



КЫРГЫЗ БАНКЫ

Monetary Policy Report. Q2 2024

**Bishkek
August 2024**

Monetary Policy Report is released by the National Bank on a quarterly basis. The objective of this Report is to inform the public about the decisions made by the National Bank in the sphere of monetary policy, which are based on analysis and forecast of the main inflation factors and assessments of the economic situation development in the external environment and in the Kyrgyz Republic.

Monetary policy in the Kyrgyz Republic

The objective of the monetary policy is to achieve and maintain price stability through appropriate monetary policy.

The policy rate of the National Bank is the main instrument of the monetary policy. In 2014, the National Bank moved to a new monetary policy framework - when the National Bank policy rate serves as a target for the funds value in the money market - to improve and increase the effectiveness of the monetary policy. The short-term interest rates of the money market are the operational goal of the monetary policy. The purpose of the aforementioned movement is to strengthen the impact of the interest rate channel of the monetary policy, aimed at development of the inter-bank credit market and support for the real sector of economy.

Quantitative benchmark of the monetary policy is to keep inflation rate within 5-7 percent in the medium term. Development and implementation of the monetary policy is carried out within the framework of the Main Directions of the Monetary Policy for the medium term.

Monetary policy of the National Bank is focused on the future, as the decisions made in the field of the monetary policy affect the key macroeconomic indicators of the country with a certain lag. Development of the monetary policy is based on the inflation forecasts for the short and medium term, resulting from consistent and economically reasonable forecast of the economic situation development in the Kyrgyz Republic and in the external environment.

Communication policy is among the main instruments of the monetary policy conducted by the National Bank. The National Bank regularly issues press releases and holds press conferences on the monetary policy to inform the public and form adequate inflationary expectations among the population. Assessment of the current and expected macroeconomic situation in the country made by the National Bank is published in the Monetary Policy Report at the beginning of the third month of each quarter. The schedule of meetings held by the National Bank Board on the size of the policy rate is published on the bank's official website.

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Summary

The global economy demonstrated stable recovery in economic activity and slowdown in global inflation. The world's major economies, including the USA and China, showed rather steady economic growth. Moreover, there was an increase in economic activity in the EAEU member countries.

In the first half of 2024, there was steady economic growth in the Kyrgyz Republic. The main contribution was provided by the sectors of services and construction, which demonstrated high growth rates throughout the half-year. In general, in the reporting period, the country's economy supported high investment and consumer demand.

In Q2 2024, trade balance was formed under the influence of a decrease in exports and imports to the Kyrgyz Republic. As a result, the trade deficit of the country increased slightly by 1.5 percent compared to Q2 2023 and amounted to USD 2,121.9 million. The volume of foreign trade turnover decreased by 3.6 percent and amounted to USD 3.7 billion.

Inflationary processes in the Kyrgyz Republic demonstrate stable decrease due to the monetary measures taken by the National Bank. The annual inflation rate decreased from 7.3 percent in December 2023 and amounted to 4.5 percent in June 2024. There was slowdown of price growth rate in all commodity groups, mainly in the food group.

The current monetary policy conducted by the National Bank is focused on keeping the inflation rate within the target of 5-7 percent in the medium term. The short-term money market rates demonstrated downward dynamics amid easing monetary conditions in April-May 2024 and availability of significant excess liquidity in the banking system. At the same time, the interest rates fluctuated near the lower rate of the interest rate corridor.

The National Bank continued to regulate excessive liquidity in the banking system in order to limit the monetary factor of inflation.

In general, the situation in the domestic foreign exchange market remained relatively stable. Exchange rate remained flexible. During the reporting quarter, the supply of foreign currency in the foreign exchange market exceeded demand for it. The National Bank conducted foreign exchange interventions on purchase and sale of foreign exchange to smooth sharp fluctuations in the exchange rate.

The deposit and credit market of the banking system showed stable development mainly in national currency. The deposit market demonstrated stable expansion of the resource base mainly in the national currency, which reflected high level of public confidence in the banking system and the attractiveness of deposits in the national currency. Active lending to the economy remained stable.

Chapter 1. External Environment

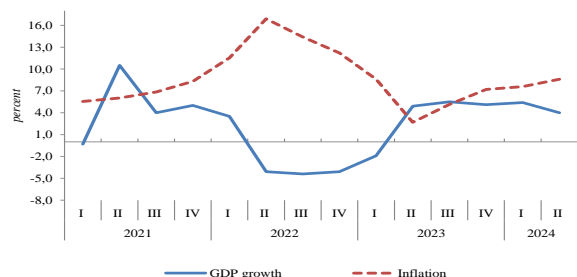
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

In the first half of this year, the world’s major economies demonstrated steady economic growth with a slowdown in the annual inflation rate. The EAEU member countries also showed high economic activity, meanwhile, there was upward price movement.

Russia

Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



Source: Ministry of Economic Development of the Russian Federation, IA Bloomberg, Russian Federal State Statistics Service

In the first half of 2024, there was steady economic growth with some slowdown in Q2.

According to the preliminary estimate of the Ministry of Economic Development of the Russian Federation, the country’s GDP grew by 4.7 percent during the first six months of 2024. At the same time, according to the Russian Federal State Statistics Service estimates, in Q2 2024, GDP increased by 4.0 percent compared to Q2 2023 after growth by 5.4 percent in Q1 of the current year. GDP growth was most affected by: manufacturing sector (+7.3 percent), wholesale (+8.3 percent)

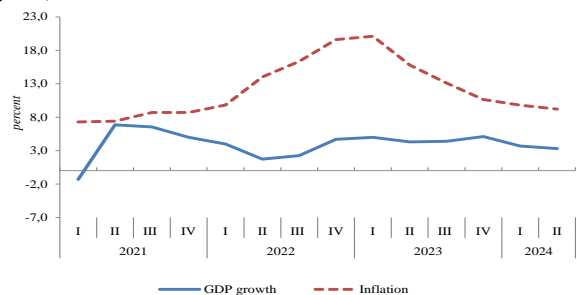
and retail trade turnover (+7.3 percent).

The inflation rate in Russia demonstrated stable growth, to reach 8.6 percent in June in annual terms. Inflation accelerated in all main categories of goods and services: food products – by 9.8 percent, non-food products – by 7.0 percent and services – by 8.8 percent.

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, IA Bloomberg, National Bank’s calculations

In the first half of 2024, economic growth in Kazakhstan slowed down and made 3.3 percent according to operational data of the Bureau of National Statistics of the Republic of Kazakhstan. Economic activity in the country was supported by an increase in production output in the main sectors of the economy, such as industry (2.8 percent) and agriculture (3.4 percent). An increase of industrial production was provided by the manufacturing sector due to growth of production output in mechanical engineering, metallurgy, chemical industry, pharmaceutical products and furniture. Slowdown of economic

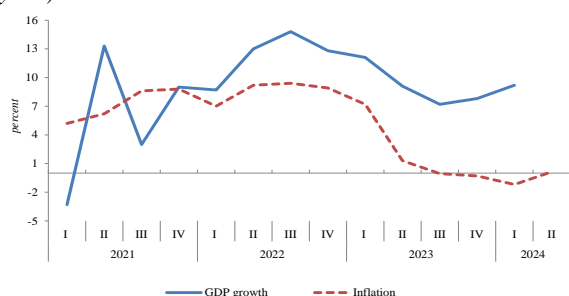
growth was conditioned by the consequences of floods, which had a limiting effect on the main sectors of economy, as well as due to reduction of oil production.

In June, the annual inflation rate decreased, to make 8.4 percent, and was formed within the forecast value of the National Bank of the Republic of Kazakhstan. The trend of inflation slowdown was supported by lower indicators in the food segment (+5.4 percent) and decreased rates of tariff policy implementation. However, increased value of the inflation rate was supported by prices for paid services (+13.8 percent) and non-food products (+7.4 percent).

Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Service of the Republic of Armenia, IA Bloomberg, CB RA

the level of 1.2 percent compared to the same period of 2023, in the following two months of the quarter, there was acceleration of the inflation rate by 0.3 percent in May and by 0.8 percent in June. In Q2, price movement in the sector of food products was the main factor of price growth.

In the first half of 2024, economic activity remained high in Armenia.

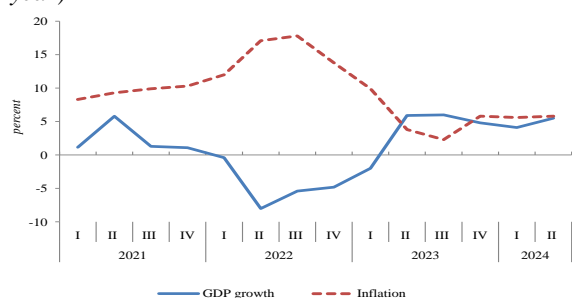
In January-June 2024, the indicator of economic activity grew by 10.4 percent compared to the same period of the previous year. The industrial sector, which increased by 18.2 percent mainly due to growth in the processing of precious metals and gold products, was still the driver of economic growth. Trade sector also contributed to economic activity (growth by 22.9 percent).

In Armenia, dynamics of price growth was observed during Q2 2024. In April of the current year, there was deflation at

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Republic of Belarus

In June 2024, the **annual inflation rate** in Belarus was 5.8 percent. Price growth was observed in all main groups of commodities and services: consumer products – 6.4 percent, non-food products – 4.5 percent, and services – 6.6 percent.

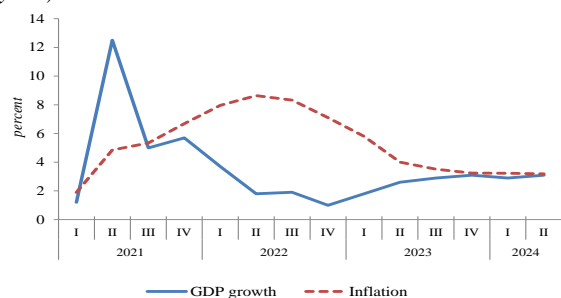
In Q2 2024, the economy of Belarus demonstrated stable growth despite persisting external challenges.

According to the National Bank’s estimates, in Q2 2024, real GDP growth was 5.5 percent compared to the corresponding quarter of the previous year, showing acceleration compared to Q1 of the current year (4.3 percent). An increase in domestic demand and development of industrial production were the main drivers of economic growth. Agriculture, construction and trade also supported GDP.

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(quarter to the corresponding quarter of the previous year)



Source: the U.S. Department of Commerce, the U.S. Department of Labor, IA Bloomberg

In Q2 2024, the GDP growth rate in the USA exceeded market expectations and made 3.1 percent compared to the same period of 2023. This value is noticeably higher compared to the long-term potential, which is estimated by the US Federal Reserve System at 1.8 percent. Growth of real GDP is primarily conditioned by the expansion of consumer expenditures, private investments in inventories and capital investments in the non-residential sector. Meanwhile, at the end of the reporting period the US unemployment rate

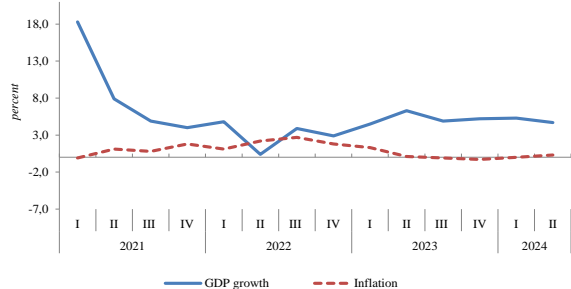
increased up to 4.1 percent from 3.7 percent as of the end of 2023.

The annual inflation rate continued to slow down and amounted to 3.0 percent in June 2024 (in March 2024, 3.5 percent). The rate of price growth slowed down mainly due to lower energy and consumer prices excluding prices for food products and energy carriers (Core CPI) (from 3.8 percent down to 3.3 percent in annual terms). At the same time, excluding prices for food products and energy carriers, the PCE¹ price index increased by 2.6 percent compared to growth by 2.8 percent in March of the current year.

China

Chart 1.1.6. Growth of GDP and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: National Bureau of Statistics of the PRC, IA Bloomberg

In Q2 2024, China’s economy demonstrated slowdown, however, in general, economic growth remained strong at the end of the six-month period.

In Q2 2024, China’s real GDP increased by 4.7 percent compared to the same period of the previous year, meanwhile, in Q1 of the current year, the growth rate was 5.3 percent. Slowdown in economic growth was conditioned by stable decline in the real estate market, as well as weak consumer demand.

At the same time, in Q2 of the current year, all sectors of economy demonstrated growth: the industrial and production sector

increased by 5.8 percent, services – by 4.6 percent and agriculture – by 3.5 percent. In general, China’s GDP grew by 5.0 percent in the first half of the year

There was a slight slowdown in consumer prices in June of the current year. In June 2024, the annual inflation rate increased by 0.2 percent compare to 2023, while, in May and April, the inflation rate was 0.3 percent. In the reporting quarter, the inflation rate increased due to restrained consumer demand and insufficient fiscal and monetary measures to provide economic growth.

