

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 4, 2020**

**Bishkek
February 2020**

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.

Contents

Chapter 1. External Environment	5
1.1. Economic Development of the EAEU Countries and the Main Trading Partner Countries.....	5
1.2. World Commodity Markets	8
Chapter 2. Macroeconomic Development.....	11
2.1. Demand and Supply in the Commodities and Services Market	11
2.2. External Sector	14
Chapter 3. Monetary Policy	16
3.1. Monetary Policy Implementation	16
3.2. Financial Market Instruments	20
3.3. Dynamics of Monetary Indicators	24
Chapter 4. Inflation Dynamics.....	26
4.1. Consumer Price Index	26
4.2. Comparison of Forecast and Facts.....	27
Chapter 5. Medium-Term Forecast.....	28
5.1. External Environment Proposals	28
5.2. Medium-Term Forecast	30
Annex 1. Key Macroeconomic Indicators.....	34
Annex 2. Glossary.....	35
Annex 3. Abbreviations	37

Summary

Changes in the external environment due to the spread of the COVID-19 disease still influenced the economic growth in the Kyrgyz Republic.

Economic activity in the main trading partners of the Kyrgyz Republic was recovering moderately. The global economy demonstrated moderate recovery of demand for energy and food products amid lifting of strict isolation in individual countries. Gradual rise in the world food and oil prices was accompanied by fears of new outbreaks of coronavirus disease and introduction of new restrictions.

In the reporting period, the Kyrgyz Republic demonstrated a second wave of growth in the incidence of coronavirus disease, as well as instability of the political situation after the parliamentary elections. It conditioned slowdown in the recovery of economic activity upon lifting of many restrictions.

At the end of 2020, economic indicators decreased significantly compared to the level of 2019, GDP decrease was -8.6 percent (excluding the enterprise of the Kumtor Mine, the economy decreased by 9.0 percent). Domestic demand remains weak, as well as amid low rates of remittances' inflow to the country (at the end of 2020, the increase in the net inflow of individuals' remittances to the country amounted to 2.0 percent).

In Q4 2020, the trade balance was formed under the influence of a decrease in import and export operations. Exports decreased by 28.9 percent due to a reduction in supplies of gold and other goods. Imports decreased by 27.7 percent due to a decline in the supplies of consumer goods and energy products. As a result, the trade balance deficit of the country amounted to USD 430.8 million. The volume of foreign trade turnover decreased by 28.1 percent and amounted to USD 1.3 billion.

In the fiscal sector, there was a growing gap between the state budget revenues and expenditures resulted from the loss of customs and tax revenues amid closure of borders with neighboring countries and introduction of restrictive measures due to COVID-19 spread. At the end of 2020, the state budget deficit amounted to 3.3 percent to GDP.

In 2020, the National Bank managed to keep the inflation rate within the medium-term monetary policy targets of 5-7 percent despite significant impact of a number of non-monetary factors on inflation. In 2020, the average inflation rate was 6.3 percent, meanwhile during the year the annual inflation rate varied within the range of 3.2-9.7 percent.

In Q4 2020, the inflation rate was at the level of 8.4 percent. During the reporting quarter, the inflation in the country was mainly formed by the seasonal increase in prices for fruits and vegetables. Moreover, increase in the world prices for food products and growing export of meat from Kyrgyzstan had an additional impact on the inflation dynamics in the country.

The monetary sector was characterized by an increase in the level of the banks' excess liquidity. The activity of the participants was observed in the short segment of the money market amid such circumstances. Money market short-term rates fluctuated within the interest rate corridor set by the National Bank and approached the key rate. Generally, the monetary indicators demonstrated positive dynamics, growth of lending to the economy and increase in the depository base was still observed.

Chapter 1. External Environment

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

Economic activity in the Kyrgyz Republic's main trading partners was moderately recovering.

In 2020, GDP decrease in Russia was more restrained compared to the government's and the international analysts' expectations. However, the inflation rate accelerated under the influence of short-term pro-inflationary factors and exceeded the target of the Bank of Russia.

In Kazakhstan, in Q4 2020, economic growth still demonstrated a negative trend. However, the indicators thereof improved compared to the indicators of the previous two quarters.

In the reporting period, economic activity in Belarus remained at the level of the previous quarter. At the same time, the inflation rate accelerated, exceeding the forecast of the National Bank of the Republic of Belarus, mainly due to weakening of the Belarusian ruble amid increased inflationary and devaluation expectations in the economy.

In Armenia, economic activity has decreased due to negative consequences of the coronavirus disease and the military conflict in Karabakh. The inflation rate has accelerated.

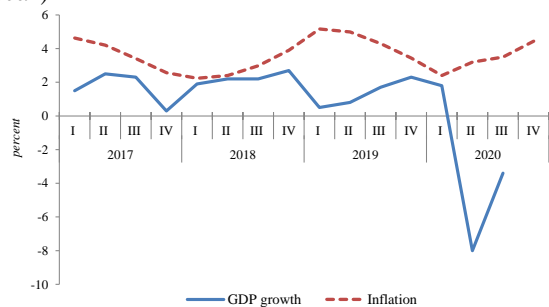
In Q4 2020, China, having demonstrated high recovery rates upon the coronavirus disease outbreak, at the end of 2020 was the only world power that managed to avoid economic recession.

In 2020, the US economy slowed down for the first time since the financial crisis of 2008 and demonstrated an unprecedented decline since the World War II.

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

According to the first estimate of the Russian Federal State Statistics Service, GDP in Russia decreased by 3.1 percent in 2020. In 2020, the situation in the key non-resource sectors of the economy remained stable (processing, construction and agricultural sectors). Mining operations under the OPEC+ agreement and the transport complex due to the restrictions imposed on international transportation made a significant negative contribution to the GDP dynamics. The consumer market demonstrated negative dynamics amid quarantine restrictions.

Due to the deteriorating economic situation in the country, unemployment rate increased, however, this indicator decreased gradually in the second half of 2020 (at the end of the period it was 5.9 percent).

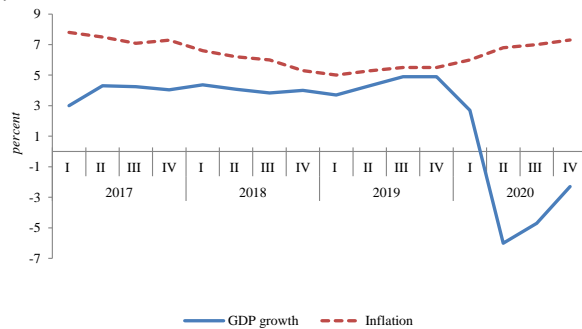
Measures taken by the Bank of Russia and the government provided support to the economy, population and financial stability during combat against the spread of coronavirus disease.

In Q4 2020, the inflation rate in Russia was 4.4 percent against 3.4 percent in the previous year. Weakening of the Russian ruble and unfavorable situation in the Russian and world markets of agricultural products made the main contribution to acceleration of the inflation rate. Thus, consumer prices for food products increased by 5.8 percent (3.5 percent in the previous year), for non-food products - by 4.5 percent (3.1 percent in the previous year). At the same time, the growth in prices for services slowed down from 3.8 percent in Q4 2019 to 2.6 percent in the reporting period amid quarantine restrictions.

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

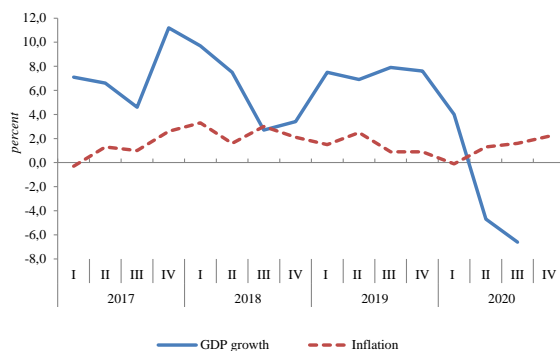
increase in lending to the economy were the main factors for economic growth. The real sector, being among the main drivers of economic growth, demonstrated an increase by 2.0 percent. Thus, the following industries of the real sector showed positive growth: construction - by 11.2 percent, information and communications - by 8.6 percent, agriculture - by 5.6 percent. The service sector demonstrated decline by 5.6 percent.

According to the results of 2020, the annual inflation rate in Kazakhstan was 7.4 percent, the average annual inflation rate was 6.8 percent. In 2020, prices for food products increased by 11.3 percent, non-food products - by 5.5 percent, paid services - by 4.2 percent.

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

According to the preliminary estimates, in 2020, economic activity in Armenia decreased by 7.5 percent, and the economic growth slowed down by 8.5-10 percent due to negative consequences of the coronavirus disease and the military conflict in Karabakh, which resulted in restrictions of economic activity.

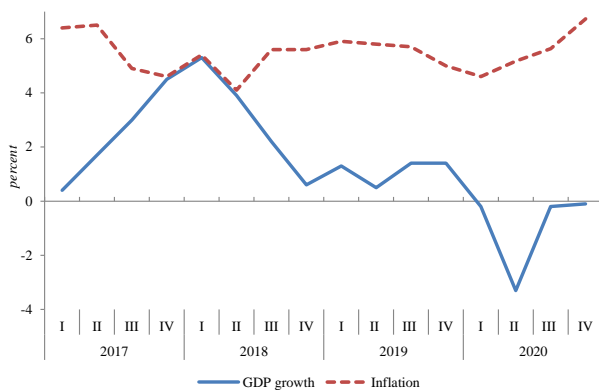
In 2020, the economy of Armenia suffered most of all among the EAEU countries, which affected all indicators. In 2020, economic activity in Armenia decreased by 7.5 percent. In terms of sectors, the decline in economic activity was as follows: services – -14.7 percent, retail trade – -14.0 percent, foreign trade turnover – -13.2 percent, construction – -9.5 percent. The nominal average wage increased by 3.9 percent in 2020. In the reporting period, the volume of industrial production output increased by 0.9 percent, the volume of agricultural production output increased by 1.4 percent.

In 2020, prices increased approximately by 3.7 percent in the consumer market of Armenia compared to 2019, amid rising prices for food products in the international market and devaluation of the dram in Armenia. According to the official forecasts of the Armenian government, economic growth is expected at 3.2 percent by the end of 2021, the Central Bank forecasts economic growth by 2 percent. If before the war in Karabakh experts forecasted an increase in GDP of Armenia by 3.5-4 percent in 2021 due to the coronavirus disease, in December this indicator changed and ranges from 1 to 3.1 percent.

Belarus

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(in annual terms)



Source: National Statistical Committee of the Republic of Belarus

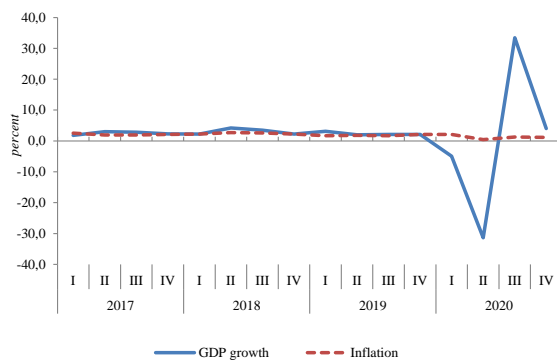
trade turnover (+1.8 percent) and agricultural production (+4.9 percent) demonstrated positive growth rates.

In December 2020, the annual inflation rate in Belarus was 7.4 percent, exceeding the target of 5 percent. The NBRB forecasted parameter was exceeded at the end of 2020 due to weakening of the Belarusian ruble, growth of the inflationary and devaluation expectations, as well as supply shocks for certain food products. The most significant rise in prices in December 2020 was observed for services and non-food products - by 8.4 and 8.1 percent, respectively. In December 2020, the annual core inflation rate (excluding seasonal and regulated prices) increased up to 7.1 percent. In 2021, Belarus intends to decrease the inflation rate down to 5 percent, mainly due to tightening the state regulation of 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

4 percent in annual terms in Q4 2020.

In December 2020, the US consumer prices increased by 1.4 percent in annual terms and by 0.4 percent - on a monthly basis. The US consumer prices demonstrated the highest increase on a monthly basis since August. According to the analysts, the core inflation rate in the USA - excluding food and energy prices - was 1.6 percent in December in annual terms and 0.1 percent in monthly terms.

In Q4 2020, economic activity remained at the level of the previous quarter. In Q4 2020, real GDP decreased by 0.1 percent compared to the corresponding quarter of the previous year¹. Improvement of the foreign trade balance with goods and services restrained GDP reduction resulted from weak domestic demand in the reporting period. The recovery of business and consumer activity was impeded by the second wave of the COVID-19 disease, accompanied by introduction of the restrictive measures in a number of countries.

Generally, in 2020, GDP of Belarus decreased by 0.9 percent compared to the indicator of 2019. In terms of sectors, retail

In 2020, the U.S. economic growth slowed down for the first time since the financial crisis of 2008 and demonstrated an unprecedented decline since the World War II.

