

Monetary Policy Report for the First Half of 2012

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Major trends in the monetary policy

In accordance with the main trends of the monetary policy for 2012-2014, the main objective of the monetary policy in 2012 is to maintain moderate rates of inflation contributing to the Government's plans for sustainable economic growth.

In the first half of 2012, as a whole, there was a slowdown in the overall price level in the country against the background of falling world prices for basic food products (cereals, oilseeds, sugar), which caused the slowdown of inflation in the economy along with carrying out a tight monetary policy.

According to the National Statistical Committee, the growth of the consumer price index, which characterizes the rate of inflation, has constituted 0.9 percent (June 2012 against December 2011) since the beginning of 2012, while for the same period in 2011 it constituted 7.2 percent. In annual terms (June 2012 against June 2011), inflation constituted (-)0.5 percent, while the same indicator in 2011 increased by 22.8 percent.

Despite the fact that since the beginning of this year, there is a tendency of reduction in rates of inflation, inflation risks remain. The level of core inflation over the years continues to hover around 10 percent, expected high public deficit coupled with the uneven distribution of budget expenditures threaten price stability in the medium term. In this regard, in order to limit the monetary component, the NBKR continued conducting a moderately tight monetary policy during the reporting period of the year, having increased operations to sterilize excess liquidity. Thus, the volume of NBKR notes in circulation has risen from 1.4 billion KGS at the end of 2011 to 2.1 billion KGS at the end of June 2012 (end of June 2011 – 1.1 billion KGS), the volume of government securities in circulation sold on repo terms rose from 206.8 million KGS at the end of 2011 to 1.2 billion KGS at the end of June 2012 (end of June 2011 – 60.7 million KGS).

Given the slowdown of inflation processes in the economy as well as the observed decline of the economy in the reporting period, the NBKR has started gradually reducing the amount of excess liquidity sterilization in the second quarter of 2012: the volume of NBKR notes in circulation decreased from 2.3 billion KGS at the end of February to 2.1 billion KGS at the end of June 2012. This in turn affected the decrease of weighted average interest rates on the NBKR notes. Thus, the weighted average interest rate on 28-day notes decreased from 13.08 percent at the end of 2011 to 5.19 percent at the end of June 2012. The discount rate at the end of the first half of 2012 fell by 6.84 percentage points, or from 13.61 to 6.77 percent.

In the first half of 2012, the monetary base has increased since the beginning of the year by 3.5 percent, reaching 56.7 billion KGS at the end of June 2012 (in January-June 2011, an increase constituted 2.8 percent). The volume of M2X broad money supply for the period under review increased by 11.1 percent, having reached 88.4 billion KGS at the end of June 2012 (in the same period in 2011 – by 5.6 percent).

During the reporting period of the current year, the NBKR carried out currency interventions only to prevent sharp fluctuations in the exchange rate, mainly in January-February and in June. Compared to previous years, supply and demand in the foreign exchange market are almost balanced independently without the intervention of the NBKR in the reporting half-year. Thus, the gross volume of currency interventions in the reporting period constituted 43.5 million USD versus 95.5 million USD in the comparable period in 2011, and net sales of foreign currency for the reporting period constituted 38.3 million USD (in the first half of 2011 – 30.3 million USD). The exchange rate of the U.S. dollar relative to the Kyrgyz som from the beginning of the year increased by 1.63 percent, from 46.4847 to

47.2445 KGS per 1 U.S. dollar (in the same period in 2011 there was a decrease of the exchange rate by 4.02 percent).

According to preliminary data, the index of the nominal effective exchange rate (NEER) of the som since the beginning of 2012 has decreased by 0.6 percent having constituted 115.5 at the end of June, which along with lower level of inflation¹ in Kyrgyzstan compared with the level of inflation in the major partner countries, led to decrease in the index of the real effective exchange rate (REER) by 1.4 percent to 111.0.

According to preliminary data, in January-June 2012, compared to the same period in 2011, the economic downturn constituted 5.6 percent (in January-June of 2011, GDP grew by 4.9 percent). At the same time, the main contribution to the decline in GDP in January-June 2012 was made by industrial companies, mainly due to a decrease in production at companies of the Kumtor deposit. Excluding companies developing the Kumtor gold deposit, GDP grew by 3.9 percent (in January-June 2011, the growth of the same indicator constituted 3.7 percent). GDP deflator was formed at the level 13.7 percent against 16.7 percent in January-June 2011.