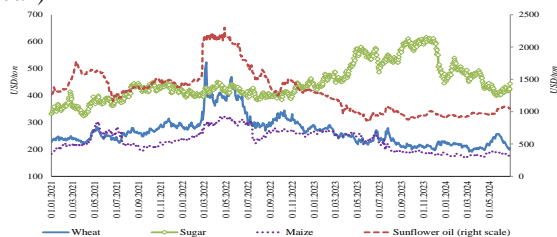
1.2. World Commodity Markets

In the reporting period, there was an increase in the FAO food price index, meanwhile the world food markets demonstrated multidirectional price movement. Oil prices showed volatility amid geopolitical tension. There was stable upward dynamics of gold prices in the world market thereby updating the historical maximums.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



In Q2 2024, prices for basic food products were volatile. An increase in global demand, global climate changes, instability in the energy market and political risks were the main factors influencing price fluctuations in the world food markets.

In June 2024, global vegetable oil prices reached their highest value since March 2023. Prices increased for almost all quotations

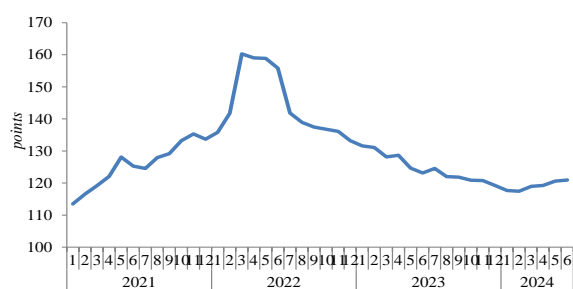
¹ The Personal Consumption Expenditure Price Index (PCE inflation) is among inflation indicators in the USA that tracks changes in prices of goods and services purchased by the consumers throughout the economy. PCE includes the broadest set of goods and services among all indicators of consumer price inflation.

due to increased global demand and reduced production in the Black Sea region.

During the reporting period, prices for crops demonstrated multidirectional dynamics. In the middle of the quarter, there was an increase in prices for all types of crops due to forecasted decrease in harvest in some largest exporting countries resulted from unfavorable weather conditions. However, by the end of the quarter, prices fell due to some improvement in forecasts for harvest in a number of major exporting countries and better-than-expected harvest.

At the beginning of Q2 2024, the world prices for sugar declined and increased significantly by the end of the reporting period. An increase in prices was conditioned by lower harvest in Brazil in May compared to expectations and a decrease in forecasts for harvest in the European Union, as well as unfavorable weather conditions in India.

Chart 1.2.2. Dynamics of FAO Food Price Index



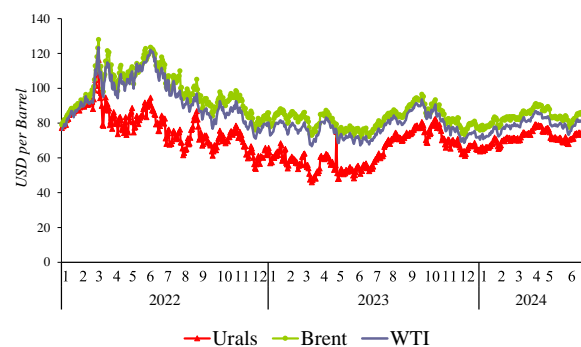
In Q2 2024, the dynamics of the FAO food price index¹ showed moderate growth. In the reporting period, the average value of the FAO Food Price Index increased by 1.9 percent compared to the previous quarter and constituted 120.3 points. However, this index decreased by 4.1 percent compared to the same quarter in 2023.

Vegetable oil prices, which reached the peak values during the reporting period, were the main drivers of the FAO food price index.

By the end of the period, there was also an increase in prices for sugar and dairy products, which was offset by a decline in prices for crops.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices (in USD)



In Q2 2024, oil prices demonstrated volatility amid geopolitical tensions. The geopolitical situation in the Middle East and the current conflict between Iran and Israel affected, among other things, the volatility of world oil prices.

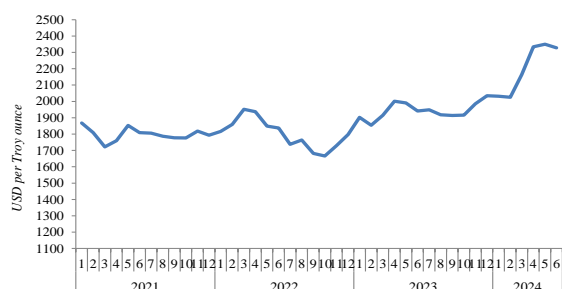
In Q2 2024, Brent oil was sold at an average price of USD 85.0 per barrel, the price for this oil increased by 4.0 percent compared to the previous quarter. The prices ranged from USD 77.5 to USD 91.2 per barrel.

Two restrictions for oil production in the market were in effect during the reporting period: 1) on 2 June 2024, OPEC+ countries announced the extension of additional voluntary reductions by 1.7 million barrels per day, which were first introduced in May 2023 and are in effect in 2024, and will be in effect during the whole 2025; 2) the restrictions of 2.2 million barrels per day being in effect in Q1 and Q2 2024 were extended until the end of September 2024, however, they will be gradually eliminated thereafter.

¹ The FAO food price index is a weighted average indicator that tracks international price movements for five major food commodity groups (meat, dairy products, crops, vegetable oils and sugar).

Gold Market

Chart 1.2.4. Dynamics of Gold Prices



Source: IA Bloomberg

In the reporting period, gold remained one of the most profitable assets in the conditions of growth in its price. High demand for gold amid stable geopolitical uncertainty kept prices at historic peaks. Generally, the demand from the over-the-counter market and the central banks provided support to growth of price for asset. Thus, in Q2 of the current year, the total demand for gold including over-the-counter investments grew by 4.0 percent in annual terms, up to

1,258 tons – the highest value since 2000. In Q2 2024, demand for gold excluding the over-the-counter market fell by 6.0 percent compared to the same period of the previous year, down to 929 tons, as a sharp decline in jewelry consumption exceeded moderate growth in all other sectors. In the reporting period, highest ever prices for gold affected jewelry consumption: the volumes fell by 19.0 percent in annual terms down to a four-year minimum of 391 tons.

Gold net purchases by the central banks increased by 6.0 percent compared to the same period of the previous year and amounted to 183 tons due to the need for portfolio protection and diversification.

Retail investment in bars and coins declined by 5.0 percent and totaled 261 tons, primarily due to weak demand in western markets.

Gold used in technologies increased by 11.0 percent compared to the previous year as the trend of artificial intelligence development continues stimulating demand in this sector.

The total supply in the world gold market rose by 4.0 percent in annual terms, up to 1,258 tons.

By the end of the first half of 2024, the price for gold in the world market increased by 12.8 percent year-to-date and amounted to USD 2,326.8 per Troy ounce (+4.3 percent since the beginning of the reporting quarter).

Amid global political and economic uncertainty and in order to mitigate risks, nearly 30.0 percent of 70 central banks worldwide are expected to continue increasing their gold reserves next year despite two consecutive years of record purchases made by the central banks and the gold price reaching new historical peaks in 2024. At the same time, the central banks in advanced economies made more pessimistic forecasts for the share of the U.S. dollar in global reserves¹.

¹ According to the data of the World Gold Council

Chapter 2. Macroeconomic Development

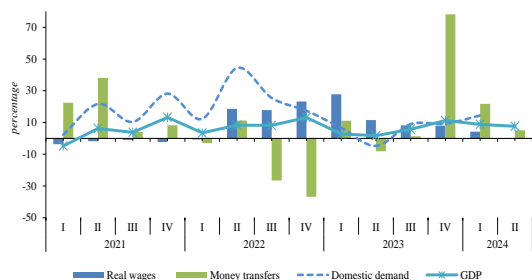
2.1. Demand and Supply in the Commodities and Services Market

High consumer and investment activity of the economic entities in the Kyrgyz Republic conditioned economic growth in the country by 8.1 percent in the first half of 2024 (in the same period of 2023 – 2.2 percent). Construction (input in growth – 2.0 p.p.) and services sector (input in growth – 4.1 p.p.) made the main input in economic growth.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Cross-Border Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

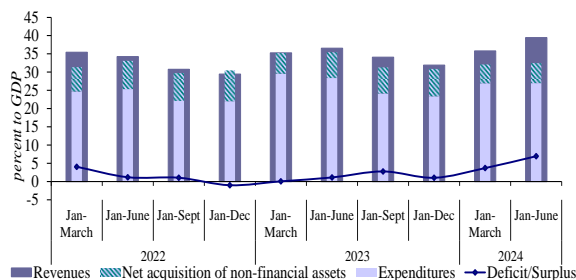
According to the preliminary results of Q1 2024¹, there was an increase in domestic demand by 14.5 percent in annual terms.

The increase in consumer demand was supported by stable positive growth of real wages (+5.2 percent), increase in consumer lending (+37.2 percent) and rise in net inflow of cross-border remittances of individuals into the country (+12.3 percent).

Public Finances Sector

Chart 2.1.2. Execution of the State Budget

(period to the corresponding period of the previous year)



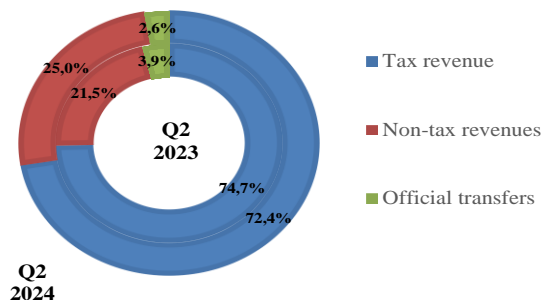
Source: CT MFKR

In the reporting period, the state budget was executed with a significant surplus of KGS 38.9 billion (6.9 percent to GDP) compared to the same period of 2023 due to significant growth of tax and non-tax revenues (in the same period of 2023, the surplus was 1.1 percent to GDP). In the reporting period, current state budget revenues grew up by 24.7 percent, up to KGS 220.7 billion (39.4 percent to GDP). Receipts from VAT, income and profit taxes made the greatest input in an increase of tax revenues with the share of 6.3 p.p. and 6.7 p.p.,

respectively amid economic growth and fiscalization measures taken previously. Non-tax budget revenues increased due to the transfer of the National Bank’s profit to the republican budget in the amount of KGS 12.4 billion.

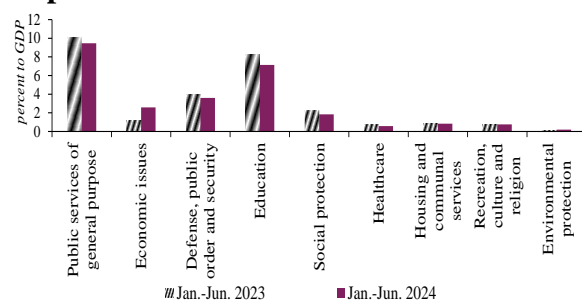
¹ Reference to the data for the earlier period is given due to the lack of more up-to-date data.

Chart 2.1.3. Structure of the State Budget Revenues



Source: CT MFKR

Chart 2.1.4. Structure of State Budget Expenditures



Source: CT MFKR

Investments

Table 2.1.5. Capital Investments by Sources of Financing
(millions of KGS, percent)

	January-june			
	2023		2024	
	millions of KGS	share, percent	millions of KGS	share, percent
Total	47 807,6	76 745,3	100,0	100,0
Internal investment	40 695,3	64 205,3	85,1	83,7
Republican budget	4 179,0	9 254,3	8,7	12,1
Local budget	725,4	1 154,8	1,5	1,5
Funds of enterprises and organizations	18 065,7	28 063,7	37,8	36,6
Banks' credits	392,5	1 530,5	0,8	2,0
Population funds including beneficent help of KR residents	17 332,7	24 202,0	36,3	31,5
External investment	7 112,3	12 540,0	14,9	16,3
Foreign credit	3 474,9	5 425,2	7,3	7,1
Direct foreign investments	1 397,3	3 578,1	2,9	4,6
Foreign grants and humanitarian aid	2 240,1	3 536,7	4,7	4,6

Source: NSC KR

by 5 times), art, entertainment and recreation facilities (by 3.3 times) and manufacturing facilities (by 2.5 times). There was a decrease of investments in hotels and restaurants (1.7 times) and healthcare facilities (13.1 percent).

Supply

According to the preliminary data of the NSC KR, in the first half of 2024, the nominal GDP increased in real terms by 8.1 percent compared to 2023 (2.2 percent¹) and amounted to KGS 599.7 billion.

In the reporting period, the growth rate of current budget expenditures slowed down to 9.8 percent from 37.2 percent in the same period of 2023 and amounted to KGS 151.0 billion (27.0 percent to GDP). The largest increase was observed for economic issues (2.6 times) in the structure of expenditures by functional classification. The item on labor remuneration of public sector employees continued to occupy a significant share in the structure of current expenditures (47.0 percent).

