

**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report
Quarter 1, 2022**

**Bishkek
May 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 Q1 2022 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 20222-II-07/34-1-(ДКП) dated May 30, 2022.

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Summary

In the reporting period, the world economy was significantly exposed to global negative shocks from geopolitical disturbances, accompanied by existing problems due to the new COVID-19 outbreaks and worsening global inflationary processes. Price upsurge in the world commodity markets, supported by unprecedented sanctions restrictions, together with the stable effects of disruptions in global supply chains, still have a significant negative impact on the price movement in the Kyrgyz Republic.

At the end of Q1 2022, the economy of the Kyrgyz Republic continued a strong recovery, demonstrating growth by 4.5 percent (in Q1 2021 – a decrease by 8.4 percent), excluding the Kumtor Mine enterprise, growth made 3.8 percent (in the same period of 2021 – a decrease by 4.0 percent). The sectors of industry, services and agriculture made the main contribution to growth indicators. It should be noted that the domestic demand by increasing in Q4 2021 made a significant input in growth of economic activity amid an increase in the foreign trade turnover indicators and active economic recovery of the neighboring countries.

In Q1 2022, the trade balance was formed under the influence of an increase in import by 76.9 percent and a decrease in export by 16.1 percent. As a result, the trade balance deficit of the country amounted to USD 1,262.6 million. The volume of foreign trade turnover increased by 46.9 percent and amounted to USD 2,000.1 billion.

In the reporting period, growth of tax revenues (+68 percent or KGS 20.3 billion) resulted in the state budget surplus in the amount of KGS 6.8 billion or 4.7 percent to GDP (in the same period of 2021 there was a budget deficit in the amount of KGS 3.2 billion or 2.7 percent to GDP). Tax revenues increased due to active work on improvement of tax administration and introduction of new digital solutions in tax and customs procedures.

In Q1 2022 the annual inflation rate (quarter to the corresponding quarter of the previous year) was 11.7 percent. In March 2022, prices increased by 13.2 percent in annual terms (March 2022 to March 2021). During Q1 2022, inflationary processes were conditioned by the global trend of rise in prices for food products, as well as by certain pressure amid tense geopolitical situation in the region. Food products (flour, fruits and vegetables, meat, vegetable oils, sugar) and POL made the main input to the current growth of consumer prices.

Measures taken to tighten monetary policy amid growing uncertainty in the external environment and volatility in the foreign exchange market contributed to minimizing the negative effect of external shocks. Due to an increase in the key rates of the National Bank, the rates in the money market increased and remained within set interest rate corridor, while the participants' activity decreased. There was a slowdown in excess reserves of commercial banks amid growth of money outside banks, the level of reserve requirements, the excess of revenue operations of government bodies over their expenses and foreign exchange operations of the National Bank. The National Bank conducted foreign exchange interventions on sale and purchase of foreign currency to smooth sharp fluctuations of the exchange rate. There was an increase in consumer lending and reduction in the banks' deposit base amid exchange rate volatility.

Chapter 1. External Environment

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

In the reporting period, economic activity remained positive in the reviewed countries, excluding Russia, Belarus and the USA. At the same time, the inflation dynamics demonstrated acceleration everywhere.

During the quarter, GDP growth of Russia demonstrated stable slowdown: positive dynamics in the first month with a gradual slowdown in March amid external shocks in the conditions of the geopolitical escalation. At the same time, the situation was accompanied by significant inflation upsurge.

In Kazakhstan, at the end of the reporting quarter, there was a positive trend in economic activity amid acceleration in the inflation dynamics.

There was economic recession in Belarus at the end of the first three months, while the annual inflation rate accelerated.

In Armenia, the indicator of economic activity increased compared to the same period of the last year, while the inflation risks from the external sector increased.

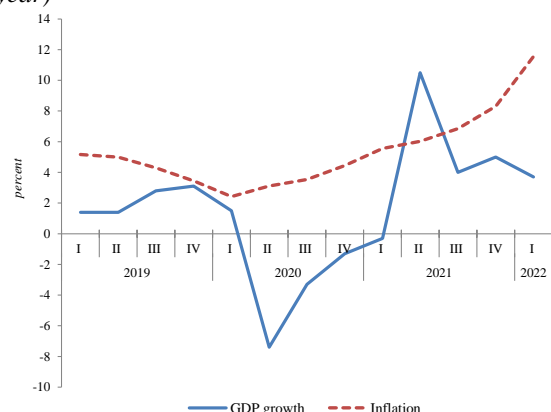
The economy of China demonstrated an upward trend mainly due to growth during the first two months. In March, consumer price growth was the fastest during three months amid supply chain problems.

The US GDP decreased, however, the inflation rate in the UA demonstrated stable acceleration and reached a historically high value during the past 40 years.

Russia

Chart 1.1.1. Growth of GDP and Inflation in Russia

(quarter to the corresponding quarter of the previous year)



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

According to the estimates of the Ministry of Economic Development, at the end of Q1 2022, GDP in Russia increased by 3.7 percent in annual terms. Herewith, during the whole reporting quarter, there was slowdown of GDP annual growth rate: in March the rate decreased down to 1.6 percent as compared to 4.3 percent in February and 5.8 percent in January of the current year.

According to the estimates of the Ministry of Economic Development, GDP growth slowed down due to a decline in industrial production, the growth rate of which decreased down to 3.0 percent in March 2022 after 6.3 percent in February of the current year. Production output of the processing industry decreased by 0.3 percent in March due to reduction in mechanical engineering and oil refining. Output growth rates decreased, however, remained in the positive area, in food processing industry, chemical complex and metallurgy.

According to the Russian Federal State Statistics Service, in Q1 2022, there was a significant acceleration of the inflation rate by 11.5 percent compared to the same quarter of the previous year. According to the results of three months, the annual food prices increased up to 13.5 percent, non-food prices – up to 12.7 percent, and services – up to 7.2 percent.

Herewith, in March, the annual inflation rate demonstrated a significant growth dynamics (16.7 percent) as compared to February (9.2 percent) due to devaluation of the Russian ruble and a sharp rise in consumer demand in the context of introduced sanctions. The

most noticeable acceleration in annual price growth was observed in March for non-food durable goods, storable foodstuffs and foreign tourism services. According to the Bank of Russia, prices for non-food products increased by 11.2 percent (20.3 percent in annual terms). There was the most significant increase in prices for non-food durable goods (by 15-25 percent): cars, household appliances and electronics.

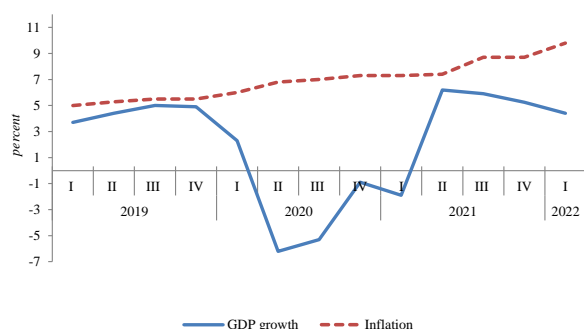
Prices for food products increased up to 6.6 percent (18.0 percent in annual terms) mainly under the influence of mass purchases of durable food products. Growth of prices for sugar (up to 44.0 percent), one of the most demanded consumer goods in periods of rush, accelerated to the greatest extent.

Increase in prices for services was minimal by 4.0 percent (9.9 percent in annual terms). Accelerated rise in prices for foreign travels (by 37.8 percent), reflecting the impact of the Russian ruble devaluation, made the most significant input. A significant input was also made by an increase in the cost of servicing consumer credits as part of the general increase of the interest rates in the economy through maintaining financial and price stability.

Kazakhstan

Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBRK calculations

According to the results of three months of 2022, GDP growth of Kazakhstan accelerated up to 4.4 percent. After growth slowdown in January due to introduction of the state of emergency in Kazakhstan, positive dynamics was observed in many sectors of the economy since February. High consumer demand supported business activity. In March, retail trade turnover increased by 3.7 percent in annual terms. Households' consumption was supported by growth of consumer lending and real incomes of the population.

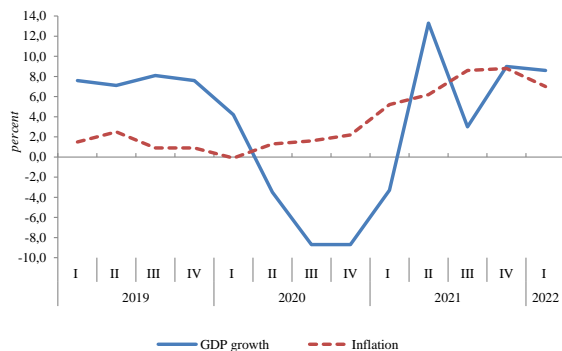
According to the data of the Ministry of National Economy of the Republic of Kazakhstan, in January-March, there was accelerated growth in the main industries of the real sector, progressive increase in export volumes and stable dynamics in the services sector. Stable upward trend was observed in the processing (+6.5 percent) and mining industries (+6.1 percent). The sectors such as transport and warehousing (+9.3 percent), construction (+8.6 percent), and trade (+8.0 percent), etc. also demonstrated positive growth.

According to the data of the National Statistics Bureau of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, Q1, the inflation rate was 9.8 percent against the corresponding quarter of the previous year. In March 2022, the annual inflation rate accelerated up to 12.0 percent (in February 2022 – 8.7 percent) in conditions of growing inflationary pressure amid implementation of geopolitical risks, growth of prices in the world as well as in the trading partner countries of Kazakhstan and their transfer to domestic prices. Annual growth rates of food and non-food prices reached 15.4 percent (10.0 percent in February 2022) and 10.9 percent (8.6 percent in February 2022), respectively. Prices for paid services increased by 8.3 percent (7.1 percent in February 2022).

Armenia

Chart 1.1.3. Growth of GDP and Inflation in Armenia

(quarter to the corresponding quarter of the previous year)



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

In the reporting period, growth rates of economic activity in Armenia increased, however, in March 2022 there was deterioration of the foreign trade turnover and reduction of industrial production output and electricity generation in the conditions of increased geopolitical risks and its negative consequences for the economy of Armenia.

According to the preliminary data for January-March 2022, the economic activity in Armenia increased by 9.6 percent compared to the same period in 2021. In terms of industries, all sectors demonstrated positive growth rates, excluding a decrease in agricultural output. However, in March 2022,

industrial output declined in annual and monthly terms. In addition, in March 2022, foreign trade turnover decreased by 10.6 percent compared to the previous month.

At the same time, the central bank of Armenia reduced its GDP growth forecast for 2022 down to 1.6 percent amid growing uncertainty about global and regional economic development, as well as slowdown in global economic activity due to persistent logistical problems and accelerating inflation.

A higher inflationary environment in Armenia's partner countries influenced the inflation rate acceleration. Thus, in March 2022, inflation rate reached 7.4 percent in annual terms, exceeding the target set by the central bank of Armenia at 4.0 percent. In this regard, the central bank continued to tighten monetary conditions: the key rate was increased twice since the beginning of 2022 from 7.75 up to 9.25 percent. According to the central bank of Armenia, in case of stable uncertainty about the economic perspectives and the risks of rising inflation expectations, the possibility of tightening the monetary conditions will be considered in the future. As a result of such policy measures, the annual inflation rate will gradually decline and reach the target level of 4.0 percent in the forecast horizon.

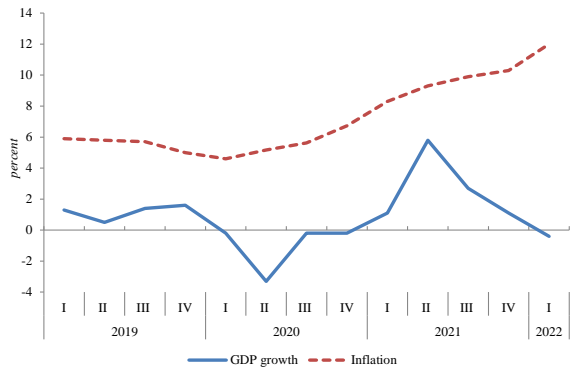
Belarus

During the reporting quarter, there was economic slowdown in Belarus from 2.7 percent in January down to 1.2 percent in January-February, resulting in a decrease by 0.4 percent in January-March.

So far, industry has been the main driver of economic growth in Belarus. However, at the end of Q1, it increased only by 0.2 percent in annual terms. This was partly due to the high comparison base, however, the main reason was the impact of sanctions and the loss of ties with Ukraine, being the third largest country in terms of foreign trade. The industrial slowdown resulted in a decrease of cargo transportation by 8.1 percent and a reduction of cargo turnover by 12.4 percent, as well as a decline of wholesale turnover by 1.4 percent. Manufacture of agricultural products in farms of all categories decreased by 0.6 percent in the reporting quarter.

Chart 1.1.4. Growth of GDP and Inflation in Belarus

(quarter to the corresponding quarter of the previous year)



Source: National Statistical Committee of the Republic of Belarus

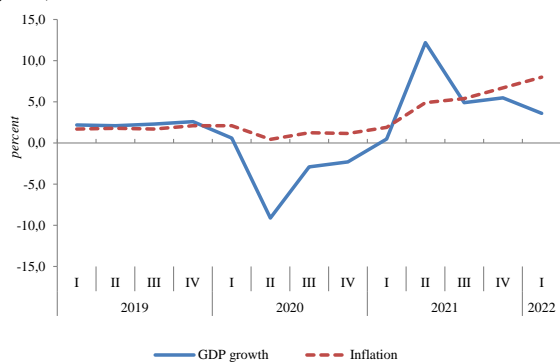
of sanctions pressure. Prices for imported fruit and vegetable products and goods from abroad, which are not related to the food group, were most sensitive.

