



КЫРГЫЗ БАНКЫ

Monetary Policy Report.

Quarter 1, 2023

Bishkek
May 2023

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 inter-bank 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 Q1 2023 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2023-П-07/35-1-(ДКП) dated May 29, 2023.

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Summary

Global economic trends demonstrate slowdown in economic activity due to high inflation rate and recent shocks in the financial sector. Global inflation rate decreased amid change in prices for energy carriers and food products. However, core inflation, which excludes volatility in prices for energy carriers and food products, has not yet reached its highest value in many countries. Rejection of a zero-COVID-19 policy in China was the most important factor in supporting business activity worldwide. The monetary authorities of the US Federal Reserve System and the ECB still conducted monetary policy tightening, while the central banks of China, Russia and Kazakhstan kept their key rates unchanged due to the absence of new pro-inflationary risks. The FAO price index remained at a rather high level, with a gradual downward trend. The oil market demonstrated volatility, with a slight upward trend, amid the environment in the international banking sector and global economic and political uncertainty worldwide, meanwhile, prices for gold reached their maximum values during the last year.

At the end of Q1 2023, economic growth demonstrated stable recovery. In January-March 2023, GDP increased by 4.6 percent compared to the same period of the previous year, excluding the Kumtor Mine enterprises – by 3.9 percent. All main sectors of economy made a positive contribution to economic growth. At the end of three months of 2023, the state budget was executed with a surplus being a seasonal phenomenon. At the same time, there was an increase in revenues and expenditures of the state budget.

In Q1 2023, further increase in import influenced the trade balance. As a result, the trade deficit of the country exceeded by 30.4 percent the indicator of Q1 2022 and amounted to USD 1,701.4 million. The volume of foreign trade turnover increased by 24.8 percent and amounted to USD 2.6 billion.

In Q1 2023, the annual inflation rates demonstrated slowdown in Kyrgyzstan, having reached the maximum values. At the same time, there are uncertainty and geopolitical risks in the external economic environment, which still put upward pressure on prices in the Kyrgyz Republic. World prices for food products decreased during the reporting period and will gradually put downward impact on inflation in the Kyrgyz Republic. In Q1 2023, the inflation rate was 14.7 percent (Q1 2023/Q1 2022), meanwhile, the annual inflation rate (March 2023 to March 2022) decreased down to 12.7 percent primarily due to the base effect of 2022.

In these circumstances, the current monetary policy stance was still focused on restricting pro-inflationary factors in the economy of the Kyrgyz Republic. The monetary sector still demonstrated upward dynamics of excess liquidity. This factor was reflected in the investment behavior of the money market participants, and, as a consequence, market participants' preferences were in favor of sterilization instruments of the National Bank. The banking system continued to build up its deposit base and credit portfolio. Long-term government securities were still more attractive for the investors compared to short-term ones.

The demand for foreign currency exceeded its supply in the domestic foreign exchange market during some periods. Under these conditions, in the reporting quarter, the National Bank conducted foreign exchange interventions to sell foreign currency in non-cash form in the amount of USD 289.9 million in order to smooth sharp fluctuations of the exchange rate.

Chapter 1. External Environment

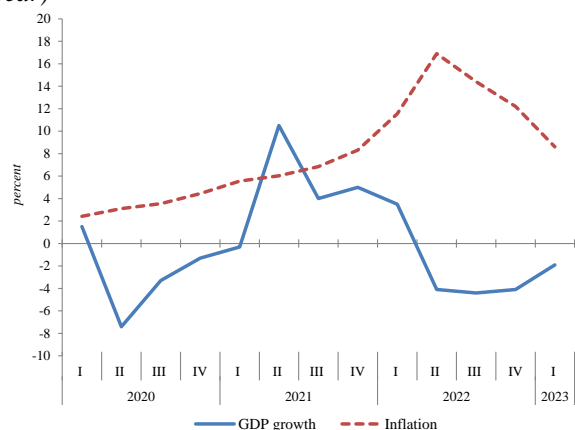
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

Global economy demonstrates stable slowdown. The US economy demonstrated slight growth. The effect of pent-up demand upon restrictions lifted in China contributed to economic growth above the analysts' expectations. There is multidirectional dynamics of GDP growth rates in the EAEU member states: Russia and Belarus demonstrated decline, meanwhile, there was positive dynamics 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, excluding China, with a slight decline in inflationary pressure in Russia, Armenia 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

In Q1 2023, Russia's economic recession slowed down to 1.9 percent. Russia's negative GDP indicator observed in Q2 of the previous year (-4.5 percent) demonstrated gradual slowdown, and in Q1 2023, GDP decreased by 1.9 percent compared to the same period.

According to the Russian Federal State Statistics Service, industrial production output increased in March 2023 (+1.2 percent) after a decrease (-1.7 percent) in February compared to the same period in 2022. The processing sector demonstrated significant improvement in March (+6.3 percent), the military-industrial complex provided its growth. At the same time, production output in the mining industry decreased by 3.6 percent due to voluntary reduction in OPEC+ oil production; freight

turnover also completed Q1 with negative indicators due to a decline in pipeline supplies as a result of imposed sanction restrictions. In Q1 2023, the volume of works in the construction sector increased by 8.8 percent, mainly due to commissioning of the residential buildings. There was also a favorable environment in agriculture due to an increase in crop and livestock production output.

The annual inflation rate temporarily remained at decreased levels. The inflation rate decreased sharply down to 3.5 percent in March 2023 after 11.0 percent in February 2023. A decrease in the inflation rate is primarily due to the high base of the previous year. Thus, there was the highest price surge by 7.6 percent in March of the previous year.

An increase in the current price growth was restrained by a number of factors. On the one hand, it is ongoing adaptation of the Russian economy to external trade and financial restrictions. On the other hand, it is the high level of inventories in a number of commodity groups and generally moderate dynamics of consumer demand.

Kazakhstan

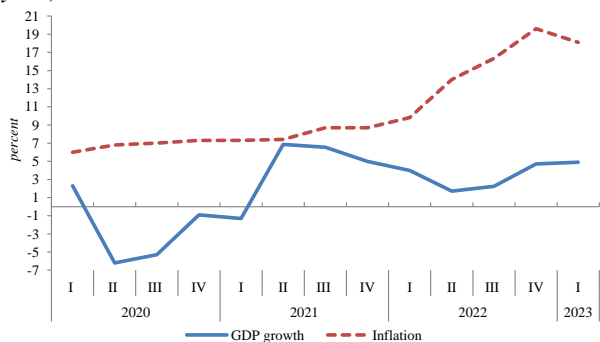
Economy of Kazakhstan demonstrated an increase in growth rates. Non-oil sectors make the main positive contribution to GDP dynamics. In January-March 2023, GDP of Kazakhstan increased by 4.9 percent in real terms compared to the corresponding period of the previous year. Construction (+15.7 percent) demonstrated the largest growth due to an increase in the volume of works on construction and repair of non-residential buildings and structures, positive dynamics in agriculture (+9.1 percent) was due to an increase in production output of the main livestock products, and industrial production increased (+2.9 percent) due to growth of

production output in mechanical engineering (+35.3 percent). Moreover, growth in the services sector (+5.0 percent) was provided by trade, transport and communications sectors.

In Q1 2023, the average nominal wage increased by 19.3 percent, meanwhile, in real terms it decreased by 0.6 percent. The sectors of construction, information and communication, accommodation and catering services demonstrated the largest increase in average monthly wages. At the same time, there was a decrease in the sector of providing other types of services.

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

In March 2023, the annual inflation rate in Kazakhstan was 18.1 percent: the most significant growth was observed in prices for food (by 20.5 percent) and non-food products (by 18.1 percent), as well as for paid services (by 14.4 percent). Food products and non-alcoholic beverages (+8.4 percentage points), housing services (+2.1 percentage points) and different goods and services (+1.8 percentage points) made the largest contribution to the annual inflation rate.

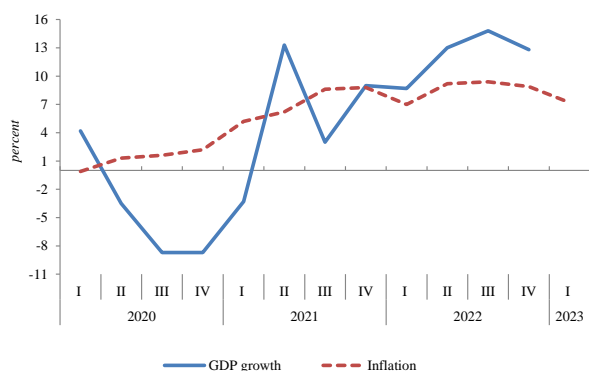
Starting from March 2023, there was a technical downward trend in the annual rate of consumer inflation in Kazakhstan. This is due to the high base effect of the previous year, when the inflation rates were high in March 2022 (+3.7 percent m/m, +12.0 percent y/y). At the same time, the quarterly strengthening of the Kazakh tenge against the US dollar (-2.7 percent q/q) and the Russian rouble (-16.4 percent q/q) conditioned a decline in the inflation rate.

Armenia

In Q1 2023, Armenia’s economic activity indicator still demonstrated high growth rates supported by strong external demand for services and positive developments in the construction sector. The labor market in Armenia remained vivid, which influenced wage growth. Economic activity increased by 12.2 percent compared to the same period in 2022. The Central Bank of Armenia forecasts GDP growth by 5.8 percent in 2023 supported by the external and internal demand amid inflow of capital and non-residents.

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

GDP and export growth in the medium term are also expected to be supported by strong growth in private investment, public capital expenditures and increase of labor productivity.

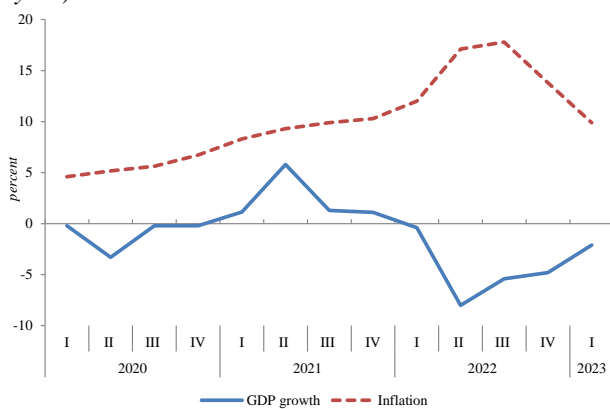
The inflationary environment in Armenia was gradually becoming more moderate due to restraining monetary policy, weakening external inflationary environment and strengthening of the Armenian dram. However, prices for some goods and services remained high under the conditions of strong demand and inflationary expectations. During the reporting period, the key rate remained at 10.75 percent after increase from 7.75 percent to 10.75 percent in 2022. The inflation rate slowed down from 8.3

percent in December 2022 to 5.4 percent in March 2023 in annual terms. The regulator expects stable slowdown of the inflation rate during 2023 remaining close to the target of 4.0 percent.

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

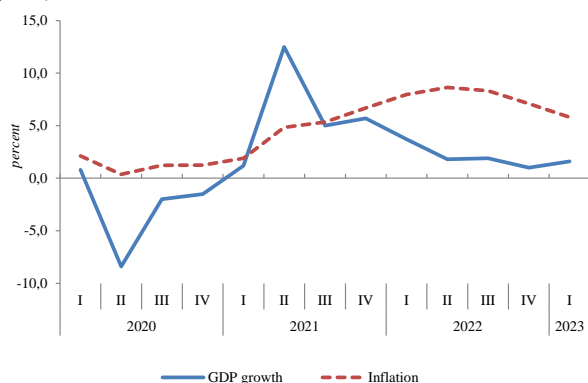
also demonstrated positive growth. At the same time, the recovery of economic activity is restrained by the negative dynamics of transport, wholesale and retail trade due to the bans imposed on cargo and air transportation to Ukraine, the EU and the USA. At the same time, the information and communication industry has lost its role as a driver of economic growth due to relocation of IT companies to the neighboring countries and a reduction in the number of its employees by almost 10 percent. The EDB forecasts that GDP may demonstrate an increase in Q2 compared to the same period of the previous year.

