

National Bank of the Kyrgyz Republic

Inflation Report

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Inflation Report

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Publications of the National Bank of the Kyrgyz Republic

Annual Report of the National Bank of the Kyrgyz Republic

The annual report of the National Bank of the Kyrgyz Republic is a complete report on the work of the National Bank done during the reporting year. It contains a brief description of developments in the real sector of economy, as well as the description of decisions and actions of the National Bank in the monetary sphere. It includes the information on economic development and monetary policy, financial statements, general information about the National Bank, statistical annexes. The report is published in Kyrgyz, Russian and English languages.

Bulletin of the National Bank of the Kyrgyz Republic

The Bulletin of the NBKR contains macro-economic indicators of the Kyrgyz Republic on the real sector, financial sector, external sector, information on prices and social indicators. The bulletin is published monthly in the Kyrgyz, Russian and English languages.

Balance of Payments of the Kyrgyz Republic

The publication reflects the latest trends in development of the external sector and contains tables with data in analytical and neutral formats of the balance of payment, the structure of external trade, international reserves, external debt, the methodology and the information base for preparation of the balance of payments, as well as the international investment position of the Kyrgyz Republic. It is published quarterly in January, May, July and October.

Banking System Development Trends

The publication contains analysis of banking system efficiency as financial intermediary, and developments in financial stability. It is published in Kyrgyz and Russian semi-annually.

Statutory acts of the National bank of the Kyrgyz Republic

The purpose of the edition is the official publication of statutory acts of the National bank for informing commercial banks and the public and propagation of the bank legislation of the Kyrgyz Republic. It is published once a month in the Kyrgyz and Russian languages.

Press release of the National Bank of the Kyrgyz Republic

The Press-Release of the NBKR contains the weekly chronicles of the developments in the National Bank and major data of the financial market. It is published quarterly in the Kyrgyz and Russian languages.

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1. CURRENT DEVELOPMENTS OF INFLATION

On the preliminary data of the National statistical committee the gross domestic product increased by 7.1 percent in 2004. Without taking into account production of gold mine Kumtor the gross domestic product grew by 7.8 percent.

The som exchange rate against US dollar became stronger by 5.81 percent (in 2003, by 4.13 percent). In fourth quarter, som exchange rate against US dollar became stronger more, than by 2 percent. Euro gained against som 8.1 percent.

In 2004, average nominal effective rate index grew by 7.6 percent. Thus, on the end of December nominal effective rate index decreased by 0.4 percent in comparison with the beginning of year. Average real effective rate index 2004 grew by 8.4 percent. The real effective exchange rate index grew by 2.9 percent from the beginning of 2004.

The foreign trade turnover of republic increased during year by 34.2 percent. Thus, exports grew by 28.1 percent, exports with CIS and non-CIS countries gained 50.1 and 16.7 percent, respectively. Imports increased by 39.8 percent, import of the goods from CIS and non-CIS countries grew by 48.7 and 26.2 percent, respectively.

Growth rates of money in circulation and M2, which remaining still high enough (18.7 and 22.4 percent, respectively), slow down. M2X grew steadily by 33-34 percent in a year. Deposits in commercial banks rose with outstripping growth rates. Deposits in national currency increased by 20.6 percent in fourth quarter and by 38 percent a year. Deposits in foreign currency rose even faster and gained 25.1 percent in fourth quarter and 68.1 percent a year. Total deposits in commercial banks increased by 24 percent in fourth quarter and 58.1 percent a year. Monetisation (broad money M2X) increased by 2.4 percentage points and totalled 17.5 percent of gross domestic product.

In fourth quarter, the National bank declared 13 auctions on accommodation of notes, of which 12 auctions taken place. During 2004, the yield of 3-month bills increased by 0.25 percentage points and totalled 4.04 percent. Yield for 6-month bills decreased to 4.82 percent or on 2.12 percentage points. Yield for 12-month bills reduced from 9.1 to 8.17 percent. The discount rate totalled 4 percent (3.5 percent by the beginning of year).

In fourth quarter, consumer prices increased by 2.5 percent compared to 5.6 percent in the corresponding period of 2003. In 2005, the National bank expected that inflation does not exceed 4 percent. In first quarter of 2005, 2-2.2 percent growth rate in consumer prices is expected.

