

**National Bank of the Kyrgyz Republic**

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# **Inflation Report**

**January 2010**

**Bishkek**

## ***Inflation Report***

Editorial Board:

Chairman: Abdybaly tegin S.  
Board members: Urustemov S.A.  
Isakova G.A.  
Aidarova A.K.

Executive Secretary Amanov B.K.

On issues related to the contents of the publication, please, contact:

101, Umetaliev Str., Bishkek  
National Bank of the Kyrgyz Republic  
Phone: (996 312) 669 052  
Fax: (996 312) 610 730  
e-mail: bamanov@nbkr.kg

On issues related to dissemination of the publication, please, contact:

101, Umetaliev Str., Bishkek  
National Bank of the Kyrgyz Republic  
Phone: (996 312) 669 009  
Fax: (996 312) 610 730  
e-mail: pr@nbkr.kg  
<http://www.nbkr.kg>

This publication contains a description of consumer price developments in the republic and its regions (oblasts), the analysis of key inflation factors, informs on monetary policy decisions of the National Bank of the Kyrgyz Republic and provides an inflation forecast for the forthcoming period. The report is published quarterly in Kyrgyz, Russian and English languages.

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

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

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

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

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

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

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

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## Chapter 1. Economic situation in the Kyrgyz Republic

### 1.1. Demand and supply on commodities and services market

#### 1.1.1. Demand

According to the preliminary data for 2009 the volume of GDP at current prices was Som 196.4 billion (US\$ 4.6 billion), having increased by 2.3 percent in real terms compared to the volume of GDP for 2008 (according to the NSC specified data in 2008 real growth was 8.4 percent<sup>1</sup>). In per capita terms, the volume of GDP was Som 38.3 thousand (US\$ 888), being by 1.3 percent more than in the previous year.

**Table 1.1.1. Real GDP growth rates by expenditure**

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

	2008				2009		
	I	II	III	IV	I	II	III
<b>Consumed GDP</b>	<b>5,2</b>	<b>6,1</b>	<b>5,9</b>	<b>8,4</b>	<b>0,2</b>	<b>0,3</b>	<b>2,9</b>
Final consumption	15,1	15,7	14,8	10,8	-1,3	-6,9	-0,8
Individual consumption	16,0	16,8	15,7	11,5	-1,6	-7,2	-0,9
Households	17,9	19,1	17,7	13,4	-1,7	-8,0	-0,9
NCOSH	1,6	-1,9	-2,0	-14,4	-6,3	-4,3	-5,1
Public institutions	1,0	0,7	1,0	0,7	0,1	-0,3	-0,2
Collective consumption	1,8	1,7	1,7	2,3	4,1	-2,6	0,3
Gross capital formation	-14,7	-13,8	-5,9	13,9	-22,6	-22,8	-18,0
Net export of services and goods	37,7	32,4	42,6	21,1	-20,7	-42,7	-36,5
Export	-1,2	12,3	8,1	9,1	-3,2	5,6	0,1
Import	13,7	20,2	20,4	13,6	-11,1	-16,6	-15,6

Source: NSC

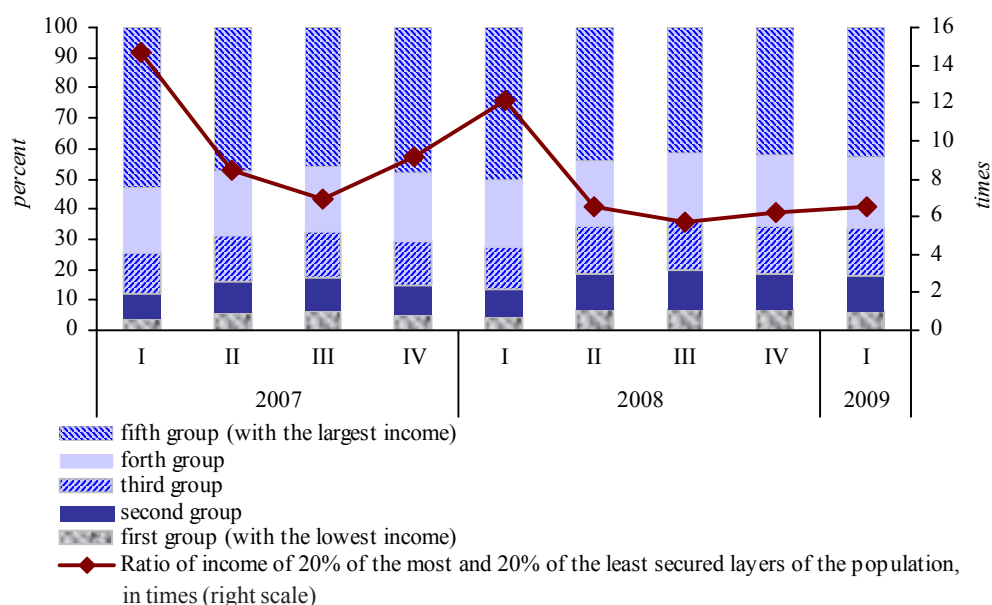
Note: Only final numbers for 2008 were updated, therefore, the preliminary data are given in a quarterly breakdown.

According to the preliminary data, real growth of wages was 7.8 percent in January to November 2009 against 8.8 percent for the similar period of 2008. During 2009, the slowdown in growth of monthly average wages was observed both in the republic as a whole, and in its regions.

A differentiation of household income remains still high. A distribution of the total volume of cash earnings by 20 percentage groups of the population develops in favor of highly remunerative groups. For instance, according to the outcome for the first quarter of 2009, the share of income of the most well-to-do group was 43.0 percent of the total volume of household income, having thus decreased by 7.4 percentage points compared to this indicator in the similar period of 2008. The share of income of 20 percent of the least privileged population grew by 2.4 percentage points and was 6.6 percent.

<sup>1</sup> NSC updated and revised the GDP totals for 2008.

**Chart 1.1.1. Composition of household money income by quintile groups**  
(from the beginning of the year)



According to the preliminary data for 2009, an inflow of funds of individuals through transfer systems was noted to decrease. The total volume of the net inflow in January to December of 2009 decreased by US\$ 245.0 million or by 21.5 percent as against this parameter in 2008.

**Table 1.1.2. Remittances of individuals in money transfer systems\***  
(million US dollars)

	2005	2006	2007	2008	2009**
<b>Balance</b>	<b>270,8</b>	<b>430,3</b>	<b>625,5</b>	<b>1 138,2</b>	<b>893,2</b>
<b>Inflow</b>	<b>297,7</b>	<b>470,0</b>	<b>688,2</b>	<b>1 205,5</b>	<b>966,7</b>
CIS countries	262,8	436,7	648,8	1 141,4	894,4
Kazakhstan	0,2	0,0	7,0	27,9	31,4
Russia	262,6	436,6	641,8	1 113,5	862,9
Other	0,0	0,0	0,0	0,1	0,0
Non-CIS countries	34,9	33,4	39,4	64,1	72,3
Belgium	0,0	0,0	0,1	0,5	0,5
Great Britain	0,9	0,9	0,9	1,8	1,4
Germany	0,0	0,0	0,1	0,2	0,7
USA	33,9	32,2	38,3	61,4	69,5
Other	0,0	0,1	0,0	0,2	0,3
<b>Outflow</b>	<b>26,9</b>	<b>39,7</b>	<b>62,7</b>	<b>67,3</b>	<b>73,6</b>
CIS countries	25,2	38,5	60,2	65,0	71,8
Kazakhstan	0,0	0,0	0,2	2,5	0,7
Russia	25,2	38,4	60,0	62,5	71,1
Other	0,0	0,0	0,0	0,0	0,0
Non-CIS countries	1,7	1,2	2,5	2,3	1,8
Belgium	0,0	0,0	0,1	0,1	0,2
Germany	0,0	0,0	0,2	0,4	0,4
USA	1,1	1,1	2,1	1,7	1,1
Other	0,5	0,1	0,1	0,1	0,1

<sup>1</sup> Anelik, Blizko, Contact, Migom, MoneyGram, Western Union, Unistream, Zolotaya Korona, Leader, Sibcontact, Bystraya Pochta, Allyur and other money transfer system and remittances via the PE "Kyrgyzpochtasy"

\*\*preliminary data

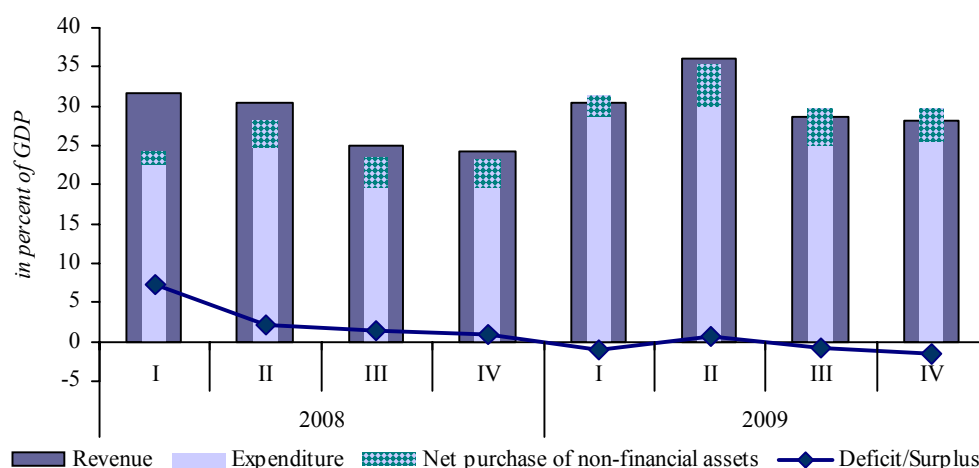
According to the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, the state budget deficit was Som 2.9 billion or 1.5 percent of GDP in 2009; excluding grants received from foreign states the budget was executed with the deficit of Som 13.1 billion or 6.7 percent of GDP.

Total state budget expenditures for operating activities were Som 50.0 billion in 2009. Most of budget expenditure continues to be directed to consumption and financing of operating expenditures, which are not reduced in view of structural problems. For instance, expenditures for wages and contributions to the Social Fund of the Kyrgyz Republic, as well as for social benefits were 44.5 percent of total state budget expenditure for operating activities.

Besides an increase in operating expenditure in the period under review, growth was also noted in budget transfers for operations on purchases of non-financial assets. A net outflow of funds on these operations was Som 8.2 billion, having thus increased by 17.8 percent as against the similar parameter in 2008.

In 2009 state budget revenue and received official transfers were Som 55.3 billion or 28.2 percent of GDP. Compared to this parameter of the corresponding period of the previous year, growth rates reduced and amounted to 21.6 percent, being considerably below a mid-annual level of growth of income and received official transfers for the recent five years. In this case, positive growth rates of state budget revenue were due to, basically, receipt of Som 10.2 billion official transfers from foreign organizations and states, in particular, from the Russian Federation – Som 6.4 billion.

**Chart 1.1.2. State budget implementation**  
(from the beginning of the year)



According to the outcome for 2009, the volume of investments in fixed assets grew by 19.7 percent compared to the similar parameter of 2008 and was Som 38.7 billion. In the composition of investments in fixed assets 10.7 percent fell on construction of the Kambarata HES-2 and 24.4 percent – for housing construction, of which individual construction was 17.9 percent of the total volume of investments.

By sources of financing, construction of the Kambarata HES-2 is financed through the state budget (by 48.5 percent), credits of banks (by 49.0 percent), and the funds of

enterprises and organizations (by 2.5 percent). Investments in housing construction are financed, basically, through the funds of the population.

**Table 1.1.3. Investments in fixed assets by sources of financing**

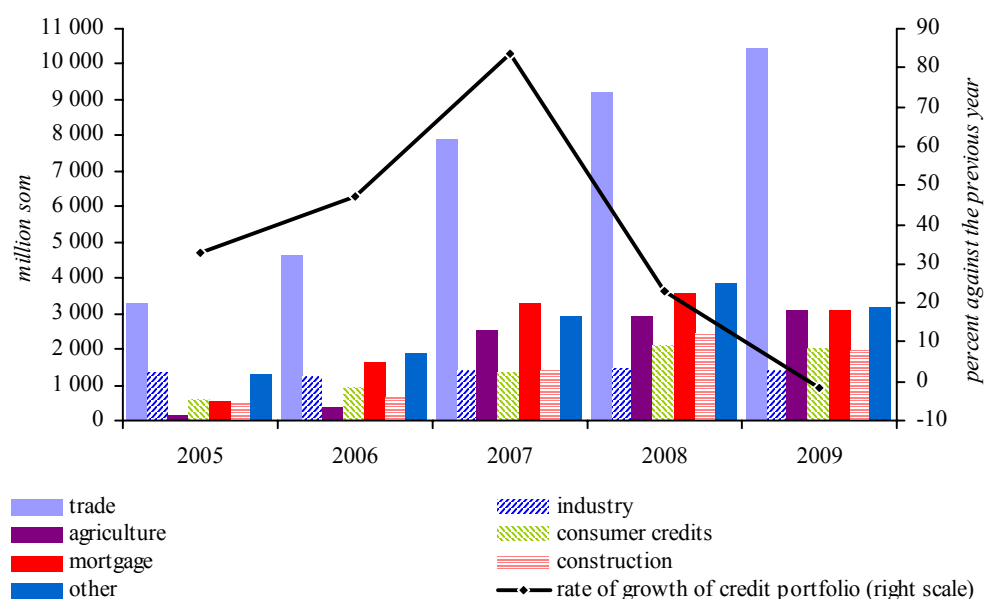
	mln. Som		in percent of total	
	2008	2009	2008	2009
<b>Total</b>	<b>32 535,0</b>	<b>38 690,5</b>	<b>100,0</b>	<b>100,0</b>
<b>Domestic investment</b>	<b>20 810,5</b>	<b>28 708,2</b>	<b>64,0</b>	<b>74,2</b>
State budget (including emergency funds)	3 543,1	4 746,2	10,9	12,3
Local budget	573,5	743,3	1,8	1,9
Funds of enterprises and organizations	7 459,4	9 210,7	22,9	23,8
Bank credit	267,3	2 324,3	0,8	6,0
Household savings	8 967,2	11 683,3	27,6	30,2
Charity aid	0,0	0,4	0,0	0,0
<b>Foreign investment</b>	<b>11 724,5</b>	<b>9 982,3</b>	<b>36,0</b>	<b>25,8</b>
Foreign credit	4 137,2	5 931,1	12,7	15,3
Foreign direct investment	6 410,3	2 866,4	19,7	7,4
Foreign grants and humanitarian aid	1 177,0	1 184,8	3,6	3,1

Source: NSC

Having decreased as compared to the similar parameter in 2008 by 1.5 percent, the volume of a loan portfolio of banks amounted to Som 25.2 billion at the end of 2009 (in 2008 the loan portfolio increased by 22.8 percent). The slowdown in economic activity in the country and the region and, as a consequence, increased risks connected with uncertainty concerning a financial condition of borrowers of banks was, finally, a principal cause of the reduction in the loan portfolio. The reduction in lending to practically all sectors, except for trading operations and agriculture, was noted in the loan portfolio allocation of banks. For instance, lending to construction was reduced by 19.8 percent, while credits to this sector grew by 70.6 percent in 2008. Mortgage lending was reduced by 14.1 percent, with the share of loans on mortgage in the loan portfolio allocation having decreased from 14.0 percent in 2008 to 12.2 percent in 2009.

