

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 3, 2019**

**Bishkek
November 2019**

Monetary Policy Report is released by the National Bank on a quarterly basis. The objective of this Report is to inform the public about the decisions made by the National Bank in the sphere of monetary policy, which are based on analysis and forecast of the main inflation factors and assessments of the economic situation development in the external environment and in the Kyrgyz Republic.

Monetary policy in the Kyrgyz Republic

The objective of the monetary policy is to achieve and maintain price stability through appropriate monetary policy.

The policy rate of the National Bank is the main instrument of the monetary policy. In 2014, the National Bank moved to a new monetary policy framework - when the National Bank policy rate serves as a target for the funds value in the money market - to improve and increase the effectiveness of the monetary policy. The short-term interest rates of the money market are the operational goal of the monetary policy. The purpose of the aforementioned movement is to strengthen the impact of the interest rate channel of the monetary policy, aimed at development of the inter-bank credit market and support for the real sector of economy.

Quantitative benchmark of the monetary policy is to keep inflation rate within 5-7 percent in the medium term. Development and implementation of the monetary policy is carried out within the framework of the Main Directions of the Monetary Policy for the medium term.

Monetary policy of the National Bank is focused on the future, as the decisions made in the field of the monetary policy affect the key macroeconomic indicators of the country with a certain lag. Development of the monetary policy is based on the inflation forecasts for the short and medium term, resulting from consistent and economically reasonable forecast of the economic situation development in the Kyrgyz Republic and in the external environment.

Communication policy is among the main instruments of the monetary policy conducted by the National Bank. The National Bank regularly issues press releases and holds press conferences on the monetary policy to inform the public and form adequate inflationary expectations among the population. Assessment of the current and expected macroeconomic situation in the country made by the National Bank is published in the Monetary Policy Report at the beginning of the third month of each quarter. The schedule of meetings held by the National Bank Board on the size of the policy rate is published on the bank's official website.

Monetary Policy Report for Q3 2019 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2019-II-07/58-1-(ДКП) dated November 25, 2019.

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Summary

In Q3 2019, macroeconomic development of the Kyrgyz Republic generally corresponded to the assumptions of the baseline scenario approved by the Board of the National Bank in August 2019.

External conditions still had a significant impact on economic development of the Kyrgyz Republic. Economic activity was still observed in the countries-main trading partners of the country. Prices in the world markets for food products and raw materials were multidirectional. There was rise in the world prices for certain types of goods (vegetable oil and meat). Volatile price movement was observed in the oil market, as the fundamental factors conditioned decrease in oil prices; however some local factors contributed to increase in oil prices. In general, the prices for gold demonstrated an upward trend. However, changes in the world markets of food products and raw materials did not have a significant inflationary impact on the price level in Kyrgyzstan.

Economic activity was still observed in the country. The economic growth of the Kyrgyz Republic was due to increase in production output in all sectors of the economy and growth of real wages. According to the results of January-September 2019, real GDP grew by 6.1 percent, excluding the enterprises of the Kumtor Mine - by 3.2 percent. The fiscal sector does not cause inflationary risks, the fiscal consolidation policy is still conducted. The inflow of remittances into the country is reduced and creates risks for more restrained domestic consumption.

The inflation rate in the country remains moderately low: in September 2019, it made 2.3 percent in annual terms, and its average value in January-September 2019 (period to period) was 0.6 percent.

In general, the inflationary conditions till the end of 2019 and in the first half of 2020 will be restrained. The average inflation rate (period to period) is expected at 1.2 percent in the absence of shocks, at the end of 2019, the inflation rate (Dec. 2019/Dec. 2018) will approach the level of approximately 3.5 percent. In 2020, according to the National Bank estimates, the average inflation rate is expected at approximately 4.0 percent in the absence of shocks.

In Q3 2019, the trade deficit of the Kyrgyz Republic decreased by 9.4 percent and amounted to USD 749.2 million. This trend was due to increase in exports, meanwhile imports formed at the level of the same period in the previous year. Exports increased by 20.5 percent due to growth in gold supplies. The volume of foreign trade turnover¹ increased by 4.9 percent and amounted to USD 1.7 billion.

The existing stimulating nature of the monetary conditions conditioned further expansion of the commercial banks' resource base and lending to the economy. The interbank credit market remained active. In general, the money market demonstrated formation of the short-term interest rates near the key rate.

¹ Data are given in FOB prices, taking into account NBKR additional estimates

Chapter 1. External Environment

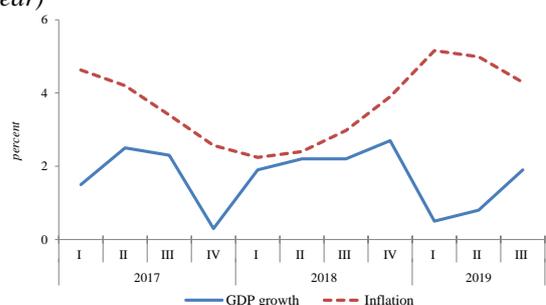
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries

Economic activity persisted in the countries-main trading partners of the Kyrgyz Republic. Economic growth in Russia accelerated amid steady slowdown of the inflation rate under the influence of one-time factors. Economic growth in Kazakhstan was mainly due to expansion of domestic demand, which, in turn, exerts pro-inflationary pressure. Weak dynamics of economic growth amid slowdown in the world economic growth was observed in Belarus; in the reporting period, the inflation rate slowed down, approaching the target level. Economic growth in Armenia accelerated slightly, the inflation rate slowed down and was below the target level. Assumptions about smooth slowdown in the economic growth of China will be preserved in the future. The US economy continues demonstrating slowdown in economic activity.

Russia

Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



Source: Ministry of Economic Development of the Russian Federation, IA Bloomberg, Russian Federal State Statistics Service

inventories, which was a result of maintaining high rates of industrial growth and a high yield of crops amid weak domestic demand. Moreover, the economy in Russian was also supported by a slight recovery in the growth of goods exports.

Consumer demand growth slowed down amid a slight decline in consumer lending. At the same time, in Q3 2019, the real disposable income of the population increased in annual terms by 3.0 percent.

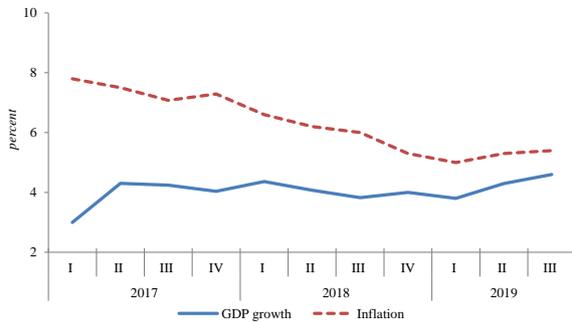
The financial market of Russian did not experience a shortage of dollar liquidity amid continued easing of monetary policy by the leading countries of the world and relatively stable situation in the developing countries, as well as an increase in demand for federal loan bonds from the non-residents.

In Q3 2019, slowdown in the inflation rate was still observed amid a decrease in the pro-inflationary risks, RUB strengthening, a high yield in the selected food markets, a slowdown of the inflation rate in the trading partner countries and low budget expenditures. Thus, in the reporting period, the inflation rate made 4.3 percent in annual terms (5.0 percent in the previous quarter). At the same time, the increase in prices for food products slowed down to 5.0 percent, for non-food products – down to 3.5 percent, in the services sector – down to 4.3 percent.

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBKR calculations

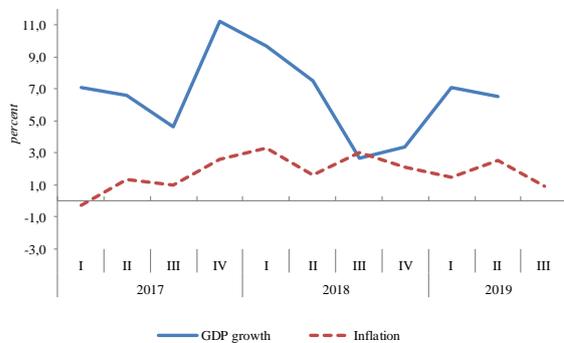
Kazakhstan formed at the level of 5.4 percent against 6.0 percent in the same period of 2018 and was mainly conditioned by rise in prices for food products.

In addition, the expansion of domestic demand (amid rise in the population incomes and consumer lending) exerts pro-inflationary pressure. At the same time, in the reporting period, decline in the cost of regulated services, as well as in prices for gasoline and fuel was the restraining factor for the inflation rate.

Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Service of the Republic of Armenia, IA Bloomberg, CB RA

consumer prices in Armenia increased by 0.5 percent compared to the same period of 2018. At the same time, in January-September 2019, the inflation rate made 1.6 percent for compared to the same period of 2018. There was a decline in the household inflationary expectations and a decrease in the level of deposits dollarization, which had decreased over the previous year (by about 4 percentage points) and reached 48.6 percent in July.

The rates of economic growth in Kazakhstan increased in Q3 2019. Thus, in general, GDP in Kazakhstan grew by 4.3 percent¹ over nine months of 2019 against 4.1 percent in the same period of 2018. The economic growth in Kazakhstan was mainly due to expansion of domestic and investment demand, which resulted in an increase in production in the sectors of construction, trade and transport. Moreover, an increase in the volume of metal ore production, growth in the textile industry and engineering made a significant input to economic growth.

In Q3 2019, the inflation rate in

In Armenia, the economic activity has accelerated up to 7 percent, the inflation rate slowed down and was at a low level.

In January-August 2019, the economic activity index was 7 percent compared to the same period of the previous year. In the reporting period, the industrial production output grew by 9.5 percent, the construction sector output - by 4.4 percent, the growth in trade volumes was 9.0 percent, the nominal average monthly salary increased by 5.7 percent, and the foreign trade turnover - by 2.0 percent.

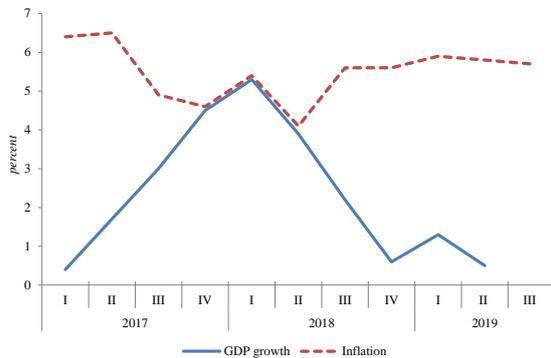
According to the preliminary operational data, in September 2019,

¹ According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan.

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(in annual terms)



Source: National Statistical Committee of the Republic of Belarus

conditions, reflecting the combined effect of the interest rates and the exchange rate on the economy, generally remained neutral.

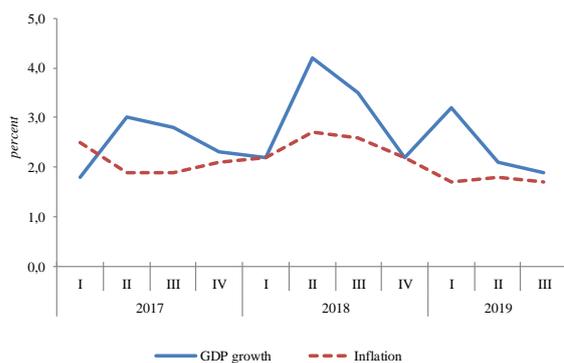
In Q3 2019, there was slowdown in the annual inflation. In September 2019, consumer prices increased in annual terms by 5.3 percent, approaching the target set at 5 percent for 2019. The influence of short-term factors (primarily crop failure in the previous year) on inflationary processes was still observed, however the degree of their impact is gradually decreasing.

In addition, prices for most imported consumer goods rose less intensively. The annual increase in regulated prices and tariffs slowed down amid a more moderate growth in the cost of higher and secondary specialized education services, as well as a more restrained rise in retail prices for fuel, taking into account the dynamics of the world oil prices.

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(in annual terms)



Source: the U.S. Department of Commerce, the U.S. Department of Labor, IA Bloomberg

GDP calculations, have increased.

In September 2019, consumer prices in the United States increased in annual terms by 1.7 percent, as in the previous month. Experts expected increase in the inflation rate approximately at 1.8 percent. In August, prices increased by 0.1 percent, and the analysts expected the same dynamics in September. In September, energy prices in the United States decreased by 1.4 percent compared to the previous month amid decline in prices for gasoline from the level of 2.4 percent. Prices for used cars decreased by 1.6 percent, for new cars - by 0.1 percent. In September, prices excluding the cost of energy carries and food products (Core CPI index) increased by 0.1 percent compared to August and by 2.4 percent - in annual terms.