2. CONSUMER PRICE INDEX AND ITS COMPONENTS

In fourth quarter, according to the National statistical committee consumer prices rose by 2.5 percent compared to 5.6 percent in the fourth quarter of 2003. The foodstuff prices gained 3.1 percent, while non-food prices and services increased by 2.3 and 1.3 percent, respectively. In 2004, inflation made 2.8 percent, so it does not exceed 4.5 percent - monetary policy target, which was announced by the National bank.

2.1. COMPONENTS OF CONSUMER PRICE INDEX

2.1.1. FOOD PRODUCTS

In fourth quarter, food prices were under influence of seasonal growth in prices on fruit and vegetables, milk and dairy products, meat and fish. As a rule, fruit and vegetables produced determines its price developments till new crop. But, there was almost equal growth rate in prices on fruits (29 percent in Q4 2003 and 28,8 in Q4 2004), while there was decline in production of fruits by 13,1 percent in 2003, and there was increase in production of fruits in 2004 by 23,3 percent. Vegetable crop rose by 9.5 percent in 2004, while its prices gained 11.1 percent in the fourth quarter compared to 44.7 percent for the fourth quarter of 2003.

The prices on milk and dairy products grew by 19.8 percent due to reduction in livestock, rise in prices on forages (20.6 percent growth for corresponding period of 2003).

The prices on meat and meat products increased by 2.6 percent. In 2004, production of meat reduced by 1.5 percent (2.7 percent decline in 2003). Prices on fish increased by 3.7 percent. Also, prices on soft drinks grew by 1.6 percent.

2.1.2. NON-FOOD PRODUCTS

The biggest growth in prices was registered for goods with seasonal pattern of consumption. The fuel prices grew by 36.5 percent compared to 18.7 percent for corresponding period of 2003. The prices on gas rose by 11.3 percent.

