

Monetary Policy Report

(Review of Inflation in the Kyrgyz Republic).

Quarter 4, 2014

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Summary

At the end of 2014, the inflation rate was within the benchmark specified by the Main Directions of Monetary Policy for 2014-2017. However, seasonal increase of consumer prices was observed in Q4 2014. Over 2014, the inflation rate was formed by the external and internal factors, which resulted in increase in prices for the main types of consumer goods and services. The major factors are as follows: decline of production output in the agricultural sector of the country; the global strengthening of the US dollar positions in the financial markets of the main trading partner countries as well; increase in selling prices for fuels and lubricants; increase in price for imported wheat; growth of tariffs for the services rendered by housing and public utility sector. Inflation rate in annual terms increased from 7.4 percent at the end of Q3 2014 to 10.5 percent at the end of Q4 2014. Over this period, the inflation dynamic was mainly defined by seasonal factor, by internal prices impacted by the increase in exchange rate of US dollar to Som, and by inflationary expectations associated with external factors. In 2014, the average annual inflation value constituted 7.5 percent.

Slowdown of economic growth in the country was still observed in Q4. According to the preliminary data, real GDP growth in 2014 was 3.6 percent (in January-September 2014 – 3.8 percent). In Q4, economic trends were defined by growth in the sector of services, construction and agriculture, as well as with decrease of the production output in the industrial sector.

At the end of 2014, the state budget deficit made KGS 1.9 bln. or 0.5 percent to GDP (in 2013, the deficit amounted to KGS 2.3 bln. or 0.7 percent to GDP). In 2014, the overall revenues increased by 17.2 percent compared to the same indicator of 2013, meanwhile, the overall state budget expenditures increased by 16.3 percent. In 2014, execution of the republican budget revenues constituted 103.0 percent, which resulted from implementation of the plan of collection of tax revenues by 101.3 percent and non-tax revenues by 113.8 percent. Financing of the republican budget spending was executed by 97.7 percent.

At the end of Q4, the balance of payments of the Kyrgyz Republic was negative and amounted USD 69.3 mln. Current account deficit is expected to increase up to 42.4 percent to make USD 241.6 mln. (13.3 percent to GDP). Observed dynamic is mainly connected with a downside of the current transfers account, the balance thereof will decrease by 23.0 percent.

In major trading partner countries the economy growth slowdown was observed. At the end of 2014, economic development of China made 7.4 percent, in Russia it amounted to 0.6 percent, and in Kazakhstan it made 4.3 percent.

The NBKR continued pursuing the policy of floating exchange rate; its participation in the FX market was more active to smooth acute fluctuations. In Q4 the net position of the NBKR currency intervention amounted to USD 220.2 mln. Som depreciated by 8.0 percent in Q4.

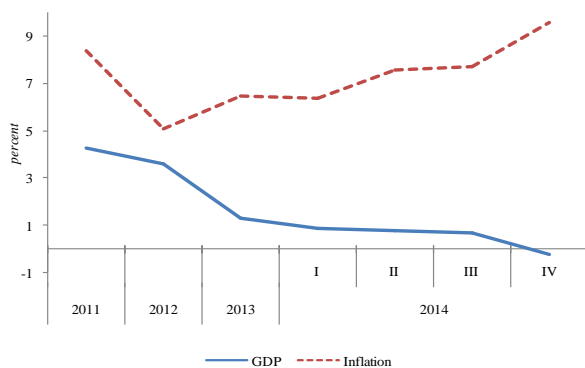
The monetary base decreased by 7.3 percent in Q4. An increase of deposits in foreign currency determined insignificant growth rates of M2X broad money supply, which increased by 0.9 percent within the quarter.

Chapter 1. External Environment

1.1. Economic Development of Major Trading Partner Countries

Diagram 1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



Source: Ministry of Economic Development of the RF, IA Blumberg

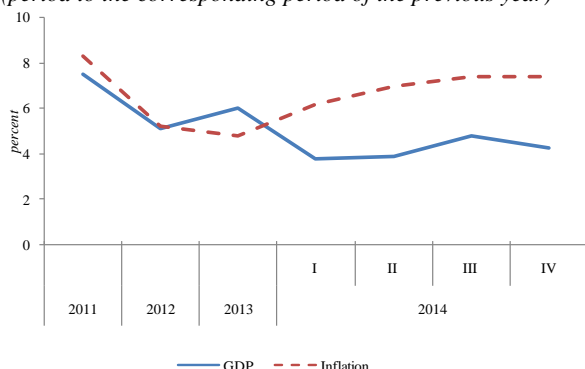
Russia

According to assessment of the RF Ministry of Economic Development, in Q4 2014 the rate of economic growth in Russia decreased to 0.2 percent. According to the preliminary data provided by the Russian Federal State Statistics Service, economic growth of Russia in 2014 exceeded the forecasted value by 0.1 p.p. and made 0.6 percent (1.3 percent in 2013). Slowdown of economic growth in Russia in 2014, was primarily determined by structural issues combined with sanctions imposed by the West and significant decrease in prices for oil in the second half of 2014, as well as decrease of investment activity, substantial outflow of capital and negative dynamic in the sphere of construction. Meanwhile, the agriculture, manufacturing industry and the sphere of trade were the main drivers of economic growth in Russia.

Significant weakening of the Russian Ruble in Q4 2014 due to sharp decline in prices for oil and long lasting impact of retaliatory sanctions imposed by the Russia on imports of the western food products accelerated inflation rates in Q4 2014 to a great extent. Thus, inflation made 9.6 percent in Q4 against 6.4 percent in the comparable period of 2013; meanwhile, the general inflation rate in 2014 was 7.8 percent against 6.8 percent in 2013.

Diagram 2. GDP Growth and Inflation in Kazakhstan

(period to the corresponding period of the previous year)



Source: RK Statistics Agency

Kazakhstan

In 2014, economic growth in Kazakhstan was negatively impacted by external factors, slowdown of GDP growth at the end of the year made 4.3 percent against 6.0 percent in 2013. The main reason of decrease in GDP growth was decline of demand for the goods produced in Kazakhstan in the foreign markets, primarily in Russia; decrease of output in the oil production sector, restriction of consumer demand after 19-percent devaluation of the Kazakh Tenge in February 2014, as well as decrease in prices for oil and metals in the international market.

Adjustment of the national currency exchange rate in February 2014 and corresponding increase in prices for imported goods, seasonal deficit of oil products in the domestic market of Kazakhstan, which resulted in increase in prices for petrol and diesel fuel, conditioned accelerating inflation in Kazakhstan. Thus, inflation in Kazakhstan in

December 2014 made 7.4 percent as compared to December 2013, annual average inflation rate was 6.7 percent. Prices for food products increased by 8.0 percent in the previous year, for non-food products – by 7.8 per cent, for paid services – by 6.4 percent.

USA

In 2014, American economy demonstrated maximum growth rates, since 2010, the US GDP increased by 2.4 percent compared to 2013. Decline in economic activity in Q1 2014 due to unfavorable weather conditions was compensated by steady growth in Q2 and Q3. In Q4 2014, economic growth rate made 2.6 percent. Ongoing positive dynamics of expenses for personal consumption, as well as increase of investments and export contributed to economic growth in Q4. Significant growth in imports and reduction of current public expenses had restraining influence on GDP growth. The FRS quantitative easing program was completed at the end of October 2014.

In December 2014, CPI increased by 0.8 percent in annual terms, having decreased by 0.5 percent as compared to the level observed in November of the current year. Decrease in prices for goods and services of the fuel and energy group was the main factor for smoothing inflation rates.

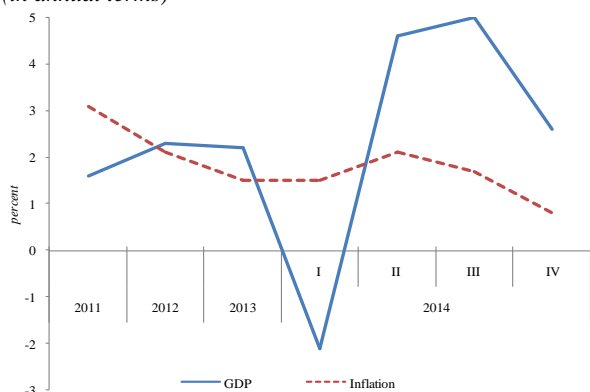
China

Switch to lower growth path, i.e. “new standard” was observed in the economy of China. According to official assessments, in Q4 2014, economic growth in the PRC made 7.3 percent as compared to the corresponding quarter of 2013. Generally, GDP growth in 2014 amounted to 7.4 percent against 7.7 percent in 2013. Economy slowdown was primarily due to structural economic reforms carried out by the PRC government, as well as contraction in the real estate market, which had negative effect on the related sectors of economy. The increment rates of industrial production, investments in capital stock and retail trade decreased insignificantly compared to 2013. Steady growth in the number of employed people and improvement in the economic structure were observed in this period. The role of the services sphere in the economic growth became more significant, expenses for ultimate consumption approached 51.2 percent of GDP.

In 2014, average inflation rate in the PRC made 2.0 percent. In December, CPI increase made 1.5 percent in annual terms.

