

**National Bank of the Kyrgyz Republic**

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# **Inflation Report**

**IV quarter 2011**

**January 2012**

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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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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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-December 2011, the volume of GDP at current prices constituted 273.1 billion KGS, having increased by 5.7 percent in real terms against the corresponding index for the comparable period of 2010, whereas in January- December, 2010, GDP decreased by 0.5 percent (in accordance with the specified data of the National Statistics Committee of the Kyrgyz Republic, as per results of 2010, the GDP decrease was adjusted from 1.4 to 0.5 percent). Exclusively of enterprises on exploration of gold-mining deposit “Kumtor”, the GDP volume increased in real terms by 5.6 percent as per results of the reporting period against decrease of the corresponding index by 1.0 percent in 2010. GDP deflator in January-December 2011 constituted 17.3 percent (in 2010, the corresponding index constituted 10.0 percent).

As per results of the first half of 2011, the GDP volume, calculated by the expenditure method, increased by 5.5 percent as compared to the corresponding index of 2010 (in January-June 2010, the increase constituted 4.4 percent). GDP growth was due to real growth of export by 9.8 percent, primarily conditioned by significant increase in gold export and domestic demand (sum of expenses for final consumption and gross savings) by 6.6 percent (in January-June 2010, increase of the corresponding index was amounted to 1.2 percent). Considering substantial dependence of consumption on import, domestic demand increase promoted growth of import by 10.6 percent as per results of the first half of 2011.

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

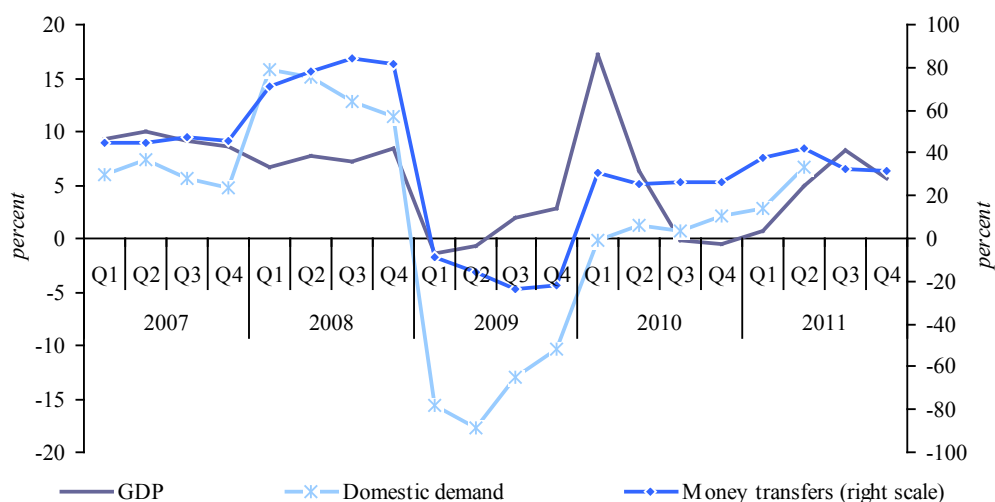
(period from the beginning of the year to the corresponding period of the previous year, percent)

	2010	2011	
		I	II
<b>Used GDP</b>	<b>-0,5</b>	<b>0,4</b>	<b>5,5</b>
Final consumption	2,0	1,6	6,6
Individual consumption	2,4	1,5	6,9
Households	2,9	1,6	7,9
NCOSH	-6,7	1,1	9,1
Governmental Institutions	-0,2	0,4	-0,7
Collective consumption	-1,9	2,1	4,1
Gross savings	-5,2	13,6	6,6
Export	-11,7	-10,3	9,8
Import	-6,9	-7,4	10,6

Source: NSC KR

Remittances of labor migrants remain the main factor, influencing the domestic demand growth in the country. According to preliminary data, in 2011, remittances constituted 24.9 percent to GDP, whereas in 2010, this index was amounted to 23.6 percent to GDP, which indicates the increase in dependence of the country's economy on remittances inflow.

**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)



As per results of 2011, the total volume of net flow of remittances constituted 1.5 billion USD, having increased by 356.1 million USD or 31.7 percent as compared to 2010. The main share of remittances is accounted for the CIS countries (Russia – 94.2 percent, Kazakhstan – 2.5 percent); 3.3 percent out of the total inflow of remittances from physical individuals is accounted for non-CIS countries.

**Table 1.1.2. Remittances of Individuals by Money Transfer Systems**  
(million USD)

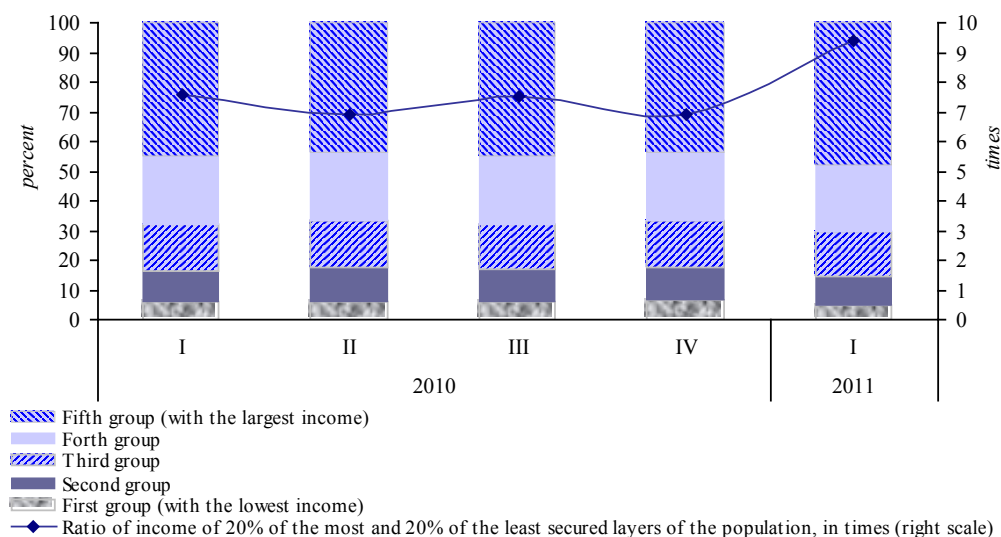
	2008	2009	2010	2011**
<b>Balance</b>	<b>1 138,2</b>	<b>893,2</b>	<b>1 124,9</b>	<b>1 481,0</b>
<b>Inflow</b>	<b>1 205,5</b>	<b>966,7</b>	<b>1 252,6</b>	<b>1 666,7</b>
CIS countries	1 141,4	894,4	1 199,3	1 612,2
Kazakhstan	27,9	31,4	35,0	41,1
Russia	1 113,5	862,9	1 164,3	1 570,5
Others	0,1	0,0	0,0	0,7
Far-abroad countries	64,1	72,3	53,3	54,5
Belgium	0,5	0,5	0,2	1,4
Great Britain	1,8	1,4	1,4	1,5
Germany	0,2	0,7	9,9	15,5
USA	61,4	69,5	41,7	34,7
Others	0,2	0,3	0,1	1,3
<b>Outflow</b>	<b>67,3</b>	<b>73,6</b>	<b>127,6</b>	<b>185,7</b>
CIS countries	65,0	71,8	125,8	181,6
Kazakhstan	2,5	0,7	0,4	0,7
Russia	62,5	71,1	125,4	180,7
Others	0,0	0,0	0,0	0,3
Far-abroad countries	2,3	1,8	1,8	4,0
Belgium	0,1	0,2	0,5	0,6
Germany	0,4	0,4	0,3	1,3
USA	1,7	1,1	0,9	1,8
Others	0,1	0,1	0,2	0,3

\* 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 results of households survey, in the first quarter of 2011, in the structure of money income of the population by quintile groups, a high concentration of money income among the most wealthy population remained. Thus, the share of the most wealthy group constituted 48.0 percent from the total volume of the population income, having increased by 0.3 percentage points as compared to the corresponding index in 2010. The share of income of 20% the least wealthy population constituted 5.1 percent.

**Chart 1.1.2. Composition of Household Money Income by Quintile Groups**  
(from the beginning of the year)



According to preliminary data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, the state budget deficit constituted 13.5 billion soms or 5.0 percent to GDP in 2011 (in the corresponding period of 2010, the state budget deficit constituted 10.8 billion soms or 4.9 percent to GDP).

Income and received official transfers of the state budget increased by 34.8 percent as compared to the corresponding period of 2010 and constituted 77.3 billion soms or 28.3 percent to GDP. At that tax income and non-tax revenues provided contribution to increase in the state budget income from operational activity by 31.9 percentage points, whereas contribution of official transfers revenues constituted 2.9 percentage points.

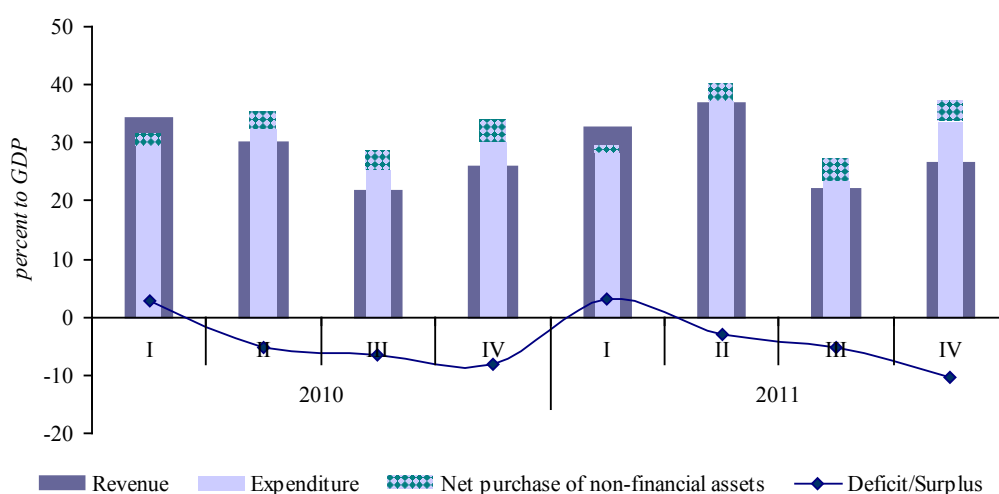
Total expenditures of the state budget for operating activities in 2011 constituted 82.4 billion soms or 30.2 percent to GDP, having increased by 33.8 percent to GDP or 20.8 billion soms against the comparable index of the corresponding period of 2010. There was the tendency for increase in budget expenditures for current consumption due to increase in salary of workers, engaged in the sphere of education, health care, science, culture as well as in the basic part of pension and capital items. Expenses for current consumption in 2011 increased by 28.4 percent as compared to the corresponding index of 2010 and constituted 80.0 percent from the total volume of state expenditures, whereas capital expenditures of the budget increased by 53.0 percent and constituted 20.0 percent.

In the reporting period, the net outflow of funds for operations on purchases of non-financial assets amounted to 8.5 billion soms, which is by 1.9 billion soms or by 29.2 percent more as compared to the corresponding period of 2010.

According to preliminary data of the Social Fund of the Kyrgyz Republic, surplus of the Social Fund budget for 2011 constituted 0.6 billion soms or 0.2 percent to GDP; income – 24.2 billion soms or 8.9 percent to GDP; expenditures – 23.7 billion soms or 8.7 percent to GDP.

As per results of 2011, the deficit of consolidated budget (state budget + Social Fund budget) constituted 13.0 billion soms or 4.7 percent to GDP. Income constituted 91.1 billion soms or 33.4 percent to GDP and expenditures accounted to 104.1 billion soms or 38.1 percent to GDP.

**Chart 1.1.3. State Budget Implementation**



According to preliminary data, in 2011 the volume of investments into fixed capital decreased by 6.6 percent as compared to the corresponding index of 2010 and constituted 47.4 billion soms against decrease by 9.2 percent in 2010. In sectorial structure of investments, more than a half of investments (64.9 percent) were accounted for mineral resource industry (investments to enterprises on exploration of gold-mining deposit “Kumtor”) as well as for transportation and communication (reconstruction of automobile roads “Talas-Taraz-Suusamyр”, “Bishkek-Naryn-Torugart”, “Osh-Irkeshtam”, “Osh-Isfana”, “Osh-Sarytash-Irkeshtam”, “Tyup-Kegen”, “Southern transportation corridor”; rehabilitation of roads on the project “Improvement of regional transportation corridor”).



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

	2010	2011	2010	2011
	total, million KGS		share, percent	growth rate, percent
<b>Total</b>	<b>44 333,3</b>	<b>47 399,5</b>	<b>100,0</b>	<b>93,4</b>
<b>Internal investmets</b>	<b>34 276,6</b>	<b>33 795,5</b>	<b>71,3</b>	<b>86,1</b>
Republican budget (including funds intended for emergencies)	3 298,3	4 506,0	9,5	123,6
Local budget	705,4	615,2	1,3	76,6
Funds of enterprises and organizations	15 814,5	16 539,8	34,9	91,1
Bank credit	3 196,3	290,3	0,6	7,7
Population assets	11 262,1	11 844,2	25,0	91,6
<b>External investment</b>	<b>10 056,7</b>	<b>13 604,0</b>	<b>28,7</b>	<b>118,6</b>
Foreign credit	4 833,6	8 761,1	18,5	160,0
Foreign direct investment	3 625,2	3 219,4	6,8	78,2
Foreign grants and humanitarian aid	1 597,9	1 623,5	3,4	90,9

Source: NSC KR

*In 2009, the sources of investments were reclassified from the item “The Republican Budget” into “Bank Credits”. In 2011, financing of these investments was returned to the item “The Republican Budget”.*

In 2009, the sources of investments were reclassified from the item “The Republican Budget” into “Bank Credits”. In 2011, financing of these investments was returned to the item “The Republican Budget”.

In 2011, in the structure of financing sources of investments into the fixed capital, there was decrease in investments due to domestic sources of financing and increase due to external sources of financing. Thus, domestic investments decreased by 13.9 percent as compared to the corresponding index of 2010, whereas increase in external investments constituted 18.6 percent. Increase in external investments inflow was provided by advanced growth of foreign credits, mainly aimed at construction of roads in the republic (increase constituted 60.0 percent as compared to the corresponding index of 2010).