Chart 2.1: CPI and its components, percentage changes on a year earlier

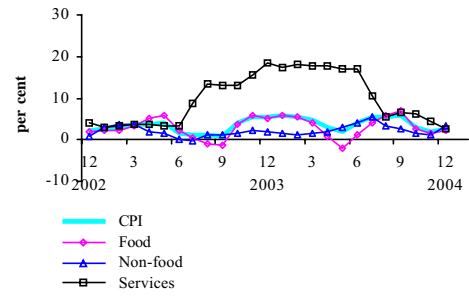


Chart 2.2: Structure of CPI, per cent

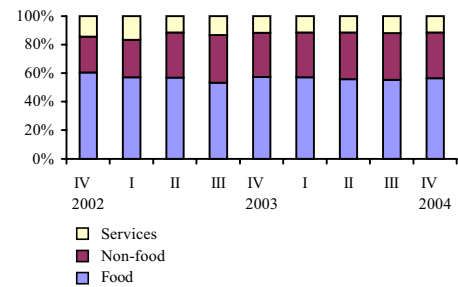


Chart 2.3a: Food Prices, percentage changes on a year earlier

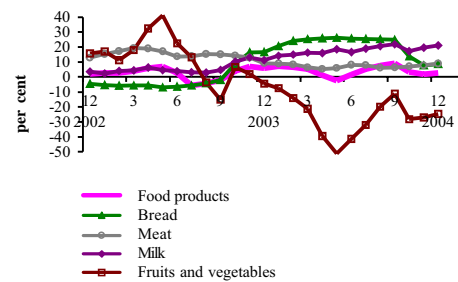


Chart 2.3b: Food Prices, percentage changes on a year earlier

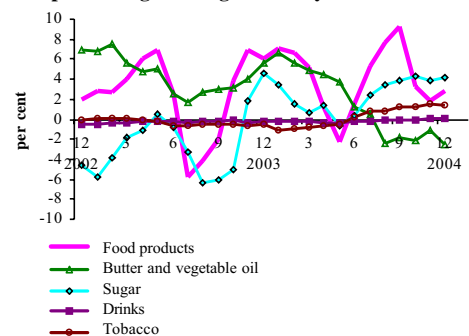


Chart 2.4a: Non-food Prices, percentage changes on a year earlier

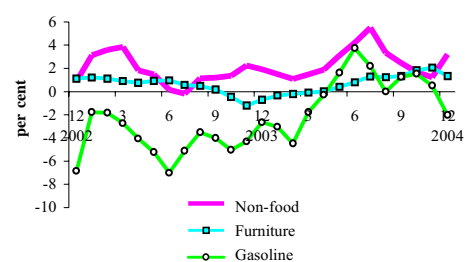


Chart 2.4b: Non-food Prices, percentage changes on a year earlier

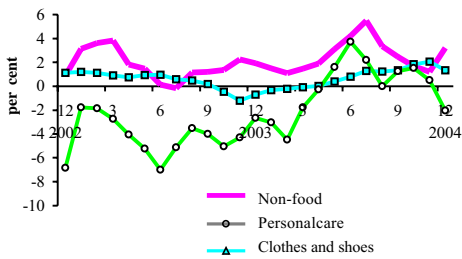


Chart 2.5a: Services, percentage changes on a year earlier

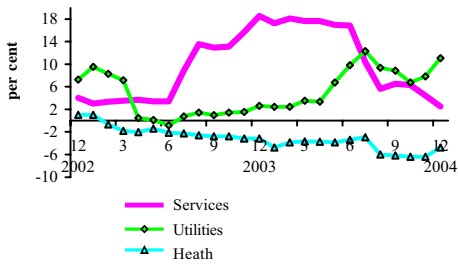


Chart 2.5b: Services, percentage changes on a year earlier

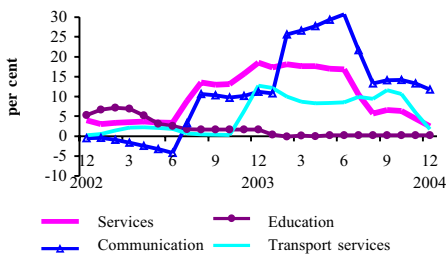


Chart 2.6a: CPI by Oblasts, percentage changes on a year earlier

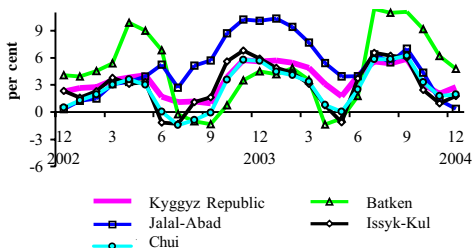
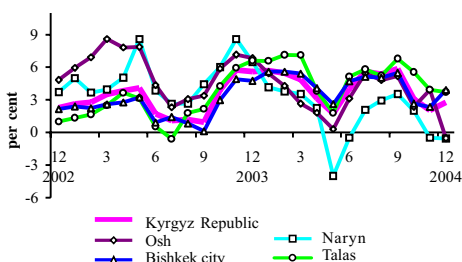


Chart 2.6b: CPI by Oblasts, percentage changes on a year earlier



There were increase in prices for men's wear (2.4 percent), medicines and the medical equipment (2.2 percent), household devices (1.1 percent). Simultaneously there was reduction in prices on building materials (9.3 percent), cars (1.6 percent), carpets (one percent).

2.1.3. SERVICES

Rise in price of transport services by 2.3 percent was the basic source of increase in services. Communication service prices reduced by 1.1 percent, post and telecommunication services became cheaper by 1.9 and 1.1 percent, respectively. The prices on hotel services decreased by 1.4 percent.

2.2. CONSUMER PRICES BY REGIONS

In fourth, there was increase in consumer prices in all regions. The fastest increase was marked in Bishkek City, where growth rate of inflation made 3.4 percent, foodstuff prices rose by 4 percent, non-food and services prices increased by 3.2 and 1.8 percent. In Talas oblast consumer prices gained 3.3 percent, food inflation grew by 4.9 percent, non-food and service prices increased by 2.2 and 1 percent.

The slowest growth in consumer prices by 0.4 and 0.7 percent, respectively, was marked in Batken and Osh oblasts due to moderate increase in foodstuff prices within in a range of 0.7-0.9 percent.

In other regions consumer price growth rates fluctuated from 1.3 to 2 percent, and the main contributor to inflation was increase in foodstuff prices. However, in Jalal-Abad and Naryn there was rise in non-food prices (2-3 percent).

