

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 4, 2017**

**Bishkek
February 2018**

Monetary Policy Report is released by the National Bank on a quarterly basis. The objective of this Report is to inform the public about the decisions made by the National Bank in the sphere of monetary policy, which are based on analysis and forecast of the main inflation factors and assessments of the economic situation development in the external environment and in the Kyrgyz Republic.

Monetary policy in the Kyrgyz Republic

The objective of the monetary policy is to achieve and maintain price stability through appropriate monetary policy.

The policy rate of the National Bank is the main instrument of the monetary policy. In 2014, the National Bank moved to a new monetary policy framework - regime of targeting interest rates in order to improve and enhance the effectiveness of the monetary policy. The purpose of the aforementioned movement is to strengthen the impact of the interest rate channel of the monetary policy, aimed at development of the inter-bank credit resource market and support for the real sector of economy.

Quantitative benchmark of the monetary policy is to keep inflation rate within 5-7 percent in the medium term. Development and implementation of the monetary policy is carried out within the framework of the Main Directions of the Monetary Policy for the medium term.

Monetary policy of the National Bank is focused on the future, as the decisions made in the field of the monetary policy affect the key macroeconomic indicators of the country with a certain lag. Development of the monetary policy is based on the inflation forecasts for the short and medium term, resulting from consistent and economically reasonable forecast of the economic situation development in the Kyrgyz Republic and in the external environment.

Communication policy is among the main instruments of the monetary policy conducted by the National Bank. The National Bank regularly issues press releases and holds press conferences on the monetary policy in order to inform the public and form adequate inflationary expectations among the population. Assessment of the current and expected macroeconomic situation in the country made by the National Bank is published in the Monetary Policy Report at the beginning of the third month of each quarter. The schedule of meetings held by the National Bank Board on the size of the policy rate is published on the bank's official website.

Monetary Policy Report for Q4 2017 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2018-II-07/6-1-(ДКП) dated February 26, 2018.

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Summary

Inflation in Kyrgyzstan remained moderate, following the results of 2017, the increase in the consumer price index was 3.7 percent (December 2017 to December 2016) (-0.5 percent in 2016). Relatively stable prices for many food products in the world markets and restrained consumer demand had an impact on the dynamics of inflation. The slowdown in the price dynamics was mainly due to a significant decrease in the prices for fruits and sugar, as well as an increase in supply from the trading partner countries.

In 2018, the inflation rate, according to the National Bank estimates, will remain moderate and will not exceed the benchmarks of the monetary policy in the absence of significant external and internal risks. The weather and climate conditions may put some pressure on the increase in prices for domestically produced food products. Risks of the upward and downward impact of the situation in the world markets on the domestic prices are seen as balanced. The pressure of the internal demand on the price level is likely to be moderate.

In Q4 2017, the economic growth in the country remained positive. In 2017, GDP growth made 4.5 percent (in the corresponding period of 2016, increase made 3.8 percent). GDP, excluding the enterprises of the Kumtor Mine, grew by 4.5 percent.

In general, positive growth rates were observed in the main sectors of economy. The industry (2.1 percentage points), trade (1.1 percentage points) and construction (0.6 percentage points) made a positive contribution to economic growth. The decrease in demand for information and communication services caused a decline in the production of these services, which, accordingly, made a negative contribution (-0.7 percentage points) to GDP. In general, improvement of the situation in the main trading partner countries, an increase in the inflow of remittances migrant workers' remittances and government measures aimed at economic growth had a significant impact on preserving positive economic growth.

In Q4 2017, the trade balance formed under the impact of accelerated growth rates in exports compared to imports. Export increased by 8.9 percent due to growth of non-food and investment goods, growth in imports of 15.1 percent was due to an increase in the supplies of the petroleum products and other goods. Finally, trade balance deficit of the country formed in the amount of USD 556.6 million. The foreign trade turnover¹ increased by 13.0 percent and amounted to USD 1.7 billion.

At the end of 2017, the state budget deficit decreased compared to 2016 (4.6 percent to GDP or KGS 20.9 billion) and made 3.3 percent to GDP (KGS 16.5 billion). The consolidation of budget mainly due to the increase of the state budget revenues from operating activities and the reduction of non-priority expenditures.

In Q4 2017, the situation in the domestic foreign exchange market remained relatively stable. Growth was observed in the deposit and credit market, meanwhile increase of the credit portfolio was provided by growth in the national currency. At the end of the period under review, the volume of the depositary base increased by 2.9 percent from the beginning of the quarter and amounted to KGS 121.6 billion. The volume of the credit portfolio increased by 2.5 percent from the beginning of the quarter and made KGS 108.3 billion.

¹The data are given in FOB prices including the NBKR additional estimates

Chapter 1. External Environment

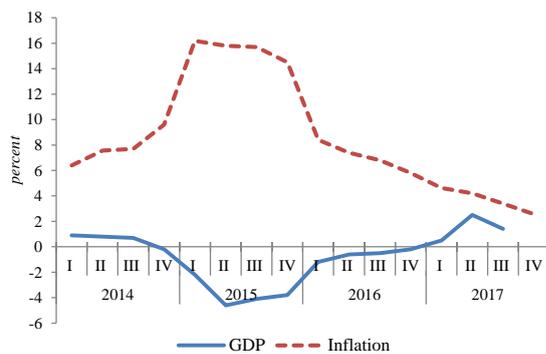
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

The trend of recovery in economic activity remained in the countries-major trade partners of Kyrgyzstan. In Russia, economic recovery was still observed, meanwhile in the second half of the year there was a slight slowdown in GDP growth rates. The economic growth in Kazakhstan was due to increase in the extraction and export of minerals against the background of rising commodity prices. At the end of the year, the inflation rates in Russia and Kazakhstan were still within the range of benchmarks. The economic growth in the Republic of Belarus was formed amid improvement in external conditions; the favorable situation in the domestic foreign exchange market influenced the inflation rate in the country. The positive dynamics of growth was observed in Armenia amid favorable macroeconomic conditions, the inflation rate gradually increased and approached the benchmark.

Russia

Chart 1.1.1. Growth of GDP and Inflation in Russia

(in annual terms)



Source: Ministry of Economic Development of the Russian Federation, IA Bloomberg, Russian Federal State Statistics Service

recorded in the sphere of culture, sports, leisure and entertainment (+5.0 percent compared to the similar indicator in 2016), in the sphere of transportation and storage (+3.7 percent), information and communication activities (+3.6 percent), as well as wholesale and retail trade (+3.1 percent).

The most significant decrease was observed in the activities of the employers' households (-2.0 percent), in construction and healthcare (-0.2 percent) and education (-0.1 percent).

In Q4, the inflation rate in Russia was at the level of 2.6 percent. In the current quarter, according to the Russian Federal State Statistics Service, the prices for food products in general increased by 1.2 percent compared to the same period of 2016, the prices for non-food products – by 2.8 percent and services – by 4.3 percent.

In Q4 of this year, economic growth in Russia was still observed. At the same time, there was a slowdown in the activity of the industrial sector, where the reduction in oil production as part of the OPEC+ agreement, as well as a slight decrease in demand for gas due to warm weather were the main constraints in this sector.

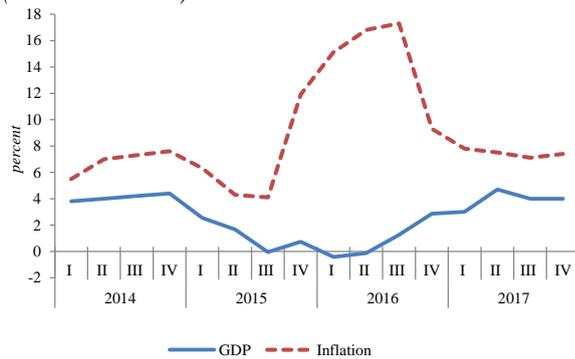
In Q4 of the reporting year, industrial production decreased by 1.7 percent. At the same time, in general, the growth rate of this sector slowed down (to (+) 1.0 percent) in 2017.

According to the preliminary estimates of the Russian Federal State Statistics Service, in 2017, GDP growth was 1.5 percent, meanwhile the largest increase in 2017 was

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(in annual terms)



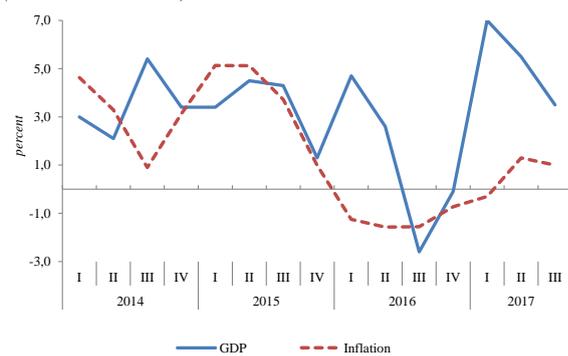
Source: RK Statistics Agency, NBKR calculations

inflation slowdown was primarily due to stabilization of prices in the markets of separate goods and services and relatively low volatility of the Kazakh tenge.

Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(in annual terms)



Source: National Statistical Service of the Republic of Armenia, IA Bloomberg

trade exceeded 14 percent.

In general, in 2017, economic growth in Armenian was supported by strong export indicators (+25.2 percent), more stable external demand and recovery of remittances (+6.8 percent), growth in the lending to the private sector, and by support of the monetary policy.

In December 2017, the consumer price index in Armenia increased by 2.6 percent in annual terms, the CPI of the food products (including alcoholic beverages and tobacco goods) increased by 5.3 percent, of the non-food products – by 1.7 percent, and the CPI of the tariffs and services decreased by 0.5 percent.

In Q4 2017, the economic growth in Kazakhstan was mainly due to increased extraction and export of commodities amid significant increase in the world oil prices, and implementation of the state programs. Thus, in 2017, economic growth in Kazakhstan formed at the level of 4.0 percent¹. In the sectoral aspect, the most significant growth was in the sectors of industry (by 7.1 percent), transport (by 4.8 percent), communication (by 3.3 percent) and trade (by 3.2 percent).

In Q4 2017, the annual inflation rate in Kazakhstan amounted to 7.4 percent against 9.5 percent in the same period of 2016.

Economic recovery was still observed in Q4 2017.

According to the National Statistical Service of the Republic of Armenia, GDP growth was 3.5 percent in Q3.

According to the Central Bank of the Republic of Armenia, in Q4 2017, monetary conditions continued to have a stimulating effect on the domestic economic activity.

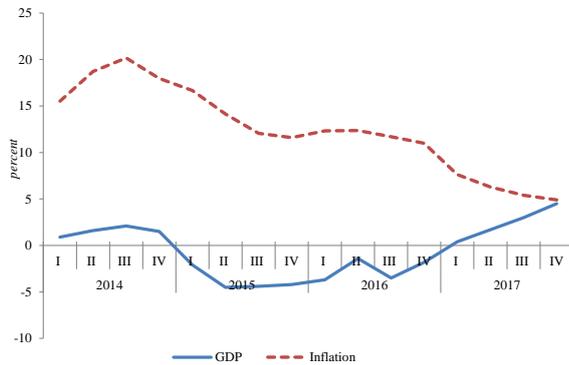
According to the data provided by the National Statistical Service of the Republic of Armenia, a high index of economic activity at the level of 7.7 percent was registered in 2017. In 2017, the industry grew by 12.6 percent, while the growth in the sectors of services and

¹According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan.

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(in annual terms)



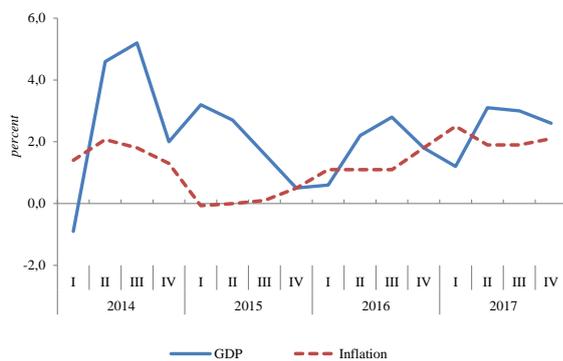
Source: National Statistical Committee of the Republic of Belarus

slowdown in the inflation rate was due to the favorable situation in the domestic foreign exchange market, as well as a decrease in the intensity of rise in prices and tariffs subject to administrative regulation.

