

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report.
Quarter IV, 2021**

**Bishkek
February 2022**

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

Monetary policy in the Kyrgyz Republic

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

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

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

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

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

Monetary Policy Report for Q4 2021 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2022-II-07/10-1-(ДКП) dated February 28, 2021.

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Summary

The global economic recovery was significantly affected by the negative impact of the spread of new strains of COVID-19 and the worsening global inflationary processes. Continued growth in prices in the world commodity markets and energy markets continues to have a significant negative impact on price dynamics in the Kyrgyz Republic.

In the reporting period, the economy of the Kyrgyz Republic entered an active phase of recovery, but did not reach pre-pandemic indicators. At the end of 2021, the GDP growth rate amounted to 3.6 percent (in 2020 – (-)8.4 percent). Excluding enterprises for the development of the Kumtor mine, GDP growth amounted to 3.9 percent (in 2020 – (-)8.9 percent). The economic recovery was mainly supported by the industrial and service sectors.

The trade balance in Q4 2021 was formed under the influence of the growth of both import and export operations (by 66.0 and 23.7 percent, respectively). As a result, the country's trade balance deficit amounted to 1,031.8 million US dollars. The volume of foreign trade turnover increased by 52.5 percent and amounted to 2.1 billion US dollars.

According to the preliminary results of 2021, the state budget deficit amounted to KGS 1.7 billion, or 0.2 percent of GDP (in 2020 – KGS 19.7 billion, or 3.3 percent of GDP). Primary surplus¹ of the state budget was formed in the amount of KGS 6.7 billion or 0.9 percent of GDP.

The main contribution to the growth of state budget revenues was made by tax revenues (29.1 p.p.) due to the active work to improve tax administration and the introduction of digital technologies in tax and customs procedures. In this regard, the share of tax revenues in the structure of income increased from 70.3 to 72.1 percent in 2021.

In December 2021, prices increased by 11.2 percent in annual terms. Inflation in the Kyrgyz Republic in the reporting period was formed in the context of a global increase in prices for food products and energy resources. The decisive contribution to the increase in prices was made by the food group of goods, in particular meat, fruits and vegetables, oils and fats (sunflower oil). Another factor in high food inflation was the decline in agricultural production in 2021 due to adverse climatic conditions within the country.

The current direction of monetary policy is maintained. The situation on the money market remains stable. Short-term money market interest rates grew and formed within the interest rate corridor. Growth of excess liquidity in the banking system accelerated during the reporting period. Despite this, the activity of banks in the short-term segment of the interbank market of credit resources increased. Demand and supply in the open market increased, mostly in the short-term segment. Therewith, the positive dynamics of lending to the economy and the expansion of the deposit base of banks remains.

¹ Primary deficit/surplus - the excess of state budget revenues over state budget expenditures, excluding the amount of interest payments for servicing the public debt.

Chapter 1. External Environment

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

In the period under review, the trend of recovery in economic activity in most of the countries that are the main trading partners of the Kyrgyz Republic continued, while inflation continued to be at high levels.

Economic growth acceleration in Russia in Q4 2021 was observed.

The economic development of Kazakhstan continued in a positive direction, inflation in the period under review showed a deceleration trend.

Gross domestic product growth in Belarus in 2021 was higher than expected, annual inflation doubled above the target forecast, against the background of accelerating inflation, the National Bank of Belarus raised the refinancing rate twice.

The positive dynamics of the growth of the Armenian economy continues, while against the background of persistent pro-inflationary risks, the Central Bank of the Republic of Armenia continued to tighten monetary policy.

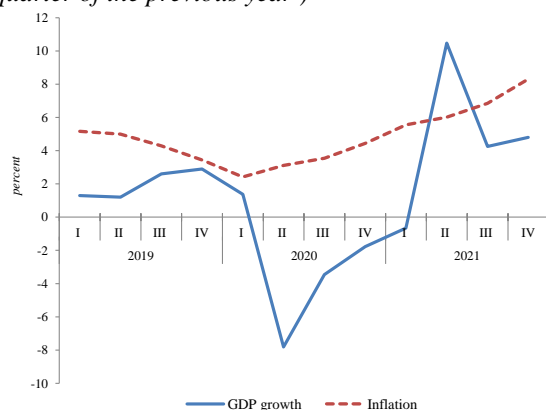
Chinese economic growth slowed down in the Q4, in order to stimulate economic growth, the People's Bank of China softens monetary policy.

In the USA, the economic recovery has been patchy as the spread of a new strain of coronavirus is holding back growth in hardest-hit industries from the pandemic. Inflation in the United States of America accelerated and reached a record high indicator in the last 40 years.

Russia

Chart 1.1.1. Dynamics of GDP growth and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



Source: Ministry of Economic Development of the Russian Federation, Bloomberg News Agency, Rosstat

Economic growth of Russia accelerated in Q4 2021.

According to the Ministry of Economic Development, in 2021 the growth rate was 4.6 percent in annual terms (in 2020, the figure fell by 2.7 percent). In the Q4 of the reporting year, GDP grew by 4.8 percent. A positive contribution to economic growth in 2021 was made by manufacturing industries and industries focused on consumer demand. In particular, industrial production increased by 5.3 percent in the reporting year after a decline of 2.1 percent in 2020. The only major industry to experience a decline was agriculture ((-)0.9 percent in 2021 after rising 1.3 percent in 2020).

According to Rosstat, inflation in Russia in the Q4 2021 amounted to 8.3 percent compared to the corresponding quarter of the previous year, in December 2021 its annual value increased to 8.4 percent. According to the Bank of Russia, inflation accelerated in 2021 due to higher prices for a wide range of goods and services. In the Q4, the price growth rate was the highest since the beginning of 2015.

The most significant increase in annual price growth was noted for the “food products” group up to 10.6 percent as a result of an increase in export parity prices, an increase in producer costs due to an accelerated appreciation of key raw materials and intermediate goods, as well as a decrease in the yield of certain agricultural crops.

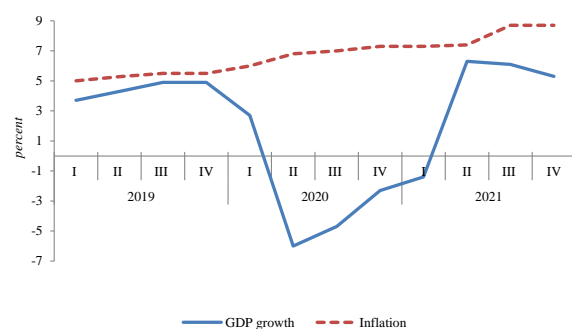
In addition, there was an increase in the growth of prices for non-food products up to 8.6 percent under the influence of demand outpacing the possibilities for expanding output.

Global supply disruptions and disruptions in production chains have hit this segment the hardest. The growth in prices for services was the smallest (5.0 percent): demand and supply for them were largely determined by anti-epidemic requirements. The dynamics of prices for services to a lesser extent than in the commodity segment depends on external factors.

Kazakhstan

Chart 1.1.2. Dynamics of GDP growth and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: Agency on Statistics of the Republic of Kazakhstan, National Bank calculations

In the reporting period, positive growth rates of the economy of Kazakhstan continued. At the end of 2021, the economy of Kazakhstan grew by 4.0 percent. Over the past year, positive growth rates were noted in all sectors of the economy, except for agriculture due to adverse weather conditions. In particular, the processing industry grew by 5.5 percent, the construction industry - by 7.6 percent. A positive trend was also observed in the service sector: trade increased by 9.2 percent, the transport industry - by 3.6 percent. During 2021, the further growth of the country's economy was facilitated by the active attraction of investments in non-extractive

industries, the restoration of the service sector and the implementation of government programs to maintain economic activity due to the negative consequences of the pandemic.

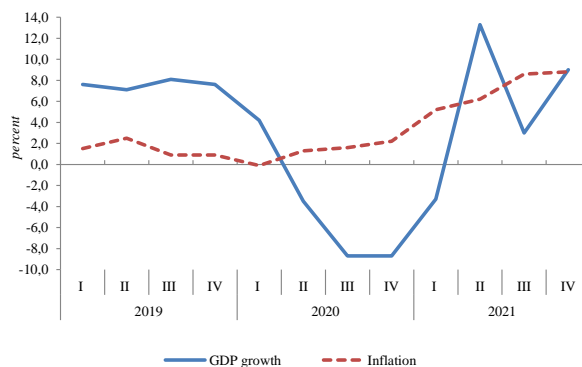
According to the National Bank of the Republic of Kazakhstan, inflation in 2021 amounted to 8.4 percent. Food inflation in December 2021 decreased significantly, amounting to 9.9 percent in annual terms. There was annual disinflation on dairy products, eggs, oils, sugar and vegetables. Despite this, the annual growth rate of the cost of fruits and vegetables still remained at high levels. A significant slowdown in food inflation was accompanied by an acceleration of the non-food component to 8.5 percent in December 2021. The current high value of annual non-food inflation is noted for the first time since May 2018. The main contribution to the rise in prices for the non-food group of goods is made by the increase in prices for fuels and lubricants (23.2 percent), motor vehicles (14.7 percent) and solid fuels (9.5 percent). Annual inflation for paid services slowed to 6.5 percent in December 2021 amid more modest increases in prices for regulated utilities, hairdressers, restaurants and hotels.

The National Bank of the Republic of Kazakhstan during the Q4 kept the base rate at the level of 9.75 percent, after increasing in October by 0.25 percentage points from 9.50 percent. The decision was made taking into account the observed signs of a slowdown in headline inflation, as well as increased uncertainty about the new strain of coronavirus omicron and its impact on inflationary processes, external and domestic demand.

Armenia

Chart 1.1.3. Dynamics of GDP growth and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Service of Armenia, Bloomberg News Agency, Central Bank of the Republic of Armenia

The positive dynamics of demand in Armenia continued during the reporting period amid the moderate effects of a new wave of the pandemic, as well as continued disruptions in the supply chain. The indicator of economic activity in Armenia, according to preliminary results for 2021, increased by 5.8 percent compared to the same period in 2020. In the context of industries, economic growth was constrained by a slowdown in industrial growth and a reduction in output in agriculture.

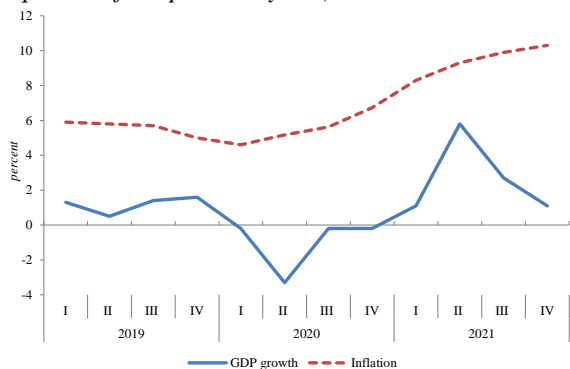
Against the background of rising prices in the international markets for raw materials and food products and the higher inflationary environment that has formed in Armenia's

partner countries, inflation expectations have slightly increased in the country. In this regard, the Central Bank of the Republic of Armenia tightened monetary conditions: the key rate was raised six times in 2021 from 5.25 to 7.75 percent. Thus, in December 2021, inflation reached 7.7 percent in annual terms, however, it was lower than the previous month (9.6 percent). The reason was mainly the slowdown in the growth of prices for food and non-food products.

Belarus

Chart 1.1.4. Dynamics of GDP growth and Inflation in Belarus

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Republic of Belarus

Gross domestic product of Belarus for 2021 grew by 2.3 percent, exceeding the official forecast of 1.8 percent.

The main factor that ensured such achievements was the growth of industry by 6.5 percent compared to last year, while the stocks of finished products amounted to only 5.5 billion Belarusian rubles, or 52.7 percent of the average monthly volume of industrial production (65.3 percent in 2020). The production of agricultural products in farms of all categories last year decreased by 4.2 percent compared to 2020, while the production of cereals fell by 15.7 percent, potatoes - by 9.6 percent, vegetables - by

11.7 percent, sugar beets, as well as livestock and poultry (in live weight) - by 2.8 percent, and flax fiber - by more than a quarter.

