

National Bank of the Kyrgyz Republic

Inflation Report

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Inflation Report

Editorial Board:

Chairman: Ishenbaev M.
Board members: Ilebaev N.
Urustemov S.
Tsyplakova L.

Editorial Assistant: Bushman Yu.

On the issues related to the contents of the publication, please, contact:

Bishkek, Umetaliev st., 101,
The National Bank of the Kyrgyz Republic
phone: (996 312) 669 059
fax: (996 312) 610 730
e-mail: ybushman@nbkr.kg

On the issues of dissemination of the publication, please, contact:

Bishkek, Umetaliev str., 101
The National Bank of the Kyrgyz Republic
External and Public Relation Division
phone:(996 312) 669 009
fax: (996 312) 610 730
e-mail:aaibalaeva@nbkr.kg
<http://www.nbkr.kg>

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720071. Bishkek. Chuy av., 265, rooms 352, 355

Phone: (996 312) 243 335
(996 312) 243 801

Fax: (996 312) 243 335

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Annual Report of the National Bank of the Kyrgyz Republic

The annual report of the National Bank of the Kyrgyz Republic is a complete report on the work of the National Bank done during the reporting year. It contains a brief description of developments in the real sector of economy, as well as the description of decisions and actions of the National Bank in the monetary sphere. It includes the information on economic development and monetary policy, financial statements, general information about the National Bank, statistical annexes. The report is published in Kyrgyz, Russian and English languages.

Bulletin of the National Bank of the Kyrgyz Republic

The publication contains statistics about major macroeconomic indicators and sectors of the Kyrgyz Republic. The bulletin is published monthly in the Kyrgyz, Russian and English languages.

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The publication reflects the latest trends in development of the external sector and contains tables with data in analytical and neutral formats of the balance of payment, the structure of external trade, international reserves, external debt, the methodology and the information base for preparation of the balance of payments, as well as the international investment position of the Kyrgyz Republic. It is published quarterly in January, May, July and October.

Banking System Development Trends

The publication contains analysis of banking system efficiency as financial intermediary, and developments in financial stability. It is published in Kyrgyz and Russian semi-annually.

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The purpose of the edition is the official publication of statutory acts of the National bank for informing commercial banks and the public and propagation of the bank legislation of the Kyrgyz Republic. It is published once a month in the Kyrgyz and Russian languages.

Press release of the National Bank of the Kyrgyz Republic

The Press-Release of the NBKR contains the weekly chronicles of the developments in the National Bank and major data of the financial market. It is published quarterly in the Kyrgyz and Russian languages.

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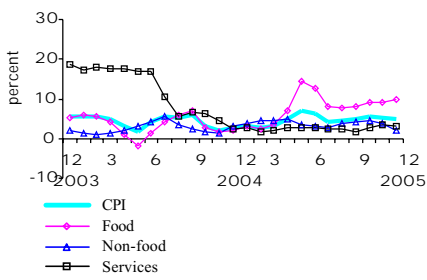


