by 0.8 percent. Deposits in foreign exchange increased by 1.9 percent.

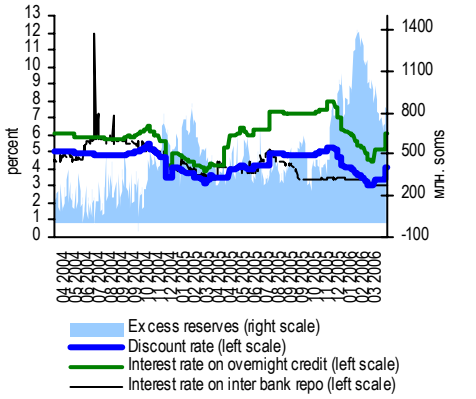
Money multiplier for M2X aggregate developed 1.4. Velocity of M2X made 4.77 turnover. The monetization of economy, designed on monetary aggregate M2X, made 21.0 percent.

3.2. INTEREST RATES

3.2.1. Money market interest rates

In first half of quarter in all segments of the monetary market the decrease in interest rates caused by high liquidity of bank system was observed. So, profitableness of notes of the National bank to the middle of February decreased on 1.1 percentage points and made 3.0 percent, and the level of interest rates on inter-bank repo operations decreased with 3.4 up to 3.1 percent.

Chart 3.2: Money Market Interest Rates vs. Liquidity



Since second half of February there was a reduction in demand for notes due to weak liquidity of the basic participants of the market and increase in profitableness which by the end of quarter reached 4.1 percent. So, three auctions on accommodation of notes in March did not take place because of weak activity of banks. Rates on inter-bank repo operations up to the end of quarter kept within 3.0-3.1 percent as liquidity in the banking system, though was reducing, but still remained at high level.

While prices on inter-bank credit in the national currency followed interest rates on inter-bank repo operations, however, its volatility was appreciably above. So, the interest rates on credits were fluctuating within 1.5-7.0 percent depending on term of transaction, presence and character of pledge.

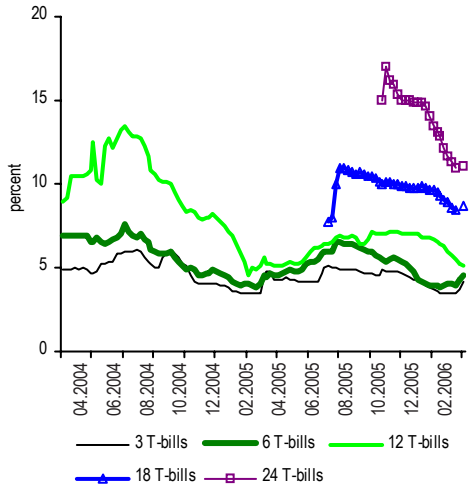
On average for a quarter the interest rate in the inter-bank credit market decreased on 0.2 percentage points and on repo operations made 3.2 percent, and on inter-bank credit in the national currency totalled 3.1 percent. The average profitableness of notes decreased on 1.4 percentage points and made 3.5 percent.

In foreign exchange segment of the domestic inter-bank credit market, in first quarter interest rate were changing

within 4.0 to 7.0 percent depending on term of transaction. Average interest rate for a quarter developed at 5.7 percent, that 0.7 percentage points higher compared with the fourth quarter of 2005.

3.2.2. State treasury bills

Chart 3.3: T-bill Yields



The high level of excess reserves in the banking system during all but first quarter promoted decrease in profitableness for all kinds of state treasury bills (T-BILLS). Thus, rate of decrease in profitableness for different kinds of treasury bills developed depending on structure of demand. So, in January the strongest decrease manifested short-term T-BILLS (3- and 6-month), and since end of January more pronounced fall revealed middle term bills (12-, 18- and 24-month). The interest rates on T-BILLS were decreasing till middle of March when as a result of weak liquidity demand on T-BILLS significantly decreased, and demand[1] on some kind of T-BILLS was lacked. Thus, increase in profitableness for all kinds of bills excluding 12-month T-BILLS, that being in strong demand among commercial banks, was marked.

On the end of March the average interest rate for all kinds T-BILLS made 6.7 percent, decreasing in comparison with the beginning of quarter on 1.5 percentage points. The average level of T-BILLS profitableness in first quarter in comparison with the fourth quarter of 2005 decreased on 0.8 percentage points and made 7.2 percent. Thus, reduction in spread between profitableness of bills with the minimal and maximal maturity achieved 7.0 percentage points.

3.3. EXCHANGE RATE

The exchange rate of US dollar was fluctuating within 41.0-41.6 Soms a dollar, mainly, as a result of variations of foreign exchanges balances in commercial banks and exchange bureaux. Influence of external factors on development in US dollar exchange rate at domestic market was insignificant. The National bank did not take part in the foreign exchange tenders because foreign exchange market revealed stability.

