

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 2, 2018**

**Bishkek
August 2018**

Monetary Policy Report is released by the National Bank on a quarterly basis. The objective of this Report is to inform the public about the decisions made by the National Bank in the sphere of monetary policy, which are based on analysis and forecast of the main inflation factors and assessments of the economic situation development in the external environment and in the Kyrgyz Republic.

Monetary policy in the Kyrgyz Republic

The objective of the monetary policy is to achieve and maintain price stability through appropriate monetary policy.

The policy rate of the National Bank is the main instrument of the monetary policy. In 2014, the National Bank moved to a new monetary policy framework - when the National Bank policy rate serves as a target for the funds value in the money market - to improve and increase the effectiveness of the monetary policy. The short-term interest rates of the money market are the operational goal of the monetary policy. The purpose of the aforementioned movement is to strengthen the impact of the interest rate channel of the monetary policy, aimed at development of the inter-bank credit market and support for the real sector of economy.

Quantitative benchmark of the monetary policy is to keep inflation rate within 5-7 percent in the medium term. Development and implementation of the monetary policy is carried out within the framework of the Main Directions of the Monetary Policy for the medium term.

Monetary policy of the National Bank is focused on the future, as the decisions made in the field of the monetary policy affect the key macroeconomic indicators of the country with a certain lag. Development of the monetary policy is based on the inflation forecasts for the short and medium term, resulting from consistent and economically reasonable forecast of the economic situation development in the Kyrgyz Republic and in the external environment.

Communication policy is among the main instruments of the monetary policy conducted by the National Bank. The National Bank regularly issues press releases and holds press conferences on the monetary policy to inform the public and form adequate inflationary expectations among the population. Assessment of the current and expected macroeconomic situation in the country made by the National Bank is published in the Monetary Policy Report at the beginning of the third month of each quarter. The schedule of meetings held by the National Bank Board on the size of the policy rate is published on the bank's official website.

Monetary Policy Report for Q2 2018 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2018-II-07/35-1-(ДКП) dated August 28, 2018.

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Summary

In Q2 of the current year, inflation in Kyrgyzstan remained positive. By the end of Q2 2018, the increase in the consumer price index was 1.4 percent, having decreased by 2.5 percentage points compared to the similar period of 2017. Significant supply of the domestic and imported food products caused the slowdown of the inflation rate. In 2018, the inflation rate, according to the National Bank forecasts, will be moderate and will not exceed the monetary policy targets in the absence of significant external and internal risks.

There was a weakly positive dynamics of growth in the economy of the country in the reporting period. In January-June 2018, there was slowdown in economic growth compared to the same period of 2017, mainly due to a reduction in production output at the enterprises of the Kumtor Mine.

In January-June 2018, GDP growth made 0.1 percent (in the same period of 2017, increase made 5.6 percent). GDP, excluding the enterprises of the Kumtor Mine, grew by 2.1 percent (in the same period in 2017, increase made 2.0 percent).

The negative values in the sectors of industry (-8.0 percent) and information and communication (-7.2 percent) made their contribution to the slowdown of economic growth. At the same time, the economic growth rates remained positive due to an increase in the inflow of remittances from labor migrants, the growth of economic activity in the main trading partner countries and government measures aimed at economic growth.

In Q2 2018, the trade balance was formed under the impact of an increase in exports and imports. Export increased by 10.0 percent due to an increase in the supplies of consumer goods, growth in imports by 11.2 percent was due to an increase in the supplies of the consumer and investment goods. Finally, trade balance deficit of the country formed in the amount of USD 721.6 million. The foreign trade turnover¹ increased by 10.9 percent and amounted to USD 1.6 billion.

In January-June 2018, the state budget positive cash deficiency stood at 0.2 percent to GDP (in the first half of 2017 -1.9 percent). In January-June 2018, execution of the state budget resources constituted 105.6 percent. Execution of the state budget expenses constituted 80.1 percent. Deviation of the planned indicators is largely due to overestimated expenditure forecasts of the ministries and departments.

The financial market of the country was characterized by stable positive trends. Interest rates of the money market were within the limits of the interest rate corridor set by the National Bank and corresponded with course of the National Bank policy rate. Generally, the government securities market still demonstrated increased activity. The long-term market of government securities was mainly characterized by retaining activity of the institutional investors.

In the deposit and credit market, there was a stable increase in the volume of deposit base and credit portfolio, combined with a decrease in the interest rates on new deposits and credits compared to the same period of 2017.

¹ The data are given in FOB prices including the NBKR additional estimates

Chapter 1. External Environment

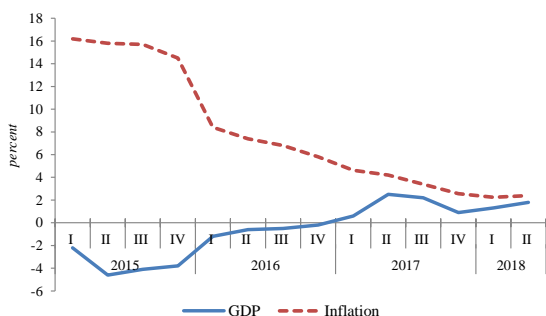
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

The recovery of economic activity persisted in the countries-main trading partners of Kyrgyzstan. In Q2, the rates of economic growth in Russia were close to the indicators of the last year. The inflation rate in Russia was below the target level; meanwhile, the acceleration trend thereof was gradually formed. High prices for oil in the world market supported economic growth in Kazakhstan; the inflation rate in the country was within the target range. The economic growth in the Republic of Belarus was supported by an increase in the internal and external demand, and a slowdown was still observed in the inflation rate, despite the growth of administratively regulated prices and tariffs. High economic growth rates are still observed in Armenia, the inflation rate is gradually approaching the target level.

Russia

Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



Source: Ministry of Economic Development of the Russian Federation, IA Bloomberg, Russian Federal State Statistics Service

Favorable price conjuncture in the commodity markets, accompanied by the expansion of consumer demand, favoured the growth of economic activity in Russia.

According to the estimates of the Ministry of Economic Development of the Russian Federation, in Q2 2018, GDP of the country increased by 1.8 percent compared to the corresponding indicator of 2017. Generally, industrial production, freight turnover, retail trade and agriculture made a positive contribution to GDP growth. In June 2018, oil production demonstrated a positive annual growth rate (+1.2 percent) for the first time since August of the last year due to exhausted high base effect in the beginning of

2017 and an increase in the average daily oil production conditioned by changed OPEC+ agreement parameters.

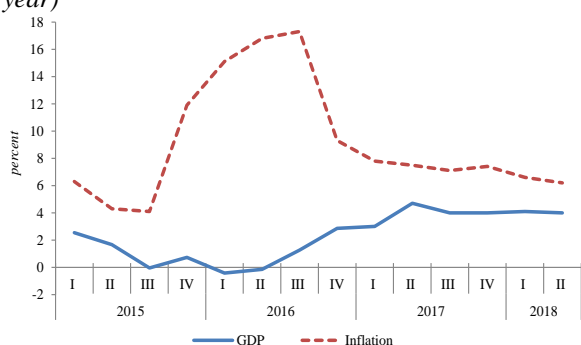
The expansion of consumer demand favoured the GDP growth in the reporting period. Thus, in Q2 2018, the growth rate of household expenditures increased up to 3.8 percent compared to 3.3 percent in the previous quarter. A stable situation in the labor market, an increase in the monetary incomes of the population and the expansion of consumer lending supported consumer activity.

In Q2 2018, the inflation rate was 2.4 percent compared to the same period of 2017 (4.2 percent). The prices for food products increased by 0.4 percent compared to the corresponding indicator of 2017. In the reporting period, the prices for non-food products increased by 3.3 percent mainly due to the growth of the world prices for petroleum products. The growth rate of prices for services increased by 4.1 percent, accelerating inflation was mainly observed in the segment of services related to tourism and recreation.

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



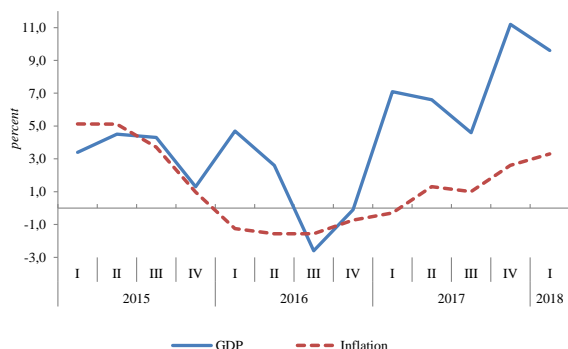
Source: RK Statistics Agency, NBKR calculations

According to the head of the National Bank of Kazakhstan, in Q2 2018, the decline in the inflation rate was due to a more favorable seasonal influence of the trends in the agro-food markets and stable slowdown in the prices for consumer goods of the domestic producers.

Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Service of the Republic of Armenia, IA Bloomberg, CB RA

In the first half of 2018, the volume of foreign trade turnover in Armenia increased by 28.9 percent compared to the same period of 2017 and amounted to approximately USD 3.5 billion. The stable high indicators in the first half of 2018 were conditioned by an increase in the volume of manufactured industrial products by 3.7 percent, domestic trade turnover – by 9.1 percent, gross agricultural output – by 5.5 percent, services – by 18,1 percent and construction – by 13.5 percent.

In January-June 2018, consumer prices in Armenia grew by 2.4 percent compared to the same period of 2017 due to an increase in prices for non-food and food products by 4.8 and 2.1 percent, respectively, with an increase in tariffs for services by 1.5 percent.

In Q2 2018, there was stable economic growth in Kazakhstan. In the first half of 2018, GDP growth in Kazakhstan constituted 4.1 percent¹ against 4.2 percent in the corresponding period of 2017. Growth was caused by increased output in the industrial sector (by 5.2 percent), mainly due to increased commodity production under the conditions of high prices for oil, increased investment activity, inflation slowdown and recovery of internal and external demand.

In Q2 2018, the annual inflation rate to the corresponding quarter of 2017 in Kazakhstan stood at 6.2 percent compared to 7.5 percent in the same period of 2017.

Economic activity remained high in Armenia. According to the National Statistical Service (NSS) of the Republic of Armenia, in January-June 2018, the economic activity increased by 8.9 percent compared to the same period of 2017. At the same time, economic activity increased by 9.6 percent in annual terms. The economic activity was supported by stimulating monetary conditions, expansion of internal and external demand.

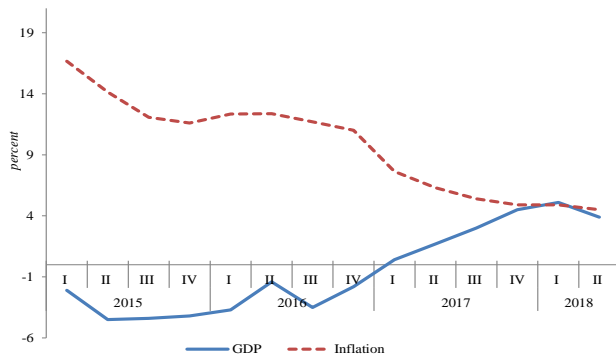
In the first half of 2018, the volume of foreign trade turnover in Armenia increased by 28.9 percent compared to the same period of 2017 and amounted to approximately USD 3.5 billion. The stable high indicators in the first half of 2018 were conditioned by an

¹According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Republic of Belarus

In Q2 2018, positive economic growth rates were still observed in Belarus.

In the first half of 2018, GDP growth in the Republic of Belarus amounted to 4.5 percent conditioned by an increase in the internal demand due to rising salaries and incomes of the population, as well as the expansion of the external demand amid improvement of the economic situation in Russia. In the sectoral aspect, economic growth was supported by increased industrial output (by 7.8 percent) through the processing industry (by 8.6 percent), trade (by 6.8 percent), transport (by 5.8 percent) and agriculture (by 1.7 percent).