The volume of credit portfolio of commercial banks as of the end of 2011 constituted 31.2 billion soms, having increased by 18.3 percent in comparison with the beginning of the current year (at the end of 2010, credit portfolio of commercial banks increased by 4.6 percent). Growth of crediting by commercial banks of the country was noted in all economy sectors, except for construction sphere.

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

	2010		2011	
	total, million KGS	growth pace, percents	total, million KGS	growth pace, percents
<b>Credit portfolio</b>	<b>26 382,1</b>	<b>104,6</b>	<b>31 217,2</b>	<b>118,3</b>
Trade and commercial operations	11 336,8	108,4	13 374,3	118,0
Agriculture	3 349,7	108,6	3 974,5	118,7
Industry	1 480,7	106,6	1 665,1	112,5
Mortgage	2 852,6	92,4	2 984,1	104,6
Construction	2 038,6	104,5	1 746,4	85,7
Consumer credits	1 882,5	92,8	2 749,5	146,1
Other	3 441,2	107,0	4 723,2	137,3

### 1.1.2. Supply

Main contribution to GDP growth in 2011 was made by industry enterprises (2.5 percentage points), including production volumes at enterprises on exploration of gold-mining deposit “Kumtor”. Moreover, significant contribution to GDP growth in the reporting period was made by enterprises of trade, transportation and communication (2.0 percentage points).

The volume of total supply of goods and services in 2011 was provided by production of agriculture by 18.0 percent, processing industry – by 16.8 percent, trade – by 16.1 percent, transportation and communication – by 8.2 percent from the total GDP volume.

**Table 1.1.5. 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>-0,5</b>	<b>-0,5</b>	<b>5,7</b>	<b>5,7</b>
Gross added value	-0,5	-0,4	5,7	5,1
Agriculture, hunting & forestry	-2,6	-0,5	2,3	0,4
Mining industry	-3,6	0,0	24,6	0,2
Processing industry	11,3	1,6	9,8	1,7
Electricity, gas, and water generation and distribution	11,2	0,2	22,4	0,7
Construction	-18,5	-1,2	-3,9	-0,2
Trade, repair	-5,6	-0,9	7,0	1,1
Hotels and restaurants	-9,5	-0,1	9,3	0,1
Transport and communication	4,2	0,4	9,8	0,8
Financial activity	-4,9	0,0	6,7	0,0
Real estate transactions, rent	4,9	0,2	-1,7	-0,1
State management	-0,3	0,0	5,1	0,3
Education	-0,3	0,0	0,3	0,0
Health and provision of social services	1,7	0,0	2,0	0,1
Provision of utility and personal services	-2,2	0,0	0,7	0,0
Net tax on products	-0,5	-0,1	5,7	0,6

Source: NSC KR

According to preliminary data, for 2011 the physical volume index (PVI) of industrial production increased by 11.9 percent as compared to the corresponding index of 2010 (in 2010 the volume of industrial production grew by 9.8 percent).

The growth of physical volume index was mainly provided by increase in the volume of machine and equipment production (in 1.7 times), textile and clothing industry (in 1.5 times), chemical production (in 1.6 times), manufacture of transport facilities and equipment (in 1.6 times), as well as increased production and distribution of electricity, gas and water (122.4 percent). There was growth of industrial production at the level of 18.8 percent, excluding of enterprises on gold-mining exploration “Kumtor”; at that, the similar index of 2010 increased by 11.7 percent.

According to the preliminary data, in agriculture, during the reporting period, there was production growth at the level of 2.3 percent (in 2010, the volume of agricultural production decreased by 2.6 percent).

In the reporting period, trade turnover constituted 6.7 percent (in the corresponding period of 2010, there was decrease by 4.9 percent). There was growth of retail trade turnover by 6.2 percent against decrease by 6.4 percent as per results of 2010.

**Table 1.1.6. Dynamics and structure of gross turnover of trade operations**

	2010		2011	
	share, percent	growth rate, percent	share, percent	growth rate, percent
<b>Trade</b>	<b>100,0</b>	<b>95,1</b>	<b>100,0</b>	<b>106,7</b>
Trade in cars and their spare parts	3,0	83,4	2,9	114,3
Car maintenance	0,5	87,3	0,4	98,2
Retail trade in motor oil	9,5	98,4	10,0	122,6
Wholesale trade	33,9	96,7	32,9	102,7
Retail trade	52,9	94,6	53,7	106,2
Repair of household appliances	0,2	84,9	0,1	84,8

Source: NSC KR

## 1.2. Monetary trends

### Monetary base

As of January 1, 2012, monetary base constituted 54.8 billion soms, having increased by 7.0 percent in the fourth quarter of 2011 (in the fourth quarter of 2010, monetary base increased by 10.2 percent). Generally, monetary base increased by 12.8 percent for 2011.

In the fourth quarter of 2011, monetary base increased by 3.6 billion soms; operations of the Kyrgyz Republic Government added 7.6 billion soms. National Bank of the Kyrgyz Republic withdrew 4.0 billion soms with the help of monetary instruments (in the corresponding period of 2010, monetary base increased by 4.5 billion soms; contribution to monetary base growth on the part of the Government constituted 6.1 billion soms, whereas operations of the National Bank decreased monetary base by 1.6 billion soms).

As of January 1, 2012, the money in circulation constituted 49.9 billion soms, having increased by 7.1 percent in the reporting period (in the corresponding

period of 2010, the increase constituted 8.2 percent). Growth of money in circulation for 2012 constituted 15.2 percent.

Structure of monetary base changed in the following way: the share of cash money in circulation increased from 90.9 percent as of the end of September 2011 to 91.0 percent as of the end of December 2011. Correspondingly, the share of funds on correspondent accounts of commercial banks in the National Bank decreased from 9.1 to 9.0 percent.

### **M2 Aggregate**

As of January 1, 2012, M2 (M0 + deposits in the national currency) constituted 62.1 billion soms, having increased by 5.8 percent in the fourth quarter of 2011 (in the corresponding period of 2010 M2 increase constituted 8.8 percent). In the reporting period, there was increase in components of the monetary aggregate M2: money outside of the banks (M0) increased by 6.7 percent and deposits in the national currency increased by 3.2 percent, including fixed deposits growth by 10.0 percent against inconsiderable decrease of transferable deposits (demand deposits) by 0.1 percent. Growth of M2 Aggregate constituted 15.6 percent in 2011.

### **M2X Aggregate**

The volume of M2X broad money (M2+deposits in foreign currency) as of January 1, 2012 constituted 79.5 billion soms, having increased in the fourth quarter of 2011 by 4.0 percent (in the corresponding period of 2010, the increase of M2X constituted 10.0 percent). The total amount of deposits<sup>1</sup>, included in the definition of broad money M2X, increased inconsiderably by 0.3 percent, including deposits in the national currency increased by 3.2 percent, while deposits in foreign currency decreased by 2.1 percent (for the corresponding period of 2010, the total volume of deposits increased by 13.1 percent, and money outside of the banks increased by 8.0 percent). Generally for 2012, the growth of M2X broad money constituted 14.9 percent.

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

- the share of money outside of the banks increased from 57.9 to 59.4 percent;
- the share of deposits in the national currency decreased inconsiderably from 18.9 to 18.7 percent;
- the share of deposits in foreign currency decreased from 23.3 to 21.9 percent;

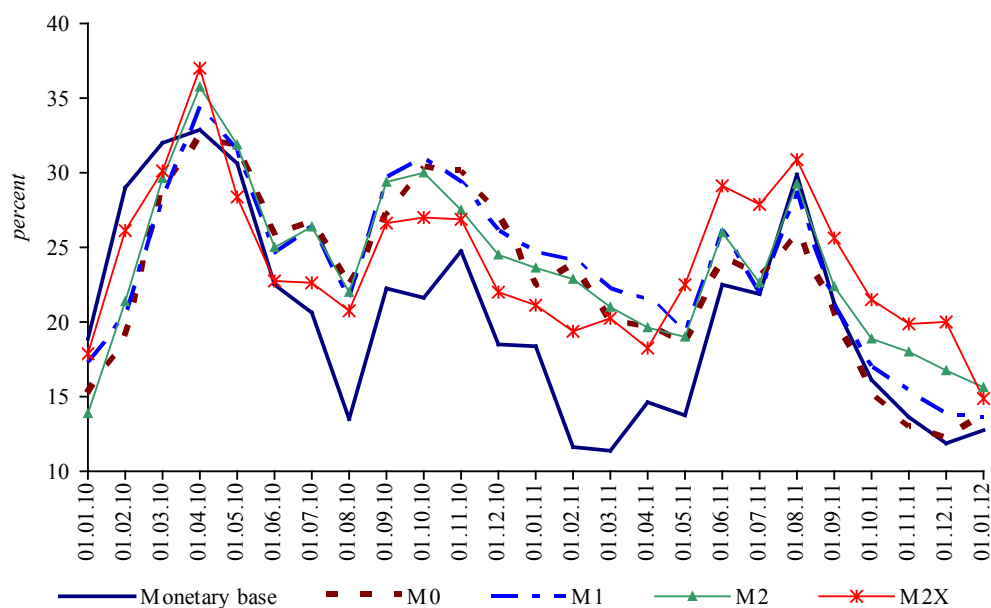
In the fourth quarter of 2011 the multiplier of M2X broad money, as an indicator of financial intermediation degree, decreased from 1.493 as of the end of September 2011 to 1.451 as of the end of December 2011 (as of the end of December 2010 – 1.424).

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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.

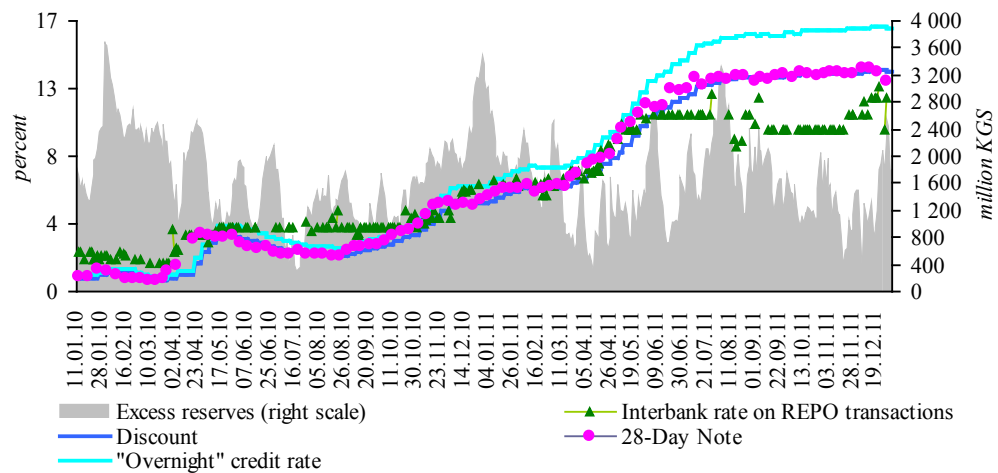
In the reporting period, velocity of M2X broad money circulation increased from 3.7 as of the end of September 2011 to 3.8 as of the end of December 2011 (as of the end of December 2010 it was equal to 3.6). Coefficient of the economy monetization, calculated on the basis of M2X monetary aggregate, decreased from 27.3 as of the end of the third quarter of 2011 to 26.5 percent as of the end of the fourth quarter of 2011 (as of the end of the fourth quarter of 2010 it was 27.9 percent).

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



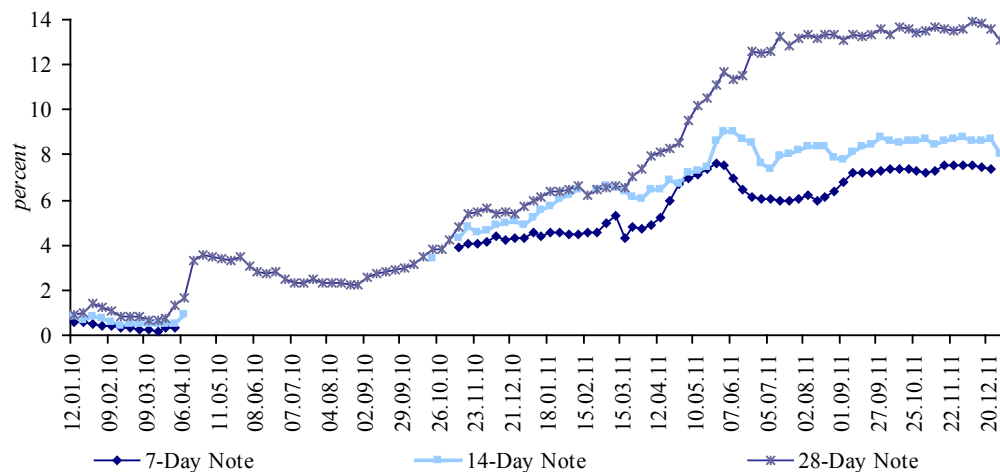
In the fourth quarter of 2011, situation in the financial market was formed under the influence of decreased level of KGS liquidity in the banking system and dynamics of the USD exchange rate. At that, there was decrease in demand for the state treasury bills of the Ministry of Finance, which influenced decrease in supply on the primary market to the minimum level for whole period from the beginning of 2011. Situation in the market on notes, on the contrary, was characterized by increase in all basic indices, formed against maintenance of positive trend of profitability rate growth in this segment of the market. At the same time, in the inter-bank market of credit resources there was activity advancement in the form of increase in demand for borrowed resources, which affected increase in cost of credit resources in the national currency. There was also increase in demand for financial instrument of the National Bank for support of short-term liquidity in the national currency “overnight”; as a result, the volume of these transactions increase in 2.2 times.

Chart 1.2.2. Dynamics of Monetary Market Rates



In the fourth quarter of 2011, there was increase in all basic indices of the notes market as compared to previous periods of 2011. The total volume of announced emission of notes was increased by the National Bank to 8.5 billion soms due to increase in supply of 28-day notes to the maximum index from the beginning of the year in the amount of 4.9 billion soms; at that, supply of 7-day and 14-day notes on the contrary decreased. Against continuing growth of profitability rate in the reporting period, there was increase in demand on the part of investors, which in aggregate expression almost reached the emission volume. In terms of securities types, growth of profitability rate was provided by increase in the weighted average profitability rate for all types of notes as compared to the third quarter of 2011. In particular, profitability of 7-day notes increased by 1.0 percentage points and constituted 7.4 percent, 14-day notes – by 0.3 percentage points to 8.5 percent, 28-day notes – by 0.3 percentage points to 13.5 percent. In comparison with the corresponding indices of 2010, profitability rate of 7-day notes increased by 3.2 percentage points, 14-day notes – by 4.2 percentage points, 28-day notes – by 8.7 percentage points.

