

**NATIONAL BANK  
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report  
Quarter 4, 2019**

**Bishkek  
February 2019**

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

### *Monetary policy in the Kyrgyz Republic*

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

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

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

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

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

Monetary Policy Report for Q4 2019 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2020-II-07/7-1-(ДКП) dated February 24, 2020.

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## Summary

In Q4 2019, macroeconomic development of the Kyrgyz Republic generally corresponded to the assumptions of the baseline scenario approved by the Board of the National Bank.

The economy of the Kyrgyz Republic still developed under the influence of external conditions. In the reporting period, economic activity in the countries-main trading partners of the country remained stable. Prices in the world commodity markets demonstrated an upward trend. There was rise in the world prices for many types of food products. Rise in prices was observed in the oil market amid expectations of approval of the first phase for the trade agreement between China and the USA. Prices for gold still demonstrated an upward trend.

According to the results of the year, real GDP grew by 4.5 percent, excluding the enterprises of the Kumtor Mine – by 3.8 percent. The industrial sector still made the main contribution to the economic growth of the country. The fiscal sector did not cause inflationary risks. According to the results of the year, the budget deficit was significantly lower compared to the value of the previous year - 0.1 percent to GDP against 1.1 percent in 2018. Reduction in the inflow of remittances into the country was observed since May 2019.

The situation in the world commodity markets was reflected in a moderate rise in prices in Kyrgyzstan, which was one of the factors of the inflation rate formed slightly above the expectations of the National Bank in Q4 2019. However, deviation of the fact from the forecast is insignificant, and the annual inflation rate does not exceed the targets set for the medium term. In 2019, the annual inflation rate was 3.1 percent, and in January-December 2019 (period to period), its average value was 1.1 percent.

In 2020, the average annual inflation rate (period to period) is expected at 4.6 percent in the absence of shocks, at the end of the year, the inflation rate (December 2020 to December 2019) is expected at approximately 5.0 percent. In 2021, according to the National Bank estimates, the average inflation rate is expected at approximately 5.1 percent in the absence of shocks, and by the end of the year, it will reach the level of approximately 6.0 percent.

In Q4 2019, the trade balance was formed under the influence of outstripping reduction in import operations compared to a decrease in exports. The decline in exports was mainly due to the dynamics of gold supplies. Imports decreased due to the volume of supplied energy products and intermediate goods. As a result, the trade deficit of the country amounted to USD 554.0 million. The volume of foreign trade turnover<sup>1</sup> decreased by 7.4 percent and amounted to USD 1.8 billion.

Preservation of the stimulating nature of the monetary conditions determined further expansion of the commercial banks' resource base and lending to the economy. The interbank credit market remained active. In general, the money market demonstrated formation of the short-term interest rates near the key rate.

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<sup>1</sup> Data are given in FOB prices, taking into account NBKR additional estimates.

## Chapter 1. External Environment

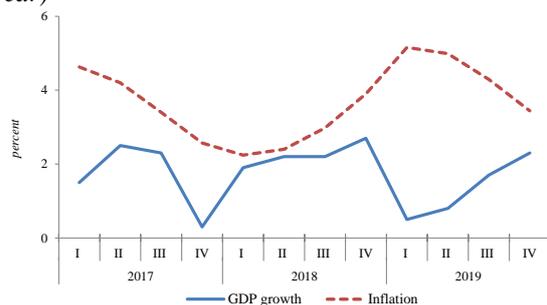
### 1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

Economic activity in the countries-main trading partners of the Kyrgyz Republic remained moderate. In the reporting period, economic growth in Russia accelerated amid increased investments in the national projects. The inflation rate in Russia still slowed down and formed at the end of the year below the target set by the Bank of Russia. Economic growth in Kazakhstan was mainly due to expansion of domestic demand, which influenced on rise in prices. Economic growth in Belarus was at the level of the previous quarter, domestic demand provided the main support; the inflation rate slowed by the end of the year, falling below the target set by the National Bank of the Republic of Belarus. The economic activity indicator of Armenia is the highest: since 2011, the inflation rate has remained at the level of the previous quarter, generally, demonstrating slowdown in 2019. Economic growth in China has reached its lowest level in recent years and was supported by the stimulus measures taken by the Government. Economic growth in the USA was at the level of Q3, having finally decreased to the level of 2016 over the year.

#### Russia

##### Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



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

##### In the reporting period, GDP growth in Russia accelerated compared to Q3.

According to the Ministry of Economic Development of the Russian Federation, in Q4 2019, GDP of the country grew by 2.3 percent in annual terms (by 1.7 percent in the previous quarter). Finally, in 2019, GDP of Russia grew by 1.4 percent<sup>1</sup> after 2.5 percent in 2018. Increase in input of the industrial and agricultural sectors to GDP growth up to 0.5 and 0.1 percentage points, respectively, made the main positive impact on the economy. At the same time, input of trade turnover to economic growth decreased slightly down to 0.2 percentage points from 0.3 percentage points in the previous year.

The volume of budget funds invested in the national projects of Russia has significantly increased since September 2019 thereby supporting economic growth. According to the preliminary data of the Ministry of Finance of Russia, expenditures for the national projects in 2019 were executed by 91.4 percent of the plan and amounted to RUB 1.6 trillion.

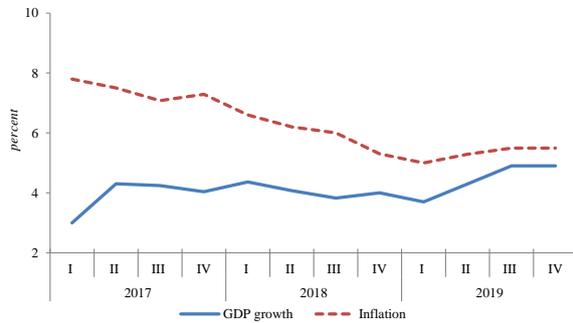
In Q4 2019, the inflation rate still slowed down amid prevalence of disinflationary factors over inflationary ones. Thus, in the reporting period, the annual inflation rate made 3.4 percent (4.3 percent in the previous quarter). Rise in prices slowed down primarily for food products from 5.5 percent in the previous quarter to 3.8 percent in the reporting period in annual terms, for non-food products – from 3.5 to 3.1 percent, in the services sector – from 4.3 percent to 3.8 percent.

<sup>1</sup> Preliminary estimate of the Ministry of Economic Development of the Russian Federation.

## Kazakhstan

**Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan**

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBKR calculations

input to economic growth.

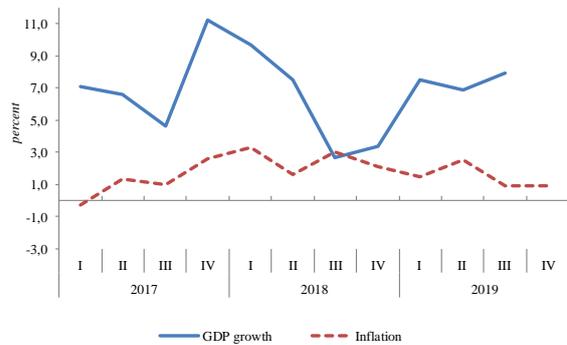
In Q4 2019, the annual inflation rate in Kazakhstan formed at the level of 5.5 percent compared to 4.4 percent in the same period of 2018 and was mainly due to rise in prices for food products.

In addition, the expansion of domestic demand (amid rise in the population incomes and consumer lending) exerts pro-inflationary pressure. At the same time, in the reporting period, decline in the cost of regulated services, as well as in prices for gasoline and fuel was the restraining factor for the inflation rate.

## Armenia

**Chart 1.1.3. Growth of GDP and Inflation in Armenia**

(quarter to the corresponding quarter of the previous year)



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

previous month, when prices rose by 1.1 percent. The inflation rate in the consumer market of Armenia as of December 2019 made 0.7 percent over 12 months; the average annual inflation rate was 1.4 percent.

**In Q4 2019, there was stable acceleration in economic growth of Kazakhstan.** In general, in 2019, GDP of Kazakhstan grew by 4.5 percent<sup>1</sup> compared to 4.1 percent in 2018. The economic growth in Kazakhstan was mainly due to expansion of domestic and investment demand (+8.5 percent), which resulted in an increase in production in the sectors of construction (+12.9 percent), trade (+7.6 percent), transport (+5.1 percent) and communication (+5.2 percent). An increase in the volume of metal ore production, growth in the textile industry and engineering made a significant

**In 2019, the economic activity indicator<sup>2</sup> of Armenia amounted to 7.8 percent. This is the highest value since 2011.**

Industrial production increased by 9.0 percent, construction - by 4.6 percent, however, agricultural output decreased by 4.2 percent. Trade turnover increased by 8.9 percent, and the volume of services - by 15.0 percent.

Taking into account decreased uncertainty in the external sector and demand for selected commodities and food products in the world markets, in December 2019, there was a slight increase in prices by 1.3 percent in Armenia compared to the

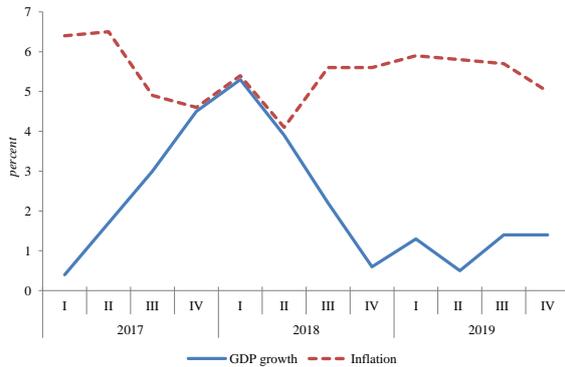
<sup>1</sup> According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan.

<sup>2</sup> The economic activity indicator includes the volume of produced goods and services, however, unlike GDP, does not take into account indirect taxes (VAT and excise tax).

## Belarus

**Chart 1.1.4. Growth of GDP and Inflation in Belarus**

(in annual terms)



Source: National Statistical Committee of the Republic of Belarus

**In Q4 2019, the economic growth remained at the level of the previous quarter.** According to the National Bank of the Republic of Belarus, in Q4 2019, GDP grew by 1.4 percent in annual terms due to increase in domestic demand. In 2019, GDP growth of the country slowed down to 1.2 percent from 3.1 percent in the previous quarter. An increase in retail turnover (+4.2 percent), in agricultural production (+2.9 percent) and in industry (+1.0 percent) had a positive impact. Capital investments increased by 5.7 percent in 2019. Slowdown in global economic activity, as well as decline in exports of petroleum products amid decreased oil supplies from Russia had a

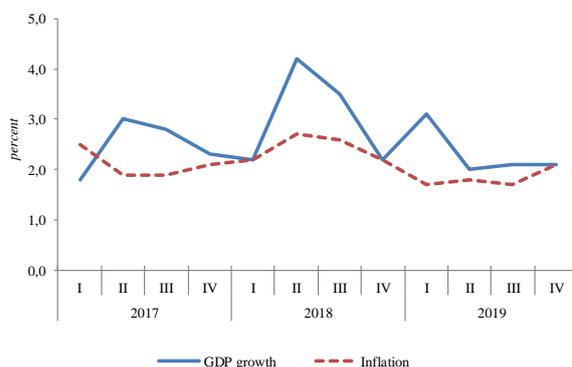
negative impact on the GDP growth rate.

In December 2019, the inflation rate in Belarus slowed down to 4.7 percent over the year, with a target of no more than 5 percent (at the end of 2018, the inflation rate was 5.6 percent). At the end of 2019, an increase in prices for food products slowed down to 4.3 percent from 5.7 percent in December 2018, for non-food products – down to 3.7 percent from 3.8 percent, for services – down to 6.9 percent from 8.1 percent. The core consumer price index was 3.5 percent in annual terms. Monetary policy measures taken by the regulator and flexibility of the Belarusian ruble exchange rate, as well as the Government actions taken to regulate the prices for socially significant consumer goods contributed to low inflation.

## USA

**Chart 1.1.5. Growth of GDP and Inflation in the USA**

(in annual terms)



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

**In Q4 2019, economic growth in the USA remained at the level of Q3, meanwhile, in general, the annual economic growth slowed down to the level of 2016.** In 2019, the economic growth of the USA slowed down significantly compared to 2018 - from 2.9 to 2.3 percent. Only in Q4 2019, the U.S. GDP grew by 2.1 percent.

