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**ГODOVOЙ ОТЧЕТ  
НАЦИОНАЛЬНОГО БАНКА  
КЫРГЫЗСКОЙ РЕСПУБЛИКИ  
ЗА 2004 ГОД**

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**DEAR READERS!**

The submitted for your attention annual report of the National Bank of the Kyrgyz Republic for 2004 provides the detailed information about the activity of the National Bank.

The economic growth, low inflation rate, growth of investments to the real sector, and strengthening of the banking system became the most significant results of the economic development of the Republic in 2004.

The monetary policy which is implemented by the National Bank is one of the key factors of macroeconomic stability maintenance. Ensuring of the general price level stability remains the main goal of the monetary policy. The reporting year can be righteously considered as successful in the field of realization of the main goal of the National Bank activity. National economy growth, lowering of inflation expectations, increase in cash income of the population facilitated increase in the national currency demand during the entire reporting year.

The banking sector maintained positive development trends in 2004, demonstrating growth of crediting of the real economy sector, competitiveness development in the market of banking services, and expansion of the spectrum of banking products. The policy of the National Bank promoted further strengthening of the capital base of commercial banks, facilitated growth of volume of deposits and credits, increased return on assets and capital of the banks, helped to reduce interest rates, both in national and foreign currency. This had an overall positive impact on extension of financial intermediation and activation of the banking system.

One of the priority directions of the National Bank activity in the reporting year was the promotion of the development of microfinance organizations, whose activity expansion contributed to social mobilization of the population, growth of employment, and poverty reduction. In this connection, great attention was paid to improvement of the normative base of regulation of the financial-crediting organizations activity.

In 2004, the National Bank continued its large-scale work on modernization of the republican payment system within the framework of implementation of the State Program on introduction of the noncash payment system and creation of the necessary infrastructure through introduction of the new methods, technologies and tools of payment.

Following the principles of openness and transparency of its activity, the National Bank provides in its 2004 report the full information about its activity, including financial reports confirmed by the auditor's conclusion in accordance with internationally recognized audit norms.

Yours sincerely,  
Sarbanov U.K.  
Chairman of the Board

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## Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on Main Directions of Economic Policy for 2004

### 1. Macroeconomic Goals and Objectives

The strategic goals indicated in the National Poverty Reduction Strategy will remain unchanged in 2004 - poverty reduction based on sustainable growth. Stability of economic development is the fundamental goal, whose attainment under the circumstances of good governance will allow increasing the effectiveness of policies directed to poverty reduction.

Preconditions for achievement of sustainable growth are as follows:

1. Development of the diversified market economy based on expansion of the private sector as an engine of sustainable growth.
2. Establishment of the effective macroeconomic management system and strengthening of market institutes.
3. Enhancement of stability of the financial system in mobilization of resources and their subsequent transformation into private investments for economic growth.
4. Improvement of all sectors of the real sector and increase in their contribution to economic growth.

The following challenges will be met to achieve this strategic goal in 2004:

- Restraining inflation at the level not higher than 4.5 percent;
- Achievement of real growth of GDP of not less than 4 percent;
- Keeping the budget deficit of not more than 4.4 percent of GDP;
- Keeping the current account deficit of not more than 5.1 percent of GDP;
- Stable operation of the banking system and increase of financial intermediation;
- Fulfillment of conditionality under the third annual arrangement with the IMF under the PRGF program to reduce the debt burden;
- Reduction of foreign borrowing guaranteed by the Government of the Kyrgyz Republic for the Public Investment Program (PIP), and growth of private investments, including direct foreign investments;
- Expansion of external economic cooperation;
- Use of membership of the Kyrgyz Republic in the WTO to enhance efficiency in external economic activity;
- Increase of the effectiveness of measures promoting employment in the labor market;
- Active promotion of structural reforms along the key directions of economic development;
- Enhancement of efficiency and better targeting of social protection of the needy population.

The electricity sector, mining and metallurgy (including gold mining) and processing, agriculture, small and medium business, as well as development of services, including tourism, transport and communication services will remain the priority sectors of real sector development.

### 2. Monetary Policy

The monetary policy will be focused in 2004 on arrangement of favorable conditions for long-term economic development of Kyrgyzstan. The primary monetary policy goal as

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the component of the nation-wide economic policy implemented by the National Bank of the Kyrgyz Republic jointly with the Government of the Kyrgyz Republic is to keep inflation low, because the low rate of inflation is the basis for decision-making in the area of consumer expenditures, savings, and investments, which are the base components of sustainable growth.

The 2004 inflationary processes will develop on impact of the change in money supply, as well as the developments in the administered prices and tariffs, tax rates, the seasonal rise in prices of the specific goods.

Expected growth of the M2 monetary aggregate in 2004 will make 15-16 percent, with the projected rate of growth of real GDP of not less than 4 percent adjusted to the upward tendency of demand for money in the economy in 2000-2003.

To achieve this target, the National Bank of the Kyrgyz Republic will use the available monetary policy instruments, with the open market operations being the basic instrument.

The successful banking system reform will promote further financial deepening. On-line coordination of monetary and fiscal policy actions will remain one of the basic conditions of stable financial market developments.

The floating exchange rate policy will be kept in 2004. Interventions of the National Bank of the Kyrgyz Republic in the interbank foreign exchange market will be aimed at smoothing the sharp exchange rate fluctuations and preventing speculative trading. The exchange rate policy of managed floating will allow to maintain the international reserves at the level providing for external debt service of the republic and import capacity of exports of not less than 5 months of import of goods and services.

Stable operation of the banking system and increased financial intermediation become one of the basic priorities of the policy of the National Bank of the Kyrgyz Republic.

We will continue to fulfill the tasks directed to improve the regulatory and legal framework regarding banking regulation and improvement of banking supervision in 2004. The Law of the Kyrgyz Republic "On Deposit protection" will be drafted and when due hereunder submitted to the Jogorku Kenesh of the Kyrgyz Republic.

Activity on arrangement of favorable conditions for development of microfinance organizations aimed at social mobilization and provision of access of the population to their services is currently stirred up.

The specific work will be done in 2004 as part of the National Program of Measures for 2003-2005 to Implement the Non-Cash Payment System and Create Infrastructure Enabling Effective Execution of Payments in the Kyrgyz Republic directed to increase the share of clearing in the payment turnover. Special attention will be given to measures for transferring the payment system to the international standards, improvement of the regulatory and legal framework that would regulate the relations of participants in the payment system, as well as develop the mechanisms to maintain continued operation of the system of electronic payments.

In case of the abrupt change in the external conditions or revision of the official projections of economic development of the republic, the monetary policy targets could be revised, accordingly.

### 3. External Economic Policy

The external economic policy focused on liberalization of foreign trade will remain unchanged in 2004. External economic cooperation will be expanded within the framework of regional economic unions: CIS, Eurasian Economic Union, Central - Asian Cooperation (CAC) and the Shanghai Organization for Cooperation (SOC).

Advantages of cooperation with the countries that are joining the WTO (Republics of Kazakhstan and Russia) will be used to expand the external economic relations. The specific export diversification measures will be undertaken to increase the export potential. The

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export incentive policy in the Economic Reform Strategy put forward by the President of the Kyrgyz Republic in December 2003 was announced as one of the three basic directions of the further reforms. This challenge will be met as closely linked to the task of deregulation and improvement of the tax system.

By and large, due to membership of the Kyrgyz Republic in the WTO and its membership in other international and regional unions, all of the opportunities will be used to expand and develop the trade and economic relations both with the CIS countries and non-CIS countries on the mutually advantageous basis.

According to the decisions taken at the interstate level, the year of 2004 should be critical for tackling the issue of establishing the free trade zone in the CIS territory.

It is also envisaged to start implementing in 2004 the specific measures for arranging the favorable conditions for multilateral economic cooperation, along the selected priority directions under the Shanghai Organization of Cooperation.

Furthermore, in development of external economic relations of Kyrgyzstan with the non-CIS countries implementation of new technologies and production lines goods and services in the country will become the priority direction. This will exercise the direct influence on the effectiveness of domestic production.

#### 4. External Debt

The external debt management policy will be directed to avoid the additional non-concessional foreign borrowing in 2004 as a result of:

- Advance repayment of some commercial loans, provided their terms are compatible with the Paris Club terms and the funds are available in the budget;
- Observance of the minimum level of 45 percent of the grant element in contracting or guaranteeing external debt by the state government;
- Further privatization of large strategic state enterprises and depositing of 75 percent of these funds on the special account with the National Bank of the Kyrgyz Republic to reduce external debt; and
- Enhancement of efficiency in external debt management.

#### 5. Tax Policy

The basic tax policy functions are to arrange the favorable conditions to stir-up economic activities of economic agents and mobilize the funds required for implementation of the public expenditure policies and economic regulation.

The basic tax reform directions as envisaged in the Tax Policy Improvement Concept of the Kyrgyz Republic are as follows:

1. Reduction of the tax burden of economic agents coupled with the expansion of the tax base.
2. Improvement and strengthening of tax administration. Improvement of tax and customs administration units and establishment of the uniform indirect taxation system.
3. Removal of imbalances in taxation and creation of equal conditions for economic agents.
4. Assistance in development of the favorable investment climate, the market of capital, and business.
5. Legalization of the shadow economy.

The 2004 tax policy will be directed to implementation of the following specific measures:

- Full-scale VAT refunding to all tax payers, including the direct budgetary payments to the exporting or investing enterprises, whose VAT credits exceed their tax liabilities;
- Continuation of work on introduction of the mineral resource tax accompanied with

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the removal of deductions on replenishment and reproduction of the mineral-raw-material resource base;

- Removal of inefficient local taxes and fees;
- Implementation of measures directed to effective enforcement of the property tax;
- Further improvement of the simplified and patent tax system.

## 6. Public Expenditure Policy

The fiscal policy of the Kyrgyz Republic will be directed to financing the priority directions as determined in the CDF and NPRS in 2004. The public expenditure policy will be aimed at, first of all, the full and duly financing of social state guarantees and arrangement of favorable conditions for economic growth of the republic.

The main priority in the allocation of public resources in 2004 is given to the social sphere, with more than 43 percent of total expenditure in the republican budget earmarked for this sector.

In 2004 we will continue to improve the format of the Mid-Term Budget Forecast (MTBF). The MTBF will be improved so that to become subsequently the uniform document that determines the country's fiscal policy.

We will continue to work on introduction and improvement of the mechanism of motivating (matching) grants (MMG), which could subsequently replace inefficient forms of financing of regional development.

Continued optimization of public expenditure is the major task of reforming the fiscal system, which is associated with improvement of the public administration structure and the legislative framework.

The basic measures aimed at improving public expenditure management would be the following:

- Increase in fiscal transparency (obligatory introduction of program budgeting, introduction of international standards of statistics of public finances, etc.);
- Further improvement of mid-term financial planning techniques;
- Improvement of the mechanism of financial relations between the republican and local budgets to create the incentives for the local governments for increasing income and enhancing efficiency in spending;
- The continued Treasury system reform and introduction of the automated control system.

## 7. Real Sector

### 7.1. Basic Industrial Policy Orientation

The 2004 industrial policy will be basically oriented to overcoming crises and stabilization of production. To achieve this goal, the industrial policy will be focused on solution of the following tasks:

- Implementation of measures for investment mobilization and improvement of the investment climate in the industrial sector;
- Implementation of a matrix of measures for launching idle and stabilization of lagging enterprises: assistance in the search of commodity markets and the strategic partners to establish joint ventures and to invite the enterprises to participate in the tenders for placement of orders;
- Establishment and development of the new industries that are in demand in the market;
- Enhancement of efficiency in the use of domestic resources for the capital-using



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- industry and development of industries focused on export and import substitution;
  - Tightening of financial discipline at the industrial enterprises, more active application of bankruptcy proceedings as the tool of tightening financial discipline;
  - Further improvement of the legislative framework creating the production enabling conditions;
  - Increase of competitiveness of output goods;
  - Diversification of industrial production in view of increasing the export potential of the republic;
  - Maintenance of growth of production of food, including drinks and tobacco, at the level of 6.5 percent;
  - Development of mining due to development of perspective gold and oil deposits (Makmal, Jeruy, Taldy-Bulak);
  - Rehabilitation of the electricity sector, including the reduction of commercial and technical losses to 25 percent, as well as the increase in the volumes of export to the CIS countries, including Russia;
  - Achievement of the target on the annual reduction of the quasi-fiscal deficit (QFD) by 2 percentage points of GDP;
  - Development of the oil refinery sector through the increase in the volumes of oil production and mobilization of investments;
  - Development of the coal-mining sector.

## 7.2. Agricultural Sector Development

The following will remain as the main and unchanged objectives in development of the agricultural sector in 2004:

- a) Provision of the population of the country with the required volume of essential commodities;
- b) Provision of processing enterprises with primary products;
- c) Increase of the earning power of agricultural production;
- d) Poverty reduction in countryside.

Real growth of gross agricultural output is projected at not less than 5 percent in 2004, due to basically growth of crop output. Under the circumstances of restricted areas of arable land, growth of output is expected to come from the increase in productivity of crops.

The solution of the following tasks becomes the favorable precondition for maintenance of growth of agricultural output in 2004:

- Development of cooperation in agriculture aimed at employing the industrial potential in the rational way;
- Completion of the enterprise reform in agriculture;
- Completion of debt rescheduling on budget loans;
- Write-off of bad debts of restructured and bankrupt farms;
- Organization of the advanced network of selling and processing agricultural produce;
- Training and provision of consultative services, training in marketing and management with the help of foreign and domestic advisers;
- Expansion of social mobilization in countryside;
- Further development of the national program to establish technical rules (standards) in the area of the plants' quarantine according to the international requirements;
- Giving a boost to development of credit cooperation, removal of administrative restrictions on import and export of agricultural produce and foodstuffs, maintenance of equality of agents of the market and transparency of movement of goods;
- Arrangement of favorable conditions for mobilization of private investments to the



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- agricultural sector, provision of machinery for agriculture, and expansion of leasing;
  - Implementation of measures for purchases of foodstuffs for state needs mainly from the domestic commodity producers;
  - Irrigation of lands;
  - Provision with seed and breeding material of high quality.

### 7.3. Private Sector Development

In 2004, the private sector will develop further and become the sector of the economy significant for sustainable growth and saturation of the market by goods and services. Creation of new workplaces would have the positive impact on poverty reduction.

The strategic tasks for creation of favorable economic conditions for private sector development will be the measures directed to deregulation of the economy by means of:

- Removal of administrative barriers hampering growth of business by further revision of the regulatory legal acts providing for reliable operation of business and mobilization of direct investments;
- Provision of small and medium enterprises with accessible information and training services through the network of regional business support units;
- Familiarization of potential investors with the investment opportunities of the country and its comparative regional market advantages with the help of modern information technologies.

### 7.4. Investment Policy

The 2004 investment policy will be still directed to improvement of the investment climate and reduction of foreign borrowing guaranteed by the Government of the Kyrgyz Republic for implementation of the Public Investment Program (PIP) and to growth of private investment, including direct foreign investment, as part of the NPRS-defined tasks. Efforts will be taken to further increase the PIP project effectiveness.

Furthermore, in the year of 2004 that was declared by the President of the Kyrgyz Republic as the Year of Social Mobilization and Good Governance the investment policy will be basically oriented to give utmost support to the local communities on poverty reduction decision-making.

We will continue to implement the large-scale education and public health sector development projects.

One of the important directions of the 2004 investment policy will be to improve public administration in order to rationalize and increase the professional standard in the system of civil service, create the space for growth of demand for high quality management. As part of this direction, the significant attention will be given to improvement of public finance management, namely: issues of enhancement of efficiency and transparency of both the fiscal and Treasury processes.

In 2004, as in the previous years, significant volumes of public investment will be still directed to the key sectors of the economy - agriculture, transport and communications, as well as financial and institutional infrastructure essential for private sector development in the country.

The following public policy measures will be taken to implement these tasks:

- Implementation of the highly prioritized PIP projects that would exercise the greatest influence on economic growth and poverty reduction;
- Maximal mobilization of domestic financing sources of investments and direct foreign investments, and effective utilization of credit resources.

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## 8. Structural Reform

The structural policy of the Government of the Kyrgyz Republic will be directed in 2004 to reorganization and privatization in the strategic sectors of the economy, improvement of corporate governance, public administration reform, as well as to promotion of reforms in the financial sector. The major mid-term structural reform priorities in 2004 would be:

1. Reform of the general government and civil service supported by the World Bank program credit (GSAC)/GTAC.

Administrative reforms in 2004 will aim to:

- Enhance transparency, openness and accountability of the public sector to the civil society;
- Enhance efficiency in civil service;
- Improve the system of public finances through technical modernization of the Treasury system with the help of international donors;
- Develop the democratic institutes;
- Enhance efficiency in lawmaking activity;
- Reform the central and local governments;
- Decentralize the government and develop the local governments;
- Develop the effective civil service;
- Manage and reform the system of public finances.

One of the basic actions in general government for 2004 will be to consolidate the functional analysis reports on subordinated and regional units of central and local governments, providing for the reduction of government employment and arrangement of training and improvement of professional skills of civil servants.

2. Financial Sector Reform

The financial sector reform assumes the increase of financial intermediation of the banking system. To achieve this goal, it is essential to solve a number of important tasks directed to:

- Increase the level of capitalization of banks and improve capital;
- Improve the financial position of commercial banks;
- Develop activities of banks on lending to the real sector of the economy and furnishing the monetary resources;
- Expand the services, introduce the new banking products and improve the current services;
- Development of corporate governance and increase of the culture of management in banks, improve risk management and systems of internal control;
- Improve the banking legislation;
- Strengthen banking supervision and regulation;
- Introduce the deposit protection system;
- Improve the payment system;
- Develop the mechanisms of combating financing of terrorism and money laundering in the banking system.

3. Reorganization and privatization of strategic enterprises (World Bank, GSAC).

Upon the approval by the Jogorku Kenesh of the Kyrgyz Republic, the Gas Sector Reorganization and Privatization Program, providing a new financial model of sectoral operation

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and mobilization of investments, and the new Privatization Program of the Kyrgyz Republic will be launched in the republic in 2004 - 2006.

#### 4. Electricity Sector Rehabilitation and Tariff Policy (World Bank, GSAC).

The further electricity sector reforms will be directed to implement the subsequent stages of the Electricity Sector Privatization Program providing for privatization or transfer of assets in concession of energy distribution companies in order to mobilize direct investments and improve the financial position of the electricity sector, and implement the effective tariff policy directed to the reduction of quasi-fiscal deficit.

The Government of the Kyrgyz Republic approved the system of monitoring the quasi-fiscal deficit (QFD) in the electricity sector, the comprehensive plan of actions on financial rehabilitation and stabilization of the electricity sector and the QFD stage-by-stage reduction.

The annual QFD reduction target by 2 percentage points of GDP is supposed to be met by increasing the rate of collection of cash payments and decrease in losses. At the same time, the issue of increasing tariffs is supposed to be considered as part of the Mid-Term Tariff Policy on Electricity and Heat for 2003-2006, depending on the targets met as to the reduction of commercial and technical losses, maintenance of full collection of cash accompanied with the issue of adequate social protection should there be a need to increase tariffs.

#### 5. Improvement of corporate governance (Asian Development Bank, Corporate Governance 1, 2.)

The program “Corporate Governance and Enterprise Reform-2” was launched in 2001. The system of corporate governance at the large state enterprises was introduced under the program. The goal of the program is to increase confidence of investors and enhance efficiency of enterprises by strengthening corporate and finance governance and resolving commercial disputes. To achieve these goals, the following was determined:

- To strengthen and introduce appropriate corporate governance by policy-making and development of institutional and legal frameworks;
- To further introduce the international standards of financial reporting and auditing;
- To introduce standards of estimated activity;
- To strengthen management of commercial banks and the legal framework for protection of the creditors’ rights;
- To promote rescheduling of inefficient, however, viable enterprises and liquidation of insolvent enterprises.

## 9. Social Sphere

### 9.1. Social Protection

Actions directed to poverty reduction of the socially vulnerable layers of the population become the basic public policy line in the area of social protection.

In 2004, as part of implementation of the National Poverty Reduction Strategy we will solve the following tasks:

- Duly disbursement of pensions, grants, privileges, and wages;
- Enhancement of efficiency in targeted social protection;
- Arrangement of conditions for involving the poor layers of the population in economic activities;
- Wage reform;
- Stir-up the work on social certification and development of the databank on the families that need state support;

- Continuation of the experiment on payment of the annual amount of the Uniform Monthly Benefit (UMB) for social mobilization of the population;
- Continuation of work on launching of family and children support departments and distribution of this practice to the regions that are not covered by the pilot projects.

## 9.2. Social Security

In the area of social security, as part of the approved Concept of further pension system reform the work will be done:

- To develop legislative frameworks for the staged transition to pension system;
- To increase pensions;
- To further improve administration of collecting state social insurance payments;
- Implement measures for further expansion of the insurance base, reduction of the share of commodity offsets in the total of insurance payments;
- Collect arrears of payments.

## 9.3. Labor Market and Employment

For maintenance of employment of the population in 2004 as part of the National Poverty Reduction Strategy the following tasks are scheduled:

- Definition of long-term public employment policy frameworks;
- Establishment of business - incubators;
- Increase by 5-7 percent of the number of trained jobless citizens in specialties that are in great demand in the labor market;
- Increase in the number of jobless citizens involved for the payable public works by 5-7 percent;
- Granting microcredits on the priority basis to the needy layers of the population and jobless citizens and stirring-up the work on training the population to do business (consultation, assistance in drawing up business-plans);
- Stirring-up the work on export of temporarily available human resources;
- Definition of the public employment strategy in view of regional development and investment opportunities;
- Increase youth employment by 5 percent;
- Training of experts in the system of secondary and higher education in view of the country's real needs.

## 9.4. Education

Reform in the sector of educational services becomes one of the priority directions for the Government of the Kyrgyz Republic.

The key priorities in education development in the Kyrgyz Republic are its availability and quality. They were always on the focus of attention and today make the basic content of educational reforms. As part of these priorities, the decision of the following is assumed as the strategic tasks:

- Provision of state guarantees and equal opportunities for getting education at all levels;
- Development of mechanisms to guarantee good education.

To consolidate the achieved results of the education sector reform it is scheduled:

- To improve the regulatory and legal framework of the education system in the Kyrgyz Republic for provision of equal opportunities for education of the various layers of the population;
- Maintain the network of preschool institutions of various forms with the help of the state, municipal and alternative budgets;

- Establish equal conditions for people with the limited opportunities in educational institutions of all levels;
- Improve the system of preparing and improving the teachers' professional skills;
- Maintain financial transparency at all levels of education;
- Develop the mechanisms of state financial support based on principles of targeting and grant financing of higher education;
- Support rural school infrastructure;
- Improve the mechanism of financing production of textbooks and teaching materials;
- Improve management and administration in the sphere of education.

Social and economic conditions radically changed for the recent few years in the republic cause the need to develop flexible ways and mechanisms of reforming and developing education in countryside. Implementation of the Comprehensive Program "Rural School" for the period till 2010 will improve general education of rural school children on the basis of better educational system as adjusted to the regional, social and economic and cultural features.

The project "Community Based Development of Younger Children" will be launched in 2004 as aimed at strengthening health, nutrition, and psychosocial development of children at the age less than 8 years in the poorest regions of the republic.

To increase the access for poor children to preschool programs, including state preschool institutions, as well as to improve training in the first grade and care of the child at home, 12 pilot areas with 12 resource schools and kindergartens were selected for capital repairs.

To integrate the system of higher education into the international space, the project was offered to integrate high schools of Kyrgyzstan in the Bologna process. This project is directed to internationalize higher education.

## 9.5. Public Health

The primary objective of public health is to provide for fair and equal access to everything, including the most vulnerable layers of the society, to free medical services as part of the program of state guarantees. The public health policy will be focused on the following priorities in 2004:

- Development of the effective medical aid system focused on the primary medical and sanitary aid;
- Introduction and strengthening of new methods of financing;
- Strengthening of the role of public health.

By and large, the reforms in the public health sector will be directed to optimize the process of state regulation ensuring the constitutional rights of citizens to health protection and establishing the stable integrated system of medical services and the public health sector financing.

It is essential to solve the following tasks under the 2004 public health sector reform:

- Restructuring of the network of public health institutions;
- Further development of mandatory medical insurance;
- Staged introduction of new methods of financing;
- Improvement of the family medicine institute.

The new system of payment to the suppliers of medical services will be developed further through the state budget and the Medical Insurance Fund: for the treated case in general hospitals and for the per capita ratio of the registration number of the population at the out-patient - polyclinic level.

We will continue to improve the legislative frameworks, new methods of labor compensation in the public health sector and maintain financial stability of the mandatory medical insurance system.

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In the area of improvement of drug provision, we will work further on improvement of the legislative framework, including registration of drugs and quality control.

It is scheduled to develop and introduce the system of improvement of medical services, improve the licensing and accreditation processes, the educational system, science and scientific research in the area of medicine, as well as rational drug management.

Rational drug provision management will be directed to strengthening the legislative framework by a number of regulatory documents according to the List of Essential Drugs and the decision-making on drug provision and registration, the quality control system, taxation and customs payments.

Great attention will be given to publicity of a healthy way of life of the population. The new line of activity is to develop and introduce the reforms in the area of public health and development of the healthy way of life, including the reform in the system of sanitary epidemiological service (SES), expansion of its functions and scale of activity, as well as review of the current situation in the country on development of the healthy way of life.

Further work on implementation of the supplementary MIF program on drug provision of insured citizens at the outpatient level.

Further reforms on changing the financing system and developing information system put into operation under the Public Health Sector Reform Project. It is scheduled that the reforms would cover the financing sources and the financial resource allocation, as well as the organizational aspects associated with introduction of the uniform payer system.

Development of the budget formulation mechanisms in the health sector based on the new principles, actual expenditure assessment associated with the Program of State Guarantees, improvement of the current ways of financing. It is also scheduled to establish the uniform information system in the public health sector for on-line management and decision-making.

## CHAPTER 1

ECONOMIC DEVELOPMENT OF  
KYRGYZSTAN IN 2004

## 1.1. Real Sector

According to the data<sup>1</sup> of the National Statistical Committee of the Kyrgyz Republic, GDP increased by 7.1 percent and amounted to som 94.1 billion in 2004. Excluding Kuntor gold mine enterprises, GDP growth made 7.8 percent.

**Table 1.1.1.**

Gross Domestic Product in 2004

	Unit weight, <i>per cent</i>	Growth rate, <i>per cent</i>	Contribution to growth rate, <i>per cent points</i>
Agriculture, hunting and forestry	32.9	4.1	1.4
Mining	0.7	34.3	0.2
Processing industry	12.2	1.6	0.2
Electricity, gas and water generation and distribution	3.1	6.5	0.2
Construction	3.0	3.5	0.1
Trade, repair of motor transport and private use articles	16.6	18.6	2.8
Hotels and restaurants	1.5	14.1	0.2
Transport and communication	6.4	17.0	0.9
Other sectors	23.6	4.4	1.1
<b>GDP</b>	<b>100.0</b>	<b>7.1</b>	<b>7.1</b>

Source: KR NSC data.

The number of economic agents<sup>2</sup> increased in the reporting year and totaled 297.2 thousand agents as of January 1, 2005. The number of legal entities was 60.5 thousand agents, having increased by 9.2 percent. The number of individual entrepreneurs totaled 159.2 thousand individuals, having increased by 18.5 percent as compared to 2003. Of the total number of economic entities, the largest shares are that of trade, repairs of cars, household goods and articles for personal use (28.1 percent), public utilities and social services (17.9 percent) and industry (11.4 percent).

Gross agricultural output increased by 4.1 percent as compared to 2003, mainly, due to crop production increased by 8.1 percent as a result of favorable climatic conditions. Harvesting of tobacco increased by 49.5 percent, cotton – by 14.9 percent, vegetables – by 9.5 percent, grain – by 4.6 percent, potatoes – by 4.2 percent. Among basic agricultural crops, sugar beet harvesting decreased by 20.9 percent due to reduction of the sown areas and decrease of crop capacity. Production of livestock farming decreased by 0.7 percent in 2004.

The total turnover<sup>3</sup> of trade, repairs of cars, household goods

<sup>1</sup> Preliminary data.<sup>2</sup> Included in the Uniform State Register of Statistical Units.<sup>3</sup> Physical volume.



and articles of personal use, increased by 22.4 percent. The volume of hotel and restaurant services increased by 14.4 percent including hotel services - by 9.9 percent and restaurant services – by 16.4 percent. In 2004, the volume of freight services<sup>1</sup>, carried out by all means of transportation increased by 1.4 percent and totaled 30.2 mln. tons, mainly, due to increase of motor freight service. Communication services increased by 20.8 percent.

Industrial production in 2004 increased by 3.7 percent, and if excluding the Kumtor gold mining enterprises - by 6.6 percent. The volume of industrial shipments was 94.3 percent of the total output, of which 38.1 percent was exported.

The main contribution to the growth of industrial production was made by production of other nonmetallic mineral products, by generation of electricity, gas and water, and production of rubber and plastic products.

The volume of investments increased by 2.8 percent as compared to 2003. Among the sources of financing, the largest share falls, as before, on the own funds of enterprises – 34.4 percent of the total volume. In 2004, the substantial growth of capital investments was observed at the account of the population's funds and other sources – by 84.5 percent, and their share in the total volume of capital investments made up 28.3 percent. Financing from direct foreign investments<sup>1</sup> decreased considerably - by 47.3 percent.

The balance sheet profit<sup>2</sup> of the economic entities (excluding organizations engaged in crop production and cattle stock farming) increased by 3.8 times as compared to the similar period of 2003. The profit growth was observed at the enterprises of processing industry, transportation and communication, trade, repairs of cars, household goods and articles of personal use, and in the organizations engaged in financial activities. However, the losses were observed in the sphere of construction, generation and distribution of electricity, gas and water, mining industry. The share of unprofitable enterprises of the reported ones made around 40.0 percent which is the same as of 2003. According to the data of business activity monitoring, the load of production capacity of the inspected enterprises virtually underwent no changes as compared to 2003, and made 32.0 percent in average.

Many economic activities of the real sector showed reduction in the accounts receivable and payable as compared to their volume as of beginning of the reporting year.

Economic growth and low inflation rate favoured increase of the population's income. The nominal average monthly wage rate in 2004 amounted to som 2202.9, while its real growth (corrected for considering the Consumer Price Index) made up 10.2 percent. Growth of the population's income was shown in increase of households' expenditures. Thus, the retail turnover increased by 12.5 percent (if calculating per capita – by 16.2 percent), growth of chargeable services rendered to the population was 18.2 percent (if calculating per capita– 31.6 percent).

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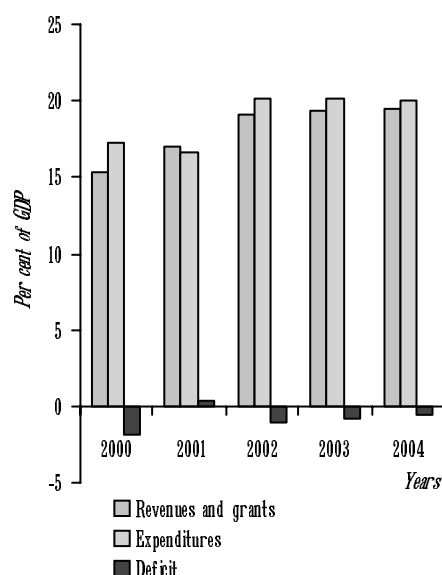
<sup>1</sup> KR NSC data.

<sup>2</sup> KR NSC data for 9 months of 2004.

## 1.2. Sector of Public Finances

**Chart 1.2.1.**

The State Budget Execution (excluding PIP)



Budget policy in 2004 was directed to priority-based financing of the social sector within the framework of implementation of the National Strategy for Poverty Reduction. Improvement of the tax policy facilitated execution of the revenue part of the budget. A number of measures were undertaken for the purpose of expanding the taxable base; also, the patent-based system of taxation was revised; excise rates were changed, some of the tax preferences cancelled. It is necessary to stress the work on the new edition of the Tax Code of the Kyrgyz Republic that will allow to eliminate in future the controversies and ambiguous understanding of the current Tax Code provisions, and will simplify application of its provisions. Substantial growth of budget revenues in the reporting year, tax receipts particularly, facilitated execution of expenditure part of the state budget. This allowed to increase budget expenditures on health services, education and other social services. The key item in execution of the government commitments was the protection of the most vulnerable groups of population and creation of favorable conditions to ensure the economic growth.

The state budget of the Kyrgyz Republic in 2004 was executed with the deficit<sup>1</sup> of som 505.8 mln., or 0.5 percent to GDP. At the same time, the revenues including transfers from abroad, amounted to som 18,335.9 mln., expenditures – som 18841.7 mln. The primary budget surplus<sup>2</sup> amounted to som 458.0 mln., or 0.5 percent to GDP.

### 1.2.1. State budget resources

Total state budget revenue, including the 2004 external transfers, increased by 13.1 percent as compared to 2003, and percentage wise to GDP – from 19.3 to 19.5 percent.

Tax receipts totaled som 13986.6 mln. in the reporting year, or 14.9 percent to GDP (in 2003 – som 11916.5 mln. and 14.2 percent to GDP). The share of taxes in the total revenue of the state budget increased by 2.8 percentage points as compared to 2003 and was 76.3 percent. Growth of tax receipts was 17.4 percent, basically due to tax receipts from the external economic activity resulting from the considerable increase of imports.

Revenue from VAT on domestic products decreased by 8.5 percent as compared to 2003, while revenue from VAT on imported products increased by 36.5 percent.

Revenue from profit tax increased by 0.6 percent as a result of considerable growth of profit at the real sector enterprises in 2004.

Revenue from personal income tax in 2004 (som 1442.9 mln.) increased by 19.4 percent as compared to 2003, basically, due to

<sup>1</sup> Preliminary data of KR MoF Central Treasury, excluding PIP.

<sup>2</sup> The indicator characterizing budget sustainability relative to debt servicing is calculated as the difference between the total revenue (including external transfers) and total expenditures, excluding interest payments.

increase of the number of economic entities transferred to the patent-based system of taxation. The voluntary patent rates were increased by 40.0 percent in average throughout the Republic beginning from April of the reporting year. The list of economic activities subject to mandatory patenting was shortened in 2004.

Revenue from excise tax on domestic and imported products increased by 7.0 percent. The main reason of growth was increase of output of alcoholic products, tobacco items and increase of imports of excisable goods. The rates of excise on gasoline were considerably reduced from som 1,500 to 800 and on diesel fuel - from som 500 to 200 per a ton.

Land tax receipts showed increased up to som 335.2 mln. The growth was 7.4 percent as compared to 2003. Collection of “customs duties” also increased by 6.3 percent (som 449.4 mln.).

State budget non-tax receipts in 2004 decreased by 7.6 percent as compared to 2003, and totaled som 3,418.9 mln. including som 192.3 mln. transferred to the state budget from the profit of the National Bank. Dividends from government share holdings decreased by 72.6 percent (from som 337.4 mln. to som 92.5 mln.). Special funds of the budget agencies increased in the reporting year by 18.5 percent as compared to 2003. Repayment of budget loans increased by 3.6 percent and totaled som 437.7 mln. in 2004.

The use of foreign credits and grants in the reporting year amounted to som 1,309.3 mln. (in 2003 – som 1,403.1 mln.).

### 1.2.2. State Budget Expenditures

State budget expenditures in 2004 increased by 11.5 percent as compared to the previous year. As before, state expenditures were directed to the full and timely financing of the state social guarantees. To ensure implementation of the measures on social mobilization, amendments were made twice to the KR Law “On republican budget of the KR for 2004”. This became possible as a result of improvement of the macroeconomic situation and increase of the budget revenues.

Expenditures on wage payments increased by 14.7 percent as compared to 2003, which was basically connected with the two times increase of the wage rates of the social workers – by 15 % each time since beginning of the year.

The Social Fund deficit in 2004 was covered by subventions from the republican budget in the amount of som 497.2 mln. Subventions decreased by 15.4 percent as compared to 2003.

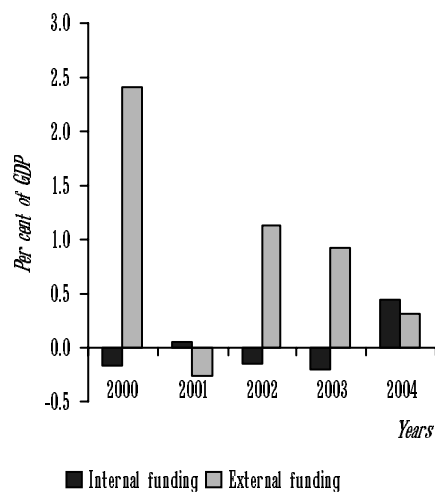
Interest payments on external loans (som 485.5 mln.) increased by 30.0 percent. The external debt service in 2004 totaled som 297.6 mln. and increased by 81.6 percent as compared to 2003.

Interest payments on short-term and long-term government securities in the reporting year amounted to som 62.0 mln. and som 346.5 mln. respectively.

Expenditures in the item “Capital expenditure” in 2004 increased by 5.9 percent as compared to 2003.

**Chart 1.2.3.1.**

State Budget Deficit Financing



Total expenditures on PIP projects in 2004 increased by 12.8 percent as compared to 2003 and totaled som 3,797.4 mln.; external financing excluding grants amounted to som 3,186.6 mln., domestic financing – som 255.8 mln.

### 1.2.3. Financing of the State Budget Deficit

The state budget deficit was covered from domestic and external sources. According to the data<sup>1</sup> of the KR MoF Central Treasury, domestic financing of the state budget deficit in 2004 amounted to som 416.1 mln., while the volume of external financing amounted to som 295.9 mln.

<sup>1</sup> Preliminary data.

### 1.3. Balance of payments of the Kyrgyz Republic for 2004

By and large, the balance of payments of the Kyrgyz Republic for 2004 was formed with positive balance of \$ 115 million. At the same time, the current account deficit increased by 49.7 percent as compared to 2003, having made 5.2 percent to GDP. The dynamics of the current account was determined by 27.9 increase of the trade balance deficit and by increase of the negative balance of revenues by 67.4 percent, and by the change of the balance of services from its positive point of \$ 9.4 million in 2003 to the negative one of \$ 22 million in the reporting year.

Foreign trade turnover, at f.o.b prices, totaled \$ 1632.2 million in 2004 which is higher by 24.2 percent than the similar 2003 indicator. Growth of trade flows was caused by the growth of import by 24.5 percent, and of export - by 23.8 percent. Trade balance deficit totaled \$ 170.8 million (in 2003, trade balance deficit was \$ 133.5 million).

Goods turnover with the CIS countries increased by 39.1 percent and totaled \$ 830.3 million, while turnover with the non-CIS countries - by 11.8 percent and totaled \$ 802 million.

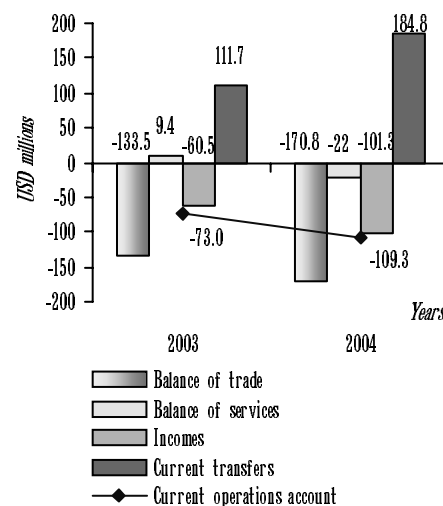
Export of goods, at f.o.b. prices, totaled \$ 730.7 million in 2004. Export of gold in value terms increased by 10.7 percent (in 2003 - by 59.6 percent) and totaled \$ 287.4 million as a result of the growth of world prices of gold in 2004. In natural values, export of gold in the reporting year reduced by 0.4 percent, while in 2003 it increased by 27.0 percent as against the previous year.

Export of other items, excluding gold, increased by 34.0 percent due to growth of export of consumer goods (by 60.9 percent), raw material (by 30.4 percent), energy products (by 20.6 percent), investment goods (by 6.4 percent). Export of "intermediate goods" category, gold is the main item in this category, increased by 11.4 percent. Increase of export of consumer goods was caused by the growth of supplies of sugar, electric incandescent lamps, vegetables, fruit, dairy products, and garments. The major exported raw materials were cotton, non-organic chemical substances, scrap-iron, and alloys of ferrous and non-ferrous metals. Growth of export of energy products was impacted by increase of electric power supplies and export of oil products (mainly, re-export of aviation kerosene). Apart from gold, cast glass, cement, and construction materials were exported in the category of "intermediate products".

In the geographic structure, 61.7 percent of exports fell on the non-CIS countries. The largest share of export, excluding the United Arab Emirates and Switzerland to which the gold is the main export item, fell on Canada and China. Export to the CIS countries made 38.3 percent in the total volume of all export supplies. The largest export supplies were made, as before, to Russia (50.0 percent of the total exports to CIS countries) and Kazakhstan (32.0 percent), and

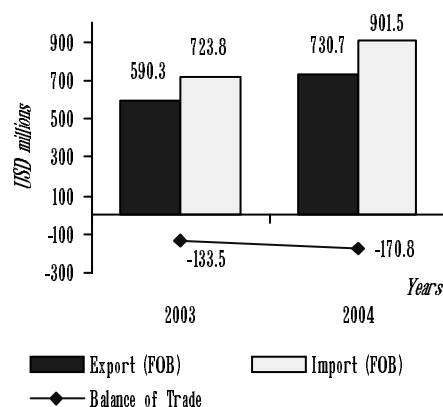
**Chart 1.3.1.**

Current account



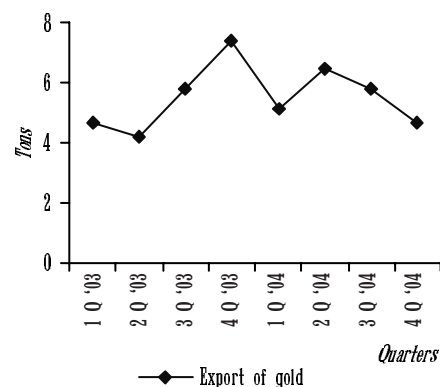
**Chart 1.3.2.**

Trade balance



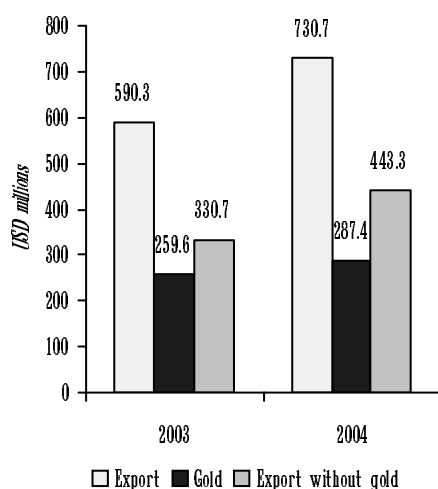
**Chart 1.3.3.**

Dynamics of gold export in natural value

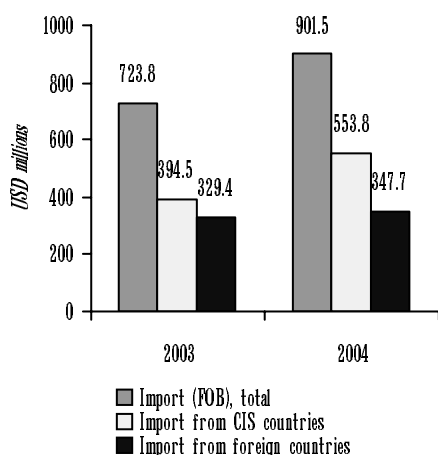


**Chart 1.3.4.**

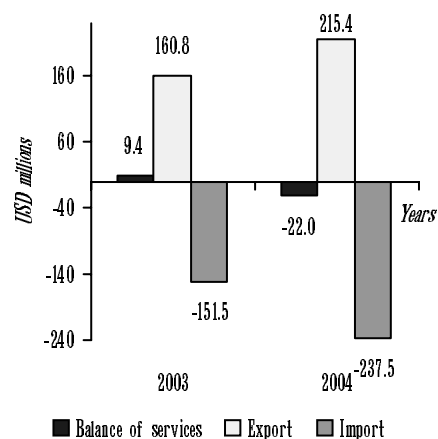
Gross export, export of gold, and exports excluding gold

**Chart 1.3.5.**

Import of goods to the Kyrgyz Republic

**Chart 1.3.6.**

Balance of international services



also to Tajikistan (8.0 percent) and Uzbekistan (5.0 percent). The major goods exported to the CIS countries were cotton, electric power, sugar, electric incandescent lamps, glass, cement, and construction materials.

Import of goods, at f.o.b. prices, totaled \$ 901.5 million and increased by 24.5 percent<sup>1</sup>. Growth of import was observed both from the CIS countries - by 40.4 percent and from the non-CIS countries - by 5.6 percent. The share of the CIS countries in the total volume of imports made 61.9 percent.

Growth of import was observed on all items of its functional structure. High rates of import growth (by 65.4 percent) fell to the following goods: raw material in the form of non-organic chemical substances, timber, raw tobacco material, stone, sand, and gravel. Growth of import of energy products was observed by 44.6 percent, in particular, due to the import of combustive-lubricating materials. Import of goods included in the category of "intermediate goods" increased by 36.0 percent due to growth of supplies of cast iron, steel, plastic, paper, cardboard, rubber tires, painting and tanning substances, fertilizers. The inflow of investment and consumer goods increased by 27.6 and 18.8 percent, correspondingly.

In the geographical structure of import the share of the CIS countries made 61.9 percent. The largest share of the total imports from the CIS countries still falls to the goods imported from Russia (50.0 percent), which increased by 56.1 percent as compared to 2003. Growth of import resulted from considerable supply of oil products, paper and cardboard, ferrous metal and ferrous metal products, car tires, food products, beer, pharmaceuticals, soaps and detergents, polishing solutions, paints and lacquers.

Import of goods from Kazakhstan increased by 11.2 percent, which was mainly caused by the large volume of imported oil products, wheat, sugar, cigarettes, beer, coal, vegetable oil, rolled ferrous metal, and other products. The share of Kazakhstan in the total volume of imports from the CIS countries made 34.7 percent.

The main suppliers of goods from the non-CIS countries were, as before, China (22.0 percent of the total volume of imports from the non-CIS countries), Germany (14.8 percent), the USA (12.0 percent), and Turkey (9.0 percent). The major products imported from these countries were pharmaceuticals, fabrics, plastic products, equipment for electric communication, essential oils, cars and equipment.

In 2004, the negative balance of international services was formed in the amount \$ 22.0 million, while in 2003 this indicator was positive, having totaled \$ 9.4 million. The negative balance of services

<sup>1</sup> Imports, at c.i.f prices, preliminarily totaled \$ 970.8 million in 2004, at the same time, the trade balance deficit totaled \$ 240.1 million.



was caused by the outstripping growth of import of services (by 56.8 percent) versus export (by 33.9 percent).

The upward tendency of the negative balance of income remained, whose deficit increased by 67.4 percent as compared to the previous year, and totaled \$ 101.3 million. Growth of the negative balance was impacted by increase of the payments on item "Reinvested income" by 2.7 times, as well as by the growth of income on other investments - by 30.5 percent and increase of interest payments on external loans, including private loans, which increased by 39.9 percent in the reporting year and totaled \$ 37.5 million.

The positive balance of the current transfers maintains its upward tendency, having exceeded in 2004 the indicator of the previous year by 65.4 percent. Growth was observed virtually in all items referring to current transfers, which is explained by the substantial 71.5 percent increase of the net inflow of current transfers of the private sector. This includes money postal orders made by the population, transfers of individuals through commercial banks, remittance made by individuals from abroad, and receipts in the form of trade grants to the private sector. The volume of transfers received by the public governance sector increased by 34.1 percent.

Capital and financial account (in its analytical concept) was formed with the positive balance in the amount of \$ 107.8 million (\$ 26.1 million in 2003). At the same time, the deficit of capital account was observed, while the financial account was positive as against 2003.

The negative balance of capital account totaled \$ 11.4 million (\$ -0.9 million - in 2003). Growth of the negative balance was caused by the 53.0 percent reduction of the inflow of grants in the form of capital goods. At the same time, the net outflow of capital transfers increased by 22.8 percent.

The positive balance of the financial account in 2004 totaled \$ 119.2 million as against the negative balance of \$25.2 million in 2003, which was caused by considerable growth of capital inflow of direct and portfolio investments.

The net inflow of direct investments to the Republic, excluding receipts from the partial sale of the shares of JSC "Kyrgyzaltyn" in "Centerra" company, decreased by 22.9 percent.

The net volume of portfolio investments decreased by 1.2 times and made the negative value of \$ 1.2 million in 2004. The net inflow of portfolio investments decreased by 3.3 times, while the outflow of resources decreased by 74.7 percent.

Increase of payments under the contracts of hedging gold prices, reflected in the account "Financial derivatives", up to \$ 20.5 million as against \$ 20 million in 2003 was connected with the growth of the world prices of gold.

Chart 1.3.7.

Balance of incomes

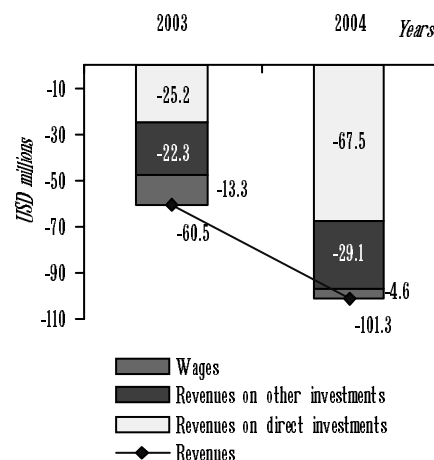


Chart 1.3.8.

Current transfers

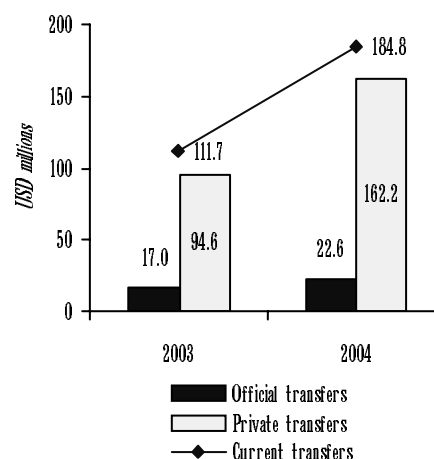
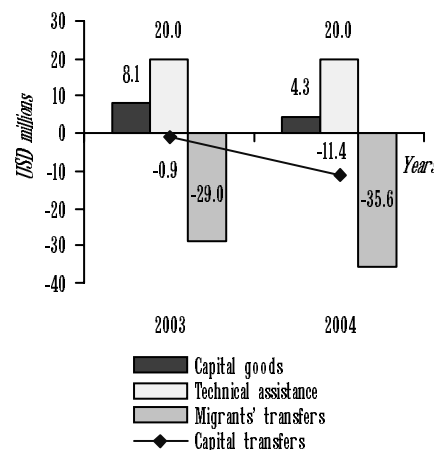


Chart 1.3.9.

