



КЫРГЫЗ БАНКЫ

Monetary Policy Report.

Quarter 3, 2022

Bishkek
November 2022

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 - when the National Bank policy rate serves as a target for the funds value in the money market - to improve and increase the effectiveness of the monetary policy. The short-term interest rates of the money market are the operational goal 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 interbank credit 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 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 Q3 2022 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2022-II-07/73-1-(ДКП) dated November 28, 2022.

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Summary

The world economy is currently under the influence of structural adjustment of economic processes, which affect economic growth, trade and demand. During recent decades annual inflation rate worldwide has increased to the record levels, which in turn encourage the central banks to tighten monetary conditions. In this environment, the FAO price index demonstrates moderate downward trend. However, prices for food products in our country remained at a fairly high level. There is stable decrease in prices for gold amid growth of key rates; at the same time, downward dynamics of prices in the world oil market was observed amid growing supply.

At the end of January-September 2022, economic activity still demonstrated its positive dynamics year-to-date, having slightly slowed down in September amid exhaustion of the low base effect of the previous year. The growth rate within 9 months of 2022 made 7.2 percent, excluding “Kumtor” gold-mining enterprises – 4.9 percent. Thus, the processing industry at “Kumtor” gold-mining enterprises (+37.3 percent) is still the key growth driver. The economic activity in the country was also supported by increased expenditures of households due to growth of wages in the public and private sectors. Positive indicators of tax revenues to the state budget for 9 months (+52.1 percent) neutralize significant expenditures in terms of growth of the public sector employees’ wages, benefits and pensions in the country.

In Q3 2022, the trade balance was formed under the influence of significant growth in import supplies and a decrease in export of gold. As a result, the trade deficit of the country increased by 3.1 times compared to Q3 2021 and amounted to USD 2,335.8 million. The volume of foreign trade turnover increased by 54.3 percent and amounted to USD 3.2 billion.

Complicated geopolitical situation in the region, inflation in the trading partner countries and persistence of global high prices for food products made the main contribution to inflation. Thus, in Q3 2022, the inflation rate was 15.0 percent in annual terms (Q3 2022 / Q3 2021), the same indicator for 2021 was 14.1 percent. An increase in POL prices gradually cover increasing share of goods and services, which constitute the households’ consumer basket.

The National Bank still follows the course of tightening monetary policy. The monetary sector continues to build up excess liquidity. Under these conditions, the attractiveness of the National Bank’s sterilization instruments increased, meanwhile the volume of interbank borrowings on REPO terms decreased. Increased demand of the market participants for short-term instruments conditioned a decline in the short-term rates of the money market. Meanwhile, the rates fluctuated within the interest rate corridor around the key rate. At the same time, slight volatility was observed in the domestic foreign exchange market during certain periods amid geopolitical uncertainty.

Monetary conditions still influence the financial conditions. The upward dynamics of the interest rates for deposits and credits is observed since the first half of 2021 accompanied by an increase in the National Bank’s policy rate. Long-term government securities were in demand mainly among the institutional investors due to attractiveness of the weighted average yield of the ST-Bonds, which was formed near the policy rate.

Chapter 1. External Environment

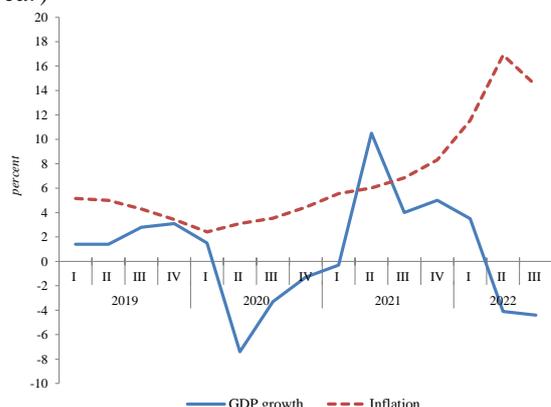
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

The global economy is currently under the influence of structural adjustment of economic processes, which affect economic growth, trade and demand. There is slight economic growth in the USA and China, however, China's macroeconomic indicators demonstrate the signs of weakness. There is multidirectional dynamics of GDP rates in the EAEU member states: Russia and Belarus demonstrated decline, meanwhile, there was positive dynamics of GDP rates in Kazakhstan and Armenia. At the same time, global inflation demonstrated multi-year highs: acceleration of price growth was observed in almost all concerned countries. There was a slight decrease in inflationary pressure in Russia and Belarus.

Russia

Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



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

activity at the end of Q3. Consumer activity remains restrained amid such situation.

The inflation rate in Russia continued to slow down, to make 14.4 percent as of the end of Q3 in annual terms after 16.9 percent in Q2 of the current year². According to the Bank of Russia, the current rate of consumer prices remains decreased, contributing to further slowdown in the annual inflation rate. At the same time, the weekly and monthly dynamics of consumer prices turned upward amid exhaustion of the influence of temporary disinflationary factors, which were in effect during summer months. As a result, in September, consumer prices increased by 0.05 percent after three months of decline, the annual inflation rate made 13.7 percent in annual terms. Generally, during the reporting quarter, there was a decline in prices for food and non-food products (15.6 percent and 15.7 percent, respectively), while prices for services increased up to 10.7 percent.

In Q3 2022, Russia's GDP continued to decline, to make 4.4 percent, after 4.1 percent in Q2¹ 2022. Generally, at the end of January-September, GDP decreased by 2.0 percent in annual terms.

At the end of the reporting quarter, industry demonstrated slight growth, in particular due to an increase in oil production and oil refining. Output was supported by an increase in construction works and retail sales. Besides, agricultural sector, which demonstrated the record grain harvest, provided additional support. However, adjustments contributed to increased uncertainty amid escalating geopolitical tensions and announced partial mobilization, which resulted in a decrease in economic

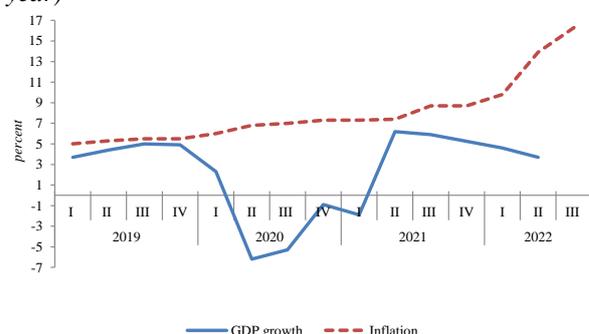
¹ Data of the Ministry of Economic Development of the Russian Federation.

² Data of the Russian Federal State Statistics Service.

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBRK calculations

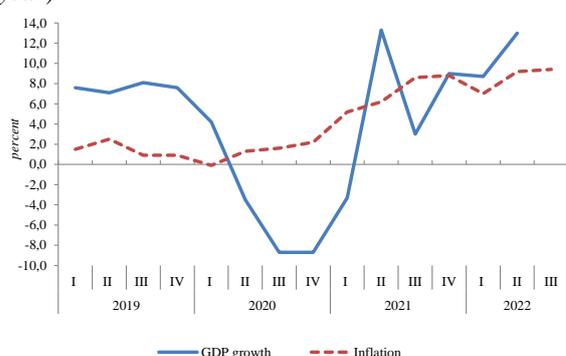
field.

Inflation in Kazakhstan demonstrated stable acceleration: in Q3, it was 16.3 percent to the same quarter of the previous year¹. In September, the annual inflation rate increased up to 17.7 percent, which was mainly conditioned by rise in residential rental (+40.7 percent in annual terms) due to the inflow of the Russian citizens to the country². Generally, during the quarter, prices for food products increased up to 20.9 percent, prices for non-food products – 15.6 percent and paid services – 10.5 percent.

Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



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

expenditures and labor capacity in the conditions of the gradual weakening of external demand influence.

Inflation expectations in Armenia remained high and the inflation environment continued to expand mainly due to strong demand. Thus, in September 2022, the inflation rate reached 9.9 percent in annual terms with the target of 4.0 percent (+/-1.5 percentage points) set by the central bank. Inflationary pressure on the Armenian economy from the external sector is expected to weaken definitely in the future in the context of ongoing tightening of lending conditions worldwide, as well as weakening of global demand. As a result of the monetary

Economy of Kazakhstan demonstrated growth by 2.8 percent at the end of nine months. The non-oil sectors contribute positively to GDP dynamics. The sectors of agriculture (+6.9 percent), information and communication (+6.7 percent), construction (+5.1 percent) and other sectors were the main drivers of growth at the end of January-September. At the same time, in the reporting quarter, there was a slowdown in growth in many sectors. Meanwhile, slowdown in business activity is mainly due to weak dynamics in the mining sector (+0.1 percent for nine months) being conditioned by repair work at the Kashagan

High economic activity in Armenia is still conditioned by the demand factor being supported by strong inflows of the foreign visitors, including tourists, and financial flows. The economic activity indicator for January-September 2022 increased by 14.1 percent in annual terms, being largely conditioned by growth in the services sector, the energy sector, the trade sector, construction and industrial sectors. The Central Bank of Armenia estimates that in the medium term, economic growth will gradually decelerate, however, it will still remain high, being conditioned by expected higher growth of public capital

¹ According to the data of the National Statistics Bureau of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan.

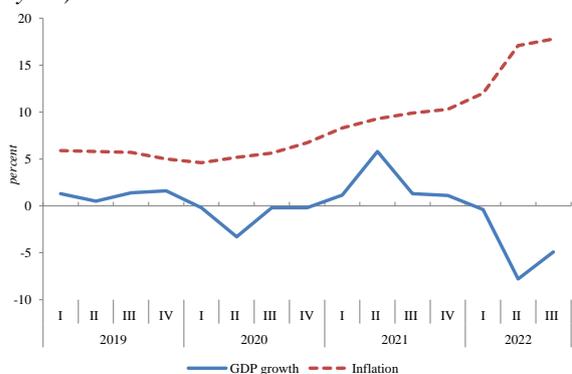
² According to data of the National Bank of the Republic of Kazakhstan.

restriction, the regulator predicts that inflation rate will gradually decline and approach the target since the end of 2023.

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Republic of Belarus

The rates of economic recession in Belarus are declining and inflationary pressure eased slightly.

In January - September 2022, Belarus GDP decreased by 4.7 percent compared to January - September 2021, meanwhile, the economic recession was 4.9 percent in the first 8 months of 2022. According to the EDB, agriculture continued to support economic activity in Belarus in September, however, its contribution to GDP dynamics declined by about two times after completion of the harvesting campaign.

The rates of industrial production decline decreased considerably: from 9.4 percent in August down to 2.1 percent in

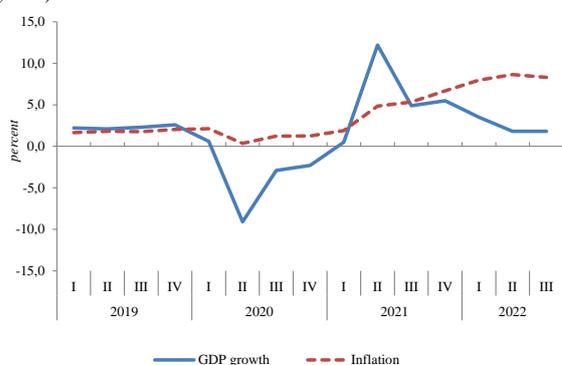
September in annual terms, reflecting gradual recovery of disrupted supply chains and partial reorientation of exports to Russia, Asia and Africa. At the same time, in September, activity in other main sectors remained weak. It can reflect stable weak domestic demand and incomplete restructuring of production and logistics ties.

The annual inflation rate in Belarus slowed down to 17.4 percent in September from 17.9 percent in August. Restrained domestic demand and corrective strengthening of the Belarusian ruble against the Russian ruble contributed to a decline in inflation. Growth of prices for administratively regulated goods and services slowed down as well. Growth of expenditures for financial transactions and supply of goods and components demonstrate stable pro-inflationary pressure. Increased price regulation can result in further deceleration in inflation in the remaining period of 2022.

