



КЫРГЫЗ БАНКЫ

# **Monetary Policy Report. Quarter 3, 2023**

**Bishkek  
November 2023**

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 2023 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2023-II-07/73-1-(ДКП) dated November 27, 2023.

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## Summary

**In the reporting quarter, global economy demonstrated uneven and slow growth.** Interest rates in many countries remained high, which restrained lending, thereby limiting inflation processes. There was slight recovery of business activity in the USA, China and some emerging market economies. The EAEU countries also demonstrated positive GDP growth dynamics. There was stable slowdown in global inflation, however, core inflation, which did not take into account volatile prices for energy carriers and food products, was still high.

**The services sector and industry, excluding the “Kumtor” gold-mining enterprises, were still the main contributors to economic growth of the Kyrgyz Republic.** Growth of real wages and expansion of consumer lending provided stable support to domestic demand. At the end of nine months of 2023, real GDP increased by 4.2 percent compare to the same period of the previous year and by 5.9 percent – excluding the Kumtor gold-mining enterprises.

In Q3 2023, trade balance was formed under the influence of significant growth in exports and slight increase in imports to the Kyrgyz Republic. Finally, the trade deficit of the country decreased by 4.8 percent compared to Q3 2022 and amounted to USD 2,257.6 million. The volume of foreign trade turnover increased by 18.2 percent and amounted to USD 3.8 billion.

**The annual inflation rate demonstrated stable slowdown due to monetary policy measures.** The external environment was still uncertain and geopolitical risks, as before, posed upward risks to inflation. In Q3 2023, rise in prices to the corresponding quarter of the previous year slowed down to 9.8 percent from 10.8 percent in Q2.

**Monetary policy was focused on limiting the monetary factor of inflation amid existing pro-inflationary risks.** The National Bank actively increased the volume of its sterilization operations due to high volume of excess reserves. At the end of Q3 2023, short-term money market rates increased compared to the previous period and were formed within the interest rate corridor of the National Bank.

**Operations in the domestic foreign exchange market were conducted amid slight volatility of the exchange rate.** Since July till September 2023, the demand for foreign currency prevailed in the domestic foreign exchange market over its supply. Under these conditions, in the reporting quarter, the National Bank conducted foreign exchange interventions on sale of foreign currency in non-cash form to the amount of USD 127.1 million to smooth sharp fluctuations of the exchange rate.

**There was stable expansion of lending and deposit base of the commercial banks.** An increase in deposits was provided by faster growth of log-term deposits in the national and foreign currencies. In turn, growth of the credit portfolio was mainly due to an increase in the volume of consumer credits in the national currency.

# Chapter 1. External Environment

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

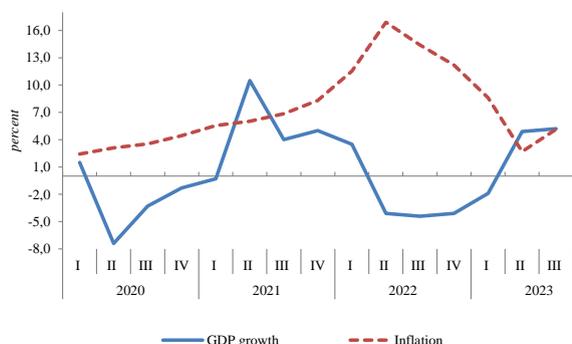
During the reporting quarter, the global economic development was multidirectional. Interest rates remained high, to have restraining impact on lending. There was slight recovery of business activity in the USA, China and some emerging market countries. The EAEU countries demonstrated positive GDP growth dynamics.

There was stable slowdown in global inflation, however, core inflation<sup>1</sup> was still high.

### 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

**There was positive dynamics of economic growth in Russia, meanwhile inflation risks increased since the end of June.**

In Q3 2023, GDP increased 5.5 percent compared to the same period of 2022 as a result of accelerated growth of output in the industrial sector, which was mainly due to increase of production in the processing industries (+10.2 percent). The sectors of construction, agriculture and trade also made a positive contribution to GDP growth. At the same time, consumer demand was still high. At the end of Q3 2023, real monetary incomes of the population increased by 4.9 percent.

**Tightening of Russia's monetary policy was conditioned by high pro-inflationary**

**factors and expansion of demand exceeding the production capacity.** In Q3 2023, the inflation rate was 5.2 percent compared to the same period of 2022 (14.4 percent). In January-September 2023, acceleration of price growth was observed in all commodity groups: food products – by 3.5 percent, non-food products – by 4.4 percent and services - by 6.4 percent. Pro-inflationary risks were conditioned by growth of domestic demand due to an increase in wages, growth of lending and significant weakening of the Russian ruble amid imports growth.

### Kazakhstan

**In Q3, economic growth of Kazakhstan demonstrated stable positive dynamics.** In January-September 2023, real GDP of Kazakhstan increased by 4.7 percent after 5.0 percent in the first half of the current year. Despite slight slowdown, the economic growth rates remained the highest since 2013. As in the previous quarter, economic growth was still supported by the sectors of construction (+12.6 percent) and trade (+10.0 percent). At the same time, there was a progressive upward trend in the growth rate of industrial production, which accelerated at the end of January - September of the current year up to 4.4 percent after 3.8 percent and 2.8 percent at the end of Q2 and Q1 of the current year, respectively.

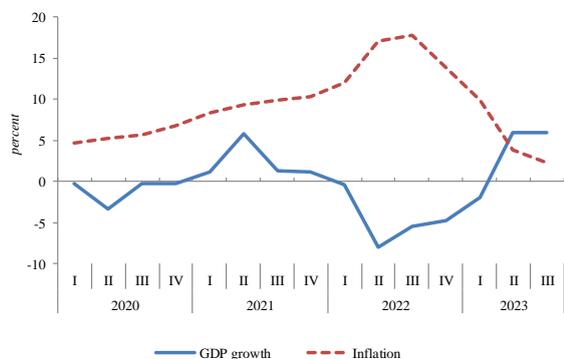
A decrease of quantum index in the agricultural sector by 9.9 percent due to unfavorable weather conditions was a restraining factor for GDP growth in Kazakhstan.

The average monthly wage increased by 16.9 percent compared to the corresponding quarter of 2022, the real wage index increased by 3.5 percent. The highest growth of average monthly wages was recorded in the sectors of information and communication, financial and insurance activities, arts, entertainment and recreation.

<sup>1</sup> Volatile prices for energy carriers and food products are not taken into account.

### Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



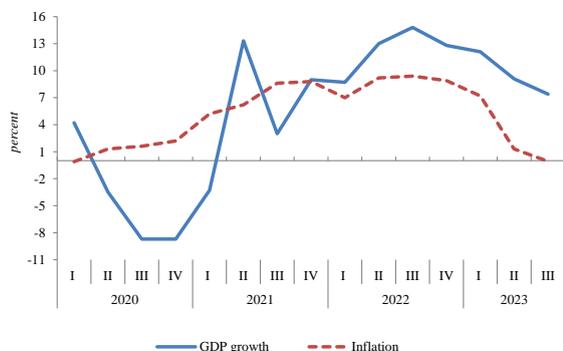
Source: RK Statistics Agency, National Bank's calculations

expenditures also contributed to this slowdown. However, monthly and core inflation remained high reflecting stable domestic demand and increased inflation expectations.

### 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

September of the current year. Strengthening of the Armenian dram, weakening of external price pressure and tight monetary conditions were the main factors restraining inflation growth.

**In September 2023, the annual inflation decreased down to 11.8 percent.**

In the reporting period, prices for food products increased by 11.4 percent, for non-food products – by 12.1 percent, for paid services – by 11.9 percent. Food products and non-alcoholic beverages (+4.5 percentage points), housing services (+1.6 percentage points), clothes and footwear (+1.2 percentage points) made the largest contribution to the annual inflation rate.

The inflation rate declined due to moderately tight monetary policy and gradual exhaustion of the high base for the previous year. Weakening global inflationary pressure and reduction of domestic manufacturing

**In January-September 2023, economic activity in Armenia slowed down slightly, GDP grew by 7.4 percent.** Economic activity in the country was supported by significant volumes of cash inflow and steady growth of the construction sector (+17.2 percent), amid an increase in mortgage lending.

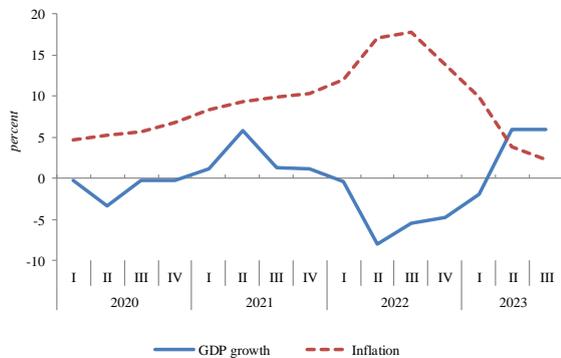
The industrial and services sectors demonstrated slowdown in production output.

**In September, the inflation rate in Armenia was 0.1 percent in annual terms, meanwhile deflation was observed since June till August 2023.** A slight acceleration of inflation by the end of the reporting period was due to slowdown of decline in food prices from (-)4.0 percent in August down to (-)3.1 percent in

## Belarus

### Chart 1.1.4. Growth of GDP and Inflation in Belarus

(quarter to the corresponding quarter of the previous year)



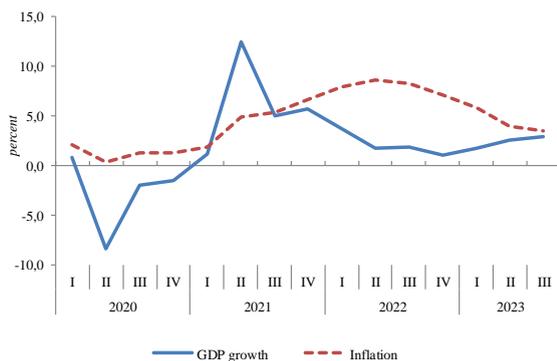
Source: National Statistical Committee of the Republic of Belarus

**2.3 percent in annual terms by the end of Q3 2023.** Low annual inflation rates were formed under the influence of the Belarusian ruble strengthening against the Russian ruble, which contributed to neutralization of pro-inflationary consequences for the domestic consumer market from price growth in the Russian Federation. Finally, in the reporting quarter, annual core inflation decreased from 2.0 percent in June down to (-)0.2 percent in September 2023.

## USA

### Chart 1.1.5. Growth of GDP and Inflation in the USA

(quarter to the corresponding quarter of the previous year)



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

**In Q3 2023, economic activity in Belarus changed insignificantly compared to Q2 2023. The annual inflation rate was steadily declining within the current system of price regulation.**

In Q3 of the current year, real GDP growth in Belarus was 6.0 percent. Domestic demand remained the main growth driver primarily from recovering consumer activity. In the reporting quarter, consumer demand was supported by high growth rates of real wages (in Q3 2023, by 15.3 percent, in the previous quarter, by 13.1 percent), as well as consumer lending (by 22.1 percent, in the previous quarter, by 5.4 percent) amid low interest rates.

**The inflation rate decreased down to**

**2.3 percent in annual terms by the end of Q3 2023.** Low annual inflation rates were formed under the influence of the Belarusian ruble strengthening against the Russian ruble, which contributed to neutralization of pro-inflationary consequences for the domestic consumer market from price growth in the Russian Federation. Finally, in the reporting quarter, annual core inflation decreased from 2.0 percent in June down to (-)0.2 percent in September 2023.

**In Q3 2023, there was an increase in economic activity of the USA.** In the reporting period, the U.S. real GDP growth was 2.9 percent<sup>1</sup> compared to the same period of 2022 (+1.7 percent) due to an increase in personal and government consumption expenditures, gross and private investment.

In September, the index of business activity in the U.S. manufacturing sector (ISM Manufacturing<sup>2</sup>) increased up to 49.0 points, compared to 46.0 points in June 2023, updating the maximum value within 10-month period. In September, the ISM Non-Manufacturing Index declined slightly down to 53.6 points from 53.9 points in June 2023.

Labor market tightness demonstrated stable easing across the country. In September 2023, the unemployment rate was 3.8 percent.

**In the reporting period, inflation in the USA slightly accelerated amid low base in the corresponding period of the previous year, when there was gradual slowdown in price growth after the highest ever growth rates during 40-year period (the maximum value of 9.1 percent was recorded in June 2022).** Thus, the annual inflation rate reached 3.7 percent in September 2023 (in June 2023, 3.0 percent). The inflation rate increased mainly due to rise in prices for transport services (+9.1 percent) and energy products (+2.2 percent). At the same time, consumer prices,

<sup>1</sup> Preliminary data from the U.S. Bureau of Economic Analysis.

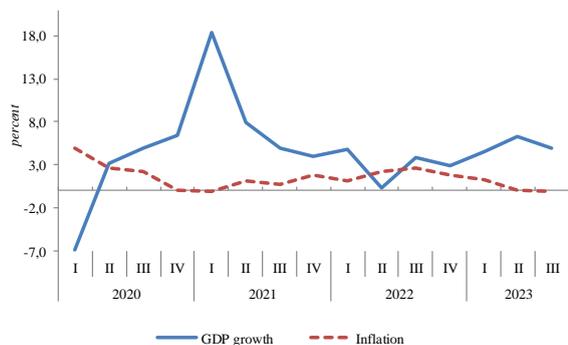
<sup>2</sup> Data from the Institute for Supply Management (ISM). An index value above 50 points reflects strengthening of business activity, meanwhile a lower value indicates weakening. The ISM Manufacturing Index is a monthly indicator of the U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. The ISM Non-Manufacturing Index is calculated based on data from the companies in 62 segments of the services sector with the share of approximately 90 percent of the U.S. GDP and about 80 percent of the country's working citizens.

excluding prices for food products and energy carriers (Core CPI), increased by 4.1 percent 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 September 2023, the inflation rate in China returned to zero. In Q3, the deflation rate was 0.1 percent** due to a decrease in food prices by 2.2 percent. However, inflation demonstrated acceleration in the services sector (in July- September, + 1.3 percent), in particular in the tourism sector, price increased by 13.4 percent in the reporting period.