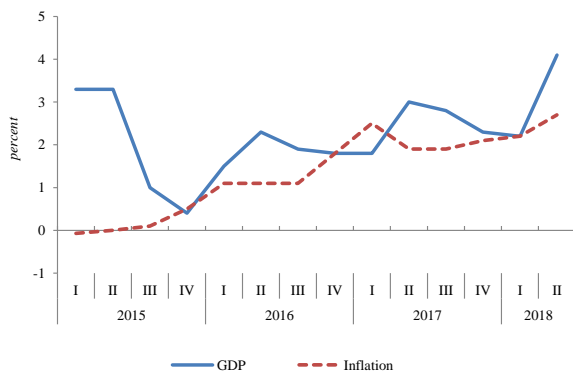
In Q2 2018, the inflation rate in the Republic of Belarus compared to the corresponding period of 2017 was 4.5 percent compared to 6.3 percent in Q2 2017. The slowdown of consumer prices growth in annual terms was caused by a decrease in the intensity of price growth for seasonal (fruit and vegetable) products, as well as prices that are not affected by the seasonal factor and administrative regulation.

In Q2 2018, the inflation rate in the

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(in annual terms)



Source: the U.S. Ministry of Trade, the U.S. Department of Labor, IA Bloomberg

GDP growth in the USA accelerated.

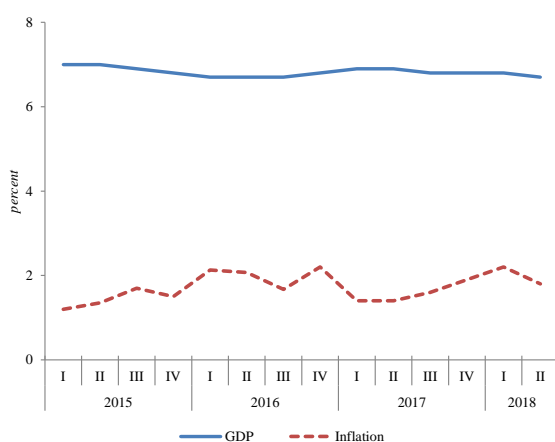
According to the official data, in Q2 of the current year, the economic growth in the USA stood at 4.1 percent (compared to the preceding quarter at annual rates) which was the highest value since 2014. The economy experienced a positive impact of lower tax rates, a decrease in the regulatory burden, an increase in public expenditures and an improvement in the labor market. Moreover, exports to China are reported to increase before higher tariffs in this country come into force. These factors affected the growth of final consumption, business investment, exports and public expenditures.

The U.S. inflation rate increased; the CPI growth amounted to 2.9 percent in June, mainly due to the increase in energy prices by 12.0 percent. The core CPI increased by 2.3 percent. The core personal consumption expenditures price index, being the preferred inflation indicator of the US Federal Reserve System, was near the regulator target of 2.0 percent since March of the current year and stood at 1.9 percent in June.

China

Chart 1.1.6. Growth and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: National Statistics Bureau of the PRC, IA Bloomberg

and stood at 1.9 percent in June. The inflation rate was below the target of the government set in the country at around 3 percent. This is mainly due to the low increase in prices for food products.

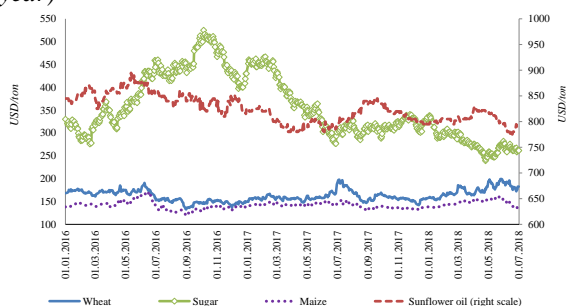
1.2. World Commodity Markets

The situation was stable in the majority of main commodity markets. The prices for some food products increased; however, it did not put significant upward pressure on the prices in the Kyrgyz Republic. There was an upward price movement in the world oil market. The dynamics of the prices of gold was characterized by a downward trend amid strengthening US dollar and an increase in the yield of alternative investment options.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



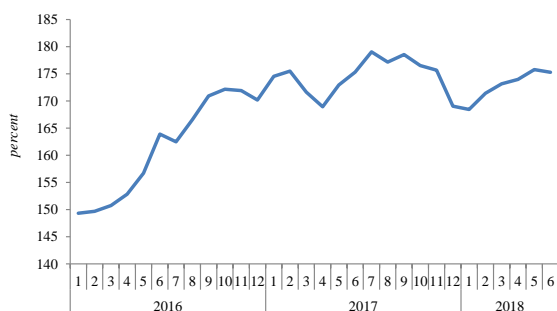
The prices in the world food market were volatile and reflected weather conditions in the exporting countries and tensions in the international trade relations. At the same time, the prices remained generally stable.

The prices for crops grew due to the concerns about the impact of adverse weather conditions on the harvest. According to the experts, the crops harvest will slightly decrease compared to the last season, however it will remain at near to the highest level in the current season in Russia, Kazakhstan and the world.

In the vegetable oil markets, in general, there was a downward price movement due to sufficient volumes of stock and supply.

In the reporting period, there was slowdown in the growth of prices for sugar due to increased sugar crop-growing area in the recent years, which should compensate for the arid weather in Brazil having an adverse effect on the yield of sugar cane.

Chart 1.2.2. Dynamics of FAO Food Price Index

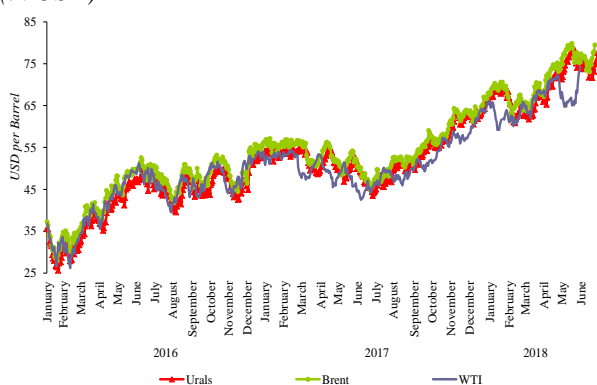


In Q2 2018, the average FAO food price index increased by 2.4 percent compared to Q1 of the current year. In the reporting period, the increase in prices for crops had the most significant impact, namely the growth in demand for rice compensated the decline in the prices for vegetable oil and sugar.

A slight decrease of prices is expected in many food markets mainly due to increased tensions in the international trade relations.

Energy Market

Chart 1.2.3. Dynamics of Prices for Oil (in USD)



In Q2 2018, there was an upward trend in the prices of the world oil market.

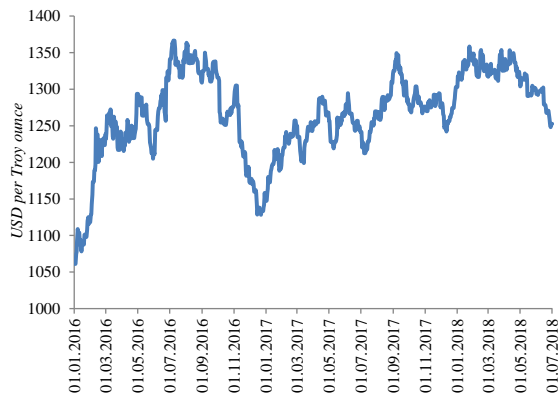
The prices for the basic oil grades (Brent, WTI, Urals) fluctuated within the range of USD 62.1-79.8 per barrel reaching the three-year maximums. In Q2 2018, the average price for Brent oil increased by 11.5 percent compared to the previous quarter and amounted to USD 75.0 per barrel (the price increased by 47.6 percent compared to the same period of the previous year). In general, the price for Brent oil increased by 18.8 percent from USD 66.9 to

USD 79.4 from the beginning of 2018.

In Q2 2018, the price formation in the commodity market was influenced by fundamental and conjuncture factors. Thus, the factors to cause an increase in the oil prices were as follows: aggravated geopolitical tensions in the Middle East, reduced oil production by the OPEC countries (mainly in Venezuela, Nigeria and Angola), the possibility of imposing the US sanctions against Iran, as well as the stable growth in demand for petroleum products from China. At the same time, an increase in the volume of oil production in the United States had a restraining effect on oil production growth.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

quotations. The uncertainty associated with trade disputes between the USA and other countries had a supporting effect on the prices for the metal.

In Q2 2018, generally there was a downward trend in the prices for gold. The gradual tightening of the US Federal Reserve System monetary policy and increased issue of the US government securities to finance the budget deficit led to an increase in demand for the US currency and strengthening thereof. These factors, as well as good economic indicators in the United States compared to other regions contributed to increased investment in the US securities as opposed to investments in precious metals. There was a relatively weak demand for physical gold, which also had a downward effect on the gold

Chapter 2. Macroeconomic Development

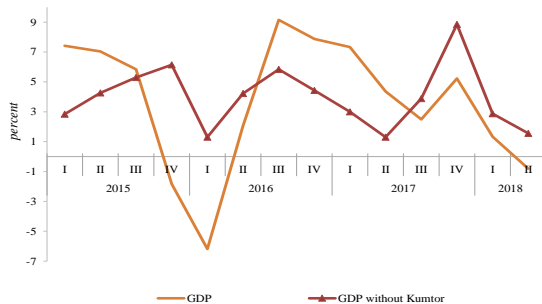
2.1. Demand and Supply in the Commodities and Services Market

In the first half of the year, there was slight economic growth mainly due to a reduction in production output at the enterprises of the Kumtor Mine. Economic growth in the main trading partner countries and the positive inflow of remittances into the country had a positive impact on the external demand.

Demand

Chart 2.1.1. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

Mine, GDP grew by 2.1 percent (in the same period of 2017, growth was 2.0 percent).

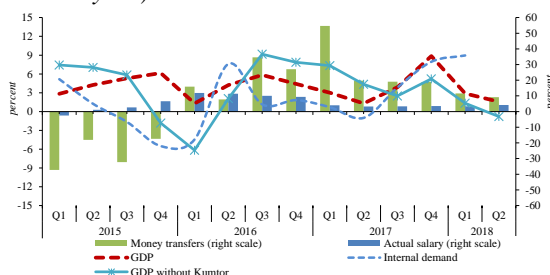
In January-June 2018, there was slowdown in economic growth compared to the same period of 2017 mainly due to the reduction in production output at the enterprises of the Kumtor Mine. Namely, in the first half of 2018, production output at the enterprises of the Kumtor Mine¹ decreased by 30.8 percent compared to the first half of 2017 (266.0 thousand ounces) and amounted to 184.0 thousand ounces.

In January-June 2018, the average monthly nominal wage of one employee² amounted to KGS 15,665, having increased by 6.6 percent compared to the same period of 2017. The largest increase in salaries was observed in the sphere of construction (16.3 percent), other servicing activity (21.6 percent), information and communication (15.1 percent).

In January-June 2018, the real wage increased by 4.2 percent compared to January-June 2017 (in January-June 2017, an increase amounted to 3.2 percent).

Chart 2.1.2. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

Following the results of the first half of 2018, there was observed a slight economic growth in the country. There was increase in the inflow of the labor migrants' remittances. The real wages of the population were boosted by the moderately low inflation.

According to the preliminary data of the National Statistical Committee of the Kyrgyz Republic, in the first half of 2018, GDP growth amounted to 0.1 percent (in January-June 2017, growth was 5.6 percent). Excluding the enterprises of the Kumtor

According to the preliminary results of Q1 2018, growth of the domestic demand³ amounted to 8.9 percent compared to the same period of 2017. An increase was due to growth of final consumption (+2.2 percent) and gross accumulation (+37.3 percent), which is a result of an increase in gross accumulation of fixed assets (+11.9 percent) and inventories (+2.7 times). The increase in domestic demand is also related to the positive dynamics of remittances (at the end of Q1 2018, the growth rate was 11.6 percent). In general, since the beginning

¹ According to the press releases of Centerra Gold Inc.

² Excluding small enterprises

³ According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for Q1 2018.

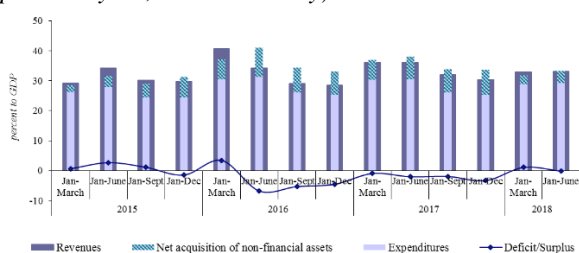
of 2018 there has been a positive dynamics of the individuals' remittances through the money transfer systems: in the first half of 2018, net inflow in USD equivalent increased by 10.2 percent compared to the same period of 2017.

