

**NATIONAL BANK  
OF THE KYRGYZ REPUBLIC**

**Monetary Policy Report  
Quarter 2, 2020**

**Bishkek  
August, 2020**

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

### *Monetary policy in the Kyrgyz Republic*

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

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

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

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

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

Monetary Policy Report for Q2 2020 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No. 2020-П-07/47-1-(ДКП) dated August 24, 2020.

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## Summary

In Q2 2020, the external and internal economic conditions in the Kyrgyz Republic still developed under the impact of shocks formed amid measures taken to prevent the coronavirus infection spread in the world and the region.

Economic activity in the countries-main trading partners of the Kyrgyz Republic remained weak. Prices in the world commodity markets demonstrated multidirectional movement. There was a slight recovery in prices in the oil market amid gradual easing of global restrictions imposed to prevent the coronavirus pandemic spread. Prices for gold have reached nine-year maximum amid escalating conflict between China and the United States, as well as amid concerns about further spread of the pandemic. At the same time, there were no significant inflationary risks for Kyrgyzstan from the world food market; the availability of main food products was ensured by Kyrgyzstan membership in the EAEU and introduction of the regional export quotas in March 2020.

The restrictive measures had a significant impact on the decline of economic activity in the Kyrgyz Republic, meanwhile closure of the borders with the neighboring countries created difficulties for the goods delivery. The most significant economic recession was observed in April – in annual terms, the main recession was observed in the transport sector (-77.5 percent) due to restrictions imposed on transport movement; in trade (-44.2 percent) due to partial temporary suspension of the legal entities' activities in this sector; in industry (-15.1 percent) due to problems with logistics. At the end of the first half of 2020, the economic recession of the Kyrgyz Republic amounted to 5.3 percent, excluding the enterprises of the Kumtor Mine, the recession made 6.9 percent. The inflow of remittances to the country demonstrated a decrease to condition more restrained domestic consumption.

In Q2 2020, the trade balance was formed under the influence of a reduction in import operations in all functional groups and an increase in gold exports. As a result, the trade deficit in the country amounted to USD 108.7 million. The volume of foreign trade turnover decreased by 32.5 percent and amounted to USD 1.1 billion.

The fiscal sector was characterized by the stable active policy on expansion of the state budget expenditure operations with a decrease in tax revenues to the budget due to the effect of restrictive measures. At the end of January-June 2020, the state budget deficit amounted to 7.3 percent to GDP. The primary state budget deficit (excluding interest payments for servicing the public debt) amounted to 5.4 percent to GDP.

Demand and generally high prices for certain types of goods decreased after a relatively high food rush in March-May 2020. By the end of the reporting quarter, prices became stable, taking into account the saturation of the market with seasonal vegetables and fruits amid weakening of rush demand of certain part of the population. In June 2020, the annual inflation rate was 5.8 percent.

Monetary and macroprudential measures taken to prevent the COVID-19 epidemic spread had a supportive impact on the monetary sector. The money market demonstrated a gradual upward trend of the short-term rates, which were within the interest rate corridor set by the National Bank. The participants' activity remained stable in the segments of the interbank credit market and the market of the National Bank's notes mainly for the short-term instruments. The dynamics of the exchange rate remained volatile at the beginning of the reporting period amid existing uncertainties in the world oil markets and a decrease in the inflow of foreign currency into the country. In general, in the reporting quarter, the KGS exchange rate was fluctuating within the range of KGS 73.4726-84.8988 per USD 1.

## Chapter 1. External Environment

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

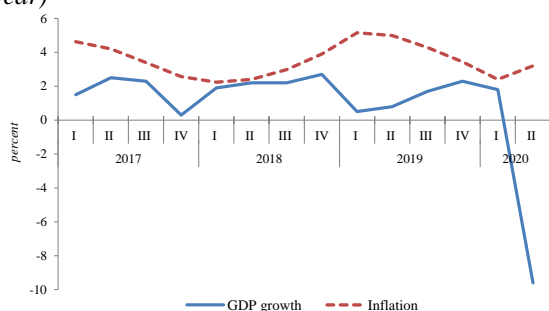
Economic activity in the countries-main trading partners of the Kyrgyz Republic remained weak.

According to the expectations, GDP of Russia decreased amid the pandemic spread and the accompanying negative trends in the economy in the reporting period; meanwhile the inflation rate was below the target of the Bank of Russia. The coronavirus pandemic, as well as the quarantine measures taken by the Government to prevent its impact resulted in economic recession in Kazakhstan and accelerated inflation rate. Economic activity slowdown was still observed in Belarus due to the negative consequences of the coronavirus infection, meanwhile the inflation rate accelerated under the influence of temporary pro-inflationary factors. The economic activity indicator of Armenia demonstrated a decline amid the restrictions imposed due to the COVID-19 virus. The Chinese economy, unexpectedly for all analysts, demonstrated growth in Q2, as well as slowdown in the inflation rate mainly due to measures taken by the Government. In Q2 2020, the US economy demonstrated an unprecedented recession mainly due to a demand shock amid restrictive measures taken to fight against the coronavirus infection.

#### 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

In the conditions of the OPEC+ agreement on reduced oil production and weak external demand, the mining complex and related industries made a negative contribution to GDP growth in Russia.

The economy in Russia was supported by measures taken by the Government and the Bank of Russia to limit the economic consequences of the coronavirus infection, as well as by easing the monetary policy.

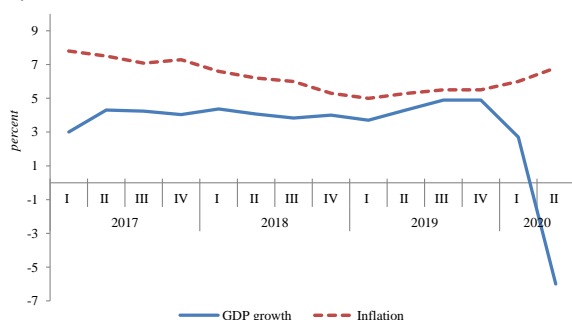
In Q2 2020, the annual inflation rate in Russia slightly accelerated compared to the previous quarter from 2.4 percent to 3.1 percent due to the growth of short-term pro-inflationary factors and the effect of the low base in the previous year. At the same time, disinflationary factors, related primarily to reduced demand in the economy, still existed. The annual growth rate of prices for food products increased up to 3.6 percent, for non-food products – up to 2.9 percent, meanwhile the growth rate of prices for services slowed down to 2.8 percent. At the same time, accelerated growth rates of prices for fruits and vegetables made the main contribution to the increase in the annual inflation rate.

<sup>1</sup> Estimate of the Ministry of Economic Development of the Russian Federation.

## Kazakhstan

### Chart 1.1.2. Growth of GDP and Inflation in Kazakhstan

(quarter to the corresponding quarter of the previous year)



Source: RK Statistics Agency, NBKR calculations

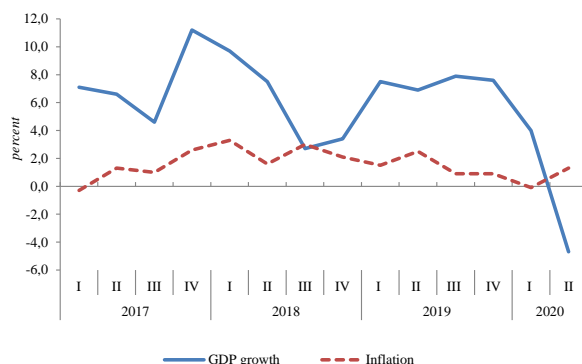
2.2 percent.

In Q2 2020, the annual inflation rate in Kazakhstan formed at the level of 6.8 percent against 5.3 percent in the same period of 2019 and was mainly due to an increase in prices for food products. The main monthly rise in prices was observed in April (+0.9 percent) due to introduction of the quarantine measures, as well as the volatile movement of oil prices.

## 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

Exports decreased by 6.5 percent and amounted to approximately USD 1.1 billion, imports - by 12.9 percent, down to USD 2.0 billion.

The EBRD forecasts that GDP in Armenia will decrease by 3.5 percent in 2020 due to the pandemic impact on the economy. The Armenian economy is expected to recover in 2021, to grow by 5.5 percent. According to the latest forecast of the EDB, in 2020, GDP growth in Armenia is expected to decline by 1.7 percent.

In Q2 2020, there was a significant economic recession in Kazakhstan. In general, for the first half of 2020, GDP in Kazakhstan decreased by 1.8 percent<sup>1</sup> against an increase by 4.1 percent in January-June 2019. This decrease in GDP was due to a reduction in domestic and investment demand amid a decrease in household incomes, which also resulted in a decline in the sector of services. At the same time, the manufacturing sector demonstrated an increase in construction by 11.2 percent, in processing industry - by 4.8 percent, in agriculture - by 2.4 percent and in mining industry - by

In the first half of 2020, the decline in economic activity in Armenia amounted to 4.7 percent amid restrictions imposed in some areas in the conditions of a prolonged state of emergency to prevent the spread of the COVID-19 coronavirus infection.

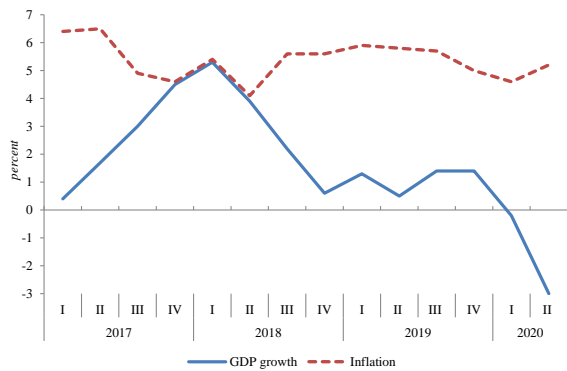
According to the National Statistical Committee of the Republic of Armenia, in the reporting period, a decline was registered in the sectors of construction (23.4 percent), trade (11.1 percent), and services (6.4 percent). The industrial and agricultural production output increased by 1.5 and 1.7 percent, respectively. In January-June 2020, foreign trade turnover decreased by 10.7 percent, down to USD 3.1 billion.

<sup>1</sup> According to the preliminary data of the Ministry of National Economy of the Republic of Kazakhstan.

## Belarus

**Chart 1.1.4. Growth of GDP and Inflation in Belarus**

(in annual terms)



Source: National Statistical Committee of the Republic of Belarus

In terms of industries, negative dynamics was observed in the sectors of industry (-3.1 percent), cargo transportation (-8.8 percent), passenger transportation (-16.3 percent), wholesale trade (-8.9 percent), and public catering (-21.2 percent) in the first half of the year. Positive growth rates were observed in retail trade (+2.6 percent) and in agricultural production (+3.7 percent).

The economy was supported by an increase in consumer lending and an easing of the monetary and fiscal policies.

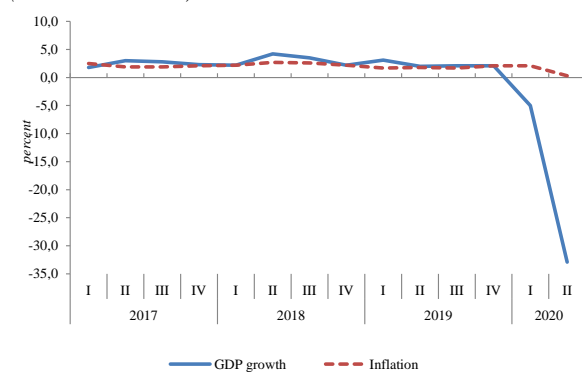
In Q2 2020, the inflation rate in Belarus increased up to 5.2 percent with the target of “no more than 5 percent”. An increase in the growth rates of prices for fruit and vegetable products amid changes in the conditions for supplies thereof from abroad during the period of coronavirus infection was the main factor of the inflation rate acceleration.

The dynamics of core inflation slowed down, the growth of regulated prices and tariffs also decreased amid low business and consumer activity, as well as due to a decrease in volatility of the Belarusian ruble exchange rate. In June 2020, the annual core inflation rate was 3.7 percent against 4.0 percent in March 2020.

## USA

**Chart 1.1.5. Growth of GDP and Inflation in the USA**

(in annual terms)



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

The US economy demonstrated an unprecedented decline in Q2 2020. According to the preliminary data of the US Department of Commerce, US GDP decreased by 32.9 percent in Q2 2020 in annual terms, after a decline by 5 percent in Q1 2020. The decrease in GDP reflects the COVID-19 response measures, which were introduced in March and April and were partially lifted in several regions of the country in May and June.

In Q2, the real GDP decline was due to a decrease in consumer expenditures, exports, investments in inventories, investments in business and housing construction, which was partially compensated by an increase in government expenditures. There was a reduction in imports, which are deducted in GDP calculation.

