Eurasian Development Bank

MACROECONOMIC OUTLOOK 2023–2025

June 2023

Eurasian Development Bank

KEY FINDINGS

MACROECONOMIC OUTLOOK

JUNE 2023

2023

Economic growth estimates for the Bank's member states improved

Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	Tajikistan
7.5%	2.2%	4.3%	4.2%	1.0%	7.9%

GDP growth in 2023

Inflation slowdown to single digits due to monetary policy measures and easing external pressure

6.4%

aggregate inflation in the region at the end of 2023

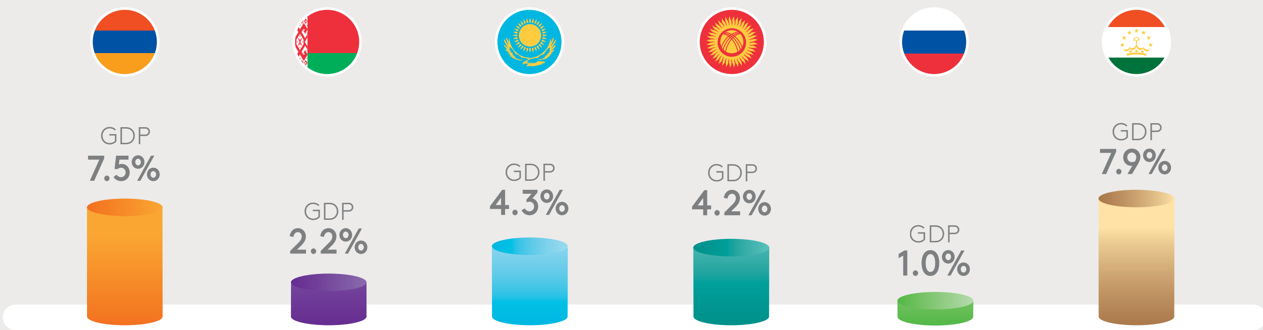
Key rate in Russia on hold and start of the base rate reduction cycle in Kazakhstan from the second half of the year

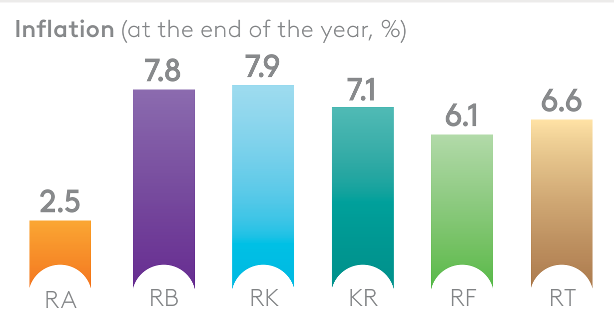
7.5%

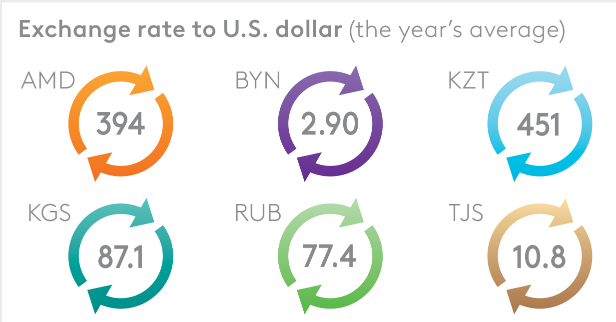
key rate in Russia at the end of 2023

≈15%

base rate in Kazakhstan at the end of 2023







2024

Economic growth near its potential amid external constraints

1.3%

Russia's GDP growth in 2024

1.1%

Belarus's GDP growth in 2024

High growth rates in Kazakhstan, Armenia, Kyrgyzstan, and Tajikistan

4.4%

Kazakhstan's GDP growth in 2024

5.1%

aggregate GDP growth in Armenia, Kyrgyzstan, and Tajikistan in 2024

Inflation in most countries of the region approaching targets, barring additional shocks

5.2%

aggregate inflation in the region at the end of 2024

Easing of monetary conditions

≈7%

key rate in Russia at the end of 2024

11–12%

base rate in Kazakhstan at the end of 2024

Vinokurov, E., Kuznetsov, A., Berdigulova, A., Fedorov, K., Dolgovechny, A., Babajanyan, V. (2023) *EDB Macroeconomic Outlook 2023–2025. June 2023.* Almaty: Eurasian Development Bank.

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

Anton Dolgovechny, Senior Analyst, Centre for Macroeconomic Analysis, Research Department, dolgovechny_ap@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.

The electronic version of this document can be viewed at: https://eabr.org/en/analytics/ceg-quarterly-reviews/.

Cover: midjourney.com

CONTENTS

SUMMARY

The global economy is growing slowly, accompanied by higher inflation rates. The major central banks are likely to end their monetary tightening cycle soon. Major economies see weakening demand and runaway inflation, which is significantly higher than in the previous decade. In the medium term, the U.S. and Eurozone economies will have to function amid weak GDP growth and markedly higher price growth and interest rates than observed during the 2010s. The baseline scenario projects the U.S. GDP at 0.4% in 2023 and assumes recession in some quarters of 2023 and 2024, with meaningful recovery growth of 2.8% expected only in 2025. The rate of recovery in the Eurozone will be even slower, at 0.3% in 2023 and 1.9% in 2025. China is expected to lift its rigid lockdown policies, driving GDP to accelerate to 5.6% in 2023; the Chinese economy, however, is very likely to slow down in the medium term.

Thanks to domestic sources of growth, the GDP of the EDB operating region will increase by 1.5% in 2023. The outlook for 2023 has been revised and changed for the better for all member states of the Bank. The key drivers behind the revision were the strong performance at the start of this year, as economies adjusted rather quickly to the changed operating environment in 2022, and fiscal policy support in some countries. The economies of Russia and Belarus will return to positive annual growth rates as early as the first half of 2023. In 2023, the two countries' GDPs will increase by 1% and 2.2%, respectively. Kazakhstan's economic growth forecast is raised to 4.3%. The next year also expects to see high growth rates of 7.5% in Armenia, 4.2% in Kyrgyzstan, and 7.9% in Tajikistan.

Inflation in the Bank's operating region could slow from 12.4% in 2022 to 6.4% in 2023, encouraged by the adapting economies due to rapid recovery from shocks experienced in early 2022, a period of skyrocketing devaluation and inflation expectations. The countries of the region are now largely seeing a slowdown in the inflation rate; their expectations have stabilised, and economic sentiment has improved. In addition, global commodity prices are easing up their pressure on the economies. Global supply chains are returning to normal, with transport costs dropping. The increase in consumer prices by the end of 2023 is projected at 2.5% in Armenia, 7.8% in Belarus, 7.9% in Kazakhstan, 7.1% in Kyrgyzstan, 6.1% in Russia, and 6.6% in Tajikistan. We expect inflation in the majority of the countries of the region to approach the target values in 2024–2025.

A slowdown in inflation sets the stage for key rate cuts by the majority of central/national banks in the region. We believe the CB RF is going to maintain a neutral monetary policy in 2023. The baseline scenario assumes no changes will be made to the key rate this year. In 2024–2025, the Central Bank of Russia will start to reduce the key rate gradually, and by the end of the forecast period, it will be about 6–6.5%. The National Bank of Kazakhstan may start to reduce the base rate from the second half of 2023 in stages, and by the end of the year, there is a potential for reduction to 15% from 16.75% at the end of the May. In case of easing of inflationary pressures from the external sector, we might expect a base rate reduction to 11–12% by the end of 2024.

EDB MEMBER STATES

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

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

Indicator	2021	2022	2023F	2024F	2025F
Republic of Armenia					
GDP in constant prices	5.8	12.6	7.5	5.1	5.4
Inflation *(at the end of the period)*	7.7	8.6	2.5	3.2	3.5
IBL rate *(the year's average), %*	6.4	9.0	9.7	6.4	6.8
Armenian dram to U.S. dollar exchange rate *(the year's average)*	504	436	394	414	422
Republic of Belarus					
GDP in constant prices	2.5	–4.7	2.2	1.1	1.0
Inflation *(at the end of the period)*	10.0	12.8	7.8	8.2	7.2
Refinancing rate *(the year's average), %*	8.6	11.6	10.2	9.3	9.0
Belarusian rouble to U.S. dollar exchange rate *(the year's average)*	2.54	2.62	2.90	3.05	3.17
Republic of Kazakhstan					
GDP in constant prices	4.3	3.3	4.3	4.4	4.4
Inflation *(at the end of the period)*	8.4	20.3	7.9	5.5	4.1
TONIA rate *(the year's average), %*	8.9	13.8	15.9	12.0	9.5
Kazakhstan tenge to U.S. dollar exchange rate *(the year's average)*	425.9	460.2	450.5	465.3	472.3
Kyrgyz Republic					
GDP in constant prices	6.2	7.0	4.2	4.1	3.6
Inflation *(at the end of the period)*	11.2	14.7	7.1	6.3	6.3
7-day Repo rate *(the year's average), %*	5.6	12.1	10.1	9.4	9.5
Kyrgyzstan som to U.S. dollar exchange rate *(the year's average)*	84.6	84.1	87.1	88.8	91.8
Russian Federation					
GDP in constant prices	5.6	–2.1	1.0	1.3	1.3
Inflation *(at the end of the period)*	8.4	11.9	6.1	4.9	4.0
Key rate *(the year's average), %*	5.8	10.5	7.5	7.1	6.4
Russian rouble to U.S. dollar exchange rate *(the year's average)*	73.6	68.4	77.4	79.5	80.6
Republic of Tajikistan					
GDP in constant prices	9.2	8.0	7.9	5.8	6.7
Inflation *(at the end of the period)*	8.0	4.2	6.6	5.6	6.2
Refinancing rate *(the year's average), %*	12.2	13.3	10.3	10.0	9.3
Tajikistan somoni to U.S. dollar exchange rate *(the year's average)*	11.3	11.0	10.8	11.0	11.3

Note: Here and in other tables, F = Forecast.
Sources: national agencies of the EDB member countries, calculations by EDB analysts.

FROM CHIEF ECONOMIST

GLOBAL ECONOMIC TRENDS

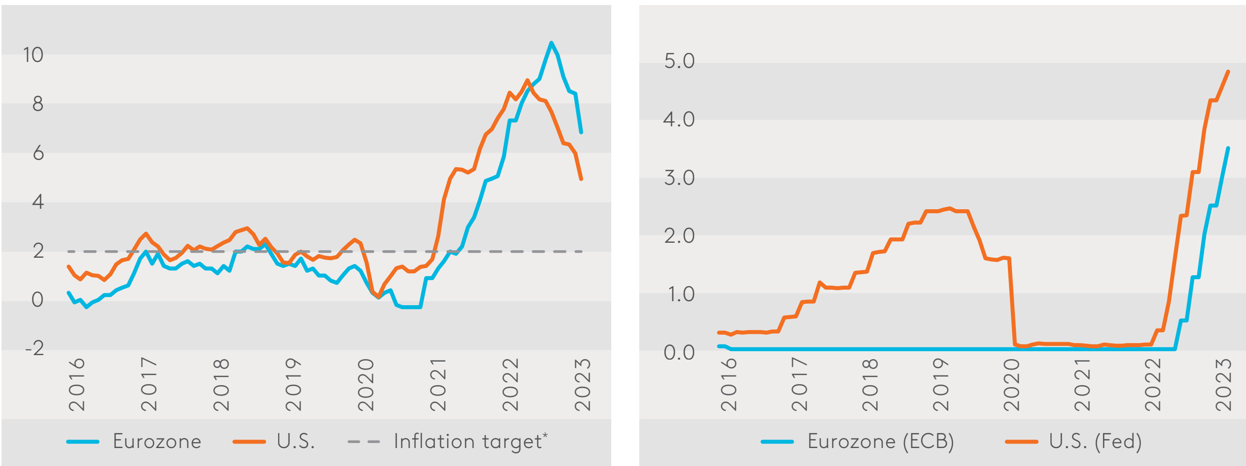
Six months have passed since the release of our previous Macroeconomic Outlook. Back then, we identified three major trends in the global economy and shared our view of their development. **The first trend** saw inflation slow down to higher levels than in the previous decade. **The second trend** saw developed countries in the final phases of their monetary tightening cycles. **The third trend** saw weakening global business activity (Figure 1). Recent developments imply that the global economy is generally moving within the trends we have outlined. That said, it is May 2023, and we are possibly witnessing the end of one of the trends, namely, interest rate rises in developed countries.

The developed countries completed their recovery from the pandemic. Both businesses and the banking sector experience negative effects from rising key interest rates that tighten financial conditions, as well as from weakening fiscal stimuli (Figure 1.D). This means that **demand in the global economy remained subdued at the start of the year,** even though activity in China increased following the easing of COVID-related restrictions: the manufacturing PMI of new orders in April remained below the 50-point threshold (separating growth from decline) for the tenth consecutive month (and the new export orders index for the fourteenth consecutive month). The GDP growth in the two largest advanced state entities—the U.S. and the EU—is slowing down (Figure 1.C).

↓ **Figure 1. Trends in the U.S. and the Eurozone**

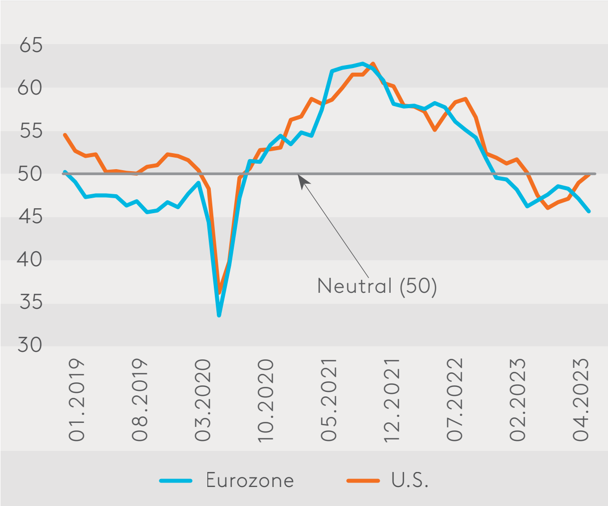
A) Changes in Inflation in the U.S. and the Eurozone

B) Fed and ECB Key Rate, % per annum

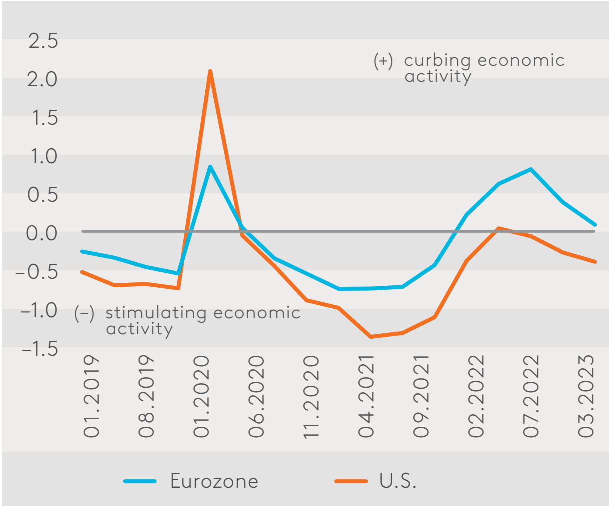


* — inflation target of 2% in the U.S. and the Eurozone.
Sources: National agencies, Eurostat, calculations by EDB analysts.