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(quarter to the corresponding quarter of the previous year)



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

Economic activity in the USA increased slightly in the reporting period. Increase in exports, personal consumption expenditures, consumer and government investment expenditures had a positive effect on economic growth. Thus, in Q3 2022, for example, US GDP increased by 2.6 percent in annual terms compared to the previous quarter after two quarters of decline, with an increase by 1.8 percent¹ compared to the corresponding quarter in 2021. Generally, manufacturing activity remained stable, most counties demonstrated an increase partly due to easing supply chain disruptions, however, some other counties demonstrated decline. Travels and travelling activity increased sharply due to stable leisure activity and recovery in business travels. An increase in individual

¹ Preliminary data from the U.S. Bureau of Economic Analysis

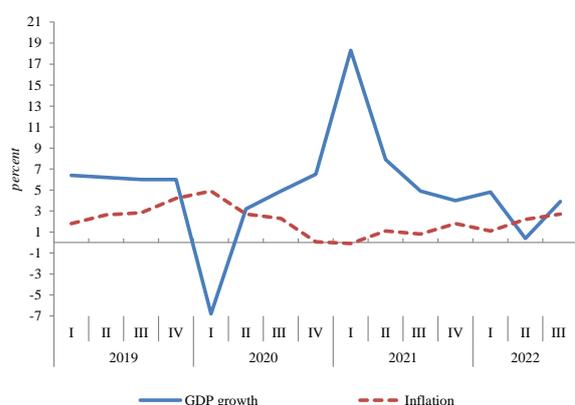
consumption expenditures and growth of consumer inflation¹ were primarily conditioned by growth of energy prices, as well as their negative effects due to an increase in tariffs for transport services.

The rate of employment increased moderately in most counties in the US labor market. The rate of unemployment has already decreased below pre-crisis level, to make 3.5 percent in September of the current year, and the number of vacancies still exceeds the number of unemployed people. In such an environment, and considering the factor of high inflation expectations, wages and thus accelerating inflation suffer pressure.

China

Chart 1.1.6. Growth of GDP and Inflation in China

(quarter to the corresponding quarter of the previous year)



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

Macroeconomic indicators demonstrate the signs of weakness despite economic growth in China in Q3 2022. The inflation rate growth demonstrated highest levels since April 2020.

In Q3 2022, economy of China increased by 3.9 percent compared to the same period of the previous year, growth rates accelerated significantly from 0.4 percent in April–June.

In the reporting period, the primary sector of economy (agriculture) increased by 4.2 percent compared to the same period in 2021, the secondary sector (industry and construction) grew by 3.9 percent and the tertiary sector (services) – by 2.3 percent. In September, China’s export growth rate

slowed down amid decline of the global consumer demand, the real estate market still demonstrate stable decline and the rate of decline in real estate investment still increase.

Unemployment is rising again due to increased restrictive measures as well as extended lockdowns due to a new outbreak of coronavirus pandemic.

The inflation rate in China has been increasing since February 2022, to make 2.8 percent in annual terms. Prices for food, which rose by 8.8 percent compared to 6.1 percent in August, were the growth driver. Rise in pork prices was the highest since September 2021: pork prices increased by 36.0 percent, compared to an increase by 22.4 percent in the previous month. Sorting of breeding sows, which began last year, limits supply, while demand is increasing as the economy recovers.

1.2. World Commodity Markets

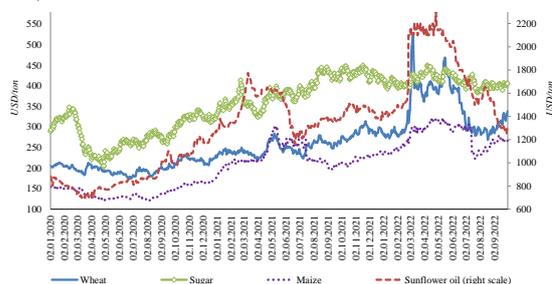
Generally, prices in the world food market decreased, however, they did not have a significant downward impact on prices in Kyrgyzstan. There was a downward price movement in the world oil market amid rise in supply. Price for gold decreased in the world market due to growth of the interest rates in the world market and USD strengthening.

¹ In September 2022, the inflation rate was 8.2 percent in annual terms (7.5 percent in January 2022).

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



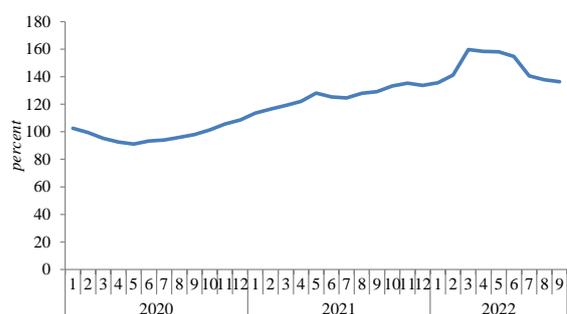
In the reporting quarter, world quotations for wheat demonstrated multidirectional dynamics. At the same time, in September, the world prices for wheat increased by 2.2 percent due to growing uncertainty regarding continued implementation of the Black Sea Grain Initiative after November and its possible consequences for exports from Ukraine. Concerns over rainfall shortage in Argentina and the United States, as well as export developments by the European Union combined with an increase in purchases thereof in the world markets of wheat, due to tightness in maize supplies.

During the whole reporting period, prices generally declined in the vegetable oil markets (a decrease to the lowest level during the last 14 months) due to weakening of global demand for import as well as an increase in export supply from the Black Sea region.

In the reporting period, prices for sugar decreased due to a good harvest in Brazil (the world's largest sugar exporter), weakening of the Brazilian real against the US dollar, and decrease in prices for ethanol to contribute to increased use of sugar cane for sugar production.

In Q3 2022, the average value of the FAO food price index¹ decreased by 12.0 percent compared to Q2 of the current year and amounted to 138.3 points. At the same time, this index increased by 8.7 percent compared to the same quarter of 2021. In the reporting period, the significant impact was conditioned by sharp decrease in the world prices for vegetable oils and moderate decline in prices for sugar, meat and dairy products, which was more significant compared to an increase in prices for crops.

Chart 1.2.2. Dynamics of FAO Food Price Index



prices for sugar, meat and dairy products, which was more significant compared to an increase in the prices for cereals. In the reporting period, the FAO price index declined, however, generally, it remained broadly close to the highest level.

Generally, during the reporting quarter, prices in the world food market decreased while remaining volatile, reflecting weather conditions in the exporting countries and tension in the international trade relations.

There are main prerequisites affecting the world prices: strong global demand, unfavorable weather in some larger producing countries, high production and transportation costs, as well as uncertainty over the situation around Ukraine.

In the reporting period, the FAO price index decreased, however generally remained close to the highest level. In Q3 2022, the average value of the FAO food price index² decreased by 12.0 percent compared to Q2 of the current year and amounted to 138.3 points. At the same time, this index increased by 8.7 percent compared to the same quarter of 2021. In the reporting period, the significant influence was conditioned by a sharp decrease in the world prices for vegetable oils and a moderate decline in

¹ The FAO food price index is a weighted average indicator that tracks international price movements for five major food commodity groups (meat, dairy products, crops, vegetable oils and sugar).

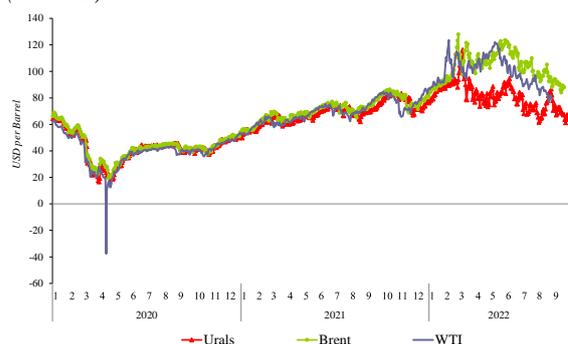
² The FAO food price index is a weighted average indicator that tracks international price movements for five major food commodity groups (meat, dairy products, crops, vegetable oils and sugar).

According to the International Grains Council, the forecast for world production of all types of grain (wheat and forage grain) in 2022-2023 is slightly reduced by 3 million tons per month down to 2.3 billion tons in the summer mainly due to the decline in wheat, barley and maize harvest in Europe.

Prices in the world food markets have a significant impact on inflation in Kyrgyzstan and often play a decisive role in CPI dynamics. This is due to the significant degree of dependence of prices in the country on the external markets and the fact that food products, occupying about half of the consumer basket, make a significant contribution to overall inflation.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices
(in USD)



In Q3 2022, growth of the global oil supply exceeded demand which resulted in decline of the oil prices being accompanied by slight weakening of the geopolitical factor.

In the reporting period, prices for the main oil grades (Urals, Brent, WTI) fluctuated within the range of USD 61.3 - 113.5 per barrel. Since the beginning of March 2022, Russian Urals oil was sold at a discount of USD 20-35 per barrel, and since September, Brent oil was sold at USD 20.0

per barrel due to sanctions imposed against Russia. In Q3 2022, the average price for Brent oil decreased by 12.7 percent compared to the previous quarter and amounted to USD 97.7 per barrel (the price increased by 33.4 percent compared to the same period in 2021). Generally, since the beginning of 2022, the average price for Brent oil amounted to USD 101.6 per barrel (in 2021 – USD 70.9).

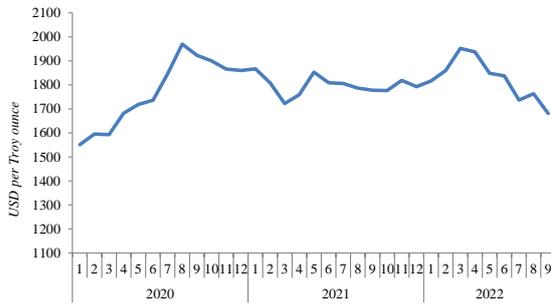
In Q3 2022, a decrease in prices, being conditioned by fears of increased demand in the markets; and easing of quarantine measures due to a decrease in demand for fuel, influenced price formation in the commodity market. At the same time, the growth of oil quotations was restrained by concerns about high risks of global recession and USD strengthening. Therefore, there are risks of weakening world demand for oil in the market amid global economic slowdown.

World oil prices have a significant impact on the formation of export prices in the POL producing countries and often play a decisive role in the formation of prices at the oil refineries in Russia, from which Kyrgyzstan imports almost 95 percent of the total volume of imported POL.

In addition to the inflation component, prices in world energy markets largely determine the level of economic activity in Russia and Kazakhstan, which is among the most important demand factors in the domestic economy.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

Gold is generally considered a safe asset during the period of uncertainty or shocks, however outflow of many financial investors from gold-backed exchange-traded funds amid growth of the interest rates and yield of other assets contributed to a decline in the value of gold in the world market. The price for gold was USD 1,660.6 per Troy ounce since mid-2021 (-7.8 percent year-to-date). The stable increase in the US Federal Reserve's key rate conditioned slump in gold investments.

Growth of the interest rates in the world market is negative for gold as it contributes to reduction of inflation and growth of real interest rates. However, there was a strong demand for gold from the jewelers and the central banks. Generally, in July-September of the current year, global demand for gold increased by 28 percent compared to 922 tons during the same period of 2021 and amounted to 1,181 tons.

Uncertain prospects and geopolitical risks are the main factors supporting this asset. According to the analysts, escalating geopolitical risks can have a positive impact on demand for defensive assets, which has already happened in March 2022. The end of tight monetary policy cycle in the developed countries can also contribute to rise in prices for gold.

Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodities and Services Market

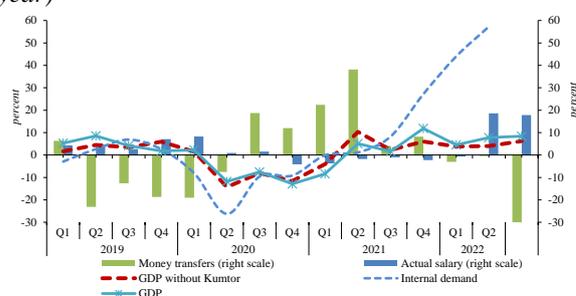
In January - September 2022, the economic activity in the Kyrgyz Republic still demonstrated positive dynamics year-to-date due to high growth rates of gold production and increased activity in all main sectors of the economy. At the same time, an increase in domestic demand in the first half of 2022 made a significant input to growth of economic activity in the reporting period. The investment sector demonstrated weak growth after a decline at the end of 2021.

However, there are external risks amid stable geopolitical tensions. In this environment, growth factors such as domestic demand, remittances and etc. may be subject to adverse changes.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

economic activity. According to the preliminary data, in the specified period, domestic demand increased by 50.9 percent (an increase by 0.5 percent in the same period of 2021) mainly due to an increase in gross capital formation and household consumption.

Economic activity was supported by increased household expenditures due to growth of wages. There was stable trend of high growth rates of the nominal and real wages compared to the previous year. According to the results of January-August of the current year, the average monthly nominal wage of one employee² increased by 26.1 percent compared to the same period of the previous year and amounted KGS 24.6 thousand. The level of real wages, calculated by taking into account the consumer price index, increased by 11.3 percent. Increase in growth rates of average monthly wages was observed at the enterprises of all types of economic activity, with the most significant indicators recorded in the sector of arts, entertainment and recreation (61.5 percent), healthcare and social services (55.1 percent) and education (39.0 percent).

Increased number of employed people provided additional support for demand. Thus, within 9 months of the current year the level of registered unemployment in the total number of labor force decreased by 4.4 percent compared to the same period of the previous year and constituted 2.8 percent.

