

# The monetary policy report for 2012

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## Major trends in monetary policy

Inflationary pressure in 2012 continued, its main factors were unstable situation in the world commodity markets and the growth of the budget deficit. Average daily excess reserves of the banking system in 2012 rose to KGS 2.1 billion from the level of KGS 1.6 billion in 2011. In this regard, the National Bank conducted tight monetary policy. During the year the NBKR, in order to limit monetary component of inflation, increased the volume of operations to sterilize excess liquidity by selling NBKR notes as well as through the sale of government securities under the repo terms. Thus, the volume of NBKR notes in circulation rose from KGS 1.4 billion at the end of 2011 to KGS 3.1 billion at the end of 2012, the volume of government securities in circulation, sold under the repo terms increased from KGS 0.2 billion at the end of 2011 to KGS 0.8 billion at the end of 2012.

According to the National Statistical Committee, the consumer price index, which characterizes the rate of inflation, constituted 7.5 percent since the beginning of 2012 (December 2012 to December 2011), while for the same period in 2011 it constituted 5.7 percent. In annual terms inflation constituted 2.8 percent, while the corresponding figure in 2011 rose by 16.6 percent.

The discount rate for the reporting period decreased from 13.61 percent to 2.64 percent.

The monetary base increased by 17.7 percent constituting KGS 64.5 billion by results of the year (in 2011 the increase of monetary base constituted 12.8 percent). The volume of broad money M2X increased by 23.8 percent constituting KGS 98.5 billion for 2012.

In 2012, demand and supply of foreign currency on the interbank foreign exchange market were largely balanced, which allowed the National Bank to reduce its presence in the foreign exchange market. Thus, the gross foreign exchange interventions for the year 2012 was USD 47.9 million, while in 2011 – USD 401.6 million. At the end of 2012, the exchange rate of the U.S. dollar relative to the som increased by 1.97 percent from the beginning of the year (in 2011 there was a decrease of the exchange rate by 1.30 percent).

According to preliminary data results of 2012, despite a decline in the credit balance under “income” and increase the surplus in the current account transfers, a significant increase in the deficit balance of goods and services will lead to the increase in the negative balance of the current account by 3.1 times (17.9 percent to GDP).

## Dynamics of monetary indicators

In order to limit monetary component the National Bank in 2012, taking into account continued inflation risks, conducted tight monetary policy, increasing volumes of operations to sterilize excess liquidity. At the end of 2012, the monetary base amounted to KGS 64.5 billion, having increased from the beginning of the year by 17.7 percent or KGS 9.7 billion (for 2011, an increase in the monetary base amounted to 12.8 percent). Government operations have increased the monetary base by KGS 12.3 billion, and the National Bank operations reduced it by KGS 2.6 billion.

Nominal growth rates of monetary aggregates in annual terms by the end of 2012 were in the range from 15.5 to 23.8 percent, while at the end of 2011 they were in the range from 13.7 to 15.6 percent. Among monetary aggregates broad money M2X grew at the fastest rate, mainly due to the growth of the deposit base<sup>1</sup>.

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<sup>1</sup> Excluding deposits of the government and non-residents.

M0 (money outside banks) for 2012 increased by 15.5 percent and amounted to KGS 54.5 billion (M0 increase in 2011 was 13.9 percent).

M2 money supply, which includes money outside banks and deposits in national currency, increased for the year to 24.7 percent and at the end of December 2012 amounted to KGS 77.4 billion (in 2011 the increase of M2 constituted 15.6 percent).

Broad money M2X, including foreign currency deposits, at the end of 2012 amounted to KGS 98.5 billion, having increased from the beginning of the year to 23.8 percent (in 2011 – 14.9 percent). The main contribution to the growth of M2X was by the increase of deposits<sup>1</sup> which has increased by 36.1 percent since the beginning of the year (for 2011 – by 16.5 percent). At the same time, the growth of deposits in national currency amounted to 53.9 percent (in 2011 – 21.4 percent), shows the continued confidence and the increase of population confidence to the national currency. Foreign currency deposits increased by 20.8 percent (in 2011 – by 12.5 percent).

