

**National Bank of the Kyrgyz Republic**

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# **Inflation Report**

**October 2009**

## ***Inflation Report***

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The publication contains the description of consumer prices in the republic and its regions, the analysis of major inflation factors and informs on National bank's decisions of the Kyrgyz Republic about the goals and results of the monetary policy and reports on the inflation forecast for the forthcoming period. The report is published quarterly in the Kyrgyz, Russian and English languages.

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## **Other Publications of the National Bank of the Kyrgyz Republic**

### ***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.

### ***Bulletin of the National Bank of the Kyrgyz Republic***

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.

### ***Balance of Payments of the Kyrgyz Republic***

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.

### ***Banking System Development Trends***

This publication provides an analysis and assessment of the development of Kyrgyz banking system as a financial intermediary, and components of its stability. It is published semiannually in Kyrgyz, Russian and English languages.

### ***Statutory Acts of the National Bank of the Kyrgyz Republic***

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

In January to September 2009 GDP reached Som 137 223.6 million, having increased by 2.9 percent in real terms in comparison with the similar period of the last year (real growth for January through September 2008 was 5.9 percent). Changes in the GDP structure for the first half<sup>1</sup> of 2009 testify that economic slowdown was caused by, first of all, an essential reduction of household expenditures for final consumption – by 8.0 percent (in the first half of 2008 the increase in expenses household final consumption amounted to 19.1 percent).

**Table 1.1.1. GDP by expenditures**  
(at current prices, million Soms)

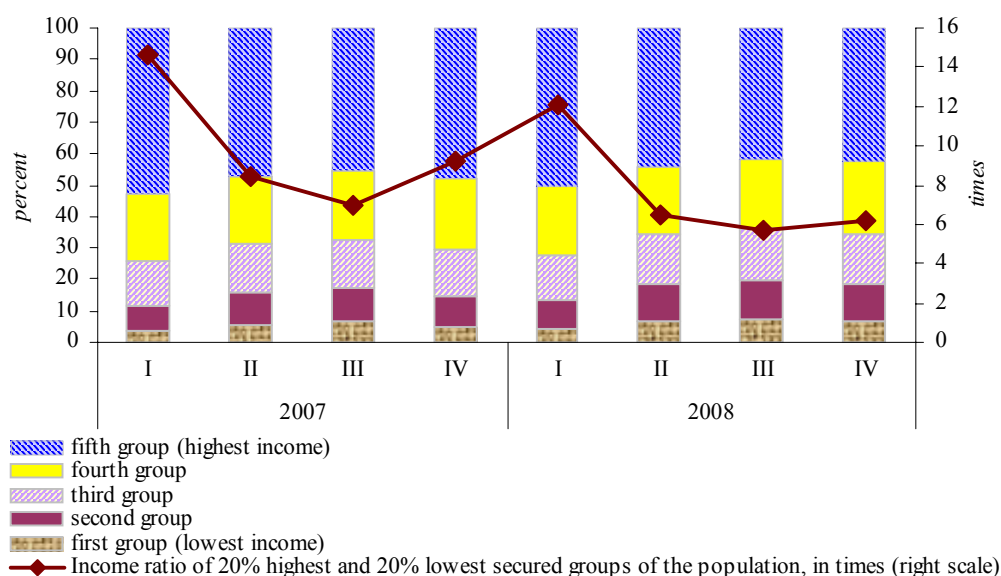
	2008				2009	
	I	II	III	IV	I	II
<b>GDP</b>	<b>28 143.9</b>	<b>37 192.7</b>	<b>62 299.4</b>	<b>55 623.4</b>	<b>32 217.6</b>	<b>43 881.1</b>
Final consumption	40 333.4	48 482.3	62 416.9	55 248.6	42 616.2	46 027.6
Private consumption	37 791.9	45 046.1	58 937.7	50 812.1	39 646.9	42 035.7
Households	34 143.1	39 690.1	53 755.3	44 201.6	35 344.5	36 121.9
NPOSHs	747.9	849.3	1 078.2	1 350.8	880.2	1 146.9
State agencies	2 900.9	4 506.7	4 104.2	5 259.7	3 422.2	4 766.9
Collective consumption	2 541.5	3 436.2	3 479.2	4 436.5	2 969.3	3 991.9
Investment	4 078.5	9 684.2	15 630.9	16 647.4	4 270.2	7 486.0
Net exports of goods and services	-17 224.9	-19 929.5	-17 045.3	-15 957.0	-13 108.8	-9 632.5
Export	15 214.1	23 621.1	28 047.1	34 672.1	18 652.2	27 227.8
Import	-32 439.0	-43 550.6	-45 092.4	-50 719.1	-31 761.0	-36 860.3
Statistical discrepancy	956.9	-1 044.3	1 296.9	-315.6	-1 560.0	-2 049.7

Source: NSC

In January-August 2009 there was a slight slowdown in the rates of growth of real wages. For instance, in January-August 2009 real growth of wages was 7.0 percent, whereas during the same period in 2008 real growth was 7.2 percent. It should also be noted that in Batken region real wages fell by 3.9 percent and in Chui region - by 0.4 percent.

A differentiation of household income still continues to remain significant. A distribution of total cash earnings by 20 percentage groups of the population develops in favor of high income groups. For instance, the share of earnings of the most welfare group in January to December 2008 was 42.3 percent of total household income, having thus decreased by 4.5 percentage points in comparison with the similar period of 2007. The share of earnings of 20 percent of the least privileged population grew by 1.6 percentage points and was 6.8 percent.

<sup>1</sup> Here and hereinafter: the reference to earlier periods of time due to lack of data for the third quarter of 2009.

**Chart 1.1.1. Income structure by quintile groups***(from the beginning of the year)*

In January-September 2009 there was a decrease in remittances inflow. Total net inflows for January-September 2009 against the same period in 2008 decreased by US\$ 193.1 million or 23.3 percent.

**Table 1.1.2. Remittances of individuals in money transfer systems***(in millions of USD)*

	2007	2008	Jan-Sep.'08	Jan-Sep.'09**
<b>Net inflow</b>	<b>625.5</b>	<b>1 138.2</b>	<b>828.3</b>	<b>635.2</b>
<b>Inflow</b>	<b>688.2</b>	<b>1 205.5</b>	<b>876.4</b>	<b>685.2</b>
CIS	648.8	1 141.4	828.7	628.9
Kazakhstan	7.0	27.9	18.4	23.1
Russia	641.8	1 113.5	810.2	605.7
Other	0.0	0.1	0.1	0.0
Foreign countries	39.4	64.1	47.7	56.3
Belgium	0.1	0.5	0.3	0.4
Great Britain	0.9	1.8	1.4	1.0
Germany	0.1	0.2	0.1	0.5
USA	38.3	61.4	45.7	54.1
Other	0.0	0.2	0.2	0.2
<b>Outflow</b>	<b>62.7</b>	<b>67.3</b>	<b>48.1</b>	<b>50.0</b>
CIS	60.2	65.0	46.2	48.9
Kazakhstan	0.2	2.5	2.3	0.2
Russia	60.0	62.5	44.0	48.8
Other	0.0	0.0	0.0	0.0
Foreign countries	2.5	2.3	1.8	1.1
Belgium	0.1	0.1	0.1	0.1
Germany	0.2	0.4	0.4	0.1
USA	2.1	1.7	1.3	0.8
Other	0.1	0.1	0.0	0.0

\* - Anelik, Blizko, Contact, Migom, MoneyGram, Western Union, Unistream, Zolotaya Korona, Leader, Sibkontakt, Bystraya pochta, Allure and other transfer systems and transfers through the State Enterprise "Kyrgyzpochtasy"; excluding extra-evaluation of the NBKR

\*\* - Preliminary data

According to the Ministry of Finance of the Kyrgyz Republic data, the state budget deficit in January-September 2009 amounted to Som 1 207.8 million being 0.9 percent of GDP. However, excluding grants from foreign states, the state budget was executed with a deficit of Som 4 030.0 million or 7.0 percent of GDP.

State budget expenditures for operating activities in January to September 2009 totaled Som 34 325.2 million, having thus increased by 34.6 percent or by Som 8 825.8 million. Growth of budget expenditures resulted from an increase by 25.4 percent under the category “labor remuneration” having thus contributed to total growth of budget expenditures by 9.4 percentage points.

According to a functional classification of budget expenditures growth of expenditures was observed with regard to all of the groups, in particular, growth of expenditures for economic issues (4 times), health (by 36.9 percent) and education (by 21.6 percent).

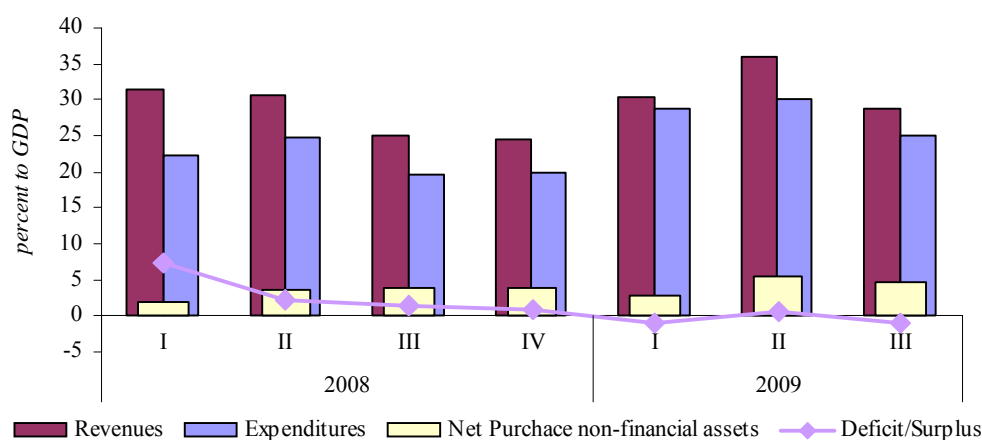
Besides, there was also an increase in capital expenditure representing operations on purchases of non-financial assets A net outflow of funds on these operations totaled Som 6 319.6 million or was 4.9 percent of GDP (in January-September 2008 - Som 4 958.8 million or 3.8 percent of GDP).

In the light of overall slowdown in business activity, reduction of the volume of imports and changes in tax legislation the rate of growth of budget revenue significantly slowed down. Total income and official transfers amounted to Som 39 436.9 million (28.7 percent of GDP), having increased over the corresponding period of the previous year by 21.8 percent versus 35.3 percent in 2008.

Keeping the budget deficit at a relatively low level was ensured, as already noted, by receipts of official transfers in the sum of Som 7 054.6 million from foreign organizations and countries, including the grant from Russia, that provided positive estimated contribution to the overall increase at 20.1 percentage points, while tax and non tax revenue - at 1.7 percentage points

**Chart 1.1.2. State Budget Execution**

(from the beginning of the year)



In January to September 2009 the volume of investments in fixed assets grew by 27.0 percent compared to the same period of 2008. Growth was achieved mainly due to growth of domestic funding sources. For example, investment from the state budget

increased by 2.5 times, from individuals - by 37.4 percent, own funds of enterprises and organizations - by 24.7 percent. However, investments to real sector through bank loans significantly reduced. But there was an increase of loans from non-bank financial organizations.

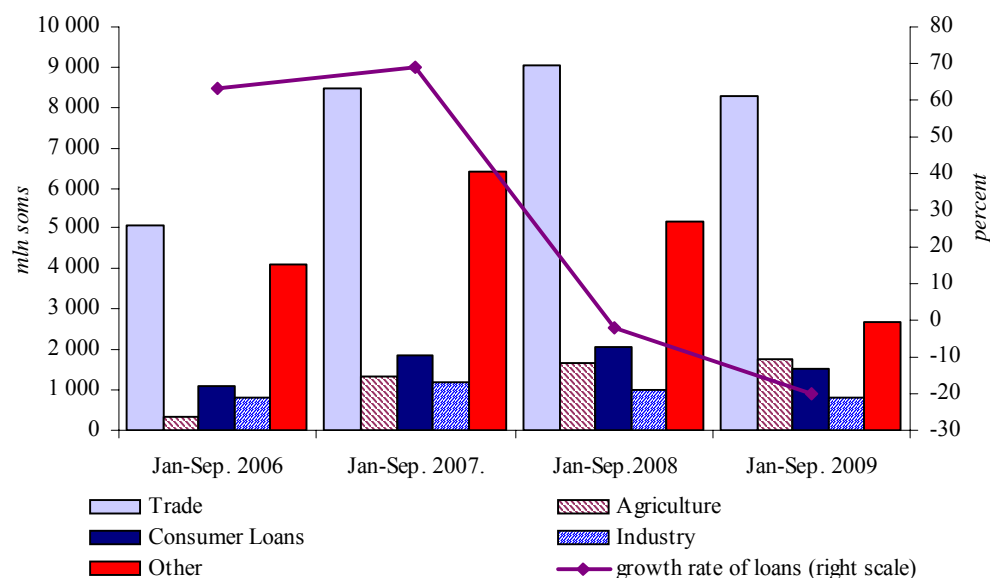
**Table 1.1.3. Investment in fixed capital by sources of funding**

	mln. soms		in percent to total	
	Jan-Sep. 2008	Jan-Sep. 2009	Jan-Sep. 2008	Jan-Sep. 2009
<b>Total</b>	<b>17 947.1</b>	<b>23 975.7</b>	<b>100.0</b>	<b>100.0</b>
<b>Domestic investments</b>	<b>11 902.1</b>	<b>17 995.9</b>	<b>66.3</b>	<b>75.1</b>
State budget (including emergency fund)	1 764.7	4 523.6	9.8	18.9
Local budget	298.5	337.0	1.7	1.4
Funds of enterprises and organizations	4 541.9	6 022.8	25.3	25.1
Loans	136.8	24.7	0.8	0.1
Individuals	5 159.7	7 087.6	28.7	29.6
Charity aid	0.5	0.2	0.0	0.0
<b>Foreign investments</b>	<b>6 045.0</b>	<b>5 979.8</b>	<b>33.7</b>	<b>24.9</b>
Foreign loans	2 832.0	3 742.4	15.8	15.6
Foreign direct investments	2 666.5	1 628.0	14.9	6.8
Foreign grants and humanitarian aid	546.5	609.4	3.0	2.5

Source: NSC

Following nine months of 2009 the volume of loans granted by the banking sector amounted to Som 15.1 billion, having decreased by 20.3 percent. The reduction was observed in credits to all industries excluding credits to agriculture and communications. For instance, credits for trade having the largest share in the overall flow of credit - 55.1 percent in January-September 2009 - decreased by 8.1 percent. The volume of loans for consumer purposes also declined to 24.5 percent and their share in the total flow of credit amounted to 10.2 percent. Mortgage lending has fallen by more than 70 percent compared to January-September 2008 bringing their share in the overall flow of credit from 5.7 to 2.1 percent. Meanwhile, loans to agriculture increased by 5.0 percent and their share in the total flow of credit in January-September 2009 amounted to 11.6 percent.