The impact of the current negative trend in the net balance of remittances on domestic demand is difficult to assess. Net inflow of individuals' remittances still demonstrates negative values (in January – September, -12.8 percent compared to the same period of 2021) amid significant increase of outflow by almost 100.0 percent during the

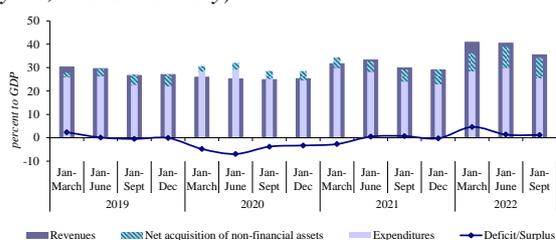
¹ According to the NSC KR, reference to the data for the earlier period is given due to the lack of more up-to-date data.

² Generally in the republic, excluding small enterprises.

specified period, demonstrating increased activity after Q1 of the current year. Thus, the decline in the net balance of remittances is not due to reduction of remittance inflow to the republic (in January-September, gross inflow increased by approximately 9.0 percent). In turn, gross inflow does not include cash inflow and the available data on outflow most likely reflect conversion of cash receipts into non-cash form.

Public Finances Sector

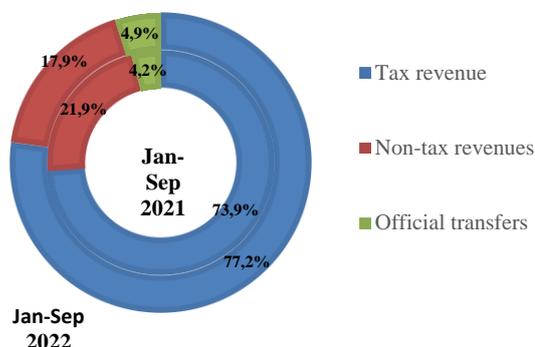
Chart 2.1.2. Execution of the State Budget
(period to the corresponding period of the previous year, accumulatively)



Source: CT MFKR, NBKR

Tax revenues to the budget increased by 52.1 percent. Meanwhile, in the structure of tax revenues, there was a reduction in import duties from Russia and Belarus and excise duties on imported products from the EAEU countries. In terms of budget expenditures for operating activities, significant growth was observed in the public sector workers' payroll fund (+37.8 percent), grants and contributions (+24.8 percent). There was also a significant increase in budget capital expenditures at the end of nine months of the current year. In the reporting period, there was stable positive fiscal impulse being indicative of the expansionary fiscal policy having a positive impact on the growth of aggregate demand and creating higher inflationary environment in the economy.

Chart 2.1.3. Structure of the State Budget Revenues



Source: CT MFKR

During January-September 2022, there was steady excess of budget revenues over expenditures in the public finances sector. Recovery of economic activity, fiscalisation of the tax and customs procedures, as well as payment of annual tax for development of mineral resource base¹ by “Kumtor” gold-mining enterprises and an increase in prices for goods and services in the country contributed to higher tax revenues to the budget compared to the previous years.

During nine months of the current year, the budget was executed with a surplus of 1.2 percent to GDP (KGS 7.1 billion). However, at the end of 2022, the budget deficit is expected in the amount of KGS 35.3 billion or 4.3 percent to GDP². This deficit is conditioned by reduction of budget revenues compared to approved budget due to expected shortage in receipts from the state tax and customs services. Expenditures were increased mainly due to an increase in wages of public sector employees, grants and contributions, capital expenditures, as well as expenditures related to the negative situation on the border between Kyrgyzstan and Tajikistan. Such significant increase in expenditures in 2022 may have some impact on growth of the inflation rate in the future. In 2023, the republican budget deficit is expected at 2.3 percent to GDP, and the budget surplus is expected since 2024.

¹ KGS 17.5 billion in January-September 2022

² According to the draft Law of the Kyrgyz Republic “On amendments to the Law of the Kyrgyz Republic “On Republican Budget for 2022 and Forecast for 2023-2024”.

Investments

Table 2.1.4. Capital Investments by Sources of Financing
(millions of KGS, percent)

	January-September			
	2021	2022	2021	2022
	millions of KGS		share, percent	
Total	74 685,0	80 512,9	100,0	100,0
Internal investment	58 191,8	65 178,9	77,9	81,0
Republican budget	2 530,7	4 652,1	3,4	5,8
Local budget	834,2	1 553,8	1,1	1,9
Funds of enterprises and organizations	27 082,8	28 565,1	36,3	35,5
Banks' credits	997,6	461,3	1,3	0,6
Population funds including beneficent help of KR residents	26 746,5	29 946,6	35,8	37,2
External investment	16 493,2	15 334,0	22,1	19,0
Foreign credit	11 791,0	7 693,8	15,8	9,5
Direct foreign investments	1 400,1	2 597,0	1,9	3,2
Foreign grants and humanitarian aid	3 302,1	5 043,2	4,4	6,3

Source: NSC KR

The level of investments exploitation was in the positive zone after the negative values observed during the previous year. Thus, in January - September 2022, the level of capital investments exploitation increased by 0.5 percent compared to the same period in 2021 (-5.6 percent). Capital investments increased compared to January-September 2021 due to growth of the domestic sources of financing by 4.2 percent, meanwhile foreign sources, on the contrary, decreased by 12.8 percent.

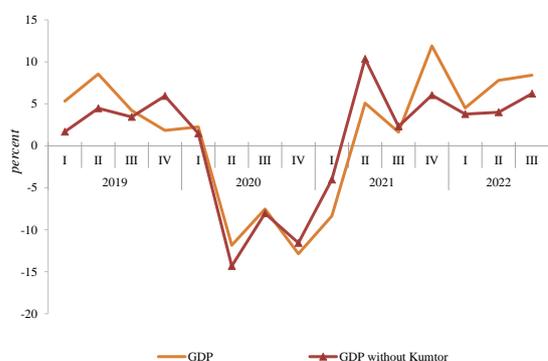
Investments directed to the construction of educational facilities increased by 2.5 times, meanwhile, investments directed to the construction of manufacturing facilities increased by 1.9 times. Reduction of capital investments in the construction of agricultural facilities by 22.4 percent, wholesale and retail trade facilities – by 21.0 percent, and mineral extraction facilities – by 9.6 percent had limiting influence on growth of the index.

Supply

The economy of the Kyrgyz Republic still demonstrates positive dynamics due to high growth rates of gold production. According to preliminary data of the National Statistical Committee of the Kyrgyz Republic, in January-September 2022, the nominal GDP increased by 7.2 percent in real terms compared to the same period of 2021 and amounted to KGS 597.4 billion. The growth rate of GDP, excluding the “Kumtor” gold-mining enterprises, was 4.9 percent in the reporting period.

Chart 2.1.5. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

Almost all sectors of the economy demonstrated active growth. The industrial, agricultural and services sectors still demonstrated the highest growth rates. Herewith, a decrease of production output in the energy sector made a restraining impact. The processing industry at “Kumtor” gold-mining enterprises, the high rates of output thereof are mainly due to the low base of the previous year (+37.3 percent), is the key driver of growth in industry (+17.1 percent). In the reporting period, agriculture was at the rate of 6.5 percent due to an increase in plant production output by 9.5 percent, as well as the low base of the same period in the previous year. Growth of the services sector by 4.0 percent was due to the positive dynamics of all services sectors year-to-date.

However, during the reporting period, such industries as electricity provision (-5.2 percent) and water supply (-9.2 percent) demonstrated negative growth rates due to shortage of water during the whole reporting period.

Industry, services and agriculture still make the most significant positive contribution to economic growth. Thus, in the reporting period, industry continued to make the greatest input of 3.0 percentage points to GDP growth from January - March of the current year. Manufacturing production at “Kumtor” gold-mining enterprises remains the key point of growth (2.7 percentage points to GDP growth). The input of the services sector to GDP growth in the amount of 1.8 percentage points was mainly conditioned by trade and transport activities.

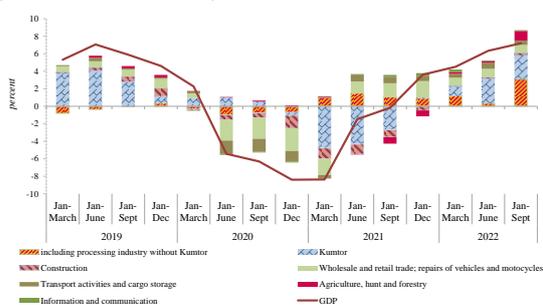
In Q3, significant increase in agricultural production output conditioned input of 1.1 percent to economic growth at the end of nine months.

The GDP deflator was positive and amounted to 14.4 percent, having decreased by 3.6 percentage points compared to January-September 2021.

2.2. External Sector ¹

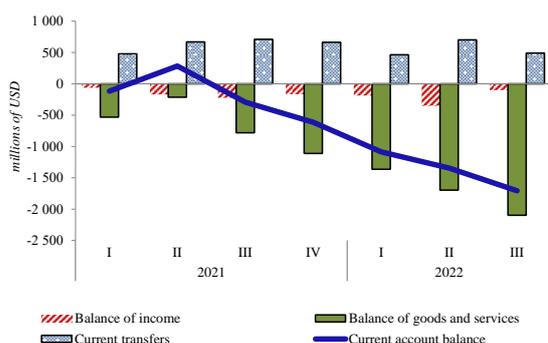
Chart 2.1.6. Input of Main Sectors in GDP Growth

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



Source: NSC KR, calculations: NBKR

Chart 2.2.1. Current Account



Note: According to the preliminary and forecast data.

In Q3 2022, a significant increase in the negative trade balance became the determining factor for widening the current account deficit.

According to the forecast and preliminary data, in Q3 2022, the current account deficit constituted USD 1,705.9 million or 49.6 percent to GDP².

In the reporting period, the trade deficit of the Kyrgyz Republic was formed in the amount of USD 2,335.8 million under the influence of growth in import amid decrease in export.

Export of goods (in FOB prices) decreased by 36.0 percent, mainly due to a decrease in gold export, to make USD 420.8 million. Positive dynamics was observed in export excluding gold, which grew by 19.7 percent compared to the same period of 2021. There was an increase in the supplies of such goods as electrical apparatus for line telephony, clothes, fruits and nuts, live animals, iron and steel, coal, coke and briquettes.

Imports of goods (in FOB prices) increased by 96.6 percent, to make USD 2,756.7 million. Growth in import was due to the restructuring of logistics chains in the region and the recovery of trade volumes after the pandemic period. In addition, import was influenced by the upward trend in the world prices for food and energy resources. Such commodity items as fabrics, footwear, cars and vehicles, locksmith's ware, safes and hardware, and vegetables contributed to an increase in import in the reporting period. Import of energy products increased by 4.9 percent and was characterized by an increase in prices amid decrease in physical volume of supplies.

In the structure of current transfers, there was a decrease in private transfers and an increase in transfers of the public sector. In Q3 2022, the dynamics of the net inflow of private transfers was significantly influenced by the exchange rates movement, including strengthening of the Russian ruble. The receipt of cash grants provided growth of official transfers.

In the reporting quarter, the balance of services' surplus is expected at USD 239.0 million due to an increase in revenues on the item "travels". The negative balance on the item "income" is estimated to decrease to USD 100.3 million.

¹ According to the preliminary and forecast 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 based on sliding annual data, including the last four quarters.

According to the preliminary and forecast estimates of the National Bank, in Q3 2022, capital inflow on the capital and financial account is projected at USD 1,652.6 million. The capital account surplus will make USD 51.4 million, whereas the positive balance on the financial account is expected at USD 1,601.2 million.

The main capital inflow on the financial account is expected from other investments in the form of increased private sector liabilities to non-residents. Foreign assets of residents will grow mainly due to cash and deposits of the banking sector. Net inflow of direct investments is forecasted at USD 108.8 million.

Thus, at the end of Q3 2022 the balance of payments of the Kyrgyz Republic is expected to be formed with a negative balance to make USD 53.3 million.

