

Monetary Policy Report

Review of Inflation of the Kyrgyz Republic

Quarter 2, 2015

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Summary

During Q2 2015, the rate of inflation was within the benchmark determined by the Joint Statement of the National Bank and the Government of the Kyrgyz Republic About Economic Policy for 2015 and the Main directions of monetary policy for the medium-term. In June 2015 the annual inflation rate decreased from 10.5 percent as of the beginning of the current year to make 4.5 percent. A favorable price situation in the international food and raw materials markets as well as lower prices for imported wheat and for domestic fruit and vegetables contributed to diminishing inflationary pressure in the country. The inflation rate developed in Q2 2015 was mainly due to rising prices for non-food goods and services (increase in electricity tariffs, rise in price of alcoholic and tobacco products, rise in prices for paid services and for category of “Clothing and Footwear” goods).

Economic growth of the country in January to June of the current year made 7.3 percent; it was primarily due to the increase in production output at the enterprises of Kumtor Mine and the services sector. Excluding Kumtor, GDP real growth made 4.4 percent, which is higher than the comparable index of 3.5 percent in 2014.

In the first half of 2015, the state budget surplus made KGS 4.7 billion or 2.7 percent to GDP (in January to June 2014, the deficit made KGS 2.3 billion or 0.2 percent to GDP). Revenues increased by 21.8 percent against the same value of 2014; while the overall state budget expenditures increased by 11.2 percent. In the first half of the current year, execution of the republican budget revenues amounted to 131.3 percent, which resulted from implementation of the plan for collecting tax revenues by 102.6 percent and non-tax revenues by 3 times. Financing of the republican expenditure budget was executed by 95.8 percent.

In Q2 2015, the balance of payments of the Kyrgyz Republic was positive and amounted to USD 201,4 million. Current account deficit increased up to 17.3 percent to GDP to make USD 164.6 million, which primarily will be caused by negative dynamics of current transfers developed with the rate of 17.6 percent.

In main trading partner countries the economy growth slowdown was observed. In Q2 2015, economic development of China made 7.0 percent, in Kazakhstan it made 1.7 percent, in Russia decline by 4.6 percent was observed.

The National Bank continued pursuing the policy of floating exchange rate; its participation in the FX market was moderate to smooth acute fluctuations. In Q2, the net position of the National Bank currency intervention amounted to USD 22.6 million. KGS was appreciated by 2.8 percent in Q2.

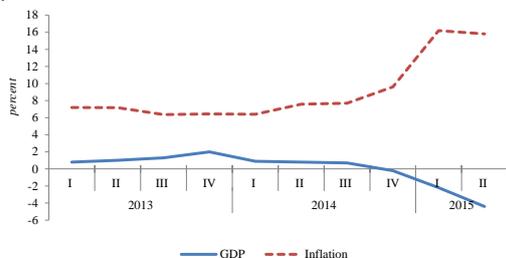
The monetary base increased by 15.3 percent in Q2; such increase was due to the public finance sector transactions. Broad money M2X including deposits in foreign currency increased by 5.0 percent in the reporting quarter (in annual terms the increase was 0.5 percent). The observed dynamics was mainly related to the 14.7 percent increase in money in hands in the reporting quarter.

Chapter 1. External Environment

1.1. Economic Development of Main Trading Partner Countries

Diagram 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 RF, IA Blumberg

Russia

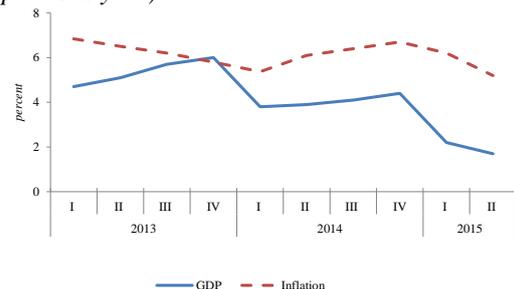
According to the Ministry of Economic Development of the Russian Federation, mixed growth dynamics of RF GDP was observed against retaining pressure of Western sanctions and oil price volatility in Q2 2015: in June the downtrend was broken (-4.2 percent) after the maximum decline in May (-4.8 percent). The slowdown in the RF GDP fall in June 2015 compared to May was explained by the improved situation in the manufacturing industries, energy, construction, investment and commercial services rendered to population. On average for Q2 2015, the decline in the Russian economy amounted to 4.6 percent, whereas the comparable figure made 0.8 percent in the same period of 2014.

According to the Federal State Statistics Service of the Russian Federation, in Q2 2015 there was a slowdown in inflation. In June 2015 compared with April, the annual inflation rate dropped by 1.1 percentage points down to 15.3 percent. The main factors that reduced the inflation rate included strengthening of the Russian ruble observed in February to May 2015, the tight monetary policy of the Central Bank of Russia, a significant decline in consumer demand against a decline in real personal incomes, reducing impact of the food embargo laid on Western countries as well as seasonal decline in prices for fruit and vegetables. The Q2 average inflation rate amounted to 15.8 percent compared to 7.6 percent against the same period of 2014.

Kazakhstan

Chart 1.1.2. GDP Growth and Inflation in Kazakhstan

(period to the corresponding period of the previous year)



Source: RK Statistics Agency

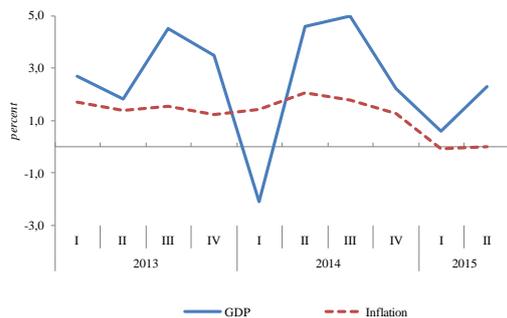
In the first half of 2015, Kazakhstan's GDP increased by 1.7 percent only against the 3.9 percent increase in January to June 2014. The impact of falling oil prices and contraction of the Russian economy was worsened by the slowdown in domestic oil production and delay in development of the Kashagan Oil Field, which is expected to begin oil extraction no sooner than in 2017. GDP growth was conditioned by the output growth in key industries: the volume index in industry accounted for 100.6 percent, 103.0 percent for agriculture, 105.1 percent for construction, 102.1 percent for trade, 106.7

percent for transport and 103.4 for communication.

In Q2, the prices for consumer goods and services continued to show slowdown of growth dynamic from 4.6 percent in April to 4.3 percent in May and 3.9 percent in June of the current year. The main factors behind the slowdown in inflation included the decline in international prices of food and exchange goods coupled with the weakening economic activity. In June, deflation in Kazakhstan amounted to 0.1 percent, year-to-date inflation made 1.4 percent, and the inflation in annual terms accounted for 3.9 percent. Prices for January to June 2015 slowed down to 5.2 percent due to the 6.0 percent increase for food prices, the 4.4 percent increase for nonfood goods, and the 5.1 percent increase for commercial services.

Chart 1.1.3. GDP Growth and Inflation in the USA

(in annual terms)



Source: Ministry of Trade of the USA, Department of Labor of the USA, IA Blumberg

USA

In Q2, USA showed a revitalization after unexpectedly weak economic growth in the first quarter, which was partly driven by temporary factors. According to the preliminary estimates of the US government, the GDP growth in Q2 amounted to 2.3 percent (compared to the previous quarter and based on annual rates). GDP growth was revised in Q1 and made 0.6 percent. The main growth factor in the second quarter was a sustainable rise of consumer spending due to the release of funds against the lower prices for fuel and improve of the situation in labor market. At the same time, due to low oil prices, the reduced investment in exploration and mining amounted to 68.2 percent to show acceleration compared with the 44.5 percent in the first quarter. In general, the dynamics of investment and government expenditures had a limited support to activity growth.

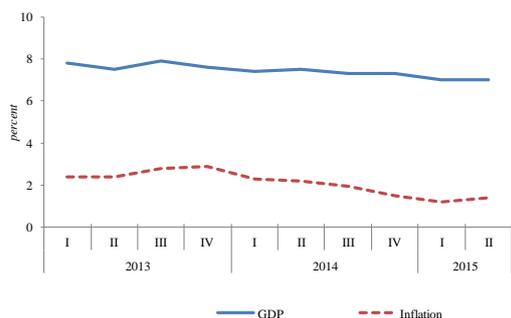
In June of the current year, consumer price index (hereinafter referred to as the “CPI”) amounted to 0.1 percent in annual terms. From the beginning of the year, inflation was close to zero, mainly because of lower prices for fuel and energy group. Prices for other goods and services in June rose by 1.8 percent in annual terms. Monthly inflation in June was 0.3 percent.

