Eurasian
Development
Bank

FROM RECOVERY TO SUSTAINABLE GROWTH

MACROECONOMIC OUTLOOK 2022

IN FOCUS

- Companies' Views on Economic Integration
- EAEU Mutual Direct Investments and Trade
- Water and Energy Complex of Central Asia
- North–South Transport Corridor
- Potential Impact of the Global Debt Crisis
- The COVID-19 Pandemic and Economic Activity
- Fiscal Rules

25 November **2021**



FROM RECOVERY TO SUSTAINABLE GROWTH

MACROECONOMIC OUTLOOK

25 November **2021**

EDB

Centre for Macroeconomic Analysis
Research Department

Moscow
2021

Vinokurov, E., Kuznetsov, A., Berdigulova, A., Fedorov, K., Kharitonchik, A., Babajanyan, V. (2021) *EDB Macroeconomic Outlook. From Recovery to Sustainable Growth. November 2021.* Moscow: Eurasian Development Bank.

Authors
Evgeny Vinokurov, EDB and EFSD 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
Anatoly Kharitonchik, Senior Analyst, Centre for Macroeconomic Analysis, Research Department, kharitonchik_ai@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.

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

This document is provided for informational purposes only, and should not be construed as a recommendation to buy or sell any financial instruments. Neither the information contained in this review, nor any other information related to the topic of this review that may be distributed in the future, can be used as the basis for establishment of any contractual relationship. Despite the due care exercised in the preparation of this document, no EDB analyst, director, manager, employee or counterparty offers any warranties or representations, whether express or implied, or assumes any liability with respect to reliability, accuracy, or completeness of information contained in this review. The EDB expressly waives any and all responsibility and liability as may arise in connection with any data contained in this document. Any information contained in this review may be modified at any time without prior notice.

The text of this document may be reprinted for non-commercial purposes, either wholly or in part, including any large fragments, and published on external electronic resources subject to obligatory reference to the original text.

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

© Eurasian Development Bank, 2021

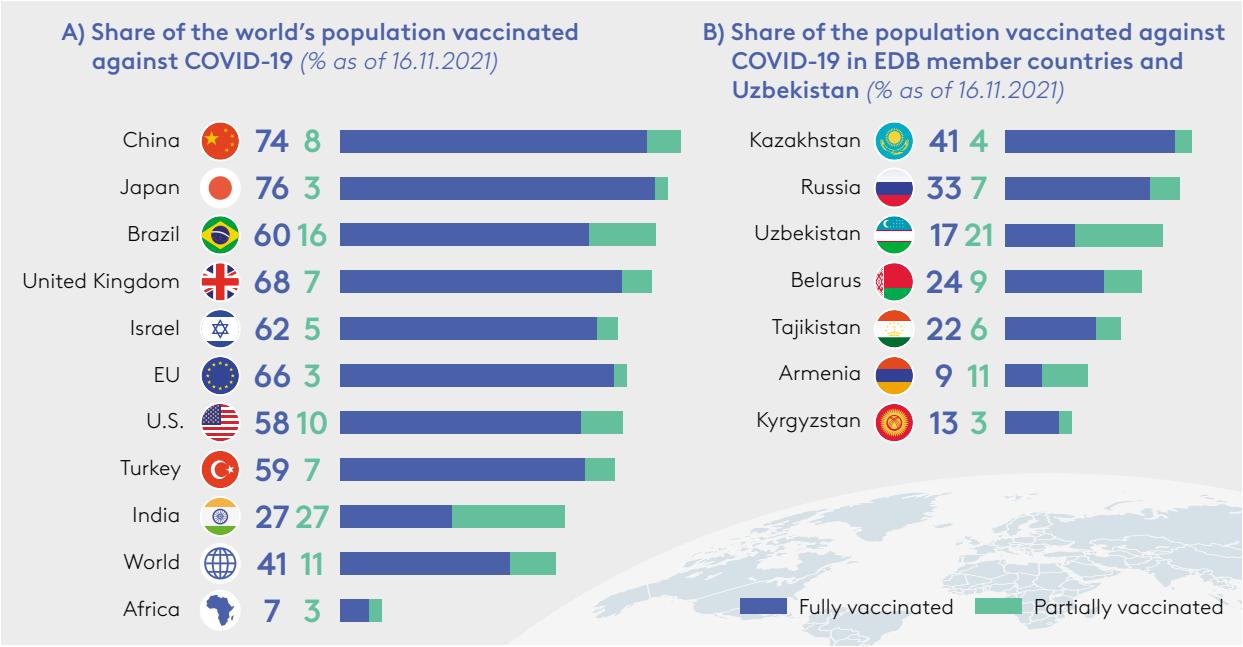
CONTENTS

SUMMARY 4
FROM THE CHIEF ECONOMIST 9
EXTERNAL ECONOMIC CONDITIONS 13
Current Situation 13
Forecasts 14
Risks 15
REPUBLIC OF ARMENIA 17
Current Situation 17
Forecasts 18
Risks 21
REPUBLIC OF BELARUS 22
Current Situation 22
Forecasts 23
Risks 26
REPUBLIC OF KAZAKHSTAN 28
Current Situation 28
Forecasts 29
Risks 32
KYRGYZ REPUBLIC 33
Current Situation 33
Forecasts 34
Risks 36
RUSSIAN FEDERATION 37
Current Situation 37
Forecasts 38
Risks 41
REPUBLIC OF TAJIKISTAN 42
Current Situation 42
Forecasts 43
Risks 45
IN FOCUS: MACROECONOMICS AND INTEGRATION 47
Potential Effects of the Global Debt Crisis on EDB Member Countries Economies 47
The COVID-19 Pandemic and Economic Activity: Correlation Is Weakening 51
International Practices of Public Debt Management Fiscal Rules and Benchmarks 54
Investment in the Water and Energy Complex of Central Asia 57
The International North–South Transport Corridor: Promoting Eurasia's Intra- and Transcontinental Connectivity 60
EAEU Mutual Trade: Value Sales Rebound from Decline 63
Mutual Direct Investments of the EAEU Member States: Making Corporate Integration Deeper 65
EDB Integration Business Barometer: Companies' Views on the EAEU and the Business Environment in the Eurasian Region 68
REFERENCES 73
LIST OF ABBREVIATIONS 74
GLOSSARY 75

SUMMARY

The global economy has passed its peak of recovery: global GDP growth will slow down to a balanced pace. The most active stage of the post-pandemic recovery in the major economies ended during 2–3Q2021, which will naturally result in a gradual slowdown of economic growth to a more moderate pace. In the baseline scenario, we project China's GDP to grow by 5.2% in 2022 vs 8% in 2021. In addition to the exhaustion of pent-up demand, factors that we expect to drive the slowdown of the Chinese economy include the dynamics of the construction sector, which shows clear signs of cooling, and tighter government regulation. In the U.S. and the Eurozone, we expect GDP growth to slow to 3.7% and 4.3% in 2022, respectively, from 5.5% and 5.1% in 2021. Growth in the U.S. and the Eurozone will remain above potential, supported by fiscal and monetary stimulus measures, the scale of which will gradually diminish. Uncertainty over the pandemic remains a risk to the global economy; however, the impact of coronavirus outbreaks on GDP has reduced significantly over time, in particular, through vaccination campaigns (Figure 1) (See: In focus: "The COVID-19 Pandemic and Economic Activity: Correlation Is Weakening").

Figure 1. Vaccination Worldwide and in EDB Member States



Note: Figures for Uzbekistan are as of 20 October; figures for Armenia are as of 31 October; figures for Tajikistan and Belarus are as of 7 November; figures for China are as of 12 November, and figures for the United Kingdom are as of 15 November.

Source: Our World in Data (Mathieu et al., 2021), calculations by EDB analysts.

Global inflationary pressures will persist in 2022, but will ease as the global demand trend normalises. We expect energy prices to remain high in early 2022. They could fall further as the demand growth stabilises and supply builds up, including that of OPEC+. The baseline scenario assumes an average Urals oil price of $72.5 per barrel in 2022. Supply delays and component shortages will continue to have a pro-inflationary impact, with the pressure of these factors subsiding gradually as the global economy slows.

> As a result, inflation in the U.S. and the Eurozone will slow during 2022 but will remain above pre-pandemic figures. The baseline scenario forecasts annual average inflation of about 4% in the U.S. and near 3% in the Eurozone in 2022. With higher inflation, we expect the monetary stimulus to ease in developed countries and assume two 0.25 p.p. rate hikes by the Fed in the 2nd half of 2022.

GDP growth in the EDB region is expected to be around 4% in 2021. Economic activity in the region as a whole returned to the pre-pandemic level by mid-2021. In 4Q2021, we expect the region's GDP to exceed the pre-crisis figure by around 1%. The recovery of EDB member states' economies this year was supported by the effects of fiscal and monetary policy easing in 2020, as well as by individuals and institutions adapting to the pandemic, expanding global demand and soaring prices for the region's key exports. The recovery process among countries in the Bank's operating region was uneven: the GDPs of Belarus, Kazakhstan, Russia and Tajikistan exceed the pre-pandemic levels, while Armenia and Kyrgyzstan have not yet managed to reach them (Figure 2). Due to the greater downturn in the economies of Armenia and Kyrgyzstan last year, they need more time to recover. **Overall GDP growth in 2021 is projected at 4.5% for Armenia, 2.1% for Belarus, 3.8% for Kazakhstan, 3.7% for Kyrgyzstan, 4.1% for Russia and 7.9% for Tajikistan.**

Figure 2. Economic Recovery in EDB Member States

Real GDP
(4Q2019 = 100%, seasonally adjusted)

	IV.19	I.20	II.20	III.20	IV.20	I.21	II.21	III.21	IV.21
Aggregated GDP	**100**	100	91	96	98	99	100	100	**101**
Armenia	**100**	100	85	92	91	96	97	95	**97**
Belarus	**100**	99	96	99	100	100	102	101	**100**
Kazakhstan	**100**	100	93	95	98	99	100	101	**104**
Kyrgyzstan	**100**	98	87	92	87	88	92	94	**97**
Russia	**100**	100	91	96	98	99	100	100	**101**
Tajikistan	**100**	101	101	103	105	108	110	112	**113**

Note: As new data becomes available, seasonally smoothed values of real GDP may be adjusted over the historical period. Initial GDP values for 3 and 4Q2021 are estimates by EDB analysts.

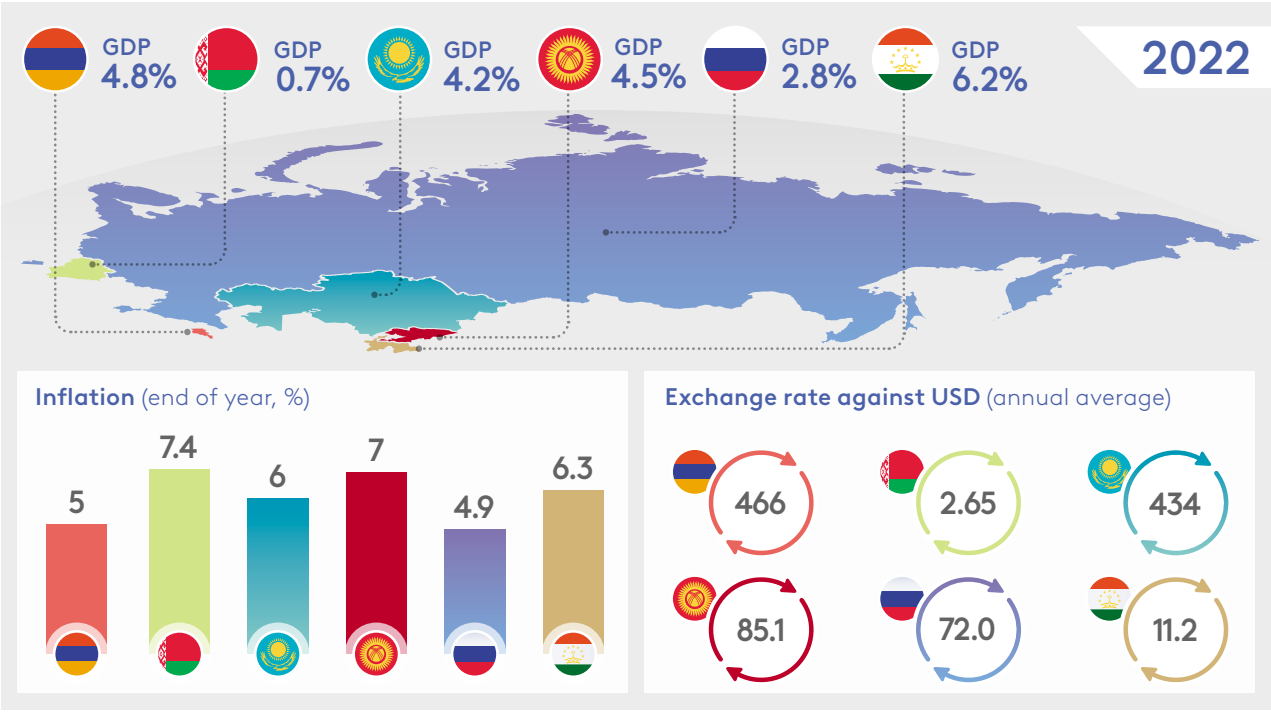
Source: calculations by EDB analysts.

Economic growth in the EDB operating region is forecasted to exceed the pre-pandemic rate in 2022. After the end of the active recovery stage, economic development in the Bank's operating region is going to proceed at a balanced pace. Given these conditions, the fiscal stimulus is being reduced and monetary conditions are being tightened to prevent economies from overheating. As a result, in the baseline scenario, GDP growth for the region is projected at 2.9% in 2022 vs 4% in 2021. Despite the slowdown, economic growth will remain above the pre-pandemic rate (2.3% in 2019). This will be facilitated by government measures to support investment, the realisation of the potential for increased activity in services and oil production. In 2022, we forecast 2.8% GDP growth in Russia and 4.2% in Kazakhstan. High global energy prices, coupled with government development programmes, will support economic activity in the region's major economies. Strong GDP growth is projected in Armenia and Kyrgyzstan,

at 4.8% and 4.5%, respectively. The economies of these countries will complete their recovery to pre-pandemic figures. Tajikistan's economic growth is expected to reach a steady rate of around 6–7% per annum. In Belarus, the baseline scenario expects GDP growth of 0.7% in 2022. The effects of restrictive measures from a number of Western countries may curb business activity in Belarus. Russia's support could help the Belarusian economy adapt to them.

The next few years could be a period of strong investment growth. Ensuring the sustainability of economic growth and enhancing its potential becomes crucial once the recovery from the pandemic-induced shocks is over. There is reason to believe that the world, including EDB member states, is seeing the beginning of a new investment cycle. Indeed, investment is key to providing an impetus to increase the long-term growth rate of economies. Public authorities in the Bank's member states are taking steps to support investment. These include, for example, major state programmes in Kazakhstan (Economy of Simple Things, Business Road Map and 10 National Projects), as well as national projects and NWF investments in infrastructure projects in Russia. Further improvements in the business climate and incentives for private initiatives are important to ensure sustainable economic growth.

Figure 3. Outlook for EDB Member States' Key Macroeconomic Indicators



Source: calculations by EDB analysts.

In the baseline scenario, we project inflation in the region to slow down to 5.3% in 2022, from 8.2% in 2021. The influence of demand factors on prices will gradually weaken as the recovery period in economies comes to an end. Pressure from supply disruptions will continue in 2022, but will gradually subside. In the baseline scenario, we expect commodity prices to decrease during 2022. Nevertheless, increased producer costs will continue to exert the upward pressure on consumer prices, and inflation in most EDB member states will remain above the target in 2022. In Armenia, we project inflation of 5% at the end of 2022 after 8% in 2021; 7.4% after 10% in Belarus; 6% after 8.4% in Kazakhstan; 7% after 9.8% in Kyrgyzstan; 4.9% after

7.9% in Russia; and 6.3% after 8.3% in Tajikistan. We expect inflation in EDB member states to return to the target levels in 2023 as pro-inflationary factors are neutralised.

Monetary conditions in EDB member states will have a disinflationary impact in 2022. Key rates in EDB member states could be increased by the end of 2021 amid high inflation. We expect the key rate to be 8–8.5% in Russia, 9.75–10% in Kazakhstan and around 10% in Belarus at the end of this year. A prolonged period of higher inflation is likely to require key interest rates to remain above their neutral levels for an extended period. We see a possible start of a rate-cutting cycle in Russia, Kazakhstan and Belarus in the 2nd half of 2022 as inflation slows down. By the end of 2022, the key rate in Russia may be lowered to about 7%; the base rate in Kazakhstan may be decreased to 9.5–9.75%; and the refinancing rate in Belarus may be reduced to 9–9.5%. The trend towards neutral levels is likely to complete its journey in 2023. In Armenia and Tajikistan, interest rates are also likely to start falling in the second half of 2022, with a gradual trend towards neutral figures in 2023. In the Kyrgyz Republic, the policy rate in 2022–2023 is projected to be 7.5–8%.

Comfortable oil prices and high interest rates on assets in national currencies will continue to support the currencies of EDB member states in 2022. In 4Q2021, the currencies of most EDB member countries have become slightly overvalued against the dollar. Real currency appreciation is supported by high global energy and metal prices, as well as rising key interest rates in the Bank's operating region. These factors will continue well into 2022. However, as the monetary stimulus is phased out in developed countries, yields on their government bonds will increase, which could lead to lower demand for assets denominated in the currencies of the Bank's member countries. This factor will limit their scope for strengthening in 2022. The average annual exchange rate of the Russian rouble against the dollar in 2022 is projected to be around 72, with the Kazakh tenge at about 434 to the dollar.

The threat of continued global inflation at elevated levels poses significant risks to the macroeconomic outlook of the Bank's member states. Ultra-soft fiscal and monetary policies in developed countries, deployed in response to the challenges of the pandemic, caused inflation and inflationary expectations to rise substantially. Along with that, developments in container shipping and supply chain disruptions are difficult to predict. The combination of prolonged supply shocks, increased inflationary expectations and tolerance of accelerating price growth by central banks in developed countries runs the risk of keeping global inflation at elevated levels for a prolonged period of time. We cannot rule out consumer price growth in the U.S. remaining close to 5% next year and about 2–4% over the next few years. The persistent higher inflation could result in interest rates being raised more aggressively than projected in our baseline scenario, above all in the U.S. Such a scenario would have a negative impact on global growth in 2022, increasing the risk premium for emerging countries and putting pressure on their currencies.

The economies of the EDB operating region will maintain robust economic growth in 2022, even in an adverse scenario. The risk scenario assumes higher world inflation as well as higher prices for fuel resources, combined with lower economic growth in 2022 compared with the baseline scenario. High energy prices and opportunities for greater fiscal stimulus will have a positive impact on economic activity in Russia and Kazakhstan. The continued growth of the region's largest economies will support business activity in other EDB member states through close trade, economic and financial linkages. As a result, despite the dampening effect of slower global growth, capital outflows and uncertainty, GDP in the EDB operating region could grow by 2.5% in 2022 even in the risk scenario.

EDB MEMBER STATES

Table 1. EDB Forecasts. Key Macroeconomic Indicators of EDB Member States (Baseline Scenario)

Indicator	2019	2020	2021F	2022F	2023F
EDB Member States					
Aggregate real GDP, % YoY	2.3	-2.9	4.0	2.9	2.4
Republic of Armenia					
GDP in constant prices, % YoY	7.6	–7.4	4.5	4.8	3.4
Inflation (end of period), % YoY	0.7	3.7	8.0	5.0	4.6
Interbank rate (year's average), %	5.8	4.8	6.3	6.7	6.1
Exchange rate of national currency to U.S. dollar (year's average)	480	489	505	466	480
Republic of Belarus					
GDP in constant prices, % YoY	1.4	–0.9	2.1	0.7	0.9
Inflation (end of period), % YoY	4.7	7.4	10.0	7.4	5.5
Refinancing rate (year's average), %	9.8	8.2	8.7	9.8	8.9
Exchange rate of national currency to U.S. dollar (year's average)	2.09	2.43	2.53	2.65	2.82
Republic of Kazakhstan					
GDP in constant prices, % YoY	4.5	–2.5	3.8	4.2	5.0
Inflation (end of period), % YoY	5.4	7.5	8.4	6.0	4.4
TONIA rate (year's average), %	8.4	9.0	8.7	9.3	8.5
Exchange rate of national currency to U.S. dollar (year's average)	382.8	413.0	424.9	434.0	443.0
Kyrgyz Republic					
GDP in constant prices, % YoY	4.6	–8.6	3.7	4.5	2.5
Inflation (end of period), % YoY	3.1	9.7	9.8	7.0	5.2
7-day Repo rate (year's average), %	3.0	3.6	5.7	8.4	8.3
Exchange rate of national currency to U.S. dollar (year's average)	69.8	77.3	84.6	85.1	85.5
Russian Federation					
GDP in constant prices, % YoY	2.0	–3.0	4.1	2.8	2.1
Inflation (end of period), % YoY	3.0	4.9	7.9	4.9	4.0
MIACR rate (year's average), %	7.2	4.9	5.7	7.7	5.7
Exchange rate of national currency to U.S. dollar (year's average)	64.7	71.9	73.4	72.0	73.5
Republic of Tajikistan					
GDP in constant prices, % YoY	7.4	4.5	7.9	6.2	6.9
Inflation (end of period), % YoY	8.0	9.4	8.3	6.3	6.4
Refinancing rate (year's average), %	13.8	11.5	12.2	12.6	10.9
Exchange rate of national currency to U.S. dollar (year's average)	9.5	10.3	11.3	11.2	11.8

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

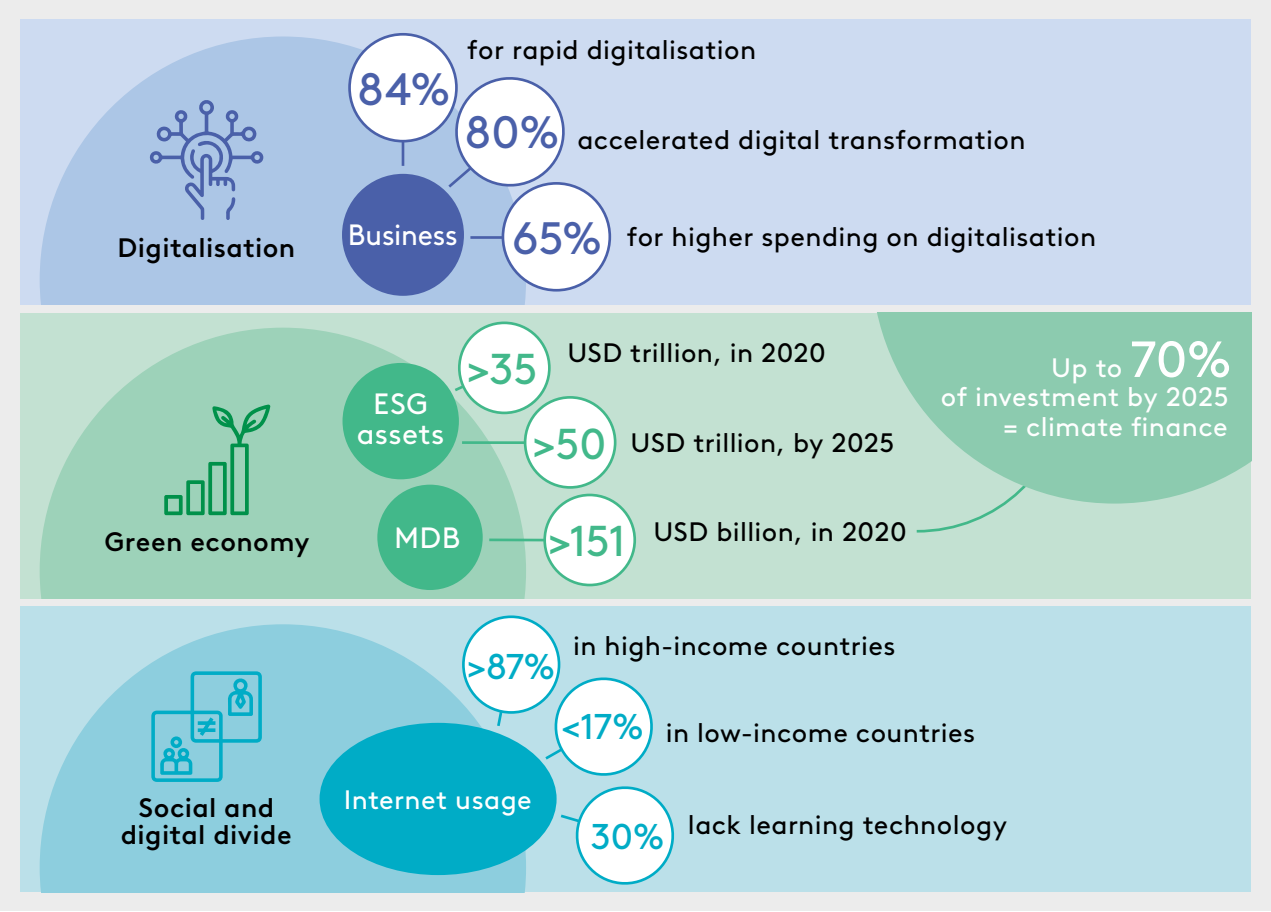
FROM THE CHIEF ECONOMIST

The EDB member states have successfully adapted to working amid the pandemic. Economic activity in the region has rebounded and is expected to exceed pre-pandemic figures by about 1% in 4Q2021. We expect the region's GDP to grow by 2.9% in 2022. Government initiatives to encourage investment will be a critical enabler.

This forecast, of course, continues to be highly uncertain. The world economy has been struggling with the COVID-19 pandemic for almost two years. New waves of the disease come and go, thus making macroeconomic forecasting especially difficult. Nonetheless, people, businesses, and governments are adapting to the challenges **while the successive coronavirus outbreaks are having a diminishing impact on forecast revisions**.

The COVID-19 crisis has hastened the global economy's transition, although it has not caused any new trends; rather, it has crystallised and magnified a few pre-existing but less obvious megatrends, with digitalisation, the transition to a green economy, and a rising social and digital divide among them.

Figure 4. Global Trends



Source: WEF (2020; 2021), BCG (2020), Bloomberg (2021).

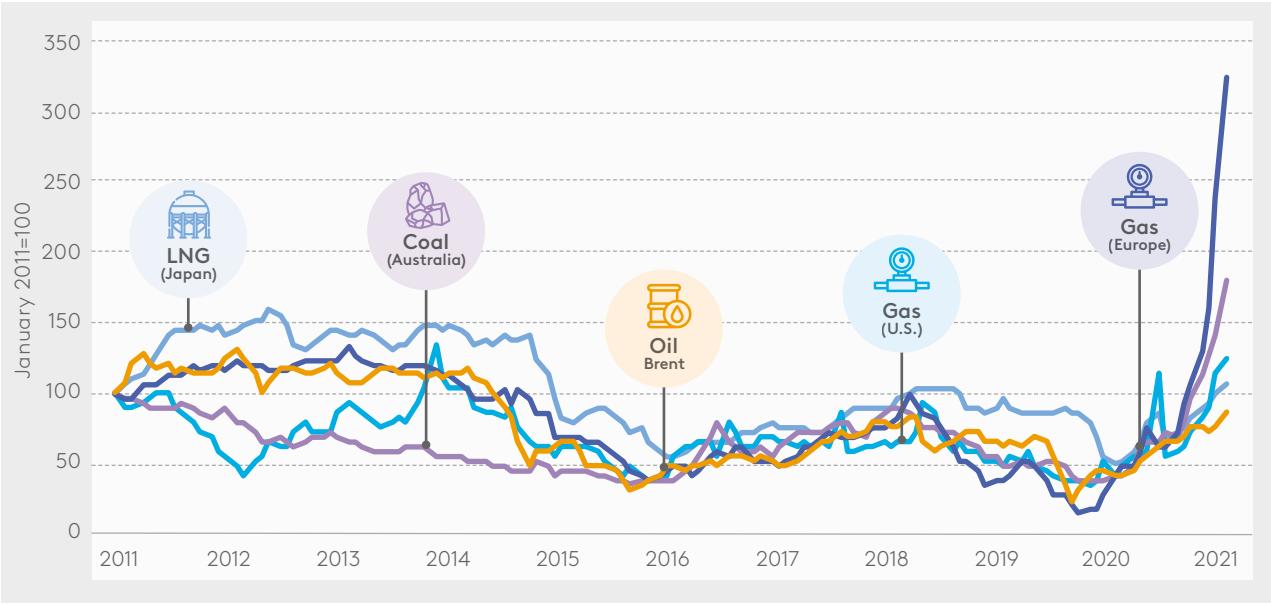
The pace of **digitalisation** in all aspects of our lives, from infrastructure to healthcare, is increasing. 84% of employers are set to digitalise their processes quickly, and 80% of CEOs of the world's largest companies admit that the pandemic has forced them to accelerate their digital business transformation (WEF, 2020; BCG, 2020).