Investments in fixed assets also decreased by 5.6 percent (with the forecast for the year - (+) 2.0 percent). In general, the volume of investments amounted to 30.1 billion Belarusian rubles, or 17.4 percent of GDP instead of the planned 21.3-21.7 percent. Wholesale trade turnover increased by 4.4% over the year, to 130.1 billion rubles, retail - by 1.6%, to 60.0 billion (in 2020 - 2.1%), and catering turnover - by 14.4 percent, to 3.2 billion Belarusian rubles (in 2020 - a decline of 18.7 percent).

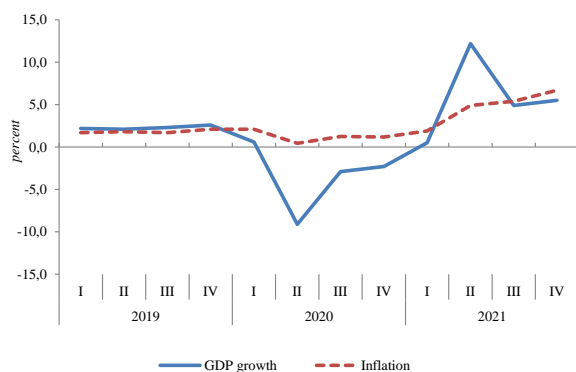
Annual inflation in Belarus in 2021 almost doubled the target forecast, amounting to 10.0 percent (the target forecast approved by the government is "no more than 5 percent"). The acceleration of annual inflation in Belarus is due to the decisions taken in the field of permanently regulated prices (tariffs), rising prices in the non-food market, as well as continuing pressure from world food prices. In 2021, against the background of accelerating

inflation, the National Bank of Belarus twice decided to raise the refinancing rate (from April 21, 2021, it was increased from 7.75 to 8.5 percent per annum, from July 21, 2021, the refinancing rate was set at 9.25 percent per annum).

USA

Chart 1.1.5. Dynamics of GDP growth and Inflation in the USA

(quarter to the corresponding quarter of the previous year)



Source: US Department of Commerce, US Department of Labor, Bloomberg News Agency

In 2021, the US economic recovery took place against the background of the emergence of new strains of coronavirus and related restrictions. According to preliminary results for 2021, the US GDP growth rate was 5.7 percent after falling by 3.4 percent in 2020. At the same time, in the Q4 of 2021, the economy grew by 5.5 percent compared to the same period in 2020.

Economic activity in the US grew at a subdued pace in late 2021 amid continued supply chain disruptions and labor shortages. The growing number of infected and forced to isolate affected several industries. At the same time, consumer spending continued to grow at a steady pace.

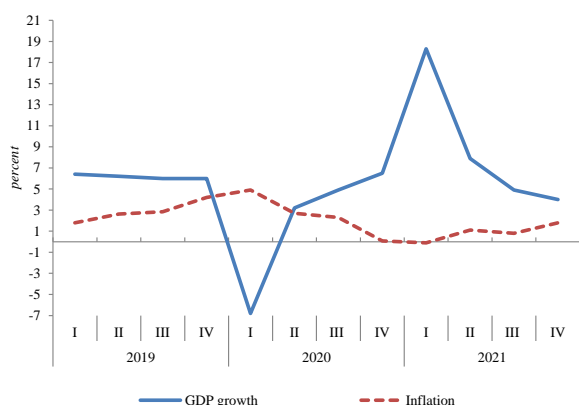
The volume of US exports in the Q4 of 2021 increased by 5.3 percent and imports - by 9.6 percent compared to the same period in 2020.

Higher energy prices and supply disruptions led to higher and more broad-based inflation than expected. Thus, annual inflation in the United States accelerated to 7 percent in December 2021 - this is the highest value in 40 years. The core consumer price index (excluding food and energy prices) rose 5.5 percent year on year, a record since February 1991.

China

Chart 1.1.6. Dynamics of GDP growth and Inflation in China

(quarter to the corresponding quarter of the previous year)



Source: China National Bureau of Statistics, Bloomberg News Agency

China's economy has demonstrated solid growth in 2021 despite triple pressure on the domestic economy due to contraction in demand, a hit in supply and weakening expectations in an increasingly complex and uncertain external environment.

China's economic growth in 2021, amid the country's successful recovery from the negative impact of the pandemic and partly due to the low base effect, in 2020, was the highest in the last 10 years, according to the National Bureau of Statistics of the PRC, at 8.1 percent. The data showed that GDP growth in 2021 significantly exceeded the government's target of "above 6 percent", with an average growth rate of 5.1 percent over the past two years. Economic growth in

the Q4 2021 alone amounted to 4.0 percent in annual terms, in October-December 2020, the corresponding figure was 6.5 percent. The size of the Chinese economy in 2021 exceeded 114.4 trillion yuan (approximately 18.0 trillion US dollars at the current exchange rate).

Industry and the service sector grew by 8.2 percent, and the agricultural sector - by 7.1 percent. Retail sales of consumer goods in China grew by 12.5 percent in 2021, including online sales of goods by 14.1 percent. Fixed asset investment in China's businesses, excluding agricultural households, rose 4.9 percent in 2021. The urban unemployment rate in China was 5.1 percent in 2021.

In order to stimulate the economy, on December 20, 2021, the People's Bank of China (PBOC) for the first time since April 2020 lowered interest rates on annual loans for prime borrowers (LPR) from 3.85 to 3.8 percent, and on five-year LPR from 4.65 to 4.6 percent. The easing of the monetary policy of the People's Bank of China is attributed by the experts of the research company Capital Economics to the fact that the Chinese authorities fear a slowdown in the country's economy due to problems in the real estate market and new outbreaks of COVID-19 at the end of 2021. After a series of rate cuts, mortgage loans will become cheaper, which, according to analysts at China Minsheng Bank, should have a positive impact on expanding domestic demand, stabilizing external demand and ensuring stable development of the real estate sector.

China's consumer price index (CPI), as a key indicator of inflation, was 0.9 percent in 2021, below the target set by the government for 2021 at 3.0 percent. Producer price index (PPI) in December 2021 in annual terms increased by 10.3 percent (lowest values since August 2021) against the forecast of 11.3 percent and against 12.9 percent a month earlier. Producer prices rise as costs rise amid the energy crisis, supply disruptions and rising commodity prices.

According to experts, the gap between the growth rate of producer prices and the cost of consumer goods is due to the food security policy pursued in the country over the past decade, which is primarily due to the desire of the country's leadership to avoid possible discontent of citizens caused by a sharp rise in food prices.

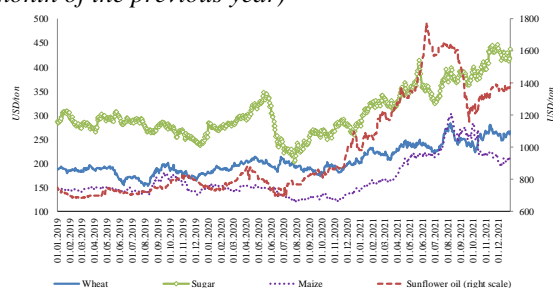
1.2. World Commodity Markets

High food prices persisted worldwide, contributing to a wider spike in inflation as the global economy emerged from the pandemic crisis. In general, the upward trend in prices in global food markets continued throughout 2021, with the exception of some months. In the period under review, increased demand was observed on the oil market amid weakening fears about the new strain of the Omicron coronavirus. The price of gold varied within a narrow range. At the same time, risks of a decrease in the price of this asset remain against the background of an increase in key rates of central banks.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



At the end of Q4 2021, there was a slight slowdown in price growth in global food markets.

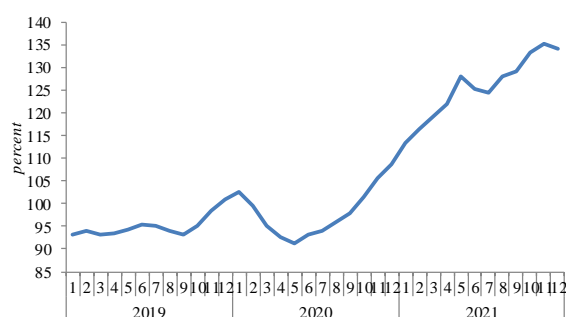
A significant increase in demand against the background of a shortage of supply led to a sharp increase in wheat prices on the world market and its highest price since May 2011. Thus, world wheat prices for the Q4 2021 increased by 11.6 percent, while compared to the same period in 2020, the price increased by 30.0 percent. However, the main reason for the rise in grain and wheat prices is the drought caused by global warming in recent years.

In the Q4 2021, corn quotes increased slightly, but in general, an upward trend was observed at the end of the year. Thus, in 2021, corn prices increased by an average of 60.1 percent compared to last year. This was driven by higher corn production costs in the US, EU and Ukraine due to high fertilizer prices.

In 2021, world prices for sunflower oil increased by an average of 57.1 percent, and by 8.5 percent in the fourth quarter of the same year. This was mainly due to the weak global oilseed crop in 2020, in particular in the US, Russia and Ukraine, with additional pressure on prices coming from the resumption of global demand. Sunflower oil prices are currently close to a 10-year high.

Quotes for sugar during the review quarter increased by 3.8 percent, and compared to the same quarter in 2020, the price increased by 33.7 percent. First of all, this growth was provided by an increase in ethanol prices in Brazil¹. At the end of the year, the average price of sugar increased by 38.8 percent compared to 2020 and is the highest average annual rate since 2016. The main reason for the increase in average annual prices was concern about a possible reduction in production in Brazil against the background of increasing demand for sugar in the world, as well as a significant increase in crude oil prices.

Chart 1.2.2. Dynamics of FAO Food Price Index



Thus, in the Q4 2021, the average value of the FAO food price index² increased by 27.6 percent compared to the same quarter in 2020 and amounted to 134.2 points. In the review period, prices for all subgroups of food products increased, with the exception of meat products.

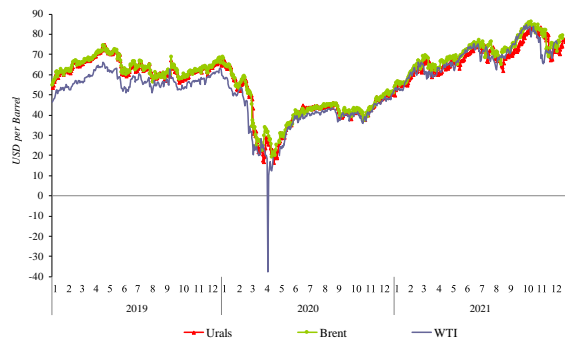
At the end of 2021, the FAO index increased by an average of 28.2 percent compared to 2020 and amounted to 125.7 points, which is the highest since 2011 at 131.9 points.

The disruption of supply chains on the one hand, and the imbalance of supply and demand in world commodity markets on the other hand, as well as large-scale government support measures in most countries of the world, caused a significant (sharp) increase in food prices. Overall, all categories in the index posted strong gains throughout 2021, with the FAO Vegetable Oil Price Index reaching an all-time high.

Prices on world food markets have a significant impact on inflation in Kyrgyzstan and often play a decisive role in shaping the contour of the CPI dynamics. This is due to the significant degree of dependence of prices in the country on foreign markets, as well as the fact that food products, which occupy about half of the consumer basket, make a significant contribution to general inflation.

Energy Market

Chart 1.2.3. Dynamics of Oil Prices
(in US dollars)



In the review period, there was multidirectional price dynamics on the world oil market, however, by the end of Q4 2021, an upward trend was observed.

The average price of Brent crude oil in Q4 2021 increased by 8.7 percent compared to the previous quarter and amounted to 79.6 US dollars per barrel (the price increased by 75.9 percent compared to the same period last year).

Despite the November collapse in oil prices, in the period under review, the growth

of quotations was affected by the cold December 2021 in Europe and the United States, which

¹ Brazil, the world's largest exporter of sugar, has increased the use of sugar cane for fuel production..

² The FAO Food Price Index is a weighted average that tracks international price movements for five major food commodity groups (meat, dairy, cereals, oils and sugar).

increased demand for energy resources, as well as the weakening of fears about the omicron strain of coronavirus.

