

NATIONAL BANK OF THE KYRGYZ REPUBLIC

INFLATION REPORT

II quarter 2013



National Bank of the Kyrgyz Republic

Inflation Report
II quarter 2013

July 2013

Bishkek

Inflation Report

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This edition contains the description of the consumer price trends in the Kyrgyz Republic and its regions, analysis of major inflation factors, decisions made by the National Bank of the Kyrgyz Republic on monetary policy, and also presents inflation forecast for the upcoming period. It is published on a quarterly basis in the Kyrgyz, Russian and English languages.

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Chapter 1. Economic Situation in the Kyrgyz Republic

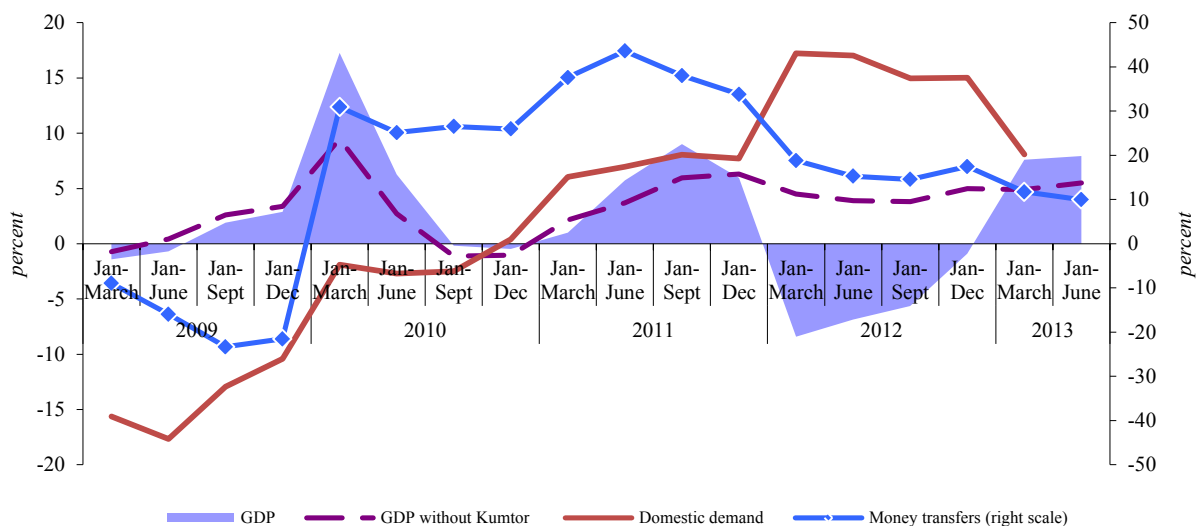
1.1. Demand and Supply in Commodities and Services Market

1.1.1. Demand

According to the preliminary data in January-June 2013, the nominal volume of GDP constituted 133.9 billion KGS, having increased in real terms by 7.9 percent against corresponding index of comparable period of 2012, whereas in January-June 2012, GDP decreased by 6.9 percent. Exclusive of enterprises on exploration of gold-mining deposit “Kumtor”, the GDP volume in January-June 2013 increased by 5.5 percent (in January-June 2012, the growth of the same index was 3.4 percent). GDP deflator constituted 4.6 percent against 12.7 percent in January-June 2012.

In the first quarter of 2013, growth in domestic demand (the sum of final consumption expenditure and gross capital formation) was 8.1 percent as compared to the first quarter of 2012 due to increase of expenditures for households final consumption by 10.4 percent and positive changes in inventories by 7.4 percent.

Chart 1.1.1. Dynamics of Changes in GDP and Remittances
(for the period)



In January-June 2013, increase of individuals' remittances inflow by money transfer systems was 14.3 percent, as compared to the corresponding index of the last year. Meanwhile, growth rates keep decreasing. Slowdown in the rates of the world economic development, affecting economic growth in Russia conditions decrease in the growth rates of remittances to Kyrgyzstan. In January-June 2013, net inflow of remittances increased by 10.0 percent and constituted USD 825.0 million, whereas in the first half of 2012 growth rates constituted 15.3 percent. The bulk of remittances (99.0 percent) comes from the CIS countries, moreover, 97.8 percent of remittances inflow are from Russia, 1.2 percent – from Kazakhstan, and 1.0 percent – from far-abroad countries.

Table 1.1.1. Remittances of Individuals by Money Transfer Systems*
(million USD)

	2010	2011	2012	Jan-June 2012	Jan-June 2013**
Balance	1 124.9	1 505.4	1 768.5	750.1	825.0
Inflow	1 252.6	1 695.4	2 017.9	862.2	985.2
CIS countries	1 199.3	1 639.4	1 980.4	843.4	975.3
Kazakhstan	35.0	41.2	33.8	16.1	11.7
Russia	1 164.3	1 597.5	1 946.2	827.2	963.4
Others	0.0	0.7	0.5	0.1	0.2
Far-abroad countries	53.3	56.0	37.5	18.8	10.2
Belgium	0.2	1.4	0.0	0.0	0.0
Great Britain	1.4	1.5	1.2	0.6	0.6
Germany	9.9	15.7	9.5	3.5	1.8
USA	41.7	36.1	25.0	14.2	6.9
Others	0.1	1.3	1.8	0.5	0.9
Outflow	127.6	190.1	249.4	112.1	160.3
CIS countries	125.8	185.8	243.8	109.3	158.8
Kazakhstan	0.4	0.7	0.6	0.4	0.2
Russia	125.4	184.9	242.8	108.8	157.5
Others	0.0	0.3	0.4	0.1	1.0
Far-abroad countries	1.8	4.3	5.6	2.9	2.8
Belgium	0.5	0.6	0.3	0.1	0.2
Germany	0.3	1.4	1.4	0.6	0.2
USA	0.9	2.0	2.5	1.6	2.0
Others	0.2	0.3	1.4	0.5	0.5

* - Anelik, Blizko, Contact, Migom, MoneyGram, Western Union, Unistream, Zolotaya Korona, Leader, Bystraya Pochta, Allyur and other money transfer systems and remittances via the PE "Kyrgyzpochtasy".

**Preliminary data

According to the preliminary data of the Central Treasury of the Ministry of Finance, the state budget deficit at the end of the first half of 2013 amounted to 1.4 billion KGS or 1.0 percent to GDP (in the similar period of 2012 – 3.3 percent to GDP).

Total state budget revenues, including revenues from sales of non-financial assets constituted 46.8 billion KGS (35.0 percent to GDP), having increased by 14.8 percent or 6.0 billion KGS as compared to the corresponding index of the first half of the previous year. Revenues from operating activity constituted 46.7 billion KGS or 34.9 percent to GDP. The largest contribution to growth in operating income was made by tax revenues (7.4 percentage points), the contribution of received official transfers was 4.0 percentage points, while the contribution of non-tax revenues – 3.7 percentage points.

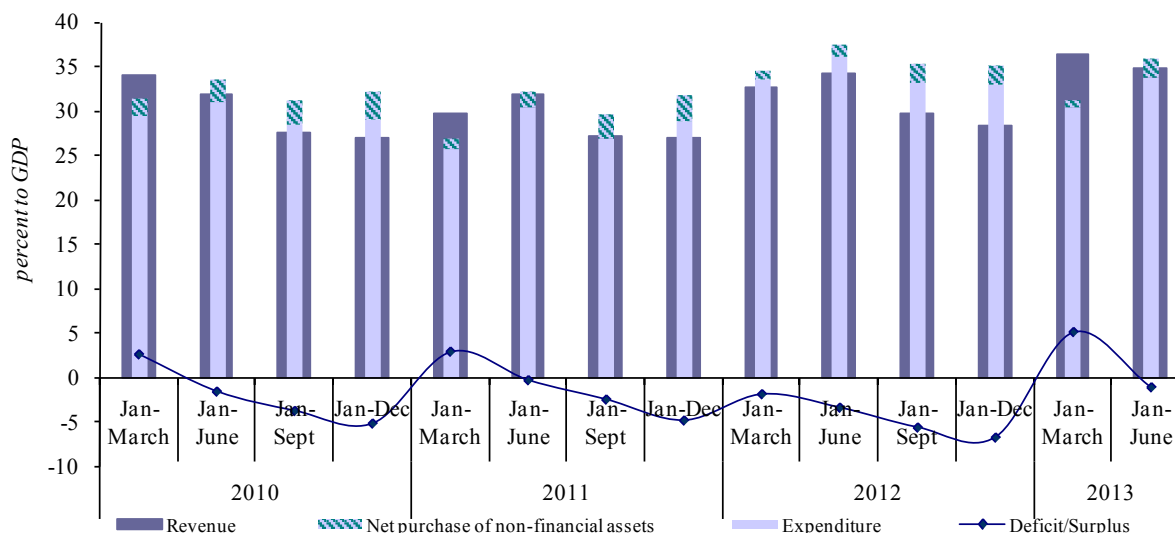
Total expenditures of the state budget, including expenditures for purchase of non-financial assets constituted 48.2 billion KGS or 36.0 percent to GDP, having increased by 7.8 percent or 3.5 billion KGS as compared to the corresponding index of January-June 2012.

Expenditures for operating activity constituted 45.2 billion KGS or 33.8 percent to GDP. The share of expenditures directed for current consumption is still significant in the structure of expenditures in accordance with economic classification. In the period under review, increase by 2.3 percentage points was observed in the share of expenses for subsidies and social allowances payment, primarily due to growth of expenditures for payment of pension basic component and allowances to low-income households.

According to the preliminary data of the Social Fund of the Kyrgyz Republic, surplus of the Social Fund budget amounted to 0.5 billion KGS or 0.3 percent to GDP, revenues – 16.3 billion KGS or 12.2 percent to GDP, expenditures – 15.9 billion KGS or 11.9 percent to GDP.

Chart 1.1.2. State Budget Implementation

(for the period)



In January-June 2013, the volume of investments into fixed capital increased by 6.1 percent (in comparable prices) as compared to the corresponding period of 2012. In the sectoral structure of investments, during the reviewed period the major share of investments is attributed to the mining industry (26.5 percent), processing industry (17.4 percent), transport and communication (8.2 percent). At that, financing of the mining industry was implemented by means of funds submitted by the enterprises and organizations (94.1 percent) and by means of direct foreign investments (5.9 percent). The volume of investments into the processing industry increased by 2.2 times compared to January-June 2012, financing was implemented by means of foreign credits (79.6 percent) and funds submitted by the enterprises and organizations (12.8 percent). Increase in the volume of investments in the processing industry was primarily conditioned by attracting of funds for construction and putting into operation of oil refinery in Kara-Balta town.

Financing of construction objects in the sphere of transport and communication was primarily implemented by means of funds submitted by enterprises and organizations (45.6 percent), foreign credits (22.9 percent), republican budget (13.9 percent), foreign grants and humanitarian aid (8.9 percent).

Table 1.1.2. Investments in the Fixed Capital by Sources of Finances

	Jan-June 2012	Jan-June 2013	Jan-June 2013	
	total, <i>million KGS</i>		share, <i>percent</i>	real growth rate ¹ , <i>percent</i>
Total	18 301.0	20 002.8	100.0	106.1
Internal investments	14 520.4	15 244.1	76.2	101.9
Republican budget (including funds intended for emergencies)	567.0	586.2	2.9	100.3
Local budget	144.4	129.7	0.6	87.2
Funds of enterprises and organizations	8 093.9	7 614.6	38.1	91.3
Bank credit	171.5	138.9	0.7	79.1
Population assets	5 543.6	6 774.7	33.9	118.6
External investment	3 780.6	4 758.7	23.8	122.2
Foreign credit	1 383.6	3 563.0	17.8	2,5 times
Foreign direct investments	1 605.4	610.7	3.1	36.9
Foreign grants and humanitarian aid	791.6	585.0	2.9	71.8

Source: NSC KR

¹Growth rates are calculated in comparable prices

1.1.2. Supply

In the reporting period, the largest contribution in GDP formation was made by the processing enterprises (3.1 percentage points) due to rehabilitation of production output at the enterprises on exploration of gold-mining deposit “Kumtor”, trade (1.3 percentage points), transport and communication (1.3 percentage points). The volume of total supply of goods and services in the first half of 2013 was provided by growth in production output of the processing industry by 25.5 percent, construction - by 15.0 percent, transport and communication – by 12.3 percent, primarily due to strengthening investment activity in the country. Herewith, in January-June 2013, the negative contribution in GDP growth was made by the sector on electricity, gas and water generation and distribution (-0.03 percentage points) thereby reducing the volume of production output by 0.7 percent, conditioned by decrease in electricity generation by 4.5 percent as well as in the volume of services on electricity distribution by 4.0 percent. At that, the structure of total supply of goods and services in January-June 2013 did not considerably change.

Table 1.1.3. Contribution of Individual Activities to GDP Increase/Decrease (percent)

	Share		Growth rate		Contrib to growth	
	<i>Jan-June</i>		<i>Jan-June</i>		<i>Jan-June</i>	
	2012	2013	2012	2013	2012	2013
Agriculture, hunting and forestry	12.4	11.1	1.4	1.9	0.1	0.2
Mining industry	1.0	0.9	21.1	3.4	0.2	0.0
Processing industry	12.2	13.4	-42.2	25.5	-9.3	3.1
including Kumtor	6.0	7.3	-64.2	45.9	-9.8	2.8
Electricity, gas and water generation and dist	4.0	3.1	13.5	-0.7	0.6	-0.03
Construction	4.1	4.4	7.7	15.0	0.3	0.6
Trade; cars repair	15.7	16.1	7.5	8.5	1.1	1.3
Transport and communication	10.2	10.6	8.0	12.3	0.8	1.3
Other	26.1	25.0	1.0	1.0	0.2	0.3
Net tax on products	14.3	15.4	-6.9	7.9	-0.8	1.1
GDP	100.0	100.0	-6.9	7.9	-6.9	7.9
GDP without Kumtor			3.4	5.5	2.9	5.2

Source: NSC KR, NBKR calculations

In the first half of 2013, the physical volume index (PVI) of industrial production increased by 18.4 percent as compared to the corresponding period of 2012 (in January-June 2012 decrease made 30.9 percent). Increase in PVI of industrial production was mainly due to increase of production output in the processing industry (by 25.5 percent), as well as due to metallurgical production and production of finished metal goods (by 1.5 times), production of other nonmetallic and mineral products (by 45.3 percent), wood processing and woodware manufacturing (by 29.0 percent). There was increase in PVI of industrial production at the level of 3.2 percent excluding enterprises on exploration of gold-mining deposit “Kumtor”, meanwhile, the similar index of 2012 increased by 10.0 percent. Meanwhile, decrease in production output of the textile and garment industry was observed for the second quarter in a row. Decline in the textile and garment industry was conditioned by seasonal character of separate types of production due to absence of orders resulting in interruption of enterprises operation.

According to the preliminary data, in the first half of 2013, growth of PVI by 1.9 percent was observed in agriculture (in January-June of the last year growth was 1.4 percent). Growth in total output of agricultural products was generally conditioned by increase of production output in the livestock sector, as well as starting harvesting of potato, vegetables and crops in the current year.

In January-June 2013, the total trade turnover constituted 125.3 billion KGS, meanwhile, the volume of trade operations in real terms increased by 8.1 percent compared to the corresponding index of 2012 (at the end of the first half of 2012 growth of trade constituted 8.6 percent).

Table 1.1.4. Dynamics and Structure of Gross Turnover of Trade Operations

	Jan-June 2012		Jan-June 2013	
	share, percent	growth rate, percent	share, percent	growth rate, percent
Trade	100.0	108.6	100.0	108.1
Trade in cars, motor vehicles and their spare parts	2.8	104.6	2.6	103.9
Car maintenance and repair	0.5	97.6	0.5	104.3
Wholesale trade	32.0	108.6	31.3	104.7
Motor fuel retail trade	11.7	127.1	12.0	118.0
Retail trade, excluding cars and motor fuel	52.8	105.7	53.5	108.2
Repair of household appliances and articles	0.2	99.7	0.2	97.6

Source: NSC KR

1.2. Monetary Trends

Monetary Base

In January-June 2013, the monetary base increased by 3.8 percent or 2.4 billion KGS, and as of July 1, 2013, it amounted to 66.9 billion KGS (in the corresponding period of 2012 – by 3.5 percent). The monetary base increased by 1.4 billion KGS due to operations of the Government, and the operations of the National Bank, increased it by 1.0 billion KGS.

