

**NATIONAL BANK  
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report  
Quarter 1, 2018**

**Bishkek  
May 2018**

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

### *Monetary policy in the Kyrgyz Republic*

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

**The policy rate of the National Bank is the main instrument of the monetary policy.** In 2014, the National Bank moved to a new monetary policy framework - regime of targeting interest rates to improve and increase the effectiveness of the monetary policy. The purpose of the aforementioned movement is to strengthen the impact of the interest rate channel of the monetary policy, aimed at development of the inter-bank credit 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 2018 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2018-П-07/19-1-(ДКП) dated May 28, 2018.

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## Summary

**In Q1 of the current year, inflation in Kyrgyzstan remained moderate.** By the end of Q1 2018, the increase in the consumer price index was 2.7 percent (March 2018 to March 2017). Relatively stable prices for most food products in the global markets and restrained consumer demand continued to influence the dynamics of inflation. In 2018, the inflation rate, according to the National Bank forecasts, will be moderate and will not exceed the monetary policy targets in the absence of significant external and internal risks.

**There was slowdown in the economic growth of the country in the reporting period.** In January-March 2018, GDP growth made 1.3 percent (in the same period of 2017, increase made 7.3 percent). GDP, excluding the enterprises of the Kumtor Mine, grew by 2.9 percent. There was slowdown in economic growth mainly due to a reduction in production output at the enterprises of the Kumtor Mine and a decrease in mining output.

The main sectors of economy still demonstrated positive growth rates. In general, improvement of the situation in the main trading partner countries, an increase in the inflow of remittances from labor migrants and government measures aimed at economic growth had a significant impact on preserving positive economic growth.

**In Q1 2018, the trade balance was formed under the impact of a decrease in exports and a growth in imports.** Export decreased by 12.3 percent due to a decline in the supplies of gold and consumer goods, growth in imports by 36.0 percent was due to an increase in the supplies of the petroleum products and other goods. Finally, trade balance deficit of the country formed in the amount of USD 734.5 million (35.3 percent to GDP<sup>1</sup>). The foreign trade turnover<sup>2</sup> increased by 19.3 percent and amounted to USD 1.5 billion (81.6 percent to GDP<sup>3</sup>).

**In January-March 2018, the state budget was executed with a surplus of 1.1 percent to GDP.** In the reporting period, the plan of the state budget resources was overfulfilled (110.7 percent). Execution of the state budget expenses constituted 135.5 percent, mainly due to deviation of expenses for protected items.

**The financial market of the country was characterized by stable positive trends.** Interest rates of the money market were less volatile and were within the limits of the interest rate corridor set by the National Bank approaching the policy rate, which generally demonstrates strengthening of the monetary policy transmission mechanism.

Generally, the government securities market demonstrated increased activity. The long-term market of government securities was mainly characterized by retaining activity of the institutional investors. In the deposit and credit market, there was an increase in the volume of depository base and credit portfolio, combined with a decrease in the interest rates on new deposits and credits compared to the same period of 2017.

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<sup>1</sup> Ratios to GDP are calculated on the basis of sliding annual data, including the last four quarters.

<sup>2</sup> The data are given in FOB prices including the NBKR additional estimates

<sup>3</sup> Ratios to GDP are calculated on the basis of sliding annual data, including the last four quarters.

## Chapter 1. External Environment

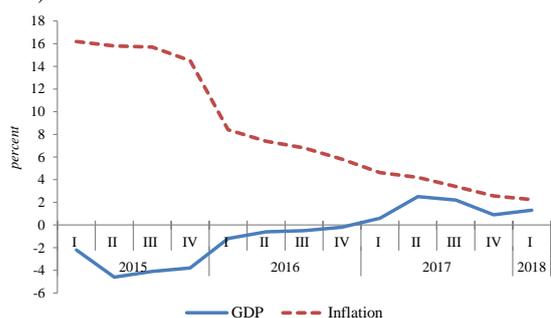
### 1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

The recovery of economic activity persisted in the countries-main trading partners of Kyrgyzstan. The economy of Russia was fixed on the trajectory of moderate growth. The inflation rate was low; however, by the end of the reporting quarter, there was acceleration in price growth due to the impact of time factors. The economic growth in Kazakhstan was mainly caused by the growth in production and exports of minerals under the conditions of high prices for oil, as well as the increase of investments and internal demand. The inflation rate in Kazakhstan was within the target range. The economic growth in the Republic of Belarus was formed amid improved external conditions and increased internal demand, contributing to the rise in consumer prices of the country. The economy of Armenia has gained high growth rate and demonstrated positive trend, meanwhile the inflation rate was gradually approaching the target of 4 percent. The economy of China continued to grow steadily.

#### 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

consumer sentiment index amid rising wages.

Unfavorable weather conditions in Russia and in Europe contributed to growth of gas consumption and production (+14.1 percent in March in annual terms) and accelerated growth in electric energy consumption (+7.4 percent in March in annual terms compared to 1.7 percent in February) amid an increase in the internal and external demand. As part of the OPEC+ agreement, the annual growth rates of oil production in Russia remained negative, due to the effect of the high base of 2016 - early 2017.

According to the data of the Russian Federal State Statistics Service, in Q1 2018, the CPI increased by 2.2 percent compared to the corresponding indicator of 2017. Generally, in March, an increase in prices for fruit and vegetables amid poor harvest of vegetables in 2017 had an impact on the CPI dynamics.

**In Q1 of the reporting period, industry and non-basic activities made the main contribution to the economic growth in Russia.**

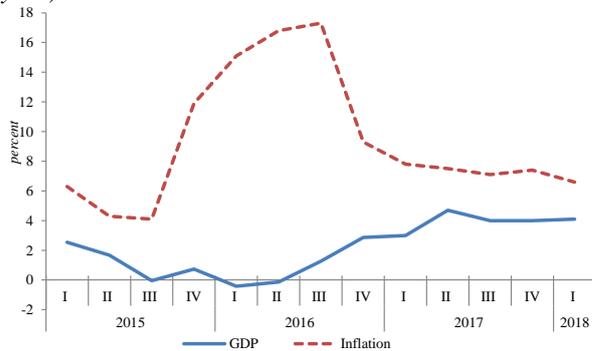
According to the preliminary estimates of the Russian Federal State Statistics Service, in Q1 2018, GDP of the country increased by 1.3 percent compared to the corresponding indicator of 2017.

The economic growth was also supported by further recovery of consumer demand, caused by the positive trends in the sphere of consumer services, engineering products intended for investment purposes, the car market, and the growth of the

## Kazakhstan

### Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBKR calculations

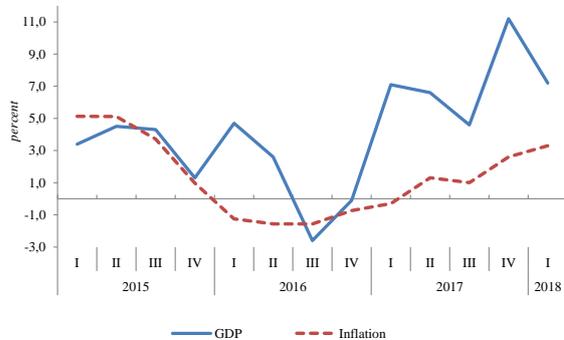
In Q1 2018, the stable economic growth in Kazakhstan was caused by increased extraction and exports of commodities amid relatively high world prices for oil, rise in investment activity and recovery of the internal demand. In January-March 2018, GDP growth in Kazakhstan constituted 4.1 percent<sup>1</sup>. In terms of sectors, the sectors of communication (an increase by 6.3 percent), trade (an increase by 6.2 percent), industry (an increase by 5.3 percent), transport (an increase by 4.5 percent) and agriculture (an increase by 3.6 percent) were the main sources of growth.

In Q1 2018, the annual inflation rate to the corresponding quarter of 2017 in Kazakhstan stood at 6.6 percent compared to 7.8 percent in the same period of 2017. According to the Chairman of the National Bank of Kazakhstan, growth of the production costs, increased import prices amid growth in prices in the world food markets and strengthening of the internal demand of the population were the main inflation factors in January-March 2018.

## Armenia

### Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



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

of the Central Bank of the Republic of Armenia.

In the reporting period, the total exports of goods from Armenia increased by 34.4 percent, and imports increased by 39.0 percent compared to the same period of the previous year.

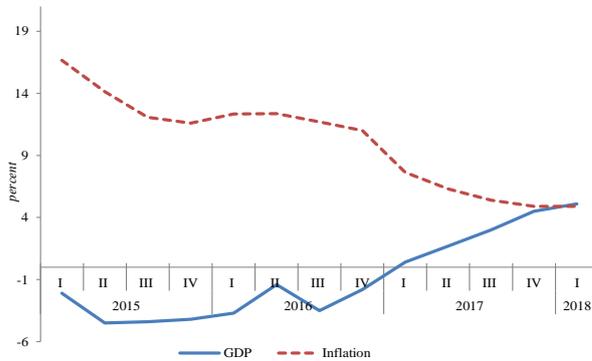
According to the National Statistical Service of the Republic of Armenia, in January-March 2018, the CPI of the country increased by 3.3 percent compared to the same period of 2017, which was mainly caused by the introduction of new customs duties since January 2018 as part of an agreement with the EAEU. During the reporting period, the prices for food products (including alcohol drinks and tobacco products) increased by 4.2 percent, and the prices for non-food products and service tariffs increased by 4.4 percent and 1.4 percent, respectively.

<sup>1</sup>According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan.

## Belarus

### Chart 1.1.4. Growth of GDP and Inflation in Belarus

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Republic of Belarus

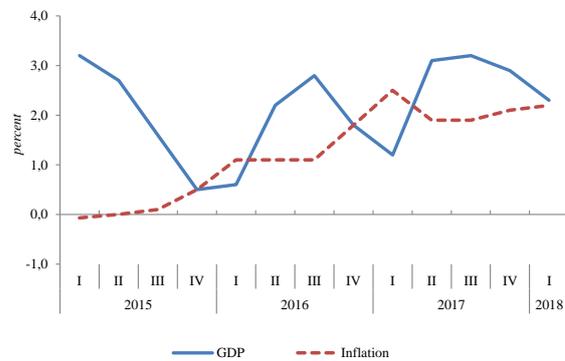
In Q1 2018, the positive upward dynamics was mainly caused by the growth of internal demand due to the increase in real wages, as well as the expansion of the external demand amid recovering economic growth in Russia. In January-March 2018, GDP growth in the Republic of Belarus amounted to 5.1 percent<sup>1</sup>. The largest increase in production was registered in the industrial sector (by 9.4 percent) due to the growth in the production of machinery and equipment (by 22.9 percent), coke and refined products (by 20.1 percent), as well as basic pharmaceutical products (by 16.2 percent).

In Q1 2018, the annual inflation rate in the Republic of Belarus was formed at the level of 4.9 percent against 7.6 percent in Q1 2017. The measures of administrative regulation and the observed increase in aggregate demand boosted consumer prices in the reporting period.

## USA

### Chart 1.1.5. Growth of GDP and Inflation in the USA

(in annual terms)



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

Economic growth in the USA was moderate. In Q1 2018, GDP growth was 2.3 percent (compared to the previous quarter at annual rates), which is slower than 2.9 percent in Q4 2017. Slowdown in GDP growth in Q1 was due to the seasonal adjustment issues and, according to the analysts, will be temporary. During the quarter under review, there was a slowdown in the consumer expenditures growth. Investments and public expenditures remained stable, the foreign trade deficit decreased, thereby supporting economic growth.