The **green economy** has been given new impetus for development: ESG is now incorporated into corporate, consumer, and financial strategies. ESG assets as at the end of 2020 exceeded USD 35 trillion and may surpass USD 50 trillion by 2025 (Bloomberg, 2021).

The **social and digital divide** is becoming increasingly critical: more than 87% of households in high-income countries use the Internet, with less than 17% in low-income countries. 30% of young people lack the technology to engage in distance learning (WEF, 2021). The pandemic effects are likely to exacerbate the trend towards slower productivity growth: access to technology is unequal, labour mobility has declined, debt burdens are rising and production chains are disrupted.

Perhaps we can still identify one trend that is truly a consequence of the pandemic and the economic authorities' response to it: **global asset inflation**. The root cause of the rapid surge in asset prices around the world was the massive fiscal and monetary injections in developed countries, which led to a rapid recovery in demand outstripping supply capacity. Goods are now taking longer to be delivered, and they are more expensive.

Figure 5. Energy Prices



Source: World Bank, calculations by EDB analysts.

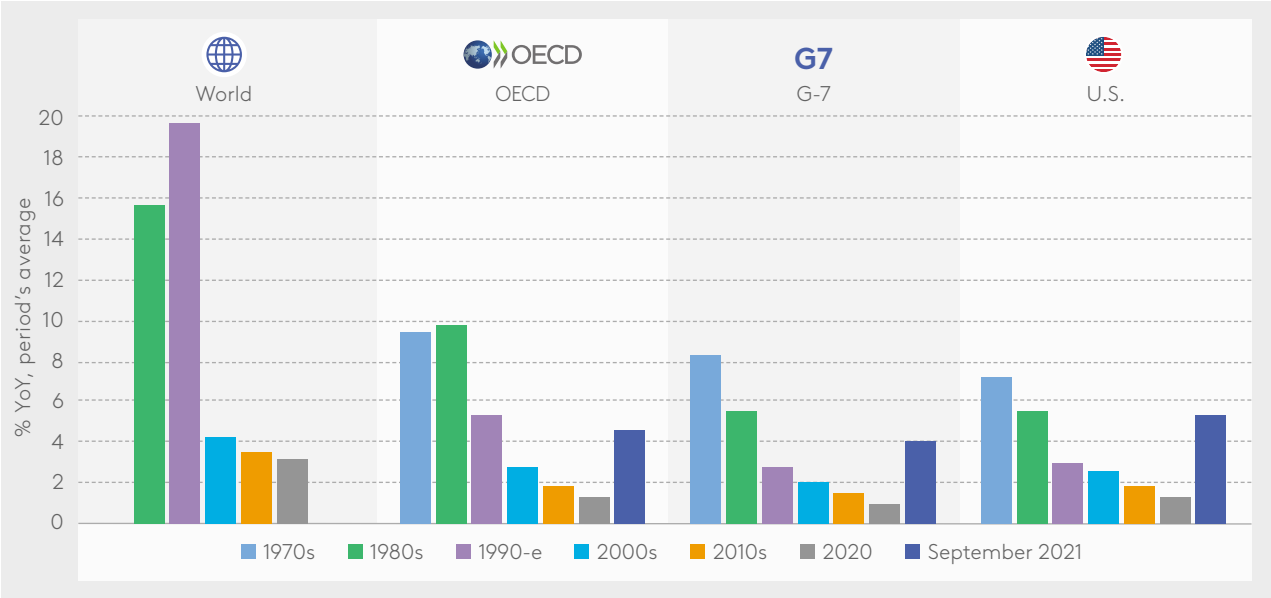
Certain assets experience recurring surges. Recent months have seen an increase in interest in natural gas and other energy resources. Although it is an isolated case in comparison to total asset inflation, the price rally parameters are extraordinary in the fuel sector (Figure 5). **The ultra-soft monetary policy of central banks in developed countries has been the**

driving force behind the rally in energy prices. Huge amounts of cheap money have flooded the markets, manifesting in commodities as well. There are, however, market-specific considerations. Europe's winter weather in 2020/21 and summer weather of 2021 generated a significant spike in gas demand and a lack of storage capacity. Given the rising importance of RES, wind energy has become insufficient. Furthermore, the push towards renewable energy leaves little room for a market-balancing transfer from gas to coal.

Although the peak in energy prices is likely to have passed, high prices are expected to continue in the coming months. Prices are likely to fall later as supply increases and demand returns to normal. We assume an average Urals oil price of roughly USD 72.5/barrel next year in our baseline scenario, with a further fall to USD 66/barrel in 2023.

Consumer inflation is rising globally as a result of high energy prices, supply disruptions, and structural changes in the labour market, which could become a global issue in the coming years. Inflation in OECD countries reached 4.6% YoY in September, compared with an average of only 1.9% in the last decade (Figure 6). The EDB member states are not immune to the problem of inflation either. In Russia, inflation jumped to 8.1% YoY in October; in Kazakhstan and Armenia, to 8.9 and 9.1% YoY; and in Belarus, to 10.5% YoY.

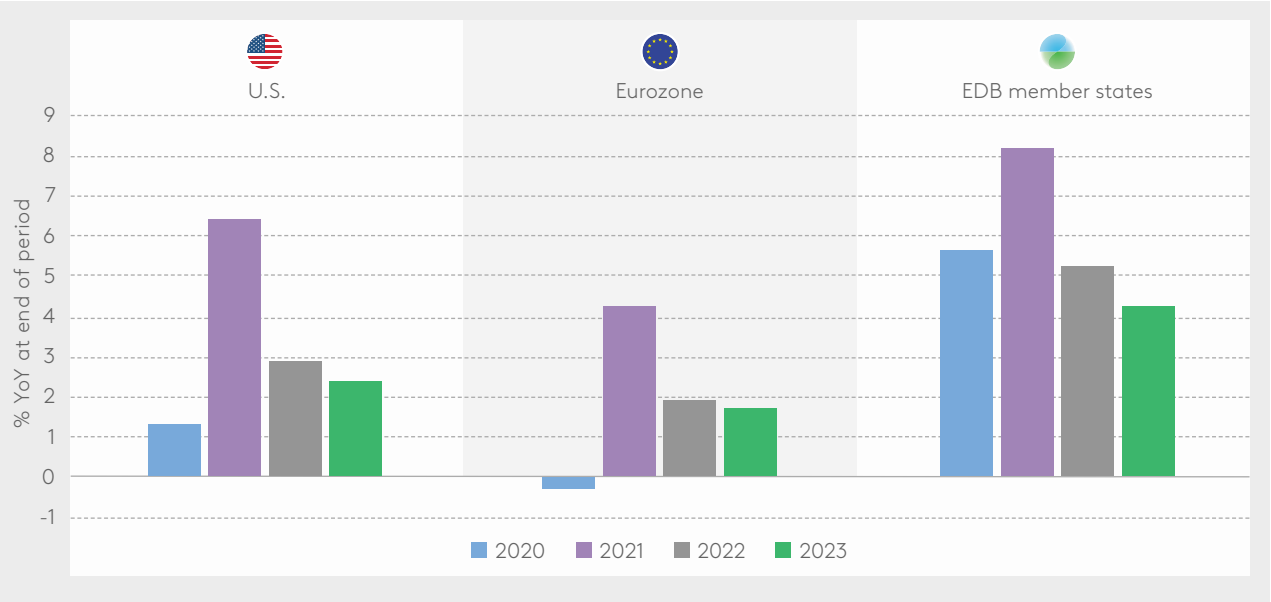
Figure 6. Global Inflation



Source: IMF, OECD, calculations by EDB analysts.

We continue to believe that both transport and logistics bottlenecks and commodity price surges are inherently temporary rather than structural. The global economy will show strength and adaptability, so it will be able to neutralise these issues. Microchips, packaging, and energy supply are all issues that can be overcome. However, because of **the latent power of "COVID damage" in the global economy**, as well as the powerful influence of monetary policy, it is possible that **the inflationary impact of these factors will take longer** to neutralise than initially anticipated (Figure 7).

Figure 7. Inflation Forecasts (EDB Baseline Scenario)



Source: National agencies, calculations by EDB analysts.

As already noted, we believe that the current inflationary factors will grow neutral. But we also see **room for a steady increase in the average inflation rate in the 2020s.** It is realistic to assume that inflation in developed countries will be steadily higher than in the 2010s: perhaps not the 0–2% to which the market became accustomed in the previous decade, but some 2–4%. This was considered standard before the global financial crisis. Such persistent inflation rates do not constitute a structural problem for the global economy. However, at some point, they will require a significant change in the financial and real sectors.

We have already projected a favourable situation on commodity markets in 2021 in our estimates since the end of the previous year. **Over the next few years, the price situation will most likely remain favourable.** The current situation delivers apparent benefits to the EDB operating region as a net exporter of commodities: export and budget revenues are increasing, and national currencies are becoming more attractive. This might be the foundation for a new investment cycle that is gaining traction. However, the unwinding of the inflationary spiral must be closely monitored: no one, not even the EDB member countries, stands to gain if the current concerns escalate into a severe energy crisis.

The recovery and adaption period following the COVID-19 pandemic has come to an end. The focus of the economic agenda has switched from crisis management to long-term sustainability and growth prospects. The EDB member states' **vigorous pursuit of investment can provide a boost to economies' long-term growth rates**.

Evgeny Vinokurov,
EDB and EFSD Chief Economist

EXTERNAL ECONOMIC CONDITIONS

CURRENT SITUATION

The global economy continues to expand, but the growth rate is slowing. The global composite PMI was 53 and 54.5 in September and October, respectively, down from 56.6 and 55.8 in June and July. The strongest phase of the recovery came to an end mid-year, which is leading to a gradual slowdown in business activity towards more balanced levels. Add to all this increasing supply delays, component shortages, as well as another pandemic wave. Notable among the world's largest economies is a strong deceleration in China's GDP growth to 4.9% YoY in 3Q, from 7.9% YoY a quarter before. The slowing growth rate in China is occurring against a backdrop of challenges in the construction sector and an industrial cooling down. Overall for 2021, our baseline scenario assumes GDP growth of 8% for China, 5.5% for the U.S., and 5.1% for the Eurozone.

The global economy is still under high inflationary pressure. There has been a rapid rally in energy prices in recent months. Exchange quotations for natural gas in Europe exceeded USD 1,000 per thousand cubic metres in October. While subsequently declining, they nevertheless continue to be at historically high levels. This is largely the result of strong demand growth in the face of a cold winter and hot summer, as well as a shortage of wind power generation in Europe this year, given the increased importance of RES. Against a backdrop of rising gas prices, coal and oil are becoming more expensive; the latter has reached 2014 prices. Higher energy costs are pushing up metals prices, while food is affected by harvest concerns. Prices are also pressured by delivery delays: PMI indicators are showing the continued lengthening of delivery times. Maritime shipping costs, as measured by the Baltic Dry Index, have decreased from early October highs, but the growth remained significant since the beginning of the year.

Supply-side factors, coupled with a rapid recovery in consumer demand for goods, are supporting inflationary pressures in the largest economies. Consumer inflation was 6.2% in the U.S. and 4.1% in the Eurozone in October. Further, producer prices in China rose by 13.5% YoY in October, which is the highest since the 1990s. Our baseline scenario expects inflation in the U.S. and the Eurozone to persist in 4Q2021 at around 6% and 4% YoY, respectively.

Interest rate hikes in the U.S. and the Eurozone are now expected by the market to begin in 2022, rather than 2023. This was brought about by growing concerns over a prolonged period of increased inflation. As a result, U.S. 10-Year Treasury note yields have risen again and may continue to rise in the coming months. The tapering of the asset purchase programme in the U.S. started from November at the background of the high inflation risks. The rise in the yield of U.S. bonds is reflected in the drop in price of emerging economies' bonds, which have also been impacted by the risks of a global economic slowdown.

FORECASTS

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

Increase Year-on-Year, % (unless otherwise stated)

	Urals Oil Price *(USD/barrel, year's average)*	Gold Price *(USD per oz., year's average)*	USA Real GDP	Eurozone Real GDP	China Real GDP
2021	69	1,802	5.5	5.1	8.0
2022	72.5	1,707	3.7	4.3	5.2
2023	66	1,655	2.0	1.7	5.1

Source: calculations by EDB analysts.

In the medium term, global economic growth will decelerate to a more balanced pace. When looking at the world's major economies from the viewpoint of forecasts, one of the most important assumptions of the baseline scenario is that there will be no severe lockdowns. High coronavirus vaccination rates may contribute to this. The services sector will continue to recover under this scenario. Global demand is projected to shift away from goods and towards services, while developed economies' monetary incentives will progressively ease. In the baseline scenario, we expect GDP growth rates in China, the U.S. and the Eurozone to slow and move closer to their potential rates in 2022–2023. Compared to the June forecasts, we have lowered estimates for China by 0.4 p.p. in 2022 and 2023 due to clear signs of a heavy cooling of the construction sector together with tighter government regulation. Forecasts for the Eurozone have been cut by 0.4 and 0.3 p.p. in 2022 and 2023, respectively, due to a faster-than-expected economic recovery in 2021. U.S. GDP growth forecasts for 2022–2023 have not seen major changes. We continue to expect the U.S. economy to function in an expansionary phase over the medium term due to fiscal incentives.

Energy prices will remain elevated in late 2021/early 2022 to normalise in 2022–2023. High demand for fuels is likely to continue into winter and early spring and will keep prices at their current level. Thereafter, prices could fall as supply builds up, including due to the expected recovery of OPEC+ oil production. The dynamics of demand for energy is also likely to stabilise gradually as the global economy returns to a sustainable growth track. The EDB's baseline scenario assumes an average Urals oil price of USD 72.5 per barrel in 2022, and a fall to USD 66 in 2023. We expect industrial metal prices to decline slightly from their current peaks in the medium term as the Chinese economy slows. In the baseline scenario, food prices are projected to adjust between 2022 and 2023.

Global inflation is expected to be elevated in 2022. Supply delays and component shortages will continue to have a pro-inflationary impact in 2022, easing gradually as the global economy passes the recovery peak and the pandemic progresses in a manageable manner. Energy prices will also keep inflation high in the 1st half of next year. This factor's influence will diminish markedly in the 2nd half of 2022 due to a high base effect. In the baseline scenario, we expect average annual inflation in the U.S. to be near 4% in 2022 and close to 2.5% in 2023. The high growth pace of consumer prices in the U.S. when compared to the last decade is driven

by the expected positive output gap due to large fiscal injections in the medium term. In the Eurozone, we expect inflation to average close to 3% in 2022.

In the baseline scenario, we project a rise in U.S. interest rates in the 2nd half of 2022. With high inflation risks, the U.S. asset purchase programme may be completed by the middle of next year, after which the Fed will begin the process of raising rates. We are looking at two 0.25 p.p. rate hikes in the 2nd half of 2022 followed by a continuation of the cycle in 2023. The Eurozone is likely to see asset purchase programmes reduced gradually in 2022.

RISKS

Inflation is still threatening to exceed central bank targets. Ultra-soft fiscal and monetary policies in developed countries have caused inflation and inflationary expectations to rise substantially, as they were deployed in response to the challenges of the pandemic. However, developments in container shipping and supply chain gaps are difficult to forecast. The combination of prolonged supply shocks, increased inflation expectations and tolerance of accelerating price growth by central banks in developed countries runs the risk of keeping global inflation at elevated levels for a prolonged period of time. It cannot be ruled out that consumer price growth in the U.S. could remain close to 5% next year. The persistent higher inflation could result in higher interest rates than we projected in the baseline scenario; this primarily concerns the U.S., among other developed countries. Such a scenario would have a negative impact on global growth, increasing the risk premium for emerging economies and putting pressure on their currencies.

A rise in global financial market interest rates may trigger debt sustainability threats in the emerging economies in the medium term. Rising debt burdens are now a challenge for dozens of economies worldwide. The IMF estimates that public debt will be almost 122% of GDP at the end of 2021 in developed countries, 18 p.p. higher than in 2019, i.e., before the crisis. Public debt in emerging economies is 63.4% of GDP, rising 9.4 p.p. above the 2019 figure. A new wave of debt accumulation in the world began before the pandemic. The previous three waves (1970–1980, 1990–2000 and 2007–2009) invariably ended in a crisis (Kose et al., 2021). Despite the favourable environment of low interest rates, economic growth and investment are weaker this time around. In this context, rapid debt accumulation may carry significant risks for emerging economies, especially for those with high foreign currency debts. Rising global interest rates, coupled with a weakening of economic growth, could cause emerging markets to face higher refinancing and debt service costs and trigger a series of debt crises as early as 2023–2024. As a result, we cannot rule out signs of a debt crisis appearing at the end of 2023 with a crisis materialising in 2024 (In Focus: Potential Effects of the Global Debt Crisis on EDB Member Countries Economies).

A slowdown in global economic growth might still happen because of the uncertainty surrounding the pandemic: the population's vaccination rate in emerging economies remains low. The appearance of new variants of coronavirus and their spread, as well as severe negative secondary effects of the pandemic, cannot be ruled out. At the same time, the relationship between economic activity and COVID-19 outbreaks has weakened markedly over time (In Focus: The COVID-19 Pandemic and Economic Activity: Correlation Is Weakening).

The Chinese economy's recession in 2022–2023 could be more severe than anticipated. The risks of major declines in the construction and real estate sectors are quite high. Besides, tighter government regulation, in particular, in the digital sector, could slow down economic growth. Demographic trends remain unfavourable, and opportunities for capital accumulation are limited: China's capital formation is comparable to that of the U.S. but at a much slower rate of development. As a result, we cannot rule out the Chinese economy experiencing a downturn in 2022 to 4–4.5%, rather than 5–5.5%. Such a chain of events would restrict global growth and result in significant price drops in metals and energy.

REPUBLIC OF ARMENIA

CURRENT SITUATION

Armenia's economic activity grew by 4.4% YoY in the first nine months of the year. The growth in September was 2.4% YoY, up from 2.2% a month earlier. The construction, services and trade sectors continue to drive the economy. A decline in industrial production (by 1.7% YoY in 3Q), has in turn restrained activity. In addition, agricultural output fell by 7.7% YoY in 3Q this year, after growing by 6.8% YoY in the 1st half of the year due to a lower crop of cereals, potatoes and vegetables, which was caused by water shortages. As a result, the value of goods exports fell by 11.5% in September, following a 14.7% increase a month earlier. There are risks that economic growth in Armenia will slow more than previously forecast until the end of the year due to a downturn in industry and agriculture.

Industry is supported by manufacturing sectors such as alcohol products and metals. However, manufacturing grew by 0.3% YoY in 3Q, mirroring the end of the peak recovery in both domestic and external demand. Because of some temporary plant shutdowns, the mining sector experienced a 19.4% YoY decrease in September. As a result, industrial output fell by 1.2% YoY in September this year (up 0.7% YoY from January to September).

The peak of consumer demand recovery is over: the active phase has ended amid gradual exhaustion of pent-up demand. This continues to affect retail trade (down 1.1% YoY in September) and the hotel and food service sectors (up 64.7% YoY in September vs 82.8% a month earlier). Household savings and remittances continue to support demand. Household lending acts as a dampener (down 3.4% YoY in September), amid continued uncertainty about how the economy is developing and rising interest rates.

A steady positive trend in the construction sector is keeping Armenia's economy afloat. Construction works grew by 2.6% YoY in September (6.4% YoY in January–September). The sector is supported by financing from both individuals and enterprises, as well as growing mortgages and construction loans (up 33.1% YoY and 31.3% YoY in September, respectively). Meanwhile, mortgage lending continues to be the only loan type for individuals that has kept its positive momentum.

Armenia's consumer prices rose by 9.1% YoY in October, following an increase of 8.9% YoY in August, driven by higher prices for both non-food products and food[1].

Global supply delays and higher food and commodity prices continue to be pro-inflationary contributors. After a 9.5% YoY increase in November, we expect prices to rise by some 8% in December.

The Central Bank of the Republic of Armenia kept its refinancing rate at 7.25% in November amid stabilising price growth, inflation expectations and consumer demand. In 4Q2021, we believe monetary policy's impact on demand will be neutral. The IBL rate, according to the EDB's baseline scenario, will be close to current rates by the end of 2021.

[1] Agricultural products, among others, contributed strongly to food prices due to higher demand for their exports together with a decline in 3Q harvests.

The state budget deficit for the first nine months is estimated at 3.1% of GDP (3.6% YoY), thanks to the increase in revenues outpacing expenditures. The financing of social and capital expenditures, on the other hand, has increased significantly year on year. The draft State Budget Law 2022 sets the budget deficit at 4.7% of GDP in 2021 and 3.1% of GDP in 2022. Fiscal policy will curb demand this year according to our estimates, given the 2.4 p.p. expenditure reduction to 28.2% of GDP. The authorities' planned fiscal consolidation aims primarily at reducing the public debt burden next year to 60% of GDP, down from the current 63.7%[2]. The fact that public debt in Armenia is under control is supporting improved credit ratings among other benefits. For example, **Standard and Poor's has assigned Armenia its first credit rating**, a sovereign rating of "B+" with a positive outlook on long-term foreign and national currency bonds to be issued. Short-term bonds have been assigned a "B" rating, and private sector companies and financial institutions can be rated up to "BB–" by the agency. This will facilitate institutional investors' confidence in Armenia, as well as increase Eurobond yields and the country's capital market growth.

FORECASTS

Table 3. Armenia's Key Macroeconomic Indicators (Baseline Scenario)

Indicator	2019	2020	2021F	2022F	2023F
GDP in Constant Prices *(% growth YoY)*	7.6	–7.4	4.5	4.8	3.4
Consumer Price Index *(% growth YoY at end of year)*	0.7	3.7	8.0	5.0	4.6
IBL Rate in AMD *(% p.a., year's average)*	5.8	4.8	6.3	6.7	6.1
Armenian Dram to U.S. Dollar Exchange Rate *(year's average)*	480	489	505	466	480

Note: F = Forecast.

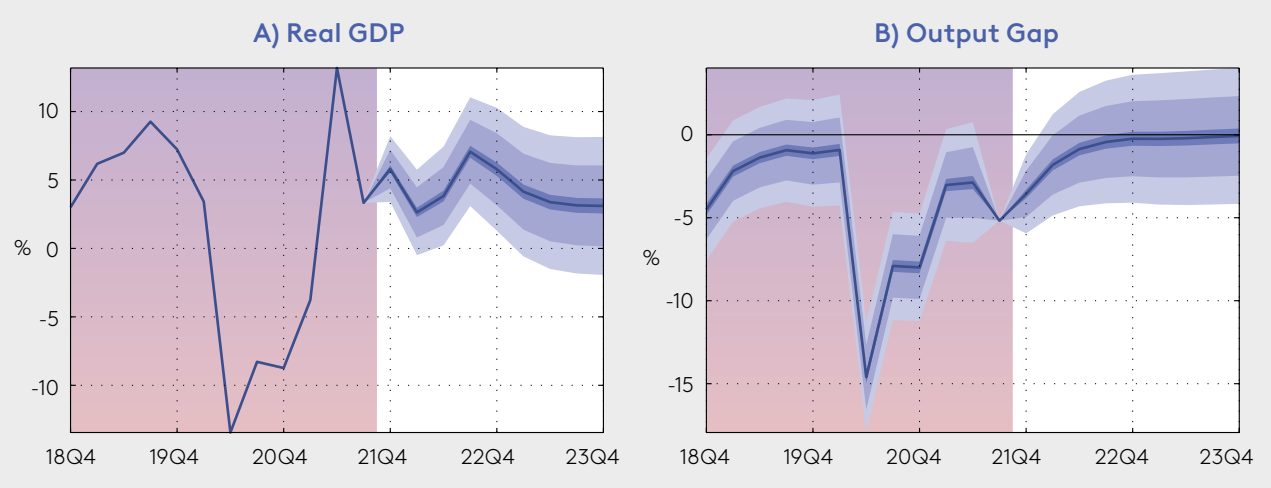
Source: National agencies, calculations by EDB analysts.

Economic activity

The economy is forecast to grow by 4.8% in 2022 after 4.5% in 2021. Due to 3Q's negative trends in industry and agriculture, the current year growth estimate is down 0.4 p.p. vs the previous forecast. Real GDP will reach pre-crisis rates in 2Q2022 with a projected growth rate of 4.8% (Figure 8.A). Economic growth next year will be supported by continued high metal prices, a recovery in agricultural output, and steady positive development of the manufacturing, construction and services sectors. Sluggish private-sector investment, the depletion of pent-up consumer demand, and a reduction in fiscal incentives, coupled with the end of the global recovery growth phase, will limit economic growth. In the medium term, the baseline scenario assumes that the economy will grow at a rate close to its potential (around 3.5% per year) (Figure 8.B). An important driver of potential GDP growth is the government's intention to improve the business climate and investment climate, and to increase capital expenditures.

[2] The RA government's external and domestic debt at the end of September as a share of the last four quarters' GDP.

Figure 8. Economic Activity Forecasts for Armenia

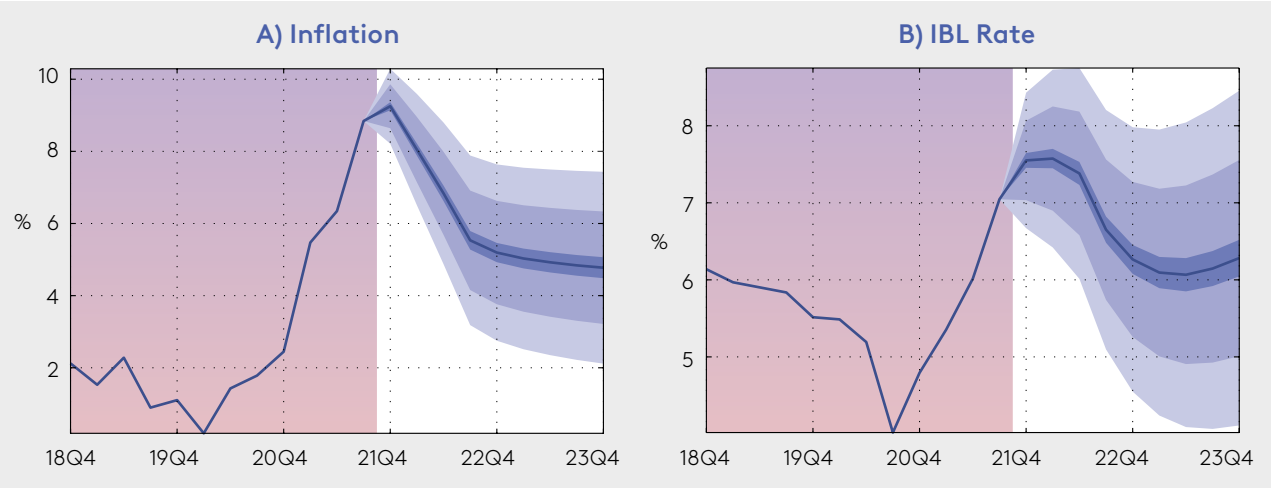


Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Inflation

Inflation at the end of 2022 is forecast to be near 5%, down from 8% in December 2021. As in the previous forecasts, price growth is expected to slow down from this December onwards. The exhaustion of pent-up demand, the impact of monetary policy, and the stability of prices on global commodity and product markets will all contribute to a slowdown in inflation next year. Inflation will return to its target range by the end of 2Q2022 (Figure 9.A). However, there is a risk of high food inflation lingering in the 1st half of 2022 due to the persistence of high agricultural export prices. The baseline scenario forecasts a 5% inflation rate at the end of 2022 and 4.6% at the end of 2023. In the medium term, inflation will be within the Central Bank of Armenia's target range of around 4% YoY.