According to the most important parameters of the forecast for social and economic development of the Republic of Belarus in 2022, GDP growth in Belarus is planned at 2.9 percent in annual terms, while the inflation rate - not more than 6.0 percent. At the same time, the international organizations revised the expected indicators of Belarus downward under the new restrictions and sanctions. The IMF forecasts economic recession in Belarus by 6.4%, while the World Bank — by 6.5%. As for inflation in Belarus, the fund’s analysts expect inflation at 12.6 percent by the end of the year.

USA

Chart 1.1.5. Growth of GDP and Inflation in the USA

(quarter to the corresponding quarter of the previous year)



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

Capital investments continued to decline by 6.6 percent compared to January-March 2021. There was also a decline by 4.4 percent in housing commissioning from all sources of funding, however, the growth rate of state-supported construction decreased by 10 times, down to 3.2 percent against +32.0 percent in the previous year.

Annual inflation rate in Belarus increased up to 15.9 percent in March from 10.0 percent in February and 10.1 percent in January. This is mainly due to devaluation of Belarusian ruble and transportation and logistics difficulties. In March, inflation processes in Belarus accelerated due to growth of geopolitical tensions and increase

In Q1 2022, the US GDP decreased by 1.4 percent in annual terms compared to the previous quarter, however, it exceeded the level of the corresponding quarter in 2021¹.

The decline in real GDP reflected reductions of private investment in inventories, export, and public expenditures, however, there was an increase in import. Personal consumption expenditures, non-residential investments, and capital investments increased.

Economic growth was adversely affected by increased COVID-19 cases and related supply chain disruptions, continued restrictions, and labor shortage that made it

difficult to meet demand. Private investment in inventories decreased due to reduction in wholesale and retail trade.

U.S. employment growth rate was moderate, and labor demand remained strong in most counties and sectors.

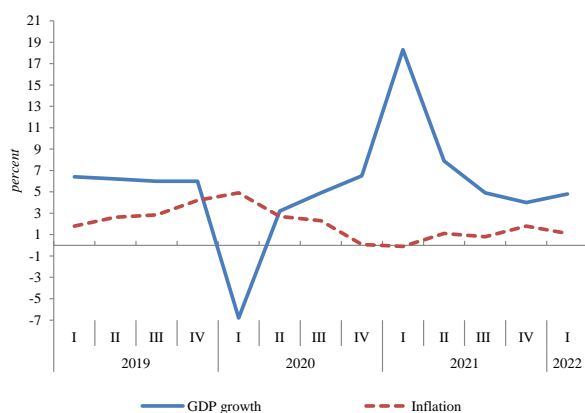
Inflation remained increased (8.5 percent in March 2022, the historically highest value within 40 years), reflecting supply and demand imbalances due to the negative effects of the pandemic, higher energy prices, and widespread price pressures amid the geopolitical situation.

¹ Preliminary data from the U.S. Bureau of Economic Analysis.

China

Chart 1.1.6. Growth of GDP and Inflation in China

(quarter to the corresponding quarter of the previous year)



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

restrictions due to COVID-19, weak demand in the country (weak consumption) and abroad (export slowdown), problems in the real estate market and the situation between Russia and Ukraine cause a loss.

In March, retail sales reduced, the growth rate of production in the industrial sector decreased, and the growth of capital investment slowed down. In March, there was a decline in real estate sales in value terms, such reduction was not observed since January-February 2020, it reflected a deepening downturn in the real estate market. Export of China, one of the main growth drivers, demonstrate weakening signs, creating a real risk of recession. Moreover, there are stress signs in the labor market: nationwide unemployment rate of China is increasing.

In addition, data on banks' investments in securities for the clients' benefit demonstrate that in February-March, foreign investors reduced their investments in Chinese securities as never before. The outflow exceeded USD 30-40 billion and was even higher than in March 2020 amid the start of the COVID-19 pandemic. However, the analysts are not sure that the funds outflow from the Chinese market is a sustainable trend: some investors are likely to decide not to reinvest bond yields, waiting for the geopolitical situation to become clearer.

In March, consumer price growth rates in China were the fastest within three months amid supply chain problems due to strict measures against COVID-19 pandemic and rising energy costs. Consumer prices (CPI index) increased by 1.5 percent in annual terms in March compared to an increase by 0.9 percent in February. Prices for non-food products increased by 2.2 percent in annual terms, whereas prices for food products decreased at least by 1.5 percent since December 2021, mainly due to a decline in pork prices.

Meanwhile, the producer price index (PPI), a measure of industrial profitability, increased by 8.3 percent in March compared to the previous year earlier mainly due to growth in commodity prices.

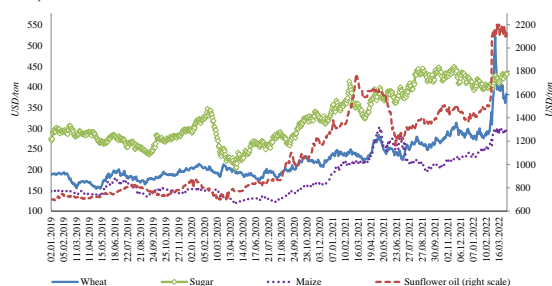
1.2. World Commodity Markets

Price indices in the world food markets reached the maximum value for the last three years, which posed inflationary risks for Kyrgyzstan. Thus, there was an upward trend in prices in the world commodity markets since 2020, which was observed almost throughout 2021 with a small break. It was due to an increase in the world demand for goods and services after the pandemic. Since the end of February 2022, there was a sharp increase in the world quotations for food products and energy resources due to the situation in Ukraine. In the reporting period, the price of gold increased amid acceleration of the inflation rate in the developed and developing countries, as well as increased geopolitical risks.

Food Market

Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



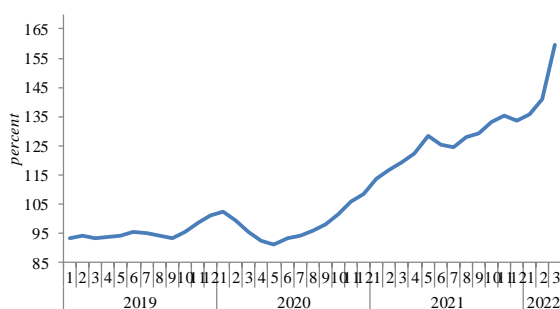
World quotations for wheat were recorded at 14-year maximum value due to fears that the Russian-Ukrainian conflict will result in shortage of wheat in the world market. Thus, in the reporting quarter, world prices for wheat stood at USD 335.6 per ton (+41.5 percent compared to Q1 2021), with a maximum price of USD 523.7 per ton (+84.9 percent year-to-date) recorded on March 7, 2022.

In Q1 2022, the quotations for maize increased significantly (+25.4 percent compared to the same period of 2021) amid expected significant reduction of maize exports from Ukraine, being among the largest exporters.

In the reporting period, the exchange price for sunflower oil reached a maximum level of USD 2,200 per ton due to reduction in export supplies amid current conflict in the Black Sea region. According to FAO, the share of Russia and Ukraine constitutes about 60 percent in the world sunflower oil export market.

World prices for sugar increased moderately, which was mainly due to active harvesting and favorable sugar production forecasts in India, which is among the leading sugar exporters.

Chart 1.2.2. Dynamics of FAO Food Price Index



World prices of basic food products reached high levels due to the conflict in Ukraine.

In Q1 2022, a number of food products reached historically high values. It was conditioned by geopolitical crisis due to the conflict between Ukraine and Russia, as well as accelerated growth in prices for fertilizers and logistical problems worldwide. World analysts and experts forecast that world quotations for food products will remain high in 2022-2023.

In the reporting period, the prices for the main food products (cereals, vegetable oils, sugar) reached historically highest level. Thus, in Q1 2022, the average value of the FAO food price index¹ increased by 24.9 percent compared to the same quarter of 2021 and amounted to 145.5 points.

According to the FAO data, negative consequences are forecasted for the world food market due to the conflict between Russia and Ukraine, being large producers and exporters of agricultural raw materials

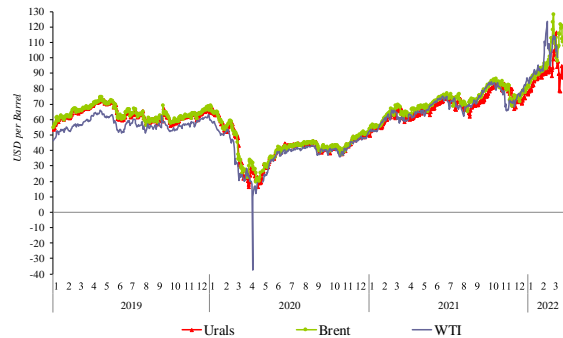
and food products. It will be conditioned by disruptions in logistics, shortages and rise in prices for fertilizers and energy products. Meanwhile, a significant deficit of supply in the world grain and sunflower market may be observed after 2022-2023 marketing year.

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

¹ The FAO food price index is a weighted average indicator that tracks international price movements for five major food commodity groups (meat, dairy products, crops, vegetable oils and sugar).

Energy Market

Chart 1.2.3. Dynamics of Oil Prices
(in USD)



increased by 59.7 percent). At the same time the maximum price for Brent oil was recorded at USD 127.98 per barrel on March 8, 2022. However, during the reporting period, Russian Urals oil was sold at a discount of USD 20-30 per barrel against Brent oil.

On March 31, 2022, based on the results of OPEC+ countries meeting a decision was made to increase slightly oil production quotas by 432,000 barrels per day¹ in May 2022 compared to April 2022. According to OPEC+, volatility in the world oil market was conditioned by current geopolitical events in the world rather than by changes in the fundamental indicators.

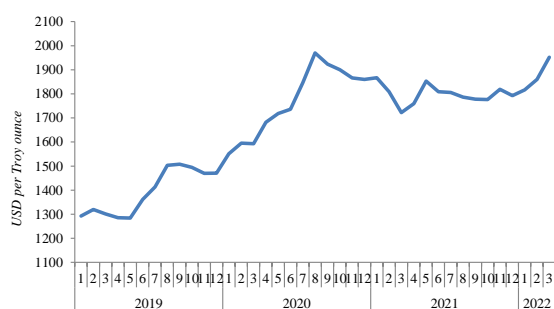
Currently, the world analysts expect the price range of Brent oil at USD 95–110 per barrel. In case of a negative development of the geopolitical scenario oil prices may continue their upward movement with a growth potential to the maximum values of 2011 and 2008, over USD 130–150 per barrel.

World oil prices have a significant impact on the formation of export prices in the POL producing countries and often play a decisive role in the formation of prices at the oil refineries in Russia, from which Kyrgyzstan imports almost 95 percent of the total volume of imported POL.

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

Gold Market

Chart 1.2.4. Dynamics of Prices for Gold



Source: IA Bloomberg

In January-March 2022, the price for gold in the world market demonstrated growth under the conditions of accelerated inflation in many countries and increased geopolitical risks.

Thus, in the reporting period, the price of gold increased by 5.9 percent since the beginning of 2022, up to USD 1937.4 per Troy ounce at the end of the reporting period. Traditionally, the investors buy gold as a safe asset for the long term, providing effective protection during the wars, financial and

political crises. Gold held by the exchange traded investment funds worldwide increased by 269 tons from the end of December 2021, demonstrating the strongest quarterly increase since June 2020. Despite monetary policy tightening by the US Federal Reserve System in mid-

¹ On March 2, 2022, a decision was made to keep the plan on increasing oil production quotas by 400,000 barrels per day in April 2022.

March 2022, the price for the asset started increasing again after a slight decline in the run-up to the regulator's meeting. WGC analysts note that increase of the central banks' interest rates, of course, poses some risk for gold, however, the geopolitical situation and high inflationary risks confirm the need to hedge its assets with gold. In case of a significant easing of geopolitical tension, price for gold can decrease, however, it is unlikely to have a negative impact on the long-term prospects.

Chapter 2. Macroeconomic Development

2.1. Demand and Supply in the Commodities and Services Market

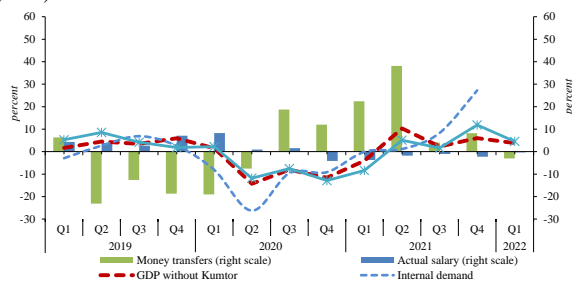
According to the results of January-March 2022, economic activity maintained the positive dynamics achieved in 2021. In the real sector, a stable recovery of the growth rates was observed in all sectors, among them the sectors of industry, services and agriculture demonstrated the highest growth rates. At the same time, domestic demand increased in Q4 2021 and made a significant input in the growth of economic activity. There was slight growth in the investment sector after decline at the end of 2021.

At the same time, there are external risks amid geopolitical tension. Under such conditions, growth factors such as domestic demand, remittances, etc. may be subject to adverse changes.

