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Development Bank

Macroeconomic Outlook

The Region's Economies in the New Reality

May 2022

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The document contains a detailed description of the current domestic and external macroeconomic conditions, and a consistent set of forecasts. The analysis covers existing mutual links among six economies (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan) and their key trading partners. Macroeconomic projections are developed by the EDB using the integrated modelling system underpinned by a multi-country dynamic stochastic general equilibrium model. Additional information on that system is presented in a joint EDB and EEC report (EDB, 2016).

Keywords: economic growth, forecast, GDP, inflation, exchange rate, demand, monetary policy, budget, interest rate, investments, export, import.

JEL: E17, F15, F31, H62, O11.

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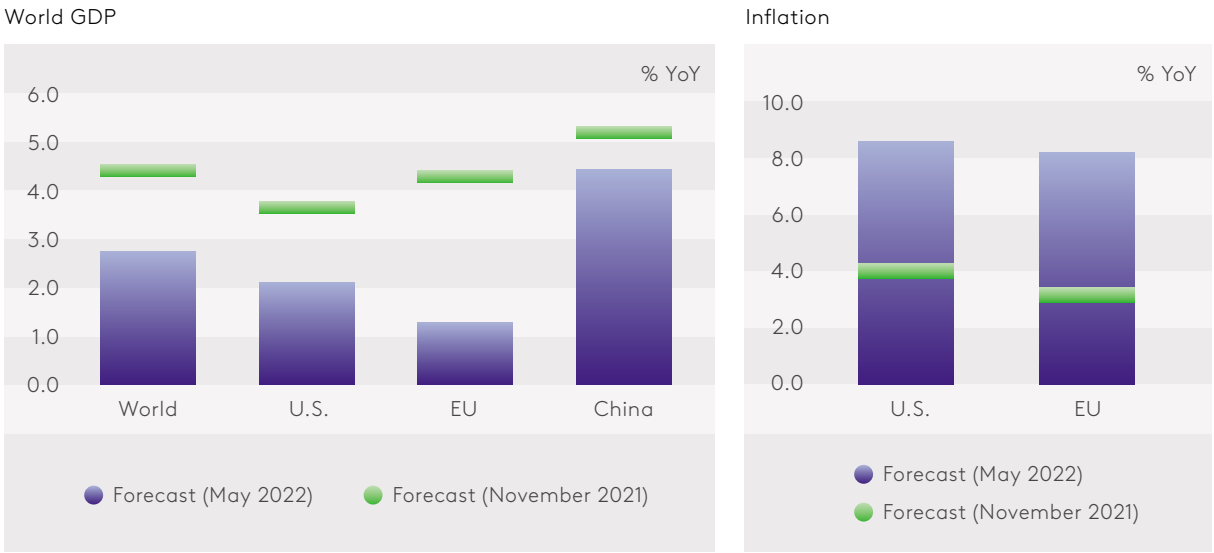
SUMMARY

The global economy is facing a period of turbulence. The beginning of the year saw geopolitical risks materialise that sharply increased negative sentiment on the markets and all but dashed any hopes that the global economy would soon return to sustained economic growth. Energy, food and fertiliser prices have reached multi-year highs, exacerbating last year's inflation problem. Monetary regulators are forced to respond to the massive rally, having already begun to tighten their policies, which is why the global economy is now once again experiencing a combination of supply and demand shocks. This risks setting back the post-pandemic recovery, and a recession is highly likely in the world's major economies in 2022–2023.

The global economy is struggling with the highest inflation in many years in developed countries and with soaring commodity prices. The acceleration of inflation is due both to risks from production, transport, and logistics and to pressure from an overheated labour market. These factors could compel price increases in the U.S. and the Eurozone to briefly reach double digits in 2Q and 3Q2022. By the end of 2022, we believe the inflation in the U.S. and the Eurozone will slow down to 8–9%, propelled by the expected weakening in business activity (Figure 1). Commodity prices will remain high throughout the 2022–2024 projection horizon, but will gradually decline from the second half of 2022, as global demand growth slows. The baseline scenario assumes an average Urals oil price in 2022 near USD 80/bbl, while maintaining a discount to Brent for the remainder of this year of around USD 30/bbl.

Re-establishing control of inflation will require the tightening of monetary policy in developed countries. Under the baseline scenario, we expect the U.S. Federal Reserve's key rate to rise to 2–2.25% by the end of 2022 with a subsequent reduction to 1.75–2% in 2023. An interest rate hike of 2 p.p. in a relatively short period of time would lead to a rapid cooling of the U.S. economy as early as 2022 and have a dampening effect on economic activity and inflation around the world.

↓ **Figure 1. World Economic Growth and Inflation Forecast for 2022**



Source: calculations by EDB analysts.

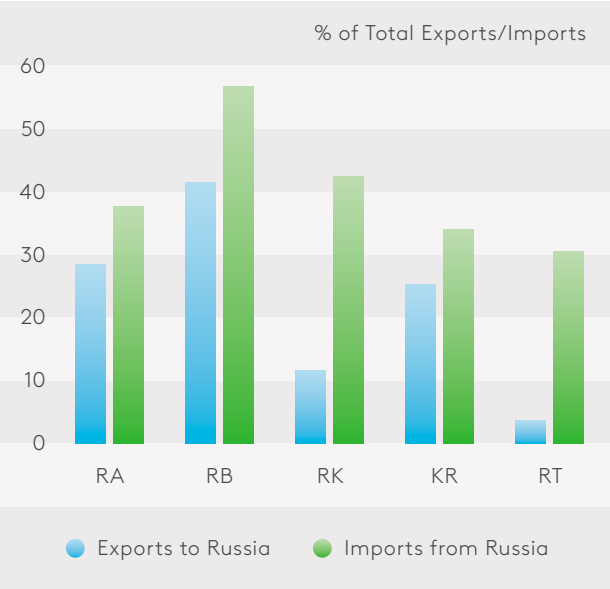
From late 2022 to 2023 we will witness a significant slowdown in the growth of the world's leading economies, compelled by a surge in inflation and tightening monetary conditions. We project that the global economy will experience a slowdown to 2.7% growth in 2022 from 5.8% in 2021. Our GDP growth projections for the world's largest economies are below consensus estimates: 2.1% in 2022 and 0.1% in 2023 for the U.S., 1.3% and 0.6% for the Eurozone, and 4.4% and 5% for China (Figure 1).

The acute phase of the COVID-19 pandemic seems to be ending, which might make a positive contribution to the world economic situation. The progress made in vaccination of the population has opened the door to a gradual relaxation of health restrictions in most economies. The pandemic is no longer the main determinant behind negative GDP dynamics. However, there are still associated risks. In particular, the current spread of COVID-19 in China has triggered severe restrictive measures and has suspended businesses and seaports in the affected regions of China. Disruptions in the supply of Chinese products have a widespread negative impact on production processes in other countries[1]; these disruptions will accelerate China's GDP growth slowdown, with negative consequences for the entire global economy.

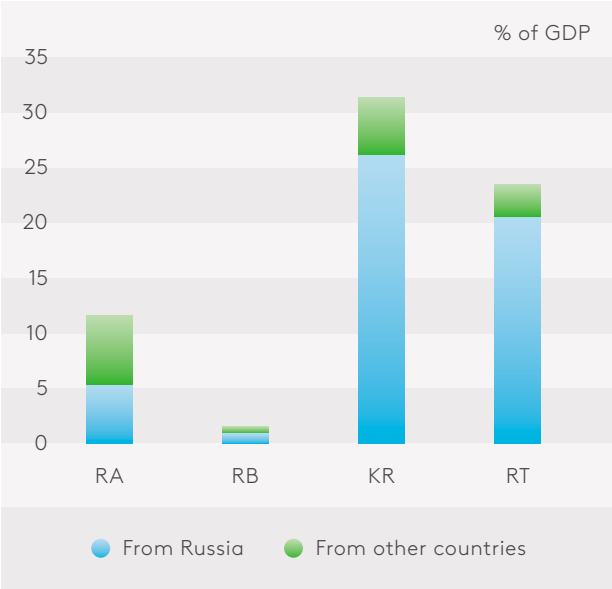
A cooling of the economy of the Bank's operating region after high growth in early 2022. Real GDP in 1Q, according to preliminary estimates, increased by 8.6% YoY in Armenia[2], by 4.4% YoY in Kazakhstan, by 4.5% YoY in Kyrgyzstan, by 3.5% YoY in Russia, by 7.5% YoY in Tajikistan, and declined by 0.4% YoY in Belarus. However, since March, many high-frequency indicators point to a slowdown in growth or the start of a contraction in the region's economies, due to the restrictions imposed on Russia and Belarus. They are causing business interruptions, difficulties in export deliveries, and production and logistics chain disruptions.

↓ **Figure 2. The Importance of the Russian Economy to the Economies of the Bank's Member Countries**

A) Foreign Trade in Goods in 2021



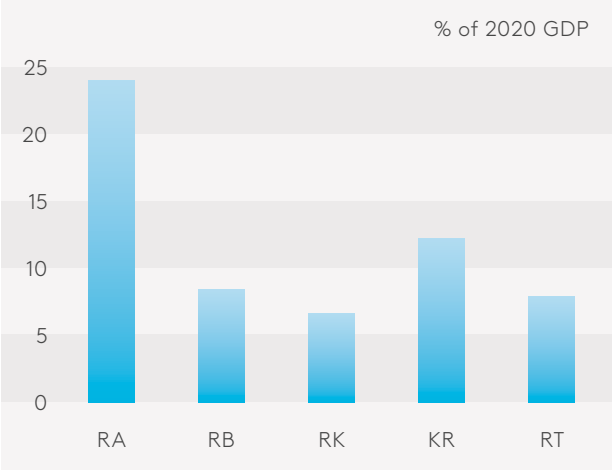
B) Remittances in 2021



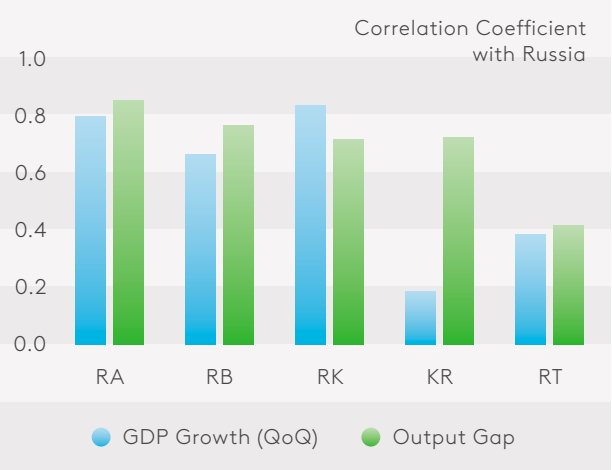
[1] See, for example: Toyota to Suspend Work at Eight Plants in Japan Due to Quarantine in Shanghai, Interfax, 11 May 2022.

[2] The economic activity grew 9.4% YoY in January–April in Armenia.

C) FDI Stock from Russia in 2020



D) Economic Cycle Synchronisation with Russia

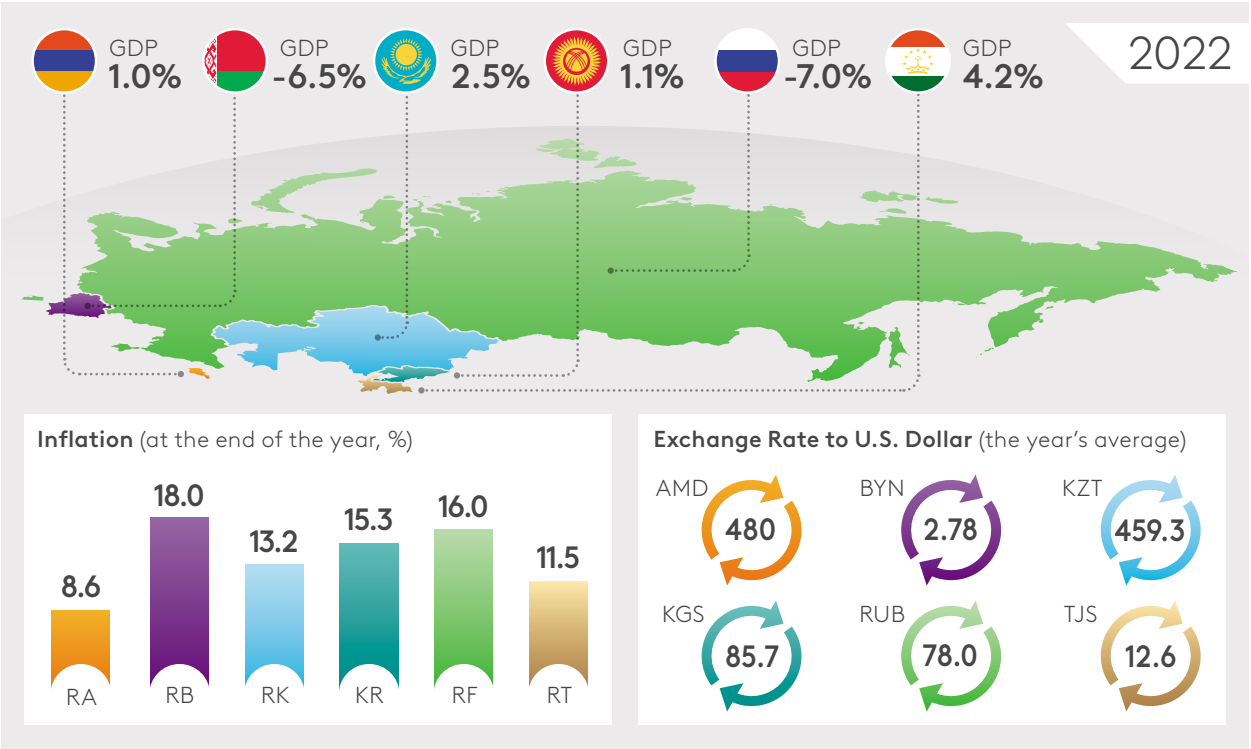


Notes: C) Investment stock according to EDB Monitoring of Mutual Investments database (Kuznetsov and Vinokurov, 2021); D) Correlation coefficients are calculated on a quarterly basis for the period from 1Q2012 to 4Q2021. GDP growth (QoQ) is the quarter-on-quarter growth rate of real GDP, seasonally adjusted. The output gaps are the results of the integrated EDB model system. See the joint report by the EDB and Eurasian Economic Commission for more information on this system (EDB, 2016).

Sources: EDB Monitoring of Mutual Investments, Eurasian Economic Commission, national agencies of the EDB member countries, calculations by EDB analysts.