Figure 9. Inflation and IBL Rate Forecasts for Armenia



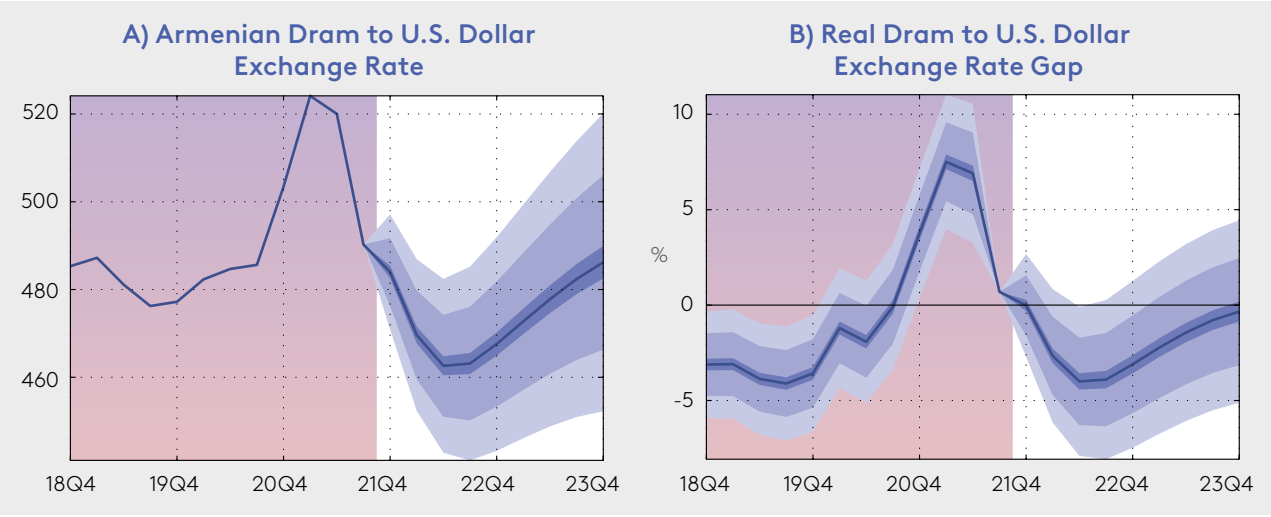
Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Monetary Policy and the Armenian Dram Exchange Rate

Monetary conditions will be slightly constrained in the 1st half of 2022. The IBL rate, according to our baseline scenario, will be near current rates at the end of 2021. In 2022, as inflationary pressure weakens and elevated inflation expectations fade, we forecast the end of the refinancing rate hike cycle. The rate is likely to fall to an average of 6.7% in 2022 (Figure 9.B). This will make monetary conditions neutral by the end of next year. The IBL rate is expected to average 6% in 2023, which is on a par with the CB RA's stable inflation target range, according to our calculations.

The exchange rate of the Armenian dram to the U.S. dollar is projected at an average of 466 in 2022, after 505 in 2021 (Figure 10.A). Remittance inflows, export income on the back of high metal and food prices, and increased international reserves, including an SDR placement from the IMF, will all contribute to the strengthening of the national currency. Higher financial market rates in Armenia will also support the national currency. We anticipate that the AMD exchange rate will remain overvalued, possibly for the majority of 2022, due to higher inflation compared to that of trading partners (Figure 10.B). In 2023, the national currency will be close to its equilibrium values. The baseline scenario forecasts an average exchange rate of 466 in 2022 and 480 in 2023.

Figure 10. Armenian Dram Exchange Rate Forecasts



Note: In Figure 10.B, positive values represent AMD undervaluation.
Source: calculations by EDB analysts.

Fiscal impulse decline in 2022 and policy neutrality in the medium term. Fiscal policy will curb demand this year according to our estimates, given the 2.4 p.p. expenditure reduction down to 28.2% of GDP. With fiscal consolidation envisaged in the government's medium-term expenditure programme for 2022–2024, the expenditure rates will stabilise near 26% of GDP and tax revenues will grow by 0.4 p.p. per annum.

RISKS

The uncertainty surrounding the pandemic and the consolidation of inflation at high rates continue to be the two most significant risks to the Armenian economy under the baseline scenario. The deteriorating epidemiological situation and the global economic slowdown will have a detrimental effect on Armenia's economy. Exports, remittances, and tourism flows may all decline as a result of weak economic activity in the major trading partners. The deterioration of the country's epidemiological situation will have an impact on the service sector's trends. There are risks of continued external pro-inflationary factors such as rising food and commodity costs, as well as supply chain disruptions. Furthermore, there is a risk of high food inflation remaining next year due to the persistence of high agricultural export prices.

REPUBLIC OF BELARUS

CURRENT SITUATION

The Belarusian economy grew by 2.7% YoY in the first nine months of 2021. The strong three-quarter result was fuelled by a significant increase in external demand, with the strongest growth occurring in the 1st half of the year. This was due to the rapid recovery of Belarus's trading partners' economies following last year's recession. As a result, export-oriented manufacturing largely contributed to annual GDP growth of 1.6 p.p. in the first nine months. The information and communication sector showed strong trends, accounting for 0.7 p.p. of GDP growth. The rest of the service sectors added another 0.7 p.p., supported in part by a rebound in consumer demand as people adjusted to the pandemic. GDP growth was held back by agriculture (a minus 0.4 p.p. contribution to GDP growth) and construction (minus 0.8 p.p.).

GDP growth in Belarus for 2021 is forecast at 2.1%. The strong recovery period ended in 2Q, resulting in 5.8% YoY GDP growth. As a result, the negative output gap closed, and GDP was 1.5–2% higher than pre-pandemic rates by mid-year[3]. Following a strong recovery, slow growth is a natural process, which was the case in 3Q. However, some factors resulted in a more active slowdown of economic growth. GDP rose by around 1.2% YoY between July and September. We estimate GDP at around 0.5–1% above the pre-pandemic level in 3Q. A 10.4% drop in agricultural output in 3Q due to a lower harvest yield had a large impact on GDP. The construction and investment trends were still modest in 3Q: according to our calculations, they were still more than 15% below their pre-crisis figures. The GDP growth estimate for 2021, based on year-end data, has been reduced from 2.5% to 2.1%. This is due to a drop in agricultural output and the anticipated impact on economic activity of the next wave of COVID-19.

In January–September 2021, the foreign trade surplus in goods and services increased to USD 2.7 billion (USD 1.6 billion a year earlier). This was owing to a considerable increase in exports as a result of the global economic recovery. According to our estimates, its value by the end of 3Q was approximately 17–18% higher than the pre-pandemic figure, while that of imports was 7–8% higher. Strong export patterns, combined with households shifting toward net foreign currency sales, boosted the Belarusian rouble. The exchange rate of the rouble to the U.S. dollar and the currencies of trading partner countries went into overvaluation territory of around 3–5% in 4Q. The end of the active phase of external demand recovery, the potential increased sanctions impact and the overvaluation of the rouble could have a dampening effect on exports at the year-end. High world prices will continue to provide support.

Inflation at the end of 2021 is projected at 10% YoY. Consumer price growth has accelerated by 3.1 p.p. since last December to 10.5% YoY in October, the highest since 2016. Lower grain and vegetable harvests and higher global food prices put pressure on food inflation in Belarus, with food prices rising by 12.1% YoY in October. Food cost changes are likely to stay elevated in the coming months. The rise in non-food prices, in turn, slowed in recent months, to 10% YoY in October, down from a peak of 11.6% YoY in June–July. The slowdown may be linked to the

[3] When comparing the values of economic indicators with their pre-pandemic (or pre-crisis) rates, we use values of economic indicators with seasonal fluctuations eliminated. We refer to 4Q2019 as the basis of comparison.

fact that the impact of the exchange rate factor on inflation has decreased amid the stronger Belarusian rouble. Meanwhile, we believe that the impact of the stronger currency on consumer prices will be modest, given individuals' and businesses' higher inflation expectations[4]. The pressure on inflation in Belarus from global supply delays and accelerating price growth in Russia will persist into the end of the year. As a result, we forecast 10% YoY inflation at the end of 2021 in the baseline scenario.

Lending activity in Belarus is still subdued. In the first nine months of 2021, rouble loans increased by 4.1%, with loans to the public sector increasing by 11.1% and those to the private sector rising by 1.8%. Lending growth has increased somewhat in recent months, mainly in the public sector segment. This may be due, among other things, to a surplus of bank liquidity with next to no option of placing it at the National Bank. Therefore, although the National Bank resumed auction operations in October, the withdrawals in October and 1st half of November have not exceeded half of the banks' applications, and the rate stood at 1–3%. Credit markets have received only a limited amount of free liquidity thus far, deterred by the tightening of lending conditions, which banks continued to impose in 3Q. We do not expect lending conditions to soften in the remainder of the year, given another increase by the National Bank of Belarus of the estimated values of standard risk that influence the lending costs for individuals and businesses[5]. We believe that the National Bank may also raise the refinancing rate to 10% in November–December this year amid double-digit inflation.

The consolidated budget of the Republic of Belarus for the first nine months of the year posted a deficit of 0.04% of GDP (versus a 2% of GDP deficit a year earlier). A 1.6 p.p. decrease in expenditures relative to GDP vs January–September 2020 and a 0.4 p.p. rise in revenues led to a decrease in deficit. Expenditures decreased mainly due to a reduction in capital budgetary investments, while the rise in revenues was due to an increase in revenues from foreign economic activity and taxes on income and profits. By year-end, the budget deficit may expand due to the seasonal nature of expenditures.

FORECASTS

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

Indicator	2019	2020	2021F	2022F	2023F
GDP in Constant Prices *(% growth YoY)*	1.4	–0.9	2.1	0.7	0.9
Consumer Price Index *(% growth YoY at end of year)*	4.7	7.4	10.0	7.4	5.5
Refinancing Rate *(% p.a., year's average)*	9.8	8.2	8.7	9.8	8.9
Belarusian Rouble to U.S. Dollar Exchange Rate *(year's average)*	2.09	2.43	2.53	2.65	2.82

Note: F = Forecast.
Source: National agencies, calculations by EDB analysts.

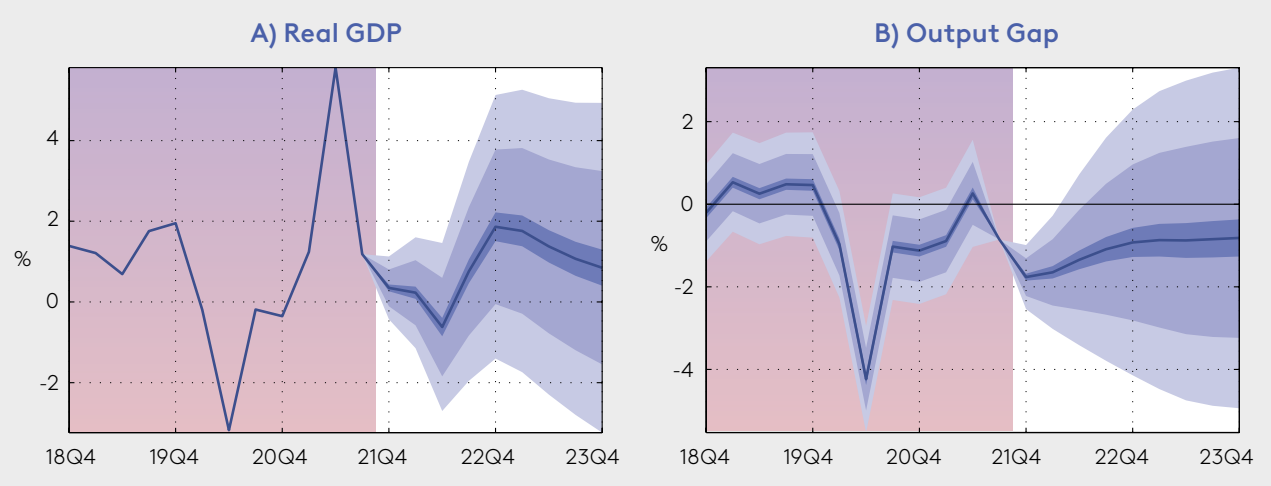
[4] Furthermore, the exchange rate pass-through effect on inflation in Belarus is marked by a pronounced asymmetry: it is much weaker when the rouble strengthens (Kuznetsov et al., 2019).

[5] As of November 2021, EVSR for loans to legal entities reached 15.33% (+3.6 p.p. YTD) and 20.29% for loans to individuals (+7 p.p. YTD).

Economic activity

In 2022, the Belarusian economy is expected to increase by 0.7% in the baseline scenario (Figure 11.A). The foreign demand drive will lessen as key trading partners' GDP growth slows following a strong recovery phase. High commodity prices will continue to bolster Belarusian exports next year, but under the baseline scenario we forecast a gradual decline as global demand normalises. Domestic investment and consumption are projected to be moderate in 2022. Increased uncertainties and risks, the impact of sanctions imposed by some Western countries, and the constraining monetary conditions that we project are all likely to slow it down. In our baseline scenario, these factors will result in GDP growth in 2022 below its potential, as well as a negative output gap (Figure 11.B). We believe that the medium-term growth rate of potential GDP in Belarus is roughly 1% per year.

Figure 11. Economic Activity Forecasts for Belarus

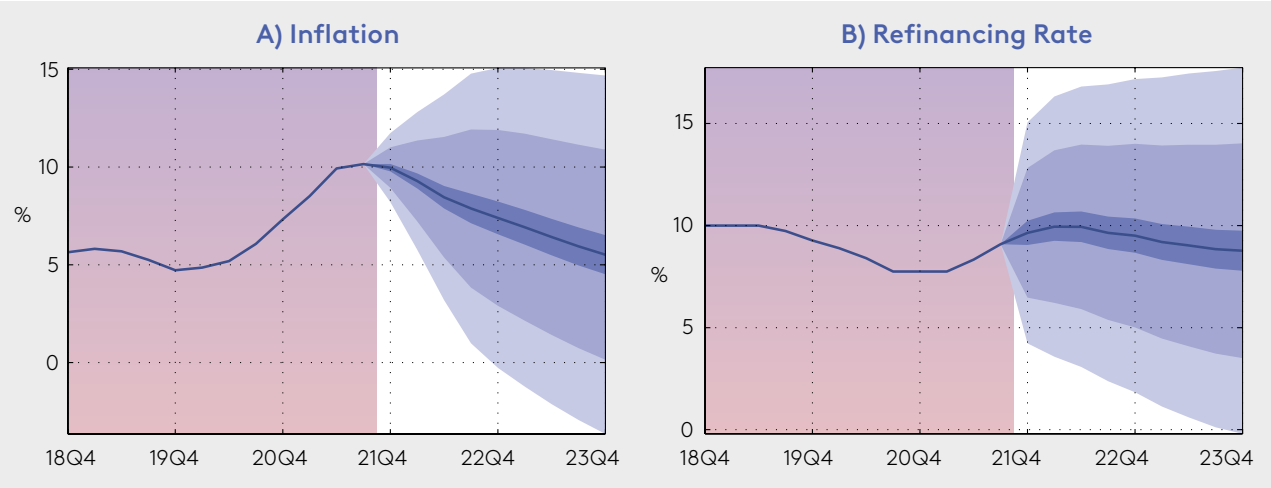


Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Inflation

Inflation is expected to be 7.4% by the end of 2022, down from 10% in 2021. We still expect it to slow down next year (Figure 12.A). This might be favoured by a gradual normalisation of global production and supply chains, an expected stabilisation of commodity prices in the baseline scenario, and a slowing in Russian inflation to 4.9% in 2022, as we forecast. Subdued domestic demand in Belarus will also restrain inflationary developments. However, a lower harvest yield affected 2021 consumer prices more than expected, and food price rises are likely to continue in the 1st half of 2022. Individual and business inflation expectations may stay high in the medium term due to uncertainty about the consequences of the sanctions and the chances of a severe weakening of the Belarusian rouble. This may slow the pace of consumer price growth in Belarus down to the National Bank's target values. As a result, we expect inflation to reach 7.4% by the end of 2022 and 5.5% by the end of 2023 in the baseline scenario.

Figure 12. Inflation and Refinancing Rate Forecasts for Belarus



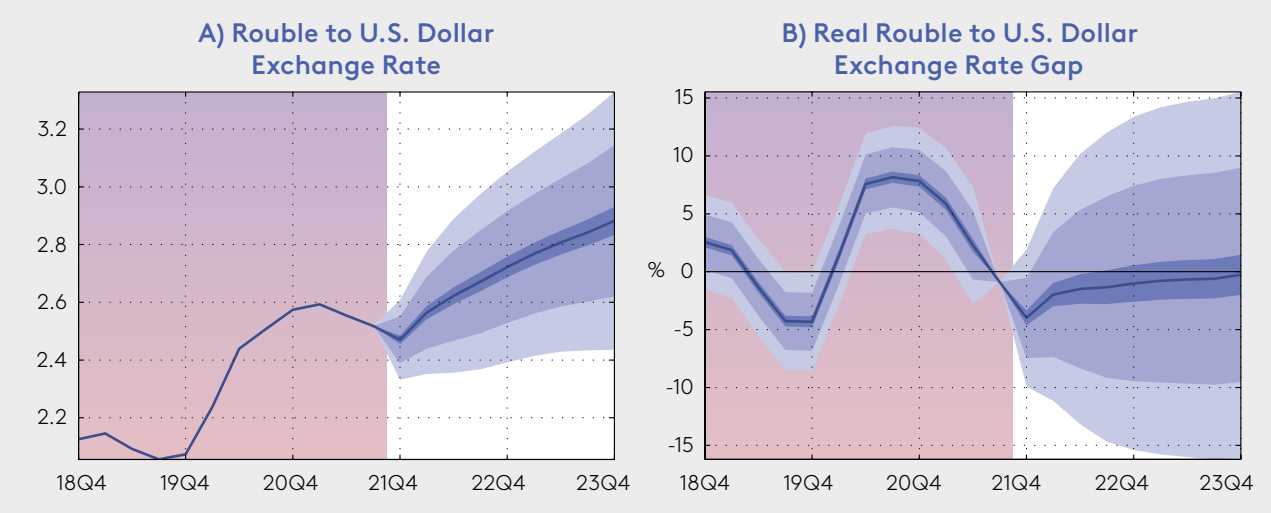
Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Monetary Policy and the Belarusian Rouble Exchange Rate

In 2022, monetary conditions are projected to be a constraint. In the baseline scenario, we anticipate a refinancing rate of roughly 10% in the 1st half of next year (Figure 12.B). This pace, according to our projections, is consistent with a gradual slowing of inflation in 2022. Provided inflationary pressures are reduced, financial stability is ensured and there are no strong shocks on the foreign exchange market, we assume a reduction of the refinancing rate closer to 9–9.5% by the end of 2022 and a trend towards 9% in 2023. In the face of rising interest rates, greater uncertainty, and risks, the availability of market-based lending in 2022 is anticipated to remain limited.

In the baseline scenario, the Belarusian rouble to U.S. dollar exchange rate is anticipated to average 2.65 in 2022. According to our estimates, the rouble is overvalued in 4Q2021 against the U.S. dollar and, on average, against the currencies of the major trading partners (Figure 13.B). As a result, the exchange rate factor's support for Belarusian producers is declining. External demand is also holding back exports, and the consequences of sanctions pressure may have a further effect on sales to foreign markets. In Belarus, inflation is expected to be greater than in major trading partners, and devaluation expectations will continue to affect the Belarusian currency. As a result of these factors, we anticipate in the baseline scenario that the rouble will gradually weaken against the U.S. dollar in the medium term (Figure 13.A). The extent to which the rouble depreciates may be restrained by the continued weakness in domestic demand, and thus imports, that we expect in Belarus. The forecasts continue to be highly uncertain owing to the difficulties in determining the probable impact of Western trade and investment restrictions on Belarusian exports, investment inflows, and household behaviour.

Figure 13. Belarusian Rouble Exchange Rate Forecasts



Note: Positive values in Figure 13.B represent undervaluation of the Belarusian rouble.
Source: calculations by EDB analysts.

RISKS

Western countries' policy going forward and the impact on the Belarusian economy of the imposed restrictive measures are highly unpredictable. Our baseline scenario implies that Belarus will quickly adapt to the sanctions, in particular, with Russia's help. However, the adaption process might take a long time. Some Western countries' restrictions will come into force closer to the end of 2021 or in the 1st half of 2022. A 1–4% economic recession in 2022 is likely to take place in the adverse scenario. If this risk materialises, decreased export income, stronger devaluation expectations, and a deteriorating investment climate will put downward pressure on the Belarusian rouble. In the adverse scenario, the risk of inflation will rise. Established industrial chains may be disrupted if Western countries enhance their restrictive measures, and Belarusian authorities respond. This will have an impact on the output of goods and services; it may also result in considerable cost hikes for Belarusian businesses, especially on costs of searching for new partners and markets. Threats to debt and financial stability may become relevant in the adverse scenario.

Belarus's government debt is vulnerable to currency and liquidity issues. The level of Belarus's government debt, including guarantees and liabilities of local governments, is roughly 42%, which is broadly acceptable[6]. At the same time, Belarus's government debt is vulnerable to currency and liquidity issues. Thus, over 95% of central government debt is denominated in foreign currencies, and almost 40% of liabilities are attracted at floating interest rates. Debt payments are likely to exceed USD 3.5 billion per year between 2022 and 2024. Given the low economic growth potential and limited fiscal and reserve assets, meeting debt liabilities unconditionally would require annual refinancing of a considerable portion of them.

[6] The level of Belarus's public debt is not substantially greater than the EFSD's estimate of the optimal level of 37% of GDP for less institutionally sound countries (Vinokurov et al., 2020).

Non-market lending is still likely to increase to stimulate GDP growth. We should again note that this instrument can only stimulate economic activity in the short term. A sustained increase in economic growth necessitates structural improvements aimed at enhancing the productivity and competitiveness of the Belarusian economy. Issue-based loans cannot boost long-term growth potential and may result in a devaluation of the national currency and an acceleration of inflation. Creating incentives for new ideas and technology to emerge and enter the economy is the primary impetus for increasing the economic growth potential. Institutions play a key role in this process, and monetary policy can facilitate the introduction of new ideas and technology into the economy by providing favourable financing conditions. This, in turn, can be achieved with stable and low inflation.

REPUBLIC OF KAZAKHSTAN

CURRENT SITUATION

The economy will confidently exceed pre-pandemic rates by the end of 2021. Kazakhstan's GDP reverted to 4Q2019 level in mid-2021. The economy received a significant boost from the government's business-friendly policies, which ensured steady year-on-year growth in the manufacturing and construction sectors. Additionally, the government supported agriculture in the 2nd half of the year, allowing it to recover from drought-related damage[7]. We expect a recovery in oil output in 4Q2021, which might add roughly 0.2 p.p. to GDP growth in 2021. The services sector's recovery to growth was uneven and took longer than forecast due to constraints, which were enhanced during new COVID-19 outbreaks. The strong performance of domestic non-food consumption was driven by the unleashing of pent-up demand, as well as growth in real wages and a strong rate of individual lending. Investment, excluding the mining industry, experienced strong growth. We estimate that Kazakhstan's GDP will rise by 3.8% in 2021, after falling by 2.5% in 2020.

Inflation will be higher than the 4–6% target in 2021. The increase in the consumer price index accelerated during 2021. This is largely due to imbalances on commodity markets, disruptions in global transport networks and, partly, the effect of the previous year's low base. Domestic and external food prices rose in 2021 due to adverse weather conditions and international travel restrictions[8]. Energy prices rose on global markets due to a recovery in business activity and abnormal weather conditions (a hot summer and an early winter). Accelerated inflation in Kazakhstan's trading partner countries had a further impact on domestic prices. Domestic pro-inflationary factors included rising tobacco excise taxes, higher utility tariffs and costs of educational services, as well as the unleashing of pent-up demand for non-food products. We estimate that inflation will start to slow down at the end of the year due to the high base effect. We believe that inflation will be at 8.4% at the end of 2021.

The tenge received support in 2021 amid an improving foreign trade performance. The surplus in trade in goods in January–August 2021 rose to USD 12.1 billion (USD 7.4 billion a year earlier) amid faster growth in exports than imports. Exports improved mainly due to an increase in shipments to EAEU member states. The favourable pricing environment on global markets boosted revenues from raw metal and metal products exports. We believe that export growth rates may rise further in 4Q2021 as oil output recovers and global energy prices rise. Non-residents' purchase of tenge-denominated debt securities and National Fund conversion operations provided further support for the tenge. However, strong negative trends on global financial markets, higher domestic demand for foreign currency and higher inflation in Kazakhstan compared to trading partner countries hindered the tenge's strengthening. Consequently, the tenge had weakened against the U.S. dollar by 2.1% YTD (by 10.4% over 2020)

[7] Kazakhstan's government committed KZT 1.9 billion for the partial reimbursement of expenses for fodder; a stabilisation fund was established to buy and supply hay and fodder to farms (Primeminister.kz, 2021).

[8] For example, the increase in global palm oil prices is partially a result of low palm oil production in Malaysia, which continues to incur migrant worker shortages.

as of mid-November. Until mid-November, the NB RK did not intervene in the foreign exchange market, while a year earlier its net sales of foreign exchanges stood at USD 1.9 million.

The base rate rose by 0.25 p.p. to 9.75% in October 2021. This is the third increase since the beginning of the year. Inflation risks began to intensify in the 2nd half of 2021, while economic growth gained more strength. This fact has created more room for the National Bank to apply a disinflationary monetary policy. Price pressures are shaped by both external and domestic factors, and the regulator estimates that inflation will be higher than the forecast range of 7.5–8.5% in 2021. The NB RK has revisited its expectations; it believes that the effect of pro-inflationary factors will last longer. We believe the base rate is likely to rise by another 0.25 p.p. to 10% in December 2021.

Progressive fiscal policy consolidation. The government budget posted a deficit of 1.7 trillion tenge in the first nine months of 2021, down 12.5% YoY. This year, the key contributor to the rise in revenues is tax receipts; this is due to growing business operations and higher world prices for key export commodities. Although the contribution of the National Fund transfer to nominal revenue growth has declined compared to the first nine months of 2020, it is still 1.3 times higher than in January–September 2019. The nominal growth rate of expenditure has slowed 2.9 times this year compared to the previous year. Nevertheless, social support spending continues to be a priority for the budget. According to government plans, the budget deficit will be 3.5% of GDP at the end of this year, which is 0.5% of GDP less than in 2020. We believe the contribution of fiscal policy to economic growth will fall by 0.3 p.p.