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(in annual terms)



Source: the U.S. Ministry of Trade, the U.S. Department of Labor, IA Bloomberg

In Q4 2017, the economic growth in the Republic of Belarus accelerated against the background of rise in prices in the raw stock markets, the recovery of Russian economy and improvement of external demand. Thus, at the end of 2017, GDP growth in Belarus amounted to 2.4 percent¹¹. This growth was due to increased production output in the sector of industry (by 6.1 percent), agriculture (by 4.1 percent), transport (by 5.2 percent), wholesale (by 3.1 percent) and retail trade (by 3.8 percent).

In 2017, the annual inflation rate in the Republic of Belarus formed at the level of 6.0 percent against 11.8 percent in 2016. The slowdown in the inflation rate was due to the favorable situation in the domestic foreign exchange market, as well as a decrease in the intensity of rise in prices and tariffs subject to administrative regulation.

Economic growth in the USA remained moderately high. In Q4 2017, GDP growth (compared to the previous quarter in terms of annual rates) was 2.6 percent, in two previous quarters this indicator was about 3.0 percent. As a whole in 2017, the annual increase in activity was 2.3 percent. In October-December 2017, growth of final consumption, business investment and government expenditures were above the average level. Slowdown in GDP growth was mainly due to a significant increase in imports, which, according to the analysts, indicates that the internal demand faced constraints in production capacity.

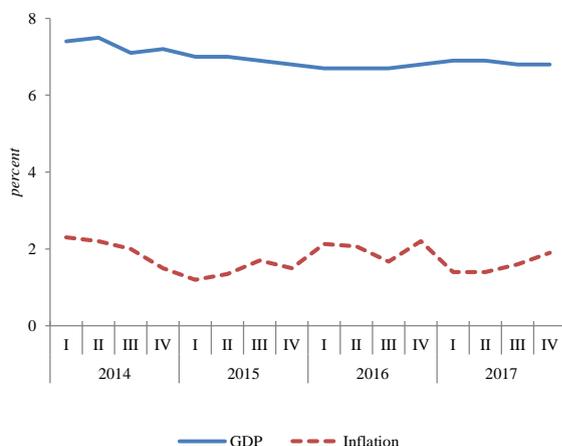
In Q4, the CPI growth was stable at the level of about 2.1 percent. In December 2017, the core price index of personal consumption expenditures, which is the preferred indicator of the inflation rate of the US Federal Reserve System, was at the level of 1.5 percent, it is much lower than the regulator's benchmark set at the level of two percent.

¹¹According to the preliminary data of the National Statistical Committee of the Republic of Belarus.

China

Chart 1.1.6. GDP Growth and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: National Statistics Bureau of the PRC, IA Bloomberg inflation rate.

In 2017, economic growth in China exceeded forecasts. The annual rate of GDP growth increased from 6.7 percent in 2016 to 6.9 percent. In Q4 2017, dynamics of economic growth remained stable, GDP grew by 6.8 percent. Growth in activity was supported to a certain extent by lending on the part of the state banks. Steady external demand, which stimulated export growth, a favorable situation in the construction sector and retail sales sector were also the positive factors for the economy.

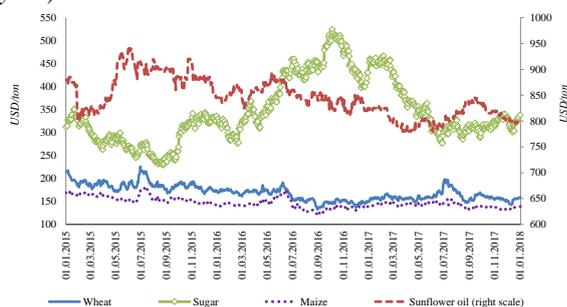
In December 2017, the inflation rate in China was 1.8 percent and was near this level since August 2017. The average annual inflation rate in 2017 was 1.6 percent, which was below the benchmark set at the level of about three percent. Insignificant increase in prices for food products had the main downward impact on the

1.2. World Commodity and Raw Stock Markets

The situation remained relatively stable in the world commodity markets; however, the dynamics of prices within the year was multidirectional. In general, the prices for basic food products were stable and did not put upward pressure on the prices in Kyrgyzstan. In 2017, the prices for gold were characterized by the upward trend, meanwhile volatility decline and an upward trend were observed in the oil market.

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



use of sugar cane for production of biofuel, had an impact on the sugar market.

During the quarter under review, the prices for vegetable oil changed their direction depending on supply factors and forecasts. At the end of Q4, the vegetable oil price index formed at a lower level compared to the beginning of the reporting quarter. Due to sufficient supply, the prices for sunflower oil had a downward trend during the quarter.

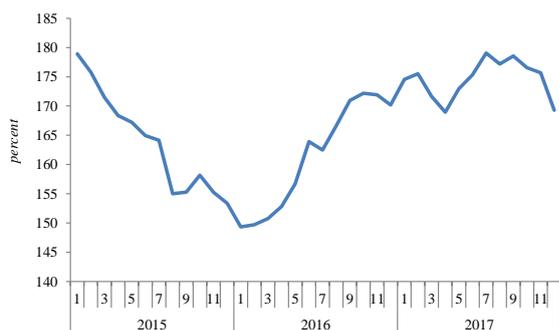
Food Market

In Q4 2017, the price dynamics was rather stable in the world food markets.

In grain markets, there were no significant price shocks, it reflects a balanced supply-demand ratio. At the end of 2017, grain stocks in Kazakhstan increased by 9.1 percent, and in Russia – by 16.3 percent compared to the beginning of the year.

Generally, in Q4 2017, prices for sugar were moving sideways. Such factors as the level of production, dynamics of the Brazilian Real, which stimulated exports from this country, and the situation in the oil market, which affected the

Chart 1.2.2. Dynamics of FAO Food Price Index

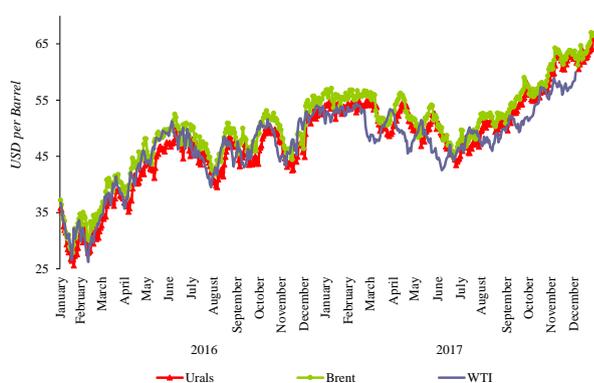


In Q4 2017, the average value of the FAO food price index decreased by 2.5 percent compared to the previous quarter, primarily due to decrease of the prices for dairy products. In other groups, the prices showed relatively stable dynamics.

In general, in 2017, the FAO price index grew by 8.1 percent compared to 2016, which was mainly due to a significant increase in the prices for meat and dairy products throughout the year. At the same time, the prices for sugar declined significantly during the year.

Energy Market

Chart 1.2.3. Dynamics of Prices for Oil
(month to the corresponding month of the previous year)

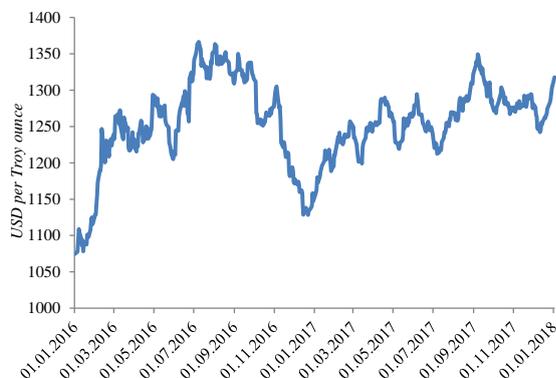


In Q4 2017, the world oil prices were characterized by the upward trend due to economic and geopolitical changes in the world. The prices for the basic oil grades (Brent, WTI, Urals) fluctuated within the range of USD 49.3-67.0 per barrel. In Q4 2017, the average price for Brent oil increased by 17.8 percent compared to the previous quarter and amounted to USD 61.4 (the price increased by 20.5 percent compared with the same period of the previous year). In general, in 2017, the price for Brent oil increased by 17.8 percent from USD 56.8 to USD 66.9.

In Q4 2017, fundamental and market factors were the main factors that influenced price formation. Thus, an increase in demand from China and prolongation of the OPEC+ agreement to reduce oil production, as well as information on the reduction of oil reserves and the number of drilling rigs in the United States, the reduction in oil production in Venezuela, interruptions in the export of raw materials from Iraqi Kurdistan, introduction of the US sanctions against Iran determined an increase of the prices in the world energy market.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



In Q4 2017, dynamics of prices for gold were characterized by a sideways trend. At the beginning of the quarter, there was a period of relative stability of prices against the background of easing in geopolitical tensions around North Korea and the absence of significant shock events. Since the end of November in advance of the Federal Reserve System meeting, the prices for gold decreased. The investors expected that the benchmark rate of the Federal Reserve System will be increased, which, as a rule, conduce to an increase in the investment attractiveness of the US securities, which are an alternative to gold. After an

Source: IA Bloomberg

increase the Federal Reserve System rate, the prices for gold started recovering caused by devaluation of the US dollar and confirmation by the Federal Reserve System of its plans to increase the rates gradually in 2018.

In general, in 2017, the prospects for global economic growth improved, stock indices demonstrated increase, which stimulated investors to make more risky investments. In 2017, the average price for gold increased by 0.7 percent compared to 2016.

Chapter 2. Macroeconomic Development

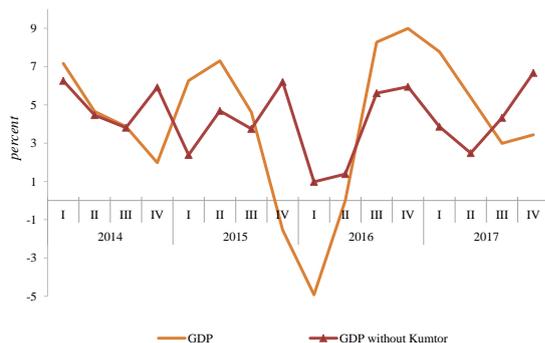
2.1. Demand and Supply in the Commodities and Services Market

Positive dynamics of economic growth was still observed in Q4. Economic growth was supported by recovery of economic activity in the economies of the main trading partner countries, the positive inflow of remittances into the country, the increase in budget expenditures, which had an impact on recovery of internal and external demand.

Demand

Chart 2.1.1. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

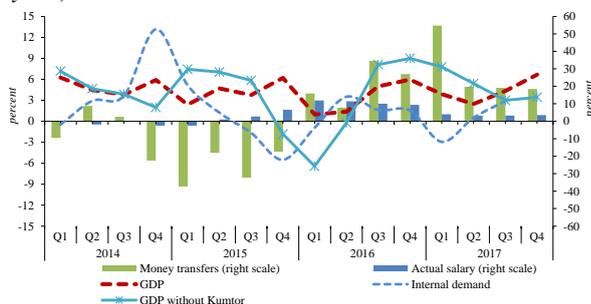
and construction (0.6 percentage points), meanwhile the sector of information and communication made a negative contribution (-0.7 percentage points).

In 2017, the average monthly nominal salary of one employee¹ amounted to KGS 15,391, having increased by 6.7 percent compared to the same period of 2016. The largest increase in salaries was observed in the sphere of professional, scientific and technical activity (17.6 percent), hotels and restaurants (16.7 percent), transportation and cargo storage (13.7 percent), and in manufacturing (12.4 percent).

In 2017, the real salaries increased by 3.4 percent (in 2016, an increase made 8.9 percent).

Chart 2.1.2. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

In Q4 2017, positive economic growth was still observed in the country. Moderately low inflation rates contributed to the growth in the real salaries of the population.

According to the preliminary data of the National Statistical Committee of the Kyrgyz Republic, in 2017, GDP growth was 4.5 percent (in 2016, an increase made 3.8 percent). Excluding the enterprises of the Kumtor Mine, GDP growth was 4.5 percent (in 2016, an increase made 3.7 percent).

