Eurasian Development Bank

MACROECONOMIC OUTLOOK 2024–2026

December 2023

MACROECONOMIC OUTLOOK

DECEMBER 2023

2023

Economic growth estimates for the Bank's member states

Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	Tajikistan
8.3%	3.9%	4.8%	4.6%	3.1%	8.2%

GDP growth in 2023

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

7.8%
Aggregate inflation in the region at the end of 2023

Tightening of monetary policy in Russia and start of the base rate reduction cycle in Kazakhstan

15%
Key rate in Russia at the end of 2023

15.75%
Base rate in Kazakhstan at the end of 2023

2024

Slowdown in economic growth after accelerated recovery

1.5%
Russia's GDP growth in 2024

2.0%
Belarus's GDP growth in 2024

Strong growth in Kazakhstan and stabilisation in other EDB member countries

5.0%
Kazakhstan's GDP growth in 2024

5.8%
Aggregate GDP growth of Armenia, Kyrgyzstan, and Tajikistan in 2024

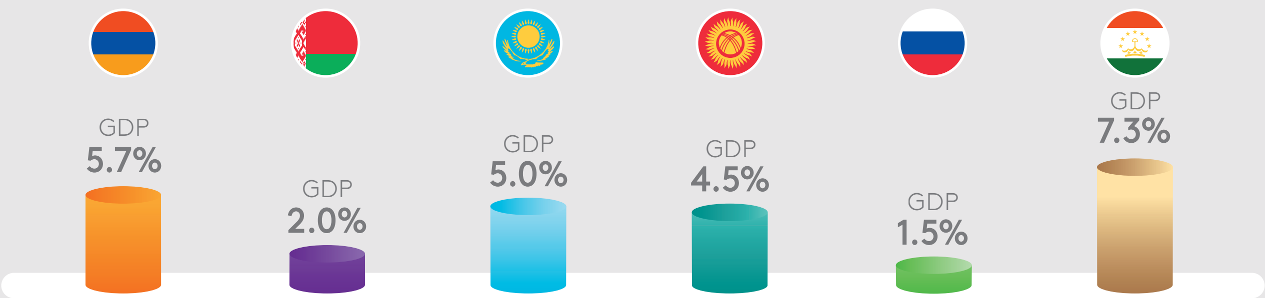
Inflation in most countries of the region gradually approaching targets, barring additional shocks

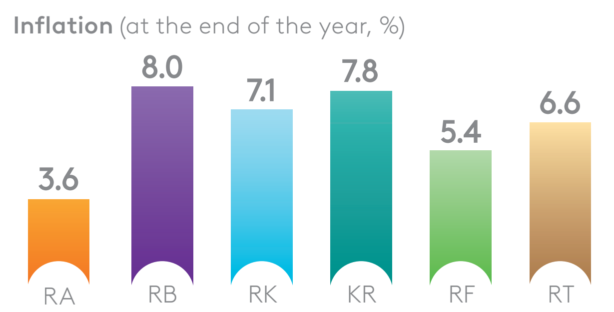
5.8%
Aggregate inflation in the region at the end of 2024

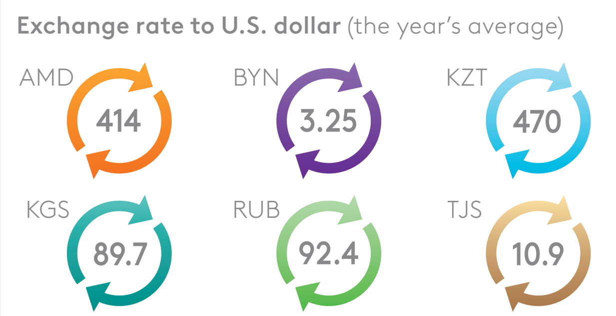
Start of key rate cut in Russia and further easing of monetary conditions in Kazakhstan

