



КЫРГЫЗ БАНКЫ

Monetary Policy Report.

Quarter 4, 2023

Bishkek
February 2024

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 inflation 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 Q4 2023 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2024-II-07/7-1-(ДКП) dated February 26, 2024.

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Summary

The global economy still demonstrates restrained growth rates. Economic growth slowdown in the world's major economies, including the USA and China, affects external demand in the developing countries. At the same time, the economies of the EAEU member countries showed positive GDP growth dynamics. In general, there was slowdown in global inflation amid decline in the world prices for food products.

In 2023, economy in the Kyrgyz Republic grew by 6.2 percent. There was a positive dynamics in all sectors of the economy, mainly in the services, industry and construction sectors. Domestic demand increased due to growth of wages, increase in remittance inflows into the country and expansion of consumer credits.

In Q4 2023, trade balance was formed under the influence of significant growth in exports and imports to the Kyrgyz Republic. As a result, the trade deficit of the country increased by 24.2 percent compared to Q4 2022 and amounted to USD 2,034.7 million. The volume of foreign trade turnover increased by 32.5 percent and amounted to USD 4.4 billion.

Inflationary processes in the Kyrgyz Republic demonstrate stable decrease due to the monetary measures taken by the National Bank. The annual inflation rate decreased from 14.7 percent in December 2022 and amounted to 7.3 percent in December 2023. There was stable slowdown in food prices growth.

Supported monetary policy conditions were focused on limiting the monetary factor of inflation. The short-term money market rates are still formed within the interest rate corridor of the National Bank, mainly near the policy rate of the National Bank, demonstrating slight growth. In general, excess liquidity in the banking system remained high, which conditioned operations conducted by the National Bank in the open market.

The situation in the domestic foreign exchange market remained stable. In some periods, the demand for foreign currency prevailed in the domestic foreign exchange market over its supply. Under these conditions, the National Bank conducted foreign exchange interventions on sale of foreign currency to smooth sharp fluctuations of the exchange rate.

The market of deposits and credits of the banking system demonstrates stable intense development. In the reporting period, there was a significant growth in the credit portfolio of the commercial banks mainly due to the credits in the national currency with expansion of the deposit base.

Chapter 1. External Environment

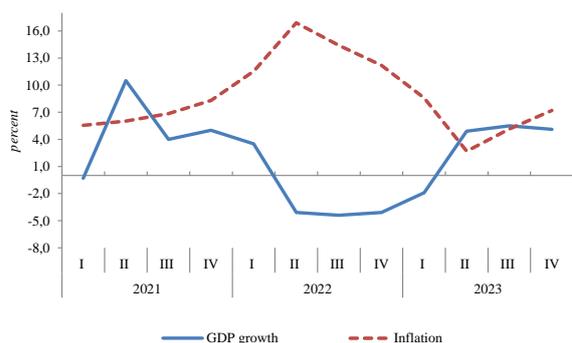
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

Economic slowdown in the world’s major economies, including the USA and China, conditioned decline of external demand in the developing countries, meanwhile the economies of the EAEU member countries showed positive dynamics of real GDP growth.

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

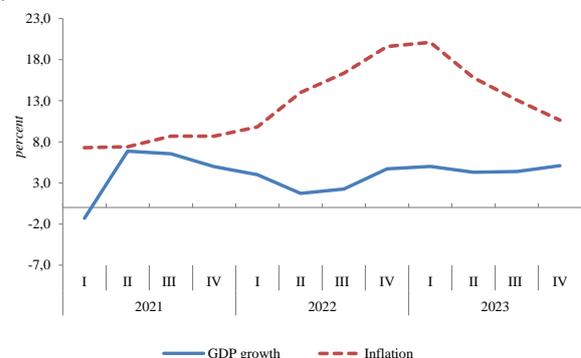
(+7.0 percent). An increase in domestic demand was primarily the main factor of GDP growth.

In Q4 2023, inflation accelerated despite tightening of the monetary policy. In Q4 2023, the inflation rate was 7.2 percent in annual terms. Acceleration of price growth was observed in all commodity groups: food products – 7.1 percent, non-food products – 5.5 percent and services – 9.6 percent.

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, IA Bloomberg, National Bank’s calculations

In Q4 2023, there was slowdown in economic growth in Russia, moreover, based on the results of 2023, the actual data increased compared to forecasted expectations.

According to the preliminary estimate of the Ministry of Economic Development of the Russian Federation, in Q4 2023, the real GDP increased by 5.1 percent. According to the preliminary estimate of the Russian Federal State Statistics Service, at the end of 2023, the real GDP increased by 3.6 percent due to the largest contribution of the wholesale and retail trade sector (+7.3 percent), manufacturing industry (+7.0 percent) and construction

In 2023, economy of Kazakhstan grew by 5.1 percent due to stable domestic demand, implementation of the infrastructure projects and recovery of the oil sector. The construction, trade and communication sectors demonstrated the highest growth of physical output, meanwhile, the agricultural sector showed a reduction by 7.7 percent due to a decrease in crop production resulted from unfavorable weather conditions. In 2023, the volume of capital investments increased by 13.7 percent (in 2022, growth by 7.9 percent), up to USD 39.5 billion.

Slowdown is observed in inflation.

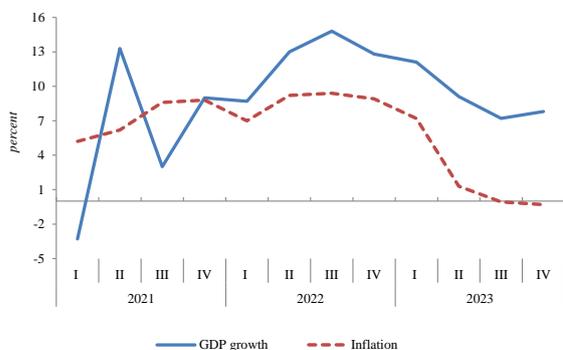
In December 2023, the annual inflation rate was 9.8 percent. In annual terms, prices for food products increased by 8.5 percent and for non-food products – by 9.1 percent, meanwhile prices of paid services accelerated up to 12.4 percent after 12.0 percent in the previous month. Growth of prices for food products and

non-alcoholic beverages (+3.3 p.p.), housing services (+1.8 p.p.), clothes and footwear (+1.1 p.p.) made the largest contribution to the annual inflation rate.

Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



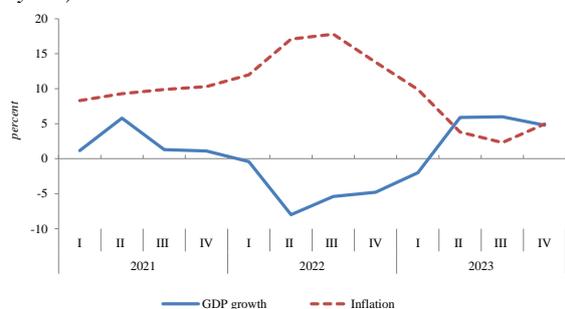
Source: National Statistical Service of the Republic of Armenia, IA Bloomberg, CB RA

0.6 percent in annual terms was registered by the end of 2023. A decrease in food prices by 4.8 percent in annual terms (Dec. 2023/Dec. 2022) was the main factor of deflation.

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

the Belarusian ruble and increased pro-inflationary impact of consumer demand.

In Q4 2023, economic activity remained high in Armenia.

At the end of 2023, the index of economic activity amounted to 9.5 percent in annual terms. Production growth was recorded in almost all sectors of economy, except for the agricultural sector. In the construction sector, an increase in production output (+11.5 percent) was mainly conditioned by the expansion of state benefits to purchase housing. The sectors of trade (+35.9 percent) and industry (+20.0 percent) demonstrated high growth rates.

In Armenia, a steady decline in the inflation rate was observed during the reporting period and deflation at

In Q4 2023, slowdown in economic activity was observed in Belarus.

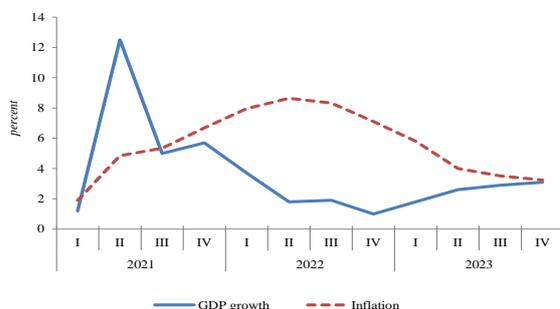
In Q4 2023, real GDP growth was 4.8 percent after 6.0 percent in the previous quarter. An increase in domestic demand and growth of net export of goods and services were still the main upward drivers of economic activity. Consumer activity of the population was conditioned by growth of real wages (in Q4 2023, by 13.8 percent in annual terms) and consumer lending.

In the reporting period, the inflation rate accelerated up to 5.8 percent after 2.0 percent in Q3 2023 due to weakening of

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

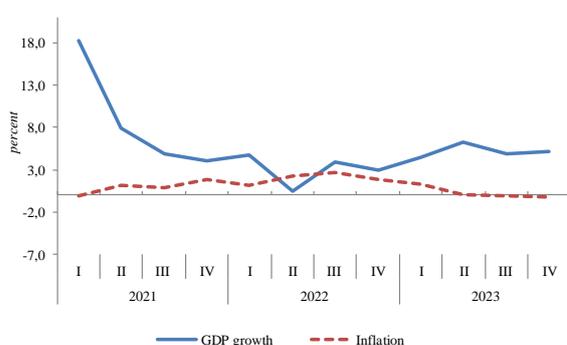
(ISM Non-Manufacturing) – it decreased down to 50.6 points from 53.6 points. At the end of 2023, the U.S. unemployment rate increased up to 3.7 percent (+0.2 p.p. year-to-date).

Inflationary processes in the U.S. economy showed stable deceleration. In December 2023, the annual inflation rate slowed down to 3.4 percent (in September 2023, 3.7 percent). The inflation rate decreased due to slow rise in prices for residential lease and food products, as well as decline in prices for energy carriers. Growth in consumer prices, excluding prices for food products and energy carriers (Core CPI) slowed from 4.1 percent to 3.9 percent in annual terms during the quarter.

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 Q4 2023, economic activity in the USA increased compared to the previous six quarters, meanwhile inflation showed stable slowdown.

In the reporting period, the U.S. real GDP grew by 3.1 percent¹ compared to the same period of 2022 (+0.7 percent) due to steady growth in consumer, government expenditures and gross investment.

In December 2023, the index of business activity in the U.S. manufacturing sector (ISM Manufacturing²) decreased down to 47.4 points compared to 49.0 points in September 2023, in the U.S. services sector (ISM Non-Manufacturing) – it decreased down to 50.6 points from 53.6 points. At the end of 2023, the U.S. unemployment rate increased up to 3.7 percent (+0.2 p.p. year-to-date).

In Q4 2023, China’s economy grew by 5.2 percent after 4.9 percent in the previous quarter.

In 2023, the GDP growth rate was 5.2 percent, exceeding the target of 5 percent set by the China’s government in the previous year.

The real estate market showed decline in prices for new housing during six consecutive months: in 2023, real estate sales decreased by 8.5 percent and the volume of new construction decreased by 20.4 percent.

There was stable slowdown in foreign trade being the main driver of China’s economic growth. According to the latest data

released by China’s General Administration of Customs, the country’s exports decreased by 4.6 percent and imports – 5.5 percent in annual terms. In 2023, China's annual foreign trade decreased by 5.0 percent and amounted to USD 5.94 trillion.

¹ Preliminary data from the U.S. Bureau of Economic Analysis.

² 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.

In Q4 2023, the deflation rate in China was 0.3 percent after 0.1 percent in the previous quarter. In 2023, the average annual inflation rate decreased by 2.8 percent compared to the government forecasts for the reporting year and made 0.2 percent. Pork prices, as the main driver of the consumer price index in annual terms, decreased by 26.1 percent. Moreover, the producer price index also fell by 2.7 percent demonstrating deterioration in domestic demand during the reporting period. However, inflation in the services sector demonstrated stable growth: prices in the tourism sector and for stay in the hotel increased by 6.8 and 5.5 percent, respectively.