**Chart 1.1.3. Sectoral structure of loans**



### 1.1.2. Supply

The main contribution to the GDP growth in January-September 2009 has been made with agriculture, trade, construction, transport and communications. However, in general, since the beginning of this year, the economy experienced a significant slowdown in economic growth, marked mainly by a decrease in industrial production as a result of lower demand from the country's main trading partners (Kazakhstan, Russia and China) during the global financial and economic crisis.

**Table 1.1.4. The contribution of selected activities in the growth / decline in GDP**

	January-September 2008		January-September 2009	
	growth rate, percent	contribution to growth, pp	growth rate, percent	contribution to growth, pp
<b>GDP</b>	<b>5.9</b>	<b>5.9</b>	<b>2.9</b>	<b>2.9</b>
Gross value added	5.9	5.1	2.9	2.5
Agriculture, hunting and forestry	1.5	0.4	5.0	1.4
Mining	-3.1	0.0	3.2	0.0
Manufacturing	13.9	1.3	-12.7	-1.3
Production and distribution of electricity, gas and water	-3.0	-0.1	-8.2	-0.2
Construction	-21.2	-0.7	30.3	0.8
Trade, repair	7.4	1.2	4.3	0.8
Hotels, restaurants	9.9	0.1	5.4	0.1
Transport and communication	29.9	2.3	6.7	0.6
Financial activity	15.8	0.1	8.2	0.1
Real estate, renting	7.8	0.2	1.8	0.0
Governance	1.7	0.1	4.6	0.2
Education	1.3	0.1	1.0	0.0
Health care and social services	-0.4	0.0	-0.3	0.0
Provision of communal and personal services	3.5	0.1	-0.4	0.0
Net taxes on products	5.9	0.8	2.9	0.4

Following nine months of 2009 the bulk of the aggregate supply of goods and services was achieved in agriculture (25.8 percent of GDP), trade (18.5 percent) and transport and communication sectors (9.7 percent).

The output of agriculture, hunting and forestry in January-September 2009 compared with the corresponding period of the previous year increased by 5,0 percent and amounted to 35 440.6 million Soms. At the end of September this year crops were harvested from 83.8 percent of the harvesting area; threshed grain (initial weight) increased by 18.0 percent over the same period of 2008. At the end of September 2009 the average yield of grain crops in the republic amounted to 30.5 quintals per hectare (in the original canceled weight) against 23.8 quintals per hectare in the corresponding date last year.

The volume of trade rose by 4.0 percent against 6.8 percent in the corresponding period of 2008. In the structure of trade growth of retail trade decreased from 7.6 percent in January-September 2008 to 4.6 percent due to reduced purchasing power of the population. In addition, in line with weaker demand of the main trading partners, there was also a slowdown in wholesale trade by 2.9 percent.

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

	January-September 2008		January-September 2009	
	growth rate, percent	share, percent	growth rate, percent	share, percent
<b>Trade</b>	<b>6.8</b>	<b>100.0</b>	<b>4.0</b>	<b>100.0</b>
Trade for automobiles and spare parts	16.8	3.2	1.2	3.4
Maintenance and repair of automobiles	27.5	0.6	6.1	0.6
Retail sale of motor fuel	6.5	7.8	32.3	6.9
Wholesale	4.7	35.9	-2.9	34.3
Retail	7.3	52.3	4.6	54.5
Repair of household products	21.2	0.2	4.3	0.3

## 1.2. Monetary trends

### Monetary base

Monetary base on October 1, 2009 amounted to Som 36 510.6 million, having increased by 7.0 percent in the third quarter of 2009 in nominal terms (in the third quarter of 2008 the increase was 7.4 percent).

In the third quarter of 2009 the change of the monetary base by operations (Som 2 376.6 million) was influenced by the operations of the National Bank that increased the monetary base by Som 1 195.7 million as well as by operations of the Government of the Kyrgyz Republic, that expanded the monetary base by Som 1 180.8 million (in the third quarter of 2008 the increase of the monetary base amounted to Som 2 408.6 million while the National Bank operations increased the monetary base by Som 3 648.5 million; Government operations reduced the monetary base by Som 1 239.9 million).

Currency in circulation on October 1, 2009 amounted to Som 31 107.5 million having increased by 5.2 percent in the third quarter (in the third quarter of 2008 the increase was 7.7 percent).

In the monetary base structure in comparison with the beginning of 2009 there was a decrease of the share of currency in circulation from 87.6 to 85.2 percent. Accordingly the share of funds on correspondent accounts of commercial banks with the National Bank increased from 12.4 to 14.8 percent.

### Aggregate M2

Money supply M2 on October 1, 2009 amounted to Som 38 004.8 million, having increased by 4.6 percent for the third quarter of this year (in the third quarter of 2008 the increase was 6.4 percent). Growth of the volume of aggregate M2 was due to the increase of money outside the banks by 5.6 percent and deposits in national currency by 1.4 percent. This increase in other (term) deposits amounted to 8.8 percent and the reduction in transferable deposits (demand deposits) constituted 1.8 percent.

### Aggregate M2X

Volume of broad money M2X including deposits in foreign currency on October 1, 2009 amounted to Som 49 543.9 million and increased by 6.3 percent in the third

quarter of 2009 (in the same period in 2009 the increase was 5.9 percent). Change of the broad money M2X occurred due to the increase in total deposits<sup>1</sup> by 7.4 percent and money outside the banks by 5.6 percent (in the third quarter of 2008, the change of M2X was observed due to the increase of money outside the banks by 8.0 percent and the total volume of deposits by 3.1 percent). The increase of deposits in foreign currency amounted to 12.3 percent, while the deposits in national currency - 1.4 percent.

*On January 1, 2009, commercial banks moved to an independent chart of accounts. In this case, part of the deposits earlier reflected as deposits of non-commercial organizations were now reflected as deposits of the Social Fund, and the deposits of the Social Fund are not part of the deposit base that serves as the basis for calculation of broad money M2X.*

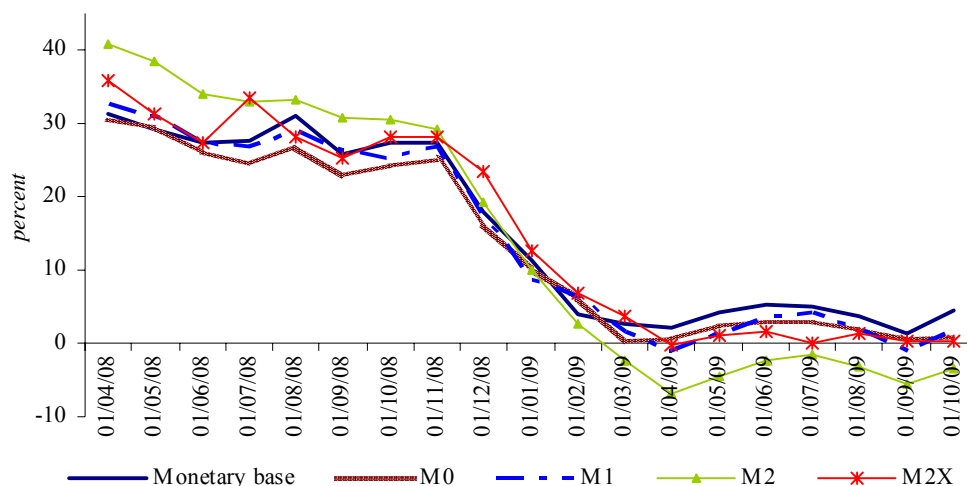
The structure of broad money M2X at the end of September 2009, compared with the beginning of the year, was changed as follows:

- The share of money outside the banks decreased from 60.6 to 59.4 percent;
- The share of deposits in national currency decreased from 18.2 to 17.3 percent;
- The share of deposits in foreign currency increased from 21.1 to 23.3 percent.

Multiplier of broad money M2X characterizing a degree of financial intermediation declined in comparison with the beginning of the year and on October 1, 2009 amounted to 1.357 (as of January 1, 2009 - 1.378).

Velocity of circulation of M2X on October 1, 2009 amounted to 4.4 (as of January 1, 2009 - 4.1). The economy monetization ratio calculated on the basis of monetary aggregate M2X amounted to 22.9 percent (as of January 1, 2009 - 24.5).

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

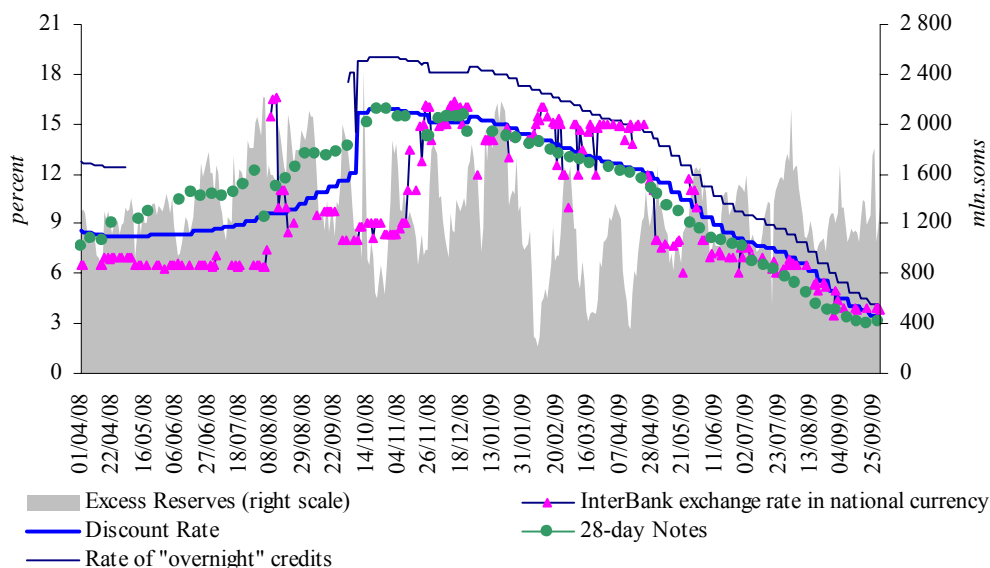


In the third quarter of 2009, the situation in the financial market was formed in a high level of liquidity in the banking system and the continuing decline in inflation which

<sup>1</sup> According to the analytical balance of the banking system, total deposits includes only deposits of legal entities and individuals as well as deposits of other financial and credit institutions excluding the deposits of the Government and non-residents.

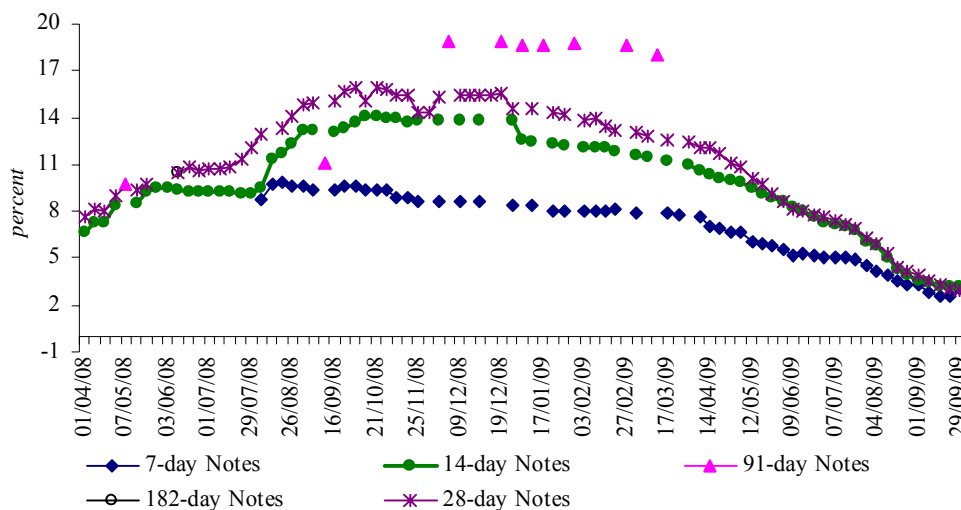
positively affected the dynamics of interest rates in all market segments. The decrease in the interest rates was noted with regard to all of segments of the money market in the reporting period.

