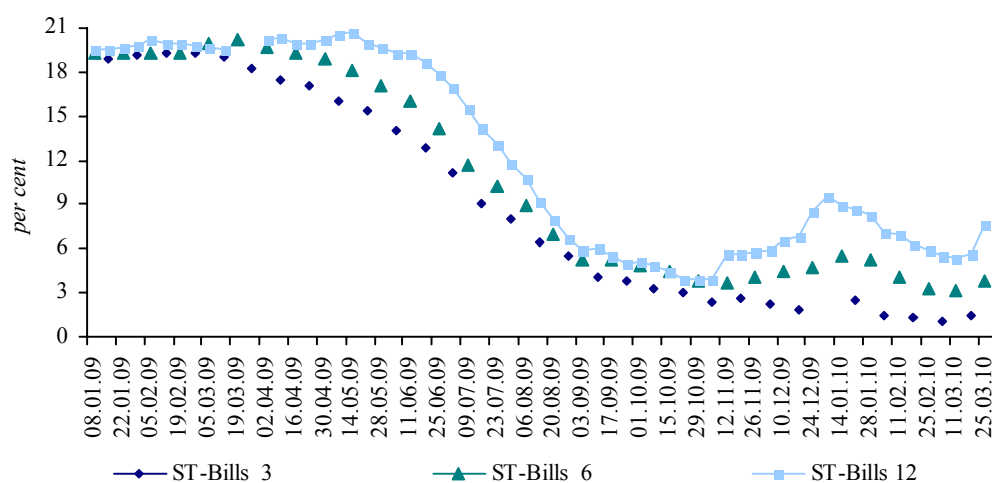


The discount rate defined as the average value of yield of the 28-day NBKR notes, which had developed at the recent four auctions, remained almost the same to make 0.9 percent as of end-March. The rate for overnight credits made 1.0 percent as of the end of the period. In the reporting quarter the National Bank issued the overnight credits to banks for the total amount of Som 550.0 mln with average rate of 1.0 percent.

In the first quarter, the Ministry of Finance maintained the volumes of weekly ST-Bonds supply unchanged. However, the interest in these securities remained still low on the part of investors, and there were no more than 6 participants at the auctions. At the same time, the leave of one of the major market participants caused a decrease in overall demand for ST-Bonds. Nevertheless, during the whole quarter the ST-Bonds yield was increasing. As a whole for January to March 2010, ST-Bonds were placed for the amount of Som 285.7 million with weighted average yield of 12.0 percent (+2.9 p.p.).

The emitter slightly reduced the volumes of ST-Bills placement in the primary market of ST-Bills, whereas the demand for them increased considerably compared to the previous quarter. As a result, the ST-Bills yield was decreasing during the whole quarter. Only late in March there was some decrease in the demand due to fluctuations of liquidity in individual banks; this caused an insignificant growth of ST-Bills in this period. As compared to the indicator of the previous quarter, the overall weighted average yield of ST-Bills was higher by 0.8 p.p. for the period to make 5.8 percent, which was conditioned by a considerable increase in the ST-Bills yield (in particular, that of the 12-month ST-Bills) late in 2009. For instance, yield of the 3-month ST-Bills decreased by 0.9 p.p. to make 1.7 percent, the 6-month ST-Bills decreased by 0.1 p.p. down to 4.2 percent, and average yield of the 12-month ST-Bills increased from 5.8 to 7.0 percent. The overall level of the ST-Bills yield decreased by 13.5 p.p. against this indicator in the comparable quarter of 2009; the decrease in the yield was observed in all market segments.

**Chart 1.2.4. Dynamics of yield of ST-bills**



Commercial banks activity in the inter-bank market of credit resources remained not high due to the remaining unchanged high liquidity level in banks. All transactions in national currency were concluded in the segment of REPO-operations; their rates

continued to decrease mainly under the impact of change in the discount rate and in the rates in other segments of monetary market. In the first quarter of 2010, the overall amount of REPO operations decreased by 38.6 percent against the similar indicator for the previous quarter and amounted to Som 1 290.3 million, while their weighted average rate decreased by 1.3 p.p. down to 2.1 percent.

In the segment of operations in foreign currency, there was concluded one transaction with 1.0 percent rate in the internal inter-bank credit market; this was 2.7 p.p. lower than the weighted average value of this indicator for the previous quarter.

In the reporting quarter, the NBKR did not conduct auctions for ST-Bills(s) sales on REPO terms and through swap operations with commercial banks. Commercial banks did not place funds on time deposit accounts in the NBKR.

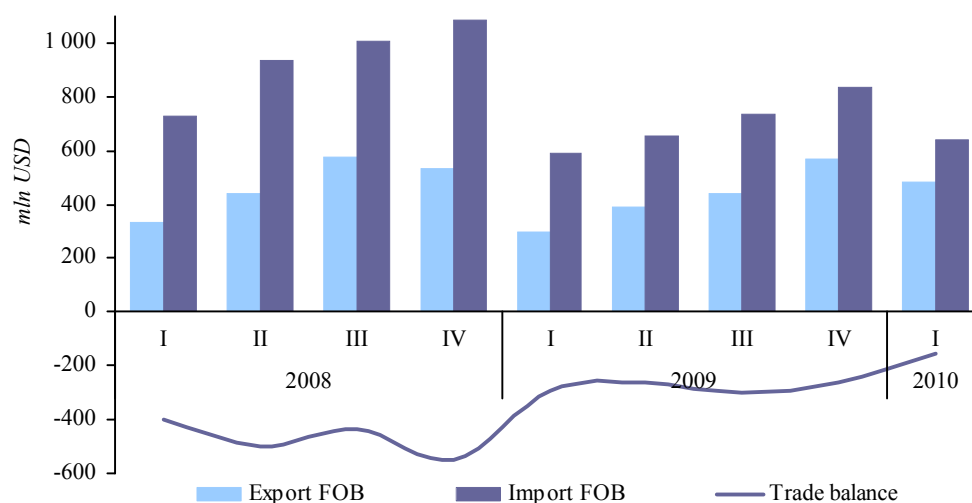
### 1.3. External economic conditions

#### Trade Balance

Pursuant to the preliminary data, trade balance deficit of the Kyrgyz Republic decreased by 46.5 percent as compared to the net export in the first quarter of 2009 and made US\$ 156.4 million.

The external sales<sup>1</sup> volume amounted to US\$ 1 124.8 billion in the first quarter of 2010, having thus exceeded by 26.2 percent the sales turnover in the first quarter of 2009. Main contribution to the growth of commodity turnover was provided by export transactions, the volume of which increased by US\$ 184.8 million in the reporting period (by 61.7 percent), whereas import at FOB prices increased by US\$ 49.1 million (by 8.3 percent). The commodity turnover with the CIS countries increased by 11.3 percent and constituted US\$ 526.2 million and the with the non-CIS countries - by 43.2 percent and constituted US\$ 598.6 million.

Chart 1.3.1. Foreign trade



<sup>1</sup> NSC KR and SCC KR data including NBKR adjustments.



Export of goods (at FOB prices)<sup>1</sup> developed in the volume of US\$ 484.2 million that exceeded this parameter for the similar period of 2009 by US\$ 184.8 million. The determining factor of export transactions growth was an increase in supply of goods to the non-CIS countries by more than two times or by US\$ 182.4 million. The volume of export to the CIS countries slightly increased, by 1.7 percent or by US\$ 2.4 million.

In the reporting quarter of 2010, shares of main articles of the functional structure<sup>2</sup> of export were as follows: intermediate goods – 61.5 percent from the total export volume, raw materials – 17.4 percent, consumer goods – 13.6 percent, energy products – 5.4 percent. Export of intermediate goods increased in 2.8 times and constituted US\$ 258.4 million. In this category, 92.8 percent was provided by export of gold to the non-CIS countries. Export of gold increased mainly due to the volume growth (in 2.5 times in comparison with the corresponding index of 2009), that was related to its extremely high production volume in the fourth quarter of 2009 as well as rise in prices for gold by 1.2 times.

Export of raw materials constituted US\$ 73.1 and exceeded the corresponding rate of the fourth quarter of 2009 by 11.4 percent. The main share of raw materials export was accounted for inorganic chemicals (85.1 percent out of the total export of raw materials), their export in volume terms increased in 1.8 times in the reporting period whereas export prices decreased by 34.0 percent. Export in value terms of this type of goods increased by 20.6 percent or by US\$10.6 million. As for other types of goods in raw materials export, in particular tobacco and cotton, there was a certain decrease in volume export, whereas prices remained unchanged compared to the same period of 2009. Thus, in value terms tobacco export decreased to US\$3.1 million from US\$3.5 million in the first quarter of 2009 and cotton export constituted US\$2.0 million against US\$5.6 million in the first quarter of 2009.

As for consumer goods, the export growth reached 61.0 percent, herewith the main contribution to increase was provided by export of non-food products, the volume of which increased by 83.6 percent or by US\$16.2 million. Mainly, they include supplies of clothes and clothes accessories, that increased in value terms by 2.1 times or by US\$11.5 million. Supplies of incandescent electric lamps also increased by 95.0 percent or by US\$2.2 million, which was provided by growth of physical volume of export in 1.6 times and growth of export prices in 1.2 times.

Decrease in export prices by 54.0 percent and four-fold increase in the number of supplies determined the growth of export of mineral waters and non-alcohol beverages by 86.6 percent or by US\$0.6 million. Due to growth of physical volume of export, in the structure of food products, supplies of vegetables increased in 36.8 percent or by US\$2.8 million, milk and dairy products – by 32.6 percent or by US\$ 1.2 million. Growth of prices by 15.0 percent affected export of fruits, which decreased by 52.7 percent or by US\$1.5 million as of the end of the reporting period.

Import of energy resources in the reporting period decreased by 39.0 percent and was US\$ 22.7 million. This tendency was provided by reduction of re-export of jet fuel to

<sup>1</sup> NSC KR and SCC KR data including NBKR adjustments.

<sup>2</sup> NSC KR and SCC KR data including NBKR adjustments.



third countries by 65.5 percent or US\$21.1 million. Deliveries of diesel fuel increased in 2.1 times or by US\$3.5 million mainly due to increase in quantitative export volume.

