Eurasian Development Bank

MACROECONOMIC OUTLOOK 2023

November 2022

MACROECONOMIC OUTLOOK 2023

2022

The economic downturn in Russia and Belarus is not as deep as expected

–3.0%
Russia's GDP decline in 2022

–4.6%
Belarus's GDP decline in 2022

Growth of the economies of Kazakhstan and the Bank's other member states

2.8%
Kazakhstan's GDP growth in 2022

8.8%
aggregate GDP growth of Armenia, Kyrgyzstan, and Tajikistan in 2022

Higher inflation in the region: impact of the external sector, supply chain disruptions, currency volatility

13.1%
aggregate inflation in the region at the end of 2022

End of Russia's key rate-cutting cycle and Kazakhstan's inflation-control policies

7.5%
key rate in Russia at the end of 2022

≈16%
base rate in Kazakhstan at the end of 2022

2023

Slowdown of the economic recession in Russia and recovery of growth in Belarus

–2.0%
Russia's GDP decline in 2023

0.3%
Belarus's GDP growth in 2023

Strong economic growth (GDP growth in 2023)

Kazakhstan 4.2%
Armenia 4.2%
Kyrgyzstan 3.5%
Tajikistan 6.5%

Inflation slowing to single digits as supply chains gradually stabilize

6.2%
aggregate inflation in the region at the end of 2023

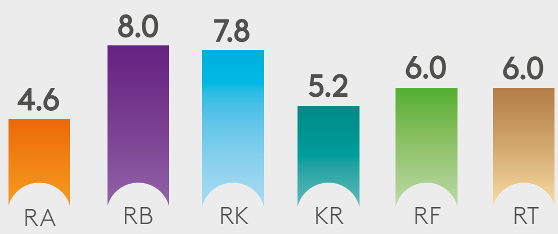
Interest rates in line with inflation

7.5–8%
key rate in Russia at the end of 2023

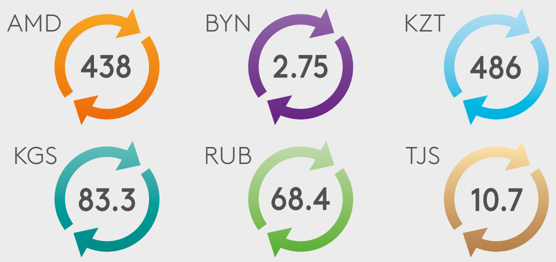
≈14%
base rate in Kazakhstan at the end of 2023

2023

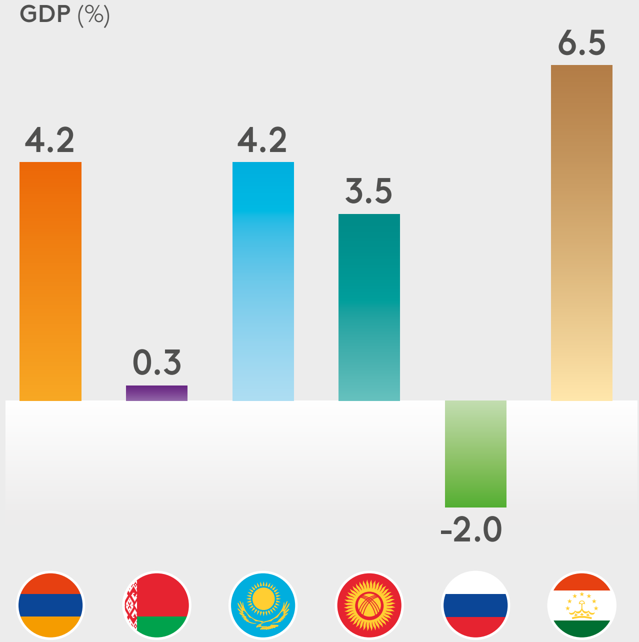
Inflation (at the end of the year, %)



Exchange rate to U.S. dollar (the year's average)



GDP (%)



Source: calculations by EDB analysts.

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Authors

Evgeny Vinokurov, EDB Chief Economist, vinokurov_ey@eabr.org

Aleksey Kuznetsov, Head, Centre for Macroeconomic Analysis, Research Department, kuznetsov_as@eabr.org

Aigul Berdigulova, Senior Analyst, Centre for Macroeconomic Analysis, Research Department, berdigulova_ar@eabr.org

Konstantin Fedorov, Senior Analyst, Centre for Macroeconomic Analysis, Research Department, fedorov_ks@eabr.org

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

Global economic activity is weakening, largely affected by the reduced stimulus impact of financial conditions and inflation reaching multi-year highs. The central banks of developed countries have acted vigorously to fight inflation, mainly by raising interest rates and winding down asset purchase programmes. This may well cause a global recession in 2023. Under the baseline scenario, we project the recession to be mild and the developed economies to begin their recovery in the second half of 2023. We project U.S. GDP to decrease by 0.3% in 2023, followed by a 2.7% increase in 2024; we also project Eurozone GDP to fall more deeply, by 0.6% in 2023, and then to rise by 2.1% in 2024. China's economy is expected to grow annually below 4% in 2023–2024, amid a zero-tolerance COVID-19 policy, weakening global business activity, and structural limitations to extensive growth.

GDP and inflation growth rates are increasingly diverge in the countries of the EDB region in 2022, and this has become quite pronounced. The region may experience a 2.3% economic slowdown by the end of the year, owing primarily to expected GDP declines of 3% in Russia and 4.6% in Belarus as sanctions bite. The economies of Central Asia and Armenia will show growth in 2022, thanks to increased domestic demand and high prices for exported goods. In the baseline scenario, we expect 2022 GDP to expand by 12.5% in Armenia, by 2.8% in Kazakhstan, by 3.1% in Kyrgyzstan, and by 7.5% in Tajikistan.

The GDP trends in the EDB operating region will improve in 2023. As the Russian and Belarusian economies adapt to the changing operating conditions, the scale of the recession in Russia will decline to 2.0%, while Belarus will see recovery growth of 0.3%. Kazakhstan's GDP growth is projected to accelerate to 4.2%, thanks to government measures to support the economy. Next year should also see high growth rates of 4.2% in Armenia, 3.5% in Kyrgyzstan, and 6.5% in Tajikistan.

Inflation in the Bank's operating region could slow from 13.1% in 2022 to 6.2% in 2023. The external sector developments and the process of production and supply chains' restructuring in Russia and Belarus will weaken their pro-inflationary effect. In 2023, consumer prices are projected to rise by 4.6% in Armenia, by 8% in Belarus, by 7.8% in Kazakhstan, by 5.2% in Kyrgyzstan, by 6% in Russia, and by 6% in Tajikistan.

The biggest risk under the baseline scenario is a deeper and more prolonged recession in the world's major economies, with such a scenario involving sustained, extremely high inflation and consequent aggressive measures taken by the central banks of developed countries. The materialising of an unfavourable scenario would lead to a decline in demand for exports from the region. Economic sentiment would worsen, and countries might experience issues with production and supply chains, with the region's GDP falling by 3.3% in 2023. Reduced exports would put pressure on national currencies in the region, which, given the increased uncertainties, would elevate price pressures: inflation in the region is forecast at 8.3% at the end of 2023 in the unfavourable scenario.

FROM THE CHIEF ECONOMIST

In our May Macroeconomic Outlook, we presented a baseline scenario that assumed a significant weakening of business activity in the world's largest economies and further accelerating inflation. At the time, our forecasts appeared to be more dramatic than the consensus. However, the development of the world economy over the last six months has proven they were overall correct.

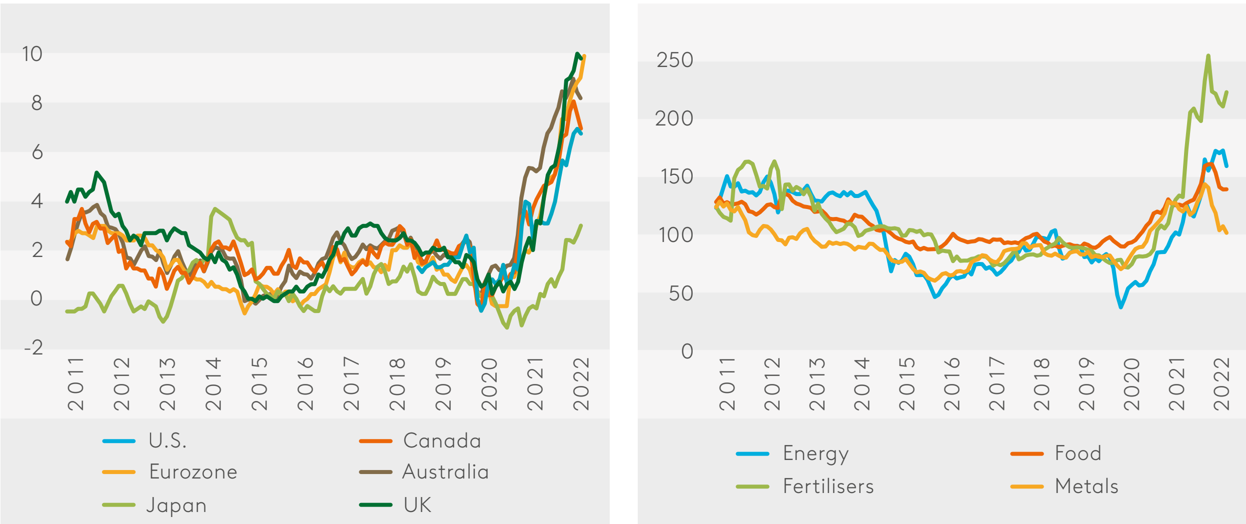
We identify three interrelated trends in the global economy that strongly influence economic development in the EDB operating region.

The first trend is increasingly rapid inflation. This year, the rate of increase in both consumer prices (Figure 1.A) and producer prices has reached the highest in decades. For the first time since the single European currency was introduced, inflation in the Eurozone reached double digits in October 2022 at 10.6% YoY. Annual inflation rates in other major advanced economies (excluding Japan) have also approached 10%. Energy and fertiliser prices have approached levels we last observed in 2008 (Figure 1.B).

↓ **Figure 1. Global Inflation**

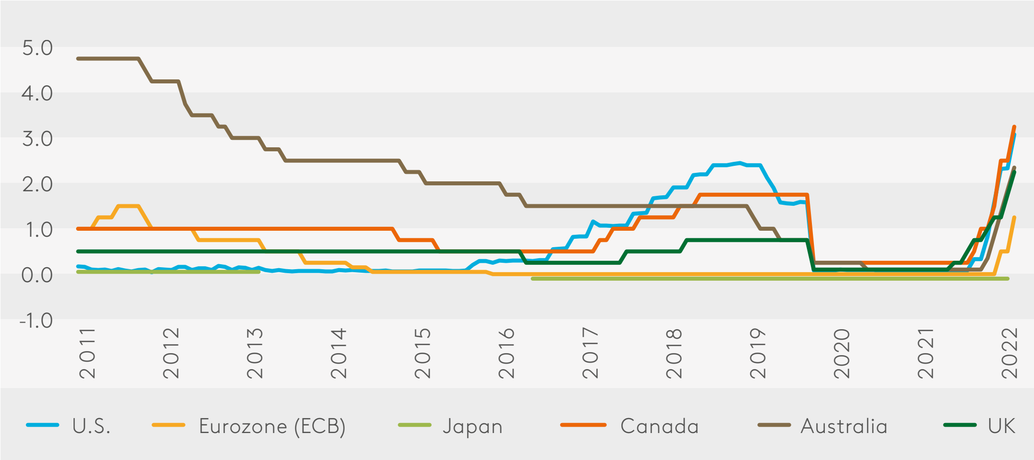
A) Inflation in Developed Countries, % YoY

B) Commodity Prices



Source: National agencies, Eurostat, World Bank, calculations by EDB analysts.

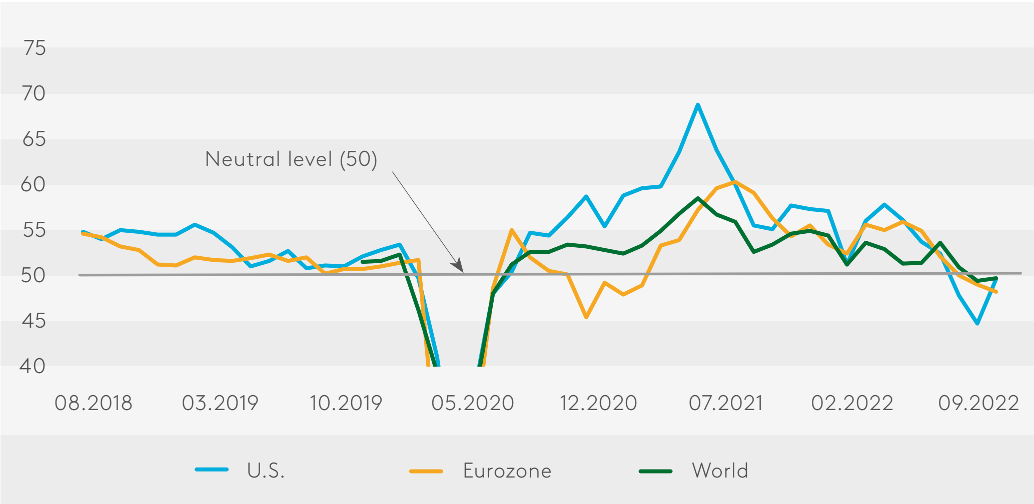
The second trend is the rapid increase in interest rates by central banks in both developed and developing countries (Figure 2). A rise in inflation has compelled monetary regulators to boost rates, as inflation levels were clearly incompatible with the policy targets set by the central banks. Moreover, the rate of increase is the fastest since rates first began to be used as operational targets for monetary policy (since the late 1980s and early 1990s). By November 2022, central bank interest rates in most developed countries were above their 2010–2021 levels.



