

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 1, 2020**

**Bishkek
May 2020**

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 Q1 2020 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2020-II-07/30-2-(ДКП) dated May 26, 2020.

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Summary

In Q1 2020, significant changes were observed in the external environment, which significantly changed the economic development trends for the short and medium term in the Kyrgyz Republic due to the spread of COVID-19 coronavirus infection around the world, requiring from the national authorities taking the emergency restrictive measures.

The economy of the Kyrgyz Republic was significantly affected by the external conditions, which significantly worsened in March 2020. In the reporting period, the economic activity in the countries-main trading partners of the Kyrgyz Republic slowed down due to introduction of the restrictive measures to combat the coronavirus spread. Collapse of the OPEC+ agreement, aggravated by a sharp decline in demand in the world oil markets, resulted in an unprecedented drop in oil prices to the negative values, which conditioned devaluation of the national currencies in the main trading partners countries. Prices in the world food markets were declining by the end of the reporting period amid reduction of global demand. Prices for gold grew steadily due to increased demand, as well as due to some shortages in the market resulted from the problems with logistics.

Moderate economic growth in January-February 2020 was replaced by a sharp decrease in economic growth in March (-2.8 percent compared to March 2019) due to a number of restrictive measures taken by the Government of the Kyrgyz Republic to prevent the spread of the coronavirus infection in the country.

According to the results of Q1 2020, the economy grew by 1.5 percent (by 5.2 percent in Q1 2019), excluding the enterprises of the Kumtor Mine – by 0.8 percent (by 1.3 percent in 2019). The inflow of remittances into the country continued to decline, conditioning more restrained domestic consumption.

In Q1 2020, the trade balance was formed under the influence of an outrunning reduction in import operations compared to a decrease in exports. The decline in exports was due to the dynamics in the supplies of goods excluding gold. Import was formed under the influence of a decrease in all functional groups. Finally, the trade deficit of the country amounted to USD 365.4 million. The volume of foreign trade turnover¹ decreased by 15.9 percent and amounted to USD 1.3 billion.

The fiscal sector was characterized by a significant gap between the state budget revenues and expenditures as a result of loss of the customs and tax revenues due to closing of the borders with the neighboring countries and introduction of the restrictive measures to combat COVID-19 spread. According to the results of Q1 2020, the state budget deficit amounted to KGS 5.6 billion or 5.0 percent to GDP.

By the end of the reporting quarter, the inflation rate accelerated, mainly due to the food component and price adjustment. In March 2020, the annual inflation rate was 5.9 percent. In the current shock economic conditions, a temporary acceleration of the inflation rate will be observed during 2020, while maintaining its average value in unambiguous limits.

Generally, the situation in the monetary sector was not significantly changed. The money market demonstrated a gradual upward trend in the short-term rates, which were within the interest rate corridor set by the National Bank. The activity of the participants was stable in the segments of the interbank credit and foreign exchange markets. A wide range of macroprudential and monetary policy measures were taken to mitigate the negative effects of the virus spread.

Uncertainties in the world oil markets, fluctuations in the exchange rates of the Russian ruble and the Kazakh tenge, and a decrease in foreign currency inflows into the country conditioned pressure in the domestic foreign exchange market. Since the beginning of

¹ Data are given in FOB prices, taking into account NBKR additional estimates.

2020, the official exchange rate of the US dollar to the Kyrgyz som has grown by 16.3 percent (as of March 31).

Chapter 1. External Environment

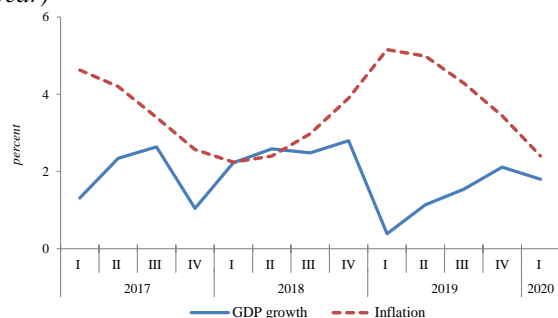
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

There was a decrease in the economic activity of the countries-main trading partners of the Kyrgyz Republic. In the reporting period, a positive GDP growth was observed in Russia, meanwhile there was a decrease in business activity by the end of the period amid introduced restrictive measures to combat the spread of the coronavirus infection. The inflation rate in Russia accelerated slightly amid one-time inflation factors, however it was below the target set by the Bank of Russia. Economic growth in Kazakhstan slowed down, and the inflation rate accelerated mainly due to introduction of the quarantine measures and rise in prices for energy carriers. GDP decrease was observed in Belarus amid deterioration in the external economic situation; the inflation rate approached the target set by the National Bank of Belarus. In Armenia, the indicator of economic activity slowed down due to the restrictions introduced due to the COVID-19 pandemic. A recession was observed in China for the first time due to the outbreak of the coronavirus infection in the country. The US economy is experiencing the biggest crisis since the Great Depression of the 1930s.

Russia

Chart 1.1.1. GDP growth 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 Q1, GDP growth in Russia was 1.8 percent¹. In terms of industry, trade and processing industry (contributions amounted to 1.0 and 0.4 percentage points, respectively) were the drivers of GDP growth.

In the first two months of 2020, domestic demand in Russia demonstrated an upward trend in the context of real wage growth and increased budget expenditures to have a positive effect on the overall demand in the economy. However, in March of the current year the situation significantly changed under the influence of such negative factors as a sharp decrease in oil prices and introduction of the restrictive measures on

entrepreneurial activity amid the spread of the coronavirus infection.

There was a decrease of external demand amid deteriorating global business activity, which resulted in a significant decrease in exports of goods and services (-13 percent compared to the same period of 2019) and foreign trade surplus (-31.7 percent)². At the same time, imports of goods and services decreased by 1 percent amid weakening of the Russian ruble and introduction of the restrictive measures to combat the spread of the coronavirus infection.

In the reporting period, the inflation rate was below the target level and the corresponding indicator of the previous year due to the effect of a high base and the prevalence of disinflation factors. Thus, in Q1 2020, the inflation rate slowed down to 2.4 percent from 5.2 percent in the same period of 2019. In the reporting period, the prices for consumer goods increased by 2.0 percent, for non-food products – by 2.5 percent and for services – by 2.9 percent. At the same time, some acceleration of the inflation rate was observed by the end of the reporting period due to weakening of the Russian ruble and

¹ Estimate of the Ministry of Economic Development of the Russian Federation.

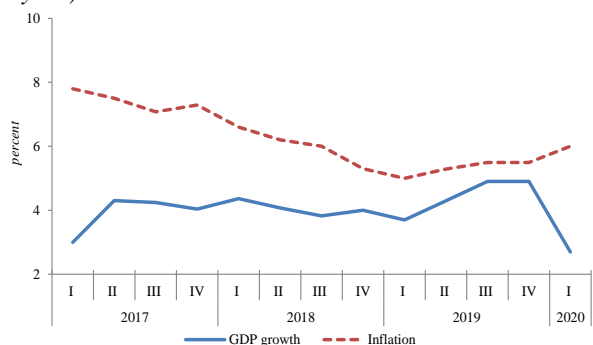
² Estimate of the Bank of Russia.

increased demand in certain segments of the consumer market (in March 2020, the annual inflation rate amounted to 2.5 percent).

Kazakhstan

Chart 1.1.2. GDP growth and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBKR calculations

In Q1 2020, there was a significant slowdown in economic growth of Kazakhstan. In general, in the first three months of 2020, GDP of Kazakhstan grew by 2.7 percent¹ compared to 3.8 percent in January-March 2019. The economic growth in Kazakhstan was mainly due to expansion of investment demand (+5.1 percent), which resulted in an increase of production output in the construction sector (+11.7 percent), as well as in communication services (+10.5 percent), industry (+5.8 percent) and agriculture (+2.5 percent).

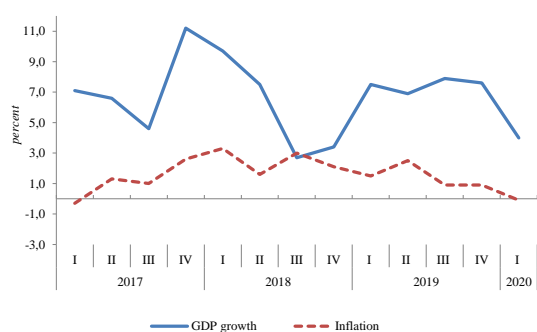
At the same time, introduction of the quarantine measures throughout the republic on March 16, 2020 to prevent the coronavirus spread in the country was the factor that slowed down the economic growth in January-March 2020. Introduction of the restrictive quarantine measures in March 2020 resulted in a decrease of the annual activity indicators in the sectors of trade (by 3.6 percent), transport (by 4.7 percent), accommodation and food services (by 12.1 percent) and ferrous metallurgy (by 13.0 percent).

In Q1 2020, the annual inflation rate in Kazakhstan formed at the level of 6.0 percent compared to 5.0 percent in the same period of 2019 and was mainly due to rise in prices for food products. The main increase in prices was observed in March (by 6.4 percent) due to the volatile dynamics of oil prices.

Armenia

Chart 1.1.3. GDP growth 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

In Q1 2020, the economic activity indicator² in Armenia slowed down to 4.0 percent amid the coronavirus epidemic spread (restrictive measures were introduced in the country since March 16).

According to the preliminary data of the National Statistical Committee, in January-March 2020, the indicator of economic activity in Armenia increased by 4.0 percent compared to the same period of 2019. At the same time, in March, the indicator decreased by 0.2 percent compared to February, and the decline in economic activity in March 2020 constituted 4.9 percent compared to March 2019. In January-March 2020, the industrial production output increased by 8.7 percent compared to the same period of 2019, having decreased by 2.0 percent compared to the previous month, and by 1.9 percent compared to March 2019. In Q1, the volume of agricultural production output increased by 4.5 percent.

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

² The economic activity indicator includes the volume of produced goods and services, however, unlike GDP, does not take into account indirect taxes (VAT and excise tax).

The volume of industrial production output increased by 8.7 percent, and the gross agricultural production output increased by 4.5 percent. In January - March 2020, the volume of construction decreased by 9.4 percent compared to the same period of the previous year. In January-March, the volume of trade increased by 0.2 percent, and the volume of provided services grew by 5.5 percent.

In January-March 2020, the consumer price index decreased by 0.1 percent, the industrial price index - by 0.1 percent. Electric energy production increased by 14.8 percent.

The previous economic growth rate of 4.9 percent was replaced by a decline of 2.0 percent in the state budget of the country for 2020, updated due to the circumstances caused by the coronavirus infection spread. According to the estimates of the Central Bank of Armenia, in 2020, economic growth will constitute 0.7 percent, in 2021, it will recover up to 7.2 percent.

In 2020, the IMF expects the economic recession in Armenia at 1.5 percent, in 2021 - an increase by 4.8 percent.

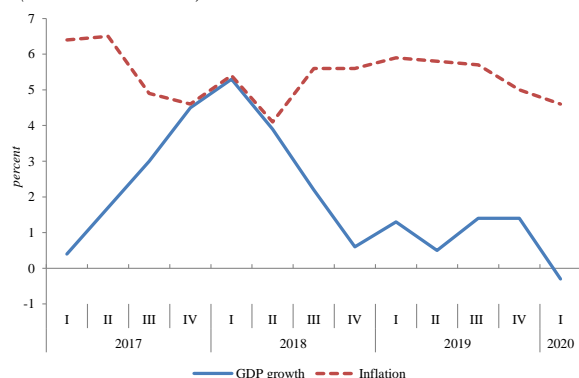
The World Bank forecasts the economic growth in Armenia, according to the optimistic scenario, at 1.7 percent in 2020, and the inflation rate at 3.0 percent.

Fitch Ratings, an international rating agency, forecasts the economic slowdown to 0.5 percent in 2020. According to the latest EDB forecast, in 2020, the decline in Armenia's GDP growth will constitute 1.7 percent.

Belarus

Chart 1.1.4. GDP growth and Inflation in Belarus

(in annual terms)



Source: National Statistical Committee of the Republic of Belarus

In Q1 2020, there was a decline in economic growth in Belarus. According to the National Statistical Committee of the Republic of Belarus, in the reporting period, GDP of the country decreased by 0.3 percent compared to the same period of 2019 (according to the forecast of the Government of the Republic of Belarus, GDP growth was expected at 0.7 percent). Temporary suspension in exports of the oil refineries products due to a significant decrease in oil imports to the country, low exports of potash fertilizers, as well as a decrease of business activity in the trading partner countries, which resulted in a decrease in net exports of goods and services, were the main factors for

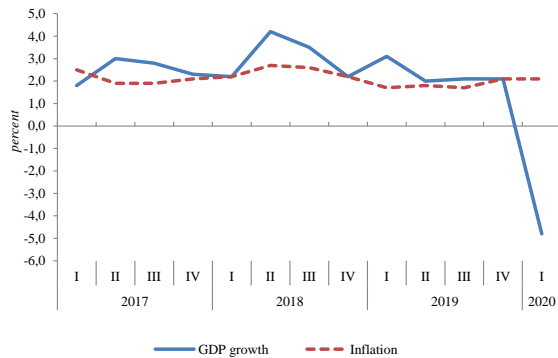
reduction of GDP. In the context of sectors, negative dynamics was observed in the sectors of industry (-2.7 percent), freight transportation (-10.5 percent), passenger transportation (-3.7 percent) and wholesale trade (-8.4 percent). Positive growth rates were observed in retail trade turnover (+7.9 percent), in agricultural production (+5.5 percent) and in the catering sector (+1.5 percent). Economic growth was supported by increased consumer activity amid accelerating wage dynamics and consumer lending.