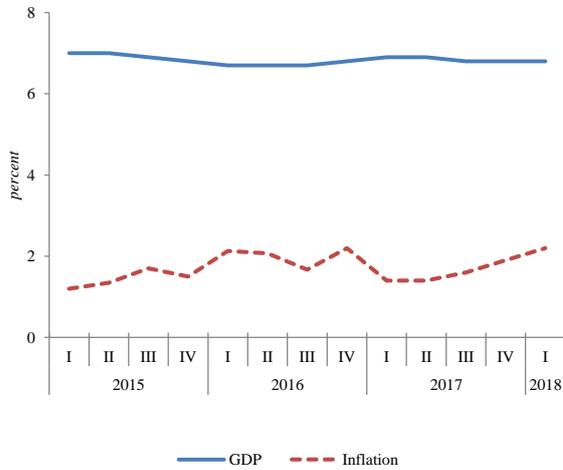
In Q1 2018, the inflation rate increased and stood at 2.4 percent in March due to growth in energy prices and core inflation amid rising salaries and expanding fiscal policy.

<sup>1</sup>According to the preliminary data of the National Statistical Committee of the Republic of Belarus

## China

### Chart 1.1.6. GDP Growth and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: National Statistics Bureau of the PRC, IA Bloomberg

however, the prices for health services increased significantly.

**The economic growth in China continued to be resilient.** In Q1 2018, GDP of the country increased by 6.8 percent exceeding the analysts' expectations and remaining unchanged from the last two quarters of 2017. High growth in the internal demand and expansion of activity in the construction sector contributed to steady economic growth. At the same time, monthly macroeconomic indicators indicated the slowdown in the growth rates of industrial production and investment in fixed assets.

In March 2018 inflation in China slowed down to 2.1 percent from 2.9 percent in February. Celebration of the Chinese New Year in the second half of February influenced the price dynamics. The growth rates of prices were generally homogeneous and moderate in most commodity groups,

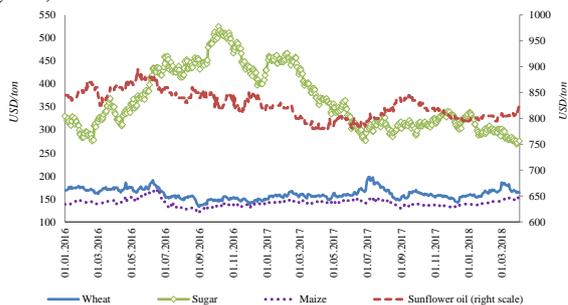
## 1.2. World Commodity Markets

The situation was stable in the main global commodity markets. The prices for some food products increased; however, it did not put significant upward pressure on the prices in the Kyrgyz Republic. The prices for gold demonstrated volatility, without clear upward or downward trend in price.

### Food Market

#### Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



**Generally, the prices in the global food markets were rather stable; price movements for the main commodities were multidirectional.**

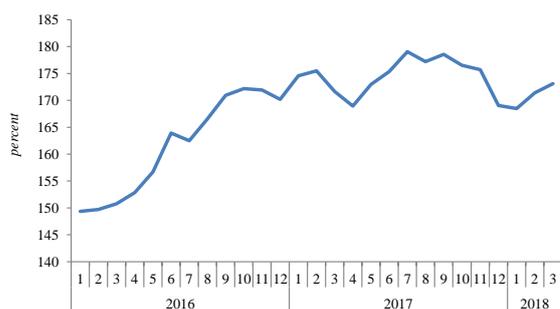
The prices for crops grew due to the concerns about the impact of adverse weather conditions on the harvest in the USA, Europe and Argentina. Crops production in the world, particularly in Russia and Kazakhstan is forecasted to decrease, however it will be at the levels close to the record highs.

The prices for most vegetable oils demonstrated a downward trend amid improved

production forecasts. Generally, the prices for sunflower oil, which occupies a significant share in the structure of the consumer goods basket of Kyrgyzstan, were stable.

In January-March of the current year, the prices in the sugar markets decreased significantly due to the high level of production and supply of this product.

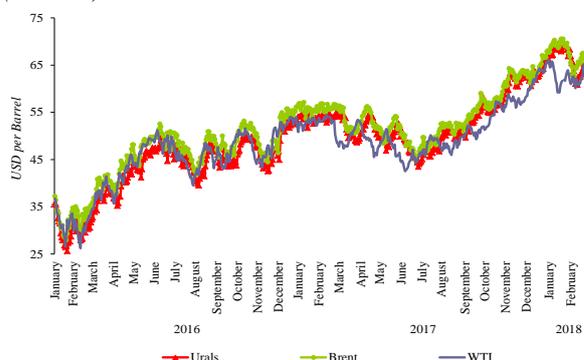
**Chart 1.2.2. Dynamics of FAO Food Price Index**



In March 2018, the FAO food price index increased by 2.4 percent compared to December 2017, mainly due to the rise in prices for crops and dairy products caused by the high import demand. There was a decrease in the prices for vegetable oils and sugar.

### Energy Market

**Chart 1.2.3. Dynamics of Prices for Oil (in USD)**



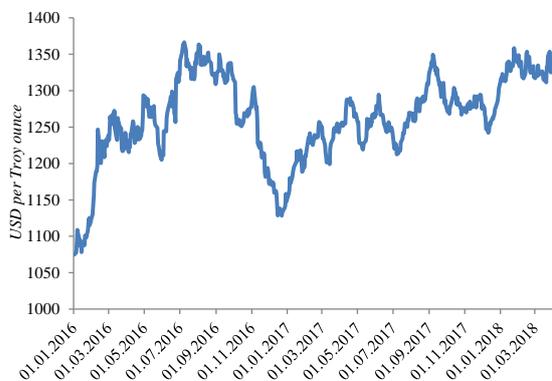
**In Q1 2018, the world prices for oil demonstrated volatility due to economic and geopolitical changes in the world.** The prices for the basic oil grades (Brent, WTI, Urals) fluctuated within the range of USD 59.2-70.5 per barrel. In Q1 2018, the average price for Brent oil increased by 9.4 percent and amounted to USD 67.2 per barrel (the price increased by 23.0 percent compared to the same period of the previous year). In general, the price for Brent oil increased by 5.1 percent from USD 66.9 to USD 70.3 from

the beginning of 2018.

In Q1 2018, the price formation in the commodity market was influenced by both fundamental and conjuncture factors. Thus, an increase in demand from China and prolongation of the OPEC+ agreement to reduce oil production, the decrease in oil production in Venezuela, Nigeria and Angola, as well as the possibility of introducing the US sanctions against Iran caused an increase in the oil prices. At the same time, the pressure on oil prices was exerted by an active increase in the volume of oil production in the United States.

### Gold Market

**Chart 1.2.4. Dynamics of Prices for Gold**



Source: IA Bloomberg

In Q1 2018, the prices for gold were volatile, however without clear upward or downward trend. The average price for the precious metal stood at a relatively high level. Adjustment of stock indices and investors' concerns about tensions in trade relations between the USA and China had an upward pressure on gold quotations during the quarter. Easing geopolitical tensions around North Korea, as well as improving forecasts for the US economy had a downward pressure on the prices for gold. Prior to the March meeting of the US Federal Reserve System, there was a decline in the prices for the precious metal;

however the gold quotations adjusted upwards due to the more moderate, than expected, position of the regulator for the future direction of the monetary policy.

## Chapter 2. Macroeconomic Development

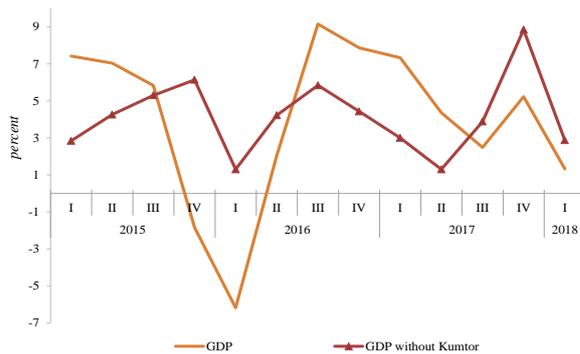
### 2.1. Demand and Supply in the Commodities and Services Market

In Q1, there was slowdown in economic growth mainly due to a reduction in production output at the enterprises of the Kumtor Mine. Economic growth in the main trading partner countries, the positive inflow of remittances into the country, the increase in budget expenses had a positive impact on the domestic and external demand.

#### Demand

##### Chart 2.1.1. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

**In Q1 2018, there was observed the slowdown of economic growth in the country. The real wages of the population were boosted by the moderately low inflation.**

According to the preliminary data of the National Statistical Committee of the Kyrgyz Republic, in Q1 2018, GDP growth amounted to 1.3 percent (in Q1 2017, growth was 7.3 percent). Excluding the enterprises of the Kumtor Mine, GDP grew by 2.9 percent (in the same period of 2017, growth was 3.0 percent). In Q1 2018, there was slowdown in economic growth compared to the same period of 2017 mainly due to the

reduction in production output at the enterprises of the Kumtor Mine.

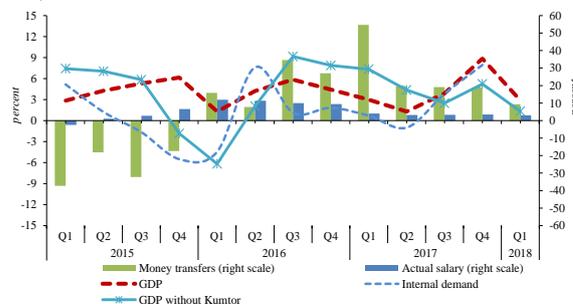
Such sectors as trade (0.6 percentage points), transport (0.3 percentage points), construction (0.2 percentage points) and agriculture (0.1 percentage point) made a positive contribution to the economic growth, meanwhile the sector of information and communication made a negative contribution (-0.3 percentage points).

In January-March 2018, the average monthly nominal wage of one employee<sup>1</sup> amounted to KGS 15,120, having increased by 6.5 percent compared to the same period of 2017. The largest increase in salaries was observed in the sphere of construction (18.1 percent), other servicing activity (21.6 percent), information and communication (16.0 percent).

In January-March 2018, the real wage increased by 3.3 percent compared to January-March 2017 (in January-March 2017, an increase amounted to 4.0 percent).

##### Chart 2.1.2. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

According to the preliminary results of Q4 2017, growth of the domestic demand<sup>2</sup> amounted to 7.9 percent compared to the same period of 2016. An increase was due to growth of final consumption (+3.6 percent) and gross accumulation (+19.1 percent), which is a result of an increase in gross accumulation of fixed assets (+10.4 percent). The increase in domestic demand is also related to the positive dynamics of remittances (at the end of 2017, the growth rate was 24.2 percent). In general, since the beginning of 2018 there has been a positive dynamics of the individuals' remittances

<sup>1</sup> Excluding small enterprises.

<sup>2</sup> According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for Q1 2018.