Public debt stood at USD 51.3 billion as of 1 October 2021, up 4.6% YTD. Domestic debt increased mostly as a result of the issue of government long-term treasury bonds. Loans from Exim Bank of China, as well as the placement of government securities on the Russian market, boosted external debt.

FORECASTS

Table 5. Kazakhstan's Key Macroeconomic Indicators (Baseline Scenario)

Indicator	2019	2020	2021F	2022F	2023F
GDP in Constant Prices *(% growth YoY)*	4.5	–2.5	3.8	4.2	5.0
Consumer Price Index *(% growth YoY at end of year)*	5.4	7.5	8.4	6.0	4.4
TONIA Rate *(% p.a., year's average)*	8.4	9.0	8.7	9.3	8.5
Kazakh Tenge to U.S. Dollar Exchange Rate *(year's average)*	382.8	413.0	424.9	434.0	443.0

Note: F = Forecast.

Source: National agencies, calculations by EDB analysts.

Kazakhstan's GDP growth is forecast at 4.2% in 2022. There has been no change in the estimate since the previous forecasts. In 2022, the Economy of Simple Things and Business Road Map programmes will support business activity, with an additional KZT 1 trillion (1.2% of GDP) allocated to implement them. A rise in the minimum wage and public sector wages, among other drivers, will strengthen domestic demand. The beneficial effect of high oil prices will continue into the 1st half of 2022. We expect their gradual decrease to follow. Due to recurrent pandemic outbreaks and associated restrictions, the recovery of the services sector has taken longer than originally anticipated. We believe that a number of services subsectors will reach prepandemic figures in 2022. Rather than having a stimulative effect on economic growth, monetary policy will instead be focused on keeping inflationary risks at bay.

GDP growth will accelerate in 2023 as new capacity is introduced (Figure 14.A). In 2023, oil production from the Tengiz field is expected to rise due to the project to expand the field. Thus, the EDB estimates that Kazakhstan's GDP growth in 2023 will accelerate to 5%. At the end of 2021, ten national projects were approved to be implemented through 2025. They seek to replace state programmes in order to improve the efficiency of the Kazakhstan-2050 strategy implementation. The projects will be funded through the provision of 16 trillion tenge from the budget and the attraction of 33 trillion tenge in private investment between 2021 and 2025[9]. The measures involve upgrading hard infrastructure and improving soft infrastructure quality[10]. In the medium term, the country will reach previously planned goals, with new approaches applied in the public administration system. As previously expected, implementing the Kazakhstan-2050 strategy will be favourable for potential economic growth.

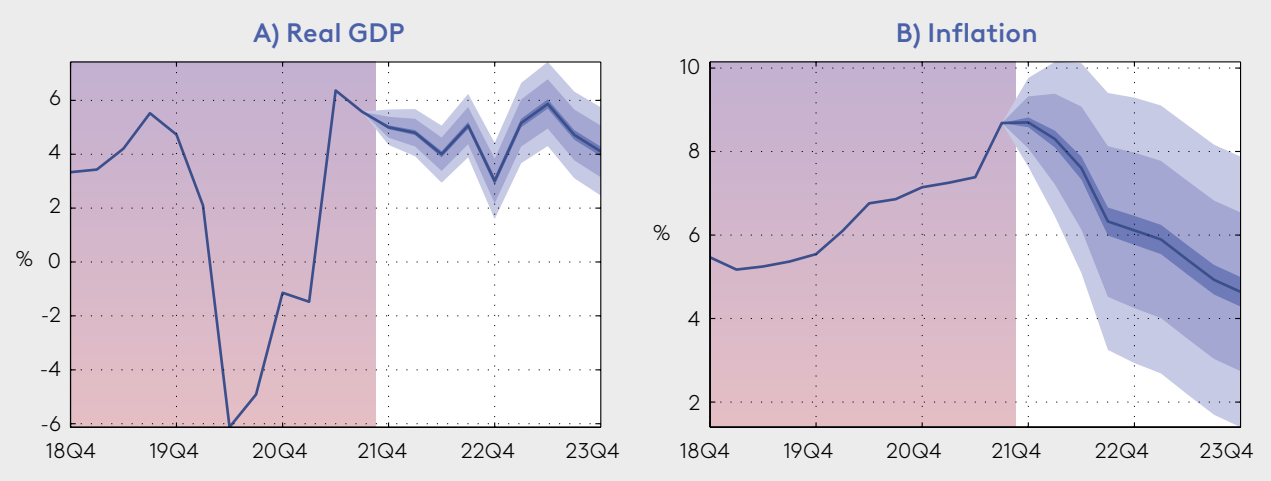
Inflation slowdown in 2022 (Figure 14.B). We estimate that inflation in autumn 2021 approached its peak values. We expect a reversal in its behaviour in late 2021 and early 2022. However, in contrast to the previous forecasts, its estimate is higher. This is due to a sharp increase in global energy prices. We also expect a slower return to the target. Global supply chain logistical disruptions are likely to continue throughout 2022, resulting in rising costs for producers and shortages of goods. Inflationary pressures will be held back by both the base rate rise which took place in 2021 and the regulatory measures that the government introduced.

Inflation will stabilise within the target range in 2023. Re-establishing fully functioning supply chains will reduce pro-inflationary pressures from global commodity markets. This, in turn, will help anchor inflation expectations at sustainable rates. Inflation in 2023 will remain within the National Bank's target.

[9] TALAP. Talks: podcast with Kairat Kelimbetov, Chairman of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, Managing Director of the Astana International Financial Centre

[10] Soft infrastructure is a set of services required to maintain living standards of individuals. It includes such non-physical assets as education, health care, public administration, law enforcement authorities, and emergency services.

Figure 14. Economic Activity and Inflation in the Republic of Kazakhstan

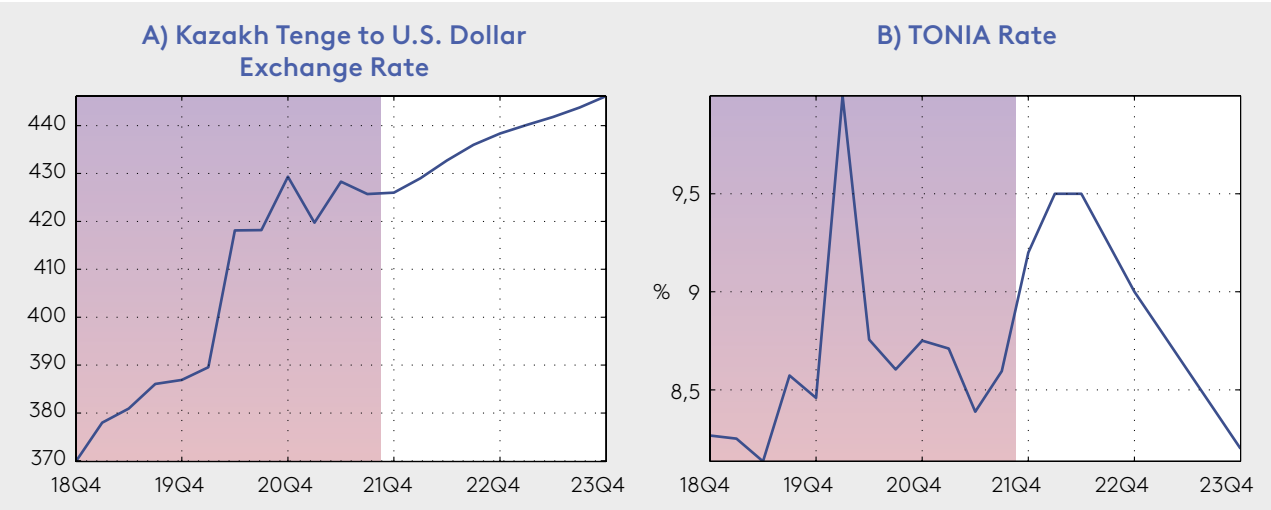


Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Monetary policy will be disinflationary in nature. Unlike in 2021, the recovery of economic growth will no longer act as a limiting factor in base rate decisions. Although we believe that inflation will slow down during 2022, it will stay above the target for most of the year. Acceleration risks for domestic prices will continue to be relevant, especially in the 1st half of the year. These conditions will likely compel the base rate to remain at 10% in the 1st half of the year. As inflation expectations are anchored, inflation may fall to 9.5–9.75% by the end of 2022. In 2023, the base rate may be further reduced to keep monetary conditions neutral.

Moderate weakening of the Kazakh Tenge (Figure 15.A). Nominally, the Kazakh tenge will depreciate at a moderate rate (about 1–2%) over 2022 and 2023 as inflation in Kazakhstan stays higher than in its main trade partner countries.

Figure 15. Kazakh Tenge Exchange Rate and TONIA Rate



Source: calculations by EDB analysts.

RISKS

Uncertain development of the global epidemiological situation. The spread of COVID-19 has taken on a wave-like pattern. This restrains cross-border movements globally and also manifests itself in recurrent tightening of lockdown restrictions in some trading partner countries and Kazakhstan. If these processes last longer than we expect, economic growth in Kazakhstan could fall below the projected rate.

Kazakhstan's pro-inflationary risks have risen. The supply disruptions in the global transport network have become protracted, pushing up costs for manufacturers. They are likely to extend further in 2022. Rising energy prices could also put pressure on Kazakhstan's domestic prices through an increase in the cost of fuel and lubricants. Further price pressure may result from a continued trend of expansion in domestic consumer demand.

Monetary conditions on global financial markets are tightening. Some central banks in the world's largest economies have hardened their rhetoric on the prospects of key rate changes; some banks have already begun to roll back monetary incentives. This will intensify capital outflows from emerging markets, including Kazakhstan. In case of forced interest rate hikes by central banks of developed counties, the Kazakh tenge could depreciate by more in the forecast period than expected in the baseline scenario. Inflation will consequently be higher, resulting in tighter monetary conditions. Kazakhstan's economic growth in 2023 in the risk scenario will slow by around 0.3 p.p. vs the baseline scenario to around 4.7%.

KYRGYZ REPUBLIC

CURRENT SITUATION

Entering a positive growth path. The services sector, mining sectors and manufacturing enterprises, excluding Kumtor, were all drivers of the recovery in economic activity in 2021. The decline in agricultural output was driven by the drought, while the decrease in the construction sector was due to uncertainty about development prospects. We estimate that Kumtor's gold production in January–September 2021 was consistent with the long-term plan published by Centerra Gold in February 2021 (Centerra Gold, 2021). We expect the economic recovery to peak in late 2021–early 2022, driven by the resumption of gold production growth and the effect of a low base in 4Q2020 in other sectors. According to our estimates, GDP will rise by 3.7% in 2021, assuming that key preconditions (social and political stability in the country and fulfilment of the production plan at the Kumtor mine) are in place. However, we acknowledge the existence of high uncertainty. We believe that if Kumtor does not produce gold in 4Q2021, the economy could grow by 1–2% in 2021.

Inflation remains above target. The EDB estimates that the consumer price index of the Kyrgyz Republic will rise by 9.8% in 2021. The pro-inflationary factors that emerged in mid-autumn will put added upward pressure on domestic prices in the Kyrgyz Republic in the remainder of 2021 and early 2022. Higher-than-expected increases in global energy prices, as well as the longer-term occurrence of global supply chain disruptions, are likely to remain among the key pro-inflationary factors in 2022 as well. Domestic factors in 2021, as well as the listed external ones, had temporary effects such as limited supply, one-off surges in demand and excise tax increases. Consumer demand had a limited impact on the growing inflation rate in our opinion. This is due to decreased real wages offsetting rising remittance inflows and increased consumer lending.

Exchange rate stability. The Kyrgyz som to U.S. dollar exchange rate fluctuated between 83 and 84.8 soms per U.S. dollar in January–October 2021. For comparison, the exchange rate fluctuation range in 2020 was 69.5–84.9. Notably, foreign currency sales by the NB KR in January–October 2021 were approximately on a par with the same period of the previous year. The foreign currency demand came, among other factors, from foreign trade operations. Thus, the negative trade balance in January–August 2021 was 47.8% of GDP, up from 23.7% of GDP the previous year. The increase in the trade deficit was due to growing imports of, mainly, investment, intermediate and, to a lesser extent, consumer goods. The decline of exports in U.S. dollar terms is due to the reduction of physical gold shipments, whereas without it, export shipments rose to 17.1% of GDP, up from 14.2% of GDP in January–August 2020. An additional factor shaping foreign exchange demand was financial account transactions in which capital outflows were reported. Remittances and reserve asset transactions helped balance the domestic foreign exchange market.

The policy rate was kept at 7.5% at the October meeting of the National Bank of the Kyrgyz Republic. The rate was 5% at the beginning of 2021. A round of increases came in the 1st half of 2021, when inflation accelerated from 9.7% YoY in December 2020 to 14.6% YoY in July 2021. Inflation started to slow down in the autumn, thus pausing monetary policy decisions. Domestic consumer demand has not gained strength yet; the economy is still in the recovery

phase after the downturn in 2020. Meanwhile, inflation risks are tending to intensify, which could make it difficult for the regulator to maintain a balance between economic growth and inflation. We believe that the National Bank of the Kyrgyz Republic may vote to keep the rate at 7.5% at its November meeting.

Fiscal policy will have a subdued effect on economic growth in 2021. The state budget surplus of the Kyrgyz Republic in January–August 2021 was 1.1% of GDP. The year before, the budget posted a deficit of 4.1% of GDP. Revenue increased to 31.4% of GDP, up from 25.8% of GDP in January–August 2020. This was due to higher tax collections, mainly income tax and value-added tax. The low base effect and digitalisation of the taxation process contributed to the improvement. January–August 2021 expenditure rose to 30.3% of GDP, up from 29.9% last year. Higher allocations for general government services, as well as health and education, drove the trend, partly fuelled by rising wages. With a budget deficit projected at 1.2% of GDP for 2021, higher government expenditure is to be expected for the remainder of the year, which will support domestic consumer demand. However, the fiscal stimulus will have a smaller impact than a year ago.

Public debt fell to 65.1% of GDP as of 1 August 2021, down from 68.5% of GDP at the end of 2020. The trend is due to both external debt repayments and GDP growth. The debt burden is likely to decline further by the end of the year as a result of the write-off of USD 12.6 million in debt to the IMF (0.2% of GDP).

FORECASTS

Table 6. Kyrgyz Republic's Key Macroeconomic Indicators (Baseline Scenario)

Indicator	2019	2020	2021F	2022F	2023F
GDP in Constant Prices *(% growth YoY)*	4.6	–8.6	3.7	4.5	2.5
Consumer Price Index *(% growth YoY at end of year)*	3.1	9.7	9.8	7.0	5.2
7-Day REPO Rate *(% p.a., year's average)*	3.0	3.6	5.7	8.4	8.3
Kyrgyz Som to U.S. Dollar Exchange Rate *(year's average)*	69.8	77.3	84.6	85.1	85.5

Note: F = Forecast.

Source: National agencies, calculations by EDB analysts.

Growth rate increase in 2022. We believe that GDP growth in the Kyrgyz Republic in 2022 will be 4.5%. The figure is down from the previous forecast. A water shortage has had a more pronounced impact on the agricultural performance than expected, leading to revised GDP estimates for 2021–2022. We believe that the adverse effects will continue to restrain economic activity in the 1st half of 2022. Weak investment behaviour amid uncertainties may continue to impede economic activity. Fiscal policy will take on a more subdued nature. In 2022, the budget deficit is planned to decrease to 1.1% of GDP, from 1.2% of GDP in 2021. Monetary stimulus measures will be phased out. Remittance inflows will have a positive effect on domestic consumer demand. In the baseline scenario, we assume that the Kumtor mine's

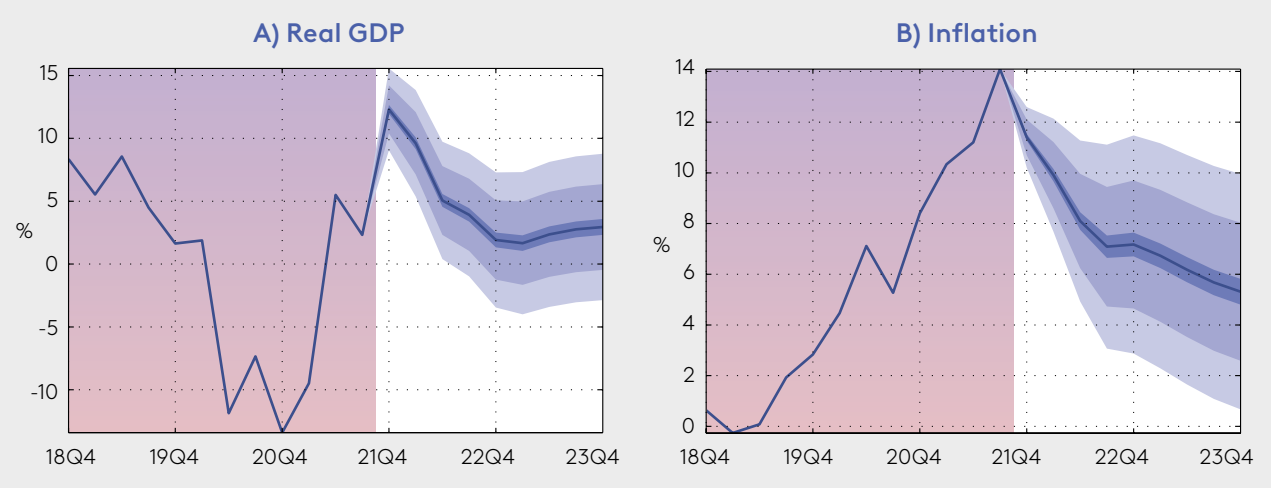
operations will run according to long-term plans (Centerra Gold, 2021). This will generate 1.2 p.p. of GDP growth in 2022. But this premise continues to be subject to high uncertainty.

Growth slowdown in 2023. Growth rates in the medium term will largely come from the production performance at the Kumtor mine, where gold output is expected to rise by 15.3% and 1.8% in 2022 and 2023, respectively (Centerra Gold, 2021). As a consequence, GDP growth is expected to slow to 2.5% in 2023 (Figure 16.A). The government budget deficit will fall to 0.8% of GDP pointing at the restraining effect of fiscal policy. Monetary policy will shift to moderately stimulative, near-neutral conditions. We expect that increased remittance inflows will strengthen domestic consumer demand. Exports will be curbed in the medium term by a drop in the world gold price and a strengthening of the real effective exchange rate for other exporters. These factors will partly mitigate stronger external demand amid a normalisation of the global epidemic context and a return to fully functioning global transport chains.

Inflation will slow to 7% YoY by the end of 2022. Global oil and grain markets exacerbated pro-inflationary pressures in October 2021. This will slow the rate at which inflation returns to target in 2022. Supply chain disruptions will continue to put upward pressure on producer prices in the 1st half of 2022. Given the drought in 2021, we can expect a temporary increase in fruit and vegetable prices in spring and early summer 2022. The easing of pressure on global food markets and an improvement in global supply chains will facilitate an inflation slowdown.

A return to the inflation target is forecast to take place in 2023 (Figure 16.B). We forecast a slowdown in the CPI growth rate in the medium term. This will be possible given the stability of the nominal Kyrgyz som to U.S. dollar exchange rate. This will be a determining factor, but its impact will be partly offset by a gradual recovery in domestic demand and real income. The situation on global food markets may have a neutral impact on domestic price trends. Oil market pressures will also weaken in the medium term. As a result, 2023 inflation will be within the target range.

Figure 16. Economic Activity and Inflation in the Kyrgyz Republic

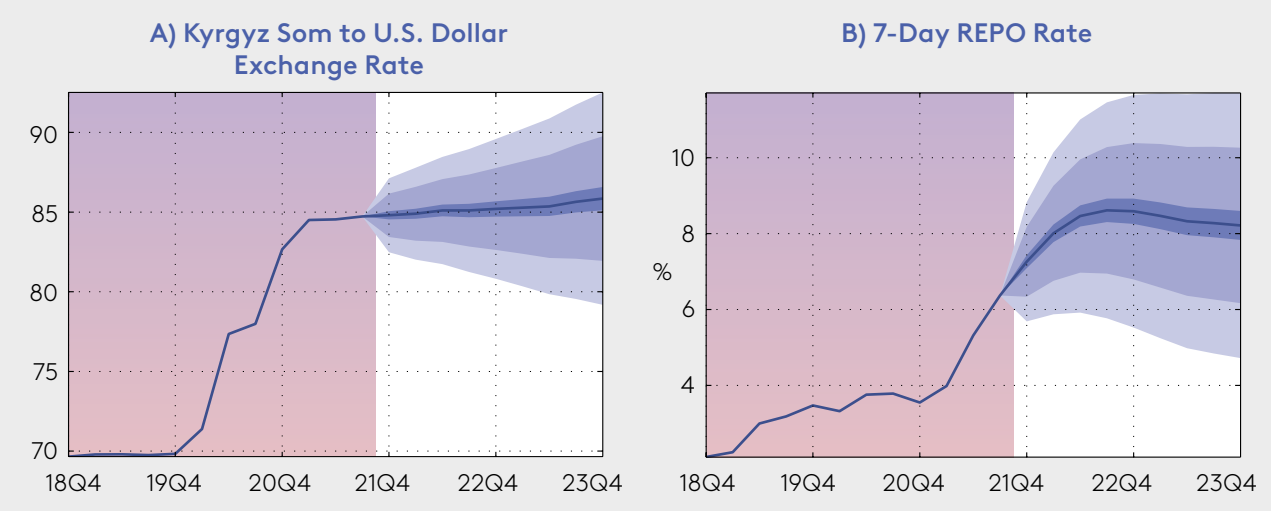


Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Policy rate increase in 2022–2023. The policy rate, according to the baseline scenario, is likely to be 7.5–8% in 2022–2023. With an inflation target of 5–7%, this nominal interest rate is close to neutral. The risks of a slowing economy and accelerating inflation balance each other out.

Kyrgyz som stability. In the baseline scenario forecasts, we expect the current monetary policy to persist in the medium term. Monetary authorities will continue to intervene in the exchange rate market to prevent sharp fluctuations. Therefore, we assume that the exchange rate of the national currency will vary in the range of 84–86 Kyrgyz soms per U.S. dollar in the forecast period (Figure 17.A).

Figure 17. Kyrgyz Som Exchange Rate and REPO Rate



Source: calculations by EDB analysts.

RISKS

The risks of a slower economic recovery are primarily associated with how the pandemic progresses. Cross-border transport restrictions and the recurrent tightening of lockdown restrictions in trading partner countries may impede exports of goods and services, as well as remittances. A longer-than-expected water shortage may have a further impact. If this scenario plays out, second-round effects will add to the low production in the agriculture and energy sectors. The rolling blackouts may have an adverse impact on output in other sectors as well. Gold production from the Kumtor mine is also prone to high uncertainty.

Inflation growth risks are higher now. Pro-inflationary risks have come on top of rising global energy prices and a poor grain harvest in the region. Further global oil and grain price hikes could slow the return of Kyrgyzstan's inflation to the target benchmark. Global supply delays are likely to persist for a longer period than we anticipate, which in turn will amplify the supply-demand imbalances for consumer goods and raise inflation.

Limited prospects of increasing public debt. By the end of 2020, public debt exceeded the IMF's threshold of 60% of GDP, thus only providing an avenue for attracting loans on preferential terms. This will have a dampening effect on GDP growth in the medium term, slowing down economic recovery.

RUSSIAN FEDERATION

CURRENT SITUATION

The Russian economy grew by 4.6% YoY in the first nine months of this year. A rapid recovery in domestic consumer and investment activity, as well as an expansion of external demand and favourable conditions on commodity markets, all played a role in the strong growth. This was largely the result of large-scale fiscal and monetary support programmes for economies last year, including in Russia, and the adaptation of people and businesses to operating in a pandemic environment. 3Q findings show that the pre-pandemic output was exceeded in manufacturing (by 5.1% in September)[11], construction and transport (by about 3.3% in September)[11] and retail. Mineral resource extraction is approaching pre-crisis figures, but the paid services sector has yet to reach the same. The former is due to OPEC+ oil production constraints, while the latter is due to ongoing health restrictions. A 6.2% YoY decrease in agricultural production in 3Q, due to a decline in a number of crops, had a restraining effect on GDP.

Russia's GDP growth for 2021 is forecast at 4.1%. The most active phase of the economic recovery was completed by the mid-year; afterwards, business activity started to slow down. GDP returned to pre-crisis figures in 2Q and, according to our calculations, remained at around pre-crisis figures in 3Q[12]. Composite PMI was around the neutral 50-point mark early in 4Q: 49.5 in October, down from 50.5 in September. Services activity declined in October due to weaker demand. This correlates with the SberIndex (2021) data, according to which household spending in October fell by 1.7% vs September in real terms (with seasonality eliminated). The weaker service sector activity in October was partly offset by stronger activity of manufacturing sectors. However, supply delays continue to have a restraining effect on production and will continue to do so in the coming months. We believe that stricter health measures taken in late October and early November will have a limited effect on economic activity. Taking this factor into account, as well as the strong decline in agricultural output and supply disruptions, we have reduced our GDP growth estimate for 2021 by 0.2 p.p. to 4.1%.

The current account balance of payments surplus reached a record high of USD 40.8 billion in 3Q2021 (USD 3.9 billion in 3Q2020 and USD 10.6 billion in 3Q2019). For the first ten months of this year, the Bank of Russia estimates the surplus at USD 94.4 billion, representing a more than USD 64 billion increase over the same period in 2020. The current account improvement was largely the result of a rapid recovery in global demand, coupled with a surge in prices for key Russian exports (oil, gas, metals, etc.). The price factor will continue to bolster Russian exports this and next year, but the effect will gradually diminish as global demand returns to normal. The surge in energy and metal prices, an increase in the key rate and the continued harsh rhetoric of the CB RF, have all favoured a neutralization of the Russian ruble undervaluation at the beginning of the 4th quarter.

[11] According to calculations by the Ministry of Economic Development of the Russian Federation (2021).

[12] In comparing GDP with pre-pandemic figures, seasonally adjusted GDP values are used. We refer to 4Q2019 as the basis of comparison.

Inflation at the end of 2021 is forecast at 7.9% YoY. In October, inflation reached 8.1% YoY, the highest reading since early 2016. Monthly annualised growth of seasonally adjusted consumer prices, according to our estimates, was above 12%, the highest since 2015. Food products are still the driver of accelerating inflation amid a declining grain harvest in Russia, as well as rising food prices globally. Food price trends are playing a large part in shaping household inflation expectations, which returned to five-year highs of 13.6% in October. Non-food prices remain under pressure, including due to lengthening supply dates and shortages of certain components. These conditions compel us to expect inflationary pressures to remain elevated and forecast inflation of 7.9% YoY in December.

Bank lending conditions are now tighter, and the key rate may rise to 8–8.5% by year-end. According to the Bank of Russia survey, lower lending availability in 3Q was noted for all groups of borrowers. This is mainly due to the impact of interest rates, which are rising to follow the key rate. Thus, average rates on rouble-denominated loans to non-financial organisations rose by almost 1.7 p.p. over the first nine months. Loan (and deposit) rates will continue to rise in 4Q, responding to an increase in the key rate. With inflationary pressures and heightened pro-inflationary risks in place, we expect the key rate to rise to 8–8.5% in December. Tighter lending conditions and macro-prudential requirements may cool lending slightly.

The federal budget remains in surplus. It posted a surplus of RUB 2.1 trillion between January and October (a deficit of RUB 1.7 trillion last year). The favourable price effect on the oil and gas market led to a significant rise in oil and gas revenues: 68.5% YoY for the first ten months. Non-oil and gas revenues grew by 21.5% YoY on the back of a strong economic recovery. In 2021, expenditure is also on the rise, but at a slower pace than last year, from 25.3% YoY to 8.6% YoY. This expenditure trend indicates that fiscal stimuli are gradually weakening.