In Q3 2019, the dynamics of GDP growth in Belarus was restrained. Thus, in January-September, GDP of the country grew by 1.0 percent compared to the same indicator of 2018 (3.7 percent). Positive growth dynamics were observed in retail trade turnover (+4.8 percent), in agricultural production (+1.2 percent) and in industry (+0.7 percent).

Cargo transportation (-5.9 percent), cargo turnover (-6.2 percent) and wholesale trade (-4.1 percent) had a negative impact on the GDP growth rate amid slowdown in global economic activity. Economic activity remained moderate and did not exert pressure on inflationary processes. In general, monetary

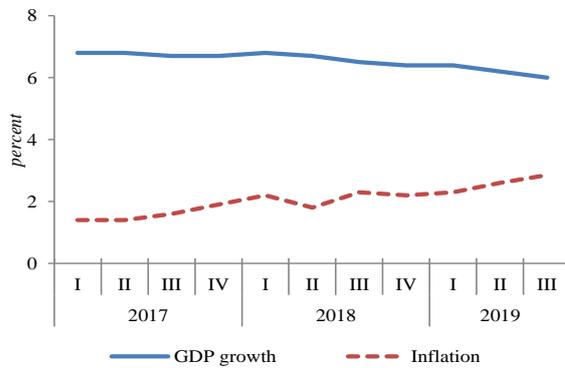
The U.S. economy still demonstrated slowdown in Q3 2019.

According to the preliminary estimates published by the U.S. Bureau of Economic Analysis, the U.S. real GDP grew by 1.9 percent in Q3 2019, having decreased from 2.0 percent in Q2. Real GDP grew due to the positive contribution of consumer expenditures, federal government expenditures, investment in fixed assets, state and local authorities, as well as from exports, which was partially compensated by the negative input of investment in non-residential fixed assets and private inventories. Imports, which are deducted in

China

Chart 1.1.6. Growth of GDP and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: National Statistics Bureau of the PRC, IA Bloomberg

In Q3 2019, the economic growth rates in China slowed down to the lowest levels in the recent years, due to the ongoing trade tension with the United States. According to the PRC statistical office in Q3 2019, GDP grew by 6.0 percent compared to 6.5 percent in the same period of the last year.

The slowdown of GDP growth in China was mainly due to decrease in exports, as well as low rates of housing construction. In general, GDP in China grew by 6.2 percent over nine months mainly due to the high level of consumption, the growth rates of industrial production and services, the expansion of investment in fixed assets, the reduction of

taxes and fees amid an increase in public expenditures.

In September 2019, the CPI growth in annual terms amounted to 3.0 percent compared to 2.5 percent in September of the previous year. Rise in prices for food products due to a sharp increase in pork prices (by 69.3 percent in annual terms) resulted from the epidemic of African swine fever made the main input in inflation.

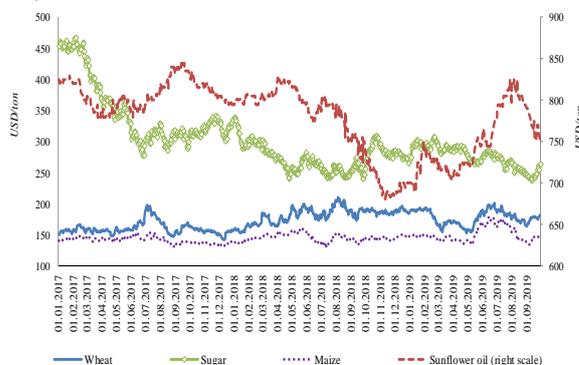
1.2. World Commodity Markets

Prices for the main food products imported by Kyrgyzstan were multidirectional in the world markets; there was rise in prices for vegetable oils and meat. However, there was no significant inflationary impact on the prices in Kyrgyzstan from the world food markets. Multidirectional dynamics of prices was observed in the oil market: fundamental factors resulted in a decrease of the oil prices; however some local factors conditioned an increase in the oil prices. Prices for gold generally demonstrated an uptrend.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



Prices in the world food markets were slightly volatile, however generally they did not bear significant risks for the economy of the country.

In Q3 2019, prices in the crops market were lower compared to the same quarter of the previous year. The dynamics of prices for main crops was multidirectional. In September of the current year, prices for wheat increased slightly, meanwhile they were still significantly lower (by 11.0 percent) compared to the prices in the same period of the previous year due to generally optimistic forecasts for the world supply. In the reporting period, maize quotations decreased as its

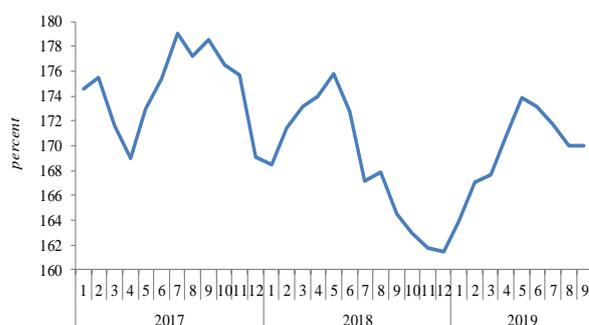
world prices continued to decline under the influence of large volumes of export supply of the producing countries in the Southern and Northern Hemispheres.

Prices for vegetable oils have reached the highest level over the past 13 months due to the influence of stable demand in India and China. Moreover, prices for vegetable oils increased

due to rise in prices for basic mineral oils. At the same time, in September, prices for soybean and sunflower oil decreased due to weak global demand and expected increase in supplies from the Black Sea region.

Prices for sugar continued to decline mainly due to decrease in energy prices, which contributed to the decline in the world sugar prices. During the reporting quarter, an additional factor of decline in sugar quotations was conditioned by the expectations of sufficient sugar stock resulted from forecast of production growth in the upcoming agricultural season of 2019-2020.

Chart 1.2.2. Dynamics of FAO Food Price Index



In Q3 2019, the average value of FAO index increased by 2.4 percent compared to the same quarter of the previous year and amounted to 170.5 points. The dynamics of the FAO price index for the main commodity items was multidirectional. Decline in sugar prices was the most significant; meanwhile the price for dairy products decreased slightly. However, the decline in price indices was almost completely compensated by rise in prices for vegetable oils and meat.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices (in USD)



In Q3 2019, dynamics of oil prices was multidirectional. During the reporting period, the price for Brent oil ranged within USD 56-69 per barrel. One-time factors, such as tension in the industrial sector of Venezuela, sanctions against Iran, negative incidents at oil facilities in Saudi Arabia (in mid-September, the price for oil increased up to USD 69 per barrel) supported prices for oil at the level higher than USD 60 per barrel, however the fundamental factors contributed to decline in energy prices: world demand oil

grew more slowly compared to US production.

At the end of the reporting period, the price for Brent oil reached USD 60.8 per barrel, having decreased by 6.6 percent since the beginning of the quarter (an increase by 10.7 percent year-to-date). In January-September 2019, the average price for Brent oil was USD 64.7 per barrel.

Tensions in the Middle East and a reduction in the US oil reserves are the main risks that may cause an increase in prices for oil in the short term. Slowdown in the world demand for oil, an increase in the US oil production and export, and an increase in supplies from Brazil and Norway are the risks that reduce the price for oil.

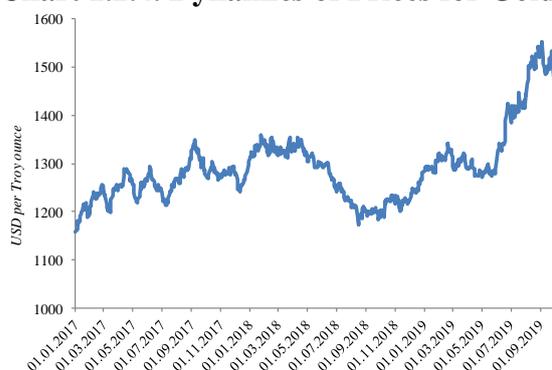
The International Energy Agency (IEA) slightly reduced its forecast for oil demand growth for 2019 and 2020 down to 1.0 and 1.2 million barrels per day, respectively, in the report for October. OPEC also worsened forecasts for growth in demand for oil in 2019 from 1 down to 0.98 million barrels per day, however the growth forecast was maintained at 1.08 million barrels per day for 2020. Moreover, forecasts for oil supply growth by the non-OPEC countries were reduced down to 1.82 million barrels per day for 2019 and down to 2.2 million barrels per day for 2020.

According to the forecasts of the international financial institutions, the price for oil in the medium term will fluctuate around USD 60 per barrel. OPEC and the oil-producing

countries participating in the OPEC+ are expected to consider a significant reduction in oil production in December 2019 due to fears of weak growth in demand for it in 2020.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

In Q3 2019, the prices for gold were supported at the level of six-year maximum of USD 1,500. There was a rapid and large-scale increase in world prices for gold since the beginning of summer; it reached a six-year maximum of USD 1,500 per Troy ounce in August. The price of the precious metals increased due to weakening of the Chinese yuan to the minimum of 2008, sharply increased uncertainty after unsuccessful 12th round of negotiations between the United States and China, the growth of protectionism and sanctions restrictions in the world, and

increasingly more clear prospects for a slowdown in the world economic growth.

In September, gold quotations demonstrated a downward volatility, having decreased from USD 1,552.6 per Troy ounce at the beginning of the month down to USD 1,472.5 at the end of the month. Risks of a slowdown in the world economic growth, growing geopolitical tensions in the Middle East, existing uncertainty around Brexit, monetary policies easing, as well as growing demand for gold from world central banks significantly increased investor demand for safe assets, including gold. On the other hand, the possibility of making progress in negotiations on the trade agreement between the USA and China (which will generally have a positive effect on the world economy) has “pulled” prices down.

Chapter 2. Macroeconomic Development

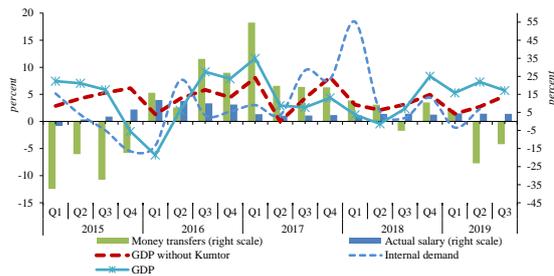
2.1. Demand and Supply in the Commodities and Services Market

In January-September 2019, economic growth rates remained positive. In the reporting period, the industrial sector was the main driving force of the economy, including an increase in the production of basic metals at the enterprises of the Kumtor Mine, which had a positive impact on the economic development of the country.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

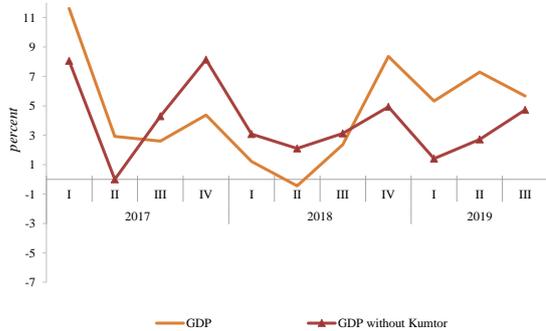
(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

the enterprises and organizations of all types of economic activity, excluding the enterprises and organizations from the information and communication sphere, as well as transportation and storage of goods.

At the same time, in January-September 2019, the real wages increased by 3.6 percent compared to the same period of 2018.

In January-September 2019, the economic growth was higher compared to the same period of 2018 and constituted 6.1 percent (excluding the enterprise of the Kumtor Mine - 3.2 percent).

According to the preliminary results of Q2 2019, growth of the domestic demand¹ amounted to 2.3 percent in annual terms. An increase was mainly due to growth of gross accumulation (+3.5 percent), which is a result of an increase in stocks of fixed assets (+7.6 percent) and final consumption (+2.6 percent).

In general, the economic growth in January-September 2019 was due to a positive input from all main sectors of the economy. In Q3 2019, gold production at the enterprises of the Kumtor Mine² increased by 23.4 percent compared to the indicator of Q3 2018 (122.4 thousand ounces) and amounted to 151.1 thousand ounces.

According to the results of January-September 2019, the average monthly nominal wage of one employee³ amounted to KGS 16.4 thousand, having increased by 4.2 percent compared to the same period of 2018. The largest increase in the average monthly wage growth rate was observed at

¹ According to the NSC KR, reference to the data for the earlier period is given due to the lack of data for Q3 2019.