Diagram 1.1.3. GDP Growth and Inflation in the USA

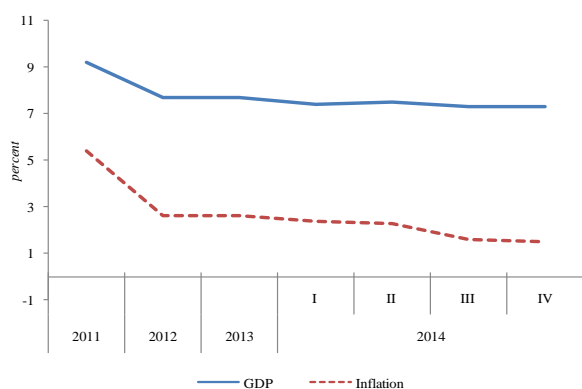
(in annual terms)



Source: Ministry of Trade of the USA, IA Reuter

Diagram 1.1.4. GDP Growth and Inflation in China

(quarter to the corresponding quarter of the previous year)

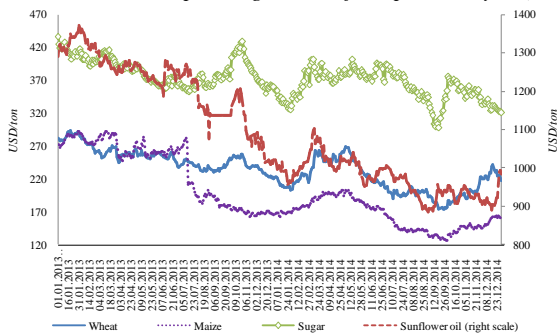


Source: The National Statistics Bureau of the PRC

1.2. International Commodity and Raw Stock Market

Diagram 1.2.1. Dynamic of Prices for Food Products

(month to the corresponding month of the previous year)



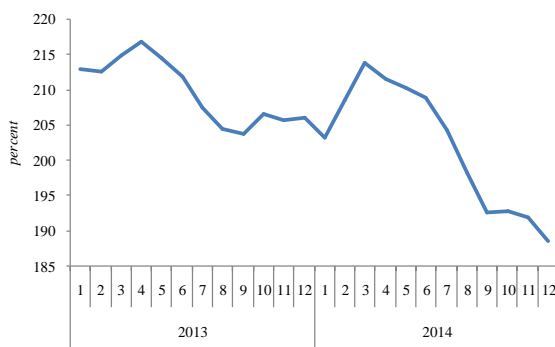
Food Market

Downward tendency of prices in the international food markets observed since the beginning of 2014 against significant increase of the world supply and favorable forecasts for yield in many major producing countries in Q4 2014 was replaced by volatile dynamic as a result of increase in prices for grain crops and vegetable oils.

During Q4 2014, increase in prices particularly for maize and wheat in the international grain crops market was affected by such factors as deficit of high-quality milling wheat of the new yield in France, Canada, high demand of importers for wheat due to worsened forecasts for production of crops in the southern hemisphere; yield losses in the Asian part of Russia and in Kazakhstan, as well as due to concerns related to restrictions imposed by the Russian Federation on crops export.

Diagram 1.2.2. Dynamic of FAO Food Price Index

(month to the corresponding month of the previous year)



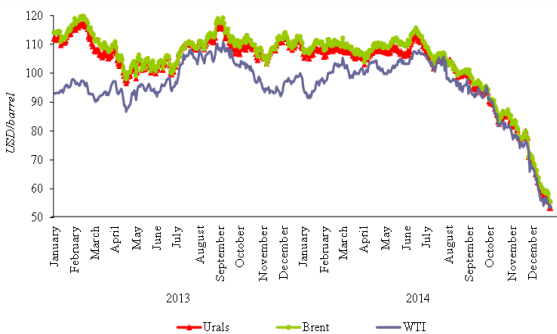
Generally, decrease in quotations, which lasted till the beginning of December 2014, was observed in the sunflower oil market during the observed period. In December, prices for sunflower oil increased due to flooding of palm plantations in Malaysia as a result of pouring rains in the country. Restrictions imposed on exports of palm oil affected prices for contiguous oil-bearing crops including rape and sunflower oil.

The international prices for sugar decreased in Q4 2014. High supply of sugar in the Asian countries was the factor, which contributed to decrease in prices.

At the end of Q4 2014, the FAO's average value of food price index made 191.1 points to decrease by 7.3 percent against the corresponding indicator of 2013.

Diagram 1.2.3. Dynamic of Prices for Oil

(month to the corresponding month of the previous year)

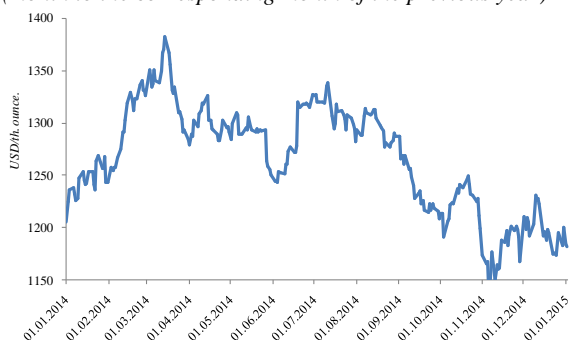


Energy Market

In Q4, the prices in the international oil market continued decreasing reflecting exceeding of supply over demand and geopolitical tension in the world. The main news, which resulted in decrease in prices against increase of shale oil extraction in the USA, was the decision of OPEC to preserve the volume of cartel oil extraction despite low prices in the world market. Observed strengthening of the US dollar due to completion of the FSR program on quantitative easing in the USA still had downward pressure on the market. Thus, the prices for principal oil grades (Urals, Brent, WTI) fluctuated within the range of USD 53.5-94.3 per barrel in Q4 2014.

In 2014, the average price for Brent grade oil amounted to USD 99.4, having decreased by 9.3 percent as compared to the average price in 2013.

Diagram 1.2.4. Dynamic of Prices for Gold
(month to the corresponding month of the previous year)



Gold Market

In Q4 2014, volatile situation was observed in the gold market due to unsteady economic growth in different regions of the world. Slowdown of economic growth in the large countries of Europe, Japan and PRC, as well as expansion of measures on monetary stimulation in Japan and Euro-zone increased demand for gold as safety assets thereby having increasing pressure on the price for metal. Moreover, strengthening of the US dollar exchange rate was observed due to steady economic growth in the USA. Finally, as of the end of Q4, the previous metal value in the US dollars decreased insignificantly as compared to the end of Q3. Improvement of demand for metal in the countries of Asia was the factor supporting prices for gold. Generally, the gold market in 2014 was characterized by the volatile situation, the price for metal decreased by 1.8 percent as of the end of the year.

Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodity and Service Market

Diagram 2.1.1. GDP Dynamic

(quarter to the corresponding quarter of the previous year)

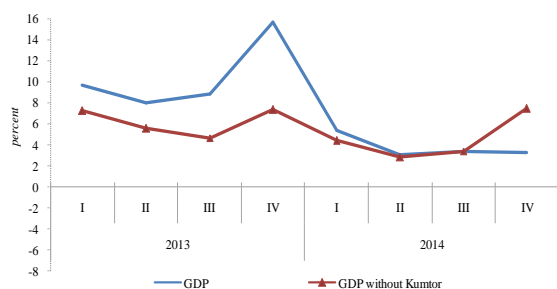
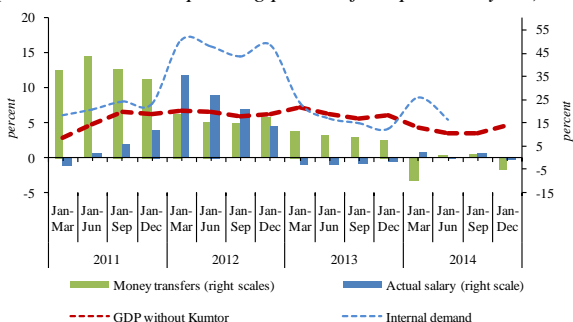


Diagram 2.1.2. Dynamic of Internal Demand and Money Transfers

(period to the corresponding period of the previous year)



Source: NBKR

Demand

Downward dynamic observed during the whole 2014 resulted in moderate low growth at the end of the year. In Q4, moderate economic growth was resulted from growth in the sector of services, construction and agriculture, as well as with decrease of production output in industry.

Thus, in 2014, GDP growth made 3.6 percent, having decreased by 7.3 p.p. compared to increase by 10.9 percent in 2013. Without regard for the Kumtor, the GDP decreased as well and made 4.6 percent compared to growth by 6.1 percent in 2013.

According to the Centerra Gold Inc Press Release, the Kumtor's production amounted to Troy ounce 291.6 thousand or 9.1 tons in Q4 2014, and Troy ounce 567.7 thousand or 17.7 tons at the end of 2014, having decreased by 5.4 percent compared to 2013.

In the first half of 2014, domestic demand¹ was still moderate (+5.5 percent) due to slowdown in the growth rates of ultimate consumption by 2.8 percent (+4.3 percent) compared to the first half of 2013. Decrease of actual salary at the end of the second half-year and decline of individuals' money transfers were the factors of slowdown in the growth rates of expenses for the ultimate consumption in the households.

Despite slowdown of growth rates in the GDP structure, consumption still remains the main component of GDP (118.9 per cent to GDP).

At the end of Q4 2014, the net inflow of money transfers in the US dollar equivalent decreased by 22.5 percent against Q4 of the previous year and amounted to USD 406.4 mln. Generally, the net inflow of money transfers in the US dollar equivalent decreased by 5.1 percent against the comparable period of the previous year. The decrease in growth rates of money transfers was mainly conditioned by devaluation of the Russian Ruble and slowdown of the Russian economy.

State Finances Sector

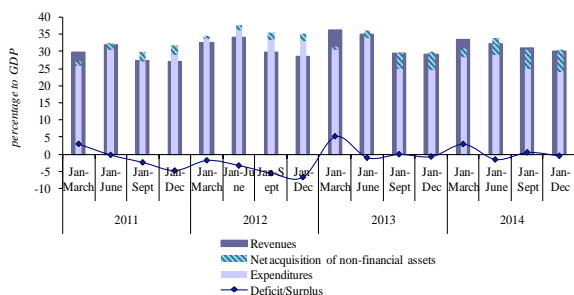
According to preliminary data of the Central Treasury of the MF KR, the state budget was executed with the deficit in the amount of KGS 1.9 bln. (0.5 percent to GDP) at the end of 2014. Meanwhile, at the end of 2013, the deficit amounted to KGS 2.3 bln. or 0.7 percent to GDP.