FORECASTS

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

Indicator	2019	2020	2021F	2022F	2023F
GDP in Constant Prices *(% growth YoY)*	2.0	–3.0	4.1	2.8	2.1
Consumer Price Index *(% growth YoY at end of year)*	3.0	4.9	7.9	4.9	4.0
MIACR Rate in Russian Roubles *(% p.a., year's average)*	7.2	4.9	5.7	7.7	5.7
Russian Rouble to U.S. Dollar Exchange Rate *(year's average)*	64.7	71.9	73.4	72.0	73.5

Note: F = Forecast.
Source: National agencies, calculations by EDB analysts.

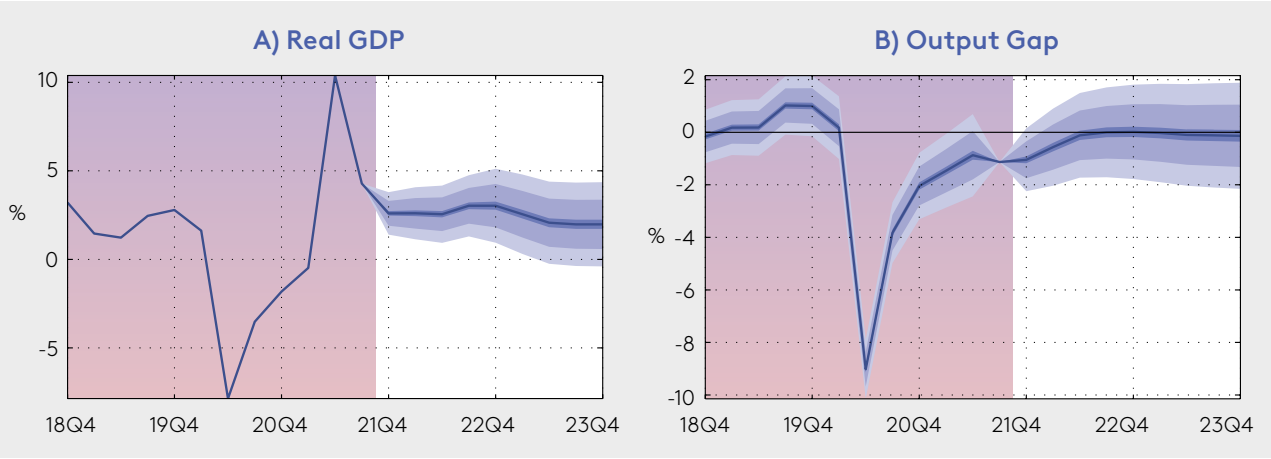
Economic activity

Russian economic growth in 2022 is forecast at 2.8%, after 4.1% in 2021 (Figure 18.A). This slowing trend is due to the recovery process mostly coming to an end. Meanwhile, Russia's GDP in 2022 will continue to grow at a rate above its potential, which we estimate to average

around 2% per year in 2022–2023. Such trends will be possible due to the expected increase in oil production under the OPEC+ agreement and a recovery in services consumption rates as health restrictions ease gradually. High energy prices and demand will further bolster the Russian economy. As a result, we expect the negative output gap to close over 2Q2022 in the baseline scenario (Figure 18.B). We believe that the Russian economy will not overheat in 2022. Monetary policy tightening and a return to the standard parameters of the budgeting rule will impede domestic demand expansion. Our forecasted overvalued rouble may have an additional restricting effect on non-commodity exports.

Compared to the previous forecast, Russia's GDP growth estimate for 2022 has risen by 0.1 p.p. The rise is primarily due to the fact that energy prices are expected to continue to be higher in 2022 than previously forecast. For example, we have increased our forecast for the average Urals oil price for 2022 from USD 66 to USD 72.5 per barrel. Furthermore, driven by the intensification of restrictive measures in late October–November 2021, the recovery in the services sector may be more protracted, mostly impacting GDP in 2022. In turn, more restrictive monetary conditions than previously forecast could partly offset the positive effect of the above factors on GDP in 2022. In 2023, the forecast is for the Russian economy to grow at close to its potential growth rate at 2.1%. Higher potential growth is possible due to the government development programmes in place, in particular, as a result of investment of NWF funds in infrastructure projects.

Figure 18. Economic Activity Forecasts for Russia



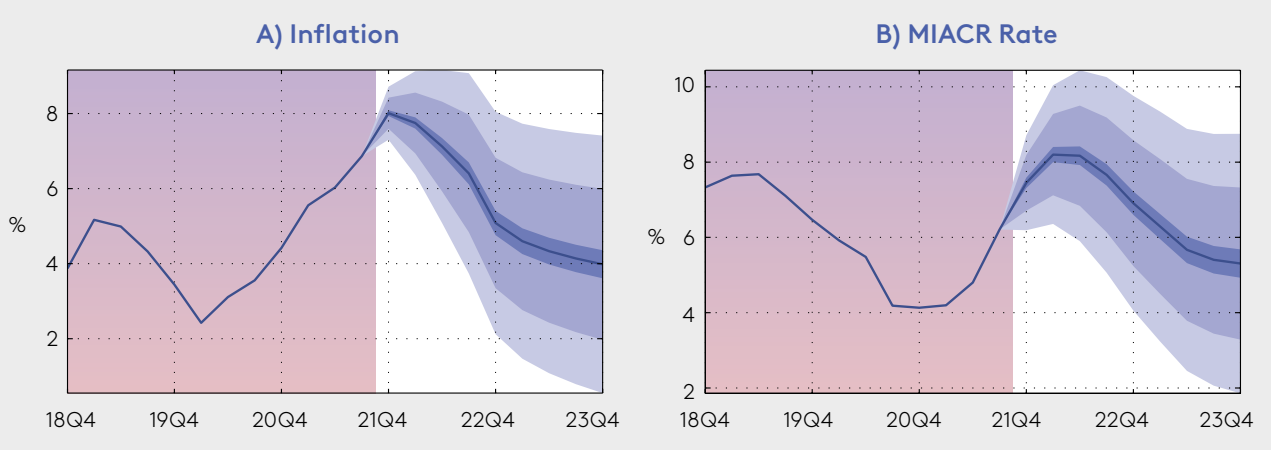
Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Inflation

The baseline scenario forecasts are for inflation to slow to 4.9% YoY by the end of 2022 and to reach the target of 4% in 2023. We have increased the forecast for 2022 by 0.8 p.p., influenced in our decision by a number of factors. This year's lower harvest has had a stronger inflationary impact than expected, and food prices may remain elevated in the 1st half of 2022. Supply issues have also proved to be more persistent. We expect the situation to normalise gradually, but the pro-inflationary impact of this factor will continue into next year. Furthermore, the baseline scenario has raised consumer price growth forecasts for 2022 in Russia's trading partners. The disinflationary impact next year is expected to come from

the exchange rate of the Russian rouble. Inflation is forecast to return to the target level of 4% in 2023 (Figure 19.A), and this will be facilitated by an end to the recovery period in the Russian economy and a gradual normalisation of production and logistics chains. Inflation expectations may remain elevated in the medium term, but we assume a gradual decline as price pressures ease.

Figure 19. Inflation and MIACR Rate Forecasts for Russia



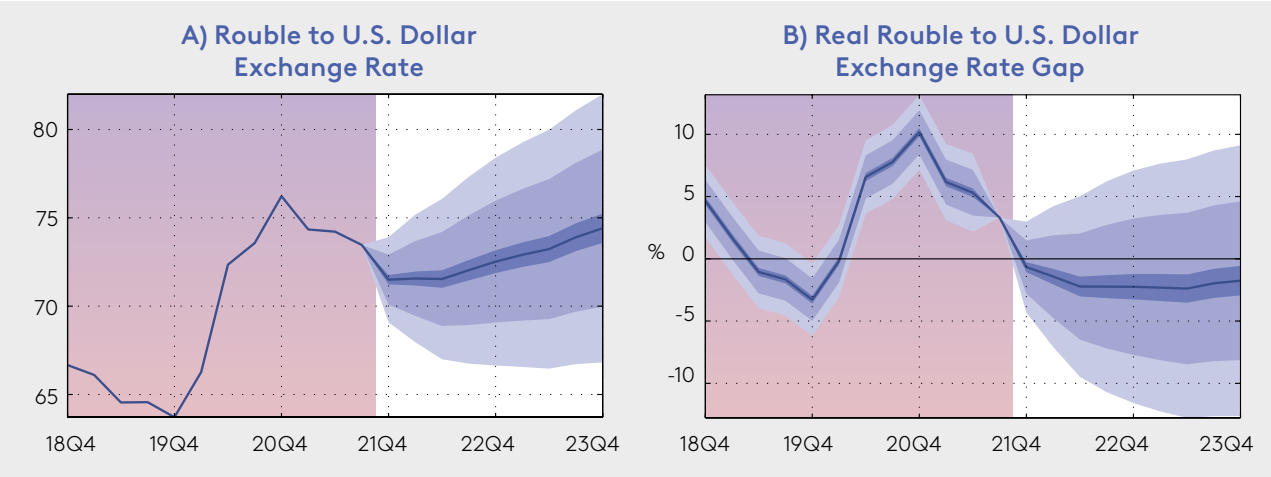
Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Monetary Policy and the Russian Rouble Exchange Rate

Our baseline scenario forecasts are for the key rate to begin to decline in the 2nd half of next year and that it will be around 6.5–7% by the end of 2022. We expect a key rate of around 8–8.5% in the first half of the 2022. Provided the inflation rate and inflationary expectations slow down steadily, we see a possible transition to a rate reduction cycle in the 2nd half of the year. The figure is likely to fall to roughly 6.5–7% by the end of 2022. The baseline scenario forecast is for the rate to reach 5.5% in 2023, which we consider optimal in the medium term. We expect MIACR to trend in line with the key rate (Figure 19.B).

The Russian rouble to U.S. dollar exchange rate is expected to average 72 over 2022 (Figure 20.A). High energy prices will support the Russian currency next year, as will higher interest rates on rouble-denominated assets compared to USD or EUR-denominated financial instruments. We expect these factors to cause the Russian rouble to remain slightly overvalued against the U.S. dollar and euro in the medium term (Figure 20.B). We believe that the energy price hike is likely to be temporary, and the key rate upward cycle will be replaced by a downward cycle later. In this regard, a strengthening of the Russian rouble against the U.S. dollar to 70 or even lower might also be short-term. As monetary stimuli in developed countries, above all in the U.S., are phased out, yields on their government bonds will increase. As a result, in the baseline scenario, a gradual weakening of the Russian rouble against the U.S. dollar is already forecast as early as the 2nd half of 2022, with an average exchange rate of 73.5 at the end of 2023.

Figure 20. Russian Rouble Exchange Rate Forecasts



Note: Positive values in Figure 20.B represent undervaluation of the Russian rouble.
Source: calculations by EDB analysts.

RISKS

The threat of inflation remaining well above the 4% target in 2022. The combination of prolonged supply shocks, increased inflation expectations and tolerance of accelerating price growth by central banks in developed countries runs the risk of keeping global inflation at elevated levels for a prolonged period of time, in particular, in Russia. Apart from that, the persistent higher inflation could result in higher interest rates than we projected in the baseline scenario; this primarily concerns the U.S., among other developed countries. This has the potential to accelerate capital outflows from Russia, putting pressure on the Russian rouble exchange rate. We modelled a risk scenario in which U.S. inflation would average above 4% throughout 2022; the average price of Urals oil would be USD 75 per barrel; and global economic growth in 2022 would be 0.7 p.p. lower than the baseline scenario forecast due to the impact of supply shocks (primarily production chain disruptions). Furthermore, the risk scenario implies that Russia's potential GDP will continue to rise at the same rate as in 4Q2021. If the risk scenario materialises, Russia's inflation rate may reach 6–7% in 2022, while the average annual rouble exchange rate would be 3% weaker than the baseline scenario forecast. The key rate in the risk scenario is likely to rise to 8.5–9% and remain so throughout 2022. Russia's economic growth in 2022 will slow down by about 0.5 p.p. in the risk scenario, compared to the baseline scenario forecast.

If the pandemic ends next year and government development programmes in Russia are highly effective, GDP growth in 2022 is likely to range between 3% and 3.5%. Investment boosted by the authorities' efforts to launch a new investment cycle and improve the business climate will be a powerful driver of economic development in the medium term under such a course of events. As a result, it will be possible to maintain the growth rate of the Russian economy after 2022 at around 3.5% a year.

REPUBLIC OF TAJIKISTAN

CURRENT SITUATION

Growth in Tajikistan's economy reached 8.9% YoY in January–September 2021, accelerating from 4.5%[13] in 2020. This was aided by the progressive normalisation of the global economic situation, which was enabled by the extension of the flexibility in the choice of the measures to contain COVID-19 when coronavirus vaccines became available. Government spending, particularly that of an investment nature, rose markedly in 3Q, which also supported Tajikistan's growth momentum. Growth is expected to be strong in all of the major sectors in 2021. Industrial production in January–September rose by 22.6% YoY; agriculture by 6.3% YoY; and retail turnover by 12.8% YoY. Investment rose by 29.6% YoY compared to the first nine months of 2020. For 4Q, we expect a slowdown in these indicators and the economy as a whole, influenced by a higher comparison base: the highest GDP growth in 2020 took place in the last months of the year. We believe that the Tajikistan economy will grow by 7.9% as of this year-end. This is higher than the earlier forecast (we factor in strong growth in investment and an expansion of agricultural production from January to September).

Inflation is still high, but we expect it to fall by the year-end. It was 9.6% YoY as of September 2021, having accelerated slightly from 9.4% YoY last December. Compared to 2020, price rises have become more wide-ranging, with food up 10.4% YoY in September; non-food up 7.8% YoY; and services up 9.3% YoY, while in December 2020 rises were 13% YoY, 5.8% YoY, and 4% YoY, respectively (only food inflation exceeded the National Bank target of 6±2% back then). The contribution of food prices to inflation fell as the country's agricultural output increased. The contribution of prices of other goods and services grew, primarily due to the acceleration of energy price increases on external markets and a reduction in supplies from neighbouring countries of liquefied gas, which is widely used in Tajikistan for both transport and the municipal sector. The price of this fuel has risen by 80% since the beginning of 2021. The resumption of liquefied natural gas supply due to new contracts[14] paves the way for the country's fuel costs to stabilise and, as a result, for inflation to fall in October–November 2021. Consequently, inflation will be 8.3% at the end of 2021. The forecast for this year remains unchanged from that published in September.

The National Bank of Tajikistan raised the refinancing rate four times in 2021. It now[15] stands at 13.25%[16] p.a. (up 2.5 p.p. from 10.75% at the end of last year). The National Bank of Tajikistan's policy tightening has been one of the reasons contributing to the country's inflation rate remaining below 10% for the majority of the year. Given that the National Bank has no Monetary Policy Committee meetings scheduled for November and December, we expect the rate to remain at 13.25% until the end of 2021.

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

[14] See, for example, "Agreement on Turkmenistan's Fuel and Energy Supply Signed. What Have the Countries Agreed On?", Asia-Plus, 27 August 2021.

[15] As of 27 October 2021.

[16] The last meeting was held on 22 October 2021.

The national currency has remained stable against the U.S. dollar in 2021. Its exchange rate stayed at around 11.3–11.32 Tajik somoni per USD during the first three quarters of the year. In late September and October the Tajik somoni strengthened a little against the U.S. dollar: the exchange rate stood at 11.28 per U.S. dollar as of 5 November. The reason for this was the overall strengthening of the currencies of the countries in the region (above all, the Russian rouble). Such a trend may continue until the end of 2021, but the scale of nominal appreciation of the Tajik somoni during this period is likely to be still modest.

Fiscal policy has become more stimulative than last year. The state budget surplus[17] in January–August 2021 was TJS 301.4 million, down from TJS 579.6 million in January–August last year. Revenues rose from TJS 14.4 billion to TJS 18.2 billion amid a growing economy and high inflation, while expenditure rose from TJS 13.8 billion to TJS 17.9 billion. The rise in expenditure reflects the increased financing of most items, including, in particular, the rise in the allocation for the fuel and energy sector: expenditure in the first eight months of 2021 was 2.8% higher than indicated in the overall January–September 2021 plan. Accelerated financing of capital budget items was a factor in high economic growth in January–September this year.

The foreign trade deficit rose from a year ago. The negative balance of trade in goods with foreign countries was USD 1.5 billion (24.4% of GDP) for January–September 2021, up from USD 1.04 billion (17.09% of GDP) last year. This figure came closer to that of the same periods in 2018 and 2019 (27.5% and 27.7% of GDP, respectively). This trend was the result of more subdued growth in precious metals exports than during most of 2020 and the 1st half of 2021, as well as an increase in imports for most foreign trade items triggered by growing domestic demand. Much of the latter was due to higher investment rates supported by an expansion of budget expenditure. The role of this factor is set to be reduced in 2022–2023 as the economy reaches a sustainable growth rate.

FORECASTS

Table 8. Tajikistan's Key Macroeconomic Indicators (Baseline Scenario)

Indicator	2019	2020	2021F	2022F	2023F
GDP in Constant Prices *(% growth YoY)*	7.4	4.5	7.9	6.2	6.9
Consumer Price Index *(% growth YoY at end of year)*	8.0	9.4	8.3	6.3	6.4
Refinancing Rate *(% p.a., year's average)*	13.8	11.5	12.2	12.6	10.9
Tajik Somoni to U.S. Dollar Exchange Rate *(year's average)*	9.5	10.3	11.3	11.2	11.8

Note: F = Forecast.

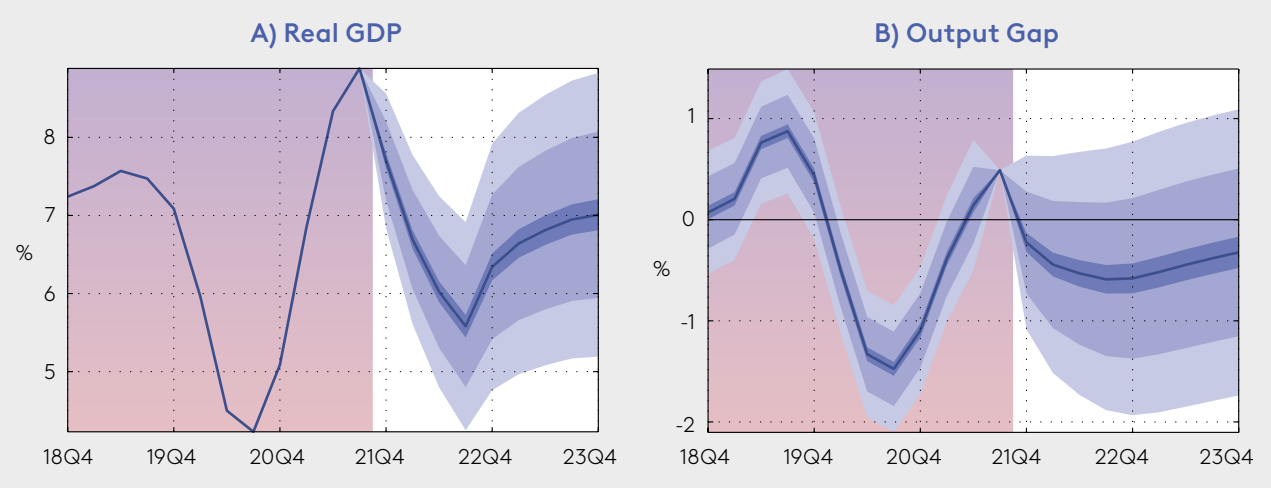
Source: National agencies, calculations by EDB analysts.

[17] The current budget surplus is seasonal in nature. At the end of 2021, we can expect the state budget of the Republic of Tajikistan to post a moderate deficit.

Economic activity

In 2022 and 2023, GDP growth will take a more moderate path than in 2021, rising by 6.2% and 6.9%, respectively. After a slowdown in 2022, influenced by tighter monetary and fiscal policies,[18] Tajikistan's economy will reach a steady growth pace (Figure 21.A). It will stay high due to the effect of long-term structural factors such as rapid population growth and the overall underinvestment of the Tajikistan economy, owing to which capital investment in the country generates more intensive GDP growth than what is possible in countries with higher income levels (Figure 21.B).

Figure 21. Economic Activity Forecasts for Tajikistan



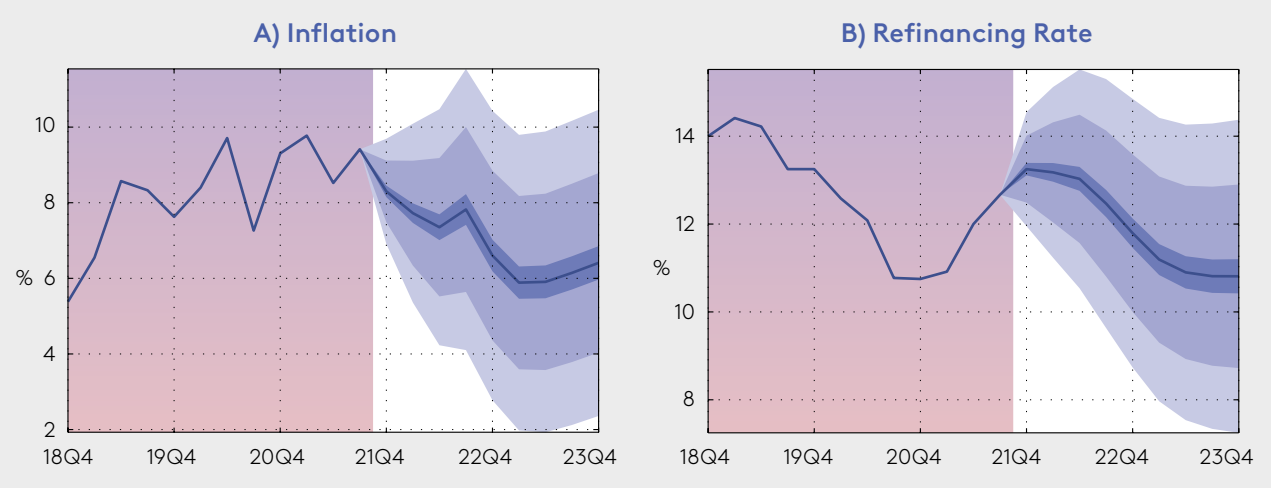
Note: seasonally adjusted data.
Source: calculations by EDB analysts.

Inflation

Consumer Price Index growth in 2022 and 2023 is forecast at 6.3% and 6.4%, respectively. Inflation will fall, returning to the target range set by the National Bank of Tajikistan (6±2%). This will be facilitated by the National Bank's monetary policy. We have increased our forecasts compared to our previous ones, since we have to factor in the deferred effects of a stronger energy price increase this autumn than in the previous baseline scenario.

[18] The 2022 draft state budget incorporates an 18.6% rise in revenues vs 2021, and a 15.8% rise in expenditures. See: "Tajikistan Government Identifies Budget Priorities for 2022", Sputnik Tajikistan, 26 October 2021.

Figure 22. Inflation and Refinancing Rate Forecasts



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

Monetary Policy and National Currency Exchange Rate

We expect the limited growth of the Tajik somoni against the U.S. dollar observed in autumn 2021 to turn into gradual weakening in 2022. Otherwise, the real strengthening of the Tajikistan currency, with higher inflation than in trading partner states, could have a negative impact on the country's balance of payments. In 2022–2023, the Tajikistan currency will resume its decline along a path close to that which we forecast earlier.

The monetary policy tightening will end in 2022. The 1st half of the year might require an additional hike in the refinancing rate to ensure stability of inflation expectations, which could be disrupted as a result of the rapid price rises in 2020–2021. In the 2nd half of 2022, the NBT may start to lower the refinancing rate amid inflation moving closer to the National Bank's policy targets.

RISKS

A rapid tightening of monetary policy globally may have a destabilising effect on the macroeconomic situation in Tajikistan. In particular, if the events do not follow our scenario, there will be an earlier and more intensive tapering of quantitative easing policies and an interest rate hike by the Fed, which will affect monetary conditions in the countries that provide Tajikistan's financial resources, as well as the markets where it exports goods, including gold. Consequences may include a volatile currency market in the country, a more pronounced policy tightening by the National Bank of Tajikistan than in our baseline scenario forecast, and slower growth of Tajikistan's economy.

The way the COVID-19 pandemic progresses is another source of risk. It is more likely to have an impact on key indicators for Tajikistan's economy, such as remittances and investments, as well as the rate at which labour migration resumes. The likelihood of the pandemic having a significant direct impact on the country's economic life is gradually decreasing: the COVID-19 vaccination process progressed in the 2nd half of the year (the proportion of the population partially or fully vaccinated against coronavirus is 27.9%[19] vs 2.1% in late June 2021[20]).

[19] As of 7 November 2021, according to Our World in Data.

[20] As of 27 June 2021; figures are updated weekly.

IN FOCUS: MACROECONOMICS AND INTEGRATION

POTENTIAL EFFECTS OF THE GLOBAL DEBT CRISIS ON EDB MEMBER COUNTRIES ECONOMIES

Alexey Kuznetsov, Aigul Berdigulova, Anatoly Kharitonchik, Victoria Babajanyan

Ultra-soft fiscal and monetary policies in developed countries deployed in response to the challenges of the pandemic have caused inflation and inflationary expectations to rise substantially. Under these conditions, monetary stimuli are more likely to be withdrawn in the near term, which could trigger a rapid slowdown in global growth. Emerging economies may be at risk. The consequences of the pandemic have resulted in debt accumulation and higher interest rates, which coupled with weaker economic growth will make debt servicing and refinancing more difficult. As a result, we cannot rule out the first signs of a debt crisis appearing in late 2023, with the crisis unfolding in 2024. This adverse scenario for the EDB member states would lead to slower economic growth, weaker national currencies and higher inflation.

Why this could happen

After the 2008–2009 financial crisis, the global economy witnessed a trend towards a steady increase in debt liabilities, representing the fourth wave of debt accumulation. Debt burden accumulation is now a challenge for dozens of economies worldwide. The IMF estimates that public debt will be almost 122% of GDP at the end of 2021 in developed countries, 18 p.p. higher than in 2019, i.e., before the crisis. Public debt in emerging economies is 63.4% of GDP, 9.4 p.p. higher than in 2019. The fourth wave of debt accumulation in the world began before the pandemic. The previous three waves ended in regional or global financial crises[21] (Kose et al., 2021). The fourth wave involves more borrowers (public sector, corporate, households, international and national development institutions) and lenders (development of the shadow banking sector). Additionally, public debt needed to be increased to mitigate the COVID-19 pandemic's damaging effects, which complicates the situation. This increases the risks to debt sustainability and makes a global debt crisis more likely to happen. The first and second debt crises were regional. They had little impact on global GDP growth and inflation at the height of the crisis; however, during the recovery period, global economic growth slowed down and did not reach pre-crisis rates for the next six to seven years. The third wave of debt accumulation was extensive, resulting in a downturn of the global economy and a decline in commodity prices. Inflation in developed countries declined as economic activity fell. In emerging market economies, tighter external financing conditions led to the depreciation of national currencies and higher inflation. Lower oil prices put additional pressure on the currencies of energy-exporting countries.

[21] The first debt wave (1970–1989) arose from an accumulation of debt in Latin American and African countries, ending with the crisis in 1991. The second wave (1990–2001) originated in East Asia and brought stagnation to the world economy. The third wave (2002–2009) was caused by a sharp increase in private sector borrowings in Europe, Central Asia, and some of the developed economies. It ended on the eve of the 2008–2009 global financial crisis.