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)		
	2020 (aver.) (January-December)	2021 (aver.)* (January-December)	%	December 2021	September 2022	%
REER	115,7	115,8	0,1	121,1	123,9	2,3
NEER	122,7	119,6	-2,5	124,8	126,5	1,3
RBER to CNY	79,2	74,4	-6,0	76,7	94,5	23,2
NBER to CNY	60,8	51,7	-15,0	51,0	57,9	13,5
RBER to EUR	101,7	96,7	-4,9	104,3	124,8	19,7
NBER to EUR	69,5	60,8	-12,5	63,6	75,0	18,0
RBER to KZT	137,4	133,9	-2,5	137,9	150,7	9,3
NBER to KZT	166,7	157,0	-5,9	159,6	182,0	14,0
RBER to RUB	125,7	123,2	-2,0	124,6	106,8	-14,3
NBER to RUB	141,0	131,8	-6,5	132,0	112,9	-14,4
RBER to TRY	174,2	187,0	7,3	245,9	252,5	2,7
NBER to TRY	275,3	317,2	15,2	483,5	684,0	41,5
RBER to USD	83,1	81,3	-2,1	82,4	89,9	9,1
NBER to USD	59,6	54,3	-8,9	54,2	56,6	4,5

* Preliminary data
 ↓ - Som devaluation, competitiveness improvement
 ↑ - Som strengthening, competitiveness deterioration

13.5 percent and the US dollar – by 4.5 percent amid depreciation against the Russian ruble – by 14.4 percent.

Amid the NEER index increase, a higher inflation rate in Kyrgyzstan² conditioned growth in the real effective exchange rate (REER) index by 2.3 percent, to make 123.9 at the end of September 2022.

By the end of Q3 2022 the nominal and real effective exchange rate indices strengthened compared to December 2021.

According to preliminary data, the index of nominal effective exchange rate (NEER) of KGS increased by 1.3 percent year-to-date and constituted 126.5 at the end of September 2022. The index increase was conditioned by strengthening¹ of KGS in September 2022 compared to the exchange rate of the same period in 2021 against the Turkish Lira by 41.5 percent, the euro – by 18 percent, the Chinese yuan – by

¹ The data are given for the nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for the calculation of the index.

² In Q3 2022, the inflation rate in the Kyrgyz Republic was formed at 10.6 percent, meanwhile, the average inflation rate in the main trading partner countries according to the preliminary calculations was 9.6 percent.

Chapter 3. Monetary Policy

Stable high level of the global inflation and geopolitical uncertainty remained as the significant factors of the economic development in the Kyrgyz Republic. The monetary policy of the National Bank was conducted under these conditions to restrain inflation development in the economy and minimize the negative impact of the global price growth in the world commodity markets.

During Q3 2022, the situation in the money market was conditioned by the stable high level of excess liquidity in the banking system. It influenced the investment behavior of the participants and direction of the short-term rates in the money market.

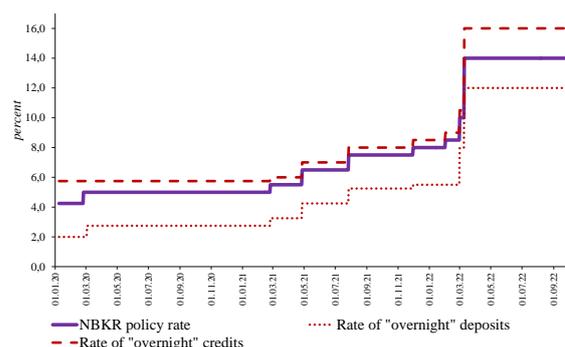
At the same time, some volatility was observed in the domestic foreign exchange market amid increased geopolitical uncertainty in some periods of the reporting quarter. The existing market mechanisms contributed to stabilization of the situation in the domestic foreign exchange market.

Growth in the money supply was supported by accelerated growth of all its components in the monetary sector. At the same time, expansion of cash remained the main growth factor.

3.1. Monetary Policy Implementation

Interest Rate Policy

Chart 3.1.1. Interest Rate Policy of the National Bank

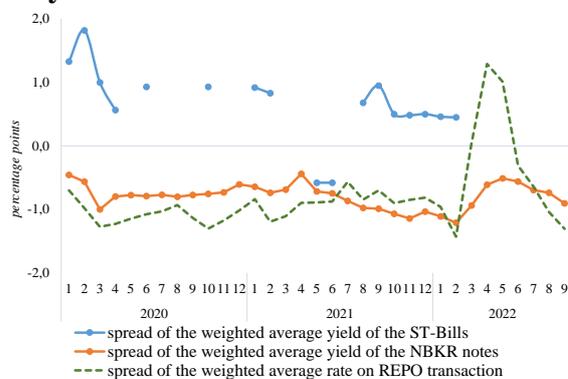


The National Bank's interest rate policy, as before, was focused on mitigating pro-inflation risks and easing the risks of the external economic environment. As a consequence, the monetary conditions did not change and remained tight. In Q3 2022, the National Bank kept its key rates unchanged: the policy rate (key rate) was kept unchanged at 14.00 percent at the meetings held on July 25 and August 29 (the rate on "overnight" deposits – 12.00 percent, the rate on "overnight" credits – 16.00 percent).

market rates to the policy rate continued in

negative area amid significant surplus of liquidity in the banking system.

Chart 3.1.2. Spread between the Short-Term Rates of the Money Market and the Key Rate



In Q3 2022, the spread of money market rates to the policy rate continued in negative area amid significant surplus of liquidity in the banking system. The average spread between the National Bank's policy rate and the rates on REPO transactions was (-)1.0 percentage point (in Q2 2022 – 0.7 percentage points). At the same time, during the quarter, the spread expanded from (-) 0.64 percentage points in July up to (-)1.31 percentage points in September. This expansion was conditioned by gradual decrease of the participants' activity in the interbank credit market amid high level of excess reserves. In July - September 2022, the rates decreased from 13.36 percent down to 12.69 percent, as the excess liquidity increased

significantly.

In the reporting period, the average spread of the notes rates increased up to (-)0.8 percentage points (in Q2 2022 – (-)0.6 percentage points) due to stable decline of yield

in the market of the National Bank's notes. In the reporting quarter, the average volume of sales increased and amounted to KGS 45.4 billion due to growth of demand from the market participants (in the previous quarter – KGS 26.3 billion). The weighted average yield of notes decreased by 0.23 percentage points and amounted to 13.22 percent (in Q2 – 13.45 percent).

Liquidity in the Banking Sector

The excess liquidity still demonstrates steady upward trend in the banking sector.

Excess liquidity was formed due to budget and monetary operations. In the reporting period, the average daily excess liquidity indicator of the banking system increased by KGS 13.3 billion compared to Q2 and amounted to KGS 35.2 billion. At the same time, during the reporting quarter, the level of excess reserves increased by KGS 6.8 billion and amounted to KGS 38.9 billion by the end of the quarter.

Meanwhile, an increase in demand for cash provided the restraining effect on growth of excess liquidity. During the reporting quarter, cash in circulation increased by KGS 18.7 billion. Cash in circulation increased due to growth of nominal wages, as well as in the public administration sector, and arrival of a significant number of the Russian citizens in September-October of the current year.

Under these conditions, the National Bank significantly expanded the operations to absorb excess liquidity. This policy of the National Bank was conditioned by the need to limit the monetary component of inflation. Thus, in Q3 2022, the average daily volume of sterilization operations of the National Bank increased significantly up to KGS 35.3 billion (in Q2 – KGS 21.5 billion). Meanwhile, previously observed short-term duration of excess liquidity became more long-term.

As a result, the preferences of the commercial banks to place excess reserves were almost equal. Meanwhile, in the reporting period, the structure of sterilization operations changed in favor of the National Bank notes, the average daily volume of sterilization thereof increased up to KGS 18.6 billion, or 52.8 percent (in Q2 – KGS 9.5 billion, or 44.3 percent).

Thus, in the reporting period, the average daily volume of absorption on account of “overnight” deposits amounted to KGS 16.6 billion, or 47.2 percent (in Q2 – KGS 12.0 billion, or 55.7 percent).

Chart 3.1.3. Excess Reserves of the Commercial Banks

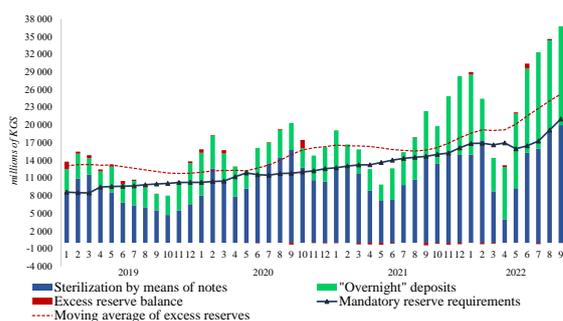
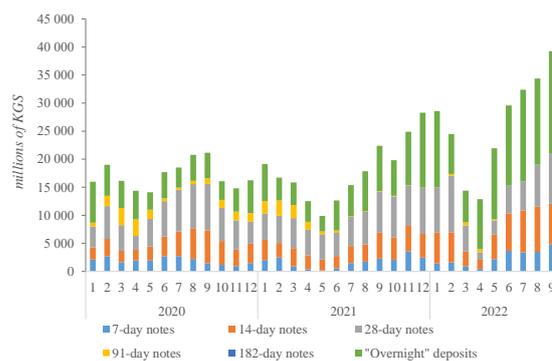


Chart 3.1.4. Structure of Sterilization



In the reporting quarter, the demand for short-term credit resources in the banking system remained low. Within the framework of the current window of permanent access, the National Bank issued “overnight” credits to the banking sector in the amount of KGS 0.1 billion to maintain short-term liquidity gaps (in Q2 2022 – KGS 13.8 billion). This situation is mainly related to the high level of excess reserves in the banking system, as well as the ability of market participants to meet the need for KGS liquidity through transactions conducted in the interbank credit market.

Foreign Exchange Policy of the National Bank

In the first decade of Q3 2022, there was slight volatility in the domestic foreign exchange market amid growing geopolitical uncertainty. However, the situation remained stable during the remaining period of the reporting quarter. At the same time, the current situation did not require involvement of the National Bank in the interbank foreign exchange auctions.

Generally, in the reporting quarter, the volatility of the USD/KGS exchange rate decreased compared to the previous quarter. At the same time, the USD/KGS exchange rate was fluctuating within the range of KGS 79.5000-83.1740 per USD. The average exchange rate decreased by 0.5 percent (in Q2 2022 – by 9.1 percent) and amounted to KGS 81.3034 per USD.

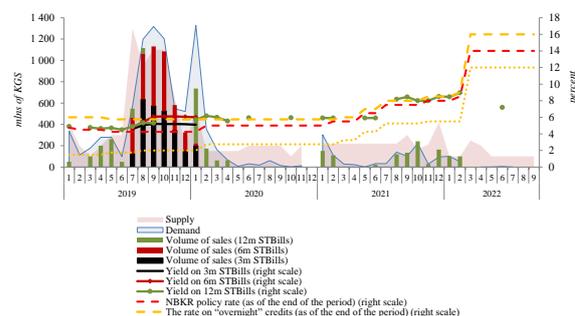
Monetary Policy Measures in Q3 2022

<p>The decisions were made on the size of the National Bank policy rate and the rates of the interest rate corridor</p>	<p>The Board of the National Bank twice considered the issue of the policy rate – on July 25 and August 29, 2022.</p> <p>The National Bank conducted tight monetary policy under the conditions of stable inflationary pressure in the economy of the Kyrgyz Republic and geopolitical uncertainty. Thus, the size of the policy rate was kept unchanged at 14.00 percent.</p> <p>The policy rate as well as the rates of the interest rate corridor remained unchanged: the rate on “overnight” deposits, being the lower rate, was kept unchanged at 12.00 percent, the rate on “overnight” credits, determining the upper rate – 16.00 percent.</p>
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3.2. Financial Market Instruments

Government Securities Market

Chart 3.2.1. ST-Bills Market Indicators



ST-Bills

In Q3 2022, 12-month ST-Bills were in little demand; sales were not conducted.

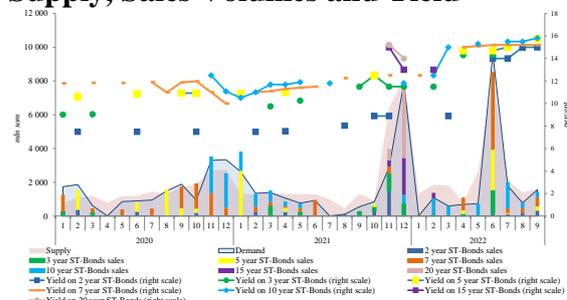
None out of six announced auctions was conducted due to lack of demand. The average monthly supply remained at the level of KGS 100.0 million.

The lack of demand for ST-Bills on the part of the investors, most likely, is connected with the greater attractiveness of shorter-term products with a higher yield compared to ST-Bills, and the policy of increasing the total circulation period of the government securities by increasing the share of longer-term securities - ST-Bonds - in the total structure of annual issues of government securities.

The volume of ST-Bills in circulation decreased by 24.6 percent year-to-date due to a decrease in the volume of sales and an increase in the volume of redemption and amounted to KGS 733.3 million. The structure of holders moved towards a decrease in the share of commercial banks and an increase in the shares of other holders, which was mainly conditioned by a decrease of ST-Bills in the portfolio of commercial banks due to redemption of the available securities.