According to the US Department of Labor, in Q4, decline in imports, acceleration of the Government expenditures and a slower decline of investments in the sector of non-residential real estate were covered by a more significant reduction of private investments in inventories and consumer expenditures.

In 2019, the consumer price index increased by 0.4 percent compared to 2018 and made 2.3 percent. The consumer price index increased by 0.2 percent in December after growth by 0.3 percent in November 2019. A slight slowdown in the inflation rate in December was due to a slowdown in rental prices, as well as a decrease in prices for used cars and furniture.

## China

**Chart 1.1.6. Growth of GDP and Inflation in China**

(quarter to the corresponding quarter of the previous year)



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

**In 2019, the economic growth rates in China slowed down to the lowest levels in the recent years, due to the ongoing trade tension with the United States.**

Thus, in 2019, economic growth in China amounted to 6.1 percent compared to 6.6 percent in 2018, due to the ongoing trade war with the United States during 2019, as well as internal factors such as restrictions in lending and reduced consumer expenses for large purchases and low rates of housing construction.

At the same time, high level of consumption, expansion of capital investments, reduction of taxes and fees, as well as an increase in Government expenditures contributed to economic growth.

In 2019, the CPI increased by 2.9 percent in annual terms compared to 2.1 percent in 2018. At the same time, in December 2019, this indicator increased by 4.5 percent in annual terms. According to the National Bureau of Statistics of the PRC, such increase in the inflation rate was mainly due to rise in prices for food products (+17.4 percent). In particular, prices for pork increased significantly - by 97.0 percent due to the outbreak of African swine fever.

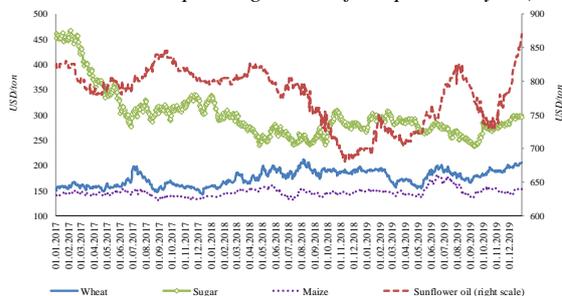
## 1.2. World Commodity Markets

Rise in prices for food products in the world markets, mainly due to increase in prices for vegetable oils and meat, posed certain inflationary risks for Kyrgyzstan. In the reporting period, the oil market experienced an increase in prices amid positive news about approval of the first phase for the trade agreement signed between the USA and China. Generally, prices for gold demonstrated an uptrend trend.

### Food Market

**Chart 1.2.1. Dynamics of Prices for Food Products**

(month to the corresponding month of the previous year)



**In Q4 2019, the average prices for main food products increased compared to the previous quarter.** The world food market demonstrated volatile price movement with a stable upward trend by the end of the reporting period. The prices for sunflower oil and other types of vegetable oils were the highest; moreover, there was a slight increase in prices for sugar and crops<sup>1</sup>.

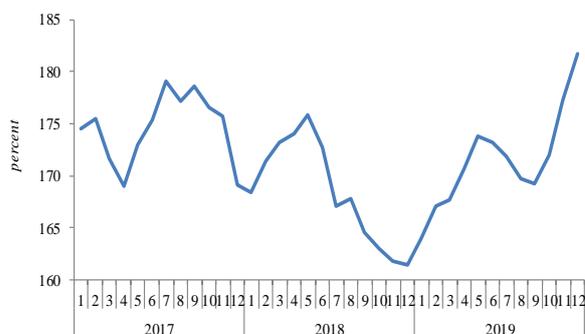
During the reporting quarter, prices for crops increased slightly due to concerns about weather conditions being adverse for the harvest and increased import demand from China, as well as logistics problems in France. At the

<sup>1</sup> This index is calculated using wheat price index of the International Grains Council (IGC), which, in turn, represents the average value of 10 different price quotations for wheat, export price quotations for maize and 16 price quotations for rice.

same time, maize quotations gradually increased amid data on harvesting and a decrease in global trading activity. In 2019/20 marketing year, crops production is forecasted to increase compared to 2018/19 season.

Prices for sunflower oil and other vegetable oils have been rising over the past five months of 2019. This was due to the steady global demand for these products, increased use of palm oil for biodiesel production, as well as expected decline in production in the main producing countries and concerns about decrease in supply of vegetable oils in the world.

**Chart 1.2.2. Dynamics of FAO Food Price Index**



Prices in the world sugar markets increased amid rising prices for crude oil, which resulted in growth of bioethanol production from sugar cane in Brazil and, accordingly, a decrease in sugar production and a reduction in its supply in the world markets. However, weakening of the Brazilian real exchange rate to the US dollar and a good sugar cane harvest in India had a restraining effect on sugar quotations.

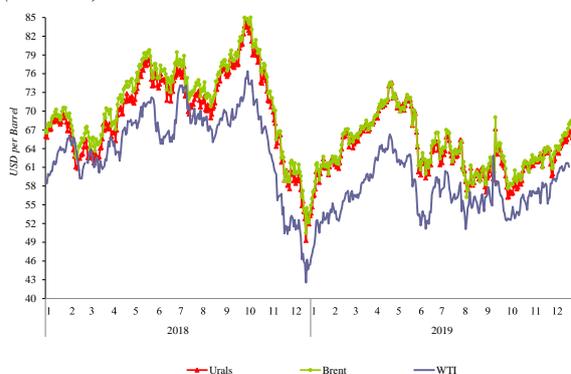
In Q4 2019, the average FAO food price index increased by 9.2 percent compared to the same quarter of the previous year and amounted to 177.0 points. In the reporting period, prices for vegetable oils, meat and sugar rose significantly and there was a slight increase in prices for dairy products and crops.

In Q4 2019, the average FAO food price index increased by 9.2 percent compared to the same quarter of the previous year and amounted to 177.0 points. In the reporting period, prices for vegetable oils, meat and sugar rose significantly and there was a slight increase in prices for dairy products and crops.

In general, according to the results of 2019, the average FAO food price index increased by 3.1 points or 1.8 percent compared to 2018 and amounted to 171.5 points.

### Energy Market

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



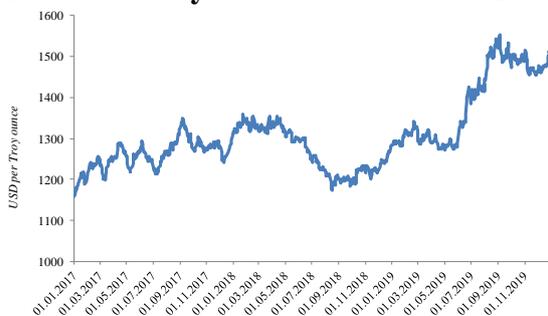
**In Q4 2019, an upward trend was observed in oil prices.** During the reporting period, the price of Brent crude oil ranged within USD 57.7-68.4 per barrel. At the end of the reporting period, the oil price was at the level of USD 66.0 per barrel, having increased by 12.1 percent since the beginning of the quarter (by 20.2 percent year-to-date). In Q4, the average oil prices have been supported by expected approval of the first phase of the trade agreement entered into between China and the United States.

In 2019, the average oil price was at the level of USD 64.1 per barrel compared to USD 71.7 in 2018. Throughout 2019, prices for oil were primarily determined by the global economic slowdown, the OPEC+ agreement on reduced oil production and geopolitical tensions. These factors are expected to remain decisive for the dynamics of oil prices in 2020. In 2020, OPEC decreased demand for oil by 230 thousand barrels per day (down to 100.7 million barrels per day) amid falling demand from China, however the forecast for oil supplies from the non-OPEC countries was reduced by 100 thousand barrels per day, down to 66.6 million barrels per day, with the main decline being observed in the United States. Meanwhile, world supply of oil is still increasing faster compared to demand. The International Energy Agency expects that in Q1 2020, world demand in the oil market will decrease by 435 thousand barrels per day. The surplus in the oil market in the first half of 2020 may reach approximately 1 million barrels per day, taking into account OPEC+ reductions, excess supply of oil in the world market will still be observed in the second half of 2020.

The US Department of Energy decreased its forecast for oil production in the country in 2020 from 13.3 to 13.2 million barrels per day, in 2021 - from 13.7 to 13.6 million barrels per day. At the same time, in 2020, the US Department of Energy decreased its forecast for the average price of Brent oil from USD 64.8 to USD 61.3 US per barrel; in 2021 it remained at the level of USD 67.5 per barrel.

### Gold Market

**Chart 1.2.4. Dynamics of Prices for Gold**



Source: IA Bloomberg

**In Q4 2019, the prices for gold were at the level of USD 1,483 per Troy ounce.** At the end of 2019, the gold yield was 18.3 percent, and a maximum of USD 1,551 per Troy ounce was reached in September.

The price for gold approached its seven-year maximum at the end of the first week of 2020, having increased by 3.8 percent, to make USD 1,574 per ounce.

According to RBC Capital Markets, an investment bank, rise in prices for gold at the end of 2019 improved investors' attitude towards the precious metal. Other investment banks (Goldman Sachs, Citigroup, and UBS) forecasted rise in prices for the main defensive asset up to USD 1,600 per Troy ounce in 2020. Minimum value reached in September of the last year was exceeded due to the event, which occurred in the Middle East. The interim agreement signed between the USA and China, which brought close to the end the many-month-long trade conflict, could not completely remove the uncertainty in the financial markets. The negative news background in the US stock market puts pressure on the yield of ST-Bonds.

Moreover, the demand for gold will grow amid degradation of the situation due to coronavirus in China. Currently, the investors prefer to convert their capital into defensive assets - all these factors support the price for gold.

## Chapter 2. Macroeconomic Development

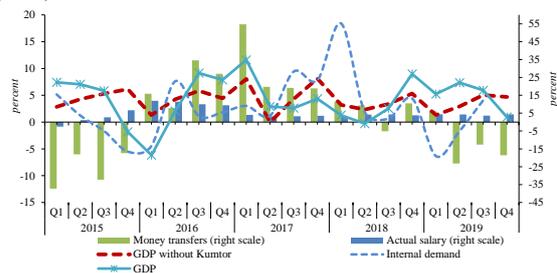
### 2.1. Demand and Supply in the Commodities and Services Market

In January-December 2019, economic growth rates remained positive. In the reporting period, the industrial sector was the main driving force of the economy, including an increase in the production of basic metals at the enterprises of the Kuntor Mine, which had a positive impact on the economic development of the country.

#### Demand

##### Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

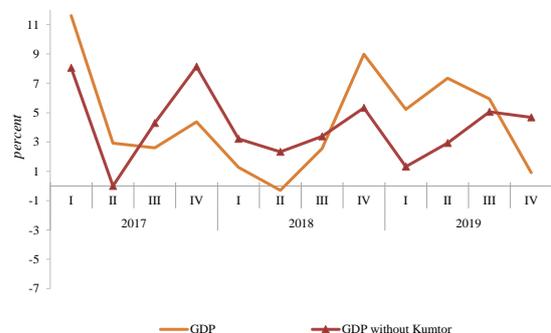
(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

##### Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

At the same time, in January-December 2019, the real wages increased by 4.7 percent compared to the same period of 2018.

#### Public Finances Sector

**At the end of 2019, the fiscal consolidation policy was still conducted: the budget deficit decreased from 1.1 percent to GDP in 2018 to 0.1 percent to GDP (KGS 0.4 billion). Fiscal policy was still conducted with the social focus for the state budget expenditures.**

The primary state budget surplus (excluding interest payments for servicing the public debt) amounted to KGS 7.4 billion or 1.2 percent to GDP.

**In January-December 2019, the economic growth was higher compared to the same period of 2018 and constituted 4.5 percent (excluding the enterprise of the Kuntor Mine - 3.8 percent).**

According to the preliminary results of Q3 2019, growth of the domestic demand<sup>1</sup> amounted to 4.1 percent in annual terms. An increase was mainly due to growth of gross accumulation (+7.0 percent) (which is a result of an increase in stocks of fixed assets (+5.1 percent)) and final consumption (+4.8 percent).