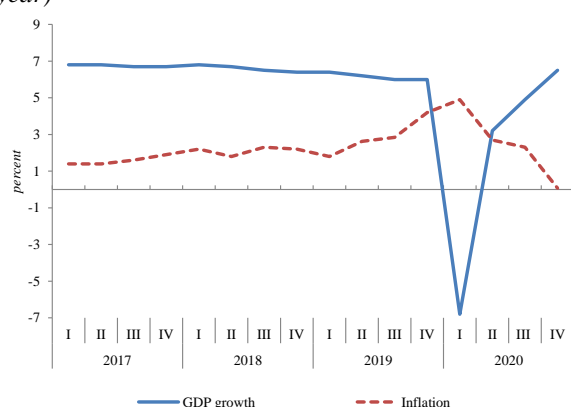
According to the Bureau of Economic Analysis of the U.S. Department of Commerce, in 2020, real GDP in the USA decreased by 3.5 percent compared to the results of 2019. The decrease in GDP is due to decline in household expenditures, exports, private investments in fixed assets, as well as foreign, public investments and investments of the local government authorities. At the same time, the US economy grew by

¹ The estimate of the National Bank of the Republic of Belarus

China

Chart 1.1.6. Growth of GDP and Inflation in China

(quarter to the corresponding quarter of the previous year)



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

At the end of 2020, China was the only world power that managed to avoid economic recession.

In Q4 2020, GDP growth rate in China was 6.5 percent compared to the same period of 2019. China demonstrated a high rate of recovery from the coronavirus disease outbreak in Q1, there was an unprecedented decrease by 6.8 percent. In Q2, the increase was 3.2 percent, in Q3 - 4.9 percent. Growth in the agricultural sector by 3 percent, in industry - by 2.6 percent and in the service sector - by 2.1 percent made the main contribution to the GDP development in Q4 2020. At the end of 2020, the economic growth rate in China amid negative impact of

the pandemic was the lowest over the past 40 years, to make 2.3 percent (in 2019, economic growth was 6.1 percent).

According to the experts, economy in China has escaped recession and has recovered relatively quickly due to a series of stimulus measures taken by the government to revive economic activity, as well as lockdown and population tracking policies aimed at preventing virus spread.

In Q4 2020, amid significant improvement of the epidemiological situation, the inflation rate slowed down from 2.3 percent in Q3 2020 to 0.06 percent in annual terms (in Q4 2019, prices increased by 4.2 percent). At the end of 2020, the inflation rate was 2.5 percent (in 2019 – 2.9 percent).

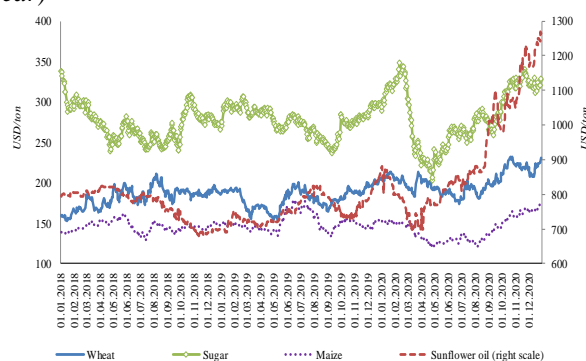
1.2. World Commodity Markets

The price indices in the world food markets reached their maximum value during the previous three years, which posed certain inflationary risks for Kyrgyzstan. In the reporting period, recovery in prices was observed in the oil market. The gold market demonstrated stability with an upward trend towards the end of the year.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



In Q4 2020, the global food market demonstrated an upward trend in prices.

During the reporting period, export prices for wheat and maize increased due to fears related to unfavorable weather conditions and reduced supplies from the largest exporters of the USA and Russia. Cereal production is forecasted to decline slightly in 2020/21 marketing year, however it will remain at rather high level.

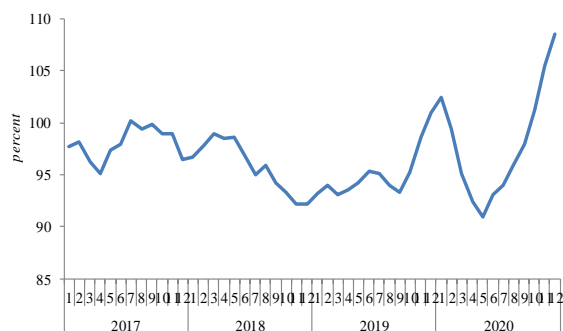
In the reporting period, prices for sugar increased significantly due to a significant growth in imports to China and an increase in demand for refined sugar from the

food industry in Indonesia, meanwhile the upward pressure on prices was neutralized by the expected growth in production in Brazil and India.

Sharp rise in prices for vegetable oils, observed since the second half of 2020, was observed in Q4 2020. Prices for all types of vegetable oils increased, with the most significant growth recorded for palm oil due to further reduction in supplies of the largest producing countries. Price movement for palm oil affected other types of vegetable oils.

Moreover, active demand in the world market contributed to rise in prices for sunflower oil.

Chart 1.2.2. Dynamics of FAO Food Price Index

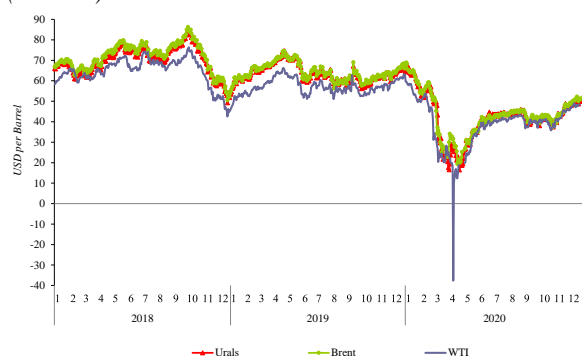


In Q4 2020, the average FAO food price index increased by 7.0 percent compared to the corresponding quarter of 2019 and amounted to 105.1 points.

In the reporting quarter, there was an increase in the FAO food price index for all commodity items, excluding meat. The price index for vegetable oils increased most of all by 28.9 percent compared to Q4 2019.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices (in USD)



In the reporting period, oil prices demonstrated an upward trend amid positive news about faster recovery in the global economy compared to previous expectations, due to development of a vaccine against coronavirus disease. After a significant drop in oil prices in March-April 2020, this indicator reached USD 51.8 per barrel by the end of 2020.

In January 2021, OPEC + determined the parameters of the deal two months in advance: the current terms of the agreement

were extended for almost all countries, however Russia and Kazakhstan were able to increase oil production in February and March, meanwhile Saudi Arabia and a number of other participants, on the contrary, decided to further reduce¹ it.

According to the Saudi Arabian Ministry of Energy, OPEC + countries may extend the agreement, which now regulates nearly 40 percent of the global oil production, upon its expiration in spring of 2022.

OPEC kept unchanged its forecast for an increase in global oil demand in 2021 at 5.9 million barrels per day. At the same time, the organization raised its forecast for oil production in the United States in 2021 by 40 thousand barrels per day and now expects its growth by 0.14 million barrels. The main increase in demand for oil is expected from China, as well as from India and a number of countries in the Asia-Pacific region. Global economic recovery, as well as growth in demand for petrochemicals raw materials contribute to positive dynamics.

The International Energy Agency (IEA) has worsened its forecast for growth rate of global oil demand in 2021 by 280 thousand barrels per day, down to 5.5 million barrels per day. Currently, an increase in the number of COVID-19 cases contributes to slowdown in recovery, however widespread vaccination efforts and accelerated economic activity are expected to

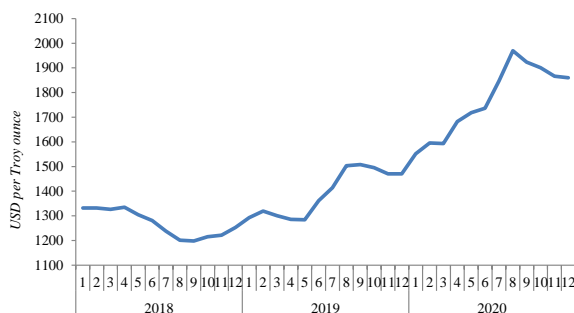
¹ Russia and Kazakhstan will increase oil production by 65 and 10 thousand barrels per day, respectively. Saudi Arabia will further reduce oil production by 1 million barrels per day, other OPEC + countries - by another 425 thousand barrels per day.

facilitate stronger growth in the second half of the year. In 2021, the IEA expects global refinery output to increase by 4.5 million barrels per day, after decrease by 7.3 million barrels per day in 2020.

The US Department of Energy raised its forecast for the price of Brent oil for 2021 from USD 49 to USD 53 per barrel. In 2022, the price of Brent oil is expected to be at the same level of USD 53 per barrel.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

Despite analysts’ expectations that the prices for gold will increase up to USD 2,000 by the end of 2020, this indicator was USD 1,900 by the end of the year.

The average annual price for gold was USD 1,771.2 per Troy ounce, meanwhile the price reached its maximum value of USD 2,063.54 per Troy ounce at the beginning of August.

In December 2020, the markets of precious metals, including gold, responded positively to the economic support program approved by the US Congress and the news from the US Federal Reserve System to continue the course of super-soft monetary policy and keep the rates at near-zero level. Additional support to the markets was provided by the situation in the UK and other European countries, where a new coronavirus strain was discovered, as well as by the inability of the EU and Britain to agree on Brexit conditions amid the expiring transition period.

Moreover, aggravation of the geopolitical situation on the part of the United States, which added dozens of Chinese companies to the trade blacklist, as well as the escalation of the situation in relations with Russia were among the factors supporting rise in prices for gold.

According to the World Gold Council (WGC) gold pricing forecast for 2021, gold will continue to be in demand as an investment asset, meanwhile its consumption will be resumed with the global economic recovery. According to the experts, prices for gold will increase significantly in the first half of 2021. The US Federal Reserve System will continue to conduct soft monetary policy to stimulate the national economy; mass vaccinations in the world will expand only in the second half of the year. All these factors will contribute to rise in prices for gold.

Chapter 2. Macroeconomic Development

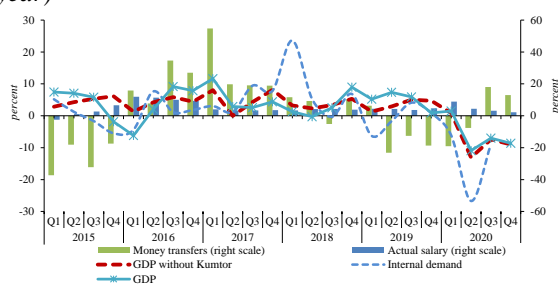
2.1. Demand and Supply in the Commodities and Services Market

In 2020, for the first time during 25 years, the economic growth rates showed a significant decline under the influence of restrictive measures to prevent the spread of coronavirus disease and due to unstable political situation in the country.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

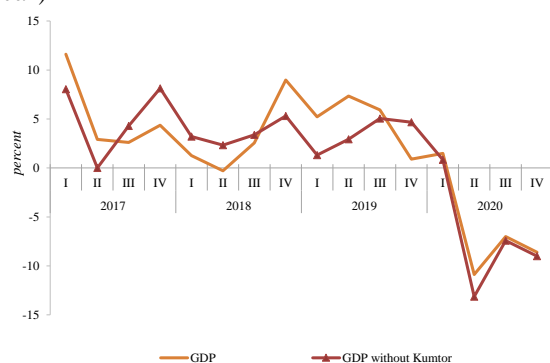
(quarter to the corresponding quarter of the previous year)



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

demonstrated a positive input of 0.8 and 0.4 percentage points, respectively. At the same time, a negative growth rate was observed in the industrial sector during nine months, which made a positive input to GDP formation only by the end of the year. Such dynamics of indicators in the industrial sector were mainly conditioned by the indicators of production output at the enterprise of the Kumtor Mine. In general, at the end of 2020, the decline in GDP was due to a negative input from all main sectors of the economy, excluding agriculture. The coronavirus disease in the world conditioned an unprecedented deterioration in external conditions and, coupled with production downtime at the enterprises due to an unstable political situation, had a negative impact on the macroeconomic indicators of the real sector in the country.

At the end of January-November 2020, the average monthly nominal wage of one employee² amounted to KGS 18.0 thousand, having increased by 8.3 percent compared to the same period of 2019. The largest increase in the growth rate of average monthly wages was observed in education (20.6 percent), administrative and auxiliary activities (20.3 percent), water supply, cleaning, waste treatment and recycling (14.6 percent).

Measures taken by the trading partner countries and the Government of the Kyrgyz Republic to restrain the spread of coronavirus disease, which resulted in decrease of economic activity during the reporting year, starting from March, and unstable political situation in the country in the second half of the year conditioned a significant decline in GDP of the country by 8.6 percent (excluding the enterprise of the Kumtor Mine, the decrease was 9.0 percent).