Positive contribution to economic growth was made by such sectors as industry (2.1 percentage points), trade (1.1 percentage points) and construction (0.6 percentage points), meanwhile the sector of information and communication made a negative contribution (-0.7 percentage points).

In 2017, the average monthly nominal salary of one employee¹ amounted to KGS 15,391, having increased by 6.7 percent compared to the same period of 2016. The largest increase in salaries was observed in the sphere of professional, scientific and technical activity (17.6 percent), hotels and restaurants (16.7 percent), transportation and cargo storage (13.7 percent), and in manufacturing (12.4 percent).

In 2017, the real salaries increased by 3.4 percent (in 2016, an increase made 8.9 percent).

According to the preliminary results of Q3 2017, recovery was observed in the internal demand² (+2.9 percent compared to the same period of 2016). An increase was due to growth of final consumption (+2.3 percent) and gross accumulation (+5.0 percent), which is a result of a decrease in inventories of circulating assets (-11.8 percent) and an increase in gross accumulation of fixed assets (+5.2 percent). The increase in internal demand was due to positive dynamics of remittances (in Q3 and Q4 of the current year, the growth rate was 19.1 and 18.5 percent, respectively). In general, positive dynamics of the individuals' remittances, what made through the money transfer systems, was observed since the beginning of 2017: in 2017,

¹ Excluding small enterprises.

² According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for Q4 2017.

according to the preliminary data, net inflow in USD equivalent increased by 24.1 percent compared to the same period of 2016.

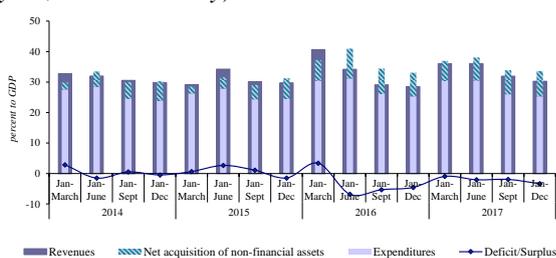
State Finances Sector

Fiscal consolidation was observed at the end of 2017: the budget deficit decreased from 4.6 percent to GDP in 2016 to 3.3 percent to GDP (KGS 16.5 billion). The social orientation of the state expenditures was still observed in the fiscal policy.

The primary state budget deficit (excluding interest payment for servicing the state debt) amounted to KGS 10.6 billion or 2.1 percent to GDP.

Chart 2.1.3. Execution of the State Budget

(period to the corresponding period of the previous year, accumulatively)



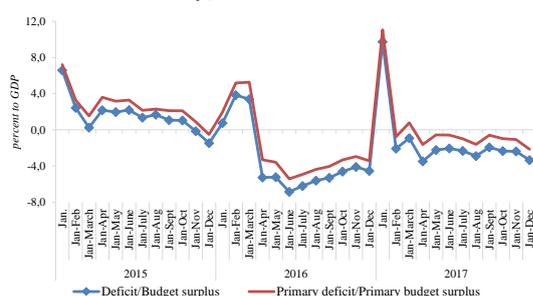
Source: CT MFKR, NBKR

The state budget revenues from operating activities increased by 14.4 percent, or KGS 18.8 billion, compared to the same indicator of 2016 and amounted to KGS 149.4 billion, or 30.3 percent to GDP. In the structure of revenues from operating activities, the share of tax revenues decreased, meanwhile taxes still made the most significant contribution to the growth of current revenues. Priority growth rates of official transfers and social contributions resulted in an increase in the share thereof in the total revenues and, correspondingly, in a decrease in the share of non-tax revenues.

At the end of the year, the state budget expenditures for operating activities increased in annual rate by 7.7 percent, or KGS 9.0 billion, and amounted to KGS 124.9 billion, or 25.3 percent to GDP. The greatest contribution to the increase in expenditures was made by the expenditures for purchase and use of goods and services, remuneration, as well as payment of subsidies and social benefits. In the structure of expenditures by functional classification, the social orientation was also observed: the greatest contribution to the increase of expenditures was made by the expenditures for health care, education and social protection.

Chart 2.1.4. Budget Deficit

(period to the corresponding period of the previous year, accumulatively)



Source: CT MFKR, NBKR

Net outflow of budget funds for operations related to acquisition of non-financial assets amounted to KGS 41.0 billion or 8.3 percent to GDP. Capital expenditures were primarily directed for roads repair, purchase of buildings and constructions.

At the end of 2017, execution of the state budget revenues (tax revenues + non-tax revenues + official transfers) amounted to 96.6 percent. Shortfall of revenues in the amount of KGS 5.3 billion was primarily due to non-implementation of the tax collection plan by the State Tax Service, as well as the grants shortfall within the framework of the State Investment Program (SIP). At the same time, the expenditure was underfunded to the amount of KGS 10.3 billion, mainly due to reduction of costs on the item “purchase of goods and services”.

Investment

In 2017, the level of exploitation investment in fixed assets increased by 6.2 percent (in comparable prices) compared to 2016.

Table 2.1.1. Capital Investment by Sources of Financing
(millions of KGS, percent)

	January-December			
	2016		2017	
	millions of KGS		share, percent	
Total	135 469.9	144 705.8	100.0	100.0
Internal investment	75 226.9	83 266.2	55.5	57.5
Republican budget	10 797.1	8 055.2	7.9	5.6
Local budget	1 468.8	1 554.2	1.1	1.1
Funds of enterprises and organizations	30 734.0	36 932.3	22.7	25.5
Banks' credits	828.7	2 930.4	0.6	2.0
Population funds including beneficent help of KR residents	31 398.3	33 794.1	23.2	23.3
External investment	60 243.0	61 439.6	44.5	42.5
Foreign credit	41 261.5	42 119.4	30.5	29.1
Direct foreign investments	13 292.7	13 070.9	9.8	9.1
Foreign grants and humanitarian aid	5 688.8	6 249.3	4.2	4.3

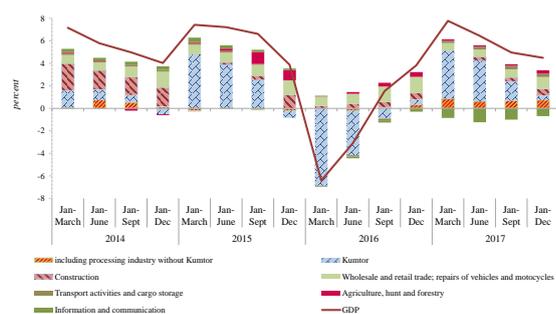
Source: NSC KR

Compared to 2016, the volume of capital investment in fixed assets financed from domestic sources increased by 10.0 percent, that from the bank loans – by 3.5 times (funds were mainly directed to the construction of wholesale and retail trade facilities, hotels and restaurants), that from the funds of the enterprises and organizations – by 19.5 percent, from the personal funds – by 7.0 percent, from the local budget – by 5.3 percent, meanwhile, the investment, financed from the republican budget, decreased by 25.8 percent. The investment financed from the foreign sources increased by 1.5 percent, that from the foreign grants and humanitarian aid – by 9.3 percent, from the foreign loans – by 1.6 percent, meanwhile the investment financed from the direct foreign investment decreased by 2.2 percent.

Supply

Chart 2.1.5. Input of Main Sectors in GDP Growth

(period to the corresponding period of the previous year, accumulatively)



Source: NSC KR, calculations: NBKR

basic metals (by 3.7 percent), as well as an increase in production of food products, including beverages, and tobacco products (by 12.3 percent).

At the same time, in 2017, there was production deceleration of electronic and optical equipment (by 65.5 percent), electrical equipment (by 12.3 percent), wood ware, paper products and in printing (by 0.4 percent) compared to the level of the previous year. .

The volumes of providing electric energy, gas, steam and conditioned air exceeded the level of January-December 2016 by 10.1 percent, the increase in production was mainly due to growth in electricity generation (by 17.8 percent).

In 2017, the turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased by 5.9 percent due to growth in retail (by 5.9 percent) and wholesale (by 7.5 percent) trade.

Growth of capital investment was primarily observed in the construction of mining operations, manufacturing facilities, in the construction and reconstruction of the facilities for supply of electric energy, gas, steam and conditioned air, hotels and restaurants, as well as the healthcare facilities.

Meanwhile, capital investment decreased in the construction of the facilities of education, water supply, waste cleaning and processing facilities, transportation and cargo storage.

In 2017, GDP increased mainly due to a positive contribution of all sectors of economy excluding the sector of information and communication.

In the reporting period, growth in agriculture made 2.2 percent due to an increase in livestock production (+2.0 percent) and crop production (+ 2.5 percent).

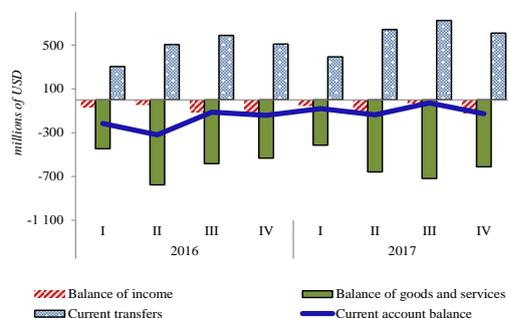
Growth of production in the industrial sector by 11.8 percent was mainly due to an increase in the extraction of metal ores (by 3.8 times), in production of refined petroleum products (by 25.9 percent), other non-metallic mineral products (by 20.8 percent) and output of

Long-lasting decline in the sector of communication in 2017 reached the level of 17.5 percent due to a decline in revenues received from provision of mobile services.

2.2. External Sector¹

In Q4 2017, the current account deficit decreased under the influence of the increase in the net inflow of current transfers despite deterioration of the trade balance.

Chart 2.2.1. Current Account
(millions of USD)



Note: According to the preliminary and forecasted data.

According to the forecasted and preliminary data, in Q4 2017, the current account deficit decreased by 10.2 percent to make USD 128.2 million (5.2 percent to GDP²).

In the reporting period, the trade deficit of the Kyrgyz Republic increased by 22.2 percent to make USD 556.6 million. This trend was conditioned by the decline in exports of gold in the reporting period and by growth of imports.

2.2.1. Trade balance of the Kyrgyz Republic³

(millions of USD)

	2014	2015	2016	2016 Q4	2017* Q4	Change in %	Change in millions of USD
Trade balance	-2 807,5	-2 240,8	-2 136,5	-455,7	-556,6	22,2	-101,0
Export (FOB)	2 482,7	1 619,0	1 607,9	510,8	556,1	8,9	45,3
Gold	716,9	665,4	701,6	256,0	239,7	-6,4	-16,3
Import (FOB)	5 290,2	3 859,8	3 744,4	966,5	1 112,8	15,1	146,3
Energy products	1 041,8	830,0	467,4	137,6	177,4	28,9	39,7

* Preliminary data

In the reporting period, exports of goods (in FOB prices) increased by 8.9 percent to make USD 556.1 million. Exports were primarily affected by increase in exports, excluding gold, by 24.2 percent, mainly due to growth in supplies of clothes and clothing accessories, parts and accessories of the motor vehicles, electricity, metal scrap, cigarettes, cotton, etc. In the reporting period, supplies of gold decreased by 6.4 percent compared to the same quarter of 2016.

In Q4 2017, imports of goods (in FOB prices) increased by 15.1 percent to make USD 1,112.8 million. This trend was conditioned by growth in the supplies of petroleum products and in the imports of other goods against the background of recovery in the internal demand. In the reporting quarter, the increase was observed in imports of such goods as fabrics, electrical apparatus for line telephony or line telegraphy, footwear, essential oils, medicines, etc. Imports, excluding energy products, increased by 12.8 percent compared to Q4 2016 to make USD 935.4 million.

In the reporting period, the net inflow of current transfers was formed above the level of the same period in 2016 by 19.7 percent. Recovery of the Russian economy and

¹ According to the preliminary and forecasted data, including additional estimates of the National Bank of the Kyrgyz Republic. Period of comparison is the quarter to the corresponding quarter of the previous year.

² Ratios to GDP are calculated on the basis of sliding annual data, including the last four quarters.