According to preliminary results of the first half of 2012, the balance of payments will be positive in the amount of 86.6 million USD. A negative current account balance in the reporting period of the current year will increase to 17.2 percent to GDP, while the balance of trade deficit will increase to 1337.5 million USD. The surplus in the current transfers account will form in the amount of 830.9 million USD, which is 3.7 percent more than the same period in 2011. Gross international reserves² will cover 3.8 months of future imports of goods and services.

According to preliminary data of the Central Treasury of the Ministry of Finance, the budget deficit in January-June 2012 amounted to 3.9 billion KGS or 3.4 percent to GDP (in January-June 2011 budget ran a deficit of 0.2 percent to GDP).

Dynamics of monetary indicators

At the end of the first half of 2012, the monetary base constituted 56.7 billion KGS, having increased from the beginning of the year by 3.5 percent or 1.9 billion KGS (for the first half of 2011, the monetary base increased by 2.8 percent). The monetary base increased by 5.3 billion KGS due to government operations and decreased by 3.4 billion KGS due to NBKR operations.

In the structure of the monetary base, the share of cash in circulation constituted 90.6 percent at the end of June 2012, respectively, the proportion of funds in correspondent accounts of commercial banks in the National Bank constituted 9.4 percent.

In the first half of 2012, compared to the same period in 2011, the dynamics of monetary aggregates had more moderate growth rates. Nominal growth rates of monetary aggregates in annual terms by the end of June 2012 were in the range from 11.7 to 20.9 percent, while at the end of June 2011 from 21.9 to 27.9 percent. M2X broad money supply increased at the fastest rate among monetary aggregates, mainly due to the growth of the deposit³ base.

The M0 monetary aggregate (money outside banks) for the reporting period of 2012 increased by 2.8 percent and at the end of June 2012 amounted to 48.5 billion KGS (for the reporting period of 2011 - 4.8 percent).

¹Inflation in the country in January-June 2012 constituted 0.9 percent, while the average rate of inflation in major trading partner countries, according to preliminary estimates, constituted 1.7 percent.

²Gross international reserves at the end of the first half of 2012 constituted 1915.3 million USD.

³Excluding deposits of government and non-residents.

The M2 money supply, which includes money outside banks and deposits in national currency, increased by 8.2 percent in January-June 2012 and at the end of June 2012 amounted to 67.2 billion KGS (in January-June 2011, an increase in M2 was 4.8 percent). At the same time, the growth of deposits in national currency amounted to 25.5 percent (in January-June 2011 - 4.8 percent).

M2X broad money supply, including deposits in foreign currency, constituted 88.4 billion KGS at the end of the first half of 2012, having increased to 11.1 percent since the beginning of the year (in the first half of 2011, an increase in M2X aggregate was 5.6 percent). At the same time, the total amount of deposits¹ in the definition of broad money grew by 23.3 percent, including deposits in foreign currency - by 21.4 percent (in January-June 2011 – 6.7 percent and 8.3 percent, respectively). In general, increase of the deposit base shows the continued confidence in the banking system and creation of the framework to enhance the credit activity of the banking system.

In the currency structure of M2X broad money supply the share of foreign currency deposits for January-June 2012 increased by 2.0 percentage points to 23.9 percent while the share of deposits in national currency - by 2.4 percentage points to 21.2 percent.

In the first half of 2012, the growth rate of loans to the economy was 11.6 percent, including lending in foreign currency increased by 14.3 percent, while in national currency - by 8.6 percent (in the same period in 2011 - 9.8 percent, 4.8 percent and 15.5 percent, respectively).

The rate of circulation of M2X broad money supply for January-June 2012 decreased from 3.8 at the beginning of the year to 3.5 at the end of June 2012 due to progressive rates of money supply growth over nominal GDP. Monetization coefficient of the economy calculated by the M2X monetary aggregate, having increased from the beginning of the year by 2.2 percentage points, constituted 28.7 percent at the end of June 2012.

The multiplier of broad money M2X characterizing the degree of financial intermediation has increased from 1.451 at the end of 2011 to 1.559 at the end of the reporting period of 2012 as a result of a leading growth rate of broad money supply in comparison with the growth rates of the monetary base. The ratio of currency outside banks to deposits decreased from 1.5 at the end of 2011 to 1.2 at the end of the reporting period.