Net capital expenditures of the Cabinet of Ministers of the Kyrgyz Republic amounted to KGS 30.9 billion (5.5 percent to GDP), having decreased by 9.7 percent compared to the same period of 2023.

In general, the republican budget is expected to be executed with a surplus in 2024-2026 and is planned to be used in the future by the Cabinet of Ministers of the Kyrgyz Republic to cover expenditures related to economic activities and the state obligations.

There was a significant increase in the volume of capital investments.

In the first half of 2024, the level of capital investments exploitation amounted to 54.7 percent against 10.2 percent in January-June 2023.

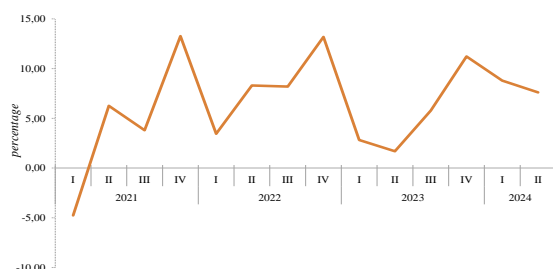
Growth was conditioned by an increase in investments financed from the domestic sources by 52.1 percent and from the foreign sources by 69.6 percent.

There was an increase of investments primarily in agricultural facilities (an increase

¹ According to clarified data of the NSC KR.

Chart 2.1.6. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

The sectors of services and construction showed the highest economic activity.

The services sector continued to make the largest input (4.1 p.p.) to GDP growth, having increased by 7.7 percent in real terms due to growth in the turnover of wholesale and retail trade (by 18.3 percent). The share of the services sector in the GDP structure remains the largest, being equal to 51.7 percent.

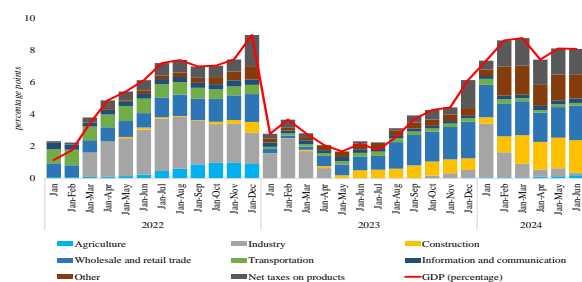
In the reporting period, the construction sector showed stable growth by 48.5 percent due to increased volumes of investment. Input of the construction sector to the total GDP growth was 2.0 p.p. The volume of net taxes on products demonstrated stable positive upward trend year-to-date, significantly exceeding by rates the indicators of the same period in the previous year (8.4 percent against 1.0 percent).

The services sector continued to make the largest input (4.1 p.p.) to GDP growth, having increased by 7.7 percent in real terms due to growth in the turnover of wholesale and retail trade (by 18.3 percent). The share of the services sector in the GDP structure remains the largest, being equal to 51.7 percent.

In the reporting period, the construction sector showed stable growth by 48.5 percent due to increased volumes of investment. Input of the construction sector to the total GDP growth was 2.0 p.p. The volume of net taxes on products demonstrated stable positive upward trend year-to-date, significantly exceeding by rates the indicators of the same period in the previous year (8.4 percent against 1.0 percent).

Chart 2.1.7. Input of Main Sectors in GDP Growth

(period to the corresponding period of the previous year, accumulatively)



Source: NSC KR, calculations: NBKR

Agriculture demonstrated growth by 3.3 percent (in January-June 2023, 0.4 percent) provided by the increase in production output of crop and livestock products.

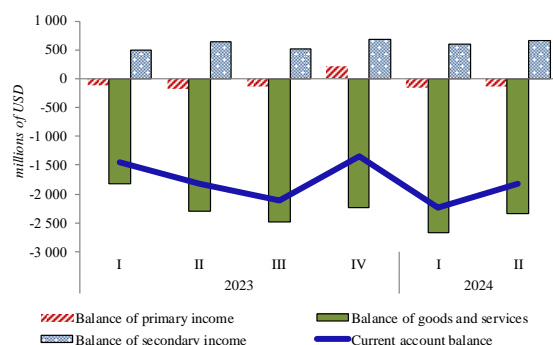
There was restrained growth in the industrial sector (0.9 percent) conditioned by a decrease in production output, as well as in the mining sector (-3.7 percent), input of this sector to the total GDP growth was 0.2 p.p.

The GDP deflator was formed positive at 6.8 percent, having decreased by 13.1 p.p. compared to January – June 2023.

2.2. External Sector¹

In Q2 2024, the negative current account balance was primarily conditioned by the continuing deficit in the trade and services balances.

Chart 2.2.1. Current Account



Note: According to the preliminary and forecasted data.

According to the preliminary data and estimates of the National Bank, in Q2 2024, the current account deficit constituted USD 1,815.6 million or 51.0 percent to GDP.

In the reporting period, the trade balance deficit increased slightly by 1.5 percent, up to USD 2,121.9 million in the context of a relatively greater decline in exports compared to imports. Export of goods (in FOB prices) decreased by 9.8 percent and amounted to USD 775.1 million. Reduction in the supplies of other packing or wrapping machinery, footwear and motor cars influenced significantly the

¹ According to the preliminary and forecasted data, including additional estimates of the National Bank of the Kyrgyz Republic. Period of comparison is the quarter to the corresponding quarter of the previous year.

volumes of current exports. Exports excluding gold dropped by 16.1 percent and totaled USD 509.0 million.

Import of goods (in FOB prices) fell by 1.8 percent and constituted USD 2,896.9 million. During the reporting period, slight slowdown in imports resulted predominantly from considerable decrease in the supplies of motor cars and, to a lesser extent, from decline in the supplies of locksmith's equipment, safes and hardware, footwear and knitted or crocheted fabrics. In the reporting period, there was also an increase in import of energy products by 72.3 percent (USD 404.6 million against USD 234.8 million in Q2 2023) due to growth in volume and value.

The structure of the secondary income balance demonstrates minor rise in the inflow on the item “workers’ remittances” along with deterioration in the balance of the general government sector.

In Q2 2024, a growth in the inflow of individuals’ cross-border remittances influenced the positive dynamics of net inflow on the item “workers’ remittances” (an increase by 5.1 percent). The dynamics of the general government sector was fully shaped by contributions of membership fees to the international organizations.

In the reporting quarter, the balance of services deficit is expected to increase up to USD 224.6 million (by 9.4 percent), whereas the balance of the item “primary income”, according to the National Bank’s estimates, will be formed negative in the amount of USD 132.6 million (a decrease by 22.2 percent). Inflow on the capital account is expected at USD 44.0 million.

Referring to the preliminary forecast estimates of the National Bank, in Q2 2024, net borrowing from the rest of the world presented in the financial account will amount to USD 1,832.5 million.

According to the National Bank’s expectations, the financial account will be formed at the expense of boost in other investments in the form of an increase in the private sector liabilities to non-residents.

Thus, based on the results of Q2 2024, the balance of payments of the Kyrgyz Republic will develop negative to make USD 16.9 million.

Indexes of Real and Nominal Effective Exchange Rate of KGS

Table 2.2.2. Key Values for Exchange Rate

	year (average)			month to the beginning of the year (as of the end of month)		
	2022 (aver.) (January- December)	2023 (aver.)* (January- December)	%	December 2023	June 2024	%
REER	122,5	131,7	7,5	131,3	131,0	-0,3
NEER	125,8	126,3	0,4	122,2	117,1	-4,2
RBER to CNY	87,5	97,1	11,0	99,0	105,2	6,3
NBER to CNY	54,3	54,7	0,7	54,3	56,4	3,9
RBER to EUR	116,6	113,4	-2,7	112,3	117,4	4,5
NBER to EUR	68,8	64,2	-6,8	62,5	64,9	3,8
RBER to JPN	160,1	175,9	9,8	180,4	203,8	13,0
NBER to JPN	81,6	83,6	2,4	84,9	94,9	11,7
RBER to KZT	144,5	132,2	-8,5	128,8	128,7	-0,1
NBER to KZT	170,9	162,0	-5,2	160,6	163,1	1,6
RBER to RUB	115,2	143,2	24,3	148,2	145,5	-1,8
NBER to RUB	123,3	146,2	18,6	153,4	152,8	-0,4
RBER to TRY	235,1	230,9	-1,8	230,0	216,0	-6,1
NBER to TRY	601,0	819,2	36,3	995,2	1138,6	14,4
RBER to USD	86,5	88,2	1,9	87,8	90,6	3,2
NBER to USD	54,6	52,3	-4,2	51,6	52,7	2,2

11.7 percent, the Chinese yuan – by 3.9 percent, the euro – by 3.8 percent, the US dollar – by 2.2 percent and the Kazakh tenge – by 1.6 percent. Along with the NEER decline, lower price level in Kyrgyzstan² amid relatively high average inflation rate in the EAEU trading partner countries conditioned a decrease of the real effective exchange rate (REER) index by 0.3 percent, to make 131.0 at the end of June 2024.

Since the beginning of 2024, there was weakening of the nominal effective exchange rate and the real effective exchange rate indices.

According to actual data, the nominal effective exchange rate (NEER) index of Kyrgyz som decreased by 4.2 percent year-to-date and constituted 117.1 at the end of June 2024. The decrease in the index was a result of KGS depreciation in the aforementioned period against the Russian ruble by 0.4 percent amid appreciation of KGS¹ against the Turkish lira by 14.4 percent, the Japanese yen – by

¹ The data are given for the nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for the calculation of the index.

² In Q2 2024, the inflation rate in the Kyrgyz Republic was formed at 2.4 percent; meanwhile, the average inflation rate in the EAEU main trading partner countries according to the preliminary calculations was 3.9 percent.

Chapter 3. Monetary Policy

Key Trends

- The National Bank's monetary policy is focused on keeping the inflation rate within the target range of 5-7 percent in the medium term.
- The short-term rates of the money market demonstrated downward trend amid easing monetary conditions in April-May 2024 and availability of excess liquidity in the banking system. At the same time, the rates fluctuated near the lower rate of the interest rate corridor.
- The National Bank continued to regulate excessive liquidity in the banking system in order to limit the monetary factor of inflation. There was reorientation in investment behavior of the money market participants from the open market operations to placement of available funds on "overnight" deposits with the National Bank.
- Generally, the situation in the domestic foreign exchange market remained relatively stable. During the reporting quarter of 2024, the supply of foreign currency in the foreign exchange market exceeded the demand for it. In order to smooth sharp fluctuations of the exchange rate, the National Bank conducted foreign exchange interventions on purchase and sale of foreign exchange. Strengthening of the national currency was generally outlined in Q2 of the current year.
- Measures taken on the monetary policy of the National Bank contributed to limitation of the inflationary monetary factors, restraining the excessive expansion of money supply. In turn, it contributed to restricting inflationary pressure in the economy and ensured further weakening of inflation dynamics.

3.1. Monetary Policy Implementation

Monetary Conditions

After a long period of maintaining monetary conditions unchanged (since the end of 2022, the policy rate remained at the level of 13.00 percent), from the middle of the reporting quarter of 2024, the National Bank initiated gradual easing of the interest rate policy: the policy rate was reduced from 13.00 down to 9.00 percent.

Steady slowdown of inflationary development in the Kyrgyz Republic and gradual decline in the economic entities' inflationary expectations were prerequisites for it.

Tactical decisions of the monetary policy were made taking into account the emerging trends in development of the money and foreign exchange markets, as well as the high level of excess liquidity in the banking system.

In Q2 2024, taking into account the emerging economic conditions, the National Bank gradually eased the monetary policy conditions: at the end of April 2024, the National Bank's policy rate was reduced from 13.00 percent down to 11.00 percent, and at the end of May – down to 9.00 percent.

The rates of the interest rate corridor were also gradually adjusted:

- at the end of April 2024, the interest rate on "overnight" deposits was reduced from 11.00 percent down to 9.00 percent.

Subsequently, the interest rate on "overnight" deposits was decreased from 9.00 down to 6.00 percent since May 21, 2024, and since June 18, 2024 – down to 5.00 percent by the decision of the Monetary Regulation Committee of the National Bank of the Kyrgyz Republic amid revision of the excess liquidity absorption policy.

- the interest rate on "overnight" credits was decreased from 15.00 percent down to 13.00 percent at the end of April 2024 and later at the end of May – down to 11.00 percent.

Increased level of excess liquidity still remains the main factor affecting the behavior of the money market participants. The National Bank continued to regulate actively excess liquidity in the banking system to limit the monetary factor of inflation.

Liquidity Regulation in the Banking Sector

During the reporting quarter, excess liquidity remained sustainable growth in the banking system. Since the second ten-day period of the reporting quarter, the fiscal sector demonstrated growth of the state budget expenditures.

In Q2 2024, the average daily level of excess liquidity in the banking sector still demonstrated an upward trend, to make KGS 96.3 billion (an increase by 8.6 percent compared to the previous quarter). At the same time, the transactions of the general government sector had a restraining effect on the expansion of excess reserves by KGS 10.1 billion due to the excess of budget revenues over expenditures.