**Chart 1.1.3. Sectoral commercial bank loan portfolio allocation**

(end-of-period)



Alongside with this, in 2009 credits from nonbank finance and credit institutions grew notably. For instance, according to the preliminary data, the NFCI loan portfolio reached Som 13.8 billion at the end of 2009, being by 86.8 percent more than in 2008. Basically, growth resulted from financing of construction and mortgage lending from the Development Fund of the Kyrgyz Republic, however, growth of lending was noted in other sectors of the NFCI loan portfolio either.

**Chart 1.1.4. Sectoral NFCI loan portfolio allocation**

(end-of-period)



### 1.1.2. Supply

The main contribution to GDP growth in 2009 was made by agriculture, transport and communications, and construction and trade. In 2009 the basic volume of aggregate supply of goods and services resulted from agricultural produce (22.1 percent of the total volume of GDP), trade (16.4 percent), industrial output (14.4 percent), and transport and communications (9.1 percent).

However, as a whole, from the beginning of the year essential growth retardation was observed in the economy, caused by, mainly, damping of demand for industrial output from principal trading partner countries (Kazakhstan, Russia, China) and the low, compared to 2008, volume of extraction of gold at the Kumtor.

**Table 1.1.4. Input of specific activities to growth/reduction in GDP**

	2008		2009	
	rate of growth, percent	input in growth, p.p.	rate of growth, percent	input in growth, p.p.
<b>Gross Domestic Product</b>	<b>8,4</b>	<b>8,4</b>	<b>2,3</b>	<b>2,3</b>
Gross value added	8,4	7,3	2,4	2,1
Agriculture, hunting & forestry	0,9	0,2	7,4	1,7
Mining industry	9,1	0,0	4,7	0,0
Processing industry	21,2	2,1	-7,8	-1,0
Electricity, gas, and water generation and distribution	-7,4	-0,2	-1,3	0,0
Construction	10,8	0,4	6,3	0,3
Trade, repair	9,6	1,7	1,8	0,3
Hotels and restaurants	13,3	0,2	4,0	0,1
Transport and communication	31,1	2,3	5,1	0,4
Financial activity	5,5	0,0	6,3	0,1
Real estate transactions, rent	10,2	0,3	0,0	0,0
Public administration	2,9	0,1	5,0	0,2
Education	1,4	0,1	1,1	0,0
Health and provision of social services	-0,4	0,0	-0,4	0,0
Provision of utility and personal services	-0,8	0,0	-3,6	-0,1
Net tax on products	8,4	1,1	2,3	0,3

Source: NSC

According to the outcome for 2009, total output in agriculture grew by 7.4 percent compared to the similar parameter of 2008 and made the most notable contribution to growth of the economy. Growth of agricultural produce was caused by a high grain crop capacity. For instance, in the republic, as a whole, grain (post-processing weight) was collected by 27.7 percent more than in 2008, the crop capacity of grain and beans, including corn, was 29.3 quintals from one hectare in 2009 (post-processing weight), against 23.2 quintals from one hectare in 2008 (with the prices of wheat having decreased from Som 11.4 for 1 kg at the beginning of the year to Som 6.1 for 1 kg in December 2009).

The turnover of trading operations grew, according to the outcome for 2009, by 0.6 percent against 9.6 percent according to the outcome for 2008, with growth of a value added in trade was 1.8 percent. According to the outcome for 2009, the structure of this sector indicated the slowdown in growth of retail trade to 0.9 percent as compared to 9.1 percent in 2008. According to the outcome for 2009 and compared to the similar parameter of 2008, turnovers of wholesale trade also decreased – by 3.9 percent. The principal reason for a recession in trade in 2009 is that of the decrease in the consumer demand and business activity in the region, as a result of a negative impact of the world crisis.

**Table 1.1.5. Dynamics and structure of trading operations**

	2008		2009	
	rate of growth, percent	share, percent of the total	rate of growth, percent	share, percent of the total
<b>Trade</b>	<b>9,6</b>	<b>100,0</b>	<b>0,6</b>	<b>100,0</b>
Trade in cars and their spare parts	15,3	3,3	-2,4	3,5
Car maintenance	12,1	0,6	10,4	0,6
Retail trade in motor oil	13,6	7,8	19,7	7,1
Wholesale trade	8,6	35,6	-3,9	34,5
Retail trade	9,1	52,5	0,9	53,9
Repair of household appliances	23,8	0,3	-1,1	0,3

Source: NSC

According to the NSC, the outcome for 2008 indicates that growth of labor productivity was 106.8 percent. A dynamics of labor productivity for the recent years shows some signs of growth. This being the case, a significant disbalance in the parameters of growth of labor productivity and real wages still remains, that, theoretically, implies an additional inflationary pressure in the economy.

**Table 1.1.6. Labor productivity by economic activities**

(in percent against the previous year)

	2004	2005	2006	2007	2008
<b>Gross Domestic Product</b>	<b>104,6</b>	<b>97,1</b>	<b>102,2</b>	<b>105,6</b>	<b>106,8</b>
Agriculture, hunting & forestry	105,8	96,8	106,9	104,1	100,7
Fishery and fishing	118,1	97,6	250,2	101,0	477,2
Mining industry	90,3	97,5	97,2	84,6	110,7
Processing industry	97,0	76,9	79,2	105,2	122,4
Production and distribution of electric power, gas and water	93,6	99,6	98,2	99,8	94,0
Construction	88,2	96,3	100,9	116,9	102,5
Trade, repair	114,0	105,5	112,3	107,9	108,7
Hotels and restaurants	90,0	92,6	119,7	94,9	99,9
Transport and communication	104,6	99,8	105,4	130,3	130,5
Financial activity	95,8	105,4	103,1	106,3	84,2
Real estate transactions, rent	90,9	95,1	95,7	83,5	101,5
Public administration	101,5	100,9	101,1	96,3	108,0
Education	99,9	100,7	104,4	97,7	101,7
Health and provision of social services	98,6	103,6	96,6	102,5	99,5
Provision of utility and personal services	96,9	99,1	96,2	115,4	86,4
<b>Reference items:</b>					
<b>Real growth of wages</b>	<b>112,3</b>	<b>111,8</b>	<b>112,7</b>	<b>119,0</b>	<b>109,2</b>
<b>Real growth of GDP</b>	<b>107,0</b>	<b>99,8</b>	<b>103,1</b>	<b>108,5</b>	<b>108,4</b>

Source: NSC

## 1.2. Monetary trends

### Monetary base

The monetary base as of January 1, 2010, was Som 41.6 billion, having thus increased in nominal terms by 13.9 percent in the fourth quarter of 2009 (in the fourth quarter of 2008 the increase was 0.6 percent), and the year-on-year monetary base increased by 18.3 percent.

In the fourth quarter of 2009, the monetary base changed both due to the operations of the National Bank, which increased the monetary base by Som 134.5 million, and the operations of the Government, which increased the monetary base by Som 4.9 billion (in the fourth quarter of 2008 the increase in the monetary base was Som 207.6 million, with the operations of the Government having increased the monetary base by Som 781.4 million, and the NBKR operations having reduced the monetary base by Som 573.8 million).

Money in circulation as of January 1, 2010, was Som 35.7 billion, having thus increased by 14.9 percent in the fourth quarter of 2009 (in the fourth quarter of 2008 the increase was 0.6 percent). Growth of money in circulation on the annualized basis was 16.0 percent.

As compared to early-2009, share of money in circulation in the structure of the monetary base reduced from 87.6 to 85.9 percent at the end of December 2009, with the share of funds on correspondent accounts of commercial banks with the NBKR therefore increased from 12.4 to 14.1 percent.

### M2 Aggregate

M2 money supply was Som 43.5 billion as of January 1, 2010, having thus increased by 14.4 percent for the fourth quarter of 2009 (in the fourth quarter of 2008 the reduction of M2 was 2.8 percent). Year-on-year growth of money supply M2 was 13.8 percent.

Growth of the volume of the M2 monetary aggregate was caused by the increase in currency in hands by 15.1 percent and deposits in national currency by 12.3 percent. In this regard, the increase in the volume of other deposits (time deposits) was 18.4 percent, and the transferable deposits (demand deposits) – by 9.3 percent.

### M2X Aggregate

Having increased by 15.3 percent in the fourth quarter of 2009, the volume of M2X broad money, including the deposits in foreign currency, was Som 57.1 billion as of January 1, 2010, (in the similar period of 2008 the reduction of M2X was 1.9 percent); year-on-year M2X broad money increased by 17.9 percent.

A change in M2X broad money in the fourth quarter of 2009 resulted from the increase in the total volume of deposits<sup>1</sup> by 15.7 percent (with that, the increase in the deposits in foreign currency was 18.2 percent, and in national currency – 12.3 percent) and

<sup>1</sup> According to the banking system analytical data sheet, the deposits comprise only the deposits of individuals and legal entities, as well as the deposits of other finance and credit institutions, with the Government deposits and the deposits of nonresidents excluded.

currency in hands by 15.1 percent (in the fourth quarter of 2008, the change in M2X was observed due to the increase in currency in hands by 0.4 percent and the decrease in the total volume of deposits by 5.4 percent).

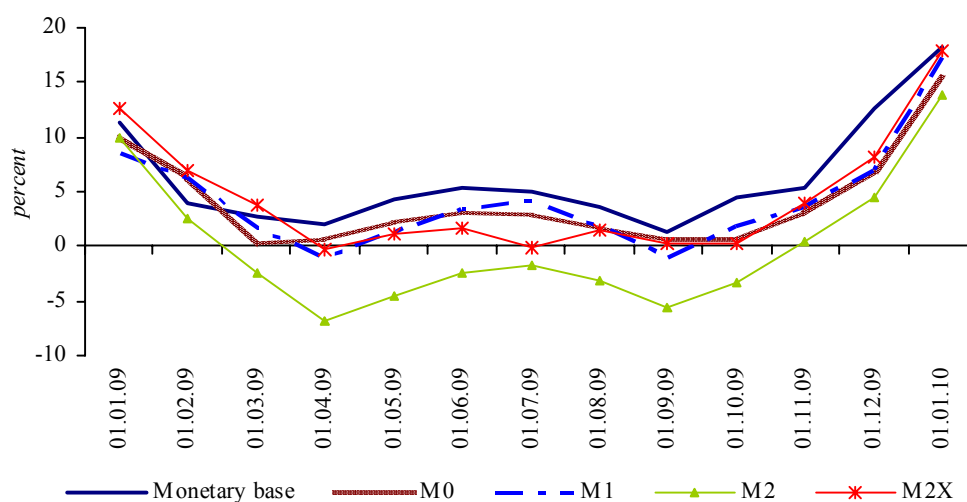
The M2X currency mix as of end-December 2009, as compared to early-2009, changed as follows:

- The share of currency in hands decreased from 60.6 to 59.3 percent;
- The share of deposits in national currency decreased from 18.2 to 16.8 percent;
- The share of deposits in foreign currency increased from 21.1 to 23.9 percent.

Multiplier of broad money M2X describing a degree of financial intermediation slightly decreased compared to the beginning of the year and as of January 1, 2010, was 1.374 (as of January 1, 2009 – 1.378).

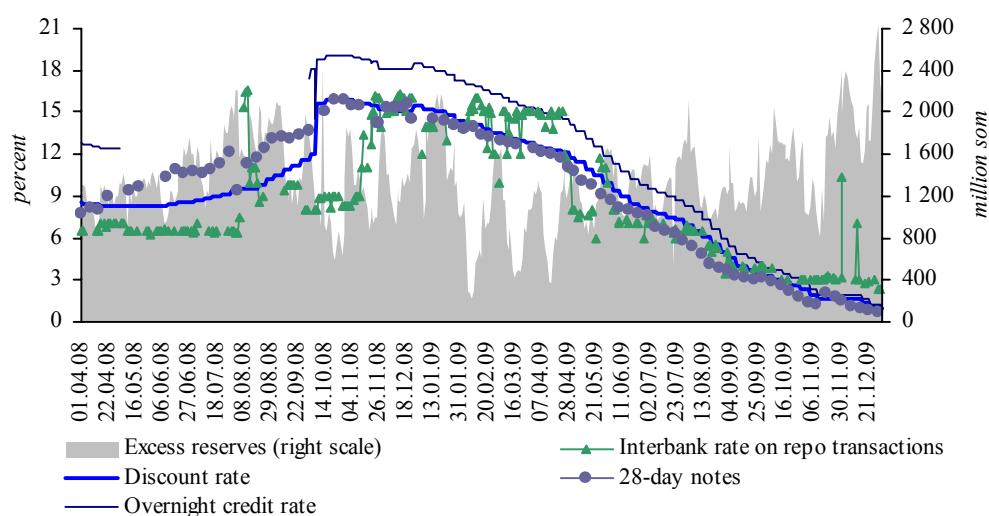
Velocity of M2X broad money in circulation was 4.2 as of January 1, 2010 (as of January 1, 2009 – 4.1). The factor of monetization of the economy, calculated on M2X monetary aggregate, was 24.0 percent (as of January 1, 2009 – 24.5).

**Chart 1.2.1. Annual nominal growth rates of monetary aggregates**



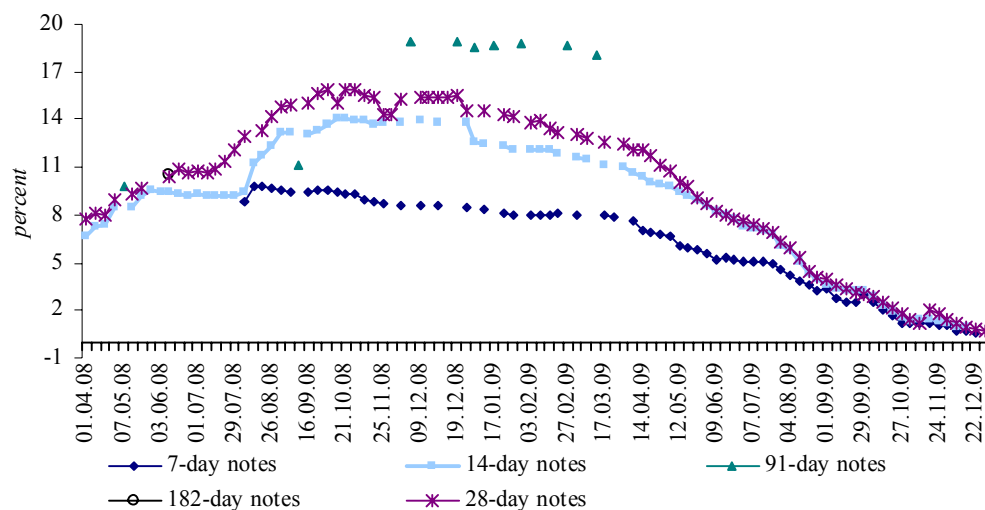
Interest rates in all segments of the financial market still showed the downward tendency in the fourth quarter of 2009 that was caused by the strong demand for Government securities against the increase in liquidity in the commercial banks, as well as by the continued decrease of inflation rate in the country.