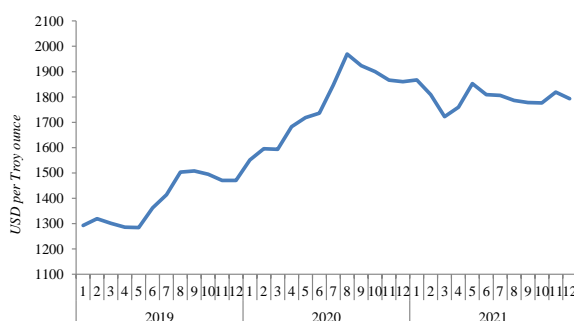
At the end of 2021, the average price of Brent crude oil was USD 70.9, which is 64.1 percent higher compared to 2020. The positive dynamics in the oil market was primarily due to the mass vaccination of the population against coronavirus in the world and the gradual recovery in global demand for oil. In addition, the regulation of the oil market by OPEC + has become the most important driver of oil price growth in 2021.

World oil prices have a significant impact on the formation of export prices in countries producing fuels and lubricants and often play a decisive role in pricing at Russian refineries, from which Kyrgyzstan imports almost 95 percent of its total imports of fuels and lubricants.

In addition to the inflationary component, prices in the world energy markets largely determine the level of economic activity in Russia and Kazakhstan, which is one of the most important demand factors in the domestic economy.

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: Bloomberg News Agency

All of 2021, gold on the global market traded in a tight range around 1,800 US dollars per ounce. At the end of 2021, the price of gold decreased by 3.6 percent, to USD 1,829.2 per troy ounce. The reason was the reduction in the demand of financial investors against the background of an increase in key rates of a number of central banks. On the other hand, gold was supported in the reporting period by the recovery of the global economy, which resulted in demand from the jewelry and

industrial sectors, as well as central banks and a high need for investors to preserve capital and hedge inflation. Investors traditionally consider gold as a "safe" asset during a period of volatility in the global financial market.

Thus, on average, the price of gold in the Q4 2021 (1,796.4 US dollars per troy ounce) increased slightly compared to the previous quarter (+0.4 percent), but was lower than the level of the same period in 2020 by 4.2 percent (USD 1,875.8 per troy ounce).

One of the determinants of the price of gold is the policy of the US regulator, geopolitical tensions and a high inflationary environment that can support the price of gold.

Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodities and Services Market

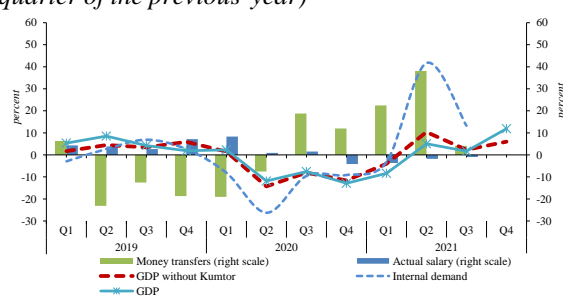
At the end of 2021, there was a positive dynamics of the GDP of the Kyrgyz Republic. Economic activity showed a transition period in 2021: from a prolonged decline, more significant in the first months of the year, to a further entry into a positive growth trajectory in the last quarter. Domestic demand continued its favorable dynamics in the third quarter, in particular, due to the growth of remittances. In the real sector, most industries have confidently moved into the positive area. GDP growth was mainly supported by the contribution of the industrial and service sectors. At the same time, at the end of the year, agriculture and construction made a negative contribution to the economy.

The risks that arose during 2021 remained in the country's economy until the end of the year. In addition to the protracted nature of the pandemic, natural and climatic factors such as lack of irrigation water during the growing season, winter with little snow and, as a result, water shortages adversely affected agricultural production, as well as the country's energy sector, which is a key factor in the production of other sectors of the economy.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Kyrgyz Republic, calculations: National Bank of the Kyrgyz Republic

Economic activity achieved positive dynamics in 2021 (+3.6 percent) after declining in 2020 (by 8.4 percent). At the same time, the pace of recovery during the year was rather slow.

The GDP growth rate, excluding enterprises for the development of the Kumtor deposit, reached 3.9 percent in 12 months (in 2020, a decrease by 8.9 percent).

At the same time, domestic demand showed a revival in Q3¹, having increased by 16.6 percent according to preliminary data (in the same quarter of 2020, it decreased by

9.5 percent). The resumption of domestic demand was mainly due to the growth of remittances, as well as the growth of foreign trade turnover due to the easing of restrictions compared to the previous year and the active acceleration of the economies of neighboring countries. In 2021, the net inflow of money transfers from individuals through transfer systems increased by 16.1 percent in dollar terms compared to the same period in 2020.

According to the results of January-November 2021, the average monthly nominal salary of one employee² amounted to KGS 19.7 thousand, having increased by 9.6 percent compared to the same period in 2020. Positive growth rates are associated, among other things, with an increase in demand for labor in January-September of the reporting year³. Almost all sectors of the economy saw an increase in the number of jobs created in the first nine months of 2021. The upward trend in nominal wages in some sectors of the economy is associated, among other things, with the recovery processes in the economy. An increase in the growth rate of the average monthly nominal wage was mainly demonstrated by such areas as transport and storage of goods (+26.1 percent), healthcare and social services for the population (+16.4 percent), as well as mining (+15.4 percent).

¹ According to the National Statistical Committee of the Kyrgyz Republic. The reference to an earlier time period is due to the lack of up-to-date data.

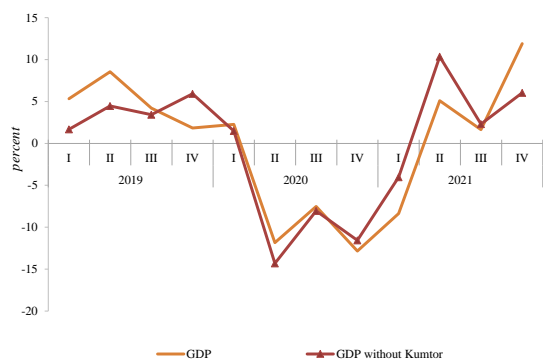
² In general, in the republic, excluding small enterprises.

³ The reference to an earlier time period is due to the lack of up-to-date data.

Meanwhile, the level of real wages remained negative throughout the year, demonstrating a slowdown in the decline of the indicator by the end of the year. In January-November 2021, the decrease in the real indicator compared to the same period in 2020 amounted to (-)2.1 percent (in January-October 2021 - a decrease by 2.2 percent).

Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Kyrgyz Republic, calculations: National Bank of the Kyrgyz Republic

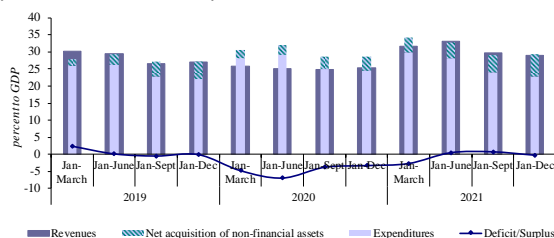
GDP growth by 11.9 percent in the Q4 2021 (after 1.6 percent in the Q3) is mainly associated with positive indicators of the growth rates of industry by almost 45.0 percent, which made the largest contribution (7.3 p.p.) to economic growth in the period under review. GDP without Kumtor in the Q4 formed at the level of 6.0 percent. The two-fold difference in GDP indicators is due to a huge jump in growth in the production of enterprises for the development of the Kumtor mine in the reporting quarter by 102.1 percent. The prerequisites for the surge were the increase in gold mining at the end of the year, as well as the low base of the previous period.

Public Finances Sector

According to the preliminary results of 2021, the state budget deficit amounted to KGS 1.7 billion or 0.2 percent of GDP (in 2020, the budget deficit was KGS 19.7 billion or 3.3 percent of GDP). The primary surplus¹ of the state budget was formed in the amount of KGS 6.7 billion or 0.9 percent of GDP.

Chart 2.1.3. Execution of the State Budget

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



Source: Central Committee of the Ministry of Finance of the Kyrgyz Republic, National Bank

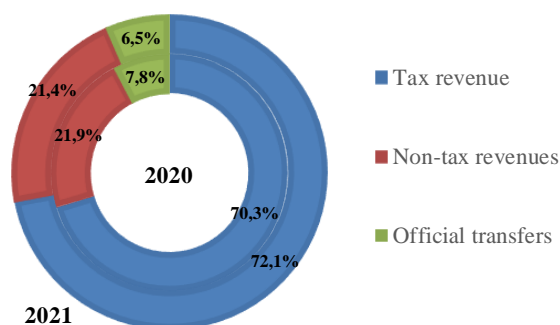
increased by 34.8 percent, amounting to KGS 44.9 billion. Official transfers increased by 16.2 percent and amounted to KGS 13.7 billion.

The total expenditures of the state budget amounted to KGS 211.6 billion or 29.3 percent of GDP, having increased in annual terms by 23.1 percent or KGS 39.8 billion. One of the main reasons for the growth of the indicator is the increase in capital expenditures, that is, expenditures directed mainly to infrastructure: the net outflow of budget funds for operations for the acquisition of non-financial assets amounted to 46.3 billion KGS or 6.4 percent of GDP, having increased compared to 2020 year by 1.9 times or by KGS 21.8 billion.

State budget revenues from operating activities increased by 38.0 percent or KGS 57.8 billion compared to 2020 and amounted to KGS 209.8 billion or 29.0 percent of GDP. The main contribution to the growth of state budget revenues was made by tax revenues (29.1 p.p.) due to the active work to improve tax administration and the introduction of digital technologies in tax and customs procedures. In this regard, the share of tax revenues in the structure of income increased from 70.3 to 72.1 percent in 2021. Also, the volume of non-tax revenues to the budget

¹ Primary deficit/surplus - the excess of state budget revenues over state budget expenditures, excluding the amount of interest payments for servicing the public debt.

Chart 2.1.4. Structure of State Budget Revenues



Source: Central Committee of the Ministry of Finance of the Kyrgyz Republic

economic issues (+57.1 percent), defense and public order (+11.9 percent), healthcare (+49.7 percent). For other items, the positive contribution to the growth of current expenditures amounted to less than 1.0 percentage points.

In general, the 2021 budget was more balanced compared to the previous year and was characterized by a number of measures aimed primarily at restoring economic activity, real incomes of public sector employees and improving tax administration. At the same time, the fiscal impulse for 2021 was estimated to be negative and indicates a less expansionary fiscal policy compared to the previous year, which is also explained by the positive level of the impulse in the base period.

Investments

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

	January-December			
	2020	2021	2020	2021
	millions of KGS		share, percent	
Total	123 279.6	122 260.6	100.0	100.0
Internal investment	97 794.0	97 995.3	79.3	80.2
Republican budget	3 949.8	4 426.1	3.2	3.6
Local budget	1 574.2	1 745.4	1.3	1.5
Funds of enterprises and organizations	48 490.8	45 847.1	39.3	37.5
Banks' credits	1 212.6	1 472.7	1.0	1.2
Population funds including beneficent help of KR residents	42 566.6	44 504.0	34.5	36.4
External investment	25 485.6	24 265.3	20.7	19.8
Foreign credit	15 441.5	15 984.9	12.5	13.1
Direct foreign investments	4 399.7	2 829.6	3.6	2.3
Foreign grants and humanitarian aid	5 644.4	5 450.8	4.6	4.4

Source: NSC KR

Source: National Statistical Committee of the Kyrgyz Republic

According to the results of 12 months of 2021, there was a decrease in investments in fixed assets from external sources of financing by 10.0 percent, as well as from internal sources by 4.9 percent. Along with this, investments financed from the local budget increased by 4.5 percent, the republican budget - by 6.2 percent, bank loans - 1.2 times.

Supply

According to the preliminary data of the National Statistical Committee of the Kyrgyz Republic, the nominal volume of GDP in 2021 amounted to KGS 723.1 billion, having increased in real terms by 3.6 percent compared to the corresponding period of 2020 (according to updated data, in 2020 the decrease was 8.4 percent). Thus, GDP is still below pre-pandemic levels.