At the end of March 2020, the annual increase in consumer prices accelerated and amounted to 4.9 percent, approaching the target level. In the reporting period, acceleration of the inflation rate was primarily due to increased demand for a number of goods due to uncertainty about the future situation amid the coronavirus pandemic spread, introduction of the restrictive measures by many countries, as well as weakening of the Belarusian ruble. Thus, the prices for food products increased by 3.6 percent, for non-food products – by 4.6 percent and services – by 7.5 percent in annual terms.

USA

Chart 1.1.5. GDP growth and Inflation in the USA

(in annual terms)



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

introduced the restrictive measures due to the coronavirus spread only in mid-March: the enterprises temporarily stopped their work, mass dismissals were observed, as well as a sharp increase in unemployment. The US Congress approved a budget package in the amount of approximately USD 3 trillion, and the Federal Reserve System decreased the interest rates to almost zero and expanded its role as a lender of last resort, however the economists believe that these measures are inadequate.

According to the US Department of Labor, in March, the US consumer prices increased by 1.5 percent in annual terms, monthly deflation was 0.4 percent. Prices decreased amid decline in prices for gasoline, hotel accommodation, clothes and airline tickets.

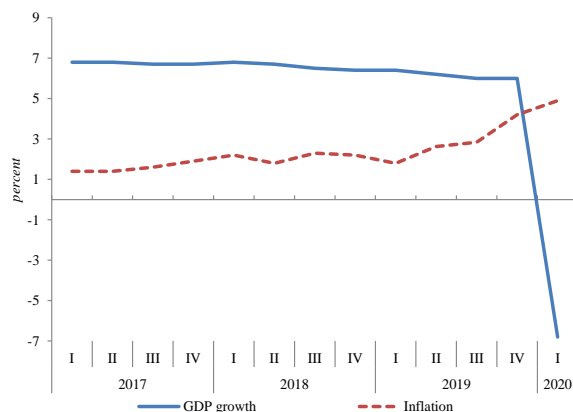
The US Department of Labor announced that the data collection was affected by the “temporary closure of certain types of institutions”, which resulted in an increase in the number of commodity groups considered temporarily unavailable for statistics.

China

In Q1 2020, the economy of China demonstrated a recession, which is the first decline since 1976 and is due the coronavirus infection outbreak, as well as the government measures taken to combat the spread thereof.

Chart 1.1.6. GDP growth and Inflation in China

(quarter to the corresponding quarter of the previous year)



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

pork was the most significant, by 116.4 percent in March, mainly due to the epidemic of African swine fever.

The US economy is experiencing the biggest crisis since the Great Depression of the 1930s. According to the preliminary data of the U.S. Department of Commerce, GDP decreased by 4.8 percent in annual terms in Q1 2020 after increase by 2.1 percent in Q4 2019. Measures taken to prevent the spread of the coronavirus pandemic terminated the longest period of economic growth in the history of the country, which lasted 6 years.

Most of the key components of the US economy decreased sharply: consumer expenditures decreased by 7.6 percent, imports – by 15.3 percent, and exports - by 8.7 percent. At the same time, the USA

In Q1, the economic recession in China was at the level of 6.8 percent compared to the growth of 6.4 percent in 2019. The largest decline was observed in such areas as hotels and catering services (a decrease of 35.3 percent), trade (-17.8 percent) and construction (-17.5 percent), as well as in capital investments (-16.1 percent).

In Q1 2020, the annual inflation rate constituted 4.9 percent compared to 1.8 percent in Q1 2019. An increase in food prices by 18.3 percent in March 2020 due to measures to limit mobility introduced to combat the coronavirus spread, which undermined supplies chains, were the main driver of inflation. The increase in prices for

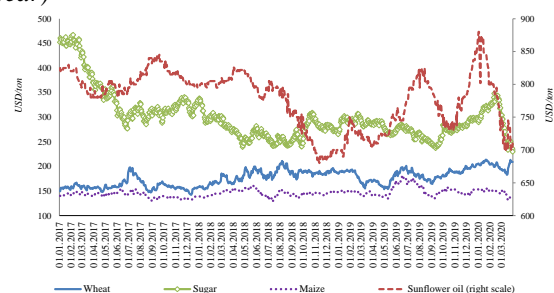
1.2. World Commodity Markets

Multidirectional dynamics in prices for food products in the world markets due to expectations of a slowdown in economic growth caused by restrictions imposed by governments of the countries worldwide, posed certain inflationary risks for Kyrgyzstan. The oil market experienced a significant decrease in prices amid a significant decline in global demand. Prices for gold approached an eight-year maximum.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



In the second half of Q1 2020, there was a decrease of the average prices in world food markets.

At the beginning of Q1 of the current year, quotations for basic food products were multidirectional in price dynamics. However, by the end of the reporting period, food prices decreased significantly amid falling global demand due to the economic consequences of the COVID-19 pandemic and decline in world prices for oil.

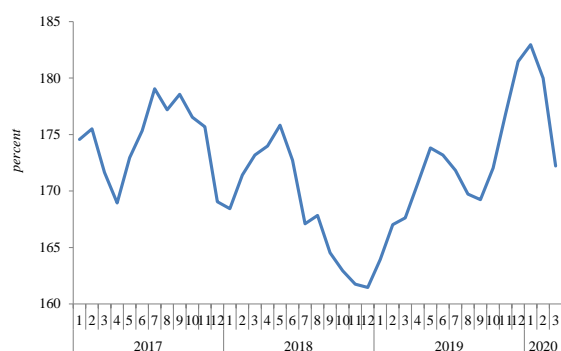
The downward trend in prices for all basic crops, with the exception of rice, was still observed. In March of the current year, the average price for wheat decreased slightly compared to February, despite increased trade due to the pandemic concerns and introduction of the minor restrictions on export by Russia.

Generally, favorable forecasts for the harvest and availability of significant stocks in the logistics centers continued to put downward pressure on the world wheat quotations. However, the prices for rice have been rising for the third consecutive month, reaching the maximum value in June 2018 amid active formation of the stocks in the world due to concerns about the coronavirus pandemic, as well as revision of the export policy in Vietnam.

The world prices for vegetable oils decreased to the lowest level since October 2019 amid a sharp decrease in quotations for crude oil and a decline in global demand for vegetable oils. The prices for soybean and rapeseed oil decreased amid expected US record production output and decline in demand for biodiesel in the EU.

The sugar market demonstrated a sharp decline in world prices, mainly due to quarantine measures in several countries resulting in a significant reduction of consumption. During the last month of the current year, oil quotations decreased more than twice, which had a serious downward effect on biofuels being an important source of demand in the sugar and vegetable oils markets.

Chart 1.2.2. Dynamics of FAO Food Price Index



In Q1 2020, the average FAO food price index increased 7.3 percent compared to the same quarter of the previous year and amounted to 178.4 points.

In March 2020, the average FAO food price index decreased by 4.3 percent compared to the previous month of the current year and amounted to 172.2 points. At the same time, this indicator increased by 2.7 percent compared to the average index value in March 2019. The FAO index has been declining for the second consecutive month due to a reduction in global demand

resulted from the spread of the COVID-19 pandemic. In the reporting period, prices for all

commodity sub-indices decreased, meanwhile the decline in prices for vegetable oils and sugar was the most significant.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices
(in USD)



During the reporting period, there was a significant decrease in oil prices due to reduced demand. The reasons for the decrease in prices were such factors as the decline in the world business activity due to the coronavirus pandemic, the collapse of the OPEC+ agreement on March 6, 2020 and the statement of Saudi Arabia to sell its oil at a discount and to increase its oil production by 3 million barrels per day. Thus, the price for Brent crude oil fell from USD 66.0 per barrel at the beginning of the year down to USD 22.7 per barrel at the end of March 2020

(minimum since 2002).

In the reporting period, the average price for Brent crude oil amounted to USD 50.8 per barrel (in the same period of 2019 – USD 63.9 per barrel). However, in April 2020, in order to improve the situation in the world oil market, the countries included in the OPEC+ agreement agreed to reduce oil production in May-June 2020 by 9.7 million barrels per day, from July till the end of 2020 – by 7.7 million barrels per day, then till April 30, 2022 – by 5.7 million barrels per day. At the same time, the United States, Brazil and Canada are expected to contribute to a decrease in oil production by another 3.7 million barrels per day amid declining production, other G20 states – by 1.3 million barrels per day. At the same time, the decision made by the oil cartel had a negligible impact on increase in prices amid weak demand and growth in oil production in April 2020.

The OPEC+ agreement will prevent further decline in oil prices, however the increase in prices will primarily depend on the global economic recovery.

According to the IEA forecast, in April 2020, the global demand for oil will decrease by 29 million barrels per day compared to the previous year, and in Q2 – by 23.1 million barrels per day compared to the previous year (minimum since 1995). Finally, in 2020, the global demand for oil will decline by a record 9.3 million barrels per day.

According to OPEC expectations, in 2020, the global demand for oil will decrease by 6.8 million barrels per day, down to 92.82 million barrels per day.

The IMF decreased its forecasts for the average world oil prices for 2020 and 2021 down to USD 35.6 and 37.9 per barrel, respectively.

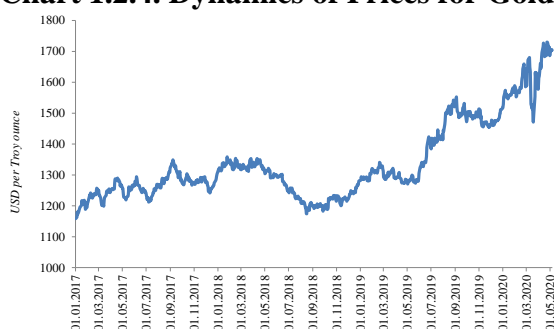
Fitch Rating Agency revised its forecast for oil prices for 2020-2021 down to USD 35 and 45 per barrel, respectively.

The forecast for the price of Brent crude oil was reduced by the Bank of America for the period of 2020-2021 down to USD 37 and 45 per barrel, respectively.

According to Moody's estimates, in 2020, the average price for Brent crude oil will be USD 35 per barrel. In 2021, the indicator can increase up to USD 45 per barrel amid recovery in demand for raw materials.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

The price of gold approached its eight-year maximum, however did not reach it. The price for gold as of May 6, 2020 increased by 12.3 percent and amounted to USD 1,703.8 per Troy ounce, meanwhile the peak was reached on April 23 - USD 1,730.5, when the price approached an eight-year maximum: USD 1,741 dollars per Troy ounce.

The price for gold increases amid financial measures taken by the central banks to support the economies of their countries,

which was necessary under the conditions of quarantine announced due to the spread of the COVID-19 coronavirus pandemic.

The problems with transportation and logistics resulted in increased shortage of physical gold in the market; such situation was demonstrated by the spread between futures quotations in New York and the spot rate in London, which reached USD 90 per ounce¹. At the end of Q1 2020, the volume of gold supply in the world market decreased by 4 percent compared to the indicator of Q4 2019 and amounted to 1.1 thousand tons.

In addition to disrupting of the precious metals supply chain, the situation was aggravated by suspended activities of the world's leading mints and refineries.

In Q1, world demand for gold increased by 1.0 percent compared to the same period in the previous year, up to 1.1 thousand tons, having reaching USD 55 billion in value terms, the highest indicator since 2013.

When the scale of the coronavirus pandemic was more or less clear, the investment in gold became a "safe harbor" for the financial institutions striving for preserving their assets.

According to the World Gold Council, the exchange-traded investment funds increased their purchase of gold by 298 tons, as a result, the world assets in gold increased up to maximum 3.2 thousand tons.

The central banks continued to buy significant amounts of gold: 145 tons in Q1, a decrease by 8 percent compared to the previous year. Although the World Gold Council expects that the central banks will reduce the volume of gold purchases in the future.

¹ As a rule, this indicator does not exceed a few dollars, which cover the costs of transportation, storage and insurance.