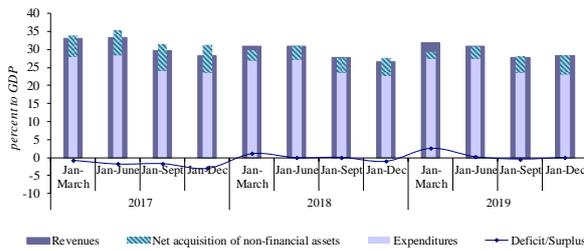
In general, the economic growth at the end of 2019 was due to a positive input of all main sectors of the economy.

According to the results of January-December 2019, the average monthly nominal wage of one employee<sup>2</sup> amounted to KGS 17.2 thousand, having increased by 5.9 percent compared to the same period of 2018. The largest increase in the average monthly wage growth rate was observed at the enterprises and organizations of all types of economic activity, excluding the sphere of information and communication, transportation and storage of goods.

<sup>1</sup> According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for Q4 2019.

<sup>2</sup> Generally, in the territory of the republic, excluding small enterprises.

**Chart 2.1.3. Execution of the State Budget**  
(period to the corresponding period of the previous year, accumulatively)

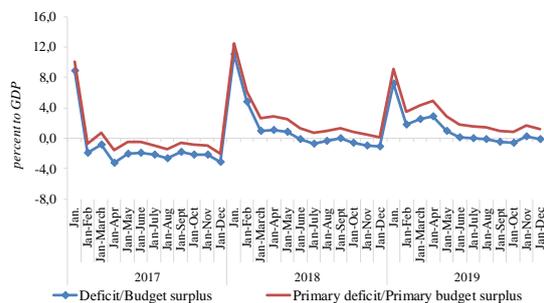


Source: CT MFKR, NBKR

The state budget revenues from operating activities increased by 10.3 percent or KGS 15.6 billion compared to the same indicator in 2018 and amounted to KGS 167.1 billion or 28.3 percent to GDP. Tax revenues (3.2 percentage points), official transfers (2.7 percentage points) and non-tax revenues (4.4 percentage points) made a positive input to the growth of budget revenues. Tax revenues still have the largest share (72.7 percent) in the structure of current revenues.

The state budget expenditures for operating activities increased in annual terms by 5.4 percent or KGS 7.0 billion and amounted to KGS 136.1 billion or 23.1 percent to GDP. Labor costs (+3.1 percentage points), subsidies and social benefits (+1.0 percentage points) and payment of interest on government loans (+0.5 percentage points) made the largest input to the growth of current expenditures, meanwhile the expenditures on “purchase and use of goods and services” item made a negative input in the amount of 0.4 percentage points. There is a change in expenditures according to the functional classification due to the introduction of the new budget classification. Thus, transfers to the budgets of the Social Fund and the Mandatory Health Insurance Fund are reflected in the section “general public services”, and in 2018 they were reflected in the sections “social protection and healthcare”, respectively.

**Chart 2.1.4. Budget Deficit**  
(period to the corresponding period of the previous year, accumulatively)



Source: CT MFKR, NBKR

Net outflow of budget funds for operations related to acquisition of non-financial assets amounted to KGS 31.4 billion or 5.3 percent to GDP.

At the end of 2019, execution of the state budget resources amounted to 107.6 percent. The inflow of tax and non-tax revenues was the main reason for overfulfillment of the budget revenues plan. Execution of the budget expenditures constituted 101.4 percent, mainly due to increase in expenditures on “labor remuneration” item.

## Investments

**In 2019, the level of capital investment exploitation increased by 5.8 percent compared to 2018.**

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

	January-September			
	2018		2019	
	millions of KGS		share, percent	
<b>Total</b>	<b>151 467,9</b>	<b>161 790,8</b>	<b>100,0</b>	<b>100,0</b>
<b>Internal investment</b>	<b>108 633,4</b>	<b>112 510,6</b>	<b>71,7</b>	<b>69,5</b>
Republican budget	7 026,0	4 293,8	4,6	2,7
Local budget	1 333,8	1 845,0	0,9	1,1
Funds of enterprises and organizations	49 061,8	53 223,3	32,4	32,9
Banks' credits	5 600,8	3 462,1	3,7	2,1
Population funds including beneficent help of KR residents	45 611,0	49 686,4	30,1	30,7
<b>External investment</b>	<b>42 834,5</b>	<b>49 280,2</b>	<b>28,3</b>	<b>30,5</b>
Foreign credit	19 967,8	25 658,2	13,2	15,9
Direct foreign investments	13 597,5	12 740,2	9,0	7,9
Foreign grants and humanitarian aid	9 269,2	10 881,8	6,1	6,7

Source: NSC KR

Growth of capital investments, as before, was mainly observed in the construction of agriculture, mining operations, water supply, and waste treatment facilities, as well as in trade.

Meanwhile, capital investments decreased in the construction of manufacturing facilities, as well as in the construction and reconstruction of the facilities to supply of electric energy, gas, steam and conditioned air.

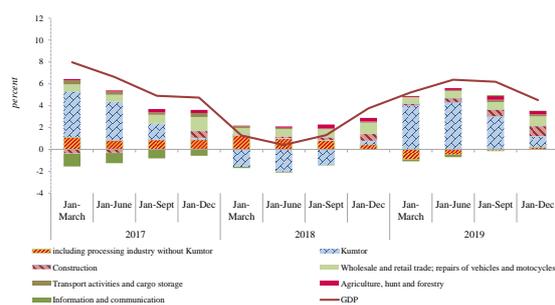
The volume of capital investments financed from domestic sources increased by 2.5 percent compared to 2018. A positive contribution from domestic sources was made by

the investments financed from the local budget (an increase by 36.8 percent), the personal funds (+7.8 percent), as well as the enterprises and organizations (+7.4 percent). Meanwhile, there was a decrease in the investments financed from the republican budget (39.5 percent) and from the bank loans (-38.8 percent). The investments financed from the foreign sources increased by 14.0 percent due to growth in foreign loans (+27.2 percent) and foreign grants (+16.5 percent), meanwhile the volume of capital investments financed from the direct foreign investments on the contrary, decreased by 7.1 percent.

## Supply

### Chart 2.1.5. Input of Main Sectors in GDP Growth

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



Source: NSC KR, calculations: NBKR

**In 2019, GDP increased due to a positive input of all sectors of economy.**

According to the preliminary data from the National Statistical Committee of the Kyrgyz Republic, the nominal GDP grew by 4.5 percent in real terms compared to the same period of the previous year (in 2018, growth was 3.8 percent) and amounted to KGS 590.0 billion.

In the reporting period, growth of gross agricultural output by 2.6 percent compared to the corresponding indicator of 2018 was due to an increase in livestock (by 2.5 percent) and crop-growing (by

2.6 percent) production.

Growth of production in the industrial sector in January-December 2019 was due to an increase in output of metal ores (by 28.5 percent), clothes (by 18.3 percent), extraction of crude oil and natural gas (by 17.0 percent), output of basic metals (by 12.3 percent), other non-metallic mineral products (by 8.8 percent), extraction of coal (by 6.9 percent), as well as output of food products (by 4.3 percent).

The turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased compared to January-December 2018 mainly due to growth in retail (by 4.6 percent) and wholesale (by 3.6 percent) trade.

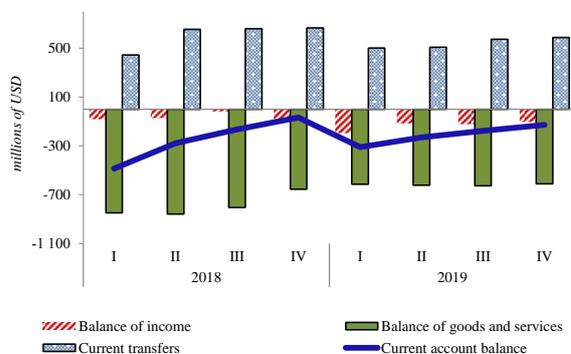
In January-December 2019, the GDP deflator was negative and amounted to (-)0.8 percent, having decreased by 4.3 percentage points compared to the same indicator in January-December 2018.

Such sectors as construction (10.6 percentage points), industry (6.9 percentage points), wholesale and retail trade (4.9 percentage points), transport (4.8 percentage points), and agriculture (2.6 percentage points) made the main positive input to the economic growth.

## 2.2. External Sector<sup>1</sup>

**Q4 2019** was characterized by expansion of the current account under the influence of the increase in the negative balance of income, trade of goods and services, as well as the decline in the net inflow of current transfers.

**Chart 2.2.1. Current Account**  
(millions of USD)



Note: According to the preliminary and forecasted data.

According to the forecasted and preliminary data, the current account deficit decreased down to USD 129.0 million and constituted 10.0 percent to GDP<sup>2</sup> in Q4 2019.

The trade deficit of the Kyrgyz Republic decreased by 10.0 percent and amounted to USD 554.0 million in the reporting period. This trend is due to an outrunning decrease in imports compared to a decline in exports.

**Table 2.2.1. Trade balance of the Kyrgyz Republic<sup>3</sup>**  
(millions of USD)

	2016	2017	2018	2018 Q IV	2019 * Q IV	Change in %	Change in millions of
Trade balance	-2 136,5	-2 383,3	-3 033,8	-615,8	-554,0	-10,0	61,8
Export (FOB)	1 607,9	1 813,9	1 916,0	647,3	607,4	-6,2	-39,9
Gold	701,6	700,4	664,2	281,6	269,5	-4,3	-12,0
Import (FOB)	3 744,4	4 197,2	4 949,9	1 263,0	1 161,4	-8,0	-101,6
Energy products	467,4	567,2	809,6	253,2	160,2	-36,7	-93,0

\* Preliminary data

In the reporting period, the export of goods (in FOB prices) decreased by 6.2 percent to make USD 607.4 million. Exports were primarily affected by a decrease in supplies of gold, metal scrap and clothes. Exports of gold decreased by 4.3 percent due to a decrease in the physical volume of supplies. At the same time, there was an increase in the supplies of ores and concentrates of precious metals, vegetables, fruits, cast iron and steel, etc.

In Q4 2019, imports of goods (in FOB prices) decreased by 8.0 percent compared to the indicator of the previous year to make USD 1,161.4 million. In the reporting period, imports were affected by a decline in the supplies of energy products by 36.7 percent compared to Q4 2018. At the same time, there was positive dynamics in such commodity items as medicines, fruits and vegetables, motor vehicles for transportation of goods, etc.

**In the reporting period, the net inflow of current transfers decreased compared to the same period in 2018 due to the negative dynamics of the private transfers inflow.** The net inflow of private transfers decreased by 18.5 percent. There was an increase in transfers received by the public sector up to USD 83.7 million. In the reporting quarter, the balance of services deficit is forecasted at USD 56.8 million, meanwhile the balance of “income” item is expected at USD 105.3 million.

**According to the preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, the capital inflow on the capital and financial accounts will cover**

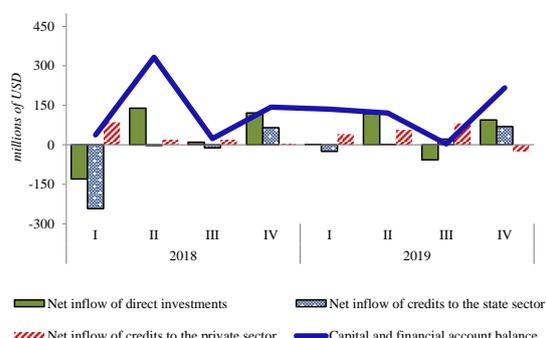
<sup>1</sup> According to the preliminary and forecasted data, including additional estimates of the National Bank of the Kyrgyz Republic. Period of comparison is the quarter to the corresponding quarter of the previous year.

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

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

the current account deficit of USD 216.3 million in Q4 2019. The capital account surplus made USD 28.0 million, the capital inflow on the financial account is expected at USD 188.4 million.

**Chart 2.2.2. Capital and Financial Account**



balance to make USD 121.7 million at the end of Q4 2019. Gross international reserves covered 5.0 months of the future imports of goods and services<sup>1</sup> at the end of the reporting quarter of 2019.

