

Dynamics of Monetary Indicators in January-July 2016

Interbank Credit Market

In January-July 2016, the situation in the interbank credit market was characterized by high level of liquidity in the banking system. In particular, there was observed a decrease in the volume of the interbank credit operations and in the weighted average interest rates in the interbank market of credit resources. The total volume of the transactions in the interbank credit market amounted to KGS 4.7 billion, having decreased by 83.1 percent compared to the same indicator of the previous year. The weighted average interest rate in the interbank credit market decreased (from 11.02 in January to 5.33 percent in July) due to decline in the demand for borrowed funds amid rise of the liquidity level in the banking system.

In July 2016, repo operations were not carried out. Meanwhile, in the reporting period, the share of repo operations in the total volume of transactions still remained the most significant in the market and amounted to 72.8 percent, having decreased by 25.1 p.p. compared to the same indicator of 2015.

Changes in Monetary Base

In January-July 2016, the average daily volume of the excess reserves of the banking system prior to operations on sterilization amounted to KGS 10.1 billion, having increased by 3.6 times compared to the same indicator in 2015(after operations on sterilization – KGS 1.3 billion). As of the end of July the volume of the excess liquidity prior to operations on sterilization amounted to KGS 12.4 billion (after operations on sterilization – KGS 2.5 billion).

In January-July, the volume of the operations on sterilization through the issue of 7-day notes and deposit operations increased significantly, primarily due to growth of the excess reserves in the banking system. The average daily level of operations on sterilization amounted to KGS 8.8 billion (in January-July 2015 – KGS 2.2 billion).

In January-July 2016, the total volume of the National Bank's 7-day notes sales amounted to KGS 63.0 billion (in January-July 2015 – KGS 33.7 billion). At the end of July, the profitability of the 7-day notes was at the level of 0.46 percent. In the reporting period, the amounts of funds that commercial banks placed on "overnight" deposits in the National Bank increased and accounted for KGS 920.9 billion, meanwhile, in the same period of 2015 amounted to KGS 149.9 billion.

As the measures stimulating the real sector of economy against the slowdown of the national economy, the National Bank during January-July 2016 carried out the following operations:

- within the framework of the program on mortgage loans conversion from the foreign currency into the national currency, the commercial banks were provided with the loans in the amount of KGS 1.9 billion;
- for purposes of further financing of agriculture and processing in the regions of the country KGS 1.1 billion was provided to the commercial banks within the credit auctions;
- the volume of the loans to the international organizations created by the Kyrgyz Republic jointly with other states as a part of the Eurasian Economic Union amounted to KGS 480.0 million;
- gold was purchased in the domestic market in the amount of KGS 478.6 million.

Generally, since the beginning of the year, the National Bank's operations increased the monetary base by KGS 2.1 billion; the Government's operations increased it by KGS 9.9 billion. As of the end of July 2016, the monetary base amounted to KGS 79.0 billion and increased by 17.9 percent from the beginning of the year (in January-July 2015 it increased by 3.3 percent). On a year-on-year basis the monetary base increased by 18.7 percent.

The official USD/KGS exchange rate decreased by 10.4 percent in the domestic foreign exchange market – from KGS 75.8993 to KGS 67.9699 per USD 1 (in January-July 2015, the increase amounted to 3.6 percent). Generally, relatively stable dynamics of the exchange rate with slight upward trend was observed in July, due to increased demand for the foreign currency at the

end of month (in June, an increase made 0.7 percent). In January-July, the volume of the foreign currency net purchase amounted to USD 62.0 million. Finally, the liquidity of the banking system increased by KGS 3.8 billion due to the operations carried out by the National Bank in the interbank foreign exchange market.

The gross international reserves of the National Bank amounted to USD 2.0 billion as of the end of July. Meanwhile, the net international reserves of the National Bank increased by 10.8 percent, up to KGS 120.2 billion, primarily due to the operations carried out in the interbank foreign exchange market, exchange rate changes and other budget revenues.

Changes in Monetary Aggregates

In January-July 2016, the monetary aggregates of the banking system demonstrated growth. Since the beginning of the year, positive dynamics of the monetary aggregates M1 (+24.1 percent) and M2¹ (+24.4 percent) was primarily due to accelerated growth rates of the deposits in the national currency (+32.9 percent).

The broad money supply grew by 6.0 percent, up to KGS 151.8 billion from the beginning of the year due to growth in the volume of cash outside banks by 19.7 percent. Meanwhile, the monetary aggregate M2X increased by 15.7 percent on a year-on-year basis, excluding the exchange rate change - by 12.2 percent.

The total deposits of other deposit corporations (hereinafter – ODC) included into the broad money supply M2X decreased by 2.0 percent from the beginning of the year due to reduction of the deposits in foreign currency by 18.8 percent, down to KGS 49.4 billion. As of the end of July, the total volume of ODC's deposits amounted to KGS 88.2 billion.

In the reporting period, slowdown of the annual growth rates of the loans in foreign currency (-13.8 percent) influenced the dynamics of the total volume of the loans to the economy² in annual terms (growth rates amounted to 1.9 percent). Meanwhile, increase of the loans in the national currency was still observed year-to-date (+17.7 percent), the annual growth made 18.4 percent.

Without regard to the exchange rate changes the total volume of loans to the economy increased by 2.9 percent since the beginning of the year (in January-July 2015, increase made 8.7 percent).

In the reporting period, the downward trend of loan and deposit dollarization continued as a result of the measures taken on dedollarization of the economy. Dollarization of credits as of the end of July 2016 amounted to 43.5 percent (-10.2 p.p. year-to-date), dollarization of deposits included into M2X, amounted to 56.1 percent (-11.6 p.p. year-to-date).

Multiplier of broad money M2X³ amounted to 1.921; multiplier M2 accounted for 1.295. At the end of July 2016, the velocity of money circulation (by M2X) made 3.1. The monetization ratio calculated by the monetary aggregate M2X amounted to 32.4 percent, as by the monetary aggregate M2 – 19.9 percent.

Cash Turnover

In January-July 2016, receipt of cash in the cash departments of the National Bank amounted to KGS 32.3 billion; in comparison with the corresponding period of 2015, the amount decreased by KGS 1.1 billion or by 3.3 percent. Money issuances increased by KGS 8.8 billion or by 25.4 percent and amounted to KGS 43.4 billion.

In January-July 2016, receipt of cash in the cash departments of the commercial banks amounted to KGS 626.0 billion; in comparison with the corresponding period of the previous year,

¹ Deposits to individuals and legal entities, and other financial-credit institutions except for the deposits to the Government and non-residents.

² Loans to individuals and legal entities, and other financial-credit institutions except for the loans to the Government and non-residents.

³ This figure characterizes the degree of the financial intermediation.

the amount increased by KGS 68.4 billion or by 12.3 percent. Money issuances increased by KGS 78.5 billion or by 14.0 percent and amounted to KGS 639.0 billion.

Payment System

The level of financial risks in the payment system was kept to a minimum. The turnover ratio amounted to 1.20; the liquidity ratio – 0.84. Regarding the structure of payments the biggest share in the volume of turnover belongs to the banking operations with securities, foreign currency, deposits and loans (more than 95 percent). Meanwhile, the payments of budgetary and non-budgetary organizations prevailed in quantity (approximately 80 percent of the total quantity of payments), however, the share of banking operations of the total quantity of payments in the system made approximately 20 percent.