For reference: in January-June 2013, the monetary base increased by 1.9 billion KGS. The operations of the Government increased the monetary base by 5.2 billion KGS. The operations of the National Bank decreased the monetary base by 3.3 billion KGS.

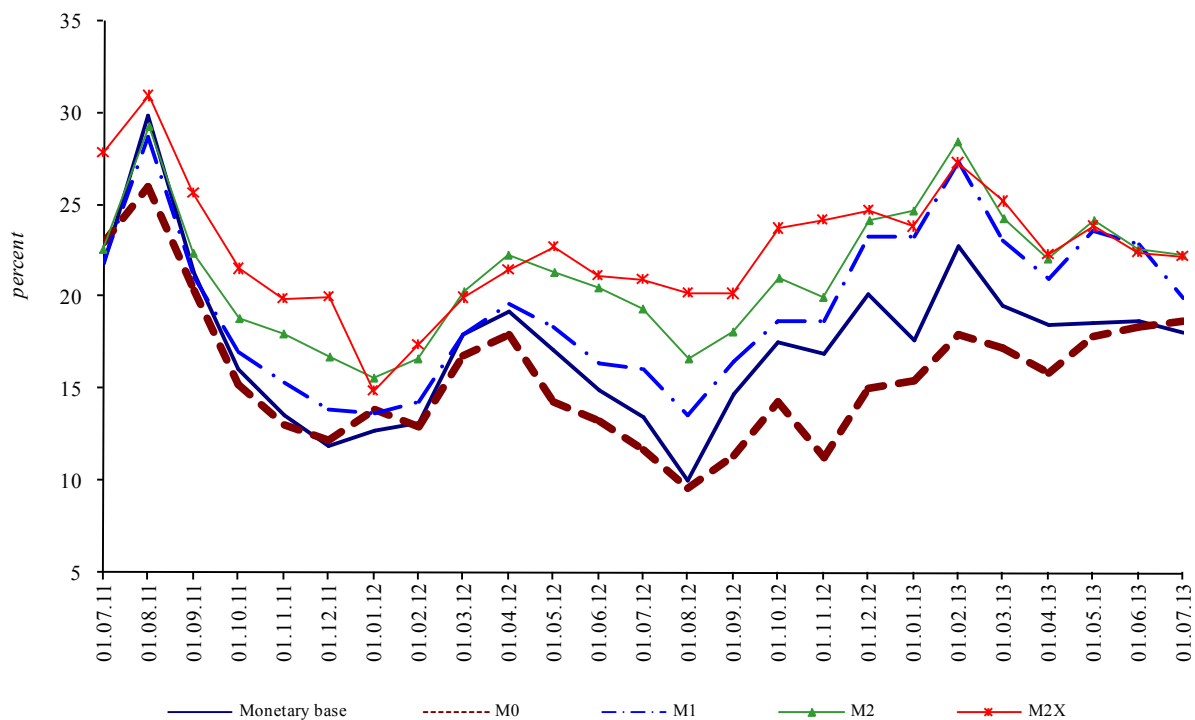
Taking into account inflation risks existing in the country, as well as high level of the state budget deficit, the NBKR conducted prudent monetary policy, thereby decreasing the level of core inflation¹ (according to the method of the IMF) from 11.4 percent as of the end of December 2012 (in annual terms) to 8.9 percent as of the end of June 2013 (in annual terms). For the purposes of restricting monetary component of inflation the National Bank sterilized excessive liquidity in the banking system by means of sales of the NBKR notes and government securities under REPO terms. The total volume of operations on excessive liquidity sterilization in the banking system amounted to 3.3 billion KGS as of the end of June 2013, including: the NBKR notes in circulation as of the end of June – 3.1 billion KGS, the government securities in circulation sold under REPO terms as of the end of June amounted to 0.2 billion KGS.

According to the results of January-June 2013, the share of cash in circulation increased by 4.9 percent and amounted to 61.1 billion KGS (in the corresponding period of 2012– by 3.0 percent).

M2 Aggregate

Money supply M2 (M0 + deposits in the national currency) as of July 1, 2013, amounted to 82.2 billion KGS, having increased in January-June 2013 by 6.1 percent (in the corresponding period of 2012 the increase constituted 8.2 percent). The components of the monetary aggregate M2 changed as follows: the money outside banks (M0) increased by 5.6 percent, while the deposits in the national currency increased by 7.3 percent, including term deposits – by 35.8 percent with the decrease of transferable deposits (demand deposits) – by 5.9 percent.

Chart 1.2.1. Annual Nominal Growth Rates of Monetary Aggregates
(percent)



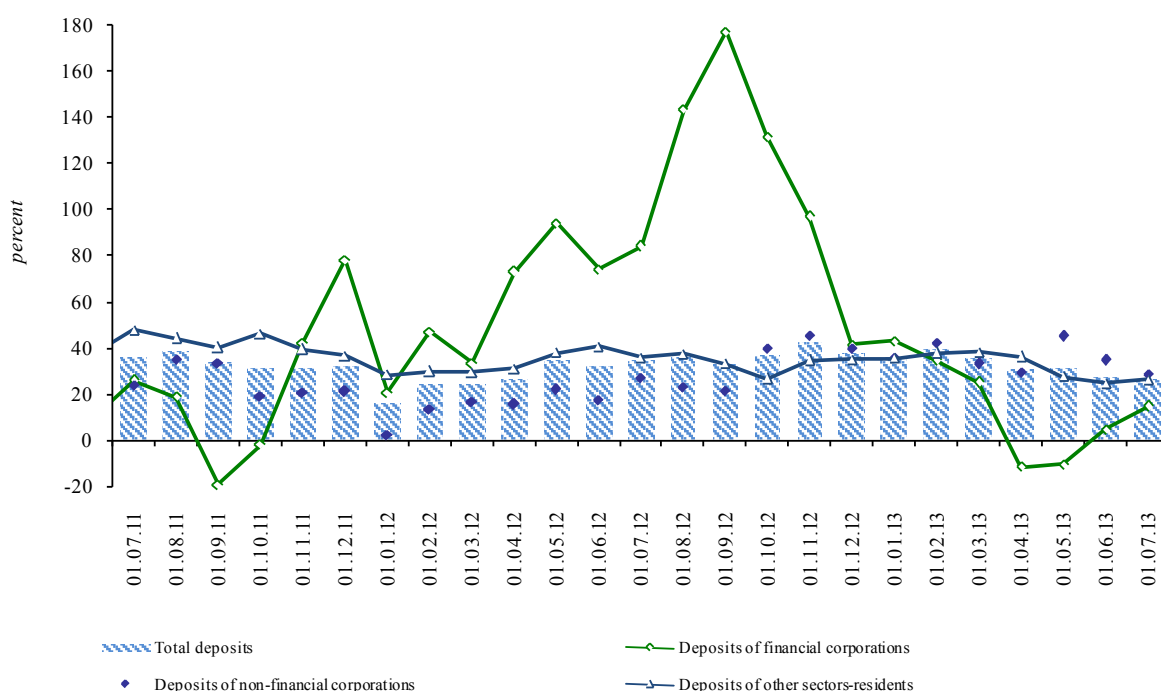
¹ Core inflation-4 (according to the method of the IMF): food products and electricity, gas and other types of fuel are completely excluded.

Aggregate M2X

The volume of M2X broad money (M2 + deposits in foreign currency) as of July 1, 2013 amounted to 107.4 billion KGS, having increased in January-June 2013 by 9.7 percent (in the corresponding period of 2012 – by 11.1 percent). The total amount of deposits¹, included in the definition of M2X broad money increased by 14.6 percent, including deposits in foreign currency increased by 22.6 percent (in the corresponding period of 2012 the total volume of deposits increased by 23.3 percent, while money outside the banks – by 2.8 percent).

In the sectoral structure among the components of M2X broad money the most rapid growth was observed in the deposits of non-financial corporations, the growth of which constituted 18.0 percent according to the results of January-June 2013. The deposits of other sectors-residents, as well as the deposits of other financial corporations increased in the period under review by 11.0 and 12.6 percent, respectively.

Chart 1.2.2. Annual Nominal Growth Rates of Deposits in Commercial Banks



According to the results of January-June 2013, the structure of money stock M2X changed as follows:

- the share of money outside the banks decreased from 55.4 to 53.3 percent;
- the share of deposits in the national currency decreased from 23.3 to 22.8 percent;
- the share of deposits in foreign currency increased from 21.3 to 23.9 percent.
- The multiplier of M2X broad money, which is a measure of financial intermediation, has increased during the reporting period from 1.527 at the beginning of the year to 1.614 as of the end of June 2013 due to increase of deposits in the volume of M2X broad money.

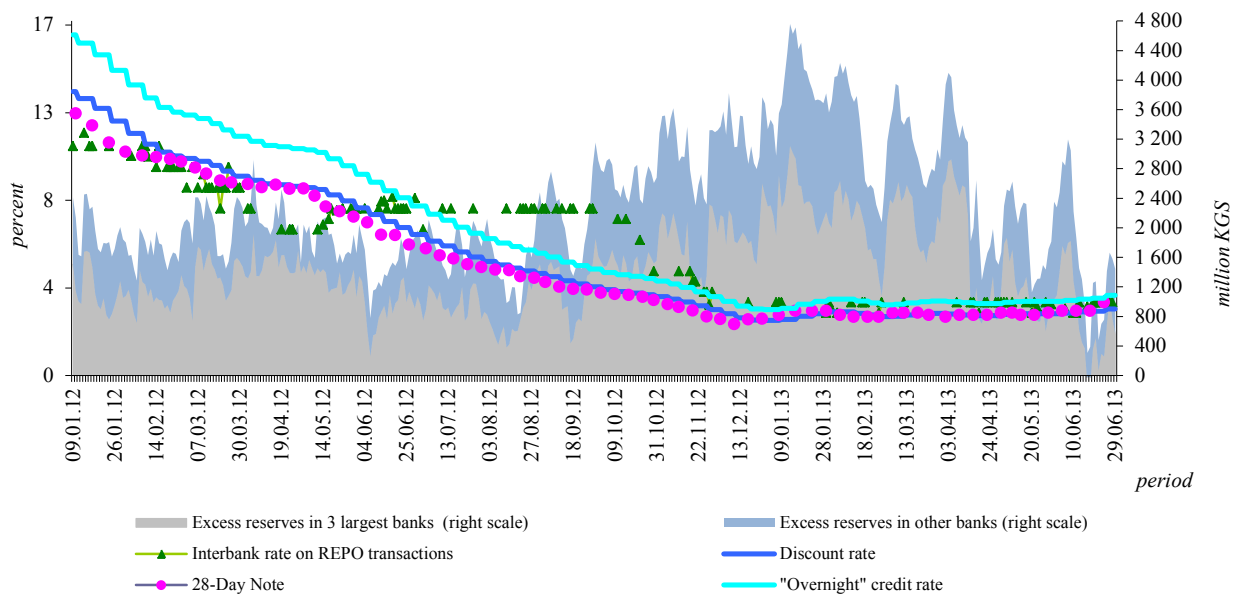
The velocity of M2X broad money circulation decreased from 3.4 percent at the beginning of the year to 3.3 percent at the end of June 2013. Therefore, coefficient of the economy monetization, calculated on the basis of M2X monetary aggregate, increased from 29.0 percent at the beginning of the year to 30.7 percent at the end of June 2013, as a result of outrun growth rates of money stock as compared to the economic growth rates.

¹ According to the data of analytical accounting, the banking systems contain the deposits of individuals and legal entities, as well as the deposits of other financial institutions, however, the deposits of the Government and non-residents are excluded.

Operations in the Inter-Bank Market

The volume of excessive liquidity in the banking system, as one of the factors having significant influence on the process of formation of the major development trends in the financial market, as of the end of the period under review amounted to 1.4 billion KGS, having decreased by 21.8 percent within the year. In the second quarter of 2013, minimum value of this index was recorded in the second decade of June – 306.6 million KGS, while maximum value was recorded in the beginning of the quarter, when the level of this index increased to 4.1 billion KGS.

Chart 1.2.3. Dynamics of Monetary Market Rates



Aggregate volume of loans in the national currency increased by 72.3 percent and amounted to 8.1 billion KGS, due to increase in the total volume of standard credit transactions in the national currency in the internal inter-bank market of credit resources (+36.1 percent), which constituted 853.6 million KGS with an average interest rate of 7.8 percent per annum (+0.2 percentage points). Transactions in foreign currency were not carried out in the reporting period.

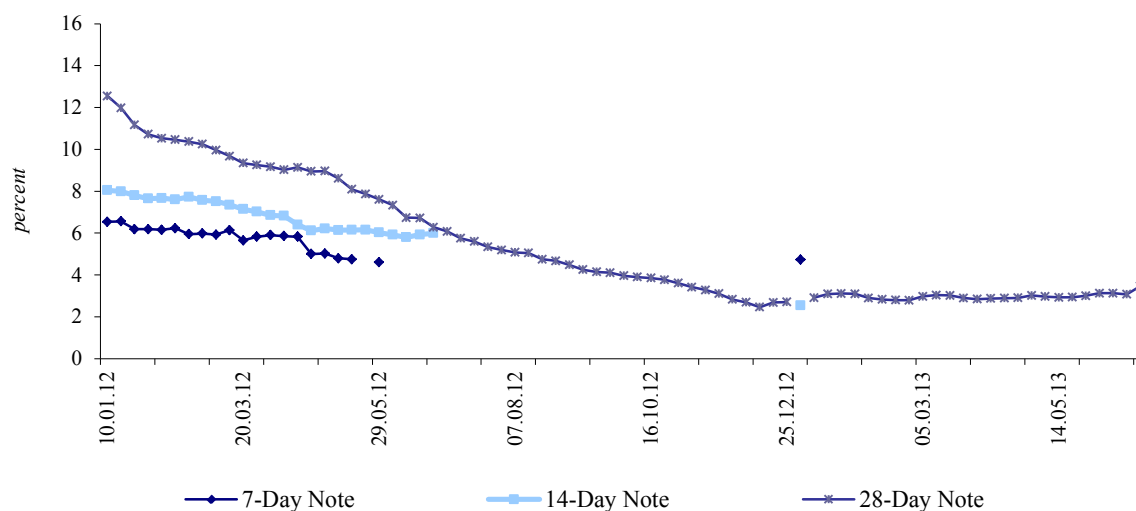
As of the end of June 2013, the discount rate amounted to 3.20 percent, having increased by 0.22 percentage points from the beginning of the year. As a result, “overnight” credit rate decreased by 8.3 percentage points per annum and constituted in average 3.5 percent for the period, the volume of such credits increased by 5.4 times, to 4.8 billion KGS.

The average weighted interest rate on repo-transactions decreased by 5.6 percentage points, to 3.4 percent. The volume of repo-transactions amounted to 2.4 billion KGS.

Three auctions with credits to be provided for 6 months were carried out in the first half of 2013. The total volume of credit resources provided by the commercial banks amounted to 432.0 million KGS. The average weighted interest rate constituted 4.53 percent in the period under review.

The focus of investors was drawn towards the most profitable 28-day notes of the National Bank. The total volume of declared emission amounted to 22.9 billion KGS in the first half of 2013, having increased by 41.4 percent as compared to the corresponding index in 2012.