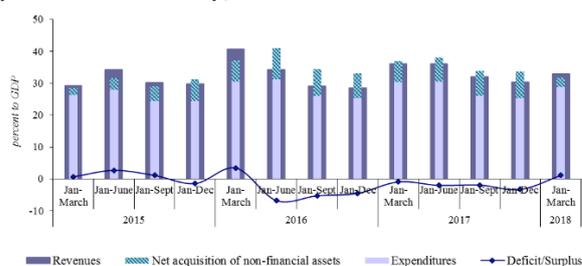
through the money transfer systems: in Q1 2018, net inflow in USD equivalent increased by 9.2 percent compared to the same period of 2017.

### Public Finances Sector

In Q1 2018, the state budget surplus amounted to KGS 1.1 billion or 1.1 percent to GDP (in Q1 2017, a budget deficit amounted to KGS 0.8 billion or 0.9 percent to GDP). The primary state budget surplus (excluding interest payment for servicing the public debt) amounted to KGS 2.8 billion or 2.8 percent to GDP.

#### Chart 2.1.3. Execution of the State Budget

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



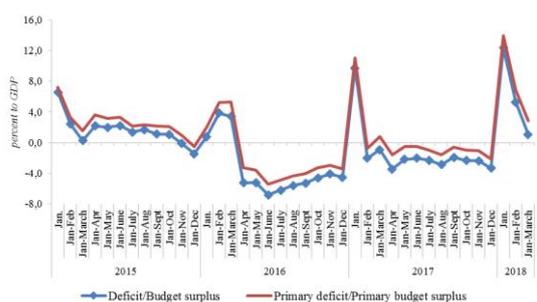
Source: CT MFKR, NBKR

The state budget revenues from operating activities increased by 4.4 percent or KGS 1.4 billion, compared to the same indicator of Q1 2017 and amounted to KGS 32.4 billion, or 32.9 percent to GDP. The dynamics of the tax revenues growth remained positive and the growth rates of revenues were higher compared to the values of the previous year. At the same time, a reduction in non-tax revenues due to a decline in profit of the state enterprises<sup>1</sup>, and a decrease of official transfers restrained the growth rate of total revenues.

The state budget expenditures for operating activities increased in annual terms by 7.9 percent, or KGS 2.1 billion, and amounted to KGS 28.2 billion or 28.7 percent to GDP. There was a significant increase of expenses on “grants and contributions” item (by KGS 7.7 billion) and a reduction of expenses for subsidies and social benefits (by KGS 4.4 billion) in the structure of expenditures by economic classification due to implementation of the new budget classification, as well as the Budget Code<sup>2</sup>. Labor costs are increasing at a slower rate compared to the same period of 2017, meanwhile the cost of goods and services purchase decreased in the reporting period.

#### Chart 2.1.4. Budget Deficit

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



Source: CT MFKR, NBKR

Net outflow of budget funds for operations related to acquisition of non-financial assets amounted to KGS 3.1 billion or 3.1 percent to GDP. The main share of capital expenditures was mainly directed for roads repair, purchase of buildings and constructions.

amounted to KGS 5.5 billion or 6.1 percent to GDP).

At the end of Q1 2018, execution of the state budget resources amounted to 110.7 percent. The plan overfulfillment was provided by customs revenues due to improved tax administration, as well as the funds from the issue of government securities. Execution of the budget expenses constituted 135.5 percent, mainly due to deviation of expenses for protected items, namely, for the transfers to the Mandatory Health Insurance Fund and the Social Fund.

The amount of KGS 5.3 billion or 5.4 percent to GDP was directed to service the public debt, moreover payment of the principal amount constituted KGS 3.5 billion or 3.6 percent to GDP (in Q1 2017, the funds allocated for servicing the public debt

<sup>1</sup> Profit of the state enterprises decreased as the profit of the National Bank of the Kyrgyz Republic in the amount of KGS 2.6 billion was transferred to the republican budget in March 2017.

<sup>2</sup> Expenses for payment of the basic part of pension are classified under “grants and contributions” item, previously these expenses were related to “social benefits and payments” item.

## Investments

In Q1 2018, the level of capital investment exploitation increased by 4.5 percent (in comparable prices) compared to Q1 2017.

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

	January-March			
	2017		2018	
	millions of KGS		share, percent	
<b>Total</b>	<b>17 689,6</b>	<b>18 522,5</b>	<b>100,0</b>	<b>100,0</b>
<b>Internal investment</b>	<b>12 775,1</b>	<b>15 309,3</b>	<b>72,2</b>	<b>82,6</b>
Republican budget	379,9	621,2	2,1	3,3
Local budget	52,9	78,6	0,3	0,4
Funds of enterprises and organizations	6 030,7	7 409,3	34,1	40,0
Banks' credits	10,8	1 022,2	0,1	5,5
Population funds including beneficent help of KR residents	6 300,8	6 178,0	35,6	33,4
<b>External investment</b>	<b>4 914,5</b>	<b>3 213,2</b>	<b>27,8</b>	<b>17,4</b>
Foreign credit	2 633,1	1 421,2	14,9	7,7
Direct foreign investments	1 777,4	1 106,9	10,0	6,0
Foreign grants and humanitarian aid	504,0	685,1	2,9	3,7

Source: NSC KR

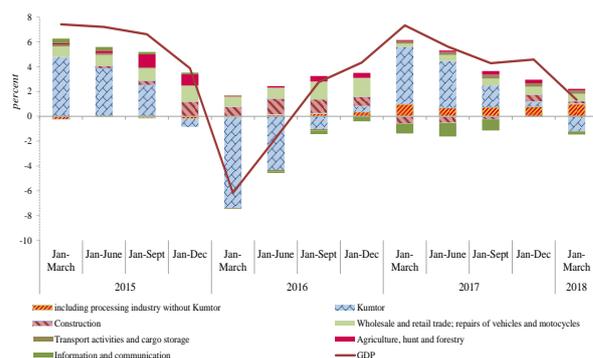
Source: NSC KR

The volume of capital investments financed from domestic sources increased by 19.6 percent compared to Q1 2017, that from the bank loans – by 94.6 times (funds were mainly directed to the construction and reconstruction of manufacturing facilities, hotels and restaurants), that from the republican budget – by 1.6 times, from the local budget – by 1.5 times, that from the funds of the enterprises and organizations – by 22.6 percent, meanwhile the investments financed from the personal funds decreased by 2.1 percent. The investments financed from the foreign sources decreased by 34.7 percent, that from the foreign loans – by 1.9 times, from the direct foreign investment – by 1.6 times, meanwhile the investments financed from the foreign grants and humanitarian aid increased by 1.4 times.

## Supply

**Chart 2.1.5. Input of Main Sectors in GDP Growth**

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



Source: NSC KR, calculations: NBKR

31.6 percent) production. At the same time, there was reduction in extraction of metal ores by 38.7 percent, in output of vehicles – by 32.2 percent, machinery and equipment – by 24.7 percent, basic metals – by 6.4 percent and food products – by 1.8 percent. Meanwhile, the high base in this sector also had a significant impact on the industrial output indicators in Q1 2017.

The volumes of providing electric energy, gas, steam and conditioned air exceeded the level of Q1 2017 by 8.6 percent, due to growth in electric energy generation and distribution.

Growth of capital investments was mainly observed in the construction of mining operations facilities, manufacturing, agriculture and fishery facilities, in the wholesale and retail trade, professional and scientific activities, healthcare, as well as the objects of art and entertainment.

Meanwhile, capital investments decreased in the construction of the facilities for supply of electric energy, gas, steam and conditioned air, hotels and restaurants, state management and defense facilities.

**In Q1, GDP increased due to a positive input of all sectors of economy excluding the sector of information and communication.**

In the reporting period, growth in agriculture made 1.7 percent due to an increase in livestock production.

Growth of production in the industrial sector by 0.1 percent (in Q1 2017 growth made 34.2 percent) was due to an increase in the physical volume of industrial output in textile (by 1.8 times), clothing production (by 25.3 percent), rubber and plastic products, other non-metallic mineral products (by 36.6 percent) and petroleum products (by

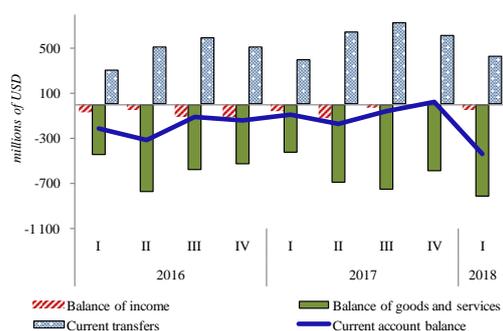
In Q1 2018, the turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased by 3.7 percent due to growth in retail (by 3.1 percent) and wholesale (by 9.4 percent) trade.

In Q1 2018, the revenues in the sector of information and communication still demonstrated the downward trend and decreased by 5.8 percent compared to the same period of 2017.

## 2.2. External Sector<sup>1</sup>

**In Q1 2018, the current account deficit increased under the influence of deterioration of the trade balance of goods and services amid the increase in the net inflow of current transfers.**

**Chart 2.2.1. Current Account**  
(millions of USD)



Note: According to the preliminary and forecasted data.

According to the forecasted and preliminary data, the current account deficit increased up to USD 440.0 million and constituted 8.7 percent to GDP<sup>2</sup> in Q1 2018.

In the reporting period, the trade deficit of the Kyrgyz Republic increased by 90.2 percent to make USD 734.5 million. This trend was caused by the decline in exports of gold and other goods and by growth of imports in the reporting period.

### 2.2.1. Trade balance of the Kyrgyz Republic<sup>3</sup>

(millions of USD)

	2015	2016	2017	2017 Q1	2018* Q1	Change in %	Change in millions of USD
Trade balance	-2 240,8	-2 136,5	-2 362,9	-386,1	-734,5	90,2	-348,4
Export (FOB)	1 619,0	1 607,9	1 832,7	433,8	380,4	-12,3	-53,4
Gold	665,4	701,6	700,4	150,5	122,1	-18,9	-28,4
Import (FOB)	3 859,8	3 744,4	4 195,6	819,9	1 114,8	36,0	295,0
Energy products	830,0	467,4	467,4	101,9	107,1	5,1	5,2

\* Preliminary data

In the reporting period, exports of goods (in FOB prices) decreased by 12.3 percent to make USD 380.4 million. Exports were primarily affected by decrease in exports of gold by 18.9 percent compared to the same quarter of 2017, as well as export of other goods. Exports, excluding gold, decreased by 8.8 percent, mainly due to the decline in supplies of footwear, ores and precious metal concentrates, cigarettes, etc.

In Q1 2018, imports of goods (in FOB prices) increased by 36.0 percent, to make USD 1,114.8 million. There was an increase in imports of such goods as clothes and clothing accessories, footwear, cast iron and steel, woven fabrics, cigarettes, electrical apparatus for line telephony or line telegraphy, etc. Imports, excluding energy products, increased by 40.4 percent compared to Q1 2017, to make USD 1,007.7 million.

**In the reporting period, the net inflow of current transfers was formed above the level of the same period in 2017 by 9.2 percent.** Favorable working conditions for labor

<sup>1</sup> 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.