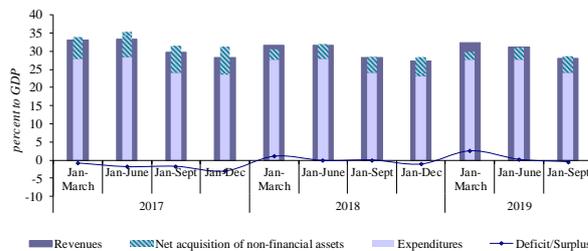
² According to the press releases of Centerra Gold Inc.

³ Generally, in the territory of the republic, excluding small enterprises.

Public Finances Sector

According to the results of January-September 2019, the state budget deficit amounted to KGS 2.0 billion or 0.5 percent to GDP (in January-September 2018, the budget deficit amounted to KGS 0.1 billion or 0.02 percent to GDP). The primary state budget surplus (excluding interest payments for servicing the public debt) amounted to KGS 3.9 billion or 1.0 percent to GDP.

Chart 2.1.3. Execution of the State Budget
(period to the corresponding period of the previous year, accumulatively)



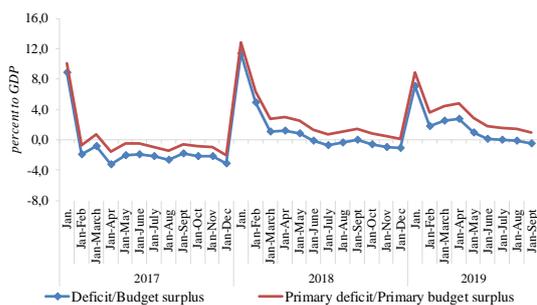
Source: CT MFKR, NBKR

The state budget revenues from operating activities increased by 3.9 percent or KGS 4.2 billion compared to the same indicator of January-September 2018 and amounted to KGS 111.7 billion or 28.0 percent to GDP. Tax revenues (0.9 percentage points), official transfers and non-tax revenues (1.5 percentage points each) made a positive input to the growth of budget revenues. Tax revenues still have the largest share (77.1 percent) in the structure of current revenues.

The state budget expenditures for operating activities increased in annual terms by 4.2 percent, or KGS 3.8 billion, and amounted to KGS 95.4 billion or 23.9 percent to GDP. The state budget expenditures grew mainly due to an increase in labor costs (+5.8 percent), payment of interest on government liabilities (+9.4 percent) and an increase in payment of subsidies and social benefits (+8.1 percent).

It should be noted that expenditures by functional classification changed due to implementation of the new budget classification. Thus, transfers to the budgets of the Social Fund and the Mandatory Health Insurance Fund are reflected in the section “general public services”, and in the previous year they were reflected in the sections “social protection and healthcare”, respectively.

Chart 2.1.4. Budget Deficit
(period to the corresponding period of the previous year, accumulatively)



Source: CT MFKR, NBKR

Net outflow of budget funds for operations related to acquisition of non-financial assets amounted to KGS 18.3 billion or 4.6 percent to GDP.

According to the preliminary data of January-September 2019, execution of the republican budget total revenues plan, excluding the state investments grants and the special accounts funds amounted to 94.2 percent. Execution of the customs revenues plan amounted to 88.3 percent, execution of the tax revenues plan constituted 94.2 percent, execution of the republican

budget expenditures made 93.3 percent. At the same time, all applications received from the state-financed institutions on socially significant expenditure items were fully satisfied by the Ministry of Finance of the Kyrgyz Republic, including such items as “salary”, “deductions to the Social Fund”, “medicines”, “food”, “allowances”, “scholarships and public debt servicing”.

Investments

In January-September 2019, the level of capital investment exploitation increased by 6.3 percent compared to January-September 2018.

Table 2.1.1. Capital Investments by Sources of Financing
(millions of KGS, percent)

	January-September			
	2018		2019	
	millions of KGS		share, percent	
Total	83 839.5	90 034.1	100.0	100.0
Internal investment	63 389.4	63 954.5	75.6	71.0
Republican budget	3 655.5	2 315.3	4.4	2.6
Local budget	804.6	1 034.2	1.0	1.1
Funds of enterprises and organizations	30 804.7	30 673.5	36.7	34.1
Banks' credits	2 302.0	1 573.1	2.7	1.7
Population funds including beneficent help of KR residents	25 822.6	28 358.4	30.8	31.5
External investment	20 450.1	26 079.6	24.4	29.0
Foreign credit	11 580.8	14 220.9	13.8	15.8
Direct foreign investments	4 731.7	4 716.7	5.7	5.3
Foreign grants and humanitarian aid	4 137.6	7 142.0	4.9	7.9

Source: NSC KR

Source: NSC KR

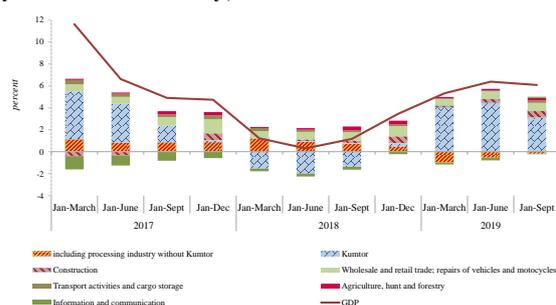
funds of the enterprises and organizations, as well as from the direct foreign investment (94.0 percent).

The volume of capital investments financed from domestic sources decreased by 0.2 percent compared to January-September 2018, those finance from the republican budget decreased by 37.4 percent, those from the bank loans – by 32.4 percent, from the funds of the enterprises and organizations – by 1.5 percent, meanwhile, the investments financed from the local budget increased by 27.1 percent, those financed from the personal funds – by 8.7 percent. The investments financed from the foreign sources increased by 26.2 percent, while the investments financed from the foreign grants and humanitarian aid increased by 1.7 times, from the foreign loans - by 21.5 percent, meanwhile those financed from the direct foreign investments, on the contrary, decreased by 1.4 percent.

Supply

Chart 2.1.5. Input of Main Sectors in GDP Growth

(period to the corresponding period of the previous year, accumulatively)



Source: NSC KR, calculations: NBKR

and crop-growing (by 1.4 percent) production.

Growth of production in the industrial sector compared to January-September 2018 was due to an increase in output of basic metals (by 39.2 percent), textile (by 30.1 percent), in extraction of metal ores (by 26.7 percent), crude oil and natural gas (by 14.1 percent).

The turnover of wholesale and retail trade, repair of motor vehicles and motorcycles increased compared to January-September 2018 mainly due to growth in wholesale (by 5.2 percent) and retail (by 3.9 percent) trade.

Growth of capital investments by 19.2 percent was mainly observed in the construction of agriculture, forestry and fishery facilities. Foreign grants and humanitarian aid, funds of the republican budget and the personal funds (93.7 percent) were the main sources of financing.

The volume of investments utilized in construction of the manufacturing facilities decreased by 38.7 percent compared to the same period of 2018. Financing was implemented mainly from the foreign loans,

In January-September 2019, GDP increased due to a positive input of all sectors of economy.

According to the preliminary data from the National Statistical Committee of the Kyrgyz Republic, the nominal GDP grew by 6.1 percent in real terms compared to the same period of the previous year (in January-September 2018, growth was 1.2 percent) and amounted to KGS 398.4 billion.

In the reporting period, growth of gross agricultural output by 1.8 percent compared to January-September 2018 was due to an increase in livestock (by 2.2 percent)

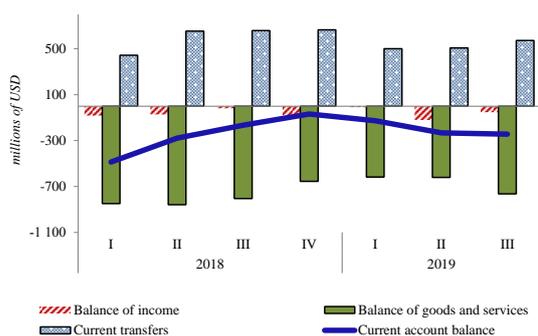
In January-September 2019, the GDP deflator was negative and amounted to (-) 1.2 percent, having decreased by 5.1 percentage points compared to the same indicator in January-September 2018.

Such sectors as industry (by 3.0 percentage points), wholesale and retail trade (by 0.7 percentage points), construction (by 0.6 percentage points), agriculture and transport by 0.2 percentage points, respectively, made the main positive input to the economic growth.

2.2. External Sector¹

In Q3 2019, the current account was formed under the influence of a decrease in the net inflow of current transfers amid a decrease in the negative balance of trade in goods.

Chart 2.2.1. Current Account
(millions of USD)



Note: According to the preliminary and forecasted data.

According to the forecasted and preliminary data, the current account deficit increased up to USD 243.8 million and constituted 8.1 percent to GDP² in Q3 2019.

The trade deficit of the Kyrgyz Republic decreased by 9.4 percent and amounted to USD 749.2 million in the reporting period. This trend is due to increased exports, meanwhile imports remained unchanged compared to the same period of the previous year.

2.2.1. Trade balance of the Kyrgyz Republic³

(millions of USD)

	2016	2017	2018	2018 Q III	2019 * Q III	Change in %	Change in millions of
Trade balance	-2 136,5	-2 383,3	-3 033,8	-827,1	-749,2	-9,4	77,9
Export (FOB)	1 607,9	1 813,9	1 916,0	377,5	454,8	20,5	77,3
Gold	701,6	700,4	664,2	127,3	167,8	31,8	40,5
Import (FOB)	3 744,4	4 197,2	4 949,9	1 204,5	1 204,0	0,0	-0,5
Energy products	467,4	567,2	809,6	203,0	159,5	-21,5	-43,6

* Preliminary data

In the reporting period, export of goods (in FOB prices) increased by 20.5 percent to make USD 454.8 million. Exports were primarily affected by increase in supplies of gold by 31.8 percent due to growth in physical supplies and rise in world prices. At the same time, there was an increase in the supplies of clothes, ores and concentrates of precious metals, vegetables, fruits, cast iron and steel, etc.

In Q3 2019, imports of goods (in FOB prices) amounted to USD 1,204.0 million, having formed at the level of the previous year. In the reporting period, there was a decrease in such commodity items as clothes and clothing accessories, footwear, woven fabrics, essential oils, etc., as well as an increase in imports of investment goods. Imports of energy products amounted to USD 159.5 million, having decreased by 21.5 percent compared to Q3 2018.

In the reporting period, the net inflow of current transfers was formed below the level of the same period in 2018. The negative dynamics of the net inflow of private transfers, which decreased by 13.2 percent, had an impact on development of this indicator.

¹ According to the preliminary and forecasted data, including additional estimates of the National Bank of the Kyrgyz Republic. Period of comparison is the quarter to the corresponding quarter of the previous year.

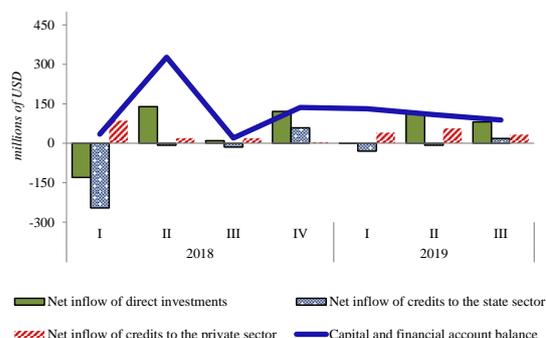
² Ratios to GDP are calculated based on sliding annual data, including the last four quarters.

³ The data on the foreign trade are given taking into account the NSC KR additional estimates for agricultural products (till 2017), mutual trade with the EAEU member states (since Q3 2015) and the NBKR estimates.

In the reporting quarter, the balance of services deficit is forecasted at USD 14.0 million, meanwhile the deficit of “income” item is expected at USD 53.0 million.

According to the preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, the capital inflow on the capital and financial accounts will cover the current account deficit in the amount of USD 88.5 million in Q3 2019. The capital inflow on the capital account amounted to USD 28.4 million, the financial account surplus made USD 60.1 million.

Chart 2.2.2. Capital and Financial Account



Net inflow of direct investments into the country is forecasted to be higher than the level of the same period in the previous year to make USD 81.4 million. In Q3, the balance of “other investments” item will be negative due to growth of foreign assets abroad.

Moreover, in the reporting period, there was a larger inflow of borrowed assets and an increase in the volume of servicing the public and private sector loans.

Thus, the balance of payments of the Kyrgyz Republic was formed with a negative balance to make USD 35.2 million at the end of Q3 2019. Gross international reserves covered 4.5 months of the future imports of goods and services¹.

