

## Dynamics of monetary indicators in 2015

According to the results of 2015, the growth rate of the economy (according to the NSC preliminary data) amounted to 3.5 percent (in 2014 – 4.0 percent), excluding Kumtor, real GDP increased by 4.5 percent (in 2014 – 5.0 percent).

According to the results of the year, inflation rate constituted 3.4 percent, whereas in 2014 it constituted 10.5 percent. According to the IMF<sup>1</sup> methodology, core inflation in 2015 amounted to 8.5 percent (in 2014 – 7.8 percent).

The official exchange rate of USD to KGS in 2015 increased by 28.9 percent and amounted to 75.8993 KGS per 1 USD (in 2014 – by 19.6 percent).

The monetary base in 2015 increased by 4.0 percent having constituted 67,055.3 million KGS (in 2014 decreased by 11.9 percent), whereas money in circulation also increased by 2.3 percent with an increase in the reserves of other depository corporations (ODCs) by 17.0 percent.

Growth rates of ODCs' reserves outstripping the increase in money in circulation resulted in increase in the share of the ODCs' reserves, consequently, the structure of monetary base as of the end of December 2015 is as follows:

- the share of money in circulation amounted to 87.1 percent;
- the share of ODCs' reserves amounted to 12.9 percent.

In the structure of ODCs' reserves, the required reserves from the beginning of the year increased by 22.9 percent having constituted 8,225.4 million KGS, while the excess reserves (after sterilization) decreased by 38.6 percent to 432.0 million KGS (in 2014 the required reserves increased by 25.8 percent, while the excess reserves decreased by 18.5 percent).

Reduction in the monetary base was conditioned by the transactions of the National Bank which in 2015 decreased it by 18.4 billion KGS. Transactions of the Government, on the contrary, increased the monetary base by 21.0 billion KGS.

In 2015 the monetary base was mainly affected by the following transactions of the National Bank of the Kyrgyz Republic:

- foreign exchange interventions reduced the monetary base by 19.9 billion KGS;
- credit auctions – total volume of provided funds in 2015 amounted to 1.5 billion KGS;
- credits to international organizations created by Kyrgyz Republic in collaboration with other countries in the framework of Eurasian Economic Union – total volume of provided funds in 2015 amounted to 1.2 billion KGS;
- credits for liquidity maintenance – total volume of provided funds in 2015 amounted to 0.7 billion KGS;
- purchase of gold in the internal market– by 0.7 billion KGS.

In 2015 NBKR also conducted sterilization operations (transactions in the open market and “overnight” deposits): the average daily volume of sterilization amounted to 2.6 billion KGS.

Net foreign assets (NFA) in 2015 increased by 17.6 percent (or by 18,396.6 million KGS), mainly due to the growth of net international reserves (NIR) by 18 252.3 million KGS. At the same time, the NIR growth was contributed by cash inflow from development of gold deposits as well as credits and grants for the support of the state budget.

Gross international reserves in dollar terms in 2015 decreased by 179.0 million USD having constituted 1,779.6 million USD.

Net domestic assets (NDA) in 2015 increased by 39.2 percent or by 15 813.2 million KGS (in 2014 increased by 50.4 percent). The NDA increase was contributed by the increase in the capital by 12,837.9 million KGS, which is related to the recalculation of the assets in the foreign currency and gold due to the change of currency rates and prices for precious metals, increase in the liabilities before other financial institutions linked to the operation of the Kyrgyz-Russian Development Fund in the amount of 4,364.0 million KGS and increase of the liabilities of NBKR to the commercial banks by 3,513.3 million KGS. The reduction of NDA was caused by the decrease

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<sup>1</sup> Food, electric power, gas, and other fuels should be completely excluded from the total inflation

in the liabilities on the accounts of the Government of the Kyrgyz Republic by 4,476.7 million KGS and increase of sundries accounts by 425.2 million KGS.

### **Changes in Monetary Aggregates**

*Monetary aggregate M2* comprising cash out of banks and deposits in the national currency<sup>2</sup> decreased by 0.1 percent and constituted 82,267.2 million KGS (in 2014 decreased by 9.4 percent).