Inflation: Results and Trends

In general, the first half of 2012 was characterized by the decrease in the overall price level in the Kyrgyz Republic against the background of falling world prices for basic food products (cereals, oilseeds, sugar). However, in June-July 2012, in the face of increasing concerns about the harvest of cereals and oilseeds in the current year, there has been a significant increase in world wheat prices.

The annual value of the index of consumer prices in June 2012 (against June 2011) fell by 0.5 percent, while the corresponding figure in 2011 increased by 22.8 percent. In the structure of the CPI basket, a decrease in prices for food products group constituted 10.3 percent, non-food prices rose by 9.8 percent in annual terms, the price of alcoholic beverages and tobacco products increased by 10.0 percent, paid services - 11.7 percent.

Despite the decline in the overall level of inflation, core inflation calculated by the method of the IMF has been at the level of about 10 percent since the beginning of the year.

¹Excluding deposits of government and non-residents.

Table1. The consumer price index in the Kyrgyz Republic

	June 2012 against			January-June 2012 against January-June 2011
	May 2012	December 2011	June 2011	
All goods and services	99,6	100,9	99,5	100,9
<i>of which</i>				
Food and beverages	98,7	96,9	89,7	92,9
Alcoholic beverages, tobacco products	100,5	103,1	110,0	110,2
Non-food products	100,2	104,0	109,8	110,2
Services	100,2	104,9	111,7	110,6

The food prices in annual terms for June 2012 decreased by 10.3 percent (for the corresponding period of 2011 prices rose by 37.5 percent in annual terms), the “bread and cereals” commodity group has decreased in price by 17.0 percent, including first grade wheat flour - by 27.2 percent. At the same time, in the second quarter of 2011, bread and cereals fell in price by 2.2 percent mainly against the background of continuing influence of a rich harvest of cereals and other crops in the producing countries and the republic. Prices for dairy products have increased in annual terms by 4.0 percent and fruit and vegetable products fell by 21.1 percent.

Dynamics of sugar prices, given the high import dependence of its consumption, mainly depends on the price situation on the world market and the major sugar producing countries. The main suppliers of sugar to the market of Kyrgyzstan are the countries of the Customs Union (CU). Current dynamics of the prices of sugar in the CU is characterized by the strengthening of a rising trend against the background of problems with the production of sugar in Ukraine and speculations about shortages of refining capacity in the CU.

In the first half of 2012, prices for an “oils and fats” commodity group (including sunflower oil) decreased and the price reduction constituted 2.8 percent at the end June 2012 in annual terms.

In the first half of 2012, the price increase for dairy products in annual terms constituted 3.8 percent. At the same time, in the second quarter of 2012, prices for dairy products (the price change for the quarter) decreased by 9.8 percent. Prices for meat for June 2012 rose by 6.9 percent in annual terms. Since the beginning of 2012 the prices of meat have been reducing by 0.5 percent per month, which, in many respects, is due to reduced cost of imported meat.

According to the Bulletin on Food Security and Poverty publication of the NSC of the Kyrgyz Republic, in the first quarter of 2012, the share of imports in consumption of bread has risen to 76.3 percent (in the first quarter of 2011 – 43.9 percent), which indicates a decline in supply of cereals of local production to the internal market and increases the dependence on imports.

Increase in the non-food products price index in annual terms constituted 9.8 percent which is 2.7 percentage points lower than in 2011. Thus, prices of clothing and footwear increased by 12.6 percent mainly due to the increased cost of clothing by 11.7 percent and materials for making clothes by 14.1 percent. There has been a price increase in the “electricity, gas and other fuels” group (+4.5 percent in annual terms). There was an increase in prices for the “household items and home appliances” (+13.1 percent). The main cause of this dynamics was the appreciation of household textile products (+15.2 percent), as well as furniture and floor coverings (+10.1 percent). The cost of petroleum products in annual terms rose by 3.8 percent, including the increase of gasoline prices by 3.8 percent, the price of diesel fuel - by 6.7 percent. In the second quarter of 2012, the price of petroleum products decreased by 0.3 percent including the decline of gasoline by 0.7 percent and diesel fuel has increased in price by 4.5 percent.