Multidirectional dynamics of the region's economies. In the baseline scenario, we project the Russian GDP to decline by 7% in 2022. The Belarusian GDP will also experience a decline — by 6.5%. This is a result of restrictions, supply chain disruptions, and increased uncertainty. The growth of the remaining member economies will slow down due to their close economic ties with Russia (Figure 2) and to the lower global economic growth. **We project GDP growth of 1.0% in Armenia, 2.5% in Kazakhstan, 1.1% in Kyrgyzstan, and 4.2% in Tajikistan in 2022.**

↓ **Figure 3. Outlook for the Main Macroeconomic Indicators of EDB Member States**



Source: calculations by EDB analysts.

It will take longer for the aggregate growth of the EDB's operating region to return to positive rates than in previous crisis episodes. While GDP contractions in 2009, 2015, and 2020 in most countries of the region were followed by growth the following year, the recession in 2022 is likely to be followed by weak growth in Russia and Belarus in 2024. There are several factors behind this: the long-term impact of restrictions on imports of machinery and equipment, high-tech products, and investment interaction with companies from Russia and Belarus; apart from that, Western countries (primarily the EU) are switching to sources of energy other than Russia. We project the 2023 GDP to decrease by 3.0% in Russia and in Belarus and to accelerate in other EDB member states. **According to the baseline projection, Kazakhstan's economy will grow by 4.8% in 2023,** helped by the completion of work to increase oil production capacity at the Tengiz field and state programmes aimed at increasing household incomes. **GDP growth in Kyrgyzstan and Armenia will be 1.6% and 3.5%, respectively,** bolstered by exporters and migrant workers switching to new markets.

It may take several years for the region's economy to adapt to the new conditions, which will require Russian and Belarusian authorities and businesses to introduce a wide range of measures, both short-term (to mitigate the negative effects of the crisis) and long-term. As long-term measures, countries can launch programmes to replace restricted imported goods and technology, reconfigure infrastructure to use alternative sources, and expand internal sources for funding capital investments. The scale of investment required to move forward in these areas is unprecedented for the EDB member countries. The aggregate growth rate for the Bank's operating region can therefore be expected to be about 1 p.p. lower in 2024–2026 than the rate we previously thought to be sustainable. Notably the findings of a survey conducted among representatives of large and medium-sized businesses from the EDB member states engaged in foreign economic activities show that the key expectations of the business community with respect to foreign trade incentives are the following: tax and customs exemptions, soft loans, the need to consider the opinion of the private sector and to establish rapid response agencies in the area of foreign trade (Chimiris et al., 2022).

Inflation in the Bank's operating region accelerated in March–April 2022 and will remain elevated in 2023. By the end of 2022, consumer price growth will reach its peak in Russia and Belarus, to 16% and 18%, respectively. The main drivers behind it are supply chain disruptions, increased volatility of national currencies, greater depreciation and inflation expectations, and rising commodity prices. In countries not directly affected by the restrictions, the inflation rate will be lower in 2022: 8.6% in Armenia, 13.2% in Kazakhstan, 15.3% in Kyrgyzstan, and 11.5% in Tajikistan (Figure 3). As the economies adapt to the new operating conditions, the inflation will slow down to single digits in 2023. Nevertheless, due to the costs involved in setting up new supply chains, price increases in Russia and Belarus will remain above central bank targets. We expect aggregate inflation for the Bank's operating region to be 6.7% by the end of 2023, following 15.5% in 2022, and slowing to 4.5% in 2024.

National and central banks will ensure that monetary conditions remain contractionary in 2022, balancing between the priorities of fighting inflation and supporting economic activity. The key rate could fall to about 9% in Russia by the end of the year from 11% in May, and to 12% from the current 14% in Kazakhstan. As inflation slows, we expect key rates in Russia and Kazakhstan to be reduced significantly in 2023 and return to single digits.

Developed countries still face the risk of a surge in commodity prices and an acceleration of inflation above 10%. A drastic restriction of oil and gas supplies to the European market from Russia could cause energy prices to soar by dozens of percent from current levels. There is a high risk of significant food price growth acceleration. Should these threats materialise, global inflation will increase further, triggering a global recession in 2023. The economic downturn in such an adverse scenario is unlikely to be greater than in the pandemic, but the recovery may take longer. Stagnation in the global economy will have a negative impact on economic development in the EDB operating region.

EDB MEMBER STATES

↓ **Table 1. EDB Forecast. Main Macroeconomic Indicators of the EDB Member States *(Baseline Scenario)***

year-over-year growth rate (%), unless otherwise indicated

Indicator	2020	2021	2022F	2023F	2024F
Republic of Armenia					
GDP in constant prices	–7.6	5.7	1.0	3.5	3.1
Inflation *(at the end of the period)*	3.7	7.7	8.6	5.0	3.0
IBL Rate *(the year's average), %*	4.9	6.4	9.2	8.8	8.6
Armenian dram to U.S. dollar exchange rate *(the year's average)*	489	504	480	516	528
Republic of Belarus					
GDP in constant prices	–0.7	2.3	–6.5	–3.0	1.5
Inflation *(at the end of the period)*	7.4	10.0	18.0	8.0	5.5
Refinancing rate *(the year's average), %*	8.2	8.6	11.6	11.6	10.5
Belarusian rouble to U.S. dollar exchange rate *(the year's average)*	2.43	2.54	2.78	3.15	3.42
Republic of Kazakhstan					
GDP in constant prices	–2.5	4.1	2.5	4.8	4.5
Inflation *(at the end of the period)*	7.5	8.4	13.2	5.8	4.4
TONIA rate *(the year's average), %*	9.0	8.9	12.7	10.7	8.5
Kazakhstan's tenge to U.S. dollar exchange rate *(the year's average)*	413	425.9	459.3	473.6	485.6
Kyrgyz Republic					
GDP in constant prices	–8.4	3.6	1.1	1.6	3.2
Inflation *(at the end of the period)*	9.7	11.2	15.3	4.6	4.0
7-day Repo rate *(the year's average), %*	3.6	5.6	13.3	10.9	7.7
Kyrgyzstan's som to U.S. dollar exchange rate *(the year's average)*	77.3	84.6	85.7	92.1	97.7
Russian Federation					
GDP in constant prices	–2.7	4.7	–7.0	–3.0	1.7
Inflation *(at the end of the period)*	4.9	8.4	16.0	7.0	4.5
Key rate *(the year's average), %*	5.1	5.8	11.2	7.7	7.0
Russian rouble to U.S. dollar exchange rate *(the year's average)*	71.9	73.6	78.0	88.0	93.0
Republic of Tajikistan					
GDP in constant prices	4.5	9.2	4.2	6.8	8.0
Inflation *(at the end of the period)*	9.4	8.0	11.5	5.0	5.5
Refinancing rate *(the year's average), %*	11.5	12.2	14.0	11.8	9.4
Tajikistan's somoni to U.S. dollar exchange rate *(the year's average)*	10.3	11.3	12.6	12.5	12.7

Source: national agencies of the EDB member countries, calculations by EDB analysts.

EXTERNAL ECONOMIC CONDITIONS

The global economy and global commodity markets are expected to have a pro-inflationary and business-constraining effect on the economy of the EDB operating region in 2022–2023. Commodity prices will remain relatively high in the medium term, which will keep inflation in developed countries elevated. Tightening monetary policy to combat inflation could lead to a significant slowdown in global growth in late 2022 to 2023, with stagflationary risks likely to increase.

Forecast

↓ **Table 2. Projected Values of Key Foreign Economic Indicators *(Baseline Scenario)***

increase year-on-year, % (unless otherwise stated)

	Brent oil price *($/bbl annual average)*	Global GDP *(at market rates)*	Inflation in the U.S.	Inflation in the Eurozone	Fed key rate *(% at the end of the year)*
2021	70	5.8	4.7	2.6	0.25
2022F	106	2.7	8.5	8.1	2.25
2023F	92	2.0	4.6	3.5	2.00
2024F	85	3.2	2.3	1.6	2.00

Source: 2021 — data from IMF, World Bank, Fed; 2022F–2024F — forecasts by EDB analysts.

Commodity prices will rise in 2022 due to increased supply risks. High uncertainty and a possible reduction in exports from Russia support the oil quotations. Concerns about cooling of the global economy are limiting price increases. Urals discount to Brent exceeds $30/bbl. We assume the discount will remain so in 2022, with a gradual decrease in 2023–2024. As a result, we expect an average Urals price near $80/bbl this year.

The oil price may peak during 2Q-3Q2022, after which we expect a gradual decline in quotations due to weakening global economic activity. However, energy prices will remain high over the 2023–2024 projection horizon in the face of Russia's reduced supply of commodities. We project a 20–40% increase in global industrial metal and food prices (2022 average vs 2021 average), with a further decrease in 2023.

Inflation in the U.S. and the Eurozone is expected to be 8–9% in 2022. Among key pro-inflationary factors are rising global commodity prices, transport and logistics disruptions, and labour market pressures. They are expected to peak in 2Q-3Q2022: the U.S. and Eurozone inflation could temporarily reach 10% YoY. By the end of 2022, the rate of price increases will start to slow down due to weaker economic activity and a gradual reduction in the contribution of energy costs.

We project the global economy to grow 2.7% in 2022, after 5.8% in 2021. We expect a surge in inflation to weaken economic activity in the world's largest economies, particularly in the Eurozone. Furthermore, tightening monetary policy in the U.S. could lead to a recession in that country as soon as late 2022 or early 2023. This will have a negative impact on business activity worldwide, with a peak in the first half of 2023. This means that our GDP growth projections for the world's largest economies are below consensus estimates:

2.1% in 2022 and 0.1% in 2023 for the U.S., 1.3% and 0.6% respectively for the Eurozone, and 4.4% and 5% respectively for China.

We expect the Fed key rate to rise to 2–2.25% by the end of 2022, with a subsequent reduction to 1.75–2% in 2023. In the baseline scenario, we assume that the Fed will raise the rate by 0.5 p.p. at its June 2022 meeting and continue with its balance reduction. We believe that this will seriously cool business activity and that the monetary tightening cycle will end in the second half of 2022. In 2023, we allow for a small reduction in the Fed key rate. In general, our estimates are lower than the market: risks of financial market destabilisation and a weakening economy may force the Fed to act more cautiously than the market currently predicts.

Risks

Developed countries still face the significant risk of a surge in commodity prices and an acceleration of inflation above 10%. The prospects for the supply of energy and other commodities on the world market from Russia remain uncertain, as does the EU's ability to replace them quickly. A drastic restriction of oil and gas supplies to the European market could cause energy prices to soar by dozens of percent from current levels. This autumn is highly likely to witness a significant increase in food prices, primarily for grains and oil, due to a potential reduction in supply from Ukraine and Russia. Should these risks come to pass, global inflation will increase further, triggering a global recession in 2023. It is impossible now to make a quantitative estimation of the scale and duration of the consequences. The economic contraction according to such an adverse scenario is unlikely to be greater than in the pandemic, but the recovery may be longer and be attended by political and social risks.

The slowdown of the Chinese economy in 2022–2023 could be more severe than anticipated. Tighter government regulation, including in the digital sector, a "zero tolerance" COVID-19 policy, and rebalancing the economy could slow down economic growth. Demographic trends remain unfavourable, and chances for capital accumulation are limited; China's capital formation is comparable to that of the U.S. but at a much slower rate of development. As a result, a slowdown in growth cannot be ruled out in 2022–2023, to 4% or lower. That would restrict global growth and result in significant price drops in metals and energy.

REPUBLIC OF ARMENIA

The baseline scenario forecast is for Armenia's GDP to slow to 1.0% in 2022 and increase by 3.5% in 2023. The contraction in Russia and decline in global growth will understandably lead to a slowdown in economic activity. Inflation in 2022 will accelerate to 8.6%, mainly due to higher prices for imported products and supply difficulties. In 2023, we expect consumer price growth to slow to 5%.

Current situation

Economy in Armenia showed a high growth rate in the first four months of 2022. The economic activity indicator rose by 9.4% YoY in January–April. All sectors contributed positively to its growth except agriculture, which declined by 5.4% YoY in the first three months. Growth in services and trade (up 23.5% YoY and 7.8% YoY in January-April, respectively) and the strong construction dynamism (+9.0% YoY) still act as the driver of economic activity in the country. The growth of industrial production sector recovered in April (+1.2% vs –6.8% YoY the month before), which accelerated the export growth (to 19.8% YoY vs 5.3% in March). Trade and services growth also accelerated, largely due to a surge in demand for consumer goods in March, as well as an influx of foreign visitors in March–April. The number of tourists increased by a factor of 2.9 in January–March. Economic growth is expected to slow during 2Q due to weaker consumer demand amid accelerating inflation and lower remittances, as well as slower export growth and negative changes in the metal ore-mining sector. Tourism activity increase will support consumer demand.

The decline in industrial production in March was mainly attributed to changes in the mining industry. In January–March, metal ore output declined by 12.9% YoY as work at the Teghut mine was temporarily suspended for planned maintenance. Industry was fuelled by manufacturing sectors — food, tobacco — as well as construction materials and precious metals. In April industrial output recovered by growing up to 1.2% YoY.

The steady increase in the construction sector supports Armenia's economy. Construction grew by 15.6% YoY in April (9.0% YoY in January–April). Construction in the real estate and transport sectors (up 21.0% YoY and 58.9% YoY in January–March, respectively) contributed significantly to the industry's dynamism.

The Armenian dram appreciated against the dollar and the euro in March and April after weakening in late February and early March. The depreciation of the Russian rouble against the dollar led to a weakening of the dram against the U.S. currency in early March to AMD 518 per USD. Due to increased depreciation expectations, the demand for foreign currency increased sharply in late February: the net supply of currency on the market turned into a net demand in one week[3]. As depreciation expectations petered out, the Armenian currency strengthened in the second half of March. As a result, the value of the dram declined by an average of 3.8% against the dollar in March vs a month earlier, and by the end of the month, the exchange rate strengthened to 486. In April, the dram appreciated further amid tax payments by exporters, lower demand for mineral imports, and tourist activity, which resulted in the dram rising to 453 per dollar at the end of April,

[3] In the last week of February, net demand for USD on the intrabank market was 25 million against a net supply of 15.1 million in the first three weeks of the month.

from 486 at the end of March. The rest of the year may see a gradual weakening of the Armenian currency in the context of slower export growth, increased imports, and lower remittance inflows.

