

Dynamics of Monetary Indicators in January-March 2016

In January-March 2016, the slowdown in economy (according to the preliminary data of the National Statistical Committee) amounted to 4.9 percent (in January-March 2015, the economic growth rate made 6.3 percent). Excluding production of the “Kumtor” Gold Company, the real GDP increased by 1.0 percent (in January-March 2015 – 2.4 percent).

In March 2016, the consumer price index decreased by 1.2 percent, the annual inflation amounted to 0.5 percent (in March 2015 – 8.5 percent). In March 2016, the core inflation¹, amounted to 8.5 percent (in March 2015 – 6.7 percent).

Since the beginning of 2016, the exchange rate decreased by 7.7 percent and amounted to KGS 70.0158 per 1 US dollar at the end of March (in January-March 2015, the exchange rate increased by 8.5 percent).

Since the beginning of 2016, the monetary base decreased by 1.3 percent and amounted to KGS 62.2 billion (in January-March 2015 a decrease made 12.5 percent); particularly, money in circulation decreased by KGS 903.4 billion or by 1.5 percent, whereas the reserves of other depository corporations (ODC) increased by KGS 11.4 million or by 0.1 percent.

The structure of the monetary base in January-March 2016 was as follows:

- the share of money in circulation amounted to 86.9 percent;
- the share of reserves of other depository corporations amounted to 13.1 percent.

In the structure of ODCs' reserves, required reserves decreased by 8.6 percent from the beginning of the year and amounted to KGS 7.5 billion as of the end of March, excessive reserves (after sterilization) increased by 3 times, up to KGS 1.2 billion (in January-March 2015, required reserves increased by 1.6 percent, while excessive reserves decreased by 2 times).

In January-March 2016, changes in the monetary base were mainly caused by the transactions of the National Bank, conditioned by the sterilization operations and foreign exchange interventions, which decreased it by KGS 3.0 billion, and the Government operations, which increased the monetary base by KGS 2.1 billion.

In January-March 2016, the main transactions of the National Bank, affecting the volume of the monetary base, were as follows:

- foreign exchange interventions withdrawn KGS 0.6 billion from circulation;
- sales of 7-day notes of the National Bank contributed to sterilization of KGS 27.3 billion (the average daily volume of sales of the 7-day notes amounted to KGS 2.1 billion);
- gross volume of “overnight” deposits amounted to KGS 220.9 billion (the average daily volume of placement made KGS 3.7 billion);
- gross volume of “overnight” credits made KGS 2.0 billion;
- credit auctions, the gross value of funds issued in January-March 2016 amounted to KGS 1.1 billion;
- volume of credits, issued within the program for conversion of the mortgage loans from foreign currency into the national currency, made KGS 1.9 billion;
- volume of credits issued to the international organizations established by the Kyrgyz Republic jointly with other states as part of Eurasian Economic Union amounted to KGS 350.0 million.

In January-March 2016, the net foreign assets (NFA) grew by 1.6 percent (or by KGS 2.0 billion) mainly due to an increase in the net international reserves by KGS 10.7 billion.

An increase in the net international reserves was due to exchange rate difference after foreign currency conversion, the collateral in foreign currency and other receipts to the budget.

In January-March 2016, gross international reserves in dollar terms increased by USD 167.5 million and amounted to USD 1.9 billion.

Net domestic assets (NDA) increased by KGS 2.9 billion (or 5.1 percent) in January-March 2016. A decrease in NDA was mainly caused by an increase in the net claims on the commercial

¹ Food products and electric energy, gas, other types of fuel shall be completely excluded from total inflation.

banks by KGS 6.9 billion and an increase of the Government deposits by KGS 3.9 billion. The NDA decrease was caused by an increase of capital accounts by KGS 11.7 billion, by transfer of the National Bank revenue to the state budget of the Kyrgyz Republic and revaluation of gold and foreign currency assets.

Changes in Monetary Aggregates

Monetary aggregate M2, which consists of money outside banks and deposits in the national currency², increased by 3.4 percent in January-March 2016 and made KGS 85.0 billion (in January-March 2015 it decreased by 11.9 percent).

In January-March 2016, *broad money M2X* decreased by 5.4 percent and made KGS 135.4 billion (M2X decreased by 3.8 percent in January-March 2015) due to decrease in deposits of other depository corporations by KGS 7.5 billion (or 8.3 percent); money outside banks made KGS 52.9 billion.