Chart 2.2: Structure of CPI, percent

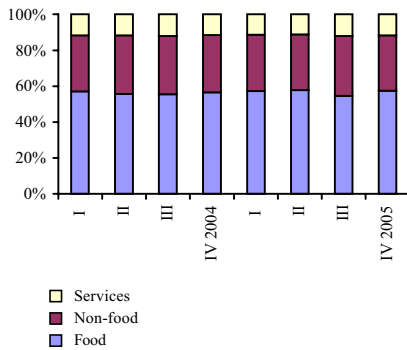


Chart 2.3a: Food Prices, percentage changes on a year earlier

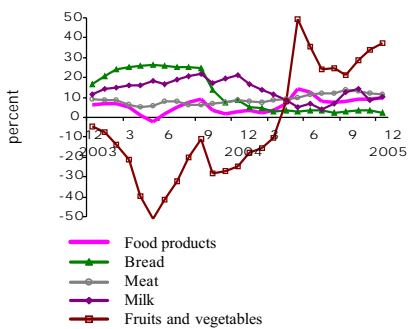


Chart 2.3b: Food Prices, percentage changes on a year earlier

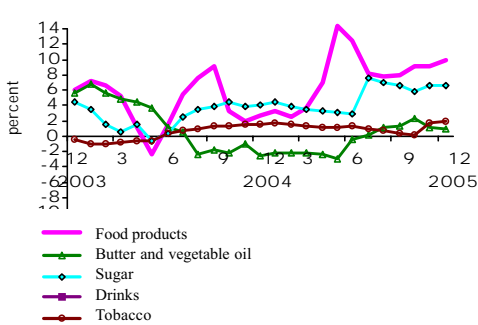
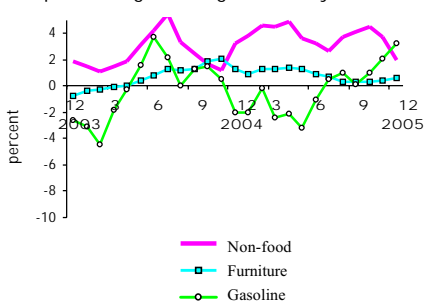


Chart 2.4a: Non-food Prices, percentage changes on a year earlier



2. CONSUMER PRICE INDEX AND ITS COMPONENTS

2.1. COMPONENTS OF CONSUMER PRICE INDEX

In the fourth quarter of 2005 there was an increase in prices traditional for this period of year. According to the National statistical committee growth rate in inflation in the fourth quarter made 2.7 percent (in the fourth quarter of 2004 consumer prices grew by 2.5 percent). The key factor that determined a rise in prices was seasonal acceleration in prices on some kinds of foodstuffs, oil products, gas and firm fuel, transport services. The rise in prices on food stuffs in the fourth quarter of 2005 made 6.0 percent, on articles of food - 0.2 percent, on paid services - 2.7 percent. In a year inflation made 4.9 percent.

2.1.1. FOOD PRODUCTS

Food inflation in the fourth quarter of 2005 developed under influence of prices on fruits, vegetables, milk and dairy products.

In 2005, output of agriculture decreased by 4.2 percent. Total crops grain cultures reduced by 4.5 percent compared with 2004, while wheat crop decreased by 4.8 percent, a potato - by 16.2 percent, vegetables - by 0.7 percent, berries - by 16.6 percent.

Decreased output in agriculture led to growth in prices on fruit-and-vegetable production by 34.4 percent, so, fruit prices rose by 41.2 percent, vegetable prices - by 29.4 percent. For the similar period of 2004 the rise in prices on fruit and vegetables made 18.4 percent. The prices on milk and dairy products for fourth quarter of 2005 grew by 16.8 percent (in the fourth quarter of 2004 its gained 19.8 percent). The prices on alcohol grew by 1.1 percent, tobacco products - by 1.8 percent, fish - by 1.8 percent.

Growth in prices on meat and meat products slowed down, in fourth quarter, its grew by 0.7 percent, while in corresponding period of 2004 its growth rate made 2.6 percent.

2.1.2. NON-FOOD PRODUCTS

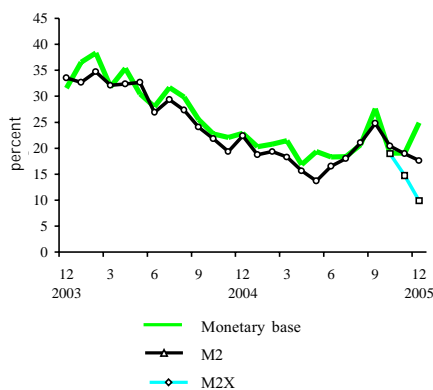
The price index on non-food products grew by 0.2 percent in the fourth quarter of 2005. The following items manifested the greatest increase in prices: oil products - by 14.4 percent, on gasoline - by 18.4 percent, diesel fuel - by 4.7 percent; gas - by 4.7 percent, man's footwear - by 3.4 percent, lady's wear - by 1.1 percent.