Low global interest rates are now maintaining a delicate balance on the global debt market. Emerging economies can refinance debts and even accrue new liabilities in the current environment. However, accelerating global inflation, with substantial global free liquidity and higher inflation expectations, makes the tapering of the monetary stimulus more likely in developed countries over the next two years. It is quite likely that consumer price growth in the U.S. could remain close to 5% next year and about 2–4% over the next few years. This would likely compel the Fed to proceed with a rapid tapering of quantitative easing and aggressive rate hikes. That could accelerate capital outflows from emerging markets and lead to a marked rise in the cost of servicing their debt[22] (Mishra et al., 2014). Such a scenario envisages emerging market debt refinancing issues being more likely to arise as early as 2023, which may lead to a global debt crisis in 2024.

Current Debt Situation in the EDB Member Countries

The public debt of all EDB member countries rose amid the pandemic, but risks remain manageable in most of the countries in the region.

Debt sustainability risks are low in Russia and Kazakhstan. Russia's public debt is about 20%, and Kazakhstan's is 30%. In emerging economies, in contrast, the public debt-to-GDP ratio was 64% at the end of 2020. The reserves in both states are adequate. The Russian Ministry of Finance estimates that the National Welfare Fund will exceed 11% of GDP by the end of 2021 and will not stop growing thereafter. The ratio of reserve assets of the National Bank of Kazakhstan and foreign assets of the Kazakhstan National Fund to debt maturing within 12 months was 370.3% at the end of 2020. Overall, the state finance sector in these countries has sufficient room to use fiscal stimuli where needed.

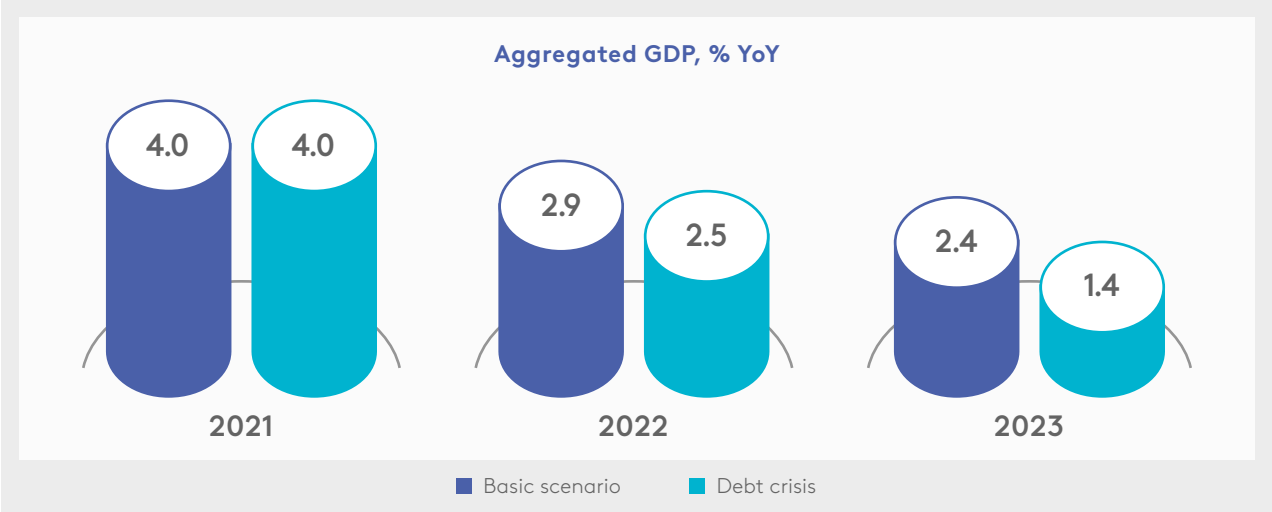
In Belarus, the public debt-to-GDP ratio is lower than the global average; nevertheless, there are risks to debt sustainability. Public debt (including guarantees and obligations of local governments) is around 42% of GDP. The debt burden is relatively low, but the exposure of debt to currency and liquidity risks poses a threat to debt sustainability. More than 95% of public debt is denominated in foreign currencies. In 2022–2024, debt repayment and servicing are expected to total more than USD 3.5 billion per year. With a relatively low capacity for economic growth and limited fiscal and reserve assets, meeting all debt obligations unconditionally would require annual refinancing of the majority of them.

Armenia, Kyrgyzstan, and Tajikistan have the highest debt-to-GDP ratios in the region, but the risks associated with debt sustainability are manageable in all three republics. Long-term preferential liabilities account for the lion's share of the debt. Additionally, state governments are undertaking steps to mitigate risks. For instance, the Armenian authorities intend to reduce the public debt ratio to 60% of GDP by 2022 by increasing tax revenues and decreasing current expenditure relative to GDP. As of 1 July 2021, Tajikistan's public debt-to-GDP ratio was 44.6% (at the beginning of 2021, it was 46.8% of GDP). The indicator improved as a result of rapid economic growth and a moderate government budget deficit. In the

[22] The Fed's surprise signal in May 2013 of a reduction in asset purchases it had planned led to 21 emerging market currencies weakening by an average of 3% against the U.S. dollar between 22 May and late June 2013. Meanwhile, the currencies of Turkey, Brazil, India, Indonesia, and South Africa lost an average of 13.5% in value between 22 May and late August 2013, while their government bond yields rose by 2.5 p.p. The Russian rouble was 2.4% weaker than the U.S. dollar from the end of May to the end of September 2013, while the Kazakh tenge was 1.7% weaker than the U.S. dollar.

Kyrgyz Republic, the budget deficit is planned to decrease amid rising debt repayment costs in the coming years. Exchange rate devaluation is a significant risk for the three countries, as the majority of public debt is denominated in foreign currencies. That said, the Armenian government intends to reduce its foreign currency liabilities to 62.5% by 2024. Additionally, the policy of accumulating foreign reserves helps the countries in question in mitigating debt sustainability risks.

Figure 23. Scenario Comparison: Baseline Scenario vs Debt Crisis



Source: calculations by EDB analysts.

External Assumptions of the Debt Crisis Scenario

The debt crisis scenario assumes that the global economy will slow down markedly in 2023–2024. Inflationary pressures will remain elevated in 2022 due to higher inflationary expectations and the lingering effects of supply shocks (supply chain disruptions, higher maritime tariffs and structural changes in the labour market). In parallel, there will be a marked slowdown of the global economy due to construction sector issues and structural factors, in particular, in China. These conditions will lead to developed countries' central banks remaining inflation-tolerant until mid-2022. However, persistently high inflation may cause interest rates in developed countries, above all in the U.S., to rise sharply starting in the 2nd half of 2022. U.S. Government bond yields may rise by around 1–1.5 p.p. until mid-2023. The resulting capital outflows from emerging markets will intensify and the cost of debt service and new borrowings will go up. As a result, global economic activity will weaken progressively, especially in emerging economies, even while global GDP growth will still be fairly strong in 2022 and the 1st half of 2023. Unlike the countries receiving preferential financing, emerging markets and middle-income countries will face a greater vulnerability to global interest rate hikes since market instruments will play a prominent role in public debt management policy. We assume that in the risk scenario, the first signs of a debt crisis are likely to appear in late 2023, and the debt crisis is likely to unfold fully in 2024. We would therefore anticipate a slowdown in the global economy to 2.2% in 2023 and to some 0% in 2024 compared to some 3% growth over those years in the baseline scenario. In this scenario, oil demand would begin to decline in 2023, and the Urals oil price may fall to USD 40 per barrel in 2024.

Implications of a Potential Global Debt Crisis for the EDB Member Countries

We believe that no debt crisis is likely to materialise in the key trading partner countries of the EDB operating region. Eurozone external debt is not exposed to exchange rate risks, and public debt is experiencing a steady downturn. In China, debt sustainability risks are heightened, but measures taken by the authorities to strengthen financial discipline will avert a debt crisis. In this case, the EDB's trading partners will be exposed to the effects of the debt crisis mainly through trade channels, but will not experience additional shocks from the sovereign debt crisis.

A decline in global business activity, a sharp increase in market volatility and falling commodity prices under the risk scenario will have a significant impact on the EDB member country economies in 2023–2024. GDP growth will remain relatively strong in the region in 2022, with the main effects manifesting in 2023–2024. Weakening global economic activity in 2023–2024 and falling oil prices will have an adverse impact on exports and investment activity in the Bank's member states. Consequently, GDP growth in the EDB operating region is projected to slow to 1.4% in 2023 and to some 0% in 2024 (2.4% and 2.5% in the baseline scenario forecast) (Figure 23). A slowdown in economic activity may adversely affect the ability to generate fiscal revenues and hence the ability to service prospective debt.

Inflation accelerates amid weaker national currencies and higher inflationary expectations. In the debt crisis scenario, a fall in global oil prices in the 2nd half of 2023–2024 will lead to lower export revenues in Russia and Kazakhstan, which will put pressure on the national currencies of these countries. Capital outflows into defensive assets will have an additional impact on the Russian and, to a lesser extent, Kazakhstan currencies amid rising yields on government bonds of developed countries and increasing uncertainty. The currencies of the other EDB member states will also come under pressure. Inflation will accelerate amid the depreciation of national currencies and rising inflation expectations. In the risk scenario, inflation in the region is forecast to rise by 2 p.p. higher than projected in the baseline scenario. This may result in tighter monetary conditions in the Bank's member states and therefore curb economic activity.

The macroeconomic policy strengthening observed since 2014 will mitigate the debt crisis effects on EDB member states. The transition to inflation targeting and floating exchange rate regimes in most countries of the Bank's operating region paves the way for their economies to absorb external shocks better and avoid accumulating imbalances. Macroprudential supervision has gained a stronger footing in recent years, with the banking sector cleared of non-performing loans. Countries' governments are undertaking steps to enhance fiscal policy. Taken together, all this forms a substantial safety buffer to mitigate external shocks, particularly those in Russia and Kazakhstan. We believe that follow-up steps by governments to promote market principles, diversify and enhance the business environment are the likely way to strengthen the economies of the Bank's member states and make them less dependent on the commodity sector.

THE COVID-19 PANDEMIC AND ECONOMIC ACTIVITY: CORRELATION IS WEAKENING

Konstantin Fedorov, Anatoly Kharitonchik

We use the data available as of November 2021 to grasp how the COVID-19 outbreaks correlate with economic activity growth in pandemic-affected countries in 2020 and 2021. The analysis suggests that this correlation has changed throughout the pandemic and has significantly weakened over time. This finding is preliminary. The newly available data enables the study of three coronavirus outbreaks; the analysis focuses exclusively on the short-term correlation between disease incidence and economic activity.

We are now able to use information (as it becomes available) that might provide preliminary estimates of how the incidence of COVID-19 and economic activity changes correlate with each other and how that correlation has changed over time. These issues are important: the coronavirus infection spread has been one of the major risks that economists and politicians have had to take into account since the beginning of 2020.

From early 2020 to November 2021, the majority of countries experienced multiple coronavirus outbreaks[23]. Typically, there have been three or (more frequently) four outbreaks. Some countries have had fewer occurrences, while others have had more. We collected data on the intensity[24] of outbreaks and the resulting deviations in real GDP[25] growth from the 2018–2019 average. We examined the relationship between economic activity fluctuations and coronavirus outbreaks[26] for a sufficient number of countries to draw statistically valid conclusions based on analysis of the data collected. Figure 24 shows the data processed.

The most important finding of the study is that the correlation between coronavirus outbreaks and economic activity weakened throughout the pandemic.

[23] A coronavirus outbreak is defined as an occurrence in which the number of COVID-19 cases reported in one month at least doubles due to successive increases from the initial to the final month of the outbreak. Outbreaks have varied in length, with most taking one to two quarters.

[24] We use the difference between the maximum **monthly average number of cases per 1,000 people in a country per day** during an outbreak and their minimum monthly average number since the previous outbreak or since the onset of the pandemic as an indicator measuring the outbreak's strength.

[25] We use **annualised GDP growth compared to the previous quarter,** which has been cleared of seasonal factor effects. This indicator best describes economic growth at each point in time.

[26] The sample includes all European economies, most Asian economies, as well as North American economies. The sample sizes decrease between the first and third charts, since the number of outbreaks varied by country, and the data was not always available.

During the initial outbreaks, economies worldwide suffered severe declines, but their extent did not vary significantly across countries depending on the intensity of each outbreak[27]. This could be because the initial outbreaks occurred nearly simultaneously in all countries and their economic consequences were largely determined by states' mutual economic influence. Furthermore, the beginning of the pandemic was a period of tough, often pre-emptive anti-epidemic measures that might distort the relationship between disease incidence and economic activity.

The second outbreaks slowed economic activity but did not bring economic growth to a halt in the majority of countries or globally. In parallel, a statistically significant relationship between the extent of a country's economic slowdown and the intensity of the coronavirus outbreak in that country began to appear. As the COVID-19 waves started happening less frequently at the same time in different countries, the COVID-19 incidence rate began to matter as a factor of economic growth.

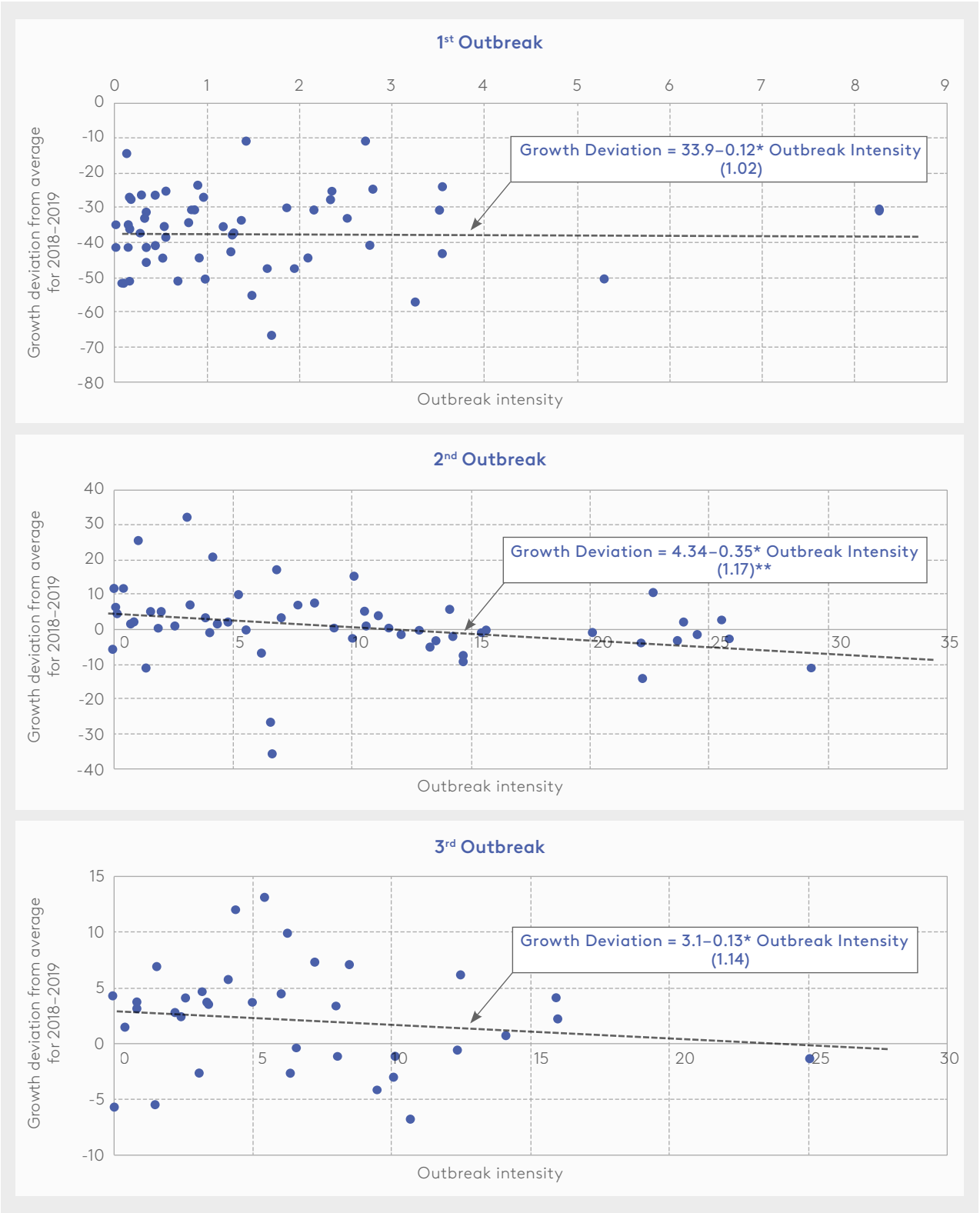
The third outbreaks had no discernible correlation with economic growth. This could be for a variety of reasons, including the progress of vaccination campaigns, the more fine-tuned anti-epidemic measures, business and individuals' adaptation (remote employment and service technologies, reduced uncertainty, and so on), and changes in the economic structure (shrinkage of sectors that have little capacity to adapt to health measures).

If the correlation between COVID-19 outbreaks and changes in economic activity has truly weakened, this fact has implications for economic analysis and forecasting, as well as policy development and implementation[28]. The pandemic is gradually losing its status of being a universal risk that economists, politicians and businesses have to take into account first. The pandemic's weight as a factor of macroeconomic policy, including monetary policy, is diminishing as outbreaks are increasingly less correlated with business activity changes. It is worth noting that our analysis focuses on examining the short-term correlation between disease outbreaks and economic activity. The long-term impact of the pandemic on the economy has not been in our focus.

[27] Figure 26 shows the first, second, and third coronavirus outbreaks in different countries. The outbreaks shown in each graph did not always occur at the same time. We attribute outbreaks to their onset period, in other words, the quarter in which a rapid increase in the number of cases began. In most cases, the duration of outbreaks in the indicators we use was about one or two quarters.

[28] We cannot say for sure that coronavirus outbreaks and economic activity fluctuations have ceased to be linked to each other. There is currently insufficient data to support this, as we have only been able to analyse up to three coronavirus outbreaks in different countries. By the end of the year, we will be able to analyse four outbreaks as data becomes available.

Figure 24. Economic Activity Changes vs the COVID-19 Outbreak



Note: values in parentheses are standard deviations; ** — statistical significance at 5% level.
Source: CEIC Data-based calculations by EDB analysts.

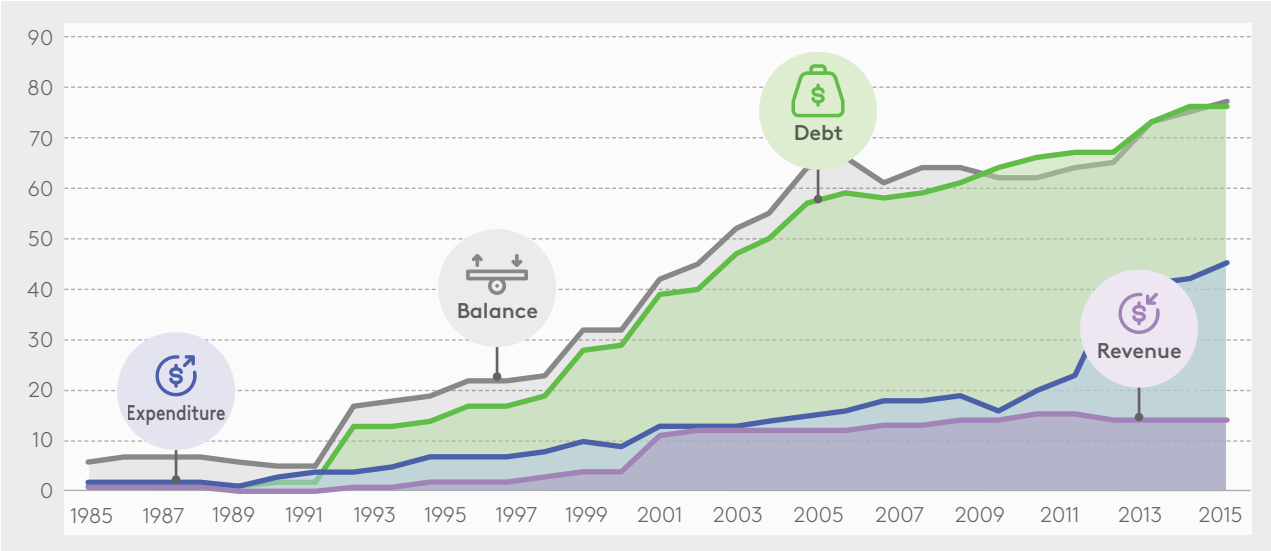
INTERNATIONAL PRACTICES OF PUBLIC DEBT MANAGEMENT FISCAL RULES AND BENCHMARKS

Evgeny Vinokurov, Natalia Lavrova, Dmitry Taltaev

The number of fiscal/debt rules has grown markedly over the past 30 years. Nevertheless, the practice of introducing fiscal/debt benchmarks is inconsistent. They keep being transformed, with modifications made regularly, which reduces the effectiveness of their application. At the same time, many countries are forced to abandon the benchmarks they chose when crisis hits, as the rules do not provide for the required counter-cyclicality of fiscal policy.

Countries are increasingly facing a choice of fiscal and debt rules intended to contribute to macroeconomic stability and maintain economic growth. Fiscal rules are practised vigorously worldwide (Figure 25). **Overall, fiscal rules cover four parameters: budget balances, revenue and expenditure levels, and debt parameters.** Fiscal balance rules continue to be the most frequently applied finance management mechanism. Only 20% of countries, however, keep to a single parameter when establishing fiscal rules. The majority of states have two, three, or more parameters (Figure 26). Additionally, recent years have seen a massive expansion in the mechanisms practised. While before 2000 fewer than 10 countries focused on three or more parameters in formulating fiscal rules, by 2015 the number of these countries had increased to at least 44.

Figure 25. Changes in the Application of Fiscal Rules, Number of Countries

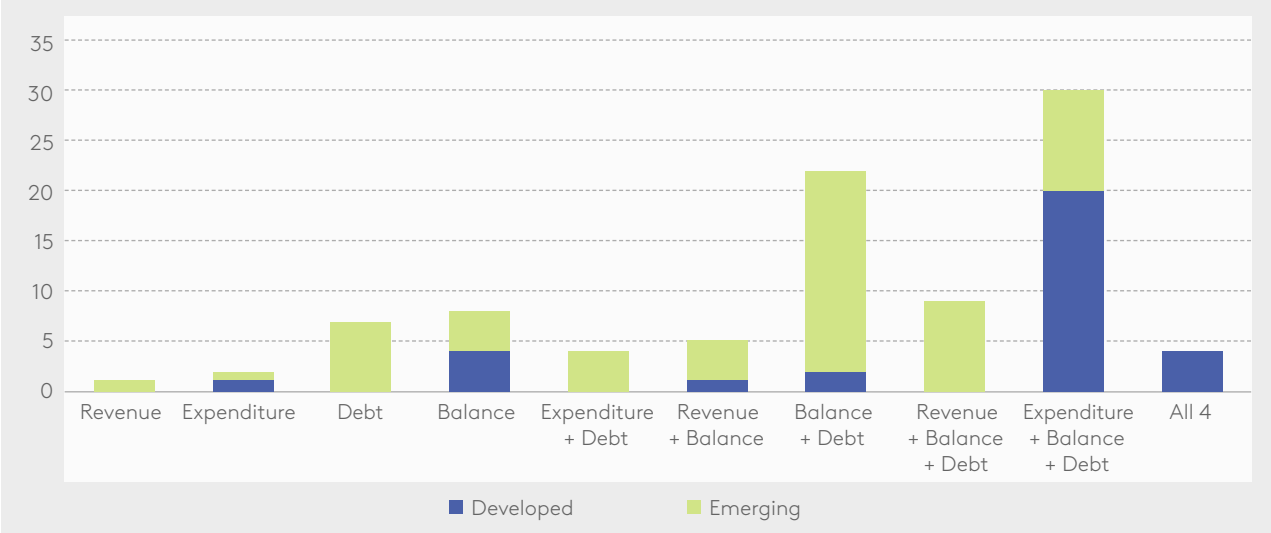


Source: FAD Fiscal Rules database.

Primary producing countries' policies are largely shaped by fiscal rules that deal with expenditure levels and fiscal balances. The majority of these countries implemented rules in the early 2000s, with fiscal balance rules being the most prevalent (except Brazil and Colombia that introduced expenditure rules first). However, a series of crises forced some states to abandon or reshape fiscal rules. As a result, some oil-exporting countries, such as Russia and Mexico, have been adopting fiscal expenditure rules since 2007. Fiscal expenditure rules have been observed to be more complied with and applied than fiscal balance rules. It is essential to note, however, that only 50% of primary producing countries

adhered to the original fiscal balance benchmarks with no further modifications made to them.

Figure 26. Combination of Fiscal Rules Practised by Group of Countries



Source: The Financial Research Institute of the RF MinFin.

Successful experiences in primary producing countries prove that the introduction of fiscal rules contributes to better debt sustainability. The experience of Norway, a primary producing country known as one of the most effective in fiscal rule management, indicates that expenditure volatility can be managed and counter-cyclical fiscal policy can be pursued. For example, Norway's fiscal expenditure rose by an average of 4% YoY in real terms over the years when oil prices were falling, and by 3% YoY over the years when oil prices were rising, which highlights the counter-cyclical nature of fiscal policy. Norway's public debt in 2020 stood at 41% of 2019 GDP, despite the crisis. Overall, limiting fiscal expenditure and the size of the fiscal balance in primary producing countries allows not only for the coordination of fiscal programmes but also for controlling the liability rates.

Debt rules can determine not only the debt threshold but also the size of borrowings and repayments. Debt rules can broadly fall into three groups: debt, borrowing, and repayment rules. Debt thresholds are the most common, limiting the absolute and relative amount of public debt (Ecuador) and its components (Belarus and Kyrgyzstan). Borrowing rate rules target a country's financial needs: they enable efficient management of expected debt servicing expenditures over the medium term (local government budgets in Brazil and Slovenia). Repayment rules are primarily concerned with debt servicing and repayment expenditure thresholds (Bulgaria and Poland).

The majority of countries that initially chose to use a public debt benchmark have since abandoned this practice. Of the 47 countries[29] that initially adopted a public debt benchmark, 26 had to forgo it after an average of five to six years following its introduction, with over one-third of these cases occurring in the crisis and post-crisis years of 2008–2011. This raises further concerns about the sustainability of fiscal rules and their ability to maintain counter-cyclicality in the face of significant macroeconomic shocks.

[29] Based on IMF and European Commission databases, and CIS countries' data.

Rating agencies, as well as the market in general, view positively the existence of fiscal and debt benchmarks that ensure macroeconomic sustainability. The fiscal rule being implemented was a significant factor in Fitch's August 2019 decision to upgrade Russia's credit rating (RBC, 2020). Overall, the country's commitment to long-term macroeconomic stability, as well as the transparency of existing benchmarks, are important. Both decision-makers and the general public must be able to comprehend the regulations being adopted. This is what determines whether or not these regulations will transform into clear guidelines that coordinate the budgetary process. Additionally, enacting a budget rule is not the only step necessary to establish an effective fiscal framework. What matters most is how well a rule is complied with in real life. Fiscal rules, whether national or supranational in scope, have a greater impact achieving sustainable debt reduction when they are embedded in a more rigorous national institutional framework.

While EFSD member states have experience with debt rules, the 2020 crisis caused many of them to deviate significantly from their existing benchmarks. Armenia, in particular, is well above the 60% threshold for public debt in 2020, but no transition to stringent fiscal consolidation is contemplated in the near term there. According to the current fiscal rule, Armenia has to adjust different expenditure categories in accordance with the public debt burden at the end of the period (Table 9). The only exceptions to these rules may be large-scale natural and man-made disasters, military operations, and economic shocks.

