

National Bank of the Kyrgyz Republic

Inflation Report

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Bishkek

Inflation Report

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This publication contains a description of consumer price developments in the republic and its regions (oblasts), the analysis of key inflation factors, informs on monetary policy decisions of the National Bank of the Kyrgyz Republic and provides an inflation forecast for the forthcoming period. The report is published quarterly in Kyrgyz, Russian and English languages.

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Annual Report of the National Bank of the Kyrgyz Republic

This publication is a last year statement of the National Bank of the Kyrgyz Republic (NBKR). It contains brief information about the country's economic development and monetary policy, financial statements of the NBKR, general information about the NBKR, and statistic annexes. It is published in Kyrgyz, Russian and English languages.

Bulletin of the National Bank of the Kyrgyz Republic

This monthly publication contains statistic data for major macroeconomic indicators and sectors of economy of the Kyrgyz Republic. It is published in Kyrgyz, Russian and English languages.

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Balance of Payments of the Kyrgyz Republic reflects trends of external sector development, data of the payment balance, foreign trade, international reserves, external debt, and international investment position of the Kyrgyz Republic. It is published on quarterly basis in January, May, July, and October in Kyrgyz, Russian and English languages.

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This publication provides an analysis and assessment of the development of Kyrgyz banking system as a financial intermediary, and components of its stability. It is published semiannually in Kyrgyz, Russian and English languages.

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The objective of this document is to officially publish the statutory acts of the NBKR in order to provide commercial banks and general public with regulatory documents and information about NBKR activities, and to popularize the banking legislation of the Kyrgyz Republic. It is published, as a rule, once a month in Kyrgyz and Russian languages.

Press Release of the National Bank of the Kyrgyz Republic

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

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Chapter 1. Economic situation in the Kyrgyz Republic

1.1. Demand and supply on commodities and services market

Key role in formation of the general level of consumer prices is played by the balance between demand and supply of goods and services. Actual data of 2009 as well as expected indices until the end of 2010, point out recovery of internal demand in the Kyrgyz Republic. The main role is mainly played by increasing volumes of money transfers of labor migrants, growth of governmental expenses as well as by-past election campaigns and money supply growth, related to them.

At that, inflation deterrent effect on the part of aggregate demand was caused by social-political instability of latest months and as a consequence, retardation of business activity in the country, worsening of investment climate and decrease in trade turnover.

Considering the fact that the main share of the population's income is spent for consumption, it is possible to say about formation of high inflation potential in the economy, because growth of consumer demand occurs against decrease in production or retardation of its growth in almost all economy sectors. Thus, in accordance with the National Statistics Committee of the Kyrgyz Republic (hereinafter referred to as NSC KR), in January-September 2010 there was decrease in manufacturing rates of the following types of production: flour, bread, vodka, gross output of agricultural production, concrete, asbestos sheeting; harvesting of the current agricultural crops is also performed at slower rates in comparison with the previous year. As for other types of production, including meat, sausage goods, milk, cigarettes and sand-blocks, there was a slight growth, though these growth rates were considerably decelerated.

Another important factor, influencing the current and future inflation rates, consists in expenses of governmental sector, acting as one of the main sources of money supply growth. From May 2010, the Provisional Government of the Kyrgyz Republic performed a number of measures, first of all aimed at support of suffered businessmen and restoration of destroyed cities. As a result of those measures as per results of the year, governmental expenses considerably increased, which, against deceleration of tax levies, provides growth of the budget deficit and relevant necessity in its financing. In the mid-term perspective, it is planned to continue stimulating the budget-tax policy, which bears certain risks for stability of prices in the country in perspective.

1.1.1. Demand

According to the preliminary data, in January to September 2010 the volume of nominal GDP at current prices was Som 144.5 billion, having decreased by 0.5 percent in real terms against the volume of GDP for the comparable period of 2009 (In January to September 2009 GDP increased by 1.2 percent). Exclusively of enterprises on exploration of gold-mining deposit "Kumtor", GDP decreased by 1.5 percent, whereas in January-September 2009, corresponding index

increased by 1.9 percent. GDP deflator in January-September 2010 constituted 106.4 percent.

Changes in the GDP structure by expenditure for the first half of 2010 indicates the fact that deceleration of economic growth rates was caused by decrease in export of goods and services, which started in the second quarter of 2010. The main reasons for export decrease were tightening of trade conditions with countries-trade partners and negative influence of political situation in the country.

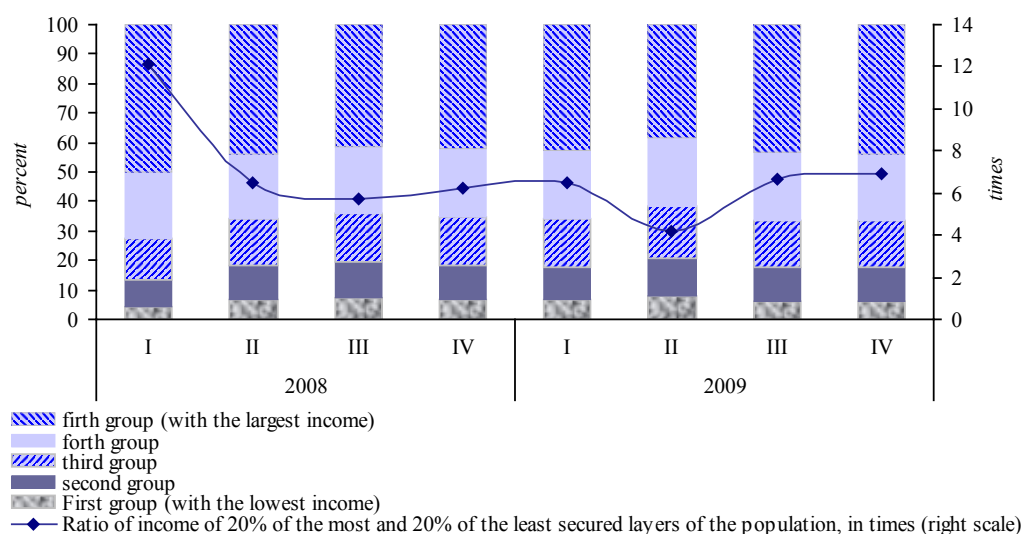
Table 1.1.1. Real GDP growth rates by expenditure
(quarter/period to the corresponding quarter/period of the previous year, percent)

	2009				2009	2010			
	I	II Jan-Jun	III	IV		I	II Jan-Jun		
GDP	-1.3	-2.1	-1.8	4.5	5.1	2.3	16.4	-3.8	5.0
Final consumption	-7.9	-9.9	-9.0	2.3	2.5	-2.6	0.7	2.5	1.7
Individual consumption	-8.8	-11.4	-10.2	1.9	2.8	-3.2	0.8	2.6	1.8
Households	-9.8	-13.0	-11.5	1.9	2.8	-3.7	1.0	2.5	1.8
NCOSH	-0.2	1.5	0.8	1.0	3.1	1.5	-1.9	2.3	0.7
Public institutions	0.0	1.1	0.6	1.8	2.5	1.5	-0.1	3.4	2.0
Collective consumption	6.7	7.0	6.9	8.6	0.4	5.0	-1.0	1.8	0.7
Gross capital formation	-51.1	-52.5	-52.0	-26.6	-25.1	-34.3	27.3	1.5	10.7
Export	6.6	8.7	7.8	-7.1	-16.5	-4.6	23.3	-24.0	-4.1
Import	-14.2	-22.6	-18.9	-21.8	-21.5	-20.5	0.9	-2.9	-1.1

Source: NSC

In January-August 2010, real growth of salary rates, according to preliminary data, constituted 8.3 percent against 7.0 percent of the corresponding period of 2009.

Differentiation of the population income remains rather high. Distribution of total volume of money income by 5 groups of the population is still formed to the advantage of high-yielding groups. Thus, the share of most well-being group as per results of 2009 constituted 43.8 percent from the total volume of the population income, having increased by 1.5 percentage points in comparison with the corresponding index of 2008. The share of income of 20 percent of the least secured population decreased by 0.4 percentage points and constituted 6.4 percent.

Chart 1.1.1. Composition of household money income by quintile groups
(year-to-date)

According to the preliminary data, in January to September 2010, there was increase in inflow of physical entities' monetary assets through money transfer systems. The total volume of net inflow in January-September 2010, against corresponding index of 2009, increased by 126.9 million USD or by 20.0 percent. Traditionally, the main share of money transfers is accounted for the CIS countries, including Russia (91.6 percent out of the total inflow volume), where the majority of labor migrants is concentrated.

Table 1.1.2. Remittances of individuals in money transfer systems*
(mln. USD)

	2006	2007	2008	2009	Jan-Sep 2009	Jan-Sep 2010**
Balance	430.3	625.5	1 138.2	893.2	635.2	762.1
Inflow	470.0	688.2	1 205.5	966.7	685.2	840.2
CIS countries	436.7	648.8	1 141.4	894.4	628.9	797.6
Kazakhstan	0.0	7.0	27.9	31.4	23.1	27.8
Russia	436.6	641.8	1 113.5	862.9	605.7	769.7
Other	0.0	0.0	0.1	0.0	0.0	0.0
Non-CIS countries	33.4	39.4	64.1	72.3	56.3	42.6
Belgium	0.0	0.1	0.5	0.5	0.4	0.1
Great Britain	0.9	0.9	1.8	1.4	1.0	1.0
Germany	0.0	0.1	0.2	0.7	0.5	7.5
USA	32.2	38.3	61.4	69.5	54.1	34.0
Other	0.1	0.0	0.2	0.3	0.2	0.0
Outflow	39.7	62.7	67.3	73.6	50.0	78.1
CIS countries	38.5	60.2	65.0	71.8	48.9	76.8
Kazakhstan	0.0	0.2	2.5	0.7	0.2	0.3
Russia	38.4	60.0	62.5	71.1	48.8	76.6
Other	0.0	0.0	0.0	0.0	0.0	0.0
Non-CIS countries	1.2	2.5	2.3	1.8	1.1	1.2
Belgium	0.0	0.1	0.1	0.2	0.1	0.3
Germany	0.0	0.2	0.4	0.4	0.1	0.1
USA	1.1	2.1	1.7	1.1	0.8	0.6
Other	0.1	0.1	0.1	0.1	0.0	0.1

* Anelik, Blizko, Contact, Migom, MoneyGram, Western Union, Unistream, Zolotaya Korona, Leader, Sibcontact, Bystraya Pochta, Allyur and other money transfer system and remittances via the PE "Kyrgyzpochtasy"

** preliminary data.

Sector of governmental finances of the Kyrgyz Republic still undergoes through negative influence of the events, occurred in April and June, which led to reduction of economic growth rates.

According to the preliminary data of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, the state budget deficit was 4.5 billion soms or 3.8 percent to GDP in the period of January-August 2010 (in the comparable period of 2009 state budget deficit amounted to 0.9 billion soms or 0.8 percent to GDP). Meanwhile, excluding the tax on Kumtor gross income, the state budget deficit constituted 7.9 billion soms or 6.6 percent to GDP.

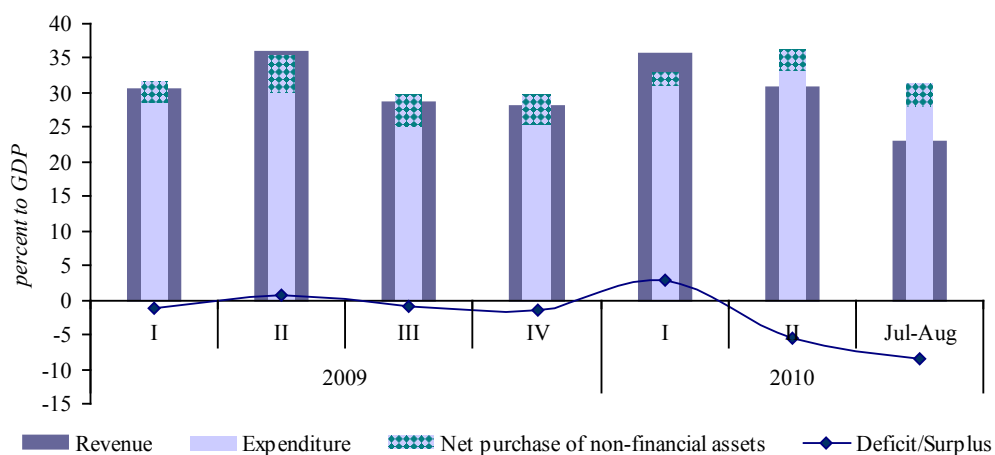
Total state budget expenditures for operating activities in January-August 2010 were 37.1 billion soms or 30.8 percent to GDP, having increased by 7.2 billion soms or 4.6 percentage points to GDP against the comparable indicator for corresponding period of 2009. There was the tendency for increase in budget expenses for current consumption. Thus, expenses for salary and deductions to the Social Fund of the Kyrgyz Republic as well as for social benefits in January-August 2010 constituted 54.3 percent from the total volume of governmental expenditures for operating activities, having increased by 3.1 percentage points against the comparable indicator for corresponding period of 2009.

In the reporting period, the net outflow of funds for operations on purchases of non-financial assets amounted to 3.3 billion soms and that was by 41.2 percent lower as compared to the corresponding period of 2009.

State budget revenue and received official transfers increased by 3.6 percent in comparison with the corresponding index of 2009 and amounted to 35.9 billion soms or 29.9 percent to GDP. At that tax income and non-tax revenues provided contribution to increase in the state budget income from operational activity by 11.5 percentage points, whereas revenues of official transfers provided negative contribution into this increase by 7.9 percentage points.

Chart 1.1.2. State budget implementation

(in the indicated period)



In January-September 2010 in comparison with January-September 2009, the level of investments in fixed assets decreased by 2.7 percent and constituted 24.9 billion soms (as per results of nine months of 2009, investments in fixed assets increased by 9.5 percent). Decrease in growth rates of investments in fixed assets was mainly provided by decrease in investments into the energy sector against terminating construction of hydro-electric power station “Kambar-Ata 2” and other large projects.

Table 1.1.3. Investments in fixed assets by sources of financing

	mln Som		percent to total	
	Jan-Sep 2009	Jan-Sep 2010	Jan-Sep 2009	Jan-Sep 2010
Total	23 975.7	24 905.2	100.0	100.0
Domestic investment	17 995.9	19 419.3	75.1	78.0
Republican budget (including emergency funds)	4 523.6	1 399.7	18.9	5.6
Local budget	337.0	385.8	1.4	1.5
Funds of enterprises and organizations	6 022.8	8 578.3	25.1	34.4
Bank credit	24.7	2 208.0	0.1	8.9
Population assets	7 087.6	6 841.7	29.6	27.5
Charitable aid	0.2	5.8	0.0	0.0
Foreign investment	5 979.8	5 485.9	24.9	22.0
Foreign credit	3 742.4	2 790.4	15.6	11.2
Foreign direct investment	1 628.0	1 860.4	6.8	7.5
Foreign grants and humanitarian aid	609.4	835.1	2.5	3.4

Source: NSC

There was diversified dynamics in the structure of financing sources of investments in fixed assets. Thus, investments at the expense of funds of enterprises and organizations increased by 32.9 percent (mainly due to increase of investments into enterprises on exploration of gold-mining deposit “Kumtor”). Investments at the expense of the population assets decreased by 9.3 percent within nine months of 2010, which was related to decrease in expenses of the population for individual construction by 15.0 percent.