The National Bank continued to apply instruments on sterilization of excess liquidity in order to prevent potential inflation risks. Taken measures contributed to maintaining the optimal level of liquidity in the banking system, ensuring stability in the monetary and financial markets.

Finally, in the reporting quarter, the average daily volume of the National Bank’s sterilization operations increased by 8.9 percent and amounted to KGS 96.8 billion (in Q1 2024, KGS 88.9 billion). High demand of the commercial banks for the National Bank’s notes was redirected to placement of the commercial banks’ available funds on “overnight” deposits.

The share of “overnight” deposits increased from 25.8 percent in the previous quarter up to 42.3 percent in the current quarter. At the same time, the average daily volume of “overnight” deposits increased by 78.8 percent compared to the previous quarter and by 2.3 times compared to Q2 2023 and amounted to KGS 40.9 billion. During Q2 2024, there was also an increase in minimum and maximum values of the total amount of commercial banks’ funds placed on “overnight” deposits: the values ranged from KGS 19.3 billion to KGS 74.7 billion (in Q1 2024, from KGS 10.8 billion to KGS 45.2 billion).

The share of the National Bank’s notes decreased from 74.2 percent in Q1 2024 down to 57.7 percent in the reporting quarter. The average daily volume decreased by 15.3 percent and amounted to KGS 55.9 billion.

Chart 3.1.1. Excess Reserves of the Commercial Banks

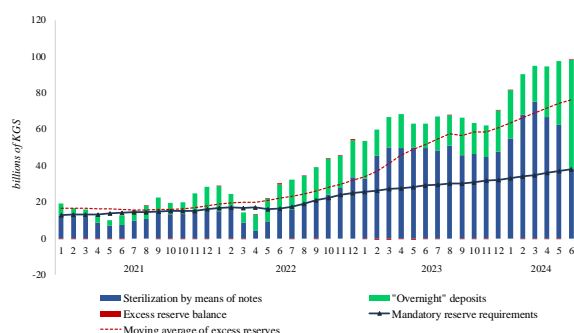
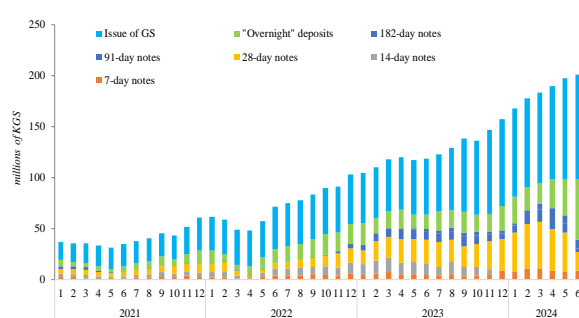


Chart 3.1.2. Structure of Sterilization Taking into Account Government Securities



Monetary Policy Measures in Q2 2024

<p>The decisions were made on the size of the National Bank key rate and the rates of the interest rate corridor</p>	<p>The Board of the National Bank twice considered the issue of the policy rate, in particular:</p> <ul style="list-style-type: none"> - On April 29, 2024, the decision was made to decrease the size of the policy rate from 13.00 down to 11.00 percent amid slowdown of inflationary development in the country. <p>Accordingly, the rates of the interest rate corridor were adjusted: the interest rate on “overnight” deposits was decreased from 11.00 down to 9.00 percent, the interest rate on</p>
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	<p>“overnight” credits – from 15.00 down to 13.00 percent.</p> <p>Subsequently, on May 20, 2024, the interest rate on “overnight” deposits was reduced by 300 basis points down to 6.00 percent by the decision of the Monetary Regulation Committee of the National Bank of the Kyrgyz Republic.</p> <p>- On May 27, 2024, the policy rate was decreased by 200 basis points down to 9.00 percent by the decision of the Board of the National Bank of the Kyrgyz Republic.</p> <p>The rates of the interest rate corridor were set as follows: the interest rate on “overnight” deposits – 6.00 percent, the interest rate on “overnight” credits was reduced from 13.00 down to 11.00 percent.</p> <p>On June 17, 2024, the interest rate on “overnight” deposits was decreased down to 5.00 percent by the decision of the Monetary Regulation Committee of the National Bank of the Kyrgyz Republic.</p>
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Inflationary development in the Kyrgyz Republic kept to weaken up during Q2 2024 due to the monetary measures adopted by the National Bank.

In June 2024, the consumer prices increased by 4.5 percent in annual terms (in December 2023, 7.3 percent). In the structure of inflation, there was slowdown in price growth in the food commodity group - growth in prices slowed down from 3.4 percent (in December 2023) down to 1.2 percent (in June 2024). Price growth in the non-food commodity and service group also gradually slowed down due to the measures of the state tariff policy.

3.2. Financial Market Instruments

Dynamics of Short-Term Money Market Interest Rates

In Q2 2024, the interbank money market was characterized by a decline in the short-term interest rates, which were near the lower rate of the interest rate corridor set by the National Bank, due to easing of the National Bank’s interest rate policy since the end of April 2024. The main trends were of the following nature.

The average interest rate spread in the notes market decreased by 3.16 p.p., down to (-)0.65 percent. During the reporting period, the weighted average yield of notes decreased from 11.70 percent in April down to 5.75 percent in June 2024 (in May, this indicator amounted to 9.60 percent). In terms of maturities of the National Bank’s notes, the instruments with the shortest maturities – 7- and 28-day notes demonstrated the largest decline by 2.8 p.p. and 3.3 p.p., respectively, compared to the previous period. 91- and 182-day notes decreased by 1.7 p.p. and 1.4 p.p.

In general, since the beginning of April 2024, there was a decrease in demand in the interbank credit market on REPO transactions. The largest decrease in volumes was observed in May by 94.9 percent compared to the volumes for the previous month. Finally, in Q1 2024, the average spread decreased by 2.60 p.p., down to (-)0.55 percent. The weighted average rate decreased by 4.63 p.p. from April until June and was formed at 7.11 percent (in March 2024, 11.73 percent).

The market of short-term government securities was also characterized by slowdown in decrease of average spreads. Totally, six auctions were conducted, following the results thereof the average spread decreased by 0.39 p.p., down to 4.07 percent. The weighted average rate, as

before, formed above the policy rate by 2.70 p.p and amounted to 11.7 percent (in Q1 2024, this indicator amounted to 14.4 percent).

Chart 3.2.1. Interest Rate Policy of the National Bank

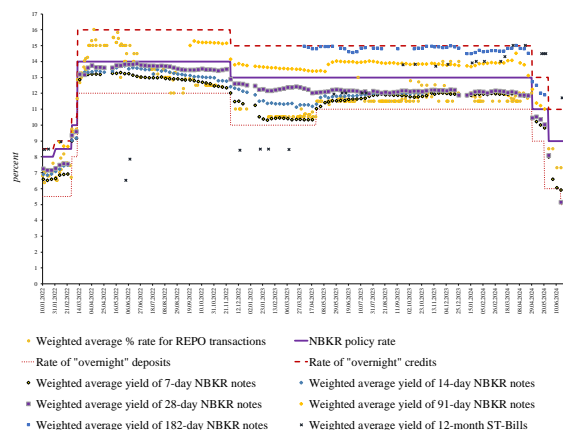


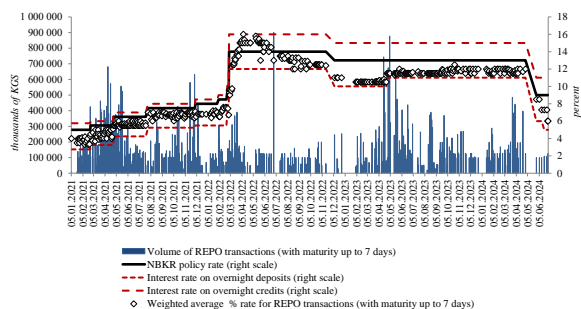
Chart 3.2.2. Spread between the Short-Term Rates of the Money Market and the Key Rate



Interbank Credit Market

In Q2 2024, the interbank credit market demonstrated decreased activity in the segment of REPO transactions.

Chart 3.2.3. Dynamics of Rates and Volume of Repo Transactions in the Interbank Credit Market



Q2 2024 was characterized by a significant decrease in the activity of the interbank credit market participants compared to Q1 2024 with sharp fluctuations in the volume of transactions during the reporting period.

In April-June 2024, the volume of transactions decreased by 46.4 percent compared to the previous quarter and amounted to KGS 2.7 billion (in Q1, KGS 5.0 billion), however, the volume of transactions decreased by 77.9 percent compared to Q2 2023 (in

Q2 2023, KGS 12.1 billion).

In April - June 2024, the weighted average rate of the interbank credit market decreased to 9.1 percent (-2.6 p.p.) compared to January-March 2024. During the reporting period, the weighted average maturity of loans decreased down to 6 days (-3 days) compared to the previous quarter. The transactions were conducted on pledge of the National Bank’s notes and ST-Bonds.

Gradual decline in the total volume of SWAP transactions conducted by the commercial banks in the national currency (in the domestic market and with non-resident banks) was still observed in Q2 2024. Finally, the volume of transactions decreased by 38.8 percent compared to the previous period and amounted to KGS 4.7 billion.

The volume of SWAP transactions involving foreign currencies (without using the national currency) increased by 6.6 times compared to the previous quarter amid increased demand of the commercial banks for additional liquidity in certain foreign currencies.

Market of the National Bank’s Notes

The commercial banks placed available funds on short-term notes of the National Bank due to short maturity of excess liquidity.

In Q2 2024, the volume of placed National Bank’s notes decreased by KGS 93.4 billion (-32.4 percent) compared with the previous quarter, down to KGS 194.7 billion. At the same

time, the market participants demonstrated an increase in investment demand for notes up to KGS 378.3 billion (+21.1 percent or KGS 66.0 billion).

In Q2 2024, there was downward dynamics in the yields of notes by maturities. The interest rates on 7-day notes decreased down to 9.1 percent (-2.8 p.p.), on 28-day notes – down to 8.7 percent (-3.3 p.p.), on 91-day notes – down to 12.2 percent (-1.7 p.p.) and on 182-day notes – down to 13.2 percent (-1.4 p.p.). In general, in the reporting quarter, the total weighted average yield of notes decreased by 3.2 p.p. and amounted to 9.0 percent.

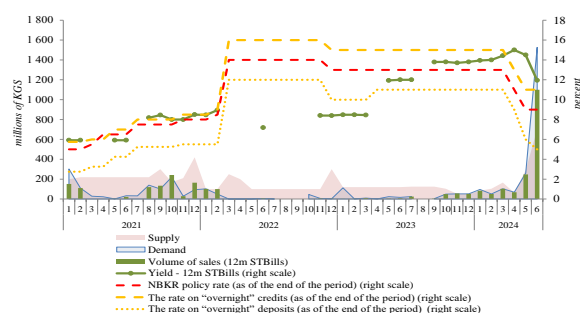
In the reporting period, notes with maturity of 7 and 28 days were the most preferable due to short maturity of excess liquidity (up to one year). Thus, the total share of 7- and 28-day notes from the total volume of sales amounted to 97.9 percent (an increase by 6.3 p.p. during the quarter), the share of 91- and 182-day notes decreased by 6.3 p.p. and totaled 2.1 percent.

Government Securities Market

In Q2 2024, the government securities (GS) market was represented by the securities of all maturities, excluding 15- and 20-year securities. The longer-term ST-Bills with 3-, 10-, 7- and 5-year maturities were in the greatest demand among the market participants. The segment of GS with short maturities, as well as in previous periods, was represented only by 12-month ST-Bills.

ST-Bills

Chart 3.2.4. ST-Bills Market Indicators



In Q2 2024, the market of 12-month ST-Bills demonstrated stable upward trend in activity observed since Q4 2023. 12-month ST-Bills were placed on the platform of the National Bank, as well as on the trading platform of Kyrgyz Stock Exchange (KSE) CJSC.

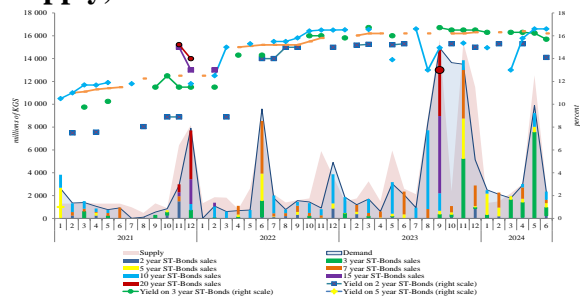
In Q2 2024, the volume of ST-Bills supply on the National Bank’s platform amounted to KGS 0.5 billion, demand – KGS 1.3 billion, and sales – KGS 1.0 billion.

At the same time, in Q2 2023, auctions on placement of 12-month ST-Bills were not conducted.

According to the official website of KSE, demand, supply and sales increased compared to the previous quarter. In Q2 2024, the total volume of 12-month ST-Bills supply increased by 56.6 percent compared to the previous quarter. The total demand grew by 2.2 times, however, demand was not satisfied by 23.5 percent (KGS 127.6 million). The total sales increased by 74.1 percent compared to Q1 2024 and amounted to KGS 415.0 million. In Q2, the weighted average yield of 12-month ST-Bills decreased by 0.6 p.p. compared to Q1 and amounted to 13.7 percent.

