

Monetary Policy Report

(Review of Inflation in the Kyrgyz Republic)

Quarter 3, 2014

Approved by
the NBKR Board Resolution
No. 52/1 dated November 24, 2014

Summary

In Q3 2014 a seasonal decrease in consumer prices was observed, whereas the inflation rate was within the benchmark specified by the Main Directions of Monetary Policy for 2014-2017. Annually, the inflation decreased from 8.5 percent for the end of Q2 2014 down to 7.4 percent for Q3 2014. Over this period, the inflation dynamic was mainly defined by seasonal factor, by internal prices impacted by the increase in exchange rate of US dollar to Som, and by inflationary expectations associated with external factors.

Q3 2014 was marked by continuation of growth retardation in the country. GDP growth amounted to 3.0 percent in January to September 2014 (4.1 percent in January to June 2014). Economic advance was mainly ensured by operation of the *Kumtor* Gold Mining Company, by the construction and services sector as well as by moderate growth in the other sectors of economy. Without regard for the *Kumtor*, GDP volume increased by 2.7 percent. GDP growth rates are expected to remain moderate until the end of the year.

For the 9 months of 2014, the state budget surplus made Som 1.4 bln. or 0.5 percent to GDP (In January to September 2013 the deficit amounted to Som 10.4 mln. or 0.004 percent to GDP). The overall state budget expenses increased by 13.6 percent against the comparable period of 2013. A shortfall of tax revenues (the discharge made 95.7 percent) was, to a great extent, refunded by non-tax revenues and by official transfers that ensured an increase in overall revenues of the state budget. On the whole for the 9 months of current year the revenues increased by 15.6 percent against the comparable period of 2013.

For Q3 2014 the balance of payment of the Kyrgyz Republic was positive to make USD 15.4 mln. Current account deficit will decrease down to 12.4 percent to GDP to make USD 318.7 mln, which is mainly connected with an upside of the current transfers account. Net inflow for the current transfers will increase by 6.0 percent.

In major trading partner countries the growth retardation was observed. At the end of Q3 economic development of China made 7.3 percent, in Russia it amounted to 0.7 percent, and in Kazakhstan it made 4.0 percent. Concerns about increase in capital outflow from Russia were enhanced after aggravation of geopolitical relationships between Russia and western countries that made an adverse effect on the Russian currency market.

The NBKR continued pursuing the policy of floating exchange rate; its participation in the currency market was more active to flatten out acute fluctuations. In Q3 the net position of the NBKR currency intervention amounted to USD 96.1 mln. Som was weakened by 4.7 percent in Q3.

Against Q2 of current year the monetary base decreased by 3.2 percent in Q3. An increase in deposit dollarization determined slower decrease in rates of M2X broad money supply comprising deposits in foreign currency, which came down by 1.5 percent.

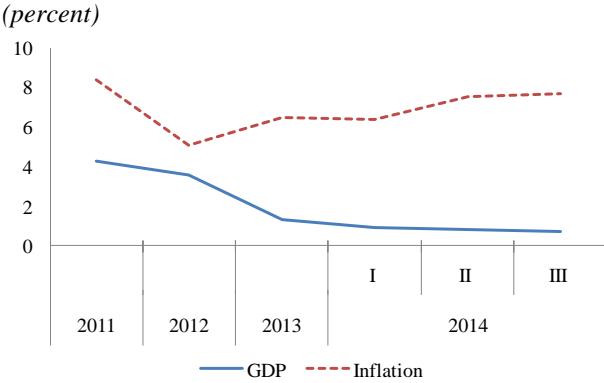
The forecast made on the basis of model building showed that in the remaining period up to the end of 2014, the inflation will continue growing; in many respects, it will be conditioned by the impact of non-monetary factors such as an increase in tariffs, rise in prices for some kinds of products due to decrease in agricultural rates caused by unfavorable climatic conditions

and advance in prices for crops in supplying countries. The exchange rate dynamic also influences the inflationary processes. Average-term assessments of inflation were revised upwards due to continuation of a considerable uncertainty in development of major trading partner countries of the Kyrgyz Republic. A new forecast of the annual average inflation amounts to 11.5 percent for 2015, 8.8 percent for 2016, and 6.1 percent for 2017.

External Environment

Economic Development of Major Trading Partner Countries

Diagram 1. Growth of GDP and Inflation in Russia



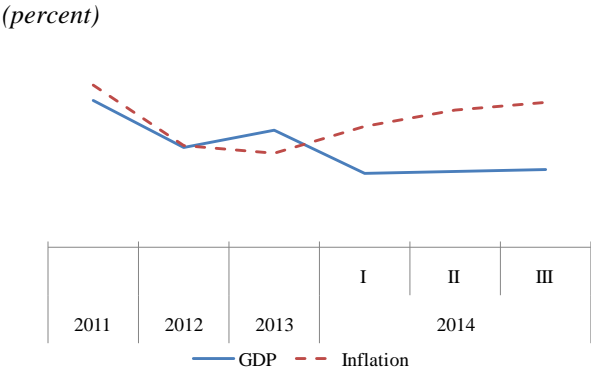
Source: Ministry of Economic Development of the RF, IA Blumberg

Russia

The trend of economic slowdown is going on. According to the preliminary assessment of the Ministry of Economic Development and Trade of the RF, in Q3 2014 the RF GDP growth made 0.7 percent against the comparable quarter of the previous year. The GDP growth retardation was, to a greater extent, influenced by such factors as toughening sanctions against Russia on the part of the West, the decrease in prices for oil and the ongoing outflow of capital. Negative dynamic of capital investment has remained unchanged. The primary positive input in the GDP growth was made by agriculture and manufacturing industry.

As per the CBRF assessment, in Q3 2014 the inflation accelerated to make 7.7 percent in annual terms against the comparable period of the previous year, for which inflation accounted for 6.4 percent. The major factors of accelerating inflation included significant weakening of the Russian Ruble as well as imposing retaliatory sanctions by the RF in relation to import of the western food products, which, in their turn, instigated a rise in prices for a number of food product types.

Diagram 2. GDP Growth and Inflation in Kazakhstan



Source: RK Statistics Agency

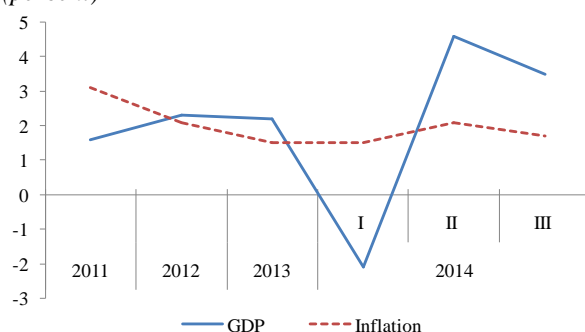
Kazakhstan

According to the preliminary data, Kazakhstan GDP increased by 4.0 percent for the 9 months of 2014 against the 5.7 percent increase in the comparable period of 2013. The key factors for Kazakhstan economy slowdown and worsening of forecasts made by rating agencies comprised a decline of production in three main branches of economy: crude oil extraction, manufacture in nonferrous metallurgy and machine building as well as deceleration of the external trade turnover. A decrease in Kazakhstan export occurred against stagnation in Russia, which is the major trading partner exposed to sanctions imposed by the West as well as a decrease in prices for oil and metals in the international market.

According to the NBRK data, the national currency devaluation performed by the National Bank in February of the current year conditioned accelerating inflation in Kazakhstan. For example, in January to September 2014 the yearly inflation made 5.9 percent (in January to September 2013 it made 3.3 percent). In the reporting period the inflation was developed against the background of a considerable rise in prices for paid services, which increased by 6.8 percent against the comparable period of 2013. The price of food products increased by 6.1 percent, while that of the nonfoods increased by 6.5 percent.

Diagram 3. GDP Growth and Inflation in the USA

(percent)



Source: Ministry of Trade of the USA, IA Reuter

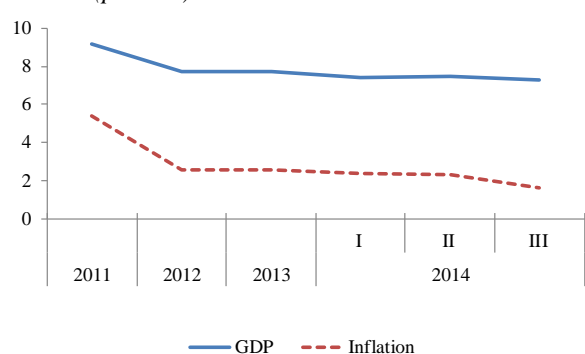
USA

American economy rehabilitation has continued with solid rates of development. According to preliminary assessments of the US authorities, GDP growth in Q3 made 3.5 percent. The primary drivers of the growth included an increase in personal consumption as well as in capital investment and in exports. Besides, a decrease in imports and rise of current military expenses positively contributed to GDP. Negative aspects include deceleration of investment in commodity stocks. In addition, a successive decision was made in September concerning a decrease in amounts of quantitative easing from USD 25.0 bln to USD 15.0 bln as well as plans for full discontinuation of the program after October were confirmed.

The US consumer price index increased by 1.7 percent in the USA at an annual rate.

Diagram 4. GDP Growth and Inflation in China

(percent)



Source: The National Statistics Bureau of the PRC

China

In Q3 2014 there was some growth retardation in China. Annual GDP growth amounted to 7.3 percent against 7.5 percent in Q2. Quarterly (compared to the previous quarter with seasonal adjustments), economical growth made 1.9 percent after the two percent growth in Q2. A decrease in the real estate sector, which detrimentally influenced the related sectors of economy (from metallurgy to furniture production), became one of the main reasons for economy slowdown. The increment rates of industrial production and capital investments decreased as well. The positive trends comprised an increase in exports and internal consumption (without regard for the real estate sector) as well as an increase in agricultural production.