In sectoral structure of investments in fixed assets in January-September 2010, the largest share was accounted for the mineral resource industry – 23.2 percent (mainly due to increase of investments into enterprises on exploration of gold-mining deposit “Kumtor”), transportation and communication – 17.7 percent (construction and reconstruction of automobile roads; in particular, 1397.3 million soms were spent for reconstruction of automobile road “Bishkek-Naryn-Torugart”, 361.8 million soms – for road “Osh-Sarytash-Irkeshtam”, 194.6 million soms – for road “Taraz-Talas-Suusamyr”, 153.3 million soms – for road “Yujnyi transportnyi korridor”, 116.7 million soms –for automobile road “Osh-Irkeshtam”, 18.7 million soms – for road “Osh-Isfana” and 384.1 million soms – for rehabilitation of roads within the framework of the project “Improvement of regional road corridor”), and production and distribution of electric energy, gas and water – 13.8 percent (mainly for works on hydro-electric power station “Kambar-Ata 2”).

Within nine months of the current year, commercial banks issued credits for the sum of 16.5 billion soms which was by 9.7 percent higher in comparison with the volume of credits, issued in the corresponding period of 2009.

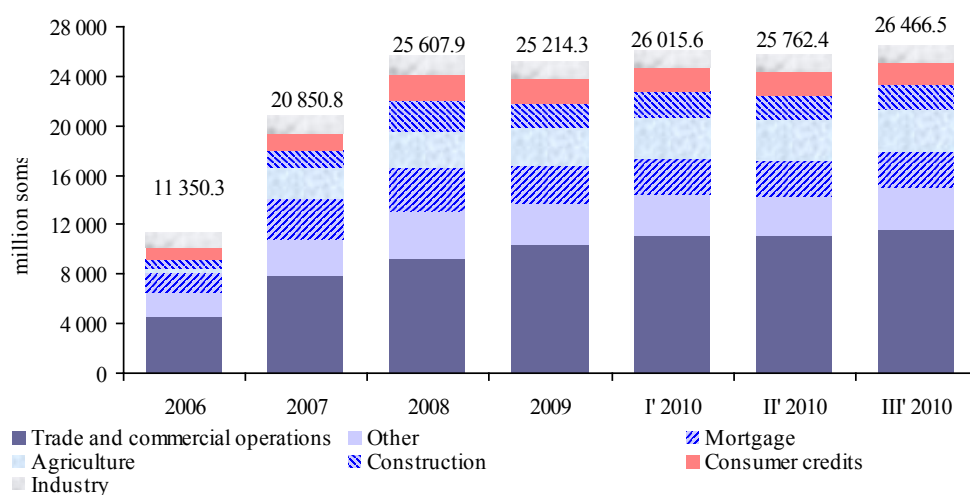
At that, the volume of credit portfolio of commercial banks as of the end of September 2010 constituted 26.5 billion soms, having increased in comparison with the beginning of the current year by 5.0 percent (in corresponding period of 2009, decrease constituted 1.6 percent).

Table 1.1.4. Sectoral commercial bank loan portfolio allocation

	Jan-Sep 2009		2009		Jan-Sep 2009	
	total, <i>mln.som</i>	rate of growth, <i>percent</i>	total, <i>mln.som</i>	rate of growth, <i>percent</i>	total, <i>mln.som</i>	rate of growth, <i>percent</i>
Trade and commercial operations	9 800.8	106.1	10 457.7	113.2	11 679.7	111.7
Agriculture	3 081.2	105.0	3 084.3	105.1	3 449.5	111.8
Industry	1 508.0	103.0	1 388.8	94.8	1 334.3	96.1
Mortgage	3 203.6	89.1	3 087.9	85.9	2 865.5	92.8
Construction	2 192.0	90.2	1 950.3	80.2	1 943.4	99.6
Consumer credits	2 015.7	95.1	2 028.0	95.7	1 878.8	92.6
Other	3 401.4	88.9	3 217.4	84.0	3 315.2	103.0
Credit portfolio	25 202.7	98.4	25 214.3	98.5	26 466.5	105.0

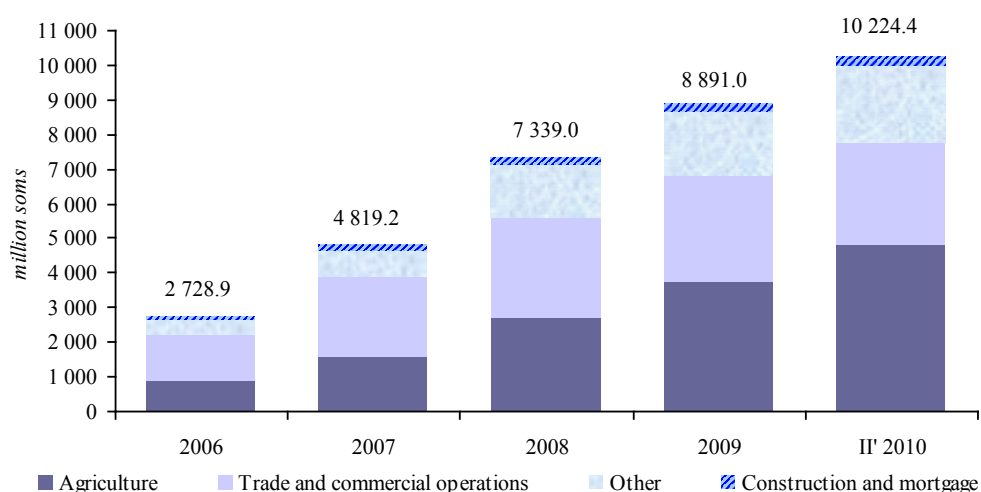
The main share of banks credits was concentrated in the sphere of trade. Volume of these credits for the reporting period increased by 11.7 percent and their share increased from 41.5 to 44.1 percent. Another sector, actively credited by banks, was agriculture – the volume of credits, issued to this sphere increased by 11.8 percent and their share in the overall credit portfolio of commercial banks increased from 12.2 to 13.0 percent. The share of credits, issued to other economy branches decreased: mortgage – from 12.2 to 10.8 percent, construction – from 7.7 to 7.3 percent, consumer credits – from 8.0 to 7.1 percent. Credits to the sphere of transportation, communication, procurement, processing and social services constituted inconsiderable share – totally 1.6 percent. The share of “other” credits decreased from 11.2 to 10.9 percent in the reporting period.

Chart 1.1.3. Sectoral commercial bank loan portfolio allocation
(end of period)



Moreover, in the first half of 2010 there was growth of crediting on the part of non-banking financial institutions¹. Thus, in accordance with the provided data, the credit portfolio of non-banking financial institutions, exclusively of the Development Fund of the Kyrgyz Republic, constituted 10.2 billion soms (39.8 percent from the credit portfolio of commercial banks), having increased by 15.2 percent in comparison with the similar index as of the beginning of the current year. In the structure of credit portfolio of non-banking financial institutions, the largest share was accounted for financing of agriculture (47.1 percent) and trade (29.0 percent). Crediting of agriculture in January-June 2010 grew by 29.4 percent. Herewith, crediting of trade operations was decreased by 3.8 percent (increase of trade crediting as of the end of 2009 constituted 7.8 percent). Despite positive growth rates of economy crediting by non-banking financial institutions in the first half of 2010, political events of April-June would probably have negative influence on activity of non-banking financial institutions by the end of the year.

Chart 1.1.4. Sectoral structure of credit portfolio of non-banking financial institutions
(end of period)



1.1.2. Supply

Main contribution into GDP growth in January-September 2010 was made by branches of processing industry and production and distribution of electric energy, gas and water, providing aggregate contribution into GDP growth at the level of 2.1 percentage points. The volume of total supply of goods and services in January-September 2010 was provided by production of agriculture by 22.6 percent, trade – by 15.1 percent, processing industry – by 13.4 percent, transportation and communication – by 9.7 percent from the total volume of GDP.

¹ Regulative reporting of non-banking financial institutions is provided on semi-annual basis.

Table 1.1.5. Contributions to growth/reduction in GDP

	Jan-Sep 2009		Jan-Sep 2010	
	rate of growth, percent	input in growth, p.p.	rate of growth, percent	input in growth, p.p.
GDP	1.2	1.2	-0.5	-0.5
Gross added value	1.2	1.0	-0.5	-0.4
Agriculture, hunting & forestry	4.9	1.3	-3.4	-0.8
Mining industry	3.2	0.0	5.9	0.0
Processing industry	-12.6	-1.6	18.1	1.9
Electricity, gas, and water generation and distribution	-8.1	-0.1	11.5	0.2
Construction	-2.9	-0.1	-3.0	-0.1
Trade, repair	5.3	0.8	-8.7	-1.4
Hotels and restaurants	4.8	0.1	-13.6	-0.2
Transport and communication	5.7	0.5	0.4	0.0
Financial activity	7.3	0.1	2.2	0.0
Real estate transactions, rent	0.8	0.0	-2.4	-0.1
Public administration	4.5	0.2	2.0	0.1
Education	1.0	0.0	0.0	0.0
Health and provision of social services	-0.4	0.0	-0.8	0.0
Provision of utility and personal services	-3.0	-0.1	-1.3	0.0
Net tax on products	1.2	0.2	-0.5	-0.1

Source: NSC

Within nine months of 2010, the physical volume index of industrial production amounted to 116.7 percent against 88.4 percent in January-September 2009. Alongside with that growth of industrial production was registered at enterprises, not engaged in gold mining: growth of industrial production in January-September 2010, exclusively of enterprises “Kumtor”, constituted 115.6 percent.

Growth of industrial production volume was mainly provided due to considerable growth in metallurgic production and production of finished metal products (in 1.2 times), other non-metal mineral products (in 1.5 times) as well as in production and distribution of electric energy, gas and water (in 1.1 times). According to preliminary data of January-September 2010, positive contribution of industry into GDP growth constituted 2.2 percentage points. In many ways, considerable growth in industry is explained by remained effect of low base in 2009.

As of the end of September 2010, production of food products, including beverages and tobacco, remained at the level of previous year, having increased only by 0.1 percent. This growth was provided by increase in production of spaghetti, noodles and flour products by 43.7 percent, processed fluid milk – by 21.1 percent, cakes and confectionery product – by 10.1 percent, sausage goods – by 7.9 percent. At the same time, in comparison with similar indices of the corresponding period of 2009, there was decrease in production of sugar (by 71.9 percent), butter (by 52.9 percent), mineral waters (by 11.7 percent), and flour from cereal crops (by 4.1 percent).

Gross production output of agriculture in January-September 2010 decreased by 3.4 percent. Herewith, as of the end of September 2010, harvesting of grain and pulse plants was completed by 86.2 percent, average yield of grain crops

constituted 25.7 centners per a hectare in the republic (in primary weight), against 30.5 centners per a hectare in the corresponding period of 2009.

In January-September 2010, there was continuing decrease in trade operations turnover, which in general decreased by 10.7 percent in comparison with the corresponding period of 2009, providing negative contribution to GDP growth at the level of 1.4 percentage points. This decrease in trade operations turnover was provided by changes in trade conditions with countries – main trade partners as well as by negative influence of social-political events in the republic.

Table 1.1.6. Dynamics and structure of gross turnover of trade operations

	Jan-Sep 2009		Jan-Sep 2010	
	share, percent of the total	rate of growth, percent	share, percent of the total	rate of growth, percent
Trade	100.0	3.0	100.0	-10.7
Trade in cars and their spare parts	3.4	1.3	3.1	-16.1
Car maintenance	0.6	6.1	0.5	-16.7
Retail trade in motor oil	6.9	32.3	9.5	-10.2
Wholesale trade	34.2	-4.3	31.2	-16.0
Retail trade	54.6	3.8	55.4	-6.9
Repair of household appliances	0.2	-19.5	0.2	-22.9

Source: NSC

1.2. Monetary trends

Monetary base

As of October 1, 2010, monetary base constituted 44.1 billion soms, having increased by 7.6 percent in the third quarter of 2010 (in the third quarter of 2009, increase of monetary base constituted 6.6 percent). On an annualized basis, monetary base increased by 21.7 percent.

In the third quarter of 2010, change of the monetary base (+3.1 billion soms) was provided by operations of the Kyrgyz Republic Government, which increased the monetary base by 4.2 billion soms, whereas operations of the National Bank of the Kyrgyz Republic decreased the monetary base by 1.1 billion soms. For comparison, in the third quarter of 2009, increase in monetary base constituted 2.4 billion soms, whereas contribution into the monetary base growth was provided both on the part of the Kyrgyz Republic Government and the National Bank of the Kyrgyz Republic.

As of October 1, 2010, the money in circulation constituted 40.0 billion soms, having increased by 8.3 percent in the third quarter of 2010 (in the third quarter of 2009, increase constituted 5.2 percent). Growth of money in circulation on an annualized basis constituted 28.6 percent.

In the structure of monetary base for the third quarter of 2010, there was increase in the share of cash in circulation from 90.1 to 90.7 percent as of the end of September 2010, correspondingly, the share of funds on correspondent accounts

of commercial banks in the National Bank of the Kyrgyz Republic decreased from 9.9 to 9.3 percent.

M2 Aggregate

As of October 1, 2010, M2 constituted 49.4 billion soms, having increased by 7.6 percent in the third quarter of 2010 (in the third quarter of 2009, increase of M2 constituted 4.6 percent). On an annualized basis, increase in M2 constituted 29.9 percent.

Increase in the monetary aggregate M2 was mainly provided by growth of money outside of the banks by 8.6 percent and deposits in the national currency by 4.0 percent, including transferable deposits (demand deposits) by 5.7 percent and other deposits (fixed deposits) by 0.3 percent.

M2X Aggregate

The volume of M2X broad money, including deposits in foreign currency, as of October 1, 2010, constituted 62.9 billion soms, having increased in the third quarter of 2010 by 10.1 percent (in the corresponding period of 2009, increase of M2X constituted 6.3 percent). On an annualized basis, M2X increased by 27.0 percent.

Change of the M2X broad money in the third quarter of 2010 was provided by increase in money outside of the banks by 8.6 percent and total volume of deposits¹ – by 12.5 percent. At that increase in deposits in foreign currency was 20.6 percent, whereas increase in deposits in the national currency was 4.0 percent (in the third quarter of 2009, increase in M2X was due to increase in the total volume of deposits by 7.4 percent and money outside of the banks by 5.6 percent).

Structure of M2X for the third quarter of 2010 was changed in the following way:

- the share of money outside of the banks decreased from 61.9 to 61.0 percent;
- the share of deposits in national currency decreased from 18.5 to 17.5 percent;
- the share of deposits in foreign currency increased from 19.6 to 21.5 percent.

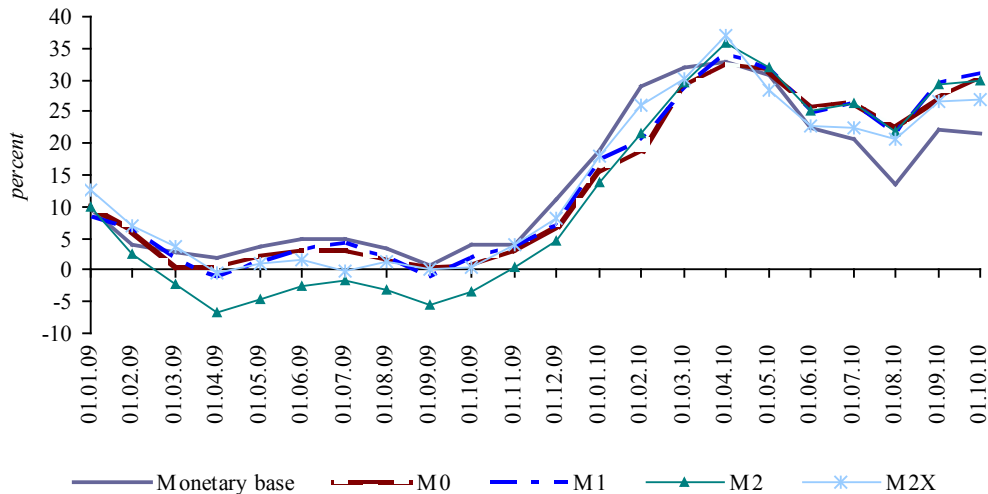
In the third quarter of 2010, the multiplier of M2X broad money, as an indicator of financial intermediation degree, increased by 1.393 as of the end of June to 1.426 as of the end of September (as of the end of September 2009 – 1.367).