Overall revenues of the state budget, including

¹ The reference to the forepart is conditioned by lack of data for 2014

Diagram 2.1.3. Execution of the State Budget

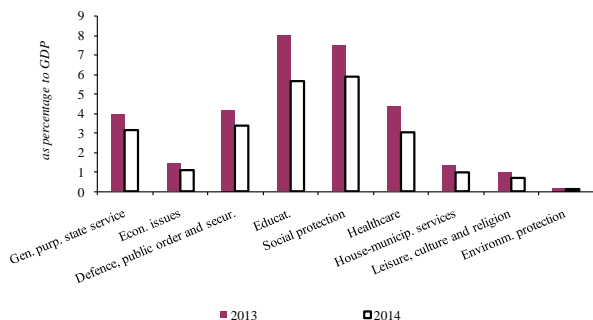
(period to the corresponding period of the previous year)



Source: CC MFKR, NBKR

Diagram 2.1.4. Execution of the State Budget

(period to the corresponding period of the previous year)



Source: CC MFKR, NBKR

revenues from sales of non-financial assets constituted KGS 119.4 bln. (30.1 percent to GDP), having increased by 17.2 percent or KGS 17.5 bln. as compared to the same index for January-December 2013. Tax revenues made the most significant contribution to increase of operating revenues (9.6 p.p.), contribution of non-tax revenues made 6.9 percentage points, meanwhile, contribution of received official transfers – 0.8 percentage points.

In 2014, implementation of the revenue side of the republican budget made 103.0 percent was the result of implementing the plan on collection of tax revenues by 101.3 per cent and non-tax revenues by 113.9 percent. Meanwhile, the plan of the State Tax Service was implemented by 101.6 per cent, while the plan of the State Customs Service was implemented by 101.2 per cent.

At the end of 2014, there was an increase in overall expenditures of the state budget, including growth of expenditures from acquisition of non-financial assets by 16.3 percent to make KGS 121.3 bln. (30.5 percent to GDP). High share of expenses directed for the current consumption is still observed in the structure of expenditures by economic classification. Expenditures for remuneration (4.2 p.p.) (thereof 3.9 p.p. were directed for salary payment), as well as subsidies and social securities (4.0 p.p.) made the most significant contribution to growth of expenditures. Expenditures for social protection (3.4 p.p.), defense, a public order and safety (2.5 p.p.), public services of general purpose (2.0 p.p.), education (0.8 p.p.) made the most significant contribution to growth of expenditures by functional classification. Financing of the expenditure side of the budget is implemented by 97.8 percent.

According to preliminary data of the KR Social Fund, the Social Fund budget surplus (inclusive of the pension fund balance as of the beginning of the year) made KGS 1.0 bln. at the end of 2014 (0.2 percent to GDP). Revenues of the Social Fund budget (inclusive of the pension fund balance as of the beginning of the year) made KGS 38.6 bln. (9.6 percent to GDP), having increased by 12.8 percent as compared to the same index of 2013, expenditures of the Social Fund budget increased by 10.7 percent as compared to the same indicator of 2013 to make KGS 37.7 bln. (9.5 percent to GDP).

The level of implementing investment in capital stock increased by 21.6 percent (in comparable prices) in January to December 2014 to make KGS 105.8 bln. in nominal terms.

In the reporting period, the main sectors of capital

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

	mln. som		share, percent	
	2013	2014	2013	2014
Total	82 874,5	105 821,8	100,0	100,0
Internal investment	52 622,6	62 908,0	63,5	59,4
Republican budget	2 844,1	3 217,7	3,4	3,0
Local budget	939,3	884,7	1,1	0,8
Funds of enterprises and organizations	29 415,6	35 607,8	35,5	33,6
Banks' credits	749,2	574,5	0,9	0,5
Population funds including beneficent help of KR residents	18 674,4	22 623,3	22,5	21,4
External investment	30 251,9	42 913,8	36,5	40,6
Foreign credit	12 397,4	32 940,6	15,0	31,1
Direct foreign investments	15 633,0	7 637,4	18,9	7,2
Foreign grants and humanitarian aid	2 221,5	2 335,8	2,7	2,2

Source: NSC KR

investments distribution are an industry and sector of services. In the industry, growth of capital investments is provided by increase in the volumes of construction of facilities for the processing sectors, supply of electric energy, gas, steam and conditioned air. In the sphere of services, the main volume is accounted for the spheres of transport activity, hotels and restaurants, transactions with real estate, education, arts, entertainment and rest, other serving activity and housing construction.

Thus, there was decrease in the volumes of capital investments for construction of the facilities in the agriculture, forestry and fishery, water supply, processing and treatment of waste, information and communications, financial intermediation and insurance, and also health care.

Financing was still carried out at the expense of internal sources, where the main share was accounted for the funds of enterprises and organizations, as well as funds of the population.

Supply

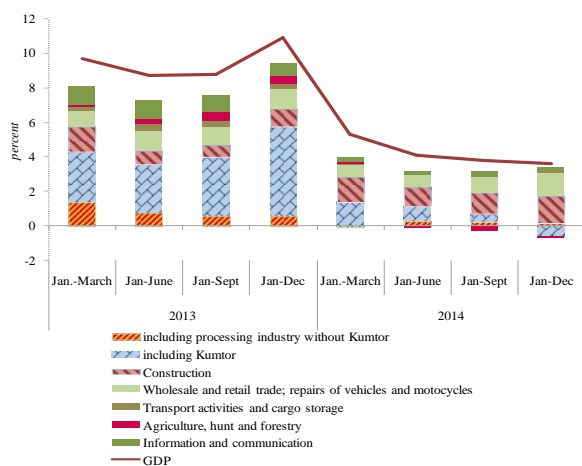
In 2014, GDP growth was provided by positive contribution from the services sector and the sector of construction, meanwhile, the sectors of industry and agriculture made negative contribution to formation of GDP.

Trade sector was the main driver in the services sector at the expense of increase in retail and wholesale trade, except for trade in cars and motorcycles, by 9.4 and 3.9 percent, respectively. As before, the most significant share in the structure of turnover is occupied by retail trade (53.1 percent) and wholesale trade (31.3 percent). Contribution on the part of construction sector was provided by preservation of stable dynamics in implementation of the planned projects.

In 2014, reduction of production output in the agricultural sector was provided by adverse weather climatic conditions, which resulted in decrease of crops yielding capacity. Generally, within 2014, output of plant growing reduced by 4.6 percent. Thus, despite decrease in production of plant growing, growth of livestock breeding production was observed in all regions of the country. In the industrial sector, decrease in growth rates was generally connected with decline in production of the main metals (reduction in production output at Kumtor Mine), in textile production, production of clothes, cars and the equipment, vehicles and chemical production.

Diagram 2.1.5. Input of Major sectors in GDP Growth

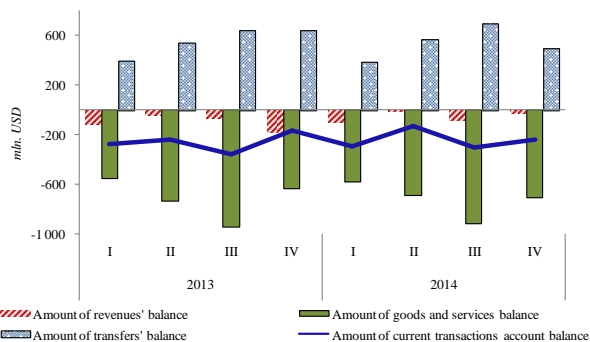
(period to the corresponding period of the previous year)



Source: NSC KR

2.2. External Sector

Diagram 2.2.1. Current Transactions Account



Remark: According to preliminary and forecasted data, taking into account additional settlements for re-export of oil products and activities of "suitcase traders"

According to the preliminary and forecasted data, at the end of Q4 2014 the current account deficit will increase up to 42.4 percent and make USD 241.6 mln. (without regard to additional settlements of USD 335.0 mln.) or 13.3 percent to GDP. The deterioration of the current transactions account will be determined mainly by the dynamic of current transfers.

In the reporting period, the KR trade deficit is expected to exceed the level of Q4 2013 by 5.1 percent to make USD 770.0 mln. (without regard to additional settlements of USD 863.4 mln.) The trade balance will be formed subject to the following key factors:

- the 28.4 percent decrease in exports of gold (by USD 124.6 mln. in absolute terms);
- the 9.9 percent decrease in exports without regard to gold and the NBKR additional settlements (by USD 37.5 mln. in absolute terms);
- decrease in the NBKR additional settlements for re-export of oil products by USD 17.3 mln.;
- the 16.5 per cent decrease in imports of energy products (by USD 63.6 mln. in absolute terms);
- the 6.1 percent decrease in imports without regard to energy products (by USD 78.1 mln. in absolute terms).

Goods exports (in FOB prices, with regard to the NBKR additional settlements) in Q4 2014 will make USD 750.5 mln. (without regard to additional settlements of USD 657.1 mln) and will decrease by 19.3 percent against the comparable period of 2013.

