

The National Bank of the Kyrgyz Republic

Inflation Report

3 (21)

November 2006

Bishkek

Inflation Report

Editorial Board:

Chairman: Ishenbaev M.
Board members: Tsyplakova L.
Ilebaev N.
Chokoev Z.

Executive secretary: Balbakova Ch.

Please address your questions regarding the content of the publication to:

The National Bank of the Kyrgyz Republic
at 101 Umetaliev St., Bishkek city

telephone: (996 312) 669 059
fax: (996 312) 610 730
email: chbalbakova@nbkr.kg

Please address your questions regarding the distribution of the publication to:

The National Bank of the Kyrgyz Republic
External and Public Relations Division
at 101 Umetaliev St., Bishkek city

telephone: (996 312) 669 009
fax: (996 312) 610 730
email: aaibalaeva@nbkr.kg
<http://www.nbkr.kg>

The publication contains the description of consumer price trends in the republic and its regions, analysis of major inflation factors, it also advises of the decisions of the National Bank of the Kyrgyz Republic in the area of monetary policy and presents inflation projection for the upcoming period. It is published on a quarterly basis in the Kyrgyz, Russian and English languages.

The deadline for updating data of the publication is October 31, 2006.

Founder: The National Bank of the Kyrgyz Republic.

The publication was registered with the Ministry of Justice of the Kyrgyz Republic, mass media registration certificate # 628.

Prepared for publication and printed by «UnitPrint» publishing center
Number of copies printed –300.

© The National Bank of the Kyrgyz Republic, 2006.

The publication shall not be subject to reproduction and distribution in any form and by any means without the consent of the National Bank of the Kyrgyz Republic. Upon reprinting and translation of extracts, the following reference to «Inflation Report», issued by the National Bank of the Kyrgyz Republic, shall be mandatory.

Publications of the National Bank of the Kyrgyz Republic

Annual Report of the National Bank of the Kyrgyz Republic

The publication is the statement of the National Bank for the past year. It contains a brief information on the republic's economic development and monetary policy pursued by it, also financial statements of the National Bank, and general information about the NBKR and statistic supplements. It is issued in 3 languages: Kyrgyz, Russian, and English.

Bulletin of the National Bank of the Kyrgyz Republic

This informational publication contains statistic data on major macroeconomic indicators and sectors of economy of the Kyrgyz Republic. It is issued in 3 languages: Kyrgyz, Russian, and English.

Balance of Payments of the Kyrgyz Republic

«*Balance of Payments of the Kyrgyz Republic*» reflects external sector development trends. It contains tables with statistic data of the payment balance, on foreign trade, international reserves, external debt, international investment position of the Kyrgyz Republic. It provides methods and information base for preparation of the balance of payments. It is published quarterly in January, May, July, October in the Kyrgyz, Russian, and English languages.

Banking System Development trends

This publication provides analysis of the banking system of the Kyrgyz Republic as a financial intermediary with a view to identifying threats and constraints for achievement and maintaining a stable banking system as a whole and with regard to its component elements. It is published with a semiannual frequency in the Kyrgyz, Russian, and English languages.

Statutory Acts of the National Bank of the Kyrgyz Republic

The publication is intended for official publication of the National Bank's statutory acts to provide normative documents and inform commercial banks and community of the NBKR's activity, and promote banking legislation of the Kyrgyz Republic. It is published, as a rule, once a month in Kyrgyz and Russian.

Press release of the National Bank of the Kyrgyz Republic

«*Press release of the NBKR*» contains the chronicle of events related to the National Bank and banking system, major data of the financial market for a week and other information for mass media, legal entities and individuals. It is published on a weekly basis in Kyrgyz and Russian.

CONTENTS

1. CURRENT TRENDS	5
2. CONSUMER PRICE INDEX AND ITS COMPONENTS	6
2.1. CONSUMER PRICE INDEX COMPONENTS	6
2.2. CONSUMER PRICE DYNAMICS IN THE REGIONS	8
3. INFLATION FACTORS	9
3.1. MONETARY AGGREGATES	9
3.2. INTEREST RATES	11
3.3. EXCHANGE RATE	13
3.4. DEMAND AND SUPPLY	14
4. KEY DECISIONS ON MONETARY POLICY	17
4.1. KEY DECISIONS OF THE BOARD	17
4.2. KEY DECISIONS OF THE MONETARY REGULATION COMMITTEE	17
4.3. INFLATION EVALUATION FOR THE FOURTH QUARTER OF 2006.....	18

1. CURRENT TRENDS

According to the preliminary data of the National Statistic Committee, for 9 months of 2006, the gross domestic product has increased by 3.2 percent relative to a corresponding period of 2005. Its growth, not taking into account Kuntor gold-mining products, was 6.1 percent. The value added increase was mainly provided by services and agriculture. We can observe the decline in the industry, the share of which to GDP fell by 1.7 percent (by 1.3 percent for a half year), against the level of the corresponding period of the past year.