Chart 1.2.4. Dynamics of the NBKR Notes Yield

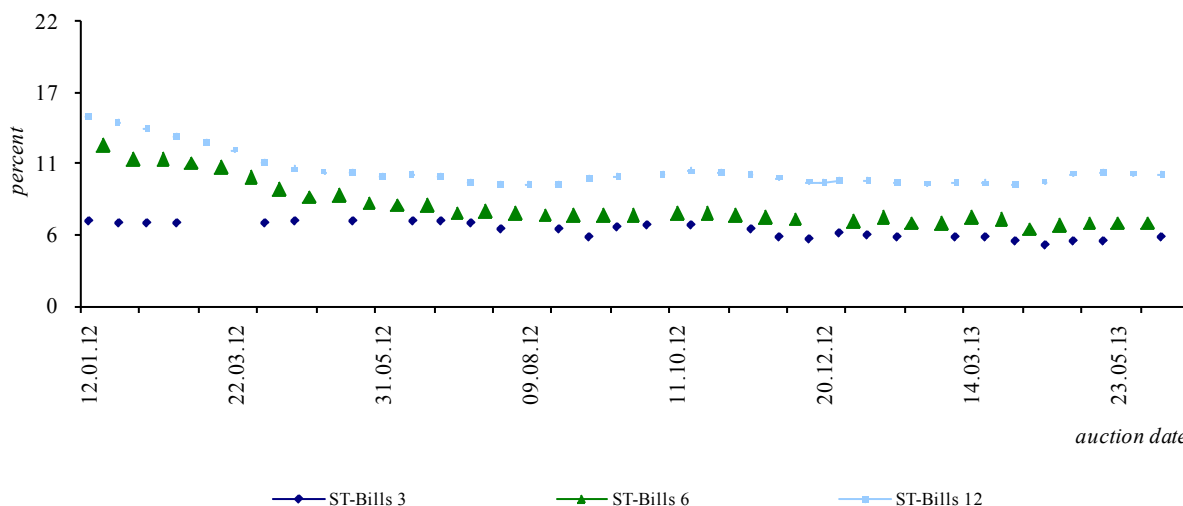


In January-June 2013, the volume of declared ST-Bills emission amounted to 3.3 billion KGS. The total sales volume of ST-Bills in the reporting period increased as compared to the corresponding period of 2012 by 36.9 percent, to 3.3 billion KGS. The average monthly index of ST-Bill yield as compared to the corresponding period of 2012 decreased to 8.7 percent (-2.3 percentage points) due to decline in the profitability on all types of securities, particularly the profitability of 3-, 6- and 12-month ST-Bills decreased by 1.3; 3.4 and 2.1 percentage points respectively.

In the reviewed period there were held eight auctions of ST-Bonds, inclusive of additional allocations, where the total amount of allocated bonds constituted 1.2 billion KGS, which was 54.8 percent more than in the corresponding period of 2012. In the first half of 2013, the total volume of declared emission amounted to 830.0 million KGS (-10.3 percent).

Market weakening, on the background of decrease in the volume of securities emission, was followed by slight increase of the average monthly interest rate by 0.1 percentage points to 15.3 percent.

Chart 1.2.5. Dynamics of ST-Bills Yield



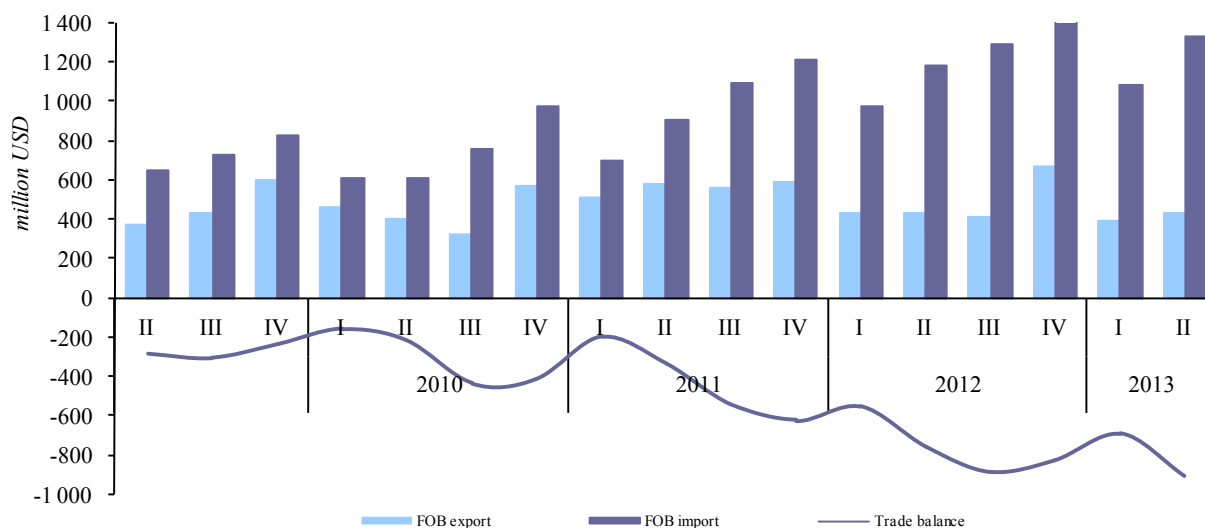
1.3. External Economic Conditions¹

According to the preliminary data, the deficit of trade balance of the Kyrgyz Republic in the first half of 2013 increased by 22.3 percent and amounted to 1 588.0 million USD as compared to the corresponding index of the similar period in 2012.

The external turnover in the reporting period amounted to 3 259.9 million USD, having increased by 7.1 percent as compared to the corresponding index of January-June 2012.

Chart 1.3.1. Foreign Trade

(million USD)



Export of goods (in FOB prices) at the end of the first half of 2013 constituted 836.0 million USD, having decreased by 4.3 percent as compared to the corresponding period of 2012. During the reporting quarter, the volume of gold export decreased by 5.4 percent (by 11.4 million USD in absolute terms). This decline was caused by decrease of actual average export price for gold supplies by 6.7 percent, meanwhile, the physical volume of supplies increased by 1.4 percent. Besides, decrease was observed in the supplies of particular types of clothes and clothing accessories, ores, precious metal concentrate, cotton, etc. Moreover, decline in the physical volume of vegetables supplies to Kazakhstan and Russia was conditioned by decrease in its nominal volume by 11.6 percent. Besides, increase was observed in the export of aviation fuel, rolled glass, rubber tires, cast iron, steel, etc. Thus, the volume of export excluding gold decreased by 3.9 percent and amounted to 636.4 million USD.

During the reporting period the shares in the functional distribution of exported goods² did not suffer significant changes. Decrease in the value of consumer goods caused reduction in the share of these goods in the total volume of export. Besides, the share of raw materials and energy products decreased. Meanwhile, the share of other products increased.

Exports of consumer goods decreased by 21.0 percent and constituted 166.8 million USD. Meanwhile, there was decline in the volume of both exported food and non-food products.

¹ According to the data of NSC KR and SCS KR including NBKR additional estimates, unless otherwise indicated

² Hereinafter, according to the NSC KR and SCS KR excluding NBKR additional estimates.

Reduction in the supplies of foodstuff was mainly caused by decrease in the value of vegetables export (by 11.6 percent or 5.0 million USD), due to decline in the physical volume of supplies by 10.5 percent and export prices by 1.2 percent. Besides, the supplies of cereal preparations and preparations of flour or starch decreased by 26.6 percent (by 0.8 million USD), due to reduction in the physical volume by 28.9 percent against growth of contract prices by 3.2 percent. Moreover, the value of exported meat and meat products increased (by 69.0 percent or 1.2 million USD), due to growth of export prices by 40.6 percent and the physical volume of supplies by 20.2 percent. The volume of exported live animals increased (by 22.4 percent or 0.9 million USD) due to growth in the physical volume of supplies.

In the structure of non-food products the largest reduction was accounted for clothes and clothing accessories (decrease by 35.8 percent or by 28.8 million USD). Moreover, the export of motor cars and vehicles for people transportation decreased by 11.9 percent or by 0.4 million USD (primarily due to price decline). Besides, in the reporting period, there was growth in the export of glow-lamps by 23.8 percent or by 2.0 million USD due to price increase by 17.9 percent and physical volume by 5.0 percent.

In the reporting period, import of goods¹ in FOB prices increased by 11.6 percent and amounted to 2 423.9 million USD. Growth of import was primarily conditioned by increase in the supplies of oil products by 17.7 percent or 80.7 million USD due to growth of physical volume of supplies by 21.5 percent with price decline by 3.1 percent. Significant contribution to growth in the volume of imported goods was made by medicaments, cast iron and steel, electric wires and cable, flour, aircrafts and associated equipment, etc. At that, there was decrease in the supplies of pre-owned cars, electrical wire telephone sets, meat and meat products, hand and machine tools, vehicles for cargo transportation and vehicles for special assignment, etc.

In the functional structure of imports² during the reviewed period increase of value was observed in all groups of goods. Nevertheless, the share of food products decreased slightly due to outpacing import growth of other groups.

At the end of the first half-year, the imports of consumer goods reached the amount of 858.2 million USD (increase by 5.0 percent). Growth was primarily conditioned by increase in the supplies of food products by 13.7 percent.

In the structure of non-food products, increase was observed in the imports of medicaments (by 32.8 percent or 22.3 million USD) due to growth of the physical volume by 40.0 percent against price decline by 5.1 percent. Growth in prices by 9.4 percent and in the physical volume by 2.7 percent resulted in increase of essential oils and perfume materials imports by 12.4 percent (or by 4.9 million USD). Moreover, imports of pre-owned cars considerably decreased (by 22.7 percent or 44.8 million USD) due to decline of the physical volume by 24.6 percent with simultaneous growth of actual prices by 2.5 percent.

In the structure of food products, as a result of growth of the import prices by 50.3 percent and the physical volume by 20.3 percent, imports of wheat and mangcorn flour increased (growth by 80.8 percent or 11.7 million USD). Imports of fruits and nuts increased by 74.3 percent or 6.7 million USD due to growth of import prices by 36.1 percent and the physical volume by 28.1 percent. Moreover, decrease in the physical volume of imports by 11.2 percent with price growth by 1.5 percent provided decrease in the value of imported coffee, tea and cocoa. Besides, the volume of imported sugar decreased (by 7.9 percent or 2.6 million USD) due to decline in import prices by 9.6 percent against increase in the physical volume by 1.8 percent.

¹ CIF import amounted to 2 625.9 million USD, deficit of trade balance in CIF prices – 1 790.0 million USD.

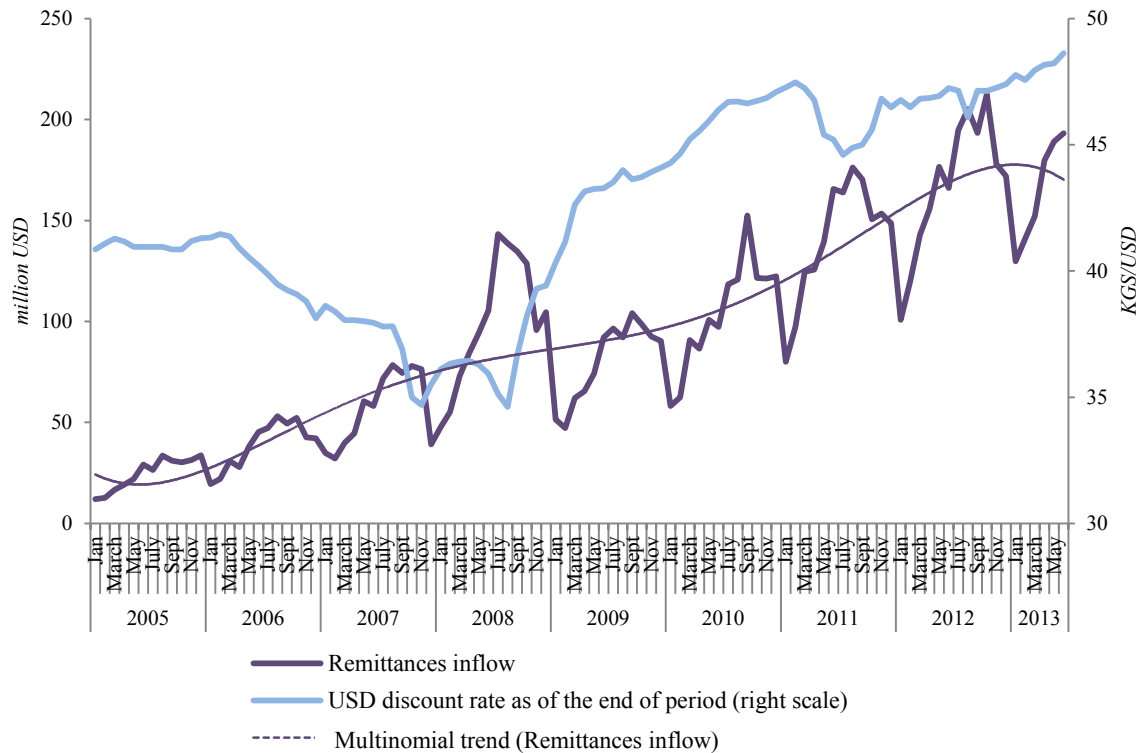
² Hereinafter in CIF prices, according to the data of NSC KR and SCS KR excluding NBKR additional estimates.

1.4 Exchange Rate

The growing trend of the U.S. dollar exchange rate was observed in the first half of 2013.

Since March the value of the U.S. dollar started increasing again. The U.S. dollar strengthening was primarily conditioned by increased demand for the foreign currency on the part of the commercial banks, as well as with the necessity to pay for imported products, particularly, petroleum, oil and lubricants, cars, metal and other consumer goods.

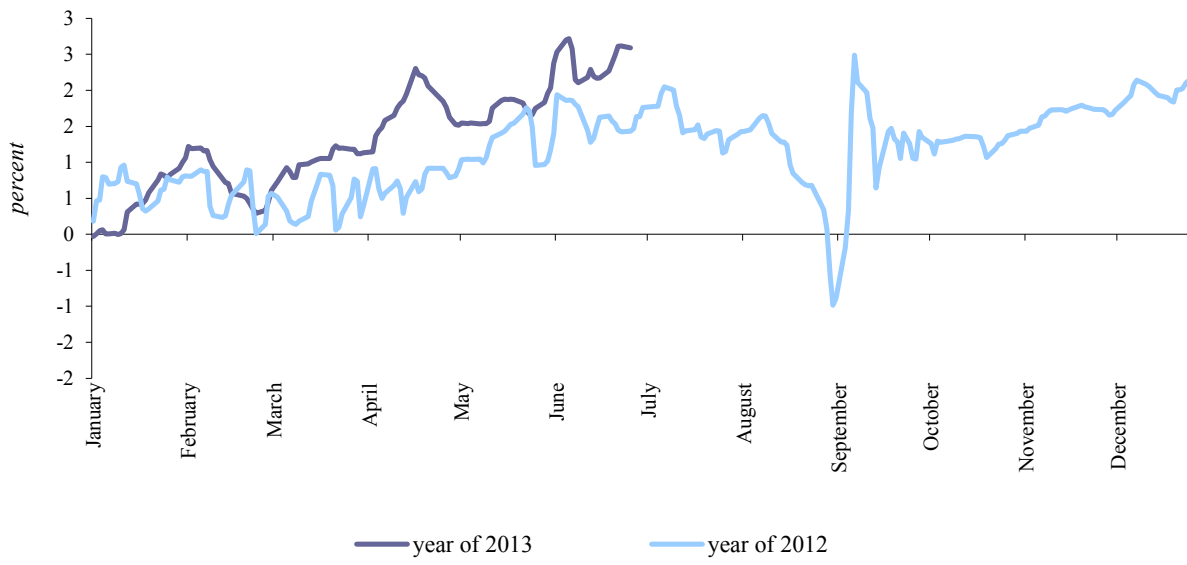
Chart 1.4.1. Dependence of the U.S. dollar Exchange Rate on the Inflow of Remittances



Generally, in the first half of the current year, the U.S. dollar exchange rate increased by 2.6 percent, from 47.4012 to 48.6277 KGS per 1 USD.

Sustainable currency market stability in the reviewed period allowed the National Bank to continue reducing its presence in the currency market in accordance with the stipulated objectives of monetary control. In the first half of 2013, currency interventions were implemented to the amount of 14.7 million USD, having decreased by 65.9 percent as compared to the corresponding index of 2012.