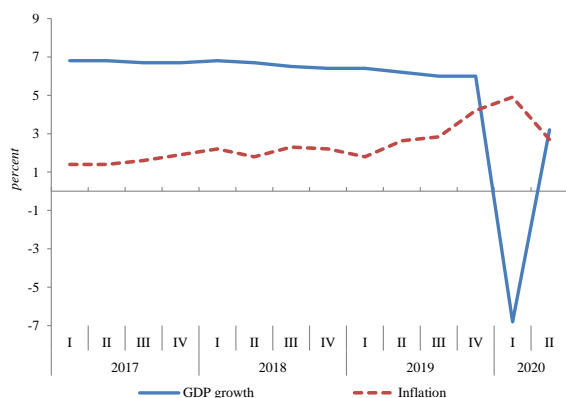
Amid resumption of the companies’ activities, the level of consumer prices in the United States in June increased after three months of decline, however dynamics of inflation remains

moderate to enable the US FRS to continue financial injections into the economy. In June, the consumer price index increased by 0.6 percent, meanwhile, in May, it decreased down to 0.1 percent.

## 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

made 2.7 percent, which indicates a slowdown after a sharp rise by 4.9 percent in Q1 2020. Prices for food products, which increased due to introduction of the mobility restriction measures for the coronavirus spread prevention to disrupt the supply chains, were the main driver of inflation.

In Q2 2020, economy in China demonstrated unexpected growth, following a recession in Q1; such growth was facilitated by easing of restrictions imposed to prevent the coronavirus spread and by a series of expansionary measures taken by the government to recover economic activity.

Economic growth in China amounted to 3.2 percent in Q2 against 6.2 percent in 2019. In Q2, the economy grew by 11.2 percent compared to Q1 2020. Many economic indicators went from negative to positive. In general, the economy decreased by 1.6 percent in the first half of the year.

In Q2 2020, the annual inflation rate

## 1.2. World Commodity Markets

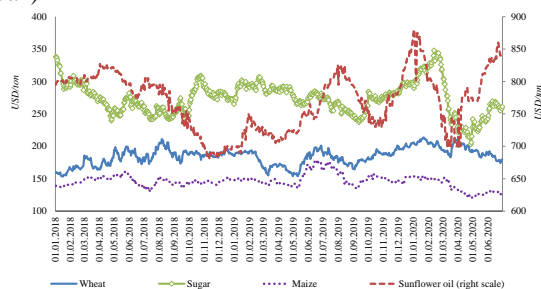
There were no significant inflationary risks for Kyrgyzstan from the world food market; the availability of main food products was ensured by Kyrgyzstan membership in the EAEU and introduction of the regional export quotas in March 2020.

During the reporting period, the oil market demonstrated slight recovery in prices amid easing the global restrictions imposed to fight against the coronavirus spread. Prices for gold have reached nine-year maximum amid escalating conflict between China and the United States, as well as amid concerns about further spread of the pandemic.

### Food Market

#### Chart 1.2.1. Dynamics of Prices for Food Products

(month to the corresponding month of the previous year)



In Q2 2020, multidirectional price movement was observed in the world food markets.

At the end of Q2 of the current year, prices for vegetable oils increased significantly due to growth of the industrial demand for biofuels in the world, meanwhile the world prices for almost all categories of agricultural products did not exceed the levels reached in June of the previous year. In Q2 2020, there were no important preconditions for their significant growth, as the consumer

demand decreased due to the coronavirus pandemic, and many experts and analysts forecasted a good global harvest during 2020-2021 season.

In the reporting period, the downward pressure on increase in prices for all main crops (mainly wheat) is partly conditioned by new harvests in the northern hemisphere and improved

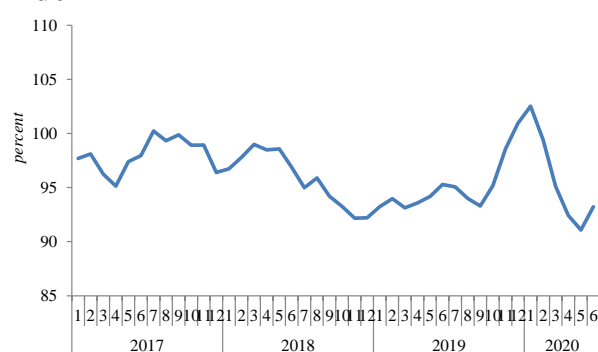


harvest prospects in a number of main exporting countries, including the Black Sea region. The slowdown in trade growth and changes in the exchange rate of the national currencies in some exporting countries resulted in the first slight decrease in the world prices for rice year-to-date. However, there was a significant increase prices for maize due to strong demand from China.

There was increase in prices for vegetable oils for the first time during the last four months of the current year. The recovery in price growth was mainly due to a sharp increase in quotations for palm oil resulted from recovery of import demand in the world upon easing of the quarantine measures in a number of countries, as well as from an increase in prices for soybean, sunflower and rapeseed oil.

Prices for sugar increased slightly amid rise in oil prices, which had a strong supportive effect on sugar markets, pushing producers in Brazil to use more sugar cane for ethanol production instead of sugar to have effect on the sugar export supply in the world.

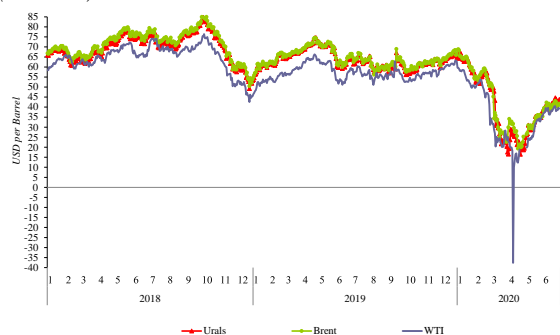
**Chart 1.2.2. Dynamics of FAO Food Price Index**



In Q2 2020, the average value of the FAO food price index decreased by 2.2 percent compared to the same quarter of the previous year and amounted to 92.2 points. At the end of the reporting quarter, there was a resumption of growth in the world prices for raw food due to growth of the quotations for vegetable oils, sugar and dairy products. At the same time, prices in the crops and meat markets continued to decrease mainly due to the uncertainty caused by the COVID-19 pandemic.

## Energy Market

**Chart 1.2.3. Dynamics of Oil Prices (in USD)**



**In the reporting period, there was a slight recovery in oil prices after their significant decline in March-April of the current year.**

Since the beginning of the reporting quarter, the price for Brent crude oil increased by 1.8 times, up to USD 41.2 per barrel, Urals – by 2.6 times, up to USD 43.6 per barrel and WTI – by 1.9 times, up to USD 39.3 per barrel. At the same time, in the reporting quarter, the average price for Brent crude oil decreased by USD 17.4 compared to the

previous quarter, to make USD 33.4 per barrel.

The OPEC+ agreement on reduced oil production, tightening control over implementation of the agreement by all its participants, gradual lifting of restrictions in the world (imposed due to the coronavirus pandemic), as well as the natural decline in oil production contributed to an increase in energy prices. The level of execution of the transaction by the OPEC and non-OPEC countries was 107 percent in June of the current year. According to the OPEC+ decision, from May till July 2020, oil production was reduced by 9.7 million barrels, from August till the end of the current year oil production will be reduced by 7.7 million barrels, until April 30, 2022 – by 5.7 million barrels per day.

Leading international organizations continued to improve the oil market prospects. In 2020, OPEC expects demand to reach 90.7 million barrels per day (in 2019, it was at 99.7 million barrels per day) and to increase up to 97.7 million barrels per day in 2021.

In 2020, the IEA (International Energy Agency) expects demand for oil to decrease by 7.9 million barrels per day (according to previous forecasts, demand was expected to decrease by 8.1 million barrels per day), down to 92.1 million barrels per day.

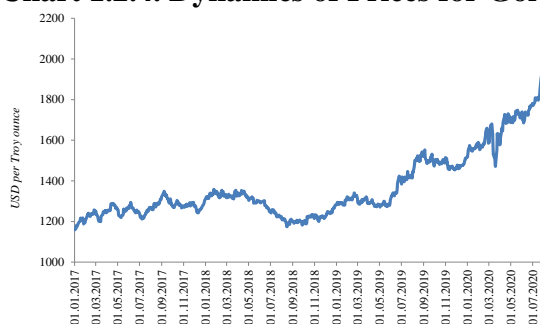
The US Department of Energy raised its forecast of the price for Brent crude oil in 2020 by 6.5 percent, up to USD 40.5 per barrel, in 2021 – up to USD 49.7 per barrel.

According to the IMF forecast, in 2020-2021, prices for oil are expected to increase up to USD 36.2 and USD 37.5 per barrel, respectively.

Amid gradual recovery in demand, a decrease in oil supply due to the OPEC+ transaction and a decrease in capital investments in the oil and gas industries, the Bank of America Global Research raised its forecasts of the average price for Brent crude oil for 2020-2022 up to USD 43.7, USD 50.0 and USD 55.0 per barrel, respectively.

## Gold Market

**Chart 1.2.4. Dynamics of Prices for Gold**



Source: IA Bloomberg

**The prices for gold have reached 9-year maximum and continue to rise.** During 7 months of 2020, the price for gold increased by 34.3 percent and amounted to USD 1,973.9 per Troy ounce.

According to the World Gold Council's review of the gold market at the end of the first half of 2020, gold became the best investment asset from January till June. At the same time, investment demand is the main factor of rise in prices for gold, as there was

reduction in the volume of jewelry purchases and in the rate of increase in gold reserves on the part of the central banks.

Prices are supported by the concerns about the COVID-19 spread in the world and the geopolitical risks related to the escalation of the conflict between the United States and China.

Moreover, the experts expect that support for gold towards historical maximums can be provided by new expansionary measures to be taken in the USA and Europe, and weakening of the US dollar.

## Chapter 2. Macroeconomic Development

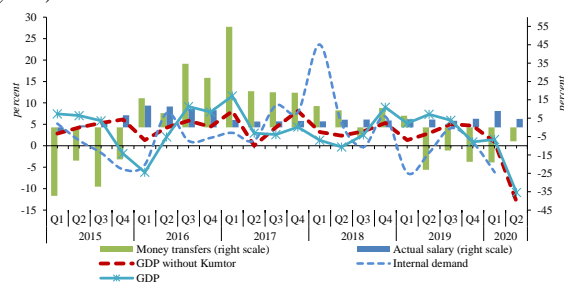
### 2.1. Demand and Supply in the Commodities and Services Market

In Q2, economic growth continued to demonstrate an upward trend under the impact of restrictive measures taken to prevent the coronavirus infection, having formed significantly lower compared to the same period of 2019.

#### Demand

##### Chart 2.1.1. Dynamics of Internal Demand and Money Transfers

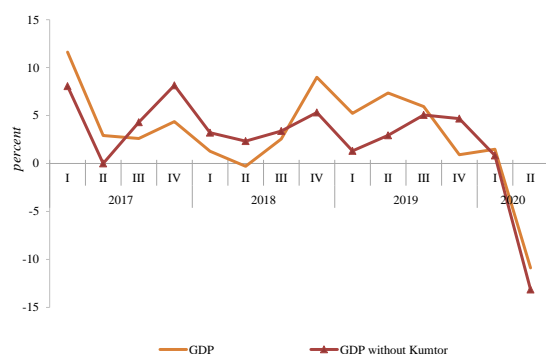
(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

##### Chart 2.1.2. GDP Dynamics

(quarter to the corresponding quarter of the previous year)



Source: NSC KR, calculations: NBKR

In January-June 2020, there was a significant decline in GDP of the Kyrgyz Republic at the level of 5.3 percent (excluding the enterprise of the Kumtor Mine, the decrease was 6.2 percent) due to the situation related to the spread of the coronavirus infection and its impact on the economy.

According to the preliminary results of Q1 2020, decrease of domestic demand<sup>1</sup> amounted to -6.2 percent in annual terms. A decline was mainly due to a reduction of gross accumulation (-30.6 percent), which was mainly a result of a decrease in the inventories stocks (-73.7 percent).

The results of Q2 2020 decreased significantly compared to the same period of 2019. Trade (-4.8 percentage points), transport (-2.6 percentage points), and construction (-1.0 percentage point) made a negative input to the economy, however the agricultural sector made a positive input in the amount of 0.2 percentage points. The global coronavirus pandemic contributed to an unprecedented deterioration in external conditions and had a negative impact on the macroeconomic indicators of the real sector in the country.

