

Monetary Policy Report

(Review of Inflation of the Kyrgyz Republic)

Quarter 3, 2015

Contents

Summary	2
Chapter 1. External Environment	3
1.1. Economic Development of Main Trading Partner Countries.....	3
1.2. World Commodity Markets	5
Chapter 2. Macroeconomic Development	7
2.1. Demand and Supply in the Commodities and Services Market.....	7
2.2. External Sector	10
Chapter 3. Monetary Policy.....	13
3.1. Monetary Policy Implementation.....	13
3.2. Financial Market Instruments.....	14
3.3. Dynamic of Monetary Indicators	16
Chapter 4. Inflation Dynamics	17
4.1. Consumer Price Index	17
4.2. Comparison of Forecast and Facts	18
Chapter 5. Medium-Term Forecast	19
5.1. External Environment Proposals.....	19
5.2. Medium-Term Forecast.....	21

Summary

During Q3 2015, the rate of inflation was within the benchmark determined by the Joint Statement of the National Bank and the Government of the Kyrgyz Republic about Economic Policy for 2015 and the Main directions of monetary policy for the medium-term. In September 2015, the annual inflation rate decreased to 6.4 percent from 10.5 percent as of the beginning of the year. A favorable price situation in the world food and raw materials markets as well as lower prices for imported wheat and for domestic fruit and vegetables contributed to diminishing inflationary pressure in the country. The inflation rate of 5.7 percent in Q3 2015 was mainly due to rising prices for non-food goods and services (increase in electricity tariffs, rise in price for alcoholic and tobacco products, increase in prices for category of “clothing and footwear” goods and “household goods and appliances”).

Economic growth of the country in January to September of the current year was 6.3 percent. In the reporting quarter, the economy growth slowdown in the Kyrgyz Republic was primarily due to indicators of production output at the enterprises of Kumtor Mine; meanwhile, growth was supported by increase of production output in the agricultural sector and the service sector. Excluding Kumtor, real growth of GDP was 4.3 percent, which was higher than the comparable index of 3.5 percent in 2014.

At the end of 9 months of 2015, the state budget surplus made KGS 3.2 billion or 1.1 percent to GDP (in January-September 2014, the deficit made KGS 1.4 billion or 0.5 percent to GDP). Revenues increased by 8.7 percent against the same value of 2014; while the overall state budget expenditures increased by 9.6 percent. At the end of nine months of the current year, execution of the republican budget revenues amounted to 110.2 percent, which resulted from implementation of the plan for collecting non-tax revenues by 1.8 times, and tax revenues – by 96.5 percent. Financing of the republican budget expenditure was executed by 90.7 percent.

In Q3 2015, the balance of payments of the Kyrgyz Republic is negative and amounted to USD 207.2 million. Current account deficit will decrease to 42.9 percent to GDP to make USD 218.3 million, which primarily will be caused by negative dynamics of balance of trade developed with the rate of 38.7 percent.

In main trading partner countries the economy growth slowdown was observed. In Q3 2015, economic growth of China made 6.9 percent, in Russia decline by 4.3 percent was observed. In January-September 2015, GDP growth in Kazakhstan was 1.0 percent.

The National Bank conducted transactions in the FX market in order to smooth acute fluctuations of exchange rate. In Q3 the net position of the National bank currency intervention amounted to USD 32.7 million. KGS depreciated by 10.8 percent in Q3.

The monetary base increased by 2.3 percent in Q3; such increase was due to the public finance sector transactions. Broad money M2X including deposits in foreign currency increased by 7.9 percent in the reporting quarter and amounted to KGS 135.7 billion (in annual terms the increase was 10.0 percent).

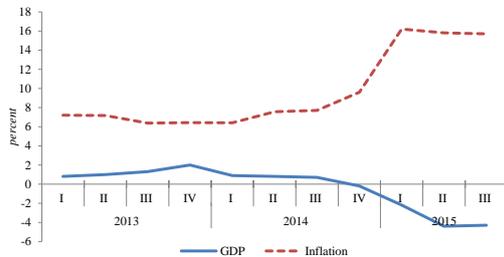
Chapter 1. External Environment

1.1. Economic Development of Main Trading Partner Countries

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 RF, IA Bloomberg

According to the Ministry of Economic Development of the Russian Federation, during Q3 2015, there was a decrease in the rate of GDP reduction in Russia: the decline in the annual terms in September 2015 decreased by 0.9 percentage points and made 3.8 percent due to improved dynamics in agriculture, mining and manufacturing industries. In Q 3 2015, the main negative factor of GDP growth in Russia was the decline of the retail trade and paid services in view of the significant reduction of domestic demand due to long-term reduction in real salaries. The average recession in Russia in Q3 2015 was 4.3 percent upon a decline by 4.4 percent in Q2 2015, while increase by 0.7 percent was observed in Q3 2014.

According to the Federal State Statistics Service of the Russian Federation, in Q3 2015 there was different dynamics of inflation rate. Thus, upon slowdown in June, due to a significant devaluation of the Russian ruble in August, inflation rate increased by 0.5 percentage points to 15.8 percent in annual terms. In Q3, the average inflation rate made 15.7 percent compared to 7.7 percent in the same period of 2014.

Kazakhstan

Chart 1.1.2. GDP Growth and Inflation in Kazakhstan

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



Source: RK Statistics Agency

According to the preliminary data of the Statistics Committee of the Ministry of National Economy of Kazakhstan, GDP growth in Kazakhstan in January-September 2015 amounted to 1.0 percent compared to the same value of the last year. The growth in the construction sector was 4.5 percent, agriculture – 3.1 percent, services – 2.4 percent, while decline in industry constituted 1.0 percent. Slowdown of economic growth in Kazakhstan was primarily due to relatively low prices for oil and raw materials, and to a lesser extent, due to negative impact of the cheap goods imported from Russia on the Kazakh producers, as well as negative investment mood due to the Russian-Ukrainian crisis.

The trend of inflation rate slowdown observed at the beginning of 2015 was replaced by acceleration thereof towards the end of Q3: rise in prices for consumer goods and services in annual terms amounted to 4.6 percent in July, 3.8 percent in August and 4.4 percent in September. Change

of trend was due to rapid devaluation of the Kazakh tenge, which occurred in the middle of August, when after the abolition of the currency corridor and introduction of a floating exchange rate, the currency depreciated by 35.5 percent in Kazakhstan. This decision was adopted in the context of growing long-term external shocks, such as a significant drop in prices for oil and other commodities, devaluation of the national currencies of the major trade partner countries of Kazakhstan, as well as market expectations for the US dollar strengthening. In September 2015, inflation rate in the Republic of Kazakhstan constituted 1.0 percent within a month, 4.4 percent – in annual terms, 2.9 percent – from the beginning of the year.

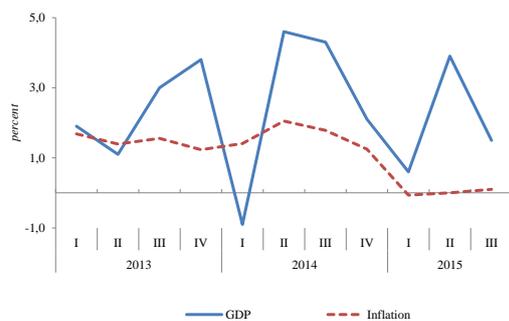
USA

During three quarters of the current year, the USA economy showed uneven, but moderate growth dynamics. Economic growth was 1.5 percent in Q3 (compared to the previous quarter in annual terms) against 3.9 percent in Q2. Reduction of expenditures for inventories due to their accumulation in the previous periods was the main reason for slowdown in growth. Other negative factors were the expansion of foreign trade deficit and further reduction of investment in exploration and mining (by 46.9 percent). The economy was primarily supported by sustainable growth in consumer expenditures, as well as by an increase in the total volume of investment in fixed assets and government expenditures.

In September CPI decreased by 0.2 percent in the United States on a monthly basis, while the annual rate was formed at zero level. The main factor of low inflation rate in the United States was decrease in prices for fuel and energy products group by 18.4 percent compared to September 2014.