Demand

Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

Q4¹ 2021 (a decrease by 9.1 percent in the same quarter of 2020) due to the growth of final consumption (+15.4 percent) and gross capital formation (+54.8 percent). Thus, in Q4, GDP growth was 11.9 percent. The increase in domestic demand was mainly conditioned by the growth of foreign trade turnover due to easing of the restrictions and the active economic recovery in the neighboring countries.

In addition, there was an increase in retail trade turnover in the country by the end of the year (up to 12.0 percent) amid an increase in consumer lending. It is worthy of note that, in Q3 and Q4 2021, the volume of capital investments from all sources of financing increased approximately by 5.0 percent, which, among other things, conditioned growth of gross capital formation. It is notable that in Q4 2021, there was no significant increase in individuals' remittances through the transfer systems (+8.2 percent), however, an increase in real wages was negative.

According to the results of January-March of the current year, the average monthly nominal wage of one employee² increased by 11.4 percent compared to the same period of the previous year and amounted to KGS 20.9 thousand. The largest increase in the growth rate of average monthly wages was observed in the sector of healthcare and social services (32.7 percent), mining (29.3 percent), transport activities, storage of goods (19.7 percent) and professional, scientific and technical activities (19.0 percent).

In the reporting period, **the upward trend in the average monthly** nominal wage is mainly conditioned by the economic recovery, as well as planned increase in the payroll fund (seniority pay, bonus accrual, etc.).

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

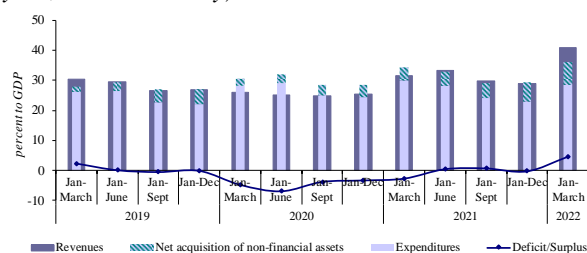
² Generally in the republic, excluding small enterprises.

In January–March 2022, the level of real wages, calculated taking into account the consumer price index, decreased by 0.3 percent compared to the same period of 2021.

Public Finances Sector

According to the preliminary results of Q1 2022, the state budget surplus amounted to KGS 6.8 billion or 4.7 percent to GDP (during the same period of 2021, the state budget deficit amounted to KGS 3.2 billion or 2.7 percent to GDP). The primary state budget surplus¹ amounted to KGS 9.3 billion or 6.3 percent to GDP.

Chart 2.1.2. Execution of the State Budget
(period to the corresponding period of the previous year, accumulatively)

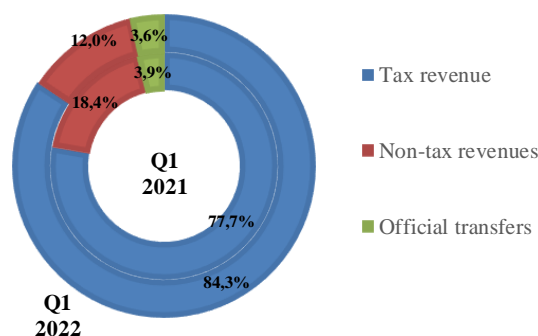


Source: CT MFKR, NBKR

structure increased by 6.6 percentage points compared to January-March 2021 and amounted to 84.3 percent according to the preliminary results of the first three months of 2022. Also, non-tax revenues to the budget increased by 1.2 percent and amounted to KGS 7.2 billion. Official transfers increased by 45.0 percent and amounted to KGS 2.2 billion.

The total state budget expenditures increased by 26.5 percent in annual terms or KGS 11.0 billion and amounted to KGS 52.8 billion or 36.2 percent to GDP. Growth of capital expenditures, that is, mainly infrastructure expenditures, is among the main reasons for an increase in expenditures. Thus, the net outflow of budget funds for operations related to acquisition of non-financial assets increased by 2.1 times or by KGS 5.9 billion compared to Q1 2021 and amounted to KGS 11.3 billion or 7.7 percent to GDP. At the same time, the state budget expenditures for consumption, i.e. expenditures that can put inflationary pressure on the economy, continued to increase: an increase by 14.2 percent against 9.9 percent in Q1 2021. This increase was mainly due to the provision of transfers to the “public administration”

Chart 2.1.3. Structure of the State Budget Revenues



Source: CT MFKR

sector by 23.4 percent or KGS 2.1 billion, public procurement expenditures by 39.6 percent or KGS 1.4 billion and growth of labor costs, which is also confirmed by the statistics from the real sector, where the average monthly wage increased by 11.4 percent² in nominal terms. Expenditures for public services of general purpose – an increase by 13.5 percent (input – 5.3 percentage points), defense, public order and security – an increase by 29.5 percent (input – 3.7 percentage points), expenditures for the social sector (education, healthcare and social protection) – an increase by 16.3 percent (input – 5.8 percentage points) prevailed in the structure of current expenditures by functional classification. In turn, expenditures on the items

¹ Primary deficit/surplus is the excess of the state budget revenues over the state budget expenditures, excluding the amount of interest payments to service the state debt.

² Data for January-March 2022 (excluding small enterprises).

“economic issues” and “housing and public utility services” contributed negatively to the growth of current expenditures by 1.1 and 0.1 percentage points, respectively.

The existing surplus in the future will contribute to financing measures to mitigate the consequences of the external economic shock and planned increase in wages of the public sector employees.

Investments

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

	January-March			
	2020		2021	
	millions of KGS		share, percent	
Total	13 777.6	14 923.9	100.0	100.0
Internal investment	12 675.0	12 520.9	92.0	83.9
Republican budget	453.7	225.6	3.3	1.5
Local budget	67.4	115.9	0.5	0.8
Funds of enterprises and organizations	5 702.9	5 207.0	41.4	34.9
Banks' credits	208.6	208.8	1.5	1.4
Population funds including beneficent help of KR residents	6 242.4	6 763.6	45.3	45.3
External investment	1 102.6	2 403.0	8.0	16.1
Foreign credit	808.2	1 369.0	5.9	9.2
Direct foreign investments	70.5	630.4	0.5	4.2
Foreign grants and humanitarian aid	223.9	403.6	1.6	2.7

Source: NSC KR

Source: NSC KR

facilities for transport activities and storage of goods, educational and healthcare facilities.

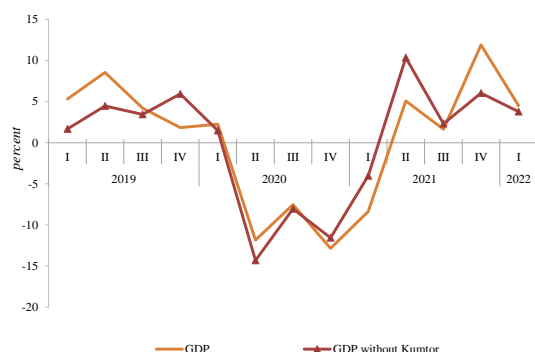
Following the results of three months of 2022, the volume of capital investments financed from domestic sources decreased by 8.3 percent, while those from the foreign sources increased by 2.0 times. Meanwhile, the investments financed from the local budget increased by 1.6 times, from the republican budget – by 2.2 times, from the bank loans – by 7.1 percent.

Supply

According to preliminary data of the National Statistical Committee of the Kyrgyz Republic, in January-March 2022, the nominal GDP increased by 4.5 percent in real terms compared to the same period of 2021 (according to updated data, in the same period of 2021 year, the decrease was 8.4 percent) and amounted to KGS 145.9 billion. In the reporting period, this economic indicator was conditioned by the positive growth rates of all sectors of the economy. The sectors of industry, services and agriculture demonstrated the highest growth rates.

Chart 2.1.4. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

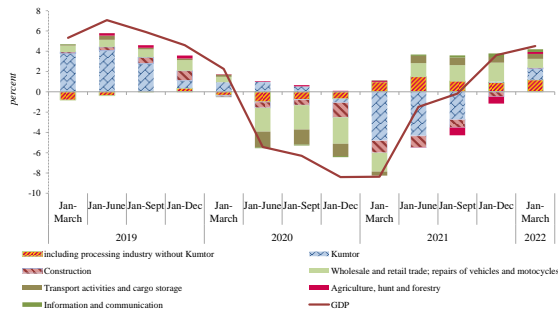
In January-March, the level of investments exploitation increased slightly. In January-March 2022, the level of capital investments exploitation increased by 0.5 percent compared to the same period in 2021 after a decrease by 5.9 percent in January-December 2021.

An increase in capital investments was observed in the construction of processing facilities, facilities for supply of electricity, gas, steam and conditioned air,

Growth of production in the industrial sector in Q1 by 8.3 percent compared to the same period of the last year was mainly due to an increase in output of petroleum products (by 31.8 percent), wood and paper products, printing activities (by 25.5 percent), and pharmaceutical products (by 21.3 percent), etc. The service sector demonstrated an increase by 3.4 percent due to positive dynamics in all service industries observed year-to-date. Positive dynamics in the gross output of agricultural products (+2.3 percent) is due to an increase in the production output of livestock products by 2.3 percent.

Chart 2.1.5. Input of Main Sectors in GDP Growth

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



Source: NSC KR, calculations: NBKR

January-March 2021 – a decrease by 43.9 percent). At the same time, the industrial sector demonstrated negative rates in water supply, cleaning, waste treatment and recycling (-8.5 percent) and provision (supply) of electricity, gas, steam and conditioned air (-6.0 percent). The input of the services sector to GDP growth was conditioned by increased output in transport activities (+11.0 percent), information and communication (+7.9 percent), wholesale and retail trade (+6.3 percent), etc.

In the reporting period, GDP excluding Kumtor gold-mining enterprises amounted to 3.8 percent (a decrease by 4.0 percent in the same period of 2021).

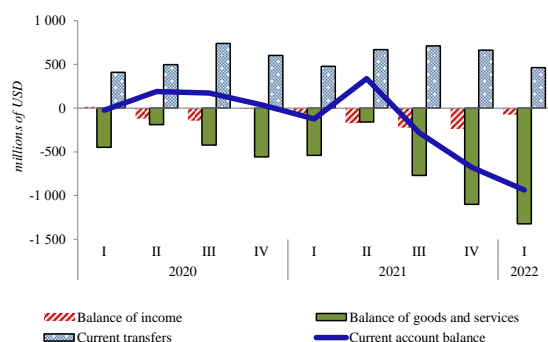
The GDP deflator was positive and amounted to 14.9 percent, having increased by 1.8 percentage points compared to January-March 2021.

In the reporting period, the sectors “industry” (1.9 percentage points) and “services” (1.7 percentage points) made the most significant positive input in economic growth. Following the results of three months, the production output of the processing industry increased by 14.7 percent (in January-March 2021 - a decrease by 23.3 percent), excluding Kumtor gold-mining enterprises, this indicator increased by 18.3 percent (the same indicator in the corresponding period of the last year). The production output of Kumtor gold-mining enterprises increased by 12.1 percent (in

2.2. External Sector¹

In Q1 2022, the current account deficit increased under the influence of the growth in the negative trade balance.

Chart 2.2.1. Current Account



Note: According to the preliminary and forecasted data.

According to the forecasted and preliminary data, in Q1 2022, the current account deficit constituted USD 936.4 million or 17.9 percent to GDP².

In the reporting period, the trade balance of the Kyrgyz Republic was formed with a negative balance and increased by 2.6 times compared to the same period in the previous year, to make USD 1,262.6 million. This trend is caused by an increase in import and a decline in export.

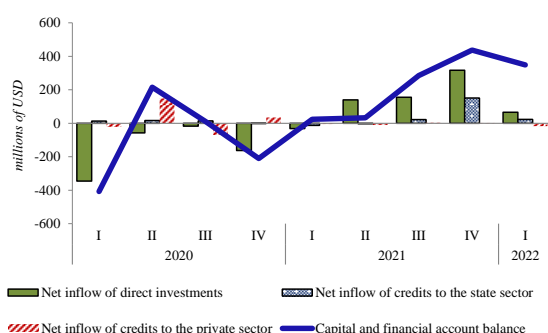
In Q1 2022, the export of goods (in FOB prices) decreased by 16.1 percent, mainly due to a decrease in gold export, to make USD 368.7 million. Export excluding gold increased by 23.0 percent compared to the same period in 2021 due to the growth in the supplies of such goods as vegetables, fruits, clothes, cast iron, steel and metal scrap.

Import of goods (in FOB prices) increased by 76.9 percent, to make USD 1,631.3 million. Growth in the value of import was mainly due to the recovery in the physical volume of supplies compared to the values that were observed before the pandemic. There was an increase in imports of goods such as clothes, footwear, petroleum products, fabrics and cars. Import, excluding energy products, decreased by 85.1 percent compared to the same period in 2020, to make USD 1,405.0 million.

In the reporting period, there was a decrease in private transfers and an increase in public transfers. The net inflow of private transfers decreased by 5.3 percent compared to Q1 2021 and amounted to USD 454.2 million due to economic slowdown in the Russian Federation resulted from imposed sanctions and depreciation of the Russian ruble. In the reporting quarter, the balance of services deficit is estimated at USD 61.2 million, meanwhile the negative balance on the item “income” is expected to develop USD 74.9 million.

According to preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, in Q1 2022, capital inflow on the capital and financial account is expected at USD 349.1 million. The capital account surplus will make USD 19.0 million, whereas the positive balance on the financial account is estimated at USD 330.1 million.