As per the preliminary data of the National Statistic Committee, the deficit of the trade balance of the Kyrgyz Republic for the 3rd quarter increased and totaled US\$ 301.2 mln. The foreign trade turnover in FOB prices rose by 52.3 percent. The trade turnover with CIS and foreign countries increased by 46.1 and 59.4 percent, respectively. Exports of goods in FOB prices rose by 19.3 percent, with the imports of goods having increased by 71.3 percent.

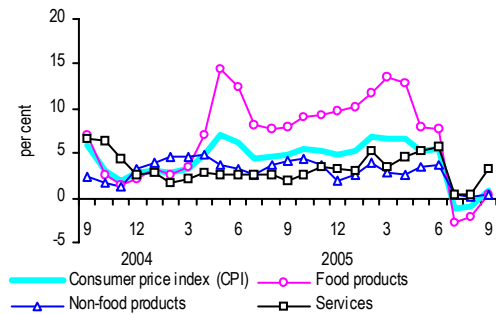
An average level of interest rates in the interbank credit market for the 3rd quarter did not change and made 3.1 percent on REPO transactions, whereas the interest rate on interbank loans in the national currency grew up to 3.5 percent or by 0.3 percentage points.

As of the end of September, a weighted average interest rate on all the types of state treasury bills was 9.0 percent, having fallen as compared to the beginning of the quarter by 1.8 percentage points. An average level of yield in the third quarter in comparison with the second quarter increased by 10.2 percent or by 1.6 percentage points.

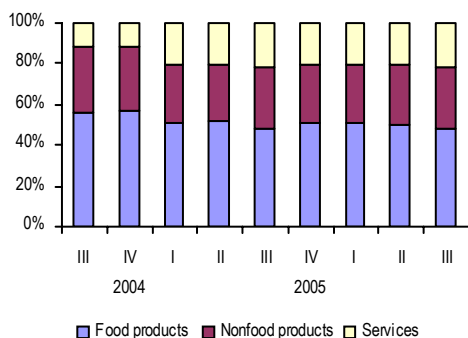
As per the National Bank's estimate, in the fourth quarter of 2006, the consumer price growth is expected at 2.7 – 3.1 percent.

2. CONSUMER PRICE INDEX AND ITS COMPONENTS

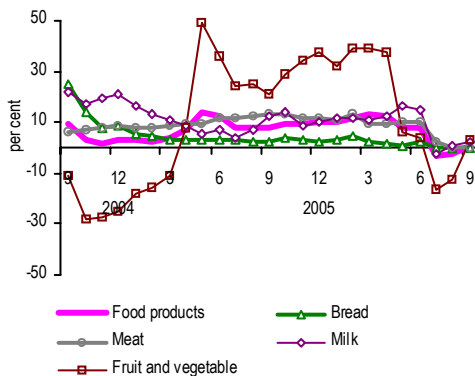
2.1. CONSUMER PRICE INDEX COMPONENTS



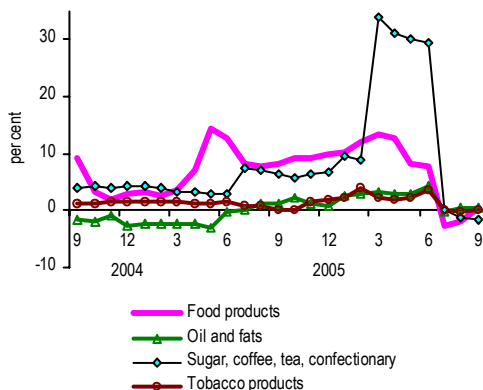
Picture 2.1. Annual dynamics of CPI



Picture 2.2. CPI structure



Picture 2.3a. Annual dynamics of prices for food products



Picture 2.3b. Annual dynamics of prices for food products

In the third quarter of 2006, a traditional for this period decline in prices was noted. According to the data of the National Statistic Committee, the consumer price index decline in the third quarter of 2006 was 1.5 percent.

The deflation was caused by a seasonal price fall for food products, in particular, for agricultural products. Reduction in prices for food products in the third quarter of 2006 was 4.4 percent. The prices for non-food products rose by 0.9 percent and those for paid services – by 3.9 percent.