← **Figure 2. Central Bank Interest Rates**

Source: Central banks, calculations by EDB analysts.

The third trend is weakening global business activity. The negative effect of monetary tightening on economic growth in developed countries manifested itself as early as 3Q this year (Figure 3). Central banks are deliberately sacrificing economic growth to prevent uncontrolled price increases in the future. As a result, developed economies are approaching recession. We do not expect the weakening business activity in the coming months to stop interest rates from rising.



← **Figure 3. Economic Activity (Composite PMI)**

Source: Refinitiv, calculations by EDB analysts.

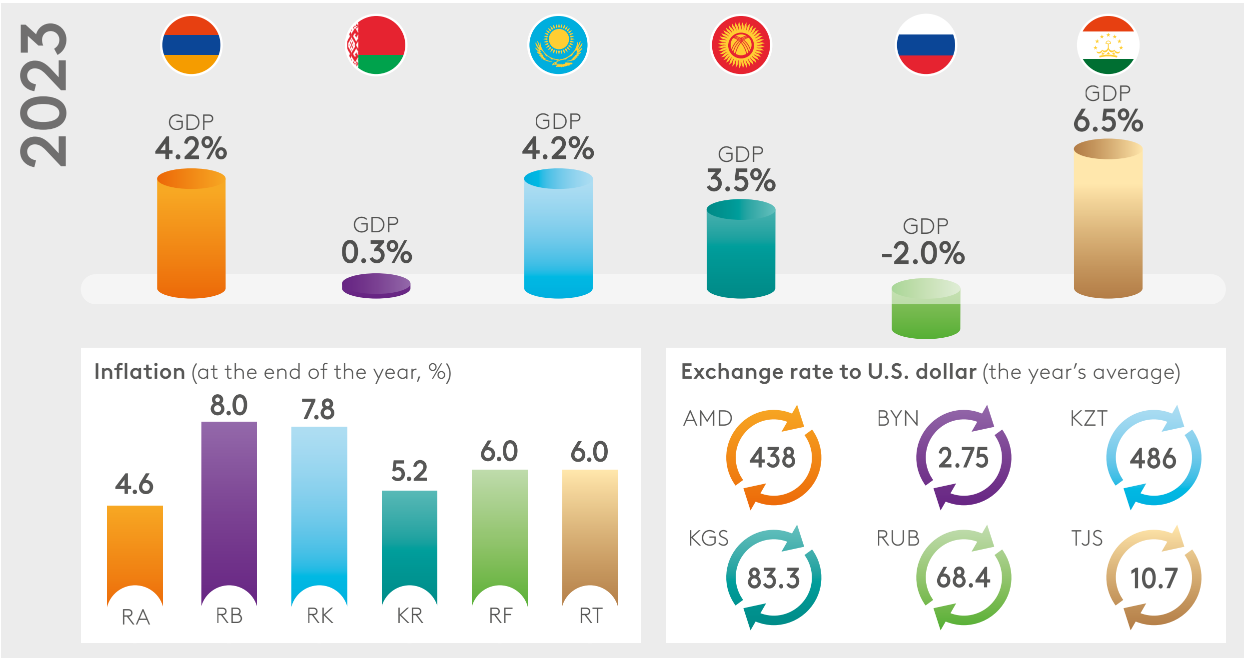
Undoubtedly, tightening financial conditions will reduce the GDP of developed countries in 2023. The downturn could be moderate: in our baseline scenario, we expect GDP to fall by 0.3% in the U.S. and 0.6% in the Eurozone, while global GDP growth will slow from 2.4% in 2022 to 1.5% in 2023. China's economy is projected to grow annually below 4%, amid a zero-tolerance COVID-19 policy, weakening global business activity, and structural limitations to extensive growth.

The weakening of economic activity may well curb inflation next year. Prices for most commodities are consolidating below the 2022 average but are higher than those observed in the second half of the 2010s. The baseline scenario assumes average consumer price increases of 4.7% in the U.S. and 5.7% in the Eurozone in 2023, with inflation declining to 2–3% in 2024. Despite the slowdown, inflation in developed countries will remain above target over the medium term due to continued elevated inflation expectations and high energy and food prices.

We assume that weakening inflation will push developed countries' central banks to end their monetary tightening cycle as early as the first half of 2023. This is where we diverge from the consensus. The market expects a U.S. rate hike to 4.9% in early 2023 and a transition to a gradual reduction only at the end of 2023. We forecast a Fed rate hike to around 4% and expect a rate cut as early as 2Q2023. We also assume that the U.S. will keep the interest rate at 3% over the medium term, and that the Fed will tolerate inflation above the current target of 2%. Furthermore, we believe that the Eurozone will gradually decrease its interest rate in 2024 as inflationary pressures subside. As a result, developed countries could shift to recovery growth as early as the second half of 2023. Under our baseline scenario, GDP would grow by 2.7% in the U.S. in 2024 and by 2.1% in the Eurozone.

The major risks the global economy faces in the medium term are that, by mistake or out of necessity, central banks introduce key rate hikes that are so sharp that they cause the recession in developed countries to deepen and last longer than anticipated, accompanied by a significant fall in commodity prices and crises in the least resilient economies.

↓ **Figure 4. Outlook for Key Macroeconomic Indicators of the EDB Member States**



Source: calculations by EDB analysts.

The baseline scenario assumes an improvement in the GDP performance of the Bank's operating region in 2023. The decline in global business activity and an expected correction in commodity prices will largely curb the region's economy. Thanks to gradual adaptation to the sanctions, the economic downturn in Russia will slow to 2%, while Belarus is expected to see recovery growth of 0.3%. Business activity in Russia and Belarus will continue to experience issues in 2023 due to increased uncertainties and risks, difficulties in the supply of investment and intermediate goods, limited access to advanced technologies, shrinking human capital, and infrastructure constraints.

Economic growth in Kazakhstan will accelerate to 4.2% in 2023. Government measures to support the economy, as well as the expansion of production capacity, will offset the negative impact of the external environment. Next year should also see high growth rates of 4.2% in Armenia, 3.5% in Kyrgyzstan, and 6.5% in Tajikistan thanks to government support measures and increased demand from non-residents.

Aggregated inflation for the Bank's operating region will slow to 6.2% in 2023 but will remain above the central and national bank targets. The external sector developments and the process of restructuring of the production and supply chains in Russia and Belarus will continue to drive inflation. The impact of these factors will, however, gradually diminish, and inflation will slow down. In 2023, we project consumer prices to rise by 4.6% in Armenia, by 8% in Belarus, by 7.8% in Kazakhstan, by 5.2% in Kyrgyzstan, by 6% in Russia, and by 6% in Tajikistan.

Diverge inflation after the spike in March 2022 has driven interest rate movements in opposite directions among the member states of the Bank. The Russian Central Bank has consistently eased its monetary policy, with the key rate dropping to 7.5% in September. The central and national banks of Armenia, Kazakhstan, and Tajikistan are raising interest rates to curb inflation, while the national bank of the Kyrgyz Republic is keeping rates unchanged. We expect that one of the consequences of the structural changes in the region's economies in 2022 could be a persistent divergence in the real cost of lending between Russia and the other member states of the Bank, which would propel increased financing of economic projects in the region with Russian capital.

Above we have presented our baseline scenario for economic development in the Bank's operating region. The situation might, however, develop under a more unfavourable scenario amid high uncertainty. The biggest risk is a deeper and more prolonged recession in the world's major economies. Under an unfavourable scenario for external conditions, demand for the exports of the region's countries will weaken, including commodities. Business sentiment will worsen; countries might put the restructuring of production and supply chains on hold. As a result, the region's GDP could decline by 3.3% in 2023, which is 2 p.p. worse that the baseline forecast. Reduced exports will put pressure on national currencies, which, given the higher uncertainties, will increase price pressures: inflation in the region is forecast at 8.3% at the end of 2023 in the unfavourable scenario. This might lead to increased key interest rates, including in Russia – to 10% during 2023.

EDB MEMBER STATES

↓ **Table 1. EDB Forecasts. 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	12.5	4.2	4.3
Inflation *(at the end of the period)*	3.7	7.7	9.6	4.6	3.3
IBL Rate *(the year's average), %*	4.9	6.4	9.2	7.6	6.6
Armenian dram to U.S. dollar exchange rate *(the year's average)*	489	504	435	438	465
Republic of Belarus					
GDP in constant prices	–0.7	2.3	–4.6	0.3	0.5
Inflation *(at the end of the period)*	7.4	10.0	15.0	8.0	6.8
Refinancing rate *(the year's average), %*	8.2	8.6	11.5	11.2	9.6
Belarusian rouble to U.S. dollar exchange rate *(the year's average)*	2.43	2.54	2.64	2.75	2.98
Republic of Kazakhstan					
GDP in constant prices	–2.5	4.3	2.8	4.2	4.4
Inflation *(at the end of the period)*	7.5	8.4	19.0	7.8	4.9
TONIA rate *(the year's average), %*	9.0	8.9	13.8	15.2	10.8
Kazakhstan tenge to U.S. dollar exchange rate *(the year's average)*	413	425.9	462.4	485.6	496.2
Kyrgyz Republic					
GDP in constant prices	–8.4	3.6	3.1	3.5	4.2
Inflation *(at the end of the period)*	9.7	11.2	14.0	5.2	4.8
7-day Repo rate *(the year's average), %*	3.6	5.6	12.2	9.8	8.0
Kyrgyzstan som to U.S. dollar exchange rate *(the year's average)*	77.4	84.6	83.7	83.3	85.2
Russian Federation					
GDP in constant prices	–2.7	4.7	–3.0	–2.0	1.5
Inflation *(at the end of the period)*	4.9	8.4	12.6	6.0	4.5
Key rate *(the year's average), %*	5.1	5.8	10.6	7.9	6.9
Russian rouble to U.S. dollar exchange rate *(the year's average)*	71.9	73.6	68.4	68.4	75.3
Republic of Tajikistan					
GDP in constant prices	4.5	9.2	7.5	6.5	5.8
Inflation *(at the end of the period)*	9.4	8.0	6.9	6.0	6.1
Refinancing rate *(the year's average), %*	11.5	12.2	13.3	12.0	10.5
Tajikistan somoni to U.S. dollar exchange rate *(the year's average)*	10.3	11.3	11.0	10.7	11.4

Note: Here and in other tables F – Forecasts.
Source: national agencies of the EDB member countries, calculations by EDB analysts.

EXTERNAL ECONOMIC CONDITIONS

The global economy is expected to maintain a pro-inflationary and business-constraining effect on the economy of the EDB operating region in 2023. The central banks of developed countries have acted vigorously to fight inflation, mainly by raising interest rates and winding down asset purchase programmes. This may well cause a global recession in 2023. Under the baseline scenario, we project the recession to be mild and the developed economies to begin their recovery in the second half of 2023. That said, the risks of the recession being drawn out are substantial, with such a scenario leading to sustained, extremely high inflation and consequent aggressive measures taken by the central banks of developed countries.

Current situation

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

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

	Brent oil price *($/bbl annual average)*	World 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
2022	100	2.4	8.2	8.1	4.00
2023	83	1.5	4.7	5.7	3.00
2024	77	2.9	2.7	2.2	3.00

Source: IMF, World Bank, Fed, calculations by EDB analysts.

Global inflationary pressures will persist in the medium term but will gradually ease as economic growth slows down. Inflation in the U.S. and the Eurozone is expected to decline gradually in 2023 once business activity is impacted by tightening monetary conditions. The baseline scenario predicts an average consumer price increase of 4.7% in the USA and 5.7% in the Eurozone in 2023, followed by a decrease in inflation to 2–3% in 2024. Despite the slowdown, inflation in developed countries will remain above target over the medium term due to continued elevated inflation expectations and high energy and food prices.

2023 will see a tightening of monetary conditions in developed countries. With higher inflation, the baseline scenario projects a Fed rate hike to around 4% by early 2023 and an ECB overnight deposit rate increase to 2.5% by mid-2023. Business activity will receive less monetary support, with monetary policy curbing economic activity. We expect a switch to rate-cutting and a gradual normalization of monetary policy in the USA as early as 2Q2023, bolstered by the increasing disinflationary effects of a decline in economic activity. We assume that the U.S. will keep the interest rate at 3% over the medium term, and that the Fed will not try to counter an inflation range of 2–3%. We believe the Eurozone will gradually decrease its interest rate in 2024 as inflationary pressures subside.

Rising interest rates in developed countries are likely to trigger a recession in the short term. In the baseline scenario, we expect the recession to be mild, lasting two to three quarters, and for developed countries to move into recovery growth as early as the second half of 2023. We project U.S. GDP to decrease by 0.3% in 2023, followed by a 2.7% increase in 2024; we also project Eurozone GDP to fall more deeply, by 0.6% in 2023, and then to rise by 2.1% in 2024, in the aftermath of switching from Russian energy supply resources to new sources. China's economy is expected to grow annually below 4% in 2023–2024, amid a zero-tolerance COVID-19 policy, weakening global business activity and structural limitations.

Commodity prices will fall in 2023 due to weaker global economic activity but will remain fairly high. Supply-side issues will support energy and food prices. The baseline forecasts are for the Brent oil price to average USD 83/bbl in 2023 and USD 77/bbl in 2024.

Risks

Deeper and longer global recession scenario. In the risk scenario, we expect U.S. GDP to fall by 1.1% in 2023 and Eurozone GDP to fall by 1.6%, fuelled by inflation figures higher than we assumed in the baseline scenario for developed countries. In the risk scenario, we forecast annual inflation to average 6.3% in the USA and 7.3% in the Eurozone in 2023, which may result in a tighter monetary policy and a key interest rate hike to 5% in the USA and 3.5% in the Eurozone in the first half of 2023. Such hikes will curb economic growth. Reduced business activity will gradually exert a disinflationary impact, allowing monetary regulators to cut rates in the second half of 2023 and pushing economies to recovery in 2024. Commodity prices could depreciate greatly in the medium term under the risk scenario, with oil and copper falling to USD 60/bbl and USD 5–6/mt, respectively. Supply issues will be the driver behind consistently high food prices.