During the year, positive dynamics emerged only at the end of the period, starting from January-October (+1.2 percent). The recovery trend towards the end of the year was due, in

At the same time, state budget expenditures on consumption, that is, expenditures that can exert inflationary pressure on the economy, continued to rise: the increase was 12.8 percent against 8.4 percent a year earlier. This growth was mainly due to an increase in public procurement costs by 57.5 percent or KGS 9.4 billion and an increase in labor costs, which is also confirmed by statistics from the real sector - the nominal increase in average monthly wages amounted to 9.6 percent¹. The structure of current expenditures by functional classification was dominated by expenditures on general public services (+7.8 percent), education (+9.6 percent,

During the year, there was a tendency to slow down the decline in the level of investment development. The level of assimilation of investments in fixed assets in 2021 compared to 2020 decreased by 5.9 percent after a decrease of 7.9 percent in January-September 2021.

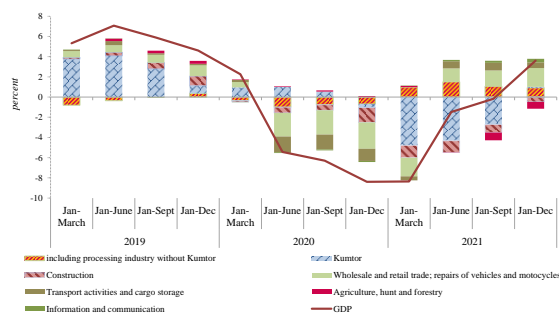
A drop in investment in fixed assets was noted in the sectors of construction of mining facilities, manufacturing, wholesale and retail trade, and others.

¹ Data for 2021 (excluding small enterprises).

particular, to the emerging growth in industry, including an increase in gold production, as well as the service sector. At the same time, sectors such as agriculture and construction made a negative contribution to GDP.

Chart 2.1.5. Input of Main Sectors in GDP Growth

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



Source: National Statistical Committee of the Kyrgyz Republic, calculations: National Bank of the Kyrgyz Republic

The input made to GDP in the fourth quarter by the sectors "industry" and "services" amounted to 7.3 and 3.6 percent, respectively. Growth in the service sector in the reporting quarter was marked by a positive contribution from trade (+2.5 p.p.), information and communications (+0.7 p.p.), and transport (+0.1 p.p.). At the end of the year, the industry moved into a positive area, reaching an increase of 7.2 percent (44.9 percent in the reporting quarter). Recovery in this sector was mainly supported by its extractive industries. Thus, since mid-2021, mining has shown a steady growth rate, reaching 21.2 percent by the end of the year.

The volume of industrial production excluding enterprises for the development of the Kumtor deposit showed an increase of 12.9 percent (in 2020 - a decrease of 10.0 percent).

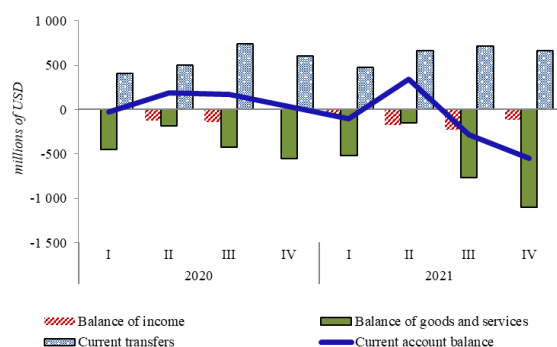
At the same time, the unfavorable situation in certain industries had a restraining effect on GDP growth rates during the year. At the end of the year, a negative contribution to the decline in the economy was observed in such sectors of the economy as agriculture ((-0.7 percentage points) and construction (-0.5 percentage points). The decrease in agricultural production (-5.0 percent) in 2021 was due to natural and climatic factors: drought, problems in irrigation systems and, as a result, a shortage of irrigation water, which together expectedly led to a reduction in the yield of certain agricultural crops. Crop production showed a decrease of 11.6 percent. The decline in the indicator in the construction sector (-4.8 percent) was noted due to a decrease in the volume of investments in fixed assets, both due to the narrowing of internal (by 4.9 percent) and the reduction of external (by 10.0 percent) sources of financing, as well as the accompanying rise in prices for building materials.

The GDP deflator was positive at the rate of 16.0 percent, which is by 9.9 p.p. higher than in 2020.

2.2. External Sector¹

The current account in Q4 2021 formed with a negative sign under the influence of a growing deficit in the balance of goods and services.

Chart 2.2.1. Current Account



Note: According to preliminary and forecast data.

According to the forecast and preliminary data, the current account deficit in the Q4 2021 amounted to USD 553.2 million or 6.9 percent of GDP².

The trade balance of the Kyrgyz Republic in the reporting period developed with a negative balance of USD 1,031.8 million, which is 2.0 times higher than the same period last year. This trend is due to a large increase in imports compared to exports.

In Q4 2021, imports of goods (in FOB prices) amounted to USD 1,583.0 million, an increase of 66.0 percent. The growth in the value of imports was largely caused by the price growth factor. There was an increase in imports of goods such as clothing, petroleum products, cars, fabrics and shoes. Import, excluding energy products, was at the level of 1,336.3 million US dollars, which is 58.7 percent less than the same period last year.

Export of goods (in FOB prices) in the reporting period increased by 23.7 percent and amounted to USD 551.2 million. Exports excluding gold amounted to USD 410.6 million, which is 54.2 percent higher than the level of the corresponding period in 2020. There is an increase in the export of rolled glass and glass with a polished surface, cast iron and steel, vegetables and fruits.

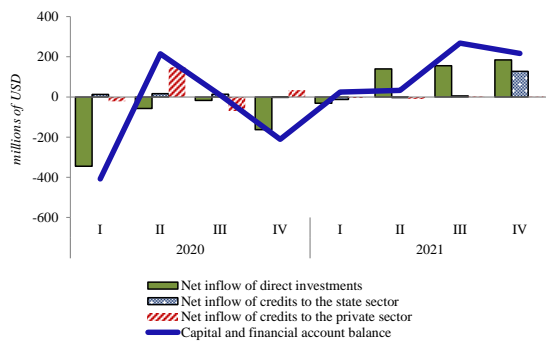
The reporting period was characterized by an increase in receipts from both private and official transfers. The net inflow of private transfers was higher than the level of Q4 2020 by 5.2 percent and amounted to USD 612.2 million, while official transfers increased to USD 50.5 million. The deficit in the balance of services in the reporting quarter is estimated at 69.9 million US dollars, while the negative balance in the item "income" is expected in the amount of 114.1 million US dollars.

According to the preliminary forecast estimates of the National Bank, in the Q4 2021, the capital inflow from the capital account and financial transactions will amount to USD 216.6 million. The capital account will be formed with a positive balance of USD 42.2 million, a positive balance on the financial account is expected in the amount of USD 174.4 million.

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

Chart 2.2.2. Capital and Financial Account



Kyrgyz Republic will develop with a positive balance in the amount of USD 52.8 million.

Indexes of Real and Nominal Effective Exchange Rate of KGS

Table 2.2.1. Key Values for Exchange Rate

	year (average)			month to the beginning of the year		
	2019 (aver. January-December)	2020 (aver. January-December)	%	December 2020	December 2021 *	%
REER	115,7	116,0	0,0	112,8	121,3	7,6
NEER	122,7	119,7	0,1	116,8	124,9	6,9
RBER to CNY	79,2	74,5	-6,3	73,0	76,8	5,1
NBER to CNY	60,8	51,7	-9,3	53,3	51,0	-4,2
RBER to EUR	101,7	96,9	-6,0	93,5	104,4	11,6
NBER to EUR	69,5	60,8	-10,9	60,2	63,6	5,6
RBER to KZT	137,4	134,1	-3,0	132,7	138,0	4,1
NBER to KZT	166,7	157,0	-2,5	157,3	159,6	1,4
RBER to RUB	125,8	123,3	3,1	123,8	124,8	0,8
NBER to RUB	141,0	131,8	0,4	134,4	132,0	-1,8
RBER to TRY	174,3	187,2	5,1	176,8	246,2	39,3
NBER to TRY	275,3	317,2	11,2	284,0	483,5	70,3
RBER to USD	83,1	81,4	-5,2	80,7	82,5	2,3
NBER to USD	59,6	54,3	-9,5	55,1	54,2	-1,7

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

and against the Kazakh tenge by 1.4 percent by against the background of depreciation against the Russian ruble by 1.8 percent and against the US dollar by 1.7 percent..

Along with the increase in NEER, higher inflation in Kyrgyzstan² led to an increase in the real effective exchange rate index (REER), by 7.6 percent, which stood at 121.3 at the end of 2021.

According to the financial account, the main capital inflow is expected in the form of borrowings from abroad into the public sector. Net inflow of direct investment is projected at USD 184.9 million, while in the same period last year there was a net outflow of funds from foreign direct investors. At the same time, the reporting quarter was characterized by an increase in foreign assets by commercial banks in the form of cash and deposits.

Thus, according to the results of the Q4 of 2021, the balance of payments of the

By the end of Q4 2021, there was an increase in the index of nominal and real effective exchange rates compared to December 2020. According to preliminary data, the nominal effective exchange rate index (NEER) of KGS has grown by 6.9 percent since the beginning of the year and amounted to 124.9 as of the end of December 2021. The current dynamics of the index was formed under the influence of the strengthening¹ of the KGS in December 2021 compared to the exchange rate in the same period of 2020 against the Turkish lira by 70.3 percent, against the euro by 5.6 percent

¹ Data are given for the nominal bilateral exchange rate of the KGS, 2010 is used as the base period for calculating the index.

² Inflation in the Kyrgyz Republic for the Q4 2021 was at the level of 11.3 percent, while the average inflation rate in the countries-main trading partners, according to preliminary calculations, was 10.6 percent.

Chapter 3. Monetary Policy

3.1. Monetary Policy Implementation

The global rise in prices on the food and energy markets, coupled with adverse weather conditions in the country, continued to have a negative impact on domestic inflationary dynamics. These circumstances led to further tightening of monetary conditions by the National Bank. Based on inflation forecasts and causes of inflation for the medium term, the National Bank raised the key rate by 50 basis points up to 8.00 percent in the reporting quarter. It was the fourth increase in 2021.

Following the current interest rate policy and responding to changes in the key rates of the National Bank, short-term money market rates showed an upward trend and stayed within the interest rate corridor.

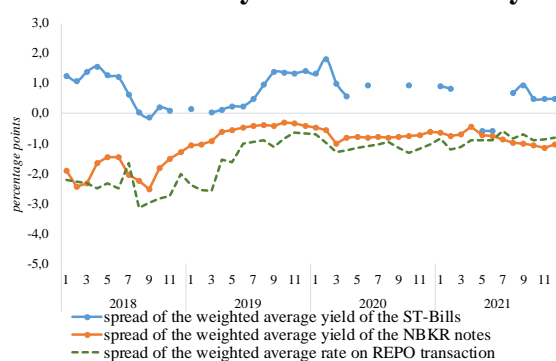
Throughout the Q4 2021, monetary policy tactical decisions were made in the context of a significant increase in excess liquidity in the banking system and the predominance of shorter money in the structure of liquidity.

The situation in the domestic foreign exchange market remained stable, despite the excess of demand for foreign currency over its supply throughout the reporting period. In order to prevent sharp fluctuations in the exchange rate, the National Bank carried out foreign exchange interventions selling foreign currency.

Interest Rate Policy of the National Bank

Against the background of increased inflationary pressure in the economy of the Kyrgyz Republic and high inflation expectations, the National Bank in November 2021 once again raised the key rate from 7.50 to 8.00 percent. Along with the change in the policy rate, the bounds of the interest rate corridor were adjusted: the overnight deposits rate was increased from 5.25 to 5.50 percent, the overnight credit rate was increased from 8.00 to 8.50 percent.

Chart 3.1.1. Spread between short-term rates of the money market and the key rate



Efforts undertaken by the National Bank to improve the efficiency of the monetary policy transmission mechanism contribute to reducing the volatility of short-term interest rates in the money market and forming them close to the key rate.