In Q1 2023, the annual inflation rate in Belarus gradually slowed down from 12.0 percent in January to 11.7 percent in February and to 6.0 percent in March. Weak domestic demand, uninterrupted price regulation, and slowdown in devaluation of the Belarusian ruble still influence the decline of the inflation rate. It is still expected that, in the absence of shocks, the slowdown trend in the inflation processes will continue: in Q2, the inflation rate may decrease below 4.0 percent. However, the annual inflation rate will accelerate by the end of the year as the disinflationary effect of price regulation is exhausted, as well as under the conditions of the forecasted recovery of domestic demand due to an increase in wages.

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

A decline in economic activity slowed down despite geopolitical tensions in the region. The inflation rate decreased amid restrained consumer demand and stable price regulation.

In Q1 2023, the rates of economic recession slowed down to 2.1 percent (in January and February, a decrease by 5.0 and 3.6 percent, respectively).

The key factor was the recovery of positive growth rates in industry for the first time in 13 months. In March 2023, industrial production output increased by 1.8 percent (there was a decline by 1.8 percent in February and by 3.2 percent in 2022). Such indicators as passenger turnover and public catering turnover

also demonstrated positive growth. At the same time, the recovery of economic activity is restrained by the negative dynamics of transport, wholesale and retail trade due to the bans imposed on cargo and air transportation to Ukraine, the EU and the USA. At the same time, the information and communication industry has lost its role as a driver of economic growth due to relocation of IT companies to the neighboring countries and a reduction in the number of its employees by almost 10 percent. The EDB forecasts that GDP may demonstrate an increase in Q2 compared to the same period of the previous year.

In Q1 2023, economic activity in the USA was moderate amid tightening of the monetary policy by the Federal Reserve System, high inflation rate, and stable uncertainty.

Monetary conditions tightening conducted by the US Federal Reserve System since 2022 to restrain inflation, as well as global uncertainty, had a negative impact on economic growth. The US Federal Reserve System's key rate exceeded 5.0 percent for the first time since 2007. In Q1 2023, the U.S. real GDP growth slowed down to 1.6 percent¹ compared to the same period in 2022 (3.7 percent) due to a decline in consumer expenditures growth, which accounts for more

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

than two-thirds of economic activity, and a reduction in gross private domestic investment.

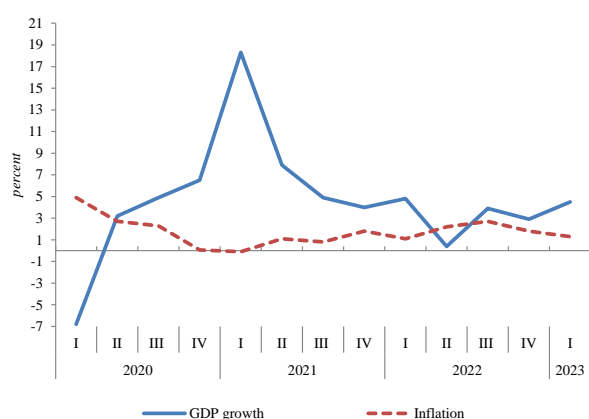
The rate of price growth slowed down due to measures taken by the US Federal Reserve System, as well as some recovery of the global supply chain. In March 2023, the inflation rate in the USA decreased down to 5.0 percent in annual terms from 6.5 percent in December 2022 due to a decline in energy prices and slowdown in growth of prices for food products. Meanwhile, core inflation (excluding food and energy prices) slowed down slightly from 5.7 percent in December 2022 to 5.6 percent in March 2023.

China

The economic growth rates in China accelerated and exceeded the analysts' expectations due to the effect of pent-up demand upon lifting the restrictions, prices almost stopped rising despite measures taken by the People's Bank of 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

In Q1 2023, China's economy grew by 4.5 percent in annual terms, which most analysts explain by the peak of unsatisfied post-pandemic consumer demand in China. In March, industrial production output increased by 3.9 percent in annual terms, meanwhile, this indicator constituted 2.4 percent in the first two months. Retail sales demonstrated high growth: in March, this indicator was formed at 10.6 percent, although in January and February, it was only 3.5 percent.

However, there was slowdown in investment growth from 5.5 percent in January-February down to 5.1 percent in March in annual terms. In March, unexpectedly high export growth by 14.8 percent partly reflects the suppliers' attempts to fulfill outstanding

orders after disruptions of the last years due to COVID-19 pandemic. China's real estate market indicators put its prospects for recovery in doubt: despite rise in sales of residential property in January and March, the indicators of construction and residential investment continued to decline, however, the rates of decline were slower compared to previous periods. In March, China's youth unemployment rate (16 to 24 years old) was 19.3 percent approaching a record high level, which could slow down economic growth in the long run.

In March, consumer prices in China increased only by 0.7 percent compared to the same period of the last year, slowing down from 1.0 percent in February and 2.1 percent in January, meanwhile, the inflation target is set at 3.0 percent. Despite restrictions lifting, the consumers still remain cautious, postponing expenditures in expectation of further decline in prices, which is a signal for the government to take additional measures to support the economy.

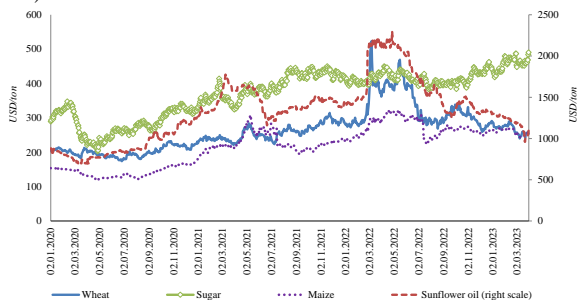
1.2. World Commodity Markets

There was a decrease in prices for twelve consecutive months in the world food market, meanwhile, domestic prices are still high in many countries worldwide. The reason for this is that significant food imports and volatility of the national currencies against the US dollar or euro in developing countries, as well as rising public debt, put additional pressure on domestic prices. Generally, there are some risks and uncertainty in the world oil market amid the current situation in the international banking sector. The market participants' increased fears about the global economic outlook, geopolitical risks and high inflation rate contributed to growth in demand for protective assets such as gold.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



In the reporting period, the world prices for basic food products decreased, mainly due to a decline in the world prices for crops and vegetable oils, excluding prices for sugar.

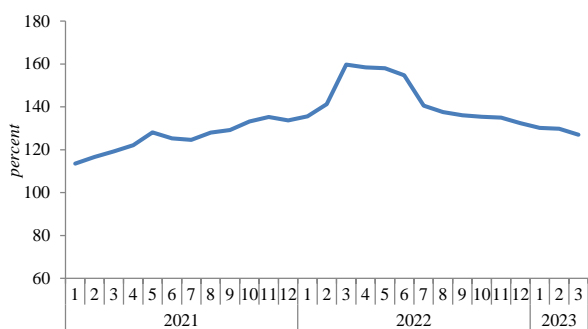
Factors such as large volumes of supply worldwide, low import demand and extension of the Black Sea Grain Initiative contributed to a decline in the world food prices. The Black Sea agreement has also eased fears of food shortage in Africa, as the continent is heavily dependent on exports from Ukraine.

In Q1 2023, the world prices for crops and wheat fell significantly amid expected good harvest in Australia, improved production output in the European Union, increased supplies from Russia and stable export by Ukraine from the Black Sea ports.

In the reporting quarter, there was a decrease in prices in the vegetable oil markets. Decrease in the world import demand contributed to a decline in prices for palm and soybean oils, meanwhile, prices for sunflower and rapeseed oil fell due to strong export supply.

An increase in prices for sugar was mainly due to a downward revision of sugar production forecasts in India, Thailand and China for the 2022-2023 season, which resulted in concerns over reduced export supplies in the current season amid strong global import demand.

Chart 1.2.2. Dynamics of FAO Food Price Index



In Q1 2023, the average value of the FAO food price index¹ decreased by 3.7 percent compared to Q4 2022 and amounted to 129.0 points. At the same time, this index decreased by 11.4 percent compared to the same quarter of 2022. In the reporting quarter, the FAO index continued to decrease amid decline in the world's prices for vegetable oils (due to a decrease in prices for crude oil²) and dairy products with slight decrease in prices for crops and meat. However, prices were partially neutralized by an increase in prices for sugar.

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

Energy Market

In Q1 2023, there was volatility in oil prices amid geopolitical risks and uncertainty in the international banking sector.

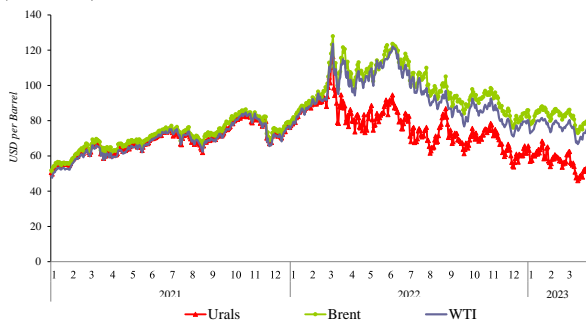
From the beginning of 2023 until the first half of March of the current year, the world prices for oil fluctuated within the range of USD 81-86 per barrel. Since the second half of March 2023, there was a decrease in the world oil prices (down to 15-month minimum values)

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 A significant share of vegetable oil consumption falls on industrial use, mainly biodiesel production (dependence of the vegetable oil prices on oil quotations is obvious), meanwhile sunflower oil does not have this influence, as its share in food consumption is about 95 percent.

amid increase of the interest rates in the central banks worldwide and risks of a global recession, as well as worsening problems in the banking sectors of the USA and Europe following bankruptcy of SVB US Bank and closure of Signature Bank.

Chart 1.2.3. Dynamics of Oil Prices
(in USD)



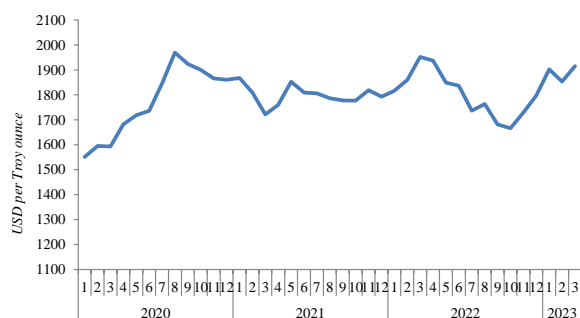
worldwide. In the world oil market, OPEC+ countries may reduce oil production to stabilize the market in case of a sharp decrease in oil prices.

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 price formation at the oil refineries in Russia, from which the Kyrgyz Republic imports almost 95 percent of the total volume of imported POL.

In addition to the inflation component, prices in the 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

In Q1 2023, the price for gold in the world market approached the highest level during the recent years and stood at USD 1969.3 per Troy ounce at the end of March 2023, having increased by 8.0 percent year-to-date. In the reporting period, the total demand for gold increased by 1.0 percent compared to Q1 2022 due to recovery of non-exchange market. The highest ever demand from the central banks of the developing countries and the jewelry sector provided slight support to the prices for precious metals.

The total supply of gold in the world market increased by 1.0 percent in annual terms due to the highest ever production output of 856 tons and an increase in the volumes of processing sector by 310 tons.

Generally, the World Gold Council, as well as other international analysts, has a positive forecast for 2023 in the increased risk environment.

In Q1 2023, the average price for Brent oil decreased by 7.2 percent compared to the previous quarter and amounted to USD 82.2 per barrel (the price decreased by 16.1 percent compared to the same quarter of 2022). Since the beginning of 2023, the average price for Brent oil amounted to USD 82.2 per barrel (in 2022 – USD 99.0). Generally, the world’s investment banks are conservative about recessionary risks and do not expect a serious deterioration in the economic situation

During the reporting period, the prices for gold in the world market demonstrated upward trend under the conditions of increased risks of recession and global uncertainty, as well as the market participants’ expectations of suspended increase of the key rate by the US Federal Reserve System.

In this regard, the international analysts predict further rise in price for this asset. Fitch Solutions rating agency expects gold prices to remain higher compared to pre-pandemic level in the coming years. At the same time, the market demonstrated increased likelihood of suspension in conducting tight monetary policy by the US Federal Reserve System, as a sharp increase in the rate can have a negative impact on the banking system and economic growth.

Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodities and Services Market

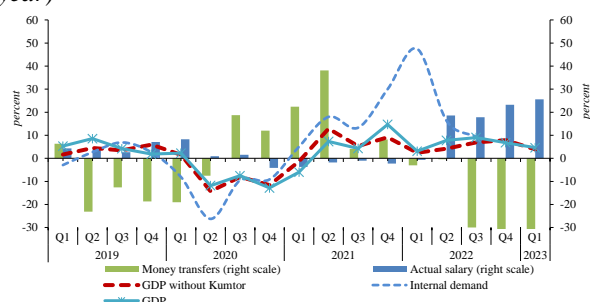
At the end of Q1 2023, economic activity maintained the positive dynamics achieved in 2022. The sectors of industry and services demonstrated the highest rates of growth. The gold mining sector still plays the key role in providing industrial indicators, mainly due to the low values of the same period.

However, there are external risks amid geopolitical tensions. In this environment, growth factors such as domestic demand, remittances, 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

Domestic demand completed the year of 2022 with relatively high indicators, while the net balance of money transfers remained negative. According to the preliminary results of 2022¹, domestic demand increased by 17.9 percent in annual terms, mainly due to a significant increase in gross accumulation in Q1 2022.

Domestic demand was also supported by rise in individual consumption through increased household expenditures amid growth of wages. There was the trend of high growth rates in the nominal and real wages compared to the previous year. In January-March 2023, the average monthly nominal wage of one employee² increased by 42.5 percent compared to the previous year and amounted to KGS 30.7 thousand (in the same period of 2022, an increase by 14.7 percent). The level of real wages calculated by taking into account the consumer price index increased by 24.2 percent (in January-March 2022, an increase by 2.7 percent).

Increased number of employed people provided additional support for growth in domestic demand. In January-March 2023, the number of unemployed people registered with the public employment services in search of work decreased by 3.8 percent compared to the same period of the previous year and amounted to 98.8 thousand people. In January-March 2023, the level of registered unemployment in the total number of labor force decreased by 0.2 percentage points compared to the previous period and constituted 2.8 percent.

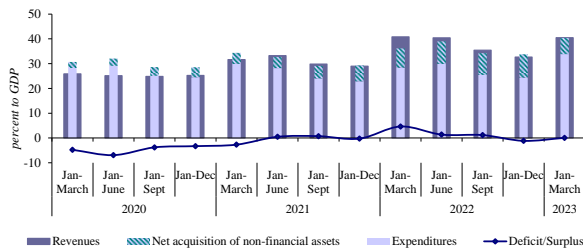
In Q1 2023, there is a decline in gross inflow of remittances compared to the same period of the previous year with stable negative net inflow of remittances, which may have a negative impact on domestic demand. Gross inflow of remittances decreased significantly (-34.7 percent) compared to the previous quarter. Gross outflow demonstrated slowdown compared to the previous quarter with stable similar trend compared to January-March 2022. Thus, in January-March 2023, net inflow of individuals' remittances decreased by 21.8 percent.

¹ 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

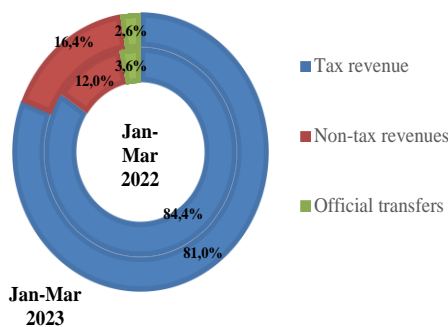
Public Finances Sector

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



Source: CT MFKR, NBKR

Chart 2.1.3. Structure of the State Budget Revenues



Source: CT MFKR

CJSC).

The state budget expenditures for operational activities increased by 50.1 percent or KGS 20.8 billion in annual terms and amounted to KGS 62.3 billion or 33.9 percent to GDP. Increase was observed in all items of expenditures: the largest growth was observed on the items “public services of general purpose” (+46.0 percent) and “education” (+61.6 percent) due to increase in the public sector workers’ payroll fund.

Net acquisition of non-financial assets increased by 6.3 percent compared to 2022 and amounted to KGS 12.0 billion or 6.5 percent to GDP.

At the end of 2023, budget deficit is expected at 2.3 percent to GDP¹ and budget surplus is expected in 2024-2025 that will be used to repay public debt as well as to finance expenditures aimed at economic development. At the same time, it is emphasized that the stimulating role of fiscal policy will remain in the medium term and will support domestic demand.

In the reporting period, the positive fiscal impulse was indicative of expansionary fiscal policy conducted by the Ministry of Finance of the Kyrgyz Republic, which had a positive effect on aggregate demand growth, however increased some pressure on inflation.

In Q1 2023, the state budget was formed with a surplus of 0.1 percent to GDP, which is a seasonal phenomenon in this period. At the same time, the budget surplus decreased compared to 2022 (4.6 percent to GDP) due to higher growth rates in expenditures compared to revenues.

The state budget revenues from operating activities increased by 24.9 percent compared to 2022 and amounted to KGS 74.4 billion (40.4 percent to GDP). The increase was mainly due to growth of revenues from VAT and non-tax revenues. A decrease in the structure of tax revenues was observed on income and profit taxes (-20.0 percent due to lower revenues from the annual amount for development of the mineral reserve base of the Kyrgyz Republic from Kumtor Gold Company

¹ According to the Law of the Kyrgyz Republic “On Republican Budget for 2023 and Forecast for 2024-2025”

Investments

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

	January-March			
	2022	2023	2022	2023
	millions of KGS		share, percent	
Total	14 923,9	16 180,4	100,0	100,0
Internal investment	12 520,9	14 388,2	83,9	88,9
Republican budget	225,6	1 785,5	1,5	11,0
Local budget	115,9	94,6	0,8	0,6
Funds of enterprises and organizations	5 207,0	6 305,6	34,9	39,0
Banks' credits	208,8	67,9	1,4	0,4
Population funds including beneficent help of KR residents	6 763,6	6 124,6	45,3	37,9
External investment	2 403,0	1 792,2	16,1	11,1
Foreign credit	1 369,0	746,6	9,2	4,6
Direct foreign investments	630,4	449,9	4,2	2,8
Foreign grants and humanitarian aid	403,6	595,7	2,7	3,7

Source: NSC KR

There was an increase in the level of capital investments exploitation. In January-March 2023, the level of capital investments exploitation increased by 3.5 percent compared to 2022 (0.5 percent). There was an increase by 9.7 percent due to growth of investments financed from the domestic sources. At the same time, investments from foreign sources decreased by 28.8 percent.

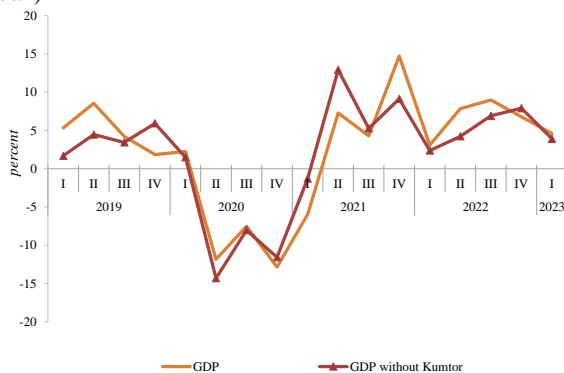
Investment activity was concentrated in the sectors of education (an increase by 3.9 times), water supply (an increase by 3.2 times) and manufacturing (an increase by 2.5 times). Reduction of capital investments in the construction of mining facilities by 27.3 percent, agricultural facilities – by 11.5 percent, and health care facilities – by 1.9 percent had limiting influence on growth of the index.

Supply

According to preliminary data of the National Statistical Committee of the Kyrgyz Republic, in January-March 2023, the nominal GDP increased by 4.6 percent in real terms compared to 2022 and amounted to KGS 183.9 billion. The growth rate of GDP, excluding the “Kumtor” gold-mining enterprises, was 3.9 percent in the reporting period.

Chart 2.1.5. GDP Dynamics

(quarter to the corresponding quarter of the previous year)

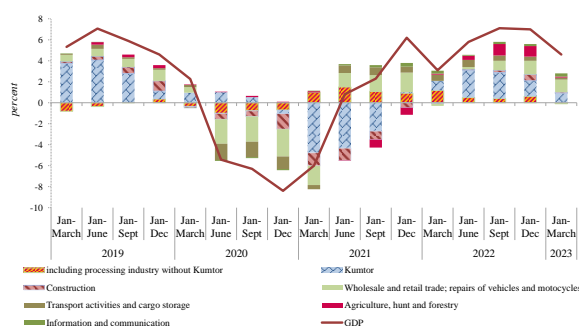


Source: NSC KR, calculations: NBKR

trade turnover (+11.6 percent).

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

The GDP deflator was positive and amounted to 18.5 percent, having increased by 4.0 percentage points compared to January-March 2022.

There was an increase in the level of capital investments exploitation.

In January-March 2023, the level of capital investments exploitation increased by 3.5 percent compared to 2022 (0.5 percent). There was an increase by 9.7 percent due to growth of investments financed from the domestic sources. At the same time, investments from foreign sources decreased by 28.8 percent.

Investment activity was concentrated in the sectors of education (an increase by 3.9 times), water supply (an increase by 3.2 times) and manufacturing (an increase by 2.5 times). Reduction of capital investments in the construction of mining facilities by 27.3 percent, agricultural facilities – by 11.5 percent, and health care facilities – by 1.9 percent had limiting influence on growth of the index.

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Almost all sectors of the economy demonstrated active growth. The industrial, services and construction sectors demonstrated the highest growth rates. The processing industry at “Kumtor” gold-mining enterprises (+18.9 percent) was the key driver of growth in industry (+7.5 percent), high growth rates thereof were conditioned by low indicators in the previous period. The effect of low indicators of the previous period was also observed in the construction sector dynamics (+2.4 percent). In the reporting period, growth of services sector (+4.8 percent) was mainly due to an increase in the wholesale and retail

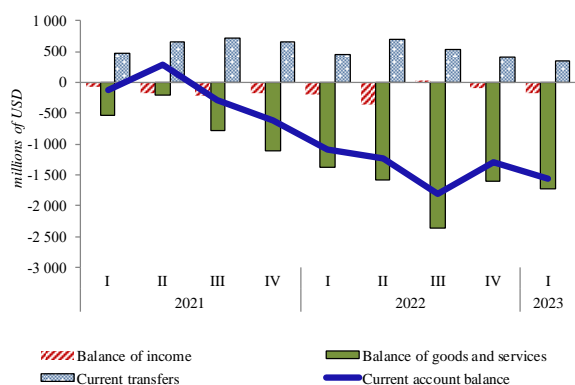
The input to the services sector exceeded the input to the industrial sector within the framework of input to GDP growth year-to-date. Thus, the services sector made the largest input to GDP growth in the amount of 2.0 percentage points, while the input to industry, declining since January 2023, was 1.5 percent. At the same time, the share of the services sector in the GDP structure remains significant, which increased by 0.5 percentage points, up to 50.7 percent, in the reporting period.

The GDP deflator was positive and amounted to 18.5 percent, having increased by

2.2. External Sector¹

A significant size of the negative trade balance predetermined the current account deficit in Q1 2023.

Chart 2.2.1. Current Account



Note: According to the preliminary and forecasted data.

According to the forecast and preliminary data, in Q1 2023, the current account deficit constituted USD 1,552.2 million or 51.1 percent to GDP².

In the reporting period, the trade balance deficit of the Kyrgyz Republic was formed in the amount of USD 1,701.4 million due to outstripping growth of imports compared to exports.

Exports of goods (in FOB prices) increased by 15.1 percent and amounted to USD 434.8 million. Exports excluding gold increased by 1.8 percent, to make USD 384.6 million. There was an increase in the

supplies of such goods as gold (non-monetary), motor cars and other motor vehicles principally designed for the transport of persons, coal, automatic data-processing machines and their components, ore and concentrates of precious metals.