In geographic structure of goods export, non-CIS countries prevailed (79.9 percent from the total export), including UAE (50.6 percent), USA (11.3 percent), Switzerland (8.4 percent). The share of CIS countries constituted 20.1 percent out of the total export, including Russia (9.5 percent), Kazakhstan (6.4 percent) and Uzbekistan (2.4 percent).

Import of goods<sup>1</sup> at FOB prices was US\$ 640.6 million in the first quarter of 2010, against US\$ 591.5 million in the first quarter of 2009.

Import from the CIS countries was reduced by 12.1 percent, and from the non-CIS countries - by 42.7 percent. Accumulation of import cost was due to increased inflow of goods from CIS countries (by 15.3 percent or US\$ 50.9 million), whereas import from non-CIS countries decreased (by 0.7 percent or US\$ 1.9 million).

In accordance with the functional structure<sup>2</sup>, the main goods categories of import transactions included energy products (32.8 percent out of the total import volume), consumer goods (30.3 percent) and intermediate goods (19.2 percent).

Import of energy resources in the first quarter of 2010 increased by 33.9 percent and was US\$ 228.1 million. Import of jet fuel and diesel fuel increased by US\$28.0 and US\$12.5 million correspondingly, which was provided by growth of prices for these types of fuel and increase in physical import volume. Due to the price factor, supply of automobile gasoline increased by 27.7 percent or by US\$11.6 million, whereas quantitative import supplies decreased by 21.4 percent. Growth of physical volume of export in 3.7 times provided increase in supplies of stone coal by US\$9.6 million. Reduction of cost volume of natural gas import by 30.0 percent (or by US\$9.6 million) against the first quarter of 2009 was provided due to decrease in contract prices by 20.0 percent and reduction of physical volume by 13.2 percent.

Cost of imported consumer goods in the first quarter of 2010 constituted US\$210.5 million, exceeding the rate of the corresponding period of 2009 by 3.1 percent. Due to considerable reduction of the number of imported automobiles and growth of prices for them in 1.5 times, the import cost for this category of goods decreased by 52.7 percent or US\$16.1 million. Import of clothes and accessories decreased by 37.1 percent or by US\$7.6 million. Due to reduction of physical volume of supplies, import of coffee, tea, cocoa and products, made of them, also decreased (by 28.0 percent or US\$3.0 million), vegetable oil (by 6.6 percent or US\$0.6 million), cigarettes (by 52.0 percent or US\$2.9 million), rice (by 54.5 percent or US\$3.4 million), margarine and combined fats (by 42.0 percent or US\$1.5 million). Import of medical supplies increased by 46.0 percent or by US\$6.5 million due to growth of prices and supplies number. Growth of quantitative import affected cost volumes of meat and meat products, fruits and nuts, which increased in 2.5 and 1.7 times correspondingly. Growth of import prices for

---

<sup>1</sup> CIF import including the adjustments totaled US\$ 695.0 million, the deficit of balance of trade – US\$ 210.8 million.

<sup>2</sup> According to NSC KR and SCC KR.

sugar by 49.4 percent and increase in physical volume of supplies by 17.4 percent provided increase in cost volume of import of sugar by 75.3 percent or by US\$6.4 million.

As for intermediate goods, the volume of import constituted US\$133.4 million, which is lower than the index of the corresponding period by 6.4 percent. Import of the goods group “raw iron and steel” decreased by 17.1 percent or by US\$3.9, which was provided by decrease in quantitative index. Due to more considerable reduction of the price index by 24.0 percent and inconsiderable reduction of quantitative index by 7.6 percent, import of fabrics decreased by 29.8 percent or by US\$3.4 million. Increase in physical volume of supplies provided growth of cost volume of rubber tires supply (by 32.7 percent or US\$1.9) and fertilizers supply (in 2.1 times or US\$4.0 million).

Main goods of import nomenclature include cereals and inorganic chemicals. In the reporting period, import of cereals decreased by 40.4 percent or by US\$ 8.2 million due to reduction of prices by 32.0 percent as well as decrease in physical volume of supplies by 12.4 percent. Import of inorganic chemicals increased by 40.1 percent or by US\$4.4 million due to increase in the supplies number.

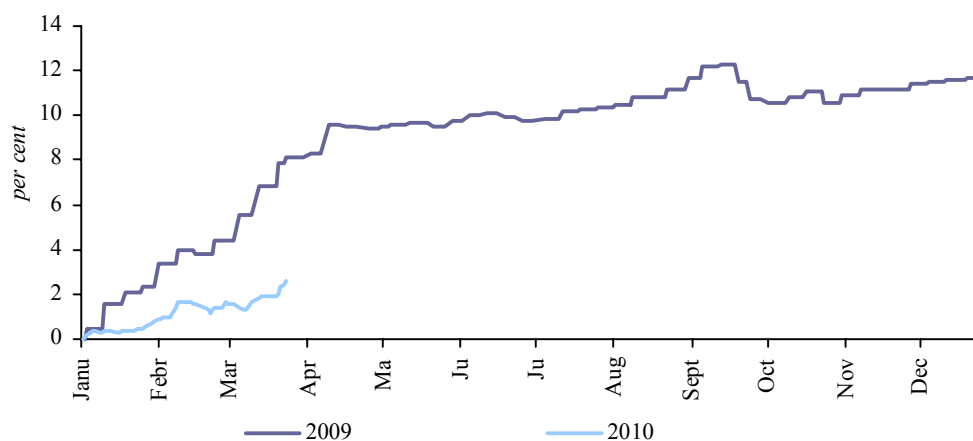
In accordance with preliminary results of the first quarter of 2010, in geographical structure of import CIS countries prevailed; their share constituted 59.4 percent out of the total import, which strengthened position of this group of countries by 3.6 percentage points. Remaining 40.6 percent were provided by supply of goods from non-CIS countries. Main partner-countries of the Kyrgyz Republic with regard to import transactions were Russia (37.8 percent out of the total import), China (16.3 percent), Kazakhstan (11.1 percent), Uzbekistan (4.6 percent) and USA (4.5 percent).

#### **1.4. Exchange rate**

In January-March 2010, on the foreign exchange market there was a tendency for strengthening of USD. The main factor, influencing the foreign currency exchange rate dynamics was the ratio between demand and supply on the market, formed in the conditions of currency inflow reduction and remaining high demand for US dollars. Moreover, some influence was caused by external factors, including exchange rate dynamics of the pair USD/EUR on the world markets, where strengthening of USD was noted against negative events in the Eurozone. With the view of maintaining stability of the national currency, the National bank of the Kyrgyz Republic conducted US dollar sale and purchase operations at the inter-bank foreign exchange sales. For the first quarter the sales by the NBKR of US dollars increased in 1.6 times, amounting to US\$ 54.2 million, while the volume of operations on purchase of US dollars was US\$ 1.8 million and it is below the level of the similar index for the fourth quarter by 81.6 percent (in comparison with the corresponding quarter of 2009, the volume of NBKR transactions on sale decreased by 64.4 percent and on purchase by 74.1 percent).

As of the end of March, the USD discount rate constituted 45.2203 KGS/USD, having increased from the beginning of the year by 2.6 percent (as per results of the first quarter of 2009, the USD discount rate constituted 42.6295 KGS/USD, having increased by 8.2 percent within the quarter).

**Chart 1.4.1 Rates of change of an official rate of US dollar**



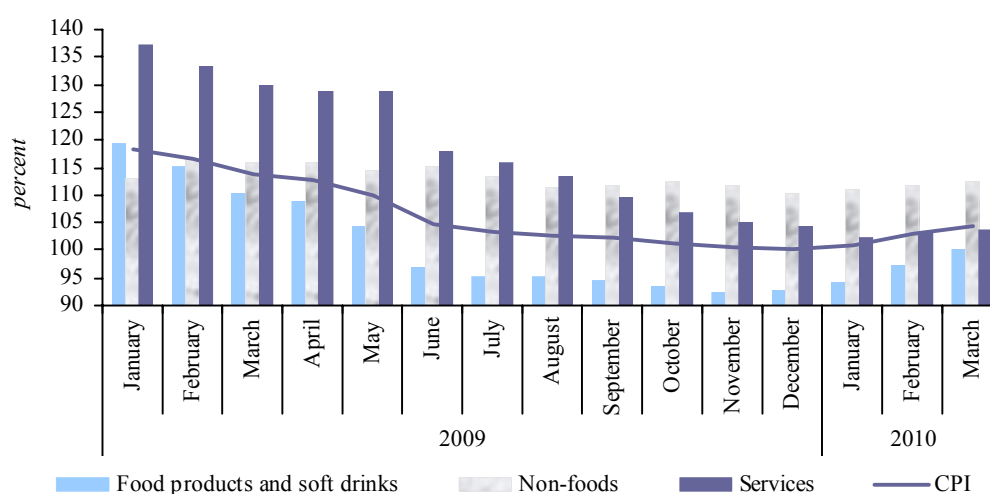
The dynamics of the rate of Euro formed, as before, on impact of its exchange rate dynamics against US dollar on the foreign markets. During the whole quarter, the EUR exchange rate in exchange offices as decreasing against its weakening on international markets, which was mainly provided by problems in Greece. In general, within the quarter the EUR selling rate decreased by 5.3 percent and constituted 60.6436 KGS/EUR as of the end of March.

## Chapter 2. Inflation and its components

### 2.1. Consumer price index development <sup>1</sup>

In the first quarter of 2010, CPI inflation reached 4.8 percent (in the first quarter of 2009 growth was 0.4 percent). The consumer price index of food products increased by 5.5 percent, strong drinks and tobacco products - by 0.7 percent, nonfood products - by 6.3 percent, and paid services - by 2.0 percent. Main reasons for the price dynamics included increase in tariffs for electric and heat energy from the beginning of 2010 and rise in some food prices due to both seasonal factors (for instance, fruits and vegetables) as well as influence of world prices growth (sugar).