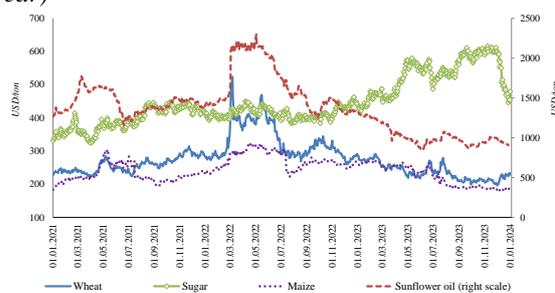
1.2. World Commodity Markets

In general, during the Q4 2023, there was a decrease in the world food prices despite multidirectional dynamics of prices in the world food market. Prices for oil demonstrated downward trend amid global economic slowdown, meanwhile in the context of stable geopolitical risks and high global inflation, the demand for gold in the world market in 2023 was the highest-ever to contribute to upsurge in prices for this commodity.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



In Q4 2023, prices for basic food products demonstrated multidirectional dynamics with downward trend. Low import demand, deterioration of weather conditions in some producing countries and geopolitical tension worldwide were the main factors in formation of price trends in the world food market.

Prices for vegetable oils remained volatile. In November 2023, prices increased due to growth of purchases and seasonal reduction of production output in the key

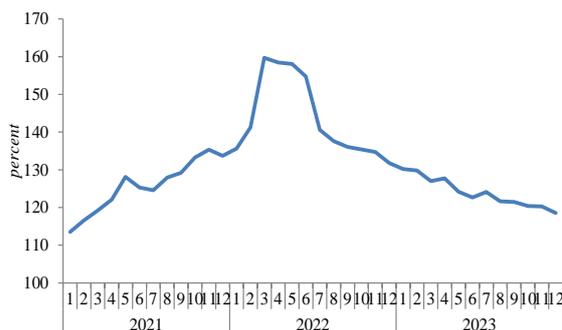
producing countries, meanwhile, world prices for vegetable oils declined by the end of the year amid increased supply.

At the same time, in December, there was a slight increase in prices for crops by 1.5 percent compared to November conditioned by an increase in export prices for wheat being the first for four months of 2023 and growth in prices for maize due to logistical disruptions and tensions in the Black Sea region.

In November, prices for rice remained stable, however in December, there was growth in the world prices for rice due to concerns over the El Niño natural phenomenon, which could result in poor rice harvests in the producing countries, as well as consequences of export restrictions imposed by India.

In December, a decline in prices for sugar was mainly conditioned by production rate in Brazil being supported by favorable weather conditions. Active exports from Brazil, as well as reduction of ethanol sales profits, resulted in overall decline in the world prices for sugar.

Chart 1.2.2. Dynamics of FAO Food Price Index



In Q4 2023, the FAO food price index¹ showed stable decline. This index decreased primarily in December 2023 due to larger decrease in prices for sugar, vegetable oils and meat compared to an increase in prices for dairy products and crops. There were stable factors affecting price movement: variable weather conditions in the producing countries, global demand, geopolitical situation worldwide, production costs and logistics.

In Q4 2023, the average value of the FAO Food Price Index decreased by 2.2 percent compared to Q3 2023 and amounted to 119.7 points. This index,

decreased by 10.7 percent compared to the same quarter of 2022.

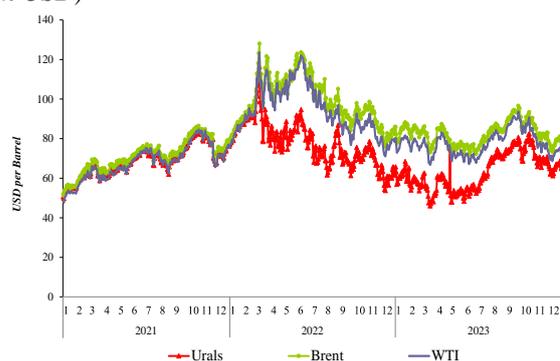
Energy Market

In Q4 2023, the average price of Brent oil decreased by 3.6 percent compared to the previous quarter and amounted to USD 82.8 per barrel (the average price decreased by 6.5 percent compared to the same period of the last year). Russian Urals oil was sold at a discount of USD 10-15 per barrel compared to Brent oil.

On November 30, 2023, after the meeting of OPEC+ countries, a decision was made to further reduce oil production by 700 thousand barrels per day. In Q1 2024, Saudi Arabia will continue to additionally reduce oil production by 1 million barrels per day, and Russia will increase additional voluntary reduction of oil and oil products exports by 200 thousand barrels per day, to make in total 500 thousand barrels per day.

In December 2023, oil supplies from the OPEC member countries decreased by 7.0 percent compared to the same month in 2022 due to escalating conflict in the Middle East. Fears of disruptions in crude supplies amid Yemeni Houthi attacks on the commercial vessels in the Red Sea kept oil prices volatile during Q4 2023.

Chart 1.2.3. Dynamics of Oil Prices (in USD)



World oil prices influence 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.

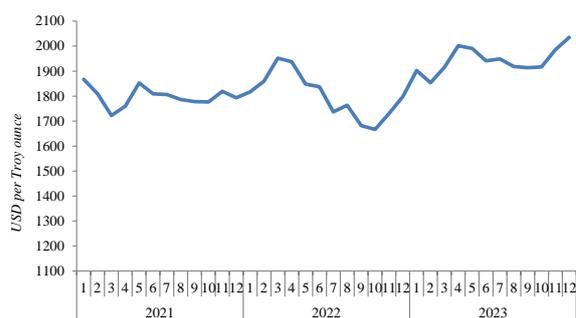
In Q4 2023, prices for petroleum, oil and lubricants in Kyrgyzstan increased by 4.2 percent (Q4 2023 to Q4 2022): prices for gasoline increased by 6.4 percent, prices for gas oil decreased by 6.9 percent. Rise in prices was mainly due to an increase in selling

prices at the Russian oil refineries due to adoption of the Law on twofold reduction of damping payments in Russia.

¹ 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).

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

During the reporting period, there was an upward trend in the world price for gold amid stable geopolitical risks. In Q4 2023, the total demand for gold in the world market was approximately at the level of the previous quarter. Annual demand for gold (excluding the OTC market) decreased by 5.0 percent compared to 2022 and constituted 4,448 tons. However, taking into account significant OTC flows and stock flows (398 tons), in 2023, total demand for gold was the highest-ever and amounted to 4,899 tons. Record purchases of gold by the central banks, as well as stable jewelry consumption, compensated significant outflow from the exchange markets. Annual jewelry consumption remained stable at 2,093 tons even under the conditions of high gold prices.

Annual investments in bars and coins declined slightly (-3.0 percent in annual terms). At the same time, OTC investments conditioned an increase in gold prices in 2023.

Annual gold production increased by 1.0 percent compared to the previous year up to 3,644 tons, however failed to climb to an all-time high of 2018. Recycling responded to high gold prices throughout the year and increased up to 1,237 tons (+9.0 percent in annual terms). As a result, total gold supply increased by 3.0 percent compared to 2022.

At the end of 2023, price for gold increased by 13.1 percent and amounted to USD 2,063.0 per Troy ounce (in Q4, the average price for gold increased by 14.2 percent compared to the same period in 2022 and amounted to USD 1,977.3).

Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodities and Services Market

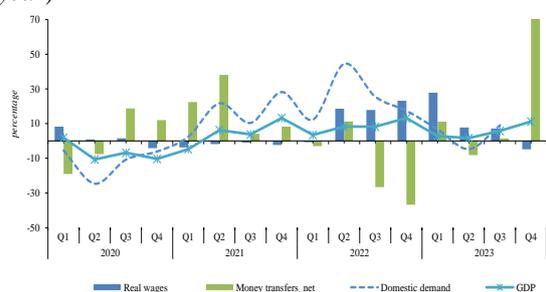
According to the results of 2023, the indicators of economic activity in the Kyrgyz Republic remained positive. The main factor was an increase in domestic consumer demand due to the growth of wages, consumer lending and inflow of cross-border remittances.

The fiscal sector of the economy was characterized by fiscal consolidation, which will continue in the medium term. The improvement of the budget balance in the reporting period was facilitated by faster growth rates of revenues compared to budget expenditures as a result of improved tax administration.

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

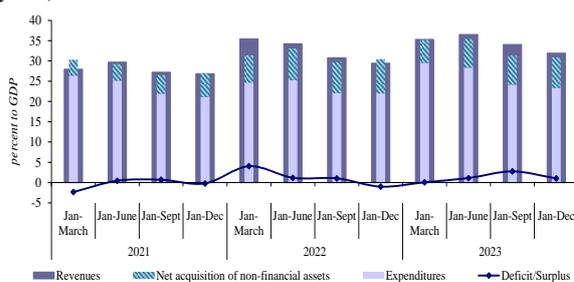
According to the preliminary results of Q3 2023¹, domestic demand increased by 9.0 percent in annual terms.

In 2023, growth of domestic consumer demand was characterized by significant increase in consumer lending by 68.9 percent, growth in real wages by 8.6 percent, as well as rise in net inflow of cross-border remittances into the country by 14.5 percent.

Public Finances Sector

Chart 2.1.2. Execution of the State Budget

(period to the corresponding period of the previous year)



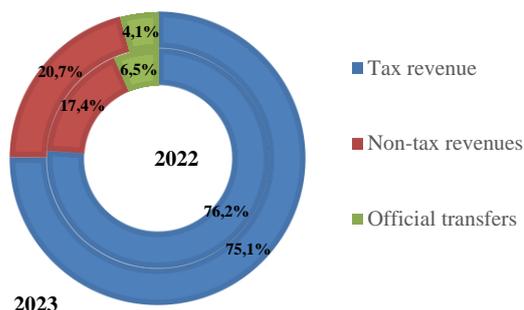
Source: CT MFKR

At the end of 2023, the state budget was executed with a surplus of 1.0 percent to GDP. Formed budget surplus is conditioned by the outstripping growth of budget revenues over budget expenditures. Current budget revenues grew by 30.4 percent and amounted to KGS 391.9 billion (31.9 percent to GDP). High tax revenues were the result of growth in economic activity, particularly in foreign trade operations, and active work on fiscalization of taxation procedures. At the same time, non-

tax revenues grew significantly: mainly due to dividends and profit from the state and municipal enterprises and revenues from rendering paid services.

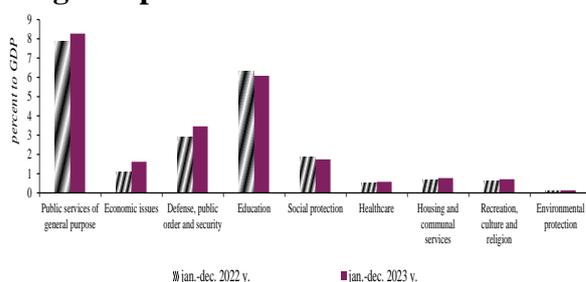
¹ Reference to the data for the earlier period is given due to the lack of more up-to-date data.

Chart 2.1.3. Structure of the State Budget Revenues



Total state budget expenditures increased by 22.0 percent and amounted to KGS 379.5 billion (30.9 percent to GDP), however they were formed below the plan. The main current expenditures of the budget by functional classification were distributed among the items “public services of general purpose” (35.4 percent), “education” (26.0 percent), “defense, public order and security” (14.8 percent) and others. The volume of budget capital expenditures amounted to KGS 92.2 billion (7.5 percent to GDP).

Chart 2.1.4. Functional Structure of State Budget Expenditures



Source: CTMFKR

In the medium term, the Ministry of Finance of the Kyrgyz Republic is expected to continue conducting fiscal consolidation as well as improvement of public finance management. The republican budget surplus is expected at KGS 10.9 billion (0.9 percent to GDP) in 2024, KGS 24.9 billion (1.7 percent to GDP) in 2025, and KGS 29.5 billion (1.7 percent to GDP) in 2026.