Chart 1.2.2. Dynamics of money market rates



In October to December 2009 the National Bank continued to use NBKR Notes as a tool of withdrawal of excess liquidity from the banking system, having slightly reduced in this case sales of its notes. At the same time, under the conditions of the increased level of liquidity in the commercial banks, the demand for the notes from investors remained high, thereby promoting the further decrease in the yield of these securities in the period under review. Only in October and November, due to short-term fluctuations of excess reserves in the banks, the reduction was noted in the demand that led to the fluctuations of their yield. As a whole for the fourth quarter of 2009 the average yield of 7-day notes in relation to the third quarter yield decreased by 2.6 percentage points to 1.2 percent, 14-day NBKR Notes – by 3.4 percentage points to 1.5 percent, and in a segment of 28-day notes – by 3.5 percentage points to 1.6 percent. Compared to the similar period of 2008, the yield of 7-day NBKR Notes decreased by 7.7 percentage points, that of 14-day notes – by 6.4 percentage points, and that of 28-day notes – by 8.2 percentage points. Auctions on placement of 91 and 182-day NBKR Notes were not held.

Chart 1.2.3. Dynamics of the yield of the NBKR notes

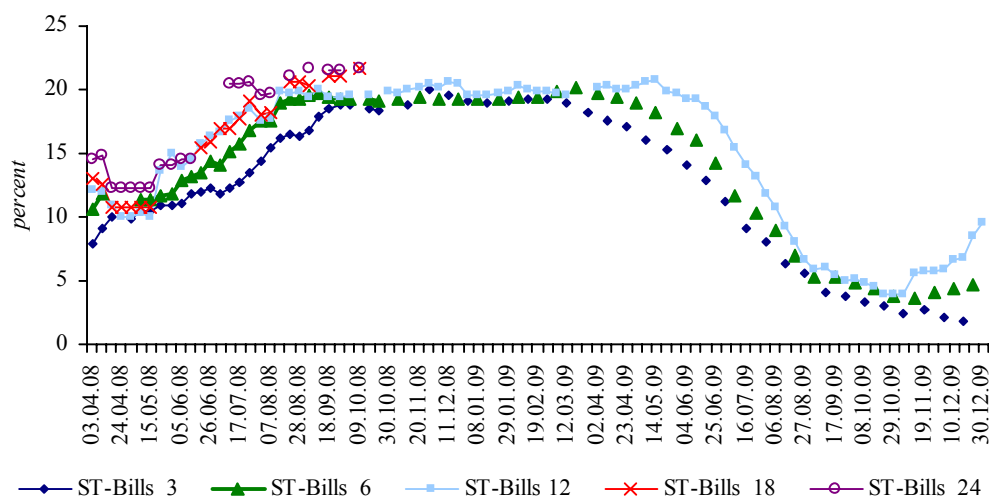


Discount rate, which developed at the recent four auctions and is defined as the average value of the yield of 28-day NBKR Notes, came down to the lowest record value in the period under review, being at the end of the year 0.9 percent and it is lower than the early-quarter parameter by 2.4 percentage points. The rate of overnight credits was 1.1 percent at the end of the period. In the quarter of account the National Bank extended the overnight credits to the commercial banks in the amount of Som 630.0 million with the average rate of 2.0 percent.

As part of the policy of expanding and increasing terms of tools to finance the current state budget deficit, in October, the Ministry of Finance started to place the Government Treasury Bonds with two year maturity. In this regard, due to novelty of the given securities, as well as a short-term nature of liquidity in the commercial banks the number of investors remains insignificant. However the demand was quite high, thereby exceeding the supply at practically all of the auctions. Some lessening of demand was noted with regard to only the second auction in November and was connected with a weakening of activity of one of the basic investors. As a whole for the fourth quarter placement of GT-Bonds totaled Som 974.8 million, with their average yield being 9.0 percent.

On the primary market of GT-Bills, in connection with issuance into circulation of the new tool of financing the state budget, an emitter slightly reduced the volumes of placement of GT-Bills. At the same time, the demand for these securities, compared to the third quarter, decreased noticeably as a result of a lessening of demand in November and its fluctuations in December. It led to some volatility of the yield of these securities in November and December. On the average for the quarter the total average yield of GT-Bills in all segments of the market decreased by 3.7 percentage points to 5.1 percent, including the yield of 3-month GT-Bills decreased by 3.9 percentage points, amounting to 2.6 percent, 6-month GT-Bills – by 3.8 percentage points to 4.3 percent, and the average yield of 12-month GT-Bills decreased from 9.5 to 5.8 percent. The general level of the yield of GT-Bills decreased compared to this parameter in the fourth quarter of 2008 by 14.5 percentage points, and the reduction in the yield was observed in all of the segments of the market.

Chart 1.2.4. Dynamics of yield of ST-Bills



Situation in the interbank credit market was defined, as earlier, by the fluctuations of the level of excess reserves in the commercial banks, as well as interest rate developments in other segments of the money market. Accordingly, in the fourth quarter of 2009 against decrease of interest rates in other segments, as well as disinflation, the interest rates in the interbank credit market continued to display the downward tendency. In this regard, the increase in maturity of transactions concluded in December caused some growth of the value of borrowed funds during this period. As a whole, activity in the interbank market of credit resources slowed down in the fourth quarter of 2009. The bulk of operations, concluded in the segment of transactions on repo terms grew in volume by 1.6 percent to Som 2.1 billion, while the volume of simple credit operations in national currency decreased by 63.1 percent to Som 108.7 million. For the quarter under review the interest rate of repo operations, compared to this rate in the third quarter, decreased by 2.1 percentage points and was 3.4 percent, while that of interbank credits in national currency decreased by 3.3 percentage points to 1.9 percent. Compared to the average interest rate of repo operations in the fourth quarter of 2008, this rate decreased by 8.7 percentage points, while that of interbank credits in national currency – by 7.9 percentage points

With regard to the segment of operations in foreign currency, the average interest rate in the domestic interbank credit market was 3.7 percent, indicating the decrease by 1.4 percentage points.

In the quarter under review, the NBKR did not hold auctions on sale of ST-Bills(s) on repo terms, as well as a swap-operation with the commercial banks. The commercial banks did not place the funds on the time deposit accounts with the NBKR.

### **1.3. External economic conditions**

#### **Trade Balance**

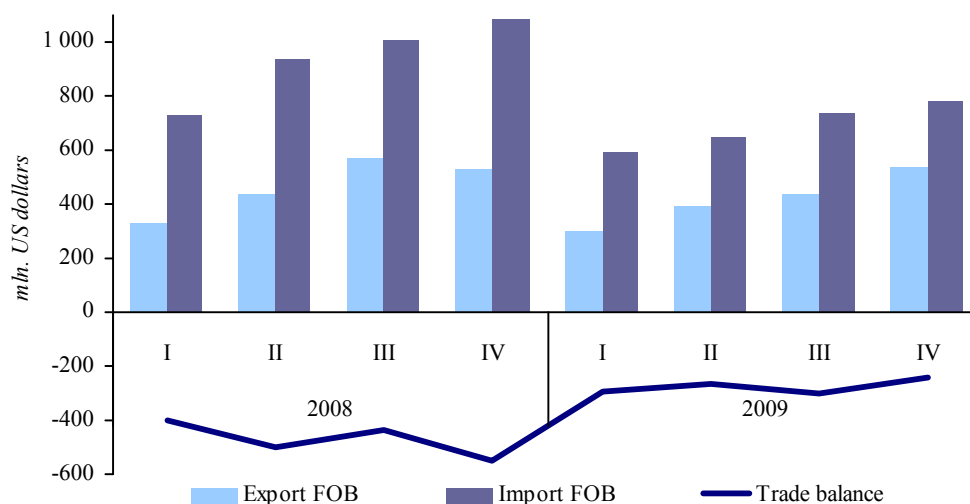
Based on the preliminary data for the fourth quarter of 2009, the trade balance of the Kyrgyz Republic developed as negative at the rate of US\$ 241.0 million, having thus decreased by 56.3 percent as compared to the similar parameter in the fourth quarter of 2008.

External sales volume<sup>1</sup> was US\$ 1.3 billion in the fourth quarter of 2009, having thus decreased by 18.7 percent compared to this parameter in the similar period of 2008. The given tendency developed, mainly, on impact of import operations, whose volume in the period under review decreased by 28.3 percent, while export showed the positive tendency – growth by 0.8 percent. The commodity turnover with the CIS countries decreased by 13.0 percent and with the non-CIS countries – by 23.5 percent in the fourth quarter of 2009.

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<sup>1</sup> NSC and SCC data including NBKR adjustments

Chart 1.3.1. Foreign trade



Export of goods (at FOB prices)<sup>1</sup> in the analyzable period developed in the volume of US\$ 535.8 million that exceeds the given parameter by US\$ 4.3 million for the similar period of 2008. Export to the CIS countries decreased by 15.1 percent, and to the non-CIS countries – increased by 12.5 percent. Export of gold in the period under review grew in terms of value by 27.6 percent and was US\$ 245.5 million. Export excluding gold decreased by 14.4 percent and was at the level of 290.3 million US\$.

According to the functional structure<sup>2</sup> in the fourth quarter of 2009 the largest share of export fell on the noncapital goods – 58.6 percent of the total volume of exports. The volume of exports in value terms in this category was US\$ 280.8 million, by 18.4 percent exceeding this parameter for the fourth quarter of 2008. The commodity composition of noncapital goods was dominated by export of gold to Switzerland, which increased by 27.6 percent in the fourth quarter of 2009 and was US\$ 245.5 million and was caused by a rise in prices of the given precious metal. In this regard, the volume of its deliveries was reduced by 16.4 percent. In the quarter of account the deliveries of artificial cement and rolled glass were reduced by almost 99.0 percent. The volume of deliveries of iron-and-steel and nonferrous waste was in terms of value US\$ 1.3 million, having decreased by 55.6 percent due to the falling prices and the reduction in the volume of exports.

Export of raw material in the period under review grew by 3.4 percent and was US\$ 73.7 million. The basic goods in the given category were inorganic chemical substances, whose export increased by 22.4 percent to US\$ 55.0 million, with the volume of their export having increased 2.6 times. Due to the decrease in the volume of deliveries export of tobacco raw material was reduced by 87.8 percent and was US\$ 0.5 million. Export of cotton grew by 4.1 percent and was US\$ 13.9.

Deliveries of consumer goods to the foreign markets were reduced by 10.7 percent and developed in the volume of US\$ 63.0 million. There was no export of jewels in the quarter of account, while in the similar period of 2008 the volume of such operations

<sup>1</sup> NSC and SCC data including NBKR adjustments

<sup>2</sup> NSC and SCC data including NBKR adjustments

was US\$ 8.0 million. Export of fruit and nuts decreased by 20.3 percent or by 1.7 million US\$, and the volume of deliveries grew by 6.8 percent. The deliveries of margarine and combined fats were reduced by 67.8 percent or by US\$ 2.1 million. Growth was observed in export of garments and apparel accessories (by 6.0 percent or by US\$ 1.1 million), electric lamps (by 29.2 percent or by US\$ 1.4 million) and vegetables (by 16.6 percent or by US\$ 2.5 million).

Export of energy resources in the fourth quarter of 2009 decreased by 40.8 percent and was observed to be US\$ 50.6 million. The given tendency speaks for the reduction in re-export of mineral oil to the third countries by 48.2 percent or by US\$ 40.4 million. Export of electricity increased 10.2 times or by US\$ 6.3 million in the fourth quarter of 2009, and the volume of deliveries grew 6.9 times.

The principal partners of the Kyrgyz Republic in export in the fourth quarter of 2009 were Switzerland (51.5 percent of the total volume of exports), Russia (10.7 percent), Kazakhstan (9.4 percent), Uzbekistan (7.7 percent), the USA (3.9 percent), Turkey (3.6 percent), and France (3.2 percent).

Import of goods<sup>1</sup> at FOB prices was US\$ 776.8 million in the fourth quarter of 2009, against US\$ 1 083.7 million in the fourth quarter of 2008. Import from the CIS countries was reduced by 12.1 percent, and from the non-CIS countries – by 42.7 percent.

In the period under review the largest category in the functional structure of import<sup>2</sup> was that of consumer goods (31.5 percent of the total volume of imports), whose receipts were US\$ 265.2 million. In this regard, import in the given category was reduced by 39.9 percent, due to the decrease in nonfood import receipts of, mainly, cars (the decrease by 80.9 percent or US\$ 127.4 million), garments and apparel accessories (by 70.2 percent or US\$ 38.8 million), footwear (by 76.0 percent or US\$ 19.9 million), medicines (by 21.9 percent or US\$ 6.9 million). The food products were represented by basically such goods, as chocolate products (the reduction in import by 19.9 percent or by US\$ 4.3 million), meat and meat products (increase by 48.8 percent or by 4.8 million US\$), sugar (the 2.6 times increase or by US\$ 3.8 million), vegetable oil (the reduction by 3.1 percent or US\$ 0.3 million), and fruit (the increase by 13.5 percent or by US\$ 1.1 million).

Import of energy resources in the fourth quarter of 2009 decreased by 16.2 percent and was US\$ 231.3 million. In the quarter under review, import of crude oil was US\$ 0.4 million against US\$ 12.8 million in the similar period of 2008. The decrease was noted in the volume of imports, in value terms, of jet fuel and diesel fuel by 22.3 and 8.2 percent, accordingly, while the volume of the deliveries of these types of fuel increased on the average by 21.9 percent. Import of motor petrol increased by 13.6 percent and was US\$ 80.5 million, with its volume having remained unchanged. Import of natural gas in terms of value was reduced by 60.3 percent and developed in the volume of US\$ 11.5 million, while the volume of its import decreased by 88.2 percent. Import of coal was reduced by 32.6 percent and was US\$ 6.5 million.

<sup>1</sup> NSC and SCC data including NBKR adjustments

<sup>2</sup> CIF import including the adjustments totaled US\$ 841.5 million, the deficit of balance of trade – US\$ 305.7 million

Noncapital goods were imported in the fourth quarter of 2009 in the volume of US\$ 185.6 million, being by 15.4 percent less than this parameter in the similar period of 2008. In the structure of the given category, import receipts decreased with regard to such basic goods, as pig-iron and steel and their products (by 22.2 percent or by US\$ 7.0 million), fabrics (by 31.9 percent or by US\$ 6.8 million), parts and accessories of cars (by 59.7 percent or by US\$ 7.8 million). Growth of import was observed with regard to such goods, as fertilizers (by 8.7 percent or by US\$ 0.6 million), the condensed wood (by 31.5 percent or by US\$ 1.7 million), and rubber tires (by 38.6 percent or by US\$ 2.8 million).

Import of investment goods decreased by 27.3 percent and was 116.0 million US\$, including import receipts of telephone sets, special lorries and cars, various equipment, and manual and machine tools.

Import in the category of raw material decreased by 44.5 percent and was US\$ 43.4 million in the fourth quarter of 2009. The largest commodity in the given category was that of grain, whose receipts were reduced by 65.3 percent or by US\$ 28.7 million.

The large-scale suppliers of imported products in the accounting period were Russia (38.1 percent of the total volume of imports), China (19.1 percent), Kazakhstan (9.5 percent), and Uzbekistan (3.3 percent).