3. INFLATION FACTORS

3.1. MONETARY AGGREGATES

3.1.1. MONETARY BASE

Chart 3.1: Monetary aggregates, percentage changes on a year earlier



For the fourth quarter of 2005 the monetary base increased by 11.4 percent, for 2005 the gain in monetary base made 24.9 percent. Change of monetary base on 1581.8 million Soms was caused by operations of the National bank (1544.6 million Soms) and operations of the Ministry of Finance (37.2 million Soms). The gain of money in circulation made 9.5 percent, and for 2005 - 17.4 percent.

On the end of December 2005, in structure of monetary base, there was a decrease in a share of cash in circulation up to 86.7 percent (on the end of September, 2005 - 88.2 percent). The share of commercial bank balances in the National bank increased from 11.8 up to 13.3 percent.

3.1.2. AGGREGATE M2

The aggregate M2 for the fourth quarter of 2005 gained 6.1 percent. For 2005 monetary aggregate M2 grew by 17.6 percent. Deposits in national currency reduced for the fourth quarter of 2005 by 7.3 percent (in 4th quarter of 2004 it gained 20.6 percent), transferable deposits reduced by 4.6 percent (in 4th quarter 2004 it gained 29.7 percent), and other deposits - by 12.6 percent (growth by 1.9 percent). For 2005 the increase in deposits in the national currency made 18.4 percent (for 2004 - 38.0 percent).

3.1.3. AGGREGATE M2X

The monetary aggregate M2X that including deposits in foreign currency reduced for the fourth quarter by 7.4 percent. It is necessary to note, that decrease was caused by change in methodology of calculation of the given monetary aggregate since October 1, 2005. Deposits and credits of non-residents are not taken into account at calculation of monetary aggregate M2X. Changes are made in order to reach conformity in methodology with the international standards of monetary statistics.

² Including banks, which license is withdrawn, but process of liquidation is not completed yet.

Depository base of commercial banks² decreased by 25.8 percent. The volume of deposits in the national currency and foreign currency reduced by 7.3 and 33.6 percent, respectively. Cash outside of banks grew by 9.7 percent.

Structure of monetary aggregate M2X, percent

	Share
Cash outside of banks	61.1
Deposits in national currency	13.5
Deposits in foreign currency	25.4
Monetary aggregate M2X	100.0

Broad money multiplier³ decreased and as of for January 1, 2006 made 1.38. Velocity of M2X on the end of the period made 4.9 turnovers. The monetisation of economy made 20.9 percent. Money outside of banks for January 1, 2006 exceeded deposits by 1.6 times.

3.2. INTEREST RATES

3.2.1. MONEY MARKET INTEREST RATES

In the fourth quarter, cost of money funds in the inter-bank credit market appreciably decreased in connection with higher level of liquidity in banking system in comparison with the third quarter. Thus, in segment of repo operations interest rate kept around 3.4-3.5 percent. At the same time in a segment of inter-bank credits in the national currency interest rate volatility increased: the range of their fluctuations made 0.0-12.0 percent depending on reliability of the borrower, a kind of pledge and term of the transaction (0.5-7.0 percent in the third quarter).

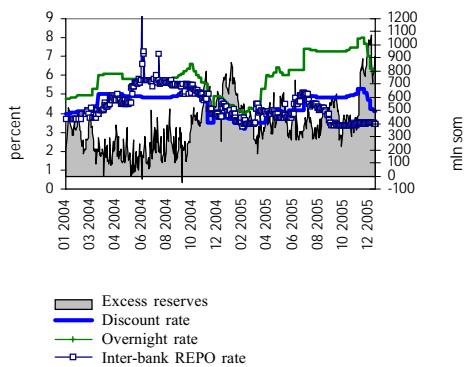
On auctions on accommodation of 28-day notes of the National bank in October note's yield remained stable and made 4.8-4.9 percent. However, in November note yield raised due to weak demand and reached maximum level for 2005 - 5.3 percent. In December, in connection with significant growth of liquidity in banking system, the competition on auctions strengthened, that led to decrease in profitability 28-day notes by the end of December up to 4.1 percent.

