

Dynamics of Monetary Indicators in January-September 2016

Interbank Credit Market

The average daily volume of the excess liquidity of the commercial banks before operations on sterilization carried out by the National Bank amounted to KGS 10.6 billion, having increased by 3.5 times compared to the same indicator in the previous year (in January-September 2015 – KGS 3.0 billion); the average daily volume of the excess reserves after operations on sterilization amounted to KGS 1.3 billion.

In January-September 2016, the total volume of the transactions in the interbank credit market amounted to KGS 5.1 billion, having decreased by 83.6 percent compared to the same indicator of 2015.

In September 2016, the value of the credit resources in the interbank market was much lower compared to the same indicator in the beginning of the year. The average weighted rates were maximum in the beginning of the year (11.02 – in January and 11.75 – in February), minimum – in the middle of the year (1.78 – in June), in September, the interest rate was 2.46 percent.

In September 2016, the volume of repo operations in the interbank credit market increased compared to the previous months of the current year and amounted to KGS 147.4 million, whereas repo operations were not carried out in July and August. The share of repo operations in the market still remained the most significant (70.8 percent of the total volume of operations). In September, the rate on repo operations in the interbank credit market was almost equal to the lower rate of the interest rate corridor, the average weighted value within the period made 1.76 percent.

Changes in Monetary Base

In January-September 2016, the monetary base increased by 19.6 percent and amounted to KGS 80.2 billion (in January-September 2015, it increased by 3.2 percent). On a year-on-year basis the monetary base increased by 20.5 percent. In September, the share of money in circulation made 88.0 percent in the structure of monetary base, the share of the reserves of other deposit corporations made 12.0 percent.

Under the conditions of increased excess liquidity in the banking system, the National Bank carried out operations on sterilization through the auctions of the National Banks 7-day notes and “overnight” deposits. In January-September 2016, the average daily volume of the sterilization operations amounted to KGS 9.3 billion as well as due to the 7-day notes of the National Bank – KGS 2.1 billion, and due to “overnight” deposits – KGS 7.2 billion.

In January-September 2016, the National Bank participated in the domestic foreign exchange market through the foreign exchange interventions in order to smooth sharp fluctuations of the exchange rate. Since the beginning of the year, the volume of the foreign currency net purchase amounted to USD 60.6 million, moreover, in September, the volume of net purchase made USD 6.9 million. In September, multidirectional dynamics of the exchange rate was observed amid existing trend of KGS/USD strengthening (by August, the exchange rate decreased by 1.3 percent, since the beginning of the year – by 10.5 percent). Generally, in January-September 2016, KGS liquidity increased by KGS 3.7 billion due to the operations in the interbank foreign exchange market.

Under the conditions of decreased economic activity in the country, the National Bank conducted the following operations in order to expand lending to the real sector of economy:

- 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, moreover, in August 2016, the loans were provided in the amount of KGS 370.0 million;

- 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, thereof KGS 350.0 million – in February, KGS 130.0 million – in June; KGS 61.0 million – in August;

- gold was purchased in the domestic market in the amount of KGS 687.4 million.

Generally, in January-September 2016, the National Bank's operations decreased the monetary base by KGS 0.2 billion; the Government's operations increased it by KGS 13.4 billion.

The net foreign assets increased primarily due to the growth of the net international reserves of the National Bank up to KGS 118.6 billion (+9.3 percent) conditioned by the operations in the interbank foreign exchange market, exchange rate difference and other budget revenues. At the end of September, the volume of the gross international reserves of the National Bank amounted to USD 2.0 billion, having increased by 11.3 percent since the beginning of the year.

Changes in Monetary Aggregates

Growth rates of monetary aggregates remained positive on a year-on-year basis (September 2016/September 2015). As of the end of September 2016, broad money M2X amounted to KGS 156.3 billion, having increased by 9.2 percent since the beginning of the year (in the same period, the growth made 9.0 percent). M2X increased by 15.2 percent on a year-on-year basis, excluding the exchange rate change – by 16.8 percent. Change in broad money was due to the growth in the volume of cash in hands by 22.2 percent and the total volume of deposits¹ by 1.5 percent.

In September, amid existing low activity in the domestic market, the volume of deposits of other deposit corporations (hereinafter – ODC) increased up to KGS 91.4 billion primarily due to the stable growth in the volume of deposits in the national currency (+43.3 percent), whereas the decrease was observed in the volume of ODS's deposits in the previous months of the current year. In January-September 2016, the slow growth in the volume of deposits was due to long-lasting downward trend in the volume of the deposits in foreign currency, in September, the decrease made 18.5 percent.

Since the beginning of 2016, the volume of the loans to the economy decreased by 2.7 percent and amounted to KGS 93.8 billion. This indicator also decreased (-1.9 percent) on a year-on-year basis. This trend was conditioned by the negative growth rates of the loans in foreign currency (-22.7 percent) outstripping positive dynamics of the loans in the national currency (+20.3 percent).

Without regard to the exchange rate changes the total volume of loans to the economy increased by 4.0 percent since the beginning of the year (in January-September 2015, the increase made 7.2 percent).

Involvement of the National Bank in implementing the Program of the Kyrgyz Republic Government on mortgage loans conversion from the foreign currency into the national currency contributed to the decrease of the economy dedollarization. Loan dollarization as of the end of September 2016 amounted to 42.6 percent (-11.0 p.p. year-to-date), deposit dollarization, included into M2X, amounted to 54.3 percent (-13.3 p.p. year-to-date).

Broad money multiplier M2X² made 1.948; multiplier M2 – 1.330.

Cash Turnover

In January-September 2016, receipt of cash in the cash departments of the National Bank amounted to KGS 43.6 billion; in comparison with the corresponding period of 2015, the amount increased by KGS 0.2 billion or 0.5 percent. Money issuances decreased by KGS 11.1 billion or

¹ Loans to the individuals and legal entities, and other financial-credit institutions except for the loans to the Government and non-residents.

² This figure characterizes the degree of the financial intermediation.

24.8 percent and amounted to KGS 55.8 billion. In January-September 2016, recoverability of cash in the cash departments of the National Bank amounted to 78.1 percent.

In January-September 2016, receipt of cash in the cash departments of the commercial banks amounted to KGS 844.5 billion; in comparison with the corresponding period of the previous year, the amount increased by KGS 100.8 billion or 13.5 percent. Money issuances increased by KGS 112.7 billion or 15.1 percent and amounted to KGS 859.8 billion. In January-September 2016, recoverability of cash in the cash departments of the commercial banks amounted to 98.2 percent.

Payment System

The level of financial risks in the payment system was kept to a minimum. The turnover ratio amounted to 1.14; the liquidity ratio – 0.88. In the structure of payments, banking operations with securities, foreign currency, deposits and loans account for the largest turnover volume in the system (more than 95 percent). The share of the banking operations of the total quantity of payments made approximately 20 percent, the share of payments made by the budgetary and non-budgetary organizations made 80 percent.