### Indexes of Real and Nominal Effective Exchange Rate of KGS

**Table 2.2.2. Key Values for Exchange Rate**

	year (average)			month to the beginning of the year (as of the end of month)		
	2017 (aver.)	2018 (aver.)	%	December 2018	September 2019 *	%
REER	113.7	111.4	2.9	117.7	116.7	-0.9
NEER	112.8	110.7	5.2	121.4	125.1	3.0
RBBER to CNY	80.8	85.6	-2.3	85.9	86.2	0.3
NBER to CNY	64.5	66.7	-2.2	67.1	69.1	3.0
RBBER to Euro	107.2	109.2	-4.8	107.0	109.0	1.9
NBER to Euro	78.8	78.6	-4.7	76.7	79.1	3.2
RBBER to KZT	141.7	132.5	1.4	140.1	142.3	1.5
NBER to KZT	152.1	147.5	5.6	165.5	173.0	4.5
RBBER to RUR	131.4	116.2	6.0	128.1	122.4	-4.5
NBER to RUR	144.8	128.3	7.0	145.1	141.0	-2.8
RBBER to USD	87.2	89.9	-0.4	88.7	87.1	-1.7
NBER to USD	65.7	66.7	0.0	65.8	65.8	0.1

\* Preliminary data

↓ - Som devaluation, competitiveness improvement

↑ - Som strengthening, competitiveness deterioration

3.5 percent and the euro – by 2.5 percent.

Despite the NEER index strengthening, the lower inflation rate in Kyrgyzstan<sup>3</sup> conditioned the decrease of the real effective exchange rate (REER), which since December 2018 decreased by 1.1 percent and constituted 116.3 at the end of December 2019.

The net inflow of direct investments into the country is forecasted to be lower than the level of the same period in the previous year to make USD 94.6 million. In the reporting quarter, the balance of “other investments” item will be positive due to a decrease in foreign assets. An increase is expected in the flow of loans to the public sector. The upward trend was still observed in the volume of servicing the private sector loans.

Thus, the balance of payments of the Kyrgyz Republic was formed with a positive balance to make USD 121.7 million at the end of Q4 2019. Gross international reserves covered 5.0 months of the future imports of goods and services<sup>1</sup> at the end of the reporting quarter of 2019.

At the end of Q4 2019, the real effective exchange rate decreased compared to December 2018. According to the preliminary data, the index of the nominal effective exchange rate (NEER) of KGS increased by 1.7 percent year-to-date and constituted 123.5 at the end of December 2019. The increase in the NEER index was due to KGS strengthening<sup>2</sup> in December 2019 compared to the average exchange rate for December 2018 against the Turkish lira – by 10.2 percent, the Kazakh tenge – by

<sup>1</sup> Taking into account non-convertible currencies.

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

<sup>3</sup> In Q4 2018, the inflation rate in the Kyrgyz Republic was formed at 2.7 percent, meanwhile, according to the preliminary calculations, the average inflation rate in the main trading partner countries was 5.7 percent.

## Chapter 3. Monetary Policy

### 3.1. Monetary Policy Implementation

In Q4 2019, in the context of moderate inflation the stimulating direction of monetary policy, focused on supporting economic activity in the country, was continued.

Tactical monetary policy measures were taken, on the one hand, based on the need to provide the banking system with long resources through monetary instruments for re-crediting priority sectors of the economy, as well as for development of the regions, on the other hand, to manage the excess liquidity in the banking system, a significant share which is primarily short-term and irregularly distributed.

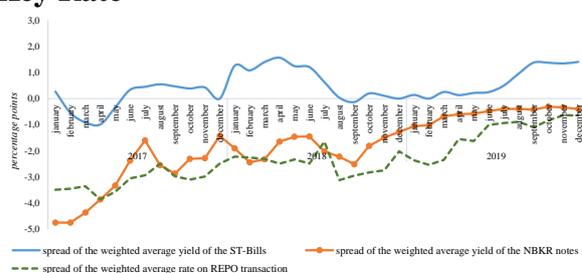
The efforts previously taken to improve the monetary mechanism conditioned the dynamics of short-term money market interest rates in the reporting period near the National Bank policy rate, demonstrating their unidirectional trend and the gradual reduction of the gap between the key rate.

#### Interest Rate Policy of the National Bank

The interest rate policy of the National Bank was maintained during Q4 2019 as part of the adopted monetary policy. The main policy rates have remained unchanged. During the reporting period, the policy rate of the National Bank remained at 4.25 percent, being twice reduced in the first half of 2019 (in February from 4.75 to 4.50 percent, in May - to 4.25 percent).

The limits of the interest rate corridor were at the level of Q3 2019: “overnight” deposits rate remained at 2.00 percent, “overnight” credits rate - at 5.75 percent (earlier in 2019, the limits of the interest rate corridor were adjusted to develop the money market: “overnight” deposits rate was increased from 1.50 to 2.00 percent, “overnight” credits rate was reduced from 6.00 to 5.75 percent).

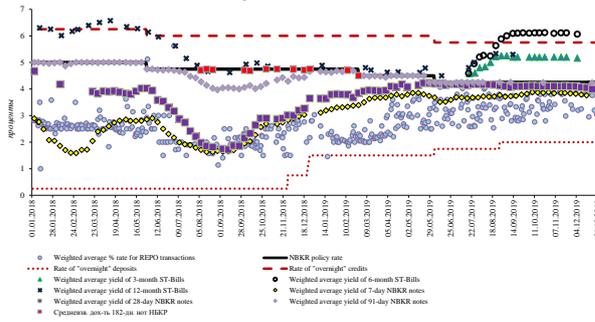
**Chart 3.1.1. Spread between the Short-Term Rates of the Money Market and the Key Rate**



Measures previously taken to improve the monetary policy transmission mechanism and to develop the interbank money market contributed to narrowing the gap between the short-term money market rates and the policy rate, excluding the ST-Bills yields, which demonstrated multidirectional dynamics due to reissue of 3- and 6-month ST-Bills since July 2019.

The spread of the weighted average yield on the National Bank notes and the average rate on REPO operations of the interbank credit market to the policy rate continued to decline, having reached its minimum over the last few years. In the reporting period, the average spread of the notes yield to the policy rate made -0.3 percentage points (in Q3 2019, the spread was -0.4 percentage points). The average spread of the rates on REPO operations of the interbank credit market to the policy rate was -0.7 percentage points (in Q3 2019, the spread was -1.0 percentage points).

**Chart 3.1.2. Money Market Rates**



The reissue of 3- and 6-month ST-Bills since July 2019 conditioned formation of yields on these instruments near the upper level of the interest rate corridor. During Q4 2019, the other short-term money market rates were within set interest rate corridor, mainly near the key rate.

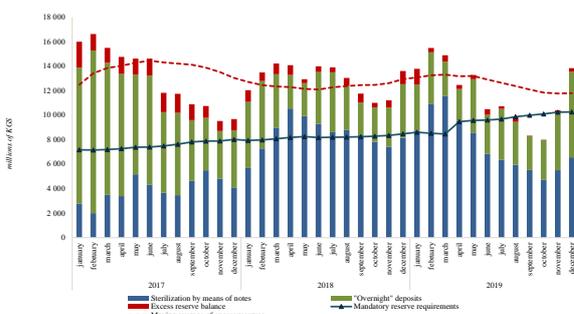
In Q3 2019, amid growth of excess liquidity in the banking system the activity in the National Bank notes market increased

after a slight slowdown.

In the reporting period, the participants' activity in the interbank market was lower compared to the previous reporting period, meanwhile the volume and the number of transactions decreased, however, the rates in this market (mainly on transactions up to 7 days) increased up to 3.46 percent (+0.3 percentage points compared to Q3 2019). At the same time, the activity in this market significantly increased compared to the same quarter of 2018.

**Situation with Liquidity of the Commercial Banks**

**Chart 3.1.3. Excess Reserves of the Commercial Banks**



In Q4 2019, excess liquidity in the banking system increased after a long decline observed year-to-date, therefore the National Bank conducted larger volume of sterilization operations compared to the previous quarter.

In the analyzed period, the average daily volume of excess liquidity increased by KGS 1.1 billion compared to the value of the previous quarter and amounted to KGS 10.7 billion.

During the reporting quarter, expansion of the Government operations (by

KGS 9.3 billion) contributed to the inflow of liquidity into the commercial banks. At the same time, the growth of money outside banks (by KGS 2.0 billion) and withdrawal of KGS liquidity through the foreign exchange operations of the National Bank (in the amount of KGS 3.9 billion) were the restraining factors for an increase in excess liquidity.

Taking into account existing level of excess liquidity in the banking system, the National Bank continued to conduct operations to absorb excess liquidity through the open market operations and placement of the commercial banks' available funds on "overnight" deposits with the National Bank. In Q4 2019, the average daily volume of excess liquidity withdrawal from the banking system increased by KGS 1.1 billion compared to the same indicator of Q3 2019 and amounted to KGS 10.6 billion.

The average daily volume of notes in circulation decreased from KGS 5.9 billion in Q3 2019 to KGS 5.6 billion in Q4. At the same time, placement of the commercial banks' available funds on "overnight" deposits with the National Bank increased by KGS 1.5 billion compared to the previous quarter, the average daily volume thereof amounted to KGS 5.0 billion in the reporting period. In the last trimester of 2019, a significant share of notes in circulation was accounted for 28-day notes (approximately 46.2 percent) and 7-day notes (approximately 34.2 percent).

In the structure of sterilization operations of the National Bank, the share of "overnight" deposits increased in the reporting period and amounted to 47.0 percent (+10.1 percentage points compared to Q3 2019), however, the prevailing share of 53.0 percent remained with notes.

## Credit Policy of the National Bank

In the reporting quarter of 2019, the National Bank continued to implement measures to support the commercial banks in financing the priority sectors of the economy, as well as to develop regions, as part of the stimulating monetary policy.

In Q4 2019, the National Bank conducted five credit auctions for the commercial banks participating in the project “Financing of Agriculture-7”, the total volume of supply at the auctions amounted to KGS 7.5 billion, the demand for such funds amounted to KGS 270.0 million and the interest rate for the end consumers was set at 10.0 percent.

Moreover, eight credit auctions were held for development of the regions in the country, where the total volume of supplied funds amounted to KGS 8.0 billion, a demand constituted KGS 750.0 million and a final interest rate was set at 12.0 percent. Meanwhile, all announced credit auctions did not take place in the reporting period due to insufficient number of the participants at the auctions.

Since the beginning of 2019, the National Bank conducted 43 credit auctions, where the total amount of supplied funds amounted to KGS 54.5 billion (a demand constituted KGS 3.4 billion), the volume approved for issue according to the results of the auctions amounted to KGS 2.02 billion.

## Foreign Exchange Policy of the National Bank

In general, the situation in the foreign exchange market of the country remained stable. At the end of Q4 2019, there was a slight excess of demand for foreign currency over supply thereof in the domestic foreign exchange market. Therefore, in order to smooth sharp fluctuations in the exchange rate the National Bank conducted interventions on sale of foreign currency in the domestic foreign exchange market in the amount of USD 56.5 million.

In the reporting quarter, the KGS exchange rate was fluctuating within the range of KGS 69.5117-69.85 per USD 1.

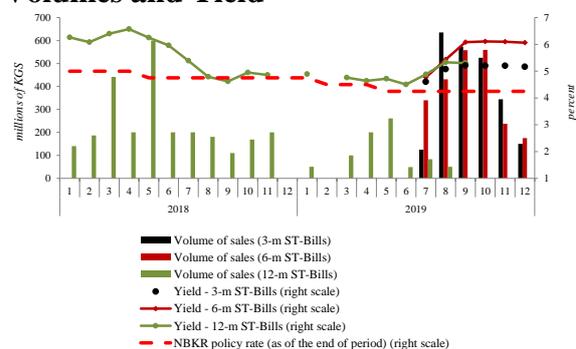
## Monetary Policy Measures in Q4 2019

The decisions were made on the size of the National Bank policy rate	The Board of the National Bank twice considered the issue on the size of the National Bank policy rate – on November 25 and December 23, 2019. Based on the results of two meetings, the decision was made to keep the policy rate unchanged at 4.25 percent. The rates of the interest rate corridor remained unchanged.
The decisions were made to conduct the credit auctions	The National Bank announced credit auctions 13 times to promote economic development: - five credit auctions for the commercial banks participating in the project “Lending to Agriculture-7”. With the total supplied funds in the amount of KGS 7.5 billion, the demand for them constituted KGS 270.0 million with an interest rate for the end consumers not exceeding 10.0 percent. - eight credit auctions for development of the regions in the country, the supplied funds amounted to KGS 8.0 billion with a demand of KGS 750.0 million and with a final interest rate at 12.0 percent. Moreover, all announced credit auctions did not take place in the reporting period due to insufficient number of participants.