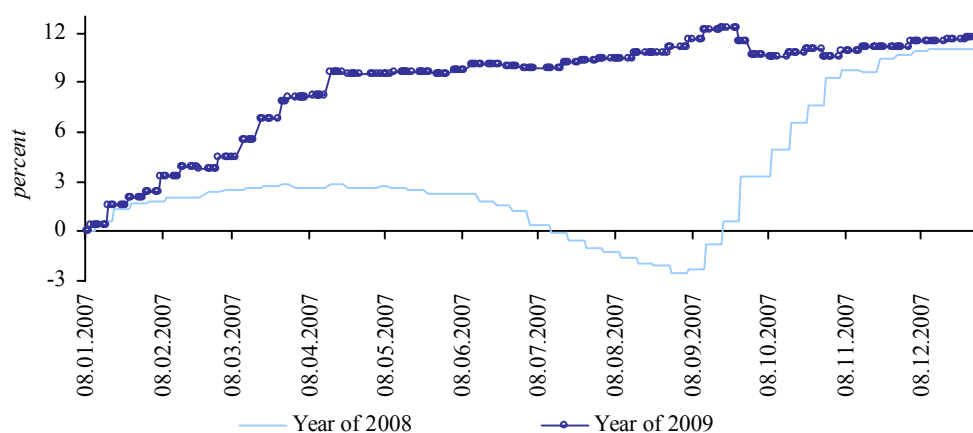
#### **1.4. Exchange rate**

Various fluctuations in the rate of the national currency were registered in the foreign exchange market in the fourth quarter of 2009. This was determined by changes in the supply of and the demand for US dollars in the domestic market, as well as by its behavior on the foreign markets. In this regard, under the conditions of the permanent negative trade balance, the demand for foreign exchange remained strong. Therefore, the tendency of the US dollar appreciation in the domestic market was prevailing. With the view of maintaining stability of the national currency, the NBKR conducted US dollar sale and purchase operations at the interbank foreign exchange sales. For the fourth quarter the sales by the NBKR of US dollars increased by 9.5 percent, amounting to US\$ 20.8 million, while the volume of operations on purchase of US dollars was US\$ 9.8 million and it is below the level of the similar parameter for the third quarter by 74.5 percent.

The average dollar exchange rate at the foreign exchange sales for the quarter grew by 1.2 percent and at the end of December was 44.0742 Som/US\$. The dollar exchange rate in exchange bureaus increased by 1.7 percent, amounting to 44.2341 Som/US\$.

Official exchange rate of US dollar by end of the year amounted to 44.0917 Som/US\$, having thus increased by 1.1 percent since the beginning of the quarter, and its annual growth was 11.9 percent (according to the outcome for the fourth quarter of 2008, the official dollar exchange rate was by 39.4181 Som/US\$, having thus increased for the quarter by 7.5 percent).

Chart 1.4.1. Rates of change of an official rate of US dollar



Dynamics of the rate of Euro formed, as before, on impact of its exchange rate developments on the foreign markets. In October to November, the rate of Euro in exchange bureaus had been, mainly, growing, however, in December it was noted to appreciably depreciate and allowed the rate of Euro to return approximately to the level of its rate at the beginning of the quarter. As a whole for the fourth quarter the rate of sale of Euro slightly grew (by 0.02 percent), being 63.9915 Som/Euro at the end of December. The official rate at the end of the period was by 63.5229 Som/Euro, having thus decreased by 0.8 percent for the period.

## Chapter 2. Inflation and its components

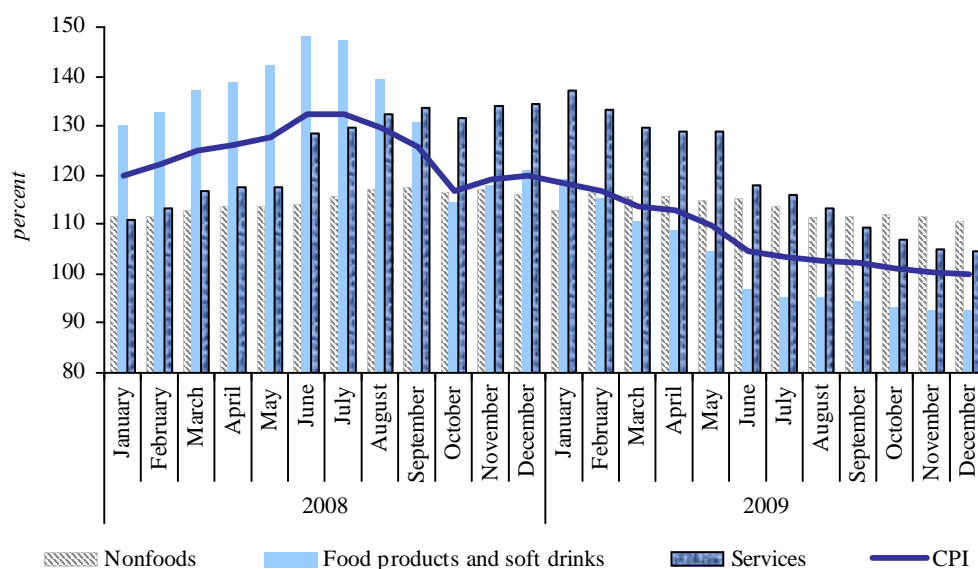
### 2.1. Consumer price index development by components and regions

In the fourth quarter of 2009 growth of the overall price level in the republic was 1.7 percent (in the fourth quarter of 2008 growth was 3.8 percent). The consumer price index of food products also grew – by 1.9 percent, strong drinks and tobacco products – by 0.8 percent, nonfoods – by 2.2 percent, and marketed services – by 0.3 percent.

Annual inflation rate (December 2009 to December 2008) was 0.0 percent, with 20.0 percent for the similar period of the previous year.

Reasons for slowing down of inflation were that of the absence of price shocks in the world food and energy markets, weakening of the domestic and external demand, as well as the anti-inflationary measures undertaken by the National Bank and the Government.

Chart 2.1.1. Annual CPI and its components

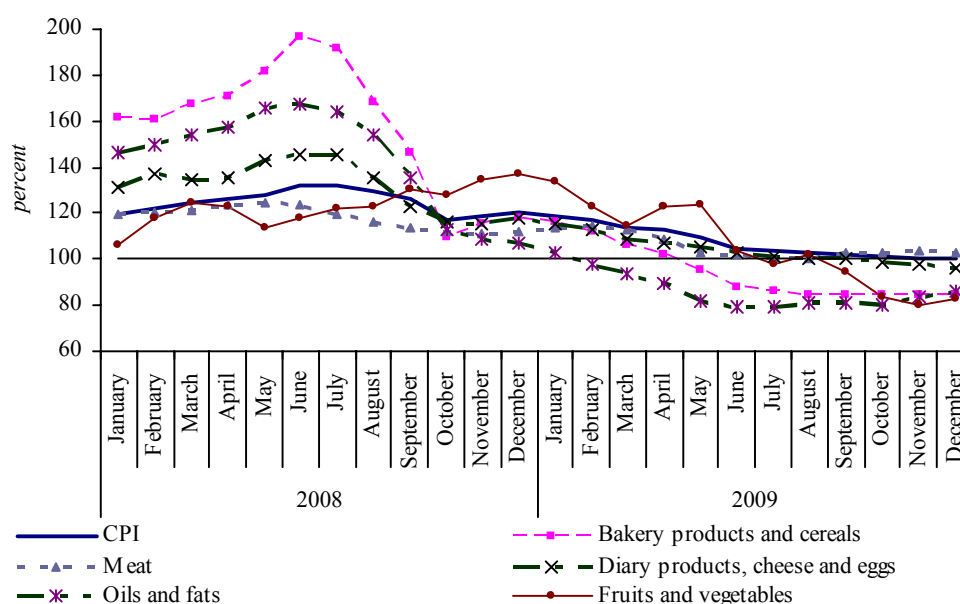


Food price behavior still remains the factor forming the general level of consumer prices given their significant share in consumer spending (50 percent). Food and soft drink prices show their drop by 7.4 percent in annual terms. Growth of prices was registered with regard to other groups of goods. The most significant rise in price was noted with regard to the nonfoods (10.4 percent) and market services (4.4 percent); and growth of prices of strong drinks and tobacco products was 5.2 percent.

#### 2.1.1. Food products

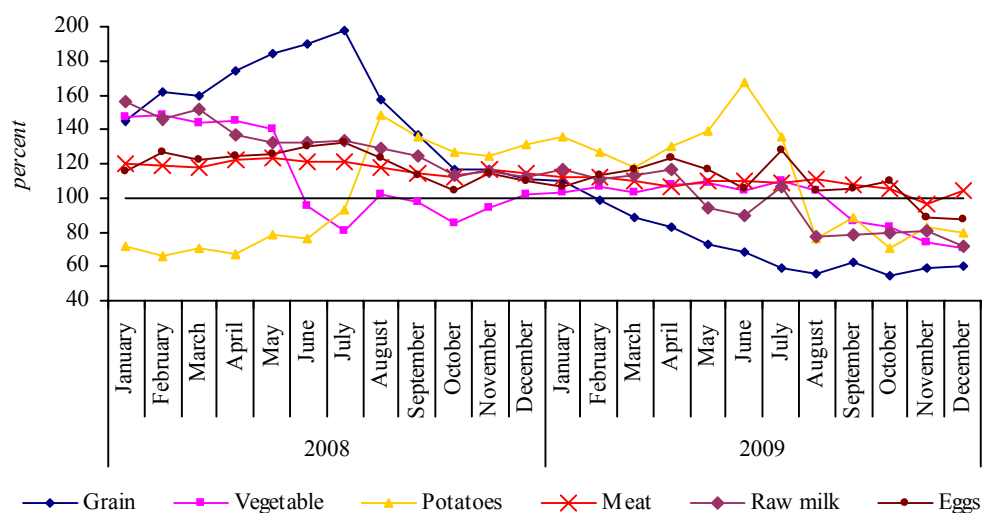
Prices of food products are subject to a strong influence of both external and internal factors. Therefore the downward tendency in the world markets reflected on also the domestic price situation. The food products fell in price by 7.4 percent in 2009 (in 2008 growth of prices was 20.9 percent). Reduction of food prices resulted from the reduction of prices of bakery products and cereals (-15.4 percent), oils and fats (-14.0 percent), as well as fruit-and-vegetable products (-17.4 percent).

Chart 2.1.2. Annual dynamics of food prices



In 2009, a good corn crop collected in Kyrgyzstan together with good carryover stocks positively influenced the overall food price behavior. The producer prices of agricultural produce decreased almost by all types of goods. For instance, the year-on-year decrease in the producer grain prices was 39.2 percent, vegetables – 29.5 percent, potatoes – 20.8 percent, and eggs – 12.7 percent. The meat prices however continued to rise (+ 3.9 percent).

Chart 2.1.3. Annual dynamics of the producer price index of certain types of agricultural products



The flour prices also decreased in the consumer market. For instance, year-on-year price index of bread, bakery products, and cereals indicated the decrease by 15.4 percent (in 2008 – growth by 18.2 percent), including the drop in the bread price by 12.1 percent. The highest rates were observed in the first and top grade flour price reduction by 29.2 and 24.4 percent, accordingly, which continued to fall.

Substantial growth of prices of fruit-and-vegetable products (+11.6 percent) was observed in the fourth quarter, traditional for the given period, of which fruit grew in price by 12.0 percent, and vegetables – by 11.3 percent. However, year-on-year fruit prices decreased by 9.7 percent, and those of vegetables – by 23.9 percent.

During the whole period of 2009 the world sugar prices grew at the high rates, and in December the new maximum value was registered for the period since 2006. As a whole for 2009, the world sugar prices grew 2.2 times and were reflected on the domestic market as well: growth of prices of this product was 26.1 percent from the beginning of the year in the republic. Both world and domestic shortages of this product placed pressure on the rise in sugar prices. At present, the need for sugar for the population of the Kyrgyz Republic is 116 thousand tons per year, while, as of December 1, 2009, sugar supply was 74 percent, including 3.7 percent – due to domestic production. According to information of the NSC in 2009, domestic sugar production was 5.6 thousand tons of sugar, being by 5.1 thousand tons lower than this parameter in 2008. In 2010 it is projected to produce 35-36 thousand tons of sugar. The price of imported sugar during the period of April to December 2009 increased from US\$ 505 to US\$ 633 (+US\$ 128 or 25 percent).

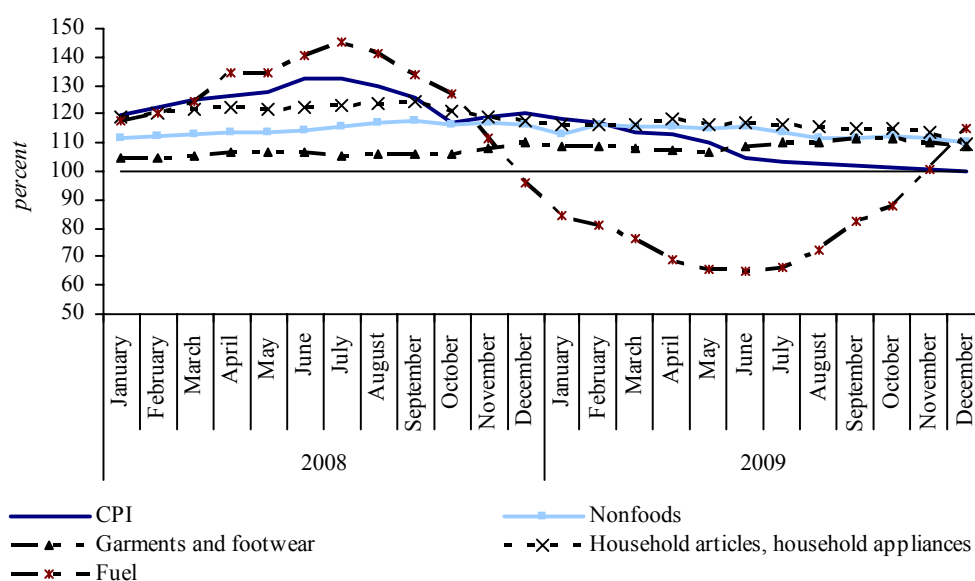
Growth was registered in the domestic market of meat products for the recent 12 months of overall production of basic products of animal husbandry, including growth of output of cattle and poultry to flatten (live weight basis) by 1.5 percent. This became the limiting factor of growth meat prices (+2.7 percent in 2009 against +11.9 percent in 2008).

After the sharp rise in price of fats and oils in 2008, the price of goods in the given group had been decreasing practically throughout the whole year of 2009. At the end of 2009, the market prices of oils and fats were registered to decrease (-14.0 percent), in a greater degree, as a result of the drop in price of imported products.

In the fourth quarter of 2009 by virtue of seasonal factors, the increase was observed with regard to the consumer prices of dairy produce by 5.2 percent, whereas for the similar period of the previous year this group of goods rose in price by 9.3 percent. Dairy produce fell in price by 3.9 percent on the annualized basis.