Chart 2.2.2. Capital and Financial Account



The main capital inflow on the financial account is expected from other investments in the form of increased private sector liabilities to non-residents coupled with reducing foreign assets, including commercial banks’ assets in the form of cash and deposits. Net inflow of direct investment is projected at USD 65.8 million, meanwhile a net outflow of foreign direct investors’ funds was observed in the same period of the last year.

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.

Thus, at the end of Q1 2022, the balance of payments of the Kyrgyz Republic is expected to be formed with a negative balance to make USD 358.7 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			
	2020 (aver.) (January- December)	2021 (aver.)* (January- December)	%	Dec-21	Mar-22	*	%
REER	115,7	116,0	0,0	121,3	118,2	-2,6	
NEER	122,7	119,7	0,1	124,9	123,7	-1,0	
RBER to CNY	79,2	74,5	-6,3	76,8	67,9	-11,5	
NBER to CNY	60,8	51,7	-9,3	51,0	43,4	-14,9	
RBER to EUR	101,7	96,9	-6,0	104,4	92,4	-11,5	
NBER to EUR	69,5	60,8	-10,9	63,6	55,7	-12,4	
RBER to KZT	137,4	134,1	-3,0	138,0	134,6	-2,5	
NBER to KZT	166,7	157,0	-2,8	159,6	156,0	-2,2	
RBER to RUB	125,8	123,3	3,1	124,8	139,3	11,6	
NBER to RUB	141,0	131,8	0,4	132,0	154,3	16,9	
RBER to TRY	174,3	187,2	5,1	246,2	195,0	-20,8	
NBER to TRY	275,3	317,2	11,2	483,5	448,1	-7,3	
RBER to USD	83,1	81,4	-5,2	82,5	72,2	-12,5	
NBER to USD	59,6	54,3	-9,5	54,2	46,4	-14,4	

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

strengthening against the Russian ruble by 16.9 percent.

Along with the NEER index decline, a higher inflation rate in the main trading partner countries compared to Kyrgyzstan² resulted in a decrease of the real effective exchange rate (REER) index by 2.6 percent, to make 118.2 at the end of March, 2022.

By the end of Q1 2022, the index of nominal and real effective exchange rates decreased compared to December 2021. According to preliminary data, the index of the nominal effective exchange rate (NEER) of KGS decreased by 1.0 percent year-to-date and constituted 123.7 at the end of March 2022. The index dynamics was a result of the depreciation¹ of KGS in March 2022 compared to the exchange rate at the end of 2021 against the Chinese yuan by 14.9 percent, the US dollar - by 14.4 percent and the euro - by 12.4 percent amid

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

² In Q1 2022, the inflation rate in the Kyrgyz Republic was formed at 5.0 percent, meanwhile, the average inflation rate in the main trading partner countries according to the preliminary calculations was 6.7 percent.

Chapter 3. Monetary Policy

In Q1 2022, monetary policy was formed in the conditions of increased risks and uncertainty of external factors. High inflationary pressure was observed in our country amid global rise in prices in the world commodity markets, the consequences of supply chains failures, as well as the geopolitical situation.

The National Bank continued tightening the monetary policy conditions. The size of the key rate was increased three times, up to 14.00 percent. Short-term rates of the money market, in response to the ongoing interest rate policy of the National Bank, also demonstrated an upward trend approaching the key rate within the set interest rate corridor.

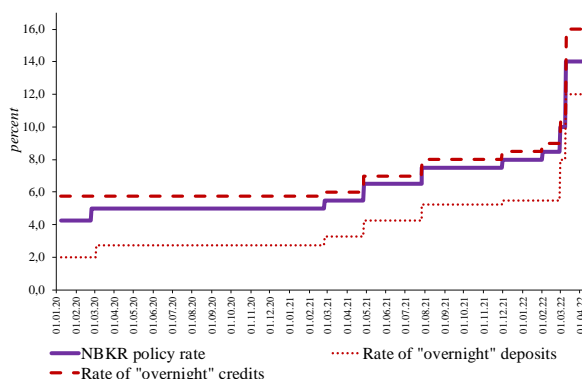
The money market participants were focused on the shorter-term instruments; preference was given to the foreign exchange transactions. Generally, the situation in the domestic foreign exchange market was characterized by the excess of demand for foreign currency over its supply. The National Bank conducted foreign exchange interventions to smooth sharp fluctuations of the exchange rate.

The annual growth rates of monetary aggregates, excluding money outside banks, demonstrated a slowdown due to reduction of the deposit base.

3.1. Monetary Policy Implementation

Interest Rate Policy

Chart 3.1.1. Interest Rate Policy of the National Bank



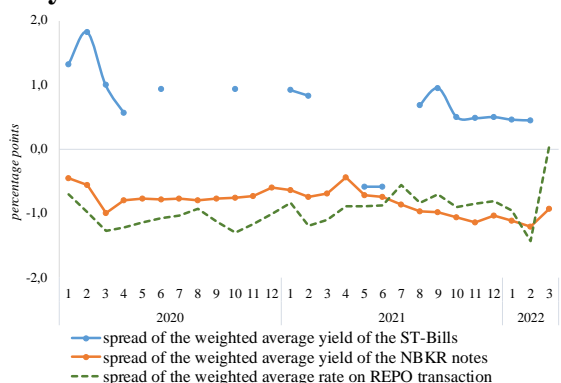
The National Bank increased its key rate to mitigate the negative effect of external shocks on the economy of the Kyrgyz Republic.

In Q1 2022, the National Bank continued to tighten its monetary policy: on January 31, the policy rate was increased from 8.00 up to 8.50 percent, on February 28 – from 8.50 up to 10.00 percent, and at an extraordinary meeting held on March 10, 2022 the key rate was increased by 400 basis points, up to 14.00 percent. The policy rate change was followed by adjustments of the rates in the interest rate corridor: the rate on

“overnight” deposits was increased from 8.00 up to 12.00 percent, the rate on “overnight” credits – from 10.50 up to 16.00 percent. Thus, symmetrical interest rate corridor contributes to a decrease in volatility of the money market rates.

Background information: during Q1, the Central Bank of the Russian Federation (CBRF) increased its key rate from 8.50 up to 20.00 percent, the National Bank of the Republic of Kazakhstan (NBRK) – from 9.75 up to 13.50 percent. In April-May 2022, the CBRF decreased the key rate down for three times to 11.00 percent, and the NBRK increased its basic rate up to 14.00 percent.

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



In Q1 2022, an increase in the key rates was followed by growth of the money market rates, the spread between the money market rates and the key rate reduced. At the same time, the spread remains low, which indicates a decrease in volatility of the money market rates.

Due to the symmetry of the interest rate corridor, at the end of the reporting quarter, the spread between the interbank credit market and the key rate moved into the positive zone and amounted to 0.04 percentage points (as of the end of Q4 – (-)0.82 percentage points). In Q1, the weighted average yield on REPO transactions

amounted to 10.12 percent (in Q4 – 6.76 percent). Meanwhile, at the end of the quarter, the rates mainly exceeded the policy rate and approached the upper rate of the interest rate corridor.

In the reporting quarter, the spread between the NBKR’s note rates and the key rate decreased from (-)1.04 percentage points down to (-)0.94 percentage points. In the reporting quarter, the total weighted average yield of notes increased up to 7.96 percent (in Q4 – 6.57 percent). The situation, broken down by maturity, was as follows: the weighted average rate on 7-day notes increased from 6.19 up to 7.87 percent, on 14-day notes – from 6.62 up to 7.94 percent, on 28-day notes – from 6.94 up to 8.01 percent.

The spread between the yield of 12-month ST-Bills and the policy rate decreased from 0.50 percentage points down to 0.45 percentage points. Moreover, in the reporting quarter, the ST-Bills rates were within the interest rate corridor below the “overnight” credit rate.

Liquidity in the Banking Sector

Since February 2022, the excess liquidity in the banking sector demonstrated reduction due to resources absorption through the monetary and the budgetary channels. The structure of sterilization operations conducted by the National Bank changed towards shorter-term ones. After growth of excess liquidity in the banking system in the previous quarter and in January 2022, there was a decrease in February-March. In the reporting period, the average daily volume of excess liquidity in the banking system decreased by KGS 1.7 billion compared to Q4 and amounted to KGS 22.4 billion. Excess liquidity in the banking sector decreased by KGS 14.5 billion due to the government sector operations (as well as by KGS 44.7 billion due to tax revenues) and by KGS 22.4 billion due to the net operations of the National Bank (excluding sterilization operations) for the amount of KGS 7.3 billion.

In order to limit the monetary component of inflation, the National Bank continued to conduct operations to absorb excess liquidity. In Q1 2022, the average daily volume of sterilization operations conducted by the National Bank decreased down to KGS 22.4 billion (in Q4, it amounted to KGS 24.3 billion). In Q4, the structure of sterilization operations changed with increased share of “overnight” deposits. In January 2022, this trend was still observed, and the share of “overnight” deposits constituted 47.6 percent. In February 2022, the share of “overnight” deposits in the total absorption structure decreased down to 29.0 percent, in March, it increased up to 39.2 percent. Thus, in the reporting quarter, the average daily volume of sterilization due to “overnight” deposits amounted to KGS 8.8 billion (in Q4 – KGS 9.8 billion).

In Q1, the share of the National Bank’s notes increased approximately up to 60.6 percent (in Q4 – 59.9 percent) in the overall structure of sterilization operations. The total demand for notes decreased by 31.0 percent and amounted to KGS 76.5 billion (Q4 – KGS 109.4 billion). The sales of notes decreased by 30.7 percent and amounted to KGS 68.8 billion (Q4 – KGS 99.4 billion). As in the previous period, the market participants’ preference was given to

shorter-term notes with a maturity of 7 and 14 days (63.4 percent of the total volume of demand). In addition, in March, the volume of sales decreased significantly from KGS 28.7 billion in February down to KGS 13.6 billion in March (-)52.4 percent). This behavior of participants is explained by the decrease in the overall level of excess liquidity.

Chart 3.1.3. Excess Reserves of the Commercial Banks

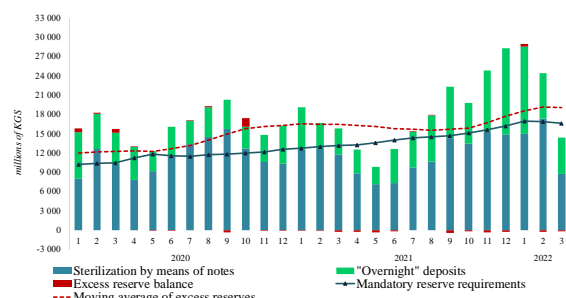
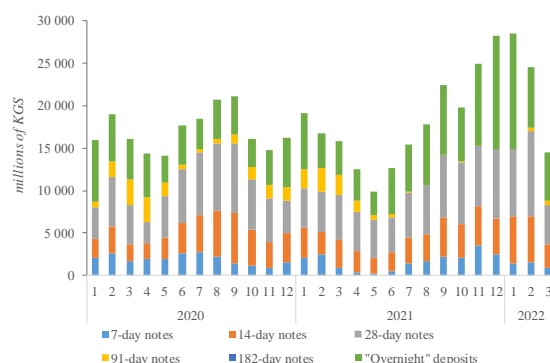


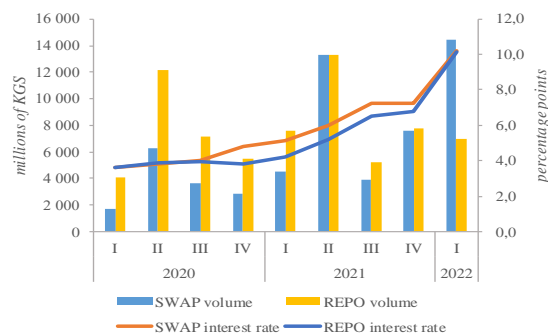
Chart 3.1.4. Structure of Sterilization



“Overnight” credits were issued to the commercial banks to maintain short-term liquidity gaps. Thus, “overnight” credits were issued to the banks within the framework of the current window of permanent access, the gross volume thereof amounted to KGS 2.7 billion.

The interbank credit market was characterized by decreased activity of market participants. Amid an active foreign exchange transactions between the commercial banks, in the reporting period, the volume of REPO transactions decreased by KGS 0.8 billion compared to the previous quarter and amounted to KGS 6.9 billion. At the same time, the market participants were most active in March (57.0 percent of the total volume of transactions), which was conditioned by tightening of the monetary policy, reduction of excess liquidity and, as a consequence, increase in demand for interbank borrowing. At the same time, there was a slight increase in the weighted average maturity of loans up to 5 days (Q4 – 4 days).

Chart 3.1.5. Market of REPO and SWAP Transactions



In addition, SWAP transactions (USD/KGS), the volume of which increased significantly in the reporting quarter, were an alternative source of attracting KGS resources. Amid volatility in the foreign exchange market, in the reporting quarter, the total volume of SWAP transactions increased almost twice and amounted to KGS 14.5 billion (in Q4 – KGS 7.6 billion), while the market participants attracted about KGS 6.9 billion in the IBCM. Market participants concluded more long-

term transactions, the average term of SWAP transactions was 53 days, whereas the same indicator in the IBCM was 5 days. In the reporting quarter, the preference was given to the transactions with a term of more than 7 days, the volume thereof amounted to KGS 9.4 billion or 64.9 percent of the total volume (in Q4 2021, the share of SWAP transactions with a term up to 7 days was the largest – 55.9 percent or KGS 4.2 billion). At the same time, during the quarter, SWAP operations were primarily conducted in March, the share thereof amounted to KGS 6.9 billion or 47.3 percent amid the exchange rate growth.