C) Economic Activity (Industrial PMI)



D) Financial Conditions Index*



* — a standard deviation from the mean values.

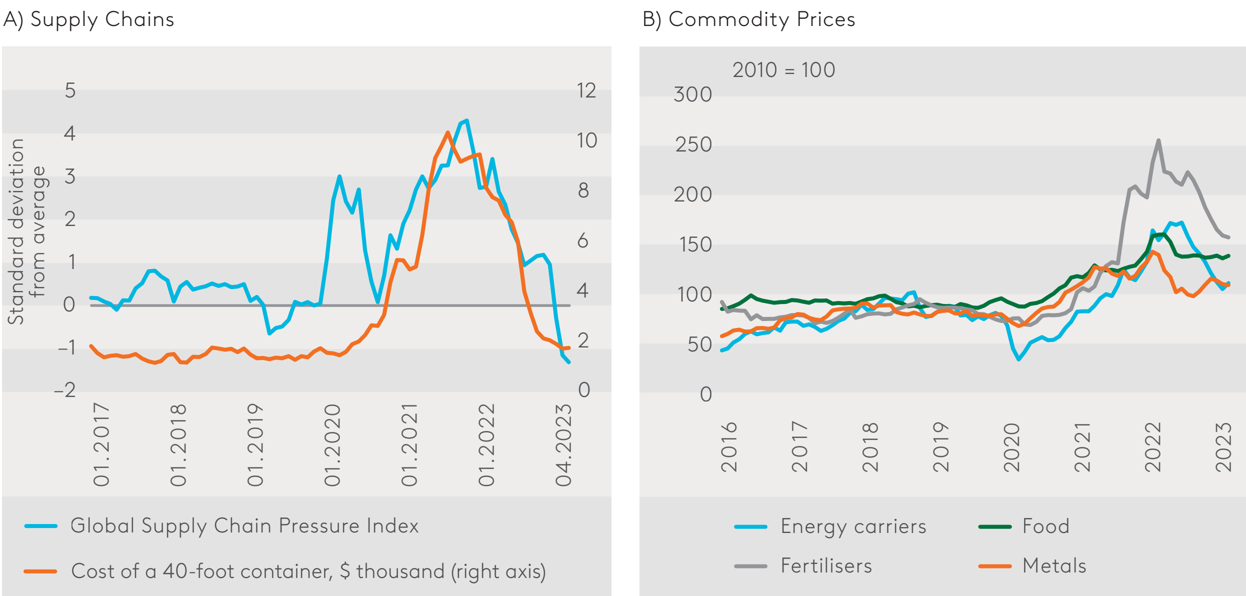
Sources: Refinitiv, IMF, calculations by EDB analysts.

Reduced global demand for goods has **significantly decreased transport costs** and eased tensions in the global supply chain. In fact, the pressure in supply chains is already below its historical average, and the cost of container transport has fallen to early 2020 values (Figure 2.A). Energy prices also fell earlier this year (Figure 2.B), and it was key to slowing inflation in developed countries (Figure 1.A).

This is it, however, for the good news about inflation. Labour markets in the U.S. and the Eurozone are still overheated, and the fragmentation of the global economy is reducing the international mobility of capital, goods, and industries due to geopolitical transformation. Many multinational companies are relocating production previously located in emerging economies to the U.S. and EU countries, reverting to regionalisation (McKinsey, 2022). This makes many positive effects of the international division of labour obsolete and creates **supply-side inflation risks**. Analysts (Attinasi et al., 2023) estimate that this could additionally increase prices by around 1 p.p. per year over the next few years. Certainly, with continued confidence in the Fed and ECB, higher interest rates can dampen inflation expectations and influence demand, but **monetary authorities are powerless against the structural drivers of price increases.**

We are now at a point where, though inflation has slowed in developed countries, its persistent components stay high, while economic activity is already slumping amid tighter financial conditions. The situation in the U.S. and EU will affect the global economy, and the opening up of China's borders and economy will certainly not help, but only increase pro-inflationary risks. Consequently, we have good reason to believe that **the trend of key interest rate hikes is nearing a turning point in developed countries.**

↓ **Figure 2. Individual Factors Influencing World Prices**



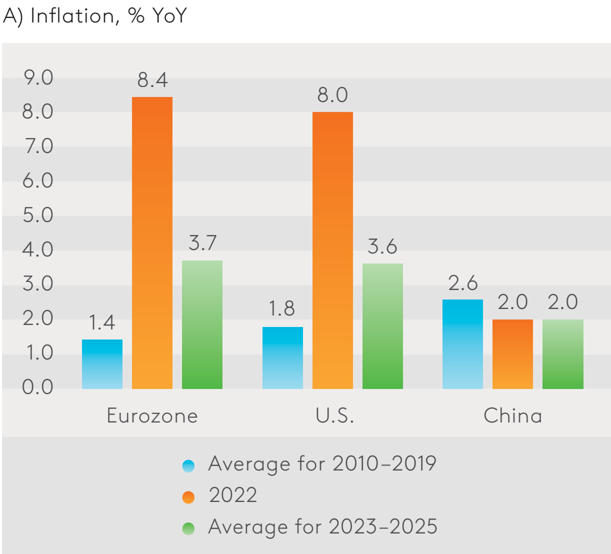
Sources: World Bank, Bloomberg, Drewry, calculations by EDB analysts.

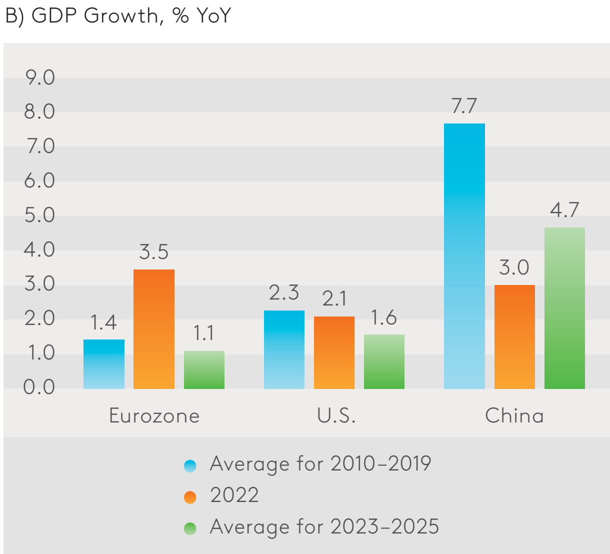
We have already noted that **rising borrowing costs will cause problems for banks,** and events in the financial markets of developed countries confirm our suspicions: U.S. banks' interest income on loans is falling below the cost of borrowing from regulators and other banks. Western European banks, including the leading French and German banks, are also struggling. Banks will have to ensure positive margins and significantly raise interest rates on new loans.

This **raises concerns about the sustainability of the real estate sector in developed countries, both residential and commercial.** A credit crunch will reduce demand for housing, cutting house prices in developed countries since the second half of 2022. We see the greatest risks in the U.S., where the construction industry in general accounts for about 17% of GDP. Commercial real estate is also at risk; tighter monetary and bank regulation policies have dramatically increased the cost of refinancing. Shrinking demand for real estate poses a serious risk to the overall economic growth dynamism: a 1 p.p. increase in the mortgage rate leads to an average monthly burden of around $100 for U.S. mortgage holders (Ahir et al., 2023). This will reduce consumer spending and slow demand.

The U.S. electoral cycle, turbulence in the financial sector, and high recession risks will push the Fed to cut rates as early as 3Q2023. The ECB is likely to complete its rate hike by mid-2023 to avoid a banking crisis; the cycle will therefore reverse in late 2023/early 2024. Coupled with the pro-inflationary effects of changes in the global economic architecture, **the expected monetary policy easing will not allow inflation in the U.S. and the Eurozone to return to the 2% target in the medium term.** We project an average inflation rate of 3.6% YoY in the U.S. and 3.7% YoY in the Eurozone between 2023 and 2025 (Figure 3.A). By comparison, between 2010 and 2019, price growth averaged 2.0% YoY in the U.S. and 1.4% YoY in the Eurozone.

↓ **Figure 3. Changes in and Projection for Key Economic Indicators in the U.S., Eurozone, and China**

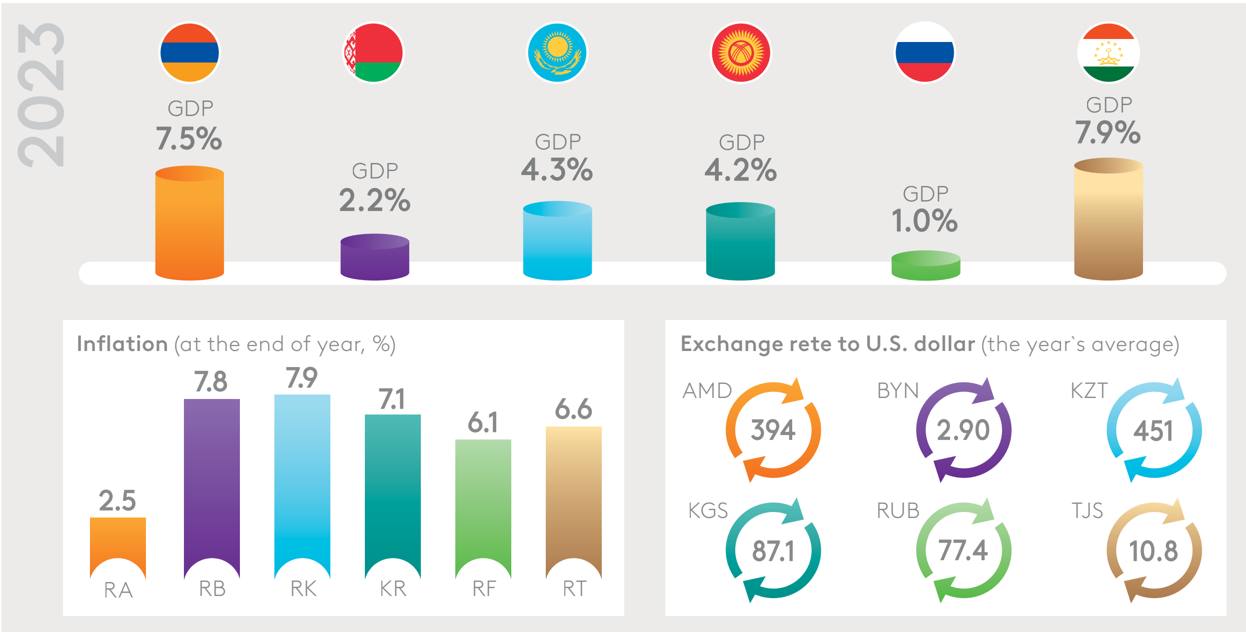




Sources: National agencies, calculations by EDB analysts.

Higher inflation, skyrocketing interest rates, the end of the post-pandemic recovery, and weak domestic demand will hamper economic growth in the largest countries. We estimate U.S. GDP growth at 0.4% in 2023. We also assume a recession in some quarters of 2023 and 2024, with meaningful recovery growth of 2.8% not expected until 2025. The Eurozone's recovery rate will be even lower, at 0.3% in 2023 and 1.9% in 2025. China is expected to lift its rigid lockdown policies, driving GDP to accelerate to 5.6% in 2023, but the Chinese economy is very likely to slow down to 4.5% in 2024 and 4% in 2025 (Figure 3.B). Overall, the global economic outlook has not changed fundamentally from the previous Outlook. In the current outlook, however, the global economic slowdown is expected to be less pronounced, although the recovery will take more time.

↓ **Figure 4. Outlook for Key Macroeconomic Indicators of the EDB Member States in 2023**



Source: calculations by EDB analysts.

EXTERNAL ECONOMIC CONDITIONS

The global economy and commodity markets are expected to constrain the economy of the EDB operating region in 2023–2025. Tighter financial conditions and weaker fiscal stimulus will slow global GDP growth in 2023; its recovery is projected to be low. Inflation in the U.S. and the Eurozone will remain above target in the medium term due to the structural nature of higher price growth, with stagflationary risks likely to be high.

Forecast

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

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

	Oil price (\$/bbl annual average)		Global GDP (at market rates)	Inflation in the U.S.	Inflation in the Eurozone	Fed key rate (% at the end of the year)
	Brent	Urals				
2022	100	76	3.0	8.0	8.4	3.7
2023F	82	59	2.1	4.4	5.3	3.6
2024F	77	65	2.5	3.4	3.0	3.4
2025F	73	68	2.9	3.1	2.7	3.4

Sources: 2022 — data from IMF, World Bank, Fed; 2023–2025 — forecasts by EDB analysts.

Food prices will stabilise in 2023 after adjusting from their peak in 2Q2022, but they will still be higher than before the pandemic. Prices are expected to decline slowly in 2024, provided the global supply situation continues to improve. **Base metals will remain essentially unchanged between 2023 and 2025:** demand will be subdued amid the global economic slowdown, and supply recovery will be slow as costs remain high. Changes in supply chains will also affect commodity prices in different ways: on the one hand, lower transport costs will reduce costs, but on the other hand, the difficult logistics of supplying commodities from Russia due to restrictions will limit the potential for lower prices.

The price of Brent oil will gradually fall due to weakening economic activity around the world. The cooling of the global economy is likely to constrain demand for oil. At the same time, we see the OPEC+ oil supply cut as a measure to prevent an excessive drop in prices. The baseline scenario assumes an average Brent oil price of USD 82 per barrel in 2023, and a gradual fall to USD 73 in 2025. The discount for Russian Urals oil to Brent prices is estimated to average around USD 25 by the end of 2023, declining further to USD 5 by the end of 2025.

Inflation in the U.S. and the Eurozone will slow down but remain elevated throughout the forecast period. By the end of 2023, we expect consumer prices to rise by 4.4% in the U.S. and 5.3% in the Eurozone. Inflation will slow due to lower global food and energy prices and central banks' decisive monetary policy tightening. Pro-inflationary pressures from the labour market and the fragmentation of the global economy will keep price growth in developed countries higher than in the past decade. We estimate inflation in the U.S. and the Eurozone to remain at 3% even in 2025, never climbing down to the 2% target.