2.1.1. Food products

Price dynamics for food products in the third quarter of 2006 was formed under the influence of price decline for the following group of products: «fruit and vegetables», «sugar and confectionary», and «meat».

Since the entry of this year's harvest of vegetables and fruit into the market, their prices have fallen by 24.5 percent for the 3d quarter. The prices for fruit and vegetable products in September (by December 2005) dropped by 6.5 percent (the prices had grown by 2.2 percent for the similar period of 2005), also vegetables rose in prices by 2.8 percent, with fruits having fallen in prices by 18.0 percent. According to the data of the NSC, the gross output of agricultural, hunting and forestry products for 9 months of the current year has increased by 2.8 percent in comparison with the corresponding period of 2005. As for instance, production of potato rose by 15.1 percent, fruit and melons and gourds increased by 31.9 and 15.1 percent respectively, with the production of vegetables remaining approximately at the level of 9 months of 2005.

However, growing exports of plant products to neighboring countries have become an additional factor that has strengthened the price increase. The prices for meat and meat products continue dynamically growing (the prices have gone up since the beginning of the year by 8.4 percent), for oil and fats (by 5.8 percent), for baked products and cereals (by 2.4 percent). The price for sugar accounts for the major growth

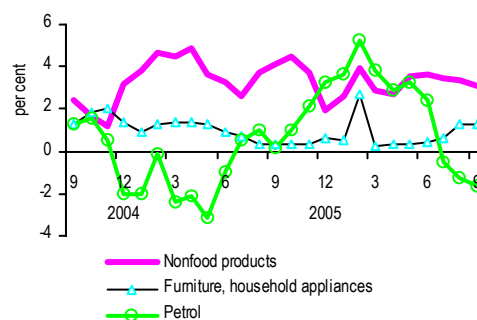
since the beginning of the year (by 28.3 percent). The increase in sugar prices occurred mainly in the first quarter, and it further slowed down.

2.1.2. Nonfood products

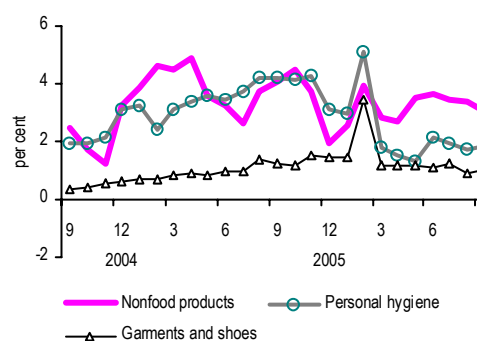
The price index for nonfood products in the third quarter of 2006 rose by 0.9 percent. The biggest price increase was recorded for the following items: «fuels and lubricants» (by 8.4 percent), «cleaning, mending and leasing of garments» (by 7.3 percent). The prices for garments and shoes also increased (by 0.5 percent), as well as those for household items (by 0.6 percent).

2.1.3. Services

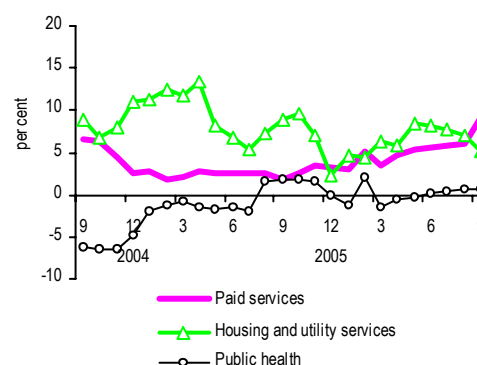
The price index for paid services in the third quarter of 2006 grew by 3.9 percent. In particular, the prices for educational services substantially increased (by 15.0 percent), and the following services rose in prices: communication services (by 1.0 percent) and services on organization of cultural events (by 0.9 percent).