Foreign Exchange Policy of the National Bank

In Q1 2022, uncertainty in the external environment conditioned high exchange rate volatility. Pressure on the foreign exchange market of the country was put through the channels of money transfers and mutual trade with the partner countries of the Kyrgyz Republic.

Within the framework of the floating exchange rate regime, the National Bank conducted interventions on sale and purchase of foreign currency to smooth sharp fluctuations in the exchange rate. In the reporting quarter, the total volume of foreign currency sold in the domestic foreign exchange market amounted to USD 284.3 million, of which USD 66.7 million was in cash. The purchase volume amounted to USD 12.2 million, finally, net sale amounted to USD 272.1 million.

In Q1 2022, the USD/KGS exchange rate was fluctuating within the range of KGS 83.3090-105.0000 per USD. In the reporting quarter, the average exchange rate amounted to KGS 89.8119 per USD (in Q4 – KGS 84.7942 per USD).

Monetary Policy Measures in Q1 2022

The decisions were made on the size of the National Bank policy rate and the rates of the interest rate corridor.

The Board of the National Bank three times considered the issue of the size of the policy rate – on January 31, February 28 and March 10, 2022.

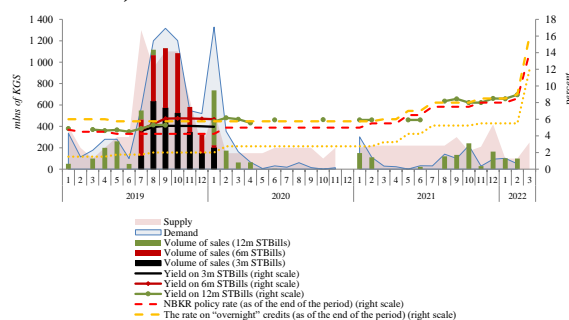
At the meeting held in January the decision was made to increase the policy rate by 50 basis points, up to 8.50 percent to limit inflationary pressure amid continuing rise of prices in the world food markets. In February, the policy rate was increased by 150 basis points, up to 10.00 percent to limit geopolitical risks. However, growing uncertainty in the external environment and pressure in the foreign exchange market resulted in the extraordinary meeting held in March, where the decision was made to increase the key rate by 400 basis points, up to 14.00 percent to mitigate the negative effect of external shocks on the dynamics of inflation.

The policy rate change was followed by adjustments of the rates in the interest rate corridor: the rate on “overnight” deposits, being the lower rate, was increased up to 12.00 percent, the rate on “overnight” credits, determining the upper rate, was increased up to 16.00 percent.

3.2. Financial Market Instruments

Government Securities Market

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



ST-Bills

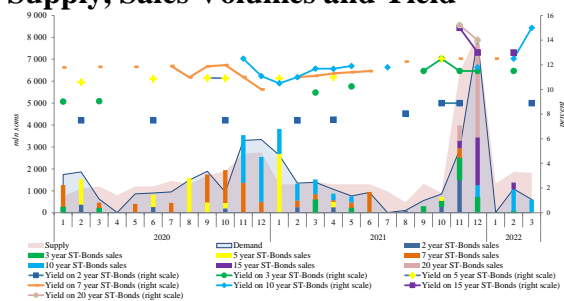
In Q1 2022, as before, the short-term segment of government securities was represented only by ST-Bills with a maturity of 12 months (since February 2020). 12-month ST-Bills were in low demand, the yield was slowly growing. The participants' activity decreased compared to Q4 2021. There was an increase in the weighted average yield.

The activity decreased due to a reduction in the total volume of supply, demand and sales at the ST-Bills auctions 4 out of 8 auctions (including additional placement) were not conducted due to lack of demand. The average number of participants per auction remained unchanged at 2. In March, all proposed auctions were declared failed due to lack of demand. The weighted average yield increased from 8.46 percent in January up to 8.95 percent in February due to low demand for ST-Bills and growth of the inflation rate.

The supply of 12-month securities increased by the end of the quarter, meanwhile, in March, the Ministry of Finance offered the ST-Bills to the total amount of KGS 250.0 million and exceeded the total volume for the previous two months by 25.0 percent. Nevertheless, in March, there was no demand from the investors and sales, accordingly.

In Q1, the volume of ST-Bills in circulation decreased by 6.2 percent. The structure of ST-Bills holders remained almost unchanged: the share of commercial banks, being the largest, decreased (from 54.6 down to 50.9 percent as of the end of March), it is followed by the institutional investors, the share thereof increased (from 23.4 up to 26.2 percent as of the end of March) and the share of resident legal entities changed insignificantly (from 22.0 up to 22.9 percent).

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



In Q1 2022, the ST-Bonds market was represented by the securities of all types of maturities, excluding 20-year ST-Bonds (5-year securities were offered but not sold). The participants' activity decreased compared to the maximum values in Q4 2021. There was an increase in the weighted average yield of ST-Bonds.

In the reporting quarter, the volumes of supply, demand and sales of ST-Bonds decreased compared to Q4, since in November and December, the supply of ST-Bonds demonstrated maximum values for 2021. Totally, 12 auctions were conducted (including additional placement), 5 thereof were not held due to lack of demand. During the quarter, the average yield of ST-Bills increased and constituted 13.34 percent (12.50 percent in January, 12.58 percent in February, 14.95 percent in March) due to sale of securities with higher yield.

The yield of ST-Bonds by maturities remained high or continued growing, excluding the yield of 3-year and 15-year securities. The yield of 15-year ST-Bond decreased slightly due to higher yields in November compared to February 2022 (since the inflation rate was higher). The weighted average yield of 3-year ST-Bonds decreased due to higher yield in October 2021 conditioned by low demand in September.

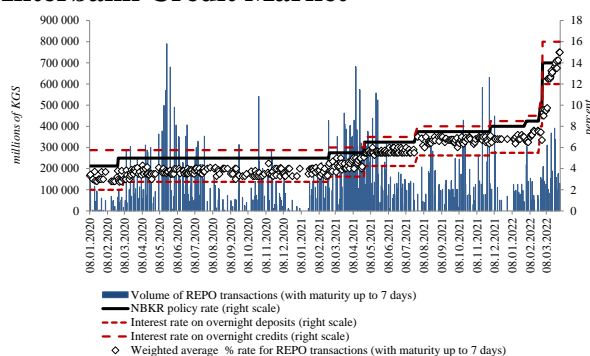
In conditions of high uncertainty, the demand was still focused on the securities with a longer maturity (10-year and 15-year ST-Bonds). The demand was completely satisfied. Accordingly, the demand was focused on 10- and 15-year ST-Bonds with the share of 95.5 percent of total sales for the whole quarter).

During Q1, the volume of ST-Bonds¹ in circulation increased by 1.0 percent and amounted to KGS 71.3 billion. The structure of ST-Bonds holders remained almost unchanged: the share of institutional investors increased from 46.9 up to 48.7 percent, the share of commercial banks, on the contrary, decreased from 28.0 down to 26.6 percent, and the share of resident legal entities – from 8.1 down to 8.0 percent.

¹Excluding ST-Bonds nominated in foreign currency

Interbank Credit Market

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



In Q1 2022, activity in the interbank credit market was moderate, comparable to the average values in the previous quarters.

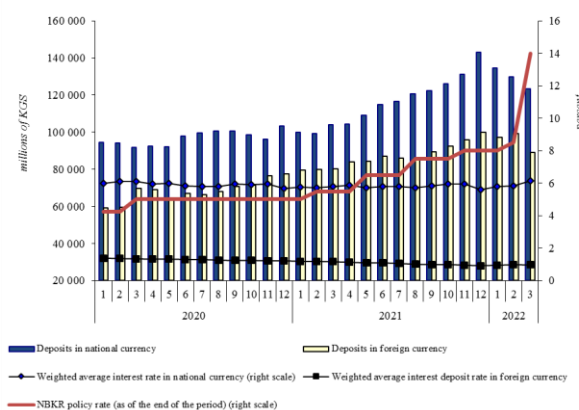
In January-March 2022, the volume of transactions conducted in the interbank market decreased by 10.5 percent compared to Q4 2021 and amounted to KGS 6.9 billion. 155 REPO transactions were conducted during these months. The standard transactions in foreign currency were not conducted since August 2021, and those in the national currency were not conducted

since April 2019.

In Q1 2022, the weighted average rate in the interbank market increased compared to 6.76 percent in the previous quarter and stood at 10.12 percent. The weighted average maturity of the interbank credits increased up to 5 days (in Q4 2021 - 4 days).

Deposit Market

Chart 3.2.4. Dynamics of Commercial Banks' Deposits



In January-March 2022, deposits in the national and foreign currency decreased amid volatile situation in the foreign exchange market.

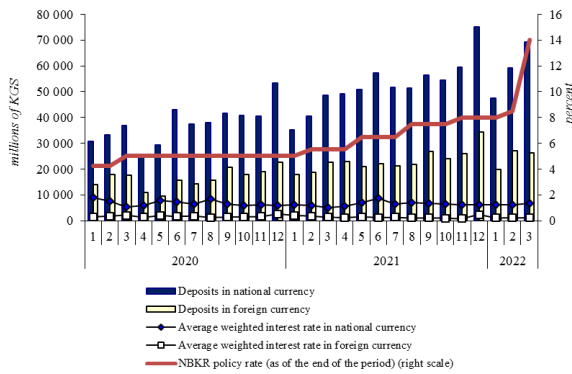
By the end of March, the deposit base in the national currency decreased by 13.8 percent compared to December 2021. This is mainly due to a decrease of funds in settlement accounts by 33.5 percent, which previously demonstrated a similar accelerated growth at the end of 2021. Time deposits in the national currency increased by 0.8 percent year-to-date.

The deposit base in foreign currency decreased by 10.9 percent, meanwhile time deposits in foreign currency decreased by 11.3 percent.

Dollarization of deposits increased by 0.8 percentage points, up to 41.9 percent. Dollarization adjusted to exchange rate increased by 1.2 percentage points, up to 42.4 percent.

Due to a significant decrease in the share of the settlement accounts, as of the end of March 2022, the total duration of the deposit base increased by 0.3 percent and amounted to 4.9 months. In March 2022, the share of time deposits increased by 1.9 percentage points year-to-date and amounted to 59.1 percent in the structure of individuals' deposits in the national currency.

Chart 3.2.5. Dynamics of Commercial Banks' Deposits Flows



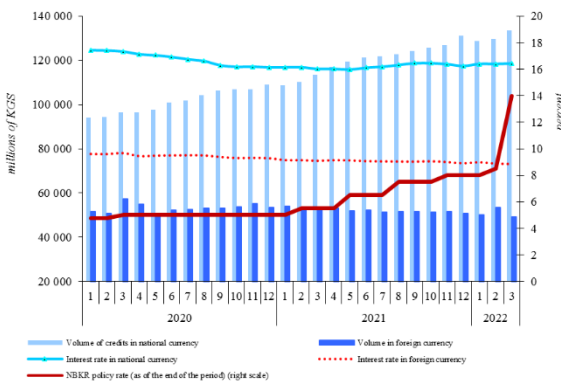
The interest rates on time deposits in the national currency continued to grow since 2021, reflecting increased competition among the banks to receive population's deposits amid tightening monetary policy and high inflation rate. In March 2022, the interest rate on term deposits in the national currency (balances) increased by 0.2 percentage points compared to December 2021 and constituted 11.1 percent. Generally, the interest rate on the deposit base increased by 0.5 percentage points due to increased share of time deposits with a high interest

rate.

The concentration index¹ in the deposit market decreased by 0.02 percentage points year-to-date, down to 0.09, as of the end of the reporting period, which corresponds to the average level of concentration with ten participants with equal shares in the market.

Credit Market

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



The commercial banks' credit portfolio increased slightly due to an increase of the credits in the national currency.

Credits in the national currency increased by 1.8 percent in March 2022 since December 2021. At the same time, the rate of lending in the sectors of consumer credits, trade, mortgages and agriculture was above average. The volume of the credit portfolio in industry and construction decreased year-to-date.

The credit portfolio in foreign currency continued to decrease by 2.9 percent

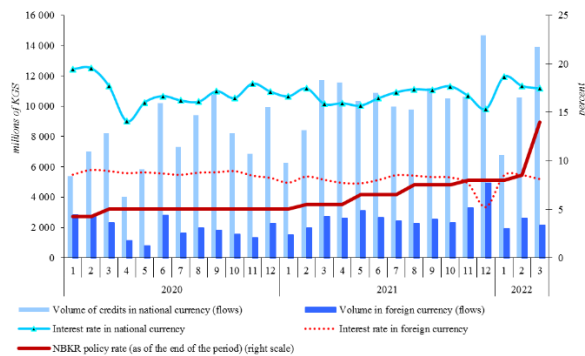
year-to-date.

Due to this dollarization of the credit portfolio continued to update the historically low value and in March decreased by 0.9 percentage points compared to December 2021, to make 27.0 percent. Dollarization adjusted for the exchange rate decreased by 0.6 percentage points, down to 27.3 percent.

In January-March 2022, duration of new credits in the national currency decreased by 1 month compared to the corresponding quarter of 2021 and amounted to 22 months. Duration in foreign currency increased by 5 months and amounted to 35 months.

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

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



In January-March 2022, the interest rates of the credit portfolio in the national currency increased amid tightening of the monetary policy. In March, the interest rates on credits in the national currency increased by 0.2 percentage points year-to-date and amounted to 16.4 percent. The interest rates on credits in foreign currency decreased by 0.1 percentage point and amounted to 8.3 percent.