Chapter 2. Macroeconomic Development

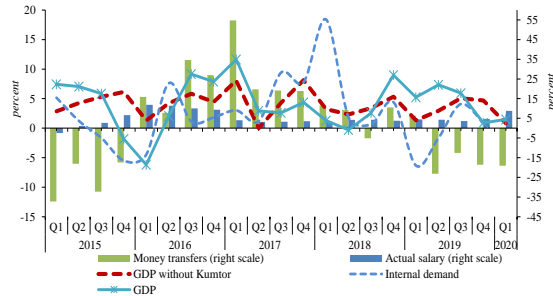
2.1. Demand and Supply in the Commodities and Services Market

Strict restrictive measures to prevent the spread of coronavirus infection, taken by the Government of the Kyrgyz Republic in the second half of March 2020, resulted in a sharp change of the moderate economic growth downwards.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)

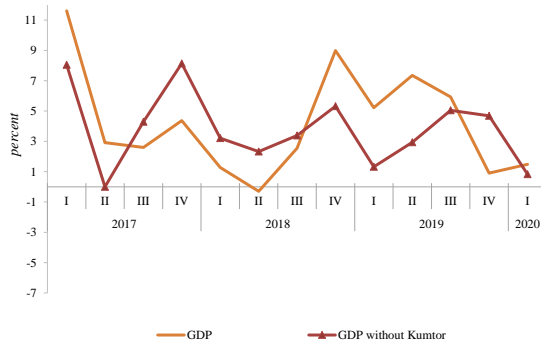


Source: NSC KR, calculations: NBKR

valuables (+12.1 percent)).

Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

prevent the spread of coronavirus infection. The global coronavirus pandemic affected unprecedented deterioration of external conditions and had a negative impact on the macroeconomic indicators of the real sector.

According to the results of January-March 2020, the average monthly nominal wage of one employee² amounted to KGS 17.8 thousand, having increased by 13.7 percent compared to the same period of 2019. The largest increase in the average monthly wage growth rate was observed in the sphere of education (27.3 percent), professional, scientific and technical activities (21.6 percent), water supply, waste treatment and recycling, the

Despite the fact that strict restrictive measures came into force only in the second half of March 2020, economic growth in Q1 decreased significantly compared to the same period of 2019 and amounted to only 1.5 percent (excluding excluding the enterprises of the Kumtor Mine - 0.8 percent).

According to the preliminary results of Q4 2019, growth of domestic demand¹ amounted to 0.8 percent in annual terms. An increase was mainly due to growth of gross accumulation (+2.2 percent) (which is mainly a result of an increase in net acquisition of

The results of Q1 2020 decreased significantly compared to the same period in 2019, thus the sectors of services (+1.0 percentage points), trade (+0.7 percentage points) and industry (+0.2 percentage points) made a positive input in economic growth, however the sector of construction made a negative input of 0.1 percentage point. It should be noted that moderate economic growth in the country in January-February of the current year was neutralized by suspension of the economic activity in the second half of March 2020 due to introduction of the emergency situation/ the state of emergency in the country to

¹ According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for Q4 2019.

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

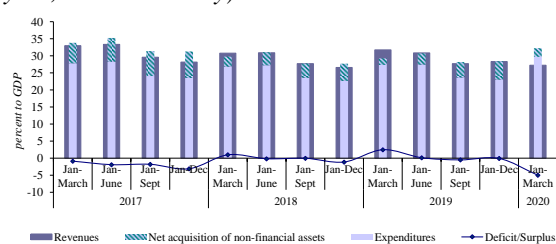
activity of the hotels and restaurants (20 percent each), in the sphere of public administration and defense, compulsory social security (15.4 percent).

At the same time, in January-March 2020, the real wages increased by 8.9 percent compared to the same period of 2019.

Public Finances Sector

In Q1 2020, the state budget deficit amounted to KGS 5.6 billion or 5.0 percent to GDP (in Q1 2019, the budget surplus amounted to KGS 2.6 billion or 2.5 percent to GDP). The primary state budget deficit (excluding interest payments for servicing the public debt) amounted to KGS 3.4 billion or 3.1 percent to GDP.

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

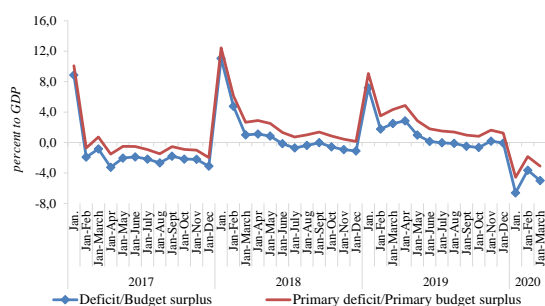


Source: CT MFKR, NBKR

The state budget revenues from operating activities decreased by 10.0 percent or KGS 3.4 billion compared to the same indicator in 2019 and amounted to KGS 30.35 billion or 27.26 percent to GDP. Closing of the state borders and restriction of the economic activity in the Kyrgyz Republic to combat the spread of coronavirus infection resulted in a decrease of tax revenues (-11.2 percent or KGS 2.9 billion), meanwhile these revenues still have a significant share in the budget revenues. An increase in revenues from sale of goods and services was the main factor supporting growth of non-tax revenues. In the reporting period, inflow of official transfers decreased mainly due to the high base in Q1 2019.

The state budget expenditures for operating activities increased in annual terms by 14.1 percent or KGS 4.1 billion and amounted to KGS 33.1 billion or 29.7 percent to GDP. There is an increase in expenditures on “remuneration” (+32.7 percent) and “interest payments” (+9.4 percent) items in the structure of expenditures by economic classification. There is a change in the structure of expenditures according to the functional classification due to an increase in the salaries of the employees in the sector of education and the law enforcement agencies.

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



Source: CT MFKR, NBKR

The state budget revenues from operating activities decreased by 10.0 percent or KGS 3.4 billion compared to the same indicator in 2019 and amounted to KGS 30.35 billion or 27.26 percent to GDP. Closing of the state borders and restriction of the economic activity in the Kyrgyz Republic to combat the spread of coronavirus infection resulted in a decrease of tax revenues (-11.2 percent or KGS 2.9 billion), meanwhile these revenues still have a significant share in the budget revenues. An increase in revenues from sale of goods and services was the main factor supporting growth of non-tax revenues. In the reporting period, inflow of official transfers decreased mainly due to the high base in Q1 2019.

Net outflow of budget funds for operations on acquisition of non-financial assets (including operations on the following groups: fixed assets, stocks, land) amounted to KGS 2.8 billion or 2.6 percent to GDP, having increased by 37.3 percent or KGS 774.6 million compared to Q1 2019. The main share of capital expenditures falls on acquisition of buildings and structures.

Investments

In January-February¹ 2020, the level of capital investment exploitation increased by 0.5 percent compared to January-February 2019.

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

	January-February			
	2019		2020	
	millions of KGS		share, percent	
Total	8 836,1	8 975,3	100,0	100,0
Internal investment	7 533,3	8 383,6	85,3	93,4
Republican budget	76,9	318,8	0,9	3,5
Local budget	1,9	5,7	0,0	0,1
Funds of enterprises and organizations	3 100,3	3 251,5	35,1	36,2
Banks' credits	295,3	159,8	3,4	1,8
Population funds including beneficent help of KR residents	4 058,9	4 647,8	45,9	51,8
External investment	1 302,8	591,7	14,7	6,6
Foreign credit	458,6	302,3	5,2	3,4
Direct foreign investments	664,9	157,4	7,5	1,7
Foreign grants and humanitarian aid	179,3	132,0	2,0	1,5

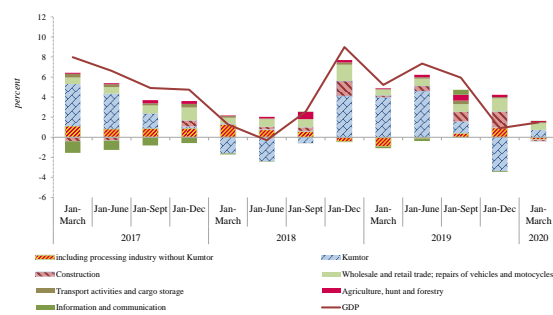
Source: NSC KR

republican and local budgets (an increase by 4.1 and 3.0 times, respectively), the public funds (+13.2 percent), as well as the funds of the enterprises and organizations (+3.7 percent). Meanwhile, there was a decrease in the investments financed from the bank loans (by 1.9 times). The investments financed from the foreign sources decreased by 2.2 times, as well as from the foreign direct investment (by 4.3 times), foreign loans (by 1.5 times) and foreign grants (by 27.2 percent).

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

March 2019 was due to an increase in livestock production (by 1.4 percent).

Growth of production in the industrial sector in January-March 2020 was mainly due to an increase in output of clothes (by 19.7 percent), textile production (by 15.4 percent), mining (by 16.1 percent) and basic metals (by 7.5 percent).

The turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased compared to Q1 2019 mainly due to growth in wholesale (by 5.5 percent) and retail (by 3.5 percent) trade.

In January-March 2020, the GDP deflator was positive and amounted to 3.3 percent, having increased by 7.4 percentage points compared to the same indicator in January-March 2019. In the reporting period, trade (+4.3 percent), transport (2.5 percent) and services

Growth of capital investments was observed only in the construction of mining facilities, trade, education, as well as entertainment and recreation facilities. There was a decrease in investments in the construction of the remaining sectors facilities.

In January-February 2020, the volume of capital investments financed from domestic sources increased by 10.5 percent compared to the same period of 2019. A positive contribution from domestic sources was made by the investments financed from the

The low GDP growth in Q1 was due to the spread of coronavirus infection.

According to preliminary data of the National Statistical Committee of the Kyrgyz Republic, the nominal GDP grew by 1.5 percent in real terms compared to the same period of the previous year (in 2019, growth was 5.2 percent) and amounted to KGS 111.3 billion. At the same time, generally, the economic growth indicators remained positive primarily due to moderate growth rates in January-February 2020. In the reporting period, growth of gross agricultural output by 1.4 percent compared to January-

¹ There is no detailed information on investments for January-March 2020.

(2.1 percent) were the main sectors to have a positive impact on the real growth rate of the economy.

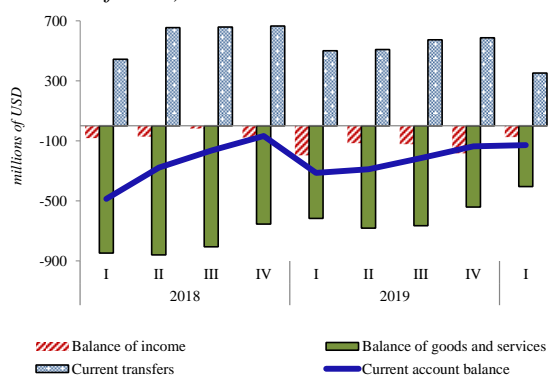
Measures taken in March 2020 due to introduction of the emergency situation and the state of emergency in some regions had a significant impact on economic activity reduction, and closing of borders with the neighboring countries made it more difficult to deliver the goods.

In March (in annual terms), the lowest decline was observed in the industrial sector (-11.8 percent) due to the problems with logistics, delivery of the specialists to the production sites (closing of borders and cancellation of air transportation). Moreover, there was a decrease in activity in the sectors of construction and transportation.

2.2. External Sector¹

In Q1 2020, the current account was formed under the influence of the decrease in the negative balance of trade of goods and income amid the decline in the net inflow of current transfers.

Chart 2.2.1. Current Account
(millions of USD)



Note: According to the preliminary and forecasted data.

According to the forecasted and preliminary data, the current account deficit decreased to USD 128.6 million and amounted to 9.1 percent to GDP² in Q1 2020.

The trade deficit of the Kyrgyz Republic decreased by 40.0 percent and amounted to USD 365.4 million in the reporting period. This trend was due to an outrunning decrease in imports compared to a decline in exports due to global trends caused by the spread of coronavirus.

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

	2017	2018	2019	2019 Q I	2020 * Q I	Change in %	Change in millions of
Trade balance	-2 383,3	-3 033,8	-2 566,1	-608,5	-365,4	-40,0	243,1
Export (FOB)	1 813,9	1 916,0	2 022,2	477,5	474,6	-0,6	-2,8
Gold	700,4	664,2	832,9	196,1	212,9	8,6	16,8
Import (FOB)	4 197,2	4 949,9	4 588,3	1 085,9	840,0	-22,6	-245,9
Energy products	567,2	809,6	614,6	162,8	154,0	-5,4	-8,8

* Preliminary data

In the reporting period, the export of goods (in FOB prices) decreased by 0.6 percent to make USD 474.6 million. Exports were affected by an increase in supplies of gold, meanwhile there was decrease in exports of other goods. Exports of gold increased by 8.6 percent due to growth in the physical volume and in price. At the same time, there was a decrease in the supplies of metal scrap, cement, cigarettes, footwear and other goods.

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.

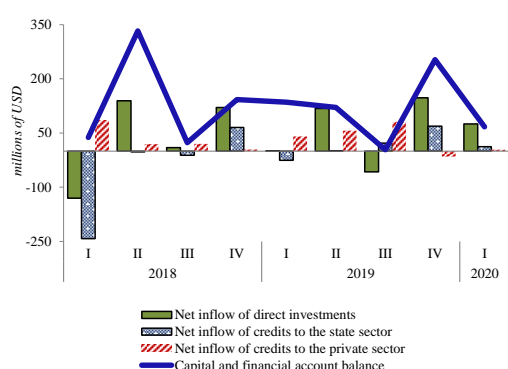
³ The data on the foreign trade are given taking into account the NSC KR additional estimates for agricultural products (till 2017), mutual trade with the EAEU member states (since Q3 2015) and the NBKR estimates.