REPUBLIC OF ARMENIA

The baseline scenario projects Armenian GDP growth to reach balanced rates of 4.2% in 2023 and 4.3% in 2024. Inflation could slow to 4.6% in 2023, no longer affected by external price pressures and unadjusted demand. In 2023, we expect neutral monetary conditions and marginally stimulative fiscal policy.

Current situation

Armenia's economic activity grew by 14.1% YoY in January–September, mostly driven by the services sector (up 27.1% YoY) and industry (up 10.0% YoY). Trade and construction also saw strong growth, with agricultural output showing positive trends in 3Q. Strong demand in the country boosted the industry and services sectors following the peak of the tourist season and expanded demand from non-residents. Construction surged due to steady growth in mortgage lending and stronger investment demand.

The services sector was the key driver behind all economic trends during the first nine months of the year, supported by expansion in banking, software development, transport, and HoReCa. This is due to strong external demand on the back of increased non-residents, inflows of foreign capital and labour, as well as support for domestic demand by remittances, together with the strengthening of the rouble. These are expected to affect demand until the end of this year, with GDP growth estimated at 11.9% in late 2022. This is a significant deviation from the previous forecasts, since the RF's economy is experiencing a smaller recession and the RA is seeing a significant inflow of non-residents and capital. In January–September the number of visitors from Russia increased by a factor of 2.4 to reach 570.000, accounting for 40% of all tourists.

Industry and construction have had a positive impact on economic activity. Industrial production increased by 10.0% YoY, fuelled by growth in the manufacturing industries (up 19.9% YoY in January–September). This includes the production of construction materials, foodstuffs, and basic metals. Construction work increased by 14.3% YoY in January–September thanks to funding from organisations. The construction industry saw a major increase in the real estate-related sector, driven by high growth rates in mortgage lending.

The foreign trade deficit increased in January–September YoY. The negative balance of traded goods expanded to USD 2.3 billion in the first nine months of this year (USD 1.4 billion in January–September 2021). Both exports and imports grew strongly throughout the year (63.8% YoY and 61.6% YoY in January–September, respectively). Foreign trade continued to improve in September, with the value of shipments from Armenia multiplying by 2.5 times YoY (up from doubling a month earlier). Imports rose in all goods groups; equipment, mineral products, and vehicles made the largest contribution. Precious stones and metals, machinery and equipment, and foodstuffs played a major role in goods exports. The country also saw a multiple increase in trade with the EAEU countries. Armenian exports to Russia grew thanks to the restriction of exports from other countries to the Russian Federation, which weakened competition on this market.

Armenia's inflation was 9.5% YoY in October. The acceleration in consumer price growth peaked in June (10.3% YoY), largely due to higher food prices, before gradually weakening in July and August amid lower vegetable prices. External price pressures eased somewhat towards the end of 3Q as well. The cost of services built up throughout 2Q, 3Q, and early 4Q, experiencing a 7.3% YoY increase in October because of expanding consumer demand. In 3Q, the strengthening of the dram against the currency basket curbed the appreciation of imported goods. We project consumer price growth to be around 9.6% YoY by the end of the year.

The Central Bank of the Republic of Armenia raised its refinancing rate by 0.5 percentage points to 10.5% at a meeting on 1 November. Demand factors (expansion of consumption and remittance inflows) continued to influence consumer prices in 3Q, causing the rate to rise by a total of 0.75 p.p. during 3Q. We assume a further increase in the refinancing rate until the end of this year amid strong demand and sustained high consumer price growth.

August and September saw an up-tick in lending rates along with the refinancing rate, except for long-term loans in dollars, where rates fell, which reflects the high liquidity of funds in foreign currencies. Deposit rates decreased in 2Q and 3Q of 2022, a trend that stemmed from an increase in the supply of deposits.

The lending growth rate picked up in 3Q after adopting a positive momentum in May. At the end of September, lending increased by 4.1% YoY, with household lending the key contributor. By sector, the volume of mortgage has grown at a steadily high rate during the current year; in particular, the growth was 32.9% YoY in September. Deposits, however, expanded at a faster rate than loans: at the end of September, they were up 16.3% YoY, mainly driven by resident and non-resident deposits in foreign currency and non-financial organisations' deposits in local currency.

The state budget posted a surplus of 0.7% of GDP in January–September 2022 (vs a deficit of 2.1% of GDP in 2021). Tax revenues increased by 23.6% YoY in the context of increased business activity. Expenditures rose by 7.4% YoY, largely on the back of a 41.4% YoY increase in capital expenditure. We expect fiscal policy to constrain demand, given the authorities' planned reduction of the budget deficit to 2.5% of GDP in 2022 (from 4.6% in 2021).

At the end of September, public debt stood at 53.7% of GDP, down 9.8 p.p. YTD. A decrease of USD 577 million in external debt (external loans and government bonds) and rapid GDP growth contributed to the reduced debt burden reduction. The share of foreign currency-denominated borrowings in the debt structure decreased significantly over the nine months (by 8.3 p.p. to 62.9%), mainly due to a reduction in the share of external loans. Overall, Armenia's public debt shows a declining dependency on external sources.

Forecasts

↓ 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	12.5	4.2	4.3
Consumer price index *(% growth YoY at the end of the year)*	3.7	7.7	9.6	4.6	3.3
IBL rate *(%, the year's average)*	4.9	6.4	9.2	7.6	6.6
Armenian dram to U.S. dollar exchange rate *(the year's average)*	489	504	435	438	465

Source: national agencies, calculations by EDB analysts.

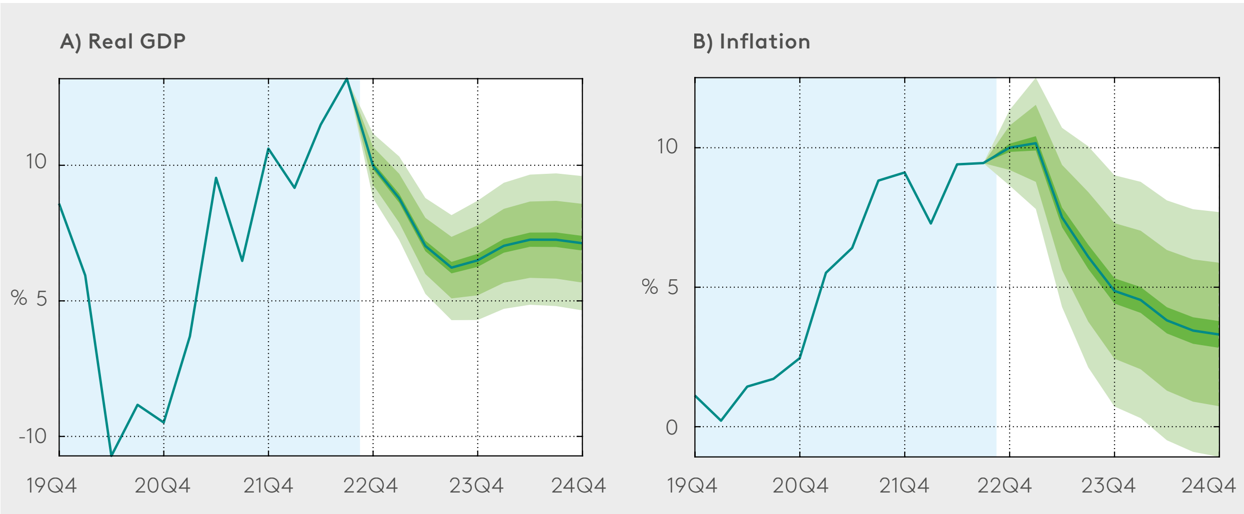
Economic activity and inflation

The baseline scenario assumes Armenia's GDP to increase by 4.2% in 2023 (Figure 5.A). Demand is expected to stabilize gradually, and growth is expected to slow down to reach balanced rates at 4.2% and 4.3% in 2023–2024, respectively. Monetary conditions will have a neutral impact on demand in 2023; the impact of fiscal policy is estimated to be marginally stimulative.

External demand factors will have a mixed impact on the Armenian economy. A slowdown in global business activity in 2023 will have an overall adverse impact, 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. These factors will, however, be offset, first, by economic actors switching exports to Russia, whose restricted exports from other countries will open the door to Armenian goods and services. Secondly, with the world's pandemic-related restrictions loosening, tourist flows to the country are recovering. We also expect remittances from Russia to remain unchanged.

In the baseline scenario, we project inflation at 4.6% YoY at the end of 2023. Inflation will return to its target range in 4Q2023 (Figure 5.B). The easing of external price pressures amid tight global monetary conditions will have a disinflationary effect, along with slowing domestic demand and the overvaluation of the dram. Price growth in Armenia is likely to slow down to 3.3% by the end of 2024, no longer affected by external inflationary pressure or unstable domestic and external demand. In the medium term, inflation will be within the Central Bank's target range.

↓ **Figure 5. Economic Activity and Inflation Forecasts 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.

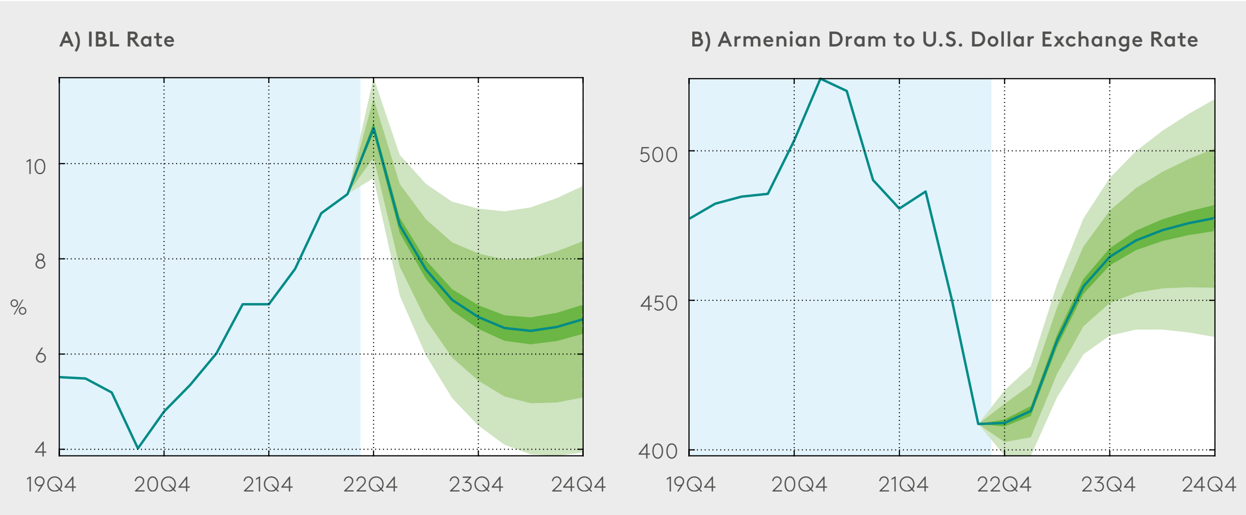
Monetary policy and the Armenian dram exchange rate

Under the baseline scenario, the IBL rate will fall following the refinancing rate to an average of 7.6% over 2023 (Figure 6.A). We forecast the end of the refinancing rate hike cycle in the first quarter of next year, with a gradual slowing of consumer demand and easing inflationary pressures. The rate is projected to fall to 6.6% in late 2023. The IBL rate will be around 6.5% in 2024, which is consistent with the CB RA's stable inflation target range.

The average annual exchange rate of the Armenian dram to the U.S. dollar is projected at 438 in 2023 (Figure 6.B). The next year will see a gradual depreciation of the dram due to higher growth in imports of goods and services compared to exports, devaluation expectations caused by the geopolitical situation, and expectations of a weaker rouble against the dollar. The inflow of remittances and foreign capital will, however, bolster the national currency along with high tourism intensity, keeping the dram overvalued in 2023, but gradually leading to its devaluation. In late 2024, the exchange rate will be near equilibrium.

Weakly stimulative fiscal policy in the medium term. Fiscal policy will curb demand this year according to our estimates, given the 1.9 p.p. expenditure reduction down to 27.1% of GDP. The government plans, however, to increase the level of capital expenditure by 1.6 p.p. to 4.7% of GDP in the current year and by 1.2 p.p. to 5.9% of GDP in 2023, keeping it at 6% of GDP until 2025. Implementation of this plan will help boost the Armenian economy and facilitate its growth in the medium term. With smooth fiscal consolidation as envisaged in the government's Medium-Term Expenditure Programme for 2023–2025, the expenditure rate will stabilise near 28% of GDP, and tax revenues will grow by 0.4 p.p. per annum.

↓ Figure 6. Interest Rate and Armenian Dram Exchange Rate Forecasts



Source: calculations by EDB analysts.

Risks

The external sector poses a risk of a deeper and more prolonged recession in the world's major economies. Materializing of the unfavourable external conditions scenario (see External Economic Conditions) will lead to slower economic growth in Armenia in 2023, followed by an acceleration in 2024 as the global economy recovers. With weak external demand, exports and remittance inflows will slow down. Under this scenario, we project GDP growth at 3.7% in 2023, with a further 4.6% increase in 2024.

REPUBLIC OF BELARUS

The Belarusian economy was hit by a massive sanctions shock in 2022, resulting in an estimated GDP contraction of around 4.6% for the year. Gradually adapting will drive economic recovery growth of 0.3% in 2023 and 0.5% in 2024. Inflation is expected to be 15% in 2022 and could slow to 8% in 2023 as production and supply chain issues will ease. 2022 monetary policy is aimed at supporting economic activity. Stimulative monetary conditions may continue next year.