3. INFLATION FACTORS

3.1. MONETARY AGGREGATES

3.1.1. MONETARY BASE

In fourth quarter, the monetary base¹ increased by 13.8 percent, money in circulation grew by 10.6 percent. In 2004, monetary base gained 22.9 percent, money in circulation rose by 18.7 percent compared to 36.3 percent in 2003.

In fourth quarter, monetary base increased by 1499 million soms as a result of operations of the National bank (1243 million soms of which foreign exchange interventions of the National bank contributed 1132.6 million soms) and the Ministry of Finance (256 million soms). Expenditures of the state budget exceeds its incomes (according to the balance sheet of the National bank) by 344.4 million soms.

There was some reduction in share of cash in circulation from 94.9 to 92.3 percent. The share in correspondent account balances of commercial banks at the National bank increased from 5.1 to 7.7 percent.

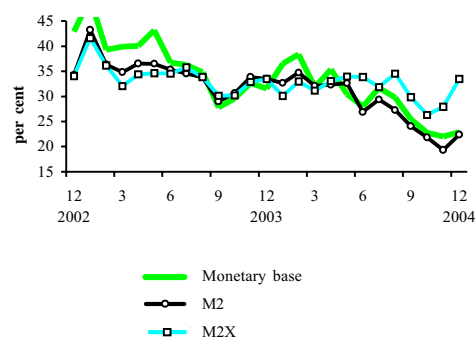
3.1.2. AGGREGATE M2

In fourth quarter, increase in monetary aggregate M2 made 12.6 percent. Deposits in national currency grew by 20.6 percent (7.3 percent in the third quarter), of which transferable deposits gained 29.7 percent (10.8 percent in the third quarter). In a year monetary aggregate M2 increased by 22.4 percent reflecting that demand for national currency still remaining strong. Deposits in national currency rose by 38 percent (in 2003, 23.7 percent).

3.1.3. AGGREGATE M2X

In fourth quarter, monetary aggregate M2X, which includes deposits in foreign currency under the current exchange rate, increased by 16.2 percent due to growth in deposits of commercial banks² and currency outside of banks by 24 and 11 percent. Deposits in foreign exchange demonstrated the highest growth rate by 25.1 percent (in third quarter, 15.1 percent).

Chart 3.1: Monetary aggregates, percentage changes on a year earlier



¹ Excluding foreign exchange deposits in banks.

² Including banks, which license is withdrawn, but process of liquidation is no completed yet.

There were following changes in M2X structure:

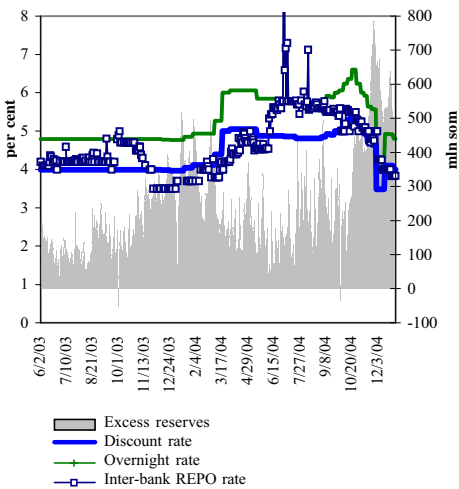
- the share of currency outside of banks reduced by 2.7 percentage points (as of 01.10.04 - 59.6 percent);
- the share of deposits in national currency grew by 0.5 percentage points (as of 01.10.04 - 12 percent);
- the share of deposits in foreign exchange increased by 2.2 percentage points (as of 01.10.04 - 28.4 percent).

Velocity of M2X went down from 5.9 to 5.7 turnovers, monetisation increased from 16.9 to 17.5 percent of gross domestic product. Broad money multiplier rose and made 1.57 (as of 01.10.04, 1.53). Currency outside of banks to deposit ratio decreased to 1.35 (as of 01.10.04, 1.51).