Chart 2.1.1 Annual CPI and its components



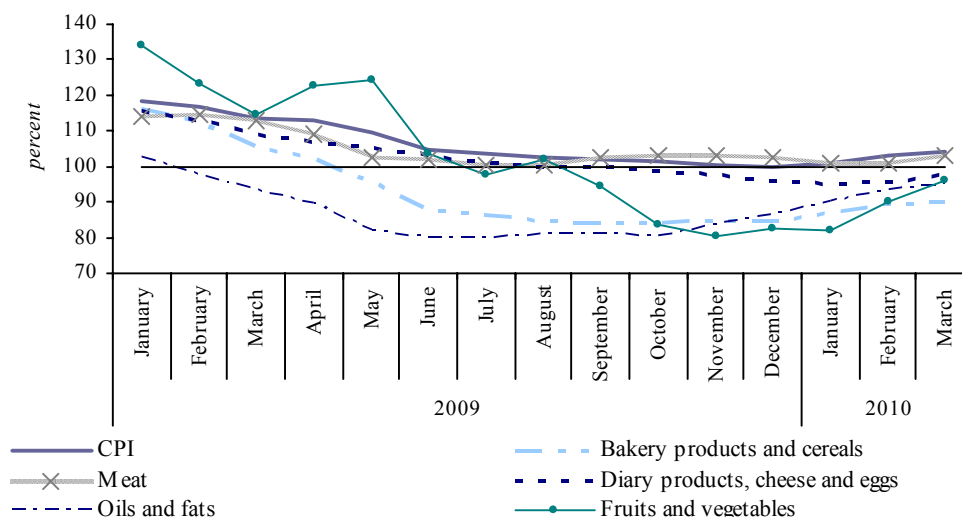
Annual inflation (March 2010 against March 2009) constituted 4.3 percent, whereas in the corresponding period of the past year it was 13.6 percent. Price index for food products and non-alcohol beverages in annual terms remained unchanged. As for other groups of products, there was a price growth: the highest rise in prices was noted for non-food products (14.2 percent); prices for alcohol beverages and tobacco products increased by 5.0 percent, for paid services – by 3.6 percent.

#### 2.1.1. Food products

In general, price situation in the domestic market was highly fluctuate. As of March 2009, prices for food products remained at the level of March 2009 (growth of prices in March 2009 constituted 10.3 percent). However, there was a decrease in prices for bakery products and cereals (-9.8 percent), light wheat flour went down by 19.3 percent, prices for oils and fats decreased by 5.1 percent and for bakery products – by 4.0 percent. One of the main factors for dynamics of prices for bakery products included high carryovers of wheat and high expectations of wheat crop in the current year (about 1.0 million tons).

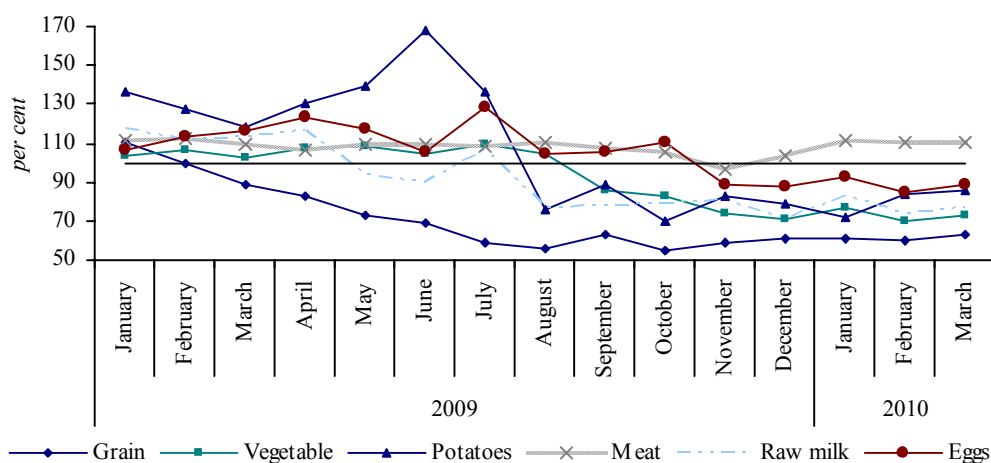
<sup>1</sup> In accordance with data of the National Statistics Committee of the Kyrgyz Republic

Chart 2.1.2 Annual dynamics of food prices



In the first quarter of 2010, producer prices for agricultural products decreased for almost all types of products in comparison with the similar index of the previous year. Thus, producer prices for grain decreased in annual terms by 11.3 percent, for vegetables – by 27.6 percent, for potato – by 14.5 percent and for eggs – by 11.3 percent. However, there was increase in prices for meat by 10.4 percent.

Chart 2.1.3 Annual dynamics of the producer price index of agricultural products



On the consumer market there was a decrease in prices for flour products. Thus, year-on-year price index for bread, bakery products and cereals decreased by 9.8 percent (in the corresponding period of 2009, the increase constituted 5.9 percent), herewith bread went down by 7.5 percent. First- and high-grade flour prices declined sharply by 19.3 and 15.8 percent correspondingly.

In the first quarter there was a considerable increase in prices for fruits-and-vegetables (by 19.7 percent), due to the seasonal factor: of which fruit grew in price by 5.2 percent and vegetables – by 28.4 percent. However, in annual terms prices for fruits decreased by 9.1 percent and for vegetables – by 4.0 percent.

During January and first half of February 2010, the world price for sugar was growing. Starting from the second half of February and in March 2010, there was a slump of

sugar price and in general starting from the year of 2010, prices went down on the world market by 30.1 percent. This fact alongside with acting quotas for import of white sugar to Kyrgyzstan may have positive influence on future price dynamics on the domestic market. In general, in the first quarter of 2010, year-on-year prices for sugar increased by 55.8 percent. According to the National Statistics Committee of the Kyrgyz Republic data, an average price for the imported sugar in the first quarter of this year was US\$ 797 per a ton (+27.5 percent against the fourth quarter of 2009).

Within last 12 months on the domestic market there was an increase in prices for meat production by 3.2 percent, whereas in the corresponding period of the past year the growth constituted 13.0 percent.

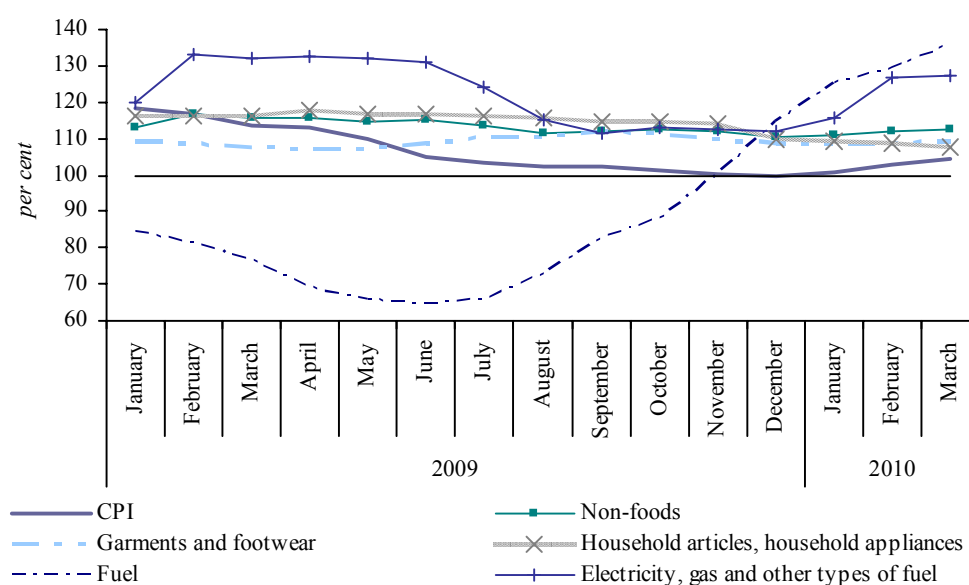
During the first quarter of 2010, there was a decrease in prices for the group “oils and fats”. As of the end of the first quarter of 2010, prices in the market of oils and fats decreased by 5.1 percent, mainly due to decrease in import prices.

As of the end of the reporting period, due to seasonal factors there was a decrease in consumer prices for dairy products by 0.7 percent, whereas in the corresponding period of the past year this group of products went down by 2.2 percent; in annual terms dairy products went down by 2.5 percent.

### 2.1.2. Non-food products

In the first quarter of 2010, growth of the nonfood price index slowed down, but remained rather high and constituted 12.4 percent (15.8 percent in the corresponding year of 2009). Since January 1, 2010, rates for electric energy, hot water and central heating had been increased. Prices of clothes and shoes increased by 9.3 percent mainly due to rise in prices for materials used for clothes production by 39.7 percent. Also there was an increase in prices for household goods and household appliances by 7.5 percent. The main reason for a such dynamics was increase in household textile prices by 25.1 percent due to the influence from import prices.

**Chart 2.1.4 Annual dynamics of non-food prices**

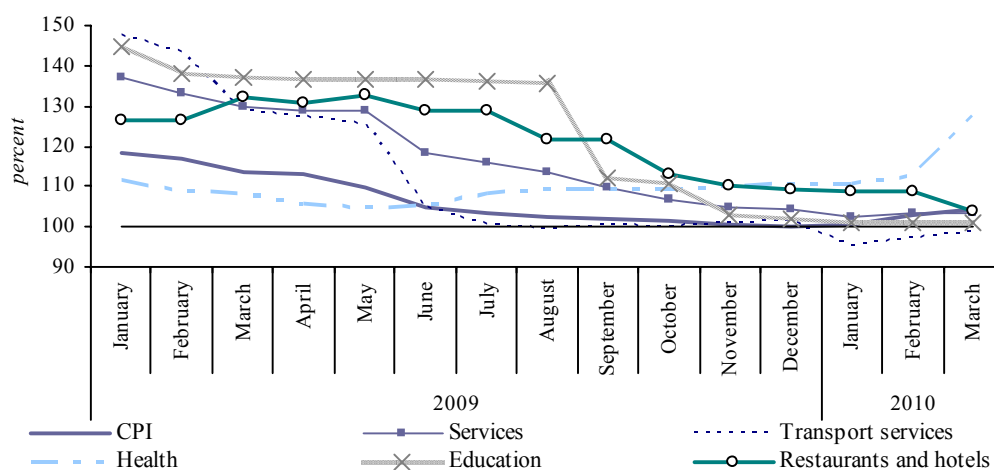


Declining trend of the world price for oil was changed into opposite and provided a pressure on prices of fuels and lubricants, imported to the republic. As of the first quarter of 2010, there was sharp rise in prices for fuels and lubricants, of which annual prices for petrol increased by 43.9 percent and for diesel fuel – by 9.5 percent. However, in the first quarter of 2010, prices for fuels and lubricants decreased by 1.8 percent, of which prices for petrol decreased by 2.9 percent and for diesel fuel increased by 4.6 percent.

