

Dynamics of monetary indicators in January 2016

January 2016 showed economic contraction (according to the preliminary data of the National Statistical Committee) of -10.7 percent (in January 2015, the economic growth amounted to 7.9 percent); excluding Kumtor, real GDP decreased by 1.5 percent (in January 2015, it increased by 2.7 percent).

In January 2016, there was the 0.05 percent decrease in general price index, while in annual terms the inflation rate amounted to 1.8 percent (in January 2015, the annual inflation rate was 11.6 percent). According to the IMF methodology¹, core inflation amounted to 8.5 percent in January 2016 (in January 2015, it made 8.2 percent).

The official exchange rate of USD to KGS has not changed for January 2016 to make 75.8900 KGS per 1 USD (in January 2015, it increased by 1.6 percent).

The monetary base decreased by 9.8 percent in January 2016 to make KGS 60,469.8 million (in January 2015, it decreased by 8.6 percent); whereas money in circulation decreased by 12.4 percent against the 7.7 percent increase in the reserves of other depository corporations (ODCs).

In January 2016, the KGS 7,429.1 million decrease in money in circulation and the KGS 663.6 million increase in ODCs' reserves from the beginning of the year led to an increase in the specific weight of the ODCs' reserves; correspondingly, the monetary base structure was as follows late in January 2016:

- the share of money in circulation accounted for 84.6 percent;
- the share of other depository corporations' reserves accounted for 15.4 percent.

In the structure of ODCs' reserves, the required reserves decreased by 2.4 percent from the beginning of the year to make KGS 8,028.6 million, while the excess reserves (after sterilization) increased by 199.2 percent up to KGS 1,292.3 million (in January 2015, the required reserves went up by 1.5 percent, while the excess reserves increased by 65.6 percent).

The main contribution to the KGS 3.9 billion decrease in the monetary base in January was made by the National Bank's sterilization operations and foreign exchange interventions; the Government operations also contributed to the monetary base decrease by KGS 2.7 billion.

The main operations of the National bank that influenced the level of reserve money in January 2016 were as follows:

- foreign exchange intervention withdrawn KGS 5.9 billion from circulation;
- the notes of the National bank where KGS 2.3 billion was sterilized due to their sale;
- "overnight" deposits where excess of the refundable amount over their placement increased the reserve money by KGS 1.8 billion; (In general, the total volume of issued funds amounted to KGS 21.2 billion in January, while the average daily volume of their placement accounted for KGS 1.1 billion;
- "overnight" credits contributed to the KGS 260.1 million increase (in general, the total volume of issued funds amounted to KGS 349.1 million in January);
- the National bank's (net) costs increased by KGS 152.3 million;
- purchase of gold in the domestic market increased liquidity by KGS 58.8 million.

Net foreign assets (NFA) decreased by 5.6 percent (or by KGS 6,883.5 million) in January 2016 mainly due to the decrease in net international reserves (NIR) by KGS 3,958.5 million as a result of foreign exchange intervention. At the same time, the NIR growth was contributed by cash inflow from the development of gold deposits.

In January 2016, gross international reserves in dollar terms decreased by USD 91.1 billion to make USD 1,688.6 million.

Net domestic assets (NDA) decreased by 0.5 percent, or by KGS 298.1 million, in January 2016 (in 2014, they increased by 6.0 percent). The NDA decrease was contributed by the increase in the Government deposits by KGS 2,666.4 million and the decrease in other items by KGS 1,322.3 million. The NDA increase was contributed by the increase in capital accounts by KGS 2,549.0 million associated with revaluation of gold and foreign currency assets as well as the

¹ Food, electric power, gas, and other fuels should be completely excluded from the total inflation.

increase in net claims on commercial banks by KGS 1,661.3 million (due to the high refund rate of “overnight” deposits).

Changes in Monetary Aggregates

Monetary aggregate M2 comprising cash outside banks and deposits in the national currency decreased by 10.7 percent in January 2016 to make KGS 73,436.3 million (in January 2015, it decreased by 6.2 percent).