According to the preliminary results of Q3 2020, decrease of domestic demand¹ amounted to -8.9 percent in annual terms. The decrease was mainly due to a reduction in gross capital formation (-21.1 percent) resulted primarily from decreased change in inventories (-42.7 percent).

The results of Q4 2020 decreased significantly compared to the same period of 2019. Thus, construction (-3.3 percentage points), trade (2.9 percentage points) and transport (-0.4 percentage points) made a negative input to the economy, in contrast to the sectors of industry and agriculture, which

¹ According to the NSC KR, reference to the data for the earlier period is given due to the lack of more up-to-date data.

² Generally in the republic, excluding small enterprises.

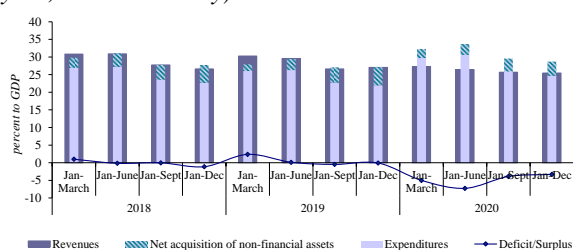
At the same time, in January-November 2020, the real wages increased by 2.2 percent compared to the same period in 2019.

Public Finances Sector

The public finances sector is characterized by a significant excess of expenditure operations of the Government of the Kyrgyz Republic over its revenues. According to the preliminary results of 2020, the state budget deficit amounted to KGS 19.7 billion or 3.3 percent to GDP due to increased expenditures to combat COVID-19 and reduced tax revenues amid slowdown in economic growth (in 2019, the budget deficit was KGS 0.4 billion or 0.1 percent to GDP). The primary state budget deficit (excluding interest payments for servicing the state debt) amounted to KGS 11.2 billion or 1.9 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

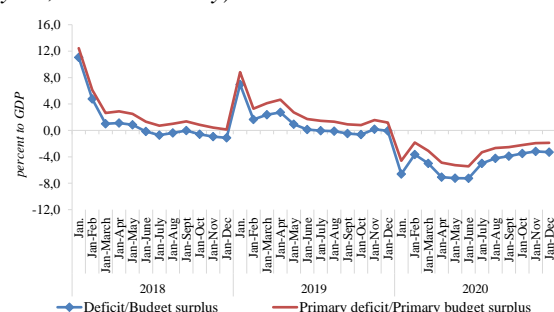
The state budget revenues from operating activities decreased by 9.1 percent or KGS 15.2 billion compared to the same indicator in 2019 and amounted to KGS 152.1 billion or 25.4 percent to GDP. Amid slowdown in economic growth, tax revenues and official transfers made a negative contribution to the growth of budget revenues in the amount of 8.7 and 0.9 percentage points, respectively. At the same time, non-tax revenues made a small positive contribution to the growth of budget revenues

in the amount of 0.6 percentage points. Tax revenues still have the largest share (70.3 percent) in the structure of current revenues.

The state budget expenditures for operating activities increased in annual terms by 8.3 percent or KGS 11.3 billion and amounted to KGS 147.4 billion or 24.6 percent to GDP. In the structure of expenditures by economic classification, there is an increase in expenditures on the items “wages” (+17.5 percent), “payment of interest” (+8.7 percent), “subsidies and social benefits” (+3.8 percent) and “grants and contributions” (+11.9 percent), other items demonstrate a decrease in expenditures. In the structure of expenditures by functional classification, the social orientation remained: the largest contribution to the increase in expenditures was made by expenditures for health care, education, social protection, public order and safety.

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 (including operations in the following groups: fixed assets, reserves, land) decreased by 22.7 percent compared to 2019 or by KGS 7.2 billion and amounted to KGS 24.4 billion or 4.1 percent to GDP. The bulk of capital expenditures falls on acquisition of buildings and structures.

Investments

In January-December 2020, the level of capital investments exploitation decreased by 24.7 percent compared to January-December 2019.

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

	January-December			
	2020		2019	
	millions of KGS		share, percent	
	2019	2020	2019	2020
Total	162 193,7	122 858,7	100,0	100,0
Internal investment	114 993,2	93 800,2	70,9	76,3
Republican budget	5 326,6	2 974,1	3,3	2,4
Local budget	1 893,2	1 372,1	1,2	1,1
Funds of enterprises and organizations	52 618,2	45 364,5	32,4	36,9
Banks' credits	3 484,5	1 579,4	2,1	1,3
Population funds including beneficent help of KR residents	51 670,7	42 510,1	31,9	34,6
External investment	47 200,5	29 058,5	29,1	23,7
Foreign credit	25 307,4	17 466,9	15,6	14,2
Direct foreign investments	12 633,8	6 991,2	7,8	5,7
Foreign grants and humanitarian aid	9 259,3	4 600,4	5,7	3,8

Source: NSC KR

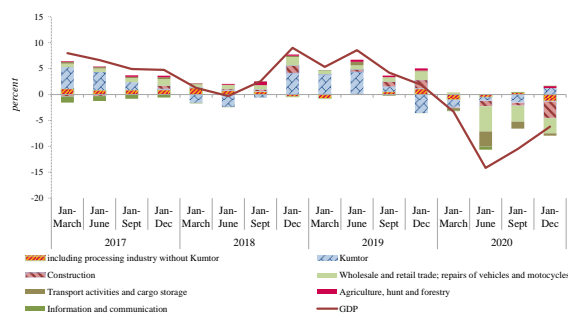
Decrease of capital investments was observed in the construction of all types of economic activity facilities, excluding healthcare.

In January-December 2020, the volume of capital investments financed from domestic sources decreased by 18.9 percent, that financed from the bank loans decreased by 2.2 times, from the republican budget – by 1.8 times, from the local budget - by 28.0 percent, from the personal funds - by 18.2 percent, from funds of the enterprises and organizations - by 14.3 percent. Generally, the investments financed from the foreign sources decreased by 38.8 percent, meanwhile that financed from the foreign grants and humanitarian aid decreased by 2.0 times, from the direct foreign investment – by 1.8 times, from the foreign loans - by 31.3 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

In 2020, GDP decreased due to restrictive measures taken to prevent the spread of coronavirus disease and unstable political situation in the country.

According to preliminary data of the National Statistical Committee of the Kyrgyz Republic, in January-December 2020, the nominal GDP decreased by 8.6 percent in real terms compared to 2019 (according to updated data for January-December 2019 an increase was 4.6 percent) and amounted to KGS 598.3 billion. At the same time, the indicators of economic growth in all sectors remained negative, excluding the sector of agriculture.

In the reporting period, growth of gross agricultural output by 1.1 percent compared to January-December 2019 was due to an increase in livestock production (by 2.0 percent). Reduction of production in the industrial sector in January-December 2020 by 7.5 percent was mainly due to a decrease in output of petroleum products (by 59.3 percent), textile, clothes and footwear, leather and leather products (by 21.5 percent), wood and paper products, printing activities (by 13.2 percent).

The turnover of trade, repair of motor vehicles and motorcycles decreased compared to January-September 2019 due to a decrease in the volume of wholesale (by 18.4 percent) and retail (by 15.4 percent) sales.

The GDP deflator was positive and amounted to 5.8 percent, having increased by 1.8 percentage points compared to the same indicator of 2019 (in January-December 2019, the deflator was also positive at 3.9 percent).

Transport (-30.9 percent), trade (-15.7 percent) and construction (-15.9 percent) were the main sectors that had a negative impact on the economy in January-December.

The measures taken in March 2020 due to introduction of emergency situation (ES) and state of emergency (SE) in the territory of some regions had a significant impact on the

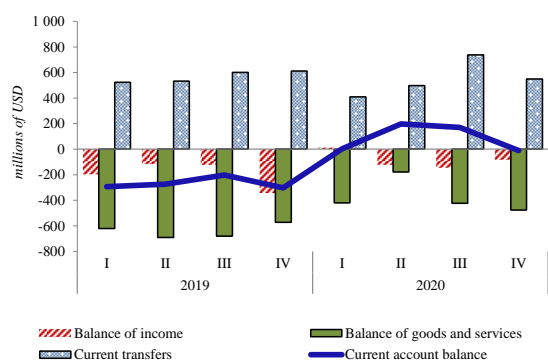
reduction of economic activity, however closure of the borders with neighboring countries made it difficult to deliver goods.

Moreover, there is a negative impact of rallies, strikes and production downtime on economic growth in the post-election period.

2.2. External Sector¹

Under the influence of the global trends resulted from the spread of the COVID-19 disease, in Q4 2020, the current account was formed with a small deficit, which was mainly due to a decrease in the negative balance of goods and income.

Chart 2.2.1. Current Account



Note: According to the preliminary and forecasted data

2.2.1. Trade balance of the Kyrgyz Republic³

(millions of USD)

	2017	2018	2019	2019 Q4	2020* Q4	Change in %	Change in millions
Trade balance	-2 383,3	-3 033,8	-2 626,0	-585,9	-430,8	-26,5	155,1
Export (FOB)	1 813,9	1 916,0	2 042,9	617,0	438,9	-28,9	-178,1
Gold	700,4	664,2	832,9	269,5	-34,6	-112,8	-304,1
Import (FOB)	4 197,2	4 949,9	4 669,0	1 202,9	869,6	-27,7	-333,2
Energy products	567,2	809,6	627,2	169,7	74,6	-56,1	-95,2

*Preliminary data

In the reporting period, the export of goods (in FOB prices) decreased by 28.9 percent, to make USD 438.9 million. In the reporting period, the dynamics of exports were primarily influenced by a decrease in supplies of gold by 33.5 percent due to a reduction in the physical volume of supplies.

In addition, there was a decrease in supplies of clothes, ores and concentrates of precious metals, vegetables and fruits. At the same time, there was an increase in exports of live animals, ferrous waste and scrap, butter and portland cement.

In Q4 2020, imports of goods (in FOB prices) decreased by 27.7 percent compared to the same period of the previous year, to make USD 869.6 million. The dynamics of imports are still significantly affected by the restrictions imposed at the borders due to measures to prevent the spread of the COVID-19 disease. There was a decline in imports of footwear, fabrics, woven of man-made textile materials, clothes and other items.

In the reporting period, the net inflow of current transfers decreased compared to the same period of 2019 due to a decrease in the volume of received official transfers. The

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.

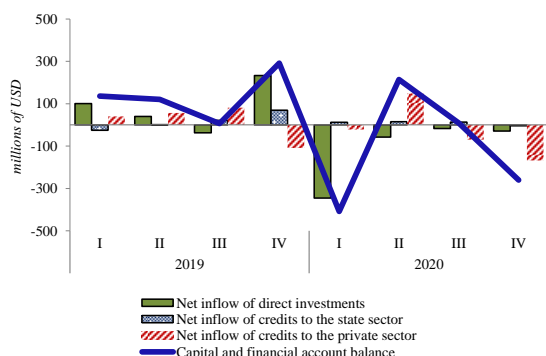
² Ratios to GDP are calculated based on sliding annual data, including the last four quarters.

³ The data on the foreign trade are given taking into account the NSC KR additional estimates for sampling survey of mutual trade with the EAEU member states and the NBKR additional estimates on exports.

net inflow of private transfers changed slightly and amounted to USD 529.3 million. There was a decrease in transfers received by the public sector by 76.9 percent. In the reporting quarter, the balance of services deficit is forecasted at USD 46.2 million, meanwhile the negative balance of income is expected at USD 82.7 million.

According to preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, in Q4 2020, the current account deficit will be accompanied by a net capital outflow on the capital and financial account in the amount of USD 260.1 million. The capital account surplus will make USD 36.9 million, meanwhile the negative balance on the financial account is expected at USD 297.0 million.

Chart 2.2.2. Capital and Financial Account



In the context of decreased economic activity, “other investments” item is expected to develop negative under the influence of growth in foreign assets and reduction of the residents’ foreign liabilities amid limited inflow of loan capital. Net outflow of direct foreign investment is forecasted at USD 29.0 million.

Thus, the balance of payments of the Kyrgyz Republic will be formed with a positive balance to make USD 97.4 million at the end of Q4 2020.