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

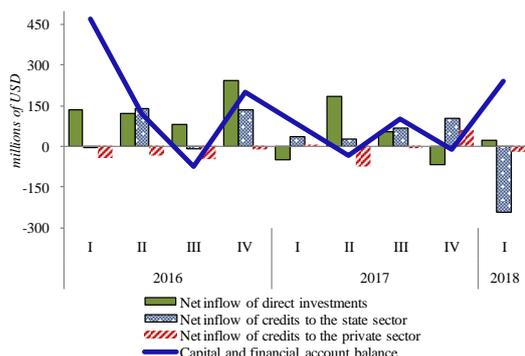
<sup>3</sup> The data on the foreign trade are given taking into account the NSC KR additional estimates for agricultural products (till 2017), mutual trade with the EAEU member states (since Q3 2015) and the NBKR estimates.

migrants and moderate economic development in Russia contributed to the positive dynamics of the net inflow of private transfers, which amounted to USD 429.3 million.

In the reporting quarter, the balance of services deficit increased up to USD 83.8 million, however, the deficit of “income” item decreased down to USD 50.0 million.

**According to the preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, the capital inflow on the capital and financial accounts in the amount of USD 240.7 million will cover the current account deficit in Q1 2018.** In Q1 2018, one-time write-off of the Kyrgyz Republic debt to the Russian Federation in the amount of USD 240.0 million will have significant impact on the dynamics of account indicators.

**Chart 2.2.2. Capital and Financial Account**



Capital account inflow amounted to USD 262.1 million; meanwhile, the financial account balance formed negative in the amount of USD 21.4 million. The main inflow of capital on the financial account is expected on “direct investments” item in the amount of USD 24.3 million. The balance of “other investments” item will be formed negative to make USD 45.7 million under the impact of the state sector foreign liabilities reduced due to writing-off the credit provided by Russia. Along with that, the foreign assets of the residents are expected to increase compared to

the same period of 2017.

Thus, the balance of payments of the Kyrgyz Republic was formed with a positive balance to make USD 20.2 million at the end of Q1 2018. Gross international reserves covered 3.9 months of the future imports of goods and services<sup>1</sup>.

### Indexes of Real and Nominal Effective Exchange Rate of KGS

**Table 2.2.2. Key Values for Exchange Rate**

	year (average)		month to the beginning of the year (as of the end of month)			
	2016 (aver.) (January- December)	2017 (aver.) (January- December)	%	December 2017	March 2018	*
REER	113.7	111.3	-1.7	112.5	110.7	-1.6
NEER	112.8	110.7	3.5	112.2	109.8	-2.2
RBBER to CNY	80.8	85.6	-4.6	83.3	82.0	-1.6
NBBER to CNY	64.5	66.7	-3.0	64.2	62.9	-2.0
RBBER to Euro	107.2	109.0	-8.0	103.1	102.3	-0.8
NBBER to Euro	78.8	78.6	-7.9	73.9	72.5	-1.9
RBBER to KZT	141.7	131.8	26.4	131.6	128.6	-2.3
NBBER to KZT	152.1	147.5	43.6	149.1	146.6	-1.7
RBBER to RUR	131.4	116.2	-9.9	116.5	116.3	-0.2
NBBER to RUR	144.8	128.3	1.5	127.3	126.5	-0.6
RBBER to USD	87.2	89.9	-9.1	90.1	91.9	2.0
NBBER to USD	65.7	66.7	-8.3	66.0	67.4	2.0

\* Preliminary data

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

**At the end of Q1 2018, the index of nominal and real effective exchange rate decreased compared to December 2017.** According to the preliminary data, the index of nominal effective exchange rate (NEER) of KGS decreased by 2.2 percent from the beginning of 2018 and constituted 109.8 by the end of March 2018. The decrease in the NEER index was due to KGS depreciation<sup>2</sup> in March 2018 compared to the average exchange rate for December 2017 against the Chinese yuan – by 2.0 percent, the euro – by 1.9 percent, the Kazakh tenge – by

1.7 percent, and the Russian ruble – by 0.6 percent.

Despite higher inflation rate in the Kyrgyz Republic<sup>3</sup>, the decrease in the NEER index influenced the index of real effective exchange rate (REER), which decreased by 1.6 percent since December 2017 and constituted 110.7 at the end of March 2018.

<sup>1</sup> Taking into account non-convertible currencies.

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

<sup>3</sup> In Q1 2018, the inflation rate in the Kyrgyz Republic stood at 1.2 percent, meanwhile, according to the preliminary calculations, the average inflation rate in the main trading partner countries was 0.6 percent.

## Chapter 3. Monetary Policy

### 3.1. Monetary Policy Implementation

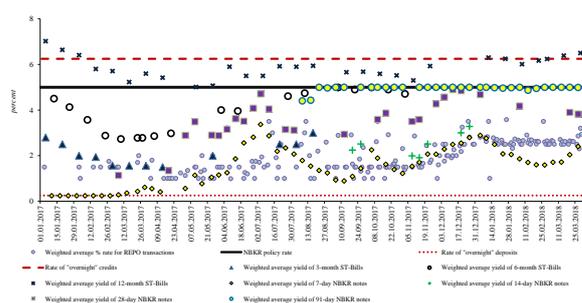
In the reporting quarter, estimates of the external environment and the internal conditions development, including dynamics of the inflation rate for the medium term, permitted to preserve the course of the monetary policy conducted by the National Bank, focused on supporting measures to stimulate economic activity.

Generally, there was high level of excess liquidity in the banking system. Therefore, the volumes of operations on sterilization conducted by the National Bank were increased. The interbank credit market demonstrated increased activity of the participants. The short-term rates of the interbank money market had a tendency of approaching the policy rate set by the National Bank.

#### Interest Rate Policy of the National Bank

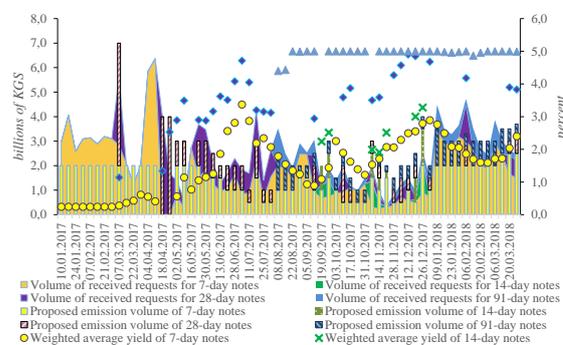
Taking into account expected moderate dynamics of the inflation in the medium term and the current conditions of economic development, in Q1 2018, the National Bank kept unchanged its interest rate policy aimed at maintaining economic activity. In the reporting period, the National Bank's policy rate remained at the level of 5.00 percent. The rates of the interest rate corridor remained unchanged: the upper level of the interest rate corridor (the rate on "overnight" credits) – 6.25 percent, the lower level (the rate on "overnight" deposits) – 0.25 percent.

**Chart 3.1.1. Money Market Rates**



Encouraging of measures taken by the National Bank in Q3 2017 to improve monetary policy instruments, combined with the upward trend in the excess liquidity of the banking system, on the one hand, and increased activity in the domestic interbank credit market, on the other hand, conditioned the upward trend of the short-term interest rates in the money market. The short-term rates of the interbank credit market moved from the lower level of the interest rate corridor towards the policy rate, meanwhile, the average rates on operations conducted in the open market were at the level of Q4 2017. Generally, in Q1 2018, volatility of the money market rates decreased significantly compared to Q4 2017.

**Chart 3.1.2. National Bank Notes**



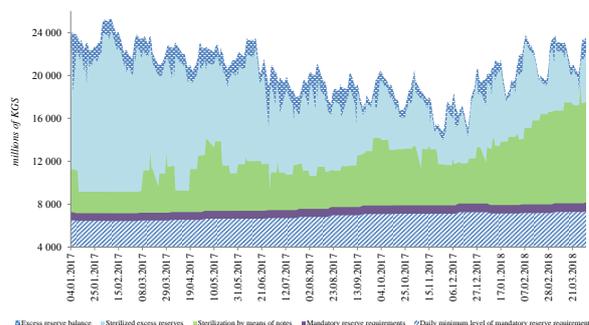
In Q1 2018, the weighted average interest rates for all short-term instruments were lower or at the level of the policy rate set by the National Bank, except for the yield on 12-month ST-Bills, which was approximately 6.3 percent during the quarter. In the first half of the reporting period, the yield of the National Bank notes was characterized by the downward trend resulted from increased demand for these securities due to the growth of the overall level of excess liquidity in the banking system. In the second half of the reporting period, there was an upward trend in the interest rates on operations in the open market, conditioned by an increase in the issue of the National Bank notes. However, in Q1 2018, the weighted average rates on the short-term instruments of the National Bank did not suffer significant changes compared to Q4 2017. Thus, the weighted

average yield on 91-day notes was approximately 4.97 percent during the quarter (in Q4 2017 – 5.00 percent), on 28-day notes – 4.13 percent (in Q4 2017 – 4.02 percent), on 7-day notes – 2.00 percent (in Q4 2017 – 2.05 percent).

The rates of lowering interest rates on the credit portfolio of the commercial banks remained unchanged. This decline was mainly caused by the interest rate policy conducted by the National Bank jointly with measures taken to decrease the interest rates. At the end of the reporting quarter, the weighted average interest rate of the credit portfolio decreased by 0.5 percentage points compared to the end of Q4 and made 15.5 percent (in Q4, the decrease was also 0.5 percentage points).

### Situation with Liquidity of the Commercial Banks

**Chart 3.1.3. Excess Reserves of the Commercial Banks**



In the reporting quarter, increase of the the excess liquidity of the commercial banks, started at the end of December 2017, had continued. Operations conducted by the National Bank were the main sources of increase in the volume of excess liquidity in the banking system. Another factor that influenced the growth of excess liquidity was seasonal decrease in the volume of money outside banks (by KGS 6.1 billion) due to the tax period. At the same time, the operations conducted by the Government of the Kyrgyz

Republic decreased the level of excess liquidity in the reporting quarter (by KGS 6.9 billion). In Q1 2018, the average daily volume of the commercial banks’ excess liquidity prior to the operations on sterilization amounted to KGS 13.2 billion, having increased by KGS 3.2 billion compared to the same indicator of Q4 2017.

Taking into account existing level of excess liquidity in the banking system, the National Bank conducted operations to absorb excess liquidity through the auctions of the National Bank’s notes and placement of the commercial banks’ available funds on “overnight” deposits with the National Bank. In Q1 2018, the average volume of excess liquidity absorbed on a daily basis increased by KGS 3.3 billion compared to Q4 2017 and amounted to KGS 12.4 billion. The volume of placement of the National Bank notes, mainly long-term (91-day) notes, increased in the structure of absorbing operations. As of the end of Q1 2018, the volume of 91-day notes in circulation has increased from KGS 2.2 billion to KGS 6.9 billion since the end of Q4 2017. Generally, in the reporting quarter, the average daily volume of sterilization by means of notes amounted to KGS 7.3 billion (+KGS 2.5 billion compared to Q4 2017), the volume of placements of “overnight” deposits with the National Bank – KGS 5.1 billion (+ KGS 0.8 billion compared to Q4 2017).

### Credit Policy of the National Bank

In the reporting period, the National Bank conducted credit policy aimed at expanding lending to the real sector of the economy in order to contribute the reduction of interest rates on credits and promote economic development. The National Bank provided funds to the commercial banks in the amount of KGS 1.5 billion through auction credits and to the Russian-Kyrgyz Development Fund in the amount of KGS 100.0 million for further lending to the economy as part of the current credit policy.