According to expectations, due to the 23.5 percent decrease in physical volume of supplies and the 6.4 percent decrease in actual average export price of supplies, the export volume of gold will be decreased by 28.4 percent. Export will be decreased by 9.9 percent without regard to gold and the NBKR additional settlements and will make USD 342.7 mln. As per the NBKR assessments, this will be promoted by a decrease in supplies of vegetables, jet fuel, cast iron and steel, different nonprecious metals, details and mechanism accessories, instruments and devices. At the same time, the increase in the export volume of other non-organic chemical substances, cigarettes, tobacco, ore and precious metal concentrates is expected

Goods imports (in FOB prices) will be decreased by 8.5 percent in the reporting period to make USD 1 520.5 mln. The decrease in imports will be mainly determined by a decrease in supplies of oil products by 14.0 percent (or USD 53.4 mln. in absolute terms)

2.2.1. KR Trade Balance¹

	2012	2013	2013	2014*	Change	Change
			Q4	Q4	in %	in mln. USD
Trade balance (with additional assessments)	-2 318,9	-2 815,4	-732,3	-770,0	5,1	-37,7
Trade balance¹	-3 210,6	-3 565,2	-843,0	-863,4	2,4	-20,3
Exports (FOB) (with additional assessments)	2 846,1	2 798,2	929,9	750,5	-19,3	-179,4
Exports (FOB)¹	1 954,4	2 048,4	819,2	657,1	-19,8	-162,1
Gold	562,3	736,8	439,0	314,4	-28,4	-124,6
Imports (FOB)	5 165,1	5 613,6	1 662,2	1 520,5	-8,5	-141,7
Energy products	1 077,5	1 186,7	385,8	322,3	-16,5	-63,6

¹ Based on the NSC actual data from January to November and the SCS preliminary for December 2014 without regard to the NBKR additional settlements for re-export of oil products and trade of the suitcase traders"

due to decrease in physical volume of exports by 8.5 percent and in average contract prices by 6.0 percent. Besides, the supplies of constructions from cast iron, steel and aluminum, power transformers, articles of clothing and clothing accessories, goods of wire, metal fabric fences and natural gas will be decreased. Moreover, the supplies of food products, not included in other categories, aircrafts and related equipment, motor cars and vehicles for passenger transportation will be increased.

According to the forecasts, a balance of services will be formed positive at the level of USD 62.7 mln. and will decrease by 36.0 percent in Q3 2014 generally due to the decrease in the export volume of business services.

The 83.1 percent decrease (down to USD 30.3 mln.) is expected in the reporting period conditioned by a decrease in income of direct foreign investors gained from the investment activities in Kyrgyzstan.

Net inflow for current transfers will make USD 495.9 mln., thus, by 23.0 percent below the comparable value of the corresponding quarter in 2013. The downward dynamic for transfers in the reporting quarter of 2014 will be predominantly conditioned by decrease in private transfers; their net inflow will be decreased by 23.6 percent to reach USD 446.7 mln.

In Q4 2014, the capital transactions account and financial transactions account will be formed with positive balance in the amount of USD 320.6 mln, which will be by 13.8 percent lower than the comparable value of Q4 2013.

Balance of the capital transactions account decreased by 48.9 percent against the comparable value of the similar quarter in 2013 and is expected to be positive to make USD 17.4 mln.

In the reporting period, positive balance of the financial account is expected to be decreased by 10.3 percent to make USD 303.2 mln. Direct and other investments will have a principal influence on the financial account in the reporting period.

Net inflow of direct investments is forecasted in the republic to make USD 74.0 mln.; thus, being by 18.8 percent lower against the comparable value of Q4 2013.

In the reporting period, the balance of “other investments” item will be positive to make USD 229.2 mln., which is 5.2 percent lower against the comparable quarter of 2013. According to the forecasts, Residents’ liabilities will be increased by USD 169.5 mln. in the reporting period. The residents’ assets in Q4 2014 are forecasted to

Diagram 2.2.2. Money Transfer of Employees

(quarter to the corresponding quarter of the previous year)

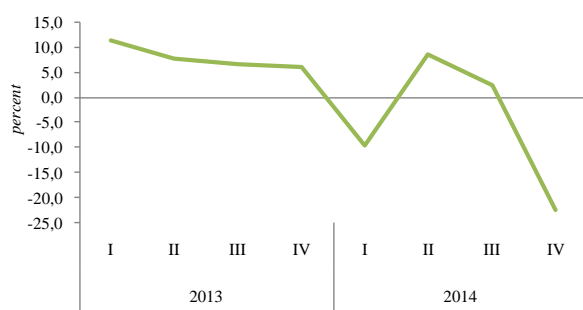
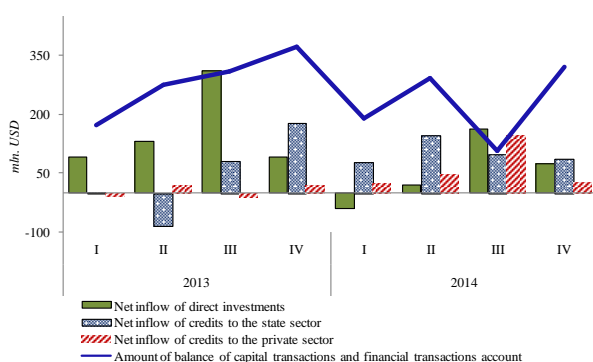


Diagram 2.2.3. Capital Transactions and Financial Transactions Account



decrease by USD 59.6 mln.

Therefore, at the end of Q4 2014 the Kyrgyz Republic payment balance was formed with negative balance to make USD 69.3 mln. The volume of gross international reserves will cover 4.0 months of future imports of goods and services.

Table. 2.2.2. Key Values for Exchange Rate

	year (average)		month to beginning of the year (as of the end of month)			month to beginning of the year (as of the end of month)			as of			
	2013 (aver.) (Jan-Dec)	2014 (aver.) (Jan-Dec)	December 2013	December 2014 *	%	November 2014	December 2014 *	%				
										%		
NEER	111.9	117.2	4.8	↑	113.3	128.4	13.4	↑	120.6	128.4	6.5	↑
NEER	111.4	114.4	2.7	↑	112.1	122.8	9.6	↑	115.7	122.8	6.1	↑
NEER to CNY	141.4	135.0	-4.6	↓	139.3	130.7	-6.2	↓	129.2	130.7	1.2	↑
NEER to CNY	73.2	66.3	-9.4	↓	71.1	61.3	-13.8	↓	61.3	61.3	0.0	↑
NEER to Euro	142.4	137.1	-3.7	↓	138.0	143.1	3.7	↑	140.7	143.1	1.7	↑
NEER to Euro	68.4	61.8	-9.7	↓	65.3	61.4	-6.0	↓	61.2	61.4	0.3	↑
NEER to KZT	111.9	117.2	4.8	↑	113.3	128.4	13.4	↑	120.6	128.4	6.5	↑
NEER to KZT	105.5	112.1	6.3	↑	105.0	105.0	0.0	↑	105.5	105.0	-0.5	↓
NEER to RUB	73.7	80.1	8.7	↑	74.8	103.6	38.6	↑	89.4	103.6	15.9	↑
NEER to RUB	111.5	121.5	9.0	↑	113.5	158.5	39.6	↑	135.1	158.5	17.2	↑
NEER to USD	188.3	179.8	-4.5	↓	189.3	174.7	-7.7	↓	173.1	174.7	0.9	↑
NEER to USD	96.5	89.1	-7.8	↓	96.9	82.1	-15.3	↓	82.8	82.1	-0.9	↓

* preliminary data

Indexes of Real and Nominal Effective Exchange Rate of Som

According to preliminary data, the index of nominal effective exchange rate (NEER) of Som increased by 9.6 percent year-to-date and made 122.8 late in December 2014. The increase was determined by Som's appreciation¹ in December 2014 compared to the average exchange rate for December 2013 in relation to the Russian ruble by 39.6 percent due to significant devaluation of the Russian ruble in relation to the US dollar as compared to the depreciation of Som in relation to the US dollar. At the same time, there was 15.3 percent depreciation of Som in relation to the US dollar, 13.8 percent weakening to the Chinese yuan, and 6.0 percent depreciation to euro.

Appreciation of the Som's NEER index in parallel with the higher level of inflation² conditioned an increase in index of real effective exchange rate (REER), which increased by 13.4 percent from December 2013 and amounted to 128.4 as of the end of December 2014.

¹ The data are given for nominal bilateral exchange rate of Som; the year of 2000 is used as the base period for calculation of the index.

² For January to December 2014, the KR inflation amounted to 10.6 percent, whereas average level of inflation in major trading partner countries made 6.8 percent according to preliminary calculations.

Chapter 3. Monetary Policy

3.1. Pursuing Monetary Policy

In the reporting quarter, the NBKR Board made the following decisions for the size of policy rate: 200b.p. increase up to 9.00 percent on October 28; 100b.p. increase up to 10.00 percent on November 24; 50b.p. increase up to 10.50 percent on December 29. As to the interest rates “corridor” related to the policy rate, a decision was made on October 27, 2014, to increase the rates of overnight deposits up to 4.00 percent and those of overnight credits – up to 10.50 percent; a decision was made on November 24, to increase the rates of overnight deposits up to 4.50 percent and those of overnight credits – up to 11.00 percent; a decision was made on December 29, 2014, to increase the rates of overnight credits – up to 11.50 percent;

When making this decision, the degree of risks balance related to a decrease in external demand, on the one side, and the rise in consumer prices, on the other side, was taken into account.

The scenario of economic development assumed as a basis at the NBKR Board meeting held in November 2014 implied enhancement of pressure on the exchange rate, increase in interest rate and decrease in increment rate of monetary base in the average-term period.

According to actual data, in Q4 2014 Som was weakened by 8.0 percent; the monetary base volume decreased by 7.3 percent against Q3 to make Som 64.5 bln. as of the end of 2014; annually, the decrease made 11.9 percent.