In the third quarter of 2010, velocity of M2X broad money circulation decreased from 3.8 as of the end of June to 3.6 as of the end of September (as of the

¹ According to the banking system analytical data sheet, the deposits comprise only the deposits of individuals and legal entities, as well as the deposits of other finance and credit institutions, with the Government deposits and the deposits of nonresidents excluded.

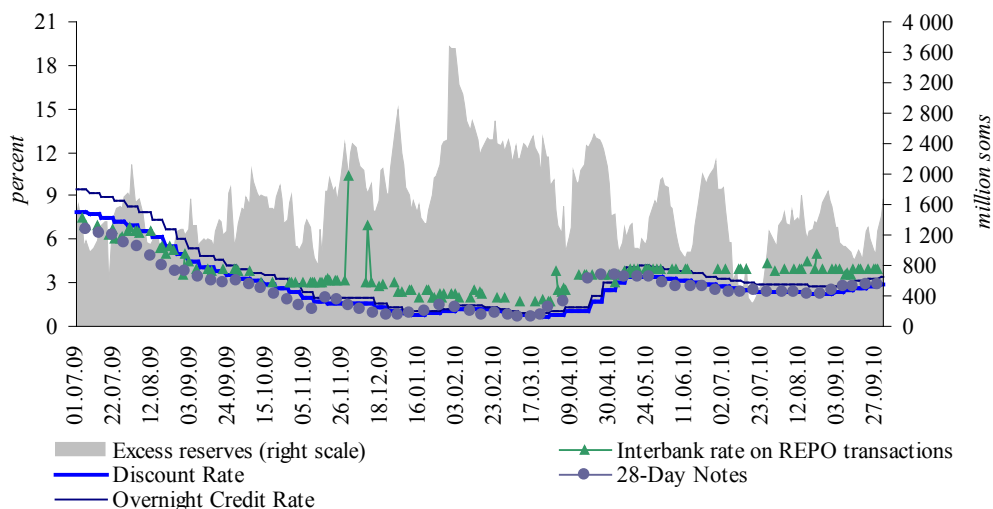
end of September 2009 it was equal to 4.2). Correspondingly, reverse index of circulation – velocity, economy monetization coefficient, calculated based on M2X monetary aggregate, increased in the third quarter of 2010 from 26.0 percent as of the end of June to 27.4 percent as of the end of September (as of the end of September 2009 it was 23.8 percent).

Figure 1.2.1. Annual nominal growth rates of monetary aggregates



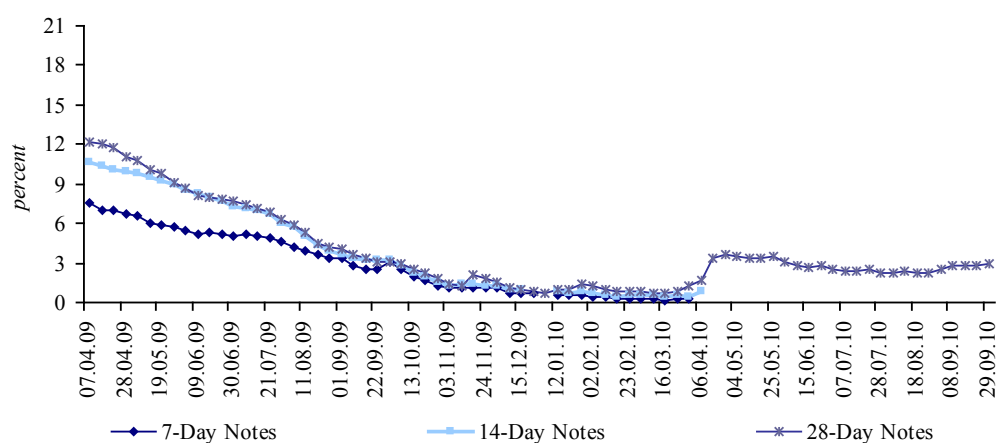
In the third quarter of 2010, financial market activity was influenced by decrease in activity of economic agents as well as continuing uncertainty of the economy development. Negative expectations of economic agents as well as worsening of the credibility of the banking system maintained the deposit base of commercial banks at the level of the second quarter. Moreover, fluctuations of the excess reserves level in commercial banks were accompanied by high demand for borrowed resources in the inter-bank credit market.

Chart 1.2.2. Dynamics of money market rates



In July-September, 2010, the National Bank of the Kyrgyz Republic continued usage of 28-day notes for regulation of the banking system liquidity. Starting from July, due to increase in the liquidity level in banks, the National Bank of the Kyrgyz Republic increased supply of 28-day notes, henceforth increasing its volume against high demand. As a result by the end of the quarter, weekly supply of notes increased from 75.0 to 100.0 million soms. Profitability of notes in the first two months of the quarter had been continuously declining but in September, due to reduction of demand, it increased. In general within the quarter the weighted average profitability of 28-day notes constituted 2.5 percent, having decreased by 0.5 percentage point in comparison with profitability in the second quarter. In comparison with the index of the corresponding period of 2009, profitability of 28-day notes decreased by 2.3 percentage points.

Chart 1.2.3. Dynamics of the yield of NBKR notes



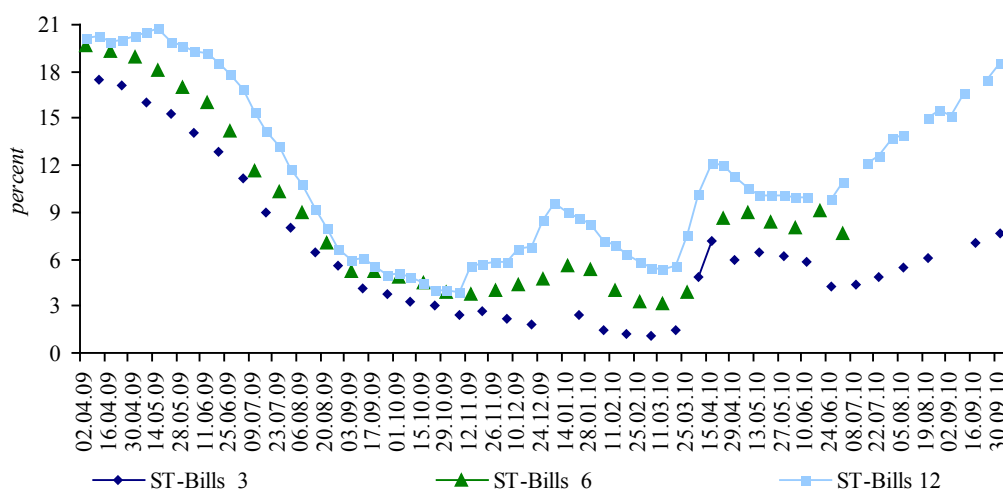
The discount rate defined as the average value of yield of the 28-day NBKR notes, which had developed at the recent four auctions, as of the end of September constituted 2.8 percent. The rate for overnight credits made 3.4 percent as of the end of the reporting period. In the reporting quarter the National Bank of the Kyrgyz Republic issued the overnight credits to banks for the total amount of 765.0 million soms with average rate of 3.2 percent.

In the third quarter, the Ministry of Finance maintained the volumes of weekly ST-Bonds supply unchanged at the level of the second quarter. Demand for these bonds on the part of investors was rather low, which affected profitability of ST-Bonds during the whole quarter. In general within the period July-September 2010, ST-Bonds were allocated for the sum of 330.0 million soms with the weighted average profitability rate of 18.7 percent (+1.9 percentage points).

In the primary market of ST-Bills, the emitter increased allocation volume of 6- and 12-month ST-Bills, remaining supply of 3-month ST-Bills at the level of the second quarter. At that demand on the part of investors for this type of securities almost at all auctions was lower than supply, which affected their profitability growth. Thus, in the reporting period, the weighted average profitability of ST-Bills constituted 13.2 percent, having increased by 3.7 percentage points in

comparison with the same index of the previous quarter. Profitability of 3-month ST-Bills increased by 0.1 percentage points and constituted 5.9 percent, and profitability of 6-month ST-Bills decreased by 1.0 percentage points up to 7.6 percent and of 12-month ST-Bills increased by 4.3 percentage points up to 14.8 percent. The general level of the ST-Bills profitability increased by 4.4 percentage points in comparison with the similar index of the corresponding quarter of 2009.

Chart 1.2.4. Dynamics of yield of ST-Bills



In the third quarter of 2010, in the inter-bank market of credit resources, demand for borrowed resources was rather high, which was explained by fluctuations of excess reserves in commercial banks. Cost of inter-bank credits in the national and foreign currencies was mainly determined under the influence of discount rate change as well as by rates in other segments of monetary market. The total volume of REPO-transactions in the third quarter of 2010 constituted 973.2 million, having decreased by 8.6 percent in comparison with the similar index of the previous quarter, whereas the weighted average interest rate on them increased by 0.5 percentage points and constituted 4.0 percent. The volume of credit transactions in the national currency was formed in the sum of 152.5 million soms and the weighted average interest rate on them made up 3.9 percent (-1.0 percentage points). In comparison with similar indices of the third quarter of 2009, the weighted average interest rate on REPO-transactions decreased by 1.5 percentage points and on inter-bank credits in the national currency – by 1.3 percentage points.

In the segment of transactions in foreign currency in the domestic inter-bank credit market, bargains were not performed in the reporting period.

In the reporting quarter, the NBKR did not conduct auctions for ST-Bills(s) sales on REPO terms and through swap operations with commercial banks. Commercial banks did not allocate funds on time deposit accounts in the NBKR.

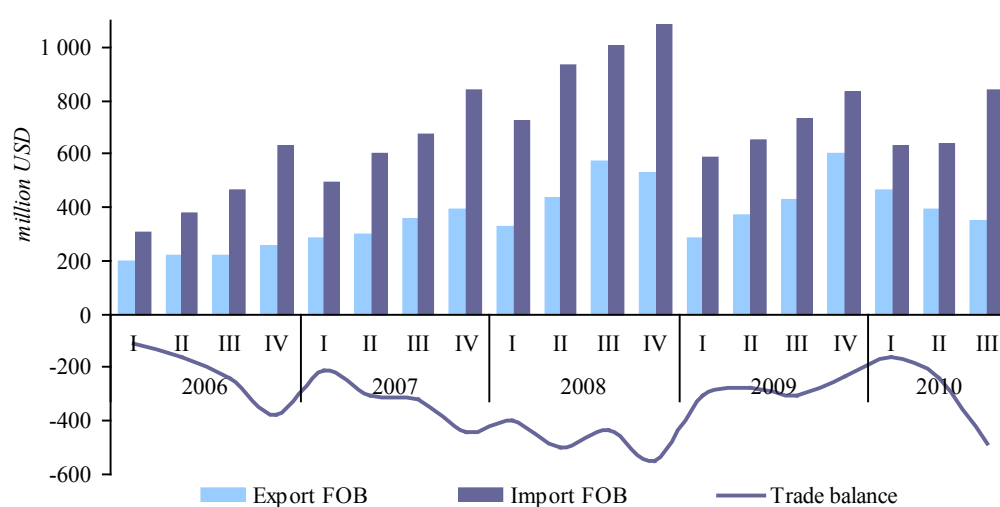
1.3. External economic conditions

Trade Balance

Pursuant to the preliminary data, trade balance deficit of the Kyrgyz Republic in the third quarter of 2010 constituted 485.2 million USD, having increased by 61.1 percent in comparison with the index of the third quarter of 2009.

The external turnover¹ in the reporting period increased by 2.1 percent in comparison with the corresponding period of 2009 and made up 1191.9 million USD. Trade relations of Kyrgyzstan were more actively developed with the CIS-countries – 58.6 percent from the overall volume of trade turnover. Correspondingly, the share of non-CIS countries constituted 41.4 percent.

Chart 1.3.1. Foreign trade



In the third quarter of 2010, export of goods (at FOB prices)² constituted 353.4 million USD, having decreased by 18.4 percent in comparison with the corresponding index of the third quarter of 2009. The developed tendency was provided by decrease in export to non-CIS countries by 42.5 percent or by 86.2 million USD. As for export of goods to the CIS-countries, there was a certain growth by 2.8 percent or by 6.4 million USD.

In the reporting period, shares of major groups of exported goods³ were as follows: intermediate goods - 35.5 percent from the total volume of export, consumer goods – 34.2 percent, energy products – 17.8 percent, raw materials – 6.9 percent.

Despite reduction of the largest functional article in the amount of 29.7 percent in the third quarter of 2010, the volume of intermediate goods constituted 99.6 million soms. The main component of this article as before was gold, export volume of which decreased by 38.1 percent to the level of 75.8 million USD. Decrease in supplies of gold was explained by reduction of export physical

¹ NSC KR and SCC KR data including NBKR adjustments

² NSC KR and SCC KR data including NBKR adjustments.

³ NSC KR and SCC KR data including NBKR adjustments.

volume by 51.5 percent as a result of decrease in production of this precious metal.

Export of consumer goods increased by 47.3 percent and constituted 95.9 million USD. The main contribution into export growth on this article was made by supplies of non-food products, the volume of which increased by 63.3 percent or by 21.5 million USD. First of all it relates to increased export of clothes and accessories in 2.0 times (by 18.9 million USD) to the Russian Federation. In the third quarter of 2010, export of incandescent electric lamp on the contrary decreased by 4.8 percent or by 0.3 million USD as a result of decrease in physical volume. In the structure of food products, increase in export was registered for such trade positions as milk and dairy products, except for butter and cheese, (by 38.6 percent or by 1.6 million USD) mainly due to growth of prices; meat and meat products (in 16.6 times or by 3.1 million USD) as well as oil and other fats, received from milk (in 14.8 times or by 2.1 million USD) – due to increase in physical volume of export.

Export of energy products in the third quarter of 2010 decreased by 37.0 percent and constituted 50.1 million USD. In the main trade nomenclature of energy products export, the largest decrease was registered for re-export of aviation kerosene (by 70.9 percent or by 31.0 million USD) as a result of decrease in demand for it on the part of other countries, including Uzbekistan due to prices growth. Export of electric energy in the reporting period increased by 19.3 percent or by 5.7 million USD mainly due to increase in natural volume of supplies by 62.2 percent.

Export of raw materials decreased by 67.1 percent and constituted 19.2 million USD. The share of this category in the total export volume sharply decreased by 9.3 percentage points and made up 6.9 percent. This may be explained by decrease in supplies of non-organic chemical substances (by 89.0 percent or by 41.5 million USD), which made the main share of export of raw materials. This decrease was partially compensated by increased in 3.6 times (by 6.9 million USD) supplies of tobacco as a result of three-fold increase in physical volume of export.

In geographic structure of export of goods in the third quarter of 2010, the leader was the group of CIS countries (60.2 percent from the total export). At that, the volume of export to the countries-participants of the Customs Union in the third quarter of 2010 increased by 43.1 percent or by 45.3 million USD in absolute value. Main consumers of the Kyrgyz export were Russia and Kazakhstan. Large partner from non-CIS countries was Switzerland (26.7 percent). There were also changes in positions of such countries as France and UAE. The share of France in the overall export volume constituted 0.1 percent against 10.2 percent in the third quarter of 2009, which may be explained by considerable decrease in supplies of non-organic chemical substances to this country. The share of the United Arab Emirates decreased from 24.9 to 2.0 percent as a result of decrease in gold export volumes.