Public Finances Sector

In the first half of 2018, the state budget deficit amounted to KGS 0.4 billion or 0.2 percent to GDP (in the first half of 2017, a budget deficit amounted to KGS 4.0 billion or 1.9 percent to GDP). The primary state budget surplus (excluding interest payment for servicing the public debt) amounted to KGS 3.0 billion or 1.4 percent to GDP.

Chart 2.1.3. Execution of the State Budget

(period to the corresponding period of the previous year, accumulatively)

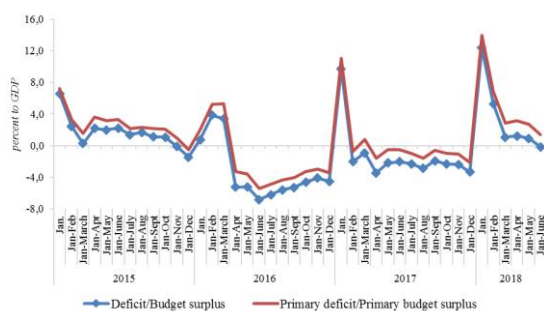


Source: CT MFKR, NBKR

to KGS 62.3 billion or 29.1 percent to GDP. There was a significant increase of expenditures on “grants and contributions” item (by KGS 15.3 billion) and a reduction of expenditures for subsidies and social benefits (by KGS 8.6 billion) in the structure of expenditures by economic classification due to implementation of the new budget classification, as well as the Budget Code. Labor costs exceed the values of the previous year, meanwhile the cost of goods and services purchase is still decreasing.

Chart 2.1.4. Budget Deficit

(period to the corresponding period of the previous year, accumulatively)



Source: CT MFKR, NBKR

operations on the following groups: fixed assets, reserves, land) amounted to KGS 8.7 billion or 4.1 percent to GDP, a decrease was 40.4 percent or KGS 5.9 billion compared to January-June 2017. The main share of capital expenditures was mainly directed for purchase of buildings and constructions, as well as expenditures related to implementation of the Public Investment Program amounted to KGS 3.0 billion.

At the end of January-June 2018, execution of the state budget resources amounted to 105.6 percent. The plan overfulfillment was provided by customs revenues due to improved tax administration, as well as non-tax revenues. Execution of the budget expenditures constituted 80.1 percent, as well as on protected expenditures – 82.0 percent, on unprotected expenditures – 63.2 percent.

The state budget revenues from operating activities increased by 1.1 percent or KGS 0.7 billion compared to the same indicator of the first half of 2017 and amounted to KGS 70.6 billion, or 33.0 percent to GDP. Tax revenues still provided a significant positive input to the growth of total revenues, supporting the budget resources. At the same time, a reduction in non-tax revenues and official transfers restrained the growth rate of total revenues.

The state budget expenditures for operating activities increased in annual terms by 5.1 percent, or KGS 3.0 billion, and amounted

The amount of KGS 11.7 billion or 5.5 percent to GDP was directed to service the public debt, payment of the principal amount constituted KGS 8.3 billion or 3.9 percent to GDP as well (in the first half of 2017, the funds allocated for servicing the public debt amounted to KGS 10.6 billion or 5.2 percent to GDP).

In the reporting period, there was a significant reduction in the capital expenditures of the state budget: net outflow of budget funds for operations related to acquisition of non-financial assets (including

Investments

In the first half of 2018, the level of capital investment exploitation increased by 5.0 percent (in comparable prices) compared to the same period of 2017.

Table 2.1.1. Capital Investments by Sources of Financing
(millions of KGS, percent)

	январь-июнь			
	2017 г.		2018 г.	
	млн. сом		доля, проценты	
Всего	43 668,2	45 998,0	100,0	100,0
Внутренние инвестиции	32 057,9	35 695,7	73,4	77,6
Республиканский бюджет	2 044,8	2 597,0	4,7	5,6
Местный бюджет	338,5	497,0	0,8	1,1
Средства предприятий и организаций	13 165,5	16 063,6	34,7	34,9
Кредиты банков	791,4	1 321,2	1,8	2,9
Средства населения, включая благотворительную помощь резидентов КР	13 717,7	15 216,9	31,4	33,1
Внешние инвестиции	11 610,3	10 302,3	26,6	22,4
Иностранный кредит	6 860,2	6 124,0	15,7	13,3
Прямые иностранные инвестиции	3 527,5	2 594,9	8,1	5,6
Иностранные гранты и гуманитарная помощь	1 222,6	1 583,4	2,8	3,5

Source: NSC KR

Growth of capital investments was mainly observed in the construction and reconstruction of mining operations facilities (by 1.9 percent), manufacturing (by 1.5 times), agriculture and fishery (by 7.8 percent) facilities, in the wholesale and retail trade (by 37.6 percent), healthcare (by 2.4 times), professional and scientific activities (by 2 times).

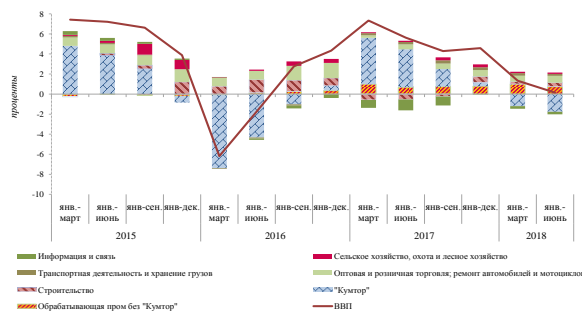
Meanwhile, capital investments decreased in the construction and reconstruction of the facilities for supply of electric energy, gas, steam and conditioned air (by 30.3 percent), hotels and restaurants (by 2.7 times), information and communication (by 17.9 percent), art and entertainment (by 36.5 percent).

The volume of capital investments financed from domestic sources increased by 11.0 percent compared to the first half of 2017, that from the bank loans – by 1.7 times, from the local budget – by 1.5 times, from the republican budget – by 1.3 times, from the personal funds – by 10.6 percent, that from the funds of the enterprises and organizations – by 5.6 percent. The investments financed from the foreign sources decreased by 11.6 percent, that from the direct foreign investment – by 26.7 percent, from the foreign loans – by 11.1 percent, meanwhile the investments financed from the foreign grants and humanitarian aid, on the contrary, increased by 29.1 percent.

Supply

Chart 2.1.5. Input of Main Sectors in GDP Growth

(period to the corresponding period of the previous year, accumulatively)



Source: NSC KR, calculations: NBKR

20.4 percent, basic metals – by 14.4 percent.

In January-June 2018, the turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased by 4.3 percent due to growth in wholesale (by 9.6 percent) and retail (by 3.5 percent) trade, as well as in motor fuel trade (by 4.3 percent).

In the reporting period, the volume of cargo transportation increased by 4.7 percent compared to the same period of the previous year.

The decline in the sector of information and communication made 7.2 percent due to a decrease in the revenues received from mobile services rendering.

The GDP deflator increased by 1.2 percentage points compared to the same indicator of January-June 2017 and was 4.4 percent.

In the first half of 2018, GDP increased slightly due to a positive input of all sectors of economy, excluding the sector of industry, the sphere of information and communication.

In the reporting period, growth in agriculture made 1.6 percent due to an increase in livestock production.

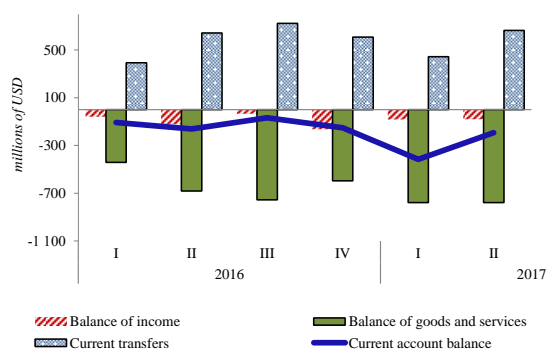
Decrease of production in the industrial sector by 5.7 percent compared to January-June of the previous year was due to a reduction in extraction of metal ores by 52.8 percent, in output of vehicles – by 24.8 percent, machinery and equipment – by

Such sectors as trade (0.7 percentage points), construction (0.4 percentage points), transport (0.2 percentage points) and agriculture (0.1 percentage point) made the main positive input to the economic growth, however, the sectors of industry (-1.2 percentage points), information and communication (-0.3 percentage points) made a negative input.

2.2. External Sector¹

In Q2 2018, the current account deficit increased under the influence of deterioration of the trade balance of goods and services amid the increase in the net inflow of current transfers.

Chart 2.2.1. Current Account
(millions of USD)



Note: According to the preliminary and forecasted data.

According to the forecasted and preliminary data, the current account deficit increased up to USD 192.8 million and constituted 10.8 percent to GDP² in Q2 2018.

In the reporting period, the trade deficit of the Kyrgyz Republic increased by 11.9 percent to make USD 721.6 million. This trend was caused by growth of imports and the decline in exports of gold in the reporting period.

Republic³

(millions of USD)

	2015	2016	2017	2017 II кв.	2018* II кв.	Change in %	Change in millions of
Trade balance	-2 240,8	-2 136,5	-2 383,3	-645,1	-721,6	11,9	-76,5
Export (FOB)	1 619,0	1 607,9	1 813,9	402,4	442,7	10,0	40,4
Gold	665,4	701,6	700,4	161,6	133,2	-17,6	-28,5
Import (FOB)	3 859,8	3 744,4	4 197,2	1 047,5	1 164,4	11,2	116,9
Energy products	830,0	467,4	467,4	129,1	124,4	-3,6	-4,7

* Preliminary data

In the reporting period, exports of goods (in FOB prices) increased by 10.0 percent to make USD 442.7 million. Exports were primarily affected by decrease in exports of gold by 17.6 percent compared to the same quarter of 2017. Moreover, exports, excluding gold, increased by 28.6 percent, mainly due to the growth in supplies of clothes and clothing accessories, dairy products, cotton, cement, cigarettes, rolled glass, etc.

In Q2 2018, imports of goods (in FOB prices) increased by 11.2 percent, to make USD 1,164.4 million. There was an increase in imports of such goods as clothes and clothing accessories, footwear, woven fabrics, cast iron and steel, electrical apparatus for line telephony or line telegraphy, etc. Imports, excluding energy products, increased by 13.2 percent compared to Q2 2017, to make USD 1,040.0 million.

In the reporting period, the net inflow of current transfers was formed above the level of the same period in 2017 by 3.5 percent. Favorable working conditions for labor

¹ According to the preliminary and forecasted data, including additional estimates of the National Bank of the Kyrgyz Republic. Period of comparison is the quarter to the corresponding quarter of the previous year.

² Ratios to GDP are calculated based on sliding annual data, including the last four quarters.

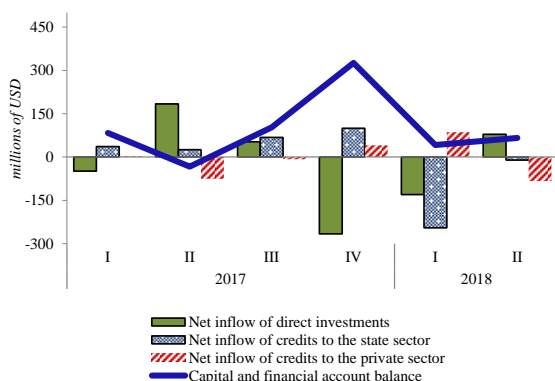
³ The data on the foreign trade are given taking into account the NSC KR additional estimates for agricultural products (till 2017), mutual trade with the EAEU member states (since Q3 2015) and the NBKR estimates.

migrants and moderate economic development in Russia contributed to the positive dynamics of the net inflow of private transfers, which increased by 9.5 percent.

In the reporting quarter, the balance of services deficit increased up to USD 56.0 million, however, the deficit of “income” item amounted to USD 79.7 million.