In the currency structure of M2X broad money the shares of deposits in national currency at the end of 2012 amounted to 23.3 percent (+4.5 p.p.) in the foreign currency – 21.3 percent (-0.5 p.p.), respectively.

In 2012, the growth rate of credit to the economy was 26.5 percent<sup>2</sup>, including lending in national currency increased by 27.9 percent, while in the foreign currency it was 24.6 percent (in 2011 – 21.9 percent and 19.9 percent, respectively).

Velocity of M2X broad money for the reporting period decreased from 3.8 at the beginning of the year to 3.4 at the end of 2012 due to priority growth rates of money supply against the economic decline. Appropriately, coefficient of the economy monetization calculated by the M2X monetary aggregate having increased from the beginning of the year by 2.9 percentage points and constituted 29.0 percent at the end of 2012.

M2X broad money multiplier characterizing the degree of financial intermediation has increased from 1.451 at the end of 2011 to 1.572 at the end of 2012 due to higher growth rates of broad money in comparison with the rate of growth of the monetary base.

### **Inflation: Results and Trends**

According to the National Statistics Committee, the inflation rate in 2012 (December 2012 to December 2011) was 7.5 percent. The annual average consumer prices index formed at 2.8 percent.

The dynamics of food prices determined general trend in inflation in 2012. Thus, in the first half of 2012, prices for foodstuffs group declined against the high yields of major crops in the 2011-12 marketing year. In the second half of 2012, an acceleration of growth in domestic food prices was due to the deterioration of the expected corn crop estimates in the 2012-13 marketing year, both in the world and in the country.

In the structure of foodstuffs the largest share is for bread and cereals. The price of wheat on the world commodity markets in 2012 increased by 18.4 percent (from USD 241 to 286 per ton), meanwhile the main increase occurred in the second half of the year – with the beginning of the new marketing year, when world wheat prices have risen sharply. Internal market of Kyrgyzstan reacted appropriately, the increase of prices for the “bread and bakery products” group in August and October 2012 was 7.7 and 4.4 percent, respectively. Overall, in 2012 the increase of prices for the “bread and bakery products” group constituted 9.3 percent. In the fourth quarter of 2012, bakery products and cereals rose in price by 5.2 percent, which was due

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<sup>1</sup> Excluding deposits of the government and non- residents.

<sup>2</sup> Partial extension of credit to the economy associated with the start of operations of the MCB “Bai Tushum and Partners” included in the calculation of the monetary survey of the banking system (credit portfolio of the MCB “Bai Tushum and Partners” constituted KGS 3 043.8 million at the end of 2012).

to the increase in prices of wheat and processed products on the world market against low wheat crop in 2012.

In general, prices of foodstuffs, covering about 46 percent in the structure of the consumer basket, for the year 2012 increased by 4.5 percent. The rate of increase in prices of non-food goods, paid services, alcohol and tobacco products in annual terms remained within the range of previous rates (9-10 percent).

**Table 1. The consumer price index in the Kyrgyz Republic**

	December 2012 to		January-December 2012 to January- December 2011
	November 2012	December 2011	
<b>All goods and services</b>	<b>101,5</b>	<b>107,5</b>	<b>102,8</b>
including			
Food and soft drinks	101,8	104,5	95,9
Alcoholic beverages, tobacco products	103,5	110,2	109,5
Non-food products	100,9	109,8	110,1
Services	100,8	109,8	110,2

According to the results of 2012, prices for fruit and vegetable products increased by 8.6 percent, including prices of fruits increased by 23.1 percent, vegetables rose by 2,7 percent.

The dynamics of sugar prices in Kyrgyzstan shows down trend: cost of sugar fell by 5.4 percent in annual terms, as per results of 2011, the price of sugar decreased by 8.6 percent.

Prices for the “oils and fats” group of products based on the results of 2012 decreased by 0.9 percent, while in 2011 the same indicator increased by 5.7 percent. The current price dynamics for the “oils and fats” group of products is largely due to the continued effect of a rich yield of oilseed crops in the last season.

In annual terms, milk production increased by 8.0 percent, meanwhile in the fourth quarter of 2012 the price growth on milk production increased by 14.6 percent.