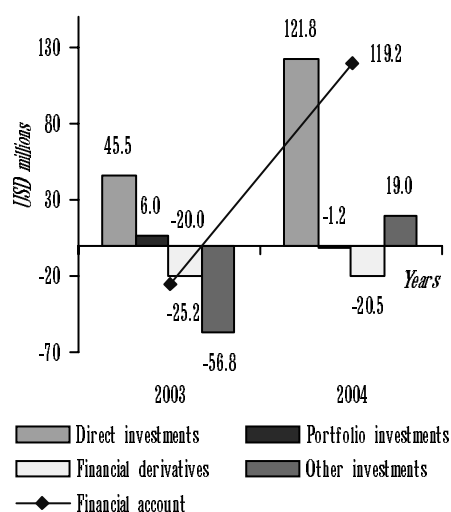
Capital account





**Chart 1.3.10.**

Financial Account



The positive balance of other investments totaled \$ 19 million as compared to \$ 56.8 million in 2003.

In terms of credits, the net inflow of resources in the reporting year totaled \$ 47.4 million. In 2003, on the contrary, the net outflow of funds on debt liabilities was observed in the amount of \$ 22.6 million. The public sector received credits to the amount of \$ 101.3 million, which was higher by 42.5 percent than in 2003. Receipt of credits by the private sector was reduced by 81.6 percent and totaled \$ 9.6 million. The total volume of depreciation payments on credits of the public and private sectors of economy totaled \$ 65.6 million.

Thus, by the outcome of 2004, the balance of payments of the Kyrgyz Republic developed as positive in the amount of \$ 115 million. At the same time, the item "Errors and omissions" totaled \$ 116.5 million, showing that certain channels of capital inflow to the Kyrgyz Republic were undercounted. The volume of international reserves increased by \$ 160.6 million, and totaled \$ 565.2 million as of the end of the reporting year, which provided coverage equal to 5.7 months of import of goods and services.

## 1.4. Financial Sector

### 1.4.1. Foreign Exchange Market

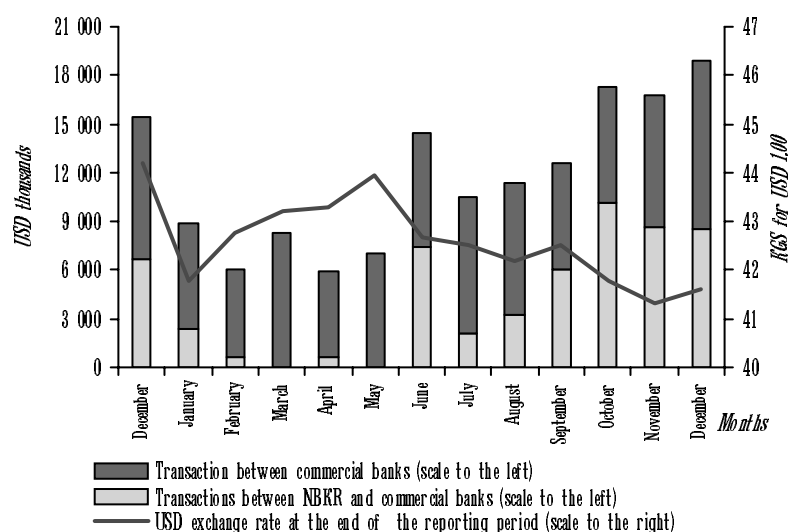
The republican foreign exchange market in 2004 retained the tendency towards strengthening of the national currency vis-a-vis US dollar. By and large, the rate of the US dollar depreciated by 5.81 percent in 2004, having made som 41.6246 for 1 US dollar as of the end of the year. Given that, the more stable situation was observed in the market as compared to 2003. The range of fluctuation of the US dollar exchange rate in the foreign exchange market as against its rate as of beginning of the reporting year decreased from 13.7 percent in 2003 to 8.4 percent, while in the exchange bureaus - from 15.3 to 8.1 percent, correspondingly.

Stabilization of the national currency rate was mainly due to the growth of foreign currency receipts from export of goods and services, increase of inflow of foreign currency in the form of deposits and money remittance, and weakening of the US dollar positions in the world financial markets. Growth of foreign currency supply in the market impacted the nature of exchange rate dynamics during the entire year. As a result, in certain months of 2004 (in January, October and November) strengthening of the national currency was observed which was not typical for these periods. At the same time, strengthening of correlation between the US dollar rate in the domestic market and the dynamics of its change in the external markets was registered in 2004.

Total turnover of the interbank foreign exchange market, including SWAP operations, practically did not changed as compared to 2003 and totaled \$ 138.8 million. At the same time, the volume of transactions in the foreign exchange tenders increased by 8.9 percent, up to \$ 133.3 million due to the growth of interbank transactions. Their share in the total volume of transactions increased from 61.4 to

**Chart 1.4.1.1.**

Operations in the Interbank Foreign Exchange Market in 2004



63.9 percent and totaled \$ 88.6 million. At the same time, the share of NBKR participation in the market decreased to 32.2 percent and totaled \$ 44.6 million. In the conditions of excess of supply over demand, the National Bank acted as a net buyer of the foreign currency. The total volume of SWAP operations decreased to \$ 5.5 million from \$ 15.8 million in 2003. Commercial banks conducted the main volume of these operations with the National Bank (to the total amount of \$ 5 million) for the purpose of replenishing national currency liquidity.

Total volume of operations on purchase and sale of foreign currency in exchange bureaus increased by 11.4 percent as compared to 2003, having made som 18.7 billion in the som value, with growth of operations being observed on all types of currency. The main volume of transactions was made in US dollars. Their share slightly decreased as against 2003 and totaled som 13.4 billion (71.6 percent). As for the dynamics of US dollar rate in exchange bureaus in 2004, it was overall similar to the dynamics of the rate in the interbank foreign exchange market. At the same time, the selling rate of the US dollar in exchange bureaus during the year was lower by som 0.07 on average than the average weighted US dollar rate in the interbank foreign exchange market. In the reporting year the selling rate of the US dollar in exchange bureaus decreased by 6.6 percent, having made som 40.95 for 1 US dollar as of the end of the year.

The shares of transactions with the Russian ruble and the Kazakh tenge in the structure of the foreign exchange operations conducted by the exchange bureaus increased up to 11.4 percent (som 2.1 billion) and 6.9 percent (som 1.3 billion), correspondingly. The share of exchange bureaus transactions with the common European currency totaled som 1.5 billion, or 8.2 percent. The volume of exchange bureaus' transactions conducted by the exchange bureaus on other currencies (Chinese yuan, Swiss frank, English pound sterling, Uzbek sum) decreased by 26.6 percent and made som 356 million, or 1.9 percent of the total volume of foreign exchange operations. At the same time, the exchange rate of Euro vis-a-vis som in the reporting year increased by 2.5 percent, Kazakh tenge - by 4.3 percent, while the rate of the Russian ruble decreased by one percent.

#### **1.4.2. Interbank Credit Market**

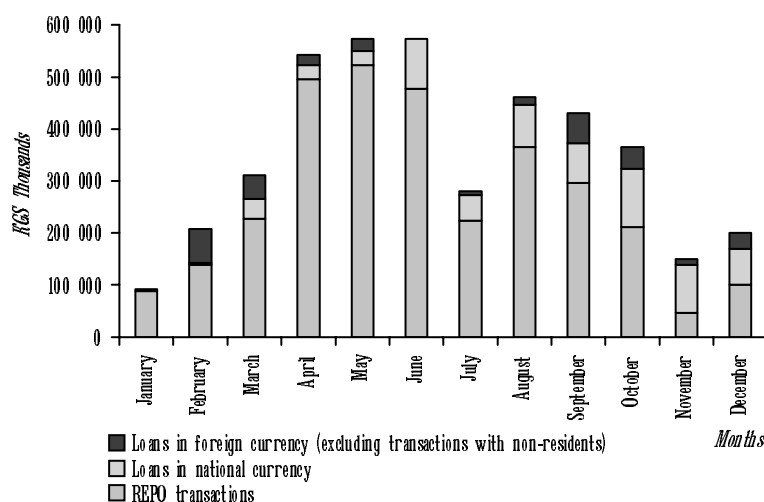
Substantial increase of the volume of interbank borrowings became the peculiar feature of the republican financial market in 2004. The volume of transactions in this segment of the market increased by 2.1 times and made som 4.2 billion as compared to the previous year, thus reaching the highest record value for the period since 2000. One of the reasons of the considerable growth of interbank crediting was increase of demand for financial resources by the commercial banks caused by activation of their work in the sphere of real sector crediting. At the same time, the inflow of foreign capital to the banking system of the Republic and improvement of the liquidity management in the banks also facilitated the growth of interbank

credits. Increase of the volume of State Treasury Bills in the portfolio of the commercial banks expanded their opportunities to attract interbank resources in the secondary market of the State Treasury Bills through conducting REPO operations.

The situation in the interbank credit market in 2004 was developing under the impact of changes in liquidity level and seasonal fluctuations of demand for financial resources. Thus, in the first and fourth quarters the volume of some borrowings in the interbank credit market was insignificant, against the background of high liquidity level in the banking sector, at the same time the level of interest rates was decreasing below the average annual rate. In the second and third quarters, due to decrease banks' balance of funds at the NBKR correspondent accounts and increase of liquidity concentration, commercial banks increased their activity in this segment of the money market. Increase of the value of loan resources was simultaneously observed. The largest volume of interbank credits as well as maximum values of interest rates were registered in June, when liquidity in the banking system reached its minimal level.

**Chart 1.4.2.1.**

Volume of Transactions in the Domestic Interbank Credit Market



By and large, in 2004 the volume of operations in national currency in the domestic interbank credit market increased by 2.2 times, having made some 3.87 billion. As in 2003, REPO transactions made the main volume of operations, accounting for 82.6 percent of operations.

Increase of demand of commercial banks for loan funds impacted the growth of their value. An average annual rate of interbank credits in national currency increased by 0.2 percentage points and made 4.8 percent, while the rate of REPO transactions increased from 4.1 percent in 2003 to 5.0 percent. Increase of the rates of REPO transactions was also connected with the growth of maturity of these operations, whose average weighted indicator increased from 4 to 7 days. Unlike nominal interest rates, the average annual level of real interest rate on interbank loans decreased: on REPO transactions

- from 1.2 to 0.9 percent, and on credits in national currency - from 1.8 to 0.8 percent.

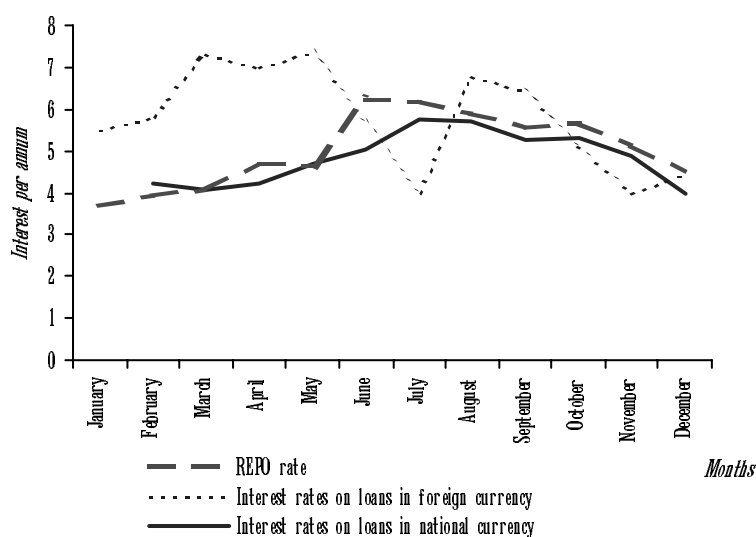
Expansion of the market of interbank credits was accompanied by the change of its qualitative characteristics. The number of the banks lending funds almost double increased, and the number of creditors exceeded the number of borrowers by the same size. At the same time, growth of volatility of the rates in the interbank market was observed, which was explained by more significant seasonal fluctuations of liquidity in the banking system as compared to the previous year. The range of fluctuations of the rate of REPO transactions, constituting the basis of interbank borrowings, increased to 3.8 percentage points as against 1.5 percentage points in 2003.

The foreign exchange segment of the domestic credit market is less developed. Its share in the total volume of interbank borrowings made 7.9 percent in the reporting year, however, growth of transactions was observed in this area as well. In 2004, the volume of interbank credits in foreign currency increased by 32.0 percent as compared to the previous year, and totaled som 331.9 million. The development dynamics of this segment of the market, apart from demand and supply fluctuations, was also determined by fluctuations of the US dollar rate. In the first half of the year, due to constrained supply of foreign currency in the market, as well as due to appreciation of the US dollar rate, the value of credits in foreign currency was going up. At the same time, the rates of these credits were noticeably exceeding the similar indicator of borrowings in som. In summer season reduction of demand for credits in foreign currency was observed, which was connected with the considerable inflow of foreign currency to the Republic. Increase of foreign currency balances in the commercial banks accompanied by depreciation of the US dollar rate resulted in the reduction of the rates of foreign currency loans, observed in the second half of the year.

By and large, in 2004 the average annual level of rates on

**Chart 1.4.2.2.**

Dynamics of Interest Rates in the Domestic Interbank Credit Market



credits in foreign currency provided in the domestic interbank market slightly decreased (by 0.15 percentage points), having made 5.8 percent. At the same time, the range of fluctuations of the interest rates on foreign currency credits slightly shrank in the reporting year, but still remained quite wide - from 3.1 to 11.2 percent. Increased volatility of the rates of credits in foreign currency as compared to the loans in national currency is explained to a greater extent by the weak competition in this segment of the market, and by the wide dispersion of the term of operations. An average weighted term of credits in foreign currency made 87 days in 2004, having increased by 27 days as against 2003.

Along with interbank lending in the domestic market, some commercial banks were conducting transactions with foreign banks in 2004. The volume of such operations in 2004 increased by more than twice. The volume of interbank credits in foreign currency received from non-resident banks reduced by 27.0 percent as compared to 2003.

### 1.4.3. Government Securities Market

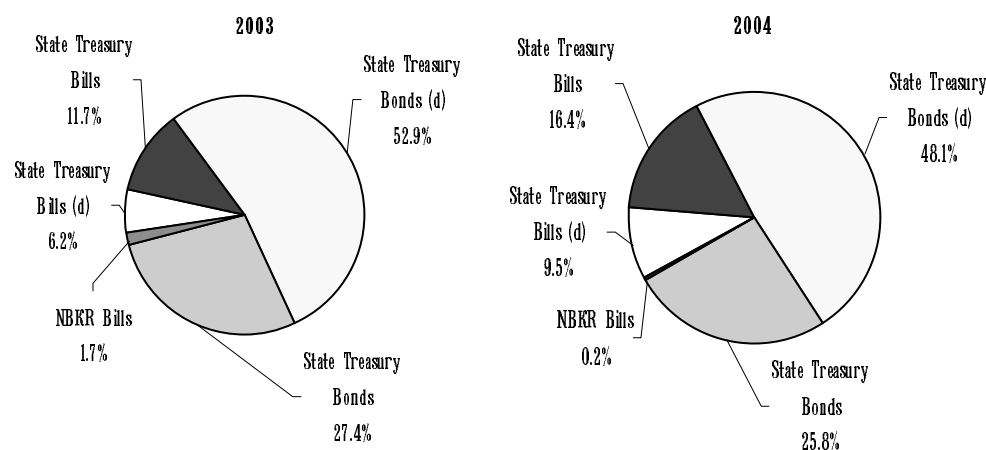
The following securities were in circulation in the market of government securities in 2004:

- State Treasury Bills (STB);
- State Treasury Bills (regularization) (STB(r)) and State Treasury Bonds (regularization) (GKO (r))
- State Treasury Bonds (GKO);
- National Bank Notes (NBKR notes)

State Treasury Bills are the short-term securities issued by the KR Ministry of Finance with the term of circulation up to 1 year. Treasury Bills are issued into circulation through their placement in the primary market - STB, as well as through the process of restructuring of the KR Government debt to the KR National Bank - STB (r). Treasury Bonds of the KR Ministry of Finance are the long-term securities with the term of circulation exceeding one year. The main portion of them was also issued within the framework of the process of regularization of the KR Government debt to the KR

#### Chart 1.4.3.1.

Structure of the Government Securities Market



National Bank. The NBKR Notes represent the short-term securities issued by the National Bank of the Kyrgyz Republic.

Total volume of government securities in circulation increased by 2.6 percent in 2004, and made som 5809.6 million by the end of the year. Growth of the volume of the government securities was ensured by increase of the volume of STB placed in the primary market for the purpose of financing state budget deficit. At the same time, the volume of the State Treasury Bonds decreased due to expiry of the term of circulation of some of them, and transformation of the part of GKO(r) into STB(r). As a result, the share of the short-term securities - STB and STB(r) - noticeably increased in the structure of the total volume of government securities, while the share of GKO and GKO(r) decreased.

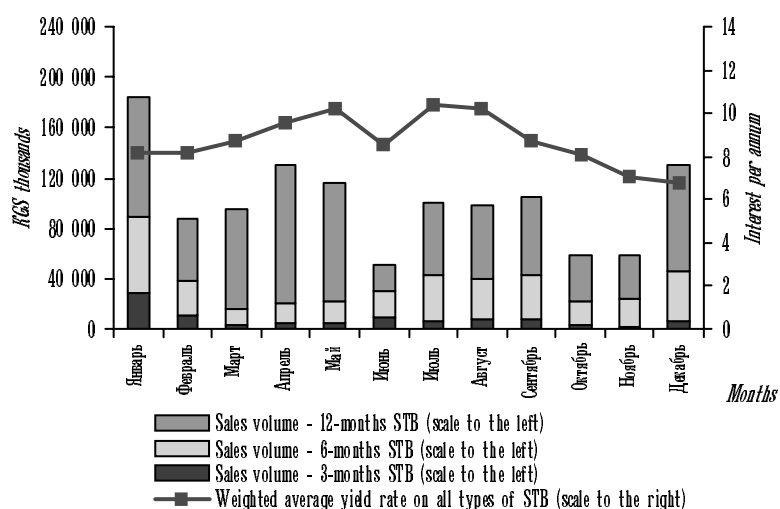
#### 1.4.3.1. State Treasury Bills

State Treasury Bills placed by the KR Ministry of Finance in the primary market (STB) represent the short-term discount government securities issued into circulation for the period of 3, 6 and 12 months for the purpose of financing the state budget deficit. The primary STB placement is conducted by the National Bank at the weekly auctions. Participants of the auctions are commercial banks acting as primary dealers, and other financial-crediting institutions that meet the requirements established by the National Bank. Individuals and legal entities may participate in the STB auctions via primary dealers. Apart from holding auctions, the KR Ministry of Finance can make additional (non-auction) placement of the STB amongst the population via the oblast divisions of the National Bank.

In 2004, the KR Ministry of Finance continued to increase the volume of STB in circulation, whose growth had been observed since 2000. At the same time, following the policy of borrowing "longer" money and taking into account the market preferences, the Ministry of Finance changed the structure of STB issuance in favor of long-term 12-month bills. As a result, the total volume of STB sales increased

**Chart 1.4.3.1.1.**

Sales and Average Weighted Yield of STB Auctions





by 32.0 percent for the year, reaching some 1217.6 million. At the same time, the main volume of the STB issuance fell on 12-month bills, whose share in the structure of sales increased to 64.2 percent, or by 22.2 percentage points. The shares of 3-month and 6-month STB decreased to 8.1 and 27.7 percent, correspondingly.

Price developments in the STB primary market were developing in 2004, first of all, under the impact of the STB issuer's policy on state debt management, and secondly, depending on liquidity fluctuations in the banking system and banks' preferences on the term of investment into securities. The important factor determining the dynamics of the STB yield was increase of competitiveness in the STB market caused by increase of demand of the commercial banks for treasury bills. As a result, the level and volatility of interest rates in all segments of the STB market decreased noticeably as compared to 2003. By and large, the average level of STB yield decreased from 10.3 to 8.5 percent during the year, including that the yield of the 3-month STB decreased by 2.4 percentage points and made 4.9 percent, of the 6-month STB – by 3.5 percentage points, up to 6.4 percent, and of the 12-month STB – from 11.8, to 10.2 percent. Given this, the general range of fluctuation of the interest rates in all STB segments decreased from 12.6 to 9.6 percentage points. It should be noted that historical minimums were registered in December 2004: the yield of the 6-month STB fell to 4.5 percent, while of the 12-month STB – to 7.9 percent.

As of 1 January 2005, the total volume of the STB in circulation made some 954.9 million, having increased in 2004 by 43.8 percent. Due to the change of the structure of the STB sales in favor of the 12-month bills, the duration<sup>1</sup> of the total volume of the STB in circulation increased to 44 days and by the end of 2004 made 327 days.

The commercial banks remained as the key STB holders. In 2004 their portfolio increased by some 306.4 million, and as of 1 January 2005, made 90.9 percent of the total volume of STB in circulation. Increase of the STB portfolio was observed in most of the commercial banks and was accompanied by reduction of the concentration and more equal distribution of the STB among the banks. At the same time, reduction of the STB volume owned by individuals and legal entities was observed in 2004. The share of individuals in the structure of the STB holders decreased during the year by 4.0 percentage points, reaching 3.1 percent, while the share of the legal entities decreased from 8.3 to 1.7 percent. Non-residents became the STB holders in the reporting year (for the first time since 1998). However their share is yet insignificant, having made 0.1 percent of the total STB volume as of the end of the year. The structure of the STB holders also included the National Bank which was receiving the STB from commercial banks as mortgage when conducting REPO operations. As of 1 January 2005, the securities portfolio of the KR National Bank included the STB to the amount of some 40.5 million, or 4.2 percent of the total STB volume in circulation.

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<sup>1</sup> Average weighted duration of the STB circulation

Expansion of the STB portfolio in the assets of commercial banks impacted the growth of operations with treasury bills in the secondary market, mainly, when conducting REPO operations. The volume of the interbank REPO operations increased by 2.2 times as against the previous year, having made som 3,191.2 million, while the volume of direct REPO operations with the National Bank increased by 2.4 times, reaching som 432.7 million. Operations on STB sale/purchase prior to repayment were rarely conducted by the banks, however, their volume for the reporting year increased by 5.0 percent as compared to the previous year, having made som 35.7 million.

#### 1.4.3.2. NBKR Notes

The Notes of the National Bank of the Kyrgyz Republic (hereinafter referred to as the notes) represent the short-term securities with the duration up to one month (7, 14 and 28 days), issued and placed by the National Bank at the weekly auctions. The volume of issued notes was determined by the tactical tasks of the monetary policy and liquidity level in the banking system. This type of government securities is one of the least risky income-generating financial tools for the banks.

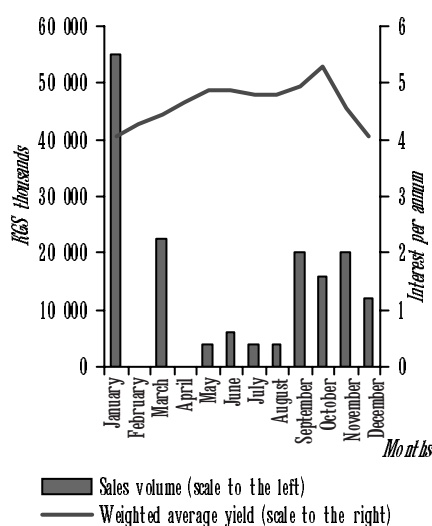
During the first 8 months of 2004, the primary market of the notes was characterized by the high level of concentration and weak demand of the commercial banks, which preferred to invest into other tools of financial market with the higher yield level and longer period of circulation. One of the reasons of the weak and unstable demand for the notes by commercial banks was liquidity deficit in the banking system, observed in the summer season; as a result, most of the auctions of the notes were not held during that period. Thus, from January through August, out of announced 34 auctions – only 9 were held, however, the volume of issuance changed quite widely - from som 1 to 30 million. At the same time, the nominal yield of the notes during that period was quite stable.

Since September demand for the NBKR notes started increasing due to liquidity growth in the banking system, and due to decrease of the issued volume and reduction of the yield of other financial tools of the money market. Auctions of the notes started to be regularly held, and the sales got stabilized at the level of som 4 million. Low competitiveness in the primary market of the notes in September-October caused increase of the average weighted level of yield of these securities to 5.5 percent. Decrease of inflation rates and the corresponding growth of the real yield of the notes in November led to increase of competitiveness in this segment of the market, as a consequence, resulting in reduction of the nominal interest rate. In December the yield of the notes got stabilized at the level of 4.0-4.1 percent.

By and large, in 2004 the yield of the 28-day NBKR notes had no changes and made 4.0 percent as of the end of the year. At the

**Chart 1.4.3.2.1.**

Sales and Average Weighted Yield at the Auctions of NBKR Notes



same time, the average weighted yield of the notes increased by 0.5 percentage points as compared to 2003, having made 4.7 percent. The total volume of sales at auctions made som 163.5 million, having increased by 36.3 percent as compared to 2003. As of 1 January 2005, the volume of NBKR notes in circulation was som 12 million and was part of the portfolio of the commercial banks.

#### 1.4.3.3. Other government securities

In contrast to STB, issuance of other government securities of the KR Ministry of Finance was performed through restructuring of the debt of the Ministry of Finance to the National Bank and other financial and economic subjects. This includes the State Treasury Bonds of various series (GKO), as well as Government Regularization Securities - Treasury Bills (STB(r)) and Treasury Bonds (GKO(r)). The National Bank is the key holder of these securities, whose portfolio has more than 90.0 percent of GKO and the full package of Government Regularization Securities (GRS).

The GKO structure was replenished during the year with the new treasury bonds issued by the Ministry of Finance against repayment of the debt to non-banking institutions and depositors of the bankrupt banks. Their sum totaled som 33.5 million, and the term of circulation was 7 years, given that the part of the principal amount on these securities was repaid in 2004. At the same time, the KR Ministry of Finance met its engagements and repaid the debt on treasury bonds issued during the last years to the total amount of som 195.1 million (including som 91 million of the principal sum). As a result of operations held by the Ministry of Finance, the volume of outstanding in 2004 GKO reduced by 3.7 percent and made som 1,496.1 million as of January 1, 2005.

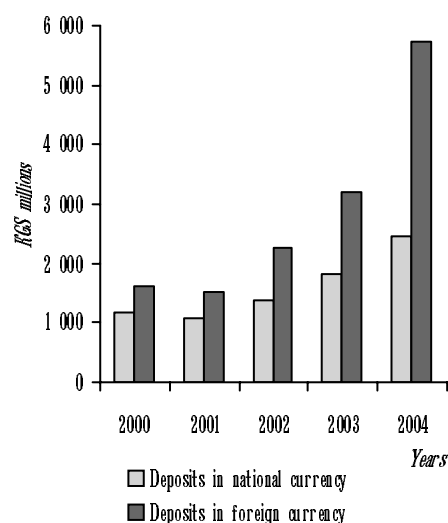
The total balance of the Ministry of Finance's debt on GRS for the reporting year had no changes, having made som 3,346.6 million. However, the structure of this package of securities changed. The part of the long-term GKO(r) was restructured into short-term STB(r) with the term of circulation of 6 and 12 months, as a result, the balance of the debt on STB(r) increased by som 200 million, and totaled som 550 million as of the end of the year, while the volume of GKO(r) decreased to som 2796.6 million, correspondingly.

#### 1.4.4. Deposit and Credit Market

The stable macroeconomic situation, economic growth, reduction of inflation rate and strengthening of the national currency in the reporting year facilitated the dynamic development of the deposit and credit market. By and large, in 2004 the volume of deposits of the banking system increased to som 8.48 billion, exceeding by 1.5 times their level as of beginning of the year, while the credit portfolio increased to som 6.55 billion, or by 68.1 percent. At the same time,

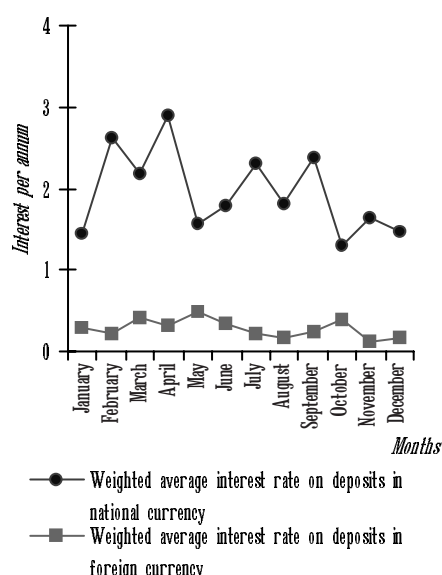
**Chart 1.4.4.1.**

Volume of Deposits with Operating Commercial Banks (as of the end of the period)



**Chart 1.4.4.2.**

Interest Rates of Newly Attracted Deposits



the balance of deposits in the banks that are under liquidation was reduced by almost twice due to repayment of the portion of the deposits and due to restructuring of the debt to depositors of the bankrupt banks<sup>1</sup> into the state treasury bonds. The credit portfolio of the banks that are under liquidation decreased by 26.0 percent during the year due to return of credits. Thus, the total amount of deposits in the banks under liquidation made som 274.8 million as of the end of the year, or 3.2 percent in the total volume of the deposit base of the banking system, while the credit portfolio totaled som 740.7 million, or 11.3 percent.

Improvement of the indicators characterizing effectiveness of the financial mediation of the banking system was observed in 2004. Thus, the ratio of the deposit base and the credit portfolio to GDP for the reporting year increased by 2.4 percentage points and made as of the end of the year 9.0 and 7.0 percent, correspondingly, while the ratio of the value of the credit portfolio to the deposit base increased from 70.2 to 77.2 percent.

The growth rate of the deposit base in the operating commercial banks made 63.5 percent, and it's volume reached som 8.2 billion by the end of the year. Growth of deposits was observed in most of the commercial banks and on all deposit categories. As a result, the share of deposits in the structure of the banks' obligations increased from 44.5 to 47.0 percent, and in the total volume of money supply (M2X) - to 41.2 percent, or by 8.9 percentage points. The main portion of the increased deposit base was ensured by deposits in foreign currency, whose growth rate was higher than the corresponding indicator of deposits in the national currency. As a result, the share of deposits in foreign currency in the total volume of deposit base increased from 63.7 to 70.0 percent in the reporting year.

The main category that ensured expansion of the deposit base of the commercial banks were demand deposits of the legal entities, whose share in the total volume of deposits made 60.3 percent as of the end of the year, while the rate of growth in 2004 reached 75.4 percent. Two-third of growth of the entire deposit base was ensured by increase of this deposit category. Time deposits of the legal entities and deposits of the population were also increasing, but to a lesser extent. Deposits of the individuals, whose share made 25.4 percent as of the end of the year, increased by 45.6 percent. At the same time their growth rate was higher than in 2003 (36.8 percent). Deposits of the individuals reached som 2.08 billion by the end of the reporting year, having exceeded the pre-crisis level of 1998.

Expansion of the deposit base was accompanied by the process of further diversification of funds of enterprises and individuals amongst the banks. Index of deposit market concentration decreased by 0.7 percentage points, and made 8.5 percent as of the end of the year, which is equivalent to distribution of market amongst the twelve

<sup>1</sup> JSB "Mercury", JSB "Kurulush-bank" and JSB "Insan".

banks and shows its low concentration, thus facilitating increase of competitiveness. Decrease of concentration was observed on all deposit categories.

The total volume of the newly attracted deposits<sup>1</sup> increased by almost 3 times as compared to 2003 годом, having made som 101.6 billion. The main portion of flow (about 73.0 percent) was ensured by only one commercial bank, servicing current accounts in foreign currency of the non-resident individuals. Excluding deposits of this bank, the volume of attracted funds totaled som 27.5 billion, which is by 16.4 percent higher than in 2003. The flow of deposits in foreign currency also increased by 7.9 percent as compared to 2003, and totaled som 21.6 billion.

Along with the growing flow of new deposits, decrease of interest rates was observed. The average annual rate of national currency deposits decreased by 0.5 percentage points and made 2.0 percent, while in foreign currency – from 0.5 to 0.3 percent. Also, the interest rate of time deposits in national currency decreased from 8.8 to 8.5 percent and in foreign currency – from 5.8 to 5.6 percent. Significant role in the decrease of the total value of deposits was played by increase of the share of demand deposits.

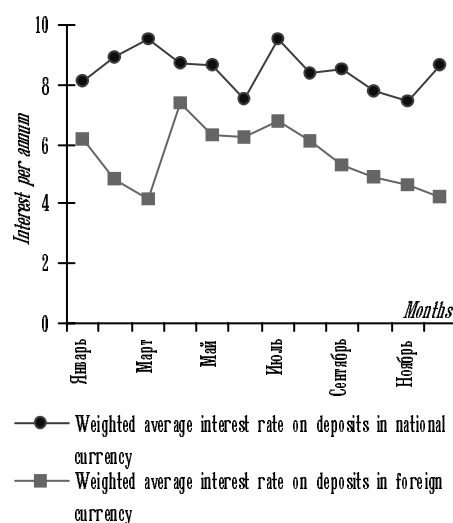
Expansion of the resource base of the banking system, as well as the inflow of the foreign currency to the banking system of the Republic facilitated the rapid growth of real sector crediting. By and large, in 2004 the credit portfolio of the operating banks double increased, having made som 5.8 billion as of the end of the year. Increase of the loan debt had the system nature: growth of credits was observed in most of the banks, virtually, in all industries and on all types of maturity, both in national and foreign currency. At the same time, the growth rate of credits in foreign currency exceeded the growth rate of som credits. If the first category increased by 2.3 times, to som 4.1 billion, then the second one - by 1.5 times up, to som 1.7 billion. As a result, the share of the credit portfolio in the foreign currency increased from 61.1 to 70.3 percent during the year.

Growth of credit portfolio was accompanied by its quality improvement. The share of the outstanding debt in the aggregate credit portfolio of the operating commercial banks decreased by 1.6 percentage points and made 3.1 percent at the end of 2004. At the same time, the reserve actually created by the banks to cover potential credit losses was fully corresponding to the volume of outstanding credits. Another positive tendency in 2004 was the increase of the share of long-term credits in the temporary structure of the credit portfolio - from 21.7 percent in 2003 to 27.5 percent. As a result, duration<sup>2</sup> of the credit portfolio increased from 12.7 to 14.8 months.

Unlike the deposit market, the credit market in 2004 was characterized by the higher level of concentration, though the

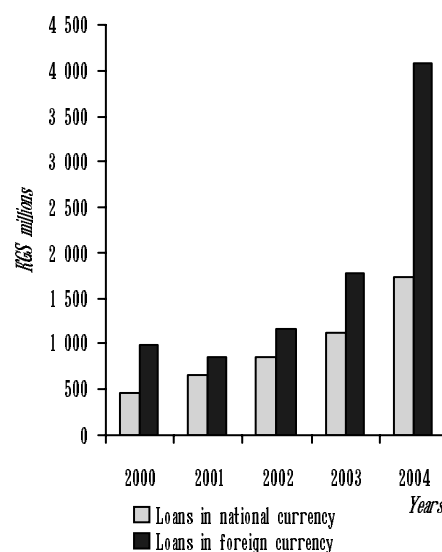
**Chart 1.4.4.3.**

Average-weighted Interest Rates of Newly Attracted Time Deposits



**Chart 1.4.4.4.**

Volume of Credits in Operating Commercial Banks (as of the end of the period)



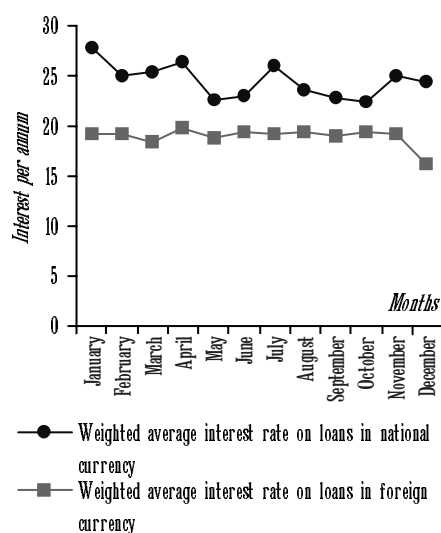
<sup>1</sup> Receipt of funds to the demand accounts of the legal entities are not accounted in the volume of newly attracted deposits.

<sup>2</sup> Average weighted term before repayment.



**Chart 1.4.4.5.**

Average-weighted Interest Rates of Newly Extended Credits



concentration index of the credit portfolio of the banks decreased by 0.2 percentage points, and made 10.7 percent as of the end of the year, which is equivalent to distribution of market amongst the nine banks.

The volume of the newly extended credits in 2004 totaled som 8.4 billion, which exceeded by 71.3 percent the similar indicator of the previous year. Also, the flow of credits in national currency increased by 1.3, times, having reached som 2.6 billion; while the volume of new credits in foreign currency - by 2 times, having made som 5.9 billion. The largest volume of funds was directed by the commercial banks to development of trade, its share in the total flow of lending increased by 15.2 percentage points, up to 49.2 percent. The volume of lending for construction and purchase of houses increased by almost 4 times, as a result the shares of these branches increased to 5.9 and 3.8 percent, correspondingly. In 2004, increase of lending to industry was observed (its share in the total volume made 17.7 percent), households (9.0 percent), agriculture (1.3 percent), procurement and processing (1.4 percent). The volume of lending to transport, communication, social services and other sectors decreased in 2004.

Stable macroeconomic situation and decrease of the value of the resource base of lending allowed the banks to reduce credit rates. The average annual level of interest rates of credits in national currency decreased by 0.5 percentage points for the year, and made 24.5 percent; rates of credits in foreign currency - by 0.3 percentage points, to 18.9 percent. Decrease of interest rates on new credits was observed practically on all categories and sectors; at the same time, volatility of rates noticeably decreased. The largest reduction of the rates was registered on credits to sectors of industry and procurement and processing of raw materials, making 6.2 and 7.8 percentage points, correspondingly.

Along with reduction of nominal interest rates, more significant reduction of the real cost of credits was observed in the reporting year. The average annual real interest rate on credits in national currency decreased by 1.7 percentage points as compared to 2003, and made 19.8 percent, reaching the minimal value for the period since 2000. Thus, credit resources were more available in the reporting year as compared to 2003, which in turn encouraged demand and promoted growth of lending.

Reduction of rates on newly extended credits led to decrease of an average weighted interest rate in national currency from 25.2 to 24.1 percent, and in foreign currency - from 20.4 to 18.0 percent. As a result, margin on deposit-credit operations in national currency decreased from 21.7 to 20.5 percentage points, and in foreign currency - from 18.4 to 15.9 percentage points.

Non-banking financial and crediting institutions of the Republic, licensed by the National Bank, also took active participation in the

process of lending to economy in 2004. The aggregate credit portfolio of these organizations totaled som 2771.9 million as of 1 January 2005, having increased by 38.0 percent as compared to the beginning of the reporting year. At the same time, the average level of interest rates on new credits extended by the largest non-banking financial and crediting institutions (Kyrgyz Agricultural Financial Corporation and Financial Company for Support and Development of Credit Unions) decreased by 0.5 percentage points as compared to 2003 - to 16.9 percent, while the value of their credit portfolio decreased for the year from 17.4 to 17.0 percent.



## CHAPTER 2

## MONETARY POLICY

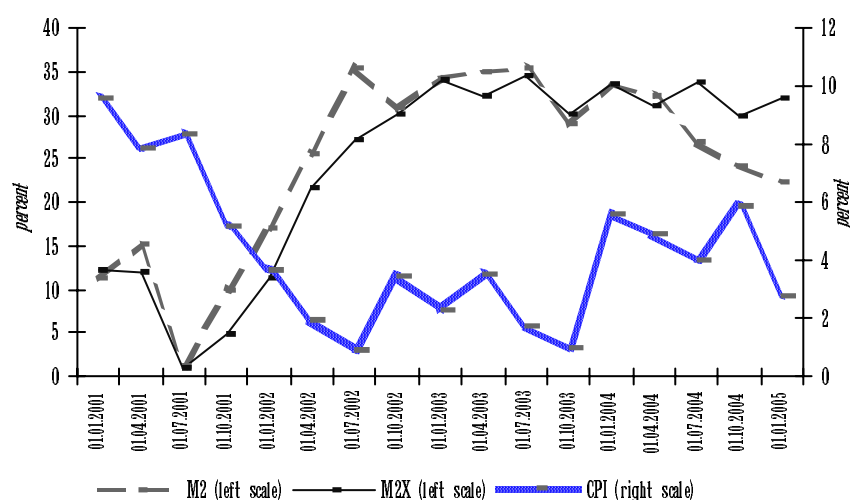
## 2.1. Targets and effects of the monetary policy

The goal of the monetary policy, as determined in the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic", is to maintain price stability. The growth rate of the Consumer Price Index (CPI) was the main indicator reflecting achievement of the monetary policy target in 2004. In the Joint Statement of the Government and the National Bank of the Kyrgyz Republic on main directions of the economic policy for 2004, the CPI was determined at the level not higher than 4.5 percent (December 2004 to December 2003).

The actual inflation rate to the outcome of 2004 was 2.8 percent. For the recent years, the downward tendency in rates of inflation growth has been observed, which demonstrates certain stability of the general price level and positive outcome of the implemented monetary policy.

**Chart 2.1.1.**

Dynamics of Money Aggregates Growth and CPI (in annual terms)



Despite the high nominal rates of money aggregates growth, inflation retained a non-monetary nature in the reporting year predominantly.

In contrast to the previous years, among monetary aggregates, the broad money M2X showed the highest growth rates, and its nominal growth at the end of 2004 was 32.0 percent, which is by 1.5 percentage points lower than the level of 2003. The lowest rate of growth was observed in the money aggregate M0 - money outside banks, that growth rate was 19.4 percent, having decreased by 16.1 percentage points as compared to 2003.

**Table 2.1.1.**Dynamics of Money Aggregates  
(in percent)

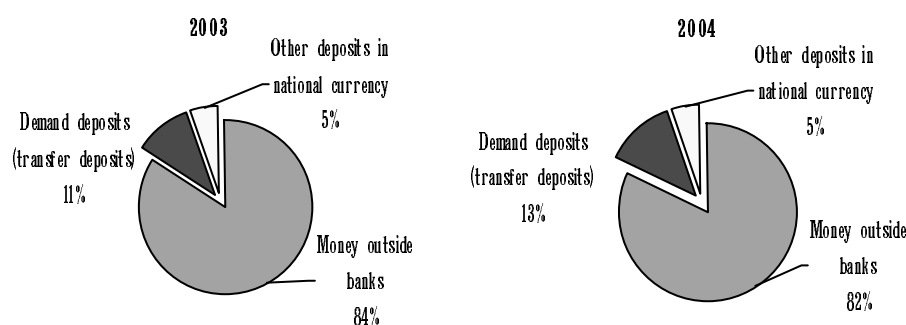
	2000	2001	2002*	2003	2004
Money base	11.2	11.6	42.9	31.6	22.9
Money outside banks (M0)	15.0	22.0	36.9	35.5	19.4
Narrow money (M1)	12.0	20.5	38.1	35.1	22.6
Broad Money (M2)	11.3	17.1	34.2	33.5	22.4
Broad Money (M2X)	12.1	11.4	34.0	33.5	32.0

\* Since 2002 deposits are reclassified in accordance with the IMF requirements on monetary and financial statistics.

In 2004 monetary aggregate M2 increased by 22.4 percent (in 2003 - by 33.5 percent). Increase of the share of non-cash component was observed in the structure of monetary aggregate M2, resulted from exceeding growth of deposits as against increase of cash money. At the same time, demand deposits were increasing at higher rates as compared to the growth of other deposits.

**Chart 2.1.2.**

Structure of Monetary Aggregate M2 (as of the end of the period)



Monetary aggregate including deposits in foreign currency M2X totaled som 19379.3 million as of 1 January 2005. The main source of the monetary aggregate M2X expansion was the growth of net international reserves of the NBKR<sup>1</sup> and, to a lesser extent, the inflow of net foreign assets of the commercial banks. The total impact of these factors on M2X growth made 56.2 percent.

The National Bank used the commercial banks excess reserves as the operating guideline of the monetary policy. The liquidity level in the banking system was regulated through the monetary policy tools and was directed to support the balance in the money market.

The average monthly volume of excess liquidity of the banking system in 2004 increased by more than 1.5 times as compared to 2003. As the high concentration of excess liquidity was typical for

<sup>1</sup> In this context, crucial impact on the growth of net international reserves of the NBKR was made by: (a) net purchase by the NBKR of the foreign currency in the domestic market; (b) receipt of unplanned grants. Sale of the shares of one of the large gold-mining enterprises in the foreign market also increased drastically net international reserves of the NBKR, however, at the same time decreasing net domestic assets of the NBKR; thus, not impacting monetary aggregate M2X.

**Chart 2.1.2.**

Monetary Review (as of the end of the period)  
(in million of soms, unless indicated otherwise)

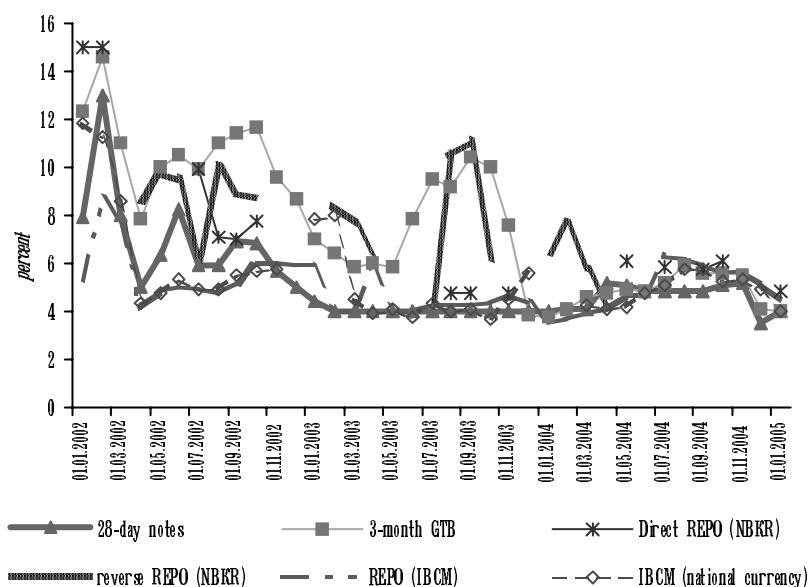
	2003	2004	Rate of growth, percent	Impact on M2X, percent
Net foreign assets	10 573.7	18 825.0	78.0	56.2
Long-term foreign liabilities	-2 451.6	-2 335.7	-4.7	0.8
Net domestic assets	6 554.3	2 889.9	-55.9	-25.0
Including:				
Net claims on Government	5 591.3	1 100.1	-80.3	-30.6
Claims on other sectors	3 917.1	6 567.4	67.7	18.1
Including:				
Domestic credits	1 227.1	1 836.9	49.7	4.2
Foreign currency Credits	2 690.0	4 730.5	75.9	13.9
Other items	515.7	-586.7	-213.8	-7.5
Stock transactions account	-3 469.8	-4 190.9	20.8	-4.9
Monetary aggregate (M2X)	14 676.4	19 379.3	32.0	32.0
Including:				
Money outside banks	9 315.1	11 124.0	19.4	12.3
Deposits of other depositary corporations	5 361.3	8 255.3	54.0	19.7

only few banks, the expected impact on reduction of nominal rates took no place. Nominal interest rates on national currency monetary assets in the interbank market increased (exceeding an average monthly discount rate by maximum 0.32 percentage points, including the NBKR operations - by 1.27 percentage points). The average annual discount rate in 2004 was at the level of 4.7 percent.

Keeping of the interest rates low level in the money market on

**Chart 2.1.3.**

Interest Rates of the Money Market



national currency resources became the important outcome of the monetary policy implemented by the National Bank of the Kyrgyz Republic. At the same time, maximum spread of average monthly interest rates in the interbank money market made 2.2 percentage points in 2004, while the total volume of operations increased by more than 2 times.

Increase of the foreign capital in the banking system share, inflow of direct foreign investments, weakening of the US dollar in the world markets facilitated the excess supply of foreign currency and determined the nature of the NBKR operations in the domestic foreign exchange market in 2004. The volume of sales by the NBKR made 6.1 percent of the total volume of NBKR operations in the foreign exchange market, while net purchase by the NBKR in 2004 totaled \$ 39.2 million, having decreased by \$ 5.9 million as compared to 2003, or by 13.0 percent.

As a result of implementation of the coordinated monetary and fiscal policy in 2004 the following was successfully ensured:

- maintenance of inflation rate at a low level – 2.8 percent;
- continuing process of replenishing economy by money – coefficient of monetization<sup>1</sup> of monetary aggregates M2 and M2X increased in 2004 from 11.5 to 13.0 percent and from 15.0 to 17.5 percent, correspondingly;
- increase of non-cash component of monetary aggregates through development of the system of payments, strengthening trust of economic entities to national currency;
- stabilization of interest rates in the money-market, reduction of spread of interest rates both on assets in national and foreign currencies, and on liabilities.

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<sup>1</sup> Ratio of money aggregate to GDP.

## 2.2. Monetary policy instruments

The National Bank used the following monetary policy instruments in 2004:

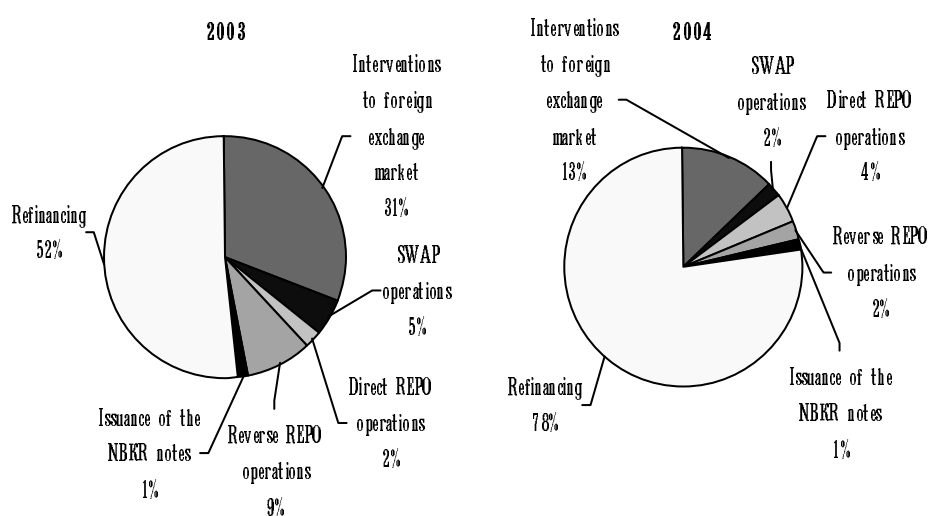
- open market operations;
- refinancing of banks;
- interventions in the foreign exchange market;
- discount rate of the National Bank;
- required reserves.

Expansion and strengthening of the financial market, development of economy and banking system, as well as change of the foreign economic situation impacted the structure and the volume of the NBKR operations. Thus, in the conditions of growing activity of the commercial banks in sphere of crediting of the real sector, the National Bank increased its operations with the commercial banks on providing liquidity, mainly, through issue "overnight" credits. Their share increased from 52.0 percent in 2003 to 77.4 percent in the reporting year. At the same time, the National Bank promoted maintenance of liquidity in the banking system through direct REPO operations, whose share in the total volume increased from 2.2 to 3.8 percent. At the same time, the volume of operations on liquidity withdrawal was considerably reduced.

The remaining stability in the domestic foreign exchange market led to reduction of NBKR interventions in the foreign exchange market. Their share in the total volume of operations decreased during the year from 31.4 percent in 2003 to 13.4 percent, given that the overwhelming portion of these operations (about 95.0 percent) was the purchase of foreign currency.

The total volume of NBKR operations increased by som 3.1 billion as compared to 2003, and totaled som 11.5 billion.