Import of goods¹ at FOB in the third quarter of 2010 increased by 14.2 percent and constituted 838.5 million USD. Import from non-CIS countries considerably increased (by 34.8 percent) whereas increase in import from the CIS countries constituted 1.6 percent.

As per results of the third quarter of 2010 and in accordance with the functional structure², the main goods categories of import transactions included energy products (35.3 percent of the total import volume), consumer goods (27.7 percent) and intermediate goods (19.3 percent).

In the reporting period, import of energy products increased by 36.6 percent and constituted 322.3 million USD. More than 90.0 percent of energy products import was accounted for supplies of oil products. Due to growth of export dues for “light” oil fuel, imported from Russia, there was continuing increase in prices for fuels and lubricants and decrease in real growth rates. As a result in the third quarter of 2010, import prices for fuels and lubricants increased by 56.7 percent and physical volume of import decreased by 10.2 percent in comparison with the corresponding indices of the third quarter of 2010. Thus, under the influence of price factor, import of aviation kerosene, diesel fuel and automobile gasoline increased. In the reporting period, there was also increase in import of oil asphalt in 2.4 times or by 4.1 million USD. Negative tendency was registered for import of gas (decrease by 37.4 percent or by 3.5 million USD) as a result of decrease in natural volume of supplies of this fuel type by 34.8 percent, which may be explained by decrease in internal demand for gas on the part of industrial sector as a result of retardation of the whole economic activity in the country.

In the reporting period, import of consumer goods reached the level of 252.3 million USD, having increased by 10.7 percent. The largest growth was registered for import of telephone devices as a result of increase in supplies number. Cost volume of import on this trade position increased in 4.3 times or by 10.4 million USD. Moreover in the structure of non-food products, import of clothes and accessories increased in 2.8 times or by 4.3 million USD and of shoes – by 20.9 percent or by 2.0 million USD. Owing to decrease in quantitative index, cost volume of import of motor cars decreased by 49.1 percent or by 19.8 million USD in absolute expression. In the structure of food products, there was increase in import of means and meat products by 56.4 percent or by 6.0 million USD (due to increase in prices and physical volume of supplies), sugar – by 12.9 percent or by 2.3 million USD (due to prices growth), vegetable oil – by 32.7 percent or by 2.7 million USD (due to increase in physical volume of supplies). At that, due to decrease in natural volume of supplies, the cost volume of import of coffee, tea, cocoa and chocolate products decreased (by 50.7 percent or 6.7 million USD), rice (by 30.6 percent or by 2.3 million USD).

¹ CIF import including the adjustments totaled US\$ 695.0 million, the deficit of balance of trade – US\$ 210.8 million.

² According to NSC KR and SCC KR.

As for intermediate goods, the volume of import constituted 176.0 million USD, which is less by 2.4 percent in comparison with the corresponding period of 2009. Decrease in physical volume of supplies provided decrease in import of cast iron and steel as well as products made of them (by 19.9 percent or by 5.5 million USD), conifer wood substances (by 30.0 percent or by 3.1 million USD), coloring and tanning substances (by 21.8 percent or by 1.6 million USD) and rubber tires (by 16.0 percent or by 1.7 million USD). Under the influence of price and quantitative factor, there was increase in supplies of plastics of primary forms (by 67.8 percent or by 3.7 million USD), fabrics (by 17.7 percent or by 2.0 million USD), car spare parts and accessories (by 24.6 percent or by 1.7 million USD).

Import of wheat in the structure of raw commodities in the third quarter of 2010 increased by 26.3 percent or by 3.1 million USD in comparison with the corresponding period of 2009, which was provided by increase in physical volume of supplies by 44.1 percent, whereas import prices decreased by 12.4 percent. At that, maximum import prices for wheat were established in September of the current year for the last nine months, the level of which increased by 56.9 percent from the beginning of the year and constituted 206.5 UDS per a ton.

According to geographic structure, the main share of import (54.9 percent) was accounted for the CIS-countries. The share of non-CIS countries constituted 45.1 percent correspondingly. Import from the countries-participants of the Customs Union remained at the level of the corresponding period of 2009. The main partner countries of the Kyrgyz Republic on import operations were Russian (35.1 percent from the total import), China (17.0 percent), Kazakhstan (9.2 percent) and United States of America (7.0 percent).

1.4. Exchange rate

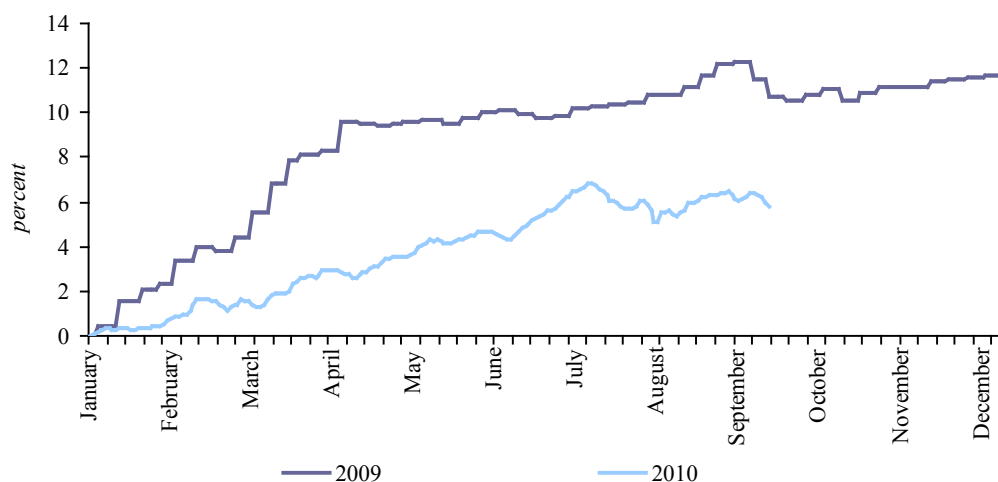
In the third quarter of 2010, KGS depreciation against USD slowed down. At that in July, there was stable tendency for USD exchange rate growth, including under the influence of continuing devaluation expectations. Starting from August, stable downward tendency was changed for diversified one. As per results of September, there was decrease in USD exchange rate. This dynamics was provided by increase in supply of the currency in the market as a result of increase in its inflow in the form of money transfers as well as reduction of banks' expenses for servicing of import contracts of their clients.

In order to prevent acute fluctuations of the national currency rate, the National Bank of the Kyrgyz Republic performed transactions on USD purchase/sale in the inter-bank foreign exchange markets. In the third quarter of 2010, due to decrease in pressure on the exchange rate, the National Bank of the Kyrgyz Republic terminated transactions on USD sale by 32.5 percent to 60.8 million USD. At the same time, due to increase in supply of the currency in the market, the volume of transactions on USD purchase was increased in 7 times, the total sum of which made up 15.0 million USD (in comparison with the third quarter

of 2009, the volume of transactions of the National Bank of the Kyrgyz Republic on USD sale increased in more than three times and on USD purchase decreased by 61.0 percent)

As of the end of September, USD official rate constituted 46.6377 KGS/USD, having increased by 0.5 percent within the reporting quarter (as per results of the third quarter of 2009, USD official rate constituted 43.6293 KGS/USD, having increased by 0.8 percent).

Chart 1.4.1. Rates of change of an official rate of US dollar



The dynamics of EUR rate was formed under the influence of its exchange rate dynamics against US dollar on the foreign markets. Against fluctuations of EUR rate on international markets, EUR rate in exchange offices changed its direction during the whole quarter, both to the side of strengthening and weakening. In general, within the quarter, the EUR selling rate increased by 11.5 percent and constituted 63.0989 KGS/EUR as of the end of September.

Chapter 2. Inflation and its components

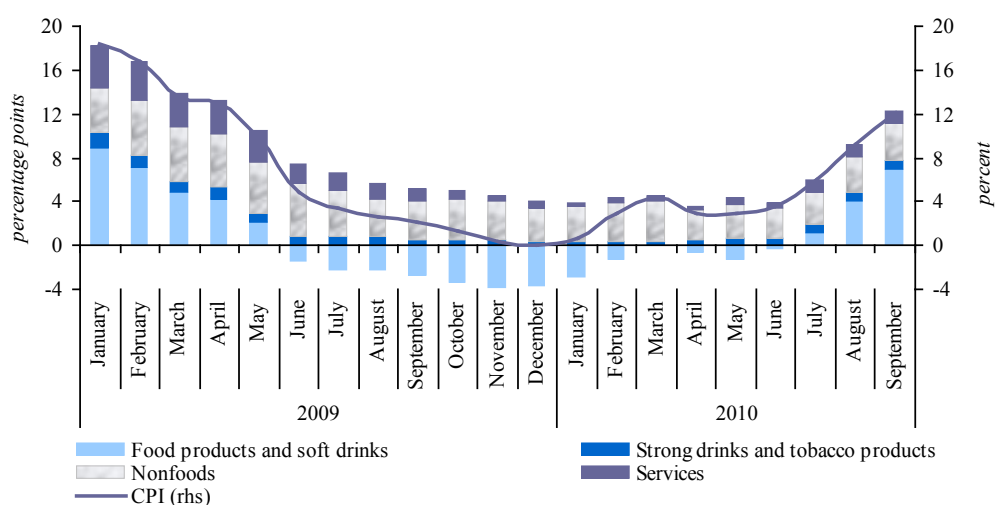
2.1. Consumer price index development¹

In September 2010, the annual value of inflation (against September 2009) constituted 12.1 percent, whereas in the corresponding period of the past year it was 2.1 percent. The largest increase of the consumer price index was registered for food products and non-alcohol beverages. This group of goods on an annualized basis got up by 14.4 percent. There was increase in prices for non-food products (11.4 percent); increase in prices for alcohol beverages and tobacco products constituted 8.8 percent and for paid services – 9.4 percent.

The developed price level was formed under the influence of such major factors as:

- change in the tariff policy for electric and heat energy;
- change of prices for the main food products both under the influence of prices on world markets (wheat and sugar) and due to seasonal factors (for instance, fruits and vegetables, meat-and-milk production);
- appreciation of fuels and lubricants in the domestic market due to changes of conditions of fuels and lubricants supply to the Kyrgyz Republic and growth of world prices;
- tightening of access control on borders with neighboring countries as well as worsening of trade conditions inside the country as a result of instable social-political situation in Kyrgyzstan.

Chart 2.1.1. Annual CPI and its components



In the third quarter 2010, the CPI constituted 105.9 percent (in the third quarter of 2009 – 97.8 percent). CPI for food products was 108.5 percent, for alcohol

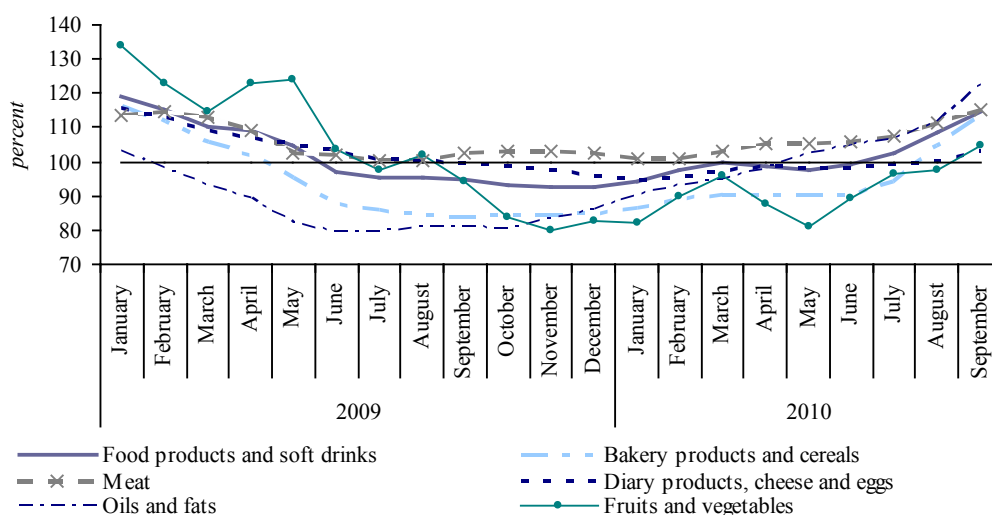
¹ In accordance with data of the National Statistics Committee of the Kyrgyz Republic .

beverages and tobacco products – 103.4 percent, for non-food products – 103.8 percent and for paid services – 104.9 percent.

2.1.1. Dynamics of prices for food products

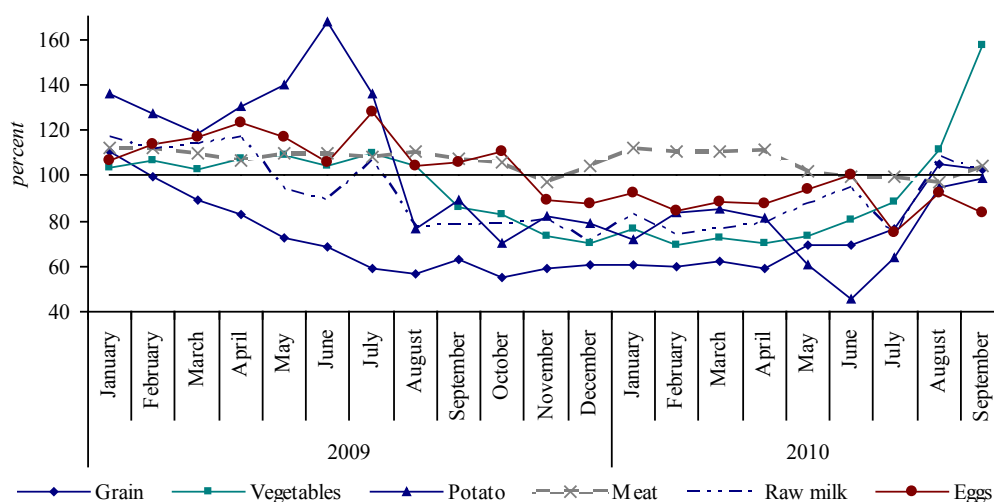
In general, price situation in the domestic market was characterized by ascendant tendency. Prices for food products as per results of September 2010 increased by 14.4 percent on an annualized basis (in the corresponding period of 2009 there was decrease in prices by 5.4 percent). The group of goods “bakery products and cereals” appreciated by 13.7 percent, including wheat flour of the first grade appreciated by 27.1 percent; prices for dairy products increased by 3.0 percent and for fruits and vegetables – by 4.9 percent. Growth of prices for bakery products and cereals started on the domestic market in July of the current year against forecasted decrease in yield of grain crops in manufacturing countries due to unfavorable natural-climatic conditions as well as embargo for grain export from Russia, which influence on prices in the region.

Chart 2.1.2. Annual dynamics of food prices



In the third quarter of 2010, there was increase in prices of agricultural production manufacturers by individual types of goods in comparison with the corresponding index of the past year. Thus, manufacturers prices for grain increased by 3.0 percent on an annualized basis, for vegetables – by 57.7 percent, for meat – by 4.3 percent, for dairy products – by 2.2 percent. Decrease in CPI was registered for potato (by 1.3 percent) and eggs (by 16.1 percent).

Chart 2.1.3. Annual dynamics of the producer price index of agricultural products



As per results of September 2010, under the influence of seasonal character factors there was increase in prices for fruits and vegetables: fruits appreciated by 4.9 percent and vegetables – by 5.3 percent. On an annualized basis, there was diversified dynamics: prices for fruits increased by 19.3 percent and for vegetables – decreased by 0.6 percent.