China

In Q2 of this year, China's economic growth rates met the benchmarks of the Government.

Chart 1.1.4. GDP Growth and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: The National Statistics Bureau of the PRC, IA Blumberg

Despite the fall in the stock market indices at the end of the second quarter, real economic indicators showed a stabilization of activity. China's GDP growth in Q2 made 7.0 percent in annual terms like in Q1, while the growth rate compared to the previous quarter adjusted for seasonality was higher in Q2 against Q1 (1.7 percent versus 1.4 percent). Annual growth rates of industrial production and retail trade in June of the current year were higher than in March, while the growth rate of investment in fixed assets in January to June decreased compared to January to March.

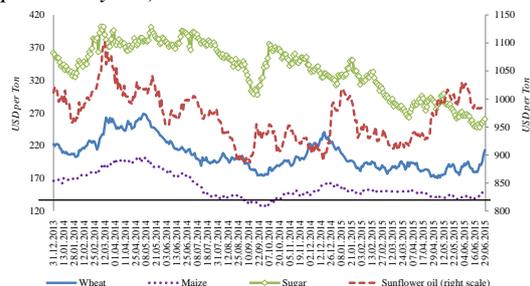
In June of the current year, the CPI amounted to 1.4 percent in annual terms. China's inflation has been within the range of 1.2-1.5 percent since February of this year that was considerably lower than the government's benchmark for 2015: "about three percent". In monthly terms, the CPI has not changed in June.

1.2. World Commodity and Markets

Food Market

Chart 1.2.1. Dynamic of Prices for Food Products

(month to the corresponding month of the previous year)



Despite the increased volatility in the international food markets in Q2 2015, the overall price trend in major markets has kept its downward trend against the background of increasing global production of basic foodstuffs and the availability of significant volumes of carryover stocks.

In Q2 2015, the international grain market showed the volatile price movements caused by multidirectional trends of American and European wheat. In the reporting period, quotations of wheat fell in the United States, while in Europe there was an inverse dynamics due to the unfavorable forecast for production and export of wheat against the backdrop of drought observed in some regions of the EU. However, the international grain market as a whole has kept downward price trend as a result of the expected favorable production prospects in the northern hemisphere in 2015-2016 marketing years and significant supplies of new crop.

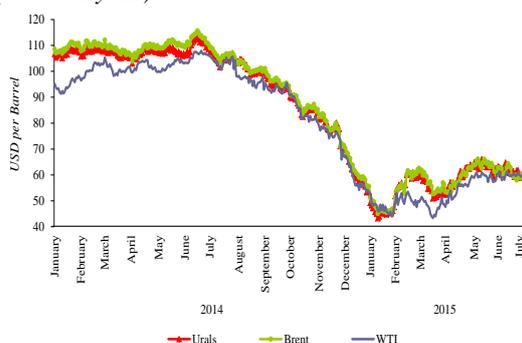
During Q2 2015, the downward trend for prices in the international sugar market continued. The main factor for such drop in prices was weakening of the Brazilian real, which made exports more attractive for Brazilian companies (the largest sugar producers in the world) and thus strengthened the offer in the global market. In addition, India is expected to demonstrate

Chart 1.2.2. Dynamic of FAO Food Price Index



Chart 1.2.3. Dynamic of Prices for Oil

(month to the corresponding month of the previous year)



ear-record harvest figures in the current marketing season also boosted by the impact of government subsidies to encourage production.

Q2 2015 showed an increase in quotations of the international sunflower oil markets. The oilseeds market was influenced by market concerns about a negative effect of climatic phenomenon El Niño¹ on the crop in Southeast Asia and India. However, there was an increase in demand from China.

In Q2 2015, the average value of FAO (Food and Agriculture Organization hereinafter referred to as “FAO”) food price index decreased by 20.7 percent against the comparable period of 2014 to make 166.7 points.

Energy Market

In Q2 oil prices remained volatile with some increasing tendency by the end of the reporting period. This was caused by fluctuations in the US currency, changes in the volume of stored oil with downward trend of stock building, increased crude production in Saudi Arabia, a meeting of the Organization of Petroleum Exporting Countries (OPEC), and negotiations on Greek debt payments. However, the main factor that influenced the market was the OPEC decision taken on June 5, 2015, to keep the production quota at 30 million barrels/day. According to Barclays Capital, having maintained the production quotas unchanged, the OPEC Secretariat signaled that it continued to adhere to the decision (December 2014), which would allow the market to determine prices.

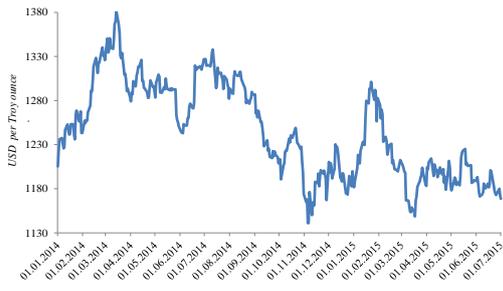
In view of current situation in the energy market, the prices for basic oil grades (Urals, Brent, WTI) fluctuated within the range of 49.1-66.1 dollars per barrel in Q2 2015.

Gold Market

In Q2 2015, fluctuations in gold prices were relatively small, and the level of prices declined generally. During the quarter, changes in the financial markets according to the economic outlook and demand for physical gold were not significant. In particular, the crisis surrounding Greece has not caused a significant increase in demand for gold as a safe asset; this fact indicated

¹ El Niño is a natural phenomenon that occurs at intervals of 2-7 years and characterized by increased rainfall in South America (up until the flood) and drought in the South and South-East Asia, which had a negative impact on crop yields.

Chart 1.2.4. Dynamic of Prices for Gold



Source: IA Reuters

that investors did not take the Greek crisis as a threat to the financial system. The relatively optimistic forecasts for US economic growth, expected start of increase in the base interest rate of the US Federal Reserve in this year, and the weaker demand for gold in China compared to the previous periods contributed to the decline in metal prices.

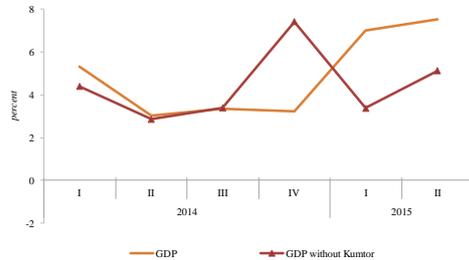
Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodities and Services Market

Demand

Chart 2.1.1. GDP Dynamic

(quarter to the corresponding quarter of the previous year)



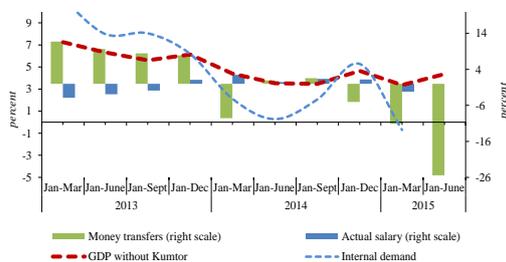
Whereas in Q1 of this year, the dynamics of the total GDP, and GDP excluding Kumtor, showed mixed trends, in Q2 the both indicators moved upward. As before, the growth was mainly driven by high rates of increase in industrial production owing to the Kumtor activities and the services sector.

Therefore, in January to June 2015, GDP growth increased by 3.2 p.p. to make 7.3 percent compared to the 4.1 percent increase in January to June 2014. GDP excluding Kumtor was 4.4 percent for the same period, while in 2014 the growth made 3.5 percent.

According to the Centerra Gold Inc press release, the Kumtor output increased by 56.8 percent compared to Q2 2014 and amounted to Troy ounce 122.1 thousand in Q2 2015.

Chart 2.1.2. Dynamic of Internal Demand and Money Transfers

(period to the corresponding period of the previous year)



Source: NBKR

In Q2 of the current year, the domestic demand was negative and amounted to -0.7 percent. Such decrease in domestic demand was due to a slowdown in consumption growth (0.8 percent against Q1 2014 (3.5 percent), which was associated with a moderate rise in household spending (0.8 percent). In its turn, the moderate rates of household spending was effected by a decrease in real wages (in January to May 2015 the actual size has decreased by 1.4 percent) as well as by a decrease in remittances of individuals. In the first half of the year, the net inflow of remittances in dollar terms decreased by 25.4 percent compared to the same period of the previous year. In terms of accumulation, a greater decrease (-6.6 percent) was also observed compared to the same period of the last year (-3.1 percent).

