

## **Dynamics of Monetary Indicators in January-June 2016**

### **Interbank Credit Market**

In the first half of 2016, the downward dynamics of the interest rates on Repo operations in the interbank credit market was driven by decrease in the activity of the market players amid high liquidity of the commercial banks. In June 2016, the weighted average interest rate on Repo operations amounted to 1.15 percent; however, in January 2016, it was 9.96 percent.

The downward trend in the total volume of the operations was observed in the period under review; in particular, the total volume of the transactions in the interbank domestic market amounted to KGS 185.1 million. In January-June 2016, the total volume of the transactions decreased by 81.0 percent compared to the same period of the previous year and amounted to KGS 4.6 billion.

### **Changes in Monetary Base**

In the first half of 2016, the average daily volume of the excess reserves of the banking system prior to operations on sterilization amounted to KGS 9.5 billion (after operations on sterilization – KGS 1.2 billion), having increased by 3.5 times compared to the same indicator in 2015. As of the end of June the volume of the excess liquidity prior to operations on sterilization amounted to KGS 14.7 billion (after operations on sterilization – KGS 2.9 billion).

Taking into account the high excess liquidity in the banking system, the National Bank carried out the sterilization operations through the issue of 7-day notes and deposit operations.

In January-June 2016, the total volume of the National Bank's 7-day notes sales amounted to KGS 55.0 billion (in January-June 2015 – KGS 27.1 billion). High demand for the 7-day notes conditioned decrease in the profitability thereof down to 1.44 percent. In January-June 2016, the volumes of the funds placed by the commercial banks with the National Bank to "overnight" deposits increased and amounted to KGS 740.4 billion, in particular, in June 2016 – KGS 177.7 billion (in January-June 2015, the total volume amounted to KGS 123.3 billion). Thus, the average daily volume of the sterilization operations (the National Bank's notes and "overnight" deposits) amounted to KGS 8.3 billion (in January-June 2015 – KGS 2.1 billion).

As the measures stimulating the real sector of economy against the slowdown of the national economy, the National Bank during January-June 2016 carried out the following operations:

- within the frameworks of the program on mortgage loans conversion from the foreign currency into the national currency, the commercial banks were provided with the loans in the amount of KGS 1.9 billion;
- for purposes of further financing of agriculture and processing in the regions of the country KGS 1.1 billion was provided to the commercial banks within the credit auctions;
- the volume of the loans to the international organizations created by the Kyrgyz Republic jointly with other states as a part of the Eurasian Economic Union amounted to KGS 480.0 million.
- gold was purchased in the domestic market to the amount of KGS 412.4 million.

In order to supply the short-term liquidity of the commercial banks, in January-June 2016, the National Bank issued the "overnight" loans in the amount of KGS 2.0 billion.

Generally, the National Bank's operations reduced the monetary base by KGS 527.1 million, the Government's operations increased it by KGS 9.4 billion. As of the end of June 2016, the monetary base amounted to KGS 75.9 billion and increased by 13.2 percent from the beginning of the year (in January-June 2015 it increased by 0.9 percent). On a year-on-year basis the monetary base increased by 16.7 percent.

The official USD/KGS exchange rate decreased by 11.1 percent in the domestic foreign exchange market – from KGS 75.8993 to KGS 67.4860 per USD 1 (in January-June 2015 the increase amounted to 5.4 percent). In the period under review, the National Bank acted primarily as a net buyer of the foreign currency, the volume of the foreign currency net purchase amounted to

USD 47.7 million. Finally, in the first half of 2016, the liquidity of the banking system increased by KGS 2.9 billion due to the operations carried out by the National Bank in the interbank foreign exchange market.

The gross international reserves of the National Bank increased since the beginning of the year by USD 224.7 million and amounted to USD 2.0 billion as of the end of June. Meanwhile, the net international reserves of the National Bank increased by 10.1 percent, up to KGS 119.4 billion.

