

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 3, 2018**

**Bishkek
November 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 - when the National Bank policy rate serves as a target for the funds value in the money market - to improve and increase the effectiveness of the monetary policy. The short-term interest rates of the money market are the operational goal of the monetary policy. The purpose of the aforementioned movement is to strengthen the impact of the interest rate channel of the monetary policy, aimed at development of the inter-bank credit market and support for the real sector of economy.

Quantitative benchmark of the monetary policy is to keep inflation rate within 5-7 percent in the medium term. Development and implementation of the monetary policy is carried out within the framework of the Main Directions of the Monetary Policy for the medium term.

Monetary policy of the National Bank is focused on the future, as the decisions made in the field of the monetary policy affect the key macroeconomic indicators of the country with a certain lag. Development of the monetary policy is based on the inflation forecasts for the short and medium term, resulting from consistent and economically reasonable forecast of the economic situation development in the Kyrgyz Republic and in the external environment.

Communication policy is among the main instruments of the monetary policy conducted by the National Bank. The National Bank regularly issues press releases and holds press conferences on the monetary policy to inform the public and form adequate inflationary expectations among the population. Assessment of the current and expected macroeconomic situation in the country made by the National Bank is published in the Monetary Policy Report at the beginning of the third month of each quarter. The schedule of meetings held by the National Bank Board on the size of the policy rate is published on the bank's official website.

Monetary Policy Report for Q3 2018 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2018-II-07/49-1-(ДКП) dated November 26, 2018.

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Summary

In Q3 2018, the conditions existing in the economy of the Kyrgyz Republic and the development trends of the external environment generally corresponded to the assumptions of the baseline scenario approved by the Board of the National Bank in August 2018.

The recovery of economic activity in the countries - main trading partners of Kyrgyzstan still supported external demand. The world food market demonstrated relative stability, thereby maintaining restrained inflationary dynamics in the country. However, in the reporting quarter, geopolitical uncertainty in the region and multidirectional price movement in the world oil market introduced slight volatility, mainly in the domestic foreign exchange market, despite unchanged external conditions.

The inflation in the country remained restrained. The low inflation rate was mainly due to a decrease in prices for food products amid sufficient supply of domestic and imported food products. The fiscal consolidation carried out in the country was among the additional factors of low inflationary pressure in the country.

The updated assessment of the inflation outlook for the coming period does not differ significantly from the previous estimates and suggest that the inflation rate will enter the target range by mid-2019, provided that there are no external and internal shocks. Based on assessments of the external environment and internal conditions development in the medium term, the inflation rate in the Kyrgyz Republic will remain within the target of 5-7 percent.

In the reporting quarter, stable growth of the aggregate domestic demand contributed to the positive economic growth in the country. Growth in real wages and an increase in migrant workers' remittances were the main factors of economic growth. The factors of supply indicate stable economic activity in all sectors of economy, excluding industry. However, there are risks from foreign trade. In Q3 2018, the trade balance of the country was formed under the influence of decreased exports and imports (exports of goods decreased by 20.8 percent, and imports – by 7.6 percent). A slightly negative GDP gap is forecasted to remain in 2018–2020, taking into account current expectations regarding the economic growth rate in the trading partner countries.

In Q3 2018, the direction of the monetary policy conducted by the National Bank, focused on supporting economic activity, was maintained taking into account the assessment of the inflation dynamics for the medium term under favorable internal conditions and the uncertainty of external risks. The financial intermediation rates were improved through maintaining a moderate monetary environment. There was a trend of improved activity in the interbank market; meanwhile the banking sector was characterized by the expansion of lending volumes and the increase of the resource base. Since the interest rate policy of the National Bank remained unchanged, there were no significant changes in the money market in the reporting quarter. In general, the rates of the interbank market continue fluctuating within the interest rate corridor set by the National Bank.

Chapter 1. External Environment

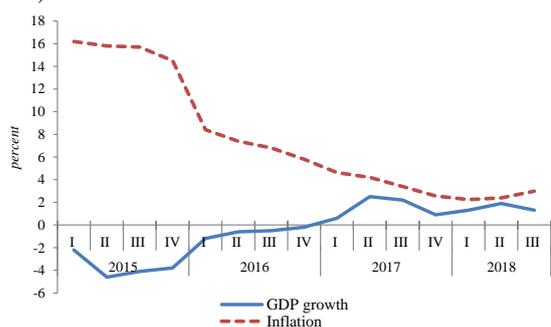
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

The recovery of economic activity persisted in the countries-main trading partners of Kyrgyzstan. Despite changed external conditions, there was positive economic growth in Russia as well as due to increase in oil prices in the world market. The inflation rate in Russia was below the target level; meanwhile, the trend of its acceleration was still observed. An increase in oil production and exports under the conditions of rise in prices for commodities supported economic growth in Kazakhstan; meanwhile the growth in volatility of KZT exchange rate increased inflationary expectations in the country. The economic growth in the Republic of Belarus was supported by favorable external conditions and a stimulating policy of the state, meanwhile there was acceleration in the inflation rate amid depreciation of the national currency. Positive economic growth rates were still observed in Armenia, the inflation rate was below the target level. A gradual slowdown in economic growth is forecasted in China.

Russia

Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



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

In the reporting period, economic growth in Russia was supported by improved international price conjuncture for the main export goods of the country and an increase of consumer demand.

According to the Ministry of Economic Development of the Russian Federation, in Q3 2018, GDP of the country slowed down from 1.9 percent to 1.3 percent compared to the previous quarter due to a decline in agricultural production (-6.1 percent). Generally, industrial activities (0.6 percentage points), transport industry (0.2 percentage points) and financial services (0.3 percentage points) made a positive

contribution to the economic growth of the country.

In the reporting period, there was a slight slowdown in the consumer demand, despite the stable situation in the labor market, high growth rates of wages, and expansion of consumer lending. Moreover, the growth of investments in fixed assets slowed down; however, direct foreign investments did not decline at all due to the negative impact of increased volatility in the financial markets.

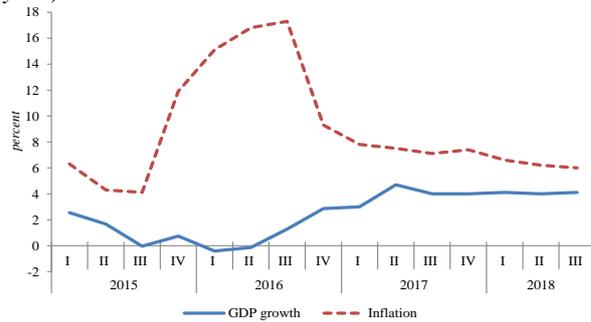
In Q3 2018, the inflation rate accelerated up to 3.0 percent compared to the same period of 2017 (2.4 percent in the previous quarter). The inflation rate accelerated mainly due to the rise in prices for food products (1.6 percent compared to the corresponding value in 2017), RUB depreciation, as well as the low base in the respective months of the previous year. In the reporting period, the prices for non-food products increased by 3.9 percent mainly due to the growth of the world prices for petroleum products. At the same time, prices for services increased by 3.8 percent. In September, inflation expectations increased up to 10.1 percent amid rise in prices for petroleum products, RUB depreciation, and also prior to VAT increase in Russia since the beginning of 2019.

In September 2018, the Bank of Russia decided to increase the key rate by 0.25 percentage points up to 7.50 percent per annum to limit the inflation risks and improve the situation in the financial market.

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

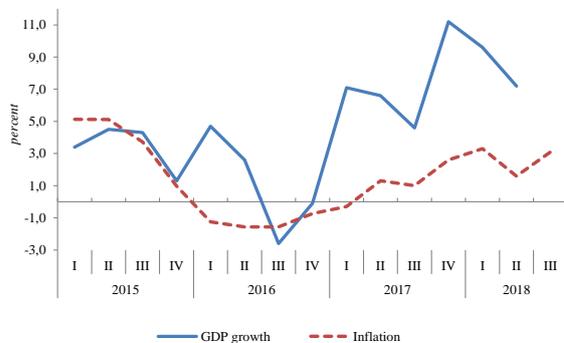
demand made a significant contribution to the economic growth in Kazakhstan.

In Q3 2018, the inflation rate in Kazakhstan to the corresponding quarter of 2017 was at 6.0 percent compared to 7.1 percent in the same period of 2017. According to the estimates of the National Bank of the Republic of Kazakhstan, despite moderate inflation, increased volatility of KZT exchange rate in August-September of the current year affected the growth of inflation expectations.

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

(+22.4 percent). Russia with the share of 97 percent (exports increased by 31.7 percent, imports - by 20.7 percent)³ was the main trading partner of Armenia in the mutual trade between the EAEU member states. In general, the share of trade with the third countries occupied 71.3 percent, and with EAEU countries - 28.7 percent⁴ in the foreign trade of Armenia.

The economic growth of Armenia was supported by soft monetary conditions, expansion of lending, growth of internal and external demand, relatively high exports, growth of transfers and higher prices for commodities.

In January-September 2018, consumer prices in Armenia grew by 2.6 percent compared to the same period of 2017 due to an increase in prices for non-food and food

In Q3 2018, there was the same positive economic growth in Kazakhstan. In January-September 2018, GDP growth in Kazakhstan constituted 4.1 percent¹ against 4.3 percent in the corresponding period of 2017. The main factors of economic growth in Kazakhstan were an increase in the mining (by 4.9 percent) and processing industries (by 5.1 percent), mainly due to the growth in commodity production amid high world oil prices. Moreover, an increase in the growth rates in the trade sector (by 6.7 percent) and the construction industry (by 4.4 percent) due to the expansion of consumer and investment

Economic growth remained positive in Armenia. In January-September 2018, the index of economic activity in Armenia increased by 6.6 percent² compared to the same period of the previous year, mainly due to the significant growth in the services sector. At the same time, in August and September 2018, there was slowdown in economic activity to 0.6 and 0.2 percent in annual terms (in July - 11.1 percent) due to decreased production in agriculture.

According to the preliminary data of the National Statistical Service (NSS) of the Republic of Armenia, in January-September 2018, the volume of foreign trade turnover in Armenia amounted to USD 5.4 billion

¹ According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan

² According to the data of the National Statistical Service of the Republic of Armenia

³ According to the data of the Economic Commission for Europe for January-August 2018

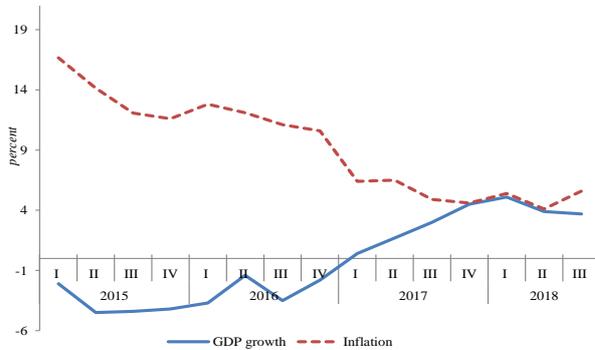
⁴ According to the data of the Economic Commission for Europe for January-August 2018

products by 4.8 and 2.6 percent, respectively, with an increase in tariffs for services by 1.3 percent. According to the forecasts of the Central Bank of the Republic of Armenia, the inflation rate in Armenia in 2018 will not exceed the target level of 4.0 percent.