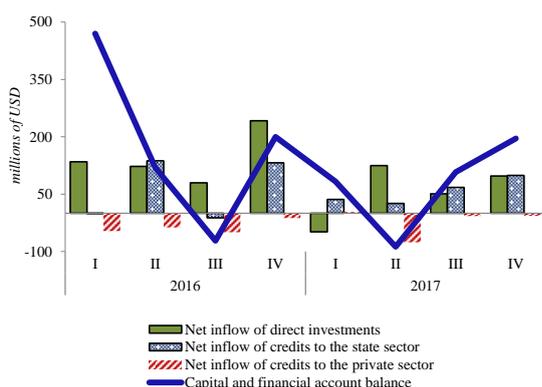
³ The data on the foreign trade are given taking into account the NSC KR additional estimates for agricultural products (till 2017) and mutual trade with the EAEU member states (since Q3 2015) and the estimates of the NBKR.

improvement of working conditions for migrant workers in the Russian Federation contributed to the positive dynamics of the net inflow of private transfers, which constituted USD 562.0 million.

In the reporting quarter, the balance of services and income deficit made USD 55.3 and 124.6 million respectively.

According to the preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, the capital inflow on the capital and financial accounts in the amount of USD 189.6 million will cover current account deficit in Q4 2017. The capital inflow of the capital account formed in the amount of USD 25.3 million, the balance of the financial account formed in the amount of USD 164.2 million.

Chart 2.2.2. Capital and Financial Account



Net inflow of direct investments to the country is forecasted at the level below the level of the same period of the last year and it will make USD 97.2 million. In the reporting quarter, the balance of “other investments” item will be formed positive to make USD 67.0 million conditioned by the growth of the foreign liabilities of the residents due to the increase of credits attracted by the state sector. Along with that, the foreign assets of the residents are expected to increase up to USD 45.2 million.

Therefore, at the end of Q4 2017 balance of payments of the Kyrgyz Republic was formed with a positive balance to make USD 49.3 million. Gross international reserves covered 4.8 months of the future imports of goods and services¹.

Indexes of Real and Nominal Effective Exchange Rate of KGS.

Table 2.2.2. Key Values for Exchange Rate

	year (average)			month to the beginning of the year (as of the end of month)		
	2016	2017*	%	December 2016	December 2017	%
	(January-December)	(January-December)				
REER	113,7	111,3	-1,7	113,1	112,4	-0,7
NEER	112,8	110,7	3,5	112,7	111,9	-0,7
RBER to CNY	80,8	85,6	-4,6	85,8	83,4	-2,9
NBER to CNY	64,5	66,7	-3,0	67,9	64,3	-5,3
RBER to Euro	107,2	109,0	-8,0	113,3	103,2	-9,0
NBER to Euro	78,8	78,6	-7,9	83,4	73,9	-11,4
RBER to KZT	141,7	131,8	26,4	136,7	131,4	-3,9
NBER to KZT	152,1	147,5	43,6	150,3	148,9	-0,9
RBER to RUR	131,4	116,2	-4,9	122,8	116,7	-5,0
NBER to RUR	144,8	128,3	1,5	136,7	127,5	-6,7
RBER to USD	87,2	89,9	-9,1	88,5	90,0	1,7
NBER to USD	65,7	66,7	-8,3	66,4	65,9	-0,7

* 2017-й год - предварительные данные

↓ - Som devaluation, competitiveness improvement
↑ - Som strengthening, competitiveness deterioration

At the end of Q4 2017, the index of nominal and real effective exchange rate decreased compared to December 2016.

According to the preliminary data, the index of nominal effective exchange rate (NEER) of KGS decreased by 0.7 percent from the beginning of 2017 and amounted to 111.9 by the end of December 2017. The decrease in the NEER index was due to KGS devaluation² in December 2017 compared to the average exchange rate for December 2016 against the euro – by 11.4 percent, the Russian ruble – by 6.7 percent, the Chinese yuan – by 5.3 percent, the Kazakh tenge – by 0.9 percent and by the US dollar – by 0.7 percent.

Due to the fact that the level of inflation in the trading partner countries and in the Kyrgyz Republic has developed at the same level³, the decrease in the NEER index became the only factor that influenced the index of real effective

¹ Taking into account non-convertible currencies.

² The data are given for nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for calculation of the index.

³ In 2017, the inflation in the Kyrgyz Republic and in the major trading partner countries formed at the level of 4.5 percent according to the preliminary calculations.

exchange rate (REER), which decreased by 0.7 percent since December 2016 and amounted to 112.4 at the end of December 2017.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

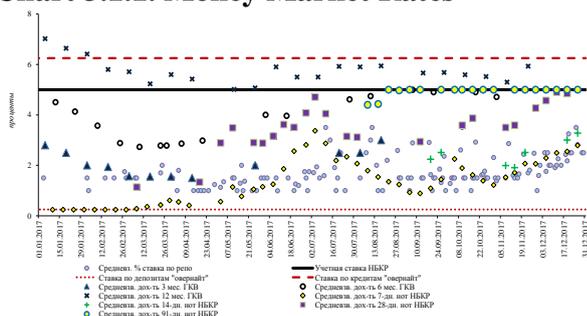
Taking into account the actual and forecasted dynamics of the inflation rate for the medium term, the direction of the monetary policy carried out by the National Bank was retained during Q4 2017.

In the banking system, by the end of the reporting quarter, gradual decrease in the level of the commercial banks' excess liquidity was replaced by a slight increase generated by growth in the expenses of the Government of the Kyrgyz Republic. At the same time, the activity of the commercial banks in the interbank market of credit resources was still observed. The short-term rates of the money market were approaching the policy rate set by the National Bank of the Kyrgyz Republic.

Interest Rate Policy of the National Bank

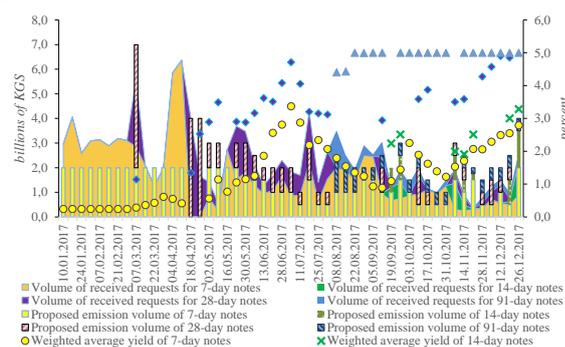
During Q4 2017, the National Bank, taking into account expected dynamics of the inflation rate for the medium-term period, continued conducting previously adopted course of the monetary policy. The interest rate policy was focused on maintaining economic activity. In the reporting period, the National Bank's policy rate remained at the level of 5.00 percent. The rates of the interest rate corridor also remained unchanged: the upper level of the interest rate corridor (the rate on "overnight" credits) – 6.25 percent, the lower level (the rate on "overnight" deposits) – 0.25 percent.

Chart 3.1.1. Money Market Rates



The downward trend in the excess liquidity of the banking system, combined with encouraging of measures taken by the National Bank in Q3 2017 to improve monetary policy instruments, conditioned a shift in the short-term money market rates from the lower level of the interest rate corridor towards the policy rate during Q4 2017.

Chart 3.1.2. National Bank Notes



In Q4 2017, the weighted average interest rates for all short-term instruments were lower or at the level of the policy rate set by the National Bank, except for the yield on 12-month ST-Bills, which was approximately 5.55 percent at the end of the quarter. During the reporting period, the yield of all short-term instruments was characterized by the upward trend resulted from decreased demand for these instruments due to a decline in the overall level of excess liquidity in the banking system. During the quarter, the weighted average yield on 91-day notes was approximately 5.00 percent (in Q3 2017 – 4.83 percent), on 28-day

notes – 4.02 percent (in Q3 2017 – 3.34 percent), on 14-day notes – 2.62 percent (in Q3 2017 – 2.39 percent), on 7-day notes – 2.05 percent (in Q3 2017 – 1.79 percent).

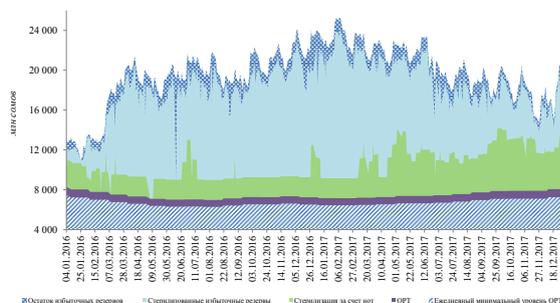
A slowdown in the rate of lowering interest rates on the credit portfolio of the commercial banks was still observed. This decline was mainly due to continued influence of measures taken earlier to lessening the terms of the monetary policy. At the end of the reporting quarter, the weighted average interest rate of the credit portfolio decreased by 0.5 percentage points compared to the end Q3 and made 16.0 percent (in Q3, the decrease was 0.5 percentage points).

A slight slowdown was observed in the rate of lowering interest rates on the overall deposit base in the banking system (-0.2 percentage points against -0.3 percentage points in Q3).

The rates declined mainly due to the decrease of the rates on the deposits in the national currency, the share thereof in the total volume of the overall deposit base made 52.5 percent. During the review period, the weighted average interest rates of the deposit base in the national currency declined by 0.4 percentage points and amounted to 6.2 percent at the end of the reporting quarter (in Q3 the decrease made 0.2 percentage points).

Situation with Liquidity of the Commercial Banks

Chart 3.1.3. Excess Reserves of the Commercial Banks



In the reporting quarter, there was a gradual decrease in the excess liquidity of the commercial banks, meanwhile, in the last decade of December, the volume of excess liquidity increased due to the growth in the expenditures of the Government of the Kyrgyz Republic. In Q4, the average daily volume of the commercial banks' excess liquidity prior to the operations on sterilization amounted to KGS 10.0 billion, having decreased by KGS 1.5 billion compared to Q3 2017.

At the same time, the currency operations of the National Bank and the operations of the Government of the Kyrgyz Republic influenced the dynamics of excess liquidity in the short-term (1-2 months). Thus, as a result of the currency operations of the National Bank on sale of foreign currency (in the amount of KGS 4.7 billion) and an increase in the volume of ST-Bills placement by the Government of the Kyrgyz Republic (by KGS 4.8 billion), a minimum level of excess liquidity from March 2016 was reached in November 2017, thereafter, the volume of excess liquidity increased against the background of growth in the expenditures of the Government in the last decade of December.

Taking into account existing level of excess liquidity in the banking system the National Bank conducted operations on absorbing excess liquidity through the auctions of the National Bank notes and placement by the commercial banks of their available funds on "overnight" deposits with the National Bank.

In Q4 2017, the average volume of excess liquidity absorbed on a daily basis decreased by KGS 0.9 billion compared to Q3 to make KGS 9.1 billion. Moreover, the decrease of excess liquidity was mainly accompanied by the reduction of the average daily volume of placements of "overnight" deposits by KGS 1.8 billion, meanwhile the average daily volumes of notes in circulation increased by KGS 0.9 billion. In the reporting quarter, the average daily volume of placements of "overnight" deposits made KGS 4.3 billion, notes in circulation – KGS 4.8 billion.

Credit Policy of the National Bank

In the reporting period, the National Bank did not conduct credit auctions for refinancing purposes, meanwhile, one commercial bank was provided with a credit to maintain liquidity in the amount of KGS 538.3 million.

Foreign Exchange Policy of the National Bank

The situation in the domestic foreign exchange market was rather stable. After a slight volatility at the beginning of the quarter, the exchange rate of the Kyrgyz som demonstrated a slight increase and remained stable during the major part of the review period. By the end of the quarter, the national currency demonstrated strengthening, meanwhile, in general, the Kyrgyz som strengthened by 0.3 percent within the quarter. In the second part of the reporting period, against the background of some excess of demand for foreign currency over supply thereof, the National Bank participated in the domestic foreign exchange market as a seller of foreign currency in order to smooth sharp fluctuations of the exchange rate, the volume of foreign currency sales amounted to USD 67.4 million.