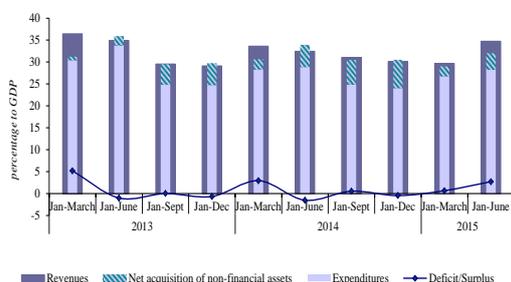
However, consumption has still remained the main component within the GDP structure (114.4 percent of GDP).

State Finances Sector

The state finances sector showed trend atypical for the second quarter: accelerated revenue growth has allowed blocking current expenditures. In the first six months of 2015 the state budget was executed with a surplus of KGS 4.7 billion, or 2.7 percent to GDP, whereas there

Chart 2.1.3. Execution of the State Budget

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



Source: CC MFKR, National Bank

was a budget deficit of KGS 2.3 billion, or 1.5 percent to GDP, in the same period of 2014.

In January to June 2015 the state budget revenues from operating activities increased by 21.8 percent, or KGS 10.7 billion, compared to the same period of 2014 and amounted to KGS 59.9 billion, or 34.7 percent to GDP (in 2014, revenues from operating activities increased by 5.1 percent). The greatest contribution to the increase in operating income was due to non-tax revenues received in Q2 of the current year.

State budget expenditures for operating activities increased in annual rate by 11.2 percent, or KGS 4.9 billion, and amounted to KGS 48.7 billion, or 28.2 percent to GDP. In the structure of expenditures by economic classification, a high rate of expenditures allocated for current consumption has been retained as before. The largest contribution to the increase in expenditures was made by labor costs (mainly salaries) and by the use of goods and services. In the structure of expenditures by functional classification, the greatest contribution to the increase in expenditures was made by costs for education, defense, public order and safety, and social protection.

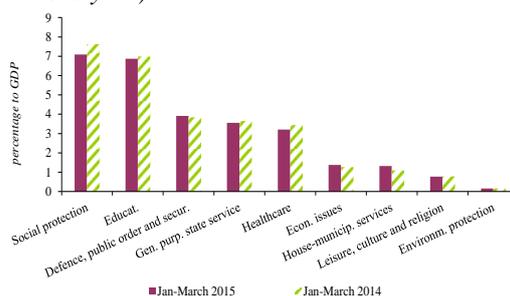
Net outflow of budget funds for operations related to acquisition of non-financial assets amounted to KGS 4.7 billion, or 2.7 percent to GDP.

Execution of the state budget revenues (tax revenues + non-tax revenues + official transfers) amounted to 131.3 percent for the first half-year, which was insured by implementation of the plan for collecting non-tax revenues by 3.0 times, and for collecting tax revenues by 102.6 percent. The tax collection plan of the State Tax Service of the Kyrgyz Republic was implemented at a rate of 105.5 percent, while the same plan of the State Customs Service of the Kyrgyz Republic was implemented by 100.0 percent. Financing the expenditure side of the national budget was made by 95.8 percent.

According to preliminary data of the Social Fund of the Kyrgyz Republic, the budget surplus of the Social Fund (inclusive of the pension fund balance as of the beginning of the year) amounted to KGS 0.3 billion, or 0.2 percent to GDP, in the first half of 2015. Budget revenues of the Social Fund (inclusive of the pension fund balance as of the beginning of the year) increased by 2.1 percent compared to the same period of 2014 and

Chart 2.1.4. Execution of the State Budget

(period to the corresponding period of the previous year)



Source: CC MFKR, National Bank

amounted to KGS 19.6 billion, or 11.4 percent to GDP. Expenditures of the Social Fund budget increased by 6.9 percent against the comparable figure of 2014 and amounted to KGS 19.4 billion, or 11.2 percent to GDP.

Investment

The level of implementing investment in capital stock increased by 6.8 percent (in comparable prices) in January to June 2015.

The volume of investment in fixed assets compared with the figure of January to June 2014 financed from domestic sources increased by 6.7 percent (among them the investment from local budget increased by 3.7 times, that from the state budget increased by 2.2 times, and that from personal funds by 33.3 percent); whereas the investment made from external sources increased by 7.3 percent (due to foreign grants and humanitarian aid - by 3.6 times, due to foreign loans - by 33.6 percent).

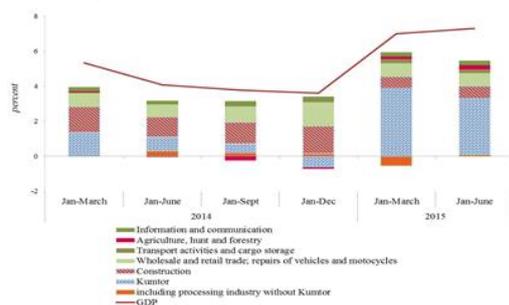
In the reporting period, investments in fixed assets were mainly directed to the industrial sector, the services sector and agriculture. At the same time, investment in construction of manufacturing facilities decreased by 25.1 percent, among them investments for construction of facilities dealing with production of petroleum products decreased by 30.5 percent. There was a significant increase in the level of investment in construction of water supply, purification and waste treatment facilities (4.2 times), agriculture (2.2 times), educational facilities (2.2 times), and health facilities (by 2.5 times).

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

	January-March			
	millions of KGS		share, percent	
	2014	2015	2014	2015
Total	33 503,9	37 464,5	100,0	100,0
Internal investment	25 849,8	28 862,8	77,2	77,0
Republican budget	580,5	1 359,0	1,7	3,6
Local budget	92,3	360,0	0,3	1,0
Funds of enterprises and organizations	16 203,6	14 737,6	48,4	39,3
Banks' credits	97,6	15,6	0,3	0,0
Population funds including beneficent help of KR residents	8 875,8	12 390,6	26,5	33,1
External investment	7 654,1	8 601,7	22,8	23,0
Foreign credit	4 385,7	6 144,0	13,1	16,4
Direct foreign investments	2 995,9	1 445,0	8,9	3,9
Foreign grants and humanitarian aid	272,5	1 012,7	0,8	2,7

Source: NSC KR

Chart 2.1.5. Input of Main Sectors in GDP Growth
(period to the corresponding period of the previous year)



Source: NSC KR

Supply

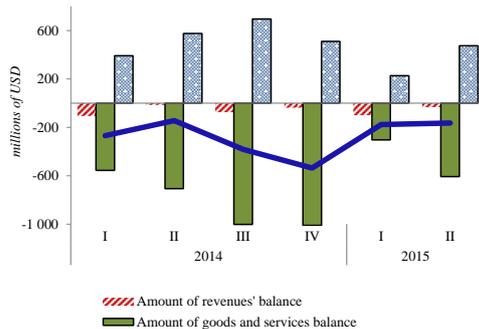
In general, a positive contribution in GDP was observed from all sectors of economy for the second consecutive quarter. At the same time the main contribution to GDP growth, as before, was provided by a significant contribution of industrial sector (3.8 percent), services sector (1.5 percent), and construction sector (0.7 percent).

The 24.1 percent increase in the industry was mainly provided by the increase in production of basic metals and fabricated metal products (increased production of *Kumtor*), refined petroleum and mining products. This period showed high growth rates of mining operations (104.3 percent) due to the 10.6 times increase in mining of metal ores.

As to the services sector, the main contribution of major components has continued. As before, the main component is the wholesale and retail trade (except for motor vehicles and motorcycles), which increased by 4.6 percent.

2.2. External Sector

Chart 2.2.1. Current Transactions Account



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

According to the predicted and preliminary data of Q2 2015, the current account deficit increased by 14.0 percent and amounted to USD 164.6 million (excluding additional estimates such increase was by 5.4 percent to make USD 257.9 million), which accounted for 17.3 percent to GDP. The main influence on the formation of negative balance of the current account will be exerted by dynamics of trade balance and current transfers.

