

## Dynamics of Monetary Indicators in January-February of 2016

In January-February of 2016, the slowdown in economy (according to the preliminary data of the National Statistical Committee) amounted to 7.8 percent (in January-February of 2015 the growth rate amounted to 8.9 percent), excluding production of the “Kumtor” Gold Company, real GDP decreased by 0.1 percent (in January-February of 2015, it increased by 2.9 percent).

In January-February of 2016, the consumer price index decreased by 0.3 percent, at the same time the annual inflation made 1.3 percent in February (in February of 2015, the annual inflation made 11.0 percent). The core inflation<sup>1</sup> amounted to 8.1 percent in February of 2016 in annual terms (in February of 2015– 8.2 percent in annual terms)

From the beginning of 2016, the official exchange rate of US dollar against KGS decreased by 2.2 percent and amounted to KGS 74.2525 per 1 US dollar (in January-February of 2015, it increased by 4.1 percent).

In January-February of 2016, the monetary base decreased by 7.5 percent and amounted to KGS 62.0 billion (in January-February of 2015 it decreased by 10.2 percent); particularly, money in circulation decreased by KGS 5.2 billion or by 8.9 percent when the reserves of other depository corporations (ODC) increased by KGS 0.2 billion or by 1.9 percent.

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

- the share of money in circulation amounted to 85.8 percent;
- the share of reserves of other depository corporations amounted to 14.2 percent.

In the structure of ODCs' reserves, required reserves decreased by 5.5 percent from the beginning of the year and amounted to KGS 7.8 billion as of the end of February, excessive reserves (after sterilization) increased by 142.7 percent, to KGS 1.0 billion (in January-February of 2015, obligatory reserves increased by 0.6 percent, while excessive reserves increased by 10.8 percent).

A decrease in the monetary base was mainly caused by transactions of the National Bank to KGS 3.9 billion, conditioned by sterilization operations and foreign exchange interventions, and Government operations to KGS 1.1 billion.

In January-February of 2016, the monetary base was mainly influenced by the following operations of the National bank of the Kyrgyz Republic:

- foreign exchange interventions withdrawn KGS 5.9 billion from circulation ;
- average daily volume of sales of 7-day notes of the National Bank amounted to KGS 2.2 billion
- gross volume of “overnight” deposits amounted to KGS 76.4 billion and average daily volume of their placement – to KGS 2.0 billion;
- net expenses of the National Bank increased the monetary base by KGS 163.0 million;
- volume of credits within the program for conversion of mortgage loans from the foreign currency into the national currency made KGS 1.7 billion;
- volume of credits issued to 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-February of 2016, the net foreign assets (NFA) decreased by 1.2 percent (or by KGS 1.5 billion) mainly due to decrease in other foreign assets by KGS 4.2 billion. Net international reserves (NIR) in the structure of net foreign assets increased by KGS 2.5 billion or by 2.3 percent.

In January-February of 2016, gross international reserves in dollar terms increased by USD 16.0 million and amounted to USD 1,795.6 million.

Net domestic assets (NDA) decreased by 6.3 percent or by KGS 3.6 billion in January-February of 2016 (it decreased by 7.2 percent within the same period of the last year). A decrease in NDA was mainly caused by increase in Government deposits by KGS 4.2 billion and increase of net claims on commercial banks by KGS 0.8 billion. The NDA increase was caused by increase of capital accounts by KGS 2.9 billion, which is related to revaluation of gold and foreign currency assets.

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

## Change in Monetary Aggregates

*Monetary aggregate M2*, which consists of money outside banks and deposits in the national currency<sup>2</sup>, decreased by 7.0 percent in January-February of 2016 and made KGS 76.5 billion (in January-February of 2015 it decreased by 9.3 percent)

Broad money M2X decreased by 7.7 percent in January-February of 2016 and made KGS 132.1 billion due to decrease in deposits both in the foreign currency by 8.7 percent and in the national currency by 2.8 percent; money outside banks decreased by 9.4 percent (M2X decreased by 4.5 percent in January-February of 2015).

