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Press Release

National Bank of the Kyrgyz Republic keeps its policy rate unchanged at 5.0 percent

On March 30, 2020, the Board of the National Bank of the Kyrgyz Republic decided to keep the policy rate (key rate) unchanged at 5.0 percent. The decision becomes effective as of March 31, 2020.

The spread of COVID-19 pandemic in the world and a sharp decline in world oil prices have significantly changed the situation in the external environment since the beginning of March 2020. There is a slowdown in global economy, high volatility of world prices in commodity and financial markets and weakening of the currencies in the main trading partner countries.

The impact of external economic conditions together with the closure of borders has led to certain restrictions on economic activity in the Kyrgyz Republic. Against this background the moderate GDP growth of the Kyrgyz Republic, which was observed during January-February 2020 at the level of 4.3 percent, may be replaced by a decrease in economic activity in the coming quarters.

Decrease in the inflow of foreign currency into the country both through re-export and remittances, as well as the weakening of national currencies in the region due to the decline in world oil prices caused pressure on exchange rate of national currency – Som. As a result of the existing ratio of supply and demand of foreign currency in the domestic foreign exchange market, the US dollar exchange rate against Som increased and currently fluctuates within the range of KGS 80.0 per US dollar. The National Bank remains committed to floating exchange rate regime and, if necessary, will conduct foreign exchange interventions to smooth sharp exchange rate fluctuations.

The National Bank has taken a number of measures to maintain the price stability. In the context of the increasing pro-inflationary impact of exchange rate and the terms of trade, raising the National Bank's policy rate to 5.0 percent on February 24, 2020 will allow to adjust the dynamics of inflation.

In the Kyrgyz Republic (as of March 20) the annual inflation was 4.9 percent. The increase is noted mainly for food prices. The National Bank forecasts a temporary acceleration of inflation this year with its average value approaching the target of the monetary policy of 5-7 percent.

Monetary sector is characterized by a gradual rise in short-term money market rates. Rates continue to fluctuate within the interest rate corridor set by the National Bank mainly close to the policy rate. The banking system retains excess liquidity in national currency. The activity in the interbank credit market remains.

Decisions on the key rate are made taking into account the actual level and projected dynamics of inflation relative to the target of 5-7 percent in the medium term. The impact of the global and regional economic slowdown will have a significant impact on the economy of the Kyrgyz Republic during 2020, reducing domestic demand. Taking into account the internal and external conditions, as well as the forecast dynamics of inflationary processes in the medium term, the National Bank decided to keep the policy rate unchanged.

The National Bank on a regular basis assesses the factors influencing price and financial stability and, depending on the economic situation, will take appropriate monetary policy measures.

Briefing:

The next meeting of the Board of the National Bank of the Kyrgyz Republic on the monetary policy rate is scheduled for May 25, 2020.

Chart 1. Overall inflation in the Kyrgyz Republic
(%, month to the corresponding month of the previous year)

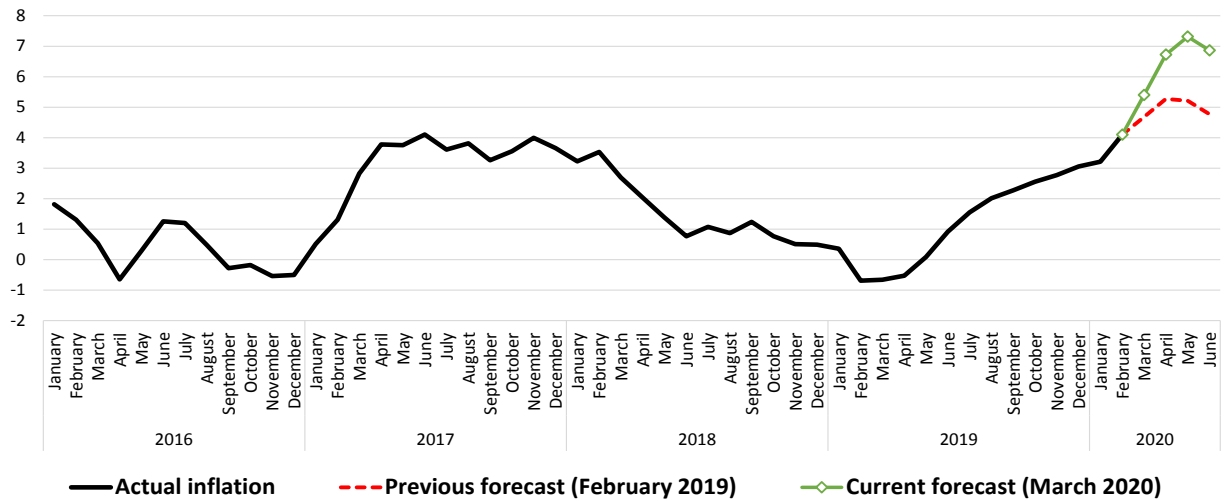
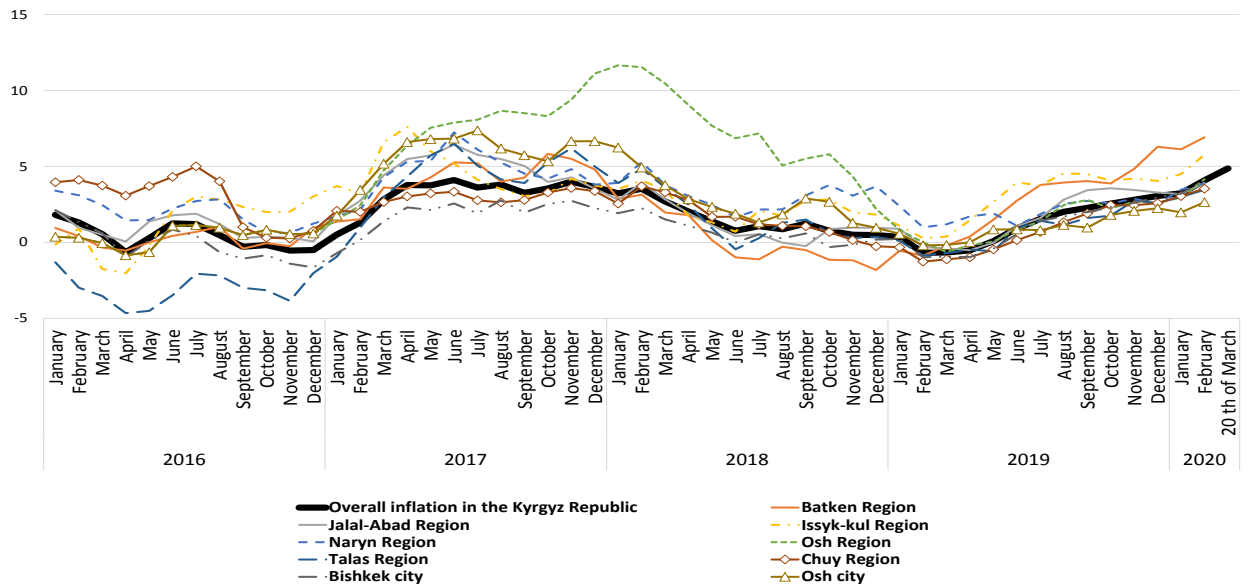


Chart 2. Inflation in the Kyrgyz Republic in regions
(%, month to the corresponding month of the previous year)



*based on data from the National Statistical Committee

Chart 3. Policy rate of the National Bank of the Kyrgyz Republic
(percent)