## 3.2. Financial Market Instruments

### Government Securities Market

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



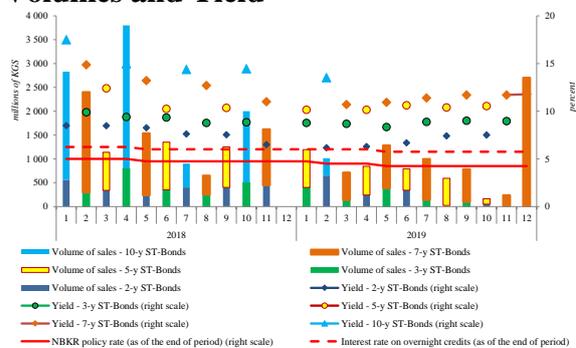
#### *ST-Bills*

In the reporting period, the ST-Bills market demonstrated an increase in the supply of securities due to reissue of 3- and 6-month securities. Under such conditions, the activity of participants in the market of 12-month securities decreased. Based on the results of the auctions, the overall weighted average yield increased by 0.7 percentage points, up to 5.6 percent.

In the reporting period, the Ministry of Finance placed at the auctions ST-Bills in the amount of KGS 2.0 billion, which was 4.9 times more than in Q4 of 2018. Investors actively participated in the auctions, therefore the volume of demand amounted to KGS 2.3 billion (+4.8 times). At the same time, in terms of maturity, 12-month securities were in less demand (their share was 4.3 percent of total demand). Thus, in the reporting period, auctions for placement of 12-month ST-Bills weren't took place due to the insufficient number of participants and high volatility of yield. The volume of demand for 3-month and 6-month ST-Bills amounted to KGS 1.1 and KGS 1.0 billion, respectively. The total volume of ST-Bills sales, taking into account additional placement in the reporting period, amounted to KGS 2.0 billion, exceeding the proposed volume by 2.1 percent.

By the end of the reporting period, the total volume of GT-Bills in circulation with holders increased by 56.5 percent year-to-date and amounted to KGS 4.1 billion.

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



#### *ST-Bonds*

In the reporting period, the Ministry of Finance reduced the volume of ST-Bonds supply due to increase in the volume of operations conducted in the ST-Bonds market. As a result, there was a decrease in the volume of demand and sales of ST-Bonds. In the reporting period, the weighted average interest rate decreased by 0.4 percentage points compared to Q4 2018 and amounted to 11.0 percent.

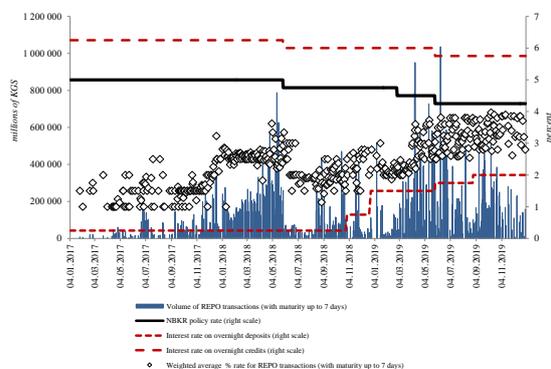
In Q4 2019, the total volume of ST-Bonds supply amounted to KGS 2.5 billion, having decreased by 33.7 percent due to reduction in the supply of 2-, 3-year securities and the lack of supply of 10-year securities compared to the same period of 2018. The volume of demand for these assets decreased by 46.3 percent, down to KGS 2.5 billion. At the same time, in terms of maturity, the demand from the participants decreased significantly by 94.0 and 97.3 percent, respectively, in the market of 2- and 3-year ST-Bonds. The most significant demand was observed for 7-year securities (91.9 percent of the total demand), the volume thereof increased up to KGS 2.3 billion (+52.7 percent), however, the sales increased by 2.5 times.

As a result, in the reporting period, total sales, including additional placements, decreased by 14.3 percent compared to the same period of 2018 and amounted to KGS 3.1 billion.

At the end of the reporting period, the total volume of ST-Bonds<sup>1</sup> in circulation increased by 14.0 percent year-to-date, up to KGS 42.9 billion due to an increase in the portfolio of the institutional investors, the commercial banks and the resident legal entities.

### Interbank Credit Market

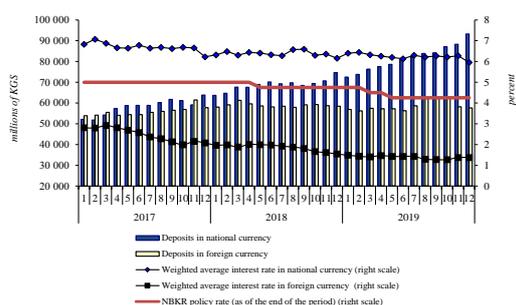
**Chart 3.2.3. Dynamics of Rates and Volume of Repo Transactions in the Interbank Credit Market**



Q4 2019. The weighted average maturity of the interbank credits increased from 5 to 7 days.

### Deposit Market

**Chart 3.2.4. Dynamics of Commercial Banks' Deposits**



year, down to KGS 57.7 billion. Dollarization of the deposits continued to decline and in December 2019 reached a new historic low of 38.2 percent, having decreased by 5.7 percentage points compared to the end of 2018. Dollarization of the individuals' deposits decreased by 4.1 percentage points and amounted to 31.9 percent. Dollarization of the legal entities' deposits decreased by 6.4 percentage points, down to 44.1 percent.

In Q4 2019, the volume of new deposits decreased by 5.4 percent compared to the corresponding quarter of the previous year and amounted to KGS 170.9 billion due to a reduction of deposits in foreign currency by 35.5 percent, down to KGS 56.0 billion. Meanwhile, the volume of new deposits in the national currency increased by 22.6 percent, up to KGS 114.9 billion. In terms of maturity, the volume of new deposits decreased due to a reduction of the demand deposits by 8.1 percent, down to 88.9 percent of all new deposits. The share of demand deposits in the national currency amounted to 88.3 percent, and in foreign currency – 90.0 percent.

There was an increase in the volume of new deposits with a maturity up to 1 year, and 1 year or more. At the same time, the growth rate of long-term deposits (with a maturity of 1 year or more) was formed at a lower level, therefore their share decreased by 3.1 percentage points, down to 38.3 percent. In Q4 2019, the share of long-term new deposits in the national

**In Q4 2019, the volume of transactions in the interbank credit market decreased compared to the previous two quarters.**

In October-December 2019, the trade volume decreased by 30.9 percent compared to the previous quarter and amounted to KGS 7.3 billion. In the reporting period, standard transactions were not conducted in the national and foreign currencies, therefore, only REPO transactions were carried out in the interbank market. The weighted average interest rate in the interbank market increased from 3.3 percent in Q3 2019 to 3.5 percent in

**In Q4 2019, the commercial banks' depository base still demonstrated stable growth observed throughout 2019.**

At the end of the year, the depository base increased by 13.4 percent compared to 2018 and amounted to KGS 151.0 billion. The growth of the depository base was due to an increase of deposits in the national currency by 25.0 percent, up to KGS 93.3 billion. At the same time, deposits in foreign currency decreased by 1.4 percent by the end of the

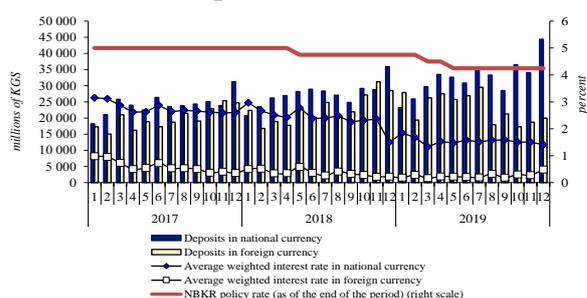
<sup>1</sup> Excluding ST-Bonds nominated in foreign currency

currency in the total volume of time deposits increased compared to the corresponding quarter of 2018 by 1.1 percentage points, up to 41.1 percent, however those in foreign currency decreased by 12.9 percentage points, down to 31.7 percent.

In the reporting quarter, the share of long-term deposits in the structure of the depository base decreased by 0.3 percentage points, down to 30.7 percent, due to a reduction in the share of long-term deposits in foreign currency by 5.2 percentage points, down to 27.6 percent. At the same time, the share of long-term deposits in the national currency increased by 1.8 percentage points, up to 32.0 percent.

The total duration of the depository base increased up to 5.4 months (+0.4 months year-to-date) at the end of 2019, the duration of the time deposits decreased down to 13.1 months (-0.1 month).

**Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows**



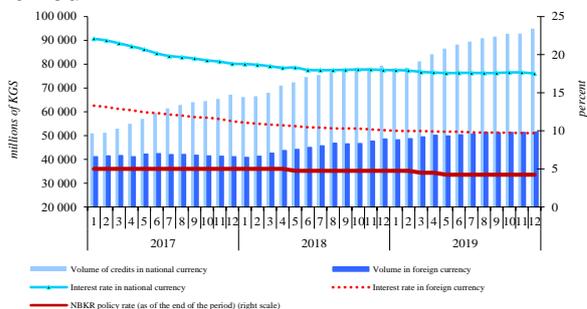
In Q4 2019, the weighted average interest rates on new deposits decreased by 0.07 percentage points compared to the same period of 2018. The interest rates on new deposits in the national currency decreased by 0.59 percentage points compared to Q4 2018 and constituted 1.47 percent, the interest rates on the deposits in foreign currency increased by 0.12 percentage points and constituted 0.35 percent. The weighted average interest rate on the new time

deposits in the national currency decreased by 0.57 percentage points, down to 9.24 percent, those in foreign currency increased by 0.03 percentage points, up to 3.30 percent. The weighted average interest rates decreased for all maturities in the national currency, excluding the deposits with a maturity up to 1 month and more than 3 years, there was a reduction in the interest rates on the deposits in foreign currency with a maturity from 1 to 3 months and more than 1 year, however the deposits with a maturity up to 1 year generally demonstrated an increase in the interest rates.

The concentration index<sup>1</sup> in the deposit market remained at the level of 0.09 at the end of the reporting period, which corresponds to the low level of concentration with eleven participants with equal shares in the market.

### Credit Market

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



**In the reporting period, the commercial banks' credit portfolio still demonstrated stable growth, observed throughout the year.**

In December 2019, the commercial banks' credit portfolio increased by 14.5 percent compared to the end of 2018 and amounted to KGS 146.4 billion. An increase of the credits in the national currency by 19.7 percent, up to KGS 95.0 billion, and in foreign currency by

<sup>1</sup> This index shows the degree of concentration in the portfolio of the banks. The concentration index is calculated by the method of calculating the Herfindahl-Hirschman index and is the sum of the squares of specific weights of the indicator in the total volume. The index takes values from 0 to 1. Index value less than 0.10 corresponds to a low level of concentration; from 0.10 to 0.18 - the average level of concentration; over 0.18 - high level of concentration. For example, a concentration index of 0.50 is equivalent to the presence of 2 participants with the same shares in the market, and 0.3 - 3 participants, etc.

6.1 percent, up to KGS 51.5 billion made the main input to the growth of the credit portfolio. Dollarization of the credit portfolio decreased by 2.8 percentage points year-to-date and reached a minimum value of 35.1 percent. In terms of maturity, the dynamics of dollarization was multidirectional, meanwhile dollarization of the credits with a maturity over 3 years decreased by 9.0 percentage points, down to 46.0 percent.