10.5%
Key rate in Russia at the end of 2024

10%
Base rate in Kazakhstan at the end of 2024







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

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

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

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SUMMARY

Global economic growth will slow. The major central banks will soon complete their monetary tightening cycle that has extended longer than anticipated. Inflation, albeit subdued in developed countries, will remain elevated for a while, driven by supply constraints, setting the stage for prolonged tight monetary conditions. As a result, U.S. GDP growth is forecast to be low at 1.0% in 2024, potentially dipping into a shallow recession in early 2024. U.S. economic growth will remain below 2% per year in the medium term, while the Eurozone economy will grow by 0.9% in 2024 and by around 1.5% per year in 2025–2026. China's economic activity will weaken in the medium term due to soft global demand and domestic structural problems, and its GDP growth will decrease from 5.6% in 2023 to about 4% per year in 2024–2026.

Thanks to domestic sources of growth, the GDP of the EDB operating region will increase by 3.4% in 2023. The economic outlook for the region in 2023 has improved in line with growth estimates for all countries. The economies of Russia and Belarus have adapted to the new conditions and restored GDP to its pre-crisis levels in 3Q2023. We expect GDP to grow by 3.9% in Belarus in 2023 and by 3.1% in Russia. We have raised the economic growth forecasts to 4.8% for Kazakhstan, 8.3% for Armenia, 4.6% for Kyrgyzstan, and 8.2% for Tajikistan.

In 2024, the region's economic growth will reach 2%, driven by the Russian and Belarusian economies returning to their equilibrium after rapid recovery in 2023. With domestic demand shrinking, Russia's economy will grow by 1.5% in 2024, affecting GDP in most countries of the region due to decreased exports from these countries and lower remittances to them. We expect economic growth to slow to 5.7% in Armenia, 2% in Belarus, and 7.3% in Tajikistan. Investment policy will stimulate Kazakhstan's GDP growth, bringing it to 5.0%. An increase in the output of base metals in Kyrgyzstan will raise GDP by 4.5%.

Inflation in the Bank's operating region will be about 5.8% in 2024, down from 7.8% in 2023. It was 13.1% in 2022, but a tight monetary policy adopted by central banks slowed it down considerably. However, some countries in the region have experienced price pressure in the second half of 2023 due to the overheating labour market and large-scale economic stimuli. These pressures will ease in 2024, encouraged by the central banks' policies to cool domestic demand, but inflation will still remain above target. High interest rates will cause consumer price growth in Russia to slow to 5.4% in 2024 from 7.9% in 2023. Inflation in Armenia will approach its target range of 3.6%. Price growth will continue to slow down in Kazakhstan to 7.1% in 2024 and in Kyrgyzstan to 7.8%. The inflation overhang in Belarus caused by price regulation has paved the way for price growth to accelerate to 8%. Tajikistan's inflation will accelerate to 6.6% amid a spike in domestic demand.