Current situation

The Belarusian economy contracted by 4.7% YoY in the first nine months of 2022. The decline in economic activity is propelled by intensified sanctions and the resulting disruption to production and supply chains. The physical volume of Belarusian goods exports experienced a double-digit decline, as did imports into the country. There was a consequent decline in industry (by 6.1% YoY in January–September), transport turnover (by 25.2% YoY) and wholesale (by 16.7% YoY). Investment activity dropped by 18.1% YoY on account of the highly uncertain economic outlook, declining production, and difficulties with importing goods to the country. We are witnessing a spillover of the output fall into consumer demand—retail sales shrank by 2.5% YoY in the first nine months. That said, there were factors supporting economic activity this year, namely the increased price competitiveness of exported Belarusian goods due to the weakening Belarusian rouble against the Russian rouble, increased lending to the public sector, and expanded budget spending.

In 3Q, the Belarusian economy showed the first signs of adapting to the new operating conditions. GDP declined from 7.8% YoY in 2Q to 5.5% YoY in 3Q, implying a positive seasonally adjusted quarter-on-quarter rise. This may be due to an increase in the physical volume of exports to the Russian and Chinese markets; it does not, however, fully make up for the lost markets of Western countries and Ukraine. In addition, an increase of almost 20% YoY in cereal yields contributed to economic growth in 3Q. We believe that GDP growth in Belarus in 3Q reduced the negative output gap to 2% (from 3.3% in April to June). If the trend towards partially diverting exports to Russia continues, the negative output gap could decrease in 4Q, and a GDP contraction of 4.6% is estimated for 2022.

The balance of foreign trade in goods posted a surplus of USD 0.6 billion in January–September 2022, following a deficit of USD 1.5 billion a year earlier (according to the National Statistical Committee (Belstat)). Belarus improved its terms of trade by raising export prices more significantly than import prices. This has helped mitigate the export shock that the Belarusian economy is experiencing in the face of sanctions and the disruption of production and supply chains. For example, the physical volumes of exports and imports decreased by over 20% YoY according to available data, while the value of exports decreased by only 3.3% YoY, and imports by 10.1% YoY. The country is looking to switch its exports to Russia and Asian and African countries to make up for the lost markets and establish alternative supply routes for goods and components to Belarus. The undervaluation of the Belarusian rouble against the Russian rouble further supports exports.

Despite an expanding foreign trade surplus, **Belarusian reserve assets fell by USD 0.84 billion to USD 7.6 billion over the ten months**. The reduction in reserves is caused by the repayment of public debt, as well as the decline in both the world price of gold and the SDR exchange rate against the dollar. That said, the National Bank and the Ministry of Finance have bought about USD 0.82 billion in forex on the currency exchange to bulk up the reserve assets, which was possible thanks to a significant increase in foreign exchange supply by non-residents. Non-residents are likely to support the foreign exchange market for the rest of the year; their forex supply might, however, be offset by a seasonal increase in demand from businesses and households in November–December.

Inflation has risen significantly this year, having possibly peaked in the middle of the year. In September, inflation stood at 17.4% YoY, 7.4 p.p. higher than in December 2021. The key drivers behind the inflation acceleration were increased costs due to disrupted supply chains and difficulties with financial transactions, higher inflation expectations, and the weakening Belarusian rouble against the Russian rouble. These factors began to subside in 3Q, with consumer price growth slowing down compared with July's peak of 18.1% YoY. At the same time, an additional disinflationary impact came from an increased agricultural harvest yield together with weak domestic demand. Belarus tightened its price regulation in October, which might well slow down inflation. We project inflation at 15% as of end 2022.

The National Bank has eased its monetary policy this year to support economic activity. A consequence of the banks' expanded liquidity surplus was a significant drop in interest rates. In September, the average rate fell to 5% on new term rouble deposits (vs a peak of 14.1% in April 2022), and to 14.1% on new market rouble loans (vs a peak of 19.45% in April).

Forecasts

↓ 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	–4.6	0.3	0.5
Consumer price index *(% growth YoY at the end of the year)*	7.4	10.0	15.0	8.0	6.8
Refinancing rate *(% p.a., the year's average)*	8.2	8.6	11.5	11.2	9.6
Belarusian rouble to U.S. dollar exchange rate *(the year's average)*	2.43	2.54	2.64	2.75	2.98

Source: national agencies, calculations by EDB analysts.

Economic activity and inflation

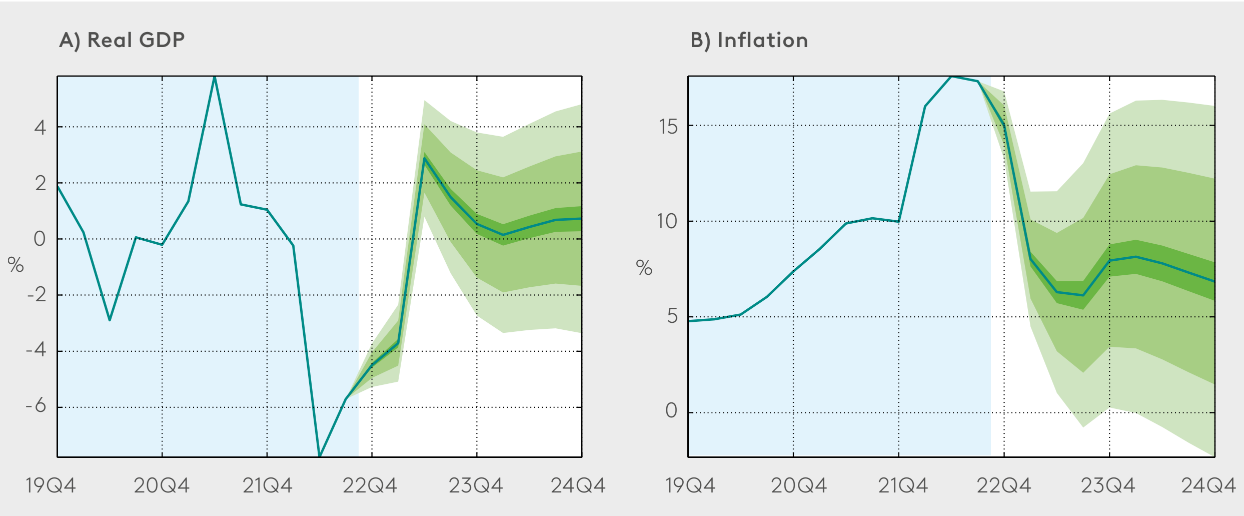
In our baseline scenario, we assume that Belarus sanctions will be in place for the entire forecast horizon. Exports of key export commodities (potash and petroleum products) are expected to recover gradually in 2023 but will be behind the 2021 level due to infrastructure constraints. We also project the country to continue supporting the public sector. The impact from the external sector will constrain business activity due to the projected contraction of Russia's GDP and the slowdown in the global economy.

The baseline scenario assumes recovery growth of Belarusian GDP of 0.3% in 2023, boosted by a positive contribution from net exports despite the negative influence of weak domestic demand. As the economy adapts to the sanctions, exports will recover, likely growing after declining by over 20% in 2022. The projected weakening of economic activity in Russia and infrastructural constraints will curb exports of goods and services. As for domestic demand, it may continue to contract due to difficulties in the supply of investment goods, high uncertainty, a shrinking employed population, and weakening growth in the IT sector. Physical imports will remain subdued in 2023 on account of weak domestic demand.

In 2024, Belarusian GDP is expected to increase by 0.5%. A recovery of economic activity in 2023–2024 will not fully compensate for the downturn in 2022 due to the expected prolonged negative effects of the sanctions. In the long term, the economic growth rate will be around 1% per annum.

Inflation could slow to 8% in 2023. We expect the effect of restrictions on price increases to relax next year. In 2023, inflation will be constrained by weak domestic demand and a slowdown in price growth in Russia. Inflationary pressures from supply disruptions may diminish in 2023 but are unlikely to be fully exhausted. High inflation expectations will also support price rises above the 6% target. We project inflation to approach the target in 2024 and expect consumer price growth to be 6.8% for that year (Figure 7.B).

↓ Figure 7. Economic Activity Forecasts for Belarus



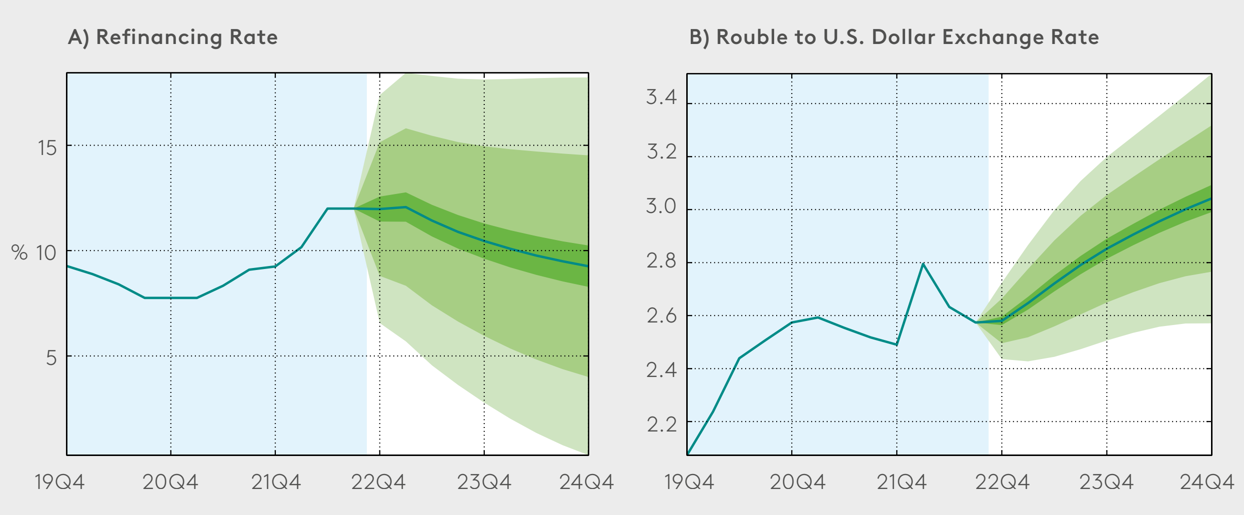
Source: calculations by EDB analysts.

Monetary policy and the Belarusian rouble exchange rate

In 2023, monetary conditions are projected to remain soft. The baseline scenario assumes that monetary policy will continue to support economic activity by keeping the cost of resources on the interbank market low, reduced deposit market rates, and lower lending rates. Real rates could, however, rise slightly if inflation slows down, thus reducing the stimulative effect of monetary conditions. Importantly, soft monetary conditions will only have a partial effect on lending, investment, and consumption decisions due to heightened uncertainty, high risks, and a deteriorating business climate. The average refinancing rate is projected to be around 11.2% in 2023, with a likely reduction from the current 12% to 10–11% by late 2023. In 2024, the rate could fall to 9% as inflation approaches the target (Figure 8.A).

The average annual exchange rate of the Belarusian rouble against the dollar is projected at about 2.75 in 2023 (Figure 8.B). The average exchange rate against the Russian rouble is expected to be close to BYN 4 per RUB 100, just like in late 2022. The foreign trade surplus may continue into 2023 due to weak imports, but its size will shrink amid weakening price support, potentially driving the real effective exchange rate of the Belarusian rouble to equilibrium in 2023–2024.

↓ **Figure 8. Refinancing Rate and Belarusian Rouble Exchange Rate Forecasts**



Source: calculations by EDB analysts.

Risks

The speed at which production and supply chains are restored is still the key driver of uncertainty, since it might take longer than planned, potentially causing a deeper recession in the Belarusian economy in 2023 and a continued downturn in 2024. An unfavourable scenario is unlikely to result in a sharp drop in GDP, but economic indicators will fall.

REPUBLIC OF KAZAKHSTAN

In the baseline scenario, we project Kazakhstan's GDP growth to accelerate to 4.2% in 2023 and to 4.4% in 2024. Government measures to support the economy, as well as the expansion of production capacity, will offset the negative impact of the external environment. Inflation will slow to 7.8% in 2023, mainly due to easing price pressures from global markets and new alternative routes in global supply chains. In 2024, we expect the increase in consumer prices to slow down to 4–6%.

Current situation

Kazakhstan's economy grew 2.8% YoY in the first nine months of 2022. GDP growth slowed from 3.6% YoY in the first half of the year, largely due to lower oil production because of planned maintenance at key fields and disruptions in oil transport by the Caspian Pipeline Consortium. The slowdown in the global economy and increasing problems in global supply chains are accumulating negative pressures from the external sector, which are being offset by supportive government measures. Despite external pressures, all sectors of the economy grew this year; for example, the services sector grew 1.9% YoY, and goods production rose 3.1% YoY in the first nine months of 2022, according to preliminary estimates of the RK Ministry of National Economy. The construction sector also recorded positive growth. Output in agriculture increased by 6.1% YoY in January–September 2022, partly due to the previous year's poor harvest yield. The country might increase fiscal support for the economy in the remainder of 2022. This could partly compensate for the OPEC+ oil production limits. The growth in GDP is projected at 2.8% in 2022; we have raised the projection by 0.3 p.p., since the GDP decline of the trading partner (Russia) is expected to be less severe than anticipated in May 2022.

Inflation accelerated to 17.7% YoY in September 2022 from 16.1% YoY a month earlier, and rose to 18.8% YoY in October. New challenges in the global logistics system are exacerbating already existing issues in global supply chains. New supply routes for goods are at the early stages of development. The global logistics crisis has become protracted, compelling producers to pass on increased costs to the end consumer and accelerating the rise in non-food prices to 17.9% YoY in October 2022, up from 8.5% YoY in January 2022. Inflation was 13.5% YoY in the services sector (6.8% YoY in January). Additional pressure on Kazakhstan's domestic prices has come from increased demand for goods and services from non-residents, as well as higher utility and education rates. The cost of food on global markets in the second half of 2022 has been rising less intensively than in the first quarter of 2022, but prices are still higher than in 2021. The rise in prices of imported goods translated into a 23.1% YoY increase in domestic food prices in October 2022 (8.5% YoY in January 2022). Inflation in Kazakhstan will continue to accelerate in the remainder of 2022, likely reaching 19.0% YoY at the end of the year.