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(in annual terms)



Source: National Statistical Committee of the Republic of Belarus

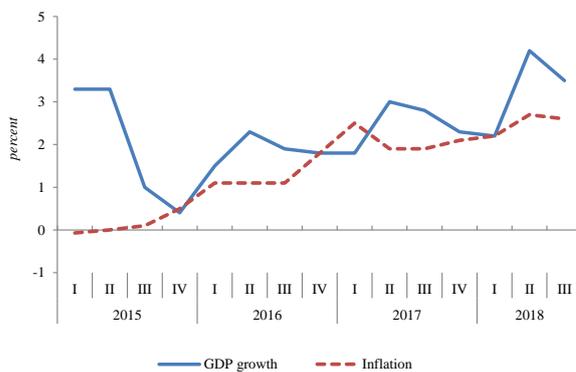
In Q3 2018, there was some slowdown in the economic growth of Belarus after active growth in the first half of 2018. In January-September 2018, the economy in Belarus grew by 5.6 percent due to favorable external conditions, stimulating policy of the state, as well as growth of the internal demand amid rise in wages and lending to the population. In the sectoral aspect, economic growth was supported by an increase in the processing sector (by 6.9 percent), trade (by 6.0 percent) and transport (by 4.2 percent). At the same time, there was a decrease by 2.3 percent in the agricultural sector.

In September 2018, the inflation rate in the Republic of Belarus to the corresponding month of 2017 was at 5.6 percent compared to 4.9 percent in September 2017. In Q3 2018, a conjuncture shock in the meat products market, a low crops harvest, an increase in administratively regulated prices, and also a slight depreciation of the national currency had the main impact on the annual increase of the consumer prices.

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(in annual terms)



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

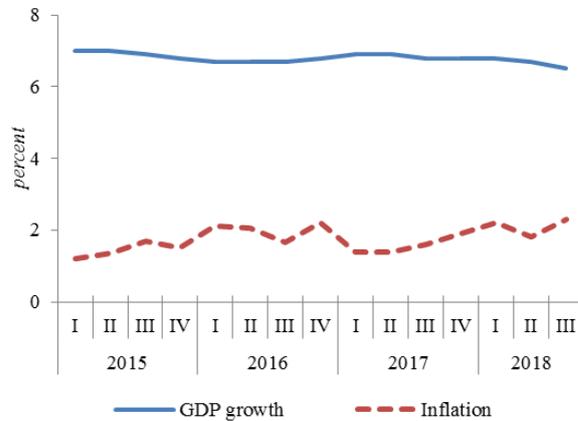
The economic growth remained strong in the USA. In Q3 2018, GDP growth was 3.5 percent (compared to the preceding quarter at annual rates). This indicator decreased from 4.2 percent in Q2, however remained relatively high compared to the average values in the previous periods. The supportive measures of the authorities generally contributed to economic growth in the country. The administration decreased tax rates at the end of 2017 and pursued policy of reduction of the regulatory burden on business. The growth rates of final consumption and business inventories were high in the reporting quarter. The indicators of the housing sector and foreign trade decreased.

After a short period of high inflation rates, which was due to accelerated growth of energy prices, inflation rates slowed down to 2.3 percent in September 2018. The main reason for the slowdown in inflation rate was a decline in growth of energy prices down to 4.8 percent in September of the current year.

China

Chart 1.1.6. Growth of GDP and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: National Statistics Bureau of the PRC, IA Bloomberg

The growth rates of prices in China were moderate and below the target set by the government at around three percent. In September, the inflation rate was 2.5 percent, having reached the highest level since February of the current year. An increase in the inflation rate was mainly due to accelerated growth in prices for food products.

In China gradual slowdown in economic growth continued. In Q3 2018, the rate of economic growth was 6.5 percent, slowing down from 6.7 percent in Q2. The decline in activity growth was primarily observed in the industrial sector, while retail sales and foreign trade indicators still showed steady development. Analysts noted that prior to entry into force of higher tariffs for certain Chinese goods imposed by the United States, the companies have increased their exports. Rebalancing of the economy continued in accordance with the policy conducted by the Chinese government: the shares and contributions to growth of the services sector, final consumption and high-tech industries increased in the reporting quarter.

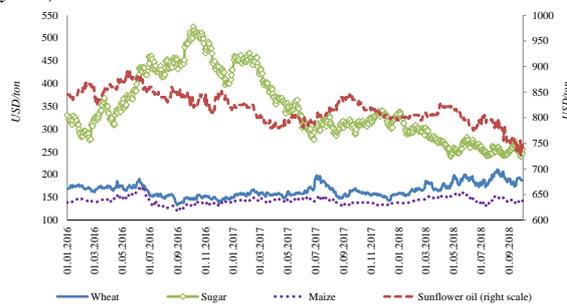
1.2. World Commodity Markets

The main commodity markets were relatively stable. The prices for some food commodities increased; however, it did not put significant upward pressure on the prices in the Kyrgyz Republic. There was a multidirectional price movement in the world oil market. The dynamics of the prices of gold was characterized by a downward trend; however, this dynamics had become stable by the end of the reporting quarter.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



improved production expectations. Nevertheless, there are concerns about possible limited supply of crops.

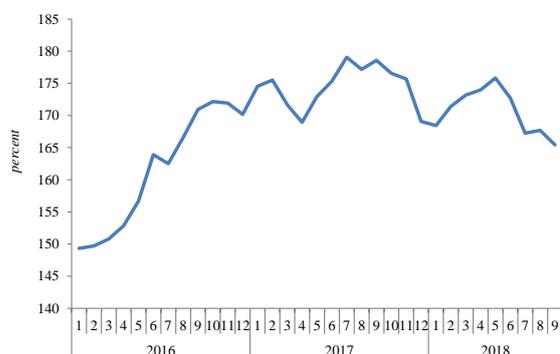
The world food market demonstrated relative stability in Q3 of the current year. Weather conditions in the food exporting countries, the volumes of supply, and uncertainty in the international trade relations contributed to price fluctuations in the reporting period.

The prices for wheat, which grew in August amid expectations of a smaller harvest compared to the last year, as well as due to the ambiguous weather conditions in the wheat exporting countries, started declining in September, mainly due to steady supplies and

The vegetable oil market does not cause concern and demonstrates a downward price movement due to the large harvest of oil-bearing plants in the current year, as well as sufficient volumes of stock in the previous year.

There was slowdown in prices for sugar year-to-date, however, an upward trend was observed at the end of Q3. Prices rose due to the dry weather during the growing season in Brazil having an adverse effect on the yield of sugar cane.

Chart 1.2.2. Dynamics of FAO Food Price Index



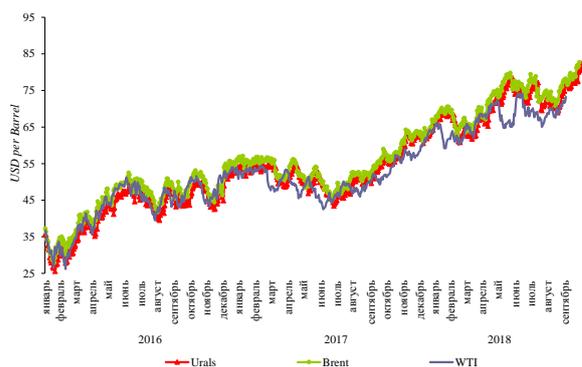
In Q3 2018, the average FAO food price index decreased by 4.2 percent compared to Q2 of the current year. As expected, there was a relative downward price movement, excluding prices for sugar, in the reporting period. However, the increase in price for sugar was compensated by the decline in prices for crops, vegetable oils and dairy products.

Significant increase in prices in the world food market, excluding prices for sugar, is not expected until the end of the current year. However, a possible increase in prices for sugar will be compensated by low

prices for vegetable oil, dairy products and meat. Prices for crops still depend on the information about expected production and stock for 2018/2019 marketing year.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices (in USD)



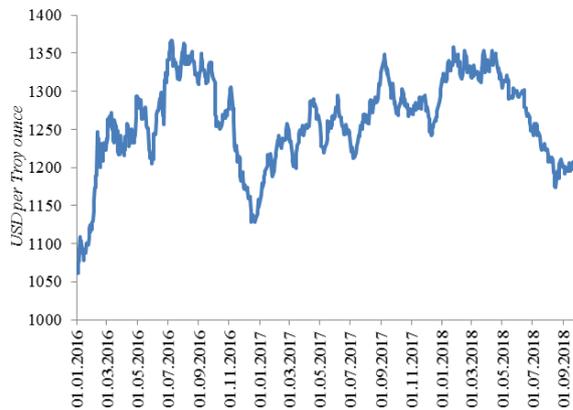
In Q3 2018, there was a multidirectional price movement in the world oil market. A downward trend in oil prices, observed in July, was replaced by an uptrend in the middle of August. The prices for the basic oil grades (Urals, Brent, WTI) fluctuated within the range of USD 65.0-82.7 per barrel reaching the three-year maximums. In Q3 2018, the average price for Brent oil increased by 1.1 percent compared to the previous quarter and amounted to USD 75.8 per barrel (the price increased by 45.4 percent compared to the same period of the last year).

In general, the price for Brent oil increased by 23.7 percent - from USD 66.9 to USD 82.7 - since the beginning of 2018 till the end of Q3.

A number of events influenced a downward trend in oil prices in July-August 2018: the decision of the OPEC + countries to increase total oil production from July 1 till the end of 2018 by 1 million barrels per day compared to production made in May, a new round of confrontation in trade relations between the United States and China, resumption of oil production in Libya, as well as information about a record increase of oil production in the United States (up to 11.0 million barrels per day). At the same time, there was an upward trend in oil prices since the middle of August of the current year, mainly due to the entry into force of the US sanctions against Iran.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

Federal Reserve System monetary policy balanced each other.

In Q3 of the current year, the average prices for gold decreased compared to the previous quarter. At the beginning of Q3 of the current year, the downward trend in prices for gold that started in the previous quarter continued. This is largely due to the growth of investment demand for the US currency at expense of gold due to the growth in the expected yield of the US securities. There was no clear upward or downward trend in prices for gold since the middle of August, as various factors related to the geopolitical, financial and trade uncertainties, as well as the investors' assumptions about the direction of the US

Chapter 2. Macroeconomic Development

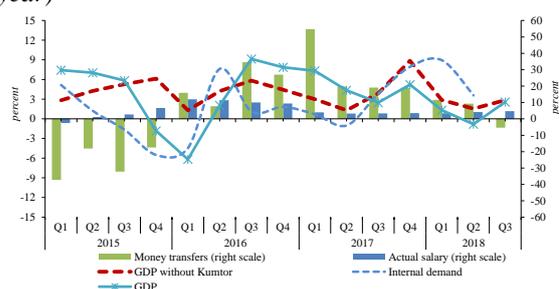
2.1. Demand and Supply in the Commodities and Services Market

In January-September 2018, there was slight 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 and the positive inflow of remittances into the country had a positive impact on the demand.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)

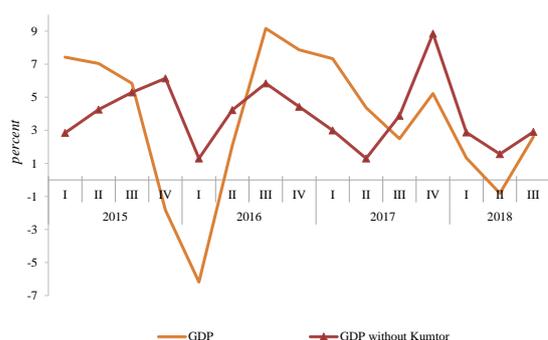


Source: NSC KR, calculations: NBKR

Following the results of January-September 2018, there was observed a slowdown in the economic growth of the country. The dynamics of the labor migrants' remittances inflow remained positive. The real wages of the population were boosted by the moderately low inflation. According to the preliminary results of the first half of 2018, growth of the domestic demand¹ amounted to 5.9 percent compared to the same period of 2017. An increase was due to growth of final consumption (+3.3 percent) and gross accumulation (+14.7 percent), which is a result of an increase in gross accumulation of fixed assets (+8.8 percent) and inventories (+42.1 percent). The increase in domestic demand is also related to the positive dynamics of remittances (at the end of the first half of 2018, the growth rate was 10.2 percent). In general, since the beginning of 2018 there has been a positive dynamics of the individuals' remittances through the money transfer systems. Thus, in January-September 2018, net inflow in USD equivalent increased by 3.8 percent compared to the same period of 2017.

Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

level in the country.

In January-September 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. Namely, within 9 months of 2018, production output at the enterprises of the

Following the results of January-September 2018, there was observed a slowdown in the economic growth of the country. The dynamics of the labor migrants' remittances inflow remained positive. The real wages of the population were boosted by the moderately low inflation.

According to the preliminary results of the first half of 2018, growth of the domestic demand¹ amounted to 5.9 percent compared to the same period of 2017. An increase was due to growth of final consumption (+3.3 percent) and gross

accumulation (+14.7 percent), which is a result of an increase in gross accumulation of fixed assets (+8.8 percent) and inventories (+42.1 percent). The increase in domestic demand is also related to the positive dynamics of remittances (at the end of the first half of 2018, the growth rate was 10.2 percent). In general, since the beginning of 2018 there has been a positive dynamics of the individuals' remittances through the money transfer systems. Thus, in January-September 2018, net inflow in USD equivalent increased by 3.8 percent compared to the same period of 2017.

According to the preliminary data of the National Statistical Committee of the Kyrgyz Republic, in January-September 2018, GDP volume increased by 1.2 percent compared to the same period of the previous year and amounted to KGS 368.4 billion (in January-September 2017, growth was 4.3 percent). Excluding the enterprises of the Kumtor, GDP grew by 2.4 percent (in January-September 2017, growth was 2.8 percent).

The supply of goods and services by the manufacturers exceeds consumer demand and puts deflationary pressure on the price

¹ According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for Q3 2018.

Kumtor Mine¹ decreased by 24.3 percent compared to the same period of 2017 (404.6 thousand ounces) and amounted to 306.5 thousand ounces.

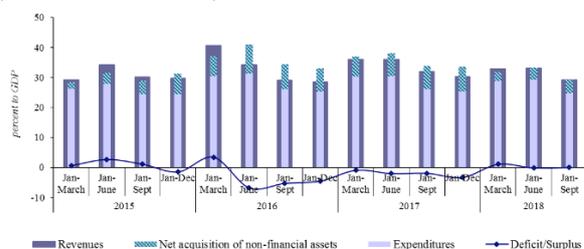
In January-September 2018, the average monthly nominal wage of one employee² amounted to KGS 15,752, having increased by 6.3 percent compared to the same period of 2017. The largest increase in salaries was observed in the sphere of construction (15.3 percent), other servicing activity (13.5 percent), information and communication (13.3 percent).

In January-September 2018, the real wage increased by 4.3 percent compared to January-September 2017.

Public Finances Sector

According to the results of the reporting period, tighter fiscal policy was still conducted: the state budget deficit was significantly lower than that of the previous year – KGS 0.1 billion or 0.02 percent to GDP against KGS 6.5 billion or 1.8 percent to GDP in January-September 2017. The primary state budget surplus (excluding interest payment for servicing the public debt) amounted to KGS 5.3 billion or 1.4 percent to GDP.

Chart 2.1.3. Execution of the State Budget
(period to the corresponding period of the previous year, accumulatively)

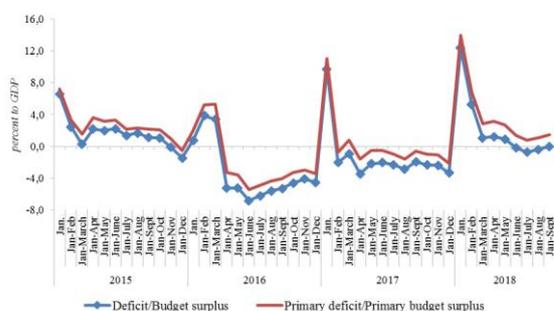


Source: CT MFKR, NBKR

The state budget revenues from operating activities increased by 0.5 percent or KGS 0.6 billion compared to the same indicator of January-September 2018 and amounted to KGS 107.5 billion, or 29.2 percent to GDP. Tax revenues were still the main factor to support the growth of budget revenues. Higher tax revenues resulted from improved tax administration, as well as favorable external economic environment. At the same time, a reduction in non-tax revenues and official transfers continued restraining the growth rate of total revenues.

The state budget expenditures for operating activities increased in annual terms by 5.1 percent, or KGS 4.4 billion, and amounted to KGS 91.6 billion or 24.9 percent to GDP. There was a significant increase of expenditures on “grants and contributions” item (by KGS 22.7 billion) and a reduction of expenditures for subsidies and social benefits (by KGS 12.7 billion) in the structure of expenditures by economic classification due to implementation of the new budget classification, as well as the Budget Code. Labor costs exceed the values of the previous year, meanwhile the cost of goods and services purchase is still decreasing in the reporting period.

Chart 2.1.4. Budget Deficit
(period to the corresponding period of the previous year, accumulatively)



Source: CT MFKR, NBKR

In the reporting period, there was a significant reduction being still observed in the capital expenditures of the state budget: net outflow of budget funds for operations related to acquisition of non-financial assets (including operations on the following groups: fixed assets, reserves, land) amounted to KGS 16.1 billion or 4.4 percent to GDP, a decrease was 39.0 percent or KGS 10.3 billion compared to January-September 2017. The main share of capital expenditures was mainly directed for purchase of buildings and constructions, as well as expenditures related to implementation of the Public Investment Program amounted to KGS 5.1 billion.

¹ According to the press releases of Centerra Gold Inc.

² Generally, in the territory of the republic, excluding small enterprises.

At the end of nine months of 2018, execution of the state budget resources amounted to 100.9 percent. Execution of the budget expenditures constituted 78.1 percent, as well as on protected expenditures – 81.9 percent, on unprotected expenditures – 57.4 percent.

Investments

In January-September 2018, the level of capital investment exploitation increased by 5.4 percent (in comparable prices) compared to the same period of 2017.

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

	January-September			
	2017		2018	
	millions of KGS		share, percent	
Total	79 215.8	83 839.5	100.0	100.0
Internal investment	55 142.1	63 389.4	69.6	75.6
Republican budget	4 814.6	3 655.5	6.1	4.4
Local budget	848.9	804.6	1.1	1.0
Funds of enterprises and organizations	26 060.2	30 804.7	32.9	36.7
Banks' credits	1 354.7	2 302.0	1.7	2.7
Population funds including beneficent help of KR residents	22 063.7	25 822.6	27.8	30.8
External investment	24 073.7	20 450.1	30.4	24.4
Foreign credit	16 391.2	11 580.8	20.7	13.8
Direct foreign investments	5 503.4	4 731.7	6.9	5.7
Foreign grants and humanitarian aid	2 179.1	4 137.6	2.8	4.9

Source: NSC KR

Growth of capital investments was mainly observed in the construction and reconstruction of mining operations facilities (by 0.8 percent), manufacturing (by 1.6 times), agriculture and fishery (by 19.0 percent) facilities, in the wholesale and retail trade (by 37.6 percent), healthcare (by 2.9 times), professional and scientific activities (by 24.8 percent), art and entertainment (by 9.5 percent).

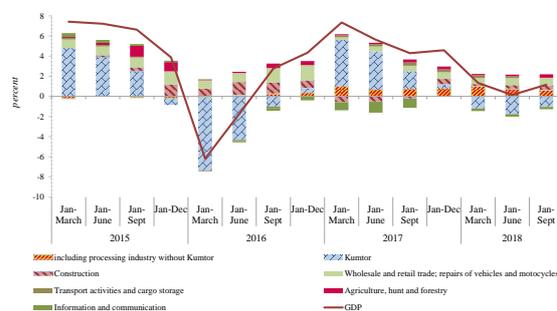
Meanwhile, capital investments decreased in the construction and reconstruction of the facilities for supply of electric energy, gas, steam and conditioned air (by 1.7 times), hotels and restaurants (by 1.5 times), information and communication (by 20.9 percent).

The volume of capital investments financed from domestic sources increased by 14.5 percent compared to January-September 2017, that from the bank loans – by 1.7 times, from the funds of the enterprises and organizations – by 17.7 percent, that from the personal funds – by 16.5 percent, meanwhile, the investments financed from the republican budget decreased by 24.4 percent, from the local budget – by 5.6 percent. The investments financed from the foreign sources decreased by 15.4 percent, from the foreign loans – by 29.7 percent, that from the direct foreign investments – by 14.4 percent, the investments financed from the foreign grants and humanitarian aid, on the contrary, increased by 1.9 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

In January-September 2018, GDP increased due to a positive input of all sectors of economy, excluding the sector of industry, the sphere of information and communication.

In the reporting period, growth in agriculture made 2.4 percent due to an increase in crop (by 2.9 percent) and livestock production (by 2.0 percent).

Decrease of production in the industrial sector by 3.5 percent compared to January-September of the previous year was due to a reduction in output of basic metals, machinery and equipment, vehicles, chemical industry, as well as in mining.

In January-September 2018, the turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased by 4.5 percent due to growth in wholesale and retail trade.

In the reporting period, the volume of cargo transportation increased by 4.6 percent compared to the same period of the previous year.

The decline in the sector of information and communication made 7.5 percent due to a decrease in the revenues received from mobile services rendering.

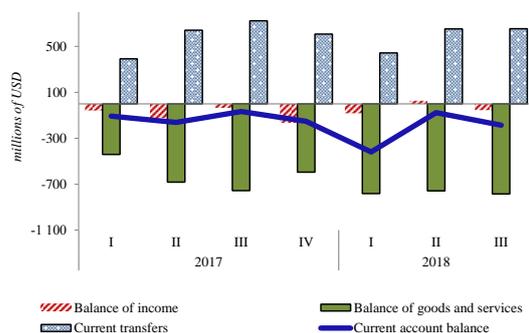
The GDP deflator increased by 0.1 percentage point compared to the same indicator of January-September 2017 and was 3.4 percent.

Such sectors as trade (0.7 percentage points), construction (0.5 percentage points), transport (0.2 percentage points) and agriculture (0.3 percentage point) made the main positive input to the economic growth, however, the sectors of industry (-0.7 percentage points), information and communication (-0.2 percentage points) made a negative input.

2.2. External Sector¹

In Q3 2018, the current account deficit increased under the influence of the decrease in the positive balance 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 186.0 million and constituted 10.7 percent to GDP² in Q3 2018.