## 1.2. World Commodity Markets

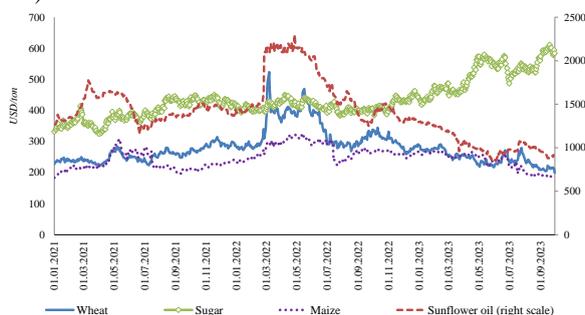
In the reporting period, there was stable decrease in prices in the world food market. Meanwhile, domestic prices remained above the level of the previous year in many countries of the world. Deterioration of the macroeconomic situation in the countries, geopolitical conflicts, as well as the volatility of national currencies against the USD or euro were the main factors for a decrease in prices.

There was a positive price dynamics in the global oil market amid stable reduction of production output in OPEC+ countries. In the reporting period, the demand for gold exceeded the average value for the last five years in the conditions of geopolitical risks and high inflation rate in the world gold market.

### Food Market

#### Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



wheat decreased due to seasonal increase in supplies from major exporters and the availability of large grain stocks in the Russian Federation. A similar trend was observed in the vegetable oil markets amid reduced demand for import in the world markets, high seed harvest and large volumes of export offers.

**In Q3, China's economy grew faster compared to expectations, however, there were risks related to the real estate market.**

In Q3 2023, China's real GDP increased by 4.9 percent compared to the corresponding quarter of 2022 due to growth in the service and industrial sectors.

Further deterioration was observed in the real estate sector: real estate investments decreased by 9.1 percent year-to-date and the volume of new housing construction fell by more than 20 percent.

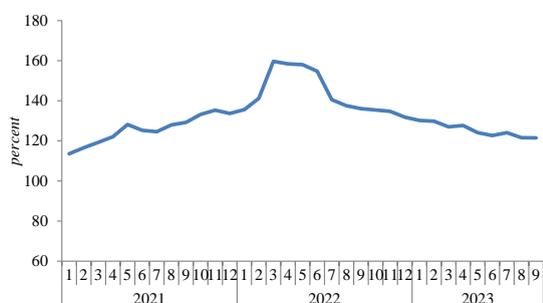
There was stable decline in foreign trade, being the main driver of economic growth for a long time. In September, exports and imports decreased by 6.2 percent in annual terms.

**In Q3, the world prices for basic food products demonstrated stable decline.** Large volumes of supply worldwide and low import demand were the factors for decline in the world food prices.

In the reporting period, the world prices for wheat and vegetable oils demonstrated diverse dynamics, however, in general, there was a decline in prices. At the beginning of the reporting period, rise in prices was conditioned by uncertainty with exports due to a decision made by Russia to withdraw from the Black Sea Grain Initiative. Later in August and September, the world price for

Concerns about probable reduction of export offers in 2023-2024 contributed to growth in prices for sugar. This trend is explained by decrease in sugar production forecasts in the main producing countries due to the El Niño natural phenomenon, which the experts expect to have a noticeable impact on climate conditions resulting in lower yields.

**Chart 1.2.2. Dynamics of FAO Food Price Index**



In the reporting quarter, the FAO food price index<sup>1</sup> showed stable decline due to a decrease in the world prices for crops, dairy products and meat. A noticeable increase in prices for sugar is the factor restraining accelerated decline of the FAO index.

In Q3 2023, the average value of the FAO food price index decreased by 1.9 percent compared to Q2 2023 and amounted to 124.4 points. At the same time, this index decreased by 11.3 percent compared to the same quarter of 2022.

Prices in the world food markets, which often play a decisive role in formation of CPI dynamics influence the inflation rate in the Kyrgyz Republic. This is due to the fact that food products occupy about half of the consumer basket, with a significant part thereof being imported, and make a significant contribution to the inflation rate.

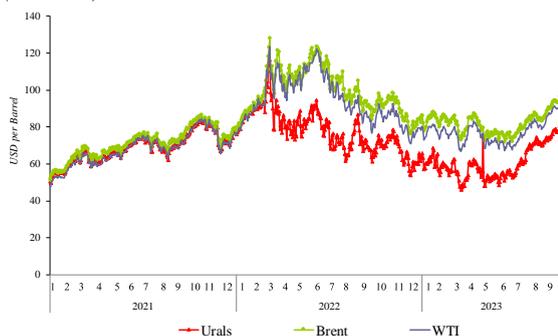
### Energy Market

**In Q3 2023, there was stable growth in oil quotations due to stable reduction of production output in OPEC countries and an increase of demand in China, India and Brazil.**

In Q3 2023, the average price for Brent oil increased by 10.6 percent compared to the previous quarter and amounted to USD 85.9 per barrel (the average price decreased by 12.1 percent compared to the same period of the last year). Russian Urals oil was sold at a discount of USD 10-20 per barrel compared to Brent oil.

On October 4, 2023, after the meeting of OPEC+ countries, a decision was made to maintain the reduction of oil production by 2.0 million barrels per day with a subsequent reduction by another 1.4 million barrels per day from the beginning of the next year amid an increase in oil supplies by 1.9 million barrels per day, up to the highest ever 50.5 million barrels per day, from non-OPEC+ countries. Nevertheless, in the reporting quarter, there was a decline in demand for oil and gas oil in the USA and Europe, which can be attributed to moderate economic growth in these regions.

**Chart 1.2.3. Dynamics of Oil Prices**  
(in USD)



World oil prices have a significant impact on the formation of export prices in the POL producing countries and often play a decisive role in price formation at the oil refineries in Russia, from which the Kyrgyz Republic imports almost 95 percent of the total volume of imported POL.

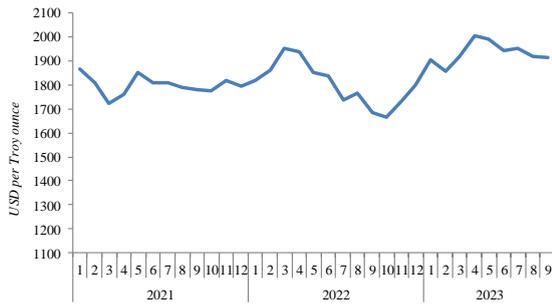
**In Q3 2023, prices for petroleum, oil and lubricants in Kyrgyzstan decreased due to high base of the last year.** In the reporting period, there was deflation of 3.3 percent (Q3 2023 to Q3 2022) was observed in the market of petroleum, oil and lubricants in Kyrgyzstan: prices for gasoline

decreased by 2.7 percent, for gas oil – by 6.2 percent.

### Gold Market

<sup>1</sup> The FAO food price index is a weighted average indicator that tracks international price movements for five major food commodity groups (meat, dairy products, crops, vegetable oils and sugar).

**Chart 1.2.4. Dynamics of Prices for Gold**



Source: IA Bloomberg

**In Q3 2023, demand for gold exceeded the average value for the last five years. The price for gold in the world market was within the range of USD 1,849-1,979 per Troy ounce.**

In Q3, demand for gold (excluding the OTC market) increased by 8.0 percent compared to the average value for the five-year period, however, it decreased by 6.0 percent compared to the previous year and constituted 1,147 tons. Meanwhile, total demand, including the OTC market, increased by 6.0 percent compared to the last year, up to

1,267 tons.

Purchase of gold by the central banks demonstrated stable historical growth rates. Meanwhile, since the beginning of 2023, demand from the central banks increased by 14.0 percent compared to the same period in 2022 and reached the highest ever level of 800 tons.

Demand for jewelry declined slightly amid high prices for gold, meanwhile investment activity was multidirectional.

In the reporting period, the average price for gold in the world market increased by 11.5 percent compared to the same period of 2022 and amounted to USD 1,926.8 per Troy ounce. Meanwhile, at the end of September 2023, the price for gold increased by 1.3 percent year-to-date and amounted to USD 1,848.6. At the end of the reporting period, the price for this asset declined slightly due to an increase in the US Federal Reserve's key rate forecasts for 2024-2025.

Demand in the world market is expected to support gold and limit the downward movement of gold prices due to the existing geopolitical risks. According to the World Gold Council, the current demand for the precious metal exceeds the demand observed during the last 55 years. At the same time, global inflation and the monetary policy of the US Federal Reserve System still affect the dynamics of the world price for gold.

## Chapter 2. Macroeconomic Development

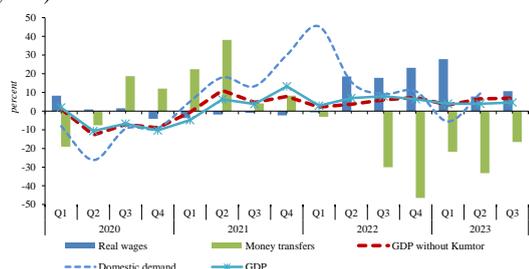
### 2.1. Demand and Supply in the Commodities and Services Market

By the end of January-September 2023, there was acceleration of the real sector turnover. The services and industrial sector, excluding “Kumtor” gold-mining enterprises, made the main input to economic growth.

#### Demand

#### Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



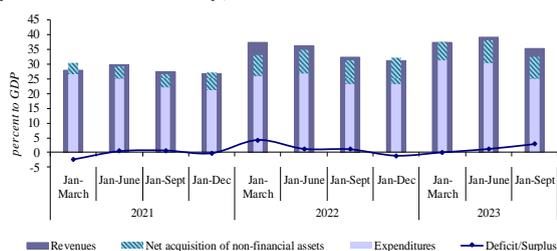
Source: NSC KR, calculations: National Bank

further growth in domestic demand.

#### Public Finances Sector

#### Chart 2.1.2. Execution of the State Budget

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



Source: CT MFKR, National Bank

foreign operations (9.8 percent), etc. was significant in the structure of tax revenues.

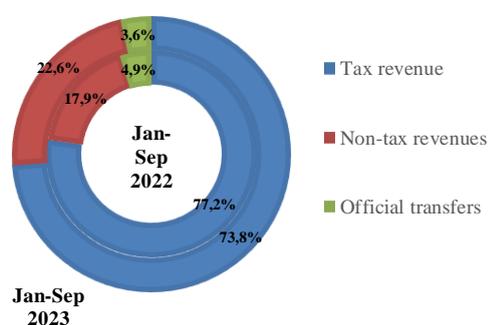
According to the preliminary results of Q2 2023<sup>1</sup>, domestic demand increased by 9.4 percent in annual terms. At the same time, in the aforementioned period, there was a significant growth in domestic demand due to increased economic activity in the construction and services sector, particularly in trade, as well as growth in real wages (+14.6 percent) and positive dynamics of consumer lending (+27.4 percent). According to the results of the first nine months of 2023, stable high growth rates in capital investments (+16.7 percent) and consumer lending (+54.9 percent) are expected to be an impulse for

**In January-September 2023, the state budget was executed with a surplus of 2.9 percent to GDP due to a seasonal phenomenon and an increase in customs revenues to the budget from the foreign economic activity.**

An increase in current budget revenues was provided by growth of tax and non-tax revenues. The share of tax revenues made 73.8 percent in the structure of revenues. The share of VAT (49.4 percent), income and profit tax (25.3 percent), taxes on international trade and

<sup>1</sup> Reference to the data for the earlier period is given due to the lack of more up-to-date data.

**Chart 2.1.3. Structure of the State Budget Revenues**



Source: CT MFKR

There was an increase in all items of economic and functional classification with regard to current expenditures. At that, the share of the payroll fund (47.4 percent), grants and contributions (23.7 percent) prevailed in the structure of expenditures. Net capital expenditures increased by 13.6 percent and amounted to 7.4 percent to GDP.

At the end of September 2023, public debt increased by 11.1 percent mainly due to growth of domestic debt and amounted to KGS 531.1 billion. In January-September 2023, financing of the budget deficit amounted to KGS 3.5 billion (internal – KGS (-) 0.8 billion, external – KGS 4.3 billion).

In 2023, the republican budget deficit is expected at 1.1 percent of GDP<sup>1</sup>. The state budget surplus is expected since 2024 (from 1.6 percent to GDP in 2024 up to 1.7 percent to GDP in 2026)<sup>2</sup>, however stable dependence of the budget resources on the indicators of foreign economic activity, as well as a significant increase in domestic debt may affect the budget sustainability.

### Investments

**Table 2.1.4. Capital Investments by Sources of Financing**

(millions of KGS, percent)

|  | January-September |                 |                |              |
|--|-------------------|-----------------|----------------|--------------|
|  | 2022              | 2023            | 2022           | 2023         |
|  | millions of KGS   |                 | share, percent |              |
| <b>Total</b>   | <b>80 512,9</b>   | <b>97 101,5</b> | <b>100,0</b>   | <b>100,0</b> |
| <b>Internal investment</b>                                 | <b>65 178,9</b>   | <b>83 435,2</b> | <b>81,0</b>    | <b>85,9</b>  |
| Republican budget  | 4 652,1           | 11 413,4        | 5,8            | 11,7         |
| Local budget   | 1 553,8           | 2 739,3         | 1,9            | 2,8          |
| Funds of enterprises and organizations                     | 28 565,1          | 35 448,5        | 35,5           | 36,5         |
| Banks' credits   | 461,3             | 959,4           | 0,6            | 1,0          |
| Population funds including beneficent help of KR residents | 29 946,6          | 32 874,6        | 37,2           | 33,9         |
| <b>External investment</b>                                 | <b>15 334,0</b>   | <b>13 666,3</b> | <b>19,0</b>    | <b>14,1</b>  |
| Foreign credit   | 7 693,8           | 6 323,8         | 9,5            | 6,5          |
| Direct foreign investments                                 | 2 597,0           | 2 924,0         | 3,2            | 3,0          |
| Foreign grants and humanitarian aid                        | 5 043,2           | 4 418,5         | 6,3            | 4,6          |

Source: NSC KR

There was an increase in the level of capital investments exploitation.