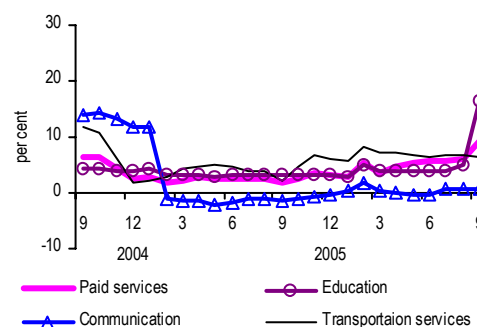
Picture 2.4a. Annual dynamics of prices for nonfood products



Picture 2.4b. Annual dynamics of prices for nonfood products

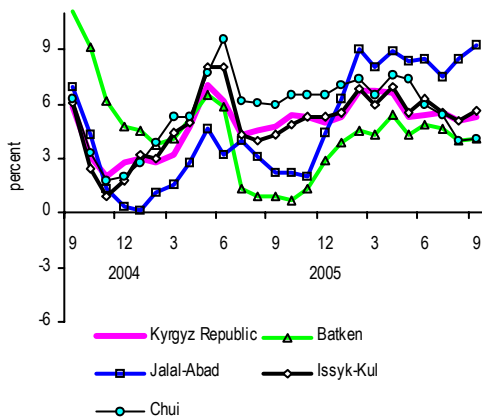


Picture 2.5a. Annual dynamics of prices for paid services

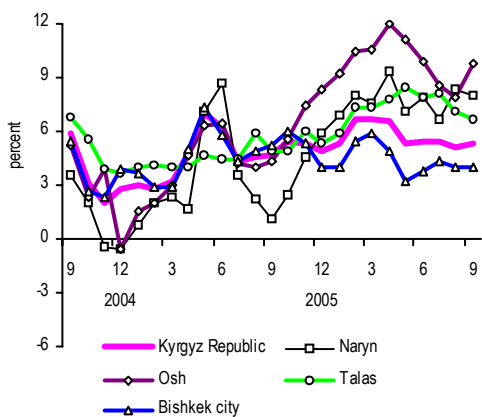


Picture 2.5b. Annual dynamics of prices for paid services

2.2. CONSUMER PRICE DYNAMICS IN THE REGIONS



Picture 2.6a. CPI annual dynamics by oblasts



Picture 2.6b. CPI annual dynamics by oblasts

In the third quarter of 2006, in almost all the regions, except for Jalalabat oblast, the decline in prices could be observed. In Jalalabat oblast, the prices increased by 0.7 percent, including the prices for food products, which went up by 0.4 percent, and those for non-food products having risen by 2.1 percent.

The biggest price fall was noted in Naryn (by 5.2 percent) and Issyk-Kul (by 2.9 percent) oblasts due to a considerable price reduction for food products - by 11.3 and 7.0 percent correspondingly.

In the city of Bishkek, the prices declined by 1.4 percent, at the same time, the prices for food products fell in prices by 4.4 percent, with the prices for nonfood products and paid services having increased by 0.4 and 4.9 percent respectively.

3. INFLATION FACTORS

3.1. MONETARY AGGREGATES

3.1.1. Monetary base

The monetary base for the 3rd quarter of 2006 increased by 14.7 percent. Relative to September 2005, the monetary base growth was 40.1 percent.

The monetary base increased by 2492.3 mln. soms, also owing to the transactions of the National Bank - by 2560.2 mln. soms. The transactions of the Ministry of Finance reduced the volume of reserve money by 67.9 mln. soms.

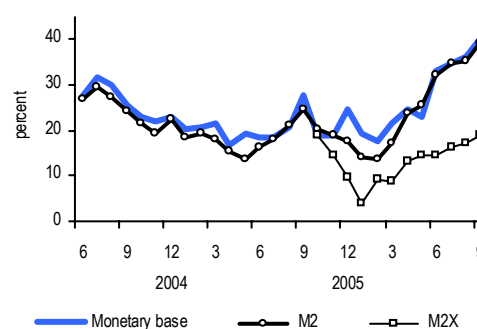
Money in circulation rose by 14.2 percent; relative to September 2005, the money in circulation growth was 39.5 percent. It is substantially higher than the growth rate for similar period of the past year (by 5.5 and 18.6 percent respectively).

The share of money in circulation was reduced in the monetary base structure (by 0.3 percentage points) and made up 87.9 percent as of the end of September, 2006. Accordingly, the share of funds on correspondent accounts of commercial banks in the National Bank grew up to 12.1 percent.

3.1.2. M2 Aggregate

The growth in the M2X monetary aggregate- broad money in the national currency- was 14.6 percent for the 3rd quarter of 2006 (in the third quarter of 2005, the increase was 6,5 percent). Relative to September 2005, M2 rose by 39.4 percent (relative to September, 2004 it grew by 24.8 percent).

Deposits in the national currency increased by 16.0 percent (in the third quarter of 2005, the growth was 21.5 percent), including the growth in transferable deposits, which worked out at 19.7 percent (in the third quarter of 2005, the increase made 11.0 percent), and other deposits – 7.6 percent (in the third quarter of 2005, the growth was 47.8 percent). Relative to September of 2005, deposits in the national currency rose by 39.0 percent.



