National Bank of the Kyrgyz Republic

Inflation Report
Third Quarter of 2008

December 2008

Bishkek

Kyrgyz Republic Inflation Report

Editorial Board:

Chairman:	**Abdybaly tegin S.**
Board members:	**L. Tsyplakova**
	Sh. Moldokanov
	S. Urustemov
	G.A. Isakova
Executive Secretary	**A.K. Aidarova**

If you have questions regarding the content of this edition, please contact us at:
The National Bank of the Kyrgyz Republic
101 Umetaliev St., Bishkek
Phone: (996 312) 669 059
Fax: (996 312) 610 730
e-mail: aaidarova@nbkr.kg

If you have questions regarding the distribution of this edition, please contact us at:
The National Bank of the Kyrgyz Republic
101 Umetaliev St., Bishkek
Phone: (996 312) 669 009
Fax: (996 312) 610 730
E-mail: pr@nbkr.kg
http://www.nbkr.kg

This edition contains the description of the consumer price trends in the Kyrgyz Republic and its regions, analysis of major inflation factors, decisions made by the National Bank of the Kyrgyz Republic on monetary policy, and also presents inflation forecast for the upcoming period. It is published on a quarterly basis 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.

Balance of Payments of the Kyrgyz Republic
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.

Banking System Development Trends
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.

Statutory Acts of the National Bank of the Kyrgyz Republic
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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Part 1. Economic situation of the Kyrgyz Republic

1.1. Demand and supply on the goods and services market

1.1.1. Demand

In the third quarter of 2008, GDP in real terms increased by 6.2 percent in comparison with the corresponding period of 2007. On the basis of data for the second quarter, it is reasonably safe to suggest that the GDP growth was caused by a considerable increase of export volumes as well as by continuing growth tendency of domestic demand associated with increase in households' consumption expenditures. GDP per capita increased by 5.7 percent in January-September 2008 and was 24.9 thousand soms (691 USD).

Table 1.1.1. GDP by expenditures
(in current prices, million soms)

		2007				2008	
	2007	I	II	III	IV	I	II
Applied GDP	**139 749,4**	**22 241,5**	**27 626,0**	**48 686,9**	**41 195,0**	**28 143,9**	**37 192,7**
Final consumption	166 145,2	29 626,2	34 331,9	53 907,6	48 279,5	40 333,4	48 482,3
Individual consumption	154 582,3	27 830,4	31 596,9	51 393,6	43 761,4	37 791,9	45 046,1
Private household	138 652,0	24 745,0	27 554,7	47 246,0	39 106,3	34 143,1	39 690,1
NPISHs	2 683,7	584,0	667,8	738,0	693,9	747,9	849,3
Government institutions	13 246,6	2 501,4	3 374,4	3 409,6	3 961,2	2 900,9	4 506,7
Collective consumption	11 562,9	1 795,8	2 735,0	2 514,0	4 518,1	2 541,5	3 436,2
Gross capital formation	36 793,5	3 083,3	7 539,0	12 478,5	13 692,7	4 078,5	9 684,2
Gross capital formation of fixed assets	35 226,9	2 768,6	7 227,8	11 909,7	13 320,8	3 629,8	9 231,0
Stock change	1 076,0	222,0	207,7	435,3	211,0	324,0	297,5
Net acquisition of values	490,6	92,7	103,5	133,5	160,9	124,7	155,7
Net export of goods and services	-63 168,0	-11 260,7	-15 308,7	-17 712,4	-18 886,2	-17 224,9	-19 929,5
Export	62 446,5	13 098,3	14 851,2	19 224,8	15 272,2	15 214,1	23 621,1
Import	-125 614,5	-24 359,0	-30 159,9	-36 937,2	-34 158,4	-32 439,0	-43 550,6
Statistical discrepancy	-21,3	792,7	1 063,8	13,2	-1 891,0	956,9	-1 044,3

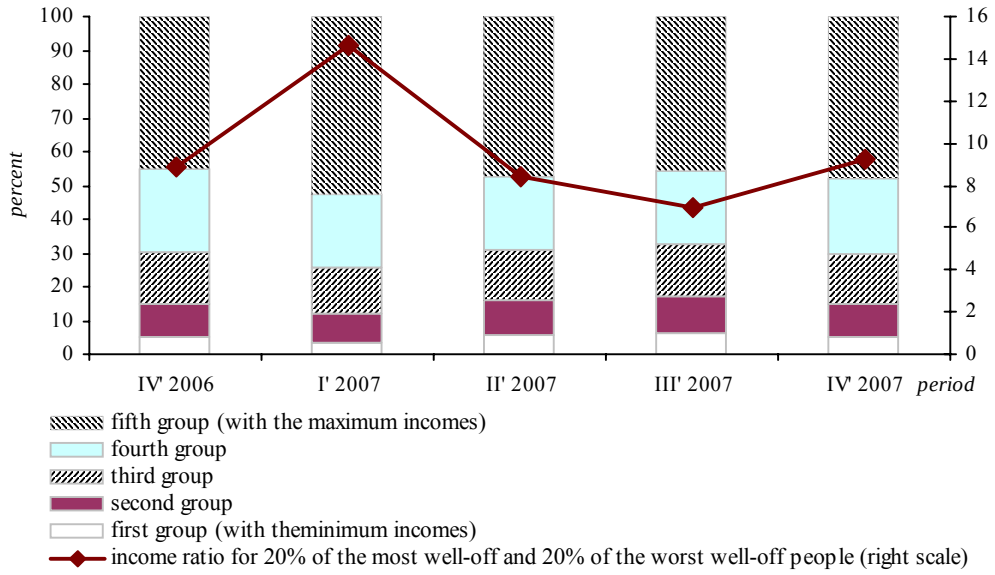
Source: National Statistic Committee

Increase in private consumption became possible mainly due to stable income growth dynamics of the population. Real growth of monthly average wages in January-September 2008 (excluding small enterprises) amounted to 7.4 percent. Increase of consumption expenditures of the population contributed to the increase of retail trading circulation volumes by 7.3 percent, including retail trading with food and non-food products, the volume of which in comparison with the period of January-September 2007, increased by 3.2 and 11.6 percent correspondingly. In other words, in conditions of the inflation rate growth and low rate on deposits, there is a tendency for the increase of private consumption, rather than of savings.

Distribution of the overall volume of cash earnings on 20-percent groups of the population still remains in favor of high-yielding groups. Thus, the share of income of the most well-to-do group increased by 2.4 percentage points and as per results of 2007 constituted 47.8 percent out of the overall population's income volume. However

despite a considerable growth of the population income of the most well-to-do layer, the share of income of 20 percent of the poorest population remains stable at the level of 5.2 percent.

