

**National Bank of the Kyrgyz Republic**

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# **Inflation Report**

**Third quarter of 2011**

**October 2011**

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**Bishkek**

## *Inflation Report*

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This edition contains the description of the consumer price trends in the Kyrgyz Republic and its regions, analysis of major inflation factors, decisions made by the National Bank of the Kyrgyz Republic on monetary policy, and also presents inflation forecast for the upcoming period. It is published on a quarterly basis in Kyrgyz, Russian and English languages.

The last update of the present publication is: October 28, 2011.

Founder: The National Bank of the Kyrgyz Republic.

This edition has been registered by the Ministry of Justice of the Kyrgyz Republic (mass media registration certificate No 628)

Prepared for publication and printed by the publishing house LLC “Line Print”.

Number of copies - 100.

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

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

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

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

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

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

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

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

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

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

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## Chapter 1. Economic Situation in the Kyrgyz Republic

### 1.1. Demand and Supply on Commodities and Services Market

#### 1.1.1. Demand

According to the preliminary data in January-September 2011 the volume of nominal GDP at current prices was 189.3 billion KGS, having increased by 8.7 percent in real terms against the volume of GDP for the comparable period of 2010 (in January- September 2010 GDP decreased by 1.2 percent). Exclusively of enterprises on exploration of gold-mining deposit “Kumtor”, GDP increased by 6.8 percent, whereas in January to September 2010 corresponding index decreased by 2.3 percent. GDP deflator in January-September 2011 constituted 18.6 percent (in January- September 2010 corresponding index constituted 6.6 percent).

In the first half of 2011 GDP, calculated by the expenditure method, grew by 5.5 percent as compared to the same period in 2010 (in January-June 2010 the increase was 4.4 percent). GDP growth was achieved through the growth in exports by 9.8 percent, primarily by significant increase in gold exports and domestic demand (the sum of final consumption expenditure and gross savings) by 6.6 percent (in January-June 2010 the increase of the similar index was 1.2 percent). Taking into account the substantial dependence on import of consumption, domestic demand growth has stimulated the growth of imports by 10.6 percent in the first half of 2011.

**Table 1.1.1. Real GDP Growth Rates by Expenditure**

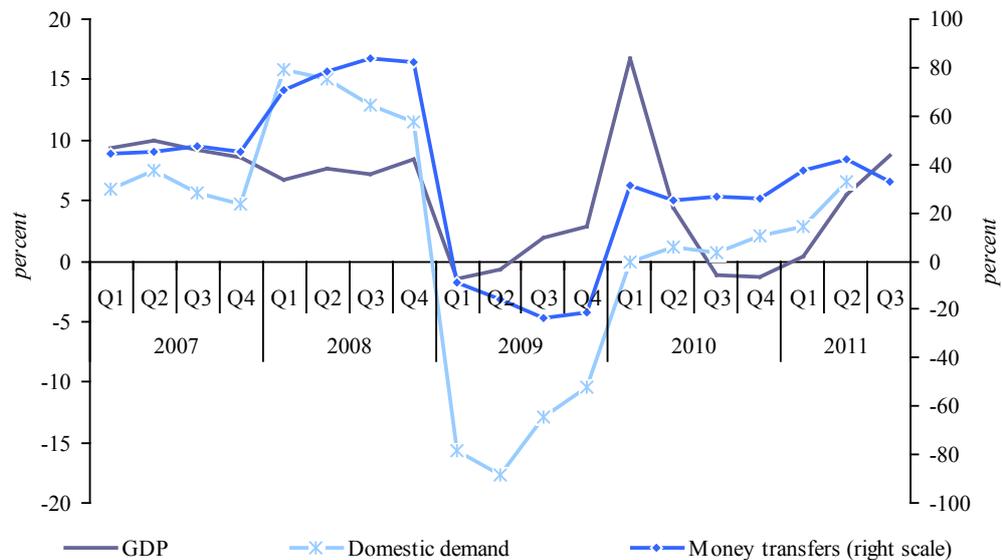
(period from the beginning of the year to the corresponding period of the previous year, percent)

	2010				2011	
	I	II	III	IV	I	II
<b>Used GDP</b>	<b>16.8</b>	<b>4.4</b>	<b>-1.2</b>	<b>-1.4</b>	<b>0.4</b>	<b>5.5</b>
Final consumption	1.8	3.5	4.0	3.9	1.6	6.6
Individual consumption	1.9	3.8	4.2	4.1	1.5	6.9
Households	2.1	4.2	4.6	4.6	1.6	7.9
NCOSH	2.7	2.0	2.0	2.0	1.1	9.1
Governmental Institutions	-0.2	0.5	0.7	0.5	0.4	-0.7
Collective consumption	0.8	1.5	1.9	1.7	2.1	4.1
Gross savings	-13.9	-9.8	-12.0	-4.5	13.6	6.6
Export	32.1	0.7	-4.6	-4.2	-10.3	9.8
Import	0.4	-0.6	0.3	1.6	-7.4	10.6

Source: NSC KR

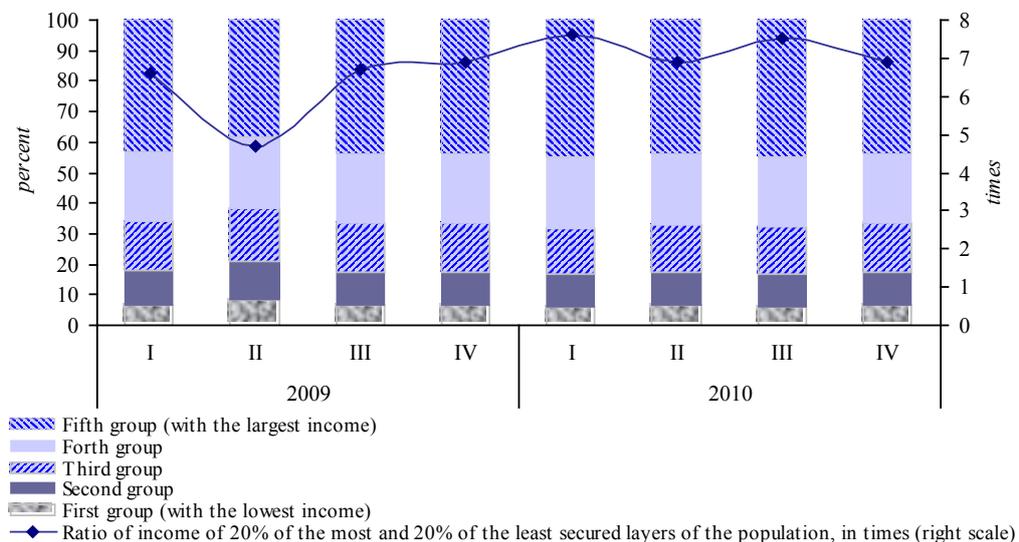
Growth in domestic demand is contributed by significant inflow of remittances of individuals, the growth of spending on wages of social workers, as well as other factors stimulating consumption (Chart 1.1.1). It is expected that the positive dynamics of increase in domestic demand will continue until the end of 2011.

**Chart 1.1.1. Dynamics of Changes in GDP, Domestic Demand and Remittances**  
(period from the beginning of the year to the corresponding period of the previous year, percent)



A high proportion of the concentration of incomes among the most secured population still controls the distribution of total income to the advantage of high-yielding groups. Thus, the income share of the most well-being group in 2010 was 43.7 percent of total income, having decreased by 0.1 percentage points in comparison with the similar indicator in 2009. The share of income of 20 percent of the least secured population constituted 6.4 percent.

**Chart 1.1.2. Composition of Household Money Income by Quintile Groups**  
(year-to-date)



According to the preliminary data in January to September 2011, there was increase in inflow of remittances through money transfer systems. The total net inflow volume in January-September 2011 increased by 32.6 percent against corresponding index of 2010 which constituted in January-September 2010 - 26.5 percent. The main share of money transfers is accounted for the CIS countries, including Russia 1.1 billion USD, where the majority of labor migrants are concentrated.

**Table 1.1.2. Remittances of Individuals in Money Transfer Systems**  
(mln. USD)

	2008	2009	2010	Jan-Sep. 2010	Jan-Sep. 2011**
<b>Balance</b>	<b>1,138.2</b>	<b>893.2</b>	<b>1,124.9</b>	<b>803.7</b>	<b>1,065.8</b>
<b>Inflow</b>	<b>1,205.5</b>	<b>966.7</b>	<b>1,252.6</b>	<b>887.4</b>	<b>1,197.3</b>
CIS countries	1,141.4	894.4	1,199.3	845.8	1,152.9
Kazakhstan	27.9	31.4	35.0	24.6	29.0
Russia	1,113.5	862.9	1,164.3	821.1	1,121.7
Others	0.1	0.0	0.0	0.0	2.2
Far-abroad countries	64.1	72.3	53.3	41.6	44.4
Belgium	0.5	0.5	0.2	0.1	1.4
Great Britain	1.8	1.4	1.4	1.1	1.1
Germany	0.2	0.7	9.9	7.3	14.2
USA	61.4	69.5	41.7	33.0	26.6
Others	0.2	0.3	0.1	0.0	1.1
<b>Outflow</b>	<b>67.3</b>	<b>73.6</b>	<b>127.6</b>	<b>83.7</b>	<b>131.5</b>
CIS countries	65.0	71.8	125.8	82.5	128.7
Kazakhstan	2.5	0.7	0.4	0.2	0.6
Russia	62.5	71.1	125.4	82.3	127.9
Others	0.0	0.0	0.0	0.0	0.3
Far-abroad countries	2.3	1.8	1.8	1.2	2.8
Belgium	0.1	0.2	0.5	0.3	0.6
Germany	0.4	0.4	0.3	0.2	1.0
USA	1.7	1.1	0.9	0.6	1.0
Others	0.1	0.1	0.2	0.1	0.2

\* Anelik, Blizko, Contact, Migom, MoneyGram, Western Union, Unistream, Zolotaya Korona, Leader, Bystraya Pochta, Allyur and other money transfer system and remittances via the PE "Kyrgyzpochtasy".

\*\* Preliminary data.

According to the preliminary data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, the state budget deficit was 4.8 billion KGS or 2.5 percent to GDP in the period of January-September 2011 (in the comparable period of 2010 state budget deficit amounted to 5.4 billion KGS or 3.7 percent to GDP).

State budget revenue and received official transfers increased by 35.6 percent in comparison with the corresponding index of 2010 and amounted to 55.0 billion KGS or 29.1 percent to GDP. At that tax income and non-tax revenues provided contribution to increase in the state budget income from operational activity by 33.3 percentage points, whereas revenues of official transfers provided negative contribution into this increase by 2.3 percentage points.

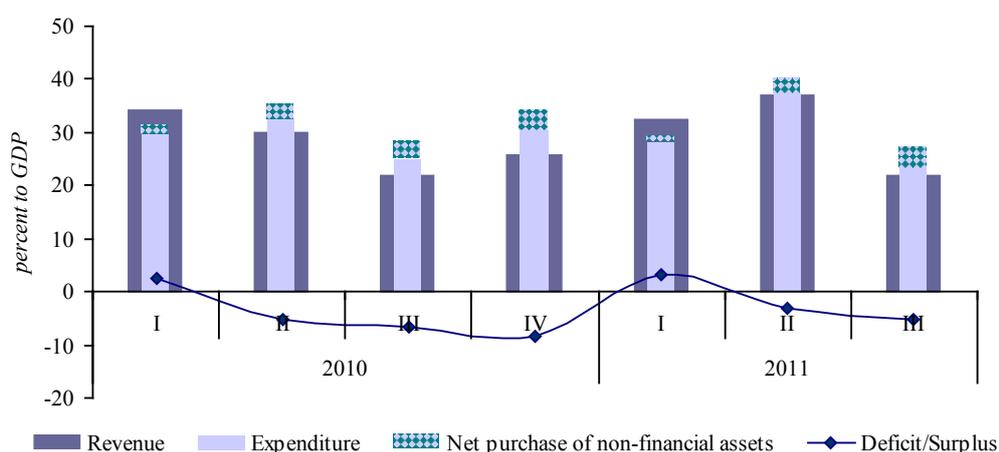
Total state budget expenditures for operating activities in January-September 2011 were 54.3 billion KGS or 28.7 percent to GDP, having increased by 12.4 billion KGS or 29.6 percent to GDP against the comparable indicator for corresponding period of 2010. There was the tendency for increase in budget expenses for current consumption. Thus, expenses for salary and deductions to the Social Fund of the Kyrgyz Republic as well as for social benefits in January-September 2011 constituted 50.6 percent from the total volume of governmental expenditures for operating activities, having increased by 29.1 percent against the comparable indicator for corresponding period of 2010.

In the reporting period, the net outflow of funds for operations on purchases of

non-financial assets amounted to 5.5 billion KGS which is for 1.5 billion KGS or by 36.7 percent more as compared to the corresponding period of 2010.

According to the preliminary data of the Social Fund of the Kyrgyz Republic, the state budget deficit was 76.0 million KGS or 0.04 percent to GDP in the period of January-September 2011, revenue – 16.3 billion KGS or 8.6 percent to GDP, expenditures – 16.4 billion KGS or 8.6 percent to GDP.

**Chart 1.1.3. State Budget Implementation** (in the indicated period)



In January-September 2011 the level of investments in fixed capital increased by 5.0 percent and constituted 31.0 billion KGS against the decline of 21.7 percent as per results of January-September 2010. Sectoral structure of investments suggests that the increase in disbursements for transport and communication facilities (reconstruction of the automobile road “Bishkek-Naryn-Torugart”), as well as manufacturing facilities contributed significantly to the increase in investments. However, there is a sharp decline in investment in production and distribution of electricity, gas and water; in particular, investments in construction of hydroelectric power station “Kambar-Ata” have been decreased to 2.2 billion KGS in comparison with January-September 2010, while investment in construction of trade, repair of motor vehicles, household goods and personal items decreased to 191.5 million KGS.