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)			
	2018 (aver.) (January- December)	2019 (aver.)* (January- December)	%	December 2019	December 2020	*	%
REER	114,6	115,7	0,9	116,5	112,4	-3,5	↓
NEER	116,5	122,5	5,1	123,8	115,6	-6,6	↓
RBER to CNY	83,6	84,5	1,1	85,8	73,3	-14,6	↓
NBER to CNY	65,2	67,1	3,0	68,1	53,1	-22,1	↓
RBER to EUR	104,3	108,2	3,7	110,9	93,2	-15,9	↓
NBER to EUR	74,9	78,0	4,1	78,5	60,0	-23,6	↓
RBER to KZT	134,4	141,7	5,4	141,3	132,1	-6,5	↓
NBER to KZT	155,8	171,0	9,8	171,3	156,7	-8,5	↓
RBER to RUB	123,2	122,0	-1,0	120,2	123,9	3,1	↑
NBER to RUB	137,3	140,4	2,2	136,4	133,9	-1,8	↓
RBER to TRY	160,8	165,8	3,2	165,3	177,1	7,2	↑
NBER to TRY	212,1	247,6	16,7	254,3	284,6	11,9	↑
RBER to USD	89,5	87,6	-2,1	89,1	80,4	-9,8	↓
NBER to USD	66,7	65,8	-1,4	65,8	54,8	-16,6	↓

* Preliminary data
 ↓ – Som devaluation, competitiveness improvement
 ↑ – Som strengthening, competitiveness deterioration

Despite the higher inflation rate in Kyrgyzstan², the NEER index decline conditioned weakening of the real effective exchange rate (REER) by 3.5 percent, which constituted 112.4 at the end of December 2020.

By the end of Q4 2020, the nominal and real effective exchange rates decreased compared to December 2019. According to the preliminary data, the index of the nominal effective exchange rate (NEER) of KGS decreased by 6.6 percent year-to-date and constituted 115.6 at the end of 2020. The decrease in the index was due to the depreciation¹ of KGS in December 2020 compared to the average exchange rate for December 2019 against the Chinese yuan by 22.1 percent, the euro - by 23.6 percent, the US dollar - by 16.6 percent, the Kazakh tenge - by 8.5 percent and the Russian ruble - by 1.8 percent.

¹ The data are given for the nominal bilateral exchange rate of KGS; the year of 2010 is used as the base period for the calculation of the index.

² In Q4 2020, the inflation rate in the Kyrgyz Republic was formed at 9.7 percent, meanwhile, the average inflation rate in the main trading partner countries (according to the preliminary calculations) was 6.2 percent.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

During Q4, the monetary policy direction adopted in the spring of 2020 was maintained, it was focused on limiting inflationary processes in the country amid increasing risks of the impact of volatile prices in the world commodity markets.

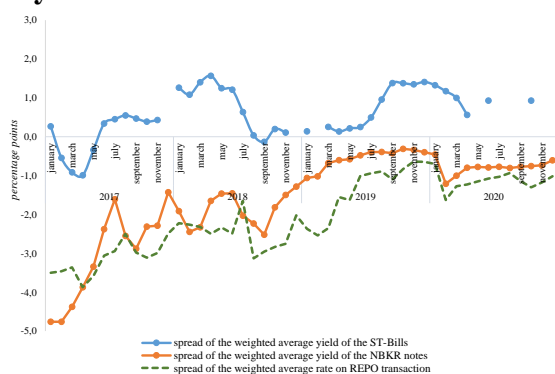
At the same time, tactical decisions of monetary policy were made, on the one hand, in order to effectively manage liquidity in the banking system with stable growth of money supply in the fiscal sector, and, on the other hand, taking into account the need to maintain measures to stimulate economic activity in the country (through monetary policy instruments) amid persisting risks of the pandemic impact on the economy of the Kyrgyz Republic.

The excess of expenditure operations of the public finance sector over its revenues still influenced the increase in the level of excess liquidity in the banking system, which conditioned increased activity of the money market participants in the short-term segment, mainly on the open market operations. Amid such situation, there was an upward trend in the short-term money market rates, which gradually approached the key rate.

Interest Rate Policy of the National Bank

Estimates of the prospects for development of the external and internal economic environment predetermined maintaining of the National Bank's interest rate policy during Q4 2020. The policy rate of the National Bank was kept at the level of 5.00 percent. At the same time, the main policy rates remained unchanged: the lower rate of the interest rate corridor – the rate on “overnight” deposits – remained at 2.75 percent, the upper limit of the interest rate corridor – the rate on “overnight” credits – at 5.75 percent (at the beginning of 2020, they constituted 2.00 and 5.75 percent, respectively).

Chart 3.1.1. Spread between the Short-Term Rates of the Money Market and the Key Rate

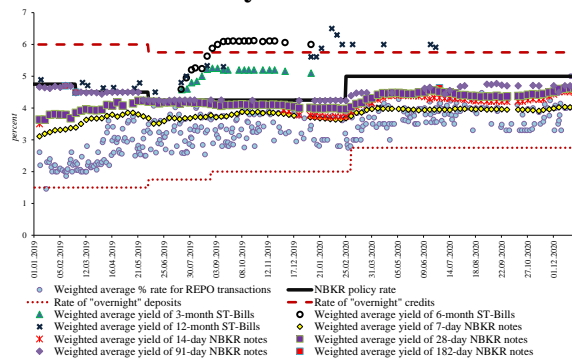


The gap between short-term money market rates and the National Bank's policy rate demonstrated reduction during 2020. It was due to availability of an overhang of excess liquidity in the commercial banks due to an increase in money supply resulted from expansion of government budget expenditures.

In 2020, the average spread of the rate on REPO transactions in the interbank credit market to the policy rate of the National Bank decreased by 0.2 percentage points and amounted to (-)1.1 percentage points.

In Q4, the average rate spread on IBCM REPO transactions increased slightly compared to the previous quarter and amounted to (-)1.2 percentage points and, meanwhile the average yield spread of the National Bank's notes to the policy rate decreased by 0.1 percentage point and amounted to (-)0.7 percentage points.

Chart 3.1.2. Money Market Rates



Short-term money market rates, excluding the rates on 12-month ST-Bills, fluctuated within the interest rate corridor set by the National Bank and remained below the key rate. The money market participants were the most active in the short segment, mainly in the open market operations.

Tactical decisions on the monetary policy made at the end of November 2020 (setting the maximum yield of the National Bank's notes with a maturity of more than

28 days at the request of the commercial banks equal to the upper rate of the interest rate corridor at the level of 5.75 percent (previously it was equal to the size of the policy rate) contributed to the effective liquidity management in the banking system with stable growth of money supply.

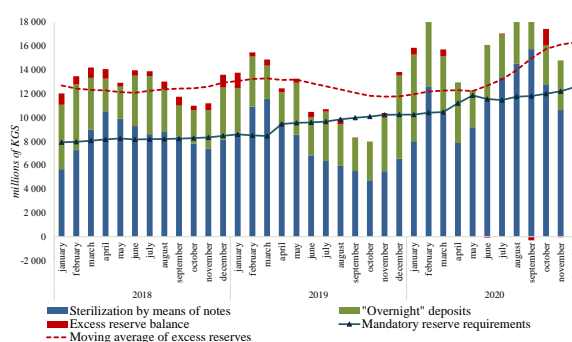
By the end of 2020, there was a slight increase in rates for all maturities of the National Bank's notes. The total weighted average yield of notes in December 2020 increased from 4.23 percent in September and reached 4.39 percent. In terms of maturities, the most significant growth was observed on the rates of 14- and 28-day notes of the National Bank. At the same time, in the reporting period, the average auction volumes of supply and demand were lower than the indicators of Q3, however they remained practically at the level of the indicators of Q1 and Q2, 2020.

The ST-Bills market was characterized by the lack of demand from the money market participants. During Q4 2020, only one auction of the Ministry of Finance of the Kyrgyz Republic was conducted for placement of 12-month ST-Bills with the rate of 5.95 percent, which exceeded the upper rate of the interest rate corridor of 5.75 percent set by the National Bank.

In general, the interbank credit market remained active, however, the overhang of excess liquidity in the banking system conditioned a slight decrease in borrowings during the reporting period. In Q4 2020, there was a decrease in demand for KGS liquidity in this market. The market capacity decreased in volumes (from KGS 8.1 billion in Q3 down to KGS 5.8 billion in the reporting quarter) and in the number of transactions (from 118 down to 101 REPO transactions). At the same time, there was an increase in the cost of loans from 3.33 in September up to 3.98 in December 2020.

Liquidity Regulation in the Banking Sector

Chart 3.1.3. Excess Reserves of the Commercial Banks



Excess liquidity was accumulated in the banking system due to the operations of the Government of the Kyrgyz Republic, which since March 2020 have demonstrated large volumes of injections resulted from the negative consequences of the COVID-19 spread. In 2020, operations of the public finance sector increased the monetary base by KGS 39.6 billion (net position).

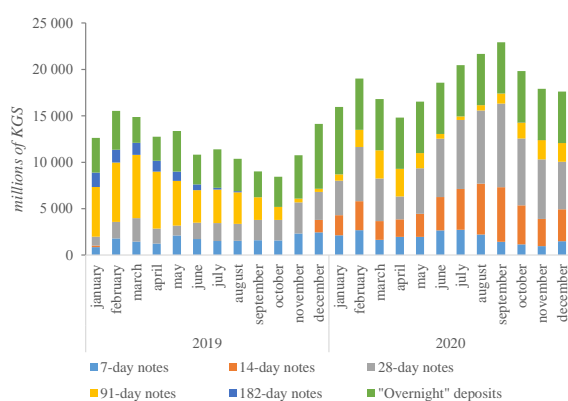
Growth in the amount of money outside banks by 29.3 percent or KGS 28.2 billion (in 2019, an increase in M0 was 13.2 percent) and foreign exchange

operations conducted by the National Bank in the amount of KGS 40.7 billion were the restraining factor for increase of excess liquidity in the banking system during 2020.

However, in the reporting quarter, there was a slight decrease in the average daily level of the commercial banks' excess reserves from KGS 18.8 billion down to KGS 16.1 billion in the banking system, mainly due to the KGS liquidity withdrawal as a result of the National Bank's active participation in the domestic foreign exchange market. At the same time, the government operations still influenced the volume of excess reserves in the system, which increased it by KGS 4.9 billion (in Q3 - by KGS 9.7 billion).

Under these conditions, the National Bank continued to conduct sterilization operations. In Q4 2020, the average daily volume of absorption of KGS liquidity amounted to KGS 15.7 billion (in Q3 - KGS 18.8 billion).

Chart 3.1.4. Structure of Sterilization



Increase in the level of the banks' excess liquidity conditioned change in the structure of the National Bank's sterilization operations. If in Q1 2020, the share of "overnight" deposits in the sterilization operations of the National Bank constituted approximately 36.4 percent, it decreased subsequently and in Q4 amounted to 28.3 percent. In turn, in the reporting period, the average daily placement of the commercial banks' available funds on "overnight" deposits with the National Bank amounted to KGS 4.4 billion.

The National Bank's notes were the main instrument to withdraw excess liquidity. The average daily volume of notes in circulation amounted to KGS 11.3 billion in the reporting quarter. In the reporting quarter, the share of the National Bank's notes in the structure of sterilization operations increased approximately up to 71.7 percent, meanwhile in Q1 it amounted to 63.5 percent. At the same time, the commercial banks' demand moved from 91-day notes towards shorter-term 28- and 14-day securities compared to 2019.

Credit Policy of the National Bank in 2020

Amid negative impact of the COVID-19 disease on the economy of the Kyrgyz Republic, in 2020, the main task of the National Bank in conducting monetary policy was, on the one hand, to limit inflationary processes in the country, and, on the other hand, to ensure liquidity sustainability in the banking system for maintaining lending to the economy.

In this regard, the instruments of monetary policy were focused on stimulating economic activity in the country, coupled with macroprudential measures to smooth the negative impact of the existing factors on the financial system.

During 2020, the National Bank conducted operations to provide the economy with the resources through the commercial banks. Depending on the banks' needs, credit auctions were conducted by the National Bank to expand lending to the real sector of the economy. Within the framework of credit auctions, the banking sector was offered KGS 35.0 billion, meanwhile the actual volume of credit resources selected by the commercial banks amounted to KGS 3.5 billion. According to the credit resources, the interest rate for the end borrowers of the banks was limited to no more than 12-14 percent.

In addition, the credits previously issued by the National Bank within the framework of credit auctions to the amount of about KGS 1.0 billion were prolonged, the maturity thereof fell due in 2020. In total, the National Bank conducted 23 credit auctions.

Within the framework of a temporary instrument of monetary policy, credits were provided to the commercial banks to the amount of KGS 400.2 million to mitigate the consequences of the COVID-19 disease on the economy.

Within the framework of the current window of permanent access, “overnight” credits were issued to the banks, the gross volume thereof amounted to KGS 3.5 billion.

At the same time, in Q4 2020, the National Bank’s lending operations were conducted only within the framework of issuing credits in the national currency in the amount of KGS 50.0 million (in general, KGS 200.0 million) to the international organizations established in the Kyrgyz Republic jointly with other EAEU states.

Other Monetary Policy Measures Taken in 2020 to Mitigate the Negative Impact of the COVID-19 Disease

The requirements for the commercial banks to maintain the daily minimum level of mandatory reserve requirements were softened since April 1, 2020 – the ratio was reduced from 80.0 to 70.0 percent. Therefore the banks were provided with the opportunity to manage their liquidity more flexibly, since additional liquidity was released for further expansion of lending to the economy in the average estimated amount of KGS 1.2 billion per day.