EDB MEMBER STATES

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

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

Indicator	2021	2022	2023F	2024F	2025F	2026F
Republic of Armenia						
GDP in constant prices	5.8	12.6	8.3	5.7	5.3	5.0
Inflation (*at the end of the period*)	7.7	8.6	0.3	3.6	3.6	3.6
IBL rate (*the year's average*), %	6.4	9.0	10.0	8.6	8.0	8.0
Armenian dram to U.S. dollar exchange rate (*the year's average*)	504	436	392	414	420	426
Republic of Belarus						
GDP in constant prices	2.5	–4.7	3.9	2.0	0.8	1.0
Inflation (*at the end of the period*)	10.0	12.8	5.2	8.0	7.4	6.4
Refinancing rate (*the year's average*), %	8.6	11.6	10.1	9.5	9.8	9.5
Belarusian rouble to U.S. dollar exchange rate (*the year's average*)	2.54	2.62	3.01	3.25	3.37	3.54
Republic of Kazakhstan						
GDP in constant prices	4.3	3.2	4.8	5.0	5.1	5.1
Inflation (*at the end of the period*)	8.4	20.3	9.8	7.1	5.6	5.1
TONIA rate (*the year's average*), %	8.9	13.9	16.4	12.4	7.5	6.7
Kazakhstan's tenge to U.S. dollar exchange rate (*the year's average*)	426.0	460.5	456.9	470.4	486.3	507.0
Kyrgyz Republic						
GDP in constant prices	5.5	6.3	4.6	4.5	3.5	3.4
Inflation (*at the end of the period*)	11.2	14.7	8.9	7.8	6.6	6.1
7-day repo Repo (*the year's average*), %	5.6	12.1	11.2	10.4	9.6	9.4
Kyrgyzstan's som to U.S. dollar exchange rate (*the year's average*)	84.6	84.1	87.9	89.7	92.1	95.6
Russian Federation						
GDP in constant prices	5.6	–2.1	3.1	1.5	1.6	2.1
Inflation (*at the end of the period*)	8.4	11.9	7.9	5.4	4.0	3.9
Key rate (*the year's average*), %	5.8	10.6	9.9	12.7	7.8	6.0
Russian rouble to U.S. dollar exchange rate (*the year's average*)	73.6	67.5	85.9	92.4	93.4	95.1
Republic of Tajikistan						
GDP in constant prices	9.2	8.0	8.2	7.3	6.3	7.1
Inflation (*at the end of the period*)	8.0	4.2	6.0	6.6	5.8	6.1
Refinancing rate (*the year's average*), %	12.2	13.3	10.5	10.8	9.7	9.3
Tajikistan's somoni to U.S. dollar exchange rate (*the year's average*)	11.3	11.0	10.8	10.9	11.1	11.4

Note: F = Forecast.
Sources: National agencies of the EDB member countries, calculations by EDB analysts.

FROM THE CHIEF ECONOMIST

GLOBAL ECONOMIC TRENDS

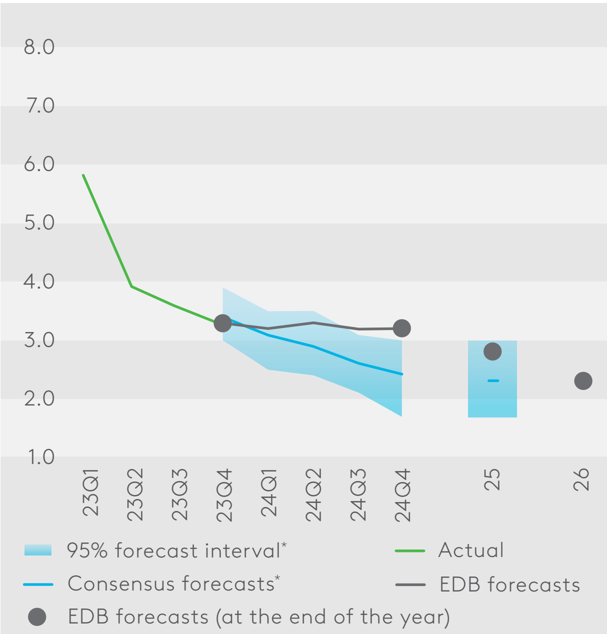
The global economy has performed in 2023 in line with the trends we outlined earlier: inflation, albeit elevated, slowed down, monetary policy tightened, and business activity weakened.

Inflation fell significantly in advanced economies in 2023. Their central banks were committed to reaching inflation targets, so they cut consumer price growth rates. U.S. quarterly inflation slowed to almost half the pace of early 2023 in the second half of the year. Eurozone inflation is slowing steadily, too: price pressures are no longer abundant when it comes to both supply and demand sides. Some factors are still pro-inflationary, especially the tight labour market with a labour shortage in some economic sectors, as well as rising energy prices.