Picture 3.1. Monetary Aggregates, percentage changes on a year earlier

3.1.3. M2X Aggregate

M2X monetary aggregate, which includes deposits in the foreign currency, grew by 13.7 percent for the reporting period. At the same time, commercial banks' deposits¹ and cash outside banks rose by 12.8 and 14.3 percent respectively. Deposits in the foreign currency showed an increase of 10.8 percent in the third quarter of the current year (in the second quarter of the current year it amounted to 5.5 percent), which was slightly lower than the level of the third quarter of the past year (11.1 percent).

There were no significant changes in the M2X monetary base structure for the reporting quarter:

Structure of M2X monetary aggregate	Share, percent	
	II quarter	III quarter
Cash outside banks, including:	59.9	59.9
- deposits in the national currency	15.6	15.4
- deposits in the foreign currency	24.6	24.5

As in the second quarter, the major reason that caused M2X monetary aggregate growth was the increase in net foreign assets (NFA) of the banking system, first of all, due to the increase in the NBKR's net international reserves, and also in net domestic assets (NDA) of the banking system, as well as due to the growth in loans granted to the economy.

The broad money multiplier that characterizes the level of financial intermediation was 1.4 (as of the end of the 2nd quarter it amounted to 1.42).

Circulation velocity of $\frac{1}{2}$ broad money has slightly changed and made 4.8 (as of the end of the 2nd quarter it was 4.7).

The value of the economy monetization rate, calculated on M2X monetary aggregate, dropped for the reporting period from 21.1 to 20.7 percent of GDP.

¹ Taking into account the data of commercial banks, whose licenses have been revoked but the liquidation process has not been completed.

3.2. INTEREST RATES

3.2.1. Money market

At the beginning of the third quarter, there was a slight increase in the cost of borrowed reserves from 3.3 to 3.5-3.6 percent observed in the interbank credit market in REPO transactions segment due to the reduction in cash supply. The interest rate on REPO transactions remained at this level till the end of the quarter.

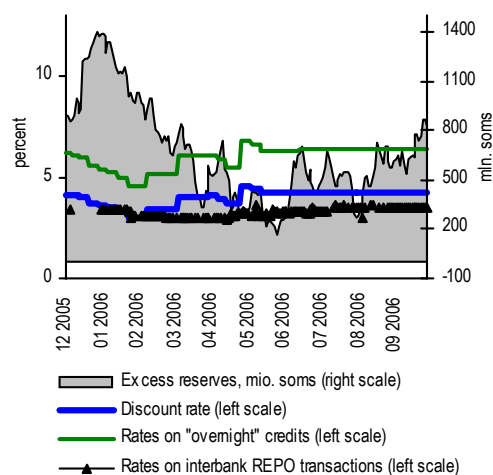
As in previous periods, the dynamics of the interbank credit cost in the national currency corresponded to the fluctuations of rates on REPO interbank transactions. At the same time, in this currency market segment, as it was in the second quarter, several deals at low interest rates were made with noncash US dollars being pledged as security (from 0.0 to 2.0 percent - in the third quarter and 2.0 percent - in the second quarter).

On average, the level of interest rates in the reporting quarter at the interbank credit market in the national currency as compared to the previous quarter did not change and made 3.1 percent, as for the REPO transactions, the interest rates increased by 3.5 percent or by 0.3 percentage points.

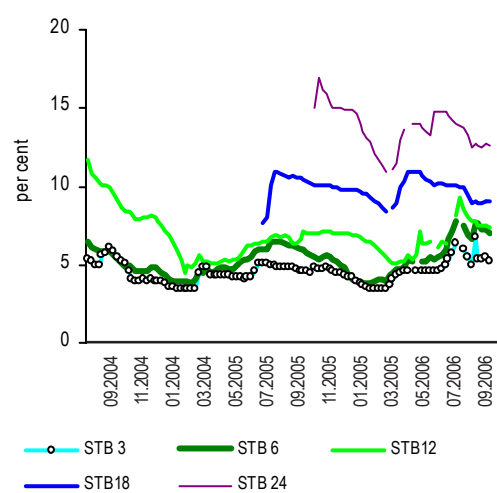
Interest rates in the domestic interbank market of credits in the foreign currency in the second quarter had changed from 0.0 to 8.5 percent depending on the character of the security and urgency of transactions. An average level of rates for the quarter amounted to 5.5 percent, which was by 1.2 percentage points lower than the level of interest rate for the second quarter. The National Bank's discount rate, the size of which was set equal to the yield of 28-days notes, during the reporting period remained unchanged, i.e. at 4.27 percent, because all the auctions on placement of NBKR notes were cancelled due to an insufficient number of participants.