The net balance of trade was formed under the influence of the decline in imports and exports, finally, in the reporting period; the trade deficit of the Kyrgyz Republic was formed at the level of the same period of 2018.

Table 2.2.1. Trade balance of the Kyrgyz Republic³
(millions of USD)

	2015	2016	2017	2017 Q III	2018* Q III	Change in %	Change in millions of
Trade balance	-2 240,8	-2 136,5	-2 383,3	-761,1	-760,9	0,0	0,2
Export (FOB)	1 619,0	1 607,9	1 813,9	439,1	348,0	-20,8	-91,1
Gold	665,4	701,6	700,4	148,5	127,3	-14,3	-21,2
Import (FOB)	3 859,8	3 744,4	4 197,2	1 200,2	1 108,9	-7,6	-91,3
Energy products	830,0	467,4	467,4	159,5	139,2	-12,7	-20,3

* Preliminary data

In the reporting period, exports of goods (in FOB prices) decreased by 20.8 percent to make USD 348.0 million. Exports were primarily affected by decrease in exports of gold and other goods. Exports of gold decreased by 14.3 percent, exports, excluding gold, decreased by 24.1 percent, mainly due to the decrease in supplies of clothes, dairy products, footwear, etc.

In Q3 2018, imports of goods (in FOB prices) decreased by 7.6 percent, to make USD 1,108.9 million. The decline in imports was mainly due to a decrease in supplies of the physical volume of petroleum products. Moreover, there was a decrease in imports of intermediate goods. Imports, excluding energy products, decreased by 6.8 percent compared to Q3 2017, to make USD 969.7 million.

In the reporting period, the net inflow of current transfers was formed below the level of the same period in 2017 by 9.7 percent. Fluctuations in the RUB/USD exchange rate

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

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

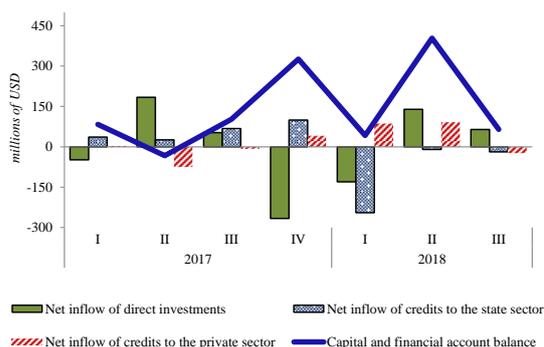
³ The data on the foreign trade are given taking into account the NSC KR additional estimates for agricultural products (till 2017), mutual trade with the EAEU member states (since Q3 2015) and the NBKR estimates.

against the background of moderate economic growth in Russia during the reporting period had an impact on the dynamics of net inflows of private transfers, which decreased by 6.2 percent.

In the reporting quarter, the balance of services deficit amounted to USD 23.5 million against the positive balance in Q3 2017. The deficit of “income” item increased by 55.2 percent compared to the same period of 2017, to make USD 49.5 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 will cover the current account deficit in the amount of USD 64.5 million in Q3 2018. The capital inflow on the capital account amounted to USD 28.6 million, and the financial account surplus stood at USD 36.0 million.

Chart 2.2.2. Capital and Financial Account



Net inflow of direct investments into the country is forecasted to increase compared to the level in the same period of the previous year and amount to USD 64.1 million. In the reporting quarter, the balance of “other investments” item will be formed negative to make USD 28.2 million due to a smaller inflow of borrowed assets amid growing volumes of servicing the public and private sector credits. Along with that, the foreign assets of the residents are expected to decrease compared to the same period of 2017.

Thus, the balance of payments of the Kyrgyz Republic was formed with a negative balance to make USD 44.8 million at the end of Q3 2018. Gross international reserves covered 3.9 months of the future imports of goods and services¹.

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.)	2017 (aver.)		December 2017	September 2018 *	
	(January-December)	(January-December)				
REER	113.7	111.4	-1.7	112.6	118.9	5.6
NEER	112.8	110.7	3.5	112.3	122.9	9.5
RBER to CNY	80.8	85.6	-4.6	83.3	84.5	1.4
NBER to CNY	64.5	66.7	-3.0	64.2	67.2	4.5
RBER to Euro	107.2	109.0	-8.0	103.1	102.7	-0.5
NBER to Euro	78.8	78.6	-7.9	73.9	75.3	1.9
RBER to KZT	141.7	132.5	26.4	132.2	140.3	6.1
NBER to KZT	152.1	147.5	43.6	149.1	165.1	10.7
RBER to RUR	131.4	116.2	-4.9	116.5	131.2	12.6
NBER to RUR	144.8	128.3	1.5	127.3	148.6	16.8
RBER to USD	87.2	89.9	-9.1	90.1	87.7	-2.7
NBER to USD	65.7	66.7	-8.3	66.0	66.5	0.6

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

65.8 percent, the Russian ruble – by 16.8 percent, the Kazakh tenge – by 10.7 percent, by the Chinese – by 4.5 percent.

Despite lower inflation rate in the Kyrgyz Republic³, the increase in the NEER index influenced the growth of the real effective exchange rate (REER) index, which increased by 5.6 percent since December 2017 and constituted 118.9 at the end of September 2018.

¹ Taking into account non-convertible currencies

² 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

³ According to the preliminary calculations, the average inflation rate in the main trading partner countries of Kyrgyzstan was 2.6 percent, meanwhile, in Q3 2018, the deflation in the Kyrgyz Republic was formed at 1.0 percent compared to December 2017.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

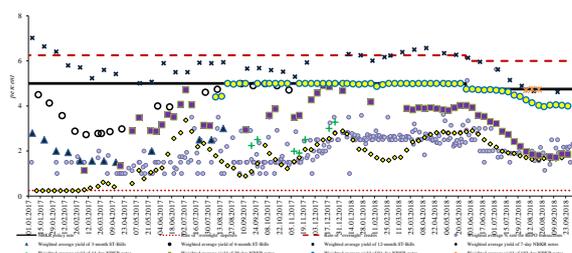
The course of the monetary policy conducted by the National Bank to focus on supporting economic activity was preserved. Meanwhile, tactical policy measures were aimed at strengthening the impact of the interest rate channel within the transmission mechanism.

Generally, the interest rates in the money market corresponded to the interest rate corridor set by the National Bank, demonstrating slight shift towards the policy rate by the end of the reporting quarter. Decreased liquidity level in the national currency in the banking system and increased activity in the interbank credit market were the main factors of the aforementioned shift.

Interest Rate Policy of the National Bank

The National Bank kept unchanged its interest rate policy in Q3 2018 taking into account the estimates of the inflation rate dynamics for the medium term with favorable internal conditions, on the one hand, and the uncertainty of external risks, on the other hand. In the reporting period, the policy rate of the National Bank was kept unchanged at 4.75 percent. The rates of the interest rate corridor also remained unchanged: the upper rate of the interest rate corridor (the rate on “overnight” credits) - at 6.00 percent, and the lower rate (the rate on “overnight” deposits) - at 0.25 percent.

Chart 3.1.1. Money Market Rates



The reduction in the supply of 7-day notes of the National Bank caused increased competition in the securities market and, finally, a decrease of the short-term rates in the money market.

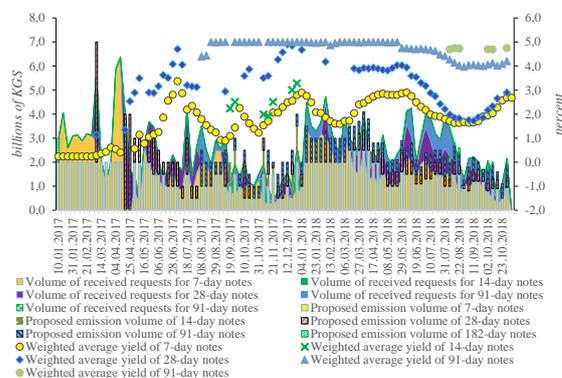
Under the conditions of KGS excess liquidity in the banking system, tactical decisions were taken to initiate the issue of 182-day notes of the National Bank and to

preserve the issue of 7-, 28- and 91-day notes in the reporting period.

In the reporting quarter, the current rates in the short-term segment of the money market (up to 6 months) demonstrated some distance from the policy rate, meanwhile the instrument rates up to 12 months fluctuated around the policy rate of the National Bank, whereas, previously they were at the upper rate of the interest rate corridor.

Despite the decline in the volume of operations in the interbank credit market (in Q3, the volume of operations decreased by 30 percent compared to Q2), the absence of participants in the interbank credit market, which created the bulk of the demand for credit resources, was gradually leveled by the presence of other new participants.

Chart 3.1.2. National Bank Notes



In Q3 2018, the weighted average interest rates of the money market were generally lower than the policy rate set by the National Bank, except for the yield on 12-month ST-Bills, which was approximately 4.99 percent during the quarter.

The weighted average yields on the National Bank instruments to withdraw liquidity decreased in Q3 2018 compared to Q2. Thus, the weighted average yield on 91-day notes was approximately 4.30 percent during the quarter (in Q2 2018 – 4.90 percent), on 28-day notes – 2.34 percent

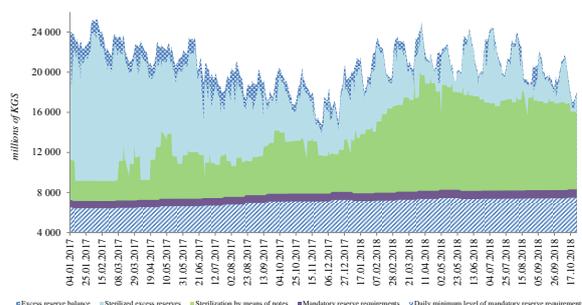
(in Q2 2017 – 3.85 percent), on 7-day notes – 1.81 percent (in Q2 2017 – 2.69 percent). The

weighted average yield on 182 daily notes, with the issue thereof being initiated in August of the current year, was 4.72 percent.

The stimulating character of the monetary policy contributed to a decrease in the interest rates of the commercial banks' credit portfolio. At the end of the reporting quarter, the weighted average interest rate of the credit portfolio decreased by 0.8 percentage points compared to the indicator as of the beginning of the year and made 15.1 percent.

Situation with Liquidity of the Commercial Banks

Chart 3.1.3. Excess Reserves of the Commercial Banks



In Q3 2018, there was a decrease in the level of excess liquidity in the banking system. Operations conducted by the Government of the Kyrgyz Republic (-KGS 1.2 billion) and foreign exchange intervention of the National Bank on sale of foreign currency, which reduced the monetary base by KGS 2.7 billion, were the main sources of the decrease of excess liquidity. Moreover, growth of money outside banks, which increased by KGS 2.4 billion in the reporting

quarter, was among the factors to reduce the level of excess liquidity. In the reporting quarter, the average daily volume of the commercial banks' excess liquidity prior to the operations on sterilization amounted to KGS 12.9 billion, having decreased by KGS 0.8 billion compared to the same indicator of Q2 2018.