Imports of goods (in FOB prices) increased by 27.0 percent, to make USD 2,136.3 million. The restructuring of supply chains in the region and the recovery of trade volumes after the pandemic period still influence the growth of import operations. Such commodity items as textile, the components of dish-washing machines, packaging and wrapping machines; data-processing machines; locksmith's ware, telephone sets, cars, sugar, fruits, and nuts contributed to an increase in imports in the reporting period. At the same time, in the reporting period, import of energy products decreased by 50.5 percent mainly due to reduction in their physical volume.

In the structure of current transfers, there was a decrease in private transfers and a slight increase in transfers of the public sector. In Q1 2023, both a reduction in inflow and a rise in outflow of transfers influenced the negative dynamics of the net inflow of private transfers (a decline by 25.2 percent). The dynamics of official transfers, as before, was conditioned by the receipt of cash grants and contributions to the international organizations.

In the reporting quarter, the balance of services' deficit is expected to decrease to USD 22.2 million (by 3.0 times), while the negative balance on the item "income" is estimated to go slightly down to USD 177.4 million.

According to the preliminary and forecast estimates of the National Bank, in Q1 2023, capital inflow on the capital and financial account is expected at USD 1,226.9 million. The capital account surplus will make USD 35.2 million. The positive balance on the financial account is expected at USD 1,191.7 million due to an increase in other investments in the form of private sector liabilities to non-residents. Foreign assets of residents will grow mainly due to cash and deposits of the banking sector.

Thus, according to the results Q1 2023, the balance of payments of the Kyrgyz Republic is expected to be formed with a negative sign to make USD 325.2 million.

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

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

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		
	2021 (aver.) (January- December)	2022 (aver.)* (January- December)	%	December 2022	March 2023	%
REER	115.8	122.5	5.8	123.8	126.2	1.9
NEER	119.6	125.8	5.2	123.8	123.0	-0.6
RBER to CNY	74.4	87.5	17.5	94.7	93.8	-1.0
NBER to CNY	51.7	54.3	4.9	55.9	53.6	-4.1
RBER to EUR	96.7	116.6	20.5	117.8	114.5	-2.8
NBER to EUR	60.8	68.8	13.2	67.7	65.4	-3.4
RBER to JPN	119.8	160.1	33.7	168.8	168.4	-0.3
NBER to JPN	67.9	81.6	20.2	83.1	80.4	-3.3
RBER to KZT	133.9	144.5	7.9	140.9	131.6	-6.6
NBER to KZT	157.0	170.9	8.9	171.1	159.9	-6.5
RBER to RUB	123.2	115.2	-6.5	112.8	129.0	14.3
NBER to RUB	131.8	123.3	-6.5	116.6	131.4	12.7
RBER to TRY	187.0	235.1	25.7	237.4	215.1	-9.4
NBER to TRY	317.2	601.0	89.5	668.6	660.7	-1.2
RBER to USD	81.3	86.5	6.4	88.6	88.0	-0.6
NBER to USD	54.3	54.6	0.6	54.0	52.5	-2.7

By the end of Q1 2023, the index of nominal effective exchange rate decreased and the index of real effective exchange rate increased compared to December 2022.

According to the actual data, the index of nominal effective exchange rate (NEER) of KGS declined by 0.6 percent year-to-date and constituted 123.0 at the end of March 2023.

The index lowering was formed under the influence of the KGS depreciation¹ in March 2023 compared to the exchange rate at the end of 2022 against the Kazakh tenge by

6.5 percent, the Chinese yuan - by 4.1 percent, the euro - by 3.4 percent, the US dollar - by 2.7 percent and other currencies amid strengthening of KGS against the Russian ruble by 12.7 percent. Along with the NEER index decline, a higher inflation rate in Kyrgyzstan² conditioned growth of the real effective exchange rate (REER) index by 1.9 percent, to make 126.2 at the end of March 2023.

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 Q1 2023, the inflation rate in the Kyrgyz Republic was formed at 3.2 percent, meanwhile, the average inflation rate in the main trading partner countries according to the preliminary calculations was 0.7 percent.

Chapter 3. Monetary Policy

Stable high uncertainty in the external environment remained a predetermining factor for economic development in the Kyrgyz Republic, including dynamics of inflation. Under these conditions, the monetary policy conducted by the National Bank is still focused on decreasing the inflation rate in the Kyrgyz Republic to the target indicator in the medium term.

Tactical decisions of the monetary policy were made under the conditions of stable high level of excess liquidity in the banking sector. The liquidity inflow was conditioned by the transactions of the budget-funded and the monetary channels.

Slight volatility of the exchange rate was observed in the domestic foreign exchange market under the influence of external and internal factors. The National Bank conducted foreign exchange interventions to sell foreign currency to prevent sharp fluctuations in the exchange rate.

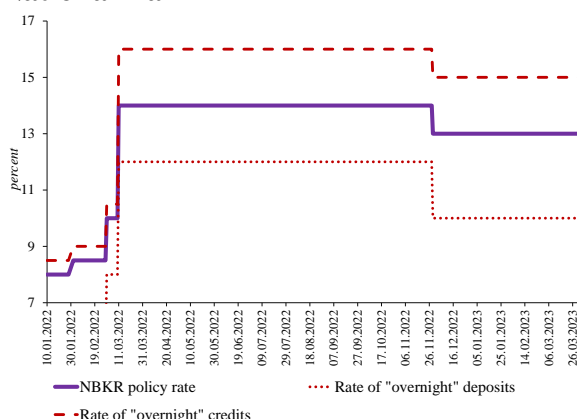
Measures taken by the National Bank contributed to maintaining the situation in the monetary and foreign exchange markets relatively stable. The financial and banking system remained stable. The banking system had sufficient liquidity in the national currency.

3.1. Monetary Policy Implementation

Interest Rate Policy

During Q1 2023, the National Bank still conducted the interest rate policy amid stable inflationary factors. Generally, monetary conditions remained tight, contributing to further limitation of the inflation monetary component.

Chart 3.1.1. Interest Rate Policy of the National Bank



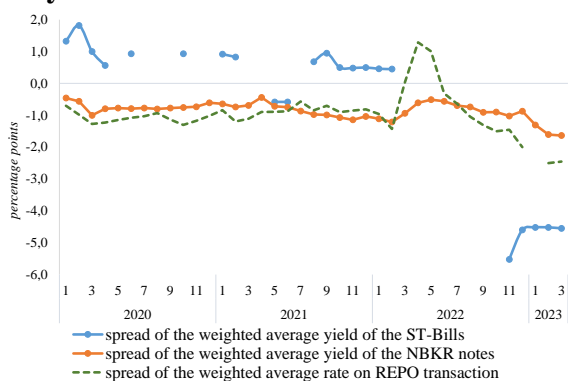
In this regard, in Q1 2023, the National Bank twice considered the issue of the policy rate (on January 30 and February 27, 2023), finally, the policy rate was kept unchanged at 13.00 percent. In general, keeping the key rate unchanged met the macroeconomic conditions of the country and reflected the policy of the National Bank with regard to the existing risks in the economy.

Under these conditions, the rates of the interest rate corridor also remained at the level of previous values: the interest rate on “overnight” deposits – at the level of 10.00 percent, the interest rate on “overnight” credits

– 15.00 percent.

The money market demonstrated stable downward trend of the short-term rates during the reporting quarter. Moreover, the money market rates were formed within the

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



interest rate corridor, except for 12-month ST-Bills. Such behavior of the money market rates was mainly conditioned by stable significant liquidity surplus in the banking system.

During Q1 2023, the spread between the short-term rates of the money market and the key rate was still formed in the negative zone demonstrating slight expansion. Thus, the average spread in the market of notes increased by 0.58 percentage points, up to (-)1.51 percent. During the quarter, the weighted average yield of notes decreased from 11.70 percent in

January down to 11.37 percent in March (in February, the weighted average yield of the National Bank’s notes was 11.40 percent).

The yield of interbank REPO transactions also demonstrated downward trend during the quarter. Despite the fact that in January the participants did not demonstrate activity in the REPO market, at the end of the reporting period, the volume of transactions increased by 53.14 percent and amounted to KGS 3.0 billion. As a result, the average spread expanded to (-)2.48 percent in the market of credit borrowing through REPO transactions.

The rates on short-term government securities – ST-Bills with a maturity of 12 months were still formed outside the interest rate corridor of the National Bank, meanwhile in Q1 of the current year, there was an upward trend in yield. In January and February, the interest rate was 8.48 percent, having slightly decreased down to 8.45 percent in March. As a result, the average spread between the policy rate and the rate on 12-month ST-Bills decreased and constituted (-)4.53 percentage points (in the previous quarter – (-)5.06 percentage points).

Liquidity Regulation in the Banking Sector

Excess liquidity demonstrated stable growth in the banking system. Liquidity increased mainly due to the operations of the monetary and public sectors. At the same time, foreign exchange operations conducted by the National Bank put the restraining effect on the growth of excess reserves. In the reporting period, the average daily excess liquidity indicator of the banking system increased by KGS 11.6 billion compared to Q4 2022 and amounted to KGS 59.5 billion. At the same time, since January till March 2023, the level of excess reserves increased by KGS 12.5 billion and amounted to KGS 65.9 billion by the end of the quarter.

A decrease in demand for cash put additional upward pressure on the level of excess liquidity. During the reporting quarter, money in circulation decreased by KGS 15.5 billion.

Under these conditions, the National Bank actively increased the volume of excess liquidity sterilization to limit the monetary component of inflation. Thus, in Q1 2023, the average daily volume of the National Bank’s sterilization operations increased significantly up to KGS 60.1 billion (in Q4 2022 – KGS 47.7 billion).

The structure of sterilization operations developed in favor of the National Bank notes due to the commercial banks’ preferences for placement of excess reserves. Thus, the average daily volume of sterilization through the notes increased up to KGS 42.7 billion or 71.8 percent (in Q4 2022 – KGS 28.5 billion or 59.7 percent). Thus, in the reporting quarter, the average daily volume of absorption through the “overnight” deposits amounted to KGS 17.4 billion or 29.0 percent, respectively (in Q4 2022 – KGS 19.3 billion or 40.3 percent).

Chart 3.1.3. Excess Reserves of the Commercial Banks

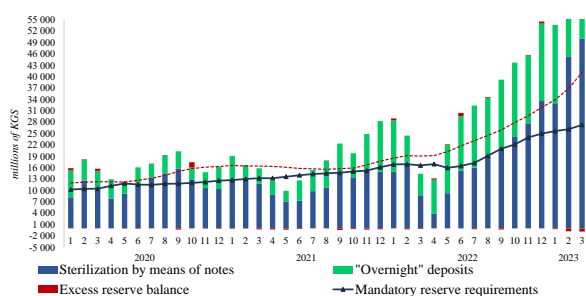
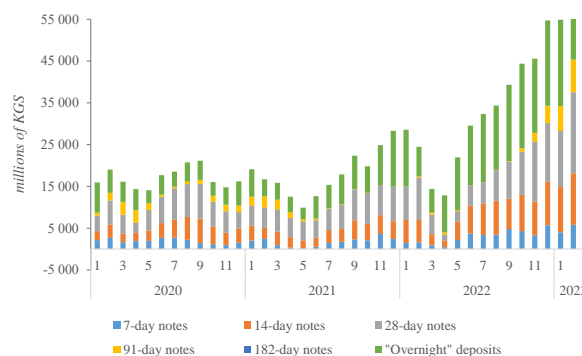


Chart 3.1.4. Structure of Sterilization



Credit Policy of the National Bank

During the reporting quarter, the banking sector used only interbank borrowings to cover temporary gaps in liquidity, there was no need for short-term credit resources of the National Bank (in Q1 2022, the volume of “overnight” credits was KGS 2.7 billion).

At the same time, the National Bank continued to conduct the monetary policy in terms of limiting the operations on provision of long-term KGS liquidity through refinancing instruments.

Foreign Exchange Policy of the National Bank

Demand for foreign currency exceeded supply in the domestic foreign exchange market in different periods of the reporting quarter. This situation was conditioned by the influence of external and internal factors.