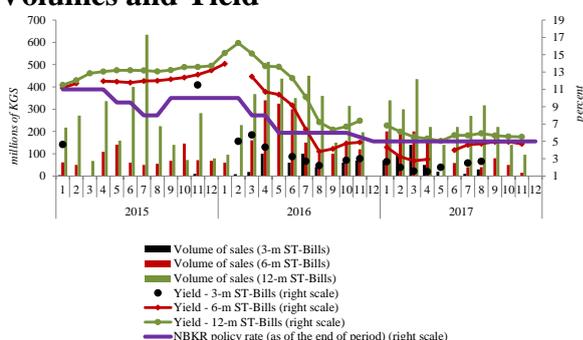
Monetary Policy Measures in Q4 2017

<p>The decisions were made on the size of the National Bank policy rate</p>	<p>The Board of the National Bank twice considered the issue on the size of the policy rate of the National Bank – on November 27 and December 25, 2017. Finally, the decision was made to keep the policy rate unchanged at 5.00 percent.</p> <p>The rates of the interest rate corridor remained unchanged: the interest rate on “overnight” credits was 6.25 percent, the interest rate on “overnight” deposits - 0.25 percent.</p>
<p>The commercial banks were given an alternative compliance opportunity with mandatory reserve requirements (MRR).</p>	<p>In the reporting period, the National Bank decided to include in the regulations for compliance with the MRR daily minimum level the assets in the form of gold on the bank’s impersonal metal account in the National Bank, as well as on the correspondent account in the National Bank.</p>
<p>Application of a differentiated approach to mandatory reservation as respect to the microfinance companies that accept deposits, as well as establishment of the separate standards for MRR.</p>	<p>By the decision of the Board of the National Bank, the MRR standards were established for the microfinance companies that accept deposits, which are similar to the standards established for the commercial banks: for liabilities in the national currency, in the currencies of the EAEU member states and in the Chinese yuans at the level of 4.0 percent; for liabilities in other foreign currencies - at the level of 12.0 percent.</p> <p>In addition, the list of liabilities included in the settlement base, the amount of payment for depositing of mandatory reserves and the penalty for non-compliance thereof were standardized for the microfinance companies that accept deposits.</p>

3.2. Financial Market Instruments

Government Securities Market

Chart 3.2.1. Dynamics of ST-Bills Sales Volumes and Yield



ST-Bills

In the reporting period, the weighted average rates of ST-Bills were within the interest rate corridor established by the National Bank of the Kyrgyz Republic.

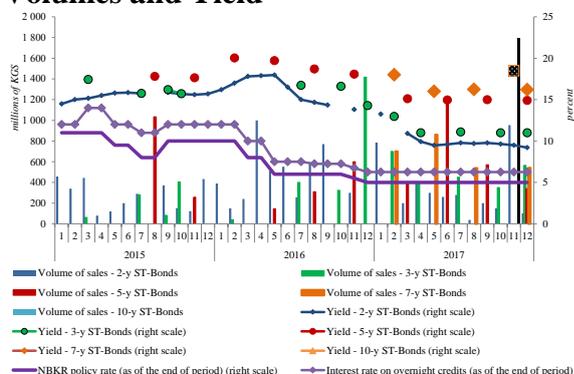
In Q4 2017, the demand for ST-Bills issued by the Ministry of Finance of the Kyrgyz Republic decreased by 58.7 percent (down to KGS 741.7 million) compared with the same quarter of 2016, which affected the gradual decline in yields (-0,4 percentage points) and the volume of sales of these securities (-66.9

percent, down to KGS 300 million), meanwhile the volume of the announced issue was KGS 660.0 million (-33.1 percent).

In the structure of ST-Bills sales, the share of 6-month ST-Bills decreased down to KGS 64.2 million (-75.8 percent) and 12-month ST-Bills - down to KGS 235.5 million (-54.0 percent compared to the same period of 2016).

Based on the results of the auctions, in Q4 2017, the overall weighted average yield of ST-Bills was 5.4 percent (-0.4 percentage points). At the same time, in terms of maturity, the rate of 6-month ST-Bill remained unchanged, and the weighted average rate of 12-month ST-Bills decreased by 1.5 percentage points, down to 5.6 percent.

Chart 3.2.2. Dynamics of ST-Bonds Sales Volumes and Yield



ST-Bonds

In the period under review, the securities with the maturity of 7 and 10 years were issued in the ST-Bonds market, which resulted in a significant increase in demand and growth of the participants' activity based on the results of the reporting year.

In Q4 2017, the upward trend was observed in the announced emission of ST-Bonds, the volume thereof increased by 1.3 percent (up to KGS 2.3 billion) compared with the same quarter of 2016. Despite the decline in demand (-36.3 percent) for ST-Bonds, the aggregate sales (including additional placement) increased by 1.8 times mainly due to significant additional placement of 10-year ST-Bonds in the period under review.

In Q4 2017, the upward trend was observed in the announced emission of ST-Bonds, the volume thereof increased by 1.3 percent (up to KGS 2.3 billion) compared with the same quarter of 2016. Despite the decline in

In general, in the ST-Bonds market, the activity of participants at the auctions increased from 11 to 13 participants.

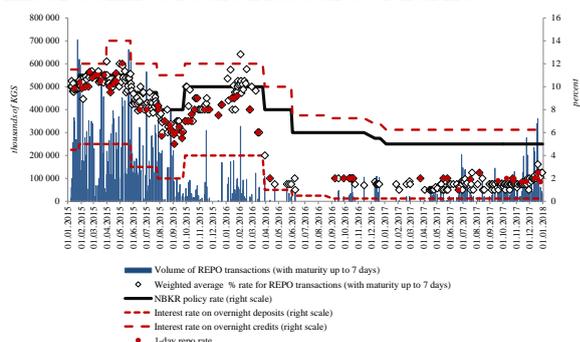
In the structure of ST-Bonds sales, the largest share was occupied by 10-year ST-Bonds –37.5 percent, 2-year ST-Bonds – 25.1 percent, 3-year ST-Bonds – 19.1 percent, 7-year ST-Bonds – 10.4 percent and 5-year ST-Bonds – 7.1 percent.

Thus, based on the results of the auctions conducted in the period under review, the overall weighted average yield of ST-Bonds decreased down to 12.0 percent (-3.8 percent compared to the same quarter of the previous year) due to decline in the yield on all maturities. At the same time, it should be noted, that in 2016, the Ministry of Finance of the Kyrgyz Republic did not issue 7- and 10-year ST-Bonds.

Thus, in the period under review, in terms of maturity, the yield was as follows: the weighted average yield of 2-year ST-Bonds was 9.4 percent, having decreased by 4.4 percentage points compared with Q4 2016; 3-year ST-Bonds – 11.0 percent (-4.4 percentage points), 5-year ST-Bonds – 14.9 percent (-3.2 percentage points), for 7-year ST-Bonds – 16, 2 percent and 10-year ST-Bonds – 18.5 percent.

Interbank Credit Resource Market

Chart 3.2.3. Dynamics of Rates and Volume of Repo Transactions in the Interbank Credit Resource Market



In 2017, in the interbank credit market, there was an upward trend in the activity of participants in this market segment against the background of a reduction in the excess reserves of the commercial banks.

demand for the interbank credit resources.

In Q4, the volume of transactions increased significantly (KGS 5.8 billion, by 4.4 times higher than the corresponding indicator in 2016), mainly due to the growth of REPO transactions. Meanwhile, there was an increase in the cost of loans in the interbank credit market, which was due to the growth of

In the reporting quarter, the total volume of concluded REPO transactions increased by 6.3 times compared to the same indicator of 2016 (the share was 98.3 percent). The weighted average rate on these credit resources increased year-to-date and in December was 2.51 percent (+0.53 percentage points).

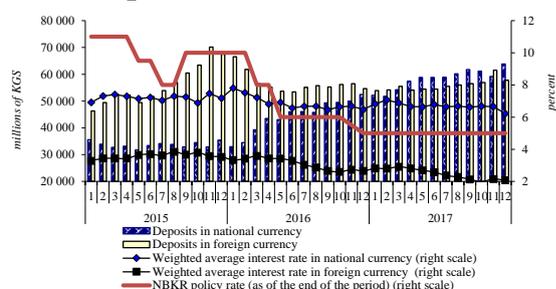
In general, REPO transactions were concluded with the maturity of from 1 to 37 days in the interbank market and the rates were within the limits of the interest rate corridor set by the National Bank of the Kyrgyz Republic.

In Q4 2017, the total volume of standard transactions conducted in the national currency in the domestic interbank credit resource market decreased by 72.4 percent, down to KGS 100.0 million. The standard transactions in foreign currency decreased by 96.6 percent, down to KGS 1.2 million. It should be noted, that the share of transactions in the national and foreign currencies in the structure of interbank credit resources was 1.7 percent.

Thus, in the period under review, in the interbank credit resource market the weighted average interest rate on credits in the national currency was 6.50 percent, in foreign currency - 1.25 percent and on REPO transactions - 2.14 percent.

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks Deposits



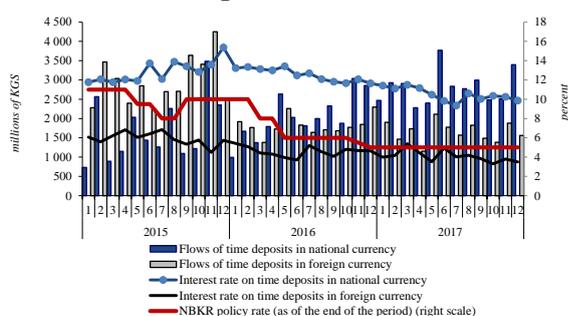
In Q4 2017, the growth trend of the deposit base was still observed.

At the end of Q4 2017, the volume of the commercial banks' deposit base increased by 2.9 percent during the quarter made KGS 121.6 billion mainly due to increase of the deposits in the national currency by 3.4 percent, up to KGS 63.8 billion, in foreign currency – by 2.3 percent, up to KGS 57.8 billion. Dollarization of the deposits decreased by 0.3 percentage points during the quarter, made 47.5 percent.

In Q4 2017, the volume of new deposits increased by 10.7 percent compared to the same period of 2016 and amounted to KGS 153.1 billion. Meanwhile, deposits in the national currency increased up to KGS 80.2 billion (+10.8 percent), in foreign currency – up to KGS 73.0 billion (+ 10.6 percent).

Thus, in terms of maturity of new deposits in the national currency, the main share accounted for the deposits from 1 to 3 years (36.9 percent) and from 6 to 12 months (35.6 percent), in foreign currency the major share accounted for deposits with the same maturity with the share of 43.0 percent and 27.8 percent respectively. The total duration of the deposit base at the end of the current quarter was 4.8 months (+ 0.3 months year-to-date), the duration of deposits by flows was 1.3 months (-0.1 months compared to the same indicator of 2016).

Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows



In the period under review, an average weighted interest rate on new deposits in the national currency made 2.60 percent (+0.22 percentage points against the same period of 2016), this rate on the deposits in foreign currency made 0.38 percent (-0.18 percentage points). In the reporting period, an average weighted interest rate on the fixed-term deposits in the national currency made 10.15 percent, having decreased by 1.64 percentage points, mainly due to a decrease of the rates on the deposits with a maturity from 3 months and

more. Moreover, an average weighted interest rate on the fixed-term deposits in foreign currency made 3.53 percent, having decreased by 1.18 percentage points, due to a decline of all maturity rates.

Credit Market

Chart 3.2.6. Dynamics of Commercial Banks Credit Debt as of the End of the Period

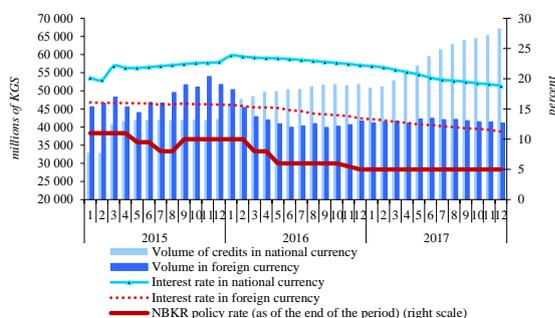
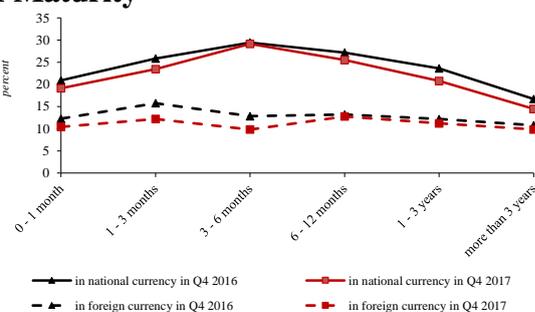


Chart 3.2.7. Rates of New Credits in National and Foreign Currency in Terms of Maturity



2016 and amounted to KGS 17.7 billion and those in foreign currency decreased by KGS 8.1 billion (-24.7 percent).