Prices for meat production based on the results of 2012 fell by 1.2 percent in annual terms.

Internal prices high dependence on food products from the dynamics of world prices, in many ways, conditioned by high import dependency of the economy of Kyrgyzstan. Thus, according to data NSC KR in January-September 2012 the share of import in the structure of cereal products constituted 67.7 percent, the share of import in consumption of wheat and products of its processing constituted 71.3 percent, import of vegetable fats in consumption constituted 64.7 percent, sugar consumption fully is supported by the import.

**Table 2. Food balance of the Kyrgyz Republic on basic food**  
(thousand tones)

	Bread stuffs in equivalent of grain, ths. tones				Vegetable fats ths. tones				Sugar and confectionary in equivalent sugar, ths. tones			
	9' 2009	9' 2010	9' 2011	9' 2012 <sup>1</sup>	9' 2009	9' 2010	9' 2011	9' 2012 <sup>1</sup>	9' 2009	9' 2010	9' 2011	9' 2012 <sup>1</sup>
<b>Received</b>	<b>3 236,5</b>	<b>3 265,6</b>	<b>3 156,8</b>	<b>2 988,0</b>	<b>63,0</b>	<b>81,0</b>	<b>72,0</b>	<b>66,2</b>	<b>128,2</b>	<b>103,7</b>	<b>86,6</b>	<b>86,4</b>
Stocks at the beginning of the year	1 236,8	1 654,2	1 453,8	1 295,6	26,1	40,3	36,0	26,4	62,3	46,7	15,9	10,4
Produced in the country	1 580,0	1 298,3	1 385,4	1 166,0	12,1	12,8	11,1	9,9	0,2	0,1	0,0	0,0
Imported	419,7	313,1	317,6	526,4	24,8	27,9	24,9	29,9	65,7	56,9	70,7	76,0
<b>Consumption</b>	<b>1 527,5</b>	<b>1 543,0</b>	<b>1 583,1</b>	<b>1 598,5</b>	<b>28,8</b>	<b>32,8</b>	<b>45,3</b>	<b>46,2</b>	<b>72,9</b>	<b>75,3</b>	<b>70,8</b>	<b>72,2</b>
Costs for seeds	80,4	74,2	78,3	89,7	-	-	-	-	-	-	-	-
Fodder for cattle	582,4	610,5	624,2	645,8	-	-	-	-	-	-	-	-
Losses	57,8	58,3	54,6	51,8	-	-	0,0	0,0	0,0	0,0	0,1	0,1
Exported	41,5	33,4	54,6	34,2	0,0	0,0	0,0	0,0	0,2	0,6	0,7	0,4
Consumption by the population	765,4	766,6	771,4	777,0	28,8	32,8	45,3	46,2	72,7	74,7	70,0	71,7
<b>Stocks at the end of the period</b>	<b>1 709,0</b>	<b>1 722,6</b>	<b>1 573,7</b>	<b>1 389,5</b>	<b>34,2</b>	<b>48,2</b>	<b>26,7</b>	<b>20,0</b>	<b>55,3</b>	<b>28,4</b>	<b>15,8</b>	<b>14,2</b>
<b>The share of imports in total consumption, %</b>	<b>54,8</b>	<b>40,8</b>	<b>41,2</b>	<b>67,7</b>	<b>86,1</b>	<b>85,1</b>	<b>55,0</b>	<b>64,7</b>	<b>90,4</b>	<b>76,2</b>	<b>101,0</b>	<b>106,0</b>
<b>The share of export in total production, %</b>	<b>2,6</b>	<b>2,6</b>	<b>3,9</b>	<b>2,9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Dependency ratio on import</b>	<b>21,4</b>	<b>19,8</b>	<b>19,3</b>	<b>31,7</b>	<b>67,2</b>	<b>68,6</b>	<b>69,2</b>	<b>75,1</b>	<b>100,0</b>	<b>100,9</b>	<b>101,0</b>	<b>100,5</b>
<b>Adequacy ratio</b>	<b>80,7</b>	<b>82,3</b>	<b>84,0</b>	<b>70,3</b>	<b>32,8</b>	<b>31,4</b>	<b>30,8</b>	<b>24,9</b>	<b>0,3</b>	<b>0,2</b>	<b>0,0</b>	<b>0,0</b>
<b>Ratio of stocks to demand, %</b>	<b>111,9</b>	<b>111,6</b>	<b>99,4</b>	<b>86,9</b>	<b>118,8</b>	<b>147,0</b>	<b>58,9</b>	<b>43,3</b>	<b>75,9</b>	<b>37,7</b>	<b>22,3</b>	<b>19,7</b>