According to the results of January-June 2020, the average monthly nominal wage of one employee<sup>2</sup> amounted to KGS 18.0 thousand, having increased by 10.5 percent compared to the same period of 2019. The largest increase in the average monthly wage growth rate was observed in the sphere of education (25.1 percent), hotels and restaurants activities (17.9 percent), water supply, cleaning, waste treatment and recycling (17.3 percent).

At the same time, in January-June 2020, the real wages increased by 4.4 percent compared to the same period of 2019 (in January-June 2019, an increase was 4.3 percent).

#### Public Finances Sector

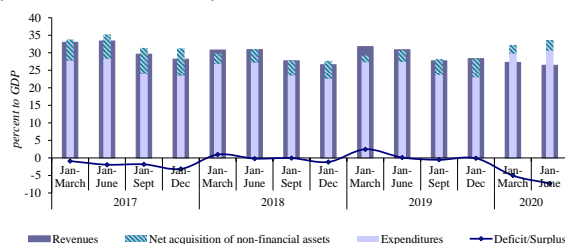
At the end of January-June 2020, the state budget deficit amounted to KGS 16.6 billion, or 7.3 percent to GDP (in January-June 2019, the budget surplus amounted to KGS 0.3 billion

<sup>1</sup> According to the NSC KR, reference to the data for the earlier period is given due to the lack of more recent data.

<sup>2</sup> Generally, in the territory of the republic, excluding small enterprises.

or 0.1 percent to GDP). The primary state budget deficit (excluding interest payments for servicing the public debt) amounted to KGS 12.4 billion or 5.4 percent to GDP.

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

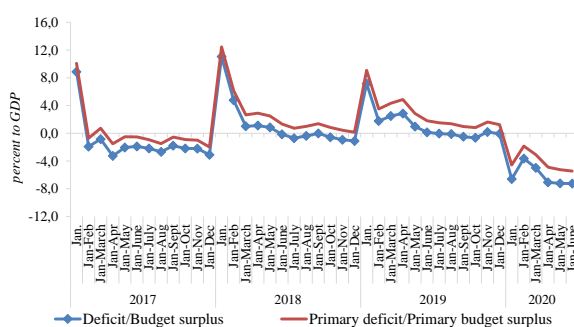


Source: CT MFKR, NBKR

tax revenues and official transfers made a negative input to the growth of budget revenues (2.2 and 0.4 percentage points, respectively).

The state budget expenditures for operating activities increased in annual terms by 8.4 percent or KGS 5.4 billion and amounted to KGS 69.8 billion or 30.6 percent to GDP. There was an increase in expenditures according to the economic classification on “remuneration” (+22.5 percent), “grants and contributions” (+7.5 percent) and “payment of interest” (+6.6 percent) items, however, there was a decrease in expenditures on other items.

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



Source: CT MFKR, NBKR

## Investments

**In January-June 2020, the level of capital investment exploitation decreased by 14.8 percent compared to January-June 2019.**

Growth of capital investments was observed only in construction of the facilities for electricity, gas, steam and conditioned air supply, as well as objects of art, entertainment and recreation. Reduction of investments was observed in construction of the facilities in the remaining sectors.

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

	January-June		share, percent	
	2019	2020	2019	2020
	millions of KGS			
<b>Total</b>	49 117,8	42 362,4	100,0	100,0
<b>Internal investment</b>	34 514,3	32 019,6	70,3	75,6
Republican budget	922,5	980,9	1,9	2,3
Local budget	333,1	213,3	0,7	0,5
Funds of enterprises and organizations	15 623,8	16 054,7	31,8	37,9
Banks' credits	16 791,7	14 459,5	34,2	34,1
Population funds including beneficent help of KR residents	843,2	311,2	1,7	0,7
<b>External investment</b>	14 603,5	10 342,8	29,7	24,4
Foreign credit	6 397,7	6 087,8	13,0	14,4
Direct foreign investments	2 712,0	2 610,3	5,5	6,2
Foreign grants and humanitarian aid	5 493,8	1 644,7	11,2	3,9

Source: NSC KR

State budget revenues from operating activities decreased by 16.7 percent or KGS 12.1 billion compared to the same indicator in 2019 and amounted to KGS 60.3 billion or 26.42 percent to GDP. Restrictions imposed on economic activity in the Kyrgyz Republic to combat the spread of the coronavirus infection resulted in a decrease of tax revenues (-18.7 percent or KGS 10.2 billion), meanwhile these revenues still have a significant share in the budget revenues. Non-

tax revenues and official transfers made a negative input to the growth of budget revenues (2.2 and 0.4 percentage points, respectively).

The state budget expenditures for operating activities increased in annual terms by 8.4 percent or KGS 5.4 billion and amounted to KGS 69.8 billion or 30.6 percent to GDP. There was an increase in expenditures according to the economic classification on “remuneration” (+22.5 percent), “grants and contributions” (+7.5 percent) and “payment of interest” (+6.6 percent) items, however, there was a decrease in expenditures on other items.

Net outflow of budget funds for operations related to acquisition of non-financial assets (including operations in the following groups: fixed assets, reserves, land) decreased by 7.9 percent or by KGS 606.5 million compared to the same period of 2019 and amounted to KGS 7.1 billion or 3.1 percent to GDP. The capital expenditures primarily fall on acquisition of the buildings and structures.

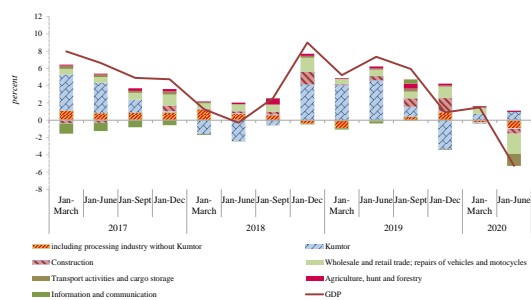
In January-June 2020, the volume of capital investments financed from domestic sources, decreased by 8.3 percent compared to the same period of 2019. Moreover, the investments financed from the bank loans decreased by 2.7 times, from the local budget - by 1.6 times, from the personal funds - by 14.9 percent, meanwhile the investments financed from the republican budget increased by 5.1 percent, from the funds of the enterprises and organizations - by

1.5 percent. Generally, the investments financed from the foreign sources decreased by 30.0 percent, as well as from the foreign grants and humanitarian aid - by 3.4 times, from the foreign loans - by 5.9 percent, and from the direct foreign investments - by 5.0 percent.

## Supply

### Chart 2.1.5. Input of Main Sectors in GDP Growth

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



Source: NSC KR, calculations: NBKR

except for the sectors of agriculture, communications and industry. In the reporting period, growth of gross agricultural output by 1.4 percent compared to January-June 2019 was due to an increase in crop-growing (by 2.3 percent) and livestock (by 1.5 percent) production.

Growth of production in the industrial sector in January-June 2020 was mainly due to an increase in output of pharmaceutical products (2.4 times), chemical products (10.9 percent), and in extraction of mineral resources (9.8 percent).

The turnover of trade, repair of motor vehicles and motorcycles decreased compared to January-June 2019 mainly due to a decline in wholesale (by 14.6 percent) and retail (by 14.5 percent) trade.

In January-June 2020, the GDP deflator was positive and amounted to 2.7 percent, having increased by 6.1 percentage points compared to the same indicator in January-June 2019. Transport (-32.0 percent), trade (-15.0 percent) and construction (-9.1 percent) were the main sectors to have a negative impact on the economy in January-June.

Measures taken in March 2020 due to introduced regimen of emergency state and emergency situation in the territory of some regions of the country primarily conditioned the reduction of economic activity; however closure of the borders with the neighboring countries created difficulties for the goods delivery.

In January-June 2020, the decline was primarily observed in April, in annual terms, the decrease was mainly registered in the transport sector (-77.5 percent) due to restrictions imposed on transport movement, in trade (-44.2 percent) due to partial temporary suspension of activities, in industry (-15.1 percent) due to problems with logistics, delivery of the specialists to production sites, border closures and cancellation of air transportation.

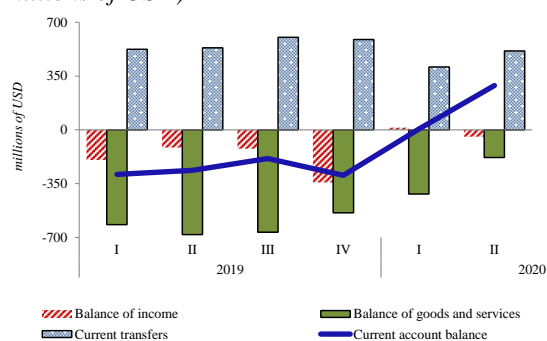
Moreover, there was a decrease in activity in all sectors of economy in the country.

## 2.2. External Sector<sup>1</sup>

**In Q2 2020, the current account was formed positive due to reduced deficit in the balance of goods and services amid restrictive measures related to the coronavirus pandemic, as well as a slowdown in the decline of current transfers.**

<sup>1</sup> 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.

**Chart 2.2.1. Current Account**  
(millions of USD)



Note: According to the preliminary and forecasted data.

**Table 2.2.1. Trade balance of the Kyrgyz Republic**  
(millions of USD)

	2017	2018	2019	2019 Q IV	2020 * Q IV	Change in %	Change in millions of
Trade balance	-2 383,3	-3 033,8	-2 566,1	-657,3	-108,7	-83,5	548,6
Export (FOB)	1 813,9	1 916,0	2 022,2	476,7	489,3	2,6	12,6
Gold	700,4	664,2	832,9	199,4	325,2	63,1	125,7
Import (FOB)	4 197,2	4 949,9	4 588,3	1 134,0	598,0	-47,3	-536,0
Energy products	567,2	809,6	614,6	132,0	88,1	-33,2	-43,9

\* Preliminary data

In the reporting period, the export of goods (in FOB prices) increased by 2.6 percent to make USD 489.3 million. This dynamics was conditioned by the growth in gold supplies, however there was a decrease in exports of other goods. Exports of gold increased by 63.1 percent due to growth in physical volume and in prices. There was a decrease in other exported items by 40.8 percent, mainly due to a decrease in the supplies of ores and concentrates of precious metals, metal scrap, clothes, cement, vegetables, fruits and other goods.

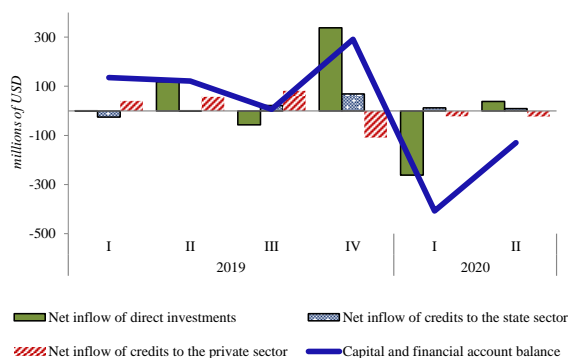
In Q2 2020, imports of goods (in FOB prices) decreased by 47.3 percent compared to the indicator of the previous year to make USD 598.0 million. In the reporting period, imports were mainly affected by the border closure due to measures taken to prevent the spread of the coronavirus epidemic and a decrease in consumer demand. There was a decline in the volume of imported energy products, cast iron and steel, clothes and footwear, fabrics and other commodity items.

**In the reporting period, the growth rates of current transfers were negative due to a decrease in the private transfers inflow.** The net inflow of private transfers decreased by 8.5 percent, mainly due to fluctuations in the exchange rate of the Russian ruble and the consequences of measures taken to combat the spread of the coronavirus pandemic in the host countries of migrant workers. There was an increase in transfers received by the public sector up to USD 25.0 million. In the reporting quarter, the balance of services deficit is forecasted at USD 71.0 million, meanwhile the balance of “income” item is expected at USD 44.3 million.

**According to the preliminary and forecasted estimates of the National Bank of the Kyrgyz Republic, the current account surplus will be accompanied by the net capital outflow on the capital and financial accounts in the amount of USD 129.7 million in Q2 2020.** The capital account surplus will constitute USD 18.1 million, meanwhile the financial account deficit is expected in the amount of USD 147.8 million.

<sup>1</sup> Ratios to GDP are calculated based on sliding annual data, including the last four quarters.

**Chart 2.2.2. Capital and Financial Account**



Amid a decline in economic activity, the balance of “other investments” item is expected to be negative due to increase in foreign assets and a decrease in foreign liabilities of the private sector amid low capital inflows. The net inflow of direct investments into the country is forecasted at USD 38.5 million.

Thus, the balance of payments of the Kyrgyz Republic will be formed with a negative balance to make USD 92.2 million at the end of Q2 2020.