Inflation in Armenia increased to 8.4% YoY in April after 7.4% a month earlier. The weakening of the dram in early March, which heightened inflation expectations; a surge in demand for consumer goods; and higher prices for imported goods were all factors in the acceleration. In the services segment, the acceleration was due to an increase in electricity tariffs in March and an increase in prices for recreation in March and April. The acceleration of inflation will continue in 2Q with higher prices for imported goods and could reach an average of 9.0% YoY. An increase in agricultural output in late 2Q could become a factor restraining price growth in 2Q-3Q.

The Central Bank of the Republic of Armenia kept its refinancing rate at 9.25% at its meeting on 3 May. The regulator cited the strengthening of the dram as a key disinflationary factor, which allowed the rate to remain unchanged[4]. However, inflation accelerated in April, with external pressure on prices continuing. We assume an increase in the refinancing rate in June. In the second half of the year, the cycle of monetary tightening can be expected to end amid weakening demand and the limited impact of higher rates on price growth generated by a supply shock.

The state budget posted a surplus of 0.8% of GDP in January–April 2022 (vs a deficit of 0.8% of GDP in 2021). Revenues increased by 23.6% YoY in the context of increased business activity. Expenditure increased by 3.3% YoY. We assume that fiscal policy for the rest of the year will be contractionary, given the authorities' planned reduction of the budget deficit to 3% of GDP in 2022 (from 4.7% in 2021).

Forecast

↓ Table 3. Key Macroeconomic Indicators of Armenia *(Baseline Scenario)*

Indicator	2020	2021	2022F	2023F	2024F
GDP in Constant Prices *(% growth YoY)*	–7.6	5.7	1.0	3.5	3.1
Consumer Price Index *(% growth YoY at the end of the year)*	3.7	7.7	8.6	5.0	3.0
IBL Rate *(% p.a., the year's average)*	4.9	6.4	9.2	8.8	8.6
Armenian Dram to U. S. Dollar Exchange Rate *(the year's average)*	489	504	485	516	528

Note: F = Forecast.

Source: National agencies, calculations by EDB analysts.

[4] In March, the Central Bank of Armenia raised the refinancing rate by 1.25 p.p. to 9.25% amid a higher country risk premium and volatility on the Armenian financial markets due to increased geopolitical risks and uncertainty in the region, which also affected inflation expectations.

Economic activity and inflation

The baseline scenario assumes that Armenia's GDP growth will slow to 1.0% in 2022 (Figure 4.A). This is below the estimate of the previous Macroeconomic Outlook. The contraction in Russia is the driver behind the growth slowdown. The channel through which the Armenian economy will be affected is the decline in remittances, foreign trade, and investment. Increased uncertainty about further developments in the region will also have a negative effect on business activity.

Remittances are still a significant source of income, despite their declining share in GDP over recent years (from 19% of GDP in 2013 to 12% in 2021). Remittance volumes in the first four months of this year were affected by the weakening of the Russian rouble, which influenced the purchasing power of rouble remittances to Armenia. The downturn in the Russian economy will take its toll on the Russian labour market and on disposable incomes, thus limiting the flow of remittances of migrant workers. We believe that a reduction in remittances could directly cost Armenia 1.0% of GDP during 2022.

Exports of goods to Russia will fall this year due to lower demand and loss of price competitiveness of Armenian goods amid the strengthening of the dram against the Russian rouble; difficulties with cargo transportation in the first half of the year are also to blame. However, the scale of the reduction will be limited, given that the exports mainly include consumer goods (beverages, agricultural and textile products), for which demand tends to be relatively stable. The price factor will level out in the second half. Russia accounts for 28% of Armenia's total exports (about 9.8% of GDP in 2021); we believe their reduction could cause Armenia to lose 0.8% of GDP directly during the year. Armenia's FDI is quite diversified; however, Russia still plays a large part in it: in 2021, the Russian Federation accounted for 31% of FDI inflows, with investments in the mining and energy sectors.

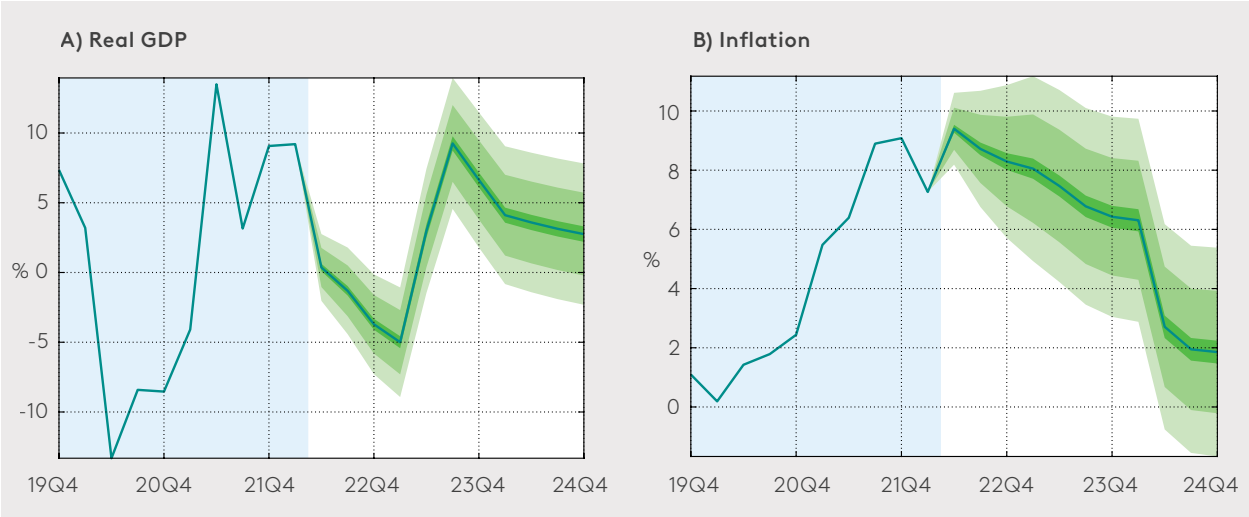
A slowdown in global business activity in 2022–2023 will tend to have an adverse impact on the Armenian economy, which will translate into weak external demand for exported goods and issues with their supply. A decline in remittances can be expected, including from the U.S.

There are also internal factors that will curb growth in 2022. Tighter monetary conditions and higher inflation in Armenia will further limit domestic demand in 2022. The positive effect of rising global copper prices will be inhibited by the temporary suspension of operations at the Teghut mine. An influx of non-residents and their capital into Armenia and a recovery of tourism after the decline in 2020–2021 may partly offset the negative effects in 2022. **Armenia's economic growth can be expected to recover to 3.5% of GDP in 2023.**

Inflation is projected to be 8.6% at the end of 2022 (Figure 4.B). The price increases will accelerate in 2Q due to difficulties in supplying products from abroad, and rising prices of imported food, commodities, and non-food items.

In 2023, price growth in Armenia will slow down to 5% by the end of the year, encouraged by stabilisation of global inflation and weak domestic and external demand. In the medium term, inflation will be within the Central Bank's target range as a result of the gradual exhaustion of external price pressures following stabilisation of world prices and commodity supply chains.

↓ Figure 4. Economic Activity and Inflation Forecast for Armenia



Note: Here and elsewhere, GDP and inflation data are seasonally adjusted. Here and elsewhere, the chart ranges correspond to the 10%, 50%, and 75% confidence intervals.

Source: calculations by EDB analysts.

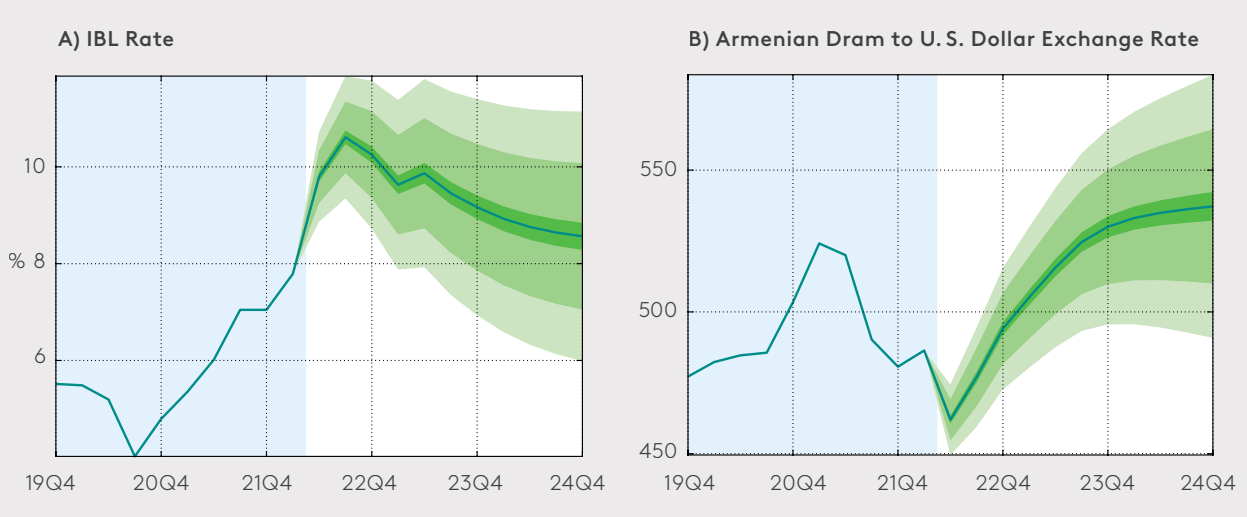
Monetary policy and the Armenian dram exchange rate

Under the baseline scenario, the IBL rate will increase to 10% per annum in June, following the refinancing rate (Figure 5.A). We forecast the end of the refinancing rate hike cycle in the second half of this year amid gradually weakening demand. The rate is likely to fall to 9.0% in late 2022. The IBL rate will be near 8.8% in 2023, on a par with the CB RA's stable inflation target range.

The exchange rate of the Armenian dram to the U.S. dollar is projected at an average of 480 in 2022 (Figure 5.B). The exchange rate will decline from its current rate (AMD 451 per USD as of May 25). The national currency will weaken because of lower remittances, limited income from exports amid falling external demand, the temporary suspension of work on the Teghut mine, and higher interest rates on international financial markets. High prices for exported metals and food and elevated financial market rates in Armenia will support the exchange rate. In 2023, the national currency will be near equilibrium and is projected to average AMD 516 per USD for the year.

Fiscal impulse decline in 2022 and policy neutrality in the medium term. Fiscal policy will curb demand this year, according to our estimates, given the 0.4 p.p. expenditure reduction down to 27.8% of GDP and an increase in tax revenues by 0.9 p.p. to 23.4% of GDP. With fiscal consolidation as envisaged in the government's Medium-Term Expenditure Programme for 2022–2024, the expenditure rates will stabilise near 26% of GDP and tax revenues will grow by 0.4 p.p. per annum.

↓ Figure 5. Interest Rate and Armenian Dram Exchange Rate Forecast



Source: calculations by EDB analysts.

Risks

An extended slowdown of economic growth in major trading partner countries, notably Russia, continues to be the most significant risk under the baseline scenario. In the medium term, this could reduce potential exports, remittances, tourism, and investments. However, there are also positive risks towards higher economic growth associated with capital movements and the inflow of non-residents into Armenia.

The dram is still likely to weaken more sharply, following the Russian rouble, should the rouble be highly volatile in 2022. There are risks of continued external pro-inflationary factors such as rising food and commodity costs on global markets, as well as supply chain disruptions.

REPUBLIC OF BELARUS

In the baseline scenario, we project Belarus's GDP to shrink by 6.5% in 2022 and by 3% in 2023. The economic recession will be fuelled by the restrictions imposed, the production and logistics chain disruptions, and the decline in economic activity in Russia. Inflation in 2022 will accelerate to 18%, largely propelled by the weakening of the Belarusian rouble, higher inflation expectations, and more complicated logistics. In 2023, we expect inflation to slow down to 8%, as price adjustments for exchange rate changes will end in 2022.

Current situation

The Belarusian economy was in recession in 1Q2022. The country's GDP fell by around 0.6% in January–March QoQ, seasonally adjusted, and was 0.4% lower than a year earlier. The seasonally adjusted indicator has declined for three consecutive quarters. Economic activity declined markedly between February and March, when GDP contracted by more an average per month of 1% MoM, seasonally adjusted. In February and March, the effects of the restrictions on manufacturing, transport, and the wholesale trade began to show clearly. The IT sector in 1Q maintained positive growth in value-added: 6.3% YoY in March after 7.4% and 8.2% YoY in February and January, respectively. In March, there was a temporary surge in goods consumption (+11% YoY), propelled by a rush of demand because of the weakening rouble, higher inflation expectations, and increased restrictions on Belarus. The recession in Belarus will intensify in 2Q due to an expected decline in consumer and investment activity, as well as lower exports.

Exports of Belarusian goods fell by 19.1% YoY in physical terms in 1Q2022, and by 36.3% YoY in March, following declines of 17% YoY in February and 1.1% in January. This is mainly due to reduction in exports of restricted industries, primarily potash and petroleum products. Exports continue to be facilitated by the price factor, with export prices rising by almost 30% YoY in 1Q, amid rising global commodity prices. As exports decrease, the price factor's weight will diminish. The physical amounts of goods imports fell by 12.7% in 1Q2022. Shipments fell in March, down 33.2% YoY, amid a surge in uncertainty and increasing restrictions. In the coming months, weak imports can be expected due to declining investment and consumer activity.

The Belarusian rouble weakened against major currencies by 9.4% since the beginning of the year (as of May 26), which is mainly attributed to lower foreign exchange export earnings in March and higher depreciation expectations. However, reduced imports and the limited ability of individuals to buy foreign currency have curbed the extent of the rouble's weakening. In April, the Belarusian currency was also supported by the conversion of foreign currency earnings by exporters to pay their quarterly taxes. We believe that it resulted in the Belarusian rouble being overvalued against foreign currencies and above all, against the dollar and the euro. This will diminish as the impact of external constraints on the foreign trade balance increases.

Inflation in Belarus reached 16.8% YoY in April 2022. Monthly growth in consumer prices, seasonally adjusted, is estimated at 1.7% in April, which is significantly higher than last year's monthly average increase of 0.8%. Prices have already mostly adjusted to exchange-rate movements and soaring inflation and depreciation expectations; however, cost pressure

remains because of the development of new transport and logistics chains and high commodity prices globally. These factors will continue to affect prices, possibly boosting inflation to 17–19% YoY during 2Q2022.