<sup>1</sup> Preliminary data

The increase of price index for non-food products in annual terms constituted 9.8 percent, which is by 0.6 percentage points higher than in 2011. The largest contribution to the rise in prices for non-food products was made by the rise in prices for goods in the “clothing and footwear” group, this group increased in price by 15.9 percent, the growth of prices for electricity, gas and other fuels constituted 3.9 percent, household goods and appliances increased in price by results of December 2012 by 9.9 percent. The cost of fuel and lubricants in annual terms rose by 2.3 percent, including the price of gasoline, which increased by 2.0 percent, diesel prices increased by 6.8 percent.

The price index for paid services for the period of 2012 grew by 9.8 percent (in 2011 – by 11.1 percent). Increase in the index in this group was mainly due to increased cost of services of restaurants and hotels by 15.8 percent, as well as education services (+8.5 percent) and transport services (+7.2 percent). Health services rose by 10.0 percent.

### Real Sector

According to preliminary data in 2012, GDP at current prices constituted KGS 304.3 billion having decreased by 0.9 percent compared to the same period in 2011, while in 2011 GDP grew by 6.0 percent. Excluding companies for developing the Kumtor deposit GDP grew by 5.0 percent (in 2011, the growth of the same indicator constituted 6.3 percent). GDP deflator was formed at 7.4 percent compared to 22.5 percent in 2011.

A decline in GDP in 2012 occurred due to the manufacturing industry (-27.2 percent), which was due to the decline in output at the companies. The largest decline occurred in enterprises of the “Kumtor” (-43.3 percent). At the same time, the construction sector continues to grow (+17.3 percent), trade and repair of motor vehicles (+10.5 percent), transportation and communication (+8.9 percent), and agriculture (+1.2 percent).

**Table 3. The contribution of individual activities in the growth/decline in GDP**  
(percent)

	Ration		Growth rate		Contribution in	
	2011	2012	2011	2012	2011	2012
Agriculture, hunting and forestry	17,5	17,5	1,8	1,2	0,3	0,2
Mining Industry	0,6	1,3	19,5	22,5	0,1	0,2
Processing Industry	17,0	12,5	5,2	-27,2	0,9	-5,0
Electricity, gas and water generation and distribution	3,1	3,0	21,9	5,2	0,7	0,2
Construction	5,5	5,7	2,5	17,3	0,1	0,9
Trade; repair of motor vehicles	16,0	16,2	10,2	10,5	1,6	1,6
Transportation and communication	8,6	8,6	9,5	8,9	0,8	0,7
Other	21,6	21,9	3,5	2,2	0,8	0,5
Net taxes on products	10,2	13,4	6,0	-0,9	0,6	-0,1
<b>GDP</b>	<b>100,0</b>	<b>100,0</b>	<b>6,0</b>	<b>-0,9</b>	<b>6,0</b>	<b>-0,9</b>
<b>GDP without Kumtor</b>	<b>87,8</b>	<b>93,4</b>	<b>6,3</b>	<b>5,0</b>	<b>5,6</b>	<b>4,4</b>

Sources: NSC data, NBKR adjustments

In 2012 the physical volume of industrial production fell by 20.6 percent. The decline in industrial output was due to the decrease in the steel industry (-44.0 percent), manufacture of machinery and equipment (-33.5 percent), manufacture of rubber and plastic products (-23.8 percent). Excluding companies developing the Kumtor gold deposit the growth of industrial production constituted 6.1 percent.

In addition, there is observed the increase in the physical volume of production in the mining industry (+22.5 percent), in the textile and clothing production (+12.5 percent).