Chart 1.1.3. GDP Growth and Inflation in the USA

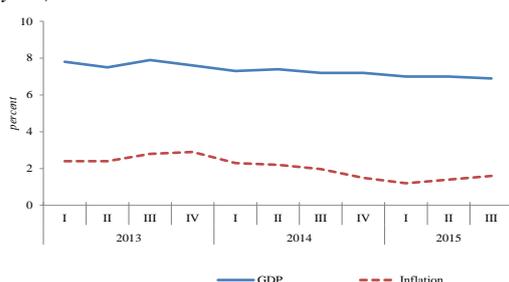
(in annual terms)



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

Chart 1.1.4. GDP Growth and Inflation in China

(quarter to the corresponding quarter of the previous year)



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

China

In China GDP growth showed smooth slowdown due to the transformation in economic structure. In Q3 of the current year, the country's GDP growth decreased to 6.9 percent against 7.0 percent in the first half of the year. Slowdown of economic growth was mainly due to slower growth of investments in fixed assets and the volume of industrial output. Meanwhile, new engines of growth became more significant: the share of the service sector increased up to 51.4 percent to GDP, and the contribution of

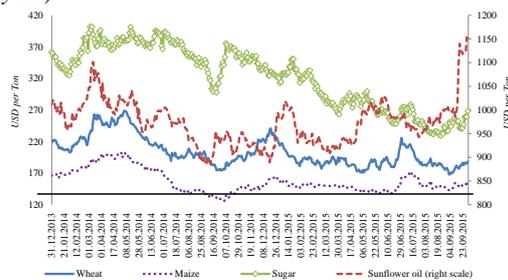
consumer expenditures to economic growth was 58.4 percent, growth by 9.3 percentage points compared to the same period of the last year. In September a slight decrease of exports was observed in annual terms following weakening global demand, while reduction in imports primarily due to decline in prices for raw materials was more substantial.

CPI growth in September was formed at the level of 1.6 percent in annual terms, which is lower than the government's benchmark of “about three percent”. Low inflation rate was due to low growth of prices in the commodity groups related to housing, transportation and fuel.

1.2. World Commodity Market

Chart 1.2.1. Dynamic of Prices for Food Products

(month to the corresponding month of the previous year)



Food Market

Generally in Q3 2015 the international food market demonstrated downward trend in the quotations of main types of food products. An exception was the situation in the sugar and vegetable oil markets, where volatility was accompanied by the upward trend towards the end of the reporting period against climate deterioration in the main producing countries (the negative impact of the El-Niño phenomenon¹).

In Brazil excessive rainfall hampered harvesting sugar cane, while in India precipitation level was below average value in the period of monsoon rains, which negatively affected the yielding capacity of sugar cane. In view of the current situation, the assessments of sugar cane crop were decreased in Brazil, India and Thailand in 2015-2016 marketing season.

In the international vegetable oil market, the risks of rise in prices also increased mainly due to reductions in supply and stocks of palm oil in Indonesia and soy oil in Brazil.

In Q3 2015, the international grain market showed the trend of prices drop resulted from decrease in prices for wheat and maize amid substantial volumes of supply and intense competition between exporters being possible due to higher-than-expected harvests in the northern hemisphere by the end of the agricultural season.

At the end of Q3 2015, the average FAO food price index (Food and agriculture organization, hereinafter referred to as FAO) decreased by 20.1 percent against the corresponding value of 2014 and amounted to 158.5 points.

Chart 1.2.2. Dynamic of FAO Food Price Index

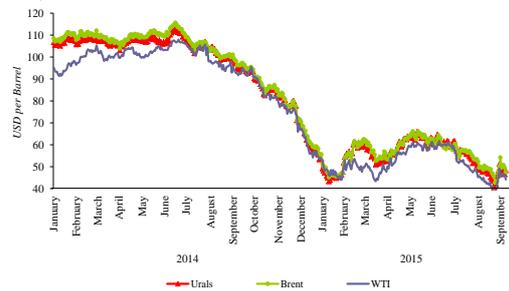


¹El Niño is a natural phenomenon that occurs at intervals of 2-7 years and is characterized by increased rainfall in South America (up until the flood) and drought in South and South-East Asia, which had a negative impact on crop yields.

Energy Market

Chart 1.2.3. Dynamic of Prices for Oil

(month to the corresponding month of the previous year)

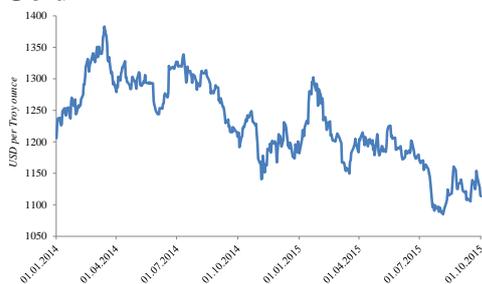


Since the beginning of Q3 2015, downward dynamics was observed in oil prices, which reached a local minimum value by the end of August, thereafter, prices were still volatile, which stabilized a bit towards the end of the reporting period. The decline in oil prices in July-August of the current year was due to the situation in the stock market of China, concerns about the preservation of oil oversupplies amid weak demand. Moreover, oil reserves in the United States were above average level of the past 5 years by 100.0 million barrels, and Iraq's oil exports reached the highest level. Volatility in oil prices in September was due to information about reduction in number of drilling rigs in the United States and data on statistics of oil consumer countries.

In view of the current situation in the energy market, the prices for basic oil grades (Brent, WTI, Urals) fluctuated between the range of USD 38.2 - 61.7 per barrel in Q3 2015.

Gold Market

Chart 1.2.4. Dynamic of Prices for Gold



Source: IA Reuters

Prices for gold, upon rapid drop in July, demonstrated volatility; however, the general upward dynamics was slow in August and September. Strengthening of investors' confidence in the stability of the financial system conditioned decrease in gold quotations in July. The rapid decline followed a report announced by the People's Bank of China on its gold stocks, which were substantially below analysts' forecasts. Thereafter, the market was held by the revival of demand for gold from the central banks and the jewelry industry, supported by low prices, as well as concerns about the sudden depreciation of the Chinese yuan and the prospects for the economies of developing countries. News related to estimates of time of initial rise in the base rate of the US FRS had a significant impact on the gold market. Rise in prices for this metal was observed after decision made by the regulator in September to retain the rate at the same level.

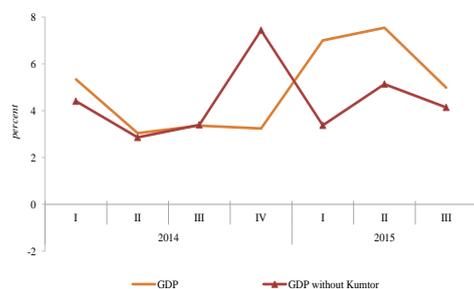
Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodities and Services Market

Demand

Chart 2.1.1. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR

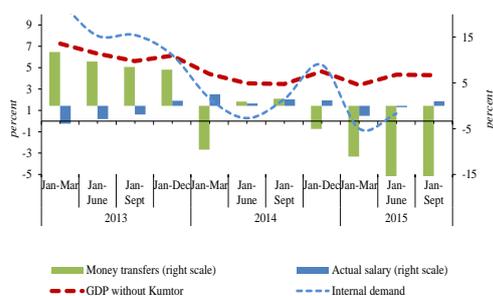
Whereas in Q2 of this year, the dynamics of the total GDP, and GDP excluding the Kumtor Mine, showed upward trends, in Q3 both indicators moved gradually downward. Slowdown of economic growth was primarily due to dynamics of production output at the Kumtor Mine, meanwhile, growth was supported by increase of agricultural products output due to improved yield capacity of crops and vegetables, as well as rise in service sector.

Therefore, in Q3 2015, GDP growth constituted 5.0 percent, generally, in the period from January to September 2015 – 6.3 percent, having increased by 2.5 p.p. compared to rise by 3.8 percent in the same period of 2014. GDP excluding Kumtor was 4.3 percent for the same period, while in 2014 the growth made 3.5 percent.

According to Centerra Gold Inc. press release, the Kumtor output decreased by 3.0 percent compared to Q3 2014 and amounted to 107.5 thousand troy ounces in Q3 2015.

Chart 2.1.2. Dynamics of Internal Demand and Money Transfers

(period to the corresponding period of the previous year)



Source: NBKR

At the end of Q2 of the current year, the domestic demand increased by 1.9 percent against the same period of the last year. Such increase in domestic demand was due to consumption growth (by 2.1 percent) against Q2 2014 (by 1.0 percent), which was associated with rise in household spending (by 2.5 percent). In its turn, the moderate rates of household spending supported slight increase in real wages (in January to September 2015 the actual size has increased by 1.0 percent) while a decrease in remittances of individuals was a negative factor. At the end of nine months of the year, the net inflow of remittances in the US dollar terms decreased by 28.2 percent compared to the same period of the previous year. In terms of accumulation, a greater increase (+1.1 percent) was also observed compared to the same period of the last year (-9.3 percent), primarily due to acquired values (+8.2 percent).