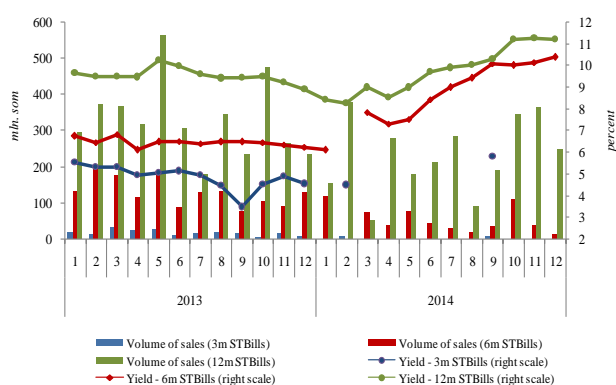
In Q4 the NBKR performed the following monetary transactions:

- at the inter-bank foreign-exchange market the NBKR performed US dollar sales transactions for the amount of USD 225.3 mln.;
- the volume of NBKR notes in circulation amounted to Som 1,328.3 mln. as of the end of Q4;
- the daily average volume of overnight deposits amounted to Som 989.6 mln, while the gross volume made Som 55,415.5 mln;
- the daily average volume of overnight credits made Som 254.9 mln, while the gross volume amounted to Som 5 608.4 mln.;
- the outstanding debt of commercial banks for refinancing credits amounted to Som 3,505.2 mln. as of the end of 2014;
- purchase of gold by the National Bank in the internal market made Som 117.8 mln.

3.2. Financial Market Instruments

Government Securities Market

Diagram 3.2.1. Dynamic of ST-Bills Sale Volumes and Yield



ST-Bills

The Ministry of Finance suggested placing 6- and 12-month bills in Q4. The total volume of the announced emission of the bills made Som 1.3 bln. in October to December 2014 having insignificantly decreased by 4.9 percent against the comparable period of 2013. The volume of papers in circulation decreased by 34.6 percent year-to-date and amounted to Som 3.0 bln. as of the end of the period. Due to a decrease in demand volume (-119 percent) the sales volume decreased as well (-18.1 percent). In Q4 the sales volume made Som 1.0 mln. In October to December 2014 the monthly average yield of ST-Bills increased in all segments of papers placed in

Diagram 3.2.2. Dynamic of ST-Bonds Sales Volumes and Yield

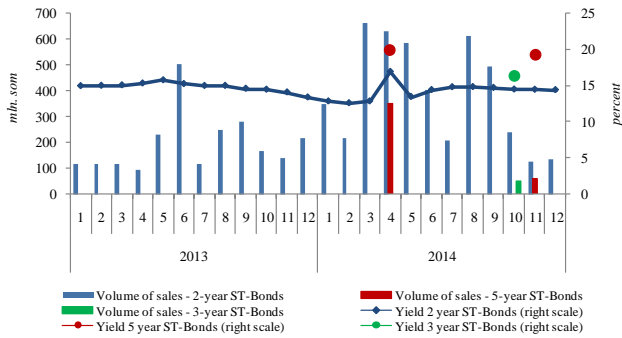


Diagram 3.2.3. Activity in the Interbank Credit Resource Market

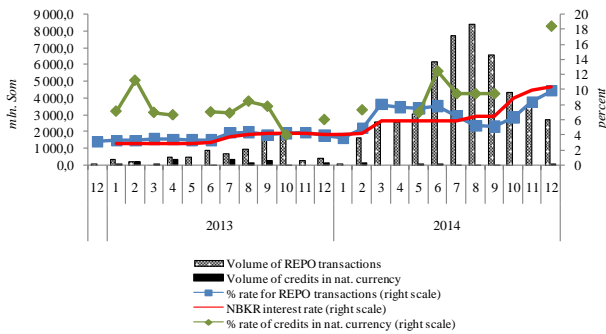


Diagram 3.2.4. Rates of NBKR and Inter-Bank Transactions

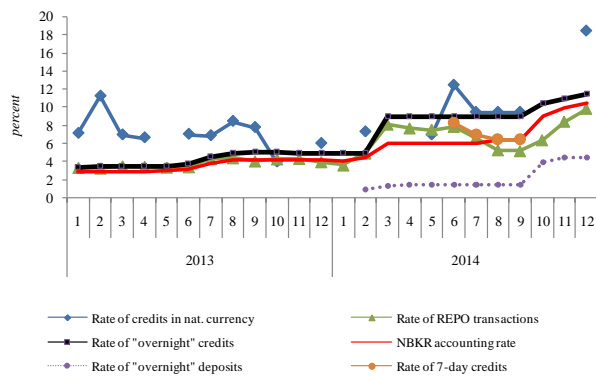
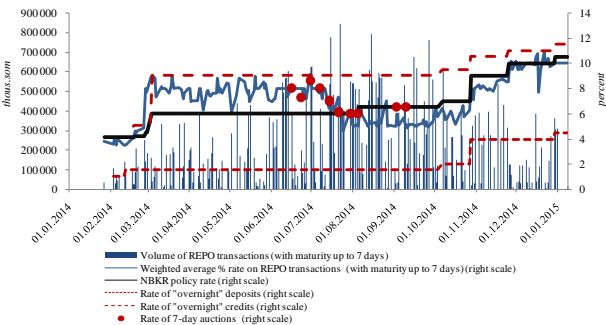


Diagram 3.2.5. Dynamic of Rates and REPO Transactions in the IBCRM



the market. Thus, the average weighted yield of ST-Bills amounted to 11.1 percent (+ 2.7 p.p.) in the reporting period.

ST-Bonds

In Q4 the state treasury notes market was presented by 2- and 3-year papers. As of the end of December 2014, the volume of ST-Bonds in circulation increased by 24.7 percent year-to-date to make Som 7.2 bln. The announced volume of ST-Bonds emission made Som 663.0 mln. in Q4 2014 having increased by 30.3 percent against the comparable period of 2013. In parallel with the increase in demand volumes (+9.5 percent) and in sales volumes (+16.5 percent) there was observed some decrease in the level of average weighted yield (+1.1 p.p.). Sales volume made Som 616.3 mln. in Q4 2014. The average weighted yield of all ST-Bonds amounted to 15.1 percent in the reporting period.

Inter-Bank Credit Resource Market

In Q4 2014, activity level of participants continued growing in the international credit resource market. The total volume of Som loans amounted to Som 16.4 bln. in the reporting period primarily due to the 15.2 times increase in the volume of overnight credits up to Som 5.6 bln. as well as due to the 4.2 times increase in REPO transactions up to Som 10.6 bln. (weighted average rate - 8.2 percent). The volume of credits issued in national currency under standard conditions decreased down to Som 120.0 mln. Transactions in foreign currency were carried out to the amount of Som 115.2 mln.

Diagram 3.2.6. Dynamic of Commercial Banks Deposits

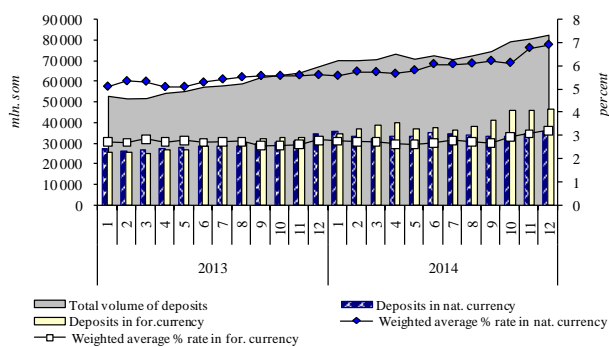


Diagram 3.2.7. Dynamic of New Deposits

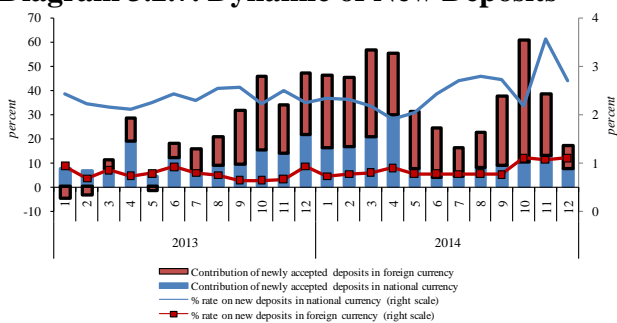


Diagram 3.2.8. Rates of New Deposits in National and Foreign Currency in Terms of Maturity

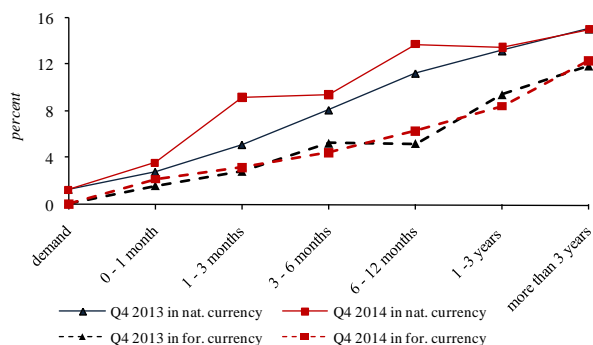


Diagram 3.2.9. Dynamic of Credit Portfolio of Commercial Banks as of the end of the Period

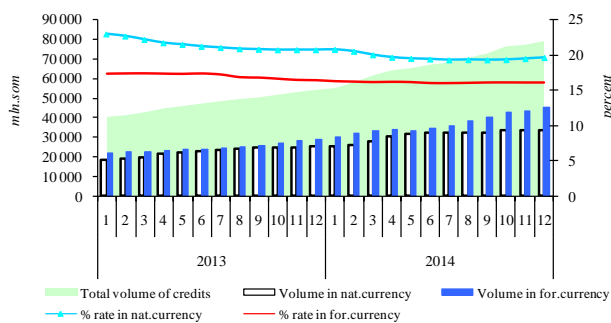


Diagram 3.2.10. Rates of New Credits in

Deposit Market

The volume of deposit base of the commercial banks increased by 22.6 percent year-to-date to make Som 82.5 bln. as of the end of Q4 2014. Foreign currency deposits increased by 41.6 percent up to 46.5 bln. in Som equivalent; the national currency deposits increased by 4.5 percent up to Som 36.0 bln.