**Table 1.1.3. Investments in the fixed capital by sources of finances**

	Jan-Sep. 2010	Jan-Sep. 2011	Jan-Sep. 2010	Jan-Sep. 2011
	million KGS		percents to total	
<b>Total</b>	<b>24,905.2</b>	<b>31,014.6</b>	<b>100.0</b>	<b>100.0</b>
<b>Internal investmets</b>	<b>19,419.3</b>	<b>21,952.3</b>	<b>78.0</b>	<b>70.8</b>
Republican budget (including funds intended for emergencies)	1,399.7	3,259.7	5.6	10.5
Local budget	385.8	299.6	1.5	1.0
Funds of enterprises and organizations	8,578.3	9,916.2	34.4	32.0
Bank credit	2,208.0	71.2	8.9	0.2
Population assets	6,847.5	8,405.6	27.5	27.1
<b>External investment</b>	<b>5,485.9</b>	<b>9,062.3</b>	<b>22.0</b>	<b>29.2</b>
Foreign credit	2,790.4	6,228.4	11.2	20.1
Foreign direct investment	1,860.4	1,987.2	7.5	6.4
Foreign grants and humanitarian aid	835.1	846.7	3.4	2.7

Source: NSC KR

*In 2010, the sources of investments were reclassified from the article “The Republican Budget” into “Bank Credits”. In 2011, the funding for these investments was returned to the article “The Republican Budget”.*

Changes in the structure of investment in fixed capital by sources of funding for three quarters of 2011 are opposite to the results for two quarters of this year. The growth rate of domestic investment, occupying 70.8 percent of total investments, decreased by 4.3 percent and the rate of growth of foreign direct investment increased by 37.8 percent as compared to the similar index of the previous year. In January-September 2011 domestic investments, mainly were financed by the enterprises, organizations and the population, and foreign investments have been provided by foreign credits, aimed primarily at transport facilities and communication.

The volume of credit portfolio of commercial banks as of the end of September 2011 constituted 30.1 billion KGS, having increased in comparison with the beginning of the current year by 13.9 percent (in corresponding period of 2010, decrease constituted 5.0 percent). The increase in economy crediting, the positive dynamics of growth of inflows to the country, as well as the increase of trade volume indicate the beginning of the restoration of economic activity in the country.

**Table 1.1.4. Sectoral Structure of Commercial Banks’ Credit Portfolio**

	Jan-Sep. 2010		Jan-Sep. 2011	
	total, million KGS	growth pace, percents	total, million KGS	growth pace, percents
<b>Credit portfolio</b>	<b>26,466.5</b>	<b>105.0</b>	<b>30,053.5</b>	<b>113.9</b>
Trade and commercial operations	11,679.7	111.7	13,434.3	118.5
Agriculture	3,449.5	111.8	4,067.6	121.4
Industry	1,334.3	96.1	1,593.3	107.6
Mortgage	2,865.5	92.8	2,768.7	97.1
Construction	1,943.4	99.6	1,769.3	86.8
Consumer credits	1,878.8	92.6	2,456.0	130.5
Other	3,315.2	103.0	3,964.4	115.2

Moreover, in the first half of 2010 there was a growth of crediting by non-banking financial institutions. Loans issued by microfinance institutions and credit unions, which occupy the major share in total loans of non-banking financial institutions (NBFI) increased by 36.4 percent over the same period of 2010 and at the end of June 2011 amounted to 13.2 billion KGS. In the sectoral structure, the largest share of loans in January-June 2011 accounted for agriculture sector (52.1 percent) and 26.6 percent for trade and commerce sector.

**Table 1.1.5. Sectoral structure of credit portfolio of non-banking financial institutions**

	Jan-Jun 2010		Jan-Jun 2011	
	total, million KGS	growth pace, percents	total, million KGS	growth pace, percents
<b>Credit portfolio</b>	<b>9,696.4</b>	<b>117.1</b>	<b>13,225.0</b>	<b>136.4</b>
Agriculture	4,825.8	136.1	6,890.8	142.8
Trade and commercial transactions	2,973.0	105.4	3,517.6	118.3
Other	277.9	41.2	864.3	311.0
Services	487.5	115.4	437.7	89.8
Consumer credits	444.9	153.9	809.1	181.8
Construction and mortgage	225.7	112.7	275.5	122.1
Industry	196.3	119.5	230.5	117.4
Transport and communication	119.2	83.0	169.9	142.5
Procurement and processing	146.0	680.8	29.6	20.3

### 1.1.2. Supply

Main contribution into GDP growth in January-September 2011 were made by branches of processing industry (4.6 percentage points) mainly, by increasing of production at enterprises on exploration of gold-mining deposit “Kumtor” and the growth of production and distribution of electricity, gas and water. Significant contribution to GDP growth has also been made by the enterprises of trade (0.8 percentage points), transport and communication (1.1 percentage points).

The volume of total supply of goods and services in January-September 2011 was provided by production of agriculture by 19.7 percent, processing industry – by 17.2 percent, trade – by 15.0 percent, transport and communication – by 8.6 percent from the total volume of GDP.

**Table 1.1.6. Contribution of Individual Activities to GDP Increase/Decrease**

	Jan-Sep. 2010		Jan-Sep. 2011	
	growth rate, percent	contribut. to growth, p.p.	growth rate, percent	contribut. to growth, p.p.
<b>Gross domestic product</b>	<b>-1.2</b>	<b>-1.2</b>	<b>8.7</b>	<b>8.7</b>
Gross added value	-1.2	-1.1	8.7	7.7
Agriculture, hunting & forestry	-1.7	-0.3	2.5	0.5
Mining industry	2.4	0.0	21.3	0.1
Processing industry	18.2	2.2	26.1	3.8
Electricity, gas, and water generation and distribution	12.0	0.3	22.4	0.7
Construction	-28.7	-1.9	8.6	0.4
Trade, repair	-8.8	-1.5	5.0	0.8
Hotels and restaurants	-13.6	-0.2	10.6	0.1
Transport and communication	0.5	0.0	11.4	1.1
Financial activity	1.2	0.0	8.0	0.1
Real estate transactions, rent	0.3	0.0	-1.7	-0.1
State management	1.9	0.1	4.9	0.3
Education	0.7	0.0	-0.9	0.0
Health and provision of social services	1.0	0.0	1.0	0.0
Provision of utility and personal services	-0.7	0.0	0.4	0.0
Net tax on products	-1.2	-0.1	8.7	0.9

Source: NSC KR

According to the preliminary data for January-September 2011 the physical volume index (PVI) of industrial production decreased by 25.4 percent as compared to the similar index of 2010 (in January-September 2010 volume of industrial production grew by 16.8 percent). The growth of industrial production volume is, mainly, due to the increase in steel production (130.0 percent), textile and clothing industry (in 1.7 times), the production of other non-metal mineral products (128.8 percent), manufacture of transport equipment (in 2.1 times), as well as increased production and distribution of electricity, gas and water (122.4 percent). The growth of industrial production volume is provided due the increase of 21.4 percent, excluding of enterprises “Kumtor”, at that, the similar index of 2010 increased by 15.8 percent.

According to the preliminary data, in agriculture, during the reporting period, an increase in production had been marked at 2.5 percent (in January-September 2010 – decreased by 1.7 percent).

An increase in lending, along with other favorable factors, ensured the growth of trade turnover in January-September 2011 to 5.4 percent (in the same period in 2010 there was a decrease of 10.7 percent). The reporting period was marked by growth in all sectors of trade, except repair of household goods. It should be noted that the retail trade turnover, which occupies the largest share in the structure of trade investments (54.2 percent) increased by 3.5 percent.

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

	Jan-Sep. 2010		Jan-Sep. 2011	
	share, percent	growth rate, percent	share, percent	growth rate, percent
<b>Trade</b>	<b>100.0</b>	<b>89.3</b>	<b>100.0</b>	<b>105.4</b>
Trade in cars and their spare parts	3.1	83.9	2.8	110.7
Car maintenance	0.5	83.3	0.4	106.3
Retail trade in motor oil	9.8	89.8	10.0	118.5
Wholesale trade	32.4	84.0	32.4	104.1
Retail trade	54.0	93.1	54.2	103.5
Repair of household appliances	0.2	77.1	0.2	91.2

Source: NSC KR

## 1.2. Monetary trends

### Monetary base

As of October 1, 2011, monetary base constituted 51.2 billion KGS, having increased by 2.5 percent in the third quarter of 2011 (in the third quarter of 2010 increase of monetary base constituted 7.6 percent or on an annualized basis, monetary base increased by 16.1 percent).

Growth of monetary base of 1.2 billion KGS occurred, mainly, due to operations of the Government for 3.0 billion KGS. At the same time, National Bank operations have reduced the monetary base by 1.8 billion KGS. For comparison, in the same period of 2010 the monetary base increased by 3.1 billion KGS. The Government’s contribution to the growth of the monetary base amounted to 4.2

billion KGS; where as the operations of the National Bank reduced the monetary base by 1.1 billion KGS.

As of October 1, 2011, the money in circulation constituted 46.6 billion KGS, having increased by 2.2 percent in the third quarter of 2011 (in the third quarter of 2010 increase constituted 8.3 percent). Growth of money in circulation on an annualized basis as of October 1, 2011 constituted 16.4 percent.

In the structure of monetary base for the third quarter of 2011 there was decrease in the share of cash in circulation from 91.1 at the end of June 2011 to 90.9 percent as of the end of September 2011, correspondingly, the share of funds on correspondent accounts of commercial banks in the National Bank of the Kyrgyz Republic increased from 8.9 to 9.1 percent.

### **M2 Aggregate**

As of October 1, 2011, M2 constituted (M0 + deposits in national currency) 58.7 billion KGS, having increased by 4.3 percent in the third quarter of 2011 (in the third quarter of 2010 increase of M2 constituted 7.6 percent). Increase in the monetary aggregate M2 was mainly provided by growth of money outside of the banks by 1.8 percent and deposits in national currency - by 12.6 percent, including transferable deposits (demand deposits) by 14.2 percent, and other deposits (fixed deposits) by 9.7 percent.

On an annualized basis, increase in M2 as of October 1, 2011 constituted 18.9 percent.

### **M2X Aggregate**

The volume of M2X broad money (M2+deposits in foreign currency) as of October 1, 2011 constituted 76.5 billion KGS, having increased in the third quarter of 2011 by 4.7 percent (in the corresponding period of 2010 increase of M2X constituted 10.1 percent) or on annualized basis, M2X increased by 21.6 percent. The total amount of deposits<sup>1</sup> included in the definition of broad money M2X also increased by 9.0 percent, including deposits in national currency increased by 12.6 percent, while deposits in foreign currency - by 6.2 percent (for the same period of 2010, total deposits increased by 12.5 percent, and money outside of the banks - by 8.6 percent).

Structure of M2X for the third quarter of 2011 was changed in the following way:

- the share of money outside of the banks decreased from 59.5 to 57.8 percent;
- the share of deposits in national currency increased from 17.6 to 18.9 percent;
- the share of deposits in foreign currency increased from 22.9 to 23.2 percent.

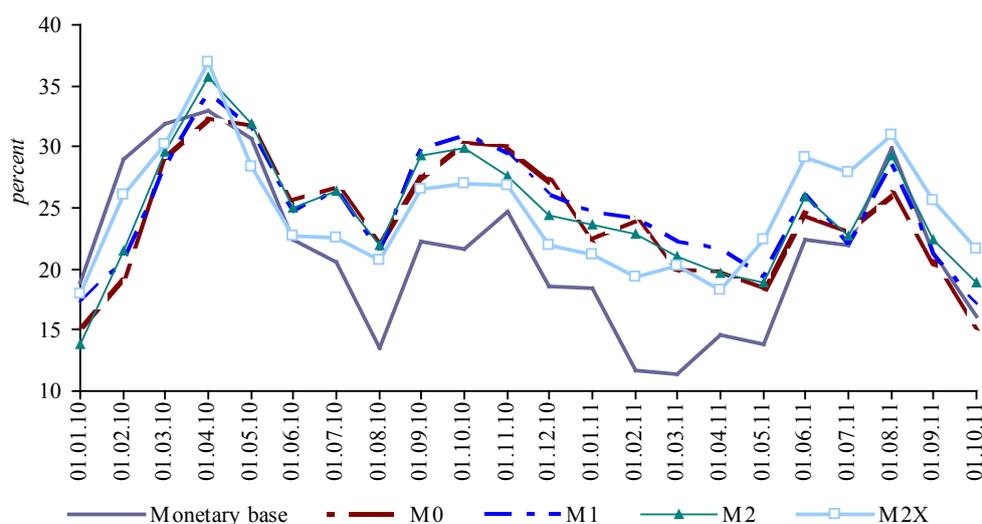
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<sup>1</sup> According to the banking system analytical data sheet, the deposits comprise only the deposits of individuals and legal entities, as well as the deposits of other finance and credit institutions, with the Government deposits and the deposits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

In the third quarter of 2011 the multiplier of M2X broad money, as an indicator of financial intermediation degree, increased by 1.462 as of the end of June to 1.494 as of the end of September (as of the end of September 2010–1.426).

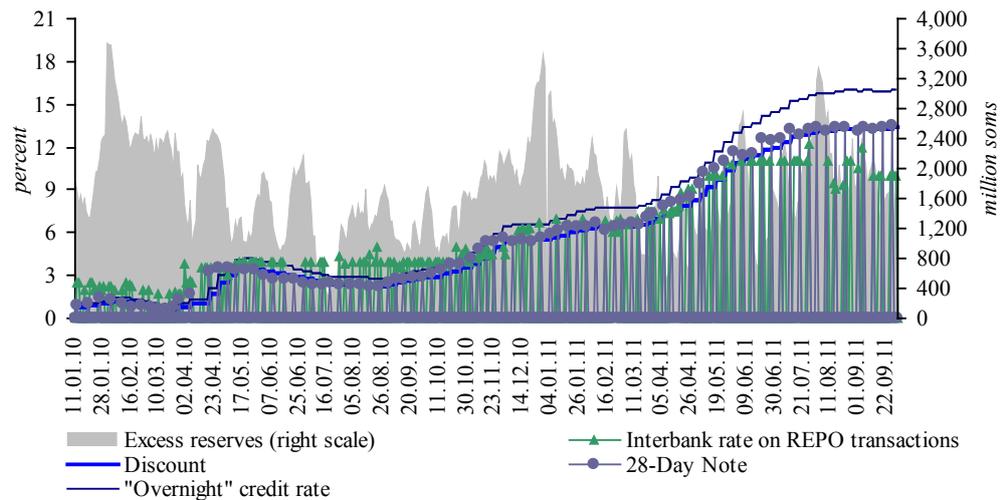
In the third quarter of 2011 velocity of M2X broad money circulation increased from 3.5 as of the end of June to 3.7 as of the end of September (as of the end of September 2010 it was equal to 3.7). Reverse index of circulation – velocity, economy monetization, coefficient, calculated based on M2X monetary aggregate, decreased from 28.4 as of the end of June to 27.3 as of the end of September (as of the end of September 2010 it was 26.9 percent).