### **Changes in Monetary Aggregates**

In the first half of the current year, positive trend of monetary aggregates growth was observed in the banking system. The increase of the deposits in the national currency (+30.9 percent) contributed to the steady growth of the monetary aggregate M2<sup>1</sup> (+20.8 percent), which at the end of June totaled KGS 99.4 billion (on a year-on-year basis the growth amounted to 25.8percent).

In January-June 2016, increase in the volume of cash outside banks (in the period under review, the growth rate thereof was 15.2 percent) was the main source of growth in the broad money supply (+2.6 percent), up to KGS 146.8 billion. The monetary aggregate M2X increased by 16.7 percent on a year-on-year basis, excluding the exchange rate changes - by 14.3 percent. By the sources of the monetary base formation, the change of net foreign assets (-3.1 p.p.) and net domestic assets (+5.7 p.p.) contributed to its increase (by 2.6 percent).

The total deposits of other deposit corporations included into the broad money supply M2X decreased by 4.9 percent, down to KGS 85.6 billion. The reduction of the deposits in foreign currency down to KGS 47.4 billion was a determining factor of decline in the total deposit volume.

In the reporting period, slowdown of the loans increase in foreign currency (-14.9 percent) still significantly influenced the dynamics of the total volume of the loans to the economy. The slowdown of the annual growth rate of the loans to the economy<sup>2</sup> from 17.2 percent in January to 1.4 percent in June 2016 was observed year-to-date. Moreover, the slowdown of the annual growth rate of the loans in the national currency from 21.4 percent in January to 18.7 percent in June 2016 was also observed.

In January-June 2016, the total volume of loans to the economy decreased by 4.2 percent and amounted to KGS 92.2 billion (in January-June 2015, growth rate made 10.7 percent). Without regard to the exchange rate changes the total volume of loans to the economy increased by 2.7 percent since the beginning of the year (in January-June 2015, increase made 7.7 percent).

In the reporting period, the downward trend of loan and deposit dollarization continued as a result of the measures taken on dedollarization of the economy. Loan dollarization as of the end of June 2016 amounted to 43.3 percent (-10.4 p.p. year-to-date), deposit dollarization, included into M2X, amounted to 58.5 percent (-9.1 p.p. year-to-date).

As of the end of June 2016, the upward trend of the economy monetization was observed; it reflected the degree of the economy saturation with liquid money. The monetization ratio calculated as per the monetary aggregate M2X amounted to 32.2 percent, as per the monetary aggregate M2 – 19.6 percent (as of June 2015 – 29.2 and 19.3 percent, respectively).

As of the end of June 2016, the velocity of money circulation as per M2X made 3.1. Broad money multiplier M2X<sup>3</sup> made 1.934; multiplier M2 – 1.309.

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<sup>1</sup> Includes cash outside banks and deposits of individuals and legal entities and other financial-credit institutions in the national currency with the exception of the deposits of the Government and non-residents.

<sup>2</sup> Loans to individuals and legal entities, and other financial-credit institutions except for the loans to the Government and non-residents.

<sup>3</sup> This figure characterizes the degree of the financial intermediation.

## **Cash Turnover**

In January-June 2016, receipt of cash in the cash departments of the National Bank amounted to KGS 28.6 billion; in comparison with the corresponding period of 2015, the amount decreased by KGS 571.1 million or 2.0 percent. Money issuances increased by KGS 8.1 billion or 29.0 percent and amounted to KGS 36.2 billion.

In January-June 2016, receipt of cash in the cash departments of the commercial banks amounted to KGS 528.4 billion; in comparison with the corresponding period of the previous year, the amount decreased by KGS 61.3 billion or 13.1 percent. Money issuances increased by KGS 71.3 billion or 15.2 percent and amounted to KGS 538.7 billion.

## **Payment System**

The level of financial risks in the payment system was kept to a minimum as the participants of the system maintained rather high level of liquidity. The turnover ratio amounted to 1.39; the liquidity ratio – 0.72. The rise in the turnover ratio was due to a larger decline in the liquidity of the system with respect to changes in the amount of debit turnover.