In January-September 2023, the level of capital investments exploitation increased by 16.7 percent compared to 2022. Capital investments financed from the domestic sources increased by 23.9 percent. At the same time, investments financed from foreign sources decreased by 13.8 percent.

Investment activity was concentrated in the sectors of water supply (an increase by 2.1 times), health care (an increase by 2.0 times), and mining (an increase by 34.9 percent). Reduction of investments in the construction of agricultural, forestry and fishery facilities by 23.9 percent, transportation and cargo storage facilities by 14.4 percent had limiting influence on growth of the index.

### Supply

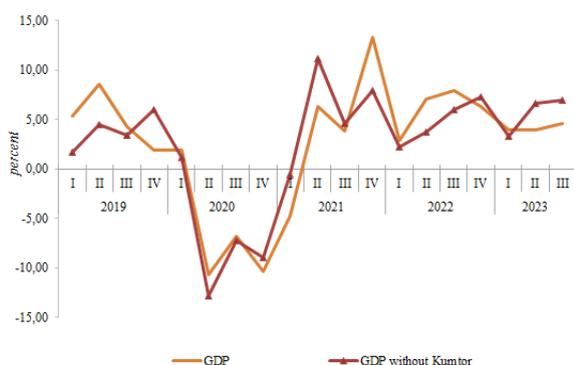
According to preliminary data of the NSC KR, at the end of January - September 2023, the nominal GDP increased by 4.2 percent in real terms compared to 2022 and amounted to KGS 808.3 billion. The growth rate of GDP, excluding the “Kumtor” gold-mining enterprises, was 5.9 percent in the reporting period.

<sup>1</sup> According to the Draft Law of the Kyrgyz Republic “On Amendments to the Law of the Kyrgyz Republic “On Republican Budget of the Kyrgyz Republic for 2023 and Forecast for 2024-2025”.

<sup>2</sup> According to the Draft Law of the Kyrgyz Republic “On Republican Budget for 2024 and Forecast for 2025-2026”.

### Chart 2.1.5. GDP Dynamics

(quarter to the corresponding quarter of the previous year)

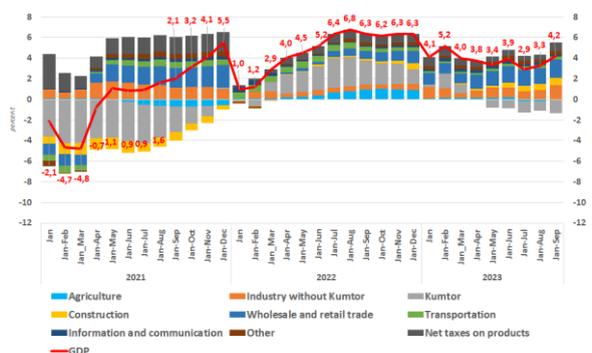


Source: NSC KR, calculations: National Bank

industrial sector returned to the positive zone of growth, however it demonstrates low values of growth by 0.4 percent due to reduction of production output at “Kumtor” gold-mining enterprises (-22.3 percent). At the same time, manufacturing industry excluding Kumtor production output showed high growth rates by 27.4 percent.

### Chart 2.1.6. Input of Main Sectors in GDP Growth

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



Source: NSC KR, calculations: National Bank

**The services sector is the main driver of economic growth.** Thus, the services sector demonstrated growth by 4.9 percent mainly due to an increase in the turnover of wholesale and retail trade (+12.7 percent compared to January-September 2022), the share of which reached 13.8 percent in the total GDP. The economy is also supported by the construction sector, which showed a significant increase in growth rate by 13.7 percent. Agriculture still has a restraining effect, with production output of 0.1 percent in the reporting period amid dry weather in the current year and high indicators of the previous year.

By the end of the reporting period, the industrial sector returned to the positive zone of growth, however it demonstrates low values of growth by 0.1 percentage point by the end of the reporting period. At the same time, in the reporting quarter, the share of the services sector in the GDP structure still remains the largest in the amount of 51.8 percent.

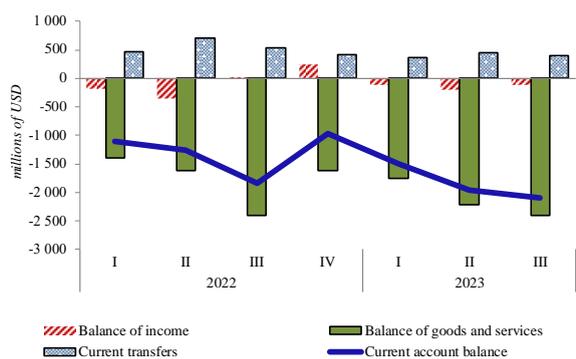
The GDP deflator was positive and amounted to 18.3 percent, having increased by 2.9 percentage points compared to January-September 2022.

## 2.2. External Sector<sup>1</sup>

**In Q3 2023, generally, the current account deficit was formed due to persistent negative trade balance coupled with the deterioration in the rest items of the current account - services, transfers and income balances.**

<sup>1</sup> 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**



Note: According to the preliminary and forecasted data.

According to the preliminary and estimated data, in Q3 2023, the current account deficit constituted USD 2,103.1 million or 50.1 percent to GDP<sup>1</sup>.

In the reporting period, the trade deficit of the Kyrgyz Republic was formed in the amount of USD 2,257.6 million amid rapid rise of export supplies and a continuing trend of import growth.

Export of goods (in FOB prices) increased by 80.5 percent and amounted to USD 791.7 million. Exports excluding gold increased by 8.3 percent, to make USD 474.7 million. Supplies of gold (non-monetary), ore and

concentrates of precious metals, coal, motor cars, live animals, as well as fabrics had the main impact on the current export volumes.

Import of goods (in FOB prices) increased by 8.5 percent and amounted to USD 3,049.3 million. The current trade structure in the region still affects the growth of import operations. Such commodity items as motor cars, parts for equipment, and vehicles for cargo transportation and kerosene contributed to an increase in imports in the reporting period. At the same time, in the reporting period, import of energy products decreased by 20.0 percent due to reduction in their physical volume and value.

**In the structure of current transfers, there was a decrease in private transfers, meanwhile the balance of public sector transfers was formed negative with «minus» sign over the observed period.**

In Q3 2023, reduction in the inflow of remittances had a significant impact on the negative dynamics of the net inflow of private transfers (a decrease by 23.4 percent). The dynamics of official transfers was fully conditioned by the member's contributions to the international organizations amid absence of cash grants from the development partners.

In the reporting quarter, the balance of services' deficit is expected to increase up to USD 137.9 million (by 5.6 times), while the balance of the item "income" is estimated to be negative in the amount of USD 106.7 million (deterioration by 4.1 times).

**According to the preliminary and forecast estimates of the National Bank, in Q3 2023, capital inflow on the capital and financial account is expected in the amount to USD 2,040.1 million.**

The capital account surplus will make USD 42.3 million. The positive balance on the financial account is expected in the amount of USD 1,997.8 million due to an increase in other investments in the form of growth in private sector liabilities to non-residents.

Thus, at the end of Q3 2023, the balance of payments of the Kyrgyz Republic will develop with a positive balance to make USD 64.6 million.

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

## Chapter 3. Monetary Policy

### Key trends

- During Q3 2023, the Board of the National Bank twice considered the issue on the size of the policy rate. The National Bank kept unchanged the appropriate monetary policy conditions due to high uncertainty regarding the world economic development amid unstable geopolitical situation and pro-inflationary risks from the internal factors;
- Previously taken monetary policy measures together with stabilization of the situation in the global food markets during the reporting period contributed to gradual weakening of the inflation environment in the Kyrgyz Republic. At the same time, there are still risks associated with expansion of demand, indexation of tariff policy, and preservation of high core inflation;
- The National Bank actively increased the volume of its sterilization operations amid high level of excess liquidity in the banking system to limit the monetary component of inflation;
- Short-term rates in all segments of the money market were within the interest rate corridor near the key rate. The situation in the money and foreign exchange markets remained relatively stable due to measures taken by the National Bank;
- The National Bank conducted operations on sale of foreign currency to smooth sharp fluctuations of the exchange rate due to slight volatility in the domestic foreign exchange market.

### 3.1. Monetary Policy Implementation

#### Interest Rate Policy

**Taking into account the development trends of the domestic economy, as well as the current situation in the external environment, the National Bank's interest rate policy did not change.**

In Q3 2023, the National Bank twice considered the issue of the policy rate (on July 31 and August 28), finally, the interest rate policy of the National Bank did not undergo any changes.

Thus, the main rates of the regulator remained unchanged: the policy rate at 13.00 percent, the rate on “overnight” deposits – at 11.00 percent, the rate on “overnight” credits – at 15.00 percent.

In Q3 2023, the weighted average indicators of short-term interest rates in the money market increased compared to the previous period due to measures of the National Bank's policy. Meanwhile, the interest rates were formed near the key rate within the interest rate corridor set by the National Bank.

The short-term segment of the money market was in the maximum demand among the market participants due to prevailing short-term excess liquidity in the banking system.

**The spread between the key rate and the money market rates narrowed due to measures taken at the beginning of 2023 to make the National Bank's interest rate corridor symmetrical.**

The average spread between the short-term rates of the money market and the National Bank's policy rate decreased compared to the previous period, demonstrating slight narrowing. At the same time, the spread still formed in the negative area due to concentration of yields between the policy rate and the rate on “overnight” deposits. Thus, the average spread in the notes market decreased by 0.54 percentage points and amounted to (-)0.88 percent. During the quarter, the weighted average yield of notes increased from 12.09 in July up to 12.16 percent in September (in August, the weighted average yield of the National Bank's notes was 12.13 percent).

Despite the fact that the yield on interbank REPO transactions demonstrated downward trend during the quarter, the weighted average interest rates during the period were higher compared to the previous quarter. As a result, the average spread decreased down to (-)1.36 percent in the market of

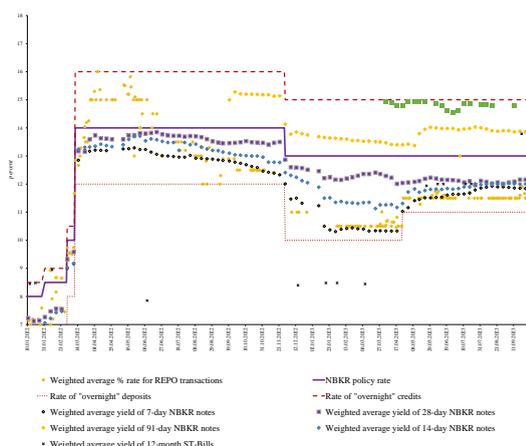
credit borrowing through REPO transactions. ST-Bonds of the Ministry of Finance of the Kyrgyz Republic were the main assets used by the commercial banks in REPO transactions, and the market participants also used the National Bank’s notes as collateral.

**Under the conditions of measures implemented by the Cabinet of Ministers of the Kyrgyz Republic on development of the stock market of the Kyrgyz Republic, the short-term government securities (ST-Bills) with a maturity of 12 months were presented on the trading platform of Kyrgyz Stock Exchange CJSC since the second half of the previous quarter of 2023.**

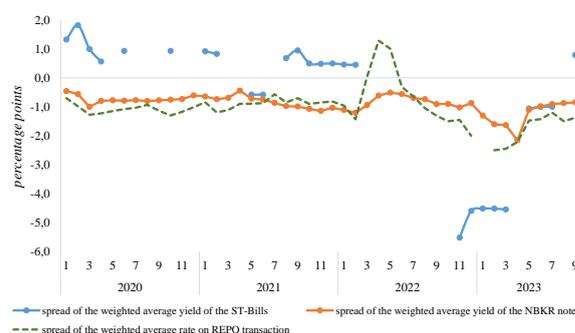
In Q3 2023, the yield of 12-month ST-Bills started to form within the interest rate corridor set by the National Bank. Totally, three auctions were conducted in the reporting period, following the results thereof the average spread decreased by 0.93 percentage points and amounted to (-)0.11 percent.

In addition, it should be noted that based on the results of the auction conducted in September 2023, the yield in this maturity for the first time during a long time increased compared to the policy rate of the National Bank, therefore the weighted average rate was 12.23 percent at the end of the reporting quarter (in Q2 2023, this indicator was 11.98 percent).

**Chart 3.1.1. Interest Rate Policy of the National Bank**



**Chart 3.1.2. Spread between the Short-Term Rates of the Money Market and the Key Rate**



### Liquidity Regulation in the Banking Sector

**In Q3 2023, excess liquidity in the banking system demonstrated stable upward trend. During the reporting period, the average daily indicator of excess reserves was characterized by multidirectional dynamics. At the same time, since the beginning of 2023, the average daily indicators of excess reserves reached the maximum values at the end of the quarter. Under these conditions, the money market participants still gave preference to the National Bank’s sterilization instruments (mainly to the National Bank’s notes).**

During Q3 2023, the excess liquidity in the banking system was formed due to the inflow of resources through the monetary channel. Net input of the National Bank’s operations to the growth of excess liquidity amounted to KGS 30.4 billion.