**Chart 1.2.2. Dynamics of money market rates**



In the third quarter of 2009 the National Bank continued to use NBKR notes as a tool of withdrawal of excess liquidity from the banking system, while maintaining their supply at the level of the previous quarter. High level of excess reserves in the commercial banks remained the demand for notes from investors at a high level, that was reflected in the decrease in the yield of notes in all segments of note market. The auctions of 91 and 182-day NBKR notes in the reporting period were not conducted. On average, for the third quarter of 2009 the yield 7-day notes compared with the second quarter decreased by 2.3 percentage points to 3.8 percent, 14-day NBKR notes by 4.2 percentage points to 4.9 percent, in the segment of 28-day notes by 4.8 percentage points to 5.1 percent. Compared with the third quarter 2008 the yield of 14-day NBKR notes has decreased by 6.4 percentage points, the yield 28-day notes - by 8.2 percentage points.

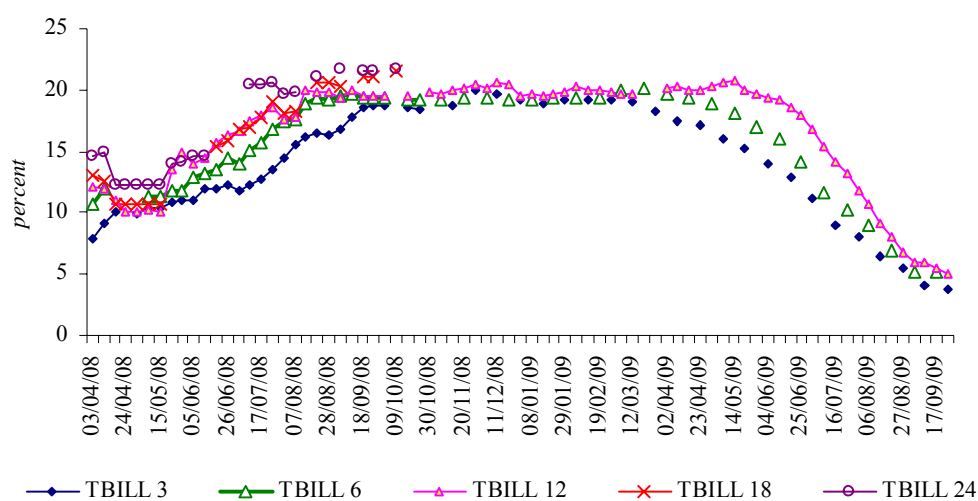
**Chart 1.2.3. Dynamics of the yield of the NBKR notes**



Discount rate defined as the average value of the yield 28-day NBKR notes formed at the last 4 auctions was 3.3 percent at the end of September, having decreased by 4.9 percentage points as compared with the beginning of the quarter. The rate of overnight credits was 3.9 percent at the end of the period. In the third quarter, National Bank did not issue overnight credits to the commercial banks.

Ministry of Finance in the third quarter slightly increased the supply of its bills (by 1.6 percent), placing as before alternately weekly 3 - and 6-month STB, and 12-month STB – on weekly basis. The demand for Government Treasury Bills exceeded the supply in all auctions. The demand has increased by 23.1 percent as compared with the previous quarter. As a result, during the quarter in all segments of STB market some profitability decrease was noted. As a whole for the quarter the total average yield of STB was 8.8 percent having thus decreased by 9.0 percentage points as compared with the previous quarter, of which the yield in the segment of 3-month STB decreased by 9.1 percentage points to 6.4 percent, 6-month STB - by 9.3 percentage points to 8.1 percent, and in the segment of 12-month STB - by 10,1 percentage points to 9.5 percent. In comparison with the similar quarter of 2008 general yield level of STB fell by 9.2 percentage points, and the decrease in the yield was observed in all of the segments of the market.

**Chart 1.2.4. Dynamics of Yield ST-Bills**



Downward trend in interest rates in the interbank credit market was caused by low inflation. Besides, in conditions of persistent high level of liquidity in commercial banks, the demand for borrowed funds in national currency decreased in the reporting quarter which affected the subsequent decrease in rates in this segment. However, the activity of commercial banks in the segment of interbank credits in foreign currency markedly increased – the volume of transactions increased by 2.3 times compared with the rate in the corresponding quarter last year. The shortening of transactions time and the general downward trend in rates in the financial market affected to lower rates in this segment. In general, the interest rate in the repo operations segment decreased by 4.5 percentage points and was 5.5 percent in the quarter under review in comparison with the rate for the second quarter. The rate of interbank credits in national currency decreased by 3.4 percentage points to 5.2 percent. Compared to the weighted average interest rate on

repo-operations in the third quarter of 2008 this rate decreased by 3.8 percentage points and on interbank credits in national currency - by 1.9 percentage points.

In the domestic interbank credit market – in the segment of operations in foreign currency, the weighted average interest rate was 5.2 percent, down 5.2 percentage points.

During the quarter, the National Bank did not hold auctions to sell T-BILLS(s) on repo and swap operations with the commercial banks. The commercial banks did not allocate funds on the time deposit accounts with the NBKR.

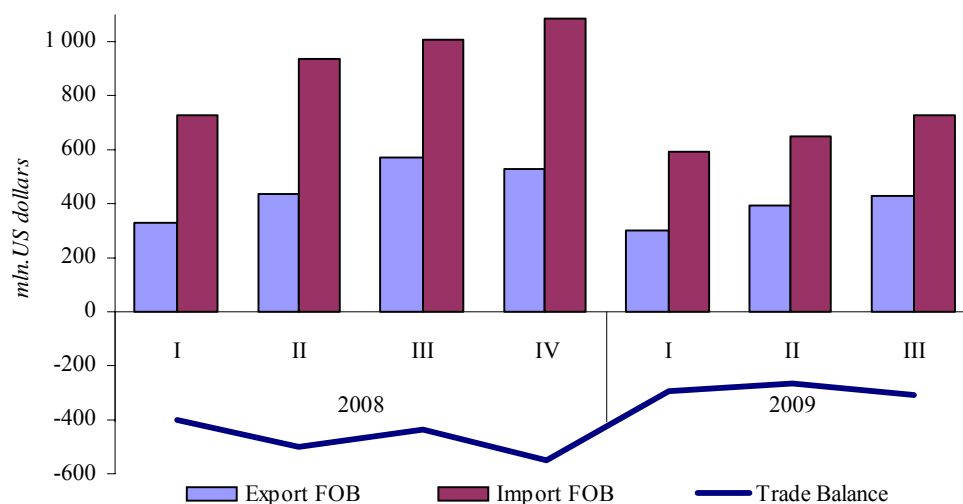
### 1.3. External economic conditions

#### Trade Balance

According to the preliminary data, the trade deficit of the Kyrgyz Republic for the third quarter 2009 amounted to US\$ 305.3 million, having thus decreased by 29.6 percent compared to the third quarter of 2008.

The volume of foreign trade turnover<sup>1</sup> for the third quarter of 2009 amounted to US\$ 1 158.0 million while reducing to 26.7 percent over the same period of 2008. The current trend is due to decline in both export and import operations. Trade with CIS countries in the reporting period decreased by 24.8 percent and with non-CIS countries - by 29.4 percent.

Chart 1.3.1. Foreign Trade



Exports of goods (FOB)<sup>2</sup> in the analyzed period was formed in the amount of US\$ 426.4 million against 573.2 million in the third quarter of 2008. Exports to CIS countries decreased by 31.1 percent, in non-CIS countries by 17.1 percent. Exports of gold rose by 17.8 percent in value terms amounted to US\$ 122.4 million, while the volume

<sup>1</sup> According to NSC KR and SCC KR taking into account NBKR extra-evaluation.

<sup>2</sup> According to NSC KR and SCC KR taking into account NBKR extra-evaluation.

of shipments of the precious metal rose by 8.1 percent. Exports, excluding gold fell by 35.2 percent in value and volume totaled US\$ 304.0 million.

The functional structure of exports<sup>1</sup> in the third quarter of 2009 had the largest share of exports for intermediate goods - 40.4 percent and the value totaled US\$ 141.5 million. In this category there was a decrease in the supply of 15.1 percent. With a specific weight of 86.5 percent, the largest commodity item in this category was gold, with output in the third quarter, compared with its volume in the corresponding period in 2008 increased by 17.8 percent or US\$ 18.5 million. During the quarter supply of portlandcement significantly reduced. Export of rolled glass, in relation to its exports in the third quarter of 2008 went down by 91.7 percent. Value of shipments of scrap and wastes of ferrous and non-ferrous metals fell by 54.4 percent.

Exports of energy products in the third quarter of 2009 decreased by 49.7 percent and amounted to US\$ 83.0 million. The current trend is attributable to reduced re-exports of petroleum products to third countries by 65.0 percent or US\$ 91.0 million. However, this decline was partially offset by increased electricity exports, which amounted to US\$ 33.8 million, which is 45.1 percent increase over the third quarter of 2008, while the volume of electricity exports increased by 16.1 percent.

Deliveries of consumer goods to foreign markets fell by 27.0 percent and formed in the volume US\$ 65.9 million. Approximately equal numbers were assigned specific weights of food and nonfood products in a given functional category. Export of fruits and nuts decreased by 38.7 percent or US\$ 9.0 million. Exports of vegetables fell by 28.5 percent or US\$ 1.8 million, with volume shipments of these products declined by 8.3 percent. Milk and dairy products have been exported by 34.0 percent or US\$ 1.9 million less, while the volume of shipments of goods fell only 9.7 percent. Amid the structure of non-food products there was a decline in exports of clothing and clothing accessories (by 23.9 percent or US\$ 5.7 million) and a slight increase in exports of electric incandescent lamps (by 5.1 percent or US\$ 0.3 million).

Exports of raw materials in the analyzed period fell by 40.2 percent. In the commodity structure of this category supply of chemicals decreased by 23.0 percent or US\$ 11.5 million, raw hides - by 81.0 percent or US\$ 2.4 million, cotton – by 84.1 percent or US\$ 2.4 million.

The main partners of the Kyrgyz Republic for export operations in the third quarter of 2009 were the United Arab Emirates (25.8 percent of total exports), Kazakhstan (16.6 percent), Russia (15.2 percent), Uzbekistan (14.2 percent), Switzerland (10.3 percent).

According to preliminary data, imports of goods<sup>2</sup> in FOB prices in the third quarter of 2009 was US\$ 731.6 million, and went down to 27.3 percent compared with this indicator in the corresponding quarter of 2008. Imports from CIS countries decreased by 21.1 percent, and from non-CIS countries - at 36.0 percent.

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<sup>1</sup> According to NSC KR and SCC KR taking into account NBKR extra-evaluation.

<sup>2</sup> CIF import taking into account extra-evaluation made US\$ 792.4 million, trade balance deficit – US\$ 366.0 million.

At the end of the third quarter of 2009, the largest category in the functional structure of imports<sup>1</sup> were energy products providing 31.6 percent of total imports. Imports of energy products amounted to US\$ 250.0 million, a decrease of 32.5 percent, than in the corresponding period of 2008. Noted a decrease in imports of jet fuel, gasoline and diesel fuel as a result of the influence of falling contract prices for these fuels. The volume of imports of natural gas in the third quarter of 2009 compared to the same quarter of 2008 decreased by 70.6 percent or 93.4 million cubic meters. Import price for this type of fuel increased by 1.7 times, and overall value of imports of natural gas declined from 19.2 million in the third quarter of 2008 to US\$ 9.8 million in the considered period. Also the import of crude oil reduced by 97.8 percent. Due to rising prices there was increase in the value of imports of coal.

Imports of consumer goods in the reporting period decreased by 32.0 percent and amounted to US\$ 215.8 million. This trend has developed under the influence of the reducing import of non-food products by 45.7 percent or US\$ 102.6 million, while import of food products increased by 1.1 percent or US\$ 1.1 million in absolute terms. Amid non-food products there was a decrease in import of cars, shoes, clothes and clothing accessories. Basic commodity items in import of food products were mainly those of sugar (an increase by 41.7 percent or US\$ 5.2 million), meat and meat products (an increase by 5.4 percent or US\$ 0.6 million), chocolate products (a decrease by 27.1 percent or US\$ 2.9 million), flour (a decrease by 78.3 percent or US\$ 10.7 million), vegetable oils (an increase by 29.7 percent or US\$ 1.9 million).

Intermediate goods in the third quarter of 2009 were imported by 19.3 percent less compared to the same period in 2008. In this category there was a decrease of import of such basic commodities as iron and steel and articles thereof (by 19.7 percent or US\$ 6.0 million), textiles (by 55.0 percent or US\$ 11.8 million), fertilizer (by 80.8 percent or US\$ 10.2 million), car parts and accessories (by 36.1 percent or US\$ 3.7 million), rubber tires (by 29.4 percent or US\$ 3.5 million).

Demand for investment goods fell by 28.8 percent, including decrease in import of telephones, trucks and special vehicles, various equipment, hand and machine tools.

In the third quarter there was an increase in import of category “raw materials” by 20.5 percent, while the value of imports made US\$ 43.0 million. In the commodity structure of this category there was an increase of imports of grain by 44.7 percent or US\$ 4.1 million in absolute terms due to increase in volume. In addition, there was a twofold increase in imports of inorganic chemicals.