### Indexes of Real and Nominal Effective Exchange Rate of KGS

**Table 2.2.2. Key Values for Exchange Rate**

	year (average)			month to the beginning of the year		
	2018 (aver.) (January-December)	2019 (aver.) (January-December)	%	December 2019	June 2020 *	%
REER	114,6	115,7	0,9	116,4	118,1	1,5
NEER	116,5	122,5	5,2	123,6	125,4	1,4
RBER to CNY	83,6	84,5	-2,3	85,8	84,5	-1,6
NBER to CNY	65,2	67,1	-2,2	68,1	64,5	-5,3
RBER to Euro	104,3	108,2	-4,5	110,9	104,9	-5,4
NBER to Euro	74,9	78,0	-4,7	78,5	72,6	-7,6
RBER to KZT	134,4	141,7	1,4	141,3	138,0	-2,3
NBER to KZT	155,8	171,0	5,6	171,3	168,9	-1,4
RBER to RUR	123,2	122,0	6,0	120,2	124,6	3,7
NBER to RUR	137,3	140,4	7,0	136,4	140,8	3,2
RBER to TRY	160,8	165,8	14,4	165,3	176,5	6,8
NBER to TRY	212,1	247,6	31,4	254,3	278,5	9,5
RBER to USD	89,5	87,6	-0,4	89,1	85,6	-3,8
NBER to USD	66,7	65,8	0,0	65,8	61,6	-6,4

\* Preliminary data

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

At the end of Q2 2019, the real effective exchange rate increased compared to December 2019.

According to the preliminary data, the index of the nominal effective exchange rate (NEER) of KGS increased by 1.4 percent year-to-date and constituted 125.4 at the end of June 2020. The increase in the NEER index was due to KGS strengthening<sup>1</sup> in June 2020 compared to the average exchange rate for December 2019 against the Turkish lira - by 9.5 percent and the Russian ruble - by

3.2 percent, amid KGS depreciation against the US dollar - by 6.4 percent, the euro - by 7.6 percent, the Chinese yuan - by 5.3 percent and the Kazakh tenge - by 1.4 percent.

An increase in the NEER index and higher inflation rate in Kyrgyzstan<sup>2</sup> conditioned an increase of the real effective exchange rate (REER) index, which since December 2019 increased by 1.5 percent and constituted 118.1 at the end of June 2020.

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

<sup>2</sup> In Q2 2020, the inflation rate in the Kyrgyz Republic was formed at 3.1 percent, meanwhile, according to the preliminary calculations, the average inflation rate in the main trading partner countries was 2.9 percent.

## Chapter 3. Monetary Policy

### 3.1. Monetary Policy Implementation

In Q2 2020, monetary policy was conducted in the context of existing low economic activity in the Kyrgyz Republic.

Given the assumptions about the restraining effect of the weakened domestic and external demand on the inflationary dynamics in the country in the reporting period, the monetary policy of the National Bank was conducted taking into account the need to maintain measures to stimulate the real sector of economy.

Complex of the monetary and macroprudential measures taken by the National Bank to mitigate the negative economic consequences in the conditions of the COVID-19 epidemic had a supportive impact on the monetary sector.

The short-term money market interest rates fluctuated within the interest rate corridor set by the National Bank, near the key rate.

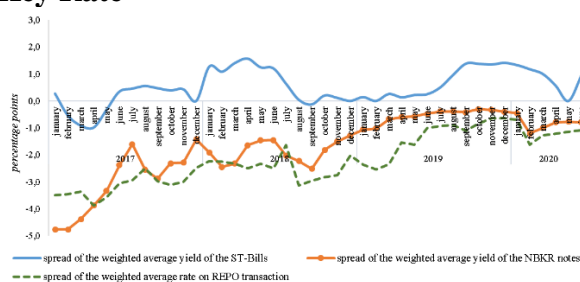
The existing volume of excess liquidity in the banking system had a downward trend during the period of strict quarantine and restrictive measures due to the growth of money outside banks. Subsequently, growth of excess liquidity by the end of Q2 was ensured by the expansion of budget expenditures.

#### Interest Rate Policy of the National Bank

The interest rate policy of the National Bank during Q2 2020 was maintained taking into account the prerequisites for development of the external environment and the prevailing internal conditions, as well as estimates of the inflationary dynamic in the medium term. The main policy rates remained unchanged. During the reporting period, the policy rate of the National Bank was kept unchanged at 5.00 percent.

The limits of the interest rate corridor remained unchanged: the rate on “overnight” deposits remained at 2.75 percent, the rate on “overnight” credits – at 5.75 percent (at the beginning of the current year these rates were 2.00 and 5.75 percent, respectively).

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



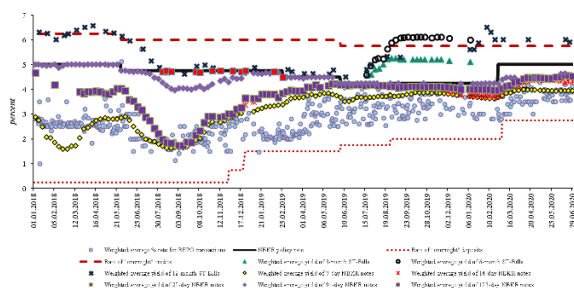
In general, the short-term money market rates were approaching the policy rate of the National Bank.

The gap between the short-term money market rates, excluding the yields on ST-Bills, and the policy rate of the National Bank continued to narrow during the reporting quarter, meanwhile the average spread for the quarter was approximately at the level of the previous quarter.

In the reporting period, the average spread of the rate on REPO operations of the interbank credit market to the policy rate of the National Bank remained at the level of the previous quarter and amounted to -1.2 percentage points. The average spread of the yield on the National Bank notes to the policy rate slightly decreased and amounted to -0.8 percentage points (in Q1 2020, the spread was -0.9 percentage points).



**Chart 3.1.2. Money Market Rates**



Increased activity in the short-term segment of the money market, as well as measures taken earlier to improve the influence mechanism of the monetary policy, contributed to preservation of the upward trend in rates, which approached the policy rate. At the same time, these rates continued to fluctuate within the interest rate corridor set by the National Bank, except for the yield on 12-month ST-Bills.

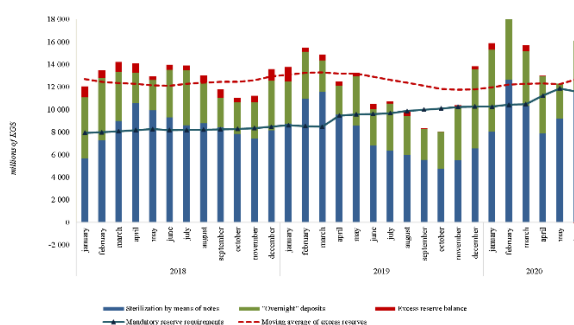
In the reporting period, the participants' activity in the market of the National Bank's notes increased, in particular, there was growth in the average auction indicators of supply, demand and sales. There was an increase in yield on all maturities of this asset. During the reporting period, the investment interest of the commercial banks in 91-day notes significantly decreased due to the prevalence of a high concentration of the short-term excess liquidity in the banking system. At the same time, this decrease was compensated by increased demand for 14- and 28-day notes of the National Bank.

In Q2 2020, the Ministry of Finance of the Kyrgyz Republic placed only 12-month ST-Bills. The volumes of supply and demand for ST-Bills decreased compared to the previous quarter.

Amid a slight decrease in excess liquidity of the commercial banks in April-May 2020, in the reporting quarter, there was growth in demand for KGS liquidity in the interbank credit market, and, accordingly, the participants' activity significantly increased in the segment of REPO operations. Market capacity increased in the volumes (from KGS 4.1 billion in Q1 2020 to KGS 12.1 billion in the reporting quarter of the current year) and in the number of transactions (from 98 to 182 transactions). There was an increase in the loan costs from approximately 3.55 percent to 3.85 percent for the quarter.

**Liquidity Regulation in the Banking Sector**

**Chart 3.1.3. Excess Reserves of the Commercial Banks**



In Q2 2020, a rather high level of excess liquidity remained in the banking system. In the first half of the reporting quarter, there was a decrease of excess liquidity due to the growth of money outside banks by KGS 19.6 billion (+20.7 percent) over the quarter amid increased demand for cash from the population during the period of strict quarantine measures.

The operations of the National Bank in the interbank foreign exchange market were also an additional factor to reduce the

excess liquidity of the commercial banks by KGS 1.2 billion at the beginning of the reporting period.

At the same time, expansion of the operations conducted in the public finance sector by KGS 17.4 billion (net position), as well as other operations of the National Bank, including credit operations, were the main factors to form the excess liquidity in the banking system.

It should be noted that despite the fact that the average daily volume of excess liquidity prior to the sterilization operations conducted by the National Bank decreased by KGS 2.9 billion compared to the indicator of the previous quarter and amounted to KGS 13.8 billion in the reporting quarter, in general, the volume of excess liquidity still remains relatively high (at the end of the quarter, the volume of excess liquidity amounted to KGS 19.1 billion).

In these conditions, during the reporting quarter, the National Bank continued to conduct operations to absorb excess liquidity of the banking system through the open market operations and placement of the commercial banks' available funds on "overnight" deposits with the National Bank. In Q2 2020, the average daily volume of excess liquidity withdrawal from the banking system decreased and amounted to KGS 13.8 billion (in the previous quarter, the same indicator was KGS 16.2 billion).

The average daily volume of notes in circulation also decreased by KGS 0.9 billion compared to the previous quarter, to make KGS 9.5 billion. At the same time, in the reporting period, placement of the commercial banks' available funds on "overnight" deposits with the National Bank decreased by KGS 1.6 billion and amounted to KGS 4.3 billion.

In the reporting quarter, in the structure of the sterilization operations of the National Bank, the share of the National Bank's notes increased by 5.3 percentage points, up to 69.0 percent, still demonstrating an upward trend, meanwhile the share of "overnight" deposits decreased down to 31.0 percent (-5.3 percentage points compared to Q1 2020).

### **Credit Policy of the National Bank**

In the reporting quarter, the National Bank conducted active credit policy to support measures to stimulate the real sector of economy amid negative impact of the COVID-19 epidemic on the economy of the Kyrgyz Republic, as well as taking into account inflationary dynamics in the medium term.

In the reporting quarter of 2020, the National Bank conducted eight credit auctions within the framework of facilitating the implementation of the project "Lending to Agriculture-8", the total volume of supply amounted to KGS 16.0 billion and the interest rate for the end borrowers was restricted to 10.0 percent depending on the areas of the project financing. According to the results of the auctions, the demand from the banks amounted to KGS 0.6 billion.

In the reporting period, the National Bank held three credit auctions, where the volume of supplied funds amounted to KGS 3.0 billion (the bank's demand constituted KGS 1.5 billion) to issue credits to the business entities affected by the epidemic, as well as to provide funds for working capital. The interest rate on these credits for the end borrowers was set at 10.0 percent.

Additionally, in Q2 2020, the National Bank conducted one credit auction to issue credits to the regions through the non-banking financial and credit organizations where the volume of supplied funds amounted to KGS 1.0 billion and the volume of placed funds amounted to KGS 260.0 million, as well as one credit auction was conducted to issue funds to the commercial banks under the program of the Government of the Kyrgyz Republic "Lending to Business Entities", where the banks were offered KGS 1.0 billion, according to the results of the auction KGS 150.0 million were placed in the banks.

Thus, in the reporting quarter, the total volume of supplied funds amounted to KGS 21.0 billion, meanwhile, according to the results of the auctions, the volume of placed in the commercial banks and NBFCOs funds amounted to KGS 2.6 billion.

In general, the National Bank conducted 21 credit auctions year-to-date. The total amount of supplied funds amounted to KGS 33.0 billion, and the approved amount according to the results of the auctions amounted to KGS 3.2 billion.

### **Foreign Exchange Policy of the National Bank**

In Q2 2020, the volatility of the US dollar against the Kyrgyz som decreased compared to the previous quarter in the domestic foreign exchange market. In the reporting quarter, the KGS exchange rate was fluctuating within the range of KGS 73.4726-84.8988 per USD 1.

In April 2020, there was slight excess of demand for foreign currency over supply thereof in the domestic foreign exchange market. Therefore, in order to smooth sharp fluctuations in the exchange rate the National Bank conducted interventions on sale of foreign currency in the domestic foreign exchange market in the amount of USD 14.2 million.