Under the impact of the US dollar strengthening, dollarization of deposits increased from 48.8 percent to 56.3 percent year-to-date.

Weighted average interest rate for new deposits in the national currency amounted to 2.8 percent in Q4 2014 having decreased by 0.5 p.p. against the comparable period of 2013; for the foreign currency deposits - 1.1 percent having increased by 0.3 p.p. Weighted average interest rate for new on-demand deposits in the national currency amounted to 1.4 percent having increased by 0.01 p.p. against the comparable indicator of 2013; while for fixed-term deposits it increased by 2.4 p.p. up to 12.5 percent. The interest rate for new on-demand deposits in foreign currency remained unchanged against the comparable period of 2013 and made 0.1 percent; while for fixed-term deposits it increased by 0.5 percent to make 6.2 percent.

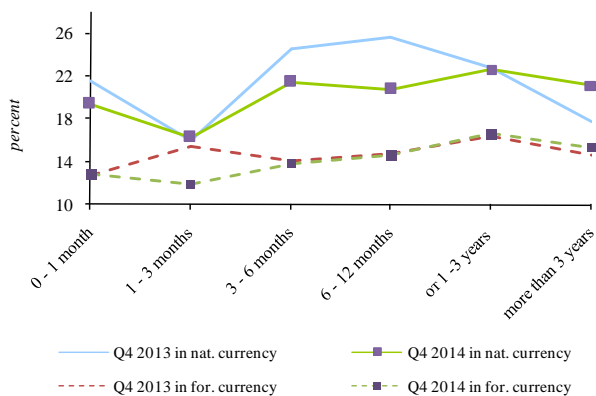
Credit Market

In 2014, credit financing performed by commercial banks continued growing due to issuing credits both in the national and foreign currencies. One of the sources of credit resources was the Project for Financing of Agriculture-2. As of the end of the reporting period, the volume of issued credits made Som 5.3 bln. As of the end of 2014, the volume of credit portfolio of the commercial banks increased by 45.9 percent year-to-date and amounted to Som 78.8 bln. Among them, the credits in national currency increased by 33.3 percent to make Som 33.4 bln., while those in foreign currency made Som 45.4 bln. in Som equivalent (+56.9 percent).

As of the end of the reporting period, the credit portfolio dollarization increased by 4.0 percentage points year-to-date to make 56.6 percent.

Weighted average interest rate for new credits in the national currency decreased by 0.4 percentage points to make 21.4 percent in Q4 2014, while for those in foreign currency increased by 0.3 percentage points up to 15.1

National and Foreign Currencies in Terms of Maturity

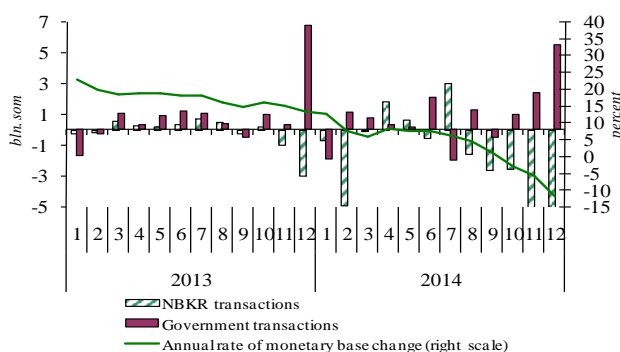


percent.

The share of overdue credits accounted for 2.2 percent late in the reporting period (-1.1 p.p. year-to-date), while the share of prolonged credits made 3.0 percent (+0.2 p.p.).

3.3. Dynamic of Monetary Indicators

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

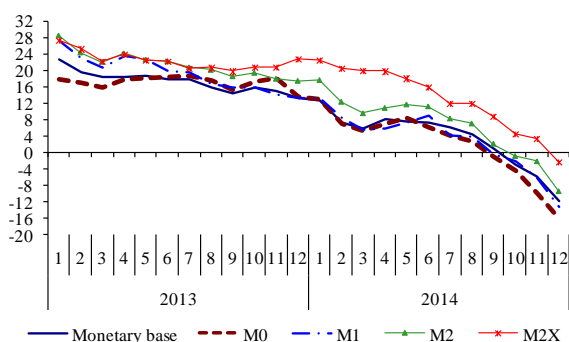


Monetary base

Monetary base decreased by 7.3 percent or by Som 5.1 bln. for Q4. In Q4, the decrease in monetary base was influenced by the National Bank's transactions, which decreased monetary base by Som 14.0 bln; the Government's transactions increased monetary base by Som 8.9 bln.

The impact of the National Bank's transactions on the monetary base decrease was mainly conditioned by transactions in the foreign exchange market decreasing it by Som 12.9 bln.

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



Monetary Aggregates

Nominal rates of changes in monetary aggregates had a downward trend in Q4 2014. Money in hands (M0), narrow money (M1) and broad money in the national currency (M2) decreased by 10.3, 6.5 and 4.3 percents correspondingly, while the growth of deposits in foreign currency determined insignificant growth rates in broad money stock M2X that comprises deposits in foreign currency – by 0.9 percent (in Q4 2013 it increased by 6.7 percent).

Chapter 4. Inflation Dynamic

4.1. Consumer Price Index

Diagram 4.1.1. Dynamic of CPI Structure
(quarter to the corresponding quarter of the previous year)

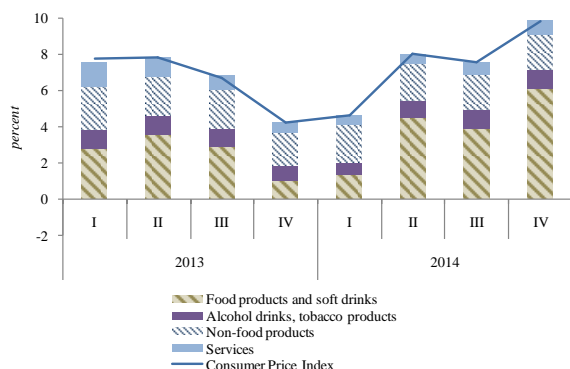


Diagram 4.1.2. Dynamic of Food Products Price Input in Annual CPI

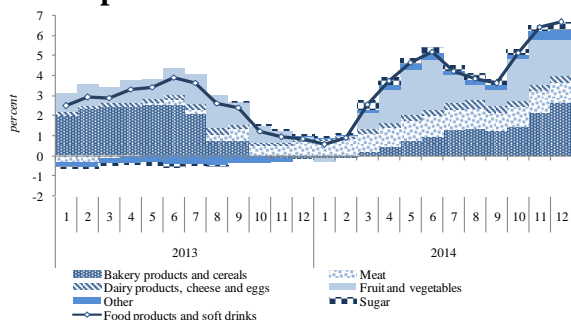
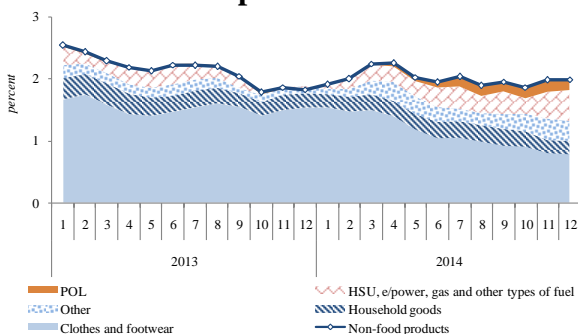


Diagram 4.1.3. Dynamic of Non-food Products Price Input in Annual CPI



According to the National Statistical Committee, inflation amounted to 9.8 percent in Q4 2014 (Q4 2014/Q4 2013), the similar value of 2013 amounted to 4.3 percent. Annual inflation made 10.5 percent (December 2014 against December 2013).

In Q4 2014, impact of external conditions and internal factors, such as strengthening of the US dollar exchange rate to Som, increase in export price for wheat from Kazakhstan due to decrease in the volume of crops yield in Kazakhstan, decline in the production output in the domestic agricultural sector, as well as increase in the tariffs for the services rendered by the public and utility sector, conditioned increasing dynamic of the general price level in the country.

In Q4 2014, the main contribution in CPI growth was provided by growth in prices for food products by 12.6 percent. Meanwhile, internal prices for bakery products increased by 11.7 percent against rise in export prices for wheat from Kazakhstan¹ (during Q4 2014, export prices were increased twice: in October, approximately by 3.7 percent, in November, by 16.5 percent). Decrease in the agricultural production output of the country was an additional factor for rise in prices in the commodity group, thereby resulting in rise in prices for meat and dairy products by 11.2 percent, fruit and vegetables – by 28.2 percent.

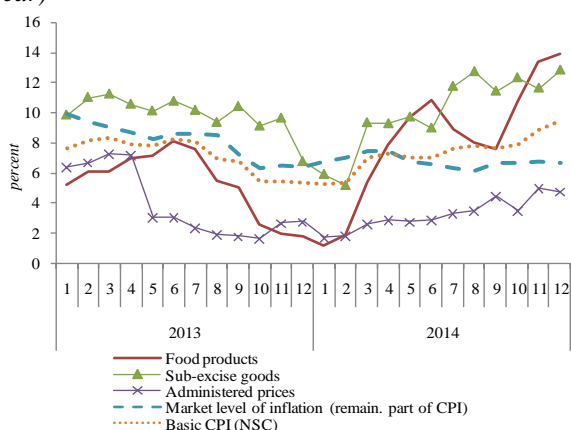
The 1.9 percent decrease in consumer price index of the “oil and fats” commodity group had a restraining influence on the increase in overall price level against the high yield of oil plants in Russia and Ukraine, which are Kyrgyzstan’s main importers of these products.