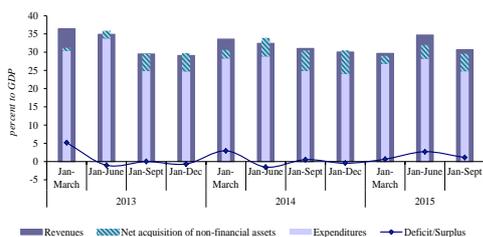
However, consumption has still remained the main component within the GDP structure (116.9 percent of GDP).

State Finances Sector

At the end of Q3, the state finances sector still showed the trend of accelerated overall

Chart 2.1.3. Execution of the State Budget

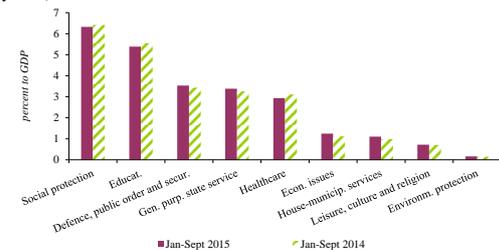
(period to the corresponding period of the previous year, accumulatively)



Source: CC MFKR, NBKR

Chart 2.1.4. Execution of the State Budget

(period to the corresponding period of the previous year)



Source: CC MFKR, NBKR

revenue growth, which contributed to covering current expenditures. In nine months of 2015 the state budget was executed with a surplus of KGS 3.2 billion or 1.1 percent to GDP, whereas there was a budget deficit of KGS 1.4 billion, or 0.5 percent to GDP, in the same period of 2014.

In January-September 2015 the state budget revenues from operating activities increased by 8.7 percent, or KGS 7.2 billion, compared to the same period of 2014 and amounted to KGS 89.9 billion, or 30.7 percent to GDP (in 2014, revenues from operating activities increased by 15.7 percent). However, the greatest contribution to the increase in operating income was due to non-tax revenues received in Q2 of the current year.

At the end of nine months of 2015, state budget expenditures for operating activities increased in annual rate by 9.6 percent, or KGS 6.4 billion, and amounted to KGS 72.6 billion, or 24.8 percent to GDP. In the structure of expenditures by economic classification, a high rate of expenditures allocated for current consumption has been retained as before. The largest contribution to the increase in expenditures was made by labor costs (mainly salaries), payment of subsidy and social allowances, as well as use of goods and services. In the structure of expenditures by functional classification, the greatest contribution to the increase in expenditures was made by costs for social protection, public services of general purpose, defense, public order and safety, education.

Net outflow of budget funds for operations related to acquisition of non-financial assets amounted to KGS 14.0 billion, or 4.8 percent to GDP.

Execution of the state budget revenues (tax revenues + non-tax revenues + official transfers) amounted to 110.2 percent for nine months of 2015, which was insured by implementation of the plan for collecting non-tax revenues by 1.8 times, and for collecting tax revenues by 96.5 percent. The tax collection plan of the State Tax Service of the Kyrgyz Republic was implemented at a rate of 96.5 percent, while the same plan of the State Customs Service of the Kyrgyz Republic was implemented by 96.5 percent. Financing the expenditure side of the state budget was made by 90.7 percent.

According to preliminary data of the Social Fund of the Kyrgyz Republic, the budget surplus of the Social Fund (inclusive of the pension fund balance as of the beginning of the year) amounted to KGS 1.3 billion, or 0.4 percent to GDP, at the

end of nine months of 2015. Budget revenues of the Social Fund (inclusive of the pension fund balance as of the beginning of the year) amounted to KGS 30.5 billion or 10.4 percent to GDP, having increased by 8.2 percent compared to the same period of 2014. Expenditures of the Social Fund budget increased by 6.9 percent against the comparable value of 2014 and amounted to KGS 29.2 billion, or 10.0 percent to GDP.

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

	January-September			
	millions of KGS		share, percent	
	2014	2015	2014	2015
Total	59 227.2	64 317.7	100.0	100.0
Internal investment	43 038.4	49 129.5	72.7	76.4
Republican budget	1 611.6	2 874.3	2.7	4.5
Local budget	371.4	753.5	0.6	1.2
Funds of enterprises and organizations	26 339.0	25 006.7	44.5	38.9
Banks' credits	445.4	1 069.9	0.8	1.6
Population funds including beneficent help of KR residents	14 271.0	19 425.1	24.1	30.2
External investment	16 188.8	15 188.2	27.3	23.6
Foreign credit	10 465.1	7 027.3	17.6	10.9
Direct foreign investments	4 252.0	6 535.5	7.2	10.2
Foreign grants and humanitarian aid	1 471.7	1 625.4	2.5	2.5

Source: NSC KR

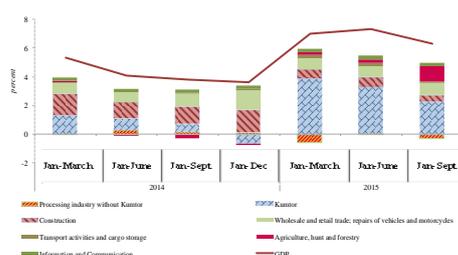
Investment

The level of implementing investment in fixed assets increased by 4.7 percent (in comparable prices) in January to September 2015.

The volume of investment in fixed assets compared with the value of January to September 2014 financed from domestic sources increased by 9.8 percent (among them the investment from local budget increased by 2.0 times, that from the state budget increased by 1.7 times, and that from personal funds by 30.8 percent), whereas the investment made from external sources decreased by 9.7 percent (due to decline in foreign loans by 35.4 percent).

In the reporting period, investments in fixed assets were mainly directed to the industrial sector, the services sector and agriculture. At the same time, investment in construction of manufacturing facilities decreased by 47.7 percent, among them investments for construction of facilities dealing with production of petroleum products decreased by 2.0 times. There was a significant increase in the level of investment in construction of water supply, purification and waste treatment facilities (by 2.5 times), agriculture (by 1.6 times), educational facilities (by 1.4 times), and health facilities (by 1.7 times).

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



Source: NSC KR

Supply

In Q3, a positive contribution in GDP was still observed from all sectors of economy. At the same time GDP growth, in January to September, was provided by a significant contribution of agricultural sector (1.1 p.p.), services sector (1.4 p.p.), and industrial sector (2.5 p.p.).

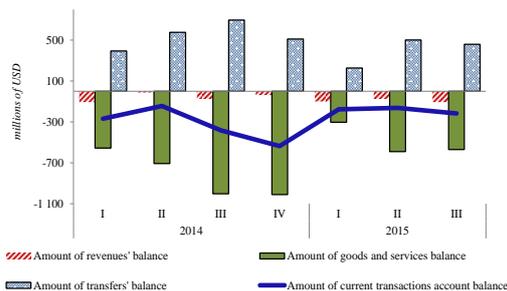
Despite the most significant contribution of industry in GDP growth in January to September 2015, in Q3 2015, industry showed gradual decline in its contribution every month due to decrease of production in the manufacturing sector (-11.6 percent), primarily due to significant reduction in textile fabrication, output of rubber and plastic products.

Positive contribution of the main components in the service sector was still remained due to growth of wholesale and retail trade by 5.2 percent in January to September of 2015.

In January-September 2015, growth of production output in agriculture by 6.1 percent primarily resulted from increase in yield capacity of crops and vegetables, as well as increase in production of the cattle-breeding sector.

2.2. External Sector

Chart 2.2.1. Current Transactions Account



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

According to the predicted and preliminary data of Q3 2015, the current account deficit decreased by 42.9 percent against Q3 2014 and amounted to USD 218.3 million (excluding additional estimates such decrease was 46.3 percent to make USD 281.2 million), which accounted for 15.0 percent to GDP. The main influence on the formation of negative balance of the current transactions account will be exerted by dynamics of trade balance and current transfers.

In the reporting period, the trade deficit of the Kyrgyz Republic is expected to be 38.7 percent lower than the value of Q3 2014 to make USD 559.1 million (excluding additional estimates, it will make USD 616.4 million). Trade deficit was formed under the influence of the following factors:

- 30.7 percent decrease in imports (USD 453.4 million in absolute terms);
- decrease in exports by USD 100.7 million excluding gold and the National Bank's additional estimates;
- decrease in exports of gold.

Exports of goods (in FOB prices taking into account the National Bank's additional estimates) decreased by 17.9 percent compared to the same value of Q3 2014 to make USD 462.1 million in Q3 2015 (excluding additional estimates it will make USD 384.3 million).