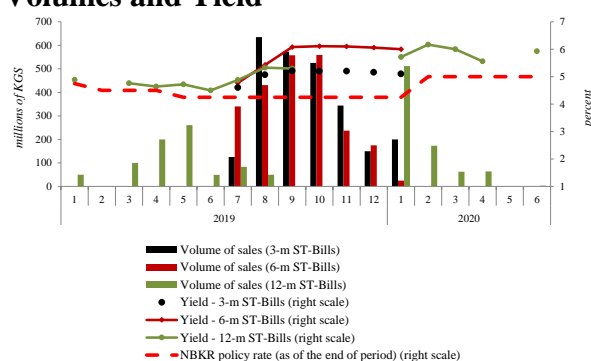
## Monetary Policy Measures in Q2 2020

<p>The decisions were made on the size of the National Bank policy rate</p>	<p>The Board of the National Bank twice considered the issue on the size of the National Bank policy rate – on May 26 and June 29, 2020. Based on the results of two meetings, the decision was made to keep the policy rate unchanged at 5.0 percent.</p> <p>The rates of the interest rate corridor remained unchanged.</p>
<p>The decisions were made to conduct the credit auctions</p>	<p>The National Bank announced credit auctions 13 times to refinance banks in order to support lending to the real sector of the economy:</p> <ul style="list-style-type: none"> <li>- eight credit auctions for the commercial banks participating in the project “Lending to Agriculture-8”. With the total supplied funds in the amount of KGS 16.0 billion, the demand for them constituted KGS 600.0 million with an interest rate for the end consumers up to 10.0 percent.</li> <li>- three credit auctions to issue credits to the business entities affected by COVID-19, as well as to provide funds for working capital, the supplied funds amounted to KGS 3.0 billion with a demand of KGS 1.5 billion and with a final interest rate at 10.0 percent.</li> <li>- one credit auction for the banks to smooth the negative economic consequences of the COVID-19 spread and to provide lending to the country’s regions through NBFCOs, the supplied funds amounted to KGS 1.0 billion with a demand of KGS 260.0 million and with a final interest rate at 14.0 percent.</li> <li>- one credit auction to issue credits to the banks under the program of the Government of the Kyrgyz Republic «Lending to Business Entities», the supplied funds amounted to KGS 1.0 billion with a demand of KGS 150.0 million. Meanwhile, the rate for the end borrowers is determined depending on the directions of the program.</li> </ul>

### 3.2. Financial Market Instruments

#### Government Securities Market

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



#### ST-Bills

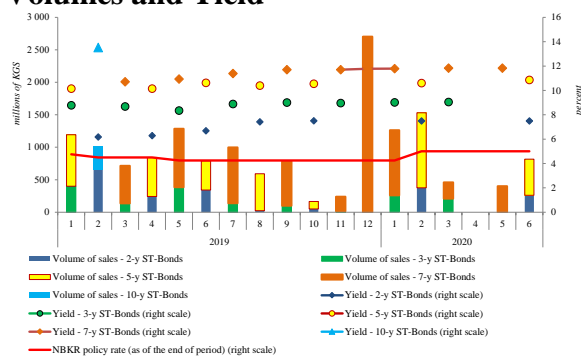
In Q2 2020, the ST-Bills market demonstrated decreased activity of the participants on all parameters of the auctions. The overall weighted average yield increased by 1.1 percentage points compared to the same indicator of 2019, up to 5.7 percent.

In the reporting period, the Ministry of Finance of the Kyrgyz Republic placed only 12-month ST-Bills in the amount of KGS 500.0 million, which was 37.5 percent less

than in the same period of 2019. At the same time, the volume of demand decreased by 84.4 percent compared to the same period of 2019, down to KGS 102.8 million. According to the results of the auctions, in the reporting period, the total volume of ST-Bills placement amounted to KGS 67.4 million (-86.8 percent compared to the same period of 2019), which is 86.5 percent less than the forecasted volume.

By the end of the reporting period, the total volume of ST-Bills in circulation with holders decreased by 62.4 percent quarter-to-date and amounted to KGS 973.9 million.

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



**ST-Bonds**

**In Q2 2020, a situation similar to the ST-Bill market was observed in the ST-Bonds market. At the same time, the overall weighted average yield of ST-Bonds at the auctions increased by 0.2 percentage points compared to the same indicator of 2019, up to 9.7 percent.**

In the reporting period, the total supply of ST-Bonds at auctions decreased by 13.5 percent compared to the same period of

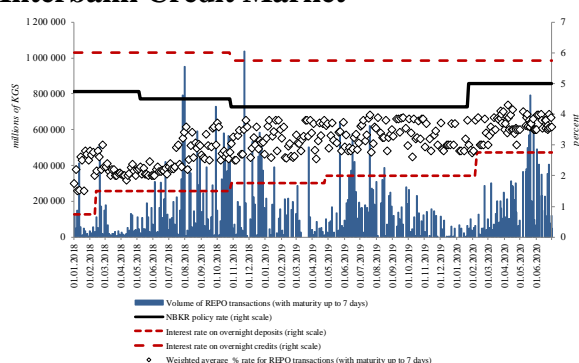
2019 and amounted to KGS 3.2 billion.

Moreover, in terms of maturity, the demand from the participants decreased by 36.5 percent compared to the same period of 2019, down to KGS 1.8 billion. The most significant demand was observed for 7- and 5-year securities, the share thereof in the aggregate demand amounted to 39.5 percent and 36.6 percent, respectively. The total volume of ST-Bonds sales, taking into account additional placements, decreased by 60.8 percent (down to KGS 1.2 billion) compared to the same period of 2019 due to a decline in sales for all maturities and due to failure to conduct certain auctions conditioned by insufficient number of participants or lack of demand.

By the end of the reporting period, the volume of ST-Bonds<sup>1</sup> in circulation increased by 1.3 percent quarter-to-date, up to KGS 45.1 billion due to the growth of the portfolio of institutional investors, legal entities - residents and non-residents.

**Interbank Credit Market**

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



**In Q2 2020, activity in the interbank credit market was rather high.**

In the reporting period, the trade volume increased by almost 3 times compared to the previous quarter and amounted to KGS 12,139.5 million. In April-June 2020, standard transactions were not conducted in the national and foreign currencies, therefore, only REPO transactions were carried out in the interbank market.

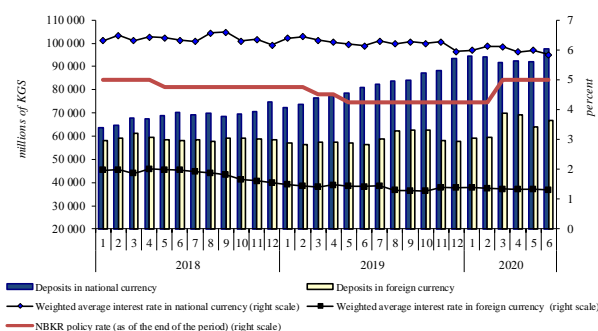
The weighted average interest rate in the interbank market increased from 3.55 percent in Q1 to 3.85 percent in Q2 of

the current year. The weighted average maturity of the interbank credits decreased from 9 to 5 days.

<sup>1</sup>Excluding ST-Bonds nominated in foreign currency

## Deposit Market

**Chart 3.2.4. Dynamics of Commercial Banks' Deposits**



**In Q2 2020, the commercial banks' depository base demonstrated stability in a negative economic environment and returned to an upward trend.**

As of the end of June 2020, the commercial banks' depository base increased by 9.0 percent compared to 2019 and amounted to KGS 164.5 billion (for comparison: by the end of 2019, the depository base increased by 13.4 percent).

The growth of the depository base was mainly due to an increase of deposits in foreign currency by 15.9 percent year-to-date (up to KGS 66.8 billion) as the volume of deposits in US dollars denominated in Kyrgyz soms was calculated at a higher USD/KGS exchange rate at the end of June. Deposits in the national currency returned to the upward trend in June, therefore their volume increased by 4.8 percent year-to-date, up to KGS 97.7 billion.

In the structure of the depository base in the national currency, the share of time deposits remained practically unchanged compared to June 2019 and stood at the level of 47.3 percent, among term deposits the share of deposits with maturity of "1 year and more" decreased by 0.9 percentage points, down to 31.8 percent. The share of time deposits in foreign currency decreased by 2.9 percent, down to 27.5 percent. Among time deposits in foreign currency, the share of deposits with maturity of "1 year and more" decreased by 5.5 percentage points, down to 25.8 percent.

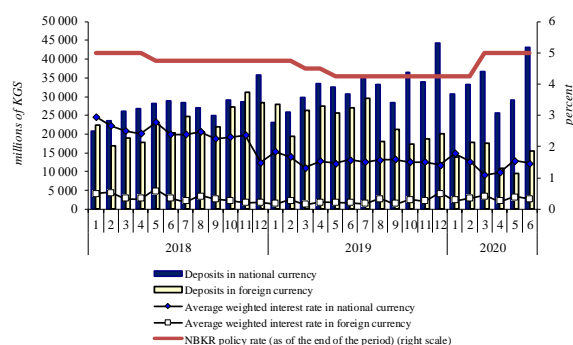
Dollarization of the deposits increased by 2.4 percentage points, up to 40.6 percent. Exchange rate-adjusted dollarization increased by 0.3 percentage points.

In Q2 2020, the volume of new deposits decreased by 24.4 percent compared to the corresponding quarter of the previous year and amounted to KGS 134.0 billion. Deposits in the national currency increased by 1.1 percent, up to KGS 98.0 billion, meanwhile the volume of new deposits in foreign currency decreased by 55.1 percent, down to KGS 36.0 billion.

In the reporting quarter, the share of time deposits in the national currency in the structure of new deposits decreased by 0.9 percentage points compared to the corresponding quarter of the previous year, down to 11.3 percent, among them the share of deposits with a maturity from 1 year and more decreased by 5.4 percentage points, down to 35.6 percent. The share of time deposits in foreign currency increased by 4.8 percentage points, up to 10.3 percent, meanwhile among time deposits, the share of time deposits with a maturity "from 1 year and more" decreased by 7.9 percentage points, down to 34.8 percent.

The total duration of the depository base decreased down to 4.9 months (-0.5 months year-to-date) at the end of 2020, the duration of the time deposits decreased down to 12.7 months (-0.4 months).

**Chart 3.2.5. Dynamics of Commercial Banks' Time Deposits Flows**

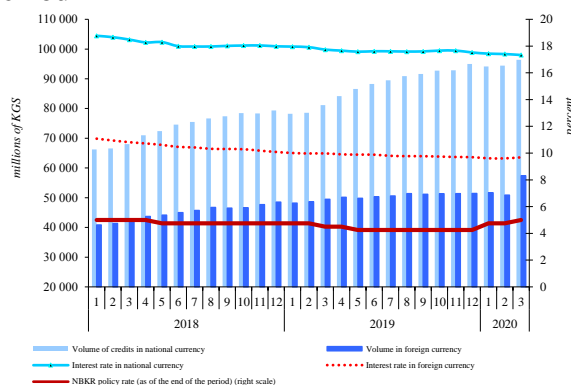


in the national currency decreased by 0.36 percentage points, down to 9.17 percent, those in foreign currency decreased by 0.40 percentage points, down to 2.92 percent. The weighted average interest rates decreased for all maturities in the national and foreign currency, except for the deposits with a maturity of 6-12 months in the national currency.

The concentration index<sup>1</sup> in the deposit market remained at the level of 0.09 at the end of the reporting period, which corresponds to a low level of concentration with eleven participants in the market with equal shares.

### Credit Market

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



**In Q2 2020, the commercial banks' credit portfolio was decreasing until May, thereafter the dynamics turned upward.**

As of the end of June 2020, the commercial banks' credit portfolio increased by 4.7 percent compared to the end of 2019 and amounted to KGS 153.4 billion. The credit portfolio grew mainly due to an increase of the credits in the national currency by 6.4 percent, up to KGS 101.1 billion. The credit portfolio in foreign currency increased by 1.6 percent. The credits issued in US dollars in nominal terms demonstrated a decline since mid-March of the current year

and stabilized in June. At the same time, the positive growth of the credits in foreign currency is due to calculation of their volume denominated in Kyrgyz soms at a higher US dollar exchange rate at the end of June.

At the end of Q2 2020, dollarization of the credit portfolio decreased by 1.0 percentage point, down to 34.1 percent, which is a historically low value. At the same time, dollarization, adjusted for the change in the US dollar exchange rate, decreased by 3.0 percentage points year-to-date.

In Q2 2020, the volume of new credits was significantly lower compared to the same quarter of 2019, and it decreased by 30.3 percent and amounted to KGS 24.8 billion. The volume of credits issued in the national currency decreased by 24.5 percent, down to KGS

<sup>1</sup> 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.