In the third quarter of 2010, sugar cost increased by 1.7 percent, which may be explained by seasonal factors (canning and preparation of products for winter period). However, comparatively low cost of imported product continues maintaining its cost on the domestic market. In general, as per results of September, there was retardation of annual growth of sugar prices in the republic, which made up 20.5 percent. According to preliminary data of the State Customs Committee of the Kyrgyz Republic, average price for the imported sugar in September of the current year constituted 724 USD per a ton (- 6.7 percent against second quarter of 2010).

Due to high import-dependence increase in cost of the imported meat production (+27.8 percent on an annualized basis) promotes growth of prices on the domestic market. As of the end of September 2010, meat production appreciated by 15.1 percent on an annualized basis.

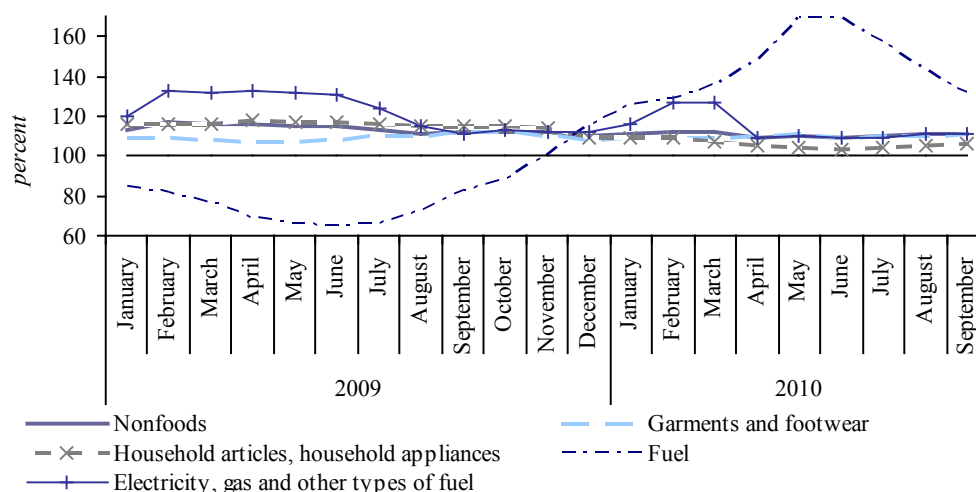
As per results of September 2010, there was increase in prices on the market of oils and fats by 22.4 percent. However, one of the reasons for the developed prices dynamics was continuing appreciation of the imported production (+8.6 percent on an annualized basis) as a result of low yield of sunflower in the main manufacturing countries.

In the third quarter of 2010, due to seasonal factors, there was increase in consumer prices for dairy products, which constituted 3.1 percent and on an annualized basis dairy products appreciated by 3.0 percent.

2.1.2. Dynamics of prices for non-food products

In the third quarter of 2010, growth of the nonfood price index constituted 11.4 percent, which was 0.3 percentage points less in comparison with the corresponding index of 2009. CPI for non-food products was determined by dynamics of rates on electric energy, hot water and central heating (+11.2 percent) as well as by cost of fuels and lubricants (+31.8 percent). Influence was also caused by increase in prices for clothes and shoes by 10.8 percent, mainly due to appreciation of materials for clothes production by 14.7 percent and cleaning, repair and rent of clothes by 14.5 percent. There was increase in prices for household articles and household appliances, which constituted 6.2 percent. The main reason for the developed dynamics was increase in prices for furniture and floor covers (+3.0 percent) due to appreciation of wood substance as well as glasswork and cutlery (+11.5 percent).

Chart 2.1.4. Annual dynamics of non-food prices



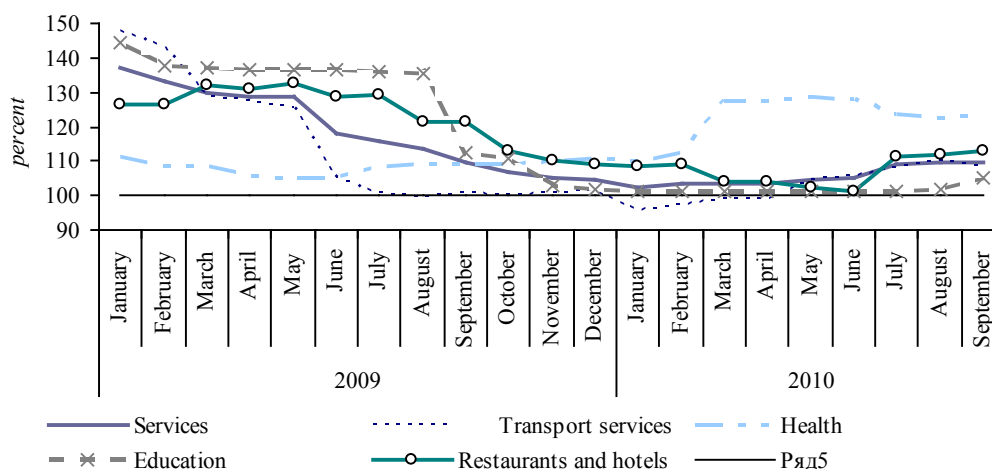
Export custom duties for oil and oil products, exported from Russia to Kyrgyzstan, which were introduced from April 1, 2010, strengthened influence of the world prices dynamics for energy carriers on cost of fuels and lubricants in the republic. Due to growth of world futures for oil, export duties increase in the countries-main suppliers of fuel to the Kyrgyz Republic and vice versa. Thus, annual growth of prices for fuels and lubricants in September 2010 constituted 31.8 percent; prices for gasoline grew by 28.1 percent and for diesel fuel – by 61.6 percent.

2.1.3. Dynamics of prices for services

In the third quarter of 2010, growth of the services price index in annual terms constituted 9.4 percent (in the corresponding period of 2009 – 9.5 percent). Growth on index in this group of products was mainly due to appreciation of transportation services (+9.8 percent), medical services (+23.8 percent) as a result of increase in cost of import medications as well as due to appreciation of recreation services (+18.4 percent). After beginning of the new school year, there was increase in education services cost by 5.2 percent. Cost of services

of restaurants and hotels increased by 12.9 percent, which was provided by appreciation of food in canteens and hotel rooms.

Chart 2.1.5. Annual dynamics of prices for paid services

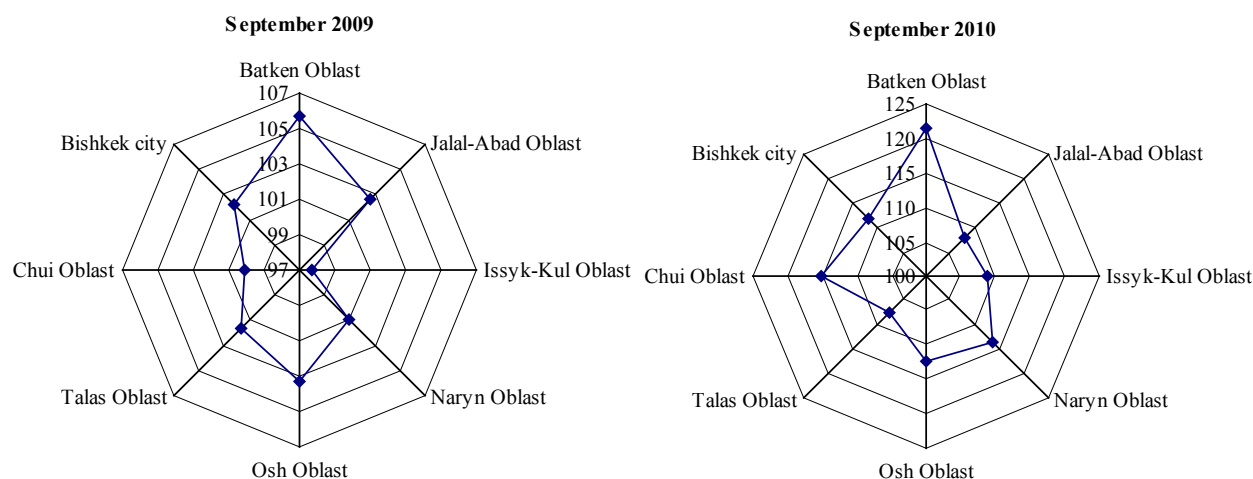


2.1.4. Consumer prices in regions

As per results of September 2010, growth of the general level of consumer prices was registered in all regions of the republic. The largest increase in prices in annual basis was registered in Batken oblast (by 21.4 percent), Chui oblast (by 15.0 percent), Naryn oblast (by 13.7 percent) and Osh oblast (by 12.4 percent). Main contribution was made by appreciation of food products and services. In other oblasts inflation was formed less than 10 percent: in Issyk-Kul oblast consumer prices increased by 8.7 percent, Jalal-Abad oblast – by 7.7 percent and Talas oblast – by 7.6 percent.

In the capital of the Kyrgyz Republic there was increase in prices by 11.9 percent, at that food products appreciated by 13.8 percent, alcohol beverages and tobacco products – by 8.9 percent, non-food products – by 12.1 percent and paid services – by 8.0 percent.

At the end of September of the current year in Osh oblast there was increase in prices for fuels and lubricants, in particular for diesel fuel. One of the reasons for prices growth was temporary deficit of fuels and lubricants during performance of field works. In individual oblasts of the republic there was appreciation of tobacco products. One of the reasons was decrease in harvesting of tobacco in the republic: as per results of the third quarter, this index was formed lower by 9.6 percent in comparison with the corresponding index of the previous year.

Chart 2.1.6. Annual CPI in regions

2.2. Core inflation

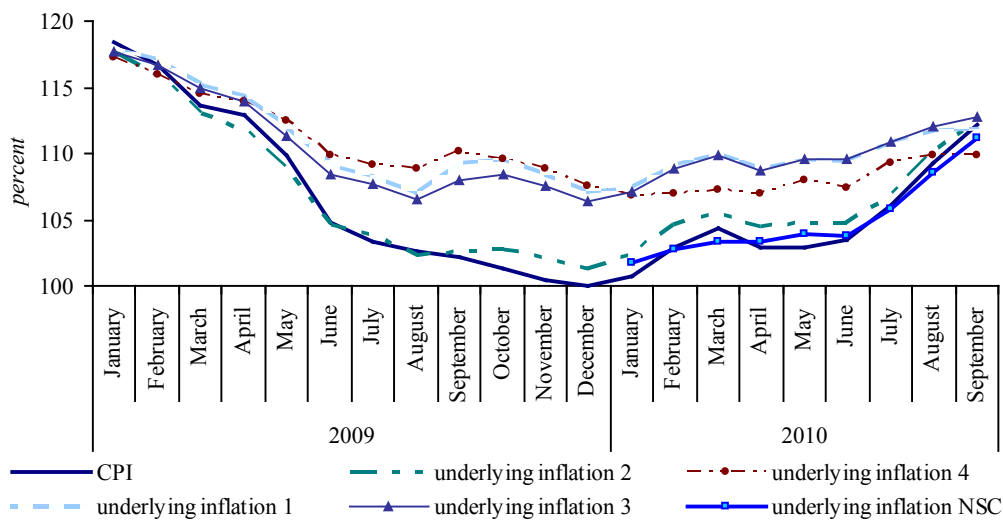
Core inflation is defined as the trend of inflation excluding short-term, structural, and seasonal changes in prices. That means that growth of prices of goods, caused by the seasonal or external factors such, as poor harvest, a price shock in the market of petroleum products, administrative changes in gas and electricity tariffs are removed from the calculation of the rate of inflation.

Dynamics of core inflation calculated by means of the method of simple exclusions is described below. This method implies the removal of categories or the whole group of goods and services, highly sensitive to shocks, from CPI. Traditionally, such goods comprise some food products, energy resources and the tariffs, administratively established by the Government.

From April 2010, the National Statistics Committee of the Kyrgyz Republic started calculation of the core inflation by the method of simple exclusions (according to the approved methodology No.9, dated April 29, 2010). When calculating, such products as milk, sugar, some types of vegetables and fruits, alcohol-tobacco production, fuels and lubricants, trade group “electric energy, gas and other types of fuel”, passenger transportation services, communication services and some others, are excluded. In general the share of excluded goods constitutes 25 percent from the overall consumer goods basket.

Value of the core inflation, estimated in accordance with the methodology of the National Statistics Committee of the Kyrgyz Republic, as per results of September 2010 was inconsiderably lower than the developed CPI level. Thus, the core inflation, estimated in accordance with the methodology of the National Statistics Committee of the Kyrgyz Republic on in annual expression constituted 11.2 percent, whereas “raw” inflation made up 12.1 percent. These indices of the core inflation testify about the fact that inflation dynamics has stable ascendant tendency and in the economy of Kyrgyzstan the general high inflation background is formed.

Chart 2.2.1. Annual dynamics of the estimated core inflation indicator



Core inflation 1 – the following types of goods are excluded: 1) bakery products and cereals; 2) oils and fats; 3) fruit and vegetables; 4) gas; and 5) materials for repair and construction.

Core inflation 2 – the following types of goods are excluded: 1) meat; 2) fruit and vegetables; 3) gas; and 4) materials for repair and construction.

Core inflation 3 – the following types of goods are excluded: 1) bakery products and cereals; 2) dairy products; 3) fruit and vegetables; 4) gas; and 5) materials for repair and construction.

Core inflation 4 - food products and electricity, gas, and other types of fuel are excluded.

Core inflation NSC – the following types of goods are excluded: milk, sugar, some types of vegetables and fruits, alcohol-tobacco production, fuels and lubricants, trade group “electric energy, gas and other types of fuel”, passenger transportation services, communication services and some others.

Chapter 3. Monetary Policy Decisions of the National Bank of the Kyrgyz Republic

3.1. Major decisions of the NBKR Board

The list of basic monetary policy solutions of the Board of the National Bank of the Kyrgyz Republic taken in the third quarter of 2010 is presented below:

1. To assess the current situation and to develop the scenario for implementation of the relevant monetary policy in the short-term period, the Board of the NBKR considered and approved on August 11, 2010, the Monetary Policy Report for the first half of 2010 and Monetary Program for the following period (Resolution No 62/11). An informative subset of the document was directed to the Government Office of the Kyrgyz Republic, Ministry of Finance and Ministry of Economic Regulation of the Kyrgyz Republic, as well as was placed on the official web-site of the NBKR.
2. With regard to changes, earlier introduced into section 36 of the periodic regulative banking reporting, the NBKR Board accepted the resolution No. 73/3, dated September 15, 2010 "On approval of the list of obligations for calculation of obligatory reserves", in accordance with which the list of obligations for calculation of obligatory reserves of commercial banks was supplemented with three articles (the resolution comes into effect from November 1, 2010).
3. For the purpose of enhancing efficiency in economic activity, the NBKR Board Resolution No.75/9, dated September 29, 2010, prolonged validity of the single correction index "1" for formation of interest rate on all crediting directions of the LLC "Specialized Fund for Refinancing of Banks" until February 1, 2010. Earlier the single correction index at the level "1" was established by the NBKR Board Resolution No. 26/1, dated May 3, 2010, until the end of the third quarter of 2010.
4. Moreover, the NBKR Board Resolution No. 75/11, dated September 29, 2010, introduced amendment to the policy of banks refinancing of the LLC "Specialized Fund for Refinancing of Banks"¹ within the framework of improvement of the methodology for calculation of interest rate on credits, issued by commercial banks at the expense of funds of the LLC "Specialized Fund for Refinancing of Banks".

3.2. Major decisions of the Monetary Regulation Committee

The Monetary Policy Committee (hereinafter referred to as the Committee) develops and takes operative decisions in the monetary sphere. The decisions are taken by the Committee weekly and are based on findings of the money market situation assessment. The volumes of operations directed to regulate liquidity in the banking system in the second quarter of 2010 were defined by the Committee proceeding from the goals and objectives determined by the Board of the NBKR and specified in the Statement of the NBKR about the Monetary Policy for 2010 and in the monetary program for the forthcoming period, as well as taking into account the state of affairs in the banking system and the situation in the fiscal sphere.