On average for quarter interest rates in the inter-bank credit market decreased on 0.9 percentage points and totalled 3.4 and 3.3 percent on repo operations and inter-bank credits in the national currency, respectively. The average profitability of notes remained at a former level, making 4.9 percent. In foreign exchange segment of the domestic inter-bank credit

³ Money multiplier, velocity and ratio of cash outside banks to deposits are not compatible with its previous figures due to changes in methodology. The methodology has been changed in order to meet international standards of monetary statistics.

INFLATION FACTORS

Chart 3.2: Money market interest rates vs. liquidity, per cent



market in the fourth quarter only one transaction was registered, interest rate was 5.0 percent.

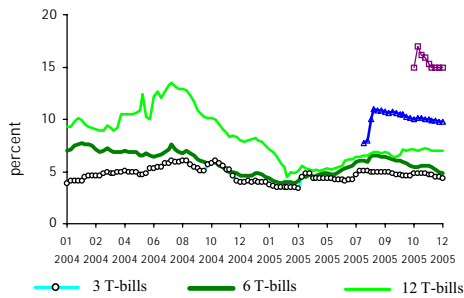
3.2.2. STATE TREASURY BILLS

Within the fourth quarter yield on all kinds of bills was stable enough. Thus, in the beginning and the end of quarter yield on 6-month bills decreased because of strong competition in the given segment of the market. In result the spread between yields on 3- and 6-month bills reduced from 1.4 to 0.5 percentage points.

In November, the Ministry of Finance aiming at deepening of the market started to issue 24-month bills. Yield on these bills fluctuated, so, its growth in October - November was replaced by decrease in December.

For the fourth quarter the average yield on 3 and 6-month bills decreased to 4.6 and 5.5 percent, respectively, and average yield on 12-month bills raised from 6.6 to 7.1 percent. Average yield on 18-month bills did not change, making 10.1 percent, and profitability of 24-month bills made 15.5 percent. On the end of December the average interest rate by all kinds of bills made 8.2 percent, that by 1.3 percentage points higher than at the beginning of quarter.

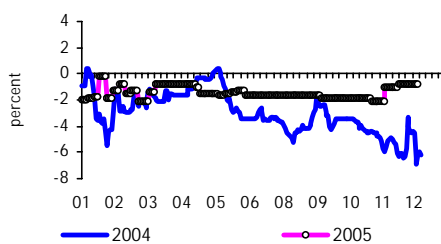
Chart 3.3: T-bill yields



3.3. EXCHANGE RATE

In October, the excess supply of non-cash US dollars observed. Export receipts, inflow of deposits and remittances caused it.

Chart 3.4: Cumulative change in exchange rate (Som per US dollar)



At the beginning of quarter exchange rate of cash US dollar was slightly lower than non-cash exchange rate. However, in the middle of October the spread reduced in connection with decreased stock in cash foreign exchange in commercial banks. Till middle of November the exchange rate of cash US dollar was 40.8-40.9 Soms a dollar. During this period there was strong demand on US cash, so, within the third decade of November exchange rate raised to 41.2-41.3 Soms a dollar. However, from the beginning of December US cash stocks in banking system were increasing, which caused stable demand and exchange rate. At the end of November non-cash exchange grew and reached 41.3 Soms a dollar. At the same time the supply of non-cash US dollars increased. Until end of December the National bank carried out interventions on purchase of foreign exchange for smoothing of market conditions.

By the end of December the official exchange rate made 41.3011 Som a dollar, increasing for the fourth quarter by 1.1 percent. For comparison: in the similar period of the 2004t year the official exchange rate decreased by 2.1 percent.