**Chart 1.2.1. Annual Nominal Growth Rates of Monetary Aggregates**



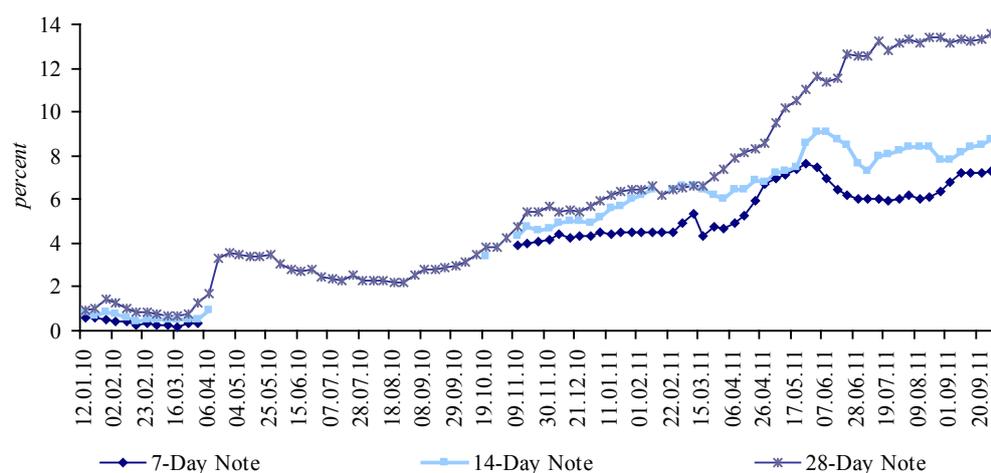
In the third quarter of 2011 the situation in financial markets had been evolved against a background of increasing liquidity in the banking system and decrease in inflation. The process of growth in excess reserves was accompanied by a decrease in periods of significant fluctuations in comparison with the previous quarter, which coupled with the continued relatively high yields, resulted in an increase in sales for all types of placement of government securities. At the same time in the interbank market of credit resources a decrease in activity was noted in the form of reduced demand for borrowed funds, which was resulted in reducing the cost of credit resources in national currency. In addition, there was a decrease in demand for NBKR financial instrument “overnight” which was resulted in the decrease of transaction volume by 96.9 percent.

Chart 1.2.2. Dynamics of Monetary Market Rates



In the third quarter of 2011, the National Bank increased supply of 14-day and 28-day notes. However, demand from investors still remained at a low level, without reaching for this volume supplies in most of the auctions held. As a result, the average return rate for all types of notes in comparison with the previous quarter had been decreased again. By types of securities, their growth was provided by high average yield of 14-day and 28-day notes, having increased by 8.3 percent (0.5 percentage points) and 13.2 percent (2.9 percentage points) in comparison with profitability in the second quarter of 2011 respectively. At the same time the yield of 7-day notes decreased from 0.1 percentage points to 6.4 percent. As compared with the corresponding period of 2010 the yield of 28-day notes increased by 10.7 percentage points. In the third quarter of 2010, 7-day and 14-day NBKR notes were not placed.

Chart 1.2.3. Dynamics of the Yield of NBKR Notes

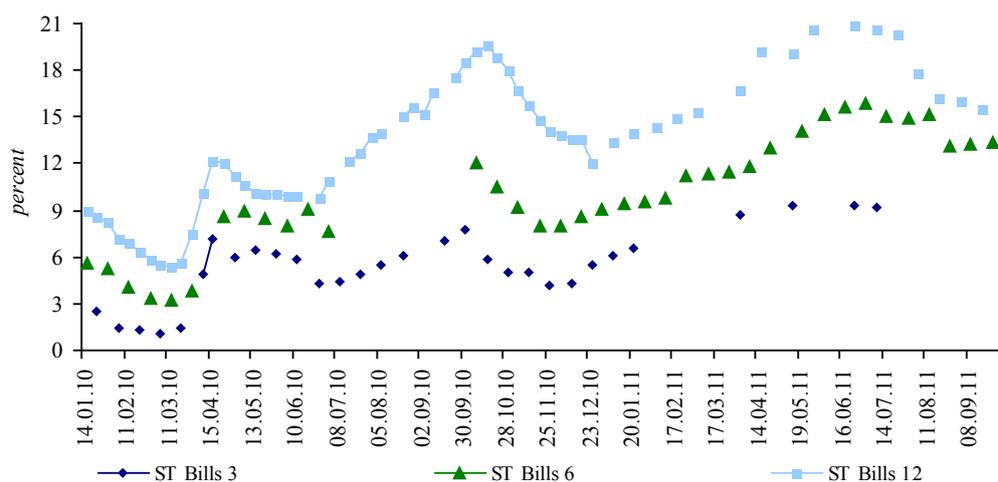


By the end of September the discount rate constituted 13.4 percent, having increased from the beginning of the year by 7.9 percentage points. As a result, the rate for "overnight" credits has also increased and reached 16.1 percent by the end of the quarter, while the volume of issued "overnight" credits amounted to 105 million KGS with an average rate of 15.6 percent.

Due to the relatively low demand for ST-Bonds in the third quarter there were held two auctions and one additional placement. On the results of the reporting period, the volume of supply in the average auction increased by 203.3 million KGS. As a result, the average return of ST-Bonds amounted to 18.0 percent (-1.5 percentage points) in the third quarter.

In the third quarter of the volume of supply of the bills of the Ministry of Finance in the primary market of ST-Bills decreased again. However, investment activity has been increased which led to the decrease of average profitability of the securities by 16.9 percent (-1.3 percentage points). At that, profitability of 3-month ST-Bills decreased by 0.1 percentage points and constituted 9.2 percent, 6-month ST-Bills by 0.2 percentage points and constituted 13.9 percent, 12-month ST-Bills by 2.5 percentage points and constituted 17.7 percent. With respect to the profitability for the same quarter in 2010, the total profitability index of ST-Bills increased by 3.7 percentage points and increase profitability was observed in all market segments: in 3-month ST-Bills - 3.3 percentage points, 6 -month ST-Bills - 6.3 percentage points and 12-month ST-Bills - 2.9 percentage points.

Chart 1.2.4. Dynamics of Yield of ST-Bills



The situation in the interbank market of credit resources still was influenced by changes in the volume of excess reserves in the banking system. A decrease in demand for some liquidity compared to the second quarter of this year has led to a decrease in activity in the relevant borrowing market, including a reduction in the number of operations performed. In this case, a decrease in demand for all types of credits provided, including “overnight” credits of the National Bank to support a short-term liquidity in domestic currency. The cost of resources in terms of interbank credits in national currency had been decreased but the continuing dynamics of NBKR interest rates contributed to higher rates REPO-transactions and “overnight” credits.

The total volume of some loans in the interbank market of credit resources amounted to 1.3 billion KGS, having decreased in comparison with the value of the previous quarter to 36.3 percent. As before, the bulk of the transactions were concluded in the segment of REPO-transactions and constituted 1.0 billion KGS

(-34.2 percent). The volume of credit transactions constituted 270.7 million KGS (-40.6 percent). In the third quarter, the weighted average interest rate on REPO-transactions increased by 0.7 percentage points to the level of 10.4 percent, while the corresponding figure for credit operations decreased by 1.4 percentage points to the level of 8.6 percent. Compared to the weighted average interest rate in the corresponding quarter of 2010, the rate on REPO-transactions increased by 6.4 percentage points, but on ordinary credit transactions in national currency by 4.7 percentage points.

In the reporting period, foreign exchange transactions in the domestic interbank market of credit resources were not implemented.

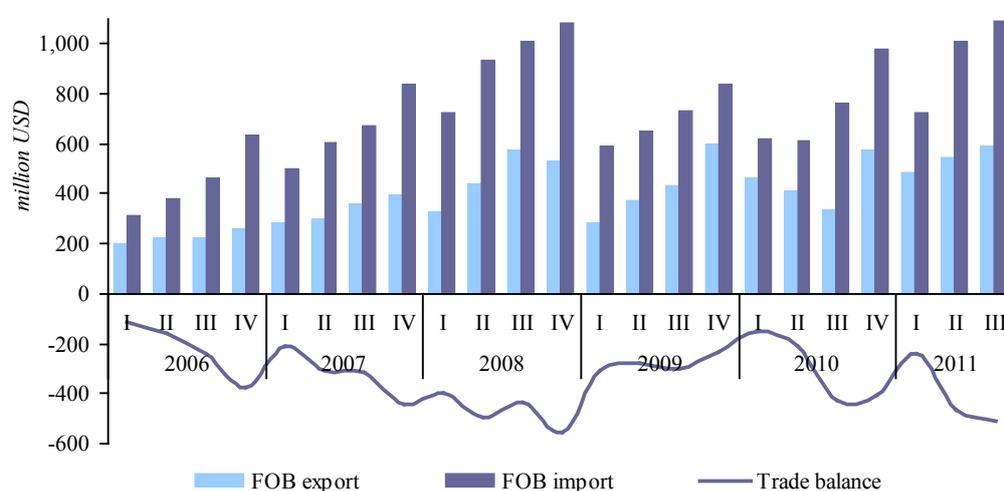
### 1.3. External Economic Conditions

#### Trade Balance<sup>1</sup>

Pursuant to the preliminary data, deficit of trade balance of the Kyrgyz Republic in the third quarter of 2011 constituted 507.3 million USD, having increased by 17.6 percent in comparison with the index of the third quarter of 2010.

The external turnover in the reporting period increased by 53.4 percent in comparison with the corresponding period of 2010 and amounted to 1 682.4 million USD.

Chart 1.3.1. Foreign Trade



In the third quarter of 2011 export of goods (in FOB prices) constituted 587.6 million USD, having increased by 76.6 percent in comparison with the corresponding index of the third quarter of 2010. As before, the dynamics of export were mainly influenced by delivery of gold, the export volume of which increased in 3.4 times, having reached 257.9 million USD. Moreover, exports of electricity, fruits and vegetables, as well as aviation kerosene were significantly increased. Along with these, there was a decrease of supply of tobacco, incandescent electric lamps,

<sup>1</sup> According to data of the NSC of the KR and SCS, including NBKR adjustments, unless otherwise specified.

meat and meat products, as well as before, from the beginning of the year, the chemical substances haven't been delivered in the whole.

In the reporting period, the shares of the main groups of exported goods<sup>1</sup> in total volume of export were as follows: intermediate goods constituted 58.0 percent, consumer goods – 20.6 percent, energy products – 12.5 percent, raw materials and investment goods – 4.7 and 4.3 percent respectively.

Exports of consumer goods increased by 13.1 percent and constituted 108.5 million USD. This increase was achieved due to the supply of food (+10.6 percent) and non-food products (+14.9 percent). In structure of food products, first of all, it is exports of vegetables, which increased by 70.4 percent (or 4.7 million USD) mainly due to the growth of the export price. Also as a result of increased export prices while reducing the volume of supplies, there was an increase in fruit exports (by 7.4 percent or 1.0 million USD), milk and dairy products (by 14.7 percent or 0.9 million USD). At that, a considerable reduction of the physical volume of supplies has caused reduction of the cost volume of exports of meat and meat products (by 90.6 percent or 3.2 million USD), oils and fats (by 67.4 percent or 1.5 million USD).

In structure of non-food products export growth was observed in clothes and clothing accessories commodity items (by 12.7 percent or 4.7 million USD).

Along with these, by reducing of the physical volume of deliveries, there was observed a reduction in exports of motor cars (by 75.5 percent or 3.6 million USD) and incandescent lamps (by 14.7 percent or 0.8 million USD).

Imports of goods<sup>2</sup> (in FOB prices) in the third quarter of 2011 grew by 43.3 percent and constituted 1 094.8 million USD. The main items of imports that determined its dynamics were petroleum products, clothes and clothing accessories, medical supplies, iron and steel. Among mentioned items the greatest change came for petroleum products (which increased by 46.6 percent or 87.5 million USD). Due to significant increase in the physical volume of income, the cost volume of imports of automobile gasoline has increased (by 55.6 percent or 48.0 million USD) and diesel fuel (by 1.3 times or 41.0 million USD). Along with these, despite the increase in import prices, a significant reduction in the physical volume caused the decrease in import of aviation kerosene (by 5.9 percent or 3.4 million USD).

According to the functional structure<sup>3</sup>, in the third quarter of 2011 the largest product categories in import transactions were consumer goods (33.9 percent of total volume of import), energy products (25.7 percent), intermediate goods (23.3 percent) and investment goods (14.0 percent).

During the reporting period imports of consumer goods reached 402.7 million

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<sup>1</sup> Here and further according to data of the NSC of the KR and SCS, excluding NBKR adjustments.

<sup>2</sup> CIF import constituted 1 186.0 million USD, the trade balance deficit – 598.5 million USD.

<sup>3</sup> Here and after in CIF prices, according to data of the NSC of the KR and SCS, excluding NBKR adjustments.

USD, having increased by 40.8 percent. At that, there was a growth of food products by 33.4 percent and non-food products by 45.6 percent as well.

In structure of food products, as a result of growth in import prices there was increase in sugar supply in value terms (by 35.6 percent or 7.1 million USD), vegetable oil (33.3 percent or 3.6 million USD). Besides that, as a result of increase of physical volume supplies and growth in import prices there was an increase in flour supply (in 2.2 times or 3.9 million USD). As a result of decrease as the physical volume supplies there was decrease in import of meat and meat products (by 15.5 percent or 2.9 million USD), and coffee, tea, cocoa, spices (by 10.5 percent or 1.4 million USD).

In structure of non-food products as a result of increase of the physical volume of income and growth in import prices, there was an increase in medical supplies (in 2.1 times or 21.4 million USD) and rubber tires (by 90.3 percent or 8.1 million USD). During a decrease of the physical volume, significant increase in import prices caused an increase in supplies of telephone devices (by 18.5 percent or 2.9 million USD). Also there was observed a significant increase in import of clothes and clothing accessories (by 80.4 percent or 23.6 million USD).