### 2.1.3. Services

In the first quarter of 2010, price index of services in annual terms increased by 3.6 percent (in the first quarter of 2009 – by 29.8 percent). Growth of the index in the given group was driven, mainly, by the rise in public health services due to increased tariffs for electric energy and import prices for pharmaceuticals. Prices for transport services increased in annual terms by 2.0 percent, those of education – by 1.3 percent, restaurants and hotels – by 4.0 percent, whereas prices for communication services went down by 0.3 percent.

Chart 2.1.5 Annual dynamics of prices for paid services



### 2.1.4. Consumer prices in regions

As of the first quarter of 2010, in all oblasts of the republic there was a rise in consumer prices level. The largest increase in prices in annual terms was registered in Batken and Chui oblasts – by 13.3 and 6.0 percent correspondingly.

Main factors for growth of prices in these oblasts included the overall increase in tariffs for individual communal services and in food prices. In Batken oblast there was a continuous effect of the increase in prices for alcohol and tobacco products, having started in 2009 and caused by changes in the list of registered products due to occurring difficulties in border districts.

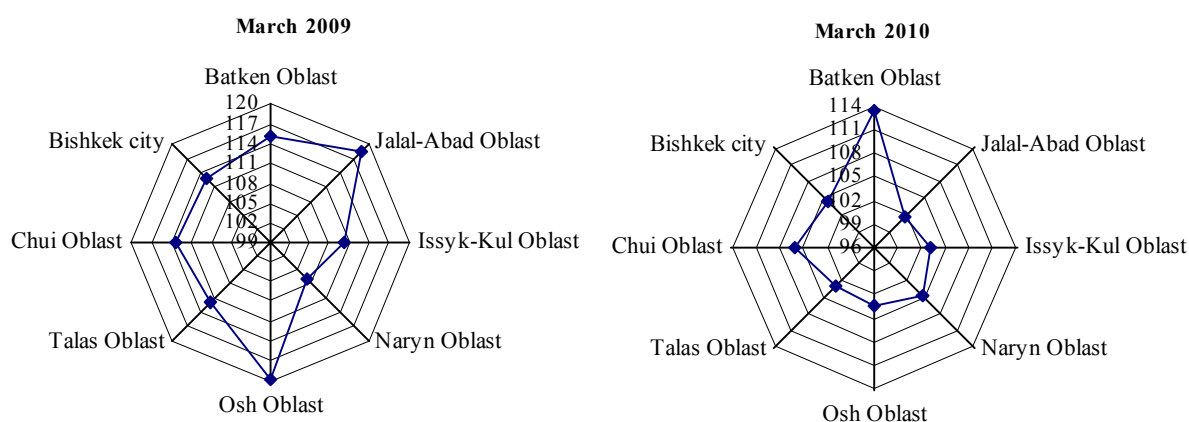
In other oblasts inflation did not exceed 5 percent. In Naryn, Osh, Issyk-Kul, Talas and Jalal-Abad oblasts consumer prices increased by 4.5 percent, 3.4 percent, 3.1 percent, 2.7 percent and 1.6 percent correspondingly.

In Bishkek there was an increase in prices by 4.2 percent; of which food prices went



down by 1.2 percent, whereas prices for alcohol beverages, non-food products and services increased by 2.7 percent, 13.9 percent and 4.0 percent correspondingly.

**Chart 2.1.6 Annual CPI in regions**



## 2.2. Core inflation

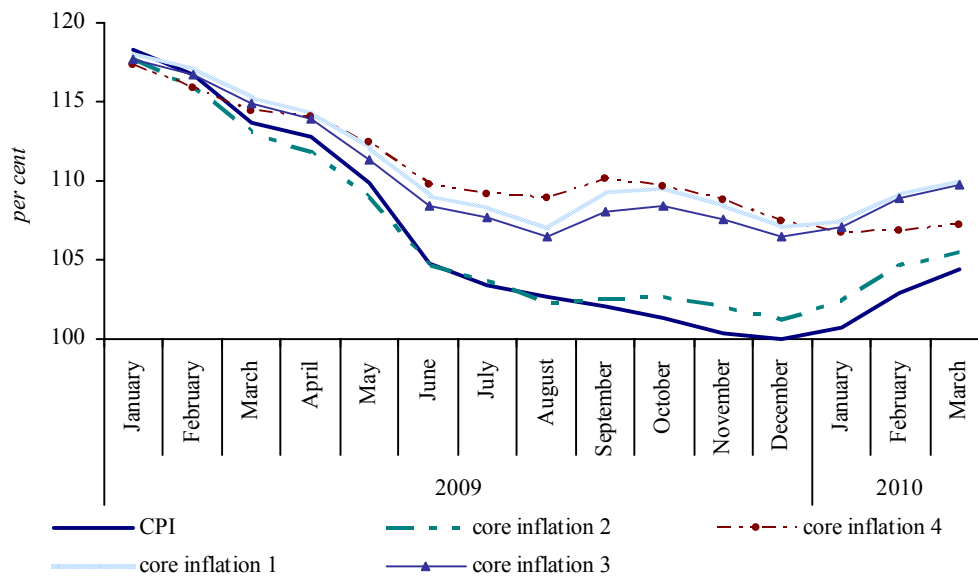
Core inflation is defined as the trend of inflation excluding short-term, structural, and seasonal changes in prices. That means that growth of prices of goods, caused by the seasonal or external factors such, as poor harvest, a price shock in the market of petroleum products, administrative changes in gas and electricity tariffs are removed from the calculation of the rate of inflation.

Dynamics of core inflation calculated by means of the method of simple exclusions is described below. This method implies the removal of categories or the whole group of goods and services, highly sensitive to shocks, from CPI. Traditionally, such goods comprise some food products, energy resources and the tariffs, administratively established by the Government.

The dynamics of core inflation in the first quarter of 2010 confirmed the fact that inflation in the republic is mainly driven by food prices, in particular for bakery products and cereals, oils and fats, and fruit and vegetables. For instance, the estimated level of core inflation 1, core inflation 3 and core inflation 4 reached on average 9.0 percent, whereas the annual CPI inflation in the first quarter of 2010 was 4.3 percent.



Chart 2.2.1 Annual dynamics of the estimated core inflation indicator



Core inflation 1 – the following types of goods are excluded: 1) bakery products and cereals; 2) oils and fats; 3) fruit and vegetables; 4) gas; and 5) materials for repair and construction.

Core inflation 2 – the following types of goods are excluded: 1) meat; 2) fruit and vegetables; 3) gas; and 4) materials for repair and construction.

Core inflation 3 – the following types of goods are excluded: 1) bakery products and cereals; 2) dairy products; 3) fruit and vegetables; 4) gas; and 5) materials for repair and construction.

Core inflation 4 - food products and electricity, gas, and other types of fuel are excluded.

## **Chapter 3. Monetary Policy Decisions of the National Bank of the Kyrgyz Republic**

### **3.1. Major decisions of the NBKR Board**

The list of basic monetary policy solutions of the Board of the National Bank of the Kyrgyz Republic taken in the first quarter of 2010 is presented below:

1. To assess the current situation and to develop the scenario for implementation of the relevant monetary policy in the short-term period, the Board of the NBKR considered and approved on February 24, 2010, the Monetary Policy Report for the period of 2009 year and Monetary Program for the following period (Resolution No 3/1). An informative subset of the document was directed to the Central Agency of the Kyrgyz Republic for Development, Investments and Innovations, the Jogorku Kenesh of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Ministry of Finance and the Ministry of Economic Regulation of the Kyrgyz Republic, as well as was placed on the official web-site of the NBKR.
2. For the purpose of enhancing efficiency in activity of the LLC «Specialized Fund for Refinancing of Banks», the Board of the NBKR took a number of decisions in conformity with clause 43 of the Law «On the National Bank of the Kyrgyz Republic» and clause 5 of the SBRF Charter.

### **3.2. Major decisions of the Monetary Policy Committee**

The Monetary Policy Committee (hereinafter referred to as the Committee) develops and takes operative decisions in the monetary sphere. The decisions are taken by the Committee weekly and are based on findings of the money market situation assessment. The volumes of operations directed to regulate liquidity in the banking system in the first quarter of 2010 were defined by the Committee proceeding from the goals and objectives determined by the Board of the NBKR and specified in the Statement of the NBKR about the Monetary Policy for 2010 and in the monetary program for the forthcoming period, as well as taking into account the state of affairs in the banking system and the situation in the fiscal sphere

In the first quarter of 2010, the Committee held 11 meetings. The decisions of the Committee were aimed at regulating liquidity in the banking system by holding weekly auctions of NBKR notes with maturity of 7, 14, 28 days, whose indicative sales were set at the rate of Som 5.5 billion.

The actual sales of NBKR Notes totaled Som 4.9 billion in the first quarter of 2010. Net NBKR sales<sup>1</sup> of US dollars in the quarter under review totaled Som 2.3 billion.

---

<sup>1</sup> The NBKR follows the floating exchange rate policy adopted by the Kyrgyz Republic.

The Monetary Policy Committee establishes the monthly base rate for the purposes of lending for the LLC “Specialized Fund for Refinancing of Banks”. The size of the interest rate of SBRF credit resources is equated to the base rate with the adjustment factor, depending on the sector of lending. For instance, in the first quarter of 2010 the base rate was remained at the level of 8.0 percent. On March 30, 2010, the base rate for the purposes of lending was left unchanged for April 2010 according to the decision of the Committee – at the level of 8.0 percent.