¹ Approved by Resolution of the NBKR Board No.16/7, dated march 26, 2009.

In the third quarter of 2010, the Committee held 13 meetings. The decisions of the Committee were aimed at regulating liquidity in the banking system by holding weekly auctions of NBKR notes. Due to growth of liquidity in the banking system, the National Bank of the Kyrgyz Republic in July started to inconsiderably increased volumes of the NBKR notes emission for the purpose to achieve the volume of notes in circulation to 0.4 billion soms as of the end of September 2010 from the level of 0.2 billion soms as of the end of June 2010. At that, the National Bank of the Kyrgyz Republic in the third quarter of 2010 arranged auctions on allocation of only the NBKR 28-days notes.

The volume of NBKR notes sale in the third quarter of the current year constituted 1.0 billion soms. Net USD sale by the National Bank of the Kyrgyz Republic¹ in the reporting period made up 2.0 billion soms in KGS equivalent.

The Monetary Regulation Committee also accepted decisions on size of the basic rate for crediting purposes by the Specialized Fund for Refinancing of Banks, established once a month. Size of the interest rate on credit funds of the Specialized Fund for Refinancing of Banks is equal to the basic rate with correction index, depending on credited sphere.

To support the real sector, decision of the Monetary Regulation Committee established the basic rate for the Specialized Fund for Refinancing of Banks at the level of 7.0 percent until the end of the third quarter of 2010. Moreover, on September 27, 2010, the Monetary Regulation Committee accepted the decision to leave the basic rate for crediting purposes of the Specialized Fund for Refinancing of Banks at the level of 7.0 percent in October 2010.

Press-release

The NBKR Board Meeting on consideration
of the Monetary Policy Report of the NBKR for the first half of 2010

On August 11 2010, the Board of the National Bank of the Kyrgyz Republic considered the monetary policy report for the first half of 2010.

Significant decrease of the liquidity in the banking system was registered in the second quarter as a result of recent political events. The National Bank reduced the outstanding volume of NBKR Notes to Som 200 million by the end of June in order to provide liquidity and stability of the banking system operation. The discount rate growth, which started in April and reached 3.5 percent in May, stopped in June and by the end of month decreased to 2.7 percent. Though the liquidity level in the banking system decreased in the second quarter, generally, for the first half year, the average daily volume of excess reserves of commercial banks remained relatively high.

Growth of the consumer price index in the first half reached 4.1 percent (June 2010/December 2009), annual inflation reached the level of 3.6 percent (June 2010/June 2009).

During the first half, there was a tendency for Som weakening against US dollar. The National Bank performed transactions on sale of non-cash US dollars through the interbank foreign exchange sales to smooth the misbalance of demand and supply of

¹ NBKR follows the policy of floating exchange rate, accepted by the Kyrgyz Republic.

foreign currency. Generally, for the first half of 2010, the volume of the net NBKR sales of the US dollars at the interbank foreign exchange markets amounted to 140.2 million US dollars; official US dollar exchange rate against Som increased by 6.5 percent and constituted 46.9746 Som/US dollar.

It was noted that the real economic growth by 5 percent for the first half was mainly provided by the growth of industrial production and active gold mining as well as by the effect of “low base” in the past year. The real GDP growth made 1.5 percent excluding enterprises developing the gold mining deposit “Kumtor”. The state budget deficit achieved 1.3 billion Som or 1.6 percent of GDP. Preliminary data of the external economic sector indicated growth of the volume of foreign trade transactions by 11.8 percent; in this regard export increased by 28.7 percent while import – by 2.9 percent. Cash transfers inflow was also registered.

There was reduction of the total assets level, capital and deposit base in the banking system. Total credit portfolio in Som equivalent increased, whereas credits extended in foreign currency in nominal terms decreased. The National Bank reduced the rate of required reserves from 9.5 to 8.0 percent and the base rate of Special Fund for Banks Refinancing (SFBR) from 8 to 7 percent in order to support the banking sector in the conditions of the resource base reduction for crediting. Moreover, the single adjustment factor was established to determine the interest rates for credit resources of SFBR at the level of 1. Thus, the cost of SFBR resources for commercial banks constituted 7 percent and for final borrowers – from 12 percent (mortgage credit lending) to 17 percent (microfinancing).

During the consideration of the monetary policy report, there were discussed agreements, concluded with donors on financial assistance for the budget support, as per results of the Donors International Conference “Emergency Aid to KR: Rehabilitation and Concord”, which took place on July 27, 2010. As well, the results of work with IMF country mission were also discussed.

Board Members exchanged ideas about the forecasts of main macro-economic indicators and the monetary policy results. Current estimates indicated that in 2010 the real GDP is expected to decrease by 2.5-3.5 percent mainly due to the downturn in the trade and agriculture sectors. At the same time, there is the threat of deterioration the situation in the real sector due to a more protracted economic revival after political events, which took place in June in the southern region of the country. According to the estimates of the Ministry of Economic Regulation, a decline of real GDP may reach the level of 5.4 percent. Growth of prices for bread and flour, occurred as a result of the expected loss of harvest in Russia and Kazakhstan due to adverse weather conditions, was found to be one of the main factors for inflation risks. Corresponding measures on prevention of speculative trading of socially significant food products in the market should be taken by the government authorities.

In the context of discussion there was an opinion that the demand for money will be supported by external financial aid and arrangement of the parliamentary election. The Board expressed its concerns with regard to sources for the budget deficit financing. Balanced utilization of the budget funds is topical especially in this year owing to the

expected financial aid to be provided by international donors. The Board emphasized that it is extremely important to strengthen measures of the budgetary discipline, optimize and increase transparency of government expenditures as the budgetary expansion policy carried out by the Government may become the key factor for inflation risks next year.

Members of the Board approved the monetary policy report for the first half of 2010 as a result of the discussion arranged.

Chapter 4. Inflation Forecast

4.1. Forecast of Key Inflation Factor Developments

Against negative influence of social-political events, occurred in the country, there was considerable decrease in economic activity, mainly reflected on enterprises of services sphere and agriculture, which provided decrease in the economy growth rates in January-September 2010 by 0.5 percent.

GDP forecast for 2010 with regard to actual data for 9 months of 2010 was adjusted to the positive side. GDP decrease in 2010 is forecasted at the level of 2.0 percent against expected 2.5 percent; in nominal value the volume of GDP is assessed in 212.7 billion soms. Adjustments of forecast evaluations assume less decrease in the sphere of trade operations and deeper decrease of production volumes in agriculture. Moreover, against decrease in investments into the fixed assets of the energy sector (completion of construction of hydro-power electric station “Kambar-Ata 2”) as per results of 2010, decrease in growth rates in construction is expected.

Recession in the services sphere will be accompanied by considerable decrease in trade operations turnover, which will depend on conditions of trade with the countries-main trade partners and level of consumer activity of the population. In agriculture there may be decrease in value added against heavy crop in the previous year, which will have negative effect on economic growth rates. At that, growth in industry will partially compensate recession in the services sphere and agriculture; increase in industrial production is expected mainly due to the branches, not-engaged in gold production.

Table 4.1.1. GDP forecast by sectors for 2010

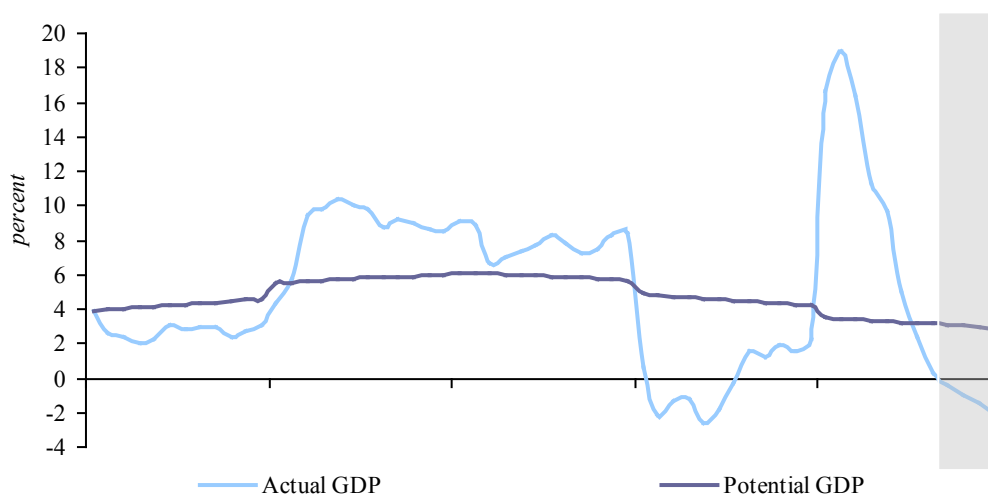
	actual data					estimated data					
	current prices, mln.som	comparable prices, mln.som	gross value added, mln.som	real growth, percent	deflator, percent	gross value added, mln.som	real growth, percent	comparable prices, mln.som	gross value added, mln.som	real growth, percent	deflator, percent
	2009	2009	2009	2009	2009	Jan-Sep 2010	2010	2010	2010	2010	2010
Agriculture, hunting and forestry	43 372.8	47 395.8	3 244.9	7.3	-8.5	-1 124.3	-3.4	40 770.4	-2 602.4	-6.0	
Industry	29 143.7	26 596.0	-1 928.4	-6.8	9.6	2 967.8	16.6	31 325.8	2 182.1	7.5	
Mining industry	1 232.7	1 048.8	47.1	4.7	17.5	50.7	5.9	1 294.3	61.6	5.0	
Processing industry	24 577.0	22 910.3	-1 940.4	-7.8	7.3	2 645.4	18.1	26 297.4	1 720.4	7.0	
including Kumtor	13 611.4	10 204.9	-808.6	-7.3	33.4	1 319.4	19.1	13 883.6	272.2	2.0	
Electricity, gas, and water generation and distribution	3 334.0	2 636.9	-35.1	-1.3	26.4	271.7	11.5	3 734.1	400.1	12.0	
Construction	11 235.3	10 501.4	621.1	6.3	7.0	-201.4	-3.0	10 898.2	-337.1	-3.0	
Trade	32 205.2	31 266.4	553.8	1.8	3.0	-1 951.1	-8.7	29 789.8	-2 415.4	-7.5	
Transport and communication	17 931.0	15 583.0	757.9	5.1	15.1	46.9	0.4	18 020.7	89.7	0.5	
Other	40 675.1	35 793.1	587.8	1.7	13.6	-282.4	-1.0	40 268.3	-406.8	-1.0	
Net tax on products	21 860.0	25 261.2	567.9	2.3	-13.5	-77.8	-0.5	21 423.0	-437.0	-2.0	
GDP	196 423.1	192 396.9	4 405.0	2.3	2.1	-622.3	-0.5	192 496.3	-3 926.8	-2.0	10.5
GDP excl. Kumtor	182 811.7	182 192.0	5 213.6	2.9	0.3	-1 941.7	-1.5	178 612.6	-4 199.1	-2.3	

Another index of price risks, occurring in the economy under the influence of growth/decline of GDP, may be the index of output (GDP) gap.

As it was noted in the previous Inflation Report, sharp growth of the GDP and corresponding increase in the GDP gap, registered in the first half 2010, was mainly of technical character, provided by low base of previous year. In general as per results of 2010, decrease in the economy growth is forecasted in comparison with the previous year and finally actual GDP growth in 2010 will be considerably lower than its potential level, which in turn will have retaining effect on the inflation rate in the country.

Chart 4.1.1. Forecast of actual and potential GDP

(growth rate, period from the beginning of the year against corresponding period of the previous year)



In the GDP structure by expenditure, considering actual data for six months of 2010, slight growth of expenses is expected for consumption in comparison with the previous year. Consumption growth in 2010 is expected mainly against increase in governmental expenditures; herewith, negative influence of the economic activity recession will be maintained.

Also, certain increase in investments into economy is expected on the part of the state for restoration of destroyed infrastructure objects and property of the population. Such measures will promote recovery of economic activity and enable to somehow mitigate the GDP decrease.

Import growth in 2010 is expected at the level of 112.0 percent, which will be provided by its low level in the previous year and to some extent by planned recovery of the economy in the countries-main trade partners of the Kyrgyz Republic. Income from export will be increased approximately by 2.7 percent.

4.2. Inflation forecast for 2010 and quarter IV of 2010

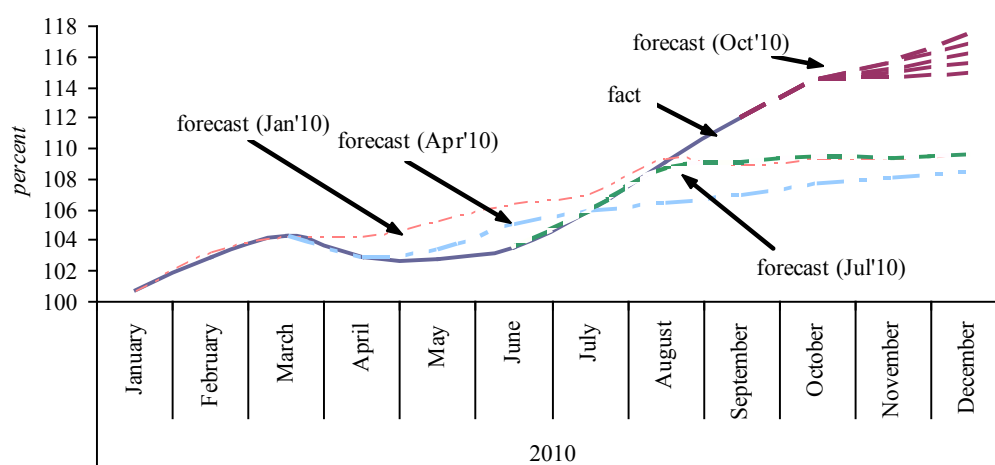
According to preliminary data as of October 20, 2010, the annual inflation has constituted 14.6 percent, which stipulates evident excess of earlier forecasted indices. Thus, risks of more considerable inflation growth, specified in the previous Inflation Report, were proven: breakup in inflation dynamics has been observed from July 2010 as a result of considerable increase of prices for the goods of prime necessity (bakery products, cereals, vegetable oil, meat-and-milk production).

Based on actual data for the passed period as well as assumptions about further dynamics of prices for various groups of products, inflation on an annualized basis (December 2010 against December 2009) is estimated in the range of 15.0 to 17.5 percent.

Probability of achievement of the high range of the forecasted diapason is very high, if the inflation dynamics, observed within three latest months, will last until the end of the current year. In this case, more stable growth of prices for food products is assumed as well as development of the secondary effect on cost of other goods and services in this year.

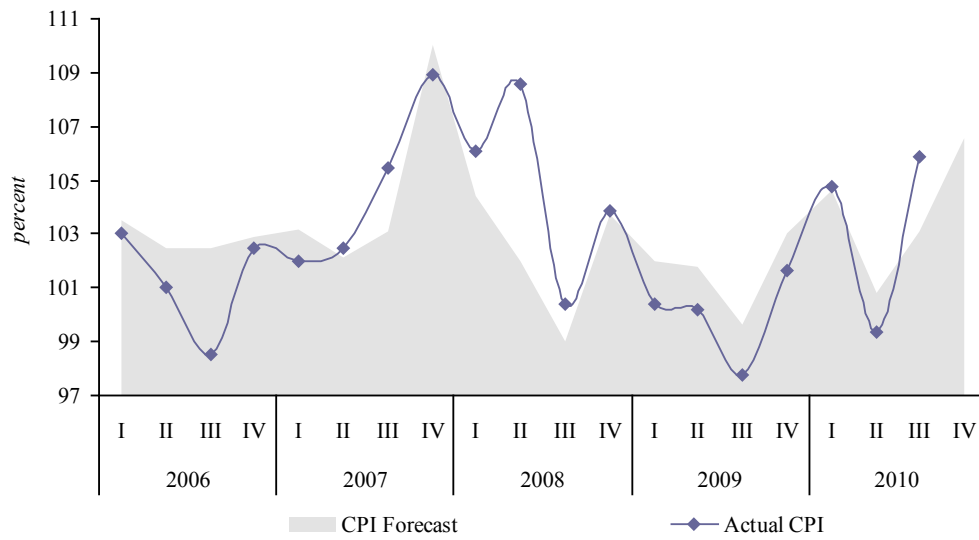
Further inflation dynamics will directly depend on measures for stabilization of situation on the market of food products. In case of non-acceptance of timely and proper measures, there is a threat for prices stability.