Improved performance of the external economic sector in the first half of 2022. The current account surplus stood at 6.4% of GDP for the first six months of 2022, mainly propelled by the favourable pricing environment for Kazakhstan's main export goods. The surplus of the balance of goods and services increased by a factor of 2.3 compared to January–June 2021 and amounted to 22.7% of GDP. A 31.7% YoY increase in foreign direct investor income had a limited impact on the current account surplus. The financial account surplus is predominantly generated by public sector operations. The gross international reserves amounted to USD 32.8 billion as of the end of September 2022, a 4.7% decrease compared to the beginning of the year, largely attributed to external public debt repayments and the fall in the price of gold.

Foreign trade turnover increased by 36.3% YoY in January–August 2022. The value of exports increased by 50.6% YoY, the key contributors being oil and gas condensate, and to a lesser extent chemicals, food, metallurgy, and machinery products. Imports increased by 15.6% YoY in dollar terms, driven by intermediate and non-food consumer goods.

The National Bank of Kazakhstan raised its base rate by 150 p.p. to 16.0% at its October meeting. September saw new factors accelerating inflation. The surge in demand from non-residents put upwards pressure on inflation expectations. Core inflation accelerated to 19.7% YoY in September, with still-existing external economic pressures partially to blame: high prices on global commodity markets, elevated inflationary pressures in most of Kazakhstan's trading partners, and disruptions to global supply chains. All this means that stabilising inflation expectations will play a key role in building confidence in monetary policy. The base rate is likely to be about 16.0–16.5% at the end of 2022. The gradual increase in the base rate in 2022 has had an impact on the price of money in the Kazakhstan economy. For example, the weighted average rate on deposits raised in the national currency rose by 5.0 p.p. to 12.4% in the first nine months of 2022. Tenge deposits have gained more investment appeal, in part due to the tenge deposit subsidy programme launched in March 2022. The cost of loans increased by 1.9 p.p. to 16.0% in September 2022 YTD.

The state of public finances improved over January–August 2022. The state budget deficit narrowed to KZT 0.4 trillion; in comparison, the deficit was KZT 1.4 trillion a year earlier. Revenues have skyrocketed, exceeding expenditure growth. This is largely due to the favourable pricing environment for Kazakhstan's export goods. Tax revenues grew by 41.7% YoY in January–August 2022, and their share in revenues has increased by 4.7 p.p. to 71.8% in a year. The share of transfers from the National Fund decreased to 24.9% over the period; the transfers, however, are still at the core of budget revenues. Nominal proceeds from the Fund increased by 11.5% YoY (vs the 22.7% YoY decrease in January–August 2021). The 19.4% YoY increase in state budget expenditures is largely attributed to a gradual increase in public sector wages and the minimum wage. The country has also raised its contributions to defence, transport and communications, and public debt service. The national budget law assumes a deficit of 3.3% of GDP by the end of 2022, which probably suggests the government will increase its fiscal support for the economy in the remainder of 2022.

Forecasts

↓ **Table 5. Main Macroeconomic Indicators of the Republic of Kazakhstan** ***(Baseline Scenario)***

Indicator	2020	2021	2022F	2023F	2024F
GDP in constant prices *(% growth YoY)*	–2.5	4.3	2.8	4.2	4.4
Consumer price index *(% growth YoY at the end of the year)*	7.5	8.4	19.0	7.8	4.9
TONIA rate *(% p.a., the year's average)*	9.0	8.9	13.8	15.2	10.8
Kazakhstan tenge to U.S. Dollar exchange rate *(the year's average)*	413.0	425.9	462.4	485.6	496.2

Source: calculations by EDB analysts.

Economic activity and inflation

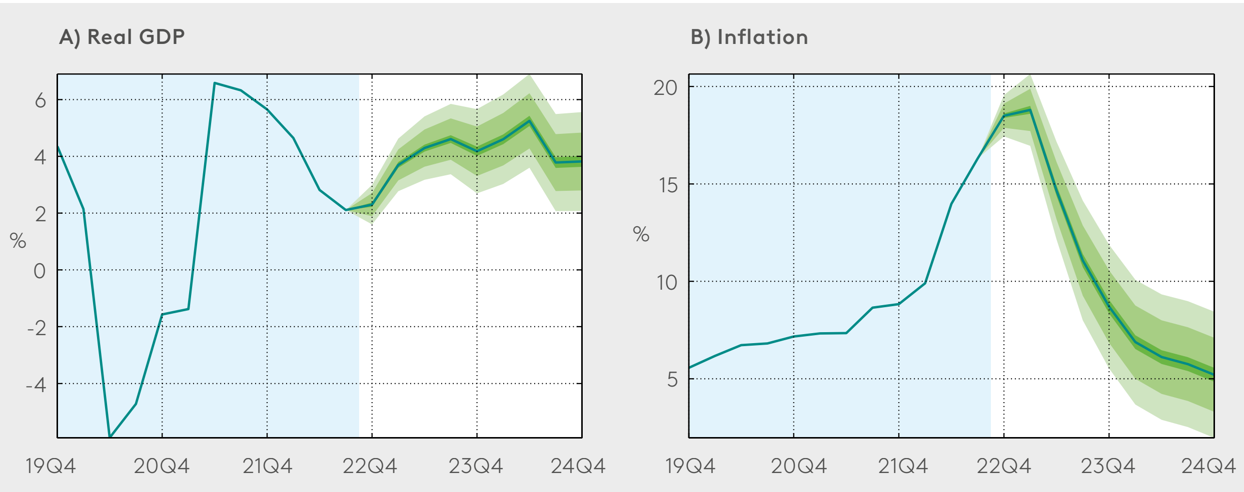
Acceleration of Kazakhstan's GDP growth to 4.2% in 2023. The launch of new facilities at the Tengiz oil field will be key to boosting economic growth. More growth potential in the manufacturing and services sectors could be fuelled by structural reforms aimed at diversification of the economy, labour market transformation, and the development of private sector initiative. OPEC+ commitments and the weakness of the global economy may constrain Kazakhstan's exports in early 2023. Fiscal policy will seek to mitigate the negative effects of the external sector and support domestic consumer demand amid high inflation (Table 5).

Kazakhstan's GDP growth is projected at 4.4% in 2024. The upgraded Tengiz capacity is expected to be fully commissioned in 2024, underpinning economic growth. A reduction in the NB of Kazakhstan's base rate will also boost lending and economic activity. Demand for Kazakhstan's exports will increase as the global economy recovers from recession (Figure 9).

We project inflation at 7.8% at the end of 2023, with a peak in the first months due to high global prices on commodity markets, increased inflationary pressures in trading partners, and raised demand from non-residents for Kazakhstan's goods and services. In 2Q, once the economy no longer feels the effects of the factors listed above, inflation will begin to slow down. In addition, we anticipate an increase in the NB of Kazakhstan's base rate by the end of 2022, which will help to anchor inflation expectations. The firms are likely to continue shifting producer costs to the end consumer through 2023, as bottlenecks in global supply chains are yet to be resolved; this might prevent inflation from falling enough to reach the target.

A slowdown in inflation to 4.6–5.5% by the end of 2024. This will be facilitated by lower import prices due to falling commodity prices on global markets and a slowdown in global inflation. As businesses adapt to new commodity and supply chain routes, producer costs are expected to stop rising, thus helping stabilise consumer price index growth (Figure 9).

↓ Figure 9. Economic Activity and Inflation Forecasts in the Republic of Kazakhstan



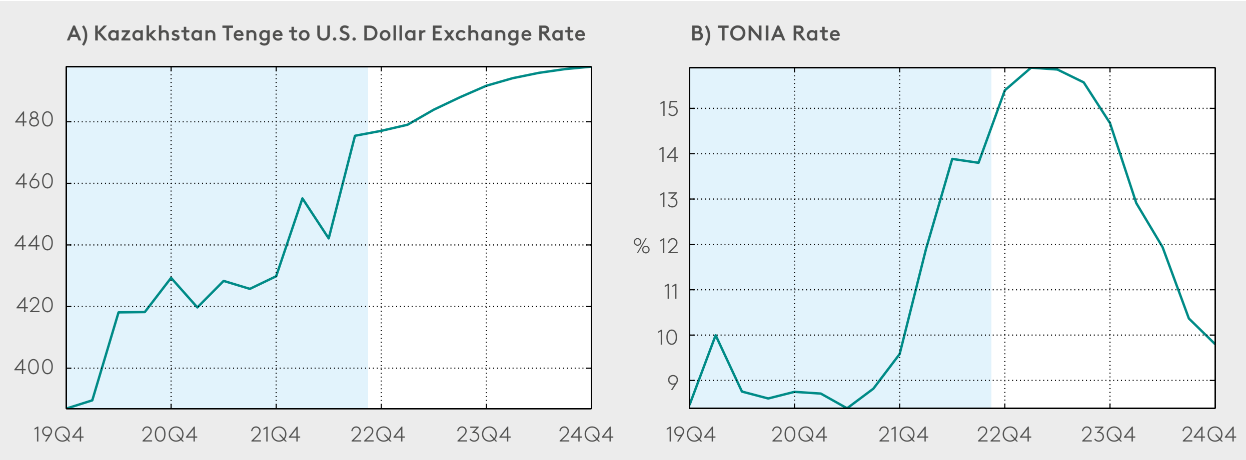
Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Monetary policy and the tenge exchange rate

Monetary policy will focus on reducing pro-inflationary risks. Inflation risks are growing and new ones are appearing. Supply bottlenecks in global supply chains have taken hold and are intensifying, putting pressure on Kazakhstan's domestic prices. This is why the NB of Kazakhstan will seek to cool inflation risks by squeezing monetary conditions. We project the base rate to fall to 14% by the end of 2023. With the easing of pro-inflationary pressures from the external sector, we might expect a base rate reduction to about 10% by the end of 2024 (Figure 10). In the medium term, the base rate may be further reduced in order to create neutral monetary conditions. The rise in deposit rates could stop in mid-2023, following the base rate. We believe that the cost of credit resources will decrease more slowly due to the preferential funding programmes introduced by the authorities.

The tenge will become more stable in the medium term, driven more by fundamental factors in 2023–2024. We expect a moderate weakening of the tenge amid subdued export growth and increased imports. In addition, Kazakhstan will experience higher inflation than its trading partners, which will also contribute to the depreciation of the tenge (Figure 10).

↓ **Figure 10. Kazakhstan Tenge Exchange Rate and TONIA Rate**



Source: calculations by EDB analysts.

Risks

A longer and deeper recession in Kazakhstan's key trading partners. A drop in GDP in the world's major economies will weaken the price environment on global commodity markets. The OPEC+ oil production limitations could last longer than in the baseline scenario, negatively affecting Kazakhstan's exports and budget revenues. Tenge will depreciate at a higher rate contributing to inflation acceleration. Higher external inflation will be translated to domestic prices, reducing real disposable income and domestic consumer demand. The acceleration of domestic price increases may require a more pronounced increase in the base rate in 2023–2024, compared to the baseline scenario, which will reduce the pace of lending to the economy and further decelerate Kazakhstan's GDP growth to 2.7% in 2023 and 3.9% in 2024.

Kazakhstan's pro-inflationary risks have risen. The supply disruptions in the global transport network have become resistant, compelling producers to shift in part their rising costs to consumers as they have run out of other options to curb prices. The situation could escalate if trading partners impose export bans to ensure food security in their countries, which might also accelerate inflation to 9% in 2023 and to 5% in 2024, compared to the baseline scenario.

KYRGYZ REPUBLIC

In the baseline scenario, GDP of the Kyrgyz Republic is projected to grow by 3.5% in 2023 and to rise by 4.2% in 2024 due to increased gold production. In 2023, inflation will slow to 5.2%, largely due to the easing pressures from the external sector. In 2024, we expect the increase in consumer prices to slow down to 4–5%. The risks to the economy have shifted to the downside.

Current situation

The growth rate of the economy may slow down by the end of 2022. GDP of the Kyrgyz Republic increased by 7.2% YoY in the first nine months of 2022, or by 4.9% YoY if we exclude Kumtor. The gold mining sector continued to drive the economy, with output of base metals up 37.9% compared to January–September 2021. The acceleration in the agriculture sector is partly due to a statistical effect: a year earlier, the sector saw a decline in output caused by drought. Increased demand from non-residents boosted business activity in the services sector. Investment activity remained subdued, with little change in capital investment over the year. Due to low water levels, the energy sector stifled economic growth. We can expect a GDP growth slowdown in the remainder of 2022, which is largely affected by the irregularity of gold production at the Kumtor mine. Gold output will fall in 4Q over the same period last year due to the high base effect. It is important to note that all assumptions about gold production output are made with high uncertainty. GDP growth in 2022 is projected at 3.1%, 2 p.p. higher than the May estimate. This change is explained by a less pronounced decline in Russia's GDP and more growth in Kazakhstan's economy; these two countries are key trading partners of the Kyrgyz Republic. A sudden increase in demand from non-residents for KR goods and services has also led to higher GDP growth estimates.

Inflation was 15.5% YoY in September 2022 (15.6% YoY a month earlier). The appreciation of the som against the dollar stabilised consumer price growth, along with the easing of pressures from both external and domestic agricultural and food markets. That said, the food segment was the key driver behind inflation throughout the year, contributing 8.7 p.p. The rise in the price of non-food goods and services was due to higher producer costs and higher import prices. We expect inflationary pressures from global food markets to keep easing for the remainder of the year, helping slow inflation in the Kyrgyz Republic to 14% at the end of 2022.