In 2012, there was an increase of trade turnover by 11.1 percent (for the same period in 2011, the increase constituted 9.6 percent).

The volume of investments in fixed assets, according to preliminary data, in 2012 increased by 21.5 percent compared to 2011. In the sectoral structure of investments the major

share of investments is occupied by mining – 28.8 percent, transportation and communication – 15.4 percent, electricity, gas and water generation and distribution – 13.2 percent.

### **The external economic sector<sup>1</sup>**

According to pre-forecast data, in 2012, despite the increase in the surplus in the item “income” and increase of surplus in the current transfers account, a substantial increase in the deficit balance of goods and services may lead to a threefold increase in the credit balance of the current operations account to 3.1 percent (17.9 percent to GDP).

In the reporting period, the trade balance deficit of the Kyrgyz Republic will increase to USD 2,734.5 million (increase by 64.3 percent).

The exports of goods (in FOB prices), compared to the same indicator of 2011, will decrease by 4.8 percent and amount to USD 2,162.7 million. The export excluding gold will increase by 29.5 percent and constituted USD 1,637.9 million. The imports of goods (in FOB prices) will increase by 24.4 percent and amount to USD 4,897.2 million.

The net inflow on current transfers will be formed in amount of USD 2,017.9 million, which is by 9.7 percent more than in the same period of 2011. The main increase on this item in the reporting period will be traditionally ensured through private transfers, net inflow on which will increase by 11.5 percent amount to USD 1,956.7 million. Along with this, the net inflow of official transfers will decline to 26.5 percent (to USD 61.2 million).

According to the results in 2012, the capital and financial account will be formed with a positive balance of USD 1,055.1 million, which will exceed the corresponding indicator of the previous year by 72.3 percent.

The balance of capital account will be expected positive in amount of USD 153.7 million against its negative value in the amount of USD 37.5 million in 2011 mainly caused by the decrease in net asset outflows of migrants by 83.3 percent.

Despite the decline in the inflow of direct investment to USD 424.2 million, capital inflows under the item “other investments” to the amount of USD 540.8 million would increase the surplus of the financial account, which will be formed to the amount of USD 901.5 million (USD 650.0 million in 2011).

Thus, in 2012, the balance of payments showed a surplus of USD 203.7 million. Gross international reserves<sup>2</sup> will cover 3.7 months of future imports of goods and services.

According to preliminary data, the index of the nominal effective exchange rate (NEER) of the KGS since the beginning of 2012 has decreased by 4.8 percent and by the end of December 2012 constituted 110.7. The decrease was due to the depreciation<sup>3</sup> of the KGS in December of the reporting year compared to the average rate for December 2011 in relation to the Turkish lira by 6.0 percent, the Russian ruble – by 4.1 percent, the Chinese yuan – by 3.4 percent, to U.S. dollar – by 1.6 percent, the Euro – by 0.9 percent. However, with respect to the Kazakh tenge, the KGS exchange rate has appreciated by 0.1 percent.

Despite the lower rate of inflation<sup>4</sup> in the partner countries, the depreciation of KGS NEER index caused decrease in the index of the real effective exchange rate (REER), which has decreased by 0.2 percent since December 2011 and at the end of the reporting period amounted to 112.3.

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<sup>1</sup> Based on preliminary and forecast data including preaccount on the oil products reexport.

<sup>2</sup> Volume of international reserves at the end of 2012 constituted USD 2,066.6 million.

<sup>3</sup> The data on the nominal bilateral exchange rate of the KGS are given; the year 2000 is used as the base period to calculate the index.

<sup>4</sup> Inflation in the Kyrgyz Republic in 2012 was 7.5 percent, while the average inflation rate of main trading partner countries, according to preliminary estimates, was 2.7 percent.

## The public finance sector

According to preliminary data of the Central Treasury of the Ministry of Finance, the budget deficit in 2012 amounted to KGS 20.2 billion or 6.6 percent to GDP that by KGS 1,4 billion less than the defined legal level of the budget deficit. Thus formed on the results of the year the deficit was the highest in recent years in the country.