In the reporting period, the trade deficit of the Kyrgyz Republic is expected to be 17.6 percent lower than the figure of Q2 2014 to make USD 538.6 million (excluding additional estimates, it will make USD 623.7 million). Favorable factors reducing trade deficit included:

- 15.6 percent decrease in imports (USD 186.5 million in absolute terms);
- increase in exports of gold.

However, the decrease in exports excluding gold and the National Bank's additional estimates had negative impact.

Exports of goods (in FOB prices¹ taking into account the National Bank's additional estimates) decreased by 13.2 percent compared to the same value of Q2 2014 to make USD 471.9 million in Q2 2015 (excluding additional estimates it will make USD 386.7 million).

Gold export is expected to increase by 28.7 percent due to the 35.0 percent increase in volume of supplies against the background of the 4.7 percent decrease in actual average export price of supplies. Exports excluding gold and additional estimates of the National Bank have decreased by 28.3 percent and amounted to USD 231.4 million. According to the National Bank estimates, this will be facilitated by a decrease in supplies of vegetables, garments and clothing accessories, petroleum products, rubber tires, and other inorganic materials, parts and accessories for motor vehicles. At the same time, exports volume of ores and concentrates of precious metals as

2.2.1. KR Trade Balance ¹

(millions of USD)

	2013	2014	2014	2015 *	Change	Change
			Q2	Q2	in %	in millions of USD
Trade balance (with additional assessments)	-2 744,3	-2 947,4	-653,2	-538,6	-17,6	114,6
Trade balance ¹	-3 555,4	-3 398,6	-753,4	-623,7	-17,2	129,7
Exports (FOB) (with additional assessments)	2 869,3	2 342,8	543,7	471,9	-13,2	-71,9
Exports (FOB) ¹	2 058,2	1 891,6	443,6	386,7	-12,8	-56,8
Gold	736,8	716,9	120,7	155,3	28,7	34,6
Imports (FOB)	5 613,6	5 290,2	1 197,0	1 010,5	-15,6	-186,5
Energy products	1 186,7	1 041,8	185,8	170,5	-8,2	-15,3

¹ Based on the NSC actual data from January to May and the SCS preliminary data for June 2015 without regard to the NBKR additional settlements for re-export of oil products and trade of the suitcase traders

¹ Prices on the border of exporting country (free on board).

well as cotton is expected to increase.

Imports of goods (in FOB prices) decreased by 15.6 percent for the reporting period and amounted to USD 1,010.5 million. Reduced imports will be driven mainly by a decrease in supply of previously used passenger cars, garments and clothing accessories as well as fertilizers and essential oils. In addition, the oil imports are expected to decrease by 9.7 percent due to the 24.3 percent drop in contract prices for supply of petroleum products, while the physical volume of supplies will increase by 19.3 percent. However, the reporting period will show an increase in the supply of electric energy (such growth will be caused by the need to import electrical power from the Republic of Kazakhstan in 2015 to cover energy deficit in the specified period), sugar, cigarettes, construction and mining machinery, goods cars and special purpose vehicles.

According to the forecasts, the balance of services will be negative to make USD 68.5 million having increased by 26.2 percent in Q2 2015.

The negative balance of revenues is expected to increase up to USD 32.7 million in the reporting period that will be conditioned by an increase in income of direct foreign investors gained from investment activity in Kyrgyzstan.

The net inflow of current transfers will decrease by 17.6 percent to make USD 475.2 million. This trend will be mainly due to the 22.7 percent decrease in the net inflow of private remittances caused by unfavorable economic situation in the main partner countries.

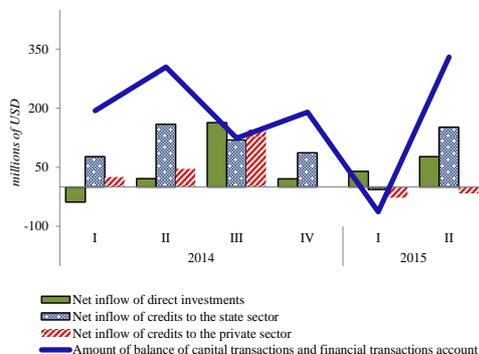
In Q2 2015, the capital transactions and financial transactions account formed with a positive balance of USD 330.0 million, this was 8.3 percent higher than the same value of 2014.

The balance of capital account is expected to be positive in the amount of USD 106.5 million. Formation of the item line will be influenced by the inflow of funds from the Russian investor for the right to develop Jeruy Gold Deposit.

In the reporting period, the financial account surplus is expected to decrease by 24.0 percent to make USD 223.4 million. The "direct" and "other investments" will have major influence on the financial account during the reporting period.

Therefore, the balance of payments of the Kyrgyz Republic will develop a surplus of USD 201.4 million in the second quarter of 2015. The

Chart 2.2.3. Capital Transactions and Financial Transactions Account



volume of gross international reserves will cover 4.1 months of future imports of goods and services.

Indexes of Real and Nominal Effective Exchange Rate of KGS

Table. 2.2.2. Key Values for Exchange Rate

	year (average)		month to previous month (as of the end of month)						
	2013 (aver.) (Jan-Dec)	2014 (aver.) (Jan-Dec)	December 2014	June 2015	May 2015	June 2015			
REER	111.9	117.3	4.8	128.8	123.0	-4.8	122.2	123.0	0.7
NEER	111.4	114.4	2.9	122.6	123.5	0.9	121.3	123.5	2.1
RBER to CNY	141.4	135.0	-4.4	130.6	126.9	-3.6	129.4	126.9	-2.5
NBER to CNY	73.2	66.3	-6.9	61.3	59.8	-1.4	60.4	59.8	-0.6
RBER to Euro	142.4	137.1	-3.9	143.1	153.6	10.4	157.2	153.6	-3.5
NBER to Euro	68.4	61.8	-6.6	61.4	65.8	4.4	66.8	65.8	-1.0
RBER to KZT	111.9	117.3	4.8	128.8	123.0	-4.8	122.2	123.0	0.7
NBER to KZT	105.5	112.1	6.6	105.0	104.4	-0.6	105.5	104.4	-1.0
RBER to RUB	73.7	80.1	8.4	103.6	93.2	-10.4	88.9	93.2	4.3
NBER to RUB	111.5	121.5	10.0	138.5	154.4	15.9	145.7	154.4	8.7
RBER to USD	188.3	188.1	-0.2	176.0	170.5	-5.5	174.5	170.5	-4.0
NBER to USD	98.5	99.1	0.6	82.1	79.7	-2.4	80.6	79.7	-0.9

↓ - Som devaluation, competitiveness improvement

↑ - Som strengthening, competitiveness deterioration

* preliminary data

According to preliminary data, the index of nominal effective exchange rate (hereinafter referred to as “NEER”) of som increased by 0.7 percent from the beginning of 2015 and amounted to 123.5 late in June 2015. The increase in the index was due to som appreciation¹ in June 2015 compared to the average exchange rate for December 2014 against euro (by 7.2 percent), the Turkish lira (by 14.8 percent), and the Ukrainian hryvnia (by 32.4 percent), whereas in relation to other currencies som depreciated: the US dollar – by 2.9 percent, the Russian ruble – by 2.5 percent, and the Kazakh tenge – by 0.6 percent.

Despite the increase in the NEER index, the higher level of inflation in the trading partner countries caused to a decrease in the index of real effective exchange rate (hereinafter referred to as “REER”), which decreased by 4.5 percent from December 2014 and amounted to 123.1 late in June 2015.

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

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

During the reporting quarter, the Board of the National Bank made the following decisions for the size of policy rate: remain it unchanged at 11.00 percent in April, reduce it by 150b.p. down to 9.50 percent in May due to a slowdown in inflation, but with preservation of influence of external factors on the economic development of the country; left it unchanged at 9.50 percent in June. As to the interest rates "corridor" related to the policy rate in April it was decided to keep interest rates on "overnight" deposits and "overnight" credits unchanged at 5.00 percent and 14.00 percent correspondingly; in May it was decided to reduce "overnight" deposit rates down to 3.0 percent and "overnight" credits – to 12.0 percent; in June it was decided to keep interest rates on "overnight" deposits and "overnight" credits unchanged.

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

The scenario of economic development assumed as a basis at the NBKR Board meeting held in May 2015 implied enhancement of pressure on the exchange rate, moderate increase in interest rate and decrease in increment rate of monetary base in the average-term period.