Against Q4 2013 the increase in price index for non-food products amounted to 6.7 percent in Q4 2014. The greatest input in the increase in prices for non-food products was made by the 7.4 percent increase in prices for “clothes and footwear” commodity group. Household utilities and home appliances increased in prices by 6.1 percent; whereas HPU services increased by 4.5 percent. Cost of petroleum, oil and lubricants increased by 21.0 percent in Q4 2014, whereas, prices for these goods were decreased in the last month of the reporting period due to seasonal decline in demand

¹ Supply from Lugovaya station Kazakhstan-Kyrgyzstan

Diagram 4.1.4. Dynamic of Consumer Price Index by Groups of Commodities

(month to the corresponding month of the previous year)



in the country and decrease of prices in the international oil products market.

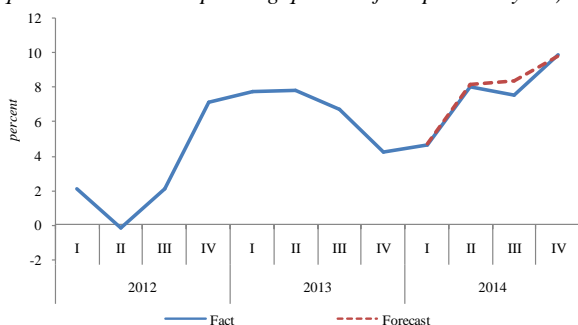
The increase in prices for paid services made 6.1 percent in Q4 2014 (4.2 percent in Q4 2013). Index rise in this group was mainly conditioned by the rise in prices for services related to leisure (+10.0 percent) and education (+8.8 percent). The restraining factor for price rise in this group was the 0.7 percent decrease in prices for services of hotels and restaurants.

Base inflation calculated by the NSC KR methodic amounted to 8.7 percent in Q4 2014 against Q4 2013.

4.2. Comparison of Forecast and Facts

Diagram 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



Quarterly average level of inflation was by 0.1 p.p. lower than the forecasted one and made 9.8 percent (Q4 2014/Q4 2013). Insignificant deviation of the forecasted value of inflation from the actual one was conditioned by slower rates of non-food component of inflation compared to the expected rates as a result of decrease in domestic prices for fuels and lubricants against decline in world prices for crude oil, as well as decrease in wholesale selling prices for oil products in the market of Russia.

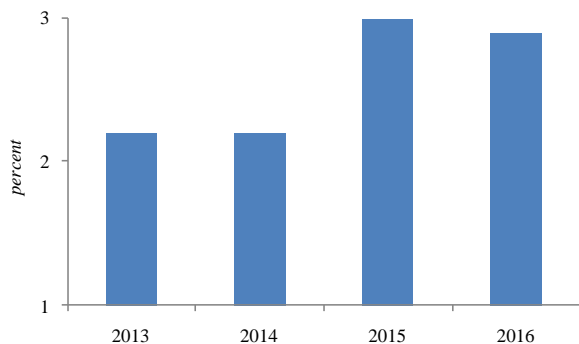
Chapter 5. Medium-Term Forecast

5.1. External Environment Proposals

Development Forecast of Major Trading Partner Countries

Diagram 5.1.1 Real GDP Growth in USA

(year to year)



Source: IA Blumberg

USA

In 2014, active rehabilitation of the US economy was due to steady increase of internal demand and investments to the capital stock, as well as growth of export volumes. The GDP growth rates are expected at the level of 3.0 percent in the medium-term perspective. Low prices for fuel and energy products will contribute to further strengthening of domestic consumption. Besides moderate reduction of the budget deficit and supporting monetary policy, the FRS will support economic growth despite forecasted increase of policy rate. Strengthening of the US dollar exchange rate and weakening of economic activity in Europe and Japan are among negative factors for economy. Impact of these factors will be restricted due to relatively low export share in GDP of the USA.

Low prices for oil are expected to have decreasing pressure on the average annual inflation index in 2015, afterwards, CPI growth rates will increase up to 2.2 percent.

Russia

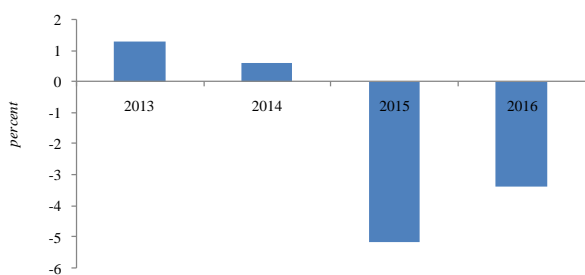
Forecasts related to economic growth in Russia in 2015-2016 were significantly worsened primarily due to negative effect of such factors as sharp decline in prices for oil; risks of tightening sanctions as a result of strengthened geopolitical tension; continuing outflow of capital and decrease of consumer demand accompanied by structural problems of the country. Thus, decline of economy in the Russian Federation down to 5.2 percent is expected in 2015 (instead of growth by 0.5 percent), in 2016 – decrease by 3.4 percent (instead of growth by 1.5 percent).

Ruble exchange rate will be affected by vague cost situation in the oil market, ongoing outflow of capital, effect of sanctions directed towards the largest banks and companies of Russia, as well as risks of imposing new sanctions against Russia on the part of the West.

Inflation in Russia will be still affected by the Russian ruble weakening and dynamic of food product import having reached its highest pick by the end of the first half of 2015; however, slowdown of inflation rates will be observed due

Diagram 5.1.2. Real GDP Growth in Russia

(year to year)

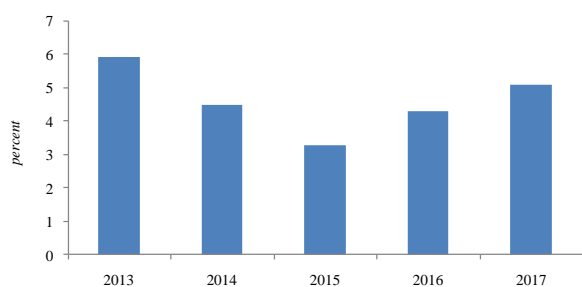


Source: IA Blumberg

to reduction of consumer demand in the market.

Diagram 5.1.3. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Blumberg, international financial institutions

Kazakhstan

Slow rehabilitation of the world economy, unstable prices for oil, impact of consequences of the crisis between Ukraine and Russia on the investors' attitude towards this region will be among the factors, which will influence the country in the medium-term prospect, as Kazakhstan is actively involved in the global integration processes. Finally, assessment of economic development in Kazakhstan for 2014-2016 was revised downward: rates of economic development in Kazakhstan decreased down to 3.3 percent in 2015 with growth up to 5.1 percent in 2017. The program of infrastructure development "Nurly zhol" is expected to be a new driver of economic growth. This program will contribute to increase of internal aggregate demand from macroeconomic positions and give additional support to economic growth during the period of global uncertainty.

In 2015, inflation corridor is established at the level of 5-8 percent, in 2016-2018 – 5-7 percent. Basis for transition to inflation targeting will be created within the monetary policy in the medium-term prospect. Inflation targeting will contribute to increasing real profitability of savings in tenge and decrease inflationary expectations.

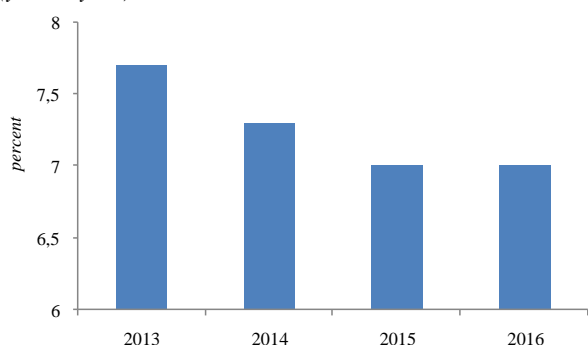
China

Although indicators of economic growth in China are relatively high, slow decrease in the GDP growth rates is observed. The PRC Government is expected to continue carrying out economic reforms focused on structural adjustment of economy, reduction of excess capacity and restriction of environmental pollution in the nearest years. These measures imply less active, however more balanced economic growth. Slowdown in the real estate market and, finally, decline of demand in the related sectors have decreasing pressure on the economic growth.

Authorities of the country are expected to pursue cautious policy based on support of domestic demand and reduction of economic vulnerability.

Diagram 5.1.4. Real GDP Growth in China

(year to year)

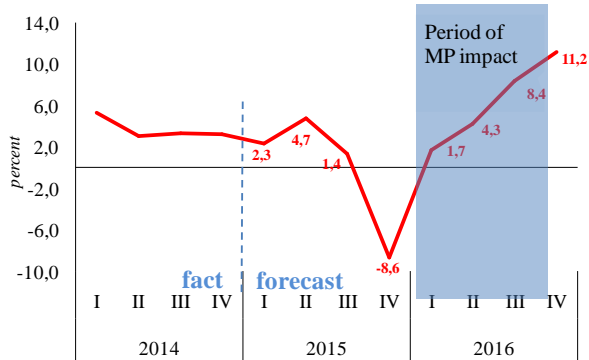


Source: IA Blumberg

5.2. Medium-Term Forecast

Diagram 5.2.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



Development of Real Economy

Slowdown of economic growth in Russia resulted in decline of foreign trade turnover in Q4 2014. Meanwhile, export volume decreased by 20 percent, import volume – by 9 percent. Moreover, net inflow of migrant workers’ remittances from Russia decreased by 17 percent in dollar equivalent. Further decrease of growth rates of this index is expected in the short-term prospect, at the end of Q1 2015, inflow of remittances will decrease by 30 percent. Decline of the consumer demand is expected in such circumstances both in the external and in the internal market.