### Foreign Exchange Policy of the National Bank

The situation in the domestic foreign exchange market was relatively stable. The exchange rate of the Kyrgyz som remained stable during the second half of the reporting period after fluctuations thereof in the first half of the same quarter. At the beginning of the reporting period, the National Bank conducted interventions on purchase and sale of foreign currency in

order to smooth sharp fluctuations of the exchange rate amid increased volatility of foreign currency demand and supply in the domestic foreign exchange market, the volume of net purchase amounted to USD 15.2 million. Generally, strengthening of the national currency constituted 0.6 percent during Q1.

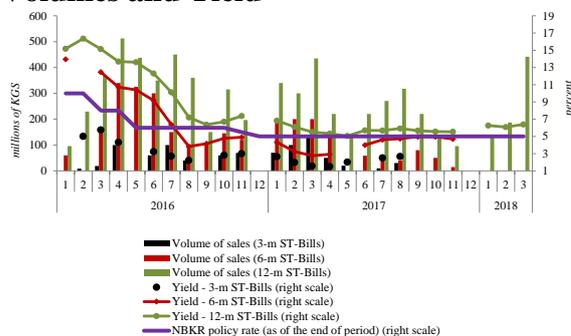
### Monetary Policy Measures in Q1 2018

<p>The decisions were made on the size of the National Bank policy rate</p>	<p>The Board of the National Bank twice considered the issue on the size of the National Bank policy rate – on February 26 and March 26, 2018. Finally, the decision was made to keep the policy rate unchanged at 5.00 percent.</p> <p>The rates of the interest rate corridor remained unchanged: the interest rate on “overnight” credits was 6.25 percent, the interest rate on “overnight” deposits - 0.25 percent.</p>
<p>The decision was made to conduct the credit auction.</p>	<p>The National Bank announced credit auctions 2 times for the banks refinancing. One auction was held out of announced 2 ones with approved credits in the amount of KGS 1.5 billion. The commercial banks were provided credits to the amount of KGS 0.7 billion in the reporting period. The weighted average interest rate on these credits constituted 5.05 percent.</p> <p>The total volume of supply for the credit resources amounted to KGS 3.0 billion, the demand from the commercial banks amounted to KGS 1.8 billion.</p>
<p>The National Bank issued credits to the international organizations established by the Kyrgyz Republic jointly with other states within the framework of the Eurasian Economic Union</p>	<p>The volume of issued credits amounted to KGS 100.0 million.</p>

## 3.2. Financial Market Instruments

### Government Securities Market

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



### ST-Bills

**In the reporting period, the ST-Bills market demonstrated low activity of the participants amid slight increase of 12-month securities yield.**

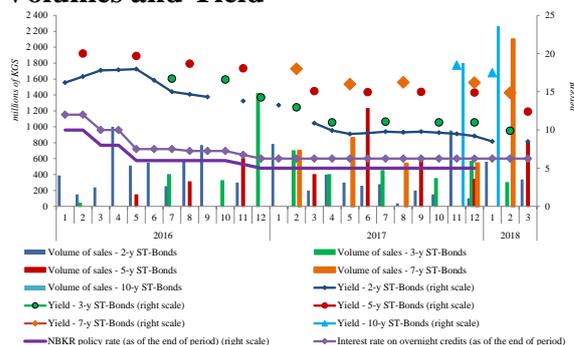
In Q1 2018, the volume of the announced issue of ST-Bills decreased by 38.9 percent compared to the same indicator of 2017, down to KGS 1.2 billion, amid build-up in the share of ST-Bonds in the overall structure of government securities.

Moreover, the demand for ST-Bills issued by the Ministry of Finance of the Kyrgyz Republic decreased by 75.0 percent (down to KGS 1.2 billion) compared to the same quarter of 2017, which affected the gradual decline in the volume of sales of these securities (-61.3 percent, down to KGS 768.8 million).

Based on the results of the auctions, the weighted average yield of 12-month ST-Bills fixed at 6.3 percent (+0.1 percentage point compared to the same quarter of 2017).

By the end of Q1 2018, the total volume of ST-Bills in circulation amounted to KGS 2.4 billion (-16.9 percent year-to-date).

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



2018-2020, where the volume of the announced issue was KGS 1.0 billion. Moreover, there was growth in the supply of 2-, 5- and 7-year ST-Bonds, meanwhile, the supply of 3-year ST-Bonds, on the contrary, decreased by 57.1 percent compared to the same period of 2017.

In the reporting period, the total volume of ST-Bonds supply increased by 56.3 percent compared to the same indicator of 2017 (up to KGS 3.7 billion).

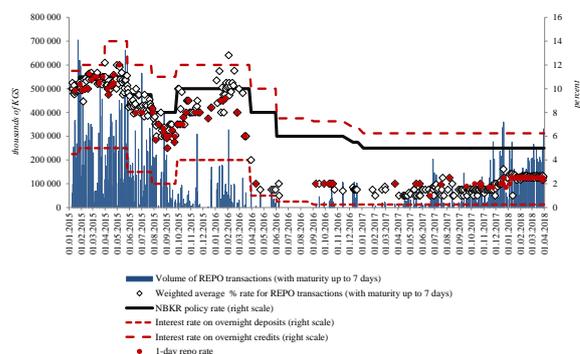
In the reporting period, the activity of participants at the auctions increased from 10 to 14 participants in the ST-Bonds market. Therefore, the volume of demand for ST-Bonds increased by 76.9 percent (up to KGS 11.1 billion), and the volume of sales including additional placement increased by 2.3 times (up to KGS 6.4 billion).

In Q1 2017, the largest share in the structure of ST-Bonds sales was occupied by 2-year ST-Bonds (35.4 percent), meanwhile, in the reporting period, the main share was occupied by 10-year ST-Bonds (35.6 percent) demonstrating increased interest of the participants in financial instruments with longer-terms.

Based on the results of the auctions conducted in the reporting period, the overall weighted average yield of ST-Bonds decreased down to 12.9 percent (-1.1 percent compared to the same quarter of the previous year) due to decline in the yield on all maturities.

### Interbank Credit Market

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



increase was observed in the cost of loans in the interbank credit market from 2.1 to 2.7 percent.

In the reporting period, the total volume of concluded REPO transactions increased significantly up to KGS 10.0 billion (+ by 56.9 times) compared to the same indicator of 2017. The weighted average rate on these credit resources increased from 1.6 to 2.7 percent.

REPO transactions were concluded with a maturity from 1 to 32 days in the interbank market and the rates were within the limits of the interest rate corridor set by the National Bank of the Kyrgyz Republic.

### ST-Bonds

**In the reporting period, supply of ST-Bonds increased amid increase in demand and growth of the participants' activity in the ST-Bonds market.**

In Q1 2018, the Ministry of Finance of the Kyrgyz Republic continued to offer 10-year ST-Bonds to develop the government securities market within the framework of the Strategy for Public Debt Management of the Kyrgyz Republic for

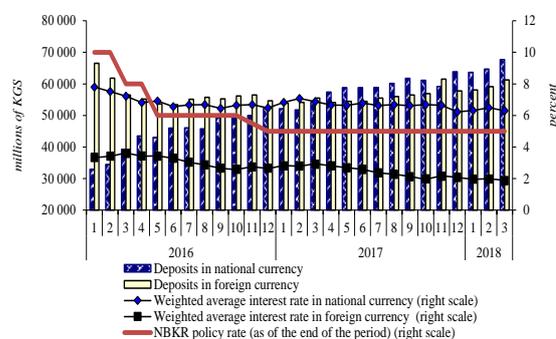
**In the reporting period, there was a significant growth of transactions in the interbank credit market along with a slight increase of the average weighted rates.**

In Q1 2018, the activity of participants increased significantly by 19.3 times in this market, up to KGS 10.0 billion (in Q1 2017 – KGS 517.9 billion), caused by the growth of REPO transactions. In the reporting period, against the background of the growth of demand for the interbank credit resources, an

In Q1 2018, standard transactions in the national and foreign currency were not conducted in the interbank credit market.

## Deposit Market

**Chart 3.2.4. Dynamics of Commercial Banks' Deposits**



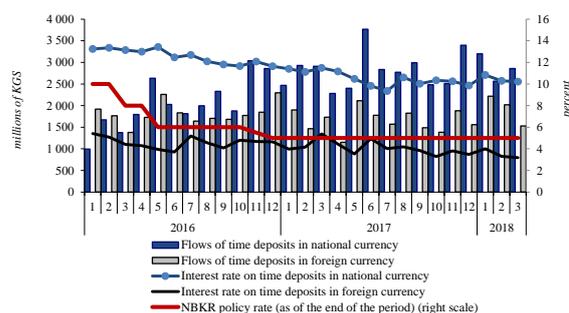
The banks' depository base demonstrated an upward trend in Q1 2018.

At the end of Q1 2018, the volume of the commercial banks' depository base increased by 6.0 percent year-to-date and amounted to KGS 128.9 billion due to the growth of the deposits in the national currency by 6.0 percent, up to KGS 67.7 billion, in foreign currency – by 6.1 percent, up to KGS 61.3 billion. Dollarization of the deposits amounted to 47.5 percent, has not changed year-to-date.

In Q1 2018, the volume of new deposits increased by 8.6 percent compared to the same period of 2017 and amounted to KGS 128.5 billion. It was caused by the growth of deposits in the national currency up to KGS 70.4 billion (+8.3 percent) and in foreign currency up to KGS 58.1 billion (+9.0 percent). In terms of structure, the increase of new deposits was mainly caused by the growth of demand deposits by 8.8 percent, however, the volume of accepted time deposits increased by 7.3 percent.

In terms of maturity the share of short-term deposits (up to 1 year) decreased down to 68.2 percent (-0.8 percentage points) year-to-date with a proportional increase in the share of long-term resources up to 31.8 percent demonstrating an increase in the population's deposits for a longer term. Thus, the main share among the new deposits in the national currency accounted for the deposits from 1 to 3 years (42.6 percent) and from 6 to 12 months (34.5 percent), in foreign currency the main share accounted for the deposits with the same maturity with the share of 42.0 percent and 21.8 percent, respectively. Therefore, the total duration of the depository base was 4.6 months (- 0.2 months year-to-date) at the end of the reporting period, the duration of deposits by flows was 1.5 months (+0.1 month year-to-date).

**Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows**

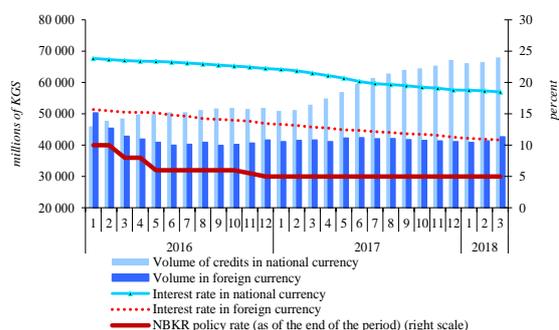


In the reporting period, weighted average interest rate on the new deposits in the national currency constituted 2.71 percent (-0.33 percentage points compared to the same period of 2017), this rate on the deposits in foreign currency constituted 0.46 percent (-0.43 percentage points). In the reporting period, weighted average interest rate on the time deposits in the national currency constituted 10.44 percent, having decreased by 0.89 percentage points, mainly due to a decrease of all maturity rates, except for the

deposits with a maturity from 0 to 1 month. Moreover, weighted average interest rate on the time deposits in foreign currency made 3.49 percent, having decreased by 1.02 percentage points, due to a decline of all maturity rates.