Chart 1.4.2. Monthly Rates of Change of the USD Discount Rate



CONTENT

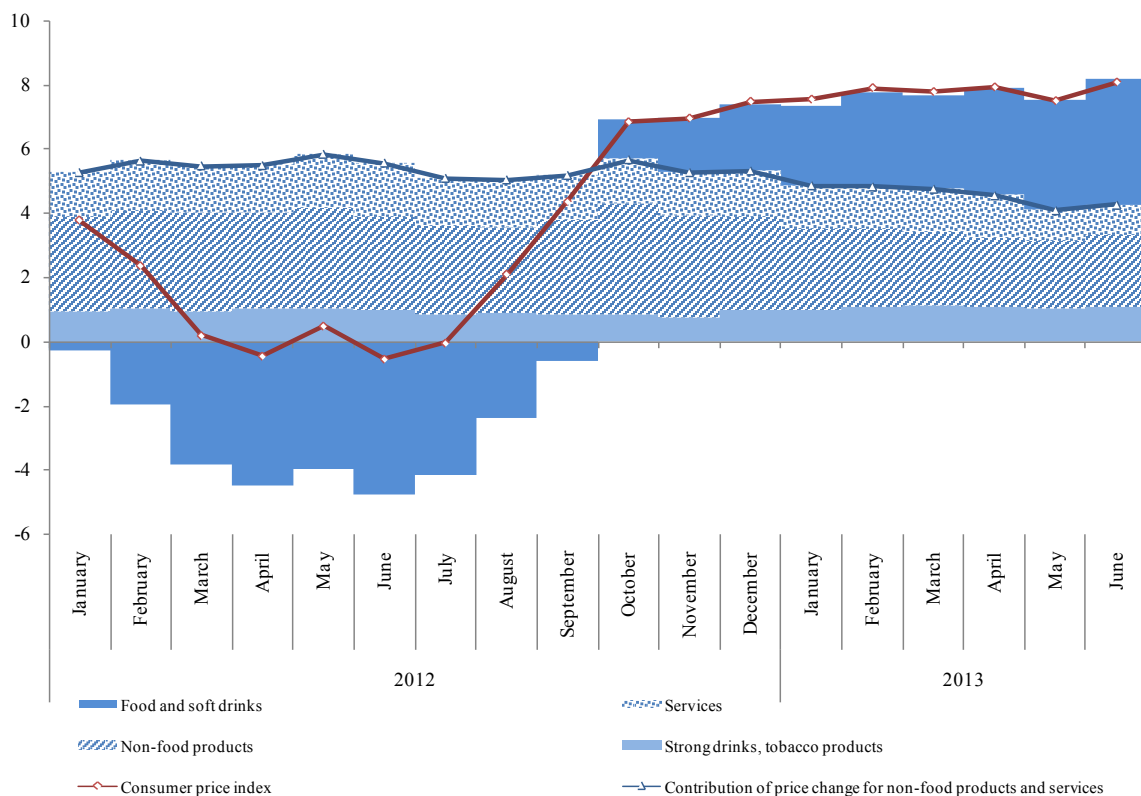
Chapter 2. Inflation and its Components

2.1. Consumer Price Index Development

According to the data of the National Statistics Committee, inflation index at the end of June 2013 (June 2013 against June 2012) constituted 8.1 percent, at that, prices increased by 0.1 percent in June as compared to May 2013; the average annual inflation index was at the level of 7.8 percent.

In January-June 2013, prices for food products constituting approximately 48 percent in the consumer goods basket still influenced the dynamics of consumer prices. Prices for this group of goods rose by 8.1 percent in annual terms.

Chart 2.1.1. Annual Dynamics of CPI Structure
(percent)



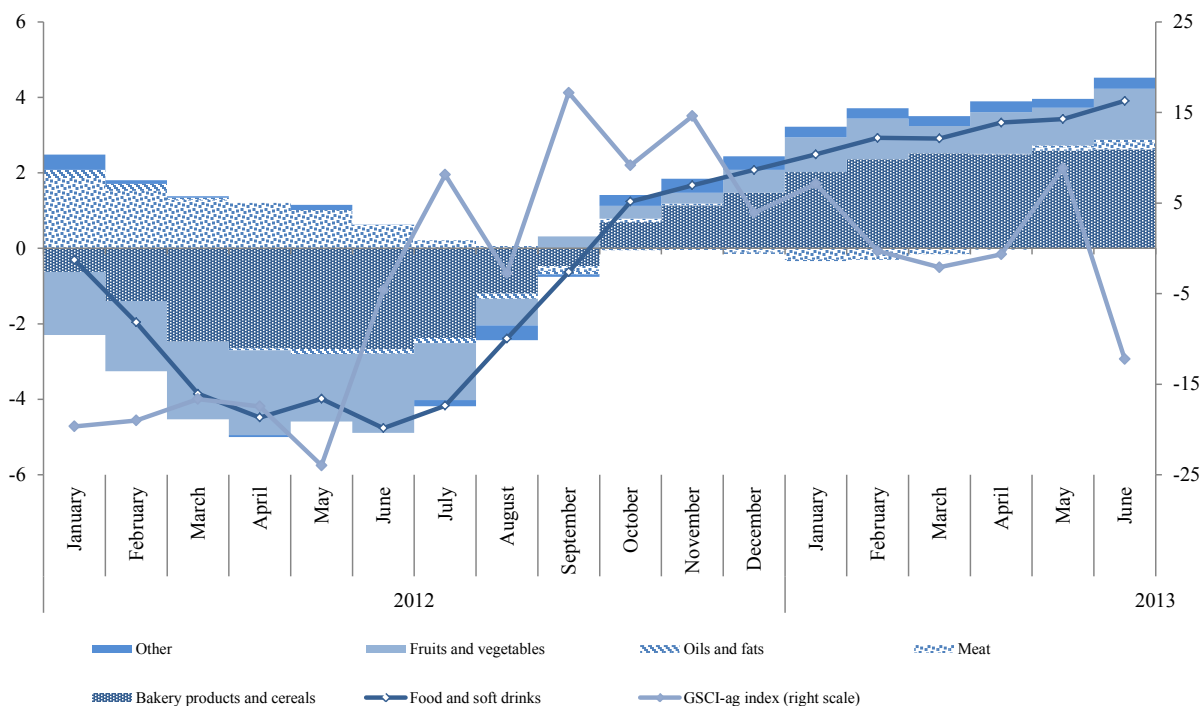
In the reviewed period, the consumer price index for non-food products increased by 7.7 percent in annual terms, for paid services – by 6.9 percent, for strong drinks and tobacco products – by 11.8 percent.

2.2. Dynamics of Prices for Food Products

According to the results of June 2013, the prices for food products in annual terms increased by 8.1 percent, at the end of June 2012, the prices for food products decreased by 10.2 percent. The largest share is accounted for bakery products and cereals in the structure of food products. At the end of June 2013, the prices for bakery products and cereals increased by 14.6 percent in annual terms, as well as the prices for first grade wheat flour increased by 27.6 percent. Poor harvest of wheat in the republic and in the countries major trade partners in 2012 was the main reason for rise in prices for bakery products and cereals. At that, in January-June 2013, prices for crops stabilized and were characterized by the downward trend against expectations of rich harvest in 2013.

Price index for dairy products increased in annual terms by 8.7 percent, for fruits and vegetables – by 18.5 percent. Prices in the “oils and fats” group increased in annual terms by 1.5 percent.

Chart 2.2.1. Contribution Dynamics of Prices for Food Products to Annual CPI
(percent)



Significant dependence of internal prices for food products on dynamics of world prices is generally conditioned by high dependence of economy in Kyrgyzstan on imported food products. Thus, according to the NSC KR in the first quarter of 2013, the share of import in the structure of bakery products consumption constituted 51.6 percent, import of vegetable fat in consumption made 54.6 percent, sugar consumption was provided by import which constituted 65.6 percent.

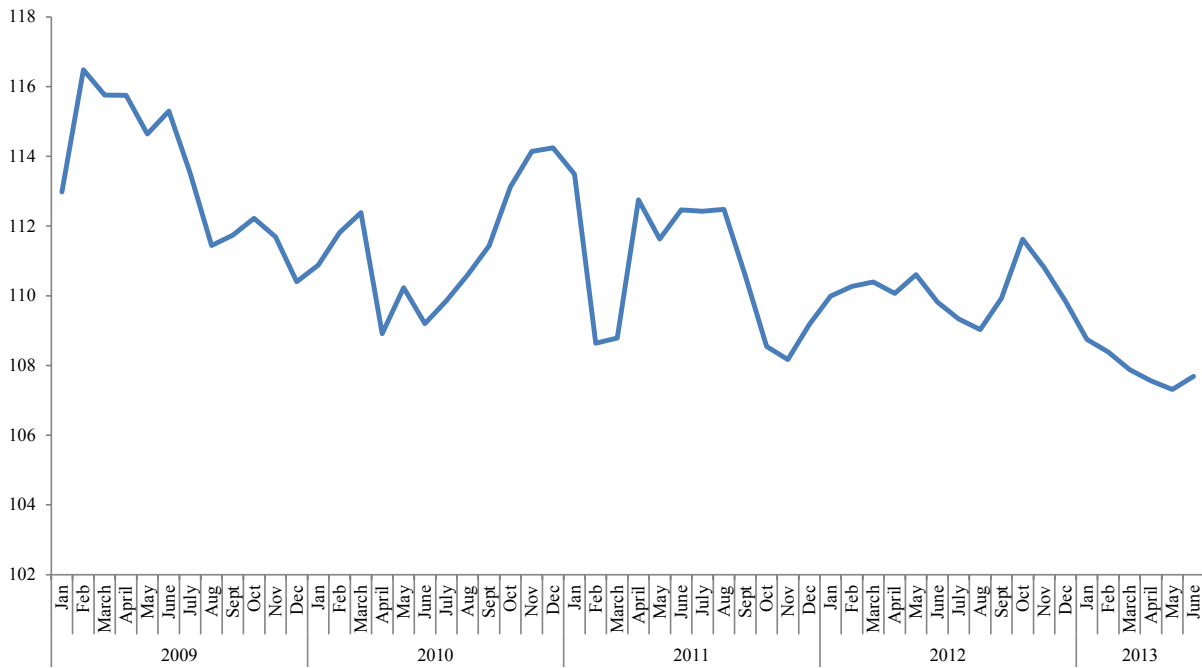
2.3. Dynamics of Prices for Non-Food Products

According to the results of June 2013, growth of the price index for non-food products in annual terms constituted 7.7 percent. During the last years, prices for this group of goods are rather stable, at that, growth of prices for non-food products slows down every year, it may indicate decline of monetary component of inflation in the economy of Kyrgyzstan

CONTENT

Chart 2.3.1. Dynamics of Prices Growth for Non-Food Products

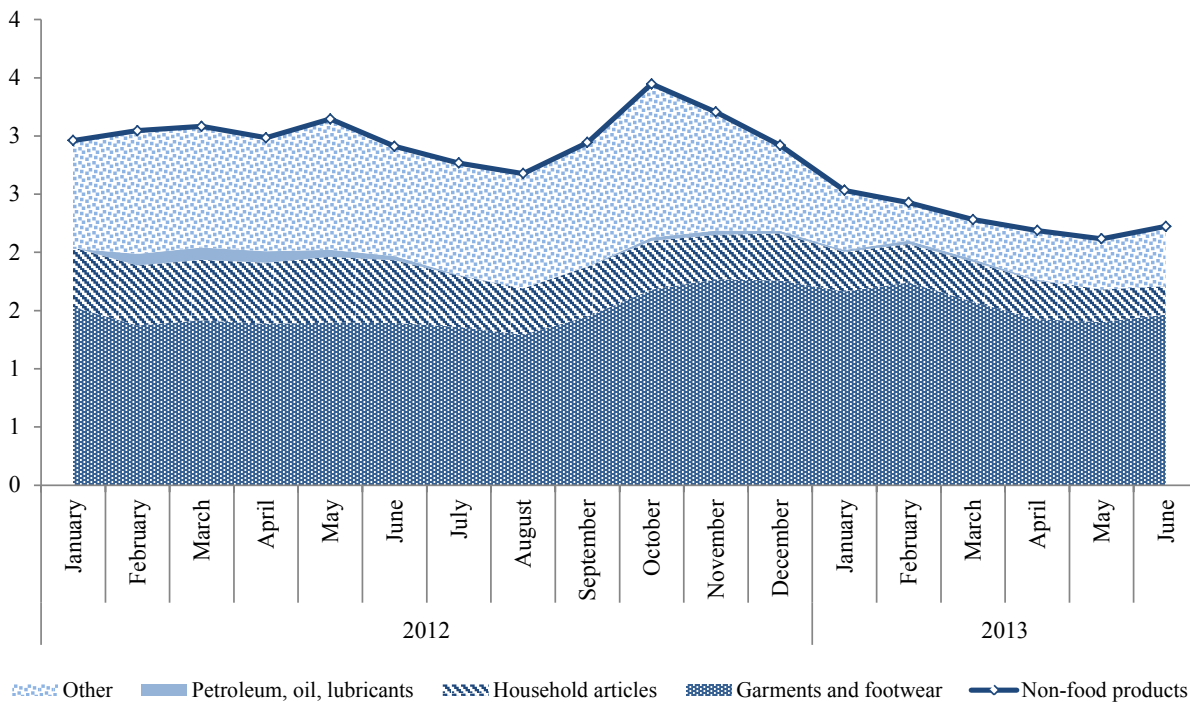
(percent, to the corresponding month of the previous year)



The largest rise in prices was observed in the group “garments and footwear”, which constituted 13.0 percent. Prices for household articles and appliances increased by 7.0 percent. Prices for petroleum, oil and lubricants in annual terms decreased by 1.4 percent, prices for gasoline decreased by 1.6 percent, prices for diesel fuel increased by 1.5 percent.

Chart 2.3.2. Contribution Dynamics of Prices for Non-Food Products to Annual CPI

(percent)

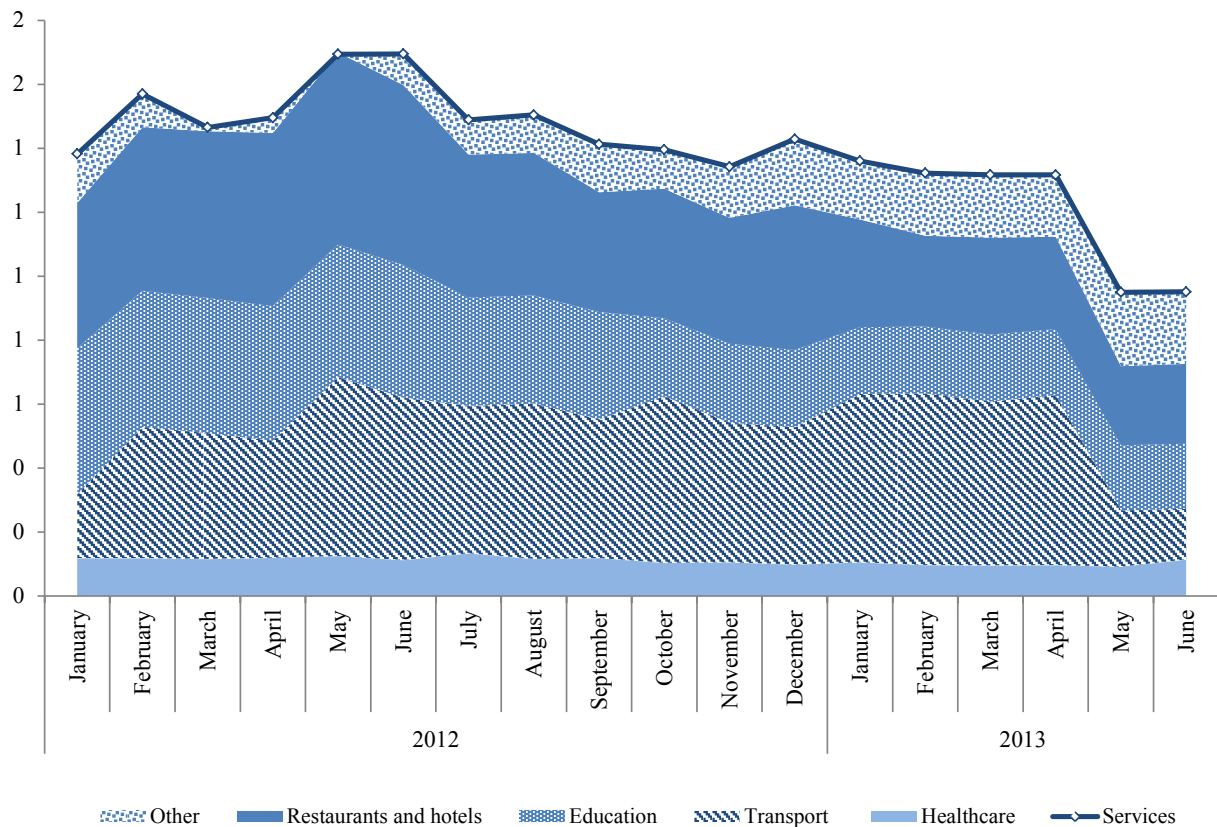


CONTENT

2.4. Dynamics of Prices for Services

In June 2013, the price index for paid services increased in annual terms by 6.9 percent (in June 2012 – by 11.7 percent). The index growth in this group occurred mainly due to the rise in prices for restaurants and hotels services by 9.6 percent, education service (+8.3 percent) and transportation services (+2.6 percent). Prices for healthcare services increased by 12.9 percent.