Increase in nominal volumes of foreign economic transactions. The 36.4% increase in foreign trade turnover compared to January–August 2021 was due to a 77.2% YoY rise in the value of imports, while exports fell by 36.1% YoY. Reduced shipments of gold abroad were the key reason for the drop in the value of exports, while shipments of goods to EAEU member countries increased by 53.9% YoY. The increase in dollar-denominated imports is driven by imports of investment and intermediate goods. The trade deficit widened by USD 3.3 billion to USD 4.8 billion in the first eight months of 2022. Net remittance inflows decreased by USD 90.9 million to USD 1.3 billion in January–August 2022, driven by remittances abroad, primarily Russia, rising by a factor of 1.8. At the same time, remittances to the Kyrgyz Republic increased by 10.5% YoY over the same period.

The NBKR's policy rate could be 14% by the end of 2022. Inflation is close to peak levels, so we can expect it to take a U-turn over the rest of the year. Nevertheless, pro-inflationary risks remain, and new risks may very well appear. In this situation, anchoring inflation expectations could become a monetary policy priority. Keeping the policy rate at 14% until the end of 2022 despite the expected slowdown in inflation would ensure a stable macroeconomic environment. Rates on placed deposits in national currency stood at 1.4%

in September 2022, 0.15 p.p. higher than in December 2021. Loan rates rose by 4.4 p.p. over the period and stood at 17.25% in September 2022.

Fiscal sector consolidation. The state budget surplus of the Kyrgyz Republic in January–August 2022 was 1.2% of GDP (vs 1.1% of GDP a year earlier). The increase in revenues to 36.6% of GDP from 31.2% of GDP in January–July 2021 is attributed to the growth of tax revenues, mainly value added tax (20.9 p.p. contribution) amid rising goods imports as well as an increase in the annual contribution to the development of the mineral resource base of the Kyrgyz Republic from enterprises developing the Kumtor mine. January–August 2022 expenditure rose to 35.4% of GDP, up from 30.1% a year earlier, affected by the increase in general public service costs as well as a rise in education employee wages. The country also increased social protection and defence and public order spending. With a budget deficit projected at 1.3% of GDP for 2022, higher government expenditure is to be expected for the remainder of the year, which will support domestic consumer demand.

Forecasts

↓ **Table 6. 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	3.1	3.5	4.2
Consumer price index *(% growth YoY at the end of the year)*	9.7	11.2	14.0	5.2	4.8
7-day REPO rate *(% p.a., the year's average)*	3.6	5.6	12.2	9.8	8.0
Kyrgyz som to U.S. dollar exchange rate *(the year's average)*	77.4	84.6	83.7	83.3	85.2

Source: calculations by EDB analysts.

Economic activity and inflation

Economic growth to increase to 3.5% in 2023. Fiscal policy measures will support the economy. In 2023, the state budget deficit will increase to 2.3% of GDP, from 1.3% of GDP a year earlier. Increased output from the gold mining sector[1] will also boost the economy. These assumptions about expected gold production output continue, however, to be subject to high uncertainty. Business activity in the services sector may rise due to increased demand from non-residents, caused by the realignment of tourist routes. We believe that the number of tourists from Russia to the KR will increase since many other destinations are no longer available to Russian citizens. Exports to the EAEU countries will increase as the region adapts to the new conditions, and integration processes intensify. Investments will remain constrained (Table 6).

Economic growth will continue to accelerate in 2024. We expect the GDP growth rate to increase to 4.2% in 2024, primarily bolstered by an increase in gold production and, to a lesser extent, by the recovery of the major global economies from recession (Figure 11).

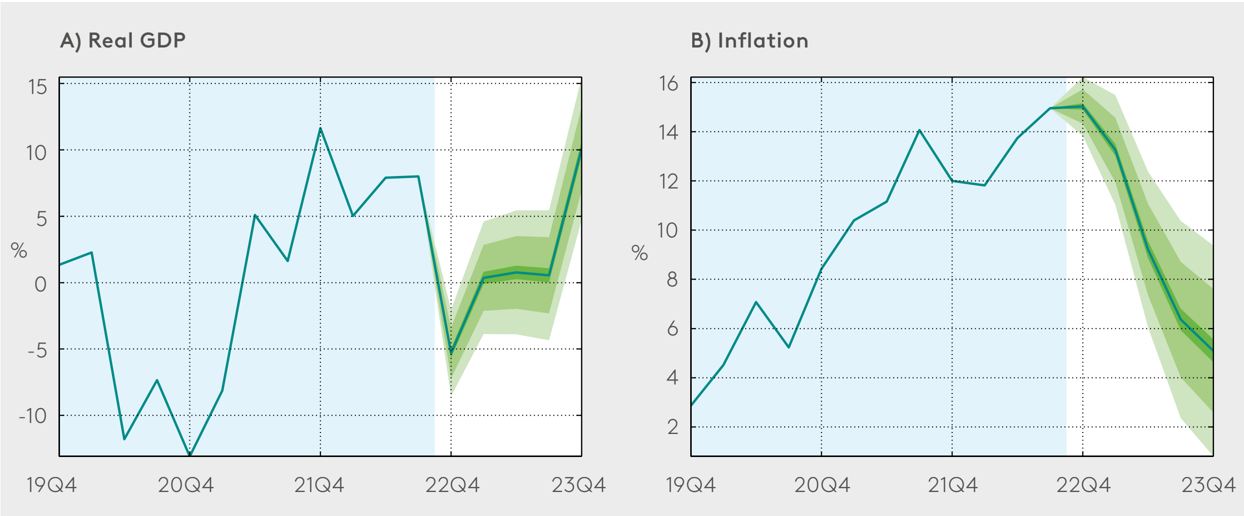
Inflation will slow to 5.2% YoY by the end of 2023. The appreciation of the som, which started in mid-spring 2022, will partly offset the effect of external pro-inflationary factors in early 2023. High prices on global food markets and delays in supply will still exert upwards

1 Technical Report on the Kumtor Mine, Kyrgyz Republic. 24 February. Available at https://www.centerragold.com/cg-raw/cg/2021_Kumtor_NI_43-101_Feb24_FINAL.pdf.

pressure on domestic prices in the Kyrgyz Republic in the first half of 2023. In the second half of the year, however, the slowdown in inflation will intensify as the external sector stabilises.

A return of inflation to the target level is expected in 2024. We forecast a slowdown in the CPI growth rate in the medium term. The situation on global food markets may exert a neutral impact on domestic price trends. Oil market pressures will also weaken in the medium term. As a result, 2024 inflation will be within the target range (Figure 11).

↓ **Figure 11. Economic Activity and Inflation in the Kyrgyz Republic**

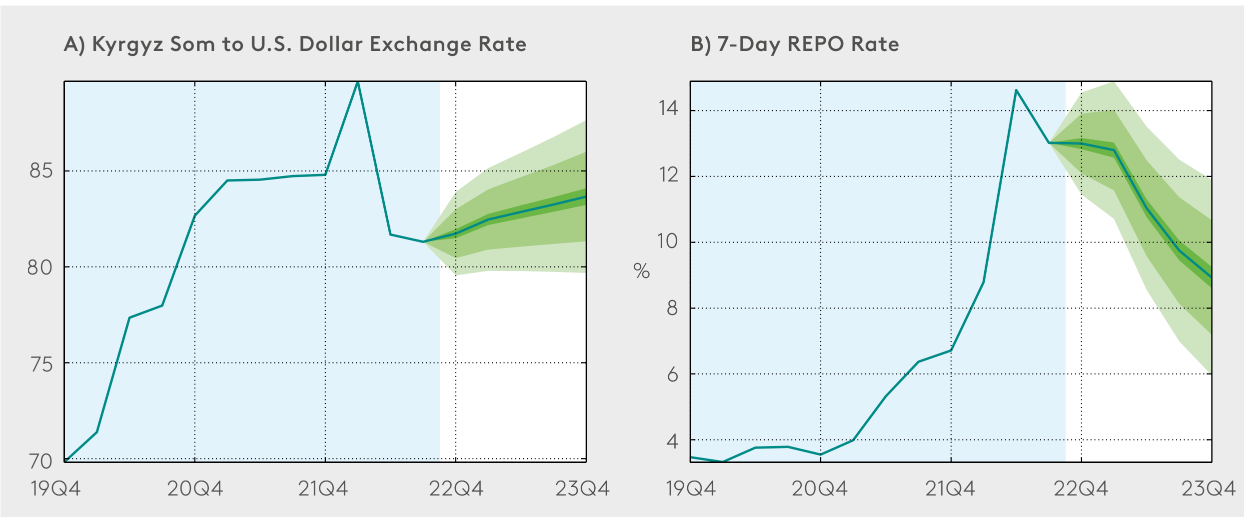


Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Policy rate decrease in 2023–2024. We expect the policy rate to start declining in 2Q2023 and reach 7.5% in 2024. With an inflation target range of 5–7%, this nominal interest rate is close to neutral. Once inflation falls near the target in 2024, it will set the stage for a further reduction in the policy rate (Figure 12).

KGS exchange rate at 82–84 in 2023 and gradual weakening in the medium term. This will be partly facilitated by the exchange rate policy of the NB. In the long run, fundamental factors will lead to depreciation of the som by about 2% per year.

↓ **Figure 12. Kyrgyz Som Exchange Rate and REPO Rate**



Source: calculations by EDB analysts.

Risks

There are risks of lower economic growth. The recession could affect more countries around the world and be more severe if key central banks raise rates further. In this case, a deeper decline in exports and weaker domestic demand will limit the growth of the KR economy, resulting in GDP growth of 2.9% in 2023 under an alternative scenario. Assumptions related to gold production from the Kumtor mine are also prone to high uncertainty.

Inflation growth risks outweigh any other risks. There are still difficult conditions in global supply chains, with new challenges appearing and time required to develop new routes. This affects costs for producers, compelling them to increase prices for consumers. In this case, the return of KR inflation to the target would be slower and take longer than projected in the baseline scenario.

RUSSIAN FEDERATION

In the baseline scenario, we project a contraction of Russian GDP of 3% in 2022 and 2% in 2023, followed by recovery growth of 1.5% in 2024. The Russian economy will continue to adapt to the new reality. Inflation will slow to 6% in 2023 (from 12.6% in 2022) and approach the target of 4% in 2024. In the baseline scenario, we expect the Bank of Russia to take a pause in its key rate reduction cycle and keep it at 7.5–8% in 2023 once it is no longer affected by temporary disinflationary factors, with pro-inflationary risks keeping hold. In 2024, we assume that the key rate will fall to 6% with lower inflation.

Current situation

Russia's economy shrank by 1.8% YoY in the first nine months of this year due to stronger sanctions. Some Western countries have imposed extensive restrictions on foreign trade and financial transactions with Russian counterparties, a decision that has caused disruptions in production and supply chains, increased the complexity of settlements and resulted in weakening economic activity in Russia. Uncertainty about the economic outlook has increased markedly, and inflation expectations have risen. As a result, domestic consumer demand for goods has declined (retail sales fell by 5.5% YoY in the first nine months), and Russian exports fell (wholesale fell by 12.6% YoY, and transport turnover declined by 1.5% YoY). Weakening demand has affected the manufacturing sector, with output falling by 0.5% YoY in the first nine months. Strong results at the start of the year prevented a bigger decline in manufacturing output from January to September. Stable oil production, expansion of construction, and an increased grain yield have all smoothed the economic downturn.

The economy is adapting gradually to the changed operating conditions: seasonally adjusted GDP in 3Q could exceed the previous quarter's level by around 0.5-0.8% (after a fall of more than 6% in 2Q). Expansionary fiscal spending, easing of bank lending conditions during 2Q–3Q and a gradual recovery of imports all contribute to smoothing out the economic downturn. However, GDP could fall again in 4Q due to continued uncertainty, possible reductions in manufacturing employment, as well as the imposition of EU sanctions on Russian oil. In the baseline scenario, we therefore project Russian GDP to decline by 3% in 2022.

Russia's current account surplus for the first nine months of the year reached USD 198.4 billion (a Bank of Russia estimate). Compared to the same period last year, the balance increased by USD 123.1 billion thanks to an upswing in exports amid higher commodity prices and a reduction in imports due to sanctions. In 3Q, the current account surplus started to shrink to USD 51.9 billion after USD 69.8 billion and USD 76.7 billion in 1Q and 2Q, respectively. Growth in the value of exports of goods and services slowed to 4.7% YoY in 3Q, from 26.8% YoY a quarter earlier. We can also see goods and services imports recovering: they fell by only 14.5% YoY in 3Q, following a 22.9% YoY decline in 2Q. For the remainder of this year, we can expect a further recovery in imports due to parallel supplies. Exports will be driven by the impact of EU sanctions on Russian energy resources.

Consumer inflation in September was 13.6% YoY but fell to 12.6% YoY in October. Inflation has dropped from April's peak of 17.8% YoY. After a surge in inflation in March and April driven by inflation and devaluation expectations, consumer prices have declined. Weakening consumer demand, lower inflation expectations, unprecedented strengthening of the rouble, and a new harvest yield all caused deflation during the summer. September no longer felt the strong effect of these factors, so seasonally smoothed price rises have resumed. We expect prices to continue to rise for the rest of the year, resulting in an inflation rate of 12.6% YoY for 2022.

Bank lending conditions softened in 2Q–3Q following the reduction in the Bank of Russia's key rate. The Central Bank lowered the rate from a peak of 20% in March to 7.5% in September and then took a pause in the policy easing cycle amid prevailing pro-inflationary risks. Bank lending and deposit rates consequently fell as a result of the Central Bank's actions as well as because extremely negative scenarios for the economy did not materialise. Along with state support measures, this had a positive effect on bank lending, which began to recover during the summer. We expect the Central Bank to keep its moderately tight signalling and key rate at 7.5% this year; consequently, we believe there will be no further reduction in long-term loan rates.