Cost of gold export is expected to decrease by 6.0 percent due to the 16.7 percent decrease in volume of supplies. Exports excluding gold and additional estimates of the National Bank have decreased by 10.0 percent and amounted to USD 277.9 million. This trend will be conditioned by a decrease in supplies of petroleum products, vegetables and fruits, garments and clothing accessories, other inorganic materials, ores and precious metal concentrates. At the same time, the export volume of footwear, unprepared tobacco and

2.2.1. KR Trade Balance ¹ (millions of USD)

	2013	2014	2014	2015 *	Change	Change
			Q3	Q3	in %	in millions
Trade balance (with additional assessme	-2 744.3	-2 947.4	-911.9	-559.1	-38.7	352.7
Trade balance ¹	-3 555.4	-3 398.6	-1 052.7	-636.8	-39.5	415.8
Exports (FOB) (with additional assessme	2 869.3	2 342.8	562.7	462.1	-17.9	-100.7
Exports (FOB) ¹	2 058.2	1 891.6	421.9	384.3	-8.9	-37.6
Gold	736.8	716.9	113.2	106.4	-6.0	-6.8
Imports (FOB)	5 613.6	5 290.2	1 474.6	1 021.2	-30.7	-453.4
Energy products	1 186.7	1 041.8	321.1	192.7	-40.0	-128.4

¹ Based on the NSC actual data from January to September 2015 without regard to the NBKR additional estimates for re-export of oil products and trade of "suitcase" traders

cigarettes containing tobacco is expected to increase.

Imports of goods (in FOB prices) decreased down to USD 1,021.2 million. Reduced imports will be driven mainly by a decrease in supply of previously used passenger cars, medicaments, garments and clothing accessories. In addition, the petroleum products imports are expected to decrease by 42.3 percent due to the drop in contract prices for supply of petroleum products, as well as in the physical volume thereof. Moreover, in the reporting period, the increase was observed in the supplies of iron and steel, textile fabrics and telephone sets.

According to the forecasts, a balance of services will be formed negative at the level of USD 10.8 million and will decrease by 88.1 percent in Q3 2015.

The negative balance of revenues is expected to increase up to USD 106.7 million in the reporting period due to an increase in income of direct foreign investors gained from investment activity in Kyrgyzstan.

The net inflow of current transfers will decrease by 34.1 percent to make USD 458.4 million. This trend will be mainly due to 32.7 percent decrease in the net inflow of private remittances caused by unfavorable economic situation in the main partner countries.

In Q3 2015, the capital transactions and financial transactions account formed with a positive balance of USD 4.7 million against USD 123.8 million in the same quarter of the last year.

The balance of capital account will decrease by 11.8 percent to form positive in the amount of USD 11.0 million.

In the reporting period, negative balance of the financial account is expected to be to make USD 6.3 million. This trend is formed under the influence of reduced foreign loans, both in public and in the private sector, on the background of growth in assets owned by residents abroad.

Therefore, at the end of Q3 2015 the Kyrgyz Republic payment balance was formed with negative balance to make USD 207.2 million. The volume of gross international reserves will cover 3.9 months of future imports of goods and services.

Chart 2.2.2. Capital Transactions and Financial Transactions Account

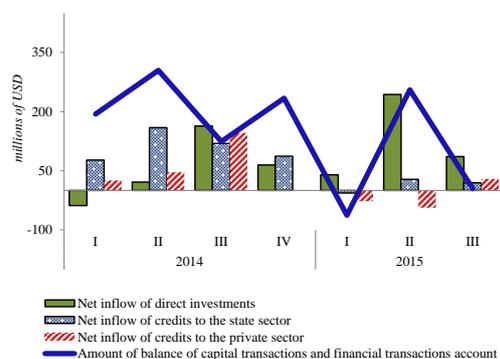


Table. 2.2.2. Key Values for Exchange Rate

	year (average)			month to beginning of the year (as of the end of month)			
	2013 (aver.) (Jan-Dec)	2014 (aver.) (Jan-Dec)	%	December 2014	September 2015	*	%
REER	111,9	117,2	4,8	128,8	124,0	-3,7	↓
NEER	111,4	114,4	2,7	122,6	125,9	2,7	↑
RBER to CNY	141,4	135,0	-4,6	130,6	115,2	-11,8	↓
NBER to CNY	73,2	66,3	-9,4	61,3	54,4	-11,3	↓
RBER to Euro	142,4	137,1	-3,7	143,1	136,0	-4,9	↓
NBER to Euro	68,4	61,8	-9,7	61,4	57,9	-5,7	↓
RBER to Japanese yen	211,4	204,3	-3,3	254,4	221,2	-13,0	↓
NBER to Japanese yen	82,8	82,2	-0,8	90,9	78,7	-13,4	↓
RBER to KZT	111,9	117,2	4,8	128,8	124,0	-3,7	↓
NBER to KZT	105,5	112,1	6,3	105,0	126,1	20,1	↑
RBER to RUR	73,7	80,1	8,7	103,6	100,4	-3,1	↓
NBER to RUR	111,5	121,5	9,0	158,5	167,6	5,8	↑
RBER to Turkish lira	127,0	130,1	2,5	128,2	138,3	7,9	↑
NBER to Turkish lira	301,9	313,1	3,7	300,3	340,2	13,3	↑
RBER Ukrainian hryvnia	122,6	119,3	-2,7	177,0	152,0	-14,1	↓
NBER Ukrainian hryvnia	147,5	146,8	-0,4	233,8	280,8	20,1	↑
RBER to USD	188,3	179,8	-4,5	176,0	151,1	-14,1	↓
NBER to USD	98,5	89,1	-9,5	82,1	70,6	-13,9	↓

↓ - Som devaluation, competitiveness improvement

↑ - Som strengthening, competitiveness deterioration

* preliminary data

Indexes of Real and Nominal Effective Exchange Rate of KGS

According to preliminary data, the index of nominal effective exchange rate (hereinafter referred to as “NEER”) of KGS increased by 2.7 percent from the beginning of 2015 and amounted to 125.9 by the end of September 2015. The increase in the index was due to KGS appreciation¹ in September 2015 compared to the average exchange rate for December 2014 against: the Kazakh tenge and the Ukrainian hryvnia – by 20.1 percent, the Turkish lira – by 13.3 percent to the Russian ruble – by 5.8 percent. Whereas in relation to other currencies KGS depreciated: to the US dollar – by 13.9 percent, the Japanese yen – by 13.4 percent and the Chinese yuan – by 11.3 percent.

Despite the increase in the NEER index, the higher level of inflation² in the trading partner countries caused a decrease in the index of real effective exchange rate by 3.7 percent from December 2014 and amounted to 124.0.

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

² For January to September 2015, the KR inflation amounted to 1.1 percent, whereas an average inflation rate in major trading partner countries made 7.8 percent according to preliminary calculations.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

In Q3, the Board of the National Bank made the following decisions for the size of policy rate: reduce it by 150 b.p. down to 8.00 percent in July; remain it unchanged at 8.00 percent in August; increase it by 200 b.p. up to 10.00 percent in September. As to the interest rates “corridor” related to the policy rate, a decision was made in July, to reduce the rates of overnight deposits down to 2.00 percent and those of overnight credits – down to 11.00 percent; a decision was made in August, to preserve the rates of overnight deposits and those of overnight credits unchanged at 2.00 percent and 11.00 percent, respectively; the rates of overnight deposits were increased in September up to 4.00 percent, those of overnight credits were increase up to 12.00 percent.

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

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

According to actual data, in Q3 2015 KGS was weakened by 10.8 percent; the monetary base volume increased by 2.3 percent against Q2 2015 to make KGS 66.6 billion as of the end of September 2015; however, annually, the monetary base decreased by 4.3 percent.

The analyzed period demonstrated an increase in excess liquidity (before sterilization) both compared to Q2 2015 and to similar value of 2014. For instance, in the reporting period of 2015, the average daily level of excess reserves in the banking system amounted to KGS 3.6 billion compared to KGS 2.5 billion in Q3 2014 and KGS 2.4 billion in Q2 of this year.