Chart 2.4.1. Contribution Dynamics of Prices for Services to Annual CPI
(percent)



2.5. Dynamics of Consumer Prices in Regions

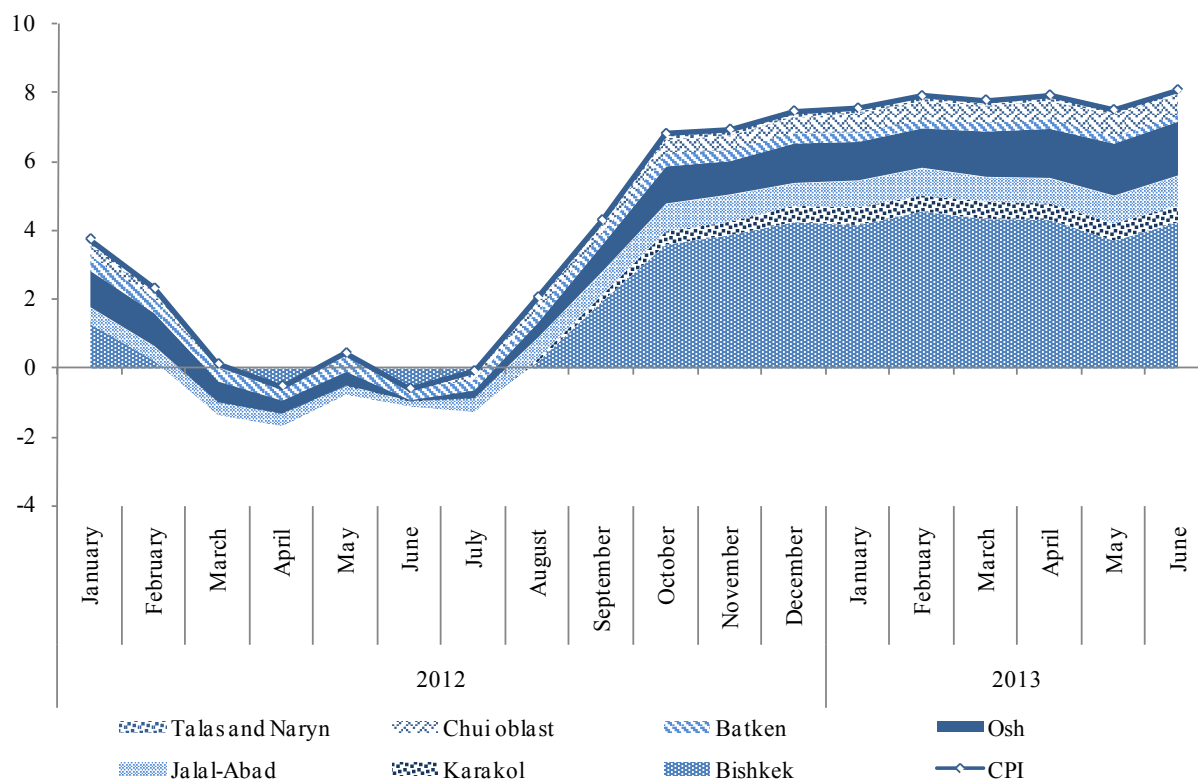
Since the beginning of the current year, rise in the price index within the range 1.2-2.8 percent was observed in all regions of the republic, except for Batken oblast. Prices decreased by 0.5 percent in Batken oblast primarily due to decline in prices for food and non-food products.

Table 2.5.1. Dynamics of Consumer Prices in Regions
(percent)

	June 2013 to		
	June 2012	December 2012	May 2013
CPI	108.1	101.5	100.1
Batken oblast	105.1	99.5	99.4
Jalal-Abad oblast	110.6	101.4	100.1
Issyk-Kul oblast	109.1	101.3	100.4
Naryn oblast	108.1	101.4	99.8
Osh oblast	110.9	102.8	99.8
Talas oblast	106.0	101.2	100.0
Chui oblast	108.0	102.6	99.7
Bishkek	107.3	101.2	100.3

In Bishkek city consumer prices increased by 7.3 percent, at that, the prices for food products rose by 7.9 percent, prices for strong drinks and tobacco products increased by 11.0 percent, for non-food products – by 6.6 percent and for paid services – by 5.0 percent.

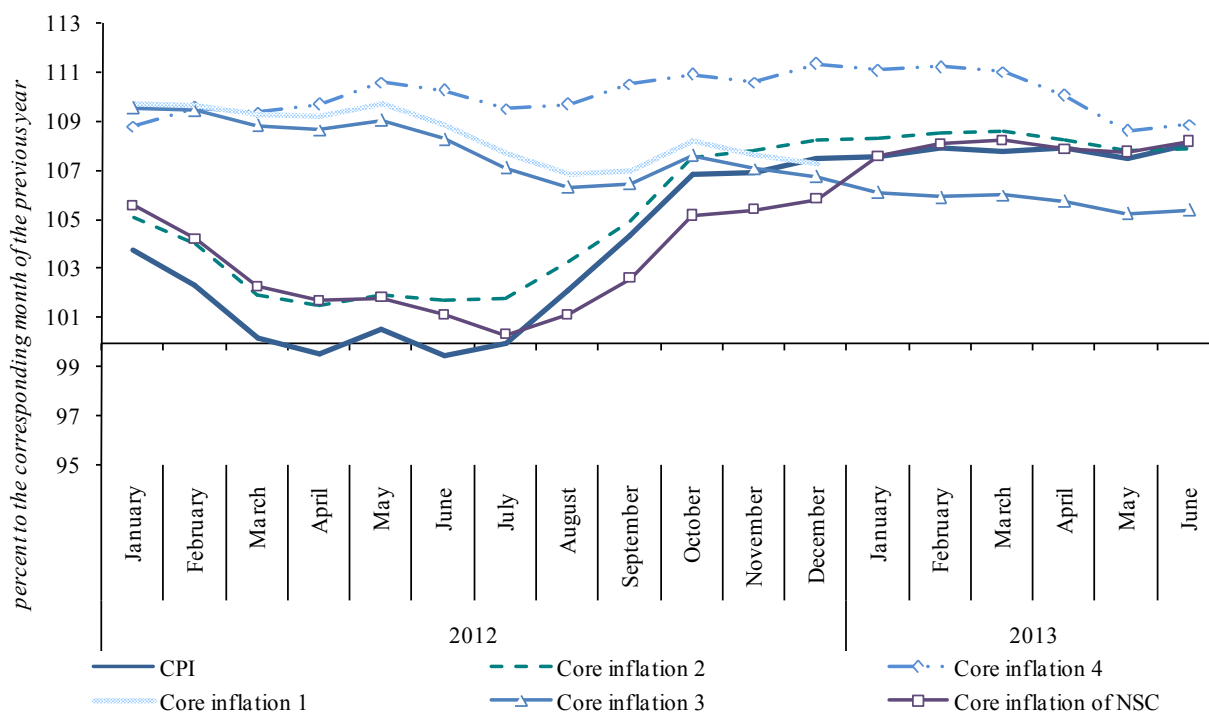
Chart 2.5.1. Regional Structure of Annual Inflation
(percent)



2.6. Core Inflation

As per the results of June 2013, the annual value of the core inflation estimated in accordance with the methodology of the NSC KR amounted to 8.9 percent, while the “crude” inflation rate was 8.1 percent. It should be noted that the graphical representation of core inflation indicator 4 (completely excluding food products, electricity, gas and other types of fuel) indicates that the emerging trends in the food market are the determinants for the dynamics of consumer prices in the country. This indicator has a stable dynamics and a small dispersion of values.

Chart 2.6.1. Annual Dynamics of the Estimated Core Inflation Indicator



Core inflation 1 – excluded the following types of goods: (1) bakery products and cereals, (2) oils and fats, (3) fruits and vegetables, (4) gas, (5) materials for repair and construction.

Core inflation 2 – excluded the following types of goods: (1) meat, (2) fruits and vegetables, (3) gas, (4) materials for repair and construction.

Core inflation 3 – excluded the following types of goods: (1) bakery products and cereals, (2) dairy products, (3) fruits and vegetables, (4) gas, (5) materials for repair and construction.

Core inflation 4 – excluded all food products and electricity, gas and other fuels.

Core inflation of NSC – excluded milk, sugar, certain types of fruits and vegetables, strong drinks and tobacco products, petroleum products, product group “electricity, gas and other types of fuel”, passenger transport services, communication and some other.

Chapter 3. World Commodity Markets Survey

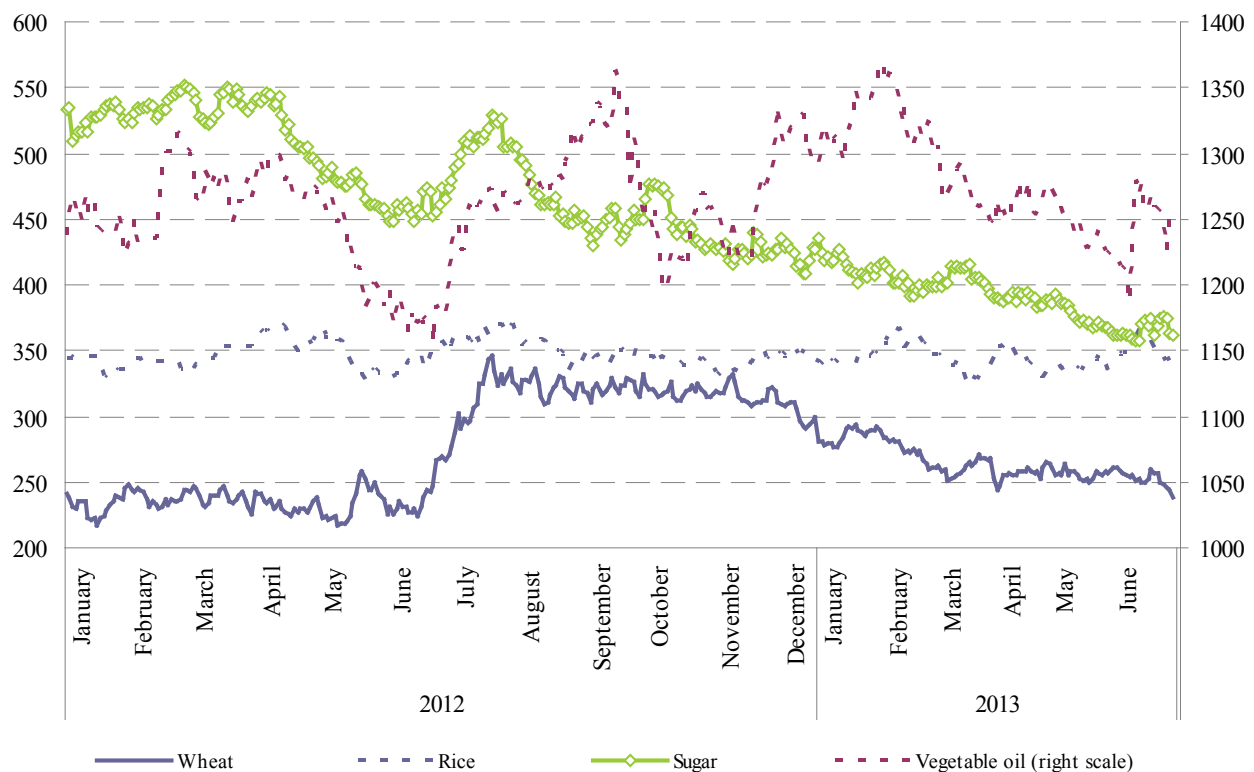
3.1. Survey of the World Commodity Markets

Prices in the world commodity markets remain stable. At that, in the first half of 2013, prices in the crops market were characterized by downward trend against expectations of the rich harvest in 2013-14 MY (July 2013-June 2014). In June 2013, the average value of the FAO price index for food products constituted 211.3 points, having decreased by approximately 2 points as compared to the corresponding index in May of the current year.

Prices for major crops, such as wheat, maize and barley, continued declining in the futures¹ markets of the world stock exchanges. The main factors of decline are the seasonal reasons and expectations of new, richer, as compared to the previous year, harvest of winter crops in the Northern hemisphere. Rather favorable forecasts of crops harvest, their production, consumption, trade and reserves significantly reduced the prices by the beginning of the season, as compared to the beginning of the previous marketing year.

Chart. 3.1.1. Dynamics of the Food Products Prices in 2012-2013

(USD per ton)



According to the experts, the crops harvest in Russia in 2013 will increase compared to 2010-2011. According to different estimates it will constitute from 85 to 100 million tones, the volume of export is expected from 21 to 25 million tones. The forecasts of the RF Ministry of Agriculture on crops export amounted to approximately 15 million tones. According to the forecasts of the analysts, the prices for crops will decrease significantly compared to the previous year.

In the nearest future, the trends in the world food markets will not cause any rapid rise in prices or supply shortfall. Sustainability of the world food markets will be the basis for stable consumer prices in Kyrgyzstan.

¹ In this context: the market, in which contract trading, to be executed in the nearest future, is conducted.

3.2. Survey of the World Energy Markets

In the first half of 2013, the world energy market was characterized by relative price volatility. In the beginning of the reviewed period, the prices for oil rose rapidly and remained at that level till February 20 of the current year; however, significant rise in prices for oil was followed by gradual decline. It should be emphasized that in the period under review the spread between Brent and WTI oil grades became significantly narrow. The current situation in the world market of oil was conditioned by political and economic situation, environmental factors in the countries – major oil importers and exporters, news about macro-statistics from the USA, China and the Euro-zone, scrapping the program on the USA quantitative easing.

In January-June 2013, the prices for basic grades (Urals, Brent, WTI) fluctuated between 86.7 – 120.1 USD per barrel. At that, the average price for oil of “Brent” grade in the reviewed period amounted to 108.3 USD, having decreased by 5.4 percent compared to the corresponding index of 2012 (114.5 USD).

Chart 3.2.1. Dynamics of Prices for Oil in January-June 2013

(USD per barrel)



In the beginning of 2013, prices for petroleum, oil and lubricants in Kyrgyzstan decreased approximately by 3 KGS. According to the data of the NSC KR, the average price for gasoline of AI-92 standard constituted 38.2 KGS. Gradual decline in prices was conditioned by the situation in the world market of petroleum products in spring of the current year, which indirectly affected the major oil trader Kyrgyzstan-Russia. In January-June 2013, the price for diesel fuel did not change significantly and amounted to approximately 40.2 KGS.

In the reviewed period, there were no interruptions in the supplies of petroleum, oil and lubricants. The situation in the market of petroleum, oil and lubricants in Kyrgyzstan remained stable. However, in the beginning of the second half-year, according to the data of the Association of Oil Traders of Kyrgyzstan, rise in prices for petroleum, oil and lubricants is expected due to growth of release prices at the producing plants of Russia.

The energy market analysts hold on to their forecasts on increase of the world oil consumption in the second half of 2013, thereby supporting world prices for oil against slowdown in the world economic growth observed in the current year. According to the OPEC forecasts, specified in the updated monthly report, growth of the world oil consumption in 2013 is expected up to 89.6 million barrel/day.

Chapter 4. Monetary Policy Decisions of the National Bank of the Kyrgyz Republic

4.1. Major Decisions of the NBKR Board

The major monetary policy decisions of the National Bank of the Kyrgyz Republic Board (the NBKR Board) approved in the second quarter of 2013 are given below:

1. On April 24, 2013, in order to regulate and improve the procedure of conducting credit auctions for refinancing purposes, a new version of the Regulation “On the procedure of conducting credit auctions by the National Bank of the Kyrgyz Republic for the purposes of refinancing and liquidity supporting” (hereinafter referred to as “Regulation”) was approved by the Resolution of the NBKR Board №13/18, herewith the Regulation “On the procedure of conducting credit auctions by the National Bank of the Kyrgyz Republic for the purposes of refinancing”, approved by the NBKR Resolution №42/3 dated November 14, 2012 shall be declared invalid.