Whereas, at the end of the quarter, the government sector operations had a downward effect on the commercial banks’ liquidity by KGS 25.0 billion. The foreign exchange operations of the National Bank in the amount of KGS 8.2 billion put additional restraining effect on the growth of excess liquidity in the banking system.

In Q3 2023, the value of excess liquidity in the banking system reached highest ever values. The average daily volume of this indicator, prior to the sterilization operations conducted by the National Bank, increased by KGS 2.4 billion compared to the indicator in the previous quarter and amounted to KGS 66.8 billion (in Q3 2022, KGS 35.1 billion). At the same time, since July till

September 2023, the level of excess reserves decreased by KGS 1.7 billion and amounted to KGS 65.3 billion by the end of the quarter.

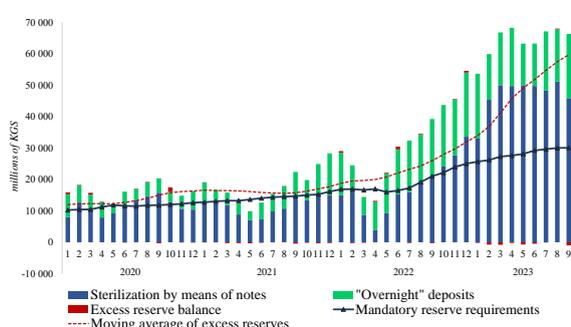
Taking into account the upward dynamics of excess liquidity in the banking system, the National Bank continued to actively expand operations on absorption of excess reserves to limit the monetary component of inflation.

As a result, in Q3 2023, the average daily volume of sterilization operations conducted by the National Bank increased to KGS 67.1 billion from KGS 64.9 billion in the previous quarter (in Q3 2022 – KGS 35.1 billion). Short-term excess liquidity of the banking system was absorbed by the following instruments of the National Bank:

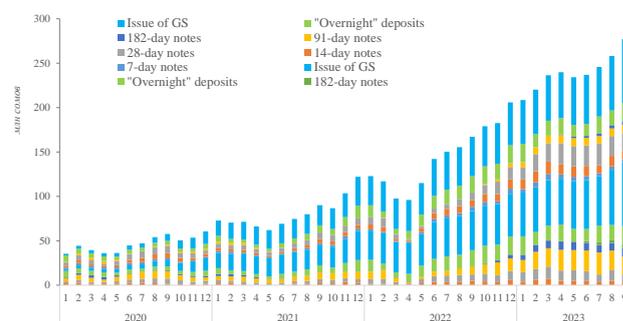
- *the operations in the open market - issuance of the National Bank's notes*, in the reporting quarter, the average daily volume of sterilization thereof slightly decreased to KGS 48.4 billion from KGS 49.8 billion in the previous quarter of 2023 (in Q3 2022, KGS 18.5 billion). In the reporting quarter, the share of these operations in the total structure of sterilization operations decreased to 72.2 percent from 76.8 percent in the previous quarter (in Q3 2022 – 52.7 percent);

- *placement of the commercial banks' available funds on "overnight" deposits with the National Bank*, in the reporting quarter, the average daily volume thereof increased to KGS 18.6 billion from KGS 15.0 billion in Q2 (in Q3, 2022 – KGS 16.6 billion). In the reporting quarter, the share of these operations in the total structure of sterilization operations increased to 27.8 percent from 23.2 percent in the previous quarter (in Q3 2022 – 47.3 percent).

**Chart 3.1.3. Excess Reserves of the Commercial Banks**



**Chart 3.1.4. Structure of Sterilization Taking into Account Government Securities**



### Credit Policy of the National Bank

**Short-term credit resources of the National Bank within the framework of “overnight” credits were in low demand from the commercial banks compared to the previous period amid stable upward dynamics of excess liquidity in the banking system.**

In Q3 2023, gross volume of funds borrowed through “overnight” credits amounted to KGS 45.5 million (in Q2 2023 – KGS 297.6 million, in Q3 2022 – KGS 144.5 million). Decrease in demand for borrowed funds of the National Bank may also reflect improvement in liquidity management by the commercial banks, since this instrument is mainly used by the participants of the banking sector as a precautionary measure of compliance with the mandatory reserve requirements<sup>1</sup> of the National Bank.

At the same time, long-term resources in the national currency were not provided through refinancing instruments as part of the current monetary policy.

### Foreign Exchange Policy of the National Bank

<sup>1</sup> According to the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2023-П-07/58-1-(ДКП) dated September 13, 2023, the rate of mandatory reserve requirements for liabilities in foreign currency (except for the currencies of the Eurasian Union and the PRC) was increased from 14.00 to 15.00 percent (+100 basis points). This measure was taken to reduce the growing level of deposits dollarization in the banking system and related currency risks and will take effect since October 9, 2023.

**The National Bank continued to conduct transactions in the domestic foreign exchange market to prevent sharp fluctuations in the exchange rate. In general, the foreign exchange market functioned under the conditions of slight volatility.**

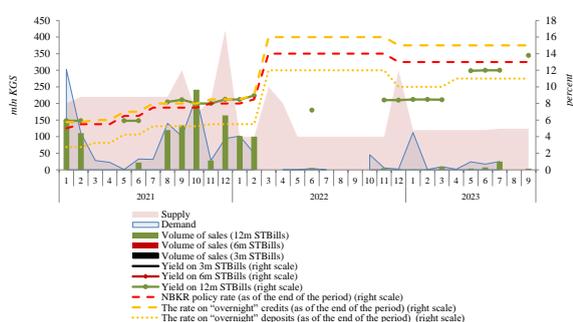
In Q3 2023, the National Bank, following the floating exchange rate regime, continued to conduct transactions in the domestic foreign exchange market to prevent sharp fluctuations in the exchange rate. In the reporting quarter, the total volume of the National Bank’s interventions on sale of foreign currency in the domestic foreign exchange market amounted to USD 127.1 million (in Q3 2022, only transactions on purchase of foreign currency were conducted in the amount of USD 240.0 million). Moreover, in the reporting period, the National Bank conducted transactions on purchase of foreign currency, the volume thereof amounted to KGS 3.0 billion.

In general, in Q3 2023, the volatility of the USD/KGS exchange rate decreased compared to the previous quarter. Thus, the USD/KGS exchange rate was fluctuating within the range of KGS 87.2015-87.7100 per USD. The average exchange rate increased by 0.7 percent compared to the previous quarter and amounted to KGS 88.0926 per USD (in Q3 2022, the average exchange rate amounted to KGS 81.3034 per USD).

### 3.2. Financial Market Instruments

#### Government Securities Market

**Chart 3.2.1. ST-Bills Market Indicators**



#### ST-Bills

**In Q3 2023, 12-month ST-Bills continued to be placed on the trading platform of Kyrgyz Stock Exchange CJSC and were in weak demand among market participants, sales were at a low level.**

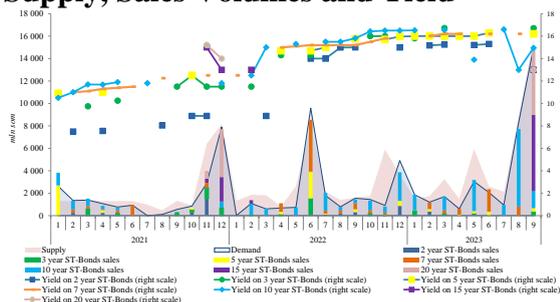
Only three auctions were conducted out of six offered ones. The monthly volume remained at the level of KGS 124.0 million, meanwhile the total demand amounted to KGS 28.4 million and was fully satisfied.

Low demand for ST-Bills among the market participants, most likely, is due to the greater attractiveness of short-term products with equal or higher yield compared to the weighted average yield of ST-Bills (12.9 percent in Q3 of the current year) and the policy of increasing the total circulation period of the government securities by increasing the share of longer-term securities (ST-Bills) in the total structure of annual issues of government securities.

The volume of ST-Bills in circulation (excluding 12-month ST-Bills placed since May 2023 on the platform of KSE) decreased by 91.0 percent year-to-date due to a decrease in the volume of sales and an increase in the volume of redemption and amounted to KGS 19.3 million.

#### ST-Bonds

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



In Q3 2023, the ST-Bonds market was represented by the securities of all types of maturities, excluding 2-year maturities. 20-year ST-Bonds were placed for the first time since 2021. Activity in the ST-Bonds market was mainly provided by the government’s participation. The weighted average yield of ST-Bonds decreased due to the main sale of securities with lower yields.

Totally, seven auctions were conducted on the trading platform of the National Bank (including nine auctions declared void) and one auction – on placement of 2-year ST-Bonds on the trading platform of the stock exchange, which was declared void.

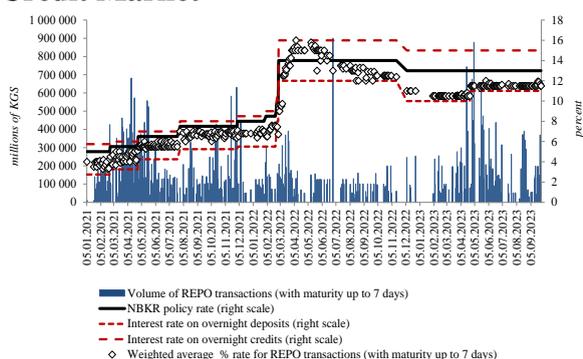
The total weighted average yield of ST-Bonds decreased due to large volume of securities with lower yields (15- and 20-year ST-Bonds) in the sales structure (16.55 percent in July, 13.34 percent in August, and 13.36 percent in September).

10-, 15- and 20-year ST-Bonds were mainly sold: their aggregate share constituted approximately 92.3 percent of the total volume of sales for the whole quarter.

ST-Bonds in circulation still demonstrate upward trend. The volume of ST-Bonds in circulation (excluding 2-year ST-Bonds placed since May 2023) increased by 34.4 percent year-to-date. There was change in the structure of ST-Bonds holders: as before, the share of institutional investors constitute almost half of all holders (43.8 percent), the share of resident legal entities (21.2 percent) and commercial banks (20.3 percent) constitute the other half, other participants hold 14.7 percent of all ST-Bonds in circulation.

### Interbank Credit Market

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



Activity in the interbank market slowed down in Q3 2023. There were no standard transactions in the national and foreign currencies, only REPO transactions were conducted. In July-September 2023, the volume of transactions decreased by 56.2 percent compared to the previous quarter and amounted to KGS 5.3 billion (in Q2 – KGS 12.1 billion), meanwhile the monthly volume of transactions were higher compared to the monthly values in the same period of 2022. The weighted average rate increased to 11.6 percent (+0.3 percentage points compared to April-June 2023). The weighted average maturity

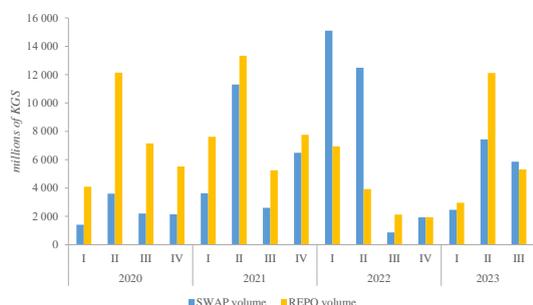
of loans was four days in July, August and September. The transactions were conducted on pledge of notes and ST-Bonds.

In Q3 2023, the market of SWAP transactions in USD/KGS pair, acting as an alternative source of attracting KGS liquidity, was characterized by decreased activity of its participants. At the same time, the volume of transactions in USD/RUB pair increased compared to the previous period, which indicates an increase in demand for Russian rubles on from the participants in the banking sector.

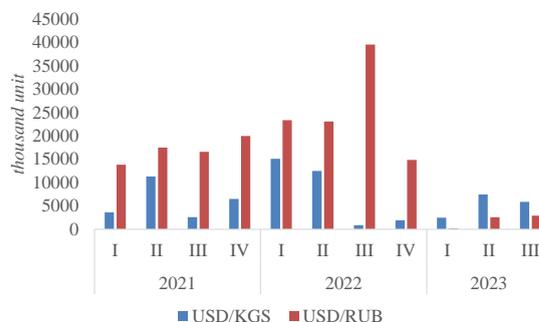
In the reporting period, under the conditions of high level of excess reserves in the banking system, the volume of SWAP transactions in KGS pair decreased by 21.1 percent compared to the previous quarter and amounted to KGS 5.9 billion (in Q2 of the current year – KGS 7.4 billion). At the same time, economic integration of the Kyrgyz Republic and the Russian Federation still affects the commercial banks’ activity in the market of SWAP transactions in USD/RUB pair.

Thus, the volume of SWAP transactions in USD/RUB pair increased and amounted to RUB 2.9 billion (in Q2 of the current year – RUB 2.6 billion).

**Chart 3.2.4. Market of REPO and SWAP Transactions**

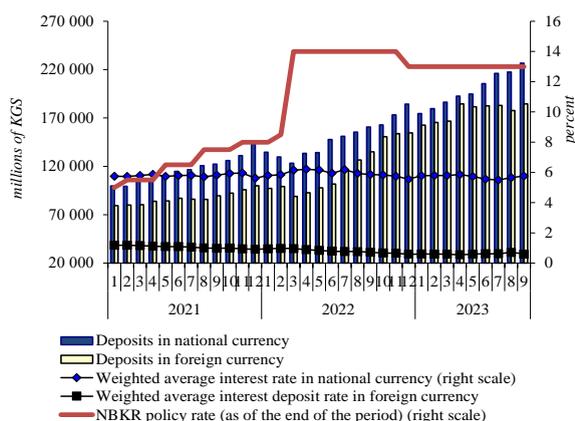


**Chart 3.2.5. Dynamics of SWAP Transactions in USD/RUB and USD/KGS Pairs**



### Deposit Market

**Chart 3.2.6. Dynamics of Commercial Banks' Deposits**



In Q3 2023, there was stable upward trend of deposit base observed since the beginning of 2022 due to faster growth of non-time deposits. As at the end of September 2023, the deposit base in the national currency increased by 22.9 percent year-to-date and amounted to KGS 226.6 billion. This growth was mainly due to an increase in non-time deposits, the share thereof in the deposit base grew up to 65.8 percent in the national currency (in June of the current year – 63.0 percent), at the same time, time deposits demonstrated growth by 12.6 percent.