Chart 1.2.3. Dynamics of the NBKR Notes Yield

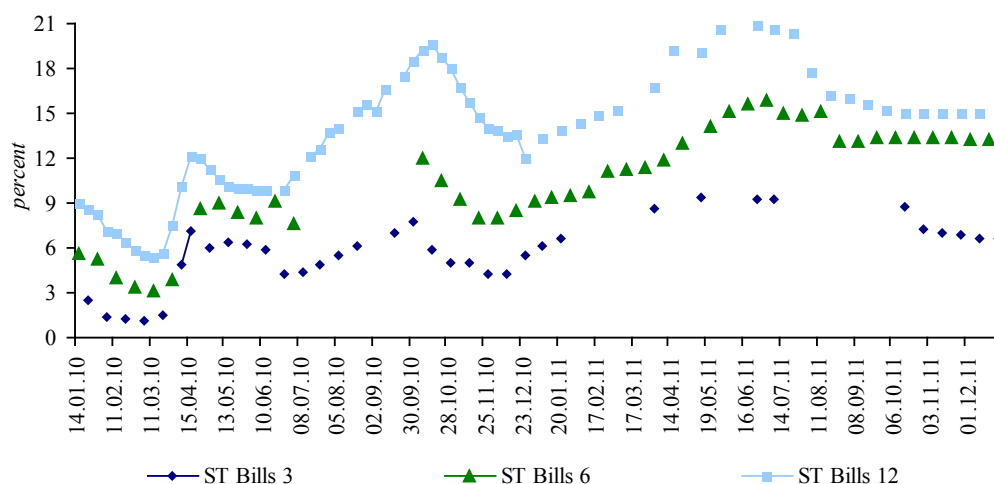


As of the end of December, the discount rate constituted 13.6 percent, having increased by 8.1 percentage points from the beginning of the year. As a result, the rate on overnight credits also increased and constituted 16.3 percent for the reporting quarter, whereas the volume of issued overnight credits amounted to 228.7 billion soms.

Due to increased demand for ST-Bonds, in the fourth quarter of 2011 there were 5 auctions; also three additional allocations were arranged with the total volume of sales equal to 1.3 billion soms. At that, the supply volume decreased to 159.4 million soms on average for an auction. As a result, the average value of ST-Bonds in the fourth quarter constituted 17.1 percent (-0.9 percentage points). As compared to the corresponding period of 2010 profitability rate of ST-Bonds decreased by 1.8 percentage points.

In the fourth quarter of 2011, the volume of ST-Bills of the Ministry of Finance in the primary market of ST-Bills decreased to the minimum level for the whole period from the beginning of 2011. Against decreasing activity of investors, the average profitability rate decreased to 13.9 percent (-3.0 percentage points). At that, profitability of 3-month ST-Bills decreased by 2.0 percentage points and constituted 7.2 percent, 6-month ST-Bills – by 0.6 percentage points to 13.3 percent, 12-month ST-Bills – by 2.7 percentage points to 15.0 percent. In comparison with the corresponding quarter of 2010 the index of ST-Bills profitability rate increased by 0.8 percentage points due to increase in profitability in the segment of 3-month and 6-month ST-Bills by 2.2 and 4.0 percentage points correspondingly, whereas profitability of 12-month ST-Bills decreased by 0.9 percentage points.

**Chart 1.2.4. Dynamics of ST-Bills Yield**



Demand for inter-bank credit resources was formed under the influence of corresponding changes in the volumes of excess KGS liquidity in the banking system. Thus, decrease in the national currency liquidity level as compared to the third quarter of 2011 affected increase in activity in the loans market, which was expressed in the form of increase in the number of performed transactions



as well as growth of inter-bank crediting volume. At that, there was increase in demand for all types of provided loans, except for standard credits in the national currency, which in turn affected increase in cost of KGS resources.

The total volume of loans in the national currency in the inter-bank market of credit resources constituted 1.8 billion soms, having increased by 40.6 percent as compared to the corresponding index of the previous quarter. As before, the main share of transactions or 1.7 billion soms (+66.0 percent) was accounted for the segment of REPO-transactions. The volume of KGS credit transactions was amounted to 101.0 million soms (-62.7 percent). In the reporting period, the weighted average interest rate on REPO-transactions increased by 0.2 percentage points and constituted 10.6 percent, on credit transactions – by 0.2 percentage points to 10.7 percent. As compared to the weighted average interest rate in the corresponding period of 2010, the rates on REPO-transactions and standard credit transactions increased by 5.6 percentage points.

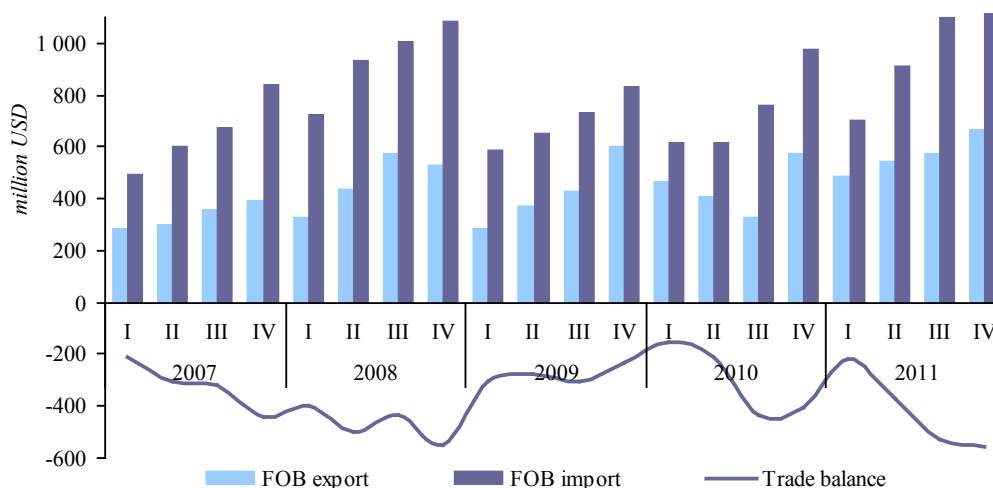
Contrary to the third quarter of 2011, characterized by absence of transactions on foreign currency in the domestic inter-bank market of credit resources, the total volume of such transactions in the reporting period amounted to 22.6 million soms with the average interest rate equal to 4.0 percent per annum.

### 1.3. External Economic Conditions

Pursuant to the preliminary data, deficit of trade balance of the Kyrgyz Republic in the fourth quarter of 2011 constituted 557.5 million USD, having increased by 36.4 percent in comparison with the corresponding index of the fourth quarter of 2010.

The external turnover in the reporting period increased by 21.8 percent in comparison with the corresponding period of 2010 and amounted to 1 892.5 million USD.

**Chart 1.3.1. Foreign Trade**





In the fourth quarter of 2011, export of goods (in FOB prices) constituted 667.5 million USD, having increased by 16.6 percent in comparison with the corresponding index of the fourth quarter of 2010. As before, the main share of export was accounted for gold supply, export volume of which increased by 5.6 percent and constituted 244.1 million USD. Moreover, there was growth of export of electric energy, fruit, aviation kerosene, clothes and accessories, automobiles of special designation, crude iron and steel as well as fabrics. Alongside with this, there was decrease in export of milk and dairy product, vegetables, automobiles spare parts, cotton, scrap metal and other non-organic substances.

Shares of the main groups of exported products<sup>1</sup> were formed in the following way: intermediate goods constituted 59.3 percent from the total export volume, consumer goods – 19.0 percent, energy products – 9.1 percent, raw materials and investment goods – 6.4 and 6.2 percent correspondingly.

Export of consumer goods increased by 1.1 percent and constituted 104.5 million USD. This increase was provided by growth of non-food products supply by 9.0 percent, whereas supply of food products decreased by 4.3 percent.

As a result of reduction of supplies physical volume against increase of export price, in the structure of food products there was decrease in export volume of milk and dairy production (by 43.3 percent or 3.0 million USD), vegetables (by 3.7 percent or 1.2 million USD), coffee and tea (by 19.2 percent or 3.0 million USD). Moreover, reduction of supplies physical volume alongside with decrease in export price provided decrease in supply of sugar (by 40.7 percent or 0.5 million USD), cheese and curd (by 38.2 percent or 0.5 million USD).

At that, there was growth of fruit export by 40.1 percent (3.7 million USD) and non-alcohol beverages in 2.0 times (by 0.9 million USD).

In the structure of non-food products, export growth was noted for such trade positions as clothes and accessories (by 7.6 percent or 1.8 million USD), incandescent lamps (by 17.4 percent or 1.0 million USD) and automobiles (by 69.3 percent or 0.6 million USD). At that, there was decrease in supply of shoes (by 14.3 percent or 0.1 million USD).

Imports of goods<sup>2</sup> in FOB prices in the fourth quarter of 2011 increased by 24.9 percent and constituted 1 225.0 million USD. The main items of imports that determined its dynamics were petroleum products, automobiles, iron and steel, sugar and wheat flour. Among the mentioned items, the most considerable change was accounted for petroleum products (increase by 41.6 percent or 97.6 million USD). Due to considerable increase in physical volume of supplies, cost volume of diesel fuel import also increased (by 86.4 percent or 42.2 million USD), aviation kerosene (by 72.2 percent or 42.5 million USD) and automobile gasoline (by 17.7 percent or 18.3 million USD).

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

<sup>2</sup> CIF import constituted 1 330.7 million USD, the trade balance deficit – 663.2 million USD.

According to the functional structure<sup>1</sup>, in the fourth quarter of 2011 the largest product categories in import transactions were consumer goods (33.9 percent of total volume of import), energy products (28.4 percent), intermediate goods (20.3 percent) and investment goods (14.0 percent).

In the reporting period, import of consumer goods reached the amount of 451.1 million USD, having increased by 19.3 percent. At that, there was increase in food products (+20.2 percent) and non-food products (+18.8 percent).

In the structure of food products, as per result of growth of import prices and physical volume of supplies, import of sugar increase in 2.3 times (by 9.0 million USD) in value terms. Also, there was increase in import volumes of other food products (by 83.1 percent or 4.6 million USD) and vegetable oil (by 5.9 percent or 0.9 million USD), mainly due to growth of import prices. Import of wheat flour also increased in 2.9 times or 6.1 million USD, mainly due to cancellation of ban for export of grain crops and flour from the territory of Kazakhstan, introduced against poor harvest of grain crops in 2010. Alongside with that, reduction of physical volume of supplies provided decrease in cost volume of import of coffee and tea (by 19.2 percent or 4.8 million USD), fruit (by 6.0 percent or 0.6 million USD), non-alcohol beverages (by 2.8 percent or 0.2 million USD).

In the structure of non-food products, as a result of increase in physical volume of supplies and growth of import prices, there was increase in supplies of medications (by 13.0 percent or 4.3 million USD). Considerable growth of physical volume against decrease in import prices provided increase in supply of cigarettes (by 38.6 percent or 3.1 million USD). At that, due to considerable reduction of supplies physical volume, there was decrease in import of telephone devices (by 13.1 percent or 2.7 million USD) and essential oils (by 8.2 percent or 1.6 million USD). Moreover, there was decrease in import supplies of clothes and accessories (by 22.5 percent or 12.1 million USD) and shoes (by 12.1 percent or 1.8 million USD).

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

In the fourth quarter of 2011, there was increase in the USD exchange rate due to maintenance of growth tendency, which started in August and provided by increase in volume of banks' transactions on servicing of import contracts of their clients as well as by seasonal activation of consumer activity. In November, corresponding growth index achieved the maximum value of 2.7 percent in the quarter; however, in the last month of 2011, there was a slight decrease by 0.7 percent (in the corresponding period of 2010, the exchange rate increased by 0.5 percent), caused by increase in USD supply on the market.

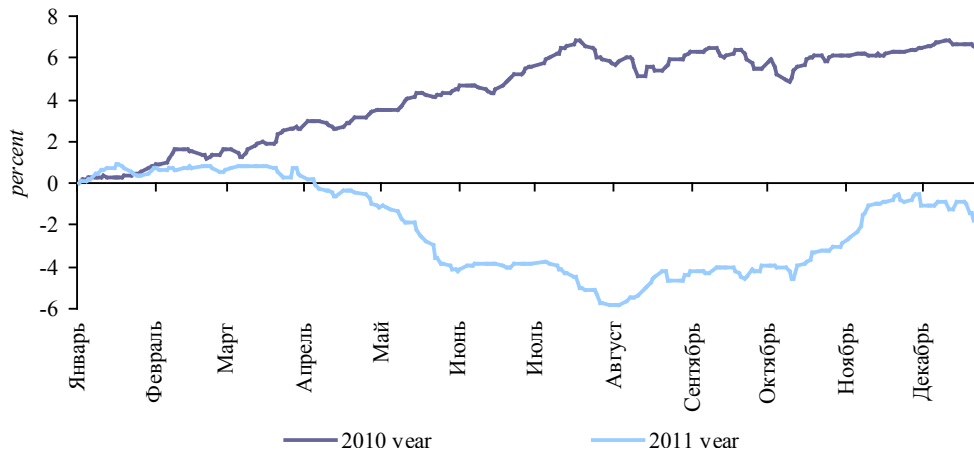
In the reporting period the National Bank of the Kyrgyz Republic in order to smooth the acute fluctuations of the exchange rate participated in the interbank

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

foreign exchange trading operations on USD purchase/sale. Against increased demand for the currency, the National Bank of the Kyrgyz Republic increased its operations on USD sale as compared with the previous quarter by 42.8 percent to the amount of 111.6 million USD. At the same time, the volume of transactions on USD purchase decreased by 60.7 percent and constituted 16.8 million USD (as compared to the fourth quarter of 2010, the volume of NBKR transactions on purchase increased by 70.1 percent and on sale by 91.8 percent) Thus, the index of net sales for the reporting period constituted 94.9 million USD. The currency of NBKR intervention was USD, transactions in other currencies were not carried out.

As of the end of December, the USD discount rate constituted 46.4847 KGS/USD, having increased for the quarter by 3.3 percent (according to the fourth quarter of 2010, the USD discount rate constituted 47.0992 KGS/USD, having increased in the quarter by 1.0 percent).