According to actual data, in Q2 2015 KGS was appreciated by 2.8 percent; the monetary base volume increased by 15.3 percent against Q1 2015 to make KGS 65.1 billion as of the end of June 2015; annually, the monetary base, to the contrary, decreased by 9.5 percent.

The analyzed period demonstrated a decrease in excess liquidity (before sterilization) both compared to Q1 2015 and to similar value of 2014. For instance, in the reporting period of 2015, the average daily level of excess reserves in the banking system amounted to KGS 2.4 billion compared to KGS 3.8 billion in Q2 2014 and KGS 3.3 billion in Q1 of this year. This change was caused by activation of credit operations of commercial banks against transfer of some deposits into foreign currency deposits as a result of exchange rate fluctuations that occurred in the first quarter (dollarization of deposits in January to June 2015 increased by 4.4 percentage points, and exclusively of the effect of exchange rate changes - by 7.6 percentage points) as well as by currency interventions of the National Bank.

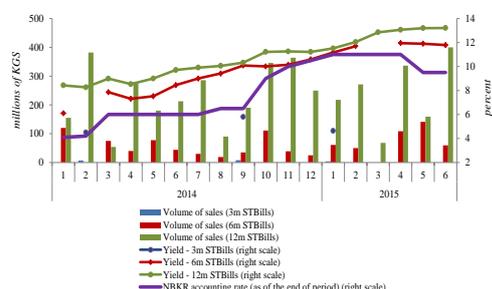
In Q2 2015 the National Bank performed the following monetary transactions:

- in the interbank foreign exchange market, the National Bank performed both US dollar sale transactions in the amount of USD 18.2 million and buying transactions in the amount of USD 40.8 million resulting in a total amount of KGS liquidity infusion due to currency interventions making KGS 1.3 billion (in Q1 2015 the withdrawal made KGS 9.7 billion);
- the average daily volume of sterilization due to issuance of the National Bank notes in Q2 amounted to KGS 860.9 million against KGS 2.7 billion in Q2 2014 (the decrease in some liquidity and demand for notes decreased significantly due to activation of credit operations of commercial banks);
- the average daily volume of "overnight" deposits amounted to KGS 864.6 million (in Q1 2015 it made KGS 1,202.1 billion, in Q2 2014 it amounted to KGS 585.6 million); the gross amount of their placement made KGS 53.6 billion;
- the daily average volume of "overnight" credits amounted to KGS 321.0 million, while their gross amount made KGS 6.4 billion;
- refinancing credits were issued in the amount of KGS 1,175.0 million, the outstanding balance of commercial banks refinancing credits issued at the end of June 2015 amounted to KGS 4,689.9 million;
- the National Bank's purchase of gold in the domestic market amounted to KGS 83.3 million.

3.2. Financial Market Instruments

Government Securities Market

Chart 3.2.1. Dynamic of ST-Bills Sales Volumes and Yield

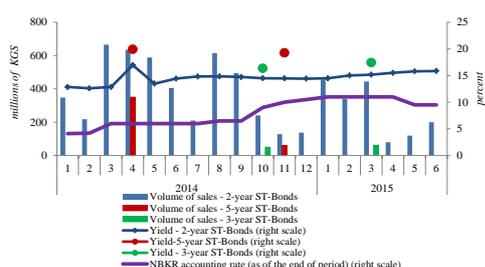


ST-Bills

The Ministry of Finance suggested placing 3-, 6- and 12-month bills in Q2. Total volume of the announced emission of the bills made KGS 1.4 billion in April to June 2015 having increased by 25.1 percent against the comparable period of 2014. The volume of papers in circulation decreased by 27.1 percent year-to-date and amounted to KGS 3.4 billion as of the end of the period. Despite a decrease in demand volume (6.7 percent), the sales volume increased (+44.4 percent).

In Q2 the sales volume made KGS 1.2 billion (taking into account the additional placement). In the reporting period the monthly average yield of ST-Bills increased in all segments of papers placed in the market. Thus, the total average weighted yield of ST-Bills amounted to 12.8 percent (+ 4.0 p.p.).

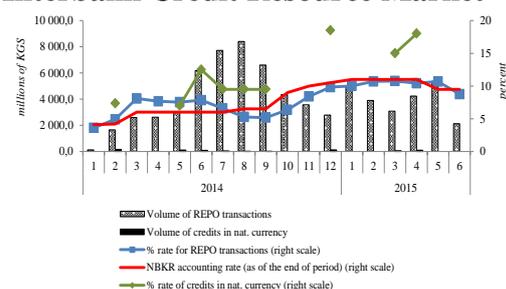
Chart 3.2.2. Dynamic of ST-Bonds Sales Volumes and Yield



ST-Bonds

In Q2 of the current year, the state treasury bonds (ST-Bonds) market was presented by 2-year papers. As of the end of the reporting period, the volume of ST-Bonds in circulation increased by 7.2 percent year-to-dates to make KGS 7.7 billion. The announced volume of ST-Bonds emission made KGS 1.1 billion in Q2 2015 having decreased by 39.1 percent against the comparable value of 2014. The volumes of demand (-77.3 percent) and sales (-75.4 percent) decreased in the reporting period. In the reporting period there was observed an increase in the level of average weighted yield (+0.8 p.p.). Sales volume made KGS 400.0 million in Q2 2015. The average weighted yield of all ST-Bonds amounted to 15.7 percent in the reporting period.

Chart 3.2.3. Activity in the Interbank Credit Resource Market



Inter-Bank Credit Resource Market

In Q2 2015 the interbank market showed a decrease in activity of the participants. The total volume of some credits, including those from the National Bank amounted to KGS 19.1 billion in the reporting period. During the reporting period, the credits granted under the terms of auction amounted to KGS 1,175.0 million, while those granted on overnight conditions made KGS 6.4 billion. The volume of credits in national currency issued on standard conditions decreased down to KGS 100.0 million. The volume of overnight deposits placed with the National Bank amounted to KGS 92.5 billion (+56.6 percent).

Chart 3.2.4. Dynamic of Rates and REPO Transactions in the IBCRM

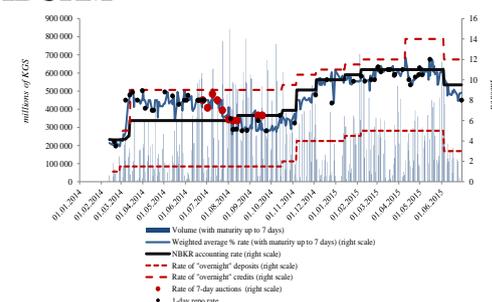


Chart 3.2.5. Dynamic of Commercial Banks Deposits

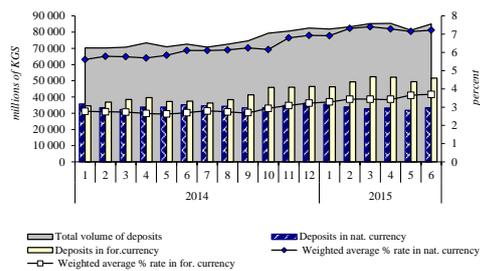


Chart 3.2.6. Dynamic of Newly Accepted Deposits

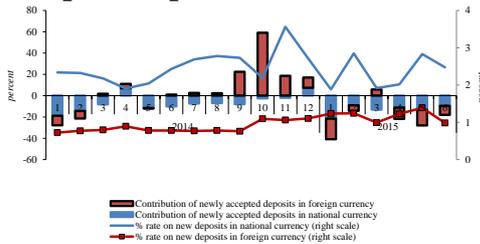


Chart 3.2.7. Rates of New Deposits in National and Foreign Currency in Terms of Maturity

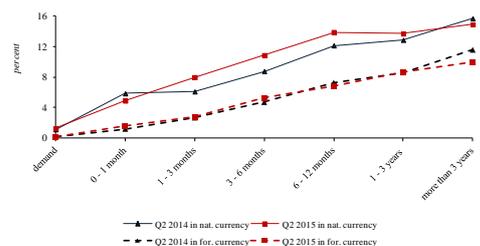


Chart 3.2.8. Dynamic of Credit Debt of Commercial Banks as of the End of the Period

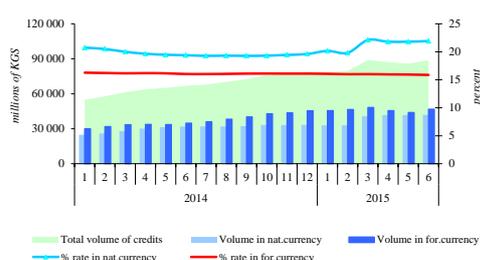
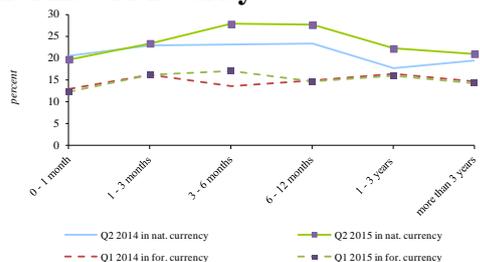


Chart 3.2.9. Rates of New Credits in National and Foreign Currencies in Terms of Maturity



Deposit Market

The volume of deposit base of commercial banks increased by 3.1 percent year to date to make KGS 85.1 billion in Q2 2015. Deposits in foreign currency increased by 11.0 percent up to KGS 51.7 billion in som equivalent. Deposits in national currency decreased by 7.4 percent down to KGS 33.4 billion.