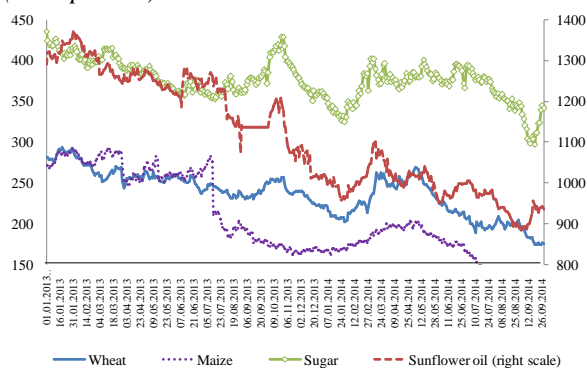
In September the annual rates of CPI increase made 1.6 percent in China due to a decrease in prices for fuel and housing. Inflation developed in China has been well lower compared to the government's target

value that made 3.5 percent; this enables the authorities to undertake measures for facilitating economical development.

International Commodity and Raw Stock Market

Diagram 5. Dynamic of Prices for Food Products

(USD per ton)



Food Market

In Q3 2014 the trend of decrease in prices for some main types of products has continued in the international food market owing to favorable crop estimates in many major producing countries as well as to expected availability of considerable export reserves in the marketing season of 2014-2015. Among different groups of food products, the most considerable decrease was marked in the groups of grain crops and dairy products against the background of sufficient reserves and improvement of the global forecast for production of such products.

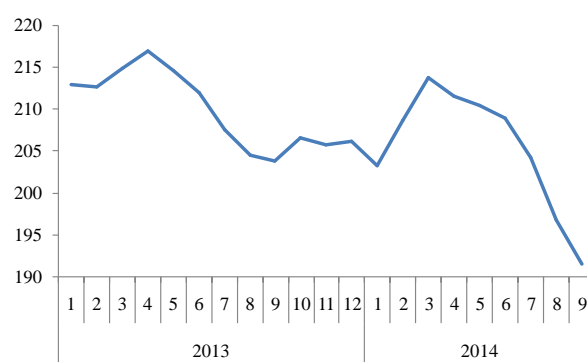
International prices for grain crops showed sheer fall due to weakening price quotations for wheat and maize as a result of the improved prospects of crops of maize in the USA and the EU as well as of wheat in all European countries, the European part of Russia and Ukraine. Meanwhile, the situation in the Asian part of Russia and in Kazakhstan is different as unfavorable weather conditions determined low crop yield in these regions.

After the continuing decrease, the international prices for sunflower oil increased late in Q3, which was caused by lower crop yield compared to that expected in the Black Sea Region.

The international prices for sugar have remained volatile in Q3 of current year. Against week world demand for sugar there was observed a decrease in price quotations in August and early September. However, late in Q3 sugar prices raised due to a decrease in supply from Brazil, stabilization of demand and reorientation of a part of plants to production of ethanol in lieu of sugar.

For Q3 2014 the FAO's average value of food price index made 197.5 percent to decrease by 3.8 percent against the comparable period of 2013.

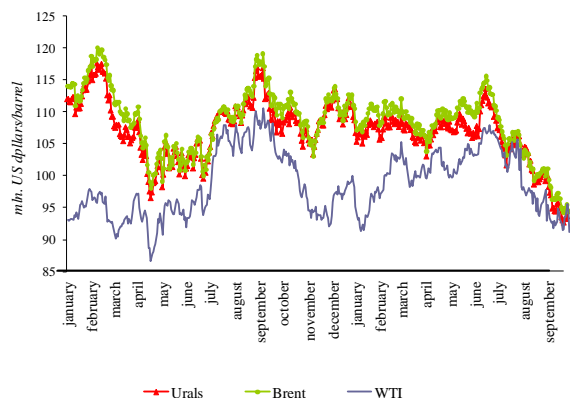
Diagram 6. Dynamic of FAO Food Price Index



Energy Market

In Q3 the prices in the international oil market changed downward after a stable increase dynamic and decreased by 14.1 percent in average compared to the price as of early July. The prices of principal oil grades (Urals, Brent and WTI) fluctuated within the

Diagram 7. Dynamic of Prices for Oil
(USD/barrel)



range of USD 91.2-110.9 per barrel in Q3 2014. The adverse price behaviors were influenced in the reporting period by such factors as:

- slowdown in oil demand in China and Europe;
- increase in oil stocks and production in the USA (extraction of slate oil) and production in OPEC countries (renewal of oil extraction in Libya).

Diagram 8. Dynamic of Prices for Gold
(USD per th. ounce)



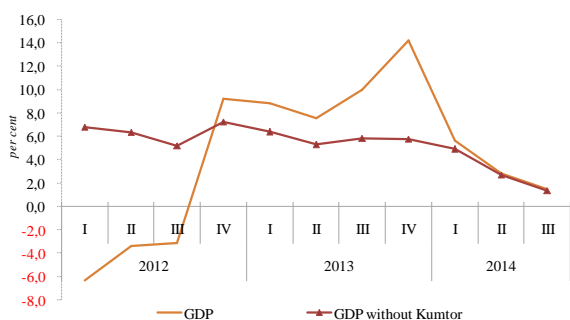
Gold Market

On the whole, in Q3 2014 there was observed a downward dynamic in the international gold market. Early in the quarter, a decrease in prices for precious metal was mainly developed under impact of positive data on the state of economy in the USA. At the same time, geopolitical tension connected with Ukraine events had a restraining influence on the price decrease. Strengthening of US dollar has an additional decreasing pressure on gold prices in the second half of the quarter. Besides, according to the analysts' assessments, the current year is marked by a decrease in demand for precious metal in Asia, which also facilitated the price decrease.

Macroeconomic Development

Demand and Supply in the Commodity and Service Market

Diagram 9. GDP Dynamic
(period/ similar period of previous year)



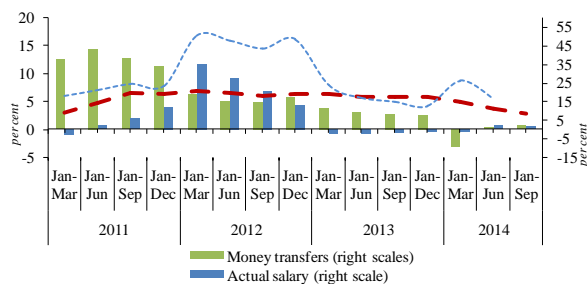
Demand

Since the start of the year the country's economy growth rates have demonstrated stable retardation. In Q3 the key factors of the growth rate retardation included moderate increment rates in industry, construction, and services sector as well as negative rates in agriculture due to the impact of unfavorable weather conditions. The industry showed a decrease in growth rates of extracting metal ores, crude oil and gas against the comparable period of the previous year; the overall production in textile manufacture as well as machinery and equipment manufacture has decreased. There was some increment in the services sector in Q3 compared to Q2 owing to the trade and transport sector.

For the nine months, the GDP growth decreased by 1.1 percent against the growth in the first half of the year to make 3.0 percent. Without regard for the *Kumtor*, the GDP decreased as well and made 2.7 percent compared to 3.7 percent growth in the first half of the year.

According to the *Centerra Gold Inc* Press Release, the *Kumtor's* production increased by 5.5 percent in Q3 2014 compared to Q3 2013 to make Ounce 95.3 thousand.

Diagram 10. Dynamic of Internal Demand and Money Transfers

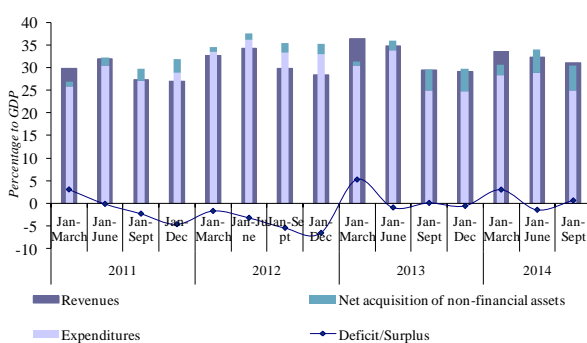


The GDP structure showed retardation of growth rates both in terms of consumption and savings. Retardation of growth rates in private consumption in Q2 influenced the decrease in GDP growth rates. The increase in capital investments became a major factor for capital stock growth; at the same time, the retardation of capital stock growth rates compared to Q1 influenced retardation of growth rates for gross savings.

As a result, the increase in domestic demand¹ in the first half of 2013 made 5.5 percent (5.7 percent in the comparable period of 2013). In addition, despite the growth rate retardation, consumption in the GDP structure has still remained a principal component of GDP (118.9 percent to GDP).

In Q3 2014, the net inflow of money transfers in the US dollar equivalent increased by 3.6 percent against Q3 of the previous year to make USD 581.5 mln. On the whole for the nine months, the net inflow of money transfers in the US dollar equivalent increased by 2.0 percent against the comparable period of the previous year. The decrease in growth rates of money transfers in January to September 2014 was mainly conditioned by devaluation of the Russian Ruble and slowdown of the Russian Federation economy.

Diagram 11. Execution of the State Budget



Source: CC MFKR

State Finances Sector

In Q3 of the current year the flow of revenues accelerated and over-covered current disbursement of budgetary funds. According to the Central Treasury of the MF KR, the state budget surplus made Som 1.4 bln (0.5 percent to GDP²) for the 9 months of 2014, whereas for the 9 months of 2013 there was a deficit of Som 10.4 mln or 0.004 percent to GDP.