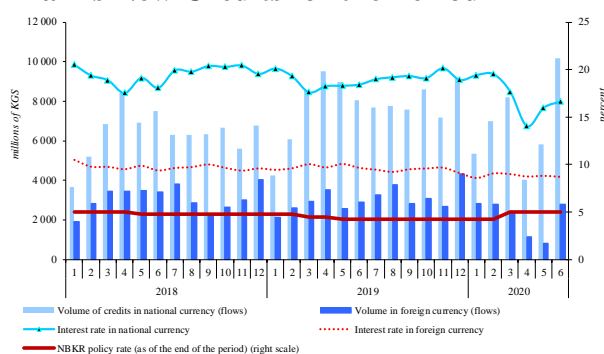
20.1 billion, and the credits in foreign currency decreased by 47.3 percent, down to KGS 4.7 billion.

New credits in the national and foreign currency decreased compared to Q2 2019, mainly due to a reduction in the volume of credits with a maturity of 6 months or more, meanwhile there was a significant increase in the credits with a maturity of 1-3 months.

In terms of sectors, in Q2 2020 compared to the same period of 2019, the volume of new credits in the national currency decreased in all sectors, the credits for agriculture and trade decreased by 13-18 percent, the credits in industry, construction and consumer services decreased by 38-39 percent. There was a decline in the structure of new credits in foreign currency in all sectors, except for the credits issued for the social services.

In Q2 2020, duration of new credits in the national currency decreased by three months compared to the same quarter of 2019 and amounted to 22 months, in foreign currency it remained unchanged at the level of 32 months.

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



In January-June 2020, the weighted average interest rates on new credits in the national currency decreased by 1.45 percentage points compared to the same indicator for 2019, down to 17.24 percent. The interest rates decreased in all industries, except for mortgage, procurement and processing. There was a significant decrease of the interest rates in the sectors of the consumer credits (-2.78 percentage points) and agriculture (-1.31 percentage points). In January-June 2020, the rates in foreign

currency decreased by 0.94 percentage points, down to 8.78 percent, mainly due to a decrease of the interest rates on credits in the trade sector, with the share of about 54.5 percent of all new credits in foreign currency.

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

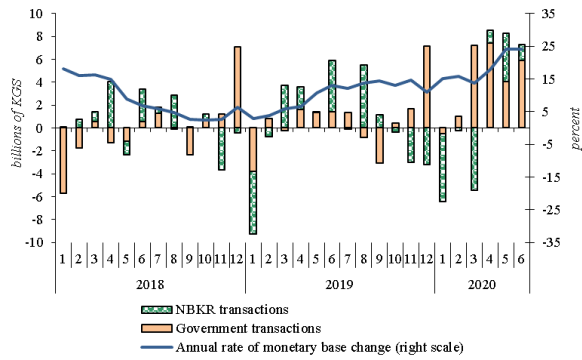
### 3.3. Dynamics of Monetary Indicators

#### *Monetary Base*

A significant gap between the state budget revenues and expenditures in the reporting quarter of the current year conditioned accelerated growth rates of reserve money in annual terms and compared to the previous quarter.

In Q2 2020, the monetary base increased by 21.1 percent (compared to the previous quarter) mainly due to expansion of the expenditure operations in the public finance sector. In annual terms, reserve money continued demonstrating an upward trend and increased by 24.1 percent.

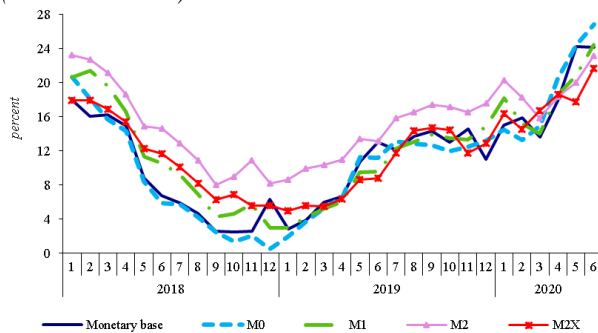
**Chart 3.3.1. Input of the Government's and NBKR Transactions in Change of Monetary Base**



**Monetary Aggregates**

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

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



The volume of reserve money increased by KGS 17.4 billion due to the operations of the Government of the Kyrgyz Republic as a result of the excess of the state budget expenditures over the state budget revenues. The operations of the National Bank, in turn, also made a positive input to the growth of the monetary base in the amount of KGS 6.8 billion.

Money in circulation with a share of 89.7 percent (as of the end of Q2 2020) traditionally made the basis of the monetary base, and the remaining 10.3 percent fell on the reserves of other depository corporations.

**During Q2 2020, monetary aggregates demonstrated accelerated growth rates compared to the previous quarter, as well as in annual terms.**

The increase of monetary aggregates was mainly due to the annual growth of money outside banks by 26.9 percent (growth by 20.7 percent during the quarter) and deposits in the national currency by 18.7 percent.

In the reporting quarter of 2020, the monetary aggregate M2X increased by 21.7 percent in annual terms and amounted to KGS 259.8 billion. The monetary aggregate

M2X increased by 9.5 percent compared to the previous quarter.

In the reporting quarter, deposits<sup>1</sup>, included in M2X, increased by 17.9 percent in annual terms, mainly due to the growth of deposits in the national currency by 18.7 percent and deposits in foreign currency by 16.7 percent. At the same time, during the reporting quarter, deposits in the national currency increased by 6.4 percent, however deposits in foreign currency decreased by 4.4 percent.

Lending to the economy continues to demonstrate positive growth rates. In the reporting quarter of 2020, the total volume of credits to the economy<sup>2</sup> increased by 12.6 percent in annual terms and amounted to KGS 159.1 billion (+1.0 percent compared to Q1 2020). The credit portfolio of the banking sector grew due to an increase of credits in the national currency (+16.9 percent), as well as in foreign currency (+4.8 percent).

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

<sup>2</sup> "Credits in the economy" is an indicator that reflects all requirements of the banking system to the individuals, legal entities and other financial and credit organizations, in the form of issued credits, deposits and valuables, taken into account with interests accrued thereon, excluding credits of the Government of the Kyrgyz Republic and non-residents.

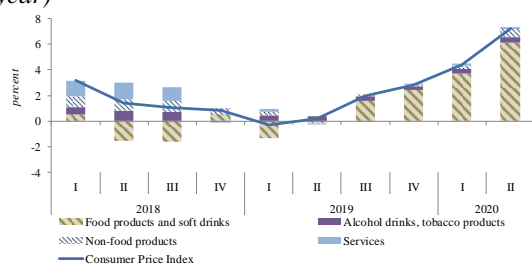


## Chapter 4. Inflation Dynamics

The epidemiological situation around the world, including Kyrgyzstan, still raises concerns and brings uncertainty to the prospects for the nearest development of economic relations. Such uncertainty results in continued difficulties in the logistics of food and emergency goods. Nevertheless, moderate consumer demand can be expected by the end of 2020 due to existing favorable environment in the world food markets, as well as inflationary pressure that developed in the country in Q1 and Q2 and started declining due to a decrease in demand and market saturation with goods.

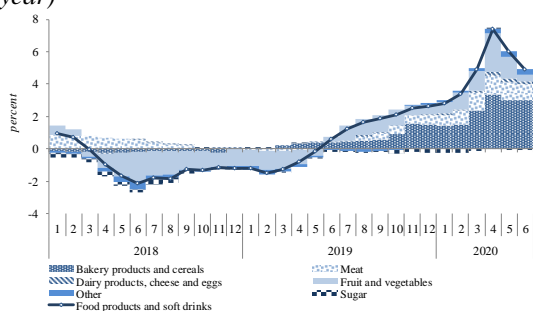
### 4.1. Consumer Price Index

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



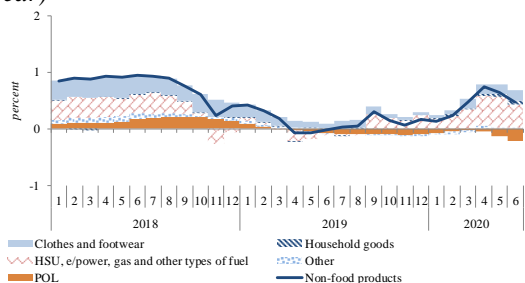
In June 2020, prices increased by **5.8 percent in annual terms (June 2020/June 2019)**. A month earlier, in May, the increase made 7.2 percent. By the end of the quarter, the growth rates slowed down mainly due to the decline in the growth rate of food products, weakened domestic demand and stabilization of the national currency exchange rate.

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



Demand and generally high prices for certain types of goods decreased after a relatively high food rush in March-May 2020. By the end of the quarter, prices became stable, taking into account the saturation of the market with seasonal vegetables and fruits amid weakening of rush demand of the part of the population.

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



In Q2 2020 (quarter to the corresponding quarter), the inflation rate accelerated and amounted to 7.2 percent. The groups “food products and soft drinks” and “alcohol drinks and tobacco products” made the same contribution to the growth of CPI as in Q1. Non-food products and services demonstrated weakly positive dynamics.

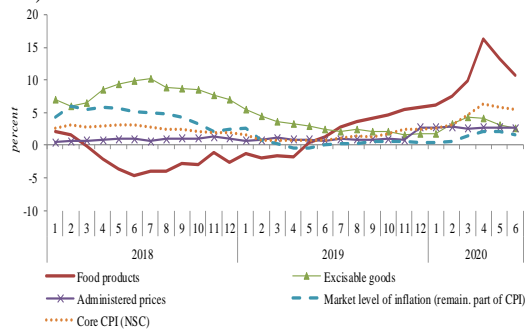
In the reporting quarter, the price index for food products increased by 13.4 percent compared to the corresponding quarter of 2019. In the reporting period, there was increase in prices for all commodity groups of food products, except for sugar.

In Q2, the non-food commodity group grew by 2.1 percent. Price growth indices were low or moderate primarily in the main groups. The pandemic conditions also put additional downward pressure due to weak business activity.

Slight growth in paid services was due to the contribution made by the group “housing services, water, electricity, gas and other types of fuel”. There is also a slight increase in prices

### Chart 4.1.4. Dynamics of Consumer Price Index by Groups of Commodities

(month to the corresponding month of the previous year)

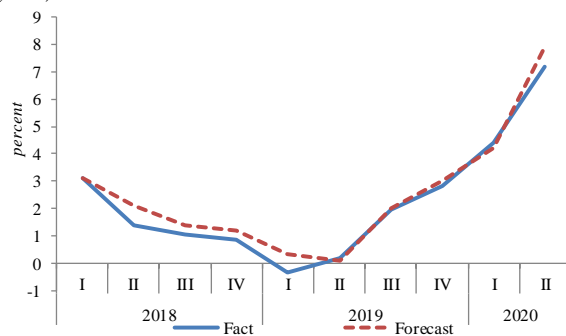


After a slight increase in Q1, the indicators of core and market inflation were gradually declining to reflect the current situation. In June, the market inflation rate was 1.6 percent. The decline in market inflation indicators may reflect a decline in consumer demand year-to-date. In June 2020, the core inflation indicator (excluding food and energy products), calculated by the National Statistical Committee of the Kyrgyz Republic, was 5.5 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)



for health care and education services. The group “transport” made a negative contribution during the second straight quarter, mainly due to a decrease in prices for fuels and lubricants.

At the end of June and in the first half of July of the current year, there was an increase in prices for certain high-demand medical products due to the peak incidence of COVID-19 and community-acquired pneumonia. A small one-time positive contribution to inflation is expected to be reflected in the overall inflation data in Q3 2020.

**In Q2 2020, the actual inflation rate was 0.7 percentage points below the National Bank’s expectations due to a smaller than expected rise in prices for food products in April-May of the current year upon introduction of the state of emergency in certain regions of the country.**

On the part of external factors, there was uncertainty with freight traffic to cross the borders with neighboring countries, which, in turn, should also have imposed more upward pressure on the CPI as a whole in Q2.

## Chapter 5. Medium-Term Forecast

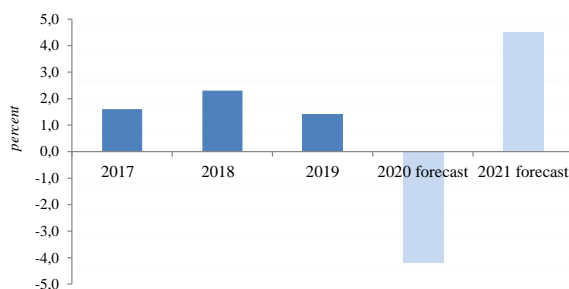
### 5.1. External Environment Proposals

#### 5.1.1. Development Forecast of Main Trading Partner Countries

##### Russia

**Chart 5.1.1.1. Real GDP Growth in Russia**

(year to year)



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

**In 2020, GDP is expected to decline in Russia due to the restrictions imposed to fight against the coronavirus infection spread in the country, as well as due to a decrease in oil prices in the world market.** Although easing of the restrictive measures contributes to revival of the economic activity, the recovery of the global and Russian economies will be gradual amid high uncertainty about the prospects.