**Chart 2.2.1.**  
Structure of NBKR operations



### 2.2.1. Open market operations

Open market operations are held for the purpose of restraining dynamics of the monetary component of inflation, overcoming seasonal fluctuations of the situation in the money market developments, and improving effective management of the current liquidity level in the banking system. As a rule, the main types of open market operations are direct and reverse REPO operations, representing, correspondingly, purchase or sale of the government securities from the own portfolio with the commitment to repurchase these securities in a given time.

The nature of the NBKR open market operations during the year was determined by the current liquidity level in the banking system. In the first quarter, in the conditions of high liquidity in the banking system, the NBKR open market operations were directed to sterilization of excess liquidity. Open market operations on sale of securities held at REPO terms, as well as sale of the NBKR notes at the auctions, let the National Bank temporarily withdraw free funds of the banks and reduce liquidity.

At the same time, the main volume of the NBKR open market operations in 2004 was conducted for the purpose of providing banking system with additional liquidity through direct REPO operations. These operations were demanded, mainly, in the second and third quarters, when the banking system was short of free funds due to growth of the real sector crediting and simultaneous outflow or insufficient inflow of deposits to some of the banks. Along with the operations on purchase of securities at REPO terms, for the purpose of replenishing banking liquidity, the National Bank extended overnight credits to commercial banks, concluded foreign exchange SWAP operations with them, and purchased foreign currency at the auctions.

In the fourth quarter, due to considerable growth of budget expenditures and inflow of deposits to the banking system, as well as due to proceeds received from the sale of foreign currency to the National Bank, the balance of free funds at the accounts of the commercial banks increased substantially. However, the excess liquidity, typical for some banks, made no impact on the financial market, that is why the National Bank conducted no reverse REPO operations, though few direct REPO operations were conducted.

Total volume of direct REPO operations increased in 2004 by 2.4 times as compared to 2003. The four banks used this instrument in the reporting year. The average term of direct REPO operations was reduced by 1 day and made 4 days. The government treasury

**Table 2.2.1.1.**

NBKR Operations with Government Securities  
(in thousand of som)

	1 quarter	2 quarter	3 quarter	4 quarter	Total
2003	309 347.6	20 000.2	348 851.8	217 002.5	895 202.1
2004	216 299.1	293 683.0	132 000.2	62 000.1	703 982.4
Direct REPO	-	238 682.8	132 000.2	62 000.1	432 683.0
Reverse REPO	216 299.1	55 000.3	-	-	271 299.3

bills were used in these operations. The total volume of reverse REPO operations in the reporting year decreased by 62.0 percent, while the duration of these operations was reduced to 71 days, or by 2 times as compared to 2003. The government treasury bills (regularization) were the object of sale in these transactions.

### 2.2.2. Refinancing of Banks

The peculiar feature of 2004 was the considerable increase of the volume of refinancing of the commercial banks performed by the National Bank in the form of overnight credits. This type of borrowings was used by the banks to meet the reserve requirements. The total volume of overnight credits double increased as against the previous year. The substantial growth of demand of commercial banks for short-term credit resources of the National Bank was mainly connected with considerable growth of their activity in the sphere of real sector crediting. The rate of overnight credits underwent no changes and was equal to the discount rate of the National Bank with coefficient 1.2, given that no mortgage was required for obtaining credit.

For the purpose of improving the mechanism of refinancing and expanding the sphere of use of the funds received in the form of "overnight" credits, the decision was made at the end of 2004 to change the mechanism of extending these credits, which would come into effect in 2005. According to the new edition of the Regulation "On overnight credit", the pledge in the form of government securities to the amount exceeding credit amount by 1.2 times will be required for obtaining this types of credit. Furthermore, the credit rate will be increased, and from the moment of enactment of this Regulation it will be by 1.5 times higher than the discount rate of the National Bank. The new mechanism of refinancing the banks will allow eliminating certain deviations in the structure of interbank market and will promote further development of the market of government securities.

By and large, 14 banks took advantage of "overnight" credits in 2004, the main bulk of these credits being extended by the National Bank in the second and third quarters when the level of liquidity in the commercial banks was minimal. The average annual rate of "overnight" credits increased in 2004 to 5.6 percent from 4.8 percent in 2003, or by 0.8 percentage points.

Along with the "overnight" credits, a commercial bank may receive the credit of last resort from the National Bank for the period up to six months intended for rehabilitation of the bank and restoration of its liquidity. No bank took advantage of this credit in 2004.

**Table 2.2.2.1.**

"Overnight" Credits extended by the NBKR  
(in thousand soms)

	1 quarter	2 quarter	3 quarter	4 quarter	Total
2003	845 000.0	1 192 350.0	1 414 500.0	945 650.0	4 397 500.0
2004	834 800.0	3 416 400.0	3 698 400.0	977 700.0	8 927 300.0



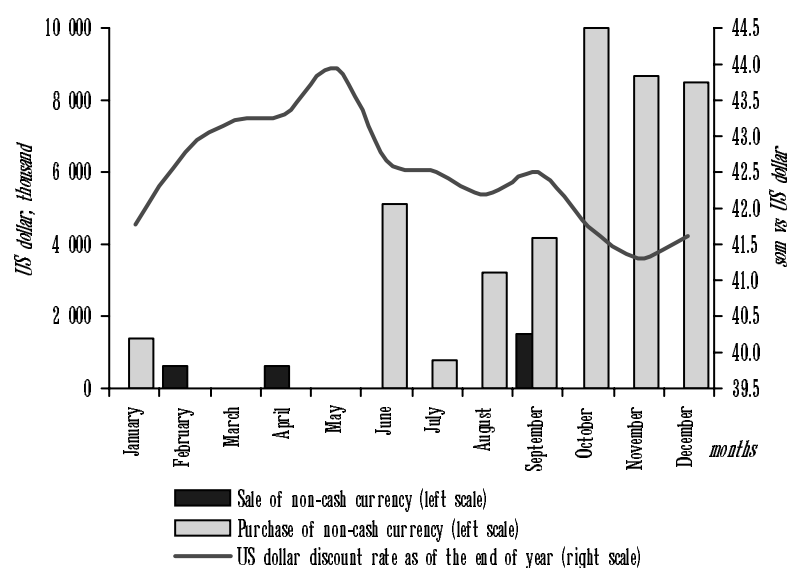
### 2.2.3. Operations in the Foreign Exchange Market

In 2004, the National Bank conducted foreign exchange interventions in the interbank foreign exchange market for the purpose of smoothing sharp fluctuations of the foreign exchange rate. As a result, the volatility<sup>1</sup> of the US dollar exchange rate in the domestic foreign exchange market in the reporting year was double depreciated as compared to the same indicator characterizing movement of the dollar in the international markets. At the same time, the rate of depreciation of the US dollar exchange rate in the market of Kyrgyzstan during the year was overall lower than the rate of weakening of the dollar rate to euro in the world market.

For the first 5 months of the reporting year, the level of activity of the National Bank in the domestic foreign exchange market was not high, as in that period the relative balance was maintained between demand and supply of the foreign currency, and the dollar exchange rate was gradually appreciating, following the tendency of the US dollar rate strengthening in the world foreign exchange markets. In summer season, reduction of demand for the US dollars was observed in the foreign exchange market, which was connected with both reduction of the business activity of economic entities, and depreciation of the US dollar rate in the world financial markets. At the same time, the volume of foreign currency supply in the domestic market increased substantially under the impact of seasonal factors (export of agricultural products and sale of tourism services, growth of transfers – including those by cheque and plastic cards), as well due to the growth of foreign currency proceeds from the export of mining industry products, and inflow of the foreign currency deposits to the banking sector. At the same time, the banking system was in some liquidity shortage, which also facilitated reduction of the foreign

**Chart 2.2.3.1.**

NBKR Operations with Foreign Currency in Domestic Market in 2004



<sup>1</sup> Indicator of the level and frequency of exchange rate volatility is estimated as an average daily deviation of the exchange rate.

currency demand. To support demand and supply balance in the foreign exchange market, the National Bank renewed its operations on purchase of foreign currency.

In early September, demand for foreign currency increased due to the growth of payments on import, and the National Bank conducted several operations on the sale of US dollars. By the end of September, depreciation of the US dollar rate was observed, which was maintained during the subsequent two months mainly due to depreciation of the dollar rate in the international markets. At the same time, impact of usual domestic seasonal factors (growth of foreign currency demand caused by required procurement of combustive-lubricating materials) was neutralized by sufficient stock of foreign currency in the bank resulted from the growth of foreign currency inflow<sup>1</sup>, and it made no pressure on the dynamics of a dollar exchange rate. Meanwhile, the dollar exchange rate fluctuations increased in early December in the world markets, thus impacting the foreign exchange market of Kyrgyzstan. The National Bank increased the volume of interventions in the foreign exchange market in the period from September to December.

By and large, in 2004 the National Bank purchased \$ 41.9 million and sold \$ 2.7 million. Thus, over the last four years the amount of purchase of foreign currency by the National Bank exceeded the amount of sales. At the same time, the discount US dollar rate decreased by 5.8 percent during the year, having made som 41.6246 for 1 US dollar, as of 1 January 2005.

Along with interventions in the foreign exchange market, the National Bank conducted foreign exchange SWAP operations in 2004. The purpose of this instrument is to provide commercial banks with national currency funds, and means the purchase of foreign currency from commercial banks with the liability of its repurchase upon expiry of the contract term. The total volume of SWAP operations was double reduced as compared to the previous year, up to \$ 5 million. In the periods of shortage of som liquidity, the commercial banks preferred to either sell the foreign currency or take overnight credits. The largest volume of SWAP operations was concluded in June (about

**Table 2.2.3.1.**

NBKR operations with Foreign Currency in Domestic Market  
(in thousand of US dollars)

	Q 1	Q 2	Q 3	Q 4	Total
2004, total	3 000.0	7 980.0	11 393.0	27 260.0	49 633.0
Including:					
Purchase of foreign currency	1 400.0	5 090.0	8 240.0	27 190.0	41 920.0
Sale of foreign currency	600.0	600.0	1 525.0	0.0	2 725.0
SWAP operations (purchase)	1 000.0	2 290.0	1 628.0	70.0	4 988.0
2003, total*	7 426.0	13 135.0	22 685.0	27 615.0	70 861.0

\* Reference info.

<sup>1</sup> Inflow of foreign currency was ensured by receipt of funds to clients' deposits, including those from export of goods and services, as well as by individuals' money transfers.

half of the annual volume), when the banking system was experiencing the extreme deficit of liquidity. The average term of SWAP transactions in the reporting year was three days.

#### 2.2.4. Discount Rate

The discount rate of the National Bank of the Kyrgyz Republic is the monetary policy tool, which helps the National Bank to influence the money market rates through pegging interest rates of overnight credits and SWAP operations to its rate (with coefficient 1.2). Apart from this, the discount rate is used in certain tax cases and for the calculation of some administrative penalties.

In 2004, the National Bank was applying the earlier method of determining the discount rate: its size was equated to the yield of the 28-day NBKR notes, whose primary placement was made by the National Bank through the weekly auctions. Thus, the dynamics of the NBKR discount rate had been formed based on the situation in the primary market of the NBKR notes. At the same time, the National Bank was regulating the volume of issued notes given the level of liquidity in the banking system and developing price climate.

In the beginning of the year, against the background of high level of excess liquidity in the banking system, the actual volume of sales through auctions was considerably higher than the proposed volume of issuance, and totaled around som 27 million. At the same time, most of commercial banks showed no interest in this financial instrument, and often the auctions were recognized as not held due to the insufficient number of participants. The discount rate in that period was at the level of 4.0-4.4 percent.

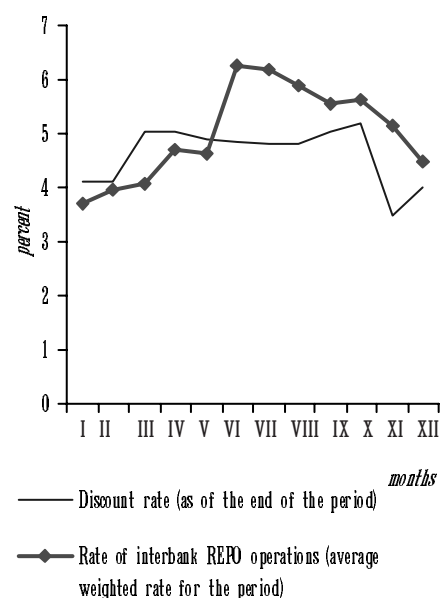
In March, liquidity in the banking sector noticeably decreased, having led to reduction of demand for the notes. As a result, the volume of sales through auctions on placement of the NBKR notes decreased to som 1.0-1.5 million, while the discount rate increased to 5.0 percent. Low demand for the NBKR notes remained unchanged till September. At the auctions held, the average volume of sales did not exceed som 4-6 million, and the discount rate was fluctuating within the narrow range: 4.8-4.9 percent.

In September, due to liquidity growth in the banking system, as well as due to reduction of yield from other financial tools of the money market, the activity of the commercial banks in the primary market of the Notes began to increase, and this upward tendency was maintained through the end of the reporting year. Practically all the auctions held in the period from September to December were recognized as conducted. The volatility of the discount rate was increasing in parallel to the growth of activity of the participants of the NBKR notes auction. In October, its level increased to 5.5 percent, while in November it decreased to 3.5 percent.

By the end of the year, the discount rate made 4.0 percent, virtually undergoing no changes as against the beginning of the year.

**Chart 2.2.4.1.**

Dynamics of the NBKR Discount Rate



### 2.2.5. Required reserves

The norm of required reserves in 2004 remained at 10.0 percent level. At the same time, in the second half of the year the National Bank twice made amendments to the procedure of observing the reserve requirements with the aim of increasing the effectiveness of this monetary policy tool in the conditions of the changed situation.

In September 2004, an amendment was made to the Regulation "On Required reserves" canceling compensation to the commercial banks paid for the fulfillment of reserve requirements for those days when they had received overnight credits from the National Bank. This amendment was passed in view of the fact that many commercial banks were often fulfilling reserve requirements solely at the account of overnight credits, while directing their own funds for the purchase of profitable financial instruments. As a result, the threat emerged of increasing liquidity risk and decreasing the effectiveness of required reserves as a monetary policy tool. Cancellation of the compensation for those days when overnight credits had been received served as a signal for the banks to adjust their own credit policy and improve effective liquidity management.

The second amendment on the mechanism of compliance with the reserve requirements was passed at end-December of 2004: the National Bank changed the interest rate applied for estimating the amount of compensation amount payable for the fulfillment of reserve requirements. If earlier compensation was paid off in full volume, equivalent to the interest costs of the banks, i.e. based on the deposit rate of each bank, beginning from January 2005, compensation will be computed based on the rate uniform for all the banks, equal to an average weighted interest rate on deposits in the operating commercial banks as of beginning of the month. This amendment was passed for the purpose of creating additional incentives to reduce interest rates and increase competitiveness in the deposit market, which should consequently impact positively the quality of banking services.

During 2004, due to growth of deposit base of the commercial banks, the tendency to increase the volume of required reserves was observed. By the end of the year, the volume of required reserves totaled som 673.4 million, having exceeded by 1.5 times their level as of beginning of the year. No facts of incompliance with the reserve requirements were registered in the reporting year. At the same time, the amount of compensation paid off to the commercial banks for compliance with the required reserve requirements increased by 42.1 percent as compared to 2003, and totaled som 8.3 million.

**Table 2.2.5.1.**

Average Daily Level of Reserves of the  
Commercial Banks in National Currency  
(thousand Soms)

	Q 1	Q 2	Q 3	Q 4
2003	556 498.7	450 997.5	471 003.7	635 827.9
2004	752 418.6	649 450.9	774 662.7	1 107 166.2
including:				
required reserves	455 375.8	487 862.6	554 061.0	636 656.4
excess reserves	297 042.8	161 588.4	220 601.7	470 509.7

## 2.3. Exchange Rate Policy and International Reserves Management

The National Bank continued to follow the floating exchange rate policy. During the year, the National Bank was solving the task of smoothing the sharp exchange rate fluctuations and maintaining the volume of international reserves at an adequate level.

Having signed on March 29, 1995 Article VIII "On Common Obligations of the Member States" of the IMF Agreement Articles, the Kyrgyz Republic undertook obligations to ensure making payments and transfers on current international operations with no limits and to prevent the practice of diversity of rates and participation in discriminatory foreign exchange agreements.

Foreign exchange regulation is implemented mainly through the issuance of regulatory acts. Reserves management was regulated by the following regulatory documents of the National Bank: "Risk Management Policy in International Reserves Management" and the Regulations "On International Reserves Benchmark Portfolio of the National Bank of the Kyrgyz Republic for 2004", "On International Reserves Structure of the National Bank of the Kyrgyz Republic", and "On Limits within the Management of International Reserves Investment Asset".

The international reserves management of the National Bank was subordinated to the principles of maintaining liquidity and safety of reserve assets. Maximization of income from the international reserves management is not the priority task, and this principle is executed under strict compliance with the principles of ensuring liquidity and safety of assets.

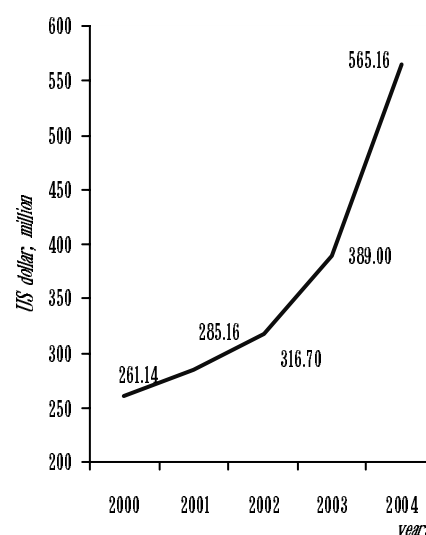
The yield-risk optimum ratio in management of international reserves was determined by the Board and the decisions of the Investment Committee of the National Bank. In compliance with the developed practice of decision-making and internal control system, minimization of the risks arising in the reserve assets management was achieved through establishment of criteria, requirements and restrictions on counteragents, types of tools, the size and term of investment.

International reserves of the National Bank consist of assets in gold, Special Drawing Rights (SDR) and the portfolio of foreign currencies. The volume of total reserves at the end of 2004 was \$ 565.2 million, having increased by \$ 176.2 million, or by 45.3 percent for the year.

The physical volume of gold in the structure of the NBKR international reserves remained unchanged, however, the share of gold in reserves structure in 2004 decreased due to increase of the volume of foreign currency assets in the bank's international reserves. The volume of the Special Drawing Rights in 2004 increased as compared to the previous year due to operations held on ensuring the required level for making payments in SDR under liabilities. Increase of the SDR rate vis-a-vis the US dollar also

**Chart 2.3.1.**

Dynamics of Total Reserves



**Table 2.3.1.**Structure of the NBKR Reserve Assets  
(in percent)

	2003	2004
Gold	8.9	6.4
Currency Portfolio	88.5	90.1
SDR	2.6	3.5
Total	100.0	100.0

**Table 2.3.2.**Structure of the Currency Portfolio of Reserve Assets  
(in percent)

	2003	2004
US dollars	67.7	28.6
Euro	20.1	23.2
Swiss francs	6.4	4.7
British pounds	5.8	6.3
Australian dollars	0.0	8.8
Canadian dollars	0.0	28.5
Currency portfolio, total	100.0	100.0

impacted growth of the SDR share in the structure of the NBKR international reserves.

The currency portfolio of international reserves of the National Bank in 2004 consisted of US dollars, Euro, Swiss francs, British pounds, Australian and Canadian dollars, and the insignificant share of other currencies. The currency structure of external debt of the Kyrgyz Republic is one of the main factors determining the currency structure of international reserves.

Significant changes took place in 2004 in the structure of the currency portfolio of reserve assets. For the purpose of reducing the currency risk and increase yield of the asset, given the principles of liquidity and safety, the currency portfolio was changed: the share of the US dollars was reduced, the portfolio of assets in Euro and in British pounds was increased. Canadian dollars were included in the currency portfolio. Following the principle of risk diversification, Australian dollars appeared in the reporting year in the currency portfolio.

The structure of the currency portfolio of the NBKR was revised on a quarterly basis and changed depending on the situation in the world financial markets, and given the currency structure of external liabilities of the Kyrgyz Republic.

The sources of replenishment of the international reserves in 2004 were operations in the domestic foreign exchange market, receipts to the republican budget from the Asian Development Bank, Islamic Bank of Development, EC Commission, payments on Japanese credit (as part of financing programs), proceeds from privatization, as well as concessionary receipts for the development of the Kumtor gold mining deposits, and income from the reserve management and receipts from the International Monetary Fund.

In September 2004, the National Bank received funds in the amount of 106 552 031.78 Canadian dollars from the sale of 7.5 million common shares, owned by Kyrgyzstan in "Centerra Gold Inc." company, the value of each share being 15.5 Canadian dollars, including interests accrued from the moment of placement of the funds at the account in "Standard Bank London", less the cost of services of the underwriter, financial and legal advisers, one-time audit of the system of risk prevention and control of JSC "Kyrgyzaltyn", as well as direct costs connected with the restructuring of Kumtor project. These funds were placed at the special Government account at the KR National Bank.

International reserves were used mainly for conducting operations in the domestic foreign exchange market, servicing external debt and execution of other liabilities of the Kyrgyz Republic.

For the purpose of improving the efficiency of international reserve management and in compliance with the principle of liquidity maintenance, the work with reserve assets was based on the portfolio approach. The portfolio of international reserves in US dollars, Euro, Swiss francs, British pounds, Australian and Canadian dollars was divided into the working and investment assets that provided maintenance of the required level of liquidity. The assets of the working



capital were used for making payments on service of external debt of the Kyrgyz Republic and operations in the domestic foreign exchange market. Proceeding from these objectives, the working assets were placed in the most liquid instruments. For the purpose of increasing profitability, the investment assets were placed in the longer-term international market instruments possessing the required level of reliability and liquidity. The investment assets were managed in compliance with the approved benchmark portfolio of international reserves.

The reserve assets of the National Bank were placed in 2004 with the international financial institutions, central banks of the developed countries and foreign commercial banks with the high credit rating, granted by the leading rating agencies.

The reserve assets of the National Bank were invested in highly reliable and liquid securities, time deposits, and in one-day REPO operations for the main funds of the working assets. The portfolio of the NBKR securities contained, mainly, government securities of the Treasury of the USA, Germany and Australia, short-term and medium-term investment tools of the Bank for International Settlements and medium-term bonds of the International Bank of Reconstruction and Development. Time deposits were placed with the international financial institutions and foreign commercial banks.

In 2004 the NBKR continued on a reduction of the volume of low liquidity assets in the structure of international reserves. This included pledged deposits placed with the foreign commercial banks as security for the government guarantees, the NBKR deposits with CABCD and the membership fee of the National Bank for the Government of the KR in authorized capital of the Interstate Bank (ISB). As of the end of 2004, the low liquidity assets in the structure of the NBKR international reserves totaled \$ 21.4 million adjusted by the change of gold price. The book value of one Troy ounce of gold increased from \$ 417.25 at the end of 2003 to \$ 438.00 at the end of the reporting year. The physical volume of gold placed, as pledged deposit, with the Standard Bank London was reduced in 2004 by 20 thousand Troy ounces, down to 40 thousand Troy ounces. In total, low liquidity assets of the National Bank were reduced during the year by \$ 9.6 million (gold is estimated based on the book value of \$ 438.00 for one Troy ounce of gold).

**Table 2.3.3.**

Structure of Placement of the Reserve Assets  
by Counteragents  
(in percent)

	2003	2004
International financial institutions	42.8	46.4
Central Banks	34.7	25.2
Commercial banks	22.2	28.2
NBKR (cash)	0.3	0.2
Total	100.0	100.0



## CHAPTER 3

## REGULATION OF FINANCIAL AND CREDIT INSTITUTIONS

In 2004 activity of the National Bank was directed to increase stability of financial and credit system, earlier prevention of problems emergence in the operating financial and credit institutions licensed by the NBKR, and improvement of supervision techniques and practices.

Further macroeconomic stabilization, activating of domestic sources of financial and credit institutions growth and attraction of investments into capital of banks have resulted in improvement of the condition of financial and credit institutions. Introduction by the NBKR in 2002 of minimum capital (capital base) requirements and approaches to the bank assets appraisal had the positive impact on development of the banking system.

### 3.1. Banking system survey

18 commercial banks<sup>1</sup>, SSC and one branch of foreign bank were operating in the republic in 2004. The survey of activity of these institutions is prepared on the basis of corrected annual regulative reporting of operating commercial banks for the period of 2003 and 2004.

Total capital<sup>2</sup> of banks increased by som 535.9 million or by 25.1 percent for 2004, and made som 2.7 billion as of January 1,

**Table 3.1.1.**

Pattern of Liabilities of Commercial Banks (at the end of the period)

Liabilities	2003		2004	
	In million of soms	In percent of total	In million of soms	In percent of total
Demand deposits of legal entities	2 615.1	28.2	4 725.7	31.4
Deposits of individuals	1 429.1	15.4	2 081.1	13.9
Time deposits of legal entities	733.5	7.9	1 173.9	7.6
Liabilities to NBKR	91.1	1.0	55.2	0.4
Correspondent accounts	2 847.1	30.7	3 457.1	23.0
Short-term placement	72.9	0.8	206.7	1.4
Government deposits and credits	188.0	2.0	225.5	1.5
Securities, sold under REPO agreements	30.1	0.3	88.9	0.6
Credits received	698.5	7.5	2 018.8	13.7
Subordinated debt	218.7	2.4	217.6	1.4
Other liabilities	347.5	3.7	757.9	5.0
Total	9 271.7	100.0	15 008.2	100.0

<sup>1</sup> Since September 1, 2004 “Ak Bank” was placed under “laying-up” regime, the license authorizing banking operations was withdrawn.

<sup>2</sup> For the purpose of regulation, total capital includes charter capital, reserves, non-allocated profit (losses) for the past years, profit (losses) of the accounting year, and common reserves for non-classified assets created in the bank.

2005. At the same time the charter capital<sup>1</sup> increased by 13.1 percent.

Total liabilities<sup>2</sup> of banks increased by 61.9 percent and made som 15.0 billion for 2004. At the same time, the share of liabilities in foreign currency in total liabilities was 81.3 percent (as of January, 1, 2004 - 68.6 percent).

The assets involved by banks from other commercial banks increased by 58.1 percent and made som 5.7 billion in the accounting period. The interbank market of the CIS countries was the main source of attracting funds in 2004.

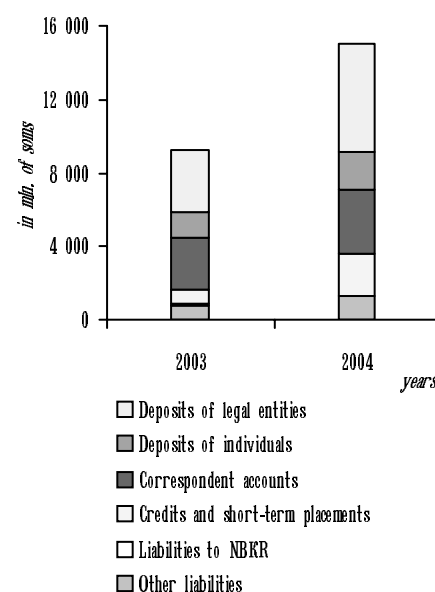
The deposit base of the commercial banks continued to grow. For instance, as of January 1, 2005, the volume of deposits<sup>3</sup> of operating commercial banks increased by 66.1 percent and made som 7.9 billion. The deposit structure showed that the share of deposits of legal entities increased by 3.7 percentage points and was 73.8 percent of the deposit portfolio of the banking system. At the same time, absolute growth of deposits of legal entities made som 2.5 billion. Deposits of individuals increased by som 651.9 million, or by 45.6 percent in the accounting period. As in 2003, the predominant growth of demand deposits was registered in the deposit structure of individuals.

For 2004, total assets of the banks increased by 55.7 percent and made som 17.7 billion. But for all that, assets in domestic currency grew by 38.0 percent, while those in the foreign currency increased by 63.7 percent. It stems from growth of interbank deposit-taking.

In the reporting year the pattern of assets of commercial banks continued to show the tendency to growth of liquid assets compared

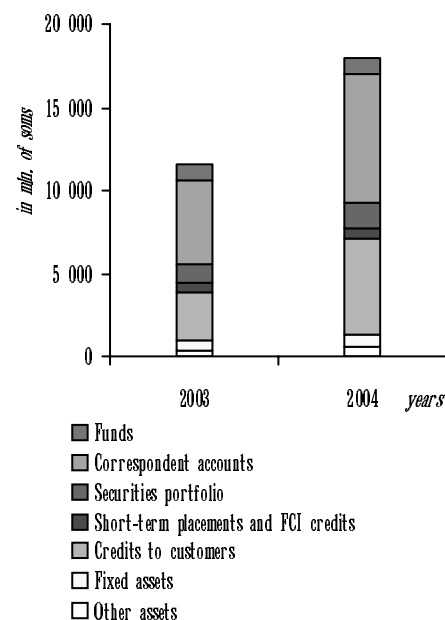
**Chart 3.1.1.**

Pattern of Liabilities of Commercial Banks (at the end of the period)



**Chart 3.1.2.**

Structure of assets of commercial banks (at the end of the period)



**Table 3.1.2.**

Pattern of assets of Commercial Banks (at the end of the period)

Category of assets	2003		2004	
	In million of soms	In percent of total	In million of soms	In percent of total
Funds	880.0	7.7	943.4	5.3
Correspondent account with NBKR	452.0	4.0	954.8	5.4
Correspondent accounts and deposits with other t	4 605.7	40.5	6 677.9	37.7
Securities portfolio	1 155.5	10.2	1 658.5	9.4
Short-term placement	327.3	2.9	270.5	1.5
Securities purchased on REPO terms	180.1	1.6	48.9	0.3
Credits of finance and credit institutions	75.5	0.7	234.1	1.3
Credits to customers	2 892.5	25.4	5 816.1	32.8
(minus) Spec. loan-loss provisioning*	-154.6	-1.4	-193.7	-1.1
Fixed assets	557.6	4.9	674.4	3.8
Other assets	400.6	3.5	623.5	3.5
<b>Total</b>	<b>11 372.1</b>	<b>100.0</b>	<b>17 708.5</b>	<b>100.0</b>

<sup>1</sup> Alongside with ordinary and preference shares, this category also includes additional capital, contributed by the shareholders, but not gone through the required registration as of the accounting date.

<sup>2</sup> Total liabilities include funds attracted by the bank as deposits, credits, etc.

<sup>3</sup> Without account of the deposits of the Government of the KR and the deposits of Finance institutions.

**Table 3.1.3.**

Classification of Assets and Off-Balance Liabilities (at the end of the period)  
(In percent, unless indicated otherwise)

Category	2003	2004
Unclassified	95.3	97.0
including		
Standard	65.0	60.0
Satisfactory	23.8	30.2
Under watch	6.1	6.8
Classified	4.7	3.0
including		
Substandard	2.2	1.5
Doubtful	1.6	0.6
Unprofitable	0.9	0.9
Total	100.0	100.0
Total, in millions of soms	9 999.8	16 320.8

**Table 3.1.4.**

Classification of Credits\* (at the end of the period)  
(In percent, unless indicated otherwise)

Category	2003	2004
Unclassified	88.8	93.6
including		
Standard	1.0	1.1
Satisfactory	70.3	74.3
Under watch	17.6	18.2
Classified	11.2	6.4
including		
Substandard	5.7	3.1
Doubtful	3.4	1.5
Unprofitable	2.1	1.8
Total	100.0	100.0
Total, in million of soms	2 892.5	5 816.1

\* Without account of interbank placement.

to the other assets and which was connected with the emergence of new types of services for the conduct of payments of clients. The volume highly liquid assets placed by commercial banks on correspondent accounts with other banks (including the NBKR), as well as deposits, increased 1.5 times. As of January 1, 2005 that category of assets made som 7.6 billion. The volume of credits extended in the reporting year was observed to grow as well, with the policy of lending being more conservative.

Total «net» lending to customers<sup>1</sup> increased 2.1 times in 2004 and as of January 1, 2005 made som 5.6 billion. Its share in total assets of banks increased by 7.7 percentage points and made 31.8 percent compared to January 1, 2004. According to the regulatory reporting data of banks «nonclassified» assets<sup>2</sup> made 97.0 percent of the total of assets liable subject to classification, and «classified» assets - 3.0 percent, accordingly.

There were increase in the fixed assets of commercial banks that come up to som 674.4 million at the end of 2004 (growth by 20.9 percent).

The year under review, besides the more active efforts to capitalize banks, was also characterized by also the improvement of lending in the commercial banks and payment system development that assisted provide improvement in the financial position of banks.

Total income of banks made som 1.9 billion, total expenses of banks - som 1.6 billion in 2004.

In 2004, the uniform increase of incomes and expenses of commercial banks was observed, both the interest ones (62.5 and 64.6 percents, accordingly) and non-interest ones (32.1 and 34.7 percents, accordingly). Net operational income of banks made som 533.6 million in 2004, having increased by 68.5 percent compared to 2003.

At the same time, prevailing growth of interest income in absolute expression (growth by som 389.0 million), and also keeping of the size reserve provisions at the level of 2003 increased more than twice in net profit of banks prior to taxation (by the end of 2004 - som 400.6 million).

On the whole the banking system completed the year with som 327.7 million net profit, and on the results of 2003 the financial result was som 147.6 million (growth - 2.2 times). To the budget as profit tax were paid som 73.0 million.

The condition of the banking system in the reporting year demonstrated the on-going process of stabilization of the financial services market. In activity of commercial banks the following positive changes were observed:

- The basic activities of commercial banks (assets increased by 55.7 percent, liabilities - by 61.9 percent);
- Strengthening of the banks' capital base as the basis for

<sup>1</sup> «Net» credits are the credits and leasing exclusive of formed reserves for covering potential losses as well as charged discount.

<sup>2</sup> «Unclassified» assets (credits) include assets (credits) referred to the category of standard, satisfactory and under watch.

expansion of banking activity and the factor promoting increase of confidence in banks on the part of creditors and investors (growth by 25,1 percent);

- Deepening of financial intermediation of commercial banks system: the ratio of deposits to GDP and the ratio of the gross clients' loan portfolio to GDP. At the end of the reporting year these ratios made 8.7 percent and 6.2 percent, respectively (at the end of 2003 - 6.0 percent and 3.5 percent, respectively);
- Growth of savings attracted from the population (growth by 45.6 percent);
- Reduction of a interest rate of classified credits from 11.2 percent till the beginning of the year up to 6.4 percent by the end of 2004;
- Decrease of an average level of interest rates on deposit (compared to the interest rates operating in January, 2004 - decrease by 3.6 percentage points on the credits in domestic currency and by 2.9 percentage points on credits in foreign currency);
- Increase in return on assets (ROA) by 1.1 percentage points (2.4 percent according to the outcome of 2004) and on capital (ROE) by 7.5 percentage points (15.5 percent according to the outcome of 2004).

**Table 3.1.5.**

Patterns of Income and Expenses (at the end of the period)

(in million of soms)

Category	2003	2004
Interest incomes	622.5	1 011.5
Interest expenses	161.7	266.2
<u>Net interest income</u>	<u>460.8</u>	<u>745.4</u>
Non-interest income	669.1	884.0
Non-interest expenses	813.2	1 095.7
<u>Net operational income (loss)</u>	<u>316.7</u>	<u>533.6</u>
Reserve for covering of potential losses	133.4	133.0
<u>Net profit (loss) prior taxation</u>	<u>183.3</u>	<u>400.6</u>
Profit tax	35.9	73.0
<u>Net profit (loss) prior to unforeseen incomes and expenses</u>	<u>147.4</u>	<u>327.6</u>
Unforeseen income (expenses) after taxation	0.2	0.1
<b>Net profit (loss)</b>	<b>147.6</b>	<b>327.7</b>

### 3.2. Survey of Non-Bank Finance and Credit Institutions

Assistance to development of non-bank financial system and credit institutions in 2004 was one of the priority directions in work of the National Bank of the Kyrgyz Republic. Business development of non-bank finance and credit institutions promoted social mobilization of the population, growth of employment and poverty reduction.

In June and November 2004, the National Bank held "round tables" in the towns of Jalalabat and Naryn on the issues of microfinancing and microcrediting development in the Kyrgyz Republic. In June 2004, within the framework of the joint agreement between the UNDP and the National Bank on implementation of training programs for microfinance organizations and credit unions, a series of seminars was held on financial and operational management, accounting, credit operations, and internal audit.

The system of non-bank finance and credit institutions includes the establishment subject to regulation and supervision by the National Bank of the Kyrgyz Republic: specialized finance and credit institutions (Kyrgyz Agricultural Financial Corporation (KAFC) and Financial Company for Support and Development of Credit Unions (FCSDCU)); credit unions; microfinancial organizations; pawnshops; exchange bureaus. As of December, 31, 2004, 78 microcredit agencies, 26 microcredit companies, 305 credit unions, 116 pawnshops, 266 exchange bureaus operated in the Republic.

**Table 3.2.1.**

Dynamics of the Non- bank Finance and Credit Institutions

The name	2000	2001	2002	2003	2004
KAFC	1	1	1	1	1
FCSDCU	1	1	1	1	1
Microfinancial organizations	0	0	0	72	104
Credit unions	191	278	349	303	305
Pawnshops	57	64	85	108	116
Exchange bureaus	290	271	234	261	266

In 2004 the National Bank issued 372 licenses and certificates to non-bank finance and credit institutions. For failure to comply with the requirements of standard acts of National Bank of the Kyrgyz Republic 40 licenses were withdrawn, 24 licenses were cancelled for termination of activity and 261 licenses were cancelled for expiry of validity period.

For the accounting year cumulative assets of non bank finance and credit institutions increased by 32.4 percent and by the end of year made som 3320.9 million.

The basic direction of activity of non-bank finance and credit institutions is crediting. In the accounting period the credit portfolio share in cumulative assets of non-bank finance and credit institutions increased from 80.0 percent (by the end of 2003) up to 83.5 percent

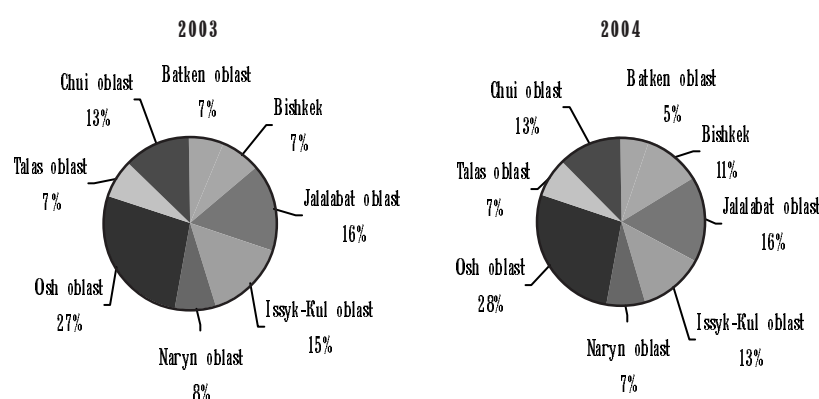
(by the end of 2004). The credit portfolio increased by som 761.04 million (from som 2011.0 million by January, 1, 2004 up to 2772.1 million som by January, 1, 2005), or by 37.8 percent.

By the end of the reporting year in the aggregate credit portfolio of non-bank finance and credit institutions share of KAFC made 55.1 percent, share of the microfinancial organizations - 28.3 percent, share of the credit unions - 16.2 percent, share of pawnshops - 0.4 percent.

In the context of regions the basic share of credit portfolio accounts for Osh, Jalalabat, Issikul, Chuy regions and the city of Bishkek.

**Diagram 3.2.1.**

Structure of Aggregate Credit Portfolio of Non-bank Finance and Credit Institutions in the Context of Regions (at the end of the period)  
(in percent)



In the reporting period, the largest volume of non-bank finance and credit institutions' credits was directed to agriculture (59.4 percent) and trade (27.9 percent), as well as in 2003.

**Table 3.2.2.**

Change of a Credit Portfolio in Economy Sectors (at the end of the period)

Sector	2003		2004		Change
	<i>In millions of soms</i>	<i>In percent</i>	<i>In million of soms</i>	<i>In percent</i>	<i>In million of soms</i>
Industry	21.6	1.1	41.9	1.5	20.3
Agriculture	1 502.1	74.7	1 645.1	59.4	143.0
Transport	4.3	0.2	4.2	0.2	-0.1
Trade	410.8	20.4	774.2	27.9	363.4
Procurement and processing	6.5	0.3	7.9	0.3	1.4
Mortgage credits	6.5	0.3	65.5	2.4	59.0
Others	59.2	2.9	233.2	8.4	174.0
Total	2 011.0	100.0	2 772.1	100.0	761.0

Certain reduction of interest rates on credits of non-bank finance and credit institutions is observed.

The Kyrgyz Agricultural Financial Corporation is the largest specialized finance and credit institution. The main sources of

**Table 3.2.3.**

Interest rates on credits of non-bank finance and credit institutions (at the end of the period) (In percent)

Description	2003	2004
KAFC	17.3	17.0
Microfinancial organizations	36.0	28.0
FCSDCU	18.7	17.1
Credit unions	31.3	28.7
Pawnshops	164.0	162.1

formation of its assets are the loans extended by the Government of the Kyrgyz Republic under IDA and ADB credit lines for the implementation of the program on crediting of small farms, projects "Village Financing - 1", "Village Financing - 2", "Regional development of agriculture".

In 2004 KAFC issued 14.6 thousand credits for som 996.9 million, that is by 23.9 percent more, than in 2003. The operating credit portfolio for 2004 increased from som 1279.3 million up to som 1527.7 million, or by 19.4 percent. The number of active borrowers of KAFC in the accounting period made 36.3 thousand. As far as the terms of credit portfolio repayment KAFC is concentrated on medium- and long-term credits with the term of repayment from 2 to 3 years (42.9 percent) and from 3 to 5 years (33.4 percent).

The highest rates of growth of credit portfolio in the accounting period were typical for credit unions (55.3 percent), microfinancial organizations (80.8 percent) and pawnshops (25.6 percent).

The increase of the aggregate credit portfolio of credit unions up to som 448.6 million in 2004 was basically due to the growth of:

- Credits by FCSDCU for 58.1 percent (som 240.4 million);
- aggregate sum of saving shares by 16.2 percent (som 160.7 million), the number of participants of credit unions increased by 3.02 thousand persons (by 12.2 percent);
- Institutional capital (capital reserves) of credit unions by 70.3 percent (som 43.9 million).

The number of active borrowers of credit unions in 2004 increased by 2.5 thousand persons, and as of the end of the year, made 21.7 thousand persons (as of the end of 2003, number of borrowers was 19.1 thousand persons). This was facilitated by enactment of the new standards of external borrowing of credit unions and marginal size of credit per a borrower since April 1, 2004. Change of economic standards led to increase of the volume of loan portfolio and, correspondingly, of the interest income of credit unions by 32.7 million som, or by 45.2 percent. Excess of income growth rates over expenses led to more than double increase of profit.

Microfinance organizations (MFO) are subdivided into micro-credit companies (MCC) and micro-credit agencies (MCA). In the reporting year, the aggregate loan portfolio of MFO increased by 80.8 percent and made som 784.7 million, the number of active customers increased up to 41.9 thousand, or by 20.0 percent. The loan portfolio analysis showed that the main sectors of MFO lending, as in 2003, were trade, whose share accounted for 66.1 percent of aggregate loan portfolio (71.2 percent - as of beginning of 2004), and agriculture - 12.0 percent (18.0 percent - as of beginning of 2004). On the whole, the volume of loans extended to the sectors of industry and real estate increased, however, their share in aggregate loan portfolio is yet insignificant. As of the end of reporting year, the share of MCC accounted for 57.3 percent of aggregate loan portfolio of microfinance organizations, the share of MCA was 42.7 percent.

Out of 109 pawnshops having filed reports, 76 pawnshops completed the year with profit (in 2003 - 54), 23 pawnshops -



with losses (in 2003 - 31), 10 pawnshops were not operating (in 2003 - 11).

In 2004, pawnshops extended 41.8 thousand short-term credits to the amount of som 60.9 million. The volume of credits extended in the reporting year increased by 30.0 percent as compared to 2003. As in previous years, Bishkek accounted for the main share in the loan portfolio of pawnshops and in the volume of extended credits (about 80.0 percent).

According to the filed reports, the loan portfolio balance of pawnshops in the reporting year increased by 25.7 percent, up to som 11.0 million. Consumer credits account for the main share in loan portfolio of pawnshops.

In 2004, the National Bank issued 288 licenses authorizing exchange operations with cash foreign currency, including re-registration. As of January 1, 2005, 266 licenses in effect.

In the reporting year, the National Bank audited 349 exchange bureaus, including four exchange bureaus audited based on citizens' complaints, and 56 exchange bureaus audited during scheduled spot-checks. Based on audit results, 23 cases were examined on administrative infraction related to non-licensed activity. Supervision of exchange bureaus' activity was carried out by the National Bank in cooperation with the fiscal and law enforcement agencies.

### 3.3. Regulation and Banking supervision

The National Bank's activity in the field of banking supervision, as before, included:

- Licensing of commercial banks;
- Off-site supervision of commercial banks activities;
- Inspection of commercial banks;
- Development and improvement of regulatory and legislative framework in banking regulation and supervision.

#### 3.3.1. Licensing

In terms of activity subject to licensing, the National Bank of the Kyrgyz Republic establishes requirements and standards for the persons planning to carry out banking activity, procedure of coordination of the bank officials, and procedure of share ownership and transfer of shareholding authorizing to directly or indirectly perform control of the bank, and minimum requirements to chartered capital of the bank.

Paid in capital of the banks increased by 24.3 percent, or by som 474.8 million in the reporting year. During 2004, the amounts of paid chartered capital of "Ineximbank" increased 2.3 times, "Energobank" - by 52.5 percent, "AsiaUniversalBank" - by 50.0 percent, "Ecobank" - by 30.3 percent, "Bakai Bank" - by 27.7 percent.

In 2004, the approval was granted for purchase of the shares of a number of Kyrgyz banks: 34.4 percent of "Energobank" shares were purchased by "ATF bank" (Kazakhstan). Upon results of the open international tender, JSC "Narodnyi Bank of Kazakhstan" purchased 100.0 percent of the shares of "Kairat Bank".

Due to amendments in legislation on joint-stock companies of the Kyrgyz Republic, eight commercial banks were renamed in the reporting year, and their licenses authorizing to carry out banking operations were replaced, accordingly.

Licensing activity of the KR National Bank also includes registration of the separated branches of the bank. Eight new branches were opened by commercial banks in the reporting year. As of beginning of 2005, 160 branches of banks were operating in the territory of the Kyrgyz Republic. Apart from this, in 2004, banks continued to expand their activities via opening a number of other separated structural divisions (saving offices, terminals and exchange offices) authorized to perform some banking operations. 49 saving offices, 125 terminals and 2 exchange offices of commercial banks were registered in the accounting year. As of the end of 2004, 148 saving offices, 371 terminals, 40 exchange offices of commercial banks were operating in the territory of the Kyrgyz Republic.

#### 3.3.2. Off-site supervision

The National Bank is implementing remote supervision of the activity of commercial banks via monitoring, analysis of financial statements filed by the banks and the results of inspections, which

provides early warning of potential problems in their activity and allows supporting stability of the banking system.

Off-site supervision of commercial banks is performed on the basis of banking risk assessment<sup>1</sup>. The most essential are the risks of insolvency and liquidity, as well as credit and exchange risks.

*Risk of Insolvency.* The level of total capital adequacy to cover potential losses characterizes solvency of commercial banks.

In 2004 «net» risk assets<sup>2</sup> increased by som 5.8 billion, and the «net» total capital<sup>3</sup> increased by som 584.5 million. The share of risk assets in total assets of banking system made 67.4 percent as of January 1, 2005 (by the beginning of 2004 - 53.8 percent).

Increase in crediting of real sector by commercial banks caused increase of the total amount of assets of the banking system, at the same time, the leading increase of assets as against the growth of «net» total capital (55.6 percent and 27.0 percent, accordingly) was observed. This was reflected in decrease of aggregate adequacy ratio as a result of more active use of resources of the overall banking system. However, the adequacy ratio still considerably exceeds the limit, which demonstrates additional opportunities of banks' development.

The increase of the capital of banks in 2004 is connected with both the growth of fixed capital, and optimization of internal sources of banks. Furthermore, inflow of foreign investments continued to influence the increase of the capital of banking system.

*Credit risk* was estimated on the basis of assets and off-balance liabilities<sup>4</sup> classification. As of January 1, 2005 the risk of the non-repayment characterized as the ratio of reserves created as loan loss provisions (LLP) vis-a-vis total assets, bearing the risk of credit losses, made 2.9 percent (as of January 1, 2004 - 3.5 percent). The amount of the overdue assets made som 206.9 million, or 1.3 percent of total assets bearing the risk of credit losses. At the beginning of the accounting year this indicator made 1.5 percent, or som 148.9 million.

*Exchange risk.* As of January 1, 2005 the assets in foreign currency of banking system made som 12.8 billion, or 72.2 percent of total assets. Liabilities of commercial banks in foreign currency made som 12.2 billion, or 81.3 percent of total liabilities.

*Liquidity Risk.* The structure of assets and liabilities in the context of terms of placement and repayment characterizes the condition of banks from the point of view of coverage of liabilities by assets in each interval of maturity and determines the need for funds in case of mismatch between assets and liabilities on terms.

**Table 3.3.2.1.**

Total Capital Adequacy Ratio of Commercial Banks (at the end of the period)

	2003	2004
Total capital adequacy ratio, in percent	35.3	23.0
Standard of total capital adequacy, in percent	12.0	12.0
Net total capital, in million soms	2 162.6	2 747.2
Net risk assets, in million soms	6 127.5	11 934.3

**Table 3.3.2.2.**

Assets and Liabilities of Commercial Banks in Foreign Currency at the Rate of NBKR as of December 31, 2004 (by the end of the period)

	2003	2004
Assets in foreign currency	7 358.7	12 785.3
Liabilities in foreign currency	6 852.4	12 201.1

<sup>1</sup> The data given below were prepared based on the annual regulatory reports of the operating commercial banks for 2003 and 2004.

<sup>2</sup> Assets and off-balance liabilities of commercial banks weighed based on the level of credit risk inherent in them

<sup>3</sup> Estimated indicator, including capital of bank shareholders, financial outcome of the activity for the reporting and past years, created reserves, except for investments in branches, and capital of other finance and credit institutions. The indicator is applied when estimating values of economic standards, established by the NBKR.

<sup>4</sup> The data are provided in Section 3.1. "Banking System Survey", Table 3.1.1. "Classification of Assets and Off-Balance Liabilities".

**Table 3.3.2.3.**Assets and Liabilities by Maturity  
(in million of soms)

2003*	Maturity in days					Total
	0-30	31-90	91-180	181-365	365-and more	
Financial assets	6 916.2	629.6	843.6	988.5	1 180.2	10 558.2
Financial liabilities	6 447.7	334.9	324.3	360.7	1 072.4	8 540.0
Amount of excess of financial assets over financial liabilities	468.5	294.8	519.3	627.8	107.8	2 018.2

\* The data including December 31, 2003.

2004*	Maturity in days					Total
	0-30	31-90	91-180	181-365	365-and more	
Financial assets	9 707.4	1 293.8	1 990.3	2 079.8	2 279.5	17 350.9
Financial liabilities	10 801.3	813.8	870.7	734.6	1 593.2	14 813.6
Amount of excess of financial assets over financial liabilities	-1 093.9	480.0	1 119.7	1 345.3	686.3	2 537.3

\* The data including December 31, 2004

### 3.3.3. Inspection

22 complex inspections were held in 2004 in the banks, including SSC, KAFC, and FCSDCU, for evaluation of the financial position of the commercial banks and other finance and credit institutions, licensed by the KR National Bank, and for assessment of their observance of the requirements of banking legislation of the Kyrgyz Republic.