According to the preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, the capital inflow on the capital and financial accounts will cover the current account deficit in the amount of USD 66.2 million in Q2 2018. The capital inflow on the capital account amounted to USD 24.9 million, and the financial account surplus stood at USD 41.4 million.

Chart 2.2.2. Capital and Financial Account



Net inflow of direct investments into the country is forecasted to decrease by 57.1 percent compared to the level in the same period of the previous year and amount to USD 78.9 million. In the reporting quarter, the balance of “other investments” item will be formed negative to make USD 37.2 million due to a smaller inflow of borrowed assets amid growing volumes of servicing the public and private sector credits. Along with that, the foreign assets of the residents are expected to decrease compared to the same period of 2017.

Thus, the balance of payments of the Kyrgyz Republic was formed with a negative balance to make USD 25.4 million at the end of Q2 2018. Gross international reserves covered 3.9 months of the future imports of goods and services¹.

Indexes of Real and Nominal Effective Exchange Rate of KGS

Table 2.2.2. Key Values for Exchange Rate

	year (average)		%	month to the beginning of the year (as of the end of month)		*
	2016 (aver.) (January-December)	2017 (aver.) (January-December)		December 2017	June 2018	
REER	113.7	111.4	-1.7	112.6	113.5	0.8
NEER	112.8	110.7	-3.5	112.3	114.6	2.1
RBER to CNY	80.8	85.6	+4.6	83.3	82.4	-1.1
NBER to CNY	64.5	66.7	+3.0	64.2	63.8	-0.7
RBER to Euro	107.2	109.0	+8.0	103.1	105.4	2.2
NBER to Euro	78.8	78.6	-7.9	73.9	76.0	2.9
RBER to KZT	141.7	132.5	-26.4	132.2	131.5	-0.5
NBER to KZT	152.1	147.5	-43.6	149.1	152.2	2.1
RBER to RUR	131.4	116.2	-4.9	116.5	123.9	6.3
NBER to RUR	144.8	128.3	-1.5	127.3	138.2	8.6
RBER to USD	87.2	89.9	+9.1	90.1	89.6	-0.6
NBER to USD	65.7	66.7	-8.3	66.0	67.1	1.6

* Preliminary data
 ▼ - Som devaluation, competitiveness improvement
 ▲ - Som strengthening, competitiveness deterioration

At the end of Q2 2018, the index of nominal and real effective exchange rate increased compared to December 2017. According to the preliminary data, the index of nominal effective exchange rate (NEER) of KGS increased by 2.1 percent from the beginning of 2018 and constituted 114.6 by the end of June 2018. The increase in the NEER index was due to KGS strengthening² in June 2018 compared to the average exchange rate for December 2017 against the Russian ruble– by 8.6 percent, the euro – by 2.9 percent, the Kazakh tenge – by

2.1 percent, and the US dollar – by 1.6 percent.

Despite higher inflation rate in the Kyrgyz Republic³, the increase in the NEER index influenced the growth of the real effective exchange rate (REER) index, which increased by 0.8 percent since December 2017 and constituted 113.5 at the end of June 2018.

¹ Taking into account non-convertible currencies.

² The data are given for nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for calculation of the index.

³ In Q2 2018, the inflation rate in the Kyrgyz Republic remained unchanged compared to December 2017, meanwhile, according to the preliminary calculations, the average inflation rate in the main trading partner countries was 1.3 percent.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

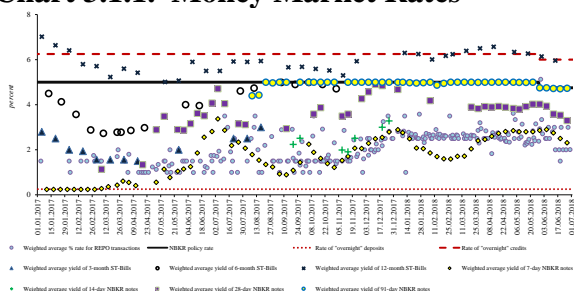
In the reporting quarter, the National Bank conducted stimulating monetary policy taking into account the relative risk balance from the external sector and the internal conditions development. The National Bank mitigated its interest rate policy through reducing the interest rate by 25 basis points in May of the current year to further support measures stimulating the real sector of the economy. Moreover, the National Bank expanded provision of the credit resources to the economy during the reporting quarter.

Generally, the interest rates direction in the money market corresponded to the interest rate policy of the National Bank. Preserving a sufficient level of liquidity in the national currency in the banking system was an additional factor for a decrease of the money market rates.

Interest Rate Policy of the National Bank

The National Bank mitigated its interest rate policy in Q2 2018 taking into account forecast moderate dynamics of the inflation rate for the medium term and the current economic conditions. The policy rate of the National Bank was decreased by 25 basis points, to 4.75 percent. The upper rate of the interest rate corridor (the rate on “overnight” credits) was decreased from 6.25 percent to 6.00 percent, and the lower rate (the rate on “overnight” deposits) remained unchanged at 0.25 percent in accordance with the decision made.

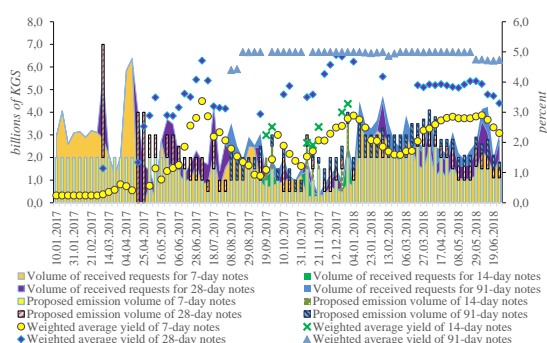
Chart 3.1.1. Money Market Rates



Encouraging of measures taken by the National Bank to increase the impact of the interest rate channel of the monetary policy conditioned the money market rates approaching the policy rate.

Under the conditions of KGS excess liquidity in the banking system, tactical decisions were taken to preserve the issue of 91-day notes of the National Bank along with the sale of 28- and 7-day notes in the reporting period. Operations conducted to absorb liquidity with a longer term accompanied by increased activity in the interbank credit market observed in February and June 2018 reduced the gap between the short-term money market rates and the policy rate. Meanwhile, dynamics of the short-term market rates corresponded to the direction of the policy rate, demonstrating a downward trend at the end of the reporting quarter.

Chart 3.1.2. National Bank Notes



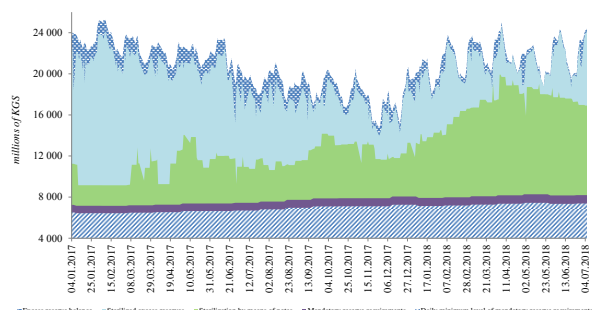
In Q2 2018, the weighted average interest rates of the money market were generally lower than the policy rate set by the National Bank, except for the yield on 12-month ST-Bills, which was approximately 6.3 percent during the quarter.

The weighted average yields on the National Bank instruments to withdraw liquidity, except for the rate on 7-day notes, decreased in Q2 2018 compared to Q1. Thus, the weighted average yield on 91-day notes was approximately 4.90 percent during the quarter (in Q1 2018 – 4.97 percent), on 28-day notes – 3.85 percent (in Q1 2017 – 4.13 percent), on 7-day notes – 2.69 percent (in Q1 2017 – 2.00 percent).

The stimulating character of the monetary policy contributed to a decrease in the interest rates of the commercial banks' credit portfolio. At the end of the reporting quarter, the weighted average interest rate of the credit portfolio decreased by 0.4 percentage points compared to Q1 and made 15.2 percent (in Q1, the decrease was 0.4 percentage points).

Situation with Liquidity of the Commercial Banks

Chart 3.1.3. Excess Reserves of the Commercial Banks



KGS liquidity remains excess in the banking system. Operations conducted by the National Bank were the main sources of excess liquidity in the banking system. In Q2 2018, the average daily volume of the commercial banks' excess liquidity prior to the operations on sterilization amounted to KGS 13.7 billion, having increased by KGS 0.5 billion compared to the same indicator of Q1 2018.

Taking into account existing level of excess liquidity in the banking system, the National Bank conducted operations to absorb excess liquidity through the auctions of the National Bank's notes and placement of the commercial banks' available funds on "overnight" deposits with the National Bank. In Q2 2018, the average volume of excess liquidity absorbed on a daily basis increased by KGS 0.7 billion compared to Q1 2018 and amounted to KGS 13.1 billion. In the reporting quarter, the volume of placement of the National Bank notes increased in the structure of absorbing operations, the average share of 91-day notes constituted 63.4 percent. Generally, in the reporting quarter, the average daily volume of sterilization by means of notes amounted to KGS 9.9 billion (+KGS 2.6 billion compared to Q1 2018), the volume of placements of "overnight" deposits with the National Bank – KGS 3.2 billion (- KGS 1.8 billion compared to Q1 2018).

Credit Policy of the National Bank

In the reporting period, the National Bank conducted credit policy aimed at expanding lending to the real sector of the economy to contribute to the reduction of interest rates on credits and promote economic development. The National Bank provided funds to the banking sector in the amount of KGS 9.0 billion through credit auctions; however, the demand from the commercial banks was 2.8 times lower than the supply.

"Overnight" credits and credits to support liquidity were provided to the commercial banks.

The total volume of loans extended to the commercial banks in Q2 amounted to KGS 10.1 billion.

Foreign Exchange Policy of the National Bank

The situation in the domestic foreign exchange market was relatively stable. The exchange rate of the Kyrgyz som remained stable during the second half of the reporting quarter after fluctuations thereof in the first half of the same quarter. At the beginning of the reporting period, the National Bank conducted interventions on sale of foreign currency to the amount of USD 8.2 million in the domestic foreign exchange market to smooth sharp fluctuations of the exchange rate amid increased volatility of foreign currency demand. Generally, strengthening of the national currency constituted 0.4 percent during Q2.

Monetary Policy Measures in Q2 2018

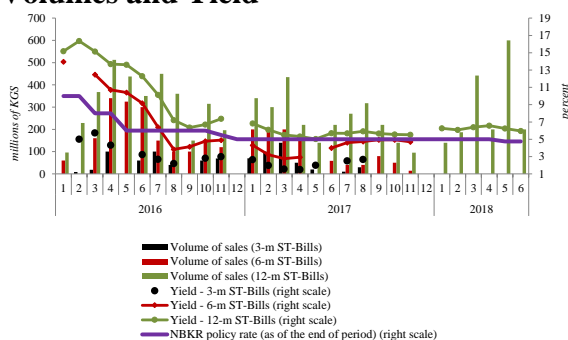
The decisions were made on the size of the National Bank	The Board of the National Bank twice considered the issue on the size of the National Bank policy rate –
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policy rate	<p>on May 28 and June 25, 2018.</p> <p>Based on the results of the National Bank Board meeting held in May, the decision was made to lower the policy rate by 25 basis points, to 4.75 percent. The upper rate of the interest rate corridor (the rate on “overnight” credits) was decreased from 6.25 percent to 6.00 percent, and the lower rate (the rate on “overnight” deposits) remained unchanged at 0.25 percent in accordance with the decision made on the size of the policy rate.</p> <p>Based on the results of the meeting held in June the decision was made to keep the policy rate unchanged at 4.75 percent. The rates of the interest rate corridor remained the same.</p>
The decisions were made to conduct the credit auctions	<p>The National Bank announced credit auctions six times for the banks refinancing. One auction was held out of announced six ones with approved credits to the amount of KGS 1.5 billion. In Q2 2018, the commercial banks were provided with credits to the amount of KGS 2.3 billion taking into account the funds approved in Q1 of the current year. The weighted average interest rate on these credits constituted 5.32 percent.</p> <p>The total volume of supply for the credit resources amounted to KGS 9.0 billion, the demand from the commercial banks amounted to KGS 3.2 billion.</p>
Other credits	<p>The volume of the National Bank’s credits to support the banks’ liquidity amounted to KGS 141.4 million, “overnight” credits – KGS 7.6 billion.</p>

3.2. Financial Market Instruments

Government Securities Market

Chart 3.2.1. Dynamics of ST-Bills Sales Volumes and Yield



ST-Bills

In the reporting period, the ST-Bills market still demonstrated high activity of the participants. Therefore, there was a slight increase in the weighted average yield of 12-month securities compared to the same quarter of 2017.

