

Dynamics of Monetary Indicators in January-August 2016

Interbank Credit Market

Since the beginning of 2016, the activity in the interbank credit market decreased significantly: in particular, in January-August 2015, the volume of the operations amounted to KGS 30.2 billion, whereas within 8 months of the current year, the volume made KGS 4.8 billion. This decrease was due to increased liquidity in the banking system. The total volume of the interbank credit operations decreased by 83.9 percent compared to the same period of 2015 and the weighted average interest rates reduced (from 11.02 percent in January to 3.50 percent in August) primarily due to the decline in the demand for borrowed funds from the commercial banks.

In January-August 2016, the share of repo operations (71.3 percent) was the most significant among the operations carried out in the market. In August 2016, repo operations were not carried out.

Changes in Monetary Base

In January-August 2016, the average daily volume of the excess reserves of the banking system before operations on sterilization amounted to KGS 10.5 billion (after operations on sterilization – KGS 1.3 billion), having increased by 3.6 times compared to the same indicator in 2015. As of the end of August, the volume of the excess liquidity before operations on sterilization amounted to KGS 11.9 billion (after operations on sterilization – KGS 3.6 billion).

Taking into account the high excess liquidity in the banking system, in January-August 2016, the National Bank carried out the operations on excess liquidity withdrawal through the auctions on the National Bank's notes and "overnight" deposits. The average daily volume of the sterilization operations amounted to KGS 9.2 billion (in January-August 2015 – KGS 2.2 billion).

In the reporting period, the total volume of the 7-day notes sales amounted to KGS 71.0 billion, having increased almost twice compared to the same period of the previous year (in January-August 2015 – KGS 39.5 billion). The average weighted profitability of the 7-day notes had the downward trend and amounted to 0.43 percent at the end of August due to increased demand for this instrument. Moreover, the volumes of the funds placed by the commercial banks with the National Bank to "overnight" deposits increased and amounted to KGS 1,129.2 billion (in the same period of 2015, the commercial banks placed KGS 173.9 billion).

As the measures stimulating the real sector of economy against the slowdown of the national economy, the National Bank during January-August 2016 continued to provide the banking system with additional liquidity using the following monetary policy instruments:

- within the frameworks of the program on mortgage loans conversion from the foreign currency into the national currency, the commercial banks were provided with the loans in the amount of KGS 1.9 billion;
- for purposes of further financing of agriculture and processing in the regions of the country KGS 1.4 billion was provided to the commercial banks within the credit auctions;
- the volume of the loans to the international organizations created by the Kyrgyz Republic jointly with other states as a part of the Eurasian Economic Union amounted to KGS 541.0 million;
- gold was purchased in the domestic market in the amount of KGS 581.1 million.

In January-August 2016 the monetary base increased by 22.4 percent and amounted to KGS 82.1 billion (in January-August 2015, it increased by 6.3 percent). On a year-on-year basis the monetary base increased by 19.8 percent. Generally, in January-August 2016, the Kyrgyz Republic Government's operations increased of the monetary base by KGS 11.4 billion; the National Bank's operations increased it by KGS 3.6 billion.

In the reporting period, USD/KGS exchange rate decreased in the domestic foreign exchange market – from KGS 75.8993 to KGS 68.8260 per USD 1 (-9.3 percent). Since the beginning of the year, the National Bank acted as a net buyer of the foreign currency, the volume of the foreign

currency net purchase amounted to USD 53.8 million. Generally, in January-August 2016, the foreign exchange operations carried out by the National Bank increased the monetary base by KGS 3.3 billion.

At the end of August, the volume of the gross international reserves of the National Bank amounted to USD 2.0 billion. Meanwhile, the net international reserves of the National Bank increased by 13.7 percent, up to KGS 123.4 billion primarily due to the operations in the interbank foreign exchange market, exchange rate difference and other budget revenues.

Changes in Monetary Aggregates

In January-August 2016, all monetary aggregates of the banking system showed a positive trend. The rapid increase of the deposits in the national currency (+32.5 percent) contributed to the growth of the narrow money M1 (+25.7 percent) and broad money M2¹ (+26.6 percent). Dynamic growth of the monetary aggregate M0 by 23.4 percent contributed to the increase of the broad money M2X, which included deposits in foreign currency, up to KGS 154.1 billion (+7.7 percent). M2X increased by 14.6 percent on a year-on-year basis, excluding the exchange rate change – by 13.1 percent.

The existing dynamics of the deposits in foreign currency (-17.9 percent) conditioned by the largest share in the structure of deposits of other deposit corporations (hereinafter – ODC) (approximately 56.4 percent) had direct influence on the decrease in the total volume of ODC's deposits by 1.6 percent. As of the end of August 2016, the volume of ODC's deposits amounted to KGS 88.6 billion.

Since the beginning of the year, the total volume of the loans to the economy² decreased (-2.4 percent) due to the long lasting downward trend of the loans in foreign currency (-20.8 percent). Meanwhile, the increase of the loans in the national currency (+19.1 percent) was slower compared to the downward dynamics of the loans in foreign currency. The volume of the loans to the economy demonstrated zero growth on a year-on-year basis.

Without regard to the exchange rate changes the total volume of loans to the economy increased by 3.7 percent since the beginning of the year (in January-August 2015, the increase made 8.5 percent).

In the reporting period, the downward trend of loan and deposit dollarization continued as a result of the measures taken on dedollarization of the economy. Loan dollarization as of the end of August 2016 amounted to 43.6 percent (-10.2 p.p. year-to-date), deposit dollarization, included into M2X, amounted to 56.4 percent (-11.2 p.p. year-to-date).

Broad money multiplier M2X³ made 1.878; multiplier M2 – 1.269.

Cash Turnover

In January-August 2016, receipt of cash in the cash departments of the National Bank amounted to KGS 37.0 billion; in comparison with the corresponding period of 2015, the amount decreased by KGS 0.3 billion or 0.8 percent. Money issuances increased by KGS 10.1 billion or 25.4 percent and amounted to KGS 49.9 billion.

In January-August 2016, receipt of cash in the cash departments of the commercial banks amounted to KGS 733.1 billion; in comparison with the corresponding period of the previous year, the amount increased by KGS 87.8 billion or 13.6 percent. Money issuances increased by KGS 98.9 billion or 15.2 percent and amounted to KGS 748.5 billion.

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

² Loans to the individuals and legal entities, and other financial-credit institutions except for the loans to the Government and non-residents.

³ This figure characterizes the degree of the financial intermediation.

Payment System

The level of financial risks in the payment system was kept to a minimum. The turnover ratio amounted to 1.15; the liquidity ratio – 0.87. In the structure of payments, banking operations with securities, foreign currency, deposits and loans account for the largest turnover volume in the system (more than 95 percent). The share of the banking operations of the total quantity of payments made approximately 20 percent, the share of payments made by the budgetary and non-budgetary organizations made 80 percent.