### **2.1.2. Non-food products**

Though slightly slowed down, growth of the nonfood price index continued to remain high, amounting to 10.4 percent in 2009 (16.0 percent for 2008). For instance, the prices of garments and footwear increased by 8.5 percent due to, basically, the rise in price of inputs in production of garments by 48.0 percent. Growth was also noted in the prices of household goods and household appliances – by 9.6 percent. The principal cause of such a price behavior was that of the rise in price of household textile products by 41.0 percent, whose prices are under pressure of import prices.

**Chart 2.1.4. Annual dynamics of prices for non-food goods**

Downward trend of the world oil prices changed to the upward one exerts pressure on cost of petroleum products imported in the republic. Acceleration of growth of POL prices that started in the third quarter of 2009 was still there in the fourth quarter as well. For instance, the prices of gasoline grew by 4.2 percent and those of diesel fuel – by 9.9 percent. The year-on-year cost of the POL in the domestic market (December 2009 against December 2008) increased by 14.7 percent, of which gasoline rose in price by 23.0 percent, while diesel fuel fell in price by 13.5 percent.

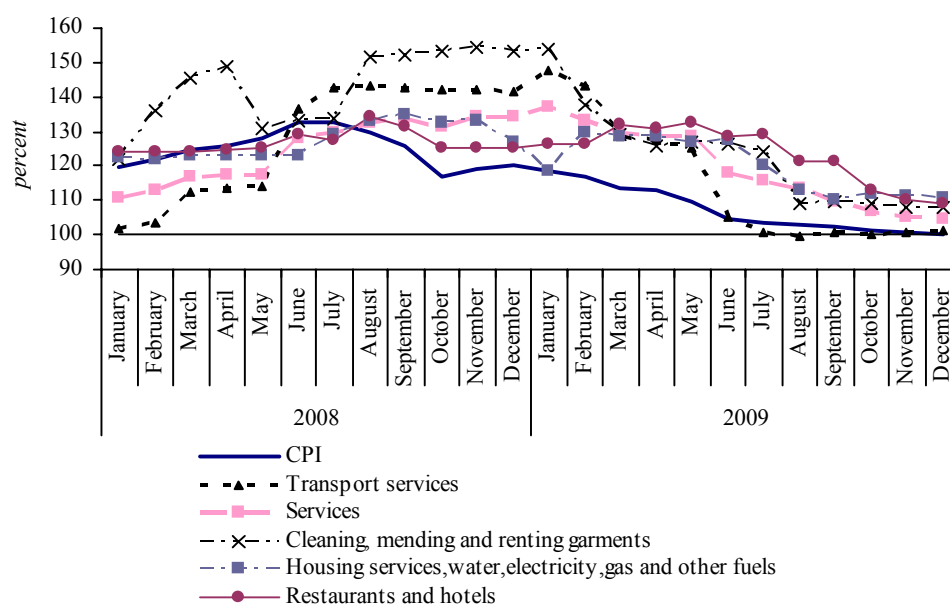
### 2.1.3. Services

In 2009, service prices indicated annual growth by 4.4 percent (in 2008 – by 34.4 percent). Growth of the index in the given group was due to, mainly, the rise in price of services of restaurants and hotels (+9.3 percent). The level of the public catering services prices remains high, despite the food cost reduction<sup>1</sup>, that, most likely, indicates the persistent influence of secondary effects of the rise in price of the general price level for the recent years.

The rise in prices was also observed with regard to housing services, which during the year grew by 11.0 percent. The cost of transport services increased year-on-year by 1.3 percent. In turn, growth of prices of education services was 1.8 percent, those of public health services – 10.7 percent, while the communication services fell in price by 7.2 percent.

<sup>1</sup> According to the NSC KR data, the costs of restaurants and hotels referred to the category “raw material and materials, purchased and integrated parts, semi-products” amounted to 14.3 percent.

Chart 2.1.5. Annual dynamics of prices for paid services

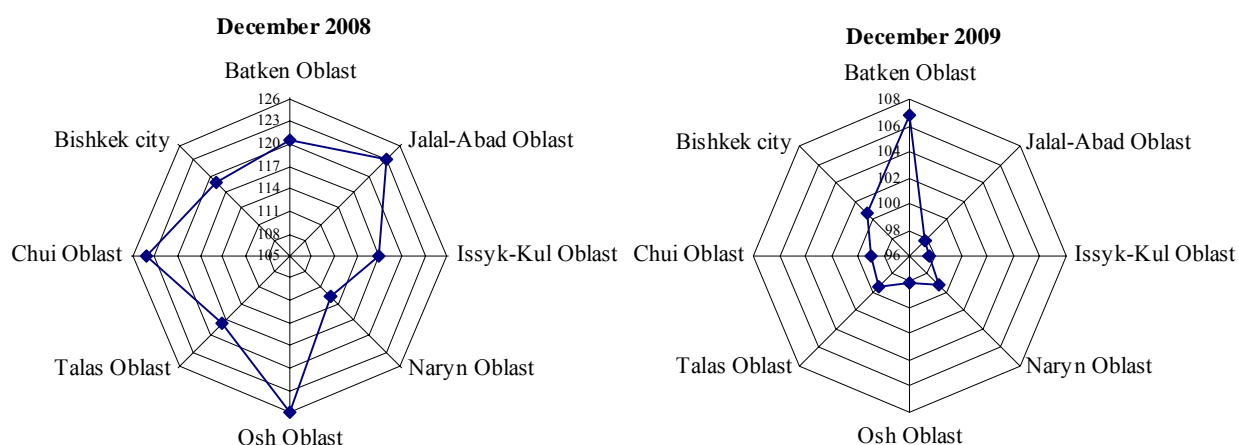


#### 2.1.4. Consumer prices in the regions

According to the outcome for 2009, deflation was observed in almost all of the regions of the republic, except for the Batken region. Prices were noted to the most significant decrease in the Jalal-Abad and Issyk-Kul regions, by 2.2 and 2.6 percent, accordingly. The major factor of the decrease in the overall price level in these regions was that of the reduction in price of food products and moderate growth of service prices. In other regions, deflation did not exceed the level of 2 percent. For instance, in Naryn, Osh, Talas and Chui regions the consumer prices decreased by 0.8 percent, 1.9 percent, 0.6 percent and 1.1 percent, accordingly.

In the capital of the republic, growth of prices was noted to be 0.5 percent, with the food products having fallen in price by 7.7 percent, and strong drinks, nonfoods and services having grown in price by 3.6 percent, 12.0 percent and 6.4 percent, accordingly.

Chart 2.1.6. Annual CPI in the regions



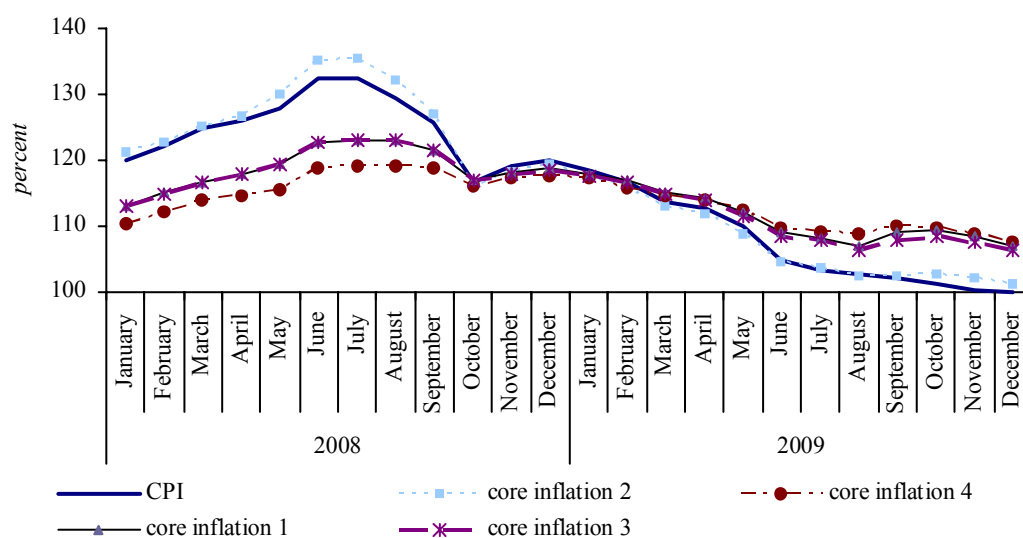
## 2.2. Core inflation

Core inflation is defined as the trend of inflation excluding short-term, structural, and seasonal changes in prices. That means that growth of prices of goods, caused by the seasonal or external factors such, as poor harvest, a price shock in the market of petroleum products, administrative changes in gas and electricity tariffs are removed from the calculation of the rate of inflation.

Dynamics of core inflation calculated by means of the method of simple exclusions is described below. This method implies the removal of categories or the whole group of goods and services, highly sensitive to shocks, from CPI. Traditionally, such goods comprise some food products, energy resources and the tariffs, administratively established by the Government.

Dynamics of core inflation in 2009 confirms that circumstance that the key factor of inflation in the republic is that of the food prices, in particular, of bakery products and cereals, oils and fats, and fruit and vegetables. For instance, the specifies rates of core inflation 1, core inflation 3 and core inflation 4 reached the average values of 7.0 percent, whereas the general consumer price index was zero percent in 2009.

Chart 2.2.1. Annual dynamics of the current core inflation indicator



Core inflation 1 – the following types of goods are excluded: 1) bakery products and cereals; 2) oils and fats; 3) fruit and vegetables; 4) gas; and 5) materials for repair and construction.

Core inflation 2 – the following types of goods are excluded: 1) meat; 2) fruit and vegetables; 3) gas; and 4) materials for repair and construction.

Core inflation 3 – the following types of goods are excluded: 1) bakery products and cereals; 2) dairy products; 3) fruit and vegetables; 4) gas; and 5) materials for repair and construction.

Core inflation 4 – food products and electricity, gas, and other types of fuel are excluded fully.

## Chapter 3. Monetary Policy Decisions of the National Bank of the Kyrgyz Republic

### 3.1. Major decisions of the NBKR Board

List of basic monetary policy solutions of the Board of the National Bank of the Kyrgyz Republic taken in the fourth quarter of 2009 is presented below:

1. To assess the current situation, the Board of the NBKR considered and approved on November 18, 2009, the monetary policy report for the period of January to September 2009 (Resolution No 46/3). An informative subset of the document was directed to the Central Agency of the Kyrgyz Republic for Development, Investments and Innovations, Jogorku Kenesh of the Kyrgyz Republic, Office of the Government of the Kyrgyz Republic, Ministry of Finance and Ministry of Economic Regulation of the Kyrgyz Republic, as well as was placed on the official web-site of the NBKR.
2. December 16, 2009, the Board of the NBKR:
  - with a view of conducting the relevant monetary policy in the forthcoming period, Monetary Program for the Forthcoming Period, containing scenarios of development of the economy for the forthcoming period (Resolution No 49/4) was considered and approved;
  - due to increased uncertainty caused by structural reforms in the area of state regulation, a horizon of defining basic monetary policy guidelines was narrowed from three years to one. For instance, Main Monetary Policy Guidelines for 2010 was approved and was developed in view of the tendencies in the world financial and commodity markets, conditions of conducting the monetary policy, and small scales and the high degree of openness of the economy of the Kyrgyz Republic. An informative subset of the document was directed to the Central Agency of the Kyrgyz Republic for Development, Investments and Innovations, Jogorku Kenesh of the Kyrgyz Republic, Office of the Government of the Kyrgyz Republic, Ministry of Finance and Ministry of Economic Regulation of the Kyrgyz Republic, as well as was placed on the official web-site of the NBKR (Resolution No 49/6);
  - the “Statement of the National Bank of the Kyrgyz Republic about the Monetary Policy for 2010” was considered to develop the “Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic about the Financial and Social and Economic Policy for 2010”.
3. As part of the work to improve a technique of deriving the monetary parameters and in view of requirements of international standards on a compilation of monetary and financial statistics, on December 28, 2009, the Board of the NBKR approved the new edition of the Regulation “On the Analytical Balance Sheet of the National Bank of the Kyrgyz Republic” (Resolution No 51/1).
4. For instance, with a view of enhancing efficiency in activity of the LLC «Specialized

Fund for Refinancing of Banks», the Board of the NBKR took a number of decisions in conformity with clause 43 of the Law «On the National Bank of the Kyrgyz Republic» and clause 5 of the SBRF Charter.

### **3.2. Major decisions of the Monetary Policy Committee**

The Monetary Policy Committee (further – the Committee) develops and takes operative decisions in the monetary sphere. The decisions are taken by the Committee weekly and are based on findings of the money market situation assessment. The volumes of operations directed to regulate liquidity in the banking system in the fourth quarter of 2009 were defined by the Committee proceeding from the goals and objectives determined by the Board of the NBKR and specified in the Statement of the NBKR about the Monetary Policy for 2009, in Main Monetary Policy Guidelines for 2009-2011 and in the monetary program for the forthcoming period, as well as taking into account the state of affairs in the banking system and the situation in the fiscal sphere.

In the fourth quarter of 2009, Committee held 13 meetings. The decisions of the Committee were aimed at regulating liquidity in the banking system by holding the weekly auctions of NBKR Notes with maturity of 7, 14, 28 days, whose indicative sales were set at the rate of Som 5.5 billion.

The actual sales of NBKR Notes totaled Som 5.2 billion in the fourth quarter. Net NBKR sales<sup>1</sup> of US dollars for the quarter under review totaled Som 486.4 million.

Besides, according to the Resolution of the Board of the NBKR No 37/1 of September 8, 2009, once a month, the Monetary Policy Committee establishes the base rate for the purposes of lending to the LLC “Specialized Fund for Refinancing of Banks”. The size of the interest rate of SBRF credit resources is equated to the base rate with the adjustment factor, depending on the sector of lending. For instance, in the fourth quarter of 2009 the base rate was remained at the level of 8.0 percent. On December 28, 2009, the base rate for the purposes of lending to the Fund was left unchanged for January 2010 according to the decision of the Committee – at the level of 8.0 percent.

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<sup>1</sup> The NBKR follows the floating exchange rate policy adopted by the Kyrgyz Republic.

## Chapter 4. Inflation forecast

### 4.1. Forecast of key inflation factor developments

According to the outcome for 2009, growth of GDP in real terms was 2.3 percent, against 8.4 percent in 2008. The slowdown in economic development is caused by the negative economic situation in the region.

In 2010 the basis for development of the economy will be still formed by such sectors as services, agriculture and industry, whose share in production of all goods and services will be the largest one.

In case of the economic recovery in the region, growth rates of industrial production in 2010 will appear positive, however, restoration of pre-crisis rates of growth is improbable.

In 2010 the increase in agricultural production is expected within the range of 2.5-3.0 percent, considering the high base of the previous year and negative price developments in the sector at the end of 2009.

More dynamic development is expected in the sphere of services due to restoration of the consumer demand in the republic and principal trading partner countries.

As a whole, considering the current situation and based on the outcome for 2009, in 2010 it is possible to expect more dynamic development of basic sectors of the national economy that will allow to provide real rate of growth in the economy at the level of 5.0 percent.

**Wheat.** According to the January forecast of the US Ministry of Agriculture (USDA), world production of wheat in the 2009/10 marketing year will make 676.1 million tons due to, basically, the increase in the forecast of production across Russia by 2.2 million tons. The forecast of wheat consumption was adjusted downward to 644.5 million tons. In this regard, the final stocks of wheat in the world in 2009/10 MG will make 195.6 million tons. According to a survey conducted by the Reuters, the situation that developed in the sphere of wheat production will entail the decrease in its value by 2.8 percent to US\$ 5.27 for one bushel by the end of 2010.