Figure.1.1.1. Structure of pecuniary gains of the population by quintile groups
(from the beginning of the year, in percent)



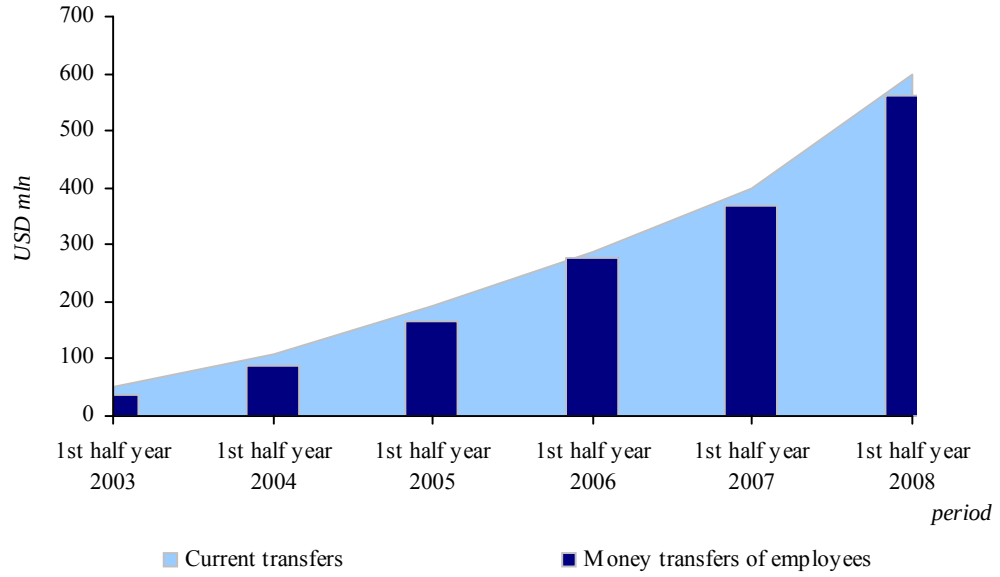
Continuing growth of consumer credits testifies an increase of households' consumption. The volume of loans, issued by commercial banks for consumer purposes in the third quarter of 2008 constituted 10.8 percent in comparison with the corresponding period of the past year. As a result their share in the total flow of credits increased from 8.2 to 9.7 percent. However, the volume of mortgage credits considerably decreased. The overall volume of the credits, issued in the third quarter of 2008, decreased by 5.8 percent.

Private consumption growth also became possible due to increased transfers from abroad. Thus in the first half of 2008, the positive balance of current transfers constituted 598.9 million US dollars, having increased the corresponding rate of the previous year in 1.5 times. This growth was provided by flows of migrant remittances that have the largest share in the transfers' structure.

Government final consumption expenditure kept on growing. The main share of the budget expenditures is still used for consumption and covering of current expenditures, which are not reduced due to structural problems. Thus, payroll expenditures and charges to the Social Fund of the Kyrgyz Republic in the third quarter of 2008 constituted 37.8 percent out of the total volume of government expenditures on operating activity. The share of expenditures on social allowances and subsidies was still on a high level (15.0 percent) as well.

In accordance with the functional classification of the budget expenditures in the third quarter of 2008 and in comparison with the corresponding period of the previous year, there was a considerable growth of expenditures on government services (by 70.2 percent) and on education (by 51.0 percent).

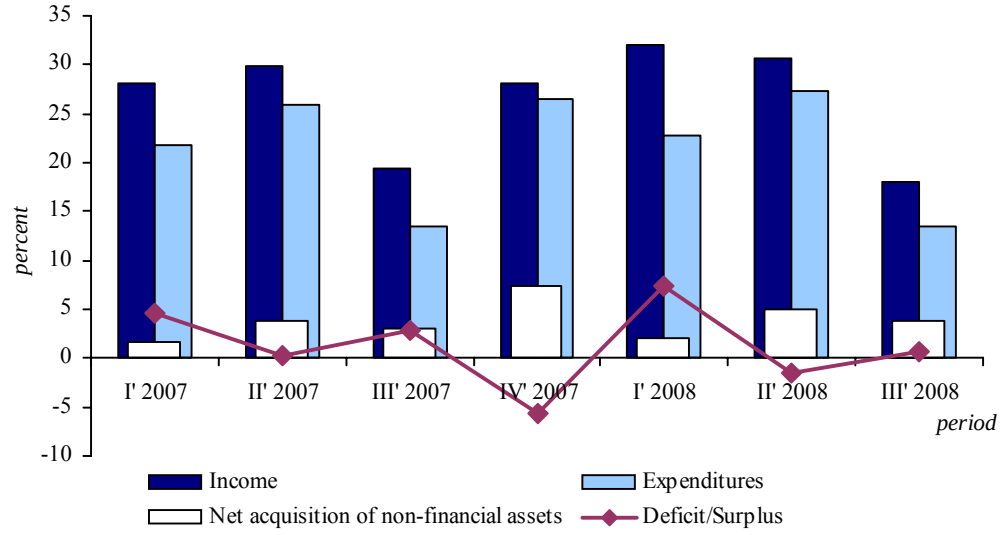
Figure.1.1.2. Changes in account balance values of the current transfers



In general, state budget expenditures on operating activity in the third quarter of 2008 constituted 8 909.2 million soms or 13.5 percent to GDP (the share to GDP remained unchanged in comparison with the corresponding period of 2007). Total income and official transfers of the state budget constituted 11 904.7 million soms or 18.1 percent to GDP. Net cash outflow on the acquisition of non-financial assets or government capital expenditure in other words amounted to 2 572.9 million soms.

As a result the state budget in the third quarter of 2008 ended in surplus of 422.5 million soms or 0.6 percent to GDP (surplus in the third quarter of 2007 constituted 2.9 percent to GDP).

Figure.1.1.3. State budget implementation
(in percent to GDP)



Despite implemented reforms in fiscal policy and optimization of inter-budgetary relations, there was still an inequal distribution of budget funds within a year that could influence the change of cash component of the money supply in the country. Accumulation of

expenditures at the end of the year is one of the factors, stimulating inflation.

The gross capital formation in the second quarter of 2008 increased by 10.2 percent (in the previous quarter the increment was 5.0 percent). However from the beginning of the year, there was reduction of investments to the fixed capital. As per results of January-September 2008, the volume of fixed capital investments decreased by 2.2 percent mainly due to decrease of the volume of construction works in the mineral resource industry and in house construction activity. The preferred directions of investments to the fixed capital were house construction activity, transportation and communication sphere and processing industry.