Global economic growth will slow to 2.1% in 2023 after 3.0% in 2022, as the world's major economies fight inflation, and the global economy continues to fragment. We remain conservative about the speed of recovery in the world's major economies and do not expect it to pick up until the second half of 2024. Economic growth in the U.S. will be 0.4% in 2023, 1.5% in 2024, and 2.8% in 2025. In the Eurozone, growth is estimated at 0.3% in 2023, 1.2% in 2024, and 1.9% in 2025. China is expected to lift its rigid lockdown policies, driving GDP to accelerate to 5.6% in 2023, but the Chinese economy is very likely to slow down to 4.5% in 2024 and 4% in 2025.

We expect the Fed's key rate hike cycle to come to an end, with a fairly rapid rate cut to around 3.5% by the end of this year, and then remain so throughout the entire forecast horizon. The EDB analysts believe that weakening business activity and threats to financial stability will require a loosening of monetary policy. We do not think that a rapid reduction in interest rates is likely, as it is still crucial to curb a new acceleration in inflation.

Risks

Deeper and longer global recession scenario. Increased fragmentation of the global economy will steadily push up labour costs, which will maintain inflationary pressures and require tighter monetary policy. Under the risk scenario, we expect GDP in the U.S. and the Eurozone to decrease by 0.3% in 2023. Taking into account the structural nature of inflation in the risk scenario, average annual inflation in 2023 will be 0.1 p.p. higher than in the baseline scenario, 4.5% in the U.S. and 5.4% in the Eurozone, despite tighter monetary conditions and GDP contraction. Interest rates will remain elevated: slow monetary easing will continue to depress economic growth in 2024, leading to a slower global economic recovery. In both the U.S. and the Eurozone, despite a lower base in 2023, growth in 2024 will be below the baseline scenario by 0.4 p.p. and 0.6 p.p., respectively, which in turn will have a disinflationary impact, driving monetary authorities to cut rates more quickly in the second half of 2024 and pushing the economies to recover in 2025. Under the risk scenario, commodity prices would be markedly lower in 2023–2024 than in the base period, especially for the most growth-sensitive items: oil could fall closer to $50 per barrel, and copper would be 7–8% lower. Food prices are forecast to sustain their levels and dynamics, due to both high inflation in developed countries and ongoing supply problems from Russia.

REPUBLIC OF ARMENIA

Source: leonardo.ai
Prompt: A winding road going to the horizon line, bypasses lakes, trees, sunrise.

REPUBLIC OF ARMENIA

The baseline scenario projects Armenian GDP growth at 7.5% in 2023 and 5.1% in 2024. Inflation may slow to 2.5% in 2023, no longer affected by external price pressures and driven by the stronger dram and tighter monetary conditions for most of the year. Fiscal policy will propel the economy in 2023.

Current situation

Armenia's economic activity grew by 12.2% YoY in January–April. Strong growth is noted in trade and industry since the beginning of the year. All sectors contributed to economic activity in the first four months, with the services sector accounting for most of the dynamism. Business activity remained strong in January–April, largely spurred by good remittances and net exports, a far cry from the lower performance in the same period last year. Individual trans-border remittances increased by a factor of 2.8 to $1.5 billion between January and March this year. This, together with high tourism intensity, has boosted the economy: visits from other countries increased by 81.2% YoY in 1Q. We estimate Armenia's economy to continue to grow strongly in 2Q, albeit at a slightly slower pace.

Almost all sectors of the Armenian economy experienced strong and dynamic development at the beginning of the year. The services sector grew by 22.2% YoY in January–April, with more than 60% of the growth coming from expansion in the software and banking sectors (up 88.7% YoY and 29.5% YoY respectively in January–March). Construction and manufacturing have also grown strongly since the beginning of the year. Manufacturing grew by 8.1% YoY in January–March, while the mining industry continued to decline (down 3.2% YoY) due to the work stoppage on the Teghut copper field. The volume of construction work completed grew by 15.6% YoY in January–March, encouraged by funding from companies (+32.4% YoY) and individuals (+22.5% YoY). More than half of the sector's work is in residential construction (+65.8% YoY), amid strong growth in mortgage lending (+28.6% YoY). Agricultural output increased by 1.4% YoY in the first quarter.

The value of goods exports increased faster than imports in the first four months of 2023. In January–April this year, exports increased by a factor of 2.1 YoY, and machinery and equipment, precious stones and metals, and vehicles were the key contributors. Imports increased (+93.9% YoY) for all product groups in January–April. The fact that exports are outperforming imports is one of the reasons why the Armenian dram is steadily appreciating.

Inflation in Armenia slowed down to 3.2% YoY in April after 5.4% a month earlier on account of a deceleration in food price growth (1.2% YoY in April after 3.2% a month earlier). The trend of slower prices for non-food items (prices for fuel and lubricants fell by 2.6% YoY) and services also continued. The sharp slowdown is mainly due to high inflation in the same period last year, when there was a surge in consumer prices. Core inflation also continues to slow down, to 4.3% YoY in April from 6.4% YoY a month earlier. As the Armenian dram strengthens, and external prices no longer exert as much pressure on imported goods, it considerably limits price increases. Tight monetary conditions in 1Q2023 also contributed to the fall in inflation. By the end of 2Q, inflation will be at the lower end of the CB RA's target range (4±1.5%).

The refinancing rate has remained at 10.75% since the beginning of the year. At the meeting on 2 May, the Bank said external price pressures were easing up on the Armenian economy and the dram kept appreciating; it then cited tightening of monetary policy as one of the disinflationary factors. Bank officials also mentioned that inflationary pressures dominated the unregulated services segment and spoke of high uncertainty persisting across the industries. The CB RA's refinancing rate hike cycle is complete, as we have previously forecast.

The national currency has continued to appreciate steadily since the beginning of 2023. In April, the Armenian dram strengthened against the currencies of trading partner countries compared to the beginning of the year, in particular, by 2.1% against the dollar, 0.5% against the euro, and 16.3% against the Russian rouble. International foreign exchange reserves stood at USD 3.6 billion at the end of April, virtually unchanged since the beginning of the year. The dram will continue to appreciate, fuelled by sustained high remittance inflows and a faster growth rate of exports vs. imports.

The state budget posted a surplus of 0.7% of GDP in January–March 2023 (vs. 0.3% of GDP in 2022), and tax revenues increased by 15.2% YoY in the context of increased business activity. Expenditure rose by 6.5% YoY, mainly driven by an 8.8% YoY increase in current expenditure. We assume that fiscal policy will promote demand, as the authorities plan to increase the budget deficit to 3.1% of GDP in 2023 (from 2.1% in 2022).

Forecast

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

Indicator	2021	2022	2023F	2024F	2025F
GDP in constant prices *(% growth YoY)*	5.8	12.6	7.5	5.1	5.4
Consumer price index *(% growth YoY at the end of the year)*	7.7	8.6	2.5	3.2	3.5
IBL rate *(%, the year's average)*	6.4	9.0	9.7	6.4	6.8
Armenian dram to U.S. dollar exchange rate *(the year's average)*	504	436	394	414	422

Sources: National agencies, calculations by EDB analysts.

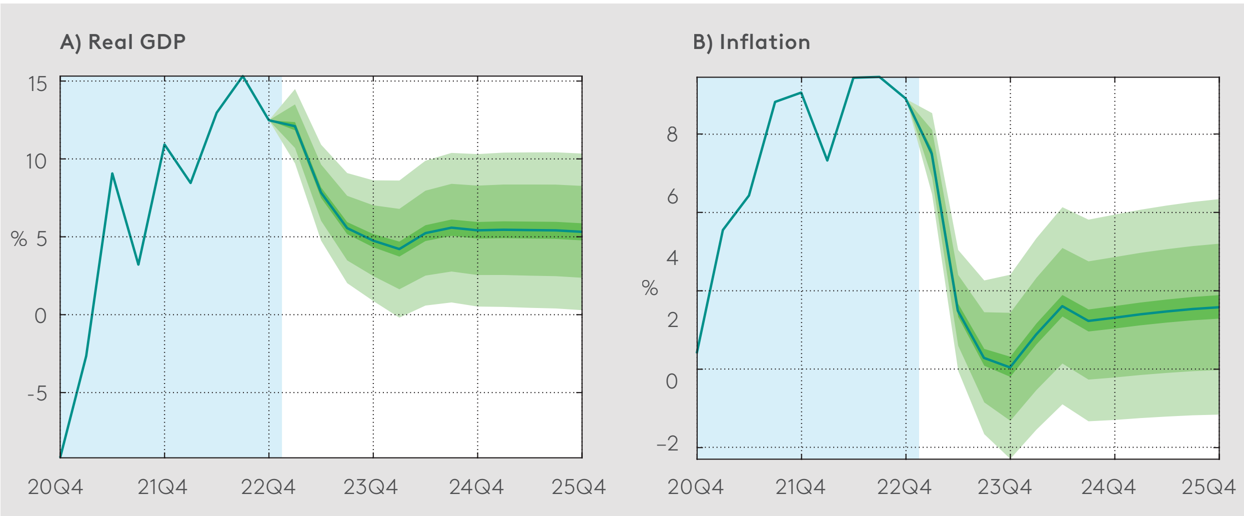
Economic activity and inflation

The baseline scenario assumes Armenia's GDP to increase by 7.5% in 2023 (Figure 5.A), with a higher figure resulting from strong economic performance in 1Q2023 and other factors. In particular, we expect an improvement in the current situation and economic outlook in the Russian Federation, and it will boost cross-border remittances flowing into the country and external demand. Cross-border remittances from the Russian Federation may increase by 30% this year, according to our estimates. Work resumed on the Amulsar field will also have a positive impact on GDP. Construction work and investment inflows from further development of the field will contribute to economic growth[1]. As inflation slows down and lending increases, we expect domestic demand from residents to go up[2]. We see the government pursue a stimulative fiscal policy this year. Consumer demand is expected to stabilise in 2024 gradually, and economic growth in 2024–2025 is expected to be close to balanced at 5.1% and 5.4%, respectively.

External demand will continue to have both positive and negative effects on the Armenian economy. A slowdown in global business activity in 2022–2023 will have a more negative impact, translating into weak external demand for exported goods. A decline in remittances can be expected, including from the U.S., offset by the switch of exports to Russia. We also expect remittances from Russia to rise.

Under the baseline scenario, we project inflation at 2.5% YoY at the end of 2023. It will be below the CB's target range for the rest of 2023 (Figure 5.B). The easing of external price pressures amid tight global monetary conditions will have a disinflationary effect, along with the adjustment of domestic demand and the overvaluation of the dram. Price growth in Armenia is expected to reach 3.3% by the end of 2024. In the medium term, inflation will be within the Central Bank's target range.

↓ Figure 5. Economic Activity and Inflation Forecast for Armenia



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

Source: calculations by EDB analysts.

[1] The authorities estimate that this could generate up to 1 p.p. of growth per year.

[2] The loan supply and demand will increase this year, according to a survey by the Central Bank of Armenia.

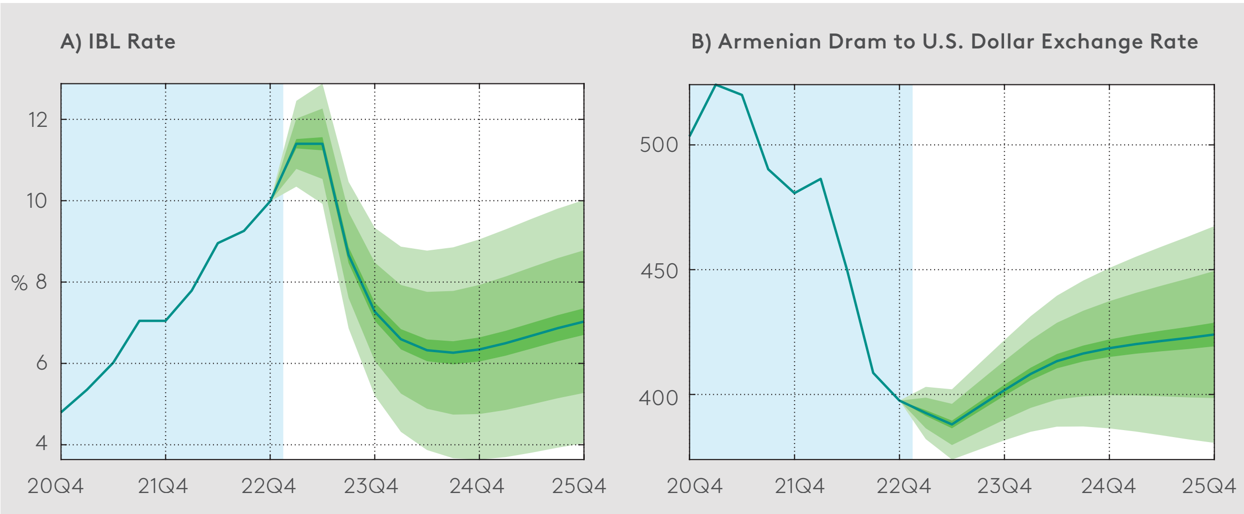
Monetary policy and the Armenian dram exchange rate

Under the baseline scenario, the IBL rate will stagger to an average of 9.7% over 2023, following the refinancing rate (Figure 6.A). With price growth decelerating steadily, consumer demand stabilising further and inflation falling within the CB RA's target range (4±1.5%), we allow for the start of the refinancing rate reduction by the end of 2Q. Nevertheless, we project monetary policy to curb demand over the year. The IBL rate will fall to 6.2% in 2024, which will be on a par with the CB RA's stable inflation target range.

The average annual exchange rate of the Armenian dram against the U.S. dollar is projected at an average of 394 in 2023 (Figure 6.B). The national currency receives support from faster growth in exports of goods and services (vs. imports), inflows of remittances, foreign capital, and a continued high tourism intensity, as well as high rates in the financial market. Late 2023 will see a gradual depreciation of the dram due to depreciation expectations caused by the geopolitical situation, a possible rate cut in the money market, and expectations of a weaker rouble against the dollar, which will keep the dram overvalued in 2023 but gradually lead to its depreciation.

Stimulative fiscal policy in the medium term. Fiscal policy will stimulate demand this year, according to our estimates, given the 0.6 p.p. expenditure increase up to 27.8% of GDP. The government plans to increase capital spending by 1.2 p.p. to 5.9% of GDP this year and keep it at 6% of GDP until 2025. This 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 rates 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 Forecast



Source: calculations by EDB analysts.

Risks

The external sector poses a risk of a deeper and more protracted recession in the world's major economies. 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.

Armenia's economic growth driver for 2022 and the first half of 2023 could pose a risk to the economy. Capital and labour outflows become a significant threat to the economy and the stability of the national currency. The net inflow of cross-border transfers through the banking system was 13.2% of GDP in 2022, double the average of the last five years (5.2% of GDP). The exchange rate of the Armenian dram against a basket of currencies has appreciated by almost 40% over the year. A reversal of these processes would initially lead to a sharp depreciation of the national currency and a surge in prices. The refinancing rate will have to rise in order to anchor inflation expectations. Lower consumer and investment demand and tighter monetary policy will depress the economy. Weak demand and rising interest rates will stop prices from rising, but we might also see stagflation.

