

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 3, 2020**

**Bishkek
November 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 Q3 2020 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2019-II-07/69-1-(ДКП) dated November 30, 2020.

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Summary

In Q3 2020, significant changes in the external environment due to spread of coronavirus disease COVID-19 still influenced the development trends of the economy in the Kyrgyz Republic.

During the reporting period, the Kyrgyz Republic demonstrated the highest value in the coronavirus disease incidence, which slowed down the recovery of economic activity when many restrictions were lifted. Economic activity in the main trading partner countries improved slightly after lifting of the quarantine measures since the second half of Q2 2020.

The global economy demonstrated a moderate recovery in demand for energy and food products amid lifting of strict isolation in developed countries. Gradual rise in prices for food products and oil was restrained by fears of new outbreaks of coronavirus disease and introduction of new restrictions. Investors' interest in gold was the reason for stable growth of prices in the market.

At the end of Q3 2020, economic indicators were significantly lower compared to the level of 2019, GDP decrease was 6.0 percent (excluding the enterprises of the Kuntor Mine, a decrease was 7.1 percent). The decrease in the inflow of remittances to the country according to the results of the first 9 months of 2020 slowed down, however it remains below the level of the same period in the previous year, conditioning a more restrained domestic consumption.

In Q3 2020, the trade balance was formed under the influence of a decrease in import operations in all functional groups and an increase in gold exports. As a result, the trade deficit in the country amounted to USD 361.4 million. The volume of foreign trade turnover decreased by 15.1 percent and amounted to USD 1.4 billion.

In the fiscal sector, the situation was deteriorating due to growing gap between the state budget revenues and expenditures as a result of the loss of customs and tax revenues amid closure of borders with neighboring countries and introduction of the restrictive measures due to COVID-19 spread. At the end of January-September 2020, the state budget deficit amounted to KGS 15.6 billion, or 3.9 percent to GDP (in January-September 2019, the budget deficit amounted to KGS 2.0 billion or 0.5 percent to GDP).

In the reporting quarter, the annual inflation rate was 5.3 percent, having decreased from 7.2 percent in Q2. Slowdown in the growth rate of food products and weakening of the domestic consumer demand, as well as low prices for petroleum, oil and lubricants were the main factors restraining the inflation. In the current shocking economic conditions, a temporary acceleration of the inflation rate will be observed during 2020 with its average value remaining within single-digit limits.

The interest rate policy of the National Bank remained unchanged. The short-term money market rates fluctuated within the interest rate corridor set by the National Bank near the key rate. The banking system still demonstrated a high level of excess liquidity, which, in turn, stimulated an increased demand of the commercial banks for the National Bank's instruments to absorb liquidity. In the domestic foreign exchange market, the volatility of the US dollar against the Kyrgyz som decreased as compared to the previous quarter. During the reporting quarter, the exchange rate of the Kyrgyz som fluctuated within the range of KGS 75.9887 - 79.6000/USD 1.

Chapter 1. External Environment

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

Economic activity in the main trading partners of the Kyrgyz Republic improved slightly after cancellation of many restrictive measures in the second half of Q2 2020.

In the reporting period, according to expectations the rate of GDP decrease in Russia slowed down, meanwhile the inflation rate accelerated slightly under the influence of short-term pro-inflationary factors; however it was below the target of the Bank of Russia.

A negative trend was still observed in economic development in Kazakhstan, meanwhile there was a slight increase amid easing quarantine restrictions, however the inflation rate still demonstrated upward trend.

In Belarus, the rate of GDP decline slowed down, meanwhile the inflation rate accelerated, exceeding the target of the National Bank of the Republic of Belarus, mainly due to the weakening of the Belarusian ruble amid increased inflationary and devaluation expectations in the economy.

In Armenia, economic activity was characterized by even greater decline amid worsening situation with the coronavirus disease and geopolitical tensions in the region.

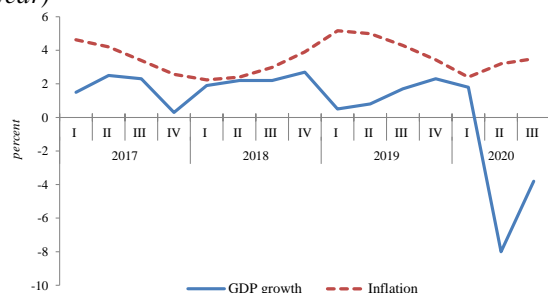
Economic activity in China continued increasing amid improvement of the epidemiological situation, the GDP growth rate approached the indicators of the same period in the previous year, and the inflation rates slowed down.

In Q3 2020, the US economy was recovering intensively due to implementation of pent-up demand after cancellation of lockdowns, easing financial conditions and fiscal support.

Russia

Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



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

GDP decline. Moreover, the softening of anti-epidemiological measures during the reporting quarter resulted in improvement of the dynamics in the service sectors. At the same time, the “mining industry” under the conditions of the OPEC+ agreement and the “transport complex” due to restrictions imposed on international transportation still made a significant negative contribution to the GDP dynamics in the country.

In the reporting period, due to the soft monetary policy and measures of the Bank of Russia and the government of the country there was an increase in lending activity in the corporate and retail segments which indicated a gradual recovery in business activity.

¹ Estimate of the Russian Federal State Statistics Service.

In Q3 2020, the annual inflation rate in Russia increased from 3.1 percent a quarter earlier to 3.5 percent amid growing short-term pro-inflationary factors. In September 2020, the inflation rate increased up to 3.7 percent, mainly due to an increase in prices for non-food products. The increase in the annual food inflation rate was moderate, meanwhile the rate of rise in prices for services decreased, returning to the level observed in July. The annual core inflation indicator increased by 0.2 percentage points compared to the previous month and was 3.3 percent.

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBKR calculations

In Kazakhstan, in Q3 2020, a negative trend was still observed in economic growth, however it demonstrated recovery. In January-September 2020, GDP decreased by 2.8 percent compared to an increase by 4.3 percent in the same period of 2019. Easing of quarantine restrictions in the second half of the current year and preservation of stimulating monetary and fiscal policies created conditions for economic recovery launching. Thus, in September, there was a slowdown in the five-month decline (in January-August, the GDP growth rate was -3.0 percent). Positive

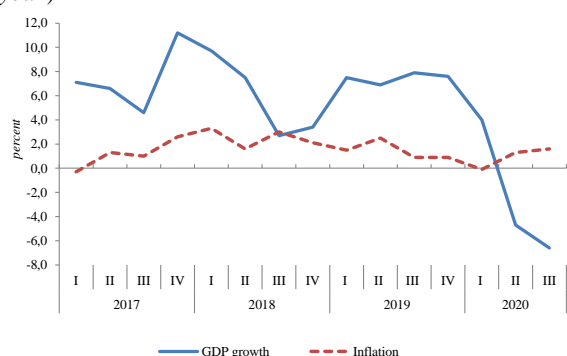
growth accelerated in the real sector (up 2.2 percent) during nine months, and there was also a significant increase in investments in health care (by 85.7 percent) and communication (by 62.4 percent) sectors. The decline is observed in the sectors of transport (by 17.1 percent), trade (by 9.5 percent) and administrative services (by 4.9 percent).

In Q3 2020, the inflation rate in Kazakhstan was at the level of 7.0 percent against 5.4 percent in the corresponding period of 2019. In the structure of inflation, prices for food products increased by 10.8 percent in annual terms, for non-food products - by 5.5 percent, and for paid services - by 3.6 percent.

Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



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

In Armenia, economic activity was characterized by even greater decline from 5.7 percent in the first half of the year to 6.6 percent in January-September 2020 amid rapidly reducing volumes of exports and domestic consumption.

According to the preliminary data of the Statistical Committee of the Republic of Armenia, industries that previously acted as the drivers of economic activity growth, now, they were in decline, and even the industrial and agricultural sectors demonstrated near-zero growth amid increasing coronavirus spread and the state of martial law due to hostilities in the Nagorno-Karabakh conflict zone. Thus, in January-September 2020, the industrial sector, the agro-industrial sector and the energy complex (1.0 percent, 0.5 percent and 1.5 percent per annum, respectively) were the only sectors that demonstrated positive dynamics. The other industries demonstrated a

serious decline: construction - by 15.7 percent, trade – by 11.4 percent, services – by 11.7 percent.

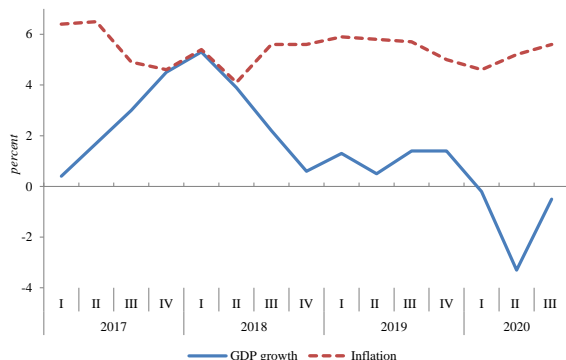
In September 2020, deflation of 0.2 percent, compared to inflation of 0.2 percent in September 2019 was registered in Armenia. Restrained dynamics of inflation is explained by weak demand in the economy amid the pandemic, as well as the relative stability of the Armenian dram exchange rate against the US dollar.

According to the official forecasts of the Armenian government, the economic decline was expected at 6 percent by the end of 2020; however it was revised up to 6.8 percent, where the additional decline was estimated at 0.8 percentage points as a result of the military operations in Karabakh. Most experts expect a decline of 6.0-7.2 percent with a gradual growth up to 3.2 percent in 2021.

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(in annual terms)



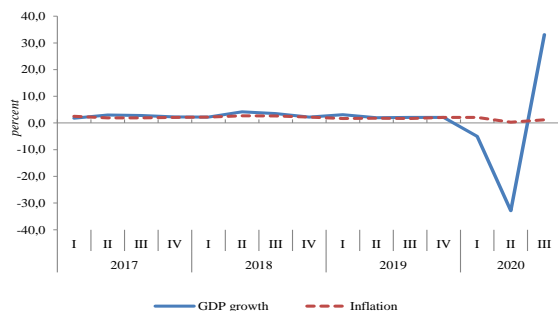
Source: National Statistical Committee of the Republic of Belarus in agricultural production (+4.9 percent).

In September 2020, the annual increase in consumer prices was 6.1 percent, having exceeded the target, which was largely due to the increase in prices for imported goods due to weakening of the Belarusian ruble in August amid increased demand for foreign currency. Growth rates in prices for fruits and vegetables remained high. At the same time, the slowdown in economic activity still had disinflationary effect. The National Bank of the Republic of Belarus expects the inflation rate in the country to exceed the target indicator (5 percent) by the end of the reporting year and to be about 6 percent.

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(in annual terms)



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

In the context of some recovery in global business activity after easing of restrictive measures, in Q3 2020, the reduction of GDP in Belarus slowed down from (-)3.3 percent a quarter earlier to (-)0.5 percent¹. At the same time, consumer demand remained weak in the reporting period. Generally, the fiscal policy of Belarus remained stimulating.

In January-September 2020, GDP in Belarus decreased by 1.3 percent compared to the same period of the previous year. In terms of sectors, positive growth rates were observed in retail turnover (+2.4 percent) and

In Q3 2020, the U.S. economy recovered strongly after unprecedented recession in Q2.

According to the preliminary estimates of the Bureau of Economic Analysis, in Q3 2020 the economic recovery in the USA was 33.1 percent being facilitated by implementation of pent-up demand after cancellation of lockdowns, easing financial conditions and fiscal support.

Final consumption made the main contribution to the economic recovery, meanwhile increased investments was the

¹ According to the data of the National Bank of the Republic of Belarus

other driver of the recovery. On the contrary, external demand made a negative contribution to the growth rates due to outstripping recovery of imports compared to exports.