The price index for paid services for the period under review in annual terms grew by 11.7 percent (for the same period in 2011 – by 12.1 percent). Increase in the index in this group was mainly due to the appreciation of restaurant and hotel services by 19.7 percent, as well as educational services (+14.6 percent) and transport services (+8.6 percent). Health services rose by 11.4 percent.

The Real Sector

According to preliminary data, in January-June 2012, GDP at current prices constituted 114.9 billion KGS, having decreased by 5.6 percent compared to the same indicator in 2011, while in January-June 2011, GDP grew by 4.9 percent. Excluding companies developing the Kumtor gold deposit GDP grew by 3.9 percent (in January-June 2011, the growth of the same indicator constituted 3.7 percent). GDP deflator was formed at the level 13.7 percent against 16.7 percent in January-June 2011.

The main contribution to the decline in GDP in January-June 2012 was made by the industrial companies (-8.1 percentage points) mainly due to a decrease in production at the Kumtor deposit companies. Services had a positive impact, the contribution of which for the reporting period constituted 2.3 percentage points

Table 2. The contribution of individual activities in the growth/decline in GDP (percent)

	Ration		Growth rate		Contribution in growth	
	I half of 2011	I half of 2012	I half of 2011	I half of 2012	I half of 2011	I half of 2012
Agriculture, hunting and forestry	10,8	12,9	1,3	1,2	0,1	0,1
Mining Industry	0,8	1,1	11,3	6,6	0,1	0,1
Processing Industry	20,4	11,8	12,9	-42,6	2,5	-8,7
Electricity, gas and water generation and distribution	3,9	3,7	26,8	13,0	1,1	0,5
Construction	3,7	4,3	-28,4	20,0	-1,4	0,7
Trade; repair of motor vehicles	16,1	16,4	3,1	8,1	0,5	1,3
Transportation and communication	9,4	9,8	12,9	6,9	1,2	0,7
Other	22,7	25,2	1,2	1,5	0,3	0,3
Net taxes on products	12,2	14,8	4,9	-5,6	0,5	-0,7
GDP	100,0	100,0	4,9	-5,6	4,9	-5,6

Sources: NSC data, NBKR adjustments

Excluding companies developing the Kumtor gold deposit the growth of industrial production constituted 8.2 percent. In January-June 2011, the growth of industrial production reached 14.9 percent, and excluding the Kumtor – 16.9 percent.

In processing industry production reduced by 42.6 percent compared to the same indicator in 2011, against the background of a decline in steel production and production of fabricated metal products, petroleum products, textile and clothing production, as well as production of electrical, electronic and optical equipment. However, there was an increase in the physical volume of products in the mining industry (+6.6 percent) and in the production and distribution of electricity, gas and water (+13.0 percent), which made a positive contribution to the change in GDP volume.

Gross agricultural output constituted 44.1 billion KGS, having increased in real terms by 1.2 percent compared to growth of 1.3 percent in the first half of 2011.

According to preliminary data, in January-June 2012, there was an increase of trade turnover by 8.9 percent (an increase of 3.5 percent was observed for the same period in 2011).

The volume of investment in fixed assets, according to preliminary data, in January-June 2012 increased by 10.2 percent compared with the same indicator of 2011. In the sectoral structure of investment, the bulk of investment is occupied by the mining industry – 31.8 percent, transport and communication (increased investment in the project of reconstruction of the roads: Talas-Taraz-Suusamy, Osh-Irkeshtam, Osh-Isfana, Bishkek-Naryn-Torugart, Southern transport corridor, the rehabilitation of roads under the Improving Regional Road Corridor project) – 10.5 percent, processing industry – 8.3 percent, trade – 7.7 percent.

External Economic Sector¹

According to the forecast data, in the first half of 2012, despite continued surplus in the current account transfers at the level of the same indicator of 2011 and reduction of deficit on “income”, the substantial increase in the deficit of balance of goods and services will lead to an increase in the deficit of the current account to 17.2 percent to GDP, which is 8.9 percentage points higher than the corresponding figure in 2011.

In the first half of 2012, the deficit of the trade balance of the Kyrgyz Republic will increase 2.3 times and constitute 1,337.5 million USD. Exports of goods (in FOB prices) compared to the same period in 2011 will decrease by 17.0 percent and form in the amount of 850.4 million USD. Imports of goods (in FOB prices) for the reporting period will increase by 35.1 percent to 2,188.0 million USD.