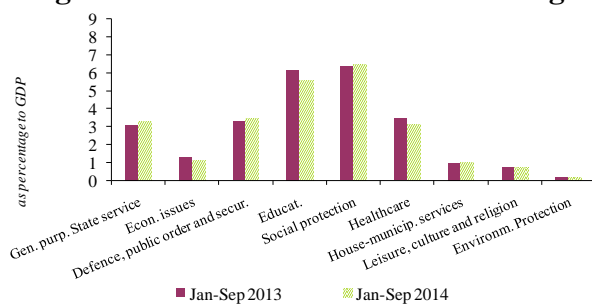
For Q3 2014 there was an increase in overall budget revenues against the comparable period of 2013; in this regard, the greatest contribution in the increase of revenues was made by non-tax revenues, which share in the structure of revenues increased up to 24.0 percent for the 9 months of 2014, whereas the share of tax revenues decreased down to 68.5 percent.

¹ The reference to the forepart is conditioned by lack of data for January to September 2014.

² From September 2013 the presented data was calculated based on the updated approach to the methodology of budget values calculation.

For example, the increase in non-tax revenues in Q3 2014 was mainly ensured by the increase in other nontax revenues to budget converted to the use of government. These revenues were generally formed by the amount of Som 2.9 bln, which went into the budget upon completion of the Accounts Chamber audit and based on the court decision related to the CJSC *Alfa Telecom*. For the 9 months of 2014, implementation of revenue side of the republican budget made 111.5 percent resulted by over-achieving the plan for revenue side of the budget in Q1 and Q2 of the current year, whereas in Q2 it failed to be achieved. Shortfall in tax revenues (execution made 95.7 percent) was, to a great extent, indemnified by nontax revenues in terms of which the plan was over-achieved (the implementation made 257.2 percent) as well as by official transfers (the implementation amounted to 152.1 percent).

Diagram 12. Execution of the State Budget



Source: CC MFKR

In January to September of the current year, the State Tax Service's tax collection plan was achieved by 93.7 percent, while the State Customs Service's plan was achieved by 97.2 percent.

Financing of protected and non-protected budgetary items was implemented by 95.3 percent.

In Q3 there was an increase in overall expenditures of the state budget. In terms of economical classification of the expenditure structure, a high portion of expenditures aimed at current consumption is retained. The greatest contribution in the expenditure growth was made by expenditures for labor remuneration (mainly for salary) as well as subsidies and social allowances. In terms of functional classification of the expenditure structure, the greatest contribution was made by the expenditures for the general-purpose state service, defense, public order and security as well as education and social protection.

According to preliminary data of the KR Social Fund, in January to September 2014 the state budget surplus made Som 0.9 bln (0.3 percent to GDP) mainly due to revenues in Q2 and Q3; the revenues made Som 27.6 bln (10.3 percent to GDP), expenditures made Som 26.7 bln (10.0 percent to GDP).

The level of implementing investment in capital stock increased by 15.1 percent (in comparable prices) in January to September 2014 to make Som 59.2 bln in nominal terms.

Table 1. Capital Investment by Sources of Financing

	January-June			
	mln. Som		share, per cent	
	2013	2014	2013	2014
Total	26 002,8	33 503,9	100,0	100,0
Internal investment	21 244,1	25 849,8	81,7	77,2
Republican budget	586,2	580,5	2,3	1,7
Local budget	129,7	92,3	0,5	0,3
Funds of enterprises and organizations	13 614,6	16 203,6	52,4	48,4
Banks' credits	138,9	97,6	0,5	0,3
Population funds including beneficent help of KR residents	6 774,7	8 875,8	26,1	26,5
External investment	4 758,7	7 654,1	18,3	22,8
Foreign credit	3 563,0	4 385,7	13,7	13,1
Direct foreign investments	610,7	2 995,9	2,3	8,9
Foreign grants and humanitarian aid	585,0	272,5	2,2	0,8

Source: NSCKR

The dynamic of investment distribution among the sectors has maintained. As before, the industrial sector has remained the main sector, in which capital investment were made, owing to allocating funds for construction and reconstruction of facilities related to power, gas, vapor and conditioned air supply, for mining operations, construction and reconstruction of transport facilities as well as investments to construction of educational institutions.

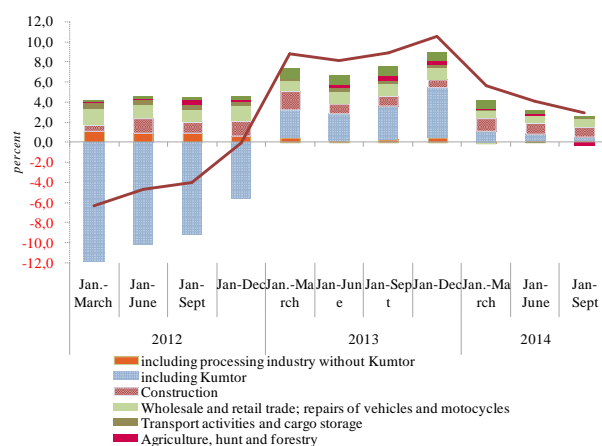
Financing of these sectors was made at the expense of internal sources, in which a principal share fell on enterprises and organizations as well as on funds of the population.

Supply

In the reporting period, the main input to the GDP growth was primarily ensured by the services sector as well as the construction and industry sector.

Diagram 13. Input of Major sectors in GDP Growth

(period/ similar period of prev. year)



Source: NSCKR

The growth in the services sector was provided by moderate growth in trade, information and communication. The industrial sector showed growth except for the mining. In the manufacturing industry a considerable growth was observed in the production of raffinates, food products (including drinks) and tobacco products as well as base metals and metal goods. The construction sector's contribution was provided by the ongoing stable activity in implementation of planned projects. The growth was provided by the 15.1 percent increase in capital investments.

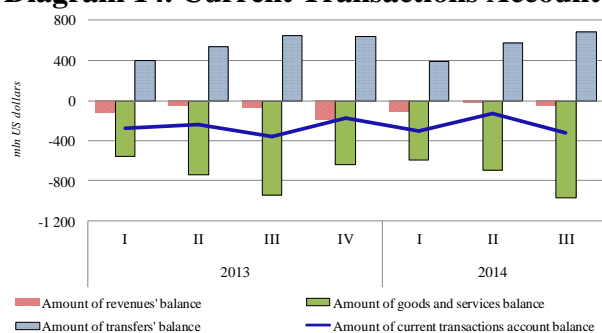
In the agricultural sector, due to unfavorable weather-climatic conditions (drought, lack of water), there was observed a decrease in production of plant industry connected with a decrease of production for all types of food products, except for vegetables and cucurbits crops. Therefore, for the nine months, the slowdown in agriculture made 2.2 percent against the nine months of 2013 when the growth made 3.2 percent.

External Sector

According to the preliminary forecast data in Q3 2014 the current account deficit will decrease down to 12.4 percent to GDP and make USD 318.7 mln (without regard to additional settlements of USD 383.3 mln). The decrease will be determined mainly by the upside of current transfers account.

In the reporting period the KR trade deficit is expected to be maintained at the level of Q3 2013

Diagram 14. Current Transactions Account



Remark: According to preliminary and forecasted data, taking into account additional settlements for re-export of oil products and activities of "suitcase traders"

Table 2. KR Trade Balance¹
(mln.USD)

	2012	2013	2013 Q3	2014 * Q3	Change in %	Change in mln USD
Trade balance	-3 210,6	-3 565,2	-1 024,5	-955,6	-6,7	68,9
Exports (FOB)	1 954,4	2 048,4	487,3	446,0	-8,5	-41,3
Gold	562,3	736,8	98,2	113,2	15,3	15,0
Imports (FOB)	5 165,1	5 613,6	1 511,8	1 401,6	-7,3	-110,3
Energy products	1 077,5	1 186,7	282,6	313,1	10,8	30,5
As reference						
Imports in CIF prices	5 576,3	6 069,8	1 630,9	1 514,4	-7,1	-116,6
Trade balance (imports in CIF prices)	-3 621,8	-4 021,3	-1 143,6	-1 068,4	-6,6	75,2
Exports without regard to gold	1 392,1	1 311,7	389,1	332,8	-14,5	-56,3
General turnover	7 119,5	7 662,0	1 999,2	1 847,6	-7,6	-151,6

¹ Based on the NSC actual data for January to August and the SCS preliminary data for September 2014 without regard to the NBKR additional settlements for re-export of oil products and trade of the suitcase traders"

on the whole to make USD 890.9 mln (without regard to additional settlements of USD 955.6 mln). The trade balance will be formed subject to the following key factors:

- the 11.5 percent decrease in imports without regard to energy products (by USD 140.8 mln in absolute terms);
- the 10.8 percent increase in energy products (by USD 30.5 mln in absolute terms);
- the 14.5 percent decrease in exports without regard to gold and the NBKR additional settlements (by USD 56.3 mln in absolute terms);
- the 15.3 percent increase in gold exports (by USD 15.0 mln in absolute terms);
- decrease in the NBKR additional settlements for re-export of oil products and for trade of "suitcase traders" (hereinafter referred to as the "NBKR additional settlements") by USD 34.7 mln and USD 31.3 mln correspondingly.

Goods exports (in FOB prices, with regard to the NBKR additional settlements) in Q3 2014 will make USD 510.6 mln (without regard to additional settlements of USD 446.0 mln) and will decrease by 17.4 percent against the comparable period of 2013.