Indexes of Real and Nominal Effective Exchange Rate of KGS

Table 2.2.2. Key Values for Exchange Rate

	year (average)			month to the beginning of the year (as of the end of month)		
	2017 (aver.)	2018 (aver.)	%	December 2018	September 2019 *	%
REER	113.7	111.4	2.9	117.7	116.7	-0.9
NEER	112.8	110.7	5.2	121.4	125.1	3.0
RBER to CNY	80.8	85.6	-2.3	85.9	86.2	0.3
NBER to CNY	64.5	66.7	-2.2	67.1	69.1	3.0
RBER to Euro	107.2	109.2	-4.5	107.0	109.0	1.9
NBER to Euro	78.8	78.6	-4.7	76.7	79.1	3.2
RBER to KZT	141.7	132.5	1.4	140.1	142.3	1.5
NBER to KZT	152.1	147.5	5.6	165.5	173.0	4.5
RBER to RUR	131.4	116.2	6.0	128.1	122.4	-4.5
NBER to RUR	144.8	128.3	7.0	145.1	141.0	-2.8
RBER to USD	87.2	89.9	-0.4	88.7	87.1	-1.7
NBER to USD	65.7	66.7	0.0	65.8	65.8	0.1

* Preliminary data

↓ - Som devaluation, competitiveness improvement
 ↑ - Som strengthening, competitiveness deterioration

At the end of Q3 2019, the real effective exchange rate decreased compared to December 2018. According to the preliminary data, the index of nominal effective exchange rate (NEER) of KGS increased by 3.0 percent year-to-date and constituted 125.1 at the end of September 2019. The increase in the NEER index was due to KGS strengthening² in September 2019 compared to the average exchange rate for December 2018 against the Kazakh tenge – by 4.5 percent, the Turkish lira – by 8.1 percent and the euro – by 3.2 percent.

Despite the NEER index strengthening, lower inflation rate in Kyrgyzstan³ conditioned the decrease of the real effective exchange rate (REER), which since December 2018 decreased by 0.9 percent and constituted 116.7 at the end of September 2019.

¹ Not taking into account non-convertible currencies.

² The data are given for nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for calculation of the index.

³ In Q3 2018, the inflation rate in the Kyrgyz Republic was formed at 0.4 percent, meanwhile, according to the preliminary calculations, the average inflation rate in the main trading partner countries was 4.3 percent.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

Taking into account the dynamics of expected inflation rate for the medium term, the National Bank maintained a stimulating monetary policy in Q3 2019.

Short-term money market interest rates fluctuated near the National Bank policy rate, demonstrating a reduction in the gap with the key rate.

Measures aimed at strengthening of the interest rate channel of the monetary policy transmission mechanism were continued. The interest rate floor, “overnight” deposit rate, has been adjusted from 1.75 percent to 2.00 percent in the reporting period.

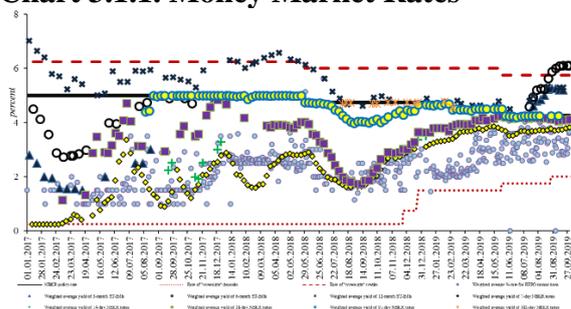
The liquidity surplus was retained in the banking system, meanwhile there had been a gradual downward trend since the beginning of 2019. In Q3 of the current year, the average daily excess liquidity level reached its minimum over the last three years. The interbank credit market remained quite active.

Interest Rate Policy of the National Bank

In Q3 2019, the National Bank continued to conduct a stimulating monetary policy, keeping the key rate at 4.25 percent amid moderate growth in prices for goods and services in the country and moderate dynamics of aggregate demand.

The interest rate corridor was adjusted, in particular, “overnight” deposits rate was increased from 1.75 percent to 2.00 percent, meanwhile “overnight” credits rate remained unchanged at 5.75 percent to implement further work on improvement of the transmission mechanism interest rate channel.

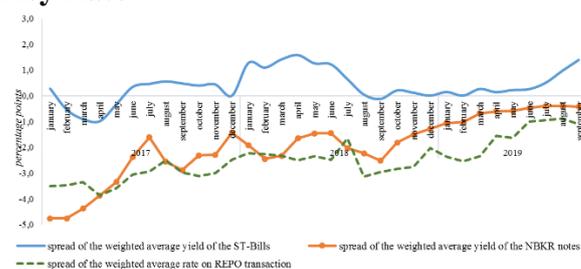
Chart 3.1.1. Money Market Rates



amid reissue of 3- and 6-month ST-Bills since July 2019. The increase in offer of the short-term securities by the government conditioned formation of yields on these instruments near the upper rate of the interest rate corridor.

The rates of the interbank credit market (mainly on transactions up to 7 days) were approximately at the level of 3.26 percent. In the reporting period, the size of the interbank market decreased in volumes and in the number of transactions compared to the previous quarter, meanwhile this market remained quite active compared to the previous year.

Chart 3.1.2. Spread between the Short-Term Rates of the Money Market and the Key Rate



In Q3 2019, the money market short-term rates, excluding the rates on 6-month ST-Bills, were formed mainly in the lower half of the interest rate corridor and continued approaching the policy rate. This was facilitated by the measures taken by the National Bank to strengthen the impact of the monetary policy interest rate channel on the financial sector, as well as a slight decrease in activity on the National Bank notes market

The spread of the weighted average yield on the National Bank notes and the average rate on REPO transactions of the interbank credit market to the policy rate continued to decline, having reached its minimum over the last few years.

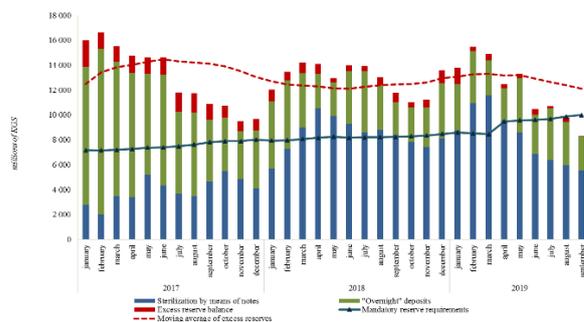
In the reporting period, the average spread of the notes yield to the policy rate made 0.4 percentage points (in Q2 2019, the spread was -0.6 percentage points).

The average spread of the rate on REPO transactions of the interbank credit

market to the policy rate was -1.0 percentage point (in Q2 2019, the spread was -1.4 percentage points).

Situation with Liquidity of the Commercial Banks

Chart 3.1.3. Excess Reserves of the Commercial Banks



The downward trend in excess liquidity of the banking system, observed in the first half of 2019, also continued in the reporting period, however its level remains high, which conditions conducting of sterilization operations by the National Bank.

In Q3, the average daily volume of excess liquidity has reached its minimum over the last three years and amounted to KGS 9.6 billion, having decreased by KGS 2.5 billion compared to the previous quarter.

During the reporting quarter, the commercial banks' excess reserves decreased amid an increase of money outside banks (by KGS 3.9 billion), excess of the state budget revenues over expenses (by KGS 2.6 billion) and withdrawal of KGS liquidity through the operations of the National Bank in the foreign exchange market (KGS 1.3 billion).

Taking into account existing level of excess liquidity in the banking system, the National Bank continued to conduct operations to absorb excess liquidity through the open market operations and placement of the commercial banks' available funds on "overnight" deposits with the National Bank. However, the volume of operations on sterilization decreased. In Q3 2019, the average daily volume of excess liquidity withdrawal from the banking system decreased by KGS 2.3 billion compared to the same indicator of Q2 of the current year and amounted to KGS 9.4 billion.

The volume of the National Bank notes placed in the commercial banks also continued to decline. The average daily volume of notes in circulation decreased from KGS 8.3 billion in Q2 2019 to KGS 5.9 billion in Q3 due to a decrease in the volume of supply by the National Bank amid the downward dynamics of excess liquidity in the banking sector, as well as reissue of 3- and 6-month ST-Bills. In Q3, a significant share of notes in circulation was accounted for 91-day notes (approximately 46.3 percent) and 28-day notes (approximately 29.4 percent).

At the same time, the structure of the National Bank operations on sterilization has not changed significantly and the share of notes still dominates in it (63.1 percent), meanwhile the share of "overnight" deposits amounted to 36.9 percent.

Credit Policy of the National Bank

In the reporting quarter of 2019, the National Bank continued to finance priority sectors of the economy as part of the stimulating monetary policy.

In Q3 of the current year, the National Bank conducted 13 credit auctions aimed at development of the regions in the country. According to the results of the auctions, the volume of supply amounted to KGS 13.5 billion, the commercial banks' demand for the credit resources amounted to KGS 480.0 million; meanwhile the total volume of credits approved for issue amounted to KGS 310.0 million. The interest rate on these credits for the end consumers was limited to 12 percent.

In general, the National Bank conducted 30 credit auctions year-to-date, while the total amount of proposed funds amounted to KGS 39.0 billion, the approved volume according to the auctions results amounted to KGS 2.0 billion.

Foreign Exchange Policy of the National Bank

In general, the situation in the foreign exchange market of the country remained stable. At the end of Q3 2019, there was a slight excess of demand for foreign currency over supply thereof in the domestic foreign exchange market. Therefore, the National Bank conducted interventions on sale of foreign currency in the domestic foreign exchange market in the amount of USD 18.4 million to smooth sharp fluctuations of the exchange rate.

In the reporting period, the KGS exchange rate was fluctuating within the range of KGS 69.35 – 69.85 per USD 1, having increased by 0.3 percent.

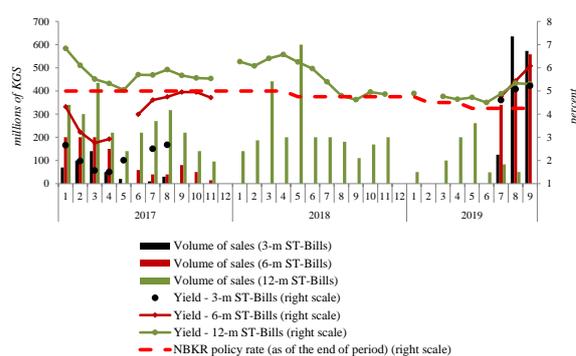
Monetary Policy Measures in Q3 2019

<p>The decisions were made on the size of the National Bank policy rate</p>	<p>The Board of the National Bank twice considered the issue on the size of the National Bank policy rate – on August 26 and September 30, 2019. Based on the results of two meetings, the decision was made to keep the policy rate unchanged at 4.25 percent.</p> <p>The rates of the interest rate corridor were adjusted, in particular, “overnight” deposits rate was increased from 1.75 percent to 2.00 percent.</p>
<p>The decisions were made to conduct the credit auctions.</p>	<p>The National Bank announced credit auctions 13 times for the banks refinancing. Three auctions were held out of announced 13 ones with approved credits in the amount of KGS 310.0 million. Meanwhile, the total volume of credit resources supplied by the National Bank amounted to KGS 13.5 billion.</p> <p>The weighted average interest rate on these credits was equal to the policy rate and constituted 4.25 percent.</p>

3.2. Financial Market Instruments

Government Securities Market

Chart 3.2.1. Dynamics of ST-Bills Sales Volumes and Yield



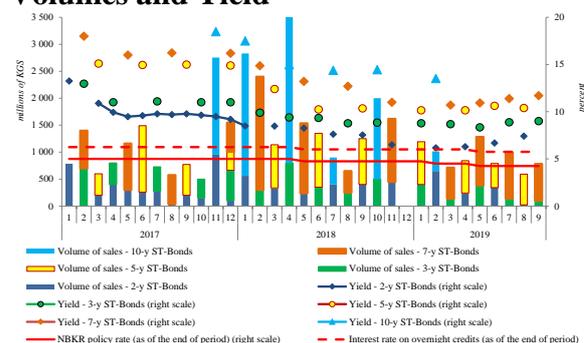
ST-Bills

In the reporting period, the ST-Bills market demonstrated an increase in the supply due to reissue of 3- and 6-month securities. At the same time, the activity of participants in the market of 12-month securities decreased compared to the market of 3- and 6-month securities. The yield on all maturities of the ST-Bills increased in the reporting period.