**Chart 1.4.1. Rates of Change of the USD Discount Rate**



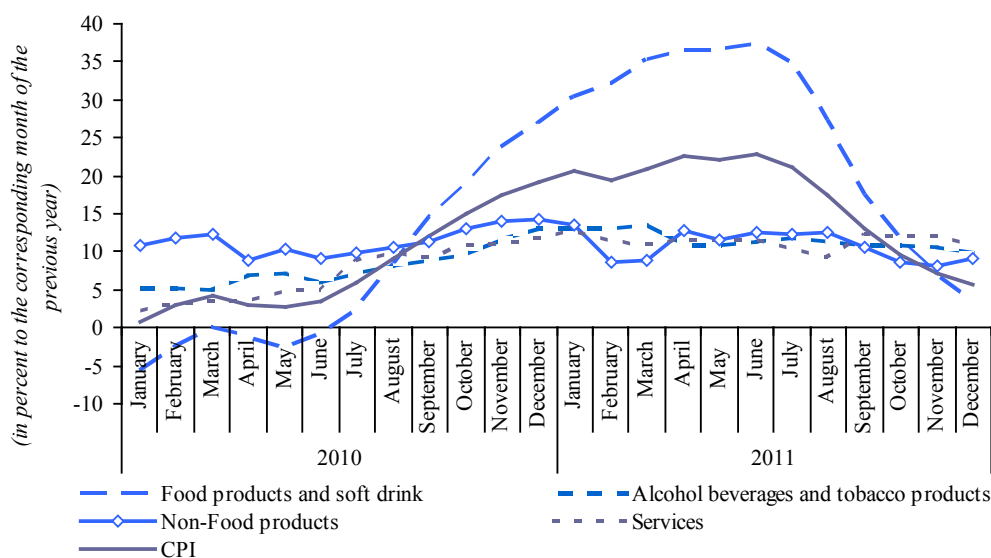
## Chapter 2. Inflation and its Components

### 2.1. Consumer Price Index Development

In December 2011, the annual value of inflation (against December 2010) constituted 5.7 percent, whereas in the corresponding period of 2010 it was 19.2 percent. The largest increase of the consumer price index was registered for non-food products (2.4 percentage points). This group of goods on an annualized basis got up by 9.2 percent. There was increase in prices for food products (by 3.5 percent); increase in prices for alcohol beverages and tobacco products constituted 9.8 percent, for paid services – 11.1 percent.

In 2011, there was considerable growth retardation of prices for the main food products (bakery products and cereals, fruit and vegetables, meat, sugar) as well as moderate growth of prices for non-food products and services, which became one of the main factors, determining dynamics of prices.

**Chart 2.1.1. Annual dynamics of CPI and its Components**



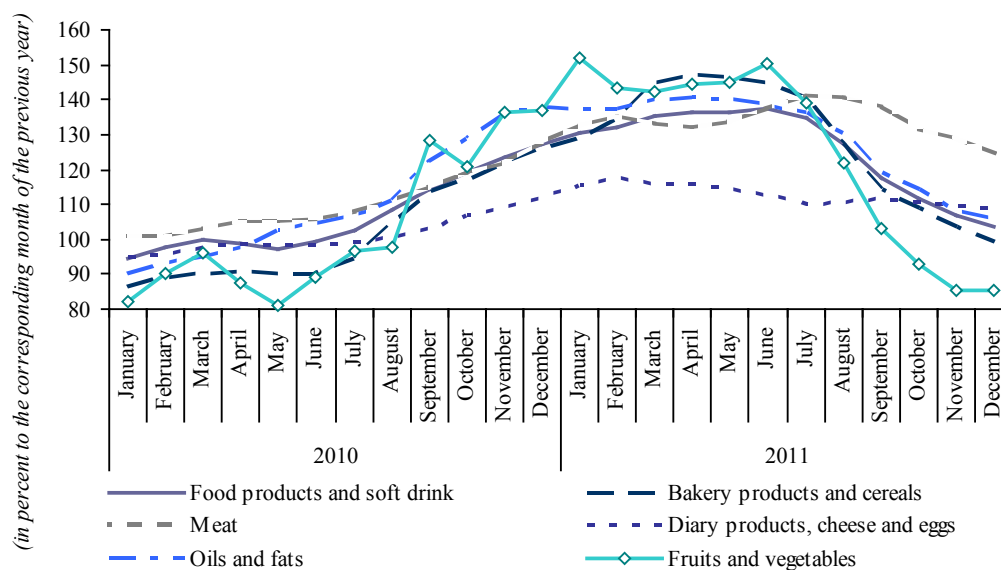
In the fourth quarter of 2011, the consumer price index constituted 101.2 percent (in the fourth quarter of 2010 – 105.9 percent). Index of prices for food products constituted 99.8 percent, for alcohol beverages and tobacco products – 103.6 percent, for non-food products – 103.5 percent, for paid services – for 101.4 percent.

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

As per results of December 2011, prices for food prices on an annualized basis increased by 3.5 percent (in the corresponding period of 2010, the prices on an annualized basis increased by 27.0 percent). The group of goods “bakery products and cereals” depreciated by 0.5 percent including depreciation of first grade wheat flour by 3.2 percent. At that, as per results of the fourth quarter of 2011, bakery products and cereals depreciated by 6.7 percent mainly due to reduction of prices in the world commodity markets against rich yield of cereal crops in manufacturing countries. Prices for dairy products on an annualized basis

increased by 8.9 percent, whereas prices for horticultural production decreased by 14.9 percent.

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



As per results of the fourth quarter of 2011, prices for horticultural production increased by 20.4 percent: prices for fruits increased by 13.9 percent and prices for vegetables increased by 23.1 percent. On an annualized basis, the commodity group “fruits and vegetables” depreciated by 14.9 percent: prices for fruit decreased by 12.6 percent and vegetables depreciated by 15.7 percent.

Against the background of world conjuncture, there was continuing reduction of prices for sugar (-17.9 percent for the fourth quarter). On an annualized basis, prices for this product decreased by 8.6 percent, whereas in December 2010, prices for sugar increased by 22.5 percent on an annualized basis.

Against the background of rich yield of oil-bearing crops in manufacturing countries, there was reduction of world prices for this type of food production, which in turn provided retardation of domestic prices growth for oils and fats. In the domestic market of oil-bearing crops, there was decrease in supply of domestic production due to decrease of oil-bearing crops yield by 3.2 percent in 2011 as compared to the corresponding index of 2010. Generally, annual growth rate of prices for the group “oils and fats” as per results of December 2011 constituted 5.7 percent against increase by 19.2 percent as per results of September 2011 and by 37.8 percent as per results of December 2010.

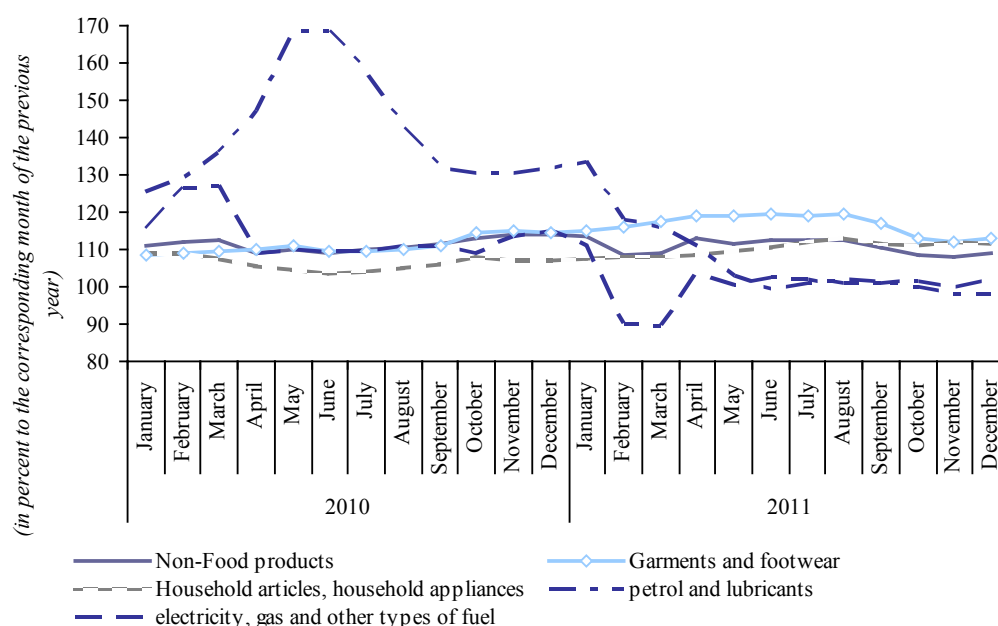
In the fourth quarter of 2011, there was increase in consumer prices for dairy products, which constituted 11.6 percent. On an annualized basis, dairy products appreciated by 8.9 percent, which was by 2.8 percentage points lower as compared to the corresponding index of September 2011 and by 3.2 percentage points lower as compared to December 2010. Retardation of prices growth for dairy products in 2011 was provided by reduction of prices for import of dairy production and decrease in export of milk and dairy products.

Prices for meat products as per results of December 2011 increased on an annualized basis by 24.5 percent due to growth of export prices (in January–November 2011, average export prices for meat products increased by 40.8 percent in comparison with the corresponding index of 2010). In 2011, the average monthly growth rate constituted 1.9 percent.

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

Growth of the price index for non-food products on an annualized basis constituted 9.2 percent, which was by 5.0 percentage points lower as compared to the corresponding index of 2010. Thus, prices for clothes and shoes increased by 12.9 percent, mainly due to appreciation of men’s and children’s clothes by 10.8 and 11.9 percent correspondingly. There was increase in prices for the group “electric energy, gas and other types of fuel” on an annualized basis by 2.1 percent. There was increase in prices for the group “household articles and household appliances”, which constituted 11.6 percent. The main reason for such dynamics was appreciation of furniture and floor coatings by 15.4 percent as well as household textile products by 10.6 percent. Cost of fuels-and-lubricants on an annualized basis decreased by 1.9 percent: prices for gasoline decreased by 1.6 percent, whereas prices for diesel fuel increased by 2.4 percent. In the fourth quarter of 2011, prices for fuels-and-lubricants increased by 1.4 percent: gasoline appreciated by 1.5 percent and diesel fuel appreciated by 1.3 percent.

Chart 2.1.3. Annual Dynamics for Non-Food Products

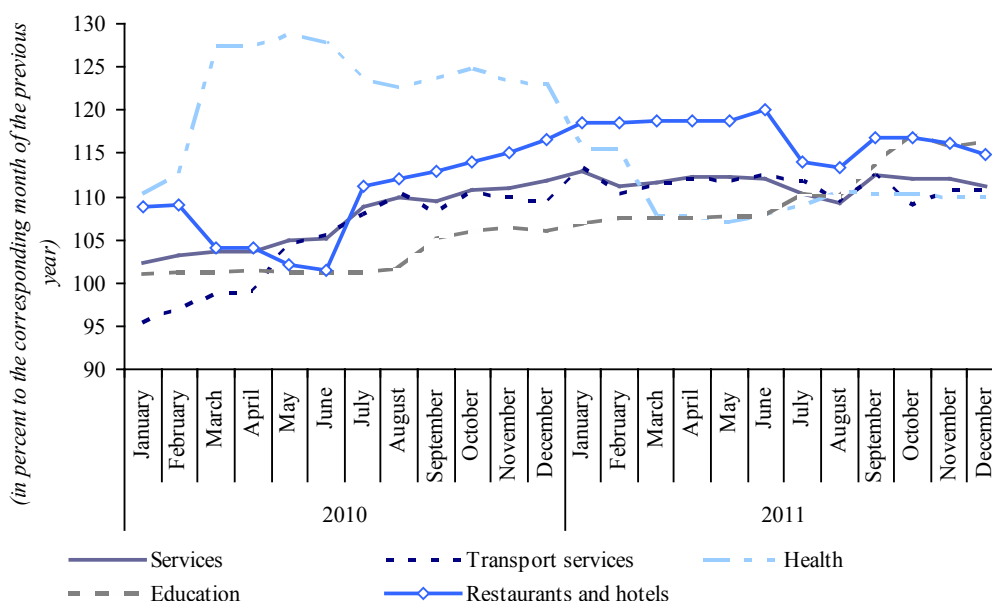


### 2.1.3. Dynamics of Prices for Services

In the reporting period, the price index for paid services in annual terms grew by 11.1 percent (in the corresponding period of 2010 it constituted 11.9 percent). Growth on index in this group of products was mainly due to appreciation of restaurants and hotels services by 14.8 percent, as well as transportation services (+10.8 percent) and recreation services (+11.1 percent). After beginning of the new school year, there was increase in cost of education services, which

constituted 16.3 percent in annual terms. Cost of health services increased by 10.0 percent.

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



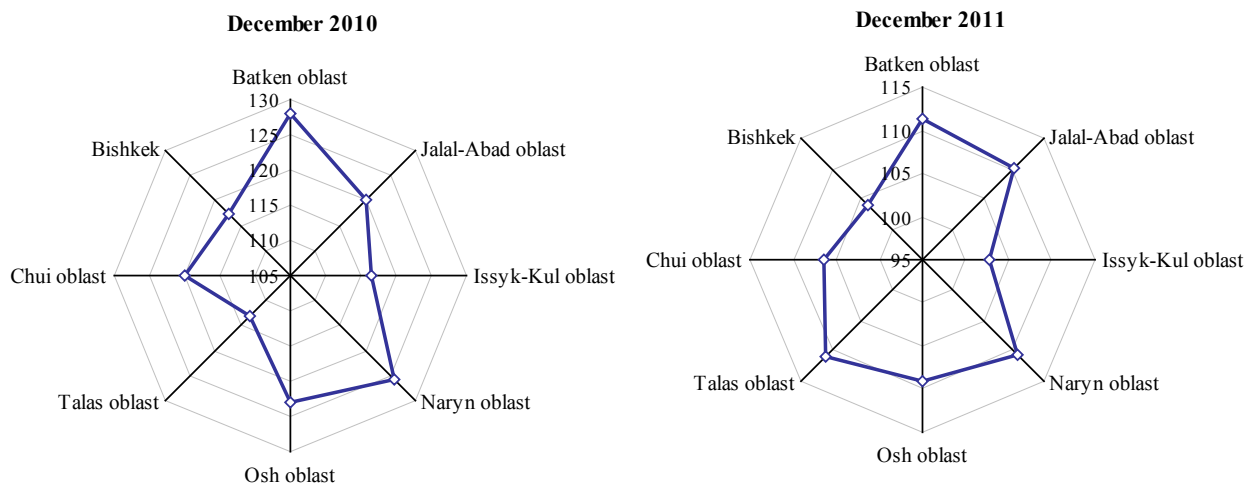
**2.1.4. Consumer Price in Regions**

As per results of December 2011, there was retardation of growth rate of the general level of consumer prices in all regions of the republic. In Batken and Osh oblasts, prices increased by 11.4 and 9.1 percent correspondingly; in Jalal-Abad oblast – by 10.0 percent; in Talas oblast – by 10.8 percent. In Chui and Issyk-Kul oblasts, prices increased by 6.4 and 2.8 percent correspondingly. The main factor of retardation of the prices general level was reduction of prices for food products.