New Regulation was developed with due regard to offers of the commercial banks on improvement of “credit auctions for the purposes of refinancing and liquidity support.” According to the new Regulation the maximum terms for providing the NBKR credit resources are regulated separately for refinancing and liquidity support purposes; the range of collateral was expanded; the conditions of providing credit resources for refinancing and liquidity support purposes are determined, restrictions imposed on use of credit resources are defined in order to avoid their misuse; besides, banks have an opportunity to use credit resources for refinancing of non-bank financial institutions, herewith bank’s margin shall not exceed the amount established by the NBKR Board; the procedure of credit prolongation is determined.

Refinancing credit was introduced by the NBKR at the end of 2012 to increase the range of instruments for providing banking system with liquidity and it provides maturity from 1 to 6 months.

2. On May 30, 2013, in order to assess the current situation in the monetary sphere and analysis of the economic development, the NBKR Board considered and approved report on monetary policy for the first quarter of 2013 (Resolution №17/1), as well approved monetary policy program for the coming period. Monetary policy program defines key directions of monetary policy in the short-term prospect, as well as indicative parameters for its implementation. Abridged version of the report on monetary policy for the first quarter of 2013 for information purposes was sent to Jogorku Kenesh, President’s Office, Government Office, Ministry of Finance and Ministry of Economy of the Kyrgyz Republic, as well as posted on the official website of the NBKR.
3. On June 25, 2013, in order to develop financial market, increase the level of financial intermediary, rehabilitate and strengthen the banking system, the NBKR introduced into commercial operation the Automated Trading System (ATS) for automation of transactions in the financial market. To provide operations of the ATS, in accordance with legal rules, the NBKR Board approved on March 23, 2013 a number of normative and legal acts regulating the procedure of carrying out transactions through AST.
4. On June 26, 2013, the NBKR Board approved:
 - Regulation “On the procedure of placement, repeated tender, additional placement, repurchase and performing settlements with public securities of the Government of the Kyrgyz Republic through the National Bank of the Kyrgyz Republic” (Resolution №20/1) for the

purposes of regulating the procedure of conducting operation with public securities of the Government of the Kyrgyz Republic;

- New Regulation “ On the procedure of conducting by the National Bank of the Kyrgyz Republic credit auctions for refinancing and liquidity supporting” (Resolution № 20/13) for the purposes of regulating and improvement the procedure of conducting credit auctions for refinancing purposes. According to the new Regulation restriction shall be imposed on interest rates for credits provided by the commercial banks out of funds obtained on the credit auctions conducted by the NBKR; the amount of bank margin shall be determined at the level of 0.2% when providing credit resources to non-bank financial institutions; the mechanism shall be developed for monitoring target use of credit resources by the commercial banks by means of credit auctions and restriction shall be imposed on the term for development of credit resources by the commercial banks – 10 days from the date of credit receipt.

4.2. Major Decisions of the Monetary Regulation Committee

Monetary Regulation Committee (hereinafter referred to as the MRC) develops and takes operative decisions in the monetary sphere. The MRC takes decisions every week based on the situation assessment results in the monetary market. The volumes of operations on liquidity regulation in the banking system are determined by the MRC on the basis of the goals and objectives defined by the NBKR Board, specified in the Basic Guideline of Monetary Policy for 2013-2015, monetary program for the coming period, as well as taking into account the state of the banking system and the situation in the fiscal sphere.

In the second quarter of 2013, 19 meeting were held by the MRC. Regulations of liquidity in the banking system were carried out through weekly auctions on the NBKR notes as well as through transactions for the sale of government securities under REPO terms for an additional exemption of excess liquidity in the banking system.

In the second quarter of 2013, the NBKR conducted currency interventions to prevent from sharp fluctuations of the exchange rate. Net sales of the U.S. dollar in the national currency amounted to 713.0 million KGS.

At the end of 2012, the NBKR increased the range of instruments of the monetary policy for providing banking system with liquidity by means of conducting credit auctions for refinancing purposes, thereby expanding the banks opportunities for liquidity supporting and economy crediting. In the second quarter of 2013, 3 auctions for refinancing credit were declared; thereof 2 auctions were conducted to the amount of 337.0 million KGS.

Chapter 5. Inflation Forecast

5.1. Forecast of Key Inflation Factor Dynamics

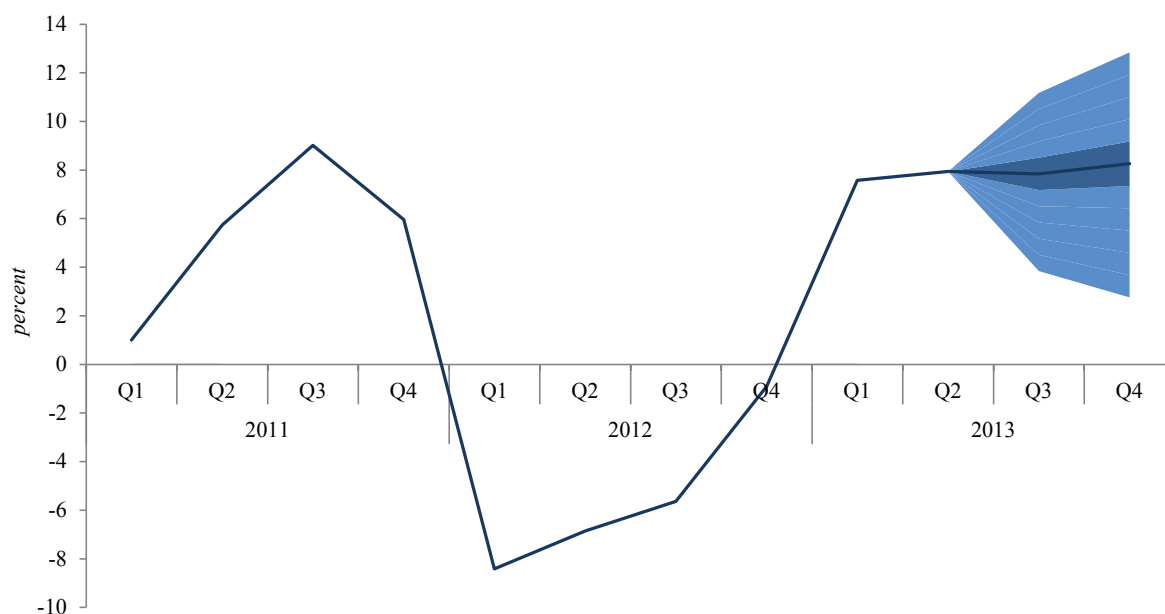
According to the data submitted in the first chapter of the present report, recovery of the economy in Kyrgyzstan is observed according to the results of January-June 2013, it was primarily conditioned by rehabilitation of gold exploration at the deposit “Kumtor”, agricultural growth, and effect of low base in the previous year. According to the results of January-June 2013, the GDP growth constituted 7.9 percent, meanwhile, in January-June 2012, the GDP decrease was observed at the level of 6.9 percent. Exclusive of enterprises on exploration of gold-mining deposit “Kumtor”, the GDP growth constituted 5.5 percent.

Forecast of the economic development in the country for 2013 was developed by means of preserving business activity at the potential level, rehabilitation of gold exploration at the deposit “Kumtor”, and supporting favorable conditions of trade with countries – major trade partners, enabling environment contributing to sustainable development of agriculture.

Thus, taking into account the aforementioned factors, the National Bank adheres to earlier developed forecast for GDP growth in 2013 at the level of 8.3 percent. The forecast for GDP deflator was revised and changed from 10 to 7 percent, and correspondingly, the estimate of the nominal volume of GDP was decreased from 362.4 to 352.5 billion KGS due to decline in prices for gold in the world market, as well as taking into account the value of the general price level expected in 2013. It is necessary to emphasize, that positive contribution to GDP growth is primarily expected from such sectors as manufacturing, construction and services.

Chart 5.1.1. Forecast of GDP Growth

(percent, period from the beginning of the year to the corresponding period of the previous year)



Economic development of Kyrgyzstan in the mid-term prospect still depends on a number of internal (moderate growth rates of major sectors of economy, inclusive of preserving development of processing industry, stability of political situation in the country) and external factors (dynamics of remittances inflow, economic development in the countries – major trade partners, suffering the influence of price conjuncture in the world commodity markets, change of the foreign trade conditions in case the Kyrgyz Republic enters the Customs Union). Economic development of the countries –

major trade partners is still characterized by slowdown, which was observed in the first half of 2013. Taking into account the current trend, the IMF adjusted forecast of the economic growth in Russia for 2013 from 3.4 percent to 2.7 percent, in China from 8.0 percent to 7.8 percent.

According to the forecasts of the Government of the Kyrgyz Republic, the GDP growth in 2013 will constitute 7.8 percent, the GDP deflator will be at the level of 7.0 percent, the nominal volume of GDP is expected at the level of 351.1 billion KGS.

Calculation of gap between actual and potential GDP (in prices of the year 2000) is carried out to assess macroeconomic potential of the country. In the first half-year, there was negative gap indicating that industrial capacities were not completely involved in the economy within the reviewed period. In January-June 2013, the volume of potential GDP exceeded actual GDP by 2.3 percent (GDP exclusive of informal sector) and by 6.5 percent (GDP inclusive of informal sector).

Taking into account the existing situation and preconditions included in the forecast of the National Bank of the Kyrgyz Republic, positive GDP gap is more probable at the end on the current year.

Chart 5.1.2. Forecast of GDP Gap Exclusive of Informal Sector Assessments

(percent, period since the beginning of the year to the corresponding period of the previous year)

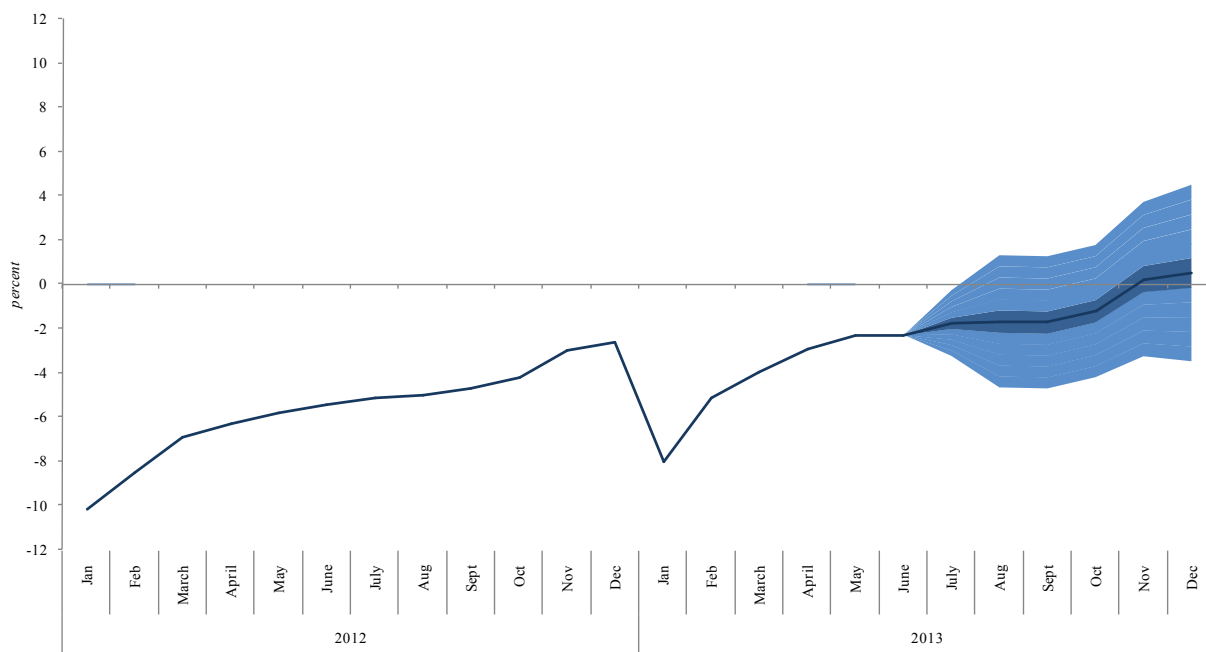
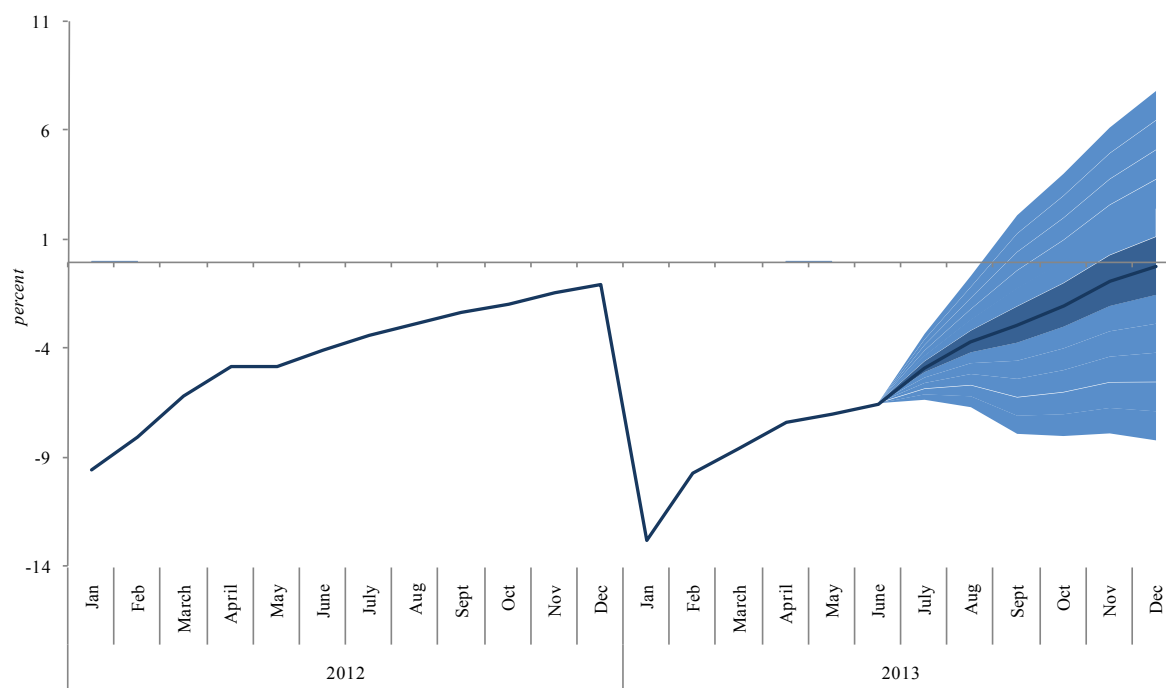


Chart 5.1.3. Forecast of GDP Gap Inclusive of Informal Sector Assessments*(percent, period since the beginning of the year to the corresponding period of the previous year)*

Forecasts of the National Bank of the Kyrgyz Republic regarding the real sector will be further adjusted depending on new data, expectations and trends of the economic development.

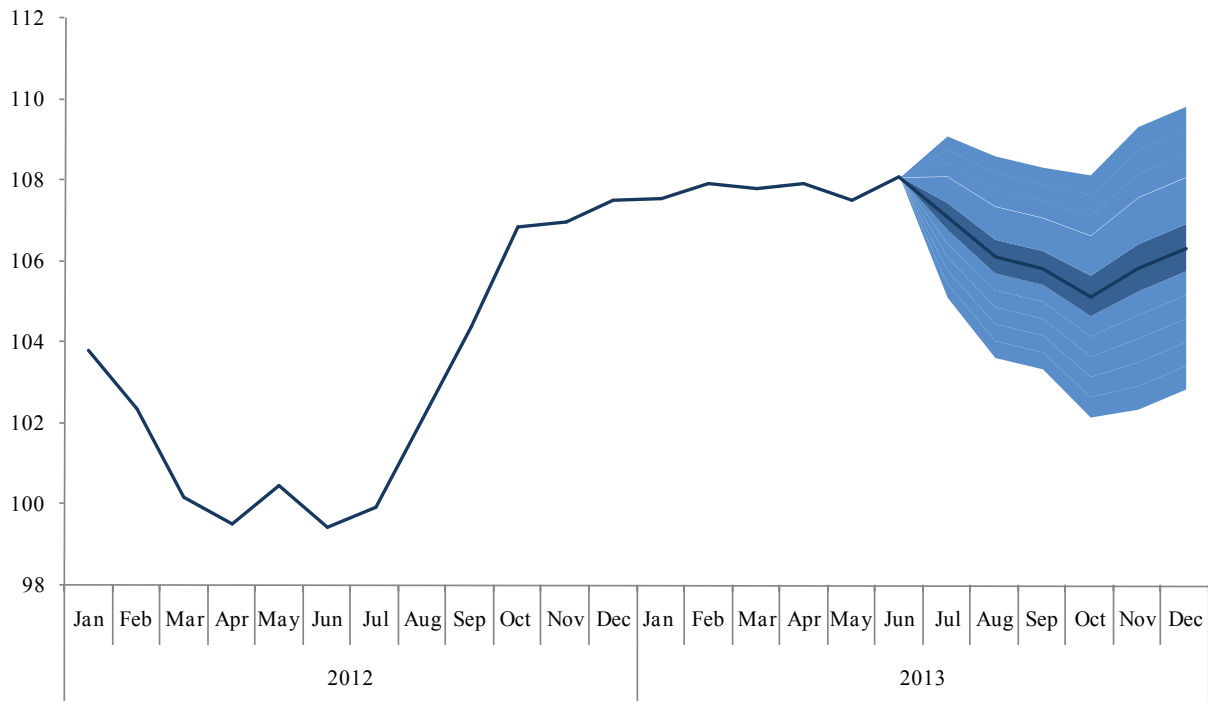
5.2. Inflation Forecast for 2013

In 2013, inflation forecast remained at the same level and is expected within the limits of unique index. At that, the current inflation forecast stipulates less significant, compared to earlier expectations, rise in prices for food products in the first half of 2013 and stable dynamics of prices in the second half of 2013. Stability of prices for food products in our region is generally conditioned by favorable outcome in the situation with crops deficit in Russia.