In the reporting period, the Ministry of Finance placed at the auctions ST-Bills in the amount of KGS 3.4 billion (+ 5.8 times compared to the corresponding quarter of 2018) to cover the budget deficit of the republican budget. Therefore, demand from the investors increased up to KGS 3.1 billion (+ 3.6 times), amid an increase in yield. Additional placements of the ST-Bills were carried out due to increase in the activity of participants in the reporting period. Thus, in the reporting period, the ST-Bills were placed in the total amount of KGS 2.8 billion (+ 5.7 times). The weighted average yield increased by 0.3 percentage points compared to the same period of 2018 and was formed at the level of 5.2 percent.

By the end of the reporting period, the total volume of ST-Bills in circulation with the holders increased by 45.5 percent year-to-date and amounted to KGS 3.8 billion.

Chart 3.2.2. Dynamics of ST-Bonds Sales Volumes and Yield *ST-Bonds*



In the reporting period, the Ministry of Finance increased the volume of supply in the ST-Bonds market. At the same time, there was a decrease in demand for the ST-Bonds. Therefore, in the reporting period, the sales volume and the overall weighted average yield of the ST-Bonds decreased compared to the same indicators of the previous year.

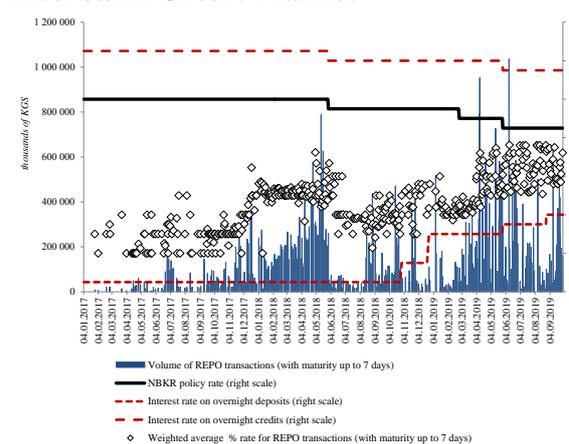
In the reporting period, the total volume of the ST-Bonds supply issued to finance the budget deficit and to refinance the state debt amounted to KGS 2.9 billion, having increased by 18.4 percent due to growth in the supply of 3- and 7-year securities and the lack of supply of 10-year securities compared to the same period of 2018. The volume of demand from the participants in this market decreased by 33.6 percent, down to KGS 2.8 billion. Therefore, in the reporting period, the volume of the ST-Bonds placement decreased by 15.3 percent (down to KGS 2.4 billion at a weighted average interest rate of 10.8 percent) compared to the same period of the previous year.

In terms of maturity, the most active demand was for 7-year ST-Bonds, meanwhile, there was decrease in demand for other maturities.

At the end of the reporting period, the total volume of ST-Bonds¹ in circulation increased by 13.8 percent year-to-date, up to KGS 42.8 billion due to an increase in the portfolio of the institutional investors (+11.2 percent), the commercial banks (+27.6 percent) and the resident legal entities (+16.6 percent).

Interbank Credit Market

Chart 3.2.3. Dynamics of Rates and Volume of Repo Transactions in the Interbank Credit Market



In Q3 2019, activity in the interbank credit market was lower compared to the previous quarter, however somewhat higher compared to other periods.

In July-September of the current year, the trade volume increased 2.8 times compared to the value of the same quarter in 2018 and amounted to KGS 10.5 billion. The weighted average interest rate increased up to 3.3 percent, from 2.2 percent in Q3 2018, meanwhile the weighted average maturity of the interbank credits decreased from 7 to 5 days.

The growth of activity in the interbank credit market was caused by the increase of REPO transactions, with the share of

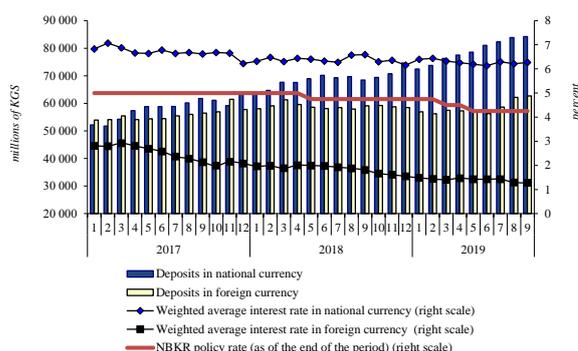
97.9 percent in the interbank market, by 2.8 times, up to KGS 10.3 billion.

In Q3 2019, seven standard transactions in foreign currency were conducted in the interbank credit market amounting to KGS 223.0 million at the rate of 3.4 percent, standard transactions in the national currency were not conducted.

¹ Excluding ST-Bonds nominated in foreign currency.

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits



In the deposit market the commercial banks' depository base still demonstrated stable growth. In Q3 2019, there was an increase in the volume of deposits in the national and foreign currency.

At the end of September 2019, the volume of the commercial banks' depository base increased by 10.4 percent year-to-date and amounted to KGS 146.9 billion. Deposits in the national currency increased by 12.8 percent, up to KGS 84.2 billion, deposits in foreign currency increased by 7.2 percent,

up to KGS 62.7 billion. Dollarization of the deposits decreased by 1.3 percentage points year-to-date and amounted to 42.7 percent, however it increased compared to the minimum value recorded at the level of 41.0 percent in June of the current year. At the end of September, dollarization of the individuals' deposits decreased by 2.3 percent year-to-date and amounted to 33.7 percent. Dollarization of the legal entities'¹ deposits increased by 0.9 percent, up to 51.5 percent.

In Q3 of the current year, the volume of new deposits decreased by 6.5 percent compared to the previous quarter. The volume of new deposits increased by 12.4 percent compared to the same quarter of 2018 and amounted to KGS 165.7 billion, meanwhile the volume of new deposits in the national currency increased by 20.9 percent, up to KGS 97.0 billion, and those in foreign currency increased by 2.3 percent, up to KGS 68.7 billion. In terms of maturity, the demand deposits, the share thereof constituted 90.0 percent of all new deposits, increased by 11.6 percent, which was the main reason for the growth in the total volume of new deposits compared to the same quarter of 2018. The share of demand deposits in the national currency amounted to 87.3 percent, and in foreign - 93.7 percent.

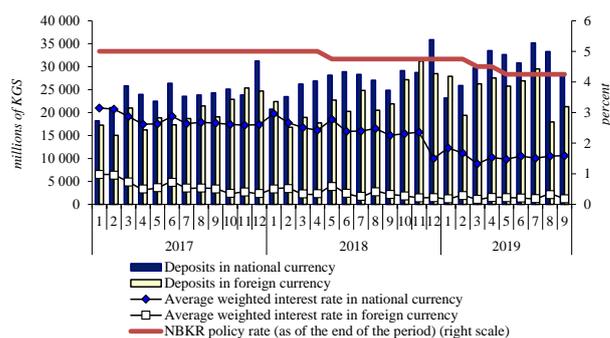
The volume of new deposits with a maturity of 1 year and more increased compared to Q3 2018, and the share of deposits with a maturity up to 1 year decreased. It was caused by an increase in the share of long-term new deposits in the national currency compared to the total volume of time deposits by 6.9 percentage points, up to 46.9 percent and in the share of these deposits in foreign currency by 2.1 percentage points, up to 39.9 percent.

As of the end of September, in the structure of the depository base, the share of long-term deposits (from 1 year and more) in the total volume of time deposits increased by 2.1 percentage points year-to-date, up to 33.2 percent. It was caused by an increase in the share of long-term deposits in the national currency by 3.8 percentage points, up to 34.0 percent, meanwhile the share of long-term deposits in foreign currency decreased by 1.7 percentage points, down to 31.1 percent.

The total duration of the depository base increased up to 5.3 months (+0.3 months year-to-date) at the end of the reporting period, the duration of the time deposits increased up to 13.5 months (+0.2 months).

¹ Excluding FCOs and state authorities.

Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows

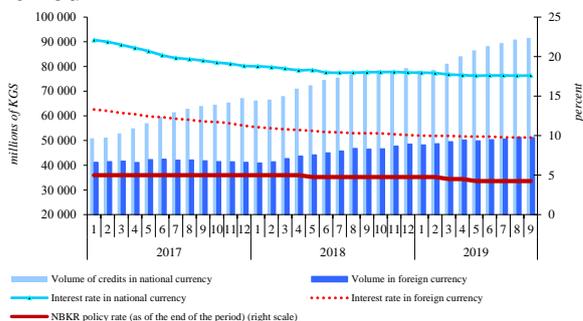


(-0.10 percentage points). The weighted average interest rate on the time deposits in the national currency decreased by 0.53 percentage points, down to 9.46 percent, in foreign currency - by 0.02 percentage points, down to 3.26 percent. The weighted average interest rates decreased for all maturities in the national currency, meanwhile, in Q3 of the current year, the interest rates in foreign currency increased for maturities of 3-6 months and 6-12 months compared to the same period of the previous year.

The concentration index¹ in the deposit market remained at the level of 0.09 at the end of the reporting period, which corresponds to the low level of concentration with eleven participants with equal shares in the market.

Credit Market

Chart 3.2.6. Dynamics of Commercial Banks Credit Debt as of the End of the Period

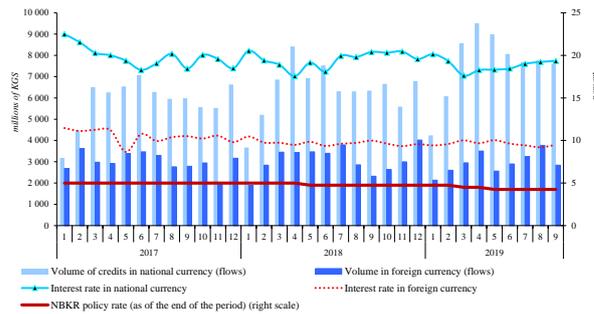


In Q3 2019, the commercial banks' credit portfolio continued to demonstrate stable growth.

At the end of September of the current year, the commercial banks' credit portfolio increased by 11.7 percent year-to-date and amounted to KGS 142.8 billion. The volume of credits in the national currency increased by 15.4 percent, up to KGS 91.6 billion, credits in foreign currency increased by 5.5 percent, up to KGS 51.2 billion. Dollarization of the credits decreased by 2.1 percentage points year-to-date, down to 35.8 percent. In terms of maturity, change in the level of dollarization was multidirectional, dollarization of the credits with a maturity of over 3 years decreased by 5.2 percentage points, down to 49.8 percent.

¹ This index shows the degree of concentration in the portfolio of the banks. The concentration index is calculated by the method of calculating the Herfindahl-Hirschman index and is the sum of the squares of specific weights of the indicator in the total volume. The index takes values from 0 to 1. Index value less than 0.10 corresponds to a low level of concentration; from 0.10 to 0.18 - the average level of concentration; over 0.18 - high level of concentration. For example, a concentration index of 0.50 is equivalent to the presence of 2 participants with the same shares in the market, and 0.3 - 3 participants, etc.

Chart 3.2.7. Dynamics of Commercial Banks New Credits for the Period



Demonstrating the pattern observed in the previous years, in Q3 of the current year, the volume of new credits was lower compared to the previous quarter. Meanwhile compared to Q3 of the previous year the volume of credits in the national currency increased by 21.5 percent, up to KGS 23.0 billion, and the credits in foreign currency increased by 9.9 percent, up to KGS 9.9 billion.

New credits in the national currency increased compared to July-September 2018 in almost all maturity rates; there was a slight decrease in the credits with a maturity of 6-12 months. High growth rates and a large contribution to the growth of the total volume of issued credits were recorded in the sectors of trade and commercial operations, consumer credits and agriculture.

The dynamics of new credits in foreign currency were multidirectional in terms of maturity: credits with a maturity from 6 months to 3 years increased significantly; meanwhile there was a slight decrease in credits with a maturity of more than 3 years. In terms of sectors, the dynamics of issued credits was also multidirectional: credits in the sectors of trade and industry increased; however, there was a decrease in credits in the sectors of construction and agriculture.

In Q3 2019, duration on new credits in the national currency remained unchanged at the level of 25 months compared to Q3 2018, in foreign currency it decreased by one month, down to 32 months.

In Q3, the weighted average interest rates on new credits in the national currency decreased by 0.86 percentage points compared to the same period of 2018, down to 19.20 percent, the most significant decline was recorded in the sectors of agriculture, trade and consumer credits. The rates in foreign currency decreased by 0.40 percentage points, down to 9.38 percent, mainly due to a decrease of the interest rates on credits in the sectors of trade, construction and mortgage.