Total collection of grain and beans (post-processing weight) was 97.0 million tons in Russia in 2009, being by 10.3 percent less than in 2008, of which total collection of wheat was 61.7 million tons against 63.7 million tons in 2008. According to statements of officials, Russia has a significant export potential in the international grain markets and could export from 25 to 30 million tons of grain a year. The average prices of wheat of the third grade were 113 US\$ in the domestic market of Russia as of January 21, 2010, being by US\$ 11 for ton or by 10 percent lower than the December quotations. The prices decrease under pressure of the low market prices and the demand.

According to the Kazakhstan Ministry of Agriculture, 20.8 million tons of grain and beans (post-processing weight) were collected in 2009 in the republic, of which 82 percent was wheat (17.1 million tons). As of January 1, 2010, the stocks of wheat were 16.4 million tons.

**Rice.** According to the recent estimates of the National Bureau of Statistics of China and the outcome for 2009, total collection of early rice reached 33.3 million tons, being by 5.3 percent above the similar parameter of the previous year.

According to the KR NSC, Kyrgyzstan collected 20.7 thousand tons of rice in 2009 and it is by 3.0 thousand tons more than the similar parameter of the previous year. According to the preliminary data, import of rice in Kyrgyzstan totaled 63.0 thousand tons in 2009, of which 59.0 thousand tons are delivered from China at the price of US\$ 339.0 for one ton (the average price of rice imported from China in 2008 was US\$ 274.6 for one ton).

**Sunflower oil.** According to the USDA, in the 2009/10 marketing year production of sunflower oil will make 11.3 million tons, and consumption – 11.2 million tons. The carryover residual stocks will increase by 0.1 million tons and will make 0.8 million tons.

**Sugar.** According to the January report of the Food and Agricultural Organization of the United Nations, production of sugar in the world will slightly be restored against the more favorable weather. According to the forecast, 159.7 million tons of sugar will be produced in the 2009-2010 agricultural year in the world as compared to 154.7 million tons in the previous year. Nevertheless, output of sugar in this agricultural year will, most likely, remain below the level of consumption according to the outcome for the successive second year and this will lead to the reduction in the world reserves. The deficit of sugar is estimated at the level of 3 million tons.

The cost of sugar at the London stock exchange continues to display an upward trend: as of January 26, 2010, its price was US\$ 744 for one ton, being by 3.1 percent above the level at the beginning of 2010. However according to the Reuters forecasts the price of sugar will decrease to US\$ 640 for one ton by end-2010.

**Oil.** The prices recently observed with regard to the oil futures continue to decrease on impact of negative macroeconomic statistics from the USA, testifying to the more essential, than expected, growth of unemployment, and the data on the decrease in retail sales in December 2009, having jointly delayed the expected recovery in the US economy. However, as a whole, the market stays within the range of the price corridor, which formed at the beginning of the first half of the year 2009. In opinion of some analysts, oil quotations will fluctuate within the range of US\$ 70-85 for one barrel. These quotations will be maintained at this level by both the investment demand for raw assets, and more fundamental reasons, namely, the demand from China, which, according to the outcome for 2009, increased import of oil by 14.0 percent, and based on the results of 2010, growth by 10-13 percent is expected in this parameter.

*Source: Reuters*

## 4.2. Inflation forecast for 2010 and quarter I of 2010

Unclear prospects of world economic recovery and macroeconomic imbalances in the economies of principal trading partner countries bring uncertainty in the short-term forecasts of macroeconomic parameters of the republic.

As a whole, the economic situation for the forthcoming year of 2010 assumes gradual restoration of business activity both in the world, and in the region. Owing to stabilization of the world economy, the upward price tendencies are expected in the markets of food products and energy resources – for example, the rise is expected in the prices of grain, energy resources, sugar and other derivative goods.

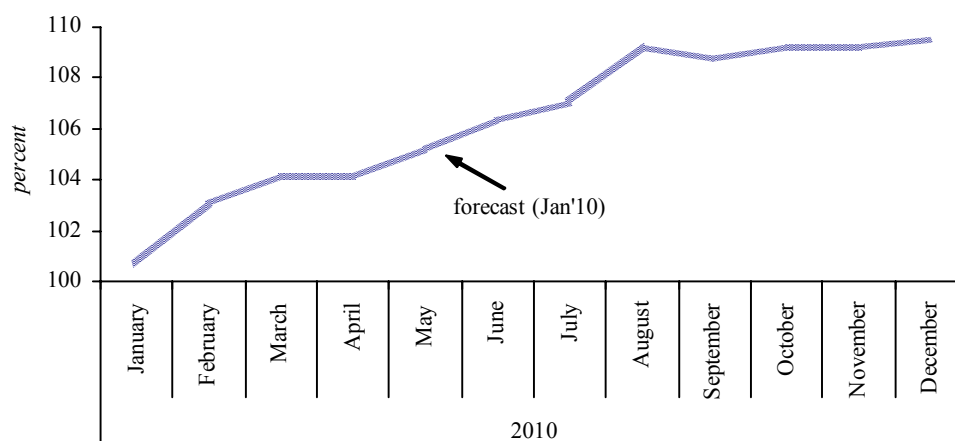
The basic factor to form the specific dynamics of inflation in 2010 is that of the increase in the electricity, hot water and heating tariffs. However, one could expect that growth of the value of municipal service will cause a redistribution of expenses of the population to other goods and services towards their decrease, thereby exercising the constraining influence on the general rate of inflation in the country.

Fiscal policy measures are another important factors that have an essential impact on inflation and monetary policy. In 2009-2010 growth of tax revenue collection has been decelerating with public expenditure simultaneously increasing. This fact entails growth of the budget deficit and the relevant need for its financing. In this regard, uncertainty in the medium term fiscal policy bears considerable risks for the projected rate of inflation either.

Besides, in the short-term period (up to one year), some volatility is expected in the values of inflation as a result of the impact of the so-called “base medium terms”. In particular, the cumulative inflation rate was low in 2009, therefore, one could expect, all other things being equal, some growth of inflation in the first half of 2010 in view of the low base.

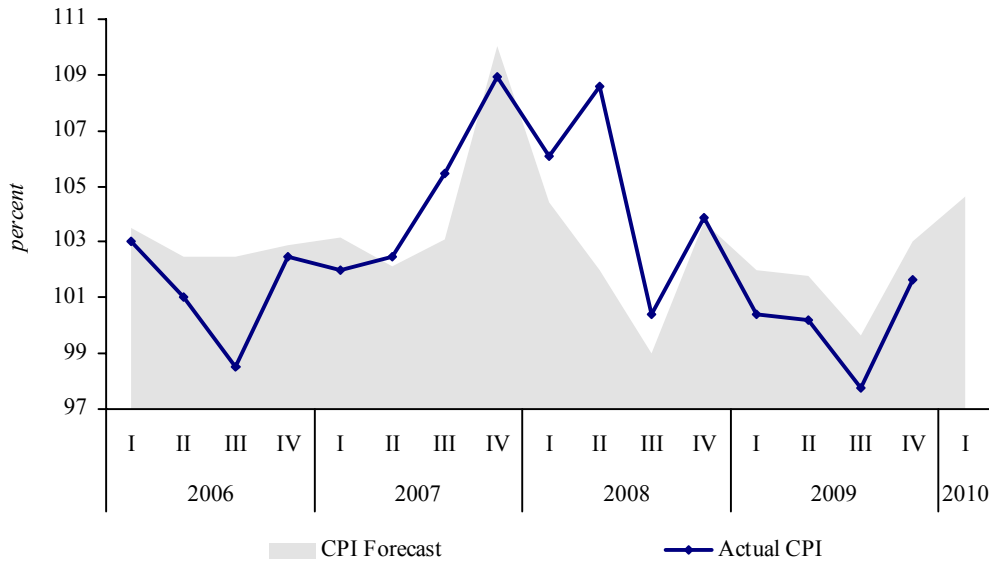
As a whole, considering all of the factors designated above, the forecast of the rate of inflation for 2010 is determined within the range of 7.5-9.5 percent.

**Chart 4.2.1. Annual inflation forecasts**



The consumer price index is expected to increase in the first quarter of 2010 as a result of, mainly, growth of electricity and heating tariffs on January 1, 2010. Besides the upward trend of inflation will be formed on impact of seasonal factors, in particular, fruit-and-vegetable and meat and milk output. Additional pressure on the consumer prices is expected in connection with the continued rise in sugar prices. As a result, growth of prices is project to be at the level of 4.6 percent in the first quarter of 2010.

**Chart 4.2.2. Inflation forecast for quarter I of 2010**



Another parameter of the price behavior in the economy as a whole, the GDP deflator, for 2010 is predicted to be at the level of 11.5 percent.

## Statistical Annex

**Table 1. Consumer Price Index**  
(month to the previous month, percent)

	2009					
	January	February	March	April	May	June
<b>Consumer Price Index</b>	<b>100,5</b>	<b>100,3</b>	<b>99,6</b>	<b>100,4</b>	<b>100,3</b>	<b>99,5</b>
<b>Goods</b>	100,3	100,3	99,5	100,4	100,3	99,4
<b>Food products and soft drinks</b>	100,2	98,6	99,0	100,3	100,4	98,0
<b>Strong drinks and tobacco products</b>	100,2	100,1	100,6	100,8	100,3	101,6
<b>Nonfoods</b>	100,4	103,9	100,0	100,4	100,2	101,1
<b>Services</b>	102,4	99,8	100,5	100,1	100,4	100,3
Food products and soft drinks	100,2	98,6	99,0	100,3	100,4	98,0
Bakery products and cereals	97,2	96,8	98,4	98,8	100,0	100,2
high-grade wheat flour	96,5	94,4	97,4	94,3	94,5	101,4
first-grade wheat flour	94,7	93,5	97,5	95,6	95,3	99,8
bread	97,5	99,2	99,2	97,7	99,2	99,9
Meat	102,9	101,2	100,0	98,9	100,4	100,4
Fish	100,7	100,6	100,8	100,5	100,3	99,3
Diary products, cheese and eggs	102,4	99,2	96,3	97,4	99,0	98,4
Oils and fats	96,4	96,9	98,7	97,7	96,8	98,6
Fruits and vegetables	105,0	98,9	99,1	106,3	100,8	88,8
fruits	104,2	100,5	99,8	102,0	103,9	93,6
vegetables	105,5	97,7	98,6	109,8	98,5	85,1
Sugar, jam, honey, chocolate and candies	99,0	98,9	99,6	100,2	103,6	101,5
sugar	97,8	98,6	99,3	99,6	106,5	102,8
other food products	100,5	99,7	99,6	99,7	100,0	99,9
Soft drinks	100,9	100,5	100,8	101,7	100,2	100,8
Strong drinks and tobacco products	100,2	100,1	100,6	100,8	100,3	101,6
Strong drinks	100,3	100,2	100,8	100,9	100,4	102,3
Tobacco products	100,0	100,1	100,1	100,7	100,0	100,0
Garments and footwear	100,2	100,5	100,1	100,5	100,5	101,4
Garments	100,3	100,7	100,6	100,9	100,4	101,4
fabric for garments	100,0	103,0	114,7	115,2	100,1	107,5
garments for men	100,3	100,7	100,3	100,5	100,4	101,5
garments for women	100,5	100,6	100,3	100,4	100,5	101,0
children and newborns garment	100,1	100,5	99,8	99,9	100,2	101,0
Cleaning, mending and renting garments	100,9	100,4	100,2	101,8	100,9	101,8
footwear including repair	100,1	100,1	99,2	99,8	100,8	101,5
men footwear	100,1	100,0	98,5	98,8	101,7	101,4
women footwear	100,0	100,0	99,5	101,2	100,6	101,2
children footwear	100,0	100,0	99,4	99,2	100,1	101,9
shoe repair	100,6	104,2	101,5	102,9	100,0	100,9
Housing services, water, electricity, gas and other fuels	100,5	109,9	99,2	99,5	99,7	101,0
rent of dwelling	100,3	100,3	100,7	100,0	100,0	100,0
material for maintenance and repair of living houses	100,2	102,6	99,8	100,1	100,3	111,1
electricity, gas and other types of fuel	100,5	111,5	99,1	99,4	99,6	99,8
gas	99,9	155,3	99,9	99,5	99,2	99,7
Household articles, household appliances	100,6	100,6	101,7	102,3	100,3	101,1
furniture and floor coverings	100,6	100,0	101,1	101,7	100,3	100,0
household textile items	100,1	100,7	112,0	113,7	100,0	107,4
home appliances	100,2	100,3	100,9	100,5	100,1	100,2
glassworks, tablewares and household stuff	100,2	100,8	101,9	101,7	100,4	101,4
Health	100,6	100,6	100,0	100,3	100,2	100,4
Transport	102,9	98,6	98,2	99,8	99,3	100,7
purchase of cars	102,6	102,5	103,5	101,6	100,3	100,2
petrol and lubricants	89,4	96,6	96,0	97,6	98,9	104,4
gasoline	88,8	97,9	95,5	97,5	99,5	105,9
diesel	91,3	92,5	97,8	97,9	96,8	99,3
transport services	104,5	98,5	97,9	99,8	99,3	100,4
Communication	92,8	100,0	100,0	100,0	100,0	100,0
Recreation, entertainment and culture	100,1	102,3	100,9	100,7	100,6	100,2
cultural events services	99,0	101,2	100,3	108,0	105,0	100,2
papers, books and stationary	100,2	101,5	100,3	100,1	100,3	100,5
Education	100,4	100,1	100,0	100,0	100,1	100,0
Restaurants and hotels	100,8	100,2	104,8	100,0	102,0	100,6
catering	100,9	100,2	105,0	100,0	102,1	100,2
hotel service	100,2	100,5	100,8	100,5	100,6	112,6
Various goods and services	105,9	102,6	100,8	101,6	100,6	99,9
Personal service	107,5	101,8	100,5	102,0	100,7	99,8