Current dynamics of prices for food products remains stable and is characterized by downward trend against expectations of rich harvest of major crop plants in 2013-14 MY (July 2013 – June 2014) both in the republic and in the countries – major trade partners.

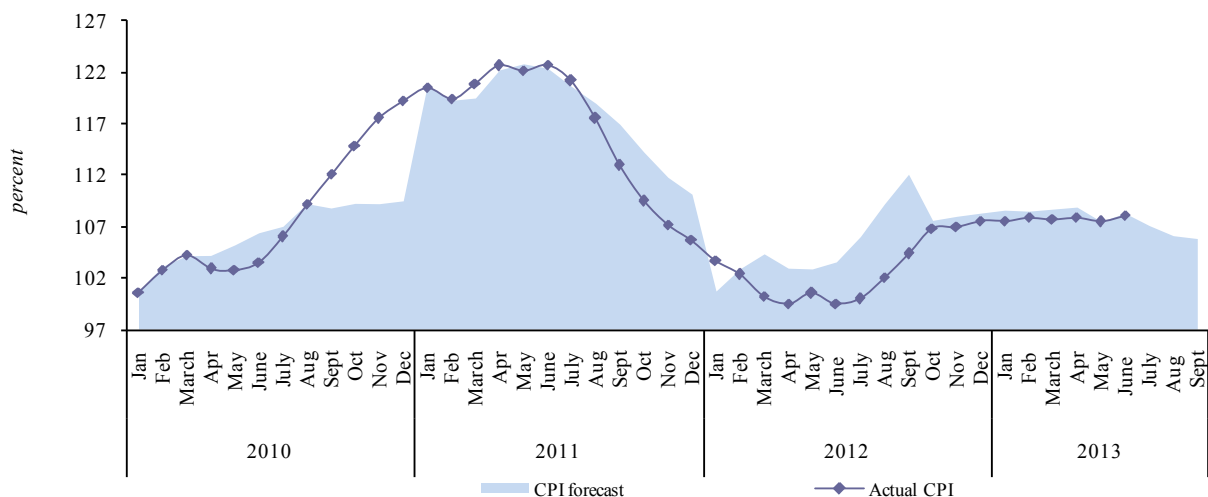
Inflationary environment in respect of this group of goods will remain at the moderate level till the end of the year despite slowdown in growth of price for non-food products.

Chart 5.2.1. Annual Inflation Forecast
 (percent, month to the corresponding month of the previous year)



In the second quarter of 2013, inflation was formed at the level of 0.4 percent, below the NBKR forecasts published in the previous “Inflation Report in the Kyrgyz Republic”. More significant than expected decline in prices for food products was the main reason for slowdown in inflation rates.

Chart 5.2.2. Comparison of Forecasted and Actual Inflation
 (percent, month to the corresponding month of the previous year)



Statistical Annex

Table 1. Consumer Price Index
(month to the corresponding month, percent)

Consumer price index	2012												2013											
	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June						
Food products and soft drinks	100.8	100.1	100.1	99.8	100.7	99.6	100.1	100.9	101.1	101.9	100.8	101.5	100.8	100.4	99.9	99.9	100.3	100.1						
Food products and soft drinks	100.6	99.3	99.5	98.8	100.1	98.7	99.6	101.3	100.8	102.6	101.3	101.8	101.4	100.2	99.5	99.6	100.3	99.7						
Strong drinks and tobacco products	100.2	100.9	100.1	100.8	100.6	100.7	100.5	101.0	100.4	101.1	100.4	103.5	100.2	101.9	100.4	100.3	100.4	101.3						
Non-food products	101.3	100.6	100.8	100.5	100.7	100.2	100.2	100.6	101.1	101.8	100.7	100.9	100.2	100.2	100.3	100.2	100.5	100.5						
Services	100.7	100.6	100.2	100.6	102.6	100.2	100.8	100.4	102.2	100.6	100.1	100.8	100.5	100.3	100.6	100.2	100.1	100.2						
Food and soft drinks	100.6	99.3	99.5	98.8	100.1	98.7	99.6	101.3	100.8	102.6	101.3	101.8	101.4	100.2	99.5	99.6	100.3	99.7						
Bakery products and cereals	98.2	98.7	99.3	99.5	99.0	99.3	101.9	107.4	100.7	104.4	100.6	100.2	100.1	100.4	100.0	100.4	99.4	99.4						
Meat	101.9	99.9	98.7	99.4	99.7	99.3	99.6	99.9	99.8	101.3	99.9	99.5	99.7	100.0	100.2	100.6	101.0	100.5						
Fish	102.2	100.1	101.1	102.2	100.8	99.8	101.4	101.5	102.9	104.8	101.5	100.2	99.9	100.2	100.1	100.0	100.1	99.4						
Dairy products, cheese and eggs	100.0	100.3	99.0	97.3	96.1	96.3	96.9	100.0	106.4	107.3	102.3	104.5	101.3	99.3	98.7	97.7	97.1	97.6						
Oils and fats	100.0	99.4	99.6	99.0	99.0	99.7	99.8	100.1	101.1	101.2	99.9	100.4	100.1	99.7	100.0	99.4	99.9	100.0						
Fruits and vegetables	103.4	98.5	101.3	94.6	102.9	95.6	95.3	91.6	102.8	102.6	108.6	112.5	107.8	100.3	97.1	99.1	101.5	99.7						
Sugar, jam, honey, chocolate and candies	101.2	99.5	100.1	99.6	104.4	99.2	99.3	98.1	99.0	100.1	100.5	100.5	99.9	99.9	99.4	100.3	102.3	99.6						
Other food products	101.0	100.4	99.5	99.7	100.5	100.2	100.1	100.2	102.2	100.6	100.2	100.4	100.4	100.2	100.2	100.0	100.4	100.0						
Soft drinks	101.0	101.2	98.8	100.6	100.3	100.5	100.0	100.7	100.1	100.4	100.0	100.9	103.4	102.0	100.4	100.2	100.6	100.6						
Strong drinks and tobacco products	100.2	100.9	100.1	100.8	100.6	100.7	100.5	101.0	100.4	101.1	100.4	103.5	100.2	101.9	100.4	100.3	100.4	101.3						
Strong drinks	100.1	101.2	100.0	100.9	100.5	100.2	100.2	101.3	100.5	101.4	100.5	104.8	100.0	102.4	100.2	100.1	100.5	101.6						
Tobacco products	100.6	99.9	100.5	100.4	100.9	101.9	101.1	100.1	100.1	100.1	100.1	100.1	100.8	100.2	101.1	100.9	100.0	100.0						
Garments and footwear	101.9	100.2	102.2	101.9	101.2	100.6	100.3	100.4	101.4	102.5	101.2	101.4	100.7	100.8	100.9	100.7	101.0	101.1						
Services for dwelling premises maintenance and repair, water supply, electricity, gas and other types of fuel	101.2	100.6	99.2	98.9	100.1	99.6	101.0	100.8	100.3	102.1	100.5	100.6	99.5	99.1	99.4	100.0	100.2	100.2						
Household articles and household appliances	101.0	101.2	100.5	100.9	101.2	100.8	99.9	100.8	100.9	101.1	100.6	100.7	100.4	100.9	100.9	100.5	100.2	99.9						
Healthcare	101.5	101.4	100.5	100.7	101.1	99.4	102.8	100.4	101.2	99.7	100.3	100.3	103.5	100.5	100.2	101.0	100.6	101.7						
Transport	99.4	100.3	99.9	100.0	100.5	100.2	101.1	101.0	99.9	100.2	100.3	100.2	100.0	100.4	100.3	99.5	99.8	99.9						
Petroleum, oil, lubricants	99.4	98.3	99.9	100.4	100.2	99.1	100.3	101.2	100.1	102.1	101.4	99.9	99.2	99.5	99.5	98.9	97.6	99.2						
Communication	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0						
Recreation, entertainment and culture	100.4	101.1	101.2	101.2	98.7	100.1	100.4	101.8	101.4	100.5	100.2	100.9	100.3	101.3	100.2	99.9	100.1	100.0						
Education	100.3	100.0	100.1	100.0	100.1	100.0	100.2	100.0	107.8	99.9	100.0	100.0	100.3	100.0	100.0	100.0	100.0	100.0						
Restaurants and hotels	102.9	102.1	100.5	100.7	101.7	100.0	100.7	100.0	101.8	102.2	100.0	102.2	100.4	100.3	101.0	100.4	100.2	100.1						
Various goods and services	101.1	100.5	100.5	100.7	100.9	100.0	100.1	100.5	102.6	100.6	100.3	100.8	100.4	100.2	100.2	99.9	100.0	100.6						

Table 2. Consumer Price Index
(month to the corresponding month of the previous year, percent)

	2012												2013											
	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June						
Consumer price index	103.8	102.4	100.2	99.6	100.6	99.6	100.0	102.2	104.4	106.9	107.0	107.6	107.6	107.9	107.8	107.9	107.5	108.1						
Food products and soft drinks	99.3	95.8	91.8	90.4	91.5	89.8	91.0	94.8	98.5	102.6	103.5	104.4	105.2	106.1	106.0	106.9	107.1	108.1						
Bakery products and cereals	96.1	91.1	84.3	83.2	83.1	83.1	85.0	92.1	96.8	104.1	107.0	109.1	111.2	113.1	114.0	113.8	114.4	114.6						
Meat	120.8	117.1	114.5	113.7	111.5	107.0	102.4	100.6	98.5	101.0	100.6	98.8	96.7	96.9	98.4	99.6	100.9	102.1						
Fish	115.1	114.2	114.4	116.5	117.8	116.6	117.6	119.3	122.2	123.8	122.7	119.9	117.2	117.4	116.3	113.7	113.0	112.6						
Dairy products, cheese and eggs	107.3	105.4	107.7	106.3	105.0	103.9	103.9	103.1	105.0	108.1	108.0	107.9	107.0	105.9	105.6	106.0	107.2	108.7						
Oils and fats	105.0	104.2	101.2	98.9	97.1	97.4	96.9	97.0	98.0	98.9	99.0	99.1	99.3	99.6	99.9	100.2	101.2	101.5						
Fruits and vegetables	76.0	73.4	70.7	68.0	74.6	70.2	78.2	89.7	103.9	104.1	103.6	108.1	112.6	114.7	109.9	115.1	113.7	118.5						
Sugar, jam, honey, chocolate and candies	98.3	93.5	92.4	91.3	95.4	94.2	90.6	86.3	91.6	97.0	98.7	98.9	97.6	98.0	97.3	98.1	96.1	96.5						
Other food products	107.6	105.4	105.9	105.4	105.8	105.7	105.2	103.7	104.3	104.8	104.8	105.0	104.4	104.2	104.9	105.1	105.0	104.8						
Soft drinks	110.6	110.9	106.7	106.2	107.4	105.0	104.1	104.2	103.8	104.0	104.5	104.4	106.9	107.8	109.6	109.1	109.4	109.5						
Strong drinks and tobacco products	109.8	110.6	109.8	110.6	110.5	110.3	109.0	109.3	109.0	109.0	107.9	110.6	110.5	111.7	112.0	111.4	111.1	111.8						
Strong drinks	108.8	110.1	109.9	111.0	110.7	110.2	108.0	108.8	108.3	108.8	108.5	112.3	112.2	113.5	113.7	112.8	112.7	114.3						
Tobacco products	112.3	112.0	109.4	109.5	110.0	110.9	111.4	110.7	110.5	109.3	106.5	105.9	106.1	106.4	107.1	107.6	106.6	104.6						
Garments and footwear	113.8	112.4	112.9	112.6	112.7	112.7	112.4	111.8	113.2	115.3	116.1	116.0	114.7	115.4	113.9	112.6	112.4	113.0						
Services for dwelling premises, maintenance and repair, water supply, electricity, gas and other types of fuel	103.3	104.6	104.7	104.8	106.9	106.0	106.8	107.5	107.2	110.4	108.0	105.2	103.4	101.8	102.0	103.1	103.2	103.7						
Household articles, household appliances	112.5	112.7	112.7	112.9	113.9	113.3	110.8	109.9	110.6	110.4	109.4	110.0	109.3	109.0	109.4	108.9	107.9	107.0						
Healthcare	112.0	112.0	111.7	112.1	112.6	111.2	113.4	111.6	111.9	110.3	110.4	109.7	111.9	110.9	110.6	110.9	110.4	112.9						
Transport	103.4	106.9	106.6	106.2	109.5	108.6	108.0	108.9	108.0	109.5	108.1	108.1	108.7	108.9	109.3	108.8	102.9	102.6						
Petroleum, oil, lubricants	99.0	104.4	111.1	110.3	106.3	103.7	100.8	100.0	100.3	103.0	103.7	102.2	101.9	103.2	102.8	101.3	98.5	98.6						
Communication	103.1	103.1	100.0	100.0	100.0	100.0	100.2	100.2	100.2	100.2	100.2	100.2	100.2	100.2	101.1	101.1	101.1	101.1						
Recreation, entertainment and culture	111.5	111.9	111.4	112.3	110.0	110.1	109.1	108.5	109.8	109.4	107.8	108.2	108.1	108.3	107.3	105.9	107.4	107.3						
Education	116.0	114.9	114.9	114.8	114.8	114.8	112.1	112.2	111.8	108.5	108.6	108.4	108.5	108.5	108.4	108.4	108.3	108.3						
Restaurants and hotels	115.9	118.0	118.4	119.0	120.9	119.5	115.4	115.4	113.0	114.1	113.7	115.8	112.9	110.9	111.5	111.1	109.5	109.6						
Various goods and services	106.4	106.5	106.6	106.5	107.1	106.8	106.1	105.8	109.2	109.2	108.8	108.9	108.1	107.9	107.6	106.6	105.7	106.4						