3.2. INTEREST RATES

3.2.1. MONEY MARKET INTEREST RATES

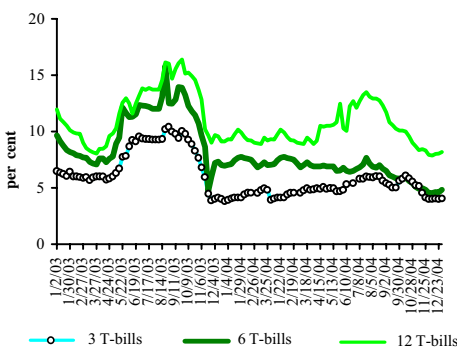
Chart 3.2: Money market interest rates vs. liquidity, per cent



In the beginning of the fourth quarter, the majority of commercial banks, which were carried out payments in budget at the end of the third quarter, suffered from the deficiency of free money resources. The liquidity was mainly concentrated in two banks. So, increase in money market of rates was observed. Interest rates on REPO operations reached 6.5 percent, yield on notes of the National bank raised to 5.5 percent, and the overnight credit rate grew to 6.6 percent.

By the end of October excess reserves grew in the banking system. So, its demand for liquidity reduced the volume of operations in the inter-bank credit market sharply decreased. Simultaneously, commercial banks demonstrated stronger activity on auctions of the National bank on notes. Money market interest rates were reducing till the beginning of December. Interest rates on inter-bank credits and REPO operations made 4 percent, and note's yield fell to 3.48 percent.

Chart 3.3: T-bill yields



During fourth quarter money market interest rates were decreasing. The average interest rate on inter-bank loans in national currency reduced from 5.6 to 4.9 percent in comparison with the third quarter. National bank note's yield decreased from 5.05 to 4 percent.

Interest rates on inter-bank loans in foreign currency demonstrated less volatility in the range of 3.1-6.5 percent compared to 4-11 percent in the third quarter. The average interest rate on inter-bank loans in foreign currency decreased

and made 4.4 percent (in third quarter, 5.9 percent). Thus, there was a shift towards short-term operations that caused reduction in the average interest rate.

3.2.2. STATE TREASURY BILLS

In fourth quarter, strong demand for T-bills was observed due to high level of excess liquidity in the banking system. The Ministry of Finance corrected volumes of issue depending on fluctuations of demand. Decrease in T-bill yields starting from August was remaining within quarter. Only in the beginning of October short-term increase in 3-month T-bill yield was observed due to decreased liquidity at the majority of commercial banks. In December, 6 and 12-month T-bill yields fell down to its historical minimum, which made 4.5 and 7.9 percent, respectively.

During the fourth quarter three-month bill yield decreased on 1.6 percentage points and made 4.04 percent at the end of December. Six-month bill yield reduced by one percentage point and developed at 4.82 percent level. 12-month bill yield decreased to 8.17 percent or by 1.9 percentage point. The average interest rate decreased by 1.3 percentage points and made 6.9 percent.

3.3. EXCHANGE RATE

In fourth quarter, national currency was still strengthening as a result of foreign currency inflow caused by export proceeds from agriculture and a gold mining, abroad remittances of citizens, and increase in foreign currency deposits into the banking system. Also, weakening of US dollar exchange rate against basic currencies rendered essential influence. National currency was strengthening till end of November. In December, som's exchange rate volatility increased due to significant fluctuations of supply and demand at the domestic foreign exchange market, and high instability of the US dollar exchange rate at the international market.

During the fourth quarter som's exchange rate against the US dollar strengthened by 2.05 percent. In 2004, the som's exchange rate became stronger by 5.81 percent (in 2003, by 4.13 percent), euro strengthening against som by 8.1 percent was observed. The euro rate against som in exchange bureau's grew by 6.5 percent.

Chart 3.4: Cumulative change in exchange rate (Som per US dollar)

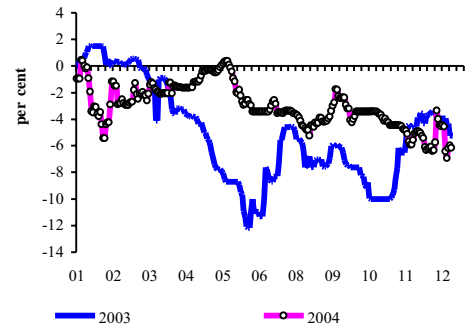
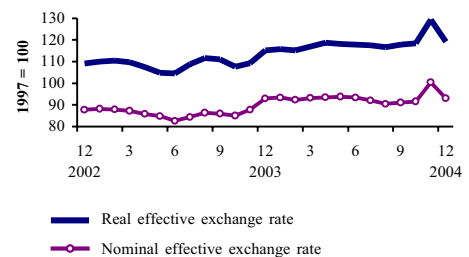