Financing of the budget deficit for the account of external funding amounted to KGS 15.6 billion or 5.1 percent to GDP, for the account of internal financing – KGS 4.7 billion or 1.5 percent to GDP.

In the review period, a net outflow of budget funds for the transaction of acquisition of non-financial assets (including operations for the following groups: fixed assets, inventories, land) amounted to KGS 7.0 billion or 2.3 percent to GDP (in 2011 – KGS 8.5 billion or 3.0 percent to GDP).

According to preliminary data of the Social Fund of the Kyrgyz Republic, the budget surplus of the Social Fund in 2012 amounted to KGS 0.4 billion or 0.1 percent to GDP, revenues – KGS 30.0 billion or 9.9 percent to GDP, expenses – KGS 29.7 billion or 9.7 percent to GDP.

Consolidated budget deficit (the state budget + budget of the Social Fund) following the reporting period 2012 amounted to KGS 19.9 billion or 6.5 percent to GDP. Revenues amounted to KGS 102.7 billion or 33.8 percent to GDP, while expenses – KGS 122.6 billion or 42.2 percent to GDP.

In 2012, the state budget revenues from operations increased by 12.2 percent compared to the same indicator in 2011 and totaled KGS 86.8 billion or 28.5 percent to GDP (in the same period in 2011 the increase was 34,8 percent).

Tax revenues amounted to KGS 63.9 billion, having increased by 20.5 percent<sup>1</sup> or KGS 10.9 billion compared to the same period of 2011. Share of tax revenues in total revenues from operations increased by 5.1 percentage points compared to the same period in 2011 and amounted to 73.7 percent. Tax revenues provided the contribution to the growth of state budget revenues from operations by 14.1 percentage points.

Non-tax revenues in 2012 amounted to KGS 17.2 billion, having increased by 10.2 percent compared to the corresponding figure in 2011. Non-tax revenues provided the contribution to the growth of state budget revenues from operations by 2.1 percentage points.

Official transfers revenues amounted to KGS 5.6 billion, having decreased by 35.3 percent or KGS 3.1 billion. This reduction has developed, mainly due to the reduction of grants from the international organizations. As a result, the reduction in official income transfers made a negative contribution to the growth rate of state budget revenues from operations by 4.0 percentage points.

State budget expenses for operating activities in 2012 amounted to KGS 100.0 billion having increased by 21.4 percent<sup>2</sup> or KGS 17.6 billion.

According to the functional classification of budget expenses, in the reporting period, there was an increase in expenses relative to GDP on economic issues (by 1.9 p.p.), education (by 0.8 p.p.), social protection (by 0.8 p.p.), health care (by 0.6 p.p.), housing and communal services (by 0.1 p.p.). Expenses on defense, public order and safety decreased by 0.1 percentage point. Expenses relative to the state general service, leisure, culture and religion and protection the environment have not changed.

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<sup>1</sup> In real terms (adjusted for CPI) increased by 17.3 percent.

<sup>2</sup> In real terms (adjusted for CPI) increased by 18.1 percent.

### ***State expenses in December 2012***

*In 2012, the trend of uneven expenditure of the state budget. Spending in the current year was carried out in the following proportions: 1 quarter – 17.7 percent, 2 quarter – 25.0 percent, 3 quarter – 26.9 percent, 4 quarter – 30.4 percent (in 2011: 1 quarter – 15.9 percent, 2 quarter – 25.7 percent, 3 quarter – 24.3 percent, 4 quarter – 34.1 percent). Meanwhile on December accounted for 15.5 percent of the monthly average of 8.3 percent.*

*Operating expenses in December totaled KGS 15.5 billion or 5.1 percent to GDP (in December 2011 – KGS 12.8 billion or 4.5 percent to GDP), an increase compared to November of this year by KGS 7.7 billion.*

*The significant increase in operating expenses in December 2012 was mainly due to increase in development grants, loans under the program of state investments. In December of the current year, “other expenses” including PIP estimated at KGS 4.7 billion or 1.6 percent to GDP, having increased for month by KGS 3.9 billion.*