Besides, 5 special inspections of the commercial banks were held during the year to inspect compliance with the NBKR requirements on observance of terms of payments, accuracy of the filled in essential elements and procedure of charge collection for payment services, as well as legitimacy of conducting certain banking operations. Also, special inspections were held to inspect implementation by commercial banks of the NBKR recommendations made based on results of the earlier conducted inspections.

During the on-site inspections, special attention was paid to evaluation of the bank management system. The inspections conducted in the reporting year overall showed that in most of the commercial banks the quality of management system was improving.

Improvement of the quality of crediting and monitoring of the extended credits, significant reduction of the level of involving insiders and affiliated persons in the banks' activity were observed. At the same time, a number of flaws in the system of internal control were revealed in some banks during the year. The materials on serious infringements were considered at the meetings of the NBKR Supervision Committee, and adequate decisions were taken.

Inspection was carried out in compliance with the requirements on on-site inspections, revised in connection with amendments in legislation of the Republic. The amended Instructions include the more detailed analysis of the risks existing (credit, operational, foreign exchange, liquidity, etc.) in commercial banks and finance and credit institutions.

### 3.3.4. Preventive Measures and Sanctions

In 2004, the license for the right to carry out banking operations was withdrawn from «Ak Bank» for infraction of banking legislation

of the Kyrgyz Republic, regulatory acts, and requirements of the KR National Bank. The bank was infracting requirements to minimal size of capital (capital base) and the established economic standards.

The following measures were undertaken in 2004 in respect of commercial banks and finance and credit institutions licensed by the KR National Bank:

- 24 notices, 8 instructions and 11 claims were sent to commercial banks;
- 18 meetings of the Supervision Committee were held, at which the results of commercial banks' inspection activity and other issues were considered;
- Fines were imposed on the officials of the two commercial banks (som 7.7 thousand transferred to the budget of the Republic).

### 3.3.5. Banking Regulation and Supervision Statutory Framework Development

In 2004, the work continued on improvement of banking supervision and regulation statutory framework, directed to increase of its efficiency and development of the banking system of the Kyrgyz Republic. In view of the growth of the banks' loan portfolio, supply of a wide spectrum of various credits, new financing in the market of banking services of the Republic, the National Bank of the Kyrgyz Republic attaches great importance to the issues of reducing banking risks and to introduction of the principles of Basel Committee on Bank Supervision.

Thus, the Regulation «On minimal risk management in the banks of the Kyrgyz Republic» was developed, establishing minimal requirements to risk management arrangements in commercial banks. The specific feature of these requirements is that every bank must adopt a risk management concept, applying uniform methodology/instruments: identification, measurement, control, risk monitoring. Under this regulatory act every bank has to establish a new risk management unit, whose duties include risk analysis and evaluation, as well as daily control over risk management banking activity.

Due to expansion of the banking operations with securities, the requirements to commercial banks on operation with securities were approved. This regulatory act establishes basic requirements on bank investment policy development, organization of an effective internal control system, and also, for the purpose of regulation and supervision, establishes minimal reporting requirements on operations with market securities.

The new edition of Instructions «On procedure of keeping limits of an open currency position by commercial banks in the territory of the Kyrgyz Republic» was adopted, which amended methodology of estimating limits of an open currency position (OCP) on every currency and its total value. The OCP on every currency is calculated based on amount of a net spot-position and a net forward-position. The total value of OCP is estimated based on a «shorthand» method. These amendments meet the requirements of Basel Committee on Bank Supervision<sup>1</sup> and allow improving calculation of OCP limits of the bank. Apart from this, the requirements were tightened on

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<sup>1</sup> The OCP total value is estimated by summing separately all long OCP and separately all short OCP. Then the received values are compared with one another (by their absolute value), and the largest of them is used in calculation of the limit of total OCP.

concluding future contracts, used for manipulations, and impacting the value of the currency position; penalties for infractions were increased, and requirements to internal bank control were established.

The new edition of Instructions «On crediting restrictions» establishes crediting limits, i.e. risk limit per a borrower and the persons related to him, established by the National Bank via economic standard «Maximum size of a borrower's risk». The procedure of estimating standard maximum size of risk per a borrower was improved:

- Earlier written-off credits, including interests on them, are accounted in calculation of the standard;
- Requirements were established to the pledge, allowing to exclude a corresponding asset from calculation;
- Requirements were tightened to the banks, where the funds of Kyrgyz banks were deposited (their long-term credit rating was raised). The funds deposited to these banks are excluded from calculation of the standard.

Also, top bank management responsibility was tightened for extending credits with infraction of the NBKR requirements.

In compliance with the principle of conservatism of assets and income evaluation, and due to active growth of credit portfolio of commercial banks, the procedure of granting status of non-accrual of interest income was developed. This regulatory act regulates accrual and acknowledgment of bank income on problematic credits, and also restricts acknowledgment of unjustified income on non-operational assets. Based on credit maturity, quantitative indicators in days were established, under which the bank must cease interest income acknowledgment and create reserve for covering potential losses to the amount of accrued interest.

The NBKR Board Resolution «On establishment of correspondent relations with the banks and other finance and credit institutions registered in the countries and territories of the offshore zones» establishes the corresponding requirements to the banks. This Resolution was developed for the purpose of implementing measures against money – laundering, reflected in the UN Convention against Transnational Organized Criminality, and also for the purpose of ensuring reliability, stability and maintenance of the reputation of the banking and payment systems of the Kyrgyz Republic, protecting interests of depositors and other creditors of commercial banks, preventing the use of Kyrgyz banks in the operations related to money-laundering and terrorism financing.

In accordance with the Bank Supervision Guide, passed in 2003, and establishing new approaches and procedures of on-site inspections, the Instructions were approved in 2004 on conducting on-site inspections, replacing the earlier effective regulatory act. This document identifies the main goals, types and methodology of on-site inspections, and establishes the procedure of interaction between bank supervision inspectors and directors, employees of a commercial bank during inspections. The Instructions contemplate commercial banks' duty to provide all-round assistance to inspectors in the performance of an inspection and provide them with all necessary documents. According to Instructions provisions, in case of obstruction of inspection, the National Bank may take measures, including recall of inspectors and application of preventive measures and sanctions under the NBKR regulatory acts and legislation of the Kyrgyz Republic.



The Instructions establish the deadlines for studying the inspection report by members of the Board of Directors and Board of the Bank. The Instructions on conducting on-site inspections also contemplate the procedure and deadlines of pre-trial appeal against the inspection report by a commercial bank, whose observance is obligatory in case of disagreements on the report content.

Due to regulatory reporting improvement, the National Bank made revision and analysis of the supervision regulatory framework, which resulted in approval of some regulatory acts. For the purpose of approaching international standards, a new edition of Instructions was approved, establishing minimal requirements and adequacy standards of commercial banks' capital and determining its structure. Thus, some deductions were excluded from capital structure, procedure of calculation of the second level capital was changed, and some changes were made to certain asset categories, weighed based on risk level.

In 2004, the NBKR Board approved and enacted Regulation «On economic standards and requirements mandatory for implementation by commercial banks and finance and credit institutions licensed by the KR National Bank» and the new edition of Regulation «On Classification of Assets and Corresponding Deductions to Reserve for Covering Potential Losses». The Regulation «On Economic Standards and Requirements», representing the new version of rules for regulation of the activity of banks and other finance and credit institutions licensed by the National Bank, provides all the standard norms and requirements, their meanings, and makes references to the NBKR regulatory acts, contemplating the procedure and peculiarities of calculation of the norms.

The new edition of the Regulation «On Classification of Assets and Corresponding Deductions to Reserve for Covering Potential Losses», passed in the reporting year, has more detailed provisions on assets and off-balance liabilities subject to classification; the Regulation provides the definition of an individual depositary account which is a separate depositary account of a physical or a legal person. At the same time, the clients' settlement account and the bank correspondent account may not be used as security.

Along with the regulatory acts, mandatory for execution by the banks and other finance and credit institutions licensed by the National Bank, for the purpose of providing methodological assistance to bank officers, the Supervision Committee approved Recommendations on making coefficient-based analysis of the banks' activity and Recommendations on organization of the system of internal control. Methodical Recommendations on making coefficient-based analysis of the banks' activity help employees of the commercial banks to make analysis of financial condition and evaluation of the bank activity, applying evaluation coefficients. The Methodical Recommendations on organization of the internal control system establish minimal requirements to organization of the internal control system and internal audit, as well as determine the tasks and functions of the audit unit of the bank, determine responsibilities of the persons in charge of the organization of the internal control system in the bank.



## CHAPTER 4

# PAYMENT SYSTEM

### 4.1. The Payment System and its Development

In 2004 the National Bank of the Kyrgyz Republic implemented a number of actions aimed at modernization of the Payment System of the Kyrgyz Republic via increasing the volume of non-cash transactions and reducing the time of processing the payments.

In view of the introduction of electronic payments and in order to reduce the time of payments' processing the joint Decree of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic *On Terms of Processing Payments in the Payment System of the Kyrgyz Republic and Liability for Violation of the Processing Terms* was approved. In addition, the instructions *On Order of Making Payments within the Inter-bank Clearing System on the basis of Electronic Payment Documents* and *On Order of Making Payments within the Inter-bank Gross System on the basis of Electronic Payment Documents* were approved in light with reorganization of the National Automated Clearing House with its joining to the National Bank and with changing the methods of functioning and serving of the clearing system, as well as the mechanism of its interactions with the payment system participants.

To ensure efficient processing of non-cash payments and integrating the national payment system into international payment systems the Regulation *On Bank Identification Codes for Participants of the Payment System of the Kyrgyz Republic* has been approved.

In frame of the activities carried out by SWIFT<sup>1</sup> the corresponding actions to switch to the new technology of data transfer – SWIFTnet – have been undertaken. Switching to the SWIFTnet allows commercial banks to deliver additional services (connecting their large clients directly to the SWIFT, exchanging protected financial messages in the real-time operation mode, etc.). As of January 1, 2005 eighteen banks are the users of the SWIFT system in the Kyrgyz Republic; out of them 12 commercial banks and the National Bank work through the Shared access SWIFT node of the NBKR.

In 2004 the new payment instruments emerged on the market of retail and recurrent payments. In particular, to settle accounts for mobile and land line telephone communication services the prepaid cards for KGS 250.00, KGS 500.00, KGS 1,500.00 and KGS 3,000.00 have been sold to the population; and it is also intended to use them in the future for settling accounts for the utility services.

#### 4.1.1. Payments and accounts

Participants of the Payment System in 2004 were the National

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<sup>1</sup> SWIFT – Society for Worldwide Inter-bank Financial Telecommunications.

Bank, commercial banks (including the Settlements and Savings Company), and their branch offices. 1090.8 thousand of inter-bank payments for the total amount of som 133.0 billion were processed in the Republic in 2004.

Value and volume of payments processed through the inter-bank systems of money transfer in the reporting year have significantly increased compare to 2003. Thus, the value of payments has increased for som 36.2 billion (37.4 percent), and the volume of payments – for 363.2 thousand (49.9 percent). The positive tendency of the increased value of inter-bank settlements can be explained by the improved macro-economic situation, increased production level, and increased incomes of the population. The use of electronic digital signature and electronic payment documents allowed commercial banks to process retail and recurrent payments of their clients on the individual basis that also facilitated the increase in the volume of payments.

41.1 thousand transactions (3.8 percent of the total value of payment transactions) for the amount of som 93.4 billion (70.1 percent of total volume of payment transactions) have been made in the structure of inter-bank settlements, in the automated gross settlements system. Compare to 2003 indicators the value and the volume of transactions increased by 36.0 percent and 12.0 percent respectively. By volume of payment transactions the absolute growth was observed in the inter-bank settlements and money orders (by 28.0 percent), loan transactions (by 99.0 percent), and securities transactions (by 69.0 percent).

In the clearing system the volume of payment transactions in the reporting year was 1049.7 thousand payments (96.2 percent of the total number) that was by 51.9 percent more than the volume of payment transactions in 2003. The value of payment transactions was som 39.6 billion (29.9 percent of the total value) and has increased compare to 2003 by som 11.5 billion (41.0 percent). The maximum growth rate of value of transactions was reported for inter-bank settlements and payments, transactions with regional branch offices and transactions with the circulating cash (67.8 percent).

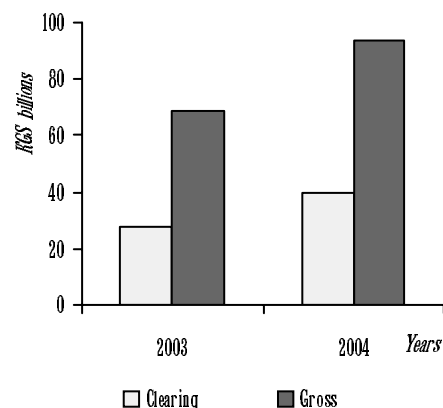
The Chui oblast and Bishkek with better developed industrial, communication and commercial infrastructure have the greatest position by the volume and the value of payment transactions (85.2 and 78.3 percent respectively). The greatest growth rate by the value of payment transactions is in the Issykkul oblast, and by the volume of payment transactions - in the Talas oblast.

The market of banking cards has been developing dynamically. Commercial banks of the Republic were actively engaged in card sales and development of the appropriate infrastructure to accept and service cards of both local and international systems. In 2004 two additional banks became the associated members of the international payment system - Visa International.

The popularity of banking cards has significantly increased that was supported by the emittance of cards of local and international systems. 1572 cards of international system and 6183 cards of local

**Chart 4.1.1.1.**

Dynamics of the value of payment transactions



**Table 4.1.1.1.**

Dynamics of the volume of payment transactions  
(thousand units)

	2003	2004
Clearing system	691.0	1 049.7
Gross system	38.0	41.1

**Table 4.1.1.2.**

Clearing payments by oblasts

	Value, <i>In million soms</i>		Share, <i>In percent</i>		Volume of payments		Share, <i>In percent</i>	
	2003	2004	2003	2004	2003	2004	2003	2004
Chui oblast and Bishkek	24 282	33 759	86.4	85.2	533 209	821 788	77.2	78.3
Issykkul oblast	357	733	1.3	1.8	18 603	29 549	2.7	2.8
Talas oblast	183	303	0.6	0.8	19 226	41 293	2.8	3.9
Naryn oblast	296	497	1.1	1.3	13 591	16 546	2.0	1.6
Jalalabad oblast	945	1 500	3.4	3.7	34 190	51 680	4.9	4.9
Osh and Batken oblasts	2 048	2 842	7.2	7.2	72 076	88 835	10.4	8.5
<b>Total</b>	<b>28 110</b>	<b>39 634</b>	<b>100.0</b>	<b>100.0</b>	<b>690 895</b>	<b>1 049 691</b>	<b>100.0</b>	<b>100.0</b>

system were emitted as of January 1, 2004; and their number reached 3620 and 9916 respectively by January 1, 2005.

In 2004 the volume of payments on international cards for the first time exceeded the volume of transactions on local cards. Increased number of transactions on international cards was explained by the emittance of Visa and MasterCard International in frame of the "salary" projects for settlements in national currency, as well as by corresponding infrastructure development.

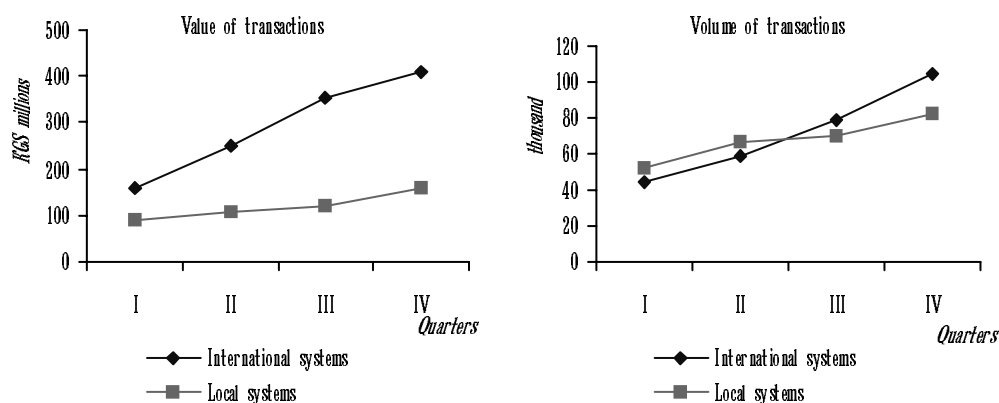
**Table 4.1.1.3.**

Volume and value of transactions on banking payment cards

	Volume				Value, <i>In million soms</i>			
	2001	2002	2003	2004	2001	2002	2003	2004
Visa	8322	13114	44177	184 157	151.1	216.9	353.8	774.9
MasterCard	3307	3972	17001	102 552	55.9	67.0	121.9	396.7
AlaiCard	86735	98694	123976	162 117	72.0	102.4	160.1	271.1
Demir 24	-	-	55946	108 523	-	-	114.9	207.3
Union Card	6	52	76	4 639	0.1	0.5	0.8	29.7

**Chart 4.1.1.2.**

Dynamics of value and volume of transactions on the banking cards' market, 2004



The number of sales outlets equipped with terminals and accepting non-cash retail payments has increased in the reporting year. The AlaiCard is serviced through 73 terminals and 3 ATM, the

Demir24 Card – through 35 terminals and 12 ATM, and cards of international payment systems – through 185 terminals and 6 ATM.

With an aim to develop appropriate infrastructure for servicing banking cards in the Kyrgyz Republic the General Agreement *On establishing a Single Inter-bank Card System in the Kyrgyz Republic* has been developed. This Agreement outlining the concept of development of such system and its basic principles was signed by fifteen commercial banks.

#### 4.1.2. Implementation of the State Program on the Payment System Development

In 2004 one of the priority tasks of the National Bank of the Kyrgyz Republic was the implementation of the State Program of measures for 2003-2005 to introduce non-cash payment system and establish infrastructure ensuring efficient payment execution in the Kyrgyz Republic (hereinafter is referred to as the State Program).

In frame of the State Program's implementation the Government of the Kyrgyz Republic and the International Development Association signed the Credit Agreement for the loan on developmental purposes for the *Modernization of Payment and Banking System Project* in June 2004, which was later ratified in accordance with the order established by the law.

The State Program's implementation provides for the cooperative work with ministries and agencies to create appropriate conditions for the development of the payment system and its instruments, and to implement the *Modernization of Payment and Banking System Project*, which includes establishment of the following components:

- Bulk Clearing System;
- Card Processing Center;
- Real Time Gross Settlement System; and
- General Ledger of the National Bank.

The work on the establishment of the Package Clearing System started in 2004. Technical specifications and a package of tender documents were finalized and coordinated for the project on establishment of the Gross Clearing System in the real-time operation mode.

In order to successfull introduce the project on establishment of the Unified Inter-bank Processing Center and development of the appropriate infrastructure on servicing banking cards all over the Kyrgyz Republic the National Bank of the Kyrgyz Republic together with eleven commercial banks established the Close-type Joint Stock Company *Inter-bank Processing Center*.

To ensure the efficient interface between the newly created components of the payment system and the internal information system of the National Bank of the Kyrgyz Republic the project activities on establishment of the new system of the General Ledger of the National Bank have been undertaken.

The software to ensure the switching to improved security standards, data encoding and increased speed of data transfer has been installed in the National Bank of the Kyrgyz Republic and the

participating banks. To provide for the simultaneous access to and the high speed of the exchange of messages between the National Bank and the payment system participants the Inter-bank Communication Network was modernized. This would allow increasing information security, efficiency and reliability of exchange of e-messages between one or several participants of the electronic trade and payment systems. In addition, the modernization of the Inter-bank Communication Network would allow utilizing it as a main network for transmitting data between banks, and using existing channels as a back-up network.

In order to ensure efficient and continuous operation of the payment system the appropriate work on establishment of the Alternate Site and the Reserve Center for Data Processing with similar server and network equipment and software was carried out on all systems. A room for the Alternate Site and the Reserve Center was prepared in accordance with the requirements of information security and protection.

## 4.2. Cash Circulation

At the end of the reporting year the amount of cash in circulation was som 11425 million and increased by 18.7 percent compare to the beginning of the year. The stable development of the consumer market, the growth of small and medium business, the increased incomes of the population and the stabilization of the exchange rate generated sustainable demand for the national currency.

The composition of banknotes in circulation, in general, was stabilized. Alongside with that, there was a tendency for increase in the unit weight of the KGS 1000 banknotes, and decrease in the share of KGS 100 and KGS 200 banknotes.

**Table 4.2.1.**

Composition of Banknotes in Circulation by their Denomination (at the end of the period)  
(in percent)

	Up to KGS 5	KGS 10	KGS 20	KGS 50	KGS 100	KGS 200	KGS 500	KGS 1000	Total
2003	1.5	1.2	2.3	5.9	11.8	14.7	23.4	39.2	100.0
2004	1.3	1.0	2.0	5.2	10.0	12.8	23.9	43.8	100.0

Based on the analysis of the composition of banknotes in circulation by their denomination certain efforts were undertaken to maintain optimal reserves of banknotes of certain denominations, and the reserve funds have being replenished regularly. In August in view of 90s anniversary of the poet Alykul Osmonov a new KGS 200 banknote was issued.

To maintain appropriate physical conditions of banknotes in circulation the unfit banknotes were withdrawn from circulation. The unfit banknotes worth of som 2049 million were withdrawn from circulation in 2004.

Pay-in of the cash to the cash offices of commercial banks in 2004 was som 57271 million that was 54.0 percent more that in 2003, and pay-outs of cash offices increased by 48.0 percent amounting to som 58432 millions.

Cash turnover in banks' cash offices during the reporting year increased and was 98.0 percent (in 2003 - 94.0 percent). The cash turnover has particularly increased in Issykkul, Osh, and Talas oblasts.

During 2004 the pay-in to the National Bank from commercial banks was som 9514 million and the pay-out from the National Bank to commercial banks was som 11402 million. At that, som 1849 million were paid-out to budget organizations for salaries, som 956 million – for pensions, som 238 million – for benefits, and som 6761 million – for other payments, and som 1408 million were paid-out to self-sustained organizations.

**Table 4.2.2.**

Circulation of cash assets through the cash offices of commercial banks by oblasts

	Pay-ins, <i>In million soms</i>		Pay-outs, <i>In million soms</i>		Turnover, <i>In percent</i>	
	2003	2004	2003	2004	2003	2004
Total	37 067	57271	39 411	58432	94.0	98.0
Bishkek	25 405	40581	22 222	36859	114.3	110.1
Batken oblast	303	483	1 154	1474	26.2	32.7
Jalalabad oblast	2 540	3586	4 420	5480	57.5	65.4
Issykkul oblast	1 207	1901	1 985	2470	60.8	76.9
Naryn oblast	336	468	1 095	1347	30.7	34.7
Osh oblast and Osh	4 716	6622	5 634	6823	83.7	97.1
Talas oblast	257	482	760	1090	33.9	44.3
Chui oblast	2 303	3148	2 141	2889	107.6	108.9

The National Bank carried out activities aimed at further improvement of the normative basis for cash circulation and work of cash offices. Thus, new procedures on preparation and transfer of emission permissions on pay-outing cash, on replenishment of cash offices of the National Bank of the Kyrgyz Republic from the reserves, on accounting for the costs for banknote manufacturing when issuing new banknotes, on accounting for the blanks of strict reporting, and various valuables and documents have been developed. In addition, off-system registration of valuables was automated.

In frame of the activities conducted to verify banknotes' paying capacity in 2004 the banknotes for the amount of soms 125182.00 received by the National Bank of the Kyrgyz Republic by 479 applications were subjected to examination, which established that 140 banknotes for the amount of som 29800.00 were counterfeit. In the Kyrgyz Republic 231 counterfeited banknotes (compare to 303 in 2003) for the amount of som 56280.00 (0.0005 percent of the total amount of money in circulation as of January 1, 2005) were detected. 10 banknotes were with nominal of KGS 1000, 64 - KGS 500, 131 – KGS 100, 22 – KGS 50, and 4 – KGS 20.

According to the data of the Ministry of the Interior of the Kyrgyz Republic 59 cases of counterfeiting of banknotes of the national currency were registered in the Republic in 2004.

The Annual Information and Education Campaign *Som is a Face of Kyrgyzstan* was advocating the idea of careful and cultured attitude towards the national currency. In the framework of the campaign 5000 posters and 40000 pocket calendars with the information on fast detection of security features of banknotes in Kyrgyz and Russian languages were manufactured and distributed in the Republic. The thematic exhibition *Banknotes*



*about the Poets* devoted to the issue of the new KGS 200 banknote with the altered design was conducted in the Numismatic Museum of the National Bank of the Kyrgyz Republic.

## CHAPTER 5

# FOREIGN ECONOMIC RELATIONS

In 2004 the National Bank of the Kyrgyz Republic actively cooperated with various international organizations, as well as with the central banks of the CIS countries and foreign countries. Cooperation of the National Bank with the Central Banks was carried out both on bilateral and on multilateral basis within the framework of the Commonwealth of Independent States, Eurasian Economic Community and Regional Group on Banking Supervision of the countries of Trans Caucasian and Central Asia countries.

### 5.1. Cooperation with international organizations

In 2004 the National Bank of the Kyrgyz Republic continued cooperation with the following international financial organizations: the International Monetary Fund, the World Bank, the Asian Development Bank; and with a number of other international organizations.

Cooperation of the National Bank with the International Monetary Fund was carried out on the following main areas:

- Implementation of actions under the Poverty Reduction and Economic Growth Facility (PRGF Program);
- Enhancement of statistics;
- Development of actions on banking system development and modernization of monetary policy tools;
- Payment system reform.

Completion of the next three-year IMF program under the PRGF become one of the very important events of 2004, which, according to both parties, was remarkable for quality improvement of the implemented economic policy.

In February 2004 the Kyrgyz Republic joined the SDDS - Special Data Dissemination System. The SDDS requirements were implemented by updating the statistical data on monthly and quarterly bases as well as by informing the wide public in framework of general (GDDS) and special (SDDS) standards of data dissemination on the major macroeconomic indicators in monetary sphere through mass media and by placing information on the website of the National Bank.

In 2004 cooperation of the National Bank with the IMF was continued on the following issues: enhancement of laws and regulations; inflation forecasting; drawing up of the balance of payments; payment system reform, etc. So, in April - May 2004 the technical mission of the IMF Statistical Department rendered the consultative assistance to the National Bank of the Kyrgyz Republic and to the National Statistic Committee on the issues of monetary and financial statistics. With a view of improving the quality of statistical data and expanding the volume of duly, complete and accessible information the actions were developed to promote the

implementation of the well-grounded macroeconomic policy. Implementation of actions on enhancing the monetary and financial statistics will be continued in 2005.

The IMF mission highlighted the significant progress achieved in drawing up of the balance of payments statistics. It gave recommendations on further enhancement of the above statistics.

In November the issues of improvement of public relations of the National Bank were discussed with the IMF for the purpose of increasing transparency of the Bank's activity and relevant strategy development.

The results of the carried out actions related to the payment system were reviewed by the IMF mission. Besides, the organizational actions required for coordination of activity of the external participants of the project including ministries and other governmental bodies; commercial banks; public utilities companies; and Postal Service were discussed. The mission gave recommendations for necessity of customs payments and taxes through the accounts in commercial banks with a view of growth of a number of non-cash payments and development of a network of banking institutions, reduction of the services fee and providing population with access to bank services in all regions of the Republic.

During the year the bank continued cooperation with the Regional IMF Project on Public Debt Management in Central Asia and Azerbaijan on the issues of enhancement of external debt statistics and external debt management with a view of obtaining of its sustainability.

Cooperation with the World Bank in the area of the payment system reform was continued. Within the framework of actions on implementation of the "Modernization of payment and banking systems of the Kyrgyz Republic" project the Loan Agreement for this project was signed by the Kyrgyz Republic and by the International Development Association in June 2004.

In 2004 the technical assistance project of the Asian Development Bank on preparation of the "Financial Sector Reform - 2" program supported by the grant provided to the Kyrgyz Republic was completed. Within the framework of this project the National Bank was provided with consultative assistance on the issues of strengthening of supervision and regulation of commercial banks, development of concept and legislative base for further consolidation of the banking system and other issues.

In 2004 implementation of the Asian Development Bank Project "Rural Financial Institutions" credit unions development support was continued. The total disbursement under this credit was \$ 7.0 million, including \$ 1.7 million for the reporting period.

Within the year the National Bank representatives took part in the work of conferences and seminars organized in the city of Bishkek with support of international financial institutions.

The National Bank jointly with European Bank of Reconstruction and Development and with the State Economic Committee of Switzerland (SECO) arranged the international

conference devoted to the " Measures on increasing the confidence to the banking system" in July 2004 in the city of Bishkek. The given conference was carried out with the purpose of economic reforms experience sharing, bank sector reforms in the CIS countries, and in Central and East Europe and discussing measures on increasing the confidence to the banking sector. Representatives of the Administration of the President of the Kyrgyz Republic had taken part in the work of the conference along with representatives of the Jogorku Kenesh, the Government, judicial bodies, commercial banks of the Republic, international financial organizations, and central (national) and commercial banks of the foreign countries.

The National Bank of the Kyrgyz Republic jointly with the Committee on economic and social issues in the countries of Asia and Pacific Region of the United Nations (UNESCAP) carried out the seminar devoted to the issue of external debt management in the conditions of globalization strengthening in October 2004 within the Project of Foreign Debt Administration in the conditions of globalization.

The National Bank of the Kyrgyz Republic within its competence monitored the implementation of the General Agreement on Trade of Services (GATS) and of the Article XV of the General Agreement on Tariffs and Trade (GATT) within the framework of the WTO. Representatives of the National Bank took part in the meetings of the Interdepartmental Commission under the Government of the Kyrgyz Republic on the WTO issues.

## 5.2. Cooperation with Central Banks

Cooperation of the National Bank with the central banks of the CIS countries and with foreign countries on the issues of monetary policy, banking supervision, improvement of legislative and normative and legal base, development of the payment systems, providing of technical and consultative assistance, training of the staff and information exchange was continued. In particular, cooperation with the central banks of Germany, China, Switzerland and France was carried out.

In September 2004 the management of the National Bank of the Kyrgyz Republic visited Germany. During the visit the issues of further cooperation of the NBKR and the Deutsche Bundesbank were discussed. Resulting from the visit the Memorandum of Understanding was signed in the field of technical cooperation between the two banks.

Jointly with the National Bank of China (NBC) the joint plan of activities was developed for basic areas of cooperation of the central banks of the two countries. Basic provisions of the Plan include a bilateral exchange of experience, carrying out seminars on priority issues of development of the banking system of the Kyrgyz Republic for providing an opportunity to study the experience of the National Bank of China.

During the visit of the Chinese People's Republic State Council Prime Minister to the Kyrgyz Republic on October 21, 2004 the Chairmen of the National Bank of the Kyrgyz Republic and the Commission on Banking Regulation in China (CBRC) signed the "Agreement on cooperation in area of banking supervision". The Agreement provides main directions of cooperation, which lays down the ground for cooperation in the area of banking supervision of the two countries.

During 2004 the National Bank of Switzerland provided consultative assistance on the issues of the activity of the bank and conducted training seminars on effective management.

The Bank of France continued to carry out the field seminars. In June 2004 a number of seminars carried out by the Bank of France took place at the Bank's Training Center in the city of Bishkek.

Cooperation with the central banks of foreign countries was continued within the framework of the Regional Group for Banking Supervision of Trans Caucasian, Central Asia countries and Russian Federation. In June, 2004 the National Bank jointly with the International Settlement Bank and Asian Development Bank organized the international seminar "Credit Risks Management" for the countries - members of the Regional Group. Representatives of the central (national) banks and national supervising bodies of Azerbaijan, Georgia, Russia, Kazakhstan, Kyrgyzstan and Tajikistan participated in the work of the seminar.

The National Bank of the Kyrgyz Republic took part in the work of the XIV Conference of the Regional Group for Banking

Supervision of the countries of Trans Caucasian, Central Asian countries and Russian Federation in Saint Petersburg.

The National Bank of the Kyrgyz Republic continued activity directed on further development of economic integration, harmonization and liberalization of the foreign exchange regimes of the countries participants to CIS and Eurasian Economic Cooperation.

Within the reporting year the employees of the Bank took part in the exchange programs and in professional development training courses within the framework of cooperation with the central banks of England, France, Germany, Italy, Switzerland, and Japan. In the reporting year the employees of the Bank participated in the seminars and training courses at the central banks of Denmark, Holland, Poland, Czech Republic and Chinese People's Republic.

Cooperation of the National Bank with the central banks of the CIS countries was continued within the framework of activity of the integration institutes. The National Bank representatives participated in the meetings of experts and working groups of the CIS Interstate Monetary Committee, CIS Interstate Bank, Secretariat of Integration Committee of EEC on the issues of activation of works on arranging the integrated currency market of the states - participants, on setting up a common payment-and-settlement system, and on enhancement of payment-and-settlement relations on the basis of wide use of national currencies.

At the three 2004 meetings of the Council of the heads of central (national) banks of the states - participants of EEC, one of which took place in Bishkek on June 29-30, 2004, the following issues were considered: the banking systems development; foreign exchange cooperation; and interaction of the national payment systems. One of the important results of the work of the Council of the heads was adoption of the Cooperation Agreement in the field of training the central banks personnel of the states - participants of the EEC and Agreements on Unification of the procedure of opening bank accounts by the residents of the states - participants in the other states - participants of the EEC for the purpose of providing services to their Representations.

Within the framework of the adopted Cooperation Agreement in the field of training the Central Banks personnel of the states - participants of the EEC the National Bank representatives in 2004 participated in the training at the National Bank of the Republic of Kazakhstan and Bank of Russia where they studied experience of the given banks on conducting of monetary policy, currency regulation, and banking supervision.

The National Bank took part in the work of Annual Meeting of the Advisory Council of Internal Audit Service of the central banks of the CIS countries and Baltic countries arranged by the National Bank of Armenia. The main goal of the Advisory Council is to provide effective experience sharing in the field of auditing, identifying and evaluating risks in the central bank.

In turn, the National Bank of the Kyrgyz Republic with the purpose of studying experience of accounting and reporting hold

training for the representatives of the National Bank of the Republic of Kazakhstan and for the representatives of the Bank of Russia on the issues of banking supervision and further development of its rules and regulations. Under initiative of the National Bank of Ukraine, Bank of Russia, National Bank of Georgia, National Bank of the Republic of Armenia the National Bank of the Kyrgyz Republic arranged training for the employees of the above banks on exchange of experience in the field of Public Relations and increasing the transparency of activity of the central bank.



## CHAPTER 6

GENERAL INFORMATION ON THE  
ACTIVITY OF THE NATIONAL BANK OF  
THE KYRGYZ REPUBLIC

## 6.1. Basic principles of monetary policy implementation

The National Bank operates in compliance with the Constitution of the Kyrgyz Republic, with the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic" and in compliance other laws and regulations. The National Bank as the central bank of the country has been granted a special legal status by the current legislation, in conformity with which it has the right to carry out independent actions in the area of monetary policy. The National Bank is not a part of the structure of the Government of the Kyrgyz Republic. The special legal status allows National bank to operate within the limits of its competence and to coordinate its activity with the nation-wide economic policy.

The goal of the National Bank, according to the Article 2 of the Law "On the National Bank of the Kyrgyz Republic", is to achieve and to maintain the price stability by means of carrying out appropriate monetary policy. The monetary policy is an important element of the nation-wide economic policy aimed on poverty reduction, sustainable economic growth support, market relations development and growth of competitiveness of the economy by means of structural reform implementation in the Republic.

Price stability is the long-term concept that allows to observe strategic direction of the monetary policy implementation and to keep flexibility in the short-term period. In practice the price stability is understood as stable low rates of price growth. Price stability is measured by the "inflation" indicator, the target value of which is around 3 percent in the developed economies. As a rule, for the countries in transition this value is higher.

Value of the long-term monetary policy target indicator is provided by the strategy of "Comprehensive Development Framework of the Kyrgyz Republic till 2010". Mechanisms of its implementation are provided by the "Poverty Reduction Strategy Paper for 2003-2005", which concretizes a set of monetary policy actions for the mid-term period.

Annually the National Bank develops the "Basic areas of monetary policy" and announces the value of the target indicator for the next year in a view of dynamics of inflation and both current and expected status of economy. It also opens the mechanisms of achieving the monetary policy target indicator.

Transition nature of economy provides peculiarities of implementation of the National Bank monetary policy. Such peculiarities are: inflation capacity; instability of influence of the

monetary policy on economy (the transfer mechanism); and financial market status.

For the countries with transition economy the high inflation rate is typical, which undermines the purchasing power of money and reduces economic activity. The poor population suffers from it most of all. Over the years of economy transformation the equilibrium of economy has been considerably improved in the Kyrgyz Republic, inflation expectations have been reduced, which was reflected in sustainable decrease of inflation. At the same time, in transition economy the inflation capacity is kept, basically, due to incompleteness of structural reforms and exposure to external shocks.

Inflation is formed under the influence of numerous factors, part of which is not under control of the Central Bank; therefore the National Bank carries out its monetary policy according to the status of economy and prospects of its development. The consumer price index does not reflect in full the influence of monetary policy on a price level. A number of Central Banks uses the base inflation indicator, which reflects the growth of consumer prices basically under the influence of monetary factors. The National Bank continues development of a technique for estimating the base inflation with reference to the conditions of the Kyrgyz Republic

Central Bank carries out relevant operations, given that in the countries with developed economy the basic tool of monetary policy are the operations in open market. The transfer mechanism works mainly through the monetary market interest rate, the change of which influences the value of financial instruments with longer term of circulation. Economic agents adjust their behavior in relation to investments and consumption, resulting in the change of business activity and redistribution of resources.

There are differences in functioning of the monetary policy transfer mechanism in developed economy and in transition economy. The National Bank regulates the money supply satisfying the needs of economy, which is a requirement for its sustainable development. Transformation of interest rate into effective tool of monetary policy is impossible without further development of financial market in the Kyrgyz Republic.

The status of financial market is very important not only from the point of view of monetary policy implementation. International experience shows that the advanced financial market promotes transformation of savings into a capital, stimulates acceleration of economic growth and limits the risks inherent for financial operations. Expansion of access of the least well-off population to financial services creates conditions for poverty reduction by accumulation of savings and their productive use, which entails increase of incomes of this category of population.

Thus, the advanced financial market promotes growth of economy and raises its resistance to external shocks and improves efficiency of monetary policy. Therefore the National Bank carries out the actions aimed on strengthening of institutions, on infrastructure development, on expansion of a set and improvement of quality of the financial market instruments.

One of the most important participants of financial market is the system of commercial banks, strengthening of which is carried out by the National Bank within the framework of the Program "Basic Areas (Program) of Midterm Development of the Bank Sector of the Kyrgyz Republic". The goal of the Program is to enhance both quantitative and qualitative characteristics of financial intermediary, to strengthen the role of bank sector in the economy of the Republic.

The reliable, sustainable and effective payment system is a required component of the developed money market and of financial market in general. Status of payment system is very important in the situation of integration of economy of the Republic in the world economy. The National Bank jointly with the Government is involved in implementation of the state program of payment system development, aimed on expansion of non-cash forms of currency, of the resources of financial institutions, and access of the population to financial services.

The National Bank constantly raises transparency of the monetary policy implementation mechanism. Transparency and accountability of its actions is ensured by providing the Jogorku Kenesh of the Kyrgyz Republic with Annual Reports, with data on the basic areas of monetary policy and development of bank system of the Republic. The National Bank also on a regular basis informs the public on a status of monetary policy indicators and explains the basic actions on achieving the target monetary policy indicator. Development and dissemination of information is carried out by the National Bank according to the international standards<sup>1</sup>.

Implementation of the National Bank monetary policy on price stability promotes economic growth in the Kyrgyz Republic. For instance over the 1995-2004 the average rates of consumer price growth and of the Gross Domestic Product have made up 15.3 percent and 4.1 percent percent respectively. Thus for past 5 years (2000-2004) the annual inflation rate has decreased and reached 4.7 percent and the annual growth of a real Gross Domestic Product was at a level of 4.8 percent i.e. economic growth in the Kyrgyz Republic is accompanied by inflation reduction.

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<sup>1</sup> In February 2004 the Kyrgyz Republic joined the Special Data Distribution Standard (SDDS).

## 6.2. Structure of the National Bank of the Kyrgyz Republic

Specificity of work of the National Bank, its development strategy, and environment in which it operates as well as a number of other factors predetermine its organizational structure, which is intended for achieving the expected goals on a maximal extend.

Implementation of the functions and responsibilities are distributed between the structural divisions of the National Bank of the Kyrgyz Republic, which, all together, represent its organizational structure. The Kyrgyz Republic National Bank organizational structure includes the following: departments, independent units, special service, and positions.

In 2004 some changes had occurred in the organizational structure. In connection with implementation of the State Actions Program for 2003-2005 on introduction of the non-cash payments system in the Kyrgyz Republic and on setting up the infrastructure capable to provide effective payments, as well as with a view of implementation of work, specialization of functions and effective coordination of divisions, the new organizational structure of payment system management was adopted.

For the purpose of providing an uninterrupted functioning of the inter-bank systems and participation in implementation of projects on the Kyrgyz Republic payment system modernization within the framework of the state program the new structural division - the Bank Settlement Department - was set up. The given Department was set up on the basis of the governmental enterprise the " National Computerized Clearing Organization " and Operational Unit of the Accounting Department. The function of inter-bank clearing and gross was transferred to it.

The National Bank Security Service has been transformed into Department of Security and Information Protection.

In 2004 the focus was made on optimization of organizational structure of Regional Departments of the National Bank of the Kyrgyz Republic. In this respect, in order to achieve objectives of the Regional Departments, such as Public Relations, strengthening of bank supervision and supervision of non bank organizations, improvement of the process of Regional Department administration, optimization of the number, and tightening up of executive and labor discipline the evaluation of professional level of the National Bank Regional Department personnel was carried out.

Evaluation Committee for professional development standards of employees provided recommendations, which served as a basis for the process of reorganization of the National Bank Regional Departments. New edition of the Model Regulation "On Regional Department of the National Bank of the Kyrgyz Republic " was adopted.

One of the forms of administrative competence enhancement, of ensuring collective participation in decision-making is participation of the leaders of the structural divisions in the work of the following

permanent Committees of the National Bank: Monetary Regulation Committee, Committees on supervision, on payment system, on risks, and Investment Committee.

The following Committees function at the National Bank as well: Certifying Committee; Methodological, Qualifying and Disciplinary Committees; Editorial and Supervisory Councils; Committee on Risk Assets Classification and Off-balance Obligations. Working Groups are established for implementation of projects, where many structural units are involved.

As of January 1, 2005 the actual number of employees of the Bank Headquarters was 410 and in the Regional Departments there were 101 employees. The number of experts was 397 (329 - in the Bank Headquarters and 68 - in the Regional Departments), including: experts with higher education - 366 or 92.2 percent; 1 Doctor of Sciences; and 7 Candidates of Sciences. The team of the National Bank is highly skilled and, mainly, young (more than 30 percent of the personnel are below 30 years of age).

In 2004 work on enhancement of the competitive personnel selection system continued, which provides objective and fair approach at decision-making about employment with the National Bank of the Kyrgyz Republic. Over the fiscal year 27 open and 5 internal vacancies were announced and vacancy tenders were carried out at the National Bank, where 430 people took part. Vacancy announcements for open tenders were published in mass media and placed on the KR National Bank's website and on the public service portal.

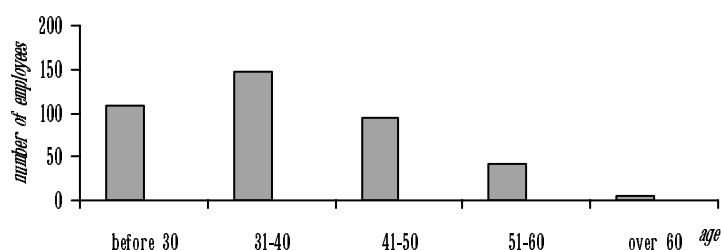
Over the period of 2004-2006 the work on Human Resources Strategy has been focused on the following:

- preservation, strengthening and personnel capacity development, as well as administrative competence development of the leaders;
- development of the system of reserve for the key positions;
- development and enhancement of existing Job Description and functional matrixes;
- enhancement of the existing system of rotation and personnel training, first of all, planning of the on-job training.

The National Bank of the Kyrgyz Republic emphasizes development of human resources by means of professional development. In 2004 the National Bank employees were trained on the following areas: macroeconomic regulation and financial stability

**Graph 6.2.1.**

Age Structure of the Personnel

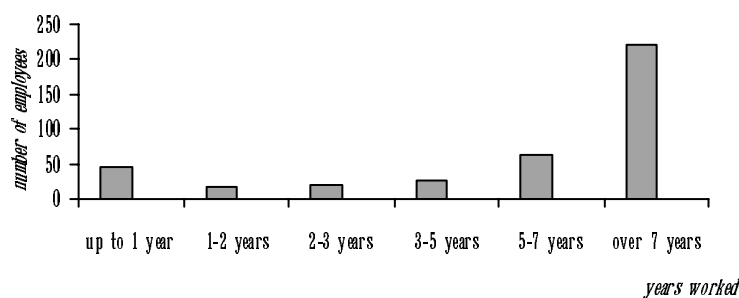


issues, monetary theory and policy, forecasting of inflation and inflation targeting, international reserves management, experience of foreign countries in carrying out monetary policy, supervision of commercial banks activity and other non-bank financial and credit organization, external audit of banks and financial and credit organizations, international experience of bank regulation and supervision, payment systems and securities settlement systems, etc.

Over the fiscal year more than a half of the National Bank employees have participated in training, including experts from the Regional Departments. It is worth noting that some training events were carried out at the Bank Training Center (BTC). The total number of experts from the National Bank of the Kyrgyz Republic covered by the BTC training was 163. Apart from that in 2004 the focus was made on training of experts from the supervising block and employees of the Kyrgyz Republic National Bank Regional Departments. 14 experts of the Regional Departments were covered by the on-job training at the lead structural divisions of the Bank Headquarters.

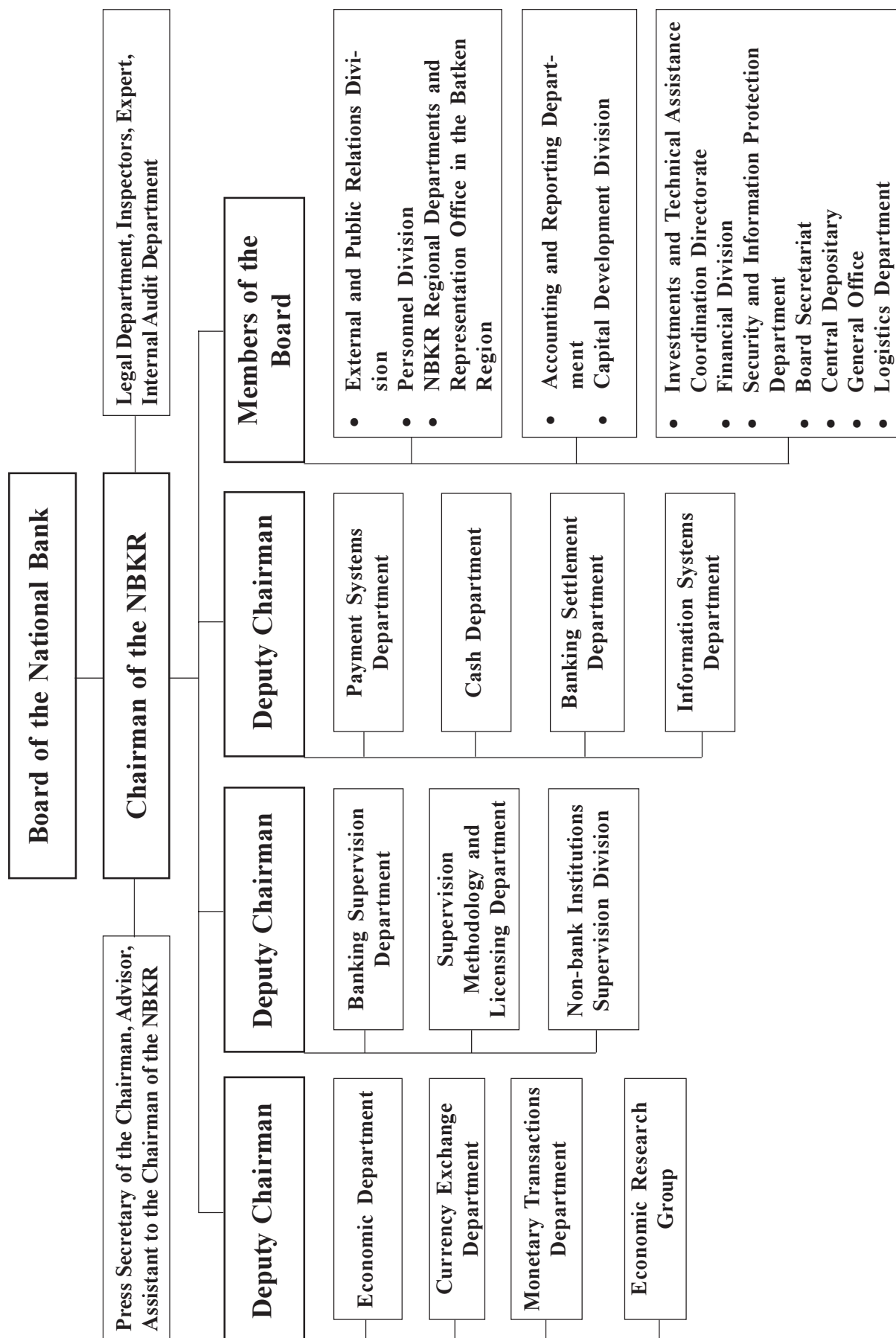
**Graph 6.2.2.**

Employees Structure by Years of Service



Training of linear managers was continued: a two-stage workshop on *Management in Central Bank and Role of Leadership* was organized. The workshop was participated by heads of structural divisions of the National Bank of the Kyrgyz Republic.

Organizational Chart of the National Bank of the Kyrgyz Republic as of December 31, 2004





## Main Functions of the Structural Divisions of the National Bank of the Kyrgyz Republic

Board	The Board is a supreme collegial body of the NBKR administration, which defines the main directions of its activities. The Chairman of the Board is appointed by the President of the Kyrgyz Republic with the agreement of the Jogorku Kenesh of the Kyrgyz Republic for 7 years. Members of the Board are appointed by the President of the Kyrgyz Republic at the suggestion of the Chairman of the National Bank of the Kyrgyz Republic for 7 years.
Economic Department	The Economic Department develops proposals on monetary policy and its implementation; and carries out analysis of real, financial, budget, tax and external sectors of the economy.
Currency Exchange Department	The Currency Exchange Department develops proposals and implements the policy of management of the international reserves of the National Bank, analyzes stability of the external debt, accomplishes monitoring over debt service, and implements the National Bank policy in the field of development of currency-financial relations.
Monetary Transactions Department	The Monetary Transactions Department carries out various evaluations and analyses, identifies tendencies and causes of fluctuations on financial markets to efficiently coordinate transactions on the open market, and makes transactions on internal financial markets.
Economic Research Group	The Economic Research Group is responsible for analytical and research activities, improvement of methodology of these activities, and participates in scientific and information exchanges.
Banking Supervision Department	The Banking Supervision Department arranges for the supervision over activities of banks and financial institutions licensed and regulated by the National Bank to ensure their compliance with economic standards, with the legislation of the Kyrgyz Republic, and with the normative acts of the National Bank.
Supervision Methodology and Licensing Department	The Supervision Methodology and Licensing Department is responsible for issuing licenses to banks, development and improvement of banking supervision and commercial banks' and other financial institutions' (licensed by the National Bank) regulation techniques and methodologies; and develops main directions of banking system development.
Non-bank Institutions Supervision Department	The Non-bank Institutions Supervision Department accomplishes supervision over activities of micro-financial organizations and other non-bank institutions licensed and regulated by the National Bank of the Kyrgyz Republic.
Payment Systems Department	The Payment Systems Department develops and implements activities to ensure efficient operation, reliability and safety of the payment system.
Banking Clearings Department	The Banking Clearings Department ensures uninterrupted operation of inter-bank clearings systems.
Cash Department	The Cash Department supplies Republic's economy with cash, organizes cash circulation, and promotes implementation of activities to fight counterfeiting of money.