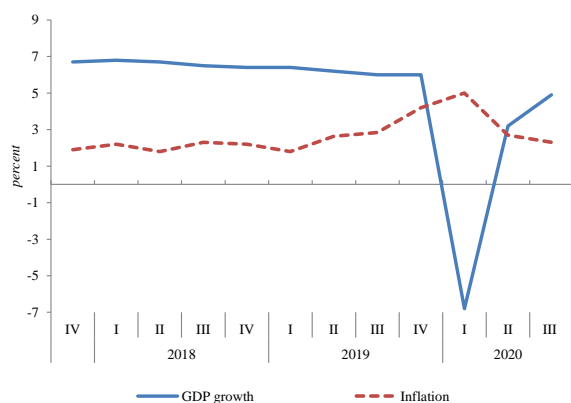
In Q3, the Government expenditures, which supported the US economy in the first half of the year, declined at the federal level and at the state and local government levels, only military expenditures increased. According to the Bloomberg analysts, the fastest recovery was observed at the beginning of Q3, and then it slowed down amid expanded spread of COVID-19 and completion of a number of temporary measures to support businesses and citizens.

In September, the US consumer prices increased by 1.4 percent in annual terms, meanwhile the monthly inflation rate was 0.2 percent. The coronavirus pandemic has weakened inflation in the USA: the FRS key consumer price index, – the PCE index¹ – increased by 1.5 percent in September in annual terms.

China

Chart 1.1.6. Growth of GDP and Inflation in China

(quarter to the corresponding quarter of the previous year)



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

In Q3 2020, economy in China demonstrated return to pre-coronavirus indicators six months after the outbreak of the pandemic spread.

In Q3, GDP in the country increased by 4.9 percent compared to 6.0 percent in the same period of 2019 (in Q2, the growth was 3.2 percent, in Q1, a maximum reduction by 6.8 percent was recorded). In general, in January-September 2020, GDP in China increased by 0.7 percent compared to the same period of 2019. During 9 months of 2020, growth in the agricultural sector was 2.3 percent, in industry - 0.9 percent, in the service sector - by 0.4 percent.

According to the experts, economy in China has escaped recession and has

recovered relatively quickly due to a series of stimulus measures taken by the Government to revive economic activity, as well as lockdown and population tracking policies aimed at preventing virus spread.

In Q3 2020, amid significant improvement of the epidemiological situation, the inflation rate slowed down from 2.7 percent in Q2 2020 to 2.3 percent in annual terms (in Q3 2019, prices increased by 2.9 percent). During the period from January to September 2020, the inflation rate in the country was 3.3 percent.

1.2. World Commodity Markets

Dynamics of prices for the main food products imported by Kyrgyzstan in the world markets was relatively high. The risks of inflationary impact on the domestic prices from the world markets are seen moderate.

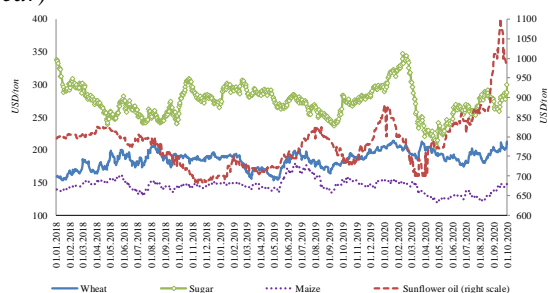
During the reporting period, the oil market demonstrated a moderate recovery in prices amid fears of introducing quarantine restrictions and existing geopolitical risks. Prices of gold demonstrated stability.

¹ Core PCE price index is among the main indicators of inflation in the consumer sector, which the FRS pays attention to when deciding to change the policy rate. The FRS considers the index “comfortable” from 1.0 to 2.0 percent in annual terms.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)

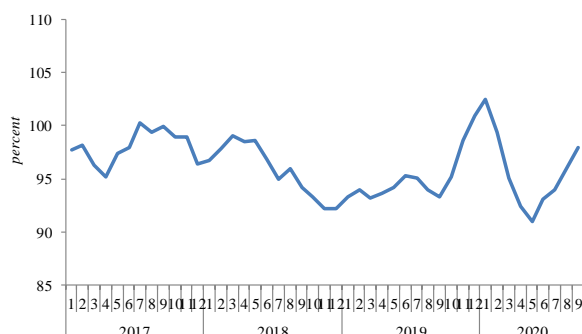


in 2021.

Prices for vegetable oil demonstrated an upward trend amid high import demand and low world reserves. Prices for sunflower oil are rising amid fears that the harvest in the Black Sea region will be much lower compared to the previous year. According to the Ministry of Agriculture of Russia, sunflower harvest is forecasted to decrease in 2020 due to unfavorable weather conditions in the south of the country. Rise in prices for sunflower oil, which has a significant share in the structure of the consumer basket of Kyrgyzstan, accelerated significantly at the end of September.

Prices for sugar demonstrated volatile dynamics, however overall increase in prices was moderate. Quotations for this product have declined in the world markets year-to-date, due to higher-than-forecast production in the main producing countries.

Chart 1.2.2. Dynamics of FAO Food Price Index



There was an increase in prices for the main commodity groups in the world food markets.

Prices for cereals increased due to concerns about the impact of adverse weather conditions on crops in Europe and due to production risks in the southern hemisphere.

Moreover, the world prices for maize increased due to deterioration of crop prospects, primarily in the EU. Cereal production in the world, including Russia, Australia and the EU, is forecasted to increase

Energy Market

Chart 1.2.3. Dynamics of Oil Prices

(in USD)



In the reporting period, an increase in oil prices was observed in the oil market amid weakening of restrictive measures in the largest economies of the world. Thus, the average price of Brent crude oil increased by 29.8 percent compared to the previous quarter and was USD 43.3 per barrel. At the same time, since September 2020, oil prices slightly decreased and amounted to USD 41.0 per barrel at the end of the reporting period (in early September, the price of Brent crude oil was USD 44.4 per barrel) due to increased geopolitical risks, growing fears of introducing quarantine measures and weakening of business activity.

According to the OPEC+ agreement, from September to the end of 2020, the reduction in oil production is 7.7 million barrels per day, and from January 1, 2021 – 5.8 million barrels per day.

The next OPEC+ meeting to discuss the parameters of the agreement, is scheduled for November 30 and December 1, 2020. Generally, the agreement is valid until April 2022, the terms thereof may be revised in December 2021.

OPEC lowered its forecast for growth in oil demand in the world in 2020 from 90.3 million barrels per day to 90.0 million barrels per day, and in 2021, demand is expected to grow up to 96.3 million barrels per day (previously expectations made 96.8 million barrels per day).

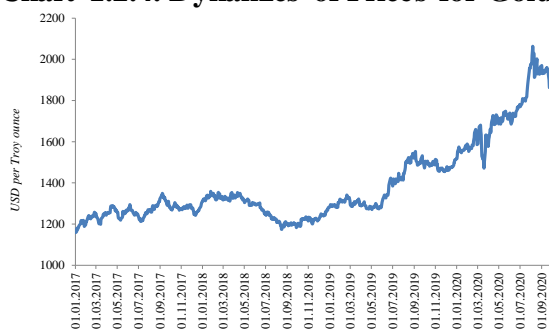
Amid worsening epidemiological situation in the world, the International Energy Agency (IEA) has worsened its forecast for decline in oil demand in the world in 2020 by 0.4 million barrels per day, down to 91.3 million barrels per day. In 2021, the IEA expects demand to recover by 5.8 million barrels per day, up to 97.1 million barrels per day, which is still 3 million barrels per day less than in 2019.

The US Department of Energy raised its forecast for an increase in oil production in the country in 2020 up to 11.4 million barrels per day and decreased prices from USD 41.2 to USD 40.6 per barrel. The United States, Canada, Brazil and Norway will remain the main drivers of oil supply growth in 2021.

According to the IMF forecast, oil prices will remain within the range from USD 40 to USD 50 per barrel in 2021.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

In Q3 2020, prices for gold indicated market stability. As of September 30, 2020, the prices for gold have increased by 24.3 percent year-to-date, up to USD 1,885.82 per Troy ounce, meanwhile the price reached its maximum value of USD 2,063.54 per Troy ounce in early August.

The experts forecast that adoption of additional measures to stimulate the US economy will launch inflationary processes and, as a result, will become a key trigger for rise in prices for gold; meanwhile J. Biden's victory in the presidential race promises adoption of a larger package of fiscal assistance, which will further increase inflationary expectations in the USA. Prices will also continue to be supported by the spread of the second wave of COVID-19 in the world and the geopolitical risks associated with the escalation of the conflict between the United States and China.

Moreover, the supporting factor for gold, of course, is the intention of the US Federal Reserve System to keep rates near zero for at least two next years.

Chapter 2. Macroeconomic Development

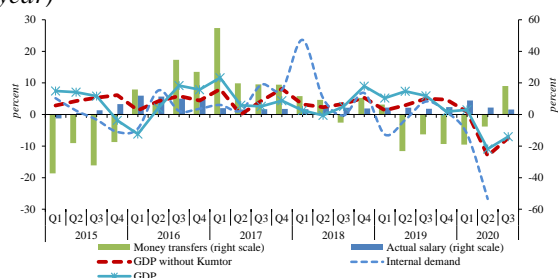
2.1. Demand and Supply in the Commodities and Services Market

In Q3, economic growth still demonstrated slowdown under the influence of restrictive measures imposed to prevent the spread of coronavirus disease, having formed below the indicators of 2019 in the same period.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

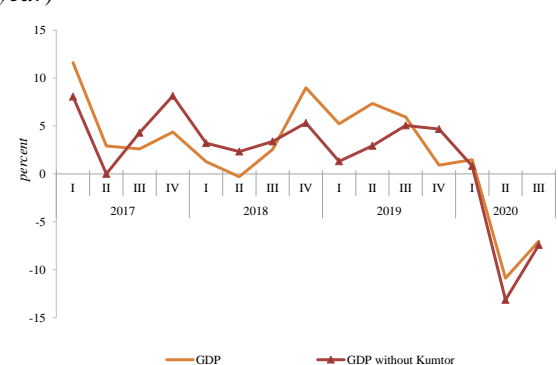
(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

in the country.

At the end of January-August 2020, the average monthly nominal wage of one employee² amounted to KGS 17.9 thousand, having increased by 9.0 percent compared to the same period of 2019. The largest increase in the growth rate of average monthly wages was observed in education (24.4 percent), administrative and support activities (18.5 percent), hotels and restaurants activities (16.3 percent).

At the same time, in January-August 2020, the real wages increased by 3.2 percent compared to the same period in 2019 (in January-August 2019, an increase amounted to 4.2 percent).

In January-September 2020, there was a significant decline in GDP of the Kyrgyz Republic by 6.0 percent (excluding the enterprise of the Kumtor Mine, the decline was 7.1 percent) due to the situation related to the spread of coronavirus disease and its impact on the economy.

According to the preliminary results of Q2 2020, decrease of domestic demand¹ amounted to 26.7 percent in annual terms. The decrease was mainly due to a reduction in final consumption (-26.8 percent) resulted primarily from a decline in household consumption (-34.9 percent). The results of Q3 2020 were significantly lower than in the same period of 2019.

Thus, trade (-3.0 percentage points), transport (-1.2 percentage points) and other (-1.0 percentage point) items made a negative input to the economy, in contrast to the sector of agriculture, which demonstrated a positive input of 0.5 percentage points. The coronavirus disease in the world conditioned an unprecedented deterioration in external conditions and had a negative impact on the macroeconomic indicators of the real sector

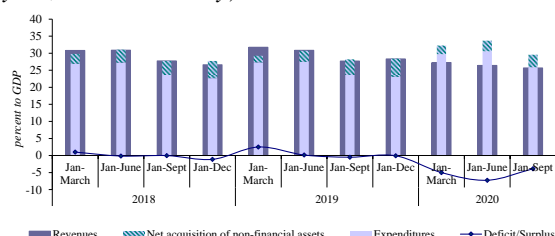
¹ According to the NSC KR, reference to the data for the earlier period is given due to the lack of more up-to-date data.