Chart 4.2.1. Annual inflation forecasts



Specified evaluation of inflation forecast until the end of 2010 includes further growth of prices for the main food products as well as moderate development of the seasonal factor and demand increase during holidays, being characteristics of the last months of the year. As a rule, in the fourth quarter, seasonal fluctuations are noted in prices for fruits-and-vegetables, meat-and-milk production, fuel due to beginning of the heating season as well as for some other goods and services (public catering, clothes and shoes). In general, growth of prices in the fourth quarter of 2010 is forecasted in the range of 4.3-6.5 percent.

Chart 4.2.2. Inflation forecast for quarter IV of 2010



Forecast of the GDP deflator for 2010 remained unchanged at the level of 10.5 percent.

Statistical Annex

Table 1. Consumer Prices Index
(month-on-month changes, percent)

	2010								
	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.
Consumer Prices Index	101.3	102.5	101.0	99.0	100.2	100.1	101.0	101.9	102.9
Goods	101.4	102.8	101.0	98.8	100.0	100.1	100.6	102.0	103.3
Food and soft drinks	102.0	101.9	101.5	99.2	98.9	99.9	100.1	103.2	105.0
Alcoholic beverages and tobacco	100.1	100.2	100.4	102.6	100.5	100.5	101.2	101.0	101.1
Non-food	100.9	104.8	100.6	97.3	101.4	100.2	100.9	100.9	101.9
Services	100.4	100.7	100.8	100.1	101.5	100.5	103.8	101.1	99.9
Food products and soft drinks	102.0	101.9	101.5	99.2	98.9	99.9	100.1	103.2	105.0
Bakery products and cereals	99.4	99.8	99.4	99.3	99.7	100.4	102.6	109.6	106.4
high-grade wheat flour	99.6	99.5	99.8	99.5	99.4	100.2	102.4	112.8	109.6
first-grade wheat flour	99.4	99.7	99.4	99.0	99.0	100.7	104.1	117.6	110.2
bread	100.0	101.0	100.0	100.1	99.8	100.5	101.1	104.5	106.8
Meat	101.1	101.3	102.3	100.9	100.6	100.8	101.1	102.3	103.7
Fish	102.4	103.2	100.3	101.3	100.1	100.1	102.5	101.6	100.1
Diary products, cheese and eggs	100.9	99.9	98.4	98.6	98.3	98.7	99.2	100.5	103.5
Oils and fats	101.0	100.1	100.5	100.9	101.4	100.6	101.9	104.3	109.7
Fruits and vegetables	104.4	108.4	105.7	97.1	93.3	97.9	92.6	91.0	105.1
fruits	102.1	101.6	101.4	100.8	100.4	109.5	98.1	88.8	104.9
vegetables	105.8	112.3	108.0	95.3	90.5	92.7	89.6	92.3	105.3
Sugar, jam, honey, chocolate and candies	108.4	101.7	101.4	98.5	98.5	98.9	99.2	101.0	102.3
sugar	113.6	102.4	101.7	97.2	98.0	98.0	98.1	100.6	103.1
Other food products	98.1	100.3	100.1	99.9	99.4	103.9	101.2	101.2	101.6
Soft drinks	100.9	100.7	101.8	101.1	101.2	100.7	100.8	100.9	100.5
Strong drinks and tobacco products	100.1	100.2	100.4	102.6	100.5	100.5	101.2	101.0	101.1
Strong drinks	100.2	100.2	100.7	100.3	100.7	100.7	100.6	100.5	100.8
Tobacco products	100.0	100.0	100.0	107.4	100.0	100.0	102.8	102.8	102.0
Garments and footwear	100.4	100.7	100.4	100.9	101.5	100.0	100.9	100.5	102.5
garments	100.5	100.9	100.6	101.1	101.9	99.9	100.5	100.5	103.8
fabric for garments	103.8	107.5	100.1	100.0	100.0	100.2	101.7	100.5	100.3
garments for men	100.4	100.7	100.0	100.8	102.7	100.1	100.2	100.3	106.9
garments for women	100.4	100.9	101.1	102.0	103.0	99.3	100.5	100.3	102.5
children and newborns garment	100.2	100.2	100.2	100.2	100.1	100.3	100.6	101.0	103.2
cleaning, mending and renting garments	100.4	101.1	105.3	100.0	101.3	101.3	100.1	101.9	101.7
footwear including repair	100.2	100.2	100.0	100.6	100.4	100.3	101.7	100.6	99.6
men footwear	100.2	100.4	98.3	99.8	100.2	100.2	102.7	101.0	96.9
women footwear	100.0	100.1	102.7	101.6	100.2	100.3	100.7	100.3	101.6
children footwear	100.6	100.2	96.7	99.5	101.8	100.3	103.1	101.0	98.3
shoe repair	100.0	100.2	100.0	100.0	100.5	100.0	100.0	100.0	100.0
Housing services, water, electricity, gas and other fuels	103.0	118.3	100.6	87.5	100.8	99.2	100.2	101.3	100.4
rent of dwelling	100.0	100.0	100.4	100.0	100.0	100.0	100.0	100.0	100.0
material for maintenance and repair of living houses	97.9	99.0	100.2	101.5	103.2	99.8	100.1	103.5	102.1
electricity, gas and other types of fuel	103.9	122.1	99.6	85.2	100.6	99.0	100.2	101.2	100.2
gas	100.7	100.1	100.7	100.9	100.2	100.5	100.6	104.9	100.6
Household articles, household appliances	100.1	100.5	100.4	100.3	99.4	100.2	100.9	101.0	101.5
furniture and floor coverings	100.1	100.3	100.1	100.6	100.1	100.2	100.4	100.6	100.1
household textile items	100.0	100.0	100.1	100.0	100.0	100.1	104.0	100.0	101.1
home appliances	100.0	100.1	100.3	100.0	100.5	100.2	100.1	101.0	101.7
glassworks, tableware and household stuff	100.3	100.6	100.0	100.4	100.1	100.2	100.2	104.5	104.4
Health	100.3	102.4	113.4	100.3	101.3	99.7	99.9	100.7	101.2
Transport	98.5	100.2	99.7	100.6	104.6	101.6	101.8	102.1	99.6
purchase of cars	100.3	100.5	100.5	100.6	100.6	100.5	101.0	101.6	102.3
petrol and lubricants	97.7	99.5	101.0	105.6	113.4	104.5	100.8	100.9	100.5
gasoline	97.4	99.4	100.3	105.1	112.8	104.5	100.8	100.9	100.6
diesel	99.7	99.7	105.3	108.8	123.1	103.6	101.0	100.1	100.2
transport services	98.4	100.2	99.5	100.1	104.7	101.5	102.5	102.8	98.0
Communication	100.0	99.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Recreation, entertainment and culture	100.0	100.8	100.3	100.5	104.4	103.1	102.3	101.8	103.9
cultural events services	100.0	103.9	100.4	100.1	100.0	100.0	100.0	100.0	100.0
papers, books and stationary	100.0	100.0	100.1	100.0	100.0	100.0	100.0	104.2	109.0
Education	99.6	100.5	100.0	100.2	100.0	100.0	100.1	100.4	104.4
Restaurants and hotels	100.3	100.4	100.0	100.2	100.0	100.0	109.9	100.7	100.8
catering	100.3	100.3	100.0	100.0	100.0	100.0	110.2	100.7	100.8
hotel service	100.2	101.6	100.3	103.3	100.7	100.2	100.0	99.7	100.5
Various goods and services	103.0	101.9	101.9	100.3	100.4	100.6	102.1	100.4	102.3
personal service	103.4	102.1	102.2	100.2	100.3	100.2	100.6	100.5	102.8

Source: NSC

Table 2. Consumer Prices Index
(year-on-year changes, percent)

	2010								
	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.
Consumer Prices Index	100.7	102.9	104.3	102.9	102.9	103.6	106.0	109.2	112.1
Goods	100.6	103.1	104.7	103.0	102.8	103.5	105.8	109.3	112.7
Food and soft drinks	94.3	97.5	100.0	98.9	97.4	99.3	102.6	108.4	114.4
Alcoholic beverages and tobacco	105.1	105.2	105.0	106.9	107.1	106.0	107.2	108.1	108.8
Non-food	110.9	111.8	112.4	108.9	110.2	109.2	109.9	110.6	111.4
Services	102.4	103.3	103.6	103.6	104.8	105.1	108.9	109.9	109.4
Food products and soft drinks	94.3	97.5	100.0	98.9	97.4	99.3	102.6	108.4	114.4
Bakery products and cereals	86.6	89.3	90.2	90.6	90.3	90.5	94.4	104.9	113.7
high-grade wheat flour	78.1	82.2	84.2	88.9	93.6	92.5	95.3	109.1	122.2
first-grade wheat flour	74.3	79.2	80.7	83.6	86.8	87.6	94.2	113.6	128.1
bread	90.2	91.8	92.5	94.8	95.3	95.8	97.1	101.5	108.1
Meat	100.9	100.9	103.2	105.3	105.4	105.8	107.7	111.4	115.1
Fish	103.1	105.6	105.1	106.0	105.8	106.7	110.6	112.7	113.8
Diary products, cheese and eggs	94.8	95.5	97.5	98.7	98.1	98.4	99.5	100.5	103.0
Oils and fats	90.2	93.2	94.9	98.0	102.6	104.8	106.8	111.1	122.4
Fruits and vegetables	82.2	90.0	96.0	87.6	81.1	89.4	96.6	97.7	104.9
fruits	88.5	89.4	90.9	89.8	86.8	101.5	111.0	109.3	119.3
vegetables	76.3	87.7	96.0	83.3	76.5	83.3	90.9	93.5	99.4
Sugar, jam, honey, chocolate and candies	126.2	129.7	132.1	129.9	123.5	120.2	113.7	115.4	115.2
sugar	146.4	152.0	155.8	152.0	139.8	133.4	120.3	121.9	120.5
Other food products	99.2	99.9	100.5	101.0	100.3	104.3	106.0	107.1	108.8
Soft drinks	112.1	112.3	113.5	112.7	113.9	113.7	113.9	114.2	113.9
Strong drinks and tobacco products	105.1	105.2	105.0	106.9	107.1	106.0	107.2	108.1	108.8
Strong drinks	107.1	107.2	107.0	106.3	106.6	104.9	105.5	105.9	105.9
Tobacco products	101.2	101.1	101.0	107.8	107.8	107.8	110.8	113.5	115.8
Garments and footwear	108.7	108.9	109.3	109.8	110.9	109.3	109.7	110.1	110.8
garments	110.3	110.5	110.6	110.9	112.6	111.0	111.0	111.3	112.7
fabric for garments	153.5	160.1	139.7	121.3	121.1	112.9	114.4	114.7	114.7
garments for men	110.6	110.5	110.2	110.4	112.9	111.4	111.3	111.4	115.5
garments for women	109.1	109.4	110.3	112.2	115.0	113.1	113.1	113.0	113.2
children and newborns garment	108.0	107.6	108.0	108.3	108.1	107.4	107.6	108.4	108.9
cleaning, mending and renting garments	107.2	107.9	113.5	111.5	112.0	111.4	111.6	113.4	114.5
footwear including repair	105.7	105.8	106.7	107.5	107.1	105.9	106.8	107.4	106.7
men footwear	105.9	106.2	106.0	107.1	105.6	104.3	105.5	106.5	103.0
women footwear	106.6	106.7	110.2	110.6	110.1	109.2	109.6	109.8	110.5
children footwear	104.2	104.4	101.6	101.9	103.6	102.0	104.5	105.6	104.7
shoe repair	112.9	108.5	106.9	103.9	104.5	103.5	103.3	103.0	103.0
Housing services, water, electricity, gas and other fuels	113.7	122.4	124.1	109.2	110.4	108.4	109.0	110.7	111.4
rent of dwelling	101.0	100.7	100.4	100.4	100.4	100.4	100.4	100.4	100.4
material for maintenance and repair of living houses	106.9	103.2	103.6	105.1	108.1	97.1	100.7	106.3	109.1
electricity, gas and other types of fuel	115.6	126.6	127.2	109.0	110.2	109.3	109.5	110.8	111.2
gas	158.5	102.2	102.9	104.3	105.4	106.2	106.9	112.0	112.8
Household articles, household appliances	109.1	109.0	107.5	105.5	104.5	103.6	104.2	104.9	106.2
furniture and floor coverings	105.2	105.4	104.4	103.2	103.1	103.2	103.6	103.6	103.0
household textile items	140.9	140.0	125.1	110.0	110.1	102.6	106.7	106.5	107.6
home appliances	102.6	102.5	101.9	101.4	101.8	101.8	101.3	102.1	104.0
glassworks, tableware and household stuff	108.2	108.0	106.0	104.7	104.4	103.2	102.9	107.3	111.5
Health	110.4	112.4	127.5	127.5	128.8	127.9	123.5	122.6	123.8
Transport	98.9	100.4	102.0	102.8	108.2	109.3	110.3	111.0	109.8
purchase of cars	110.7	108.5	105.3	104.3	104.6	105.0	105.8	106.9	108.6
petrol and lubricants	125.4	129.2	135.8	147.0	168.6	168.7	157.4	142.5	131.8
gasoline	134.9	137.0	143.9	155.0	175.7	173.4	158.9	140.3	128.1
diesel	94.4	101.7	109.5	121.6	154.7	161.3	161.5	161.5	161.6
transport services	95.5	97.1	98.7	99.0	104.4	105.5	107.9	110.4	108.2
Communication	100.0	99.7	99.7	99.7	99.8	99.8	99.8	99.8	99.8
Recreation, entertainment and culture	111.3	109.4	108.8	108.6	112.8	115.9	118.2	118.5	118.4
cultural events services	116.7	119.9	120.0	111.2	105.9	105.8	104.8	104.4	104.6
papers, books and stationary	117.6	115.8	115.6	115.5	115.2	114.6	113.8	114.4	113.7
Education	101.0	101.3	101.3	101.4	101.3	101.3	101.3	101.6	105.2
Restaurants and hotels	108.8	108.9	104.0	104.1	102.1	101.5	111.3	112.0	112.9
catering	108.4	108.5	103.3	103.4	101.3	101.1	111.3	112.1	113.0
hotel service	118.3	119.6	118.9	122.2	122.4	108.9	108.7	108.2	107.6
Various goods and services	110.2	109.4	110.6	109.2	109.0	109.8	112.1	112.5	114.8
Personal service	110.2	110.6	112.4	110.5	110.1	110.6	111.3	111.7	114.5