REPUBLIC OF BELARUS

Source: leonardo.ai
Prompt: A winding road leading to the horizon, bypasses lakes, trees, large stones.

REPUBLIC OF BELARUS

Under the baseline scenario, GDP growth is projected to rebound to 2.2% in 2023 and then decelerate to a potential average rate of around 1% in 2024–2025. Inflation will slow to 7.8% (from 12.8% in 2022) in 2023 but accelerate to 8.2% in 2024, spurred by stimulative monetary policy. Under the baseline scenario, the refinancing rate is expected to decrease gradually to 9% between 2023 and 2024.

Current situation

Belarus is on the road to economic recovery. GDP slowed down to 2.1% YoY in 1Q2023, after 5% YoY in January and 3.6% YoY in January–February, a trend driven by the recovery of demand in the Russian Federation, Belarus's key trading partner, the adaptation of economic entities to the changed operating environment in 2022, and support from monetary policy. Industry performance has improved markedly, with a positive growth rate of 1.8% YoY in 1Q2023, following a significant decline in 2Q–4Q2022. Industry contributed 0.4 p.p. to GDP growth in 1Q2023, while agricultural output added 0.1 p.p. to the change in GDP due to an increase of 2.2% YoY in 1Q2023. Economic activity was constrained by the information and communications sector (down 1.3 p.p.) due to the relocation of people employed in the industry to other countries, and by transport (down 0.8 p.p.), mainly caused by restrictions imposed by Western countries on the transport capacity of Belarusian companies and the reduction in energy transit.

The economy is gradually adapting to the changed operating conditions through a recovery in domestic and foreign demand. At the end of the first quarter, domestic demand shows positive seasonally adjusted dynamics in retail turnover and investment in fixed assets, so it is naturally increasing. We can expect economic growth of about 5% YoY already at the end of the second quarter thanks to the growth in external demand from Russia, the establishment of new distribution chains for Belarusian products, and the low base of 2022.

The foreign trade surplus in goods and services declined to $0.24 billion in January–March 2023 from $0.90 billion YoY, as imports of goods and services accelerated faster than exports: +15.4% YoY vs. +8.1% YoY, respectively. Foreign trade in services had a significant impact on this development: exports fell by 7% YoY, mainly due to information and transport services. Imports of services increased by 22.9% YoY, reflecting the rising costs of building new supply chains in the face of restrictions. The deterioration in the external trade balance did not affect reserve assets significantly; the reduction in the net supply of foreign currency in the domestic market was offset by changes in the exchange rate of the Belarusian rouble. As of early May 2023, reserve assets rose by $0.04 billion (0.5%) YTD to $7.97 billion.

The Belarusian rouble weakened against the foreign currencies average in January–March 2023. At the end of March 2023, the value of the Belarusian rouble basket was 1% higher than at the beginning of the year. This was despite a 1.8% appreciation over this period against the Russian rouble, aka the main component of the basket, which accounts for 60%. A 4.4% weakening of the exchange rate against the U.S. dollar and a 7.7% weakening of the Chinese renminbi decreased the value of the currency basket. Under these circumstances, the real effective exchange rate of the Belarusian rouble in March 2023 remained within the range close to the beginning of the year, but we recorded a 5.4% appreciation against the Russian rouble over this period.

Consumer inflation slowed down in April 2023 to 4.7% YoY, compared to 6% YoY in March and 11.7% YoY in February. Administrative price controls[3], optimisation of import supply chains, and lower inflation expectations slowed consumer price growth. The calculation of annual inflation did not include a spike in price increases in March 2022, so the annual inflation target was unaffected. The price controls in place also limit the selling prices, so that they cannot be raised even in the face of negative exchange rate expectations.

Bank lending conditions softened in 1Q2023. The National Bank of the Republic of Belarus has consistently lowered the refinancing rate, and it fell in four steps from 12% at the start of 2023 to 10% by mid-May. As there were no bank liquidity regulation operations in the open market, the interbank lending rate fluctuated around 1%. Amid a surplus of liquidity, rates on new loans to legal entities fell below the refinancing rate, while rates on new loans to individuals fell to 11.1% in March. Once the National Bank eased monetary conditions, the country saw a revival in loans, which could provide an impetus for stronger domestic demand. We expect the National Bank to lower the refinancing rate further this year.

Forecast

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

Indicator	2021	2022	2023F	2024F	2025F
GDP in constant prices *(% growth YoY)*	2.5	–4.7	2.2	1.1	1.0
Consumer price index *(% growth YoY at the end of the year)*	10.0	12.8	7.8	8.2	7.2
Refinancing rate *(% p.a., the year's average)*	8.6	11.6	10.2	9.3	9.0
Belarusian rouble to U.S. dollar exchange rate *(the year's average)*	2.54	2.62	2.90	3.05	3.17

Sources: National agencies, calculations by EDB analysts.

Economic activity and inflation

The baseline scenario assumes a recovery in GDP growth of 2.2% in 2023 as the economy adapts to the restrictions imposed. Given Russia's faster recovery rate compared to the November EDB outlook, we expect Belarus's GDP to accelerate to reach its full potential. A further recovery in domestic demand on the back of easing monetary policy and increased fiscal spending will provide significant support to economic growth over the rest of the year. The baseline forecast assumes that the new supply chains will remain in place. GDP growth in 2023 will peak in 2Q, and we estimate it at around 5% YoY, mainly attributed to the effect of a low base, where output fell sharply in 2Q2022. After that, the annual growth rate of the economy will gradually start to slow down.

Between 2024 and 2025, GDP will grow at a rate close to reaching its potential of around 1.0% (Figure 7.A), barring any new serious sanctions and logistical gaps. That said, we estimate potential GDP growth to be relatively low due to the imposed restrictions, limited

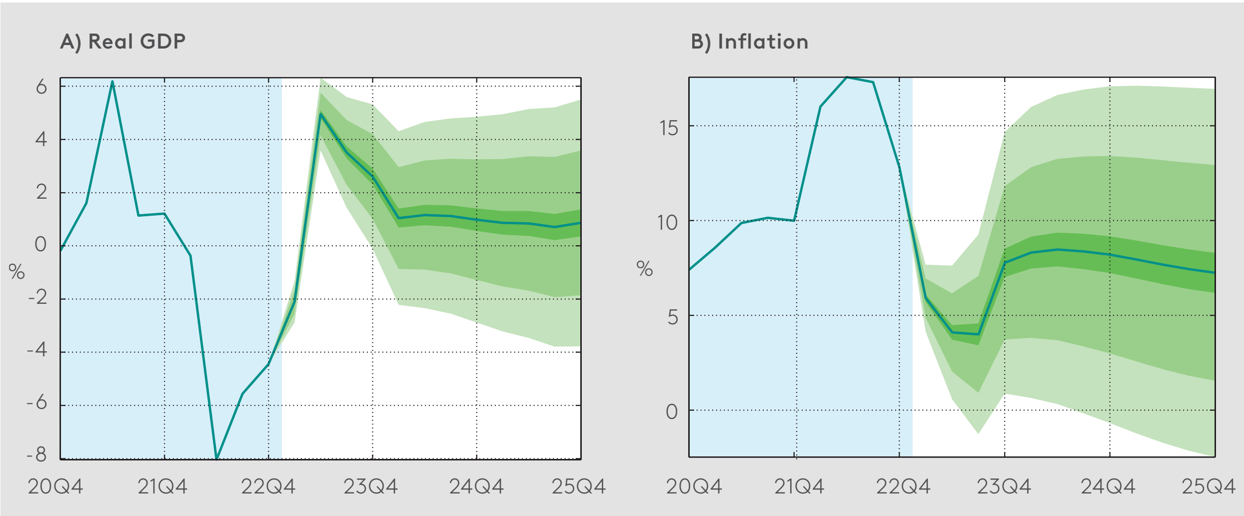
[3] The price regulation system introduced in October 2022 (Resolution No. 713 of the Council of Ministers dated 19.10.2022) sets prices for 330 items in the consumer goods basket.

market expansion and technology imports, and a shrinking IT sector. As Russia promotes import substitution, economic growth may be less affected by external demand.

Inflation for 2023 is forecast at 7.8%. After slowing below 5% YoY in the middle of this year, price growth is expected to accelerate in the second half of the year, driven by further recovery of domestic demand, weakening of the Belarusian rouble, and easing of administrative price controls.

Inflation will peak at 8.0–8.5% YoY in the first half of 2024 (Figure 7.B). During this period, price growth will continue to be under pressure by the pent-up effect of the weakening Belarusian rouble, the exhaustion of the disinflationary impact of domestic demand, and elevated inflation expectations. As foreign trade adapts to the sanctions, lower transport and logistics costs will begin to curb inflationary processes. By the end of 2025, inflation is projected to decline gradually to around 7%.

↓ Figure 7. Economic Activity Forecast for Belarus



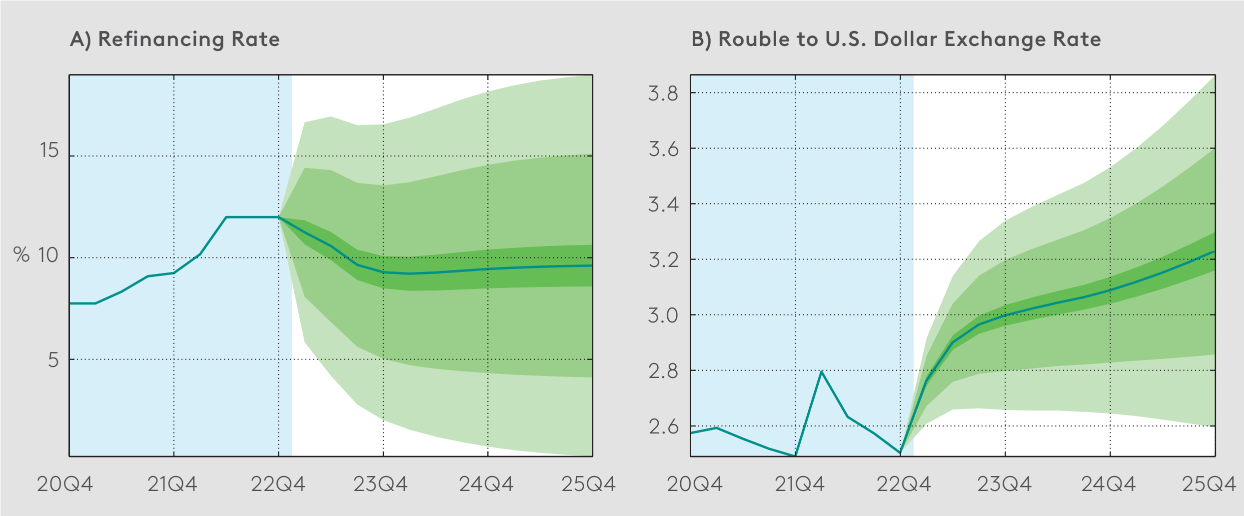
Source: calculations by EDB analysts.

Monetary policy and the Belarusian rouble exchange rate

The National Bank will not be able to lower the refinancing rate significantly. According to the baseline forecast, a recovery of economic activity in 2023 will accelerate inflation slightly. At the same time, the monetary policy easing rounds have fostered softer monetary conditions (compared to neutral). The National Bank intends to prevent inflation from accelerating, so it will be cautious in reducing the interest rate further; the rate will reach near 9% by the end of the forecast period (Figure 8.A).

The average annual exchange rate of the Belarusian rouble against the dollar is projected at about 2.90 in 2023 (Figure 8.B). The recovery in domestic demand will be accompanied by an increase in imports, while export expansion is expected to remain limited, further reducing the foreign trade surplus and weakening support for the Belarusian rouble exchange rate. In the medium term, the downward trend in the value of the national currency will continue due to the relatively low rate of potential GDP growth.

↓ Figure 8. Refinancing Rate and Belarusian Rouble Exchange Rate Forecast



Source: calculations by EDB analysts.

Risks

A significant slowdown in the Russian economy in the risk scenario would pose a risk to the Belarusian economy. The slow recovery of domestic demand in Russia in the risk scenario would not allow Belarus to grow at the cost of exports, and a quick switch to other markets would now seem unlikely for Belarus. Domestic demand would be significantly limited due to reduced foreign exchange earnings, both because of lower physical supply and deteriorating terms of trade owing to the depreciation of the Russian rouble against world currencies. This would greatly increase the risk of recession for Belarus. In addition, a deterioration in the current account put pressure on the exchange rate and thus accelerate inflation.

The external sector poses a risk of a deeper recession in the world's major economies. This is similar to a worsening economic situation in Russia under the risk scenario. A deeper recession is likely should the country lose more export revenues due to reduced demand in third-country markets and lower world prices. The consequences it will bring about for the Russian economy will affect the depth of recession in Belarus as it reduces foreign economic ties with third countries.

REPUBLIC OF KAZAKHSTAN

Source: leonardo.ai
Prompt: A pyramid of seven light round stones stacked on top of each other.

REPUBLIC OF KAZAKHSTAN

In the baseline scenario, we expect Kazakhstan's GDP growth to accelerate to 4.3% in 2023 and to 4.4% in 2024. The government's measures to promote entrepreneurship and boost investment will offset the negative effects of projected lower oil prices. In 2023, inflation will slow to 7.9%, largely due to easing price pressures from global markets. In 2024, we expect the increase in consumer prices to slow to 5.5%.

Current situation

Expansion of economic activity in early 2023. GDP increased by 4.9% YoY in January–March 2023 after 3.8% YoY a quarter earlier[4], driven by the recovery of growth in industry (mainly mining), and gain momentum in manufacturing (mainly mechanical engineering), and, additionally, the services sector after the poor performance a year earlier. The construction sector continued to be one of the key drivers of economic expansion (+15.7% compared to January–March 2022). The agricultural sector saw a normalisation of growth following the large harvest in autumn 2022 (+3.5% YoY in 1Q2023 after +13.0% YoY a quarter earlier). In January–April 2023, the economy continued build momentum: GDP grew by 5.0% YoY.

Inflation in April 2023 decelerated to 16.8% YoY after 18.1% YoY a month earlier. This is partly due to statistical effects (there was a spike in the consumer price index in March–April 2022). That said, pressure from the external sector is easing, with the FAO Food Price Index declining for the thirteenth consecutive month, and falling maritime transport costs suggesting that global supply chains are returning to normal. The base rate increase, which was in its active phase at the end of the previous year, has also had a dampening effect. We believe that the consumer price inflation has peaked, but there are still pro-inflationary factors to consider. Social benefits and wages for public sector employees are rising, and lending to individuals grows. Consumer prices in the services sector are still adjusting to the new levels. High uncertainty in the external economic environment keeps inflation expectations elevated but we believe that inflation will go down in the course of the year.