The federal budget for January–September 2022 posted a surplus of RUB 0.05 trillion. A significant budget surplus was generated in 1Q, and then trends weakened. As a result, in 3Q, the budget posted a deficit of RUB 1.4 trillion. Revenues fell by 14.1% YoY in 3Q, with a fall of 11.5% YoY in oil and gas revenues and 15.5% YoY in non-oil and gas revenues. Fiscal revenues have been constrained by falling rouble-denominated oil prices as well as reduced imports and domestic demand, both due to sanctions. The budget's expenditures increased by 23.1% YoY in 3Q. We expect the federal budget deficit for 2022 to be around 1% of GDP.

Forecasts

↓ Table 7. Russia's Key Macroeconomic Indicators *(Baseline Scenario)*

Indicator	2020	2021	2022F	2023F	2024F
GDP in constant prices *(% growth YoY)*	–2.7	4.7	–3.0	–2.0	1.5
Consumer price index *(% growth YoY at the end of the year)*	4.9	8.4	12.6	6.0	4.5
Key rate *(% p.a., the year's average)*	5.1	5.8	10.6	7.9	6.9
Russian rouble to U.S. dollar exchange rate *(the year's average)*	71.9	73.6	68.4	68.4	75.3

Source: national agencies, calculations by EDB analysts.

Economic activity and inflation

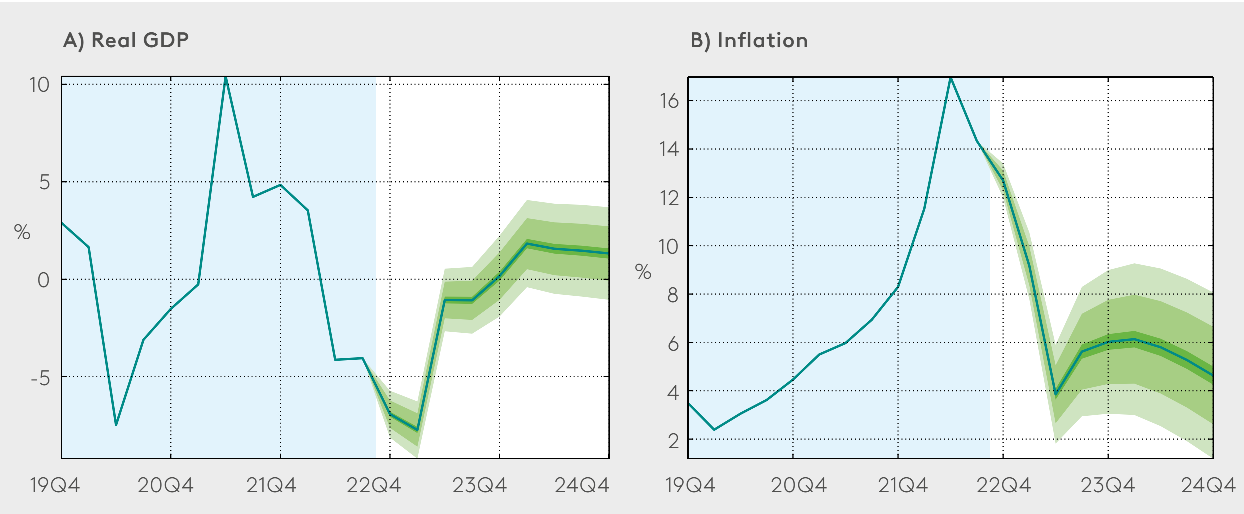
The baseline scenario assumes that Russian sanctions remain in place for the entire forecast horizon. Fiscal policy is assumed to follow the Guidelines of the Fiscal, Tax, and Customs and Tariff Policy for 2023–2025: fiscal support to the economy will decline as budget expenditures relative to GDP decrease. In the baseline scenario, we expect the country to partially switch its oil and petroleum product exports from the European market to other markets; we assume, however, a 0–10% reduction in oil production and refining in 2023 which will continue into 2024. With gas production expected to decline by over 10% in 2023 and no growth in 2024, the oil and gas sector could take away about 1.5–2% of GDP in 2023 and make a zero contribution to growth in 2024. We believe that the external sector will have a pro-inflationary and constraining effect on business activity due to a likely recession in major economies.

In the baseline scenario, we project Russian GDP to contract by 2.0% in 2023. Russia's economy will adapt to the changed operating conditions, but this process may take some time. Disruptions in production and supply chains are likely to continue in the coming year, including due to difficulties with settlements and obtaining other financial services, which will limit domestic demand. The uncertain economic outlook will continue to have an additional dampening effect on domestic demand. Net exports may decline in 2023 due to the imposition of an EU embargo on Russian oil and petroleum products, a decline in exports of other commodities, and a gradual recovery of imports, including through parallel supplies to Russia.

Russia's GDP is projected to recover by 1.5% in 2024. We anticipate long-term consequences for the economy due to the restrictions on technological imports and the supply of machinery and equipment, as well as the EU's accelerated rejection of Russian energy sources. This will mean that the recovery growth of economic activity in 2024 will not fully compensate for the contraction in 2022–2023. In the long term, sanctions may result in a low economic growth rate of around 1% per annum.

Inflation is projected at 6% in late 2023. We may expect a temporary slowdown in inflation (below the 4% target) in the spring due to the high 2022 harvest yield and stronger rouble. The disinflationary impact of these factors could, however, be fully neutralised by the middle of next year. Sanctions might compel a further rise in transport and logistics costs and cause inflation expectations to remain elevated, which, in turn, might drive price growth in Russia past the 4% target in the second half of 2023 and further to 6% for the year (Figure 13.B). Constrained consumer demand will limit inflation, but we do not expect it to approach the target until 2024, with inflation forecast at 4.5% at the end of that year.

↓ **Figure 13. Economic Activity and Inflation Forecasts for Russia**



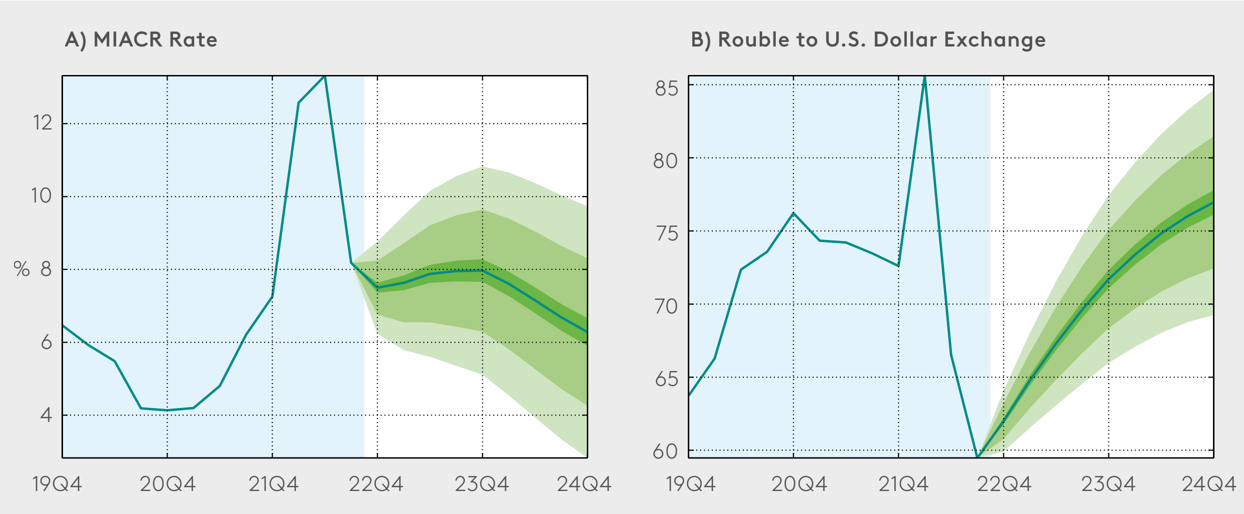
Source: calculations by EDB analysts.

Monetary policy and the Russian rouble exchange rate

The pause in the key rate reduction cycle could continue into 2023. There are still significant risks of another round of accelerated inflation amid the uncertain impact of the EU oil embargo on Russia's foreign trade and heightened inflation expectations, with some temporary disinflationary factors that had an effect from May to September 2022 anticipated to disappear soon. Keeping the key rate at 7.5–8% with inflation projected to fall within 5–6% will ensure near-neutral monetary conditions and strike a compromise between cushioning inflation risks and supporting the transformation of the economy. If the situation develops in line with our baseline forecasts, we can assume that the key rate will fall to 6% in 2024 (Figure 14.A).

The average annual exchange rate of the Russian rouble vs. the U.S. dollar is projected at RUB 68.4 per USD in 2023. The overvaluation of the rouble will decrease as the foreign trade surplus shrinks and as the country starts applying updated fiscal rule regulations. The surplus in traded goods could decrease from 13–14% of GDP in 2022 to 7–8% of GDP in 2023, amid falling energy exports and a gradual recovery of imports. This trade surplus is lower than the average for 2016–2021 (8.8% of GDP), which could contribute to a decline in the rouble–dollar exchange rate closer to its equilibrium. The rouble will continue to weaken in 2024 (Figure 14.B), offsetting the overvaluation of the Russian currency that occurred in 2022.

↓ Figure 14. Interest Rate and Russian Rouble Exchange Rate Forecasts



Source: calculations by EDB analysts.

Risks

The speed at which the Russian economy will adapt to the changed conditions is uncertain. A protracted period spent building the supply chains of investment goods, difficulties conducting financial transactions, and increased uncertainty about economic prospects could all gradually deepen the economic downturn in 2023 and lead to stagnation further on. This is unlikely to produce a sharp decline in GDP and living standards, but economic indicators could fall and the lag behind developed countries could lengthen. We cannot rule out some softening of sanctions; in this case, the Russian economy's growth might be on the way to recovery as early as 2023.

The external sector poses a risk of a deeper and more prolonged recession in the world's major economies. Under an unfavourable scenario for external conditions (see External Economic Conditions), demand for Russian exports will weaken, including oil exports. In addition, the country might not manage to switch its oil and petroleum product sales from the EU market, which we factor in under an unfavourable scenario since it would translate into a 20% cut in production. The budget deficit would expand under an unfavourable scenario due to a decline in oil and gas revenues and could be financed by the NWF. Overall in an unfavourable scenario, Russia might face a deeper economic downturn in 2023, followed by a partial recovery in 2024, along with the global economy. We project GDP to contract by 4.3% in 2023, followed by a 2.4% increase in 2024. The decline in oil and gas exports will cause the Russian rouble to return faster to its equilibrium level: under an unfavourable scenario, the annual average exchange rate in 2023 is expected to be almost 10% higher than in the baseline forecast. The exchange rate factor and increased uncertainty will boost price pressures: inflation in the unfavourable scenario is projected at 8–9% by the end of 2023 and 5–5.5% in 2024. The key rate could therefore be raised to 10% during 2023 in such circumstances, with a later reduction to 6–7% in 2024 as inflationary pressures ease.

REPUBLIC OF TAJIKISTAN

In the baseline scenario, we project Tajikistan's GDP to grow by 7.5% in 2022 and by 6.5% in 2023. Exports and remittances are the major drivers behind this year's rapid economic growth. We project inflation at 6.9% at the end of 2022. The strengthening somoni will curb price growth this year. Consumer prices will grow 6.0% in 2023 and 6.1% in 2024, around the middle of the National Bank of Tajikistan's target range (6±2%), driven by the policy of the NBT and the gradual decline in global commodity prices.

Current situation

Tajikistan's economy is growing rapidly. Industrial output rose by 17.4% YoY over January–August, with increases of 9.9% YoY in mining output, 14.4% YoY in manufacturing output, and 15.4% YoY in energy output. The main reasons behind the rebound lie in the metallurgy, mining, textile and food processing industries, as well as in the energy sector, thanks to new facilities being commissioned and old ones being upgraded. Agriculture increased production by 7.5% YoY. Retail sales and fixed asset investments grew by 10.1% and 7.7% YoY, respectively. There were a few factors contributing to the rise in consumer and investment demand: rising exports in all key items except gold, amid high metal and cotton prices, and increased remittance inflows on account of a stronger Russian rouble. This, we believe, will result in 7.5% GDP growth in 2022, which is higher than our May estimate (4.2%). The main reason for the deviation was that the situation in the major EAEU economies has developed far more favourably than expected, with a lower GDP decline in Russia and higher growth in Kazakhstan.

The traded goods deficit increased to USD 1.8 billion over January–August 2022 (USD 1.2 billion in the same period the previous year). The increase in the deficit was due to imports rising to USD 3.3 billion in January–August 2022 (USD 2.6 billion in the same period the previous year) amid growing domestic demand in the economy and high prices for goods imported from abroad, i.e., energy and food (imports of mineral products increased by 38.9%, and cereals and finished food products rose by 18.4%). Exports rose to USD 1.5 billion in January–August from USD 1.4 billion a year earlier (up 6% only), propelled by lower precious metal revenues than in 2021 (the 40.6% YoY decrease is primarily due to lower shipment volumes). Meanwhile, revenues from other major items grew. For example, Tajikistan earned 60% more than in January–August 2021 from exports of textiles and mineral products (ores and cement), while exports of non-precious metals increased by 39.4% YoY.

The national currency rose in value to reach 10.2 per dollar on 17 October, versus 11.3 at the beginning of 2022, driven by high prices for exporting companies, especially metal producers, and the strengthening of the Russian rouble against the dollar. The strengthening affects the balance of supply and demand on Tajikistan's foreign exchange market, increasing foreign exchange earnings from exports to and remittances from Russia. We expect the exchange rate to remain around TJS 10.2 per USD until the end of the year.