² Generally in the republic, excluding small enterprises.

Public Finances Sector

In January-September 2020, the state budget deficit amounted to KGS 15.6 billion, or 3.9 percent to GDP (in January-September 2019, the budget deficit amounted to KGS 2.0 billion or 0.5 percent to GDP). The primary state budget deficit (excluding interest payment for servicing the public debt) amounted to KGS 10.1 billion, or 2.5 percent to GDP.

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



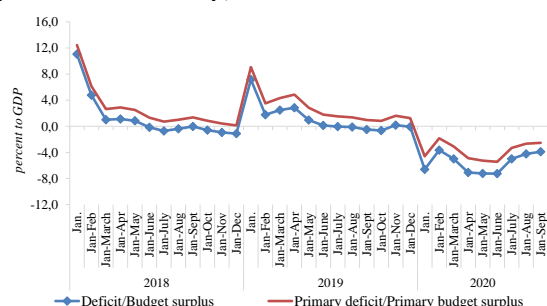
Source: CT MFKR, NBKR

tax revenues and official transfers made a positive input to the growth of budget revenues (1.9 and 1.5 percentage points, respectively).

The state budget expenditures for operating activities increased in annual terms by 8.7 percent or KGS 8.3 billion and amounted to KGS 103.7 billion or 25.9 percent to GDP. There is an increase in expenditures on “wages” (+22.4 percent) and “grants and contributions” (+12.6 percent) items in the structure of expenditures according to the economic classification, meanwhile there is a decrease in expenditures on other items.

Chart 2.1.4. Budget Deficit

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



Source: CT MFKR, NBKR

Investments

In January-September 2020, the level of capital investment exploitation decreased by 14.7 percent compared to January-September 2019.

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

	January-September			
	2019		2020	
	millions of KGS		share, percent	
Total	90 034,1	77 632,3	100,0	100,0
Internal investment	63 954,5	57 111,6	71,0	73,6
Republican budget	2 315,3	2 028,8	2,6	2,6
Local budget	1 034,2	644,0	1,1	0,9
Funds of enterprises and organizations	30 673,5	28 106,5	34,1	36,2
Banks' credits	1 573,1	639,6	1,7	0,8
Population funds including beneficent help of KR residents	28 358,4	25 692,7	31,5	33,1
External investment	26 079,6	20 520,7	29,0	26,4
Foreign credit	14 220,9	13 464,9	15,8	17,3
Direct foreign investments	4 716,7	4 476,1	5,3	5,8
Foreign grants and humanitarian aid	7 142,0	2 579,7	7,9	3,3

Source: NSC KR

Source: NSC KR

The state budget revenues from operating activities decreased by 8.1 percent or KGS 9.0 billion, compared to the same indicator in 2019 and amounted to KGS 102.7 billion or 25.7 percent to GDP. Restrictions of economic activity in the Kyrgyz Republic to prevent the spread of coronavirus disease resulted in a decrease in tax revenues (-15.0 percent or KGS 12.9 billion) compared to January-September 2019, meanwhile these revenues still have a significant share in the budget revenues. Non-

tax revenues and official transfers made a positive input to the growth of budget revenues (1.9 and 1.5 percentage points, respectively). The state budget expenditures for operating activities increased in annual terms by 8.7 percent or KGS 8.3 billion and amounted to KGS 103.7 billion or 25.9 percent to GDP. There is an increase in expenditures on “wages” (+22.4 percent) and “grants and contributions” (+12.6 percent) items in the structure of expenditures according to the economic classification, meanwhile there is a decrease in expenditures on other items. Net outflow of budget funds for operations related to acquisition of non-financial assets (including operations in the following groups: fixed assets, reserves, land) decreased by 20.7 compared to the same period in 2019 percent or by KGS 3.8 billion and amounted to KGS 14.5 billion or 3.6 percent to GDP. The bulk of capital expenditures falls on acquisition of buildings and structures.

Decrease of capital investments was observed in the construction of manufacturing facilities, electric energy, gas, steam, and conditioned air provision, water supply, cleaning, waste treatment, wholesale and retail trade, transportation and storage of goods facilities, hotels and restaurants, education, healthcare, other service activities facilities, as well as housing construction facilities.

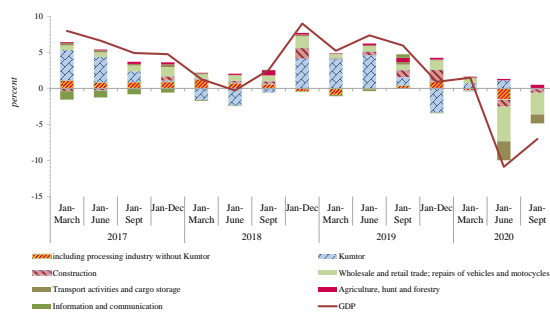
In January-September 2020, the

volume of capital investments financed from domestic sources decreased by 10.7 percent compared to the corresponding period of 2019, as well as that financed from the bank loans decreased by 59.3 percent, from the local budget - by 37.7 percent, from the republican budget - by 12.4 percent. Generally, the investments financed from the foreign sources decreased by 21.3 percent, as well as that financed from the foreign grants and humanitarian aid decreased by 63.9 percent, from the foreign loans - by 5.3 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

In January-September 2020, GDP decreased due to restrictive measures taken to prevent the spread of coronavirus disease.

According to preliminary data of the National Statistical Committee of the Kyrgyz Republic, in January-September 2020, the nominal GDP decreased by 6.0 percent in real terms compared to the same period of the previous year (during nine months of 2019, growth was 6.2 percent) and amounted to KGS 400.2 billion. At the same time, the indicators of economic growth in all sectors remained negative, excluding the sectors of

agriculture and communications. In the reporting period, growth of gross agricultural output by 2.1 percent compared to January-September 2019 was due to an increase in crop-growing (by 2.4 percent) and livestock (by 1.8 percent) production.

Reduction of production in the industrial sector in January-September 2020 was mainly due to a decrease in output of petroleum products (by 55.8 percent), textile, clothes and footwear, leather and leather products (by 21.6 percent), wood and paper products, printing activities (by 13.4 percent).

The turnover of trade, repair of motor vehicles and motorcycles decreased compared to January-September 2019 mainly due to growth in wholesale (by 18.4 percent) and retail (by 15.6 percent) sales.

In January-September 2020, the GDP deflator was positive and amounted to 5.6 percent, having increased by 7.7 percentage points compared to the same indicator in January-September 2019.

Transport (-32.9 percent), trade (-16.0 percent) and construction (-7.7 percent) were the main sectors that had a negative impact on the economy in January-September.

The measures taken in March 2020 due to introduction of emergency situation and state of emergency in the territory of some regions had a significant impact on the reduction of economic activity, however closure of the borders with neighboring countries made it difficult to deliver goods. Moreover, there were risks to economic growth in the post-election period related with rallies and strikes.

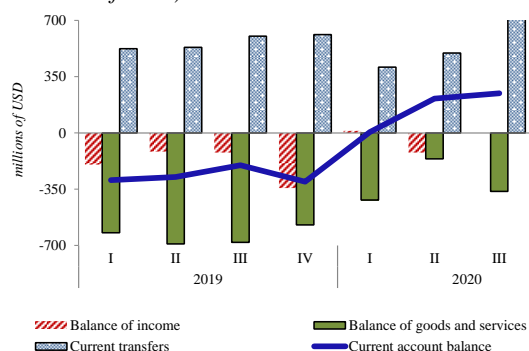
2.2. External Sector¹

Amid epidemiological situation in the world, in Q3 2020, the current account was formed positive due to reduced deficit in the balance of goods and services and a slowdown in the decline of current transfers.

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.

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 surplus constituted USD 245.9 million (2.0 percent to GDP¹) in Q3 2020.

In the reporting period, the trade deficit of the Kyrgyz Republic decreased by 52.5 percent to make USD 361.4 million. This trend was caused by the decline in imports amid increase in exports.

2.2.1. Trade balance of the Kyrgyz Republic²

(millions of USD)

	2017	2018	2019	2019 Q III	2020 *	Change in %	Change in millions of
Trade balance	-2 383,3	-3 033,8	-2 626,0	-761,0	-361,4	-52,5	399,7
Export (FOB)	1 813,9	1 916,0	2 042,9	463,0	535,4	15,6	72,3
Gold	700,4	664,2	832,9	167,8	269,6	60,7	101,8
Import (FOB)	4 197,2	4 949,9	4 669,0	1 224,1	896,7	-26,7	-327,3
Energy products	567,2	809,6	627,2	160,9	101,9	-36,7	-59,0

* Preliminary data

In the reporting period, the export of goods (in FOB prices) increased by 15.6 percent to make USD 535.4 million. In the reporting period, the dynamics of exports was influenced by an increase in supplies of gold by 60.7 percent due to growth in physical volume and rise in prices. Exports of other items slowed down and decreased by 10.0 percent. Amid reduction in supplies of clothes, which had a decisive impact on the dynamics of exports of other goods, there was an increase in supplies of ores and concentrates of precious metals, live animals, vegetables and fruits.

In Q3 2020, imports of goods (in FOB prices) decreased by 26.7 percent compared to the same period of the previous year, to make USD 896.7 million. The dynamics of imports is still significantly affected by the restrictions imposed at the borders due to measures to prevent the spread of the coronavirus epidemic, as well as the decrease in economic activity in the country. There was a decline in the volume of imported energy products, clothes and footwear, fabrics and other items.

In the reporting period, growth rates of current transfers recovered due to inflow of private transfers. The inflows of private transfer became stable since May 2020, and the net inflow thereof increased by 15.8 percent at the end of Q3. This trend is due to easing of quarantine measures to prevent the spread of coronavirus in the host countries of labor migrants. Public sector transfers increased up to USD 27.3 million. In the reporting quarter, the balance of services deficit is forecasted at USD 2.9 million, meanwhile the negative balance of “income” item is expected at USD 114.5 million.

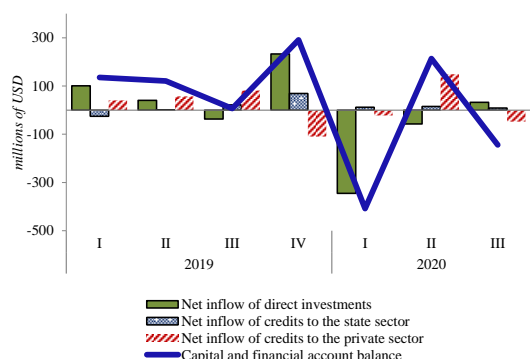
According to the preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, in Q3 2020, the current account surplus will be accompanied by capital net outflow on the capital and financial account in the amount of USD

¹ Ratios to GDP are calculated based on sliding annual data, including the last four quarters.

² The data on the foreign trade are given taking into account the NSC KR additional estimates for sampling survey of mutual trade with the EAEU member states and the NBKR additional estimates on exports.

144.3 million. The capital account surplus will make USD 20.8 million, meanwhile the negative balance on the financial account is expected at USD 165.1 million.

Chart 2.2.2. Capital and Financial Account



In the context of decreased economic activity, “other investments” item is expected to develop negative under the influence of growth in foreign assets and reduction of the residents’ foreign liabilities amid limited inflow of loan capital. The net inflow of direct investment into the country is forecasted at USD 32.3 million.