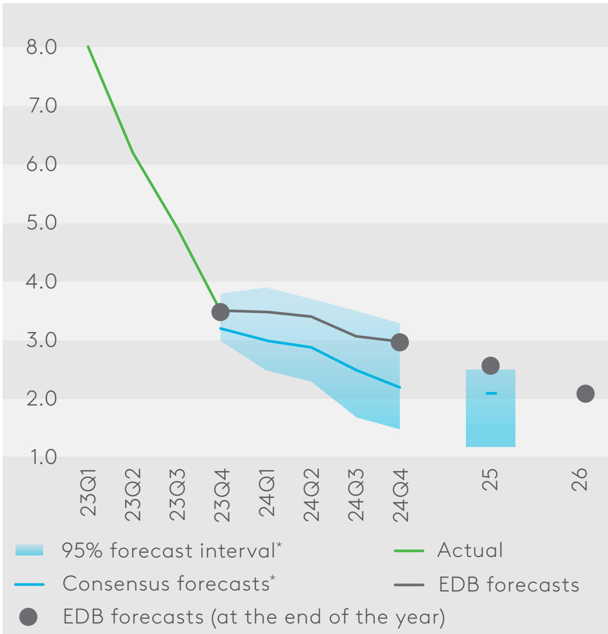
We project inflation in the U.S. and Eurozone to remain above the 2% target throughout the forecast horizon. Price growth will only stabilise around the target in late 2026. We are unlikely to see a further slowdown in price growth after rapid disinflation in 2023 from historic highs: the growing pressure of high interest rates makes it more difficult to service both fiscal and private sector debt. The growing global economic fragmentation is causing additional structural factors contributing to pro-inflationary pressure in advanced economies.

Figures 1 and 2 show our forecasts for U.S. and Eurozone inflation compared with consensus estimates. We expect inflation of 3.3% in 2023 in the U.S. and 3.5% in the Eurozone. In 2024, price growth in the Eurozone will decline at a slightly faster pace than in the U.S., reaching 3.0% at the end of the year vs. 3.1% for the U.S. We are more conservative than consensus, which projects inflation to end below 3% for the U.S. and Eurozone, but still higher than the target levels.

↓ Figure 1. Inflation in the U.S., % YoY



↓ Figure 2. Inflation in the Eurozone, % YoY

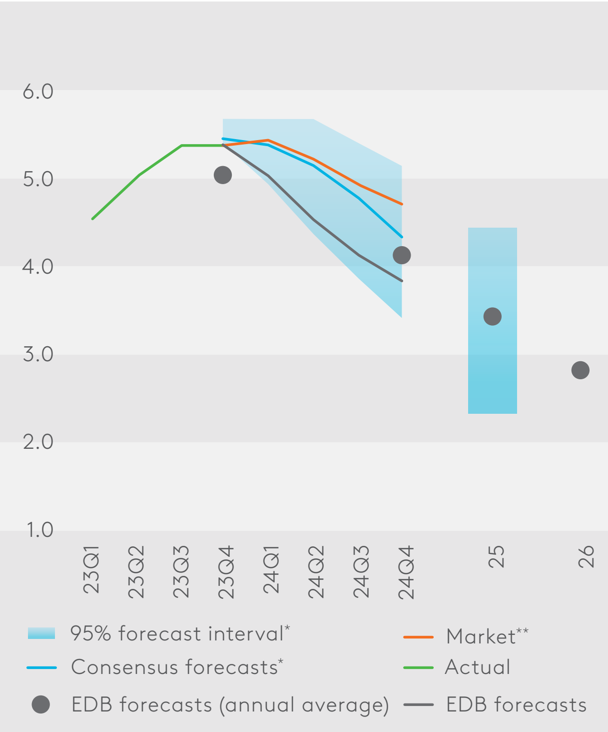


* Based on Bloomberg data (agency estimates and our own calculations).