By financing sources of investment to the fixed capital in the third quarter of 2008, internal funds prevailed, including assets of enterprises, organizations and population, which share constituted 46.8 percent out of total investments volume. Moreover, in comparison with the corresponding period of the previous year, the share of investments from external sources increased considerably.

Table 1.1.2. Investments to the fixed capital by sources of financing
(in percent)

	2007	2007				2008	2008		
		I	II	III	IV		I	II	III
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**
Domestic investments	**81,6**	**89,9**	**85,4**	**71,0**	**86,9**	**66,3**	**83,4**	**71,6**	**59,2**
Republic budget	8,0	7,8	6,8	11,7	5,6	9,8	4,7	11,5	10,1
Emergency funds	0,7	0,9	0,8	0,6	0,7	0,0	0,0	0,0	0,0
Local budget	2,3	0,4	2,6	2,2	2,7	1,7	1,7	1,4	1,8
Funds for businesses and enterprises	47,8	43,1	45,5	36,8	58,8	25,3	37,6	28,2	20,8
Bank credit	0,0	0,0	0,0	0,0	0,0	0,8	0,6	1,2	0,5
Funds of population ond others	23,4	38,5	30,5	20,3	19,9	28,7	38,7	29,4	26,0
Charity of a resident	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Outward investments	**18,4**	**10,1**	**14,6**	**29,0**	**13,1**	**33,7**	**16,6**	**28,4**	**40,8**
International credit	11,7	5,9	6,4	16,8	11,0	15,8	5,6	17,4	17,3
Foreign direct investment	3,0	2,9	6,4	5,3	-0,4	14,9	10,2	9,5	19,0
Foreign drants and humanitarian aid	3,8	1,3	1,8	6,9	2,5	3,0	0,9	1,5	4,4

Source: National Statistic Committee, calculated by the NBKR

1.1.2. Supply

In the third quarter of 2008, the major volume of aggregate supply of goods and services was mainly provided by agricultural sector (44.2 percent out of the total GDP volume), trade (13.9 percent), manufacturing sector (7.9 percent) and transportation and communication sphere (7.4 percent). These branches also contributed to the total GDP growth rates in the reporting period.

In the processing industry, the output growth was mainly provided by metallurgy industry and production of finished metal goods as well as by textile and clothing manufacture sectors. In January-September 2008, production output in these sub-sectors increased by 25.5 and 27.8 percent correspondingly. Output growth in the sector of food products, including beverages and tobacco constituted 101.6 percent in comparison with the period of January-September 2007.

Table 1.1.3. Contribution to GDP growth/reduction by sector of production
(in percent)

	Growth rate in 2008				Deposit to the growth			
	Jan-Sept	I quarter	II quarter	III quarter	Jan-Sept	I quarter	II quarter	III quarter
Gross Domestic Product	6,6	6,1	7,9	6,2	6,6	6,1	7,9	6,2
Gross value added	6,6	6,1	7,9	6,2	5,7	5,1	6,6	5,5
Agriculture, hunting and forestry	2,2	1,7	3,8	1,9	0,7	0,3	0,7	0,9
Mineral resource industry	-3,0	-11,4	12,5	-9,2	0,0	-0,1	0,1	0,0
Processing industries	13,4	4,5	13,0	20,9	1,3	0,5	1,5	1,4
Production and distribution of electric power, gas and water	-3,3	4,7	-12,5	-7,3	-0,1	0,3	-0,3	-0,1
Construction	-3,9	2,2	9,6	-12,0	-0,1	0,0	0,3	-0,4
Rommercial business, maintenance	7,6	5,5	7,8	8,8	1,3	1,2	1,5	1,2
Hotels and restaurants	11,0	7,8	14,5	10,3	0,1	0,1	0,2	0,1
Transport and communication	30,6	24,0	26,3	39,6	2,3	2,3	2,3	2,2
Financial activities	20,0	15,9	23,6	20,0	0,1	0,1	0,1	0,1
Transactions with real estate, lease	5,0	5,0	5,0	5,0	0,1	0,2	0,2	0,1
State administration	1,0	1,2	0,9	1,0	0,0	0,0	0,0	0,0
Education	1,3	1,5	1,5	0,9	0,0	0,1	0,1	0,0
Public health service and social services	-0,4	-1,0	0,0	-0,2	0,0	0,0	0,0	0,0
Municipal and personal services	2,0	4,0	0,3	2,0	0,0	0,1	0,0	0,0
Net taxes for goods	6,6	6,1	7,9	5,8	0,9	1,0	1,3	0,6

Source: National Statistic Committee, calculated by the NBKR

Gross production output of agriculture, hunting and forestry in January-September of 2008 increased by 2.2 percent in comparison with the corresponding period of the previous year. In the total production volume, the share of livestock sector constituted 38.3 percent, plant industry – 60.5 percent, services – 1 percent, hunting and forestry – 0.2 percent.

The total agricultural crop area increased by 2.8 percent in comparison with the past year due to necessity of food safety internal provision. Area of cereal crop fields increased by 8.8 percent, vegetable fields by 3.1 percent, forage crop fields by 1.2 percent.

The year 2008 was characterized by prohibitive measures of the Government for export of cereal crops, oil-yielding crops and forage crops, to prevent internal deficit caused by a high external demand.

Increase in livestock number in 2008 as well as unfavorable natural-climatic situation in spring and summer in the north of Kyrgyzstan and south of Kazakhstan created conditions for supply expansion and correspondingly reduction of prices for livestock and meat in the domestic market.

From the ripped area, 1420.1 thousand tonnes of seed was harvested (weight of initially received crop) or 102.7 percent to the level of the previous year. As per results of 9 months of 2008, cereal crops and pulse plants (including corn) were harvested by 92.6 percent. An average yielding capacity of cereal crops in the republic constituted 23.8 centners from a hectare (initially received weight) against 24.9 centners from a hectare as of the corresponding date of the previous year.

In comparison with January-September 2007, in the corresponding period the tobacco

production decreased and constituted 89.7 percent against the volume of the last year harvest. Raw cotton harvest increased the rate of 2007 by 106.7 percent. Production of oil-yielding crops constituted 85.7 percent against corresponding period of the previous year. Potato crop constituted 100.2 percent more than the crop of the corresponding period of the previous year. Vegetables harvest increased by 104.8 percent in January-September 2008 compared to the same period in 2007.