In the capital of the republic, there was increase in prices by 4.0 percent; at that, food products appreciated by 3.4 percent, alcohol beverages and tobacco products appreciated by 9.2 percent, non-food products – by 4.7 percent and paid services – by 7.0 percent.

**Chart 2.1.5. Annual CPI in Regions**

(percent)





## 2.2. Core inflation

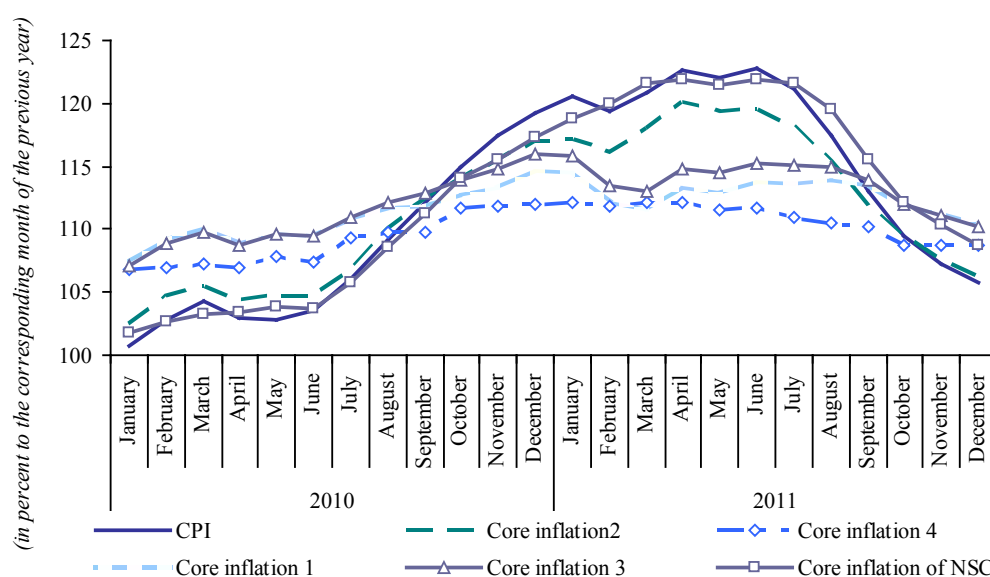
Core inflation is defined as the trend of inflation excluding short-term, structural, and seasonal changes in prices. That means that growth of prices of goods, caused by the seasonal or external factors such, as poor harvest, a price shock in the market of petroleum products, administrative changes in gas and electricity tariffs are excluded from 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 December 2011 in annual terms constituted 8.7 percent, whereas “raw” inflation made up 5.7 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 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 fourth quarter of 2011 is following:

1. For evaluation of the current situation as well as for development of scenarios of the monetary policy execution, Board of the National Bank of the Kyrgyz Republic on November 18, 2011 considered and approved the report on monetary policy for the period of January-September 2011 as well as the money-and-credit program for the forthcoming period (resolution No.66/1). Abridged version of the report on monetary policy for the period of January-September 2011 was provided to Jogorku Kenesh, President Administration, Government Administration, Ministry of Finance and Ministry of Economic Regulation of the Kyrgyz Republic and allocated on official web-site of the National Bank of the Kyrgyz Republic.
2. Board of the National Bank of the Kyrgyz Republic on December 14, 2011 approved the document “Major trends of the money-and-credit policy for 2012-2014”, which specifies aims and objectives of the money-and-credit policy for a short-term period. During elaboration of the document, tendencies of the world financial and commodity markets were considered, including internal and external factors, influencing development of the economy in the mid-term perspective, potential risks, forecasts for the sector of state finances, mid-term forecasts of social-economic development of the Kyrgyz Republic, parameters of the Country Development Program for mid-term period, memorandum on economic and financial policy for 2011-2014. Abridged version of the document was provided to Jogorku Kenesh, President Administration and Government Administration of the Kyrgyz Republic and allocated on official web-site of the National Bank of the Kyrgyz Republic (resolution No.68/1).
3. Board of the National Bank of the Kyrgyz Republic on December 14, 2011 approved text of the Statement of the National Bank of the Kyrgyz Republic on money-and-credit policy for 2012 (resolution No.68/2), which specifies quantitative orienting point of the money-and-credit policy (inflation rate) and describes basic trends of the NBKR activity. The document was provided to the Government Administration and Ministry of Economic Regulation of the Kyrgyz Republic for development of the Joint Statement on Economic Policy for 2012 by the Kyrgyz Republic Government and National Bank of the Kyrgyz Republic.
4. For the purpose of regulation of the procedure for performance of transactions with the ST-Bills on the secondary market, on December 14, 2011 the resolution No.68/4 of the NBKR Board introduced changes and

amendments to the Interim procedure for performance of transactions with the ST-Bills on the secondary market through electronic trading system of the National Bank of the Kyrgyz Republic, approved by resolution No.3/3 of the NBKR Board, dated March 10, 1998. This resolution comes into force from January 1, 2012.

### **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 fourth 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 fourth quarter of 2011, 14 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 for the purpose of additional withdrawal of excess reserves of commercial banks.

Due to retardation of inflation processes in the economy, which started in the third quarter of 2011, the MPC accepted the decision on reduction of indicative volume of NBKR notes in circulation from 1.7 billion soms as of the end of third quarter of 2011 to 1.5 billion soms as of the end of the fourth quarter of 2011.

In the reporting period, the volume of sales of NBKR notes constituted 6.9 billion soms; the volume of sales of government securities on REPO terms constituted 674.9 million soms. The volume of NBKR notes in circulation as of the end of December 2011 constituted 1.4 billion soms. Net sale of USD by the National Bank of the Kyrgyz Republic constituted 4.4 billion soms (in KGS equivalent) in the reporting period.

## Chapter 4. Inflation Forecast

### 4.1. Forecast of Key Inflation Factor Dynamics

High risks of macroeconomic disbalance in the world economy and beginning of upward dynamics of prices on commodity markets as well as certain ambiguity about economic strategy of the country (especially with regard to the state budget and financing of large investment projects) bring uncertainty to short-term and mid-term forecasts of macro-economic indices of the republic.

In general, economic situation in 2012 assumes maintenance of business activity as minimum at potential level and growth of the population's income, which may cause increase in consumer expenses.

In 2012, there is a number of risks of external economic character: uncertainty of conditions, related to entrance of the Kyrgyz Republic into the Customs Union (uncertainty of further development of trading conditions), upward dynamics of prices on the world commodity markets, risk of repeated recession of the world economy. Negative influence of the specified factors may considerably weaken the potential of the Kyrgyz Republic economic development, because economic growth mainly depends on development of countries – main trade partners. Moreover, main contribution into GDP growth in the mid-term perspective is expected from the branches, oriented at export (industry and trade).

With regard to the stated above factors as well as on the basis of assumption on more stable external economic conjuncture and social-political situation in the country, the National Bank of the Kyrgyz Republic developed GDP forecasts for 2012. Forecast of the main macroeconomic indices stipulates two scenarios of the economy development. In accordance with the first scenario, the GDP growth in 2012 will constitute 5.0 percent and deflator's increase will make 7.0 percent. Thus, the nominal volume of GDP in 2012 is expected at the level of 306.9 billion soms. The main contribution to GDP growth in Kyrgyzstan in 2012 is expected from enterprises of services, industry and construction.

**Table 4.1.1. GDP Forecast by Economy Sectors for 2012 (first scenario)**

	Factual data			Estimated data		
	current prices, million KGS	real growth, percents	contribution, percent	comparable price, million KGS	real growth, percents	contribution, percents
	2010			2011		
Agriculture, hunting and forestry	39 343,7	2,3	0,4	50 475,1	2,5	0,5
Industry	51 125,6	12,1	2,5	61 314,1	8,5	1,8
Mining industry	1 725,3	24,6	0,2	2 450,5	10,0	0,1
Processing industry	41 018,6	9,8	1,7	49 488,9	8,0	1,3
including Kumtor"	26 441,4	6,2	0,7	33 788,6	4,0	0,5
Electricity, gas, and water generation and distribution	8 381,7	22,4	0,7	9 374,7	11,0	0,3
Construction	11 695,6	-3,9	-0,2	14 516,4	9,0	0,4
Trade	37 645,5	7,0	1,1	46 488,3	6,0	1,0
Transport and communication	20 748,7	9,8	0,8	23 587,8	5,0	0,4
Other	48 464,2	2,0	0,4	57 504,6	2,0	0,4
Net tax on products	23 869,6	5,7	0,6	32 918,4	5,0	0,6
<b>GDP</b>	<b>232 892,9</b>	<b>5,7</b>	<b>5,7</b>	<b>286 804,9</b>	<b>5,0</b>	<b>5,0</b>
<b>GDP excl. Kumtor</b>	<b>206 451,5</b>	<b>5,6</b>	<b>-2,1</b>	<b>253 016,3</b>	<b>5,2</b>	<b>5,2</b>
<i>For reference</i>						
<b>Services</b>	<b>106 858,4</b>	<b>5,2</b>	<b>14,8</b>	<b>127 580,8</b>	<b>4,0</b>	<b>1,8</b>

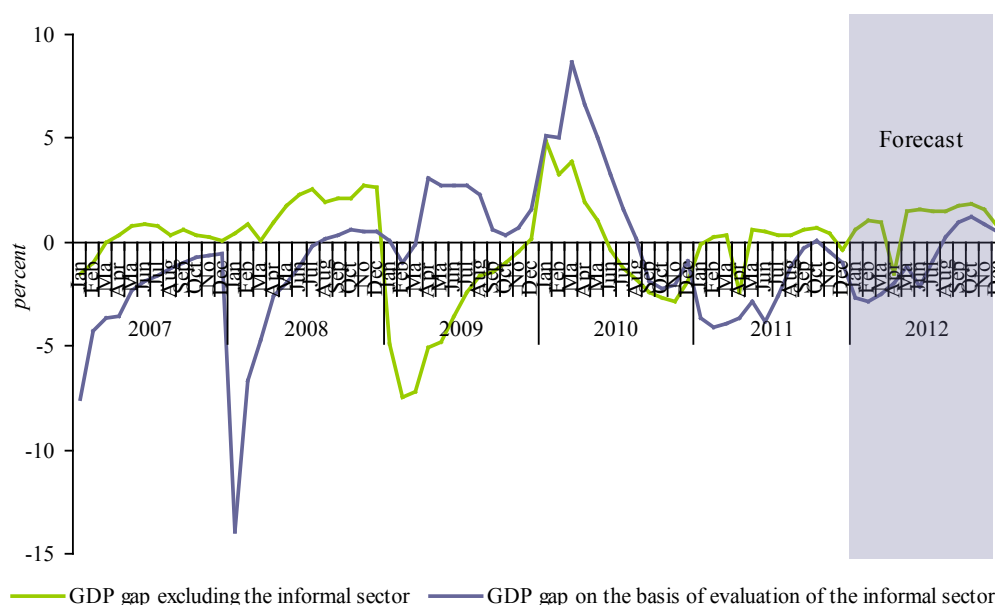
Government of the Kyrgyz Republic adopted the Mid-term Development Program of the Kyrgyz Republic for the period of 2012-2014. This program stipulates implementation of 40 projects for the total amount of 8.3 billion soms in such economy branches as industry, construction, agriculture, transportation and communication. In case of these projects implementation, GDP growth in 2012 is expected at the level of 7.5 percent. Nominal GDP will constitute 337.6 billion soms at deflator of 15.0 percent.

**Table 4.1.1. GDP Forecast by Economy Sectors for 2012 (second scenario)**  
(real growth, percent)

	fact	forecast
	2011	2012
Agriculture	2,3	4,5
Industry	12,1	9,6
Construction	-3,9	19,0
Services	5,2	6,7
Net tax on products	5,7	7,5
<b>GDP</b>	<b>5,7</b>	<b>7,5</b>
<b>Deflator, percent</b>	<b>17,3</b>	<b>15,0</b>
<b>Nominal GDP, million KGS</b>	<b>273 107,8</b>	<b>337 629,5</b>

Another index of price risks, occurring in the economy under the influence of growth/decline of the production volume may be the index of GDP gap. GDP gap indicator was calculated for economy of the Kyrgyz Republic with the help of two methods: without regard to informal sector (on the basis of official data of NSC KR) and with regard to evaluation of the economy informal sector (official data of NSC KR + adjustments for economy branches).

**Chart 4.1.1. Forecast of Actual and Potential GDP**



GDP gap, based upon the informal sector, in 2011 was negative, in contrast to GDP gap, calculated on the basis of official figures of NSC KR, which as per results of the reporting period was formed positive. This difference is explained

by predominance of the services industry and agriculture, which occupy a considerable share in the GDP structure with regard to informal sector; however, their growth in 2011 was quite low. Negative gap of GDP with regard to informal sector keeps with deflation processes, which occurred in 2011. It is expected that in conditions of current tendencies of the economic activity recovery in the country, political and economic stability, absence of price shocks on the world commodity markets, there will be moderate positive GDP gap in 2012.

Forecasts of the National Bank of the Kyrgyz Republic with regard to real sector may be further adjusted depending on the economy development tendencies as well as to changes and amendments in strategic programs of the country.

Measures of the budget-tax policy are another important factor, considerably influencing inflation and monetary policy. In recent years, in accordance with estimations, there has been certain mitigation of the budget-tax policy, promoting acceleration of aggregate demand growth and formation of higher inflationary background in the economy. Maintenance of high budget deficit in the nearest future and corresponding necessity in its financing bears certain risks for the forecasted inflation level. It should be noted that steady utilization of the state budget during financial year promotes reduction of risks for inflation growth.