The largest suppliers of imported goods in the reporting period were Russia (42.8 percent of total imports), China (16.3 percent), Kazakhstan (10.3 percent), Uzbekistan (2.9 percent).

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<sup>1</sup> According to NSC KR and SCC KR.

## 1.4. Exchange rate

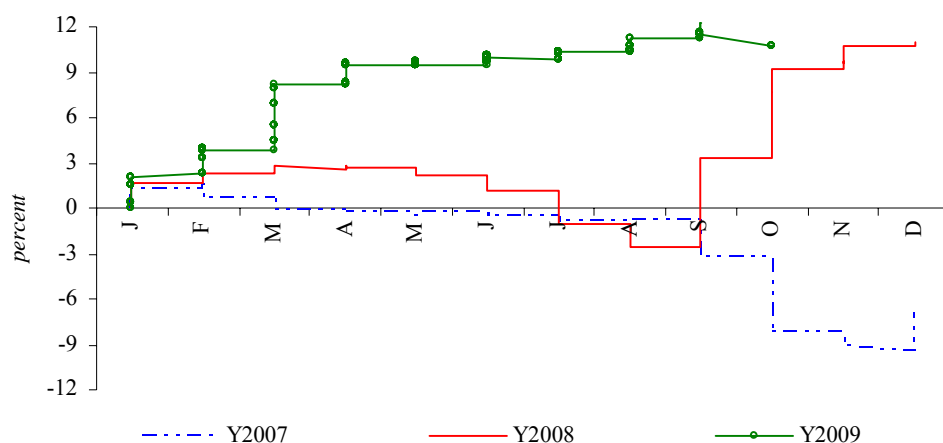
The US dollar exchange rate continued weakening against major foreign currencies in international markets in the third quarter of 2009. At the same time the foreign exchange market of the Kyrgyz Republic observed the opposite trend, where the US dollar strengthened until the third decade of September, after which became slightly weaker. Such a higher rate of weakening of the national currency versus the US dollar was caused by excess demand for currency on its supply, by reducing the inflow of workers' remittances and foreign investment, as well as the high trade deficit.

To smooth sharp fluctuations of exchange rate the National Bank involved itself in the currency trading both as vendor and buyer of US dollars. For the third quarter as a whole, the volume of NBKR operations on sale of US dollar was \$ 19.0 million, having thus increased on 2.6 million in comparison with the second quarter. The volume of operations on purchases of US dollars rose by more than 3 times and totaled 38.5 million dollars.

The weighted average US dollar exchange rate at the foreign auctions for the quarter grew by 0.6 percent and was Som 43.5597 /US\$ 1.00 at the end of September. The US dollar exchange rate in exchange bureaus increased by 0.6 percent and was Som 43.4804 /US\$ 1.00.

The official US dollar exchange rate at the end of the third quarter was to Som 43.6293/ US\$ 1.00, having increased by 10.7 percent since the beginning of the year.

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



The dynamics of the Euro exchange rate developed, as before, on impact of its dynamics on foreign markets, as well as the changes in the exchange rate of the Som against the US dollar in the domestic market. Thus, in the exchange rate of Euro during the reporting period was steady growth and totaled Som 64.0151/Euro 1.00, became stronger by 5.6 percent for the quarter.

## Chapter 2. Inflation and its components

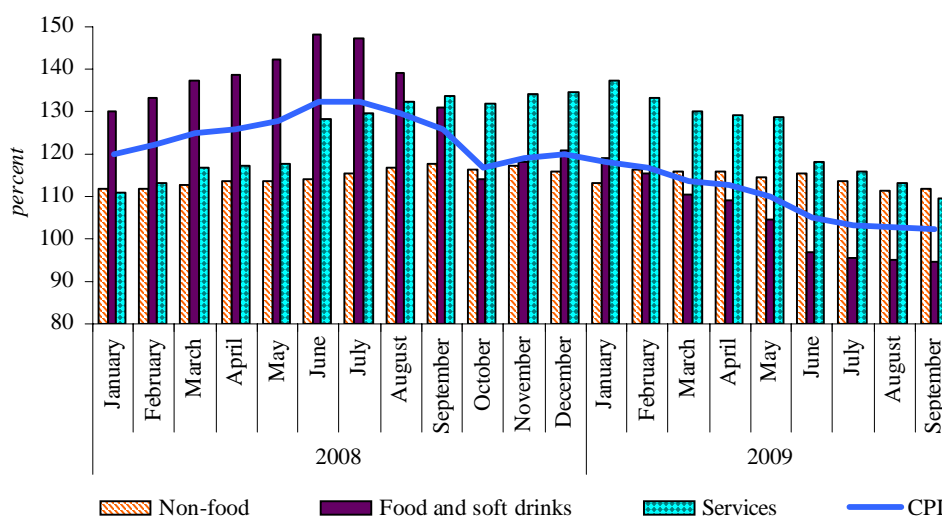
### 2.1. Consumer price index development by components and regions<sup>1</sup>

By the end of the third quarter of 2009 the overall price level continued to slowdown. In the reviewed period consumer prices decreased by 2.2 percent (in the third quarter of 2008 growth was 0.4 percent). The key factor, which determined a price behavior, was that of a downturn in the index of consumer prices of food products, while non-food and services prices had been increasing. In general, in the third quarter of 2009, the consumer price index of food was 94.3 percent, that of alcoholic beverages and tobacco goods – 100.8 percent, non-foods – 101.7 percent, services – 100.5 percent.

The year-on-year (September 2009 to September 2008) rate of inflation developed at the level of 2.1 percent (the corresponding parameter in 2008 was 32.3 percent).

Dynamics of the general price level was driven by the stabilization of world food and energy prices and the following downturn correction in prices, and consequently lower import prices, weaker domestic and foreign demand, as well as by the National Bank's and the Government's anti-inflationary measures.

Chart 2.1.1. Year-on-year CPI and its components



Determining factor in the overall level of consumer prices was still the dynamics of food prices due to their high share in the CPI basket (50 percent). Annual rate of food and soft drinks prices fell by 5.4 percent. The remaining groups of goods recorded a rise in prices: non-food inflation surged by 11.7 percent, services inflation – by 9.5 percent; prices for alcoholic beverages and tobacco increased by 6.8 percent.

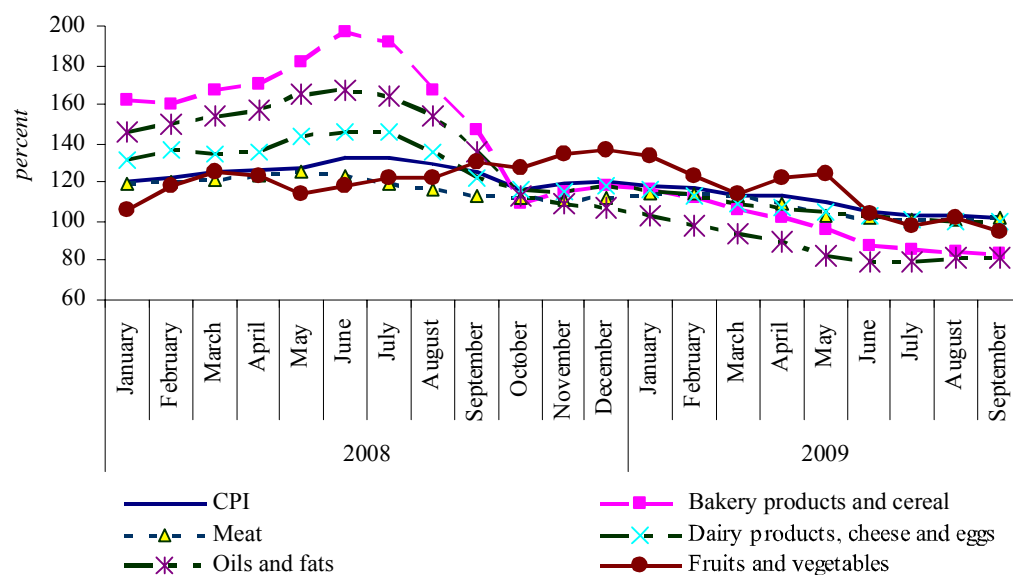
#### 2.1.1. Food products

Food prices are heavily influenced by both external and internal factors. Therefore, downward trend in world markets, liberalizing import prices effected domestic price situation as well. In September 2009 food products declined by 5.4 percent compared

<sup>1</sup> Data of the National Statistics Committee of the Kyrgyz Republic.

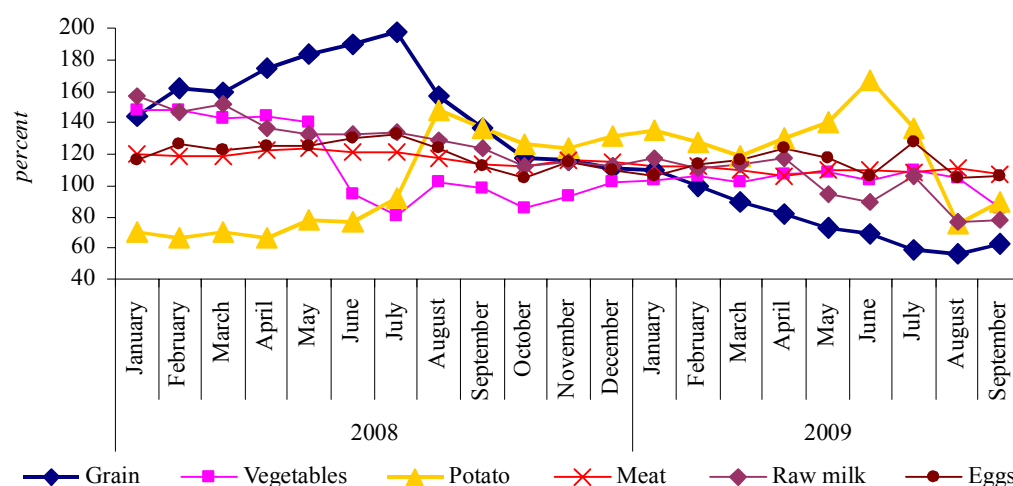
to the corresponding month of the previous year (an increase in prices for the same period in 2008 amounted to 31.0 percent). Such a dynamics in food prices was driven by the cheapening of bread and cereals, oils and fats, as well as fruits and vegetables.

Chart 2.1.2. Annual dynamics of food prices



A good harvest of grains and high carry-over stocks, as in the republic and in major trading partners, had a positive effect on the overall food prices dynamics. Producer price for agricultural products declined for almost all commodities. For instance, annual producer prices for grain fell by 37.3 percent, for vegetables - by 14.2 percent, for potatoes - by 11.1 percent. However, the rise in meat price (by 7.4 percent) and eggs (by 5.9 percent) continued.

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



The revised forecast of harvest of grain in Kyrgyzstan up to 1.0 million tons had a positive impact on the domestic market. The price index for bread, bakery products and cereals in the annual measure fell by 16.1 percent (for the corresponding period in 2008 - an increase of 46.4 percent), including grain prices having decreased by 9.3

percent. There was a continuous sharp fall in flour price – of 1<sup>st</sup> grade and high grade, by 34.7 and 26.6 percent respectively.

In the third quarter prices for fruits and vegetables significantly decreased (by 24.5 percent), including those for fruits – by 22.2 percent and vegetables - by 27.0 percent. However, the annual rate of change in fruit prices increased by 3.4 percent and in vegetable prices - by 13.3 percent. Reducing final stocks of sugar, low volume production of sugar beet, as well as rise in world prices led to a substantial increase in the cost of sugar in the country. Thus, the increase in prices for this product from the beginning of the year amounted to 17.6 percent, while in annual terms - 31.0 percent.

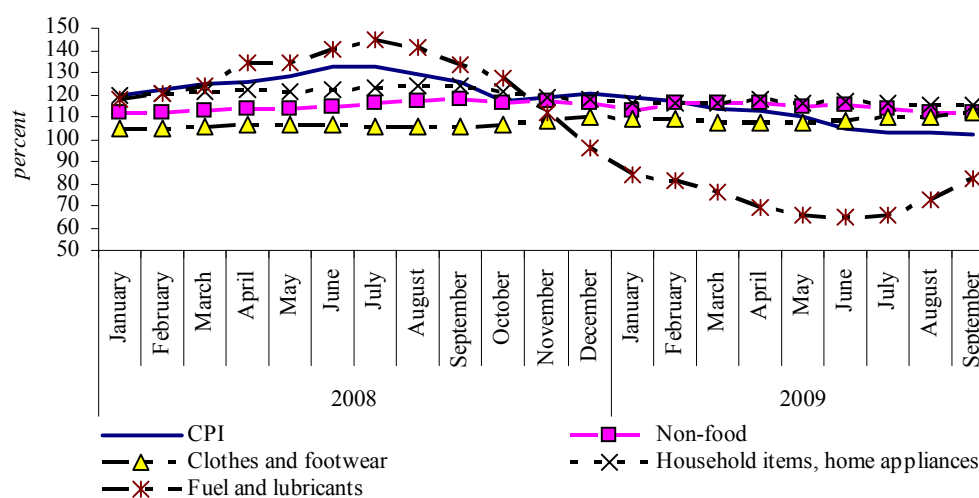
The domestic market of meat products over the past 12 months marked growth of the main types of livestock production, including output growth of livestock and poultry for slaughter (live weight) was 101.4 percent. In addition, local producers of meat products provided more than 90 percent of consumption requirements, which reduces the risks of negative influence of external factors. All this has become limiting factors of growth in prices for meat products (+2.4 percent in annual terms against 13.4 percent in the corresponding period in 2008). After a sharp rise in price of fats and oils in 2008, this year has marked a long period of decline. At the end of September 2009 there was a significant reduction in market prices of oils and fats, to a greater extent resulting from reducing import prices. Thus, prices for a group «oils and fats» fell to 18.9 percent by September 2009.