*Spending on current consumption (salaries, subsidies and social benefits) amounted to KGS 6.1 billion or 2.0 percent to GDP, an increase over the last month to KGS 1.8 billion.*

*Expenses for the purchase of goods and services amounted to KGS 3.5 billion or 1.1 percent to GDP, having increased for month by KGS 1.6 billion.*

Significant growth of expenses is also associated with an increase in public debt, which by results of 2012 constituted KGS 156.7 billion (USD 3.3 billion<sup>1</sup>) or 51.5 percent to GDP, having increased by 9.5 percent or by KGS 13.6 billion compared with that of 2011. Thus, the debt level was formed by 4.0 percentage points above the average level of debt for five years.

In 2012 the interest payments on the public debt service constituted KGS 2.9 billion (in 2011 – KGS 2.8 billion), from them the ratios of payments on external and domestic debt were 52.3 and 47.7 percent of the total interest payments, respectively.

## **The financial sector**

### ***The banking system***

As of the end of December 31, 2012<sup>2</sup>, on the territory of the Kyrgyz Republic there were 23 commercial banks (including the Bishkek Branch of the National Bank of Pakistan) and 278 branches of commercial banks. The banking system in total received a net gain of KGS 2,417.8 million (22 commercial banks and 254 branches have been working in the same period in 2011, and profit by results of their activity amounted KGS 1,980.2 million).

As of December 31, 2012 total assets of the banking system constituted KGS 86.7 billion, having increased by 29.9 percent or KGS 20.0 billion (in 2011 total assets of the banking system constituted KGS 66.7 billion).

At the end of 2012, the amount of the deposit base of commercial banks amounted to KGS 50.7 billion, having increased since the beginning of the year by 31.0 percent. At the same time, the increase was achieved by growth in both foreign currency components of the deposit base by 22.4 percent and contributions in KGS by 39.5 percent.

In the period under review, there was an increase in the inflow of deposits to commercial banks. The volume of new deposits<sup>3</sup> accepted in 2012 amounted to KGS 234.9 billion, having increased by 15.6 percent compared to the same indicator of 2011. The weighted average interest rate on new deposits in national currency constituted 2.3 percent, having risen in annual terms by 0.1 percentage points. The rate on new deposits in foreign currency remained on the level of indicator of 2011 and constituted 0.8 percent.

<sup>1</sup> As of December 31, 2012, USD 1 = KGS 47.40

<sup>2</sup> Data are used according to regulatory reporting of commercial banks.

<sup>3</sup> In the volume of new deposits accepted not considered settlement accounts of the bank clients.

In 2012 the bank lending market, with the absence of significant fluctuations of liquidity in the banking system is relatively stable exchange rate, continued to expand. Despite the fact that the value of the loans remained relatively high, at the same time on the new loans, both in national and in foreign currency, the average interest rate decreased slightly. The main contribution to the portfolio was introduced by lending sectors of trade, agriculture and consumer loans. Also improving quality characteristics of the loan portfolio of the banking system: shares of overdue and rescheduled loans were reduced.

In 2012, within the framework of the state program of the agricultural sector support “Affordable Loans to Farmers (ALF)-2”, there were granted 6.3 thousand concessional loans to the total amount of KGS 700.4 million from 1 billion of allocated funds for these purposes. Term of the resources allocation at 7 percent per annum was 12 months for loans to support and development of the crop sector and 2 years – on the livestock sector (in 2011, credit facilities provided under 9 percent per annum for a period of 1 year). In percentage terms loans on the ALF-2 project took 1.8 percent of the total volume of loans during the period.

At the end of 2012, the loan portfolio of commercial banks amounted to KGS 40.1 billion, having increased from the beginning of the year by 28.5 percent. Meanwhile the part of the KGS loan portfolio increased by 32.9 percent, constituted to the amount of KGS 18.6 billion. At the end of December 2012 the volume of loans in foreign currency amounted to 21.5 billion KGS equivalent, exceeding the corresponding figure at the beginning of the year by 24.9 percent.

In 2012, the weighted average interest rate of the loan portfolio of banks in local currency increased by 0.6 percentage points to 22.9 percent, and in foreign currency, however, decreased by 0.6 percentage points and constituted 17.3 percent.