## Chapter 4. Inflation forecast

### 4.1. Forecast of key inflation factors developments

In accordance with forecast of the macroeconomic development of the country for 2010, published in the January Inflation Report, the economy growth was assumed to be at the level of 5.0 percent. Such forecast was based on assumptions about dynamic process of overcoming of recent crisis and general course on investment-oriented development. It was assumed that the main factors, contributing to the forecasted economic growth, would include proactive investments, mainly from the state budget, positive dynamics of economic development in the countries – main trade partners and recovery in demand, provided by rise in population's income against its weak growth in the past year. The determining role in economic growth was expected to be played by such spheres as transport and communication and trade. It was planned that considerable contribution would be made by industry and construction.

**Table 4.1.1. GDP forecast by sectors for 2010**  
(primary)

	fact				estimated data		
	in nominal prices, mln.som	in real prices, mln.som	gross value added, mln.som	real growth, percent	in real prices, mln.som	gross value added, mln.som	real growth, percent
	2009				2010		
Agriculture, hunting & forestry	43 372,8	47 395,8	3 244,9	7,3	43 806,5	433,7	1,0
Industry	29 143,7	26 596,0	-1 928,4	-6,8	31 504,9	2 361,2	8,1
Mining industry	1 232,7	1 048,8	47,1	4,7	1 294,3	61,6	5,0
Processing industry	24 577,0	22 910,3	-1 940,4	-7,8	26 543,2	1 966,2	8,0
including Kumtor	13 611,4	10 204,9	-808,6	-7,3	14 482,5	871,1	6,4
Electricity, gas, and water generation and distribution	3 334,0	2 636,9	-35,1	-1,3	3 667,4	333,4	10,0
Construction	11 235,3	10 501,4	621,1	6,3	12 527,4	1 292,1	11,5
Trade	32 205,2	31 266,4	553,8	1,8	34 781,6	2 576,4	8,0
Transport and communication	17 931,0	15 583,0	757,9	5,1	19 186,2	1 255,2	7,0
Other	40 675,1	35 793,1	587,8	1,7	41 488,6	813,5	2,0
Net tax on products	21 860,0	25 261,2	567,9	2,3	22 953,5	1 093,5	5,0
<b>GDP</b>	<b>196 423,1</b>	<b>192 396,9</b>	<b>4 405,0</b>	<b>2,3</b>	<b>206 248,7</b>	<b>9 825,6</b>	<b>5,0</b>

At present, there is a considerable uncertainty with regard to further development of the economy due to inter-political situation and vague perspectives of the economic policy of the Government of the Kyrgyz Republic in the short-term period.

According to preliminary calculations, economic growth in 2010 may reach about 2.0 percent, that will be provided mainly by industry and construction sectors. At that, growth in industry may be provided mainly by the branches, non-engaged in gold mining. Activity of such branches made a considerable contribution to the GDP growth as per results of January-April 2010. Herewith it is necessary to consider that the economy growth will mainly depend on effect of the Customs Union establishment between Russia, Belarus and Kazakhstan as well as on the situation at borders with neighboring countries.

Despite considerable growth of the economy in the first quarter due to gold mining

activity in the gold deposit “Kumtor”, in general in 2010 contribution of enterprises of such sphere is expected to be small. According to the “Kumtor Operating Company” press-release, the annual production volume of gold in 2010 is expected to be 520-560 thousand ounces against 525 ounces in 2009.

Based on the factual data, growth of gold extraction in 2010 is expected to be 6.4 percent, and that would make a contribution of 0.4 p.p. to the overall GDP growth .

As for agricultural sector, there may be some decrease in production against rich harvest of the previous year, which will negatively affect economic growth rates. Moreover, there is some uncertainty with regard to planned state projects, aimed at development of the agrarian sector and support of agricultural production manufacturers as well as increase in the economy crediting volumes.

**Table 4.1.2. GDP forecast by sectors for 2010**  
(revised)

	fact						estimated data		
	in nominal prices, mln.som	in real prices, mln.som	gross value added, mln.som	real growth, percent	gross value added, mln.som	real growth, percent	in real prices, mln.som	gross value added, mln.som	real growth, percent
	2009			Jan-Apr. 2010			2010		
Agriculture, hunting & forestry	43 372,8	47 395,8	3 244,9	7,3	129,3	2,3	42 505,3	-867,5	-2,0
Industry	29 143,7	26 596,0	-1 928,4	-6,8	4 216,0	63,0	31 467,9	2 324,2	8,0
Mining industry	1 232,7	1 048,8	47,1	4,7	97,2	34,7	1 257,4	24,7	2,0
Processing industry	24 577,0	22 910,3	-1 940,4	-7,8	3 933,1	74,6	26 543,2	1 966,2	8,0
including Kumtor	13 611,4	10 204,9	-808,6	-7,3	2 190,3	88,3	14 484,3	872,9	6,4
Electricity, gas, and water generation and distribution	3 334,0	2 636,9	-35,1	-1,3	185,7	16,3	3 667,4	333,4	10,0
Construction	11 235,3	10 501,4	621,1	6,3	465,1	32,7	12 021,8	786,5	7,0
Trade	32 205,2	31 266,4	553,8	1,8	-308,1	-3,7	32 527,3	322,1	1,0
Transport and communication	17 931,0	15 583,0	757,9	5,1	110,0	2,0	18 468,9	537,9	3,0
Other	40 675,1	35 793,1	587,8	1,7	-181,3	-1,6	41 081,9	406,8	1,0
Net tax on products	21 860,0	25 261,2	567,9	2,3	677,0	11,3	22 297,2	437,2	2,0
<b>GDP</b>	<b>196 423,1</b>	<b>192 396,9</b>	<b>4 405,0</b>	<b>2,3</b>	<b>5 108,0</b>	<b>11,3</b>	<b>200 370,3</b>	<b>3 947,2</b>	<b>2,0</b>

Considerable influence on the aggregate demand will be caused by dynamics of money transfers of labor migrants, which constitute rather high share of the GDP, being the source for consumer and investment expenditures of the population. Given some signs of economic recovery in the countries–main trade partners, an inflow of money transfers is expected, which will enable to partially compensate the decline in incomes.

Investments will mainly depend on the national investment policy and volume of available assets. At present, many projects have been implementing in the energy sector, which will help to overcome general deceleration in the economy. Maintenance and growth of investments volumes will create the basis for further economic growth influencing the aggregate demand.

Growth of import in 2010 is expected at the level of 17.0 percent, which will be provided by its low level in the previous year due to increase in domestic consumption and forecasted economy recovery in the countries–main trade partners. It is assumed that income from export will increase by about 11.7 percent.

Development of more optimistic scenario assumes quick solution of current problems in the economic policy. First of all it is necessary to restore previous border regime and trade-economic activity. Moreover, measures aimed at provision of social-political stability and capital inflow will enable to change the situation towards considerable improvement. Timely and efficient implementation of earlier planned strategic projects will enable to achieve high indices in the construction activity. Recovery of the industrial sector within the framework of this scenario is of key importance, that's why it is necessary to promote industrial sector with the help of increase in crediting of production, in particular through SFRB and allocation of funds from the state budget as well as attraction of foreign investors. If such conditions are fulfilled, the economic growth may constitute 3.0 percent in 2010.

However, there are some risks, related to unfavorable development of the situation, which may affect the sectors that are expected to provide the GDP growth. As a result the economy may go down to recession (reference: in accordance with mass media, analysts of the European Bank of Reconstruction and Development forecast GDP decrease by 0.7 percent in 2010). In particular, despite the activity on implementation of strategic projects in the energy industry, the financing of some projects this year will be performed just partially due to shortage of assets and funds and that will cause decrease in construction sphere. Insufficient growth of industry is also forecasted as a result of limited demand for production and overall decrease in business activity. There are serious threats with regard to considerable decrease in activity of the service sphere.

It is necessary to pay much attention to current retardation of the loans growth. Continuation of such tendency will decrease chances of the economy for its quick recovery. Herewith, possibilities of the state with regard to support of investment activity may be considerably limited due to current state of the economy and necessity in provision of social guarantees to the population.

As a whole, character and dynamics of economic development of the Kyrgyz Republic will be determined by general stabilization of situation in the country and economy recovery rates.

#### **4.2. Inflation forecast for 2010 and quarter II of 2010**

Uncertainty with regard to recovery rates and economy growth potential in the countries—main trade partners, as well as internal factors of uncertainty (change of the tariff policy, tightening of external trade procedures at boards with neighboring countries, introduction of export customs duty for oil and oil products, imported to the Kyrgyz Republic from the Russian Federation and many others) complicate the forecast process of macroeconomic parameters of the republic both for short- and medium-term periods.

In 2010, due to stabilization of the world economy, increasing price tendencies are expected to emerge in the markets of food products and energy sources, including increase in prices for cereals, energy carriers and sugar as well as for derivative goods. Moreover, deficit in the market of individual food products as a result of tightening of the access control regulations at borders with neighboring countries and certain worsening of trade conditions within the country create more reasons for prices volatility.

Gradual recovery of the world economy in 2010 may have an influence on the oil market through increase in demand and prices for oil, which will create pre-conditions for the rise in prices for oil products at the domestic market. Moreover, since April 1, 2010, Russia introduced export customs duties for oil and oil products, exported to the Kyrgyz Republic, which caused rise in fuels and lubricants prices at the domestic market.

In April 1, 2010, tariffs for heat and electric energy were decreased for household consumers. Probably, decrease in tariffs will have only a direct influence on the inflation level, whereas an increase in tariffs at the beginning of the year had an indirect impact as well, through the growth of producer costs in some sectors on other goods and services in the consumer goods basket.

However, such risks as decline of business activity in the country, worsening of the investment climate, possible retardation of the population's income growth and certain weakening of the aggregate demand have deterrent effect on the general inflation rate in the country.

Measures of the budget policy are other important factors that have a considerable influence on inflation and monetary policy. In 2010, government current expenditures are expected to increase that will cause growth of the budget deficit and relevant necessity in its financing. Thus, the mid-term budget policy bears certain risks for the price stability in the country.