In Q1 2020, imports of goods (in FOB prices) decreased by 22.6 percent compared to the same period of the previous year to make USD 840.0 million. Closure of the border with China resulted from measures implemented to prevent the spread of the coronavirus epidemic significantly influenced the imports dynamics in the reporting period. Moreover, in the reporting period, there was a decrease in the volume of imported energy products, clothes and footwear, fabrics and other items.

In the reporting period, the growth rates of current transfers were negative due to a decrease of the private transfers inflow. The net inflow of private transfers decreased by 26.7 percent due to devaluation of the Russian ruble and the consequences of measures to combat the spread of the coronavirus pandemic in the countries of the migrant worker's residence. At the same time, transfers received by the public sector decreased down to USD 6.2 million. In the reporting quarter, the balance of services deficit is forecasted at USD 39.7 million, meanwhile the balance on "income" item is expected at USD 75.6 million.

According to 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 of USD 67.1 million in Q1 2020. The capital account formed with a positive balance to make USD 13.6 million, and the capital inflow on the financial account is expected at USD 53.5 million.

Chart 2.2.2. Capital and Financial Account



The net inflow of direct investment into the country is forecasted at USD 75.1 million. In the reporting quarter, the balance of "other investments" item will be positive due to an increase in foreign liabilities of the public sector. The upward trend was still observed in the volume of private sector debt service. Moreover, an increase in foreign assets of the banking sector is expected in the reporting period.

Thus, the balance of payments of the Kyrgyz Republic will be formed with a negative balance to make USD 54.9 million at the end of Q1 2020.

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)			
	2018 (aver.) (January- December)	2018 (aver.) (January- December)*	%	December 2019	March 2020 *	%	
RBER	114.6	115.7	0.9	116.4	117.4	0.9	↑
NEER	116.5	122.5	5.2	123.6	123.8	0.1	↑
RBER to CNY	83.6	84.5	-2.3	85.8	81.2	-5.3	↓
NBER to CNY	65.2	67.1	-2.2	68.1	63.4	-6.9	↓
RBER to Euro	104.3	108.2	-4.5	110.9	106.5	-3.9	↓
NBER to Euro	74.9	78.0	-4.7	78.5	73.4	-6.6	↓
RBER to KZT	134.4	141.7	1.4	141.3	141.7	0.3	↑
NBER to KZT	155.8	171.0	5.6	171.3	170.9	-0.2	↓
RBER to RUR	123.2	122.0	6.0	120.2	130.6	8.7	↑
NBER to RUR	137.3	140.4	7.0	136.4	146.2	7.2	↑
RBER to TRY	160.8	165.8	14.4	165.3	167.1	1.1	↑
NBER to TRY	212.1	247.6	31.4	254.3	256.0	0.6	↑
RBER to USD	89.5	87.6	-0.4	89.1	84.7	-4.9	↓
NBER to USD	66.7	65.8	0.0	65.8	61.2	-7.0	↓

* Preliminary data

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

– by 6.9 percent and the euro – by 6.6 percent.

By the end of Q1 2020, the real effective exchange rate increased compared to December 2019. According to the preliminary data, the index of the nominal effective exchange rate (NEER) of KGS increased by 0.1 percent year-to-date and constituted to 123.8 at the end of March 2020. The increase in the NEER index was due to KGS strengthening¹ in March 2020 compared to the average exchange rate for December 2019 against the Russian ruble – by 7.2 percent and the Turkish lira – by 0.6 percent, amid depreciation against the US dollar – by 7.0 percent, the Chinese yuan

¹ The data are given for the nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for the calculation of the index.

The NEER index strengthening and the higher inflation rate in Kyrgyzstan¹ conditioned the increase of the real effective exchange rate index (REER), which since December 2019 increased by 0.9 percent and constituted 117.4 at the end of March 2020.

¹ In Q1 2020, the inflation rate in the Kyrgyz Republic was formed at 2.7 percent, meanwhile, according to the preliminary calculations, the average inflation rate in the main trading partner countries was 2.0 percent.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

The global spread of the COVID-19 pandemic disease and a sharp decline in the world oil prices significantly changed the situation in the external environment in the second half of Q1 2020 thereby conditioning introduction of adjustments in the monetary policy conducted by the National Bank.

The domestic foreign exchange market was among the first to react to these shocking changes due to the deep integration of the economy of the Kyrgyz Republic into the regional trade and economic relations.

Since March 2020, the National Bank has taken a set of monetary and macroprudential measures to mitigate the negative economic consequences of the COVID-19 pandemic disease.

Generally, these measures were aimed at limiting the inflationary processes, on the one hand, and, supporting lending to the real sector of the economy, taking into account the situation with liquidity in the banking system, on the other hand.

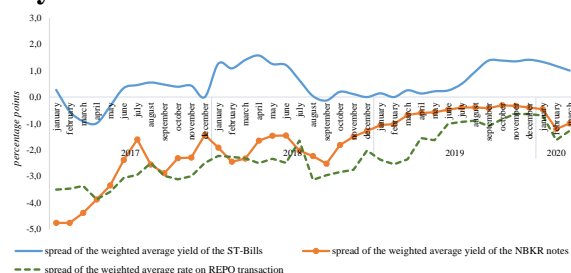
The short-term segment of the money market demonstrated an increase of the interest rates, meanwhile their fluctuations were near the key rate within the interest rate corridor set by the National Bank.

Interest Rate Policy of the National Bank

At the end of February 2020, the National Bank raised the key rate from 4.25 to 5.00 percent to restrain inflationary processes in the Kyrgyz Republic amid deteriorating external and internal environment due to the COVID-19 pandemic disease. This decision was made taking into account the preconditions for development of the external environment and emerging internal conditions, as well as the estimates of inflationary dynamics in the medium term.

The limits of the interest rate corridor were adjusted: “overnight” deposits rate was increased from 2.00 to 2.75 percent, “overnight” credits rate was kept unchanged at 5.75 percent to strengthen the interest rate corridor of the transmission mechanism and to increase the predictability of the monetary policy future direction.

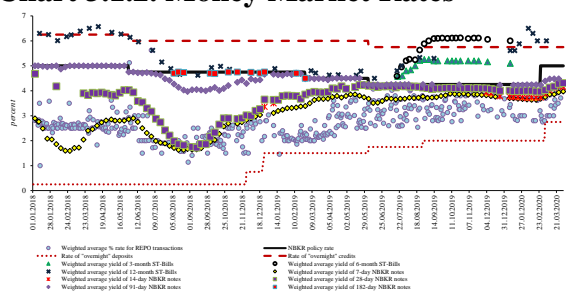
Chart 3.1.1. Spread between the Short-Term Rates of the Money Market and the Key Rate



Measures previously taken to increase the impact of the key rate on the money market rates, as well as increasing excess liquidity in the banking sector contributed to narrowing the gap between the short-term money market rates and the policy rate, excluding the ST-Bills yields.

In Q1 2020, the spread of the weighted average yield of the National Bank notes and the average rate on REPO operations of the interbank credit market to the policy rate remained negative and expanded following an increase in the key rate by 75 basis points in February. In the reporting period, the average spread of the notes yield to the policy rate was -0.9 percentage points. (in Q4 2019, the spread was -0.3 percentage points). The average spread of the rate on REPO operations of the interbank credit market to the policy rate was -1.2 percentage points. (in Q4 2019, the spread was -0.7 percentage points).

Chart 3.1.2. Money Market Rates



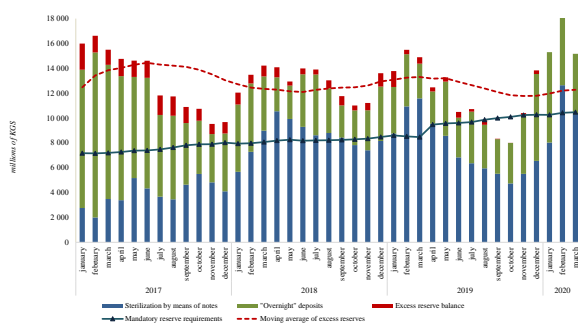
During the reporting quarter of 2020, the short-term money market segment demonstrated an upward trend in the interest rates as a result of measures taken in respect of the interest rate policy. At the same time, there were fluctuations within the interest rate corridor set by the National Bank, excluding the yield on 12-month ST-Bills.

In the reporting period, the National Bank notes market demonstrated stable participants' activity compared to other segments of the securities market (excluding the market of corporate and municipal securities). At the same time, among the Government securities of the Ministry of Finance of the Kyrgyz Republic, there was demand only for 12-month ST-Bills from the market participants.

In January and February 2020, the participants of the interbank credit market were not very active compared to the previous periods due to an increase of the liquidity surplus in the banking system. However, in March of the current year, the segment of REPO operations demonstrated increased activity amid growing demand for KGS liquidity, the volume of operations in this segment increased by 2.8 times, up to KGS 2.3 billion in March of 2020. At the same time, generally, in the reporting quarter of 2020, the volume and the number of transactions decreased compared to Q4 2019. ST-Bonds of the Ministry of Finance of the Kyrgyz Republic and the National Bank notes were primarily the main assets used by the commercial banks in REPO operations.

Liquidity Regulation in the Banking Sector

Chart 3.1.3. Excess Reserves of the Commercial Banks



Since mid-Q1 2020, excess liquidity in the banking sector decreased after a short cycle of growth observed since Q4 2019 due to foreign exchange operations on sale of foreign currency conducted by the National Bank in the interbank foreign exchange market, therefore KGS 14.5 billion of liquid funds were withdrawn in the reporting period. At the same time, revenues through the budget channel in the amount of KGS 7.7 billion, other operations of the National Bank and a decrease in the volume of

currency in circulation by KGS 3.7 billion were the main sources of excess liquidity in the banking system.

In general, the level of excess liquidity still remains relatively high. In the reporting quarter, the average daily volume of this indicator prior to the National Bank's sterilization operations increased by KGS 5.9 billion in the previous quarter and amounted to KGS 16.6 billion.

During the reporting quarter, under these conditions, the National Bank increased the operations to absorb and transform excess liquidity of the banking system through the open market operations and placement of the commercial banks' available funds on "overnight" deposits with the National Bank. In Q1 2020, the average daily volume of excess liquidity withdrawal from the banking system significantly exceeded the same indicator of KGS 10.6 billion in Q4 2019 and amounted to KGS 16.2 billion.

Amid an increase in the volume of sterilization operations of the National Bank, in Q1 2020, the average daily volume of notes in circulation increased by KGS 4.7 billion compared to the previous quarter, up to KGS 10.3 billion. At the same time, placement of the commercial banks' available funds on "overnight" deposits with the National Bank increased

slightly up to KGS 5.9 billion (+ KGS 0.9 million compared to the previous quarter) in the reporting period. In Q1 2020, among the notes in circulation, a significant share was accounted for 28-day notes (approximately 32.0 percent) and 91-day notes (approximately 27.7 percent).

In the structure of sterilization operations of the National Bank, the share of the National Bank notes increased from 53.0 percent up to 63.5 percent in Q4 2019, meanwhile the share of “overnight” deposits decreased down to 36.4 percent (-10.6 percentage points compared to Q4 2019).

Credit Policy of the National Bank

In Q1 2020, the National Bank continued to provide resources in the national currency through monetary instruments to expand lending to all sectors of the economy and support the regional development of the Kyrgyz Republic.

In the reporting quarter of 2020, the National Bank conducted four credit auctions for development of the regions in the country, where the total volume of supplied funds amounted to KGS 4.0 billion, a demand constituted KGS 1.5 billion and an interest rate for the final borrowers was set at 12.0 percent. Meanwhile, among these four announced credit auctions, only one auction was held with approved amount of KGS 145.0 million, the other auctions did not take place due to insufficient number of participants.

Four credit auctions were additionally conducted to promote the implementation of the project “Financing of Agriculture-8”. Credits in the amount of KGS 8.0 billion were offered to the commercial banks participating in this project, the banks’ demand for such funds amounted to KGS 490.0 million. At the same time, the interest rate for the end consumers of these resources was set at 10.0 percent.

Foreign Exchange Policy of the National Bank

During January-February 2020, KGS/USD exchange rate demonstrated relatively stable dynamics. However, decline in foreign currency inflows into the country through re-export operations and remittances, as well as weakening of the national currencies in the region amid decrease in the world oil prices, put pressure on the domestic foreign exchange market in March.

As a result of the influence of these factors, in the second decade of March USD/KGS exchange rate increased up to KGS 83.5271/US dollar. Meanwhile, as the demand for foreign currency was met by the population and psychological factors were restrained, USD/KGS exchange rate became stable at KGS 80.8100 per USD 1 (+16.25 percent year-to-date) by the end of Q1 2020.

The National Bank conducted interventions on sale of foreign currency in the amount of USD 201.5 million, was well as in cash in the amount of USD 6.5 million in order to smooth sharp fluctuations of the exchange rate. At the same time, the main share of sales of foreign currency in non-cash and cash forms (about 57 percent) in the amount of USD 115.0 million fell on March 2020.