In the reporting period, the volume of the ST-Bills supply decreased by 15.3 percent compared to the same indicator of 2017 (from KGS 1.2 billion to KGS

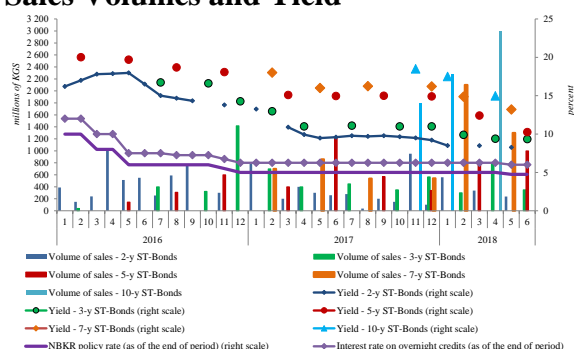
1.0 billion). The participants demonstrated the highest activity in May of the reporting period, when the volume of demand for ST-Bills was KGS 1.2 billion (59.4 percent of the overall demand in the reporting quarter).

The Ministry of Finance of the Kyrgyz Republic did not conduct additional placement despite a significant excess of demand for ST-Bills over supply of these securities in the reporting period. Therefore, the Ministry of Finance of the Kyrgyz Republic placed ST-Bills to the amount of KGS 1.0 billion corresponding to the volume of supply thereof.

Based on the results of the auctions, the weighted average yield of 12-month ST-Bills fixed at 6.3 percent (+0.9 percentage point compared to the same quarter of 2017).

By the end of the reporting period, the total volume of ST-Bills in circulation amounted to KGS 2.8 billion (-3.8 percent year-to-date).

Chart 3.2.2. Dynamics of ST-Bonds Sales Volumes and Yield



2017, mainly due to 3-, 7- and 10-year ST-Bonds. Meanwhile, the total volume of ST-Bonds demand in the ST-Bonds market increased by 2.1 times, up to KGS 10.2 billion, having exceeded the volume of supply by 1.9 times.

In the reporting period, the demand for 10-year ST-Bonds was the most significant; the share of 10-year ST-Bonds was 46.8 percent of the overall demand in the ST-Bonds market. In Q2 2018, the volume of 10-year ST-Bonds issue increased from KGS 300.0 million to KGS 2.0 billion compared to the first issue implemented in November 2017. Moreover, the demand for 3-, 5- and 7-year ST-Bonds increased by 2.2 times, 21.7 percent and 64.5 percent, respectively compared to the same period of 2017. Meanwhile, the demand for 2-year ST-Bonds, on the contrary, decreased by 81.9 percent.

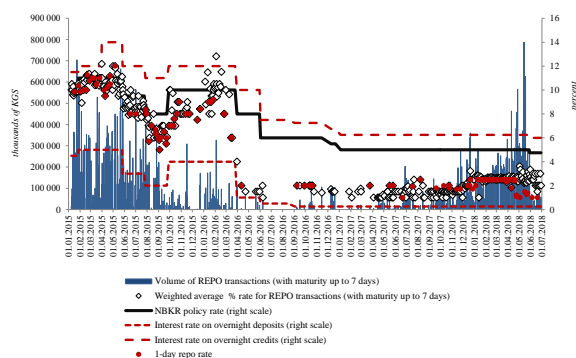
Based on the results of the auctions, the number of the participants in the ST-Bonds market decreased slightly from 13 (in Q2 2017) to 11, meanwhile, there was an increase in the market capacity.

Given that the largest share of sales was occupied by 5-year ST-Bonds (35.7 percent), in the reporting period, the main share was occupied by 10-year ST-Bonds (44.9 percent).

Based on the results of the auctions conducted in the reporting period, the overall weighted average yield of ST-Bonds decreased down to 11.9 percent (-1.0 percentage points compared to the same quarter of the previous year) due to decline in the yield on all maturities.

Interbank Credit Market

Chart 3.2.3. Dynamics of Rates and Volume of Repo Transactions in the Interbank Credit Market



interbank credit market from 1.7 to 2.4 percent.

ST-Bonds

In the reporting period, the ST-Bonds demand and supply increased significantly in the ST-Bonds market. There was also a downward trend in the ST-Bonds yield of all maturity rates.

In the reporting period, the total volume of ST-Bonds sales, taking into account additional placement, amounted to KGS 6.7 billion, having increased by 1.9 times compared to the same period of

In the reporting period, there was a significant growth of transactions in the interbank credit market along with a slight increase of the average weighted rates on REPO transactions.

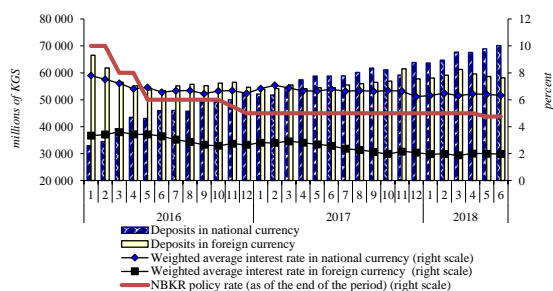
In Q2 2018, the activity of the participants increased significantly by 7.0 times in the interbank credit market, up to KGS 12.5 billion (in Q2 2017 – KGS 1.8 billion), caused by the growth of REPO transactions. In the reporting period, against the background of the growth of demand for the interbank credit resources, an increase was observed in the cost of loans in the

In the reporting period, the total volume of concluded REPO transactions increased significantly up to KGS 12.4 billion (+ by 7.9 times) compared to the same indicator of 2017.

In Q2 2018, standard transactions in foreign currency were not conducted in the interbank credit market. Two transactions were conducted in the national currency to the amount of KGS 65.7 million with the weighted average maturity of 9 days.

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits



The banks' depository base demonstrated an upward trend in Q2 2018.

At the end of Q2 2018, the volume of the commercial banks' depository base increased by 5.5 percent year-to-date and amounted to KGS 128.3 billion due to the growth of the deposits in the national currency by 9.9 percent, up to KGS 70.2 billion, in foreign currency – by 0.6 percent, up to KGS 58.1 billion.

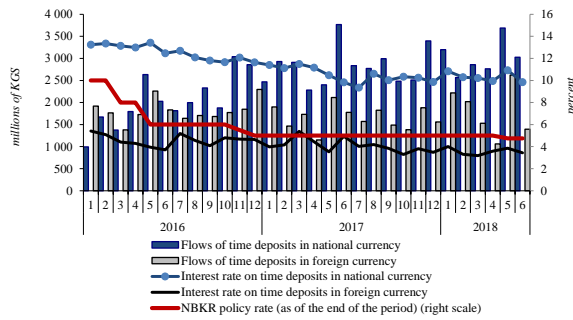
Dollarization of the deposits decreased by 2.2 percentage points year-to-date and amounted to 45.3 percent. Meanwhile, dollarization of the individuals' deposits amounted to 38.0 percent (-3.2 percentage points) and dollarization of the legal entities' deposits – 50.8 percent (-3.5 percentage points).

The upward trend was still observed in the deposits of the commercial banks in the reporting period. In the first half of 2018, the volume of the new deposits¹ increased by 12.1 percent compared to the same period of 2017 and amounted to KGS 273.1 billion. It was caused by the growth of deposits in the national currency up to KGS 154.4 billion (+12.0 percent) and in foreign currency up to KGS 118.8 billion (+12.4 percent). In terms of structure, the increase of new deposits was mainly caused by the growth of demand deposits by 12.7 percent. The volume of the new time deposits increased by 7.6 percent. The share of short-term deposits constituted 60.0 percent in the total stock of time deposits with a proportional decrease in the share of long-term deposits down to 40.0 percent.

In terms of maturity the share of short-term deposits (up to 1 year) increased up to 69.6 percent (+0.7 percentage points) year-to-date with a proportional decrease in the share of long-term resources down to 30.4 percent demonstrating an increase in the population's deposits for a shorter term. In Q2 2018, the main share among the new deposits in the national currency accounted for the deposits from 6 months to 1 year (46.7 percent) and from 1 to 3 years (34.2 percent), in foreign currency the main share accounted for the deposits with the same maturity with the share of 29.6 percent and 36.9 percent, respectively. Therefore, the total duration of the depository base was 4.6 months (- 0.2 months year-to-date) at the end of the reporting period, the duration of time deposits was 12.8 months (-0.4 months year-to-date).

¹ Settlement accounts of the banks' clients are not taken into account in the volume of new deposits.

Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows

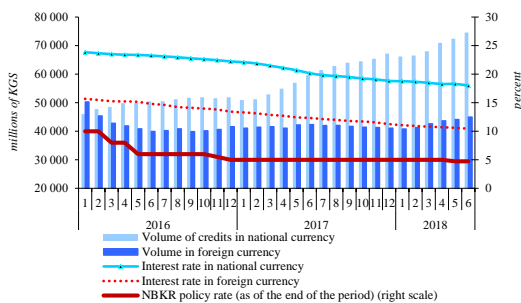


a maturity from 0 to 1 month. Moreover, the weighted average interest rate on the time deposits in foreign currency made 3.63 percent, having decreased by 0.67 percentage points, due to a decline of all maturity rates, except for the deposits with a maturity from 0 to 1 month.

The concentration index in the deposit market was at the level of 0.10 at the end of the reporting period, which corresponds to the average level of concentration with ten participants with equal shares present in the market.

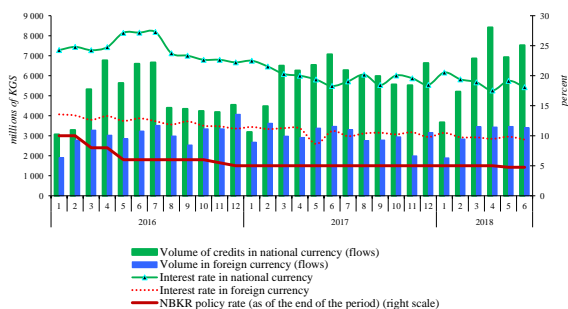
Credit Market

Chart 3.2.6. Dynamics of Commercial Banks Credit Debt as of the End of the Period



KGS 74.6 billion, however, the credits in foreign currency increased by 9.4 percent, to make KGS 45,0 billion. Dollarization of the credits decreased by 0.3 percentage points year-to-date, down to 37.6 percent, due to a decrease in dollarization of the credits with a maturity up to 3 years. Meanwhile, the highest level of dollarization was recorded for the credits with a maturity of more than 3 years (23.4 percent), and the lowest - for the credits with a maturity from 1 to 3 months (0.15 percent).

Chart 3.2.7. Dynamics of Commercial Banks New Credits for the Period



In the reporting period, the weighted average interest rate on the new deposits in the national currency constituted 2.53 percent (-0.18 percentage points compared to the same period of 2017), this rate on the deposits in foreign currency constituted 0.43 percent (-0.16 percentage points). In the reporting period, the weighted average interest rate on the time deposits in the national currency constituted 10.24 percent, having decreased by 0.25 percentage points due to a decrease of all maturity rates, except for the deposits with

In Q2 2018, build-up of the credit portfolio was accompanied by a significant increase in the volume of credits issued in the national currency. Meanwhile, the interest rates on the credits in the national and foreign currency still demonstrated a downward trend.

Thus, the volume of the commercial banks' credit portfolio increased by 10.4 percent year-to-date and amounted to KGS 119.6 billion at the end of the reporting period. Meanwhile, the credits in the national currency increased by 11.0 percent, to make

The volume of new credits in the national currency amounted to KGS 22.9 billion, having increased by 15.1 percent compared to the same period of 2017 due the growth of credits with all maturity rates, except for the credits with a maturity from 1 to 3 months. Meanwhile, in terms of sectors, this growth was mainly caused by an increase in the volume of credits in the following sectors: "transport", "social services" and "industry".