In January-March 2016, the structure of broad money M2X has not changed significantly and is as follows:

- the share of money outside banks – 39.0 percent (as of 01.04.2015 – 38.8 percent);
- the share of deposits in the national currency – 23.7 percent (as of 01.04.2015 – 24.0 percent);
- the share of deposits in foreign currency – 37.2 percent (as of 01.04.2015 – 37.2 percent).

Since the beginning of 2016, the deposits in the foreign currency decreased by 17.2 percent and made KGS 50.4 billion, without regard to the exchange rate changes by 10.4 percent, the deposits in the national currency increased by 10.3 percent, up to KGS 32.2 billion. As a result, total volume of deposits³, in January-March 2016 decreased by 8.3 percent and made KGS 82.6 billion (in January-March 2015, an increase made 2.9 percent).

As of the end of March 2016, the level of dollarization of deposits included in M2X amounted to 61.0 percent, having decreased by 6.6 percentage points as compared to the level at the beginning of the current year. The level of dollarization of credits amounted to 45.8 percent (a decrease made 7.9 percent).

*Credit to economy*⁴ in January-March 2016 decreased by 3.1 percent and made KGS 93.2 billion (in January-March 2015, an increase made 12.0 percent) mainly due to a decrease in credits in foreign currency by 17.4 percent, without regard to the exchange rate changes, it increased by 1.9 percent.

In January-March 2016, net foreign assets of the banking system decreased by KGS 6.8 billion (by 5.1 percent) and made KGS 127.7 billion (in January-March 2015, a decrease made 8.0 percent).

As of the end of March 2016, net domestic assets (NDA) of the banking system amounted to KGS 7.8 billion, having decreased by KGS 0.9 billion or by 10.2 percent from the beginning of 2016 (in January-March 2015, an increase made 24.4 percent) due to an increase in the net claims on the Government by KGS 4.7 billion or 27.5 percent and reduction of claims on other sectors by KGS 3.0 billion.

As of the end of March 2016, the Board of the National Bank of the Kyrgyz Republic decided to decrease the policy rate by 200 basis points to 8.00 percent (it was kept at the level of 11.00 percent at the end of March 2015). The rates for upper and lower limits of the interest rate corridor for “overnight” credits and deposits depended on the decisions made with regard of the policy rates. At the end of March 2016, the rates of the interest rate corridor for the “overnight” credits made 10.00 percent and for the “overnight” deposits – 1.00 percent (at the end of March 2015, 14.00 and 5.00 percent, respectively).

² Deposits of individuals and legal entities, and other financial-credit institutions except for deposits of the Government and non-residents.

³ Deposits included into M2X broad money.

⁴ Loans to individuals and legal entities, and other financial-credit institutions except for loans to the Government and non-residents.

As of the end of March 2016, the yield on 7-day notes amounted to 2.18 percent. In March 2016, the average weighted interest rate of REPO operations in the interbank credit market made 7.06 percent (for a term of 7 days).

As of April 1, 2016, the multiplier of broad money M2X⁵ amounted to 2.047, the multiplier M2 – 1.285 (as of April 1, 2015 – 2.122 and 1.286, respectively).

As of the end of March 2016, coefficient of the economy monetization, calculated by the monetary aggregate M2X, amounted to 31.4 percent, by the monetary aggregate M2 – 18.8 percent (in January-March 2015 – 29.9 and 20.4 percent, respectively).

Money velocity

At the end of March 2016, the velocity of money circulation made 3.18 (under M2X).

In January-March 2016, receipt of cash in the cash department of the National Bank amounted to KGS 15.7 billion; in comparison with the corresponding period of 2015, the amount decreased by KGS 2.1 billion (or 11.9 percent), money issuances increased by KGS 4.7 billion (or 47.5 percent) and amounted to KGS 14.8 billion.

In January-March 2016, receipt of cash in the cash departments of the commercial banks amounted to KGS 240.1 billion; in comparison with the corresponding period of the previous year, the amount increased by KGS 22.4 billion (or 10.3 percent), money issuances increased by KGS 30.1 billion (or 14.3 percent) and amounted to KGS 241.0 billion.

In January-March 2016, the level of financial risks in the payment system was kept to a minimum. A turnover ratio at the end of March 2016 amounted to 0.99, a liquidity ratio – 1.01 (in comparison with the previous period, it increased by 110.7 percent and decreased by 52.5 percent, respectively).

⁵ This indicator characterizes the level of financial intermediation.