

Press-release
The NBKR Board Meeting on consideration
of the Monetary Policy Report of the NBKR for the first half of 2010

On August 11 2010, the Board of the National Bank of the Kyrgyz Republic considered the monetary policy report for the first half of 2010.

Significant decrease of the liquidity in the banking system was registered in the second quarter as a result of recent political events. The National Bank reduced the outstanding volume of NBKR Notes to Som 200 million by the end of June in order to provide liquidity and stability of the banking system operation. The discount rate growth, which started in April and reached 3.5 percent in May, stopped in June and by the end of month decreased to 2.7 percent. Though the liquidity level in the banking system decreased in the second quarter, generally, for the first half year, the average daily volume of excess reserves of commercial banks remained relatively high.

Growth of the consumer price index in the first half reached 4.1 percent (June 2010/December 2009), annual inflation reached the level of 3.6 percent (June 2010/June 2009).

During the first half, there was a tendency for Som weakening against US dollar. The National Bank performed transactions on sale of non-cash US dollars through the interbank foreign exchange sales to smooth the misbalance of demand and supply of foreign currency. Generally, for the first half of 2010, the volume of the net NBKR sales of the US dollars at the interbank foreign exchange markets amounted to 140.2 million US dollars; official US dollar exchange rate against Som increased by 6.5 percent and constituted 46.9746 Som/US dollar.

It was noted that the real economic growth by 5 percent for the first half was mainly provided by the growth of industrial production and active gold mining as well as by the effect of “low base” in the past year. The real GDP growth made 1.5 percent excluding enterprises developing the gold mining deposit “Kumtor”. The state budget deficit achieved 1.3 billion Som or 1.6 percent of GDP. Preliminary data of the external economic sector indicated growth of the volume of foreign trade transactions by 11.8 percent; in this regard export increased by 28.7 percent while import – by 2.9 percent. Cash transfers inflow was also registered.

There was reduction of the total assets level, capital and deposit base in the banking system. Total credit portfolio in Som equivalent increased, whereas credits extended in foreign currency in nominal terms decreased. The National Bank reduced the rate of required reserves from 9.5 to 8.0 percent and the base rate of Special Fund for Banks Refinancing (SFBR) from 8 to 7 percent in order to support the banking sector in the conditions of the resource base reduction for crediting. Moreover, the single adjustment factor was established to determine the interest rates for credit resources of SFBR at the level of 1. Thus, the cost of SFBR resources for commercial banks constituted 7 percent and for final borrowers – from 12 percent (mortgage credit lending) to 17 percent (microfinancing).

During the consideration of the monetary policy report, there were discussed agreements, concluded with donors on financial assistance for the budget support, as per results of the Donors International Conference “Emergency Aid to KR: Rehabilitation and Concord”, which took place on July 27, 2010. As well, the results of work with IMF country mission were also discussed.

Board Members exchanged ideas about the forecasts of main macro-economic indicators and the monetary policy results. Current estimates indicated that in 2010 the real GDP is expected to decrease by 2.5-3.5 percent mainly due to the downturn in the trade and agriculture sectors. At the same time, there is the threat of deterioration the situation in the real sector due to a more protracted economic revival after political events, which took place in June in the southern region of the country. According to the estimates of the Ministry of

Economic Regulation, a decline of real GDP may reach the level of 5.4 percent. Growth of prices for bread and flour, occurred as a result of the expected loss of harvest in Russia and Kazakhstan due to adverse weather conditions, was found to be one of the main factors for inflation risks. Corresponding measures on prevention of speculative trading of socially significant food products in the market should be taken by the government authorities.

In the context of discussion there was an opinion that the demand for money will be supported by external financial aid and arrangement of the parliamentary election. The Board expressed its concerns with regard to sources for the budget deficit financing. Balanced utilization of the budget funds is topical especially in this year owing to the expected financial aid to be provided by international donors. The Board emphasized that it is extremely important to strengthen measures of the budgetary discipline, optimize and increase transparency of government expenditures as the budgetary expansion policy carried out by the Government may become the key factor for inflation risks next year.

Members of the Board approved the monetary policy report for the first half of 2010 as a result of the discussion arranged.