Chart 3.5: Som effective exchange rate indices



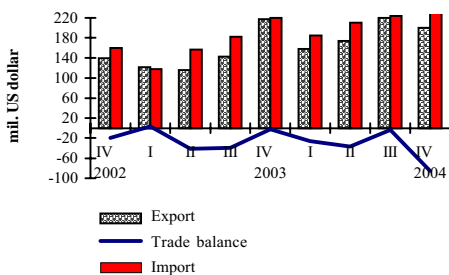
Nominal effective exchange rate of som was stable during January - September, however, in fourth quarter, sharp jump was observed. Average nominal effective exchange rate increased by 8.4 percent in comparison with corresponding period of 2003. Thus, nominal effective exchange rate on the end of December decreased by 0.4 percent in comparison with the beginning of year. Real effective exchange rate grew by 2.9 percent from the beginning of 2004. Its average value grew by 8.4 percent during the fourth quarter.

3.4. DEMAND AND SUPPLY

3.4.1. EXTERNAL DEMAND

In 2004, according to the operative data of the National statistical committee and the State customs inspection negative balance of external trade of goods at a rate of 151.7 million US dollars was registered (in 2003, 59.2 million US dollars). The turnover grew by 34.2 percent and totalled 1655.6 million US dollars.

Chart 3.6: Trade balance



Exports of goods in FOB prices amounted 752 million US dollars. Gold exports grew by 10.7 percent and totalled 287.4 million US dollars. Exports excluding gold rose by 41.8 percent.

The share of consumer goods in export structure increased by 5.1 percentage points and reached 22.1 percent that was caused by increase in deliveries of sugar, electric lamps, fruit and vegetables, dairy products and clothes. Also, one percentage point growth in the share of raw material group, which made 15.8 percent, was observed due to increase in deliveries of cotton, inorganic chemical substances, and other goods. Simultaneously, share of intermediate good group, which includes export of gold, decreased by 5.3 percentage points that resulted from outstripping growth rates of consumer goods and raw material export deliveries. Its share totalled 47 percent.

In geographical structure, the greatest share, which made 60 percent out of total exports, owed to the non-CIS countries. The United Arab Emirates (43 percent out of non-CIS exports), Switzerland (23 percent), Canada (10 percent) and China (9 percent) was the biggest consumers of Kyrgyz goods. The gold, inorganic chemical substances, vegetables and fruit were basic export items to these countries.

Exports to the CIS countries amounted 40 percent out of total exports. The geographical structure of exports to the CIS countries did not change. The greatest volumes of export came

to Russia (50 percent out of CIS country's export), Kazakhstan (32 percent), Tadjikistan (8 percent) and Uzbekistan (5 percent). Increased export deliveries to these countries was caused, basically by growth in deliveries of cotton, the electric power, sugar, electric lamps, glasses, cement and building materials.

On the preliminary data imports of goods in FOB prices grew by 39.8 percent and totalled 903,6 million US dollars. The imports rose from the CIS countries and non-CIS countries by 48.7 and 26.2 percent.

Consumer goods, which share totalled 32.5 percent, were the biggest functional item of imports. Oil products and investment goods shares totalled 27.2 and 17.3 percent. Though the imports of consumer goods increased, its share decreased on 3.2 percentage points. Also, the investment good's share reduced by 0.6 percentage points. The oil product share increased by 2 percentage points. The intermediate good's share rose by 0.5 percentage points due to expansion of deliveries in ferrous metals, plastic, and fertilisers.

Russia (50 percent out of CIS country's imports), Kazakhstan (35 percent) and Uzbekistan (9 percent) were the basic suppliers from the CIS countries. The basic goods of imports were mineral oil, natural gas, ferrous metals, inorganic chemical substances, sugar, alcoholic drinks, grain and medicines.

The basic partners from the non-CIS countries were China (22 percent out of non-CIS imports), Germany (15 percent), the USA (12 percent) and Turkey (9 percent). Among the imported goods from these countries it is necessary to mention such goods as medicines, fabrics, plastic, the equipment for telecommunication, machines and the equipment.