## Credit Market

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



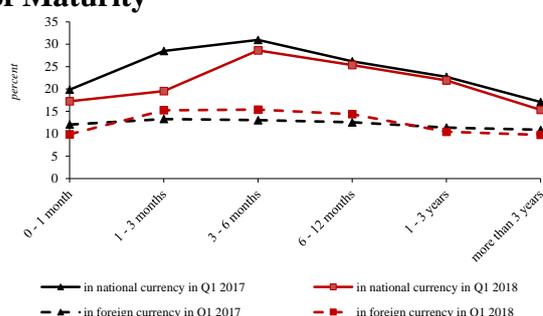
In Q1 2018, build-up of the credit portfolio was accompanied by a significant increase in the volume of credits issued in the national currency. Meanwhile, the interest rates on the credits in the national and foreign currency still demonstrated a downward trend.

Thus, the volume of the commercial banks' credit portfolio increased by 2.1 percent year-to-date and amounted to KGS 110.6 billion at the end of the reporting period. Meanwhile, the credits in the national currency increased by 1.2 percent, to make KGS 68.0 billion, however, the credits in

foreign currency increased by 3.7 percent, to make KGS 42.6 billion. Dollarization of the credits increased by 0.5 percentage points year-to-date, up to 38.5 percent.

In the reporting period, the volume of new credits issued in the national currency amounted to KGS 15.7 billion, having increased by 11.1 percent compared to the same period of 2017, due to the growth of credits with all maturity rates, except for the credits issued with a maturity from 1 to 3 years. In terms of sectors, this growth was mainly caused by an increase of credits to the sector "trade and commercial operations" and of consumer credits.

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



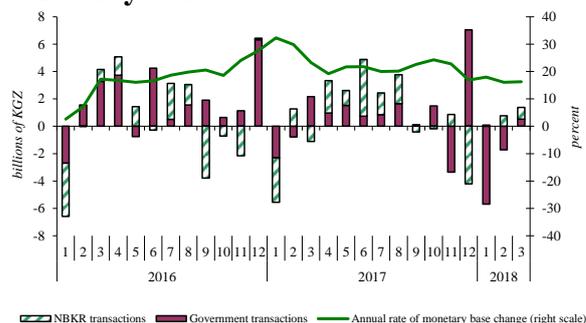
The volume of new credits in foreign currency decreased down to KGS 8.2 billion (-11.8 percent) caused by a decline in credits with all maturity rates, except for the credits with a maturity from 3 to 6 months. Meanwhile, in terms of sectors, there was an increase in the volume of credits only in three sectors: credits for construction (+57.0 percent), consumer credits (+7.8 percent) and the sector "trade and commercial operations" (+0.3 percent).

Duration on new credits in the national currency decreased by 4.4 months year-to-date (down to 23.7 months), in foreign currency – by 1.6 months (down to 32.1 months).

In Q1 2018, the weighted average interest rate on new credits in the national currency decreased by 1.83 percentage points compared to the same indicator of 2017, down to 19.62 percent (due to a decrease of the rates on all sectors), this rate in foreign currency decreased by 1.29 percentage points, down to 9.99 percent (due to a decrease of the rates on all sectors, except for the sector "social services" (+0.5 percentage points)).

### 3.3. Dynamics of Monetary Indicators

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

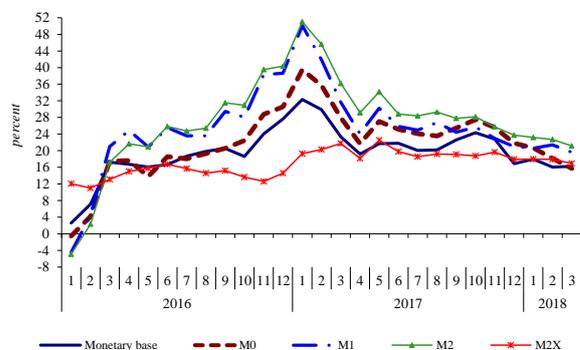


of the operations, the monetary base decrease was affected by the excess of the Government of the Kyrgyz Republic revenues over expenses thereof. The Government's tax revenues made the main contribution to revenue growth in the reporting quarter, mainly due to the value added taxes imposed on goods imported to the territory of the Kyrgyz Republic amid increased imports to the country.

The structure of monetary base did not suffer significant changes. At the end of the reporting period, the share of reserves of other depository corporations in the structure of monetary base made 10.4 percent, meanwhile, the share of currency in circulation was 89.6 percent.

**Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates**

(in annual terms)



the monetary aggregate M2X decreased by 0.3 percent and amounted to KGS 192.8 billion at the end of the reporting period. Meanwhile, the annual growth rates of the monetary aggregate M2X made 16.9 percent.

Deposits<sup>1</sup>, included in M2X, increased by 17.8 percent over the year, due to the growth of deposits in the national currency by 28.8 percent and in foreign currency - by 6.9 percent.

The total volume of credits to the economy<sup>2</sup> increased by 17.1 percent over the year and amounted to KGS 112.9 billion at the end of period. Meanwhile, credits in the national currency increased by 27.3 percent and credit in foreign currency increased by 3.8 percent. Credits to the economy increased by 2.2 percent in the reporting quarter.

<sup>1</sup> Deposits of individuals, legal entities and other financial-credit organizations, excluding deposits of the Government of the Kyrgyz Republic and non-residents.

<sup>2</sup> Credits of individuals, legal entities and other financial-credit organizations, excluding credits of the Government of the Kyrgyz Republic and non-residents

#### *Monetary Base*

The annual growth rate of the monetary base made 16.2 percent at the end of Q1 2018. Meanwhile, there was a decrease in the monetary base by 5.2 percent at the beginning of the reporting quarter. The monetary base decreased in the reporting quarter due to the operations of the Government of the Kyrgyz Republic (-KGS 6.9 billion), however, the operations of the National Bank increased the monetary base (+KGS 1.7 billion). In terms

#### *Monetary Aggregates*

In the reporting quarter, there was a slowdown in the annual growth rates of monetary aggregates amid significant decrease in the volume of money outside banks in Q1 2018 compared to the same quarter of 2017. In the reporting quarter, money outside banks decreased by 7.3 percent, meanwhile, in the same period of 2017, this indicator decreased by 2.4 percent. The annual growth of money outside banks made 15.7 percent at the end of the reporting quarter.

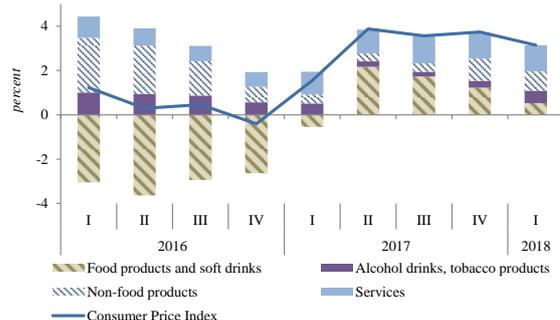
During the reporting quarter, the

## Chapter 4. Inflation Dynamics

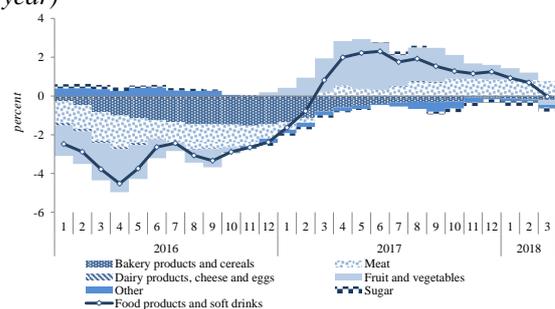
The inflation rate in the Kyrgyz Republic remained moderate with a slight downward trend. Generally, the inflationary pressure in the country remained stable. The rate of increase in prices for food products moderated, mainly due to a decrease in prices for vegetables. The market inflation rate was stable at the level of monetary policy target of the National Bank.

### 4.1. Consumer Price Index

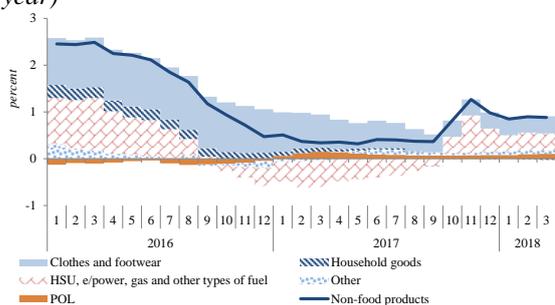
**Chart 4.1.1. Dynamics of CPI Structure**  
(quarter to the corresponding quarter of the previous year)



**Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI**  
(month to the corresponding month of the previous year)



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



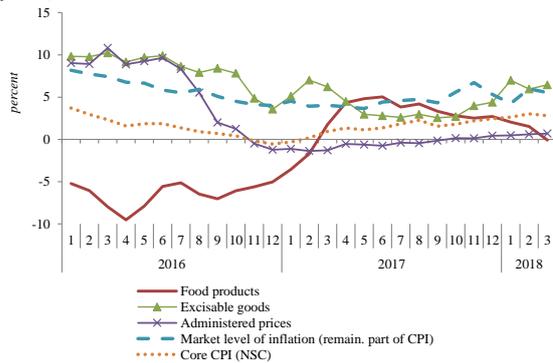
**In Q1 2018, the inflation rate remained moderate.** In January-March of the current year, the growth of CPI compared to the same period of the previous year was 3.1 percent, which is lower than 3.7 percent in Q4 2017. In March, the annual inflation rate was 2.7 percent. Slowdown in the inflation rate was mainly due to a decrease in food inflation rate amid significant imports of vegetables. The growth in prices for tobacco products as a result of the increase in excise rates caused rise in excisable prices and made an upward impact on the inflation rate. Market inflation rate and price indices in the majority of the main commodity groups demonstrated relatively stable growth rates.

In March 2018, the price index for food products decreased by 0.1 percent in annual terms. Prices for most food products decreased compared to the same month of the previous year due to a favorable situation in the external food markets. Data provided by the State Customs Service on trade with non-EAEU member states demonstrate a significant increase in imports of fresh fruits and vegetables in January-March 2018 compared to January-March 2017. Only growth in prices for meat products had an upward impact on food inflation rate.

The prices in the commodity section “alcohol drinks and tobacco products” increased by 6.4 percent due to the growth in prices for tobacco products, which is a result of the increase in excise rates in January of the current year.

### Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities

(month to the corresponding month of the previous year)

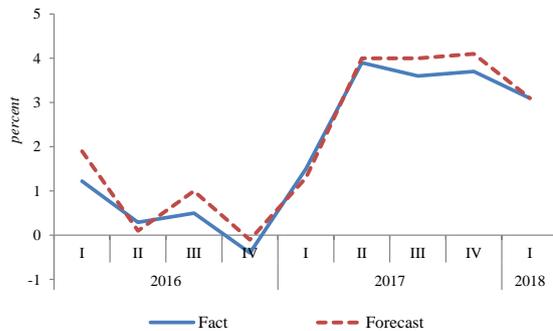


Market inflation still demonstrated stable dynamics and, generally, was within the targets of 5-7 percent set by the National Bank. The increase in prices for most non-food products and paid services was low or moderate. The annual growth in prices for petroleum, oil and lubricants, coal, communication and catering services had an upward impact on the inflation rate in these groups. In March 2018, non-food inflation was 3.0 percent; the prices for paid services increased by 7.5 percent.