The credit market general concentration index 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 among 12 banks. The sectoral concentration index was 0.32, which is equivalent to three main credit sectors.

At the end of March 2022, the qualitative characteristics of the credit portfolio were as follows: the share of overdue loans in the credit portfolio increased by 0.2 percentage points year-to-date and amounted to 2.7 percent. The share of extended loans in relation to the credit portfolio decreased since the beginning of 2021, but still remains at a high level, the value of the indicator amounted to 10.9 percent in March 2022 (having decreased by 1.1 percentage points since December 2021), which reflects a decrease of the stability risks in the banking system.

3.3. Dynamics of Monetary Indicators

Monetary Base

The growth rate of the monetary base slowed down due to the National Bank’s foreign exchange transactions and the government’s fiscal transactions. In Q1 2022, the monetary base decreased by 1.7 percent and amounted to KGS 154.3 billion, while the decrease observed in January-February was due to a significant excess of the government’s revenue operations over expenditures. In March, reserve money increased again amid growth of the public sector expenditures.

Annual growth rates of monetary aggregates, excluding money outside banks, demonstrated a slowdown due to the deposits reduction. At the end of the reporting quarter, money outside banks (M0) amounted to KGS 123.9 billion (decreased by 0.8 percent during the quarter), meanwhile the annual growth was 5.7 percent. At the same time, in January, M0 decreased by KGS 9.7 billion compared to the previous month, while in February-March, there was an increase by KGS 8.7 billion to have an effect on excess liquidity in the banking system.

In Q1, the volume of money supply (the monetary aggregate M2X) decreased by 9.3 percent and amounted to KGS 308.0 billion at the end of the period, meanwhile the annual growth was 9.5 percent. Decrease in money supply was conditioned by reduction of M0, deposit base and change in value of deposits in foreign currency due to exchange difference. It should be noted that the slowdown in the annual growth rate of monetary aggregates, which include deposits, was due to the reduction of the latter. During the reporting period, the annual growth rate of the deposit base decreased from 33.4 down to 12.1 percent, deposits in the national currency decreased from 35.2 down to 12.2 percent, and those in foreign currency – from 30.9 down to 12.1 percent.

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

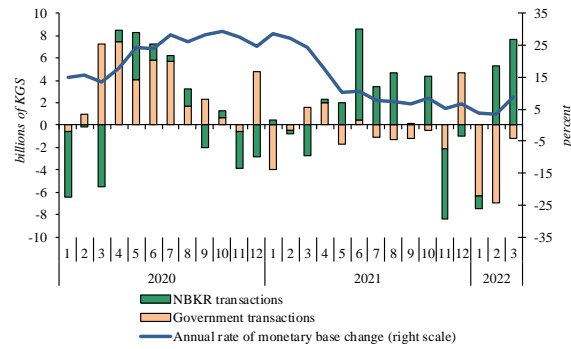
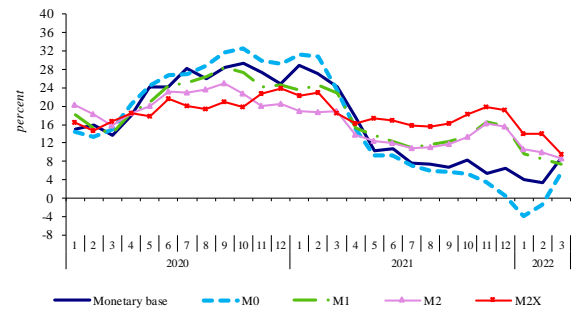


Chart 3.3.2. Nominal Growth Rates of Monetary Aggregates (in annual terms)



Chapter 4. Inflation Dynamics

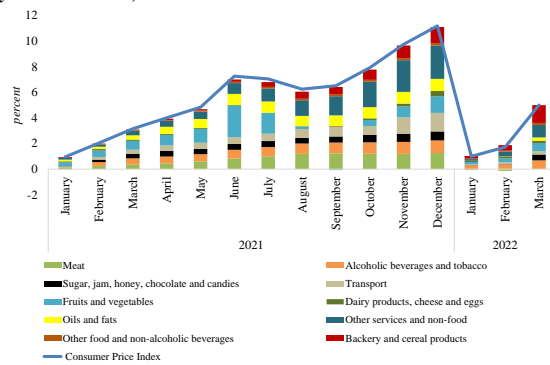
In Q1 2022, the inflation rate in Kyrgyzstan was higher compared to the National Bank's expectations. Strengthening of the external inflationary environment primarily amid acceleration of the inflation rate due to the tense situation in Ukraine was the main factor of price growth. Volatility of KGS exchange rate put additional pressure on high inflation dynamics. These factors influenced increase in domestic prices in the country due to the high share of import in the consumption of food products.

Since late February 2022, the food market of Kyrgyzstan demonstrated rush demand for basic foodstuffs from the population due to the tense situation in Ukraine.

Rise in prices for socially important food products had an upward impact on inflation expectations of the population and the entrepreneurs.

4.1 Consumer Price Index

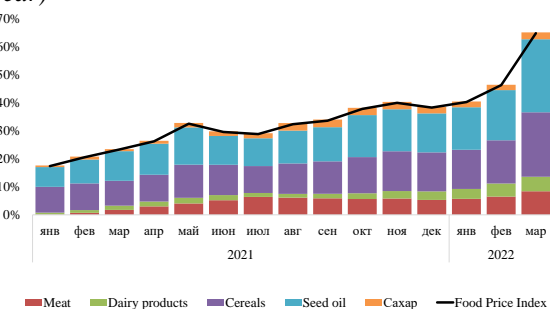
Chart 4.1.1. Dynamics of CPI Contributions
(year-to-date)



In Q1 2022 (quarter to the corresponding quarter of the previous year), the annual inflation rate was 11.7 percent. In March 2022, prices increased by 13.2 percent in annual terms (March 2022 to March 2021). During Q1 2022, inflationary processes were driven by the global upward trend in food prices, as well as certain pressure amid tense geopolitical situation in the region.

The impact of rise in food prices is significant due to the fact that imported goods have a large share in the CPI structure.

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



In Q1 2022, prices for food products increased by 13.5 percent compared to the corresponding quarter of the previous year. In Q1 2022, “bakery products and cereals”, “vegetables”, “meat”, “oils and fats”, as well as “sugar” were the products that made the main contribution to the growth of food inflation. The main fundamental reasons for this growth were an increase in food prices in the world and the region amid rise in quotations in the world food markets, as well as the tense geopolitical situation. In addition, factors such as dry winter and insufficient water during the growing season together had the most significant impact on an increase in prices for food products in the region. At the same time, in March 2022, there was an additional rush demand for socially important basic-needs products such as flour, sunflower oil and sugar.

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

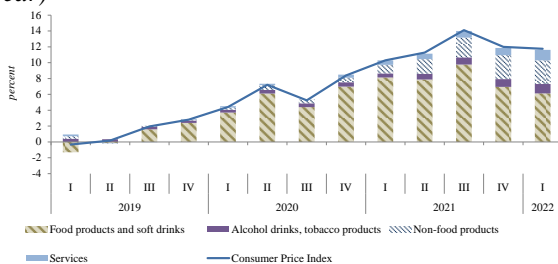


Chart 4.1.4. Dynamics of Food Prices' Contribution to Annual CPI

In the reporting period, rise in the world prices was followed by ongoing upward trend in food prices in the country. Thus, price growth was demonstrated for almost all positions in the group of food

(month to the corresponding month of the previous year)

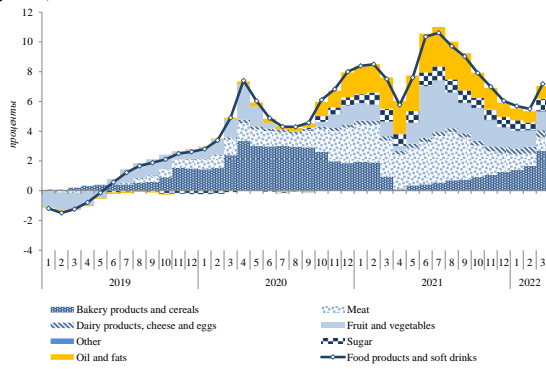


Chart 4.1.5. Dynamics of Non-Food Prices' Contribution to Annual CPI
(month to the corresponding month of the previous year)

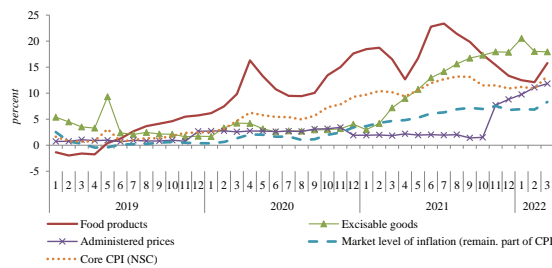
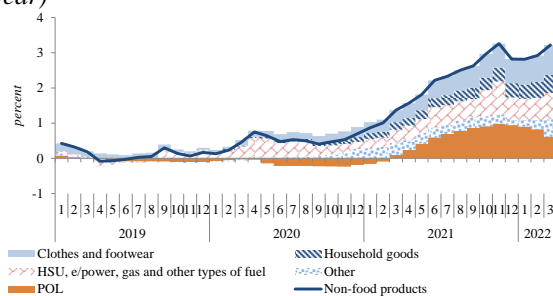


Chart 4.1.6. Dynamics of CPI by Groups of Commodities
(month to the corresponding month of the previous year)



products amid an upward trend in the world markets. This trend was recorded in all EAEU member countries.

In Q1 2022, non-food inflation increased by 10.3 percent compared to the same period of 2021. Price upsurge in the category “gasoline” and “diesel” by 61.6 and 58.0 percent, respectively, as well as in the commodity group “clothes and footwear” – by 7.3 percent made the largest contribution to an increase in prices for this group of goods. In addition, the group “housing services, water, electricity, gas and other fuels” made a significant contribution by 6.8 percent due to an increase in prices for coal.

Prices for petroleum, oil and lubricants remained relatively high due to rise in oil prices in the world commodity markets, along with an increase in selling prices at the Russian refineries, maintaining the trend of 2021.

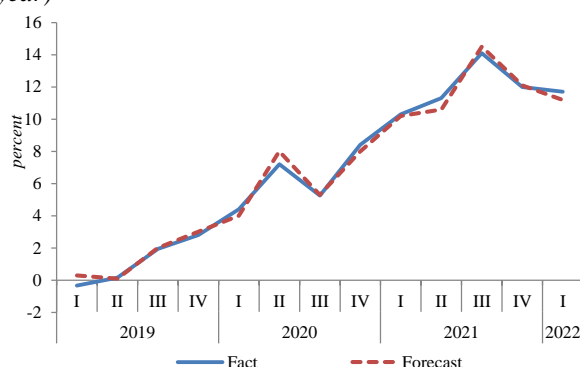
In the reporting quarter, the CPI for tobacco products and alcohol drinks increased by 13.6 percent amid the planned increase in excise rates.

Market inflation continued to accelerate and amounted to 8.3 percent in March 2022. In Q1 2022, the core inflation indicator (excluding food and energy products), calculated by the National Statistical Committee of the Kyrgyz Republic, was 13.3 percent in annual terms.

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 Q1 2022, the actual inflation rate increased by 0.5 percentage points compared to the expectations of the National Bank.

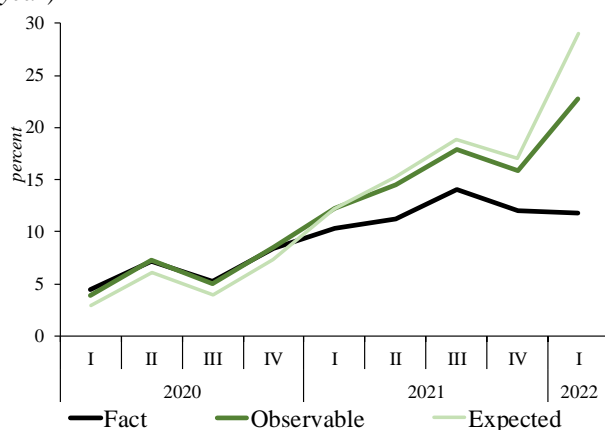
The deviation of the actual inflation rate from the expected one was due to lower assumptions amid rise in prices for food products, as well as due to the consequences conditioned by the geopolitical events in the region.

4.3. Inflation Expectations

In Q1 2022, inflation expectations according to the survey of the NSC KR increased significantly. The expected inflation indicator among the population during the next three months was 29.0 percent being the highest value in the history of observations. Inflation expectations increased in all groups of goods and services among the population. According to the results of the enterprises survey conducted by the NSC KR on a monthly basis, inflation expectations of the domestic producers increased sharply in March. The indicator of expected enterprise inflation during the next 12 months reached the level of 22.6 percent.

Chart 4.3.1. Actual Inflation Value and Expected Inflation of Households

(quarter to the corresponding quarter of the previous year)

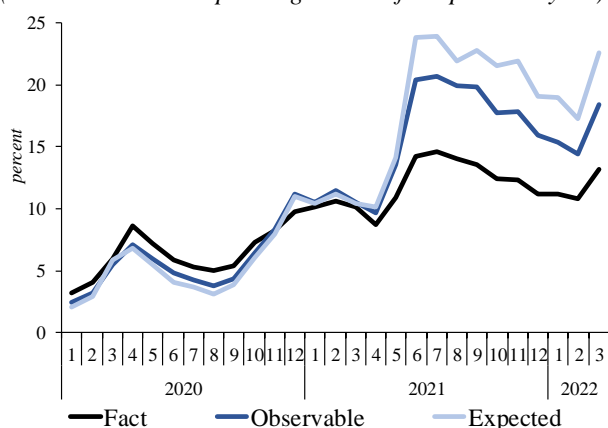


inflation rate in March 2022.