Table 9. Armenia's Fiscal Rules

Government Debt at the End of the Period	Over 40% of GDP	50–60% of GDP	Over 60% of GDP
Current Expenditure		The half of current expenditure* growth in year t+1 over the year t-1 must not exceed the average nominal GDP growth of the preceding 7 years	1. The half of current expenditure* growth in year t+1 over the year t-1 must not exceed the average nominal GDP growth of the preceding 7 years adjusted downwards by 0.5 p.p. 2. The overall amount of current expenditures (including debt service costs) in year t+1 must not exceed the projected amount of taxes and levies for the same year.
Capital Expenditure	Capital expenditure in year t+1 must be equal to or larger than the deficit in the same year		

Note: * here current expenditures do not include debt service costs.

Source: Law of the RA about Public Debt, Law of the RA about the budget system of the Republic of Armenia, Decree of the Government of the Republic of Armenia 942 — N, of 23.08.2018, Budget Address of the Government of the Republic of Armenia for 2022.

Belarus has set a 40% limit on public debt (in the narrow sense, excluding guarantees and local government budget liabilities) for 2021–2023. Furthermore, the "Public Finance Management and Financial Market Regulation" State Programme for 2020 and 2025 sets a limit of 5% of GDP on guarantees. The annual amount of new tied external loans does not exceed USD 400 million. Refinancing of non-tied loans must be 75% of the public debt repayment.

In ***Kyrgyzstan***, the benchmarks for debt parameters also take into account a variety of factors. There are limits imposed on the proportion of corporate loans, with a minimum preferential rate (the grant element) of 35%. Diversification of the external debt portfolio is specified: the maximum debt from any single lender cannot exceed 50% of total external public debt.

INVESTMENT IN THE WATER AND ENERGY COMPLEX OF CENTRAL ASIA

> ***More information on investment in Central Asia's water and energy complex can be found in this report published by the Eurasian Development Bank.***
>
> *For several decades, Central Asia's Water and Energy Complex's (CAWEC's) unresolved issues have posed a persistent challenge. Because of the rapid pace of climate change, they require significant investment as well as coordinated and concerted efforts. In this regard, the study assesses the current situation and joint efforts and identifies the major challenges and investment activities in CAWEC over the last 30 years of the five republics' independence (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).*

During Soviet times, CAWEC was created and developed in an integrated manner as a critical component of the Central Asian economic region of the Soviet Union. Accordingly, plans were developed and implemented to ensure efficient management of Central Asian water and fuel/energy resources; those plans provided a special mechanism to offset costs and allocate benefits among the countries of the region. CAWEC operations were disrupted following the collapse of the USSR. Due to a lack of domestic energy resources, countries with a hydropower-dominated economy began releasing more water from reservoirs during winters to meet increased electricity demand over this period. This resulted in violations of hydropower plant operating rules and their designed water and energy regimes, the loss of reservoirs' regulating capacity that had existed for many years, a critical shortage of water for irrigation purposes even during high-water years, an increase in the number of emergencies in power systems, and lower reliability of the region's power supply.

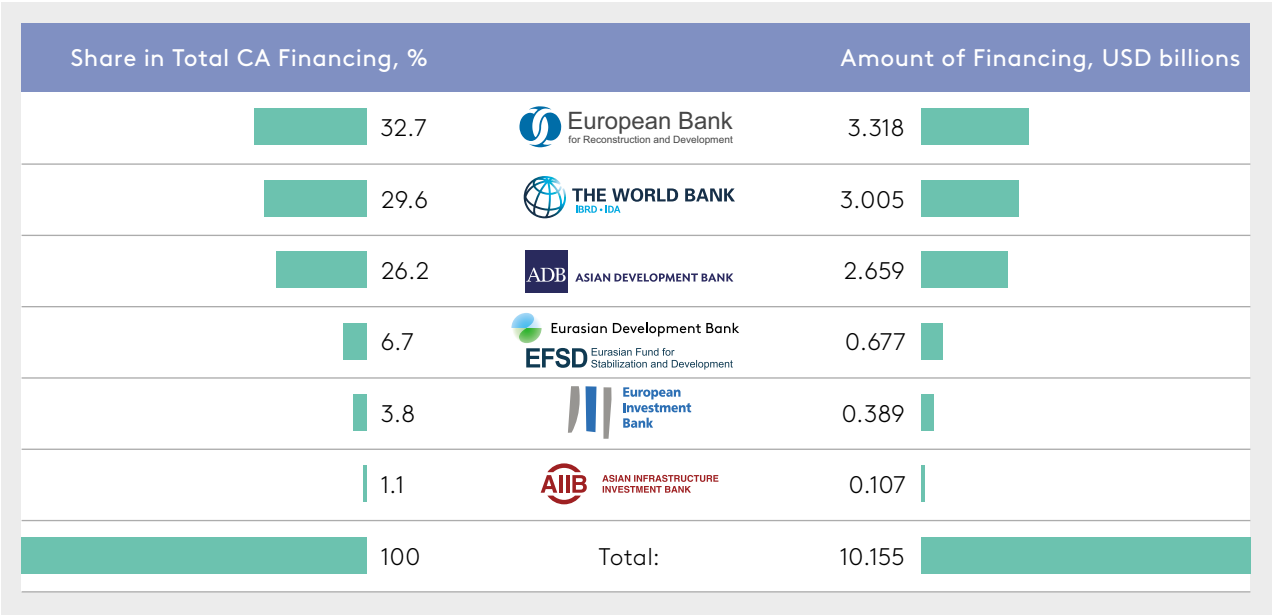
CAWEC's current situation is characterised by insufficient concerted efforts and significant economic losses. The annual economic damage and unrealised economic benefits total USD 4.5 billion, as estimated by experts. This corresponds to 1.5% of the region's GDP. Agricultural losses are estimated at 0.6% of CA GDP, while energy losses are estimated at 0.9% of CA GDP. Preliminary EDB estimates show that over the next five years, removal of water and energy complex inefficiencies may result in an increase of CA GDP by 7% (or by USD 22 billion).

A dramatic deterioration of CAWEC cooperation in the 2000s coincided with a significant increase in pressure on the energy sector. This occurred as growth in high-energy-intensive industries accelerated, and the countries experienced rapid demographic expansion. With mutual average annual power flows declining significantly, Central Asia's countries have been active in constructing new generating facilities and upgrading existing ones, which has enabled them to meet the growing demand for electricity through domestic generating facilities. In fact, over the last two decades, energy systems have progressed toward self-sufficiency. Consequently, the total energy capacity of Central Asian countries rose from 42.2 GW in 1992 to 53.8 GW in 2020.

The establishment of Central Asia's energy sector occurred in the context of the implementation state programmes in the region. The state plays a key role in CAWEC developments due to the ownership structure and specific features of CAWEC investment projects. In 2020, Kazakhstan (USD 2.783 billion, or 1.6% of GDP) and Uzbekistan (USD 1.377 billion, or 2.4% of GDP) were CAWEC investment leaders. In Tajikistan and Kyrgyzstan, CAWEC capital investment totalled USD 507 million (6.3% of GDP) and USD 89 million (1.2% of GDP), respectively.

With the insufficient investment attractiveness of water and energy complex in most CA countries, **multilateral development banks (MDBs) act as an important source of financial resources for public initiatives** (Figure 27). Currently, 104 projects worth USD 10.2 billion are in progress. The EBRD is the leader in terms of financing, with a portfolio of USD 3.3 billion, or 32.7% of total MDB financing in Central Asia. The WB follows with USD 3 billion (29.6%) and the ADB with USD 2.6 billion (26.2%). The EDB and EFSD, EIB and AIIB together account for USD 1.2 billion (11.5%). By country, Uzbekistan accounts for the largest amount of MDB financing, at USD 4.7 billion, or 46.3%.

Figure 27. Participation of MDBs in the Financing of Investment Projects in the CAWEC



Source: Vinokurov et al. (2021).

The total value of known investment proposals in the CAWEC energy segment is currently estimated at USD 52.8 billion. Of these, USD 45.4 billion (86%) is in the generation segment and USD 7.4 billion (14%) is in the power grid sector. The implementation of planned investment projects over the next decade is expected to prevent the region from experiencing power shortages, despite rising energy consumption. In all CA countries, the investment projects identified are primarily geared towards meeting the needs of their respective national economies and do not necessarily take regional interests into consideration, which is a result of the uncoordinated nature of CAWEC development.

There are numerous challenges to the CAWEC energy segment's long-term viability, and each country in the region is seeking its solution based on national interests. Going forward, the main challenges in CAWEC will come from the growing scarcity of water resources. CA's water consumption, particularly since 1960, has grown rapidly, driven by demographic factors as well as industrial and agricultural development, primarily through increased irrigation.

Achieving the sustainable socio-economic development goals in CA is highly dependent on the state of water resources and, consequently, on the CA countries' ability to reach an agreement on interstate water allocation in cross-border river basins. Strengthening trade and economic ties among the region's countries, as well as their close cooperation, in which water

policy becomes an active factor of economic integration, should facilitate solving the issue of joint use of transboundary water resources.

CAWEC's previous regulations worked quite well under planned and central economy conditions. However, they must be adapted to reflect the modern political, economic, and technological environment. CA requires modern approaches to the creation of a regional electricity market and the regulation of water issues that are tailored to the interests of each country in the region. New approaches should contribute to meeting electricity and water needs in the most cost-effective and environmentally friendly manner possible, as well as facilitating the convergence of electricity pricing and tariff approaches and the application of modern technological and digital solutions.

THE INTERNATIONAL NORTH–SOUTH TRANSPORT CORRIDOR: PROMOTING EURASIA'S INTRA- AND TRANSCONTINENTAL CONNECTIVITY

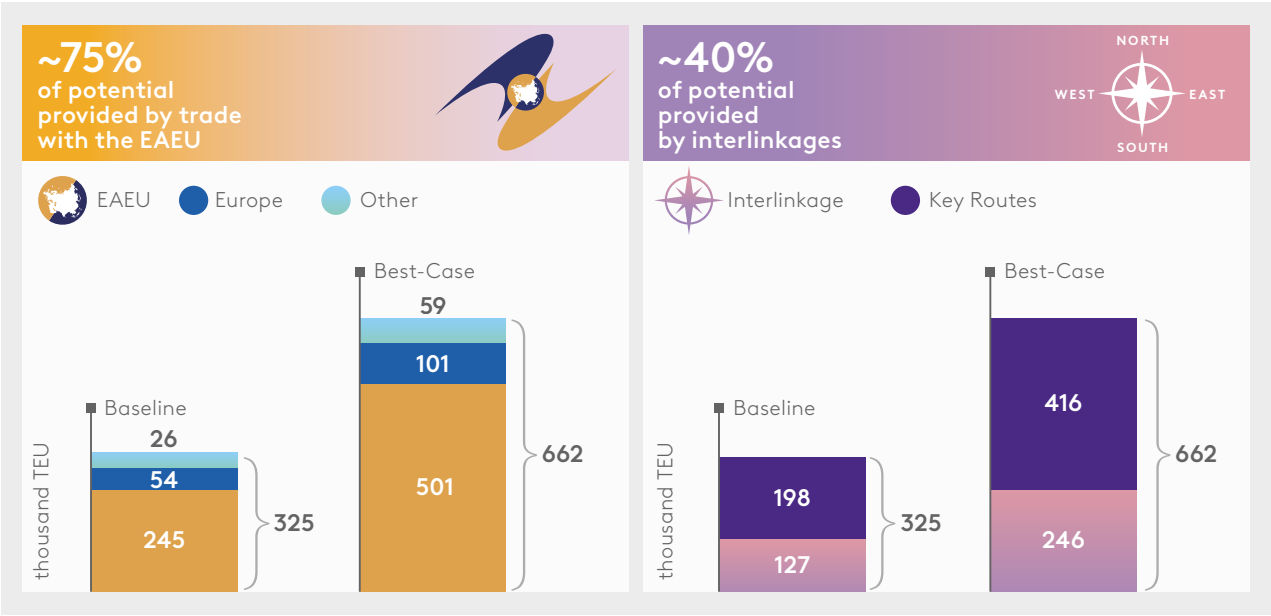
> ***More information on International North-South Transport Corridor can be found in this report published by the Eurasian Development Bank.***
>
> *Although the agreement to establish the multimodal International North–South Transport Corridor (INSTC) was signed 20 years ago, the corridor is still not operational. However, there are now a number of factors that will support the INSTC's successful operation. These include the EAEU's increased engagement with India, Iran, and other South Asian and Gulf countries; the substantial potential for linking the INSTC with latitudinal transport routes; accelerated digitalisation processes, and a dramatic strengthening of the climate agenda. In this context, the study estimates the INSTC's cargo potential to be between 14.6 and 24.7 million tonnes by 2030.*

The multimodal INSTC connects the Nordic countries and the north-western part of the EAEU to the Gulf and Indian Ocean states via the Caucasus and Central Asia. The corridor includes rail, road, air, sea, and river transport infrastructure. The unique North–South route creates opportunities to link with other global and regional East–West latitudinal transport corridors. These include the Eurasian Trans–Siberian railway, the Europe–Western China international transit corridor, corridors No. 5 and 8 of the Organisation for Cooperation of Railways, the Transport Corridor Europe–Caucasus–Asia, the international Lapis Lazuli transport corridor, and the Central Asia Regional Economic Cooperation's transport corridors. Thus, the launch of the INSTC contributes to the establishment of a macroregional transport and logistics system: the Eurasian transport framework. The construction of this framework lays the groundwork for the development of trade and investment relationships within Eurasia and addresses the need to accommodate the long-term economic interests of many countries of the Eurasian continent, in particular those that are landlocked.

The primary advantage of the INSTC over alternative routes, including the sea route through the Suez Canal, is the significant reduction in transport time. For example, it takes 30 to 45 days to deliver cargoes from Mumbai to Saint Petersburg by the traditional route through the Suez Canal, while the INSTC land route delivery times may vary from 15 to 24 days. Moreover, using the Eastern route of the corridor that runs through Kazakhstan and Turkmenistan can reduce delivery times to 15–18 days. Reduced delivery times are critical for many products, including food, textiles, household appliances, consumer electronics.

This study estimated baseline and best-case scenarios for container shipment along the INSTC, which may range from 325,000 to 662,000 TEU (5.9 to 11.9 million tonnes) by 2030. The impact that may be produced by interlinking the INSTC and Eurasian east-west latitudinal transport corridors is equivalent to 127,000–246,000 TEU (2.3–4.4 mln tonnes), or about 40% of total potential container freight traffic (Figure 28). Currently the main INSTC product categories suitable for containerisation are food (excluding grain and bulk oil), metals (ferrous and non-ferrous, and metal products), wood, wood products, paper, machinery and equipment, mineral fertilisers, textiles, textile goods and footwear, etc.

Figure 28. INSTC Container Shipment Capacity



Source: EDB.

Expansion of INSTC container freight traffic is of considerable interest to the EAEU member states. By 2030, the development of freight traffic between them and the South Asian and Gulf countries may amount to 245,000–501,000 TEU (4.4 to 9 million tonnes), or about 75% of the total potential container traffic (Figure 28). The main contribution to potential container traffic can be provided by the freight flows between the EAEU on the one hand and Azerbaijan, Iran, India, and Pakistan on the other. Interlinking the INSTC and the Baku–Tbilisi–Kars latitudinal railway route can also have a significant favourable impact on the EAEU member states. That connection will enable expansion of railway container traffic between the EAEU, Georgia, and Turkey.

All three INSTC routes are critical for unlocking transport and transit capacity. However, the greatest opportunities come from the development of two railway routes — Western and Eastern — which account for approximately 60% and 24% of container freight shipment capacity, respectively. It should be mentioned that railway transport is comparable to deep-sea maritime transport in terms of both direct and indirect greenhouse gas emissions, but it is the most environmentally friendly mode of transport in terms of particulate matter and mono-nitrogen oxides emissions. At the same time, road and inland water freight traffic capacity is significantly less than railway capacity, estimated at 45–50 thousand TEU (or 0.8–0.9 million tonnes) and 10–20 thousand TEU (0.2–0.4 million tonnes) by 2030, respectively, depending on the scenario.

The INSTC's main product is non-containerised grain. By 2030, the flow of grain cargo via the INSTC is expected to range between 8.7 and 12.8 million tonnes. Thus, its transport volumes will continue to exceed the potential container freight traffic generated by all other product categories combined (5.9 to 11.9 million tonnes). As a result, by 2030 the aggregate potential INSTC freight traffic, including the two types of product categories, containerised and non-containerised cargoes, is expected to reach 14.6–24.7 mln tonnes.

Additionally, the study's findings suggest that both tariff and non-tariff barriers constrain the the potential expansion of INSTC freight traffic**.** Thus, the gravity model indicates the following: the reduction of costs of obtaining, preparing and depositing documents for border and customs control in the INSTC Agreement member countries from the current USD 376.12 to the European average of USD 79.65 is associated with the increase of foreign trade by 5.9% of the 2019 figure (or USD 59.08 billion). Additionally, digitalisation has a positive and statistically significant effect on foreign trade growth, contributing to the establishment of "seamless" transport routes.

In the long term, the INSTC may become a development corridor for the EAEU. Apart from increasing trade volumes, the development of the INSTC facilitates the construction of industrial parks and special economic zones along the transit route, as well as industrial cooperation and the establishment of production and logistics chains with major emerging economies in the Persian Gulf and the Indian Ocean.

EAEU MUTUAL TRADE: VALUE SALES REBOUND FROM DECLINE

Taras Tsukarev, Anton Malakhov

Mutual trade in terms of value rebounded rapidly in 2021. The price factor, i.e., the rise in global prices for commodities, had a significant impact on the positive changes in mutual trade. Commodities and metallurgical products became the primary drivers of mutual trade growth within the EAEU. Domestic consumer goods exports increased against the backdrop of the region's economic recovery.

In 2021, mutual trade in goods among the EAEU member states rose by 31.3% YoY[30]. The unique features of this pandemic year, specifically the low-base effect of the preceding year, played a role in determining trade changes. In 2020, the biggest drop occurred in April and May when the monthly volume of mutual trade fell to USD 3.5–4 billion vs the pre-pandemic average of about USD 5 billion. Last year's remaining months saw a less severe decline. Trade fell by 10.7% in 2020 as a whole. Given the severity of the April–May recession, the accumulated growth rate in 2021 peaked in May (33.2%).

The geographical structure of mutual trade in the EAEU shifted in favour of Russia and Kazakhstan in 2021. Due to the higher growth rate of exports to the domestic market, the share of these countries in mutual trade increased by 1.1 p.p. (to 62.8%) and 0.9 p.p. (to 10.8%), respectively. Belarus's share fell by 2.1 p.p. (to 24.1%), while the other EAEU member states' share remained nearly unchanged. Mutual trade between Russia and Belarus still prevails, accounting for 54.7% of total trade. The share of mutual trade in EAEU foreign trade turnover is almost the same as it was a year ago: 14.6% vs 14.7%. For most EAEU member states, the share of mutual trade in total foreign trade turnover is above the EAEU average. Mutual trade is especially important for Belarus and Kyrgyzstan (Figure 29).

Kazakhstan's exports to the EAEU member states grew at the fastest rate in 2021, at 38% YoY. The growth is primarily due to an increase in ferrous metals and iron ore exports to Russia. Export volumes from the other EAEU member states to the domestic EAEU market increased markedly as well, by more than 20% (Figure 30).

Figure 29. Features of the EAEU Member States Mutual Trade

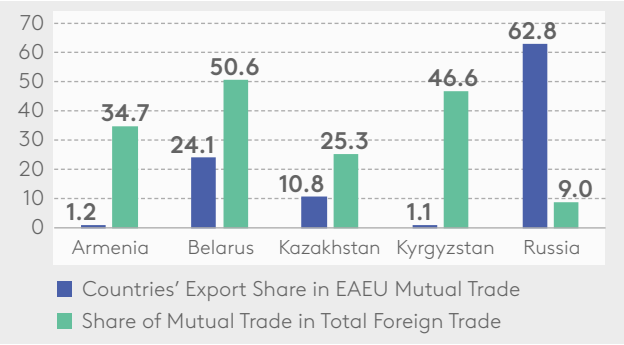
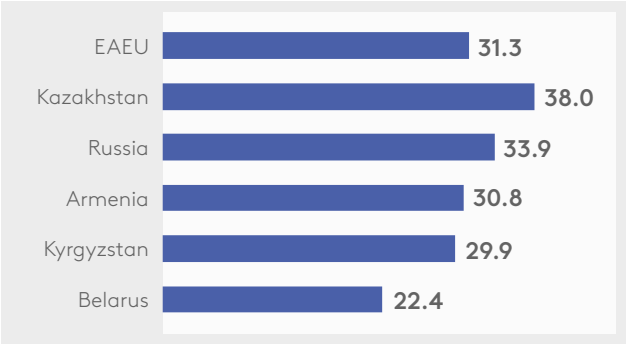


Figure 30. Growth Rates of the EAEU Member States Mutual Trade in 2021



Source: EEC.

[30] Unless otherwise specified, EEC statistics and data for January–August 2021 are used herein.

Mutual trade growth was fuelled by ferrous metals. Their contribution to the increase in exports was 16%. Exports of ferrous metals to the EAEU markets rose significantly from Belarus (by 2.3 times YoY), Kazakhstan (by 2.2 times YoY) and Russia (by 63.7% YoY). Iron ore exports (Kazakhstan and Russia) as well as ferrous metal products exports (Belarus and Russia) increased significantly in value. Exports of these commodities rose primarily as a result of an increase in global prices. In particular, the value of exports of iron ore from Kazakhstan to Russia increased 2.5 times, with a 23.7% increase in physical terms.

Among non-commodities, electrical equipment, furniture, alcohol, and pharmaceuticals all saw significant increases in the value of exports. Belarus and Russia saw the greatest increase in electrical equipment exports. For example, Russia's exports of television sets, monitors, and projectors to the EAEU member states rose by 34.4% YoY in physical terms. Belarus and Russia increased their furniture exports, with Belarus exports to Kazakhstan rising by 42.7% YoY in unit terms. Exports of beverages from Armenia, Belarus, and Russia increased significantly in value. Armenia increased its exports of mineral water and alcohol to the EAEU member states by 23.7% YoY for each item on average in physical terms. The increase in value of pharmaceutical exports from Belarus and Russia was primarily due to price factors.

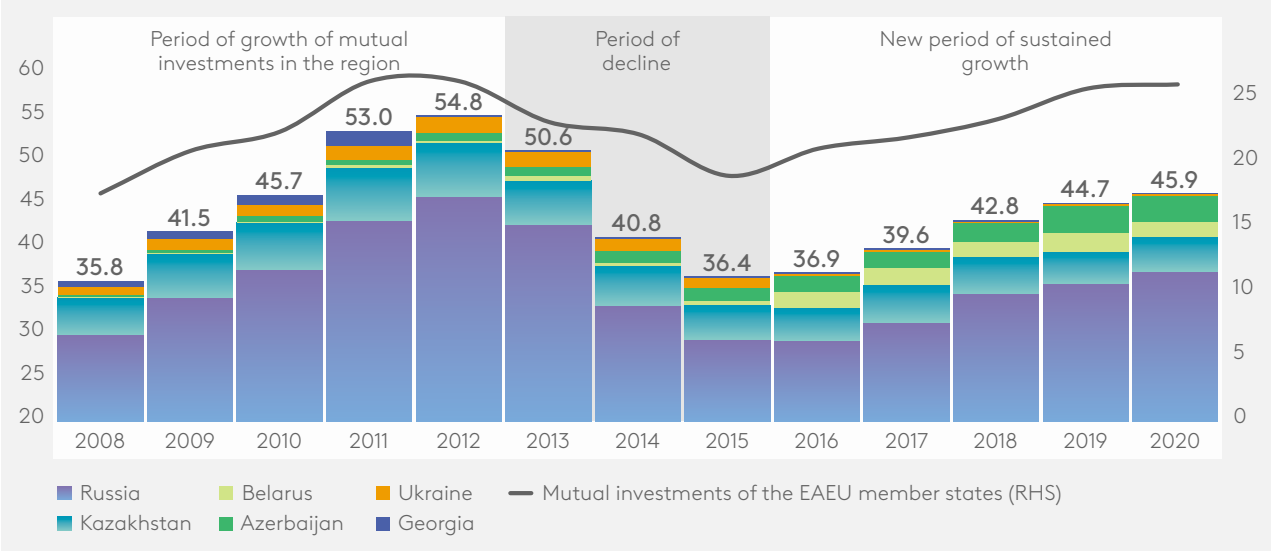
MUTUAL DIRECT INVESTMENTS OF THE EAEU MEMBER STATES: MAKING CORPORATE INTEGRATION DEEPER

More information on mutual direct investments of the EAEU member states is available in this report by Eurasian Development Bank.

The EAEU is the core of investment cooperation in the post-Soviet area[31]. According to the EDB Monitoring of Mutual Investments, mutual FDI stock in the EAEU[32] is growing steadily: it grew by 24% over 2016–2020. The growth of mutual FDI in the EAEU is high-quality: investors are increasingly attracted to knowledge-intensive industries, greenfield projects, as well as low capital intensity projects. Kazakhstan is the leader in terms of inward FDI originating from the EAEU member states.

The deepening of Eurasian integration promotes the growth of mutual FDI throughout the post-Soviet area. On a ten-year horizon, a decline in inward mutual FDI stock in the CIS countries was observed in 2013–2015. EAEU companies reversed the trajectory of mutual FDI by the CIS countries in 2017. Investment activity of the Eurasian corporate sector led a 25% rise in total mutual CIS FDI stock to USD 45.9 billion over 2016–2020 (Figure 31).

Figure 31. Changes in Mutual Direct Investment Stock of the CIS Countries and the EAEU Member States, USD billions



Note: Inward mutual FDI stock originating from other countries is insignificant and included in total FDI stock.
Source: Kuznetsov, Vinokurov (2021).

By the end of 2020, mutual FDI stock in the EAEU had reached USD 25.4 billion, representing a 24% rise over the past four years. Kazakhstan boasts the highest FDI stock value and growth rate among the EAEU member states: USD 11.2 billion at the end of 2020, and an increase of USD 3 billion over four years.

[31] The post-Soviet area includes the CIS countries and Georgia without the Baltic States ("CIS countries").

[32] The methodology of the EDB Monitoring of the Mutual Investments database is outlined in "EDB Mutual Investment Monitoring" (Kuznetsov, Vinokurov, 2021).

Russia is the only net exporter of mutual FDI stock in the post-Soviet area. Russian investors accounted for 80% of outward FDI stock in both EAEU and CIS countries in 2020. Russia's major investment partner is Kazakhstan, whose economy received 55% of Russia's outward FDI stock of the EAEU member states. At the same time, Russia received 62.5% of total EAEU inward FDI stock originating from Kazakhstan (Table 10).

EAEU investment pairs without Russia's participation look modest so far. Only Kyrgyzstan's inward FDI stock originating from Kazakhstan stands out sharply. The "neighbourhood effect" continues to play a key role in Central Asia countries.