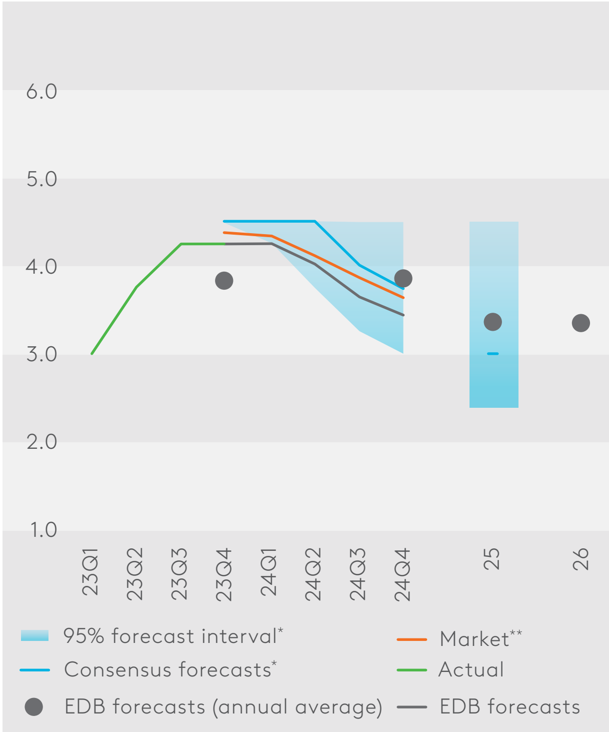
The U.S. and Eurozone interest rate tightening cycles are very likely to be over. At its meetings in September and November, the Fed decided to keep the key rate as it is, amid weakening inflation. After ten consecutive hikes, the ECB also took a pause at its last meeting in October 2023. The threat of recession in the Eurozone and stagnation in the U.S. is becoming more real, so the regions' regulators are increasingly likely to change the course of their monetary policies. The increase in key interest rates by the central banks of advanced economies has affected **the growth of borrowing costs for both households and businesses.** Consumer loan and mortgage rates in the Eurozone keep setting new multi-year highs, while the cost of lending to businesses is higher than it was after the Global Financial Crisis in 2008. Mortgage rates in the U.S. are also at their highest in 20 years, and they are still moving up. Such high loan interest rates are changing the economic behaviour of the households, pushing them to save more, which will become a factor cooling down the global economy.

The Fed and ECB may start cutting key rates as early as the first half of 2024, but they will not reach the level of the previous decade. Analysts mostly expect lower rates in 2024 (Figures 3 and 4), although their estimates differ widely. Our U.S. outlook for next year is less conservative than the consensus, as we assume monetary policy easing to smooth the business cycle and to reduce risks to debt sustainability. Going forward, the rate cut will be smoother, to prevent renewed acceleration in price growth. When it comes to the Eurozone forecasts, we expect the rate to decrease in 2Q2024, supported by economic activity.

↓ Figure 3. Fed Key Rate, % per annum



↓ Figure 4. ECB Rate, % per annum

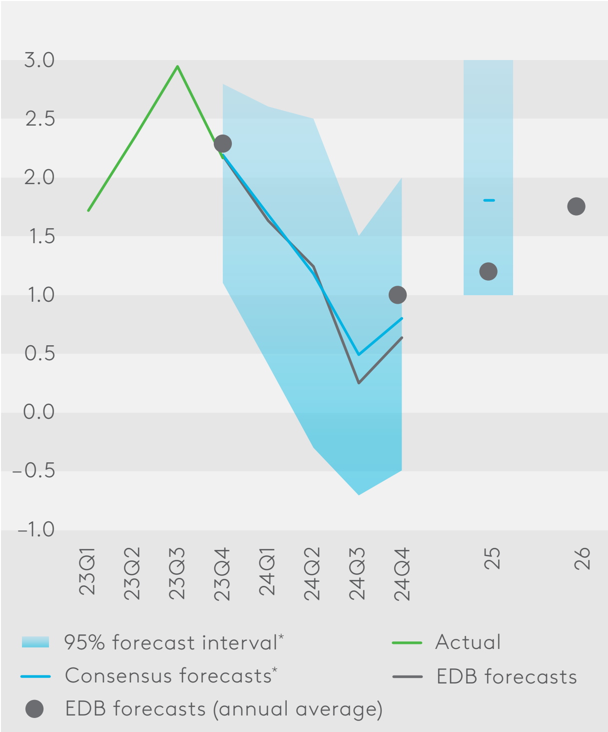


* Based on Bloomberg data (agency estimates and our own calculations).
** Bloomberg estimates based on derivatives market quotations.