In the third quarter of 2009 milk prices decreased by 1.5 percent, whereas during the same period of the previous year this group of goods went up by 1.6 percent. Since the beginning of the year dairy products fell by 8.6 percent.

### 2.1.2. Non-food products

Increase in the price index for non-food items in September 2009, although somewhat slowed, but continued to remain high, accounting for 11.7 percent to September in 2008 (17.5 percent over the same period in 2008). Annual growth of prices for non-food products formed, mainly due to increase in the prices of items for household goods (14.8 percent), clothing and footwear (11.7 percent).

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

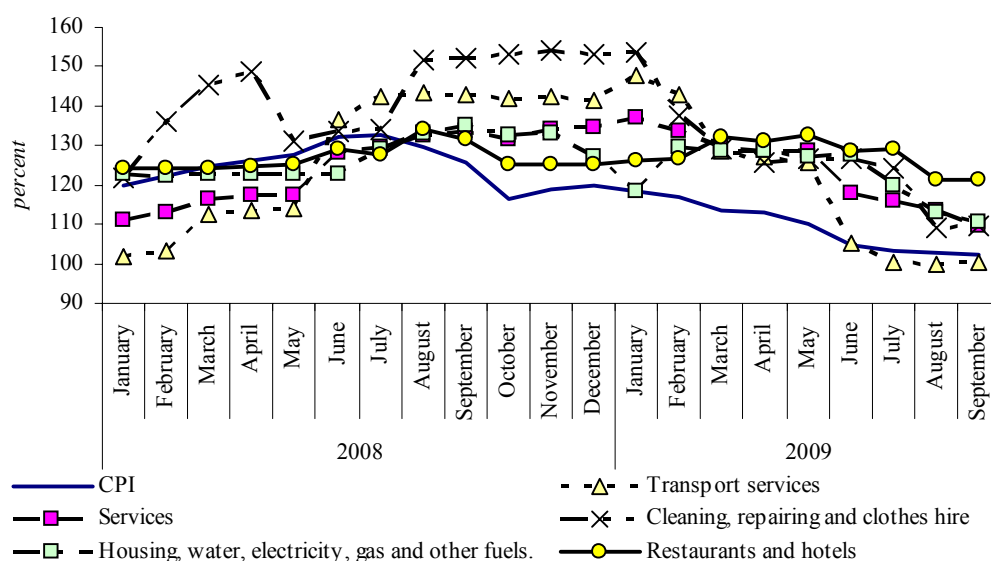


The low level of prices for lubricants continued to have a great impact on the price level. However, since the third quarter of 2009, there has been acceleration in the growth of prices for fuel, namely gasoline (38.4 percent), due to the increased world prices of oil that has created further risks of rise in prices at a more solid pace. Thus, prices of petroleum products on the domestic market decreased at a more moderate pace - by 17.4 percent year-on-year, including gasoline prices - by 11.9 percent and diesel fuel – by 38.0 percent.

### 2.1.3. Services

The annual price index for services rose by 9.5 percent at the end of the third quarter of 2009 (for the same period of the previous year - by 33.5 percent). The growth was mainly due to increased costs of restaurants and hotels (21.6 percent to the corresponding period in 2008). The price level for catering services remains high despite the reduction in food prices that most likely indicates a continued influence of the secondary effects of a surge in inflation rate in previous years. Price increases were also observed on housing services, which in the past 12 months increased by 10.3 percent. The annual rate of transport services prices remained almost unchanged (+0.4 percent). Meanwhile, the increase in prices of education services was 12.2 percent, for health services - 9.1 percent, communication services fell by 7.2 percent.

Chart 2.1.5. Annual dynamics of prices for paid services



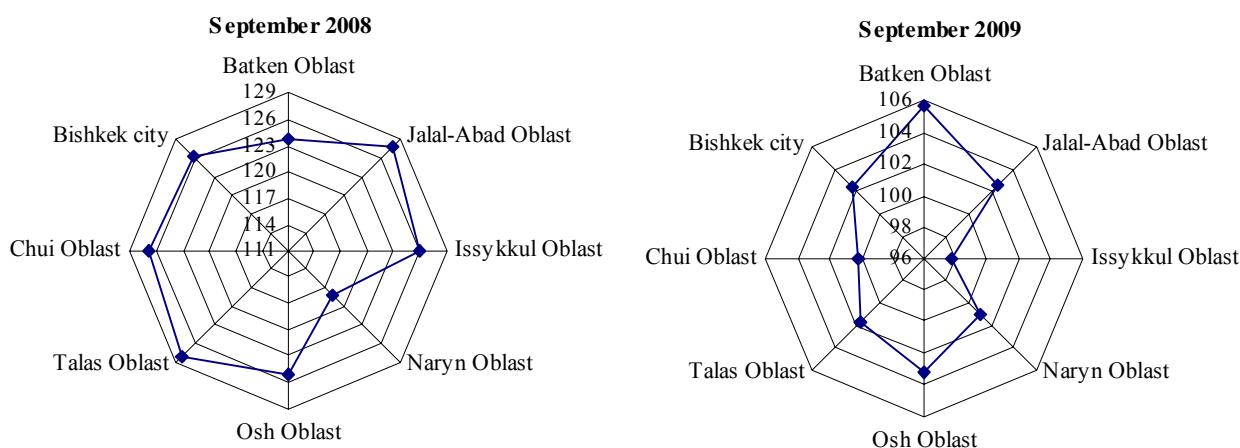
### 2.1.4. Consumer prices in the regions

As of September 2009 in all regions of the republic moderate inflation is observed, except the Issyk-Kul region where deflation is marked by 2.3 percent. The largest price increase at an annual rate was observed in Batken, Jalal-Abad and Osh, where the price increase was 5.7 percent, 2.6 percent and 3.3 percent respectively. The main factor for the growth of prices in these areas were more expensive non-food items and in some cases services. It should be noted that in the Batken region prices of alcoholic beverages and tobacco continued to rise (57.4 percent). In the capital of the republic an increase in prices was at 2.3 percent, while food fell by 6.7 percent, alcoholic

beverages, non-food goods and paid services went up by 5.2 percent, 13.4 percent and 12.9 percent respectively.

In Naryn, Talas and Chui regions the CPI inflation slightly increased by 1.0 percent, 1.7 percent and 0.1 percent respectively, mainly due to cheaper food products.

**Chart 2.1.6. Annual CPI in the regions**

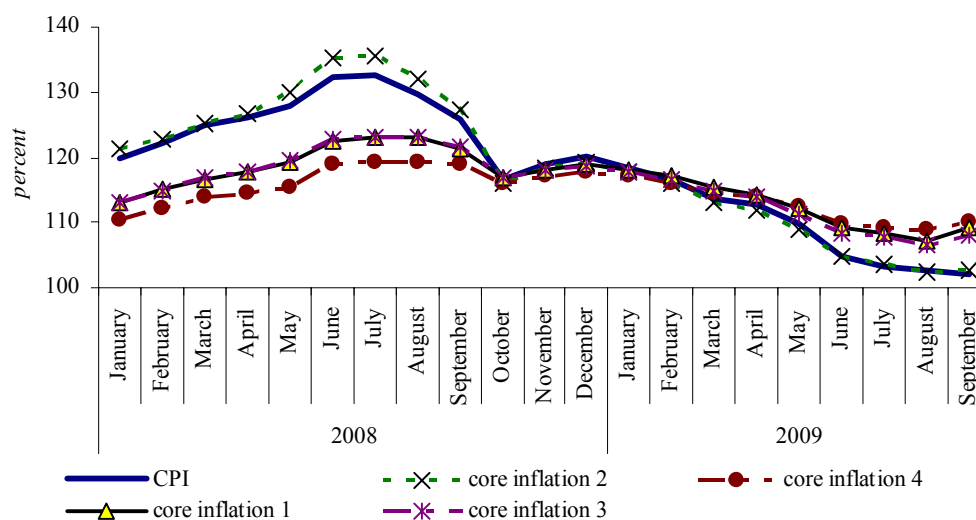


## 2.2. Core inflation

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 is removed from the calculation of the rate of inflation.

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

**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 completely.

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

### 3.1. Major decisions of the NBKR Board

Below is a list of key decisions of the Board of the National Bank of the Kyrgyz Republic on the monetary policy adopted in the third quarter of 2009:

1. In order to protect the economy from the adverse effects of the global financial crisis by providing additional resources of refinancing financial institutions, the functions of «Specialized Bank Refinancing Fund» Ltd.<sup>1</sup> were expanded to support and assist economic entities. Thus, in accordance with Article 43 of the Law «On National Bank of the Kyrgyz Republic» and Article 5 of the Charter of «SBRF» Ltd. July 29, 2009 the Board of the NBKR adopted:
  - Resolution № 32/7 «On Amendments to the Charter<sup>2</sup> of «Specialized Bank Refinancing Fund» Ltd. and the Resolution № 32/8 «On Amendments and Additions to the Policy of Bank<sup>3</sup> Refinancing of «Specialized Bank Refinancing Fund» Ltd., according to which the SBRF will credit not only banking but also the microfinance sector;
  - Resolution № 32/9 «On Operations of «SBRF» Ltd. aimed at maintaining the liquidity of banks», according to which the section «Terms and procedures for granting credit facilities to maintain the liquidity of the bank» came into force on July 29, 2009.
2. To assess the current situation and to develop scenarios of economic development and implementation of appropriate monetary policy on August 12, 2009 NBKR Board considered and approved a document entitled «Monetary Policy Report for the 1st half of 2009 and the Monetary Program for the forthcoming period» (Resolution № 33/1). A cut-down version of the monetary policy report for the 1st half of 2009, for information purposes, was delivered to the Administration of President of the Kyrgyz Republic, the Government of the Kyrgyz Republic, the Jogorku Kenesh of the Kyrgyz Republic, the Ministry of Finance and the Ministry for Economic Development and Trade of the Kyrgyz Republic as well as placed on the official website of the NBKR.
3. With a view to form an adequate expectations among business community and the population contributing to economic revitalization, along with the anti-crisis measures of the Government and National Bank, on August 14, 2009 the Board of the NBKR (Resolution № 34/1) revised downward the monetary policy quantitative criterion declared earlier to a level no more than 7.5 percent (December 2009 to December 2008).
4. Taking into account the long-term lendable financial resources of «SBRF» Ltd.

<sup>1</sup> «Specialized Bank Refinancing Fund» Ltd. was established with the Decree of the President of the Kyrgyz Republic № 5 of January 8, 2009 «On Measures to Ensuring Stability of the Banking System of the Kyrgyz Republic». Having completed the necessary procedural arrangements for the approval of regulatory documents and obtaining a license of NBKR, SBRF started its activities on May 11, 2009.

<sup>2</sup> Charter of SFRB was approved by the NBKR Board Resolution № 5/1 of January 30, 2009.

<sup>3</sup> SBRF Policy was approved by the NBKR Board Resolution № 16/7 of March 26, 2009.

(up to 5 years), on September 8, 2009 the NBKR Board approved amendments to the Policy of bank refinancing for «Specialized Bank Refinancing Fund» Ltd. (Resolution № 37/1). In accordance with these changes the interest rates on loan facilities of SBRF not equal to the discount rate but to the base rate of correction factors<sup>1</sup> depending on the lending industry. The base rate is determined by the Monetary Regulation Committee of the National Bank once a month.

5. As part of the modernization of monetary policy instruments in response to current conditions, the NBKR Board adopted a Resolution № 38/1 of September 23, 2009 «On the dollar exchange rate used to calculate the mandatory reserve requirements», whereby the exchange rate of U.S. dollar for the calculation of the mandatory reserve requirements is set at Som 44.0 for 1 U.S. dollar for the period from September 28, 2009 to May 30, 2010.
6. In connection with creation a new institution «SBRF» Ltd. in the financial market and the need to account cash flow transactions with this financial institution, there was adopted Resolution № 38/15 of September 23, 2009 «On the new edition of the list of commitments for the calculation of required reserves» (entered into force on September 28, 2009). In accordance with this Resolution a list of commitments for the calculation of required reserves of commercial banks was amended and supplemented.

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

The Monetary Regulation Committee (further - Committee) develops and takes operative decisions in the monetary sphere. The decisions are taken by the Committee weekly and are based on findings of an assessment of the situation developing in the monetary market. Volumes of operations are determined by the Committee proceeding from the goals and objectives determined by the Board of the NBKR and specified in the Statement of the NBKR on the monetary policy and document “Basic Medium-Term Monetary Policy Guidelines”, as well as in view of the status of the banking system and the situation in the fiscal area.

In the third quarter of 2009 the Committee held 13 meetings. The Committee’s decisions were directed to regulation of liquidity in the banking system through the use of the following tools:

1. conducting weekly auctions of NBKR notes with the maturity of 7, 14, 28 days; indicative sales - Som 7 870.0 million;
2. operations to buy STB on the secondary market in the amount of Som 340.0 million (indicative amount).

Sales of NBKR notes in general for the reporting quarter amounted to Som 6 351.5 million.