**Wheat.** According to April forecast of the US Ministry of Agriculture, world production of wheat in 2009/10 marketing year will make 678.4 million tons, which is higher than the indices of the previous forecast. Also the forecast of wheat consumption was adjusted upward to 647.8 million tons. Thus, the final stocks of wheat will constitute 195.8 million tons in 2009/10 marketing year.

According to the Ministry of Agriculture of Kazakhstan, as of April 1, 2010, the stocks of cereals and bean crops constituted rather high at the rate of 13.0 million tons. Nowadays, Kazakhstan has the problems, related to availability of elevators as it is the time of the spring sowing campaign. Kazakhstan plans to harvest about 16.7 million tons of cereals in the current year.

**Rice.** US Ministry of Agriculture increased evaluation of the world consumption of rice for the following marketing year up to 440.8 million tons and the forecast of consumption – up to 441.5 million tons. According to the Information Agency “Reuters”, prices for rice in the Chinese and American markets increased by US\$ 4 up to US\$ 284 and US\$ 252 per a ton correspondingly.

According to preliminary data of the State Customs Committee of the Kyrgyz Republic, in March 2010, about 1.9 tons of rice was imported to the Kyrgyz Republic mainly from China at the average price of US\$ 350 per a ton.

**Sugar.** According to the Information Agency “Soyuzrossahar”, the price fore sugar at the Royal Exchange continued decreasing within the month due to increase in sugar production in India and favorable weather conditions in Brazil. Thus, the forecast of sugar production in India in the current marketing year increased from 16.8 million



tons to 18-18.5 million tons. Increase in the sugar cane yield was provided by meteorological conditions, including heavy rains, which fell in the key production regions of the country. It is planned to increase cultivation areas for sugar beat in Russia by 0.2 million hectares up to 1.0 million hectares. The British Broker House “Czarnikow Sugar” reconsidered its forecast of the world deficit of sugar towards decrease from 14.8 million tons to 12.6 million tons in the current season. The British Broker House “Czarnikow Sugar” and German Analytical Agency “F.O. Licht” forecast production overage in the next season.

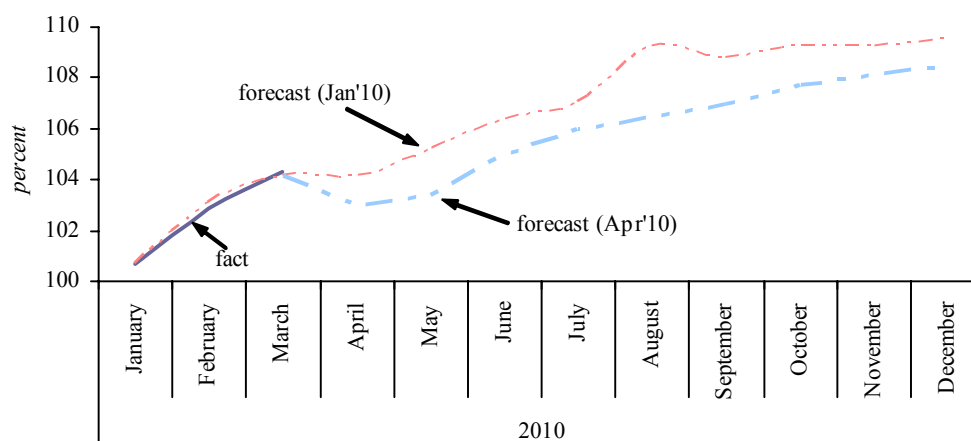
**Oil.** According to analysts of the oil market, the current range of prices fluctuation between US\$ 70-80 per a barrel will be maintained until the end of the first half of 2010. Achievement of the rate of US\$ 80-90 per a barrel, with regard to recovery of the world economy, may be possible at the end of 2010.

Forecast of the International Energy Agency with regard to the world consumption of oil in 2010 was increased in March by 70 thousand barrels per a day, which was mainly caused by increase in evaluation of oil consumption by the world economy in 2009. According to the Information Agency “Novosti”, the Organization of Petroleum Exporting Countries forecasts the growth of daily world demand for oil by 1 million barrels annually (forecast until 2020).

*Source: Reuters*

In general, considering all above-mentioned factors, forecast of the inflation rate for 2010 is maintained at the earlier determined level – in the range between 7.5 – 9.5 percent.

**Chart 4.2.1 Annual inflation forecasts**



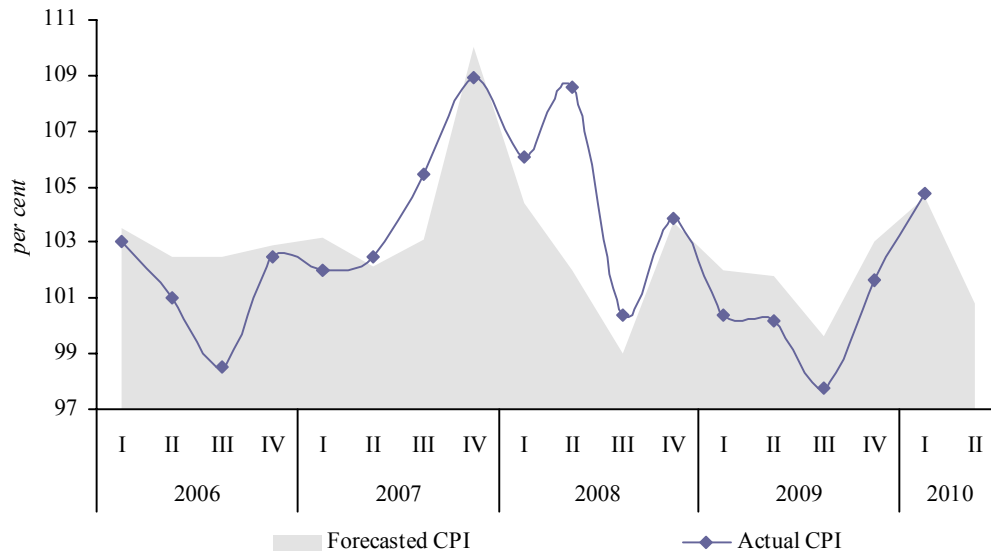
Inflation rate in the first quarter of 2010 (4.8 percent) slightly exceeded the forecasted one for that period (4.6 percent), published in the January Inflation Report. At that, in January and February the actual inflation rate was within the range of the forecasted level; but in March inflation rate exceeded the forecasted level.

In the second quarter of 2010, it is assumed that the situation on the consumer market will be formed under the influence of the following factors: decrease in tariffs for electric



and heat energy from April 1, 2010; growth of prices for fuels and lubricants due to change of trade conditions with the Russian Federation and continuous influence of seasonal factors, mainly on the part of fruits-and-vegetables and meat-and-milk products. As a result, growth of prices in the second quarter of 2010 is expected at the rate of 0.8 percent.

**Chart 4.2.2 Inflation forecast for quarter II of 2010**



Another index of the price dynamics in the economy – the GDP deflator – is forecasted to be 10.5 percent in 2010.

## Statistical Annex

**Table 1. Consumer Price Index**

(month against corresponding month of the past year, percent)

	2010		
	January	February	March
<b>Consumer Price Index</b>	<b>101,3</b>	<b>102,5</b>	<b>101,0</b>
<b>Goods</b>	101,4	102,8	101,0
<b>Food products and soft drinks</b>	102,0	101,9	101,5
<b>Strong drinks and tobacco products</b>	100,1	100,2	100,4
<b>Nonfoods</b>	100,9	104,8	100,6
<b>Services</b>	100,4	100,7	100,8
Food products and soft drinks	102,0	101,9	101,5
Bakery products and cereals	99,4	99,8	99,4
high-grade wheat flour	99,6	99,5	99,8
first-grade wheat flour	99,4	99,7	99,4
bread	100,0	101,0	100,0
Meat	101,1	101,3	102,3
Fish	102,4	103,2	100,3
Diary products, cheese and eggs	100,9	99,9	98,4
Oils and fats	101,0	100,1	100,5
Fruits and vegetables	104,4	108,4	105,7
fruits	102,1	101,6	101,4
vegetables	105,8	112,3	108,0
Sugar, jam, honey, chocolate and candies	108,4	101,7	101,4
sugar	113,6	102,4	101,7
other food products	98,1	100,3	100,1
Soft drinks	100,9	100,7	101,8
Strong drinks and tobacco products	100,1	100,2	100,4
Strong drinks	100,2	100,2	100,7
Tobacco products	100,0	100,0	100,0
Garments and footwear	100,4	100,7	100,4
Garments	100,5	100,9	100,6
fabric for garments	103,8	107,5	100,1
garments for men	100,4	100,7	100,0
garments for women	100,4	100,9	101,1
children and newborns garment	100,2	100,2	100,2
Cleaning, mending and renting garments	100,4	101,1	105,3
footwear including repair	100,2	100,2	100,0
men footwear	100,2	100,4	98,3
women footwear	100,0	100,1	102,7
children footwear	100,6	100,2	96,7
shoe repair	100,0	100,2	100,0
Housing services, water, electricity, gas and other fuels	103,0	118,3	100,6
rent of dwelling	100,0	100,0	100,4
material for maintenance and repair of living houses	97,9	99,0	100,2
electricity, gas and other types of fuel	103,9	122,1	99,6
gas	100,7	100,1	100,7
Household articles, household appliances	100,1	100,5	100,4
furniture and floor coverings	100,1	100,3	100,1
household textile items	100,0	100,0	100,1
home appliances	100,0	100,1	100,3
glassworks, tablewares and household stuff	100,3	100,6	100,0
Health	100,3	102,4	113,4
Transport	98,5	100,2	99,7
purchase of cars	100,3	100,5	100,5
petrol and lubricants	97,7	99,5	101,0
gasoline	97,4	99,4	100,3
diesel	99,7	99,7	105,3
transport services	98,4	100,2	99,5
Communication	100,0	99,7	100,0
Recreation, entertainment and culture	100,0	100,8	100,3
cultural events services	100,0	103,9	100,4
papers, books and stationary	100,0	100,0	100,1
Education	99,6	100,5	100,0
Restaurants and hotels	100,3	100,4	100,0
catering	100,3	100,3	100,0
hotel service	100,2	101,6	100,3
Various goods and services	103,0	101,9	101,9
Personal service	103,4	102,1	102,2