3.4.2. DOMESTIC DEMAND

The stable increase in domestic demand is connected with growth in per capita incomes, which grew from 320 to 430 US dollars during 2003-2004. One of the important components of domestic demand in the developed countries is real estate. In Kyrgyz Republic, real estate market is still emerging, thus, operations conducted recently are dynamically increasing due to growing activity in operations with agricultural and non-agricultural lands. Business activity is promoting by bank and other financial institution strengthening. Though, the financial service's supply remains still insufficient, the market for consumer and hypothecate crediting is emerging.

3.4.2.1. PRIVATE CONSUMPTION

On the preliminary data of the National statistical committee monetary incomes of households for 11 months of 2004 grew by 13.5 percent in comparison with the corresponding period of 2003. Thus, the real disposable income increased by 8.9 percent. In 2004, the trade turnover grew by 22.4 percent. In the fourth quarter, its growth gained 31.2 percent.

3.4.2.2. PUBLIC CONSUMPTION

State budget revenues for 11 months grew by 15.8 percent concerning the corresponding period of 2003. State budget expenditures increased by 15.6 percent. Outlays grew by 17.1 percent. Subsidies to state enterprises were reduced by 0.8 percent. Means directed on capital investments and repair rose by 16.7 percent more, than for the corresponding period of 2003.

3.4.2.3. INVESTMENT

According to the operative information of the National statistical committee investment into fixed capital increased by 2.8 percent during 2004. Thus, in investment's structure increase in share of investment in trade, hotels and restaurants; operations with the real estate were observed. So, investment's share in trade, hotels and restaurants grew by 6.4 and 3.9 percentage points, respectively. The biggest decrease by 3.6 and 3.7 percentage points was observed for investment in transport and communication, the mining industry.

3.4.3. OUTPUT

In 2004, according to the preliminary data of National statistical committee the gross domestic product increased by 7.1 percent. The growth rate in gross domestic product excluding gold mine Kumtor totalled 7.8 percent. Industrial output increased by 3.7 percent, and its growth rate gain excluding gold mine Kumtor gained 6.6 percent. Growth rate in manufacturing and distribution of electric energy, gas and water totalled 6.5 percent. Food-processing industry grew with high rate by 7.3 percent.

Production in agriculture rose by 4.1 percent. Thus, the crops gained 8.1 percent, while production in animal husbandry reduced by 0.7 percent. Services granting by hotels and restaurants grew by 14.4 percent.

4. MONETARY POLICY DECISIONS

4.1. BOARD DECISIONS

The size of compensation for reserve requirement observance was established (Statement № 32/315 as of December). The uniform rate compensation for reserve requirement observance, which is pegged to the average interest rate on deposits of commercial banks at the beginning of a month, is established. That decision came into force since January 10 of 2005.

The project of Regulation "About the overnight credit of the National bank" was authorised (Statement №35/4 as of December 24). The document is send to the Ministry of Justice for registration.

The Statement of the National bank of the Kyrgyz Republic about monetary policy on 2005" is approved (Statement № 35/1 as of December 27).

The "Basic directions of monetary policy on 2005 " were approved (Statement № 35/2 as of December 27).

4.2. MONETARY REGULATION COMMITTEE DECISIONS

The monetary regulation committee carries out operative decision-making in monetary sphere. Committee accepts decisions weekly.

In fourth quarter, the National bank carried out REPO operations, interventions on purchasing foreign exchange, and it also gave banks overnight credits to maintain liquidity in the banking system, as well to prevent sharp fluctuations of interest rates at the money market. Foreign exchange interventions of the National bank were directed on smoothing of sharp fluctuations of the national currency exchange rate.

The National bank set sale's volumes for 28-day note auctions at 4 million soms level, 12 out of 13 auctions were recognised taken place. Banks reduced overnight borrowing from the National bank from 3698.4 million soms in the third quarter to 977,7 million soms in the fourth quarter. The purchase of foreign currency by the National bank totalled 27,2 million US dollars.

4.3. INFLATION OUTLOOK FOR 2005

Macroeconomic situation in the Kyrgyz Republic economy improved and favourable tendencies is still remaining till nowadays. Average growth rate for gross domestic product reached 4.8 percent during 2000-2004, thus, its growth rate gained more, than 6 percent in last two years. The increase in trade turnover, including exports, basically, to Russia and Kazakhstan is observed. Nominal effective rate of some strengthened by 14.6 percent during 2000-2004. However, purchasing power of national currency at foreign market did not increase, moreover, it decreased by 4.8 percent, so price competitiveness of Kyrgyz goods did not decrease, while inflation pressure from abroad was restrained.