Inflation fell from 8.0% YoY at the end of 2021 to 5.7% YoY at the end of September 2022. Apart from a rather tight NBT policy and strengthening of the national currency, this was helped by the stabilisation of prices for key imported goods – fuels and lubricants and food – whose growth accelerated inflation in the country last year and in the first half of this year. According to our forecasts, inflation will reach 6.9% at the end of 2022, up slightly from today's figures amid strong domestic demand growth in the economy.

The National Bank of Tajikistan has kept the refinancing rate significantly higher than inflation. The rate remained at 13.25% per annum from October 2021 until August 2022, when the NBT raised it by a further 0.25 p.p. on account of a temporary acceleration of inflation in the middle of the year. On 1 November 2022, the rate was reduced to 13.0% per annum. Under the baseline scenario, we believe that the regulator will not have to change monetary policy further before the end of this year.

The state budget posted a surplus of TJS 1.0 billion in January–July 2022, an increase from TJS 92.6 million in the same period of 2021. This can be explained by the funding of expenditure items being slower than in 2021: while in January–July 2021 they met 69.8% of the plan for the first three quarters, in the same period this year they met 66.2% of the plan. Once the country accelerates its spending of the expenditure budget in the rest of 2022, it might support economic growth. The state budget for 2022 is, however, projected to run a small deficit.

Forecasts

↓ **Table 8. Key Macroeconomic Indicators of Tajikistan *(Baseline Scenario)***

Indicator	2020	2021	2022F	2023F	2024F
GDP in constant prices *(% growth YoY)*	4.5	9.2	7.5	6.5	5.8
Consumer price index *(% growth YoY at the end of the year)*	9.4	8.0	6.9	6.0	6.1
Refinancing rate *(% p.a., the year's average)*	11.5	12.2	13.3	12.0	10.5
Tajikistan somoni to U.S. dollar exchange rate *(the year's average)*	10.3	11.3	11.0	10.7	11.5

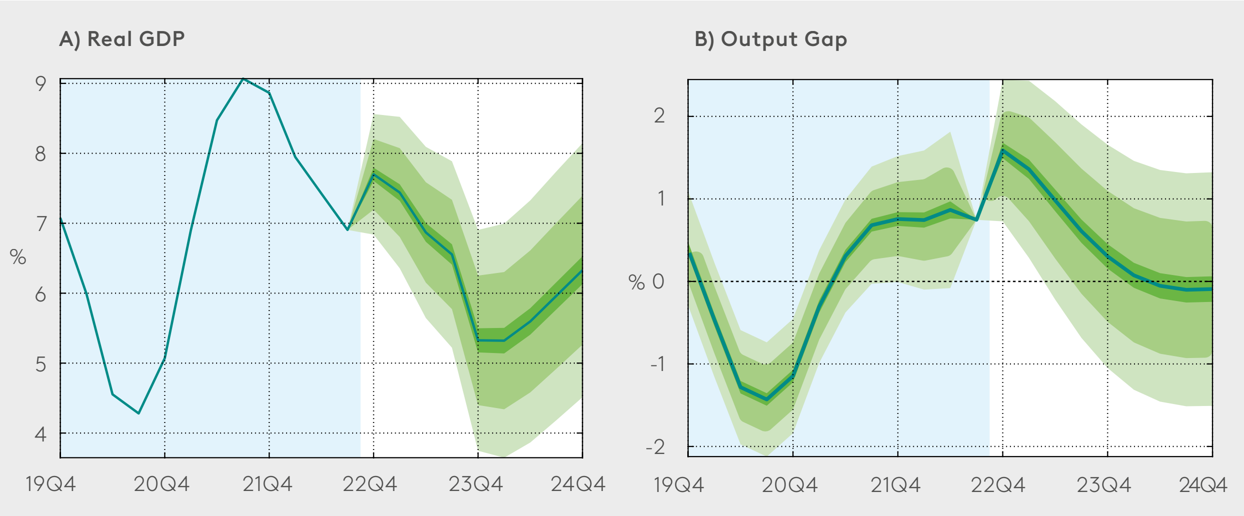
Source: national agencies, calculations by EDB analysts.

Economic activity and inflation

In the baseline scenario, Tajikistan's GDP growth is projected to grow by 6.5% in 2023, after 7.5% in 2022 (Table 8). This slowdown is attributed to the end of the recovery in the economy, which followed the end of the acute phase of the COVID-19 pandemic, the continuing economic downturn in the region, and a decline in incoming remittances amid the expected weakening of the Russian rouble. Growth will remain strong, however, supported by capacity expansion in leading industries and the government's economic development programmes.

In 2024, GDP growth will reach 5.8%, a rate close to Tajikistan's potential (Figure 15.B). The economic growth rate above the regional average can be attributed to structural factors, namely rapid population growth and catch-up economic development.

↓ Figure 15. Economic Activity Forecasts for Tajikistan

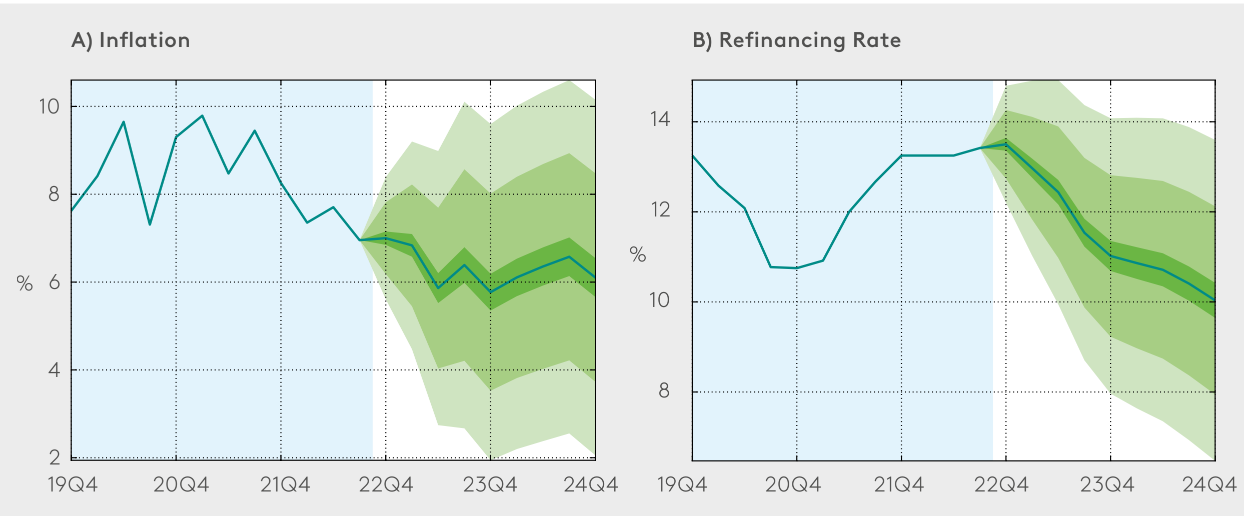


Source: calculations by EDB analysts.

2023 inflation will be 6.0%. The National Bank of Tajikistan's monetary policy will slow consumer price growth compared to 2022 as it focuses on keeping price increases for goods and services for consumers within targets.

In 2024, inflation will be 6.1%, keeping near the middle of the 6±2% range, which is the NBT target (Figure 16.A). The gradual decline in global commodity prices will make it easier for the country's monetary authorities to control inflation.

↓ Figure 16. Inflation and Refinancing Rate Forecasts



Source: calculations by EDB analysts.

Monetary policy and the national currency exchange rate

Between 2023 and 2024, we project Tajikistan's national currency to weaken gradually, with its speed primarily driven by the difference in inflation rates between Tajikistan and its trade partners.

The stabilisation of inflation in the country sets the stage for the start of a transition to a looser monetary policy from next year. We can expect the refinancing rate to fall to an average of 12% in 2023 and to reach 10% by the end of 2024 (Figure 16.B).

Risks

Tajikistan's economy could develop in a less favourable way in 2023–2024 than our baseline forecasts suggest, should the regional and global economies experience a deeper contraction, primarily owing to reduced remittance inflows into the country and lower export revenues for Tajikistan. Under the pessimistic scenario, we assume Tajikistan's economic growth to slow to 6.1% in 2023. A looser monetary policy from the NBT would partially offset the negative effects of weaker external demand and a larger reduction in remittances. Cheaper energy and food can also counterbalance negative shocks.

A further tightening of monetary policy globally may well destabilise the macroeconomic situation in Tajikistan. For example, a key rate hike from the Fed could shrink the price of Tajikistan's key export commodity, gold, which could lead to a worsening of the balance of payments, volatility on the foreign exchange market in the country, a forced increase in the refinancing rate of the NBT, and, consequently, a more significant slowdown of Tajikistan's economy than the baseline scenario suggests.

LIST OF ABBREVIATIONS

% YoY	Year-on-Year growth rate
b.p.	Basis points
bbl	Barrel
BYN	Belarusian Rouble
CB RA	Central Bank of the Republic of Armenia
CPI	Consumer Price Index
EDB, the Bank	Eurasian Development Bank
EAEU, the Union	Eurasian Economic Union
EEC	Eurasian Economic Commission
EU	European Union
(the) Fed	U.S. Federal Reserve System
GDP	Gross Domestic Product
IBL	Interbank Loans Market
KR	Kyrgyz Republic
KZT	Kazakh tenge
MIACR	Moscow Interbank Actual Credit Rate
mt	Metric tonne
NB	National bank
NBKR	National Bank of the Kyrgyz Republic
NBT	National Bank of Tajikistan
NWF	National Welfare Fund
OPEC+	Organisation of Petroleum Exporting Countries Plus
p.p.	Percentage point
PMI	Purchasing Managers' Index
RA	Republic of Armenia
RB	Republic of Belarus
Repo	A transaction which involves the purchase of securities with an agreement to sell them back for a specific price
RF	Russian Federation
RK	Republic of Kazakhstan
RT	Republic of Tajikistan
RUB	Russian Rouble
SDR	Special Drawing Rights
TONIA	Tenge OverNight Index Average
U.S. or USA	United States of America
YTD	year-to-date

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

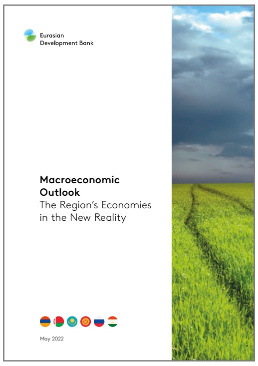
The real GDP that would be produced by the economy in a certain period of time if production factors were used in the most efficient fashion. Potential GDP can also be defined as real GDP that can be sustainably produced by the economy without creating any economic imbalances.

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)

The Region's Economies in the New Reality

The analysis summarises economic developments in the Bank's member states in 2022 and provides key macroeconomic projections for the region's countries for 2022–2024.

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)

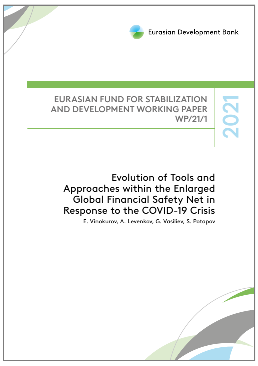
Uzbekistan and the EAEU: Prospects and Potential Impact of Economic Integration

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)

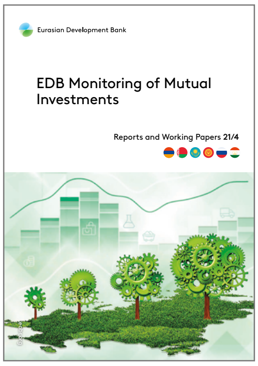
Evolution of Tools and Approaches within the Enlarged Global Financial Safety Net in Response to the COVID-19 Crisis

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

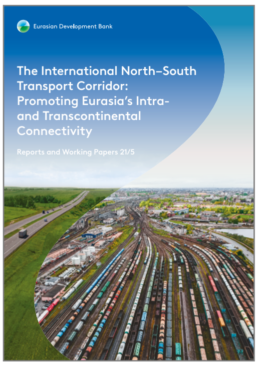
This study aims to contribute to understanding the potential risks and impacts of both explicit and implicit contingent liability shocks on government fiscal and debt positions in the EFSD recipient countries.



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)

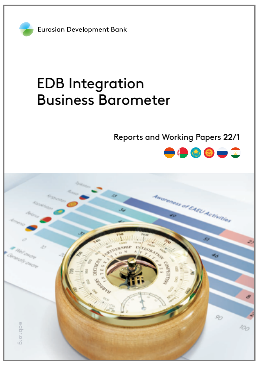
The International North–South Transport Corridor: Promoting Eurasia's Intra- and Transcontinental Connectivity

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

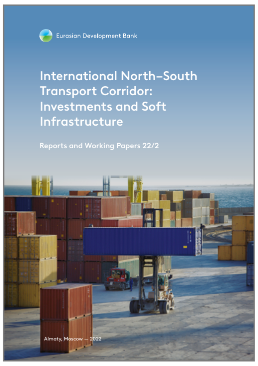
The report is prepared by the key international industry experts and young scholars. It contains the results of technical research aimed at solving today's energy challenges and helping to reduce the carbon footprint in Eurasia.



Report 22/1
(RU/EN)

EDB Integration Business Barometer

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



Report 22/2
(RU/EN)

International North–South Transport Corridor: Investments and Soft Infrastructure

The study assesses the investment potential of the INSTC, identifies barriers to its development and provides recommendations on how to eliminate them.

Report 22/3
(RU/EN)

The Economy of Central Asia: A Fresh Perspective

The report provides a renewed perspective on Central Asia as a large, dynamic and promising economic region and analyses its current structural changes and major growth areas.

Eurasian Development Bank

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concerning this document are welcome at:
pressa@eabr.org

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