Foreign trade turnover increased by 13.4% YoY in January–March 2023, spurred by a 43.8% YoY increase in imports, while exports proceeds declined by 2.1% YoY. The value of petroleum products and metals shipments abroad declined by 8.0% YoY and 25.5% YoY, respectively. The drop in revenues from these exports was offset by higher-value shipments of machinery and equipment, and chemical and food products. The increase in imports was mainly due to higher imports of machinery and equipment amid high investment activity in Kazakhstan. The trade surplus in January–March 2023 amounted to USD 4.8 billion, USD 4.6 billion less than a year earlier.

The base rate remained unchanged at 16.75% YTD. Despite the slowdown in inflation, the National Bank believes that external economic factors will curb the deceleration of inflation. Monthly consumer price growth is still elevated, at 0.9% MoM at the end of April, while the monthly average for 2019–2021 was at 0.6% MoM. We believe that a base rate of 16.75% in the first half of 2023 might very well help bring inflation down to its medium-term target.

Kazakhstan posted a state budget deficit for January–March 2023 of KZT 0.4 trillion, while a year earlier, the country posted a surplus of KZT 0.2 trillion. The growth rate of

[4] GDP figures for 4Q2022 are estimated by EDB analysts based on data from the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan.

expenditure (29.7% YoY) was higher than that of revenues (16.6% YoY). Tax revenue growth has slowed this year due to lower global oil prices and a decline in the value of fuel and metal exports. Moreover, transfers from the National Fund decreased by 5.2% YoY. The increase in government expenditure is largely due to an increase in public sector wages, social benefits, and public debt service.

The international rating agency S&P has confirmed Kazakhstan's sovereign rating at BBB-/A-3 and revised its outlook from "negative" to "stable". According to the rating agency's analysts, liquid external assets support the country's fiscal sustainability and can mitigate the effects of possible temporary disruptions to the Caspian Pipeline Consortium.

Forecast

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

Indicator	2021	2022	2023F	2024F	2025F
GDP in constant prices *(% growth YoY)*	4.3	3.3	4.3	4.4	4.4
Consumer price index *(% growth YoY at the end of the year)*	8.4	20.3	7.9	5.5	4.1
TONIA Rate *(% p.a., the year's average)*	8.9	13.8	15.9	12.0	9.5
Kazakhstan tenge to U.S. dollar exchange rate *(the year's average)*	425.9	460.2	450.5	465.3	472.3

Source: national agencies, calculations by EDB analysts.

Economic activity and inflation

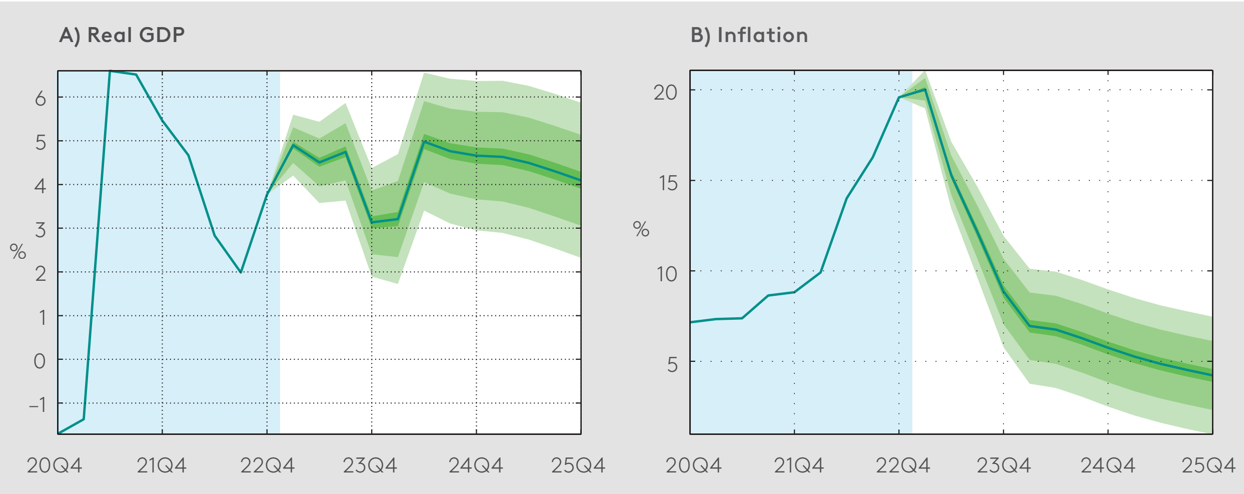
Kazakhstan's GDP growth forecast has been improved to 4.3% in 2023. Compared to the previous outlook, we have increased our estimate by 0.1 p.p. as the government seeks to mitigate external negative shocks (Table 5). In particular, increases in social benefits and public sector wages will support domestic consumer demand amid higher inflation. Structural reforms and preferential financing programmes will strengthen investment demand and help reach the potential growth of the manufacturing and agro-industrial sectors. For example, the authorities plan to increase funding for the small and medium business to KZT 224 billion (0.2% of GDP), subsidise 20,000 projects, and provide state guarantees for over 18,000 projects. The government will also focus on attracting investments worth KZT 18.3 trillion (17.6% of GDP) and launching a nationwide pool of 873 investment projects. The agro-industrial complex will see the launch of some 300 projects, with total funding of KZT 536 billion (0.5% of GDP). Foreign companies relocating to Kazakhstan will also foster the economy, as will the commissioning of new facilities on the Tengiz oil field. The Caspian Pipeline Consortium is not expected to pose a risk to the economy of Kazakhstan over the medium-term forecast period.

Kazakhstan's GDP growth is projected at 4.4% in 2024–2025. The upgraded Tengiz capacities are expected to be fully operational in 2024, underpinning economic growth. Once the NBRK eases its monetary policy, it will also encourage lending and economic activity. Exports will increase as the global economy recovers from the recession (Figure 9.A).

EDB analysts estimate that inflation will slow to 7.9% by the end of 2023. The outlook remains mostly unchanged. We believe that external factors will counterbalance the effect of the planned summer hike in housing and utilities tariffs. Lower global prices in commodity markets will encourage the downward trend, as will the appreciation of the tenge against the dollar, the base rate kept at 16.75% since late 2022, and government measures to curb inflation. In 4Q2023, inflation could go further down as the consumer price spike resulting from the migration shock in autumn 2022 is not included in the calculation.

A slowdown in inflation to 4.1% by the end of 2025, driven both by the dampening of supply chain shocks associated with the normalisation of commodity logistics routes and by the stabilisation of inflation expectations. Monetary policy measures will bring inflation down to the medium-term target of 3–4% (Figure 9.B).

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



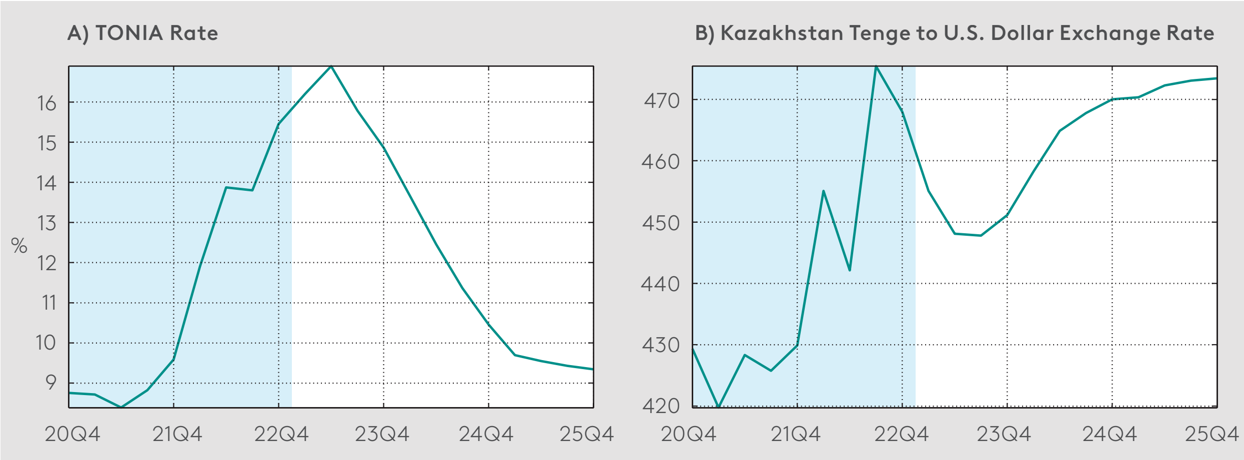
Note: seasonally adjusted data.
Source: EDB calculations.

Monetary policy and tenge exchange rate

The National Bank of Kazakhstan will gradually decrease its base rate starting in the second half of 2023. Reducing pro-inflationary risks is high on the monetary authority's agenda. Tariff hikes may affect inflation expectations and cause the NB RK's base rate to fall more slowly than previously forecast. The external sector is still likely to pose inflation risks. We believe that the base rate could reach 15% in late 2023. With the easing of inflationary pressures from the external sector, we might expect the base rate to be lowered to 11–12% by the end of 2024. In the medium term, monetary policy will aim to bring inflation within the target range of 3–4%. Deposit rates may remain unchanged in 2023. Loan costs will hinge on the preferential financing programmes introduced by the authorities (Figure 10.A).

Moderate weakening of the tenge in the medium term. Kazakhstan's national currency has strengthened since early 2023. The high base rate has made Kazakhstan's financial assets more appealing, and they will continue to be so in 2Q and 3Q2023. As the base rate decreases, we can expect a reversal in the tenge exchange rate. The tenge exchange rate is projected to average 465.3 in 2024 (Figure 10.B).

↓ 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. Financial instability in the Eurozone and the U.S. is creating tensions over global growth prospects. Regionally, companies re-exporting goods to the Russian Federation are now more likely to be sanctioned. Any prolonged suspension of the Caspian Pipeline Consortium might also limit economic activity. These could slow Kazakhstan's economic growth over the forecast period in the risk scenario, no matter if they happen individually or together.

Kazakhstan is still likely to be affected by pro-inflationary risks. The fragmentation of the global economy has reinforced and spread over time the risks of accelerating increases in producer costs and, consequently, rising consumer prices. Major central banks have limited capacity to respond aggressively to rising inflationary pressures in anticipation of a recession, and this might exacerbate the situation. Domestic consumer prices in Kazakhstan may consequently rise faster than in the baseline scenario.

KYRGYZ REPUBLIC

Source: midjourney.com
Prompt: Central Asian ornament carved in stone, against the background of the horizon with the rising sun and blue sky.

KYRGYZ REPUBLIC

In the baseline scenario, we project GDP growth in the Kyrgyz Republic to be around 4% in 2023–2024 as the migration shocks wane. Inflation will slow to 7.1% in 2023, mainly due to the easing of external inflationary pressures, which will partly offset the tariff hike. In 2025, consumer price inflation could be around 6%. The risks to the economy have shifted to the downside.

Current situation

Slowdown in the economic growth rate. The GDP of the Kyrgyz Republic increased by 4.6% YoY in 1Q2023, after 13.1% YoY in 4Q2022[5]. The exhaustion of effects of the migration shock have rebalanced economic growth: for example, the contribution of the services sector to GDP fell to 2.0 p.p. in 1Q2023, compared to 12 p.p. the quarter before. External demand weakened in the wholesale and retail trade, transport sector, hotels and restaurants, and real estate operations. The economy was supported in 1Q2023 by the industrial sector, where growth was concentrated in metal ore mining (27.5% YoY) and production of base metals, mainly gold (13.6% YoY). The agricultural sector became the additional driver, with output rising by 1.9% YoY in 1Q2023, after falling by 5.6% YoY a quarter earlier. Investment activity increased by 3.5% YoY, largely due to public investment programmes in the energy, transport and water sectors, mostly financed by international development institutions. In January–April 2023, the slowdown in economic activity continued: GDP grew by 4.4% YoY.

Since the beginning of the year, inflation has slowed to 10.7% YoY as of April after 12.7% YoY in March and 16.2% YoY in February. The previous year's inflation surge in March and April was not included in the calculation, and this shaped the dynamism of the consumer price index. The further downward trend is also supported by falling global food prices and the smoothing out of global supply chain disruptions. The increase in excise duties and exchange rate movements have contributed to the rise in inflation since the beginning of the year (by mid-April, the som was 2.0% weaker against the dollar than at the beginning of the year). The services sector is still adjusting its prices (prices in the non-traded sector are increasing to match prices in the traded sector).

Increase in foreign trade turnover by 25.4% YoY in January–March 2023. In value terms, imports rose by 27.4% YoY, and exports by 15.6% YoY, contributing to the increase in foreign trade turnover. Exports rose as the country increased its physical and value shipments of ores and precious metal concentrates to Kazakhstan and machinery to Russia. The increase in imports was partly due to the lifting of COVID-19 restrictions in China (+35.8% increase in imports compared to January–March 2022). The country also increased its imports of machinery, equipment, and knitwear. The trade deficit widened by $0.4 billion to $1.9 billion in the first three months of 2023. Net remittance inflows[6] decreased by $88.9 million to $318.3 million in January–March 2023, compelled by remittances abroad, primarily Turkey, rising by 35.0% YoY (by a factor of 24). Gross remittance inflows decreased by 9.7% YoY over the same period, mainly from Russia (down 14.8% YoY).

The NB KR has kept the policy rate at 13.0% since the beginning of 2023. The slowdown in annual inflation in March and April is partly attributable to statistical effects (high figures for the same months in the previous year not included in the calculation). The external sector

[5] GDP for 4Q2022 is estimated by the EDB analysts.
[6] Net inflow = gross inflow – gross outflow.

has eased its pressure, a fundamental driver of the slowdown. Nevertheless, there are still pro-inflationary risks due to the planned increase in electricity tariffs, weakening of the som exchange rate, and rising consumer lending (+53.6% compared to 1Q2022). Keeping the 13% policy rate despite slowing inflation will help stabilise inflation expectations and make it less likely for pro-inflationary risk to take hold. Rates on accepted deposits in national currency stood at 1.13% in March 2023, 0.05 p.p. lower than in December 2022. The cost of loans increased by 1.1 p.p. over the period and stood at 18.92% in March 2023.

The state budget surplus in January–March 2023 was 0.1% of GDP (vs. 4.6% of GDP a year earlier). Income growth slowed to 24.9% YoY from 54.8% YoY in January–March 2022, while expenditure rose to 50.1% YoY from 14.2% YoY a year earlier. An increase in value-added tax collections amid increased imports of goods, as well as an increase in non-tax revenues, played a key role in generating budget revenues. Operating expenses increased in January–March 2023 across all key items, with the most significant impact coming from higher spending on education and general civil service due to wage increases.