ST-Bonds

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



In Q3 2022, the ST-Bonds market was represented by the securities of all types of maturities, excluding 3-, 15- and 20-year ST-Bonds. The participants' activity remained moderate. The weighted average yield of ST-Bonds continued to grow amid expected budget deficit and growth of the public debt.

Totally, 16 auctions were conducted (including additional issue), two thereof were not held due to lack of demand. The participants' activity decreased compared to the highest indicators of Q2, however it was at an average level.

The weighted average yield of ST-Bonds increased due to sale of securities with longer maturities and, consequently, higher yield.

The total weighted average yield of ST-Bonds fluctuated near the policy rate (15.34 percent in July, 15.27 percent in August, and 15.43 percent in September) due to sale of securities with higher yield.

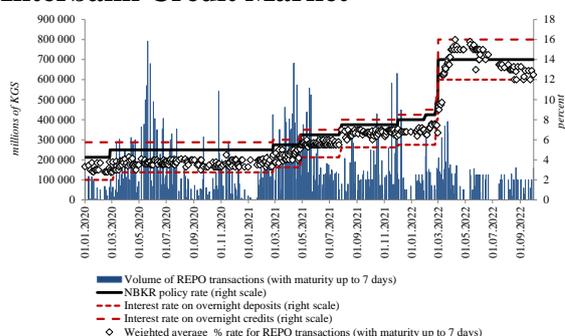
The demand was primarily focused (90 percent) on the long-term ST-Bonds (7 and 10 years), the demand was satisfied by 102.7 percent, which was conditioned by additional demand which exceeded the supply of the Ministry of Finance. Accordingly, 7- and 10-year ST-Bonds were mainly sold, their aggregate share constituted approximately 77.5 percent of the total volume of sales over the entire quarter.

ST-Bonds in circulation still demonstrate upward trend. The volume of ST-Bonds in circulation increased by 17.7 percent year-to-date. The structure remained almost unchanged: the share of institutional investors constitute more than one third (about 40 percent), as before, followed by the commercial banks (one fourth) and other holders.

According to expectations, financing of the state budget due to ST-Bonds issue is likely to grow in Q4 amid expected growth of the budget deficit and an increase in the public debt.

Interbank Credit Market

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



Stable key rates, coupled with a high level of excess liquidity, affected the participants' behavior in the interbank credit market. Thus, the demand for borrowed funds in the interbank credit market remained low which led to result in a decrease of the rates (-0.19 percentage points). Herewith, the market of REPO transactions, as well as the market of SWAP transactions, which acts as an alternative source of attracting funds in KGS, showed passive activity.

In the reporting period, the total volume of REPO transactions decreased by 45.9 percent, down to KGS 2.1 billion (in Q2 – KGS 3.9 billion). This decrease was mainly conditioned by two factors: sustainable high level of excess liquidity in the banking system and active foreign exchange transactions between the commercial banks. In the reporting quarter, the weighted average rate decreased compared to the previous period and stood at 12.97 percent (-1.55 percentage points). The weighted average maturity of loans did not change and remained at the level of the previous period – 4 days.

SWAP transactions in USD/KGS pair were in low demand, meanwhile the volume of USD/RUB SWAP transactions increased compared to the previous period. In the reporting quarter, the volume of SWAP transactions decreased by KGS 11.9 billion and amounted to KGS 0.9 billion (in Q2 – KGS 12.8 billion) amid high level of excess liquidity in the banking system and stabilization of the situation in the foreign exchange market. The weighted average interest rate decreased from 15.29 down to 12.51 (-2.74 percentage points). Market participants concluded more short-term transactions, the average term thereof was 7 days (in Q2 – 22 days).

Chart 3.2.4. Market of REPO and SWAP Transactions

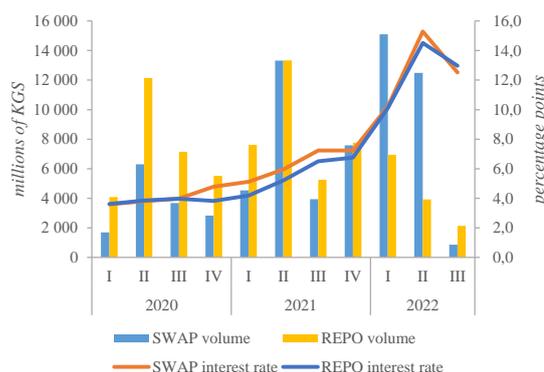
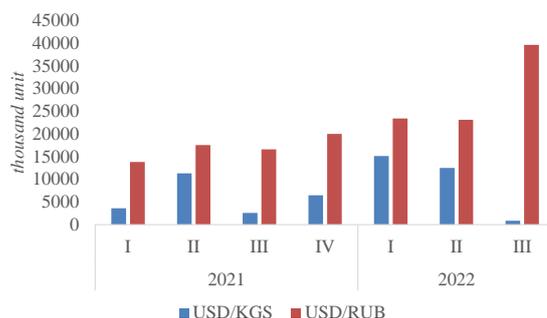


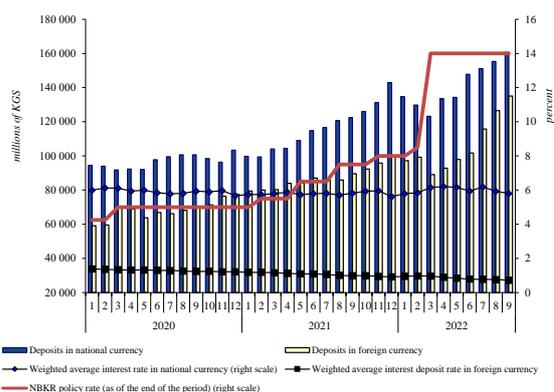
Chart 3.2.5. Dynamics of SWAP Transactions in USD/RUB and USD/KGS Pairs



In the reporting quarter, the volume of SWAP transactions in USD/RUB pair increased compared to the previous period and amounted to RUB 40.0 billion. At the same time, the volume of USD/RUB SWAP transactions traditionally exceeds USD/KGS pair. Thus, since the beginning of 2022, the volume of SWAP transactions in USD/RUB pair amounted to RUB 89.4 billion against KGS 28.9 billion in USD/RUB pair.

Deposit Market

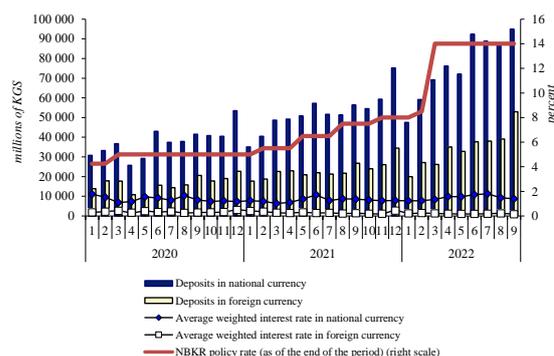
Chart 3.2.6. Dynamics of Commercial Banks' Deposits



settlement accounts by 57.5 percent and an increase in demand deposits by 32.1 percent, meanwhile time deposits decreased by 6.3 percent.

Dollarization of deposits increased up to 45.7 percent (+4.5 percentage points since December 2021), meanwhile dollarization adjusted for the policy rate increased by 5.9 percentage points, up to 47.1 percent.

Chart 3.2.7. Dynamics of Commercial Banks' Deposits Flows



national currency demonstrated growth, having increased by 1.5 percentage points, up to 11.9 percent. Generally, the interest rate on the deposit base in the national currency increased by 0.2 percentage points year-to-date.

The concentration index¹ in the deposit market decreased by 0.01 percentage point year-to-date, down to 0.10, as of the end of the reporting period, which corresponds to the average level of concentration with ten participants with equal shares in the market.

Credit Market

The commercial banks' credit portfolio continued to grow due to an increase of the credits in the national currency.

In Q3 2022, there was a significant increase in the deposit base due to the settlement accounts and the demand deposits. By the end of September, the deposit base in the national currency increased by 21.7 percent compared to December 2021 and amounted to KGS 295.7 billion. Worth noting is that this growth was mainly due to an increase in demand deposits by 29.1 percent, or KGS 9.2 billion since December 2021, while time deposits increased by 10.0 percent, or KGS 5.9 billion. The deposit base in foreign currency increased by 35.1 percent due to growth in the

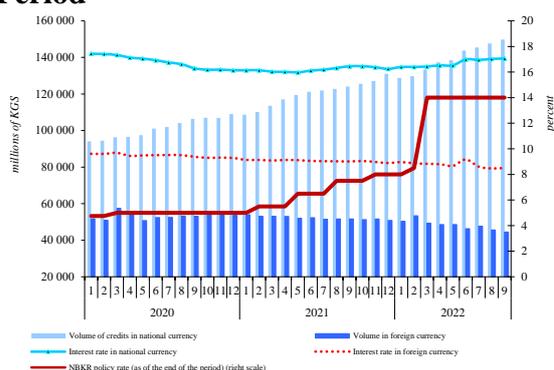
settlement accounts by 57.5 percent and an increase in demand deposits by 32.1 percent, meanwhile time deposits decreased by 6.3 percent.

Dollarization of deposits increased up to 45.7 percent (+4.5 percentage points since December 2021), meanwhile dollarization adjusted for the policy rate increased by 5.9 percentage points, up to 47.1 percent.

Rates on time deposits in the national currency continued to grow since 2021, reflecting increased competition among the banks to receive population's deposits amid tightening monetary policy and high inflation. In September 2022, the interest rate on time deposits in the national currency (balances) increased by 1.1 percentage points compared to December 2021 and constituted 12.0 percent. Moreover, the interest rates on new deposits in the

¹ This index shows the degree of concentration in the portfolio of the banks. The concentration index is calculated by the method of calculating the Herfindahl-Hirschman index and is the sum of the squares of specific weights of the indicator in the total volume. The index takes values from 0 to 1. Index value less than 0.10 corresponds to a low level of concentration; from 0.10 to 0.18 - the average level of concentration; over 0.18 - high level of concentration. For example, a concentration index of 0.50 is equivalent to the presence of 2 participants with the same shares in the market, and 0.3 - 3 participants, etc.

Chart 3.2.8. Dynamics of Commercial Banks Credit Debt as of the End of the Period



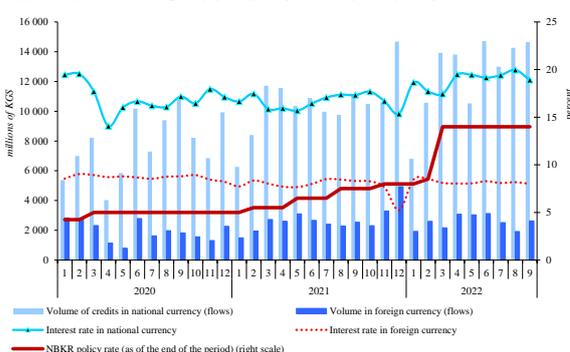
adjusted for the exchange rate decreased by 4.1 percentage points, down to 23.8 percent.

In January-September 2022, the interest rates of the credit portfolio in the national currency increased amid tightening of the monetary policy. In September, the interest rates on credits in the national currency increased by 0.8 percentage points since the beginning of the year and amounted to 17.1 percent.

The interest rates on credits in foreign currency decreased by 0.4 percentage points and amounted to 8.5 percent.

The credit market general concentration indicator was stable and formed at the level of

Chart 3.2.9. Dynamics of Commercial Banks New Credits for the Period



Credits in the national currency increased by 14.4 percent in September of the current year since December 2021. Consumer credits and agriculture demonstrated high rates of lending among the main sectors, meanwhile credits to trade grew at a relatively low rate. The credit portfolio in foreign currency continued to decline and decreased by 12.5 percent year-to-date.

Due to this, dollarization of the credit portfolio continued to update its low values and in September reached 22.9 percent, decreasing by 5.1 percentage points compared to December 2021. Dollarization

0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among twelve banks. The sectoral concentration index was 0.32, which is equivalent to three main credit sectors.

At the end of September 2022, the qualitative characteristics of the credit portfolio were as follows: the share of overdue credits in the credit portfolio increased by 0.2 percentage points year-to-date and amounted to 2.7 percent. The share of extended credits in relation to the credit

portfolio decreased compared to 2021, but still remains at a high level, the value of the indicator amounted to 9.7 percent in September 2022, having decreased by 2.3 percentage points since December 2021.

3.3. Dynamics of Monetary Indicators

The current upward dynamics of reserve money is conditioned by the transactions conducted by the National Bank and the government sector. During the reporting quarter, an increase in the money supply is supported by the growth of all components. At the same time, the growth of cash is still the main factor in the expansion of the money supply.