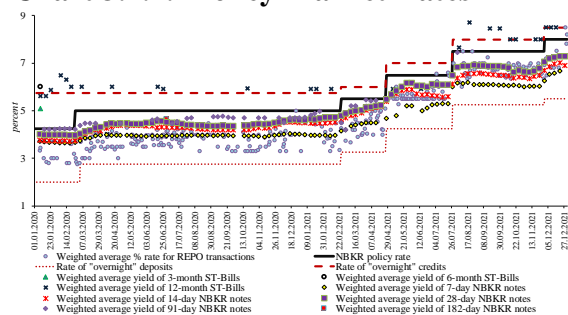
The spread between short-term money market rates and the policy rate of the National Bank showed some increase during Q4 2021, except for rates on 12-month T-Bills. Thus, the spread between the key rate and the yield of 12-month T-Bills decreased from 0.8 p.p. in Q3 to 0.5 p.p. in the Q4 2021.

For the first time since the beginning of 2020, rates on 12-month T-Bills entered the interest rate corridor and formed at the level of the overnight credit rate.

A more significant increase in the volume of placement of 7-day notes compared to 14- and 28-day notes in the reporting quarter increased the spread between their total yield and the key rate. In the reporting quarter, the average spread amounted to (-)1.1 p.p. against (-)0.9 p.p. a quarter earlier.

The money market in the reporting period was represented by the National Bank's notes market as well as the interbank market of credit resources. Money market was characterized by increased activity of its participants, which lead to the rise in the volume and number of transactions. In general, the situation in the money market remained stable, while its conjuncture was influenced by factors of growth in the overall level of excess liquidity in the banking system.

Chart 3.1.2. Money Market Rates



Following the National Bank's increase in the interest rates of the corridor, short-term money market rates, except for the rates on 12-month T Bills, demonstrated the corresponding growth dynamics. At the same time, all rates stayed within the interest rate corridor set by the National Bank.

Given the high level of excess liquidity in the banking system, the National Bank's notes market was experienced a significant expansion. Throughout the reporting quarter, the average auction volumes of demand were close to supply volumes. The total issue volume of notes with all maturities increased by almost a third, mainly due to 7-day notes (issue volume increased by 43.1 percent). At the same time, issue volumes of 14- and 28-day notes also increased by 31.5 and 13.4 percent, respectively.

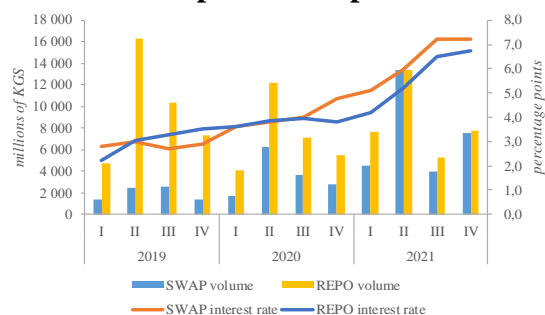
In Q4 2021, note yields grew in response to continued monetary tightening. The total weighted average yield of notes increased from 6.51 percent in September 2021 to 6.96 percent in December 2021 (the total yield in the period under review varied between 6.37 and 6.96 percent). In terms of maturity¹, the situation is as follows: rates on 7-day notes increased from 6.10 to 6.57 percent, on 14-day notes from 6.54 to 6.93 percent, on 28-day notes from 6.89 to 7, 26 percent, there was no demand for 91-day notes from commercial banks.

Despite the growth of excess liquidity in the banking system in the Q4 2021, an increase in the activity of participants was observed in the interbank market of credit resources, which is explained by a high level of liquidity concentration in the banking system. Transactions on repo terms traditionally prevailed in the structure of types of operations, the volume of which increased by 47.9 percent in the Q4 compared to the Q3. At the same time, the term structure of loans has changed slightly, namely, the weighted average term of transactions in the interbank market has decreased from 5 to 4 days.

Repo and swap market

As an additional source of financing in the national currency, commercial banks actively used foreign exchange transactions on swap terms (USD/KGS). The total volume of these transactions in the reporting quarter amounted to KGS 7.6 billion, while at the IBCM² market participants attracted about KGS 7.8 billion.

Chart 3.1.3. Repo and swap market



At the same time, in contrast to repo transactions, the term for concluding transactions on swap terms turned out to be much longer. Thus, in the reporting quarter, the weighted average term of transactions on the swap market was 14 days, while the same indicator on the IBCM was 4 days. In the up to 7-day segment, swap transactions are an alternative to repo transactions, which is reflected both in rates and in volumes of transactions. The gap between rates on the

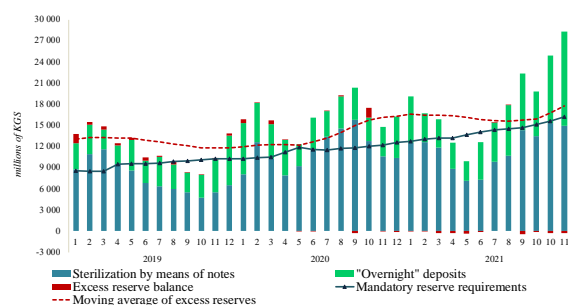
swap and repo markets up to 7 days turned out to be insignificant (rates ranged from 6.00 to 7.52 percent). Volumes of transactions up to 7 days in both markets are also quite comparable: KGS 7.1 billion in the repo market vs. KGS 4.2 billion in the swap market.

¹ Rates are as of the end of September and December 2021 unless otherwise noted.

² Interbank credit market.

Liquidity Regulation in the Banking Sector

Chart 3.1.4. Excess Reserves of the Commercial Banks



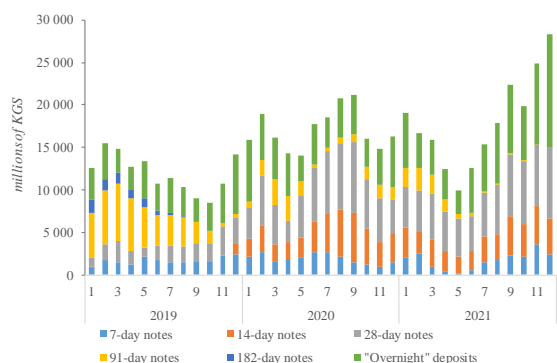
During the reporting quarter, excess liquidity in the banking system showed rapid growth, reaching peak levels in December 2021. The average daily indicator of excess liquidity of the banking system in the reporting period increased by KGS 5.7 billion compared to the third quarter and amounted to KGS 24.1 billion.

During Q4 2021 the formation of excess liquidity in the banking system occurred due to the flow of resources through the monetary and budgetary channels. In

particular, the operations of the National Bank made a net contribution to the increase in the excess liquidity of the banking system in the amount of KGS 6.0 billion, and the operations of the government bodies - in the amount of KGS 2.0 billion. In addition, the net position of commercial banks' cashless operations in the amount of KGS 6.2 billion turned out to be another significant factor that influenced the growth of excess reserves.

In order to limit the monetary component of inflation, the National Bank actively increased operations to absorb excess liquidity. Thus, in the Q4 of 2021, the average daily volume of sterilization operations of the National Bank increased to 24.3 billion KGS (in the Q3 - 18.5 billion KGS)

Chart 3.1.5. Sterilization structure



In the reporting period, the National Bank regulated the level of excess liquidity in the banking system mainly through the sale of notes. The growth in the average daily volume of notes in circulation, which has been outlined since mid-June 2021, continued in the fourth quarter and reached KGS 18.8 billion.

At the same time, the share of the notes of the National Bank in the overall structure of sterilization operations decreased, as in the previous quarter, and amounted to 59.9 percent (in the Q3 -

62.6 percent), which is explained by the increase in sterilization operations by the National Bank not only due to notes, but also at the expense of overnight deposits.

The term structure of excess liquidity has undergone some changes - the predominance of shorter free resources (up to 7 days inclusive) has increased. The share of 7-day notes in the total volume of notes in circulation (average daily figure) increased from 15.8 percent (in Q3) to 18.6 percent (in Q4), largely due to a decrease in the share of 14-day notes and to a lesser extent – by reducing the shares of 28- and 91-day notes. Accordingly, the share of 14-day notes amounted to 29.0 percent ((-1.8 percentage points), 28-day notes - 52.2 percent ((-0.4 percentage points) and 91-day notes - 0.2 percent ((-0.6 p.p.).

Along with open market operations, commercial banks placed the rest of their free resources on overnight deposits with the National Bank. The share of "overnight" deposits in the total withdrawal structure increased on average from 37.4 percent in the Q3 to 40.1 percent in the Q4. At the same time, the average daily volume of sterilization at the expense of overnight deposits in the reporting quarter increased by 1.4 times and amounted to 9.8 billion KGS (in the Q3 - 6.9 billion KGS).

Credit Policy of the National Bank

In Q4 2021, the National Bank continued to follow the current direction of monetary policy in terms of limiting operations to provide long-term KGS liquidity through refinancing instruments. This was due to the growth of excess liquidity in the banking system, which is one of the factors of inflationary pressure.

During the reporting period, the need for short-term resources in the KGS was noted in the banking system. In order to prevent temporary gaps in liquidity, within the framework of the current window of permanent access, overnight loans were provided to commercial banks, the gross volume of which amounted to KGS 5,592.8 million.

Monetary policy of the National Bank

In the reporting quarter, the situation on the foreign exchange market remained stable. There was an excess of demand for foreign currency over its supply.

The National Bank, following the floating exchange rate regime, took part in foreign exchange auctions to prevent sharp fluctuations in the exchange rate. The total volume of interventions of the National Bank for the sale of foreign currency in the domestic foreign exchange market in the reporting quarter amounted to USD 395.4 million (in Q3 2021 - USD 33.1 million). In 2021, the National Bank did not conduct operations to purchase foreign currency.

In Q4 2021, the USD/KGS exchange rate remained practically unchanged and fluctuated in the range from KGS 84.7586 to 84.8000 per USD. The average exchange rate for the reporting quarter was KGS 84.7942 per USD (in the III quarter – KGS 84.7254 per USD).

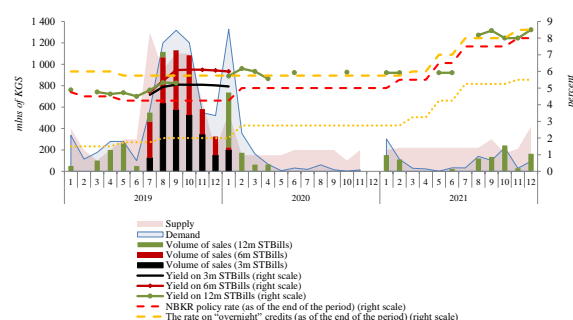
Monetary Policy Measures in Q4 2021

<p>Decisions were made on the size of the key rate of the National Bank and the rates of the boundaries of the interest corridor</p>	<p>The Board of the National Bank twice considered the issue of the size of the discount rate - on October 25 and November 29, 2021. As a result of the October meeting, it was decided to keep the discount rate unchanged at the level of 7.50 percent, following the results of the November meeting - to increase the discount rate by 50 basis points to 8.00 percent.</p> <p>Along with the change in the discount rate, the boundaries of the interest rate corridor were adjusted: the rate on overnight deposits, which is the lower level, was increased to 5.50 percent, the rate on overnight loans, which determines the upper limit, was raised to 8.50 percent.</p>
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3.2. Financial market instruments

State securities market

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



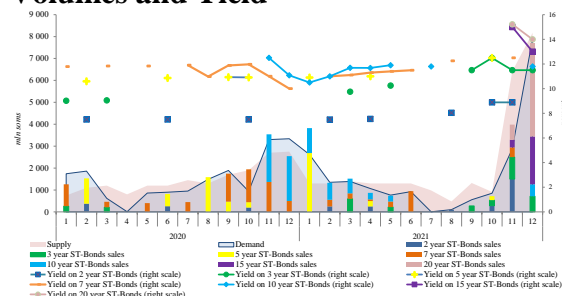
The growth in activity was characterized by an increase in the total volumes of supply, demand and sales at T Bill auctions. The average number of participants per auction remained unchanged at the level of 2. Out of 9 auctions, 2 did not take place: 1 - due to insufficient number of participants, 1 - due to lack of demand.