The volume of credit flows in foreign

currency increased up to KGS 10.3 billion (+ 5.5 percent) due to the growth of credits with a maturity of more than 3 years. Meanwhile, in terms of sectors, there was an increase in the volume of credits in the following sectors: “agriculture” (+ 5.3 times), “social services” (+47.4 percent) and “construction” (+32.1 percent).

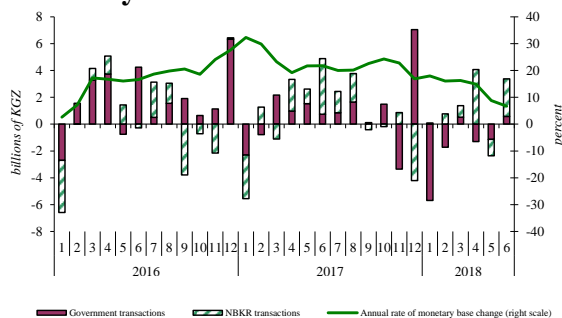
Duration on new credits in the national currency decreased by 3.5 months year-to-date (down to 24.5 months), in foreign currency – by 1.6 months (down to 35.4 months).

In Q2 2018, the weighted average interest rate on new credits in the national currency decreased by 0.96 percentage points compared to the same indicator of 2017, down to 18.27 percent (due to a decrease of the rates on all sectors, except for the loans for communication, procurement and processing, mortgage), this rate in foreign currency decreased by 0.65 percentage points, down to 9.56 percent (due to a decrease of the rates on all sectors, except for the sector “communication”, “procurement and processing”, “mortgage”).

The credit market general concentration index was 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among eleven banks. The sectoral concentration index was 33.1 percent, thus demonstrating the main three credit sectors.

3.3. Dynamics of Monetary Indicators

Chart 3.3.1. Input of the Government’s and NBKR Transactions in Change of Monetary Base



Monetary Base

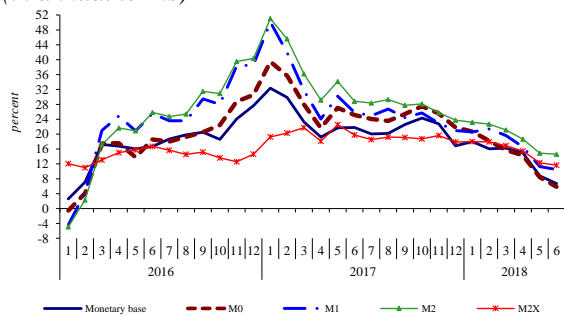
The annual growth rate of the monetary base made 6.7 percent at the end of Q2 2018. There was an increase in the monetary base by 4.0 percent during the reporting quarter. The monetary base increased in the reporting quarter due to the transactions of the National Bank (+KGS 5.6 billion), however, the transactions of the Government of the Kyrgyz Republic decreased the monetary base (-KGS 1.9 billion). The monetary base decreased

due to the increase in the volume of ST-bills issue among the transactions of the Government of the Kyrgyz Republic.

The structure of monetary base did not suffer significant changes. At the end of the reporting period, the share of reserves of other depository corporations in the structure of monetary base made 10.8 percent, meanwhile, the share of currency in circulation was 89.2 percent.

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates

(in annual terms)



Monetary Aggregates

In the reporting quarter, there still was a slowdown in the annual growth rates of monetary aggregates. A decrease in the annual growth rate of money outside banks was the main reason for the slowdown in the growth of monetary aggregates. In the reporting quarter, money outside banks increased by 3.5 percent, meanwhile, in the same period of 2017, this indicator increased by 13.2 percent. The annual growth of money outside banks made 5.8 percent at the

end of the reporting quarter (at the end of Q1 2018, this indicator made 15.7 percent).

During the reporting quarter, the monetary aggregate M2X increased by 1.8 percent and amounted to KGS 196.3 billion at the end of the reporting period. Meanwhile, the annual growth rate of the monetary aggregate M2X made 11.6 percent.

Deposits¹, included in M2X, increased by 16.1 percent over the year due to the growth of deposits in the national currency by 27.6 percent and in foreign currency - by 3.7 percent.

The total volume of credits to the economy² increased by 17.2 percent over the year and amounted to KGS 122.0 billion at the end of period. Meanwhile, credits in the national currency increased by 24.0 percent and credit in foreign currency increased by 8.9 percent. Credits to the economy increased by 8.0 percent in the reporting quarter.

¹ Deposits of individuals, legal entities and other financial-credit organizations, excluding deposits of the Government of the Kyrgyz Republic and non-residents.

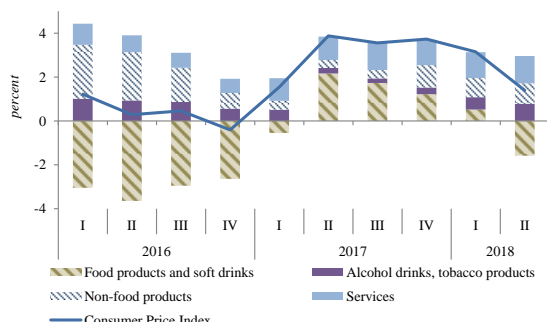
² Credits of individuals, legal entities and other financial-credit organizations, excluding credits of the Government of the Kyrgyz Republic and non-residents.

Chapter 4. Inflation Dynamics

The inflation rate in the Kyrgyz Republic retained a downward trend of Q1 of the current year. The inflationary pressure remained stable. The rate of increase in prices for food products moderated, mainly due to a decrease in prices for vegetables. The market inflation rate was stable at the level of monetary policy target of the National Bank.

4.1. Consumer Price Index

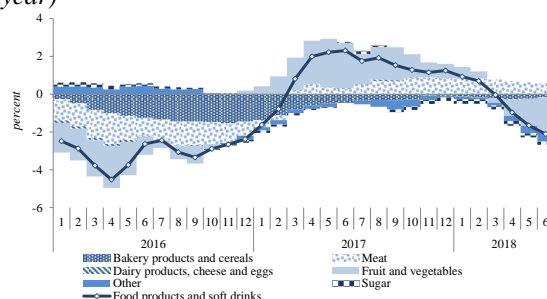
Chart 4.1.1. Dynamics of CPI Structure
(quarter to the corresponding quarter of the previous year)



In Q2 2018, there was slowdown in the inflation rate. In Q2, the growth of CPI was 1.4 percent, which is lower than 3.1 percent in the previous quarter, having decreased by 2.5 percentage points compared to Q2 2017. In June, the annual inflation rate was 0.8 percent. The main reason for the low prices in June was the decrease in the price index for food products, mainly for vegetables and fruit due to significant imports.

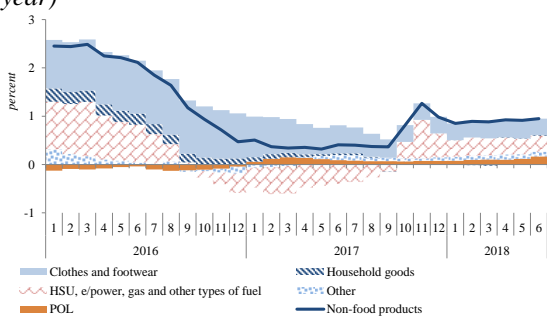
In June 2018, the price index for food products decreased by 4.6 percent in annual terms. Prices for most food products decreased compared to the same month of the previous year. The increase in prices for most basic products in this group was negative or around zero due to the relatively high supply of domestic and imported food products conditioned by favorable situation in the external food markets. Only growth in prices for meat and dairy products had an upward impact on food inflation rate.

Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



The prices in the commodity section “alcohol drinks and tobacco products” increased by 9.4 percent due to the increase in excise rates in January of the current year.

Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

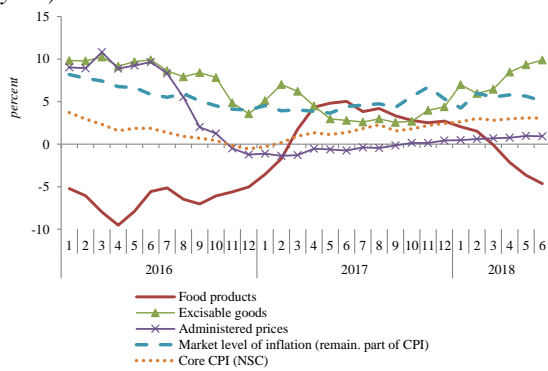


Market inflation demonstrated stable growth rates and made 5.1 percent in June and, generally, was within the targets of 5-7 percent set by the National Bank.

The price index for non-food commodity group and paid services demonstrates the same moderate growth rates in the main commodity groups as in the previous months. The annual increase in prices for POL, communication services, restaurants and hotels put the upward pressure on prices.

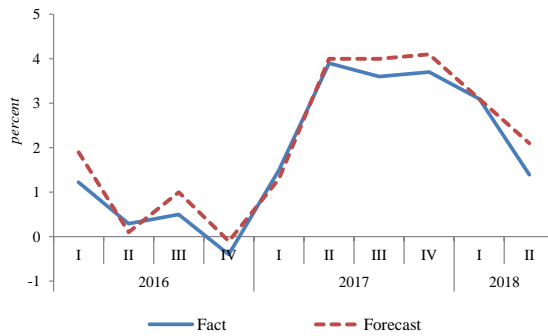
In June 2018, non-food inflation was 3.3 percent; the prices for paid services fixed at 6.5 percent.

Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities
(month to the corresponding month of the previous year)



4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values
(quarter to the corresponding quarter of the previous year)



In Q2 2018, the actual inflation rate was below the National Bank’s forecasts. In Q2, prices for food products were lower than expected due to lower prices for the group “fruits and vegetables” and other products.

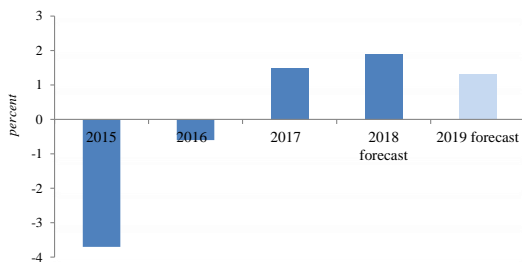
Chapter 5. Medium-Term Forecast

5.1. External Environment Proposals

5.1.1. Development Forecast of Main Trading Partner Countries

Russia

Chart 5.1.1.1. Real GDP Growth in Russia
(year to year)



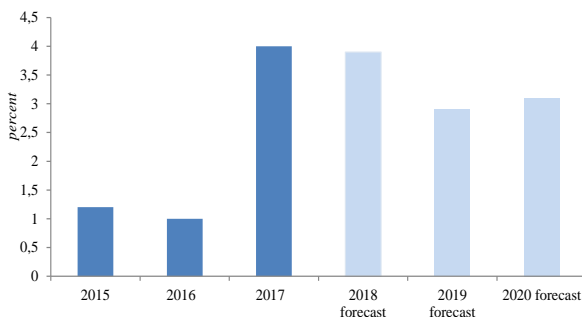
Source: IMF, IA Bloomberg, Ministry of Economic Development of the Russian Federation

Economic Development of the Russian Federation) and an increase in the VAT rate since early 2019 with a slowdown in the investment activity and geopolitical uncertainty.

During the remainder of 2018 and in 2019, the Bank of Russia is expected to support a cautious approach to further lowering the key rate. The medium-term risks of the inflation rate deviation from 4 percent upwards still prevail. In particular, the planned increase of the VAT base rate in Russia from 18 to 20 percent and exhausted low base effect, together with the growth of inflation expectations, are more likely to result in a temporary accelerating inflation slightly above 4 percent in 2019 and subsequent stabilization at the target level of 4 percent.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan
(year to year)



Source: IA Bloomberg, international financial institutions

in the volume of extraction, production and export of mineral resources under the conditions of high commodity prices, and implementation of the large-scale investment projects and the state programs to support the economy.

In the medium term, expectations about the slowdown of inflation rate in Kazakhstan in the absence of external shocks still persist. Thus, in 2018, the inflation rate is forecasted to slow down within the target corridor of 5-7 percent, and in 2019, it will gradually enter the corridor of 4-6 percent. The probability of significant devaluation of the Russian ruble and the decline in oil prices are the main external risks of acceleration of inflation in Kazakhstan.