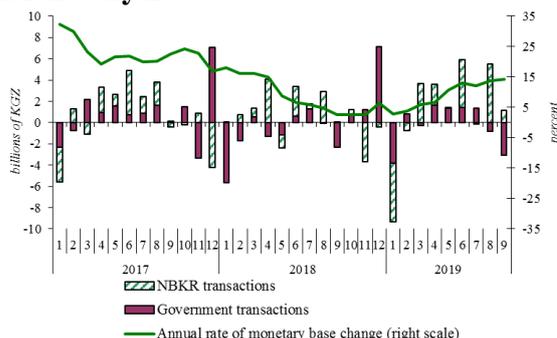
The credit market general concentration index was stable and formed at the level of 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among eleven banks. The sectoral concentration index was 0.31, thus demonstrating the main three credit sectors.

3.3. Dynamics of Monetary Indicators

Monetary Base

In the reporting quarter of 2019, the upward trend in reserve money was still observed; there was acceleration in the annual growth rate thereof.

Chart 3.3.1. Input of the Government's and NBKR Transactions in Change of Monetary Base



In Q3, the monetary base increased by 3.5 percent (compared to the previous quarter) mainly due to the transactions of the National Bank. The annual growth of reserve money was 14.3 percent.

The monetary base increased by KGS 6.5 billion due to the transactions of the National Bank, however, the transactions of the Government of the Kyrgyz Republic had a restraining effect on the growth of reserve money, reducing the monetary base by KGS 2.6 billion.

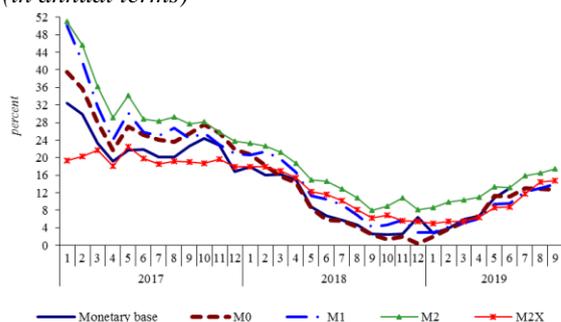
Generally, the ratio of reserves of other depository corporations and currency in circulation in the structure of the monetary base has not changed. As before, the share of the currency in circulation was the most significant (at the end of Q3 – 89.5 percent), meanwhile the share of reserves of other depository corporations amounted to 10.5 percent.

Monetary Aggregates

Generally, in the reporting quarter, all monetary aggregates continued demonstrating an upward trend, which was mainly due to an increase in money outside banks.

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates

(in annual terms)



In Q3 2019, an increase in lending to the economy and the money supply was still observed amid positive economic growth. There was some acceleration in annual growth of monetary aggregates.

An increase in money outside banks by 12.7 percent in annual terms influenced the expansion of monetary aggregates. At the same time, this indicator increased by 4.3 percent in the reporting quarter compared to 9.3 percent in the previous quarter.

During the reporting period, the monetary aggregate M2X increased by

14.7 percent in annual terms and amounted to KGS 226.8 billion, the monetary aggregate M2X grew by 6.2 percent compared to the previous quarter.

In Q3 2019, deposits¹, included in M2X, continued demonstrating an upward growth trend. Thus, this monetary indicator increased by 16.2 percent in annual terms, mainly due to the growth of deposits in the national currency by 23.7 percent. At the same time, the growth rate of deposits in foreign currency after a certain period of decline went into the positive zone and constituted 6.8 percent in annual terms.

Lending to the economy demonstrates positive growth rates as in the previous quarter, while maintaining the stimulating direction of the monetary policy. At the end of the reporting quarter, the total volume of credits to the economy increased by 15.4 percent (in annual terms) and amounted to KGS 146.1 billion. This indicator grew by 3.4 percent since the beginning of the reporting quarter.

Credits in the national currency with prevailing share in the general structure of credits to the economy increased by 18.7 percent over the year, meanwhile credits in foreign currency increased by 9.9 percent.

¹ Deposits of individuals, legal entities and other financial-credit organizations, excluding deposits of the Government of the Kyrgyz Republic and non-residents.

Chapter 4. Inflation Dynamics

Since Q2 2019, inflation in Kyrgyzstan continued to gradually recover due to increase in prices for food products. In Q3 2019, the actual inflation rate was 0.1 percentage point below the National Bank's expectations. Till the end of the year, with the current growth dynamics of the CPI, the inflationary conditions do not cause any concerns and are within the expected values.

4.1. Consumer Price Index

Chart 4.1.1. Dynamics of CPI Structure
(quarter to the corresponding quarter of the previous year)

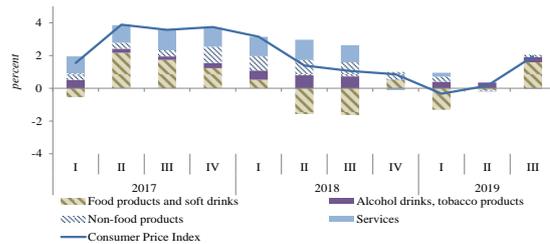


Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

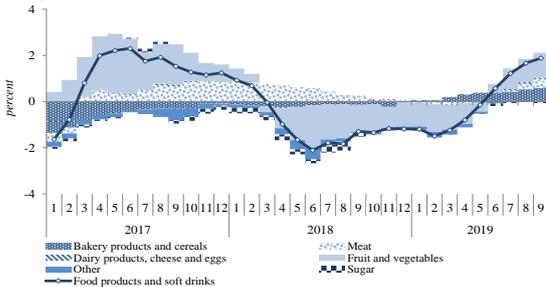


Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

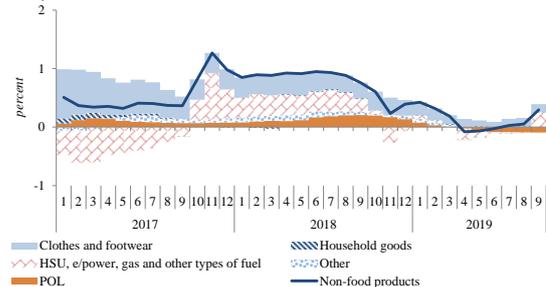
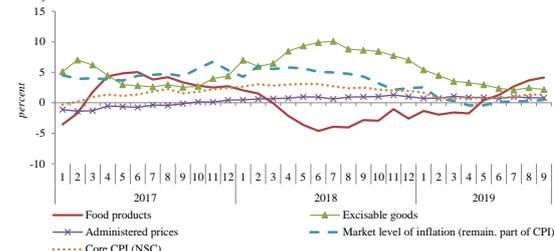


Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities
(month to the corresponding month of the previous year)



In Q3 2019, the consumer price index (quarter to the corresponding quarter) was 1.9 percent due to the significant rise in prices for food products. In January-September of the current year, the consumer price index was 0.6 percent, in September 2019 in annual terms it was 2.3 percent. The prices for the group “fruits and vegetables”, as well as “bakery products and cereals” made the main contribution to the growth of CPI, the increase in prices for dairy products, gas, and tobacco products had a minor impact on the CPI growth.

In September, the price index for food products increased by 4.2 percent in annual terms compared to the corresponding month of 2018. The low base effect of this commodity group observed in the previous year still conditions a significant increase in prices for fruits and vegetables, bakery products, cereals and dairy products in 2019. The group “oils and fats” and “sugar” still have a downward impact on food inflation.

During Q3 2019, there was a slight positive growth in the non-food commodity group. Thus, in September, the price index for non-food products increased by 1.0 percent in annual terms due to rise in prices for clothes, footwear, housing services and utilities. At the same time, the decrease is still observed in the groups “transport”, “communication”, “restaurants and hotels”.

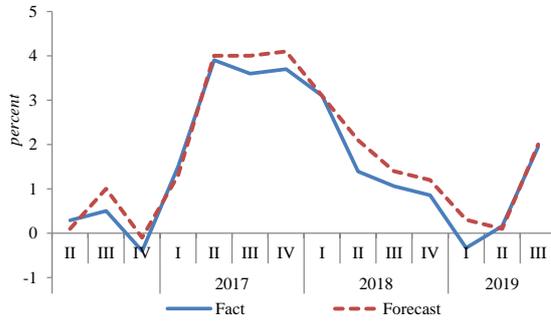
Market inflation rate remains low, and in September 2019 it constituted 0.5 percent.

In September 2019, the core inflation indicator (excluding food and energy products), calculated by the National Statistical Committee of the Kyrgyz Republic, was 1.3 percent in annual terms, having decreased by 1.2 percentage points compared to September 2018.

4.2. Comparison of Forecast and Facts

Chart 4.2.1. Actual and Forecasted CPI Values

(quarter to the corresponding quarter of the previous year)



In Q3 2019, the actual inflation rate was 0.1 percentage point below the National Bank's expectations. The forecasted effect of low prices for most food products, in particular on fruits and vegetables in 2018, was overestimated and formed slightly lower than expected, which caused the difference between the actual CPI and the forecast in Q3 2019.

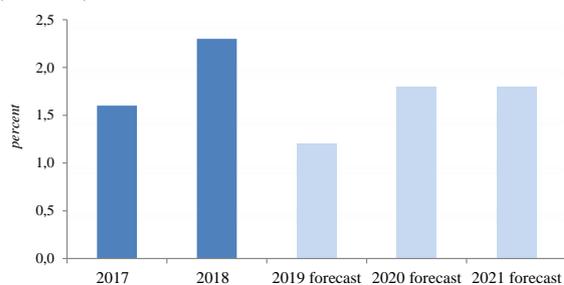
Chapter 5. Medium-Term Forecast

5.1. External Environment Proposals

5.1.1. Development Forecast of Main Trading Partner Countries

Russia

Chart 5.1.1.1. Real GDP Growth in Russia
(year to year)



Source: IMF, IA Bloomberg, Ministry of Economic Development of the Russian Federation

Expectations for economic growth in Russia remained unchanged amid existing external risks. According to previous assumptions, GDP growth rates will accelerate since the beginning of the second half of the year, in the absence of significant risks. Transition to the phase of more active implementation of the national projects and other measures of the Russian Government should be the main factor for increase in the economic growth in the medium term. It will contribute to increase in investment demand,

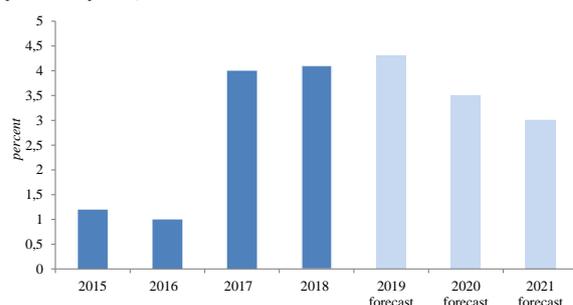
acceleration of the labor capacity growth, growth of the population incomes and, respectively, increase in consumption. The expected further easing of the fiscal and monetary policies in Russia and revision of the interest rate path by the leading central banks of the world will also have a positive impact on economic growth in 2020-2021.

At the same time, slowdown in the global economic growth and geopolitical uncertainty are significant external factor affecting the dynamics of economic activity in the medium term.

The inflation rate is expected at the level of 4 percent in the medium term amid steady inflation slowdown observed since Q2 of the current year and prevalence of the disinflationary risks over the pro-inflationary ones.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan
(year to year)



Source: IA Bloomberg, international financial institutions

In the medium term, the economy in Kazakhstan is expected to grow in the absence of significant shocks. The assumptions for the economic growth in Kazakhstan in 2019 are slightly adjusted upwards - up to 4.3 percent (instead of 4.0 percent) due to higher actual data on GDP growth in Kazakhstan at the end of nine months of 2019 compared to expectations.

The economic growth will also be supported by expansion of domestic demand amid rising incomes of the population, implementation of the large investment projects and government programs to support the economy. In 2020-2021, slowdown of economic growth is expected amid stagnation in oil production and decline in demand from the main trading partners of Kazakhstan, as well as the decreasing effect of domestic demand fiscal stimulation.

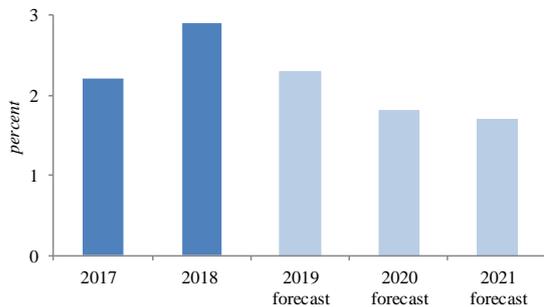
Slowdown in price growth is expected in the medium term, and the inflation rate will still be formed within the target corridor close to its upper rate, taking into account the influence of the internal and external factors. The main internal risks are associated with the expected increase in marginal tariffs for the certain types of regulated services.