The supply of 12-month securities grew throughout the fourth quarter, while in December the Ministry of Finance offered a record volume of 12-month T-Bills for the entire year (KGS 420 million), which is 77.5 percent higher than the average annual supply.

Sales of ST-Bills in the reporting period increased by 70.8 percent compared to Q3 (the maximum volume of sales for the entire year was in October), while demand was satisfied by 126.5 percent for the entire quarter (due to additional placement). As a result of low demand for T-Bills, the weighted average yield increased from 8.0 percent in October and November to 8.5 percent in December.

The volume of ST-Bills in circulation increased by 2.2 times in the fourth quarter and by 19.3 percent during 2021. The structure of holders has changed mainly due to the growth in the share of resident legal entities: the largest share is occupied by commercial banks (54.6 percent against 47.6 percent at the end of September), followed by institutional investors (23.4 percent against 42.0 percent as of the end of September), the share of resident legal entities increased from 10.4 to 22.0 percent.

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



of the sale of securities with higher yields.

The volumes of supply, demand and sales of STBs in the reporting quarter of 2021 were higher than in the third quarter. The supply of STBs in November and December is a record for the year and is comparable to the overall supply of these securities for the whole of 2019 (the volume of supply in general for the fourth quarter amounted to about 60.0 percent of the total supply of STBs for the whole of 2021), which happened mainly due to the Ministry of

In the Q4 2021, as before, the short-term segment of government securities was represented only by ST-Bills with a maturity of 12 months¹. The activity of the participants slightly increased compared to the Q3, although in general, during the year, there was a weak activity in this segment of government securities, with the exception of certain months.

The growth in activity was characterized by an increase in the total volumes of supply, demand and sales at T Bill auctions. The average number of participants per auction remained unchanged at the level of 2. Out of 9 auctions, 2 did not take place: 1 - due to insufficient number of participants, 1 - due to lack of demand.

In the Q4 2021, the STB market was represented by securities of all types of urgency, a total of 12 auctions were held. For the first time, the Ministry of Finance offered STBs with longer maturities – 15 and 20 years. The activity of participants increased sharply compared to the previous quarter. The weighted average yield of STBs increased as a result

¹ Since February 2020, the Ministry of Finance of the Kyrgyz Republic continues to offer only 12-month T Bills.

Finance offering for the first time securities with longer maturities - 15 and 20 years, more often and in large volumes (2 auctions - for 15-year STBs, 4 auctions - for 20-year STBs).

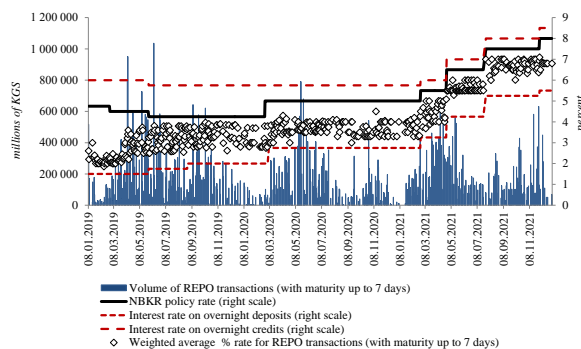
The total weighted average yield of STBs grew during the entire fourth quarter, amounting to 12.28 percent (11.18 percent in October, 12.33 percent in November, 13.33 percent in December) as a result of the sale of securities with a higher yield. The weighted average yield in the fourth quarter in terms of terms did not decrease compared to the previous quarter (either increased or remained at the same level): for 2-year STBs it amounted to 8.89 percent (8.04 percent in the third quarter), 3-year STB - 11.83 percent (11.50 percent in the Q3), 5-year STB - 12.50 percent, 7-year STB - 12.50 percent (12.25 percent in the Q3), 10-year STB - 11.8 percent (remained at the same level), 15-year STB - 14.0 percent, 20-year STB - 14.6 percent.

At the same time, the demand for STBs shifted towards securities with a longer maturity (15-year and 20-year STBs) offered by the issuer for the first time. Accordingly, the most traded securities were 15-year and 20-year STBs, totaling about 60.0 percent of total sales for the entire quarter).

During 2021, the volume of STB¹ in circulation increased by 33.5 percent, including for the fourth quarter - by 19.0 percent and amounted to KGS 70.6 billion. The structure of STB holders changed as follows compared to the previous quarter: the share of institutional investors decreased from 53.7 to 46.9 percent, the share of commercial banks, on the contrary, increased from 21.8 to 28.0 percent, and the share of resident legal entities – from 4.3 to 8.1 percent.

Interbank Credit Market

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



In the Q4 2021, activity in the interbank market for credit resources was moderate, comparable to the average values in previous quarters.

The volume of transactions in the interbank market in the reporting quarter of 2021 amounted to KGS 7,760.1 million, which is 46.3 percent higher than in the previous quarter. During this period, 130 repo transactions were carried out. Standard transactions in foreign currency have not been carried out since August 2021, and standard transactions in national currency -

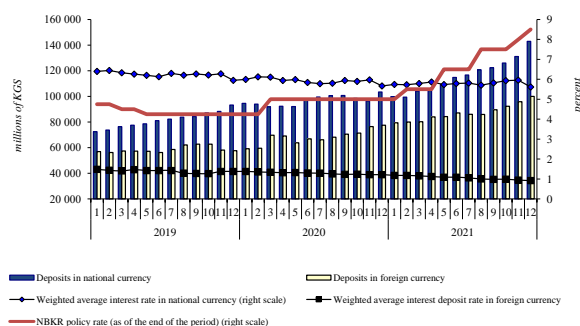
since April 2019.

The weighted average rate in the interbank market in the Q4 2021 was at the level of 6.8 percent, having increased compared to 6.5 percent in the previous quarter. The weighted average term of interbank loans decreased to 4 days (in Q3 2021 - 5 days).

¹Excluding GKO denominated in foreign currency

Deposit market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits

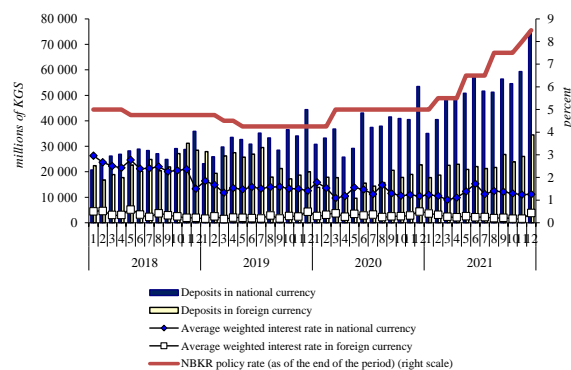


increased by 28.9 percent, mainly due to an increase in funds on current accounts and demand deposits, while time deposits in foreign currency increased by 2.1 percent.

At the end of 2021, dollarization of deposits decreased from 42.9 percent at the end of 2020 to 41.2 percent, while dollarization adjusted for the discount rate decreased even more, to 40.5 percent.

Current and demand accounts accounted for a significant share of all deposits, and their share continued to grow in 2021. As a result, the total duration of the deposit base at the end of 2021 decreased by 0.5 percent and amounted to 4.6 months. In the structure of deposits of individuals, term deposits amounted to 49.4 percent in December 2021, their growth compared to December 2020 was at the level of 13.5 percent, which is slightly lower than the total growth of deposits of individuals.

Chart 3.2.5. Dynamics of flows of deposits of commercial banks



Concentration index¹ in the deposit market at the end of the period under review remained stable, having increased by 0.02 p.p. from the beginning of the year to 0.11, which indicates an average level of concentration and corresponds to the presence of ten participants in the market with equal shares.

In the Q4 2021, the continued confidence of the population in the banking system ensured further growth in the deposit base.

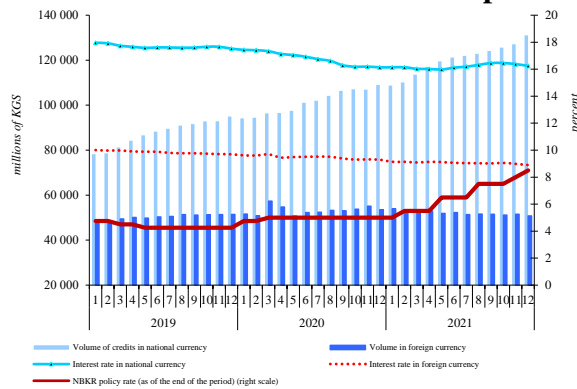
The expansion of the deposit base is largely due to the increase in funds on settlement accounts, while term deposits also continued to show steady growth. The deposit base in the national currency increased by 38.3 percent in 2021, while the growth of time deposits was at the level of 22.9 percent. In foreign currency, the deposit base

Local currency term deposit rates have been rising since the beginning of 2021, reflecting increased competition among banks for household deposits amid tighter monetary policy and high inflation. At the end of 2021, the weighted average interest rate on term deposits in the national currency (balances) amounted to 10.9 percent, an increase of 0.7 p.p. per year. At the same time, the weighted average interest rate on all deposits decreased by 0.1 percentage points. due to the increase in the share of settlement accounts, the rates on which are at a low level.

¹This index shows the degree of concentration of the indicator in the portfolio of banks and is calculated according to the method of calculating the Herfindahl-Hirschman index, representing the sum of the squares of the indicator's shares in the total volume. The index takes values from 0 to 1. An index value of 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 - a high level of concentration. For example, a concentration index equal to 0.50 is equivalent to the presence of two participants in the market with the same shares, and 0.3 is equivalent to three participants, etc.

Credit market

Chart 3.2.6. Dynamics of credit debt of commercial banks at the end of the period

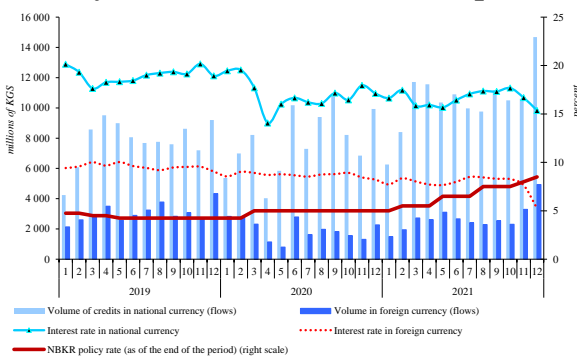


2020 after a sharp increase in the US dollar.

Due to this, the dollarization of the loan portfolio continued to update its historical lows and reached 27.9 percent by the end of 2021, having decreased by 5.0 percentage points compared to December 2020. Dollarization adjusted for the exchange rate decreased by 5.5 p.p. to 27.4 percent.

The duration of newly issued loans in national currency in December 2021 was 23 months, having decreased by 2 months since December 2020. Duration in foreign currency over the same period decreased by 4 months and amounted to 25 months.

Chart 3.2.7. Dynamics of newly issued loans by commercial banks for the period



The interest rates of the loan portfolio in the national currency increased in 2021 due to the increase in the rates on time deposits. The rise in interest rates on loans mainly in manufacturing sectors such as industry, agriculture, construction. At the same time, interest rates in the sectors of trade, mortgages and consumer loans decreased in December 2021 compared to December 2020.

The indicator of the overall concentration of the lending market was stable and formed at the level of 0.08, which corresponds to a low level of concentration and is equivalent to the division of the market between twelve banks. The industry concentration indicator was 0.32, thus signaling the main three lending sectors.

The qualitative characteristics of the loan portfolio at the end of December 2021 were as follows: the share of overdue loans in the loan portfolio increased by 0.1 percentage points since the beginning of the year, amounting to 2.5 percent. The share of extended loans in relation to the loan portfolio is still at a high level, however, there is a downward trend from near-record 15.9 percent in January to 12.0 percent in December 2021 (down 1.7 percentage points from December 2020), which indicates a decrease in the risks of the stability of the banking system.

The growth of the loan portfolio of commercial banks was stable and was supported by an increase in loans in the national currency.