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<sup>1</sup> According to the NBKR Resolution №17/1 of April 7, 2009 «On the correction factors to determine the interest rate on loan facilities of “Specialized Bank Refinancing Fund” Ltd., NBKR Board approved the correction factors to determine the interest rate on SFRB loan facilities depending on the industry lending: agriculture, harvesting and processing - 1.05; industry - 1.05; construction - 1.1; transport, communications and services - 1.2; trade and commerce - 1.5; loans to maintain liquidity – 1.3.

Committee also took the decision to participate in the interbank foreign exchange auctions in order to smooth sharp fluctuations of the KGS exchange rate<sup>1</sup>. National Bank's net purchase of U.S. dollars during the current quarter was equivalent to Som 849.8 million.

In addition, according to the NBKR Board decision №37/1 of September 8, 2009, the base rate for lending purposes of SFRB was fixed by the decision of the Committee at 8.0 percent from September 9, 2009.

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<sup>1</sup> National Bank continues to follow a policy of floating exchange rate accepted by the Kyrgyz Republic.

## Chapter 4. Inflation forecast

### 4.1. Forecast of key inflation factors developments

According to results of the nine months of the current year, real economic growth rate reached 2.9 percent against 5.9 percent over the same period in 2008, and in general the year 2009 is expected to end up with a slowdown in economic activity in the country.

The biggest contribution to the marked economic slowdown will make developments in industry. At the same time, economic growth will be largely provided by services sector, mainly by transport, communications and trade. In addition, a substantial positive contribution to GDP growth is expected from the agriculture.

In the industry, taking into account the current situation and expected reduction of gold production, the decline in manufacturing is expected around 17.0 percent and in production and distribution of electricity gas and water – around 5.0 percent.

Real growth in gross value added in services (trade, transport and communication) is expected to reach 4 percent by the end of the year thus providing more than half of GDP growth.

In agriculture, in line with the high crop capacity and low base in 2008, increase in production is expected around 4-5 percent being one of the main sectors that provide economic growth.

Thus, taking into account the current situation, more dynamic service sector and agriculture developments can be expected in 2009 that will provide a real growth at the level of 1.5-2.5 percent.

**Wheat.** The International Grains Council (IGC) predicts grain yield in the current agricultural year (July 2009 - June 2010) in 1 753 million tons. Analysts expect the consumption of grain in the new marketing year amount to 1 743 million tons, resulting in carry-over stocks of grain will increase to 363 million tons.

In the updated forecast of the Ministry of Agriculture (USDA), U.S. world production of wheat in MY 2009/10 will amount to 668.1 million tons. Upwardly adjusted and forecast consumption of wheat, to 646.1 million tons. Thus, the final stocks of wheat in the world in 2009/10 MY will amount to 186,6 million tons.

According to forecasts of the Ministry of Economic Development, with the possibility of reducing the competitiveness of Russia's grain to foreign markets, export of grain in the current agricultural year does not exceed 19 million tons.

According to the Ministry of Agriculture of Kazakhstan on October 20, 2009 it raised more than 22.7 million tons of grain in bunker weight, which at 5.7 million tons or 34 percent more than last year's level. Also reported that the export potential of grain in the current marketing year could reach about 9.10 million tons.

**Sunflower oil.** Analytic Agency «Oil World» left the outlook for production of sunflower oil in the world in MY 2009/10 (October-September) at the level of the previous forecast (12.1 million tons), but increased its estimate of world supply of sunflower oil to foreign markets in the season - 2009/10 to 1 million tons. The main factor for increasing trade sunflower oil, according to analysts of IA «APK-Inform»,

was the increase in consumption associated with improved price differences between sunflower and other oils.

According to the USDA in MY 2009/10 production of sunflower oil will be 11.7 million tons, consumption – 11.1 million tons. Rollovers remain unchanged and will amount to 0.7 million tons.

According to news agency «Kazakhstan Today», Ministry of Agriculture of Kazakhstan expects a record harvest of oilseeds. For example, Kazakhstan will harvest oilseeds in the amount of 700 thousand tons, which is 70 percent more than last year's level. The increase in yield is due mainly to an increase in acreage in 1.5 times, up to 1 million hectares.

**Sugar.** The sugar price continued to be influenced by information from the global and local markets about the lack of this product. Thus, the International Sugar Organization predicts that the global shortage of sugar in the 2009-2010 MY will be 4.5-5 million tons against 7.8 million tons in MY 2008-2009. The following 2010-2011 MY proposal will meet the demand due to resumption of previous levels of production in India. Analysts of International Sugar Organization forecast that in 2009-10 MY, world sugar prices remain high, as the shortage of sugar remain.

The cost of sugar on the London Stock Exchange fluctuated in the price corridor of 550 to 618 U.S. dollars on October 23, 2009 amounted to 583 U.S. dollars. Reducing the price of 618 dollars is due to any revision to the Governments of India and Pakistan, data on procurement and production of sugar.

**Oil.** According to many analysts, the current rise in oil quotes is purely speculative. Quotes overcame many levels of resistance in the last days (70, 75 dollars per barrel. On the spot contracts, \$ 80 per barrel. Futures for the nearest delivery month), but the fundamental reason for this was not. Obviously, the price of 80 dollars per barrel. is unreasonable and the oil market in the near future is waiting for a correction. Especially considering that the demand for raw materials is minimal for the past 25 years level. According to most analysts at the next meeting, in December 2009, OPEC will maintain current quotas. In this respect the quota will remain at about 65-70 percent - enough, as shown by recent experience, to keep oil prices in the range of 60-75 dollars per barrel.

*Source: Reuters*

#### **4.2. Inflation forecast for 2009 and quarter IV of 2009**

A significant slowdown in economic growth and associated negative processes such as slow growth of disposable income and weaker consumption demand have led to the deceleration in inflation throughout the world including Kyrgyzstan. The unstable economic environment makes the short and medium-term forecasts of macroeconomic parameters of the republic uncertain.

Under these conditions, in order to form adequate market and individuals' expectations, in August 2009 the National Bank lowered the forecast of the annual inflation rate below 15 percent to the level below than 7.5 percent.

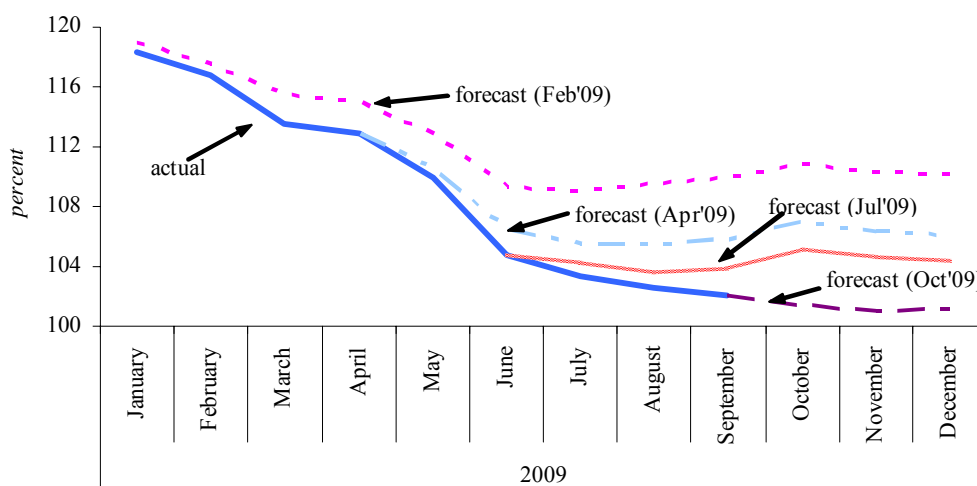
In September 2009, annual inflation rate declined at a sharper-than-expected pace. The process of deflation was clearly evident in almost all major food categories of the CPI basket. In particular, bread and grain annual prices decreased by 16.1 percent,

fruits and vegetables prices - by 5.7 percent, oils and fats prices - by 18.9 percent.

Meanwhile, the continued growth in non-food and services prices poses some risks to overall price stability and increased the uncertainty about the short-and medium-term inflation forecasts.

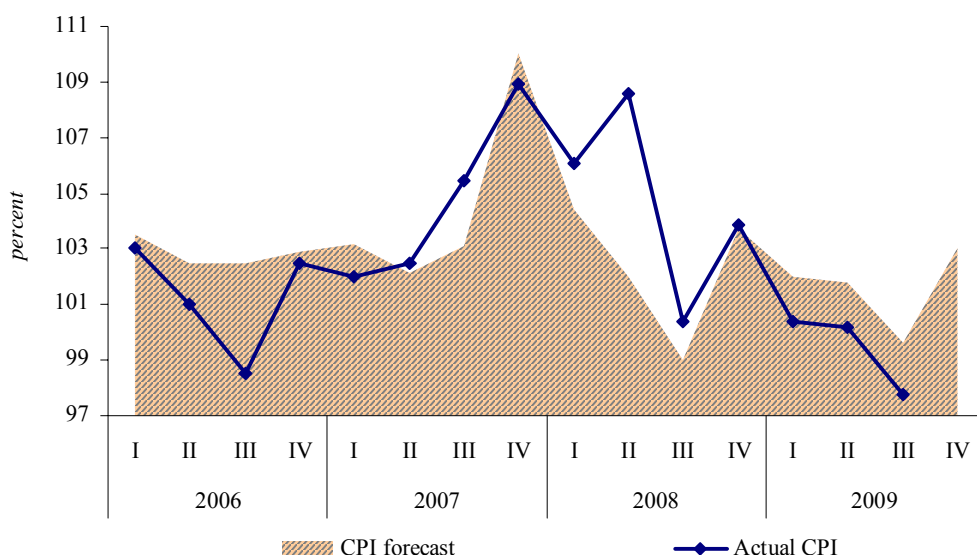
Proceeding from the actual data and projections and assumptions due to the baseline scenario of the monetary policy, inflation is expected between 1.5-2.0 percent in case of absence of any negative externalities.

**Chart 4.2.1. Annual inflation forecasts**



In the fourth quarter of 2009, a slight increase in consumer prices is expected with regard to the seasonal factors and demand growth in pre-holiday days in the last months of the year. As a whole, the increase in prices in the fourth quarter will be about 3.0 percent.

**Chart 4.2.2. Inflation forecast for quarter IV of 2009**



Another indicator of price developments in the economy, the GDP deflator, is expected to be around 4.9 percent by the end of 2009.

## Statistical Annex

**Table 1. Consumer Price Index**

(month to the previous month, percent)

	2009				
	January	February	March	April	May
<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>Products</b>	100.3	100.3	99.5	100.4	100.3
<b>Food and soft drinks</b>	100.2	98.6	99.0	100.3	100.4
<b>Alcohol and tobacco</b>	100.2	100.1	100.6	100.8	100.3
<b>Nonfood</b>	100.4	103.9	100.0	100.4	100.2
<b>Services</b>	102.4	99.8	100.5	100.1	100.4
Food and soft drinks	100.2	98.6	99.0	100.3	100.4
Bakery products and cereals	97.2	96.8	98.4	98.8	100.0
Wheat flour, high quality	96.5	94.4	97.4	94.3	94.5
Wheat flour, 1st quality	94.7	93.5	97.5	95.6	95.3
Bread	97.5	99.2	99.2	97.7	99.2
Meat	102.9	101.2	100.0	98.9	100.4
Fish	100.7	100.6	100.8	100.5	100.3
Dairy products, cheese and eggs	102.4	99.2	96.3	97.4	99.0
Oils and fats	96.4	96.9	98.7	97.7	96.8
Fruit and vegetables	105.0	98.9	99.1	106.3	100.8
Fruit	104.2	100.5	99.8	102.0	103.9
Vegetables	105.5	97.7	98.6	109.8	98.5
Sugar, jam, honey, chocolate and sweets	99.0	98.9	99.6	100.2	103.6
sugar	97.8	98.6	99.3	99.6	106.5
Other foodstuff	100.5	99.7	99.6	99.7	100.0
Soft drinks	100.9	100.5	100.8	101.7	100.2
Alcoholic beverages and tobacco products	100.2	100.1	100.6	100.8	100.3
alcoholic beverages	100.3	100.2	100.8	100.9	100.4
tobacco products	100.0	100.1	100.1	100.7	100.0
Clothes and footwear	100.2	100.5	100.1	100.5	100.5
clothes	100.3	100.7	100.6	100.9	100.4
Materials for clothes manufacturing	100.0	103.0	114.7	115.2	100.1
men's wear	100.3	100.7	100.3	100.5	100.4
lady's wear	100.5	100.6	100.3	100.4	100.5
Clothes for children and newborns	100.1	100.5	99.8	99.9	100.2
Cleaning, repairing and clothes hire	100.9	100.4	100.2	101.8	100.9
Footwear, including repair	100.1	100.1	99.2	99.8	100.8
Men's Shoes	100.1	100.0	98.5	98.8	101.7
Women's Shoes	100.0	100.0	99.5	101.2	100.6
Footwear for Children	100.0	100.0	99.4	99.2	100.1
Shoe Repair	100.6	104.2	101.5	102.9	100.0
Housing, water, electricity, gas and other fuels	100.5	109.9	99.2	99.5	99.7
Housing rent	100.3	100.3	100.7	100.0	100.0
Materials for maintenance and repair of housing facilities	100.2	102.6	99.8	100.1	100.3
electricity, gas and other fuels	100.5	111.5	99.1	99.4	99.6
gas	99.9	155.3	99.9	99.5	99.2
Household items, home appliances	100.6	100.6	101.7	102.3	100.3
Furniture and floor coverings	100.6	100.0	101.1	101.7	100.3
Household textiles	100.1	100.7	112.0	113.7	100.0
Household appliances	100.2	100.3	100.9	100.5	100.1
Glassware, cutlery and utensils	100.2	100.8	101.9	101.7	100.4
Health	100.6	100.6	100.0	100.3	100.2
Transport	102.9	98.6	98.2	99.8	99.3
Purchase of vehicles	102.6	102.5	103.5	101.6	100.3
lubricants	89.4	96.6	96.0	97.6	98.9
Gasoline	88.8	97.9	95.5	97.5	99.5
Diesel fuel	91.3	92.5	97.8	97.9	96.8
Transport services	104.5	98.5	97.9	99.8	99.3
Communication	92.8	100.0	100.0	100.0	100.0
Rest, entertainments and culture	100.1	102.3	100.9	100.7	100.6
services on the organization of cultural events	99.0	101.2	100.3	108.0	105.0
newspapers, books and stationary	100.2	101.5	100.3	100.1	100.3
Education	100.4	100.1	100.0	100.0	100.1
Restaurants and hotels	100.8	100.2	104.8	100.0	102.0
Public catering	100.9	100.2	105.0	100.0	102.1
Hotel servicing	100.2	100.5	100.8	100.5	100.6
Miscellaneous goods and services	105.9	102.6	100.8	101.6	100.6
Personal service	107.5	101.8	100.5	102.0	100.7