Under the impact of the US dollar strengthening, dollarization of deposits increased from 56.3 percent to 60.8 percent year-to-date.

Weighted average interest rate for new deposits in the national currency amounted to 2.44 percent in Q2 2015 having increased by 0.32 p.p. against the comparable value of 2014; for the foreign currency deposits - 1.20 percent having increased by 0.38 p.p.

Credit Market

In Q2 2015, credit portfolio continued growing due to issuing credits both in the national and foreign currencies. One of the factors of increase in credit financing was implementation of the Project for Financing of Agriculture-3, which initiated credits issue from March 2015. In the reporting period, the volume of issued credits made KGS 2.7 billion.

As of the end of the reporting period, the volume of credit portfolio of the commercial banks increased by 12.6 percent year-to-date and amounted to KGS 88.7 billion. Among them, the credits in national currency increased by 25.6 percent to make KGS 41.9 billion, while those in foreign currency made KGS 46.8 billion in som equivalent (+3.0 percent).

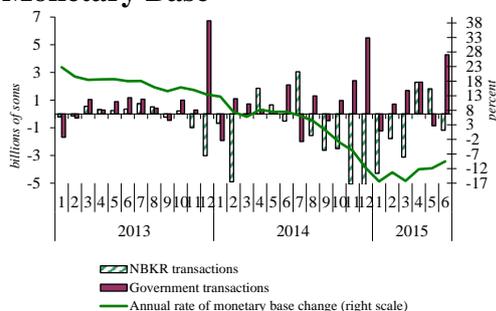
As of the end of the reporting period, the credit portfolio dollarization decreased by 4.9 percentage points year-to-date to make 52.7 percent.

Weighted average interest rate for new credits in national currency increased by 3.97 percentage points to make 22.69 percent in Q2 2015, while for those in foreign currency it decreased by 0.42 percentage points down to 14.30 percent.

The share of overdue credits accounted for 1.7 percent late in the reporting period (-0.5 p.p. year-to-date), while the share of prolonged credits made 2.8 percent (-0.2 p.p.).

3.3. Dynamic of Monetary Indicators

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

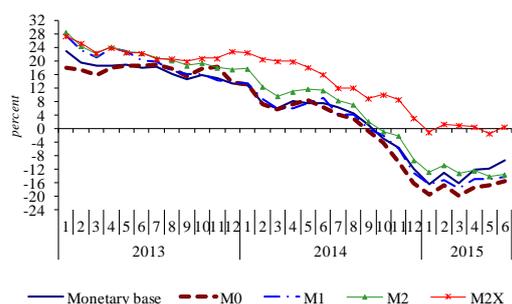


Monetary Base

Monetary base increased by 15.3 percent, or by KGS 8.6 billion, in Q2 2015. In Q2, the increase in monetary base was influenced both by the Kyrgyz Republic Government's and the National Bank's transactions that increased the monetary base by KGS 5.7 billion or KGS 2.9 billion correspondingly.

The impact of the National Bank's transactions on the monetary base increase was mainly conditioned by transactions in the foreign exchange market; net contribution thereof made KGS 1.3 billion. The Government's main transactions made their contribution by an increase in budget expenditures for salaries to employees of budgetary organizations (salaries and payment for vacation).

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



Monetary Aggregates

Nominal rates of changes in monetary aggregates had an upward trend in Q2 2015. Money in hands (M0), narrow money (M1) and broad money in the national currency (M2) increased in Q2 by 14.7, 13.5 and 8.8 percent correspondingly (by contrast, the annual rates of monetary aggregates data decreased by 15.7, 14.3 and 13.6 percent respectively).

While the growth of deposits in foreign currency determined lower decrease rates in broad money stock M2X that comprises deposits in foreign currency – by 3.8 percent (in annual terms the volume of M2X increased by 0.9 percent).

Broad money M2X including deposits in foreign currency increased by 5.0 percent in the reporting quarter (in annual terms the increase was 0.5 percent); this fact was mainly due to a positive dynamics of the money in hands at the level of 14.7 percent.

Chapter 4. Inflation Dynamic

4.1. Consumer Price Index

Chart 4.1.1. Dynamic of CPI Structure

(quarter to the corresponding quarter of the previous year)

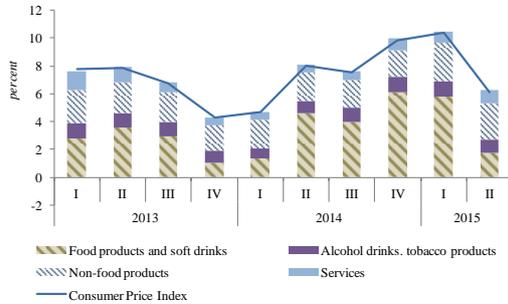


Chart 4.1.2. Dynamic of Food Products Price Input in Annual CPI

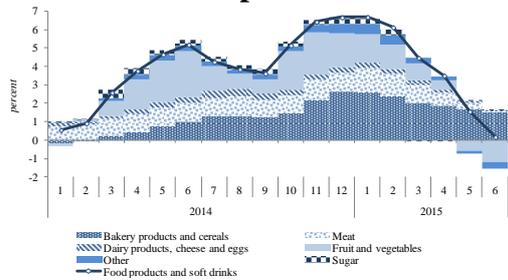


Chart 4.1.3. Dynamic of Non-food Products Price Input in Annual CPI

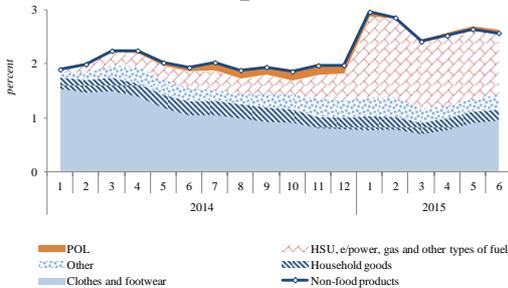
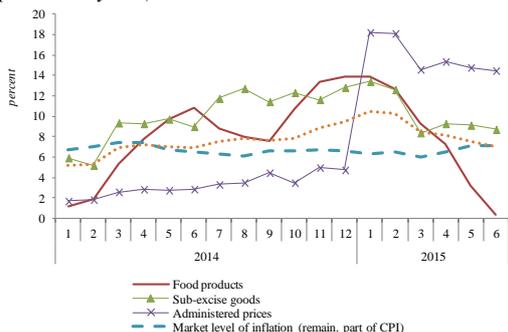


Chart 4.1.4. Dynamic of Consumer Price Index by Groups of Commodities

(month to the corresponding month of the previous year)



According to the National Statistical Committee (hereinafter referred to as the “NSC KR”), inflation made 6.1 percent in Q2 2015 (Q2 2015/Q2 2014), while the similar value of 2014 was at the level of 8.0 percent. Annual inflation rate (June 2015 against June 2014) amounted to 4.5 percent.

In Q2 2015, the country demonstrated a slowdown of inflation mainly resulted from the reduced food component of inflation. The pressure of import prices on domestic prices was released against the stabilizing export prices for Kazakh wheat and continued downward price movements on the international food and raw materials markets. In Q2 2015 compared to Q2 2014 the prices of food products increased by 3.6 percent (in Q2 2014 the increase was 9.4 percent). The price index of bakery products increased by 9.5 percent, dairy products – by 3.8 percent, and meat - by 3.1 percent. The internal factor restraining food inflation was cheapening of vegetable products by 15.5 percent. On the whole, the product group «fruits and vegetables" fell in price by 6.9 percent.