#### **1.4. Exchange Rate**

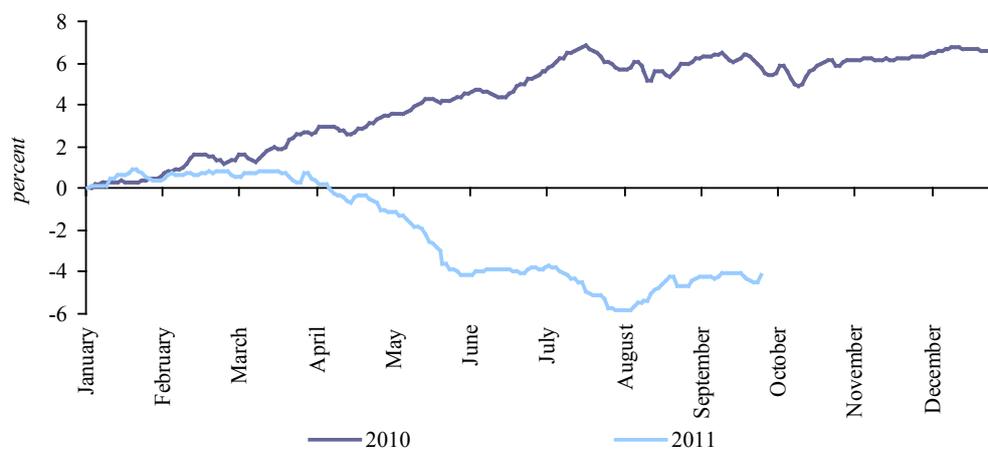
In the third quarter of 2011 the USD exchange rate decreased under influence of its dynamics in July, which was arose in conditions of maintaining of the volume of incoming foreign currency in form of remittances and increase of the quantitative index of foreign exchange transactions performed by commercial banks. In August there was a slight increase in the USD exchange rate which continued next month, due to the changes in the internal market conditions, in particular, due to the increase in banks' operations to service import contracts with their customers, and to a seasonal increase in consumer activity.

In the reporting period the National Bank of the Kyrgyz Republic in order to smooth the wide fluctuations of the exchange rate has participated in the interbank foreign exchange trading operations on USD purchase/sale. Against a background of increased demand for the currency, the NBKR increased its operations on USD sale as compared with the previous quarter in 2.7 times, to the amount of 78.2 million USD. At the same time the volume of transactions on USD purchase decreased by 30.3 percent and constituted 42.6 million USD (as compared to the third quarter of 2010 the NBKR increased the volume of transactions on USD purchase almost in three times, and on USD sale – by 28.5 percent). Thus, the net sales for the period constituted 35.6 million USD. The NBKR intervention currency was USD, transactions in other currencies have not been carried out.

As of the end of September the USD discount rate constituted 45.0008 KGS/USD, having decreased for the quarter by 0.5 percent (according to the third quarter of

2010 USD discount rate constituted 46.6377 KGS/USD, having increased in the quarter by 0.5 percent).

**Chart 1.4.1. Rates of Change of an Official Rate of US Dollar**



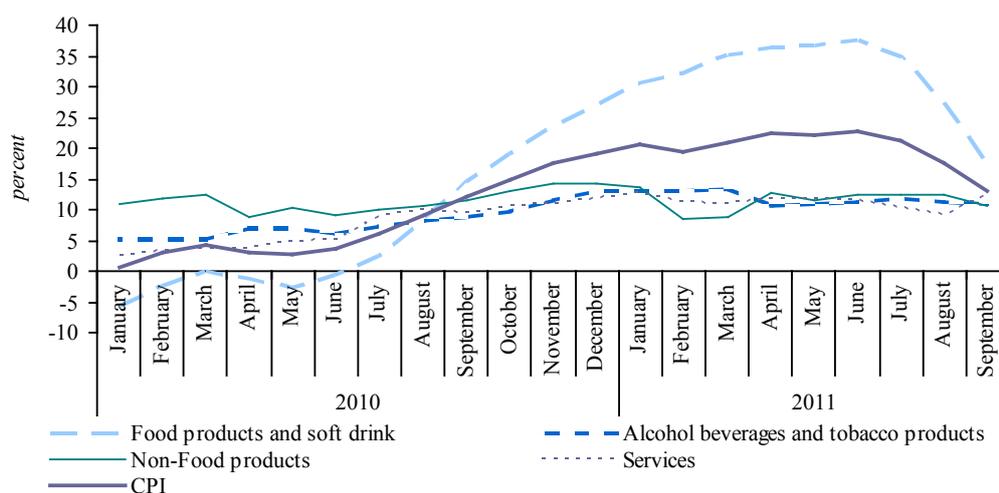
## Chapter 2. Inflation and its Components

### 2.1. Consumer Price Index Development<sup>1</sup>

In September 2011 the annual value of inflation (against September 2010) constituted 13.0 percent whereas in the corresponding period of the past year it was 12.1 percent. The largest increase of the consumer price index was registered for food products and non-alcohol beverages. This group of goods on an annualized basis got up by 17.5 percent. There was increase in prices for non-food products (10.6 percent); increase in prices for alcohol beverages and tobacco products constituted 10.9 percent, for paid services – 12.4 percent. At the end of the third quarter there was registered slowdown of annual growth inflation rates.

During the reporting period there was a significant deceleration in prices on basic foodstuffs (bread and cereals, fruits and vegetables, meat, sugar), as well as the low rate of increase in prices for non-food products and services which was one of the main factors that determined the price dynamics.

Chart 2.1.1. Annual CPI and its Components



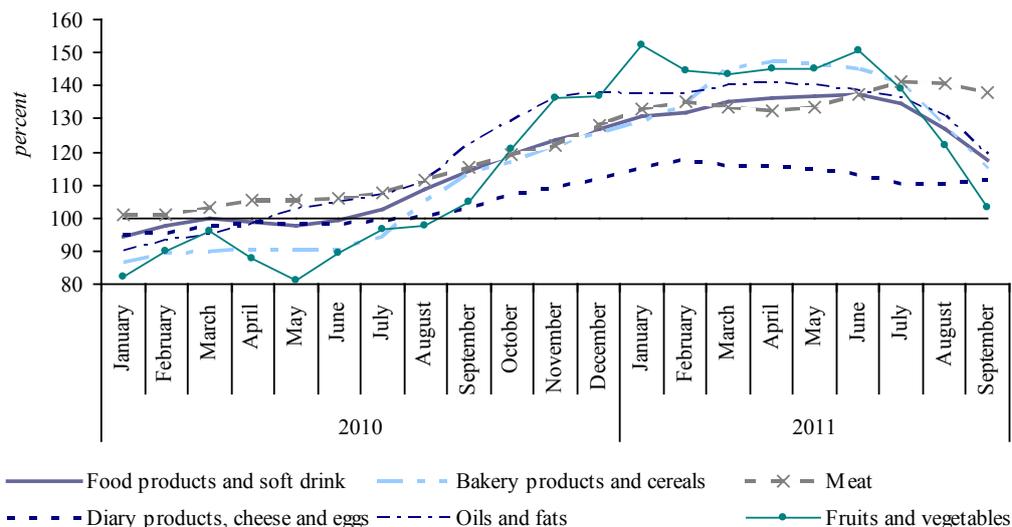
In the third quarter 2011, the CPI constituted 97.4 percent (in the third quarter of 2010 - 105.9 percent). CPI for food products was 92.7 percent, for alcohol beverages and tobacco products - 103.1 percent, for non-food products - 102.0 percent, for paid services - 105.0 percent.

#### 2.1.1. Dynamics of Prices for Food Products

In September 2011 food prices in annual terms increased by 17.5 percent (in the corresponding period of 2010 the prices in annual terms increased by 14.4 percent). The group of goods “bakery products and cereals” appreciated by 14.6 percent including wheat appreciated by 16.8 percent. In this case, in the third quarter of 2011 the prices for bakery products and cereals decreased by 5.4 percent, mainly under the influence of news about a good harvest of grain crops in trading partners and in the country. Prices for dairy products in annual terms increased by 11.7 percent and for fruits and vegetables - by 3.1 percent.

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

**Chart 2.1.2. Dynamics of Prices for Food Products**



In the third quarter of 2011 there was observed usual, for this period, price dynamics for fruit and vegetable products: fruits decreased by 36.0 percent and vegetables - by 40.6 percent. In annual terms, the commodity group “fruits and vegetables” have increased by 3.1 percent: prices for fruits have remained unchanged, for vegetables - increased by 5.9 percent.

Against the backdrop of the world situation there was a decline in sugar prices (-3.8 percent in the third quarter). In annual terms, growth in prices for this product slowed to 21.3 percent (6.9 percentage points relative to the previous quarter).

Against expectations of a good crop of oil seeds in the Kyrgyz Republic continues growth retardation of domestic prices for oils and fats. Thus, the annual rate of growth in prices of the group “oils and fats” on the results of September 2011 amounted to 19.2 percent against the growth rate by 38.4 percent increase as per results of June 2011.

In the third quarter of 2011 there was increase in consumer prices for dairy products, which amounted to 2.0 percent. According to the Ministry of Agriculture of KR, one of the main reasons for the increase in prices for dairy products has been a decrease in milk production, due to the lack of selective breeding work. In annual terms dairy products increased by 11.7 percent which 1.2 percentage points lower of the similar index in June.

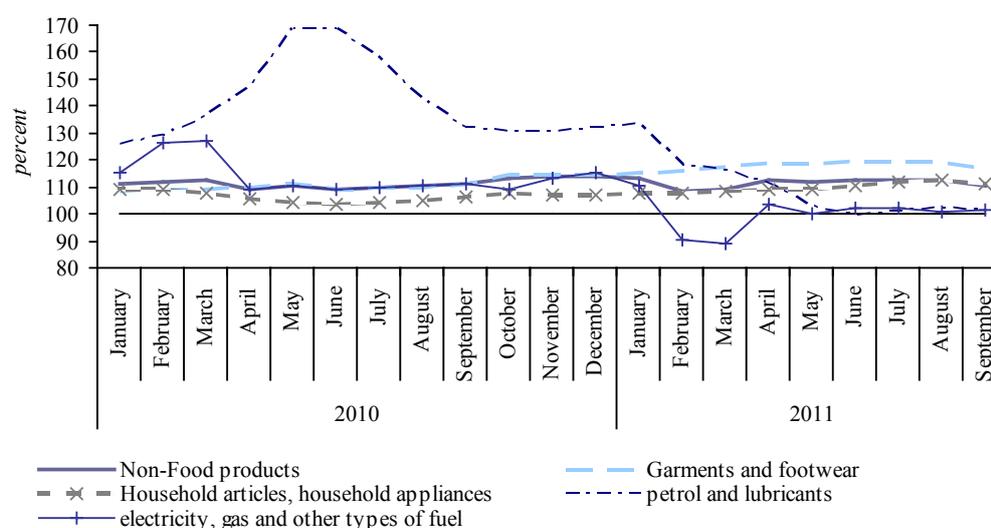
Prices for meat products continued to rise, reaching in annual terms by 38.1 percent. Since the beginning of 2011 the average monthly increase in meat prices constituted 2.4 percent.

**2.1.2. Dynamics of Prices for Non-Food Products**

In the third quarter of 2011, growth of the nonfood price index constituted 10.6 percent, which was 0.8 percentage points more in comparison with the corresponding index of 2010. Thus, the prices for clothes and shoes increased by 16.8 percent, mainly due to appreciation of men's and children's clothing by

21.0 percent and 17.1 percent respectively and shoe repair by 30.1 percent. There was increase in tariffs on “electricity, gas and other fuels” in annual terms by 1.2 percent. There was increase in prices for household articles and household appliances which constituted 11.3 percent. The main reason for the developed dynamics was increase in prices for furniture and floor covers by 16.3 percent and household textile products by 10.2 percent. The cost of fuel and lubricants in annual terms increased by 1.3 percent, including the rise in price for gasoline by 1.6 percent and diesel fuel by 4.4 percent. During the third quarter of 2011 the price fuels and lubricants increased by 5.1 percent, including gasoline which grew by 5.9 percent, diesel fuel fell by 0.5 percent.

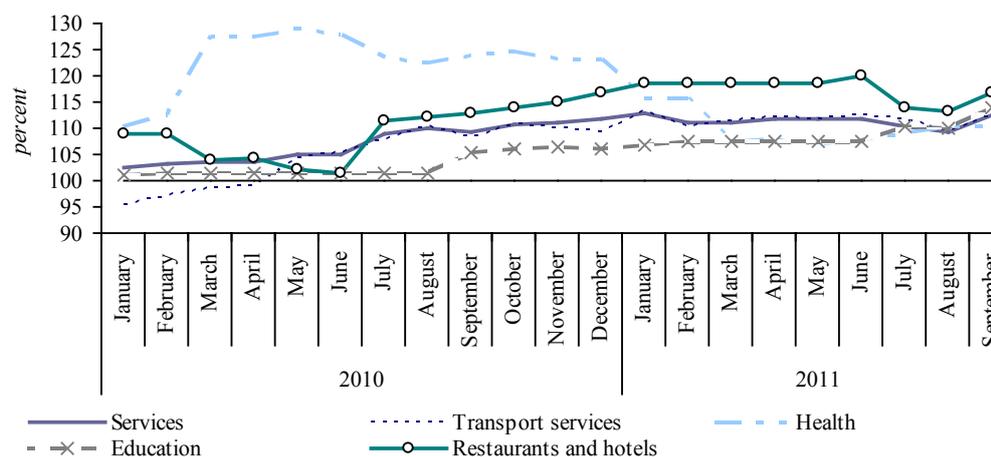
**Chart 2.1.3. Annual Dynamics for Non-Food Prices**



### 2.1.3. Dynamics of Prices for Services

In the third quarter of 2011 the price index for paid services in annual terms grew by 12.4 percent (in the corresponding period of 2010 it constituted 9.4 percent). Growth on index in this group of products was mainly due to appreciation of restaurants and hotels by 16.8 percent, as well as transportation services (+12.5 percent) and recreation services (13.2 percent). After beginning of the new school year, there was increase in education services which cost in annual terms 13.8 percent. Cost of health services increased by 10.2 percent.