Central Depository	The Central Depository exercises control over preservation of reserves and funds.
Internal Audit Division	The Internal Audit Division carries out revisions and evaluations of the in-place system of internal control and develops recommendations on its improvement.
Legal Division	The Legal Division provides for complex legal support to activities of the National Bank of the Kyrgyz Republic, development and advocacy of banking legislation.
External and Public Relations Division	The External and Public Relations Division informs public on objectives, tasks and activities of the National Bank of the Kyrgyz Republic, establishes cooperation with external organizations and mass media.
Personnel Division	The Personnel Division selects and allocates personnel, arranges trainings and other activities on raising professional skills of the employees, and introduces motivation tools for the employees to increase efficiency of their work.
Financial Division	The Financial Division carries out planning and accomplishes control over financial activities of the National Bank of the Kyrgyz Republic.
Accounting and Reporting Department	The Accounting and Reporting Department maintains accounts of transactions and compiles financial report of the National Bank, develops documents regulating accounting practices in the bank, and accomplishes internal control over bank's operational activities.
Investments and Technical Assistance Coordination Directorate	The Investments and Technical Assistance Coordination Directorate carries out activities on implementation of credit lines in frame of the cooperation with international financial organizations, and activities on attraction and utilization of technical assistance.
Information Systems Department	The Information Systems Department covers the NBKR's needs in automated processing of data on the basis of modern information technologies.
General Office	The General Office ensures efficiency of the documents circulation and clerical work in the National Bank, including control over its implementation.
Board Secretariat	The Board Secretariat provides for organizational support to the work of the Board of the National Bank of the Kyrgyz Republic.
Security and Information Protection Department	The Security and Information Protection Department ensures security of activities of the National Bank of the Kyrgyz Republic.
Logistics Department	The Logistics Department provides for logistical support to the activities of the National Bank of the Kyrgyz Republic.
Capital Development Division	The Capital Development Division is responsible for organization of construction and repair works.
Regional Departments and Representation Offices	The Regional Departments and Representation Offices of the National Bank of the Kyrgyz Republic supply commercial banks and their branch offices with cash, carry out supervision over observation of the banking legislation by banks and other financial institutions licensed by the National Bank of the Kyrgyz Republic, and accomplish other functions within their established competencies.

## 6.3. Activities of the Board of the National Bank of the Kyrgyz Republic in 2004

In accordance with the law On National Bank of the Kyrgyz Republic the Board is the supreme body of governance of the National Bank and shall define the main directions of its activities.

The Board shall review and approve the monetary policy, normative acts, annual reports, an order of emitting new samples and nominal of banknotes and an order of demonetizing banknotes and coins, and other issues, which are under the jurisdiction of the national Bank according to the law. The Board shall also consider the issues within its jurisdiction in accordance with the Regulations of the Board of the National Bank, i.e. issues on providing loans of the last instance, issuing, withdrawing or suspending banking licenses, initiating and applying bankruptcy procedures, introducing temporary administration and other issues.

During the reporting period the work of the National Bank's Board has being accomplished on the basis of approved annual and quarterly work plans. In 2004 the Boards of the National Bank had 36 meetings to review 258 issues and make relevant decisions on 162 of them.

The Board of the National Bank annually approves *Main Directions of the Monetary Policy* and adopts the *Statement of the National Bank of the Kyrgyz Republic On Monetary Policy* for the upcoming year. Based on the state and the forecast of development of all economic sectors and taking into account structural reforms and changes in the tax and budget sphere being accomplished in the Republic the Board of the National Bank annually defines the target inflation rate and the interim quantitative reference points of the monetary policy. These indicators are published in the Annual Statement of the National Bank of the Kyrgyz Republic on Monetary Policy for the upcoming year. To regulate the money supply various instruments are used; and the Board of the National Bank is entrusted to select these instruments.

To enhance efficiency of the monetary policy instruments and further develop the inter-bank financial market the Board of the National Bank adopted a number of normative acts: a new redaction of the regulations *On Mandatory Reserves*, *On Overnight Loan*, *On Activities of Primary Dealers on the Market of State Securities Distributed through the National Bank of the Kyrgyz Republic*, an instruction on the work of primary dealers with state treasury bills, a temporary instruction on organization of depositary registration, an order of circulation of the NBKR Bills on the secondary market, and others.

The Board of the National Bank outlines general objectives and principles of reserves management, an investment strategy, a general strategy and a normative base for risk management while managing international reserves. To minimize the risks and taking into account the situation on world financial markets, and the structure of liabilities

of the National Bank and the Government of the Kyrgyz Republic the Board of the National Bank annually approves the Regulation On Reference Portfolio of International Reserves of the national Bank of the Kyrgyz Republic, which sets the set of instruments and the terms of instruments in the investment portfolio. Also it quarterly defines the structure of international reserves and the set of instruments of working asset in each currency. In addition, the Board of the National Bank took decisions to diminish low-liquid assets in international reserves.

In 2004 the Board of the National Bank adopted 17 resolutions on the issues of monetary policy and international reserves management.

During the reporting year the Board of the National Bank, as before, paid a lot of attention to the issues of development and strengthening of the republic's banking system, at the same time focusing in improvement of banking supervision and regulation. In today's conditions the role of supervision and prudential regulation in identifying the existing problems, and, first of all, those related to the accelerated complexity of risk management, both at the level of individual financial organizations and on the scale of the entire banking sector, is increasing. In this regards the Regulation *On Minimum Requirements to Risk Management in Banks of the Kyrgyz Republic* outlining the minimum requirements to organization of risk management in commercial banks has been approved.

In general, during the reporting year, 18 resolutions were adopted on issues of activities of individual commercial banks and institutions licensed by the National Bank. The Board of the National Bank also adopted 11 resolutions on normative base, which regulated activities of commercial banks. Those were both new normative acts and amendments to the previously adopted ones. Among the normative acts approved by the Board of the National Bank in 2004 the requirements to the banks on the work with securities should be especially emphasized. Beside the new redactions of the following documents have been approved: regulations of economic standards and requirements compulsory for implementation by commercial banks and financial institutions licensed by the National Bank of the Kyrgyz Republic, instructions on limitations of crediting, instructions on registration of the purpose payment in banks, regulations on licensing commercial banks, regulations on reporting on bank's international transactions, a temporary instruction on minimum requirements to officers of commercial banks and financial institutions licensed by the National Bank of the Kyrgyz Republic, and an order of their coordination with the National Bank, regulations on requirement to accounting policy of commercial banks, regulations on minimum requirements to risk management in banks of the Kyrgyz Republic, instructions on the order of observing the limits of the open currency position by commercial banks within the boundaries of the Kyrgyz Republic.

The payment system is an important element of the financial system. Reliable and effective payment system is essential for

maintaining normal operations of the financial market and conducting the monetary policy. Considering the importance of this issue the National Bank took a leading role in developing the policy on general structure and practical activities of the payment system of the Kyrgyz Republic. The Board of the National Bank conducts enormous work on organization, development and approval of strategic activities aimed at development and improvement of the payment system of the Kyrgyz Republic, main principles of supervision and control over activities of the payment system, and efficient mechanisms of processing payments.

Regulations on the plan of actions on organization of the emergency rehabilitation of automated payments systems in the banking system and preparation to implementation of projects of the State Program of the Kyrgyz Republic on cash-free settlements, on terms of processing payments in the payment system of the Kyrgyz Republic and on responsibility for breaking the terms have been also approved. Also the regulation on the concept of switching to the new standards of bank identification codes and numeration of bank accounts have been adopted, and the instructions on the order of processing payments within the inter-bank clearing system on the basis of electronic payment documents, on the order of processing payments within inter-bank gross system on the basis of electronic payment documents, regulations on bank identification codes, and on legal and standard basis on the payment system of the National Bank have been approved. Totally 7 resolutions were adopted on the issues related to the payment system.

The Board of the National Bank quarterly reviewed reports on current state of the payment system and the system of clearings, as well as the issue of implementation of projects under the *State Program of Actions for 2003-2005 on Introduction of the cash-free payments and Creation of Infrastructure Capable of Providing for Efficient Processing of Payments in the Kyrgyz Republic*. The Board regularly reviewed implementation of the action plan on repayment of funds of the credit line EBRR-1.

In accordance with the order of work of the Board of the National Bank, as needed, preliminary discussions are being conducted to develop decision to be taken.

In order to increase efficiency of activities of the National Bank of the Kyrgyz Republic the Board regularly reviews issues of risk management, organizational structure, development of information technologies and other issues. Thus, during the reporting year 30 resolutions were adopted on the issues related to the normative basis of the National Bank of the Kyrgyz Republic and 78 resolutions - on the issues of internal activities of the National Bank and other issues.

## 6.4. Improving Banking Legislation and Implementing the Function of a Financial Advisor

The National Bank in 2004 continued its work on improvement and development of the banking legislation of the Kyrgyz Republic.

During the reporting year the following two laws previously developed by the National Bank of the Kyrgyz Republic were adopted and brought into effect:

- The Law On Amendments and Addenda to Legislative Acts of the Kyrgyz Republic, which introduced amendments and addenda into the Laws of the Kyrgyz Republic *On Banks and Banking Activity in the Kyrgyz Republic* and *On Auditing Activity*. These amendments and addenda are aimed at increasing the quality and the efficiency of banks' external audit to maintain stability of the banking system of the Kyrgyz Republic and sustainability of banks, as well as ensuring protection of the interests of depositors and other clients of banks; and

- The *Law On Conservation, Liquidation and Bankruptcy of Banks*, which sets the order of applying procedures of conservation (readjustment, rehabilitation), voluntary and forced liquidation (including bankruptcy procedure) to banks and other financial institutions accomplishing transactions with deposits. The Law regulates the order and the conditions of their appliance, and other relations emerging as a result of bank's incapacity or refusal to satisfy creditors' requirements or in case of violation of legislation requirements, or as a result of decision taken by bank's shareholders on termination of its activities. To ensure efficient application of the Law it was accompanied with the Draft Law *On Amendments and Addenda to some Legislative Acts of the Kyrgyz Republic* developed by the National Bank as a 'package', which has not been yet considered by the Parliament.

The Draft Law *On Amendments and Addenda to some Legislative Acts of the Kyrgyz Republic* providing for introduction of amendments and addenda to the Civil Code of the Kyrgyz Republic, the Civil Procedural Code of the Kyrgyz Republic, the Labor Code of the Kyrgyz Republic, the Code of the Kyrgyz Republic on Administrative Responsibility, the Penal Code of the Kyrgyz Republic, the law of the Kyrgyz Republic *On joint Stock Companies*, the Laws of the Kyrgyz Republic *On Banks and Banking Activities in the Kyrgyz Republic* and the *Bank Secrecy* was developed. The Draft Law was developed to eliminate contradictions with banking legislation and to bring it into compliance with the Basel Principles on the issues related to the bank secrecy.

In 2004 the work on the Draft Law *On Amendment and Addenda to the Law On Banks and Banking Activities in the Kyrgyz Republic* providing for the introduction of amendments and addenda aimed at introduction of norms of consolidated supervision, including abolishment of the 15 % limitation for possessing shares of banks by legal entities engaged in financial and / or banking activities



was continued. This Law was adopted in its first redaction by the Legislative Assembly of the Jogorku Kenesh of the Kyrgyz Republic.

The work on the Draft Law *On Combating Terrorism Financing and Laundering of Incomes Obtained in a Criminal Way* finalized with taking the account of renewed recommendations of the Target Group on Financial Measures to Fight Money Laundering (FATF<sup>1</sup>) continued. The project is aimed at creation of a system of measures to detect, prevent, and investigate activities related to financing terrorism and laundering incomes obtained in a criminal way. It is also intended to establish an authorized state agency entrusted with authorities for obtaining, analyzing and disseminating of data regarding suspicious transactions subject to mandatory control. This draft Law was adopted in the first redaction by the Legislative Assembly of the Jogorku Kenesh of the Kyrgyz Republic on December 9, 2004. The Jogorku Kenesh of the Kyrgyz Republic also reviewed drafts of 'package' laws developed by the National bank of the Kyrgyz Republic and related to introduction of amendments to the Criminal Code and the Code of Administrative Responsibility of the Kyrgyz Republic.

Draft laws initiated by members of the Legislative Assembly of the Jogorku Kenesh of the Kyrgyz Republic aimed mainly at changing the order of establishing economic norms on defining the standards for banks' capital sufficiency, minimum size of authorized and equity capital for newly established banks and the banks' capital structure were evaluated. During the reporting year the National Bank also evaluated the Draft Law of the Kyrgyz Republic *On Collateral*.

The Draft Laws *On Accumulative Pension Funds of the Kyrgyz Republic and On Credit Bureaus and Creating Credit Histories*, the Standards Draft Law *On Protection of Citizens' Deposits in Financial Organizations* in frame of the Inter-parliamentary Assembly of Eurasian Economic Cooperation, *On Venture Activities*, and the New Redaction of the Draft Law *On Licensing* have been examined.

The National Bank of the Kyrgyz Republic took part in developing the Draft Law *On Electronic Digital Signature*, which has been adopted by the Legislative Assembly of the Jogorku Kenesh of the Kyrgyz Republic on May 18, 2004. The Law sets forth legal conditions for the use of electronic digital signature in the process of exchanging electronic messages, which recognizes the electronic digital signature as the equivalent of the manual signature. The regulating role and authority of the National Bank in terms of applying electronic digital signature in electronic payment systems was defined.

To establish the branchy and reliable infrastructure capable of providing for the accessibility of payment services for legal entities and individuals within the boundaries of the Kyrgyz Republic the Law *On Postal Savings System* developed with the contribution of the

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<sup>1</sup> FATF - a target group on financial measures to fight money laundering, which sets the standards and develops the policies in the field of combating money laundering and terrorism financing. 40 recommendations and 8 special recommendations adopted by this organization are recognized as international standards.



National Bank was adopted. The Law provides for the use of postal network as a branchy infrastructure for delivering payments and other banking services in the regions.

The Concept of the Deposits Protection System has been finalized, including the Draft Law *On Deposits' Protection* taking into account recommendations and proposals received during its discussion. It is planned to develop an additional (package) draft law providing for amendments to some legislative acts. Currently the preliminary conditions crucial for efficient introduction of the deposits' protection system and adoption of the Law *On Deposits Protection* are in the process of implementation.

During the reporting year the work on improvement of the normative basis regulating activities of banks and other financial institutions licensed by the National Bank of the Kyrgyz Republic continued. The Board of the National Bank approved the following normative and legal acts: instructions *On Field Inspections*, *On Crediting Limitations*, *On Observing the Limits of Open Currency Position by Commercial Banks in the Kyrgyz Republic*, a new redaction of the temporary instruction *On Minimum Requirements to Officers and Managers of the Internal Audit Services of Commercial Banks and Other Financial Institutions Licensed by the National Bank of the Kyrgyz Republic and Their Coordination with the National Bank of the Kyrgyz Republic*, *On Determining the Standards for Capital Adequacy of Commercial Banks of the Kyrgyz Republic*, requirements to the banks regarding the work with securities, order of assigning the status of non-accounting interest income, the Regulation *On Economic Norms and Requirements Mandatory for Implementation by Commercial Banks and Financial Institutions Licensed by the National Bank of the Kyrgyz Republic*, the Regulation *On Classification of Assets and Corresponding Deductions to the Reserves for Covering Potential Losses*, the Regulation *On Mandatory Reserves*, the list of main documents generated during activities of commercial banks and financial institutions with terms of their archiving, the Regulation *On Requirements on Discounting Policy of Commercial Banks and Financial Institutions Licensed by the National Bank of the Kyrgyz Republic*, and other normative acts.

Methodological recommendations on accounting for changes in financial evaluations, changes in discounting policy and adjustments of fundamental errors in financial reports of commercial banks and other financial institutions regulated by the National Bank of the Kyrgyz Republic, temporary methodological recommendations on verifying observance of security of information systems in commercial banks of the Kyrgyz Republic, methodological recommendation on analysis of banking activities on the basis of coefficients, methodological directions on organization and implementation of accounting practices for credit unions, and other documents have been developed.

In frame of the requirements of the Law *On National Bank of the Kyrgyz Republic* the draft normative acts developed by agencies

of executive authorities and related to banking and financial system of the Kyrgyz Republic have been examined.

In frame of the implementation of the Decree of the President of the Kyrgyz Republic *On National Strategy for Information and Communication Technologies for Development of the Kyrgyz Republic*, the National Bank participated in the conference *Policy Making in the field of Information and Communication Technologies: Cooperation between Public Agencies, Business Sector, International Organizations and Civil Society*. The Conference presented proposals on the structure of electronic payment documents, and statistical data regarding electronic payments processed within the payment system. At the Conference it was decided to develop a consolidated action plan on information and communication technologies for years 2004-2005.

In 2004 the National Bank took part in the work of meetings of the Council on Economic Policy under the Government of the Kyrgyz Republic. Thus, on February 18, 2004 the *Main Directions for Mid-term Development of the Banking Sector of the Kyrgyz Republic* were approved. The Report of the National Bank of the Kyrgyz Republic on implementation of the State Program of Actions on Introduction of Cash-free Payments System and Appropriate Infrastructure capable of ensuring efficient processing of payments in the Kyrgyz Republic was heard. According to the Program the well coordinated activities of ministries, administration agencies, commercial banks and corporations delivering regular services to the population on accepting payments for utilities, and communication services are undertaken through accounts in commercial banks in order to create an efficient system of cash-free settlements and a supporting infrastructure capable of proving for processing of retail and recurrent payments through the bank accounts in the Kyrgyz Republic.

The joint Decree of the Government of the Kyrgyz Republic and the Board of the National Bank of the Kyrgyz Republic *On Establishing the Terms for Processing Payments in the Payment System of the Kyrgyz Republic and Liability for Violation of the Terms* sets forth the terms for processing electronic payments in the payment system of the Kyrgyz Republic and establishes liability for violation of these terms. The document was adopted in relation with the introduction of electronic payment documents that allowed creating necessary conditions to facilitate processing of payments of the payment system participants disregarding their geographical location.

In line with the reorganization of the National Automated Clearings Chamber through its joining the National Bank of the Kyrgyz Republic the instructions *On Order of Processing Payments within Inter-bank Clearings System on the basis of Electronic Payment Documents* and *On Order of Processing Payments within Inter-bank Gross System on the basis of Electronic Payment Documents* were developed and approved. The instructions provide for amending some rules and orders of processing payments and determining the limit for the debit net position of clearing participants,

conducting final clearing, and amending the order of operations of the clearing system.

The Board of the National Bank approved the Regulation *On Bank Identification Codes of Participants of the Payment System of the Kyrgyz Republic*. The use of unified standards for bank identification codes will allow for efficient processing of growing flow of cash-free payments in the Kyrgyz Republic and create conditions for integration and compatibility of the national payment system with international payment systems. The Regulation describes the system of bank identification codes for the payment system participants of the Kyrgyz Republic and participants' branch offices, structure of the directory and the order of its assigning to the payment system participants.

The Government of the Kyrgyz Republic was provided with materials on establishment of the republican clearings and payment system, and on development of the resolution of the Investment Forum Kyrgyzstan - Russia. Issues of using microprocessor-based plastic cards in the banking system for paying customs duties when transporting goods across the borders of the members of the Eurasian Economic Community were considered as well.

In 2004 the National Bank as a member of various working groups took part in the following activities:

- Drafting proposals and recommendations on the new redaction of the Tax Code of the Kyrgyz Republic;
- Developing the Draft Law *On Central Credit Union*; and
- Developing normative and legal acts on antimonopoly regulation, development of competition and protection of consumers' rights at the market of banking services of the Kyrgyz Republic.

The National Bank regularly informed the Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration of the Kyrgyz Republic, and the Government of the Kyrgyz Republic on implementation of the monetary policy, status of the banking system, and submitted analytical information on the situation at the country's financial market.

The examination was conducted and the proposals were submitted on the number of draft resolutions of the Government of the Kyrgyz Republic: *On Introduction of Amendments and Addenda to some Decisions of the Government of the Kyrgyz Republic, Order of Publishing Normative and Legal Acts of the Government of the Kyrgyz Republic, Rules of Drafting and State Registration of Normative and Legal Acts*, and other draft resolutions.

The cooperation with the Ministry of Justice of the Kyrgyz Republic on the issues of registration of normative and legal acts, constituent documents of financial institutions licensed and regulated by the National Bank of the Kyrgyz Republic, implementation of certain paragraphs of the Legislative Work Plan of the Government of the Kyrgyz Republic and examination of draft normative acts continued during the reporting year. Representatives of the National Bank took part in the work of the Inter-institutional Commission on inventory of normative-legal acts of the Kyrgyz Republic, on

elimination of contradictions and abolishment of irrelevant or outdated normative acts.

Projects of the Long-term Cooperation Program between the Kyrgyz Republic and the Chinese People's Republic for years 2004-2014, drafts of the 5<sup>th</sup> Investment Matrix developed on the basis of the Resolution of the 4<sup>th</sup> Issykkul Investment Summit were examined during the reporting year.

Agreements in the field of banking supervision over activities of financial organizations between Central Banks of the Kyrgyz Republic and Russia were signed in August 2004, and between Central Banks of the Kyrgyz Republic and Ukraine - in May 2004 in frame of the international cooperation.

The Agreement *On Exchange of Legal Information between Legal Services of Central (National) Banks or Authorized Agencies on Regulation and Supervision of banking Activities of Member States of the Commonwealth of Independent States* was signed.

Draft laws developed by the National bank of the Kyrgyz Republic are published on the official website of the National Bank for discussion.

## 6.5. Internal Audit

The Internal Audit Division of the National Bank of the Kyrgyz Republic accomplishes its activities in accordance with the Professional Internal Audit Standards. Evaluation of the efficiency of internal control system of the National Bank of the Kyrgyz Republic is based on the principles of the Basel Committee on Banking Supervision.

In accordance with requirements of the Internal Control Policy and the Concept of the National Bank of the Kyrgyz Republic on Risk Management the greatest attention in the reporting year was paid to the issues of improvement of the internal control system and risk limitation. The Risk Committee based on the consolidated risk map of the National bank analyzed the impacts of implementation of measures aimed at strengthening internal control system and limiting risks. The findings of the analysis were reviewed by the Board of the National Bank of the Kyrgyz Republic in the reporting year.

Audit inspections in the National Bank were conducted in accordance with the approved annual plans based on the long-term plan and outcomes of the operational risks evaluation. To reduce risks associated with activities of central banks the internal auditors recommended activities aimed at strengthening the internal control system. In 2004 internal audit reports by inspections and results of implementing the recommendations were reviewed by the Board of the National Bank. Recommendations agreed upon by the results of audits allowed increasing the efficiency of the internal control system of the National Bank.

Audit inspections, revisions and official investigations were conducted in the reporting year. Inspections were conducted in the following areas: strengthening the cash control system, evaluating quality of protection and supervision of valuables and assets of the National Bank, evaluating efficiency of information systems' operation. The managerial audit was conducted to strengthen the managerial activities and optimize the organizational structure of the National Bank.

## 6.6. Public Information by the National Bank of the Kyrgyz Republic

In 2004 the National Bank switched to the monthly provision of the information on monetary policy that was done during the press conference with participation of the Chairman of the National Bank of the Kyrgyz Republic.

In addition to monthly press conference of the Chairman of the National Bank the issues of monetary policy were covered in a number of thematic articles published on websites of leading information agencies, in newspapers and in the magazine *Banking News of the Kyrgyz Republic*, and also were covered in the TV Program *The National Bank Informs*.

In 2004 the work with mass media was conducted based on the plan, which defined the following areas as priorities:

- Development of micro-financing activities;
- Implementation of the State Program of Actions for 2003-2005 on Introduction of the non-cash Payments System and Creation of Infrastructure Enabling of Effective Execution of payments on the Kyrgyz Republic;
- Improvement of banking supervision and measures to increase the level of trust in banking system; and
- Increasing transparency of activities of commercial banks and other financial institutions and enhancing public supervision over these institutions.

In the year of Social Mobilization one of the main priorities of informing the public was development of micro-financial institutions in the Republic. At that the great attention was paid to the work in the regions.

To discuss strategic and current issues of development of micro-financing activities the Round Table *Urgent Financing Issues* was conducted in the Jalalabad Oblast in June. Round Table participants adopted a resolution, which defined particular steps to promote important legislative initiatives, increase the culture of crediting activities and development of financial institutions, implementation of tasks on reforming payment system to provide services to inhabitants of remote areas, simplification of crediting procedures and collateral appraisal, as well as development of the insurance system for agricultural producers in case of natural disasters.

In November of the reporting year the Round Table *Micro-crediting development Issues in the Kyrgyz Republic* was conducted in the Naryn Oblast Department of the National Bank of the Kyrgyz Republic, which was participated by representatives of micro-financial organizations, credit unions, branch offices of commercial banks, and international organizations implementing their activities in the field of development of micro-crediting activities in the Kyrgyz Republic. Urgent issues and development tendencies of the micro-crediting activities in the Kyrgyz Republic were considered and the role of international organizations in development of the micro-



crediting activities discussed. Round Table conclusions were covered in a number of TV reports and articles in mass media.

A briefing devoted to the results of the development process of micro-financial organizations in 2003 was conducted, and a number of articles on regulating activities of credit unions accomplishing depositing transactions published. The website of the National Bank of the Kyrgyz Republic contains a special section with the information on activities of non-bank financial institutions. Information on registration, withdrawal, and suspension of licenses, violations and sanctions, and other news of non-bank financial institutions are regularly covered in press releases of the National Bank, and then published on the website of the National Bank and in mass media.

The work of the National Bank on implementation of the State Program on Introduction of non-cash Payments and Establishment of the Infrastructure capable of providing for Efficient Processing of Payments in the Kyrgyz Republic became another priority in informing the public in 2004.

The seminar “*Switching to International Standards of Banking Identification Codes and Numeration of Accounts: non-cash Payment Instruments*” was conducted in February of the reporting year. The seminar was participated by representatives of commercial banks, enterprises and institutions providing services for a wide range of the population, and representatives of mass media. Seminar participants were introduced to the review of the Concept on switching to the new standards of banking identification codes and numeration of accounts, existing payment instruments and development strategy of the payment system. The seminar discussed main areas of the State Program, and ways of addressing the commercial banks’ problems associated with delivery of payment processing services.

The press conference *Reforming the Payment System in the Kyrgyz Republic* was conducted; and some articles on the status and the perspectives of payment system development in the Kyrgyz Republic and the essence of the conducted reforms of the Republic’s payment system published.

During the reporting year the National Bank was providing explanations and answers for numerous phone calls and written requests about money transfer systems, banking services delivered by commercial banks of the Republic, application of tariffs for banking services, and development of non-cash payments. The answers were prepared for all requests and then also covered in mass media, in the press release of the National Bank and the TV Program *The National Bank Informs*. Some republican newspapers under the column *Public Reception Office Answers Your Questions* published comments on the issues of budget planning and execution, distribution of administrative expenses of the National Bank, functions of the National Bank as a financial agent of the Government of the Kyrgyz Republic, management of international reserves of the National Bank of the Kyrgyz Republic, implementation of the accounting policy in the country’s central banks, etc.



In January 2004 the National Bank of the Kyrgyz Republic initiated a wide discussion of the Draft Concept of Deposits' Protection System. A briefing was conducted, articles published in print mass media; special TV programs *The National Bank Informs* were explaining details of operation of this system. Results of the Concept discussion were reviewed during the Round Table, which took place in April 2004 and was participated by commercial banks and financial institutions of Kyrgyzstan, representatives of international organizations, non-governmental organizations and mass media.

In 2004 the National Bank paid great attention to increasing transparency and accountability of commercial banks' activities. In addition to providing relevant explanations the National Bank carries out monitoring and control over regular publications of financial reports and information on observance of economic norms by commercial banks and financial institutions.

The information on tariffs for services rendered by commercial banks is available on the website, and the review of development of the payment system of the Kyrgyz Republic is published quarterly.

To further increase transparency of activities of the National Bank of the Kyrgyz Republic in accordance with the Article 28 of the Law of the Kyrgyz Republic *On Normative and Legal Acts of the Kyrgyz Republic* the National Bank began to publish in its editions and on its official website all court decisions related to sanctions applied by the National Bank to commercial banks and other financial institutions.

A special edition *Tendencies of Development of the Banking System of the Kyrgyz Republic* is published twice a year. In 2004 the National Bank of the Kyrgyz Republic began to publish a short version of the tendencies of banking system development in the press release, on the website and in republican periodical press. The work on providing explanations for the public on principles of banking supervision, and importance of public supervision over banks' activities continued.

In 2004 the National Bank continued its information and education campaign *Som is a Face of Kyrgyzstan*. The exhibition *Banknote about Poets* devoted to the life and creative work of poets represented on the national currency banknotes was conducted. An information video-reel about new design for the KGS 200.00 banknote emitted for the 90s anniversary of the classical Kyrgyz poet Alykul Osmonov was produced. The work on the banknote design was conducted by the National Bank of the Kyrgyz Republic together with the National Center of Manas History and Arts under the National Academy of Science of the Kyrgyz Republic and the Public Association *Alykul House-Center*.

A series of traditional activities was conducted together with the oblast departments of the National Bank, which included publications of articles about the history of som's introduction, careful attitude towards the national currency, speeches on TV and radio, giving thematic lectures in high educational institutions, secondary schools, and other activities on the topic "Kyrgyz Som is Our Money",

as well as playing video-reels on TV. High educational institutions and vocational schools presented lectures on the rules of exchanging the worn-out banknotes and the national currency's protection features.

In 2004 the Public Reception Office of the National Bank of the Kyrgyz Republic received 134 written appeals (90 appeals in 2003). The main share of letters was represented by appeals of the depositors of the bankrupted banks (34 appeals or 45.6 per cent). Increase in number of appeals is first of all related to the implementation of the Decree of the Government of the Kyrgyz Republic *On Compensation of Deposits for the Depositors of Bankrupted Commercial Banks* adopted in order to fulfill liabilities of the bankrupted banks to the depositors. The major share of letters of depositors of the former Kyrgyzelbank contained the request to provide the information on registration, explain the order of charging the received indexed amount or facilitating the terms of payment.

During the reporting year 10 meetings with depositors of some commercial banks, which are in the process of liquidation, were organized and carried out. During the meetings the National Bank representatives provided explanations about terms of registration for re-registration of banks' debts into the securities, about the order of providing compensations and about the interactions of public authorities on these issues.

The National Bank regularly published the information on the situation with repayment of debts of bankrupted banks to individuals and processing payments of savings deposits.

To coordinate activities on informing the public the informational and analytical editions in Kyrgyz, Russian and English languages were widely disseminated in the reporting year.

The important work was done to explain and systematize the banking terminology in the Kyrgyz Language. Brochures with explanations of various meanings of terms of payment system, accounting and banking supervision were published. The terms were confirmed by the Methodological Commission of the National Bank and approved by the Terminology Commission under the State Committee on State Language Development under the President of the Kyrgyz Republic. The brochures were sent to judicial bodies, public agencies, commercial banks, high educational institutions and libraries.

The official website of the National Bank of the Kyrgyz Republic is an integral part and an important instrument of informing the public, which provides for equal access to the information for all its users. In accordance with goals, tasks and functions of the National Bank of the Kyrgyz Republic the website displays the following information: banking legislation and normative acts of the National Bank, programmatic and strategic documents of banking sector development and monetary policy, information on banking and payment systems, reports of the National Bank; statistical data on financial market, transactions of the National Bank; information on the history of national currency and the general activities of the National Bank, internet

versions of official editions of the National Bank of the Kyrgyz Republic and other data.

During the reporting year the website was complemented with new sections, such as sections on monetary policy and statistics, as well as with the information on monetary review, external economic indicators, balance of payments, international reserves, external debt, and international investment position of the Kyrgyz Republic. The new sub-section *Projects for Discussion* was opened under the section *Normative Acts*, which would be discussing the draft normative and legal documents of the National Bank of the Kyrgyz Republic. The website also contains information on tenders' announcements for vacancies, bidding announcements, and other open competitions announcements.

To improve the information policy of the National Bank, and to enhance efficient cooperation with regional mass media on urgent issues of activities of the country's central bank a series of seminars on the *Role and Functions of the National Bank as a Country's Central Bank* was conducted in October – November 2004. The seminars were held in Batken and Jalalabad Oblast Departments of the National Bank for journalists of Naryn, Issykkul, Talas and Jalalabad oblasts. The seminar was participated by representatives of rayon and oblast newspapers, television and radio, and representatives of oblast state administrations. This form of cooperation of the National Bank with mass media was aimed at increasing efficiency of the feedback, and improving instruments of the information policy. Journalists of regional mass media received direct access to the information of the National Bank of the Kyrgyz Republic, learnt to use it more efficiently and perfected their knowledge on economic processes taking place in the Republic.

## CHAPTER 7

FINANCIAL STATEMENTS OF THE NATIONAL  
BANK OF THE KYRGYZ REPUBLIC

## 7.1. Balance Sheet at 31 December 2004

(in thousands of soms)

	Note	2004 Som '000	2003 Som '000
<b>Assets:</b>			
Gold and other precious metals	5	1 514 964	1 532 139
International Monetary Fund membership quota	6	5 740 328	5 752 711
Assets in foreign currency:		23 763 872	17 539 327
Including: Due from banks and other financial institutions	7	15 358 408	8 951 409
Debt securities	8	6 420 689	6 489 869
Loans related to agent functions	9	1 939 797	2 050 307
Other assets	14	44 978	47 742
Assets in national currency:		5 442 939	5 397 529
Including: State securities	10	4 783 734	4 838 485
Loans to banks	11	40 000	-
Fixed and intangible assets	13	206 816	192 512
Investments in equity of organizations	12	11 699	11 703
Other assets	14	400 690	354 829
<b>Total assets</b>		<b>36 462 103</b>	<b>30 221 706</b>
<b>Liabilities:</b>			
Banknotes in circulation	15	11 425 060	9 623 257
Securities in favor of International Monetary Fund	6	5 725 654	5 738 006
Liabilities in foreign currency:		16 178 337	12 551 720
Including: International financial institutions	16	8 547 971	8 856 960
Banks and other financial institutions	17	47 639	30 910
Loans received due to agent functions	9	2 338 296	2 453 906
Accounts of the Government of the Kyrgyz Republic		5 187 450	1 152 932
Other liabilities	19	56 981	57 012
Liabilities in national currency:		1 948 288	1 153 082
Including: Banks and other financial institutions	17	949 515	614 750
Accounts of the Government of the Kyrgyz Republic		973 085	431 732
Securities issued	18	11 974	95 855
Other liabilities	19	13 714	10 745
<b>Total liabilities</b>		<b>35 277 339</b>	<b>29 066 065</b>
<b>Equity:</b>			
Authorized capital	20	50 000	50 000
Reserves		958 704	830 984
Retained earnings		176 060	274 657
<b>Total equity</b>		<b>1 184 764</b>	<b>1 155 641</b>
<b>Total liabilities and equity</b>		<b>36 462 103</b>	<b>30 221 706</b>

Governor

U. Sarbanov

Chief Accountant

C. Imankulova

The notes on pages 118 to 142 form an integral part of these financial statements.

## 7.2. Profit and Loss account for the year ended 31 December 2004

(in thousands of soms)

	Note	2004 Som '000	2003 Som '000
Interest income	21	600 225	571 445
Interest expense	22	(113 355)	(88 376)
<b>Net interest income</b>		<b>486 870</b>	<b>483 069</b>
Recovery of provisions for loan losses	23	30 530	37 723
<b>Net interest income after recovery of provision for loan losses</b>		<b>517 400</b>	<b>520 792</b>
<b>Net realized (loss)/profit on foreign currency transactions</b>	<b>24</b>	<b>(48 545)</b>	<b>1 278</b>
Non-interest income:			
Fee and commission income		340	2 794
Other operating income	25	11 459	5 271
<b>Total non-interest income</b>		<b>11 799</b>	<b>9 343</b>
Non-interest expenses:			
Fee and commission expense		(342)	(850)
Staff costs	27	(90 014)	(76 665)
Administrative expenses	28	(45 599)	(45 364)
Expenses on fixed assets	29	(28 064)	(23 477)
Depreciation and amortization of fixed assets and intangible assets	13	(43 443)	(45 980)
Expenses for banknotes and coins issued for circulation	26	(95 115)	(61 342)
Other operating expenses	25	(2 017)	(1 800)
<b>Total non-interest expenses</b>		<b>(304 594)</b>	<b>(255 478)</b>
<b>Net profit</b>		<b>176 060</b>	<b>274 657</b>

Governor

U. Sarbanov

Chief Accountant

C. Imankulova

The notes on pages 118 to 142 form an integral part of these financial statements.

### 7.3. Statement of cash flows for the year ended 31 December 2004

(in thousands of soms)

	Note	2004 Som '000	2003 Som '000
<b>Cash flows from operating activities:</b>			
Interest and commission received		304 564	211 893
Interest and commission paid		(75 477)	(79 169)
Other operating income received		23 275	3 161
Staff costs		(90 014)	(76 665)
Administrative and other operating expenses		(171 240)	(138 107)
<b>Operating loss before changes in operating assets and liabilities</b>		<b>(8 892)</b>	<b>(78 887)</b>
<i>(Increase)/decrease in operating assets:</i>			
Due from banks and other financial institutions		(2 388 454)	4 040 474
Originated loans		(7 216)	52 752
Other assets		(47 780)	7 099
<i>Increase/(decrease) in operating liabilities:</i>			
Banknotes in circulation		1 801 803	2 565 228
Banks and other financial institutions		353 935	(3 987)
Accounts of the Government of the Kyrgyz Republic		4 520 549	(378 398)
Securities issued		(83 881)	83 878
Other liabilities		4 044	3 886
<b>Net cash provided by operating activities</b>		<b>4 144 108</b>	<b>6 292 045</b>
<b>Cash flows from investing activities:</b>			
Decrease in investment into equity of organizations		-	60
Increase in investment into equity of organizations		-	-
Sale, redemption of investment securities		16 910	16 910
Purchase of investment securities		-	-
Sale of fixed and intangible assets		-	-
Purchase of fixed and intangible assets		(56 766)	(37 735)
Interest received on investment securities		115 536	93 693
<b>Net cash provided by investment activities</b>		<b>75 680</b>	<b>72 928</b>
<b>Cash flows from financing activities:</b>			
Loans received from international financial institutions		1 207 142	1 336 829
Loans repaid to international financial institutions		(1 383 674)	(1 413 822)
<b>Net cash used in financing activities</b>		<b>(176 532)</b>	<b>(76 993)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3 904 066</b>	<b>6 550 059</b>
<b>Effect of exchange rate changes</b>		<b>(139 190)</b>	<b>262 079</b>
Cash and cash equivalents at the beginning of the period	37	12 540 917	5 990 858
<b>Cash and cash equivalents at the end of the period</b>	<b>37</b>	<b>16 444 983</b>	<b>12 540 917</b>

Governor

U. Sarbanov

Chief Accountant

C. Imankulova

The notes on pages 118 to 142 form an integral part of these financial statements.

## 7.4. Statement of changes in equity for the year ended 31 December 2004

(in thousands of soms)

	Autho- rized capital	Required reserves	General reserves	Fixed assets revalu- ation reserve	Foreign currency, gold and other precious metals revaluation reserve	Investment securities revaluation reserve	Retained earnings	Total equity
<b>Balance as of 31 December 2002</b>	<b>50 000</b>	<b>100 000</b>	<b>429 105</b>	<b>1 135</b>	<b>81 333</b>	<b>-</b>	<b>857 617</b>	<b>1 519 190</b>
Settlements with the State	-	-	-	-	-	-	(600 332)	(600 332)
Budget of the Kyrgyz Republic	-	-	-	-	-	-	-	-
Transfer of prior-year net profit to general reserve	-	-	257 285	-	-	-	(257 285)	-
Transfer from fixed assets revaluation reserve	-	-	41	(41)	-	-	-	-
Net unrealized loss on revaluation of foreign currency, gold and other precious metals*	-	-	-	-	(37 314)	-	-	(37 314)
Transfer of realized loss to profit and loss account	-	-	-	-	9 829	-	-	9 829
Loss from decrease of the fair value of securities available-for-sale	-	-	-	-	-	(10 389)	-	(10 389)
Net profit	-	-	-	-	-	-	274 657	274 657
<b>Balance as of 31 December 2003</b>	<b>50 000</b>	<b>100 000</b>	<b>686 431</b>	<b>1 094</b>	<b>53 848</b>	<b>(10 389)</b>	<b>274 657</b>	<b>1 155 641</b>
Settlements with the State	-	-	-	-	-	-	(192 260)	(192 260)
Budget of the Kyrgyz Republic	-	-	-	-	-	-	-	-
Transfer of prior-year net profit to general reserve	-	-	82 397	-	-	-	(82 397)	-
Transfer from fixed assets revaluation reserve	-	-	41	(41)	-	-	-	-
Net unrealized profit on revaluation of foreign currency, gold and other precious metals*	-	-	-	-	49 595	-	-	49 595
Transfer of realized loss to profit and loss account	-	-	-	-	15 440	-	-	15 440
Result of increase in the fair value of securities available-for-sale	-	-	-	-	-	(19 712)	-	(19 712)
Net profit	-	-	-	-	-	-	176 060	176 060
<b>Balance as of 31 December 2004</b>	<b>50 000</b>	<b>100 000</b>	<b>768 869</b>	<b>1 053</b>	<b>118 883</b>	<b>(30 101)</b>	<b>176 060</b>	<b>1 184 764</b>

\* Pursuant to the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic" (Article 13), the National Bank establishes the account for revaluation of transactions with foreign currency and gold regardless of profit and loss account.

Governor

U. Sarbanov

Chief Accountant

C. Imankulova

The notes on pages 118 to 142 form an integral part of these financial statements.



## 7.5. Notes to the Financial Statements for the year ended 31 December 2004

### 1. Nature of business

The National Bank of the Kyrgyz Republic (the “National Bank”) is an assignee of the State Bank of the Republic of Kyrgyzstan which was renamed by the Law “On the National Bank of the Republic Kyrgyzstan” dated 12 December 1992 into the National Bank of the Republic of Kyrgyzstan. On July 2, 1997, the Jogorku Kenesh (Parliament) of the Kyrgyz Republic adopted the new Law “On the National Bank of the Kyrgyz Republic” whereby the National Bank of the Kyrgyz Republic carries out its activities.

The aim of the activities of the National Bank in accordance with the Law “On the National Bank of the Kyrgyz Republic” is achievement and maintaining of the price stability by carrying out the proper monetary policy.

The basic functions of the National Bank include:

- definition and implementation of the monetary and credit and exchange rate policies;
- promotion of effective development of the payment system and the conduct of inter-bank payments;
- issuance of banknotes and coins for circulation and replacement of worn-out banknotes;
- management of the international foreign exchange reserves of the Kyrgyz Republic;
- regulation and supervision of commercial banks; and
- licensing of banking and other financial and lending activities.

The address of the head office of the National Bank is 101 Umetaliyev Street, Bishkek, Kyrgyz Republic. The National Bank has 5 regional departments and one representative office in oblasts of the Kyrgyz Republic.

As of 31 December 2004 and 2003 the number of the National Bank employees was 588 and 576, respectively.

### 2. Operating Environment

The economy of the Kyrgyz Republic continues to display typical characteristics of an emerging market. Among others, these characteristics include development of exchange market and over-the-counter markets of debt and equity securities. However this specification does not limit the economic development of the Kyrgyz Republic.

Measures undertaken by the National Bank in 2004 focused on increase of the banking system’s effectiveness and mobilization of internal savings along with the development of the payment system, will promote further development and reforming of the banking system with the aim of achieving its stable functioning and financial brokering level. The perspectives of future economic development of Kyrgyz Republic significantly depends upon implementation of the Complex Development Base and National Strategy of Poverty Reduction adopted by Kyrgyz Republic, as well as social and economic conditions in Central Asia and countries being merchant partners.

### 3. Basis of Presentation

**Legal framework.** The National Bank regularly maintains its accounting records and reporting of its activities in accordance with the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” (the “Law”). Accounting records of the National Bank are maintained in the national currency of the Kyrgyz Republic, the Kyrgyz Som (the “Som”). Article 8 of the Law determines the reporting basis in accordance with the international accounting practice. Furthermore, pursuant to Article 52 of the Law, the National Bank is

The notes on pages 118 to 142 form an integral part of these financial statements.

entitled to establish forms of reporting, accounting policy and standards for preparing the financial statements.

**Accounting basis.** These financial statements have been prepared on the basis of the accounting records and are based on the accounting policies approved by the Board of the National Bank, in order to present the financial position and financial results of the Bank, taking into account its activities as a central bank. These accounting policies have been designed to comply with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Committee (“IASC”). Taking into account the specific activities of the National Bank as a central bank and in accordance with the Article 13 of the Law, the Board of the Bank has approved the accounting policies whereby gains and losses from revaluation of assets and liabilities denominated in foreign currencies – unrealized exchange difference - are recorded on equity items due to the fact that the National Bank’s activities and its management of the international foreign exchange reserves of the state result in significant movements in unrealized gains and losses from foreign currency revaluation from one reporting period to another, based on weekly calculations of net currency position. As for other central banks, the National Bank believes that incorporation of these unrealized gains and losses into the financial results may lead to the contradiction with the aims of the National Bank.

The preparation of the financial statements in conformity with the accounting policies of the National Bank requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses and impairment and the fair value of financial instruments.

**Measurement currency.** These financial statements have been prepared in the national currency of Kyrgyz Republic, Som, which is measurement currency of the National Bank. The measurement currency reflects economic substance of the main events and the National Bank’s environment.

**Reclassification.** Where necessary, prior-year comparative information has been adjusted to conform to current year presentation.

#### 4. Accounting Policy

**Gold and other precious metals.** Monetary gold and other precious metals, other than platinum, are recorded at market prices as of the date of the balance sheet. The exchange rate difference resulting from revaluation of monetary gold and other precious metals is recorded as unrealized gain or loss and included in the foreign currency, gold and other precious metals revaluation reserve. Weekly transfer of realized gain and loss from revaluation reserve to the profit and loss account is based on the reduction of the aggregate net currency position on foreign currency, monetary gold and other precious metals. Platinum intended for numismatic purposes is recorded at cost and is recorded as other assets in national currency.

**Recognition and measurement of financial instruments.** The National Bank recognizes financial assets and liabilities on its balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting principles used for subsequent measurement of these items are disclosed in the respective accounting policies set out below.

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The notes on pages 118 to 142 form an integral part of these financial statements.

**Originated loans and accounts receivable.** Loans of the National Bank issued in cash to the banks are recorded at the date of transaction on “Loans to the banks” item of the balance sheet, and are subsequently measured at amortized cost less allowance for loan losses. Interest income on originated loans is recorded in the profit and loss account as interest income.

Provision for loan losses is made when there is an evidence that the National Bank will not be able to collect amounts payable in due dates and in full. Amount of provision is a difference between the carrying and estimated values of the loan recovery. Uncollectible loans are written off against related provision. Write off is made only after completion of all required legal procedures and determination of the loss amount. Recovery of amounts previously written off is treated as the reduction of provision expenses.

Loans in foreign currency provided by international financial institutions where the National Bank acts as an agent of the Government of the Kyrgyz Republic or under its guarantee are accounted for in assets and liabilities on “Loans related to agent functions” and “Loans received due to agent functions” items.

Other accounts receivable are accounted for similarly to loans and are recorded on “Other assets” item of the balance sheet.

**Securities available-for-sale.** This category of securities includes securities, which the National Bank intends to hold for an indefinite period of time that may be sold depending on the market conditions: changes of interest rates, exchange rates or prices, liquidity of the commercial banks. The National Bank determines the appropriate classification of its securities at the time of their purchase.

Such securities are initially recorded at cost (which includes operating expenses). Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The National Bank uses quoted market prices to determine the fair value for the securities available-for-sale. If such quotes do not exist, estimation is used based on the amounts of revenue from sale of such securities. Unrealized gains and losses arising from changes in the fair value of securities available-for-sale are recognized in the statement of changes in shareholders’ equity. When the securities available-for-sale are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as gain/(loss) on investment securities available-for-sale within Other operating income as income less losses from securities transactions.

Interests on such securities are accrued using the effective yield method. Accrued income and unamortized coupon/ discount income from the securities available-for-sale are included in the carrying value and stated in the profit and loss account on a monthly basis as interest income.

**Securities held-to-maturity.** Securities held-to-maturity are securities with determinable or fixed payments. The National Bank has the positive intent and ability to hold them to maturity. The appropriate classification of the securities is made at the date of their purchase.

Securities held-to-maturity are initially recognized at cost (which includes operating expenses) and are subsequently carried at amortized cost using the effective yield method, less any provision for impairment, computed as the difference between the book and present value of expected future cash flows discounted at the instrument’s original effective interest rate.

Accrued income and unamortized coupon/ discount income from the securities held-to-maturity are included in the carrying value and stated in the profit and loss account on a monthly basis as interest income.

**Repurchase and reverse repurchase agreements.** Sale and reverse purchase

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The notes on pages 118 to 142 form an integral part of these financial statements.

agreements (“repos”) are treated as borrowing transactions collateralized by securities and are accounted for at the date of settlement in liabilities on “banks and other financial institutions” items and “securities issued”. Difference between sale and reverse purchase values is recorded as interest expense and is accrued over the life of the repos agreement using effective interest yield method.

The securities purchased under reverse repurchase agreements (“reverse repos”) are recorded in assets as loans to banks. The difference between the purchase and reverse repurchase values is recorded as interest income and is accrued over the life of the repos agreement using effective yield method.

**Equity investments in organizations.** Equity investments in organizations are recorded at initial or revalued cost. The management periodically assesses the carrying value of such investments and, when necessary, forms valuation provision. Subsidiaries (controlled entities), in which the National Bank owns more than 51% of the equity or the National Bank has a right to control its operations are not consolidated into the financial statements of the National Bank due to immateriality of investments or when control is temporary.

**Fixed assets.** The fixed assets are recorded at initial or revalued cost less the accumulated depreciation. If the carrying value of the asset is larger than its estimated recoverable amount, it is reduced to its recoverable amount, and the difference is referred to the losses. The estimated recoverable amount is the greater of the net realizable value and the asset value resulting from its use. Repair and maintenance costs are charged to the profit and loss account when incurred.

Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight-line basis at the following annual prescribed rates:

Buildings	50 years
Constructions	20 years
Furniture and office equipment	3-5 years
Computer equipment	3-5 years
Vehicles	5 years

**Inventories.** Inventories are recorded at the lower of the cost (initial cost) or realizable value. Reserves of non-issued banknotes are recorded at production cost, including the accompanying costs, and are accounted for as other assets and expensed when issued.

**Financial liabilities.** All financial liabilities are not trade and originally recorded at cost of proceeds at the date of settlement less operating expenses. Subsequently, financial liabilities are recorded at amortized cost, and any difference between the net receipts and replacement value is recorded in the profit and loss account over the life of the financial liabilities using effective yield method.

**Contingent liabilities.** Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made.

**Recognition of income and expense.** Interest income and expense are recognized in the profit and loss account on the accrual basis. Overdue interest and accrued interest deemed doubtful are not included in interest income. Interest income may include coupons income/expenses and amortized discount. Commissions and other non-interest income are recognized when the related transactions are completed. Commission and non-interest expenses are recognized at the date the products are received or the service is provided.

**Foreign currency translation.** Transactions denominated in foreign currency are

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The notes on pages 118 to 142 form an integral part of these financial statements.

recorded at the exchange rate prevailing at the date of transaction. The exchange difference arisen from the revaluation of net foreign exchange position is recorded as unrealized gain or loss and included in the reserve for revaluation of foreign currency, gold and other precious metals. Weekly transfer of realized gain and losses from the revaluation reserve to the profit and loss account is based on the reduction of the aggregate net position on foreign exchange, gold and other precious metals.

Information on the exchange rates of foreign currency transactions used by the National Bank is as follows:

	31 December 2004	31 December 2003
USD	41.6246	44.1902
EUR	56.393	55.0323
Special drawing rights (SDR)	64.1506	65.1863
Canadian Dollars (CAD)	33.8632	33.7356
Australian Dollars (AUD)	32.0031	-
Swiss franc (CHF)	36.4824	35.4145
Russian ruble (RUR)	1.4955	1.511
English pound sterling (GBP)	80.2148	78.3227
10 Japanese yen (JPY)	4.0194	4.1288

Official morning fixing of London Association of Previous Metals Market is as follows:  
(in USD per troy ounces)

	31 December 2004	31 December 2003
Gold	438	417.25
Silver	6.77	5.96

Reserves. In accordance with the Law, equity reserves include:

- Required reserves, supported at the amount of not less than double paid-in authorized capital;
- General reserves formed from net gains after deductions to the state budget;
- Reserves for revaluation of property, foreign currency, gold and other precious metals, and securities available-for-sale.

Retained earnings are gains prior to distribution to the budget of the Kyrgyz Republic and equity reserves of the National Bank.

**Income tax.** In accordance with the Article 53 of the Law, the National Bank is not liable to income tax in accordance with the legislation of the Kyrgyz Republic.

**Income distribution.** In accordance with the Article 13 of the Law, the following amounts are deducted from net income:

- Amounts for the replenishment of the authorized capital in events of its increase in accordance with the legislation.
- Required reserves, up to the size of twice paid-in authorized capital.
- 70 percent of income remained after the above deductions should be transferred to the state budget of the Kyrgyz Republic. The remaining amount of income is transferred to general reserves.

**Pension and retirement obligations.** The National Bank transfers payments to the Social Fund of the Kyrgyz Republic in the amount envisaged by the legislation. These contributions are expensed as incurred. Additionally, the National Bank withholds contributions from employee's salaries and transfers them to the Social Fund also in the amount envisaged

The notes on pages 118 to 142 form an integral part of these financial statements.

by the legislation. Upon retirement, the pension payments of all employees are administered by the Social Fund of the Kyrgyz Republic.

## 5. Gold and other precious metals

	2004		2003	
	In troy ounces	Som'000	In troy ounces	Som'000
Deposits with non-resident banks:				
Gold 0.02%-0.1% (2003: 0.00%-0.02%)	83 090	1 514 861	83 090	1 532 043
Silver	364	103	364	96
<b>Total gold and other precious metals</b>		<b>1 514 964</b>		<b>1 532 139</b>

Included in gold is 40 000 troy ounces (in 2003: 60 000 troy ounces) pledged as collateral for the guarantee of the Government of the Kyrgyz Republic, provided in respect of the loan from the bank Standard Bank London given to Kyrgyzaltyn SJSC owned by the Government of the Kyrgyz Republic. In 2004 there were no purchases and sales of gold and other precious metals. The change is related to the changes in the Som equivalent of gold and silver resulting from their revaluation.

Relevant interest income on deposits in gold allocated in non-resident banks are reflected in the profit and loss account (see Note 21).

Hereinafter in the text of the financial statements, where necessary, the interest rates effective as of 31 December 2004 (in brackets: 31 December 2003) are used unless otherwise stipulated.

## 6. Membership quota of the International Monetary Fund

In 1992 the Kyrgyz Republic joined the IMF. A membership quota expressed in Special Drawing Rights ("SDR") is assigned to each member of the IMF. The membership quota is the basis for determining access to IMF financing. The quota of the Kyrgyz Republic as of 31 December 2004 amounted to SDR 88.8 million.

To secure the membership quota, the Ministry of Finance of the Kyrgyz Republic issued securities in favor of the IMF. The National Bank, operating as the financial agent of the Government of the Kyrgyz Republic, records in the balance sheet the assets and liabilities on transactions related to membership of the Kyrgyz Republic in IMF.

	2004	2003
	Som'000	Som'000
IMF quota, recognized in assets:		
IMF quota	5 740 328	5 752 711
IMF deposit accounts, recognized in liabilities:		
Securities in favor of the IMF, issued as membership quota	5 725 654	5 738 006
IMF current accounts No. 1 и 2 (see Note 17)	14 674	14 705

The notes on pages 118 to 142 form an integral part of these financial statements.



## 7. Due from Banks and other Financial Institutions

	2004 Som '000	2003 Som '000
Correspondent accounts with other central banks 1.3% - 1.81%; (2003: 0.94%-1.00%; LIBOR)	2 286 140	3 754 186
Correspondent accounts with other nonresident banks	6 845 734	1 806 929
Deposits with other central banks 4.64%	401 074	-
Deposits with other nonresident banks 0.5% -5.2% (2003: 0.08%-2.08%)	5 157 380	3 104 391
Balances on the IMF account - 2.22% (2003: 1.57%)	821 380	452 361
Accrued interest income	8 389	5 297
Less: loan loss provisions (see Note 23)	(161 689)	(171 755)
<b>Total claims on banks and other financial institutions</b>	<b>15 358 408</b>	<b>8 951 409</b>

Deposits with other nonresident banks include the deposit placed with the Standard Bank London in the amount of US\$ 840 000 which is pledged as collateral for the guarantee of the Government of the Kyrgyz Republics provided with respect to the loan of the Standard Bank London to Kyrgyzaltyn Company owned by the Government of the Kyrgyz Republic. Relevant interest income on deposits placed in central and other non-resident banks are recorded in the profit and loss account (see Note 21).

The impairment reserve was created in 1999 and is related to the deposit placed with Central Asian Bank of Cooperation and Development (CABCD) of 100%. In 2004 the reserve for this deposit was decreased by Som 10 066 thousand.

## 8. Debt Securities

	Due	Rate %	2004 Som '000	2003 Som '000
<b>Foreign securities available-for-sale:</b>				
<b>Debt securities - at fair value:</b>				
Australian Dollars Promissory Notes	2005	5.25	1 276 838	-
EUR BUBILLS	2005	2.04	1 127 095	-
US Dollars, 2.16% FIXBIS	2005	0.99-1.09	1 041 251	2 214 002
US Dollars Treasury Notes	2006-2008	2.0-2.6	813 262	886 892
EUR FIXBIS	2005	2.04-2.05	790 221	1 323 419
English Pound Sterling FIXBIS	2005	4.56-4.59	595 079	-
Swiss Francs, 0.39% FIXBIS	2005	0.08-0.14	437 967	424 985
Canadian Dollars FIXBIS	2005	2.3	338 976	-
US Dollars Treasury Bills	2004	0.92-0.99	-	1 323 573
EUR BIS MTI	2007	3.55	-	226 487
US Dollars WB Notes	2004	3.5	-	90 511
<b>Total debt securities</b>			<b>6 420 689</b>	<b>6 489 869</b>

All foreign securities consist of high rating instruments issued by the Australian Reserve Bank (Promissory Notes), US Treasury (Treasury Notes), Swiss International Settlements Bank (FIXBIS) and the Federal Bank of Germany (BUBILLS).

All newly purchased debt securities in foreign currency are recognized by the National Bank as available for sale. Relevant interest income on debt securities in foreign currency are recorded in the profit and loss account (see Note 21).

The notes on pages 118 to 142 form an integral part of these financial statements.



## 9. Loans Related to Agent Functions

	2004	2003
	<i>Som'000</i>	<i>Som'000</i>
Due from the Ministry of Finance of the Kyrgyz Republic	1 888 074	1 964 927
Loans to resident banks (LIBOR + 2 %) under credit line of EBRD	210 508	232 742
Due from the Debt Enterprise Bank Resolution Agency (DEBRA) for funds issued to resident banks under credit line of EBRD	80 562	85 749
Loans to resident banks (LIBOR +2%) under credit line of IDA	38 630	64 310
Accrued interest income	700	969
Less: loan loss provisions (see Note 23)	(278 677)	(298 390)
<b>Total loans related to agent functions</b>	<b>1 939 797</b>	<b>2 050 307</b>

Loans with no accrual of interest totaled Som 291 070 thousand as of 31 December 2004 (in 2003: Som 318 492 thousand). Relevant interest income and expenses on loans related to agent functions are reflected in the profit and loss account (see Note 21 and 22).

Below are liabilities on loans related to agent functions:

	2004	2003
	<i>Som'000</i>	<i>Som'000</i>
Export and Credit Bank of Turkey (Eximbank)	1 888 074	1 964 927
European Bank for Reconstruction and Development (EBRD)	296 435	326 196
International Development Association (IDA)	151 179	160 497
Accrued interest expenses	2 608	2 286
<b>Total liabilities on loans related to agent functions</b>	<b>2 338 296</b>	<b>2 453 906</b>

Credit institution	Date of approval	Program amount	Payment period	Grace period	Interest rate, %	Payment Frequency
Eximbank	28 April 1992	US\$ 43 574 566	28 years	10 years	2%	semiannual
EBRD	30 August 1995	US\$ 10 500 000	17 years	5 years	LIBOR + 1%	semiannual
IDA	18 November 1998	SDR 9 632 486	34 years	10 years	LIBOR + 0.75%	semiannual

Loans and accounts receivable in foreign currency related to agent functions include the loans given by the international financial institutions to the Government of the Kyrgyz Republic and resident commercial banks, for which the National Bank serves as the agent or under the guarantee of the Ministry of Finance of the Kyrgyz Republic.

The Government of Turkey granted a loan to the Government of the Kyrgyz Republic through the authorized bank, Export and Credit Bank of Turkey (further "Eximbank"). Pursuant to the terms of the agreement made between the National Bank and Eximbank, the National Bank is specified as the borrower, however, taking into account the guarantee of the Government and the agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank No. D-3-2-5/409 dated 25 March 2003 with amendments # D-2-2/689 dated 7 May 2004, the Government of the Kyrgyz Republic is the actual borrower and has the direct liability on this loan. In 2004 the Agreement signed between the Government of the Kyrgyz Republic represented by the National Bank and Eximbank on deferral of debt repayment dated 7 November 2002 provided for capitalization of accrued interest in the amount of USD 894 350 with the subsequent increase of the principal amount of the loan issued by the Turkish Government by the specified amount as well as for the extension of the repayment due. This Agreement was concluded within the frameworks of the Protocol on

The notes on pages 118 to 142 form an integral part of these financial statements.

Consolidation of debt of the Kyrgyz Republic signed between the Kyrgyz Republic and the Paris Club of Creditors dated 7 March 2002.

The European Bank for Reconstruction and Development ("EBRD") provided a credit line to commercial banks to support small and medium-size enterprises of the Kyrgyz Republic. The National Bank had a liability confirmed by the guarantee of the Government of the Kyrgyz Republic in front of EBRD on the credit line EBRD-1 and creates provisions to cover potential losses on issued loans.

Loan of the International Development Association ("IDA") was extended to commercial banks of the Kyrgyz Republic to support and develop private business in the Kyrgyz Republic. On this loan, the National Bank acts as the financial agent under the Financial Agency Contract with the Ministry of Finance of the Kyrgyz Republic, under which the loan is serviced in US dollars.

## 10. State Securities

	2004	2003
	<i>Som '000</i>	<i>Som '000</i>
State securities held to maturity:		
Securities with maturity within 1 year (from date of purchase)	559 265	350 729
Securities with maturity from 1 to 5 years (from date of purchase)	2 257 815	2 503 382
Securities with maturity of more than 5 years (from date of purchase)	1 966 654	1 984 374
<b>Total state securities</b>	<b>4 783 734</b>	<b>4 838 485</b>

The portfolio of state securities after restructuring is detailed below:

Наименование	Date of issue <i>year</i>	Redemption <i>year</i>	Interest rate <i>%</i>	Payment of interest	2004 <i>Som '000</i>
State Treasury Bills - global certificates No. 10, 14, 15, 16, 17	2004	2005	4,04 - 10,43	Redemption yield	559 265
Treasury bonds - NBKR series	2002	2005-2006	Annual rate of inflation + 2	Annually	2 257 815
Treasury bond - Jibek-Jolu series	2002	2008	Annual rate of inflation + 3	Annually	640 636
Treasury bonds - RSK series	2003	2010	Annual rate of inflation + 3	Annually	104 395
Treasury bonds - Bank series	1996-1997	2007, 2021	5-25	Annually	930 274
Treasury bonds - Kairat series	2001	2011, 2016	10-14,5	Quarterly	291 349
<b>Total securities</b>					<b>4 783 734</b>

In 2002 pursuant to the Master Agreement on Regularization of Financial Relations between the Government of the Kyrgyz Republic and the National Bank No. D-3-2/659 of 21 June 2002, the debt of the Government of the Kyrgyz Republic to the National Bank, which was perpetual and interest-free, was converted into time state securities with the positive interest rate: governmental treasury bills of regulation "global certificates", treasury liabilities of regulation series NBKR, and treasury liabilities series Jibek-Jolu.

Pursuant to the Law of the Kyrgyz Republic "On Debt Restructuring of the Government of the Kyrgyz Republic" of 8 June 1998 and the Master Agreement on Regularization of Financial Relations between the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic of 21 June 2002, redemption of State securities resulting from restructuring of the debt of the Government of the Kyrgyz Republic will be done through 70 percent of net annual profit, subject to transfer to the state budget.

In 2004 according to the State Securities Issue Agreement concluded for the purposes of regulation of financial relations with the Government of the Kyrgyz Republic and the

The notes on pages 118 to 142 form an integral part of these financial statements.

National Bank of the Kyrgyz Republic dated 23 April 2004, treasury bills №1 of NBKR series with a par value of Som 200 000 thousand were re-registered as revolving short-term notes with maturity from 6 to 12 months with a par value of Som 100 000 thousand and Som 100 000 thousand, respectively.

Relevant interest income on governmental securities is stated in the profit and loss account (see Note 21).

Because of the lack of any active market or other criteria of estimation it is difficult to make an assessment of impairment of governmental securities. The National Bank believes that the carrying value is unlikely to decrease. Governmental securities are stated at amortized cost. No impairment provision for governmental securities was formed.

## 11. Loans to Banks

	2004	2003
	Som'000	Som'000
Securities purchased under REPO transactions 4,80%	40 000	-
Overdue loans	122 380	123 131
Less: loan loss provisions (see Note 23)	(122 380)	(123 131)
<b>Total loans to banks</b>	<b>40 000</b>	<b>-</b>

Overdue loans include the loan extended to Bishkek Bank in 2000. Bishkek Bank partially repaid its liabilities - Som 751 thousand - to the National Bank in 2004. Because of its bankruptcy, this bank is in process of liquidation.

In 2004 the National Bank continued short-term lending to banks of the Kyrgyz Republic by overnight loans and purchase of state securities on terms of reverse repos. As of 31 December 2004 there are no liabilities of banks for short-term loans. Relevant interest income from overnight loans and purchase of state securities on terms of reverse repos are included in the profit and loss account (see Note 21).

## 12. Investments in equity of organizations

	2004		2003	
	Portion %	Value Som'000	Portion %	Value Som'000
Financial Company for Support and Development of Credit Unions ("FCSDCU")	100	15 000	100	15 000
Interstate bank ("Mezhgosbank")	1.5	449	1.5	453
Less: provision for impairment (see Note 23)		(3 750)		(3 750)
<b>Total investments in equity of organizations</b>		<b>11 699</b>		<b>11 703</b>

The investment in FCSDCU is temporary and limited to terms under the international agreement between the Kyrgyz Republic and Asian Development Bank under the project "Rural financial institutions".

In 2004 for the purposes of implementing the State program for 2003-2005 on implementation of transfer payments and creation of the infrastructure which can ensure an effective payment system in the Kyrgyz Republic in accordance with the Regulation of the National Bank of the Kyrgyz Republic # 4/3 dated 9 March 2004 the state company National Automated Clearing Chamber was reorganized by joining the National Bank of the Kyrgyz Republic. Income from reorganization of the Company was included in the profit and loss account (see Note 25).

The notes on pages 118 to 142 form an integral part of these financial statements.

The National Bank also controls the Republican Encashment Department (RED) and State Institution "Bank Education Centre" which objectives are to fulfill objectives and aims of the central bank, determined by the legislation. The National Bank has not invested in the equity of these entities. The financial statements of these entities are not consolidated into these financial statements due to National Bank's control is to be temporary.

Dividend income from subsidiaries is recorded in the profit and loss account (see Note 25).

### 13. Fixed and Intangible Assets

	Buildings and constructions	Construction in progress	Furniture and equipment	Computer equipment	Vehicles	Intangible assets	Total
	Som'000	Som'000	Som'001	Som'002	Som'003	Som'004	Som'005
<b>Cost or revalued cost</b>							
as of 31 December 2002	56 595	56 911	65 025	119 465	14 090	10 423	322 509
Additions	5 065	7 494	3 869	8 862	8 555	3 870	37 735
Transfer	1 044	(6 223)	1 619	3 472	-	88	-
Disposals	(700)	(536)	(2 380)	(18 993)	(1 645)	-	(24 254)
31 December 2003	62 024	57 646	68 133	112 806	21 000	14 381	335 990
Additions	3 515	38 159	3 903	8 788	58	3 751	58 174
Transfer	3 243	(8 846)	817	4 422	364	-	-
Disposals	(1 202)	(1)	(24 616)	(2 026)	(602)	-	(28 447)
31 December 2004	67 580	86 958	48 237	123 990	20 820	18 132	365 717
<b>Accumulated depreciation and amortization</b>							
31 December 2002	12 978	-	33 166	65 394	4 278	5 396	121 212
- Depreciation and amortization charges	2 409	-	12 567	23 625	3 193	4 186	45 960
- disposal	(700)	-	(2 376)	(18 993)	(1 645)	-	(23 714)
31 December 2003	14 687	-	43 357	70 026	5 826	9 582	143 478
- Depreciation and amortization charges	2 483	-	10 399	23 338	4 201	3 022	43 443
- disposal	(1 202)	-	(24 415)	(1 974)	(429)	-	(28 020)
31 December 2004	15 968	-	29 341	91 390	9 598	12 604	158 901
<b>Net book value</b>							
31 December 2004	51 612	86 958	18 896	32 600	11 222	5 528	206 816
31 December 2003	47 337	57 646	24 776	42 780	15 174	4 799	192 512

Disposal of fixed assets includes write-offs of their carrying value after their useful lives ended.

### 14. Other Assets

Other assets in foreign currencies as of 31 December 2004 include foreign currency on hand and other receivables totaling Som 44 978 thousand.

Other assets in national currency as of 31 December 2004 include accounts receivables, assets transferred for the financial lease, inventories, platinum, special expenses and other totaling Som 400 690 thousand, including provision for impairment of Som 34 815 thousand (in 2003: Som 354 829 thousand, including provision for impairment of Som 34 815 thousand) (see Note 23).

The notes on pages 118 to 142 form an integral part of these financial statements.

**15. Banknotes in Circulation**

	2004 <i>Som '000</i>	2003 <i>Som '000</i>
Banknotes and coins issued in circulation	11 684 111	9 873 928
Less: banknotes and coins on hand	(259 051)	(250 671)
<b>Total banknotes in circulation</b>	<b>11 425 060</b>	<b>9 623 257</b>

**16. Liabilities to international financial institutions**

	2004 <i>Som '000</i>	2003 <i>Som '000</i>
Poverty Reduction and Economic Growth Facility (PRGF)	8 547 971	8 856 960
<b>Total liabilities to international financial institutions</b>	<b>8 547 971</b>	<b>8 856 960</b>

The IMF provided the PRGF facility (formerly named as ESAF) to support the economic program of the Government of the Kyrgyz Republic targeted to promote economic growth and reduce poverty in the Kyrgyz Republic. Related interest expense on IMF loans are recorded in the profit and loss account (see Note 22). The details of the PRGF facility for the Kyrgyz Republic are as follows.

Facility	Date of approval	Program amount	Maturity	Grace period	Interest rate	Frequency of payment
ESAF		SDR 88.1 million	10 years	5.5 years	0.50%	Semiannually
ESAF-2	(1998-2001)	SDR 73.4 million	10 years	5.5 years	0.50%	Semiannually
PRGF	(2001-2004)	SDR 73.4 million	10 years	5.5 years	0.50%	Semiannually

**17. Liabilities to banks and other financial institutions**

	2004 <i>Som '000</i>	2003 <i>Som '000</i>
Liabilities to banks and other financial institutions in foreign currency:		
Correspondent accounts of banks - residents	22 165	3 866
Correspondent accounts of banks - non-residents	25 474	27 044
<b>Total liabilities to banks and other financial institutions in foreign currency</b>	<b>47 639</b>	<b>30 910</b>
Liabilities to banks and other financial institutions in national currency:		
Correspondent accounts of banks - residents	932 686	448 167
Securities sold under repos agreements (4,10% - 8,15%)	-	147 140
IMF current accounts	14 674	14 705
IMF Group organizations accounts	2 084	4 684
Other	71	54
<b>Total liabilities to banks and other financial institutions in national currency</b>	<b>949 515</b>	<b>614 750</b>

The National Bank has expenses on liabilities to banks and other financial organizations, such as interest expense on securities sold under repos agreements and compensation for compliance of banks-residents to the minimum reserve requirements both recorded in the profit and loss account (see Note 22).

The notes on pages 118 to 142 form an integral part of these financial statements.

## 18. Securities issued

	Average interest rate %	2004 Som '000	Average interest rate %	2003 Som '000
28-day notes of the National bank	4.7	11 974	4.0	95 855

The National Bank in 2004 conducted operations with short-term paperless State securities maturing on the 28 day, issued by the National Bank, and used as the monetary and credit policy instrument. Related interest expense is recorded in the profit and loss account (see Note 22).

## 19. Other liabilities

	2004 Som '000	2003 Som '000
Other liabilities in foreign currency:		
Bank accounts of CIS countries	55 516	56 091
Liabilities under the IDA loan "Payments and Banking System Modernization Project"	1 465	-
Other	-	921
<b>Total other liabilities in foreign currency</b>	<b>56 981</b>	<b>57 012</b>
Other liabilities in national currency:		
Accruals and deferred revenue	6 305	8 155
Accounts payable	7 409	2 590
<b>Total other liabilities in national currency</b>	<b>13 714</b>	<b>10 745</b>

## 20. Authorized Capital

Paid-in authorized capital is determined by the Law "On the National Bank of the Kyrgyz Republic" in the amount of Som 50 million.

## 21. Interest Income

	2004 Som '000	2003 Som '000
Interest income from transactions in foreign currency:		
Interest income on deposits with banks	148 846	137 922
Interest income on debt securities	144 130	40 225
Interest income on EBRD and IDA loans, related to agent functions	5 846	4 008
Interest income on gold deposits with banks	423	362
Interest income from transactions in national currency:		
Interest income from State securities	297 071	370 411
Interest income from bank loans	3 254	8 133
Interest income from capital lease	328	10 129
Interest income from securities purchased under reverse repos agreements	237	123
Interest income from SWAP operations	90	132
<b>Total interest income</b>	<b>600 225</b>	<b>571 445</b>

Increase in deposit amounts in non-resident banks and purchase of new debt securities in foreign currencies led to increase in profitability of such deposits. Comparative information

The notes on pages 118 to 142 form an integral part of these financial statements.

on interest rates are given in the related notes on assets. (see Note 5,7,8).

Decrease in interest income from state securities is caused from decrease in interest rates on state securities with a floating rate of interest.

Interest income from bank loans in 2004 included interest in amount of Som 1 514 thousand on overnight bank loans and interest received in amount of Som 1 740 thousand on loan provided by the JSCB KyrgyzKramdsbank in 1999, with the repaid principal amount during 1999-2001.

In 2004 due to the weakened financial position of JSCB Ak Bank building financial lease payments received by the bank from the National Bank with the reverse repurchase right were suspended which has accordingly resulted in a decrease in interest income on financial lease.

## 22. Interest expense

	2004	2003
	Som'000	Som'000
<b>Interest expenses on foreign currency transactions:</b>		
Interest expenses from IMF loans	43 871	43 319
Interest expenses from EBRD and IDA related to the agent functions	8 695	10 607
Interest expenses from IDA Settlements and banking system modernization loan	335	-
Interest expenses from SWAP operations	3	6
<b>Interest expenses on national currency transactions:</b>		
Interest expenses on Government of KR deposits	41 103	13 970
Interest expenses from securities sold under agreements to resell	10 225	14 335
Interest on compliance of reserve requirements by banks	8 434	5 908
Interest expenses from debt securities issued	689	231
<b>Total interest expense</b>	<b>113 355</b>	<b>88 376</b>

Interest expense on Kyrgyz Republic Government deposits from 2003 are repaid in local currency regardless of the currency of the deposits in accordance with the agreement dated 23 December 2002 and in the framework of the General Agreement No. D-3-2/659 dated 21 June 2002 on regulation of the financial relations between the Government of the Kyrgyz Republic and the National Bank.

## 23. Provisions for loan losses and impairment

Movement of provisions for loan losses of credit portfolio is detailed below:

	Due from banks and other financial institutions	Loans related to agent functions	Loans to banks in national currency	Total
	Som'000	Som'000	Som'000	Som'000
<b>31 December 2002</b>	<b>189 093</b>	<b>317 050</b>	<b>124 856</b>	<b>630 999</b>
Recovery of provision in 2003	(17 338)	(18 660)	(1 725)	(37 723)
<b>31 December 2003</b>	<b>171 755</b>	<b>298 390</b>	<b>123 131</b>	<b>593 276</b>
Recovery of provision in 2004	(10 066)	(19 713)	(751)	(30 530)
<b>31 December 2004</b>	<b>161 689</b>	<b>278 677</b>	<b>122 380</b>	<b>562 746</b>

Provisions for impairment of other assets and investments for the years ended 31 December 2004 and 2003 did not occur.

The notes on pages 118 to 142 form an integral part of these financial statements.



**24. Net foreign exchange realized (loss)/profit**

	2004	2003
	<i>Som'000</i>	<i>Som'000</i>
Negative realized exchange difference from change of net foreign exchange position	(15 440)	(9 829)
Conversion gain	24 169	26 126
Conversion loss	(57 274)	(15 019)
<b>Total net foreign exchange realized loss/(income)</b>	<b>(48 545)</b>	<b>1 278</b>

The USD decrease trend on global currency market in 2004 affected the increase of the foreign exchange realized loss.

**25. Other operating income and expense**

	2004	2003
	<i>Som'000</i>	<i>Som'000</i>
Other operating income:		
Payment for gross depot service, profit carried forward	4 445	1 174
Reimbursement to commercial banks of the purchase expenses for SWIFT equipment and software	3 663	398
Income from reorganization of the State Enterprise National Automated Clearing Chamber	1 044	-
Income from numismatics sale	917	1 000
Income from grants	671	474
Payment for property lease	416	294
Income less losses from debt securities transactions in foreign currency	188	31
Dividend income from subsidiaries	115	1 900
<b>Total other operating income</b>	<b>11 459</b>	<b>5 271</b>

**Other operating expenses** recorded in the profit and loss account for 2004 in the amount of Som 2 017 thousand (2003: Som 1 800 thousand) include expenses related to the National bank's implementation of its functions and other operating expenses.

**26. Expenses for banknotes and coins issued for circulation**

The cost of production of banknotes and coins of national currency including related expenses is charged to expenses as issued.

**27. Staff Costs**

	2004	2003
	<i>Som'000</i>	<i>Som'000</i>
Salaries	58 801	50 236
Contribution to the Social Fund of the Kyrgyz Republic	18 153	15 456
Employee benefits and incentives	13 060	10 973
<b>Total staff costs</b>	<b>90 014</b>	<b>76 665</b>

Staff costs include individual income tax of Som 8 415 thousand (2003: Som 7 727 thousand).

The notes on pages 118 to 142 form an integral part of these financial statements.

## 28. Administrative Expenses

	2004	2003
	<i>Som'000</i>	<i>Som'000</i>
Staff training	9 141	8 441
Communication services	7 954	7 660
Publications and subscriptions	7 565	7 466
Professional services	5 249	5 266
Business trip expenses	4 760	3 850
Expense related to arrangement of international conferences, meetings and other business events	2 908	3 722
Stationary and office supplies	2 873	3 018
Other	5 149	5 941
<b>Total administrative expenses</b>	<b>45 599</b>	<b>45 364</b>

## 29. Fixed assets expenses

	2004	2003
	<i>Som'000</i>	<i>Som'000</i>
Buildings and constructions	12 664	11 725
Computer equipment	8 627	5 539
Vehicles, furniture and office equipment	6 753	6 213
<b>Total fixed assets expenses</b>	<b>28 064</b>	<b>23 477</b>

Fixed assets expenses include expenses on support and maintenance, current repair works of fixed assets, related materials and spare parts, utilities and fuel for vehicles.

## 30. Risk Management

The structure of assets and liabilities of the National Bank is determined by the specific of its state functions of a central bank. The National Bank performs continued risk management which is regulated by the internal provisions and monitored by the Risk Committee and Audit Committee. The functions of the Audit Committee are performed by the Board of the National Bank. The Board, committees and related departments of the National Bank review matters of monetary and credit policy, investment and currency policy and set up limitations on volume of operations and requirements of assessment of the National Bank's counter-parties.

In the normal course of its operations, the National Bank is exposed to various risks such as operating, credit, currency and interest rate risks.

**Operating risk** is the risk of contingent losses due to inadequate internal control of the operating activity. The Internal Audit function of the National Bank estimates and monitors effective functioning of the internal control system.

**Credit risk** is a risk when one party to a financial instrument will fail to discharge an obligation in full and contractual terms. Investment Committee of the National Bank constantly monitors counter-parties of the National Bank by assessing their liquidity and credit ratings.

**Currency risk** is related to fluctuations of available assets and liabilities currency rates.

**Interest risk** is a risk of losses due to fluctuations of assets and liabilities interest rate. Interest rates on assets and liabilities are disclosed in these financial statements in respective notes.

The notes on pages 118 to 142 form an integral part of these financial statements.

### 31. Geographical analysis

Analysis of assets and liabilities of the National Bank by counter-parties is presented below. 30 countries are members of Organization of Economic Cooperation and Development (OECD), including USA, Switzerland, Great Britain, Japan, Canada, Australia, Turkey, Germany, Belgium and other developed countries. International financial institutions include IMF, World Bank, EBRD and Islamic Development Bank.

The geographical analysis by groups of countries as of 31 December 2004:

	Kyrgyz Republic	OECD countries	Countries, non-OECD	International financial institutions	Loan loss provisions & impairment	Total
	<i>Som'000</i>	<i>Som'001</i>	<i>Som'002</i>	<i>Som'003</i>	<i>Som'004</i>	<i>Som'005</i>
<b>Assets:</b>						
Gold and other precious metals	-	1 514 964	-	-	-	1 514 964
IMF subscription quota	-	-	-	5 740 328	-	5 740 328
<i>Assets in foreign currency:</i>						
Due to banks and other financial institutions	-	14 533 360	161 689	825 048	(161 689)	15 358 408
Debt securities	-	6 420 689	-	-	-	6 420 689
Loans related to agent functions	2 218 474	-	-	-	(278 677)	1 939 797
Other assets	44 978	-	-	-	-	44 978
<i>Assets in local currency:</i>						
Government securities	4 783 734	-	-	-	-	4 783 734
Loans to banks	162 380	-	-	-	(122 380)	40 000
Fixed and intangible assets	206 816	-	-	-	-	206 816
Investment in equity of organizations	15 000	-	449	-	(3 750)	11 699
Other assets	435 505	-	-	-	(34 815)	400 690
<b>Total assets</b>	<b>7 866 887</b>	<b>22 469 013</b>	<b>162 138</b>	<b>6 565 376</b>	<b>(601 311)</b>	<b>36 462 103</b>
<b>Liabilities</b>						
Banknotes in circulation	11 425 060	-	-	-	-	11 425 060
Securities in favor of the IMF	-	-	-	5 725 654	-	5 725 654
<i>Liabilities in foreign currency:</i>						
International financial institutions	-	-	-	8 547 971	-	8 547 971
Banks and other financial institutions	22 165	-	-	25 474	-	47 639
Loans related to agent functions	-	1 888 074	-	450 222	-	2 338 296
KR Government accounts	5 187 450	-	-	-	-	5 187 450
Other liabilities	-	-	55 516	1 465	-	56 981
<i>Liabilities in local currency:</i>						
Bank and other financial institutions	932 686	-	71	16 758	-	949 515
KR Government accounts	973 085	-	-	-	-	973 085
Issued securities	11 974	-	-	-	-	11 974
Other liabilities	13 714	-	-	-	-	13 714
<b>Total liabilities</b>	<b>18 566 134</b>	<b>1 888 074</b>	<b>55 587</b>	<b>14 767 544</b>	<b>-</b>	<b>35 277 339</b>
<b>Net balance sheet position</b>	<b>(10 699 247)</b>	<b>20 580 939</b>	<b>106 551</b>	<b>(8 202 168)</b>	<b>(601 311)</b>	<b>1 184 764</b>

The notes on pages 118 to 142 form an integral part of these financial statements.

## The geographical analysis by groups of countries as of 31 December 2003:

	Kyrgyz Republic	OECD countries	Countries, non-OECD	International financial institutions	Loan loss provisions & impairment	Total
	Som '000	Som '001	Som '002	Som '003	Som '004	Som '005
<b>Assets</b>						
Gold and other precious metals	-	1 532 139	-	-	-	1 532 139
IMF subscription quota	-	-	-	5 752 711	-	5 752 711
<i>Assets in foreign currency:</i>						
Due from banks and other financial institutions	-	8 499 048	171 755	452 361	(171 755)	8 951 409
Debt securities	-	6 399 358	-	90 511	-	6 489 869
Loans related to agent functions	2 348 697	-	-	-	(298 390)	2 050 307
Other assets	47 742	-	-	-	-	47 742
<i>Assets in local currency:</i>						
Government securities	4 838 485	-	-	-	-	4 838 485
Loans to banks	123 131	-	-	-	(123 131)	-
Fixed and intangible assets	192 512	-	-	-	-	192 512
Investments to equity securities	15 000	-	453	-	(3 750)	11 703
Other assets	389 644	-	-	-	(34 815)	354 829
<b>Total assets</b>	<b>7 955 211</b>	<b>16 430 545</b>	<b>172 208</b>	<b>6 295 583</b>	<b>(631 841)</b>	<b>30 221 706</b>
<b>Liabilities</b>						
Banknotes in circulation	9 623 257	-	-	-	-	9 623 257
Securities in favor of the IMF	-	-	-	5 738 006	-	5 738 006
<i>Liabilities in foreign currency:</i>						
International financial institutions	-	-	-	8 856 960	-	8 856 960
Banks and other financial institutions	3 866	-	-	27 044	-	30 910
Loans related to agent functions	-	1 964 927	-	488 979	-	2 453 906
KR government accounts	1 152 982	-	-	-	-	1 152 982
Other liabilities	-	-	57 012	-	-	57 012
<i>Liabilities in local currency:</i>						
Bank and other financial institutions	595 361	-	-	19 389	-	614 750
KR government accounts	431 732	-	-	-	-	431 732
Issued securities	95 855	-	-	-	-	95 855
Other liabilities	10 745	-	-	-	-	10 745
<b>Total liabilities</b>	<b>11 913 748</b>	<b>1 964 927</b>	<b>57 012</b>	<b>15 130 378</b>	<b>-</b>	<b>29 066 065</b>
<b>Net balance sheet position</b>	<b>(3 958 537)</b>	<b>14 465 618</b>	<b>115 196</b>	<b>(8 834 795)</b>	<b>(631 841)</b>	<b>1 155 641</b>

The notes on pages 118 to 142 form an integral part of these financial statements.

### 32. Currency analysis

The currency position of the National Bank as of 31 December 2004 was as follows:

	Kyrgyz	Som	US Dollar	SDR	Euro	Canadian Dollar	Other currencies	Gold and other precious metals	Total
<b>Assets:</b>									
Gold and other precious metals		-	-	-	-	-	-	1 514 964	1 514 964
IMF subscription quota		-	-	5 740 328	-	-	-	-	5 740 328
<i>Assets in foreign currency:</i>									
Due from banks and other financial institutions		-	3 953 454	825 048	3 007 956	5 687 877	1 884 073	-	15 358 408
Debt securities		-	1 854 512	-	1 917 316	338 976	2 309 885	-	6 420 689
Loans related to agent functions		-	1 939 797	-	-	-	-	-	1 939 797
Other assets		-	44 978	-	-	-	-	-	44 978
<i>Assets in local currency:</i>									
Government securities	4 783 734		-	-	-	-	-	-	4 783 734
Loans to banks	40 000		-	-	-	-	-	-	40 000
Fixed and intangible assets	206 816		-	-	-	-	-	-	206 816
Investment to equity securities	11 250		-	-	-	-	449	-	11 699
Other assets	397 418		-	-	-	-	-	3 272	400 690
<b>Total assets</b>	<b>5 439 218</b>		<b>7 792 741</b>	<b>6 565 376</b>	<b>4 925 272</b>	<b>6 026 853</b>	<b>4 194 407</b>	<b>1 518 236</b>	<b>36 462 103</b>
<b>Liabilities:</b>									
Banknotes in circulation	11 425 060		-	-	-	-	-	-	11 425 060
Securities in favor of IMF *	5 725 654		-	-	-	-	-	-	5 725 654
<i>Liabilities in foreign currency:</i>									
International financial institutions		-	-	8 547 971	-	-	-	-	8 547 971
Banks and other financial institutions		-	47 639	-	-	-	-	-	47 639
Loans related to agent functions		-	2 338 296	-	-	-	-	-	2 338 296
KR government accounts		-	1 320 001	-	259 256	3 608 193	-	-	5 187 450
Other liabilities		-	1 465	-	-	-	55 516	-	56 981
<i>Liabilities in local currency:</i>									
Bank and other financial institutions	949 515		-	-	-	-	-	-	949 515
KR government accounts	973 085		-	-	-	-	-	-	973 085
Issued securities	11 974		-	-	-	-	-	-	11 974
Other liabilities	13 714		-	-	-	-	-	-	13 714
<b>Total liabilities</b>	<b>19 099 002</b>		<b>3 707 401</b>	<b>8 547 971</b>	<b>259 256</b>	<b>3 608 193</b>	<b>55 516</b>	<b>-</b>	<b>35 277 339</b>
<b>Net balance sheet position</b>	<b>(13 659 784)</b>		<b>4 085 340</b>	<b>(1 982 595)</b>	<b>4 666 016</b>	<b>2 418 660</b>	<b>4 138 891</b>	<b>1 518 236</b>	<b>1 184 764</b>

\*In accordance with the terms of Kyrgyz Republic membership in IMF, these liabilities in favor of IMF are represented in Som at the rate of SDR set by the IMF at 31 December 2004.

The notes on pages 118 to 142 form an integral part of these financial statements.

As of 31 December 2003 the currency position of the National Bank comprised:

	Kyrgyz	Som	US Dollar	SDR	Euro	Swiss franc	Other currencies	Gold and other precious metals	Total
<b>Assets:</b>									
Gold and other precious metals		-	-	-	-	-	-	1 532 139	1 532 139
IMF subscription quota		-	-	5 752 711	-	-	-	-	5 752 711
<i>Assets in foreign currency:</i>									
Due from banks and other financial institutions		-	5 551 940	453 785	1 515 601	551 033	879 050	-	8 951 409
Debt securities		-	4 514 978	-	1 549 906	424 985	-	-	6 489 869
Loans related to agent functions		-	2 050 307	-	-	-	-	-	2 050 307
Other assets		-	47 742	-	-	-	-	-	47 742
<i>Assets in local currency:</i>									
Government securities	4 838 485		-	-	-	-	-	-	4 838 485
Loans to banks	-		-	-	-	-	-	-	-
Fixed and intangible assets	192 512		-	-	-	-	-	-	192 512
Investment to equity securities	11 250		-	-	-	-	453	-	11 703
Other assets	354 829		-	-	-	-	-	-	354 829
<b>Total assets</b>	<b>5 397 076</b>		<b>12 164 967</b>	<b>6 206 496</b>	<b>3 065 507</b>	<b>976 018</b>	<b>879 503</b>	<b>1 532 139</b>	<b>30 221 706</b>
<b>Liabilities:</b>									
Banknotes in circulation	9 623 257		-	-	-	-	-	-	9 623 257
Securities in favor of the IMF *	5 738 006		-	-	-	-	-	-	5 738 006
<i>Liabilities in foreign currency:</i>									
International financial institutions	-		-	8 856 960	-	-	-	-	8 856 960
Banks and other financial institutions	-		30 910	-	-	-	-	-	30 910
Loans related to agent functions	-		2 453 906	-	-	-	-	-	2 453 906
KR Government accounts	-		852 647	-	296 452	-	3 833	-	1 152 932
Other liabilities	-		921	-	-	-	56 091	-	57 012
<i>Liabilities in local currency:</i>									
Bank and other financial institutions	614 750		-	-	-	-	-	-	614 750
KR government accounts	431 732		-	-	-	-	-	-	431 732
Securities issued	95 855		-	-	-	-	-	-	95 855
Other liabilities	10 745		-	-	-	-	-	-	10 745
<b>Total liabilities</b>	<b>16 514 345</b>		<b>3 338 384</b>	<b>8 856 960</b>	<b>296 452</b>	<b>-</b>	<b>59 924</b>	<b>-</b>	<b>29 066 065</b>
<b>Net balance sheet position</b>	<b>(11 117 269)</b>		<b>8 826 583</b>	<b>(2 650 464)</b>	<b>2 769 055</b>	<b>976 018</b>	<b>819 579</b>	<b>1 532 139</b>	<b>1 155 641</b>

\*In accordance with the terms of Kyrgyz Republic membership in IMF, these liabilities in favor of IMF are represented in Som at the rate of SDR set by the IMF at 31 December 2003.

The notes on pages 118 to 142 form an integral part of these financial statements.

## 29. Maturity analysis

The National Bank as any other central bank usually has no liquidity risk as itself related to assets and liabilities in local currency. Nevertheless, in accordance with IFRS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" the table below shows distribution of all assets and liabilities by their maturities.

Assets and liabilities as of 31 December 2004 by their remaining maturity and demand:

	On demand and less			More than 5		Undefined	Total
	than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	years		
	Sam '000	Sam '001	Sam '002	Sam '003	Sam '004	Sam '005	Sam '006
<b>Assets:</b>							
Gold and other precious metals	729 366	-	785 598	-	-	-	1 514 964
IMF subscription quota	-	-	-	-	-	5 740 328	5 740 328
<i>Assets in foreign currency:</i>							
Due from banks and other financial institutions	14 093 771	1 264 637	-	-	-	-	15 358 408
Debt securities	4 735 170	872 257	-	813 262	-	-	6 420 689
Loans, related to agent functions	9 986	-	116 073	559 458	1 254 280	-	1 939 797
Other assets	44 764	214	-	-	-	-	44 978
<i>Assets in local currency:</i>							
Government securities	-	52 570	713 683	3 726 133	291 348	-	4 783 734
Loans to banks	40 000	-	-	-	-	-	40 000
Fixed and intangible assets	-	-	-	-	-	206 816	206 816
Investment in equity securities	-	-	-	11 250	-	449	11 699
Other assets	400 690	-	-	-	-	-	400 690
<b>Total assets</b>	<b>20 053 747</b>	<b>2 189 678</b>	<b>1 615 354</b>	<b>5 110 103</b>	<b>1 545 628</b>	<b>5 947 593</b>	<b>36 462 103</b>
<b>Liabilities:</b>							
Banknotes in circulation	-	-	-	-	-	11 425 060	11 425 060
Securities in favor of the IMF	-	-	-	-	-	5 725 654	5 725 654
<i>Liabilities in foreign currency:</i>							
International financial institutions	68 960	229 370	1 040 619	5 094 103	2 114 919	-	8 547 971
Banks and other financial institutions	47 639	-	-	-	-	-	47 639
Loans, related to agent functions	473	-	147 540	734 005	1 456 278	-	2 338 296
KR Government accounts	5 187 450	-	-	-	-	-	5 187 450
Other liabilities	56 981	-	-	-	-	-	56 981
<i>Liabilities in local currency:</i>							
Banks and other financial institutions	949 515	-	-	-	-	-	949 515
KR Government accounts	973 085	-	-	-	-	-	973 085
Issued securities	11 974	-	-	-	-	-	11 974
Other liabilities	13 714	-	-	-	-	-	13 714
<b>Total liabilities</b>	<b>7 309 791</b>	<b>229 370</b>	<b>1 188 159</b>	<b>5 828 108</b>	<b>3 571 197</b>	<b>17 150 714</b>	<b>35 277 339</b>
<b>Net liquidity gap</b>	<b>12 743 956</b>	<b>1 960 308</b>	<b>427 195</b>	<b>(718 005)</b>	<b>(2 025 569)</b>		
<b>Aggregate liquidity gap as of 31 December 2004</b>	<b>12 743 956</b>	<b>14 704 264</b>	<b>15 131 459</b>	<b>14 413 454</b>	<b>12 387 885</b>		

The notes on pages 118 to 142 form an integral part of these financial statements.



## Assets and liabilities as of 31 December 2003 by remaining maturity and demand:

	On demand and less			More than 5		Undefined	Total
	than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	years		
	Som '000	Som '001	Som '002	Som '003	Som '004	Som '005	Som '006
<b>Assets:</b>							
Gold and other precious metals	1 106 397	-	425 742	-	-	-	1 532 139
IMF subscription quota	-	-	-	-	-	5 752 711	5 752 711
<i>Assets in foreign currency:</i>							
Claims on banks and other financial institutions	6 321 034	1 859 101	771 274	-	-	-	8 951 409
Debt securities	662 708	1 326 769	3 389 936	1 110 456	-	-	6 489 869
Loans, related to agent functions	13 167	-	11 085	438 825	1 587 230	-	2 050 307
Other assets	47 524	218	-	-	-	-	47 742
<i>Assets in local currency:</i>							
Government securities	-	52 558	508 382	3 002 326	1 275 219	-	4 838 485
Loans to banks	-	-	-	-	-	-	-
Fixed and intangible assets	-	-	-	-	-	192 512	192 512
Investments to equity securities	-	-	-	11 250	-	453	11 703
Other assets	354 829	-	-	-	-	-	354 829
<b>Total assets</b>	<b>8 505 659</b>	<b>3 238 646</b>	<b>5 106 419</b>	<b>4 562 857</b>	<b>2 862 449</b>	<b>5 945 676</b>	<b>30 221 706</b>
<b>Liabilities:</b>							
Banknotes in circulation	-	-	-	-	-	9 623 257	9 623 257
Securities in favor of the IMF	-	-	-	-	-	5 738 006	5 738 006
<i>Liabilities in foreign currency:</i>							
International financial institutions	-	1 613	1 242 096	4 589 116	3 024 135	-	8 856 960
Banks and other financial institutions	30 910	-	-	-	-	-	30 910
Loans, related to agent functions	646	-	13 129	561 875	1 878 256	-	2 453 906
KR government accounts	1 152 932	-	-	-	-	-	1 152 932
Other liabilities	57 012	-	-	-	-	-	57 012
<i>Liabilities in local currency:</i>							
Banks and other financial institutions	614 750	-	-	-	-	-	614 750
KR government accounts	431 732	-	-	-	-	-	431 732
Securities issued	95 855	-	-	-	-	-	95 855
Other liabilities	10 745	-	-	-	-	-	10 745
<b>Total liabilities</b>	<b>2 394 582</b>	<b>1 613</b>	<b>1 255 225</b>	<b>5 150 991</b>	<b>4 902 391</b>	<b>15 361 263</b>	<b>29 066 065</b>
<b>Net liquidity gap</b>	<b>6 111 077</b>	<b>3 237 033</b>	<b>3 851 194</b>	<b>(588 134)</b>	<b>(2 039 942)</b>		
<b>Aggregate liquidity gap as of 31 December 2003</b>	<b>6 111 077</b>	<b>9 348 110</b>	<b>13 199 304</b>	<b>12 611 170</b>	<b>10 571 228</b>		

The notes on pages 118 to 142 form an integral part of these financial statements.

### 34. Commitments and contingencies

**Loan payables.** Loan payables include liabilities on provision of loans, letters of credit and guarantees. As of 31 December 2004, the National Bank had no contingent loan payables.

**Pledged assets.** As of 31 December 2004, the National Bank had gold deposits totaling 40 000 troy ounces or Som 729 263 thousand pledged for loans guaranteed by the Government of the Kyrgyz Republic (2003: 60 000 troy ounces or Som 1 143 421 thousand) (see Notes 5 and 7). In 2004 collateralized deposits were released from pledge for 20 000 troy ounces and Som 840 000 thousand.

**Capital commitments.** Capital commitments represent expenses for purchases of fixed assets, intangible assets or construction. As of 31 December 2004 the National Bank had no material capital commitments.

### 35. Fair value of financial instruments

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". As no readily available market exists for most of the National Bank's financial instruments, judgment is necessary in arriving at fair value based on current economic conditions and specific risks attributable to the instrument. The amounts the National Bank could receive from actual sales of the available package of financial instruments could insignificantly differ from the recorded estimations.

As of 31 December 2004 and 2003 the following methods and assumptions were used by the National Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

**Claims on banks and other financial institutions** - For these financial instruments the carrying amount is a reasonable estimate of fair value.

**Foreign securities available-for-sale** - As of 31 December 2004 and 2003 securities available-for-sale are stated at fair value amounting to Som 6 420 689 thousand and Som 6 489 869 thousand, respectively. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market.

**Loans and accounts receivables** - Fair value of the credit portfolio and accounts receivables is determined by quality of specific loans and the level of their interest rates under each type of loans in the credit portfolio. The assessment of loan loss provisions for loans and accounts receivable includes the analysis of the risk inherent in various types of lending, on the basis of such factors, as the current situation in the economic sector of the borrower, the financial position of each borrower, as well as the issued guarantees. Thus, the

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The notes on pages 118 to 142 form an integral part of these financial statements.

loan loss provisions sufficiently reflect the extent of the required cost adjustment including the impact of the credit risk.

**Liabilities to banks and other financial institutions** - As of 31 December 2004 and 2003 the carrying amount of short-term deposits and demand deposits of Som 997 154 thousand and Som 645 660 thousand, respectively, represents the reasonable estimation of their fair value.