[1] In March, fourth auction on accomodation of 18- and 24-month T-bills did not take place becouse of weak demand.

On average for quarter US dollar exchange rate formed at the foreign exchange tenders decreased by 0.39 percent, and the dollar exchange rate in exchange bureaux reduced by 0.55 percent. Thus, the exchange rate of cash in US dollar in exchange bureaux on the average for quarter was lower than exchange rate of cashless US dollar at the inter-bank foreign exchange tenders on 0.06 Soms.

The official US dollar exchange rate for first quarter raised by 0.17 percent. For the corresponding period of 2005 its value decreased by 0.80 percent. At the same time, in comparison with the first quarter of 2005 the amplitude of fluctuations in official US dollar exchange rate appreciably decreased. So, if for first quarter of 2005 the deviation of official US dollar exchange rate from its average made 1.9 percent, in 2006, the deviation reduced and totalled 0.5 percent.

Developments Euro rate at domestic foreign exchange market was, as usual, affected by fluctuations of Euro on international markets. Thus, volatility of Euro in comparison with the fourth quarter of 2005 significantly raised the range of fluctuations increased up to 2.0 from 1.3 Soms. The rate of sale of Euro in exchange bureaux raised by 2.5 percent, and official rate increased by 2.0 percent.

On the preliminary data average index of the real effective exchange rate for January - March decreased by 0.3 percentage points. Average index of the nominal effective exchange rate decreased by 0.6 percentage points.

Chart 3.4: Cumulative Change in US dollar Exchange Rate, percent

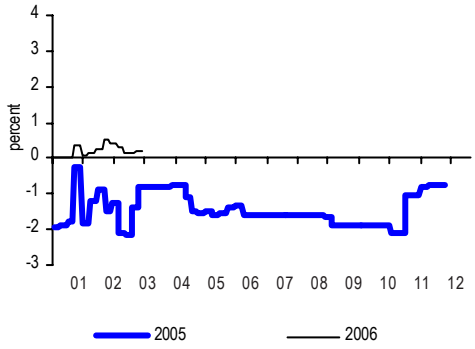
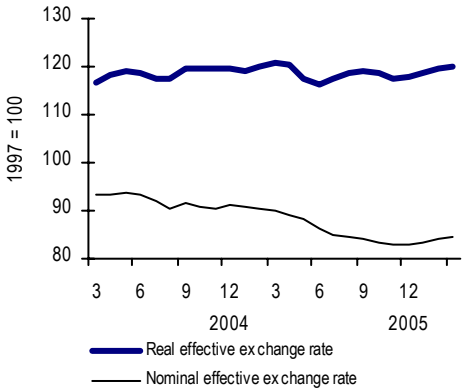


Chart 3.5: Effective Exchange Rate Indices



3.4. DEMAND AND SUPPLY

3.4.1. External demand

Preliminary trade balance of the Kyrgyz Republic for January – March developed negative and made US128.5 million in comparison with US57.1 million in January – March of 2005. The trade turnover in f.o.b. prices grew by 20.7 percent in relation to corresponding period of 2005. Thus, turnover increased with CIS countries as well non-CIS countries.

Export of goods in f.o.b. prices increased by 3.0 percent.

Without taking into account gold and electric power export of goods grew by 10.4 percent. However, in the first quarter export of raw material decreased by 20.8 percent, also, export of the intermediate goods reduced by 2.7 percent. Reduction in raw material export was connected to significant reduction in deliveries of mercury, tobacco and cotton. Decrease in export of goods on "the intermediate goods" basically was connected to reduction in deliveries of gold. Thus, value and physical value of gold export fall by 8.6 and 29.0 percent, respectively. For other articles of classification growth has been marked. Basically, the increase in export was caused by increase in deliveries of investment goods and energy by 80.4 and 30.0 percent, respectively.

For January - March, export to non-CIS countries increased by 3.3 percent, and deliveries in CIS countries rose by 7.5 percent. The share of export to non-CIS countries was still reducing, and for first quarter it made 58.6 percent. Accordingly, the share of export to CIS countries increased and made 41.4 percent. Among CIS countries the increase in export took place to Tadjikistan, Kazakhstan and Uzbekistan. Deliveries to Russia, Belarus and Ukraine reduced. Afghanistan, the Great Britain, Turkey, Switzerland were non-CIS countries, where export deliveries increased considerably.