Thus, the balance of payments of the Kyrgyz Republic will be formed with a negative balance to make USD 87.6 million at the end of Q3 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		
	2018 (aver.) (January-December)	2019 (aver.) (January-December)	%	December 2019	September 2020	%
REER	114,6	115,7	0,9	116,5	116,7	0,2
NEER	116,5	122,5	5,2	123,8	125,8	1,6
RBER to CNY	83,6	84,5	-2,3	85,8	79,1	-7,9
NBER to CNY	65,2	67,1	-2,2	68,1	61,6	-9,6
RBER to Euro	104,3	108,2	-4,5	110,9	97,7	-11,9
NBER to Euro	74,9	78,0	-4,7	78,5	67,2	-14,4
RBER to KZT	134,4	141,7	1,4	141,3	137,4	-2,7
NBER to KZT	155,8	171,0	5,6	171,3	169,5	-1,0
RBER to RUR	123,2	122,0	6,0	120,2	127,5	6,1
NBER to RUR	137,3	140,4	7,0	136,4	144,6	6,0
RBER to TRY	160,8	165,8	14,4	165,3	175,6	6,3
NBER to TRY	212,1	247,6	31,4	254,3	284,2	11,8
RBER to USD	89,5	87,6	-0,4	89,1	82,2	-7,7
NBER to USD	66,7	65,8	0,0	65,8	59,7	-9,2

* Preliminary data
 ▼ - Som devaluation, competitiveness improvement
 ▲ - Som strengthening, competitiveness deterioration

At the end of Q3 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 1.6 percent year-to-date and constituted 125.8 at the end of September 2020. The increase in the NEER index was due to KGS strengthening¹ in September 2020 compared to the average exchange rate for December 2019 against the Turkish lira – by 11.8 percent, the Russian ruble – 6.0 percent, amid depreciation against the US dollar – by 9.2 percent, the euro – by 14.4 percent, the Chinese yuan – by 9.6 percent, and the Kazakh tenge – by 1.0 percent.

Despite the lower inflation rate in Kyrgyzstan², the NEER index strengthening, conditioned the growth of the real effective exchange rate (REER) by 0.2 percent, which constituted 116.7 at the end of September 2020.

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.

² In Q3 2020, the inflation rate in the Kyrgyz Republic was formed at 3.0 percent, meanwhile, the average inflation rate in the main trading partner countries (according to the preliminary calculations) was 4.5 percent.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

In Q3 2020, monetary policy was aimed at maintaining price stability in the country, on the one hand, and supporting measures to stimulate lending to the real sector of the economy, on the other hand, amid existing risks of the spread of coronavirus disease.

The interest rate policy of the National Bank remained unchanged, short-term money market rates fluctuated within the interest rate corridor set by the National Bank near the key rate.

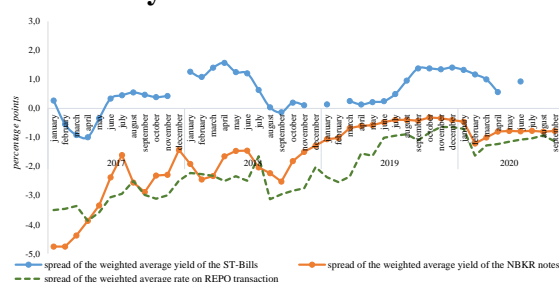
Existing state budget deficit still influenced the increase in the monetary base, creating a shed of excess liquidity in the banking system, which, in turn, stimulated increased demand from the commercial banks for the National Bank's liquidity absorption instruments.

Interest Rate Policy of the National Bank

Taking into account prerequisites for development of the external environment and the prevailing internal conditions, as well as estimates of inflation dynamics in the medium term, the interest rate policy of the National Bank was maintained during Q3 2020. The main policy rates remained unchanged. During the reporting period, the policy rate of the National Bank was kept at the level of 5.00 percent.

The limits of the interest rate corridor remained unchanged: "overnight" deposits rate remained at 2.75 percent, "overnight" credits rate - at 5.75 percent (at the beginning of the current year it was 2.00 and 5.75 percent, respectively).

Chart 3.1.1. Spread between the ShortTerm Rates of the Money Market and the Key Rate

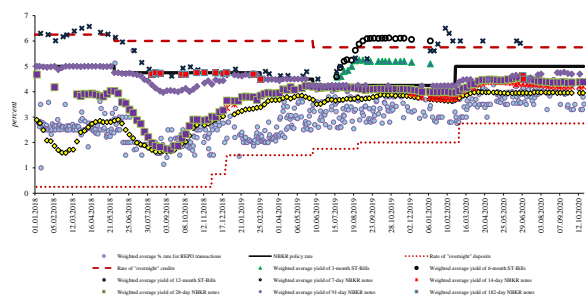


The trend of approaching the short-term money market rates to the policy rate of the National Bank during the quarter was multidirectional, however, generally, the gap between short-term money market rates and the policy rate of the National Bank continued to decrease during the quarter.

In the reporting period, the average spread of the rate on REPO transactions of the interbank credit market to the policy rate of the National Bank decreased by 0.1 percentage point and amounted to

-1.1 percentage points. The average spread of the National Bank's notes yield to the policy rate remained at the level of the previous quarter and amounted to -0.8 percentage points.

Chart 3.1.2. Money Market Rates



In the reporting period, the activity of the National Bank’s notes market participants increased amid growth of excess liquidity in the banking system, in particular, there was an increase in the average auction indicators of supply, demand and sales. There was a slight decrease in the rates on 14- and 28-day notes of the National Bank, meanwhile the rates on 91-day notes increased, and the rates on 7-day notes remained at the level of the previous quarter. During the reporting period,

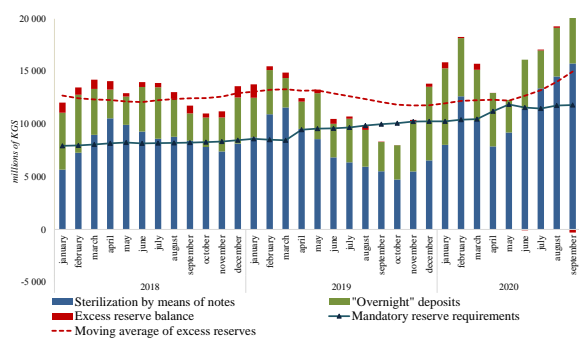
there was a significant increase in demand for 14- and 28-day notes of the National Bank, meanwhile the demand for 91-day notes increased slightly, however, the demand for 7-day notes decreased.

In Q3 2020, all auctions for placement of 12-month ST-Bills announced by the Ministry of Finance of the Kyrgyz Republic were not conducted.

In the reporting quarter, the increase in excess liquidity of the commercial banks resulted in a decrease of activity in the interbank credit market. In Q3 2020, there was a decrease in demand for KGS liquidity in this market. The market capacity decreased in the volumes (from KGS 12.1 billion in Q2 2020 to KGS 7.2 billion in the reporting quarter of the current year) and in the number of transactions (from 182 to 118 transactions). At the same time, there was an increase in the cost of loans approximately from 3.85 to 3.97 percent per quarter.

Liquidity Regulation in the Banking Sector

Chart 3.1.3. Excess Reserves of the Commercial Banks



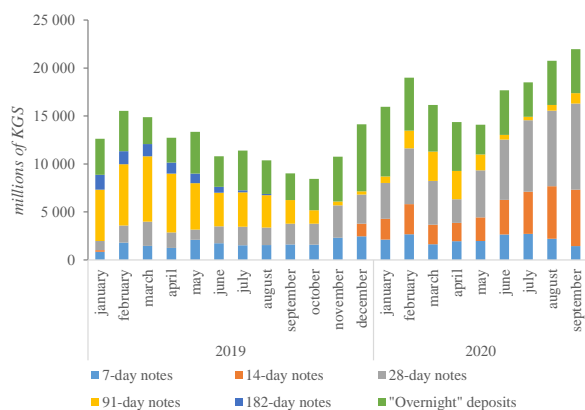
In Q3 2020, an increase in the level of excess liquidity in the banking system was mainly due to changed structure of Government operations conditioned by introduction of restrictive measures to prevent the spread of the COVID-19 disease. During the reporting quarter, the Government operations increased the monetary base by KGS 9.7 billion (in Q2 – by KGS 17.4 billion, in Q1 – by KGS 7.7 billion) and operations of the National Bank (excluding sterilization operations) expanded the monetary base by KGS 2.1 billion.

In turn, the growth of money outside banks by KGS 9.5 billion had the restraining effect on an increase in excess liquidity.

Under these conditions, the National Bank continued to conduct operations to absorb excess liquidity in the banking system through the open market operations and placement of the commercial banks’ available funds on “overnight” deposits with the National Bank during the reporting quarter. In Q3 2020, the average daily volume of excess liquidity withdrawal from the banking system increased and amounted to KGS 18.8 billion (in the previous quarter, the same indicator was KGS 13.8 billion).

The average daily volume of notes in circulation also increased by KGS 5.0 billion compared to the previous quarter, to make KGS 14.5 billion. In turn, in the reporting period, placement of the commercial banks’ available funds on “overnight” deposits with the National Bank was approximately equal to the previous quarter at the level of KGS 4.3 billion.

Chart 3.1.5. Structure of Sterilization



Growth in absorption operations was mainly observed amid an increase in the share of the National Bank’s notes in the structure of sterilization operations from 48.4 percent at the end of 2019 up to 77.5 percent at the end of the reporting quarter. The share of “overnight” deposits in the overall structure of sterilization amounted to 22.5 percent (-29.1 percentage points year-to-date) at the end of the reporting period.

At the same time, the commercial banks’ demand was noted to move from 91-day notes towards shorter-term 28- and 14-

day securities compared to 2019, the share thereof increased up to 51.7 (+9.4 percentage points year-to-date) and 33.8 percent (+15.1 percentage points year-to-date), respectively, in the structure of notes in circulation (at actual value) at the end of the quarter.

Credit Policy of the National Bank

In the context of the negative impact of the COVID-19 disease on the economy of the Kyrgyz Republic, as well as taking into account inflationary dynamics in the medium term, the National Bank continued to conduct credit auctions in the reporting quarter to support measures to provide targeted liquidity for lending to the economy.

In the reporting quarter of 2020, the National Bank conducted two credit auctions to facilitate the implementation of the project “Financing of Agriculture-8”, the total volume of supply amounted to KGS 2.0 billion, with the interest rate for the end borrowers being limited to 10.0 percent depending on the areas of the project financing. As a result of the auctions, the commercial banks’ demand for such funds amounted to KGS 0.3 billion.

In general, the National Bank conducted 23 credit auctions year-to-date. The total amount of supplied funds amounted to KGS 35.0 billion, and the approved funds according to the results of the auctions amounted to KGS 3.5 billion.

Foreign Exchange Policy of the National Bank

In Q3 2020, the volatility of the US dollar against the Kyrgyz som decreased compared to the previous quarter in the domestic foreign exchange market. In the reporting quarter, the KGS exchange rate was fluctuating within the range from KGS 75.9887-79.6000 per USD 1.

In the reporting period of 2020, in order to smooth sharp fluctuations in the exchange rate the National Bank conducted interventions on sale of foreign currency in the domestic foreign exchange market in the amount of USD 75.8 million amid slight excess of demand for foreign currency over its supply.

