

## **Interbank Credit Market**

In October 2016, the total volume of the transactions in the interbank credit market increased compared to the previous periods and amounted to KGS 622.6 million over the month. In January-October, the total volume of the transactions in the interbank credit market amounted to KGS 5.7 billion. The interbank interest rates remained low under the conditions of existing bank liquidity. In October, the interest rate made 1.86 percent.

In October, there was observed an increase activity of the market participants in carrying out of repo operations compared to the previous months, the total volume of conducted operations amounted to KGS 513.0 million; the average weighted rate remained low compared to the rates observed at the beginning of the year and made 1.93 percent.

## **Changes in Monetary Base**

At the end of October, the volume of reserve money amounted to KGS 80.2 billion (it increased by 19.5 percent since the beginning of the year), the annual growth made 18.6 percent. In the structure of monetary base the share of money in circulation made 89.1 percent, the reserves of other deposit corporations – 10.9 percent.

In October, the average daily volume of the excess liquidity in the banking system before operations on sterilization carried out by the National Bank increased slightly and amounted to KGS 13.5 billion at the end of the month, meanwhile, in September, the same indicator made KGS 12.1 billion.

Under such conditions, in the reporting period, the National Bank conducted the following operations on sterilization:

- the volume of the 7-day note sales amounted to KGS 89.0 billion;
- the gross volume of the accepted “overnight” deposits amounted to KGS 1,521.8 billion.

In October, the average daily volume of the operations on sterilization conducted by the National Bank increased compared to the same indicators in the previous periods and amounted to KGS 12.1 billion at the end of the month. In October, the increase in the volume of sterilization operations resulted in the decrease of the total excess reserves after sterilization down to KGS 1.5 billion. Generally, in January-October, the average daily volume of the excess reserves before operations on sterilization amounted to KGS 10.9 billion (after sterilization – KGS 1.3 billion).

Since the beginning of the year, the National Bank conducted operations on the long-term liquidity provision in order to support positive economic growth and expand lending to the real sector of economy, meanwhile operations were primarily conducted in the 1<sup>st</sup> quarter.

- within the frameworks of the program on mortgage loans conversion from the foreign currency into the national currency, the commercial banks were provided with the loans in the amount of KGS 1.9 billion;
- for purposes of further financing of agriculture and processing in the regions of the country KGS 1.4 billion was provided to the commercial banks within the credit auctions;
- the volume of the loans to the international organizations created by the Kyrgyz Republic jointly with other states as a part of the Eurasian Economic Union amounted to KGS 541.0 million;
- gold was purchased in the domestic market in the amount of KGS 824.3 million.

Within 10 months, the National Bank’s operations decreased the reserve money in the economy by KGS 0.9 billion; the Kyrgyz Republic Government’s operations increased it by KGS 14.0 billion.

Currency interventions were conducted in the domestic foreign exchange market in order to smooth sharp fluctuations of the exchange rate. In January-October, the National Bank acted primarily as a net buyer, the volume of the foreign currency net purchase over the period remained at the level of January-September of the current year in the amount of USD 60.6 million, because the foreign exchange operations were not conducted in October. Generally, over 10 months of 2016, KGS liquidity increased by KGS 3.7 billion due to the operations in the interbank foreign exchange market. KGS/USD exchange rate strengthened by 9.5 percent in the reporting period.

At the end of October, the volume of the gross international reserves of the National Bank amounted to USD 1.9 billion, having increased by 9.3 percent since the beginning of the year.

## Changes in Monetary Aggregates<sup>1</sup>

As of the end of October 2016, broad money amounted to KGS 158.0 billion, having increased by 10.4 percent. Broad money increased by 13.6 percent on a year-on-year basis, excluding the exchange rate change – by 15.5 percent.

In the volume of broad money, deposits of other deposit corporations<sup>2</sup> (hereinafter - ODC) increased (+3.1 percent) since the beginning of the year primarily due to the growth in the volume of deposits in the national currency by 44.5 percent, meanwhile, the deposits in foreign currency continued decreasing (-16.8 percent). At the end of the reporting period, the volume of ODC's deposits amounted to KGS 92.8 billion.

At the end of October, the total volume of the loans to the economy<sup>3</sup> amounted to KGS 94.0 billion. In January-October 2016, the loans to the economy decreased by 2.5 percent primarily due to the reduction of the loans in foreign currency (-22.3 percent), meanwhile the loans in the national currency continued increasing (+20.5 percent). Without regard to the exchange rate changes the volume of loans to the economy increased by 3.8 percent since the beginning of the year.

The measures taken by the National Bank and the Kyrgyz Republic Government on the economy dedollarization contributed to the decrease of the economy dedollarization as a whole. Dedollarization of the loans to the economy and ODC's deposits amounted to 42.7 percent and 54.6 percent, respectively.

Broad money multiplier  $M2X^4$  made 1.971; multiplier  $M2$  – 1.339.

## Cash Turnover

In January-October 2016, receipt of cash in the cash departments of the National Bank amounted to KGS 49.0 billion; in comparison with the corresponding period of 2015, the amount decreased by KGS 0.5 billion or 1.0 percent. Money issuances increased by KGS 11.5 billion or 22.7 percent and amounted to KGS 62.1 billion.

In January-October 2016, receipt of cash in the cash departments of the commercial banks amounted to KGS 954.0 billion; in comparison with the corresponding period of 2015, the amount increased by KGS 112.8 billion or 13.4 percent. Money issuances increased by KGS 125.0 billion or 14.8 percent and amounted to KGS 969.7 billion.

## Payment System

The increase of the average daily turnovers (+18.2 percent) in the gross settlement system amid reduced balance liquidity at the end of the transaction day (by 13.1 percent) compared to the previous month resulted in a significant change of the relative indicators. In October 2016, the turnover ratio in the system amounted to 1.58 (the increase – 38.3 percent compared to the previous period), having reached historical peak. Thus, the liquidity ratio was minimum and amounted to 0.63 (the decrease – 27.7 percent compared to the previous period). Meanwhile, the level of financial risks in the system was kept to a minimum.

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<sup>1</sup> According to the preliminary data of the banking system.

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

<sup>3</sup> Loans to the individuals and legal entities, and other financial-credit institutions except for the loans to the Government and non-residents.

<sup>4</sup> This figure characterizes the degree of the financial intermediation.