The annual growth rates of monetary aggregates demonstrated acceleration due to the growth of money outside banks and the deposit base which was due to changes in the value of deposits in foreign currency resulted from the exchange rate differences. At the end of Q3 2022, the monetary base increased by 13.3 percent, or KGS 24.4 billion, compared to Q2 of the current year and amounted to KGS 207.8 billion.

In the reporting period, the volume of money supply (monetary aggregate M2X) increased by 13.0 percent and amounted to KGS 407.0 billion at the end of the period. The

expansion of broad money was conditioned by an increase in M0, the deposit base and the change in the value of deposits in foreign currency due to exchange rate differences. Money outside banks (M0) amounted to KGS 167.1 billion at the end of the period (an increase by 11.1 percent during the quarter), and the annual growth was 27.5 percent, which affected the excess liquidity of the banking system. The total volume of the deposit base increased by 14.4 percent compared to the previous period, moreover, there was an increase of the deposits in the national currency (by 6.8 percent) and in foreign currency (by 25.8 percent).

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

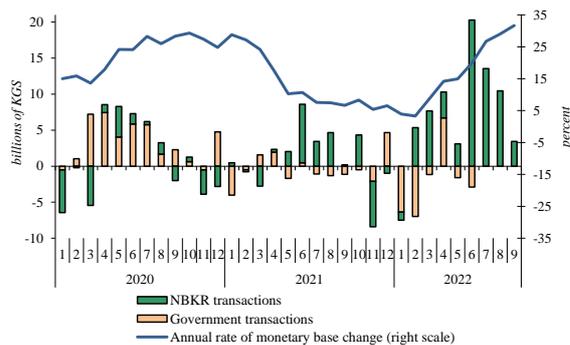
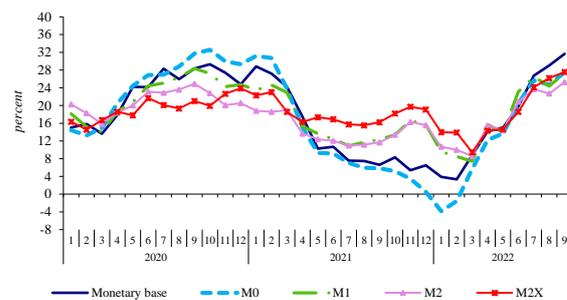


Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



Chapter 4. Inflation Dynamics

Inflation in the trading partner countries is among the main factors influencing inflation in Kyrgyzstan, since an increase in imported inflation is reflected in the general inflation rate (CPI). The global trend of rise in prices for food and petroleum products, the general price level in the country demonstrated high values among the difficult geopolitical situation in the region.

4.1. Consumer Price Index

Chart 4.1.1. Dynamics of CPI Structure
(quarter to the corresponding quarter of the previous year)

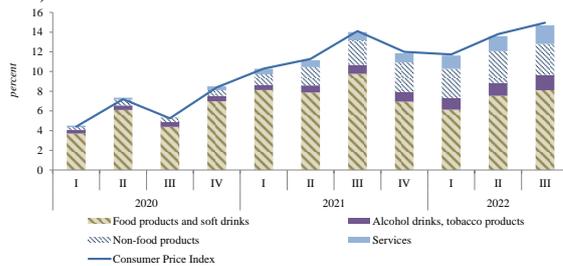


Chart 4.1.2. Dynamics of CPI Contributions
(year-to-date)

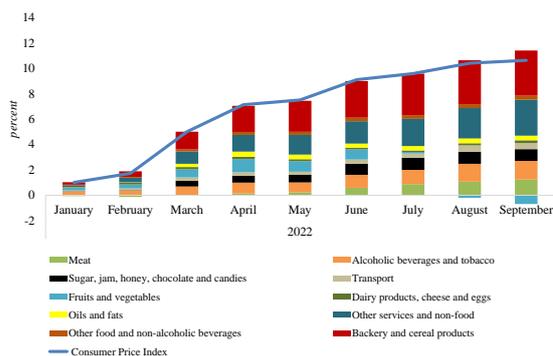
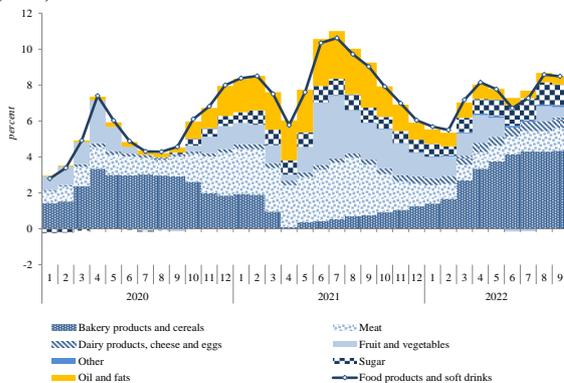


Chart 4.1.3. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



Inflation is primarily provided by the growth of prices for food products. Thus, in Q3 2022, the annual inflation rate was 15.0 percent (Q3 2022 / Q3 2021), in 2021, the same indicator constituted 14.1 percent. In the reporting period, the inflation in the country was also formed due to an increase in the non-food component resulted from rise in prices for imported goods: clothes and footwear, household appliances, various goods and services.

In Q3 2022, an increase in food prices by 17.9 percent in annual terms made the main contribution to the CPI growth (contribution to the CPI – 8.1 percentage points). In the current year, there was no decrease in the CPI due to the seasonal factor, which had a decisive influence on the decline in the average price level in previous years. An increase in the world prices for cereals (mainly wheat), which resulted in rise in prices of top-grade flour by 32.2 percent and first grade flour by 32.6 percent, was the main factor of price growth in the group of food products.

In Q3 2022, prices for non-food products increased by 10.9 percent in annual terms compared to Q3 2021 (contribution to CPI – 3.1 percentage points).

Growth of prices in the group “transport”, “clothes and footwear” by 21.2 percent and 10.0 percent, respectively, made the largest contribution to the rise in prices for non-food products. Prices for household goods and appliances increased by 6.8 percent and prices for utility services grew by 6.1 percent. In the reporting quarter, prices for petroleum, oil and lubricants increased by 18.3 percent, meanwhile, price for diesel fuel grew by 44.7 percent due to reduced exports of diesel fuel by the Russian refineries amid rising world prices.

Chart 4.1.4. Dynamics of Non-Food Prices' Contribution to Annual CPI

(month to the corresponding month of the previous year)

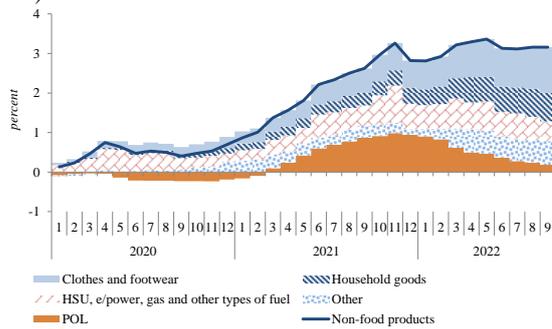
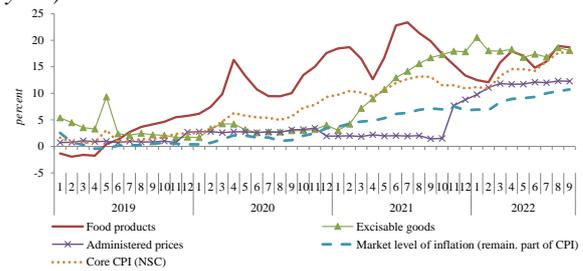


Chart 4.1.5. Dynamics of CPI by Groups of Commodities

(month to the corresponding month of the previous year)

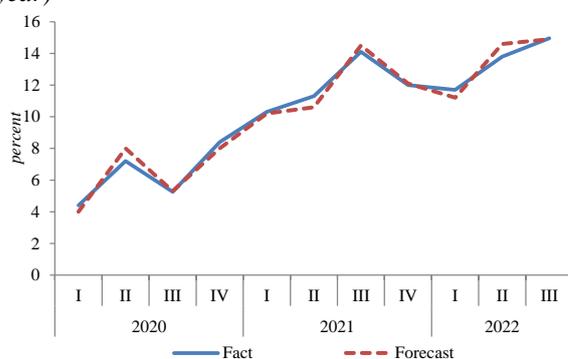


In Q3 2022, prices for paid services increased by 11.1 percent (in Q3 2021 – 5.0 percent). Index growth in this group was mainly due to rise in prices for recreation services (+16.0 percent) and hotel and restaurant services (+12.6 percent). In Q3 2022, the core inflation compared to the same period of 2021, calculated according to the methodology of the NSC KR, was 17.4 percent. In September 2022, market inflation continued to increase and amounted to 10.7 percent, meanwhile, the average annual market inflation rate increased by 9.0 percent.

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)



The average quarterly inflation rate increased by 0.1 percentage point compared to the National Bank's expectations.

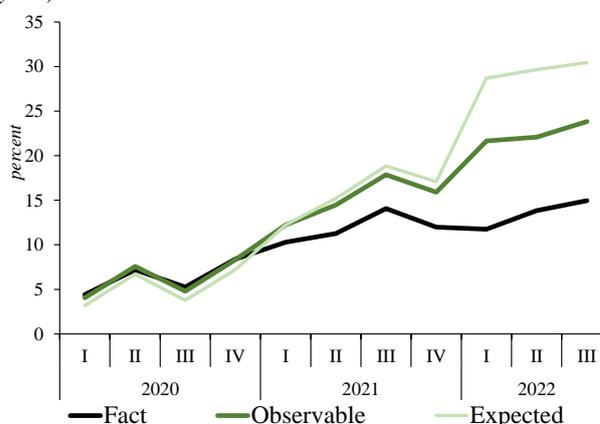
Insignificant deviation of the forecasted inflation rate from the actual one was conditioned by more accelerated, compared to expectations, rates of non-food component of inflation resulted from an increase in domestic prices for POL amid high world prices for crude oil as well as an increase in wholesale selling prices in the Russian market of petroleum products.

4.3. Inflation Expectations

In Q3 2022, there was an increase in inflation expectations of the households and businesses according to the survey of the NSC KG. Expected household inflation increased to 30.5 percent. Price expectations of the enterprises also increased significantly during Q3 of the current year and amounted to 26.4 percent. These indicators reached the highest levels in the history of observations (from Q1 2018 till Q3 2022).

Chart 4.3.1. Actual Inflation Value and Expected Inflation of Households

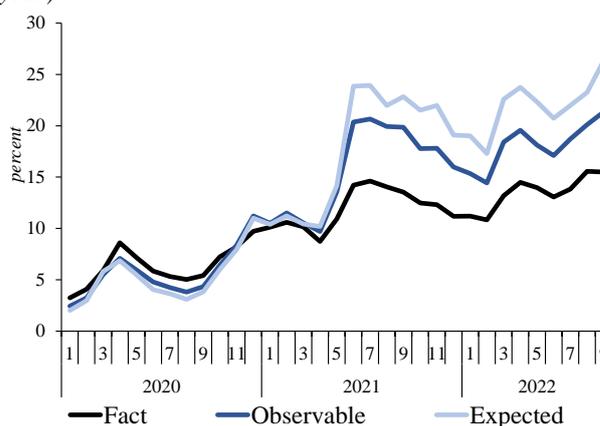
(quarter to the corresponding quarter of the previous year)



prices for a number of non-food goods and services.

Chart 4.3.2. Actual Inflation Value and Expected Inflation of Enterprises

(month to the corresponding month of the previous year)



of the end of September), being observed since 2020. This fact will contribute to an increase in food inflation, which will also condition growth of overall CPI.

Professional analysts agree that there will be higher inflation in the coming years, with return of CPI growth closer to the National Bank's medium-term target (5-7 percent) being expected closer to 2024. The IMF and ADB economists forecast increase in price in the Kyrgyz Republic in autumn of the current year by approximately 10.0 and 12.0 percent, respectively, as of the end of 2023. Generally, all forecasts of the international organizations are based on the idea of situation stabilization in the domestic market of the Kyrgyz Republic and the presence of a high base effect of the last year.

Proceeding from the above that pro-inflation risks prevail in the near term and will slow down the National Bank's targeting.