As in the previous year, in the reporting period the export supply of fruits increased by 2.2 times in natural terms and by 2.1 times in value terms, and of vegetables – by 103.8 percent and 101.0 percent correspondingly.

The unemployment rate decreased a little. Thus in accordance with the information, provided by the State Committee of the Kyrgyz Republic on migration and employment, as of October 1, 2008, the registered level of unemployment constituted 2.9 percent of economically active population (as per results of the second quarter of 2008 – 3.1 percent), whereas as of the corresponding date of the previous year this rate was 3.3 percent.

Table 1.1.4. Growth rates of labor capacity and real wages by quarters
(in percent to the corresponding period of the previous year)

	labour capacity		actual salary	
	2006	**2007***	**2006**	**2007**
For a year on the average	102,2	105,4	112,7	119,0
I quarter	98,8	106,1	110,1	123,7
II quarter	103,0	108,5	111,6	128,0
III quarter	99,8	105,4	112,4	117,5
IV quarter	98,8	105,6	116,3	106,8

** preliminary estimation*

Source: National Statistic Committee

In 2007, labor capacity, determined as a ratio of GDP growth rates to growth rates of employment volume, in preliminary estimates increased by 5.4 percent in comparison with 2006 (against 2.2 percent in 2006). However growth rates of real wages still outruns the productivity rates, which prove by the presence of a high inflationary pressure in the economy.

1.2. Tendencies in monetary sphere

1.2.1. Monetary aggregates

Monetary base[1]

As of October 1, 2008, the monetary base was 34943.2 million soms, having increased in the third quarter of 2008 by 7.4 percent in nominal terms (in the third quarter of 2007 the increase constituted 7.5 percent) and by 7.0 percent in real terms (in the third quarter of 2007 the increase constituted 1.9 percent).

In the third quarter of 2008, the change of monetary base in the view of transactions

[1] Regardless of commercial banks deposits with NBKR in foreign currency.

(2408.6 million soms) was mainly influenced by transactions of the National Bank of the Kyrgyz Republic, which increased the monetary base by 3648.5 million soms as well as by transactions of the Government, which reduced the monetary base by 1239.9 million soms. For comparison, in the third quarter of 2007, the monetary base change was influenced by transactions of the National Bank of the Kyrgyz Republic (2826.3 million soms) and transactions of the Government of the Kyrgyz Republic (-914.1 million soms).

Currency in circulation in the third quarter of 2008 increased by 7.7 percent and as of October 1, 2008 constituted 30613.3 million soms (in the corresponding period of 2007 the increase constituted 8.2 percent).

In the monetary base structure in comparison with the beginning of 2008, there was an increase of the share of cash in circulation from 87.3 to 87.6 percent by the end of September 2008. Accordingly, the share of funds on the commercial banks correspondent accounts in the National Bank of the Kyrgyz Republic decreased from 12.7 to 12.4 percent.

M2

As of October 1, 2008, the M2 aggregate constituted 39310.5 million soms. The increase of M2 in the third quarter of 2008 amounted to 6.4 percent (in the third quarter of 2007 the M2 increased by 8.3 percent). The increase of the M2 aggregate was caused by the growth of currency in circulation by 8.0 percent (in the third quarter of 2007 the increase constituted 8.2 percent) and deposits in the national currency by 2.2 percent (in the third quarter of 2007 the increase constituted 8.9 percent). At the same time, the growth of transferable (on-demand) deposits constituted 0.5 percent and of other (time deposits) deposits amounted to 4.0 percent (in the third quarter of 2007 the increase constituted 7.5 and 11.2 percent correspondingly).

M2X

M2X, including deposits in a foreign currency, in the third quarter of 2008 increased by 5.9 percent and as of October 1, 2008 constituted 49403.8 million soms (as of October 1, 2007, the M2X aggregate constituted 38537.3 million soms, having increased by 10.1 percent). The growth of broad money was caused by the increase of commercial banks deposit base by 3.1 percent and cash in hand by 8.0 percent. Herewith there was a growth of deposits in a foreign currency by 4.0 percent (in the corresponding period of 2007, broad money growth was provided by the increase of commercial banks deposit base by 13.3 percent and cash in hand by 8.2 percent), the growth of deposits in the national currency constituted 17.1 percent.

As compared with the beginning of the year, the structure M2X as of the end of September 2008, changed in the following way:

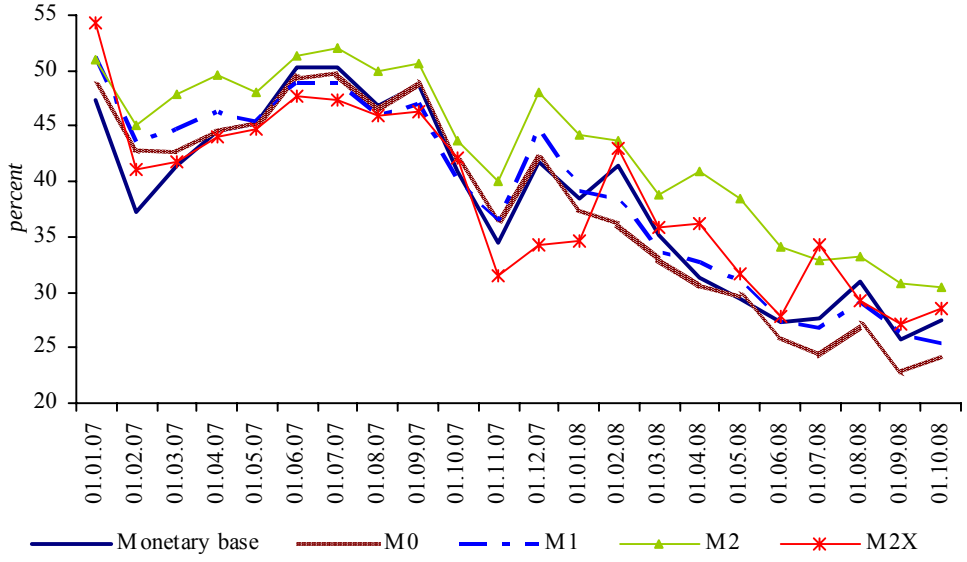
- Share of currency outside the banks – from 61.2 to 58.6 percent (60.8 percent as of October 1, 2007);
- Share of deposits in the national currency – from 18,6 to 20,2 percent (17,0 percent as of October 1, 2007);

– Share of deposits in a foreign currency – from 20,2 to 21,0 percent (22,2 percent as of October 1, 2007).