In the reporting quarter, KGS exchange rate was fluctuating within the range of KGS 69.5117 - 83.5271 per USD 1.

Box 1. Measures taken by the National Bank to mitigate the negative economic consequences of COVID-19 spread.

In Q1 2020, the National Bank took **a number of monetary and macroprudential measures** amid introduced restrictive measures, the influence of external shocks and their negative economic impact under the conditions of the COVID-19 pandemic disease:

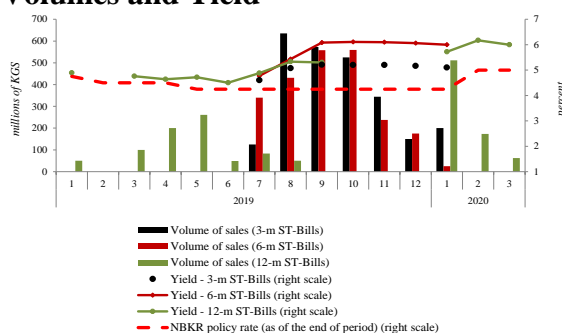
➤ On February 24, 2020, the policy rate was increased from 4.25 to 5.00 percent to restrain inflationary processes in the Kyrgyz Republic amid deteriorating external and internal environment due to the spread of coronavirus infection (on March 30, a decision was made to keep the policy rate unchanged at 5.00 percent);

- On March 30, 2020, a decision was made to ease the requirement for the commercial banks to maintain the daily minimum level of mandatory reserve requirements - the ratio was reduced from 80.0 to 70.0 percent to allow the banks to implement more flexible management of their liquidity, as well as to expand lending to the economy;
- Credit auctions were held on a weekly basis to provide financing under the project “Financing of Agriculture-8” and development of the regions in the country, the total volume of credit resources supply in these two areas amounted to KGS 12.0 billion in the reporting period;
- A new temporary instrument was introduced in the Kyrgyz Republic to provide liquidity to the banks at the interest rate of 5.00 percent for 12 months (in the open window mode) to mitigate the negative effects of the COVID-19 pandemic disease.

3.2. . Financial Market Instruments

Government Securities Market

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



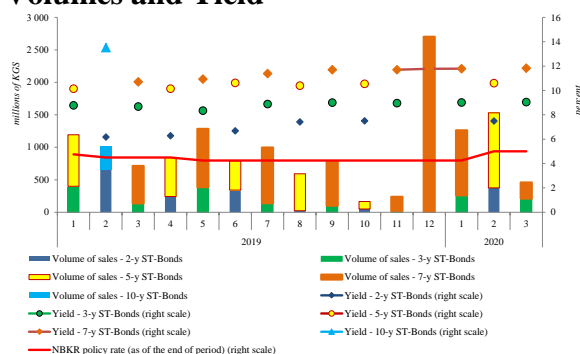
ST-Bills

In Q1 2020, the ST-Bills market demonstrated an increase in the supply compared to the same period of 2019 due to issue of 3- and 6-month securities. Moreover, there was an increase in investors’ activity in this market. Based on the results of the auctions, the overall weighted average yield increased by 1.1 percentage points, up to 5.9 percent compared to the same indicator in 2019.

In the reporting period, the Ministry of Finance of the Kyrgyz Republic increased the volume of ST-Bills supply by 21.4 percent compared to the corresponding period of 2019, up to KGS 850.0 million. Moreover, the investors actively participated in the auctions, where the volume of demand amounted to KGS 1.8 billion (+2.9 times compared to the same period in 2019). At the same time, in terms of maturity rates, primarily 12-month securities were in demand (the share thereof was 59.9 percent of total demand). The volumes of demand for 3-month and 6-month ST-Bills amounted to KGS 370.0 and 370.6 million, respectively. The total volume of ST-Bills sales, taking into account additional placements in the reporting period amounted to KGS 972.3 million (+6.5 times compared to Q1 2019), which is 14.4 percent more than the proposed volume.

By the end of the reporting period, the total volume of ST-Bills in circulation with the holders decreased by 37.1 percent year-to-date, up to KGS 2.6 billion.

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



ST-Bonds

In Q1 2020, the Ministry of Finance of the Kyrgyz Republic decreased the volume of the ST-Bonds supply compared to the same period of 2019. At the same time, there was a slight decrease in demand for this asset from the investors. However, the volume of the ST-Bonds sales demonstrated growth.

In the reporting period, the weighted average yield decreased by

0.7 percentage points compared to the same indicator in 2019, down to 10.7 percent.

In the reporting period, the total volume of the ST-Bonds supply amounted to KGS 3.1 billion, having decreased by 25.6 percent due to the lack of supply of 10-year securities and a reduction in supply of the securities with other maturities, except for 7-year securities.

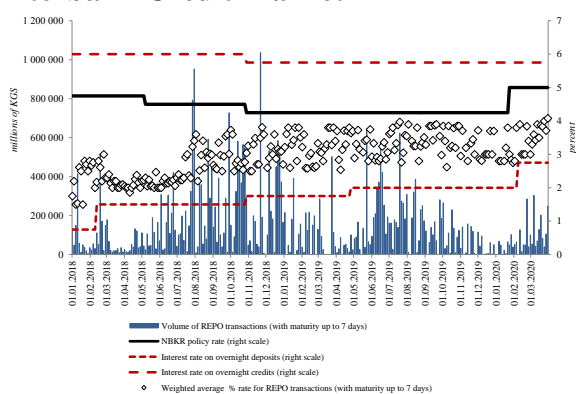
Moreover, there was a decrease in demand for all maturities of the assets from the participants, except for 7-year ST-Bonds (+3.7 times compared to the same period of 2019). The share of 7-year securities in aggregate demand was 44.7 percent (KGS 1.9 billion). At the same time, the total volume of demand decreased by 12.3 percent, down to KGS 4.2 billion. The total volume of ST-Bonds sales, taking into account additional placements, increased by 11.3 percent (up to KGS 3.3 billion) compared to the same period of 2019 due to increase in the volume of sales of 5- and 7-year securities.

At the end of the reporting period, the volume of ST-Bonds¹ in circulation increased by 3.9 percent year-to-date, up to KGS 44.6 billion due to an increase in the portfolio of the institutional investors, the commercial banks and the non-resident legal entities.

Interbank Credit Market

In Q1 2020, the volume of transactions in the interbank credit market decreased compared to the previous quarters.

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

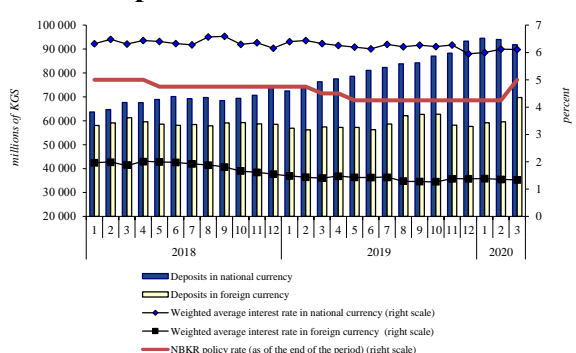


In the reporting period, the volume of transactions decreased by 43.9 percent compared to the previous quarter and amounted to KGS 4,085.4 million. In January-March 2020, standard transactions in the national and foreign currencies were not conducted, thus the activity in the interbank market consisted entirely of REPO transactions.

The weighted average interest rate on the interbank market has not changed significantly since Q4 2019 and stood at 3.5 percent. The weighted average maturity of the interbank credits increased from 7 to 9 days.

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits



Generally, in Q1 2020, the commercial banks' depository base continued to grow.

At the end of March 2020, the volume of the commercial banks' depository base increased by 7.0 percent compared to 2019 and amounted to KGS 161.5 billion, meanwhile growth of the depository base for all of 2019 was 13.4 percent. An increase in the depository base in the current year was mainly due to the expansion of deposits in foreign currency by 20.9 percent year-to-date.

Such situation is mainly due to USD appreciation against the Kyrgyz som and corresponding increase in the volume of deposits in the US dollars in KGS terms. Deposits in the US dollars

¹ Excluding ST-Bonds denominated in foreign currency

in USD terms increased by 5.9 percent year-to-date. Deposits in the national currency decreased by 1.6 percent as of the end of March.

In the structure of the depository base in the national currency, the share of the time deposits increased by 2.1 percentage points compared to March 2019, up to 49.7 percent, among the time deposits the share of deposits with a maturity from 1 year and more increased by 1.2 percentage points, up to 31.6 percent. The share of the time deposits in foreign currency remained almost unchanged at 29.6 percent. Among the time deposits in foreign currency, the share of deposits with a maturity from 1 year or more decreased by 4.9 percentage points, down to 26.0 percent.

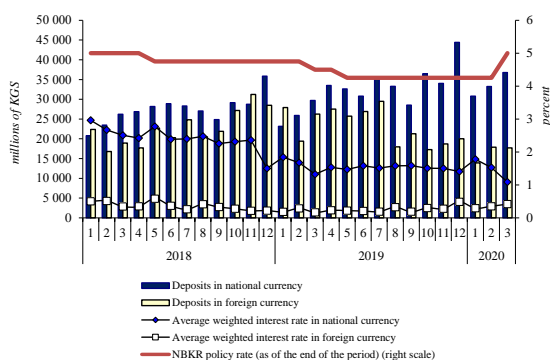
Dollarization of the deposits increased by 5.0 percentage points, up to 43.2 percent. Dollarization adjusted for shift in the exchange rate increased by 1.4 percentage points.

In Q1 2020, the volume of new deposits decreased by 1.3 percent compared to the corresponding quarter of the previous year and amounted to KGS 150.3 billion. The volume of new deposits in the national currency increased by 28.0 percent, up to KGS 100.8 billion, meanwhile the volume of new deposits in foreign currency decreased by 32.7 percent, down to KGS 49.5 billion.

In the reporting quarter, the share of the time deposits in the national currency increased by 0.1 percentage point compared to the corresponding quarter of the previous year, up to 12.3 percent, among them the share of deposits with a maturity from 1 year and more decreased by 1.7 percentage points, down to 41.5 percent. The volume of the time deposits in foreign currency also increased by 5.5 percentage points, up to 11.4 percent, meanwhile among the time deposits the share of deposits with a maturity from 1 year and more decreased by 14.9 percentage points, down to 26.5 percent.

The total duration of the depository base decreased down to 5.2 months (-0.2 months year-to-date) at the end of Q1 2020, the duration of the time deposits decreased down to 12.8 months (-0.3 months).

Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows



In Q1 2020, the weighted average interest rates on new deposits increased by 0.17 percentage points compared to the corresponding period of 2019, up to 1.10 percent. The interest rates on new deposits in the national currency decreased by 0.15 percentage points compared to Q1 2019, down to 1.47 percent, the interest rates on new deposits in foreign currency increased by 0.14 percentage points, up to 0.36 percent. The weighted average interest rate on new time deposits in the national currency decreased by 0.73 percentage points, down to

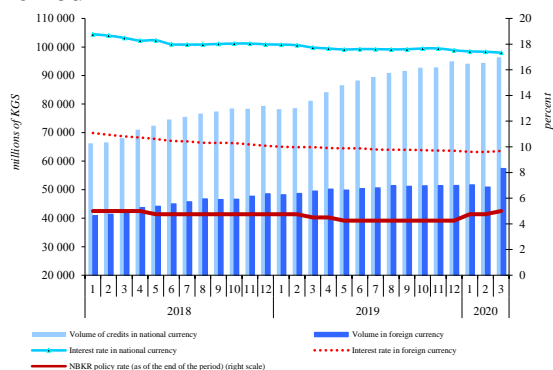
8.95 percent, in foreign currency - by 0.25 percentage points, down to 2.88 percent. The weighted average interest rates in the national and foreign currencies decreased on all maturity rates, except for the deposits with a maturity of up to one month.

The concentration index¹ in the deposit market remained at the level of 0.09 at the end of the reporting period, which corresponds to the low level of concentration with eleven participants with equal shares in the market.

¹ This index shows the degree of concentration in the portfolio of the banks. The concentration index is calculated by the method of calculating the Herfindahl-Hirschman index and is the sum of the squares of specific weights of the indicator in the total volume. The index takes values from 0 to 1. Index value less than 0.10 corresponds to a low level of concentration; from 0.10 to 0.18 - the average level of concentration; over 0.18 - high level of concentration. For example, a concentration index of 0.50 is equivalent to the presence of 2 participants with the same shares in the market, and 0.3 - 3 participants, etc.

Credit Market

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



In the reporting period, the commercial banks' credit portfolio continued to demonstrate an upward trend.

As of the end of March 2020, the commercial banks' credit portfolio increased by 5.0 percent compared to the end of 2019 and amounted to KGS 153.7 billion. An increase in credits in foreign currency by 11.5 percent, up to KGS 57.4 billion made the main contribution to the growth of the credit portfolio mainly due to the expansion of these credits in KGS terms amid USD strengthening. At the same time, the credit portfolio in the US dollars decreased by

3.2 percent in nominal terms year-to-date. Credits in the national currency increased by 1.5 percent, up to KGS 96.4 billion.