Monetary conditions tightened in March and April as a result of increased risks for banks. A dramatic reduction in bank liquidity and an outflow of foreign currency deposits in early March doubled the deposit rates. Market interest rates on rouble loans in April exceeded 19%, after 13% in January–February. As a result, new lending to the private sector fell by 3.4% YoY in rouble terms in March, and new loans to institutions in foreign currency terms fell by 46.4% YoY. Since mid-March, bank liquidity has been on the upswing, largely due to an increase in government deposits in banks by BYN 3 billion in March.

The general government operations balance in 1Q2022 posted a surplus of 2.1% of GDP. The deteriorating economic conditions had an impact on the budget indicators as early as 1Q; income tax revenues decreased by 0.5 p.p. of GDP compared to 1Q last year, and foreign trade revenues decreased by 1.3 p.p. of GDP. The budgetary impact of the restrictions will intensify in 2Q. During the year, the budget will post a deficit (around 2–3% of GDP for the entire year) due to the expected decline in revenues relative to GDP and the need to pay for expenditures. Fiscal policy could support falling domestic demand this year; however, the options are limited, since the revenue base of the budget is expected to decline, the public debt has to be repaid and serviced, and the budget lacks significant reserves.

Forecast

↓ Table 4. Belarus's Key Macroeconomic Indicators *(Baseline Scenario)*

Indicator	2020	2021	2022F	2023F	2024F
GDP in Constant Prices *(% growth YoY)*	–0.7	2.3	–6.5	–3.0	1.5
Consumer Price Index *(% growth YoY at the end of the year)*	7.4	10.0	18.0	8.0	5.5
Refinancing Rate *(% p.a., the year's average)*	8.2	8.6	11.6	11.6	10.5
Belarusian Rouble to U.S. Dollar Exchange Rate *(the year's average)*	2.43	2.54	2.78	3.15	3.42

Source: national agencies, calculations by EDB analysts.

Economic activity and inflation

In the baseline scenario, we project that the Belarusian GDP will decline by 6.5% in 2022. Restrictions imposed by Western countries, production and supply chain disruptions, and the downturn in the Russian economy could very well translate into a loss of about USD 10 billion (or about 20%) of exports of goods and services this year. Among secondary effects, we can name a decline in corporate and individual income, an increase in underemployment and unemployment, a deepening decline in investment, and a contraction of consumer demand. Lower oil and gas import prices from Russia may partly limit the negative spillover effects, but are unlikely to have a meaningful impact on production due to marketing difficulties (Table 5). There are limited options for budgetary and fiscal support of the economy.

↓ Table 5. Forecast Assumptions for Belarus GDP in 2022 *(Baseline Scenario)*

Assumption	GDP losses, % *(accounting for import capacity)*
Reduced production in restricted industries, transport	3.0
Termination of non-oil exports to Ukraine from March 2022, with USD 2 billion of exports being switched to other markets	0.3
Reduction of Russian GDP by 7% in 2022	2.7
Secondary effects on other sectors	2.0
Compensation of losses (government anti-crisis measures, IT sector)	–1.5
Total	**≈6.5**

Source: calculations by EDB analysts.

The total GDP loss for 2022–2023 could amount to almost 10% of the 2021 level. In the baseline scenario, we project a contraction of Belarus's GDP by 3% in 2023 and a weak recovery growth of 1.5% in 2024, as the economy adapts to operating in a changed environment. External constraints and difficult access to advanced technology and the global market will have long-term negative effects on economic growth.

Box 1. Impact of external restrictions on Belarus's GDP

Import restrictions imposed by some Western countries directly affect industries that account for about 10% of Belarus's GDP: the chemical, oil-refining and petroleum industry, timber processing, metallurgy, rubber and plastic products, and other non-metallic mineral products. The direct impact of restrictions on output in these industries is estimated to be less than 10% of GDP: some of the output goes to the domestic market, some goes to countries that have not imposed restrictions; the restrictions do not take effect immediately, and some affected goods may be switched to other markets. We estimate a direct negative effect on GDP from a reduction in production in the sectors mentioned of ≈2.3% in 2022. In 2023, output may still be in a par with 2022 due to industry's adaptation to the new conditions.

The loss of non-oil exports to Ukraine could cost about 0.3% of Belarus's GDP in 2022 and another 0.4% in 2023. We are factoring in the switch of USD 2 billion of exports to Ukraine to other markets and accounting for two months of trade in January–February 2022.

Direct GDP losses from transport limitations are estimated at around 0.7% in 2022. Transport accounts for ≈5% of Belarus's GDP, and international road transport accounts for about 15–20% of transport freight turnover. The direct effect of EU restrictions on the transport industry could be comparable to the effect of COVID-19 in 2Q2020, when transport industry value-added fell by more than 11% over the preceding quarter, seasonally adjusted. What makes things different this time is the speed of recovery, which is not likely to be rapid. As a result, the transport industry could lose more than 10% of value-added in 2022.

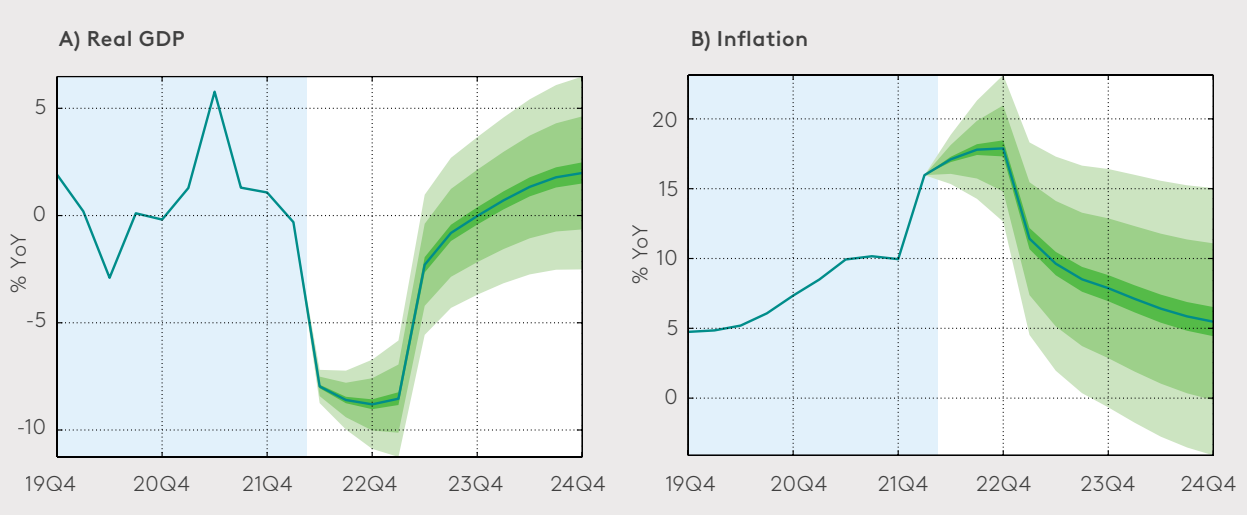
The negative effects on other industries of reduced output from the restricted industries may add up to about 2% of GDP in 2022 and about 0.5% of GDP in 2023.

A further 2.7% of GDP loss in 2022 and 1% in 2023 may be attributed to the economic decline of Russia, Belarus's key trading partner. The calculations do not take into account the EU ban on supplies to Belarus of certain categories of machinery and equipment worth almost USD 1 billion in 2021, which is about 14% of all imports of machinery and equipment to Belarus. In addition, we have not fully factored in the repercussions of financial restrictions.

Inflation at the end of 2022 is forecast at 18%. The weakening of the Belarusian rouble is a key pro-inflationary factor. Additional inflationary impacts are predicted from rising inflation expectations, transport and logistics chain disruptions, and accelerating price increases in Russia and global commodity markets. Decrease in domestic demand will curb the acceleration of inflation.

In 2023, inflation is expected to slow down to 8%. The price adjustment to the rouble exchange rate is likely to end in 2022, thus easing inflationary pressures. In addition, companies are likely to have limited options for raising prices because of subdued consumer demand. At the same time, the development of new logistical chains is likely to continue to have a pro-inflationary impact.

↓ Figure 6. Economic Activity Forecast for Belarus



Source: calculations by EDB analysts.

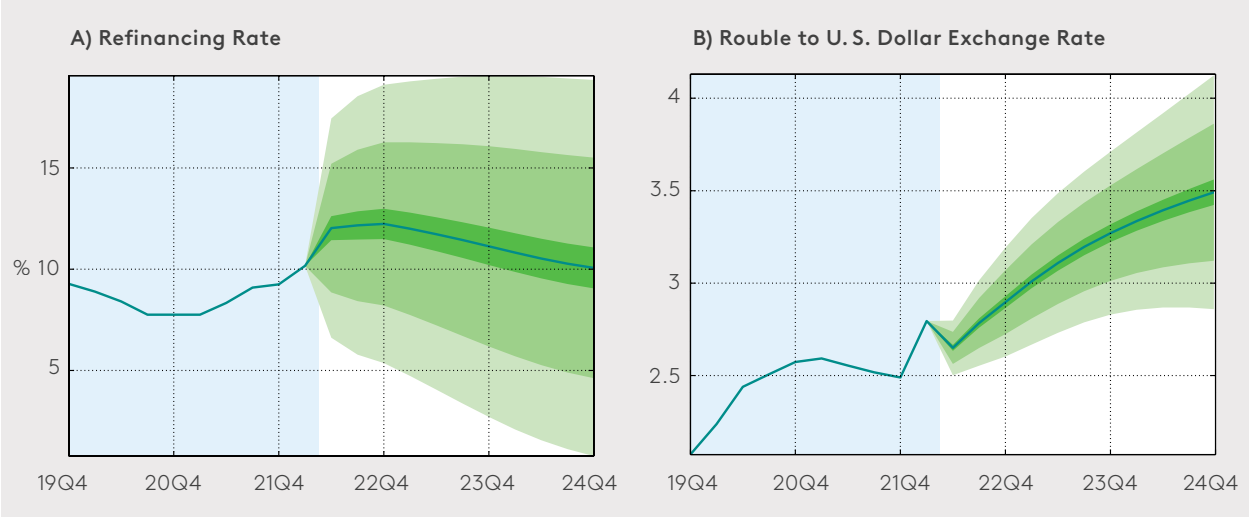
Monetary policy and the Belarusian rouble exchange rate

In the baseline scenario, we expect the refinancing rate to be 12–15% in 2022, despite a significant acceleration in inflation. With a significant reduction in demand in the economy, the benefits of tight monetary policy do not cover the costs of GDP losses. A large increase in the refinancing rate could help slow inflation more quickly, but would be associated with a deepening economic recession. This could increase the risks of a non-payment crisis in the real sector. In the face of increased uncertainty and risks for banks, market lending conditions will remain restrained even without a change in the refinancing rate.

The average exchange rate of the Belarusian rouble to the dollar is forecast at 2.78 in 2022. A reduction in the surplus of foreign trade in goods and services as a result of restrictions will act as a key factor in weakening the national currency. In the baseline scenario, the surplus is projected to decline to around USD 1–1.5 billion this year, from USD 3.8 billion in 2021, despite an expected import decline. Under normal circumstances,

with a constant deficit in investment income, such a change in the foreign trade surplus would have led to significant pressure on the exchange rate of the Belarusian rouble. We assume that the population will reduce their currency purchases due to lower incomes and the possible reduction of foreign exchange liquidity of banks. This would reduce the weakening of the national currency, along with a possible limited withdrawal of dividends from the country. In the medium term, the downward trend in the value of the Belarusian rouble will continue due to the relatively low growth rate of potential GDP.

↓ **Figure 7. Refinancing Rate and Belarusian Rouble Exchange Rate Forecast**



Source: calculations by EDB analysts.

Risks

Risks to economic activity in the short term could be either positive or negative, but have shifted towards the likelihood of a greater downturn. The speed at which the Belarusian economy will adapt to the changed operating conditions is highly uncertain, which means that the volume and rate of at which declining exports can be shifted to other markets and the secondary effects of reduced foreign exchange earnings on consumer and investment activity cannot be estimated with a high degree of accuracy. There is still a risk of tighter restrictions, and the prospects are unclear for the rapid establishment of supply chains. In an unfavourable scenario, GDP would fall by more than 10% in 2022. In addition to increasing social expenditures, large-scale support for small and medium-sized enterprises that takes the form of maximum regulatory relief could help minimise negative effects. Opening doors to entrepreneurial initiative, even slightly, could accelerate the economy's adaptation to the new conditions. Rapid adaptation could reduce economic losses and limit GDP decline to around 3–5% in 2022.

In the medium term, there are risks of a protracted economic downturn, primarily caused by the disruption of global technology and production chains and the degradation of human capital assets through loss of highly skilled professionals and difficult access to cutting-edge scientific knowledge. The risk of deepening regional disparities in economic development in Belarus is significant. Earlier, we said that the growth rate of potential GDP in Belarus would be roughly 1% per year. If the negative effects described come about, the potential may very well drop. Its sustainable improvement will require the creation of institutions that generate incentives for private initiatives.

REPUBLIC OF KAZAKHSTAN

In the baseline scenario, we project Kazakhstan's GDP to grow by 2.5% in 2022 and to recover to 4.8% growth in 2023. The government's measures will offset the negative impact of external shocks. Inflation in 2022 will accelerate to 13.2%, mainly due to the weakening the tenge and supply difficulties. In 2023, we expect consumer price rises to slow to 5–6%.

Current situation

Economic growth accelerated to 4.4% between January and April 2022. At the end of 2021, a substantial safety buffer was in place thanks to government measures aimed at restoring business activity after the shocks of the pandemic. The January protests had a limited impact on growth trajectory. In February 2022, trade and communications, the sectors most affected by those protests, showed a positive growth trend. The key impetus for the economy in January–April 2022 was provided by the real sector, with volumes increasing by 5.1% YoY. Industrial production, agriculture, and construction were the driving forces. Output in the service sector rose by 3.4% YoY, driven by higher business activity in sectors such as transport and storage, information and communication, and trade. GDP grew by 4.4% in January–April 2022 after growing by 4.0% in 2021. At the same time, the worsening geopolitical situation in the region at the end of February 2022 drove business confidence to its lowest level in three months (IHS Markit, 2022). Kazakhstan's composite PMI fell to 48.8 in March from 53.2 a month earlier, reflecting a decline in new orders for manufacturing and services. The figure rose to 50.4 in April, thanks to the strengthening service sector, while manufacturing continued to decline.