**Chart 2.1.4. Annual Dynamics of Prices for Paid Services**

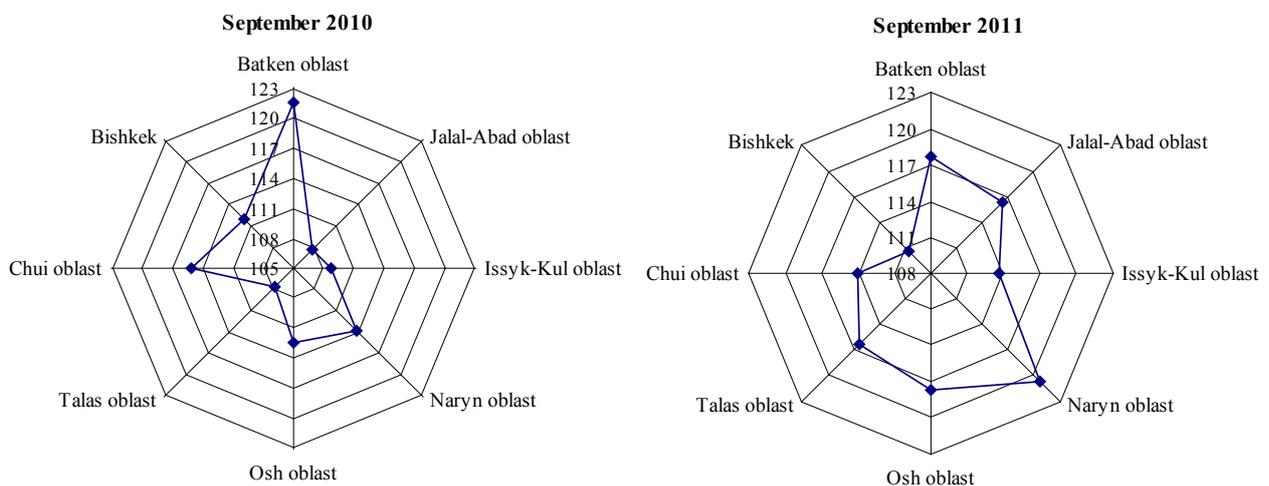


### 2.1.4. Consumer Price in Regions

As per results of September 2011 retardation of the general level of consumer prices was registered in all regions of the republic. In most areas, the rate of inflation in annual basis did not exceed index of 20 percent. Consumer prices increased in Batken oblast by 17.7 percent, Osh oblast by 17.6 percent, Jalalabad oblast by 16.5 percent, Talas oblast by 16.3 percent. In Chui and Issyk-Kul oblasts the prices rose by 14.1 and 13.7 percent relatively. The main reason which slowed down the overall price level was the reduction of food prices in the third quarter of 2011.

In the capital of the Kyrgyz Republic there was increase in prices by 10.7 percent, at that food products appreciated by 15.8 percent, alcohol beverages and tobacco products – by 11.0 percent, non-food products – by 6.6 percent and paid services – by 8.6 percent.

Chart 2.1.5. Annual CPI in Regions



### 2.2. Core Inflation

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

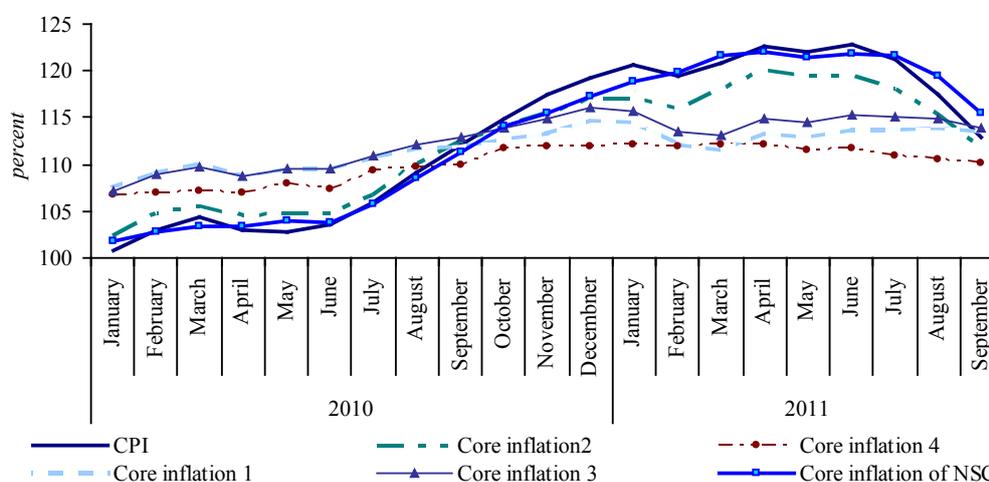
Dynamics of core inflation calculated by means of the method of simple exclusions is described below. This method implies the removal of categories or the whole group of goods and services, highly sensitive to shocks, from CPI. Traditionally, such goods comprise some food products, energy resources and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

From April 2010, the National Statistics Committee of the Kyrgyz Republic started calculation of the core inflation by the method of simple exclusions (according to the approved methodology No.9, dated April 29, 2010). When calculating, such products as milk, sugar, some types of vegetables and fruits,

alcohol-tobacco production, fuels and lubricants, trade group “electric energy, gas and other types of fuel”, passenger transportation services, communication services and some others, are excluded. In general the share of excluded goods constitutes 25 percent from the overall consumer goods basket.

Value of the core inflation, estimated in accordance with the methodology of the National Statistics Committee of the Kyrgyz Republic, as per results of September 2011 in annual terms constituted 15.5 percent, whereas “raw” inflation made up 13.0 percent. It should be noted that the graphical representation of the indices of the core inflation 4, estimated in accordance with the methodology of the IMF, supported by the fact of emerging trends in the food market, which determine the dynamics of consumer prices in the country. This index has a stable dynamics and small dispersion value.

**Chart 2.2.1. Annual Dynamics of the Estimated Core Inflation Indicator**



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

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

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

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

Core inflation NSC – the following types of goods are excluded: milk, sugar, some types of vegetables and fruits, alcohol-tobacco production, fuels and lubricants, trade group “electric energy, gas and other types of fuel”, passenger transportation services, communication services and some others.

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

### 3.1. Major Decisions of the NBKR Board

The list of the main monetary policy decisions of the Board of the National Bank of the Kyrgyz Republic taken in the third quarter of 2011 is following:

1. In connection with the liquidation from August 1, 2011 of LLC “Specialized Fund for Banks Refinancing” (SFBR), the license of SFBR was cancelled according to the Regulation of the Board of the NBKR No.40/5 dated July 27, 2011. In compliance with this regulation, SFBR liquidation procedure should be finished till October 31, 2011.

*LLC “Specialized Fund for Banks Refinancing” (SFBR) was liquidated from August 1, 2011 according to the Regulation of the Board of the NBKR № 33/1 dated June 9, 2011.*

*Liquidation of SFBR was predetermined with completion of its main task - providing financial resources to the banking sector for lending of the economy and maintaining liquidity. Creation of SFBR was one of the measures to counter the global financial crisis.*

*Liquidation of SFBR will be lasting until the end of October 2011. At that, the final borrowers will return credit funds according to the period for which they have received a loan.*

2. The Board of the NBKR, on September 29, 2011 for the purpose of regulating the order of carrying out of:
  - Depository accounting of the government securities by the Regulation No.55/3 made changes and additions to the Provisional Regulations “On depository accounting of the government securities settled through the National Bank of the Kyrgyz Republic”, approved by Regulation of the Board of the NBKR No.13/3 dated March 26, 2008. This Regulation shall enter into force in one month after its official publication;
  - Swaps transactions in foreign currencies by the Regulation No.55/4 approved the Regulations “On the order of carrying out of swap transactions in foreign currencies by the National Bank of the Kyrgyz Republic”. This Regulation came into force from October 1, 2011;
  - REPO transactions with the government securities of the Kyrgyz Republic by the Regulation No.55/5 has made amendments to the Regulations “On the order of carrying out of REPO transactions with government securities of the Kyrgyz Republic by the National Bank of the Kyrgyz Republic”, approved by the Board of the NBKR No.32/4 dated June 27, 2007. This Regulation shall enter into force in one month after its official publication.

3. In order to assess the current situation and to design of scenarios for conducting monetary policy, the Board of the NBKR, on August 26, 2011, reviewed and approved the Report on Monetary Policy for the first half of 2011, as well as the Monetary Program for the coming period (Regulation No.49/2). Short version of the Report on Monetary Policy for the first half of 2011 was sent for the purpose of information to the President's Office, Government, Parliament, the Ministry of Finance and the Ministry of Economic Regulation of the Kyrgyz Republic; and it was placed at the official website of the NBKR as well.

### **3.2. Major Decisions of the Monetary Regulation Committee**

The Monetary Policy Committee (hereinafter referred to as MPC) develops and takes operative decisions in the monetary sphere. The decisions are taken by the MPC weekly and based on findings of the money market situation assessment. The volumes of operations directed to regulate liquidity in the banking system in the third quarter of 2011 were defined by the Committee proceeding from the goals and objectives determined by the Board of the NBKR and specified in the Main directions of the Monetary Policy for the period of 2011-2013, the Monetary Program for the forthcoming period, as well as taking into account the situation in banking system and fiscal sphere.

In the third quarter of 2011, 12 meetings of the MPC were held. The decisions of the MPC were aimed at regulating liquidity in banking system by holding weekly auctions of NBKR notes and sales of government securities on REPO terms.

Within the activity to tighten monetary policy for the purpose of curbing the monetary component of inflation, the MPC remained an indicative volume of notes in circulation without changes as of the end of the third quarter of 2011 as compared with the volume which was set on the end of the second quarter of 2011 to the amount of 1.7 billion KGS. In order to further withdrawal of excessive reserves of the commercial banks, the MPC also recommended to carry out transactions for the sale of government securities on REPO terms.

The volume of sales of the NBKR notes in the third quarter of 2011 constituted 5.8 billion KGS, the volume of sales of government securities on REPO terms constituted 858.5 million KGS. The volume of the NBKR notes in circulation as of the end of September 2011 constituted 1.4 billion KGS. Net sales of USD by the NBKR during the reporting period constituted 35.5 million USD or 1.6 billion KGS in equivalent.

## Chapter 4. Inflation Forecast

### 4.1. Forecast of Key Inflation Factor Dynamics

Economic development of Kyrgyzstan to the end of this year is expected to maintain stable conditions in the development of key sectors of the economy, the stability conditions of trade with major trading partners and the lack of price shocks on world commodity markets.

In general, forecast of the real sector (GDP, GDP deflator) remain at the current level (the forecast was developed in early 2011 and published in the edition of the NBKR “Inflation in the Kyrgyz Republic in the first quarter of 2011”). However, taking into account the actual data for the first nine months of 2011, the forecast of GDP growth in 2011 is adjusted upwards from 6.6 to 7.4 percent. The main reason for adjusting the forecast is more optimistic expectations of growth in the industry; the forecast of the GDP deflator remains unchanged and is expected to reach 16.0 percent. Thus, nominal GDP in 2011 is expected to reach 264.3 billion KGS. The main contribution to GDP growth in Kyrgyzstan in 2011 is expected due to the enterprises of the services sphere, industry, agriculture and construction. It is expected that the inflow of remittances of migrant workers in 2011 will be 26.7 percent higher than in 2010.

**Table 4.1.1. GDP Forecast by Sectors for 2011**

	actual data				estimated data		
	current prices, million KGS	comparable prices, million KGS	real growth, percents	contribution, percent	comparable price, million KGS	real growth, percents	contribution, percents
	2010				2011		
Agriculture, hunting and forestry	39,334.8	36,712.0	-2.8	-0.5	41,694.9	6.0	1.1
Industry	41,093.3	37,444.5	9.9	1.7	45,663.5	11.1	2.2
Mining industry	1,451.0	1,067.9	-0.4	-0.0	1,523.6	5.0	0.0
Processing industry	33,830.7	31,527.1	10.1	1.4	36,875.5	9.0	1.4
including Kumtor"	19,904.0	15,829.4	7.6	0.6	21,297.3	7.0	0.7
Electricity, gas, and water generation and distribution	5,811.6	4,849.5	11.0	0.2	7,264.5	25.0	0.7
Construction	11,998.9	10,414.6	-22.8	-1.5	13,198.8	10.0	0.6
Trade	34,206.7	31,687.5	-6.4	-1.1	37,798.4	10.5	1.7
Transport and communication	19,385.9	18,108.2	2.5	0.2	20,355.2	5.0	0.5
Other	43,804.9	42,281.2	0.1	0.0	45,119.0	3.0	0.6
Net tax on products	22,352.9	21,842.7	-1.4	-0.2	24,002.1	7.4	0.8
<b>GDP</b>	<b>212,177.4</b>	<b>198,490.7</b>	<b>-1.4</b>	<b>-1.4</b>	<b>227,831.9</b>	<b>7.4</b>	<b>7.4</b>
<b>GDP excl. Kumtor</b>	<b>192,273.4</b>	<b>182,661.3</b>	<b>-2.1</b>	<b>-2.1</b>	<b>206,534.7</b>	<b>7.4</b>	<b>7.2</b>
<i>For reference</i>							
<b>Services</b>	<b>97,397.5</b>	<b>92,076.9</b>	<b>-1.8</b>	<b>5.8</b>	<b>103,272.6</b>	<b>6.0</b>	<b>2.8</b>

The GDP forecast for 2012 was based on the assumption of a more stable external economic conditions and socio-political situation in the country. In this case, given the high statistical base of 2011, real GDP growth will slow in 2012 and is expected to reach 4.5 percent.