ST-Bonds

Chart 3.2.5. Dynamics of ST-Bonds Supply, Sales Volumes and Yield



In Q2, securities of all types of maturities, excluding 15- and 20-year maturities, were placed in the ST-Bonds market. The weighted average yield of ST-Bonds increased due to sale of securities with high yields.

In Q2 2024, the volume of ST-Bonds sales increased by 2.5 times compared to the same period of the previous year and by 3.1 times compared to the previous quarter, to make KGS 13.9 billion. Activity in the ST-

Bonds market was primarily provided by participation of the government.

In Q2, the total weighted average yield of ST-Bonds slightly increased compared to Q1 2024. In the reporting period, the volume of ST-Bonds supply increased by 3.6 times and demand thereof grew by 2.3 times compared to Q1 2024 to condition the dynamics of yield. During the quarter, the weighted average yield of ST-Bonds remained relatively unchanged (16.29 percent in April and May and 16.11 percent in June).

The largest sales were observed for 3-year ST-Bonds. The total share of 3-year ST-Bonds constituted 67.0 percent of the total sales in Q2 2024.

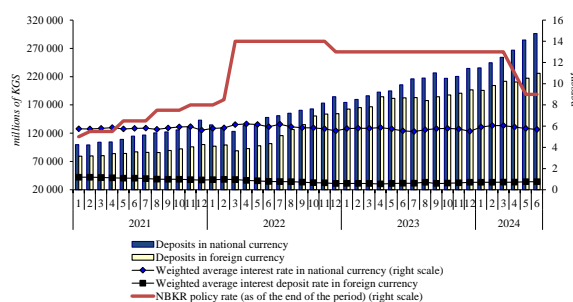
In Q2, the structure of ST-Bonds holders (excluding 2-year ST-Bonds placed on the KSE) changed compared to the previous quarter. Almost half of all holders were institutional investors, their share was 41.7 percent (-0.9 p.p.), the share of the commercial banks increased by 30.1 percent (+3.3 p.p.), meanwhile, the share of resident legal entities decreased down to 9.7 percent (-3.5 p.p.), other participants together held 18.4 percent of all ST-Bonds in circulation.

In Q2 2024, 2-year ST-Bonds in the amount of KGS 352.4 million with weighted average yield of 14.4 percent were sold on the platform of KSE CJSC.

Deposit Market

The deposit market demonstrated stable expanding. Deposits in the base were primarily made in the national currency, which reflected a high level of public confidence in the banking system and attractiveness of deposits in the national currency.

Chart 3.2.6. Dynamics of Commercial Banks' Deposits



At the end of Q2 the banks' deposit base amounted to KGS 522.1 billion, having increased by 12.1 percent during the quarter. The growth of the deposit base was conditioned by an increase in deposits in the national currency (+16.6 percent, up to KGS 296.3 billion) and in foreign currency (+6.7 percent, up to KGS 225.8 billion).

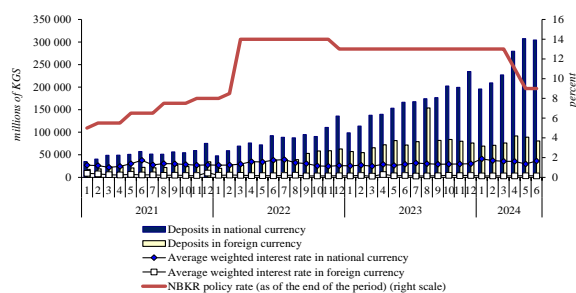
The growth of the deposit base in the national currency was mainly due to an increase of current account deposits by 27.6 percent (up to KGS 120.8 billion) year-to-date, as well as time deposits – by 20.6 percent (up to KGS 98.2 billion), meanwhile demand deposits grew by 32.3 percent (up to KGS 77.3 billion). Such dynamics contributed to change in the structure of KGS segment in the deposit base as related to an increase in the share of current account deposits up to 40.8 percent (+0.4 p.p.) and demand deposits – up to 26.1 percent (+1.2 p.p.), as well as a decrease in the share of time deposits down to 33.1 percent (-1.6 p.p.).

At the end of June of the current year, dollarization of deposits amounted to 43.2 percent (-2.4 p.p. compared to December 2023), while dollarization adjusted for the policy rate also decreased, down to 43.0 percent (-2.6 p.p.).

The deposit base in the national currency by persons consists mainly of residents' deposits (97.9 percent of the total volume), particularly of individuals' deposits (45.3 percent).

The deposit base in foreign currency by person is mainly formed by resident legal entities' deposits (in particular, current accounts) (46.8 percent) and non-resident individuals' deposits (mainly demand accounts) (29.1 percent).

Chart 3.2.7. Dynamics of Commercial Banks' Deposits Flows



The weighted average rates on time deposits in the national currency remained high demonstrating slight upward trend compared to the indicators of Q1 2024.

In June 2024, the interest rate on time deposits in the national currency (balances) increased by 0.2 p.p. compared to the beginning of the year and constituted 12.8 percent (+0.7 p.p. compared to the end of June 2023).

The interest rates on new time deposits in the national currency decreased by 0.9 p.p., down to 11.5 percent (+0.7 p.p. compared to the end of June 2023).

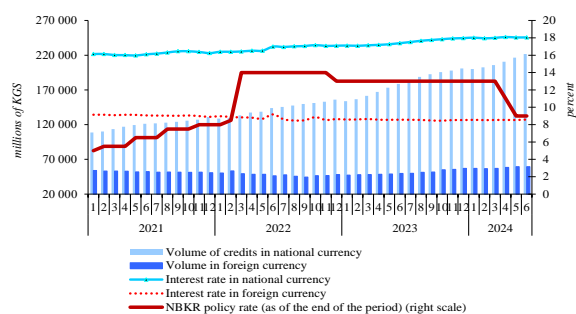
At the end of the reporting period, the concentration index¹ in the deposit market changed insignificantly since the beginning of 2024 and amounted to 0.11, which corresponds to the average level of concentration with nine participants with equal shares in the market.

Credit Market

In Q2 2024, lending to the economy was still active.

At the end of Q2, the banks' credit portfolio increased by 7.0 percent during the quarter and amounted to KGS 281.1 billion. Growth of the credit portfolio was mainly conditioned by an increase of credits in the national currency by 7.8 percent, up to KGS 221.6 billion.

Chart 3.2.8. Dynamics of Commercial Banks Credit Debt as of the End of the Period



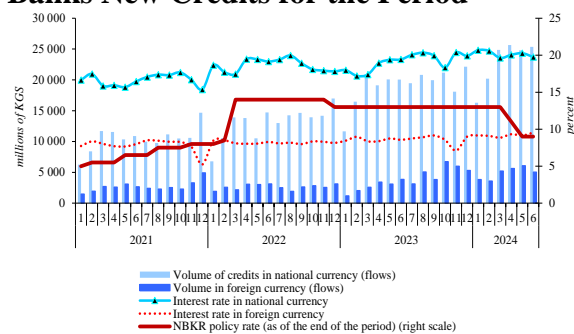
Growth of credits in the national currency primarily resulted from an increase of consumer credits (+15.1 percent), trade and commercial operations (+3.7 percent) and agriculture (+9.0 percent).

In the structure of the credit portfolio in the national currency in the context of persons, the share of 59.9 percent was accounted for the credits of resident individuals (+1.7 p.p. compared to March 2024), 39.9 percent – the credits of resident legal entities (-1.7 p.p. compared to the end of Q1 2024), the share of non-residents – 0.2 percent. Thus, in the

reporting period, the credit portfolio in the national currency increased due to the growth rates of credits issued to the resident individuals (an increase by 11.0 percent compared to the end of Q1 2024).

¹ This index shows the degree of concentration in the portfolio of the banks. The concentration index is calculated by the method of calculating the Herfindahl-Hirschman index and is the sum of the squares of specific weights of the indicator in the total volume. The index takes values from 0 to 1. Index value less than 0.10 corresponds to a low level of concentration; from 0.10 to 0.18 – the average level of concentration; over 0.18 – high level of concentration. For example, a concentration index of 0.50 is equivalent to the presence of 2 participants with the same shares in the market, and 0.3 – 3 participants, etc.

Chart 3.2.9. Dynamics of Commercial Banks New Credits for the Period



amounted to 18.05 percent at the end of June 2024 (+0.06 p.p. since March 2024). The weighted average interest rate excluding consumer credits was 15.98 percent (-0.1 p.p. since March 2024). The weighted average interest rate on credits in foreign currency increased by 0.1 p.p. since March and made 8.58 percent. The credit market general concentration index was stable and remained unchanged at 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among eleven banks. The sectoral concentration index was 0.28, which is equivalent to three main credit sectors.

At the end of Q2 2024, the qualitative characteristics of the credit portfolio were as follows: the share of overdue credits in the credit portfolio increased up to 2.6 percent (+0.1 p.p.) year-to-date, the share of extended credits decreased down to 3.3 percent (-1.3 p.p.).

3.3. Dynamics of Monetary Indicators

The upward dynamics of reserve money, which started at the end of Q1 2024, was stable. Money supply was supported by the monetary and fiscal sectors' transactions.

In May, there was a slight slowdown in the growth rate of the monetary base compared to April 2024 (a reduction by 0.7 p.p.) due to a decrease in the input of the National Bank's transactions in growth of reserve money.

In the following month, the growth dynamics recovered and at the end of Q2 2024, the monetary base increased by 9.9 percent compared to Q1 2024 and amounted to KGS 267.8 billion.

The structure of the monetary base remained practically unchanged: the main share of 83.1 percent was formed by money in circulation, the remaining share of 16.9 percent was accounted for the reserves of the commercial banks and other deposit corporations.

Monetary Aggregates

At the end of the quarter, all monetary aggregates demonstrated upward dynamics of growth rates. This was mainly due to an increase in growth rates of all components of monetary aggregates: transferable deposits (money in the current accounts and demand accounts) – by 21.7 percent, money in circulation – by 10.3 percent, time deposits in foreign currency – by 6.3 percent and in the national currency – by 3.7 percent. Growth of economic activity and consumer demand, as well as an increase in the inflow of individuals' cross-border remittances were the main factors of such growth.

Within the constituent components of monetary aggregates there was slowdown in the growth rate of time deposits in the national and foreign currencies, partly due to a decrease in the key rate. Growth rate of time deposits in the national currency decreased by 5.4 p.p. compared to the previous quarter and amounted to 3.7 percent with the volume of KGS 80.6 billion by the end of the period. At the same time, the growth rate of deposits in foreign currency decreased by 1.8 p.p., down to 6.3 percent, to make KGS 157.1 billion.

The credit portfolio in foreign currency increased by 4.2 percent compared to Q1 2024, up to KGS 59.4 billion.

Trade and commercial operations (an increase by 4.3 percent compared to the end of Q1 2024), and industry (+8.5 percent) were the main sectors of lending in foreign currency. However, there was an increase of lending growth rates in the construction sector (+24.9 percent since the end of Q1 2024).

The weighted average interest rate on the credit portfolio in the national currency

Growth of monetary aggregates was mainly provided by transferable deposits (money in the current accounts and demand accounts) in the national currency, the annual growth thereof accelerated up to 54.3 percent, this indicator was 39.5 percent in the previous quarter.

Thus, the growth dynamics of other monetary aggregates was as follows:

- *money outside banks (M0)* grew by KGS 19.5 billion (+11.0 percent) compared to the previous period and amounted to KGS 196.5 billion (in annual terms, growth by 12.7 percent);
- *narrow money (M1)* grew by KGS 46.8 billion (+15.5 percent) and amounted to KGS 349.4 billion (in annual terms, growth by 27.8 percent);
- *broad money (M2)* increased by KGS 49.7 billion and amounted to KGS 429.9 billion (in annual terms, growth by 27.7 percent);
- *broad money, including deposits in foreign currency (M2X)* increased by KGS 59.0 billion and amounted to KGS 587.0 billion at the end of the period (in annual terms, growth by 26.0 percent).

The total volume of the deposit base included in M2X increased by 34.0 percent in annual terms and amounted to KGS 390.5 billion.