In the medium term, positive economic growth with a slight slowdown in 2019 is expected in Russia.

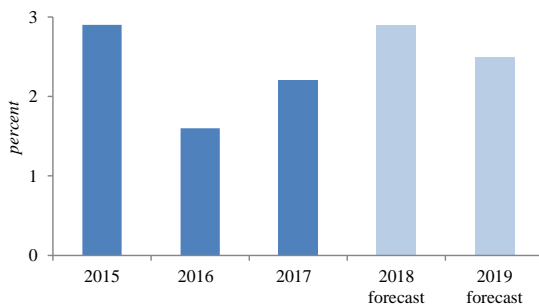
Following the results of the reporting year, GDP growth is expected at 1.9 percent. Meanwhile, in 2019, there will be slowdown in the economic growth of the country down to 1.3 percent, where the deviation from the previous forecast of 1.9 percent is due to a reduction in the consumer demand on the background of slowdown in the salary growth from expected 6.3 percent in 2018 to less than 1 percent in 2019 (forecast of the Ministry of

In the medium term, the expectations of positive economic growth rates in Kazakhstan remain. The economic growth forecast for 2018 was slightly adjusted upwards to 3.9 percent (instead of the previously expected 3.8 percent), due to higher than expected actual data in Q2 2018 and improved forecasts for the prices and oil production volumes. In 2019-2020, the growth is expected at 2.9 and 3.2 percent, respectively. In the medium term, in the absence of shocks, the economic growth in Kazakhstan will be supported by an increase

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg

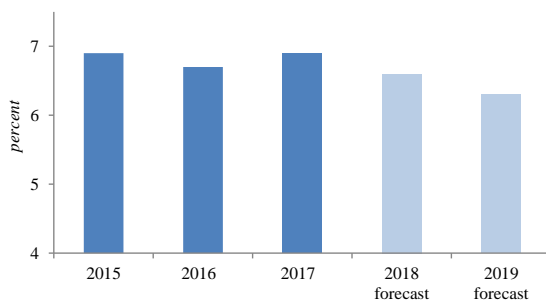
increase and the economic growth rate will slow down to the average values for the previous years.

CPI growth will slow down as the effect of increase in prices for fuel and energy products diminishes. In the current year, the CPI will increase by approximately 2.5 percent compared to 2017, in 2019 - by 2.3 percent. The US Federal Reserve System will gradually increase the base rate to keep core inflation at approximately two percent.

China

China 5.1.1.4. Real GDP Growth in China

(year to year)



Source: National Bureau of Statistics of the PRC, IA Bloomberg

increased customs tariffs on the Chinese goods will be compensated to some extent by the increase in external demand amid accelerated world economic growth in 2018-2019.

The inflation rate in China will increase slightly and will be at a moderate level slightly above two percent in 2018-2020 under the conditions of stable demand and a balanced monetary policy.

5.2. Medium-Term Forecast

Assumptions about development of the external conditions and internal environment in Q2 2018 to the greatest extent were consistent with the baseline scenario, approved at a meeting of the National Bank Board held in May 2018.

According to the preliminary data, in the first half of 2018, the aggregate demand in the economy of the Kyrgyz Republic continues increasing and is supported by the internal income increase in the economy and by the growth of remittances.

Prices in the world food markets remain stable amid steady high forecasts for the yield of the main types of agricultural crops. Given the current trends, food price movement is

expected to remain stable until the end of the current agricultural season (June 2018 - July 2019).

Price movement in the world energy market remains within the range of USD 70-80 per barrel, having decreased in July of the current year against the background of OPEC's decision dated June 22, 2018 to increase oil production by 1 million barrels per day. This decision was made against the background of a significant overfulfillment of oil production restrictions under the OPEC + Agreement. Meanwhile, oil prices will be supported under the OPEC + Agreement in force during the current year till the end of 2018. According to the Ministry of Energy of the Russian Federation, OPEC + can continue its operation under a new name – “Super-OPEC” from January 1, 2019, and Russia, Brazil, Mexico, Kazakhstan and Azerbaijan can be its potential members. Thus, in the medium term, oil prices and the corresponding external economic background favorable for Russia and Kazakhstan - our main trading partners are likely to remain at the current levels.

Potential growth of sanctions pressure on the Russian economy will determine to the fullest extent the economic prospects of the countries in our region, including the Kyrgyz Republic. The next wave of the US sanctions tightening against Russia may affect the largest Russian banks: Sberbank, VTB Bank, Gazprombank, Promsvyazbank, Rosselkhozbank and Vnesheconombank; the national air carrier Aeroflot and the market of Russia's sovereign debt.

A new set of sanctions against Russia was submitted to the US Senate for consideration within the framework of the draft law called Defending American Security from Kremlin Aggression Act – DASKAA. The DASKAA draft law proposes to combine all existing sanctions against Russia in a single base and apply some new sanctions against the financial sector of Russia and the sanctions limiting foreign trade with Russia. The full version of this draft law published in the Russian media on August 8 of the current year resulted in the launching depreciation of the Russian ruble against the US dollar.

However, the market analysts believe that the draft law in its current form is unlikely to be approved, most of the DASKAA parameters are expected to be significantly mitigated, namely, Aeroflot's activities in the USA will not be restricted, the Russian banks' operations in the USA are unlikely to be totally restricted against expectations, and the operations with the Russian public debt will not be limited either. Therefore, the impact of the new set of sanctions will be very limited and will not have a significant impact on the prospects for the economic growth in Russia in the medium term.

The details of the new set of sanctions against Russia and the decision on their application are expected to be considered in late August - early September 2018.

The structure of economy in the Kyrgyz Republic determines the particular role of the external sector parameters in developed forecasts. Assumptions on such parameters of the external economic sector as the price movement in the world commodity markets, prospects for economic development of the countries-trading partners of Kyrgyzstan and other important indicators of the world economy development are set based on the forecasts made by the world research agencies/institutions, official authorities of the countries and expert evaluations.

Taking into account the current prospects for development of the world commodity markets, as well as the dynamics of the economic growth in the trading partner countries, the economic background in the countries of our region, largely determined by the degree of sanctions pressure on the economy in Russia, is the most significant factor of the economic development in our country in the medium term.

The forecasts for economic growth in Russia in 2018-2019 are slightly reduced amid changed situation in the world commodity markets, meanwhile the assumptions about the economic growth in Kazakhstan remain at the level of the assumptions made in Q1 2018. GDP growth in Russia is expected at the level below 2.0 percent, economic growth in Kazakhstan is expected at the level of approximately 3.5 percent in the medium term (2018-

2020). The inflation rate in Russia and Kazakhstan in 2018 and 2019 will remain within the target levels: in Russia - about 4.0 percent, in Kazakhstan - within 6.0-7.0 percent.

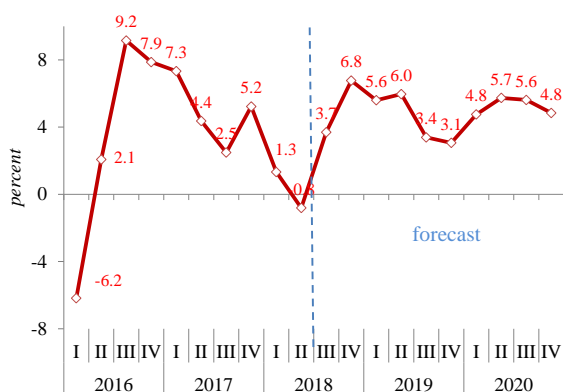
Thus, the assessment of the price movement in the world commodity markets and the prospects for economic growth in the trading partner countries continued generally to form a positive background for the economic growth in Kyrgyzstan.

Uncertainty in the fiscal policy decreases in the medium term. The Law “On the republican budget for 2018” provides for gradual deficit reduction by 2020.

Taking into account the assessments of the external environment and the internal conditions development in 2018 in the medium term, the inflation rate will not exceed the target range of 5-7 percent.

Chart 5.2.1.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



In 2018, the real sector of the economy of Kyrgyzstan will continue demonstrating growth close to the potential level. The negative GDP gap and deflationary impact on the economy during 2018-2019 will be gradually eliminated, provided that the current economic growth rates are retained.

In 2018, the real GDP growth is expected at 3.2 percent; the growth excluding the enterprises of the Kumtor Mine will be approximately 4.2 percent. In the sectoral aspect, the economic growth will be supported by the sectors of processing industry, excluding the Kumtor Mine, agriculture, trade and construction.

In 2019, the real GDP growth rate will be at 3.6 percent, excluding Kumtor, the growth will amount to approximately 5.2 percent.

Chart 5.2.1.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



Baseline inflation in the medium term will remain within the target range of 5-7 percent. In 2018, the average inflation rate (period to period) is expected at approximately 2.5 percent (Dec 2018/Dec. 2017 – approximately 3.5 percent). In 2019, the average inflation value will be approximately 5.0 percent.

At the end of 2018, reversal of the downward inflation trend is expected against the background of price recovery in the world commodity markets and increasing aggregate

demand, price movement in the medium term will demonstrate growth and will be restrained within the target inflation values (5-7 percent).

Forecast for the Balance of Payments in 2018-2019¹.

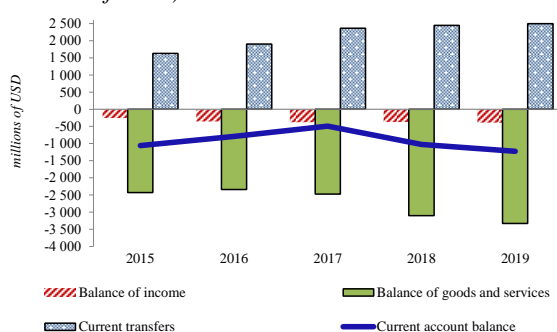
In 2018, the determining factors for development of the external sector in the Kyrgyz Republic were adjusted taking into account the data of the actual period and changed expectations for the economic development in the trading partner countries. The internal factors for a moderate economic growth in the country remain stable. In 2018, the current account deficit was estimated at 13.7 percent to GDP, mainly due to revised forecasts for exports and migrant workers’ remittances. Less increase in exports is expected

¹ The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic.

compared to imports, as well as an increase in the inflow of remittances from migrant workers.

Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)



The results of the first half of 2018 were used as the reason to adjust upwards the export growth up to 5.2 percent. Growth in exports of clothing industry products was the main factor to influence this trend. The decline in gold production at the Kumtor Mine compared to 2017 will cause a decrease in gold exports. The increase in exports excluding gold is still expected positive at 11.7 percent under the influence of an increase in the external demand for domestic products, as well as adaptation to the terms of trade within the framework of

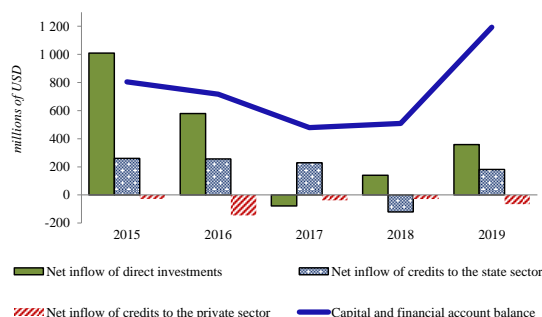
the EAEU.

The increase in imports forecasted in 2018 was revised to be estimated at 17.0 percent against the background of expected economic growth in the country and the upward trend in imports during six months of the current year. Growth in domestic demand will increase imports excluding petroleum products by 19.6 percent. In 2018, the world prices for petroleum products are expected to remain high and the physical volume of supplies is expected to decrease compared to 2017 therefore the volume of petroleum products imports will not change significantly.

The forecast for the private transfers' inflow was adjusted taking into account the data of the actual period and fluctuations in the exchange rate of the Russian ruble to the US dollar. Positive economic growth is still expected in Russia and Kazakhstan, as a result, the net inflow of private transfers is expected to increase by 6.0 percent compared to the level of 2017.