Source: NSC KR

**Table 2. Consumer Price Index**  
(month against corresponding month of the past year, percent)

	2010 год		
	January	February	March
<b>Consumer Price Index</b>	<b>100,7</b>	<b>102,9</b>	<b>104,3</b>
<b>Goods</b>	100,6	103,1	104,7
<b>Food products and soft drinks</b>	94,3	97,5	100,0
<b>Strong drinks and tobacco products</b>	105,1	105,2	105,0
<b>Nonfoods</b>	110,9	111,8	112,4
<b>Services</b>	102,4	103,3	103,6
Food products and soft drinks	94,3	97,5	100,0
Bakery products and cereals	86,6	89,3	90,2
high-grade wheat flour	78,1	82,2	84,2
first-grade wheat flour	74,3	79,2	80,7
bread	90,2	91,8	92,5
Meat	100,9	100,9	103,2
Fish	103,1	105,6	105,1
Diary products, cheese and eggs	94,8	95,5	97,5
Oils and fats	90,2	93,2	94,9
Fruits and vegetables	82,2	90,0	96,0
fruits	88,5	89,4	90,9
vegetables	76,3	87,7	96,0
Sugar, jam, honey, chocolate and candies	126,2	129,7	132,1
sugar	146,4	152,0	155,8
other food products	99,2	99,9	100,5
Soft drinks	112,1	112,3	113,5
Strong drinks and tobacco products	105,1	105,2	105,0
Strong drinks	107,1	107,2	107,0
Tobacco products	101,2	101,1	101,0
Garments and footwear	108,7	108,9	109,3
Garments	110,3	110,5	110,6
fabric for garments	153,5	160,1	139,7
garments for men	110,6	110,5	110,2
garments for women	109,1	109,4	110,3
children and newborns garment	108,0	107,6	108,0
Cleaning, mending and renting garments	107,2	107,9	113,5
footwear including repair	105,7	105,8	106,7
men footwear	105,9	106,2	106,0
women footwear	106,6	106,7	110,2
children footwear	104,2	104,4	101,6
shoe repair	112,9	108,5	106,9
Housing services, water, electricity, gas and other fuels	113,7	122,4	124,1
rent of dwelling	101,0	100,7	100,4
material for maintenance and repair of living houses	106,9	103,2	103,6
electricity, gas and other types of fuel	115,6	126,6	127,2
gas	158,5	102,2	102,9
Household articles, household appliances	109,1	109,0	107,5
furniture and floor coverings	105,2	105,4	104,4
household textile items	140,9	140,0	125,1
home appliances	102,6	102,5	101,9
glassworks, tablewares and household stuff	108,2	108,0	106,0
Health	110,4	112,4	127,5
Transport	98,9	100,4	102,0
purchase of cars	110,7	108,5	105,3
petrol and lubricants	125,4	129,2	135,8
gasoline	134,9	137,0	143,9
diesel	94,4	101,7	109,5
transport services	95,5	97,1	98,7
Communication	100,0	99,7	99,7
Recreation, entertainment and culture	111,3	109,4	108,8
cultural events services	116,7	119,9	120,0
papers, books and stationary	117,6	115,8	115,6
Education	101,0	101,3	101,3
Restaurants and hotels	108,8	108,9	104,0
catering	108,4	108,5	103,3
hotel service	118,3	119,6	118,9
Various goods and services	110,2	109,4	110,6
Personal service	110,2	110,6	112,4

Source: NSC KR

Table 3. Indices of prices and physical import volume for January-February 2010

<i>Наименование товара</i>	<i>2 month</i>	<i>2 month</i>	<i>2 month</i>	<i>Indices</i>		
	<i>2010</i>	<i>2010</i>	<i>2010</i>	<i>physical</i>		
	<i>million USD</i>	<i>million USD</i>	<i>million USD</i>	<i>Price</i>	<i>volume</i>	<i>Cost</i>
	<i>n10*p10</i>	<i>n10*p09</i>	<i>n09*p09</i>	A/B	B/C	A/C
	A	B	C			
Oil, oil products and similar materials	101,7	69,1	79,4	1,47	0,87	1,28
Natural gas	14,9	19,5	24,1	0,77	0,81	0,62
Raw iron and steel	14,4	13,6	15,0	1,06	0,91	0,96
Medical supplies (including veterinarian drugs)	11,7	11,9	8,9	0,98	1,34	1,32
Meat and meat products	10,8	11,0	5,6	0,99	1,95	1,93
Sugar, sugar products and honey	10,8	7,9	7,1	1,38	1,10	1,52
Inorganic chemicals	10,4	1,6	4,4	6,37	0,37	2,36
Fruits and vegetables	8,0	8,0	5,6	1,00	1,44	1,44
Elevators and conveyors of continuous-running	7,9	0,6	0,6	14,21	1,00	14,21
Coffee, tea, cocoa, spices and similar products	7,0	5,7	7,2	1,24	0,78	0,98
Coal, coke and briquettes	6,8	6,3	1,0	1,09	5,97	6,53
Essential oils, resinoids and perfume substances	6,8	8,6	6,9	0,79	1,25	0,99
Cereals including spelt and mangcorn, unmilled	6,4	10,5	11,9	0,61	0,88	0,54
Paper, cardboard and products, made of them	5,7	6,3	5,4	0,90	1,17	1,06
Fabrics, made of artificial textile materials	5,4	6,4	6,1	0,84	1,05	0,88
Rubber tires	5,2	3,8	3,9	1,37	0,99	1,35
Vegetable oils and fats	5,1	5,1	6,4	1,00	0,81	0,81
Machines for sorting, grating and separation of coat, stone and ores	4,5	4,1	3,6	1,09	1,13	1,23
Electrical line telephone or telegraph devices	4,4	5,7	5,1	0,76	1,12	0,86
Shoes with soles and uppers, made of rubber or synthetic materials	4,3	5,2	3,4	0,83	1,51	1,25
Fertilizers	4,1	6,0	2,0	0,69	3,05	2,09
Products, made of imperfect metals, not included into another category	3,9	1,8	4,1	2,12	0,45	0,96
Automobiles for cargo transportation and automobiles of special designator	3,7	2,6	3,7	1,42	0,71	1,01
Electric transformers	3,7	1,0	0,4	3,75	2,23	8,38
Food products and products, non-included into another category	3,1	4,2	3,1	0,74	1,38	1,03
Alcoholic beverages	3,0	2,1	2,6	1,46	0,80	1,17
Compressed or restored wood	2,6	2,8	2,6	0,91	1,11	1,01
Automobiles and transportation means for transportation of people	2,5	2,5	1,7	1,00	1,49	1,48
Mineral water and nonalcoholic beverages, sweetened with sugar	2,5	2,1	2,0	1,15	1,07	1,24
Wood of coniferous trees, sawn	2,3	2,3	2,3	0,98	1,02	1,00
Products of cereals, flour or starch	2,3	2,6	2,3	0,87	1,13	0,98
Plastic materials in initial form	2,2	1,4	1,4	1,56	1,01	1,58
Rice	2,2	2,0	5,4	1,09	0,37	0,40
Plastic materials in non-initial form	1,9	1,9	1,3	0,98	1,46	1,42
Constructions and elements of raw iron constructions, not included into the category of precious metals	1,9	1,9	3,0	0,98	0,65	0,64
Equipment for automatic data processing	1,8	1,3	1,0	1,38	1,27	1,75
Medical and pharmaceutical production	1,8	2,0	2,6	0,93	0,75	0,70
Refrigerators and deep-freeze refrigerators	1,8	1,5	0,0	1,14	36,76	41,78
Power shovel, diggers and payloaders	1,7	0,2	0,1	9,59	1,27	12,15
Margarine and combined fats	1,7	1,3	2,2	1,25	0,59	0,74
Coloring and tanning substances	1,5	1,1	1,3	1,46	0,83	1,21
Trousers, one-piece garments, breeches and briefs for women	1,5	1,4	1,3	1,12	1,07	1,20
Milk, cream and dairy products, except for butter and cheese	1,5	1,5	1,7	1,04	0,85	0,89
Pottery wares	1,5	1,2	2,3	1,24	0,53	0,65
Jackets, pullovers, cardigans, knitted or jersey clothes	1,5	1,3	1,4	1,10	0,93	1,03
<b>Total by nomenclature (million USD)</b>	<b>310,5</b>	<b>260,9</b>	<b>263,3</b>	<b>1,19</b>	<b>0,99</b>	<b>1,18</b>
<b>Total by nomenclature (% out of the total import)</b>	<b>74%</b>		<b>66%</b>			
<b>Total import</b>	<b>417,1</b>		<b>401,5</b>			

