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## Press Release

### **National Bank of the Kyrgyz Republic keeps its policy rate unchanged at 5.0 percent**

On May 26, 2020, the Board of the National Bank of the Kyrgyz Republic decided to keep the policy rate (key rate) unchanged at 5.0 percent. The decision becomes effective as of May 27, 2020.

External and internal economic consequences of COVID-19 pandemic and the situation in the world oil market, along with the increased demand of the population for essential goods under the conditions of the quarantine measures introduced to combat coronavirus, resulted in acceleration of current inflation. In May 2020 (as of May 15), annual inflation was 7.5 percent after increasing to 8.6 percent in April of the current year.

Uncertainty regarding global economic recovery, including the trajectory and time horizon, remains high. Prospects for the world and regional economic development depend on many factors such as development of the situation with the pandemic, effectiveness and timeliness of taken anti-crisis measures, and recovery of foreign economic activity, the assessments of which at the moment remain ambiguous.

Restrictive measures to prevent the spread of coronavirus resulted in output reduction of almost all sectors of the Kyrgyz Republic's economy. Primarily the sector of services, construction and industry demonstrate a decline in economic activity. This trend is expected to be observed in the short term. A reduction in the inflow of export earnings and remittances, being a significant source of household income, is also considered as a restraining factor of domestic consumption.

According to the estimates of the National Bank, expected weakening of domestic demand will have a restraining effect on inflationary dynamics in the country in the medium term. According to updated forecasts, during the first half of 2020, there will be a temporary acceleration of inflation, with its average value remaining within unambiguous range by the end of the year, in the current shock economic conditions in the Kyrgyz Republic.

Generally the situation in monetary sector did not suffer significant changes. Loan portfolio and deposit base continue expanding. Short-term money market rates have a common direction with the policy rate of the National Bank, which continue to fluctuate within the interest rate corridor. The interbank credit market has been the most active over the past two months compared to the period at the beginning of the year. The domestic foreign exchange market is balanced by the market demand and supply of foreign currency. In May<sup>1</sup> 2020, the National Bank did not conduct foreign exchange interventions. Monetary and macroprudential measures taken by the

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<sup>1</sup> As of May 25, 2020

National Bank will mitigate the negative effects of coronavirus in the banking and financial systems.

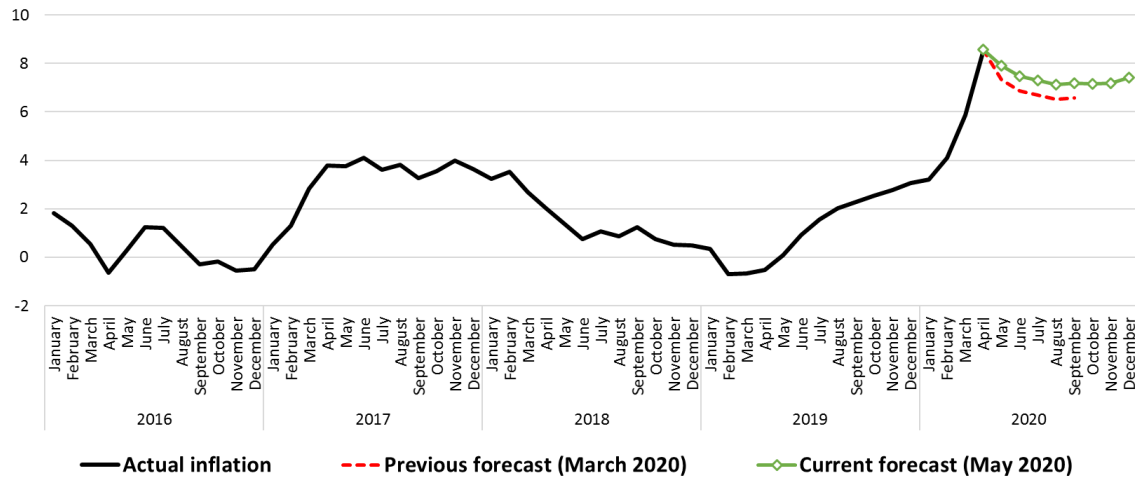
Decisions on the policy rate are made taking into account the actual inflation and forecasted inflationary dynamics relative to the target of 5-7 percent in the medium term. Taking into account prerequisites for the external environment development and current internal conditions, the National Bank decided to keep its policy rate unchanged at 5.0 percent, with due regard to the need to maintain measures to stimulate the real sector of economy.

The National Bank on a regular basis assesses external and internal factors influencing inflation and depending on the economic situation will take relevant monetary policy measures. In case of any risks, the National Bank has sufficient tools to mitigate their consequences.

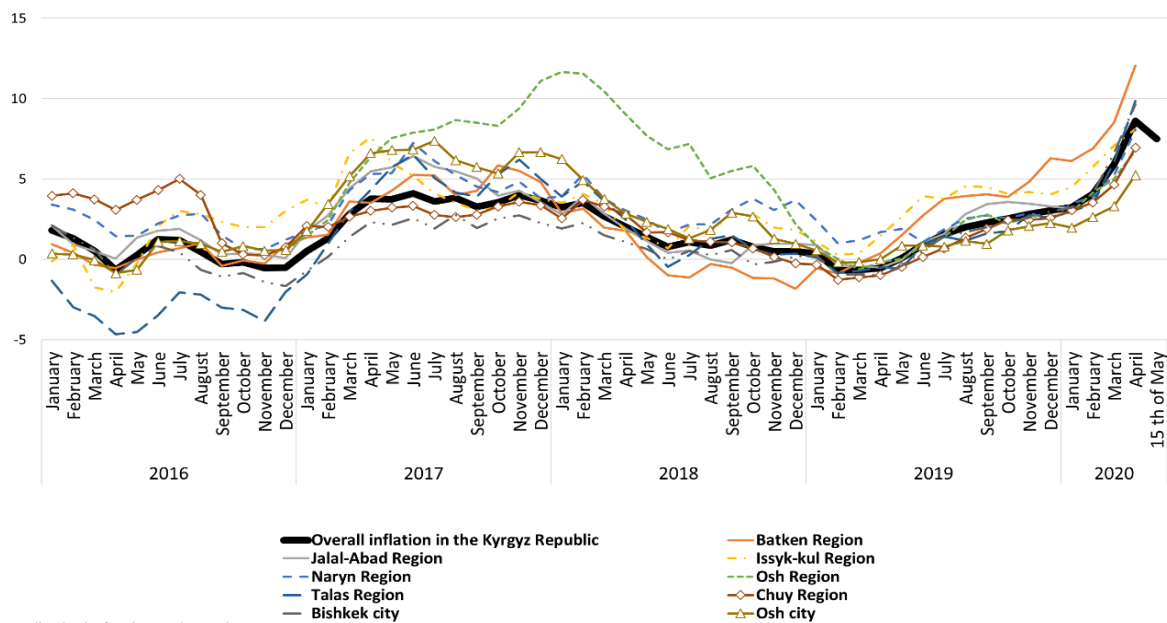
*Briefing:*

The next meeting of the Board of the National Bank of the Kyrgyz Republic on monetary policy rate is scheduled for June 29, 2020.

**Chart 1. Overall inflation in the Kyrgyz Republic**  
(%, month to the corresponding month of the previous year)



**Chart 2. Inflation in the Kyrgyz Republic in regions**  
(%, month to the corresponding month of the previous year)



**Chart 3. Policy rate of the National Bank of the Kyrgyz Republic**  
(percent)