Source: NSC KR

2009						
July	August	September	October	November	December	
<b>98,6</b>	<b>99,0</b>	<b>100,2</b>	<b>100,1</b>	<b>100,6</b>	<b>100,9</b>	<b>Consumer Price Index</b>
98,4	98,8	100,2	100,1	100,7	101,1	<b>Goods</b>
97,0	97,6	99,5	99,9	100,6	101,4	<b>Food products and soft drinks</b>
100,1	100,2	100,5	100,2	100,0	100,5	<b>Strong drinks and tobacco products</b>
100,3	100,3	101,1	100,6	101,0	100,7	<b>Nonfoods</b>
100,1	100,2	100,2	99,8	100,3	100,2	<b>Services</b>
97,0	97,6	99,5	99,9	100,6	101,4	Food products and soft drinks
98,3	98,6	98,2	98,8	99,3	98,8	Bakery products and cereals
99,4	98,5	97,8	99,3	99,6	99,6	high-grade wheat flour
96,9	97,4	97,8	99,5	99,4	98,7	first-grade wheat flour
99,7	99,9	99,4	97,6	98,2	99,6	bread
99,2	98,9	100,4	100,3	99,8	100,1	Meat
98,8	99,7	99,1	100,4	100,2	100,9	Fish
98,1	99,5	101,0	101,3	101,5	102,4	Diary products, cheese and eggs
99,9	100,3	99,6	98,9	100,0	101,6	Oils and fats
85,7	90,0	97,9	98,6	104,9	107,9	Fruits and vegetables
89,8	90,2	96,1	99,2	105,8	106,7	fruits
82,1	89,7	99,0	98,2	104,4	108,6	vegetables
104,9	99,5	102,4	101,6	100,1	103,1	Sugar, jam, honey, chocolate and candies
108,8	99,2	104,3	102,0	100,3	104,9	sugar
99,6	100,1	100,0	102,7	99,8	100,4	other food products
100,6	100,6	100,8	102,6	102,0	99,9	Soft drinks
100,1	100,2	100,5	100,2	100,0	100,5	Strong drinks and tobacco products
100,1	100,1	100,8	100,3	100,1	100,7	Strong drinks
100,1	100,2	100,0	100,0	100,0	100,0	Tobacco products
100,6	100,2	101,8	100,7	101,0	100,9	Garments and footwear
100,4	100,3	102,5	100,7	100,7	100,9	Garments
100,3	100,2	100,3	100,2	99,9	100,0	fabric for garments
100,4	100,2	103,0	101,1	100,6	100,9	garments for men
100,6	100,4	102,4	100,7	100,7	101,0	garments for women
100,4	100,2	102,7	100,5	100,9	101,3	children and newborns garment
100,0	100,3	100,7	100,4	100,2	100,0	Cleaning, mending and renting garments
100,8	100,0	100,3	100,5	101,7	100,7	footwear including repair
101,6	100,0	100,2	100,2	102,4	100,9	men footwear
100,2	100,1	101,1	101,0	101,3	100,3	women footwear
100,5	100,0	99,1	100,1	102,0	101,2	children footwear
100,2	100,2	100,0	100,4	100,3	101,5	shoe repair
99,7	99,8	99,8	100,8	100,6	100,6	Housing services, water, electricity, gas and other fuels
100,0	100,0	100,0	100,0	100,0	100,0	rent of dwelling
96,5	98,1	99,4	101,6	100,3	99,7	material for maintenance and repair of living houses
100,1	100,0	99,8	100,7	100,7	100,7	electricity, gas and other types of fuel
100,0	100,0	99,9	100,5	101,3	101,3	gas
100,3	100,3	100,3	100,2	101,1	100,6	Household articles, household appliances
100,0	100,6	100,8	100,2	100,0	100,4	furniture and floor coverings
100,0	100,1	100,1	100,6	100,9	100,7	household textile items
100,6	100,1	99,9	100,0	100,0	100,0	home appliances
100,4	100,2	100,5	100,1	100,1	100,2	glassworks, tablewares and household stuff
103,4	101,4	100,3	100,2	101,7	101,1	Health
100,9	101,4	100,7	99,5	100,8	100,5	Transport
100,2	100,6	100,7	99,5	100,2	100,7	purchase of cars
108,0	111,4	108,7	101,6	103,4	100,0	petrol and lubricants
110,0	114,3	110,1	101,8	103,0	99,4	gasoline
100,9	100,1	100,1	99,9	106,0	103,9	diesel
100,3	100,5	100,0	99,3	100,6	100,5	transport services
100,0	100,0	100,0	100,0	100,0	100,0	Communication
100,4	101,6	103,9	100,1	100,0	100,0	Recreation, entertainment and culture
101,0	100,3	99,9	100,0	100,0	100,0	cultural events services
100,7	103,7	109,7	100,0	100,0	100,0	papers, books and stationary
100,0	100,2	100,8	99,2	100,6	100,1	Education
100,2	100,0	100,1	100,1	100,1	100,0	Restaurants and hotels
100,2	100,0	100,0	100,2	100,1	100,0	catering
100,3	100,1	101,1	100,6	100,2	100,2	hotel service
100,0	100,0	100,2	100,2	100,6	100,3	Various goods and services
100,0	100,1	100,3	100,2	100,7	100,3	Personal service

**Table 2. Consumer Price Index**  
(month to corresponding month of the previous year, percent)

	2009					
	January	February	March	April	May	June
<b>Consumer Price Index</b>	<b>118,3</b>	<b>116,7</b>	<b>113,6</b>	<b>112,8</b>	<b>109,9</b>	<b>104,8</b>
<b>Goods</b>	116,3	114,9	111,8	111,1	107,8	103,3
<b>Food products and soft drinks</b>	119,2	115,3	110,3	109,0	104,5	96,8
<b>Strong drinks and tobacco products</b>	111,3	109,0	109,0	109,0	107,7	107,4
<b>Nonfoods</b>	113,0	116,5	115,8	115,7	114,6	115,3
<b>Services</b>	137,1	133,4	129,8	128,9	128,8	118,1
Food products and soft drinks	119,2	115,3	110,3	109,0	104,5	96,8
Bakery products and cereals	116,1	112,1	105,9	102,2	95,4	87,9
high-grade wheat flour	105,3	100,1	91,5	83,5	77,2	74,0
first-grade wheat flour	103,9	96,6	87,9	82,3	74,0	67,8
bread	113,3	112,7	109,0	103,8	99,0	92,7
Meat	113,7	114,4	113,0	109,0	102,7	101,8
Fish	116,9	115,6	115,1	114,4	114,2	112,4
Diary products, cheese and eggs	115,7	113,0	109,0	106,7	105,4	103,1
Oils and fats	102,8	97,9	93,4	89,4	82,2	79,6
Fruits and vegetables	134,0	123,0	114,5	122,7	124,0	103,4
fruits	147,5	145,0	140,7	141,6	137,7	113,4
vegetables	125,1	109,8	99,5	111,5	114,9	96,1
Sugar, jam, honey, chocolate and candies	127,4	125,1	121,7	121,0	118,6	110,9
sugar	125,5	124,3	119,2	117,8	116,4	105,4
other food products	121,4	116,7	112,3	109,5	108,7	105,4
Soft drinks	127,7	125,1	126,0	124,5	122,3	121,4
Strong drinks and tobacco products	111,3	109,0	109,0	109,0	107,7	107,4
Strong drinks	113,3	111,3	111,3	111,5	109,6	109,6
Tobacco products	107,4	104,5	104,3	104,2	103,9	102,9
Garments and footwear	109,1	108,8	107,8	107,4	107,1	108,6
Garments	111,5	111,3	110,6	110,5	110,1	110,6
fabric for garments	105,5	108,7	124,6	143,6	142,2	148,1
garments for men	110,2	109,9	108,8	108,9	109,2	110,9
garments for women	118,0	117,5	115,6	114,0	112,5	111,2
children and newborns garment	104,4	104,9	104,5	104,1	104,1	104,7
Cleaning, mending and renting garments	153,9	137,7	129,0	125,9	126,8	126,6
footwear including repair	105,1	104,5	103,1	102,1	102,1	105,2
men footwear	100,4	100,8	100,3	98,8	99,1	103,4
women footwear	104,0	103,2	101,0	101,4	100,8	103,5
children footwear	111,3	109,6	107,9	105,6	105,9	108,2
shoe repair	110,5	115,1	116,9	120,3	120,3	121,3
Housing services, water, electricity, gas and other fuels	118,6	129,5	128,6	128,9	127,2	127,5
rent of dwelling	141,9	142,4	143,3	143,3	143,3	138,3
material for maintenance and repair of living houses	103,0	104,5	104,3	102,3	96,2	105,0
electricity, gas and other types of fuel	119,9	132,9	131,9	132,7	132,0	130,9
gas	106,1	162,0	160,8	159,9	158,5	158,3
Household articles, household appliances	116,2	116,0	116,3	117,9	116,5	116,7
furniture and floor coverings	111,8	110,6	110,7	112,0	111,0	110,5
household textile items	115,3	114,7	126,8	143,5	141,3	150,5
home appliances	111,2	109,2	107,2	107,6	106,0	105,3
glassworks, tablewares and household stuff	120,4	119,0	114,8	115,5	114,8	114,7
Health	111,6	108,5	108,3	106,0	104,9	105,4
Transport	135,1	131,5	120,7	118,4	116,3	100,8
purchase of cars	109,0	110,6	114,0	115,8	116,2	116,8
petrol and lubricants	84,3	81,3	76,4	69,1	65,7	64,9
gasoline	79,3	77,8	73,2	67,0	64,6	65,3
diesel	105,7	96,0	89,2	77,3	69,7	63,8
transport services	147,6	143,1	128,8	127,3	125,5	105,0
Communication	95,7	95,7	95,7	94,8	94,8	94,8
Recreation, entertainment and culture	106,3	107,4	106,6	107,4	107,0	106,2
cultural events services	129,7	116,9	102,8	109,9	114,6	114,6
papers, books and stationary	109,1	109,8	109,1	109,1	107,2	105,2
Education	144,6	137,8	137,1	136,4	136,7	136,4
Restaurants and hotels	126,4	126,5	132,0	131,0	132,7	128,9
catering	126,9	127,0	132,7	131,6	133,7	129,3
hotel service	116,4	116,5	117,1	117,7	111,6	120,3
Various goods and services	132,3	130,6	130,4	131,6	130,2	122,5
Personal service	140,6	136,6	135,6	137,4	135,8	125,9

Source: NSC KR

2009						
July	August	September	October	November	December	
<b>103,4</b>	<b>102,6</b>	<b>102,1</b>	<b>101,3</b>	<b>100,4</b>	<b>100,0</b>	<b>Consumer Price Index</b>
101,9	101,4	101,2	100,6	99,9	99,5	<b>Goods</b>
95,3	95,2	94,6	93,3	92,4	92,6	<b>Food products and soft drinks</b>
106,6	106,3	106,8	107,0	106,6	105,2	<b>Strong drinks and tobacco products</b>
113,5	111,4	111,7	112,2	111,7	110,4	<b>Nonfoods</b>
116,0	113,3	109,5	106,8	105,0	104,4	<b>Services</b>
95,3	95,2	94,6	93,3	92,4	92,6	Food products and soft drinks
86,0	84,6	83,9	84,1	84,4	84,6	Bakery products and cereals
74,7	74,4	73,4	74,7	74,8	75,6	high-grade wheat flour
66,1	65,2	65,3	67,4	69,8	70,8	first-grade wheat flour
91,6	91,4	90,7	88,7	87,1	87,9	bread
100,6	100,5	102,4	103,1	103,3	102,7	Meat
112,0	112,7	110,7	109,4	103,8	101,4	Fish
100,9	100,1	99,9	98,7	97,6	96,1	Diary products, cheese and eggs
79,6	81,0	81,1	80,4	83,4	86,0	Oils and fats
97,6	101,9	94,3	83,7	80,1	82,6	Fruits and vegetables
109,9	111,9	103,4	93,1	93,2	90,3	fruits
88,2	93,8	86,7	76,1	70,5	76,1	vegetables
120,2	120,6	123,7	124,5	118,3	115,2	Sugar, jam, honey, chocolate and candies
122,2	124,1	131,0	132,5	124,4	126,1	sugar
104,3	103,9	102,1	104,5	102,1	101,7	other food products
119,2	117,3	118,0	120,3	118,8	112,1	Soft drinks
106,6	106,3	106,8	107,0	106,6	105,2	Strong drinks and tobacco products
108,7	108,3	108,9	109,3	108,9	107,2	Strong drinks
102,2	102,4	102,4	102,4	102,1	101,2	Tobacco products
110,2	110,2	111,7	111,6	110,0	108,5	Garments and footwear
110,4	110,2	112,6	112,2	110,7	110,1	Garments
148,2	148,3	148,6	148,9	148,3	148,0	fabric for garments
110,4	110,4	113,6	113,7	111,3	110,5	garments for men
110,7	111,0	113,3	112,5	110,6	109,1	garments for women
105,2	105,1	107,5	107,2	107,2	107,9	children and newborns garment
124,0	109,2	109,4	109,0	107,8	107,7	Cleaning, mending and renting garments
109,8	110,3	110,0	110,4	108,5	105,6	footwear including repair
110,3	110,9	111,1	111,2	109,1	105,8	men footwear
108,1	108,9	109,9	110,6	108,9	106,6	women footwear
110,4	110,4	107,6	108,0	106,9	103,6	children footwear
122,5	122,8	122,5	117,6	111,7	113,5	shoe repair
120,0	112,9	110,3	111,8	111,4	111,0	Housing services, water, electricity, gas and other fuels
133,8	133,8	133,8	101,3	101,3	101,3	rent of dwelling
101,6	103,2	105,2	108,0	109,8	109,4	material for maintenance and repair of living houses
124,2	114,9	111,5	112,9	112,3	111,9	electricity, gas and other types of fuel
156,8	156,2	156,0	155,6	153,3	157,3	gas
116,1	115,4	114,8	114,6	113,8	109,6	Household articles, household appliances
108,9	108,7	109,2	109,0	108,1	105,7	furniture and floor coverings
150,7	145,8	141,8	142,4	142,9	141,0	household textile items
105,1	103,9	103,5	103,4	103,2	102,8	home appliances
113,4	112,8	110,3	110,0	109,3	108,1	glassworks, tablewares and household stuff
108,4	109,0	109,1	109,1	110,2	110,7	<b>Health</b>
97,3	97,7	99,4	99,7	101,5	103,2	<b>Transport</b>
118,0	119,9	120,5	115,9	113,4	113,1	purchase of cars
66,0	72,5	82,6	88,1	100,5	114,7	petrol and lubricants
67,7	76,3	88,1	94,7	107,5	123,0	gasoline
60,1	59,0	62,0	64,1	75,0	86,5	diesel
100,4	99,7	100,4	100,2	100,8	101,3	transport services
94,8	93,3	92,8	92,8	92,8	92,8	<b>Communication</b>
106,5	108,0	112,0	111,7	111,5	111,3	Recreation, entertainment and culture
115,0	115,4	115,2	114,1	114,4	115,6	cultural events services
105,8	109,2	119,2	118,8	118,1	117,8	papers, books and stationary
136,1	135,5	112,2	110,5	102,9	101,8	<b>Education</b>
129,0	121,5	121,6	113,2	110,3	109,3	Restaurants and hotels
129,5	121,6	121,6	110,9	110,0	108,9	catering
119,7	120,1	120,7	119,2	118,4	118,3	hotel service
120,4	118,4	118,2	117,2	116,4	113,3	Various goods and services
123,1	120,6	120,3	119,4	118,7	114,5	Personal service