In Q3 2015 the NBKR performed the following monetary transactions:

- at the inter-bank foreign-exchange market the NBKR performed US dollar sales transactions for the amount of USD 35.9 million and purchase transactions thereof for the amount of USD 3.2 million; as a result the total volume of withdrawn KGS liquidity due to currency interventions amounted to KGS 2.5 billion (in Q2 2015 the infusion made KGS 2.4 billion);
- the average daily volume of sterilization due to issuance of the National Bank notes in Q3 amounted to KGS 1.4 billion against KGS 1.2 billion in Q3 2014;
- the average daily volume of overnight deposits amounted to KGS 1.3 billion (in Q2 2015 – KGS 864.6 million; in Q3 2014 – KGS 718.0 million), while the gross volume amounted to KGS 84.3 billion;
- the average daily volume of overnight credits amounted to KGS 250.4 million, while the gross volume amounted to KGS 7.0 billion;
- credits were issued to the Kyrgyz-Russian Development Fund to the amount of KGS 1,200.0 million. In Q3, refinancing credits were not issued, the outstanding debt of commercial banks for refinancing credits amounted to KGS 4,491.5 million as of the end of September;
- purchase of gold by the National Bank in the internal market amounted to KGS 230.9 million.

3.2. Financial Market Instruments

Government Securities Market

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

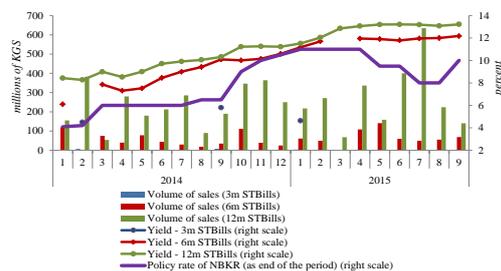


Chart 3.2.2. Dynamic of ST-Bonds Sales Volumes and Yield

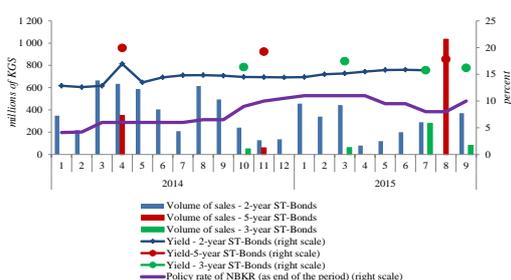


Chart 3.2.3. Activity in the Interbank Credit Resource Market

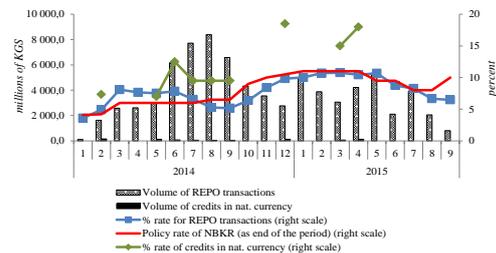


Chart 3.2.4. Dynamic of Rates and REPO Transactions in the IBCRM

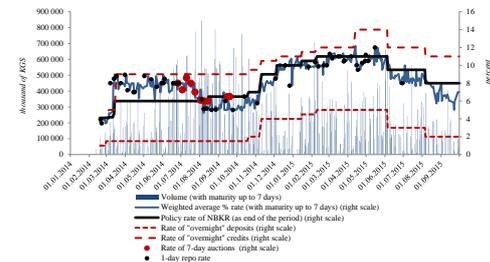
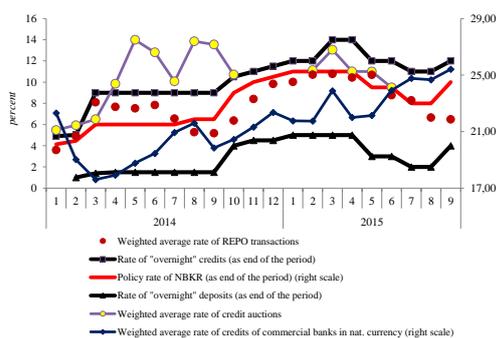


Chart 3.2.5. Rates of NBKR and Inter-Bank Transactions



ST-Bills

The Ministry of Finance of the Kyrgyz Republic suggested placing 3-, 6- and 12-month bills in Q3. The total volume of the announced emission of the bills was KGS 1.6 billion in July-September 2015 having increased by 12.0 percent against the comparable period of 2014. The volume of securities in circulation increased by 27.7 percent year-to-date and amounted to KGS 3.9 billion as of the end of the period. Due to an increase in demand volume (+80.2 percent) the sales volume increased by 78.3 percent. In Q3, the sales volume was KGS 1.2 billion. In the reporting period the average monthly yield of ST-Bills increased in all segments of securities placed in the market. Thus, the total average weighted yield of ST-Bills amounted to 12.9 percent (+3.0 p.p.).

ST-Bonds

In Q3 of the current year the State Treasury Bonds (ST-Bonds) market was presented by 2-, 3- and 5-year securities. As of the end of the reporting year, the volume of ST-Bonds in circulation increased by 26.9 percent year-to-date and amounted to KGS 9.5 billion. The announced volume of ST-Bonds emission was KGS 2.1 billion in Q3 2015 having increased by 2.3 times against the comparable value of 2014. There was the increase in demand (+48.9 percent) and sales volumes (+55.9 percent) in the reporting period. The average weighted yield increased (+1.7 p.p.) up to 16.5 percent in the period under review. In Q3 2015, the volume of sales (including additional placements) amounted to KGS 2.1 billion.

Inter-Bank Credit Resource Market

In Q3 2015, the interbank market showed reduction of the credits volume due to slowdown in activity of the main participants at this segment of the market. The volume of deposits placed in the National Bank amounted to KGS 84.3 billion (+2.2 times).

The total volume of KGS credits, including those from the National Bank, was KGS 13.8 billion. During the reporting period, the National Bank granted intraday credits to the amount of KGS 45.5 million, while those granted on overnight conditions amounted to KGS 7.0 billion.

Chart 3.2.6. Dynamic of Commercial Banks Deposits

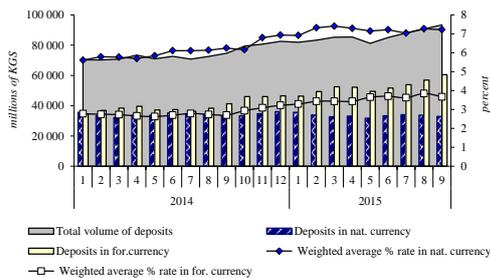


Chart 3.2.7. Dynamic of Newly Accepted Deposits

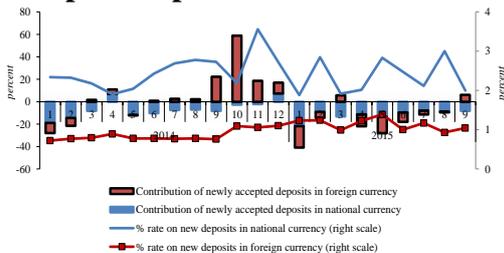


Chart 3.2.8. Rates of New Deposits in National and Foreign Currency in Terms of Maturity

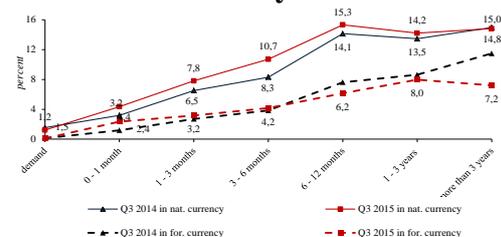


Chart 3.2.9. Dynamic of Credit Debt of Commercial Banks as of the End of the Period

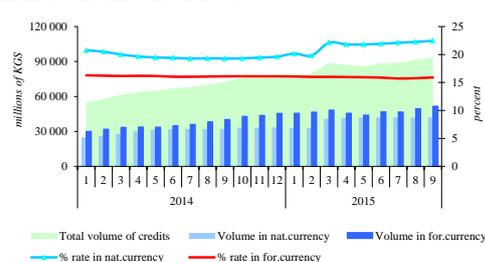
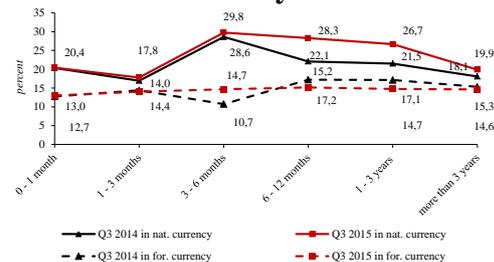


Chart 3.2.10. Rates of New Credits in National and Foreign Currency in Terms of Maturity



Deposit Market

The volume of deposit base of commercial banks increased by 13.1 percent year-to-date to make KGS 93.4 billion in Q3 2015. Deposits in foreign currency increased by 30.1 percent up to KGS 60.5 billion. Deposits in national currency decreased by 8.7 percent down to KGS 32.9 billion.

Under the impact of the US dollar strengthening, dollarization of deposits increased from 51.9 percent to 61.1 percent year-to-date.