Forecast

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

Indicator	2021	2022	2023F	2024F	2025F
GDP in constant prices *(% growth YoY)*	6.2	7.0	4.2	4.1	3.6
Consumer price index *(% growth YoY at the end of the year)*	11.2	14.7	7.1	6.3	6.3
7-Day REPO Rate *(% p.a., the year's average)*	5.6	12.1	10.1	9.4	9.5
Kyrgyzstan som to U.S. dollar exchange tate *(the year's average)*	84.6	84.1	87.1	88.8	91.8

Source: national agencies, calculations by EDB analysts.

Economic activity and inflation

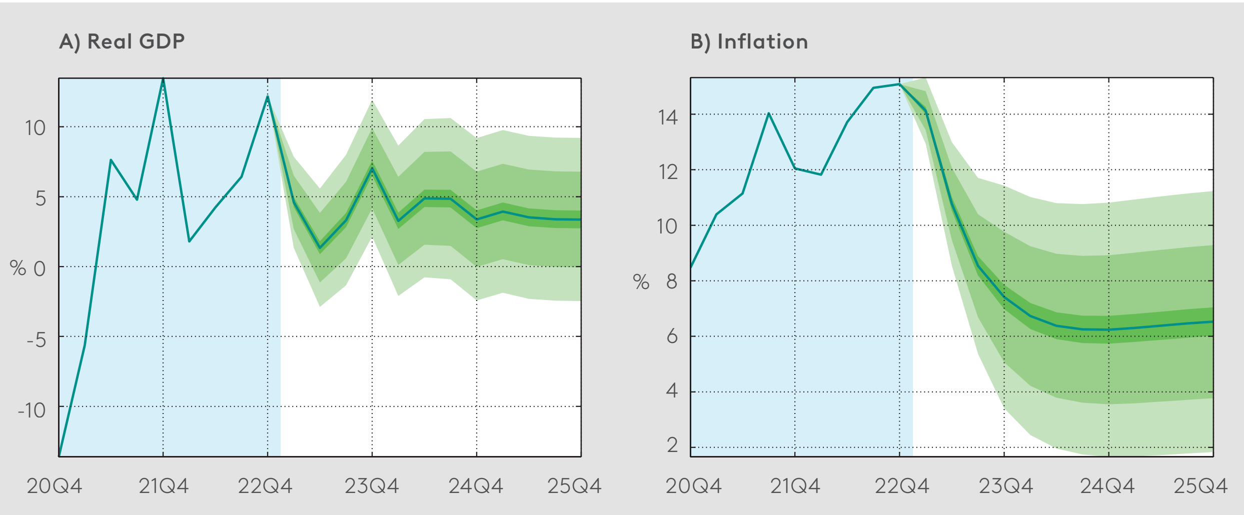
GDP growth is projected to reach 4.2% in 2023. This is 0.7 p.p. higher than in the previous outlook. We have improved the estimate because of the strong performance at the 2022, which saw a surge in demand from non-residents at the end of the year. Once the stimulative effects of the migration shock wane, GDP growth in the Kyrgyz Republic will stabilise at around 4% in the medium term. Support could come from the easing of restrictions in China, which would boost the Republic's foreign economic activity. In particular, we expect an increase in exports to the EAEU countries. We also believe that business activity in the services sector will rise due to increased demand from non-residents, especially during the tourist season (2Q–3Q). An increase in wages for public sector employees would strengthen domestic consumer demand. Investment will remain subdued. EDB analysts forecast gold output growth of 3.3% in 2023, which could add 0.2–0.4 p.p. to GDP growth. But this premise continues to be subject to high uncertainty (Table 6).

In the medium term, the economic growth rate will be around 3.6%. The economy will return to its equilibrium growth path in 2025. Gold output will stabilise and have no effect on GDP dynamic development. As the global economy recovers from recession, it will boost exports (Figure 11.A).

Inflation will slow to 7.1% YoY by the end of 2023. The slower growth of the consumer price index compared to the previous outlook is due to the government's plans to increase electricity tariffs in 2Q2023. On the other hand, lower prices in global food and oil markets and the smoothing out of global supply chain will put downward pressure on the Kyrgyz Republic's domestic prices in 2Q2023.

Inflation to stabilise within the target range of 5–7% in 2024–2025. The EDB forecasts a deceleration of the CPI growth rate to 6% in the medium term. The situation in global food markets may have an almost neutral impact on domestic prices. Pressure from the oil market will also ease in the medium term. Despite all of this, the country will still see elevated inflation expectations due to the high uncertainty in the external economic environment, and this will restrain the downward inflation trend (Figure 11.B).

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

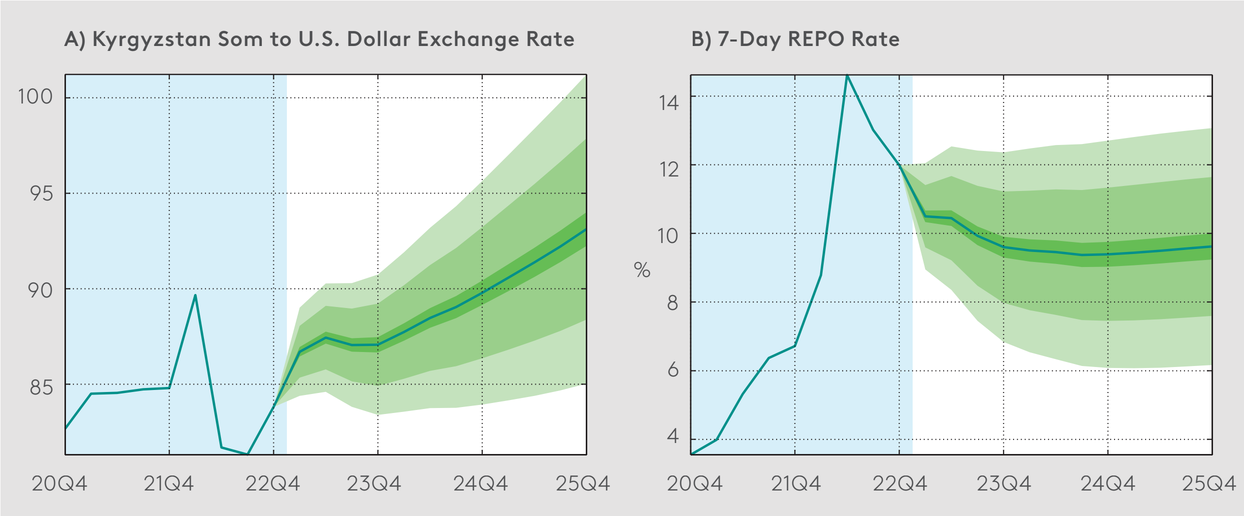


Note: seasonally adjusted data.
Source: calculations by EDB analysts.

The policy rate decreased in 2023. The EDB's baseline scenario expects the policyrate to start declining in the second half of the year, reaching 11–12% by the end of the year. Inflation expectations are elevated, so the chances of a decline are low, and this may require the policy rate to be kept above 9% for a longer period of time (Figure 12.B).

Weakening of the som in the medium term. In the baseline scenario, EDB analysts forecast an exchange rate of 87–89 for the som in 2023, partially encouraged by the NB KR's exchange rate policy that seeks to smooth out any fluctuations. In the long term, higher inflation in the Kyrgyz Republic compared to its trading partner countries will cause the Kyrgyz som to depreciate by about 2% per year (Figure 12.A).

↓ Figure 12. Kyrgyzstan Som Exchange Rate and REPO Rate



Source: calculations by EDB analysts.

Risks

There are risks of downward economic growth. The restructuring of global trade and logistics links and increased risks of financial destabilisation in the U.S. and the Eurozone might cause a prolonged recession in the global economy. Western countries have tightened their control over Russia's foreign trade operations and are determined to impose sanctions against countries involved in re-exporting to Russia. Gold output from the Kumtor mine is also prone to high uncertainty. In this case, a deeper decline in exports and weaker domestic demand will limit the growth of the KR economy.

Inflation growth risks currently outweigh all other risks. The rise in CPI may not slow down if there is a real risk of global economic fragmentation or if the world's major central banks fail to bring inflation under control in the U.S. or Eurozone. In this case, the costs of producers of goods and services will remain under pressure and will affect the domestic consumer price inflation in the Kyrgyz Republic.

RUSSIAN FEDERATION

Source: midjourney.com
Prompt: Six round sea stones on top of each other against the background of the horizon with the rising sun and blue sky, land with small stones.

RUSSIAN FEDERATION

The Russian economy will continue to adapt to the changed operating conditions in 2023–2025. In the baseline scenario, we project a recovery in GDP growth of 1% in 2023 and 1.3% in 2024–2025. Inflation will slow down from 11.9% in 2022 to 6.1% in 2023 and approach the Bank of Russia's target of 4% in 2025. The Bank of Russia will keep its key rate within 7.0–7.5% in 2023–2024 amid prevailing pro-inflationary risks. We expect a cut to 6–6.5% for 2025, provided inflation slows down.

Current situation

The Russian economy shrank by 1.9% YoY in 1Q2023, after declining by 2.7% YoY in 4Q and by 3.5% YoY in 3Q2022. The annual rate of GDP decline has slowed down to 0.9% YoY vs. 3.0% YoY in 4Q2022. Transport freight turnover decreased by 2.1% YoY in 1Q2023 from 5.6% YoY in the previous quarter. There was also a decline in trade. In 1Q2023, the retail trade decreased by 5.1% YoY (9.6% YoY in 4Q2022), and wholesale trade shrank by 8% YoY (20.9% YoY in 4Q2022). Still, construction (up 8.8% YoY), food service (up 10.7% YoY), and paid services to individuals (up 3.9% YoY) are driving the recovery.

The quarterly GDP performance shows that the Russian economy is finding its feet amid the restrictions imposed by Western countries. Seasonality removed, GDP increased by 0.6% in 1Q2023 to 4Q2022, following growth of 2.4% and 1.5% QoQ in 3Q–4Q2022; this will push the figure up by 3.7% YoY in 2Q2023.

Russia's current account surplus narrowed to USD 18.8 billion in 1Q2023 (USD 69.8 billion YoY), reaching the lowest seasonal value since 2016. As energy prices fell and other countries imposed restrictions on Russian exports of oil and petroleum products (i.e., EU embargo and price ceilings), this unsettled the surplus performance because the value of exports plummeted by 35% YoY. In addition, Russian imports are now on a par with their 2022 figures, due in no small part to the progress the country made in reconfiguring its production and supply chains, and the recovery in domestic demand. There are three factors that might potentially increase the current account surplus. First, no additional shocks that might affect the economy. Second, the country furthers its import substitution, and third, the continued trend of the Russian oil discount to the world grades.

The Russian rouble weakened against foreign currencies in 1Q2023, depreciating by 8.8% against the U.S. dollar and by 9.7% against the euro in late March 2023, a direct consequence of the declining balance of payments surplus. The real effective exchange rate of the Russian rouble against foreign currencies (a parameter that reflects the price ratio between goods and services produced in Russia and in trading partner countries) weakened by 14.7% in March 2023 as compared to December 2022. The weakening of the real exchange rate has helped to eliminate the overvaluation of the rouble. So Russian producers are now more price-competitive compared to the second half of last year.

Consumer inflation slowed in April 2023 to 2.6% YoY compared to 3.5% YoY in March and 11% YoY in February. The slowdown in consumer price growth can be attributed to lower inflation expectations, the smoothing out of disruptions in commodity supply chains, the continued disinflationary impact of the large 2022 harvest, and the exchange rate factor. Seasonally-adjusted monthly inflation rates have returned to figures forming annual inflation close to the regulator's target (around 4%).

Bank lending conditions remained unchanged in 1Q2023. The Central Bank lowered the key rate to 7.5% in September 2022 and has kept it unchanged for seven months. Average rates on long-term loans to legal entities have stabilised at 9–10%. Reduced volatility in financial markets has had a positive impact on lending to the economy; since the second half of 2022, there has been a steady increase in loans issued.

The federal budget for January–April 2023 posted a deficit of RUB 3.4 trillion, compared with a surplus of RUB 1.16 trillion in January–April 2022. A 22.4% YoY decrease in revenues and a 26.3% increase in expenditures contributed to the expanding budget deficit. The decline in revenues is due to a 52.3% YoY drop in oil and gas revenues because of restrictions (embargoes and price ceilings) on Russian oil and oil product shipments abroad. The increase in expenditures is due to the accelerated funding of certain contracted costs in early 2023.

Forecast

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

Indicator	2021	2022	2023F	2024F	2025F
GDP in constant prices *(% growth YoY)*	5.6	–2.1	1.0	1.3	1.3
Consumer price index *(% growth YoY at the end of the year)*	8.4	11.9	6.1	4.9	4.0
Key rate *(% p.a., the year's average)*	5.8	10.5	7.5	7.1	6.4
Russian rouble to U.S. dollar exchange rate *(the year's average)*	73.6	68.4	77.4	79.5	80.6

Sources: National agencies, calculations by EDB analysts.

Economic activity and inflation

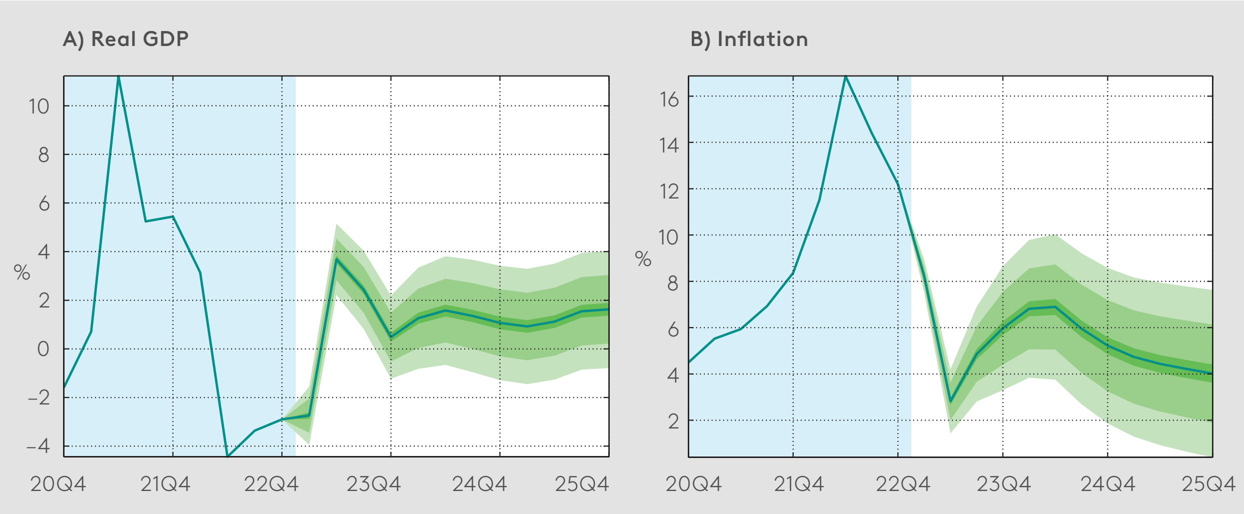
Russia's economy is projected to grow by 1% in 2023. The baseline scenario assumes a gradual adaptation of the Russian economy to the restrictions. As the sanctions had a smaller impact on GDP growth in 2022 than we estimated in our November Outlook, we expect a faster GDP recovery, driven by the restructuring of foreign trade logistics and the gradual recovery of non-oil and gas exports. The forecast assumes a reduction in oil production and refining of up to 5% this year, which implies a negative contribution of the oil and gas sector to GDP growth of up to 1 p.p. in 2023.