Investments

Table 2.1.5. Capital Investments by Sources of Financing (millions of KGS, percent)

	January-December			
	2022 r.		2023 r.	
	millions of KGS		share, percent	
Total	139 417.5	168 537.4	100.0	100.0
Internal investment	103 193.0	141 394.9	74.0	83.9
Republican budget	11 297.8	23 473.3	8.1	13.9
Local budget	3 546.6	5 336.3	2.5	3.2
Funds of enterprises and organizations	46 439.6	56 860.5	33.3	33.7
Banks' credits	846.0	3 285.5	0.6	2.0
Population funds including beneficent help of KR residents	41 063.0	52 439.3	29.5	31.1
External investment	36 224.5	27 142.5	26.0	16.1
Foreign credit	19 632.7	13 368.8	14.1	7.9
Direct foreign investments	9 403.3	3 525.2	6.7	2.1
Foreign grants and humanitarian aid	7 188.5	10 248.5	5.2	6.1

Source: NSC KR

There was a significant increase in the volume of capital investments.

In 2023, the level of capital investments exploitation amounted to 18.8 percent against 4.0 percent in 2022.

Growth was conditioned by an increase in investments financed from the domestic sources by 34.6 percent. At the same time, investments financed from foreign sources decreased by 26.3 percent.

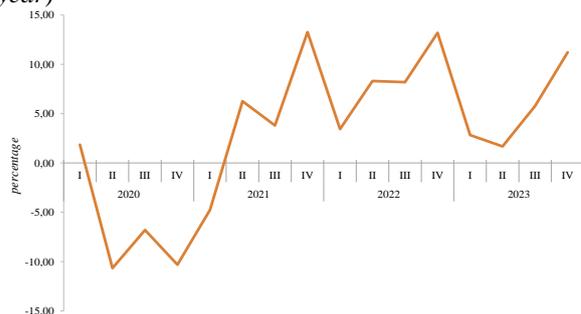
Capital investments in construction of wholesale and retail trade facilities increased by 2.9 times, art, entertainment and recreation facilities – by 2.8 times and processing facilities – by 2.0 times. There was a decrease in investments for construction of agricultural, forestry and fishing facilities by 32.6 percent, information and communication facilities – by 30.4 percent, transportation facilities – by 30.4 percent, transport activity and cargo storage facilities – by 26.3 percent.

Supply

According to the preliminary data of the NSC KR, at the end of 2023, the nominal GDP increased in real terms by 6.2 percent compared to 2022 and amounted to KGS 1,228.9 billion (in 2023, an increase by 9.0 percent¹).

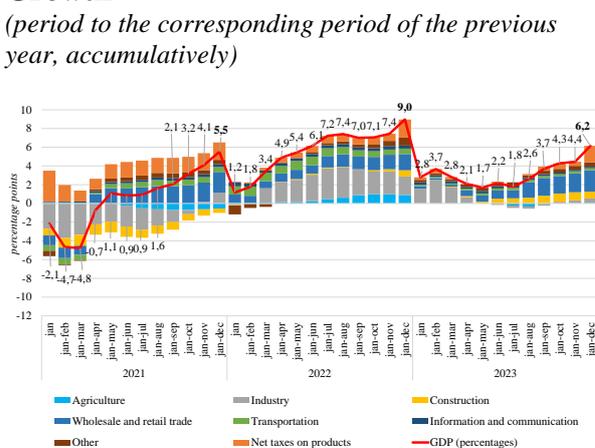
¹ According to clarified data of the NSC KR.

Chart 2.1.6. GDP Dynamics
(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: National Bank

Chart 2.1.7. Input of Main Sectors in GDP Growth
(period to the corresponding period of the previous year, accumulatively)



Source: NSC KR, calculations: National Bank

The sectors of services and construction showed the highest economic activity.

According to the results of 2023, the services sector demonstrated growth by 6.2 percent in real terms due to an increase in the turnover of wholesale and retail trade (+15.1 percent). In 2023, contribution of this sector to the total GDP growth was 3.1 p.p. The share of the services sector in the GDP structure remains the largest, being equal to 50.8 percent.

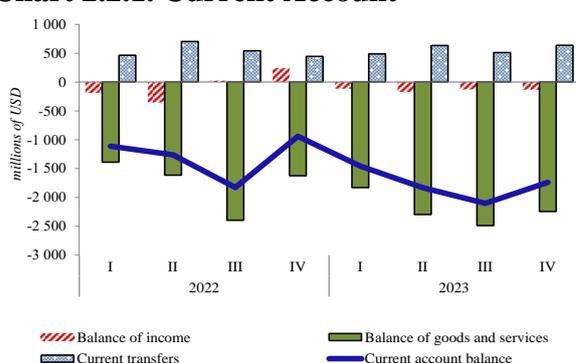
The construction sector demonstrated an increase in growth rates by 10.3 percent in 2023, meanwhile agriculture showed weak growth by 0.6 percent amid dry weather. Industry grew by 2.7 percent to provide input of 0.5 percentage points in total GDP growth. In 2023, net taxes on products increased by 12.7 percent (input to total GDP growth was 1.8 p.p.), largely due to improved tax collections.

The GDP deflator was positive and amounted to 13.4 percent, having decreased by 6.2 p.p. compared to January-December 2022.

2.2. External Sector¹

In Q4 2023, the current account deficit was generally conditioned by the continuing trade deficit and deterioration of the other items in the current account balance of services and income balance.

Chart 2.2.1. Current Account



Note: According to the preliminary and forecasted data.

According to the preliminary data and estimates, in Q4 2023, the current account deficit constituted USD 1,737.2 million or 51.1 percent to GDP².

In the reporting period, the trade balance deficit of the Kyrgyz Republic increased up to USD 2,034.7 million amid continued upward trend in imports, meanwhile export supplies also increased significantly.

Export of goods (in FOB prices) increased by 40.6 percent and amounted to USD 1,189.2 million. Supplies of gold (non-monetary) had the main impact on the export volumes. Export excluding gold decreased by 37.1 percent and amounted to USD 524.6 million.

¹ According to the preliminary and forecasted data, including additional estimates of the National Bank of the Kyrgyz Republic. Period of comparison is the quarter to the corresponding quarter of the previous year.

² Ratios to GDP are calculated based on sliding annual data, including the last four quarters.

Import of goods (in FOB prices) increased by 29.8 percent and amounted to USD 3,223.9 million. The current trade patterns in the region still affects the growth of import operations. The main contribution to the growth in imports in the reporting period was provided by the supplies of motor cars designed for the transport of persons, as well as parts of machinery for bottles or other containers processing. At the same time, in the reporting period, there was an increase in imports of energy products by 24.6 percent (USD 257.0 million against USD 206.2 million in Q4 2022) due to increase in volume and value.

In the structure of current transfers, there is an increase in private transfers; meanwhile the balance of public sector transfers demonstrates significant decrease.

In Q4 2023, positive dynamics in the net inflow of private transfers (increase by 63.7 percent) was due to the growth of remittance. The dynamics of official transfers was fully shaped by receipts of cash grants from the development partners and contributions of membership fees to the international organizations.

In the reporting quarter, the balance of services' deficit is expected to increase up to USD 207.6 million, whereas the balance of "income" is estimated to be negative in the amount of USD131.9 million.

According to the preliminary forecast estimates of the National Bank, in Q4 2023, capital inflow on the capital and financial account is expected in the amount of USD 2,178.0 million.

The capital account surplus will reach USD 66.2 million. The positive balance on the financial account will be formed in the amount of USD 2,111.7 million as a result of growth in other investments in the form of an increase in the private sector liabilities to non-residents.

Thus, at the end of Q4 2023, the balance of payments of the Kyrgyz Republic will develop with a surplus to make USD 440.7 million.

Indexes of Real and Nominal Effective Exchange Rate of KGS

Table 2.2.2. Key Values for Exchange Rate

	year (average)			month to the beginning of the year		
	2021 (aver.) (January- December)	2022 (aver.) ¹ (January- December)	%	December 2022	December 2023	%
REER	115.8	122.5	5.8	123.7	131.3	6.1
NEER	119.6	125.8	5.2	123.9	122.2	-1.3
RBER to CNY	74.4	87.5	17.5	94.7	99.0	4.5
NBER to CNY	51.7	54.3	4.9	55.9	54.3	-2.8
RBER to EUR	96.7	116.6	20.5	117.8	112.3	-4.7
NBER to EUR	60.8	68.8	13.2	67.7	62.5	-7.7
RBER to JPN	119.8	160.1	33.7	168.8	180.4	6.8
NBER to JPN	67.9	81.6	20.2	83.1	84.9	2.1
RBER to KZT	133.9	144.5	7.9	140.9	128.8	-8.6
NBER to KZT	157.0	170.9	8.9	171.1	160.6	-6.2
RBER to RUB	123.2	115.2	-6.5	112.8	148.2	31.3
NBER to RUB	131.8	123.3	-6.5	116.6	153.4	31.5
RBER to TRY	187.0	235.1	25.7	237.4	230.0	-3.1
NBER to TRY	317.2	601.0	89.5	668.6	995.2	48.8
RBER to USD	81.3	86.5	6.4	88.6	87.8	-0.9
NBER to USD	54.3	54.6	0.6	54.0	51.6	-4.6

↓ – Som devaluation, competitiveness improvement
↑ – Som strengthening, competitiveness deterioration

and the Chinese yuan – by 2.8 percent amid appreciation of KGS¹ against the Turkish lira by 48.8 percent, the Russian ruble – by 31.5 percent, and the Japanese yen – by 2.1 percent. Along with the NEER decrease, higher price growth in Kyrgyzstan² amid average inflation rate in the trading partner countries conditioned an increase of the real effective exchange rate (REER) index by 6.1 percent, to make 131.3 at the end of December 2023.

Since the beginning of 2023, there was weakening of the nominal effective exchange rate index and strengthening of the real effective exchange rate index.

According to the actual data, the nominal effective exchange rate (NEER) index decreased by 1.3 percent since the beginning of 2023 and constituted 122.2 at the end of the reporting period. The decrease in the index was a result of KGS depreciation in the aforementioned period against the euro by 7.7 percent, the Kazakh tenge – by 6.2 percent, the US dollar – by 4.6 percent,

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

² In Q4 2023, the inflation rate in the Kyrgyz Republic was formed at 7.3 percent; meanwhile, the average inflation rate in the main trading partner countries according to the preliminary calculations was -0.2 percent.

Chapter 3. Monetary Policy

Key trends

- Stable and high uncertainty in the external environment remained a predetermining factor for development of the economic situation in the Kyrgyz Republic, including for inflation dynamics. Along with the external factors, internal pro-inflationary factors prevailed in the economy of the Kyrgyz Republic, mainly related to strengthening of the domestic demand and revision of tariff policy.
- Under these conditions, the National Bank conducted monetary policy focused on keeping the inflation rate at the level of around 10 percent in 2023.
- During Q4 2023, tactical decisions of the monetary policy were made under the conditions of increased level of excess liquidity in the banking system, trends in the development of the domestic money and foreign exchange markets, taking into account conducted fiscal policy consolidation.
- In general, in Q4 2023, the domestic foreign exchange market remained stable. In some periods, there was excess of demand for foreign currency over its supply in the foreign exchange market. The National Bank conducted two interventions on sale of USD 71.95 million and one intervention on sale of EUR 19.00 million in order to smooth sharp fluctuations in the exchange rate.
- The monetary policy measures taken by the National Bank limited strengthening of the inflation monetary factors and kept the situation in the interbank money and the domestic foreign exchange markets stable.

3.1. Monetary Policy Implementation

Monetary Conditions

In general, during Q4 2023, the monetary conditions remained relatively tight, which reflected the policy of the National Bank with regard to the pro-inflationary risks in the economy and high inflationary expectations of the population.

During Q4 2023, the National Bank's policy rate was kept unchanged at 13.00 percent. Meanwhile, the monetary policy decisions were based on the forecast assessments of inflation factors and prospects for economic development in the Kyrgyz Republic and the trading partner countries.

In order to strengthen the impact of the adopted monetary decisions the boundaries of the interest rate corridor were also kept unchanged at +/-2.0 p.p. from the policy rate: the interest rate on "overnight" deposits was kept unchanged at 11.00 percent, on "overnight" credits – at 15.00 percent. The short-term money market rates had a common direction with the dynamics of the key rate and continued remaining within the interest rate corridor set by the National Bank.