Moreover, there is an increase in the level of risks in the world commodity markets and in the pro-inflationary pressure from expanding consumer demand.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg

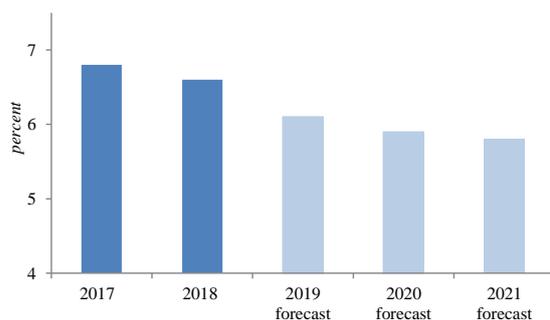
between the United States and China has already resulted in a decrease in economic activity of the enterprises in these countries and throughout the world.

The US Federal Reserve System estimates the world economy losses in the amount of USD 850 billion, indicating that the US economy will also suffer damage in the amount of USD 200 billion. Meanwhile, according to the analysts, a long-lasting confrontation is likely to turn into a deep and prolonged recession for the United States and the whole world and become a trigger for a new financial crisis.

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



Source: National Bureau of Statistics of the PRC, IA Bloomberg

growth in China. At the same time, risks and uncertainty remain in conclusion of trade agreements with the United States, in a high level of total debt and a reduction in the working-age population in the country.

In the medium term, the average annual inflation rate in China is expected to be slightly above two percent, with the target set by the government at around three percent. In 2019-2021, an increase in the general level of prices will make approximately 2.5 percent. Easing of the monetary policy in China to maintain the real economy will be the main reason for increase of the inflation rate.

Assumptions on the slowdown of the US economic growth still exist. The International Monetary Fund revised downward the forecast for US GDP growth in 2019 from 2.6 to 2.4 percent; the World Bank decreased its forecast for US GDP growth in 2019 down to 2.3 percent from the value of 2.5 percent estimated in June, and in 2020 – down to 1.6 percent from 1.7 percent, in 2021 – down to 1.5 percent from 1.6 percent; the Fitch Rating Agency decreased its forecast down to 2.3 percent in 2019 and down to 1.7 percent in 2020. The trade confrontation

Slowdown in economic growth of China is still expected. A downward trend will still be observed in the economic growth in the medium term. Forecasts for GDP growth in China in 2019-2020 were reduced by 0.1 percentage point to the level of 6.1 and 5.9 percent, respectively, due to lower actual data on GDP growth in China in Q3 2019 compared to expectations.

The stimulating measures of the government to support the economy of the country and sustainable consumption growth will be the main drivers of the economic

5.2. Medium-Term Forecast

Assumptions about development of the external and internal conditions of the Kyrgyz Republic economy in Q3 2019 to the greatest extent were consistent with the baseline scenario, approved at a meeting of the National Bank Board held in August 2019.

In 2020-2021, the economy of the Kyrgyz Republic remains under the influence of the economic development trend emerging in the countries of our region, primarily in Russia and Kazakhstan. Aggregate demand is supported by the growth in the domestic economy and increasing economic activity in the trading partner countries.

External economic conditions continue to determine the main trends in economic development of the Kyrgyz Republic. Economic activity in the main trading partner countries (Russia and Kazakhstan) remains near the expected levels amid price stability in the world energy markets. At the same time, current forecasts of economic growth in Russia and Kazakhstan are relevant as long as the significant reduction in oil prices and remaining sanction pressure on the Russian economy.

The reduction of remittance inflows in 2019 does not have significant impact on GDP of the Kyrgyz Republic, since, according to our estimations, a significant part of the demand provided by the remittances inflow stimulates growth in imports. Thus, the slowdown in demand due to the decrease in remittances does not cause significant fluctuations of GDP.

Price movement in the world commodity markets remain an important factor determining the economic development trend of the Kyrgyz Republic in the medium term.

Assumptions regarding stable price movement in the world food markets in the current agricultural season were maintained as part of the current forecast round. According to the market analysts, the emerging tendency in the global and regional agricultural commodity markets does not bear significant inflationary risks for the economy of the Kyrgyz Republic. Thus, dynamics of prices for food products is expected to remain stable until the end of the first half of 2020.

In Q3 2019, the oil prices demonstrated significant volatility: the minimum value of the oil prices was reached in August 2019. Combination of the following factors was the trigger for decrease in prices for oil: the next round of tension between the United States and China amid slowdown in demand for energy carriers in the United States. However, in September-October 2019, the price for oil returns to the “familiar” range of 2019 –60-62 USD per barrel. Taking into account the analysts’ forecasts based on the supply and demand ratio in the world energy market, a significant reduction in prices for oil is not expected in the medium term.

The structure of the economy of the Kyrgyz Republic determines the special role of the external sector parameters in the forecasts being developed. Assumptions on the parameters of the external economic sector such as the price movement in the world commodity markets, prospects for the economic development in the countries trading partners of the Kyrgyz Republic and other important indicators of the world economic development are set based on the forecasts of the world research agencies/institutions, the official bodies of the countries and the experts’ assessments.

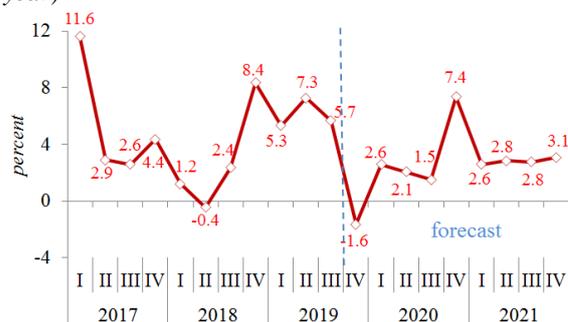
The National Bank of the Kyrgyz Republic conducts assessments of the economic behavior scenarios implemented in the Kyrgyz Republic under the impact of various combinations of external economic conditions and develops appropriate options for the monetary policy directions.

Taking into account the assumption about persistence of the emerging upward trend in the economic growth of the trading partner countries in 2019–2020, persistency in price stability in the world commodity markets in the medium term, as well as the assumption of the neutral impact of decline in remittances on the economy of the Kyrgyz Republic in the medium term, the following forecast was developed for the key macroeconomic indicators of the Kyrgyz Republic economic development in 2019-2021.

In 2020, the real sector of the economy of the Kyrgyz Republic will close a negative GDP gap.

Chart 5.2.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



Given the current internal and external conditions of economic growth, the negative GDP gap will be eliminated by the end of 2020.

The current forecast for the real GDP growth in 2019 compared to the monetary policy report made in August remained unchanged: 3.2 percent in 2019, excluding the contribution of Kumtor Mine enterprises - 3.0 percent.

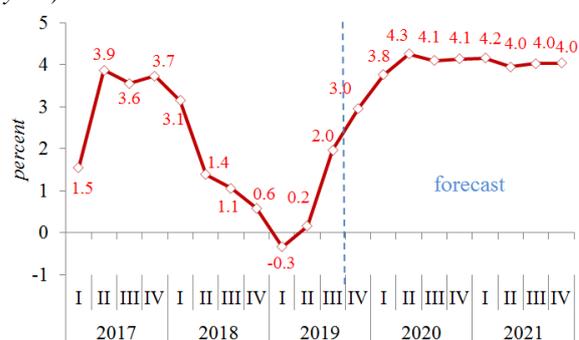
In 2020, the real GDP growth is expected at 3.6 percent; the GDP growth excluding the enterprises of the Kumtor Mine

will be approximately 3.5 percent.

Taking into account assessments of the external environment and internal conditions development in the medium term, the inflation rate in the economy of the Kyrgyz Republic is expected to remain within the target of 5-7 percent. The decreasing negative GDP gap and stable external inflation still determine a low inflation rate in the current year. In the absence of external and internal shocks, a gradual economic recovery in the country and the region will contribute to the entry of inflation into the target range by the end of 2020.

Chart 5.2.1.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



Factors that put the main pressure on inflation in 2019 were partially revised. The impact on inflation due to rise in prices for food products resulted from dry weather conditions amid a low base in 2018 will not be as significant as it was expected in Q2, however, it will be partially compensated by increase in administrative prices due to growth of tariffs for cold water. Moreover, among the internal factors, the contribution to the inflation rate will also have the residual effect of increased excise taxes on tobacco in Q1 2019 and a slight expansion of consumer

demand due to an increase in salaries of the teachers and health care workers in Q4 of the current year.

In 2020 the average annual inflation rate is forecasted to increase by 0.5 percent compared to the forecasts for the previous quarter. The increase in the inflation forecast is due to the positive GDP gap adjusted upwards in 2020.

Thus, in 2019, the average inflation rate (period to period) is expected at approximately 1.2 percent, at the end of 2019, inflation (Dec. 2019/Dec. 2018) may approach the level of approximately 3.5 percent. In 2020, the average inflation rate is expected at approximately 4.0 percent and reach value of about 4.5 percent by the end of the year.

Forecast for the Balance of Payments in 2019-2021 (baseline scenario)¹

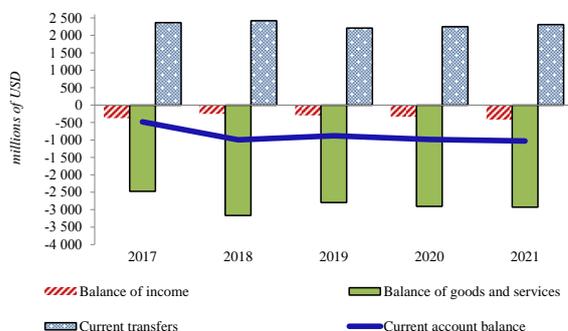
In this report, the determinants of the external economic sector development for 2019 were adjusted taking into account the data of the actual period. Estimates for economic development in the region were not changed significantly. In 2019, the current

¹ The forecast was made taking into account additional estimates of the National Bank of the Kyrgyz Republic.

account deficit was estimated at 10.9 percent of GDP in the amount of USD 883.1 million. A reduction of the trade deficit amid a decrease in migrant workers' remittances will affect the current account dynamics. The forecast for the trade deficit reduction is in turn due to expectations of a decline in imports.

Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)

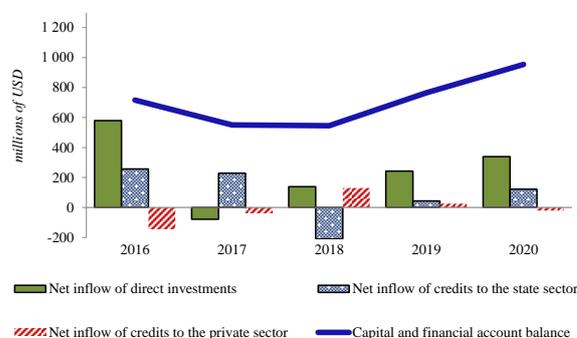


according to the results of 2019, which is expected to decrease by 4.6 percent compared to the level of 2018. This decrease will mainly be due to a reduction in imports of consumer goods. Moreover, in the reporting period, imports of petroleum products are expected to be below the level of 2018.

Forecast for the private transfers' inflow was adjusted taking into account the actual period data. The net inflow of migrant workers' remittances through the money transfer systems is forecasted to decrease by 10.8 percent.

Chart 5.2.1.4. Forecast Data on Capital and Financial Account

(millions of USD)



In 2019, estimates of gold production at the enterprises of the Kuntor Mine affected the positive export forecasts. According to the results of the year, export growth is expected at 2.6 percent. Gold supplies are expected to increase due to prices and due to physical volume. At the same time, a decrease in exports of other goods is expected due to decline in the supplies of consumer goods.

The downward trend in imports over nine months of the current year determined forecast formation

In 2019, the current account deficit will be financed through capital inflows from the capital and financial account in the amount of USD 582.5 million. The bulk of capital inflows on the financial account is expected to be provided by direct investment. Balance of "other investments" item will be formed under the influence of increase in the foreign liabilities of the public and private sectors. At the same time, the volume of servicing the previously received loans will remain at a significant level.

On results of 2019, the balance of payments is expected to be negative. International reserve assets¹ are expected to cover 4.0 months of the future imports of goods and services.

GDP growth in the trading partner countries and economic development in the country, an increase in the world prices for gold, as well as absence of significant fluctuations in the world prices for oil were the initial conditions for the forecast of balance of payments indicators for 2020-2021.