The share of current accounts (62.1 percent) prevailed in the structure of non-time deposits in the national currency. Current accounts increased by 32.2 percent year-to-date, meanwhile demand deposits grew by 24.0 percent.

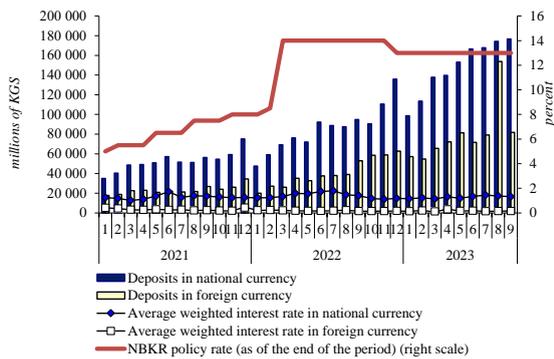
The share of current accounts (62.1 percent) prevailed in the structure of non-time deposits in the national currency. Current accounts increased by 32.2 percent year-to-date, meanwhile demand deposits grew by 24.0 percent.

Current accounts of resident legal entities (+18.7 percent year-to-date), as well as current accounts of public authorities (28.5 percent), which increased by 79.3 percent year-to-date, constitute the main share (66.7 percent) in the structure of current accounts in the national currency by entities.

The deposit base in foreign currency increased by 19.4 percent due to growth of non-time deposits, with a share of 83.6 percent in the deposit base in foreign currency. Current accounts increased by 13.0 percent, demand accounts – by 25.7 percent, and time deposits – by 21.5 percent.

Dollarization of deposits decreased down to 44.9 percent (-0.7 percentage points since December 2022), meanwhile dollarization adjusted for the policy rate decreased by 1.8 percentage points, down to 43.8 percent.

**Chart 3.2.7. Dynamics of Commercial Banks' Deposits Flows**



**The interest rates on time deposits in the national currency remained high demonstrating slight upward trend compared to an indicator as of the end of Q2.**

In September 2023, the interest rate on time deposits in the national currency (balances) increased by 0.2 percentage points compared to June 2022 and constituted 12.2 percent (-)0.02 percentage points compared to the end of 2022).

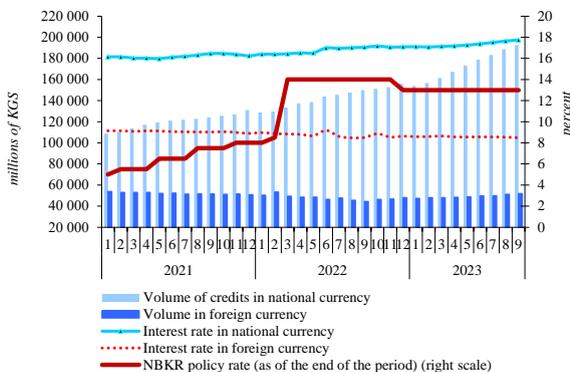
The interest rates on new time deposits in the national currency increased by 1.6 percentage points, up to 12.3 percent (+0.5 percentage points compared to the end of 2022).

At the end of the reporting period, the concentration index<sup>1</sup> in the deposit market increased by 0.1 percentage point from the beginning of 2023, up to 0.11, which corresponds to the average level of concentration and corresponds to nine participants with equal shares in the market.

### Credit Market

**The commercial banks' credit portfolio increased due to an increase of the credits in the national currency, namely consumer lending.**

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



In September 2023, credits in the national currency increased by 23.4 percent since December 2022, up to KGS 192.6 billion. Consumer credits (+54.9 percent), trade (+18.8 percent) and agriculture (41.7 percent) still demonstrated high growth rates among the main sectors of lending. The trend of accelerated growth rates of consumer lending observed in recent years is most likely due to active digitalization of the banking sector and improvement of the banking legislation. Thus, since April 2023, lending through remote service channel (online lending) was conditioned by an increase in the amount of issued credits from KGS 100.0 up to 200.0

thousand under the agreement signed by a simple electronic signature, and from KGS 200.0 up to 300.0 thousand (equivalent in foreign currency) under the agreement signed by an enhanced electronic signature<sup>2</sup>.

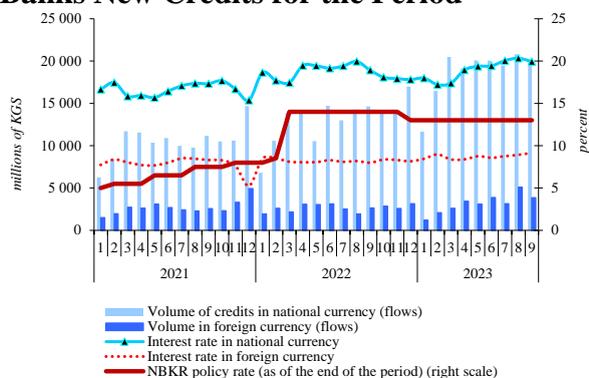
56.7 percent of the credit portfolio in the national currency constituted credits of individuals (+1.9 percentage points compared to the end of 2022), 43.1 percent – credits of legal entities in the structure of the credit portfolio in the national currency by individuals/entities.

<sup>1</sup> 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.

<sup>2</sup> According to the Resolution of the Board of the National Bank No. 2023-II-12/22-3-(HITA) dated 05.04.2023 “On amendments to some regulatory legal acts of the National Bank of the Kyrgyz Republic on credit risk”.

The credit portfolio in foreign currency increased by 7.7 percent, mainly due to growth in credits to trade by 20.9 percent.

**Chart 3.2.9. Dynamics of Commercial Banks New Credits for the Period**



Dollarization of the credit portfolio still updates historical lows: in September 2023, it decreased by 2.4 percentage points compared to the end of 2022, down to 21.2 percent. Dollarization adjusted for the exchange rate decreased by 2.9 percentage points, down to 20.6 percent.

**The interest rates of the credit portfolio in the national currency still remained at high level,** given existence of the current monetary conditions. The interest rates on credits in the national currency amounted to 17.8 percent in September 2023 (+0.7 percentage points compared

to the end of 2022). The interest rates on credits in foreign currency slightly compared to December of the previous year (-0.2 percentage points) and made 8.5 percent.

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 twelve banks. The sectoral concentration index was 0.33, which is equivalent to three main credit sectors.

At the end of September 2023, the qualitative characteristics of the credit portfolio were as follows: the share of overdue credits in the credit portfolio remained unchanged year-to-date and amounted to 2.7 percent; the share of extended credits in relation to the credit portfolio still demonstrated downward trend and amounted to 6.0 percent in September 2023, having decreased by 2.9 percentage points since December 2022.

### 3.3. Dynamics of Monetary Indicators

**There was slowdown in general trend of reserve money growth (in annual terms) observed in the reporting quarter of the current year (+10.8 percent). The transactions of the monetary sector expanded the monetary base.**

In the reporting quarter, the monetary base grew by 2.4 percent (KGS+5.4 billion) and amounted to KGS 230.2 billion (in annual terms, growth amounted to 10.8 percent). In Q3 2023, the transactions of the National Bank (KGS 30.4 billion) contributed to growth of the monetary base. At the same time, during the reporting period, the excess of the state budget revenues over the state budget expenditure had a restraining effect and made a negative input into the monetary base growth in the amount of KGS 25.0 billion.

The monetary base with the share of 84.9 percent (as of the end of Q3 2023) is traditionally formed by money in circulation, and the remaining part of 15.1 percent is accounted for the reserves of other depositary corporations.

#### Monetary Aggregates

**In Q3 2023, the annual growth rates of monetary aggregates, as well as in the previous period, continued to slow down, however they were in the positive area. This dynamics of monetary aggregates was conditioned by the influence of all components. At the same time, all aggregates demonstrated growth compared to the previous quarter, except for money outside banks (M0).**

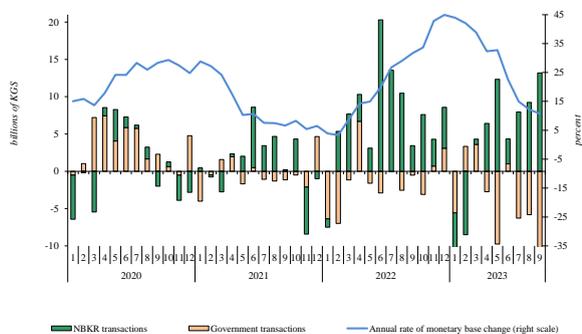
Money outside banks (M0) decreased by KGS 0.7 billion (-0.4 percent) compared to Q2 2023. At the same time, since July till September 2023, monetary aggregate M0 increased by KGS 1.0 billion, to KGS 173.7 billion (in annual terms, growth by 4.0 percent).

During the reporting period, the upward dynamics of monetary aggregates, excluding money outside banks, was mainly due to growth of transferable deposits in the national currency by KGS

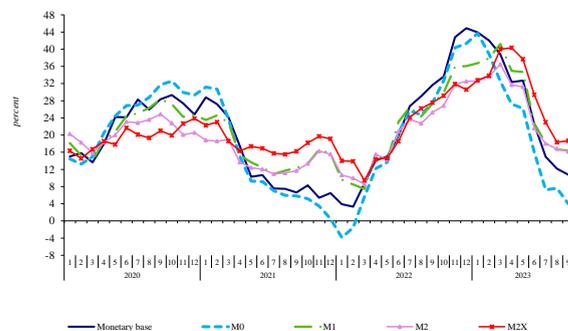
13.1 billion (+13.2 percent compared to the previous quarter). The growth dynamics of the current accounts, being components of monetary aggregates, had an upward impact on the dynamics of the following aggregates:

- *narrow money (M1)* increased by KGS 12.4 billion (+4.5 percent) compared to the previous period and amounted to KGS 285.9 billion (in annual terms, growth by 16.4 percent);
  - *broad money (M2)* increased by KGS 14.4 billion and amounted to KGS 351.0 billion (in annual terms, growth by 16.2 percent);
  - *broad money, including deposits in foreign currency (M2X)*, increased by KGS 17.1 billion and amounted to KGS 483.0 billion at the end of the period (in annual terms, growth by 18.7 percent);
- The total volume of the deposit base included in M2X increased by 28.9 percent in annual terms and amounted to KGS 309.2 billion.

**Chart 3.3.1. Input of the Government Sector and National Bank Transactions in Change of Monetary Base**



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

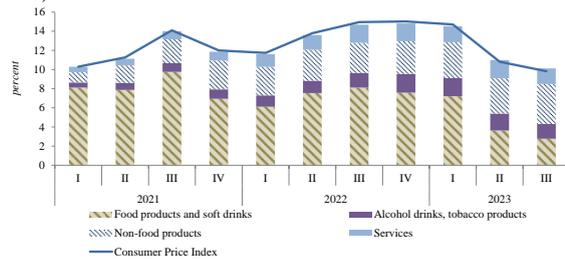


## Chapter 4. Inflation Dynamics

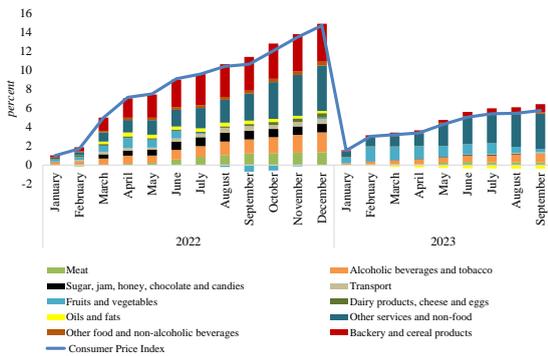
In Q3 2023 in Kyrgyzstan, there was a stable slowdown in the CPI growth rate in annual terms due to a decrease in prices for food products. The external environment still demonstrated uncertainty and geopolitical instability, which, continue to pose upward risks to inflation.

### 4.1. Consumer Price Index

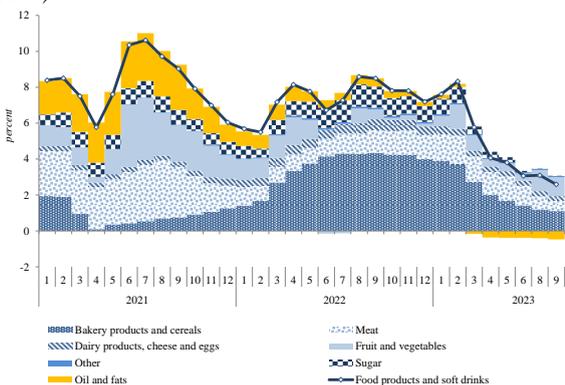
**Chart 4.1.1. Dynamics of CPI Structure**  
(quarter to the corresponding quarter of the previous year)



**Chart 4.1.2. Dynamics of CPI Contributions**  
(year-to-date)



**Chart 4.1.3. Dynamics of Food Prices' Contribution to Annual CPI**  
(month to the corresponding month of the previous year)



In Q3 2023, price growth slowed down to 9.8 percent from 10.8 percent in Q2 compared to the corresponding quarter of the previous year.

In September 2023, the annual inflation rate was 9.6 percent. In general, prices for non-food products and services influenced the formation of inflation.