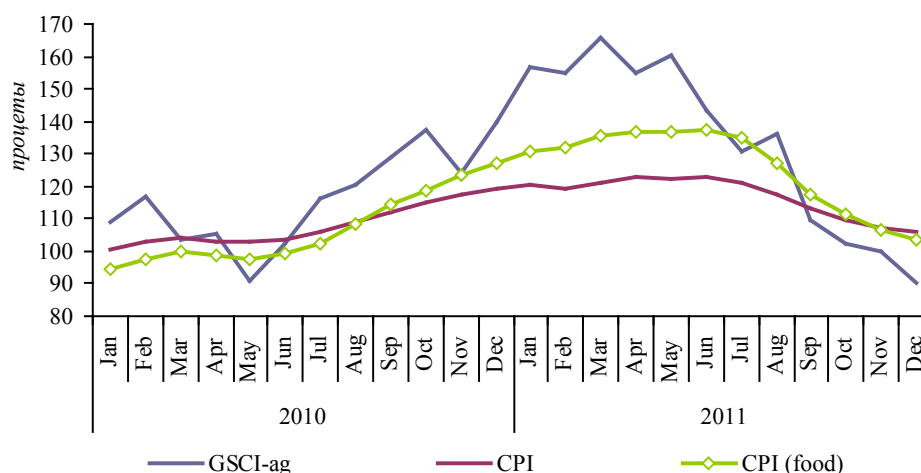
#### 4.2. Inflation forecast for 2012 and 1 quarter of 2012

CPI dynamics in the Kyrgyz Republic is mainly formed under the influence of prices dynamics on the world commodity markets, which is caused by high dependence of consumption in Kyrgyzstan on import supplies. Specified dependence also determines a high non-monetary component of inflation in the republic.

*For reference:*

Dependence of inflation on prices in the world commodity markets is demonstrated by high correlation of the Kyrgyz Republic CPI (on an annualized basis) and GSCI-ag index.

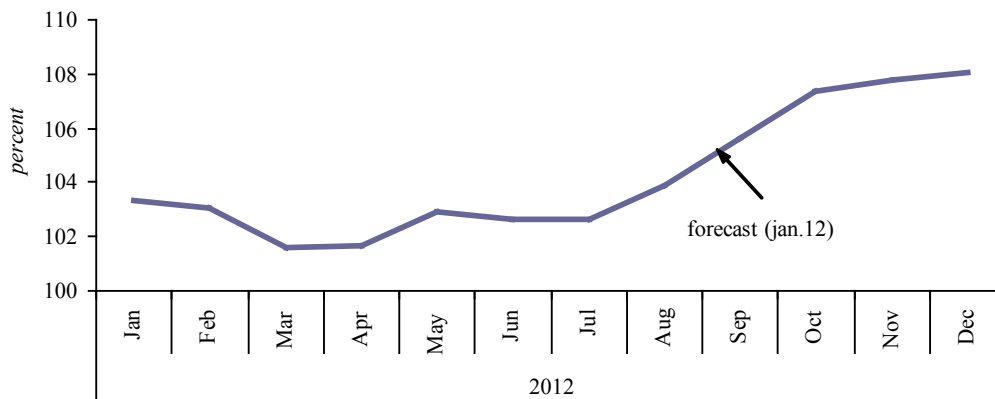
**Fig. 4.2.1. Annual dynamics of CPI and GSCI-ag\***



\* GSCI-ag (Goldman Sachs Commodity Index-agricultural) – index of prices for actively traded future contracts for food (agricultural) products – developed by the investment bank “Goldman Sachs in order to present these exchange goods as a single group.

In 2012, at moderate growth of prices for food products, decrease in accumulated inflationary expectations of the population and absence of considerable internal and external shocks of demand and supply, the inflation rate is expected at the level of 8-9 percent.

**Chart 4.2.2. Annual Inflation Forecast**

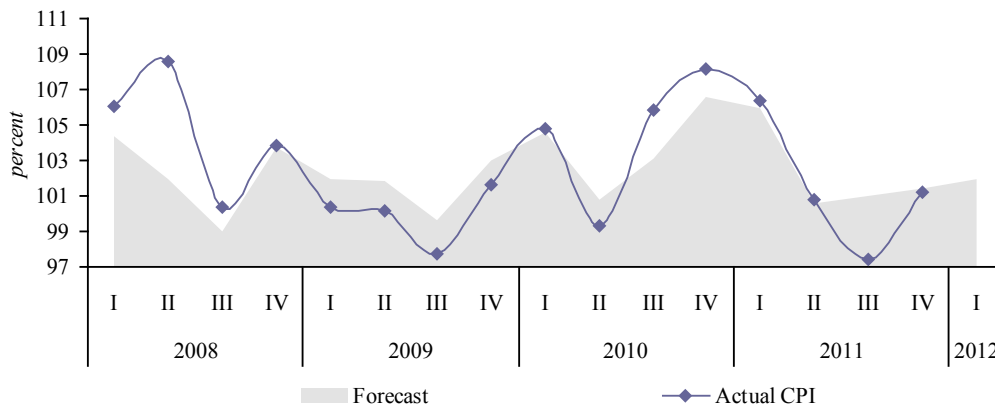


In the short-term perspective, certain volatility of inflation values is expected as a result of action of so-called “base effects”. In particular, during the first quarter of 2011, the inflation value was high enough, which then was changed by the period of relatively moderate rates and then by continuous period of deflation. Consequently, the same situation may be expected at other equal conditions – decrease of annual and average annual inflation rates in the first half of 2012 and more accelerated growth in the second half.

Factual level of inflation in the fourth quarter of 2011 (1.2 percent) was formed lower than the forecast for the given period (1.4-1.7 percent), which was published in the document “Inflation report in the Kyrgyz Republic for the third quarter of 2011”. Deviation of the inflation forecasted value from factual value was provided by considerable decrease in prices for food products against rich harvest in the countries, manufacturing agricultural production.

In the first quarter of 2012, it is expected that the inflation dynamics will be formed under the influence of seasonal factors, especially with regard to horticultural and meat-and-dairy production. Eventually, growth of prices in the first quarter of 2012 is forecasted at the level of 2.0-2.3 percent; it is expected that the inflation annual value in this period will be decreasing from 3.4 to 1.4 percent.

**Chart 4.2.3. Inflation forecast for the first quarter of 2012**





## Statistical Annex

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

	2011					
	Jan.	Feb.	March	Apr.	May	June
<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>
Goods	102,7	101,7	102,4	100,4	99,5	100,7
Food and soft drinks	104,9	103,0	103,9	100,2	98,9	100,6
Alcoholic beverages and tobacco	100,2	100,1	100,9	100,1	100,7	100,9
Non-food products	100,5	100,3	100,6	100,8	100,2	100,9
Services	102,1	99,6	100,9	100,4	101,1	100,2
Alcoholic beverages and tobacco products	104,9	103,0	103,9	100,2	98,9	100,6
Bakery products and cereals	101,7	104,0	107,3	100,8	99,1	99,3
high-grade wheat flour	102,2	104,7	107,8	101,4	99,3	99,1
first-grade wheat flour	101,9	106,2	111,1	100,4	98,1	98,0
bread	100,7	103,1	105,7	100,7	98,2	100,0
Meat	104,9	103,1	100,9	100,1	101,7	103,5
Fish	101,1	100,9	100,9	100,4	99,7	100,8
Diary products, cheese and eggs	103,8	102,0	97,0	98,5	97,2	97,3
Oils and fats	100,7	100,2	102,6	101,3	100,9	99,4
Fruits and vegetables	115,8	102,1	105,2	98,4	93,7	101,6
fruits	101,5	101,5	101,8	102,8	105,6	105,2
vegetables	122,5	102,3	106,5	96,8	89,0	100,3
Sugar, jam, honey, chocolate and candies	105,7	104,6	101,3	100,8	99,9	100,3
sugar	108,4	106,1	100,2	100,4	99,7	100,2
Other food products	100,8	102,5	99,0	100,3	100,1	100,4
Soft drinks	101,8	100,9	102,7	101,1	99,2	102,7
Strong drinks and tobacco products	100,2	100,1	100,9	100,1	100,7	100,9
strong drinks	100,1	100,0	100,2	100,0	100,7	100,7
tobacco products	100,6	100,2	102,8	100,4	100,5	101,2
Garments and footwear	101,0	101,5	101,8	102,1	101,1	100,6
garments	101,2	100,9	100,2	100,9	100,7	100,6
fabric for garments	100,7	100,0	100,3	100,2	100,1	100,1
garments for men	101,4	101,1	99,3	101,0	100,8	101,7
garments for women	101,0	100,3	100,5	100,8	100,0	101,5
children and newborns garments	101,2	101,5	100,7	101,2	101,6	98,0
cleaning, mending and renting garments	106,4	103,8	101,2	98,2	100,2	99,9
footwear including repair	100,6	103,0	105,6	104,9	102,0	100,5
men footwear	100,0	106,6	104,3	106,0	102,3	101,8
women footwear	100,6	102,2	107,0	105,2	102,2	99,7
children footwear	101,3	99,1	103,7	102,3	101,3	101,3
shoe repair	103,0	102,4	106,9	101,1	100,2	102,2
Housing services, water, electricity, gas and other fuels	99,9	99,4	99,1	98,8	98,1	100,5
house rent	100,0	100,6	100,0	100,0	100,0	100,0
services for dwelling premises maintenance and repair	99,3	99,8	102,4	100,8	100,5	101,0
brick	100,0	100,0	103,1	100,3	100,8	100,3
carving wood	98,0	100,1	102,6	100,9	100,2	105,1
cement	99,1	98,7	101,8	100,4	99,8	100,3
flat glass	99,8	99,3	100,0	100,0	99,7	103,5
construction sand	100,0	100,0	109,7	102,1	101,7	100,0
slate	99,7	100,0	100,0	101,0	101,0	99,3
services for dwelling premises maintenance and repair	100,0	100,0	100,0	101,0	100,6	88,1
water supply	100,0	100,0	100,0	100,0	100,0	104,9
electricity, gas and other types of fuel	100,0	99,3	98,7	98,6	97,7	101,0
gas	100,2	98,9	99,4	98,8	99,2	102,2
Household articles, household appliances	100,2	101,0	100,5	100,8	100,3	101,4
furniture and floor coverings	100,1	101,7	100,5	100,2	100,6	102,5
household textile items	100,1	100,0	100,8	101,0	100,2	101,1
home appliances	100,5	101,2	100,1	99,5	100,3	101,5
glassworks, tableware and household stuff	100,4	100,1	100,3	100,1	100,1	100,9
Health	99,6	101,4	100,8	100,4	100,6	100,6
Transport	102,0	96,9	100,2	100,4	102,3	101,0
purchase of cars	100,4	100,1	100,1	99,6	99,4	98,2
petrol and lubricants	98,6	88,1	99,2	101,1	104,0	101,6
gasoline	98,6	88,0	99,1	100,9	103,4	102,0
diesel	97,6	90,1	101,5	103,9	111,4	98,3
maintenance and repair of personal vehicles	100,1	100,0	100,0	100,0	100,0	100,4
transport services	104,0	97,6	100,5	100,7	103,4	101,5
Communication	100,0	100,0	103,1	100,0	100,0	100,0
Recreation, entertainment and culture	100,0	100,8	101,6	100,4	100,8	100,1
cultural events services	100,1	102,1	101,2	103,0	106,8	100,1
papers, books and stationary	100,0	101,3	103,1	100,0	100,0	100,0
Education	100,5	101,0	100,1	100,0	100,2	100,0
Restaurants and hotels	102,0	100,3	100,2	100,2	100,1	101,1
catering	102,0	100,2	100,2	100,2	100,1	101,0
hotel service	100,9	101,7	100,3	99,7	99,8	106,1
Various goods and services	102,2	100,4	100,4	100,8	100,3	100,2
personal service	102,5	100,3	100,4	101,0	100,4	100,4
personal demand items, which are not included into other categories	100,8	101,1	100,0	100,0	100,0	100,1
other services, which are not included into other categories	101,0	101,3	101,9	100,0	100,0	95,1