In Q4 2017, the weighted average interest rate for new credits in the national currency decreased by 3.14 percentage points compared to the same indicator of 2016, to make 19.38 percent, this rate in foreign currency decreased by 1.27 percentage points, down to 10.20 percent.

The share of overdue credits in the credit portfolio constituted 2.2 percent late in Q4 (-0.1 percentage point at the end of quarter), while the share of prolonged credits made 4.3 percent (+0.1 percentage point at the end of quarter).

3.3. Dynamics of Monetary Indicators

Chart 3.3.1. Input of the Government's and NBKR Transactions in Change of Monetary Base

In Q4 2017, build-up of the credit portfolio with an increase in the volume of new credits was still observed, meanwhile, a downward trend in the interest rates on the credits in the national and foreign currency remained.

In 2017, the credit portfolio continued increasing amid growth in the volume of the commercial banks' deposits. The credits were mainly issued in the national currency.

Thus, at the end of Q4, the volume of the credit portfolio of the commercial banks increased by 2.5 percent and amounted to KGS 108.3 billion. Meanwhile, the credits in the national currency increased by 5.0 percent, to make KGS 67.2 billion, and the credits in foreign currency, by contrast, decreased by 1.5 percent, to make KGS 41.1 billion. In Q4 2017, dollarization of the credits (with an adjustment to the exchange rate) decreased by 1.6 percentage points, to make 40.3 percent.

In the reporting period, the volume of new credits in the national currency increased by 36.7 percent compared to the same period of



Monetary Base

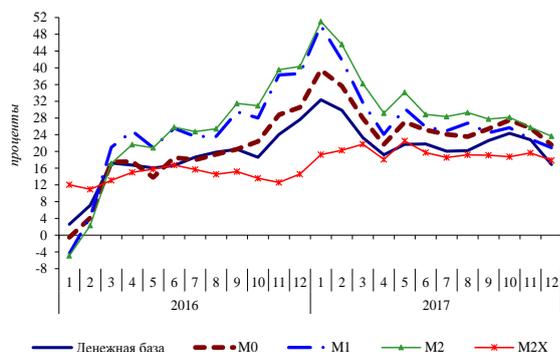
In 2017, the annual growth rates of the monetary base made 16.9 percent. In general, the monetary base increased year-to-date due to the operations of the National Bank (+KGS 4.3 billion) and the operations of the Government of the Kyrgyz Republic (+KGS10.1 billion). By the operations of the Government of the Kyrgyz Republic, the monetary base increase was affected by the excess of the Government expenditures over revenues thereof. In Q4 2017, monetary base increased by 1.7 percent,

primarily due to the operations of the Government of the Kyrgyz Republic.

The structure of monetary base did not suffer significant changes. At the end of the reporting period, the share of reserves of other deposit corporations in the structure of monetary base made 8.9 percent, meanwhile, the share of money in circulation was 91.1 percent.

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates

(in annual terms)



Monetary Aggregates

In general, in the reporting quarter, all monetary aggregates continued the upward trend, which was primarily determined by an increase of money outside banks. In the reporting quarter, money outside banks increased by 3.7 percent, meanwhile, the annual growth of this indicator made 21.8 percent at the end of the quarter.

During the quarter, the monetary aggregate M2X increased by 3.9 percent and made KGS 193.4 billion at the end of the quarter under review. The monetary aggregate

increased in annual terms, except for the money outside banks, due to the growth of deposits¹ in the national currency by 26.7 percent and in foreign currency by 4.0 percent. At the end of the reporting period, the annual growth rates of M2X made 17.9 percent. At the end of 2017, the monetization coefficient for the monetary aggregate M2X was 39.2 percent, having increased by 3.4 percentage points per a year².

In the reporting quarter, the total volume of credits to the economy³ increased by 2.2 percent and amounted to KGS 110.5 billion at the end of period. The annual growth of this indicator made 15.7 percent, primarily due to the growth of credits in the national currency by 27.9 percent. Credits in foreign currency increased year-to-date by 1.0 percent. The annual growth of credits to the economy, excluding the exchange rate changes, made 16.8 percent.

¹ Deposits of individuals, legal entities and other financial institutions, excluding deposits of the Government of the Kyrgyz Republic and non-residents.

² According to the preliminary data (10.02.2018)

³ Credits of individuals, legal entities and other financial institutions, excluding credits of the Government of the Kyrgyz Republic and non-residents.

Chapter 4. Inflation Dynamics

The inflation rate remained moderate and did not exceed the benchmarks of the National Bank. This was due to a favorable situation in the world food markets and restrained consumer demand in Kyrgyzstan.

4.1. Consumer Price Index

Chart 4.1.1. Dynamics of CPI Structure

(quarter to the corresponding quarter of the previous year)

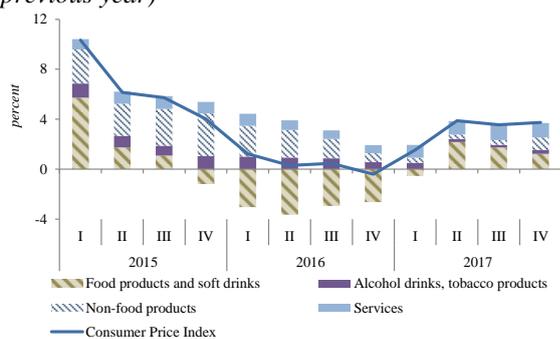


Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI

(month to the corresp. month of the previous year)

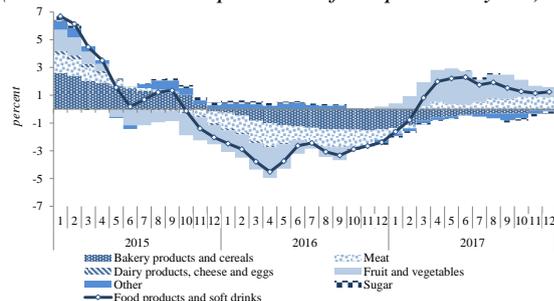
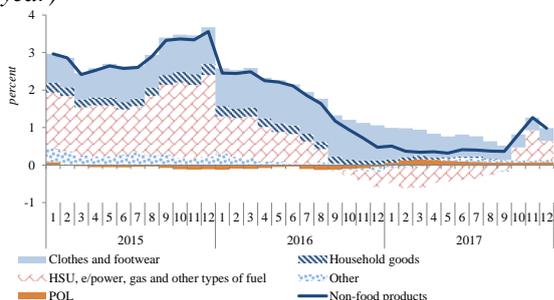


Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI

(month to the corresponding month of the previous year)



In 2017, the inflation rate rose from close to zero values and remained at a moderate level until the end of the year.

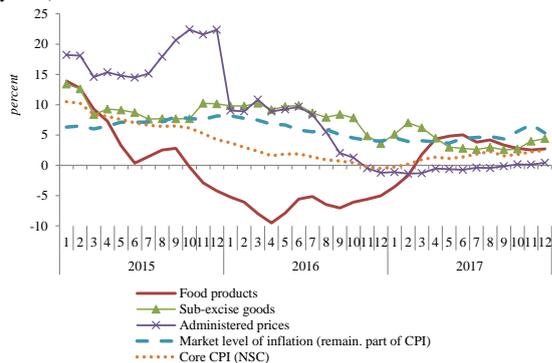
The average annual inflation rate was 3.2 percent; in December 2017, the annual inflation rate was 3.7 percent, remaining within the benchmarks of 5-7 percent set by the National Bank of the Kyrgyz Republic. Compared to 2016, the CPI increased, mainly due to transition of the growth rates of the prices for food products to the positive zone.

In Q4 2017, the inflationary situation in the country remained stable. The core components of the inflation, without taking into account coal, according to the estimates of the National Bank of the Kyrgyz Republic, were near the lower boundary of the inflation benchmark. Reduction of the market inflation rate and the similar indicators compared with the previous years was, to a certain extent, due to more restrained consumer demand and lower inflation expectations.

In Q4 2017, an increase in the prices for food products was relatively low. The dynamics of prices in this group largely depends on the supply factors, as well as the situation in the international food markets. An increase in prices for the products produced mainly in Kyrgyzstan – meat products and vegetables made the main upward input into inflation in this category. This was due to low growth in production of these goods in 2017 – at the level of approximately 1.7 and 1.6 percent, respectively. Due to a favorable situation in the world markets in the commodity groups that are dependent on imports, there was a decline in the prices in annual terms.

Against the background of a stable dynamics of the national currency exchange rate and a restrained demand, non-food inflation was moderate in Q4 2017. There was a low increase in prices in many commodity groups, meanwhile, an increase in prices for

Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities
(month to the corresponding month of the previous year)



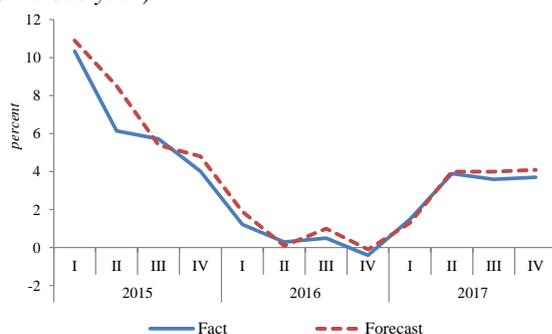
certain commodities such as coal, petroleum, oil and lubricants had an upward impact on non-food inflation.

In the quarter under review, a relatively high increase in prices for paid services was still observed, which was mainly supported by higher tariffs for communication services and an increase in prices for the services of the restaurants and hotels.

4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



In Q4 2017, the actual inflation rate was below the forecasted level. According to the forecasts, rise in prices compared to the same quarter of 2016 was expected at the level of 4.1 percent. However, due to weaker upward impact of the prices in the international markets and domestic demand against expectations, the actual inflation rate was 3.7 percent.

Chapter 5. Medium-Term Forecast

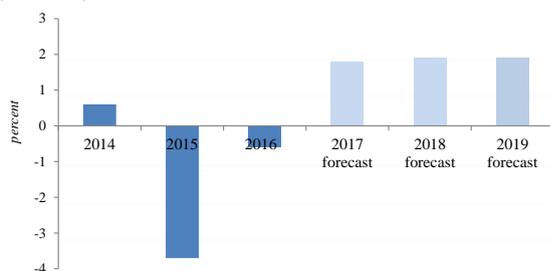
5.1. External Environment Proposals

5.1.1. Development Forecast of Major Trading Partner Countries

Russia

Chart 5.1.1.1. Real GDP Growth in Russia

(year to year)



Source: IMF, IA Bloomberg, Ministry of Economic Development of the Russian Federation

In the coming years, positive economic growth will still be observed in Russia. Recovering consumer demand is expected to be the main factor of GDP growth in 2018-2019. Moreover, the economic growth will support relatively stable prices for oil, stimulating monetary policy in the absence of shocks.

Further recovery of consumer activity will also create conditions, when the actual inflation rate will approach the target in 2018. The Bank of Russia is expected to gradually reduce the key rate down to 6-7 percent within two years.

In general, for 2018 the Ministry of Economic Development of Russia forecasts an increase in investments by 4.7 percent.

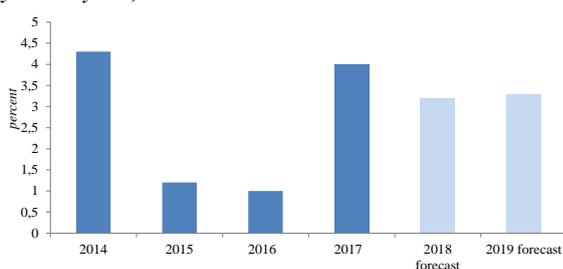
Against the background of remaining low unemployment level and a slowdown in the inflation rate down to 2.5 percent at the end of the year, as well as an increase in labor remuneration for certain categories of workers in the public sector, in Q4 2017, there was an acceleration in the growth of real salaries, which creates favorable conditions for further expansion of the consumer demand.

The rates of economic growth in the country for 2018-2019 were adjusted to 1.9 percent (instead of previously expected 2.1 and 2.2 percent).