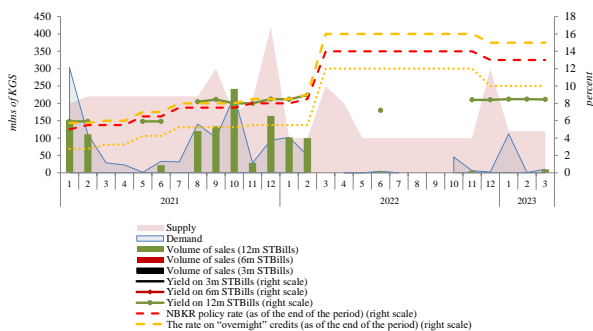
Generally, in Q1 2023, the volatility of the USD/KGS exchange rate increased compared to the previous quarter. Thus, the USD/KGS exchange rate was fluctuating within the range of KGS 85.6800-87.4200 per USD. The average exchange rate increased by 3.5 percent (in Q4 2022, this indicator increased by 3.1 percent) and amounted to KGS 86.7214 per USD.

Under such conditions, the National Bank conducted foreign exchange interventions to sell foreign currency in non-cash form in order to smooth sharp fluctuations of the exchange rate. In the reporting quarter, the total sales of foreign currency in the domestic foreign exchange market increased by USD 87.7 million compared to the previous quarter and amounted to USD 289.9 million, 42.4 percent thereof (USD 122.9 million) accounted for February.

3.2. Financial Market Instruments

Government Securities Market

Chart 3.2.1. ST-Bills Market Indicators



ST-Bills

In Q1 2023, 12-month ST-Bills were in weak demand, sales were at a low level.

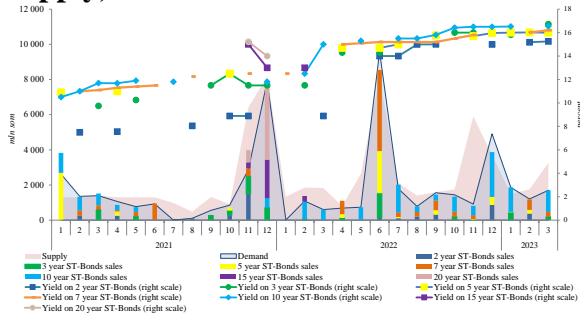
Only 3 auctions were conducted out of 6 offered ones. The monthly volume of supply increased by 20.0 percent, up to KGS 120.0 million, meanwhile the total demand amounted to KGS 123.0 million and was satisfied by 9.5 percent.

The lack of demand for ST-Bills on the part of the market participants, most likely, is due to the greater attractiveness of shorter-term products with 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 88.9 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 23.7 million. The structure of holders moved towards growth in the share of commercial banks and growth in the share of resident legal entities, which was mainly conditioned by full redemption of ST-Bills in the portfolio of institutional investors, 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 Q1 2023, the ST-Bonds market was represented by the securities of all types of maturities, excluding 15- and 20-year maturities. The participants' activity remained moderate. The weighted average yield of ST-Bonds continued to grow due to the main sale of securities with longer maturities.

Totally, 11 auctions were conducted (including 12 additional placements).

The total weighted average yield of ST-Bonds increased due to larger share in the sales structure of securities with longer maturities (7- and 10-year ST-Bonds) and, accordingly, higher yield (16.30 percent in January, 15.75 percent in February, and 16.48 percent in March).

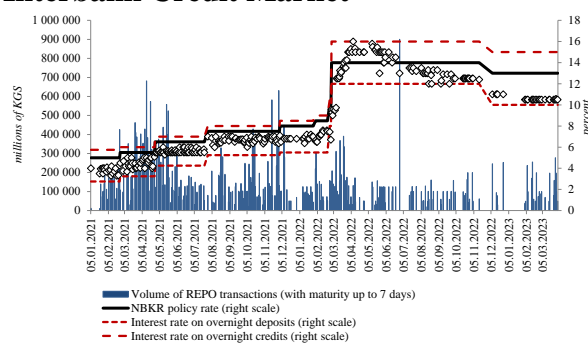
The demand was primarily focused (53.0 percent) on the long-term ST-Bonds (10 years), and it was almost completely satisfied (99.5 percent). Accordingly, 10-year ST-Bonds were mainly sold: their aggregate share constituted approximately 55.5 percent of the total volume of sales over the entire quarter.

ST-Bonds in circulation still demonstrate upward trend. The volume of ST-Bonds in circulation increased by 4.0 percent year-to-date. The structure of the ST-Bonds holders remained almost unchanged: the share of institutional investors constitute half of all the holders (50.8 percent), the share of commercial banks constitute about one third (26.1 percent), and other participants hold one fifth of all ST-Bonds in circulation.

In May, the first 12-month and 2-year ST-Bills auctions are planned on the trading floor of the Kyrgyz Stock Exchange. Auctions will be conducted within the pilot project of the Ministry of Finance of the Kyrgyz Republic to bring government securities to the trading floor of the licensed auctions organizer Kyrgyz Stock Exchange CJSC. Currently, government securities are placed only through the National Bank.

Interbank Credit Market

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



In Q1 2023, the activity in the interbank market recovered to a certain extent compared to the low values in the second half of 2022. In Q1 2023, there were no standard transactions in the national and foreign currencies, only REPO transactions were conducted. Despite the fact that no REPO transactions were conducted in January 2023, the volume of transactions in February-March 2023 exceeded the value of Q4 2022 by 53.1 percent and amounted to KGS 2.9 billion. In February and March 2023, the weighted average rate was 10.5 percent, meanwhile, in October-

December 2022, the average rate was 12.0 percent. In March, the weighted average maturity was 4 days, in February – 2 days, and in Q4 2022 – 1 day.

The demand for REPO transactions exceeded the demand for USD/KGS SWAP transactions despite growth in their volumes amid liquidity surplus and relatively stable situation in the foreign exchange market. The market of SWAP transactions is an alternative source of attracting funds for the commercial banks. In the reporting period, the volume of KGS/KGS SWAP transactions increased by 28.1 percent and amounted to KGS 2.5 billion (in Q4, KGS 1.9 billion). The volume of USD/RUB SWAP transactions decreased significantly by 99.0 percent and amounted to RUB 142.4 million (in Q4, RUB 14.9 billion).

Chart 3.2.4. Market of REPO and SWAP Transactions

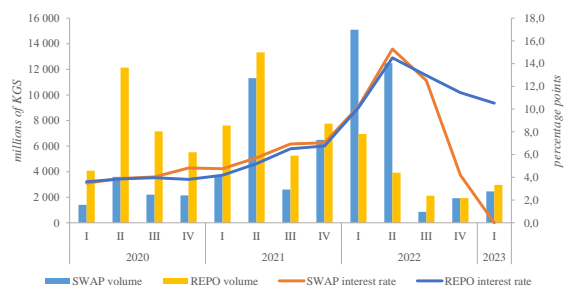
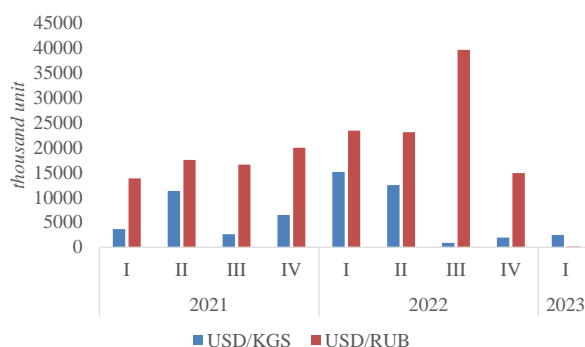
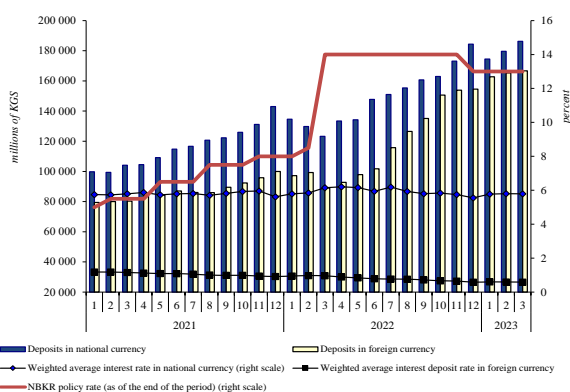


Chart 3.2.5. Dynamics of SWAP Transactions in USD/RUB and USD/KGS Pairs



Deposit Market

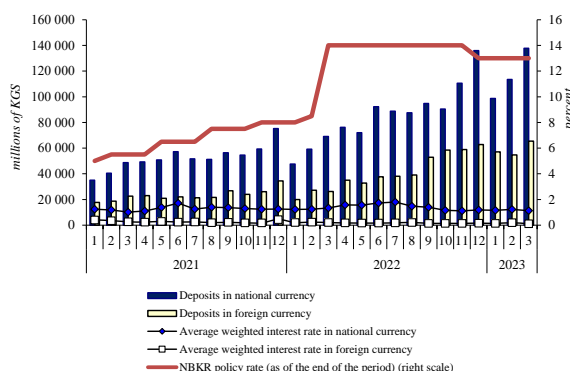
Chart 3.2.6. Dynamics of Commercial Banks' Deposits



by 16.5 percent, settlement accounts – by 7.6 percent and demand deposits – by 4.6 percent.

Dollarization of deposits increased up to 47.2 percent (+1.6 percentage points since December 2022), meanwhile dollarization adjusted for the policy rate increased by 0.9 percentage points, up to 46.5 percent.

Chart 3.2.7. Dynamics of Commercial Banks' Deposits Flows



In Q1 2023 there was stable growth of the deposit base mainly due to an increase in deposits in foreign currency. As of the end of March 2023, the deposit base in the national currency exceeded the index of December 2022 by 1.0 percent and amounted to KGS 186.3 billion. Worth noting is that this growth was mainly due to an increase in time deposits by 6.9 percent since December 2022, while demand deposits increased by 3.4 percent and current accounts decreased by 6.3 percent. The deposit base in foreign currency increased by 7.8 percent due to an increase in time deposits

The interest rates on time deposits in the national currency remained high demonstrating slight downward trend. In March 2023, the interest rate on time deposits in the national currency (balances) decreased by 0.1 percentage point compared to December 2022 and constituted 12.2 percent. The interest rates on new deposits in the national currency decreased by 1.4 percentage points, down to 10.4 percent.

At the end of the reporting period, the concentration index¹ in the deposit market increased by 0.01 percentage point from 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.

beginning of 2023, up to 0.12, which corresponds to the average level of concentration with eight participants with equal shares in the market.

Credit Market

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

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

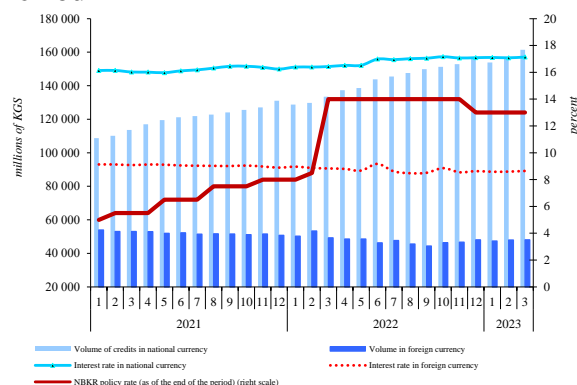
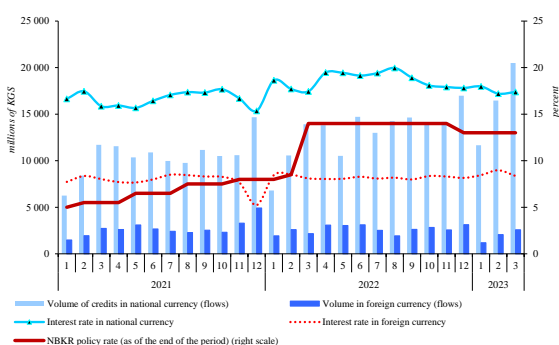


Chart 3.2.9. Dynamics of Commercial Banks New Credits for the Period



The credit market general concentration indicator was stable and formed at the level of 0.08, 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 March 2023, 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 2.9 percent. The share of extended credits in relation to the credit portfolio continued to decline, but still remains at a high level, the value of the indicator amounted to 8.3 percent in March 2023, having decreased by 0.7 percentage points since December 2022.