The structure of broad money M2X is as follows:

- the share of money outside banks – 36.5 percent (as of 01.03.2015 – 38.8 percent);
- the share of deposits in the national currency – 21.5 percent (as of 01.03.2015 – 24.0 percent);
- the share of deposits in the foreign currency – 42.1 percent (as of 01.03.2015 – 37.2 percent).

Deposits in the foreign currency decreased by 8.7 percent and made KGS 55.6 billion, without regard to the exchange rate changes by 6.6 percent, deposits in the national currency decreased by 2.8 percent, to KGS 28.3 billion. As a result, total volume of deposits<sup>3</sup> in January-February of 2016 decreased by 6.8 percent and made KGS 83.9 billion (in January-February of 2015, it increased by 0.2 percent).

As of the end of February 2016, the level of dollarization of deposits included in M2X amounted to 66.2 percent, having decreased by 1.4 percentage points as compared to the level at the beginning of the current year.

*Credit to economy*<sup>4</sup> in January-February of 2016 decreased by 1.3 percent and made KGS 95.0 billion mainly due to decrease in credits in foreign currency by 12.0 percent, without regard to the exchange rate changes, it increased by 1.0 percent (in January-February of 2015, the credit in economy increased by 0.6 and decreased by 1.6 percent, respectively).

In January-February of 2016, net foreign assets of the banking system decreased by KGS 6.7 billion (by 5.0 percent) and made KGS 127.8 billion (it decreased by 3.3 percent in similar period of last year).

As of the end of February 2016, net domestic assets (NDA) of the banking system amounted to KGS 4.3 billion, having decreased by KGS 4.3 billion or by 50.3 percent from the beginning of 2016 (it decreased by 12.3 percent in the similar period of the last year) due to increase in Government deposits by KGS 4.3 billion or 17.6 percent and reduction of claims on other sectors by KGS 1.2 billion.

As of the end of February 2016, the policy rate was set at the level of 10.0 percent in accordance with the decision of the Board of the National bank of the Kyrgyz Republic (it was 11.0 percent at the end of February 2015). With this regard, rates for upper and lower limits of the interest rate corridor for “overnight” credits and deposits were set at the level of 12.00 and 4.00 percent, respectively (it made 12.00 and 5.00 percent respectively at the end of February 2015).

As of the end of February 2016, the yield on 7-day notes amounted to 9.89 percent. The average weighted interest rate of REPO operations in the interbank credit market in February 2016 made 11.31 percent (for a term of 7 days).

As of March 1, 2016, the multiplier of broad money M2X, which characterizes the degree of financial intermediation, amounted to 2.130, the multiplier M2 – 1.233 (as of March 1, 2015 – 2.056 and 1.292, respectively).

As of the end of February, coefficient of the economy monetization, calculated by the monetary aggregate M2X, amounted to 31.2 percent, by the monetary aggregate M2 – 18.6 percent (as of the end of February 2015 – 31.1 and 20.8 percent, respectively).

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

<sup>3</sup> Deposits included into M2X broad money.

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

## **Velocity of Money Circulation**

At the end of February 2016, the velocity of money circulation made 3.2 (under M2X).

Within January-February of 2016, receipt of cash in the cash departments of the National Bank amounted to KGS 12.3 billion, in comparison with the corresponding period of 2015, the amount increased by KGS 18.3 million, or 0.7 percent, issuances increased by KGS 1.5 billion, or 27.6 percent, and amounted to KGS 7.1 billion.

In January-February of 2016, receipt of cash in cash departments of commercial banks amounted to KGS 154.1 billion; in comparison with the corresponding period of the previous year, the amount increased by KGS 19.2 billion, or 14.2 percent, issuances increased by KGS 20.9 billion, or 16.1 percent, and amounted to KGS 150.0 billion.

In January-February of 2016, the level of financial risks in the payment system was kept to a minimum. A turnover ratio at the end of February amounted to 0.47, a liquidity ratio – 2.14.