According to the forecast data, in the first half of 2012, the net inflow of current transfers will be formed at 830.9 million USD, which is 3.7 percent more than the indicator of the same indicator in 2011. The main increase for this item in the reporting period will be traditionally achieved through private transfers, the net inflow on which will increase by 8.3 percent to 828.0 million USD. Along with this, the volume of net proceeds of official transfers will drop to 3.0 million USD (36.7 million USD for the first half of 2011).

In the first half of 2012 the capital account and financial account balance will be formed with a positive balance of 614.1 million USD, which will exceed the previous year 3.3 times.

Thus, in the first half of 2012, the balance of payments will show a surplus of 86.6 million USD. Gross international reserves² will cover 3.8 months of future imports of goods and services.

According to preliminary data, the index of the nominal effective exchange rate (NEER) of the som since the beginning of 2012 has decreased by 0.6 percent and constituted 115.5 at the end of June. The decrease was due to the depreciation³ of the som in June 2012, compared with the average rate for December 2011 in relation to the Turkish lira by 2.5 percent, against the U.S. dollar – by 1.2 percent, the Kazakh tenge – by 1.1 percent, to Chinese yuan – by 1.0 percent. At the same time, the exchange rate of the som has appreciated against the euro and the Russian ruble (by 4.5 and 2.5 percent, respectively).

Along with the devaluation of NEER index of the som, the lower level of inflation in Kyrgyzstan led to a decrease in the index of the real effective exchange rate (REER), which has decreased by 1.4 percent since December 2011 and constituted 111.0 at the end of June 2012.

The Public Finance Sector

According to preliminary data of the Central Treasury of the Ministry of Finance, the state budget deficit in January-June 2012 amounted to 3.9 billion KGS or 3.4 percent of GDP (in January-June 2011 budget ran a deficit of 0.2 percent to GDP). At the same time, excluding received official transfers the state budget deficit constituted 5.9 billion KGS or 5.1 percent to GDP. Total financing of the state budget for the period under review amounted to 9.8 billion KGS: of which internal financing – 6.0 billion KGS, external financing – 3.8 billion KGS.

According to preliminary data of the Social Fund of the Kyrgyz Republic, the Social Fund budget deficit in January-June 2012 constituted 0.1 billion KGS or 0.1 percent of GDP,

¹Actual and forecast data.

²Gross international reserves at the end of the first half of 2012 constituted 1,915.3 million USD.

³The data on the nominal bilateral exchange rate of the som are given; the year 2000 is used as the base period to calculate the index.

revenues –14.5 billion KGS or 12.6 percent of GDP, spending – 14.6 billion KGS or 12.7 percent of GDP.

Consolidated budget deficit (state budget + budget of the Social Fund) for the period under review constituted 4.0 billion KGS or 3.4 percent to GDP. Revenues totaled 48.1 billion KGS or 41.8 percent to GDP, while spending amounted to 52.0 billion KGS or 45.3 percent to GDP.

In January-June 2012, the state budget revenues from operating activities increased by 12.3 percent compared to the same indicator in 2011 and amounted to 40.6 billion KGS or 35.3 percent to GDP (in the first half of 2011, the increase amounted to 33.9 percent).

State budget spending for operating activities in the first half of 2012 amounted to 42.7 billion KGS, having increased by 24.7 percent¹ or 8.5 billion KGS.

According to the functional classification of budget spending, in the reporting period, there was an increase in spending relative to GDP on education (by 2.5 p.p.), health (by 1.5 p.p.), social security (by 1.0 p.p.), leisure, culture and religion (by 0.3 p.p.), defense, public order and safety (by 0.1 p.p.). Spending relative to GDP on general public services fell by 0.2 percentage points, while the spending on the economic issues, housing and communal services and the protection of the environment, in general, has not changed.

Spending of the state budget in January-June 2012 on labor costs increased by 37.2 percent (in the first half of 2011, the increase in labor costs constituted 21.1 percent), having formed 15.0 billion KGS or 35.1 percent of total spending of the state budget for operating activities. Spending on the use of goods and services amounted to 8.4 billion KGS, having increased by 38.9 percent or 2.3 billion KGS, mainly due to increase in spending represented by a single item in the health care system. Spending on social benefits and subsidies constituted 9.6 billion KGS (8.3 percent to GDP), having increased by 21.1 percent or 1.7 billion KGS.