Source: NSC KR

2009				
June	July	August	September	
99.5	98.6	99.0	100.2	<b>Consumer price index</b>
99.4	98.4	98.8	100.2	<b>Products</b>
98.0	97.0	97.6	99.5	<b>Food and soft drinks</b>
101.6	100.1	100.2	100.5	<b>Alcohol and tobacco</b>
101.1	100.3	100.3	101.1	<b>Nonfood</b>
100.3	100.1	100.2	100.2	<b>Services</b>
98.0	97.0	97.6	99.5	Food and soft drinks
100.2	98.3	98.6	98.2	Bakery products and cereals
101.4	99.4	98.5	97.8	Wheat flour, high quality
99.8	96.9	97.4	97.8	Wheat flour, 1st quality
99.9	99.7	99.9	99.4	Bread
100.4	99.2	98.9	100.4	Meat
99.3	98.8	99.7	99.1	Fish
98.4	98.1	99.5	101.0	Dairy products, cheese and eggs
98.6	99.9	100.3	99.6	Oils and fats
88.8	85.7	90.0	97.9	Fruit and vegetables
93.6	89.8	90.2	96.1	Fruit
85.1	82.1	89.7	99.0	Vegetables
101.5	104.9	99.5	102.4	Sugar, jam, honey, chocolate and sweets
102.8	108.8	99.2	104.3	sugar
99.9	99.6	100.1	100.0	Other foodstuff
100.8	100.6	100.6	100.8	Soft drinks
101.6	100.1	100.2	100.5	Alcoholic beverages and tobacco products
102.3	100.1	100.1	100.8	alcoholic beverages
100.0	100.1	100.2	100.0	tobacco products
101.4	100.6	100.2	101.8	Clothes and footwear
101.4	100.4	100.3	102.5	clothes
107.5	100.3	100.2	100.3	Materials for clothes manufacturing
101.5	100.4	100.2	103.0	men's wear
101.0	100.6	100.4	102.4	lady's wear
101.0	100.4	100.2	102.7	Clothes for children and newborns
101.8	100.0	100.3	100.7	Cleaning, repairing and clothes hire
101.5	100.8	100.0	100.3	Footwear, including repair
101.4	101.6	100.0	100.2	Men's Shoes
101.2	100.2	100.1	101.1	Women's Shoes
101.9	100.5	100.0	99.1	Footwear for Children
100.9	100.2	100.2	100.0	Shoe Repair
101.0	99.7	99.8	99.8	Housing, water, electricity, gas and other fuels
100.0	100.0	100.0	100.0	Housing rent
111.1	96.5	98.1	99.4	Materials for maintenance and repair of housing facilities
99.8	100.1	100.0	99.8	electricity, gas and other fuels
99.7	100.0	100.0	99.9	gas
101.1	100.3	100.3	100.3	Household items, home appliances
100.0	100.0	100.6	100.8	Furniture and floor coverings
107.4	100.0	100.1	100.1	Household textiles
100.2	100.6	100.1	99.9	Household appliances
101.4	100.4	100.2	100.5	Glassware, cutlery and utensils
100.4	103.4	101.4	100.3	Health
100.7	100.9	101.4	100.7	Transport
100.2	100.2	100.6	100.7	Purchase of vehicles
104.4	108.0	111.4	108.7	lubricants
105.9	110.0	114.3	110.1	Gasoline
99.3	100.9	100.1	100.1	Diesel fuel
100.4	100.3	100.5	100.0	Transport services
100.0	100.0	100.0	100.0	Communication
100.2	100.4	101.6	103.9	Rest, entertainments and culture
100.2	101.0	100.3	99.9	services on the organization of cultural events
100.5	100.7	103.7	109.7	newspapers, books and stationary
100.0	100.0	100.2	100.8	Education
100.6	100.2	100.0	100.1	Restaurants and hotels
100.2	100.2	100.0	100.0	Public catering
112.6	100.3	100.1	101.1	Hotel servicing
99.9	100.0	100.0	100.2	Miscellaneous goods and services
99.8	100.0	100.1	100.3	Personal service

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

	2009				
	January	February	March	April	May
<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>Products</b>	116.3	114.9	111.8	111.1	107.8
<b>Food and soft drinks</b>	119.2	115.3	110.3	109.0	104.5
<b>Alcohol and tobacco</b>	111.3	109.0	109.0	109.0	107.7
<b>Nonfood</b>	113.0	116.5	115.8	115.7	114.6
<b>Services</b>	137.1	133.4	129.8	128.9	128.8
Food and soft drinks	119.2	115.3	110.3	109.0	104.5
Bakery products and cereals	116.1	112.1	105.9	102.2	95.4
Wheat flour, high quality	105.3	100.1	91.5	83.5	77.2
Wheat flour, 1st quality	103.9	96.6	87.9	82.3	74.0
Bread	113.3	112.7	109.0	103.8	99.0
Meat	113.7	114.4	113.0	109.0	102.7
Fish	116.9	115.6	115.1	114.4	114.2
Dairy products, cheese and eggs	115.7	113.0	109.0	106.7	105.4
Oils and fats	102.8	97.9	93.4	89.4	82.2
Fruit and vegetables	134.0	123.0	114.5	122.7	124.0
Fruit	147.5	145.0	140.7	141.6	137.7
Vegetables	125.1	109.8	99.5	111.5	114.9
Sugar, jam, honey, chocolate and sweets	127.4	125.1	121.7	121.0	118.6
sugar	125.5	124.3	119.2	117.8	116.4
Other foodstuff	121.4	116.7	112.3	109.5	108.7
Soft drinks	127.7	125.1	126.0	124.5	122.3
Alcoholic beverages and tobacco products	111.3	109.0	109.0	109.0	107.7
alcoholic beverages	113.3	111.3	111.3	111.5	109.6
tobacco products	107.4	104.5	104.3	104.2	103.9
Clothes and footwear	109.1	108.8	107.8	107.4	107.1
clothes	111.5	111.3	110.6	110.5	110.1
Materials for clothes manufacturing	105.5	108.7	124.6	143.6	142.2
men's wear	110.2	109.9	108.8	108.9	109.2
lady's wear	118.0	117.5	115.6	114.0	112.5
Clothes for children and newborns	104.4	104.9	104.5	104.1	104.1
Cleaning, repairing and clothes hire	153.9	137.7	129.0	125.9	126.8
Footwear, including repair	105.1	104.5	103.1	102.1	102.1
Men's Shoes	100.4	100.8	100.3	98.8	99.1
Women's Shoes	104.0	103.2	101.0	101.4	100.8
Footwear for Children	111.3	109.6	107.9	105.6	105.9
Shoe Repair	110.5	115.1	116.9	120.3	120.3
Housing, water, electricity, gas and other fuels	118.6	129.5	128.6	128.9	127.2
Housing rent	141.9	142.4	143.3	143.3	143.3
Materials for maintenance and repair of housing facilities	103.0	104.5	104.3	102.3	96.2
electricity, gas and other fuels	119.9	132.9	131.9	132.7	132.0
gas	106.1	162.0	160.8	159.9	158.5
Household items, home appliances	116.2	116.0	116.3	117.9	116.5
Furniture and floor coverings	111.8	110.6	110.7	112.0	111.0
Household textiles	115.3	114.7	126.8	143.5	141.3
Household appliances	111.2	109.2	107.2	107.6	106.0
Glassware, cutlery and utensils	120.4	119.0	114.8	115.5	114.8
Health	111.6	108.5	108.3	106.0	104.9
Transport	135.1	131.5	120.7	118.4	116.3
Purchase of vehicles	109.0	110.6	114.0	115.8	116.2
lubricants	84.3	81.3	76.4	69.1	65.7
Gasoline	79.3	77.8	73.2	67.0	64.6
Diesel fuel	105.7	96.0	89.2	77.3	69.7
Transport services	147.6	143.1	128.8	127.3	125.5
Communication	95.7	95.7	95.7	94.8	94.8
Rest, entertainments and culture	106.3	107.4	106.6	107.4	107.0
services on the organization of cultural events	129.7	116.9	102.8	109.9	114.6
newspapers, books and stationary	109.1	109.8	109.1	109.1	107.2
Education	144.6	137.8	137.1	136.4	136.7
Restaurants and hotels	126.4	126.5	132.0	131.0	132.7
Public catering	126.9	127.0	132.7	131.6	133.7
Hotel servicing	116.4	116.5	117.1	117.7	111.6
Miscellaneous goods and services	132.3	130.6	130.4	131.6	130.2
Personal service	140.6	136.6	135.6	137.4	135.8

Source: NSC KR

2009				
June	July	August	September	
104.8	103.4	102.6	102.1	<b>Consumer price index</b>
103.3	101.9	101.4	101.2	<b>Products</b>
96.8	95.3	95.2	94.6	<b>Food and soft drinks</b>
107.4	106.6	106.3	106.8	<b>Alcohol and tobacco</b>
115.3	113.5	111.4	111.7	<b>Nonfood</b>
118.1	116.0	113.3	109.5	<b>Services</b>
96.8	95.3	95.2	94.6	Food and soft drinks
87.9	86.0	84.6	83.9	Bakery products and cereals
74.0	74.7	74.4	73.4	Wheat flour, high quality
67.8	66.1	65.2	65.3	Wheat flour, 1st quality
92.7	91.6	91.4	90.7	Bread
101.8	100.6	100.5	102.4	Meat
112.4	112.0	112.7	110.7	Fish
103.1	100.9	100.1	99.9	Dairy products, cheese and eggs
79.6	79.6	81.0	81.1	Oils and fats
103.4	97.6	101.9	94.3	Fruit and vegetables
113.4	109.9	111.9	103.4	Fruit
96.1	88.2	93.8	86.7	Vegetables
110.9	120.2	120.6	123.7	Sugar, jam, honey, chocolate and sweets
105.4	122.2	124.1	131.0	sugar
105.4	104.3	103.9	102.1	Other foodstuff
121.4	119.2	117.3	118.0	Soft drinks
107.4	106.6	106.3	106.8	Alcoholic beverages and tobacco products
109.6	108.7	108.3	108.9	alcoholic beverages
102.9	102.2	102.4	102.4	tobacco products
108.6	110.2	110.2	111.7	Clothes and footwear
110.6	110.4	110.2	112.6	clothes
148.1	148.2	148.3	148.6	Materials for clothes manufacturing
110.9	110.4	110.4	113.6	men's wear
111.2	110.7	111.0	113.3	lady's wear
104.7	105.2	105.1	107.5	Clothes for children and newborns
126.6	124.0	109.2	109.4	Cleaning, repairing and clothes hire
105.2	109.8	110.3	110.0	Footwear, including repair
103.4	110.3	110.9	111.1	Men's Shoes
103.5	108.1	108.9	109.9	Women's Shoes
108.2	110.4	110.4	107.6	Footwear for Children
121.3	122.5	122.8	122.5	Shoe Repair
127.5	120.0	112.9	110.3	Housing, water, electricity, gas and other fuels
138.3	133.8	133.8	133.8	Housing rent
105.0	101.6	103.2	105.2	Materials for maintenance and repair of housing facilities
130.9	124.2	114.9	111.5	electricity, gas and other fuels
158.3	156.8	156.2	156.0	gas
116.7	116.1	115.4	114.8	Household items, home appliances
110.5	108.9	108.7	109.2	Furniture and floor coverings
150.5	150.7	145.8	141.8	Household textiles
105.3	105.1	103.9	103.5	Household appliances
114.7	113.4	112.8	110.3	Glassware, cutlery and utensils
105.4	108.4	109.0	109.1	Health
100.8	97.3	97.7	99.4	Transport
116.8	118.0	119.9	120.5	Purchase of vehicles
64.9	66.0	72.5	82.6	lubricants
65.3	67.7	76.3	88.1	Gasoline
63.8	60.1	59.0	62.0	Diesel fuel
105.0	100.4	99.7	100.4	Transport services
94.8	94.8	93.3	92.8	Communication
106.2	106.5	108.0	112.0	Rest, entertainments and culture
114.6	115.0	115.4	115.2	services on the organization of cultural events
105.2	105.8	109.2	119.2	newspapers, books and stationary
136.4	136.1	135.5	112.2	Education
128.9	129.0	121.5	121.6	Restaurants and hotels
129.3	129.5	121.6	121.6	Public catering
120.3	119.7	120.1	120.7	Hotel servicing
122.5	120.4	118.4	118.2	Miscellaneous goods and services
125.9	123.1	120.6	120.3	Personal service