Weighted average interest rate for new deposits in the national currency amounted to 2.37 percent in Q3 2015 having decreased by 0.36 p.p. against the comparable value of 2014; for the foreign currency deposits - 1.05 percent having increased by 0.28 p.p.

Credit Market

In Q3 2015, credit portfolio continued growing due to issuing credits both in the national and foreign currencies. One of the factors of increase in credit financing was implementation of the Project for Financing of Agriculture-3, which initiated credits issue from March 2015. In the reporting period, the volume of issued credits made KGS 594.3 million.

As of the end of the reporting period, the volume of credit portfolio of the commercial banks increased by 18.9 percent year-to-date and amounted to KGS 93.7 billion. Among them, the credits in national currency increased by 26.0 percent to make KGS 42.0 billion, while those in foreign currency made KGS 51.6 billion (+13.8 percent).

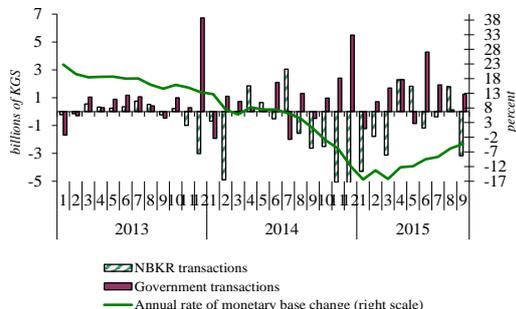
As of the end of the reporting period, the credit portfolio dollarization, with regard to the exchange rate fluctuations, increased by 0.6 percentage points year-to-date to make 53.8 percent.

Average weighted interest rate for new credits in national currency increased by 4.16 percentage points to make 24.95 percent in Q3 2015, while for those in foreign currency decreased by 1.13 percentage points down to 14.26 percent.

The share of overdue credits accounted for 1.8 percent late in the reporting period (-0.4 p.p. year-to-date), while the share of prolonged credits made 3.5 percent (+0.5 p.p.).

3.3. Dynamic of Monetary Indicators

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



Monetary Base

Monetary base increased by 2.3 percent, or by KGS 1.5 billion, in the reporting period of 2015. In Q3, the monetary base increased by KGS 3.3 billion due to the Kyrgyz Republic Government's transactions, meanwhile it was reduced by KGS 1.8 billion as a result of the National Bank's transactions.

The impact of the National Bank's transactions on the monetary base reduction was mainly conditioned by transactions in the foreign exchange market; net contribution thereof made KGS 2.3 billion. The Government's transactions made their main contribution by an increase in budget expenditures for salaries to employees of budgetary organizations (salaries and payment for vacation), as well as raise in teachers' salaries and pensions since September 01, 2015.

Monetary Aggregates

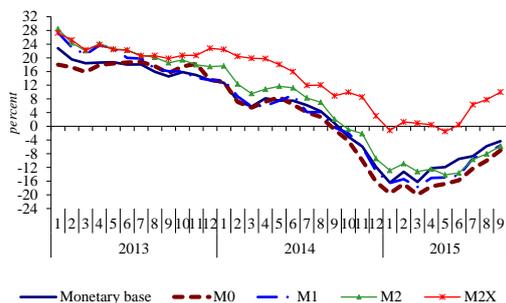
Nominal rates of changes in monetary aggregates had an upward trend in Q3 2015. Money in hands (M0), narrow money (M1) and broad money in the national currency (M2) increased in the reporting quarter by 4.3, 3.4 and 2.7 percent correspondingly (the annual rates (September 2015/September 2014) of monetary aggregates data decreased by 7.0, 5.6 and 5.7 percent respectively).

In the reporting quarter, broad money stock M2X, that comprises deposits in foreign currency, increased by 7.9 percent (in annual terms the volume of M2X increased by 10.0 percent). The growth of deposits¹ by 10.4 percent in Q3 (in annual terms growth made 25.0 percent) determined increase in broad money stock M2X.

Broad money M2X including deposits in foreign currency increased by 16.6 percent (in annual terms the increase was 46.2 percent); meanwhile, deposits in the national currency decreased by 0.3 percent (in annual terms the decrease was 3.2 percent).

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates

(in annual terms)



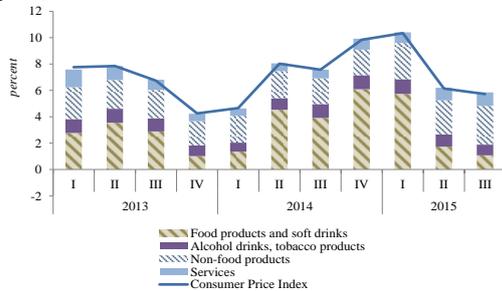
¹ Excluding deposits of the Government and non-residents.

Chapter 4. Inflation Dynamics

4.1. Consumer Price Index

Chart 4.1.1. Dynamics of CPI Structure

(quarter to the corresponding quarter of the previous year)



According to the National Statistical Committee (hereinafter referred to as the “NSC KR”), inflation made 5.7 percent in Q3 2015 (Q3 2015/Q3 2014), while the similar value of 2014 was at the level of 7.6 percent. Annual inflation rate (September 2015 against September 2014) amounted to 6.4 percent.

In Q3 2015, the country demonstrated a slowdown of inflation mainly resulted from the reduced food component of inflation. Downward price movements in the international food and raw materials markets, as well as fall of prices for wheat imported to the country (in Q3 2015, average export prices for Kazakh wheat¹ were twice reduced: in July – by 1.9 percent, in August – by 3.8 percent) generally resulted in released pressure on domestic prices. In Q3 2015 compared to Q3 2014 the prices of food products increased by 2.2 percent (in Q3 2014 the increase was 8.1 percent). The prices of bakery products increased by 7.1 percent, meat – by 1.0 percent and sugar – by 2.9 percent. The internal factor restraining food inflation was decrease in prices of vegetables by 19.8 percent. On the whole, the product group “fruits and vegetables” fell in price by 14.6 percent.

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

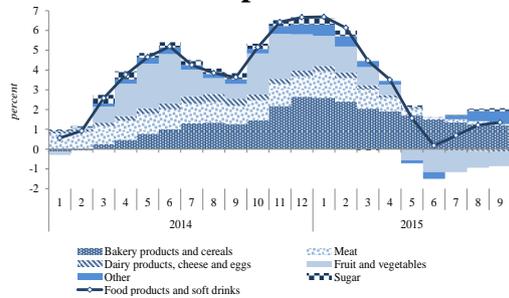
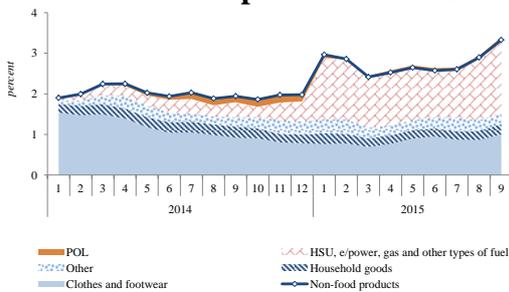


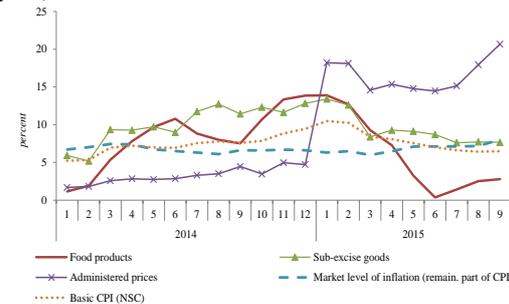
Chart 4.1.3. Dynamics of Non-food Products Price Input in Annual CPI



Rise in general price level in Q3 2015 was primarily driven by increased prices for non-food products (+10.1 percent). The main contribution to non-food inflation rate was made by scheduled increase in electricity tariffs since August 01, 2015 (in Q3 2015, direct input of this factor in CPI growth constituted 1.1 p.p.). Additional factor of non-food inflation in Q3 2015 was rise in prices of alcohol and tobacco products by 9.0 percent, increase in prices for category of “clothing and footwear” goods by 8.2 percent and “household goods and appliances” by 6.0 percent.

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

(month to the corresponding month of the previous year)



Growth in prices for paid services made 7.4 percent in Q3 2015 (in Q3 2014 – 4.8 percent). Index rise in this group was primarily due to the increase in prices for services related to education (+9.0 percent), leisure (+10.2 percent) as well as hotels and restaurants (+16.8 percent).