At the end of Q1 2020, dollarization of the credit portfolio increased by 2.2 percentage points, up to 37.3 percent. At the same time, dollarization adjusted for changes in the US dollar exchange rate decreased by 1.3 percentage points year-to-date.

In Q1 2020, the volume of new credits increased by 7.2 percent compared to the corresponding quarter of 2019 and amounted to KGS 28.5 billion. The volume of credits in the national currency increased by 8.9 percent, up to KGS 20.6 billion, and the credits in foreign currency increased by 3.1 percent, up to KGS 7.9 billion.

New credits in the national currency increased, mainly due to growth in the volume of credits with a maturity of more than three years, by 29.8 percent compared to Q1 2019.

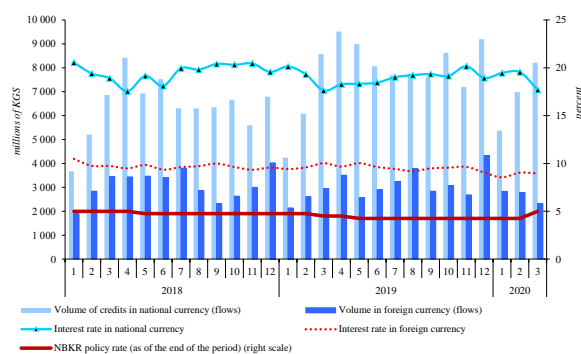
An increase in long-term new credits was recorded in nine of eleven sectors (excluding the sectors of communication, procurement and processing), among them growth rates above 20 percent were observed in seven sectors (excluding the sectors of transport (+2.0 percent) and mortgage (+11.9 percent)).

Thus, the growth of long-term credits was general in nature and affected the majority of important sectors of the economy. Credits in foreign currency grew mainly due to an increase in the volume of credits with a maturity of 1-3 years by 20.2 percent, meanwhile credits in foreign currency with a maturity of more than 3 years decreased by 5.7 percent.

In terms of sectors, a significant increase in consumer credits (+30.1 percent) and growth in credits in the sector of trade (+9.9 percent) made the largest contribution to the expansion of new credits in the national currency. An increase in the volume of credits by 25.8 percent in the sector of trade with the share of about 60.0 percent of all new credits in foreign currency made the largest contribution to growth in the structure of new credits in foreign currency.

In Q1 2020, duration on new credits in the national currency increased by one month compared to the corresponding quarter of 2019 and amounted to 24 months, in foreign currency it decreased by one month, down to 30 months.

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



mainly due to a decrease of the interest rates on credits in the sector of trade.

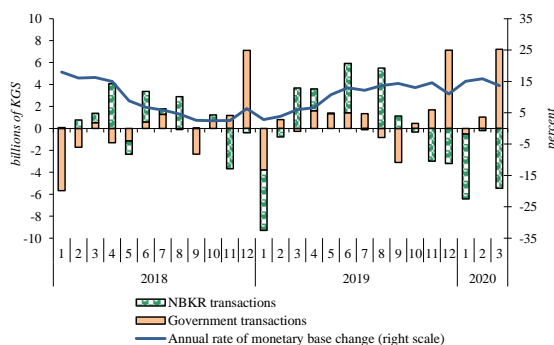
The credit market general concentration index was stable and formed at the level of 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among eleven banks. The sectoral concentration index was 0.31, thus indicating presence of three main credit sectors.

3.3. Dynamics of Monetary Indicators

Monetary Base

In the reporting quarter of the current year, generally, reserve money continued demonstrating an upward trend (in annual terms) observed since 2019. The expansion of the monetary base was mainly carried out by the state administration bodies.

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



the state budget expenditures over the state budget revenues increased the amount of reserve money by KGS 7.7 billion.

Currency in circulation with a share of 89.8 percent (as of the end of Q1 2020) is traditionally the basis of the monetary base, and the remaining share of 10.2 percent falls on the reserves of other depository corporations.

Monetary Aggregates

Generally, in the reporting quarter of 2020, all monetary aggregates continued demonstrating an upward trend amid slowdown in annual growth rates.

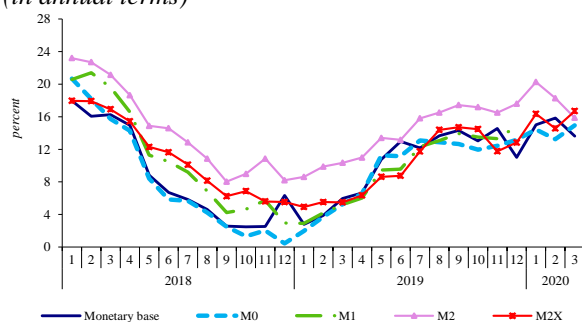
In Q1, the weighted average rates on new credits in the national currency decreased by 0.12 percentage points compared to the same indicator of 2019, down to 18.90 percent. Interest rates decreased in seven of eleven main sectors, including the sectors of trade (-0.39 percentage points) and consumer credits (-1.66 percentage points), which had a significant share in the total volume. The rates in foreign currency decreased by 0.83 percentage points, down to 8.85 percent,

In Q1 2020, the monetary base decreased by 3.3 percent (compared to the previous quarter) due to the transactions on sale of foreign currency conducted by the National Bank in the domestic foreign exchange market. At the same time, reserve money continued demonstrating an upward trend and grew by 13.6 percent in annual terms.

During the reporting quarter, the transactions of the National Bank had a restraining effect and made a negative input to the growth of the monetary base in the amount of KGS 11.6 billion. Meanwhile, the excess of

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates

(in annual terms)



During Q1 2020, monetary aggregates demonstrated moderate dynamics (compared to the previous quarter), meanwhile, the annual growth rates of these indicators remained positive.

In January-March 2020, generally, an increase in money outside banks by 14.9 percent and deposits in foreign currency by 19.4 percent influenced the expansion of monetary aggregates. At the same time, deposits in foreign currency grew by 19.4 percent in the reporting quarter, meanwhile money outside banks decreased by

1.3 percent.

It should be noted that money outside banks demonstrated a decrease in volume for the greater period of the reporting quarter, and since the second decade of March 2020, there was an accelerated growth thereof amid increasing demand for cash from the population due to established quarantine measures.

During the reporting period of 2020, the monetary aggregate M2X increased by 16.7 percent in annual terms and amounted to KGS 237.3 billion. The monetary aggregate M2X drew by 3.1 percent compared to the previous quarter.

During the reporting quarter, deposits¹, included in M2X, increased by 17.9 percent in annual terms (in Q4 2019 this indicator was 12.6 percent), mainly due to the growth of deposits in foreign currency by 19.4 percent and deposits in the national currency by 16.9 percent. At the same time, during the quarter, deposits in the national currency decreased by 1.2 percent and deposits in foreign currency grew by 19.4 percent.

Lending to the economy continues demonstrating positive growth rates. In the reporting quarter of 2020, the total volume of credits to the economy² increased by 17.8 percent in annual terms and amounted to KGS 157.5 billion (+5.0 percent compared to Q4 2019). Increase of credits in the national currency (+19.0 percent) and in foreign currency (+15.8 percent) contributed to growth of the credit portfolio in the banking sector.

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

² Credit to the economy is an indicator that reflects all requirements of the banking system to the individuals, legal entities and other financial-credit organizations, in the form of issued credits, deposits and securities, accounted for with their accrued interest, excluding credits to the Government of the Kyrgyz Republic and non-residents.

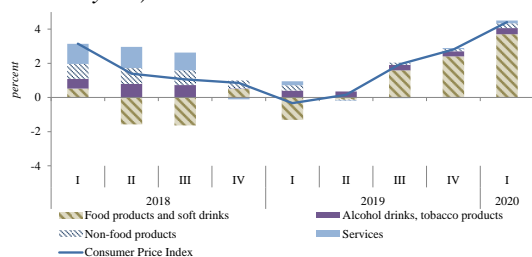
Chapter 4. Inflation Dynamics

The current geopolitical and epidemiological situation in the world resulted in an increase of demand in the food market and difficulties in logistics and conditioned application of the restrictive measures on food exports in the regional market. A high demand for domestic products due to introduction of the state of emergency in Kyrgyzstan and the exchange rate fluctuations have brought an inflationary pressure. This situation resulted in acceleration of the inflation rate in Kyrgyzstan in Q1 2020.

4.1. Consumer Price Index

Chart 4.1.1. Dynamics of CPI Structure

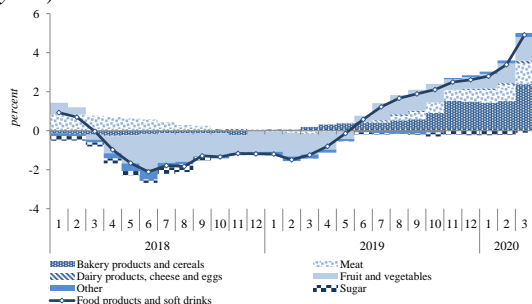
(quarter to the corresponding quarter of the previous year)



In March 2020, prices increased by 5.9 percent in annual terms (March 2020/March 2019). Acceleration of inflation is due to the gradual rise in food prices during Q1, reflecting the external and internal economic consequences of the pandemic, and as a consequence, weakening of the national currency. Pressure on KGS was conditioned by the foreign economic shocks amid restrictive measures in a number of countries due to the spread of coronavirus infection.

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

(month to the corresponding month of the previous year)

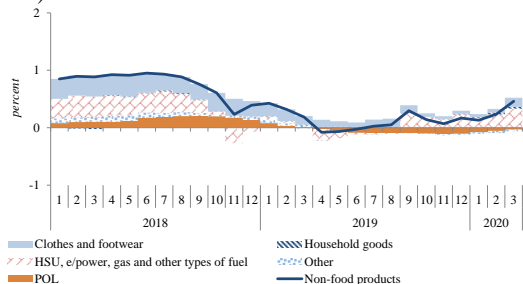


In Q1 (quarter to the corresponding quarter) of 2020, the average annual inflation rate was 4.4 percent. The groups “food and soft drinks” and “alcohol drinks and tobacco products” made the main contribution to the growth of CPI. Non-food products and services demonstrated weakly positive dynamics.

In the reporting quarter, the food price index increased by 8.1 percent compared to the corresponding quarter of 2019. In the reporting period, there was an increase in prices mainly for the groups “bakery products and cereals”, “fruit and vegetables” and “meat” due to the high demand for food products resulted from introduction of the emergency situation in Kyrgyzstan and later the state of emergency almost in all regions in the second half of March 2020 and fluctuations in the national currency. There was no sharp rise in prices for the groups “oils and fats” and “sugar”.

Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI

(month to the corresponding month of the previous year)

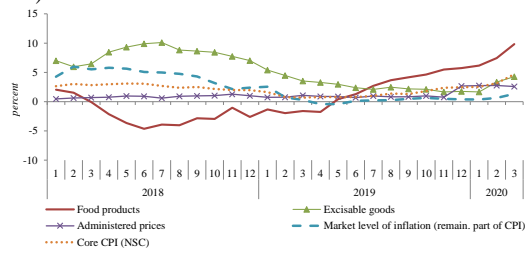


The non-food commodity group grew by 0.9 percent in Q1. Price growth rates in many main groups were moderately low.

Low growth was also observed in prices for paid services. The group “housing services and utilities, water, electricity, gas

and other types of fuel” made the main contribution to increase. Downward pressure was observed on the part of the group “transport” due to decrease in prices for fuels and lubricants.

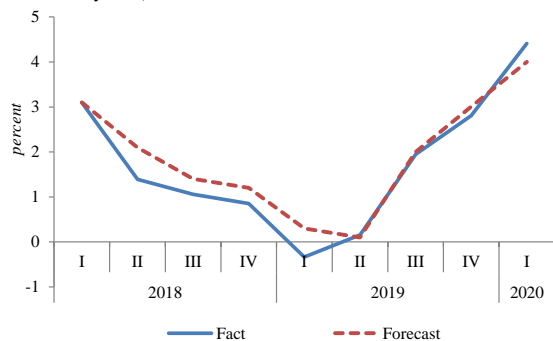
Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities
(month to the corresponding month of the previous year)



Market inflation rate started accelerating year-to-date and in March 2020 it constituted 1.3 percent. Rising market inflation rates may indicate an increase in consumer demand year-to-date. In Q1 2020, the core inflation indicator (excluding food and energy products), calculated by the National Statistical Committee of the Kyrgyz Republic, was 4.7 percent in annual terms.

4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values
(quarter to the corresponding quarter of the previous year)



In Q1 2020, the actual inflation rate was 0.2 percentage points above the National Bank’s expectations due to higher increase in prices for food products compared to forecasts. Acceleration of inflation and deviation of the actual value of inflation from the forecast is conditioned by the external and internal economic and epidemiological measures, as well as the consequences of these measures.