3.3. Dynamics of Monetary Indicators

In Q1 2023, the monetary base decreased amid foreign exchange transactions conducted by the National Bank, meanwhile the government's fiscal transactions had a restraining effect. The monetary base decreased by 5.8 percent and amounted to KGS 214.2 billion year-to-date, while the decrease observed in January-February was mainly due to foreign exchange transactions of the National Bank. In March, reserve money increased again mainly due to the excess of public sector expenditures.

In Q1 2023, the expansion of reserve money was conditioned by the government sector's transactions. Annual growth rates of monetary aggregates demonstrated an upward trend due to the influence of all components.

In March 2023, credits in the national currency increased by 3.5 percent since December 2022, up to KGS 161.4 billion. Consumer credits (+7.0 percent) and trade (+4.4 percent) demonstrated high rates of lending among the main sectors, meanwhile mortgage credits increased by 3.5 percent and credits to agriculture – by 1.2 percent. The credit portfolio in foreign currencies decreased in January 2023, however, it recovered to the level of December 2022 by the end of March.

Due to this, in March 2023, dollarization of the credit portfolio decreased by 0.6 percentage points, down to 22.9 percent. Dollarization adjusted for the exchange rate decreased by 1.0 percentage point, down to 22.6 percent.

The interest rates of the credit portfolio in the national currency remained at high level amid tight monetary policy. The interest rates on credits in the national currency made 17.1 percent in March 2023, being unchanged since December 2022. The interest rates on credits in foreign currency were 8.6 percent, the same as in December of the previous year.

At the same time, it should be noted that there was a slight decline year-to-date despite growth of the monetary aggregates in annual terms. The downward dynamics of monetary aggregates during the quarter was mainly due to reduction of money outside banks (M0), which decreased by 6.9 percent year-to-date and amounted to KGS 164.2 billion at the end of the period. Monetary aggregate M1 (narrow money) decreased by 7.3 percent and amounted to KGS 254.2 billion, M2 (broad money) decreased by 5.7 percent and amounted to KGS 316.2 billion, and M2X, including deposits in foreign currency, decreased by 2.8 percent and amounted to KGS 431.2 billion by the end of the period. The total volume of deposit base decreased by 0.1 percent year-to-date and amounted to KGS 267.1 billion.

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

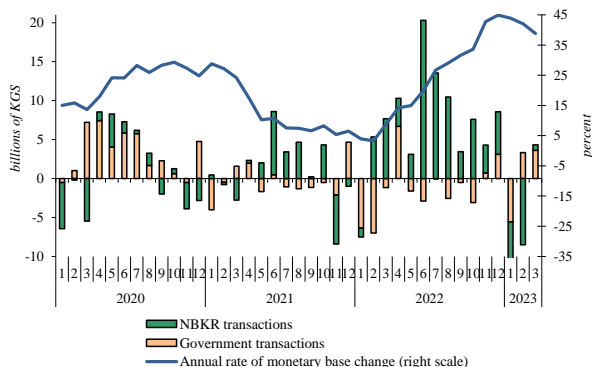
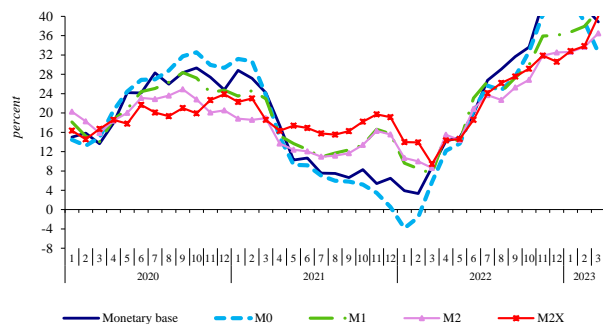


Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



Chapter 4. Inflation Dynamics

In Q1 2023, the inflation rates demonstrated slowdown in Kyrgyzstan in annual terms after its peak values, meanwhile there was uncertainty and geopolitical risks in the foreign economic environment, which still put upward pressure on prices in the Kyrgyz Republic. World prices for food products decreased during the whole reporting period and will gradually begin to have downward effect on inflation in the Kyrgyz Republic.

4.1. Consumer Price Index

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

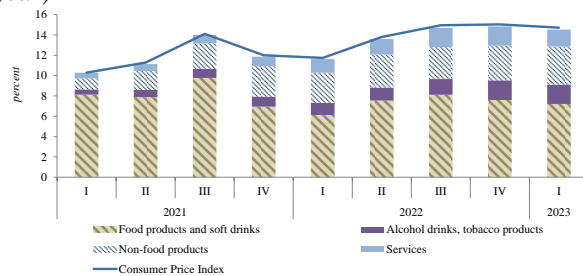


Chart 4.1.2. Dynamics of CPI Contributions
(year-to-date)

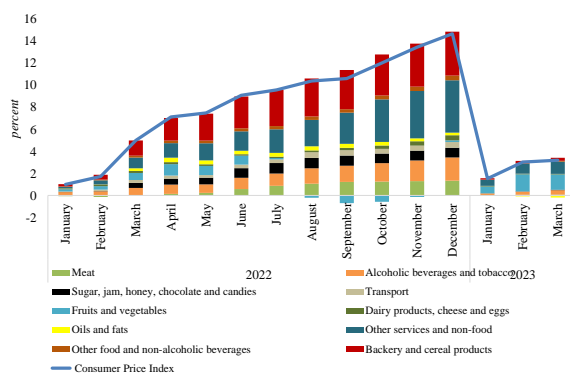
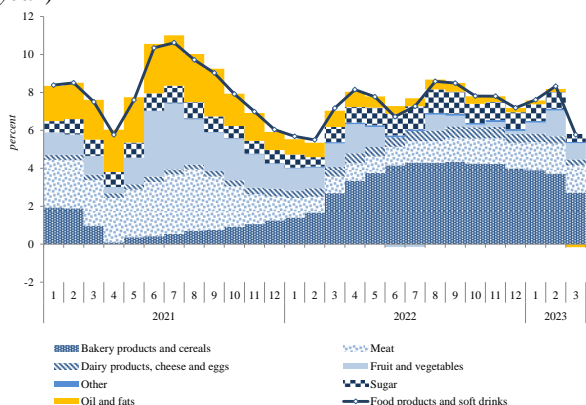


Chart 4.1.3. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



In Q1 2023, the inflation rate was **14.7 percent (Q1 2023/Q1 2022)**, however, the annual inflation rate (March 2023 to March 2022) decreased down to **12.7 percent primarily due to the base effect of 2022**. Since the beginning of 2023, acceleration of the inflation rate was conditioned by gradual increase in food prices during January-February 2023, reflecting emerging foreign economic and geopolitical conditions. The growth rate slowed down by the end of Q1, mainly due to a decrease in the growth rate of food products and stabilization of the national currency exchange rate.

The main contribution to an increase of the CPI, as in Q4 2022, was made by the groups “**food products and non-alcoholic beverages**” (contribution to the CPI – **7.2 percentage points**) and “**non-food products**”. Prices for food products and non-alcoholic beverages decreased from 16.8 percent down to 12.7 percent in annual terms due to high base of the last year. At the same time, in the reporting quarter, the growth rates of prices for food products increased due to rise in prices for meat, high- and first grade flour, sugar, dairy products, fruits and vegetables (the total contribution of these goods to the CPI was 5.1 percentage points).

Contribution of the non-food products increased from 3.0 percentage points in Q1 2022 up to 3.7 percentage points in annual terms, and the prices increased by **12.9 percent**. Geopolitical tension worldwide, the favorable situation in the foreign markets of imported goods, and the effects of exchange rate volatility on

prices in early 2023 were the factors of non-food inflation. A decrease in prices for gasoline and diesel fuel prices had a slight downward effect on non-food inflation.

Chart 4.1.4. Dynamics of Non-Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

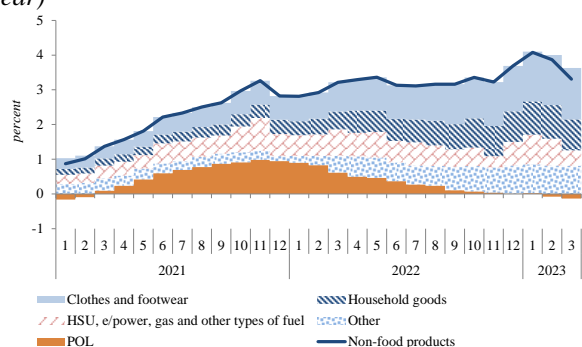
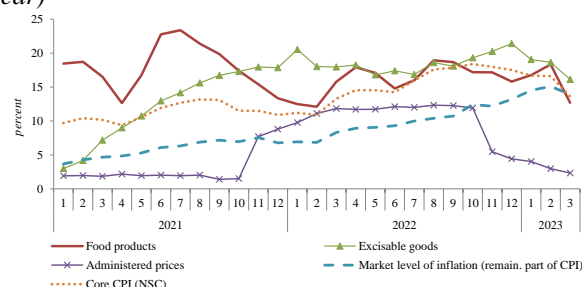


Chart 4.1.5. Dynamics of CPI by Groups of Commodities
(month to the corresponding month of the previous year)



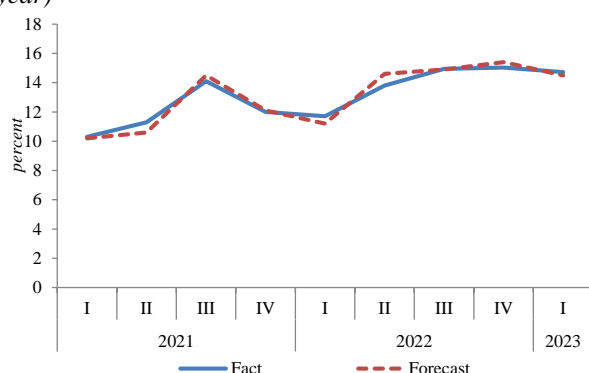
market inflation rate increased by 14.5 percent.

In Q1 2023, prices for clothes and footwear (+13.8 percent), household appliances (+23.9 percent), electricity, gas, other fuels (+6.6 percent), and other goods made the largest contribution to the rise in prices for non-food products. In the reporting quarter, prices for petroleum, oil and lubricants decreased by 5.1 percent, meanwhile, price for diesel fuel grew by 21.8 percent due to an increase in selling prices at the Russian refineries and seasonal deficit in the domestic market of Russia.

In Q1 2023, prices for paid services increased by 9.9 percent (in Q1 2022 – 7.9 percent), which was mainly supported by rise in prices for services in the groups “various goods and services”, “restaurants and hotels”, “education” and “recreation, entertainment and culture”. In Q1 2023, the core inflation compared to the same period of 2022, according to the methodology of the NSC KR, was 15.6 percent. In March 2023, the market inflation rate continued to grow and amounted to 13.9 percent in annual terms, meanwhile, the average annual

4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values
(quarter to the corresponding quarter of the previous year)



In Q1 2023, the actual inflation rate increased by 0.2 percentage points compared to the National Bank’s expectations.

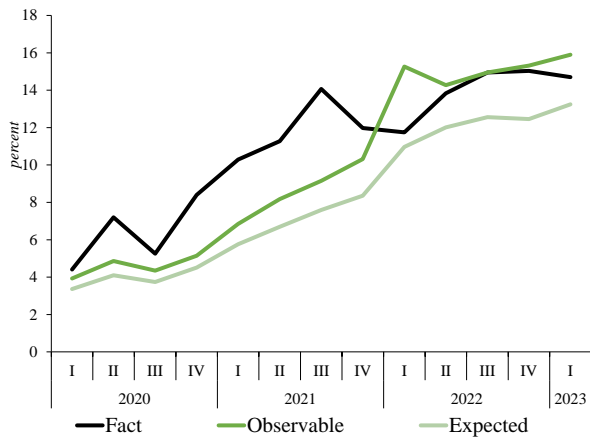
Deviation of the expected inflation rate from the actual one was conditioned by more accelerated rates of food inflation compared to expectations amid price volatility in the world commodity markets and geopolitical uncertainty.