Broad money M2X in 2015 increased by 14.9 percent having constituted 143,143.0 million KGS, which is mainly related to the growth of net foreign assets of the bank system by 23.9 percent to 134,500.1 million KGS (in 2014 M2X increased by 3.0 percent).

The structure of broad money M2X is as follows:

- the share of cash out of banks – 37.1 percent (as of 01.01.2015 – 41.7 percent);
- the share of deposits in national currency – 20.4 percent (as of 01.01.2015 – 24.5 percent);
- the share of deposits in foreign currency – 42.5 percent (as of 01.01.2015 – 33.8 percent).

Deposits in foreign currency increased by 44.4 percent and constituted 60,875.8 million KGS, without taking into account the effect of the exchange rate – by 13.2 percent, deposits in national currency decreased by 4.4 percent to 29,149.3 million KGS. As a result, the general volume of deposits in 2015 increased by 23.9 percent having constituted 90,025.0 million KGS (in 2014 by 23.1 percent).

The dollarization level of deposits included in M2X by the end of 2015 constituted 67.6 percent having increased by 9.6 percentage points as compared to the level at the beginning of the year.

*Credits to the economy*<sup>3</sup> in 2015 increased by 17.2 percent and constituted 96,244.8 million KGS without taking into account the effect of the exchange rate by 2.9 percent (in 2014 the credit to the economy increased by 43.6 and 30.8 percent respectively).

In 2015 net foreign assets of the banking system increased by 25,910.5 million KGS (by 23.9 percent) having constituted 134,500.1 million KGS (in 2014 by 2.7 percent).

By the end of December 2015 net domestic assets (NDA) of the banking system constituted 8,642.9 million KGS having decreased by 7,311.9 million KGS or 45.8 percent from the beginning of 2015 (in 2014 increased by 5.1 percent).

The discount rate as of 2015 was established at the level of 10.00 percent in accordance with the Resolution of the NBKR Board (without change as compared to the level as of the end of November 2015). With this regard, rates of upper and lower limits of the interest rate corridor for “overnight” credits and deposits were at the level of 12.00 and 4.00 percent accordingly (without changes).

By the end of December 2015 the yield of 7-day notes accounted for 10.00 percent. Average weighted interest rate on REPO transactions in the interbank credit market was higher than the policy rate and constituted 10.98 percent.

Multiplier of broad money M2X that characterizes the degree of financial intermediation as of 01.01.2016 amounted to 2.135, whereas the multiplier M2 accounted for 1.227 (as of 01.01.2015 – 1.949 and 1.294 respectively).

The coefficient of economy monetization calculated by the monetary aggregate M2X accounted for 30.52 percent, whereas by the monetary aggregate M2 it amounted to 18.56 percent (in 2014 – 30.69 and 21.68 percent respectively).

### **Velocity of circulation of money**

Velocity of circulation of money at the end of December increased by 0.02 in comparison with the level of the beginning of 2015 and amounted to 3.28 (per M2X).

Money received by the National Bank’s cash departments for January-December 2015 amounted to 62,093.5 million KGS, and decreased by 15,822.3 million KGS or 20.3 percent in

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<sup>2</sup> Deposits of individuals and legal entities and other financial credit institutions except for the deposits of the Government and non-residents.

<sup>3</sup> Credits of individuals and legal entities as well as other financial institutions excluding the Government’s and non-residents’ credits.

comparison with the corresponding period of 2014; issuance decreased by 4,624.1 million KGS, or 6.8 percent and constituted 63,410.0 million KGS.

Money received by commercial banks' cash departments in January-December 2015 constituted 1,036,416.6 million KGS, and increased by 17,936.2 million KGS or 1.8 percent in comparison with the corresponding period of 2014; issuance increased by 27,865.1 million KGS or 2.7 percent and constituted 1,040,730.2 million KGS.

The level of financial risks in the payment system in January-December 2015 was kept to a minimum. Turnover ratio at the end of December 2015 was 0.36, a liquidity ratio – 2.82.