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

<i>Products</i>	<i>8 months of</i>	<i>8 months of</i>	<i>8 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\$</i>	<i>mln. US\$</i>	<i>mln. US\$</i>			
	<i>n09*p09</i>	<i>n09*p09</i>	<i>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	431.5	782.8	699.8	0.55	1.12	0.62
Cast iron and steel	66.1	82.1	68.5	0.81	1.20	0.97
Natural gas	50.0	30.3	57.6	1.65	0.53	0.87
Medicaments, including veterinary	45.3	50.5	51.6	0.90	0.98	0.88
Cereals and cereals products	42.4	65.6	34.2	0.65	1.92	1.24
Inorganic chemical agents	39.4	14.5	34.0	2.73	0.43	1.16
Sugar, sugar-ware, honey	38.3	35.9	37.1	1.07	0.97	1.03
Volatile oils, resinoids and perfumery	33.1	33.9	28.3	0.97	1.20	1.17
Wrought artificial and textile cloth	29.8	32.2	48.6	0.93	0.66	0.61
Coffee, tea, cocoa and spicery	27.9	28.0	26.2	1.00	1.07	1.07
Paper, cardboard and products from these materials	26.9	30.5	26.7	0.88	1.14	1.01
Meat and meat products	26.8	26.5	22.5	1.01	1.18	1.19
Vegetable oils and fats	23.5	33.0	23.3	0.71	1.42	1.01
Trucks and vehicles for special purposes	22.7	16.5	34.8	1.37	0.47	0.65
Rubber tire covers	20.9	24.8	25.4	0.84	0.97	0.82
Flour wheaten and mangcorn	19.5	25.5	32.1	0.76	0.79	0.61
Machines for sortings, screening soil, stones, ore	19.4	15.5	23.1	1.25	0.67	0.84
Products from the ignoble metals, not included in other categories	18.6	22.3	15.7	0.83	1.42	1.18
Wood of coniferous breeds	17.3	18.3	19.5	0.95	0.94	0.89
Alcoholic beverages	16.9	18.3	22.9	0.92	0.80	0.74
Rice	16.7	11.8	5.6	1.42	2.09	2.96
Food and other products, not included in other categories	15.8	7.2	13.2	2.18	0.55	1.20
Footwear with a sole and top from rubber or synthetic materials	15.5	17.4	16.8	0.89	1.03	0.92
Vegetables and fruits	15.4	9.8	16.1	1.57	0.61	0.95
Portland cement, cement	14.1	13.7	11.6	1.03	1.19	1.22
Dye and tanning materials	13.8	15.0	14.3	0.92	1.05	0.96
Coal, coke and briquets	13.7	9.0	15.0	1.53	0.60	0.91
Constructions and elements made from cast-iron and steel, not included in other categories	13.4	10.2	7.5	1.31	1.36	1.78
Mineral waters and the soft drinks sweetened with sugar	13.1	13.8	16.7	0.95	0.83	0.79
Plastic in the primary form	12.9	17.4	17.5	0.74	0.99	0.73
Bulldozers, bullgrater and power grader	12.8	7.8	7.1	1.63	1.10	1.80
Electric linear telephone or cable devices	11.9	53.5	42.2	0.22	1.27	0.28
Mechanical shovels, dredges and payloaders	10.7	14.7	16.3	0.73	0.90	0.65
Products from grain and products from a flour or starch	10.3	11.9	13.3	0.87	0.90	0.78
Condensed and restored wood	10.1	10.4	10.6	0.97	0.98	0.95
Pottery	9.8	8.5	5.8	1.15	1.46	1.68
Plastic in the nonprimary form	8.9	8.2	10.5	1.08	0.79	0.85
Automobiles and other vehicles intended for transportation of people	8.8	6.7	19.8	1.32	0.34	0.44
Fertilizers	8.4	8.6	11.6	0.97	0.74	0.72
Tacks, screws, nipples, screw-bolts made of iron, steel and copper	7.9	9.4	2.6	0.84	3.62	3.04
Margarine and mixed fat	7.9	9.4	7.9	0.84	1.18	0.99
Chemical products, not included in other categories	6.5	28.0	7.7	0.23	3.63	0.84
Milk and dairy products, except for butter and cheese	6.0	8.2	8.5	0.74	0.96	0.71
Electric communication equipment, not included in other categories	6.0	1.7	3.1	3.51	0.55	1.93
Medicaments and pharmaceutical product	5.9	4.8	4.6	1.23	1.05	1.30
<b>Full range of goods (mln. US\$)</b>	<b>1 292.5</b>	<b>1 704.0</b>	<b>1 637.8</b>	<b>0.76</b>	<b>1.04</b>	<b>0.79</b>
<b>Full range of goods (in % of total import)</b>	<b>70%</b>		<b>66%</b>			
<b>Total import</b>	<b>1846.3</b>		<b>2484.1</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**

<i>Products</i>	<i>8 months of</i>	<i>8 months of</i>	<i>8 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>			
	<i>A</i>	<i>B</i>	<i>C</i>			
Nonmonetary gold	236.3	232.0	240.5	1.02	0.96	0.98
Inorganic chemical agents	136.1	21.6	49.7	6.30	0.43	2.74
Oil, oil products	115.3	185.2	244.9	0.62	0.76	0.47
Vegetables and fruits	51.8	57.2	62.3	0.91	0.92	0.83
Electric energy	24.2	11.9	1.1	2.04	10.60	21.60
Blouses, jackets and jacket-blouses	15.0	18.3	22.2	0.82	0.82	0.68
Raw tobacco and tobacco waste	13.0	9.6	9.2	1.36	1.05	1.42
Milk and milky products, excl. butter and cheese	10.7	11.2	16.1	0.96	0.69	0.66
Filament lamps	9.6	12.3	13.6	0.78	0.90	0.70
Clothing	8.1	12.7	9.7	0.64	1.30	0.83
Cotton	7.4	7.4	7.6	1.01	0.97	0.98
Female pants, overalls and breeches	5.4	8.2	9.0	0.65	0.91	0.60
Cheese and cottage cheese	4.4	3.8	5.8	1.17	0.65	0.76
Paper, cardboard and products from these materials	4.2	3.5	4.3	1.20	0.82	0.98
Skirts and culottes	3.9	3.7	7.8	1.05	0.47	0.49
Rubber tire covers	3.5	0.4	2.9	8.32	0.14	1.20
Stone, sand and gravel	3.3	1.7	2.5	1.90	0.70	1.33
Mineral waters and the soft drinks sweetened with sugar	3.2	5.5	1.7	0.58	3.32	1.94
Margarine and mixed fat	3.0	4.1	6.4	0.73	0.64	0.47
Male pants, overalls and breeches	3.0	4.8	6.2	0.62	0.77	0.48
Suits and ensembles for women and girls	2.8	3.5	9.2	0.80	0.39	0.31
Ores and concentrates of precious metals	2.5	2.6	1.6	0.93	1.67	1.55
Live animals	2.3	4.2	3.9	0.54	1.10	0.59
Metal ores and iron-and-steel waste	2.2	3.7	8.0	0.60	0.46	0.27
Coat, raincoats and similar products	2.1	2.9	1.7	0.70	1.70	1.19
Rock products, not included in other categories	2.0	2.2	1.4	0.92	1.58	1.45
Products from grain and products from a flour or starch	1.9	2.1	1.7	0.94	1.21	1.14
Leather from integral skins of large horned livestock	1.8	1.3	1.3	1.35	1.04	1.39
Coffee, tea, cocoa and spicery	1.8	1.9	1.9	0.91	1.00	0.91
Hand and machine tools	1.7	4.3	3.1	0.40	1.40	0.56
Wrought artificial and textile cloth	1.4	1.4	1.1	1.00	1.29	1.29
Chemical products, not included in other categories	1.4	3.7	5.3	0.38	0.69	0.26
Rolling glass and glass with the ground surface	1.4	1.9	22.7	0.70	0.09	0.06
Wool	1.3	1.4	1.5	0.93	0.95	0.88
Aluminium	1.3	2.0	5.5	0.66	0.36	0.24
Other footwear with the textile upper part	1.3	1.1	0.9	1.12	1.32	1.48
Trucks and vehicles for special purposes	1.3	3.6	3.2	0.36	1.10	0.39
Female jackets and blazers	1.2	1.7	1.8	0.70	0.92	0.65
Knitted or knitted products	1.0	1.3	1.4	0.74	0.95	0.71
Metal ores and base scrap	0.9	3.4	11.9	0.27	0.29	0.08
Cattle hides or horsehides	0.9	1.8	9.2	0.53	0.19	0.10
Tobacco	0.9	0.7	0.8	1.32	0.91	1.20
Silver	0.8	1.5	2.7	0.55	0.55	0.30
Suits and ensembles for male	0.8	1.1	1.8	0.71	0.64	0.45
Oil and other fats received from milk	0.7	0.8	1.3	0.90	0.60	0.54
Meat and meat products	0.7	1.0	0.7	0.67	1.40	0.94
Portland cement, cement	0.7	0.9	37.6	0.78	0.02	0.02
Cast iron and steel	0.7	0.6	2.3	1.22	0.24	0.30
<b>Full range of goods (mln. US\$)</b>	<b>700.9</b>	<b>673.5</b>	<b>869.0</b>	<b>1.04</b>	<b>0.78</b>	<b>0.81</b>
<b>Full range of goods (in % of total export)</b>	<b>91%</b>		<b>90%</b>			
<b>Total export</b>	<b>771.4</b>		<b>966.5</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 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 is removed from the calculation of the rate of inflation.

National Bank calculates core inflation dynamics by simple exclusions method. This method implies the removal of categories or the whole group of goods and services, whose prices are highly sensitive to shocks, from the CPI. Traditionally, such goods comprise some food products, energy resources, services and tariffs, administratively established by the Government.

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

**Monetary aggregate** – money supply, classified by degree of liquidity: M0, M1, M2, M2X.

**M0** – money outside banks.

**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 selling prices received by domestic producers for their products. Information used in the calculation of the PPI are from 148 companies that represent nearly every industry in the industrial sector of the economy. The list of companies include the most typical for the industry, for the region and regardless of ownership.

Producer prices differ from consumer prices, because they exclude the trademark and transport costs, which may have occurred during the delivery of goods from producer to buyer. Thus, PPI focuses on the prices received by producers from the first buyer, and not on the prices received by wholesalers to retailers or others who are on the lower stages of the distribution process.

**Inflation** is an increase in the overall level of consumer prices in the economy. To quantify the level of inflation the consumer price index is used. CPI shows the change in the level of prices for goods and services purchased by people for non-productive consumption. The index comprises consumer prices of 342 selected goods and services, the sample is up to 45 thousand prices in 1496 enterprises of trade and services per month in 7 urban and 2 regional centers.

«**Overnight**» **credit** is available in the national currency for one day, collateralized, to

maintain short-term liquidity of the bank. As collateral accepted government securities of the Kyrgyz Republic hosted by the National Bank with a maturity date up to 12 months from the date of issuance of the loan overnight. The interest rate is fixed at 1.2 of a discount rate of the NBKR. It is used regularly on the initiative of the commercial bank .

**Non-financial assets** include the following categories of economic assets: fixed assets, inventories, value and non-produced assets.

**Notes** - Short-term government securities are issued in circulation for NBKR period for 7, 14, 28, 91 and 182 days at weekly auctions. Yield is determined depending on supply and demand by commercial banks. The purpose of the auctions of notes is removal of liquidity in domestic 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 operational expenditures** - all activities that lead to a decrease in net asset value of the general government except for operations on the acquisition of nonfinancial assets.

**Swap operations** - Operations on the exchange of money in national currency for the equivalent amount in foreign currency or vice versa with the obligation to return the exchange of principal amounts and accrued interest on pre-negotiated terms.

**SPOT** - exchange transaction of purchase and sale of actual goods under its immediate transfer.

**Discount rate** is a tool used as basic reference point in determining the value of monetary resources in the economy. The size of the discount rate equaled to average value yield 28-day NBKR notes for the last 4 auction on placement of NBKR notes.

**Futures** (futures contract) is a contract to buy or sell a particular asset of a standardized amount at a certain date in the future and at a predefined price. Futures contract is created by two parties: a buyer and a seller. The buyer is obliged to take the underlying asset under the terms of the contract on the settlement date, while the seller is obliged to deliver it on the same date.

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**Abbreviations**

GDP	Gross Domestic Product
T-BILLS	Treasury Bills
T-BILLS (s)	Treasury Bills for Settlement
PP	Petroleum Products
SCC	State Customs Committee
CPI	Consumer price index
PPI	Producer price index
KR	Kyrgyz Republic
NBKR	National Bank of the Kyrgyz Republic
NPOSHs	Non-profit organizations serving households
NSC	National Statistical Committee
OPEC	Organization of Petroleum Exporting Countries
RK	Republic of Kazakhstan
RF	Russian Federation
CIF	Price at the border of the importer (cost, insurance, freight)
CIS	Commonwealth of Independent States
USA	United States of America
SFRB	Specialized fund of refunding of banks
FOB	Price at the border of the exporting country (free on board)