## 4.2. Comparison of Forecast and Facts

### Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



**In Q1 2018, the actual inflation rate coincided with the National Bank's forecasts.** Prices for food products were below the forecasts due to increased imports of vegetables and other products. It was compensated by an increase in administrative prices, which was higher than expected, particularly as a result of significant growth in prices for tobacco products.

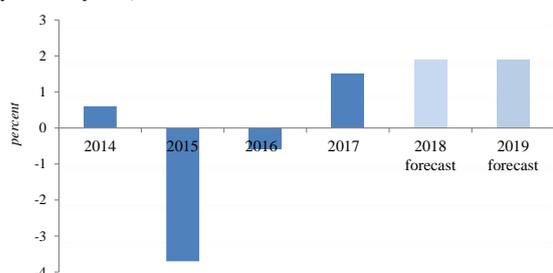
## Chapter 5. Medium-Term Forecast

### 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)

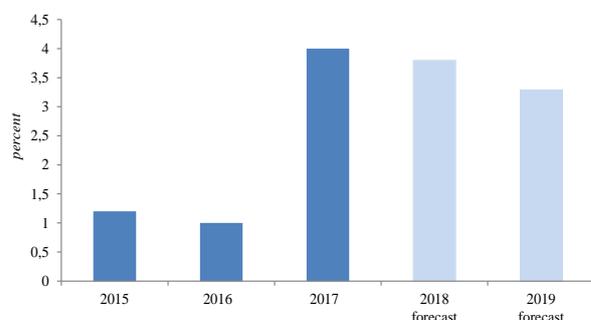


Source: IMF, IA Bloomberg, Ministry of Economic Development of the Russian Federation

geopolitical factors does not pose any threat to the macroeconomic stability. However, devaluation of the Russian ruble contributes to more rapid approach of the inflation rate to the target without the risks of exceeding it. Thus, by the end of 2018, the growth rate of consumer prices is forecasted within the range of 3-4 percent gradually approaching the target of 4 percent in 2019.

##### Kazakhstan

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



Source: IA Bloomberg, international financial institutions

the state programs to support the economy.

In the medium term, a slowdown is expected in the inflation rate in case of the absence of adverse shocks. In 2018, the inflation rate is forecasted to slow down within the target corridor of 5-7 percent, and in 2019, it will gradually enter the corridor of 4-6 percent. The probability of significant devaluation of the Russian ruble and the decline in oil prices are the main inflation risks in Kazakhstan.

**In the medium term, positive economic growth rates persist in Russia.** Economic growth will be further supported by increased internal demand against the background of rising real wages, relatively high oil prices and gradual transition to the neutral monetary policy conducted by the Bank of Russia in the absence of negative trends.

According to the Bank of Russia, increased volatility in the financial markets of the country in early April caused by the

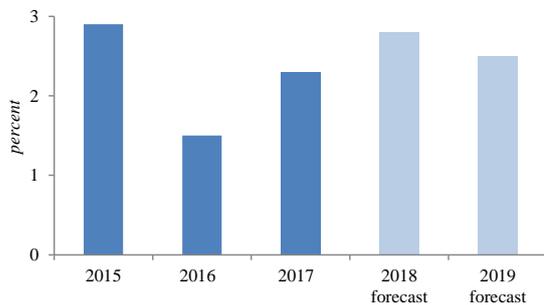
geopolitical factors does not pose any threat to the macroeconomic stability. However, devaluation of the Russian ruble contributes to more rapid approach of the inflation rate to the target without the risks of exceeding it. Thus, by the end of 2018, the growth rate of consumer prices is forecasted within the range of 3-4 percent gradually approaching the target of 4 percent in 2019.

**In the medium term, the conditions for further economic growth persist in Kazakhstan.** The economic growth forecast for 2018 was adjusted upwards to 3.8 percent (instead of the previously expected 3.2 percent), due to higher than expected actual data in Q1 2018. In the absence of shocks, the economic growth in Kazakhstan will be supported by an increase in the volume of extraction, production and export of mineral resources under the conditions of high commodities prices, the growth in investment and wages, and implementation of

## USA

**Chart 5.1.1.3. Real GDP Growth in the USA**

(year to year)



Source: IA Bloomberg

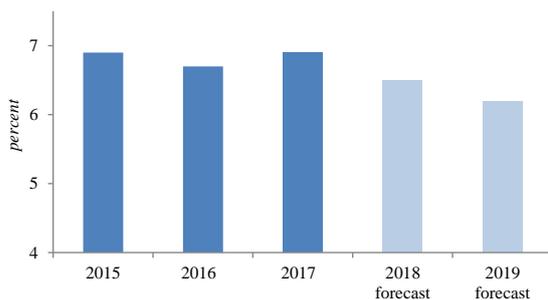
possible complications of foreign trade relations pose uncertainty for the economy.

The inflation rate in the USA will be at the level of about two percent or slightly higher. Increased income of the population will have a supportive impact on the price level. On the other hand, the upward effect of temporary inflationary factors is expected to decrease.

## China

**Chart 5.1.1.4. Real GDP Growth in China**

(year to year)



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

which will have a downward impact on the economic growth rates. In 2018, GDP growth is expected at the level of 6.5 percent, in 2019 – 6.2 percent.

The inflation rate is forecasted to increase compared to the previous years, and in 2018-2020, it will be at the level of about 2.3 percent. The inflation rate below the target of China of “about three percent” provides the government with the possibility of easing the monetary policy to support the economy.

**The growth rate of the US economy will be above the average values of the recent years.** After a slowdown in Q1 of the current year, GDP growth will recover and will be about three percent by the end of the year. Decreased tax rates, increased public expenses and reduced regulatory burden will make a positive contribution to economic growth. At the same time, the positive effect of the adopted fiscal policy measures will diminish during 2018-2020. The US Federal Reserve System is expected to implement gradual tightening of the monetary policy,

**The assumptions on the economy in China remained unchanged, gradual slowdown is forecasted in GDP growth.** The growth momentum that the economy of the country gained during the last quarters had a positive impact on the forecasts. However, this was counterbalanced by the risks of complicating trade relations with the United States. The structure of the economy will continue to change due to increasing role of domestic consumption and services in China. The government will take measures to reduce financial risks, decrease excess production capacity and combat environmental pollution,

## 5.2. Medium-Term Forecast

Assumptions about development of the external conditions and internal environment in Q1 2018 to the greatest extent were consistent with the baseline scenario, approved at a meeting of the National Bank Board held in February 2018.

The recovery of aggregate demand, which began in 2016, reached its peak in 2017. In the current year, the growth rate of aggregate demand in the economy of the Kyrgyz Republic became stable, mainly due to stabilization of the economic growth in the trading partners - Russia and Kazakhstan. The incomes of the real-manufacturing sector of the domestic economy and the incomes of labor migrants abroad (remittances) remain the main sources of growth in aggregate demand in the current structure of economy in our country. Meanwhile, the growth of aggregate demand is still largely supported by the upward economic growth in the country.

Programs to stimulate lending to agricultural producers, combined with the expansionary monetary policy of the National Bank, still make positive contribution to the upward economic growth, thereby supporting an increase of aggregate demand in the domestic economy.

Price movement in the world food markets remains stable. At the same time, the dynamics of prices for the main types of agricultural products, including those imported to Kyrgyzstan, is likely to remain stable in the next agricultural season (June 2018 - July 2019), which is caused by the forecasts for high yield and preservation of significant stocks of basic crops in the world, and in our country.

An upward trend scheduled in the middle of 2017 was still observed in the prices for oil in the world energy markets, currently, the prices of oil are the highest over the past three years and are still increasing. The prices for energy carriers are still increasing mainly due to the agreement on reduced oil production as part of OPEC+ and stable recovery of economic activity in the developed countries. The high prices for oil provide additional support to recovery and economic growth of the oil-exporting countries. However excessive rise in oil prices can cause speculative activity, economic overheating and corresponding economic instability in our country.

The structure of economy in the Kyrgyz Republic determines the particular role of the external sector parameters in developed forecasts. Assumptions on such parameters of the external economic sector as the price movement in the world commodity markets, prospects for economic development of the countries-trading partners of Kyrgyzstan and other important indicators of the world economy development are set based on the forecasts made by the world research agencies/institutions, official authorities of the countries and expert evaluations.

Taking into account the current prospects for development of the world commodity markets, as well as the dynamics of the economic growth in the trading partner countries, no significant risks of shocks and imbalances in the economy of the Kyrgyz Republic are expected on a short-term horizon.

Upward economic growth still persists in the countries-trading partners of Kazakhstan; a favorable situation in the world commodity markets remains the main factor of economic growth. The forecasts for economic growth in Russia and Kazakhstan in 2018-2019 remain at the level of assumptions made in Q4 2017.

GDP in Russia is expected to increase by approximately 1.9 percent in the medium term. Economic growth in Kazakhstan is expected at the level of approximately 3.5 percent in the same term. The inflation rate in Russia and Kazakhstan in 2018 and 2019 will remain within the target levels: in Russia - about 4.0 percent, in Kazakhstan - within 6.0-7.0 percent.

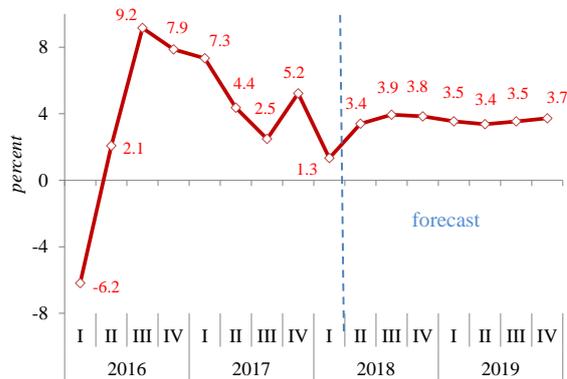
Thus, the assessment of the price movement in the world commodity markets and the prospects for economic growth in the trading partner countries continued to form a positive background for the economic growth in Kyrgyzstan.

Uncertainty in the fiscal policy decreases in the medium term. Uncertainty in the fiscal policy decreases in the medium term. According to the preliminary results of 2017, the state budget deficit made approximately 3.3 percent of GDP, against previously expected 4.7 percent of GDP, however the Law "On the republican budget for 2018" provides for preservation of the similar levels of deficit in 2018-2019.

Taking into account the assessments of the external environment and the internal conditions development in 2018 in the medium term, the inflation rate will not exceed the target range of 5-7 percent.

**In 2018, the real sector of the economy of Kyrgyzstan will continue demonstrating growth close to the potential level.** The negative GDP gap and deflationary impact on the economy during 2018-2019 will be gradually eliminated, which will lead the economic growth in Kyrgyzstan to the potential level, provided that the current economic growth rates are retained.