Table 3. Indices of prices and physical volume of imports in January-May 2013

Product name	5 mon. 2013	5 mon. 2012	5 mon. 2012	Indices		
	mln. USD	mln. USD	mln. USD	price	phys	value
	n13*p13	n13*p12	n12*p12		vol.	
	A	B	C	A/B	B/C	A/C
Petroleum, petroleum products and related materials	442,8	454,8	399,7	0,97	1,14	1,11
Cast-iron and steel	97,2	100,6	71,3	0,97	1,41	1,36
Vehicles for cargo transportation and vehicles of special assignment	68,3	58,0	59,4	1,18	0,98	1,15
Medicaments (including veterinary medicaments)	63,2	78,2	57,8	0,81	1,35	1,09
Essential oils, resinoids and perfume materials	38,9	38,6	31,5	1,01	1,22	1,23
Natural gas in gaseous state	38,3	36,9	38,4	1,04	0,96	1,00
Crops (including eincorn) and mangcorn, unmilled	36,9	19,9	30,5	1,86	0,65	1,21
Rubber tires	34,2	21,8	25,7	1,57	0,85	1,33
Fertilizers	32,8	34,9	34,3	0,94	1,02	0,96
Coffee, tea, cocoa, spices and other products	32,5	32,3	32,0	1,01	1,01	1,02
Paper, cardboard and products made of paper stock, paper and cardboard	30,8	28,6	25,5	1,08	1,12	1,21
Sugar, sugar products and honey	30,8	32,5	29,9	0,95	1,09	1,03
Meat and meat products	30,7	20,8	29,8	1,47	0,70	1,03
Sawed or spitted lengthwise conifer wood	26,6	25,5	16,0	1,04	1,59	1,66
Woven fabrics made of artificial textile materials	26,3	15,5	24,8	1,70	0,63	1,06
Vegetable oils and fats, raw materials, refined or fractionated	25,6	24,3	23,2	1,05	1,05	1,10
Inorganic chemicals	25,5	19,6	20,0	1,30	0,98	1,28
Food products and preparations not included into other categories	24,2	86,8	21,8	0,28	3,98	1,11
Plastics in prime form	23,5	24,5	25,7	0,96	0,95	0,92
Coarse flour, low-ground flour, wheat and mangcorn flour	21,2	14,1	14,1	1,50	1,00	1,50
Electric wire telephone or telegraph sets	20,3	32,1	30,7	0,63	1,04	0,66
Footwear with rubber or synthetic sole and upper	20,1	15,6	17,1	1,29	0,91	1,18
Vegetables and fruits	18,6	17,6	14,7	1,05	1,20	1,27
Plastics in non-prime form	18,2	22,0	13,1	0,83	1,67	1,38
Products from grain and products from flour or fruit or vegetable starch	17,0	18,3	13,9	0,93	1,32	1,23
Self-contained mechanical shovels, excavators and scoop loaders	16,6	12,4	7,4	1,34	1,67	2,24
Cars and vehicles for transportation of people	14,2	10,8	6,7	1,31	1,62	2,12
Compressed wood and restored wood	13,5	17,2	14,4	0,78	1,19	0,93
Sugar-sweetened mineral water and soft drinks	13,2	11,7	9,4	1,14	1,24	1,41
Strong drinks	13,0	11,7	11,8	1,12	0,99	1,10
Imperfect metal products not included into other categories	12,9	12,6	15,3	1,02	0,82	0,84
Planes and other aircrafts, weighing more than	12,9	10,2	5,8	1,27	1,75	2,22
Coal, coke and briquette	12,0	12,0	14,1	1,00	0,85	0,85
Tractors	11,5	12,7	4,8	0,90	2,64	2,39
Coloring and tanning matters and dyes	11,4	13,6	9,3	0,84	1,46	1,22
Stone, sand and gravel	11,3	7,4	1,7	1,53	4,41	6,76
Electrical distribution equipment not included into other categories	11,0	9,5	6,4	1,16	1,49	1,73
Constructions and construction elements not included into other categories	10,9	9,7	6,7	1,13	1,44	1,62
Reciprocating internal combustion engines for vehicles	10,2	3,6	2,0	2,80	1,80	5,03
Jackets, pullovers, cardigans, waistcoats and similar knitted or crocheted articles	9,9	7,8	4,6	1,26	1,71	2,16
Machines for automatic data processing and their blocks	8,5	7,9	6,6	1,08	1,19	1,29
Glazed ceramic tiles	8,1	5,3	4,6	1,55	1,15	1,78
Trousers, coveralls, breeches and shorts	7,8	6,1	7,3	1,27	0,84	1,07
Dishwashers; machines for filling, capping caps	7,0	4,5	2,7	1,58	1,63	2,57
Gold, nonmonetary	6,8	0,1	7,9	51,95	0,02	0,85
Margarine and combined fats	6,7	6,8	6,2	0,99	1,09	1,08
Machines for soil, stones, ores sorting, sifting and sizing	6,5	6,7	5,4	0,97	1,23	1,20
Nails, screws, nuts, bolts, rivets, etc. of iron, steel or copper	6,4	7,8	5,0	0,82	1,56	1,27
Aluminum	6,3	5,9	2,9	1,06	2,06	2,19
Knitted or crocheted garments for women and girls	6,1	6,2	6,6	0,98	0,95	0,92
Household refrigerators and freezers	6,0	6,1	6,5	0,99	0,95	0,93
Trousers, coveralls, breeches and shorts	6,0	4,3	3,9	1,38	1,12	1,54
Floor coverings	6,0	4,5	4,8	1,33	0,94	1,25
Fish, crustacean mollusks and aquatic invertebrates	5,9	5,9	5,8	1,00	1,03	1,03
Medical and pharmaceutical products	5,7	7,1	5,2	0,80	1,36	1,09
Milk, cream and dairy products, except butter and cheese	5,6	5,7	5,6	1,00	1,02	1,01
Hand and machine tools	5,5	1,7	10,9	3,26	0,15	0,50
Products made from non-metallic minerals not included in other categories	5,5	4,9	4,1	1,12	1,19	1,34
Fittings and fastenings	5,5	6,9	2,1	0,79	3,24	2,56
Hardboard	5,5	4,8	6,0	1,15	0,80	0,92
Pottery	5,4	2,7	4,2	2,04	0,64	1,30
Nomenclature Total (mln, USD)	1 562,1	1 548,6	1 335,7	1,01	1,16	1,17
Nomenclature Total (% of total exports)	72%		69%			
Total export	2 167,4		1 935,0			

According to the NSC at CIF prices; the Table demonstrates the first 61 export large items

n - physical volume of goods imports

p - estimated import price of the goods

Table 4. Indices of prices and physical volume of exports for January-May 2013

Product name	5 mon. 2013	5 mon. 2012	5 mon. 2012	Indices		
	mln. USD	mln. USD	mln. USD	price	phys. vol.	value
	n13*p13	n13*p12	n12*p12	A/B	B/C	A/C
	A	B	C			
Gold, nonmonetary	169,9	181,2	190,3	0,94	0,95	0,89
Petroleum, petroleum products and related materials	54,6	57,2	45,2	0,96	1,26	1,21
Vegetables and fruits	44,9	45,8	52,0	0,98	0,88	0,86
Vehicles for cargo transportation and vehicles of special assignment	19,4	19,2	12,5	1,01	1,54	1,55
Inorganic chemicals	14,0	14,9	17,7	0,94	0,84	0,79
Cast-iron and steel	13,6	17,1	10,7	0,79	1,59	1,26
Rubber tires	11,2	13,6	2,6	0,83	5,28	4,37
Incandescent lamps	8,7	9,0	7,5	0,97	1,19	1,16
Dresses	8,4	12,3	13,2	0,68	0,93	0,63
Blouses, jackets and jacket-blouses	7,5	10,6	10,6	0,71	1,00	0,71
Cotton	6,7	7,1	16,3	0,94	0,44	0,41
Trousers, coveralls, breeches and shorts	6,6	9,6	8,3	0,69	1,15	0,79
Portlandcement, cement	5,8	5,3	3,1	1,08	1,72	1,86
Various base metals used in metallurgy, and cermet	5,6	10,9	4,6	0,52	2,36	1,22
Planes and other aircrafts	4,9	14,9	6,4	0,33	2,33	0,76
Metal scrap and waste of base non-ferrous metals	4,9	6,2	4,5	0,78	1,38	1,07
Live animals	4,8	110,6	3,5	0,04	32,00	1,39
Ores and precious metal concentrate; metal scrap and waste	4,3	6,4	14,7	0,67	0,44	0,29
Paper, cardboard and products made of paper stock, paper and cardboard	3,7	3,9	3,9	0,94	0,99	0,93
Hosiery, knitted or crocheted	3,6	5,2	4,5	0,70	1,15	0,81
Self-contained mechanical shovels, excavators and scoop loaders	3,3	0,7	0,3	4,92	2,63	12,91
Cars and vehicles for transportation of people	3,2	3,2	2,8	1,01	1,15	1,16
Knitted or crocheted garments for women and girls	3,2	4,7	7,5	0,68	0,62	0,42
Meat and meat products	3,0	2,2	1,8	1,40	1,22	1,70
Tractors	2,9	2,8	1,1	1,03	2,53	2,61
Food products and preparations not included into other categories	2,9	7,5	2,2	0,38	3,48	1,33
Fittings and fastenings for railway and tram lines	2,7	2,7	1,5	0,99	1,81	1,79
Metal scrap and waste of ferrous industry	2,6	2,9	2,9	0,90	0,98	0,89
Trousers, coveralls, breeches and shorts	2,3	3,3	3,7	0,70	0,89	0,62
Skirts and pants-skirt	2,3	3,1	5,1	0,74	0,61	0,45
Fertilizers	2,1	2,8	1,4	0,75	2,01	1,52
Skins of bovine or equine hides and rawhide	2,0	2,7	3,1	0,75	0,89	0,66
Products made from non-metallic minerals not included in other categories	2,0	2,1	2,5	0,94	0,86	0,81
Nomenclature Total (mln, USD)	437,4	601,6	467,9	0,73	1,29	0,93
Nomenclature Total (% of total exports)	81%		80%			
Total export	540,0		586,2			

According to the NSC at FOB prices, excluding additional estimates; the Table demonstrates the first 33 export large items

n - physical volume of goods exports

p - estimated export price of the goods

Glossary

Core inflation is inflation which excludes short-term, structural and seasonal changes of prices. That is, the growth in prices of goods due to seasonal and external factors (such as poor harvest, the price shock in the market of oil products, the administrative changes in tariffs for gas and electricity, etc.) is excluded from the calculation of the inflation rate.

NBKR calculates the core inflation dynamics by the method of simple exclusions. The given method means the exclusion from the CPI of specific categories or an entire group of goods and services which prices are highly sensitive to shocks. Traditionally, such goods include some food products, energy resources and tariffs established by the Government.

From April 2010 the National Statistics Committee of KR started the calculation of core inflation using the method of simple exclusions (according to the approved method No. 9 dated April 29, 2010). Such goods as milk, sugar, certain types of fruits and vegetables, alcoholic and tobacco products, petroleum products, product group “electricity, gas and other fuels”, passenger transport and communication services, and others are excluded in calculation. In general, the proportion of excluded goods is 25 percent of the total consumer goods basket.

Discount rate is the tool used as the basic reference point when determining the value of monetary resources in the economy. The size of the discount rate is equal to the average value of the yield of 28-day NBKR Notes for the recent 4 auctions on allocation of the NBKR Notes.

GDP deflator is a composite index of the economy branches prices characterizing the GDP change with regard to growth of prices in the economy. GDP deflator is calculated as the proportion between nominal GDP in prices of the current year against GDP rate of the previous year.

GSCI-ag (Goldman Sachs Commodity Index-agricultural) – index of prices for actively traded future contracts for food (agricultural) products – developed by the investment bank “Goldman Sachs” in order to present these exchange goods as a single group.

Inflation represents the increase in the general level of consumer prices in the economy. The consumer price index is used to quantitatively estimate the rate of inflation. The CPI shows the change in the price level for the goods and services purchased by the population for non-productive consumption. The prices of buyers of 342 selected goods and services are used when calculating the index, the sample size is up to 45 thousand prices per month for 1496 enterprises of trade and services in seven urban and two regional centers.

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

M0 – currency in hands.

M1 – M0 + demand deposits in national currency.

M2 – M1 + time deposits in national currency.

M2X – M2 + deposits in foreign currency.

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

Money in circulation – the cash money in circulation, issued by the National Bank of the Kyrgyz Republic, except for the cash in the NBKR cash desks.

NBKR Repo Operations – operations on purchase (direct repo)/sale (reverse repo) of government securities with the obligation to sell them back/purchase on the specified date in future at the predetermined price.

Non-financial assets include the following categories of economic assets: fixed assets, stocks of tangible current assets, valuables and non-produced assets (natural and intangible assets).

Non-financial corporation is a corporation, which produces and sells goods and non-financial services, which do not refer to the financial sector of economy.

Notes are the government short-term securities issued by the NBKR for 7, 14, 28, 91 and 182 days through the weekly auctions. The profitability rate is determined depending on the supply and the demand on the part of commercial banks. The goal of conducting the auctions of notes is the withdrawal of liquidity in the national currency from the banking system.

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

Other sectors-residents include all households and noncommercial organizations servicing thereof.

Other financial corporation is an institutional unit not issuing liabilities included in the national definition of M2X broad money (which include for example non-bank financial institutions).

Output gap (or GDP gap) is the difference between potential and actual GDP volume. The output gap may serve as an indicator of activation or stagnation of the economy. If actual GDP is less potential ($y < y^*$), then it is assumed that there is so-called “recessionary gap” in the economy, which indicates the possible existence of deflationary processes. And vice-versa, if actual GDP is greater than the potential one ($y > y^*$), then it is assumed that the growth of aggregate demand exceeds aggregate supply growth, which contributes to increased inflationary pressure.

GDP gap is calculated as actual-potential GDP ratio:

$$GAP_t = \frac{GDP_t}{GDP_POT} - 1, \text{ where:}$$

GAP_t - GDP gap at the moment t;

GDP_t - actual GDP at the moment t;

GDP_POT - potential GDP.

“Overnight” credit is given in national currency for one day, upon the collateral, to support short-term liquidity of the bank. Government securities of the Kyrgyz Republic placed through the NBKR, with maturity up to 12 months from the date of “overnight” credit are accepted as collateral. The interest rate is set at the rate of 1.2 of the NBKR discount rate. The credit is used on the initiative of the commercial bank.

Producer price index measures the average changes in selling prices received by domestic producers for their products. Information used in the calculation of the PPI is collected from 148 enterprises that represent almost every branch in the industrial sector of the economy. The list of enterprises includes those most typical for the given industry, characteristic for the given region, and irrespective of patterns of ownership.

Refinancing credit – credit resources/monetary funds provided by the NBKR to the banks by means of conducting credit auction for purposes of refinancing and liquidity support. Refinancing credit is extended to the banks on conditions of maturity (from 1 to 6 months), interest payment and repayment, at the fixed interest rate, with state securities of the Kyrgyz Republic provided as collateral. Terms and volumes of credits to be provided are determined by the resolution of the NBKR Monetary Policy Committee.

State budget operating expenditures – all the operations that lead to a decrease in the net value of assets of the government sector, except for operations on purchase of non-financial assets.

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 is the emitter of ST-Bills. Placing issues of ST-Bills is made through weekly auctions conducted by the NBKR. Direct participants (primary dealers, finance and credit institutions that have entered into an agreement with the NBKR) enjoy the right to participate in the auctions. The owners of ST-Bills of the Kyrgyz Republic can be both legal entities and individuals. The admission of foreign investors to the market of ST-Bills is not limited. The transactions in the secondary market of ST-Bills are conducted through the electronic trading system of the NBKR, which allows the primary dealers and their clients to conduct transactions on purchase/sale of 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 1 year. The emitter of ST-Bonds is the Ministry of Finance. The NBKR is the general agent servicing issues of ST-Bonds.

Structure of money income of the population by quintile groups reflects the differentiation of the population by size of income into five (quintile) groups, each of which consists of 20 percent of the population. This approach of determination of the population income involves division of the ranged total population into five equal groups, thus determining the proportion of the total income of society attributable to the population group with the highest income or the group with the lowest income.

Swap operations – operations for the exchange of cash in the national currency for an equivalent amount in foreign currency or vice versa, with the obligation of the reverse exchange of principal amounts and accrued interest on pre-specified conditions.

Abbreviations

CIF	Cost on the importer's border (Cost, Insurance, Freight)
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
FAO	Food and Agricultural Organization of the United Nations
FOB	Cost on exporter's border (Free on Board)
GDP	Gross Domestic Product
GSCI-ag	Goldman Sachs Commodity Index-agricultural
KR	Kyrgyz Republic
LLC	Limited Liability Company
MM	Mass Media
MoA	Ministry of Agriculture
MRC	Monetary Regulation Committee
MY	Marketing year
NBFI	Non-banking financial institution
NBKR	National Bank of the Kyrgyz Republic
NCOSh	Non-commercial organizations servicing households
NSC	National Statistics Committee
POL	Petroleum, oil, lubricants
PPI	Producer Price Index
SCS	State Customs Service under the KR Government
SE	State Enterprise
ST-Bills	State Treasury Bills
ST-Bills(s)	State Treasury Bills for settlement
ST-Bonds	State Treasury Bonds