The inflation rate formed in the second quarter of 2015 was primarily driven by increased prices for industrial goods and services; the main contribution to their rise was made by an increase in electricity tariffs, a rise in prices of alcoholic and tobacco products, an increase in the value of paid services as well as rising prices for category of goods "clothing and footwear". The prices for non-food products increased by 8.9 percent in Q2 2015 against Q2 2014. The largest contribution to such rise in prices for non-food products was made by appreciation of the group of goods "clothing and footwear", which rose in price by 7.9 percent and the "electricity" category by 14.4 percent. The prices for household goods and appliances increased by 5.5 percent.

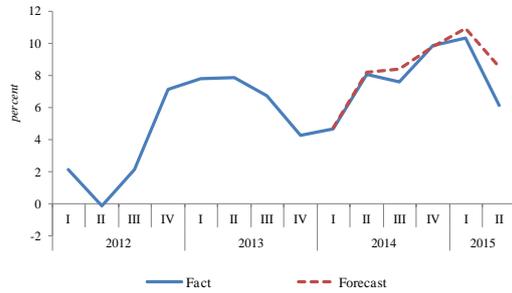
Growth in prices for paid services made 6.9 percent in Q2 2015 (in Q2 2014 – 4.2 percent). Index rise in this group was primarily due to the increase in prices for services related to education (+7.7 percent), leisure (+10.6 percent) as well as hotels and restaurants (+11.3 percent).

Base inflation calculated by the NSC KR methodic amounted to 7.6 percent in Q2 2015 against Q2 2014.

4.2. Comparison of the Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



Quarterly average level of inflation was by 2.4 p.p. lower than the forecasted one and made 6.1 percent (Q2 2015/Q2 2014). Deviation of the forecasted value of inflation from the actual one was conditioned by slower rates of both food and non-food inflation compared to the expected rates.

The risks specified in the expected indicators and inherent in the increase in export prices of Kazakh wheat and the impact of customs duties increased in connection with the Kyrgyz Republic entry into the EEU expected in Q2 2015 did not appear in the reporting period.

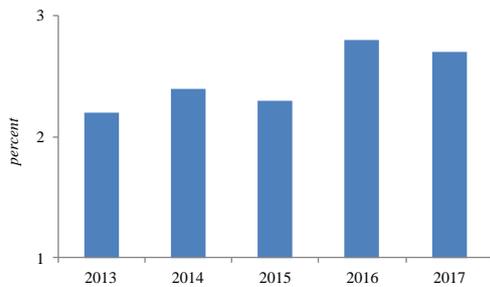
Chapter 5. Medium-Term Forecast

5.1. External Environment Forecasts

5.1. Development Forecast of Major Trading Partner Countries

Chart 5.1.1. Real GDP Growth in USA

(year to year)



Source: IA Blumberg

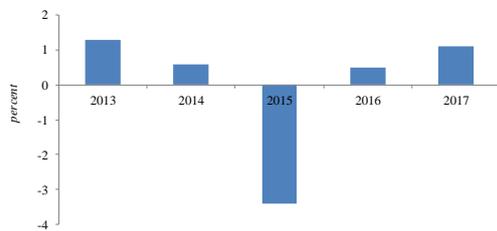
USA

A number of fundamental factors in the US economy, such as improvements in the labor market, release of funds available for human consumption as a result of lower prices for fuel and strengthening of the real estate market will have a favorable impact on consumer spending and economic growth in general. In 2015, the economy is expected to show moderate growth at about the level of previous years in view of a weak growth in the first quarter, a negative impact of reducing geological exploration and stronger US dollar exchange rate. In subsequent years, the growth rate will rise closer to three percent.

In 2015, inflation is projected to be at a low level slightly above zero, and in subsequent years it will rise above two percent.

Chart 5.1.2. Real GDP Growth in Russia

(year to year)



Source: IA Blumberg

Russia

The 2015 forecast of Russian economy development was slightly improved mainly due to such expected factors as: increased competitiveness of Russian products due to ruble weakening, a decrease in inflation and gradual recovery of investment activity. Thus, the Russian economy is expected to decline by about 3.4 percent in 2015 (instead the 4.1 percent decrease), while the 2016-2017 forecasts remained at the same level: in 2016, the increase is expected by up to 0.5 percent, and in 2017 the increase is expected by up to 1.1 percent.

Volatility of the Russian ruble exchange rate is expected to increase. Further dynamics of the ruble exchange rate, as before, will depend mainly on such factors as fluctuations in oil prices, further monetary policy of the Central Bank of Russia and the level of capital outflow from the country.

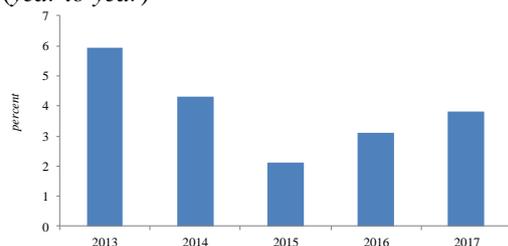
Inflation in Russia has slowed down and will continue to decline due to reduced consumer demand and the weakened effect of import restrictions in relation to western countries, and in 2017 may reach the benchmark of the Central Bank of Russia making 4.0 percent.

Kazakhstan

Deterioration in Kazakhstan economic prospects is forecasted for 2015 by up to 2.1 percent; the main factors contributing to the forecasted decrease

Chart 5.1.3. Real GDP Growth in Kazakhstan

(year to year)

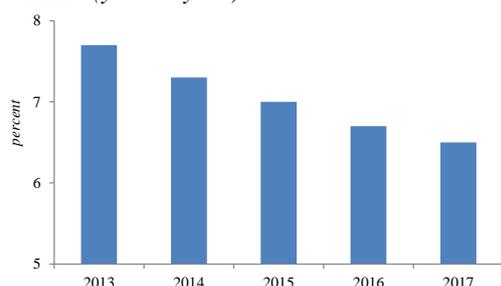


Source: IA Blumberg, international financial institutions

include weaker demand from Russia and China, a drop in oil prices, lower effects of trust and continuing delays in works in the Kashagan Oil Field. In the medium term, a gradual increase of economic growth is forecasted under the influence of recovery of oil prices and external demand.

A decrease in the rate of price growth in the first half of 2015 caused by a decrease in the world prices of food and exchange goods, weakening of economic activity and tightening of monetary policy in Kazakhstan confirms the expected slowdown in inflation by up to 5.0 percent in 2015. The National Bank of Kazakhstan aims to hold the annual inflation rate in the corridor of 5.0-8.0 percent and continue the policy of more flexible exchange rate and smooth transition to inflation targeting in the medium-term.

Chart 5.1.4 Real GDP Growth in China (year to year)



Source: IA Blumberg

China

Although further economic slowdown is expected in the long term in China, the macroeconomic indicators of Q2 2015 showed a stabilization of growth. This was achieved partly owing to government stimulus measures and to improvements in the real estate market. These factors coupled with the emerging positive dynamics in the industrial production and retail trade will support economic activity in the second half of the year. The impact of the stock markets' volatility on economic activity will be limited as stocks play a minor role in financing the real economy of China. It is expected that the growth rate of China's GDP will develop at about seven percent this year and will gradually slow down in the coming years.

Inflation is forecasted to make about 1.5 percent in 2015 with further increase up to three percent by 2017.

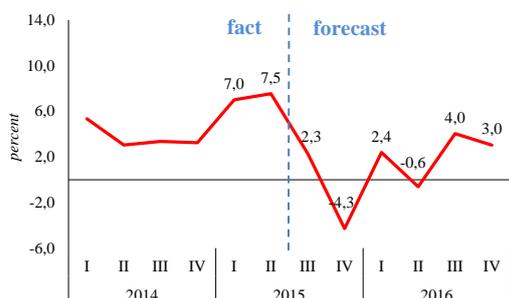
5.2. Medium-Term Forecast

Development of Real Economy

Despite deterioration of external conjuncture (in Q2 2015 goods turnover was reduced by 19.2 percent), GDP growth without Kumtor was registered within positive zone at the level of 5.1 percent in Q2 2015 in annual terms. Total GDP increased by 7.5 percent in real terms.