As part of the National Bank’s decision adopted in November 2020, a pilot project was launched to develop the secondary market of government securities through the National Bank’s rediscount operations (outright), which involved redemption of the ST-Bonds with a maturity of over 6 years in the secondary market since November 16 till December 31, 2020 up to KGS 3.5 billion at market value. During the aforementioned period, the National Bank made 5 purchases of (7- and 10-year) ST-Bonds, as a result of which the total volume of liquidity for the banks actually provided by the National Bank amounted to KGS 2.93 billion.

Foreign Exchange Policy of the National Bank

During the reporting quarter, the demand for foreign currency exceeded supply thereof in the domestic foreign exchange market. In following a floating exchange rate regime, the National Bank conducted foreign exchange market interventions to prevent sharp fluctuations in the exchange rate. In the reporting quarter, the KGS exchange rate was fluctuating within the range KGS 79.4881-84.8000 per USD 1.

In the reporting period, in order to smooth sharp fluctuations in the exchange rate the National Bank conducted interventions on sale of foreign currency in the domestic foreign exchange market in the amount of USD 227.0 million (in 2020, the total volume of foreign currency sold by the National Bank amounted to USD 518.5 million).

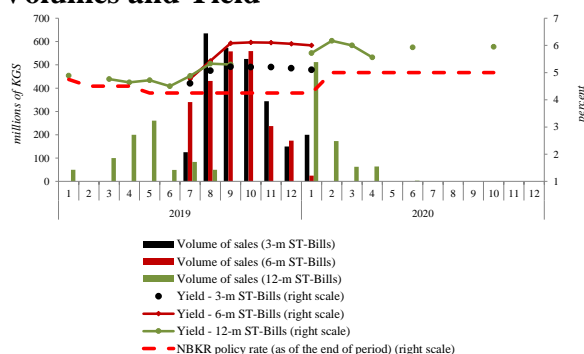
Monetary Policy Measures in Q4 2020

<p>The decisions were made on the size of the National Bank policy rate</p>	<p>The Board of the National Bank considered the issue on the size of the National Bank policy rate on November 30, 2020. Based on the results of these considerations, the decision was made to keep the policy rate unchanged at 5.0 percent.</p> <p>The rates of the interest rate corridor remained unchanged.</p>
<p>The decision was made to conduct a pilot project on development of the government securities secondary market</p>	<p>The National Bank conducted the rediscount operations (outright) through redemption of the ST-Bonds with a maturity of over 6 years in the secondary market since November 16 until December 31, 2020.</p> <p>During the aforementioned period, the National Bank made 5 purchases of (7- and 10-year) ST-Bonds.</p>

3.2. Financial Market Instruments

Government Securities Market

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

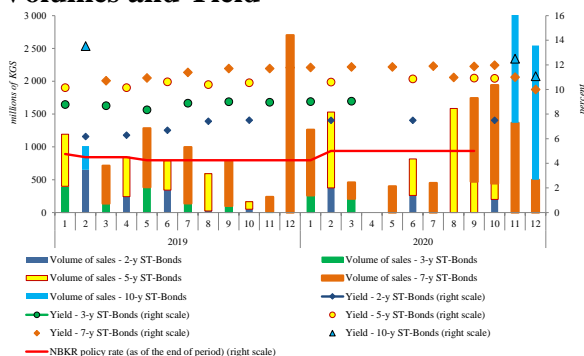


only 12-month ones. In general, the issuer reduced the volume of ST-Bills supply from KGS 2.0 billion down to KGS 300.0 million. Moreover, the volume of demand decreased by 99.3 percent, and sales decreased from KGS 2.0 billion down to KGS 0.9 million.

In the reporting period, the total weighted average yield was 5.95 percent (+0.32 percentage points compared to the same period of 2019).

Amid decrease in sales volumes, the total volume of ST-Bills in circulation decreased by 80.2 percent year-to-date, down to KGS 815.7 million.

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



exceeded the proposed volume of ST-Bonds placement, amounted to KGS 7.6 billion (+by 3.1 times). The shares of demand for the most popular 10- and 7-year securities constituted 63.6 and 30.4 percent, respectively. As a result of additional placements, the total sales of ST-Bonds amounted to KGS 8.0 billion, having exceeded the volume of supply by 9.2 percent.

The overall weighted average yield increased by 0.2 percentage points compared to the same period of 2019 and amounted to 11.2 percent.

At the end of the reporting period, the volume of ST-Bonds¹ in circulation increased by 23.2 percent year-to-date, up to KGS 52.9 billion, due to an increase in the portfolio of the institutional investors and non-resident legal entities.

In Q4 2020, the activity of participants in the ST-Bills market decreased substantially. The weighted average yield increased insignificantly.

In the reporting period, in contrast to the situation in the same period of the previous year, the Ministry of Finance of the Kyrgyz Republic significantly reduced borrowings in the domestic market through ST-Bills. The issuer did not place 3- and 6-month securities in the short-term market,

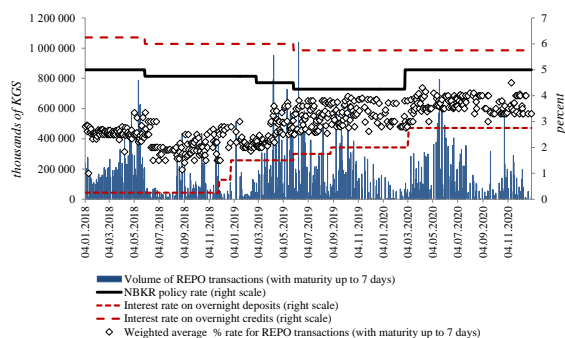
In Q4 2020, the Ministry of Finance of the Kyrgyz Republic significantly increased domestic borrowings through the ST-Bonds. The longest-term securities (7- and 10-year) were primarily in demand. The overall weighted average yield of ST-Bonds increased slightly.

The total volume of ST-Bonds supply at the auctions amounted to KGS 7.4 billion, having increased by 2.9 times compared to the same period of 2019. The demand, having

¹Excluding ST-Bonds nominated in foreign currency

Interbank Credit Market

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

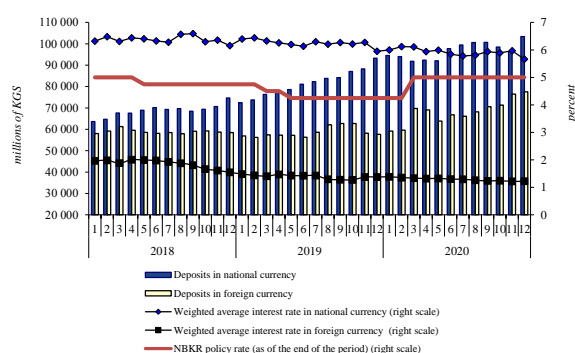


currency in September, the other transactions conducted in the interbank market were REPO transactions.

In Q4, the weighted average rate in the interbank market stood at 3.79 percent, the same level as in Q3. The weighted average maturity of the interbank credits also remained unchanged at the level of 7 days.

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits



At the end of Q4 2020, the depositary base increased significantly, meanwhile in October-November there was a decrease in deposits in the national currency.

As of the end of 2020, the banks' depositary base increased by 19.9 percent compared to December 2019 and amounted to KGS 180.9 billion. For comparison, in 2019, the depositary base increased by 13.4 percent. An increase of deposits in foreign currency by 34.5 percent, up to KGS

77.6 billion made the main contribution to the growth of the depositary base. This is largely due to the fact that foreign currency deposits in KGS equivalent are converted at a stronger exchange rate of the US dollar and other major currencies compared to the end of 2019. Deposits in US dollars increased by 13.3 percent in nominal terms year-to-date.

In October and November 2020, deposits in the national currency decreased amid unstable political situation in the country and volatility in the foreign exchange market. In December, there was an increase in deposits in the national currency by 10.8 percent compared to December 2019, up to KGS 103.4 billion.

At the end of 2020, the share of time deposits in the structure of the depositary base in the national currency decreased by 1.2 percentage points compared to the end of 2019 and stood at the level of 46.6 percent. At the same time, the share of deposits with a maturity of 1 year and more decreased by 0.3 percentage points, down to 31.7 percent in the structure of time deposits. The share of time deposits in foreign currency decreased significantly by 4.9 percentage points, down to 26.6 percent. Among time deposits in foreign currency, the share of deposits with a maturity of 1 year or more increased by 0.8 percentage points, up to 28.5 percent.

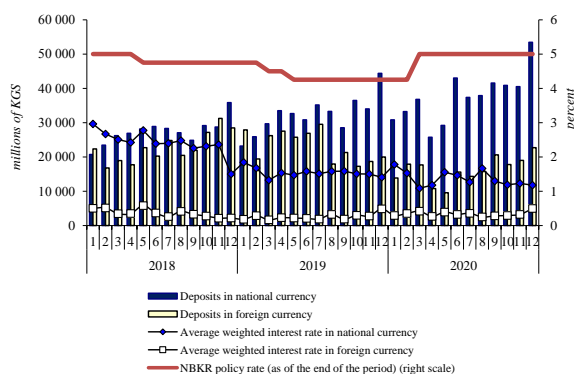
Dollarization of deposits increased by 4.7 percentage points, up to 42.9 percent. Dollarization adjusted to exchange rate at the beginning of the year increased by 0.5 percentage points, up to 38.7 percent.

In the reporting quarter, there was a noticeable increase in the volume of new deposits by 13.7 percent compared to the corresponding quarter of the previous year, up to KGS 194.3 billion. The volume of new deposits in the national currency increased by 17.3 percent, up to KGS 134.8 billion, meanwhile new deposits in foreign currency increased by 6.2 percent, up to KGS 59.5 billion.

In October-December 2020, the share of time deposits in the national currency in the structure of new deposits decreased by 2.1 percentage points compared to the corresponding quarter of the previous year, down to 9.6 percent. The share of deposits with a maturity of 1 year or more decreased by 2.5 percentage points, down to 38.6 percent in the structure of time deposits. The share of time deposits in foreign currency increased by 1.9 percentage points, up to 11.9 percent. Among time deposits, the share of deposits with a maturity of 1 year or more increased by 8.9 percentage points, up to 40.5 percent.

The total duration of the depository base decreased down to 5.1 months (-0.3 months from the beginning of 2020) at the end of 2020, the duration of the time deposits increased up to 13.5 months (+0.4 months).

Chart 3.2.5. Dynamics of Commercial Banks' Deposits Flows



In January-December 2020, the weighted average rates on new deposits increased by 0.06 percentage points compared to the corresponding period of 2019, up to 1.06 percent. The interest rates on new deposits in the national currency decreased by 0.18 percentage points compared to January-December 2019 and constituted 1.37 percent, the interest rates on the deposits in foreign currency increased by 0.08 percentage points and constituted 0.34 percent. The weighted average rate on new time deposits in the national currency

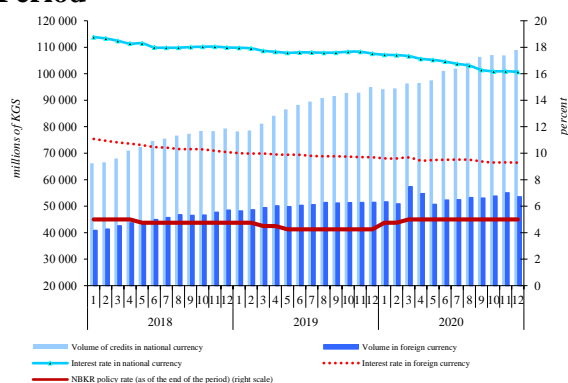
decreased by 0.35 percentage points, down to 9.10 percent, those in foreign currency decreased by 0.40 percentage points, down to 2.90 percent. The weighted average rates in the national and foreign currencies decreased for all maturities, excluding the deposits with a maturity from 6 to 12 months in the national currency and the deposits with a maturity from 1 to 3 months in foreign currency.

The concentration index¹ in the deposit market increased by 0.01 percentage points, up to 0.10 at the end of the reporting period, which corresponds to the average level of concentration with ten participants with equal shares in the market.

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.

Credit Market

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



As of the end of 2020, the commercial banks' credit portfolio continued to demonstrate growth. As of the end of 2020, the commercial banks' credit portfolio increased by 11.0 percent compared to the end of 2019 and amounted to KGS 162.6 billion. An increase of the credits in the national currency by 14.8 percent, up to KGS 109.0 billion made the main input to the growth of the credit portfolio. The credit portfolio in foreign currency increased by 4.0 percent, up to KGS 53.5 billion. Credits denominated in US dollars in nominal terms were generally characterized by downward dynamics since March 2020. At the same time, the volume of credits in foreign currency in KGS equivalent was calculated at the increased rate of the US dollar and other major currencies, which had an upward effect on the volume of credits in foreign currency in KGS equivalent.