Inflation in April 2022 accelerated to 13.2% YoY, after 12.0% YoY a month earlier. This is largely due to progressing imbalances on global commodity markets. Disruptions of global transport networks worsened in early 2022, as shown in the rise of the FAO index: in March, it reached its highest level ever (+12.6% MoM) (since 1990), while energy prices increased by 24.1% MoM. Additional pressure came from Russia's ban on exports of some foodstuffs. As a result, food inflation accelerated to 17.9% YoY in April from 10% YoY in February 2022. Increased inflation expectations amid the depreciating national currency and increased demand also affected the acceleration of inflation. Prices in the non-food segment rose by 11.1% YoY in April, while paid services rose by 8.9% YoY.

The tenge had recovered some of its losses by early May 2022. Geopolitical risks in the world and the general weakening of emerging market currencies against the U.S. dollar have increased volatility on Kazakhstan's financial market. Kazakhstan's currency exceeded KZT 512 per USD at its peak on 16 March. In order to ensure financial stability, the authorities took a number of measures: they raised the base rate; launched a tenge deposit protection programme, which provides for the accrual of compensation on individuals' deposits from the budget; used the Frankfurt auction method on days of high volatility of the tenge/dollar currency pair; imposed a limit on the export of cash foreign currency from Kazakhstan; widened the spread between the purchase and sale rate of cash foreign currency. Foreign exchange interventions in 1Q2022 amounted to USD 1.5 billion vs USD 1.6 billion in 1Q2020. The exchange rate was further supported by sales from exporters whose revenues rose by more than 65% between January and March 2022. Since the end of March, the tenge has started to recover its lost ground. By mid-May, it was quoted at around 435.

2022 saw a new increase of the base rate. In January 2022, the National Bank of Kazakhstan raised the base rate for the fourth time in a row (to 10.25% from 9.75%) in response to rising inflationary pressures caused by imbalances on external commodity markets, pent-up demand, and strong growth in consumer lending. The high volatility on external financial markets led to the depreciation of the tenge, as a result of which the regulator raised the base rate to 13.5% in February 2022. The National Bank of Kazakhstan pursued a flexible exchange-rate policy, allowing it to absorb external shocks and avoid the accumulation of imbalances in the economy. However, inflation risks persisted, which led to a further increase in the base rate in April to 14.0%.

The fiscal position improved between January and March 2022. The state budget posted a surplus of KZT 188.1 billion in the first three months of 2022. A year earlier, the deficit stood at KZT 489.5 billion. At the beginning of 2022, tax revenues continued to make a key contribution to revenue growth, driven by higher prices for key export commodities. As a result, the share of taxes in total revenues rose to 77% in January–March 2022, up from 62% a year earlier. The rate of expenditure increase declined by a factor of 1.2 to 15.4% compared to January–March 2021. The gradual increase in the salaries of social sector employees continued in 2022. For example, at the beginning of the year, the average increase was 20–30%. Due to the changing economic conditions, the budget has been revised. The amended national budget law for 2022–2024 envisages maintaining the deficit at 3.3% of GDP, with expenditures rising by 2.2% of GDP mainly due to a KZT 1.6 trillion increase in the guaranteed transfer from the National Fund. The Republic's budget revenues are being increased by 0.5% of GDP in 2022 due to higher prices for key exports and changes in the exchange rate of the tenge against the dollar.

Forecast

↓ Table 6. Main Macroeconomic Indicators of the Republic of Kazakhstan *(Baseline Scenario)*

Indicator	2020	2021	2022F	2023F	2024F
GDP in Constant Prices *(% growth YoY)*	–2.5	4.1	2.5	4.8	4.5
Consumer Price Index *(% growth YoY at the end of the year)*	7.5	8.4	13.2	5.8	4.4
TONIA Rate *(% p.a., the year's average)*	9.0	8.9	12.7	10.7	8.5
Kazakhstan's Tenge to U. S. Dollar Exchange Rate *(the year's average)*	413.0	425.9	459.3	473.6	485.6

Note: F = Forecast.
Source: calculations by EDB analysts.

Economic activity and inflation

Kazakhstan's GDP growth is forecast at 2.5% in 2022. Compared to the previous forecast, the estimate has been lowered by 1.5 p.p. Spillover effects of restrictions on Russia will have an impact on slowing economic growth in Kazakhstan. Trade and investment are the main channels. A slowdown can be expected in the extractive and manufacturing industries, as metallurgical products account for about half of Kazakhstan's exports to Russia. According to EDB estimates, the effect of reduced economic activity in Russia could be about 0.8 p.p. of GDP growth. Kazakhstan's exports will be further constrained by the global economic slowdown, which will reduce growth by 0.5 p.p. Direct and indirect losses due to international

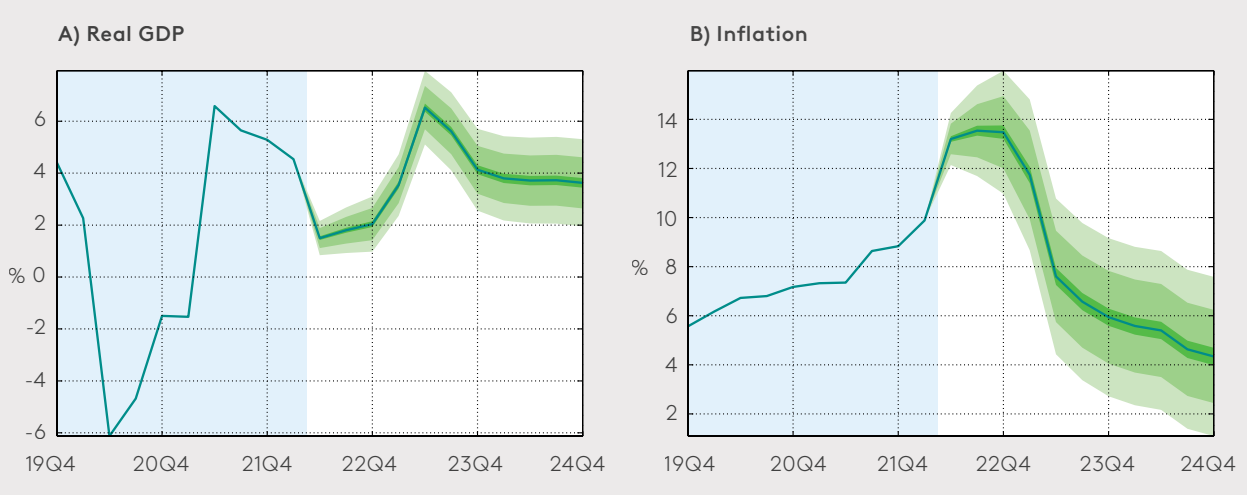
transport problems could be as much as 1.1 p.p. of GDP growth. A revision of the oil production forecast could correspond to a 0.3 p.p. loss in GDP growth. Investment activity is more likely to weaken in Kazakhstan. The Republic is the main recipient of Russian FDI in the EAEU space, according to the EDB Monitoring of Mutual Investments study. Tightening monetary policy in response to accelerating inflation will slow the pace of lending. Consumer activity is expected to decline on the back of falling real incomes. The economy could be supported by high oil prices and structural reforms. In 2021, reform priorities were sorted out through a number of national projects aimed at economic diversification, labour market transformation, private sector development, regional development, and digitalisation. Taking these downward and upward factors into account, the GDP increase at the end of 2022 will be 2.5%.

GDP growth will accelerate in 2023 as new capacity is introduced. In 2023, oil production is expected to rise by 8.1% due to the project to expand the Tengiz field. According to EDB estimates, the negative impact of geopolitical risks in the global economy will diminish by early 2023, and Kazakhstan's non-oil sector will return to sustainable growth rates. As a result, GDP growth is forecast at 4.8% (Figure 8). In the medium term, the basis for economic growth is expected to be strengthened through structural reforms aimed at economic diversification, increasing household incomes, and improving living standards.

EDB analysts estimate that inflation will reach 13.2% at the end of 2022, with a peak of 13.5% YoY occurring in the second half of 2022 (Figure 8). Changes in the national currency exchange rate, rising global commodity and food prices, rising inflation in Russia, a trading partner, and deterioration in global supply chains are all major pro-inflationary factors. What will help curb inflationary pressures is an increase in the base rate as well as regulatory measures, including a moratorium on gas price increases until 1 January 2024 and on utility rate increases until 1 July 2022. Weakening consumer demand will also limit the growth of inflation (Table 6).

A slowdown in inflation to 5.8% by the end of 2023. This will be facilitated by an easing of pressure from the foreign exchange market, moderately restrictive monetary conditions, and lower import prices due to falling commodity prices on world markets and a slowdown in inflation in Russia. As commodity and logistic chains develop, producer costs are expected to stop rising, thus helping stabilise CPI dynamics (Table 6).

↓ **Figure 8. Economic Activity and Inflation Forecast in the Republic of Kazakhstan**



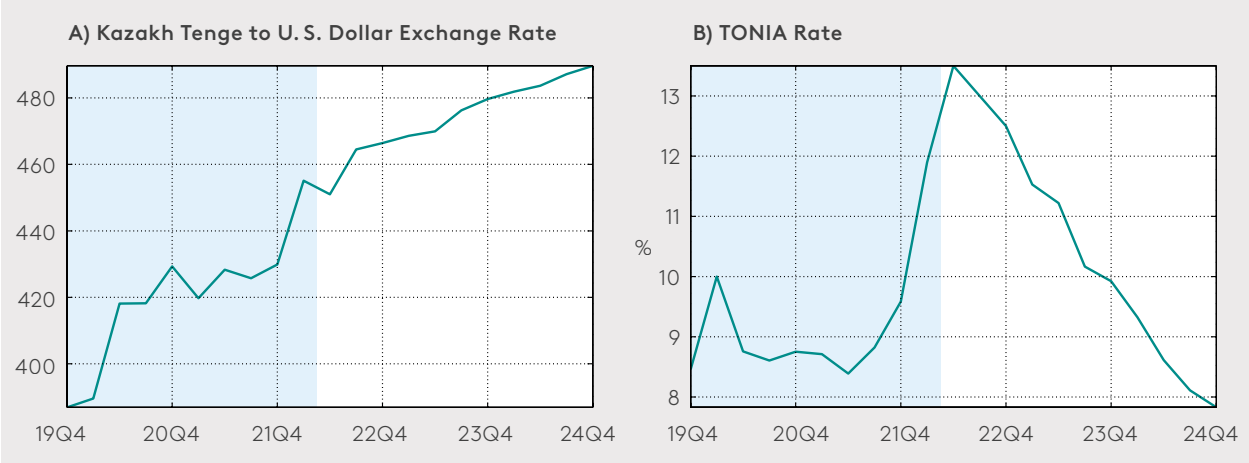
Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Monetary policy and tenge exchange rate

Monetary policy will focus on reducing pro-inflationary risks. The depreciation of the tenge and the acceleration of inflation in March 2022 have brought financial stability issues to the fore; the monetary authorities are most likely to prioritise reducing inflation. The EDB believes that the authorities will continue imposing tight monetary conditions in 2022. The base rate is projected at 12–14% in 2022. As inflation expectations are stabilised, inflation may fall to 9–10% by the end of 2023. In the medium term, we assume a further reduction in the base rate to create neutral monetary conditions.

The tenge might stabilise in the second half of 2022. As the accident at one of the Caspian Pipeline Consortium's terminals is repaired, and with favourable pricing conditions on the global oil market, we expect export revenues to increase in 3Q-4Q2022. Imports are expected to increase more slowly due to subdued consumer demand, which could lead to a higher trade surplus.

↓ Figure 9. Kazakh Tenge Exchange Rate and TONIA Rate



Source: calculations by EDB analysts.

Risks

A lower GDP growth rate. The global economy is highly likely to slow down more than expected by the EDB baseline scenario. If that occurs, demand for Kazakhstan's exports could fall and economic growth would be lower than projected in the baseline scenario. New variants of COVID-19 might also lead to a slowdown in global activity. Economies have already adapted to the pandemic; however, the case of China, with its renewed outbreak of the disease, illustrates that the epidemiological situation is not yet off the agenda, and its unpredictable course potentially threatens the global economy.

Kazakhstan's pro-inflationary risks have risen. Supply problems in the global transport network intensified in March 2022, which means that producer costs will continue to rise, putting increasing pressure on consumer prices. The situation could escalate if trading partners impose export bans to ensure economic security in their own countries. This could provide an additional incentive to accelerate inflation.

A Fed rate hike at a faster pace than the baseline scenario suggests. Elevated inflation in the USA is becoming a regular thing; the Fed is now less frequently calling it a temporary phenomenon. A forced Fed rate hike will intensify capital outflows from emerging markets, including Kazakhstan. Should that happen, the exchange rate of the tenge on the forecast horizon may depreciate more than what is projected in the baseline scenario. Inflation will consequently be higher, resulting in tighter monetary conditions and a likely slowdown in the economy. However, these factors are assumed under the scenario and do not represent underlying risks.

KYRGYZ REPUBLIC

In the baseline scenario, GDP growth in the Kyrgyz Republic is projected to slow to 1.1% in 2022 and accelerate to 1.6% in 2023, which will be caused by reduced economic activity in Russia and lower gold output. Inflation at the end of 2022 will accelerate to 15.3%, mainly due to the weakening of the som and to supply challenges. In 2023, we expect the increase in consumer prices to slow down to 4–5%.

Current situation

Continued positive growth. The GDP of the Kyrgyz Republic increased by 4.5% in 1Q2022, or by 3.8% YoY if we exclude the Kumtor gold mine. EDB analysts believe[5] that the respective indicators for 4Q2021 were 11.7% YoY and 4.8% YoY. In addition to the gold-mining sector, agriculture, construction, wholesale and retail trade, transport activities, information and communication, restaurants and hotels made positive contributions to the economic growth rate in 1Q2022. The improved performance in these sectors was largely due to a recovery in activity after the poor results of the first quarter of the previous year. Services not listed above, as well as the energy sector in low-water and warm-winter conditions, had a restraining effect.

Inflation in the Kyrgyz Republic rose to 13.2% YoY in March (from 10.8% YoY a month earlier). The increase in the prices of consumer goods occurred amid rising inflation expectations due to the weakening of the som in February–March 2022, higher global food and commodity prices, and Russia's ban on the export of some food products. The rise in domestic prices was limited by government measures to release socially important foodstuffs from state reserves[6].