In Q3 2022, inflation expectations of the population increased compared to the previous quarter and remained at the highest level (Chart 4.3.1). The share of respondents expecting accelerated price growth decreased down to 42.2 percent (-4.4 percentage points compared to the previous quarter). There is an increase in the shares of the respondents expecting moderate inflation rate and its slowdown in the general price growth. Expected and observed household inflation rate remains significantly higher compared to the actual inflation rate partly due to the high-base effect. There is a risk that price expectations among the population will remain high in the near future due to rise in

There was an increase in the enterprises inflation expectations in the current quarter (Chart 4.3.2). Meanwhile, the share of enterprises expecting accelerated price growth in the next 12 months increased up to 38.4 percent being the highest level in the history of observations. In this quarter, the share of enterprises expecting accelerated price growth in the next 12 months increased to 38.4 percent, which is the highest value in the history of observations. This high level of inflation expectations is explained by rise in enterprises' costs. Sustainable double-digit increase in producers' prices for food products is among vivid examples (approximately 30 percent in annual terms as

Chapter 5. Medium-Term Forecast

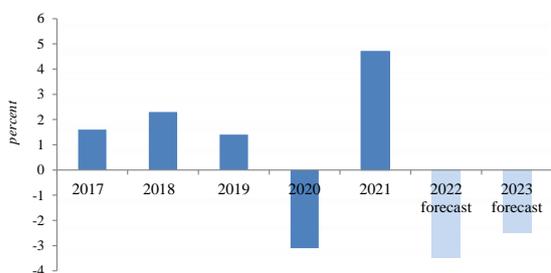
5.1. External Environment Proposals

5.1.1. Development Forecast of Main 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, Bank of Russia

Milder recession is expected in 2022 compared to the assumptions in Q2 amid more rapid adaptation of the Russian economy to external constraints.

In Q3, more moderate decline in exports, consumption and industrial activity compared to the previous expectations contributes to improving the estimates for GDP decline in 2022. According to the Bank of Russia estimates, GDP will decrease by 3.0-3.5 percent in the current year (the previous forecast made in July – 4.0-6.0 percent), meanwhile, the forecast for

2023 was kept unchanged at (-)4.0-(-)1.0 percent.

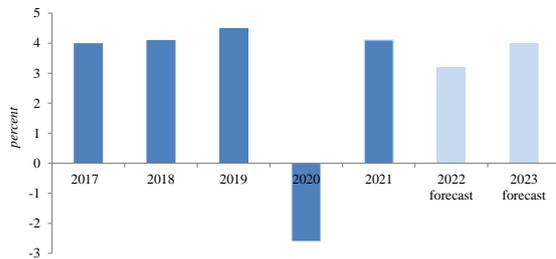
According to the Ministry of Economic Development, the lowest point of the economic decline will be passed in Q4 of the current year. In this regard, based on the scenario of continued accelerated adaptation, recession estimates were substantially revised upward: from 4.2 percent to 2.9 percent in 2022, from 2.7 percent to 0.8 percent in 2023.

In addition, the IMF significantly improved its forecast for GDP decline in Russia: from 6.0 percent to 3.4 percent in 2022 and from 3.5 percent to 2.3 percent in 2023. Revision of the estimates is explained by preservation of Russia's energy carriers exports, maintenance of employment at pre-crisis level, strengthening of the Russian ruble and, as a consequence, low inflation rate, which had a positive effect on the real incomes of the population.

The current lending dynamics and budget parameters for 2022 and 2023 will contribute to accelerated growth of money supply, suggesting some strengthening of inflationary pressure in the coming quarters. The Bank of Russia estimates that due to the effect of high statistical base, the annual inflation slowdown will continue until April 2023. According to the basic forecast of the Bank of Russia, in 2022, the inflation rate will be within the range of 12.0-13.0 percent. In 2023, the current structural economic transformation and the deferred effects of partial mobilization will influence the dynamics of inflation. Given these factors, in 2023, the annual inflation rate is expected to be above the target range, to make 5.0-7.0 percent. In 2024, the inflation rate will return to values near the target level of 4.0 percent.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan
(year to year)



Source: IA Bloomberg, international financial institutions

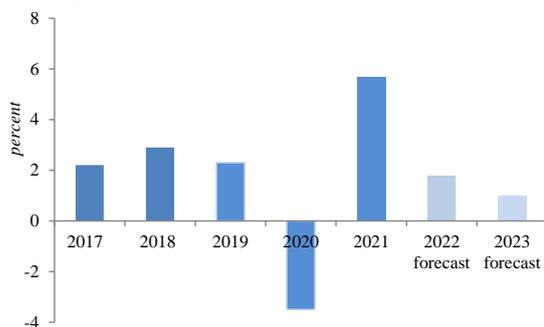
operation. On the other hand, negative changes in external conditions may result in a decrease in oil prices. According to the IMF estimates, the GDP growth will be within the range of 2.5-2.8 percent in the current year, and 4.5 percent – in 2023-2024.

At the same time, according to the forecast of the World Bank, GDP growth in Kazakhstan is expected to slow down to 3.0 percent in the current year from 4.1 in 2021 being conditioned by lower volumes of oil production, high inflation rate and tightening of monetary policy. Meanwhile, the country's GDP growth is expected to accelerate to 3.5 percent in 2023 and 4.0 percent in 2024. Additional oil production from the Tengiz field expansion project will contribute to such growth, provided that oil shipment through the CPC pipeline is maintained.

The National Bank of the Republic of Kazakhstan expects acceleration in the annual inflation in 2022 above the upper forecast limit of 16-18 percent, given formation of the actual inflation rate at a high level in September due to the shock related to the inflow of the citizens from Russia amid partial mobilization, and formation of inflation expectations at higher levels. In 2023, the inflation will gradually slow down to 7.5-9.5 percent amid the high base of the current year and conducted monetary policy. At the same time, the World Bank forecasts the inflation rate at 14.0 percent at the end of the current year with a subsequent decline down to 8.2 percent in 2023.

USA

Chart 5.1.1.3. Real GDP Growth in the USA
(year to year)



Source: IA Bloomberg, international financial institutions

environment and with the factor of high inflation expectations. The inflation rate is still above the target despite slight slowdown observed by the end of the reporting period.

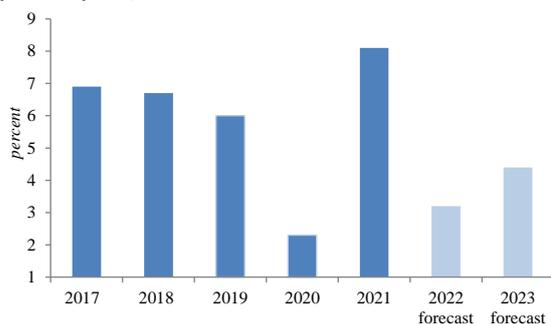
In the medium term, the US inflation rate is expected to start decreasing gradually and approach the target at the end of the forecast horizon. It will be supported by further tightening of monetary policy, gradual recovery of global production and supply chains, as well as a decrease of prices in the commodity markets.

The dynamics of economic activity develops in line with previous assumptions made in Q2. Relatively moderate growth rates are expected at the end of the current year.

According to the analysts' estimates, growth recovery is expected in the long term, however, there are risks of slowdown. Increasing influence of geopolitical tensions may affect the growth rate through reduction of export volumes due to suspension of Caspian Pipeline Consortium (CPC)

China

Chart 5.1.1.4. Real GDP Growth in China
(year to year)



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

Analysts continue to decrease forecasts for economic growth in China, attributing this to the current “zero tolerance” policy for the coronavirus, which is accompanied by actual closure of the country and lockdowns in the cities.

According to the analysts’ expectations, much will depend on the results of Q4, and if the restrictions are lifted or eased during this period, economic growth in China can accelerate including 2023.

The IMF decreased its forecast for China’s economic growth in 2022 from 3.3 percent down to 3.2 percent and forecast for 2023 was decreased from 4.6 down to 4.4 percent amid restrictive measures imposed by the government due to COVID-19 spread and still weak real estate sector in the country.

The World Bank expects GDP in China to grow by 2.8 percent in 2022, with growth rates forecasted at 4.5 percent in 2023.

ADB analysts decreased their GDP growth forecasts in China for 2022 and 2023 down to 3.3 percent and 4.5 percent, respectively.

The October consensus forecast made by the analysts surveyed by Bloomberg agency constituted 3.3 percent.

According to the economic and social development plan in China for 2022, the consumer price growth is expected to be held at approximately 3.0 percent.

5.2. Medium-Term Forecast

The National Bank of the Kyrgyz Republic relies on the results of modeling different scenarios of economic processes development in the medium term in monetary policy development. Forecasting is based on expert assessments and forecasts of the world research agencies and institutions, taking into account shocks and preconditions of the current period as much as possible.

In Q3 2022, economic activity, supported by domestic demand, continued to demonstrate recovery, as confirmed by relatively high economic growth of the Kyrgyz Republic. There is the upward trend in the economies of the trading partner countries outstripping the growth rates of domestic production.

The upward dynamics of prices for energy resources, observed during recent months, will slow down in the near future. There was a favorable price situation for the main agricultural crops in the world food markets, being a signal for the expectations of downward adjustments in prices for food products in the coming year.

In the forecast period, moderate growth rates of output are expected to remain unchanged with accelerated expansion of demand, at the same time, there are prerequisites for a slower reduction of inflationary pressure. High inflationary expectations of economic agents is an additional pro-inflationary factor.

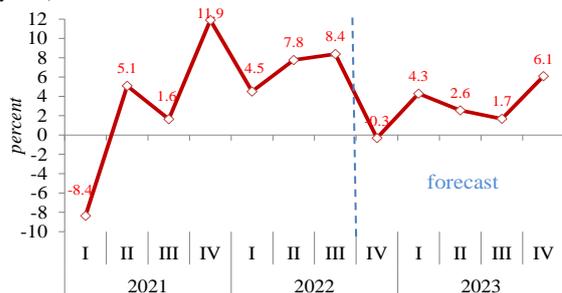
Baseline scenario of the medium-term forecast takes into account the effect of geopolitical tension, moderately upward/stable movement of the world prices in the commodity markets, stable high inflation expectations and expansionary fiscal policy.

The following forecast of the key macroeconomic indicators of the Kyrgyz Republic for 2022-2023 was developed considering the emerging trends in the economies of the trading partner countries, as well as the price movement in the world commodity markets in the medium term.

In 2022, real sector of economy in Kyrgyzstan will demonstrate growth higher than average values.

Chart 5.2.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)

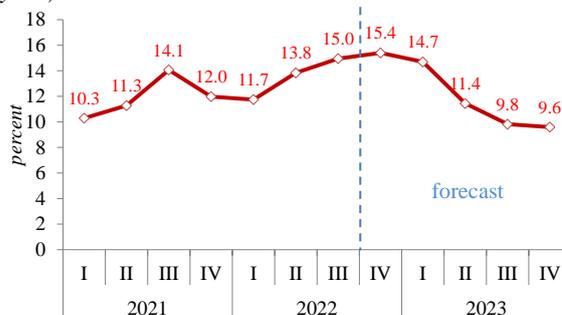


of the previous quarter. In terms of sectors, economic growth in the current forecast is supported by agriculture (due to livestock and crop production) and trade sectors.

In 2023, the real GDP growth is expected at about 3.6 percent, excluding “Kumtor” gold-mining enterprises GDP growth is expected at about 3.3 percent.

Chart 5.2.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



At the end of 2022, the real GDP growth will be at about 4.8 percent, excluding “Kumtor” gold-mining enterprises, GDP growth will be at about 4.3 percent. The production output at “Kumtor” gold-mining enterprises is expected to increase compared to 2021. The current estimates are adjusted upward compared to the previous report. It is explained by higher actual growth rates in the sectors of trade, services, net taxes on products in Q3 compared to the expectations

The estimates of the National Bank on the growth rate of the general price level remained unchanged during three consecutive quarters, the inflation rate as of the end of 2022 (December to December of the last year) will be about 15.5 percent, and the average annual inflation rate – about 14.0 percent. The forecast for 2023 was revised upward compared to the previous Monetary Policy Report of the Kyrgyz Republic; the annual inflation is expected at about 9.6 percent. Return of the inflation

rates to the medium-term target is expected not earlier than next year.

The current forecast takes into account an increase in excise rates for alcoholic beverages and tobacco products in 2023, a possible increase in tariffs for public transport in the large cities of the Kyrgyz Republic, as well as previously deferred increase in tariffs for electricity, hot water and heating. Relatively high growth of monetary aggregates during 2022 will create additional inflationary environment. It is worth noting the presence of inflation risk due to increased domestic demand since Q2 of the current year resulted from increased inflow of the foreign citizens to the Kyrgyz Republic. If the consumption of the population will remain in the forecast period at a relatively high level, it will directly affect the additional growth of prices for goods and services.

Forecast for the Balance of Payments in 2022-2023¹

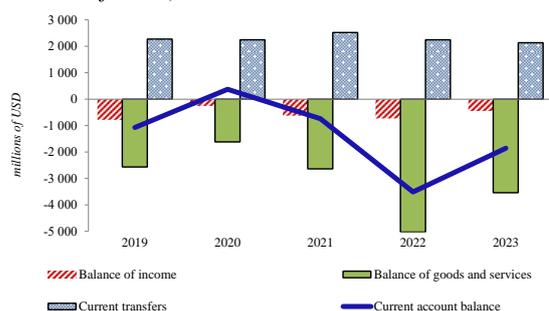
The forecast of the country’s balance of payments indicators for 2022 was adjusted considering the data of the actual period and clarified initial development conditions of Kyrgyzstan’s trading partner countries. The data of the actual period demonstrate changed conditions in external trade. Assessments of economic growth in the Kyrgyz Republic and the main partner countries were revised upward, however, the balance of payments is still characterized by a high degree of uncertainty.