According to the economic classification, the largest contribution to the growth of the state budget spending was provided by the cost of labor (11.9 p.p.), use of goods and services (6.8 p.p.), and spending on subsidies and social benefits (4.9 p.p.).

At the end of June 2012, the public debt amounted to 147.6 billion KGS (3.1 billion USD²), of which domestic debt constituted 13.2 billion KGS, external debt constituted 134.4 billion KGS. Public debt in January-June 2012 increased by 3.1 percent or 4.4 billion KGS compared with that of the end of 2011. Interest payments on the public debt service in the first half of 2012 constituted 1.3 billion KGS (January-June 2011 – 1.6 billion KGS), of which the share of payments on domestic and external debt constituted 44.3 and 55.7 percent of the total interest payments, respectively. Compared to the same indicator of the first half of 2011, interest payments on external debt decreased by 37.6 percent or 436.3 million KGS, and increased by 24.7 percent or 113.8 million KGS on domestic debt.

In the reporting period, the net outflow of budget funds for the transaction of acquisition of non-financial assets (including operations on the following groups: fixed assets, inventories, land) constituted 1.8 billion KGS or 1.6 percent of GDP (in January-June 2011 – 2.2 billion KGS or 2.0 percent to GDP).

The Financial Sector

The Banking System

At the end of the reporting period of 2012³, on the territory of the Kyrgyz Republic there were 22 commercial banks¹ and 264 branches of commercial banks working (in the

¹In real terms (adjusted for CPI) increased by 23.5 percent.

²Data are calculated by the NBKR (as of June 30, 2012, 1 U.S. dollar = 47.2445 KGS).

³Data are used according to regulatory reporting of commercial banks.

same period in 2011 22 commercial banks and 248 branches of commercial banks have been working).

At the end of June 2012, the banking system in total received a net gain of 1,023.9 million KGS (in the same period in 2011 – 786.7 million KGS). Total assets of the banking system since the beginning of the year have increased by 13.5 percent and amounted to 75.8 billion KGS at the end of the first half of this year.

In January-June 2012, in the market of bank deposits there was an increase of the dynamics of growth of the deposit base of commercial banks, compared with the second half of 2011, which was due to the preservation of a relatively stable social and political environment and an increase in business activity in the domestic market. In the structural context, the upward change trend of the deposit base was caused by an increase in cash balances on bank accounts of enterprises, and the growth of demand deposits and term deposits.

At the end of the reporting period, the amount of the deposit base of commercial banks amounted to 46.8 billion KGS, having increased since the beginning of the year by 21.1 percent. The increase was achieved by growth in both foreign currency component of the deposit base by 21.8 percent and contributions in soms by 20.3 percent.

In the reporting period there was an increase in the inflow of deposits to commercial banks. The volume of deposits² newly accepted in the first half of 2012 amounted to 109.2 billion KGS, having increased by 24.4 percent compared to the same indicator of 2011. The weighted average interest rate on new deposits in national currency constituted 2.2 percent, having risen in annual terms by 0.1 percentage points. Rate on new deposits in foreign currency decreased by 0.2 percentage points to 0.8 percent.

In the first half of 2012, the situation on the market of bank lending was characterized by the preservation of the upward trend that began in the second half of the previous year with the absence of significant fluctuations in liquidity in the banking system, a relatively stable state of the exchange rate, maintaining social and political stability in the country and the low base effect. The cost of loans has remained relatively high, while in the period under review, there was a slight decrease in the average value of the interest rate on new loans in local currency, while for loans in foreign currency rates, however, increased. The volumes of lending for trade made the main contribution to the formation of the portfolio. The actions of the Government to subsidize the agricultural sector contributed to the increase in the share of loans to agriculture in the structure of the loan portfolio of banks. Also, there was improving in the quality characteristics of the loan portfolio of the banking system as a reduction in equity values of overdue and rescheduled loans.

6.3 thousand concessional loans were issued in the first half of 2012 totaling 700.4 million KGS of 1 billion KGS allocated for these purposes under the “Loans Available to Farmers (LAF)-2” state program to support the agricultural sector.