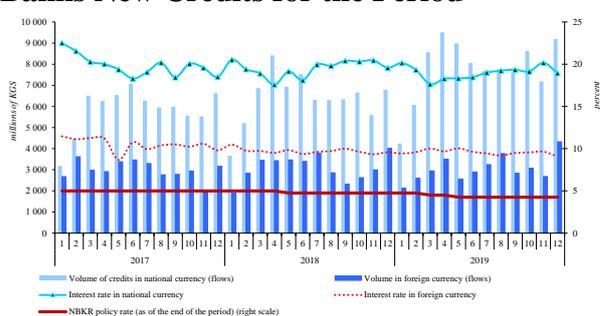
In Q4 2019, the volume of new credits was higher compared to the previous quarter, and it increased by 22.3 percent compared to the same quarter of 2018 and amounted to KGS 35.1 billion. The volume of credits issued in the national currency increased by 31.4 percent compared to Q4 2018, up to KGS 25.0 billion, and the credits in foreign currency increased by 4.5 percent, up to KGS 10.1 billion.

New credits in the national currency increased compared to October-December 2018 in almost all maturity rates; there was a slight decrease in the credits with a maturity of 6-12 months. The dynamics of credits in foreign currency was multidirectional, in general, the growth in short-term credits (up to 1 year) was higher compared to the growth in credits with a maturity of 1 year or more.

In terms of sectors, an increase in credits in the sectors of consumer loans, trade and commercial operations, as well as agriculture made the largest input to the growth in the volume of new credits in the national currency. The sectors of trade and commercial operations, procurement, processing, and agriculture made the largest input in the structure of new credits in foreign currency.

In Q4 2019, duration of new credits in the national currency increased by two months compared to the same quarter of 2018 and amounted to 26 months, in foreign currency it decreased by two months, down to 31 months.

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



In Q4, the weighted average interest rates on new credits in the national currency decreased by 0.70 percentage points compared to the same period of 2018, down to 19.41 percent, the most significant decline was recorded in the sectors of agriculture and mortgage. The rates in foreign currency decreased by 0.09 percentage points, down to 9.42 percent, mainly due to a decrease of the interest rates on credits in the sectors of

trade, agriculture and mortgage.

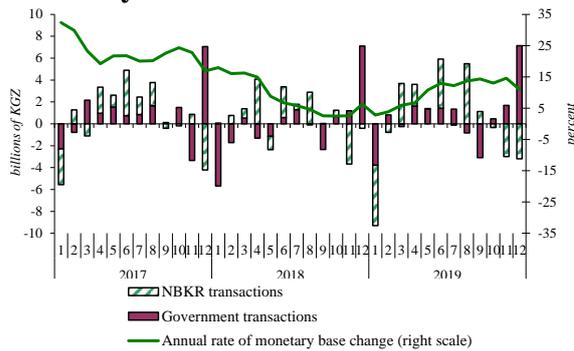
The credit market general concentration index was stable and formed at the level of 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among 12 banks. The sectoral concentration index was 0.31, thus demonstrating the main three credit sectors.

### 3.3. Dynamics of Monetary Indicators

#### *Monetary Base*

In the reporting quarter of 2019, the upward trend of reserve money was still observed; however, there was slight slowdown in the rate of the indicator change in the last month of the year.

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



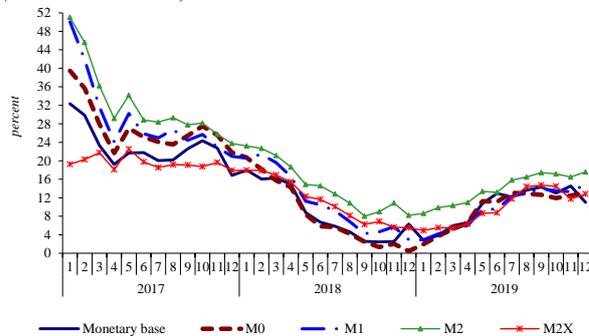
depository corporations and currency in circulation in the structure of the monetary base has not changed. As before, the share of the currency in circulation was the most significant (as of the end of Q4 – 90.0 percent), meanwhile the share of reserves of other depository corporations amounted to 10.0 percent.

**Monetary Aggregates**

Generally, in the reporting quarter, all monetary aggregates continued demonstrating an upward trend, which was mainly due to an increase in money outside banks, as well as in the deposits in the national currency.

**Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates**

(in annual terms)



In the analyzed period, the monetary base increased by 2.4 percent (compared to the previous quarter) mainly due to the transactions of the Government of the Kyrgyz Republic. The annual growth of reserve money was 11.0 percent.

The monetary base increased by KGS 9.3 billion due to the Government operations, however, the operations of the National Bank had a restraining effect on the growth of reserve money, reducing the monetary base by KGS 6.5 billion.

Generally, the ratio of reserves of other

**In Q4 2019, an increase in lending to the economy and the money supply was still observed amid positive economic growth. There was some acceleration in annual growth of monetary aggregates.**

An increase in money outside banks by 13.2 percent and growth of deposits in the national currency by 23.0 percent influenced the expansion of monetary aggregates in 2019. At the same time, these indicators increased by 2.1 percent (-2.2 percentage points compared to Q3 2019) and 8.7 percent, respectively (+4.8 percent compared to the previous quarter) in the

reporting quarter.

In 2019, the monetary aggregate M2X increased by 12.8 percent and amounted to KGS 230.3 billion. In the fourth trimester of 2019, the monetary aggregate M2X increased by 1.5 percent compared to the previous quarter.

In Q4 2019, deposits<sup>1</sup>, included in M2X, continued demonstrating an upward growth trend. Thus, in 2019, the monetary aggregate M2X increased by 12.6 percent, mainly due to the growth of deposits in the national currency by 23.0 percent. At the same time, the growth rate of deposits in foreign currency took a negative value and decreased by 2.0 percent in annual terms.

Lending to the economy demonstrates positive growth rates as in the previous quarter, while maintaining the stimulating direction of the monetary policy. In 2019, the total volume

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

of credits to the economy increased by 14.9 percent and amounted to KGS 150.0 billion at the end of the year. This indicator grew by 2.6 percent since the beginning of the reporting quarter.

Credits in the national currency with prevailing share in the general structure of credits to the economy increased by 20.1 percent over the year, meanwhile credits in foreign currency increased by 6.2 percent.

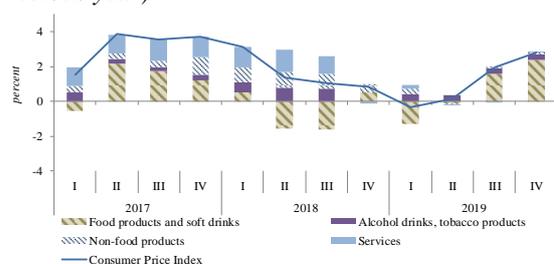
## Chapter 4. Inflation Dynamics

In 2019, inflation in Kyrgyzstan was moderately increasing since the second half of the year. The existing inflation rate was in line with the National Bank's expectations, not exceeding the targets for the medium term, and also reflecting the dynamics of the world food market.

### 4.1. Consumer Price Index

**Chart 4.1.1. Dynamics of CPI Structure**

(quarter to the corresponding quarter of the previous year)

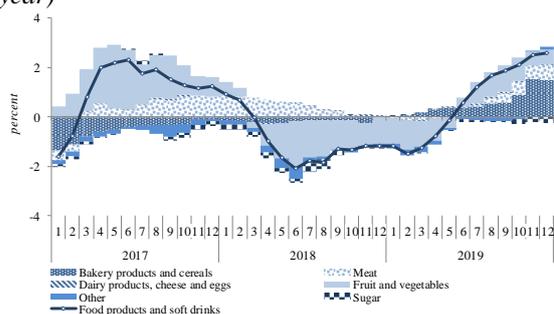


In 2019, the consumer prices grew by 3.1 percent in annual terms as part of the National Bank's inflation forecasts for 2019. The average annual inflation rate was 1.1 percent. The current price level was mainly due to an increase in prices for food products in the second half of 2019, reflecting the global trend in the food market.

In Q4 2019, the inflation rate (quarter to the corresponding quarter) was at 2.8 percent. The groups "food products and soft drinks" and "alcohol drinks and tobacco products" made the main contribution to the growth of CPI. Non-food products and services also demonstrated weakly positive dynamics.

**Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI**

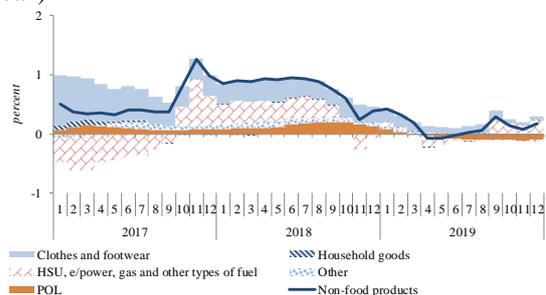
(month to the corresponding month of the previous year)



In Q4, the price index for food products increased by 5.3 percent compared to the corresponding quarter of 2018. In the reporting period, there was increase in prices for the groups "bakery products and cereals", "fruit and vegetables" and "meat" rose in price. In general, rise in prices for wheat and meat in the world food market, as well as in the region in Q4, had an impact on the formation of upward inflation dynamics at the end of 2019. The group "oils and fats" and "sugar" still has a downward impact on food inflation.

**Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI**

(month to the corresponding month of the previous year)

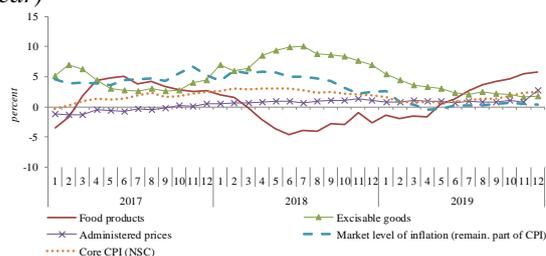


The non-food commodity group grew by 0.4 percent. Price growth indices were low or moderate primarily in the main groups.

Paid services also demonstrated a slight in prices. Growth of the group "housing services and utilities, water, electricity, gas and other types of fuel" made the main contribution to increase. Downward pressure was observed on the part of the groups "communication", "restaurants and hotels" and "transport" due to decrease in prices for fuels and lubricants.

Market inflation rate remains low, and in 2019 it constituted 0.4 percent. Restrained market inflation rates may indicate more moderate consumer demand and lower

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



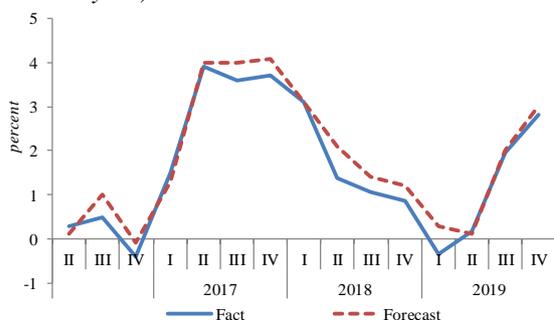
inflationary expectations.

In 2019, the core inflation indicator (excluding food and energy products), calculated by the National Statistical Committee of the Kyrgyz Republic was 2.4 percent in annual terms. In 2018, the same indicator was 2.0 percent.

## 4.2. Comparison of Forecast and Facts

**Chart 4.2.1. Actual and Forecasted CPI Values**

(quarter to the corresponding quarter of the previous year)



**In Q4 2019, the actual inflation rate was 0.1 percentage point above the National Bank's expectations.** Rise in prices for food products by the end of the year was expected to make a greater input to inflation rate formation.

## Chapter 5. Medium-Term Forecast

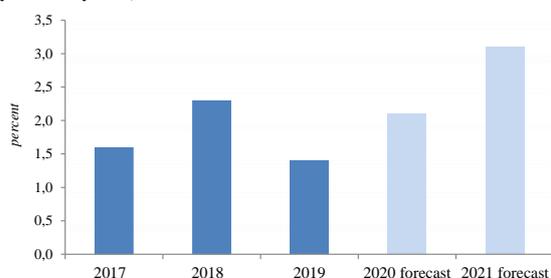
### 5.1. External Environment Proposals

#### 5.1.1. Development Forecast of Main Trading Partner Countries

##### Russia

**Chart 5.1.1.1. Real GDP Growth in Russia**

(year to year)



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

**Acceleration of the economic growth in Russia in the medium term is expected amid active implementation of its national projects.** Global economy slowdown, downward dynamics of oil prices and geopolitical uncertainty are expected taking into account foreign economic conditions. Successful implementation of the economic policy structural measures aimed at achieving national development goals and other priorities of the economy in Russia is assumed to ensure increased investment activity in the country. Active implementation of the

projects will create the basis for growth in demand for labor and, accordingly, for growth of incomes and consumption.