Inflation Expectations

In Q1 2023, inflation expectations of the population, according to the surveys of the NSC KR, increased. The gap between observed and actual inflation increased, which reflects a stable trend of high prices expectations among the population (Chart 4.2.2). However, the enterprises’ price expectations remain at the level of the last months of 2022 (Chart 4.2.3). Due to the revision of the calculation methodology the numerical values of inflation expectations differ from the results of the previous Monetary policy reports of the Kyrgyz Republic, however the main sense and the narration consequence remain unchanged.

Chart 4.2.2. Actual Inflation Value and Expected Inflation of Households

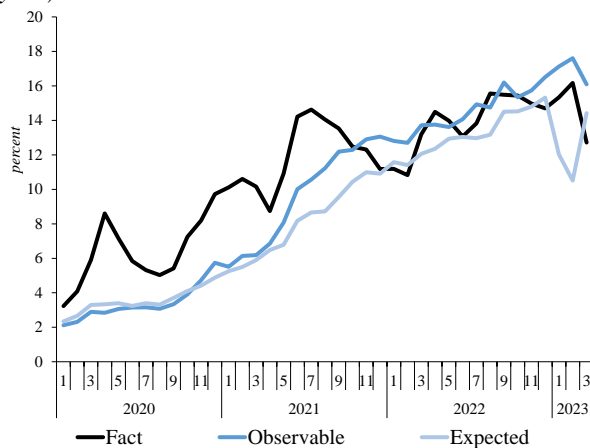
(quarter to the corresponding quarter of the previous year)



March, an increase in the enterprises' price expectations again demonstrated an upward trend,

Chart 4.2.3. Actual Inflation Value and Expected Inflation of Enterprises

(month to the corresponding month of the previous year)



In Q1 202, there was an increase in inflation expectations of the population. The share of respondents expecting accelerated price growth increased up to 43.4 percent (+1.5 percentage points compared to Q4 2022) due to acceleration of price growth during January-February 2023. Taking into account significant rise in prices in early 2023, steady high inflation expectations of the population should be forecasted.

In February 2023, the enterprises' inflation expectations decreased down to 10.5 percent in annual terms (-1.5 percentage points by January 2023) due to an increase in the share of enterprises expecting decrease in prices. However, in

March, an increase in the enterprises' price expectations again demonstrated an upward trend, however these values did not exceed the indicators of December 2022. A conclusion of inflationary pressure decrease can be made taking into account the fact that the enterprises have already included in their expectations an active fiscal policy, which began in 2022 and will continue during the current year, and plans to increase a number of administrative tariffs, as well as to decrease the actual inflation rate in March 2023.

If inflation expectations remain moderately low for a long period of time, it may potentially change the economic agents' behavior. Such situation may accelerate achievement of the medium-term inflation target by the National Bank.

Chapter 5. Medium-Term Forecast

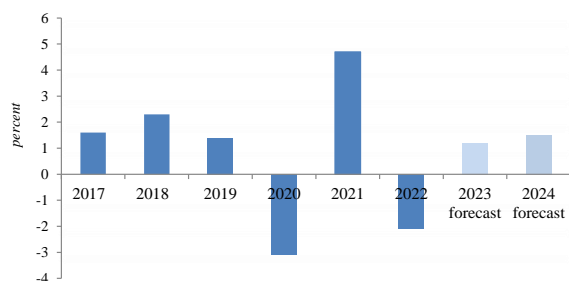
5.1. External Environment Proposals

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

GDP growth is expected in the current and the coming years considering adaptation of the economy.

The Bank of Russia forecasts that gradual adaptation of the economy to foreign trade conditions will ensure economic growth by 0.5-2.0 percent in 2023, and by 1.5-2.5 percent in 2024. There are signs of recovery in consumer demand amid improved consumer sentiment due to expansion of the social benefits and increased availability of imported goods. Expansion of public investment increases

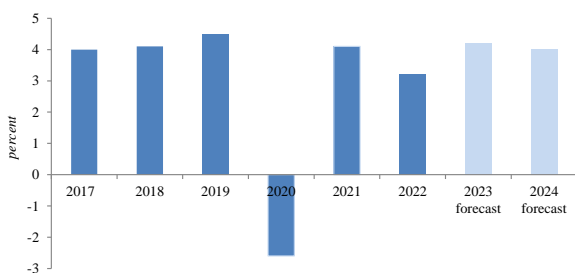
contribution of the fiscal policy to growth of aggregate demand. However, growth is likely to weaken in case of escalation of the situation in Ukraine, rise in prices for food products and energy resources, or accelerated increase in the key rates worldwide.

According to the Bank of Russia's forecast, the inflation rate will reach the target level only in 2024. Inflation expectations of the population decreased, meanwhile price expectations of the companies in most sectors continued to rise. The Bank of Russia forecasts the inflation rate within the range of 4.5-6.5 percent for the current year considering the economy's adaptation to the sanctions.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

A moderate increase in the rates of economic growth is expected in Kazakhstan.

According to the World Bank's estimates Kazakhstan's economy will demonstrate moderate acceleration with real GDP growth by 3.5 percent in 2023 and by 4.0 percent in 2024. The hydrocarbon sector will be the main driver for growth through increased oil production. The forecast for 2023 was revised downward compared to prewar forecasts due to weakening growth prospects in the economies of the main

trading partner countries and high domestic inflation rate, which resulted in a decline of purchasing power.

According to the baseline scenario of the Ministry of National Economy of the Republic of Kazakhstan, in 2023, GDP will grow by 4.2 percent due to a prudent and responsible fiscal policy.

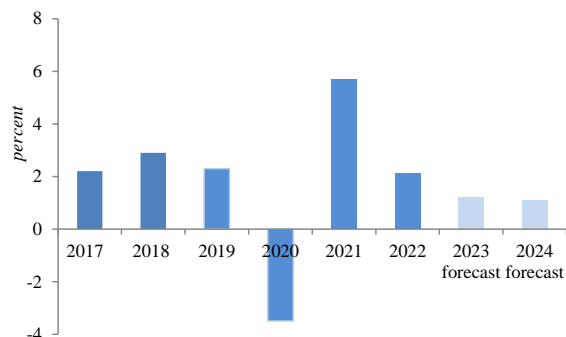
The inflation rate will return to the target range only next year. In 2023, the inflation rate is forecasted to remain above the target range of 4.0-6.0 percent due to high prices for food products and imported intermediate goods, and will return to the target range in 2024. The inflation rate increased to its highest level since the late 1990s partially due to an increase of wages in different sectors and anti-crisis measures of fiscal backup. Prices

increased in all sectors, however, rise in prices for food products was the main driver for inflation acceleration.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg, international financial institutions

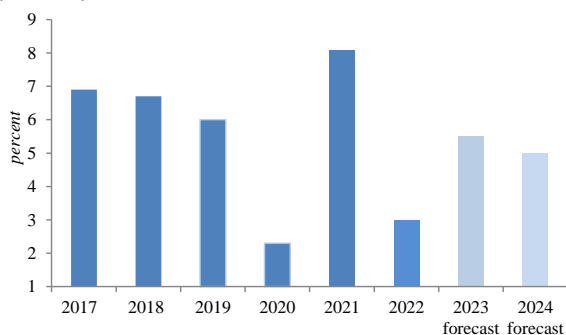
growth were also slightly decreased.

According to the US Federal Reserve System, it becomes increasingly difficult for the economic entities to pass on cost growth to their consumers, and rise in prices will remain moderate in the medium term. The US Federal Reserve System expects the PCE¹ index to increase by 3.3 percent in 2023, however, an increase by 3.1 percent was previously expected. Estimates for 2024 and 2025 remained unchanged at 2.5 percent and 2.1 percent, respectively. The US Federal Reserve System’s median forecast suggests the key rate at 5.1 percent in 2023 and some monetary policy easing is expected thereafter (the key rate will decrease down to 4.3 percent in 2024 and 3.1 percent in 2025).

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



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

According to the US Federal Reserve System, negative events with occurred in the banking system in March 2023 are likely to result in tightening of lending terms for the households and the enterprises, which can have a negative impact on economic activity, the labor market and inflation.

The degree of influence of these effects remains uncertain and slowdown of economic growth is expected amid increased risks of recession and stable geopolitical tensions. In this regard, the international analysts’ forecasts regarding the US GDP

The experts revised economic growth prospects of China towards even higher growth after the positive results observed in Q1.

Leading international media organizations and well-known economists said that China’s economic data are encouraging and that recovery in economic activity and demand in China will further stimulate global economic growth. The Chinese government expects growth by 5.0 percent in 2023.

Bloomberg analysts expect China’s GDP to increase by 5.5 percent in 2023 and by 5.0 percent in 2024. In March, the IMF updated its forecast up to 5.4 percent in 2023 and 4.5 percent in 2024. The World Bank raised its forecast up to 5.1 percent in 2023 and 5.0 percent in 2024.

The analysts believe that consumer inflation in 2023 may fail to achieve the official target of 3.0 percent and estimate it at 2.0 percent given the current price situation.

¹The Personal Consumption Expenditure Price Index (PCE inflation) is among inflation indicators in the USA that tracks changes in prices of goods and services purchased by the consumers throughout the economy. PCE includes the broadest set of goods and services among all indicators of consumer price inflation.

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 made taking into account as many shocks and preconditions of the current period as possible, as well as based on expert assessments and forecasts of the world research agencies and institutions.

Assumption on development of external conditions and domestic conjuncture for Q1 2023 primarily corresponded to the baseline scenario approved at the meeting of the Board of the National Bank in February 2023.

Thus, in Q1 2023, easing of monetary conditions and expansionary fiscal policy still had a positive effect on aggregate demand and, accordingly, on economic activity in the Kyrgyz Republic. The current dynamics of domestic production continued to outstrip the rates of economic growth in the trading partner countries, which was also determined by the upward dynamics of consumer lending.

In Q1 2023, volatility of the world oil prices was observed amid geopolitical risks and uncertainty in the international banking sector. In particular, at the end of March 2023, prices for oil decreased to their minimum level of 2021 due to the concerns that risks in the banking sector would condition a recession, which, in turn, could result in decrease of demand for oil. However, the news that a number of OPEC+ countries reduced production output since May till the end of 2023 to “maintain oil market stability” contributed to keeping year-end forecasts unchanged in line with the baseline scenario of the previous Monetary policy report of the Kyrgyz Republic.

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 current year.

Stably high external and internal inflationary environment, as well as consistently high inflationary expectations of the economic agents condition the current inflation rate in the country, which exceeds the equilibrium level.

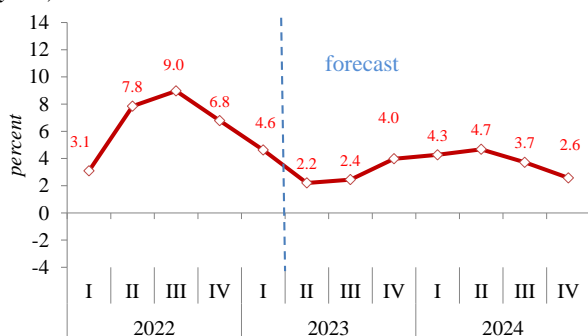
Baseline scenario of the medium-term forecast takes into account geopolitical tension, stable price movement in the world commodity markets, stable high inflation expectations and expansionary fiscal policy.

The following forecast of the key macroeconomic indicators of the Kyrgyz Republic for 2023-2024 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 2023, 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)

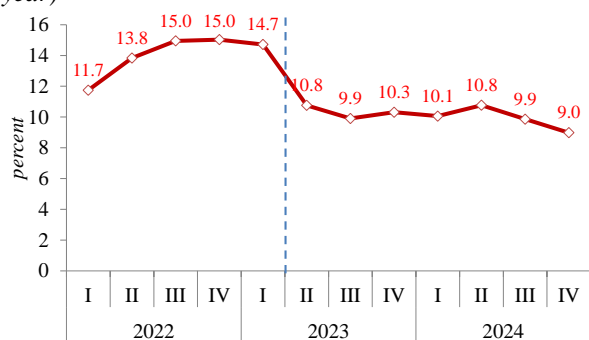


sectors.

In 2024, the real GDP growth is expected at about 3.7 percent, excluding “Kumtor” gold-mining enterprises GDP growth is expected at about 3.9 percent.