Based on the 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 Q3 2018, the average volume of excess liquidity absorbed on a daily basis decreased by KGS 0.8 billion compared to Q2 2018 and amounted to KGS 12.3 billion. The volume of placement of the National Bank notes decreased slightly in the structure of absorbing operations, however, 91-day notes constituted the most significant share of the notes in circulation (in average of 65.9 percent in the reporting quarter), just as in the previous quarter. In the reporting quarter, the average share of 182-day notes, with their placement being initiated in August 2018, constituted 2.5 percent. Generally, in the reporting quarter, the average daily volume of sterilization by means of notes amounted to KGS 8.6 billion (-KGS 1.3 billion compared to Q2 2018), the volume of placements of "overnight" deposits with the National Bank – KGS 3.7 billion (+ KGS 0.5 billion compared to Q2 2018).

Credit Policy of the National Bank

In the reporting period, the National Bank did not conduct the auctions to refinance the commercial banks after active credit policy to reduce the interest rates and expand lending. The National Bank provided funds to the Russian Kyrgyz Development Fund in the amount of KGS 150.0 million for further lending to the economy.

Moreover, the National Bank provided funds in the amount of 430.2 million to support liquidity of the commercial banks.

The total volume of loans extended by the National Bank in Q3 amounted to KGS 580.2 million.

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 was fluctuating with a maximum range of KGS 1.55 after moderate dynamics thereof in the first half of the same quarter. Since the middle of the reporting period, the National Bank conducted interventions on sale of foreign currency to the total amount of USD 38.7 million in the domestic foreign exchange market to smooth sharp

fluctuations of the exchange rate amid demand for foreign currency exceeding supply thereof. Generally, the KGS exchange rate was fluctuating within the range of KGS 68.00 – 69.75 per USD 1 in Q3, having increased by 1.6 percent.

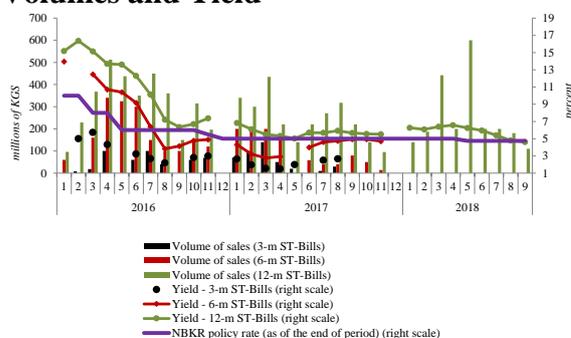
Monetary Policy Measures in Q3 2018

<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 August 28 and September 24, 2018.</p> <p>Based on the results of the meetings, the decision was made to keep the policy rate unchanged at 4.75 percent. The rates of the interest rate corridor (the rate on “overnight” credits and deposits) remained unchanged (at 6.25 and 0.25 percent, respectively) in accordance with the decision made.</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 150.0 million.</p>
<p>Other credits</p>	<p>The volume of the National Bank’s credits to support the banks’ liquidity amounted to KGS 430.2 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 current year, the ST-Bills market was represented only by the securities with a maturity of 12 months in contrast to the previous year, due to the ongoing policy conducted by the Ministry of Finance of the Kyrgyz Republic on increasing the issue of the long-term securities (with a maturity from 1 year and longer). In the reporting period, the ST-bills market demonstrated a decline in the

activity of the participants, as well as a decrease in the weighted average yield of 12-month securities.

The Ministry of Finance of the Kyrgyz Republic placed ST-Bills in the amount of KGS 580.0 million, by 56.7 percent less compared to the same period of the previous year, to cover the budget deficit in the reporting period.

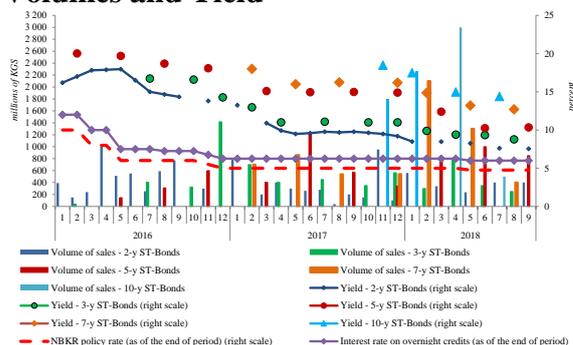
Despite the excess of demand for ST-Bills over the volume of supply thereof in the reporting period, based on the results of the auctions, the ST-Bills were placed in the amount of KGS 490.5 million, which is less than the volume of supply by 15.4 percent.

Based on the results of the auctions, the weighted average yield of 12-month ST-Bills fixed at 5.0 percent in the reporting period (-0.8 percentage point compared to the same quarter of 2017).

By the end of the reporting period, the total volume of ST-Bills in circulation amounted to KGS 2.6 billion (-12.2 percent year-to-date) with a prevailing share of the commercial banks as the holders of these assets. At the same time, there was a downward trend

in the ST-Bills portfolio of the commercial banks due to an increase of the investment portfolio by the institutional investors and resident legal entities.

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



In the reporting period, the participants continued increasing their investment portfolios in the ST-Bonds market. There was also a downward trend in the ST-Bonds yield of all maturity rates.

In the reporting period, the total volume of placement of the ST-Bonds, being the main long-term instruments to raise funds for financing the current deficit of the republican budget and refinancing public

debt, amounted to KGS 2.8 billion, having increased by 35.0 percent compared to the same period of 2017. Meanwhile, the total volume of demand in the ST-Bonds market amounted to KGS 4.2 billion (+84.3 percent), the volume of ST-Bonds supply was KGS 2.5 billion, demonstrating a significant investors' interest in the long-term investments of funds.

In the reporting period, the demand for 2- and 10-year ST-Bonds was the most significant; the share thereof was 51.7 percent of the overall demand in the ST-Bonds market. Meanwhile, the sales of 5-year ST-Bills (30.4 percent) were substantial in the reporting period, as well as in the corresponding period of 2017 (27.5 percent).

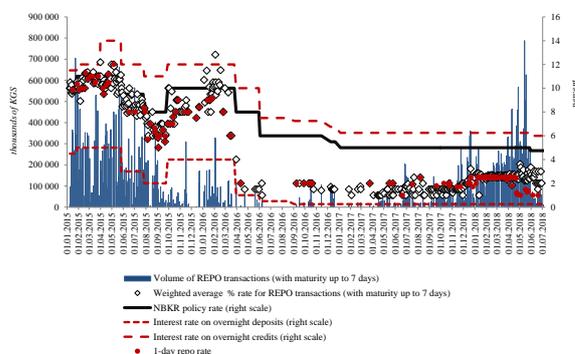
Based on the results of the auctions, the number of the participants in the ST-Bonds market decreased from 14 (in Q3 2017) to 12, meanwhile, there was an increase in the market capacity.

Based on the results of the ST-Bonds placements made in the reporting period, the overall weighted average yield of ST-Bonds decreased from 13.2 percent to 11.0 percent, having approached the weighted average time deposit rate in the national currency.

At the end of the reporting period, the total volume of the ST-Bonds¹ in circulation amounted to KGS 34.7 billion (+46.2 percent year-to-date) with the institutional investors being the main holders in contrast to the structure of the ST-Bills holders. At the same time, there was an increase in the ST-Bonds portfolio of the non-resident legal entities year-to-date.

Interbank Credit Market

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



In the reporting period, there was a positive upward trend still observed in the interbank credit market.

In Q3 2018, the positive upward trend was still observed in the interbank credit market.

Thus, in Q3 2018, the volume of transactions in this segment of the market increased by 25.8 percent compared to the same indicator of 2017, up to KGS 3.7 billion (in Q3 2017 – KGS 3.0 billion), caused by the growth of REPO transactions. However, despite existing demand for the interbank credit resources, there was a slight

decrease in the cost of loans in the interbank credit market from 2.3 to 1.8 percent in the reporting period.

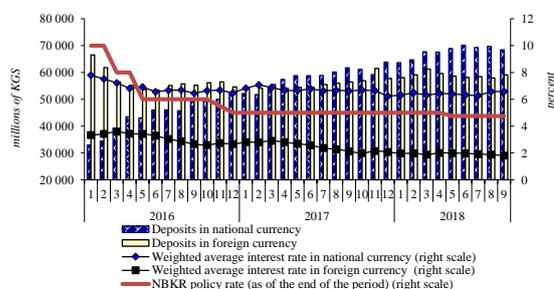
¹ Excluding ST-Bonds nominated in foreign currency

In the reporting period, the total volume of concluded REPO transactions increased significantly up to KGS 3.7 billion (+by 31.5 percent) compared to the same indicator of 2017.

In Q3 2018, standard transactions in the national and foreign currency were not conducted.

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits



The banks' depository base demonstrated an upward trend in Q3 2018.

At the end of Q3 2018, the volume of the commercial banks' depository base increased by 4.9 percent year-to-date and amounted to KGS 127.5 billion due to the growth of the deposits in the national currency by 7.2 percent, up to KGS 68.4 billion, in foreign currency – by 2.3 percent, up to KGS 59.1 billion. Dollarization of the deposits decreased by 1.2 percentage points year-to-date and

amounted to 46.3 percent. At the end of September 2018, dollarization of the individuals' and legal entities' deposits decreased by 2.84 and 0.87 percentage points, respectively (to make 38.3 and 53.5 percent).

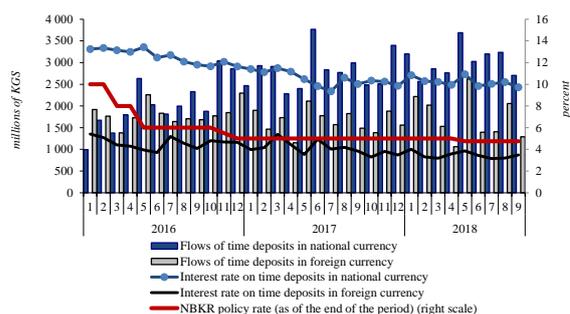
The upward trend was still observed in the deposits of the commercial banks in the reporting period. In Q3 2018, the volume of the new deposits¹ increased by 12.7 percent compared to the same period of 2017 and amounted to KGS 147.4 billion. It was caused by the growth of deposits in the national currency up to KGS 80.2 billion (+11.9 percent) and in foreign currency up to KGS 67.2 billion (+13.5 percent). In terms of structure, the increase of new deposits was mainly caused by the growth of demand deposits by 13.8 percent, the share thereof constituted 90.6 percent of all deposits. The volume of the new time deposits increased by 3.0 percent (the share thereof was 9.4 percent). The share of short-term deposits constituted 60.8 percent in the total stock of time deposits (-1.0 percentage point compared to the same period of 2017) with a proportional increase in the share of long-term deposits up to 39.2 percent.

In terms of maturity the share of short-term deposits (up to 1 year) slightly increased up to 69.4 percent (+0.4 percentage points) year-to-date with a proportional decrease in the share of long-term resources down to 30.6 percent demonstrating an increase in the population's deposits for a shorter term.

In Q3 2018, the main share among the new deposits in the national currency accounted for the deposits from 6 months to 1 year (43.9 percent) and from 1 to 3 years (38.2 percent), in foreign currency the main share accounted for the deposits with the same maturity with the share of 29.6 percent and 35.1 percent, respectively. Therefore, the total duration of the depository base was 4.9 months (+0.1 month year-to-date) at the end of the reporting period, the duration of time deposits was 13.2 months (-0.1 month year-to-date).

¹ Settlement accounts of the banks' clients are not taken into account in the volume of new deposits.

Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows

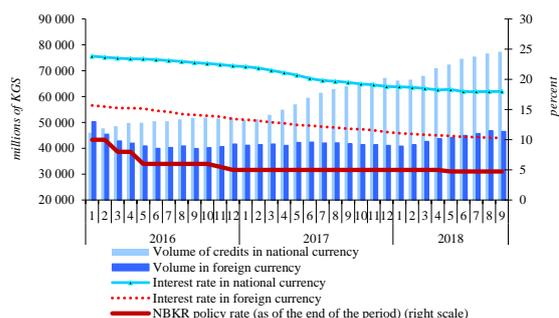


maturity rates, except for the deposits with a maturity from 0 to 1 month. Moreover, the weighted average interest rate on the time deposits in foreign currency made 3.28 percent, having decreased by 0.74 percentage points, due to a decline of all maturity rates.

The concentration index in the deposit market was at the level of 0.10 at the end of the reporting period, which corresponds to the average level of concentration with ten participants with equal shares present in the market.

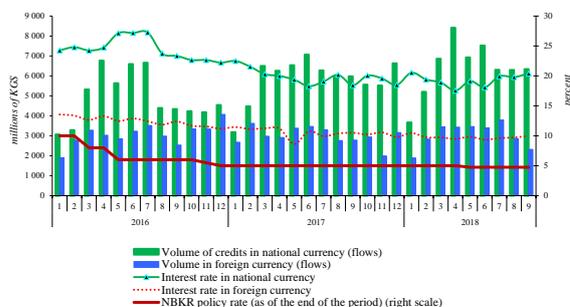
Credit Market

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



credits decreased by 0.4 percentage points year-to-date, down to 37.5 percent, due to a decrease in dollarization of the credits with all maturities, except for the credits with a maturity of more than 3 years. At the end of September, dollarization of the credits issued to the legal entities has not changed year-to-date to make 41.3 percent, dollarization of the credits issued to the individuals made 5.09 percent (-2.3 percentage points).

Chart 3.2.7. Dynamics of Commercial Banks New Credits for the Period



The volume of credit flows in foreign currency increased up to KGS 9.0 billion (+1.4 percent) due to the growth of credits with a maturity from 1 to 3 years. Meanwhile, in terms of sectors, there was an increase in the volume of credits in the following sectors:

In the reporting period, the weighted average interest rate on the new deposits in the national currency constituted 2.38 percent (-0.28 percentage points compared to the same period of 2017), this rate on the deposits in foreign currency constituted 0.33 percent (-0.19 percentage points). In the reporting period, the weighted average interest rate on the time deposits in the national currency constituted 9.99 percent, having decreased by 0.01 percentage point due to a decrease of all

In Q3 2018, build-up of the credit portfolio was accompanied by a significant increase in the volume of credits issued in the national currency.

Thus, the volume of the commercial banks' credit portfolio increased by 14.4 percent year-to-date and amounted to KGS 123.9 billion at the end of the reporting period. Meanwhile, the credits in the national currency increased by 15.1 percent, to make KGS 77.4 billion, however, the credits in foreign currency increased by 13.1 percent, to make KGS 46,5 billion. Dollarization of the

The volume of new credits in the national currency amounted to KGS 19.0 billion, having increased by 4.0 percent compared to the same period of 2017 due the growth of credits with a maturity from 3 months to 3 years. Meanwhile, in terms of sectors, this growth was mainly caused by an increase in the volume of credits in the following sectors: "transport" (+29.6 percent), "procurement and processing" (+26.4 percent) and "consumer credits" (+22.3 percent).

“agriculture” (+ 7.1 times), “communication” (+2.0 times), “construction” (+1.9 times) and “transport” (+52.5 percent).

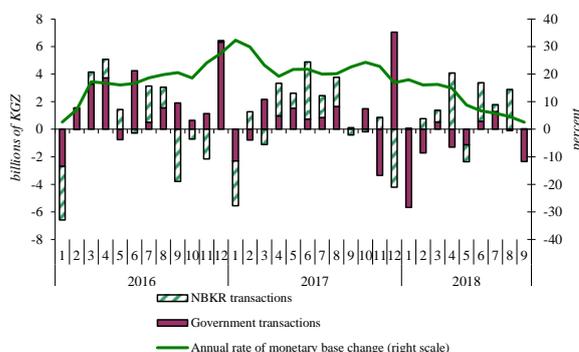
Thus, following the results of the quarter, duration on new credits in the national currency decreased by 4 months year-to-date (down to 24 months), in foreign currency – by 3 months (down to 31 months).

In Q3 2018, the weighted average interest rate on new credits in the national currency increased by 0.83 percentage points compared to the same indicator of 2017, up to 20.06 percent (mainly due to an increase in the rates on such sectors as communication, agriculture and industry), this rate in foreign currency decreased by 0.51 percentage points, down to 9.77 percent (mainly due to a decrease of the rates on such sectors as agriculture and transport).

The credit market general concentration index was 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among eleven banks. The sectoral concentration index was 32.7 percent, thus demonstrating the main three credit sectors.

3.3. Dynamics of Monetary Indicators

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

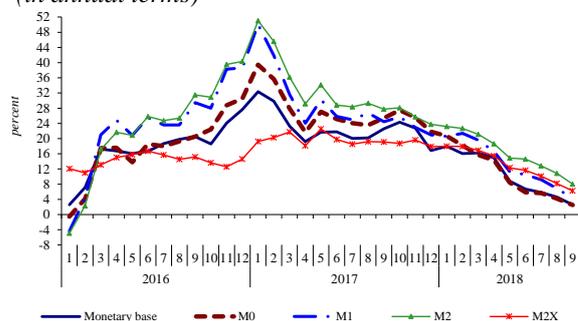


Monetary Base

The annual growth rate of the monetary base made 2.6 percent at the end of Q3 2018. There was an increase in the monetary base by 2.3 percent during the reporting quarter. The monetary base increased in the reporting quarter due to the transactions of the National Bank (+KGS 3.4 billion), however, the transactions of the Government of the Kyrgyz Republic decreased the monetary base (-KGS 1.2 billion).

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 9.5 percent, meanwhile, the share of currency in circulation was 90.5 percent.

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



Monetary Aggregates

In the reporting quarter, there still was a slowdown in the annual growth rates of monetary aggregates. A decrease in the annual growth rate of money outside banks was the main reason for the slowdown in the growth of monetary aggregates. In the reporting quarter, money outside banks increased by 2.9 percent, meanwhile, in the same period of 2017, this indicator increased by 6.3 percent. The annual growth of money outside banks made 2.5 percent at the end of the reporting quarter (at the end of Q2 2018,

this indicator made 5.8 percent).

During the reporting quarter, the monetary aggregate M2X increased by 0.7 percent and amounted to KGS 197.8 billion at the end of the reporting period. Meanwhile, the annual growth rate of the monetary aggregate M2X made 6.2 percent.

Deposits¹, included in M2X, increased by 9.2 percent over the year due to the growth of deposits in the national currency by 16.2 percent and in foreign currency - by 1.4 percent.

The total volume of credits to the economy² increased by 17.2 percent over the year and amounted to KGS 126.6 billion at the end of period. Meanwhile, credits in the national currency increased by 20.4 percent and credits in foreign currency increased by 12.1 percent. Credits to the economy increased by 3.8 percent since the beginning of the reporting quarter.

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

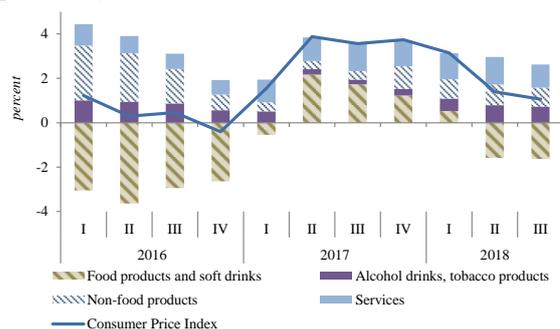
² Credits of individuals, legal entities and other financial-credit organizations, excluding credits of the Government of the Kyrgyz Republic and non-residents.

Chapter 4. Inflation Dynamics

The inflation in the Kyrgyz Republic demonstrates the same low rates for the third straight quarter. The inflationary conditions remained stable. The low rates of the food component of inflation, mainly due to the decline in prices for “fruits and vegetables” item remain a restraining factor for the general inflation rate. The market inflation rate was stable as well at the level of the lower boundary of the National Bank’s target.

4.1. Consumer Price Index

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

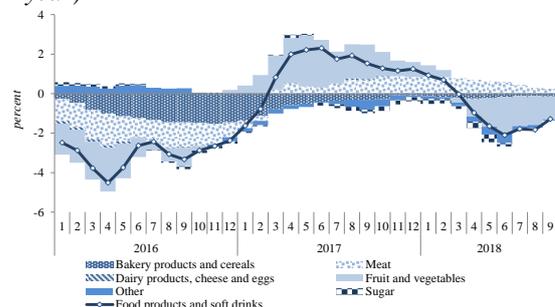


In Q3 2018, the inflation rate continued decreasing. In Q3, the growth of CPI was 1.1 percent compared to Q3 2017, having decreased from 1.4 percent in the previous quarter and by 1.3 percent compared to Q2 2018. The main reason for the low prices in Q3 was the decrease in the price index for food products, mainly for fruits and vegetables due to good domestic production and import supplies.

In September, the annual inflation rate was 1.2 percent, having increased by 0.4 percentage points compared to August of the current year, which was due to a gradual seasonal increase in prices for fruits and vegetables.

Chart 4.1.2. Dynamics of Food Prices’ Contribution to Annual CPI

(month to the corresponding month of the previous year)



In September 2018, the price index for food products decreased by 2.8 percent in annual terms. The trend of lower prices, compared to the corresponding month of the previous year, for many food products was still observed. The price index for most basic products in this group decreased or was around zero due to sufficient supply of domestic and imported food products conditioned by favorable situation in the external food markets. Only growth in prices for meat and dairy products had an upward impact on food inflation rate, as in the previous quarter.

Impact of excise rates increased in January of the current year was still observed in the commodity section “alcohol drinks and tobacco products”. The prices of this section increased by 7.8 percent in September.

Market inflation kept stable growth rates and made 4.3 percent in September and, generally, was near the lower rate of the target set by the National Bank at 5-7 percent.