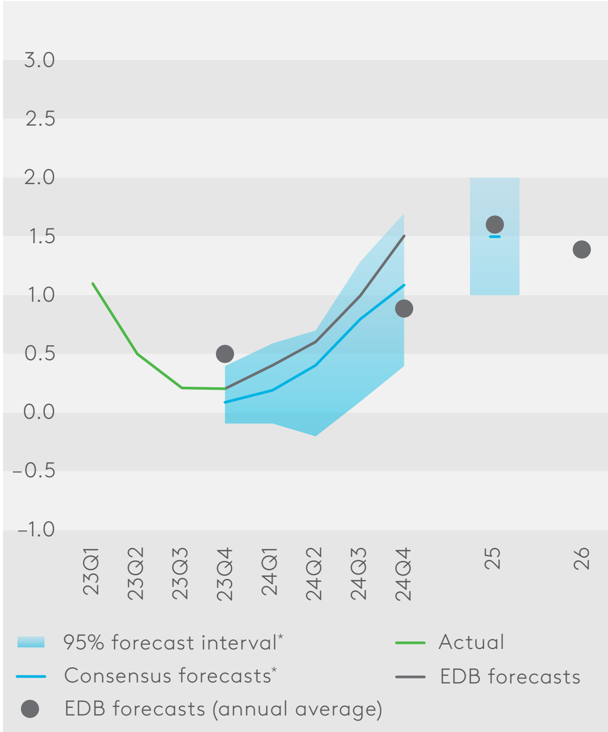
The downward trend in economic activity in the world is far from over, and it might be gathering pace. GDP growth in the world's largest economies has been mixed this year. A slowdown in economic growth was in line with the Eurozone's expectations, with close to zero quarterly growth, as well as some signs of the beginning of a recession in 3Q2023. High interest rates have significantly cooled business activity, keeping PMI below neutral since June and at its lowest since 2021 in August–October. By contrast, the U.S. economy has been growing since early 2023. Economic activity is fuelled by strong and consumption-driven domestic demand. Household spending grew due to higher real income on the back of rising wages, a sustained increase in consumer lending until August 2023, and individuals turning to savings accumulated during the pandemic. A slowdown is in order, though, coming into effect as early as 4Q2023 because of tighter monetary conditions. In 3Q, the U.S. already saw a decrease in the volume of loans to households, a falling number of job vacancies, and a decline in real disposable income. Shrinking consumption will translate into a considerable growth slowdown, but it looks like the U.S. will avoid a recession.

Tight financial conditions will discourage the U.S. and Eurozone economies from growing rapidly. In the baseline scenario, we expect annual GDP growth of 1.0% in the U.S. and 0.9% in the Eurozone in 2024 (Figures 5 and 6). We, along with the consensus, forecast a slowdown in U.S. GDP growth in early 2024. The economic growth forecasts are, however, subject to high uncertainty, a bellwether of a possible recession. In our outlook for the Eurozone, we are close to consensus estimates, but we share concerns about the outlook for the economy over the coming year.

↓ **Figure 5. U.S. GDP, % YoY**



↓ **Figure 6. Eurozone GDP, % YoY**



* Based on Bloomberg data (agency estimates and our own calculations).