The volatility of the som has increased. The value of the Kyrgyz national currency against the U.S. dollar in mid-March was KGS 105 per USD, 23.8% lower than it was on 22 February 2022, amid unfolding geopolitical risks in the region. The net volume of foreign exchange interventions by the National Bank in 1Q2022 amounted to USD 197.8 million, up 1.4% from 1Q2020. The National Bank took a number of measures to stabilise the situation: it temporarily suspended the export of cash U.S. dollars by financial and credit institutions; it established an official market exchange rate of the Russian rouble to the som; and it temporarily reduced the volume of transactions and the purchase rate of the Kazakh tenge for banks. Decreased demand for cash dollars in the country has also been achieved by a temporary measure to issue transfers through money remittance systems only in the currency of the sending country or in soms. In the second half of March, the som strengthened, rising 1.4% compared to 22 February 2022. However, the fluctuation range widened to KGS 80–92 per USD in April 2022, while from 1 January to 22 February 2022 it was between KGS 84.78 and 84.8 per USD.

Raising the policy rate to 14%. Amid high volatility on external financial markets, the National Bank raised the policy rate twice in March 2022, in particular at an extraordinary meeting where it was increased by 2 p.p., to 14%. The regulator wanted to ensure macroeconomic and financial stability in the Republic. As the som exchange rate stabilised, these threats abated. However, the pro-inflationary risks continued. The regulator therefore decided at its meeting on 25 April to keep the policy rate at 14%.

[5] The NSC KR publishes GDP in cumulative terms.

[6] Kyrgyzstan razbroniroval 1 tys. tonn sakhara i 500 tys. litrov rastitel'nogo masla, Kyrgyz Telegraph Agency, 15 March 2022.

The state budget surplus of the Kyrgyz Republic in January–February 2022 was 5.7% of GDP. A year earlier, the deficit was 1.2% of GDP. Revenues have increased by a factor of 1.7 compared to January–February 2021. Proceeds from Kumtor were the key contributor, at 6.8% of GDP. Transfers from abroad increased by 21.4% YoY, while non-tax revenues decreased by 1.4% YoY. Expenditures increased by 30.9% YoY due to higher allocations to the social sector, while allocations to the economic sector decreased by 27.3% YoY.

Public debt increased to 63.9% of GDP on 1 March 2022, from 60.3% of GDP at the end of 2021. This is explained by the securities being placed on the domestic market and regular tranches being received from the Export-Import Bank of China.

Forecast

↓ Table 7. Main Macroeconomic Indicators of the Kyrgyz Republic *(Baseline Scenario)*

Indicator	2020	2021	2022F	2023F	2024F
GDP in Constant Prices *(% growth YoY)*	–8.4	3.6	1.1	1.6	3.2
Consumer Price Index *(% growth YoY at the end of the year)*	9.7	11.2	15.3	4.6	4.0
7-Day Repo Rate *(% p.a., the year's average)*	3.6	5.6	13.3	10.9	7.7
Kyrgyz Som to U. S. Dollar Exchange Rate *(the year's average)*	77.3	84.6	85.7	92.1	97.7

Note: F = Forecast.
Source: calculations by the authors.

Economic activity and inflation

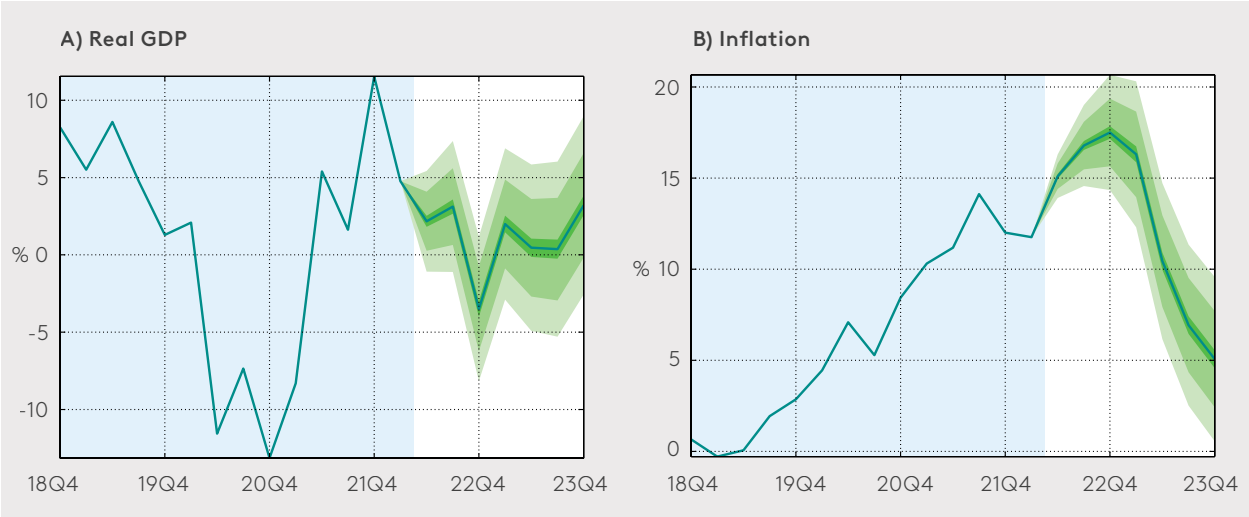
In the baseline scenario, GDP growth in the Kyrgyz Republic is projected to slow to 1.1% in 2022. The figure is down from the previous forecast. The decline in economic activity in Russia will have a negative impact on the economy of the Kyrgyz Republic, through trade channels and remittances. Consumption in the Republic will fall. EDB analysts believe that investments will be subdued. Low water will limit output in the agriculture and energy sectors. Monetary conditions will focus on containing inflationary risks. Fiscal policy has an option to drive economic growth given the proceeds from Kumtor. We believe that gold production in 2022 will be slightly lower the level of the preceding year, with this assumption here and elsewhere subject to a high degree of uncertainty.

Economic growth to recover in 2023. As the economy adapts to the new conditions, the growth rate will increase to 1.6% in 2023 (Table 7), bolstered significantly by exporters and migrant workers switching to new markets. This, in turn, will be key to the recovery of domestic consumer demand. Monetary policy will involve near-neutral measures.

Inflation will be 15.3% YoY by the end of 2022. Global markets exacerbated pro-inflationary pressures in February–March 2022. This will lead to higher inflation, which is likely to peak in 4Q2022 (Figure 10). Supply chain disruptions will continue to put upward pressure on producer prices. Given the drought in 2021, we can expect a temporary increase in fruit and vegetable prices in spring and early summer 2022. The slowdown in inflation will be facilitated by weakening domestic consumption from the second half of 2022.

Inflation to slow down in 2023. We forecast a slowdown in the CPI growth rate in the medium term, a consequence of easing exchange rate pressures and adaptation to external shocks. The situation on global food markets may have a neutral impact on domestic price trends. Oil market pressures will also weaken in the medium term.

↓ Figure 10. Economic Activity and Inflation in the Kyrgyz Republic

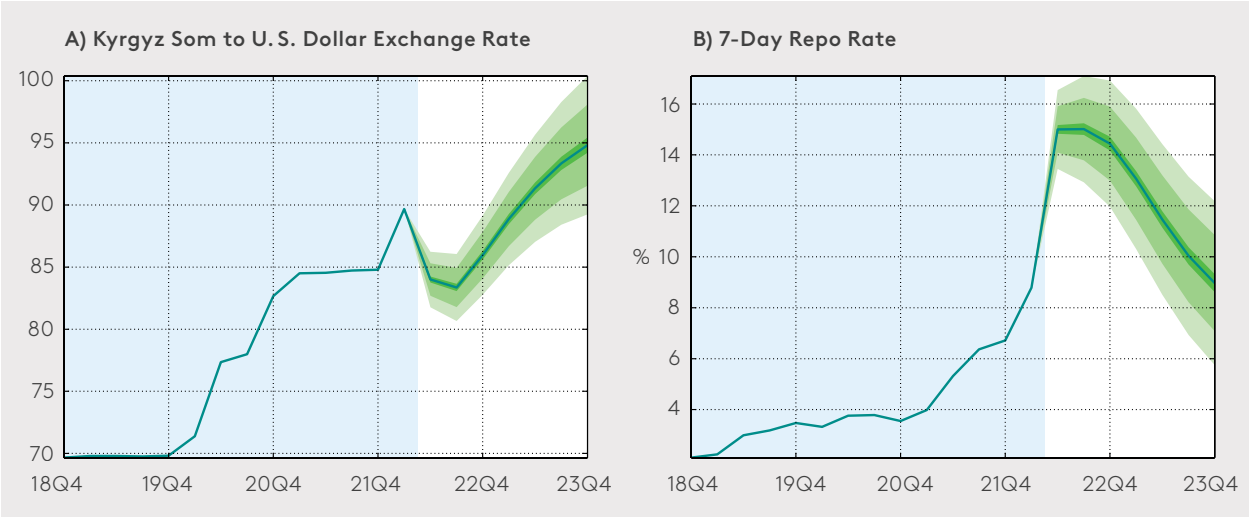


Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Lowering of the policy rate in 2023. The policy rate, according to the baseline scenario, is likely to be 8–9% in 2023. With an inflation target point of 5–7%, this nominal interest rate will be close to moderate.

The exchange rate of the som by the end of 2022 is projected to be close to KGS 85 per USD. To the extent that geopolitical risks abate, the som fluctuation range will narrow and is likely to reach KGS 84–86 per USD by the end of the year (Figure 11), encouraged by measures taken by the authorities to stabilise the domestic foreign exchange market, as well as by economic agents adapting to the new conditions.

↓ Figure 11. Kyrgyz Som Exchange Rate and Repo Rate



Source: calculations by EDB analysts.

Risks

The risks of a deeper economic downturn in 2022 are primarily associated with high uncertainty about the geopolitical situation in the region. If these risks are borne out, the decline in Kyrgyzstan's GDP could be greater than in the baseline scenario. A worsening epidemiological situation in China could affect the Republic's foreign trade operations. A long water shortage could have a further impact. If that scenario plays out, second-round effects will compound the low production in the agriculture and energy sectors. Rolling blackouts may have an adverse impact on output in other sectors as well. Gold production from the Kumtor mine is also prone to high uncertainty.

Inflation risks are higher now. Further global oil and grain price hikes could slow the return of Kyrgyzstan's inflation to the target benchmark in the medium term. Global supply delays could persist for a longer period than we anticipate, which in turn would amplify the supply–demand imbalances for consumer goods and raise inflation.

RUSSIAN FEDERATION

In the baseline scenario, we project Russia's GDP to shrink by 7% in 2022 and by 3% in 2023. A severe and prolonged economic recession will result from external restrictions and production and logistics chain disruptions. Inflation at the end of 2022 will accelerate to 16%, mainly due to the volatility of the rouble exchange rate and supply challenges. In 2023, we expect consumer price growth to slow to 7%. The risks to the economy have shifted toward worsening estimates.

Current situation

Economic activity in Russia weakened considerably in March and April, which stemmed from suspension of work at individual enterprises, difficulties in selling Russian exports, supply chain disruptions, rising prices, and tightening monetary conditions. Seasonally adjusted GDP remained almost unchanged in 1Q2022 after strong growth in 4Q2021. GDP fell in April, as indicated by a preservation of the composite manufacturing and services PMI below the threshold of 50 points — 44.4 in April after 37.7 in March and 50.8 in February. Consumer activity weakened: according to the SberIndex, growth in consumer spending was 6–9% YoY at the end of March and April. With inflation accelerating to 18%, this means a deeply negative consumption growth rate in real terms. During 2Q, a decline in production of energy resources due to difficulties in selling them will intensify the above-mentioned factors and weaken business activity.

The current account surplus in 1Q2022 expanded to a record USD 58.2 billion, an increase of USD 35.7 billion compared to 1Q2021. This development is largely attributable to higher commodity prices: Urals crude oil rose by almost 49% YoY in January–March. The price factor will continue to boost exports, even as Urals crude sells at a discount of more than $30 to Brent. Even with a gradual reduction in Russian energy consumption by the EU, the foreign trade surplus in goods could be close to USD 200–250 billion by the end of 2022, given the significant reduction in imports.

The Russian rouble strengthened significantly in April and the first half of May. The foreign trade surplus and mandatory sale of 80% of foreign exchange earnings, along with restrictions on capital flows and a deviation from the fiscal rule, created conditions for the rouble to strengthen below its equilibrium level in an open financial account. We believe that currency restrictions will be gradually eased, as excessive rouble appreciation will have a negative impact on exporters, the budget, as well as the success of import substitution. The exchange rate could therefore stabilise at RUB 70–80 per USD during the current year. This will not entail significant additional inflation risks, as consumer prices have already adjusted to exchange-rate movements.

Consumer inflation in Russia reached 17.8% YoY in April. The seasonally adjusted monthly price increase in April was 1.4–1.5%. This is still significantly higher than last year's rate (averaging about 0.7% per month), but significantly below the 21st century peak of 7.5% in March. Prices have already mostly adjusted to currency exchange-rate movements and soaring depreciation expectations. The disinflationary impact of reduced consumer demand intensified in May. However, there are still inflationary pressures on producers of goods and service providers due to new logistics chains being created. This means longer delivery times and shortages of parts and materials, a factor affecting costs.

The Bank of Russia cut its key rate to 11% in May after an emergency increase to 20% in March. The liquidity situation in the banking sector improved significantly in the second

half of March and April, and inflation is tending to slow down. Yields on five- and ten-year FLBs, given that there are only residents on the market, fell closer to 10%, where they were up to 20 February. In the current economic environment, an excessively tight monetary policy could worsen the recession, while the benefits of somewhat lower inflation are minimal. We assume a further rate cut to 10% in June.

Bank lending conditions for all categories of borrowers tightened significantly in 1Q2022 due to increased risks in the economy and actions by the Central Bank. The banks reported an interest rate hike, higher requirements for borrowers' financial positions and loan collateral, a reduction in the range of lending areas and in maximum loan terms and amounts. It is also important to note that the rate of decline in demand for new loans in 1Q was the fastest for all categories of borrowers since 4Q2010. As a result, the Bank of Russia estimates that the corporate loan portfolio declined by 0.3% in March and the retail loan portfolio showed a near-zero growth after growing at an average monthly rate of 1.4% over the previous six months. We expect lending tightness to ease as the key rate decreases, and the liquidity situation stabilises.

The federal budget in 1Q2022 posted a surplus of RUB 1.15 trillion; revenues increased by 35.3% YoY, with oil and gas proceeds accounting for 25.6 p.p. Spending in 1Q increased by 20%, the main contributors to its growth being allocations for health (4.8 p.p.), national defence and the economy (3 and 2.4 p.p., respectively), social policy (2.1 p.p.), public debt service, and general government affairs (2 and 1.8 p.p., respectively). We expect fiscal policy to stimulate economic activity for the remainder of the year. We believe that the budget deficit could be 1–2% of GDP by the end of 2022.