In order to limit the monetary component of inflation, the National Bank actively conducted operations on sterilization of excess liquidity in the banking system.

Generally, the monetary conditions contributed to intensifying the savings behavior of the population, thereby making it possible to expand the commercial banks' resource base. The dynamics of lending to the real sector of the economy remained positive.

Liquidity Regulation in the Banking Sector

A high level of liquidity surplus remained in the banking system. However, after a short-term cycle of excess liquidity reduction in the last decade of Q4 2023, the dynamics of this indicator turned upwards, reaching high indicators in December 2023. In contrast

to previous periods, the growth was driven by the influence of flows from the government sector and the National Bank.

The money market participants, as before, actively placed available funds on sterilization instruments of the National Bank.

The structure of sterilization operations was still in favor of the National Bank's notes.

During Q4 2023, the excess liquidity in the banking system was formed mainly due to the National Bank's operations.

In general, at the end of the reporting quarter, the government sector operations had a restraining effect on growth of the commercial banks' excess liquidity by KGS 17.2 billion. At the same time, within the reporting quarter (in December 2023), operations in the public finances sector also positively contributed to the growth of excess reserves due to the excess of the state budget expenditures over revenues. As a result, in December 2023, the average daily volume of excess liquidity in the banking system prior to the sterilization operations conducted by the National Bank reached KGS 71.1 billion.

At the end of Q4 2023, the average daily volume of excess liquidity decreased by KGS 1.5 billion compared to the previous quarter and amounted to KGS 65.3 billion (in Q4 2022, KGS 48.0 billion).

Excess liquidity, as before, was concentrated with the main players of the money market.

The National Bank regularly conducted operations on sterilization of excess reserves in order to limit the monetary component of inflation. At the end of Q4 2023, the average daily volume of sterilization operations conducted by the National Bank decreased to KGS 65.4 billion, from KGS 67.1 billion in the previous quarter (in Q4 2022, KGS 47.7 billion). At the same time, due to its short maturity, the commercial banks preferred to place available funds on the National Bank's instruments with shorter maturity.

The money market participants still gave their preference for the National Bank's notes. Meanwhile, in some periods of the reporting quarter, there was an overflow of banks' available funds in favor of "overnight" deposits. Thus, despite prevalence of the National Bank's notes in the structure of sterilization operations, the share of "overnight" deposits increased gradually, which indicates a slight reduction in maturities of the banks' excess reserves. The excess liquidity of the banking system was absorbed through the following instruments of the National Bank:

- the operations in the open market - issue of the National Bank's notes, the average daily volume thereof slightly decreased to KGS 46.3 billion in the reporting quarter from KGS 48.4 billion in the previous quarter of 2023 (in Q4 2022, KGS 28.5 billion). In the reporting quarter, the share of these operations in the total structure of sterilization operations decreased to 70.8 percent from 72.2 percent in the previous quarter (in Q4 2022, 59.7 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 19.1 billion from KGS 18.6 billion in Q3 2023 (in Q4 2022, KGS 19.3 billion). In the reporting quarter, the share of these operations in the total structure of sterilization operations increased to 29.2 percent, from 27.8 percent in the previous quarter (in Q4 2022, 40.3 percent).

Chart 3.1.1. Excess Reserves of the Commercial Banks

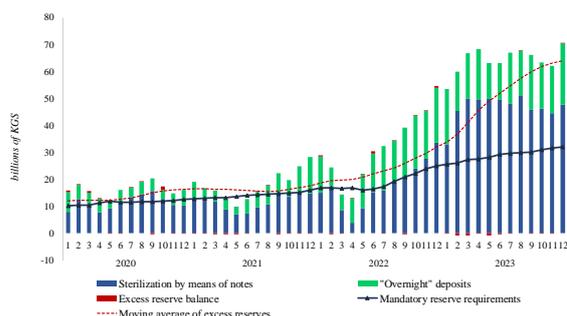
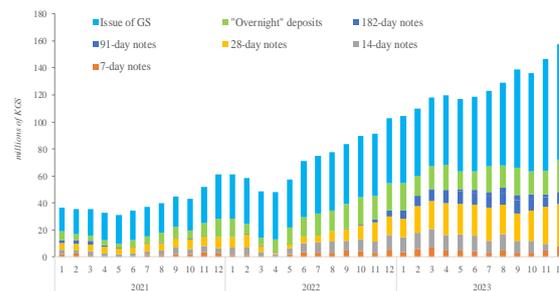


Chart 3.1.2. Structure of Sterilization Taking into Account Government Securities



In Q4 2023, the banking sector attracted credit resources of the National Bank within the framework of “overnight” credits in order to cover temporary gaps in short-term KGS liquidity, as well as a precautionary measure of compliance with the reserve requirements of the National Bank. Throughout the reporting period, the demand for this instrument of the monetary policy was observed only in October 2023, the gross volume thereof amounted to KGS 501.5 million (in Q3 2023, KGS 45.5 million, in Q4 2022, KGS 16.7 billion).

Since October 2023 came into force a new standard of reserve requirements for the banks on liabilities in foreign currency (excluding the currencies of the EAEU and the PRC) at the level of 15.00 percent (+100 b.p.), which was adopted by the National Bank as part of measures to de-dollarize the economy.

Monetary Policy Measures in Q4 2023

<p>The decisions were made on the size of the National Bank key rate and the rates of the interest rate corridor</p>	<p>The Board of the National Bank twice considered the issue of the policy rate – on October 30 and November 27, 2023. Based on the results of two meetings the decision was made to keep the size of the policy rate unchanged at 13.00 percent.</p> <p>The rates of the interest rate corridor also remained unchanged: the interest rate on “overnight” deposits – 11.00 percent, the interest rate on “overnight” credits – 15.00 percent.</p>
<p>A decision was made to increase the ratio of reserve requirements for liabilities in foreign currency (excluding liabilities in Armenian drams, Belarusian rubles, Kazakh tenge, Chinese yuans Renminbi, Russian rubles)</p>	<p>Within the framework of implementing the National Bank’s action plan on de-dollarization of the economy in the Kyrgyz Republic, in October 2023, the ratio of reserve requirements for the commercial banks’ liabilities in foreign currency (excluding liabilities in Armenian drams, Belarusian rubles, Kazakh tenge, Chinese yuans Renminbi, Russian rubles) was increased from 14.00 to 15.00 percent.</p> <p>At the same time, the ratio of reserve requirements for liabilities in the national currency, in the currencies of the EAEU member countries and Chinese yuan for the commercial banks was kept unchanged at 4.00 percent. The ratio of reserve</p>

	requirements for the banks' liabilities on the clients' depersonalized metal accounts also remained unchanged - at the level of zero percent.
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The adopted monetary policy measures made it possible to limit inflationary developments in the Kyrgyz Republic and maintain stability in the domestic foreign exchange market, thereby conditioning downward trend in the inflation rate. In December 2023, the annual inflation rate decreased from 14.7 percent in December 2022 and constituted 7.3 percent.

In the reporting period, the communication policy was an important part of the monetary policy. The National Bank tried to form rational inflation expectations of the population and economic entities by conducting active information policy.

3.2. Financial Market Instruments

Dynamics of Short-Term Money Market Rates

In general, short-term money market rates were formed under the influence of liquidity surplus in the banking sector, demonstrating upward dynamics. At the same time, the rates fluctuated near the key rate within the interest rate corridor set by the National Bank.

In Q4 2023, the weighted average yield in the money market increased compared to the previous period and conditioned slight decrease in the average value of the spread between short-term money market rates and the National Bank's policy rate. Generally, the spread was still formed in the negative area due to concentration of yields between the policy rate and the rate on "overnight" deposits, excluding the spread between the ST-Bills.

The average spread in the notes market decreased by 0.03 p.p., to (-)0.85 percent. During the quarter, the weighted average yield of notes increased from 12.10 percent in October to 12.12 percent in December (in November, the weighted average yield of the National Bank's notes was 12.23 percent).

From October till December 2023, there was a decline in demand in the interbank credit market of REPO transactions, which conditioned an increase in the interest rates. As a result, the average spread decreased by 0.47 p.p., to (-)0.89 percent in the market of credit borrowing through REPO transactions. At the end of the reporting period, the weighted average rate was formed at 12.08 percent.

Based on the results of Q4 2023, the average spread increased by 0.87 p.p. and made 0.77 percent in the market segment of short-term government securities (12-month ST-Bills). Finally, the weighted average rate on ST-Bills for the first time increased compared to the level of the National Bank's policy rate since the beginning of 2022 and amounted to 13.8 percent (in Q3 2023, this indicator amounted to 12.23 percent).

Chart 3.2.1. Interest Rate Policy of the National Bank

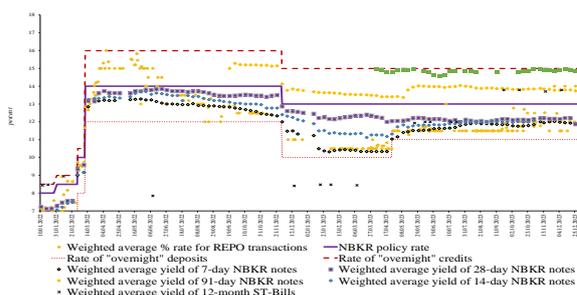
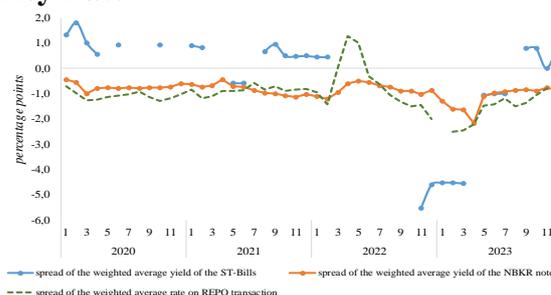


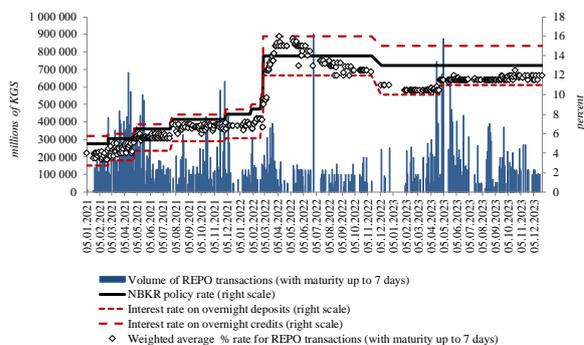
Chart 3.2.2. Spread between the Short-Term Rates of the Money Market and the Key Rate



Interbank Credit Market

In the reporting quarter, activity in the interbank market was observed in the segments of REPO and SWAP transactions (mainly using the national currency), meanwhile, transactions to grant standard loans in the national and foreign currencies were not conducted.

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



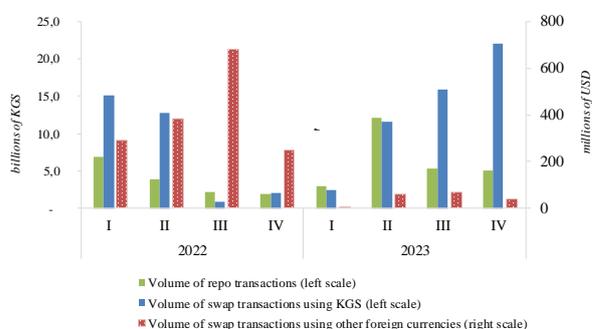
In Q4, the participants’ activity practically remained at the level of the previous quarter with monthly downward trend in the volume of transactions.

In October-December 2023, the volume of transactions decreased by 5.4 percent compared to the previous quarter and amounted to KGS 5.0 billion (in Q3, KGS 5.3 billion), meanwhile the monthly volumes of transactions exceeded the monthly values of the same period of 2022. The weighted average rate increased to 12.1 percent (+0.5 p.p. compared to July-September 2023).

The weighted average maturity of loans increased to 5 days (+1 day). The transactions were conducted on pledge of the National Bank’s notes and ST-Bonds.