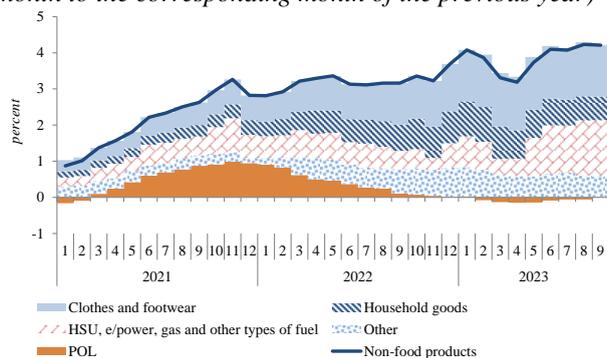
In Q3, contribution of the food products to the CPI decreased by 0.9 percentage points compared to Q2 and by 2.6 times compared to Q1 of the current year and amounted to 2.8 percentage points. Prices for food products and non-alcoholic beverages decrease year-to-date in annual terms. In September, the growth rate was 5.8 percent. The current slowdown was due to high base of the previous year and decrease of prices in the world food markets. In the reporting quarter, bakery and dairy products made the main upward contribution to the CPI in the commodity group.

Contribution of the non-food products to the CPI remained at a rather high level – 4.0 percentage points in annual terms. In September 2023, prices for non-food products increased by 14.5 percent. An increase in housing and utilities sector tariffs, geopolitical tension in the world, and the effects of exchange rate volatility on prices in early 2023 were the factors of non-food inflation.

In September 2023, an increase in prices for clothes and footwear (+13.6 percent), household goods and household appliances (+16.6 percent), electricity, gas and other fuels (+16.2 percent) and other goods had the greatest impact on rise in prices for non-food products. At the same time, prices for petroleum, oil and lubricants decreased by 0.2 percent.

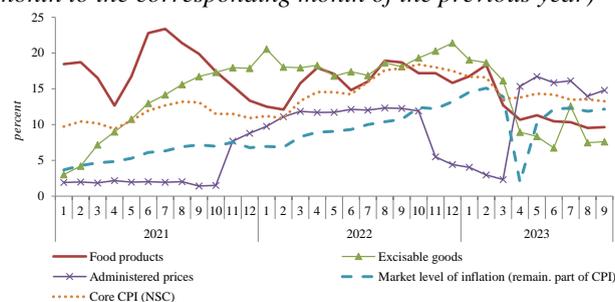
### Chart 4.1.4. Dynamics of Non-Food Prices' Contribution to Annual CPI

(month to the corresponding month of the previous year)



### Chart 4.1.5. Dynamics of CPI by Groups of Commodities

(month to the corresponding month of the previous year)



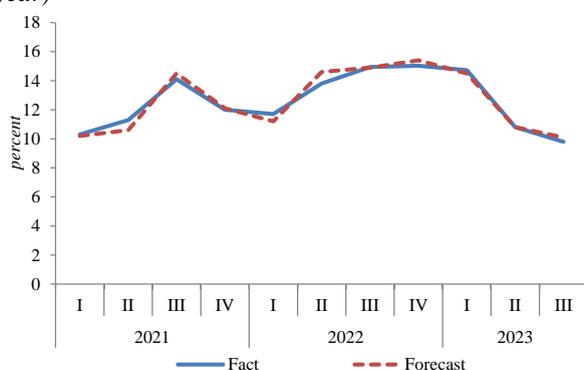
In Q3 2023, growth in prices for paid services was 9.6 percent, having decreased by 1.7 p.p. compared to Q2, which was mainly supported by rise in prices for services in the groups “education”, “communications”, “various goods and services”, “restaurants and hotels”.

In Q3 2023, the core inflation compared to the same period of 2022, calculated according to the methodology of the NSC KR, was 9.3 percent. In September 2023, the market inflation growth rate slightly decreased (-0.2 percentage points) and amounted to 13.3 percent in annual terms, which conditioned stable impact of high consumer demand, monetary factors and smooth increase of the USD exchange rate.

## 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 2023, the actual inflation rate was almost at the level expected by the National Bank, the gap from the forecasted level was 0.3 percentage points.

Deviation of the expected inflation rate from the actual one is due to faster rates of food prices deceleration.

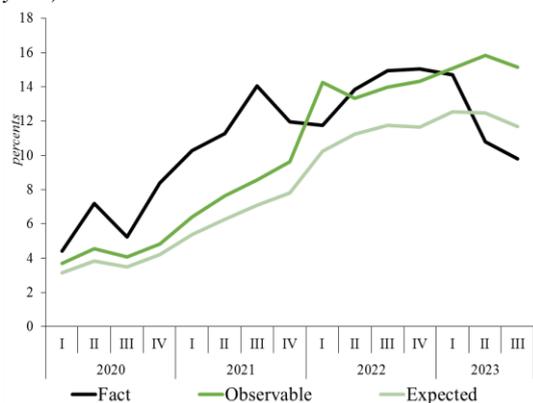
### Inflation Expectations

In Q3 2023, inflation expectations of the population, according to the surveys of the NSC KR, decreased compared to the previous quarter, however remained at relatively high levels. The gap between expected and actual inflation was positive, which reflects some confidence of the respondents about slowdown of inflationary processes in the future (Chart 4.2.2). Despite decline in price expectations among the enterprises, they are still high compared to the actual inflation rate (Chart 4.2.6).

In Q3 2023, inflation expectations of the population increased compared to the actual inflation rate. The share of respondents expecting accelerated increase in prices is still high. The actual inflation rate in Q1 2023, an increase in tariffs for electricity, water, heating and news background about growth of public transportation fares partly explain relatively high level of inflation expectations.

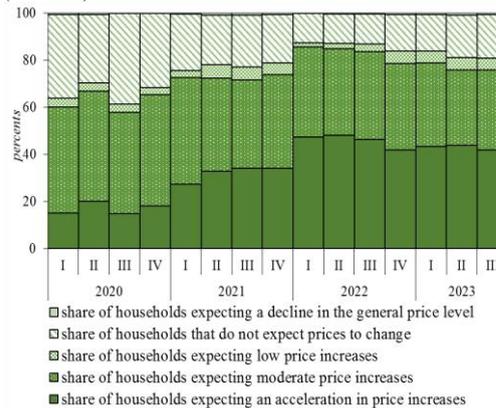
**Chart 4.2.2. Actual Inflation Value, Observed and Expected Inflation of Households**

*(quarter to the corresponding quarter of the previous year)*



**Chart 4.2.3. Distribution of Households' Answers**

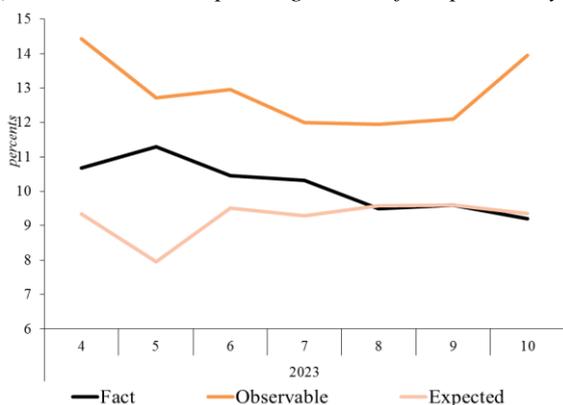
*(shares)*



When analyzing the World Bank data in terms of survey of 1,500 households in the Kyrgyz Republic regarding inflation expectations (Chart 4.2.4 and Chart 4.2.5), the dynamics was revealed to be comparable to the results of the NSC KR surveys. Thus, in October 2023, there was a general decrease in expectations of price growth, however the inflation rate observed during this period increased. A possible explanation for such dynamics is the current actual inflation remaining at a relatively high level and conducted tariff policy.

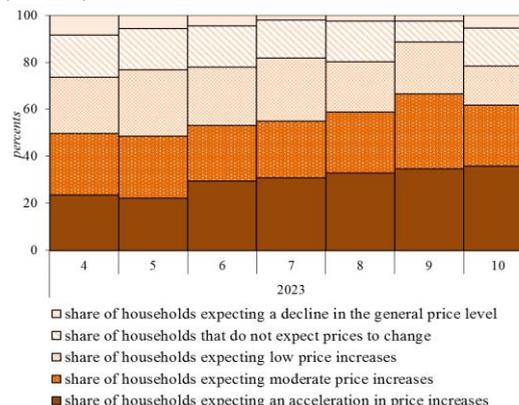
**Chart 4.2.4. Actual Inflation Value, Observed and Expected Inflation of Households (WB)**

*(month to the corresponding month of the previous year)*



**Chart 4.2.5. Distribution of Households' Answers (WB)**

*(shares)*



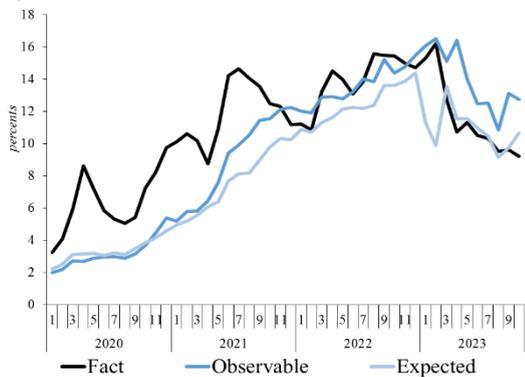
Inflation expectations of the enterprises still demonstrated decline since April 2023, in September 2023, they amounted to 9.8 percent in annual terms, which was above the medium-term quantitative inflation target of 5-7 percent. Expectations are likely to increase due to the inflationary environment formed depending on the intensity of new tariffs adopted by the government authorities, as well as uncertainty in the foreign exchange market.

The respondents' answers in terms of the enterprises' inflation expectations (Chart 4.2.6) show that in Q3 2023 enterprises expected a decrease in price growth, however, in September 2023, there was a turnaround and inflation expectations returned the previous trajectory. Such return is explained

by the specific character of the foreign trade operations between the Kyrgyz Republic and the trading partner countries.

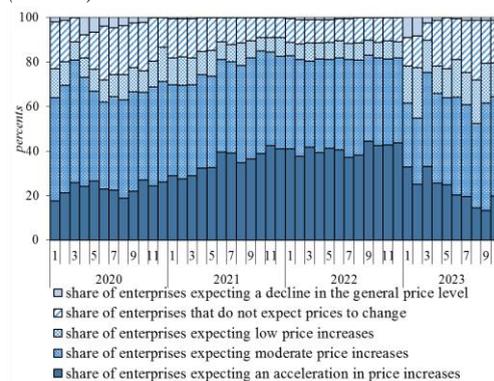
**Chart 4.2.6. Actual Inflation Value, Observed and Expected Inflation of Enterprises**

(month to the corresponding month of the previous year)



**Chart 4.2.7. Distribution of Households' Answers**

(shares)



Keeping the inflation expectations high for a long period of time can potentially change the behavior of economic agents.

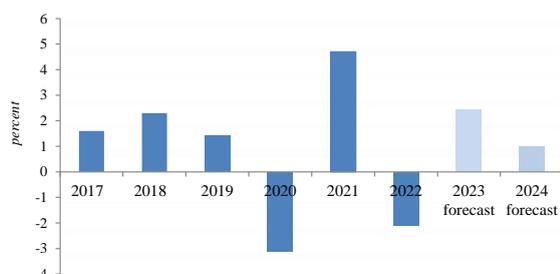
## Chapter 5. Medium-Term Forecast

### 5.1. External Environment Proposals

#### 5.1.1. Development Forecast of Main Trading Partner Countries

##### Russia

**Chart 5.1.1.1. Real GDP Growth in Russia**  
(year to year)



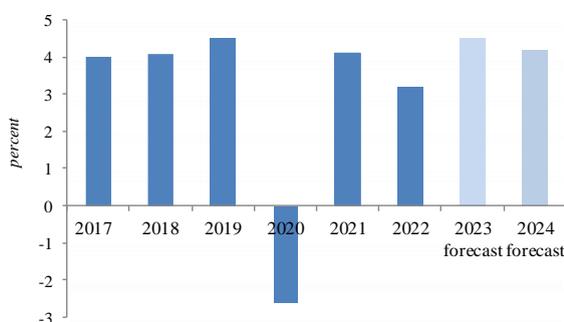
Source: IMF, IA Bloomberg, Ministry of Economic Development of the Russian Federation, Bank of Russia

accelerated economic growth reflects “substantial fiscal stimulus, strong investments, and stable consumption in the tight labor market”<sup>1</sup>.

Inflation risks still remain increased. High inflation expectations of the population will support acceleration in credit growth, therefore growth of domestic demand will continue to exceed the potential for supply expansion and will intensify sustained inflationary pressure in the economy. Therefore, the Bank of Russia’s inflation forecasts for 2023 were raised up to 7.0 - 7.2 percent in annual terms.

##### Kazakhstan

**Chart 5.1.1.2. Real GDP Growth in Kazakhstan**  
(year to year)



Source: IA Bloomberg, international financial institutions

forecasts: growth by 4.6 percent will be observed in 2023 followed by slowdown to 4.2 percent (according to previous forecasts, growth – by 4.8 percent and 4.9 percent, respectively).

Expectations for the average annual inflation rate were raised due to faster growth in consumer demand during the current year and revision of the current account for 2024 towards larger deficit amid accelerating growth in imports compared to exports. According to *Bloomberg* consensus forecast, in 2023, the average annual inflation rate will slow down to 14.7 percent, with further deceleration down to 8.4 and 6.2 percent in 2024 and 2025, respectively.