Moreover, gradual recovery of the positive dynamics in remittances inflow was forecasted for the abovementioned periods due to the low base of 2019. The current account deficit is expected to increase gradually to make 11.0 and 12.4 percent, respectively, taking into account the above conditions for 2020-2021. Expected growth in external demand amid further development of domestic production and rise in world prices for gold will cause an increase in exports. Growth of the population incomes amid existing economic growth in the country, as

¹ In accordance with the IMF methodology, only assets in convertible currencies (US dollar, euro, pound sterling, Japanese yen, Swiss franc, Australian dollar and Canadian dollar) are included in the international reserve assets.

well as an increase in migrant workers' remittances conditioned an assessment of the positive growth in imports. Thus, there will be an increase in negative balance of trade.

The economic growth in the migrant workers' recipient countries is expected to have a positive impact on the volume of private transfers inflow; the growth rates thereof are forecasted to be positive.

Inflows on the capital and financial account are expected to increase. The basic amount of funds on the capital and financial account will be provided by the inflow of foreign direct investments, as well as the loans to the public sector. Upward trend was still observed in loan servicing by the private sector.

In 2020, the overall balance of payments is forecasted to be negative, meanwhile, in 2021, the balance of payments is expected to be positive. International reserve assets will cover 3.7 months of the future imports of goods and services.

There are following risks still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2019-2021:

- the risks associated with the Kumtor Mine exploration;
- volatility in the world prices for oil and gold;
- deterioration of the economic situation in the trading partner countries;
- incomplete disbursement of the planned amounts of foreign credits to the public sector;
- volatility in the exchange rate of the main trading partner countries.

Annex 1. Key Macroeconomic Indicators

(quarter to the corresponding quarter of the previous year, if otherwise is not indicated)

Indicator	Unit of measure	2017				2018				2019		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. Demand and supply^{1/}												
<i>(real growth rates, if otherwise is not indicated)</i>												
Nominal GDP, per quarter	mln. KGS	94 072,4	115 331,6	151 977,4	169 094,3	102 353,2	120 280,5	157 424,1	177 055,5	104 527,2	128 032,9	165 832,9
GDP	%	11,6	2,9	2,6	4,4	1,2	-0,4	2,4	8,4	5,3	7,3	5,7
GDP, excluding Kumtor	%	8,1	0,0	4,3	8,1	3,1	2,1	3,1	4,9	1,4	2,7	4,7
Domestic consumption	%	4,0	4,6	8,8	3,7	1,9	4,3	3,3	2,6	1,7	2,2	2,2
Investment	%	-0,9	-8,0	11,5	18,3	88,4	-5,9	-7,9	8,4	-7,8	2,6	2,6
Net export	%	-2,5	-6,3	35,7	11,8	69,6	12,5	-2,8	3,1	-13,2	-9,8	-9,8
<i>GDP production:</i>												
Agriculture	%	1,3	1,0	2,6	3,0	1,2	2,0	2,6	4,2	1,8	1,6	1,9
Industry	%	32,9	24,5	3,0	-8,3	0,6	-8,2	1,4	22,6	15,7	25,6	9,9
Construction	%	-5,9	-3,7	5,0	20,7	1,4	4,2	5,0	12,6	3,1	7,7	12,5
Services	%	8,4	-3,0	2,2	6,3	1,5	1,5	2,0	2,8	1,1	1,5	4,8
including trade	%	3,9	4,0	5,9	11,1	3,7	4,8	4,7	6,2	3,9	4,6	4,3
2. Prices^{2/}												
CPI	%	101,5	103,9	103,6	103,7	103,1	101,4	101,1	100,9	99,7	100,2	101,9
CPI, in annual terms as of the end of period	%	102,8	104,1	103,3	103,7	102,7	100,8	101,2	100,5	99,3	100,9	102,3
Core inflation	%	100,3	101,3	101,9	102,1	102,8	103,1	102,5	100,4	101,0	100,8	101,2
<i>CPI by main groups of goods and services:</i>												
Food products	%	98,8	104,7	103,8	102,7	101,2	96,5	96,4	101,1	97,1	99,7	103,5
Non-food products	%	101,3	101,2	101,3	103,4	103,0	103,2	103,0	101,6	101,1	99,8	100,4
Alcohol drinks and tobacco products	%	105,7	102,8	102,3	103,3	106,5	109,1	108,4	106,3	104,7	104,0	103,8
Services	%	106,9	107,1	108,3	107,7	106,9	107,3	106,1	99,4	101,3	99,9	99,8
<i>CPI classified by character:</i>												
Excisable goods	%	106,1	103,4	102,7	103,7	106,5	109,2	109,2	107,7	104,5	102,9	102,2
Regulated prices	%	98,7	99,4	99,7	100,2	100,6	100,9	100,8	101,1	100,9	100,8	100,9
Market inflation rate (the rest of CPI)	%	104,2	104,0	104,6	105,9	105,3	105,5	104,7	102,6	101,2	99,8	100,3
3. External sector^{3/}												
<i>(in percent to GDP)</i>												
Trade balance	%	-29,9	-28,3	-30,4	-30,9	-35,4	-37,1	-37,5	-37,5	-35,3	-33,2	-31,9
Current transaction account	%	-9,6	-7,1	-6,3	-6,2	-11,0	-12,5	-13,6	-12,3	-7,9	-7,2	-7,2
Export of goods and services	%	35,1	35,9	34,8	34,3	33,8	34,7	33,6	34,0	35,3	35,7	37,1
Import of goods and services	%	67,7	66,7	67,2	66,4	70,5	73,5	72,5	73,1	71,6	68,7	68,1
4. USD exchange rate, as of the end of period												
	KGS	68,6069	69,1367	68,6585	68,8395	68,4325	68,1800	69,2773	69,8500	69,8496	69,4928	69,7039
5. Monetary sector												
<i>(real growth rates, if otherwise is not indicated)</i>												
NBKR policy rate, as of the end of period	%	5,00	5,00	5,00	5,00	5,00	4,75	4,75	4,75	4,50	4,25	4,25
Rate of "overnight" deposit, as of the end of period	%	0,25	0,25	0,25	0,25	0,25	0,25	0,25	1,50	1,50	1,75	2,00
Rate of "overnight" credit, as of the end of period	%	6,25	6,25	6,25	6,25	6,25	6,00	6,00	6,00	6,00	5,75	5,75
Average interest rates of operations in the interbank credit market, per quarter	%	2,08	1,65	2,33	2,19	2,73	2,40	2,17	2,22	2,26	3,02	3,26
<i>of which:</i>												
of REPO transactions	%	1,56	1,50	2,19	2,14	2,73	2,48	2,17	2,22	2,25	3,02	3,27
of credits in national currency	%	2,11	3,10	5,06	6,50	-	0,00	-	-	2,30	2,30	-
of credits in foreign currency	%	-	4,00	-	1,25	-	-	-	-	3,50	2,88	3,36
Weighted average yield of 7-day notes, as of the end of period	%	0,61	2,81	1,44	2,79	2,40	2,31	1,90	3,03	3,67	3,59	3,79
Weighted average yield of 14-day notes, as of the end of period	%	-	-	2,51	3,28	-	-	-	3,36	-	-	-
Weighted average yield of 28-day notes, as of the end of period	%	1,14	4,08	2,94	4,85	3,83	3,30	1,86	3,65	3,93	4,18	4,10
Weighted average yield of 91-day notes, as of the end of period	%	-	-	5,00	5,00	4,99	4,73	4,00	4,66	4,48	4,20	4,25
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	4,73	4,75	4,50	-	-
Monetary base	%	23,3	21,8	22,6	16,9	16,2	6,7	2,6	6,3	6,0	13,0	14,3
Money outside banks (M0)	%	28,0	25,1	25,4	21,8	15,7	5,8	2,5	0,4	5,2	11,1	12,7
Monetary aggregate (M1)	%	31,7	25,9	24,4	21,0	19,6	10,5	4,2	3,0	5,2	9,6	13,9
Narrow money supply (M2)	%	36,2	28,8	27,8	23,7	21,1	14,6	8,0	8,2	10,3	13,2	17,4
Money supply (M2X)	%	21,7	19,8	19,1	17,9	16,9	11,6	6,2	5,5	5,5	8,8	14,7

^{1/} Estimates of the National Bank of the Kyrgyz Republic on the basis of the data provided by the National Statistics Committee of the Kyrgyz Republic

^{2/} Source: National Statistics Committee of the Kyrgyz Republic

^{3/} Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q3 are preliminary

Annex 2. Glossary

Balance of payments is a report, which reflects aggregate economic transactions between the residents and non-residents within a certain period of time.

Consumer price index reflects changes in the prices for goods and services purchased by the standard consumers for non-production purposes. This index is among inflation rate measures, which is based on comparing the value of basic goods basket consumed by the population and weighted in accordance with the share of these goods in the aggregate consumption.

Core inflation is inflation, which excludes short-term, structural and seasonal changes of prices: the growth in prices of goods due to the seasonal, the external factors and the administratively established tariffs is excluded from the calculation of the inflation rate.

Core CPI index is a price excluding the cost of food products, electric energy, gas, and other fuels.

Deposits included in M2X are the deposits of the individuals and legal entities, as well as the deposits of other financial-credit institutions, however, the deposits of the government and non-residents are excluded.

Dollarization is extensive use of the US dollars in the domestic currency circulation of the country, which possess own national currency.

Inflation is the upward trend in the general level of prices within the certain period of time, which is determined based on the value calculation for the basket of goods and services weighted by the structure of consumer expenses of the standard household. The consumer price index is an indicator, which characterizes the inflation rate in the Kyrgyz Republic.

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

M0 – cash in hands.

M1 – M0 + residents' transferable deposits in the national currency.

M2 – M1 + residents' time deposits in the national currency.

M2X – M2 + settlement (current) accounts and residents' deposits in foreign currency.

Monetary base is the obligations of the National Bank on cash in circulation, and the obligations of the National Bank to other depository corporations in the national currency.

Net balance of payments is a difference between receipts from the foreign countries and payments transferred to the foreign countries.

Net balance of trade is a difference between the cost of export and import.

Nominal effective exchange rate (NEER) index is a weighted average value of the nominal exchange rates, which excludes the price tendency in the country under review with respect to the prices in the trading partner countries.

Notes are the discount securities, issued in circulation by the National Bank of the Kyrgyz Republic. By decision of the Monetary Regulation Committee of the National Bank, the notes can be issued for the period from 7 to 364 days. The notes maximum profitability is set to be equal to the policy rate as of the auction day.

Other depositary corporations are all resident financial corporations, except for the central bank, which main activities are aimed at financial intermediation and which issue obligations included into the national definition of the broad money stock (M2X).

Policy rate is a monetary policy tool, which represents an interest rate set by the central bank and is used as the basic reference point when determining the value of monetary resources in the economy.

Real effective exchange rate (REER) index represents the weighted average value of the nominal effective exchange rates adjusted by the value corresponding to the relative change in prices in the trading partner countries. REER is determined by calculation of the weighted real exchange rates of the currency in the country with respect to the currencies of the main trading partner countries.

REPO transactions are the operations on purchase/sale of the government securities in the secondary market with an obligation of their resale/repurchase on a certain date in the future at the pre-agreed price.

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 of the Kyrgyz Republic is the issuer of the ST-Bills. Placing issues of the ST-Bills is made through weekly auctions conducted by the National Bank of the Kyrgyz Republic. Direct participants enjoy the right to participate in the auctions. The owners of the ST-Bills of the Kyrgyz Republic can be both the legal entities and the individuals. The admission of the foreign investors to the market of the ST-Bills is not limited. The transactions in the secondary market of the ST-Bills are conducted through the electronic trading system of the National Bank of the Kyrgyz Republic, which allows the participants to conduct transactions on purchase/sale of the ST-Bills 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 one year. The issuer of the ST-Bonds is the Ministry of Finance of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic is the general agent servicing the issues of the ST-Bonds.

Annex 3. Abbreviations

CBRF	Central Bank of the Russian Federation
CPI	Consumer Price Index
ECB	European Central Bank
EAEU	Eurasian Economic Union
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCM	Inter-Bank Credit Market
IEA	International Energy Agency
KR	Kyrgyz Republic
LA	Lending to Agriculture
MNE RK	Ministry of National Economy of the Republic of Kazakhstan
NBKR	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NEER	Nominal Effective Exchange Rate
NSC	National Statistical Committee
OPEC	Organization for Petroleum Exporting Countries
POL	Petroleum, oil, lubricants
PRC	People's Republic of China
REER	Real Effective Exchange Rate
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America
VAT	Value Added Tax