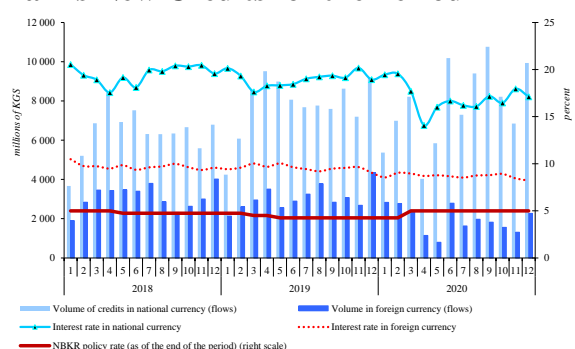
Dollarization of the credit portfolio decreased by 2.2 percentage points at the end of 2020, down to 32.9 percent, being a historically low value. At the same time, dollarization adjusted for changes in the US dollar exchange rate for 2020 decreased by 5.9 percentage points, down to 29.3 percent.

In Q4 2020, the volume of new credits demonstrated a significant reduction compared to the corresponding quarter of 2019, having decreased by 14.2 percent and amounted to KGS 30.1 billion. The volume of new credits in the national currency was at the level close to the corresponding quarter of 2019, having decreased by 0.1 percent, down to KGS 25.0 billion. The dynamics of credits issued with various maturities were multidirectional. Credits in foreign currency still demonstrated downward trend, their volume decreased by 49.1 percent, down to KGS 5.1 billion. The volume of credits with all maturities decreased, excluding credits with a maturity from 6 to 12 months.

In Q4 2020, new credits in the national currency demonstrated a decline in the sectors of industry (-17.3 percent), agriculture (-7.1 percent) and consumer loans (-0.2 percent) compared to the corresponding period of 2019, growth of activity was observed in the sphere of trade (+17.2 percent). In the structure of new credits in foreign currency, the volume of credits decreased significantly in all sectors.

In Q4 2020, duration of new credits in the national currency decreased slightly compared to the corresponding quarter of 2019 and amounted to 25 months, in foreign currency it decreased by two months and was at the level of 29 months.

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



In 2020, the weighted average rates on new credits in the national currency decreased by 1.96 percentage points compared to 2019, down to 17.04 percent. A decrease in the interest rates was observed in all sectors, excluding mortgage, as well as procurement and processing. Among the main sectors, the interest rates decreased significantly in the sectors of consumer credits (-3.04 percentage points), agriculture (-2.18 percentage points) and construction (-1.85 percentage points). The interest rates in foreign currency decreased by 0.86 percentage points, down to 8.69 percent, mainly due to a

decrease of the interest rates on credits by 1.07 percentage points in the sector of trade, which comprises the main share of all new credits in foreign currency.

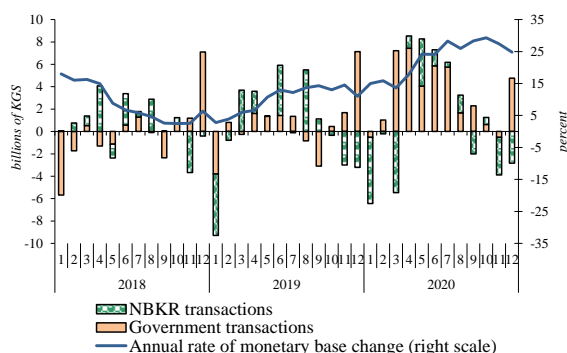
The credit market general concentration index was stable and formed at the level of 0.09, which corresponds to a low level of concentration and is equivalent to the division of the market among 11 banks. The sectoral concentration index was 0.31, which is equivalent to three main credit sectors.

3.3. Dynamics of Monetary Indicators

Monetary Base

During 2020, the monetary base increased significantly due to changes in the structure of government operations resulted from a noticeable gap between the state budget revenues and expenses.

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



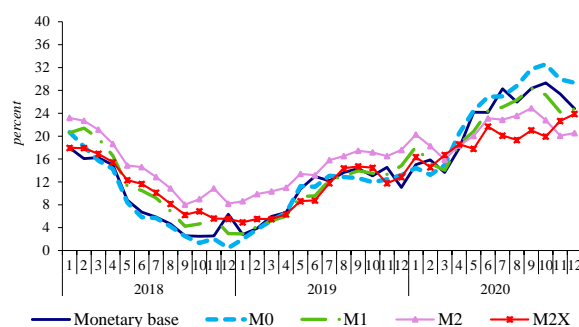
In Q4 2020, the monetary base decreased by 0.5 percent as a result of the impact of the National Bank transactions, which reduced reserve money by KGS 5.6 billion, mainly due to such transactions conducted in the domestic foreign exchange market. At the same time, the government transactions made a positive contribution to the growth of reserve money by KGS 4.9 billion.

However, in general, in 2020, the monetary base increased by 24.8 percent or KGS 29.3 billion. In 2020, the transactions of the public finance sector increased the monetary base by KGS 39.6 billion. The National Bank transactions, on the contrary, reduced it by KGS 10.4 billion.

the public finance sector increased the monetary base by KGS 39.6 billion. The National Bank transactions, on the contrary, reduced it by KGS 10.4 billion.

Monetary Aggregates

Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



The existing growth rates of monetary aggregates were the highest since 2017. At the same time, the growth rates of monetary aggregates still accelerated.

Growth of money outside banks by 29.3 percent in annual terms (growth was 0.3 percent during the quarter) and deposits in the national currency by 10.7 percent in annual terms made the main impact on the increase in monetary aggregates.

monetary aggregate M2X increased by 3.9 percent compared to the previous quarter.

In 2020, the monetary aggregate M2X increased by 23.9 percent and amounted to KGS 285.2 billion at the year-end. The

In the reporting quarter, deposits¹ included in M2X increased by 20.0 percent, mainly due to the growth of deposits in the national currency by 10.7 percent and deposits in foreign

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

currency by 36.4 percent. At the same time, deposits in the national currency increased by 3.1 percent, and deposits in foreign currency increased by 12.9 percent during the quarter.

Lending to the economy still demonstrated positive growth rates. In 2020, the total volume of credits to the economy¹ increased by 12.6 percent and amounted to KGS 168.9 billion at the year-end (+1.5 percent compared to Q3 2020). In 2020, the banking sector's credit portfolio expanded due to loans in the national currency (+16.4 percent) and in foreign currency (+5.5 percent).

¹ Credit to the economy is an indicator that reflects all the requirements of the banking system to the individuals, legal entities and other financial-credit institutions, in the form of issued credits, deposits and securities, accounted for together with their accrued interest, excluding credits to the Government of the Kyrgyz Republic and non-residents.

Chapter 4. Inflation Dynamics

At the end of 2020, the inflation rate accelerated sharply and exceeded the National Bank's expectations, meanwhile the average annual inflation rate did not exceed the targets for the medium term

4.1. Consumer Price Index

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

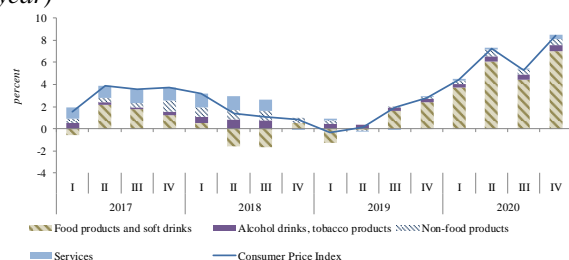


Chart 4.1.2. Dynamics of Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

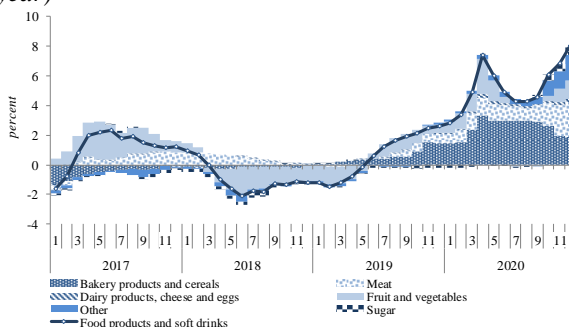
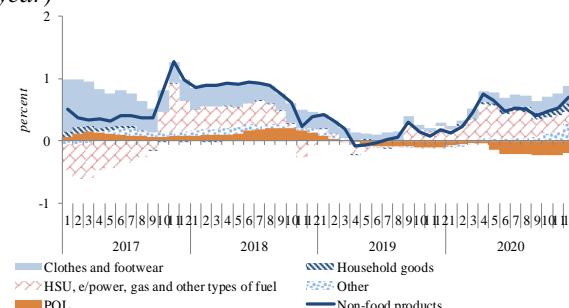


Chart 4.1.3. Dynamics of Non-Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)



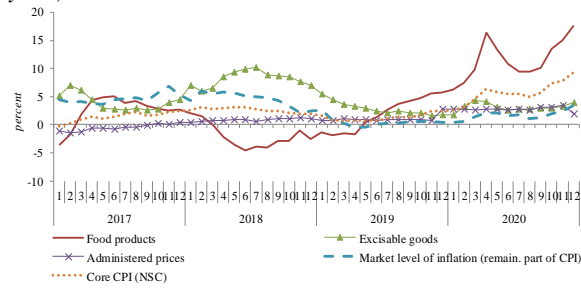
In 2020, the average annual inflation rate was 6.3 percent being within the framework of the National Bank's inflation forecast for 2020, and in annual terms, the increase in consumer prices was 9.7 percent. In 2020, various shocks influenced consumer price dynamics, including increased pressure on inflation from non-monetary factors.

In Q4 2020, inflation rate was at 8.4 percent. In the reporting quarter, inflation in the country was mainly formed by the seasonal growth in prices for fruits and vegetables. In addition, an increase in the world prices for food products and growth in exports of meat from Kyrgyzstan had an additional impact on prices. Thus, the decline in the yield of sugar beet and sunflower seeds in Russia conditioned accelerated rise in import prices for sugar and sunflower oil supplied into Kyrgyzstan. In the reporting quarter, the food price index increased by 15.4 percent compared to the corresponding quarter of 2019.

In Q4 2020, prices for non-food products increased by 2.0 percent compared to Q4 2019. Rise in prices for the commodity group "clothes and footwear" by 2.3 percent and in the group "gas, natural and liquefied" - by 11.9 percent made the most significant contribution to increase in prices for non-food products. Household items and household appliances rose in price by 3.2 percent. However, a decrease in domestic prices for petroleum, oil and lubricants compared to the corresponding quarter of the previous year, due to a decline in wholesale selling prices in

the Russian market of oil products and in the world prices for crude oil in 2020 was a restraining factor for growth in prices.

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

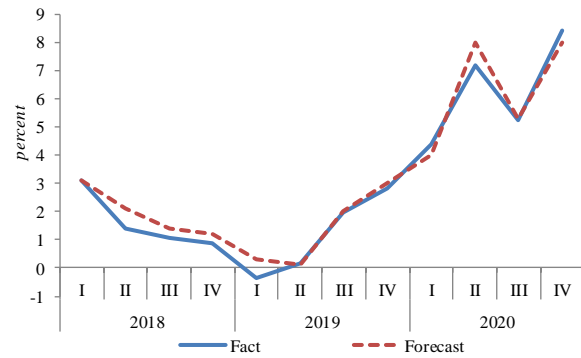


2019, calculated using methods of the National Statistical Committee of the Kyrgyz Republic, was 9.3 percent.

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)



There was a moderate increase in prices for paid services due to rise in prices in the group of services “transport”, as well as increase in prices in the group “restaurants and hotels”. In the reporting quarter, the price index for alcohol drinks and tobacco products increased by 6.3 percent due to the planned increase in excise rates for tobacco products in January 2020.

In 2020, market inflation remained moderate and amounted to 3.4 percent. In Q4 2020, the core inflation compared to Q4 2019, calculated using methods of the National Statistical Committee of the Kyrgyz Republic, was 9.3 percent.

In Q4 2020, the actual inflation rate increased by 0.4 percentage points compared to the expectations of the National Bank.

Deviation of the expected inflation rate from the actual value was due to faster rates of food inflation compared to expectations amid long-lasting increase in prices in the world food market.

Chapter 5. Medium-Term Forecast

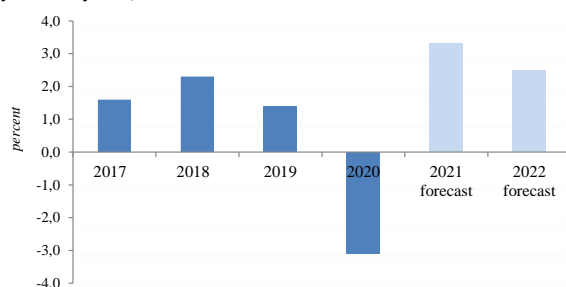
5.1. External Environment Proposals

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, Bank of Russia

The forecasts for economic growth in Russia were adjusted slightly upwards amid rise in oil prices and faster economic recovery compared to expectations due to vaccination of the population. However, new waves of disease raise concerns about the economic growth prospects, taking into account the fact that restrictive measures were reintroduced in a number of countries.