Non-food commodity group demonstrates the same moderate growth rates in the main commodity groups as in the previous months. The annual increase in prices

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

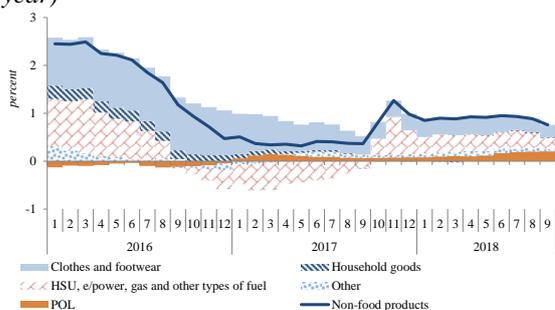
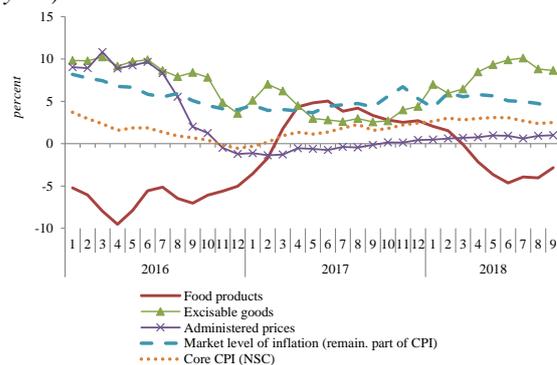


Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities
(month to the corresponding month of the previous year)



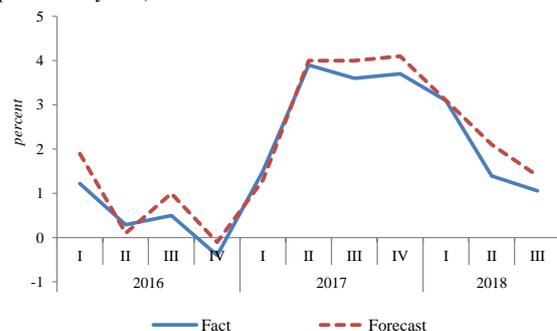
for fuels and lubricants and communication services puts the upward pressure on prices.

In September 2018, non-food inflation was 2.6 percent; the prices for paid services fixed at 6.0 percent.

4.2. Comparison of Forecast with Fact

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



In Q3 2018, the actual inflation rate was 0.3 percentage points below the National Bank’s forecasts. In the reporting period, prices for food products were lower than expected due to lower prices for the group “fruits and vegetables”, moreover, possible increase in prices for clothes and footwear in the non-food CPI group was also overestimated due to expected reduction in exports of clothes and footwear to Russia as a result of increased VAT.

Chapter 5. Medium-Term Forecast

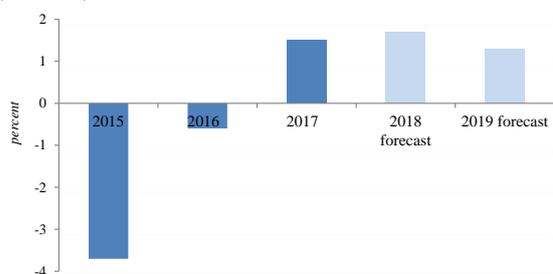
5.1. External Environment Proposals

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

In the medium term, expectations for positive economic growth still exist in Russia. The forecast for economic growth in Russia in 2018 was slightly adjusted downward, to 1.7 percent (instead of 1.9 percent), due to lower than expected actual data in Q3 2018¹. At the same time, expectations for economic slowdown in Russia in 2019 remained at 1.3 percent, due to lower consumer demand growth rates on the background of slowdown in the salary growth and an increase in the VAT rate since the

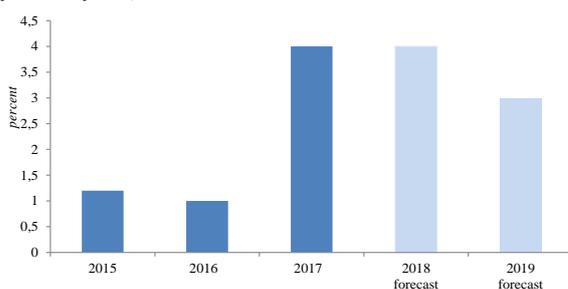
beginning of 2019 with a slowdown in the investment activity and geopolitical uncertainty.

The medium-term risks of the inflation rate deviation from 4 percent upwards still prevail. These risks are mainly the result of the influence of geopolitical factors, RUB depreciation, as well as the increase in the VAT base rate in Russia from 18 to 20 percent since the beginning of 2019 and the corresponding effect of inflation expectations. As the effect of temporary factors is exhausted, inflation is expected to stabilize at around 4 percent in 2020. At the same time, the Bank of Russia believes that timely response of the monetary policy will limit the growth of inflation risks in the future and create conditions for moderating the monetary policy at the end of 2019 and the first half of 2020.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

In the medium term, the economy in Kazakhstan will continue growing in the absence of shocks. The economic growth forecast in Kazakhstan for 2018 was slightly adjusted to 4.0 percent (instead of 3.9 percent), due to higher than expected actual data in Q3 2018 amid high oil prices and its large production volumes. In 2019-2020, economic growth will remain at 3.0 percent and 3.2 percent, respectively. The economic growth in Kazakhstan will be supported by expanding internal demand

amid rising household incomes, implementation of the large-scale investment projects and the state programs to support the economy, as well as by an increase in the volume of extraction, production and export of mineral resources under the conditions of high commodity prices.

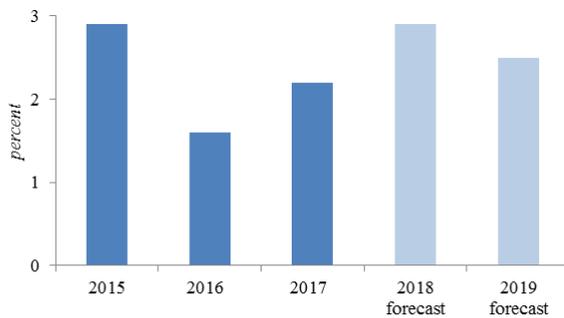
In the medium term, a slowdown in prices growth in Kazakhstan is expected to approach 4.0 percent in 2021 in the absence of external shocks. Thus, in 2018, the inflation rate is forecasted to slow down within the target corridor of 5.0-7.0 percent, and in 2019, it will enter the corridor of 4.0-6.0 percent. The main risks of acceleration of inflation in Kazakhstan relate to the unfavorable external environment.

¹ Assessment of the Ministry of Economic Development of the Russian Federation

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg

GDP growth is forecasted to be at a relatively high level in the current year and to slow down in subsequent years. The positive effect of decreased tax rates and reduced regulatory burden will contribute towards GDP growth reaching about 3.0 percent in 2018. As the contribution of these measures decreases, growth is expected to slow down to 2.5 percent in 2019 and 2.1 percent in 2020. Surveys indicate a high level of consumer and business confidence, which together with favorable situation in the labor market, will facilitate growth of the final consumption and investments. Risks to the

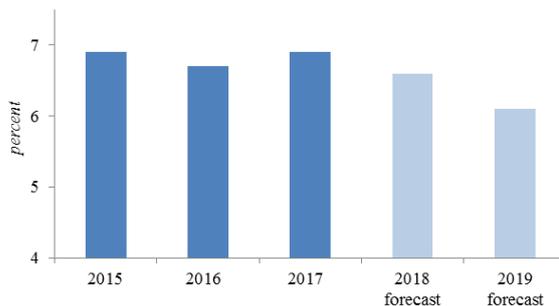
economy are related to existing foreign trade disputes between the United States and China.

The core personal consumption expenditures index, being the preferred indicator of inflation for the US Federal Reserve System, reached a target of 2.0 percent. The United States are expected to continue conducting an appropriate monetary policy to keep inflation close to the target, meanwhile the CPI increase will be at 2.2-2.3 percent in the coming years.

China

China 5.1.1.4. Real GDP Growth in China

(year to year)



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

Gradual slowdown in GDP growth is forecasted in China. The authorities of the country will conduct the policy to restrict the growth of enterprises' debts and to restrain financial risks. An increase in trade tariffs for the Chinese goods by the United States will have a negative impact on the economic growth in China. This impact is assumed to be moderate, meanwhile the Chinese government has sufficient resources to counter risks and maintain a high level of economic activity. An active fiscal policy implementation will be continued, steady growth being expected in

the real estate sector will have a positive impact on economic development.

The inflation rate in China is forecasted to demonstrate stable dynamics at the level slightly above two percent. Monetary policy will remain prudent and cautious. The inflation rate below the target set at about three percent will allow the People's Bank of China to moderate the policy depending on the need to support the economy.

5.2. Medium-Term Forecast

Assumptions about development of the external conditions and internal environment in Q3 2018 to the greatest extent were consistent with the baseline scenario, approved at a meeting of the National Bank Board held in August 2018.

The economic growth rates in the Kyrgyz Republic in the short and medium term remain within the previously expected trends. External economic conditions, mainly, the level of economic activity in the trading partner countries remain the main factors determining the economic activity in the country.

Existing concerns about growth of sanctions pressure on the Russian economy still determine the main prospects of the economic development in our region, including the Kyrgyz Republic. A set of sanctions against Russia – Defending American Security from Kremlin

Aggression Act – DASKAA – submitted to the US Senate for consideration, has not been approved yet due to lack of time for consideration thereof. According to the analysts, there is not enough time in the current year for all necessary procedures to consider and approve the DASKAA sanctions; this set of sanctions will be submitted for discussion only in the beginning of 2019.

The current trend of the economic development in Russia takes into account a relatively high probability of expanding the sanctions, taking into account the DASKAA sanctions, and has already absorbed most of the effect from introduction thereof. However, publishing the decision on approving the DASKAA sanctions can cause short-term volatility in the economy of Russia and in the countries of our region.

Price dynamics in the world commodity markets is another important factor determining economic growth in the Kyrgyz Republic in the medium term.

Price dynamics in the world food markets will remain stable until the end of the current agricultural season (July 2018 – June 2019). The main types of agricultural crops in the countries of our region demonstrate decreased yield in the current year, however, such situation will not cause a significant increase in prices, because, despite the decrease, the volume of the harvested yield remains high.

The oil prices in the world energy market at the beginning of Q4 2018 had fallen to 70 USD per barrel amid increasing reserves of oil and growing concerns about the negative impact of the trade war between the United States and China. Due to the extended OPEC+ meeting scheduled at the beginning of December 2018, there is an expectation of the decision to reduce oil production quotas, which will support oil prices and, accordingly will support the growth of economic activity in Russia and Kazakhstan – the trading partner countries of the Kyrgyz Republic.

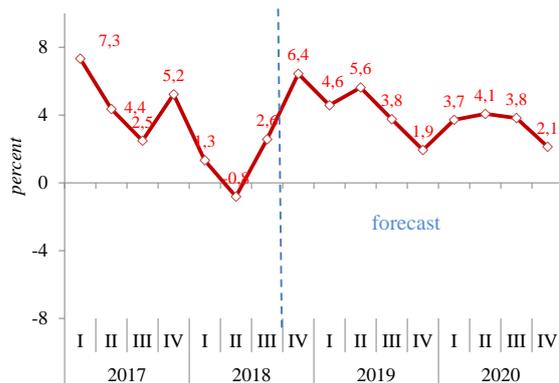
The structure of Kyrgyz Republic economy highlights particular role of external sector parameters in developing forecasts. The forecasts of the world research agencies/institutions, official authorities of the countries and expert evaluations determine the assumptions to be made in respect of the external economic sector parameters such as the price dynamics in the world commodity markets, economic growth expectations in the countries-trading partners of the Kyrgyz Republic and other important indicators of the world economic development.

Due to the current development prospects in the world commodity markets, as well as the dynamics of the economic growth in the trading partner countries, the economic background in the countries of our region, being largely determined by the degree of sanctions pressure imposed on the economy in Russia, is expected to be the most significant factor of economic development in our country in the medium term.

Taking into account existing general price dynamics in the world commodity markets, as well as other factors contributing to growth of economic activity, the assumptions about the economic growth in the trading partner countries in 2018-2020 remain at the level of the previous (August) forecast: GDP growth in Russia is expected at the level slightly below 2.0 percent, GDP growth in Kazakhstan is expected at the level of approximately 3.5 percent in the medium term (2018-2020). 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.