The interest rate on "overnight" credits, whose size is formed on the basis of the discount rate, was stable during the third quarter and remained at the level of 6.41 percent. In the reporting period, the National Bank did not conduct transactions on refinancing of commercial banks through granting "overnight" credits.

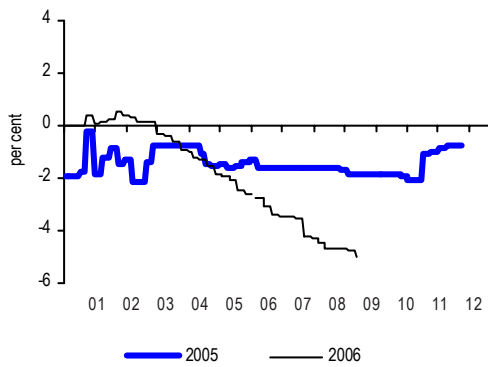
At the same time, the National Bank increased the volume of transactions at the open market to withdraw excess liquidity.



Picture 3.2. Money market interest rates' dynamics



Picture 3.3. STB yield dynamics



Picture 3.4. US dollar exchange growth rates at interbank forex market for 2005-2006

For example, the volume of transactions on sales of securities to banks under REPO conditions in the third quarter totaled 525 mln. soms, which was by 4.7 times higher than that of the previous quarter (112.5 mln. soms). A weighted average period of the above transactions was 39 days, with the rate being fixed at 4.7 percent. In addition to REPO, the National Bank concluded SWAP foreign currency transactions to sell US dollars, the volume of which for the quarter dropped from 5.0 to US\$ 1.9 mln. A weighted average maturity of SWAP transactions worked out at 87 days.

3.2.2. State treasury bills

At the beginning of the third quarter, the demand structure for STB was noted to be changed: the commercial banks substantially reduced their demand for 3-month, 6-month and 12-month STB, having increased at the same time the volume of bids for a longer term bills. These changes in the banks' preferences resulted in the yield growth of bills with the maturity of up to one year, and reduction in yield of bills with the maturity of more than 1 year. In the middle of July, 2 auctions were cancelled on placement of 12-month STB, and 2 auctions were cancelled at the beginning of August on placement of 3-month and 6-month bills due to lack of demand and insufficient demand for STB. By the middle of August, the STB market had improved and by the end of the month, the yield on all the types of STB was noted to decline.

In September, the yield dynamics for 3- and- 6-month STB was unstable due to noticeable demand fluctuations for these bills. At the same time, the yield on other types of bills remained at about the same level.

As of the end of September, a weighted average interest rate on all types of STB was 9.0 percent, having fallen as compared to the beginning of the quarter by 1.8 percentage points. However, an average level of STB yield in the third quarter went up to 10.2 percent or by 1.6 percentage points in comparison with the previous quarter.

3.3. EXCHANGE RATE

In the third quarter, at the domestic foreign currency market, the trend towards strengthening of the national currency's rate was continued under the conditions of further growth of the foreign currency inflow in the form of investments in the real sector, deposits and money transfers from abroad.

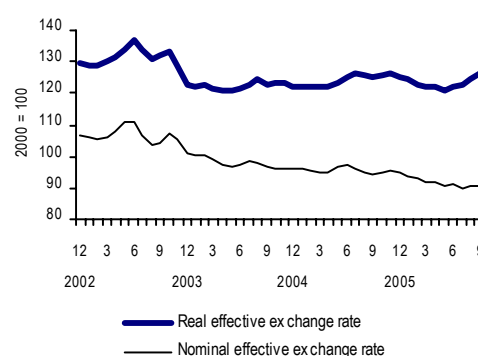
On the whole, for the quarter, an average weighted dollar exchange rate in foreign exchange biddings dropped by 2.4 percent and fell up to 39.2 som/dollar, with the dollar selling rate in exchange bureaus having strengthened by 2.3 percent, to 39.1 som/dollar. At the same time, the dollar selling rate in exchange bureaus, on average for the quarter, was lower than the dollar rate in interbank foreign currency biddings by 0.02 soms.

The US dollar discount rate for the third quarter fell by 2.4 percent and amounted to 39.2 som/dollar as of the end of September. For comparison: in the third quarter of the past year, the dollar's discount rate had dropped by 0.3 percent and amounted to 40.8 som/dollar.