The National Bank will provide loans for agricultural purposes in order to develop economy in 2015. Such funds are accounted in the forecast as investment funds and they will have impact on the economic growth.

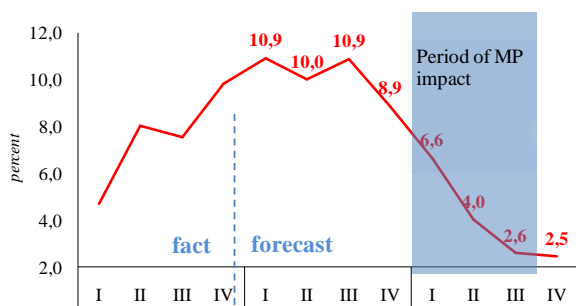
Taking into account risks of slowdown of production output in the Kumtor Mine due to man-made factors, production is expected to decrease by 17 percent in real terms in 2015.

Additional indirect impact on GDP will be made by gradual devaluation of Som exchange rate through increase of competitive advantage of the production output in Kyrgyzstan in the medium-term prospect.

In general, the forecast of economic growth in the Kyrgyz Republic in 2015 is revised towards decrease from 1.8 to -0.9 percent, in 2016 – towards increase from 3.6 to 7.0 percent.

Diagram 5.2.1.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



Inflation

The world prices for oil of Brent grade continued downward dynamics and were at the level of USD 50 per barrel that is much lower than the forecasts made in November. Considerable changes in the prices are not expected in the world food market. The risk of a gradual increase in prices remains in the 2nd half-year, but remains below than it was forecasted earlier.

Inflation in the domestic market in Q4 2014 was generally caused by internal shock of supply (decline of growth rates in plant growing), and also by external shock of supply (increase of export prices for wheat from Kazakhstan). As external shock was obvious in the recent months of the year, the forecast for Q1 2015 is calculated taking into account risks of possible growth of the internal

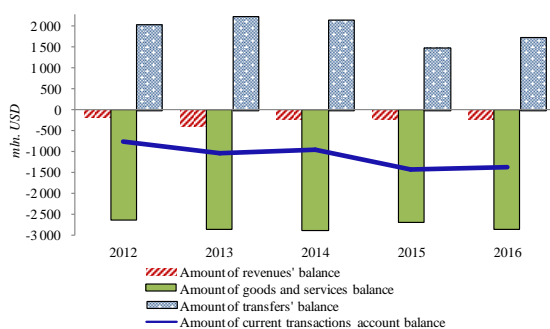
prices of food products.

According to the updated Medium-term tariff policy of the Kyrgyz Republic for 2014-2017 dated November 20, 2014 No. 660, growth of tariffs for electric and thermal energy is accounted for January, 2015, and insignificant decrease - for February, 2015. The limit on the consumed electric energy (700 kW/h) is supposed to exceed 20 percent of the population (relating to the 5th quintile group with the greatest income).

In Q2 2015, the risk of customs duties growth by 2.5 p.p. is taken into account; it will generally be reflected in non-food products. The offer on increase of a basic rate of an excise duty on fuels and lubricants considered by the Jogorku Kenesh of the Kyrgyz Republic is expected to be leveled by reduction of prices for fuels and lubricants.

Preservation of presence of inflationary pressure from Som exchange rate with gradual fading is expected in the medium-term prospect. Thus, inflation in Q1 2015 will make 10.9 percent in annual terms instead of earlier forecasted level of 11.1 percent. Estimates on inflation for medium-term prospect were also revised towards decrease. Thus, the new forecast of inflation for 2016 is approximately 3.9 percent, whereas the previous estimates assumed that inflation will develop at the level of 8.8 percent.

Diagram 5.2.1.4. Forecast Data on Current Transactions Account



Payment Balance¹

In 2015, the entry of the Kyrgyz Republic into the Eurasian Economic Union will become the major factor defining a condition of the balance of payments.

At the end of the financial year, deficit of the current transactions account is expected at the level of 20.6 percent to GDP, significantly exceeding the level of 2014 (13.3 percent to GDP).

Improvement of trade balance status in the country due to advancing decrease in import supplies as compared to export receipts in absolute terms is predicted in the reporting period.

Generally, decrease in imports by 6.9 percent is expected in the forecasted period. Increase in the cost of import due to rise in tariff rates² upon entry to the Eurasian Economic Union will result in reduction of import supplies except for commodity

¹ Forecast is composed taking into account additional calculations on re-export of oil products and business of "suitcase traders".

² According to the NBKR assessments, the increase in customs rates for imports from the EEU non-participant countries may cause a decrease in imports from the far abroad countries by 7.4 per cent in 2015. A decrease in import of such largest commodity positions as clothes, footwear, meat and prepared meat, structures made of cast-iron, steel and aluminum; medicines, cast-iron and steel, vehicles and wood substance is anticipated.

grants from non-CIS countries by 5.7 percent. Meanwhile, the increase in the volume of grants within the state investments program and the subsequent growth in the volume of commodity grants by 38.0 percent are expected it will result in decrease of the aggregate import from non-CIS countries by 4.8 percent. Despite the fact that decrease of import supplies of other goods¹ from non-CIS countries will be partially compensated by the supplies from the countries of the Eurasian Economic Union, decrease in the world prices for oil and further reduction in the volume of energy products import will play a key role in reduction of import supplies from CIS countries at the level of 9.0 percent.

Reduction in total volume of precious metal export approximately by 17.6 percent will have the main impact on dynamics of export in 2015 due to forecasted decrease in gold production at Kumtor Mine and decline of the world prices for gold. Another important factor will be decrease in the volume of additional calculations on business of “suitcase” traders by 33.0 percent due to new conditions of trading within the Eurasian Economic Union. Meanwhile, export volume exclusive of gold and additional calculations will also decrease by 4.9 percent due to expected reduction in supplies of commodities of the agriculture and light industry in the conditions of adaptation to new rules of business within EEU (the requirement of certification, the competition on the part of enterprises - EEU member countries, etc.)².

Negative trend of economic development in the Russian Federation, and also devaluation of the Russian ruble exchange rate will contribute to decrease in receipts of private transfers by 28.2 percent. Moreover, monetary grants received by the official sector are expected to decrease by 58.5 percent. Finally, net inflow on “current transfers” item is expected to decrease by 30.2 percent in the reporting period as compared to the previous year.

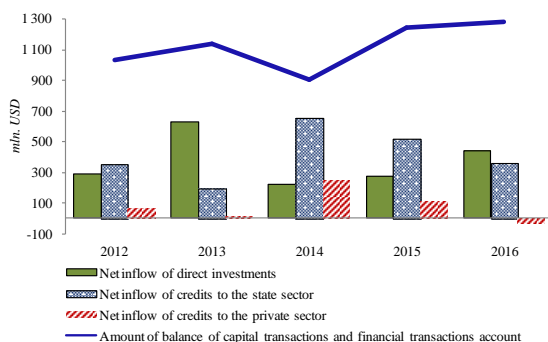
Traditionally, financing of the current account deficit will be performed through capital inflow on the financial account, primarily, at the expense of net inflow of external loans at the level of USD 521.7 mln.³ and direct foreign investments (USD 272.7 mln).

¹ Import exclusive of commodity grants

² Meanwhile, it should be noted that according to the preliminary conditions of technical assistance for joining EEU by the Kyrgyz Republic (a grant of the RF – USD 200.0 mln. and a grant of the RoK – USD 100.0 mln. for resolving issues related to border management, technical, sanitary, veterinary control, etc.), measures on technical assistance will be implemented during the period from one to three years.

³ As well as to the public sector in the amount of USD 411.4 mln. and private sector - in the amount of USD 110.3 mln.

Diagram 5.2.1.5. Forecast Data on Capital Transactions and Financial Transaction Account
(mln. USD)



Finally, the total amount of payment balance is anticipated to be negative and to make USD 169.5 mln. The level of the NBKR reserve assets coverage will remain safe (3.6 months of future imports).

In 2016, improvement of the current transactions account is expected (17.3 percent to GDP).

Decrease in the volume of commodities exports¹ exceeding imports² will determine trade deficit increase by 5.1 percent (up to USD 2.8 bln.).

Expected positive changes in the labor conditions of migrants workers in the Russian Federation and Kazakhstan upon joining the EEU by the Kyrgyz Republic, and also stabilization of the Russian ruble exchange rate in 2016 will have positive impact on the volume of private transfers which will increase by 18.2 percent. Taking into account reduction in the volume of official transfers by 59.0 percent, generally, receipts on the current transfers are expected to increase by 15.3 percent compared to the level of 2015 (USD 1.7 bln.).

Increase in the net inflow of direct investments up to USD 438.1 mln., as well as net volume of received external credits in the amount of USD 360.1 mln. will provide the main amount of receipts to the financial account.

The total amount of the payment balance at the end of 2016 is expected to be negative in the amount of USD 74.2 mln. Reserve assets will cover 3.5 months of the future imports of goods and services.

¹ Decrease was generally due to supplies to the CIS countries by 11.5 percent due to further reduction in the volume of additional calculations on "suitcase" trading by 50.0 percent; export to non-CIS countries will decrease by 0.6 percent, which will be caused by decrease in the volume of gold exports by 2.6 percent. Export without gold and additional calculations will decrease by 0.8 percent.

² According to the forecasts, supplies from CIS countries are expected to increase by 8.2 percent due to re-direction of some import flows from non-CIS countries; import from non-CIS countries will decrease by 8.3 percent.