The volume of the loan portfolio of acting commercial banks at the end of the first half of 2012 amounted to 34.9 billion KGS, having increased by 11.8 percent since the beginning of the year. At the same time, the som part of loan portfolio increased by 8.9 percent, having formed in the amount of 15.2 billion KGS. The volume of issued loans in foreign currency at the end of June constituted 19.7 billion in som equivalent exceeding the corresponding figure at the beginning of the year by 14.1 percent.

¹The AUB OJSC has been excluded from the banking system as of December 1, 2010: due to a court decision to institute bankruptcy proceedings and termination of conservation regime (according to the Resolution of the NBKR Board No. 83/1 as of 01.11.2010)

The Zalkar Bank JSC, which obtained a license in accordance with the decision of the NBKR Board No. 91/1 as of 16.12.2010, has been entered into the banking system on 24.12.2010.

²Accounts of bank customers are not considered in the volume of new deposits.

In January-June 2012, the weighted average interest rate on bank loans in local currency decreased by 0.6 percentage points to 21.8 percent, and the foreign exchange rate remained at the level of the indicator at the beginning of the year to 17.8 percent.

At the end of the reporting period, the loan portfolio of banks by industries divided as follows. The share of loans to trade, occupying a large portion of the loan portfolio, decreased by 1.1 percentage points (to 41.8 percent). The shares of the loans to the industry have also decreased from 5.3 to 5.0 percent, construction - from 5.6 to 5.3 percent and mortgage - from 9.6 to 9.4 percent. There was also an increase in shares of agricultural (by 0.7 p.p. to 13.4 percent) and consumer loans (by 0.3 p.p. to 9.1 percent). Loans to transport, communications, procurement and processing and social services, as always, constituted a small proportion - a total of about 3.0 percent. The share of “other” loans in January-June 2012 increased from 12.9 to 13.0 percent.

The volume of new loans issued in the first half of 2012 constituted 18.2 billion KGS, which is 23.5 percent higher than the amount issued in the same period of 2011. The weighted average interest rate on new loans in the national currency in the first half of 2012 decreased by 0.1 percentage points compared to the same period in 2011, reaching 22.6 percent. In foreign exchange, the rate, contrariwise, increased by 0.4 percentage points to 20.2 percent.

The average value of the real interest rate on loans in the national currency in the first half of 2012 constituted 21.5 percent compared to 14.4 percent in the same period last year.

Non-bank financial institutions licensed by the National Bank

At the end of the first half of 2012, the number of non-bank financial institutions (NBFIs) of the Kyrgyz Republic was 893, including: a financial company to support the Credit Union (FCCU) - 1, credit unions (CUs) - 189, microcredit companies (MCCs) – 337, microcredit agencies (MCA) - 91, microfinance companies (MFCs) – 5 and exchange offices – 270 (the number of NBFIs was 907 in the same period in 2011).

NBFI's loan portfolio¹ for the first half of 2011 increased by 11,5 percent and totaled 17,531.8 million KGS.

Table3. NBFI loan portfolio¹ (mln. KGS)

NBFI Name	30/06/2011	30/06/2012
FCCU	466,3	466,3
MFOs (MFCs, MCCs/MCAs) ²	12 736,1	16 263,6
Credit unions	1 231,9	1 268,1
TOTAL	13 968,1	17 531,8

¹The data are presented excluding FCCUs (since FCCUs' loans are granted to credit unions).

²MCCs/MCAs provide reports on a semiannual basis.

The weighted average interest rate at the end of June 2012 on FCCU loans constituted 15.94 percent (as of 31/12/2011 – 15.79 percent), credit unions –27.71 percent (as of 31/12/2011 –28.40 percent) and IFC loans –35.6 percent (as of 31/12/2011 –37.41 percent).

The total amount of the deposit base in credit unions at the end of the reporting period amounted to 43.5 million KGS (as of 31/12/2011 –35.5 million KGS), having increased by 22.5 percent since the beginning of the year.

The total amount of the deposit base of the IFC at the end of June 2012 constituted 36.1 million KGS (as of 31/12/2011 –5.1 million KGS), having increased by 607.8 percent since the beginning of the year.

¹The data are presented excluding FCCUs (since FCCUs' loans are granted to credit unions).