In Q1 2022, price expectations of the population are at a historically high level. Such significant rise in expectations of price growth is conditioned by a sharp depreciation of KGS against the U.S. dollar due to the exchange rate shock since late February till March 2022. The population survey was conducted throughout Q1, thus the assessment of future price growth may be slightly conservative. The gap between expected and observed inflation rate continued to increase (Chart 4.3.1) since Q2 2021. It means that there is a steady trend among the population to expect high prices. Accelerated inflation growth observed since the end of 2021 is due to the high

Chart 4.3.2. Actual Inflation Value and Expected Inflation of Enterprises

(month to the corresponding month of the previous year)



In March, the enterprises sharply adjusted upward their price expectations (Chart 4.3.2), primarily due to depreciation of the national currency. There is a relatively large gap between observed and actual inflation of the enterprises during 10 months, which reflects the presence of some uncertainty among the entrepreneurs. In March, the producer prices for industrial products increased by 24.9 percent in annual terms. There was a double-digit increase in producer prices in many sectors of processing industry at the end of the current quarter due to rise in prices for imported components. The enterprises will

continue to transfer increased costs to selling prices to have indirect impact on consumer inflation.

The main reason for concerns about future price upsurge is the sharp fluctuations in the KGS/USD exchange rate during the last month of the quarter. Respondents make their assumptions about price movement based on past inflation rates being perceived. The difference between actual and perceived inflation rate can be explained by the fact that the set of goods and services consumed is individual for each person. Whereas the overall CPI covers a broader basket of goods and services. As a result, current high inflationary expectations move the risk balance towards further rise in prices. It is a factor of inflation longer deviation from the medium-term target.

Chapter 5. Medium-Term Forecast

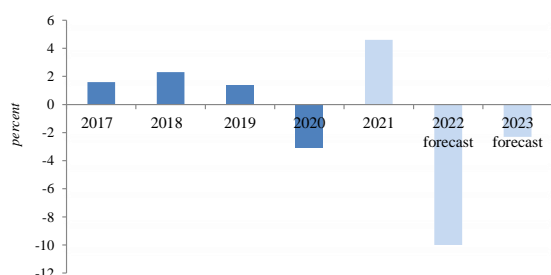
5.1. External Environment Proposals

5.1.1. Development Forecast of Main Trading Partner Countries

Russia

Chart 5.1.1.1. Real GDP Growth in Russia

(% год к году)



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

According to the Bank of Russia, GDP of the country will decrease significantly in 2022 due to sanctions strengthening.

In Q2-Q3, the Bank of Russia forecasts that there will be a period of structural economic transformation in Russia being accompanied by a change in the weight of industries in the economy and will result in reduction of output compared to Q4 2021. Significant shocks due to geopolitical escalation, affecting key production processes, may condition more significant

and prolonged reduction in supply compared to demand.

In this regard, according to the Bank of Russia estimates, GDP will decrease by 8.0-10.0 percent at the end of 2022, with the lowest point of GDP dynamics decline expected in Q4. The largest consecutive decrease in output will be observed in Q2 and Q3 2022, and the return to positive consecutive growth rates is expected by the end of 2022. Generally, in 2023, GDP will change between (-)3.0 and 0.0 percent due to the base effect in Q1 2022. In 2024, the GDP rate will be within the range of 2.5-3.5 percent.

According to the preliminary estimate of the Ministry of Economic Development, the economic recession in Russia is expected at 8.8 percent in 2022 in the forecast baseline scenario, with subsequent growth by 1.3 percent in 2023, 4.6 percent – in 2024, and 2.8 percent – in 2025. The forecast conservative scenario estimates GDP decrease by 12.4 percent in 2022, with a subsequent decline by 1.1 percent in 2023.

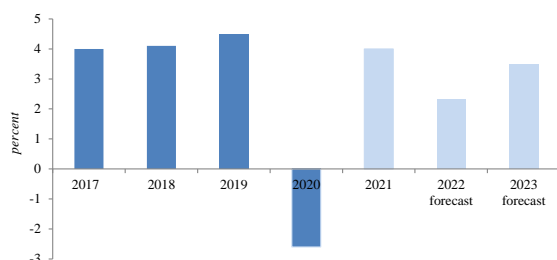
Meanwhile, the International Monetary Fund expects the economic recession in Russia by 8.5 percent in 2022, with slowdown in decline down to 2.3 percent in 2023. At the same time, the World Bank forecasts GDP decrease by 11.2 percent in Russian in 2022. In 2023 and 2024, GDP in Russia is expected to grow by 0.6 percent and 1.3 percent, respectively.

Due to the fact that many imported goods have become unaffordable, the impact of supply shocks will dominate in the inflation dynamics in 2022. The Bank of Russia forecasts that the annual inflation rate will be at 18.0-3.0 percent in 2022, decrease down to 5.0-7.0 percent in 2023, and return to 4.0 percent in 2024. At the same time, the Ministry of Economic Development estimates the inflation rate above 20.0 percent in 2022, 6.2 percent – in 2023, and 4.0 percent – in 2024.

Kazakhstan

Chart 5.1.1.2. Real GDP Growth in Kazakhstan

(year to year)



Source: IA Bloomberg, international financial institutions

2023. Trade disruptions, decrease in business confidence and increased volatility in the exchange rates will also condition slowdown of economic growth rate in Kazakhstan.

According to the IMF's estimate made in April, GDP of Kazakhstan will decline from 3.8 percent down to 2.3 percent in 2022. Updated forecast for 2023 assumes the economic growth by 4.4 percent (instead of 3.1 percent).

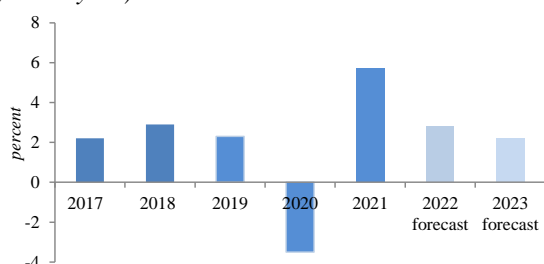
At the same time, according to the EBRD forecast significant economic slowdown in Kazakhstan, and forecasted indicators will be achieved if the commodity prices remain high and Kazakhstan maintains access to the export market. Thus, the economic growth in Kazakhstan is expected at 2.0 percent in 2022 and 2.5 percent in 2023.

According to estimates of the National Bank of the Republic of Kazakhstan, the main risks for inflation in the short term are related to significant fiscal impulse with positive economic dynamics, growth of internal and external demand, rise in the world prices for food products, raw materials and finished products, high inflation expectations, disruption of supply chains, imports of high inflation from the main trading partners. In this regard, the government of Kazakhstan revised the inflation forecast for 2022 upward from 4-6 up to 8-10 percent.

USA

Chart 5.1.1.3. Real GDP Growth in the USA

(year to year)



Source: IA Bloomberg, international financial institutions

the forecasts for 2023-2024 remained at 2.2 percent and 2.0 percent, respectively.

The IMF forecasts economic slowdown in the USA from 4.0 percent down to 3.7 percent in 2022 and from 2.6 percent down to 2.3 percent in 2023. The USA is expected to return to its pre-pandemic output growth by the end of 2022.

In the reporting period, further risks to the economy increased due to deterioration of the economic situation in the world amid GDP decrease in the USA. Foreign trade turnover may suffer pressure in the near term due to economic growth slowdown in the US foreign trade partners - the EU and China - as a result of geopolitical effects and lockdowns. There are some

Generally, the estimates of GDP growth in Kazakhstan were revised downward under the conditions of geopolitical tension and stable uncertainty of further world economic development.

According to the estimates of the World Bank made in April, the economic growth of Kazakhstan will make 1.8 percent in 2022 and 4.0 percent in 2023. According to the World Bank's forecasts, in January, the economic growth in Kazakhstan was expected at 3.7 percent in 2022 and at 4.8 percent in

The forecasts were revised downward due to increased geopolitical risks, as well as the ongoing negative effects of the pandemic.

Geopolitical effects on the U.S. economy are very uncertain, however, they are expected to put additional upward pressure on inflation and decrease economic activity in the near future.

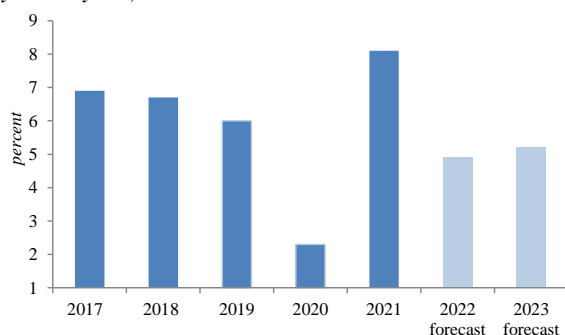
Based on the outcomes of the meeting held in March, the US Federal Reserve System decreased its forecast for GDP growth in 2022 from 4.0 percent down to 2.8 percent;

risks to consumer demand amid accelerating inflation, which can condition slowdown in demand for durable goods.

Bloomberg analysts believe that the risk of economic recession in the USA will depend on the degree of inflation reduction by the US Federal Reserve System and the level of rate increase to achieve it. The US Federal Reserve System raised its PCE inflation¹ forecast for 2022 from 2.6 percent up to 4.3 percent, for 2023 – from 2.3 percent up to 2.7 percent and for 2024 – from 2.1 percent up to 2.3 percent. The US Federal Reserve System assumes that further increase of the basic rate at the next few meetings are likely to be reasonable to restrain inflation.

China

Chart 5.1.1.4. Real GDP Growth in China
(year to year)



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

Analysts expect April data for economic development in China to be worse as quarantine in Shanghai and other cities is extended. China was focused on slowdown in economic growth down to about 5.5 percent in 2022, however some analysts say that it may now be difficult to achieve without more active stimulus measures.

The Chinese government announced about additional fiscal incentives in the current year, as well as about increased issue of local bonds to finance infrastructure projects and tax reduction or deferral for the enterprises. Some

analysts expect a decrease of LPR rate by 10 basis point for 1 year, while others are not sure that a decrease of rates will help to stop economic recession in the near future as factories and enterprises suffer difficulties and the consumers remain cautious about expenditures. Given that other major regulators, including the US Federal Reserve System, intend to increase interest rates significantly or are already doing so, stronger easing in China can stimulate potentially destabilizing capital outflows as the investors convert money into high-yielding assets.

The IMF estimates that the forecast for economic growth in China in 2022 was decreased by 0.4 percentage points, down to 4.4 percent and for 2023 – by 0.1 percentage point, down to 5.1 percent. Zero-coronavirus strategy conducted in China entails escalation of restrictive measures to affect negatively the level of personal consumption in China and the overall economic growth in the country. This, in turn, has significant consequences for the entire Asia-Pacific region. The IMF notes that external demand for goods and services from China will decrease due to the situation between Russia and Ukraine. At the same time, the fund estimates that these factors are partly offset by more favorable macroeconomic policy inside China.

Economists surveyed by Bloomberg agency revised their forecasts for economic growth in China for 2022 downward to 4.9 percent from previous 5.0 percent. Expectations were decreased amid a new coronavirus outbreak and strict measures taken to control it.

Consumer price growth is expected to be restrained at about 3 percent according to the economic and social development plan of China for 2022. Currently, most analysts expect the People’s Bank of China to decrease borrowing costs and reduce reserve requirements for the banks or decrease the interest rates to stimulate the economy.

5.2. Medium-Term Forecast

Taking into account the open economy of the Kyrgyz Republic, trends in the foreign economic environment determine a significant part of the prospects for economic development in the country. In this regard, the medium-term forecast is made with maximum possible account of

¹ The Personal Consumption Expenditure Price Index (PCE inflation) is among inflation indicators in the USA that tracks changes in prices of goods and services purchased by the consumers throughout the economy. PCE includes the broadest set of goods and services among all indicators of consumer price inflation.

shocks and prerequisites of the external environment development, based, among other things, on expert assessments and forecasts of the world research agencies and institutions. Uncertainty of external and internal conditions is taken into account by the National Bank of the Kyrgyz Republic in monetary policy development through model building and analysis of various scenarios.

In Q1 2022, economic activity demonstrated stable gradual recovery, as evidenced by relatively high economic growth in the Kyrgyz Republic. At the same time, there are risks of weak growth in the agricultural sector due to the lack of irrigation water, rise in prices for POL and mineral fertilizers.

The analysts forecast stabilization of the current unstable movement of energy prices amid escalation of the conflict between Russia and Ukraine in the near future. Growth of prices for the main agricultural crops is observed in the world food markets accelerated amid expected reduction in cereals and oilseed crops yields in the northern hemisphere at the beginning of the next agricultural season (September 2022). In 2023, prices for food products are expected to be adjusted downward.