In Q4 2023, the money market segment of SWAP transactions was characterized by increased activity from the banking sector participants compared to the market of REPO transactions. At the same time, transactions with the national currency dominated in the structure of SWAP transactions.

Chart 3.2.4. Market of REPO and SWAP Transactions



Generally, in the reporting quarter, the total volume of SWAP transactions conducted by the commercial banks using the national currency (in the domestic foreign exchange market and with non-resident banks) increased by 38.6 percent, to KGS 22.1 billion (compared to Q3 2023).

However, the volume of transactions involving foreign currencies (without using the national currency) decreased by 39.2 percent compared to the same period and amounted to USD 40.4 million.

Market of the National Bank’s Notes

Increased level of excess liquidity in the banking system remained the key factor affecting the participants’ behavior in the National Bank’s notes market. The commercial banks preferred to place available funds on short-term notes of the National Bank due to their short maturity.

In general, in Q4 2023, the volume of placed National Bank’s notes decreased by KGS 2.9 billion compared to the previous quarter (-1.5 percent), down to KGS 193.9 billion. At the same time, the market participants demonstrated an increase in investment demand up to KGS 223.5 billion (+2.3 percent or KGS 5.1 billion).

The situation with the yields of notes changed insignificantly by maturities: interest rates on 7-day notes increased to 11.91 percent (+0.09 p.p.), on 182-day notes - to 14.87 percent (+0.07 p.p.) and on 28-day notes - to 12.13 percent (+0.05 p.p.), as well as on 14-day notes – to 12.01 percent (+0.03 p.p.). Meanwhile, yields of 91-day notes decreased by

0.12 p.p., to 13.81 percent. In general, in the reporting quarter, the total weighted average yield of notes increased by 0.02 p.p., to 12.15 percent.

In the reporting period, notes with maturity of 7 and 28 days were the most preferable (the total share made 83.4 percent; during the quarter – +24.86 p.p.) due to short maturity of excess liquidity (up to one year). Meanwhile, there was a decrease in the share of 14- and 91-day notes by 19.94 p.p. (to 11.4 percent) and 1.96 p.p. (to 4.2 percent), respectively. The situation on 182-day notes remained unchanged: approximately 1.0 percent of the total demand from the market was accounted for these securities.

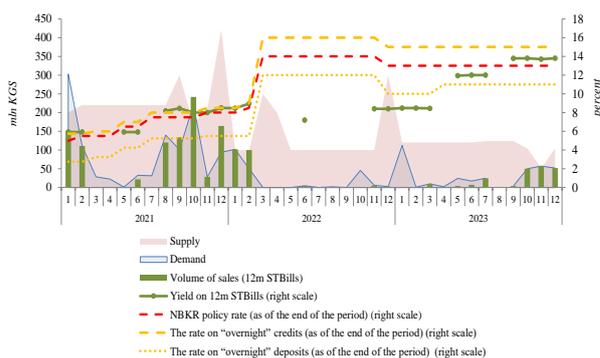
Since the second half of Q4 2023, the National Bank did not offer notes with maturity of 14 days to the market participants within the framework of measures implemented for liquidity effective regulation in the banking system.

Government Securities Market

In Q4 2023, the government securities (GS) market was represented by a wide range of securities with maturities from 2 to 10 years (excluding 15- and 20-year securities). At the same time, the ST-Bills with 3-, 5- and 7-year maturities were in the greatest demand among the market participants. The segment of GS with short maturities, as well as in previous periods, was represented only by 12-month ST-Bills.

ST-Bills

Chart 3.2.5. ST-Bills Market Indicators



In Q4 2023, 12-month ST-Bills were still placed on the trading platform of Kyrgyz Stock Exchange CJSC. The demand of market participants increased compared to the previous quarters of 2023 and fully satisfied.

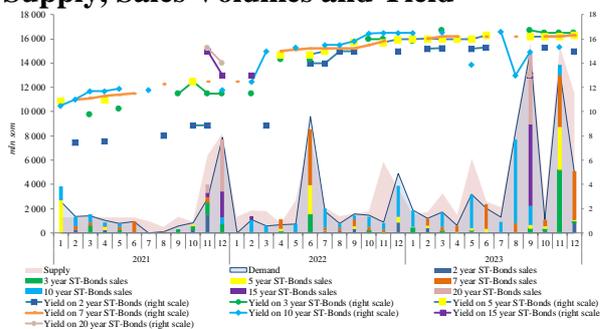
The total supply of ST-Bills of the Ministry of Finance decreased by 30.1 percent compared to the previous quarter. The total demand of market participants for these securities increased by 5.6 times compared to the previous quarter, which was fully satisfied.

ST-Bonds was 13.8 percent (in Q 3, 12.9 percent).

In Q4, the weighted average yield of

ST-Bonds

Chart 3.2.6. Dynamics of ST-Bonds Supply, Sales Volumes and Yield



In the reporting period, the ST-Bonds market was represented by the securities of all types of maturities, excluding 15- and 20-year maturities. The weighted average yield of ST-Bonds grew due to sale of securities with higher yields.

In the reporting period, activity in the ST-Bonds market was primarily provided by participation of the government. The weighted average yield of ST-Bonds increased due to sale of securities with higher yields.

The total weighted average yield of ST-Bonds increased compared to the previous quarter due to sale of securities with higher yields (3- and 7-year ST-Bonds) and remained at the same level during the quarter (16.26 percent in October and November, 16.31 percent in December).

The largest sales were observed among 7-, 3-, and 5-year ST-Bonds: their total share constituted about 91.4 percent of the total sales for the whole quarter.

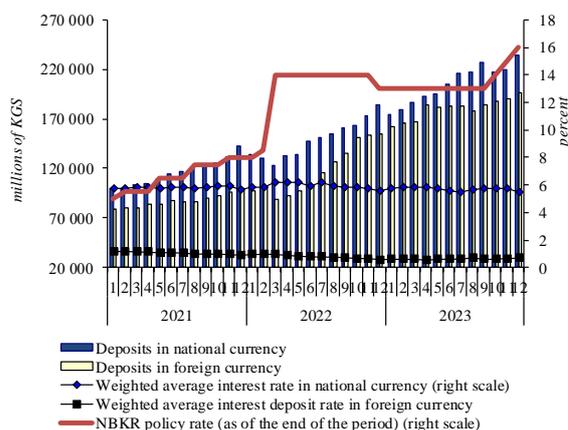
In the reporting quarter, the structure of ST-Bonds holders (excluding 2-year ST-Bonds placed on the stock exchange) changed compared to the previous quarter: almost half of all holders, as before, were institutional investors (the share decreased from 43.8 percent down to 41.9 percent), the share of commercial banks increased (from 20.3 percent up to 26.9 percent), at the same time, the share of resident legal entities decreased (from 21.2 percent down to 15.4 percent), other participants together held 15.8 percent of all ST-Bonds in circulation.

Additionally, at the end of Q4 2023 (December), funds in the amount of RUB 341.9 million were first attracted to KSE CJSC through placement of 2-year ST-Bonds, which contributed to expansion in the range of investment instruments in the local stock exchange.

Deposit Market

The banking system demonstrates stable expanding of its resource base primarily in the national currency, which reflects increased public confidence in the banking system and attractiveness of deposits in the national currency.

Chart 3.2.7. Dynamics of Commercial Banks' Deposits



At the end of 2023, the deposit base amounted to KGS 431.3 billion, having increased by 27.3 percent since the beginning of the year. The growth of the deposit base was due to an increase in deposits both in the national currency (+27.2 percent, up to KGS 234.6 billion) and in foreign currency (+27.3 percent, up to KGS 196.8 billion in equivalent KGS). The growth of deposits in the national currency is mainly due to an increase in non-time deposits by 32.4 percent, the share of which in the KGS deposit base amounted to 65.3 percent (in December 2022 - 62.7 percent), at the same time, time

deposits grew at a slower pace – 18.4 percent since the beginning of the year). Such dynamics contributed to change in the structure of KGS segment in the deposit base as related to an increase in the share of current accounts up to 40.4 percent (+2.4 p.p.), demand deposits – up to 24.9 percent (+0.2 p.p.) and a decrease in the share of time deposits down to 34.7 percent (- 2.6 p.p.).

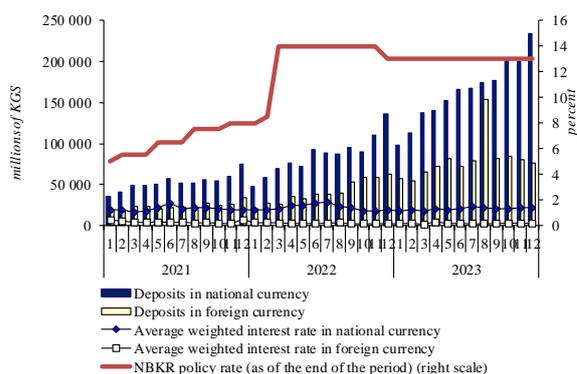
The currency breakdown of the deposit base shows that it mainly consists of deposits in the national currency. Dollarization of deposits remained at the level of 2022 – 45.6 percent.

Considering the deposit base by persons, worth noting is that it is formed mainly by residents' deposits (97.6 percent of the total volume), particularly by individuals' deposits (49.5 percent).

The foreign currency segment of the deposit market consists mainly of resident legal entities' deposits (mainly current accounts) (45.1 percent) and non-residents' deposits (28.8 percent).

The resident individuals trust the national currency and prefer to keep money mostly in Kyrgyz soms, meanwhile resident legal entities, due to trade relations and settlements in foreign currency, keep monetary funds on their current accounts in foreign currency.

Chart 3.2.8. Dynamics of Commercial Banks' Deposits Flows



The interest rates on time deposits in the national currency remained high demonstrating slight upward trend compared to the indicator as of the end of Q3.

In December 2023, the interest rate on time deposits in the national currency (balances) increased by 0.3 p.p. compared to September 2023 and constituted 12.5 percent (+0.3 p.p. compared to the end of 2022).

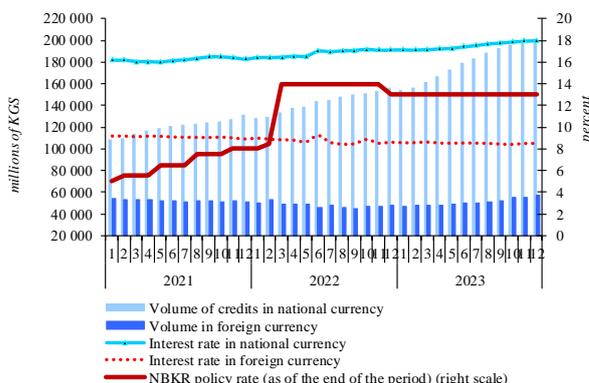
The interest rates on new time deposits in the national currency slightly decreased (-0.02 p.p.), down to 12.3 percent (+0.5 p.p. compared to the end of 2022).

At the end of the reporting period, the concentration index¹ in the deposit market remained unchanged since the beginning of 2023 and amounted to 0.10, which corresponds to the average level of concentration with nine participants with equal shares in the market.

Credit Market

In 2023, lending to the economy demonstrated high growth rates.

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



In 2023, the loan portfolio of commercial banks increased by 26.3 percent since the beginning of the year, amounting to KGS 257.8 billion. The main contribution to the growth of the loan portfolio was made by an increase in loans in national currency by 28.8 percent, to KGS 200.9 billion.