The volume of new loans issued in 2012 constituted KGS 38.1 billion, which is 19.3 percent higher than the amount issued in the same period of 2011. Loans in national currency increased by 12.5 percent, and in foreign currency – by 25.4 percent.

The weighted average interest rate on new loans, as compared with the same period in 2011, in the national currency in 2012 decreased by 0.8 percentage points and constituted 23.0 percent, in foreign currency decreased by 0.5 percentage points to 19.1 percent.

Industry trade is still the most significant in the structure of new loans (49.7 percent), the volume of loans in this sector increased by 9.1 percent. In the reporting period, there was increase in lending to agriculture (by 24.0 percent), which could affect the growth of the share of these loans from 11.8 to 12.3 percent. Consumer loans grew by 26.0 percent, resulting in the increase in their share by 0.6 percentage points to 10.9 percent. In addition, there was increase in mortgage loans by 31.4 percent, and their share increased from 4.6 to 5.1 percent. The share of loans to industry, transportation, communications, procurement and processing, construction, and social services amounted to 11.7 percent. The share of “other” loans decreased by 0.3 percentage points and constituted 10.8 percent.

The average value of the real interest rates on loans in national currency in 2012 was 14.4 percent compared to 17.1 percent in the same period of 2011.

### ***Non-bank financial institutions licensed by the National Bank***

At the end of 2012, the number of non-bank financial institutions (NBFIs) of the Kyrgyz Republic was 810, including: the “Financial Company of the Credit Unions” OJSC (FCCU) – 1, credit unions (CUs) – 183, microcredit companies (MCCs) – 242, microcredit agencies (MCA) – 74, microfinance companies (MFCs) – 4 and exchange offices – 306 (the number of NBFIs was 931 at the same period in 2011).

NBFI's loan portfolio<sup>1</sup> from the beginning of the year decreased by 2.1 percent (or KGS 0.3 billion) and at the end of 2012 constituted KGS 15.4 billion. Also, compared to the results of

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<sup>1</sup> Data are submitted without FCCU (as loans of the FCCU were issued to the credit unions).



2011, there was a decrease in the number of NBFI's borrowers by 9.68 percent to 434149 people.

**Table 4. NBFI loan portfolio<sup>1</sup> (mln. KGS)**

<b>NBFI Name</b>	<b>31.12.2011</b>	<b>31.12.2012</b>
FCCU	434,8	409,2
MFOs (MFCs, MCCs/MCAs) <sup>2</sup>	14 498,6	14 060,9
Credit unions	1 231,7	1 344,6
<b>TOTAL</b>	<b>15 730,4</b>	<b>15 405,5</b>

<sup>1</sup> The data are presented excluding FCCUs (since FCCUs' loans are granted to credit unions).

<sup>2</sup> MCCs/MCAs provide reports on a semiannual basis.

The weighted average interest rate at the end of December 2012 on FCCU loans constituted 15.9 percent (as of 31.12.2011 – 15.8 percent), credit unions – 29.1 percent (as of 31.12.2011 – 29.0 percent) and MFO loans – 34.9 percent (as of 31.12.2011 – 38.3 percent).

The total amount of the deposit base in NBFI from the beginning of year increased by 26.7 percent or by KGS 10.8 million and as of 2012 constituted KGS 51.3 million. At the same time the total amount of the deposit base of the credit unions<sup>2</sup> increased by 44.8 percent and at the end of the reporting year constituted KGS 51.3 million (as of 31.12.2011 – KGS 35.5 million).

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<sup>1</sup> Reducing the rate of growth of the loan portfolio in 2012 was due to the introduction of changes to the normative legal acts, regulating MFOs activity and toughening requirements for their activities. Also, in the 4<sup>th</sup> quarter of 2012 the reduction of the loan portfolio to KGS 3 billion was associated with the transformation of the MFC "Bai Tushum and Partners" CJSC into the "Microfinance Bank "Bai Tushum and Partners" CJSC.

<sup>2</sup> 12 credit unions have a license for the deposit operations carrying out (as of the end of 2012).