The broad money multiplier, which indicates the level of financial intermediation, increased in comparison with the beginning of the year and as of October 1, 2008 constituted 1.414 (as of October 1, 2007 it was – 1.406).

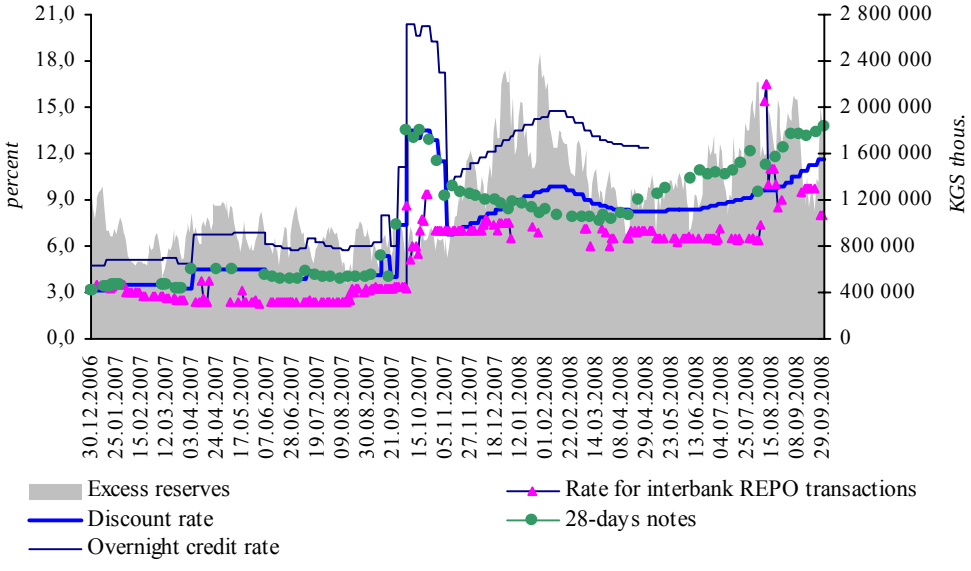
As of October 1, 2008, the circulation rate of M2X broad money constituted 4.0 (against 4.0 percent as of January 1, 2008). The economy monetization ratio calculated on the basis of M2X monetary aggregate constituted 25.1 percent (against 25.3 percent as of January 01, 2008).

Figure.1.2.1. Annual nominal growth rates of monetary aggregates



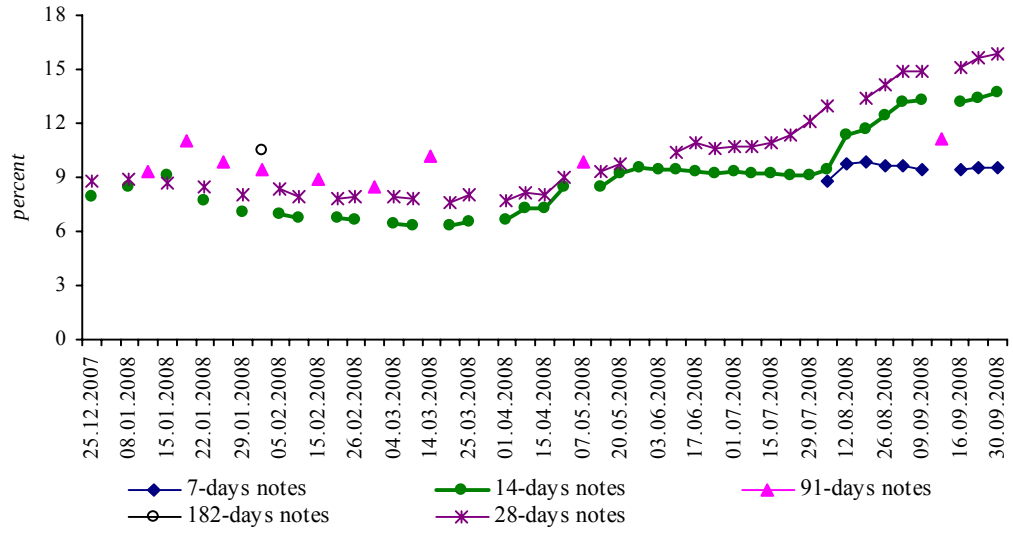
In the third quarter of 2008, in conditions of remaining high inflation rates, the National Bank of the Kyrgyz Republic continued taking measures on tightening of the monetary policy, which influenced the formation of the financial market situation. Moreover the current situation was influenced by the liquidity level fluctuation and its concentration in the commercial banks.

Figure.1.2.2. Changes in money market rates



In the reporting period, the National Bank of the Kyrgyz Republic in order to absorb the excess liquidity continued to increase the volume of the NBKR notes emission. Also in August, the National Bank started to allocate 7-day notes. In conditions of the increasing level of excess reserves in the banking system, the demand for the NBKR notes from commercial banks increases as well, however it lagged behind the supply. As a result this affected the profitability of 14- and 28-day notes. Demand for 91- and 182-day notes of the National Bank of the Kyrgyz Republic due to short-term character of commercial banks excess liquidity remained on a low level. On average, in the third quarter of 2008, profitability of the NBKR 14-day notes constituted 11.3 percent, having increased by 2.7 percentage points in comparison with the second quarter, and in the segment of 28-day notes, profitability constituted 13.2 percent, having increased by 3.8 percentage points. Profitability of 7-day notes constituted 9.6 percent, whereas profitability of the NBKR 91-day notes in a conducted auction constituted 11.2 percent, having increased by 1.4 percentage points in comparison with the previous quarter. In comparison with the third quarter of 2007, profitability of 14-day notes of the NBKR increased by 7.4 percentage points and profitability of 28-day notes increased by 9.0 percentage points.