The monetisation characterises a degree of a saturation of economy with money resources. Since 2002, monetisation increased by 7,5 percentage points and it reached 17.5 percent of gross national product on the end of 2004. Though, being the greatest level of monetisation since the beginning of transformation, it remains low in comparison with the developed countries level.

The structure of money supply has a great value. Currency dominance in the money supply structure characterises weak opportunities of financial institutions to attract savings and to transform them into credit and investments. In 2004, the tendency of currency to grow faster, than inflow of deposits into banking system stopped.

The velocity of money is characteristic of money demand. Thus, the velocity of money is depending on macroeconomic situation and financial sector development. High velocity can be caused by low trust to national currency, for example, as a result of inflation. This situation was observed in many transition countries at the initial stage of transformation. But, also velocity is influenced by characteristics of payment system, degree of financial market development. Development and expansion of financial market, payment system promotes increase in velocity.

Since 2001, the tendency of velocity to decrease, which is caused by reduction of inflationary expectations, is observed. Money aggregate M2X velocity contracted from 9.4 turnovers on the end of 2000 to 5.7 turnovers by the end of 2004. The consumer prices growth rate did not exceed 10 percent level during 2000-2004, thus in three out of last five years inflation did not exceed 5 percent.

In spite of low growth rates in consumer prices the inflationary potential is still exists connected with likelihood of external shocks and incompleteness of transformation processes. That statement could be proved by the situation in 2003 when the price shock in the fourth quarter led to sharp increase in inflation.

External factors of inflationary potential are connected to high share in consumption of imports, for example, oil products, the investment and consumer goods. Low elasticity of substitution tends to high sensitivity of price level on development of prices for imported goods.

Development in the national currency exchange rate, which depends on trade balance, flows of foreign currency, situation in the international financial market, has a great value for inflation. Unpredictable financial flows, strong volatility in the international financial markets causes high risks for transition economy, where deep and advanced financial market is absent.

Internal factors of inflation are connected to the current condition of economy. In spite of price liberalisation is carried out, there are several goods, which pricing is still not quite market because of incompleteness of structural reforms. In particular, there is an administrative pricing on some kinds of the goods, the monopoly pricing for some goods is not overcome.

Inflation is maintaining on low level in conditions of carrying out of structural reforms and acceleration of economic growth. In order economic growth not to create inflationary pressure outstripping creation of modern production capacities and growth of productivity is prerequisite.

Expectations are one of the major factors that influences inflation developments in the transition countries. The economic theory and practice of the central banks shows that inflationary expectations is capable to undermine trust to monetary policy and to cause destabilisation of economy. Reduction and maintenance on low level of inflationary expectations cause the slowdown in consumer price growth.

In 2004, inflation developed at 2.8 percent level, and development of inflationary processes does not cause fears now. It is possible to speak that macroeconomic environment is favourable for low inflation stance, at the same time, it is necessary to trace carefully inflationary potential and to hold it under the control in republic.

The monetary policy of the National bank is carried out taking in account these and many other factors, it is directed on maintenance of positive changes in economy of republic. The basic directions of monetary policy in 2005 are development of payment system, strengthening of bank supervision, further development of microfinancing and its institutes. The development of financial market is crucial for further economic development, poverty reduction and increase of monetary policy efficiency.

The National bank established inflation target at a level not exceeding 4 percent for 2005. The inflation forecast for 2005 take into account current and expected development of economy and prospective economic policy. So, it is expected that growth in gross domestic product will approximately correspond with current tendency. Thus, expected curtailment in production of gold mine Kumtor will be compensated due to growth in manufacturing of other goods. The increase in growth of trade turnover is expected. Price competitiveness on foreign markets will be provided by lower inflation in republic compared with inflation in the trading partners from CIS countries. The money supply will meet demand, the tendency of financial intermediation is expected to strengthen through attraction of deposits and expanding credit to real sector. Also, expected increase of tariffs for electric power and communication services was taken into account. Forecasted growth in consumer prices is 2-2.2 percent for first quarter of 2005.