Monetary Policy Measures in Q2 2020

<p>The decisions were made on the size of the National Bank policy rate</p>	<p>The Board of the National Bank twice considered the issue on the size of the National Bank policy rate - on August 24 and September 28, 2020. Based on the results of these considerations, the decision was made to keep the policy rate unchanged at 5.0 percent.</p> <p>The rates of the interest rate corridor remained unchanged.</p>
<p>The decisions were made to</p>	<p>The National Bank twice announced credit</p>

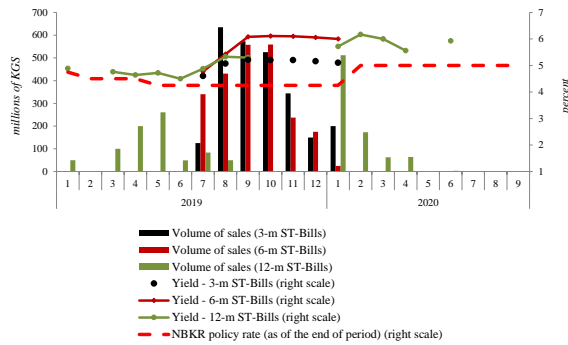
conduct the credit auctions

auctions for the commercial banks participating in the project “Lending to Agriculture-8”. With the total supplied funds in the amount of KGS 2.0 billion, the demand for them constituted KGS 300.0 million with an interest rate for the end consumers up to 10.0 percent.

3.2. Financial Market Instruments

Government Securities Market

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



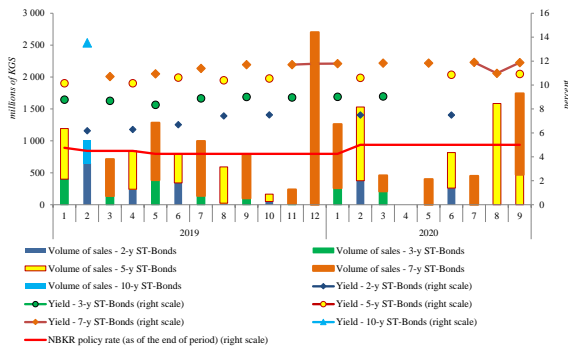
In Q3 2020, the activity of participants in the ST-Bills market decreased significantly. All auctions announced during the reporting period were not conducted.

In the reporting period, the Ministry of Finance of the Kyrgyz Republic placed ST-Bills in the amount of KGS 600.0 million, which is 82.1 percent less than in the corresponding period of 2019. At the same time, the volume of demand decreased by 97.0 percent compared to the same period of 2019, to make KGS 93.4 million.

As a result, the total volume of ST-Bills in circulation with holders decreased by 16.3 percent quarter-to-date and amounted to KGS 814.7 million.

In the reporting period, the Ministry of Finance of the Kyrgyz Republic placed ST-Bills in the amount of KGS 600.0 million, which is 82.1 percent less than in the corresponding period of 2019. At the same time, the volume of demand decreased by 97.0 percent compared to the same period of 2019, to make KGS 93.4 million.

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



In the reporting period, there was a decrease in the banks’ activity in the ST-Bonds market, however, there was an increase in activity on the part of institutional investors and non-resident legal entities. The total volume of ST-Bonds supply at the auctions amounted to KGS 4.5 billion, having increased by 53.4 percent compared to the same period of 2019. The demand for 5- and 7-year ST-Bonds increased significantly, meanwhile there was no demand for 2- and 3-year securities. The most significant demand was observed for 7-year securities, the share thereof in the total demand was 54.8 percent. The total sales of ST-Bonds, including additional placements, increased by 57.3 percent (to KGS 3.7 billion) compared to the same period of 2019.

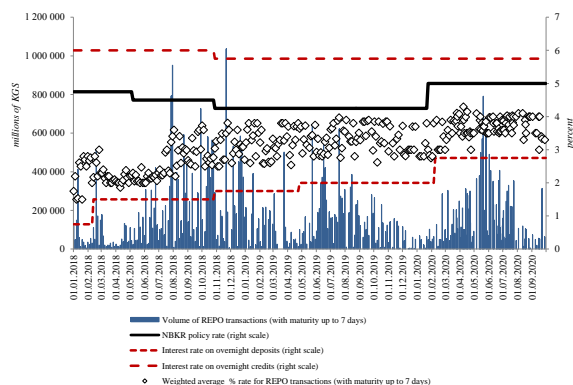
At the end of the reporting period, the volume of ST-Bonds¹ in circulation increased by 3.2 percent during the quarter, up to KGS 46.6 billion due to an increase in the portfolio of the institutional investors and non-resident legal entities.

At the end of the reporting period, the volume of ST-Bonds¹ in circulation increased by 3.2 percent during the quarter, up to KGS 46.6 billion due to an increase in the portfolio of the institutional investors and non-resident legal entities.

¹Excluding ST-Bonds nominated in foreign currency

Interbank Credit Market

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



In Q3 2020, the volume of transactions in the interbank credit market decreased compared to the previous quarter, however it remained at a moderate level, comparable to the average values for the previous quarters.

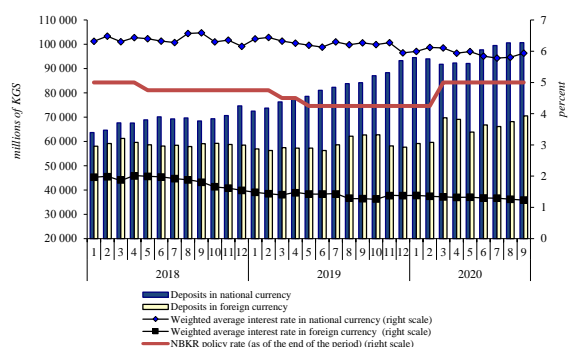
In the reporting period, the volume of transactions decreased by 33.6 percent in Q2 2020 and amounted to KGS 8,058.6 million. In September, 9 standard transactions were conducted in foreign currency (the last time these transactions were conducted in the same period of the previous year), the other transactions conducted in the interbank

market were REPO transactions.

The weighted average rate in the interbank market decreased from 3.85 percent in Q2 of the current year to 3.79 percent. The weighted average maturity of the interbank credits increased from 5 to 7 days.

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits



In July-September 2020, the commercial banks' depository base still demonstrated growth.

As of the end of September 2020, the banks' depository base increased by 13.4 percent compared to December 2019 and amounted to KGS 171.2 billion. At the same time, the depository base also increased by 13.4 percent during the whole 2019. An increase of deposits in foreign currency by 22.4 percent, up to KGS 70.6 billion made the main contribution to the growth of the

depository base. This is largely due to the fact that foreign currency deposits in KGS equivalent are converted at a stronger exchange rate of the US dollar and other major currencies compared to the end of 2019. Deposits in the national currency increased by 7.9 percent year-to-date, up to KGS 100.7 billion.

In September 2020, the share of time deposits in the structure of the depository base in the national currency decreased by 0.9 percentage points compared to September 2019 and was formed at the level of 47.7 percent. At the same time, the share of deposits with a maturity of 1 year and more decreased by 2.6 percentage points, down to 31.4 percent in the structure of time deposits. The share of time deposits in foreign currency increased by 0.7 percentage points, up to 27.6 percent. Among time deposits in foreign currency, the share of deposits with a maturity of 1 year or more decreased by 6.0 percentage points, down to 25.1 percent.

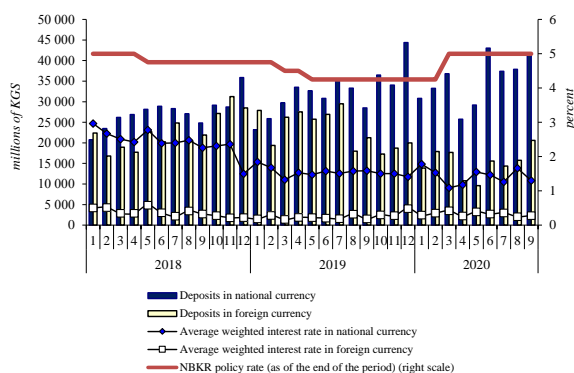
Dollarization of deposits increased by 3.0 percentage points, up to 41.2 percent. Exchange rate-adjusted dollarization decreased by 0.2 percentage points.

In the reporting quarter, the volume of new deposits increased by 1.1 percent compared to the corresponding quarter of the previous year and amounted to KGS 167.5 billion. The volume of new deposits in the national currency increased significantly: by 20.5 percent, up to KGS 116.8 billion, meanwhile the volume of new deposits in foreign currency decreased by 26.2 percent, down to KGS 50.7 billion.

In Q3 of the current year, the share of time deposits in the national currency in the structure of new deposits decreased by 1.4 percentage points compared to the corresponding quarter of the previous year, down to 11.4 percent, meanwhile the share of deposits with a maturity up to 1 year and more decreased by 9.7 percentage points, down to 37.2 percent in the structure of time deposits. The share of time deposits in foreign currency increased by 3.1 percentage points, up to 9.4 percent, meanwhile among time deposits the share of deposits with a maturity from 1 year and more increased by 0.2 percentage points, up to 40.2 percent.

The total duration of the depository base decreased down to 5.1 months (-0.4 months from the beginning of 2020) at the end of September 2020, the duration of the time deposits decreased down to 12.9 months (-0.2 months).

Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows



In January-September 2020, the weighted average interest rates on new deposits increased by 0.14 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 0.14 percentage points compared to January-September 2019 and constituted 1.42 percent, the interest rates on the deposits in foreign currency increased by 0.11 percentage points and constituted 0.33 percent. The weighted average rate on the new time deposits in the national currency

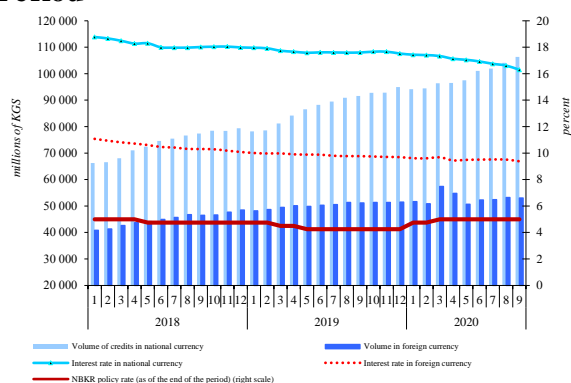
decreased by 0.34 percentage points, down to 9.18 percent, those in foreign currency decreased by 0.42 percentage points, down to 2.88 percent. The weighted average interest rates in the national and foreign currencies decreased for all maturities, excluding the deposits with a maturity from 6 to 12 months in the national currency and the deposits with a maturity from 1 to 3 months in foreign currency.

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



March of the current year. At the same time, the volume of credits in foreign currency in KGS equivalent was calculated at the higher exchange rate of the US dollar and other major currencies, which had an upward effect on the volume of credits in foreign currency in KGS equivalent.

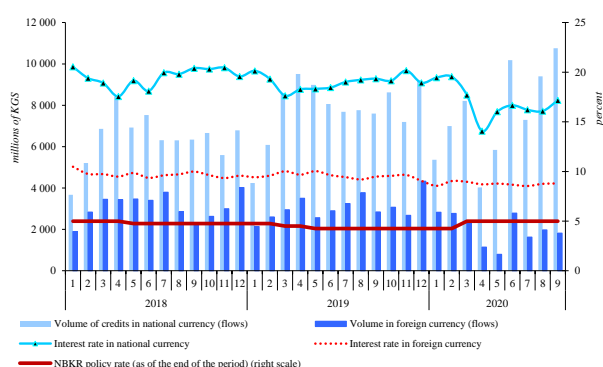
Dollarization of the credit portfolio decreased by 1.9 percentage points at the end of Q3 2020, down to 33.3 percent, being a historically low value. At the same time, USD exchange rate-adjusted dollarization decreased by 4.8 percentage points year-to-date.