The growth rates of the loan portfolio in the national currency in the sectors of consumer loans, trade and mortgages were relatively high. The growth of the loan portfolio in the national currency in such production sectors as industry, agriculture, construction and others slowed down.

The loan portfolio in foreign currency continued to decrease, which began in March

3.3. Dynamics of Monetary Indicators

Monetary Base

In the reporting quarter, the monetary base continued to grow moderately, with some slowdown compared to the previous quarter. In general, in 2021, the operations of the National Bank and the government were relatively balanced compared to 2020, when the main factor in the growth of reserve money was the operations of the government. The increase in the monetary base at the end of 2021 amounted to 6.5 percent, while in 2020 the increase was 24.8 percent.

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

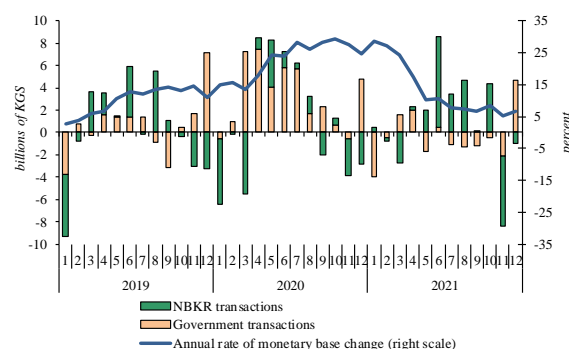
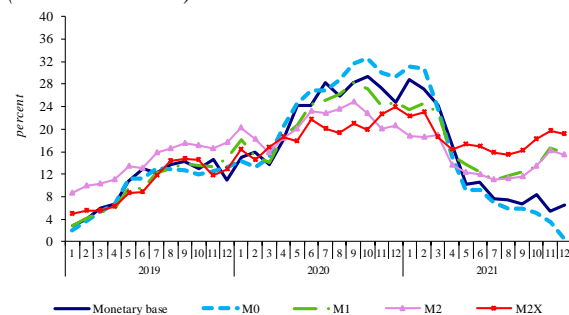


Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



During the reporting quarter, the monetary base decreased by 0.6 percent. The main factors that influenced the decrease in reserve money during the fourth quarter were the operations of the National Bank in the amount of KGS 3.0 billion. In turn, government operations increased the monetary base by KGS 2.0 billion.

In the Q4 2021, the dynamics of the growth rates of monetary aggregates was mixed. Aggregates containing term and other deposits showed growth due to this component, while the growth rates of the monetary base and currency outside banks slowed down.

The annual growth of currency outside banks at the end of the reporting period amounted to 0.5 percent (at the end of the previous quarter, the growth was 5.8 percent).

The volume of money supply (monetary aggregate M2X) at the end of the quarter amounted to KGS 339.8 billion and increased by 19.1 percent in annual terms (at the end of the third quarter, the annual growth was 16.2 percent).

The acceleration of the growth rates for monetary aggregates M1, M2, M2X is due to the expansion of the deposit base of commercial banks. The annual growth rate of deposits included in broad money increased from 24.8 to 33.4 percent over the reporting period. In terms of currencies, the acceleration of growth rates was observed for deposits in the national currency from 19.6 to 35.2 percent, meanwhile, for deposits in foreign currency, the growth rates slowed down from 33.0 to 30.9 percent in the fourth quarter.

Chapter 4. Inflation Dynamics

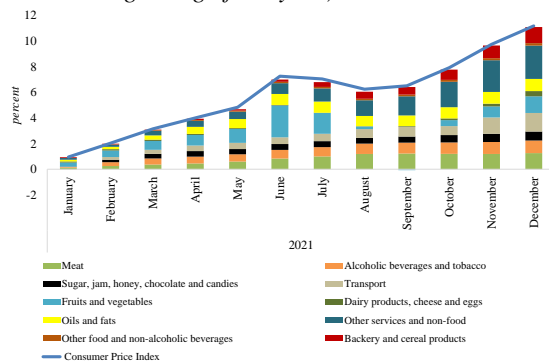
Inflation in the Kyrgyz Republic in the reporting period increased under the pressure of global growth in food prices. Also, a significant factor in the increase in food prices was a decline in agricultural production in 2021, low rainfall in winter, as well as dry weather conditions during the growing season.

Herewith an additional contribution was made by the administered increase in tariffs for transport services in Bishkek and electricity tariffs for some user groups. Additional pressure was exerted by the global increase in quotations in the energy market, which subsequently had an impact on the growth in the cost of fuel and lubricants in the Kyrgyz Republic.

Rising food prices had an upward impact on inflationary expectations of the population and entrepreneurs.

4.1. Consumer price index

Chart 4.1.1. Dynamics of CPI deposits
(since the beginning of the year)



In the Q4 2021, the annual inflation rate (quarter to the corresponding quarter of the previous year) amounted to 12.0 percent. In December 2021, prices increased by 11.2 percent in annual terms (December 2021 to December 2020). In general, during 2021, the main vector of inflation was set by the global trend in the growth of food products, as well as a gradual recovery in demand.

In the reporting period, a significant contribution to the growth of the CPI was due to external factors, since the increase in world prices for basic food products has a significant impact on prices within the country. Due to the fact that the share of food products in the overall structure of the CPI basket occupies a significant part, the impact of rising food prices is significant.

Food products in the Q4 2021 increased in price by 15.3 percent compared to the corresponding quarter of last year. In the Q4 2021, the main products that made the main contribution to the growth of food inflation were "fruits and vegetables", "meat" and "oils and fats". The main prerequisites were a little snow in winter and a drought during the growing season, as well as an increase in world quotations for sunflower oil. In the period under review, it was noted that, following world prices, there was an upward trend in food prices in the country. Thus, in the group of food products, almost all positions were marked by a vector of price growth, against the background of an increase in world markets. At the same time, it should

Chart 4.1.2. Dynamics of FAO Index Deposits
(month to the corresponding month of the previous year)

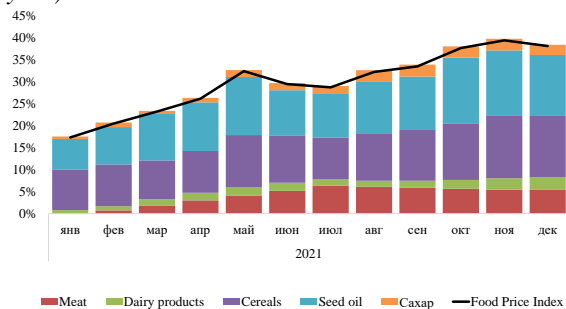
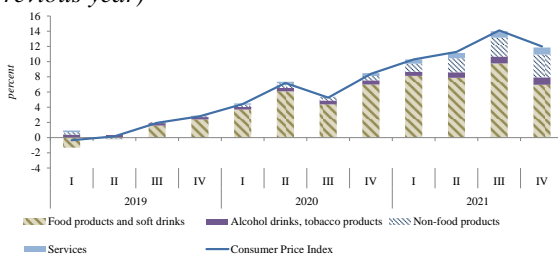


Chart 4.1.3. Dynamics of the CPI structure
(quarter to the corresponding quarter of the previous year)



be noted that this trend was noted not only in Kyrgyzstan, but also in the whole region.

Chart 4.1.4. Dynamics of the contribution of food prices to the annual CPI
(month to the corresponding month of the previous year)

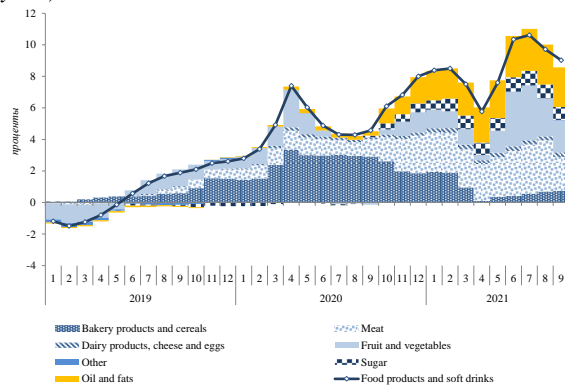


Chart 4.1.5. Dynamics of the contribution of prices for non-food products to the annual CPI
(month to the corresponding month of the previous year)

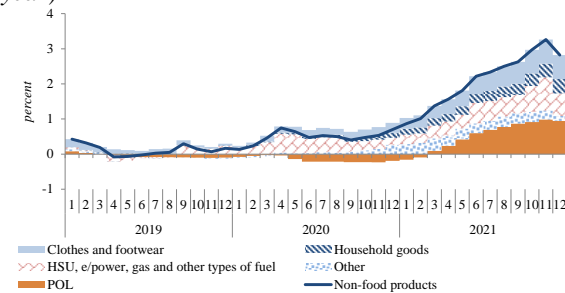
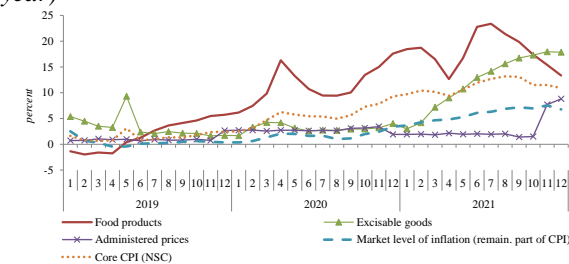


Chart 4.1.6. Dynamics of Consumer Price Index by Groups of Commodities
(month to the corresponding month of the previous year)



Against the background of the growth of basic food products, non-food inflation in the Q4 2021 increased by 10.4 percent compared to the same period in 2020. The greatest contribution to the growth in prices for this group of goods was made by the rise in prices for the category "gasoline" by 76.8 percent, as well as "housing services, water, electricity, gas and other types of fuel" by 8.0 percent due to an increase in electricity tariffs for non-household users. The increase in the clothing and footwear group by 6.5 percent was due to the seasonal factor.

Prices for fuels and lubricants have been growing since the beginning of 2021 against the background of rising global oil prices, as well as an increase in wholesale selling prices at Russian refineries; in the period under review, they continued the growth vector within the country.

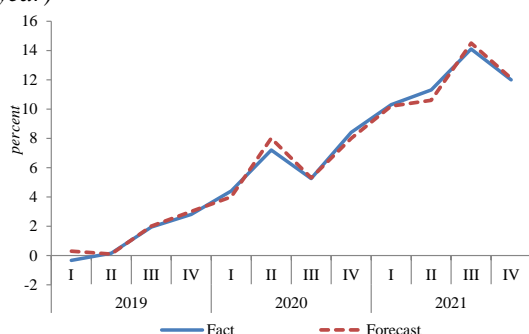
Due to the planned increase in excise rates at the beginning of 2021, the price index for alcoholic beverages and tobacco products increased by 11.3 percent in the review quarter.

Market inflation has accelerated since the beginning of the year, reaching 6.8 percent in December 2021. Core inflation indicator (excluding food and energy products), calculated by the National Statistical Committee of the Kyrgyz Republic, in the Q4 2021 in annual terms amounted to 10.9 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)



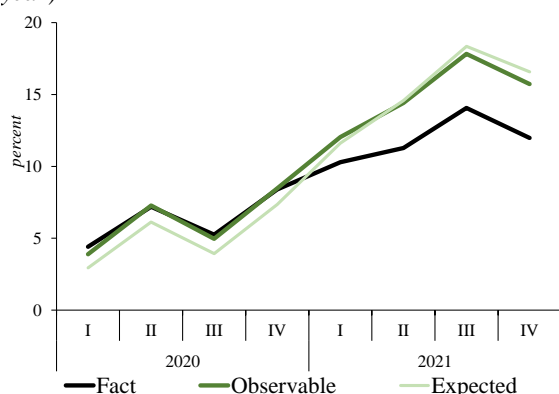
In the fourth quarter of 2021, actual inflation was 0.1 p.p. below the expectations of the National Bank.

A slight deviation of the expected value of inflation from the actual value is due to higher expectations against the background of rising food prices.