Chapter 5. Medium-Term Forecast

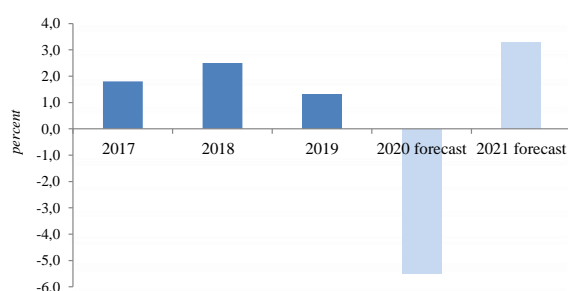
5.1. External Environment Proposals

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, Bank of Russia

A significant decrease in economic activity is expected in Russia in 2020 amid measures to combat the spread of coronavirus infection within the country, as well as a decrease in oil prices in the world market.

The self-isolation regime introduced in the large cities of Russia, which has been in effect since late March until the end of May 2020, conditioned a significant slowdown and recession almost in all sectors of the Russian economy, meanwhile the revival of economic activity and removal of the restrictions will also take time and slow down the recovery of economic activity in the country.

Moreover, the spread of coronavirus infection resulted in a significant decrease of economic activity around the world and a corresponding decline in demand and decrease in prices for energy carriers in the world market, thus in April 2020 the price for oil was below USD 20 per barrel.

Taking into account that the share of oil and its derivatives¹ in Russian exports takes about 50-60 percent, a significant decrease in oil prices condition corresponding reduction in export earnings, a decrease in production output in the sectors of the economy adjacent to the oil industry and a decline in investment activity in the medium and long term.

Increased uncertainty about the prospects for domestic and foreign demand will restrain the investment plans of the entities. In turn, a decline in production output and investments will limit opportunities for revenue growth and result in a reduction of consumer demand.

At the same time, the economy, particularly the most affected sectors, will be supported through measures taken by the Government of the Russian Federation and the Bank of Russia to minimize the effects of the pandemic spread and related restrictive measures.

Economic growth in 2021-2022 will be primarily restorative in nature. Continued implementation of the national projects of the Russian Federation will also contribute to GDP growth. Easing of the monetary policy by the Bank of Russia, which will accelerate the growth of lending to the economy, will also contribute to recovery of economy and domestic demand.

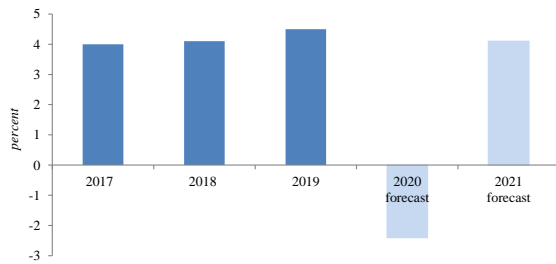
In 2020, the inflation rate may temporarily exceed the target level due to increased volatility in the financial market and increased demand for a number of food products. However, restrained consumer demand, due to decreased business activity, generally forms a disinflationary impact on price growth. In the medium term, the inflation rate is expected to be near the target range, taking into account the monetary policy conducted by the Bank of Russia.

¹ Mineral fuel, oil and products of their distillation; bituminous substances; mineral waxes (HS code 27) - by the end of 2018, 63.7 percent of the total export of goods.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

the COVID-19 pandemic on the economy of the Republic of Kazakhstan are related to complication of the external economic situation, which is reflected in weakening demand for export, a reduction in the income from supplies of raw materials abroad due to decrease in prices, disruption of the global added value chains, and worsening of the business climate, as well as tightening of the financial conditions.

In addition to the external environment, domestic restrictive measures have a negative impact on the economy resulting in a decrease of the production indicators in a large number of economic sectors, primarily those related to the service sector.

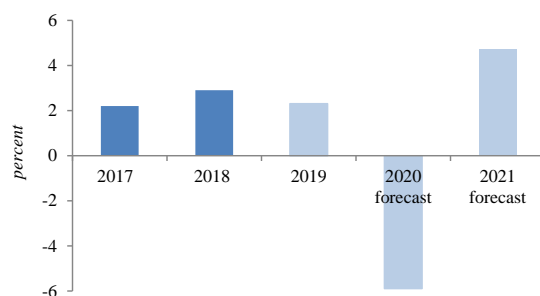
In 2021-2022, the analysts expect an average growth of 4.0 percent due to increase in oil production and changes in taxation, rise in exports due to growth of oil and gas condensate production. The volumes of oil production will increase due to expansion of the Tengiz, Karachaganak, Kashagan fields and commissioning of the offshore fields.

Taking into account the risks of uncertainty in the world economic development and the effect of transferring the Kazakh tenge exchange rate to domestic prices while maintaining oil prices at the current level, according to the forecasts of the National Bank of the Republic of Kazakhstan, the inflation rate will develop within the corridor of 9-11 percent by the end of 2020. In the medium term, uninterrupted fiscal stimulation of the economy and the commodity prices will remain the main factor to determine the dynamics.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg

distancing measures will negatively impact consumer spending in Q2, and the enterprises investments will be under pressure due to decrease in demand and production output. The economic recovery will be gradual due to existing risks and quarantine measures, meanwhile the analysts expect at least partial easing of the situation in Q3.

The experts also expect continued deflationary pressure, explaining this by a shortage of demand, when a decrease in demand from the employees in closed sectors is amplified by

In the medium term, in the absence of significant shocks, the economic growth of Kazakhstan is expected to recover after the recession in 2020. The analysts' assumptions for the economic development in Kazakhstan in 2020 were significantly adjusted downwards by 1.0-2.5 percent (instead of growth by 4.5 percent) due to the situation to prevent the COVID-19 spread, as well as volatility of the oil prices.

According to the international analysts, the main channels of the impact of

the COVID-19 pandemic on the economy of the Republic of Kazakhstan are related to complication of the external economic situation, which is reflected in weakening demand for export, a reduction in the income from supplies of raw materials abroad due to decrease in prices, disruption of the global added value chains, and worsening of the business climate, as well as tightening of the financial conditions.

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In 2020, continuous six-year economic growth in the USA will be replaced by recession, the scale thereof depends on further development of the situation with the spread of the COVID-19 pandemic.

Considering that the pandemic spread in the USA was among the largest in the world, many economists expect economic revival in late 2020 - early 2021. Significant fiscal stimuli amid the soft monetary policy conducted by the FRS will weaken the effects of the shock. The analysts believe that social

distancing measures will negatively impact consumer spending in Q2, and the enterprises investments will be under pressure due to decrease in demand and production output. The economic recovery will be gradual due to existing risks and quarantine measures, meanwhile the analysts expect at least partial easing of the situation in Q3.

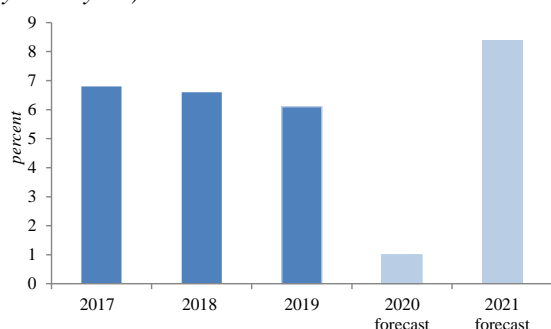
The experts also expect continued deflationary pressure, explaining this by a shortage of demand, when a decrease in demand from the employees in closed sectors is amplified by

an additional decline in demand from the employees in the sectors not affected by the direct crisis due to decreased incomes and reduced employment.

Moreover, the employees in the sectors not affected by the crisis, or already recovering, may begin creating additional savings due to fear of the second wave of the pandemic and uncertainty about their work, the companies will also reduce investments due to low demand and expectations of the second wave of the pandemic.

China

Chart 5.1.1.4. Real GDP Growth in China
(year to year)



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

Forecasts for economic development in China were worsened due to wider impact of the coronavirus disease outbreak in the country. Analysts' forecasts for GDP growth in China in 2020 were reduced from 5.6 to 1.0-2.0 percent due to more negative consequences of coronavirus epidemic in Q1 compared to expectations. After a significant slowdown in growth in 2020, the international analysts expect a stronger recovery in 2021 than in other regions, due to earlier rehabilitation from the pandemic disease.

Thus, in 2021, many international analysts forecast economic growth at the level of 8.0-10.0 percent. According to the international analysts, a number of government stimulus measures, including easing the requirements for attracting loans, tax concessions, and increase in budget expenditures will contribute to such progress in China.

Moreover, in March 2020, the main indicator of economic recovery was the decline in unemployment by 0.3 percentage points from 6.2 percent in February to 5.9 percent in March.

According to the economists interviewed by the agency "Bloomberg", the average annual inflation rate in China is expected to exceed the target of "three percent" set by the Government.

Easing of the monetary policy in China to maintain the real economy, as well as the situation in the pork market will be the main drivers of inflation. Low commodity prices, decline in pork prices due to establishment of the supplies chain, being the main engine of inflation among the food products, will be the factors of the inflation rate slowdown during the year.

The risks lie in coronavirus outbreak resumption in winter of the current year, introduction of new US sanctions against China and initiation of the Cold War between these countries.

5.2. Medium-Term Forecast

In Q1 2020, the external and internal economic conditions of the Kyrgyz Republic developed under the influence of shocks formed amid measures to combat the spread of coronavirus infection in the world and in the region.

The impact of external shocks and measures taken to combat the spread of the coronavirus infection in the country —introduced emergency situation and the state of emergency in certain regions of the country — conditioned a significant slowdown in economic activity. The assumptions made in the previous forecast round about the limited negative impact of the coronavirus spread did not materialize. The negative impact of these shocks is assumed to persist until the mid-end of 2021 within the framework of the current forecast.

In 2020, the external environment will be characterized by a decrease in economic activity in the main trading partner countries (Russia and Kazakhstan) amid low prices in the

world commodity markets and introduced quarantine being in force in March-May 2020. Moreover, the rate of economic activity recovery in the trading partner countries will largely depend on the effectiveness of quarantine measures and on the epidemiological situation in Q4 2020.

As part of the forecast being reviewed, a full-scale recovery of economic activity is expected in the first half of 2021.

According to the official estimates, in 2020, the economy of the Russian Federation is expected to decline by approximately 4.0-6.0 percent, expectations about GDP dynamics in Kazakhstan in 2020 are based on the IMF forecast published in April 2020, which provides for a decrease by 1.0-3.0 percent.

The decline in economic activity in Russia will accordingly affect the volume of remittances to the Kyrgyz Republic: in 2020, the net inflow of remittances is expected to decrease compared to the same period of 2019. In 2020, remittances decrease due to the decline in economic activity in Russia, and due to weakening of the Russian ruble against the US dollar.

As part of the current forecast round, assumptions regarding the price movement in the world food markets in the upcoming agricultural season (July 2020 - June 2021) generally remain stable. The increase in prices for some groups of food commodities was formed amid a sharp increase in demand prior to introduction of an emergency situation in the country, however, according to the forecasts of the market analysts, the harvest of grain and leguminous crops in Russia and Kazakhstan in 2020 is expected at the level of 2019 and higher to stabilize the prices for food products in the EAEU in 2020.

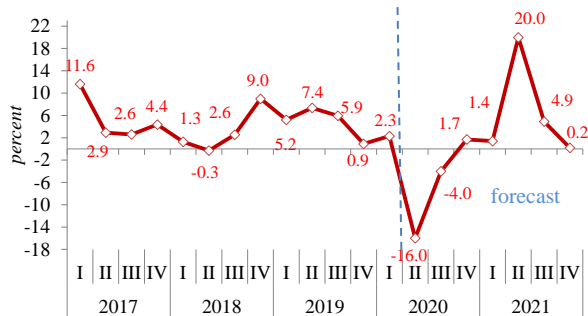
In the first half of 2020, the oil price suffered negative effect of external shocks due to the spread of coronavirus infection, for example, in April 2020, the oil price was below USD 20 per barrel. During May 2020, the oil prices demonstrated a stable upward trend being a market reaction to the OPEC + agreement to reduce oil production and a reaction to increased optimism about recovery of the economic activity in the world. The current forecast takes into account the average oil price maintenance in 2020-2021 at the level of USD 30 and USD 40 per barrel, respectively.

The structure of the economy of the Kyrgyz Republic determines the special role of the external sector parameters in the forecasts being developed, in the conditions of a global economic shock such parameters become crucial. Assumptions on the parameters of the foreign economic sector such as the price movement in the world commodity markets, prospects for the economic development in the trading partners countries of the Kyrgyz Republic and other important indicators of the world economic development are set based on the forecasts of the world research agencies/institutions, the official bodies of the countries and the experts' assessments.

The National Bank of the Kyrgyz Republic assesses the scenarios of the behavior of Kyrgyz Republic economy under the impact of various combinations of external economic conditions and develops appropriate options for the monetary policy directions.

Taking into account the emerging upward trends in the economies of the trading partner countries in 2020-2021, as well as the price movement in the world commodity markets in the medium term, the following forecast was developed for the key macroeconomic indicators of the Kyrgyz Republic in 2020-2021.

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



Existing external conditions conditioned a significant decline in economic activity in the country and a corresponding negative GDP gap.