Broad money M2X decreased by 7.0 percent in January 2016 and amounted to KGS 133,070.3 million, which was mainly due to the 7.5 percent decline in net foreign assets of the banking system down to KGS 123,732.4 million (in January 2015, M2X decreased by 4.6 percent).

The structure of broad money M2X was as follows:

- the share of cash outside banks accounted for 34.9 percent (39.3 percent as of 01.02.2015);
- the share of deposits in the national currency made 20.3 percent (25.7 percent as of 01.02.2015);
- the share of deposits in foreign currency amounted to 44.8 percent (35.0 percent as of 01.02.2015).

Year-to-date, the foreign currency deposits have decreased by 2.0 percent to make KGS 59,634.0 million, while excluding the exchange rate influence they have gone down by 1.8 percent; the national currency deposits decreased by 7.5 percent down to KGS 26,958.9 million. As a result, the overall deposit volume decreased by 3.8 percent in January 2016 to make KGS 86,592.9 million (in January 2015, it decreased by 0.8 percent).

The dollarization level of deposits included in M2X increased by 1.2 percentage points against the comparable indicator as of the beginning of the current year and amounted to 68.9 percent as of the end of January 2016.

*Credits to the economy*² increased by 2.3 percent in January 2016 to make KGS 98,492.8 million, while excluding the exchange rate influence it increased by 2.9 percent (in January 2015, credits to the economy decreased by 0.5 and 1.3 percent correspondingly).

In January 2016, net foreign assets of the banking system decreased by KGS 10,767.6 million (8.0 percent) amounting to KGS 123,732.40 million (in January 2015, they decreased by 4.3 percent).

At the end of January 2016, the net domestic assets (NDA) of the banking system increased by KGS 694.9 million, or by 8.0 percent, from the beginning of 2016 (in January 2015, they decreased by 6.8 percent) to make KGS 9, 337.9 million.

At the end of January 2016, the discount rate remained at the level of 10.00 percent in accordance with the Board decision of the National bank of the Kyrgyz Republic (at the end of January 2015 it accounted for 11.00 percent). The rates of upper and lower limits of the interest rate corridor for “overnight” credits and deposits were at the level of 12.00 and 4.00 percent correspondingly (at the end of January 2015, they were 12.00 and 5.00 percent correspondingly).

Late in January 2016, the yield of 7-day notes accounted for 10.00 percent. Interest rates on repo transactions in the interbank credit market were close to the discount rate in January with weighted average rate of 9.96 percent for the period.

Multiplier of broad money M2X that characterizes the degree of financial intermediation amounted to 2.201 as of 01.02.2016, whereas the multiplier M2 accounted for 1.214 (2.015 and 1.310 as of 01.02.2015 correspondingly).

The coefficient of economy monetization calculated by the monetary aggregate M2X accounted for 30.89 percent, whereas by the monetary aggregate M2 it amounted to 18.54 percent (in January 2015, they made 30.27 and 21.16 percent correspondingly).

² Credits of individuals and legal entities as well as other financial institutions excluding the Government's and non-residents' credits.

Money Velocity

In January 2016, the velocity of money made 3.34 (by M2X) late in the month.

Money received by the National Bank's cash department increased by KGS 1,218.1 million, or by 15.5 percent, against the comparable period of 2015, to make KGS 9,084.9 million in January 2016, whereas, money issuance increased by KGS 53.1 million, or by 3.0 percent, and amounted to KGS 1,835.8 million.

Money received by the commercial banks' cash departments increased by KGS 11,373.0 million, or 17.2 percent, against the comparable period of the previous year to make KGS 77, 318.2 million in January 2016, whereas money issuance increased by KGS 10,629.3 million, or by 17,5 percent, and amounted to KGS 71,439.1 million.

The level of financial risks in the payment system was kept to a minimum in January 2016. Turnover ratio was 0.30 (compared with the previous period it decreased by 15 percent, while against the comparable period of 2015 it decreased by 10 percent); liquidity ratio made 3.31 (compared with the previous period it increased by 18 percent, while against the comparable period of 2015 it increased by 11 percent).