**Table 4.1.2. GDP Forecast by Sectors for 2011-2012**  
(percent)

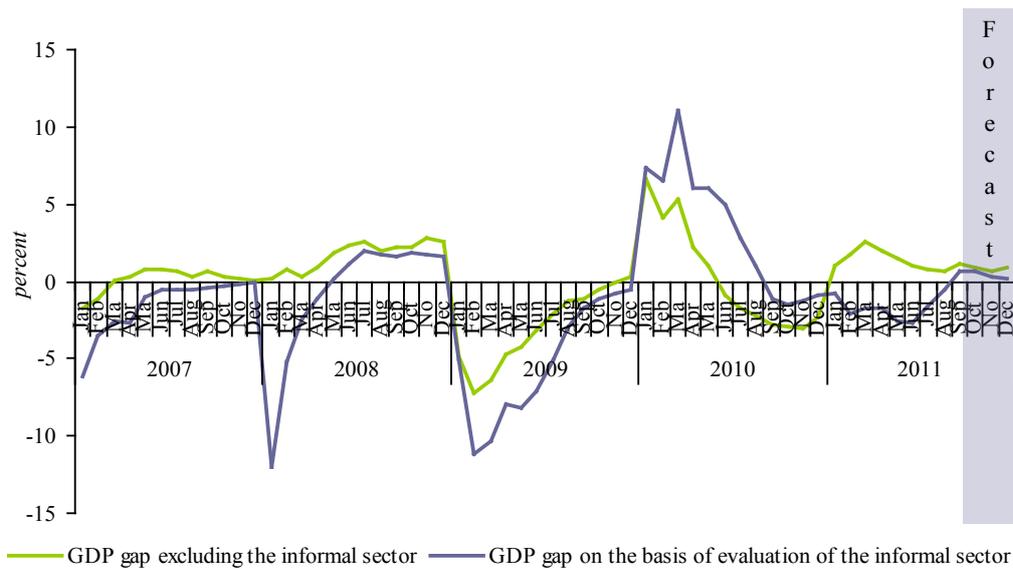
	fact	forecast		
	2010	2011	2012	2013
Agriculture	-2.8	6.0	2.0	2.5
Industry	9.9	11.1	3.0	3.5
Construction	-22.8	10.0	12.0	15.0
Services	-1.8	6.0	5.0	5.0
Net tax on products	-1.4	7.4	4.5	5.0
<b>GDP</b>	<b>-1.4</b>	<b>7.4</b>	<b>4.5</b>	<b>5.0</b>
<b>Deflator, percent</b>	<b>6.9</b>	<b>16.0</b>	<b>8.3</b>	<b>7.2</b>
<b>Nominal GDP, million KGS</b>	<b>212,177.4</b>	<b>264,291.7</b>	<b>298,995.7</b>	<b>336,395.1</b>

This maintains a number of risks of foreign economic nature that could have a negative impact on economic development in the nearest future: the risk of deteriorating terms of trade with countries – main trade partners due to unfavorable conditions determining the entry of Kyrgyzstan in the Customs Union and the risk of negative impact of price situation on world commodity markets. At that negative effect may have as excessive growth and the rapid decline in prices of basic commodities (energy, food, non-ferrous metals, etc.) as the economic situation in Kyrgyzstan is largely dependent on the economic development of the major trading partners (Russia, Kazakhstan), the economy of which, in turn, largely influenced by the situation in world prices for commodities markets.

An additional risk is a significant dependence of economic activity in the country of remittances which, in turn, increases the risk of instability and volatility of economic growth due to external factors (in the first place - economic development of labor migration-recipient countries).

Another index of price risks, occurring in the economy under the influence of growth/decline may be the index of output (GDP) gap. In this case, the GDP gap was calculated as the ratio of actually existing, nominal GDP to its potential value that is a positive GDP gap indicates the growth of inflationary pressures in the economy on the part of production. In addition, the rate of GDP gap has been calculated for the Kyrgyz economy in two ways: excluding the informal sector (based on official data of NSC KR) and taking into account estimates of the shadow economy (official data of NSC KR+revaluation surplus by sector).

**Chart 4.1.1. Forecast of Actual and Potential GDP**  
(ratio of actual nominal GDP to potential GDP)

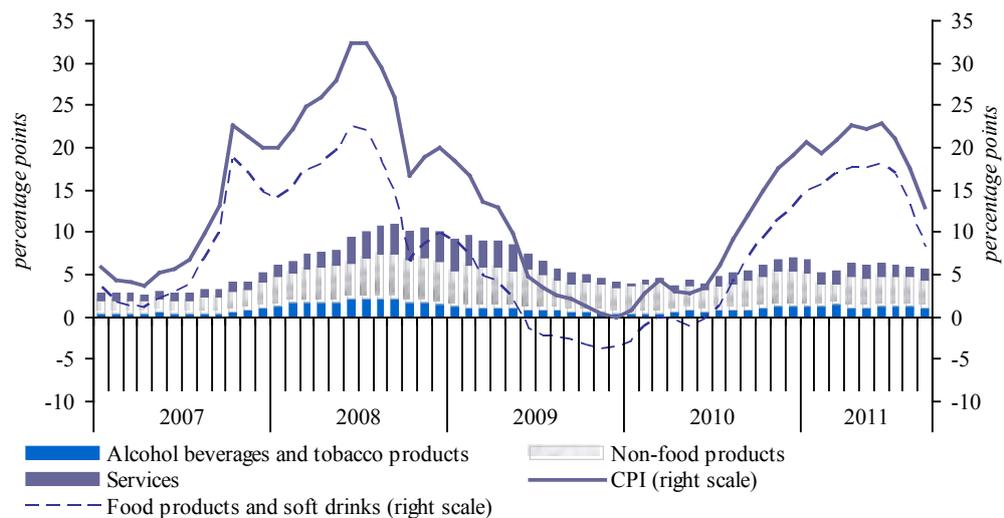


GDP gap, based upon the informal sector in January-August 2011 was negative, in contrast to the gap of GDP, calculated on the basis of official figures of NSC KR, which is explained by the predominance of the GDP, taking into account the informal sector, service industries and agriculture, the growth of which during 2011 was low, often - negative. In January-September 2011, a moderate positive GDP gap was formed - 0.6 percent (GDP, including the informal sector) and 1.1 percent (GDP excluding the informal sector). In the future, considering the continuation of a trend recovery in economic activity in the country and the growth of domestic demand, a moderate positive GDP gap will continue until the end of 2011.

## 4.2. Inflation Forecast for 2011-2012 and Quarter IV of 2011

Dynamics of consumer prices in recent years shows that significant fluctuations from inflation have been due, to a greater extent, by the food price volatility. The prices for non-food products, alcoholic beverages, tobacco products and services<sup>1</sup> have a stable positive dynamics, which in whole forms a general high inflation background in the economy.

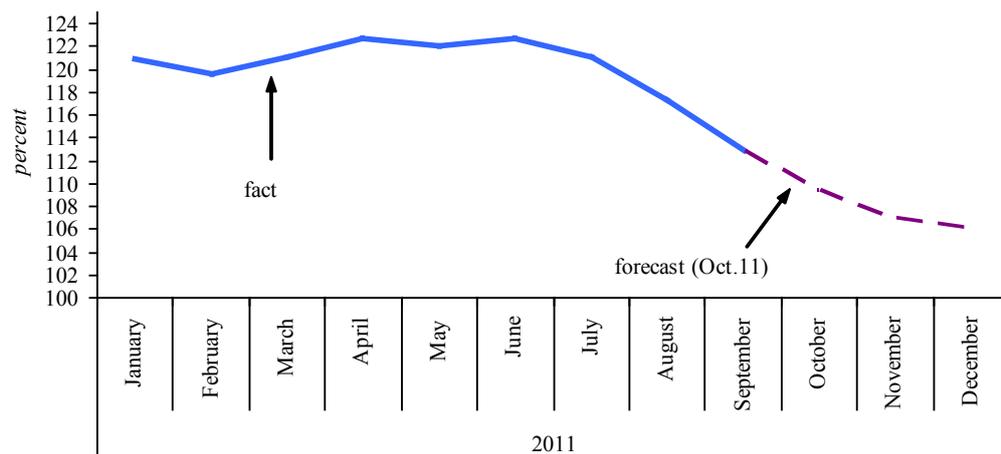
<sup>1</sup> Each year from December 2007, the total contribution of these goods and services in the annual inflation rate varies between 4-10 percentage points. This suggests that in 2011 the contribution of these factors in the level of inflation for year was formed at this level, excluding additional contribution of food products.

**Chart 4.2.1. Annual Inflation and contribution of its Components**

Based on actual data for the passed period as well as assumptions about further dynamics of prices for various groups of products, in (December 2011 against December 2010) is estimated in the range of 5.9-6.2 percent.

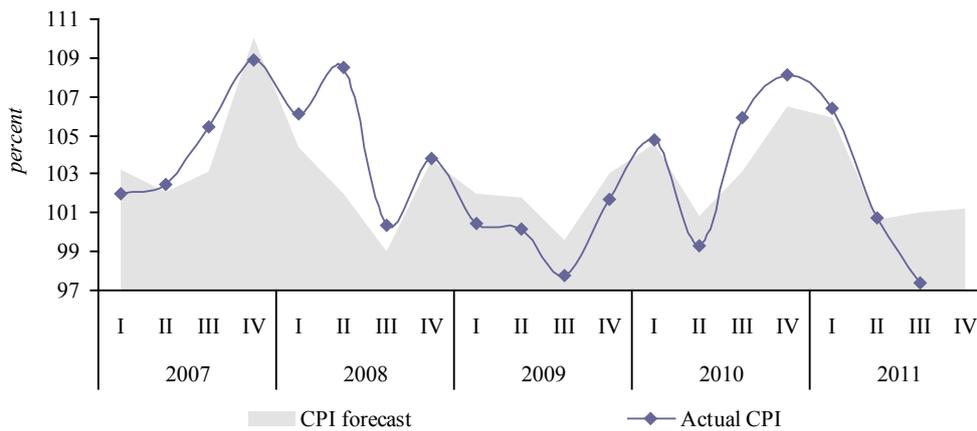
In 2012, with a moderate increase in food prices, reduction of the accumulated inflation expectations of the population and the absence of any significant external and internal shocks for supply and demand, inflation is expected at the level of 8-9 percent. It should be noted that equal spending of the state budget during the fiscal year reduces the risk of inflation.

The GDP deflator, another indicator of price dynamics in the economy as a whole, for 2011 is forecasted at 16.0 percent.

**Chart 4.2.2. Annual Inflation Forecasts**

Actually the current level of inflation in the third quarter of 2011 (-2.6 percent) differs from the forecast for this period (1.0 percent), which was published in “Inflation forecast for the second quarter of 2011 in the Kyrgyz Republic”. Beginning July and during the following months there was continuing a deflationary processes - such a long period of declining prices appears in the consumer market of Kyrgyzstan for the first time.

**Chart 4.2.3. Inflation Forecast for Quarter IV of 2011**



Specified evaluation of inflation forecast until 2011 includes further growth of prices for the main food products as well as moderate development of the seasonal factor and demand increase during holidays, being characteristics of the last months of the year. As a rule, in the fourth quarter, seasonal fluctuations are noted in prices for fruits-and-vegetables, meat-and-milk production, fuel due to beginning of the heating season as well for some other goods and services (public catering, clothes and shoes). In general, growth of prices in the fourth quarter of 2011 is forecasted in the range of 1.4-1.7 percent.

## Statistical Annex

**Table 1. Consumer price index**  
(month to corresponding month, percents)

	2011								
	Jan.	Feb.	March	Apr.	May	June	July	Aug.	Sep.
<b>Consumer price index for goods and services</b>	<b>102.7</b>	<b>101.4</b>	<b>102.2</b>	<b>100.4</b>	<b>99.7</b>	<b>100.6</b>	<b>99.7</b>	<b>98.8</b>	<b>98.9</b>
Goods	102.7	101.7	102.4	100.4	99.5	100.7	99.3	98.6	98.2
Food and soft drinks	104.9	103.0	103.9	100.2	98.9	100.6	98.3	97.3	97.0
Alcoholic beverages and tobacco	100.2	100.1	100.9	100.1	100.7	100.9	101.7	100.7	100.7
Non-food products	100.5	100.3	100.6	100.8	100.2	100.9	100.9	100.9	100.2
Services	102.1	99.6	100.4	100.4	101.1	100.2	102.0	100.1	102.8
Alcoholic beverages and tobacco products	104.9	103.0	103.9	100.2	98.9	100.6	98.3	97.3	97.0
Bakery products and cereals	101.7	104.0	107.3	100.8	99.1	99.3	99.7	99.0	95.8
high-grade wheat flour	102.2	104.7	107.8	101.4	99.3	99.1	99.7	98.6	93.4
first-grade wheat flour	101.9	106.2	111.1	100.4	98.1	98.0	98.8	97.8	92.8
bread	100.9	103.0	104.7	100.7	98.2	100.0	99.9	99.9	99.3
Meat	104.9	103.1	100.9	100.1	101.7	103.5	104.1	101.7	101.9
Fish	101.1	100.9	100.9	100.4	99.7	100.8	100.6	100.1	100.4
Diary products, cheese and eggs	103.8	102.0	97.0	98.5	97.2	97.3	96.9	100.8	104.5
Oils and fats	100.7	100.2	102.6	101.3	100.9	99.4	100.2	100.1	100.0
Fruits and vegetables	115.8	102.1	105.2	98.4	93.7	101.6	85.6	79.8	88.8
fruits	101.5	101.5	101.8	102.8	105.6	105.2	85.4	83.0	90.4
vegetables	122.5	102.3	106.5	96.8	89.0	100.3	85.7	78.6	88.2
Sugar, jam, honey, chocolate and candies	105.7	104.6	101.3	100.8	99.9	100.3	102.1	104.2	92.4
sugar	108.4	106.1	100.2	100.4	99.7	100.2	103.2	106.4	87.6
Other food products	100.8	102.5	99.0	100.3	100.1	100.4	100.5	101.5	101.6
Soft drinks	101.8	100.9	102.7	101.1	99.2	102.7	100.9	100.5	100.5
Strong drinks and tobacco products	100.2	100.1	100.9	100.1	100.7	100.9	101.7	100.7	100.7
strong drinks	100.1	100.0	100.2	100.0	100.7	100.7	102.2	100.6	100.9
tobacco products	100.6	100.2	102.8	100.4	100.5	101.2	100.6	100.7	100.3
Garments and footwear	101.0	101.5	101.8	102.1	101.1	100.6	100.6	100.9	100.1
garments	101.2	100.9	100.2	100.9	100.7	100.6	100.7	101.0	100.6
fabric for garments	100.7	100.0	100.3	100.2	100.1	100.1	103.9	100.5	102.9
garments for men	101.4	101.1	99.3	101.0	100.8	101.7	100.5	100.9	101.7
garments for women	101.0	100.3	100.5	100.8	100.0	101.5	99.7	100.4	100.8
children and newborns garments	101.2	101.5	100.7	101.2	101.6	98.0	101.6	102.0	98.5
cleaning, mending and renting garments	106.4	103.8	101.2	98.2	100.2	99.9	100.2	100.4	100.4
footwear including repair	100.6	103.0	105.6	104.9	102.0	100.5	100.3	100.8	99.0
men footwear	100.0	106.6	104.3	106.0	102.3	101.8	100.0	100.9	100.4
women footwear	100.6	102.2	107.0	105.2	102.2	99.7	100.0	100.4	98.5
children footwear	101.3	99.1	103.7	102.3	101.3	101.3	101.5	102.1	99.0
shoe repair	103.0	102.4	106.9	101.1	100.2	102.2	100.0	100.0	97.3
Housing services, water, electricity, gas and other fuels	99.9	99.4	99.1	98.8	98.1	100.5	100.2	100.1	100.6
house rent	100.0	100.6	100.0	100.0	100.0	100.0	100.0	100.0	114.2
services for dwelling premises maintenance and repair	99.3	99.8	102.4	100.8	100.5	101.0	103.1	99.8	99.7
brick	100.0	100.0	103.1	100.3	100.8	100.3	105.3	100.0	97.4
carving wood	98.0	100.1	102.6	100.9	100.2	105.1	100.3	100.9	99.5
cement	99.1	98.7	101.8	100.4	99.8	100.3	101.4	97.0	97.8
flat glass	99.8	99.3	100.0	100.0	99.7	103.5	99.3	100.3	106.3
construction sand	100.0	100.0	109.7	102.1	101.7	100.0	99.8	101.1	101.9
slate	99.7	100.0	100.0	101.0	101.0	99.3	100.2	100.1	101.6
services for dwelling premises maintenance and repair	100.0	100.0	100.0	101.0	100.6	88.1	99.7	102.8	99.6
water supply	100.0	100.0	100.0	100.0	100.0	104.9	100.0	100.6	100.8
electricity, gas and other types of fuel	100.0	99.3	98.7	98.6	97.7	101.0	99.9	100.0	100.6
gas	100.2	98.9	99.4	98.8	99.2	102.2	100.1	99.4	100.4
Household articles, household appliances	100.2	101.0	100.5	100.8	100.3	101.4	102.1	101.6	100.3
furniture and floor coverings	100.1	101.7	100.5	100.2	100.6	102.5	101.0	102.4	102.6
household textile items	100.1	100.0	100.8	101.0	100.2	101.1	102.2	101.4	101.4
home appliances	100.5	101.2	100.1	99.5	100.3	101.5	101.3	101.1	100.7
glassworks, tableware and household stuff	100.4	100.1	100.3	100.1	100.1	100.9	103.9	101.0	95.2
Health	99.6	101.4	100.8	100.4	100.6	100.6	100.8	102.1	101.0
Transport	102.0	96.9	100.2	100.4	102.3	101.0	101.6	100.2	100.7
purchase of cars	100.4	100.1	100.1	99.6	99.4	98.2	99.9	99.3	100.5
petrol and lubricants	98.6	88.1	99.2	101.1	104.0	101.6	103.2	102.0	99.8
gasoline	98.6	88.0	99.1	100.9	103.4	102.0	104.0	102.0	99.9
diesel	97.6	90.1	101.5	103.9	111.4	98.3	97.8	101.9	99.8
maintenance and repair of personal vehicles	100.1	100.0	100.0	100.0	100.0	100.4	100.7	94.8	100.7
transport services	104.0	97.6	100.5	100.7	103.4	101.5	101.7	100.3	100.9
Communication	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Recreation, entertainment and culture	100.0	100.8	101.6	100.4	100.8	100.1	101.3	102.3	100.2
cultural events services	100.1	102.1	101.2	103.0	106.8	100.1	100.0	100.0	100.1
papers, books and stationary	100.0	101.3	103.1	100.0	100.0	100.0	102.7	105.5	99.2
Education	100.5	101.0	100.1	100.0	100.2	100.0	102.5	100.0	108.2
Restaurants and hotels	102.0	100.3	100.2	100.2	100.1	101.1	104.3	100.1	103.9
catering	102.0	100.2	100.2	100.2	100.1	101.0	104.4	100.1	104.0
hotel service	100.9	101.7	100.3	99.7	99.8	106.1	100.1	100.3	100.5
Various goods and services	102.2	100.4	100.4	100.8	100.3	100.2	100.8	100.8	99.6
personal service	102.5	100.3	100.4	101.0	100.4	100.4	100.9	100.5	99.3
personal demand items, which are not included into other categories	100.8	101.1	100.1	100.0	100.0	100.1	100.3	103.4	101.3
other services, which are not included into other categories	101.0	101.3	100.0	100.0	100.0	95.1	100.0	100.0	100.0