**The Bank of Russia’s forecasts for GDP were revised upward.**

Based on the results of the first half of 2023, taking into account preliminary data of Q3 and the ongoing monetary policy, economic growth will amount to 2.2 - 2.7 percent in 2023 and 0.5 - 1.5 percent in 2024. Growth in economic activity in the current year will be provided by increased domestic demand.

The IMF also increased GDP forecasts from 1.5 up to 2.2 percent in 2023, meanwhile forecasts for 2024 were decreased from 1.3 down to 1.1 percent. The IMF emphasizes that the country’s

**In 2023, forecasts for economic growth in Kazakhstan were revised downward due to moderate growth in the industrial sector and decline in the agricultural sector.**

In Q3 of the current year, the Kazakh tenge still demonstrated depreciation conditioned by the Russian ruble devaluation and an increase in imports under such conditions (in January-August 2023, an increase by 29.0 percent in nominal terms). Thus, according to *Bloomberg* forecasts, in 2023, GDP is expected to increase by 4.5 percent, in 2024 – by 4.3 percent and in 2025 – by 4.0 percent. The IMF also decreased its

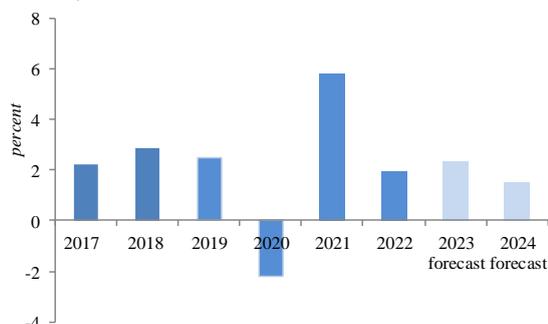
<sup>1</sup> World Economic Outlook, Adaption to Divergence in the World Economy (IMF, October 2023).

According to the forecast for social and economic development of Kazakhstan in 2024-2028, the inflation rate was set at 6.0-8.0 percent in 2024, 5.5-7.5 percent in 2025, with a subsequent decline down to 5.0 percent in 2026-2028.

## USA

**Chart 5.1.1.3. Real GDP Growth in the USA**

(year to year)



Source: IA Bloomberg, international financial institutions

1.5 percent and in 2025 – by 1.8 percent.

The IMF increased its US GDP forecast for 2023 by 0.3 percentage points, up to 2.1 percent and for 2024 – by 0.5 percentage points, up to 1.5 percent.

*Bloomberg* analysts expect US GDP to increase by approximately 2.2 percent in 2023 and by 1.0 percent in 2024.

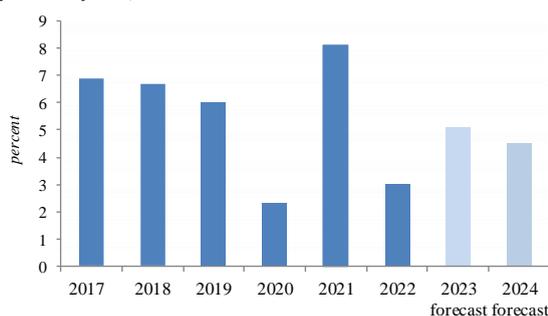
Overall annual inflation demonstrated gradual slowdown, meanwhile, the core inflation remained high (in September 2023, 4.1 percent), suggesting that the US Federal Reserve System may need to further increase the interest rate. At the end of the reporting period, the US Federal Reserve System key rate was at its highest level within more than 20-year period and according to the US Federal Reserve System’s forecasts will be at increased levels in 2024-2025 compared to previous expectations.

The US Federal Reserve System slightly increased median forecast of PCE inflation<sup>1</sup> for 2023 from 3.2 percent up to 3.3 percent, and kept it at 2.5 percent for 2024 and raised it from 2.1 percent up to 2.2 percent for 2025.

## China

**Chart 5.1.1.4. Real GDP Growth in China**

(year to year)



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

2024 (2.0 percent in the previous period).

Expectations of GDP growth in the USA during 2023 were slightly increased, taking into account the fact for nine months and improvement in forecasts of the international analysts. At the same time, for 2024-2025, the international financial analysts forecast slowdown in GDP growth, due to possible slowdown in private consumption and investment growth in response to tightening of the monetary conditions by the US Federal Reserve System.

In 2023, the US Federal Reserve System forecasts GDP to increase by 2.1 percent, in 2024 –

Forecasts for China’s GDP were revised downward to a moderate decline due to growing crisis in the real estate sector, a decline in trade turnover and an increase in the budget deficit.

*Bloomberg* analysts expect China’s GDP to increase by 5.1 percent in 2023 (an increase by 5.2 percent was forecasted in the previous quarter), and by 4.5 percent in 2024 (4.7 percent).

The inflation forecast for 2023 remained unchanged (+0.5 percent), however, given accelerating deflation in the food market, the inflation rate is expected at 1.8 percent in

<sup>1</sup> The Personal Consumption Expenditure Price Index (PCE inflation) is among inflation indicators in the USA that tracks changes in prices of goods and services purchased by the consumers throughout the economy. PCE includes the broadest set of goods and services among all indicators of consumer price inflation.

## 5.2. Medium-Term Forecast

**The National Bank of the Kyrgyz Republic relies on the results of modeling different scenarios of economic processes development in the medium term in monetary policy development. Forecasting is made taking into account as many shocks and preconditions of the current period as possible, as well as based on expert assessments and forecasts of the world research agencies and institutions.**

Assumption on development of external conditions and domestic conjuncture for Q3 2023 primarily corresponded to the baseline scenario approved at the meeting of the Board of the National Bank in August 2023.

Maintaining monetary conditions unchanged contributed to downward dynamics of general inflation. At the same time, the fiscal policy measures in combination with the upward dynamics of consumer lending increased aggregate demand, which afterwards affected the economic activity of the Kyrgyz Republic. The observed dynamics of domestic production, excluding the indicators of the “Kumtor” gold-mining enterprises, still outstripped the rates of economic growth in the trading partner countries.

In Q3 2023, the external environment demonstrated volatility in the world oil prices amid geopolitical risks, as well as there was stable uncertainty in the international banking sector. In particular, oil price forecasts were revised upward due to stable growth of demand in China, India and Brazil amid the conflict in the Middle East, as well as a decrease in oil production by Saudi Arabia and a reduction in oil exports by Russia.

Yield on government bonds of developed economies are approaching their highest levels since the end of the global financial crisis in 2008. Rise in yields is conditioned by expectation of a longer period of high rates due to slowly declining inflation.

There was a favorable price environment for the main agricultural crops in the international food markets, which was a signal for preservation of expectations about adjustment of food prices downward in the current year. Thus, at the end of Q3 2023, the FAO food price index decreased by 2.0 percent compared to Q2, and prices for cereals and dairy products decreased by 4 and 6 percent, respectively.

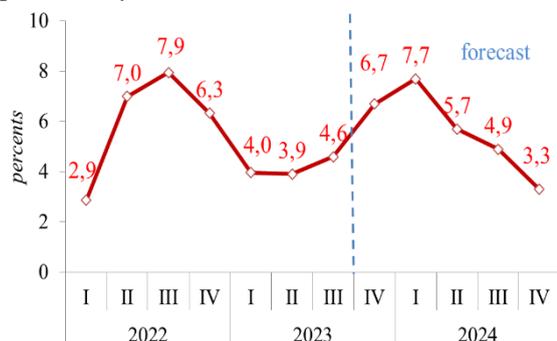
Increased external and internal inflationary environment, as well as stably high inflationary expectations of the economic agents conditioned the current high inflation rate in the country.

**Baseline scenario of the medium-term forecast takes into account the following external economic development conditions: current geopolitical events, trends of active economic growth in Russia and Kazakhstan, price dynamics in the world commodity markets. Internal factors of development imply existing high price expectations of the population and enterprises and stimulating fiscal policy of the state.**

The following forecast of the key macroeconomic indicators of the Kyrgyz Republic for 2023-2024 was developed considering the emerging trends in the economic development of the trading partner countries, as well as the price movement in the world commodity markets in the medium term.

## In 2023, real sector of economy in Kyrgyzstan will demonstrate growth.

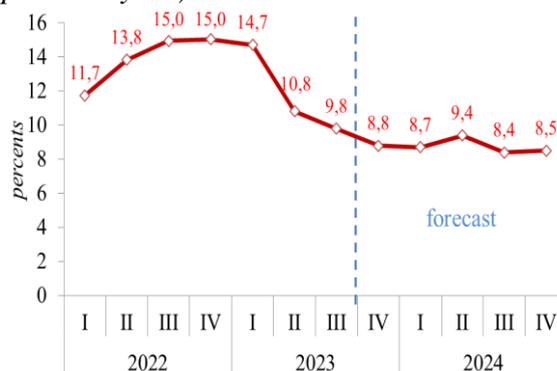
**Chart 5.2.1.1. Forecast of Real GDP**  
(quarter to the corresponding quarter of the previous year)



At the end of 2023, the real GDP growth will be at about 5.0 percent, excluding “Kumtor” gold-mining enterprises, GDP growth will be at about 6.5 percent. Production output at “Kumtor” gold-mining enterprises is expected to decrease compared to the forecasts of the previous quarter. In terms of sectors, economic growth in the current forecast is supported by the construction and services sectors.

In 2024, the real GDP growth is expected at about 5.1 percent, excluding “Kumtor” gold-mining enterprises, GDP growth is expected at about 4.3 percent.

**Chart 5.2.1.2. Inflation Forecast**  
(quarter to the corresponding quarter of the previous year)



By the end of 2023, inflation is expected to decline due to relatively small forecasted increase in its food component. This is primarily due to an increase in grain yields in the Russian Federation, which will finally result in the highest ever harvest in 2023.

Forecast for non-food inflation remains moderately high (in 2023, about 13.5 percent) with gradual decline by the end of 2024.

Contribution of the administrative prices remains persistently high in the current forecast due to actual contribution of an increase in tariffs for electricity (in May 2023), heat energy and hot water (in June 2023).

The inflation forecast for the end of 2023 was revised downward compared to the previous Monetary Policy Report of the Kyrgyz Republic. Despite high base amid high rise in prices during 2022, the inflation rate (December 2023 to December 2022) is forecasted below 10 percent conditioned, on the one hand, by stable slowdown in food inflation, on the other hand, by existing high level of inflation expectations and stable core inflation.

Taking into account the monetary policy conducted by the National Bank and in case of situation development in accordance with the forecast of the baseline scenario, the annual inflation rate will return to the target of 5-7 percent by the beginning of 2025.

### 2023-2024 Balance of Payments Forecast <sup>1</sup>

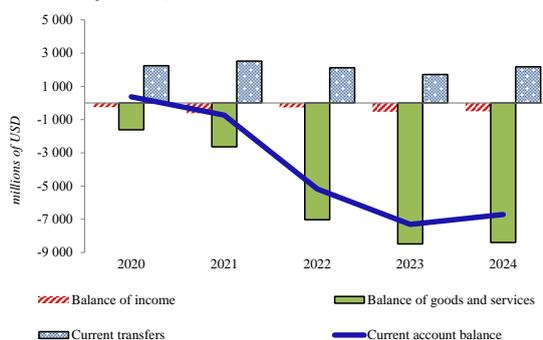
Forecast of the country’s balance of payments indicators for 2023 was adjusted considering the data of the actual period and specified initial development conditions of the trading partner countries of the Kyrgyz Republic. The data of the actual period still demonstrate changed terms of external trade. Assessments of economic growth in the country, as well as in the main trading partner countries were revised towards improvement, however, the external sector is still characterized by a high degree of uncertainty.

At the end of 2023, the negative balance of goods and services account is expected to be a determining factor for the formation of the current account deficit at the level of 57.1 percent to GDP.

<sup>1</sup> The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic used in the actual period.

### Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)



Data of the actual period adjusted expectations on external trade. The situation with global food and energy prices, as well as gold export by the Kyrgyz Republic will significantly influence the indicators of exports and imports.

According to estimates, the stable dynamics of trade will condition a high level of trade deficit.

In accordance with forecast, at the end of 2023, exports will exceed the level of 2022 by 29.2 percent. Resumed supplies of intermediate goods, as well as consumer goods will contribute significantly to an increase in exports.

Import supplies are expected to remain at the high level (imports are projected to go up by 18.5 percent compared to 2022). Consumer and intermediate goods will occupy predominant volume in the structure of imports. Energy product supplies are forecasted to decrease compared to the level of the previous year due to a reduction in the physical volume.

**Data of the actual period served as a basis for revision of the forecast on the net inflow of the current transfers.** According to the updated forecast, the net inflow of private transfers will decrease by 16.5 percent. The inflow of official transfers is expected to decline vastly compared to the level of the previous year.

The item “services” will develop negative balance under the influence of stable high volumes of transport services received owing to forecasted goods turnover and a decrease in receipts on the item “travels”.

**The projected current account deficit will require a significant amount of financing from the financial and capital account.** Direct and other foreign investments are expected to be the main source of financial capital inflow. The volume of servicing previously received loans of the private sector will remain at a high level.

**Revised forecast for development of the external economic sector in 2023 determined the following vector of expectations for the balance of payments in 2024.**

In 2024, the current account balance will be formed at the level of 49.1 percent to GDP under the influence of a set of factors associated with a slight reduction of the trade deficit, as well as the positive dynamics in the influx of private transfers.

Expected growth in exports by 10.0 percent is estimated to have a slight impact on the reduction of the trade deficit (by 1.3 percent compared to 2023). Current transfer receipts are assumed to increase noticeably (growth by 27.6 percent) mainly as a result of increase in remittance inflow by 27.6 percent.

At the same time, it should be noted that in 2024 there is still a risk of insufficient inflow of foreign capital on the capital and financial account, which may require additional financing by the National Bank’s international reserves. A significant portion of capital inflows is expected to be provided through direct foreign investments and other investments to the private sector. There will be an increase in the liabilities of the public sector on external borrowed capital, and the upward trend in servicing previously received loans and borrowings will remain at a substantial level.