At the same time, the IMF raised its forecast for GDP in Russia and expects an increase of the indicator by 3.0 percent, and in 2022 - by 3.9 percent.

The Ministry of Economic Development of the Russian Federation assumes that in 2021-2023, Russia's GDP will grow by 3.3; 3.4 and 3.0 percent, respectively. In 2021, GDP is expected to depend on implementation of the nationwide economic recovery plan, as well as on the rate of the population vaccination.

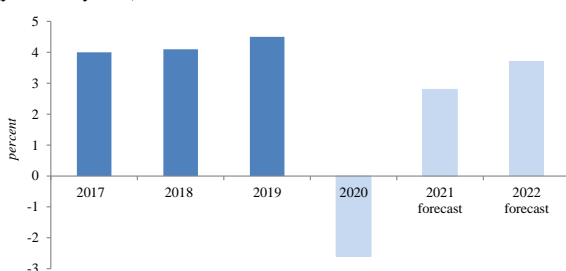
Soft monetary policy will continue to support the economy during 2021. According to the Bank of Russia forecast, in 2021, GDP of the country will grow by 3-4 percent, and in 2022-2023 - by 2.5-3.5 and 2.0-3.0 percent, respectively.

Taking into account the fact that disinflationary risks do not prevail anymore, the Bank of Russia raised the inflation forecast for 2021 up to 3.7-4.2 percent, and in the future, this indicator will be close to 4 percent.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

The economic recovery is expected in 2021, while uncertainty about the pandemic and fluctuations in the world oil prices may adjust the economic dynamics.

The National Bank of the Republic of Kazakhstan assumes that in the medium term, there will be a recovery of positive economic growth rates due to the low base of 2020 and gradual stabilization of the epidemiological situation. In 2021, GDP will grow by 3.7-4.0 percent with a slight slowdown in the first half of 2022. The main risks to the forecast include the risk of further

deterioration of the situation with coronavirus infection amid an increase in the number of patients, ineffective use of vaccines and corresponding escalation in restrictive measures in Kazakhstan and abroad. In addition, the risk of imbalances in supply and demand remains high in individual commodity markets

According to the World Bank's Global Economic Prospects report dated January 5, 2021, the national economic slowdown in Kazakhstan in 2021-2022 will make 2.5 and 3.5 percent, respectively.

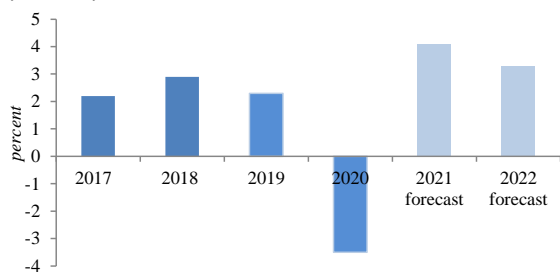
The Ministry of National Economy of the Republic of Kazakhstan assumes that, in 2021, GDP growth in Kazakhstan is expected at 2.8 percent in 2021, and at 3.7 percent in 2022.

Medium-term forecasts for the annual inflation rate were not changed significantly compared to the previous estimate. The annual inflation rate is assumed to slow down gradually to the upper limit of the target range of 4.0-6.0 percent by the end of 2021 amid existing disinflationary impact from the domestic demand and its formation within this corridor until the end of the forecast period.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg

The forecasts for economic growth in the USA were improved due to stable active dynamics from the second half of 2020 and additional support through the package of fiscal measures announced by the government in December 2020, however risks are still observed.

The analysts expect that the approval of several vaccines and initiation of vaccinations in some countries in December 2020 have raised hopes that the pandemic will eventually end.

In addition, according to the experts, additional policy measures announced at the end of 2020 in the United States will further support the economy in 2021-2022. At the same time, outburst of infection cases at the end of 2020 (including new virus strains), reintroduction of restrictive measures, logistics problems in the distribution of vaccines and uncertainty about willingness of the population to be vaccinated are reasons for concern.

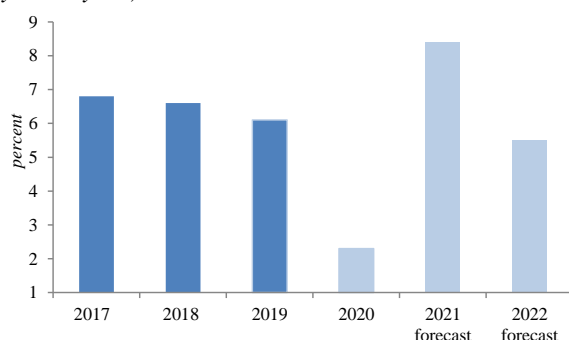
The IMF forecasts GDP growth in the USA by 5.1 percent in 2021, and by 2.5 percent in 2022. The US Federal Reserve System improved its forecast for US GDP, according to which the economy is expected to grow by 4.2 percent in 2021 and by 3.2 percent in 2022.

According to the analysts' expectations, the inflation rate will grow slowly to reach a steady level of 2.0 percent in 2023 and stay moderately above that level for the next few years. In turn, the US Federal Reserve System outlines strong dependence of the economic growth prospects on the situation around COVID-19 and confirmed its readiness for active monetary easing, if the situation in the economy requires, striving to ensure the inflation rate to be approximately at 2 percent in the long term.

China

Chart 5.1.1.4. Real GDP Growth in China

(year to year)



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

The forecasts for economic growth in China remained unchanged.

According to the World Bank's Global Economic Prospects report dated January 5, 2021, GDP in China can grow by 7.9 and 5.2 percent in 2021-2022, respectively, amid stable economic activity, meanwhile coronavirus disease outbreaks within the country remain under control. The IMF forecasts an increase of this indicator by 8.1 percent in 2021 and by 5.6 percent in 2022. According to the People's Bank of China Research Institute's forecast dated

November 30, 2020, GDP growth rate in China will accelerate up to 7.5 percent in 2021.

At the same time, the analysts that the prospects for further growth may be disrupted by the ongoing recession in the United States, which is China's largest export market, and the closure of the global economy, where new cases of coronavirus disease are still recorded.

According to the IMF experts, in 2021, the inflation rate will be below the pre-crisis target set by the government of "about three percent" and will make 2.7 percent. In 2022, the inflation rate is forecasted at 2.6 percent.

5.2. Medium-Term Forecast

Generally, in Q4 2020, the economic activity of the Kyrgyz Republic was formed amid significant shocks that are closely related to each other. The negative impact of COVID-19 pandemic conditioned an unprecedented economic shock globally. The International Monetary Fund concludes that despite extraordinary efforts of the governments to support economic activity by stimulating fiscal and monetary policies, the decline in global GDP reached about 3.5 percent by the end of 2020. This is the most significant economic recession in the world since the World War II. Growth of the social and political instability in the country made an additional contribution to economic slowdown in the Kyrgyz Republic in 2020.

More than a threefold drop in the world oil prices in the first half of 2020 due to COVID-19 pandemic conditioned a significant decrease in economic activity in the Kyrgyz Republic's trading partner countries. However, current recovery of the global economy together with the positive impact of government stimulation programs conditioned onset of the economic revival in the trading partner countries: current forecast assumes Russia's and Kazakhstan's economy to recover to pre-coronavirus level by mid-to-late 2021.

In 2021, energy prices are expected to recover to pre-coronavirus level of 2019. This trend is an indicator of resumed global economic growth and corresponding recovery in demand from the trading partner countries. At the same time, the growth rate of economic activity globally will largely depend on the effectiveness of preventive measures, vaccination and epidemiological situation in 2021.

In 2021, the forecast for GDP growth in Russia is expected at about 3.3 percent, meanwhile GDP growth in Kazakhstan in 2021 is expected at about 2.8-3.0 percent.

The recovery of economic activity in Russia will correspondingly affect the volume of remittances' inflows to the Kyrgyz Republic. In 2021, an increase in the remittances' net inflow is expected at about 4.5 percent compared to 2020.

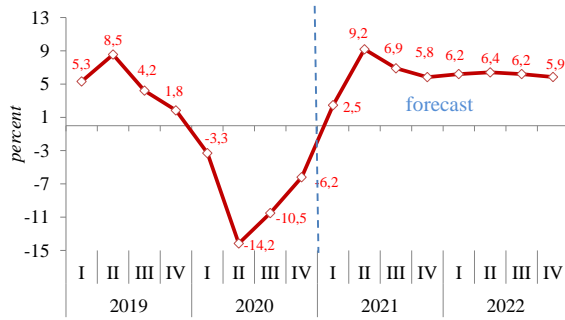
The global economic recovery will influence the oil price in the first half of 2020. Taking into account existence of the current OPEC+ agreement, the average level of the Brent oil price is expected at about USD 60 per barrel in 2021. The current forecast also takes into account current acceleration of price increase in the world food markets.

The economic structure of the Kyrgyz Republic conditions the special role of the external sector parameters in the elaborated forecasts. Such parameters acquire a decisive importance in the context of a global economic shock. Assumptions on the parameters of the foreign economic sector such as the price movement in the world commodity markets, the prospects for economic development in the Kyrgyz Republic's trading partner countries and other important indicators of the world economic development are determined based on the forecasts made by the world research agencies/institutions, official bodies of the countries and expert assessments.

The National Bank of the Kyrgyz Republic evaluates scenarios of the economic behavior in the country under the influence of various combinations of external economic conditions and develops appropriate options for the monetary policy directions.

The following 2021-2021 forecast was made for the key macroeconomic indicators development in the Kyrgyz Republic taking into account the outlined trends in the trading partner countries' economic growth in 2021-2021, as well as the price movement in the world commodity markets in the medium term.

Chart 5.2.1.1. Forecast of Real GDP
(quarter to the corresponding quarter of the previous year)



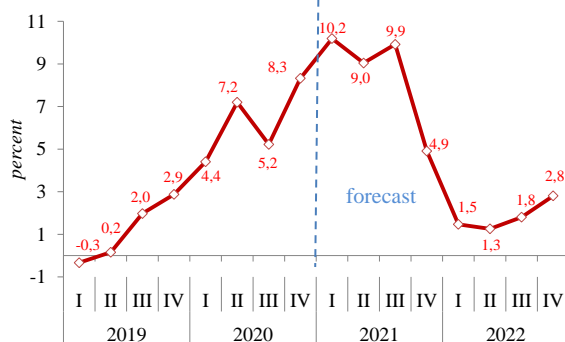
programs. This is to result in increased external demand and economic recovery support in the Kyrgyz Republic.

Thus, in 2021, GDP in the Kyrgyz Republic is expected to increase by about 6.2 percent compared to 2020 (-0.3 percentage points compared to the previous forecast). In 2021, real GDP growth is expected at about 6.9 percent excluding the enterprises of the Kumtor Mine (the previous forecast assumed GDP growth at about 6.3 percent excluding the enterprises of the Kumtor Mine).

Taking into account the assumption of economic recovery trend, in 2022, the real GDP growth rates are expected at about 6.1 percent, excluding the enterprises of the Kumtor Mine, GDP growth is expected at 6.6 percent.

Taking into account the assessments of the external environment and internal conditions development, the inflation rate in the Kyrgyz Republic's economy in 2021 is expected at the single-digit level. It corresponds to the main objective of the monetary policy of the National Bank for 2021.

Chart 5.2.1.2. Inflation Forecast
(quarter to the corresponding quarter of the previous year)



2021.

Thus, taking into account all expected internal and external factors and risks in 2021, the inflation rate at the end of 2021 (December 2021/December 2020) is forecasted at about 7 percent. The average annual inflation rate is expected at approximately 9.5 percent.

In 2022, given forecasted slowdown in price development in the world commodity markets, the average inflation rate is expected at about 2.0 percent to make approximately 3.0 percent by the end of the year.

Forecast for the Balance of Payments in 2021-2022 (baseline scenario)¹

The forecast for the balance of payments indicators for 2021 was not changed significantly and remains moderate. The economies of the partner countries and

The consequences of restrictive measures taken during COVID-19 pandemic: decrease in demand from the trading partner countries, complicated border crossing procedures for the goods and passengers, corresponding slowdown in the remittances' inflow into the country were the reasons for stable negative GDP gap during 2021.

Resumed economic growth in the trading partner countries in 2021 will be supported by recovery in the oil prices and expansion of the government stimulation

The trend towards reduction in the negative GDP gap in 2021 and corresponding recovery in the domestic demand as well as price increase in the world commodity markets condition stable upward trend in the consumer prices in the Kyrgyz Republic in 2021.