According to the baseline forecast, the country's GDP will increase by 1.3% in 2024 and 2025. Economic activity growth will be underpinned by functioning production and supply chains and the infrastructure of foreign trade payments and other cross-border financial services. In addition, domestic demand—both consumer and investment demand—will increase as export revenues rise amid falling discounts on Russian oil and petroleum products and as a result of higher physical exports. Economic growth, however, will continue to be constrained by sanctions that limit technology imports and access to foreign markets for Russian producers. They are expected to remain in place throughout the forecast period.

The baseline forecast assumes that the budget deficit will expand to 3.5% of GDP in 2023, after 2.3% of GDP in 2022. Despite a substantial increase in the budget deficit in the first months of 2023, further developments suggest a more subdued rise in expenditure and the budget deficit in the following months. The baseline scenario assumes that the federal government's budget deficit will decline gradually in 2024–2025 compared to 2023. By the end of 2025, the deficit will decrease to 1.0% of GDP. State revenues will increase between 2024 and 2025 due to a partial recovery of exports and overall economic growth, though their spending rate could be more subdued than in 2023, barring any destabilising events.

Inflation will be 6.1% YoY in 2023. After a temporary slowdown to below 3% YoY in 2Q2023, price growth will accelerate amid a recovery in consumer activity, rising wages, the effects of the depreciation of the rouble, and increased fiscal spending, with **inflation peaking at 6–7% YoY in the first half of 2024 (Figure 13.B).** It will still be affected by the fiscal stimulus of 2023 and rising wages due to an overheated labour market, but it will be curbed by lower transport and logistics costs as foreign trade adapts to the sanctions. From mid-2024, this factor, the reduction in the budget deficit, and the stabilisation of inflation expectations will gradually reduce inflation, and it will reach its target of 4% in 2025.

↓ Figure 13. Economic Activity and Inflation Forecast for Russia



Source: calculations by EDB analysts.

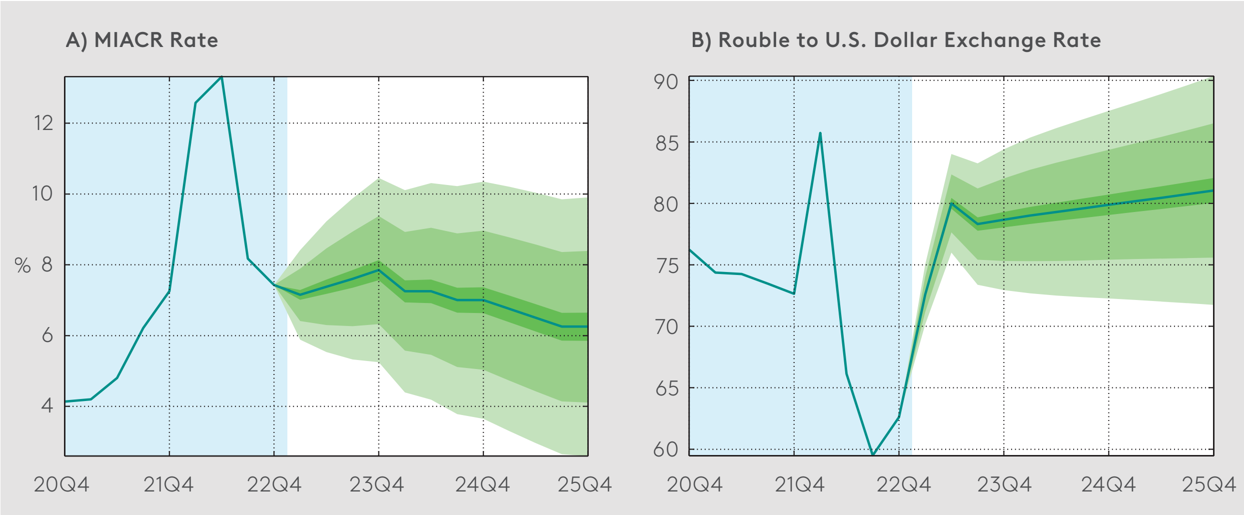
Monetary policy and the Russian rouble exchange rate

We expect the Central Bank to maintain a neutral monetary policy in 2023. In our baseline scenario, there will be no change in the policy rate this year, so long-term lending rates will remain unchanged, too. A key rate hike, however, is still likely if prices spike due to rising budget deficits.

The Central Bank could start lowering the key rate again in 2024, when a neutral monetary policy will require a lower key rate because pro-inflationary factors will no longer have a strong hold on the economy, so inflation expectations will stabilise in 2024 under the baseline scenario. In the second half of 2024 and in 2025, the Central Bank of Russia will continue to lower the key rate gradually, and by the end of the forecast period it will be about 6–6.5% (Figure 14.A). The CB RF will keep its policy balanced to avoid another inflation hike and foster a new environment conducive to economic transformation.

The average annual rouble–dollar exchange rate will be RUB 77.4 per U.S. dollar in 2023, and around RUB 79 at the end of the year. As the rouble weakened at the end of 2022 and the beginning of 2023, it erased the overvaluation built up in 2022. Given the very limited influence of financial flows on exchange rate developments, their importance will largely be determined by the current account of the balance of payments. With our forecast reduction of discounts for Russian oil and oil products in international markets and the recovery of non-oil exports, the trade surplus of the Russian economy could stabilise near 8.8% of GDP, the average for 2016–2021. So the baseline scenario does not assume a significant weakening of the Russian currency over the period (Figure 14.B). According to our estimates, **the exchange rate of the rouble to the U.S. dollar will be RUB 79.5 in 2024 and RUB 80.6 in 2025.**

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



Source: calculations by EDB analysts.

Risks

The main risks to the Russian economy in 2023–2025 are external by origin. They may materialise in a variety of economic scenarios, some of them mutually exclusive but similar in their negative effects for the RF economy. The following events may trigger these scenarios and pose risks: a sharp reduction in Russia's oil supplies to the global market and a supply deficit in the global energy market as a result of an increased discount of Urals to Brent caused by the political decisions of the U.S. and EU countries; crises in the banking sector of developed countries no longer under the control of governments and central banks; excessive interest rate hikes by the leading central banks – the Fed and the ECB; and unplanned fiscal tightening in developed countries, primarily related to domestic political processes in the U.S.

These negative developments will have a similar impact on the Russian economy. Regardless of their impact on world oil prices, in the risk scenario, they would lead to a fall in Russian export revenues (as a result of either increased discounts or a fall in world prices) and the declining budget revenues. The deficit will not be able to decline in 2024–2025, as assumed in the baseline scenario. The risk scenario sees a quicker NWF reduction and shrinking government support for the economy.

The economy would then start to slow down again in 2024, followed by a partial recovery in 2025. GDP growth will then reach 0.6% in 2023, with a growth trajectory of around 1% in 2025. The decline in oil and gas exports will lead to a new cycle of rouble weakening; its exchange rate will stay above RUB 80 per dollar in the risk scenario. The weakening rouble will support the inflation rate, which will be 5.7% at the end of 2024 and 4.2% in 2025 in the risk scenario. The Central Bank will raise its key rate to 8.0% per annum in 2023 and keep it on hold in 2024 in order to curb price rises. A rate reduction would be unlikely until 2025 when inflationary pressures subside in the risk scenario.

Furthermore, there is still a risk of a further acceleration in fiscal spending in 2023, as was the case in January–February 2023. This could widen the budget deficit to around 5% of GDP, which would affect domestic demand and could accelerate GDP growth in 2023 by 0.5 p.p. compared to the baseline forecast. This will also increase inflationary pressures, fuelled by the subsequent weakening of the Russian rouble. The Central Bank will have to react by raising interest rates, which would have a negative impact on economic growth in 2024–2025, and GDP growth would fall below 1%.

REPUBLIC OF TAJIKISTAN

Source: midjourney.com
Prompt: Central Asian ornament carved in stone, against the background of the horizon with the rising sun and blue sky, the land with stones.

REPUBLIC OF TAJIKISTAN

Tajikistan's GDP will increase by 7.9% in 2023 and by 5.8% in 2024 in the baseline scenario. The dynamism of domestic demand fuels the economy in 2023. Inflation is projected at 6.6% in late 2023 due to the somoni weaker and the refinancing rate lower than in 2022. The National Bank of Tajikistan's policy will drive consumer price growth in 2024 and 2025 to levels close to the middle of the target interval (6±2%).

Current situation

Tajikistan's economic growth remains strong, at 8.2% YoY in 1Q2023. Industry increased production by 8.8% YoY in January–March 2023, mainly driven by manufacturing and energy. Manufacturing grew by 14.4% YoY amid expanding output in sectors such as food processing (up 32.0% YoY) and textiles (up 16.3% YoY). There was a rise in energy by 19.7% YoY and agriculture by 6.2% YoY in 1Q. Investment growth of 20.8% YoY and retail sales of 8.1% YoY signal the continued rapid expansion of domestic demand. We expect GDP growth rate to be even higher in 2Q than in 1Q this year, as the economic activity in the country was heavily impacted by the regional instability during the same period in 2022.

The deficit in the balance of foreign trade in goods continues to widen: $891 million at the end of January–March 2023 (vs. $737 million YoY). Compared to 2022, the country will see an increase in imports and a decrease in exports. Imports increased by 2.3% YoY, to $1,235 million, thanks to rapid growth in domestic demand, which outweighed the effect of falling global prices for internationally imported goods such as energy and food. Exports amounted to USD 344 million, down 26.7% YoY from January–March 2022, largely due to the lack of gold shipments to foreign markets during the first three months of the year, as well as a drop in exports of textile (down 37.2% YoY) and non-precious metals (down 10.3% YoY).

The national currency fell from TJS 10.2 per dollar at the beginning of the year to TJS 10.9 by mid-May 2023. We had expected the National Bank of Tajikistan to manage the weakening of the somoni smoothly, and it did. With falling prices for the country's exports and a weakening Russian rouble, the moderate depreciation of the somoni helps sustain the country's balance of payments and limit the negative impact of external shocks on the economy.

Inflation fell from 4.2% YoY at the end of 2022 to 3.6% YoY at the end of March 2023. Price increases for consumer goods and services were the lowest since September 2018 and is below the NBT target interval (6±2%), encouraged by the NBT's monetary policy of keeping the refinancing rate well above inflation since autumn 2021, the somoni's appreciation against the dollar by 9.7% in 2022, an end to price increases on Tajikistan's imported goods, especially energy and agricultural products, and sharp March 2022 price increases that were not included in the inflation calculation. That said, we believe that March's inflation rate of 3.6% YoY could be the lowest this year, and the acceleration in monthly inflation to 0.9% MoM in March supports this view because it has been consistently lower than 0.8% MoM since April 2022.

The National Bank of Tajikistan cut the refinancing rate from 13.0% at the beginning of the year to 10.0% at the beginning of May 2023. We can expect that the easing of monetary policy, as well as the weakening of somoni since early 2023, will help to gradually bring inflation to the NBT's target interval (6±2%).

The state budget in early 2023 continued to post surpluses. In January–February 2023, revenues exceeded expenditures by TJS 0.9 billion. The surplus shrank in comparison to the previous year (TJS 1.1 billion). This was due to an increase in revenues from TJS 4.5 billion to TJS 6.0 billion and an increase in expenditures from TJS 3.5 billion to TJS 5.1 billion. Among the main budget items, funding for the transport and communications sectors has increased significantly compared to January–February 2022. Funding for the development of the fuel and energy sectors was ahead of the budget plan. Once the country accelerates its spending on the expenditure budget in 2023, it might support high economic growth. That said, the state budget for 2023 is projected to run a small deficit.

Forecast

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

Indicator	2021	2022	2023F	2024F	2025F
GDP in constant prices *(% growth YoY)*	9.2	8.0	7.9	5.8	6.7
Consumer price index *(% growth YoY at the end of the year)*	8.0	4.2	6.6	5.6	6.2
Refinancing rate *(% p.a., the year's average)*	12.2	13.3	10.3	10.0	9.3
Tajikistan somoni to U.S. dollar exchange rate *(the year's average)*	11.3	11.0	10.8	11.0	11.3

Sources: National agencies, calculations by EDB analysts.

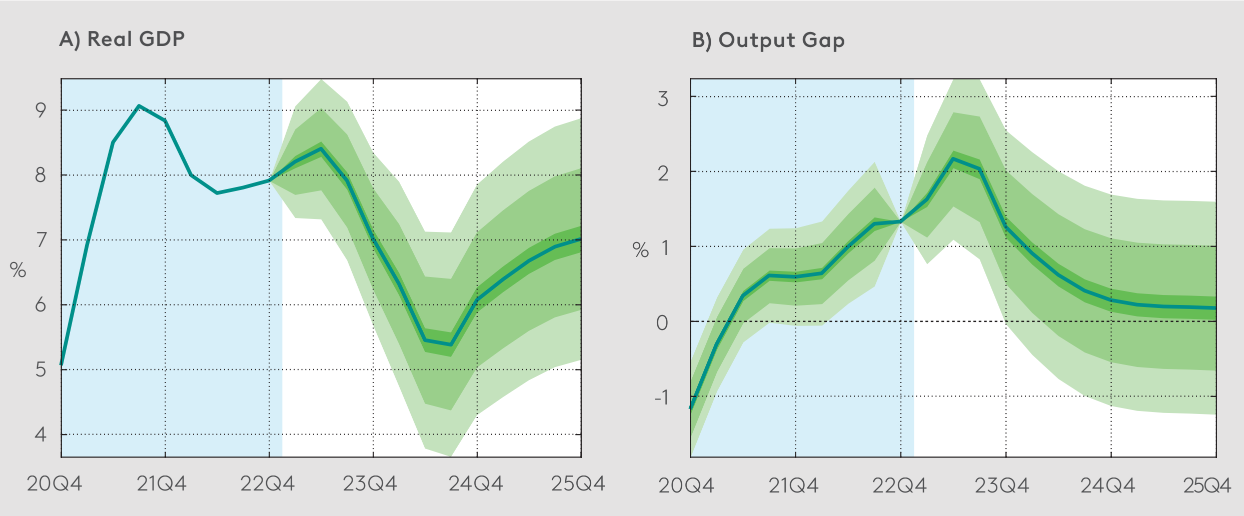
Economic activity and inflation

The 1Q2023 results point to GDP growth of 7.9% in 2023, i.e., higher than forecast in November 2022. In 4Q, growth will be around 7.0% YoY, slightly below the current growth rate, influenced by lower remittance inflows (in particular, due to the weakening of the Russian rouble) and the statistical effect (strong activity in 3Q–4Q2022).