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

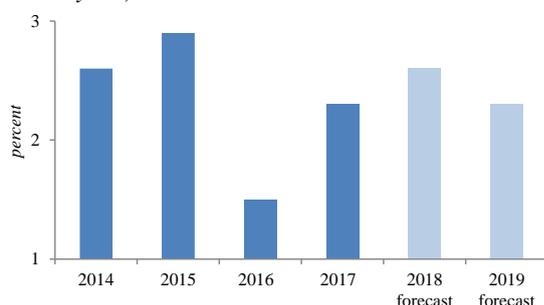
In the medium term, positive economic growth rates are expected in Kazakhstan. For 2018-2019, economic growth is forecasted at 3.2 and 3.3 percent respectively (instead of the previously expected 3.0 and 3.4 percent). In the absence of shocks, the growth will be supported by an increase in the volume of extraction, production and export of mineral resources, recovery of domestic consumption, and implementation of the state programs for support of the economy.

In 2018-2019, in case of the absence of adverse price shocks, it is forecasted the trend of the inflation rate slowdown. The inflation rate is expected within the target corridor of 5-7 percent, meanwhile, in Q1 2018, revision of the tariffs for certain paid services of enterprises will be a significant risk for inflation in Kazakhstan.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



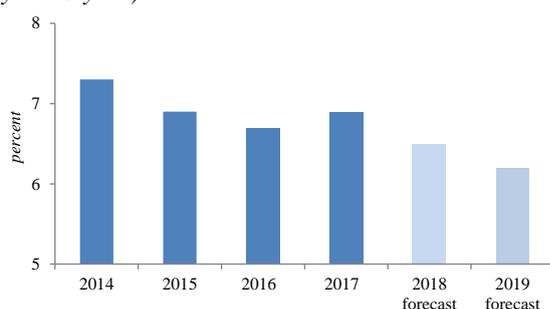
Source: IA Bloomberg

personal consumption expenditures price index is expected to increase and reach two percent by 2019.

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



Source: National Bureau of Statistics of the PRC, IA Bloomberg

further slowdown in subsequent years.

In 2018-2019, the inflation rate is forecasted to increase, it will be at the level of about 2.2 percent.

The growth rates of the US economy are expected to accelerate slightly. According to the experts, tax reforms adopted in late 2017 will stimulate investment and business expansion. Ongoing improvement in the labor market will have an additional positive impact on consumer expenditures. Upward revision of the forecasts for the world economic growth indicates that strong external demand is likely to support exports. GDP growth in the USA is expected to be about 2.6 percent in 2018 and to slow down to about 2.3 percent in 2019-2020.

The inflation rate will be at the level of about two percent in the coming years. The core

The rate of economic growth in China is forecasted to slow down gradually in the coming years. According to the experts, measures to restrain financial risks due to significant debts of the enterprises and the shadow banking sector will have downward pressure on GDP growth, however, it will improve the quality of economic development. Combating against environmental pollution is likely to have a restraining influence on industrial production. The growth of investments to the infrastructure and the construction sector will slow down. In 2018, GDP growth in China is expected at the level of about 6.5 percent with

5.2. Medium-Term Forecast

Assumptions about development of the external conditions and internal environment in Q4 2017 to the greatest extent were consistent with the baseline scenario, approved at a meeting of the Board of the National Bank held in November 2017.

Thus, an upward trend was still observed in the prices for oil in the energy market, in Q4 2017, the average price for Brent oil fluctuated at the level of approximately USD 63 per one barrel, having increased by more than 20 percent compared to the average price for oil in Q3 2017. According to the experts' assessments, the level of the prices for oil in 2018-2019 will remain within the range of about USD 60 per barrel against the background of the agreement reached with the framework of OPEC+ to extend the reduced oil production till the end of 2018.

In general, in Q4 2017, dynamics of the world food markets remained stable, in October-December 2017, FAO index of the food products fluctuated within the range from 170 to 175 points. During 2018 (the end of the current MY – the beginning of the next MY), the prices in

the world food markets will remain stable. Thus, according to the market analysts, FAO index in 2018 will remain at the level of about 180 points.

The trend of economic growth in the countries-trading partners of Kyrgyzstan is preserved and continues growing, which, combined with normalization of the cross-border goods entry regime, provides ongoing of steady growth in the inflow of remittances and an increase in the external demand for domestic products.

The structure of economy in Kyrgyzstan determines the particular role of the external sector parameters in developed forecasts. Assumptions on such parameters of the external economic sector as the dynamics of prices in the world commodity and raw stock markets, prospects for economic development of the countries-trading partners of Kyrgyzstan and other important indicators of the world economy development are set on the basis of forecasts made by the world research agencies/institutions, official organs of the countries and expert evaluations.

Economic activity in the countries-trading partners of Kyrgyzstan continues growing against the background of positive trends in the world energy markets. The forecasts for economic growth in Russia and Kazakhstan in 2018-2019 did not change significantly from the forecast round of November 2017.

In 2018 and 2019, GDP in Russia is expected to increase by approximately 1.9 percent. In 2018, economic growth in Kazakhstan is expected at the level of about 3.2 percent, in 2019 - about 3.3 percent. The inflation rate in Russia and Kazakhstan in 2018 and 2019 will remain within the target levels: in Russia - about 4.0 percent, in Kazakhstan - within 6.0-7.0 percent.

Thus, the assessment of the price dynamics in the world commodity markets and the prospects for economic growth in the trading partner countries continued to form a positive background for the economic growth in Kyrgyzstan.

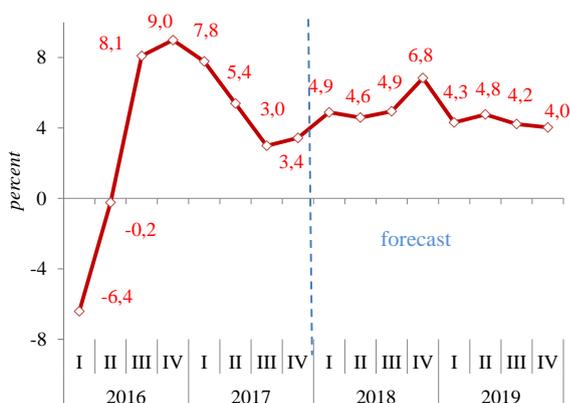
Uncertainty in the fiscal policy decreases in the medium term. According to the preliminary results of 2017, the state budget deficit made approximately 3.3 percent of GDP, against previously expected 4.7 percent of GDP.

Taking into account the assessments of the external environment and the internal conditions development in 2018 in the medium term, the inflation rate will not exceed the target range of 5-7 percent. Recovery in prices for food products and energy carriers will be the main drivers of the inflation rate in such conditions. In addition, the inflationary inertia will still be supported by measures of the fiscal policy, increased incomes of the population, including by means of growing remittances and relatively stable inflation expectations of the population.

In 2018, the real sector of the economy of Kyrgyzstan will demonstrate growth close to the potential level. If the current economic growth rates are retained, the negative GDP gap, and deflationary impact on the economy during 2018 will be gradually eliminated, which will lead the economic in Kyrgyzstan to the potential level.

Chart 5.2.1.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



In 2018, the real GDP growth is expected at 5.5 percent; the growth excluding the enterprises of the Kumtor Mine will be approximately 5.2 percent. The increase in production at the enterprises of the Kumtor Mine is expected at the level of production output in 2017. In the sectoral aspect, the economic growth will be supported by the sectors of industry (excluding the Kumtor Mine), agriculture trade and construction.

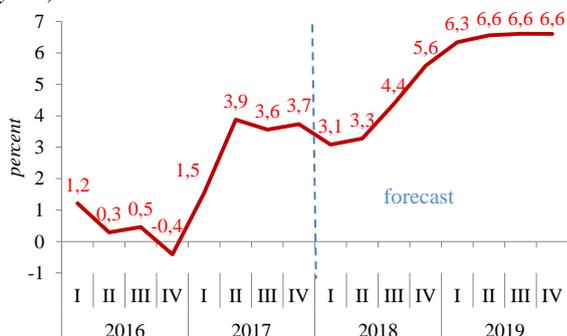
In 2019, the real GDP growth rate will make approximately 4.3 percent, excluding Kumtor, the growth will amount to approximately 5.5 percent.

Baseline inflation in the medium term will remain within the target range. In 2018,

the average inflation rate (period to period) is expected at approximately 4.0 percent (Dec 2018/Dec. 2017 – approximately 5.0 percent). In 2019, the average inflation value will be about 6.2 percent.

Chart 5.2.1.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



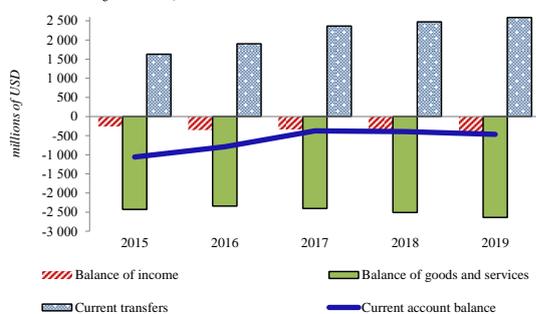
Reversal of the downward inflation trend is still expected against the background of price recovery in the world commodity markets and increasing aggregate demand, price movement in the medium term will demonstrate growth and will be restrained within the target inflation values (5-7 percent).

Forecast for the Balance of Payments in 2018-2019¹.

In 2018, favorable expectations for economic development in the trading partner countries and economic growth in the country will become the determining factors for development of the external sector of the Kyrgyz Republic. According to the estimates of the National Bank of the Kyrgyz Republic, the current account deficit in 2018 will make 5.5 percent to GDP, which in value terms amounts to USD 394.6 million (an increase by 5.0 percent compared with 2017). In the forecast period, a greater increase in exports is expected compared to imports, as well as an increase in the inflow of remittances from labor migrants.

Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)



In 2018, exports are expected to increase by 7.2 percent. Under the influence of an increase in the external demand for domestic products, as well as adaptation to the terms of trade within the framework of the EAEU, the increase in exports excluding gold is expected at the level of 14.7 percent. At the same time, the decline in gold production at the Kumtor Mine compared to 2017 will cause a decrease in gold exports by 3.3 percent.

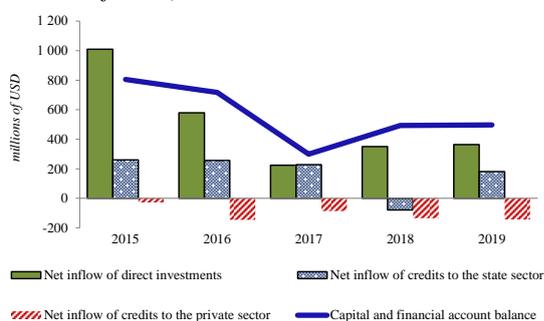
Against the background of expected economic growth in the country, in 2018, the imports, according to the estimates of the National Bank of the Kyrgyz Republic, will increase by 5.9 percent. Expected preservation of the world prices for oil products at a high level in 2018 due to prolongation of the agreement on restricted oil production between the OPEC countries and outside OPEC will contribute to an increase in the value of imported petroleum products. The growth of imports of other goods is expected at 4.0 percent.

The positive growth rates of the economies of Russia and Kazakhstan, as well as stability in their foreign exchange market, will have a positive impact on the volume of private transfers. As a result, the growth in net inflow of private transfers is expected to increase by 6.8 percent compared to the level of 2017.

¹ The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic

Chart 5.2.1.4. Forecast Data on Capital and Financial Account

(millions of USD)



The increase of the current account deficit in 2018 will cause the growth of financing due to an increase in capital inflows from the capital and financial accounts. The amount of the one-time write-off of the Kyrgyz Republic debt to the Russian Federation in the amount of USD 240.0 million will impact the dynamics of the capital account indices in 2018. Capital inflows on the financial account are primarily expected on the item “direct investment”. Balance on the item “other investment” will be formed negative primarily under the influence of reduction in the foreign

liabilities of the public sector due to writing-off the Russian credit. The net outflow on the private sector credits is expected to increase compared to 2017 generally due to remaining trend of increased payments on previously attracted credits.

Thus, net balance of payments in 2018 is expected to be positive in the amount of USD 98.5 million. Meanwhile, international reserve assets¹ are expected to cover 4.3 months of the future imports of goods and services.