4.3. Inflation Expectations

Chart 4.3.1. Actual inflation, observed and expected household inflation

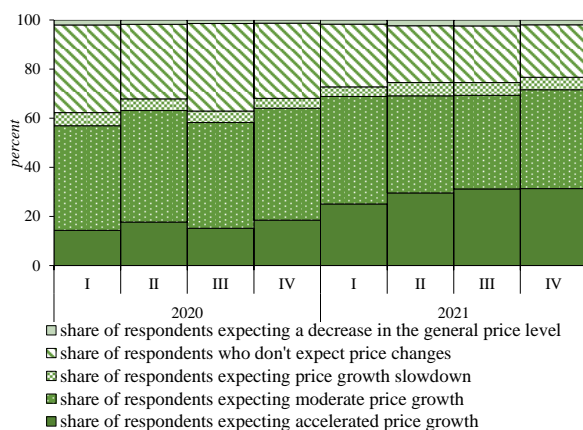
(quarter to the corresponding quarter of the previous year)



Inflationary expectations of the population in the Q4 2021 remain at a fairly high level. The share of people who expect a general rise in prices has reached its maximum value (71.6 percent) for the entire period of observation (Chart 4.3.2). The gap between expected and observed inflation continues to widen from Q2 2021 (Chart 4.3.1). This indicates a steady trend of expectation of high prices among the population. In general, one can notice an increase in observed inflation from 2021. If earlier the incomes of the population made it possible to relatively ignore the rise in prices, then after the pandemic shock in 2020, the food inflation that corrected the respondents'

situation has changed. In many respects, it was estimates upwards.

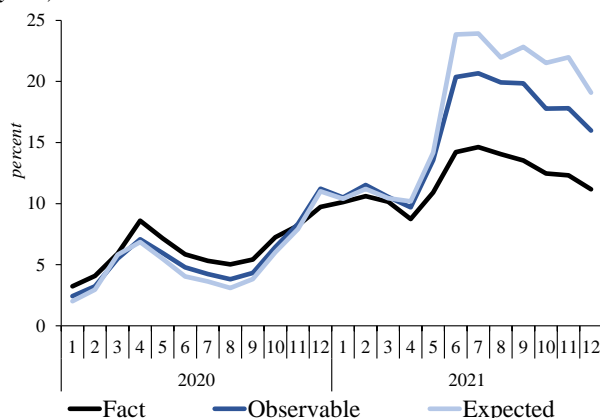
Chart 4.3.2. Distribution of household responses about expected price changes in the next 3 months



Traditionally, when assessing the future price level, the population is guided by changes in the prices of everyday goods. These include food, transport services, fuel and others. In the case of high price expectations, the population tends not to put off buying things for a long time. Also, in the case of accumulation of savings for previous years, people will look for alternative ways to save money. All this assumes a possible increase in demand for goods with high investment value (techniques, cars, real estate, etc.) during 2022.

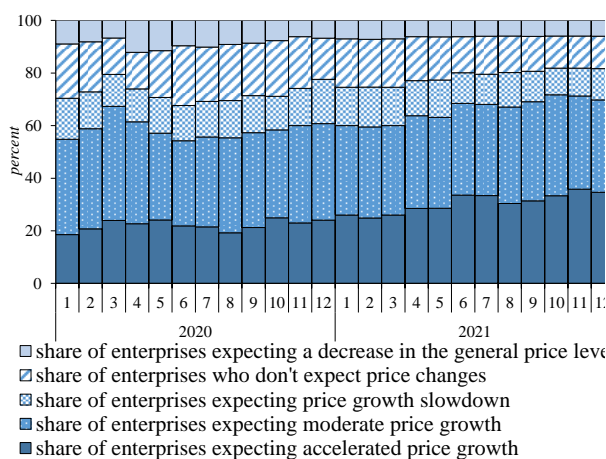
Chart 4.3.3. Actual value of inflation, observed and expected inflation of enterprises

(month to the corresponding month of the previous year)



import prices from the Russian Federation due to increased activity in the housing market), as well as Fuel and lubricants (growth in prices for petroleum products due to high demand).

Chart 4.3.4. Distribution of responses from enterprises about expected price changes in the next 12 months



the balance of inflation risks towards pro-inflationary ones. This serves as a factor in the longer deviation of inflation from the medium-term target. The National Bank takes into account the current situation when conducting monetary policy.

In December, enterprises slightly lowered their price expectations. The share of respondents expecting high and moderate growth has decreased to 69.8 percent since October 2021 (Chart 4.3.4), but remains close to the historical maximum. Inflation expectations have been declining since the second half of 2021 (Chart 4.3.3) due to a slowdown in the actual inflation rate, but remain relatively high. In the next 12 months, enterprises expect an average price increase of 19.1 percent. The large gap between observed and actual inflation among enterprises, which began this summer, is explained by a sharp increase in prices for a number of building materials: lumber, cement, bricks, etc. (due to an increase in

The main reason for fears about future price increases is the spike in prices for some goods and services over the past year. Enterprises make their assumptions about price changes based on past inflation indicators, namely, in the current period, the observed inflation is the main factor in the formation of inflation expectations among enterprises. The difference between actual inflation and perceived inflation is explained by the fact that the set of consumed goods and services is individual for each enterprise, while the general CPI covers a wider basket of goods and services.

As a result, maintaining inflationary expectations at a relatively high level shifts

Chapter 5. Medium-Term Forecast

The crisis associated with the spread of COVID-19 and the current geopolitical risks affect the global economy, including negatively affecting the economies of the main trading partner countries and, accordingly, economic processes within the country. In the current realities, the terms of trade with trading partner countries (Russia and Kazakhstan) do not create imbalances and significant risks for macroeconomic stability in the country. However, heightened inflationary expectations and uncertainty from external conditions increase the likelihood of increased inflationary pressures.

Economic activity in the Kyrgyz Republic in 2022 will largely depend on external economic conditions, primarily on the prospects for the development of the economies of the main trading partners. The current conditions for the development of the economy of the entire region are characterized by a high degree of uncertainty and do not allow us to develop probable forecasts of economic activity in the near future.

The National Bank constantly monitors the external and internal situation for the timely adjustment of monetary policy

Annex 1. Key macroeconomic indicators

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

Indicator	Unit of measure	2020				2021			
		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	117 150,9	122 725,1	173 410,8	188 533,5	121 427,5	155416,7	210061,2	236216,8
GDP	%	2,3	-11,8	-7,5	-12,8	-8,4	5,1	1,6	11,9
GDP, excluding Kumtor	%	1,5	-14,3	-8,0	-11,6	-4,0	10,3	2,3	6,0
Domestic consumption	%	5,0	-19,0	-2,5	-8,3	-1,6	24,0	15,2	
Investment	%	-40,0	-47,2	-30,1	-10,8	-17,6	103,1	21,1	
Net export	%	-27,1	-67,2	-27,4	14,1	19,6	377,8	87,0	
<i>GDP production:</i>									
Agriculture	%	0,6	0,7	1,0	0,7	1,7	-1,5	-7,6	-5,0
Industry	%	4,4	-2,7	-8,2	-18,6	-15,2	-5,2	1,3	44,9
Construction	%	-2,5	-12,7	-5,7	-25,0	-19,8	-12,7	-3,3	1,9
Services	%	1,9	-17,8	-11,7	-9,4	-5,1	14,6	8,5	7,3
including trade	%	3,6	-30,9	-14,8	-14,2	-12,2	35,2	12,3	12,2
2. Prices²									
CPI	%	104,4	107,2	105,3	108,4	110,3	111,3	114,1	112,0
CPI, in annual terms as of the end of period	%	105,9	105,8	105,4	109,7	110,2	114,2	113,5	111,2
Core inflation	%	103,5	105,8	105,3	108,1	110,1	110,6	113,0	111,3
<i>CPI by main groups of goods and services:</i>									
Food products	%	108,1	113,4	109,7	115,4	117,9	117,3	121,5	115,3
Non-food products	%	100,9	102,1	101,6	102,0	103,7	106,4	108,6	110,4
Alcohol drinks and tobacco products	%	104,2	105,3	105,7	106,3	106,0	108,3	110,4	111,3
Services	%	101,0	101,0	100,0	102,3	103,3	104,1	105,0	105,4
<i>CPI, classified by character:</i>									
Excisable goods	%	103,1	103,3	102,8	103,4	102,1	102,3	115,5	117,7
Regulated prices	%	102,7	102,7	102,8	102,8	102,7	102,7	101,8	106,0
Market inflation rate (the rest of CPI)	%	100,8	101,9	101,3	102,6	101,0	102,2	106,8	107,1
3. External sector³									
<i>(in percent to GDP)</i>									
Trade balance	% to GDP	-27,5	-22,3	-18,3	-18,6	-19,7	-18,8	-22,8	-27,5
Current transaction account	% to GDP	-9,0	-4,0	0,4	4,8	4,0	5,8	0,0	-6,9
Export of goods and services	% to GDP	34,7	34,3	33,5	31,6	31,0	39,9	40,0	39,6
Import of goods and services	% to GDP	61,5	56,3	53,2	52,5	53,3	61,1	64,9	69,3
4. USD exchange rate, as of the end of period									
	KGS	80,8100	75,9887	79,6000	82,6498	84,7792	84,6640	84,7907	84,7586
5. Monetary sector									
NBKR policy rate, as of the end of period	%	5,00	5,00	5,00	5,00	5,50	6,50	7,50	8,00
Rate of "overnight" deposit, as of the end of period	%	2,75	2,75	2,75	2,75	3,25	4,25	5,25	5,50
Rate of "overnight" credit, as of the end of period	%	5,75	5,75	5,75	5,75	6,00	7,00	8,00	8,50
Average interest rates of operations in the interbank credit market, per quarter	%	3,55	3,85	3,79	3,79	4,15	5,30	6,50	
<i>of which:</i>									
of REPO transactions	%	3,55	3,85	3,97	3,84	4,15	5,32	6,52	6,82
of credits in national currency	%	-	-	-	-	-	-	-	-
of credits in foreign currency	%	-	-	2,50	2,50	-	-	7,00	-
Weighted average yield of 7-day notes, as of the end of period	%	3,97	3,95	3,95	4,01	4,50	5,26	6,08	6,68
Weighted average yield of 14-day notes, as of the end of period	%	4,15	4,32	4,20	4,50	5,03	5,64	6,50	6,90
Weighted average yield of 28-day notes, as of the end of period	%	4,31	4,52	4,37	4,62	5,15	6,12	6,87	7,30
Weighted average yield of 91-day notes, as of the end of period	%	4,48	4,65	4,70	4,70	5,45	5,43	7,45	-
Weighted average yield of 182-day notes, as of the end of period	%	-	-	-	-	-	-	-	-
Monetary base	%	13,6	24,1	28,3	24,8	24,2	10,7	6,6	6,5
Money outside banks (M0)	%	14,9	26,9	31,7	29,3	23,7	9,2	5,8	0,5
Monetary aggregate (M1)	%	14,0	24,4	28,4	24,7	22,9	12,4	12,3	15,7
Narrow money supply (M2)	%	15,9	23,1	24,9	20,5	18,9	12,0	11,7	15,6
Money supply (M2X)	%	16,7	21,7	21,0	23,9	18,6	16,9	16,2	19,1

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

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.

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.

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.

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.

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.

Other depository 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).

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.

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.

Consumer price index (CPI) 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.

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.

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

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.

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

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

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

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.

Annex 3. Abbreviations

ADB	Asian Development Bank
CBRF	Central Bank of the Russian Federation
COVID-19	coronavirus infection 2019-nCoV (CO rona VI rus D isease 2019)
CPI	Consumer price index
EAEU	Eurasian Economic Union
EDB	Eurasian Development Bank
EBRD	European Bank for Reconstruction and Development
ES	emergency situation
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FOB	Price at the border of the exporting country (Free on Board)
FRS	US Federal Reserve System
GDP	Gross domestic product
ICM	Interbank Credit Market
IEA	International Energy Agency
IMF	International Monetary Fund
KR	Kyrgyz Republic
MFKR	Ministry of Finance of the Kyrgyz Republic
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
OECD	Organization for Economic Co-operation and Development
OPEC +	Organization of the 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
T-bill	Treasury bill
T-bond	Treasury bond
UAE	United Arab Emirates
USA	United States of America
WGC	World Gold Council