Forecast

↓ Table 8. Russia's Key Macroeconomic Indicators *(Baseline Scenario)*

Indicator	2020	2021	2022F	2023F	2024F
GDP in Constant Prices *(% growth YoY)*	–2.7	4.7	–7.0	–3.0	1.7
Consumer Price Index *(% growth YoY at the end of the year)*	4.9	8.4	16.0	7.0	4.5
Key Rate *(% p.a., the year's average)*	5.1	5.8	11.2	7.7	7.0
Russian Rouble to U.S. Dollar Exchange Rate *(the year's average)*	71.9	73.6	78.0	88.0	93.0
Russian Rouble to U.S. Dollar Exchange Rate *(at the end of the year)*	73.9	74.3	80.0	90.0	95.0

Source: national agencies, calculations by EDB analysts.

Economic activity and inflation

In the baseline scenario, we project the Russian GDP to decline by 7% in 2022. Increased complexity in dealing with Russian counterparties, external restrictions, and heightened uncertainty are paving the way for export losses and a reduction in investment, which could be greater than during the crisis of 2009. Higher unemployment and underemployment, lower household incomes, and reduced consumer demand could all be secondary effects of lower exports and investment. Tighter monetary conditions and a surge in inflation will further limit domestic demand. We can expect the government's anti-crisis measures to partially offset the negative effects, as they are focussed on stimulating domestic production and demand (Table 9).

↓ Table 9. Forecast Assumptions for Russia's GDP in 2022 *(Baseline Scenario)*

Assumption	GDP Losses, % *(accounting for import capacity)*
Reduced Consumer Demand due to falling real wages and tighter lending conditions	2.2
Reduction of Investment Activity *by ≈20%*	3.0
Reduction of Oil and Gas Exports *by ≈15% in physical terms*	1.8
Reduction of Non-Oil and -Gas Exports *by ≈4% of GDP*	3.0
Compensation of Losses through Government Anti-Crisis Measures	–3.0
Total	**≈7.0**

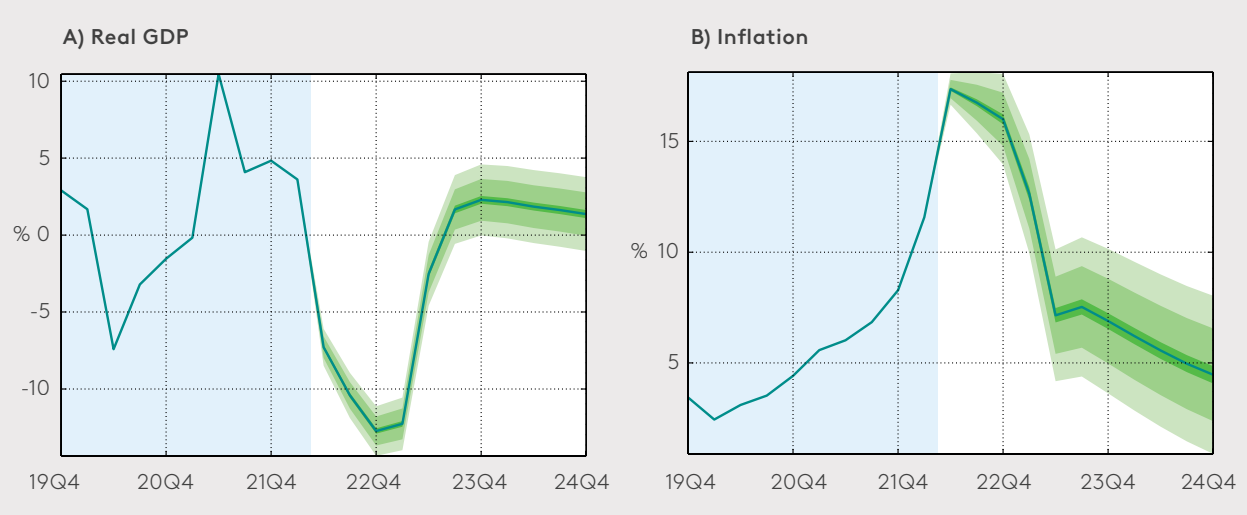
Source: calculations by EDB analysts.

The total GDP reduction for 2022–2023 could reach 10% of the 2021 level. We anticipate long-term negative consequences for the economy due to the restriction of technological imports and the supply of machinery and equipment, the isolation of the Russian economy, and the EU's accelerated withdrawal from Russian energy sources. In the long term, these factors may result in a low economic growth rate of around 1% per annum.

Inflation is projected at 16% in late 2022. The annual average is expected to be lower, at around 15%, due to the relatively low rate at the start of the year. The peak month-on-month increase in prices, seasonally adjusted, occurred in March. We expect a further slowdown in the monthly rate of inflation. This year will witness volatility of the rouble, issues with the supply of goods to Russia, rising inflation expectations, and higher global prices as the key pro-inflationary factors. Declining domestic demand will limit inflationary pressures.

The economy's adaptation to the new operating conditions will help reduce inflation to single digits in 2023. We project a consumer price increase of around 7% in 2023. Inflation remaining above the 4% target is based on expected cost pressures in new supply chains.

↓ Figure 12. Economic Activity and Inflation Forecast for Russia



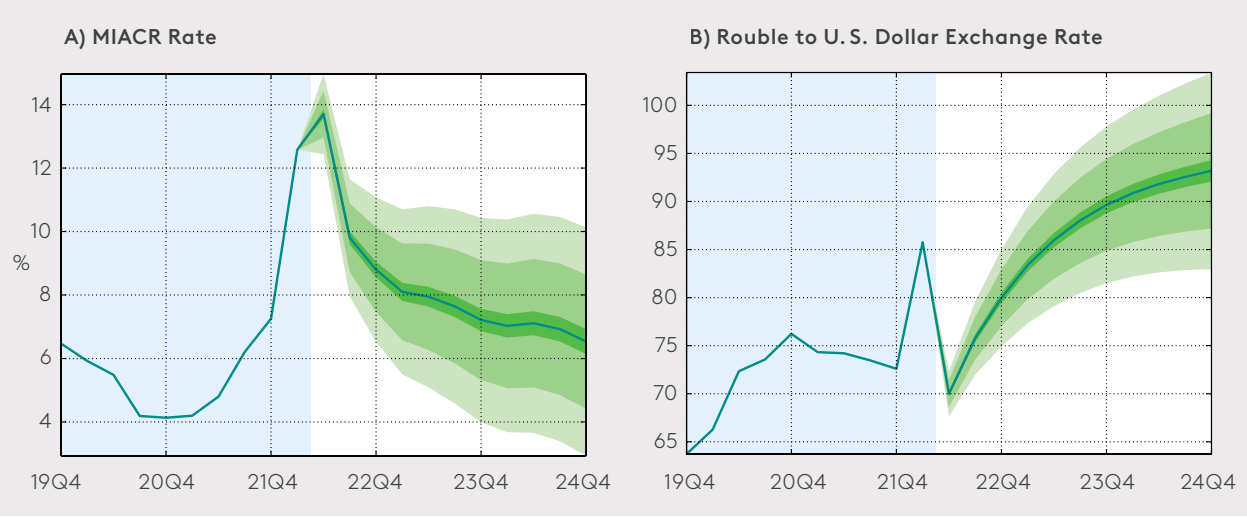
Source: calculations by EDB analysts.

Monetary policy and the Russian rouble exchange rate

The key rate could fall to about 9% by the end of the year. In this situation, support for the economy is prioritised when it comes to the choice between keeping inflation at bay vs boosting economic activity. With such a severe recession, nearly 18% inflation, and restrictions on capital flows, we believe that the benefits of monetary tightening in the form of slightly lower price growth will not cover the costs of declining demand, and demand of this nature is likely to exacerbate the risks of a non-payment crisis and financial sector destabilisation. We therefore believe that with a gradual slowdown in the monthly rate of inflation, the key rate will be systematically reduced. The tightness of bank lending conditions will ease, but they will have a dampening effect on business activity overall through 2022, amid high uncertainty and risks for banks. As inflation slows down, we expect the key rate to decline in 2023.

The average annual exchange rate of the Russian rouble vs the U.S. dollar is projected at RUB 78 per USD in 2022. By the end of the year, the rate is projected at around 80. We expect a foreign trade surplus in goods of around USD 200–250 billion in 2022; it will support the rouble. In turn, current exchange controls and regulations limit the options for buying foreign currency and, along with the deviation from the fiscal rule, restrain the weakening of the national currency. We believe that these restrictions will be gradually eased, as significant rouble appreciation will have a negative impact on exporters and the budget. Furthermore, the strengthening of the Russian rouble in 2022 could give way to increasing pressure to weaken it as early as 2023, in the context of the EU's gradual withdrawal from Russian energy resources. This will cause high exchange-rate volatility, affecting inflation and the expectations of economic agents. In addition, higher inflation in Russia will hinder the strengthening of the rouble. We therefore expect a weakening trend for the rouble in the medium term.

↓ Figure 13. Interest Rate and Russian Rouble Exchange-Rate Forecast



Source: calculations by EDB analysts.

Risks

There is still high uncertainty about how restrictions and the increasing complexity of cooperation with Russian counterparties will affect the economy in the short term. Unlike in the baseline scenario, weaker economic activity poses high risks. These include the continuing likelihood of a direct or indirect EU embargo on Russian energy supplies,

large-scale negative secondary effects on consumption and investment, a deteriorating situation with bank settlements, etc. In an unfavourable scenario, the decline in Russian GDP would be about 10–15% in 2022. If the economy adapts quickly to the new operating conditions and effective economic deregulation measures are implemented, however, the contraction this year could be limited to 5%.

There are high risks of a continued and deep recession in the medium term and continued stagnation in the long term. Falling out from the global economy and loss of human capital will intensify Russia's technological lag, putting economic growth below 1% per annum. Active measures to unleash entrepreneurial initiative could help minimise negative long-term effects. However, foreign companies might start returning to the Russian market fairly quickly; we cannot rule this out. If it happens, it could reduce Russia's long-term loss of economic growth.

REPUBLIC OF TAJIKISTAN

In the baseline scenario, Tajikistan's GDP growth is projected to slow to 4.2% in 2022, with a subsequent recovery to 6.8% in 2023. The main factors behind this year's slowdown are the decline in remittances coming into the country amid the downturn in the Russian economy. These will have a negative impact on consumption and investment and may contribute to weakening the national currency, resulting in higher import costs. Inflation is projected at 11.5% YoY at the end of the current year, influenced by the weakening of the somoni, higher prices for imported commodities, and difficulties in international logistics.

Current situation

Tajikistan's economy started 2022 with a strong growth rate[7] of 7.5% YoY in 1Q2022. Industry increased output by 17.1% YoY (mining industries by 14.7% YoY; manufacturing by 16.0% YoY; energy by 19.0% YoY); agriculture by 9.1% YoY; retail turnover by 10.7% YoY. Capital investment increased by 9.6% YoY. Strong business activity in the region in late 2021 and early 2022, as the negative effects of the COVID-19 pandemic eased, contributed to the expansion of consumer and investment demand in the country. We expect Tajikistan's economy to slow down starting in 2Q2022, due to lower remittance inflows caused by the weakening rouble and the economic contraction in Russia.

Consumer market prices slowed their rise at the beginning of the year. Inflation in the country was 7.3% YoY at the end of March 2022, down from 8.0% YoY at the end of 2021. This was helped by a slowdown in the rise in prices for fuels and lubricants, especially for liquefied gas, which is widely used in Tajikistan; this fuel has fallen in price by 5.0% since the end of 2021, thanks to increased imports from neighbouring countries. We believe the inflationary situation will change in the coming months, influenced by the weakening of the national currency, the somoni, by changes in world commodity prices, and by logistical challenges. Consumer price growth in Tajikistan could accelerate and exceed 10% YoY by mid-2022.

The National Bank of Tajikistan did not change the refinancing rate over January–March 2022, keeping it at 13.25% after four increases in 2021 (from 10.75% as at the beginning of 2021). Under the baseline scenario, we project increased inflationary pressures starting in 2Q2022. This may require the NBT to raise the rate.

The national currency dropped in value to 12.5 per dollar at the beginning of May from 11.3 at the beginning of 2022. Should the economic situation in the region deteriorate (falling consumption and production, weakening national currencies) in 2Q and beyond during 2022, the somoni could continue to depreciate.

The state budget posted a surplus of TJS 1.1 billion in January–February 2022. The figure was TJS 0.4 billion in January and February 2021; its growth was due to an increase in proceeds from TJS 3.5 billion to TJS 4.6 billion amid a rapidly expanding revenue base and slower growth in expenditures (to TJS 3.5 billion from TJS 3.2 billion). The slower growth was partially attributable to the restrained rate of funding for public investment in the fuel and energy complex: 68% of the plan for 1Q was allocated for this purpose, compared with 84% of the plan for January–February 2021. The projected slowdown in economic growth in 2022 could affect the government's revenue dynamism and lead to a budget deficit.

[7] Growth of the "Short-Term Indicator of the Development of Major Sectors of the Economy", published quarterly by the National Statistics Agency.

The foreign trade balance declined from a year ago. In January–March 2022, it showed a deficit of USD 0.7 billion, compared with a surplus of USD 0.1 billion in January–March 2021. This is due, firstly, to the fall in exports in the first three months of 2022 (down to USD 0.5 billion from USD 0.9 billion in January–March 2021). The main reason was a reduction in the export of gold. Export revenues for most other items (mineral products, textiles, base metals) increased compared to last year due to higher output and favourable price conditions on international markets. Secondly, the value of imports has risen amid rising domestic demand and international commodity prices. It was USD 1.2 billion for January–March 2022 (USD 0.8 billion for January–March 2021). Expenditures rose especially for foreign purchases of mineral products (energy in particular) and to a somewhat lesser extent for food and engineering products. We estimate that the country's foreign trade deficit will decrease along with the size of the economy compared to the first three months of the year later during 2022, when the pause in the supply of gold to foreign markets will come to an end.

Forecast

↓ Table 10. Key Macroeconomic Indicators *(Baseline Scenario)*

Indicator	2020	2021	2022F	2023F	2024F
GDP in Constant Prices *(% growth YoY)*	4.5	9.2	4.2	6.8	8.0
Consumer Price Index *(% growth YoY at the end of the year)*	9.4	8.0	11.5	5.0	5.5
Refinancing Rate *(% p.a., the year's average)*	11.5	12.2	14.0	11.8	9.4
Tajikistan Somoni to U.S. Dollar Exchange Rate *(the year's average)*	10.3	11.3	12.6	12.5	12.7

Note: F = Forecast.