Chart 3.3.1. Input of the Government Sector and the National Bank Transactions in Change of Monetary Base

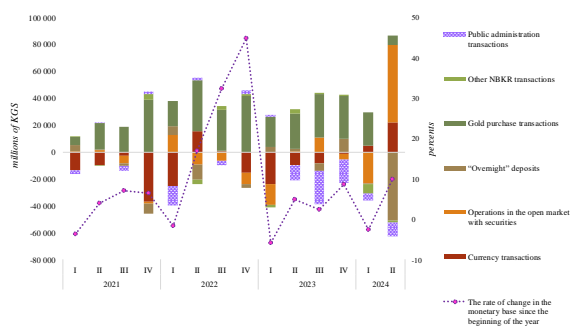
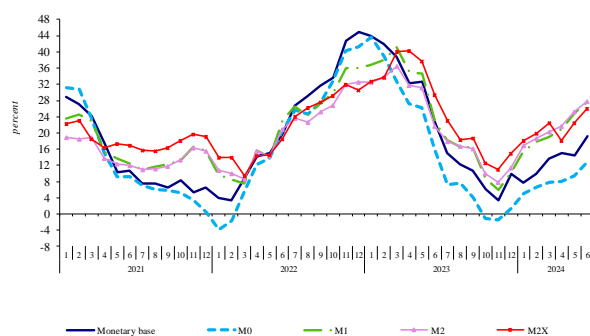


Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



Chapter 4. Inflation Dynamics

4.1. Consumer Price Index

Chart 4.1.1. Dynamics of CPI Structure
(quarter to the corresponding quarter of the previous year)

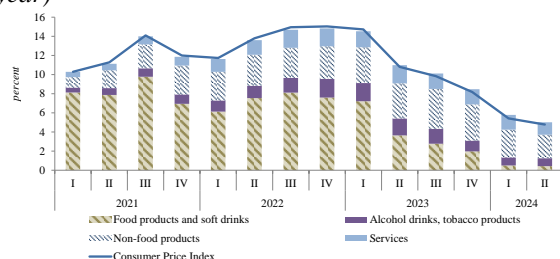


Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

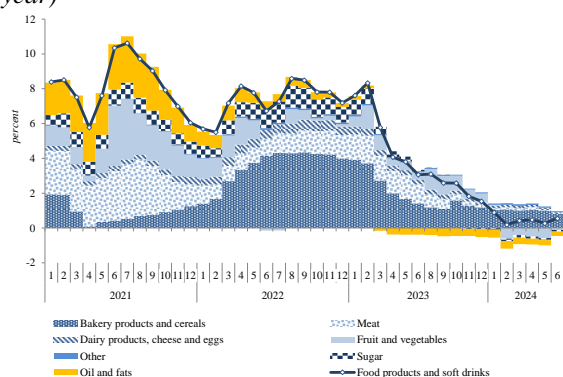


Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

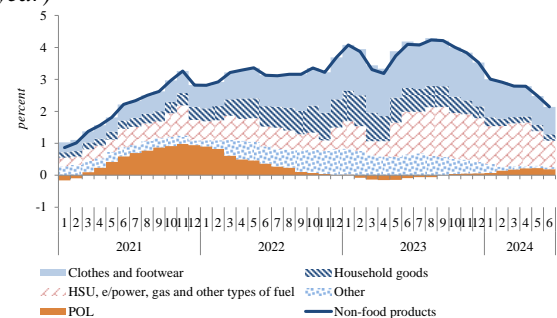
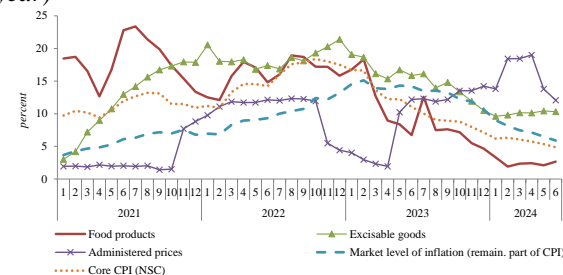


Chart 4.1.4. Dynamics of CPI by Groups of Commodities
(month to the corresponding month of the previous year)



In June 2024, the annual inflation rate in the Kyrgyz Republic was 4.5 percent, in Q2 2024 (quarter-on-quarter) the annual inflation rate slowed down to 4.8 percent from 5.4 percent in Q1.

In June 2024, contribution of the food products to annual CPI decreased by 2.5 p.p. compared to June 2023 and amounted to 0.2 p.p. due to the seasonal decline in prices for certain food products. In the reporting period, prices for bakery products and cereals, as well as for fruits made the main upward contribution to the CPI in the commodity group. An increase in prices for fruits, fish, soft drinks, bakery products and cereals was the most significant in this commodity group. At the same time, there was a decrease in prices for vegetables, sugar and oils and fats.

The downward trend of price growth still demonstrated more restrained growth rates in the non-food commodity group. In June 2024, prices for non-food products increased by 7.4 percent in annual terms. In June 2024, contribution of non-food products to annual CPI decreased by 2.0 p.p. compared to the corresponding month of the previous year and amounted to 2.1 p.p. This dynamics is conditioned by the impact of geopolitical tension in the world, price volatility in the world markets of oil products, the effect of the state tariff policy measures and steady growth of domestic demand.

An increase of the inflation rate in the non-food commodity group is conditioned by growth of prices in the groups such as “petroleum, oil and lubricants”, “housing services, water, electricity, gas and other fuels”, “clothes and footwear” and “household goods and household appliances”.

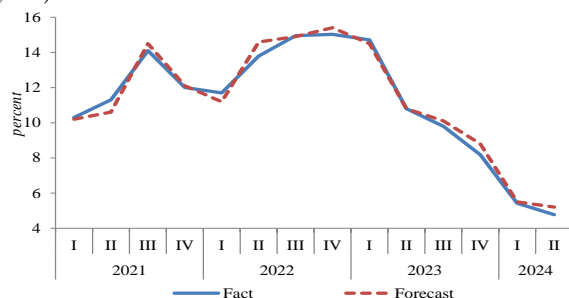
In June 2024, growth in prices for paid services was 6.8 percent in annual terms, contribution to the overall CPI was 1.2 p.p. Dynamics of prices for services was conditioned by an increase in prices in the groups “transport services”, “restaurants and hotels”, “health care” and “miscellaneous goods and services”. Rise in prices for transport services was due to an increase in the tariffs for public transport since January 30, 2024. In June

2024, the core inflation growth rate increased compared to the overall CPI and amounted to 4.9 percent in annual terms.

4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



At the end of Q2 2024, the actual inflation rate decreased compared to the forecasted value expected by the National Bank. Deviation of the actual inflation rate from the forecasted one amounted to 0.4 p.p.

Inflation Expectations

In Q2 2024, according to the surveys of the NSC KR, inflation expectations of the population decreased compared to the previous quarter, however they still remain at a relatively high level (Chart 4.2.2). Despite decline in price expectations among the enterprises, they are still high compared to the actual inflation rate, as shown in Chart 4.2.3.

In Q2 2024, price expectations of the population still exceed the actual inflation rate. The share of respondents expecting accelerated price growth decrease gradually.

Chart 4.2.2. Actual Inflation Value, Observed and Expected Inflation of Households

(quarter to the corresponding quarter of the previous year)

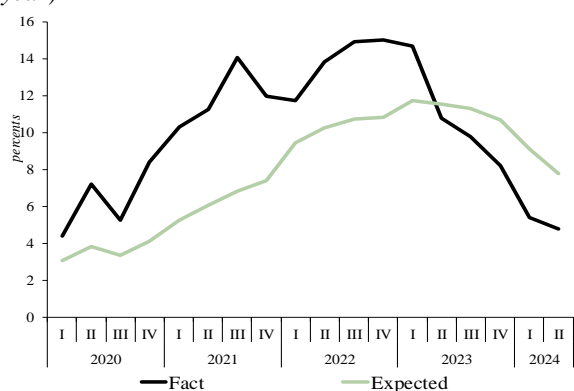
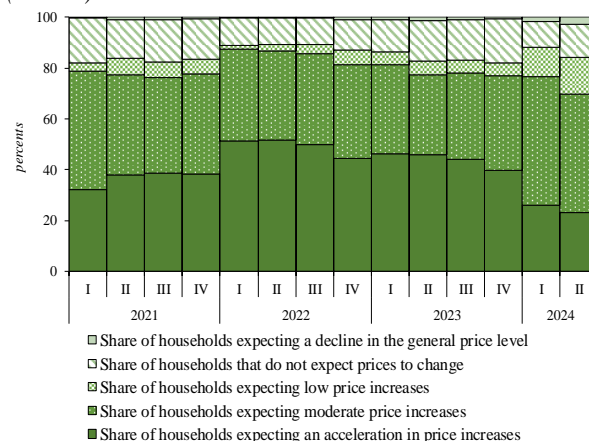


Chart 4.2.3. Distribution of Households' Answers

(shares)



As a result of the study of the World Bank data conducted among 1,500 households in the Kyrgyz Republic regarding inflation expectations (Chart 4.2.4 and Chart 4.2.5), it was revealed that the trend is consistent with the results of the NSC KR surveys. There is a general decrease in households' price expectations.

Chart 4.2.4. Actual Inflation Value, Observed and Expected Inflation of Households (WB)

(month to the corresponding month of the previous year)

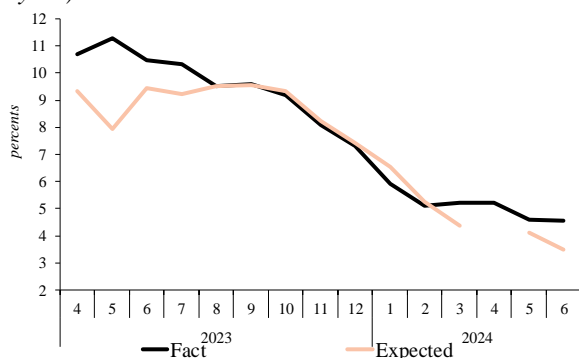
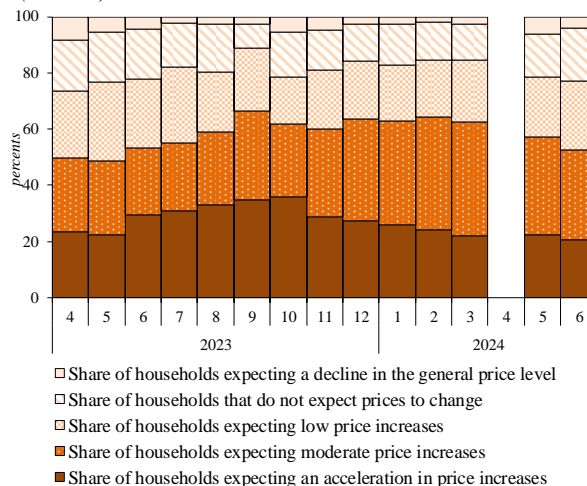


Chart 4.2.5. Distribution of Households' Answers (WB)

(shares)



In general, since the beginning of 2024, inflation expectations of the enterprises declined, which correlates with the current dynamics of the actual inflation rates, excluding the indicators of April 2024, where inflation expectations increased amid planned growth in the electricity tariff at that time.

Chart 4.2.6. Actual Inflation Value, Observed and Expected Inflation of Enterprises

(month to the corresponding month of the previous year)

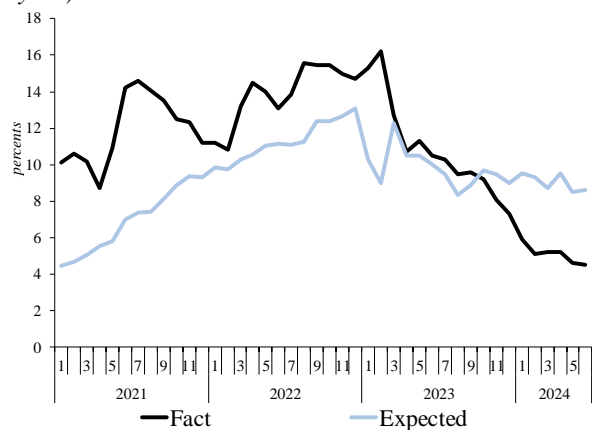


Chart 4.2.7. Distribution of Enterprises' Answers

(shares)



Chapter 5. Medium-Term Forecast

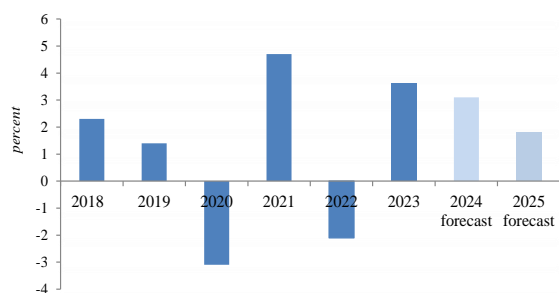
5.1. External Environment Proposals

5.1.1. Development Forecast of Main Trading Partner Countries

Russia

Chart 5.1.1.1. Real GDP Growth in Russia

(year to year)



Source: IMF, IA Bloomberg, Ministry of Economic Development of the Russian Federation, Bank of Russia

Tight monetary conditions will affect economic activity.

The Bank of Russia forecasts GDP to increase by 3.5-4.0 percent in 2024. At the same time, tighter monetary conditions in the forecast period will affect the dynamics of economic activity: real GDP growth for 2025-2026 was revised downward by 0.5 p.p., down to 0.5-1.5 percent and 1.0-2.0 percent, respectively. The economy demonstrates stable development on a balanced growth path to be observed since 2027.