Generally, the current resumption of business activity remains restrained and heterogeneous in terms of the industries and regions. At the same time, consumer demand decreased due to a reduction in the citizens' income. Meanwhile, low external demand amid restrictions imposed within the framework of the OPEC + transaction are reflected in the decline of exports to make a negative contribution to the dynamics of economic activity.

At the same time, the economy will be supported by the stimulating budgetary and monetary policies within the framework of measures implementation to support the economy and the population.

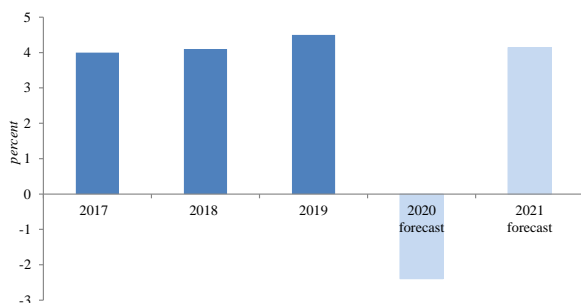
The Bloomberg analysts expect GDP in Russia to decrease within the range of 1.5-6.5 percent in 2020. The Bank of Russia forecasts GDP reduction by 4.5-5.5 percent in 2020. In the future, the economic recovery in Russia is expected at 3.5-4.5 percent in 2021.

According to the Bank of Russia forecast, the annual inflation rate, taking into account the current monetary policy, is expected at 3.7-4.2 percent in 2020, at 3.5-4.0 percent – in 2021 and near 4.0 percent – in the future.

##### Kazakhstan

**Chart 5.1.1.2. Real GDP Growth in Kazakhstan**

(year to year)



Source: IA Bloomberg, international financial institutions

**After the economic recession in Kazakhstan in 2020, the economic growth is expected to recover in the medium term in the absence of significant shocks.** The analysts make the same assumptions on the economic recession in Kazakhstan in 2020 due to the situation to prevent the COVID-19 spread, as well as the volatility in oil prices.

The main channels of influence of the COVID-19 pandemic on the economy of Kazakhstan are associated with the complication of the external economic conditions, which is reflected in weakened demand for exports, reduced revenues from the supplies of raw materials abroad due to decrease in their prices, disruption of global value chains, and deterioration of business sentiment.

In 2021-2022, analysts expect an average economic growth of 4.0 percent due to an increase in oil production and changes in taxation, an increase in exports due to growth in oil

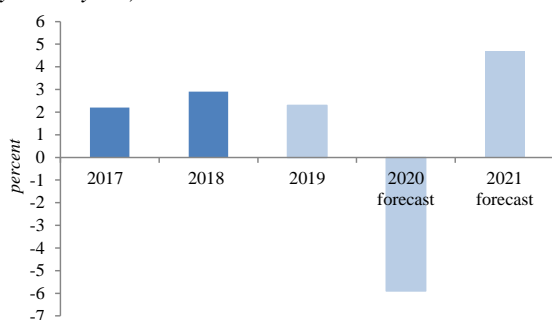
and gas condensate production. The volumes of oil production will increase due to the expansion of the Tengiz, Karachaganak, Kashagan fields and commissioning of the offshore fields.

According to the forecasts of the National Bank of the Republic of Kazakhstan, the inflation rate will accelerate by the end of 2020 and will form in the corridor of 8.0-8.5 percent. The main risks for increase in prices in the current year involve the impact of the fiscal and quasi-fiscal impulse on the inflationary processes, a decrease in supply conditioned by the disruption of supply chains under the quarantine conditions, as well as an increase in import prices amid weakening of the KZT exchange rate.

## USA

**Chart 5.1.1.3. Real GDP Growth in the USA**

(year to year)



Source: IA Bloomberg

The US economic recovery is expected to be slower compared to the previous periods; the experts' forecasts are based on a high degree of uncertainty. According to the Bloomberg analysts, the economic recovery in the country will be slower, compared to the states that have achieved great success in this field, due to the recession in Q2 2020 resulted from inability of the United States to prevent the coronavirus spread.

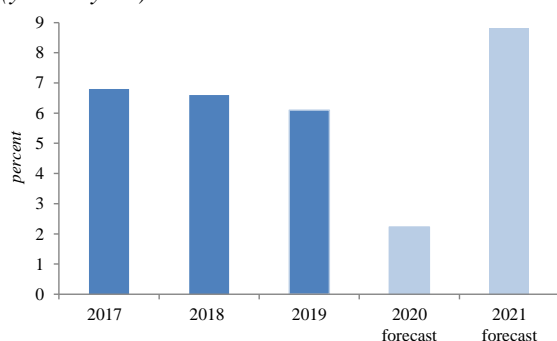
News about vaccines and treatment methods, as well as additional government support that can contribute to a faster recovery of economic activity, are the factors for possible improvement in forecasts for the US economic development. A new wave of disease, which can reverse the rise in mobility and expenditures, and rapidly tighten financial conditions to cause debt problems, is among the factors contributing to a possible decline in forecasts.

Moreover, geopolitical and trade tensions can do harm to the global relations.

## China

**Chart 5.1.1.4. Real GDP Growth in China**

(year to year)



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

The forecasts for economic development in China have slightly been improved due to a faster recovery in economic activity in Q2 2020 after a recession conditioned by the coronavirus infection in the country. At the same time, the analysts' forecasts for GDP growth in China in 2020 vary within the range of 1.0-3.0 percent due to more negative consequences of the coronavirus impact in Q1 compared to expectations.

After a significant slowdown in economic growth in 2020, the international experts forecast a stronger economic recovery compared to other regions in 2021. Thus, many international analysts expect economic growth at the level of 8.0-10.0 percent in 2021. In the analysts' opinion, a number of government expansionary measures, including easing requirements for attracting credits, tax incentives and increasing budget expenditures will contribute to such growth in China.

Easing of the monetary policy in China to support the real economy, as well as high prices in the pork market, which still have not recovered from the outbreak of swine plague in the previous year, will be the main inflation drivers. Relatively low commodity prices and

expected decline in the pork prices due to improved supply chains, being the main inflation driver among the food products, will be decelerating factors for the inflation rate. The main risks involve the resumption of the coronavirus outbreak in winter of the current year, as well as the introduction of new US sanctions against China.

## **5.2. Medium-Term Forecast**

Development of the external and internal conditions of the Kyrgyz Republic economy in Q2 2020 remained under the impact of shocks formed amid measures taken to fight against the coronavirus infection spread in the world and the region.

In Q2 2020, the decline in economic activity in the trading partner countries, primarily in Russia and Kazakhstan, was not as deep as it was previously expected. However, a significant negative impact of shocks from the external demand on the economy of the Kyrgyz Republic was still observed in Q2 of the current year. Within the framework of the considered forecast, there are assumptions about the negative impact of these shocks until mid-to-late 2021, the recovery of economic activity in the trading partner countries to the “pre-coronavirus” level is expected by mid-to-late 2021.

High mobility of the production resources in the domestic economy enabled rapid adaptation and mitigation of the negative consequences from the coronavirus infection shock. Thus, April of the current year the volume of products produced in the country (excluding enterprises of the Kumtor Mine) decreased by 18.9 percent compared to the same indicator of April 2019, however in May, June and July 2020, there was a decline by no more than 9-12 percent compared to the similar indicators of 2019. Taking into account the existing rates of economic activity recovery in the country, the reduction in the volume of production output (GDP of the Kyrgyz Republic) is expected to be 3.0-3.5 percent by the end of 2020.

The considered forecast also takes into account the price maintenance in the world energy market at the current levels in 2020-2021 and, accordingly, moderate recovery of economic activity in Russia and Kazakhstan. At the same time, the speed of the economic activity resumption in the trading partner countries will largely depend on the effectiveness of preventive measures and the epidemiological situation in Q4 2020.

The official forecast of GDP in Russia has been adjusted upwards: in 2020, the economic decline in the country is expected to be approximately 4.5-5.5 percent (the previous forecast - a fall at 4-6 percent). The authorities expect GDP in Kazakhstan to decline by 1.8 percent in 2020.

Decrease of economic activity in Russia will have a corresponding impact on the volume of remittance inflows to the Kyrgyz Republic: in 2020, the net inflow of remittances is expected to decrease compared to the same indicator of 2019.

Within the framework of the current forecast round, the assumptions regarding price movement in the world commodity markets in the current agricultural season (July 2020-June 2021) remain stable. The harvest of crops and leguminous crops in Russia and Kazakhstan in the agricultural season 2020-2021 will remain at high levels of the previous seasons to make stable the prices for food products in the EAEU countries in 2020.

In the first half of 2020, the oil prices also suffered negative impact of external shocks due to the spread of the coronavirus infection. Thus, in April 2020, the oil price reached the level below USD 20 per barrel. The OPEC+ agreement on reduction in oil production continues to support the oil price movement. Taking into account the recovery in economic activity in the world and the OPEC+ agreement survival, oil prices are expected to become stable in 2020-21 at the level of USD 45-50 per barrel.

The structure of the economy of the Kyrgyz Republic determines a special role of the external sector parameters in the forecasts under development; in the conditions of the global economic shock, such parameters become very important. Assumptions on such parameters of the foreign economic sector as the price movement in the world commodity markets, the

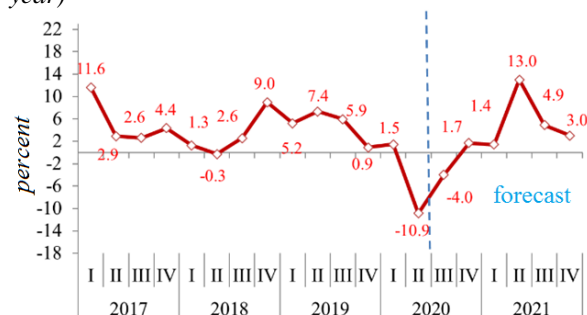
prospects for the economic development in the countries - trading partners of the Kyrgyz Republic and other important indicators of the world economic development are set on the basis of forecasts of the world research agencies/institutions, official bodies of the countries and expert assessments.

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

Taking into account the emerging upward trends in the economies of the trading partner countries in 2020-2021, as well as the price movement in the world commodity markets in the medium term perspective, the following forecast was developed for key macroeconomic indicators of the Kyrgyz Republic in 2020-2021.

### Chart 5.2.1. Forecast of Real GDP

(quarter to the corresponding quarter of the previous year)



External economic conditions continue to determine a significant decline in the economic activity of the country and a corresponding negative GDP gap.

In 2020, the GDP decrease is expected at approximately 3.0-3.5 percent compared to 2019; the GDP decrease excluding enterprises of the Kumtor Mine will be approximately 4.0 percent.

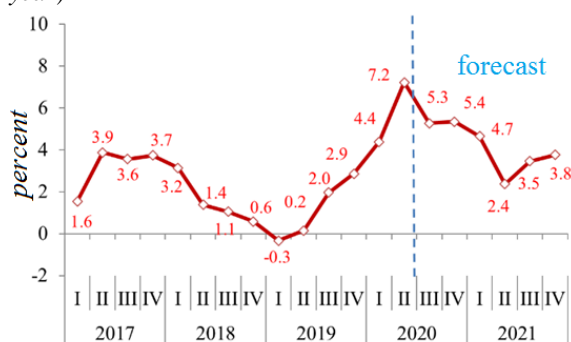
Considering the assumption of the trend towards economic activity recovery, in 2021, the real GDP growth is expected to be approximately 5.5-6.0 percent, the GDP

growth excluding enterprises of the Kumtor Mine will be 6.0 percent.

*Taking into account the current internal and external factors resulting from the spread of the global pandemic amid decreased demand in the economies of the trading partner countries and in the economy of the Kyrgyz Republic, the average annual inflation rate is expected to be about 5.5 percent in the current year.*

### Chart 5.2.2. Inflation Forecast

(quarter to the corresponding quarter of the previous year)



High volatility in prices for food products in Q1 2020, caused by the uncertainty amid introduced regime of emergency situation and emergency state in certain regions of the country, conditioned a slight increase in consumer prices at the beginning of this year. At the same time, the decline in economic activity in the country and the region and corresponding decline in domestic demand partly compensated increase of the inflation rate.