Source: NSC

Table 3. Indices of prices and physical import volume for January-August 2010

	8 months	8 months	8 months	Indices		
	2010	2010	2009	prices	Phys. vol.	Cost
	million USD	million USD	million USD			
	n10*p10	n10*p09	n09*p09	A/B	B/C	A/C
	A	B	C			
Oil, oil products and similar materials	501.4	333.8	430.9	1.50	0.77	1.16
Medical supplies (including veterinarian drugs)	59.5	47.4	45.2	1.26	1.05	1.32
Raw iron and steel	56.6	44.4	66.0	1.27	0.67	0.86
Sugar, sugar products and honey	45.7	33.4	38.3	1.37	0.87	1.19
Automobiles for cargo transportation and automobiles of special designation	41.7	24.2	22.4	1.72	1.08	1.87
Meat and meat products	41.7	39.4	26.8	1.06	1.47	1.55
Essential oils, resinoids and perfume substances	38.7	44.3	33.1	0.87	1.34	1.17
Natural gas	35.6	41.1	50.0	0.87	0.82	0.71
Cereals including spelt and mangcorn, unmilled	31.5	44.8	42.4	0.70	1.06	0.74
Paper, cardboard and products, made of them	28.5	25.8	26.9	1.11	0.96	1.06
Coffee, tea, cocoa, spices and similar products	28.2	24.5	27.9	1.15	0.88	1.01
Vegetable oils and fats	27.4	26.1	23.5	1.05	1.11	1.17
Inorganic chemicals	26.6	51.4	47.4	0.52	1.08	0.56
Fabrics, made of artificial textile materials	25.6	30.2	29.8	0.85	1.01	0.86
Electrical line telephone or telegraph devices	25.0	50.7	11.9	0.49	4.26	2.10
Rubber tires	24.1	18.7	20.9	1.29	0.89	1.15
Machines for sorting, grating and separation of coat, stone and ores	23.3	11.8	19.4	1.98	0.61	1.20
Coal, coke and briquettes	21.5	20.7	13.7	1.04	1.51	1.57
Fruits and vegetables	19.4	18.8	15.4	1.03	1.22	1.26
Fertilizers	18.3	23.6	8.4	0.78	2.81	2.18
Plastic materials in initial form	18.2	13.7	12.9	1.33	1.07	1.42
Alcoholic beverages	16.6	13.1	16.9	1.27	0.78	0.98
Products, made of imperfect metals, not included into another category	15.0	8.1	18.6	1.86	0.44	0.81
Wood of coniferous trees, sawn	15.0	14.5	17.4	1.04	0.83	0.86
Shoes with soles and uppers, made of rubber or synthetic materials	15.0	14.5	15.5	1.04	0.94	0.97
Food products and products, non-included into another category	14.8	21.7	15.8	0.68	1.37	0.93
Mineral water and nonalcoholic beverages, sweetened with sugar	12.9	12.3	13.1	1.05	0.94	0.98
Products of cereals, flour or starch	12.3	13.7	10.3	0.90	1.33	1.19
Coloring and tanning substances	12.2	10.1	13.8	1.21	0.73	0.89
Automobiles and transportation means for transportation of people	12.0	10.2	8.8	1.18	1.16	1.37
Plastic materials in non-initial form	11.4	9.9	8.9	1.15	1.11	1.28
Compressed or restored wood	10.8	10.3	10.1	1.05	1.02	1.07
other machines for construction and processing industry	10.6	3.2	5.2	3.31	0.62	2.06
Elevators and conveyors of continuous-running	8.9	0.6	1.4	14.48	0.44	6.34
Raw tobacco; tobacco markings	8.5	7.5	1.9	1.13	3.94	4.45
Hand and machine tools	8.3	9.8	4.8	0.85	2.03	1.72
Rice	8.1	5.9	16.7	1.36	0.35	0.48
Medical and pharmaceutical production	7.6	6.3	6.0	1.21	1.06	1.28
Margarine and combined fats	7.6	5.7	7.9	1.32	0.73	0.97
Various chemical products, non-included into other category	6.9	3.4	6.5	2.04	0.52	1.06
Nails, wind-sticks, screw and others made of iron, steel or copper	6.9	4.5	7.9	1.52	0.57	0.87
Electric transformers	6.8	4.2	2.8	1.60	1.52	2.43
Filtering and cleanout machines and equipment for liquids and gases	6.6	2.2	2.5	3.00	0.88	2.64
Milk, cream and dairy products, except for butter and cheese	6.4	5.3	6.0	1.21	0.88	1.06
Electric control equipment, non-included into other category	6.2	4.0	5.9	1.56	0.67	1.05
Total by nomenclature (million USD)	1 385.6	1 169.6	1 237.6	1.18	0.94	1.12
Total by nomenclature (% out of the total import)	72%		67%			
Total import	1 917.9		1 852.9			

According to NSK in CIF prices, the largest 45 import articles are provided

n - physical volume of goods export

p - estimated import price of goods

Table 4. Indices of prices and physical export volume for January-August 2010

	8 months	8 months	8 months	Indices		
	2010	2010	2009	prices	Phys. vol.	Cost
	million USD	million USD	million USD			
	n10*p10	n10*p09	n09*p09	A/B	B/C	A/C
	A	B	C			
Non-monetary gold	414.4	331.1	236.3	1.25	1.40	1.75
Inorganic chemicals	143.1	200.9	153.9	0.71	1.31	0.93
Fruits and vegetables	51.7	62.6	51.8	0.83	1.21	1.00
Oil, oil products and similar materials	48.3	37.4	115.3	1.29	0.32	0.42
Electric current	24.4	31.1	24.2	0.78	1.29	1.01
Blouses and jackets	20.9	21.0	15.0	0.99	1.40	1.39
Raw tobacco; tobacco markings	18.4	17.4	13.0	1.06	1.34	1.42
Milk, cream and dairy products, except for butter and cheese	15.0	15.2	10.7	0.99	1.42	1.40
Dresses	11.6	9.3	8.1	1.25	1.15	1.43
Incandescent lamps	11.5	11.7	9.6	0.99	1.23	1.21
Trousers, one-piece garments, breeches and briefs for women	10.6	10.2	5.4	1.04	1.90	1.98
Knitted or jersey garments for women and girls	10.1	13.2	0.5	0.76	27.21	20.74
Skirts, divided skirts	7.3	7.3	3.9	1.01	1.87	1.89
Trousers, one-piece garments, breeches and briefs for men	5.7	5.5	3.0	1.04	1.85	1.91
Leg wear garment, knitted	4.8	4.1	1.0	1.17	4.26	4.97
Coats, car coats, wraps, raincoats and similar goods	4.6	4.2	2.1	1.09	2.05	2.23
Various non-precious metals, used in metallurgy	4.2	2.8	2.1	1.50	1.36	2.03
Cheese and curd	4.1	6.2	4.4	0.67	1.40	0.94
Mineral water and nonalcoholic beverages, sweetened with sugar	4.1	4.4	3.2	0.94	1.36	1.27
Stone, sand and gravel	4.1	5.3	3.3	0.77	1.59	1.23
Paper, cardboard and products, made of them	3.6	3.9	4.2	0.92	0.93	0.86
Products, made of non-metallic minerals, non-included into other category	3.4	3.6	2.0	0.95	1.79	1.70
Automobiles for cargo transportation and automobiles of special designation	3.3	0.9	1.3	3.77	0.69	2.58
Raw iron and steel	3.3	3.5	0.7	0.94	5.11	4.79
Scrap metal and iron industry residues	3.3	3.5	2.2	0.93	1.59	1.49
Meat and meat products	3.2	5.0	0.7	0.63	7.14	4.51
Jackets and blazers for women	2.6	2.9	1.2	0.89	2.44	2.19
Cotton	2.5	2.3	7.4	1.08	0.32	0.34
Costumes and outfits for women	2.4	2.2	2.8	1.05	0.79	0.83
Butter and other oils and fats, made of milk	2.2	4.1	0.7	0.54	5.80	3.10
Animals	2.1	2.7	2.3	0.79	1.17	0.93
Scrap metal and residues of non-precious colored metals	2.0	2.5	0.9	0.83	2.63	2.19
Food products and products, non-included into another category	1.8	3.1	1.5	0.58	2.08	1.21
Costumes and outfits for men	1.8	1.7	0.8	1.05	2.10	2.19
Cattle skin	1.7	2.1	1.8	0.82	1.14	0.93
Aluminum	1.6	1.4	1.3	1.20	1.05	1.25
Knitted or jersey garments for men	1.5	1.3	0.1	1.16	19.73	22.93
Cocoa, tea, coffee, spices and products made of them	1.4	2.2	1.8	0.64	1.27	0.82
Lead	1.4	1.2	0.5	1.21	2.32	2.81
Products of cereals, flour or starch	1.4	1.2	1.9	1.13	0.64	0.73
Wool and other animal hair, including tops	1.4	1.0	1.3	1.39	0.75	1.04
Hand and machine tools	1.3	0.3	1.7	5.25	0.15	0.77
Silver	1.3	0.9	0.8	1.45	1.11	1.61
Glass tanks, caps and pieces for thermos bottle	1.2	0.6	0.6	1.93	1.01	1.94
Products, made of imperfect metals, not included into another category	1.2	1.0	1.6	1.14	0.64	0.73
Processed tobacco	1.2	0.9	0.9	1.28	1.00	1.28
Total by nomenclature (million USD)	873.0	857.0	709.7	1.02	1.21	1.23
Total by nomenclature (% out of the total export)	91%		90%			
Total export	956.1		791.7			

According to NSK in FOB prices, the largest 46 export articles are provided

n - physical volume of goods export

p - estimated import price of goods

Glossary

Core inflation is inflation excluding short-term, structural and seasonal changes of prices. That is, excluded from the calculation of the inflation factor are growth of prices of goods, caused by seasonal or external factors (such as: the bad crop, the price shock in the market of oil products, administrative changes in tariffs for gas and electricity, etc.).

Discount rate is the tool used as the basic reference point when determining the value of monetary resources in the economy. The size of the discount rate is equal to the average value of the yield of 28-day NBKR Notes for the recent 4 auctions on placement of NBKR Notes.

GDP deflator is composite index of the economy branches prices, characterizing GDP with regard to growth of prices in the economy. GDP deflator is calculated as the proportion between nominal GDP in prices of the current year against GDP rate of the previous year.

Inflation represents the increase in the general level of consumer prices in the economy. The consumer price index is used to quantitatively estimate the rate of inflation. The CPI shows the change in the price level for the goods and services purchased by the population for non-productive consumption. In the calculations of the price index of buyers of selected 342 goods and services is applied and the size of the sample makes 45 thousand prices a month of 1496 trading enterprises and spheres of services in seven city and two regional centers.

Monetary aggregate is the money supply classified according to degrees of liquidity: M0; M1; M2; M2X.

M0 – currency in hands.

M1 – M0 + demand deposits in national currency.

M2 – M1 + time deposits in national currency.

M2X – M2 + deposits in foreign currency.

Monetary base – obligations of the National Bank of the Kyrgyz Republic on cash, issued in circulation, and obligations of the National Bank of the Kyrgyz Republic to other deposit corporations in the national currency of the Kyrgyz Republic.

Money in circulation – the money in circulation less cash held in NBKR.

NBKR calculates the core inflation behavior by the method of simple exclusions. The given method means the exclusion from the CPI of specific categories or the whole group of goods and services, whose prices are highly sensitive to shocks. Traditionally, some food products, energy resources and tariffs administratively established by the Government are referred to such goods.

Non-financial assets include the following categories of economic assets: fixed assets, stocks of tangible current assets, values and non-produced assets (natural and intangible assets).

Notes are the Government short-term securities, issued by the NBKR for the term of 7, 14, 28, 91 and 182 days through the weekly auctions. The yield is defined depending on the supply and the demand among the commercial banks. The goal of conducting the auctions of notes is the withdrawal of liquidity in national currency from the banking system.

Other deposit corporations – all financial corporations-residents, except for the central bank, the main activity of which consists in financial intermediation, and which emit obligations, included into national definition of broad money (M2X).

Output gap (or GDP gap) – is a difference between potential and factual GDP volume. Production spread may service as indicator of activation or stagnation of the economy. If factual GDP is less than potential ($Y < Y^*$) then it may be assumed that in economy there is so-called “recession spread”, which indicates possible availability of deflation processes. And on the contrary, if factual GDP is more than potential ($Y > Y^*$), then it may be assumed that growth of aggregate demand exceeds growth of aggregate supply, which promotes strengthening of inflation pressure.

Overnight credit is given in national currency for one day, for collateral, for maintenance of short-term liquidity of the bank. Government securities of the Kyrgyz Republic placed through the NBKR, with the date of redemption up to 12 months from the date of delivery of the overnight credit are accepted as collateral. The interest rate is set at the rate of 1.2 of the NBKR discount rate. The credit is used on the initiative of the commercial bank.

Producer price index measures the average changes in the sales prices got by the local producers for their output. Information, used in the PPI calculations, is collected from 148 enterprises, which represent almost each branch in the industrial sector of the economy. The list of enterprises combines those most typical for the given industry, characteristic for the given region, and irrespective of patterns of ownership.

Renewable State Treasury Bills for settlement are the coupon securities with maturities of 3, 6 and 12-months, issued by the Ministry of Finance as a result of restructuring the debt of the Government of the Kyrgyz Republic to the NBKR. The renewable nature of these securities means the following: on the day of redemption of ST-Bills(s) in the NBKR portfolio, the Ministry of Finance simultaneously with the redemption issues new series of ST-Bills(s) in favor of in number equal to the number of sinking securities.

Repo Operation – purchases (direct repo)/sales (reverse repo) of government securities with the obligation to sell them back / purchase of a specified date in the future at a predetermined price.

State budget operating expenditures are all of the operations, which lead to the reduction in the net value of assets of the government sector, except for the operations on purchase of non-financial assets.

State Treasury Bills are the short-term (3-, 6-, 12-month) discount government securities of the Government of the Kyrgyz Republic. The Ministry of Finance is the emitter of ST-Bills. Issues of ST-Bills are placed weekly and through the NBKR auctions. Direct participants (primary dealers, finance and credit institutions, which concluded the contract with the NBKR) enjoy the right of participation in the auctions. Owners of ST-Bills of the Kyrgyz Republic could be both the legal entities and the individuals. The admission of foreign investors to the market of ST-Bills is not limited. The transactions in the secondary market of ST-Bills are conducted through the electronic trading system of the NBKR, which allows the primary dealers and their clients to conduct the ST-Bills purchase/sale operation from their workplaces.

State Treasury Bonds are the long-term government securities of the Government of the Kyrgyz Republic with the interest income (coupon) and maturity over 1 year. The emitter of ST-Bonds is the Ministry of Finance. The NBKR is the general agent servicing issues of ST-Bonds.

Structure of money income of the population by quintile groups reflects differentiation of the population by income sizes by five quintile groups, each of which consists of 20 percent of the population. This approach of determination of the population income differentiation assumes division of ranged total population size into five equal groups, thus separating the share of the society gross income, which is accounted for each group of the population with largest and smallest income.

Swap operations – operations on the exchange of funds in national currency in the amount equivalent to the amount in foreign currency or, on the contrary, to the obligation of the reverse exchange of principal amounts and accrued interest on the stipulated conditions.

Abbreviations

CIF	Cost, insurance, freight
CIS	Commonwealth of Independent States
CPI	Consumer Prices Index
FL	Fuels and Lubricants
FOB	Free on board
GDP	Gross Domestic Product
KR	Kyrgyz Republic
LLC	Limited Liability Company
MRC	Monetary Regulation Committee
NBFI	Non-banking financial institution
NCOSH	Non-Commercial Organizations Serving Households
NSC	National Statistics Committee
PPI	Producer Prices Index
SCC	State Customs Committee under the Kyrgyz Republic Government
SE	State Enterprise
SFRB	Specialized Fund for Refinancing of Banks
ST-Bills	State Treasury Bills
ST-Bills(s)	State Treasury Bills for settlement
ST-Bonds	State Treasury Bonds
USA	United States of America