According to expectations, due to the 18.7 percent increase in physical volume of supplies and the 2.9 percent decrease in actual average price of supplies, the export volume of gold will be increased by 15.3 percent. Exports will be decreased by 14.5 percent without regard to gold and the NBKR additional settlements and will make USD 332.8 mln. As per the NBKR assessments, this will be promoted by a decrease in supplies of electrical current, fruit, nuts and vegetables as well as clothes and accessories. At the same time, the increase in the export volume of ore and precious metal concentrates as well as other non-organic chemical substances, cigarettes, milk and dairy products is expected.

Goods imports (in FOB prices) will be decreased by 7.3 percent in the reporting period to make USD 1,401.6 mln. The decrease in imports will be mainly determined by a decrease in supplies of used vehicles (by 36.9 percent or USD 48.7 mln), cast-iron, steel and aluminum structures (by 79.9 percent or USD 39.2 mln) as well as clothes and clothes accessories (by 40.4 percent or by USD 29.4 mln). Besides, the supplies of power transformers, coal, details and accessories of vehicles, footwear and essential oils well be decreased. At the same time, oil product imports are expected to be increased by

12.3 percent or by USD 35.3 mln (due to the increase in physical volume of supplies by 7.7 percent and prices by 4.3 percent). In addition, the supplies of medicines and other non-organic chemical substances as well as trucks for construction and mining industry will be increased.

According to the forecasts, a negative balance of services will be increased up to USD 72.0 mln in Q3 2014 generally due to the decrease in the export volume of other services and services related to travels.

The 33.1 percent decrease (down to USD 43.1 mln) is expected in the reporting period conditioned by a decrease in income of direct foreign investors gained from the investment activities in Kyrgyzstan.

Diagram 15. Money Transfer of Employees
(as percentage, Q against Q of prev. year)

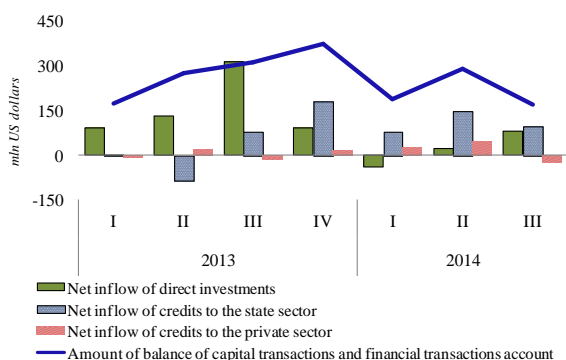


Net inflow for current transfers will make USD 687.4 mln, thus, by 6.0 percent increasing the comparable value of the corresponding quarter in 2013. The positive dynamic for transfers in the reporting quarter of the current year will be predominantly conditioned by an increase in private transfer revenues; their net inflow will be increased by 4.3 percent to reach USD 653.8 mln.

In Q3 2014 the capital transactions account and financial transactions account will be formed with positive balance in the amount of USD 168.3 mln, which will be by 45.9 percent lower than the comparable value of 2013.

Balance of the capital transactions account decreased by 13.3 percent against the comparable value of similar quarter in 2013 and is expected to be positive to make USD 19.6 mln.

Diagram 16. Capital Transactions and Financial Transactions Account



In the reporting period, positive balance of the financial account is expected to be decreased by 48.4 percent to make USD 148.7 mln. Direct and other investments will have a principal influence on the financial account in the reporting period.

Net inflow of direct investments is forecasted in the republic to make USD 81.9 mln; thus, being by 73.7 percent lower against the comparable value of Q3 2013.

In this period, the balance of “other investments” item will be positive to make USD 66.8 mln, whereas in the comparable quarter of 2013 it was negative and amounted to USD 21.1 mln.

According to the forecasts, residents' liabilities will be increased by USD 38.1 mln generally influenced by an increase in credits to the public sector of economy. The residents' assets in July to September of the current year will decrease by USD 28.7 mln according to the forecasts.

Therefore, in Q3 2014 the Kyrgyz Republic payment balance was formed with positive balance to make USD 15.4 mln. The volume of gross international reserves will cover 4.0 months of future imports of goods and services.

Indexes of Real and Nominal Effective Exchange Rate of Som

According to preliminary data, the index of nominal effective exchange rate (NEER) of Som increased by 2.1 percent year-to-date and made 114.5 late in September. The increase was determined by som's strengthening¹ in September 2014 compared to the average exchange rate for December 2013 in relation to the Kazakh tenge (by 8.1 percent) and to the Russian ruble (by 4.7 percent). At the same time, there was 8.6 percent devaluation of Som in relation to the US dollar, 7.7 percent devaluation to the Chinese yuan, 3.5 percent devaluation to euro, and 2.7 percent devaluation to the Turkish lira.

Strengthening of the Som's NEER index in parallel with the higher level of inflation² in the Kyrgyz Republic conditioned an increase in index of real effective exchange rate (REER), which increased by 2.3 percent from December 2013 and amounted to 115.9 as of the end of September.

Table 3. Key Values for Exchange Rate

	2014 (average)			1st 9m beginning of the year (as of the end of the year)			month to previous month (as of the end of month)		
	2014 (sum)	2014 (avg)	Change	December 2013	September 2014	Change	August 2014	September 2014	Change
NEER	111.1	111.5	3.5	113.3	115.9	2.6	117.3	115.9	-1.4
NEER w/ Euro	192.3	191.8	-0.5	193.3	192.8	-0.5	193.3	192.8	-0.5
NEER w/ CHF	142.1	141.6	-0.5	143.3	142.8	-0.5	144.1	142.8	-1.3
NEER w/ CNY	79.1	77.7	-1.4	71.1	85.7	14.6	88.1	85.7	-2.4
NEER w/ USD	143.7	142.1	-1.6	148.0	146.1	-1.9	149.3	146.1	-3.2
NEER w/ RUB	211.6	204.3	-7.3	172.1	190.3	18.2	179.1	201.5	22.4
NEER w/ TRY	80.8	80.3	-0.5	73.8	78.3	4.5	79.8	80.8	1.0
NEER w/ KZT	111.1	111.5	0.4	113.3	115.9	2.6	117.3	115.9	-1.4
NEER w/ BRL	111.0	111.1	0.1	113.3	115.9	2.6	117.3	115.9	-1.4
NEER w/ INR	79.1	79.3	0.2	79.8	79.3	-0.5	79.3	79.3	0.0
NEER w/ MXN	111.0	111.1	0.1	113.3	115.9	2.6	117.3	115.9	-1.4
NEER w/ JPY	155.3	151.1	-4.2	151.1	155.6	4.5	151.1	161.1	10.0
NEER w/ ZAR	141.6	141.3	-0.3	141.3	141.3	0.0	141.3	141.3	0.0
NEER w/ THB	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ IDR	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ PHP	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ VND	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ MYR	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ SGD	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ HKD	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ TWD	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ NZD	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0
NEER w/ AUD	121.3	121.0	-0.3	121.3	121.3	0.0	121.3	121.3	0.0

¹ preliminary data
 . som devaluation, competitiveness improvement
 . som strengthening, competitiveness deterioration

Monetary Policy

Pursuing Monetary Policy

In the reporting quarter, the NBKR Board made the following decisions for the size of accounting rate: 50 p.p. increase up to 6.50 percent on July 28; August 25 was to be remained unchanged; 50 p.p. increase up to 7.00 percent on September 29. As to the interest rates “corridor” related to the accounting rate, a decision was made on September 30, 2014, to increase the rates of overnight deposits up to 2.0 percent and those of overnight credits – by 9.5 percent.

When making this decision, the degree of risks balance related to a decrease in external demand, on the one side, and the rise in consumer prices, on the other side, was taken into account.

¹ The data are given for nominal bilateral exchange rate of som; the year of 2000 is used as the base period for calculation of the index.

² For January to September 2014, the KR inflation amounted to 5.0 percent, whereas average level of inflation in major trading partner countries made 4.8 percent according to preliminary calculations.

The scenario of economic development assumed as a basis at the NBKR Board August meeting implied enhancement of pressure on the exchange rate, increase in interest rate and decrease in increment rate of monetary base in the average-term period.

According to actual data, in Q3 2014 Som was weakened by 4.7 percent; the monetary base volume decreased by 3.2 percent against Q2 to make Som 69.6 bln; annually, the growth made 0.9 percent.

In Q3 the NBKR performed the following monetary transactions:

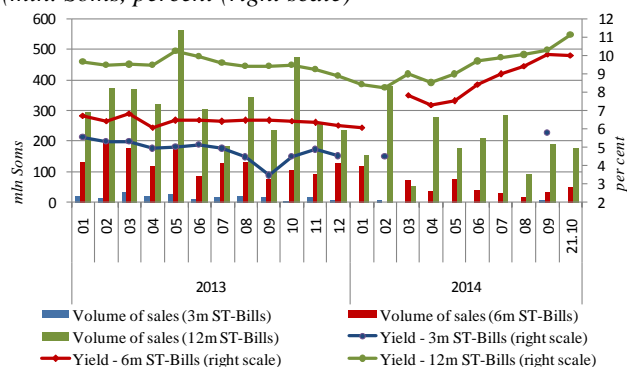
- at the inter-bank foreign-exchange market the NBKR performed US dollar sales transactions for the amount of USD 96.1 mln;
- the volume of NBKR notes in circulation amounted to Som 33.0 mln as of the end of Q3;
- the volume of 7-day credits made Som 700 mln;
- the daily average volume of overnight deposits amounted to Som 731.5 mln, while the gross volume made Som 38,770.0;
- the daily average volume of overnight credits made Som 280.8 mln, while the gross volume amounted to Som 11,583.2 mln;
- the outstanding debt of commercial banks for refinancing credits amounted to Som 2,797.8 mln.
- purchase of gold by the National Bank in the internal market made Som 151.4 mln.