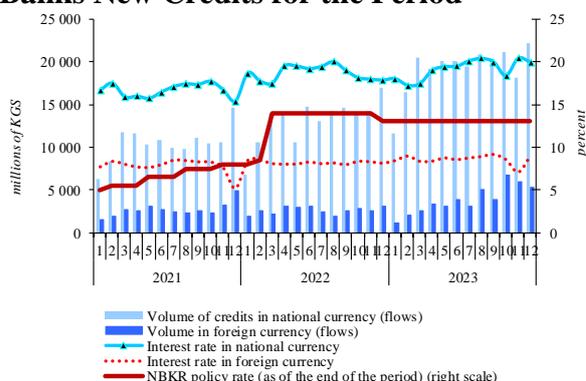
The loan portfolio in foreign currency increased by 18.3 percent, to KGS 56.8 billion. The level of dollarization of the loan portfolio decreased by 1.5 percentage points, to 22.0 percent. The loan portfolio in national currency showed growth above the average annual growth rate over the past 10 years. Almost all sectors demonstrated an

increase. Consumer credits (+68.9 percent), trade (+23.1 percent), agriculture (+14.4 percent) and mortgage (+22.8 percent) were the main sectors, which conditioned faster growth of the credit portfolio compared to the recent years. The intensive growth of consumer lending was conditioned by active development of the banking sector digitalization, along with the improvement of the regulatory framework. In the structure of the credit portfolio in the national currency in the context of persons, 57.4 percent was accounted for the credits of resident individuals (+2.6 p.p. compared to 2022), 42.4 percent – the credits of resident legal entities, the share of non-residents – 0.2 percent. Thus, in the reporting period, the credit portfolio in the national currency increased due to higher growth rates of credits issued to individuals (+34.9 percent compared to 2022).

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

Trade (54.1 percent of the total loan portfolio in foreign currency) was the main sector of lending in foreign currency, resident legal entities (71.1 percent) were the main borrowers.

Chart 3.2.10. Dynamics of Commercial Banks New Credits for the Period



The weighted average interest rate on the credit portfolio in the national currency amounted to 17.96 percent at the end of the year (+0.9 p.p. since the beginning of 2023). The weighted average interest rate excluding consumer credits made 15.98 percent at the end of the year (+0.4 p.p. year-to-date). The weighted average interest rate on credits in foreign currency decreased slightly since December of the previous year (-0.1 p.p.) and made 8.5 percent.

The credit market general concentration index was stable at 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 0.34, which is equivalent to three main credit sectors.

At the end of 2023, there was improvement in the qualitative characteristics of the credit portfolio: the share of overdue credits in the credit portfolio for 2023 decreased down to 2.5 percent (-0.2 p.p.); the share of extended credits decreased down to 4.5 percent (-4.4 p.p.).

3.3. Dynamics of Monetary Indicators

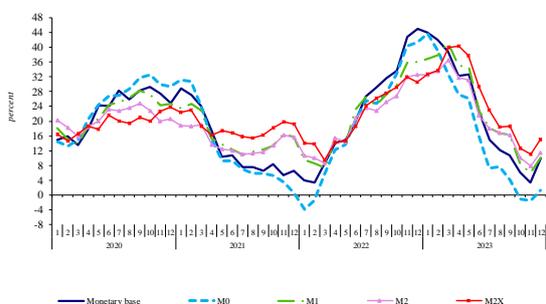
In Q4 2023, there was stable dynamics of slowdown in annual growth rates of reserve money (+9.9 percent against 44.9 percent in Q4 2022). Excess of government authorities' revenue transactions over expenditures was the main factor restraining growth of the monetary base.

In Q4, the monetary base grew by 8.6 percent (KGS+19.8 billion) and amounted to KGS 249.9 billion.

In the structure of the monetary base, the main share of 82.9 percent (as of the end of Q4 2023) is traditionally formed by money in circulation, and the remaining part of 17.1 percent is accounted for the reserves of other deposit corporations.

Monetary Aggregates

Chart 3.3.1. Nominal Growth Rates of Monetary Aggregates
(in annual terms)



During 2023, after accelerated growth dynamics in 2022, monetary aggregates demonstrated significant slowdown in growth rates.

Money outside banks (M0) grew by KGS 5.0 billion (+2.9 percent), up to KGS 178.8 billion compared to Q3 2023 (in annual terms, growth by 1.3 percent). The upward dynamics of monetary aggregates at the end of the reporting quarter was mainly due to growth of transferable deposits in the national currency by KGS 11.4 billion (+10.2 percent compared to the previous quarter). The dynamics of deposits growth in the national and foreign currencies was reflected in the growth of all monetary aggregates:

- narrow money (M1) grew by KGS 16.5 billion (+5.8 percent) compared to the previous period and amounted to KGS 302.4 billion (in annual terms, growth by 10.2 percent);

- *broad money (M2)* increased by KGS 22.7 billion and amounted to KGS 373.6 billion (in annual terms, growth by 11.4 percent);

- *broad money including deposits in foreign currency (M2X)* increased by KGS 27.3 billion and amounted to KGS 510.3 billion at the end of the period (in annual terms, growth by 15.0 percent).

The total volume of the deposit base included in M2X increased by 24.0 percent in annual terms and amounted to KGS 331.5 billion.

Chapter 4. Inflation Dynamics

The downward trend in the annual inflation rate observed since the beginning of 2023 remained stable during the reporting quarter due to the monetary measures taken by the National Bank.

4.1. Consumer Price Index

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

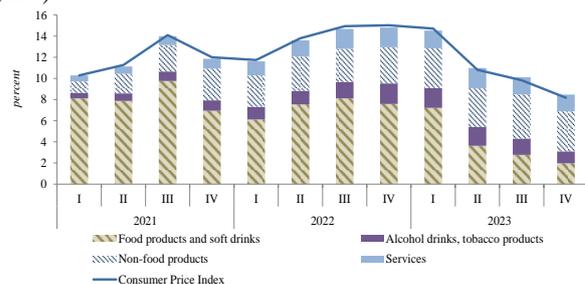


Chart 4.1.2. Dynamics of CPI Contributions
(yea-to-date)

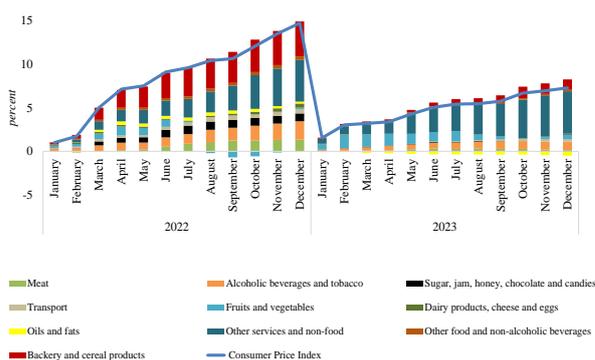
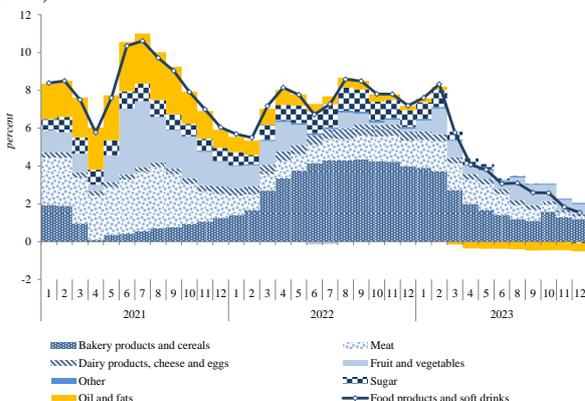


Chart 4.1.3. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



In Q4 2023, price growth slowed down to 8.2 percent from 9.8 percent in Q3 2023 compared to the corresponding quarter of the previous year.

In December 2024, the annual inflation rate was 7.3 percent. The current price level was mainly conditioned the dynamics of prices for imported food and non-food products.

In Q4 2023, contribution of the food products to the CPI decreased by 0.8 p.p. compared to Q3 2023 and amounted to 2.0 p.p. due to gradual decline in prices in the world food markets, as well as introduced temporary measures on government regulation of prices for flour and wheat in the domestic market in October 2023. In the reporting quarter, prices for bakery products and cereals, meat, dairy products, vegetables and fruits made the main upward contribution to the CPI in the commodity group. At the same time, there was a decrease in prices for sugar, oils and fats.

Non-food inflation rate remained high throughout 2023. In Q4 2023, contribution of non-food products to the CPI was 3.8 p.p. in annual terms. In Q4 2023, prices for non-food products increased by 13.1 percent. The abovementioned dynamics reflects geopolitical tension in the world, price fluctuations in the foreign markets of imported goods, as well as the effect of the state tariff policy measures and the current increased domestic demand.

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

(month to the corresponding month of the previous year)

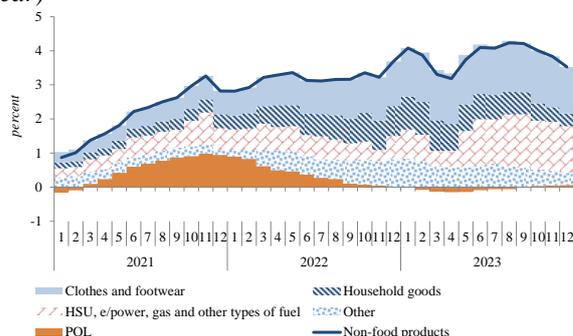
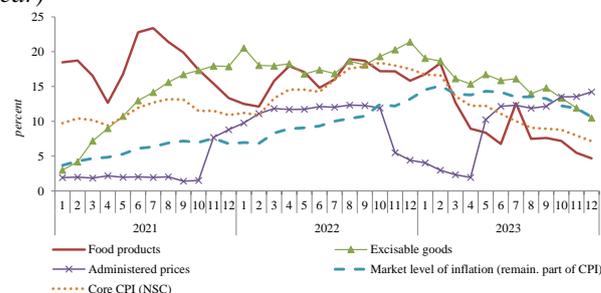


Chart 4.1.5. Dynamics of CPI by Groups of Commodities

(month to the corresponding month of the previous year)



Acceleration of price growth in the groups “clothes and footwear”, “housing services, water, electricity, gas and other fuels” and “household goods and household appliances” had an upward impact on non-food inflation.

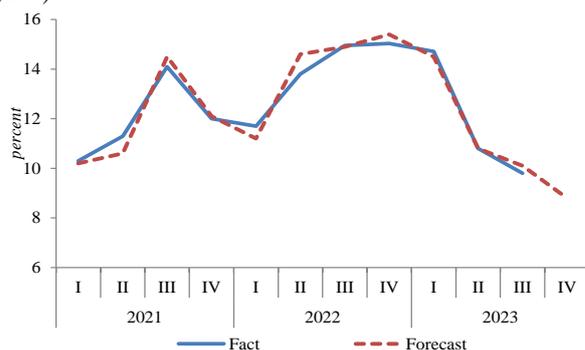
In Q4 2023, growth in prices for paid services was 9.3 percent in annual terms (contribution to the overall CPI constituted 1.6 p.p.). Growth of this group was conditioned by an increase in prices for services in all groups: “miscellaneous goods and services”, “restaurants and hotels”, “education” and “recreation, entertainment and culture” and others.

In Q4 2023, the core inflation compared to the same period of 2022, calculated according to the methodology of the NSC KR, was 8.0 percent. In December 2023, the core inflation growth rate slightly decreased compared to the overall CPI and amounted to 7.1 percent in annual terms.

4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



In Q4 2023, the actual inflation rate slightly decreased compared to the forecasted value expected by the National Bank. Deviation of the actual inflation rate from the forecasted one amounted to 0.6 p.p. due to faster rates of food prices deceleration.

Inflation Expectations

In Q4 2023, according to the surveys of the NSC KR, inflation expectations of the population decreased compared to the previous quarter, however they still remained at a high level. Chart 4.2.2 shows: the gap between expected and actual inflation is positive, which reflects some confidence of the respondents about slowdown of inflationary processes. Despite decline in price expectations among the enterprises, they are still high compared to the actual inflation rate, as shown in Chart 4.2.3.

In Q4 2023, price expectations of the population still exceed the actual inflation rate. The share of respondents expecting accelerated price growth decrease gradually, however it is still

high. High inflation expectations are largely conditioned by the actual inflation rate in Q1 2023, as well as an increase in tariffs for electricity, water, heating and the news about an increase in public transportation fares.