At the end of 2023, the real GDP growth will be at about 3.3 percent, excluding “Kumtor” gold-mining enterprises, GDP growth will be at about 4.6 percent. Production at the Kumtor mine is expected to be lower than the previous quarter's forecasts. In terms of sectors, economic growth in the current forecast is supported by agriculture (due to livestock and crop production), industry (due to resumption of idle and maintaining stability of production output at the existing enterprises), services and construction

Chart 5.2.2. Inflation Forecast
(quarter to the corresponding quarter of the previous year)



At the end of 2023, the inflation rate (December to December of the last year) is forecasted within the range of 10-12 percent. Inflation estimates were not changed much compared to the previous Monetary Policy Report of the Kyrgyz Republic taking into account growing inflationary pressure from aggregate demand and inflation expectations in the current forecast session.

Non-food products made more significant contribution to inflation in the current forecast for 2023. At the end of Q1 of the current year, their growth increased

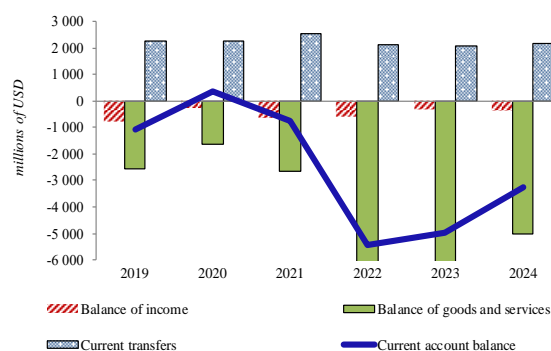
compared to expectations of the previous forecast session. Contribution of the administrative prices decreased due to the news on cancelled increase in tariffs for public transport (which were expected in May 2023). The food inflation contribution remained relatively unchanged compared to the previous Monetary Policy Report of the Kyrgyz Republic. In addition, in 2023, good harvest is expected in the Central Asian region at the level of average yield indices during the past five years, which will potentially contribute to restraining of growth in prices for food products. Inflationary environment will be formed depending on the intensity of new tariffs adopted by the state bodies, as well as on the dynamics of the KGS/USD exchange rate.

2023-2024 Balance of Payments forecast¹

The forecast of the country's balance of payments indicators for 2023 was adjusted taking into account the data of the actual period and specified initial development conditions of the Kyrgyz Republic's trading partner countries. The data of the actual period still demonstrate changed terms of external trade. Assessments of economic growth of the Kyrgyz Republic were retained, and the main trading partner countries were revised upward, however, the external sector carries on being characterized by a high degree of uncertainty.

At the end of 2023, the negative balance of goods and services is expected to be the determining factor for the formation of the current account deficit at the level of 41.1 percent to GDP.

Chart 5.2.3. Forecast Data on Current Account



(millions of USD)

Data of the actual period determined the renewal of expectations for external trade due to previously established restructuring of supply chains in the region. Moreover, the situation with world prices for food and energy resources significantly influenced the indicators of exports and imports. The trade deficit is expected to remain high due to the stable upward trend of imports over exports.

In accordance with forecast expectations, by the end of 2023, exports will exceed the level of 2022 by 48.9 percent. Supplies of gold, agricultural goods, processing industry, as well as textile and garment industry will provide significant support to exports.

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

Imports is projected to remain at the high level (increase by 8.6 percent compared to 2022). Consumer and intermediate goods will also prevail in the structure of imports. Energy product supplies are expected at the lower level than in the previous year, including at the expense of a decline in the global energy prices.

The data of the actual period served as the basis for the projections adjustment on the net inflow of current transfers. According to the updated forecast, the net inflow of private transfers will grow slightly by 0.3 percent. However, the inflow of official transfers is still expected to be below the level of the previous year.

The balance of the item “services” will develop negative under the influence of remaining high volumes of transport services received in connection with the forecasted goods turnover.

Expected current account deficit will require a significant amount of financing from the financial and capital account. Direct and other foreign investments are expected to be the main source of financial capital inflow. Repayment of previously received loans of the public and private sectors will remain at a significant level.

Revised forecast for development of the external sector of the economy in 2023 determined inherent expectations for further shaping the balance of payments for 2024. Generally, there are unchanged assumptions about positive rates of economic development in the Kyrgyz Republic amid uncertainty worldwide due to geopolitical events.

In 2024, the current account balance is expected at 24.1 percent to GDP under the influence of a combination of factors resulted from a relative reduction of the trade deficit amid the positive dynamics of private transfer inflow. Forecasted growth of exports and moderate decline of imports is estimated to predetermine a contraction of the negative trade balance by 23.6 percent compared to 2023. It is assumed that the volume of receipts of current transfers will increase by 4.1 percent as a result of growth in remittance inflow by 5.0 percent.

In 2024, 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 external borrowed capital, and the trend of increased servicing of previously received loans and borrowings will remain at a significant level.

The following risks persist in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2023-2024:

- high degree of geopolitical uncertainty;
- volatility in the world prices for petroleum, 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)

Indicator	Unit of measure	2020				2021				2022				2023
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Demand and supply¹														
<i>(real growth rates, if otherwise is not indicated)</i>														
Nominal GDP, per quarter	mln. KGS	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	270 129,4	296 874,5	183 892,2
GDP	%	2,3	-11,8	-7,5	-12,8	-8,4	5,1	1,6	11,9	4,5	7,8	9,0	6,8	4,6
GDP, excluding Kumtor	%	1,5	-14,3	-8,0	-11,6	-4,0	10,3	2,3	6,0	3,8	4,0	6,9	7,9	3,9
Domestic consumption	%	5,0	-19,0	-2,5	-8,3	-1,9	26,3	4,6	15,8	4,2	9,3	5	-	-
Investment	%	-40,0	-47,2	-30,1	-10,8	8,0	-116,1	24,1	54,8	207,3	573,4	38,4	-	-
Net export	%	-27,1	-67,2	-27,4	14,1	30,2	10,8	67,3	93,6	152,2	312,1	173	-	-
<i>GDP production:</i>														
Agriculture	%	0,6	0,7	1,0	0,7	1,7	-1,5	-7,6	-5,0	2,3	1,8	8,3	8,0	1,9
Industry	%	4,4	-2,7	-8,2	-18,6	-15,2	-5,2	1,3	44,9	8,3	20,6	20,5	2,0	7,5
Construction	%	-2,5	-12,7	-5,7	-25,0	-19,8	-12,7	-3,3	1,9	2,2	4,1	2,3	14,6	2,4
Services	%	1,9	-17,8	-11,7	-9,4	-5,1	14,6	8,5	7,3	3,4	4,6	6,7	6,7	4,1
including trade	%	3,6	-30,9	-14,8	-14,2	-12,2	35,2	12,3	12,2	6,3	6,8	11,0	10,4	8,4
2. Prices²														
CPI	%	104,4	107,2	105,3	108,4	110,3	111,3	114,1	112,0	111,7	113,8	115,0	115,0	114,7
CPI, in annual terms as of the end of period	%	105,9	105,8	105,4	109,7	110,2	114,2	113,5	111,2	113,2	113,1	115,5	114,7	112,7
Core inflation	%	103,5	105,8	105,3	108,1	110,1	110,6	113,0	111,3	111,8	114,4	117,4	118,0	115,6
<i>CPI by main groups of goods and services:</i>														
Food products	%	108,1	113,4	109,7	115,4	117,9	117,3	121,5	115,3	113,5	116,6	117,9	116,7	115,9
Non-food products	%	100,9	102,1	101,6	102,0	103,7	106,4	108,6	110,4	110,3	111,2	110,9	111,8	121,9
Alcohol drinks and tobacco products	%	104,2	105,3	105,7	106,3	106,0	108,3	110,4	111,3	113,6	114,9	117,8	122,5	112,9
Services	%	101,0	101,0	100,0	102,3	103,3	104,1	105,0	105,4	107,9	109,0	111,1	111,0	109,9
<i>CPI, classified by character:</i>														
Excisable goods	%	103,1	103,3	102,8	103,4	102,1	102,3	115,5	117,7	118,8	117,5	117,9	120,3	117,9
Regulated prices	%	102,7	102,7	102,8	102,8	102,7	102,7	101,8	106,0	110,9	111,9	112,2	107,0	103,1
Market inflation rate (the rest of CPI)	%	100,8	101,9	101,3	102,6	101,0	102,2	106,8	107,1	107,4	109,1	110,4	112,6	114,5
3. External sector³														
<i>(in percent to GDP)</i>														
Trade balance	% to GDP	-27,5	-22,3	-18,3	-18,6	-19,6	-19,4	-23,5	-28,3	-37,2	-50,5	-62,7	-62,0	-62,8
Current transaction account	% to GDP	-9,0	-4,0	0,4	4,8	3,8	4,9	-1,1	-8,7	-19,7	-35,2	-47,7	-49,3	-51,1
Export of goods and services	% to GDP	34,7	34,3	33,5	31,6	31,0	39,2	39,9	38,6	37,7	31,4	29,7	32,4	32,6
Import of goods and services	% to GDP	61,5	56,3	53,2	52,5	53,5	61,4	65,8	69,5	77,6	84,0	94,4	95,3	95,9
4. USD exchange rate, as of the end of period														
	KGS	80,8100	75,9887	79,6000	82,6498	84,7792	84,6640	84,7907	84,7586	83,3090	79,5000	80,1829	85,6800	87,4200
5. Monetary sector														
NBKR policy rate, as of the end of period	%	5,00	5,00	5,00	5,00	5,50	6,50	7,50	8,00	14,00	14,00	13,00	13,00	13,00
Rate of "overnight" deposit, as of the end of period	%	2,75	2,75	2,75	2,75	3,25	4,25	5,25	5,50	12,00	12,00	12,00	10,00	10,00
Rate of "overnight" credit, as of the end of period	%	5,75	5,75	5,75	5,75	6,00	7,00	8,00	8,50	16,00	16,00	16,00	15,00	15,00
Average interest rates of operations in the interbank credit market, per quarter	%	3,55	3,85	3,79	3,79	4,15	5,30	6,50	6,76	10,12	14,51	12,97	12,00	10,52
<i>of which:</i>														
of REPO transactions	%	3,55	3,85	3,97	3,84	4,15	5,32	6,52	6,76	10,12	14,51	12,97	12,00	10,52
of credits in national currency	%	-	-	-	-	-	-	-	-	-	-	-	-	-
of credits in foreign currency	%	-	-	2,50	2,50	-	-	7,00	-	-	-	-	-	-
Weighted average yield of 7-day notes, as of the end of period	%	3,97	3,95	3,95	4,01	4,50	5,26	6,08	6,57	11,86	13,11	12,82	11,41	10,35
Weighted average yield of 14-day notes, as of the end of period	%	4,15	4,32	4,20	4,50	5,03	5,64	6,50	6,93	11,45	13,57	13,11	12,17	11,27
Weighted average yield of 28-day notes, as of the end of period	%	4,31	4,52	4,37	4,62	5,15	6,12	6,87	7,26	11,09	13,82	13,46	12,57	12,37
Weighted average yield of 91-day notes, as of the end of period	%	4,48	4,65	4,70	4,70	5,45	5,43	7,45	-	-	-	15,19	13,81	13,52
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	-	-	-	-	-
Monetary base	%	13,6	24,1	28,3	24,8	24,2	10,7	6,6	6,5	8,8	19,8	31,7	44,9	38,8
Money outside banks (M0)	%	14,9	26,9	31,7	29,3	23,7	9,2	5,8	0,5	5,7	20,5	27,5	41,3	32,5
Monetary aggregate (M1)	%	14,0	24,4	28,4	24,7	22,9	12,4	12,3	15,7	7,4	23,1	27,3	36,1	41,2
Narrow money supply (M2)	%	15,9	23,1	24,9	20,5	18,9	12,0	11,7	15,6	8,6	20,8	25,3	32,5	36,5
Money supply (M2X)	%	16,7	21,7	21,0	23,9	18,6	16,9	16,2	19,1	9,5	18,6	27,5	30,6	40,0

^{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 Q1 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 state administration bodies 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, 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 issued by the Ministry of Finance of the Kyrgyz Republic. 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 with the interest income (coupon) and maturity over one year issued by 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	CO rona VI rus 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