As in November 2022, we assume that Tajikistan will keep a high GDP growth rate of 6–7% in 2024 (Table 8). The slowdown will be because the period of rapid post-pandemic recovery in the global economy will finally be behind us. Economic growth will continue to enjoy support from capacity expansion in leading industries (metallurgy, energy, textiles, and food) and associated investment activity, including through the government's economic development programmes.

In 2025, GDP growth will reach 6.7%, a rate close to the potential for Tajikistan (Figure 15.B). This is above the regional average due to the support of structural factors: rapid population growth and the catching-up nature of economic development.

↓ **Figure 15. Economic Activity Forecast for Tajikistan**

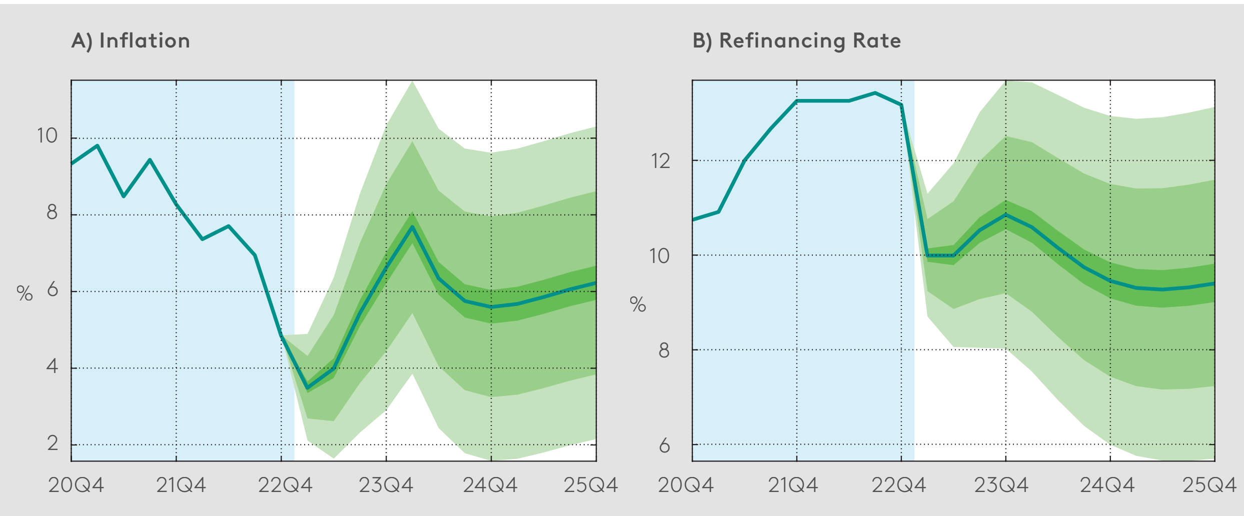


Source: calculations by EDB analysts.

By the end of 2023, consumer price growth will accelerate to 6.6% YoY. The movements of the TJS exchange rate and the decline in the refinancing rate from late 2022 to early 2023 so far have affected the country's monthly inflation rate. We expect it to exceed last year's rate in the coming months, and this will ensure that annual inflation recovers to the target parameters adopted by the NBT.

In 2024–2025, inflation will be at 5.5–6.5%, which is the midpoint of the NBT's target range of 6±2% (Figure 16.A), a consequence of the NB's consistent policy of controlling consumer price growth. Once global commodity prices stabilise, the National Bank will have an easier time meeting this challenge.

↓ **Figure 16. Inflation and Refinancing Rate Forecast**



Source: calculations by EDB analysts.

Monetary Policy and National Currency Exchange Rate

We expect the somoni to remain at the current rate of TJS 10.9 per dollar by the end of 2023. The weakening of the somoni in the first months of 2023 should have had a strengthening effect on the country's balance of payments. We believe that the equilibrium achieved under these conditions by the foreign exchange market will be maintained for the remainder of the year. **Between 2024 and 2025, we project Tajikistan's national currency to weaken smoothly again,** with its speed primarily driven by the difference in inflation rates between Tajikistan and its trading partners.

The stabilisation of inflation in the country sets the stage for a renewed transition to a looser monetary policy next year. The refinancing rate can be expected to consolidate below 10% per annum in 2024–2025 (Figure 16.B).

Risks

Tajikistan's economy could perform less favourably than our baseline forecast suggests in 2023–2024 if the regional and global economies experience a deeper contraction, primarily through reduced remittance inflows to the country and lower export revenues for Tajikistan. Under the pessimistic scenario, we assume the growth of Tajikistan's economy will likely slow to 6.1% in 2023. A looser monetary policy by the NBT partially offsets the negative effects of weaker external demand and a larger reduction in remittances. Cheaper energy and food can also counterbalance negative shocks.

REFERENCES

Ahir, H., Loungani, P., Bhasin, K. (2023) House Prices Continue to Fall as Borrowing Costs Rise. IMF Blogs, 15 March. Available at: https://www.imf.org/en/Blogs/Articles/2023/03/14/house-prices-continue-to-fall-as-borrowing-costs-rise (Accessed 15 May 2023).

Attinasi, M.-G., Boeckelmann, L., Meunier, B. (2023) *Friend-Shoring Global Value Chains: A Model-Based Assessment*. ECB Economic Bulletin, 2. Available at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2023/html/ecb.ebbox202302_03~d4063f8791.en.html (Accessed 15 May 2023).

EDB (2016) *Forecasting System for the Eurasian Economic Union*. Moscow: EEC, Saint Petersburg: EDB Centre for Integration Studies. Available at: https://eabr.org/en/analytics/integration-research/cii-reports/forecasting-system-for-the-eurasian-economic-union/ (Accessed 17 May 2023).

Kuznetsov, A., Berdigulova, A., Fedorov, K., Dolgovechny, A., Babajanyan, V. (2023) *EBD Macroeconomic Review. April 2023*. Almaty: Eurasian Development Bank. Available at: https://eabr.org/analytics/monthly-review/makroekonomicheskiy-obzor-eabr-aprel-2023/ (Accessed 10 May 2023).

McKinsey (2022) Network Resilience: Footprints on the Move. Available at: https://www.mckinsey.com/capabilities/operations/our-insights/taking-the-pulse-of-shifting-supply-chains (Accessed 15 May 2023).

Vinokurov, E., Kuznetsov, A., Berdigulova, A., Fedorov, K., Babajanyan, V. (2022) *EDB Macroeconomic Outlook 2023. November 2022*. Moscow: Eurasian Development Bank. Available at: https://eabr.org/en/analytics/ceg-quarterly-reviews/edb-macroeconomic-outlook-2023/ (Accessed 10 April 2023).

LIST OF ABBREVIATIONS

bbl	Barrel
CB RA	Central Bank of the Republic of Armenia
CB RF	Central Bank of the Russian Federation (Bank of Russia)
CPI	Consumer Price Index
ECB	European Central Bank
EDB / the Bank	Eurasian Development Bank
EAEU	Eurasian Economic Union
EU	European Union
(the) Fed	U.S. Federal Reserve System
GDP	Gross Domestic Product
IBL	Interbank Loans Market
IMF	International Monetary Fund
KR	Kyrgyz Republic
KZT	Kazakhstan tenge
MIACR	Moscow Interbank Actual Credit Rate
NB	National bank
NB KR	National Bank of the Kyrgyz Republic
NB RK	National Bank of the Republic of Kazakhstan
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 the agreement to sell them back for a specific price
RF	Russian Federation
RK	Republic of Kazakhstan
RT	Republic of Tajikistan
RUB	Russian rouble
TJS	Tajikistan somoni
TONIA	Tenge OverNight Index Average
U.S.	United States of America
YTD	year-to-date
%	per cent
% YoY	Year-on-Year growth rate

GLOSSARY

Budget (fiscal) impulse

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

Budget (fiscal) reserves

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

Equilibrium exchange rate

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

FX penetration of bank deposits (loans)

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

Neutral rate

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

Output gap

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

Potential (equilibrium) GDP

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

Purchasing Managers' Index (PMI)

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

Macroeconomic Review
(RU)

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

Macroeconomic Outlook
(RU/EN)

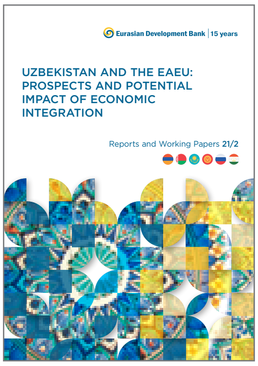
EDB Macroeconomic Outlook 2023

The analysis summarises economic developments in the Bank's member states in 2022 and provides key macroeconomic projections for the region's countries for 2023 and 2024.

Report 21/1
(RU)

Promoting the Role of the EAEU Currencies in Global Transactions

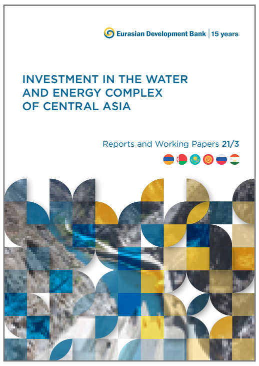
EAEU currencies service around 2% of global trade. As for the EAEU countries, payments in their currencies have notably increased over the past seven years — their share in trade flows jumped from 63% in 2013 to 74% in 2019.



Report 21/2
(RU/EN)

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

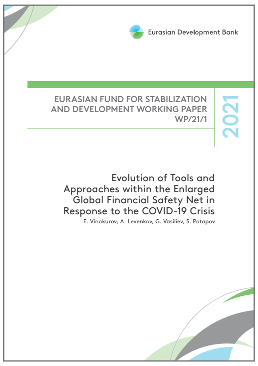
The report estimates the potential effects of Uzbekistan's integration with the EAEU and outlines promising areas for cooperation between the current Union member states and Uzbekistan.



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)

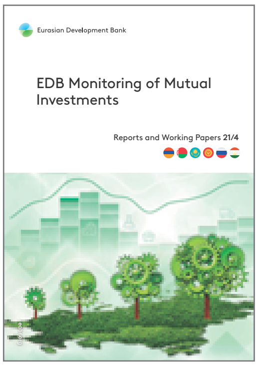
Evolution of Tools and Approaches within the Enlarged Global Financial Safety Net in Response to the COVID-19 Crisis

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

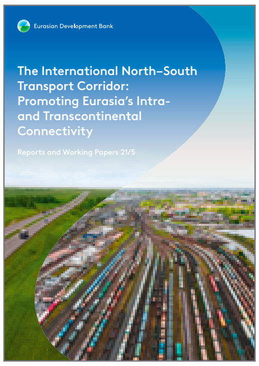
This study aims to contribute to understanding the potential risks and impacts of both explicit and implicit contingent liability shocks on government fiscal and debt positions in the EFSD recipient countries.



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)

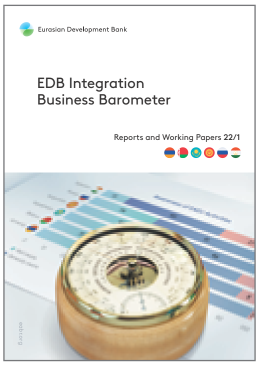
The International North–South Transport Corridor: Promoting Eurasia's Intra- and Transcontinental Connectivity

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

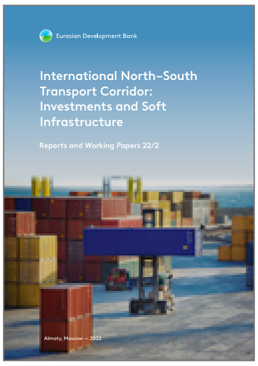
The report is prepared by the key international industry experts and young scholars. It contains the results of technical research aimed at solving today's energy challenges and helping to reduce the carbon footprint in Eurasia.



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)

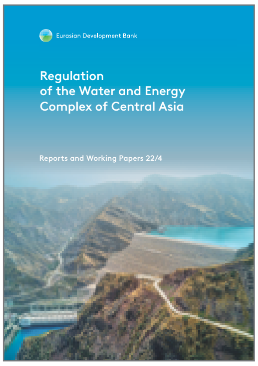
International North–South Transport Corridor: Investments and Soft Infrastructure

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

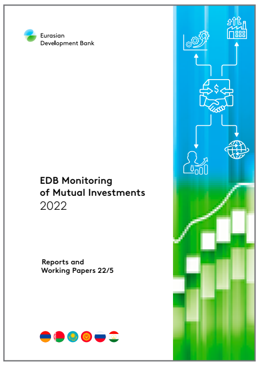
The report provides a renewed perspective on Central Asia as a large, dynamic and promising economic region and analyses its current structural changes and major growth areas..



Report 22/4
(RU/EN)

Regulation of the Water and Energy Complex of Central Asia

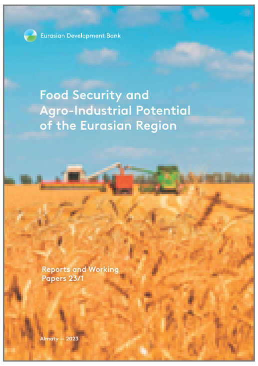
The report scrutinises historical data and international experience to suggest five institutional solutions for effective regulation and development of Central Asia's water and energy complex that would benefit all countries of the region.



Report 22/5
(RU/EN)

EDB Monitoring of Mutual Investments — 2022

This report continues the series of publications detailing the findings of a long-standing research project monitoring mutual direct investments of the CIS countries and Georgia.



Report 23/1
(RU/EN)

Food Security and Agro-Industrial Potential of the Eurasian Region

Based on the balance approach, the report analyses the production, resource, and export potential of the agro-industrial complexes of the EAEU countries, Tajikistan, and Uzbekistan for the period until 2035.

Report 23/2
(RU/EN)

Global Green Agenda in the Eurasian Region. Eurasian Region on the Global Green Agenda

The report provides a comprehensive analysis of the challenges and prospects for low-carbon transition in Eurasia, covering EAEU countries, Tajikistan, and Uzbekistan.

Eurasian Development Bank

CENTRE FOR MACROECONOMIC ANALYSIS
RESEARCH DEPARTMENT
EURASIAN DEVELOPMENT BANK

Your comments and suggestions
concerning this document are welcome at:
pressa@eabr.org

Eurasian Development Bank

www.eabr.org