In 2021, stable global rise in food prices is the main external pro-inflationary factor.

Besides this, in 2021, increase in prices for fixed-route taxis services by 50 percent in Bishkek in 2021 can make an additional contribution to inflation growth in

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

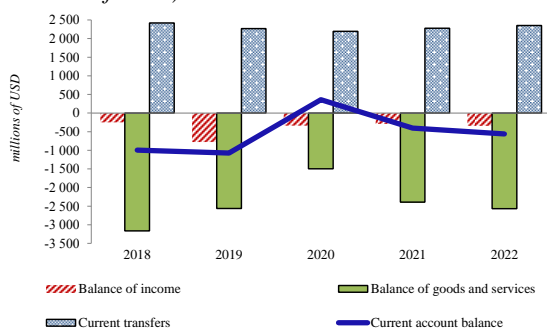
Kyrgyzstan will recover gradually amid adaptation of some areas of activity to restrictive measures and news about initiation of vaccination in a number of countries. However, in 2021, the recovery of some indicators to the pre-crisis level is not expected.

Expected growth in economic activity will result to an increase in the balance of goods deficit and to positive rates of remittances' inflow.

At the same time, the negative balance of income is expected to decrease. As a result, in 2021, the current account balance will return to the negative zone and is forecasted to make 5.0 percent to GDP, which in value terms will amount to USD 402.3 million.

Chart 5.2.1.3. Forecast Data on Current Account

(millions of USD)



The export forecast was formed under the influence of an assumed gradual recovery in the production output in the country and external demand due to rehabilitation of economic activity in the partner countries upon introduction of the restrictive measures in 2020.

In 2021, exports are forecasted to increase by 2.7 percent. The recovery trend will be conditioned by the supplies of traditional export items of textile and apparel sector, agricultural goods, as well as re-export items. At the same time, despite a rise in the

world prices for gold, a forecasted decline in metal production will make a negative input to the country's exports.

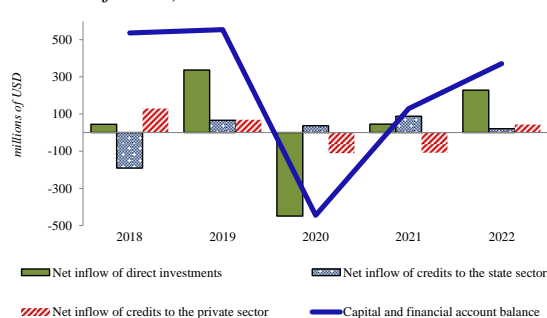
The country's import forecast was influenced by the factors such as the growth of domestic demand, due to gradual increase in the household incomes amid adaptation to doing business during the pandemic, as well as the work of the government to increase the capacity of the borders with China.

In addition, the low base of 2020 will affect the dynamics and growth rates. Nevertheless, the described prerequisites make it possible to forecast an increase in imports by 27.2 percent compared to 2020, mainly due to consumer goods. The supplies of energy products to the country are forecasted to increase by 36.8 percent amid expected growth in the world prices. According to the National Bank's estimates, the imports of other goods will increase by 25.7 percent.

Forecasts of economic recovery in Russia, the main recipient country of the labor migrants from the Kyrgyz Republic, and an increased demand for labor force in this country will have a positive impact on the volume of private transfers. Increase in the net inflow of transfers to the private sector is expected at 4.3 percent. Official transfers are expected to be below the level of 2020.

Chart 5.2.1.4. Forecast Data on Capital and Financial Account

(millions of USD)



In 2021, an increase in the current account deficit will be financed by the capital inflows from the capital and financial account.

The consequences of COVID-19 disease will still have a negative impact on capital flows in 2021. The recovery of positive net direct investment inflows is forecasted to be gradual to make USD 45.5 million. However, the bulk of capital inflows on the financial account is expected to be provided by other investments. The balance of the item "other investments" will

be formed under the influence of an increase in foreign liabilities of the public sector. Servicing

of previously obtained private sector loans will remain significant, meanwhile inflow of private foreign investment is expected to be moderate.

Thus, the balance of payments will be formed negative, which implies financing the gap from the international reserves of the National Bank.

Assumptions that the world economy, including the economies of Kyrgyzstan and the partner countries, will start recovering by the end of 2021 lay favorable preconditions for stable development of the external economic sector in 2022. The resumption of economic activity will contribute to the growth of the trade turnover of the country, which, in turn, will result in an increase in the deficit of the balance of goods. The expected growth in external demand amid development of mining production will contribute to an increase in exports by 7.1 percent. The stable trend of economic recovery in the country, an increase in incomes of the population, including through the labor migrants' remittances, will create preconditions for growth in imports by 9.4 percent. Thus, the trade balance deficit is forecasted to expand up to 11.5 percent.

Along with that, a positive dynamics of current transfers are expected due to growth of labor migrants' remittances by 5.8 percent. Generally, in 2022, the current account deficit is forecasted at 6.6 percent to GDP.

In the reporting period, the inflow of foreign capital on the capital and financial account is expected to increase, a significant part of the proceeds thereon will be provided by direct foreign investments and other investments to the private sector. Additionally, public sector liabilities will increase. The upward trend in servicing previously received loans and borrowings will remain stable.

The following risks are still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2021-2022:

- uncertainty associated with COVID-19 pandemia in the world and the political situation in the country;
- the risks associated with the Kumtor Mine and other precious metal deposits exploration;
- volatility in the world prices for oil and gold;
- deterioration of the economic situation in the trading partner countries;
- volatility in the exchange rate of the main trading partner countries;
- growing debt burden of the public and private sectors.

Annex 1. Key Macroeconomic Indicators

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

Indicator	Unit of measure	2018				2019				2020			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Demand and supply¹													
<i>(real growth rates, if otherwise is not indicated)</i>													
Nominal GDP, per quarter	mln. KGS	105 149,0	123 373,9	159 387,3	181 475,4	111 423,8	133 461,2	175 174,9	199 042,8	111 347,9	116 952,8	171 920,0	198 123,8
GDP	%	1,3	-0,3	2,6	9,0	5,3	8,5	4,2	1,8	-3,3	-14,2	-10,5	-6,2
GDP, excluding Kumor	%	3,2	2,3	3,4	5,3	1,7	4,5	3,4	5,9	-2,2	-15,0	-9,7	-8,1
Domestic consumption	%	4,0	3,9	2,6	6,9	0,0	1,4	3,5	0,3	2,4	-27,8	-5,5	
Investment	%	106,6	9,0	-9,7	6,7	-20,6	-10,9	6,3	1,9	-31,5	-23,0	-21,7	
Net export	%	82,5	12,8	-0,9	1,0	-28,6	-11,1	-6,8	3,1	-24,7	-72,8	-19,9	
<i>GDP production:</i>													
Agriculture	%	0,7	1,6	3,2	2,8	0,6	4,3	1,3	4,7	0,3	0,0	0,1	4,7
Industry	%	0,3	-8,9	1,0	22,3	15,0	25,5	10,5	-13,7	-13,6	-8,7	-15,1	4,7
Construction	%	1,4	4,2	5,0	12,6	3,0	7,1	12,1	13,2	-4,0	-14,4	-7,5	-23,7
Services	%	1,8	2,1	2,3	4,2	1,7	3,5	2,0	4,7	0,3	-20,0	-15,4	-4,9
including trade	%	3,7	4,8	4,7	7,7	4,3	4,9	5,0	7,7	2,9	-31,5	-18,0	-13,7
2. Prices²													
CPI	%	103,1	101,4	101,1	100,9	99,7	100,2	101,9	102,8	104,4	107,2	105,3	108,4
CPI, in annual terms as of the end of period	%	102,7	100,8	101,2	100,5	99,3	100,9	102,3	103,1	105,9	105,8	105,4	109,7
Core inflation	%	102,8	103,1	102,5	100,4	101,0	100,8	101,2	102,2	103,5	105,8	105,3	108,1
<i>CPI by main groups of goods and services:</i>													
Food products	%	101,2	96,5	96,4	101,1	97,1	99,7	103,5	105,3	108,1	113,4	109,7	115,4
Non-food products	%	103,0	103,2	103,0	101,6	101,1	99,8	100,4	100,4	100,9	102,1	101,6	102,0
Alcohol drinks and tobacco products	%	106,5	109,1	108,4	100,3	104,7	104,0	103,8	103,5	104,2	105,3	105,7	106,3
Services	%	106,9	107,3	106,1	99,4	101,3	99,9	99,8	100,3	101,0	101,0	100,0	102,3
<i>CPI, classified by character:</i>													
Excisable goods	%	106,5	109,2	109,2	107,7	104,5	102,9	102,2	101,8	103,1	103,3	102,8	103,4
Regulated prices	%	100,6	100,9	100,8	101,1	100,9	100,8	100,9	101,5	102,7	102,7	102,8	102,8
Market inflation rate (the rest of CPI)	%	105,3	105,5	104,7	102,6	101,2	99,8	100,3	100,5	100,8	101,9	101,3	102,6
3. External sector³													
<i>(in percent to GDP)</i>													
Trade balance	% to GDP	-35,2	-36,7	-37,0	-36,7	-34,6	-32,8	-31,7	-31,1	-28,6	-23,2	-18,9	-17,6
Current transaction account	% to GDP	-10,9	-12,3	-13,4	-12,1	-9,8	-9,7	-10,0	-12,7	-9,1	-3,7	0,8	4,6
Export of goods and services	% to GDP	33,6	34,4	33,1	33,2	34,8	35,2	36,9	37,0	36,3	36,1	34,8	31,3
Import of goods and services	% to GDP	70,1	72,7	71,5	71,6	70,4	68,6	68,4	67,3	64,1	58,8	54,9	50,9
4. USD exchange rate, as of the end of period													
	KGS	68,4325	68,1800	69,2773	69,8500	69,8496	69,4928	69,7039	69,6439	80,8100	75,9887	79,6000	82,6498
5. Monetary sector													
NBKR policy rate, as of the end of period	%	5,00	4,75	4,75	4,75	4,50	4,25	4,25	4,25	5,00	5,00	5,00	5,00
Rate of "overnight" deposit, as of the end of period	%	0,25	0,25	0,25	1,50	1,50	1,75	2,00	2,00	2,75	2,75	2,75	2,75
Rate of "overnight" credit, as of the end of period	%	6,25	6,00	6,00	6,00	6,00	5,75	5,75	5,75	5,75	5,75	5,75	5,75
<i>Average interest rates of operations in the interbank credit market, per quarter</i>													
of which:													
of REPO transactions	%	2,73	2,48	2,17	2,22	2,25	3,02	3,27	3,50	3,55	3,85	3,97	3,84
of credits in national currency	%	-	0,00	-	-	2,30	2,30	-	-	-	-	-	-
of credits in foreign currency	%	-	-	-	-	3,50	2,88	3,36	-	-	-	2,50	2,50
Weighted average yield of 7-day notes, as of the end of period	%	2,40	2,31	1,90	3,03	3,67	3,59	3,79	3,76	3,97	3,95	3,95	4,01
Weighted average yield of 14-day notes, as of the end of period	%	-	-	-	3,36	-	-	-	3,78	4,15	4,32	4,20	4,50
Weighted average yield of 28-day notes, as of the end of period	%	3,83	3,30	1,86	3,65	3,93	4,18	4,10	4,00	4,31	4,52	4,37	4,62
Weighted average yield of 91-day notes, as of the end of period	%	4,99	4,73	4,00	4,66	4,48	4,20	4,25	4,23	4,48	4,65	4,70	4,70
Weighted average yield of 182-day notes, as of the end of period	%	-	-	4,73	4,75	4,50	-	-	-	-	-	-	-
Monetary base	%	16,2	6,7	2,6	6,3	6,0	13,0	14,3	11,0	13,6	24,1	28,3	24,8
Money outside banks (M0)	%	15,7	5,8	2,5	0,4	5,2	11,1	12,7	13,2	14,9	26,9	31,7	29,3
Monetary aggregate (M1)	%	19,6	10,5	4,2	3,0	5,2	9,6	13,9	14,8	14,0	24,4	28,4	24,7
Narrow money supply (M2)	%	21,1	14,6	8,0	8,2	10,3	13,2	17,4	17,6	15,9	23,1	24,9	20,5
Money supply (M2X)	%	16,9	11,6	6,2	5,5	5,5	8,8	14,7	12,8	16,7	21,7	21,0	23,9

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 Q4 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 nonresidents 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

ADB	Asian Development Bank
CBRF	Central Bank of the Russian Federation
COVID-19	CO rona VI rus D isease 2019
CPI	Consumer Price Index
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
ES	Emergency Situation
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
IMF	International Monetary Fund
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
RA	Republic of Armenia
RB	Republic of Belarus
REER	Real Effective Exchange Rate
RK	Republic of Kazakhstan
SE	State of Emergency
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America
VAT	Value Added Tax