In 2018–2020, the real sector of the economy of Kyrgyzstan will demonstrate a slightly negative GDP gap, taking into account current expectations regarding the economic growth rate in the trading partner countries.

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



The negative GDP gap will persist during 2018-2019, that the current external and internal conditions of economic growth are retained.

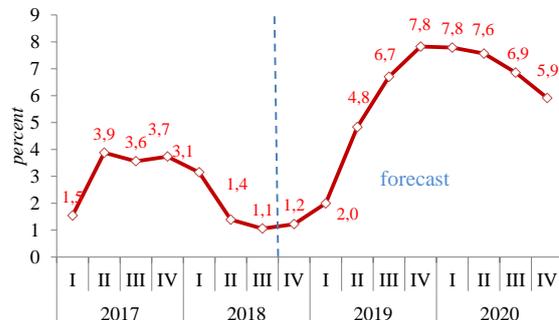
In 2018, taking into account the actual dynamics of GDP growth in January-October 2018, the real GDP growth is expected at 2.8 percent; the growth excluding the enterprises of the Kumtor Mine will be approximately 3.4 percent.

In 2019, the real GDP growth rate is expected at 3.7 percent, excluding Kumtor, the growth is forecasted at approximately 4.8 percent.

Taking into account assessments of the external environment and internal

conditions development, in the medium term the inflation rate in the economy of the Kyrgyz Republic is expected to remain within the target of 5-7 percent. The persisting negative GDP gap and corresponding deflationary background with stable external inflation determined a low inflation rate in the current year. In the absence of external and internal shocks, a gradual economic recovery in the country and the region will contribute to the entry of inflation into the target range by mid-2019.

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



In 2018, the average inflation rate (period to period) is expected at approximately 2.0 percent (Dec 2018/Dec. 2017 – approximately 1.5 percent). In 2019, the average inflation value will be approximately 5.5 percent.

In mid-2019, the downward inflation trend is expected to reverse against the background of price recovery in the world commodity markets. There are expectations for the prices to increase in the medium term and to approach the target inflation values (5-7 percent).

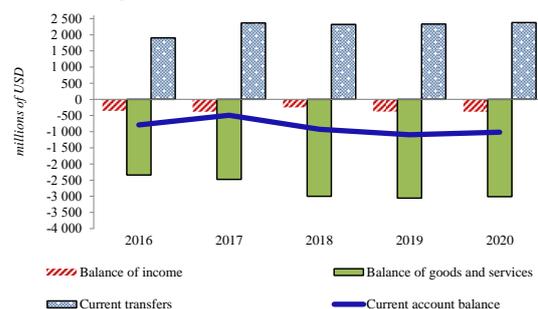
Forecast for the Balance of Payments in 2018-2020¹.

In 2018, the determinants of the external sector development in the Kyrgyz Republic were adjusted taking into account the data of the actual period and expectations for the economic development in the trading partner countries and the internal factors for the end of the year. In 2018, the current account deficit was estimated at 12.6 percent of GDP, mainly, due to changed trends in foreign trade and migrant workers' remittances. Less increase in exports is expected compared to imports, as well as an increase in the inflow of migrant workers' remittances is expected to be more moderate.

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

Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)



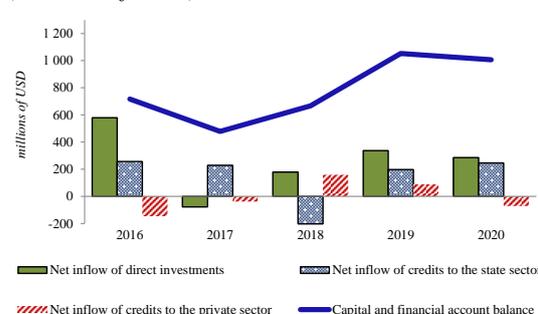
as well as adaptation to the terms of trade within the framework of the EAEU.

The increase in imports forecasted in 2018 was revised to be estimated at 12.6 percent based on expected economic growth in the country and the trend in imports during nine months of the current year. Growth in domestic demand will increase imports excluding petroleum products by 14.6 percent. Imports of petroleum products are forecasted at the level of the previous year, due to the world prices for petroleum products remaining high amid decrease in physical supplies compared to 2017.

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 1.5 percent compared to the level of 2017.

Chart 5.2.1.4. Forecast Data on Capital and Financial Account

(millions of USD)



influence of reduction in the foreign liabilities of the public sector due to writing-off the Russian credit. Also, there is an upward trend in payments on previously attracted non-public sector credits. At the same time, a more dynamic growth in the inflow of credits to the private sector will cause a positive balance on the private sector credits.

Thus, net balance of payments following the results of 2018 is expected to be negative in the amount of USD 34.9 million. Meanwhile, import coverage of international reserve assets¹ is forecasted at level of 4.0 months of the future imports of goods and services.

In 2019, moderate economic growth in the trading partner countries and in the republic will be the factors to determine the external sector development in the Kyrgyz Republic. Foreign trade operations are expected to keep positive dynamics. A larger increase in imports compared to exports amid a slight increase in the net inflow of current transfers will

The results of 9 months of 2018 were used as the reason to adjust the growth of export towards a moderate pace of 0.9 percent. Decrease in supplies of clothing industry products in the actual period was the main factor to influence this trend. There are expectations of a decline in gold exports, due to decrease in gold production at the Kumtor Mine compared to 2017. According to the forecasts, increase in exports excluding gold is expected positive at 5.3 percent under the influence of an increase in the external demand for domestic products,

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 account. 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 influenced the dynamics of the account indices in 2018. Capital inflows on the financial account are expected on "direct investments" and "other investments" item. Balance of "credits" item will be formed negative primarily under the

¹ 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.

result in the current account deficit formation at 13.4 percent to GDP. Positive external demand will support export growth at 2.0 percent, while imports are expected to increase by 2.3 percent.

The forecasts for economic development in the Russian Federation in 2019 and forecasted dynamics of fluctuations in the exchange rate of the Russian ruble determined the expected volume of private transfers at 0.5 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 negative in the amount of USD 40.6 million. International reserve assets will cover 3.8 months of the future imports of goods and services.

Favorable expectations of the external economic conditions development and economic growth in the country affected development of the balance of payments indicators in 2020. Growth in the positive balance of current transfers, growth in imports and exports are expected to determine the current account formation at 12.4 percent to GDP. Upward trends in the internal and external demand will cause an increase in the trade deficit by 3.9 percent.

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 3.2 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.

In 2020, the overall balance of payments is expected to be positive in the amount of USD 6.7 million. International reserve assets will cover 3.8 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 2018-2020:

- 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	Q2	Q3
1. Demand and supply¹ (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	115 373,1	154 711,6
GDP	%	-6,2	2,1	9,2	7,9	7,3	4,4	2,5	5,2	1,3	-0,8	2,6
GDP, excluding Kumtor	%	1,3	4,2	5,8	4,4	3,0	1,3	3,9	8,9	2,9	1,6	2,9
Domestic consumption	%	-2,4	4,6	-0,2	-2,7	1,4	1,7	4,9	3,6	2,2	4,1	
Investment	%	-11,4	16,3	5,4	15,3	-2,1	-8,4	0,4	19,1	37,3	1,9	
Net export	%	16,0	21,8	-11,2	-15,2	-15,0	-21,6	5,0	9,6	9,4	14,0	
<i>GDP production:</i>												
Agriculture	%	0,7	1,6	3,6	3,2	1,1	1,4	2,4	3,0	1,7	1,5	2,8
Industry	%	-29,8	-7,7	33,1	31,6	34,2	25,9	4,9	-7,0	0,1	-11,2	0,3
Construction	%	13,3	26,5	11,7	-0,3	-8,3	-6,8	2,2	23,0	4,2	7,7	8,2
Services	%	2,4	2,3	4,6	3,7	-0,3	0,0	1,7	6,7	1,5	1,5	2,2
including trade	%	5,0	5,3	12,6	7,5	1,5	4,2	3,7	3,9	3,7	4,8	4,7
2. Prices²												
CPI	%	101,2	100,3	100,5	99,6	101,5	103,9	103,6	103,7	103,1	101,4	101,1
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	100,8	101,2
Core inflation	%	103,0	101,8	101,0	99,9	100,3	101,3	101,9	102,1	102,8	103,1	102,5
<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	96,5	96,4
Non-food products	%	108,5	107,6	105,3	102,4	101,3	101,2	101,3	103,4	103,0	103,2	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	109,1	108,4
Services	%	106,5	105,2	104,6	104,4	106,9	107,1	108,3	107,7	106,9	107,3	106,1
<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	107,8	108,3
Regulated prices	%	109,6	109,3	105,2	99,8	98,7	99,4	99,7	100,2	100,6	100,7	100,8
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	105,4	105,1
3. External sector³ (in percent to GDP)												
Trade balance	%	-35,3	-36,2	-33,8	-31,1	-30,1	-28,6	-31,0	-31,5	-35,3	-36,0	-35,5
Current transaction account	%	-14,1	-14,7	-11,8	-11,5	-9,6	-7,3	-6,6	-6,5	-10,4	-9,3	-10,7
Export of goods and services	%	38,2	37,2	37,3	35,7	35,3	36,2	35,4	34,9	23,4	24,2	22,7
Import of goods and services	%	75,7	75,6	73,6	69,8	68,2	67,3	68,5	67,6	58,7	60,2	58,2
4. USD exchange rate, as of the end of period												
	KGS	70,0158	67,4860	67,9346	69,2301	68,6069	69,1367	68,6585	68,8395	68,4325	68,1800	69,2773
5. Monetary sector (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	4,75	4,75
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	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	6,00	6,00
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	2,40	2,17
<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	2,48	2,17
of credits in national currency	%	13,25	7,84	4,11	2,67	2,11	3,10	5,06	6,50	-	0,00	-
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	2,31	1,90
Weighted average yield of 28-day notes, as of the end of period	%	-	-	-	-	1,14	4,08	2,94	4,85	3,83	3,30	1,86
Weighted average yield of 91-day notes, as of the end of period	%	-	-	-	-	-	-	5,00	5,00	4,99	4,73	4,00
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	-	-	4,73
Monetary base	%	17,2	16,7	20,5	27,6	23,3	21,8	22,6	16,9	16,2	6,7	2,6
Money outside banks (M0)	%	17,5	18,6	20,6	30,5	28,0	25,1	25,4	21,8	15,7	5,8	2,5
Monetary aggregate (M1)	%	21,0	25,5	29,4	38,6	31,7	25,9	24,4	21,0	19,6	10,5	4,2
Narrow money supply (M2)	%	17,2	25,8	31,5	40,3	36,2	28,8	27,8	23,7	21,1	14,6	8,0
Money supply (M2X)	%	13,1	16,7	15,2	14,6	21,7	19,8	19,1	17,9	16,9	11,6	6,2

¹ Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic

² Source: National Statistics Committee of the Kyrgyz Republic

³ Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q3 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 the foreign investors to the market of the ST-Bills is not limited. The transactions in the secondary market of the ST-Bills are conducted through the electronic trading system of the National Bank of the Kyrgyz Republic, which allows the participants to conduct transactions on purchase/sale of the ST- Bills from their workplaces.

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

Annex 3. Abbreviations

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