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

(quarter to the corresponding quarter of the previous year)

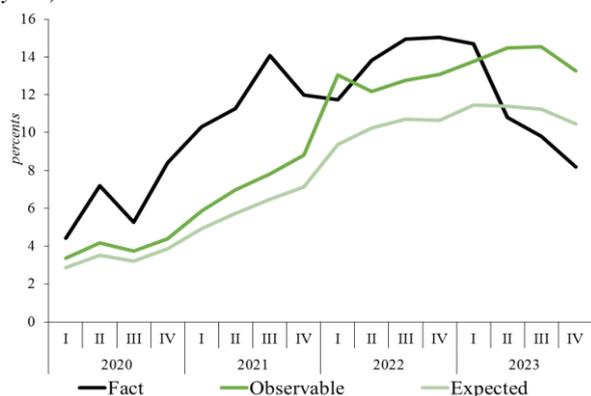
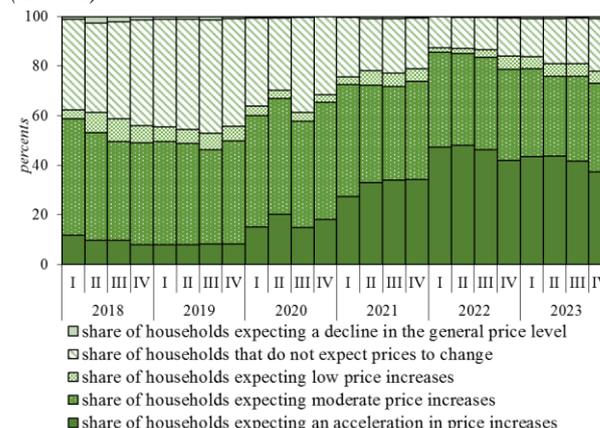


Chart 4.2.3. Distribution of Households' Answers

(shares)



As a result of the study of the World Bank data conducted among 1,500 households in the Kyrgyz Republic regarding inflation expectations (Chart 4.2.4 and Chart 4.2.5) it was revealed that the trend is consistent with the results of the NSC KR surveys. In December 2023, there was a general decrease in households' price expectations.

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

(month to the corresponding month of the previous year)

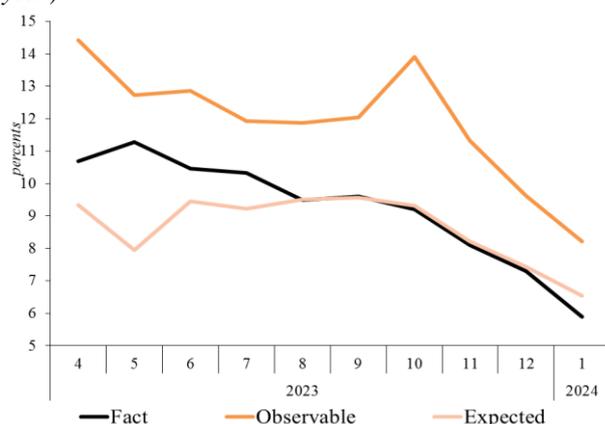
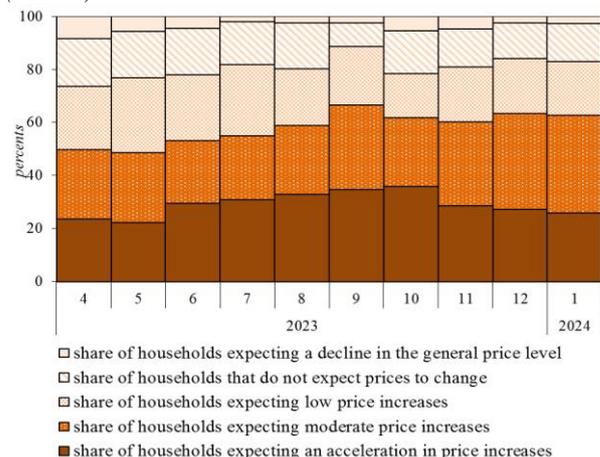


Chart 4.2.5. Distribution of Households' Answers (WB)

(shares)



In Q4, inflation expectations of the enterprises were multidirectional. In October 2023, there was an increase in prices for imported flour, which to some extent affected the enterprises' expectations. However, it is worth noting that inflation expectations decreased in the next month. At the same time, high expectations are explained by the fact that the inflationary environment is formed depending on the intensity of adopted new tariffs by the government authorities, as well as uncertainty worldwide.

High inflation expectations will probably remain unchanged until the first half of 2024.

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

(month to the corresponding month of the previous year)

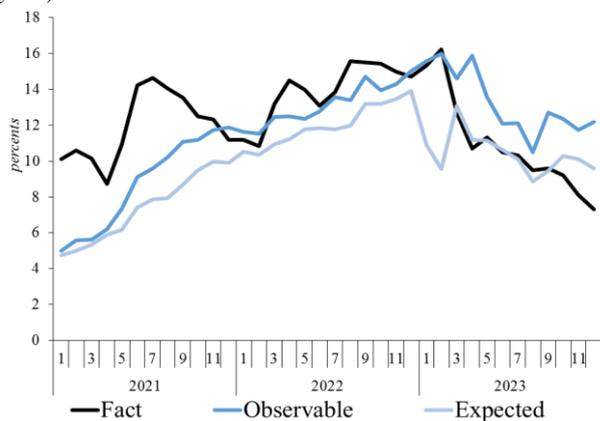
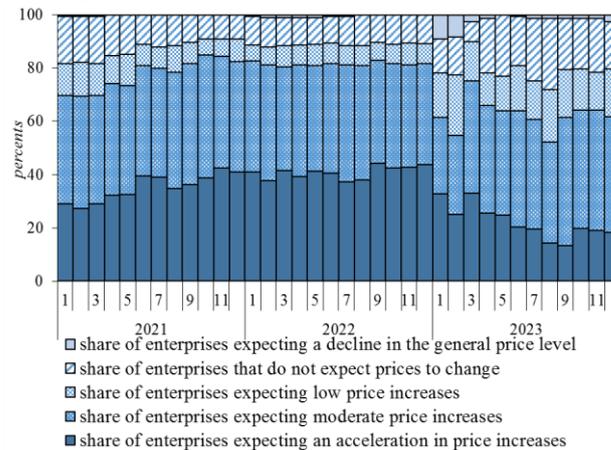


Chart 4.2.7. Distribution of Households' Answers

(shares)



Chapter 5. Medium-Term Forecast

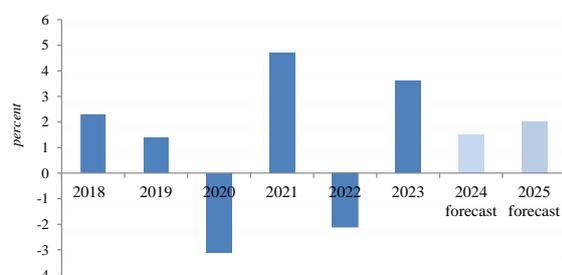
5.1. External Environment Proposals

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

More moderate economic growth is expected in 2024.

According to the Bank of Russia's forecast, in 2024, GDP growth will be stable, however not as fast as in 2023 and is expected at 1.0-2.0 percent through household consumption. In 2025, the economy will return to sustainable growth and is expected at 1.5-2.5 percent, taking into account capacity growth and structural changes.

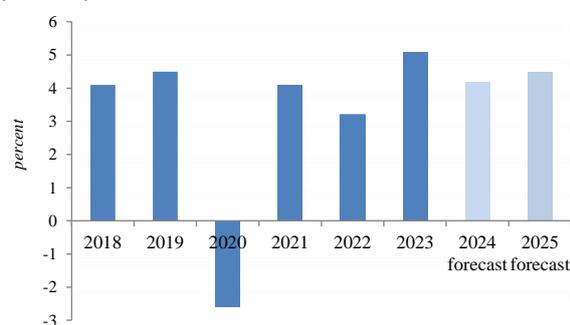
In January 2024, the IMF analysts revised GDP forecast and raised it by 1.5 percentage points compared to the forecast made in October 2023, up to 2.6 percent for 2024. In 2025, the IMF expects GDP at 1.1 percent. The IMF analysts indicate high budget expenditures, active investments and sustainable consumption¹ as growth factors.

Pro-inflationary risks remain significant. Changes in the terms and conditions of foreign trade under the influence of geopolitical tensions, high inflation expectations, growth of lending under tight monetary policy in the conditions of implemented large-scale concessional programs and growth of wages prevailing over an increase in labor productivity under stable tension in the labor market are the factors having upward impact on inflation. The disinflationary risk is faster slowdown in domestic demand compared to expectations in the baseline scenario. According to the Bank of Russia's baseline forecast, tight monetary conditions will result in the inflation rate of 4.0-4.5 percent in 2024.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

Moderate economic growth is forecasted in 2024, with acceleration in 2025.

According to the NBRK forecasts, in 2024, GDP is expected to increase by 3.2-4.2 percent, and 5.5-6.5 percent in 2025 and 2026. Postponed implementation of the TCO FGP/WPMP² project and reduced production output in the agricultural sector in 2023 due to unfavorable weather conditions contributed to a decrease in forecasts for real GDP growth rate for 2024.

Domestic demand, supported by high budget expenditures for construction and upgrading of public utilities made the main contribution to GDP growth in 2024.

The NBRK's forecast for inflation rate remained unchanged at 7.5-9.5 percent in 2024 and 5.5-7.5 percent in 2025. In the first half of 2024, food inflation is expected to

¹ World Economic Outlook (IMF, January 2024)

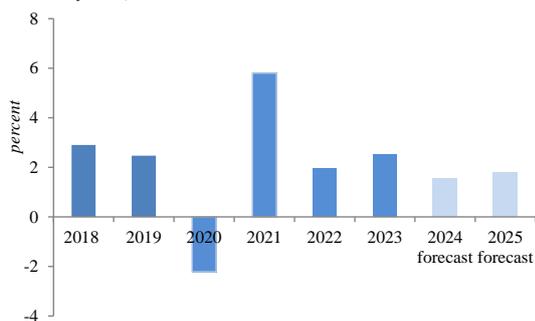
² Future Expansion Project/Wellhead Pressure Management Project (FGP/WPMP) TCO

increase compared to previous forecasts due to the impact of poor harvest in 2023. Services inflation will decelerate more slowly compared to other components in the inflation structure, due to unregulated services, which currently experience catch-up growth in prices, as well as rise in prices for regulated services due to reforms in the housing and utilities sector. However, in 2024, lower actual inflation rate for 2023 compared to previous forecasts will neutralize pro-inflationary factors.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg, international financial institutions

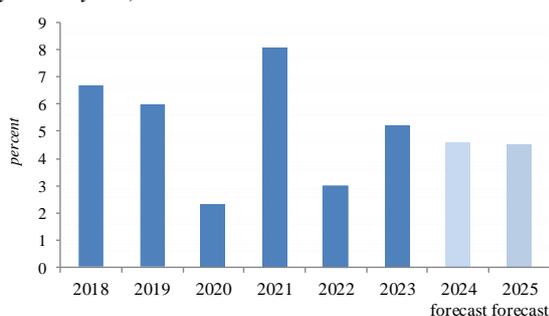
1.7 percent in 2025.

Overall annual inflation demonstrated gradual slowdown, meanwhile, the core inflation remained high (in December 2023, 3.9 percent). The US Federal Reserve System slightly decreased the median forecast of PCE inflation¹ for 2024 from 2.5 percent down to 2.4 percent and for 2025 – from 2.2 percent down to 2.1 percent.

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



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

expectations of the inflation rate for the following years. Thus, according to Bloomberg forecasts, in 2024, the inflation rate is expected at 1.0 percent and 1.7 percent in 2025, after 1.8 percent and 2.0 percent, respectively. In 2024, core inflation will demonstrate acceleration due to recovery in production, however weak domestic demand will still be a constraint for inflation.

5.2. Medium-Term Forecast

The National Bank relies on the results of analysis of macroeconomic modeling and forecasting of various development scenarios in the medium term in monetary

Expectations for GDP growth in the USA during 2023 were near the expected rate. For 2024-2025, economic growth is expected to slow down due to possible decline in the growth rates of private consumption and investment in response to measures taken earlier to tighten monetary conditions.

The US Federal Reserve System forecasts GDP to increase by 1.4 percent in 2024 and 1.8 percent in 2025. Bloomberg analysts expect the average US GDP to increase by 1.5 percent in 2024 and by

China’s GDP forecasts for 2024 were revised upward due to the actual rate of economic growth in 2023, which exceeded the government’s forecasts.