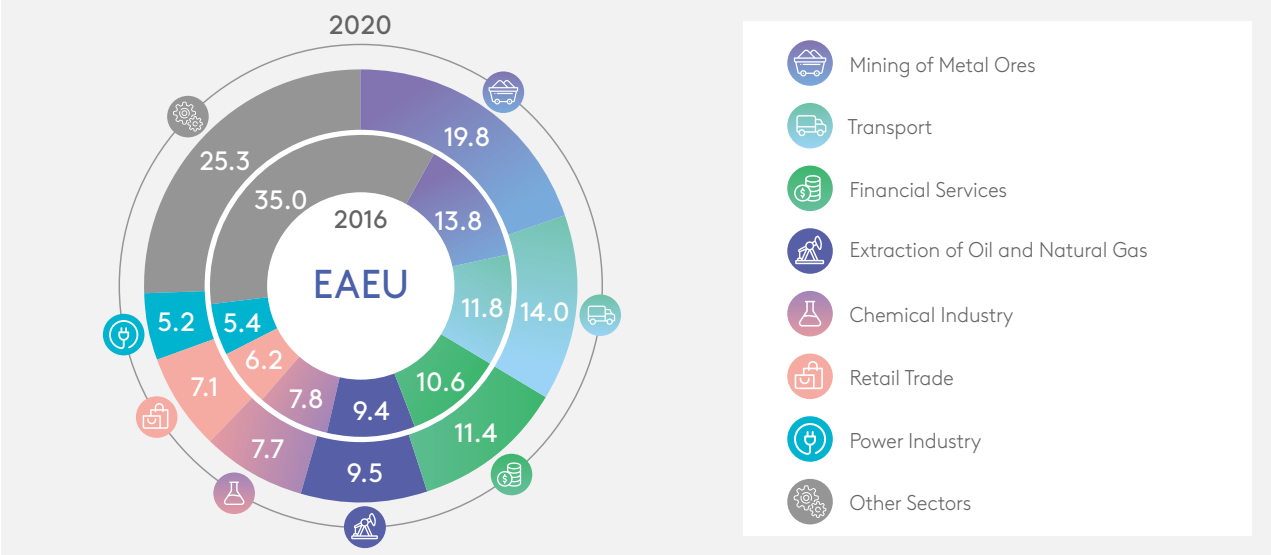
Table 10. Mutual FDI Stock of the EAEU Member States as of the End of 2020

Investor Country	FDI Recipient Country, USD millions					
	Russia	Kazakhstan	Belarus	Armenia	Kyrgyzstan	EAEU
Russia	X	11,175	5,143	3,047	946	20,311
Kazakhstan	2,813	X	24	0	618	3,455
Belarus	1,501	45	X	1	2	1,549
Armenia	3	0	38	X	0	41
Kyrgyzstan	2	0	0	0	X	2
EAEU	4,319	11,220	5,205	3,048	1,566	25,358

Source: Kuznetsov, Vinokurov (2021).

The key sectors in terms of mutual FDI stock of the EAEU as of 2020 were metal ore mining (19.8%), land transport and transport via pipelines (14%), and financial services (11.4%). Oil and natural gas production was only fourth in the sectoral structure of mutual FDI stock in the EAEU (9.5%) (Figure 32). The leading position of metal ore mining was due to Russia's and Kazakhstan's projects. This sector was the main contributor to the increase in mutual FDI stock of the EAEU member states over 2016–2020, accounting for a gain of USD 2.2 billion.

Figure 32. Sectoral Structure of Mutual FDI Stock of the EAEU Member States, %



Source: Kuznetsov, Vinokurov (2021).

The growth in mutual FDI stock in the EAEU has become high-quality over the past few years. Investors are increasingly attracted to knowledge-intensive industries, greenfield projects, as well as low-capital-intensity projects. This promotes the modernisation and diversification of EAEU economies.

A new trend is taking shape: the growth of mutual FDI stock in the production of motor vehicles, machinery and electrical equipment. Over the past three years, such FDI stock in the EAEU has grown 1.6 times. However, the absolute stock is still modest.

The share of private national investors dominates the ownership structure of companies investing within the EAEU: 55% as of the end of 2020. The share of state-controlled investor companies (over 50% ownership) is almost unchanged since 2016, at 36% in 2020. The number of projects involving foreign TNCs as investor company owners has been declining: from 10% to 6% in the past five years.

The following trends will prevail in the medium term.

- The sectoral structure of mutual FDI stock of the EAEU countries will gradually become more diversified: retail, financial services, automotive, machinery and electrical equipment manufacturing will gain momentum.

- Greenfield projects, which involve setting up new businesses from scratch, will continue to grow exponentially. Investors are increasingly attracted to expanding into new markets with their technology and resources. This will be accompanied by technology transfer and the modernisation of the economies of FDI recipient countries.

- Small investment projects (USD 1–5 million) covering a broad range of industries will gain a strong growth momentum. National export support programmes, digital development and market integration will facilitate this.

- As the global climate agenda becomes increasingly relevant, mutual FDI stock in green economy projects will rise. Over the past two years, mutual FDI stock in such projects has risen by 56%. Kazakhstan will strengthen its leadership in attracting foreign direct investments in renewable energy sources.

EDB INTEGRATION BUSINESS BAROMETER: COMPANIES' VIEWS ON THE EAEU AND THE BUSINESS ENVIRONMENT IN THE EURASIAN REGION

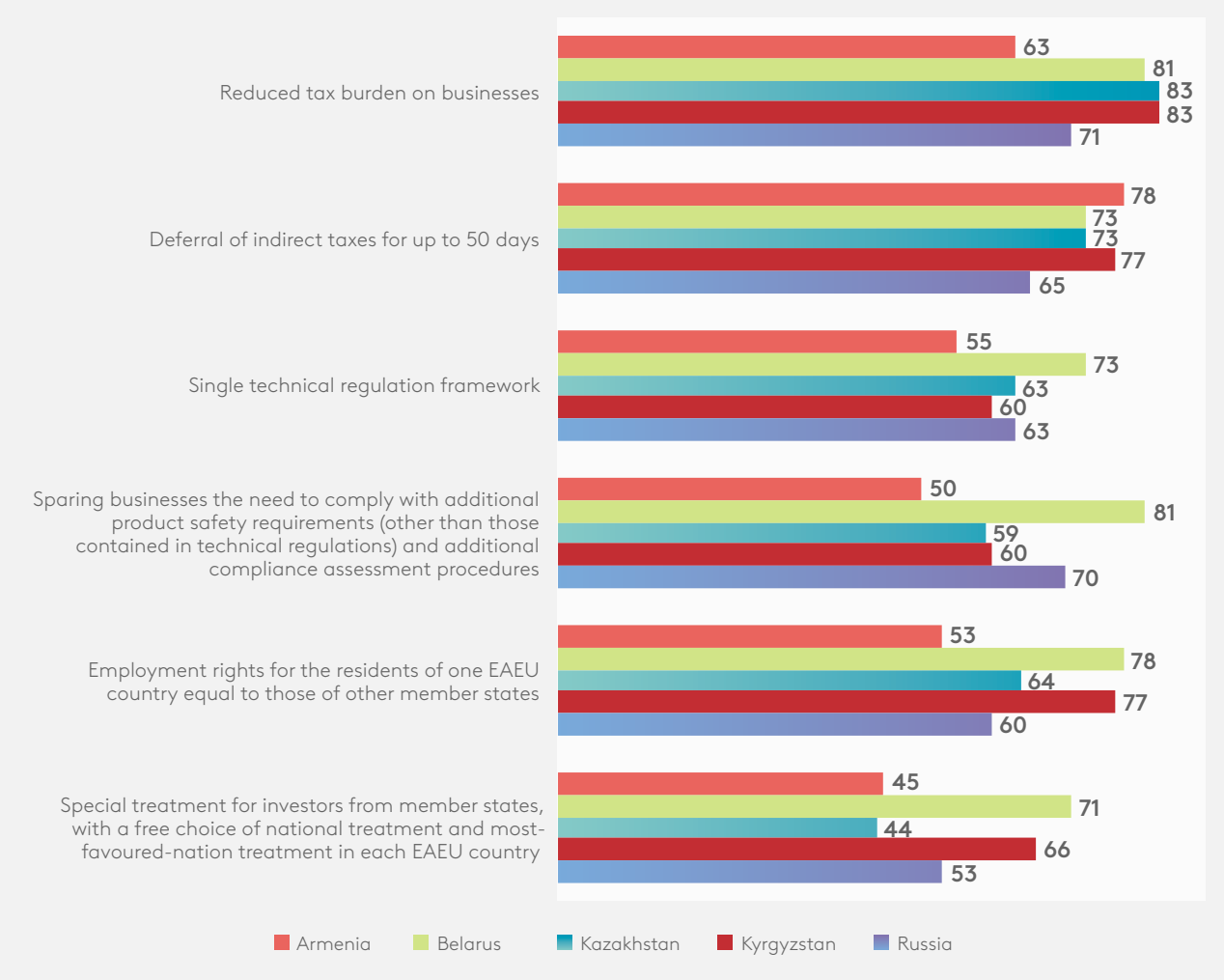
Vladimir Pereboev

> ***More details about the results of the EDB Integration Business Barometer study can be found in another Eurasian Development Bank report, which is scheduled for publication in January 2022.***
>
> *In August–September 2021, the EDB Centre for Integration Studies polled representatives of medium and large businesses in six member states of the Bank: Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. The survey was part of the EDB Integration Business Barometer 2021, with the findings to be published as a report in mid-December this year.*
>
> *A total of 337 businesses were polled. All of them are engaged in foreign trade activities in the EAEU and the CIS region, and about 90% of them are non-resource-based businesses. The survey was aimed at identifying the extent of businesses' awareness of Eurasian integration and their experiences with EAEU institutions, information on barriers that businesses face within the EAEU and the CIS region, as well as businesses' preferences for support measures and the business cooperation agenda in the EDB operating region.*

The majority of businesses polled believe that **Eurasian integration makes it easier to do business in the EAEU member states**. The share of respondents who chose the answer "much facilitates doing business" is highest in Belarus (39%) and Russia (35%), and lowest in Armenia (15%) and Kyrgyzstan (23%). Kazakhstan's and Russia's businesses most frequently reported receiving the EAEU's support.

According to most businesses, among the decisions made within the EAEU aimed at supporting business, tax relief works best, while the introduction of special treatment for investors from member states works in the least satisfactory way as it means that investors can freely choose between using the national treatment and most-favoured-nation treatment in each EAEU country (Figure 33). Measures such as deferring payment of indirect taxes for up to 50 days and having equal employment rights for nationals of the same EAEU country as residents of other member states are highly praised as well.

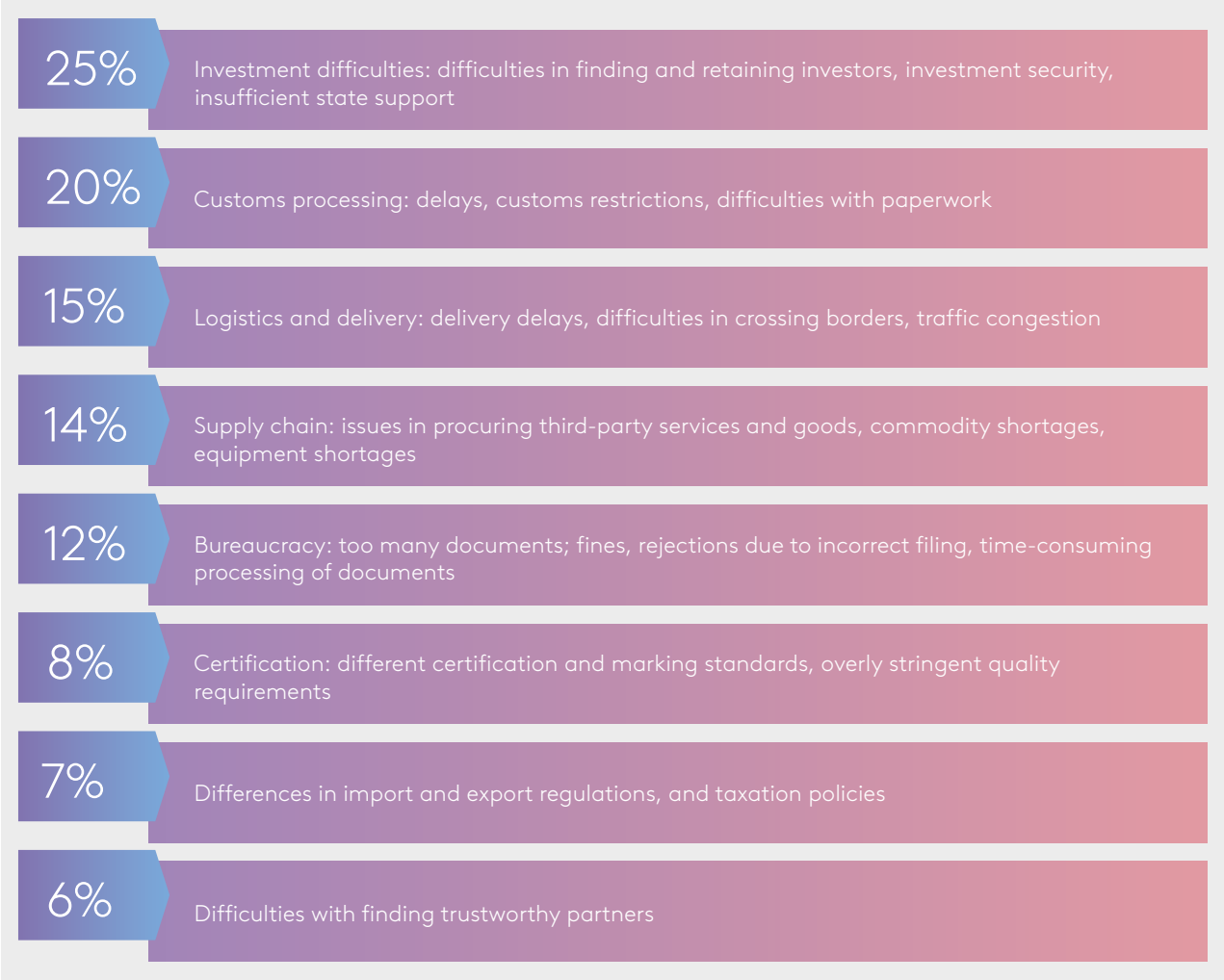
Figure 33. Share of businesses that feel that decisions made within the EAEU make it easier for them to do business internationally (as a percentage of those responding in each country)



Source: EDB Integration Business Barometer.

Nevertheless, companies face barriers when they sell goods in the countries of the region. Apart from technical barriers (marking, labelling, certification, etc.), customs clearance and health regulations, the study participants most often named high competition, lack of information about foreign markets and prospective partners, sales restrictions and financial measures (currency regulations, payment terms regulation, access and use of loans to finance imports). Less common were difficulties with subsidies and export subsidies, IPR protection, public procurement restrictions and competitor price controls. Businesses reported some common impediments to foreign trade in the CIS region as well (Figure 34).

Figure 34. Impediments to Foreign Trade Operations Involving CIS Countries (as a percentage of respondents)



Source: EDB Integration Business Barometer.

Businesses suggested **possible measures to remove the impediments**, namely the use of international standards or development of their own, development of EAEU standards and regulations (the most popular response from Armenia's businesses); mutual recognition of product evaluation procedures (the most popular response from Kyrgyzstan); harmonisation of marking rules and regulations (this option was most in-demand in Kazakhstan); and development of unified goods circulation requirements and rules (Russian companies offered this option most frequently). When asked how to improve the EAEU's effectiveness, businesses mentioned in response the necessity to consider private sector feedback, develop unified standards, and establish rapid response services. Some respondents mentioned the need for more meetings and forums. The importance of including more countries in the EAEU was brought up as well.

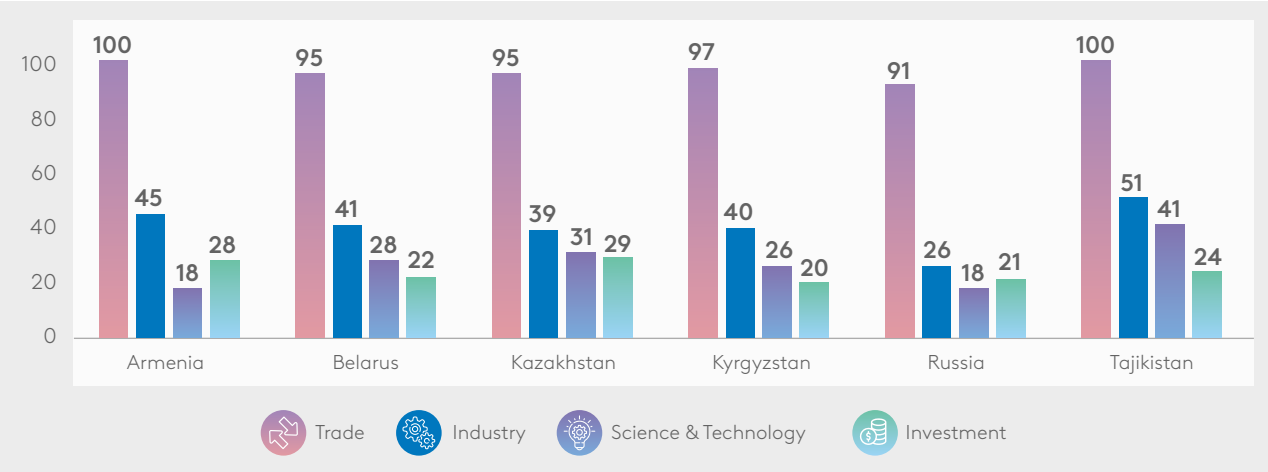
Businesses expressed an interest in learning more about the EAEU's diverse business opportunities and the structure of its laws and regulations. Respondents also look forward to the EAEU's financial support, facilitation of cooperation, assistance in eliminating customs difficulties, and simplification of bureaucratic and tax procedures. Businesses want to expand exports and imports, as well as to enter new markets.

They were also asked to evaluate the availability and accessibility of information about the EAEU and its structures' activities, such as decisions they made, events they held and innovations they introduced. Importantly, **between 1/3 to 1/4 of the businesses polled in different countries indicated a lack of detailed information about the EAEU and mentioned that only general information was available**. This is especially true for Armenia-based businesses.

More than 50% of the businesses polled in all countries are aware of the EAEU Free Trade Areas with other countries. Kazakhstan respondents are the most informed in this regard, while representatives of Russia and Belarus-based businesses share a similar level of awareness: only 20% are well informed, while slightly more than half have a rough idea of it. **Moreover, the list of current EAEU free trade areas was not well understood by businesses, according to the surveys**. In Kyrgyzstan, half of businesses polled found it difficult to respond to a question about the FTA, while a quarter did so in Kazakhstan, 20% in Belarus, 15% in Armenia, and 14% in Russia.

More than 80% of the businesses polled have either partners or clients in the EAEU member states. Simultaneously, the primary area of mutual cooperation is trade, which is true for the EAEU as well as the 12 CIS countries, where more than 90% of business representatives listed this as a preferred mode of interaction (Figure 35). Industry is the second most frequently mentioned subject, but it is only mentioned about half as frequently. R&D and investment are mentioned much less frequently.

Figure 35. Trade continues to be the primary means of mutual cooperation in the Eurasian region (as a percentage of responses per country)



Source: EDB Integration Business Barometer.

Businesses in all countries have identified the need to increase production capacity while also expanding their markets outside of the EAEU. When assessing promising areas for investment, industry, science and technology in the 12 FSU states, the majority of respondents in Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan named Russia as the most attractive partner (from around 70% to 100% of respondents).

Thus, as business polls revealed, on the one hand, businesses are willing to be more actively involved in implementing Eurasian economic integration opportunities. On the other hand, businesses lack information and support from EAEU institutions, while indicating ways to overcome existing constraints in cooperation and integration among the countries in question as well.

REFERENCES

Bloomberg (2021) *ESG Assets Rising to $50 Trillion Will Reshape $140.5 Trillion of Global AUM by 2025, Finds Bloomberg Intelligence.* Available at: https://www.bloomberg.com/company/press/esg-assets-rising-to-50-trillion-will-reshape-140-5-trillion-of-global-aum-by-2025-finds-bloomberg-intelligence/ (Accessed 2 November 2021).

Boston Consulting Group (BCG) (2020) *The Evolving State of Digital Transformation.* Available at: https://www.bcg.com/de-de/publications/2020/the-evolving-state-of-digital-transformation (Accessed 2 November 2021).

Centerra Gold Inc. (2021) Technical Report on the Kumtor Mine, Kyrgyz Republic. February 24. Available at: https://www.centerragold.com/cg-raw/cg/2021_Kumtor_NI_43-101_Feb24_FINAL.pdf (Accessed 22 October 2021).

Kose, M., Ayhan, M., Nagle, P., Ohnsorge, F, Sugawara, N. (2021) Global Waves of Debt: Causes and Consequences. Washington, DC: World Bank, pp. 1–283.

Kuznetsov, A., Berdigulova, A., Fedorov, K., Kharitonchik, A., Babajanyan, V. (2021) *EDB Macroeconomic Review. September 2021.* Moscow: EDB. Available at: https://eabr.org/analytics/monthly-review/makroekonomicheskiy-obzor-eabr-sentyabr-2021/ (Accessed 25 October 2021).

Kuznetsov, A., Kharitonchik, A., Berdigulova, A., Fedorov, K. (2019) *Exchange Rate Pass-Through Effects on Inflation in EDB Member Countries.* Special report 06'2019. Moscow: EDB. Available at: https://eabr.org/en/analytics/special-reports/exchange-rate-pass-through-effects-on-inflation-in-edb-member-countries/ (Accessed 28 October 2021).

Kuznetsov, A., Vinokurov, E. (Eds) (2021) EDB *Monitoring of Mutual Investments.* Report 21/4. Moscow: EDB. Available at: https://eabr.org/en/analytics/special-reports/edb-monitoring-of-mutual-investments/ (Accessed 18 November 2021).

Mathieu, E., Ritchie, H., Ortiz-Ospina, E., Roser, M., Hasell, J., Appel, C., Giattino, C., Rodés-Guirao, L. (2021) *A Global Database of Covid-19 Vaccinations.* Available at: https://www.nature.com/articles/s41562-021-01122-8 (Accessed 9 November 2021).

Ministry of Economic Development of the Russian Federation (2021) O tekushchey situatsii v rossiyskoy ekonomike. Sentyabr' — oktyabr' 2021 goda. Available at: https://economy.gov.ru/material/directions/makroec/ekonomicheskie_obzory/o_tekushchey_situacii_v_rossiyskoy_ekonomike_avgust_sentyabr_2021_goda.html (Accessed 1 November 2021).

Mishra, P., Moriyama, K., N'Diaye, P., Nguyen, L. (2014) *Impact of Fed Tapering Announcements on Emerging Markets.* International Monetary Fund Working Paper, WP/14/109, pp. 1–34.

Primeminister.kz (2021) Glava Pravitel'stva poruchil okazat' pomoshch' fermerskim khozyaystvam, postradavshim ot zasukhi v Mangistauskoy oblasti. Available at: https://government.kz/ru/news/glava-pravitelstva-poruchil-okazat-pomoshch-fermerskim-hozyaystvam-postradavshim-ot-zasuhi-v-mangistauskoy-oblasti-216454 (Accessed 29 October 2021).

RBC (2020) Fitch predskazalo oslablenie byudzhetnogo pravila v Rossii. Available at: https://www.rbc.ru/economics/26/06/2020/5ef46cf89a7947a80b6e4c4d (Accessed 25 October 2021).

SberIndex (2021) Operativnaya otsenka dinamiki potrebitel'skikh raskhodov v oktyabre 2021 g. Available at: https://sberindex.ru/ru/researches/operativnaya-ocenka-dinamiki-potrebitelskikh-raskhodov-v-oktyabre-2021-g (Accessed 3 November 2021).

Vinokurov, E., Ahunbaev, A., Shashkenov, M., Zaboev, A. (2021) *The International North–South Transport Corridor: Promoting Eurasia's Intra- and Transcontinental Connectivity.* Report 21/5. Almaty, Moscow: EDB.

Vinokurov, E., Ahunbaev, A., Usmanov, N., Tsukarev, T., Sarsembekov, T. (2021) *Investment in the Water and Energy Complex of Central Asia.* Reports and Working Papers 21/3. Almaty, Moscow: EDB. Available at: https://eabr.org/en/analytics/special-reports/investment-in-the-water-and-energy-complex-of-central-asia/ (Accessed 9 November 2021).

Vinokurov, E., Lavrova, N., Petrenko, V. (2020) *Optimal Debt and the Quality of Institutions.* EFSD Working paper WP/20/4. Moscow: EDB. Available at: https://efsd.eabr.org/en/research/working-papers/efsd-working-paper-rd-20-4-optimal-debt-and-the-quality-of-institutions (Accessed 28 October 2021).

World Economic Forum (WEF) (2020) *The Future of Jobs Report 2020.* Available at: https://www.weforum.org/reports/the-future-of-jobs-report-2020 (Accessed 2 November 2021).

World Economic Forum (WEF) (2021) *The Global Risks Report 2021.* Available at: https://www.weforum.org/agenda/2021/01/global-risks-report-2021 (Accessed 2 November 2021).

EDB (2016) *Forecasting System for the Eurasian Economic Union.* Moscow: Eurasian Economic Commission; St. 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 28 October 2021).

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AMD	Armenian Dram
CA	Central Asia
CAB	current account balance
CB RA	Central Bank of the Republic of Armenia
CB RF	Central Bank of the Russian Federation (Bank of Russia)
COVID-19	COronaVIrus Disease 2019
CPI	Consumer Price Index
EAEU / the Union	Eurasian Economic Union
EDB / the Bank	Eurasian Development Bank
EEC	Eurasian Economic Commission
EFSD	Eurasian Fund for Stabilization and Development (formerly, the EurAsEC Anti-Crisis Fund)
EU	European Union
EVSR	Estimated Value of Standard Risk
FDI	Foreign Direct Investment
(the) Fed	U.S. Federal Reserve System
GDP	Gross Domestic Product
IBL	Interbank Loans Market
IMF	International Monetary Fund
INSTC	International North–South Transport Corridor
KR	Kyrgyz Republic
MDB	Multilateral Development Bank
MF RK	Ministry of Finance of the Republic of Kazakhstan
MIACR	Moscow Interbank Actual Credit Rate
NB KR	National Bank of the Kyrgyz Republic
NB RK	National Bank of the Republic of Kazakhstan
NBT	National Bank of Tajikistan
OPEC	Organization of Petroleum Exporting Countries
PMI	Purchasing Managers' Index
p.a.	per annum
p.p.	percentage point
Q	Quarter
RA	Republic of Armenia
RB	Republic of Belarus
REPO	Repurchase Agreement
RES	renewable energy source
RF	Russian Federation
RF MinFin	Ministry of Finance of the Russian Federation
RF Ministry of Economic Development	Ministry of Economic Development of the Russian Federation
RK	Republic of Kazakhstan
RT	Republic of Tajikistan
TEU	twenty-foot equivalent unit
TONIA	Tenge OverNight Index Average
SDR	Special Drawing Rights
U.S. / USA	United States of America
USD	United States' Dollar
YTD	Year-To-Date
%	Percent
% YoY	Year-on-Year growth rate

GLOSSARY

Budget (fiscal) reserves
Available state budget funds that can be used to finance expenditures.

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.

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 of GDP and the real exchange rate being at equilibrium levels.

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.

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

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.

Bank Lending Conditions
An indicator that describes the composite change in lending conditions for borrowers in terms of loan availability. A tightening refers to a decrease in loan availability, while easing refers to an increase in loan availability.

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 Forecast
(RU/EN)

The Return of Inflation: For How Long and Should We Fear It?

The 2021 projection for aggregate GDP growth of EDB member states is raised by 0.7 p.p. to 4% due to strong support from the global economy.



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

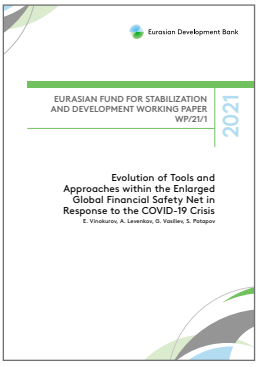
The report estimates the potential effects of Uzbekistan's integration with the EAEU and outlines promising areas for cooperation between the current Union member states and Uzbekistan.



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.



Eurasian Development Bank

CENTRE FOR MACROECONOMIC ANALYSIS
RESEARCH DEPARTMENT
EURASIAN DEVELOPMENT BANK



Eurasian Development Bank

www.eabr.org