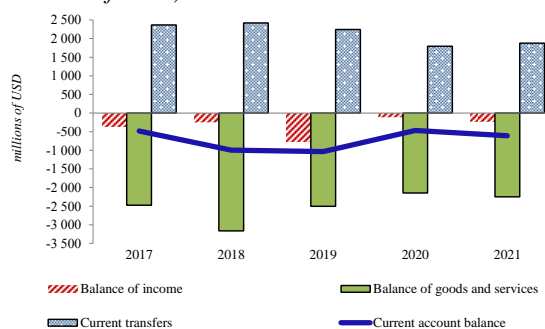
Thus, in 2020, the average annual inflation rate is expected to be 5.5 percent, having decreased by 2.5 percentage points compared to the forecasts in the previous quarter, at the end of the year (December 2020/December 2019), the inflation rate is likely to approach the level of 5.5-6.0 percent. In 2021, the average inflation rate is expected to be approximately 4.0-4.5 percent and will reach the value of approximately 4.0-5.0 percent by the end of the year.

## Forecast for the Balance of Payments in 2020-2021 (baseline scenario)<sup>1</sup>

Balance of payments forecast for 2020-2021 was made taking into account the data of the actual period and the economic situation in the conditions of the coronavirus pandemic. The gradual easing of restrictive measures amid expectations of a second wave at the end of 2020, as well as other accompanying economic factors that have a negative impact on the economies of Kyrgyzstan and the main partner countries, remain the determining factors of the external sector forecast in the country in 2020.

**Chart 5.2.3. Forecast Data on Current Account**

(millions of USD)



The assessment of the current account deficit for 2020 amounted to 5.9 percent to GDP, in value terms - USD 467.3 million (a decrease by 54.9 percent). In the forecast period, the trade balance deficit is expected to decrease together with maintaining the downward trend in migrant workers' remittances.

**Forecast for goods exports was revised upwards due to the expected level of external demand amid easing quarantine measures in trading partner countries.** Exports are expected to be

4.8 percent below the level of 2019.

The downward dynamics of exports will be due to a reduction in the supplies of traditional export positions of the textile and clothing manufacture sectors, agricultural products, as well as re-export positions. Therefore, a negative growth in exports excluding gold is expected at 18.1 percent at the end of the year. Forecasts for gold production remained unchanged, and the growth in precious metal supplies will support exports in 2020 through an increase in the physical volume of supplies and growth of prices.

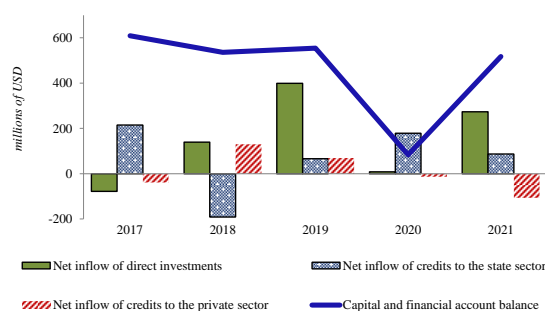
**Assumptions about a decrease in business activity and consumer demand in the country amid measures taken to fight against the epidemic, as well as decreased border capacity, became the main factors in formation of forecasts for imports.** All functional categories of imports are expected to decline by 12.5 percent. A negative trend in the growth of petroleum products is expected due to a decrease in the physical volume of supplies of energy products, and due to a fall in the world prices. Imports of other goods are expected to decline by 11.1 percent.

**The forecast for the net inflow of current transfers for 2020 has been adjusted taking into account the indicators of the actual period, as well as expectations regarding economic development in the Russian Federation and the migrant employment in the host country.** Taking into account this situation, the net inflow of transfers to the private sector is forecasted to decrease by 18.0 percent. The inflow of official transfers is also expected to be below the level of 2019.

There are expectations regarding the negative impact of the restrictions imposed by the countries and border closure for the tourism, the hotel business, the volume of passenger and cargo transportation, therefore a deficit in the balance of international services is forecasted at the level of USD 59.9 million.

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

**Chart 5.2.4. Forecast Data on Capital and Financial Account**  
(millions of USD)



With a lower forecasted current account deficit in 2020, the need for financing through capital inflows from the capital and financial account will be lower. The coronavirus pandemic and the global economic situation have also affected the forecasts for the balance of payments financial flows.

A lower level of capital infusions is expected from the private foreign investors. At the same time, the volume of servicing foreign liabilities is likely to remain at a significant level.

In addition, it should be noted that the forecast includes preconditions for an increase in foreign liabilities of the public sector, as well as by attracting funds from the international donors to fight against the COVID-19 epidemic.

Thus, by the end of 2020, taking into account financing from the reserves of the National Bank and the IMF loans, a negative balance of payments is expected in the amount of USD 103.1 million.

Forecasts for 2021 are based on the assumptions of economic recovery in the region. Nevertheless, it will take longer time for the foreign economic indicators to reach the level of the previous years. Therefore, the forecasts for balance of payments items for 2021 remain cautious. The current account deficit is expected at 7.2 percent to GDP. Gradual recovery in external demand and domestic production will contribute to export growth by 8.7 percent. Revival of economic growth in the country, as well as lifting of restrictive measures, will create preconditions to increase imports by 7.7 percent. Thus, the increase in the negative trade balance is forecasted at 6.8 percent. At the same time, foreign trade turnover is expected to remain below the level of 2019.

During 2021, a gradual economic recovery is expected in the migrant workers' main recipient countries. However, according to the preliminary estimates, loss of the jobs by the migrant workers during the pandemic will still have negative effect on the level of their income, as a result the increase in the net inflow of private transfers is forecasted at 7.2 percent taking into account the effect of the low base of 2020.

Inflows on the capital and financial account will be formed above the level of 2020. The basic amount of funds on this account will be provided by the foreign direct investments and the loans of the public sector. Upward trend will be observed in loan servicing by the private sector.

In 2021, the overall balance of payments is forecasted to be negative in the amount of USD 91.4 million.

The following risks are still observed in the elaborated forecast of the balance of payments of the Kyrgyz Republic for 2020-2021:

- high level of uncertainty associated with the coronavirus epidemic;
- the risks associated with the Kumtor Mine and other precious metal deposits exploration;
- volatility in the world prices for oil and gold;
- deterioration of the economic situation in trading partner countries;
- incomplete disbursement of the planned amounts of foreign credits to the public sector;
- growth of loan servicing in the public and private sectors;
- volatility in the exchange rate of the main trading partner countries.



# Annex 1. Key Macroeconomic Indicators

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

Indicator	Unit of measure	2018				2019				2020	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>1. Demand and supply<sup>1</sup></b>											
<i>(real growth rates, if otherwise is not indicated)</i>											
Nominal GDP, per quarter	mln. KGS	105 149,0	123 373,9	159 387,3	181 475,4	106 173,5	128 540,3	168 582,8	186 745,8	111 347,9	116 952,8
GDP	%	1,3	-0,3	2,6	9,0	5,2	7,3	5,9	0,9	1,5	-10,9
GDP, excluding Kumor	%	3,2	2,3	3,4	5,3	1,3	2,9	5,1	4,7	0,8	-13,1
Domestic consumption	%	1,9	4,3	3,3	2,6	0,0	1,4	3,5	0,3	2,4	
Investment	%	88,4	-5,9	-7,9	8,4	-20,6	-10,9	6,3	1,9	-31,5	
Net export	%	69,6	12,5	-2,8	3,1	-28,6	-11,1	-6,8	3,1	24,7	
<i>GDP production:</i>											
Agriculture	%	0,7	1,6	3,2	2,8	1,1	2,6	2,8	2,9	1,4	1,7
Industry	%	0,3	-8,9	1,0	22,3	15,2	25,9	10,6	-13,5	1,1	-0,9
Construction	%	1,4	4,2	5,0	12,6	3,3	7,4	12,4	12,6	-2,6	-13,1
Services	%	1,8	2,1	2,3	4,2	1,3	1,6	4,5	3,4	2,1	-16,9
including trade	%	3,7	4,8	4,7	7,7	3,9	4,6	4,3	6,0	4,3	-30,5
<b>2. Prices<sup>2</sup></b>											
CPI	%	103,1	101,4	101,1	100,9	99,7	100,2	101,9	102,8	104,4	107,2
CPI, in annual terms as of the end of period	%	102,7	100,8	101,2	100,5	99,3	100,9	102,3	103,1	105,9	105,8
Core inflation	%	102,8	103,1	102,5	100,4	101,0	100,8	101,2	102,2	103,5	105,8
<i>CPI by main groups of goods and services:</i>											
Food products	%	101,2	96,5	96,4	101,1	97,1	99,7	103,5	105,3	108,1	113,4
Non-food products	%	103,0	103,2	103,0	101,6	101,1	99,8	100,4	100,4	100,9	102,1
Alcohol drinks and tobacco products	%	106,5	109,1	108,4	100,3	104,7	104,0	103,8	103,5	104,2	105,3
Services	%	106,9	107,3	106,1	99,4	101,3	99,9	99,8	100,3	101,0	101,0
<i>CPI classified by character:</i>											
Excisable goods	%	106,5	109,2	109,2	107,7	104,5	102,9	102,2	101,8	103,1	103,3
Regulated prices	%	100,6	100,9	100,8	101,1	100,9	100,8	100,9	101,5	102,7	102,7
Market inflation rate (the rest of CPI)	%	105,3	105,5	104,7	102,6	101,2	99,8	100,3	100,5	100,8	101,9
<b>3. External sector<sup>3</sup></b>											
<i>(in percent to GDP)</i>											
Trade balance	%	-35,2	-36,7	-37,0	-36,7	-34,6	-32,7	-31,3	-30,4	-27,9	-22,0
Current transaction account	%	-10,9	-12,3	-13,4	-12,1	-34,6	-32,7	-31,3	-30,4	-9,1	2,3
Export of goods and services	%	33,6	34,4	33,1	33,2	34,7	35,1	36,7	36,7	36,1	35,8
Import of goods and services	%	70,1	72,7	71,5	71,6	70,3	68,3	68,0	66,3	63,2	57,4
<b>4. USD exchange rate, as of the end of period</b>											
	KGS	68,4325	68,1800	69,2773	69,8500	69,8496	69,4928	69,7039	69,6439	80,8100	75,9887
<b>5. Monetary sector</b>											
NBKR policy rate, as of the end of period	%	5,00	4,75	4,75	4,75	4,50	4,25	4,25	4,25	5,00	5,00
Rate of "overnight" deposit, as of the end of period	%	0,25	0,25	0,25	1,50	1,50	1,75	2,00	2,00	2,75	2,75
Rate of "overnight" credit, as of the end of period	%	6,25	6,00	6,00	6,00	6,00	5,75	5,75	5,75	5,75	5,75
Average interest rates of operations in the interbank credit market, per quarter	%	2,73	2,40	2,17	2,22	2,26	3,02	3,26	3,50	3,55	3,85
<i>of which:</i>											
of REPO transactions	%	2,73	2,48	2,17	2,22	2,25	3,02	3,27	3,50	3,55	3,85
of credits in national currency	%	-	0,00	-	-	2,30	2,30	-	-	-	-
of credits in foreign currency	%	-	-	-	-	3,50	2,88	3,36	-	-	-
Weighted average yield of 7-day notes, as of the end of period	%	2,40	2,31	1,90	3,03	3,67	3,59	3,79	3,76	3,97	3,95
Weighted average yield of 14-day notes, as of the end of period	%	-	-	-	3,36	-	-	-	3,78	4,15	4,32
Weighted average yield of 28-day notes, as of the end of period	%	3,83	3,30	1,86	3,65	3,93	4,18	4,10	4,00	4,31	4,52
Weighted average yield of 91-day notes, as of the end of period	%	4,99	4,73	4,00	4,66	4,48	4,20	4,25	4,23	4,48	4,65
Weighted average yield of 182-day notes, as of the end of period	%	-	-	4,73	4,75	4,50	-	-	-	-	-
Monetary base	%	16,2	6,7	2,6	6,3	6,0	13,0	14,3	11,0	13,6	24,1
Money outside banks (M0)	%	15,7	5,8	2,5	0,4	5,2	11,1	12,7	13,2	14,9	26,9
Monetary aggregate (M1)	%	19,6	10,5	4,2	3,0	5,2	9,6	13,9	14,8	14,0	24,4
Narrow money supply (M2)	%	21,1	14,6	8,0	8,2	10,3	13,2	17,4	17,6	15,9	23,1
Money supply (M2X)	%	16,9	11,6	6,2	5,5	5,5	8,8	14,7	12,8	16,7	21,7

<sup>1</sup> 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

<sup>2</sup> Source: National Statistics Committee of the Kyrgyz Republic

<sup>3</sup> Coefficients were calculated on the basis of the sliding annual data for the last 4 quarters. Data for Q2 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**

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