An increase in labor efficiency, which will be provided through widespread introduction of the technological innovations, should be another source of incomes growth in the medium term. According to the Ministry of Economic Development of Russia, in 2020-2024, the average annual growth rate of capital investments will be 5.6 percent; it will ensure an increase in the share of capital investments in GDP up to 25 percent by 2024.

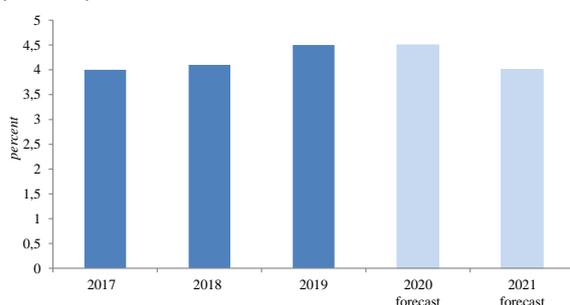
At the same time, easing of the monetary conditions by the Bank of Russia and the leading central banks of the world will support economic growth.

In the first half of 2020, the inflation rate is expected at approximately 3 percent under the influence of disinflation factors, however in the future (taking into account the current monetary policy conducted by the Bank of Russia), the indicator will be at about 4 percent.

##### Kazakhstan

**Chart 5.1.1.2. Real GDP Growth in Kazakhstan**

(year to year)



Source: IA Bloomberg, international financial institutions

**In the medium term, the economy in Kazakhstan is expected to grow in the absence of significant shocks.** The assumptions for the economic growth in Kazakhstan in 2020 are slightly adjusted upwards - up to 4.5 percent (instead of 3.5 percent) due to higher actual data on GDP growth in Kazakhstan at the end of 2019 compared to expectations, as well as more optimistic expectations of the analysts and the government of the Republic of Kazakhstan.

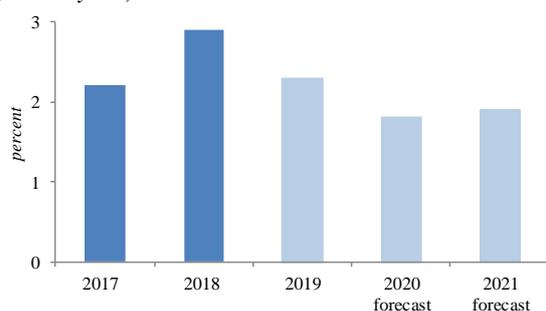
Expansion of consumer demand amid stimulating government measures, increased investment demand as a result of implemented infrastructure and investment projects, increased exports due to increased oil and gas condensate production, due to expansion of the Tengiz, Karachaganak, Kashagan deposits and commissioning of the offshore deposits will be the main factors of economic growth in the Republic of Kazakhstan.

According to the forecast of the National Bank of the Republic of Kazakhstan, the annual inflation rate will remain within the target interest rate corridor of 4.0-6.0 percent in the range of 5.0-5.5 percent. In Q1 2020, it is possible to realize short-term pro-inflationary risks and accelerate the inflation rate to the upper limit of the target interest rate corridor, which will be associated with an increase in regulated tariffs for paid services to the population, as well as the prices for certain types of food products. Existing fiscal stimulation of the economy and the output positive gap will remain the main factors determining the inflation dynamics in the medium term.

## USA

**Chart 5.1.1.3. Real GDP Growth in the USA**

(year to year)



Source: IA Bloomberg

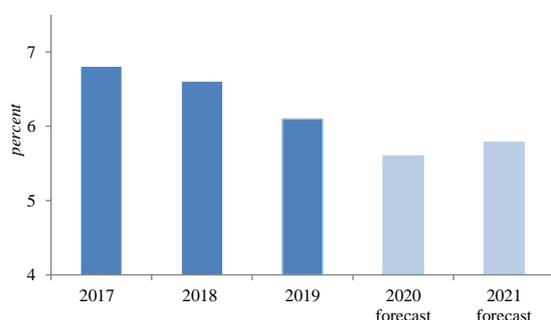
are implemented. There are significant risks of failure to obtain forecasted growth rates, including those associated with aggravation of geopolitical tensions, especially between the USA and Iran, increased social tensions, further deterioration of relations between the United States and its trade partners and deepening economic frictions with other countries.

The US Department of the Treasury estimates the negative impact of the difficulties Boeing Company has faced at the rate of -0.5 percent of the US GDP on the US economy. Meanwhile, the trade agreements concluded between the USA and China, Mexico and Canada, which will result in acceleration of the US economic growth by 0.5-0.75 percent, will be compensation thereof.

## China

**Chart 5.1.1.4. Real GDP Growth in China**

(year to year)



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

### Assumptions on the slowdown of the US economic growth still exist.

According to the World Bank forecasts, the US economy will slow down to 1.8 percent in 2020, reflecting the negative impact of previous rise in tariffs and increased uncertainty. The forecast for economic growth in the USD in 2020 is decreased by 0.1 percentage points - down to 2.0 percent, and the forecast for 2021 was kept unchanged at 1.7 percent. However, the report contains an indication of serious risks, which may result in forecast revision, provided that they

**Negative forecasts regarding economic growth in China are supported by new factors.** Forecasts for GDP growth in China in 2020 were reduced by 0.3 percentage points, from 5.9 to 5.6 percent due to the negative consequences of coronavirus disease outbreak.

According to the analysts, outbreak of a new type of pneumonia virus is already having a negative impact on the Chinese economy. Retailers, restaurant business, tourism, public transport services and sports institutions suffer from the adverse effect of

such virus. Meanwhile, higher expenditures for involvement of medical personnel, emergency services, and purchase of the vaccines can moderate the impact on consumption but will not have too much effect on a wide range of economic sectors.

According to the analysts, outbreak of coronavirus disease in China, first of all, will affect consumer behavior in the country, bringing harm to the entertainment, tourism and food

service industries. According to the analysts, a long decline in consumption can affect investments and result in capital outflow, which, in turn, will decrease prices for the assets and currency in the country. In this regard, the inflation rate is expected to accelerate in 2020 and exceed the target set by the Government of “about three percent”, with subsequent compliance with this target in 2021–2022.

## **5.2. Medium-Term Forecast**

Assumptions about the development of the external and internal conditions of the Kyrgyz Republic economy in Q4 2019 to the greatest extent were consistent with the baseline scenario approved at the meeting of the National Bank Board held in November 2019.

In 2020-2021, the economy of the Kyrgyz Republic remains under the influence of the economic development trend emerging in the countries of our region, primarily in Russia and Kazakhstan.

Negative impact of the coronavirus spread in China is an additional factor affecting the economic development in the entire region: preventive measures taken against the virus spread have slowed down trade and production ties within China and beyond, thereby conditioning a slight slowdown in economic activity throughout the region.

Within the framework of the current forecast, the limited (short-term) negative impact of the coronavirus attack in China is taken into account in accordance with the expectations of the experts and the large international organizations. A significant localization of the virus spread and recovery of economic activity in China and the region are expected by the end of the first quarter of the current year.

Aggregate demand in the economy of the Kyrgyz Republic is still supported by stable economic activity within the country and economic growth in the main trading partner countries with their demand for domestic goods and services.

Economic activity in the main trading partner countries (Russia and Kazakhstan) remains near the expected levels. At the same time, a slight acceleration of economic activity in Russia in 2020-2021 is taken into account in the medium term amid intensified measures of the Government of Russia taken primarily to implement the national projects. Growth of economic activity in Russia is also assumed to have an appropriate effect on the growth of economic activity in Kazakhstan. The current forecast amid emerging trend in the external environment takes into account the stimulating effect of the external sector on the economy of the Kyrgyz Republic in the medium term.

The reduction of remittance inflows in 2019 resulted primarily in slowdown of the intermediate trade operations in the economy of the Kyrgyz Republic and the corresponding decrease in imports. In 2020-2021, a slight increase in remittance inflows is expected amid accelerating economic activity in Russia.

Price movement in the world commodity markets remains an important factor determining the economic development trend of the Kyrgyz Republic in the medium term.

The assumptions regarding stable price movement in the world commodity markets in the current agricultural season (until the summer of 2020) were generally kept unchanged within the framework of the current forecast round. At the same time, in Q1 of the current year, there is a risk of an additional input to inflation from the temporary restrictions of the consumer goods (including food products) inflow from China formed amid measures to prevent the coronavirus spread. However, a small additional input to inflation in 2020 is expected given favorable forecasts regarding localization of the virus spread. Significant inflationary pressure is not expected from the external sector in the medium term.

At the beginning of 2020, the oil prices also suffered negative effect of the coronavirus in China, having decreased below USD 55 per barrel in early February 2020. Taking into account the analysts’ forecasts based on the expectations regarding further spread of coronavirus, a significant reduction in oil prices is not expected in the medium term. The

current forecast takes into account the average oil price maintenance in 2020-2021 at the level of USD 60 per barrel.

Thus, the resource base for development of the main trading partner countries of the Kyrgyz Republic - Russia and Kazakhstan - remains sufficient in the medium term and does not bear the risks of economic activity slowdown in the region.

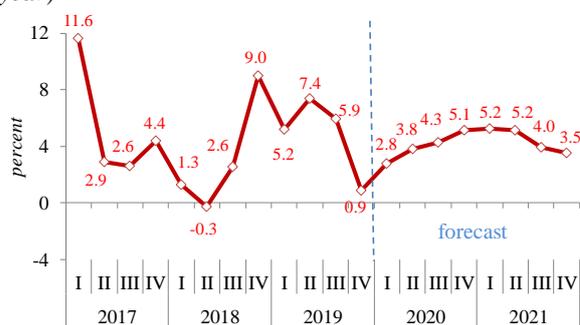
The structure of the economy of the Kyrgyz Republic determines the special role of the external sector parameters in the forecasts being developed. Assumptions on the parameters of the foreign economic sector such as the price movement in the world commodity markets, prospects for the economic development in the countries trading partners of the Kyrgyz Republic and other important indicators of the world economic development are set based on the forecasts of the world research agencies/institutions, the official bodies of the countries and the experts' assessments.

The National Bank of the Kyrgyz Republic conducts assessments of the economic behavior scenarios implemented in the Kyrgyz Republic under the impact of various combinations of external economic conditions and develops appropriate options for the monetary policy directions.

Taking into account the emerging upward trends in the economies of the trading partner countries in 2020-2021, as well as the price movement in the world commodity markets in the medium term, the following forecast was developed for the key macroeconomic indicators of the Kyrgyz Republic in 2020-2021.

**In 2020, the real sector of the economy of the Kyrgyz Republic is expected to close a negative GDP gap.**

**Chart 5.2.1. Forecast of Real GDP**  
(quarter to the corresponding quarter of the previous year)



Given the current internal and external conditions of economic growth, the negative GDP gap is expected to be eliminated by the end of 2020.

In 2020, the real GDP growth is expected at 4.0 percent; the GDP growth excluding the enterprises of the Kumtor Mine will be approximately 3.8 percent.

In terms of sectors, economic growth will be supported by the sectors of industry (excluding the enterprises of the Kumtor Mine), agriculture, construction, trade and services.

In 2021, the real GDP growth is expected at 4.3 percent; the GDP growth excluding the enterprises of the Kumtor Mine will be approximately 4.4 percent.

**Taking into account assessments of the external environment and internal conditions development in the medium term, the inflation rate in the economy of the Kyrgyz Republic is expected to remain within the target of 5-7 percent. Economic growth rates in the Kyrgyz Republic amid emerging trends in the external environment condition further gradual increase in inflationary pressure in 2020-2021. Given the limited influence of external and the absence of internal shocks, inflation is expected to approach the lower level of the target range in the second half of 2020.**

### Chart 5.2.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



Rise in prices for food products is still the main factor of inflation in the first half of 2020; however the sources of influence and the value of contribution have been revised. Thus, prices in the world food markets and measures to counteract the spread of coronavirus in the world and primarily in China, as well as a poor harvest as a result of dry weather conditions will have an upward effect on inflation.