At the end of the year, negative balance of goods and services, decrease of remittances net inflow, and growth of income payments to non-residents are expected to condition current account deficit at 37.2 percent to GDP.

¹ The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic used in the actual period.

Chart 5.2.3. Forecast Data on Current Account

(millions of USD)



Data of the actual period determined the updating of expectations for external trade due to logistics chains restructuring in the region. Moreover, growth of the world prices for food and energy resources significantly influenced the indicators of export and import.

At the end of 2022, export is expected to decrease compared to 2021 due to the absence of gold supplies. Export, excluding gold, is forecasted to increase by 60.3 percent. Export will be significantly

supported by the supplies of food products, textile and apparel production goods.

Import will increase due to several factors, including rise in prices, post-pandemic recovery in the physical volume of supplies, and change of the trade flows in the region. Import of consumer and intermediate goods is expected to increase. Energy product supplies are also forecasted to increase due to the price factor.

The data of the actual period served as the basis for revision of the forecast on the net inflow of current transfers. According to the revised forecast, the net inflow of private transfers will decrease by 11.8 percent compared to the last year. In the forecast period, inflow of official transfers is also expected to increase compared to the level of the previous year.

The item “services” is expected to develop with a positive balance under the influence of growth of services related to foreign citizens’ travels to the Kyrgyz Republic (exports of travels). This trend will be accompanied by further growth of transport services due to the revival of passenger and cargo transportation and increased prices for this type of services.

Expected current account deficit will require a significant amount of financing from the financial and capital account. Other and direct foreign investments will be the main source of financial capital inflow. The volume of servicing previously received loans will remain at a significant level.

Revised forecast for development of the external economic sector in 2022 conditioned change in expectations for 2023. Generally, there are assumptions about positive rates of economic development in the country amid uncertainty in the world due to geopolitical events and persistent inflation risks. In 2023, the current account deficit is expected at 19.0 percent to GDP under the influence of a large trade deficit amid current restrained negative dynamics on private transfer inflows and recovery of travels. The trade deficit is estimated to decrease compared to 2022 due to an increase in export and a decrease in import. The dynamics of current transfers is projected to be 5.1 percent below the level of 2022 due to a decrease in remittance inflow by 3.6 percent and a reduction in the official sector cash grants. In 2023, there is a risk of insufficient inflow of foreign capital on the capital and financial account, which may require additional financing by the NBKR’s international reserves. A significant share of capital inflows is expected to be provided by direct foreign investments and other investments to the private sector. There will be an increase in the liabilities of the public and private sectors on borrowed capital, and the trend of increased servicing of previously received loans and borrowings will remain.

The following risks persist in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2022-2023:

- high geopolitical uncertainty;
- uncertainty associated with outbreaks of the COVID-19 new variants;
- volatility in the world prices for oil, gold and food products;
- deterioration of the economic situation in the trading partner countries;
- volatility in the exchange rate of the main trading partner countries;
- growing debt burden of the public and private sectors.

Annex 1. Key Macroeconomic Indicators

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

	Unit of measure	2019				2020				2021				2022		
		Q1	Q2	Q3	Q4	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	mln. KGS	111 636.3	134 036.0	175 516.0	197 914.4	117 150.9	122 725.1	173 410.8	188 533.5	121 427.5	155 416.7	210 061.2	236 216.8	145 869.2	189 451.0	262 082.2
GDP	%	5.3	8.5	4.2	1.8	2.3	-11.8	-7.5	-12.8	-8.4	5.1	1.6	11.9	4.5	7.8	8.4
GDP, excluding Kumtor	%	1.7	4.5	3.4	5.9	1.5	-14.3	-8.0	-11.6	-4.0	10.3	2.3	6.0	3.8	4.0	6.2
Domestic consumption	%	0.4	1.4	0.8	0.4	5.0	-19.0	-2.5	-8.3	-1.9	26.3	4.6	15.8		4.2	9.3
Investment	%	-10.3	6.5	29.7	7.8	-40.0	-47.2	-30.1	-10.8	8.0	-116.1	24.1	54.8	207.3	573.4	
Net export	%	-17.7	-1.1	2.0	9.3	-27.1	-67.2	-27.4	14.1	30.2	10.8	67.3	93.6	152.2	312.1	
<i>GDP production:</i>																
Agriculture	%	0.6	4.3	1.3	4.7	0.6	0.7	1.0	0.7	1.7	-1.5	-7.6	-5.0	2.3	1.8	8.7
Industry	%	15.0	25.5	10.5	-13.7	4.4	-2.7	-8.2	-18.6	-15.2	-5.2	1.3	44.9	8.3	20.6	22.1
Construction	%	3.0	7.1	12.1	13.2	-2.5	-12.7	-5.7	-25.0	-19.8	-12.7	-3.3	1.9	2.2	4.1	5.1
Services	%	1.7	3.5	2.0	4.7	1.9	-17.8	-11.7	-9.4	-5.1	14.6	8.5	7.3	3.4	4.6	3.9
including trade	%	4.3	4.9	5.0	7.7	3.6	-30.9	-14.8	-14.2	-12.2	35.2	12.3	12.2	6.3	6.8	4.5
2. Prices²																
CPI	%	99.7	100.2	101.9	102.8	104.4	107.2	105.3	108.4	110.3	111.3	114.1	112.0	111.7	113.8	115.0
CPI, in annual terms as of the end of period	%	99.3	100.9	102.3	103.1	105.9	105.8	105.4	109.7	110.2	114.2	113.5	111.2	113.2	113.1	115.5
Core inflation	%	101.0	100.8	101.2	102.2	103.5	105.8	105.3	108.1	110.1	110.6	113.0	111.3	111.8	114.4	117.4
<i>CPI by main groups of goods and services:</i>																
Food products	%	97.1	99.7	103.5	105.3	108.1	113.4	109.7	115.4	117.9	117.3	121.5	115.3	113.5	116.6	117.9
Non-food products	%	101.1	99.8	100.4	100.4	100.9	102.1	101.6	102.0	103.7	106.4	108.6	110.4	110.3	111.2	110.9
Alcohol drinks and tobacco products	%	104.7	104.0	103.8	103.5	104.2	105.3	105.7	106.3	106.0	108.3	110.4	111.3	113.6	114.9	117.8
Services	%	101.3	99.9	99.8	100.3	101.0	101.0	100.0	102.3	103.3	104.1	105.0	105.4	107.9	109.0	111.1
<i>CPI, classified by character:</i>																
Excisable goods	%	104.5	102.9	102.2	101.8	103.1	103.3	102.8	103.4	102.1	102.3	115.5	117.7	118.8	117.5	117.9
Regulated prices	%	100.9	100.8	100.9	101.5	102.7	102.7	102.8	102.8	102.7	102.7	101.8	106.0	110.9	111.9	112.2
Market inflation rate (the rest of CPI)	%	101.2	99.8	100.3	100.5	100.8	101.9	101.3	102.6	101.0	102.2	106.8	107.1	107.4	109.1	110.4
3. External sector³																
<i>(in percent to GDP)</i>																
Trade balance	% to GDP	-34.3	-32.2	-30.7	-29.6	-27.5	-22.3	-18.3	-18.6	-19.6	-19.4	-23.5	-28.3	-37.2	-50.6	-65.2
Current transaction account	% to GDP	-9.7	-9.5	-9.7	-12.1	-9.0	-4.0	4.8	3.8	4.9	-1.1	-8.7	-19.6	-36.2	-49.6	
Export of goods and services	% to GDP	34.4	34.5	35.8	35.2	34.7	34.3	33.5	31.6	31.0	39.2	39.9	38.6	37.7	30.1	30.0
Import of goods and services	% to GDP	69.8	67.3	66.4	64.1	61.5	56.3	53.2	52.5	53.5	61.4	65.8	69.5	77.5	83.9	95.4
4. USD exchange rate, as of the end of period																
	KGS	69.8496	69.4928	69.7039	69.6439	80.8100	75.9887	79.6000	82.6498	84.7792	84.6640	84.7907	84.7586	83.3090	79.5000	80.1829
5. Monetary sector																
NBKR policy rate, as of the end of period	%	4.50	4.25	4.25	4.25	5.00	5.00	5.00	5.00	5.50	6.50	7.50	8.00	14.00	14.00	14.00
Rate of "overnight" deposit, as of the end of period	%	1.50	1.75	2.00	2.00	2.75	2.75	2.75	2.75	3.25	4.25	5.25	5.50	12.00	12.00	12.00
Rate of "overnight" credit, as of the end of period	%	6.00	5.75	5.75	5.75	5.75	5.75	5.75	5.75	6.00	7.00	8.00	8.50	16.00	16.00	16.00
Average interest rates of operations in the interbank credit market, per quarter	%	2.26	3.02	3.26	3.50	3.55	3.85	3.79	3.79	4.15	5.30	6.50	6.76	10.12	14.51	12.97
<i>of which:</i>																
of REPO transactions	%	2.25	3.02	3.27	3.50	3.55	3.85	3.97	3.84	4.15	5.32	6.52	6.76	10.12	14.51	12.97
of credits in national currency	%	2.30	2.30	-	-	-	-	-	-	-	-	-	-	-	-	-
of credits in foreign currency	%	3.50	2.88	3.36	-	-	-	2.50	2.50	-	-	7.00	-	-	-	-
Weighted average yield of 7-day notes, as of the end of period	%	3.67	3.59	3.79	3.76	3.97	3.95	3.95	4.01	4.50	5.26	6.08	6.57	11.86	13.11	12.82
Weighted average yield of 14-day notes, as of the end of period	%	-	-	-	3.78	4.15	4.32	4.20	4.50	5.03	5.64	6.50	6.93	11.45	13.57	13.11
Weighted average yield of 28-day notes, as of the end of period	%	3.93	4.18	4.10	4.00	4.31	4.52	4.37	4.62	5.15	6.12	6.87	7.26	11.09	13.82	13.46
Weighted average yield of 91-day notes, as of the end of period	%	4.48	4.20	4.25	4.23	4.48	4.65	4.70	4.70	5.45	5.43	7.45	-	-	-	15.19
Weighted average yield of 182-day notes, as of the end of period	%	4.50	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Monetary base	%	6.0	13.0	14.3	11.0	13.6	24.1	28.3	24.8	24.2	10.7	6.6	6.5	8.80	19.80	31.65
Money outside banks (M0)	%	5.2	11.1	12.7	13.2	14.9	26.9	31.7	29.3	23.7	9.2	5.8	0.5	5.70	20.50	27.52
Monetary aggregate (M1)	%	5.2	9.6	13.9	14.8	14.0	24.4	28.4	24.7	22.9	12.4	12.3	15.7	7.40	23.10	27.31
Narrow money supply (M2)	%	10.3	13.2	17.4	17.6	15.9	23.1	24.9	20.5	18.9	12.0	11.7	15.6	8.60	20.80	25.28
Money supply (M2X)	%	5.5	8.8	14.7	12.8	16.7	21.7	21.0	23.9	18.6	16.9	16.2	19.1	9.50	18.60	27.55

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 Q2 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.

Core CPI index is a price excluding the cost of food products, electric energy, gas, and other fuels.

Deposits included in M2X are the deposits of the individuals and legal entities, as well as the deposits of other financial-credit 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 expenses 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 issuer of the ST-Bills. Placing issues of the 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 the ST-Bills of the Kyrgyz Republic can be both the legal entities and the individuals. The admission of the foreign investors to the market of the ST-Bills is not limited. The transactions in the secondary market of the 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 the 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 issuer of the 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 the ST-Bonds.

Annex 3. Abbreviations

ADB	Asian Development Bank
CBRF	Central Bank of the Russian Federation
COVID-19	C Orona V irus D isease 2019
CPI	Consumer Price Index
EAEU	Eurasian Economic Union
EDB	Eurasian Development Bank
EU	European Union
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCM	Interbank Credit Market
IMF	International Monetary Fund
KR	Kyrgyz Republic
MFKR	Ministry of Finance of the Kyrgyz Republic
NBKR	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NEER	Nominal Effective Exchange Rate
NSC	National Statistical Committee
OPEC	Organization for Petroleum Exporting Countries
POL	Petroleum, oil, lubricants
PRC	People's Republic of China
RA	Republic of Armenia
RB	Republic of Belarus
REER	Real Effective Exchange Rate
RK	Republic of Kazakhstan
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America