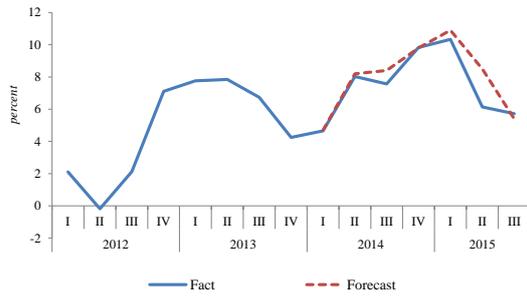
Base inflation calculated by the NSC KR methodic amounted to 6.5 percent in Q3 2015 against Q3 2014.

¹ delivery to Lugovaya station (Kazakhstan-Kyrgyzstan)

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)



Quarterly average level of inflation was by 0.3 p.p. higher than the forecasted one and made 5.7 percent (Q3 2015/Q3 2014). Deviation of the forecasted value of inflation from the actual one was conditioned by more rapid rates of non-food inflation due to rise in prices of imported goods against USD volatile dynamics, as well as new customs duties valid since August 2015 as a result of the Kyrgyz Republic joining the EEU.

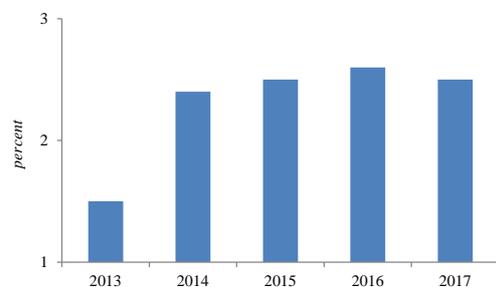
Chapter 5. Medium-Term Forecast

5.1. External Environment Proposals

Development Forecast of Major Trading Partner Countries

Chart 5.1.1. Real GDP Growth in USA

(year to year)



Source: IA Bloomberg

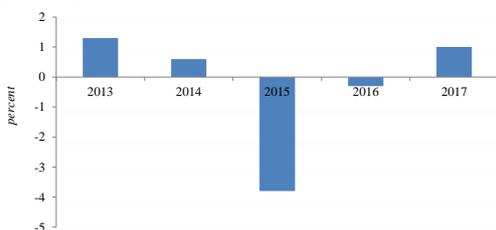
USA

Relatively slow economic growth in Q3 of the current year was primarily due to the time factor of reduction in expenditures for inventories. In subsequent periods, growth rates are expected to increase by 2.5 percent, mainly due to sustainable rise in consumer expenses. Domestic consumption will be supported by further growth of employment, low prices for fuel, strong US dollar exchange rate and favorable financing conditions. The impact of these factors is expected to decline gradually. Negative impact on the growth of activity will be provided by an increase in negative balance of foreign trade.

In 2015, inflation is expected to be at a low level slightly above zero, and in 2016 and 2017 it will rise up to two percent.

Chart 5.1.2. Real GDP Growth in Russia

(year to year)



Source: IA Bloomberg

Russia

Forecasts for GDP growth and inflation rate in Russia were slightly worsened due to high inflation rates resulted from the Russian ruble devaluation in August of the current year and the relatively tight monetary policy conducted by the Central Bank of the Russian Federation (CBRF), which, in turn, has an impact on economic and investment activity of the population. Negative factors such as low oil prices, maintaining mutual sanctions between Russia and western countries, as well as conservative fiscal policy are still observed.

In 2015, according to preliminary forecasts, the economy of the Russian Federation is expected to decline to 3.8 percent. While forecasts for 2016-2017 changed negatively: in 2016, the decline is expected by 0.3 percent instead of growth by 0.5 percent and in 2017, the growth – by up to 1.0 percent instead of 1.1 percent.

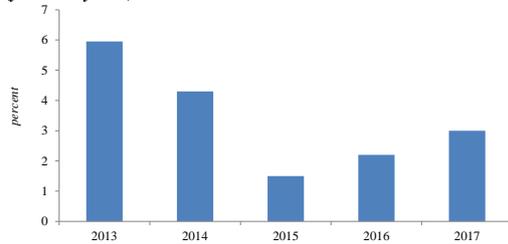
Inflation rate will continue to decline due to reduced consumer demand and the weakened effect of import restrictions imposed on western countries, however, this process is slower than was previously expected, and by the end of 2015 it will make 13.0 percent, however, by the end of 2017 it can approach the CBRF benchmark of 4.0 percent.

In Q3, there was an increase in the volatility of the Russian ruble exchange rate, primarily due to changes in oil prices. Further dynamics of the Russian ruble exchange rate will primarily depend on factors such as: the fluctuation in oil prices,

further monetary policy of the Central Bank of Russia and the level of capital outflow from the country.

Chart 5.1.3. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

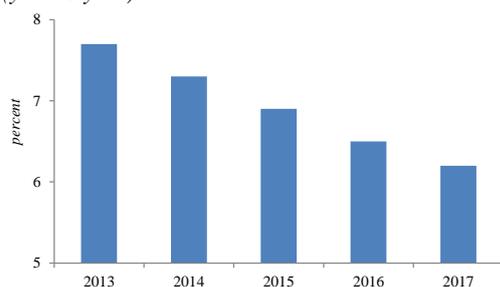
Kazakhstan

In 2015, economic growth in the industrial sector and in the service sector of Kazakhstan will be restricted by weak domestic and foreign demand for goods manufactured in Kazakhstan, while the growth of consumer prices and the weakening of the national currency exchange rate will have negative impact on domestic demand. The economy of Kazakhstan is expected to slow down from 6 percent in 2011-2014 to 1.5 percent in 2015 under the influence of these factors. According to experts, the economic growth in Kazakhstan will increase gradually by approximately 3 percent by 2017 on the background of increased oil production upon launching of the Kashagan Oil Field exploitation, rise in oil price, efficient structural reforms of the Government, investment for the International specialized exhibition “Astana EXPO-2017” and increased export competitiveness.

The recent introduction of the floating exchange rate and its depreciation in the short term increase the risks of inflation growth above the target value of the National Bank of Kazakhstan in the corridor of 6.0-8.0 percent.

Chart 5.1.4. Real GDP Growth in China

(year to year)



Source: IA Bloomberg

China

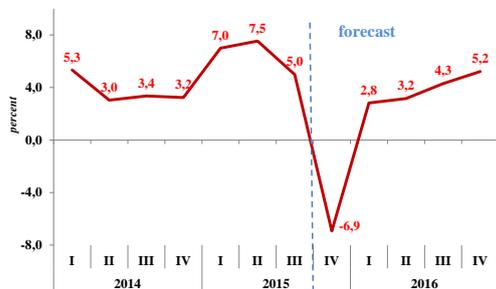
GDP growth rate in China is expected at 6.9 percent in the current year and 6.5 percent in 2016. Against structural changes in the economy of China, the demand for consumer goods will continue to show sustainable dynamics supported by expected further growth in salaries, while demand for raw materials and heavy industry products will grow more slowly. Gradual recovery of investments to the real estate sector, while unsold housing was distributed, and announced investment projects are expected to provide partial support for investment dynamics. In general, however, the growth rate of investments and industrial production are expected to continue decelerating. The authorities of China are likely to further ease the monetary policy, depending on the needs of economic development.

Average annual inflation of the current year is forecasted at 1.6 percent followed by growth of up to 2.0 percent in 2016.

5.2. Medium-Term Forecast

Chart 5.2.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



Development of Real Economy

Despite deterioration of external conjuncture (in Q3 2015 goods turnover was reduced by 30.3 percent), GDP growth without Kumtor made 4.1 percent in Q3 2015 in annual terms. Total GDP increased by 5.0 percent in real terms.

In Q3 2015, net inflow of money transfers of migrant workers decreased by 32.5 percent in US dollar equivalent. A slight slowdown in the rates of decline is expected in the short term, at the end of Q4 2015 the inflow of money transfers is expected to decrease by 18.0 percent in annual terms. In 2015, decrease is estimated at the level of 22.1 percent. The decrease in the volume of money transfers in the short term will be one of the factors that reduce domestic demand and purchasing power of the population.

Assessments of further economic growth of the domestic economy for the medium-term prospect are based on outlined trends in separate sectors of economy and dynamics of newly issued credits. According to technical report of Centerra Gold Inc., in 2015 the Kumtor Mine is expected to reduce production by 13.7 percent in real terms, which is 1.6 percentage points higher than the estimates of August forecast round. Assessments on gold production for 2016-2017 were also revised. In 2016, production output is expected to increase by 6.1 percent, in 2017 – decrease by 9.2 percent.