Source: NSC KR



2011						
July	Aug.	Sep.	Oct.	Nov.	Dec.	
99,7	98,8	98,9	99,5	100,7	101,0	Consumer price index for goods and services
99,3	98,6	98,2	99,3	100,7	101,2	Goods
98,3	97,3	97,0	98,6	100,3	100,9	Food and soft drinks
101,7	100,7	100,7	101,1	101,4	101,1	Alcoholic beverages and tobacco
100,9	100,9	100,2	100,2	101,5	101,8	Non-food products
102,0	100,1	102,8	100,7	100,5	100,2	Services
98,3	97,3	97,0	98,6	100,3	100,9	Alcoholic beverages and tobacco products
99,7	99,0	95,8	97,0	97,9	98,2	Bakery products and cereals
99,7	98,6	93,4	97,2	96,4	95,9	high-grade wheat flour
98,8	97,8	92,8	98,2	97,4	97,3	first-grade wheat flour
99,9	99,9	99,3	99,6	99,1	97,6	bread
104,1	101,7	101,9	98,8	100,3	101,3	Meat
100,6	100,1	100,4	103,4	102,4	102,5	Fish
96,9	100,8	104,5	104,2	102,4	104,5	Diary products, cheese and eggs
100,2	100,1	100,0	100,2	99,8	100,3	Oils and fats
85,6	79,8	88,8	102,4	109,1	107,8	Fruits and vegetables
85,4	83,0	90,4	102,9	108,3	102,2	fruits
85,7	78,6	88,2	102,2	109,4	110,2	vegetables
102,1	104,2	92,4	93,5	98,3	100,3	Sugar, jam, honey, chocolate and candies
103,2	106,4	87,6	87,8	94,4	99,2	sugar
100,5	101,5	101,6	100,1	100,2	100,2	Other food products
100,9	100,5	100,5	100,1	99,6	100,9	Soft drinks
101,7	100,7	100,7	101,1	101,4	101,1	Strong drinks and tobacco products
102,2	100,6	100,9	101,0	100,8	101,3	strong drinks
100,6	100,7	100,3	101,3	102,7	100,6	tobacco products
100,6	100,9	100,1	100,6	100,5	101,5	Garments and footwear
100,7	101,0	100,6	100,8	101,0	101,9	garments
103,9	100,5	102,9	100,3	100,3	101,0	fabric for garments
100,5	100,9	101,7	100,5	100,4	100,9	garments for men
99,7	100,4	100,8	100,8	101,3	102,8	garments for women
101,6	102,0	98,5	101,2	101,4	102,3	children and newborns garments
100,2	100,4	100,4	104,9	100,6	100,3	cleaning, mending and renting garments
100,3	100,8	99,0	100,1	99,2	100,3	footwear including repair
100,0	100,9	100,4	100,6	100,4	100,2	men footwear
100,0	100,4	98,5	100,2	98,6	100,3	women footwear
101,5	102,1	99,0	99,0	99,7	100,1	children footwear
100,0	100,0	97,3	100,0	100,2	100,0	shoe repair
100,2	100,1	100,6	99,1	102,8	103,3	Housing services, water, electricity, gas and other fuels
100,0	100,0	114,2	100,0	100,0	100,0	house rent
103,1	99,8	99,7	100,2	100,6	99,5	services for dwelling premises maintenance and repair
105,3	100,0	97,4	100,1	98,3	97,5	brick
100,3	100,9	99,5	100,0	99,9	100,0	carving wood
101,4	97,0	97,8	99,0	100,0	99,4	cement
99,3	100,3	106,3	101,5	97,2	100,3	flat glass
99,8	101,1	101,9	100,0	100,0	100,0	construction sand
100,2	100,1	101,6	100,0	101,5	100,0	slate
99,7	102,8	99,6	102,4	100,3	102,0	services for dwelling premises maintenance and repair
100,0	100,6	100,8	100,0	100,0	100,0	water supply
99,9	100,0	100,6	98,7	103,5	104,2	electricity, gas and other types of fuel
100,1	99,4	100,4	90,9	101,1	101,8	gas
102,1	101,6	100,3	101,3	101,5	100,2	Household articles, household appliances
101,0	102,4	102,6	100,7	102,1	100,2	furniture and floor coverings
102,2	101,4	101,4	101,6	100,2	100,1	household textile items
101,3	101,1	100,7	102,0	101,9	100,5	home appliances
103,9	101,0	95,2	102,6	100,6	100,4	glassworks, tableware and household stuff
100,8	102,1	101,0	101,1	100,2	100,9	Health
101,6	100,2	100,7	98,9	101,6	100,3	Transport
99,9	99,3	100,5	100,4	100,8	101,2	purchase of cars
103,2	102,0	99,8	99,4	100,6	101,4	petrol and lubricants
104,0	102,0	99,9	99,5	100,5	101,4	gasoline
97,8	101,9	99,8	98,9	101,3	101,0	diesel
100,7	94,8	100,7	101,6	101,2	101,0	maintenance and repair of personal vehicles
101,7	100,3	100,9	98,3	101,7	99,9	transport services
100,0	100,0	100,0	100,0	100,0	100,0	Communication
101,3	102,3	100,2	100,9	101,7	100,5	Recreation, entertainment and culture
100,0	100,0	100,1	100,0	102,6	100,0	cultural events services
102,7	105,5	99,2	100,2	103,4	100,3	papers, books and stationary
102,5	100,0	108,2	102,9	99,9	100,2	Education
104,3	100,1	103,9	101,2	100,4	100,4	Restaurants and hotels
104,4	100,1	104,0	101,3	100,4	100,3	catering
100,1	100,3	100,5	99,9	101,0	100,4	hotel service
100,8	100,8	99,6	100,4	100,6	100,7	Various goods and services
100,9	100,5	99,3	100,4	100,6	100,8	personal service
100,3	103,4	101,3	100,7	100,5	100,1	personal demand items, which are not included into other categories
100,0	100,0	100,0	100,0	100,9	100,0	other services, which are not included into other categories

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

	2011					
	Jan.	Feb.	March	Apr.	May	June
<b>Consumer price index for goods and services</b>	<b>120,6</b>	<b>119,4</b>	<b>120,9</b>	<b>122,6</b>	<b>122,2</b>	<b>122,8</b>
Goods	121,8	120,5	122,2	124,1	123,6	124,4
Food and soft drinks	130,5	132,1	135,3	136,5	136,6	137,5
Alcoholic beverages and tobacco	113,0	112,9	113,5	110,7	110,9	111,3
Non-food products	113,5	108,6	108,8	112,8	111,6	112,5
Services	112,8	111,2	111,6	112,2	112,2	112,1
Alcoholic beverages and tobacco products	130,5	132,1	135,3	136,5	136,6	137,5
Bakery products and cereals	129,0	134,5	145,2	147,3	146,5	144,9
high-grade wheat flour	136,2	143,3	154,8	157,8	157,5	155,8
first-grade wheat flour	151,0	160,9	179,8	182,4	180,6	175,7
bread	125,8	127,8	135,2	136,1	134,2	133,5
Meat	132,8	135,1	133,3	132,2	133,7	137,2
Fish	115,4	112,9	113,6	112,5	112,0	112,7
Diary products, cheese and eggs	115,2	117,6	115,8	115,8	114,5	112,9
Oils and fats	137,4	137,4	140,4	140,9	140,1	138,4
Fruits and vegetables	152,0	143,2	142,4	144,4	144,9	150,4
fruits	138,0	137,8	138,4	141,2	148,5	142,7
vegetables	160,3	147,4	145,1	146,3	143,8	155,3
Sugar, jam, honey, chocolate and candies	114,3	117,6	117,5	120,2	122,0	123,8
sugar	117,0	121,2	119,3	123,3	125,5	128,2
Other food products	109,2	111,7	110,6	111,1	111,9	110,1
Soft drinks	114,2	114,7	116,5	117,0	115,1	117,6
Strong drinks and tobacco products	113,0	112,9	113,5	110,7	110,9	111,3
strong drinks	106,8	106,6	106,1	105,8	105,9	105,9
tobacco products	129,8	130,1	133,8	125,0	125,6	127,0
Garments and footwear	115,0	115,9	117,6	119,1	118,8	119,5
garments	121,0	120,9	120,6	120,6	119,4	120,3
fabric for garments	112,2	104,4	104,6	104,8	104,9	104,8
garments for men	125,2	125,7	124,7	125,4	124,3	126,2
garments for women	120,9	120,2	120,1	118,9	115,3	117,9
children and newborns garments	117,7	119,2	119,9	121,1	122,9	120,1
cleaning, mending and renting garments	127,7	131,2	126,0	123,8	122,5	120,8
footwear including repair	102,1	104,9	110,9	115,6	117,4	117,7
men footwear	97,4	103,6	110,0	116,8	117,4	119,3
women footwear	104,8	106,9	111,4	115,4	117,9	117,3
children footwear	105,1	104,0	111,5	114,6	114,1	115,2
shoe repair	119,1	121,8	130,1	131,5	131,1	133,9
Housing services, water, electricity, gas and other fuels	111,4	93,5	92,2	104,1	101,5	102,9
house rent	100,4	101,0	100,6	100,6	100,6	100,6
services for dwelling premises maintenance and repair	112,9	113,3	115,8	115,6	113,7	114,7
brick	119,4	121,6	119,4	116,0	116,9	103,4
carving wood	133,7	133,9	137,4	136,9	133,2	138,4
cement	106,6	108,2	111,8	109,3	100,3	108,6
flat glass	121,8	121,0	119,7	118,8	117,7	121,7
construction sand	-	-	-	-	-	-
slate	-	-	-	-	-	-
services for dwelling premises maintenance and repair	103,5	103,5	103,5	104,5	105,1	92,6
water supply	137,4	137,4	100,7	100,0	100,0	104,9
electricity, gas and other types of fuel	110,8	90,1	89,3	103,3	100,4	102,4
gas	109,8	108,4	107,0	104,7	103,7	105,5
Household articles, household appliances	107,4	108,0	108,2	108,7	109,4	110,7
furniture and floor coverings	106,3	107,8	108,2	107,8	108,4	110,8
household textile items	106,8	106,8	107,6	108,7	108,8	110,0
home appliances	105,4	106,5	106,3	105,7	105,6	107,0
glassworks, tableware and household stuff	112,4	111,9	112,2	111,8	111,7	112,6
Health	115,6	115,6	107,7	107,7	107,0	108,0
Transport	113,7	110,0	110,5	110,3	108,5	108,1
purchase of cars	108,5	108,1	107,7	106,5	105,3	102,9
petrol and lubricants	133,4	118,2	116,1	111,1	102,9	99,4
gasoline	131,0	115,9	114,5	109,9	100,8	98,4
diesel	148,6	134,4	129,6	123,8	112,1	106,4
maintenance and repair of personal vehicles	100,1	100,1	100,1	100,1	100,1	100,5
transport services	113,3	110,3	111,4	112,1	111,7	112,4
Communication	99,8	94,4	97,3	103,1	103,1	103,1
Recreation, entertainment and culture	118,6	118,7	120,3	120,2	119,1	117,1
cultural events services	104,9	103,0	103,9	106,8	114,0	114,1
papers, books and stationary	122,0	123,6	127,3	127,3	127,3	127,4
Education	107,0	107,5	107,6	107,5	107,7	107,7
Restaurants and hotels	118,6	118,5	118,7	118,7	118,7	120,1
catering	118,8	118,7	118,9	119,1	119,2	120,4
hotel service	112,2	112,4	112,4	108,5	107,5	113,8
Various goods and services	117,8	116,1	114,4	115,0	114,9	114,5
personal service	117,9	115,7	113,6	114,5	114,6	114,7
personal demand items, which are not included into other categories	122,8	123,7	123,7	122,8	121,8	118,3
other services, which are not included into other categories	101,6	102,9	105,4	105,4	105,4	100,2

Source: NSC KR

2011						
July	Aug.	Sep.	Oct.	Nov.	Dec.	
<b>121,2</b>	<b>117,5</b>	<b>113,0</b>	<b>109,5</b>	<b>107,2</b>	<b>105,7</b>	<b>Consumer price index for goods and services</b>
122,8	118,6	112,8	108,9	106,2	104,7	Goods
134,9	127,2	117,5	111,5	106,8	103,5	Food and soft drinks
111,8	111,4	110,9	110,9	110,5	109,8	Alcoholic beverages and tobacco
112,4	112,5	110,6	108,5	108,2	109,2	Non-food products
110,3	109,2	112,4	112,1	112,0	111,1	Services
134,9	127,2	117,5	111,5	106,8	103,5	Alcoholic beverages and tobacco products
140,8	127,3	114,6	109,1	103,5	99,5	Bakery products and cereals
151,7	132,6	113,1	108,1	101,4	95,0	high-grade wheat flour
166,8	138,7	116,8	111,3	103,1	96,8	first-grade wheat flour
131,7	125,2	116,3	113,1	107,2	103,5	bread
141,3	140,4	138,1	131,4	129,0	124,5	Meat
110,6	109,0	109,3	111,3	112,7	113,9	Fish
110,3	110,6	111,7	110,5	109,5	108,9	Diary products, cheese and eggs
136,3	130,7	119,2	114,6	108,5	105,7	Oils and fats
139,0	121,9	103,0	92,7	85,5	85,1	Fruits and vegetables
124,1	116,0	100,0	88,6	88,3	87,4	fruits
148,2	126,1	105,9	96,3	85,1	84,3	vegetables
127,4	131,5	118,8	110,5	107,8	102,7	Sugar, jam, honey, chocolate and candies
134,9	142,7	121,3	105,8	99,2	91,4	sugar
109,2	109,8	109,9	109,0	108,1	107,4	Other food products
117,9	117,6	117,2	115,5	113,9	111,4	Soft drinks
111,8	111,4	110,9	110,9	110,5	109,8	Strong drinks and tobacco products
107,5	107,7	107,8	108,1	108,1	108,8	strong drinks
124,2	121,7	119,6	118,8	116,6	112,3	tobacco products
119,1	119,6	116,8	112,8	111,8	112,9	Garments and footwear
120,5	121,1	117,2	112,3	111,6	111,1	garments
107,0	107,0	109,8	109,7	109,7	110,6	fabric for garments
126,5	127,3	121,0	114,4	111,9	110,8	garments for men
117,0	117,1	114,8	109,2	109,3	110,4	garments for women
121,3	122,6	117,1	113,8	114,0	111,9	children and newborns garments
121,0	119,2	117,3	121,8	122,4	117,5	cleaning, mending and renting garments
116,1	116,3	115,5	113,7	111,7	117,1	footwear including repair
116,0	115,9	120,1	120,8	120,4	125,6	men footwear
116,5	116,6	112,9	111,0	108,6	115,5	women footwear
113,4	114,7	115,5	111,1	108,3	110,8	children footwear
133,9	133,9	130,1	119,6	118,7	113,7	shoe repair
102,9	101,8	102,1	101,6	100,2	102,0	Housing services, water, electricity, gas and other fuels
100,6	100,6	114,8	114,8	114,8	114,8	house rent
118,1	115,6	113,8	104,4	102,5	107,0	services for dwelling premises maintenance and repair
108,9	109,5	107,2	106,4	103,8	102,8	brick
138,3	139,4	137,7	101,9	101,5	107,7	carving wood
110,5	95,3	89,6	96,9	84,1	94,7	cement
120,8	121,4	128,0	115,1	95,7	107,1	flat glass
-	-	-	-	-	-	construction sand
-	-	-	-	-	-	slate
92,3	94,8	94,5	93,6	93,8	95,7	services for dwelling premises maintenance and repair
104,9	105,5	106,4	106,4	106,4	106,4	water supply
102,0	100,8	101,2	101,3	100,2	102,1	electricity, gas and other types of fuel
105,0	99,6	99,3	91,7	92,4	92,3	gas
112,0	112,8	111,3	110,8	112,0	111,6	Household articles, household appliances
111,6	113,5	116,3	114,0	115,7	115,4	furniture and floor coverings
108,2	109,8	110,2	111,0	111,1	110,6	household textile items
108,3	108,5	107,4	109,3	111,2	111,1	home appliances
116,9	113,2	103,3	105,0	105,4	105,5	glassworks, tableware and household stuff
109,0	110,5	110,2	110,4	109,9	110,0	Health
108,0	105,9	107,1	105,0	106,0	106,1	Transport
101,8	99,5	97,8	98,5	99,0	100,0	purchase of cars
101,0	102,2	101,3	100,0	97,8	98,1	petrol and lubricants
101,6	102,6	101,9	100,6	98,2	98,4	gasoline
103,0	104,8	104,4	103,0	102,3	102,4	diesel
101,2	96,0	96,7	98,2	99,4	100,4	maintenance and repair of personal vehicles
111,9	109,2	112,5	109,0	110,8	110,8	transport services
103,1	103,1	103,1	103,1	103,1	103,1	Communication
117,1	117,6	113,2	110,8	112,4	111,1	Recreation, entertainment and culture
114,0	114,0	114,1	114,1	117,0	116,9	cultural events services
130,9	132,5	120,6	116,3	120,2	116,6	papers, books and stationary
110,3	109,9	113,8	117,1	115,8	116,3	Education
114,0	113,3	116,8	116,8	116,1	114,8	Restaurants and hotels
114,0	113,3	116,8	117,0	116,2	114,9	catering
113,9	114,6	114,6	109,9	110,8	111,0	hotel service
113,1	113,6	110,6	109,5	109,4	107,6	Various goods and services
115,1	115,1	111,3	110,2	110,0	107,8	personal service
105,8	109,1	110,3	109,0	109,2	108,5	personal demand items, which are not included into other categories
99,9	100,0	100,0	99,1	99,9	99,9	other services, which are not included into other categories