In Q2 2015, net inflow of money transfers of migrant workers decreased by 20.4 percent in US dollar equivalent. A slight slowdown in the rates of

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



decline is expected in the short term; in Q3 2015 the inflow of money transfers is forecasted to decrease by 13.6 percent. The decrease in the volume of money transfers in the short term will be one of the factors that reduce domestic demand and purchasing power of the population.

Assessments of further economic growth of the domestic economy for the medium-term prospect are based on outlined trends in separate sectors of economy and dynamic of newly issued credits. According to a new technical report of the Centerra Gold Inc, output volumes for 2015 and for the medium-term period decreased compared to 2014 due to a decrease in previously confirmed and expected gold reserves in Kumtor Mine. So, in 2015 the Kumtor Mine is expected to reduce production by 15.3 percent in real terms, which is 10.3 percentage points higher than the estimates of the May forecast round. Assessments on gold production in 2016-2017 remained unchanged. Subsequently average annual production output in Kumtor Mine is expected to decrease by 2.0 percent.

Generally, the forecast of economic growth in the Kyrgyz Republic in 2015 is revised upward from 0.4 to 2.1 percent. In Q3 and Q4 2015, the overall GDP will be under the pressure of a negative growth rate of the Kumtor Mine output. Moreover, these quarters are expected to show moderate growth rates in the services sector and construction caused by the decrease in remittances and in the consumer demand as a consequence. The GDP formation in 2016 will be positively influenced by the RKDF revitalization and the full membership of the Kyrgyz Republic in the EEU; at the same time, the high base of the current year, the decrease in domestic demand due to the decrease in real personal income will be a deterrent to growth. As a result, GDP forecast for 2016 is revised downwards from 3.8 to 2.3 percent. In 2017, the real GDP growth will recover and will be slightly above its potential value.

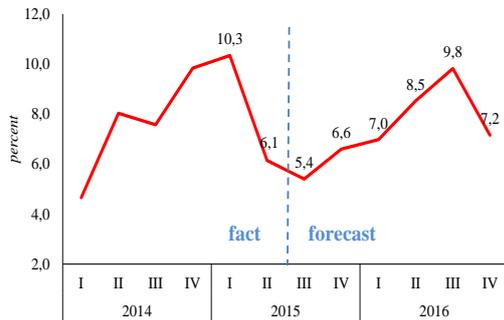
Inflation

The world prices for oil of Brent grade were at the level of USD 61.2 per Barrel in Q2 2015 that was slightly higher than the May assessments. Downward trend was observed in the international food market.

Against the background of high uncertainty in

Chart 5.2.2. Inflation Forecast

(in percent, quarter to the corresponding quarter of the previous year)



the energy market, the forecast of oil prices for the medium term was specified with their current values. The forecast of food prices will have a gradual upward trend. In the short term, a decrease in prices against the forecasted good harvest is expected in the global food market and in Kazakhstan market, which is the main provider of wheat in our domestic market.

The August forecast takes into account the risk of increasing customs duties in Q4 2015; the input to inflation will make 2.5 percentage points. The main impact will be reflected on the prices of non-food goods.

However, appropriate measures of monetary policy will allow keeping inflation at the level of 5.4 percent in Q3 2015 in annual terms, instead of the previously forecasted level of 10.5 percent. Inflation estimates for the medium term were also revised downward. Thus, the new inflation forecast made 7.9 percent on average for 2016 instead of 9.4 percent forecasted in May.

Payment Balance¹

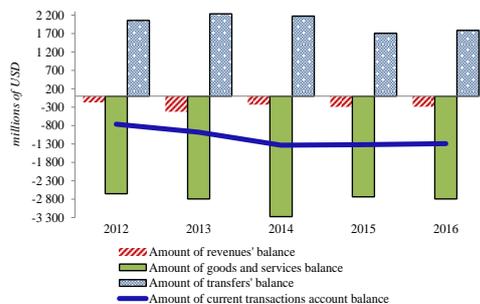
In 2015, the entry of the Kyrgyz Republic into the Eurasian Economic Union (hereinafter referred to as the “EEU”) will become the major factor defining a condition of the balance of payments.

At the end of the reporting year, deficit of the current transactions account is expected at the level of 17.9 percent to GDP, which will be lower than the level of 2014 by 0.2 percentage points. This trend will be caused by a decrease in the trade deficit despite the decrease in the net inflow of current transfers.

The total volume of import is expected to decrease by 15.3 percent in the forecasting period. Increase in the cost of import due to the rise of tariff rates² upon joining the EEU will become the main factor of reduction in import supplies from non-CIS countries. Despite the fact that the decrease of import supplies from non-CIS countries will be partially compensated by the supplies from the EEU countries, a decrease in the world prices for oil and further reduction in the volume of energy products import will play a key role in reduction of import supplies from CIS

Chart 5.2.3. Forecast Data on Current Transactions Account

(millions of USD)



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

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

countries by 13.2 percent.

The decrease in the volume of additional calculations on business of “suitcase” traders and oil products re-export by 11.7 percent due to new conditions of trading within the EEU will have the main influence of the export dynamic in 2015. The forecasted decrease in gold production in *Kumtor Mine* in 2015 and a drop in the world prices will result in the 12.4 percent decrease in gold export against the year of 2014. Meanwhile, export volume exclusive of gold and additional calculations will also decrease by 15.8 percent due to expected reduction in supplies of the products of agriculture and light industry in the conditions of adaptation to new business rules within EEU (the requirement of certification, the competition on the part of enterprises - EEU member countries, etc.)¹

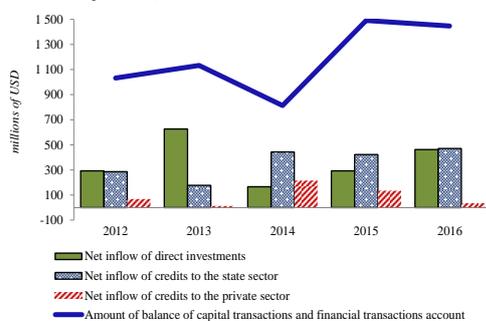
Negative trend of economic development in the Russian Federation will contribute to decrease in receipts of private transfers by 22.5 percent. Moreover, monetary grants received by the official sector are expected to decrease by 46.5 percent. Finally, net inflow on “current transfers” item is expected to decrease by 23.9 percent in the reporting period as compared to the previous year.

Traditionally, financing of the current account deficit will be performed through capital inflow on the capital transactions and financial transactions account, which is expected to increase by 82.8 percent in 2015 against the level of 2014. This will be promoted by the growth in net inflow of direct investments and other investments (up to USD 293.7 and 891.0 million correspondingly) as well as by receipt of funds from the Kyrgyz-Russian Development Fund and grants provided by the Russian Federation and the Republic of Kazakhstan intended for border management upon joining EEU. Meanwhile, it should be noted about forecasted decrease in net inflow on external credits by 15.6 percent due to growth of payments on principal amount of debt of both private and public sectors.

Generally, the total payment balance is anticipated to be positive to make USD 323.5 million in 2015; meanwhile, the criterion of reserve assets sufficiency to cover future import of goods and services is forecasted at the level of 4.7 months

Chart 5.2.4. Forecast Data on Capital Transactions and Financial Transaction Account

(millions of USD)



¹ Meanwhile, it should be noted that according to the preliminary conditions of technical assistance for joining EEU by the Kyrgyz Republic (a grant of the RF – USD 200.0 million and a grant of the RoK – USD 100.0 million for resolving issues related to border management, technical, sanitary, veterinary control, etc.), measures on technical assistance will be implemented during the period from one to three years.

of import¹.

Stabilization of the situation in the countries of trading partners and successful adaptation of the Kyrgyz Republic to the business conditions within the framework of the EEU are the main prerequisites of the 2016 forecast of payment balance.

Positive changes in terms of exports excluding gold and additional estimates (growth of up to 9.6 percent) as well as recovery of income growth in current transfers (6.9 percent growth), which will reduce the current account deficit by up to 17.2 percent to GDP, are expected.

Increase in the net inflow of direct investments up to USD 453.9 million as well as saving a considerable volume of received external credits in the amount of USD 569.8 million will provide the main amount of receipts to the financial account.

The total amount of the payment balance at the end of 2016 is expected to be positive in the amount of USD 127.8 million. Reserve assets will cover 4.8 months of the future imports of goods and services.

¹ Growth in the volume of international reserves in 2015-2016 will be provided by the funds provided by the Kyrgyz-Russian Development Fund as well as grants of the RF and RK for border management within the framework of entry into the EEU.