In Q3 2020, the volume of new credits was close to the indicator of the corresponding quarter of 2019, having decreased by 0.1 percent and amounted to KGS 32.9 billion. In the reporting quarter, the dynamics of new credits in the national currency moved upwards after a decrease in Q2 2020 and increased by 19.1 percent, up to KGS 27.5 billion. Growth was observed for all maturities, excluding credits with a maturity from 3 to 12 months. Credits in foreign currency still demonstrated downward trend, their volume decreased by 45.1 percent, down to KGS 5.4 billion. The volume of credits with all maturities decreased, excluding credits with a maturity from 1 to 3 months.

In the third quarter of 2020, new credits in the national currency increased compared to the corresponding period of 2019 in the majority of the main sectors. At the same time, the volume of credits in the field of industry increased more than 2.5 times (from KGS 476.7 million to KGS 1,229.1 million), credits for agriculture increased by 20.7 percent, and consumer credits - by 3.8 percent. In the structure of new credits in foreign currency, the volume of credits decreased significantly in all sectors.

In Q3 2020, duration of new credits in the national currency increased slightly compared to the corresponding quarter of 2019 and amounted to 25 months, in foreign currency it increased by one month and was at the level of 33 months.

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



In Q3 2020, the commercial banks' credit portfolio demonstrated growth.

As of the end of September 2020, the commercial banks' credit portfolio increased by 8.9 percent compared to the end of 2019 and amounted to KGS 159.4 billion. An increase of the credits in the national currency by 12.0 percent, up to KGS 106.4 billion made the main input to the growth of the credit portfolio. The credit portfolio in foreign currency increased by 3.1 percent, up to KGS 53.0 billion. Generally, credits denominated in US dollars in nominal terms were generally characterized by downward dynamics since

In January-September 2020, the weighted average rates on new credits in the national currency decreased by 1.87 percentage points compared to the same indicator for 2019, down to 16.99 percent. A decrease in the interest rates was observed in all sectors, excluding mortgage, communication, as well as procurement and processing. Among the main sectors, the interest rates decreased significantly in the sectors of consumer credits (-2.66 percentage points), agriculture (-2.34 percentage points) and construction (-2.13 percentage points).

The interest rates in foreign currency decreased by 0.86 percentage points, down to 8.75 percent, mainly due to a decrease of the interest rates on credits by 1.20 percentage points in the sector of trade, which has the main share of all new credits in foreign currency.

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 11 banks. The sectoral concentration index was 0.31, thus demonstrating the main three credit sectors.

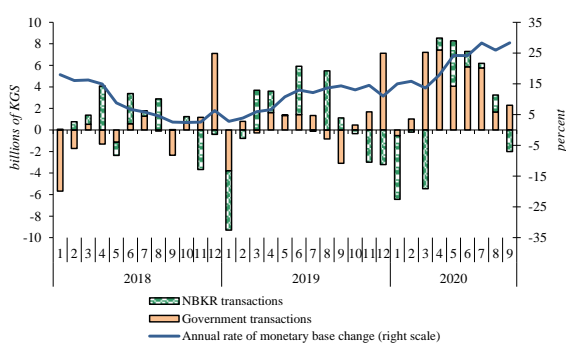
3.3. Dynamics of Monetary Indicators

Monetary Base

A noticeable gap between the state budget revenues and expenses in the reporting quarter of the current year was reflected in the acceleration of the annual growth rates of reserve money.

In Q3 2020, the increase in the monetary base by 7.0 percent (compared to the previous quarter) was mainly due to the existing gap between income and expenditure transactions of the state administration bodies. In annual terms, reserve money still demonstrated an upward trend and increased by 28.3 percent.

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



The Government transactions increased the amount of reserve money by KGS 9.7 billion due to the excess of the state budget expenses over the revenues thereof. The operations of the National Bank, in turn, were balanced in the reporting period and did not put pressure on the monetary base.

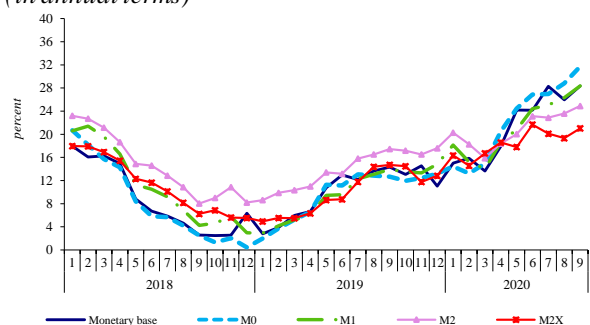
In the reporting quarter, the share of currency in circulation amounted to 91.2 percent (+1.5 percentage points for the quarter), which is the maximum value for the past few years. The rest of the monetary base, 8.8 percent, was accounted for by the reserves of other depository corporations.

Monetary Aggregates

Generally, an upward trend of all monetary aggregates accelerated during the reporting quarter and was mainly due to an increase in money outside banks.

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates

(in annual terms)



The existing growth rates of monetary aggregates were the highest since 2017. At the same time, the growth rates of monetary aggregates still accelerated.

Growth of money outside banks by 31.7 percent in annual terms (growth was 8.3 percent during the quarter) and deposits in the national currency by 16.7 percent in annual terms made the main impact on the increase in monetary aggregates.

In the reporting quarter of 2020, the monetary aggregate M2X increased by 21.0 percent in annual terms and amounted to KGS 274.5 billion. The monetary aggregate

M2X increased by 5.7 percent compared to the previous quarter.

In the reporting quarter, deposits¹ included in M2X increased by 13.4 percent in annual terms, mainly due to the growth of deposits in the national currency by 16.7 percent and deposits in foreign currency by 8.6 percent. At the same time, deposits in the national currency increased by 2.2 percent, and deposits in foreign currency increased by 5.8 percent during the quarter.

Lending to the economy still demonstrates positive growth rates. In the reporting quarter of 2020, the total volume of credits to the economy² increased by 13.9 percent in annual terms and amounted to KGS 166.4 billion (+4.6 percent compared to Q2 2020). The banking sector's credit portfolio expanded due to loans in the national currency (+17.9 percent) and in foreign currency (+6.7 percent).

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 the requirements of the banking system to the individuals, legal entities and other financial-credit institutions, in the form of issued credits, deposits and securities, accounted for together with their accrued interest, excluding credits to the Government of the Kyrgyz Republic and non-residents.

Chapter 4. Inflation Dynamics

Inflation in Kyrgyzstan is still relatively stable with a slight upward trend. The inflation rate in the country was stable in the reporting period. The increase in prices primarily in the main commodity groups was close to the targets of the National Bank. It was generally due to a slowdown in rise of prices for food products and restrained demand for non-food products.

4.1. Consumer Price Index

Chart 4.1.1. Dynamics of CPI Structure

(quarter to the corresponding quarter of the previous year)

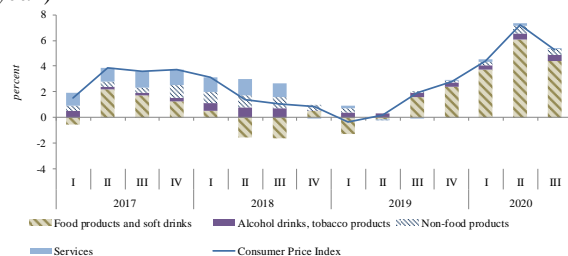


Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI

(month to the corresponding month of the previous year)

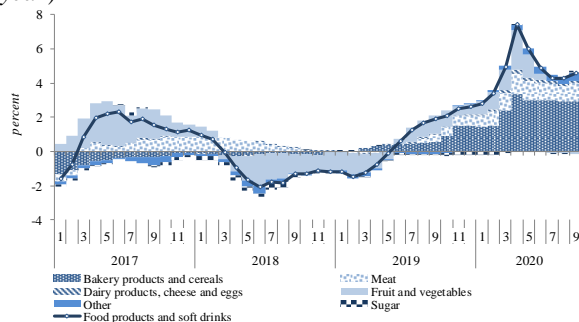
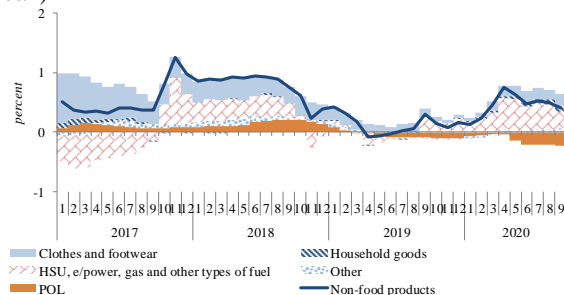


Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI

(month to the corresponding month of the previous year)



In Q3 2020, moderate inflation dynamics was observed in Kyrgyzstan.

In the reporting quarter, the annual inflation rate decreased from 7.2 percent in Q2 and was 5.3 percent. Slowdown in the growth rate of food products and weakening of domestic consumer demand, as well as low prices for petroleum, oil and lubricants were the main factors to restrain the inflation rate.

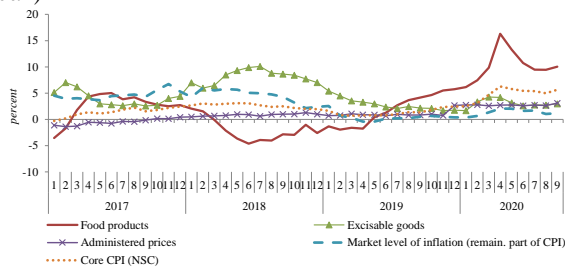
Rise in prices for food products was higher than the general inflation rate and amounted to 13.0 percent. Decrease in prices for fruits and vegetables had a significant impact on the price movement in this commodity group. At the same time, rise in prices for bakery products and cereals, meat and vegetable oil made the main positive contribution to the increase in prices for food products.

In Q3, the non-food commodity group increased by 1.6 percent, having slightly decreased from 2.1 percent in Q2. Reduction of demand for non-food products resulted in a slowdown in the growth of their prices. In addition, this trend is supported by decline in the world oil prices, which partly results in a reduction in prices for petroleum, oil and lubricants in the domestic market of the Kyrgyz Republic as compared to the previous years. The price index for alcohol drinks and tobacco products in the reporting quarter increased by 5.7 percent due to the planned increase in excise rates for tobacco products in January 2020. The increase in prices for paid services was near zero. Growth rates in prices for services remain low as the pandemic also puts additional downward pressure due to weak business activity.

In September 2020, the core inflation indicator (excluding food and energy products), calculated by the National Statistical Committee of the Kyrgyz Republic, in annual terms was 5.7 percent. Consumer

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

(month to the corresponding month of the previous year)

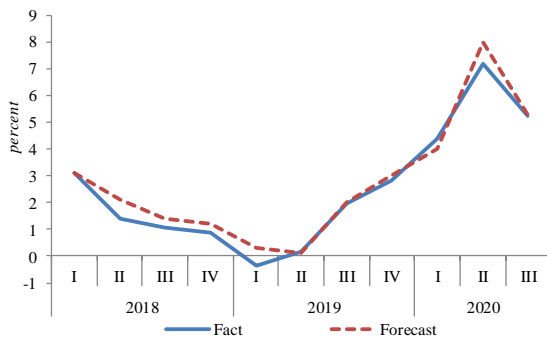


market indicators demonstrated moderate consumer demand in Q3 of the current year. In September, the market inflation rate was 1.2 percent.

4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



In Q3 2020, the actual inflation rate was at the level of the National Bank’s expectations.

In the reporting quarter, slowdown in inflation was mainly due to a decrease in the growth rate of the food component of inflation, meanwhile the emerging inflation dynamics generally corresponded to the National Bank’s expectations.