Financial Market Instruments

Government Securities Market

Diagram 17. Dynamics of ST-Bills Sale Volumes and Yield

(mln. Soms, percent (right scale))

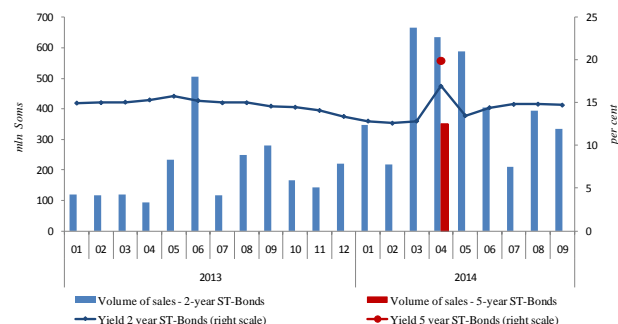


ST-Bills

There were held four auctions for ST-Bills sales in the reporting period. The total volume of the announced emission of the bills of collection made Som 1.5 bln in July to September 2014 having increased by 16.1 percent against the comparable period of 2013. The volume of papers in circulation decreased by 34.4 percent year-to-date and amounted to Som 3.1 bln as of the end of the period. Due to a decrease in demand volume (-49.6 percent) the sales volume decreased as well (-43.1 percent). In Q3 the sales volume made Som 657.4 mln. In July to September 2014 the monthly average yield of ST-Bills increased in all segments of papers placed in the market. Therefore, the average weighted yield of ST-Bills amounted to 10.0 percent (+1.6 p.p.) in the reporting period.

Diagram 18. Dynamic of ST-Bonds Sales Volumes and Yield

(mln. Soms, percent (right scale))



ST-Bonds

In Q3 the state treasury notes market was presented by 2-year papers. As of the end of September 2014, the volume of ST-Bonds in circulation increased by 25.6 percent year-to-date to make Som 7.2 bln. The announced volume of ST-Bonds emission made Som 923.0 mln in Q3 2014 having increased by 60.1 percent against the comparable period of 2013. In parallel with the increase in demand volumes (+63.4 percent) and in sales volumes (by 2.0 times) there was observed some decrease in the level of average

Diagram 19. Amount of Activity in the Interbank Credit Resource Market

(mln. Soms, percent (right scale))

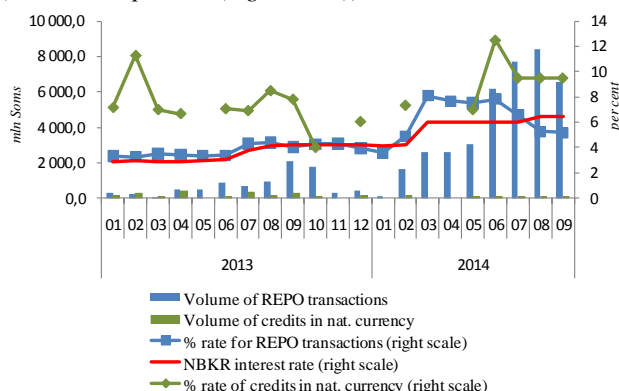


Diagram 20. Dynamic of Transactions in the IBCRM

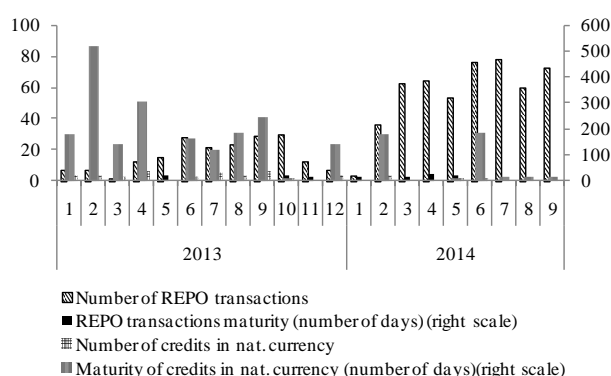


Diagram 21. Rates of NBKR and Inter-Bank Transactions

(percent)

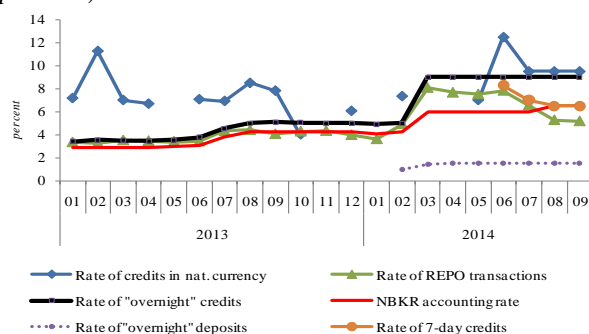
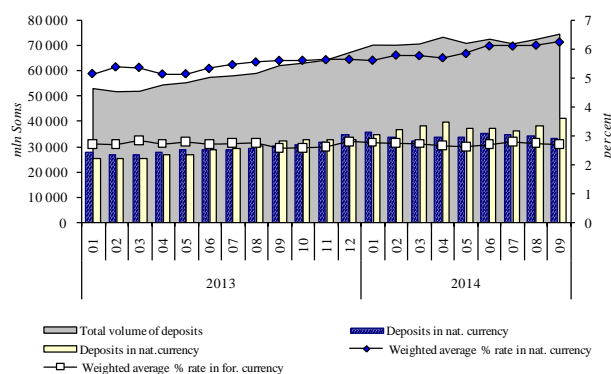


Diagram 22. Dynamic of Commercial Banks Deposits

(mln .Soms, percent (right scale))



weighted yield. Sales volume made Som 1.3 bln in Q3 2014. The average weighted yield of 2-year ST-Bonds amounted to 14.8 percent having decreased by 0.1 p.p. against the comparable period of 2013.

Inter-Bank Credit Resource Market

In Q3 2014 activity level of commercial banks continued growing in the interbank credit resource market. For example, the total volume of Som loans amounted to Som 34.3 bln in the reporting period due to the 3.9 times increase in the volume of overnight credits up to Som 11.5 bln (at the prescribed weighted average rate of 9.0 percent) as well as due to the 6.1 times increase in REPO transactions up to Soms 22.7 bln (5.7 percent weighted average rate). The volume of credits in national currency decreased down to Som 104.8 mln. Weighted average rate amounted to 9.5 percent for such transactions.

Deposit Market

The volume of deposit base of the commercial banks increased by 10.8 percent year-to-date to make Som 74.6 bln. Foreign currency deposits increased by 25.8 percent up to 41.3 bln in som equivalent; to the contrary, the national currency deposits decreased by 3.4 percent down to Som 33.3 bln.

Under the impact of US dollar strengthening, dollarization of deposits increased from 48.8 percent to 55.4 percent.

Diagram 23. Rates of New Deposits in National Currency in terms of Maturity (percent)

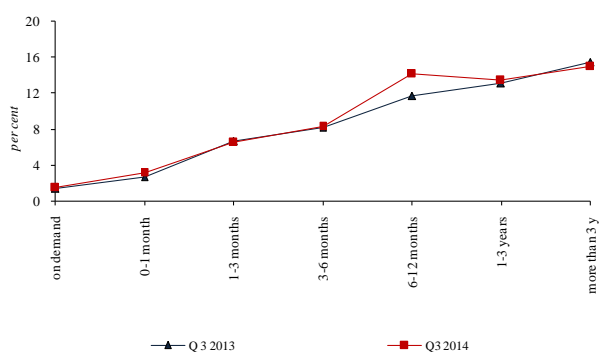


Diagram 24. Rates of New Deposits in Foreign Currency in terms of Maturity (percent)

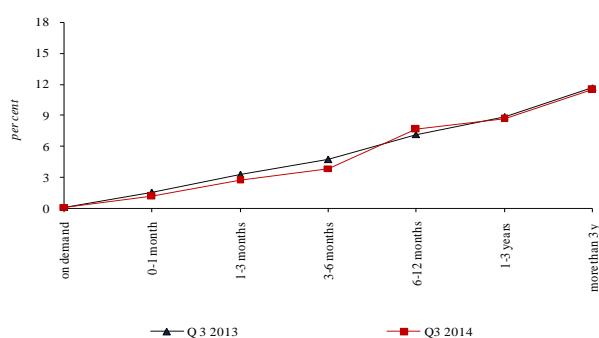


Diagram 25. Dynamic of Credit Indebtedness of Commercial Banks as of the end of the Period (mln. soms, percent (right scale))

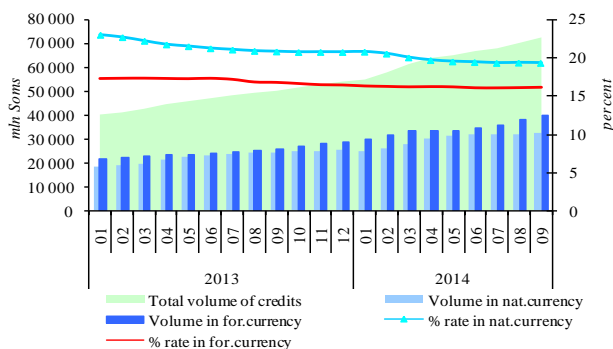
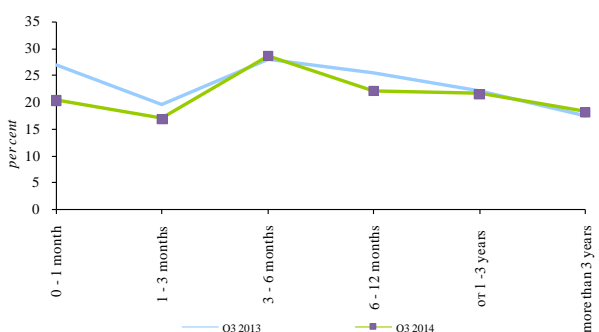


Diagram 26. Rates of New Credits in National Currency in terms of Maturity (percent)



Weighted average interest rate for new deposits in the national currency amounted to 2.7 percent in July to September 2014 having decreased by 0.3 p.p. against the comparable period of 2013; while for the foreign currency deposits it remained unchanged and made 0.8 percent. Weighted average interest rate for new on-demand deposits in the national currency amounted to 1.5 percent having increased by 0.1 p.p. against the comparable period of 2013; while for fixed-term deposits it increased by 1.9 p.p. up to 12.0 percent. The interest rate for new on-demand deposits in foreign currency remained unchanged against the comparable period of 2013 and made 0.1 percent; while for fixed-term deposits it increased by 0.2 percent to make 5.7 percent.