**Chart 5.2.1. Forecast of Real GDP**  
(quarter to the corresponding quarter of the previous year)



In 2018, the real GDP growth is expected at 3.2 percent; the growth excluding the enterprises of the Kumtor Mine will be approximately 4.2 percent. In 2018, the increase in production at the enterprises of the Kumtor Mine is expected at the level of production output in the previous year. In the sectoral aspect, the economic growth will be supported by the sectors of industry (excluding the Kumtor Mine), agriculture, trade and construction.

In 2019, the real GDP growth rate will be at 3.6 percent, excluding Kumtor, the growth will amount to approximately 5.2 percent.

**Baseline inflation in the medium term will remain within the target range of 5-7 percent.** In 2018, the average inflation rate (period to period) is expected at approximately 2.7 percent (Dec 2018/Dec. 2017 – approximately 3.5 percent). In 2019, the average inflation value will be approximately 4.2 percent.

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



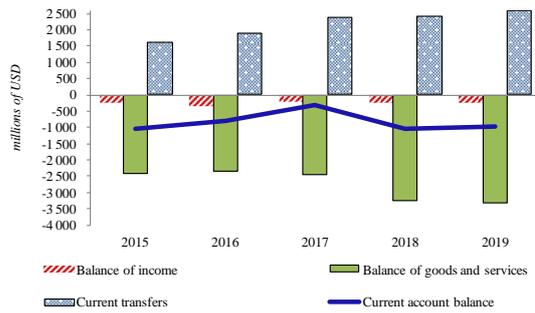
In 2019-2020, reversal of the downward inflation trend is still expected against the background of price recovery in the world commodity markets and increasing aggregate demand, price movement in the medium term will demonstrate growth and will be restrained within the target inflation values (5-7 percent).

**Forecast for the Balance of Payments in 2018-2019<sup>1</sup>.**

**In 2018, the determining factors for development of the external sector in the Kyrgyz Republic were adjusted taking into account the actual data. The moderate upward trend persists in the main trading partner countries and in the Kyrgyz Republic.** In 2018, the current account deficit was estimated at the rate of 13.0 percent to GDP, which in value terms amounted to USD 1,055.7 million, mainly due to revised forecast for an increase in imports. Less increase in exports is expected compared to imports, as well as an increase in the inflow of remittances from migrant workers.

<sup>1</sup> The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic.

**Chart 5.2.3. Forecast Data on Current Account**  
(millions of USD)

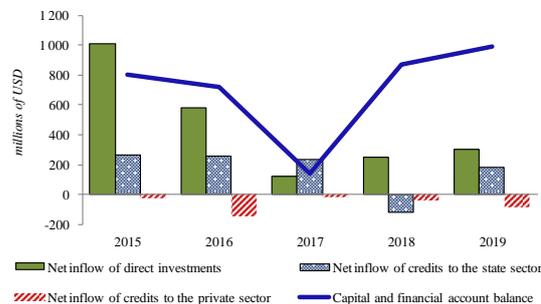


The results of three months in 2018 were used as the reason to adjust downwards the export growth down to 2.1 percent. The decline in gold production at the Kumtor Mine compared to 2017 will cause a decrease in gold exports. The increase in exports excluding gold is still expected positive at the level of 4.2 percent under the influence of an increase in the external demand for domestic products, as well as adaptation to the terms of trade within the framework of the EAEU.

The increase in imports forecasted in 2018 was revised to be estimated at 19.4 percent against the background of expected economic growth in the country and the upward trend in imports during the first three months of the current year. In 2018, the world prices for petroleum products are expected to remain high to contribute to an increase in the value of imported petroleum products. The growth of imports of other goods is expected at 21.3 percent.

The forecast for the private transfers' inflow was adjusted taking into account the data of the actual period and fluctuations in the exchange rate of the Russian ruble to the US dollar. Positive economic growth is still expected in Russia and Kazakhstan, as a result, the net inflow of private transfers is expected to increase by 5.4 percent compared to the level of 2017.

**Chart 5.2.4. Forecast Data on Capital and Financial Account**  
(millions of USD)



In 2018, the increase of the current account deficit will cause the growth of financing due to a growth in capital inflows from the capital and financial accounts. The amount of the one-time write-off of the Kyrgyz Republic debt to the Russian Federation in the amount of USD 240.0 million in Q1 2018 will have impact on the dynamics of the capital account indices in 2018. Capital inflows on the financial account are primarily expected on "direct investments" and "other investments" item. Balance of "credits" item will be formed

negative primarily under the influence of reduction in the foreign liabilities of the public sector due to writing-off the Russian credit. The net outflow on the private sector credits is expected to increase compared to 2017 generally due to stable upward trend of payments on previously attracted credits.

Thus, net balance of payments in 2018 is expected to be positive in the amount of USD 35.6 million. Meanwhile, international reserve assets<sup>1</sup> are expected to cover 3.8 months of the future imports of goods and services.

In 2018, the revised forecasts of the balance of payments indicators had an adjusting impact on trends in the external sector in 2019. Stable positive dynamics of the current transfers, a larger increase in exports compared to imports will result in the current account formation at the level of 11.7 percent to GDP. Persistence of external demand against the background of further developing integration processes within the framework of the EAEU will contribute to an increase in exports by 8.1 percent. The upward economic growth in the

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

country will cause an increase in imports by 5.4 percent. Thus, the trade balance deficit is expected to increase by 3.8 percent compared to 2018.

The economic growth in Russia and Kazakhstan will have a positive impact on the volume of private transfers inflow, the growth rate thereof is expected at 6.4 percent.

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

In 2019, the overall balance of payments is expected to be positive in the amount of USD 22.7 million. International reserve assets will cover 4.0 months of the future imports of goods and services.

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

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

## Annex 1. Key Macroeconomic Indicators

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

Indicator	Unit of measure	2016				2017				2018
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>1. Demand and supply</b> <sup>1/</sup> (real growth rates, if otherwise is not indicated)										
Nominal GDP, per quarter	mln. KGS	79 821,8	107 696,7	139 395,8	149 416,9	90 748,9	113 614,3	147 783,3	168 812,1	98 267,2
GDP	%	-6,2	2,1	9,2	7,9	7,3	4,4	2,5	5,2	1,3
GDP, excluding Kumtor	%	1,3	4,2	5,8	4,4	3,0	1,3	3,9	8,9	2,9
Domestic consumption	%	-2,4	4,6	-0,2	-2,7	1,4	1,7	4,9	3,6	
Investment	%	-11,4	16,3	5,4	15,3	-2,1	-8,4	0,4	19,1	
Net export	%	16,0	21,8	-11,2	-15,2	-15,0	-21,6	5,0	9,6	
<i>GDP production:</i>										
Agriculture	%	0,7	1,6	3,6	3,2	1,1	1,4	2,4	3,0	1,7
Industry	%	-29,8	-7,7	33,1	31,6	34,2	25,9	4,9	-7,0	0,1
Construction	%	13,3	26,5	11,7	-0,3	-8,3	-6,8	2,2	23,0	4,2
Services	%	2,4	2,3	4,6	3,7	-0,3	0,0	1,7	6,7	1,5
including trade	%	5,0	5,3	12,6	7,5	1,5	4,2	3,7	3,9	3,7
<b>2. Prices</b> <sup>2/</sup>										
CPI	%	101,2	100,3	100,5	99,6	101,5	103,9	103,6	103,7	103,1
CPI, in annual terms as of the end of period	%	100,5	101,3	99,7	99,5	102,8	104,1	103,3	103,7	102,7
Core inflation	%	103,0	101,8	101,0	99,9	100,3	101,3	101,9	102,1	102,8
<i>CPI by main groups of goods and services:</i>										
Food products	%	93,6	92,3	93,8	94,4	98,8	104,7	103,8	102,7	101,2
Non-food products	%	108,5	107,6	105,3	102,4	101,3	101,2	101,3	103,4	103,0
Alcohol drinks and tobacco products	%	111,7	110,8	110,0	106,5	105,7	102,8	102,3	103,3	106,5
Services	%	106,5	105,2	104,6	104,4	106,9	107,1	108,3	107,7	106,9
<i>CPI, classified by character:</i>										
Excisable goods	%	110,0	109,6	108,3	105,4	106,1	103,4	102,7	103,7	106,5
Regulated prices	%	109,6	109,3	105,2	99,8	98,7	99,4	99,7	100,2	100,6
Market inflation rate (the rest of CPI)	%	107,8	106,4	105,5	104,2	104,2	104,0	104,6	105,9	105,3
<b>3. External sector</b> <sup>3/</sup> (in percent to GDP)										
Trade balance	%	-35,3	-36,2	-33,8	-31,1	-29,9	-28,5	-30,9	-31,2	-35,3
Current transaction account	%	-14,1	-14,7	-11,8	-11,5	-9,4	-7,2	-6,4	-4,0	-8,5
Export of goods and services	%	38,2	37,2	37,3	35,7	35,7	36,5	35,8	35,1	33,7
Import of goods and services	%	75,7	75,6	73,6	69,8	68,4	67,6	68,7	67,6	70,7
<b>4. USD exchange rate, as of the end of period</b>										
	KGS	70,0158	67,4860	67,9346	69,2301	68,6069	69,1367	68,6585	68,8395	68,4325
<b>5. Monetary sector</b> (real growth rates, if otherwise is not indicated)										
NBKR policy rate, as of the end of period	%	8,00	6,00	6,00	5,00	5,00	5,00	5,00	5,00	5,00
Rate of "overnight" deposit, as of the end of period	%	1,00	0,50	0,25	0,25	0,25	0,25	0,25	0,25	0,25
Rate of "overnight" credit, as of the end of period	%	10,00	7,50	7,25	6,25	6,25	6,25	6,25	6,25	6,25
Average interest rates of operations in the interbank credit market, per quarter	%	10,50	2,70	3,76	2,32	2,08	1,65	2,33	2,19	2,73
<i>of which:</i>										
of REPO transactions	%	9,44	1,59	1,76	1,61	1,56	1,50	2,19	2,14	2,73
of credits in national currency	%	13,25	7,84	4,11	2,67	2,11	3,10	5,06	6,50	-
of credits in foreign currency	%	-	-	-	2,0	-	4,00	-	1,25	-
Weighted average yield of 7-day notes, as of the end of period	%	2,18	1,44	0,27	0,24	0,61	2,81	1,44	2,79	2,40
Weighted average yield of 28-day notes, as of the end of period	%	-	-	-	-	1,14	4,08	2,94	4,85	3,83
Weighted average yield of 91-day notes, as of the end of period	%	-	-	-	-	-	-	5,00	5,00	4,99
Monetary base	%	17,2	16,7	20,5	27,6	23,3	21,8	22,6	16,9	16,2
Money outside banks (M0)	%	17,5	18,6	20,6	30,5	28,0	25,1	25,4	21,8	15,7
Monetary aggregate (M1)	%	21,0	25,5	29,4	38,6	31,7	25,9	24,4	21,0	19,6
Narrow money supply (M2)	%	17,2	25,8	31,5	40,3	36,2	28,8	27,8	23,7	21,1
Money supply (M2X)	%	13,1	16,7	15,2	14,6	21,7	19,8	19,1	17,9	16,9

<sup>1/</sup> 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

<sup>2/</sup> Source: National Statistics Committee of the Kyrgyz Republic

<sup>3/</sup> 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.

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

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

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

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

**M0** – cash in hands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Annex 3. Abbreviations**

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