Chapter 5. Medium-Term Forecast

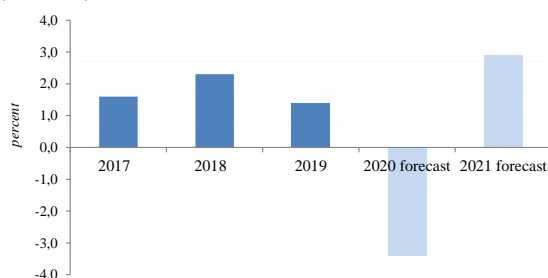
5.1. External Environment Proposals

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

The forecasts for economic growth were slightly adjusted taking into account the GDP data in Russia for 9 months of 2020 and the decline in oil prices amid a slowdown in business activity in the world, as well as the expected fiscal consolidation. Existing deterioration of the epidemiological situation restrains the growth of consumption expenditures and affects the investment plans of the business. In the medium term, increased volatility in the financial markets is still observed amid geopolitical risks.

Taking into account the aforementioned facts, the forecasts of international analysts for 2020 on GDP in Russia were improved, however they were slightly reduced for 2021-2022 amid existing uncertainty about the speed of the global economic recovery, provided that restrictive measures were re-introduced in a number of countries due to the second wave of COVID disease spread.

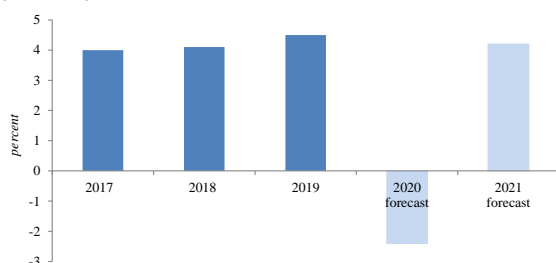
According to the Bank of Russia, in 2020, GDP in the country will decrease by 4.0-5.0 percent, the GDP growth in 2021 was revised by 0.5 percentage points, to 3-4 percent. Upcoming fiscal consolidation, development of the situation with the coronavirus disease in Russia and in the world will have a significant influence on the dynamics of economic growth in Russia. At the same time, a soft monetary policy will continue to support the economy in the current and the next year.

Taking into account the soft monetary policy conducted by the Bank of Russia amid weak demand, the inflation rate is forecasted within the range of 3.9-4.2 percent by the end of 2020, in 2021 – within the range of 3.5-4.0 percent and further close to 4 percent.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

The economic recovery in 2021 remains questionable due to uncertainties related to the pandemic and global demand for oil, as well as structural concerns. Thus, in Q3, the international analysts revised downward their forecasts for GDP in Kazakhstan (ADB - from the previously forecasted -1.2 percent to -3.2 percent, EBRD - from -3 percent to -4 percent).

According to the updated forecasts of the National Bank of the Republic of Kazakhstan, in 2020, Kazakhstan's GDP will decrease by 2.0-2.3 percent. Such situation will be conditioned by decline in domestic consumer and investment demand amid restrictive measures, decrease in real incomes of the population and worsening situation in the labor market. Compliance with the OPEC+ agreement, weak external demand and decline in oil prices will contribute to reduction in exports.

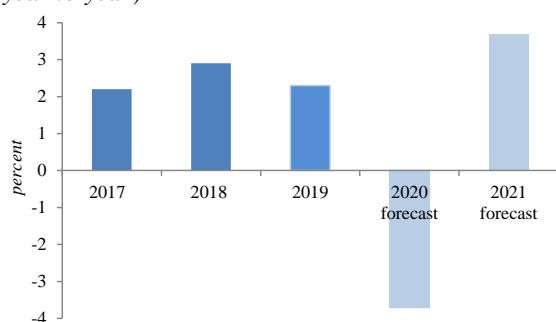
In 2021-2022, the analysts expect GDP growth at approximately 4.0 percent due to an increase in oil production and changes in taxation, rise in exports due to growth in oil and gas condensate production.

According to the forecasts of the National Bank of the Republic of Kazakhstan, the inflation rate will accelerate and will be within the range of 8.0-8.5 percent by the end of 2020. Inflation will also be affected by the prices dependence on the exchange rate amid expected balance of payments deficit and increased fiscal impulse, which will influence inflation in 2021 also.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg

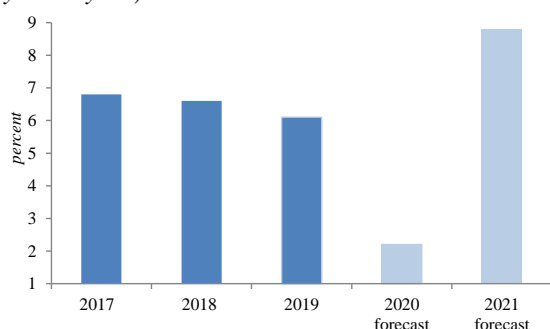
At the same time, the US Senate has not made a decision on the long-awaited new package of economic stimulus measures for the Americans. Experts expect GDP to decline by 3.7-4.2 percent in the country during the current year, with a recovery up to 3.7 percent in 2021.

In response to new challenges beyond the resumption of quantitative easing, the US Federal Reserve moved its focus from inflation to full employment, offering greater flexibility in achieving price stability by targeting the average inflation rate in the long term.

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



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

closure of most of the global economy, where an increase in new cases of coronavirus disease is still recorded. According to the CNN Business forecast, China's share in the world GDP will increase by 1.1 percentage points by the end of the year. This index is more than three times higher compared to 2019. The value of China's economy is expected to be worth about USD 14.6 trillion by the end of 2020, which is equivalent to 17.5 percent of the world GDP.

Monetary policy easing in China to support the real economy, as well as high prices in the pork market, which still have not recovered from the outbreak of swine plague in the

Prospects for the US economic growth are under pressure from multiple risks.

The risks of forecasting the US economic growth are connected with the highest speed of the COVID-19 disease spread in the world and in the United States and possible re-introduction of some softened version of the lockdown in the United States, which the largest European countries have already done. However, even without total isolation, consumers are expected to exercise caution, which can affect the recovery of the

The forecasts for economic growth in China were retained due to the coincidence of the actual GDP growth rate for Q3 2020 (4.9 percent) with the forecast (5.0 percent).

The IMF forecasts that economy in China will grow by 1.9 percent in 2020 and will be the only one to grow during the year of the pandemic, in 2021, the economic growth is expected at 8.2 percent. At the same time, according to the analysts' expectations, the prospects for further growth can be disrupted by the ongoing recession in the United States, being China's largest export market, and

previous year, will be the main drivers of inflation. Relatively low prices for raw materials, and expected decline in pork prices due to improved supply chains, which was the main driver of inflation among food products, will be the factors for inflation deceleration during the year.

5.2. Medium-Term Forecast

In Q3 2020, the economic activity of the Kyrgyz Republic was formed to the greatest extent by the influence of internal conditions. Political instability conditioned decline in economic activity in October 2020. At the same time, external economic conditions retained a negative impact on the economic development of the country.

Economic activity in the trading partner countries, primarily in Russia and Kazakhstan, remains negatively affected by the shocks associated with the spread of the coronavirus disease. However, within the framework of the forecast under consideration, there are assumptions about recovery of economic activity in the trading partner countries to pre-coronavirus levels by middle-late 2021. The Russian economic recovery plan, initiated by the Government of the Russian Federation, which includes a package of stimulus measures in an approximate amount of 5 percent of GDP for the period from June 2020 till December 2021 is among the main factors of economic recovery in the trading partner countries.

The forecast under consideration takes into account low level of prices in the world energy market in 2020-2021 and, accordingly, moderate recovery of economic activity in Russia and Kazakhstan. At the same time, the speed of economic activity recovery in the trading partner countries will largely depend on the effectiveness of preventive measures and on the epidemiological situation in Q4 2020.

The official forecast of Russia's GDP decline in 2020 is kept at about 4.0 percent. The fall of Kazakhstan's GDP in 2020 is expected at about 2.0-2.5 percent.

Decline in economic activity in Russia will have a corresponding impact on the volume of remittance inflows to the Kyrgyz Republic: in 2020, net inflow of remittances is expected to decrease compared to the same indicator in 2019.

In the first half of 2020, the oil prices remain negatively influenced by external shocks associated with the spread of coronavirus disease. However, taking into account economic recovery in the world and preservation of existing OPEC + agreement, oil prices are expected to become stable in 2020-21 at about USD 40 per barrel.

The current forecast takes into account emerging acceleration in the growth of prices in the world food markets amid rise in prices for sunflower oil caused by a decrease in sunflower harvest in Russia and Ukraine. At the same time, increase in prices for meat amid growing demand for domestic meat products in the neighboring countries made an additional contribution to rise in prices for food products.

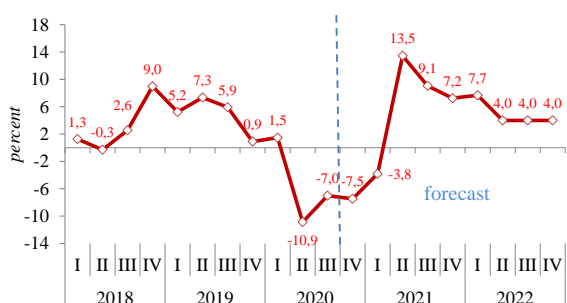
The economic structure of the Kyrgyz Republic determines the special role of the external sector parameters in the elaborated forecasts; in the context of a global economic shock, such parameters become critical. Assumptions on such parameters of the foreign economic sector as the price movement in the world commodity markets, the prospects for economic development in the trading partner countries of the Kyrgyz Republic and other important indicators of the world economic development are set on the basis of forecasts of the world research agencies/institutions, official bodies of the countries and expert assessments.

The National Bank of the Kyrgyz Republic evaluates scenarios of the economic behavior in the Kyrgyz Republic under the influence of various combinations of external economic conditions and elaborates appropriate options for the monetary policy directions.

Taking into account the outlined trends in the economic development 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 development in the Kyrgyz Republic for 2020-2021.

Chart 5.2.1.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



The negative impact of political instability conditioned slowdown in the recovery of economic activity in the country. In general, GDP gap is expected to remain negative in 2020 and in the first half of 2021.

Economic activity in the trading partner countries in 2021 will be supported, inter alia, by expanding incentive programs from the public sector, which will result in an increase in external demand and will contribute to the active economic recovery in the Kyrgyz Republic.

Thus, in 2020, GDP is expected to decrease by about 6.0 percent compared to 2019 (the previous forecast provided for a fall in GDP at the level of up to 3.5 percent in 2020). In 2020, GDP decrease is expected at about 6.3 percent excluding the enterprises of the Kumtor Mine (in 2020, the previous forecast provided for GDP decrease at about 4.0 percent excluding the enterprises of the Kumtor Mine).

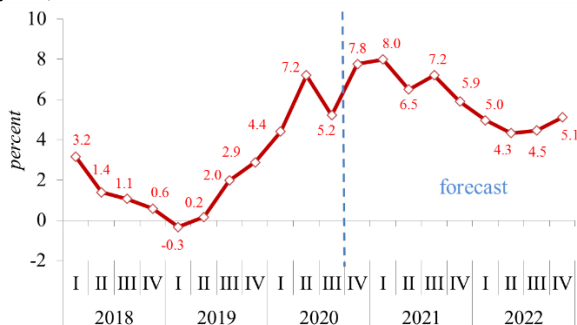
Taking into account the assumption of economic recovery trend, in 2021, real GDP growth rates are expected at about 6.5 percent (+1.0 percentage point compared to the previous forecast), excluding Kumtor, GDP growth is expected at 6.3 percent.

Taking into account the trend towards acceleration of prices in the world and regional food markets, the average annual inflation rate in the current year is expected at about 6.5 percent (+1.0 percentage point compared to the previous forecast).

Rise in prices for food products in March-April and October-November of the current year resulted in an increase in the overall inflation rate in the current year. At the same time, the main reasons for acceleration of the food inflation rate are (i) high demand during the declaration of the emergency situation and the state of emergency in certain regions of the country (ii) emerging trend towards an increase in the world prices for food products, (iii) complicated logistics of importing goods into the Kyrgyz Republic and (iv) a trend towards strengthening of the US dollar.