Figure. 1.2.3. NBKR notes income flows

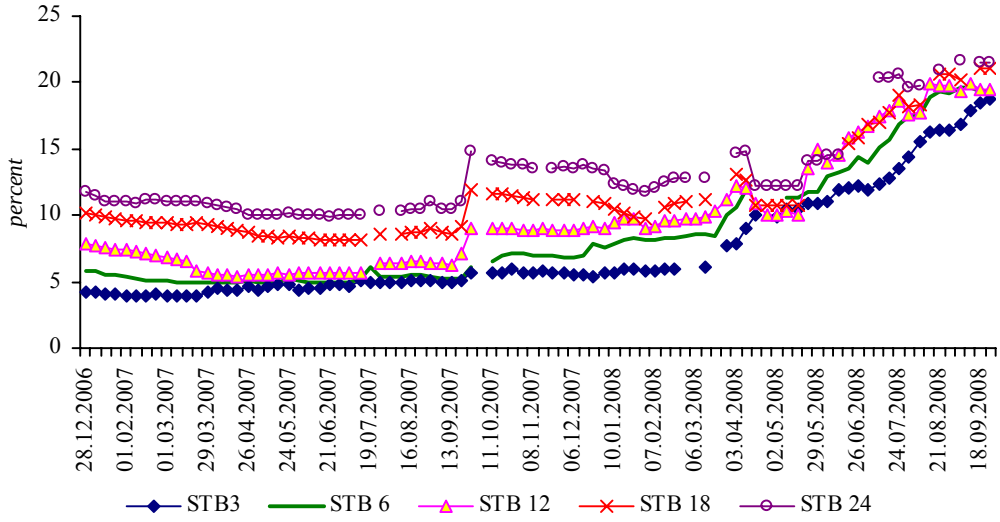


Discount rate, determined as an average profitability rate of the NBKR 28-day notes, registered in last 20 auctions, by the end of the reporting period constituted 11.7 percent, having increased by 3.0 percentage points in comparison with the beginning of the quarter. Overnight loans interest rate, set equal to the discount rate with the coefficient 1.5, constituted 17.5 percent by the end of the reporting period. In the reporting quarter, the National Bank of the Kyrgyz Republic did not issue overnight loans.

In the primary STB market, in the third quarter of 2008, the profitability as well as its volatility under the influence of the NBKR notes profitability growth, increased considerably. In general, in the third quarter of 2008, the total weighted average profitability of STB constituted 18.0 percent, having increased by 5.9 percentage points in comparison with the previous quarter; profitability growth was registered in all segments of STB market. In comparison with the second quarter of 2007, the general profitability

rate of STB increased by 10.9 percentage points; profitability growth was also registered in all market segments.

Figure. 1.2.4. STB income flows



The cost of inter-bank credits in the national currency and its volatility in the third quarter of 2008 increased considerably. On average, in the reporting quarter, the interest rate in the segment of REPO-transactions increased by 2.6 percentage points in comparison with the previous quarter and constituted 9.3 percent. The cost of inter-bank credits in the national currency increased by 0.7 percentage points and constituted 7.2 percent. In comparison with the corresponding period of 2007, the average interest rate in the segment of REPO-transactions increased by 6.4 percentage points, and in the segment of inter-bank credits in the national currency this rate increased by 4.8 percentage points.

In the segment of transactions in a foreign currency in the domestic inter-bank credit market, the level of rates fluctuated from 2.3 to 10.0 percent depending on terms of the concluded transactions. On average, in the reporting quarter, the cost of inter-bank credits in a foreign currency constituted 7.4 percent, having increased by 1.6 percentage points in comparison with the previous quarter due to increase of the concluded transactions terms. In comparison with the corresponding period of 2007, the rate on these credits increased by 1.0 percentage points.

In order to absorb excess liquidity in the banking system, the National Bank of the Kyrgyz Republic conducted STB(s) auctions under REPO terms, concluding reverse REPO-agreements with commercial banks for the sum of 517.9 million soms. In comparison with the previous quarter, the volume of REPO-transactions, performed by the National Bank of the Kyrgyz Republic, increased in 2.2 times, the weighted average interest rate on them increased by 1.5 percentage points and constituted 8.9 percent, and the maturity constituted 22 days, having decreased by 30 days.

Moreover the National Bank of the Kyrgyz Republic could absorb 707.7 million soms of excess banking liquidity in the second quarter by conducting reverse SWAP transactions (for the amount of 20.0 million US dollars). An average maturity of such transactions constituted 54 days.

1.3. External environment

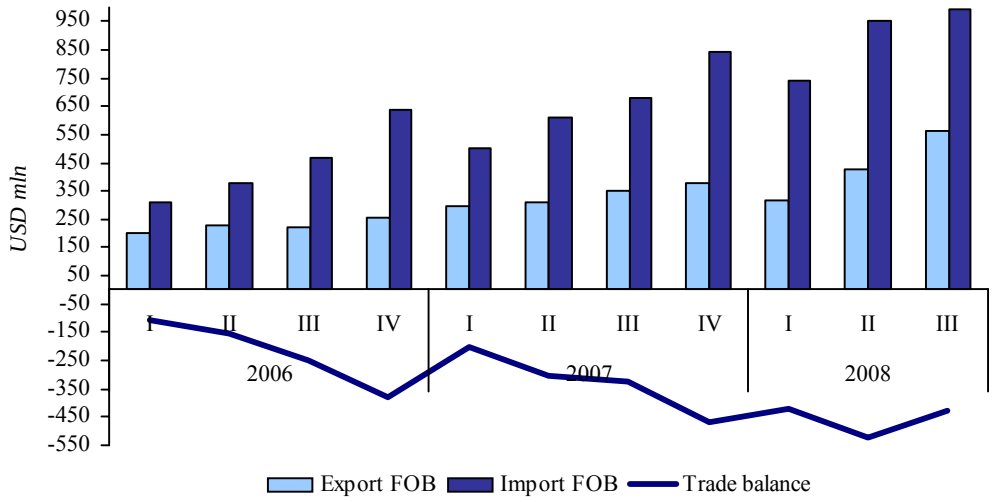
Trade balance

According to the preliminary data, trade balance[2] of the Kyrgyz Republic in the third quarter of 2008 recorded a deficit of 429.3 million USD having increased by 32.2 percent in comparison with the third quarter of 2007.

External trade fob prices in the third quarter increased by 50.2 percent as compared to the corresponding period of 2007 and amounted to 1551.7 million USD.

In geographic structure, the trade growth was registered mainly for the CIS countries – by 71.6 percent: by 59.7 percent due to export transactions and by 78.6 percent due to import transactions. Growth rates of trade turnover with non-CIS countries were lower – 24.7 percent, including export volume growth by 56.7 percent and import volume growth by 10.4 percent.

Figure. 1.3.1. External trade



Export of goods fob[3] in the third quarter of 2008 constituted 561.2 million US dollars, having increased by 58.5 percent in comparison with the third quarter of 2007.

In accordance with the functional structure[4], the major export items in the reporting period were energy products (34.7 percent out of the total volume of goods export), intermediate goods (32.5 percent) and consumer goods (17.6 percent).