Bloomberg analysts expect China’s GDP to increase by 4.6 percent in 2024 (growth by 4.5 percent was forecasted in the previous quarter), the forecast for 2025 remained at 4.5 percent.

At the same time, the actual average annual inflation rate for 2023 being lower than the forecasted value, decreased the

¹ 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.

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.

In Q4 2023, there was a significant slowdown in inflationary processes. Monetary policy of the National Bank and favorable external conditions in the world food markets contributed to downward dynamics of general inflation in the Kyrgyz Republic. At the same time, the non-food inflation rate remained at the level of double-digit values, being above the inflation targets.

In the reporting quarter, the price environment in the world food and commodity markets remained multidirectional: the FAO price index gradually declined, meanwhile the world prices for energy resources demonstrated volatility amid escalation of conflicts in the Middle East.

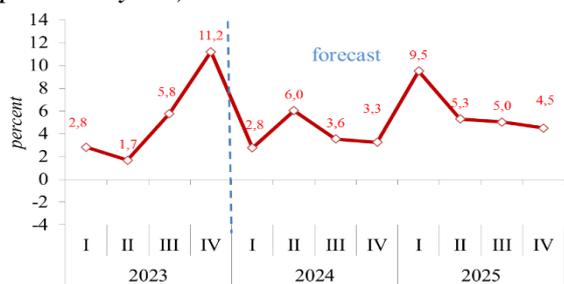
In Q4 2023, business activity in the Kyrgyz Republic demonstrated high indicators. Fiscal policy measures as well as growing consumer lending contributed to an increase in domestic demand.

Monetary conditions contributed to slowdown of inflationary processes in the country with limited restraining effect on economic activity.

Baseline scenario of the medium-term forecast takes into account the following external economic development conditions: stable current geopolitical conditions, trends of moderate slowdown of economic growth in the main countries - trading partners of Kyrgyzstan after intensive economic growth in 2023, preservation of moderate level of prices in the world commodity markets. Domestic factors of development assume stable price expectations of the population and enterprises during the first half of 2024, meanwhile the conditions of the current fiscal policy remain unchanged.

The following forecast of the key macroeconomic indicators of the Kyrgyz Republic for 2024-2025 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.

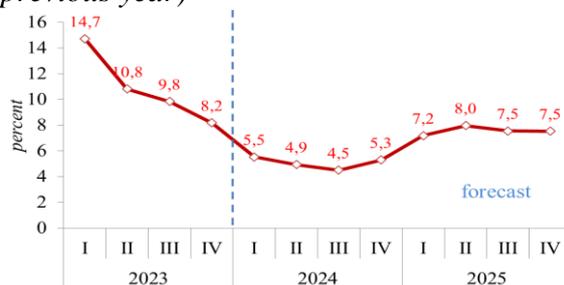
Chart 5.2.1. Forecast of Real GDP
(quarter to the corresponding quarter of the previous year)



At the end of 2024, the real GDP growth is forecasted at about 3.9 percent. The industrial sector will have a positive impact on the dynamics of total GDP. Contribution of agriculture and energy sector to economic growth will be restrained due to expected low-water season.

In 2025, the real GDP growth rates is expected to reach 5.7 percent.

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



In 2024, the inflation rate is expected to enter the medium-term target range. Further deceleration of the food component in the structure of inflation is expected due to the price environment in the world food market. In addition, in the current year, a decrease in the growth rates of prices for food products will be observed amid high statistical base of the previous year.

Prices for non-food group of goods and services will demonstrate slower

downward dynamics of growth rates, which is explained, among other things, by the impact of tariff policy measures taken by the government. The forecast for non-food inflation remains moderately high with gradual decline by the end of 2024.

The following factors will be the main reasons of inflationary pressure: high uncertainty in the world, relatively tight monetary policy of developed countries, planned measures to revise the tariff policy and relatively high inflation expectations of economic agents.

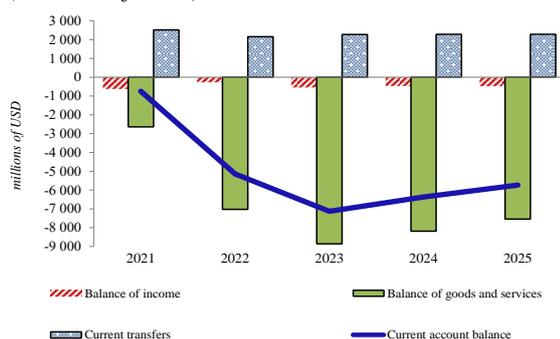
2024-2025 Balance of Payments Forecast¹

Forecast of the country's balance of payments indicators for 2024 was adjusted based on 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 external trade conditions. Assessments of the country's economic growth, as well as economic growth of the main trading partner countries were revised towards deterioration, however, it is worth noting that the external sector is still characterized by a high degree of uncertainty.

At the end of 2024, the negative balance of goods and services account is expected to be a determining factor for the formation of the current account deficit at 45.5 percent to GDP.

Chart 5.2.3. Forecast Data on Current Account

(millions of USD)



Expectations on external trade are adjusted by the data of the actual period. As before, change in the architecture of regional trade, the situation with global food and energy prices, as well as gold exports by the Kyrgyz Republic will significantly influence the exports and imports.

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

In accordance with forecast, at the end of 2024, exports will increase by 29.2 percent compared to 2022. Resumed

supplies of intermediate goods, as well as supplies of consumer goods, will make a significant contribution to an increase in exports.

Imports will remain at a high level despite its slight reduction by 4.5 percent compared to 2023. As before, consumer and intermediate goods will remain prevalent in the structure of imports.

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 increase by 0.4 percent. The inflow of official transfers is expected to grow by 31.1 percent compared to the level of the previous year.

The “services” will develop negative under the influence of persistent high volumes of imports of transport services given the expected commodities turnover; also a decrease in receipts on the item “travels”.

Expected 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 credits of the private sector will remain at higher level compared to the previous year.

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

Revised development forecast of the external sector of the economy in 2024 determined the following vector of expectations for the balance of payments in 2025.

In 2025, the current account balance will be formed at 26.4 percent to GDP under the influence of a combination of factors associated with a slight reduction of the trade deficit decrease of the negative balance of services and persistent positive dynamics in the private transfer inflows.

Expected growth in exports by 3.4 percent is estimated to have a slight impact on the reduction of the trade deficit (by 6.8 percent compared to 2024). Current transfer receipts are assumed to remain unchanged at the level of 2024.

At the same time, it should be noted that in 2025 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 share of capital inflows is expected to be provided through direct foreign investments and other investments to the private sector.

The following risks persist in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2024-2025:

- high degree of geopolitical uncertainty;
- price volatility on the world food, gold and energy markets;
- volatility of exchange rates of the main trading partner countries;
- growing debt burden of the private sector.

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												
1. Demand and supply¹ <i>(real growth rates, if otherwise is not indicated)</i>																	
Nominal GDP, per quarter	mbl. 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	168 137,2	227 481,2	292 245,0	332 881,2	210 822,5	273 978,9	350 607,9	393 489,5
GDP	%	1,9	-10,7	-6,8	-10,3	-4,8	6,3	3,8	13,3	3,4	8,3	8,2	13,2	2,8	1,7	5,8	11,2
Domestic consumption	%	-9,8	-5,4	-12,3	7,8	-1,2	12,3	11,7	32,8	17,5	7,8	13,3	19,3	1,6	11,3	6,8	
Investment	%	23,9	-72,8	-6,2	-30,0	20,6	108,9	6,7	15,2	-9,9	249,0	68,4	10,9	33,3	-35,5	14,5	
Net export	%	-26,0	-65,9	-26,2	15,3	30,9	159,4	46,6	91,7	157,3	570,2	171,0	55,4	13,2	54,4	1,4	
<i>GDP production:</i>																	
Agriculture	%	0,6	0,6	1,0	0,8	1,2	-5,2	-6,7	-2,0	1,5	3,9	8,0	10,8	0,0	0,6	-1,2	4,8
Industry	%	4,9	-2,1	-7,7	-18,0	-15,6	-5,8	0,6	43,9	8,2	22,8	20,2	1,8	8,7	-7,7	-1,0	11,2
Construction	%	-1,1	-11,5	-4,4	-26,4	-20,3	-13,2	-4,0	2,7	-1,4	5,2	-1,0	19,1	2,2	16,4	19,0	5,1
Services	%	0,9	-9,1	-7,5	-2,5	-1,2	6,5	5,8	3,3	1,8	4,6	3,7	8,9	1,4	2,3	2,5	3,0
including trade	%	1,6	-14,7	-10,0	-7,0	-2,7	13,1	8,8	8,0	2,7	5,3	6,9	10,5	1,5	4,3	8,9	7,7
2. Prices²																	
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	108,2
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	107,3
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	108,0
<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	104,3
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	113,1
Alcohol 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	113,1
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	109,3
<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	111,9
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	113,7
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	111,6
3. External sector³ <i>(in percent to GDP)</i>																	
Trade balance	% to GDP	-27,1	-21,6	-17,5	-17,5	-18,3	-18,0	-21,7	-26,2	-34,5	-45,9	-56,5	-56,6	-57,9	-60,2	-57,8	-58,8
Current transaction account	% to GDP	-8,9	-3,9	0,4	4,5	3,5	4,5	-1,0	-8,0	-18,3	-32,1	-43,1	-42,1	-42,9	-46,1	-46,9	-51,1
Export of goods and services	% to GDP	34,1	33,2	32,0	29,7	28,9	36,4	36,8	35,7	34,8	28,3	26,6	29,7	31,6	33,4	36,2	36,6
Import of goods and services	% to GDP	60,5	54,5	50,8	49,4	50,0	57,0	60,8	64,2	71,6	76,2	84,9	87,2	90,0	95,5	97,2	100,1
4. USD exchange rate, as of the end of period																	
	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	88,7100	89,0853
5. Monetary sector																	
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	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	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	15,00
Average interest rates of operations in the interbank credit market, per quarter	%	3,55	3,85	3,79	3,79	4,15	5,32	6,52	6,82	8,85	14,66	13,00	11,99	10,52	11,29	11,64	12,11
<i>of which:</i>																	
of REPO transactions	%	3,55	3,85	3,97	3,84	4,15	5,32	6,52	6,82	8,85	14,66	13,00	11,99	10,52	11,29	11,64	12,11
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	%	3,86	3,94	3,96	4,02	4,37	5,16	6,10	6,57	11,86	13,11	12,82	11,41	10,35	11,57	11,86	11,95
Weighted average yield of 14-day notes, as of the end of period	%	4,07	4,33	4,20	4,49	4,84	5,72	6,54	6,93	11,45	13,57	13,11	12,17	11,27	11,82	12,01	12,01
Weighted average yield of 28-day notes, as of the end of period	%	4,14	4,53	4,37	4,60	4,99	6,08	6,89	7,26	11,09	13,82	13,46	12,57	12,37	12,16	12,11	12,08
Weighted average yield of 91-day notes, as of the end of period	%	4,44	4,63	4,74	4,70	5,28	5,43	7,45	-	8,79	-	15,19	13,81	13,52	13,98	13,88	13,78
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	-	-	-	-	-	-	-	14,67	14,79	14,90
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	9,9
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	1,3
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	10,2
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	11,4
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	15,0

¹ Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic² Source: National Statistics Committee of the Kyrgyz Republic³ Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q4 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.

Monetary policy transmission mechanism is a transmission mechanism that characterizes the process of impact of monetary policy decisions on price dynamics through channels of influence: interest rate, exchange rate, credit and communication channels.

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 depositary corporations are all resident financial corporations, except for the central bank, which main activities are aimed at financial intermediation and which issue obligations included into the national definition of the broad money stock (M2X).

Policy rate is a monetary policy tool, which represents an interest rate set by the central bank and is used as the basic reference point when determining the value of monetary resources in the economy.

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
NEER	Nominal Effective Exchange Rate
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
REER	Real Effective Exchange Rate
ST-Bills	State Treasury Bills
ST-Bonds	State Treasury Bonds
USA	United States of America
VAT	Value Added Tax
WB	World Bank