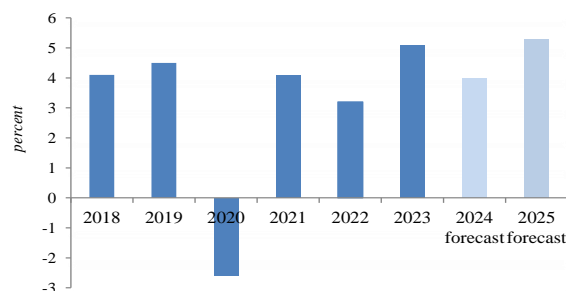
In June 2024, the IMF analysts left unchanged their assessment of the economic growth in Russian in the current year, however, they decreased forecast for Russia’s GDP in 2025 by 0.3 p.p. According to the IMF forecast, Russia’s GDP will increase by 3.2 percent in 2024 and by 1.5 percent in 2025 (against an estimate of 1.8 percent in April of the current year). The IMF analysts indicate high budget expenditures, active investments and stable consumption as the main factors of economic growth¹.

Pro-inflationary risks remain significant. Changes in foreign trade conditions under the influence of geopolitical tensions, stable and high inflation expectations, growth of lending amid tight monetary policy under the conditions of conducted large-scale concessional programs and growth of wages exceeding an increase in labor capacity amid existing tensions in the labor market are the factors having an upward impact on inflation. Additional monetary policy tightening is required for inflation to start falling again, and substantially tighter monetary conditions compared to previous assumptions are necessary for the inflation rate to return to target. The Bank of Russia’s forecast was significantly revised, moreover, the inflation forecast for 2024 was raised up to 6.5-7.0 percent. Taking into account the current monetary policy, the annual inflation rate will decrease down to 4.0-4.5 percent in 2025 and will be at about 4.0 percent thereafter.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

In 2024, domestic demand will be the main source of GDP growth in Kazakhstan.

According to the NBRK’s May monetary policy report, the forecast of GDP growth in 2024 was kept unchanged at 3.5-4.5percent. The economic growth will be provided by implementation of the investment projects in industry, agriculture and other sectors of the economy, as well as by an increase in construction works focused on eliminating the consequences of spring floods. GDP growth will be restrained by the positive dynamics of domestic demand, which will

¹ World Economic Outlook (IMF, June 2024)

stimulate imports, and low export growth rates due to a slight increase in oil production and crops exports conditioned by poor harvest in 2023.

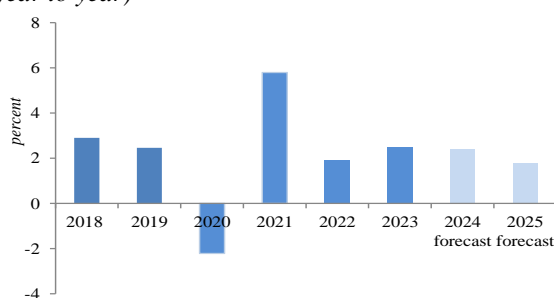
In 2025-2026, the economic growth is forecasted at 4.8-5.8 percent and 4.9-5.9 percent, respectively (previous forecast: 5.5-6.5 percent and 3.5-4.5 percent, respectively). The decrease in the forecast in 2025 and its increase in 2026 compared to the previous forecast is conditioned by postponement of the TCO FGP/WPMP¹ project implementation from early 2025 to its second half.

The assumptions and trajectory of the forecast inflation dynamics did not suffer significant changes. The NBRK’s forecast for inflation rate in 2024 and 2025 was kept unchanged at 7.5-9.5 percent and 5.5-7.5 percent, respectively, and is expected to approach the target of 5.0 percent in 2026.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg, international financial institutions

Forecasts of the international analysts on US GDP for the medium term were not changed significantly, the dynamics of economic growth slowdown is still observed amid tight monetary policy and geopolitical uncertainty.

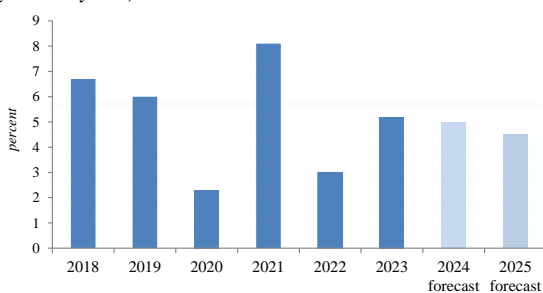
The US Federal Reserve System’s forecasts for GDP growth rate in 2024 are kept at 2.1 percent, in 2025 – at 2.0 percent. Bloomberg analysts expect the average US GDP to increase by 2.3 percent in 2024 and in by 1.8 percent in 2025.

Annual inflation in the USA demonstrates stable slowdown, meanwhile the core inflation remains high compared to the target. The US Federal Reserve System’s median forecast for PCE inflation² constitutes 2.6 percent for 2024 and 2.3 percent for 2025.

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



Source: National Bureau of Statistics of the PRC, international financial institutions

China’s economic growth expectations for 2024 were kept unchanged due to weak consumer demand.

In 2024, the government of China expects to achieve economic growth of about 5.0 percent. Based on the economic indicators of two quarters in the current year, the international financial institutions expect the economy growth being in line with the target of 5.0 percent. In July 2024, the IMF raised China’s economic growth forecast from 4.6 percent up to 5.0 percent. According to the

international experts, recovery of the private consumption and high level of exports will be the drivers of positive dynamics. Meanwhile, Bloomberg analysts expect growth by 4.7 percent in 2024, mainly due to the problems in the real estate sector, as well as weak consumer demand.

With prices remaining stable during Q2 of the current year, the international analysts believe that there are still risks of deflation. The IMF expects China’s inflation rate at about 1.0 percent in 2024.

¹ Future Expansion Project/Wellhead Pressure Management Project (FGP/WPMP) TCO.

² The Personal Consumption Expenditure Price Index (PCE inflation) is among inflation indicators in the USA that tracks changes in prices for goods and services purchased by the consumers throughout the economy. PCE includes the broadest set of goods and services among all indicators of consumer price inflation.

5.2. Medium-Term Forecast

When developing monetary policy, the National Bank of the Kyrgyz Republic relies on modeling results and analyses of various economic growth scenarios in the medium term. Forecasting is made taking into account as many shocks and preconditions of the current period as possible, as well as based on expert assessments and forecasts of the world research agencies and institutions.

Inflation slowdown dynamics was still observed in the Kyrgyz Republic in Q2 2024. The vector chosen in 2022 to tighten the monetary policy and gradual stabilization of external conditions contributed to the inflation decline. Noticeable decrease in price growth is observed in all main commodity groups (food, non-food and services).

In the reporting quarter, the price environment in the world food (FAO index) and commodity markets (prices for energy resources) demonstrated upward trend, however, global uncertainty is still high.

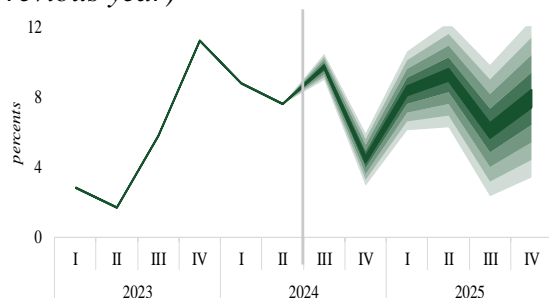
In Q2 2024, business activity in the Kyrgyz Republic demonstrated high indicators. Growing consumer lending, growth of real wages and net inflow of remittances into the country contributed to an increase in domestic demand.

Baseline scenario of the medium-term forecast takes into account the following external economic development conditions: decrease of the impact of uncertainty worldwide, moderate economic growth of the main trading partner countries, weakly positive price movement in the world commodity markets. Domestic factors of economic development assume gradual reduction of inflationary expectations of the population and enterprises.

The following forecast of the key macroeconomic indicators of the Kyrgyz Republic for 2024-2025 was developed considering the emerging trends in the economic development of the trading partner countries, as well as the price movement in the world commodity markets in the medium term.

Conducted analysis shows that, in 2024, the real sector of the economy of Kyrgyzstan will demonstrate growth above the average level of the last three years.

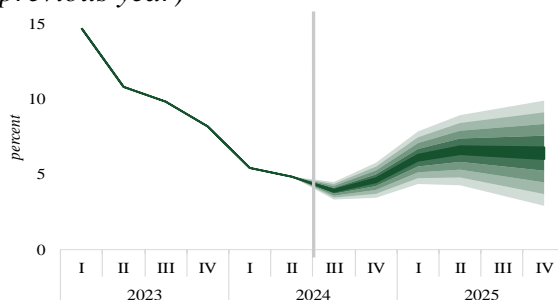
Chart 5.2.1. Forecast of Real GDP
(quarter to the corresponding quarter of the previous year)



At the end of 2024, the real GDP growth is estimated at about 6.9 per cent. This growth is expected to be supported by the manufacturing industry, wholesale and retail trade, as well as the construction sector, demonstrating strong growth due to the fiscal policy measures taken by the Cabinet of Ministers of the Kyrgyz Republic and observed high activity of the business entities.

In 2025, the real GDP growth rates are forecasted at 6.3 percent.

Chart 5.2.2. Inflation Forecast
(quarter to the corresponding quarter of the previous year)



Given the domestic market environment and the emerging economic conditions in the trading partner countries, by the end of 2024, the inflation rate in the Kyrgyz Republic is expected near the lower rate of the medium-term target range and will be about 5.2 percent. Slight revision of forecasts downward is conditioned by the current stronger seasonal decline in prices compared to expectations. In the second half of 2024, slight acceleration in the growth rates of food prices is expected amid low base of the previous year

and the current situation in the world food market.

Prices for non-food group of goods and services will demonstrate slower downward dynamics of growth rates, which is conditioned, among other things, by the impact of tariff policy measures taken by the government. The forecast for non-food inflation remains moderately high with gradual decline by the end of 2024.

At the end of 2025, the inflation rate is expected at 5.9 percent in annual terms. The following factors may be the main sources of inflationary pressure, namely accelerating inflation in the countries of the region, high demand due to an increase of pensions and wages to healthcare staff, price fluctuations in the world food markets and in the markets of petroleum products, moderately high inflationary expectations of the economic agents.

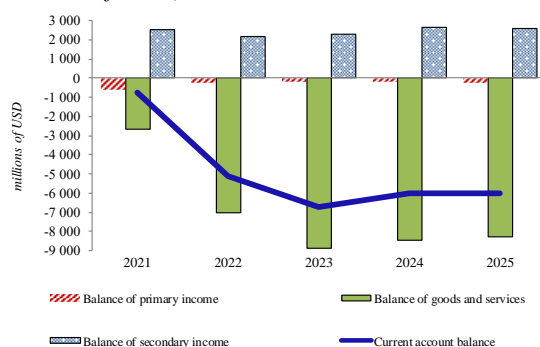
2024-2025 Balance of Payments Forecast¹

Forecast of the country's balance of payments indicators for 2024 was adjusted based on the data of the actual period and specified initial development conditions of the trading partner countries of the Kyrgyz Republic. At the same time, as before, the external sector is still characterized by a high degree of uncertainty.

At the end of 2024, the negative balance of goods and services account and the primary income balance are expected to be a determining factor for a current account deficit to be formed at 40.1 percent to GDP.

Chart 5.2.3. Forecast Data on Current Account

(millions of USD)



Expectations on external trade are adjusted by the data of the actual period and short-term future prospects. Terms of trade in the region, the world prices for food and energy resources, as well as gold exports by the Kyrgyz Republic will notably influence the export and import indicators.

According to the National Bank's estimates, continuing dynamics of trade will predetermine a high level of trade deficit.

In accordance with forecast, based on the result 2024, exports will grow by 4.9 percent compared to 2023. Supplies of intermediate and consumer goods will make a

significant contribution to an increase in exports.

Imports will remain at a rather high level. At the same time, their contraction is expected (imports are forecasted to decline by 0.6 percent compared to 2023). As before, consumer and intermediate goods will remain prevalent in the structure of imports.

During the reference period, data of the actual period served as a basis for revision of the forecast on the secondary income balance. According to the updated forecast of the National Bank, the secondary income balance will surge mainly due to the growth of receipts on the item "workers' remittances" by 14.1 percent. An increase by 1.4 times is expected in the inflow of financial resources to the general government sector compared to the previous year.

The services balance will develop negative under the influence of persistent high volumes of import of transport services given the expected commodities turnover and a decrease in receipts on the item "travels".

Expected current account deficit will require a substantial amount of financing from the financial account. Direct and other foreign investments are expected to be the leading source of financial capital inflow. The volume of servicing previously received credits of the private sector will remain at higher level in contrast to the previous year.

Revised development forecast of the external sector of the economy in 2024 determined the following vector of expectations for the balance of payments in 2025.

¹ The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic used in the actual period.

In 2025, deficit of the current account balance will be formed at 35.0 percent to GDP under the influence of a combination of factors associated with a reduction of the trade deficit, deterioration of the negative balance of services and primary income, as well as decline in the inflows on the secondary income balance.