A slowdown in economic growth in China will also weaken the global economy next year. In 2023, China's GDP growth rate was strong (Table 2), but we expect a gradual slowdown in early 2024. Our 2024 GDP forecast for China is 4.3%, due to structural challenges in the Chinese economy, such as bankruptcy risks in the construction sector, reduced FDI inflows, and limited domestic demand growth. We expect the Chinese economy to remain in the recovery cycle in 2025–2026, but growth will continue to slow to around 4.0%. Nevertheless, China still stands to post strong economic activity indicators — higher than in most other countries.

In the baseline scenario, we assume that food prices will continue to decline in 2024. With the recovery of supply chains, a slowing global economy, and tight monetary conditions in the U.S., prices will go down slightly, continuing to do so at 2–3% per annum over the medium-term horizon. **After decreasing by 3.5% in 2024, prices for metals will turn relatively stable.** Subdued global economic growth will fail to create conditions for demand for commodities to rise. At the same time, we do not anticipate increased supply amid the global economic fragmentation, which will disrupt sales. **The price of Brent crude oil will decline by 2–5% per year,** largely driven by cooling of the global economy. Given the termination of the voluntary agreement to cut oil output, we expect Brent crude oil prices to decline from $83 per barrel in early 2024 to $74 in 2026. The discount for Russian Urals oil to Brent prices is expected to average around $12 by the end of 2023, declining further to $4 by the end of 2026.

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

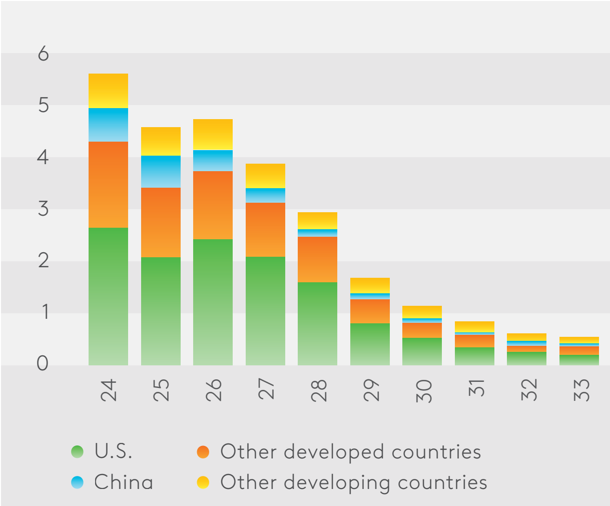
Indicator	2022	2023F	2024F	2025F	2026F
Oil price *($/bbl annual average)*					
Brent	100	83	81	77	74
Urals	76	61	72	72	70
GDP growth *(%)*					
U.S.	2.1	2.3	1.0	1.2	1.8
Eurozone	3.3	0.5	0.9	1.6	1.4
China	3.0	5.1	4.3	4.1	3.9
Inflation *(% the year's average)*					
U.S.	8.0	4.2	3.2	2.9	2.4
Eurozone	8.4	5.6	3.3	2.7	2.3
Key interest rates *(% the year's average)*					
Fed	1.7	5.0	4.4	3.4	2.8
ECB	0.7	3.8	3.9	3.4	3.4

Sources: 2022 — data from IMF, World Bank, Fed; 2023–2026 — forecasts by EDB analysts.

To summarise our baseline scenario, we highlight that, due to the consistent policy of inflation targeting by central banks, inflation is already falling, although it is bound to remain elevated for a long time to come, resulting in **a slowdown in global economic growth over the next few years.** Banks, companies, and governments in advanced economies have become unaccustomed to operating amid high interest rates and tight budget constraints, so **economic growth will be highly fragile,** and any new shocks could noticeably prolong its slowdown or push inflation back up, reversing the trend. To build in the high degree of uncertainty surrounding these factors, which set different development trajectories for the global economy, we have reviewed **the most significant risks and their possible consequences for the economies of the EDB's operating region**.