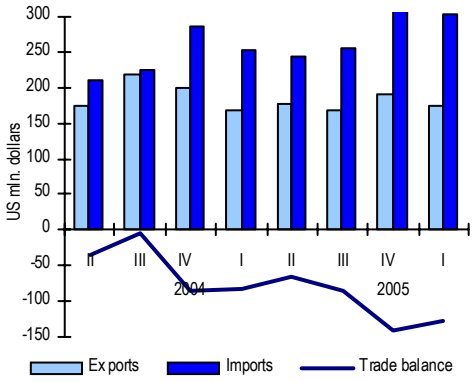
On the preliminary data import of goods in f.o.b. prices for January – March grew by 34.0 percent. Import to CIS countries increased by 39.4 percent, and deliveries from non-CIS countries grew by 25.6 percent.

In first quarter, growth for all articles of functional classification was observed. The most substantial growth rate in import, which made 66.4 percent, was observed for «energy» article. The import of mineral oil, which occupies 50 percent of import deliveries of «energy», increased by 70.0 percent and its physical value rose by 35.8 percent. Also, «energy» article occupies in first quarter the biggest share out of import of goods, which makes 35.2 percent, that exceeds the level for corresponding period of 2005 on 7.0 percentage points.

The deliveries from CIS countries gained 36.3 percent, while import from non-CIS countries grew by 28.8 percent.

The share of CIS countries made 61.7 percent out of total import and it increased on 1.4 percentage points. Import of goods from Russia grew considerably – by 98.9 percent, basically, due to increase in deliveries of mineral oil, which made 64.0 percent out of import Russia. Deliveries from China increased by 157.8 percent, basically, deliveries of consumer goods, which occupies almost 93.0 percent out of total import from this country. Growth in deliveries from Netherlands by 43.4 percent was caused by increase in import of the equipment, lorries, spare parts for machines and the equipment, computer facilities and parts, chemical production. At the same time reduction of deliveries from Kazakhstan, Ukraine, the USA, Germany and Switzerland was observed.

Chart 3.6: Trade Balance



3.4.2. Domestic demand

3.4.2.1. Private consumption

On the preliminary data of the National statistical committee for February the wages increased by 15.5 percent. In real terms it gained 8.2 percent. The turnover of trade for first quarter grew by 13.8 percent.

3.4.2.2. Public consumption

The revenues of the state budget for first quarter concerning the corresponding period of 2005 increased by 15.4 percent, salary payments grew by 24.1 percent. Expenditures of the state budget increased by 16.2 percent. Subsidies to the state enterprises grew by 15.9 percent. Capital investments and decreased by 41.1 percent.

3.4.2.3. Investment

For January - March according to the operative information of the National statistical committee investment into fixed capital (construction, reconstruction, expansion and modernisation of objects) increased by 2.9 percent concerning the corresponding period of 2005.

3.4.3. Output

On the preliminary data of the National statistical committee for first quarter the gross domestic product grew by 2.4 percent concerning the corresponding period of

2005. Its gain without taking into account production of gold-mine combine «Kumtor» made 6.5 percent. The total value added of industry reduced by 9.1 percent. The value added in agriculture and construction rose by 0.9 and 7.7 percent, respectively. In trade, transport and communications the growth rate of value added made 16.1 and 5.0 percent, respectively.

4. MONETARY POLICY DECISIONS

4.1. BOARD DECISIONS

On January 11, 2006 the Board have listen the information «Of preliminary results of activity of the National bank of the Kyrgyz Republic in 2005».

The Board determined for 2006 the basic directions of the National bank activity:

- to meet inflation target;
- to promote further increase in financial intermediation of the banking system;
- to expand access of population in remote regions to financial services;
- to promote the bill «About counteraction to financing of terrorism and legalisation (washing up) of the incomes received in the criminal way» and continuation of work on performance of the stipulated actions on introduction of system of protection of deposits;
- to finalise creation of system of batch clearing and uniform inter-bank processing centre within the realisation of the state program on introduction of system of non-cash payments;
- to render assistance to the Government on the further reduction of the state external debt of the Kyrgyz Republic.

On March 2, 2006 the Board of the National bank of the Kyrgyz Republic considers and takes into account «The Report on monetary policy for 2005» (statement № 5/4).

4.2. MONETARY REGULATION COMMITTEE DECISIONS

In first quarter, nine out of thirteen auctions on accommodation of 28-day notes are recognised taken place.

With a view of withdrawal of excess liquidity from banking system carrying out of auctions on sale of securities on conditions of repo operations under the rates, which are not exceeding the rates in the inter-bank market and for the term of up to 6-month was recommended. The

sale of T-BILLS (reconstructed) in first quarter totalled 85.0 million Soms.

The National bank did not carry out operation with foreign exchange in domestic market.

4.3. INFLATION OUTLOOK FOR SECOND QUARTER OF 2006

The National bank assumes that in the second quarter of 2006 consumer prices growth rate will be 2.5 percent.