**Table 3. Indices of prices and physical volume of import for January-November, 2011**

Product name	11 months	11 months	11 months	Indexes		
	2011	2011	2011	price	phys. vol.	value
	mln. USD n11*p11	mln. USD n11*p10	mln. USD n10*p10			
	A	B	C	A/B	B/C	A/C
Petroleum, petroleum-products and analogous materials	745,8	656,2	668,8	1,14	0,98	1,12
Cast-iron and steel	134,5	117,4	84,1	1,15	1,40	1,60
Medicaments (including veterinary medicaments)	134,2	101,0	85,4	1,33	1,18	1,57
Electric wire telephone and telegraph sets	90,5	64,8	44,1	1,40	1,47	2,05
Sugar, sugar products and honey	88,5	74,5	57,6	1,19	1,29	1,54
Automobiles for cargo transportation and automobiles of special assignment	86,9	144,6	77,2	0,60	1,87	1,13
Coffee, tea, cocoa, spicery and their products	70,8	62,7	51,7	1,13	1,21	1,37
Essential oils, reseniuds and parfume substances	69,9	41,2	56,8	1,70	0,73	1,23
Meat and meat products	65,5	59,0	66,9	1,11	0,88	0,98
Natural gas in gaseous state	61,7	57,9	48,4	1,07	1,19	1,27
Crops (including eincorn) and mangcorn (unmilled)	61,5	43,6	56,7	1,41	0,77	1,08
Paper, cardboard and products made of paper stock	58,4	50,7	41,4	1,15	1,22	1,41
Woofed fabric made of artificial textile materials	58,0	62,6	43,6	0,93	1,44	1,33
Vegetable oils and fats, raw materials, refined	52,0	38,2	42,9	1,36	0,89	1,21
Rubber tires	50,2	55,0	37,6	0,91	1,46	1,33
Non-organic chemical substances	45,9	78,3	35,5	0,59	2,20	1,29
Coarse flour, low-ground flour, wheat flour and mangcorn flour	41,3	36,0	6,4	1,15	5,61	6,42
Sawed or spitted lengthwise conifer wood	40,4	35,3	24,8	1,14	1,42	1,63
Fertilizers	39,6	23,7	24,1	1,67	0,99	1,64
Food products and preparations not included into the other categories	38,3	25,8	21,3	1,49	1,21	1,80
Plastics in prime form	37,5	30,1	24,8	1,25	1,22	1,51
Imperfect metal products not included into the other categories	37,3	35,6	21,2	1,05	1,68	1,76
Footwear with rubber or synthetic sole and upper	32,4	34,0	25,7	0,95	1,32	1,26
Fruits and vegetables	31,8	23,2	27,8	1,37	0,84	1,15
Alcohol beverages	30,0	24,6	23,4	1,22	1,05	1,28
Grain products and products from flour and fruit and vegetable starch	29,6	21,6	20,4	1,37	1,06	1,45
Plastics in non-prime form	28,0	21,7	17,8	1,29	1,22	1,57
Compressed wood and restored wood	27,1	22,4	17,3	1,21	1,29	1,57
Coal, coke and briquette	26,7	29,3	34,4	0,91	0,85	0,78
Sugar-sweetened mineral water and soft drinks	23,5	23,4	19,9	1,00	1,18	1,18
Coloring and tanning matters and dyes	22,4	22,7	17,3	0,98	1,32	1,30
Hand and machine tools	22,3	15,9	13,4	1,40	1,19	1,66
Helicopters	20,5	5,0	0,6	4,14	8,00	33,12
Cars and vehicles for transportation of people	19,9	24,0	15,5	0,83	1,55	1,28
Mechanical shovels, excavators and scoop loaders	19,4	27,2	18,1	0,71	1,50	1,07
Machines for automatic data processing and their blocks	18,4	13,5	8,3	1,37	1,61	2,21
Machines for sorting, sieving, separation of ground coats, stones and ores	16,6	31,6	34,5	0,53	0,92	0,48
Design and construction elements of cast iron not included in other categories	16,3	14,0	9,9	1,17	1,42	1,66
Pants, overalls, breeches and shorts	15,9	16,2	10,0	0,98	1,63	1,60
Sweaters, pullovers, cardigans, waistcoats and similar articles, knitted	15,5	15,4	10,9	1,01	1,40	1,42
Household refrigerators and freezers	15,3	12,7	7,7	1,21	1,66	2,00
Medical and pharmaceutical products	14,9	12,5	10,1	1,19	1,24	1,47
Glazed ceramic tiles	13,1	11,4	9,7	1,15	1,18	1,35
Aeroplanes and other aircraft weighing more than 15 000 kg	13,0	5,6	2,8	2,33	2,00	4,65
Glass containers; glass corks; glass products for thermoses	12,4	9,1	7,6	1,36	1,19	1,63
Wood and hardboard	12,3	8,9	7,2	1,39	1,24	1,72
Electrical distribution equipment, not included in other categories	12,2	13,4	10,2	0,91	1,31	1,19
Margarine and combined fats	12,2	9,9	10,4	1,23	0,95	1,17
Hosiery products, knitted and crocheted	12,1	11,9	6,1	1,01	1,96	1,98
Electric and heat device, not included into other categories	11,6	10,0	5,9	1,16	1,69	1,96
Overcoats, carcoats, capes, cloaks and similar articles	11,2	5,6	4,5	2,00	1,24	2,48
Nails, screws, nuts, bolts, rivets etc. of iron, steel and copper	11,0	9,2	9,9	1,19	0,93	1,10
Flooring	10,7	8,7	6,2	1,23	1,40	1,73
Firebrick and other fireproof construction materials	10,1	3,8	0,8	2,65	4,83	12,81
Finished additives for mineral oils	10,0	7,8	5,1	1,29	1,52	1,96
Milk, cream and dairy products, except butter and cheese	10,0	10,4	9,5	0,96	1,09	1,05
Other minerals	9,8	8,2	7,1	1,19	1,17	1,39
Fish (non-marine animals), crustacean mollusks and aquatic invertebrates	9,7	8,5	7,6	1,14	1,12	1,28
Hosiery products, knitted and crocheted for women and girls	9,5	8,9	6,7	1,07	1,33	1,43
Overcoats, carcoats, capes, cloaks and similar articles	9,5	5,0	3,6	1,89	1,41	2,66
Chemical products, not included into other categories	9,3	7,8	9,2	1,19	0,84	1,01
Trousers, coveralls, breeches and shorts	9,3	9,9	9,4	0,93	1,05	0,98
Batteries and electric accumulators and their spare parts	8,9	24,1	4,8	0,37	5,03	1,86
Insecticides, rodenticides, fungicides, herbicides	8,7	8,0	6,5	1,08	1,23	1,33
Television receivers	8,6	8,0	5,0	1,07	1,61	1,72
Machinery for construction and mining industry, not included in other categories	8,6	19,0	11,8	0,45	1,62	0,73
Rice	7,5	7,4	11,7	1,00	0,63	0,64
Bulldozers, graders and levellers - self-moving	5,4	9,0	11,5	0,59	0,78	0,47
Unprepared tobacco, markings	4,7	4,7	11,1	1,00	0,43	0,42
Electric transformers	2,9	18,8	12,7	0,15	1,48	0,23
Elevators and conveyers of continuous operation	1,6	19,7	13,1	0,08	1,50	0,12
<b>Nomenclature Total (mln, USD)</b>	<b>2 831,0</b>	<b>2 597,9</b>	<b>2 191,7</b>	<b>1,09</b>	<b>1,19</b>	<b>1,29</b>
<b>Nomenclature Total (% of total imports)</b>	<b>75%</b>		<b>77%</b>			
<b>Total import</b>	<b>3 786,0</b>		<b>2 861,8</b>			

According to the NSC at FOB prices; the Table demonstrates the fist 71 import large items

n - physical volume of goods imports

p - estimated import price of the goods

**Table 4. Indices of prices and physical volume of export for January-November, 2011**

<i>Product name</i>	<i>11 months 11 months 11 months</i>			<i>Indexes</i>		
	<i>2011</i>	<i>2011</i>	<i>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>				
Nonmonetary gold (besides gold ore and concentrates)	927,1	703,6	493,5	1,32	1,43	1,88
Fruits and vegetables	124,8	96,3	86,7	1,30	1,11	1,44
Petroleum, petroleum-products and analogous materials	87,5	60,6	62,6	1,44	0,97	1,40
Electrical current	74,4	77,7	46,9	0,96	1,66	1,58
Non-organic chemical substances	32,0	186,5	160,9	0,17	1,16	0,20
Cotton	26,6	24,7	21,5	1,08	1,15	1,24
Milk, cream and dairy products, except butter and cheese	22,4	18,1	21,1	1,24	0,86	1,06
Blouses, jackets and jacket-blouses	20,7	22,0	27,4	0,94	0,80	0,75
Automobiles for cargo transportation and automobiles of special assignment	20,1	6,6	5,1	3,06	1,29	3,94
Filament lamps	19,4	17,6	17,7	1,10	0,99	1,10
Garments, knitted or crocheted, of women and girls	18,7	15,6	12,6	1,19	1,24	1,48
Dresses	17,9	18,2	14,3	0,98	1,27	1,25
Pants, overalls, breeches and shorts	16,1	15,7	15,0	1,03	1,04	1,07
Iron and steel	15,9	7,9	5,1	2,01	1,56	3,13
Ores and concentrates of precious metals	15,8	350,9	0,4	0,05	923,27	41,67
Tobacco unready; tobacco refuse	13,1	13,5	20,9	0,97	0,65	0,63
Overcoats, carcoats, capes, cloaks and similar articles, women	11,7	10,7	7,0	1,10	1,53	1,68
Metal waste and scrap steel	11,7	7,8	5,3	1,49	1,49	2,22
Pants, overalls, breeches and shorts	9,9	8,4	8,6	1,18	0,98	1,15
Rubber tires	9,5	0,8	0,8	11,87	0,97	11,55
Legwear garment, knitted	9,4	7,7	7,4	1,21	1,05	1,27
Aeroplanes and other aircraft weighing more than 15 000 kg	9,4	8,4	1,2	1,11	7,00	7,77
Various base metals employed in metallurgy and steel	9,0	5,1	6,2	1,77	0,82	1,45
Skirts and divided skirts	8,9	9,2	8,8	0,97	1,04	1,01
Hand and machine tools	8,8	2,6	1,5	3,38	1,73	5,83
Paper, paperboard and articles of paper pulp, paper or paperboard	8,4	8,3	5,1	1,01	1,62	1,65
Sugar-sweetened mineral water and soft drinks	8,4	7,2	5,4	1,16	1,35	1,56
Metal and non-precious metal scrap, not included into other categories	7,9	3,8	3,3	2,08	1,15	2,39
Woofed fabric made of artificial textile materials	7,9	4,4	1,3	1,77	3,44	6,11
Portlandcement, cement	7,8	8,0	0,3	0,97	30,89	30,09
Living animal	7,0	5,5	3,1	1,26	1,78	2,25
Silver	6,3	3,3	1,8	1,89	1,81	3,43
Cars and vehicles for the transportation of people	5,0	14,9	1,5	0,34	10,13	3,41
Cheese and cottage cheese	4,7	4,1	5,8	1,17	0,69	0,81
Overcoats, carcoats, capes, cloaks and similar articles, men	4,7	3,7	0,9	1,28	4,20	5,36
Stone, sand and gravel	4,5	5,4	5,4	0,84	0,99	0,83
Coffee, tea, cocoa, spices and cereals	4,1	2,4	2,7	1,68	0,90	1,52
Foor products and preparations, not included into other categories	4,0	30,0	2,9	0,13	10,39	1,39
Products from grain and products from flour and starch	3,7	2,7	2,0	1,39	1,34	1,87
Fertilizers	3,3	8,0	0,1	0,41	84,95	34,63
Leather whole cattle hides	3,2	3,0	0,6	1,05	5,26	5,54
Electric wire telephone and telegraph sets	3,0	3,3	4,8	0,91	0,69	0,63
Medicaments (including veterinary medications)	2,9	1,5	0,6	1,99	2,25	4,47
Products made of non-metallic minerals, not incl. into other category	2,9	3,1	5,5	0,94	0,56	0,52
Aluminum	2,7	3,3	3,5	0,82	0,97	0,79
Butter and other fats and oils derived from milk	2,7	2,0	4,9	1,33	0,41	0,55
Meat and meat products	2,6	1,8	6,0	1,408	0,30	0,42
<b>Nomenclature Total (mln, USD)</b>	<b>1 648,4</b>	<b>1 826,2</b>	<b>1 126,0</b>	<b>0,90</b>	<b>1,62</b>	<b>1,46</b>
<b>Nomenclature Total (% of total exports)</b>	<b>91%</b>		<b>90%</b>			
<b>Total export</b>	<b>1 809,2</b>		<b>1 249,6</b>			

According to the NSC at FOB prices; the Table demonstrates the first 47 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.

**GSCI-ag** (Goldman Sachs Commodity Index-agricultural) – index of prices for actively traded future contracts for food (agricultural) products – developed by the investment bank “Goldman Sachs in order to present these exchange goods as a single group.

**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 depository 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