The cash euro's exchange rate at the domestic foreign exchange market, as usual, was changing in accordance with its fluctuations at external markets. From July to August of the current year, euro's rate was subjected to noticeable fluctuations, whereas in September, there was a trend towards its reduction. Euro's selling rate in general in exchange bureaus for the third quarter fell by 1.8 percent and amounted to 50.05 som/euro as of the end of September, with the discount rate having fallen to 49.73 som/euro or by 1.6 percent.

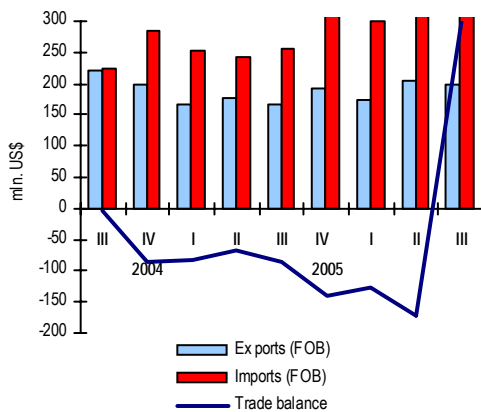
According to the preliminary data for the third quarter of 2006, the nominal efficient exchange rate¹ decreased (depreciated) by 1.3 percentage points as compared to the corresponding indicator of 2005. In comparison with the previous quarter, it has strengthened by 2.8 percentage points.

The real efficient exchange rate in the 3rd quarter of 2006 fell by 4.9 percentage points as compared to the 3rd quarter of



Picture 3.5. Indices of effective som's exchange rate

¹ In May of the current year, the methodology for calculation of the efficient exchange rates was changed. The National currency was expressed in the foreign currency units. E.g. the index growth means strengthening of the national currency, whereas its reduction means weakening of the national currency. The year 2000 is used as a reference period for the formation of indices. Historical values of indices have been recalculated.



Picture 3.6. Balance of trade

2005 and dropped by 0.7 percentage points relative to the previous quarter of the current year.

Thus, in spite of strengthening in nominal terms, in real terms, the efficient exchange rate dropped due to higher inflation rates in major partner countries, which means improvement of competitiveness of local exporters.

3.4. DEMAND AND SUPPLY

3.4.1. External demand

As per updated data, the deficit of the Kyrgyz Republic's trade balance for the 3rd quarter of 2006 totaled US\$ 301.2 mln. (the deficit for the similar period of 2005 amounted to US\$ 125.1 mln.).

The foreign trade turnover (in FOB prices) as compared to the value of the corresponding indicator for 2005 rose by 52.3 percent. The volume of trade with CIS countries grew by 46.1 percent and it showed a more substantial increase with foreign countries—by 59.4 percent. For comparison: for the 2nd quarter, the trade volume growth with CIS and foreign countries was 59.3 and 19.7 percent, respectively.

In the reporting period, there was a continuing substantial growth in the volume of export supplies of energy products, investment and consumer goods. At the same time, exports of intermediate goods were noted to fall, the major share in which was held by gold. Exports of energy products grew due to re-export of oil products. The increase in exports of investment goods occurred due to the growth in supply of unused or obsolete production equipment and spare parts. As per the evaluations, exports of goods (in FOB prices) for the 3rd quarter rose by 19.3 percent in comparison with the similar period of the past year. The export growth was mainly caused by the increase in supply of goods to CIS and non-CIS countries by 33.3 and 6.4 percent, correspondingly. Gold exports in the current period declined by 24.4 percent. Exports, not taking into account gold, grew by 43.8 percent (for the 2nd quarter the growth was 29.5 percent).

For the 3rd quarter of 2006, the share of exports to foreign countries fell from 51.4 percent to 45.5 percent in comparison with the corresponding period of the past year. The share of

exports to CIS countries rose from 48.6 percent to 54.5 percent in the total volume of export supplies. Exports to Kazakhstan (29.1 percent) and Russia (17.8 percent) account for the sizable proportion of total exports.

According to preliminary data, imports of goods (in FOB prices) for the 3rd quarter of 2006 showed an increase of 71.3 percent relative to the corresponding period of 2005. Imports from CIS countries rose by 52.4 percent, with the imports from foreign countries having substantially grown by 95.6 percent.

The increase in import receipts on all the functional classification items could be observed. Traditionally, oil products accounted for the substantial proportion, import of which was 50 percent of total imports from CIS countries.