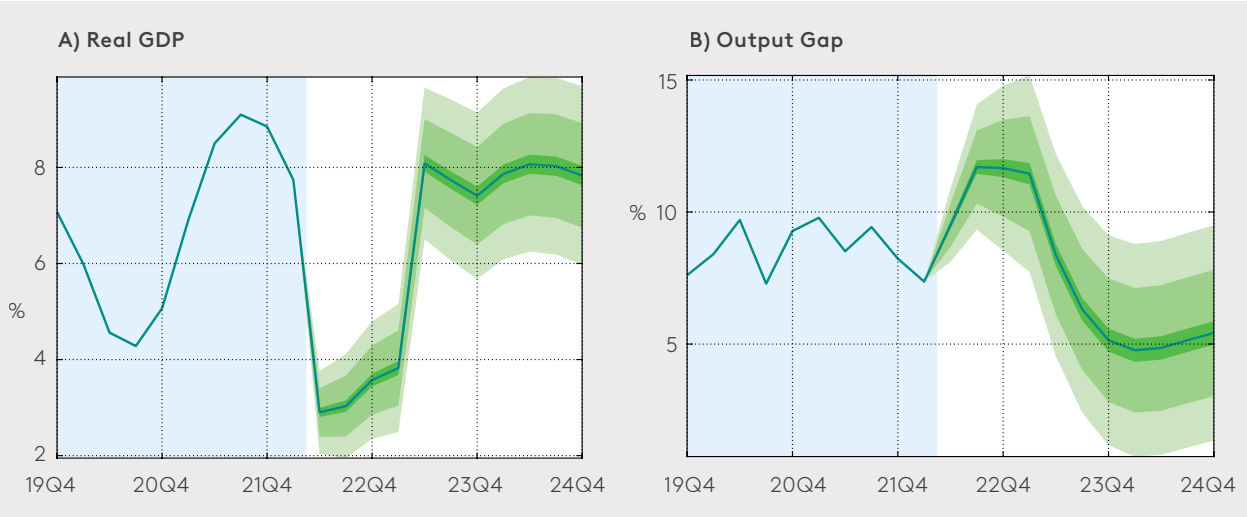
Source: National agencies, calculations by EDB analysts.

Economic activity and inflation

In the baseline scenario, Tajikistan's GDP growth is projected to slow to 4.2%, after a 9.2% increase in 2021 (Table 10). A drop in incoming remittances will be the main driver behind the decline, against the background of the contraction of the Russian economy. This factor will have a negative impact on consumption and investment and may further weaken the national currency, resulting in higher costs of imports, something Tajikistan relies heavily on. These negative effects will be partly offset by a generally positive export environment for Tajikistan; we expect high prices for metals, which are the basis of supply from the country to external markets, to continue in 2022.

In 2023 and 2024 GDP growth will recover (Figure 14) to 6.8% and 8.0%, respectively. The steady pace of economic development in Tajikistan may not be affected by the current volatility in the region. Its development is driven by long-term structural factors, such as rapid population growth and a catching-up economy that lags behind most countries in the EDB operating region in per capita GDP.

↓ Figure 14. Economic Activity Forecast for Tajikistan

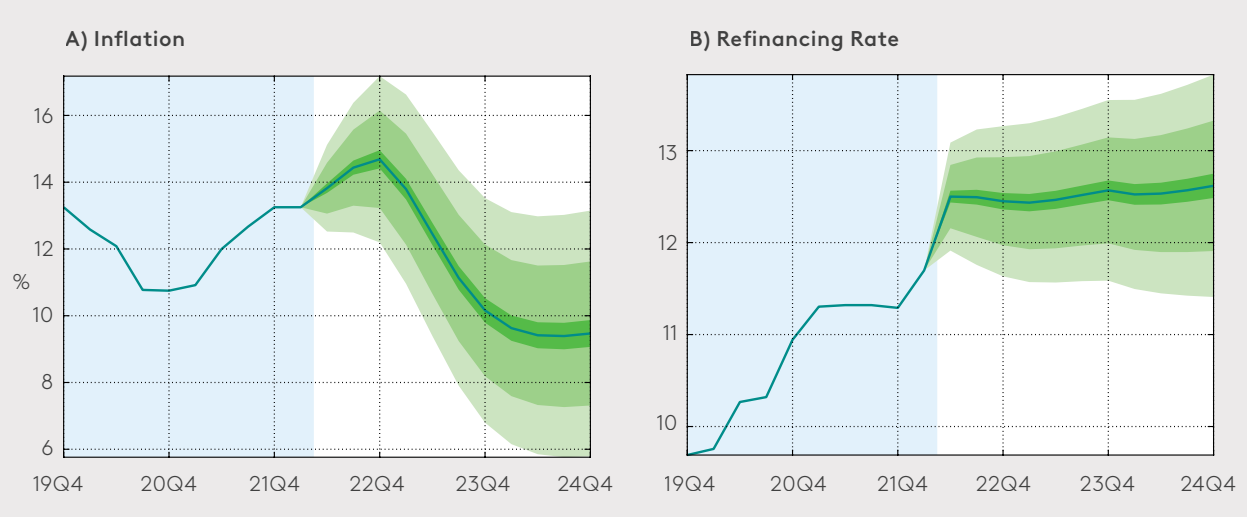


Source: calculations by EDB analysts.

Inflation will be 11.5% at the end of 2022. Consumer price rises will be accelerated by the weakening national currency, movements in world commodity prices, and logistical challenges.

In 2023 and 2024 inflation will decrease (Figure 15) to 5.0% and 5.5%, respectively. We expect it to return to the NBT target range (6±2%) in the second half of 2023, fuelled by the restraining monetary policy of the NBT and the gradual decline in global commodity prices.

↓ Figure 15. Inflation and Refinancing Rate Forecast



Source: calculations by EDB analysts.

Monetary policy and national currency exchange rate

Given the depreciation of the somoni against the dollar in 1Q2022, we expect the exchange rate to average around TJS 12.6 per USD for the year, followed by a deterioration in the balance of payments caused by a fall in remittance inflows and investment in the country. This will continue in 2023–2024, but the rate of depreciation of the somoni will slow down, largely because of the difference in inflation rates between Tajikistan and its trading partners.

The National Bank of Tajikistan may increase its refinancing rate from the current 13.25% per annum to 14.2% at the end of 2022. This would allow it more control over the weakening somoni amid the pressure on the country's balance of payments. A reduced refinancing rate can be expected in 2023 with lower inflation and a return to stability on the currency markets in the region.

Risks

Tajikistan's economy could deteriorate in 2022 more than our baseline forecast suggests, should the region's economy experience a deeper contraction, primarily through reduced remittance inflows into the country and lower export revenues for Tajikistan. Under the pessimistic scenario, we assume that the growth of Tajikistan's economy will slow to 1% in 2022.

A rapid tightening of monetary policy globally may have a destabilising effect on the macroeconomic situation in Tajikistan. In particular, an intensive interest rate hike by the U. S. Federal Reserve will have an impact on the markets for Tajikistan's exports, including gold. Implications may include a volatile currency market in the country, a more pronounced policy tightening by the National Bank of Tajikistan than in our baseline scenario forecast, and slower growth of Tajikistan's economy.

The way the COVID-19 pandemic progresses is another source of risk. It may have an impact on remittances and investment, as well as the rate at which labour migration resumes. However, this factor is less significant than it was at the time of the previous forecast: vaccination against COVID-19 in Tajikistan has progressed considerably. The percentage of population partially or fully vaccinated against coronavirus reached 53%[8] as of 10 April 2022.

[8] According to Our World in Data.

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ABBREVIATIONS

ADB	Asian Development Bank
bbl	U.S. oil barrel
CAB	current account balance
CB RA	Central Bank of the Republic of Armenia
CB RF	Central Bank of the Russian Federation (Bank of Russia)
COVID-19	COronaVIrus Disease 2019
CPI	Consumer Price Index
EAEU/the Union	Eurasian Economic Union
EDB/the Bank	Eurasian Development Bank
EEC	Eurasian Economic Commission
EFSD	Eurasian Fund for Stabilization and Development (formerly, the EurAsEC Anti-Crisis Fund)
EU	European Union
FAO	Food and Agriculture Organization
FDI	foreign direct investment
(the) Fed	U.S. Federal Reserve System
FLBs	Federal Loan Bonds
GDP	gross domestic product
IBL	Interbank Loans Market
IT	information technologies
KGS	Kyrgyz som
KR	Kyrgyz Republic
KZT	Kazakh tenge
MIACR	Moscow Interbank Actual Credit Rate
NB KR	National Bank of the Kyrgyz Republic
NB RK	National Bank of the Republic of Kazakhstan
NBT	National Bank of Tajikistan
NSC KR	National Statistical Committee of the Kyrgyz Republic
PMI	Purchasing Managers' Index
p.a.	per annum
p.p.	percentage point
Q	quarter
RA	Republic of Armenia
RB	Republic of Belarus
Repo	a transaction which involves the purchase of securities with the agreement to sell them back for a specific price
RES	renewable energy source
RF	Russian Federation
RK	Republic of Kazakhstan
RT	Republic of Tajikistan
TONIA	Tenge OverNight Index Average
U.S./USA	United States of America
USD	United States' dollar
vs	versus
% YoY	Year-on-Year growth rate
% MoM	Month-on-Month growth rate

GLOSSARY

Budget (fiscal) impulse

Characterises the impact of fiscal policy on economic activity. If the budget impulse is positive, then the contribution of fiscal policy to GDP is positive.

Budget (fiscal) reserves

Available state budget funds that can be used to finance expenditures.

Equilibrium exchange rate

The real exchange rate that does not have either an inflationary or a disinflationary effect.

FX penetration of bank deposits (loans)

Share of deposits (loans) denominated in foreign currencies in the total deposit (loan) portfolios of commercial banks.

Neutral rate

The interest rate that corresponds to inflation and inflationary expectations being at stable, target levels, and with GDP and the real exchange rate being at equilibrium levels.

Output gap

Deviation of real GDP from its potential level. As a rule, a positive output gap points to the existence of excess demand in the economy, and is an indicator of inflationary pressure. The reverse is true for a negative output gap.

Potential (equilibrium) GDP

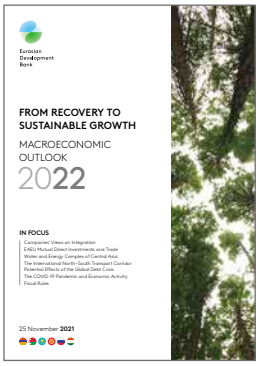
The real GDP that would be produced by the economy in a certain period of time if production factors were used in the most efficient fashion. Potential GDP can also be defined as real GDP that can be sustainably produced by the economy without creating any economic imbalances.

Purchasing Managers' Index (PMI)

An indicator that characterises a change in business activity and operating conditions of private enterprises in the processing industry and the services sector. It is calculated on the basis of data collected during monthly surveys with the participation of purchasing managers. If the PMI is above 50 points, business activity is expanding; if it is below 50 points, business activity is contracting.

Macroeconomic Review
(RU)

A regular EDB publication, which provides an overview of the current macroeconomic conditions in the EDB member states and estimates their development in the short-term perspective.



Macroeconomic Outlook
(RU/EN)

From Recovery to Sustainable Growth

The EDB projects a 2.9% increase in the member countries' aggregate GDP in 2022.

Report 21/1
(RU)

Promoting the Role of the EAEU Currencies in Global Transactions

EAEU currencies service around 2% of global trade. As for the EAEU countries, payments in their currencies have notably increased over the past seven years — their share in trade flows jumped from 63% in 2013 to 74% in 2019.

Report 21/2
(RU/EN)

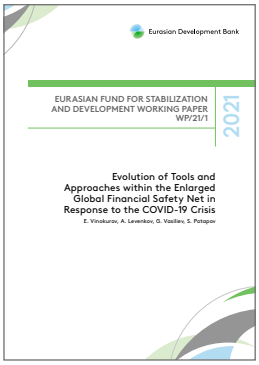
Uzbekistan and the EAEU: Prospects and Potential Impact of Economic Integration

The report estimates the potential effects of Uzbekistan's integration with the EAEU and outlines promising areas for cooperation between the current Union member states and Uzbekistan.

Report 21/3
(RU/EN)

Investment in the Water and Energy Complex of Central Asia

The report analyses Central Asia's water and energy complex after 30 years of independence of the five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) and assesses their cooperation in the water and energy complex.



Working Paper WP/21/1
(RU/EN)

Evolution of Tools and Approaches within the Enlarged Global Financial Safety Net in Response to the COVID-19 Crisis

This working paper provides the analysis how the GFSN responded to pandemic on global level and on regional level (in the EFSD countries).

Working Paper WP/21/2
(RU/EN)

Total Debt is So Much More Than Just Sovereign Debt. Contingent Liabilities in Armenia, Belarus, Kyrgyz Republic, and Tajikistan

This study aims to contribute to understanding the potential risks and impacts of both explicit and implicit contingent liability shocks on government fiscal and debt positions in the EFSD recipient countries.

Report 21/4
(RU/EN)

EDB Monitoring of Mutual Investments

Mutual investments in Eurasia, calculated using a new methodology, reach US $46 billion. FDI has been growing steadily since 2016.

Report 21/5
(RU/EN)

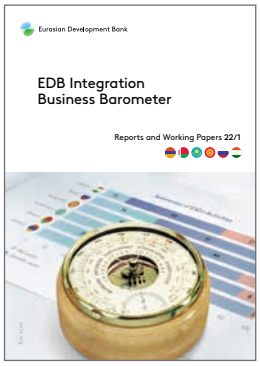
The International North–South Transport Corridor: Promoting Eurasia's Intra- and Transcontinental Connectivity

Linking up the INSTC with Eurasian latitudinal corridors could ensure around 40% of container traffic.

Joint report by the Eurasian Development Bank and the Global Energy Association
(RU/EN)

Green Technologies for Eurasia's Sustainable Future

The report is prepared by the key international industry experts and young scholars. It contains the results of technical research aimed at solving today's energy challenges and helping to reduce the carbon footprint in Eurasia.



Report 22/1
(RU/EN)

About 73% of companies feel positive about the EAEU and say it makes doing business easier.

Eurasian Development Bank

CENTRE FOR MACROECONOMIC ANALYSIS
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