Credit Market

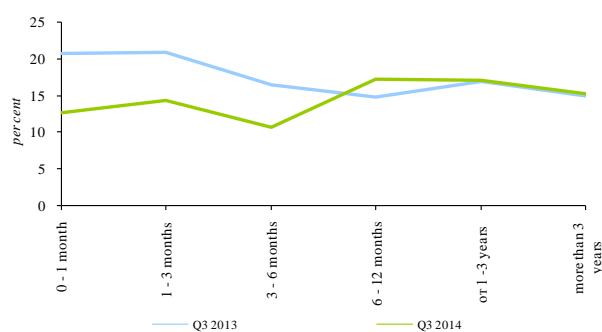
In July to September 2014 credit financing performed by commercial banks continued growing due to issuing credits both in the national and foreign currencies. One of the sources of credit resources was the Project for Financing of Agriculture-2. As of the end of the reporting period, the volume of issued credits made Som 4.8 bln.

Late in September 2014, the volume of credit portfolio of the commercial banks increased by 34.3 percent year-to-date and amounted to Som 72.5 bln. Among them, the credits in national currency increased by 29.0 percent to make Som 32.3 bln, while those in foreign currency made Som 40.2 bln in som equivalent (+38.9 percent)

As of the end of the reporting period, the credit portfolio dollarization increased by 1.8 percentage points to make 55.4 percent.

Weighted average interest rate for new credits in the national currency decreased by 0.8 percentage points to make 20.8 percent, while for those in foreign currency decreased by 0.8 percentage points down to 15.4 percent.

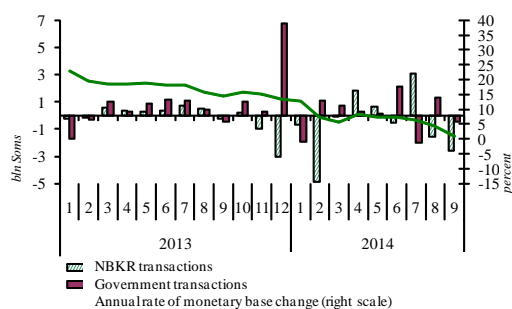
Diagram 27. Rates of New Credits in Foreign Currency in terms of Maturity (percent)



The share of overdue credits accounted for 2.3 percent late in the reporting period (-1.0 p.p. year-to-date), while the share of prolonged credits made 3.4 percent (+0.2 p.p.).

Dynamic of Monetary Indicators

Diagram 28. Input of the Government's and NBKR Transactions in Change of Monetary Base

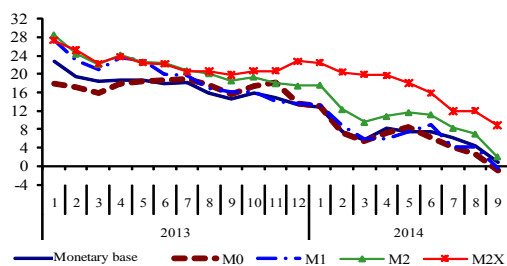


Monetary Base

Monetary base decreased by 3.2 percent or by Som 2.3 bln for the quarter. In Q3 the decrease in monetary base was influenced both by the Government's transactions and by the National Bank's transactions equally by Som 1.2 bln.

The impact of the National Bank's transactions on the monetary base decrease was mainly conditioned by transactions in the foreign exchange market decreasing it by Som 5.1 bln.

Diagram 29. Nominal Growth Rates of Monetary Aggregates (in annual term)



Monetary Aggregates

Nominal rates of changes in monetary aggregates had a downward trend in Q3 2014. Money in hands (M0), narrow money (M1) and broad money in the national currency decreased by 5.5, 6.2 and 5.9 percents correspondingly, while the growth of deposits in foreign currency determined lower rates of decrease in broad money stock M2X that comprises deposits in foreign currency – by 1.5 percent (in Q3 2013 it increased by 4.9 percent).

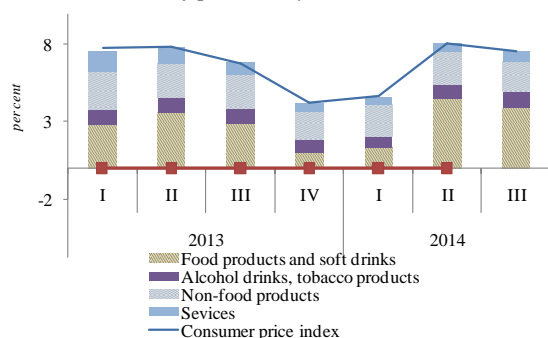
Inflation Dynamic

Consumer Price Index

According to the National Statistical Committee, inflation amounted to 7.6 percent in Q3 2014 (Q3 2014/Q3 2013), the similar value of 2013 amounted to 6.7 percent. Annual inflation made 7.4 percent (September 2014 against September 2013).

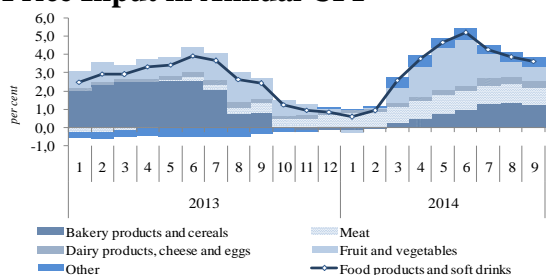
In Q3 2014 inflation was developed under the impact of both internal and external factors. In this regard, besides the effect of US dollar strengthening, the external factors included a rise in cost price for POL in

Diagram 30. Dynamic of CPI Structure
(Q to similar Q of previous year)



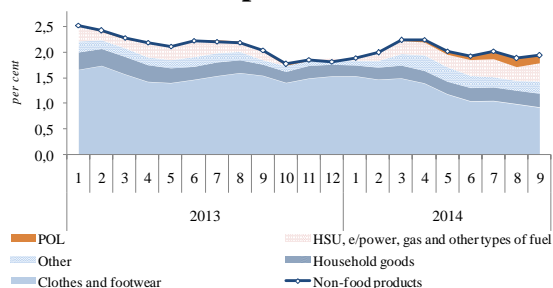
Russia as well as a rise in export price of Kazakhstan wheat early in August 2014 that directly influenced the internal prices of cereal products. Internal factors made a considerable input in CPI conditioned by the rise in tariffs for cold and hot water from July of the current year as well as the rise in prices for cereal and feed crops and against the background of unfavorable conditions in agriculture of the country developed as a result of later spring and dry summer 2014.

Diagram 31. Dynamic of Food Products Price Input in Annual CPI



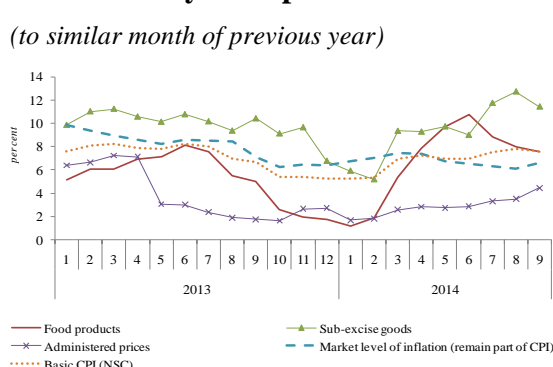
Price index of food products increased by 8.1 percent in Q3 of the current year. Price formation in this group of goods was mainly influenced by the 7.3 percent increase in prices for bakery products and by the 10.5 percent increase for meat. The 15.0 percent increase in prices for dairy products made some input in the overall level of prices as well.

Diagram 32. Dynamic of Non-Food Products Price Input in Annual CPI



The 5.1 percent decrease in consumer price index of the “oil and fats” commodity group had a restraining influence on the increase in overall price level against the high yield of oil plants in Russia and Ukraine, which are Kyrgyzstan’s main importers of these products.

Diagram 33. Dynamic of Consumer Price Index by Groups of Commodities
(to similar month of previous year)



Against Q3 2013 the increase in price index for non-food products amounted to 6.7 percent in Q3 2014. The greatest input in the increase in prices for non-food products was made by the 8.7 percent increase in prices for “clothes and footwear” commodity group. Household utilities and home appliances increased in prices by 7.3 percent; whereas HPU services increased by 3.8 percent. Cost of petroleum, oil and lubricants increased by 18.6 percent together with a rise in prices for gasoline and diesel fuel.

The increase in prices of paid services made 4.8 percent in Q3 2014 (5.6 percent in Q3 2013). Index rise in this group was mainly conditioned by the rise of services related to leisure (+8.0 percent) and education (+7.4 percent). The restraining factor for price rise in this group was the 3.4 percent decrease in prices for services of hotels and restaurants.