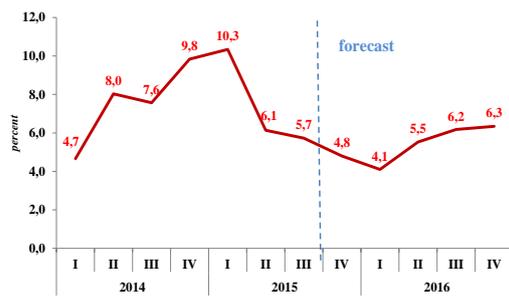
Generally, the forecast of economic growth in the Kyrgyz Republic in 2015 is estimated at the rate of 2.1 percent. In Q4 2015, the overall GDP will be under the pressure of a negative growth rate of the Kumtor Mine output. Moreover, this quarter is expected to show moderate growth rates in the agricultural, trade and construction sectors. The GDP formation in 2016 will be positively influenced by the full membership of the Kyrgyz Republic in the EEU and gradual increase in inflow of money transfers from migrant workers. As a result, GDP forecast for 2016 is revised upwards from 2.3 to 4.0 percent. In 2017, the real GDP growth will be at the rate of 3.5 percent.

Inflation

The world prices for oil of Brent grade were at the level of USD 51.2 per Barrel in Q3 2015 that was by USD 1.5 per Barrel higher than August estimates. Downward trend was still observed in the global food market.

Chart 5.2.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)

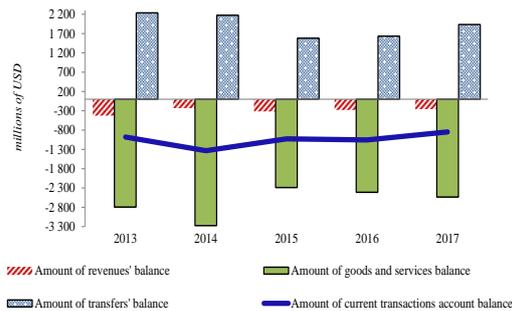


On the background of high uncertainty in the market of energy carriers, the forecast of prices for oil medium-term prospect are described by gradual upward trend. The forecast of food prices have a gradual upward trend as well. In the short term, a decrease in prices against the forecasted good harvest is expected in the global food market and in Kazakhstan market, which is the main provider of wheat in our domestic market.

Appropriate measures of monetary policy will allow keeping inflation at the level of 4.8 percent in Q4 2015 in annual terms, instead of the previously forecasted level of 6.6 percent. Inflation estimates for the medium term were also revised downward. Thus, the new inflation forecast made 6.7 percent on average for 2016 instead of 8.1 percent forecasted in August.

Chart 5.2.3. Forecast Data on Current Transactions Account

(millions of USD)



Payment Balance¹

In 2015, the entry of the Kyrgyz Republic into the Eurasian Economic Union and slowdown of economic growth in the main trading partner-countries will become the major factor defining a condition of the balance of payments.

At the end of the reporting year, deficit of the current transactions account is expected at the level of 15.7 percent to GDP, which will be lower than the level of 2014 by 2.4 percentage points. This trend will be caused by a decrease in the trade deficit and the decrease in the net inflow of current transfers.

The total volume of import is expected to decrease by 24.5 percent in the forecasting period. Increase in the cost of import due to the rise of tariff rates upon Kyrgyzstan joining the EEU will become the main factor of reduction in import supplies from the third countries.

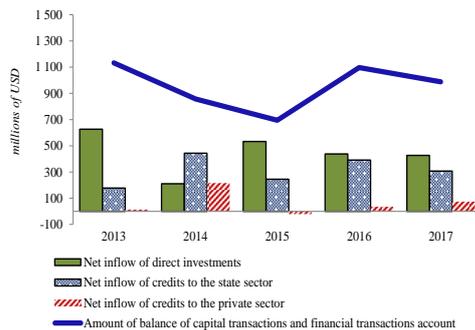
The decrease in the volume of additional calculations on business of “suitcase” traders and oil products re-export by 11.7 percent due to new conditions of trading within the EEU will have the main influence of the export dynamic in 2015. The forecasted decrease in gold production in Kumtor Mine in 2015 and a drop in the world prices will result in 22.9 percent decrease in gold export against the year of 2014. In view of the trends observed at the end of the first nine months of the current year, as well as the decline in external demand due to slowdown in the economies of major trading partner countries exports excluding gold and additional estimates will decrease by 17.2 percent.

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

Negative trend of economic development in the Russian Federation and devaluation of the Russian ruble against the US dollar will contribute to decrease in receipts of private transfers by 26.2 percent. Moreover, monetary grants received by the official sector are expected to decrease by 44.7 percent. As a result, net inflow on “current transfers” item is expected to decrease by 27.3 percent in the reporting period as compared to the previous year.

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

(millions of USD)



Financing of the current account deficit will be performed through capital inflow on the capital transactions and financial transactions account, which is expected to decrease by 18.9 percent in 2015 against the level of 2014. The decrease is mainly due to reduction in forecasted net inflow of external credits by 66.1 percent resulted from rise in payments on the principal amount of debt of both private and public sectors and decrease in the amount of attracted credits. During the period under review, the capital transactions account increased by 51.5 percent at the expense of the funds from the Russian-Kyrgyz Development Fund and grants provided by the Russian Federation and Republic of Kazakhstan intended to border management when joining the EEU.

Generally, the total payment balance is anticipated to be negative at the level of USD 19.3 million in 2015; meanwhile, the criterion of reserve assets sufficiency to cover future import of goods and services is forecasted at the level of 4.3 months of import.

Stabilization of the situation in the trading partner countries and adaptation of the Kyrgyz Republic to the business conditions within the framework of the EEU are the main factors determining the balance of payment in 2016.

During the reporting period, a slight deterioration of the trade balance in the country is forecasted due to import growth outstripping export supplies.

Increase of gold exports by 8.6 percent will contribute to the recovery of exports (despite the decline in world prices for gold, growth will be provided by increase in physical volume). Adaptation to new business rules within EEU can cause increase in exports excluding gold and additional estimates by approximately 12.5 percent primarily due to an increase in supplies of the products of agriculture and light industry.

During the period under review, imports are expected to increase by 5.6 percent due to recovery of domestic growth. Imports from the third countries are forecasted to be partly replaced

by supplies from the EEU countries. Imports from the EEU countries will increase by 7.9 percent, while the growth rate from the third countries will be more moderate to make 3.1 percent, it will result from rise in import costs due to increased tariff rates.

The positive trend is also expected in the dynamics of current transfers (growth up to 3.3 percent) primarily due to increase of remittances by 5.9 percent. Positive trends in the economy of the migrant workers' host countries and their working conditions serve as factors contributing to growth of remittances. Finally, the current account deficit will increase by 3.1 percent to make 17.8 percent to GDP (significant growth ratio to GDP is due to decline in GDP in the US dollar equivalent).

Net inflow of direct investments in the amount of USD 437.8, the slowdown of foreign assets growth, as well as increased inflow of external credits up to USD 425.8 million will provide increase of financial account by 58.0 percent to make USD 1 096.3 million.

The total amount of the payment balance at the end of 2016 is expected to be positive in the amount of USD 123.4 million. Reserve assets will cover 4.4 months of the future imports of goods and services.

In 2017, the current account is expected to improve and form at the level of 14.3 percent to GDP.

Increase in imports by 4.4 percent¹ accompanied by decrease in growth of exports by 2.8 percent² will provide growth of trade deficit by 5.8 percent (up to USD 2 395.4 million).

Rehabilitation of the economies in Russia and Kazakhstan will have a positive impact on the inflows of private transfers, which will increase by 18.6 percent and amount to USD 1 895.9 million.

Inflow of direct foreign investments in the amount of USD 426.0 million, as well as the inflows of credits in the amount of USD 381.9 million will provide major portion of receipts to the financial account.

The total amount of the payment balance at the end of 2017 is expected to be positive in the amount of USD 136.0 million. Reserve assets will cover 4.5 months of the future imports of goods and services.

The forecast of the balance of payments of the Kyrgyz Republic for 2015-2017 has the following

¹ Import growth is forecasted to be distributed between the growth of supplies from the CIS countries by 5.5 percent, and from the third countries - by 3.2 percent.

² The increase is primarily due to growth in external demand and export production adaptation to new business rules within EEU.

risks:

- the risks associated with the Kumtor Mine exploration;
- volatility in the world prices for gold and oil;
- deterioration of the economic situation in the trading partner countries;
- incomplete disbursement of the planned amounts of foreign loans to the public sector;
- volatility in the exchange rate of the major trading partner countries.