The volume of consumer goods export increased by 32.1 percent and constituted 90.0 million US dollars. Despite the growth in absolute terms, the share of consumer goods in the overall export volume decreased from 22.4 to 17.6 percent. In the reporting period the shares of food and non-food products export constituted 51.1 and 48.9 percent correspondingly out of the overall volume of consumer goods export. Under

[2] In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic, with regard to the NBKR additional evaluations.
[3] In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic, with regard to the NBKR additional evaluations.
[4] In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic, with regard to the NBKR additional evaluations.

the influence of seasonal factor in the structure of consumer goods, the export of vegetables and fruits prevailed. Their share constituted 33.8 percent. Import value of these products increased almost by 70.0 percent under the influence of prices growth and supply volumes. Moreover there was an export growth of milk and dairy products (by 22.7 percent) and of clothes and accessories (by 11.3 percent).

In the reporting period, in comparison with the base one, there was a growth of raw material export (in 5.3 times), herewith its contribution to the overall export volume increased by 8.5 percentage points and as per results of the third quarter of 2008 constituted 12.5 percent. This growth was provided by the increased supplies of hides and rawstock as well as of various chemical elements.

Volume of energy products supplies increased in 2.3 times in comparison with the base period and amounted to 176.9 million US dollars, out of this volume 79 percent of oil products were re-exported. Cost volume of oil products in the reporting period increased in 2.6 times in comparison with the base period under the influence of prices growth as well as the physical volume of supplies. The share of electric energy in the total volume of energy products export constituted 20.3 percent, having increased by 85.5 percent in value terms mainly under the influence of the price factor.

Export of intermediate goods in the third quarter of 2008 constituted 165.8 million US dollars, having increased with the base period by 39.6 percent. A large share of gold in this article (62.7 percent), the export volumes of which increased by 66.6 percent, determined the export growth of intermediate goods. Moreover in the structure of this group, the supplies of cement, spare parts and car accessories as well as scrap of ferrous and non-ferrous metals increased.

According to preliminary data, the import of goods[5] fob increased by 45.9 percent in comparison with the corresponding period of 2007 and amounted to 990.5 million US dollars. From the CIS countries, goods for the sum of 631.2 million US dollars were imported, that is 78.6 percent more than the value of the base period. Import from non-CIS countries increased by 10.4 percent and constituted 359.2 million US dollars.

In the functional structure[6] of import CIF in the third quarter of 2008 there was a growth tendency in all groups of goods. The largest import share was accounted for energy products (37.1 percent), consumer goods (24.5 percent) and intermediate goods (22.6 percent).

In the reporting period, the domestic demand for foreign production of consumer use increased by 87.8 percent in comparison with the third quarter of 2007. Herewith, the majority of imported goods was accounted for non-food products (63.5 percent in the total volume of consumer goods). The share of food products constituted 36.5 percent correspondingly. In the structure of non-food products, the share of motorcar supplies, imported from Germany, Japan and USA, increased in 14 times. Their share in the total

[5] Import of CIF with regard to additional evaluations constituted 1065.3 million US dollars; the deficit of trade balance – 504.1 million US dollars.

[6] In accordance with the National Statistics Committee of the Kyrgyz Republic and the State Customs Committee of the Kyrgyz Republic

volume of import of non-food goods constituted 25.4 percent. In the reporting period there was also an import increase of clothes and clothing accessories (in 10.3 times) from non CIS countries which happened mainly due to physical volume growth. The share of this product category in the total volume of non-food goods increased from 2.9 percent in the base period to 14.1 percent in the reporting period. The import of medical supplies increased by 29.4 percent, herewith their share in the total volume of non-food goods increased to 10.3 percent. Import of food products was presented mainly by such goods as flour, meat and meat foods, sugar, vegetable oil, beer and chocolate confectioneries. In the reporting period under the influence of price and quantitative factor, supplies of flour increased in 7 times. The share of this product in the import of food goods increased to 14.3 percent. The share of sugar was a little bit lower – 13.1 percent out of the total import volume of food products. Under the influence of price factor, the value of sugar import increased by 78.5 percent. The lowest import growth rates were for meat and meat products (it increased by 36.9 percent in comparison with the base period). Its share in the total volume of food products import constituted 9.6 percent. Under the influence of import prices, supplies of vegetable oil increased by 62.6 percent, and its share in the import of food products constituted 6.7 percent.

Import of energy products in the third quarter of 2008 increased twofold. In the structure of this group, the import of oil products increased in 2.2 times that can be explained by the increase of supplies and prices for this product. A large share of oil products import supplies (92.3 percent out of the total energy products volume) determined the overall growth of import value of this functional item. Natural gas supplies increased by 42.5 percent, but its share in the volume of energy products import constituted just 5.1 percent. In the third quarter of 2008, the import of coal increased by 37.0 percent in comparison with the corresponding period of 2007. This growth was provided by the price factor, which increased by 44.9 percent while the physical volume of coal supplies decreased by 5.5 percent.

In the third quarter of 2008, the import of intermediate goods increased by 53.4 percent or by 83.7 million US dollars in comparison with the corresponding quarter of 2007. In the structure of this group, the import of textile fabric increased in 3.7 times under the influence of supplies volume growth. The share of this product in the total volume of intermediate goods constituted 8.3 percent.

Foreign exchange rate

In the period of July-August 2008, the situation in the foreign exchange market was formed in conditions of seasonal excessive supply of foreign currency due to increase of money transfers inflow as well as goods and services export earnings that affected the tendency of KGS strengthening against USD in the reporting period. However in September, the USD exchange rate was growing due to increased demand for foreign currency on the part of commercial banks and only at the end of the month there was a certain decrease. To prevent violent fluctuations of the exchange rate, the National Bank of the Kyrgyz Republic bought US dollars on foreign exchange markets in the period of July-August, sold US dollars in September

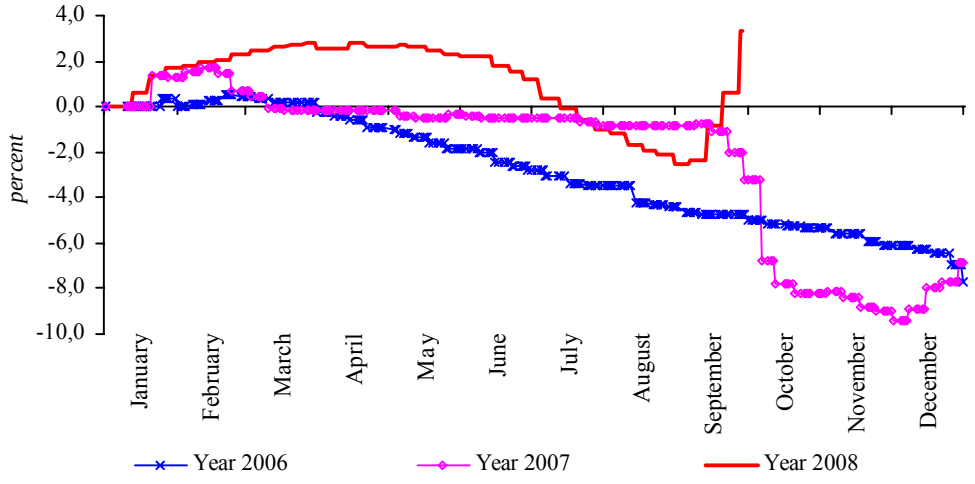
and at the end of the month participated on the market as a purchaser of USD. In general, in the third quarter of 2008, the volume of NBKR transactions on USD sale constituted 19.6 million US dollars and on USD purchase – 136.3 million US dollars.