Supplies of investment and consumer goods increased, which accounted for 80 percent of total imports from this group of countries. The share of investment goods (32.8 percent) substantially increased in the total volume of imports due to the growth in import receipts of trucks, communication equipment, and other special-purpose equipment.

Unlike the first two quarters of 2006, in the 3rd quarter, the share of imports from CIS countries fell from 63.2 percent to 46.6 percent as compared to a corresponding period of 2005. The share of imports from foreign countries respectively rose from 36.8 to 53.4 percent. The share of imports from USA noticeably increased (19.3 percent) due to supplies of equipment. At the same time, the share of imports from Russia fell to 30.3 percent and those from Kazakhstan – to 10.0 percent.

3.4.2. Domestic demand

3.4.2.1. Private consumption

According to the data of the National Statistic Committee for January-September 2006, the salary increased by 17.6 percent. The volume of trade turnover, repairs of vehicles, household appliances and personal-use items has increased by 15.3 percent for a 9-month period.

3.4.2.2. Government expenses

With a 24.1 percent increase in the state budget revenues for 9 months of 2006 relative to a corresponding period of 2005, expenses on payment of salaries have increased by 9.3 percent. The state budget expenses rose by 23.5 percent. Subsidies to state-owned enterprises rose by 11.8 percent. The funds earmarked for capital investments and repairs were by 51.6 percent more than those allocated for the corresponding period in 2005.

3.4.2.3. Investments

For the third quarter of 2006, from January to September, as per the preliminary data of the National Statistic Committee, investments in the fixed assets (constructions, reconstruction, expansion and technical re-equipment of facilities) substantially increased from 4040.9 mln. soms to 7052.9 mln. soms and rose by 25.5 percent relative to the corresponding period of 2005. «Population funds and other» item accounts for the biggest share (38.1 percent) in the investment structure by sources of financing.

3.4.3. Gross domestic product

As per the preliminary data of the National Statistic Committee, for 9 months of 2006, the gross domestic product has grown by 3.2 percent (for half a year, it rose by 3.1 percent) in comparison with the corresponding period of 2005. Its growth, not taking into account Kumtor gold-mining products, was 6.1 percent (and 6.5 percent for 6 months). The gross value added of the industry dropped by 11.4 percent (and by 0.8 percent for 6 months). In agriculture and construction, the value added growth was registered at 2.8 and 21.7 percent (2.4 and 9.5 percent for half a year) respectively. In trade, the above indicator's growth was 15.4 percent (14.5 percent for half a year).

4. KEY DECISIONS ON MONETARY POLICY

4.1. KEY DECISIONS OF THE BOARD

On July 19, 2006, the Board of the National Bank of the Kyrgyz Republic adopted Resolution # 20/5 «On Direct REPO Auction of The National Bank of the Kyrgyz Republic», on the basis of paragraph 2.10 «Procedures for Holding of REPO Auctions by the National Bank of the Kyrgyz Republic» (NBKR Board Resolution # 10/1 became effective on June 30, 2006).

The above document specifies the subject of buy and sell at direct REPO auctions and the size of a fixed discount rate, applied for computation of prices for government securities upon their purchase or sale at direct REPO auctions.

In addition to a Joint Statement «On Monetary Policy for the Current Year», the Government and the National Bank passed Resolution # 555/23/1 «On Action Plan to Restrain Inflation in the Kyrgyz Republic for 2006» of August 2, 2006.

On September 8, 2006 «Statement on Monetary Policy for the 1st half of year 2006» was reviewed and taken into consideration (NBKR Board Resolution # 26/2).

In accordance with the Board Resolution # 28/8 of September 27, 2006 «On the Dollar Exchange Rate Applied for Calculation of Mandatory Reserve Requirements», the value of the fixed US dollar exchange rate for computation of mandatory reserve requirements from the period from October 2, 2006 to June 3, 2007 was set at 39.3 soms per US dollar.

4.2. KEY DECISIONS OF THE MONETARY REGULATION COMMITTEE

Auctions on sale of 28-day notes were declared void due to an insufficient number of bidders.

With a view to regulating liquidity in the banking system, the Committee recommended that securities should be sold under REPO terms. The sales volume of STB totaled 525.0 mln. soms.

The National Bank made interventions on purchase of the foreign currency at the internal market aimed at smoothening of sharp fluctuations of the som's exchange rate relative to the US dollar, with their volume amounting to US\$64.4 mln.

4.3. INFLATION EVALUATION FOR THE FOURTH QUARTER OF 2006

As per the National Bank's estimates, the consumer price growth is expected in the fourth quarter of 2006 at the level of 2.7 – 3.1 percent.