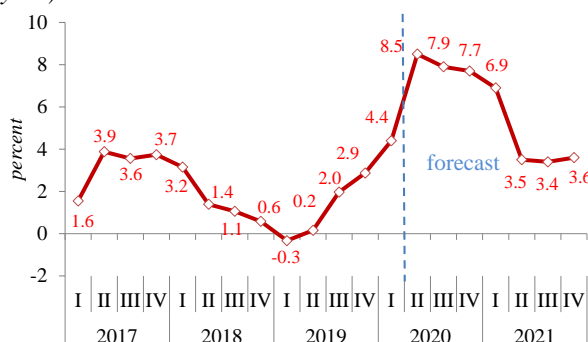
In 2020, GDP is expected to decline by 4.0 percent compared to 2019, GDP excluding the enterprises of the Kumtor Mine is expected to decrease by 5.0 percent in 2020.

Given the assumption that the trend of economic activity recovery will develop, in 2021, the real GDP growth is expected at 6.2 percent; the GDP growth excluding the enterprises of the Kumtor Miner will be

approximately at 6.7 percent.

Taking into account the current internal and external factors resulting from the spread of the global pandemic, the inflation rate in the economy of the Kyrgyz Republic is expected to reach a level near the upper limit of the target of 5-7 percent in the current year.

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



In 2020, the main factors of acceleration in inflation are the increased demand for food products in March-April of the current year due to introduction of the emergency situation and the state of emergency in certain regions of the country. Moreover, weakening of the Kyrgyz som against the US dollar made an additional contribution to an increase in consumer prices. At the same time, rise in consumer prices is expected to be partially compensated by a decline in domestic demand in 2020.

Thus, in 2020, the average annual inflation rate is expected at about 7.0 percent,

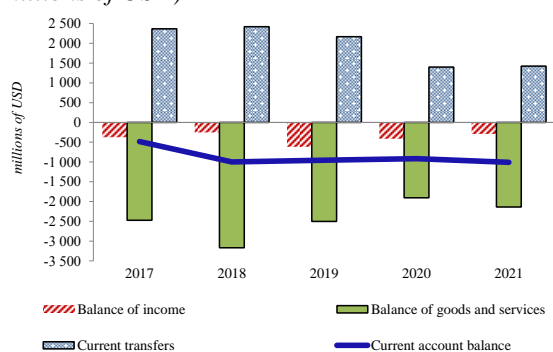
having increased by 2.4 percentage points compared to the forecasts in the previous quarter, at the end of the year (December 2020/December 2019), the inflation rate is likely to approach the level of 7.0-7.5 percent. In 2021, the average inflation rate is expected at 4.3 percent to reach the value of about 3.5-4.0 percent by the end of the year.

Forecast for the Balance of Payments in 2020-2021 (baseline scenario)¹

Forecast for the balance of payments indicators in 2020-2021 was significantly adjusted due to changed economic situation in the world caused by the coronavirus pandemic. Measures taken to combat COVID-19, as well as other related economic factors that have a negative impact on the economies of Kyrgyzstan and the main partner countries, were the determinants of the forecast for the external sector in the country in 2020. In 2020, the current account deficit was estimated at 13.3 percent of GDP in the amount of USD 1,026.8 million (an increase by 7.7 percent). An increase in the trade deficit of goods and services is expected in the forecast period amid a decrease in migrant workers' remittances.

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

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



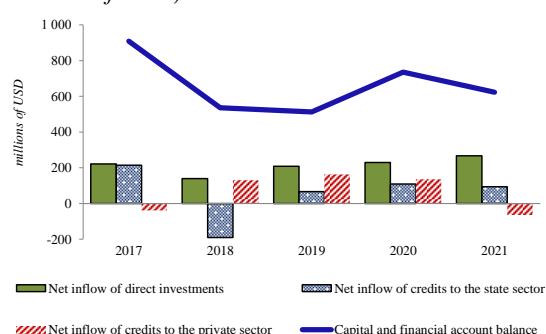
the end of the year. In turn, gold supplies are forecasted to provide significant support to exports in 2020, as well as through rise in the world prices.

A decrease in border capacity due to measures taken to combat the spread of coronavirus infection, reduction of domestic demand amid decline in business activity in the country will have a more significant impact on the imports forecast compared to strengthening of the US dollar against the national currency. The decrease in imports is expected at 15.1 percent due to all functional categories of imports. A negative growth in imports of petroleum products is expected due to reduction in the physical volume of supplies of the energy products, and due to decrease in the world prices. Imports of other goods are expected to decrease by 11.5 percent.

Expectations regarding the economic slowdown in the Russian Federation and loss of jobs by the migrants due to introduced quarantine measures, as well as devaluation of the Russian ruble against the US dollar determined the forecast of a net inflow of current transfers. In 2020, the net inflow of transfers to the private sector will decrease by 30.0 percent. The inflow of official transfers is also expected below the level of 2019.

Restrictions imposed by the countries and closing of the borders will have a significant negative impact on the tourism, the hotel business, the passenger and freight traffic, thus increasing the deficit of the international services balance through such items as “travel” and “transport services”.

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



In 2020, financing of the current account deficit through capital inflows from the capital and financial account will be insufficient and will require additional funds. The bulk of capital inflows on the financial account is expected to be provided by direct and other investments.

The balance of “other investments” item will be formed under the influence of an increase in the foreign liabilities of the public sector, as well as through attraction of the international donors’ funds to combat the coronavirus pandemic.

The inflow of funds into the private sector is also expected, and the debt service level is likely to remain significant.

Thus, according to the results of 2020, the balance of payments, taking into account IMF financing, is expected to be negative in the amount of USD 235.2 million.

The economic situation in 2020, which will be influenced by the coronavirus pandemic, will require a longer time to recover external economic performance.

Therefore, the forecasts of the balance of payments items for 2021 remain restrained. The current account deficit is expected at 11.4 percent to GDP. Generally, gradual recovery of external demand amid development of mining production will contribute to growth of exports by 8.6 percent. Economic growth recovery in the country, as well as removal of the restrictive measures, will create preconditions for increasing imports by 6.1 percent.

Thus, the negative trade balance is expected to increase by 3.9 percent. At the same time, foreign trade turnover is expected to remain below the level of 2019.

Gradual economic recovery is expected in the main recipient countries of the migrant workers during 2021. However, loss of jobs by the migrants during quarantine measures will continue to have a negative impact on their income levels, therefore an increase in net inflows of private transfers is expected at 12.7 percent, taking into account the effect of the low base in 2020.

Inflows on the capital and financial account will increase compared to 2020. The basic amount of funds will be provided by the foreign direct investments and the loans of the public sector. Upward trend will be observed in private sector debt service.

In 2021, the overall balance of payments is forecasted to be negative of USD 32.5 million.

The following risks are still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2020-2021:

- unprecedented level of uncertainty related to the coronavirus pandemic;
- the risks associated with the Kuntor Mine and other precious metal deposits 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;
- growth of public and private sectors' debt service;
- 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	2018				2019				2020
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Demand and supply^{1/} (real growth rates, if otherwise is not indicated)										
Nominal GDP, per quarter	mln. KGS	105 149,0	123 373,9	159 387,3	181 475,4	106 173,5	128 540,3	168 582,8	186 745,8	109 989,8
GDP	%	1,3	-0,3	2,6	9,0	5,2	7,3	5,9	0,9	1,5
GDP, excluding Kumtor	%	3,2	2,3	3,4	5,3	1,3	2,9	5,1	4,7	0,8
Domestic consumption	%	1,9	4,3	3,3	2,6	0,0	1,4	3,5	0,3	
Investment	%	88,4	-5,9	-7,9	8,4	-20,6	-10,9	6,3	1,9	
Net export	%	69,6	12,5	-2,8	3,1	-28,6	-11,1	-6,8	3,1	
<i>GDP production:</i>										
Agriculture	%	0,7	1,6	3,2	2,8	1,1	2,6	2,8	2,9	1,4
Industry	%	0,3	-8,9	1,0	22,3	15,2	25,9	10,6	-13,5	1,1
Construction	%	1,4	4,2	5,0	12,6	3,3	7,4	12,4	12,6	-2,6
Services	%	1,8	2,1	2,3	4,2	1,3	1,6	4,5	3,4	2,1
including trade	%	3,7	4,8	4,7	7,7	3,9	4,6	4,3	6,0	4,3
2. Prices^{2/}										
CPI	%	103,1	101,4	101,1	100,9	99,7	100,2	101,9	102,8	104,4
CPI, in annual terms as of the end of period	%	102,7	100,8	101,2	100,5	99,3	100,9	102,3	103,1	102,7
Core inflation	%	102,8	103,1	102,5	100,4	101,0	100,8	101,2	102,2	103,5
<i>CPI by main groups of goods and services:</i>										
Food products	%	101,2	96,5	96,4	101,1	97,1	99,7	103,5	105,3	108,1
Non-food products	%	103,0	103,2	103,0	101,6	101,1	99,8	100,4	100,4	100,9
Alcohol drinks and tobacco products	%	106,5	109,1	108,4	100,3	104,7	104,0	103,8	103,5	104,2
Services	%	106,9	107,3	106,1	99,4	101,3	99,9	99,8	100,3	101,0
<i>CPI, classified by character:</i>										
Excisable goods	%	106,5	109,2	109,2	107,7	104,5	102,9	102,2	101,8	103,1
Regulated prices	%	100,6	100,9	100,8	101,1	100,9	100,8	100,9	101,5	102,7
Market inflation rate (the rest of CPI)	%	105,3	105,5	104,7	102,6	101,2	99,8	100,3	100,5	100,8
3. External sector^{3/} (in percent to GDP)										
Trade balance	%	-35,2	-36,7	-37,0	-36,7	-34,6	-32,7	-31,3	-30,4	-27,4
Current transaction account	%	-10,9	-12,3	-13,4	-12,1	-10,0	-10,1	-10,5	-11,3	-9,1
Export of goods and services	%	33,6	34,4	33,1	33,2	34,7	35,1	36,7	36,7	35,8
Import of goods and services	%	70,1	72,7	71,5	71,6	70,3	68,3	68,0	66,3	62,8
4. USD exchange rate, as of the end of period										
	KGS	68,4325	68,1800	69,2773	69,8500	69,8496	69,4928	69,7039	69,6439	80,8100
5. Monetary sector										
NBKR policy rate, as of the end of period	%	5,00	4,75	4,75	4,75	4,50	4,25	4,25	4,25	5,00
Rate of "overnight" deposit, as of the end of period	%	0,25	0,25	0,25	1,50	1,50	1,75	2,00	2,00	2,75
Rate of "overnight" credit, as of the end of period	%	6,25	6,00	6,00	6,00	6,00	5,75	5,75	5,75	5,75
Average interest rates of operations in the interbank credit market, per quarter										
<i>of which:</i>										
of REPO transactions	%	2,73	2,48	2,17	2,22	2,25	3,02	3,27	3,50	3,55
of credits in national currency	%	-	0,00	-	-	2,30	2,30	-	-	-
of credits in foreign currency	%	-	-	-	-	3,50	2,88	3,36	-	-
Weighted average yield of 7-day notes, as of the end of period	%	2,40	2,31	1,90	3,03	3,67	3,59	3,79	3,76	3,97
Weighted average yield of 14-day notes, as of the end of period	%	-	-	-	3,36	-	-	-	3,78	4,15
Weighted average yield of 28-day notes, as of the end of period	%	3,83	3,30	1,86	3,65	3,93	4,18	4,10	4,00	4,31
Weighted average yield of 91-day notes, as of the end of period	%	4,99	4,73	4,00	4,66	4,48	4,20	4,25	4,23	4,48
Weighted average yield of 182-day notes, as of the end of period	%	-	-	4,73	4,75	4,50	-	-	-	-
Monetary base	%	16,2	6,7	2,6	6,3	6,0	13,0	14,3	11,0	13,6
Money outside banks (M0)	%	15,7	5,8	2,5	0,4	5,2	11,1	12,7	13,2	14,9
Monetary aggregate (M1)	%	19,6	10,5	4,2	3,0	5,2	9,6	13,9	14,8	14,0
Narrow money supply (M2)	%	21,1	14,6	8,0	8,2	10,3	13,2	17,4	17,6	15,9
Money supply (M2X)	%	16,9	11,6	6,2	5,5	5,5	8,8	14,7	12,8	16,7

^{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 Q1 are preliminary

Annex 2. Glossary

Balance of payments is a report, which reflects aggregate economic transactions between the residents and non-residents within a certain period of time.

Consumer price index reflects changes in the prices for goods and services purchased by the standard consumers for non-production purposes. This index is among inflation rate measures, which is based on comparing the value of basic goods basket consumed by the population and weighted in accordance with the share of these goods in the aggregate consumption.

Core inflation is inflation, which excludes short-term, structural and seasonal changes of prices: the growth in prices of goods due to the seasonal, the external factors and the administratively established tariffs is excluded from the calculation of the inflation rate.

Core CPI index is a price excluding the cost of food products, electric energy, gas, and other fuels.

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 nonresidents 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
EAEU	Eurasian Economic 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
MNE RK	Ministry of National Economy of the Republic of Kazakhstan
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
RK	Republic of Kazakhstan
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America
VAT	Value Added Tax