The weighted average USD exchange rate in the foreign exchange market as of the end of the reporting period constituted 36.6401 KGS/USD, having increased by 2.3 percent within the quarter. The USD selling rate at the exchange offices increased by 1.53 percent and constituted 36.3253 KGS/USD by the end of September.

The USD discount rate by the end of the reporting period constituted 36.6688 KGS/USD, having increased by 2.1 percent. For comparison: in the corresponding period of the previous year the USD discount rate decreased by 2.8 percent within the quarter and constituted 36.8994 KGS/USD.

The dynamics of EUR exchange rate as usual was mainly formed under the influence of EUR rate fluctuations in foreign markets as well as the changes of KGS exchange rate against USD in the domestic market. Thus, the EUR exchange rate from July till the first decade of September was mainly decreasing, after that till the end of September there was a tendency for EUR increase. In general within the quarter, the EUR selling rate at exchange offices decreased by 6.9 percent and by the end of September it constituted 52.4031 KGS/EUR. The discount rate constituted 53.5328 KGS/EUR by the end of the period, having decreased by 5.3 percent.

Figure. 1.3.2. Trend of the USD discount rate



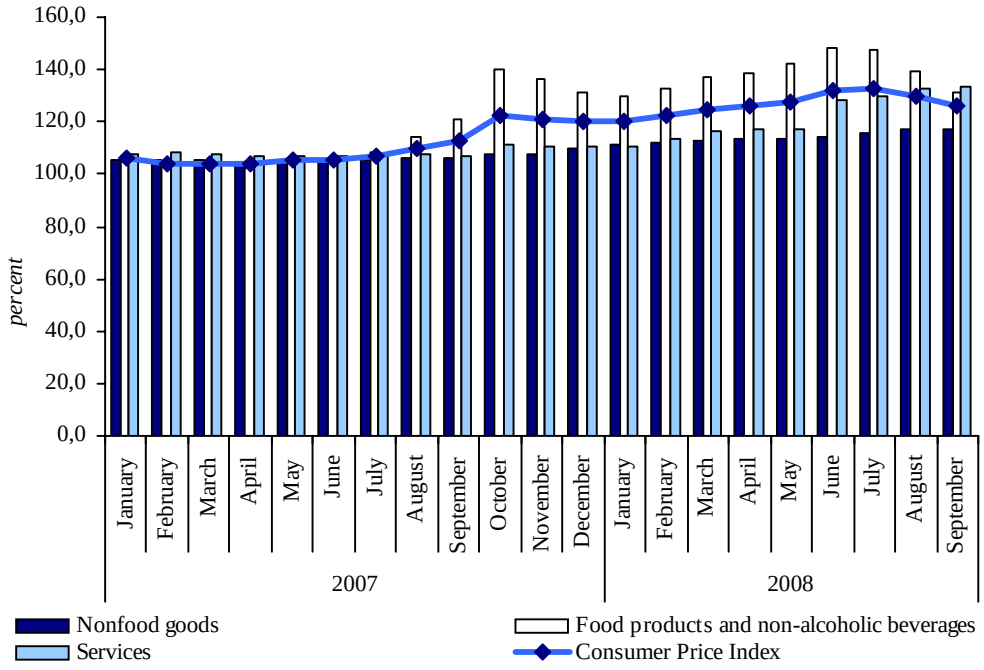
Part 2. Inflation and its components[1]

2.1. CPI analysis by components and regions

In the third quarter of 2008, the inflation rate constituted 0.4 percent (in the third quarter of 2007 this rate constituted 5.5 percent). In the reporting period there was a seasonal decrease in prices as compared to the previous quarters. However, significant deflation due to the seasonal factor was not observed. The key factor, determining the price growth, was an increase of prices for services by 8.4 percent, while prices for goods decreased by 0.5 percent due to decline of food prices by 3.5 percent.

Thus the index prices for food products in the third quarter of 2008 constituted 96.5 percent, for non-food products – 105.0 percent and for paid services – 108.4 percent.

Figure. 2.1.1. CPI and its components dynamics



The annual inflation rate in September 2008 climbed to 25.9 percent (corresponding index of 2007 was 13.1 percent). Price for goods increased by 25.0 percent and for services by 33.5 percent. CPI growth was driven mainly by prices for services and goods. In CPI structure, share of food products has still prevailed.

2.1.1. Food products

The main share in the structure of consumer goods basket is accounted for food products, characterized by the largest prices fluctuations and dependence on the seasonal factor. Growth rate of prices for food products in the third quarter constituted 96.5 percent (9.1 percent in the third quarter of 2007). Seasonal price decrease for vegetables, fruits and meat products provided the downward trend for food inflation. Against

[1] Due to the National Statistics Committee data.

Kyrgyz Republic Inflation Report

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If you have questions regarding the content of this edition, please contact us at:
The National Bank of the Kyrgyz Republic
101 Umetaliev St., Bishkek
Phone: (996 312) 669 059
Fax: (996 312) 610 730
e-mail: aaidarova@nbkr.kg

If you have questions regarding the distribution of this edition, please contact us at:
The National Bank of the Kyrgyz Republic
101 Umetaliev St., Bishkek
Phone: (996 312) 669 009
Fax: (996 312) 610 730
E-mail: pr@nbkr.kg
http://www.nbkr.kg

This edition contains the description of the consumer price trends in the Kyrgyz Republic and its regions, analysis of major inflation factors, decisions made by the National Bank of the Kyrgyz Republic on monetary policy, and also presents inflation forecast for the upcoming period. It is published on a quarterly basis in Kyrgyz, Russian and English languages.

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