**Table 3. Price indices and physical quantity of imports**

<i>Products</i>	<i>11 months of</i>	<i>11 months of</i>	<i>11 months of</i>	<i>Index of</i>		
	<i>2009</i>	<i>2009</i>	<i>2009</i>	<i>price</i>	<i>physic. volume</i>	<i>value</i>
	<i>mln. US\$ n09*p09</i>	<i>mln. US\$ n09*p08</i>	<i>mln. US\$ n08*p08</i>			
	<b>A</b>	<b>B</b>	<b>C</b>	<b>A/B</b>	<b>B/C</b>	<b>A/C</b>
Oil, oil products	633,7	1 088,9	999,3	0,58	1,09	0,63
Cast iron and steel	92,4	108,4	101,0	0,85	1,07	0,91
Natural gas	65,5	75,0	75,4	0,87	0,99	0,87
Medicaments, including veterinary	63,5	23,9	50,7	2,66	0,47	1,25
Cereals and cereals products	59,8	36,8	76,8	1,63	0,48	0,78
Inorganic chemical agents	58,4	90,0	71,8	0,65	1,25	0,81
Sugar, sugar-ware, honey	55,0	51,5	45,4	1,07	1,13	1,21
Volatile oils, resinoids and perfumery	50,4	48,0	46,7	1,05	1,03	1,08
Wrought artificial and textile cloth	48,6	48,7	40,1	1,00	1,22	1,21
Coffee, tea, cocoa and spicery	43,8	49,3	69,1	0,89	0,71	0,63
Paper, cardboard and products from these materials	40,6	48,5	37,7	0,84	1,28	1,08
Meat and meat products	39,2	39,9	32,5	0,98	1,23	1,21
Vegetable oils and fats	38,8	22,9	48,2	1,69	0,48	0,80
Trucks and vehicles for special purposes	32,3	35,3	36,0	0,91	0,98	0,90
Rubber tire covers	32,1	45,3	32,7	0,71	1,39	0,98
Flour wheaten and mangcorn	30,0	24,1	37,6	1,24	0,64	0,80
Machines for sortings, screening soil, stones, ore	28,6	54,2	57,4	0,53	0,94	0,50
Products from the ignoble metals, not included in other categories	27,4	29,1	26,8	0,94	1,09	1,02
Wood of coniferous breeds	24,3	25,6	30,9	0,95	0,83	0,79
Alcoholic beverages	23,6	23,2	27,0	1,02	0,86	0,87
Rice	23,0	16,7	22,6	1,38	0,74	1,02
Food and other products, not included in other categories	22,9	18,4	26,1	1,24	0,71	0,88
Footwear with a sole and top from rubber or synthetic materials	21,8	29,0	43,9	0,75	0,66	0,50
Vegetables and fruits	21,7	16,2	10,5	1,34	1,54	2,07
Portland cement, cement	21,7	11,7	18,5	1,86	0,63	1,17
Dye and tanning materials	20,7	21,8	28,5	0,95	0,77	0,73
Coal, coke and briquets	20,4	19,7	16,0	1,04	1,23	1,27
Constructions and elements made from cast-iron and steel, not included in other categories	18,9	21,4	19,7	0,88	1,09	0,96
Mineral waters and the soft drinks sweetened with sugar	17,5	23,3	25,2	0,75	0,92	0,69
Plastic in the primary form	17,3	18,0	22,9	0,96	0,79	0,76
Bulldozers, bullgrater and power grader	17,0	18,4	15,5	0,93	1,18	1,10
Electric linear telephone or cable devices	16,6	12,0	14,2	1,39	0,84	1,17
Mechanical shovels, dredges and payloaders	16,5	18,0	20,1	0,91	0,90	0,82
Products from grain and products from a flour or starch	15,7	23,2	24,7	0,68	0,94	0,64
Condensed and restored wood	14,5	17,3	19,9	0,84	0,87	0,73
Pottery	14,0	12,6	14,4	1,11	0,88	0,97
Plastic in the nonprimary form	13,7	9,2	9,2	1,49	1,00	1,49
Automobiles and other vehicles intended for transportation of people	13,6	10,3	12,3	1,32	0,83	1,10
Fertilizers	12,6	10,4	26,1	1,21	0,40	0,48
Tacks, screws, nipples, screw-bolts made of iron, steel and copper	10,6	12,1	11,6	0,88	1,05	0,92
Margarine and mixed fat	10,3	11,4	4,4	0,91	2,59	2,35
Chemical products, not included in other categories	9,5	7,2	7,3	1,32	0,99	1,31
Milk and dairy products, except for butter and cheese	8,9	2,0	4,4	4,36	0,47	2,03
Electric communication equipment, not included in other categories	8,8	24,5	10,9	0,36	2,25	0,81
Medicaments and pharmaceutical product	8,8	11,6	11,2	0,76	1,04	0,79
<b>Full range of goods (mln. US\$)</b>	<b>1 885,1</b>	<b>2 364,8</b>	<b>2 382,9</b>	<b>0,80</b>	<b>0,99</b>	<b>0,79</b>
<b>Full range of goods (in % of total import)</b>	<b>70%</b>		<b>65%</b>			
<b>Total import</b>	<b>2 682,7</b>		<b>3 651,2</b>			

Based on NSC data on imports at C.I.F.; includes first 44 large import items

n - physical volume of imports

p - estimated import price

**Table 4. Price indices and physical quantity of exports**

Products	11 months of	11 months of	11 months of	Index of		
	2009	2009	2009	price	physic. volume	value
	mln. US\$ n09*p09	mln. US\$ n09*p08	mln. US\$ n08*p08			
A	B	C	A/B	B/C	A/C	
Nonmonetary gold	356,8	319,1	400,4	1,12	0,80	0,89
Inorganic chemical agents	188,3	59,3	102,0	3,17	0,58	1,85
Oil, oil products	164,2	264,6	347,1	0,62	0,76	0,47
Vegetables and fruits	78,3	85,4	88,1	0,92	0,97	0,89
Electric energy	37,3	39,8	24,4	0,94	1,63	1,53
Blouses, jackets and jacket-blouses	21,5	24,9	28,4	0,86	0,88	0,76
Raw tobacco and tobacco waste	18,1	18,6	20,7	0,97	0,90	0,87
Milk and milky products, excl. butter and cheese	16,6	21,3	19,8	0,78	1,08	0,84
Filament lamps	14,3	15,2	19,7	0,94	0,77	0,72
Clothing	14,1	10,9	14,2	1,29	0,77	0,99
Cotton	10,1	14,8	11,4	0,68	1,30	0,88
Female pants, overalls and breeches	10,1	5,7	3,9	1,76	1,46	2,57
Cheese and cottage cheese	8,1	11,7	11,5	0,69	1,02	0,70
Paper, cardboard and products from these materials	6,2	1,2	4,6	5,22	0,26	1,35
Skirts and culottes	5,9	5,4	8,6	1,09	0,63	0,69
Rubber tire covers	5,9	5,1	6,1	1,16	0,84	0,97
Stone, sand and gravel	5,5	5,2	9,7	1,06	0,54	0,57
Mineral waters and the soft drinks sweetened with sugar	4,7	2,8	2,8	1,66	1,02	1,70
Margarine and mixed fat	4,4	6,8	8,0	0,65	0,86	0,56
Male pants, overalls and breeches	4,3	8,0	2,1	0,54	3,72	2,02
Suits and ensembles for women and girls	4,3	5,7	9,3	0,75	0,61	0,46
Ores and concentrates of precious metals	4,2	10,7	4,8	0,39	2,21	0,87
Live animals	3,4	4,7	2,9	0,71	1,61	1,14
Metal ores and iron-and-steel waste	3,2	4,2	10,7	0,77	0,39	0,30
Coat, raincoats and similar products	3,0	3,4	3,6	0,88	0,93	0,82
Rock products, not included in other categories	2,9	4,7	10,1	0,62	0,47	0,29
Products from grain and products from a flour or starch	2,7	2,7	2,3	0,98	1,17	1,15
Leather from integral skins of large horned livestock	2,7	2,1	2,1	1,26	0,99	1,24
Coffee, tea, cocoa and spicery	2,5	3,3	3,0	0,76	1,12	0,85
Hand and machine tools	2,2	2,1	0,6	1,04	3,46	3,58
Wrought artificial and textile cloth	2,2	1,8	2,2	1,21	0,83	1,01
Chemical products, not included in other categories	2,2	2,1	2,7	1,08	0,76	0,82
Rolling glass and glass with the ground surface	2,2	4,9	1,1	0,45	4,53	2,03
Wool	2,1	2,3	2,3	0,89	1,01	0,90
Aluminium	2,0	2,2	3,2	0,90	0,70	0,62
Other footwear with the textile upper part	2,0	1,6	2,5	1,21	0,65	0,79
Trucks and vehicles for special purposes	1,8	3,8	4,3	0,48	0,88	0,42
Female jackets and blazers	1,8	1,2	1,5	1,49	0,80	1,19
Knitted or knitted products	1,8	1,8	1,6	1,02	1,12	1,15
Metal ores and base scrap	1,7	2,7	6,8	0,64	0,40	0,26
Cattle hides or horsehides	1,7	2,1	2,3	0,81	0,92	0,74
Tobacco	1,6	2,4	31,1	0,68	0,08	0,05
Silver	1,5	11,0	7,2	0,14	1,53	0,21
Suits and ensembles for male	1,5	2,4	2,2	0,63	1,11	0,70
Oil and other fats received from milk	1,5	2,5	0,8	0,60	3,16	1,90
Meat and meat products	1,5	6,3	15,7	0,24	0,40	0,10
Portland cement, cement	1,5	1,1	1,0	1,32	1,10	1,46
Cast iron and steel	1,5	2,1	3,1	0,69	0,67	0,46
<b>Full range of goods (mln. US\$)</b>	<b>1 038,1</b>	<b>1 024,2</b>	<b>1 274,8</b>	<b>1,01</b>	<b>0,80</b>	<b>0,81</b>
<b>Full range of goods (in % of total export)</b>	<b>91%</b>		<b>87%</b>			
<b>Total export</b>	<b>1 137,3</b>		<b>1 473,4</b>			

Based on NSC data on exports at F.O.B. prices excluding exports by estimates; includes first 48 large export items

n - physical volume of exports

p - estimated export price

## Glossary

**Core inflation** is inflation excluding short-term, structural and seasonal changes of prices. That is, excluded from the calculation of the inflation factor are growth of prices of goods, caused by seasonal or external factors (such as: the bad crop, the price shock in the market of oil products, administrative changes in tariffs for gas and electricity, etc.).

NBKR calculates the core inflation behavior by the method of simple exclusions. The given method means the exclusion from the CPI of specific categories or the whole group of goods and services, whose prices are highly sensitive to shocks. Traditionally, some food products, energy resources and tariffs administratively established by the Government are referred to such goods.

Renewable Government Treasury Bills for settlement are the coupon securities with maturities of 3, 6 and 12-months, issued by the Ministry of Finance as a result of restructuring the debt of the Government of the Kyrgyz Republic to the NBKR. The renewable nature of these securities means the following: on the day of redemption of ST-Bills(s) in the NBKR portfolio, the Ministry of Finance simultaneously with the redemption issues new series of ST-Bills(s) in favor of in number equal to the number of sinking securities.

**Government Treasury Bills** are the short-term (3-, 6-, 12-month) discount government securities of the Government of the Kyrgyz Republic. The Ministry of Finance is the emitter of ST-Bills. Issues of ST-Bills are placed weekly and through the NBKR auctions. Direct participants (primary dealers, finance and credit institutions, which concluded the contract with the NBKR) enjoy the right of participation in the auctions. Owners of ST-Bills of the Kyrgyz Republic could be both the legal entities and the individuals. The admission of foreign investors to the market of ST-Bills is not limited. The transactions in the secondary market of ST-Bills are conducted through the electronic trading system of the NBKR, which allows the primary dealers and their clients to conduct the ST-Bills purchase/sale operation from their workplaces.

Government Treasury Bonds are the long-term government securities of the Government of the Kyrgyz Republic with the interest income (coupon) and maturity over 1 year. The emitter of ST-Bonds is the Ministry of Finance. The NBKR is the general agent servicing issues of ST-Bonds.

**Monetary base** is money in circulation + deposits of financial institutions with the NBKR in national and foreign currencies.

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

**M0** – currency in hands.

**M1** – M0 + demand deposits in national currency.

**M2** – M1 + time deposits in national currency.

**M2X** – M2 + deposits in foreign currency.

**Money in circulation** – the money in circulation less cash held in NBKR.

**Producer price index** measures the average changes in the sales prices got by the local producers for their output. Information, used in the PPI calculations, is collected from 148 enterprises, which represent almost each branch in the industrial sector of the economy. The list of enterprises combines those most typical for the given industry, characteristic for the given region, and irrespective of patterns of ownership.

Inflation represents the increase in the general level of consumer prices in the economy. The consumer price index is used to quantitatively estimate the rate of inflation. The CPI shows the change in the price level for the goods and services purchased by the population for non-productive consumption. In the calculations of the price index of buyers of selected 342 goods and services is applied and the size of the sample makes 45 thousand prices a month of 1496 trading enterprises and spheres of services in seven city and two regional centers.

**“Overnight” credit** is given in national currency for one day, for collateral, for maintenance of short-term liquidity of the bank. Government securities of the Kyrgyz Republic placed through the NBKR, with the date of redemption up to 12 months from the date of delivery of the overnight credit are accepted as collateral. The interest rate is set at the rate of 1.2 of the NBKR discount rate. The credit is used on the initiative of the commercial bank.

**Non-financial assets** include the following categories of economic assets: fixed assets, stocks of tangible current assets, values and nonproduced assets (natural and intangible assets).

**Notes** are the Government short-term securities, issued by the NBKR for the term of 7, 14, 28, 91 and 182 days through the weekly auctions. The yield is defined depending on the supply and the demand among the commercial banks. The goal of conducting the auctions of notes is the withdrawal of liquidity in national currency from the banking system.

**Repo Operation** – purchases (direct repo)/sales (reverse repo) of government securities with the obligation to sell them back / purchase of a specified date in the future at a predetermined price.

**State budget operating expenditures** are all of the operations, which lead to the reduction in the net value of assets of the government sector, except for the operations on purchase of non-financial assets.

**Swap operations** – operations on the exchange of funds in national currency in the amount equivalent to the amount in foreign currency or, on the contrary, to the obligation of the reverse exchange of principal amounts and accrued interest on the stipulated conditions.

**SPOT** – transaction is the stock exchange transaction on sale and purchase of the good on hand on the conditions of its immediate transfer.

**Discount rate** is the tool used as the basic reference point when determining the value

of monetary resources in the economy. The size of the discount rate is equal to the average value of the yield of 28-day NBKR Notes for the recent 4 auctions on placement of NBKR Notes.

**Futures** (futures contract) is the agreement on purchase/sale of some asset in the specified amount in the fixed time interval at the price stipulated today. When concluding the future contract, the two parties are involved: the buyer and the seller. The buyer undertakes to buy the asset within the period stipulated, and the seller - to sell within the same period.

## Abbreviations

CIF	Cost, Insurance, Freight
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
FOB	Free on Board
GDP	Gross Domestic Product
ST-Bills	State Treasury Bills
ST-Bills(s)	State Treasury Bills for settlement
ST-Bonds	State Treasury Bonds
ST-Bonds(s)	State Treasury Bonds for settlement
KR	Kyrgyz Republic
LLC	Limited Liability Company
NBKR	National Bank of the Kyrgyz Republic
NCOSH	Non-Commercial Organizations Servicing Households
NFCI	Non-Finance and Credit Institutions
NSC	National Statistics Committee
OPEC	Organization of Petroleum Exporting Countries
PE	Public Enterprise
POL	Petroleum, Oil, Lubricants
PPI	Producer Price Index
SCC	State Customs Committee
SFRB	Specialized Fund for Refinancing of Banks
USA	United States of America