

Press Release
National Bank of the Kyrgyz Republic
keeps its policy rate unchanged at 4.75 percent

On August 28, 2018, the Board of the National Bank of the Kyrgyz Republic decided to keep the policy rate unchanged at 4.75 percent. The decision becomes effective as of August 28, 2018.

The actual inflation rate in the Kyrgyz Republic remains at a low level. In August 2018 (as of August 17), the annual inflation rate made up 1.0 percent, having decreased from 3.2 percent in January of the current year. The downward inflationary dynamics is conditioned by a decrease in food prices due to favorable situation in the commodity markets, as a quarter earlier. The assessments of development of the situation in the country's economy and in external environment make it possible to expect the inflationary dynamics within the monetary policy target of 5-7 percent in the medium-term.

In January-July 2018, real GDP decreased by 0.2 percent, while economic growth excluding the data on the "Kumtor" gold-mining enterprises¹ increased by 2.2 percent. The positive economic growth is supported by agricultural, construction, trade and transport sectors. Contribution to the development of the economy is ensured by the recovery of aggregate demand both at the expense of the growing inflow of remittances (in January-June 2018, net inflow of remittances into the country increased by 10.2 percent), and due to an increase in real wages (real wage growth in January-June 2018 was 4.2 percent). The growth rates of the economies of the trading partners of Kyrgyzstan in the medium-term will contribute to maintaining external demand for domestic exports.

The banking system still has an excess liquidity contributing to a slight decrease in the interbank credit market, which determines the withdrawal of excess liquidity operations conducted by the National Bank. In general, the market rates are within the interest rate corridor set by the National Bank.

Indicators of financial intermediation have been improved. Increase in the loan portfolio and expansion of the deposit base of commercial banks have been observed. Market interest rates on loans continue to decline. For the first half of 2018, the weighted average interest rate on loans decreased by 0.8 percentage points up to 15.2 percent.

In mid-August of this year, the domestic foreign exchange market has shown an excess of demand for foreign currency over its supply. The National Bank intervened in order to smooth sharp exchange rate fluctuations. The domestic foreign exchange market remains stable.

According to the National Bank's forecasts, if the current trends continue, and in the absence of external shocks, inflation will come into the monetary policy target's range of 5-7 percent in the medium term. Taking into account the balance of risks from the external sector related to the prospects in the international commodity markets and the tendency of internal conditions, the National Bank decided to keep the policy rate. The current direction of monetary policy will be kept in the upcoming period in the absence of external shocks.

The National Bank on a regular basis assesses external and internal factors influencing inflation and depending on the economic situation will take relevant monetary policy measures.

Briefing:

The next meeting of the Board of the National Bank of the Kyrgyz Republic on the monetary policy rate is scheduled for September 24, 2018.

¹ The real GDP value without "Kumtor" enterprises is more indicative for the monetary policy purposes