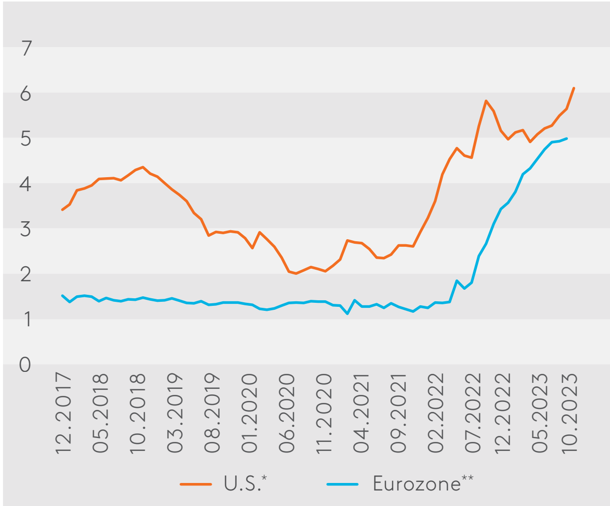
A spike in interest rates has increased the burden of debt servicing and refinancing for almost all categories of borrowers globally, especially for the corporate sector. Borrowers might soon face significant bond redemptions on short notice, and they will have no option of a new favourable placement to turn to for refinancing. The IMF estimates that global corporate debt redemption will peak at around $6 trillion in 2024 (IMF, 2023) (Figure 7). Moreover, the debt previously borrowed at lower rates will be refinanced at higher rates that are already in place (Figure 8).

↓ **Figure 7. Corporate Debt Redemption, US$ trillion**



Source: IMF, 2023.

↓ **Figure 8. Cost of Borrowed Resources for the Corporate Sector, % per annum**



Sources: FRED, 2023; ECB, 2023.

* — Spot price of 10-year corporate securities (FRED, 2023)

** — Cost of new corporate loans (ECB, 2023)

If this scenario materializes, we might observe high interest rates over a longer horizon than in the baseline scenario, potentially causing **debt sustainability issues** amid low economic growth. Many businesses with low revenue growth will go bankrupt, while shrinking consumer and investment activity will pave the way for prolonged recessions in advanced economies. The economic downturn, together with a slowdown in inflation, will result in lower tax revenues. When it comes to raising new debt, refinancing accumulated liabilities, and providing fiscal support to the economy, most governments will have limited options. Falling global demand will reduce prices for resources, primarily oil and base metals, and affect the economies of commodity-exporting countries.

Risk of increased geopolitical tensions. Tensions in the Middle East could reduce oil supplies and increase the cost of oil in the global market, boosting energy prices amid gas supply disruptions. This will lead to a slowdown in global economic growth, and most notably affect the Eurozone as a major importer of crude oil, creating the risk of a prolonged recession in the region in 2024. Rising energy prices will offset the successes central banks have had in combating inflation caused by higher producer costs, and inflation will go up again. Continuing pro-inflationary pressures will keep high interest rates for significantly longer, which will further depress economic growth. In the worst-case scenario, the global economic fragmentation will significantly grow, reducing investment in emerging markets. Risk premiums and transaction costs will rise, exacerbating issues caused directly by rising energy prices, resulting in stagflation, first in advanced economies and then in the rest of the global economy amid lower global demand. Even though negative scenarios pose high risks for the global economy, our alternatives incorporate the chance of a more optimistic course of events compared with the baseline scenario.

Rapid global economic recovery. A speedy resolution of the conflict in the Middle East and reduced tensions between China and the U.S. could fuel development. Stable global energy supplies and projected changes in world prices will reduce business uncertainty and pressure on countries' budgets from energy costs. A widening of foreign economic relations with China will increase exports to the U.S. and the Eurozone, accelerating recovery in these countries. This will also make for an environment conducive to growing cross-border investment, reducing the costs of relocating industries and labour costs, which will in turn cool inflationary pressures. All factors facilitating lower inflation will encourage countries to soften their monetary policies more decisively, creating conditions to expand business activities. Under this scenario, the period of low economic growth would be shorter, enabling the Eurozone countries and the U.S. to reach a trajectory of equilibrium economic growth rates in 2026.