In general, the trends of economic development in 2018 will provide favorable conditions for stable economic growth in 2019. Preserving the positive dynamics of the current transfers, a larger increase in imports compared to exports will result in the current account formation at the level of 6.2 percent to GDP. Expected growth of external demand against the background of further development of integration processes within the framework of the EAEU will contribute to an increase in exports by 3.4 percent. Preservation of the upward trend of the economy in the country will cause an increase in imports by 4.5 percent. Thus, an increase in the trade balance deficit is expected at 5.4 percent.

The economic growth in Russia and Kazakhstan will have a positive impact on the volume of private transfers inflow, the growth rate thereof will be at the level of 7.3 percent.

Inflows on the capital and financial account are expected to crease. The basic amount of funds on this account will be provided by the inflow of foreign direct investment, as well as the credits to the public sector. The upward trend in servicing the credits by the private sector is still observed.

The overall balance of payments in 2019 is expected to be positive in the amount of USD 41.6 million. International reserve assets will cover 4.3 months of the future imports of goods and services.

The following risks are still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2018- 2019:

- the risks associated with the Kumtor Mine exploration;
- volatility in the world prices for oil and gold;
- deterioration of the economic situation in the trading partner countries;
- possible restrictions when the goods cross the border with neighboring countries;
- incomplete disbursement of the planned amounts of foreign loans to the public sector;
- volatility in the exchange rate of the main trading partner countries.

¹ In accordance with the IMF methodology, only assets in convertible currencies (US dollar, euro, pound sterling, Japanese yen, Swiss franc, Australian dollar and Canadian dollar) are included in the international reserve assets.

Annex 1. Key Macroeconomic Indicators

(quarter to the corresponding quarter of the previous year, if otherwise is not indicated)

		2015				2016				2017		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Demand and supply¹												
<i>(real growth rates, if otherwise is not indicated)</i>												
Nominal GDP, per quarter	млн сомов	80 778,2	94 092,2	123 446,1	132 172,9	79 596,7	101 100,4	134 734,5	142 595,8	86 143,1	107 752,2	141 088,6
GDP	%	7,4	7,0	5,8	-1,8	-6,4	-0,2	8,1	9,0	7,8	5,4	3,0
GDP, excluding Kumtor	%	2,8	4,3	5,3	6,1	0,5	1,4	5,0	5,9	3,9	2,5	4,3
Domestic consumption	%	1,7	-2,0	-0,5	-1,3	0,4	3,8	2,0	1,4	0,2	0,7	
Gross accumulation	%	19,6	11,8	-5,3	-16,3	-5,3	2,7	0,1	2,3	-14,2	0,0	
Net export	%	-2,9	-1,6	-28,5	-29,8	8,8	3,5	-15,9	-27,2	-23,5	-13,9	
<i>GDP production:</i>												
Agriculture	%	1,0	2,5	8,6	5,8	0,3	2,5	2,3	6,6	1,5	1,0	0,6
Industry	%	24,9	24,4	7,4	-36,5	-27,7	-10,6	30,9	30,9	35,5	27,4	7,8
Construction	%	-0,5	5,8	8,4	34,5	4,0	8,8	8,0	7,6	0,0	8,3	5,7
Services	%	3,0	3,2	3,3	4,6	2,1	1,5	4,5	3,4	0,5	-0,4	2,0
including trade	%	3,5	3,4	-0,4	-2,6	5,0	5,3	11,6	7,0	3,9	4,0	4,5
2. Prices²												
CPI	%	110,3	106,1	105,7	104,0	101,2	100,3	100,5	99,6	101,5	103,9	103,6
CPI, in annual terms as of the end of period	%	108,5	104,5	106,4	103,4	100,5	101,3	99,7	99,5	102,8	104,1	103,3
Core CPI	%	109,7	107,6	106,5	105,2	103,0	101,8	101,0	99,9	100,3	101,3	101,9
<i>CPI by main groups of goods and services:</i>												
Food products	%	111,9	103,6	102,2	97,5	93,6	92,3	93,8	94,4	98,8	104,7	103,8
Non-food products	%	112,2	110,4	109,0	111,6	111,7	110,8	110,0	102,4	101,3	101,2	101,3
Alcohol drinks and tobacco products	%	109,5	108,9	110,1	111,8	108,5	107,6	105,3	106,5	105,7	102,8	102,3
Services	%	106,0	106,9	107,4	106,6	106,5	105,2	104,6	104,4	106,9	107,1	108,3
<i>CPI, classified by character:</i>												
Excisable goods	%	111,4	109,0	107,7	109,4	110,0	109,6	108,3	105,4	106,1	103,4	102,7
Regulated prices	%	116,9	114,9	117,9	122,1	109,6	109,3	105,2	99,8	98,7	99,4	99,7
Market inflation rate (the rest of CPI)	%	106,3	106,9	107,4	107,8	107,8	106,4	105,5	104,2	104,2	104,0	104,6
3. External sector³												
<i>(in percent to GDP)</i>												
Trade balance	%	-37,1	-37,7	-36,4	-34,3	-35,4	-37,2	-35,2	-32,4	-31,6	-29,7	-31,2
Current account	%	-18,7	-21,1	-21,2	-16,2	-14,1	-15,1	-12,3	-12,0	-10,0	-6,9	-6,8
Export of goods and services	%	44,1	40,8	39,1	37,9	38,3	38,2	38,8	37,1	37,6	38,4	37,6
Import of goods and services	%	86,0	83,4	79,3	75,1	75,8	77,7	76,4	72,6	71,9	70,1	70,7
4. USD exchange rate, as of the end of period												
	сом	63,8736	62,0788	68,8359	75,8993	70,0158	67,4860	67,9346	69,2301	68,6069	69,1367	68,6585
5. Monetary sector												
<i>(real growth rates, if otherwise is not indicated)</i>												
NBKR policy rate, as of the end of period	%	11,00	9,50	10,00	10,00	8,00	6,00	6,00	5,00	5,00	5,00	5,00
Rate of "overnight" deposit, as of the end of period	%	5,00	3,00	4,00	4,00	1,00	0,50	0,25	0,25	0,25	0,25	0,25
Rate of "overnight" credit, as of the end of period	%	14,00	12,00	12,00	12,00	10,00	7,50	7,25	6,25	6,25	6,25	6,25
Average interest rates of the operations in the interbank credit market, per quarter	%	10,28	10,02	7,14	9,66	10,50	2,70	3,76	2,32	2,08	1,65	2,33
<i>of which:</i>												
of REPO transactions	%	10,50	9,96	7,14	9,45	9,44	1,59	1,76	1,61	1,56	1,50	2,19
of credits in national currency	%	15,00	18,00	-	11,62	13,25	7,84	4,11	2,67	2,11	3,10	5,06
of credits in foreign currency	%	1,41	-	-	-	-	-	-	2,0	-	4,00	-
Weighted average yield of 7-day notes, as of the end of period	%	11,00	9,50	9,67	10,00	2,18	1,44	0,27	0,24	0,61	2,81	1,44
Weighted average yield of 28-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	1,14	4,08	2,94
Weighted average yield of 91-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	-	-	5,00
Monetary base	%	-16,25	-9,52	-4,34	4,01	17,24	16,65	20,53	27,63	23,31	21,79	22,60
Money outside banks (M0)	%	-19,9	-15,7	-7,0	2,3	17,5	18,6	20,6	30,5	28,0	25,1	25,4
Monetary aggregate (M1)	%	-17,7	-14,3	-5,6	1,7	21,0	25,5	29,4	38,6	31,7	25,9	24,4
Narrow money supply (M2)	%	-13,2	-13,6	-5,7	-0,1	17,2	25,8	31,5	40,3	36,2	28,8	27,8
Money supply (M2X)	%	0,9	0,5	10,0	14,9	13,1	16,7	15,2	14,6	21,7	19,8	19,1

¹ Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic

² Source: National Statistics Committee of the Kyrgyz Republic

³ Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q4 are preliminary

Annex 2. Glossary

Balance of payments is a report, which reflects aggregate economic transactions between the residents and non-residents within a certain period of time.

Consumer price index reflects changes in the prices for goods and services purchased by the standard consumers for non-production purposes. This index is among inflation rate measures, which is based on comparing the value of basic goods basket consumed by the population and weighted in accordance with the share of these goods in the aggregate consumption.

Core inflation is inflation, which excludes short-term, structural and seasonal changes of prices: the growth in prices of goods due to the seasonal, the external factors and the administratively established tariffs is excluded from the calculation of the inflation rate.

Deposits included in M2X are the deposits of individuals and legal entities, as well as the deposits of other financial institutions, however, the deposits of the government and non-residents are excluded.

Dollarization is extensive use of the US dollars in the domestic currency circulation of the country, which possess own national currency.

Inflation is the upward trend in the general level of prices within the certain period of time, which is determined based on the value calculation for the basket of goods and services weighted by the structure of consumer expenditures of the standard household. The consumer price index is an indicator, which characterizes the inflation rate in the Kyrgyz Republic.

Monetary aggregate is the money supply classified according to degrees of liquidity: M0; M1; M2; M2X.

M0 – cash in hands.

M1 – M0 + residents' transferable deposits in the national currency.

M2 – M1 + residents' time deposits in the national currency.

M2X – M2 + settlement (current) accounts and residents' deposits in foreign currency.

Monetary base is the obligations of the National Bank on cash in circulation, and the obligations of the National Bank to other depository corporations in the national currency.

Net balance of payments is a difference between receipts from the foreign countries and payments transferred to the foreign countries.

Net balance of trade is a difference between the cost of export and import.

Nominal effective exchange rate (NEER) index is a weighted average value of the nominal exchange rates, which excludes the price tendency in the country under review with respect to the prices in the trading partner countries.

Notes are the discount securities, issued in circulation by the National Bank of the Kyrgyz Republic. By decision of the Monetary Regulation Committee of the National Bank, the notes can be issued for the period from 7 to 364 days. The notes maximum profitability is set to be equal to the policy rate as of the auction day.

Other depositary corporations are all resident financial corporations, except for the central bank, which main activities are aimed at financial intermediation and which issue obligations included into the national definition of the broad money stock (M2X).

Policy rate is a monetary policy tool, which represents an interest rate set by the central bank and is used as the basic reference point when determining the value of monetary resources in the economy.

Real effective exchange rate (REER) index represents the weighted average value of the nominal effective exchange rates adjusted by the value corresponding to the relative change in prices in the trading partner countries. REER is determined by calculation of the weighted real exchange rates of the currency in the country with respect to the currencies of the main trading partner countries.

REPO transactions are the operations on purchase/sale of the government securities in the secondary market with an obligation of their resale/repurchase on a certain date in the future at the pre-agreed price.

State Treasury Bills are the short-term (3-, 6-, 12-month) discount government securities of the Government of the Kyrgyz Republic. The Ministry of Finance of the Kyrgyz Republic is the emitter of ST-Bills. Placing issues of ST-Bills is made through weekly auctions conducted by the National Bank of the Kyrgyz Republic. Direct participants enjoy the right to participate in the auctions. The owners of ST-Bills of the Kyrgyz Republic can be both the legal entities and the individuals. The admission of foreign investors to the market of ST-Bills is not limited. The transactions in the secondary market of ST-Bills are conducted through the electronic trading system of the National Bank of the Kyrgyz Republic, which allows the participants to conduct transactions on purchase/sale of ST-Bills from their workplaces.

State Treasury Bonds are the long-term government securities of the Government of the Kyrgyz Republic with the interest income (coupon) and maturity over one year. The emitter of ST-Bonds is the Ministry of Finance of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic is the general agent servicing the issues of ST-Bonds.

Annex 3. Abbreviations

CBRF	Central Bank of the Russian Federation
CPI	Consumer Price Index
ECB	European Central Bank
EAEU	Eurasian Economic Union
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCRM	Inter-Bank Credit Resource Market
KR	Kyrgyz Republic
LA	Lending to Agriculture
NBKR	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NEER	Nominal Effective Exchange Rate
NSC	National Statistics Committee
OPEC	Organization for Petroleum Exporting Countries
POL	Petroleum, oil, lubricants
PRC	People's Republic of China
REER	Real Effective Exchange Rate
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America