**Accounts of the Government of the Kyrgyz Republic** - As of 31 December 2004 and 2003 the carrying amount of the current accounts of the Government of the Kyrgyz Republic of Som 6 160 534 thousand and Som 1 584 664 thousand, respectively, represents the reasonable estimation of their fair value.

**Securities issued** - Debt securities issued are recorded at cost of sale adjusted to amortization of premiums and discounts that corresponds to their fair value.

Financial assets and financial liabilities impossible to determine their fair value due to nature of transactions of the central bank and/or for lack of the active market for these instruments: investments to the equity securities, State securities, IMF membership quota, and securities to the favor of IMF.

### 36. Transactions with related parties

For the reporting purposes parties are considered to be related, if one of them has an opportunity to control another or may significantly control its financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include the Management of the National Bank and its subsidiaries. As of 31 December 2004 the subsidiaries of the National Bank are represented by FCSDCU, BTC, RED (see Note 12).

Payables and receivables at the year-end and profit/loss from related parties transactions included to the financial statements are presented below:

	2004 <i>Som'000</i>	2003 <i>Som'000</i>
<b>Other assets:</b>		
Balances at the year-end on management loans	21	1 446
<b>Other operating income:</b>		
Income as dividends from subsidiaries	115	1 900
<b>Administrative expenses:</b>		
Expenses related to the staff training in BTC	858	812

The notes on pages 118 to 142 form an integral part of these financial statements.

**37. Cash and cash equivalents**

	<b>2004</b>	<b>2003</b>
	<i>Som'000</i>	<i>Som'000</i>
Foreign currency on hand	44 765	47 524
Correspondent accounts with other central banks	2 286 140	3 754 186
Correspondent accounts with other nonresident banks	6 845 734	1 806 929
Balances with the IMF account	821 380	452 361
Debt securities of non-residents in foreign currency (excluding accrued interest)	6 446 964	6 479 917
<b>Total cash and cash equivalents</b>	<b>16 444 983</b>	<b>12 540 917</b>

The notes on pages 118 to 142 form an integral part of these financial statements.



### Chronology of the basic events in monetary sphere in 2004

Date	Contents
January 13	NBKR briefing devoted to the "Results of the monetary policy in 2003".
January 14	Executive Board of the International Monetary Fund completed the Fourth Review of the economic activities results the Kyrgyz Republic within the framework of the Agreement "On the poverty reduction mechanism and economic growth facility".
January 14	The working meeting of the National Bank representatives, the Agency on reorganization of banks and debt re-structuring and representatives of the law enforcement bodies of the republic took place at the NBKR, where the issue of repaying credit provided within the EBRD- 1 credit line were discussed.
January 16	Press conference took place at the News Agency "Kabar" devoted to the "Results of the activity of the bank system in 2003".
February 9	In Bishkek the seminar on "Approaches and practice of IMF in fight against financing terrorism and criminal "money laundry"" was carried out.
February 11	The NBKR presented the Concept of the deposit protection system in the Kyrgyz Republic for the wide public.
February 17	The "Round Table" meeting, was carried out where the preliminary results of implementation of the pilot project on introduction of depositary operations in the Credit Unions in Bishkek. The "Round Table" was carried out under support of the German Technical Cooperation Agency (GTZ). The NBKR and Financial Company for Credit Unions Support and Development participated at the work of the "Round Table".
February 18	At the meeting of the Economic Policy Council under the Government of the Kyrgyz Republic the "Basic areas (the program) of middle term development of the bank sector of the Kyrgyz Republic" were adopted.
February 23	The NBKR Chairman held the meeting of the Board of the Bank, where the issues of implementation of the 2003-2005 State Program on introduction of the system of non-cash payments and setting up the infrastructure, capable to provide effective payments in the Kyrgyz Republic and the Draft Concept of the deposit protection system in the Kyrgyz Republic were discussed.
February 27	The Kyrgyz Republic joined the IMF Special Data Dissemination Standard.
March 3	Press conference took place at the News Agency "Kabar" devoted to "Development of micro-finance organizations in 2003".
March 11-12	The NBKR Chairman took part in the IX Session work of the Board of the central (national) banks heads countries of Eurasian Economic Cooperation in Minsk (Byelorussia).

Date	Contents
March 9-10	Chief of the Deutsche Bundesbank Central Bank Technical Cooperation Department paid a visit to the NBKR. The issues of current projects in the field of fight against coinage offence, bank supervision and development of the draft agreement on cooperation between the central banks of two countries were discussed at the meeting.
March 16	The World Bank Board of Directors approved the 9 million US dollars loan in support of the Project of modernization of payments and bank system in the Kyrgyz Republic, which will be focused on development of modern uniform national system of payments.
March 27	The "Requirements to the banks on work with securities" were adopted by the Decision of the NBKR Board.
March 23	Press conference took place at the News Agency "Kabar" devoted to the "Reforming of payment system of the Kyrgyz Republic".
March 31	The Kyrgyz Republic National Bank Board adopted the 2003 Annual Report.
April 2	Press conference took place at the News Agency "Kabar" devoted to the results of a monetary implementation in the I quarter of 2004.
April 2	At the session of the People's Representatives Assembly of the Jogorku Kenesh of the Kyrgyz Republic the 2002 Report of the NBKR Chairman was heard and taken into account.
April 8	The National Bank of the Kyrgyz Republic in cooperation with the European Bank of Reconstruction and Development, with the International Monetary Fund and with the World Bank had carried out the "Round Table" meeting devoted to the "System of deposit protection in the Kyrgyz Republic".
April 9	By the Decision of the Government of the Kyrgyz Republic and NBKR the Joint Decree of the Government of the Kyrgyz Republic and of the National Bank of the Kyrgyz Republic was adopted on the Basic Areas of Economic Policy in 2004.
April 28	The NBKR Board passed the concept of transition to the new standards of bank identification codes and numberings of the bank accounts.
May 4	Press conference was carried out on results of work of the International Monetary Fund Mission with participation of the Head of the Mission, of the NBKR Chairman and of the Minister of Finance of the Kyrgyz Republic.
May 7	Press conference took place at the News Agency "Kabar" with participation of the NBKR Chairman devoted to the results of the monetary policy for 4 months of 2004.
May 10	The NBKR Chairman made a "live" speech at the TV Studio "Zamana" (KTR) devoted to the 11th Anniversary of introduction of the national currency of the Kyrgyz Republic and to the Day of the Bank Worker.
May 19	The NBKR Board passed the Decree "On the dollar exchange rate used for evaluation of Compulsory Required Reserves (CRR)" for the period from May 31 to October 3,



Date	Contents
	2004 according to which the fixed dollar exchange rate for the CRR evaluation was established at a rate of 42,5 Soms for 1 US dollar.
May 25	Briefing devoted to the "Fight against criminal "money laundry" and financing of terrorism in the Kyrgyz Republic" took place at the NBKR.
June 4	Press conference was carried out at the News Agency "Kabar" by the NBKR Chairman devoted to the results of the money-and-credit policy over the 5 months of 2004.
June 9	The NBKR Board considered and took into account the Report on a monetary policy for the I quarter of 2004.
June 9-11	The NBKR jointly with the International Settlement Bank and with the Asian Development Bank carried out the international seminar "Credit Risks Management" for the Central Banks of the countries - members of the Basel Committee Regional Group on bank supervision of the countries of Caucasus, Central Asia and Russian Federation.
June 12	Under the initiative of the Budget and Economic Policy Committee of the Jogorku Kenesh Assembly of People's Representatives of the Kyrgyz Republic with assistance of the Oblast State Administration of Jalalabat Oblast and Jalalabat State University in the city of Jalalabat the National Bank of the Kyrgyz Republic carried out the "Round Table" meeting devoted to the "Pressing issues of crediting".
June 14	The President of the Kyrgyz Republic hold the working meeting with the NBKR employees.
June 23	The IMF Board of Directors passed the fifth Review of the Poverty Reduction Program and sustainable economic growth promotion in the Kyrgyz Republic.
June 29-30	The X Session of the Board of the Heads of the Central (National) Banks of the states - participants of the Eurasian Economic Cooperation (EAEC) took place in Bishkek.
July 1-2	The International conference "Measures of raising trust to the bank system" arranged jointly with the European Bank of Reconstruction and Development and the State Committee on Economy of Switzerland took place in Bishkek.
July 9	Press conference was carried out at the News Agency "Kabar" by the NBKR Chairman devoted to the results of the money-and-credit policy over the 6 months of 2004.
July 15-16	The NBKR Chairman took part in the work of the IV Investment Summit in Cholponata.
July 26	Briefing devoted to the fact that on August 2, 2004 the banknote of 200 Som with updated design was monetized at the territory of the Kyrgyz Republic took place at the NBKR.

Date	Contents
August 4	The Board of the National Bank of the Kyrgyz Republic passed the amendments to the Regulation "On the NBKR Monetary Committee".
August 5	With a view of setting up cooperation on the issues of regulation of banking activity, sharing information about status and development of the bank sector the Cooperation Agreement was signed between the NBKR and the Bank of Russia.
August 9	Press conference was carried out at the News Agency "Kabar" by the NBKR Chairman devoted to the results of the money-and-credit policy over the 7 months of 2004.
August 13 - 25	Within the framework of consultations on the Article IV of the Agreements with IMF the Mission of the IMF Middle East and Central Asia Department visited the Kyrgyz Republic. Within the framework of consultations with IMF the IMF Executive Director visited the Kyrgyz Republic.
August 27	The NBKR Board considered and took into account the Report on a monetary policy for 6 months of 2004.
August 27	By the Decree of the NBKR Board the new edition of the Regulation "On Compulsory Reserves" was adopted with a view of increase of efficiency of compulsory reserve requirements as a tool of a monetary policy and for the further development of inter-bank credit market.
September 14	Press conference was carried out at the News Agency "Kabar" by the NBKR Chairman devoted to the results of the money-and-credit policy over the 8 months of 2004.
September 15	The NBKR Board passed the new edition of the Reference Book "On limitations of crediting".
September 22	The NBKR Board passed the Decree "On the exchange rate of dollar used for estimation of compulsory reserve requirements (CRR)" for the period from October 4, 2004 to May 29, 2005 according to which the value of the dollar fixed exchange rate for CRR purposes was established at a rate of 43,0 Soms for 1 US dollar.
September 28	On the correspondent account of the NBKR 106,6 million Canadian dollars were received from sale of 7,5 million of common shares of the Company "Tsenterra Gold Ink", belonging to the Kyrgyz party. The given assets have been put on the NBKR account of the Government of the Kyrgyz Republic.
October 13	Press conference was carried out at the News Agency "Kabar" by the NBKR Chairman devoted to the results of the money-and-credit policy over the 9 months of 2004.
October 16	Within the framework of the Mass Media Information Support Program at the NBKR Naryn Oblast Department the seminar devoted to the "Role and Functions of the NBKR as central bank of the country" was carried out for the journalists of Issyk-Kul and Naryn Oblasts.
October 23	The Board of the National Bank of the Kyrgyz Republic passed the Regulation "On the requirements to the accounting policy of commercial banks".

Date	Contents
October 27 - 28	In Bishkek the seminar was carried out on the issues of foreign debt administration in the situation of globalization. The seminar was carried out under support of the Committee on economic and social issues in the countries of Asia and Pacific Region of the United Nations (UNESCAP) and of the Governments of South Korea.
October 30	Within the framework of the Mass Media Information Support Program at the NBKR Jalalabat Oblast Department the seminar devoted to the "Role and Functions of the NBKR as central bank of the country" was carried out for the journalists of Talas and Jalalabat Oblasts.
November 1	Deputies of the Jogorku Kenesh Legislative Assembly of the Kyrgyz Republic had taken into account the Report of the National Bank of the Kyrgyz Republic for 2003.
November 9	Meeting of the management of the Bank with the Mission of the Asian Development Bank took place at the NBKR where implementation of the "Rural Financial Institutions" and of the "Financial Sector Development - 2" Program were discussed, which were planned for implementation in 2005.
November 12	The National Bank of the Kyrgyz Republic carried out the "Round Table" meeting in Naryn devoted to the "Issues of development of micro crediting in the Kyrgyz Republic" with participation of representatives of the microfinance organizations, credit unions, branches of commercial banks and international organizations that work on development of micro crediting in the Kyrgyz Republic.
November 16	Press conference was carried out at the News Agency "Kabar" by the NBKR Chairman devoted to the results of the money-and-credit policy over the 10 months of 2004.
November 16	The meeting of the management of the National Bank with representatives of the World Bank took place. Issues of implementation of the World Bank Project "Modernization of payment and bank systems" were discussed at the meeting along with the issues of further development of the Kyrgyz Agricultural Financial Corporation and of the bank system of the Republic in general.
November 18	The meeting of the management of the National Bank and the FCSDCU Director General with the Mission of the Asian Development Bank took place. Issues of further implementation of the ADB Project "Rural Financial Institutions" and issues of implementation of the 2005 ADB Project "Financial Intermediation Resource Management Program - 2".
November 19	The IMF Executive Directors Board had finalized consultations with the Kyrgyz Republic on the Article IV.
November 25	The NBKR Board had considered and taken into account the Report on a monetary policy for 9 months 2004.
December 3	The meeting of the management of the National Bank with the members of the Bank Mercury Creditors' Committee took place at the NBKR. At the meeting the parties had discussed the current situation of extinction of obligation for repayment of the Bank Mercury before the depositors - physical persons along with the issues of the further cooperation in solving the problem of return of the deposits.

Date	Contents
December 9	The Jogorku Kenesh Legislative Assembly of the Kyrgyz Republic in the first reading had adopted the Bill of the Kyrgyz Republic "On fight against financing of terrorism and legalization of criminal incomes". The bill of the Kyrgyz Republic "On amendments to the law "On banks and banking in the Kyrgyz Republic" was passed in the first reading.
December 10	Press conference was carried out at the News Agency "Kabar" by the NBKR Chairman devoted to the results of the money-and-credit policy over the 11 months of 2004.
December 7 - 18	The IMF Mission visited Bishkek with the purpose of carrying out the Final Review of the three years Poverty Reduction Program and sustainable development promotion in the Kyrgyz Republic (PRGF), which had come to the end in September 2004. Discussion of the new program of cooperation of the Kyrgyz Republic with the International Monetary Fund for 2005-2007 were carried out. Press conference on results of the work of the Mission with participation of the Head of the Mission, of the NBKR Chairman and Minister of Finance of the Kyrgyz Republic took place.
December 15	The Board of the National Bank of the Kyrgyz Republic passed the Decree: -"On the NBKR 2004 Annual Report structure and Annual Report Program"; -"On the rate of indemnification for observance of the reserve requirements" where the uniform rate of indemnification for observance of the reserve requirements has been established for all banks, at a rate of the average weighted interest rate for deposits in functioning commercial banks at the beginning of a month. The decision enters into force in January 10, 2005.
December 15	The Jogorku Kenesh Legislative Assembly of the Kyrgyz Republic adopted the Law "On amendments to some laws of the Kyrgyz Republic". The Law of the Kyrgyz Republic "On banks and banking in the Kyrgyz Republic" and the Law of the Kyrgyz Republic "On auditing" were amended.
December 24	The NBKR Board passed the Draft Regulation "On the NBKR "overnight" loan".
December 27	The "Statement on the monetary policy for 2005" of the National Bank of the Kyrgyz Republic was passed by the Decree of the Board.
December 27	The "Basic areas of monetary policy for 2005" were passed by the Decree of the Board.
December 28	Briefing for familiarizing the public with the "Statement on monetary policy for 2005" of the National Bank of the Kyrgyz Republic took place at the NBKR.
December 29	The NBKR Board heard the Report "On implementation of the Action Plan on return of the EBRD-1 credit line loans".
December 29	The NBKR Board considered and passed the Regulation "On minimal requirements for the risk management in the banks of the Kyrgyz Republic".

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Table 1. Macro-economic indicators

	Unit of measurement	2000	2001	2002	2003	2004
<b>Real Sector <sup>1</sup></b>						
Nominal GDP	million KGS	65 357.9	73 883.3	75 366.7	83 871.6	94 078.4 *
Real GDP Growth Rate	per cent	5.4	5.3	0.0	7.0	7.1 *
Growth rate of industrial production	per cent	6.0	5.4	-10.9	17.0	3.7 *
Growth rate of gross agricultural production	per cent	2.6	7.3	3.1	3.2	4.1 *
Retail sales	million KGS	28 924.7	32 426.6	35 126.1	40 205.4	47 484.4
Services	million KGS	6 182.7	7 466.3	8 769.3	10 980.5	14 100.7
Consumer prices (by December of the previous year)	per cent	9.6	3.7	2.3	5.6	2.8
- food products		10.2	0.1	2.0	5.2	2.2
- non-food products		7.5	1.4	0.9	1.9	3.2
- services		16.2	21.7	4.0	18.5	2.5
Producer prices (by December of the previous year)	per cent	20.6	3.3	7.6	11.4	4.4
Level of Unemployment	per cent	3.0	3.2	3.1	2.9	2.9
Average nominal wages	KGS	1 227.0	1 455.1	1 617.6	1 920.4	2 202.9
Calculated minimum consumer budget	KGS	1 205.3	1 316.5	1 404.8	1 540.4	1 725.9
<b>Financial Sector <sup>2</sup></b>						
Discount Rate of the National Bank	per cent	38.3	8.0	4.4	4.0	4.0
State Treasury Bills Market	per cent					
(yield rate by the end of the period by the auction date)						
with the circulation term of:						
- 3 months		44.8	12.4	7.0	3.8	4.0
- 6 months		44.2	14.6	10.3	6.9	4.8
- 12 months		51.5	16.6	12.4	9.1	8.2
<b>Inter-bank Market</b>						
Loans in national currency:						
- volume (over a period)	million KGS	2 135.0	1 220.0	412.1	295.4	674.1
- interest rate (by the end of a period)	per cent	32.1	11.9	7.8	5.8	4.0
Loans in foreign currency:						
- volume (over a period)	million KGS	24 840.7	43 655.1	259.5	251.6	331.9
- interest rate (by the end of a period)	per cent	5.5	1.4	8.0	6.1	4.5
REPO transactions						
- volume of circulation	million KGS	1 656.7	2 021.5	1 329.1	1 466.4	3 191.2
- interest rate (by the end of a period)	per cent	29.4	5.3	4.9	3.5	4.5
Currency transactions	USA	79 340.4	67 751.0	89 984.8	122 449.9	133 268.2
<b>Deposits and Loans Market</b>						
Loans in national currency:						
- volume (over a period)	million KGS	714.0	1 170.3	1 385.6	2 003.9	2 559.2
- interest rate (by the end of a period)	per cent	50.1	28.0	24.8	23.0	24.3
Loans in foreign currency:						
- volume (over a period)	million KGS	1 534.3	1 527.7	2 030.2	2 913.7	5 864.2
- interest rate (by the end of a period)	per cent	31.4	19.5	18.3	19.3	16.2
Deposits in national currency:						
- volume (over a period)	million KGS	3 191.4	2 418.7	2 502.9	3 601.8	5 902.1
- interest rate (by the end of a period)	per cent	10.6	7.7	2.8	2.1	1.5
Deposits in foreign currency:						
- volume (over a period)	million KGS	4 571.9	7 368.5	11 501.8	28 875.4	95 710.1
- interest rate (by the end of a period)	per cent	1.7	1.5	0.5	0.4	0.2

Table 1. Continue

	Unit of measu- rement	2000	2001	2002	2003	2004
<b>Public budget <sup>3</sup></b>						
Revenues	<i>million KGS</i>	10 029.1	12 539.7	14 392.1	16 214.5	18 335.9
including the tax share	<i>per cent</i>	76.5	73.3	72.8	73.5	76.3
Expenditures	<i>million KGS</i>	11 308.2	12 255.7	15 190.2	16 895.9	18 841.7
Deficit (-) / Profit (+)	<i>million KGS</i>	-1 279.1	284.0	-798.1	-681.4	-505.8
per cent to GDP	<i>per cent to GDP</i>	-2.0	0.4	-1.1	-0.8	-0.5
<b>External economic factor</b>						
Export of goods and services	<i>per cent to GDP</i>	41.9	36.6	39.7	38.8	42.8
Import of goods and services	<i>per cent to GDP</i>	48.0	36.9	44.7	45.5	51.9
Account of on-going operations (including transfers)	<i>per cent to GDP</i>	-5.8	-1.2	0.0	0.0	-0.1
International reserves	<i>months of import of good and services</i>	4.9	6.3	5.6	5.9	5.7

\* Preliminary data.

<sup>1</sup> According to the data of the National Statistics Committee of the Kyrgyz Republic.<sup>2</sup> According to the data of the National Bank of the Kyrgyz Republic.<sup>3</sup> According to the data of the Ministry of Finance of the Kyrgyz Republic.



**Table 2. GDP composition by value added\****(per cent)*

	2000	2001	2002	2003	2004 <sup>1</sup>
Agriculture, hunting and forestry	34.2	34.5	34.4	33.6	32.9
Mining industry	0.5	0.5	0.5	0.5	0.7
Processing industry	18.1	17.6	13.0	13.3	12.2
Generation and distribution of electricity, gas, and water	6.4	4.9	4.4	3.6	3.1
Construction	4.2	3.8	3.4	2.9	3.0
Trade; repair of cars, household supplies, and private use items	12.1	12.2	14.3	15.2	16.6
Transportation and communication	3.7	4.2	5.1	5.4	6.4
Other	20.8	22.2	24.9	25.6	25.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* According to the data of the National Statistics Committee of the Kyrgyz Republic.

<sup>1</sup> Preliminary data.**Table 3. Structure of Capital Investments by Sources of Funding\****(per cent)*

	2000	2001	2002	2003	2004 <sup>1</sup>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Domestic investments</b>	<b>38.1</b>	<b>57.8</b>	<b>71.3</b>	<b>65.1</b>	<b>71.6</b>
including those financed from:					
Republican budget	7.5	7.0	7.9	7.8	6.4
out of them: funds for emergency situations:	1.3	1.3	1.6	1.7	2.1
Local budget	1.1	0.9	1.4	2.4	2.4
Funds of enterprises and organizations	20.5	29.1	46.6	37.7	34.4
Population funds and other	9.1	20.8	15.4	17.2	28.3
<b>External investments</b>	<b>61.9</b>	<b>42.2</b>	<b>28.7</b>	<b>34.9</b>	<b>28.4</b>
including those funded from:					
Foreign grants and humanitarian aid	1.4	0.5	3.6	4.5	4.9
Foreign loan	47.7	34.4	19.7	21.5	19.3
Direct foreign investments	12.9	7.4	5.4	8.9	4.2

\* According to the data of the National Statistics Committee of the Kyrgyz Republic.

<sup>1</sup> Preliminary data.

**Table 4. Monetary Aggregates (by the end of the period)***(million KGS)*

	2000	2001	2002	2003	2004
Monetary aggregates <sup>1</sup>	4 541.3	5 358.5	7 658.4	10 075.3	12 379.9
Money in circulation	4 312.0	5 174.6	7 058.0	9 623.3	11 425.1
Money outside banks (M0)	4 114.5	5 020.0	6 872.6	9 315.1	11 124.0
Monetary aggregate (M1)	4 618.6	5 560.0	7 784.6	10 515.7	12 891.6
Monetary aggregate (M2)	5 287.6	6 189.0	8 304.1	11 086.3	13 568.5
Monetary aggregate (M2X)	7 367.5	8 201.8	10 995.6	14 676.4	19 379.3
Multiplier M2	1.2	1.2	1.1	1.1	1.1
Multiplier M2X	1.6	1.5	1.4	1.5	1.6
Speed of circulation M1	14.2	13.3	9.6	7.9	7.3
Speed of circulation M2	12.4	11.9	9.0	7.5	6.9
Speed of circulation M2X	8.9	9.0	6.8	5.7	4.9
Money outside banks / Deposits	1.3	1.6	1.7	1.7	1.3
Deposits / Monetary aggregates (M2)	0.4	0.4	0.4	0.4	0.4

<sup>1</sup> Since October 1, 2001 the monetary aggregates include deposits of commercial banks in foreign currency in the National Bank of the Kyrgyz Republic.

Reference: M0 - money outside banks, M1=M0+call deposits, M2=M1+deposits with fixed period in national currency

M2X=M2+deposits in foreign currency.

Table 5. External Economic Indicators

	Unit of Measurement	2000	2001	2002	2003	2004 <sup>1</sup>
<b>Indicators of the Balance of Payments <sup>2</sup></b>						
Total balance	<i>million USD</i>	-15.7	2.8	29.2	9.3	115.0
	<i>per cent of GDP<sup>3</sup></i>	-1.1	0.2	1.8	0.5	5.4
Current account	<i>million USD</i>	-77.6	-28.6	-46.4	-73.0	-109.3
	<i>per cent of GDP<sup>3</sup></i>	-5.7	-1.9	-2.9	-4.1	-5.2
Export of goods (FOB)	<i>million USD</i>	510.9	480.3	498.1	590.3	730.7
	<i>per cent of GDP</i>	37.4	31.4	30.9	30.7	33.3
Import of goods (FOB)	<i>million USD</i>	506.9	449.9	572.1	723.8	901.5
	<i>per cent of GDP</i>	37.1	29.4	35.4	37.7	41.0
Level of international reserves of the NBKR	<i>months of import of good and services</i>	4.9	6.3	5.6	5.9	5.7
<b>External debt</b>						
State external debt <sup>4</sup>	<i>million USD</i>	1399.2	1441.5	1584.8	1773.6	1955.1
	<i>per cent of GDP</i>	102.3	94.2	98.2	92.3	89.0
	<i>per cent of export of goods and services</i>	244.3	257.2	247.6	238.0	211.8
State external debt service (graph) <sup>5</sup>	<i>million USD</i>	77.6	71.7	86.7	96.9	104.6
	<i>per cent to GDP</i>	0.1	0.1	0.0	0.1	0.0
	<i>per cent of export of goods and services</i>	13.5	12.8	13.5	13.0	11.3
<b>Nominal exchange rate<sup>6</sup></b>						
<b>I. Currencies of foreign countries</b>						
USD	<i>KGS/USD</i>	48.3041	47.7186	46.0949	44.1902	41.6246
German mark	<i>KGS/mark</i>	22.9773	21.5436	...	...	...
British pound sterling	<i>KGS/L</i>	72.1905	69.0870	73.8947	78.3227	80.2148
Euro	<i>KGS/Euro</i>	44.9397	42.1355	47.8719	55.0323	56.3930
Canadian dollar	<i>KGS/dollar</i>	32.1834	29.8699	29.5442	33.7356	33.8632
Japanese yen	<i>KGS/10 yen</i>	4.2049	3.6338	3.8408	4.1288	4.0194
Turkish lira	<i>KGS/100 lire</i>	0.0721	0.0329	0.0276	0.0313	0.0304
<b>II. Currencies of countries of the former Soviet Union region</b>						
Russian ruble	<i>KGS/ruble</i>	1.7153	1.5832	1.4499	1.5110	1.4955
Kazakh tenge	<i>KGS/KZT</i>	0.3343	0.3177	0.2966	0.3070	0.3202
Uzbek sum	<i>KGS/UZS</i>	0.1496	0.0695	0.0486	0.0451	0.0394
Ukrainian grivna	<i>KGS/grivna</i>	8.8884	9.0066	8.6443	8.2885	7.8451
Azerbaijan manat	<i>KGS/1,000 manat</i>	10.5698	9.9955	9.5283	8.9781	8.4914
Armenian dram	<i>KGS/10 dram</i>	0.8774	0.8488	0.8261	0.7851	0.8602
Byelorussian ruble	<i>KGS/ruble</i>	4.0936	3.0202	2.4045	2.0525	1.9155
Latvian lat	<i>KGS/lat</i>	78.7995	74.7940	77.6008	81.5317	80.2015
Lithuanian lit	<i>KGS/lit</i>	12.0760	11.9297	11.5237	15.8963	16.2077
Moldavian lei	<i>KGS/lei</i>	3.9007	3.6452	3.3322	3.3467	3.3390
Estonian crown	<i>KGS/crown</i>	2.8722	2.6929	3.0596	3.5172	3.6042
Tajik somoni	<i>KGS/somoni</i>	21.9564	19.1203	15.3650	14.8824	13.7058

<sup>1</sup> Indicators on the balance of payments and the external debt are preliminary.<sup>2</sup> According to the data of the National Statistics Committee and the National Bank of the Kyrgyz Republic.<sup>3</sup> Calculated on the basis of the Average Annual Nominal Exchange Rate.<sup>4</sup> Including IMF loans.<sup>5</sup> Without taking into account the restructuring of the bilateral debt in frame of the Paris Club of Creditors in 2002.<sup>6</sup> According to the NBKR data at the end of the period.

"..." - no data available.

**Table 6. Monetary Instruments\***

	<b>Unit of measurement</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>NBKR Loans**</b>						
	<i>million KGS</i>					
short-term pawn loans (overnight) <sup>1</sup>		8.9	1 112.1	2 910.4	4 397.5	8 927.3
loans of last instance		0.0	0.0	25.0	0.0	0.0
other loans		151.3	0.0	0.0	0.0	0.0
<b>NBKR discount rate***</b>		38.3	8.0	4.4	4.0	4.0
<b>NBKR bills <sup>1*</sup></b>						
	<i>million KGS</i>					
with the circulation term of:						
7 days						
requested volume		108.1	14.8	0.0	58.0	0.0
sales volume		36.1	7.9	0.0	8.0	0.0
14 days						
requested volume		149.3	21.0	0.0	0.0	0.0
sales volume		51.2	7.0	0.0	0.0	0.0
28 days						
requested volume		194.9	485.3	373.9	270.5	451.9
sales volume		65.1	193.8	112.0	112.0	163.5
<b>REPO transactions**</b>						
	<i>million KGS</i>					
Direct <sup>2</sup>		11.0	83.0	214.8	180.1	432.7
Reverse <sup>3</sup>		764.5	77.0	193.8	715.1	271.3
<b>NBKR participation in currency auctions**</b>						
	<i>million USD</i>					
Sales volume		20.7	-9.3	-24.5	-45.1	-39.2
Cash currency		10.1	2.1	0.0	0.0	0.0
Non-cash currency		10.6	-11.4	-24.5	-45.1	-39.2
<b>SWAP transactions**</b>		5.0	38.2	9.5	9.8	5.0
<b>Mandatory reserves requirements</b>						
Norm of reserves requirements***	<i>per cent</i>	20.0	10.0	10.0	10.0	10.0
Mandatory reserves****	<i>million KGS</i>	399.2	296.4	262.3	351.6	534.9
Excessive reserves****	<i>million KGS</i>	51.9	68.6	144.4	177.3	287.8

\* According to the NBKR data.

\*\* Data submitted for the period.

\*\*\* Data submitted on the end of the period.

\*\*\*\* Average annual indicator.

<sup>1</sup> Since June 7, 2000 the NBKR discount rate is defined as the average weighted interest rate obtained from the auction on allocation of the NBKR bills with the circulation term of 28 days.<sup>2</sup> REPO transactions on purchase of state securities.<sup>3</sup> REPO transaction son sales of state securities.

"0,0" - no transactions.

**Table 7. Interest Rates on Deposits in National Currency**  
(at the end of the period)\*

(per cent)

	2000	2001	2002	2003	2004
<b>On deposits of legal entities</b>					
<i>call deposits:</i>	<b>0.76</b>	<b>0.72</b>	<b>1.36</b>	<b>0.73</b>	<b>0.98</b>
<i>deposits with fixed period:</i>					
up to 1 month	14.58	2.48	1.93	7.48	7.47
1-3 months	20.93	12.05	5.83	6.50	8.89
3-6 months	20.40	16.89	9.25	8.79	10.59
6-12 months	20.58	19.74	12.31	9.25	11.44
over 1 year	31.00	23.58	16.13	10.96	12.91
<b>On deposits of individuals</b>					
<i>call deposits:</i>	<b>1.60</b>	<b>1.11</b>	<b>1.09</b>	<b>0.86</b>	<b>1.69</b>
<i>deposits with fixed period:</i>					
up to 1 month	10.96	7.74	4.81	11.30	8.87
1-3 months	18.43	11.37	7.58	10.15	8.65
3-6 months	24.40	15.52	11.43	9.75	9.56
6-12 months	28.07	18.85	14.10	10.98	11.14
over 1 year	34.06	26.58	17.55	13.06	13.80
<b>Average weighted rate</b>	<b>12.68</b>	<b>8.37</b>	<b>5.11</b>	<b>3.61</b>	<b>3.52</b>

\* Average weighted rate per annum according to the data of active commercial banks.

**Table 8. Interest Rates on Deposits in Foreign Currency**  
(at the end of the period)\*

(per cent)

	2000	2001	2002	2003	2004
<b>On deposits of legal entities</b>					
<i>call deposits:</i>	<b>0.37</b>	<b>0.23</b>	<b>0.13</b>	<b>0.19</b>	<b>0.47</b>
<i>deposits with fixed period:</i>					
up to 1 month	7.34	-	7.98	5.73	3.74
1-3 months	9.80	5.82	6.69	4.36	4.79
3-6 months	9.61	8.82	9.90	7.17	6.21
6-12 months	5.64	1.84	5.78	6.50	7.06
over 1 year	6.13	10.95	3.13	4.48	4.34
<b>On deposits of individuals</b>					
<i>call deposits:</i>	<b>0.39</b>	<b>0.11</b>	<b>0.09</b>	<b>0.06</b>	<b>0.80</b>
<i>deposits with fixed period:</i>					
up to 1 month	1.82	2.81	1.62	7.54	5.45
1-3 months	6.90	4.87	4.10	7.92	6.74
3-6 months	9.69	8.08	7.75	8.10	7.85
6-12 months	10.70	11.12	8.67	8.03	9.57
over 1 year	12.52	12.02	11.04	11.21	11.63
<b>Average weighted rate</b>	<b>3.22</b>	<b>2.91</b>	<b>2.08</b>	<b>2.22</b>	<b>2.12</b>

\* Average weighted rate per annum according to the data of active commercial banks.

"- " - interest-free deposits accepted by commercial banks.

**Table 9. Interest rates on Commercial Bank Loans in National Currency  
(at the end of the period)\***

(per cent)

	2000	2001	2002	2003	2004
<b>up to 1 month</b>	<b>42.15</b>	<b>20.82</b>	<b>21.43</b>	<b>30.61</b>	<b>29.09</b>
Industry	36.97	20.00	20.00	28.05	28.54
Agriculture	65.00	45.39	45.00	33.13	28.40
Transport and communication	...	...	17.00	45.00	20.01
Commerce	65.00	...	32.13	30.91	32.77
Purchase and processing	...	...	...	33.40	22.25
Construction and purchase of real estate (including mortgage)	...	...	...	28.49	27.59
To individuals	38.10	39.47	26.20	31.97	30.87
Others	54.29	20.11	13.20	31.56	25.08
<b>1-3 months</b>	<b>50.69</b>	<b>39.83</b>	<b>30.16</b>	<b>23.54</b>	<b>27.22</b>
Industry	45.84	36.63	36.29	25.60	25.48
Agriculture	31.79	46.33	45.69	30.59	24.83
Transport and communication	45.00	40.70	30.13	17.81	22.67
Commerce	49.73	35.29	22.36	22.50	30.65
Purchase and processing	...	75.00	68.70	38.36	26.37
Construction and purchase of real estate (including mortgage)	62.98	31.21	26.46	32.67	27.96
To individuals	60.83	47.22	46.99	31.33	30.85
Others	54.12	45.75	27.23	34.59	20.01
<b>3-6 months</b>	<b>40.97</b>	<b>40.40</b>	<b>35.82</b>	<b>24.43</b>	<b>22.87</b>
Industry	41.60	40.48	32.20	23.28	14.51
Agriculture	53.03	22.91	36.53	30.47	27.37
Transport and communication	8.54	57.20	65.00	19.00	19.30
Commerce	46.36	34.76	33.32	26.99	22.62
Purchase and processing	48.00	31.54	31.27	30.84	26.86
Construction and purchase of real estate (including mortgage)	39.45	39.02	24.10	33.00	24.28
To individuals	45.61	48.71	36.88	32.11	30.81
Others	39.45	42.93	40.77	18.39	24.67
<b>6-12 months</b>	<b>44.73</b>	<b>34.65</b>	<b>30.99</b>	<b>27.12</b>	<b>24.51</b>
Industry	44.15	38.41	31.05	25.55	22.99
Agriculture	36.66	35.27	32.81	28.85	28.11
Transport and communication	13.68	45.00	26.63	18.36	19.99
Commerce	48.55	34.87	26.92	29.26	25.11
Purchase and processing	...	42.17	43.57	26.77	23.25
Construction and purchase of real estate (including mortgage)	42.69	27.23	11.92	19.64	24.11
To individuals	46.70	41.39	39.75	30.79	28.99
Others	45.26	27.72	28.92	24.39	19.51
<b>over 1 year</b>	<b>18.35</b>	<b>13.84</b>	<b>26.87</b>	<b>19.83</b>	<b>21.50</b>
Industry	11.91	12.84	22.91	22.78	20.28
Agriculture	36.77	21.37	26.92	13.41	20.63
Transport and communication	...	0.41	2.00	...	25.81
Commerce	...	21.20	19.45	24.51	24.70
Purchase and processing	...	...	45.00	...	...
Construction and purchase of real estate (including mortgage)	28.13	10.80	8.44	19.59	20.76
To individuals	17.67	6.81	7.33	10.28	17.41
Others	19.53	5.80	31.09	19.77	21.60
<b>Overdue liabilities <sup>1</sup></b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>29.78</b>	<b>23.18</b>
Industry	...	...	...	42.88	23.95
Agriculture	...	...	...	28.70	29.01
Transport and communication	...	...	...	...	...
Commerce	...	...	...	32.23	23.10
Purchase and processing	...	...	...	56.79	25.87
Construction and purchase of real estate (including mortgage)	...	...	...	10.79	19.43
To individuals	...	...	...	36.04	29.44
Others	...	...	...	15.45	17.13
<b>Average weighted rate</b>	<b>38.66</b>	<b>33.17</b>	<b>29.61</b>	<b>25.17</b>	<b>24.08</b>

\* Average weighted interest rate per annum according to the data of active commercial banks.

<sup>1</sup> Interest rates on overdue loans till April 2003 were discounted in calculation of interest rates on credit liabilities of corresponding sector and in accordance with the term of credit agreements. Since April 2003 terms of loans are mentioned according to actual date of repayment.

"..." - no data available.

**Table 10. Interest Rates on Commercial Bank Loans in Foreign Currency  
(at the end of the period)\***

(per cent)	2000	2001	2002	2003	2004
<b>up to 1 month</b>	<b>32.05</b>	<b>12.10</b>	<b>12.46</b>	<b>19.44</b>	<b>20.03</b>
Industry	35.04	23.03	12.55	17.56	18.80
Agriculture	...	...	30.00	20.00	19.23
Transport and communication	28.00	23.39	24.00	17.00	11.71
Commerce	18.00	23.67	22.03	17.21	19.78
Purchase and processing	...	...	24.00	29.77	10.90
Construction and purchase of real estate (including mortgage)	...	...	...	25.19	19.02
To individuals	36.12	27.02	32.09	27.52	25.21
Others	35.94	7.38	6.02	23.72	21.06
<b>1-3 months</b>	<b>29.63</b>	<b>28.01</b>	<b>23.22</b>	<b>22.03</b>	<b>15.16</b>
Industry	22.53	23.86	30.48	19.63	16.77
Agriculture	34.50	9.29	23.45	30.11	22.06
Transport and communication	29.60	27.20	182.50	28.21	16.04
Commerce	29.00	27.47	22.32	26.26	13.32
Purchase and processing	...	42.30	40.70	29.54	22.00
Construction and purchase of real estate (including mortgage)	29.48	35.40	21.52	28.62	18.43
To individuals	32.15	28.31	23.87	26.71	21.13
Others	29.66	32.26	21.36	22.93	19.83
<b>3-6 months</b>	<b>30.94</b>	<b>27.26</b>	<b>25.09</b>	<b>22.16</b>	<b>19.20</b>
Industry	29.28	27.71	24.24	19.67	15.91
Agriculture	30.50	38.25	23.19	19.99	19.29
Transport and communication	40.00	21.26	30.93	23.24	16.22
Commerce	31.19	27.21	21.64	24.35	20.13
Purchase and processing	35.00	12.29	22.77	19.28	20.56
Construction and purchase of real estate (including mortgage)	39.00	29.46	22.88	23.42	20.38
To individuals	31.18	28.36	29.39	24.27	22.74
Others	29.52	29.14	24.03	21.63	20.37
<b>6-12 months</b>	<b>29.94</b>	<b>26.01</b>	<b>26.05</b>	<b>22.27</b>	<b>20.12</b>
Industry	25.31	24.71	22.45	19.06	16.98
Agriculture	25.43	22.73	28.80	23.86	22.26
Transport and communication	32.01	24.57	82.29	18.55	19.72
Commerce	28.56	25.23	23.76	22.88	21.69
Purchase and processing	...	31.43	32.24	24.15	19.61
Construction and purchase of real estate (including mortgage)	37.29	21.14	19.96	21.12	18.92
To individuals	28.89	26.06	28.90	22.91	19.34
Others	30.69	29.73	27.97	24.55	20.37
<b>over 1 year</b>	<b>17.99</b>	<b>17.45</b>	<b>17.18</b>	<b>17.33</b>	<b>16.57</b>
Industry	16.08	15.42	15.21	15.92	15.13
Agriculture	15.70	11.80	12.80	14.88	23.92
Transport and communication	16.70	15.02	16.81	15.30	18.95
Commerce	21.79	14.47	19.20	21.30	16.43
Purchase and processing	...	...	30.00	10.61	16.89
Construction and purchase of real estate (including mortgage)	13.17	24.24	17.50	18.33	18.28
To individuals	17.46	27.87	21.07	21.29	17.62
Others	20.26	22.09	20.58	16.68	16.92
<b>Overdue liabilities<sup>1</sup></b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>18.52</b>	<b>22.78</b>
Industry	...	...	...	27.59	29.18
Agriculture	...	...	...	29.93	23.09
Transport and communication	...	...	...	13.40	12.06
Commerce	...	...	...	11.31	21.18
Purchase and processing	...	...	...	23.14	25.76
Construction and purchase of real estate (including mortgage)	...	...	...	24.62	17.98
To individuals	...	...	...	25.83	24.57
Others	...	...	...	20.25	16.40
<b>Average weighted rate</b>	<b>27.13</b>	<b>23.41</b>	<b>22.19</b>	<b>20.44</b>	<b>18.04</b>

\* Average weighted interest rate per annum according to the data of active commercial banks.

<sup>1</sup> Interest rates on overdue loans till April 2003 were discounted in calculation of interest rates on credit liabilities of corresponding sector and in accordance with the term of credit agreements. Since April 2003 terms of loans are mentioned according to actual date of repayment.

"..." - no data available.



**Table 11. Average Annual Level of Interest Rates on Inter-bank Loans***(per cent)*

	2000	2001	2002	2003	2004
<b>On inter-bank loans in national currency</b>	<b>24.21</b>	<b>11.91</b>	<b>6.26</b>	<b>4.61</b>	<b>4.84</b>
Loans up to 1 day	23.70	10.32	6.11	4.63	5.08
2 - 7 days	24.31	12.16	6.49	4.58	4.84
8 - 14 days	24.05	12.75	6.43	4.21	4.40
15 - 30 days	35.75	...	...	4.75	3.63
31 - 60 days	38.00	4.00	...	6.00	...
61 - 90 days	37.00	...	...	...	6.00
91 - 180 days	11.00	20.00	...	4.32	...
181 - 360 days	...	25.00	...	...	...
over 360 days	...	...	...	...	...
<b>On inter-bank loans in foreign currency</b>	<b>13.36</b>	<b>8.53</b>	<b>5.92</b>	<b>5.95</b>	<b>5.80</b>
Loans up to 1 day	13.96	10.00	5.50	...	5.17
2 - 7 days	12.39	9.24	4.37	4.08	4.32
8 - 14 days	15.33	9.06	4.50	4.83	7.79
15 - 30 days	15.00	7.68	6.57	5.28	5.42
31 - 60 days	13.83	8.65	6.18	4.25	5.50
61 - 90 days	15.89	11.18	7.03	9.00	8.50
91 - 180 days	...	9.54	6.98	8.17	6.40
181 - 360 days	11.00	...	10.00	8.38	...
over 360 days	...	...	...	...	...

"..." - no data available.

**Table 12. Balance of Payments of the Kyrgyz Republic***(million USD)*

	2000	2001	2002	2003	2004 <sup>1</sup>
<b>CURRENT TRANSACTIONS ACCOUNT</b>	-77.6	-28.6	-46.4	-73.0	-109.3
Goods and services	-82.9	-16.1	-81.4	-124.1	-192.8
Balance of trade	4.0	30.3	-74.0	-133.5	-170.8
Export (FOB)	510.9	480.3	498.1	590.3	730.7
CIS	213.7	172.2	170.3	202.4	276.5
Foreign countries	297.2	308.0	327.7	387.9	454.3
Import (FOB)	506.9	449.9	572.1	723.8	901.5
CIS	279.7	250.1	311.7	394.5	553.8
Foreign countries	227.2	199.8	260.4	329.4	347.7
Balance of services	-86.9	-46.5	-7.3	9.4	-22.0
Transportation	-53.3	-29.4	-18.5	-9.7	-51.4
Traveling	-0.4	12.5	25.8	31.2	29.4
Construction	-2.8	0.0	-0.7	0.8	-0.1
Other services (including technical assistance)	-10.1	-6.1	9.0	9.3	8.6
Technical assistance (TA)	-20.4	-23.4	-23.0	-22.2	-22.2
Revenues	-82.1	-63.6	-53.4	-60.5	-101.3
Returns on direct investments	-37.2	-25.5	-15.6	-25.2	-67.5
Returns on portfolio investments	0.0	-0.1	0.3	0.3	0.0
Returns on other investments	-34.5	-27.7	-26.4	-22.3	-29.2
Interests on loans (graph)	-51.3	-39.3	-32.0	-26.8	-36.6
Other returns on other investments	16.8	11.6	5.5	4.5	7.4
Remuneration of labor	-10.3	-10.3	-11.6	-13.3	-4.6
Current transfers	87.4	51.1	88.4	111.7	184.8
<b>ACCOUNT OF CAPITAL TRANSACTIONS AND FINANCIAL TRANSACTIONS</b>	59.4	4.1	77.0	-26.1	107.8
Account of capital transactions	-11.4	-32.0	-7.9	-0.9	-11.4
Capital transfers	-11.4	-32.0	-7.9	-0.9	-11.4
Financial account	70.8	36.1	85.0	-25.2	119.2
Direct investments	-6.9	-1.1	4.7	45.5	121.8
Portfolio investments	-1.3	1.2	-12.0	6.0	-1.2
Financial derivatives	25.8	17.6	-5.1	-20.0	-20.5
Other investments	53.2	18.4	97.4	-56.8	19.0
Assets (- increase)	-27.3	-4.0	21.5	-78.7	-40.4
Commercial banks	-1.6	-16.5	-42.3	-50.2	-49.4
Other assets	-25.8	12.5	63.8	-28.5	9.0
Liabilities (- increase)	80.5	22.4	76.0	21.9	59.5
Commercial banks	-0.3	3.9	32.7	36.6	25.8
Loans	41.0	17.7	32.7	-22.6	47.4
Loans to public sector	92.9	67.2	50.8	29.5	57.0
Received	127.4	110.2	88.1	71.1	101.3
Amortization (graph)	-34.5	-43.1	-37.3	-41.6	-44.3
Loans to private sector	-52.0	-49.5	-18.2	-52.1	-9.6
Received	3.9	4.3	1.9	8.4	11.7
Amortization	-55.8	-53.8	-20.1	-60.5	-21.3
Other liabilities	39.9	0.8	10.6	7.9	-13.7
Mistakes and omissions	2.4	27.3	-1.5	108.4	116.5
<b>TOTAL BALANCE</b>	-15.7	2.8	29.2	9.3	115.0
Financing	15.7	-2.8	-29.2	-9.3	-115.0
NBKR reserves	-21.2	-16.3	-43.8	-50.8	-160.6
IMF loans	7.3	-2.1	-6.0	-0.9	-1.1
Exclusive financing	29.6	15.6	20.5	42.4	46.7
Other financing	0.0	0.0	0.0	0.0	0.0

Note: The data have been modified since 2000 as a result of additional calculation on import from China.

<sup>1</sup> Preliminary data.