Chart 5.2.1.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



Thus, in 2020, the average annual inflation rate is expected at about 6.5 percent, which is 1.0 percentage point higher compared to the forecasts in the previous quarter, the inflation rate (December 2020/December 2019) is likely to approach the level of 8.0-8.5 percent at the end of the year. In 2021, the average inflation rate is expected at approximately 6.5-6.8 percent and reach the value of 6.0 percent by the end of the year.

Forecast for the Balance of Payments in 2020-2022 (baseline scenario)¹

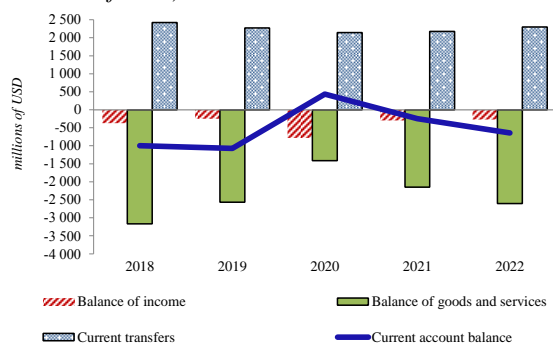
The main factors influencing the balance of payments indicators in 2020 were complemented by the expected consequences and risks arising after the events occurred in October 5-6, 2020. Thus, measures taken to prevent the spread of COVID-19 disease and the accompanying economic consequences, as well as the political situation in the country, will have a decisive impact on the external sector by the end of the year.

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

Moreover, the expected balance of payments results for 2020 were adjusted to reflect the actual period. The current account balance is forecasted to be positive and will amount, according to the National Bank's estimates, 5.7 percent to GDP (USD 435.2 million). This trend is not typical for the balance of payments of the Kyrgyz Republic as an import-dependent country. However, amid the coronavirus pandemic, a reduction in imports, along with a relatively stable inflow of remittances and an increase in gold exports, became the determining factors in the current account forecast.

Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)



Despite the expected growth in gold supplies in 2020, decrease in business activity in the region and external demand affected the decline in estimates for export forecast for 2020. Exports are expected to decrease by 3.4 percent compared to 2019. A decrease in supplies of traditional export positions of textile and clothing production, agricultural goods, as well as re-export positions will have a significant effect of exports dynamics. Therefore, a negative growth in exports excluding gold is expected at 16.2 percent at

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

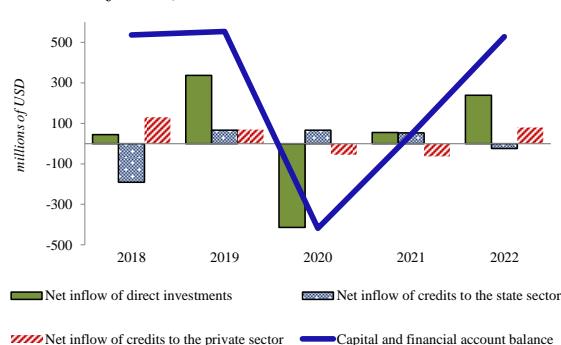
Decline in border capacity due to measures taken to prevent the spread of coronavirus disease and reduction of domestic demand amid decrease in business activity in the country remain the determining factors affecting the import forecast. Imports are forecasted to decline by 29.3 percent due to all functional categories of imports. A negative trend in the growth of petroleum products is expected due to a decrease in the physical volume of supplies of energy products, and due to a decline in the world prices. Imports of other goods are expected to decrease by 30.2 percent.

From May 2020, the inflow of transfers demonstrated rather steady trend, since easing of quarantine measures in the recipient countries of migrant workers, therefore the forecast for current transfers was revised. The net inflow of transfers to the private sector is expected to decrease by 3.0 percent. The inflow of official transfers is expected below the level of 2019.

Expectations remain regarding the negative impact of the restrictions imposed by the countries and closure of borders for tourism, the hotel business, the volume of passenger and cargo transportation, and therefore the deficit in the balance of international services is forecasted at USD 82.9 million.

Chart 5.2.1.4. Forecast Data on Capital and Financial Account

(millions of USD)



Amid forecasted current account surplus, the capital and financial account is expected to be with deficit. The coronavirus pandemic and the global economic situation will affect the forecasts for financial flows of the balance of payments. Emerging political instability in the country, which directly affects the investment attractiveness of the country, was also taken into account together with the current prerequisites for the world trends development in the international capital movement. Generally, according to the

forementioned assumptions, a decrease in capital inflow is expected in direct and other

investments by the end of the year. At the same time, it is not excluded that the volume of servicing external liabilities will remain at a significant level.

Moreover, the forecast takes into account the increase in foreign liabilities of the public sector, as well as by attracting the international donors' funds to prevent the COVID-19 disease spread.

Thus, at the end of 2020, taking into account financing by the reserves of the National Bank and IMF loans, the negative balance of payments is forecasted at USD 62.2 million.

The initial conditions for forecasting the balance of payments indicators for 2021-2022 were the assumptions about gradual recovery of the economies in the region. Moreover, positive dynamics of the inflow of transfers has been laid for the forecast periods due to the low base of 2020. Nevertheless, it will take a longer time for some indicators to recover to the level of previous years. Therefore, forecasts for balance of payments items for 2021-2022 remain restrained. Taking into account the aforementioned conditions, current account deficit of 3.2 percent to GDP is forecasted in 2021, which will increase up to 7.6 percent to GDP by 2022. Expected growth in external demand will contribute to growth in exports amid increased business activity, easing quarantine measures and rise in world prices for gold. The assumption about recovery of domestic demand, including due to growth of labor migrants' remittances conditioned forecast of positive growth rates of imports. Thus, the negative trade balance will increase.

The economic recovery in the migrant workers' main recipient countries is expected to have a positive impact on the inflow of private transfers, the growth rates of which are forecasted to be positive.

Inflows on the capital and financial account for 2021 are forecasted to be low. Foreign direct investment and the loans of the public sector are expected to provide a significant share of the proceeds. The upward trend in the volume of servicing private external debt will still be observed. Gradual recovery in financial inflows is expected in 2022. Nevertheless, payments on the principal amount of debt of the public sector loans are forecasted to exceed the volume of new borrowings received by the indicated period. Based on the aforesaid, the overall balance of payments is forecasted with a negative value throughout the entire forecast period.

The following risks are still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2020-2022:

- high level of uncertainty associated with the coronavirus epidemic and the political situation in the country;
- the risks associated with the Kumtor 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;
- volatility in the exchange rate of the main trading partner countries;
- growing debt burden of the public and private sectors.

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	Q2	Q3
1. Demand and supply¹												
<i>(real growth rates, if otherwise is not indicated)</i>												
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	111 347.9	116 952.8	171 920.0
GDP	%	1.3	-0.3	2.6	9.0	5.2	7.3	5.9	0.9	1.5	-10.9	-7.0
GDP, excluding Kumtor	%	3.2	2.3	3.4	5.3	1.3	2.9	5.1	4.7	0.8	-13.1	-7.4
Domestic consumption	%	4.0	3.9	2.6	6.9	0.0	1.4	3.5	0.3	2.4	-27.8	
Investment	%	106.6	9.0	-9.7	6.7	-20.6	-10.9	6.3	1.9	-31.5	-23.0	
Net export	%	82.5	12.8	-0.9	1.0	-28.6	-11.1	-6.8	3.1	-24.7	-72.8	
<i>GDP production:</i>												
Agriculture	%	0.7	1.6	3.2	2.8	1.1	2.6	2.8	2.9	1.4	1.7	2.4
Industry	%	0.3	-8.9	1.0	22.3	15.2	25.9	10.6	-13.5	1.1	-0.9	-5.5
Construction	%	1.4	4.2	5.0	12.6	3.3	7.4	12.4	12.6	-2.6	-13.1	-6.2
Services	%	1.8	2.1	2.3	4.2	1.3	1.6	4.5	3.4	2.1	-16.9	-12.4
including trade	%	3.7	4.8	4.7	7.7	3.9	4.6	4.3	6.0	4.3	-30.5	-17.1
2. Prices²												
CPI	%	103.1	101.4	101.1	100.9	99.7	100.2	101.9	102.8	104.4	107.2	105.3
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	105.9	105.8	105.4
Core inflation	%	102.8	103.1	102.5	100.4	101.0	100.8	101.2	102.2	103.5	105.8	105.3
<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	113.4	109.7
Non-food products	%	103.0	103.2	103.0	101.6	101.1	99.8	100.4	100.4	100.9	102.1	101.6
Alcohol drinks and tobacco products	%	106.5	109.1	108.4	100.3	104.7	104.0	103.8	103.5	104.2	105.3	105.7
Services	%	106.9	107.3	106.1	99.4	101.3	99.9	99.8	100.3	101.0	101.0	100.0
<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	103.3	102.8
Regulated prices	%	100.6	100.9	100.8	101.1	100.9	100.8	100.9	101.5	102.7	102.7	102.8
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	101.9	101.3
3. External sector³												
<i>(in percent to GDP)</i>												
Trade balance	%	-35.2	-36.7	-37.0	-36.7	-9.8	-9.7	-10.0	-12.7	-9.1	-3.5	2.0
Current transaction account	%	-10.9	-12.3	-13.4	-12.1	-34.6	-32.8	-31.7	-31.1	-28.6	-23.0	-18.6
Export of goods and services	%	33.6	34.4	33.1	33.2	34.8	35.2	36.9	37.0	36.3	35.7	35.1
Import of goods and services	%	70.1	72.7	71.5	71.6	70.4	68.6	68.4	67.3	64.1	58.2	54.1
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	75,9887	79,6000
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	5.00	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	2.75	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	5.75	5.75
Average interest rates of operations in the interbank credit market, per quarter	%	2.73	2.40	2.17	2.22	2.26	3.02	3.26	3.50	3.55	3.85	3.79
<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	3.85	3.97
of credits in national currency	%	-	0.00	-	-	2.30	2.30	-	-	-	-	-
of credits in foreign currency	%	-	-	-	-	3.50	2.88	3.36	-	-	-	2.50
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	3.95	3.95
Weighted average yield of 14-day notes, as of the end of period	%	-	-	-	3.36	-	-	-	3.78	4.15	4.32	4.20
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	4.52	4.37
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	4.65	4.70
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	24.1	28.3
Money outside banks (M0)	%	15.7	5.8	2.5	0.4	5.2	11.1	12.7	13.2	14.9	26.9	31.7
Monetary aggregate (M1)	%	19.6	10.5	4.2	3.0	5.2	9.6	13.9	14.8	14.0	24.4	28.4
Narrow money supply (M2)	%	21.1	14.6	8.0	8.2	10.3	13.2	17.4	17.6	15.9	23.1	24.9
Money supply (M2X)	%	16.9	11.6	6.2	5.5	5.5	8.8	14.7	12.8	16.7	21.7	21.0

^{1/} Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic

^{2/} Source: National Statistics Committee of the Kyrgyz Republic

^{3/} Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q3 are preliminary

Annex 2. Glossary

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

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

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

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

ADB	Asian Development Bank
CBRF	Central Bank of the Russian Federation
COVID-19	CO rona VI rus D isease 2019
CPI	Consumer Price Index
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
ES	Emergency Situation
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCM	Inter-Bank Credit Market
IEA	International Energy Agency
IMF	International Monetary Fund
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
RA	Republic of Armenia
RB	Republic of Belarus
REER	Real Effective Exchange Rate
RK	Republic of Kazakhstan
SE	State of Emergency
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America
VAT	Value Added Tax