Chart 5.2.1.4. Forecast Data on Capital and Financial Account

(millions of USD)



In 2018, the increase of the current account deficit will cause the growth of financing due to a growth in capital inflows from the capital and financial account. The amount of the one-time write-off of the Kyrgyz Republic debt to the Russian Federation in the amount of USD 240.0 million in Q1 2018 influenced the dynamics of the account indices in 2018. Capital inflows on the financial account are expected on "direct investments" and "other investments" item. Balance of "credits" item will be formed negative primarily under the

influence of reduction in the foreign liabilities of the public sector due to writing-off the Russian credit. The net outflow on the private sector credits is expected to increase compared to 2017 generally due to stable upward trend of payments on previously attracted private sector credits.

Thus, net balance of payments following the results of 2018 is expected to be negative in the amount of USD 21.1 million. Meanwhile, international reserve assets¹ are expected to cover 3.7 months of the future imports of goods and services.

The forecasts of the balance of payments indicators revised in 2018, as well as changed external economic conditions formed the external sector dynamics in 2019.

Stable positive dynamics of the current transfers, a larger increase in imports compared to exports will result in the current account formation at 14.8 percent to GDP. Persistence of external demand against the background of further developing integration processes within the framework of the EAEU will contribute to an increase in exports by 5.5 percent. The upward economic growth in the country will cause an increase in imports by 6.6 percent. Thus, the trade balance deficit is expected to increase by 7.3 percent compared to 2018.

The changed forecasts of the economic growth in the Russian Federation for 2019 had an adjusting impact on the expected volume of private transfers inflow, the growth rate thereof is expected at 4.3 percent.

Inflows on the capital and financial account are expected to increase. The basic amount of funds on this account will be provided by the inflow of foreign direct investments, as well as the credits to the public sector. The upward trend in servicing the credits by the private sector is still observed.

In 2019, the overall balance of payments is expected to be negative in the amount of USD 32.3 million. International reserve assets will cover 3.3 months of the future imports of goods and services.

There are following risks still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2018-2019:

- the risks associated with the Kumtor Mine exploration;
- volatility in the world prices for oil and gold;
- deterioration of the economic situation in the trading partner countries;
- incomplete disbursement of the planned amounts of foreign credits to the public sector;
- volatility in the exchange rate of the main trading partner countries.

¹ In accordance with the IMF methodology, only assets in convertible currencies (US dollar, euro, pound sterling, Japanese yen, Swiss franc, Australian dollar and Canadian dollar) are included in the international reserve assets.

Annex 1. Key Macroeconomic Indicators

(quarter to the corresponding quarter of the previous year, if otherwise is not indicated)

Indicator	Unit of measure	2016				2017				2018	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1. Demand and supply¹											
<i>(real growth rates, if otherwise is not indicated)</i>											
Nominal GDP, per quarter	<i>mln. KGS</i>	79 821,8	107 696,7	139 395,8	149 416,9	90 748,9	113 614,3	147 783,3	168 812,1	98 267,2	115 373,1
GDP	%	-6,2	2,1	9,2	7,9	7,3	4,4	2,5	5,2	1,3	-0,8
GDP, excluding Kuntor	%	1,3	4,2	5,8	4,4	3,0	1,3	3,9	8,9	2,9	1,6
Domestic consumption	%	-2,4	4,6	-0,2	-2,7	1,4	1,7	4,9	3,6	2,2	
Investment	%	-11,4	16,3	5,4	15,3	-2,1	-8,4	0,4	19,1	37,3	
Net export	%	16,0	21,8	-11,2	-15,2	-15,0	-21,6	5,0	9,6	9,4	
<i>GDP production:</i>											
Agriculture	%	0,7	1,6	3,6	3,2	1,1	1,4	2,4	3,0	1,7	1,5
Industry	%	-29,8	-7,7	33,1	31,6	34,2	25,9	4,9	-7,0	0,1	-11,2
Construction	%	13,3	26,5	11,7	-0,3	-8,3	-6,8	2,2	23,0	4,2	7,7
Services	%	2,4	2,3	4,6	3,7	-0,3	0,0	1,7	6,7	1,5	1,5
including trade	%	5,0	5,3	12,6	7,5	1,5	4,2	3,7	3,9	3,7	4,8
2. Prices²											
CPI	%	101,2	100,3	100,5	99,6	101,5	103,9	103,6	103,7	103,1	101,4
CPI, in annual terms as of the end of period	%	100,5	101,3	99,7	99,5	102,8	104,1	103,3	103,7	102,7	100,8
Core inflation	%	103,0	101,8	101,0	99,9	100,3	101,3	101,9	102,1	102,8	103,1
<i>CPI by main groups of goods and services:</i>											
Food products	%	93,6	92,3	93,8	94,4	98,8	104,7	103,8	102,7	101,2	96,5
Non-food products	%	108,5	107,6	105,3	102,4	101,3	101,2	101,3	103,4	103,0	103,2
Alcohol drinks and tobacco products	%	111,7	110,8	110,0	106,5	105,7	102,8	102,3	103,3	106,5	109,1
Services	%	106,5	105,2	104,6	104,4	106,9	107,1	108,3	107,7	106,9	107,3
<i>CPI, classified by character:</i>											
Excisable goods	%	110,0	109,6	108,3	105,4	106,1	103,4	102,7	103,7	106,5	109,2
Regulated prices	%	109,6	109,3	105,2	99,8	98,7	99,4	99,7	100,2	100,6	100,9
Market inflation rate (the rest of CPI)	%	107,8	106,4	105,5	104,2	104,2	104,0	104,6	105,9	105,3	105,5
3. External sector³											
<i>(in percent to GDP)</i>											
Trade balance	%	-35,3	-36,2	-33,8	-31,1	-30,1	-28,6	-31,0	-31,5	-35,3	-36,2
Current transaction account	%	-14,1	-14,7	-11,8	-11,5	-9,6	-7,3	-6,6	-6,5	-10,4	-10,8
Export of goods and services	%	38,2	37,2	37,3	35,7	35,3	36,2	35,4	34,9	34,5	35,6
Import of goods and services	%	75,7	75,6	73,6	69,8	68,2	67,3	68,5	67,6	71,0	72,9
4. USD exchange rate, as of the end of period											
	<i>KGS</i>	70,0158	67,4860	67,9346	69,2301	68,6069	69,1367	68,6585	68,8395	68,4325	68,1800
5. Monetary sector											
<i>(real growth rates, if otherwise is not indicated)</i>											
NBKR policy rate, as of the end of period	%	8,00	6,00	6,00	5,00	5,00	5,00	5,00	5,00	5,00	4,75
Rate of "overnight" deposit, as of the end of period	%	1,00	0,50	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25
Rate of "overnight" credit, as of the end of period	%	10,00	7,50	7,25	6,25	6,25	6,25	6,25	6,25	6,25	6,00
Average interest rates of operations in the interbank credit market, per quarter	%	10,50	2,70	3,76	2,32	2,08	1,65	2,33	2,19	2,73	2,40
<i>of which:</i>											
of REPO transactions	%	9,44	1,59	1,76	1,61	1,56	1,50	2,19	2,14	2,73	2,48
of credits in national currency	%	13,25	7,84	4,11	2,67	2,11	3,10	5,06	6,50	-	0,00
of credits in foreign currency	%	-	-	-	2,0	-	4,00	-	1,25	-	-
Weighted average yield of 7-day notes, as of the end of period	%	2,18	1,44	0,27	0,24	0,61	2,81	1,44	2,79	2,40	2,31
Weighted average yield of 28-day notes, as of the end of period	%	-	-	-	-	1,14	4,08	2,94	4,85	3,83	3,30
Weighted average yield of 91-day notes, as of the end of period	%	-	-	-	-	-	-	5,00	5,00	4,99	4,73
Monetary base	%	17,2	16,7	20,5	27,6	23,3	21,8	22,6	16,9	16,2	6,7
Money outside banks (M0)	%	17,5	18,6	20,6	30,5	28,0	25,1	25,4	21,8	15,7	5,8
Monetary aggregate (M1)	%	21,0	25,5	29,4	38,6	31,7	25,9	24,4	21,0	19,6	10,5
Narrow money supply (M2)	%	17,2	25,8	31,5	40,3	36,2	28,8	27,8	23,7	21,1	14,6
Money supply (M2X)	%	13,1	16,7	15,2	14,6	21,7	19,8	19,1	17,9	16,9	11,6

¹ Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic

² Source: National Statistics Committee of the Kyrgyz Republic

³ Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q2 are preliminary

Annex 2. Glossary

Balance of payments is a report, which reflects aggregate economic transactions between the residents and non-residents within a certain period of time.

Consumer price index reflects changes in the prices for goods and services purchased by the standard consumers for non-production purposes. This index is among inflation rate measures, which is based on comparing the value of basic goods basket consumed by the population and weighted in accordance with the share of these goods in the aggregate consumption.

Core inflation is inflation, which excludes short-term, structural and seasonal changes of prices: the growth in prices of goods due to the seasonal, the external factors and the administratively established tariffs is excluded from the calculation of the inflation rate.

Deposits included in M2X are the deposits of the individuals and legal entities, as well as the deposits of other financial-credit institutions, however, the deposits of the government and non-residents are excluded.

Dollarization is extensive use of the US dollars in the domestic currency circulation of the country, which possess own national currency.

Inflation is the upward trend in the general level of prices within the certain period of time, which is determined based on the value calculation for the basket of goods and services weighted by the structure of consumer expenses of the standard household. The consumer price index is an indicator, which characterizes the inflation rate in the Kyrgyz Republic.

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

M0 – cash in hands.

M1 – M0 + residents' transferable deposits in the national currency.

M2 – M1 + residents' time deposits in the national currency.

M2X – M2 + settlement (current) accounts and residents' deposits in foreign currency.

Monetary base is the obligations of the National Bank on cash in circulation, and the obligations of the National Bank to other depository corporations in the national currency.

Net balance of payments is a difference between receipts from the foreign countries and payments transferred to the foreign countries.

Net balance of trade is a difference between the cost of export and import.

Nominal effective exchange rate (NEER) index is a weighted average value of the nominal exchange rates, which excludes the price tendency in the country under review with respect to the prices in the trading partner countries.

Notes are the discount securities, issued in circulation by the National Bank of the Kyrgyz Republic. By decision of the Monetary Regulation Committee of the National Bank, the notes can be issued for the period from 7 to 364 days. The notes maximum profitability is set to be equal to the policy rate as of the auction day.

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

Policy rate is a monetary policy tool, which represents an interest rate set by the central bank and is used as the basic reference point when determining the value of monetary resources in the economy.

Real effective exchange rate (REER) index represents the weighted average value of the nominal effective exchange rates adjusted by the value corresponding to the relative change in prices in the trading partner countries. REER is determined by calculation of the weighted real exchange rates of the currency in the country with respect to the currencies of the main trading partner countries.

REPO transactions are the operations on purchase/sale of the government securities in the secondary market with an obligation of their resale/repurchase on a certain date in the future at the pre-agreed price.

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 of the Kyrgyz Republic is the issuer of the ST-Bills. Placing issues of the ST-Bills is made through weekly auctions conducted by the National Bank of the Kyrgyz Republic. Direct participants enjoy the right to participate in the auctions. The owners of the ST-Bills of the Kyrgyz Republic can be both the legal entities and the individuals. The admission of the foreign investors to the market of the ST-Bills is not limited. The transactions in the secondary market of the ST-Bills are conducted through the electronic trading system of the National Bank of the Kyrgyz Republic, which allows the participants to conduct transactions on purchase/sale of the ST-Bills 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 one year. The issuer of the ST-Bonds is the Ministry of Finance of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic is the general agent servicing the issues of the ST-Bonds.

Annex 3. Abbreviations

CBRF	Central Bank of the Russian Federation
CPI	Consumer Price Index
ECB	European Central Bank
EAEU	Eurasian Economic Union
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCM	Inter-Bank Credit Market
KR	Kyrgyz Republic
LA	Lending to Agriculture
NBKR	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NEER	Nominal Effective Exchange Rate
NSC	National Statistical Committee
OPEC	Organization for Petroleum Exporting Countries
POL	Petroleum, oil, lubricants
PRC	People's Republic of China
REER	Real Effective Exchange Rate
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America