According to NSK in CIF prices, the largest 45 import articles are provided

n - physical volume of goods export

p - estimated import price of goods

**Table 4. Indices of prices and physical export volume for January-February 2010**

<i>Name of goods</i>	<i>2 month</i>	<i>2 month</i>	<i>2 month</i>	<i>Indices</i>		
	<i>2010</i>	<i>2010</i>	<i>2010</i>			
	<i>million USD</i>	<i>million USD</i>	<i>million USD</i>	<i>Physical</i>		
	<i>n10*p10</i>	<i>n10*p09</i>	<i>n09*p09</i>	<i>Price</i>	<i>volume</i>	<i>Cost</i>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>A/B</b>	<b>B/C</b>	<b>A/C</b>
Non-monetary gold	142,6	107,9	26,7	1,32	4,05	5,35
Inorganic chemicals	29,9	46,9	33,9	0,64	1,38	0,88
Oil, oil products and similar materials	13,2	13,4	24,1	0,99	0,56	0,55
Fruits and vegetables	6,6	7,9	7,0	0,84	1,12	0,94
Milk, cream and dairy products, except for butter and cheese	3,6	4,9	2,4	0,72	2,08	1,50
Incandescent lamps	3,1	3,4	1,4	0,91	2,48	2,27
Blouses and jackets	3,0	2,9	2,4	1,05	1,19	1,25
Cotton	1,9	1,9	4,0	1,00	0,46	0,46
Knitted or jersey garments for women and girls	1,7	2,9	0,1	0,59	20,25	11,91
Dresses	1,6	1,2	0,6	1,27	2,01	2,55
Raw tobacco; tobacco markings	1,4	1,6	1,6	0,93	0,99	0,92
Trousers, one-piece garments, breeches and briefs for women	1,3	1,3	0,7	1,01	1,97	1,98
Leg wear garment, knitted	1,2	1,1	0,1	1,07	12,59	13,42
Cheese and curd	1,0	1,5	1,3	0,71	1,15	0,82
Paper, cardboard and products, made of them	0,8	0,8	0,8	0,96	1,02	0,98
Skirts, divided skirts	0,8	0,8	0,5	0,92	1,55	1,42
Automobiles for cargo transportation and automobiles of special designation	0,7	0,2	0,4	4,03	0,40	1,61
Trousers, one-piece garments, breeches and briefs for men	0,7	0,6	0,3	1,09	1,84	2,01
Animals	0,7	1,0	0,6	0,64	1,67	1,07
Mineral water and nonalcoholic beverages, sweetened with sugar	0,6	1,5	0,4	0,41	3,73	1,54
Butter and other oils and fats, made of milk	0,6	1,0	0,2	0,57	4,46	2,53
Coats, car coats, wraps, raincoats and similar goods	0,5	0,5	0,3	1,15	1,68	1,93
Lead	0,5	0,3	0,0	1,67	21,55	36,02
Stone, sand and gravel	0,5	0,5	0,5	1,03	0,91	0,93
Scrap metal and iron industry residues	0,5	0,5	0,4	0,92	1,12	1,04
Refrigerators and deep-freeze refrigerators	0,5	0,6	0,3	0,72	1,97	1,41
Hand and machine tools	0,4	0,1	0,2	6,09	0,40	2,42
Rice	0,4	0,3	0,1	1,16	4,78	5,57
Rubber tires	0,4	2,0	0,6	0,20	3,20	0,65
Silver	0,4	0,2	0,0	2,21	4,74	10,50
Scrap metals and base metals residues	0,4	1,3	0,0	0,28	43,66	12,39
Food products and products, non-included into another category	0,4	0,3	0,3	1,13	1,18	1,34
Cotton fabric	0,4	0,4	0,1	0,91	7,64	6,93
Products of cereals, flour or starch	0,3	0,4	0,3	0,79	1,24	0,98
Sugar, sugar products and honey	0,3	2,5	0,0	0,12	99,60	11,47
Other mineral raw materials	0,3	0,0	0,1	24,14	0,10	2,35
Oil grains and oil fruits	0,2	0,8	0,0	0,29	62,86	18,25
Products, made of imperfect metals, not included into another category	0,2	0,1	0,4	1,74	0,31	0,54
Wool and other animal hair, including tops	0,2	1,3	0,1	0,16	19,41	3,14
Other shoes with upper, made of textile materials	0,2	0,2	0,5	1,31	0,32	0,42
Electric transformers	0,2	0,3	0,1	0,72	1,92	1,37
Fabrics, made of artificial textile materials	0,2	0,2	0,3	1,02	0,66	0,67
Shoes with soles and uppers, made of rubber or synthetic materials	0,2	0,2	0,0	0,92	6,11	5,62
Costumes and outfits for men	0,2	0,1	0,1	1,39	1,36	1,89
Bed-clothes, table-clothes, towels	0,2	0,2	0,1	0,96	2,59	2,48
Automobiles and transportation means for transportation of people	0,2	0,1	0,2	1,22	0,88	1,07
Coat of cattle and raw stock	0,2	0,2	0,2	0,94	1,02	0,97
<b>Total by nomenclature (million USD)</b>	<b>225,2</b>	<b>218,3</b>	<b>114,9</b>	<b>1,03</b>	<b>1,90</b>	<b>1,96</b>
<b>Total by nomenclature (% out of the total export)</b>	<b>93%</b>		<b>89%</b>			
<b>Total export</b>	<b>241,8</b>		<b>128,7</b>			

According to NSK in FOB prices, the largest 47 export articles are provided

n - physical volume of goods export

p - estimated import price of goods

## Glossary

**Core inflation** is inflation excluding short-term, structural and seasonal changes of prices. That is, excluded from the calculation of the inflation factor are growth of prices of goods, caused by seasonal or external factors (such as: the bad crop, the price shock in the market of oil products, administrative changes in tariffs for gas and electricity, etc.).

NBKR calculates the core inflation behavior by the method of simple exclusions. The given method means the exclusion from the CPI of specific categories or the whole group of goods and services, whose prices are highly sensitive to shocks. Traditionally, some food products, energy resources and tariffs administratively established by the Government are referred to such goods.

**Discount rate** is the tool used as the basic reference point when determining the value of monetary resources in the economy. The size of the discount rate is equal to the average value of the yield of 28-day NBKR Notes for the recent 4 auctions on placement of NBKR Notes.

**Futures** (futures contract) is the agreement on purchase/sale of some asset in the specified amount in the fixed time interval at the price stipulated today. When concluding the future contract, the two parties are involved: the buyer and the seller. The buyer undertakes to buy the asset within the period stipulated, and the seller - to sell within the same period.

**GDP deflator** is composite index of the economy branches prices, characterizing GDP with regard to growth of prices in the economy. GDP deflator is calculated as the proportion between nominal GDP in prices of the current year against GDP rate of the previous year.

**Inflation** represents the increase in the general level of consumer prices in the economy. The consumer price index is used to quantitatively estimate the rate of inflation. The CPI shows the change in the price level for the goods and services purchased by the population for non-productive consumption. In the calculations of the price index of buyers of selected 342 goods and services is applied and the size of the sample makes 45 thousand prices a month of 1496 trading enterprises and spheres of services in seven city and two regional centers.

**Monetary aggregate** is the money supply classified according to degrees of liquidity: M0; M1; M2; M2X.

**M0** – currency in hands.

**M1** – M0 + demand deposits in national currency.

**M2** – M1 + time deposits in national currency.

**M2X** – M2 + deposits in foreign currency.

**Monetary base** is money in circulation + deposits of financial institutions with the NBKR in national and foreign currencies.

**Money in circulation** – the money in circulation less cash held in NBKR.

**Non-financial assets** include the following categories of economic assets: fixed assets, stocks of tangible current assets, values and non-produced assets (natural and intangible assets).

**Notes** are the Government short-term securities, issued by the NBKR for the term of 7, 14, 28, 91 and 182 days through the weekly auctions. The yield is defined depending on the supply and the demand among the commercial banks. The goal of conducting the auctions of notes is the withdrawal of liquidity in national currency from the banking system.

**“Overnight” credit** is given in national currency for one day, for collateral, for maintenance of short-term liquidity of the bank. Government securities of the Kyrgyz Republic placed through the NBKR, with the date of redemption up to 12 months from the date of delivery of the overnight credit are accepted as collateral. The interest rate is set at the rate of 1.2 of the NBKR discount rate. The credit is used on the initiative of the commercial bank.

**Producer price index** measures the average changes in the sales prices got by the local producers for their output. Information, used in the PPI calculations, is collected from 148 enterprises, which represent almost each branch in the industrial sector of the economy. The list of enterprises combines those most typical for the given industry, characteristic for the given region, and irrespective of patterns of ownership.

**Renewable State Treasury Bills for settlement** are the coupon securities with maturities of 3, 6 and 12-months, issued by the Ministry of Finance as a result of restructuring the debt of the Government of the Kyrgyz Republic to the NBKR. The renewable nature of these securities means the following: on the day of redemption of ST-Bills(s) in the NBKR portfolio, the Ministry of Finance simultaneously with the redemption issues new series of ST-Bills(s) in favor of in number equal to the number of sinking securities.

**Repo Operation** – purchases (direct repo)/sales (reverse repo) of government securities with the obligation to sell them back / purchase of a specified date in the future at a predetermined price.

**SPOT** – transaction is the stock exchange transaction on sale and purchase of the good on hand on the conditions of its immediate transfer.

**Spot transaction** is the stock exchange transaction on sale and purchase of the good on hand on the conditions of its immediate transfer.

**State budget operating expenditures** are all of the operations, which lead to the reduction in the net value of assets of the government sector, except for the operations on purchase of non-financial assets.

**State Treasury Bills** are the short-term (3-, 6-, 12-month) discount government securities of the Government of the Kyrgyz Republic. The Ministry of Finance is the issuer of ST-Bills. Issues of ST-Bills are placed weekly and through the NBKR auctions. Direct participants (primary dealers, finance and credit institutions, which concluded the contract with the NBKR) enjoy the right of participation in the auctions. Owners of ST-Bills of the Kyrgyz Republic could be both the legal entities and the individuals. The admission of foreign investors to the market of ST-Bills is not limited. The transactions in the secondary market of ST-Bills are conducted through the electronic trading system of the NBKR, which allows the primary dealers and their clients to conduct the ST-Bills purchase/sale operation from their workplaces.

**State Treasury Bonds** are the long-term government securities of the Government of the Kyrgyz Republic with the interest income (coupon) and maturity over 1 year. The issuer of ST-Bonds is the Ministry of Finance. The NBKR is the general agent servicing issues of ST-Bonds.

**Swap operations** – operations on the exchange of funds in national currency in the amount equivalent to the amount in foreign currency or, on the contrary, to the obligation of the reverse exchange of principal amounts and accrued interest on the stipulated conditions.



## Abbreviations

CIF	Cost, Insurance, Freight
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
FOB	Free on Board
GDP	Gross Domestic Product
ST-Bills	State Treasury Bills
ST-Bills(s)	State Treasury Bills for settlement
ST-Bonds	State Treasury Bonds
ST-Bonds(s)	State Treasury Bonds for settlement
KR	Kyrgyz Republic
LLC	Limited Liability Company
NBKR	National Bank of the Kyrgyz Republic
NCOSH	Non-Commercial Organizations Serving Households
NFCI	Non-Finance and Credit Institutions
NSC	National Statistics Committee
OPEC	Organization of Petroleum Exporting Countries
POL	Petroleum, Oil, Lubricants
PPI	Producer Price Index
SCC	State Customs Committee
SFRB	Specialized Fund for Refinancing of Banks
USA	United States of America