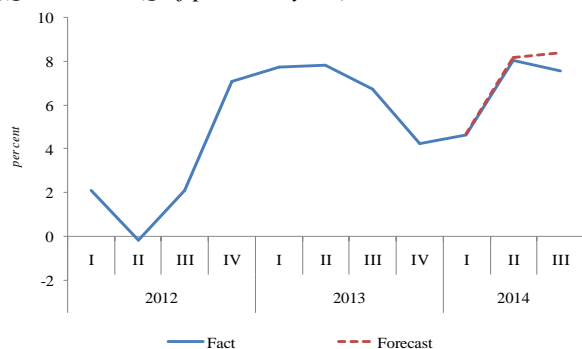
Base inflation amounted to 7.6 percent in Q3 2014 against Q3 2013 calculated by the NSC KR methodic.

Comparison of Forecast and Facts

Quarterly average level of inflation was by 0.8 p.p. lower than the forecasted one and made 7.6 percent (Q3 2014/Q3 2013). Deviation of the forecasted

Diagram 34. Actual and Forecasted CPI Values

(Q to similar Q of previous year)



value of inflation from the actual one was conditioned by stronger manifestation of seasonal factor; by slower rates of price rise for horticultural products compared to the expected rates as a result of seasonal increase in supply as well as by delay of the influence effect of price rise for POL for later period.

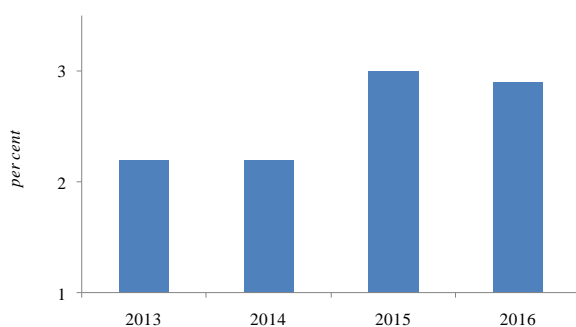
Medium-Term Forecast

External Environment Proposals

Development Forecast of Major Trading Partner Countries

Diagram 35. Real GDP Growth in USA

(year to year, %)



Source:IA Blumberg

USA

Solid rates of the US economy rehabilitation in Q2 and Q3 of the current year made it possible to compensate economic activity slowdown early in the year. Taking into account the positive trends in economy expressed by the increase in capital investment and export volumes, the GDP growth is expected to make 2.2 percent in the current year. Global economy rehabilitation after the consequences of global financial crisis as well as modernization of the US infrastructure will facilitate strengthening of American economy in the medium-term perspective. Risk factors include deceleration of economies of the European countries and Japan.

At the same time, the observed revival of economic activity and improvement of labor market environment enabled the US monetary authorities to complete the quantitative easing program in October of the current year. Inflation is expected to make 1.8 percent in 2014, while in 2015-2016 it will be within the range of 2.0-2.2 percent.

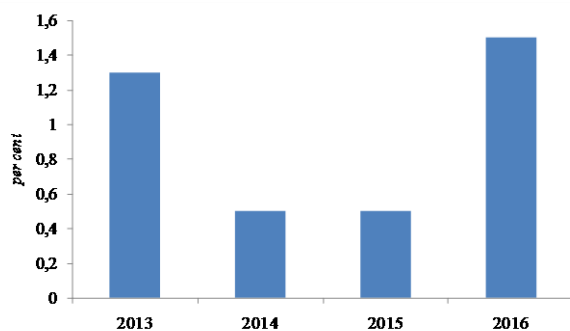
Russia

Retention of aggregate impact of unfavorable external factors such as tightening sanctions against Russia, fall of prices for oil, ongoing capital outflow as well as structural factors determined retardation of growth rates of Russia's economy both in current and next years.

The forecasts of Russia's economic development for 2015-2016 were revised downward, while the

Diagram 36. Real GDP Growth in Russia

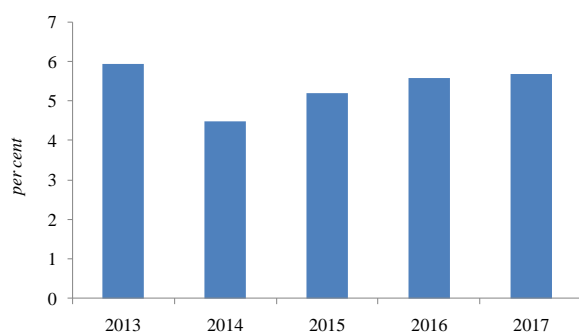
(year to year, %)



Source: IMF

Diagram 37. Real GDP Growth in Kazakhstan

(year to year, %)



Source: IA Blumberg

forecast of the RF GDP growth is maintained at the level of 0.5 percent in 2014. In 2015, stagnation is expected in Russia with moderate GDP growth (by up to 0.5 percent instead of 1.5 percent), while in 2016, if sanctions imposed on the RF are lifted, the moderate recovery of economic development is expected in Russia (by up to 1.5 percent instead of 2.3 percent).

Ruble exchange rate is (and will be further) influenced by sanctions imposed against the largest banks and companies of Russia, capital outflow, price dynamic for oil as well as the risks of further tightening of sanctions on the part of Western countries.

According to the forecasts of the Bank of Russia, till the end of 2014 the inflation will be maintained at the level of more than 8 percent exceeding the specified target value of 5.0 percent.

Kazakhstan

As a result of yet another delay of commercial extraction of oil in the *Kashagan* Deposit till the end of 2016 – the beginning of 2017, decrease in production of oil industry, weakening of external demand for metals and metallurgical products on the part of China and Russia and, as a consequence, retardation of growth rates in the sector of trade and transport services, the assessment of economic development in Kazakhstan for 2014-2016 was revised downward (4.5, 5.2 and 5.6 percent correspondingly). It is expected that Kazakhstan economy will reach the 5.7 percent growth in 2017 generally due to the growth of oil production.

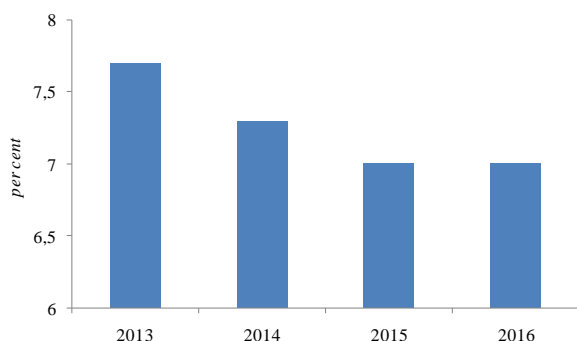
In 2014, inflation in Kazakhstan is expected to be at the level of 6.8 percent; its acceleration by the end of the year will be promoted by decontrolling of prices for basic food products and services for utilities and public transport in the forthcoming month; such control was established after tenge devaluation in February. According to the official forecast of the National Bank of RK, as of the end of the year, inflation parameters (with regard to devaluation) will be maintained within previously forecasted corridor of 6-8 percent with further decrease down to 5-7 percent in the medium-term period.

China

There is a consistent retardation of economic

Diagram 38. Real GDP Growth in China

(year to year, %)

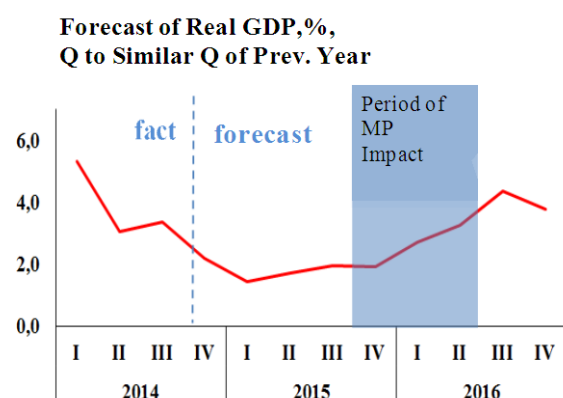


Source: IA Blumberg

development in China as the authorities perform structural reforms in economy. The existing transfer from the model based on exports and investment to internal consumption orientation is intended to ensure sustainable development of the country in the long-term period; nevertheless, this negatively effects the growth rates of economy in the short-term period. An additional factor of economic growth retardation was a decrease in the real estate market with regard to which GDP growth is expected to be a little bit lower than the 7.5 percent milestone specified by the PRC Government. In 2015-2016, the rates of economic development are expected to decrease down to 7.0 percent due to transformation of the country's economy and retardation of growth in credit financing and investment.

Medium-Term Forecast

Diagram 39. Forecast of Real GDP



Development of Real Economy

This forecast implies continuation of a high dependence of economic development of the country on external demand. The forecast contains an assumption that economic situation in Russia acting as the major trading partner of Kyrgyzstan will remain difficult. The rates of economic development in the Russian Federation will remain at the level of no more than 0.5 percent in 2015. Economic stagnation in Russia will be conditioned by slow implementation of structural transformations, continuing effect of “sanction wars”, continuation of capital outflow, and by the restricted access of Russian companies and financial institutions to the international capital markets. The pressure on ruble exchange rate, which dynamic will be volatile taking into account the CBRF transfer to inflationary targeting and changing the approach to pursuing foreign exchange policy, will be retained. International prices for oil will fluctuate within the range of USD 90-100 per barrel.

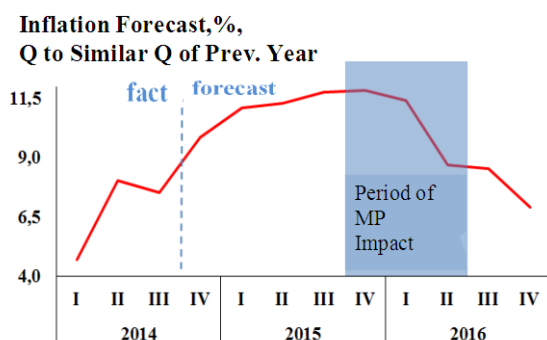
Slowdown of business activities in major trading partner countries will cause retention of weak external demand, which continue influencing the growth retardation in our country. At the same time, production volume in the *Kumtor* Mining will still have no influence on GDP dynamic.