Source: NSC KR

**Table 2. Consumer price index**  
(month to corresponding month of the previous year, percents)

	2011								
	Jan.	Feb.	March	Apr.	May	June	July	Aug.	Sep.
<b>Consumer price index for goods and services</b>	<b>120.6</b>	<b>119.4</b>	<b>120.8</b>	<b>122.6</b>	<b>122.1</b>	<b>122.7</b>	<b>121.2</b>	<b>117.5</b>	<b>113.0</b>
Goods	121.8	120.5	122.2	124.1	123.6	124.4	122.8	118.6	112.8
Food and soft drinks	130.5	132.1	135.3	136.5	136.6	137.5	134.9	127.2	117.5
Alcoholic beverages and tobacco	113.0	112.9	113.5	110.7	110.9	111.3	111.8	111.4	110.9
Non-food products	113.5	108.6	108.8	112.8	111.6	112.5	112.4	112.5	110.6
Services	112.8	111.2	111.1	111.7	111.7	111.6	110.3	109.2	112.4
Alcoholic beverages and tobacco products	130.5	132.1	135.3	136.5	136.6	137.5	134.9	127.2	117.5
Bakery products and cereals	129.0	134.5	145.2	147.3	146.5	144.9	140.8	127.3	114.6
high-grade wheat flour	136.2	143.3	154.8	157.8	157.5	155.8	151.7	132.6	113.1
first-grade wheat flour	151.0	160.9	179.8	182.4	180.6	175.7	166.8	138.7	116.8
bread	123.3	125.8	131.7	136.1	134.2	133.5	131.7	125.2	116.3
Meat	132.8	135.1	133.3	132.2	133.7	137.2	141.3	140.4	138.1
Fish	115.4	112.9	113.6	112.5	112.0	112.7	110.6	109.0	109.3
Diary products, cheese and eggs	115.2	117.6	115.8	115.8	114.5	112.9	110.3	110.6	111.7
Oils and fats	137.4	137.4	140.4	140.9	140.1	138.4	136.3	130.7	119.2
Fruits and vegetables	152.5	144.5	143.6	144.8	145.3	150.6	139.0	121.8	103.1
fruits	138.0	137.8	138.4	141.2	148.5	142.7	124.1	116.0	100.0
vegetables	160.3	147.4	145.1	146.3	143.8	155.3	148.2	126.1	105.9
Sugar, jam, honey, chocolate and candies	114.3	117.6	117.5	120.2	122.0	123.8	127.4	131.5	118.8
sugar	117.0	121.2	119.3	123.3	125.5	128.2	134.9	142.7	121.3
Other food products	109.2	111.7	110.6	111.1	111.9	110.1	109.2	109.8	109.9
Soft drinks	114.2	114.7	116.5	117.0	115.1	117.6	117.9	117.6	117.2
Strong drinks and tobacco products	113.0	112.9	113.5	110.7	110.9	111.3	111.8	111.4	110.9
strong drinks	106.8	106.6	106.1	105.8	105.9	105.9	107.5	107.7	107.8
tobacco products	129.8	130.1	133.8	125.0	125.6	127.0	124.2	121.7	119.6
Garments and footwear	115.0	115.9	117.6	119.1	118.8	119.5	119.1	119.6	116.8
garments	121.0	120.9	120.6	120.6	119.4	120.3	120.5	121.1	117.2
fabric for garments	112.2	104.4	104.6	104.8	104.9	104.8	107.0	107.0	109.8
garments for men	125.2	125.7	124.7	125.4	124.3	126.2	126.5	127.3	121.0
garments for women	120.9	120.2	120.1	118.9	115.3	117.9	117.0	117.1	114.8
children and newborns garments	117.7	119.2	119.9	121.1	122.9	120.1	121.3	122.6	117.1
cleaning, mending and renting garments	127.7	131.2	126.0	123.8	122.5	120.8	121.0	119.2	117.3
footwear including repair	102.1	104.9	110.9	115.6	117.4	117.7	116.1	116.3	115.5
men footwear	97.4	103.6	110.0	116.8	117.4	119.3	116.0	115.9	120.1
women footwear	104.8	106.9	111.4	115.4	117.9	117.3	116.5	116.6	112.9
children footwear	105.1	104.0	111.5	114.6	114.1	115.2	113.4	114.7	115.5
shoe repair	119.1	121.8	130.1	131.5	131.1	133.9	133.9	133.9	130.1
Housing services, water, electricity, gas and other fuels	111.4	93.5	92.2	104.1	101.5	102.9	102.9	101.8	102.1
house rent	100.4	101.0	100.6	100.6	100.6	100.6	100.6	100.6	114.8
services for dwelling premises maintenance and repair	112.9	113.3	115.8	115.6	113.7	114.7	118.1	115.6	113.8
brick	119.4	121.6	119.4	116.0	116.9	103.4	108.9	109.5	107.2
carving wood	133.7	133.9	137.4	136.9	133.2	138.4	138.3	139.4	137.7
cement	106.6	108.2	111.8	109.3	100.3	108.6	110.5	95.3	89.6
flat glass	121.8	121.0	119.7	118.8	117.7	121.7	120.8	121.4	128.0
construction sand	76.2	76.2	83.6	85.3	86.8	86.6	85.9	86.9	88.5
slate	103.7	103.7	103.7	104.7	105.8	105.0	105.3	105.3	107.3
services for dwelling premises maintenance and repair	103.5	103.5	103.5	104.5	105.1	92.6	92.3	94.8	94.5
water supply	137.4	137.4	100.7	100.0	100.0	104.9	104.9	105.5	106.4
electricity, gas and other types of fuel	110.8	90.1	89.3	103.3	100.4	102.4	102.0	100.8	101.2
gas	109.8	108.4	107.0	104.7	103.7	105.5	105.0	99.6	99.3
Household articles, household appliances	107.4	108.0	108.2	108.7	109.4	110.7	112.0	112.8	111.3
furniture and floor coverings	106.3	107.8	108.2	107.8	108.4	110.8	111.6	113.5	116.3
household textile items	106.8	106.8	107.6	108.7	108.8	110.0	108.2	109.8	110.2
home appliances	105.4	106.5	106.3	105.7	105.6	107.0	108.3	108.5	107.4
glassworks, tableware and household stuff	112.4	111.9	112.2	111.8	111.7	112.6	116.9	113.2	103.3
Health	115.6	115.6	107.7	107.7	107.0	108.0	109.0	110.5	110.2
Transport	113.7	110.0	110.5	110.3	108.5	108.1	108.0	105.9	107.1
purchase of cars	108.5	108.1	107.7	106.5	105.3	102.9	101.8	99.5	97.8
petrol and lubricants	133.4	118.2	116.1	111.1	102.9	99.4	101.0	102.2	101.3
gasoline	131.4	116.3	114.9	110.3	102.2	99.1	101.4	102.5	101.6
diesel	148.6	134.4	129.6	123.8	112.1	106.4	103.0	104.8	104.4
maintenance and repair of personal vehicles	100.1	100.1	100.1	100.1	100.1	100.5	101.2	96.0	96.7
transport services	113.3	110.3	111.4	112.1	111.7	112.4	111.9	109.2	112.5
Communication	99.8	94.4	94.4	100.0	100.0	100.0	103.1	103.1	103.1
Recreation, entertainment and culture	118.6	118.7	120.3	120.2	119.1	117.1	117.1	117.6	113.2
cultural events services	104.9	103.0	103.9	106.8	114.0	114.1	114.0	114.0	114.1
papers, books and stationary	122.0	123.6	127.3	127.3	127.3	127.4	130.9	132.5	120.6
Education	107.0	107.5	107.6	107.5	107.7	107.7	110.3	109.9	113.8
Restaurants and hotels	118.6	118.5	118.7	118.7	118.7	120.1	114.0	113.3	116.8
catering	118.8	118.7	118.9	119.1	119.2	120.4	114.0	113.3	116.8
hotel service	112.2	112.4	112.4	108.5	107.5	113.8	113.9	114.6	114.6
Various goods and services	117.8	116.1	114.4	115.0	114.9	114.5	113.1	113.6	110.6
personal service	117.9	115.7	113.6	114.5	114.6	114.7	115.1	115.1	111.3
personal demand items, which are not included into other categories	122.8	123.7	114.6	122.8	121.8	118.3	105.8	109.1	110.3
other services, which are not included into other categories	101.6	102.9	123.7	105.4	105.4	100.2	99.9	100.0	100.0