The following risks persist in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2023-2024:

- high degree of geopolitical uncertainty;
- volatility in the world prices for petroleum, gold and food products;
- volatility in the exchange rate of the main trading partner countries of the Kyrgyz Republic;
- 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 | 2020      |           |           |           | 2021      |           |           |           | 2022      |           |           |           | 2023      |           |           |
|---|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|   |                 | Q1        | Q2        | Q3        | Q4        | Q1        | Q2        | Q3        | Q4        | Q1        | Q2        | Q3        | Q4        | Q1        | Q2        | Q3        |
| <b>1. Demand and supply<sup>1</sup></b> (real growth rates, if otherwise is not indicated)        |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| Nominal GDP, per quarter  | mbn, KGS        | 128 187,0 | 133 001,6 | 181 575,6 | 196 924,4 | 137 662,6 | 172 402,9 | 224 058,7 | 248 730,1 | 160 365,4 | 215 084,8 | 280 052,3 | 315 532,4 | 198 927,2 | 254 442,3 | 354 913,3 |
| GDP, excluding Kumtor   | %               | 1.9       | -10.7     | -6.8      | -10.3     | -4.8      | 6.3       | 3.8       | 13.3      | 2.9       | 7.0       | 7.9       | 6.3       | 4.0       | 3.9       | 4.6       |
| GDP, excluding Kumtor   | %               | 1.1       | -12.8     | -7.2      | -8.9      | -0.6      | 11.1      | 4.6       | 7.9       | 2.2       | 3.7       | 6.0       | 7.3       | 3.3       | 6.6       | 6.9       |
| Domestic consumption  | %               | -9.8      | -5.4      | -12.3     | -8.3      | -1.2      | 12.3      | 11.7      | 32.8      | 1.6       | -5.5      | 7.3       | 4.8       | -0.3      | 10.1      |           |
| Investment  | %               | 23.9      | -72.8     | -6.2      | -30.0     | 20.6      | 108.9     | 6.7       | 115.2     | 211.9     | 129.0     | 17.8      | 35.8      | -21.9     | 7.8       |           |
| Net export  | %               | 26.0      | -65.9     | -26.2     | 15.3      | 30.9      | 159.4     | 46.6      | 91.7      | 149.2     | 566.2     | 167.4     | 5.4       | 13.4      | 36.7      |           |
| <i>GDP production:</i>  |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| Agriculture   | %               | 0.6       | 0.6       | 1.0       | 0.8       | 1.2       | -5.2      | -6.7      | -2.0      | 1.5       | 6.5       | 8.3       | 8.0       | 1.9       | 2.8       | -1.1      |
| Industry  | %               | 4.9       | -2.1      | -7.7      | -18.0     | -15.6     | -5.8      | 0.6       | 43.9      | 8.4       | 23.1      | 20.4      | 2.0       | 7.5       | -4.7      | 0.3       |
| Construction  | %               | -1.1      | -11.5     | -4.4      | -26.4     | -20.3     | -13.2     | -4.0      | 2.7       | -1.4      | 5.2       | 2.3       | 14.6      | 2.4       | 16.5      | 15.9      |
| Services  | %               | 1.6       | -14.7     | -10.0     | -7.0      | -2.7      | 13.1      | 8.8       | 8.0       | 1.5       | 2.3       | 5.1       | 5.9       | 3.2       | 5.8       | 5.6       |
| including trade   | %               | 3.7       | -31.0     | -15.0     | -14.2     | -7.5      | 38.8      | 15.4      | 16.6      | 0.3       | 3.3       | 9.8       | 10.8      | 7.9       | 15.6      | 13.2      |
| <b>2. Prices<sup>2</sup></b>  |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| CPI   | %               | 104.4     | 107.2     | 105.3     | 108.4     | 110.3     | 111.3     | 114.1     | 112.0     | 111.7     | 113.8     | 115.0     | 115.0     | 114.7     | 110.8     | 109.8     |
| CPI, in annual terms as of the end of period  | %               | 105.9     | 105.8     | 105.4     | 109.7     | 110.2     | 114.2     | 113.5     | 111.2     | 113.2     | 113.1     | 115.5     | 114.7     | 112.7     | 110.5     | 109.6     |
| Core inflation  | %               | 103.5     | 105.8     | 105.3     | 108.1     | 110.1     | 110.6     | 113.0     | 111.3     | 111.8     | 114.4     | 117.4     | 118.0     | 115.6     | 111.8     | 109.3     |
| <i>CPI by main groups of goods and services:</i>  |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| Food products   | %               | 108.1     | 113.4     | 109.7     | 115.4     | 117.9     | 117.3     | 121.5     | 115.3     | 113.5     | 116.6     | 117.9     | 116.7     | 115.9     | 108.0     | 106.1     |
| Non-food products   | %               | 100.9     | 102.1     | 101.6     | 102.0     | 103.7     | 106.4     | 108.6     | 110.4     | 110.3     | 111.2     | 110.9     | 111.8     | 121.9     | 120.5     | 117.9     |
| Alcoholic drinks and tobacco products   | %               | 104.2     | 105.3     | 105.7     | 106.3     | 106.0     | 108.3     | 110.4     | 111.3     | 113.6     | 114.9     | 117.8     | 122.5     | 112.9     | 112.7     | 114.4     |
| Services  | %               | 101.0     | 101.0     | 100.0     | 102.3     | 103.3     | 104.1     | 105.0     | 105.4     | 107.9     | 109.0     | 111.1     | 111.0     | 109.9     | 111.2     | 109.6     |
| <i>CPI, classified by character:</i>  |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| Excisable goods   | %               | 103.1     | 103.3     | 102.8     | 103.4     | 102.1     | 102.3     | 115.5     | 117.7     | 118.8     | 117.5     | 117.9     | 120.3     | 117.9     | 116.0     | 114.9     |
| Regulated prices  | %               | 102.7     | 102.7     | 102.8     | 102.8     | 102.7     | 102.7     | 101.8     | 106.0     | 110.9     | 111.9     | 112.2     | 107.0     | 103.1     | 108.1     | 112.1     |
| Market inflation rate (the rest of CPI)   | %               | 100.8     | 101.9     | 101.3     | 102.6     | 101.0     | 102.2     | 106.8     | 107.1     | 107.4     | 109.1     | 110.4     | 112.6     | 114.5     | 114.1     | 113.4     |
| <b>3. External sector<sup>3</sup></b> (in percent to GDP)   |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| Trade balance   | % to GDP        | -27.1     | -21.6     | -17.5     | -17.5     | -18.3     | -18.0     | -21.7     | -26.2     | -34.8     | -47.0     | -58.6     | -59.5     | -60.3     | -62.3     | -58.5     |
| Current transaction account   | % to GDP        | -8.9      | -3.9      | 0.4       | 4.5       | 3.5       | 4.5       | -1.0      | -8.0      | -18.5     | -32.9     | -44.7     | -44.5     | -45.8     | -50.4     | -50.1     |
| Export of goods and services  | % to GDP        | 34.1      | 33.2      | 32.0      | 29.7      | 28.9      | 36.4      | 36.8      | 35.7      | 35.1      | 29.0      | 27.6      | 31.2      | 33.2      | 35.4      | 36.1      |
| Import of goods and services  | % to GDP        | 60.5      | 54.5      | 50.8      | 49.4      | 50.0      | 57.0      | 60.8      | 64.2      | 72.3      | 78.0      | 87.9      | 91.7      | 94.0      | 99.7      | 97.4      |
| <b>4. USD exchange rate, as of the end of period</b>  |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
|   | KGS             | 80.8100   | 75.9887   | 79.6000   | 82.6498   | 84.7792   | 84.6640   | 84.7907   | 84.7586   | 83.3090   | 79.5000   | 80.1829   | 85.6800   | 87.4200   | 87.2267   | 88.0926   |
| <b>5. Monetary sector</b> (real growth rates, if otherwise is not indicated)                      |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| NBKR policy rate, as of the end of period   | %               | 5.00      | 5.00      | 5.00      | 5.00      | 5.50      | 6.50      | 7.50      | 8.00      | 14.00     | 14.00     | 14.00     | 13.00     | 13.00     | 13.00     | 13.00     |
| Rate of "overnight" deposit, as of the end of period  | %               | 2.75      | 2.75      | 2.75      | 2.75      | 3.25      | 4.25      | 5.25      | 5.50      | 12.00     | 12.00     | 12.00     | 10.00     | 10.00     | 11.00     | 11.00     |
| Rate of "overnight" credit, as of the end of period   | %               | 5.75      | 5.75      | 5.75      | 5.75      | 6.00      | 7.00      | 8.00      | 8.50      | 16.00     | 16.00     | 16.00     | 15.00     | 15.00     | 15.00     | 15.00     |
| <i>Average interest rates of operations in the interbank credit market, per quarter of which:</i> |                 |           |           |           |           |           |           |           |           |           |           |           |           |           |           |           |
| of REPO transactions  | %               | 3.55      | 3.85      | 3.79      | 3.79      | 4.15      | 5.30      | 6.50      | 6.76      | 10.12     | 14.51     | 12.97     | 12.00     | 10.52     | 11.29     | 11.60     |
| of credits in national currency   | %               | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         |
| of credits in foreign currency  | %               | -         | -         | 2.50      | 2.50      | -         | -         | 7.00      | -         | -         | -         | -         | -         | -         | -         | -         |
| Weighted average yield of 7-day notes, as of the end of period                                    | %               | 3.97      | 3.95      | 3.95      | 4.01      | 4.50      | 5.26      | 6.08      | 6.57      | 7.68      | 13.18     | 12.91     | 12.10     | 10.46     | 11.15     | 11.83     |
| Weighted average yield of 14-day notes, as of the end of period                                   | %               | 4.15      | 4.32      | 4.20      | 4.50      | 5.03      | 5.64      | 6.50      | 6.93      | 7.95      | 13.55     | 13.28     | 12.62     | 11.39     | 11.62     | 11.97     |
| Weighted average yield of 28-day notes, as of the end of period                                   | %               | 4.31      | 4.52      | 4.37      | 4.62      | 5.15      | 6.12      | 6.87      | 7.26      | 8.07      | 13.75     | 13.60     | 13.12     | 12.29     | 12.15     | 12.07     |
| Weighted average yield of 91-day notes, as of the end of period                                   | %               | 4.48      | 4.65      | 4.70      | 4.70      | 5.45      | 5.43      | 7.45      | -         | 8.79      | -         | 15.19     | 14.60     | 13.58     | 13.70     | 13.93     |
| Weighted average yield of 182-day notes, as of the end of period                                  | %               | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | 14.82     | 14.81     |
| Monetary base   | %               | 13.6      | 24.1      | 28.3      | 24.8      | 24.2      | 10.7      | 6.6       | 6.5       | 8.8       | 19.8      | 31.7      | 44.9      | 38.8      | 22.5      | 10.8      |
| Money outside banks (M0)  | %               | 14.9      | 26.9      | 31.7      | 29.3      | 23.7      | 9.2       | 5.8       | 0.5       | 5.7       | 20.5      | 27.5      | 41.3      | 32.5      | 16.0      | 4.0       |
| Monetary aggregate (M1)   | %               | 14.0      | 24.4      | 28.4      | 24.7      | 22.9      | 12.4      | 12.3      | 15.7      | 7.4       | 23.1      | 27.3      | 36.1      | 41.2      | 22.7      | 16.4      |
| Narrow money supply (M2)  | %               | 15.9      | 23.1      | 24.9      | 20.5      | 18.9      | 12.0      | 11.7      | 15.6      | 8.6       | 20.8      | 25.3      | 32.5      | 36.5      | 21.6      | 16.2      |
| Money supply (M2X)  | %               | 16.7      | 21.7      | 21.0      | 23.9      | 18.6      | 16.9      | 16.2      | 19.1      | 9.5       | 18.6      | 27.5      | 30.6      | 40.0      | 29.4      | 18.7      |

<sup>1</sup> 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

<sup>2</sup> Source: National Statistics Committee of the Kyrgyz Republic

<sup>3</sup> 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 state administration bodies and non-residents 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, 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.

**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 depository 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.

**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 issued by the Ministry of Finance of the Kyrgyz Republic. 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 with the interest income (coupon) and maturity over one year issued by the Ministry of Finance of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic is the general agent servicing the issues of the ST-Bonds.

### **Annex 3. Abbreviations**

|               |  |
|---------------|--|
| CBRF          | Central Bank of the Russian Federation                             |
| CJSC          | Closed Joint Stock Company   |
| CPI           | Consumer Price Index   |
| CT MF KR      | Central Treasury of the Ministry of Finance of the Kyrgyz Republic |
| EAEU          | Eurasian Economic Union  |
| FAO           | Food and Agriculture 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          | Interbank Credit Market  |
| IMF           | International Monetary Fund  |
| KR            | Kyrgyz Republic  |
| KSE           | Kyrgyz Stock Exchange  |
| MFKR          | Ministry of Finance of the Kyrgyz Republic                         |
| MP            | Monetary Policy  |
| National Bank | National Bank of the Kyrgyz Republic                               |
| NSC KR        | National Statistical Committee of the Kyrgyz Republic              |
| OPEC +        | Organization for Petroleum Exporting Countries                     |
| PCE           | Personal Consumption Expenditures Price Index                      |
| POL           | Petroleum, oil, lubricants   |
| RF            | Russian Federation   |
| ST-Bills      | State Treasury Bills   |
| ST-Bonds      | State Treasury Bonds   |
| USA           | United States of America   |
| VAT           | Value Added Tax  |
| WB            | World Bank   |