The ongoing stressed economic situation in Russia will continue influencing the volumes of inflow of money transfers due to which the internal consumer demand will be further decelerated.

Consequently, recovery of external demand will facilitate acceleration of the internal economic development.

Complied with this scenario, the forecast of economic development in the Kyrgyz Republic will be revised downward from 4.0 to 3.3 percent in 2014, from 2.7 to 1.8 percent in 2015 and from 4.7 to 3.6 percent in 2016.

Diagram 40. Inflation forecast



Inflation

The downward dynamic of international prices for food products will continue. It is expected that the international prices for food products will be lower in near future compared to previously forecasted. In the medium-term period, the inflationary pressure from some exchange rate is expected to continue with gradual decline. In the short-term period, the impact of inflationary expectations related to Kyrgyzstan joining the Customs Union will continue.

Therefore, by the end of 2014, inflation will make 10.9 percent in annual terms instead of previously forecasted level of 10.6 percent. The medium-term assessments of inflation were also revised upward. On average for 2015 and 2016, a new inflation forecast will amount to 11.5 and 8.8 percent correspondingly.

Payment Balance

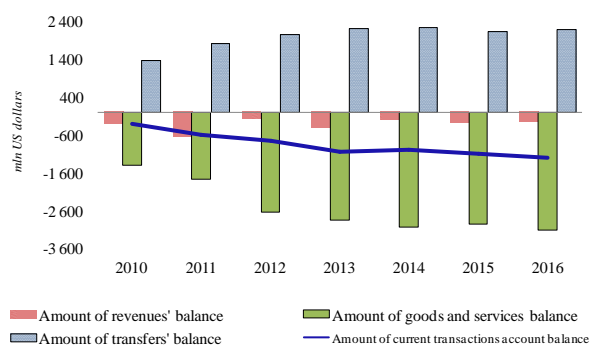
In 2014, the current account deficit is expected to make 13.6 percent to GDP, which is by 0.9 percentage points (the current account deficit without regard to additional settlements will make 18.7 percent to GDP) lower than the previous year level.

A decrease in the amount of additional settlements in the reporting year will cause a decrease in overall volume of export supplies by 15.5 percent (down to USD 2,365.4 mln). Export dynamic, without regard to the additional settlements, will be predetermined by a decrease in external demand due to the growth retardation in major trading partner countries¹, tightening of rules for importing commodities to the territory of the Customs Union participant countries as well as by a number of internal unfavorable factors²; as a result, exports will decrease by 2.8 percent (down to USD 1,990.5 mln) without regard to additional settlements. At the same time, sustainable operation of gold mining companies

¹ In 2014 the economic growth of the RF is expected to be 0.5 percent, while that of Kazakhstan is expected to be 4.5 percent.

² Dry year and lack of water due to which a decrease in exports of agricultural products and electric power is expected.

Diagram 41. Forecast Data on Current Transactions Account



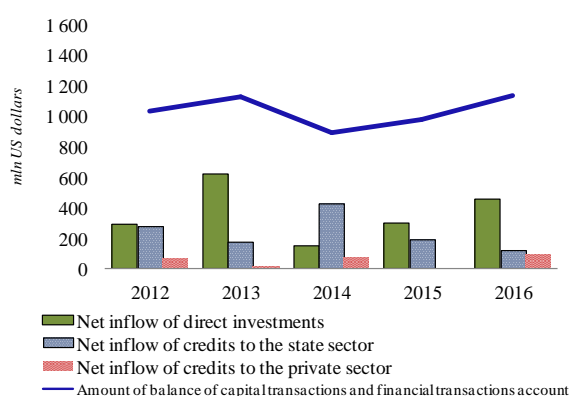
will allow increasing export supplies of gold by 4.9 percent (up to USD 773.2 mln)¹.

Taking into account the trends developed for the nine months of the current year as well as possible further decrease in internal demand due to import appreciation (mainly due to devaluation of Som exchange rate) in Q4 2014, on the whole for 2014, it is forecasted a decrease in import of energy products and consumer goods that will cause the 5.4 percent decrease in import.

Therefore, the 4.6 percent increase in trade balance deficit is expected in 2014 (without regard to the additional assessment, the 6.9 percent decrease in trade balance is expected).

Taking into account the anticipated slowdown of economies in the countries of labor migrants stay² as well as a considerable devaluation of the Russian ruble exchange rate, the 1.2 percent decrease in net inflow of ruble is expected. At the same time, an increase in the inflow of monetary grants is anticipated to the state sector that, on the whole, will cause the 35.7 percent increase in inflow of official transfers. As a result, the 0.2 percent increase in net inflow of current transfers is expected in 2014 with nominal volume of USD 2,243.2 mln.

Diagram 42. Forecast Data on Current Transactions Account and Financial Account



Traditionally, financing of the current year deficit will be performed owing to inflow of financial account capital primarily due to the net inflow of external borrowings at the level of USD 507.8 mln (including those to the state sector in the amount of USD 430.7 mln and those to the private sector in the amount of USD 77 mln) and to direct foreign investment (USD 151.4 mln).

As a result, the total payment balance will amount to USD 161.7 mln. The level of the NBKR reserve assets will remain safe (3.9 months of imports).

In 2015, the key factor that will determine the payment balance state will be the Kyrgyz Republic joining the Customs Union.

Deterioration of the country's trade balance state conditioned by advanced decrease in export earnings against import supplies (2.5 percent decrease) is forecasted in this period. At the same

¹ On the assumption of retention of the international prices at average level of USD 1,271.0 per ounce and providing gold mining in the *Kumtor* at the level of 590 thousand of ounce in 2014.

² Retardation of Russian growth is expected by down to 0.5 percent in 2014.

time, export is anticipated to decrease by 0.2 percent without regard to additional settlements.

A decrease in export volumes, taking into account additional settlements, will be predominantly conditioned by a decrease in the volume of additional assessments for re-export of oil products to the Republic of Tajikistan and for activities of “suitcase traders” (by USD 187.4 mln on the whole). In addition, the forecasted decrease in prices for gold will cause the average 5.9 percent decrease in overall export amount of precious metal. At the same time, joining the Customs Union will create the prerequisites for increase in exports without regard to gold and additional settlements by 3.7 percent on average ensured mainly by an increase in supplies of agricultural and sewing products.

The 2.5 percent decrease in import volumes is expected in this period. The 7.7 percent decrease in import supplies from the far abroad countries is forecasted mainly due to appreciation of imports as a result of an increase in tariff rates after joining the Customs Union¹. Meanwhile, the decrease in import supplies from the far abroad countries will be partially compensated by supplies from the Customs Union, which, together with the increase in energy product supplies, will cause the 2.6 percent increase in imports from the CIS countries.

The forecasted restrained growth rate of the Russian Federation economy as well as considerable rates of devaluation of the Russian ruble exchange rate will facilitate the 1.4 percent decrease in inflow of private transfers. At the same time, the decrease in monetary grants obtained by the official sector will cause the 4.0 percent decrease in net inflow for the “current transfers” item.

Therefore, the current account deficit is forecasted to make 17.5 percent to GDP in 2015 (without regard to the additional settlements, at the level of 21.3 percent to GDP).

Financing of the current account deficit will be performed at the expense of inflow on the capital

¹ According to the FSRD assessments, the increase in customs rates for imports from the CU non-participant countries may cause a decrease in imports from the far abroad countries by 7.4 percent in 2015. A decrease in import of such largest commodity positions as clothes, footwear, meat and prepared meat, structures made of cast-iron, steel and aluminum; medicines, cast-iron and steel, vehicles and wood substance is anticipated.

transactions account in the amount of USD¹ 371.5 mln, direct foreign investments at the level of USD 301.1 mln on average and net inflow of credits at the level of USD 161.1 mln.

As a whole, the payment balance is anticipated to be negative in 2015 to make USD 118.9 mln. The level of reserve assets to cover imports of goods and services is forecasted safe (3.6 months of imports).

In 2016, further deterioration of the current transactions account is expected (19.7 percent to GDP).

The 1.6 percent² increase in the volume of imports together with the 4.3 percent³ decrease in export supplies will determine the 5.8 percent increase in the trade deficit (up to USD 3,180.7 mln).

Revival of economic development of Russia and Kazakhstan and stabilization of the Russian ruble exchange rate in 2016 will positively influence the volume of inflow of private transfers, which will increase by 2.0 percent to reach USD 2,141.2 mln.

The increase in investment inflow of up to USD 457.3 mln as well as in credits in the amount of USD 221.4 mln will provide the principal amount of receipts on the financial accounts.

The total payment balance will be negative to make USD 54.4 mln in 2016. Reserve assets will cover 3.5 months of future imports of goods and services.

The following risks will be retained in the developed forecast of payment balance of the Kyrgyz Republic for 2014-2016:

- potential interruption of works related to development of the *Kumtor* Mining;
- volatility of international prices for gold and oil;
- change in economic environment of the trading partner countries;
- shortfall in planned volumes of foreign credit financing of the state sector;
- change in the conditions of trade with major trading partner countries;

¹ A grant of USD 300 mln is expected to be obtained from the Customs Union used for arrangement of borders needed for joining the CU.

² According to the forecasts, import increase will be ensured by the 4.5 percent increase in supplies from the CIS countries, while imports from the far abroad countries will decrease by 1.8 percent.

³ The 14.1 percent decrease is mainly due to supplies to the far abroad countries (due to export re-orientation to the CU countries); export to the CIS countries will increase by 4.5 percent. Export without regard to additional settlements will increase by 4.0 percent.

– volatility of exchange rates of major trading partner countries.