**Table 13. External Debt of the Kyrgyz Republic \****(millions USD)*

	2000	2001	2002	2003	2004 <sup>1</sup>
Total external debt (I+II)	1 703.8	1 677.7	1 784.6	1 965.7	2 103.5
I. State and state-guaranteed debt	1 399.2	1 441.5	1 584.8	1 773.6	1 955.1
Official creditors					
Multi-lateral <sup>2</sup>	893.9	947.1	1 073.4	1 216.1	1 350.1
IMF	191.6	179.3	185.2	201.9	206.9
World Bank	374.8	388.4	457.0	525.1	579.0
European Bank for Reconstruction and Development	65.1	62.3	53.7	44.1	36.5
Asian Development Bank	240.9	291.9	341.2	399.9	479.4
Islamic Bank for Reconstruction and Development	10.3	12.3	18.6	24.3	25.0
International Fund of Agricultural Development	4.0	4.5	5.7	7.0	9.2
OPEC Fund	2.3	3.5	6.7	7.3	7.0
Northern Development Fund	4.9	4.7	5.3	6.4	6.9
Bilateral	465.2	466.8	506.5	552.2	599.7
CIS countries	178.6	178.1	182.4	182.4	193.1
Russia	166.2	166.7	171.1	168.6	181.8
Uzbekistan	12.4	11.3	11.3	13.8	11.3
other countries (except CIS)	286.6	288.7	324.0	369.8	406.6
Turkey	41.0	43.6	44.5	45.8	46.3
Japan	183.5	176.6	197.0	229.8	246.2
Germany	20.4	20.0	26.5	37.1	45.8
Pakistan	8.9	8.4	8.4	8.4	9.2
China	1.2	6.0	10.3	8.0	13.5
France	3.5	3.5	4.1	5.0	5.7
Kuwait Foundation	7.7	9.8	13.0	15.5	15.5
India	1.2	0.9	0.9	1.0	2.0
South Korea	12.7	12.2	13.5	14.1	16.5
Denmark	6.5	7.7	5.8	5.0	5.9
State-guaranteed debt	40.1	27.5	5.0	5.3	5.3
II. Private non-guaranteed debt	304.6	236.3	199.7	192.1	148.3

\* According to the data of the Ministry of Finance of the Kyrgyz Republic

<sup>1</sup> Creditors acting on the multilateral ground, including international financial institutions

\* Preliminary data

**Table 14. Structure of Export by Sections of International Standard Merchandise Classification\****(millions USD)*

	2000	2001	2002	2003	2004 <sup>1</sup>
<b>Total <sup>2</sup></b>	<b>504.5</b>	<b>476.2</b>	<b>485.5</b>	<b>581.7</b>	<b>718.8</b>
Food products and livestock	17.6	19.3	31.2	37.5	62.3
Beverage foods and tobacco	33.8	28.2	21.0	13.6	16.2
Nonfood raw materials, except for fuels	76.1	46.2	82.5	67.9	77.6
Mineral fuels, lubricants and similar products	82.5	54.5	58.2	67.3	81.2
Animal and plant oils, fats and wax	0.4	0.0	0.2	0.1	0.1
Chemicals and similar products, not included under other categories	14.8	18.2	25.5	9.8	22.0
Manufactured goods, classified by the type of material	18.8	19.5	36.1	57.1	78.1
Machinery and transport equipment	49.1	55.6	48.8	43.4	51.4
Various finished goods	16.1	10.2	19.3	25.3	42.6
Merchandise and transactions not included under other categories of the International Standard Merchandise Classification	195.3	224.6	162.8	259.7	287.4

\* According to the data of the National Statistics Committee of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic

<sup>1</sup> Preliminary data<sup>2</sup> Without taking into account the export accumulated by "shuttle trading"**Table 15. Structure of Import by Sections of the International Standard Merchandise Classification\****(millions USD)*

	2000	2001	2002	2003	2004 <sup>1</sup>
<b>Total <sup>2</sup></b>	<b>554.6</b>	<b>467.2</b>	<b>587.0</b>	<b>717.0</b>	<b>941.0</b>
Food products and livestock	60.5	35.8	53.2	56.3	81.2
Beverage foods and tobacco	17.3	18.7	19.2	26.1	34.4
Nonfood raw materials, except for fuels	14.1	16.8	23.5	26.8	30.5
Mineral fuels, lubricants and similar products	129.1	121.0	152.8	180.5	256.3
Animal and plant oils, fats and wax	3.0	3.1	3.8	9.2	11.3
Chemicals and similar products, not included under other categories	66.6	75.5	86.8	104.8	137.4
Manufactured goods, classified by the type of material	77.6	70.7	76.5	111.8	150.7
Machinery and transport equipment	141.8	89.3	122.6	142.5	180.1
Various finished goods	44.5	36.3	48.7	58.9	59.1
Merchandise and transactions not included under other categories of the International Standard Merchandise Classification	0.0	0.0	0.0	0.0	0.0

\* According to the data of the National Statistics Committee of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic

<sup>1</sup> Preliminary data<sup>2</sup> In the CIF prices, not accounting for imports accumulated by "shuttle trading", and after-estimation of import from China

**Table 16. Information on Authorized (Share) Capital of Commercial Banks and the Clearings and Savings Company \***  
(thousands KGS)

Banks	01.01.2001			01.01.2002			01.01.2003			01.01.2004			01.01.2005		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
<b>Total</b>	<b>1320806.0</b>	<b>1171209.0</b>	<b>355351.0</b>	<b>1757686.4</b>	<b>1562111.4</b>	<b>670877.1</b>	<b>2011214.9</b>	<b>1802536.7</b>	<b>756902.1</b>	<b>2416430.0</b>	<b>1950289.0</b>	<b>905954.6</b>	<b>2470844.0</b>	<b>2425138.0</b>	<b>1391656</b>
JSC AsiaUniversalBank	100000.0	100000.0	68431.0	100000.0	100000.0	68430.7	200000.0	200000.0	100743.8	300000.0	200000.0	136120.0	300000.0	300000.0	236217.0
Open JSCC AmanBank	50000.0	50000.0	16624.0	55000.0	55000.0	18872.0	55000.0	55000.0	18872.0	55000.0	55000.0	18755.0	63000.0	55000.0	13156.0
Open JSC Ak Bank <sup>1</sup>	...	...	...	...	...	...	...	...	...	200000.0	60000.0	28950.0	200000.0	200000.0	87500.0
JS Commercial Asia Bank	63000.0	63000.0	63000.0	30000.0	30000.0	...	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0
Open JSC Bakai Bank	25000.0	25000.0	375.0	54052.8	54052.8	54052.8	38000.0	38000.0	...	47000.0	47000.0	...	60000.0	60000.0	...
Close JSC Demir Kyrgyz															
International Bank	54053.0	54053.0	54053.0	50000.0	50000.0	...	54052.0	54052.8	54052.8	100000.0	100000.0	100000.0	132540.0	132540.0	132540.0
JS Commercial DosCredoBank	50000.0	50000.0	...	50000.0	25000.0	...	50000.0	50000.0	...	100000.0	70720.0	...	100000.0	77294.0	...
IssykKul Investment and JS Bank <sup>2</sup>	50000.0	25000.0	...	100000.0	100000.0	34519.0	35000.0	25250.0	250.0	35000.0	35000.0	4802.0	50000.0	35000.0	4802.0
Close JSC INEXIMBANK	50000.0	50000.0	30019.0	50000.0	25000.0	...	230000.0	100000.0	34519.0	230000.0	100000.0	76930.0	230000.0	230000.0	163300.0
Open JSC Halyk Bank Kyrgyzstan <sup>3</sup>	170000.0	170000.0	...	100000.0	100000.0	34519.0	170000.0	170000.0	...	170000.0	170000.0	...	170000.0	170000.0	170000.0
Kyrgyz Investment and Credit Bank	...	...	...	50000.0	25625.0	...	322664.3	322664.3	290397.9	309331.0	309331.4	278398.0	291372.0	291372.0	262234.8
Open JSC Kazkommertsbank															
Kyrgyzstan <sup>4</sup>	50000.0	20403.0	...	...	...	...	100000.0	100000.0	72352.0	100000.0	100000.0	73972.0	100000.0	100000.0	73972.0
JS Commercial Bank Kyrgyzcredit	50000.0	35000.0	...	35000.0	35000.0	...	35000.0	35000.0	...	35000.0	35000.0	...	40000.0	40000.0	35480.0
Open JSC KyrgyzPromStroiBank	60000.0	60000.0	...	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...
JS Commercial Bank Kyrgyzstan	72079.0	72079.0	...	127079.0	72079.0	...	127079.0	120912.0	...	127079.0	120912.0	...	120912.0	120912.0	...
Bishkek Branch Office of the National															
Bank of Pakistan	53274.0	53274.0	53274.0	114524.6	114524.6	114524.6	105419.6	105419.6	105419.6	105420.0	105419.6	105420.0	105420.0	105420.0	105420.0
Open JSC Clearings and Savings															
Company	50000.0	50000.0	...	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...
JS Commercial Bank Tolubai <sup>5</sup>	25000.0	25000.0	500.0	25000.0	25000.0	500.0	26000.0	26000.0	520.0	31000.0	31000.0	589.0	36000.0	36000.0	589.0
JSC Ecobank	50000.0	50000.0	7551.0	100000.0	50000.0	7551.0	100000.0	66038.0	9975.0	100000.0	76706.0	12219.0	100000.0	100000.0	6087.0
Open JSC Energobank	60000.0	50000.0	...	100000.0	58800.0	8800.0	100000.0	71200.0	6800.0	108600.0	71200.0	6799.6	108600.0	108600.0	37358.4

Comment: a - declared authorized capital, b - paid authorized capital, c - including the share of foreign investors.

\* According to the data of commercial banks.

<sup>1</sup> March 6, 2002 - banking license recovered, and then replaced on July 18, 2003 as a result of changing the name of the JS Commercial Bank "KyrgyzKRAMDSBank" for the Open-type JSC "Ak Bank".

The conservation regime is introduced since September 1, 2004.

<sup>2</sup> September 26, 2002 - banking license recovered.

<sup>3</sup> December 30, 2004 - license replaced as a result of changing the name of the Open-type JSC "Kairat Bank" for the Open-type JSC "Halyk Bank Kyrgyzstan".

<sup>4</sup> December 19, 2002 - license replaced as a result of changing the name of the JS Commercial "Kyrgyzavtobank" for the Open-type JSC "Kazkommertsbank Kyrgyzstan".

<sup>5</sup> March 6, 2003 - license replaced as a result of changing the name of the JS Commercial Bank "Tolubai" for the Close-type JS Commercial Bank "Tolubai".

"..." - no share of foreign investors

"-" - no data available

**Table 17. Information on Head Institutions and Branches of Commercial Banks and the Clearings and Savings Company  
as of January 1, 2005**

Bank	Location of the head institution	Branches, total	Bishkek	Branch offices						
				Chui Oblast	Issykkul Oblast	Naryn Oblast	Talas Oblast	Jalalabat Oblast	Osh Oblast	Batken Oblast
<b>Branches, total</b>		<b>160</b>	<b>26</b>	<b>26</b>	<b>23</b>	<b>13</b>	<b>8</b>	<b>28</b>	<b>27</b>	<b>9</b>
<b>Branches of resident banks</b>										
1 JS AsiaUniversalBank	Bishkek	2	1	-	1	-	-	-	-	-
2 Open JSC Clearings Company Amanbank	Bishkek	5	1	-	2	-	-	1	1	-
3 JS Bank of Asia	Bishkek	-	-	-	-	-	-	-	-	-
4 Open JSC Bakai-Bank	Bishkek	4	-	2	1	-	-	-	1	-
5 Close JSC Demir Kyrgyz International Bank	Bishkek	1	-	-	-	-	-	-	1	-
6 JS Commercial Dos-Credobank	Bishkek	7	1	1	1	2	-	1	1	-
7 Investment JS Commercial Bank Issyk-Kul	Bishkek	6	2	-	2	-	-	1	1	-
8 Close JSC INEXIMBANK	Bishkek	4	1	1	-	-	-	1	1	-
9 Open JSC Halyk Bank Kyrgyzstan	Bishkek	5	2	1	-	-	-	1	1	-
10 Kyrgyz Investment and Credit Bank	Bishkek	1	1	-	-	-	-	-	-	-
11 Open JSC Kazkommertsbank Kyrgyzstan	Bishkek	3	1	-	-	-	-	1	1	-
12 JS Commercial Bank KyrgyzCredit	Bishkek	-	-	-	-	-	-	-	-	-
13 Open JSC KyrgyzPromStroiBank	Bishkek	29	2	5	4	3	2	6	4	3
14 JS Commercial Bank Kyrgyzstan	Bishkek	28	5	4	3	3	1	5	5	2
15 Open JSC Clearings and Savings Company	Bishkek	48	2	9	7	5	4	9	8	4
16 JS Commercial Bank Tolubai	Bishkek	1	1	-	-	-	-	-	-	-
17 JS Commercial Ecobank	Bishkek	7	3	2	-	-	-	1	1	-
18 Open JSC Energobank	Bishkek	7	1	1	2	-	1	1	1	-
19 Open JSC Ak Bank <sup>1</sup>	Bishkek	-	-	-	-	-	-	-	-	-
<b>Branches of non-resident banks</b>										
20 CABCD Branch (Subsidiary) <sup>2</sup>	Almaty	1	1	-	-	-	-	-	-	-
21 Bishkek Branch of the National Bank of Pakistan	Karachi	1	1	-	-	-	-	-	-	-

<sup>1</sup> On September 1, 2004 the conservation regime was introduced.

<sup>2</sup> On July 31, 2002 the regime of temporary administration was introduced.

"-" - no branches.

**Table 18. Structure of Cash Transactions of Commercial Banks and Funds Recurrency in 2004 \****(million KGS)*

	Earnings				Disbursements					Surplus of disbursements (earnings) over earnings (disbursements) (9-4) (+/-)	Recurrency, per cent (4/9)
	Taxes, dues, and fees	Sales of foreign currency	Other	Total	To the Treasury for wages	Pensions and benefits	Purchase of foreign currency	Other expenses	Total		
	1	2	3	4	5	6	7	8	9	10	11
<b>Republic, total</b>	<b>5 280</b>	<b>3 958</b>	<b>48 032</b>	<b>57 271</b>	<b>6 725</b>	<b>5 133</b>	<b>4 052</b>	<b>42 522</b>	<b>58 432</b>	<b>1 161</b>	<b>98.01</b>
Bishkek	2 953	3 274	34 354	40 581	2 271	1 083	1 910	31 595	36 859	-3 722	110.10
Batken Oblast	80	4	399	483	450	397	119	508	1 474	991	32.77
Jalalabat Oblast	453	132	3 001	3 586	912	753	975	2 840	5 480	1 894	65.44
Issykkul Oblast	234	40	1 627	1 901	467	462	106	1 435	2 470	569	76.96
Naryn Oblast	131	4	332	468	436	457	9	445	1 347	879	34.74
Osh Oblast and Osh	723	432	5 467	6 622	1 201	1 063	858	3 701	6 823	201	97.05
Talas Oblast	76	-	406	482	248	204	4	634	1 090	608	44.22
Chui Oblast	630	72	2 446	3 148	740	714	71	1 364	2 889	-259	108.97

\* According to the data of the National Bank of the Kyrgyz Republic.



**Table 19. Volume and Number of Payments\*****19.1. Structure of Payments in the Gross System**

	2003		2004								2004	
			I quarter		II quarter		III quarter		IV quarter			
	Volume (mln. KGS)	Number	Volume (mln. KGS)	Number	Volume (mln. KGS)	Number	Volume (mln. KGS)	Number	Volume (mln. KGS)	Number	Volume (mln. KGS)	Number
Payments in the amount up to KGS 1,000.00	1	3 201	-	749	-	878	-	739	-	765	-	3 131
1,000.00 - 100,000.00	312	12 150	5	1 115	6	1 354	5	1 290	7	1 537	23	5 296
100,000.00 - 1,000,000.00	3 806	10 252	70	1 771	86	2 201	85	2 242	103	2 665	344	8 879
1,000,000.00 - 10,000,000.00	31 528	9 481	915	2 639	1 068	2 943	1 079	3 008	1 169	3 299	4 231	11 889
10,000,000.00 - 100,000,000.00	32 206	1 625	6 657	1 957	8 257	2 358	8 818	2 548	9 007	2 672	32 739	9 535
over 100,000,000.00	822	7	10 584	474	16 933	678	16 189	639	12 342	585	56 048	2 376
Total	68 676	36 716	18 231	8 705	26 350	10 412	26 176	10 466	22 628	11 523	93 385	41 106

**19.2. Volume and Number of Clearing Payments by Oblasts**

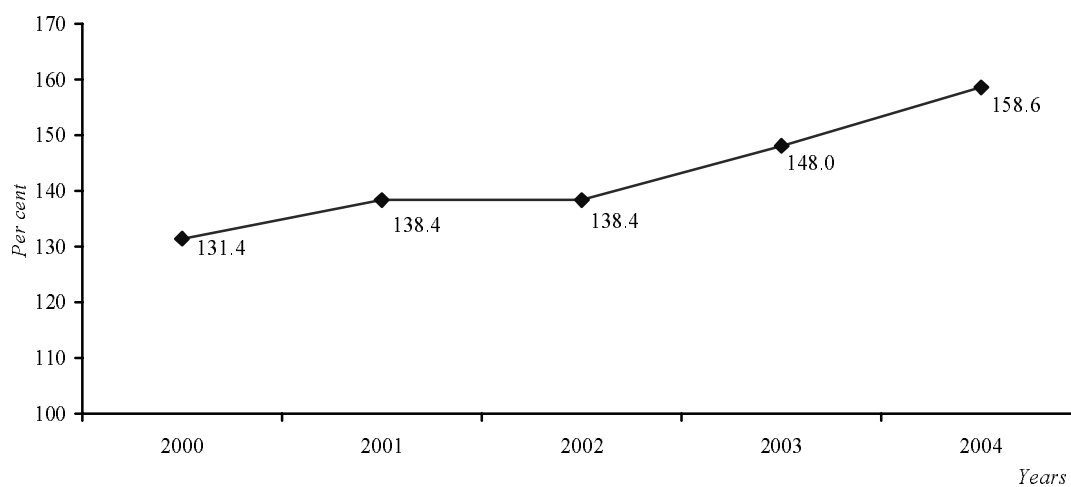
	2003		2004								2004	
			I quarter		II quarter		III quarter		IV quarter			
	Volume (mln. KGS)	Number of payments	Volume (mln. KGS)	Number of payments	Volume (mln. KGS)	Number of payments	Volume (mln. KGS)	Number of payments	Volume (mln. KGS)	Number of payments	Volume (mln. KGS)	Number of payments
Bishkek and Chui Oblast	24 285	533 243	6 995	192 516	8 122	207 489	8 350	200 254	10 168	218 304	33 635	818 563
Issykkul Oblast	357	18 579	113	6 800	172	7 251	215	7 443	228	7 889	729	29 383
Talas Oblast	183	19 226	64	9 595	64	11 557	79	8 849	94	10 934	301	40 935
Naryn Oblast	296	13 591	109	3 651	101	3 981	131	4 111	154	4 662	494	16 405
Jalalabat Oblast	941	34 151	296	13 884	333	12 831	386	12 162	478	12 472	1 493	51 349
Osh Oblast and Batken Oblast	2 048	72 075	565	29 604	578	21 015	705	18 246	975	19 381	2 822	88 246
Total	28 110	690 865	8 142	256 050	9 369	264 124	9 866	251 065	12 097	273 642	39 473	1 044 881

**19.3. Information on Banking Cards' Transactions in Sales Outlets**

Card Type	2003		I quarter		II quarter		III quarter		IV quarter		2004	
	Number of transactions	Volume (thou. KGS)	Number of transactions	Volume (thou. KGS)	Number of transactions	Volume (thou. KGS)	Number of transactions	Volume (thou. KGS)	Number of transactions	Volume (thou. KGS)	Number of transactions	Volume (thou. KGS)
Visa	8 004	91 711	3 458	23 667 951	3 914	23 088	5 034	28 101	4 550	27 579	16 956	78 769
Master Card	3 789	39 692	1 516	10 339	1 718	10 245	1 992	10 500	2 601	13 587	7 827	44 671
Alai Card	41 159	8 017	9 495	1 978	9 613	1 980	9 314	1 957	10 435	2 263	38 857	8 178
Demir 24	-	-	-	-	133	29	865	292	1 512	512	2 510	833
Union Card	-	-	-	-	-	-	-	-	4 550	27 579	4 550	27 579

\* According to the data of commercial banks.

**Graph 1. Growth Rate of the Real Gross Domestic Product (1995 = 100%)\***



*\* According to the data of the National Statistics Committee of the Kyrgyz Republic.*

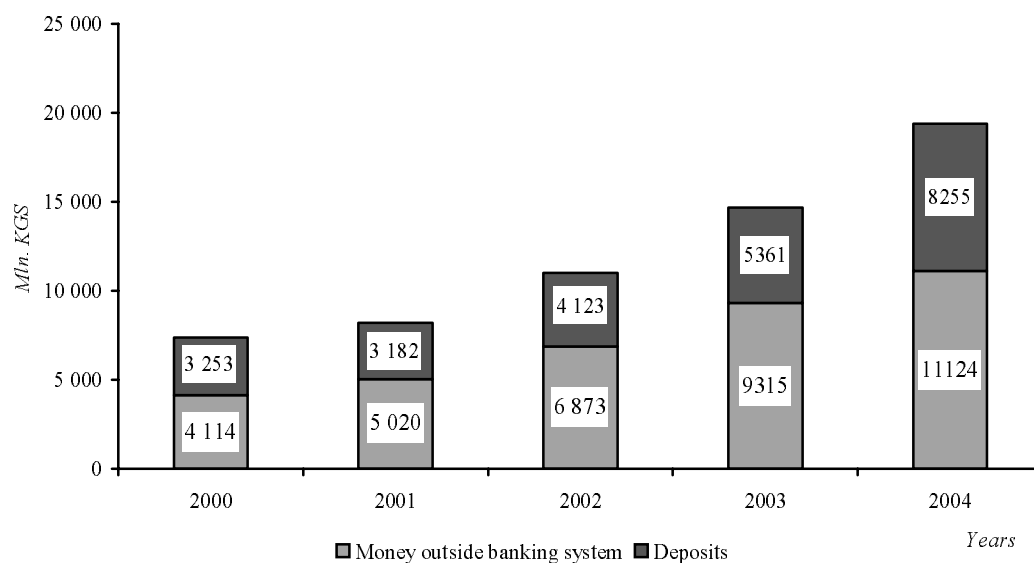
**Graph 2. Growth Rate of Consumer Prices and Producer Prices (over a period)\***



*\* According to the data of the National Statistics Committee of the Kyrgyz Republic.*

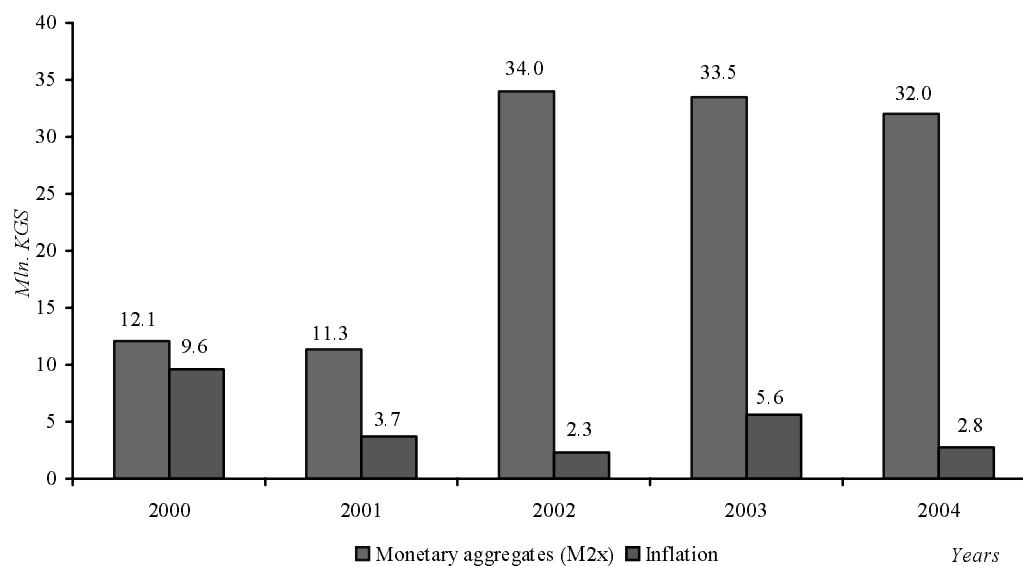
### Graph 3. Monetary Aggregates

#### 3.1. Composition of Monetary Aggregates M2X\*



\* According to the data of the National Bank of the Kyrgyz Republic, and commercial banks.

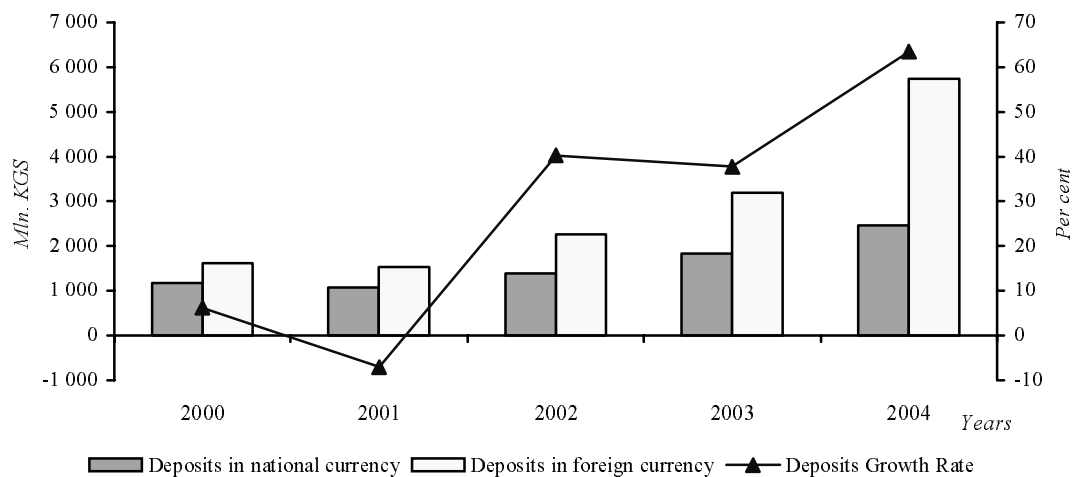
#### 3.2. Growth Rates of Monetary Aggregates and Inflation\*



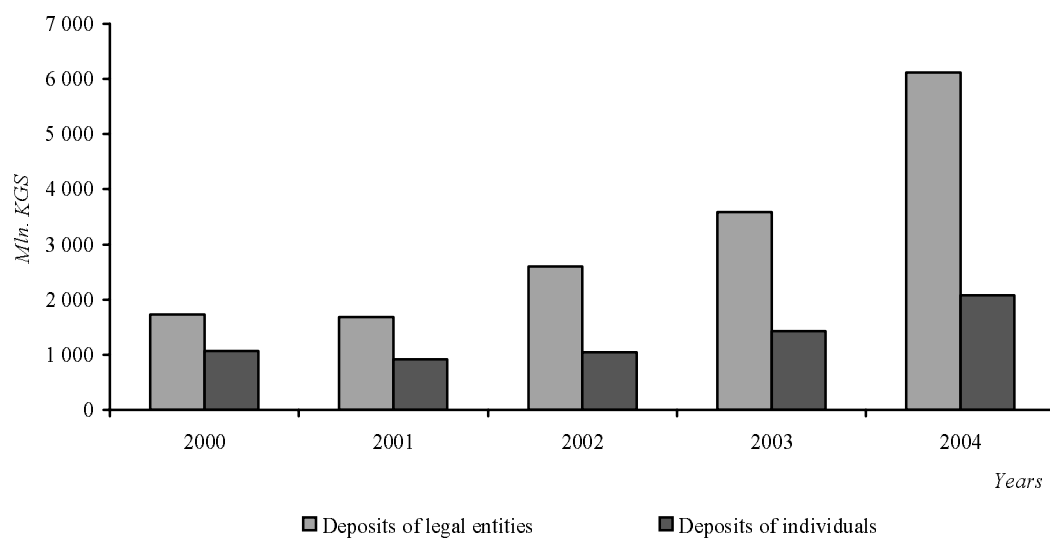
\* According to the data of the NBKR, commercial banks, and the NSC of the Kyrgyz Republic.

## Graph 4. Deposits\*

### 4.1. Balance of Deposits in Active Commercial Banks (by the end of the reporting period)



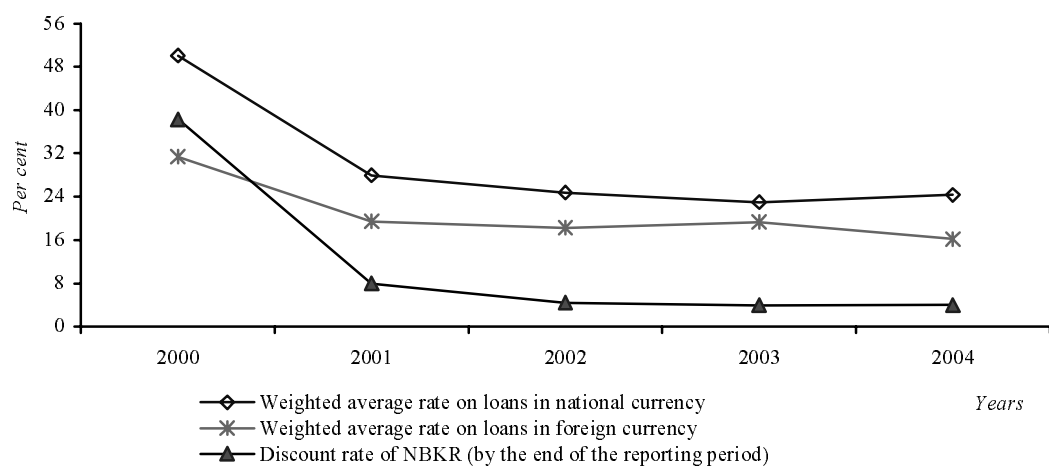
### 4.2. Deposits Composition of Active Commercial Banks by Depositors (by the end of the reporting period)



\* According to the data of monthly regulatory reports of commercial banks.

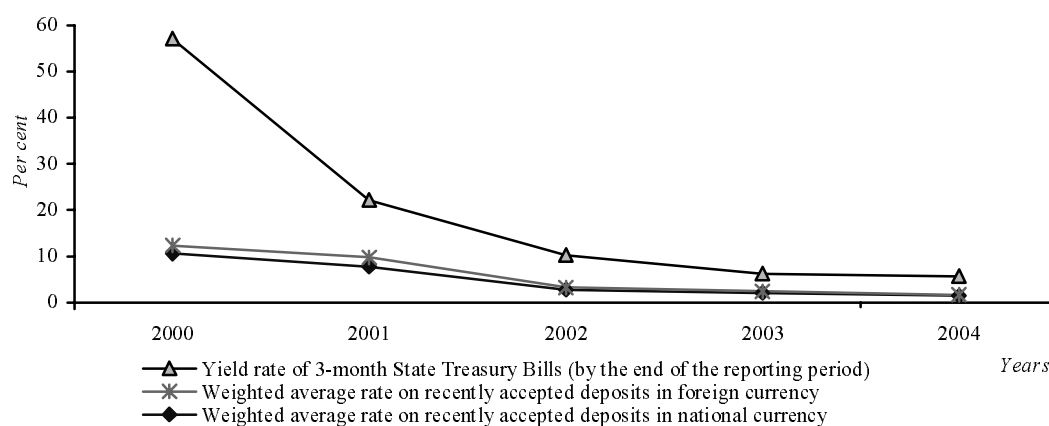
## Graph 5. Interest Rates

### 5.1. Interest Rates of Commercial Banks' Loans, 2000-2004\*



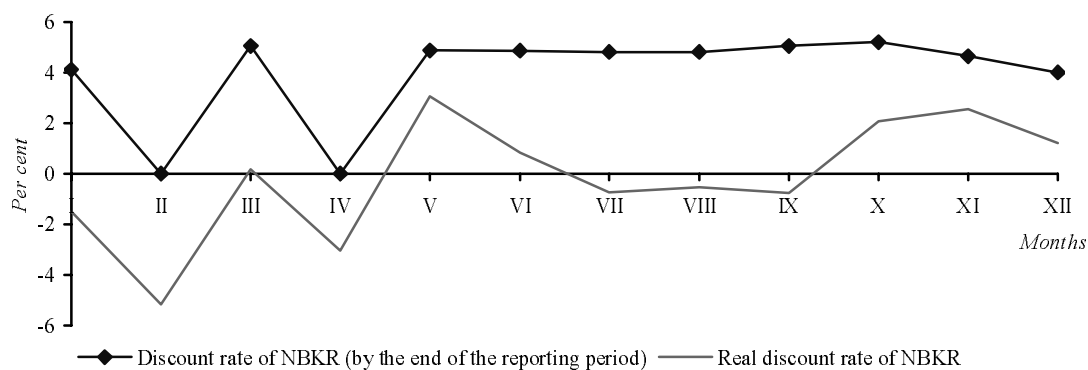
\* According to the data of monthly regulatory reports of commercial banks.

### 5.2. Interest Rates on Deposits and Recurrency Rate of State Treasury Bills, 2000-2004\*



\* According to the data of the National Bank of the Kyrgyz Republic and monthly regulatory reports of commercial banks

### 5.3. Dynamics of Nominal and Real Discount Rates in 2004\*



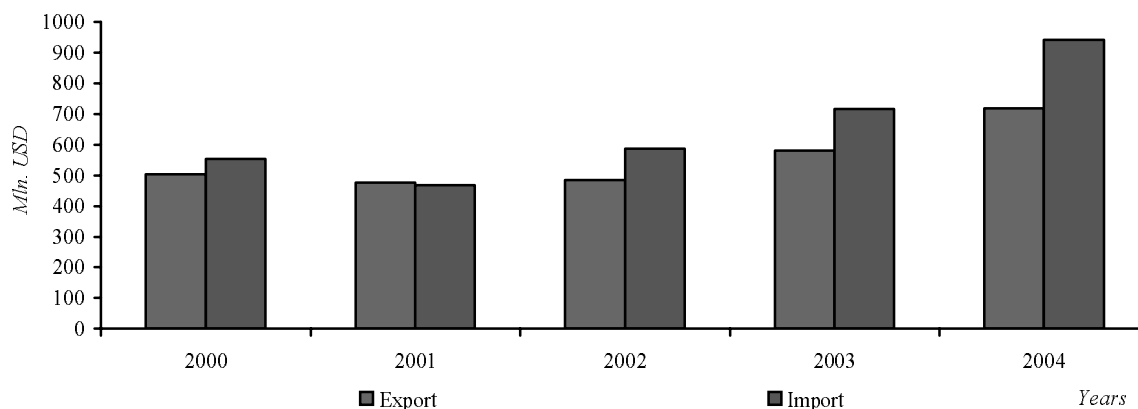
\* According to the data of the National Bank of the Kyrgyz Republic.

Note: To calculate the real interest rate the following formula has been applied:

$$r = (i - p) / (p + 100) * 100, \text{ where } i - \text{nominal interest rate,} \\ r - \text{real interest rate, and } p - \text{annual inflation rate.}$$

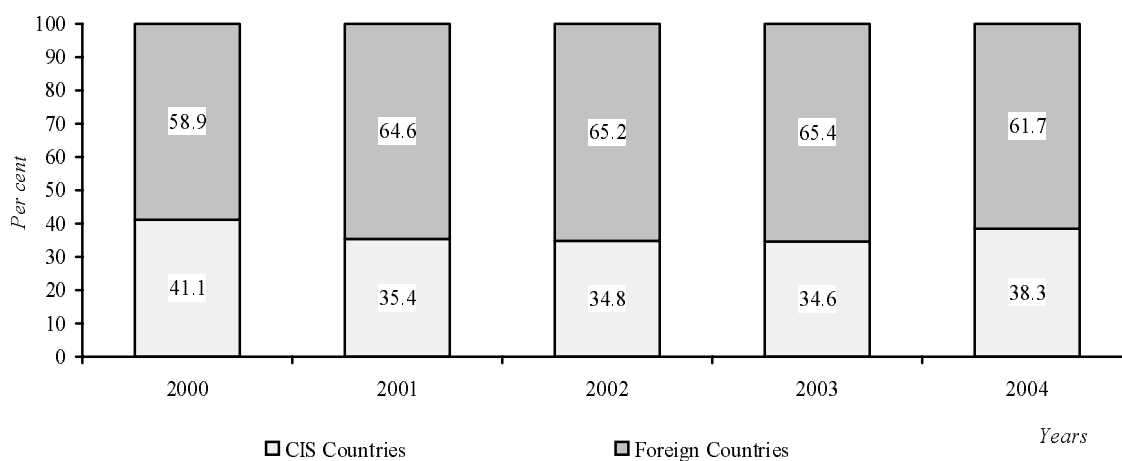
## Graph 6. Share of CIS Countries and Foreign Countries in External Trade

### 6.1. Volume of Export and Import to CIS Countries and Foreign Countries \*



\* According to the data of the National Statistics Committee in FOB prices.

### 6.2. Share of CIS Countries and Foreign Countries in Export \*



\* According to the data of the National Statistics Committee in FOB prices.

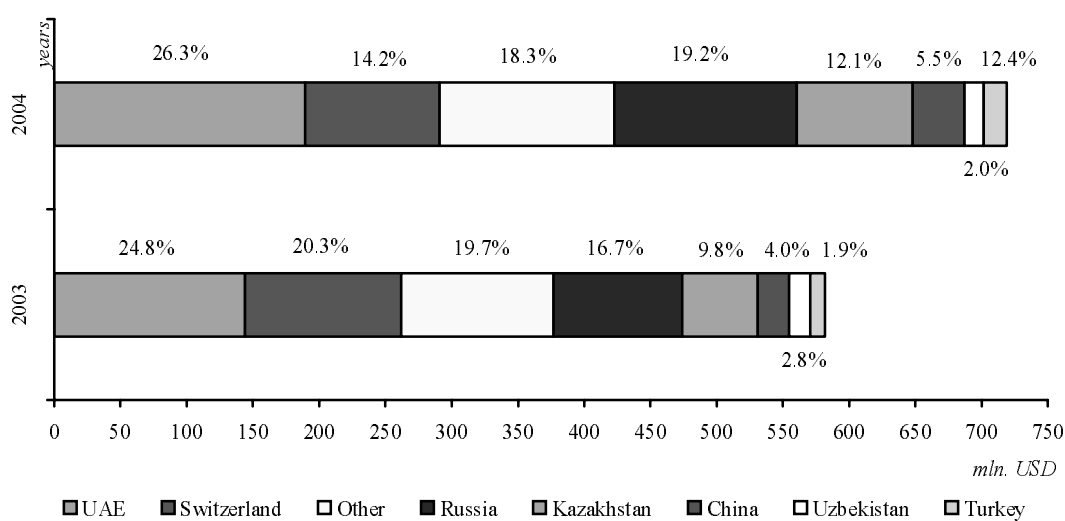
### 6.3. Share of CIS Countries and Foreign Countries in Import\*



\* According to the data of the National Statistics Committee in CIF prices.

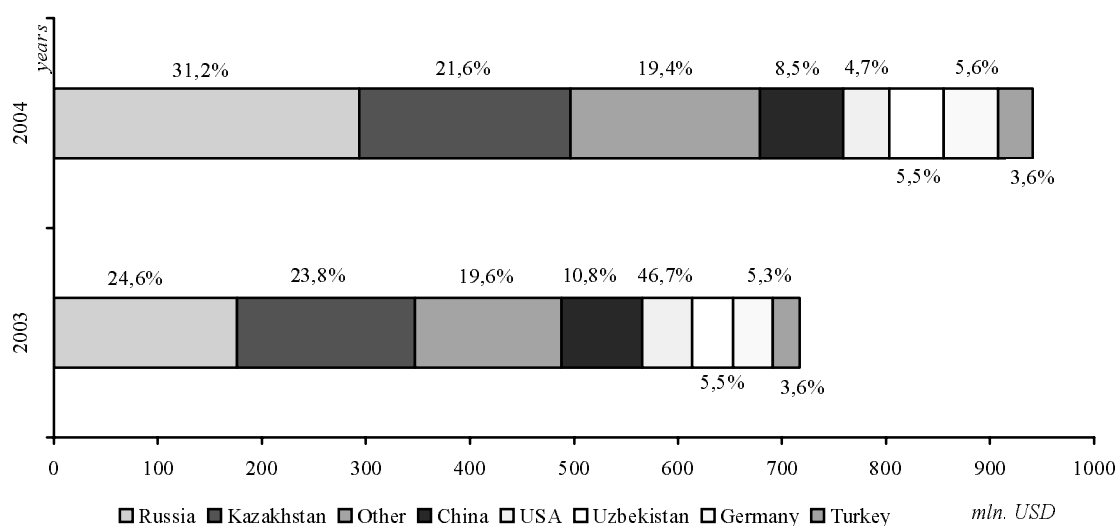
## Graph 7. Geographic Distribution of External Trade

### 7.1. Volume of Export to Principal Partner Countries \*



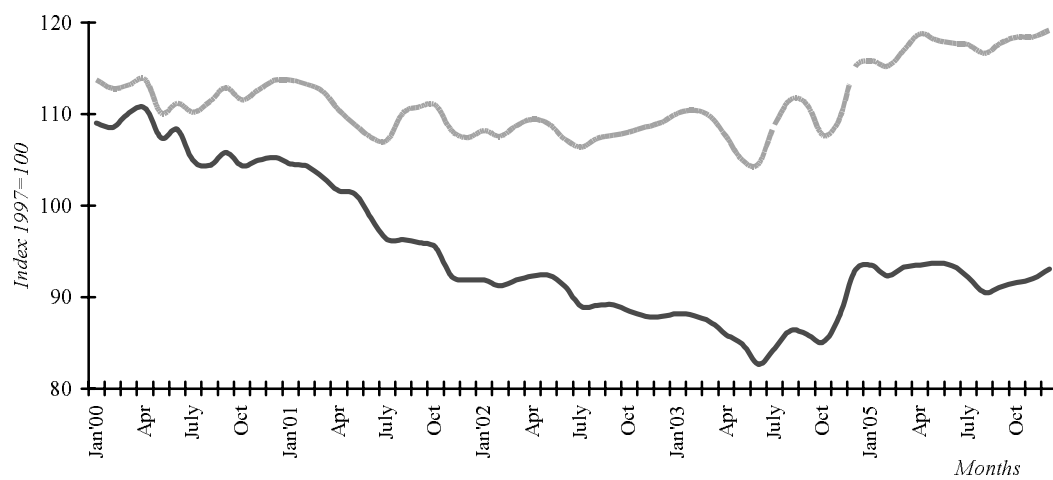
\* According to the data of the National Statistics Committee in FOB prices.

### 7.2. Volume of Import from Principal Partner Countries \*



\* According to the data of the National Statistics Committee in CIF prices.

**Graph 8. Indices of Nominal and Real Effective Exchange Rates\***





## Publications and dissemination of information by the NBKR in 2004

№	Name <sup>1</sup>	Language of publication and circulation	Periodicity	Contents	Subscription
1	2	3	4	5	6
1.	Bulletin of the National Bank Kyrgyz Republic.	in Kyrgyz and Russian - 350 copies.  in English - 170 copies.	Monthly.	Macroeconomic indicators of the Kyrgyz Republic are provided on the following issues: real sector; financial sector and foreign trade sector; public finances; information on prices and social indicators. The data from the following organizations was used for the purpose of the Bulletin: National Statistic Committee, Ministry of Finance, Commercial Banks, National Bank of the Kyrgyz Republic, State Committee on Securities Market under the Government of the Kyrgyz Republic.	Mass Media, Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries and Departments, commercial banks, institutions of local government, higher education institutions and libraries of the Kyrgyz Republic, international financial institutions, Central Banks of the CIS countries, integration institutions, Diplomatic Representations of the Republic abroad, Representations of the international organizations and embassies of the countries accredited in the Kyrgyz Republic.
2.	Annual Report of the National Bank Kyrgyz Republic.	in Kyrgyz - 250 copies.  in Russian - 370 copies.  in English - 200 copies.	Annually.	A complete report on the work done by the National Bank for the fiscal year containing the brief characteristic of the results of changes of functioning of real sector of economy, description of the decisions and actions of the National bank in the money-and-credit area. It contains the information on economic development and monetary policy, financial reporting, general information about the National Bank and statistical appendices.	Mass Media, Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries and Departments, commercial banks, institutions of local government, higher education institutions and libraries of the Kyrgyz Republic, international financial institutions, Central Banks of the CIS countries, integration institutions, Diplomatic Representations of the Republic abroad,

<sup>1</sup> in alphabetic order.

1	2	3	4	5	6
					Representations of the international organizations and embassies of the countries accredited in the Kyrgyz Republic.
3.	Rules and Regulations of the NBKR.	in Kyrgyz and Russian - 310 copies.	Monthly.	Official publication of the Rules and Regulations of the NBKR.	Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries and Departments, commercial banks, institutions of local government, higher education institutions and libraries of the Kyrgyz Republic.
4.	Inflation Review in the Kyrgyz Republic.	in Kyrgyz - 185 copies. in Russian - 290 copies. in English - 190 copies.	Quarterly.	It contains description of dynamics of inflation in general and by regions, by components, along with analysis of the inflation factors and forecast of inflation for the next quarter.	Mass Media, Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries and Departments, commercial banks, institutions of local government, higher education institutions and libraries of the Kyrgyz Republic, international financial institutions, Central Banks of the CIS countries, integration institutions, Diplomatic Representations of the Republic abroad, Representations of the international organizations and embassies of the countries accredited in the Kyrgyz Republic.
5.	Balance of Payments of the Kyrgyz Republic.	in Kyrgyz - 175 copies. in Russian - 280 copies. in English - 160 copies.	Quarterly.	Trends of the external sector development. It contains tables with data on analytical and neutral forms of the Balance of Payments, on the foreign trade structure, on the international reserves, on foreign debt, a technique and	Mass Media, Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries and Departments, commercial banks, institutions of local

1	2	3	4	5	6
				information used for development of the Balance of Payments as well as the international investment position of the Kyrgyz Republic.	government, higher education institutions and libraries of the Kyrgyz Republic, international financial institutions, Central Banks of the CIS countries, integration institutions, Diplomatic Representations of the Republic abroad, Representations of the international organizations and embassies of the countries accredited in the Kyrgyz Republic.
6.	Press Release of the National Bank of the Kyrgyz Republic.	in Kyrgyz and Russian - 510 copies.	Weekly.	It reflects the updated information on the official exchange rates established by the National Bank of the Kyrgyz Republic, on the results of the inter-bank foreign currency tenders, on a status of the STB market, on the discount rate of the National Bank, on general macroeconomic status of the Republic and preliminary Inflation Review on a monthly basis, analytical data on financial market along with the chronicles of weekly events that take place in the National Bank.	Mass Media, Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries and Departments, commercial banks and institutions of local government, higher education institutions and libraries of the Kyrgyz Republic, financial institutions, Central Banks of the CIS countries, integration institutions, Diplomatic Representations of the Republic abroad, Representations of the international organizations and embassies of the countries accredited in the Kyrgyz Republic.
7.	Bank System Development Trend.	in Kyrgyz - 200 copies. in Russian - 300 copies. in English - 200 copies.	Once in six months.	Analysis and evaluation of the bank system in the Kyrgyz Republic as well as analytical data on the structure of commercial banks and non-bank financial - credit institutions; information on the status of the payment system, on the size of crediting of the real sector and development trends of the bank system of the Republic.	Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries and Departments, commercial banks and financial institutions, institutions of local government, higher education institutions and libraries of the Kyrgyz

1	2	3	4	5	6
					Republic, international financial institutions, Central Banks of the CIS countries, integration institutions, Diplomatic Representations of the Republic abroad, Representations of the international organizations and embassies of the countries accredited in the Kyrgyz Republic.
8.	Official exchange rates of the national currency to the foreign currencies and the NBKR discount rate.	in Kyrgyz and Russian - 230 copies.	Annually.	Data on exchange rates of the Kyrgyz Som to the foreign currencies, established by National Bank and the NBKR discount rate for the year.	Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries, Departments and financial institutions, commercial banks, institutions of local government of the Kyrgyz Republic.
9.	Information brochures and Reference Books.	in Kyrgyz and Russian.	According to the Action Plans of the structural divisions.	Information brochures and methodical Manuals are published on various areas of the NBKR activity. In addition, the National Bank publishes Reference Books for commercial banks and financial - credit organizations that operate at the territory of the Kyrgyz Republic.	Jogorku Kenesh of the Kyrgyz Republic, Administration of the President, Office of the Prime Minister, courts, Ministries, Departments and financial institutions, commercial banks, higher education institutions and libraries.
10.	Official website of the NBKR <a href="http://www.nbkr.kg">www.nbkr.kg</a>	in Kyrgyz, Russian and English.	The web-site is updated in a real time operation mode.	Information on official exchange rates and discount rate established by the National Bank of the Kyrgyz Republic, a chronicle of events, taking place in the NBKR, information on the outcomes of the inter-bank foreign currency tenders, on the status of the STB market, on general macroeconomic indicators of the Republic, data on commercial banks and	Free access to information.

1	2	3	4	5	6
				Registers of the functioning non- bank financial organizations. The following data is placed on the web-site as well: Rules and Regulations adopted by the National Bank and new drafts for discussion, information on a monetary policy, on the bank system, on the payment system, statistical data, data on the national currency and information about the National Bank of the Kyrgyz Republic in general. Internet - versions of official publications of the National Bank: "Bulletin of the NBKR", "Annual Report", "Inflation Review in the Kyrgyz Republic", "Balance of Payments of the Kyrgyz Republic", "Press Release of the NBKR", "Bank System Development Trends in the Kyrgyz Republic" - are updated according to the periodicity of the relevant publication.	
11.	TV program "The National Bank informs".	in Russian.	Weekly.	Key events in the activity of the NBKR are covered; the public is provided with information on official exchange rates established by the National Bank of the Kyrgyz Republic, on the outcomes of the inter-bank foreign currency tenders, on the status of the STB market, on general macroeconomic indicators of the Republic; in the rubric "Public Waiting Room: the NBKR answers your questions" explanations are given based on the questions from the citizens.	It is broadcast on the National State TV (KTR).

## Acronyms

AAU	- Association of accountants and auditors
ADB	- Asian Development Bank
AIC	- Agricultural and Industrial Complex
BTC	- Banking training center
c.i.f.	- prices at the frontier of the importer (cost, insurance, freight)
CABCD	- Central Asian Bank of Cooperation and Development
CAC	- Central Asian Cooperation
CBRC	- Commission on Banking Regulation in China
CDF	- Comprehensive Development Framework
CIAS	- Committee on International Accounting Standards
CIS	- Commonwealth of Independent States
CJSC	- Closed type Joint Stock Company
CPI	- Consumption Price Index
CUU	- Collective Use Unit
EBRD	- European Bank for Reconstruction and Development
ECB	- European Central Bank
Eurasian EU	- Eurasian Economic Union
FCI	- Finance and Credit Institutions
FCSDCU	- Financial Company on Support and Development of Credit Unions
FinBUS	- Financial Sector and Business Development Program
FINCA	- Fund for International Community Aid
FIRM	- Financial Intermediation Resource Management Program
f.o.b.	- Prices at the frontier of the exporter (free on board)
FRS	- Federal Reserve System
FSAP	- Financial Sector Assessment Program
FSI	- Financial Stabilization Institute
GATS	- General Agreement on Trade of Services
GATT	- General Agreement on Tariffs and Trade
GDDS	- General Data Distribution Standard
GDP	- Gross Domestic Product
GSAC	- Governance Sector Adjustment Program
GTZ	- German Agency on Technical Assistance
HEI	- Higher Education Institution (University)
IAS	- International Accounting Standards
IBCN	- Interbank Communication Network
IBRD	- International Bank for Reconstruction and Development
IDA	- International Development Association
IDB	- Islamic Development Bank
IFC	- International Financial Corporation
IMF	- International Monetary Fund
ISB	- International Settlements Bank
ISB	- Interstate Bank

JSCB	- Joint Stock Commercial Bank
KAFC	- Kyrgyz Agricultural Financial Corporation
KTRC	- Kyrgyz TV and Radio Company
LLC	- Limited Liability Company
MBF	- Midterm Budget Forecast
MCA	- Micro Credit Agencies
MCC	- Micro Credit Companies
MFKR	- Ministry of Finance of the Kyrgyz Republic
MFO	- Micro-finance organizations
MIA	- Ministry of Internal Affairs
MIF	- Mandatory Insurance Fund
MIGA	- Multilateral Investment Guarantee Agency
MM	- Mass Media
MRR	- Mandatory Reserve Requirements
NACC	- National Automated Clearing Chamber
NBKR	- National Bank of the Kyrgyz Republic
NSC KR	- National Statistics Committee of the Kyrgyz Republic
NSPR	- National Strategy for Poverty Reduction
OCP	- Open Currency Position
OECD	- Organization for Economic Cooperation and Development
OJSC	- Open Type Joint Stock Company
PBC	- People's Bank of China
PHCC	- Preventive Health Care Center
PIP	- Public Investment Program
PRC	- People's Republic of China
PRGF	- Poverty Reduction and Growth Facility
PRR	- Periodic Regulatory Report
QFD	- Quasi Fiscal Deficit
RCD	- Republican Collection Department
ROA	- Return on Assets
ROE	- Return on equity
RPLA	- Reserve for potential losses on assets
RSLB	- Restructured State Loan Bonds
RTB	- Restructured Treasury Bonds
SCO	- Shanghai Cooperation Organization
SDDS	- Special Data Distribution Standard
SDR	- Special Drawing Rights
SECO	- Swiss Economic Committee
SES	- Sanitary and Epidemiology Service
SRTB	- State Regulation Treasury Bonds
SSC	- Settlement and Savings Company
SSG	- Stimulation of shared grants
STB	- State Treasury Bills
SWIFT	- society for worldwide interbank financial telecommunication
TB	- Treasury bonds
UAE	- United Arabic Emirates
UNDP	- United Nations Development Program

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UNESCAP	- United Nations Committee on Economic and Social Affairs in Asia and Pacific region
UNICEF	- United Nations International Children's Emergency Fund
USA	- United States of America
USAID	- United States Agency on International Development
VAT	- Value Added Tax
WHO	- World Health Organization
WTO	- World Trade Organization
ODA-credits	- Concession Loans Classified as official development aid