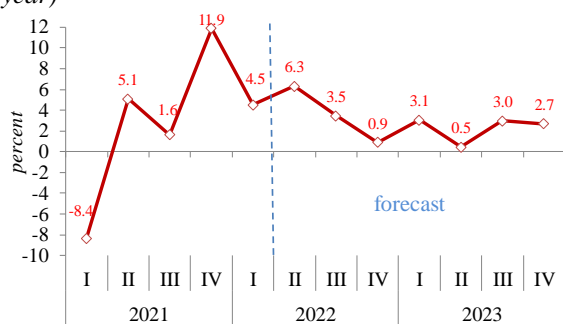
According to the experts' estimates, the negative output gap will decrease during the forecast period, however, the potential GDP growth will be observed only by the beginning of 2023. Recovery will require some time and reforms to be introduced by the government of the country. The current report includes conservative forecasts for GDP growth in the coming year considering all conditions and risks.

Tightening of monetary and fiscal policies had a restraining effect on aggregate demand, followed by a gradual weakening of the inflationary environment. However, inflation remains relatively high and exceeds its equilibrium level, which, among other things, is conditioned by stably high inflation expectations of the economic agents. The above-mentioned factors slow down the speed to achieve the medium-term inflation target of 5-7 percent.

The following forecast of the key macroeconomic indicators of the Kyrgyz Republic for 2022-2023 was developed considering the emerging trends in economic development of the trading partner countries, as well as the price dynamics in the world commodity markets in the medium term.

Real sector of economy in Kyrgyzstan will demonstrate moderate growth in 2022.
The GDP gap will be negative and have a weak deflationary effect during 2022.

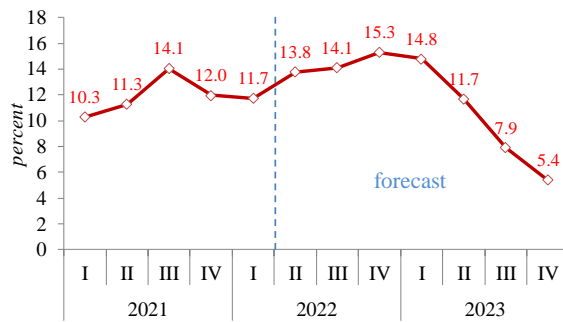
Chart 5.2.1. Forecast of Real GDP
(quarter to the corresponding quarter of the previous year)



At the end of 2022, the real GDP growth will be at about 3.4 percent, excluding the enterprises of the Kumtor Mine, GDP growth will be at about 3.0 percent. The production output at the enterprises of the Kumtor Mine is expected to increase compared to 2021. In terms of sectors, economic growth will be supported by agriculture (due to livestock and crop production), as well as trade and construction.

In 2022, the inflation rate as of the end of the year (December to December of the last year) is expected at about 15.5 percent. The average annual inflation rate will make 13.8 percent. The inflation rate is expected to return to the medium-term target closer to 2024. The current forecast was revised upward due to unstable foreign economic situation.

Chart 5.2.2. Inflation Forecast
(quarter to the corresponding quarter of the previous year)



Russia and Ukraine are among the world's large agricultural producers. Current inflation forecasts include expectations of a decline in yields of the main agricultural crops in Ukraine, as well as the effects of sanctions pressure on the Russian economy.

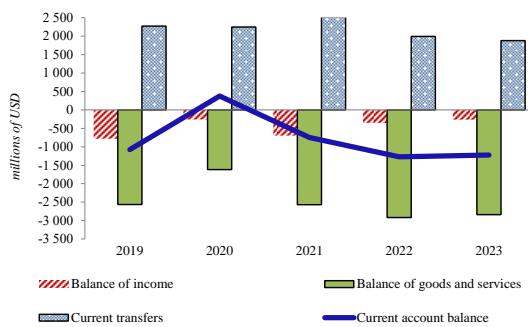
In June 2022, according to the resolution of the Cabinet of Ministers of the Kyrgyz Republic on medium-term tariff policy, prices for electricity and hot water supply, as well as for heat energy are expected to increase with onset of the heating season 2022-2023. In addition, the current forecast takes into account a possible increase in excise rates for alcoholic drinks and tobacco products in 2023.

Forecast for the Balance of Payments in 2022-2023¹

The forecast of the country's balance of payments indicators for 2022 was formed under the influence of geopolitical events, inflationary factors, and the negative effects of the pandemic, and is characterized by a high degree of uncertainty.

The current account deficit is expected to increase, to make 13.2 percent of GDP. The deficit of the balance of goods and services will increase amid reduction of remittances.

Chart 5.2.3. Forecast Data on Current Account
(millions of USD)



In the forecast period, external trade of the country will be affected by logistics chains rearranging in the region and increased trade volumes after the pandemic period. In addition, export and import will be influenced by the stable upward trend in the world prices for food products and energy resources.

Export is expected to decrease compared to 2021 due to decline in gold supplies. Export will be significantly supported by the supplies of food products, textile and apparel production goods. Export, excluding gold, is expected to increase by

17.3 percent compared to 2022.

Growth in supplies of energy products to the country estimated at 22.0 percent under the influence of the price factor will condition an increase in import. In addition, rise in prices and physical volumes is expected to influence an increase in import of consumer and intermediate goods.

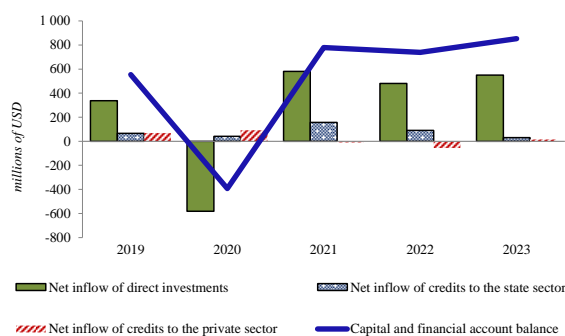
Expected contraction of the Russian economy, the main recipient of domestic migrants, may affect private transfers, net inflow thereof is estimated to decrease by 20.3 percent compared to 2021. At the same time, a smaller inflow of official transfers compared to the last year is assumed in the forecast period. The services item will be formed under the

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

impact of further recovery in international travel as well as transport services due to gradually increasing passenger and freight traffic and increased prices for these services.

Chart 5.2.4. Forecast Data on Capital and Financial Account

(millions of USD)



Capital inflows on the financial and capital account are forecasted to be moderate. Foreign direct investments and loan funds of the public sector will be the main source of financial capital inflow. Expected volumes of servicing previously received loans of the private sector will remain significant with a moderate inflow of private capital.

In 2023, development of the external economic sector is estimated to be restrained amid slow recovery of the global economy in the post-pandemic period and increased uncertainty in the

world.

In 2023, the current account deficit is expected at 12.0 percent to GDP due to a large trade deficit amid negative private transfer inflows and the assumption of stable upward trend in international travels. The trade deficit is estimated to be equal to the level of 2022. Positive growth in imports and exports was forecasted at 1.9 percent and 4.3 percent, respectively. The dynamics of current transfers will decrease by 5.8 percent compared to 2022 due to reduction remittances. In 2023, there is a risk of insufficient inflow of foreign capital on the capital and financial account, which may require additional funding from the National Bank's international reserves. A significant share of capital inflows is expected to be provided by direct foreign investments and other investments to the private sector. There will be an increase in the liabilities of the public and private sectors under the borrowed capital, and the trend of increased servicing of previously received loans and borrowings will still be observed.

The following risks are still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2022-2023:

- geopolitical uncertainty;
- uncertainty associated with outbreaks of the COVID-19 new variants;
- the risks associated with the Kumtor Mine and other precious metal deposits;
- volatility in the world prices for oil, gold and food products;
- deterioration of the economic situation in the trading partner countries;
- volatility in the exchange rate of the main trading partner countries;
- growing debt burden of the public and private sectors.

Annex 1. Key Macroeconomic Indicators

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

Indicator	Unit of measure	2020				2021				2022
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
1. Demand and supply¹ (real growth rates, if otherwise is not indicated)										
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	145869,2
GDP	%	2,3	-11,8	-7,5	-12,8	-8,4	5,1	1,6	11,9	4,5
GDP, excluding Kuntor	%	1,5	-14,3	-8,0	-11,6	-4,0	10,3	2,3	6,0	3,8
Domestic consumption	%	5,0	-19,0	-2,5	-8,3	-1,9	26,3	4,6	15,8	
Investment	%	-40,0	-47,2	-30,1	-10,8	8,0	-116,1	24,1	54,8	
Net export	%	-27,1	-67,2	-27,4	14,1	30,2	10,8	67,3	93,6	
<i>GDP production:</i>										
Agriculture	%	0,6	0,7	1,0	0,7	1,7	-1,5	-7,6	-5,0	2,3
Industry	%	4,4	-2,7	-8,2	-18,6	-15,2	-5,2	1,3	44,9	8,3
Construction	%	-2,5	-12,7	-5,7	-25,0	-19,8	-12,7	-3,3	1,9	2,2
Services	%	1,9	-17,8	-11,7	-9,4	-5,1	14,6	8,5	7,3	3,4
including trade	%	3,6	-30,9	-14,8	-14,2	-12,2	35,2	12,3	12,2	6,3
2. Prices²										
CPI	%	104,4	107,2	105,3	108,4	110,3	111,3	114,1	112,0	111,7
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	113,2
Core inflation	%	103,5	105,8	105,3	108,1	110,1	110,6	113,0	111,3	111,8
<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	113,5
Non-food products	%	100,9	102,1	101,6	102,0	103,7	106,4	108,6	110,4	110,3
Alcohol drinks and tobacco products	%	104,2	105,3	105,7	106,3	106,0	108,3	110,4	111,3	113,6
Services	%	101,0	101,0	100,0	102,3	103,3	104,1	105,0	105,4	107,9
<i>CPI, classified by character:</i>										
Excisable goods	%	103,1	103,3	102,8	103,4	102,1	102,3	115,5	117,7	118,8
Regulated prices	%	102,7	102,7	102,8	102,8	102,7	102,7	101,8	106,0	110,9
Market inflation rate (the rest of CPI)	%	100,8	101,9	101,3	102,6	101,0	102,2	106,8	107,1	107,4
3. External sector³ (in percent to GDP)										
Trade balance	% to GDP	-27,5	-22,3	-18,3	-18,6	-19,7	-18,8	-22,8	-27,5	-35,3
Current transaction account	% to GDP	-9,0	-4,0	0,4	4,8	3,7	5,5	-0,4	-8,7	-17,0
Export of goods and services	% to GDP	34,7	34,3	33,5	31,6	26,0	34,3	34,0	33,2	31,6
Import of goods and services	% to GDP	61,5	56,3	53,2	52,5	45,7	53,0	56,7	60,8	66,9
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	83,3090
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	14,00
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	12,00
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	16,00
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	6,76	10,12
<i>of which:</i>										
of REPO transactions	%	3,55	3,85	3,97	3,84	4,15	5,32	6,52	6,76	10,12
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	6,57	11,86
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	6,93	11,45
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	7,26	11,09
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	8,80
Money outside banks (M0)	%	14,9	26,9	31,7	29,3	23,7	9,2	5,8	0,5	5,70
Monetary aggregate (M1)	%	14,0	24,4	28,4	24,7	22,9	12,4	12,3	15,7	7,40
Narrow money supply (M2)	%	15,9	23,1	24,9	20,5	18,9	12,0	11,7	15,6	8,60
Money supply (M2X)	%	16,7	21,7	21,0	23,9	18,6	16,9	16,2	19,1	9,50

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 Q1 are preliminary

Annex 2. Glossary

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

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

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

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

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

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

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

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

M0 – cash in hands.

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

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

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

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

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

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

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

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

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

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

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

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

State Treasury Bills are the short-term (3-, 6-, 12-month) discount government securities of the Government of the Kyrgyz Republic. The Ministry of Finance of the Kyrgyz Republic is the issuer of the ST-Bills. Placing issues of the ST-Bills is made through weekly auctions conducted by the National Bank of the Kyrgyz Republic. Direct participants enjoy the right to participate in the auctions. The owners of the ST-Bills of the Kyrgyz Republic can be both the legal entities and the individuals. The admission of the foreign investors to the market of the ST-Bills is not limited. The transactions in the secondary market of the ST-Bills are conducted through the electronic trading system of the National Bank of the Kyrgyz Republic, which allows the participants to conduct transactions on purchase/sale of the ST-Bills from their workplaces.

State Treasury Bonds are the long-term government securities of the Government of the Kyrgyz Republic with the interest income (coupon) and maturity over one year. The issuer of the ST-Bonds is the Ministry of Finance of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic is the general agent servicing the issues of the ST-Bonds.

Annex 3. Abbreviations

CBRB	Central Bank of the Republic of Belarus
CBRF	Central Bank of the Russian Federation
CBRK	Central Bank of the Republic of Kazakhstan
COVID-19	C Orona V irus D isease 2019
CPI	Consumer Price Index
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
EDB	Eurasian Development Bank
EU	European Union
FOB	Cost at the Exporter's Border (Free on Board)
FRS	US Federal Reserve System
GDP	Gross Domestic Product
IBCM	Inter-Bank Credit Market
IEA	International Energy Agency
IMF	International Monetary Fund
KR	Kyrgyz Republic
LPR	China Loan Prime Rate
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
OPEC+	Organization for Petroleum Exporting Countries
OR	Oil Refinery
PMI	Purchasing Managers Index
POL	Petroleum, oil, lubricants
PPI	Producer Price Index
PRC	People's Republic of China
RA	Republic of Armenia
RB	Republic of Belarus
REER	Real Effective Exchange Rate
RK	Republic of Kazakhstan
ST-Bonds	State Treasury Bonds
ST-Bills	State Treasury Bills
USA	United States of America
WGC	World Gold Council