Source: NSC KR

**Table 3. Indexes of prices and physical volume of import for January-August, 2011**

<i>Product name</i>	<i>8 months</i>	<i>8 months</i>	<i>8 months</i>	<i>Indexes</i>		
	<i>of 2011</i>	<i>of 2011</i>	<i>of 2011</i>	<i>price</i>	<i>phys. vol.</i>	<i>value</i>
	<i>mln. USD</i>	<i>mln. USD</i>	<i>mln. USD</i>			
	<i>n11*p11</i>	<i>n11*p10</i>	<i>n10*p10</i>	<i>A/B</i>	<i>B/C</i>	<i>A/C</i>
	<b>A</b>	<b>B</b>	<b>C</b>			
Petroleum, petroleum-products and analogous materials	482.9	420.0	432.8	1.15	0.97	1.12
Medicaments (including veterinary medicaments)	95.0	71.6	59.5	1.33	1.20	1.60
Cast-iron and steel	84.4	73.3	56.5	1.15	1.30	1.49
Sugar, sugar products and honey	67.8	55.6	45.6	1.22	1.22	1.49
Goods cars and special purpose vehicles	67.5	63.0	41.5	1.07	1.52	1.63
Electric wire telephone and telegraph sets	52.4	42.8	25.0	1.22	1.71	2.10
Essential oils, reseniuds and parfume substances	49.5	29.4	38.6	1.68	0.76	1.28
Meat and meat products	49.4	44.8	41.6	1.10	1.07	1.19
Crops (including eincorn) and mangcorn (unmilled)	44.0	21.3	31.5	2.07	0.67	1.39
Natural gas in gaseous state	43.9	38.1	35.6	1.15	1.07	1.23
Coffee, tea, cocoa, spicery and their products	43.1	36.3	28.2	1.19	1.29	1.53
Paper, cardboard and products made of paper stock	41.0	34.0	28.5	1.20	1.19	1.44
Woofed fabric made of artificial textile materials	39.6	37.9	25.6	1.04	1.48	1.55
Vegetable oils and fats, raw materials, refined	35.7	24.3	27.4	1.47	0.89	1.30
Fertilizers	32.3	21.2	18.3	1.52	1.16	1.76
Rubber tires	30.9	34.6	24.1	0.89	1.44	1.28
Plastics in prime form	30.1	24.3	18.2	1.24	1.34	1.65
Coarse flour, low-ground flour, wheat flour and mangcorn flour	27.7	20.8	3.4	1.33	6.08	8.08
Sawed or spitted lengthwise conifer wood	26.5	22.5	15.0	1.18	1.50	1.77
Non-organic chemical substances	26.4	46.2	26.4	0.57	1.75	1.00
Food products and preparations not included into the other categories	26.1	17.8	14.7	1.47	1.21	1.77
Imperfect metal products not included into the other categories	25.3	23.4	14.9	1.08	1.58	1.70
Fruits and vegetables	23.5	16.4	19.2	1.43	0.85	1.22
Alcohol beverages	21.8	17.9	16.6	1.21	1.08	1.31
Footwear with rubber or synthetic sole and upper	21.6	22.6	15.0	0.96	1.51	1.44
Coal, coke and briquette	19.1	22.0	21.5	0.87	1.02	0.89
Plastics in unprimed form	19.0	14.2	11.3	1.34	1.26	1.69
Grain products and products from flour and fruit and vegetable starch	18.7	13.1	12.3	1.43	1.06	1.51
Compressed wood and restored wood	17.8	14.4	10.8	1.24	1.33	1.65
Sugar-sweetened mineral water and soft drinks	17.7	17.6	12.9	1.01	1.37	1.38
Hand and machine tools	15.2	10.8	8.2	1.41	1.31	1.85
Coloring and tanning matters and dyes	15.1	16.2	12.2	0.93	1.33	1.24
Machinery for transportation, sorting and leveling	14.6	28.6	23.3	0.51	1.23	0.63
Mechanical shovels, excavators and scoop loaders	14.2	8.4	5.5	1.70	1.52	2.58
Cars and vehicles for transportation of people	13.6	15.5	12.0	0.88	1.29	1.13
Household refrigerators and freezers	11.0	9.2	5.4	1.20	1.69	2.02
Pants, overalls, breeches and shorts, men	10.6	8.6	4.9	1.23	1.77	2.18
Machines for automatic data processing and their blocks	10.3	12.3	5.9	0.84	2.08	1.75
Design and construction elements of cast iron not included in other categories	10.0	6.1	5.4	1.63	1.14	1.85
Health care and pharmaceutical products	9.6	8.3	7.6	1.16	1.09	1.26
Electrical distribution equipment, not included in other categories	8.9	8.8	5.8	1.01	1.51	1.53
Margarine and combined fats	8.9	7.0	7.6	1.27	0.92	1.17
Sweaters, pullovers, cardigans, waistcoats and similar articles, knitted	8.4	7.2	4.2	1.18	1.69	2.00
Glass containers; glass corks; glass products for thermoses	8.4	5.9	4.8	1.42	1.23	1.74
Wood and hardboard	8.3	6.1	4.5	1.37	1.34	1.84
Machines for moving, grading, leveling, excavation or drilling ground	8.0	7.1	3.2	1.13	2.21	2.49
Nails, screws, nuts, bolts, rivets etc. of iron, steel and copper	7.8	6.2	6.8	1.24	0.91	1.13
Glazed ceramic tiles	7.7	6.7	6.0	1.15	1.11	1.28
Machinery for construction and mining industry, not included in other categories	7.4	23.4	10.5	0.32	2.23	0.71
Overcoats, carcoats, capes, cloaks and similar articles, women	7.3	2.1	1.5	3.45	1.42	4.90
Electric and heat device, not elsewhere specified	7.3	6.8	3.6	1.07	1.87	2.01
Insecticides, rodenticides, fungicides, herbicides	7.2	6.3	5.4	1.14	1.16	1.33
Flooring	7.2	5.6	3.6	1.28	1.54	1.98
Hosiery products, knitted and crocheted	7.2	6.3	3.3	1.13	1.91	2.17
Other minerals	7.1	4.9	4.6	1.46	1.05	1.53
Fish (non-marine animals), crustacean mollusks and aquatic invertebrates	7.1	5.9	4.7	1.19	1.27	1.52
Aeroplanes and other aircraft weighing more than 15 000 kg	6.8	3.4	1.4	2.00	2.50	5.01
Overcoats, carcoats, capes, cloaks and similar articles, men	6.7	2.6	1.2	2.60	2.13	5.55
Milk, cream and dairy products, except butter and cheese	6.6	6.7	6.5	0.99	1.04	1.03
Various chemical products not elsewhere classified	6.6	5.3	6.8	1.25	0.78	0.98
<b><i>Nomenclature Total (mln, USD)</i></b>	<b>1,855.9</b>	<b>1,599.4</b>	<b>1,359.2</b>	<b>1.16</b>	<b>1.18</b>	<b>1.37</b>
<b><i>Nomenclature Total (% of total imports)</i></b>	<b>74%</b>		<b>74%</b>			
<b><i>Total import</i></b>	<b>2,514.3</b>		<b>1,846.7</b>			

According to the NSC at FOB prices; the Table demonstrates the fist 60 import large items

n - physical volume of goods imports

p - estimated import price of the goods

Table 4. Indexes of prices and physical volume of export for January-August, 2011

Product name	8 months	8 months	8 months	Indexes		
	of 2011	of 2011	of 2011	price	phys. vol.	value
	mln. USD	mln. USD	mln. USD			
	n11*p11	n11*p10	n10*p10	A/B	B/C	A/C
	A	B	C			
Nonmonetary gold (besides gold ore and concentrates)	671.6	521.7	414.4	1.29	1.26	1.62
Fruits and vegetables	77.7	67.6	51.7	1.15	1.31	1.50
Petroleum, petroleum-products and analogous materials	61.7	43.9	48.3	1.41	0.91	1.28
Electrical shock	59.5	64.4	25.7	0.92	2.51	2.32
Milk, cream and dairy products, except butter and cheese	19.1	15.2	14.9	1.26	1.02	1.28
Blouses, jackets and jacket-blouses, women	17.0	17.4	20.9	0.98	0.83	0.82
Garments, knitted or crocheted, of women and girls	14.6	12.5	10.1	1.17	1.24	1.45
Dresses	14.4	14.8	11.6	0.98	1.27	1.25
Filament lamps	12.2	11.1	11.5	1.10	0.97	1.06
Pants, overalls, breeches and shorts, women	11.7	11.3	10.6	1.03	1.07	1.11
Non-organic chemical substances	11.6	124.7	143.1	0.09	0.87	0.08
Ores and concentrates of precious metals	9.9	206.7	0.4	0.05	573.93	27.36
Metal waste and scrap steel	9.7	5.8	3.3	1.66	1.78	2.96
Tobacco unready; tobacco refuse	9.3	9.9	18.4	0.94	0.54	0.50
Iron and steel	8.7	4.9	3.3	1.80	1.49	2.68
Overcoats, carcoats, capes, cloaks and similar articles, women	8.1	7.5	4.6	1.09	1.64	1.77
Aeroplanes and other aircraft weighing more than 15 000 kg	7.9	6.8	1.2	1.16	5.67	6.59
Skirts and skirt-pants	7.9	8.0	7.3	0.98	1.09	1.07
Vehicles for the carriage of goods and vehicles for special purposes	7.6	3.7	3.3	2.04	1.14	2.32
Pants, overalls, breeches and shorts, women	6.9	5.7	5.7	1.21	0.99	1.20
Rubber tires	6.6	1.3	0.8	5.20	1.58	8.22
Scrap and waste from the base of non-ferrous metals, not included in other categories	6.5	2.4	2.0	2.65	1.20	3.17
Hand and machine tools	5.9	0.6	1.3	9.12	0.48	4.34
Mineral water and soft drinks, sweetened with sugar	5.8	4.9	4.1	1.17	1.21	1.42
Paper, paperboard and articles of paper pulp, paper or paperboard	5.6	5.6	3.6	1.01	1.54	1.56
Cotton	5.5	3.7	2.5	1.49	1.47	2.18
Hosiery, knitted or crocheted	5.3	4.9	4.8	1.07	1.03	1.10
Silver	5.1	2.5	1.3	1.99	1.92	3.82
Living animal	4.9	3.9	2.1	1.26	1.81	2.28
Portlandcement, cement	4.8	0.0	0.0	0.00	0.00	15,344.2
Various base metals employed in metallurgy and steel	4.5	2.4	4.2	1.85	0.57	1.06
Cheese and cottage cheese	3.2	2.8	4.1	1.14	0.69	0.78
Stone, sand and gravel	3.1	3.6	4.1	0.86	0.90	0.77
Overcoats, carcoats, capes, cloaks and similar articles, men	3.0	1.8	0.5	1.68	3.66	6.15
Cars and vehicles for the transport of people	2.8	5.5	0.6	0.52	8.64	4.49
Woven fabrics of man-made textile materials	2.8	1.9	0.9	1.44	2.11	3.04
Dishwashers; machinery for filling	2.7	828.5	2.6	0.00	313.50	1.02
Food and drugs, not elsewhere classified	2.6	23.8	1.8	0.11	13.14	1.44
The skins of cattle or horse hides and skins	2.5	2.6	0.4	0.95	6.07	5.79
Coffee, tea, cocoa, spices and cereals	2.5	1.2	1.5	2.12	0.78	1.66
Medicaments (including veterinary medications)	2.4	1.4	0.4	1.69	3.45	5.81
Products from grain and products from flour and starch made from fruits and vegetables	2.3	1.7	1.4	1.37	1.18	1.62
Products made of non-metallic minerals, not incl. into other category	2.3	2.4	3.4	0.93	0.72	0.66
Aluminum	2.1	1.9	1.6	1.07	1.20	1.29
Leather whole cattle hides	2.1	2.5	1.7	0.84	1.48	1.24
Jackets and blazers	2.0	1.8	2.6	1.11	0.71	0.79
Suits and ensembles	1.9	1.9	1.8	1.02	1.06	1.08
Butter and other fats and oils derived from milk	1.9	1.4	2.2	1.33	0.66	0.87
Meat and meat products	1.8	1.6	3.2	1.13	0.50	0.57
Color and tanning materials, dyestuff	1.8	0.6	0.6	2.79	1.09	3.05
T-shirts, petticoats, briefs, bikinis	1.7	0.0	0.2	41.38	0.27	11.21
Stone for construction, processed and its products	1.6	1.7	1.1	0.91	1.60	1.46
Jewelry of gold, silver and platinum group metals	1.6	0.0	0.0	0.00	0.00	1,831.20
Other footwear with uppers of textile materials	1.5	1.7	0.6	0.92	2.99	2.75
Suits and ensembles	1.5	1.4	2.3	1.08	0.60	0.65
Fertilizers	1.4	3.9	0.1	0.37	40.66	14.98
Sugar, sugar and honey products	1.4	0.8	1.0	1.79	0.83	1.48
Tractors	1.4	1.0	0.5	1.42	2.15	3.05
Glass containers; glass corks; glass products for thermoses	1.4	1.2	1.2	1.14	0.96	1.10
<b>Nomenclature Total (mln, USD)</b>	<b>1,166.7</b>	<b>2,096.6</b>	<b>879.2</b>	<b>0.19</b>	<b>8.08</b>	<b>1.50</b>
<b>Nomenclature Total (% of total exports)</b>	<b>93%</b>		<b>92%</b>			
<b>Total export</b>	<b>1,259.2</b>		<b>955.5</b>			

According to the NSC at FOB prices; the Table demonstrates the first 59 export large items

n - physical volume of goods imports

p - estimated import price of the goods

## Glossary

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

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

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

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

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

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

**M0** – currency in hands.

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

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

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

**Monetary base** – obligations of the National Bank of the Kyrgyz Republic on cash, issued in circulation, and obligations of the National Bank of the Kyrgyz Republic to other depository corporations in the national currency of the Kyrgyz Republic.

**Money in circulation** – the cash money in circulation, issued by the National Bank of the Kyrgyz Republic, except for the cash in the NBKR cash desks.

**NBKR Repo Operations** – operations on purchase (direct repo)/sale (reverse repo) of government securities with the obligation to sell them back/purchase on the specified date in future at the predetermined price.

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

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

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

**Output gap (or GDP gap)** – is a difference between potential and factual GDP volume. Production gap may service as an indicator of activation or stagnation of the economy. If factual GDP is less than potential one ( $Y < Y^*$ ), then it may be considered that there is so-called “recessionary gap” in the economy, which points at possible availability of deflationary processes. And vice-versa, if factual GDP is more than potential one ( $Y > Y^*$ ), then it may be considered that the aggregate demand growth exceeds the aggregate supply growth, which promotes enhancement of the inflation pressure.

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

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

**Renewable State Treasury Bills for settlement** – are the coupon securities with maturities of 3, 6 and 12-months, issued by the Ministry of Finance as a result of restructuring the debt of the Government of the Kyrgyz Republic to the

NBKR. The renewable nature of these securities means the following: on the day of redemption of ST-Bill(s) in the NBKR portfolio, the Ministry of Finance simultaneously with the redemption issues new series of ST-Bill(s) in favor of in number equal to the number of sinking securities.

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

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

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

**Structure of money income of the population by quintile groups** reflects differentiation of the population by income size into five (quintile) groups, each of which consists of 20 percent of the population. This approach of determination of the population income differentiation assumes division of the ranged total amount of the population into five equal groups, thus, determining the share which is accounted for the group of the population with the largest or lowest income in the society's total income.

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

## Abbreviations

CIF	Cost on the importer's border (Cost, Insurance, Freight)
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
FOB	Cost on exporter's border (Free on Board)
GDP	Gross Domestic Product
KR	Kyrgyz Republic
LLC	Limited Liability Company
MoA	Ministry of Agriculture
MPC	Monetary Policy Committee
NBFI	Non-banking financial institution
NBKR	National Bank of the Kyrgyz Republic
NCOSH	Non-commercial organizations, servicing households
NSC	National Statistics Committee
POL	Petroleum, oil, lubricants
PPI	Producer price index
SCS	State Customs Service under the KR Government
SE	State Enterprise
SFBR	Specialized Fund for Banks Refinancing
ST-Bills	State Treasury Bills
ST-Bills(s)	State Treasury Bills for settlement
ST-Bonds	State Treasury Bonds
USA	United States of America