According to the National Bank's estimates, expected growth in exports by 3.1 percent and decrease in imports by 0.4 percent will affect the reduction of the trade balance deficit (by 1.9 percent compared to 2024). The volume of receipts on the item "workers' remittances" of the secondary income balance is expected to decrease by 2.7 percent compared to 2024.

At the same time, it should be noted that in 2025 there is still a risk of insufficient inflow of foreign capital on the financial account, which may require additional financing by the National Bank's international reserves. A considerable share of capital inflows is expected to be provided through direct foreign investment and other investments to the private sector.

The following risks remain in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2024-2025:

- high degree of geopolitical uncertainty;
- volatility of exchange rates of the main trading partner countries;
- growing debt burden of the private sector.

Annex 1. Key Macroeconomic Indicators

(quarter to the corresponding quarter of the previous year, if otherwise is not indicated)

Indicator	Unit of measure	2021				2022				2023				2024	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1. Demand and supply¹															
<i>(real growth rates, if otherwise is not indicated)</i>															
Nominal GDP, per quarter	mln. KGS	137 662,6	172 402,9	224 058,7	248 730,1	168 137,2	227 481,2	292 245,0	332 881,2	210 822,5	273 978,9	350 607,9	393 489,5	248 821,6	310 902,1
GDP	%	-4,8	6,3	3,8	13,3	3,4	8,3	8,2	13,2	2,8	1,7	5,8	11,2	8,8	7,6
Domestic consumption	%	-1,2	12,3	11,7	32,8	17,5	7,8	13,3	19,3	1,6	11,3	6,8	13,0	15,9	
Investment	%	20,6	108,9	6,7	15,2	-9,9	249,0	68,4	10,9	33,3	-35,5	14,5	-5,4	8,9	
Net export	%	30,9	159,4	46,6	91,7	39,3	384,7	84,2	28,5	110,1	88,7	69,1	60,3	15,6	
<i>GDP production:</i>															
Agriculture	%	1,2	-5,2	-6,7	-2,0	1,5	3,9	8,0	10,8	0,0	0,6	-1,2	4,8	1,4	4,4
Industry	%	-15,6	-5,8	0,6	43,9	8,2	22,8	20,2	1,8	8,7	-7,7	-1,0	11,2	4,7	-2,3
Construction	%	-20,3	-13,2	-4,0	2,7	-1,4	5,2	-1,0	19,1	2,2	16,4	19,0	5,1	53,8	45,7
Services	%	-1,2	6,5	5,8	3,3	1,8	4,6	3,7	8,9	1,4	2,3	2,5	3,0	5,1	4,3
including trade	%	-2,7	13,1	8,8	8,0	2,7	5,3	6,9	10,5	1,5	4,3	8,9	7,7	8,0	7,5
2. Prices²															
CPI	%	110,3	111,3	114,1	112,0	111,7	113,8	115,0	115,0	114,7	110,8	109,8	108,2	105,4	104,8
CPI, in annual terms as of the end of period	%	110,2	114,2	113,5	111,2	113,2	113,1	115,5	114,7	112,7	110,5	109,6	107,3	105,2	104,5
Core inflation	%	110,1	110,6	113,0	111,3	111,8	114,4	117,4	118,0	115,6	111,8	109,3	108,0	106,2	105,3
<i>CPI by main groups of goods and services:</i>															
Food products	%	117,9	117,3	121,5	115,3	113,5	116,6	117,9	116,7	115,9	108,0	106,1	104,3	101,1	101,0
Non-food products	%	103,7	106,4	108,6	110,4	110,3	111,2	110,9	111,8	121,9	120,5	117,9	113,1	109,8	109,5
Alcohol drinks and tobacco products	%	106,0	108,3	110,4	111,3	113,6	114,9	117,8	122,5	112,9	112,7	114,4	113,1	110,0	108,5
Services	%	103,3	104,1	105,0	105,4	107,9	109,0	111,1	111,0	109,9	111,2	109,6	109,3	109,1	107,7
<i>CPI, classified by character:</i>															
Excisable goods	%	102,1	102,3	115,5	117,7	118,8	117,5	117,9	120,3	117,9	116,0	114,9	111,9	109,8	110,3
Regulated prices	%	102,7	102,7	101,8	106,0	110,9	111,9	112,2	107,0	103,1	108,1	112,1	113,8	116,9	114,8
Market inflation rate (the rest of CPI)	%	101,0	102,2	106,8	107,1	107,4	109,1	110,4	112,6	114,5	114,1	113,4	111,6	108,2	106,5
3. External sector³															
<i>(in percent to GDP)</i>															
Trade balance	% to GDP	-18,3	-18,0	-21,7	-26,2	-34,5	-45,9	-56,5	-56,6	-57,9	-60,2	-57,8	-58,8	-62,2	-60,7
Current transaction account	% to GDP	3,5	4,5	-1,0	-8,0	-18,3	-32,1	-43,1	-42,1	-42,9	-46,1	-46,9	-48,3	-52,6	-51,0
Export of goods and services	% to GDP	28,9	36,4	36,8	35,7	34,8	28,3	26,6	29,7	31,6	33,4	36,2	39,0	39,5	37,4
Import of goods and services	% to GDP	50,0	57,0	60,8	64,2	71,6	76,2	84,9	87,2	90,0	95,5	97,2	102,5	107,3	103,7
4. USD exchange rate, as of the end of period															
	KGS	84,7792	84,6640	84,7907	84,7586	83,3090	79,5000	80,1829	85,6800	87,4200	87,2267	88,7100	89,0853	89,4708	86,4454
5. Monetary sector															
NBKR policy rate, as of the end of period	%	5,50	6,50	7,50	8,00	14,00	14,00	14,00	13,00	13,00	13,00	13,00	13,00	13,00	9,00
Rate of "overnight" deposit, as of the end of period	%	3,25	4,25	5,25	5,50	12,00	12,00	12,00	10,00	10,00	11,00	11,00	11,00	11,00	5,00
Rate of "overnight" credit, as of the end of period	%	6,00	7,00	8,00	8,50	16,00	16,00	16,00	15,00	15,00	15,00	15,00	15,00	15,00	11,00
Average interest rates of operations in the interbank credit market, per quarter	%	4,15	5,32	6,52	6,82	8,85	14,66	13,00	11,99	10,52	11,29	11,64	12,11	11,71	9,12
<i>of which:</i>															
of REPO transactions	%	4,15	5,32	6,52	6,82	8,85	14,66	13,00	11,99	10,52	11,29	11,64	12,11	11,71	9,12
of credits in national currency	%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of credits in foreign currency	%	-	-	7,00	-	-	-	-	-	-	-	-	-	-	-
Weighted average yield of 7-day notes, as of the end of period	%	4,37	5,16	6,10	6,57	11,86	13,11	12,82	11,41	10,35	11,57	11,86	11,95	11,95	5,91
Weighted average yield of 14-day notes, as of the end of period	%	4,84	5,72	6,54	6,93	11,45	13,57	13,11	12,17	11,27	11,82	12,01	12,01	-	-
Weighted average yield of 28-day notes, as of the end of period	%	4,99	6,08	6,89	7,26	11,09	13,82	13,46	12,57	12,37	12,16	12,11	12,08	12,09	5,14
Weighted average yield of 91-day notes, as of the end of period	%	5,28	5,43	7,45	-	8,79	-	15,19	13,81	13,52	13,98	13,88	13,78	13,96	11,22
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	-	14,67	14,79	14,90	14,74	12,13
Monetary base	%	24,2	10,7	6,6	6,5	8,8	19,8	31,7	44,9	38,8	22,5	10,8	9,9	13,7	19,1
Money outside banks (M0)	%	23,7	9,2	5,8	0,5	5,7	20,5	27,5	41,3	32,5	16,0	4,0	1,3	7,8	12,7
Monetary aggregate (M1)	%	22,9	12,4	12,3	15,7	7,4	23,1	27,3	36,1	41,2	22,7	16,4	10,2	19,0	27,8
Narrow money supply (M2)	%	18,9	12,0	11,7	15,6	8,6	20,8	25,3	32,5	36,5	21,6	16,2	11,4	20,3	27,7
Money supply (M2X)	%	18,6	16,9	16,2	19,1	9,5	18,6	27,5	30,6	40,0	29,4	18,7	15,0	22,4	26,0

¹ Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic² Source: National Statistics Committee of the Kyrgyz Republic³ Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q2 are preliminary

Annex 2. Glossary

Balance of payments is a report, which reflects aggregate economic transactions between the residents and non-residents within a certain period of time.

Consumer price index reflects changes in the prices for goods and services purchased by the standard consumers for non-production purposes. This index is among inflation rate measures, which is based on comparing the value of basic goods basket consumed by the population and weighted in accordance with the share of these goods in the aggregate consumption.

Core inflation is inflation, which excludes short-term, structural and seasonal changes of prices: the growth in prices of goods due to the seasonal, the external factors and the administratively established tariffs is excluded from the calculation of the inflation rate.

Core CPI index is a price excluding the cost of food products, electric energy, gas, and other fuels.

Deposits included in M2X are the deposits of the individuals and legal entities, as well as the deposits of other financial-credit institutions, however, the deposits of the state administration bodies and non-residents are excluded.

Dollarization is extensive use of the US dollars in the domestic currency circulation of the country, which possess own national currency.

Inflation is the upward trend in the general level of prices within the certain period, which is determined based on the value calculation for the basket of goods and services weighted by the structure of consumer expenses of the standard household. The consumer price index is an indicator, which characterizes the inflation rate in the Kyrgyz Republic.

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

M0 – cash in hands.

M1 – M0 + residents' transferable deposits in the national currency.

M2 – M1 + residents' time deposits in the national currency.

M2X – M2 + settlement (current) accounts and residents' deposits in foreign currency.

Monetary base is the obligations of the National Bank on cash in circulation, and the obligations of the National Bank to other depository corporations in the national currency.

Monetary policy transmission mechanism is a transmission mechanism that characterizes the process of impact of monetary policy decisions on price dynamics through channels of influence: interest rate, exchange rate, credit and communication channels.

Net balance of payments is a difference between receipts from the foreign countries and payments transferred to the foreign countries.

Net balance of trade is a difference between the cost of export and import

Notes are the discount securities, issued in circulation by the National Bank of the Kyrgyz Republic. By decision of the Monetary Regulation Committee of the National Bank, the notes can be issued for the period from 7 to 364 days. The notes maximum profitability is set to be equal to the policy rate as of the auction day.

Other depositary corporations are all resident financial corporations, except for the central bank, which main activities are aimed at financial intermediation and which issue obligations included into the national definition of the broad money stock (M2X).

Policy rate is a monetary policy tool, which represents an interest rate set by the central bank and is used as the basic reference point when determining the value of monetary resources in the economy.

REPO transactions are the operations on purchase/sale of the government securities in the secondary market with an obligation of their resale/repurchase on a certain date in the future at the pre-agreed price.

State Treasury Bills are the short-term (3-, 6-, 12-month) discount government securities issued by the Ministry of Finance of the Kyrgyz Republic. Placing issues of the ST-Bills is made through weekly auctions conducted by the National Bank of the Kyrgyz Republic. Direct participants enjoy the right to participate in the auctions. The owners of the ST-Bills of the Kyrgyz Republic can be both the legal entities and the individuals. The admission of the foreign investors to the market of the ST-Bills is not limited. The transactions in the secondary market of the ST-Bills are conducted through the electronic trading system of the National Bank of the Kyrgyz Republic, which allows the participants to conduct transactions on purchase/sale of the ST-Bills from their workplaces.

State Treasury Bonds are the long-term government securities with the interest income (coupon) and maturity over one year issued by the Ministry of Finance of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic is the general agent servicing the issues of the ST-Bonds.

Annex 3. Abbreviations

CB	Commercial Banks
CBA	Central Bank of Armenia
CBRF	Central Bank of the Russian Federation
CJSC	Closed Joint Stock Company
CPI	Consumer Price Index
CT MF KR	Central Treasury of the Ministry of Finance of the Kyrgyz Republic
EAEU	Eurasian Economic Union
FAO	Food and Agriculture Organization of the United Nations
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
GS	Government Securities
IBCM	Interbank Credit Market
IMF	International Monetary Fund
KR	Kyrgyz Republic
KSE	Kyrgyz Stock Exchange
MED RF	Ministry of Economic Development of the Russian Federation
MFKR	Ministry of Finance of the Kyrgyz Republic
MP	Monetary Policy
National Bank	National Bank of the Kyrgyz Republic
NB RK	National Bank of the Republic of Kazakhstan
NSC KR	National Statistical Committee of the Kyrgyz Republic
OPEC +	Organization for Petroleum Exporting Countries
OR	Oil Refinery
PCE	Personal Consumption Expenditures Price Index
POL	Petroleum, oil, lubricants
RF	Russian Federation
ST-Bills	State Treasury Bills
ST-Bonds	State Treasury Bonds
USA	United States of America
VAT	Value Added Tax
WB	World Bank