Moreover, among the internal factors, the residual impact of increased excise taxes on tobacco and alcohol in January 2020 will

contribute to the inflation rate, and rise in administrative prices due to growth of tariffs for cold water in November 2019 will also affect average annual inflation rate throughout 2020.

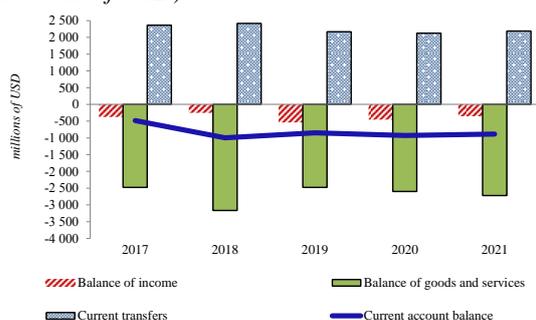
In 2020, the average annual inflation rate is expected at 4.6 percent, having increased by 0.6 percent compared to the forecasts in the previous quarter, at the end of the year (December 2020/December 2019), the inflation rate is likely to approach the level of 5.0 percent. In 2021, the average inflation rate is expected at approximately 5.1 percent and reach the value of about 6.0 percent by the end of the year.

### Forecast for the Balance of Payments in 2019-2021 (baseline scenario)<sup>1</sup>

**In 2020, existing economic growth in the main partner countries and the Kyrgyz Republic was the determinant of the external sector development.** The current account deficit was estimated at 10.2 percent of GDP in the amount of USD 925.1 million (an increase by 9.2 percent). A reduction of the trade deficit is expected in the forecast period amid a decrease in the negative income balance and a positive rate of migrant workers' remittances inflow.

### Chart 5.2.3. Forecast Data on Current Account

(millions of USD)



**Exports forecast was formed under the influence of expected production output, as well as an increase in the external demand due to the growth of economic activity in the region.**

Exports are expected to increase by 4.0 percent in 2020. This trend will be supported by an increase in exports of precious metals, as well as rise in world prices for gold as the main export commodity of the country. At the same time, increase in exports excluding gold is expected at 2.2 percent at the end of the year under the

influence of an increase in the external demand for domestic products, due to the traditional export positions of the textile and clothing manufacture sectors, as well as the agricultural products.

**Such factors as growth of domestic demand, an increase of the population incomes amid the recovery of the remittances growth and a decrease in the world prices for petroleum products influenced the current forecast for the imports of the country.** The increase in import growth is expected at 4.1 percent due to all functional categories of

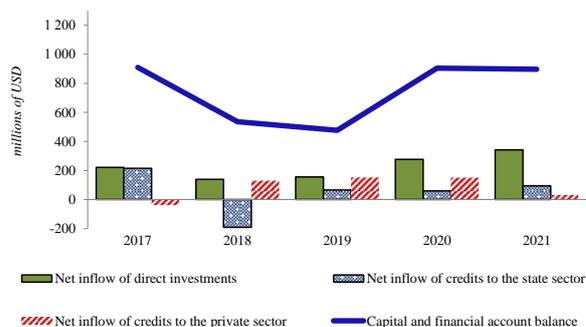
<sup>1</sup> The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic.

imports. A negative increase in imports of petroleum products is expected mainly due to the price factor. Imports of other goods are expected to increase by 3.9 percent.

**The economic growth rates in Russia, the main recipient country of migrant workers from the Kyrgyz Republic, will have a positive impact on the inflows of private transfers.** The net inflow of transfers to the private sector is expected to increase by 1.4 percent compared to 2019. The inflow of official transfers is expected below the level of 2019.

**Chart 5.2.4. Forecast Data on Capital and Financial Account**

(millions of USD)



**In 2020, the increase of the current account deficit will be financed through capital inflows from the capital and financial account.** The bulk of capital inflows on the financial account is expected to be provided by direct and other investments. Balance of “other investments” item will be formed under the influence of an increase in the foreign liabilities of the public and private sectors. At the same time, the volume of servicing the previously received loans will remain at a significant level.

Thus, according to the results of 2020, the balance of payments is expected to be negative in the amount of USD 21.2 million. Gross international assets<sup>1</sup> are expected to cover 4.7 months of the future imports of goods and services.

**In general, the economic environment in 2019 will provide favorable conditions for the stable development of the external economic sector in 2021.** The positive dynamics of current transfers and growth of the trade deficit will condition the current account formation in the amount of 9.1 percent to GDP. Expected growth in external demand amid the development of mining production will contribute to an increase in exports by 5.6 percent. Expected economic growth in the country and an increase of the population incomes under the influence of a larger inflow of labor migrants’ remittances will predetermine an increase in imports by 5.0 percent. Thus, the negative trade balance is expected to increase by 4.5 percent.

The economic growth in the migrant workers’ main recipient countries will have a positive impact on the volume of private transfers’ inflow, which is expected to increase by 5.0 percent compared to 2020.

Inflows on the capital and financial account are expected to decrease. The basic amount of funds on the capital and financial account will be provided by the foreign direct investments and the loans of the public sector. Upward trend will be observed in loan servicing by the private sector.

In 2021, the overall balance of payments is forecasted to be positive of USD 11.2 million. Gross international reserve assets will cover 4.6 months of the future imports of goods and services.

The following risks are still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2019-2021:

- the risks associated with the Kumtor Mine and other precious metal deposits exploration;
- volatility in the world prices for oil and gold;
- deterioration of the economic situation in the trading partner countries;

<sup>1</sup> Including non-convertible currencies.

- incomplete disbursement of the planned amounts of foreign credits to the public sector;
- growth of loan servicing in the public and private sectors;
- volatility in the exchange rate of the main trading partner countries

# Annex 1. Key Macroeconomic Indicators

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

Indicator	Unit of measure	2018				2019			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>1. Demand and supply<sup>1/</sup></b> (real growth rates, if otherwise is not indicated)									
Nominal GDP, per quarter	mln. KGS	105 149,0	123 373,9	159 387,3	181 475,4	106 173,5	128 540,3	168 582,8	186 745,8
GDP	%	1,3	-0,3	2,6	9,0	5,2	7,3	5,9	0,9
GDP, excluding Kumtor	%	3,2	2,3	3,4	5,3	1,3	2,9	5,1	4,7
Domestic consumption	%	1,9	4,3	3,3	2,6	0,0	1,4	3,5	
Investment	%	88,4	-5,9	-7,9	8,4	-20,6	-10,9	6,3	
Net export	%	69,6	12,5	-2,8	3,1	-28,6	-11,1	-6,8	
<i>GDP production:</i>									
Agriculture	%	0,7	1,6	3,2	2,8	1,1	2,6	2,8	2,9
Industry	%	0,3	-8,9	1,0	22,3	15,2	25,9	10,6	-13,5
Construction	%	1,4	4,2	5,0	12,6	3,3	7,4	12,4	12,6
Services	%	1,8	2,1	2,3	4,2	1,3	1,6	4,5	3,4
including trade	%	3,7	4,8	4,7	7,7	3,9	4,6	4,3	6,0
<b>2. Prices<sup>2/</sup></b>									
CPI	%	103,1	101,4	101,1	100,9	99,7	100,2	101,9	102,8
CPI, in annual terms as of the end of period	%	102,7	100,8	101,2	100,5	99,3	100,9	102,3	103,1
Core inflation	%	102,8	103,1	102,5	100,4	101,0	100,8	101,2	102,2
<i>CPI by main groups of goods and services:</i>									
Food products	%	101,2	96,5	96,4	101,1	97,1	99,7	103,5	105,3
Non-food products	%	103,0	103,2	103,0	101,6	101,1	99,8	100,4	100,4
Alcohol drinks and tobacco products	%	106,5	109,1	108,4	100,3	104,7	104,0	103,8	103,5
Services	%	106,9	107,3	106,1	99,4	101,3	99,9	99,8	100,3
<i>CPI, classified by character:</i>									
Excisable goods	%	106,5	109,2	109,2	107,7	104,5	102,9	102,2	101,8
Regulated prices	%	100,6	100,9	100,8	101,1	100,9	100,8	100,9	101,5
Market inflation rate (the rest of CPI)	%	105,3	105,5	104,7	102,6	101,2	99,8	100,3	100,5
<b>3. External sector<sup>3/</sup></b>									
Trade balance	%	-35,2	-36,7	-37,0	-36,7	-34,6	-32,7	-31,3	-30,4
Current transaction account	%	-10,9	-12,3	-13,4	-12,1	-10,0	-9,3	-9,4	-10,0
Export of goods and services	%	33,6	34,4	33,1	33,2	34,7	35,3	37,5	36,5
Import of goods and services	%	70,1	72,7	71,5	71,6	70,3	67,8	67,5	65,8
<b>4. USD exchange rate, as of the end of period</b>									
	KGS	68,4325	68,1800	69,2773	69,8500	69,8496	69,4928	69,7039	69,6439
<b>5. Monetary sector</b>									
NBKR policy rate, as of the end of period	%	5,00	4,75	4,75	4,75	4,50	4,25	4,25	4,25
Rate of "overnight" deposit, as of the end of period	%	0,25	0,25	0,25	1,50	1,50	1,75	2,00	2,00
Rate of "overnight" credit, as of the end of period	%	6,25	6,00	6,00	6,00	6,00	5,75	5,75	5,75
Average interest rates of operations in the interbank credit market, per quarter	%	2,73	2,40	2,17	2,22	2,26	3,02	3,26	3,50
<i>of which:</i>									
of REPO transactions	%	2,73	2,48	2,17	2,22	2,25	3,02	3,27	3,50
of credits in national currency	%	-	0,00	-	-	2,30	2,30	-	-
of credits in foreign currency	%	-	-	-	-	3,50	2,88	3,36	-
Weighted average yield of 7-day notes, as of the end of period	%	2,40	2,31	1,90	3,03	3,67	3,59	3,79	3,76
Weighted average yield of 14-day notes, as of the end of period	%	-	-	-	3,36	-	-	-	3,78
Weighted average yield of 28-day notes, as of the end of period	%	3,83	3,30	1,86	3,65	3,93	4,18	4,10	4,00
Weighted average yield of 91-day notes, as of the end of period	%	4,99	4,73	4,00	4,66	4,48	4,20	4,25	4,23
Weighted average yield of 182-day notes, as of the end of period	%	-	-	4,73	4,75	4,50	-	-	-
Monetary base	%	16,2	6,7	2,6	6,3	6,0	13,0	14,3	11,0
Money outside banks (M0)	%	15,7	5,8	2,5	0,4	5,2	11,1	12,7	13,2
Monetary aggregate (M1)	%	19,6	10,5	4,2	3,0	5,2	9,6	13,9	14,8
Narrow money supply (M2)	%	21,1	14,6	8,0	8,2	10,3	13,2	17,4	17,6
Money supply (M2X)	%	16,9	11,6	6,2	5,5	5,5	8,8	14,7	12,8

<sup>1/</sup> Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic

<sup>2/</sup> Source: National Statistics Committee of the Kyrgyz Republic

<sup>3/</sup> Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q4 are preliminary

## Annex 2. Glossary

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

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

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

**Core CPI index** is a price excluding the cost of food products, electric energy, gas, and other fuels.

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

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

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

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

M0 – cash in hands.

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

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

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

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

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

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

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

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

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

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

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

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

**State Treasury Bills** are the short-term (3-, 6-, 12-month) discount government securities of the Government of the Kyrgyz Republic. The Ministry of Finance of the Kyrgyz Republic is the issuer of the ST-Bills. Placing issues of the ST-Bills is made through weekly auctions conducted by the National Bank of the Kyrgyz Republic. Direct participants enjoy the right to participate in the auctions. The owners of the ST-Bills of the Kyrgyz Republic can be both the legal entities and the individuals. The admission of the foreign investors to the market of the ST-Bills is not limited. The transactions in the secondary market of the ST-Bills are conducted through the electronic trading system of the National Bank of the Kyrgyz Republic, which allows the participants to conduct transactions on purchase/sale of the ST-Bills from their workplaces.

**State Treasury Bonds** are the long-term government securities of the Government of the Kyrgyz Republic with the interest income (coupon) and maturity over one year. The issuer of the ST-Bonds is the Ministry of Finance of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic is the general agent servicing the issues of the ST-Bonds.

### **Annex 3. Abbreviations**

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