Eurasian Development Bank

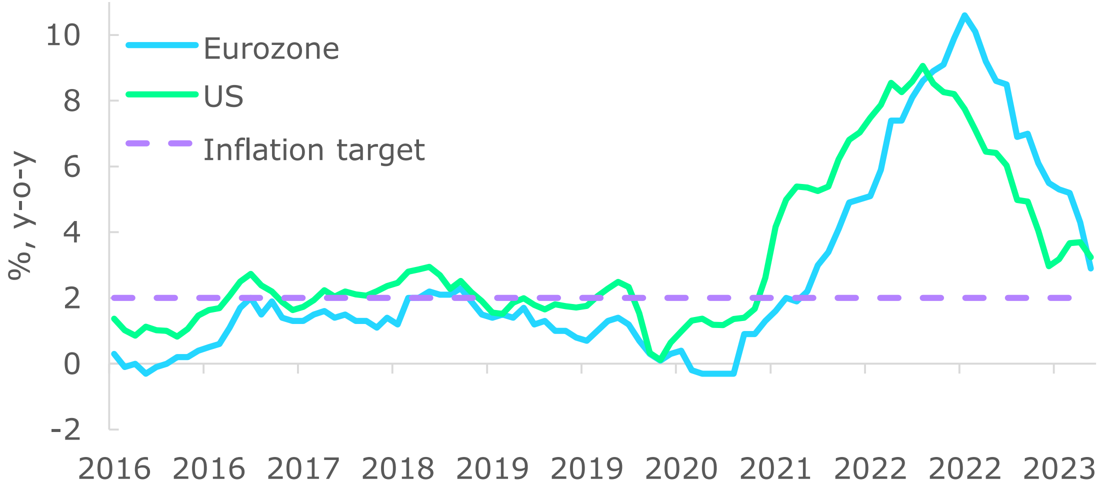
Macroeconomic Outlook **2024**-2026

1 Macroeconomic Outlook

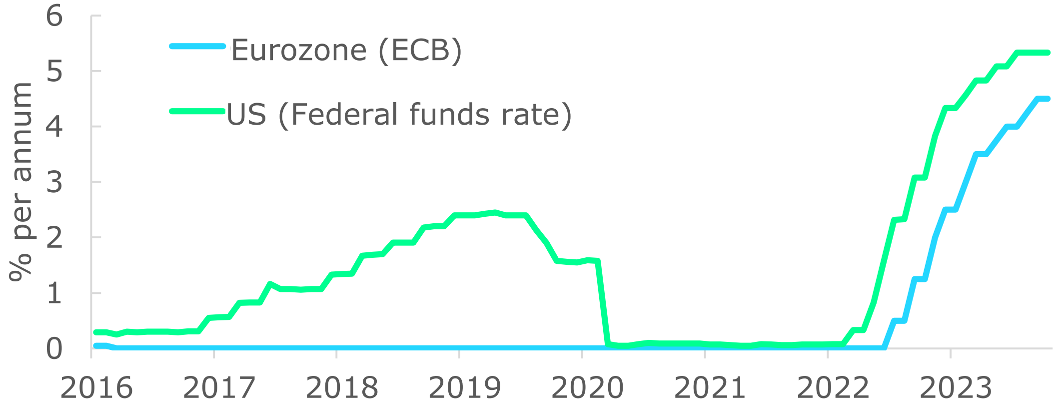
External Economic Conditions

Global economy in 2023: Decline in business activity and inflation with further rate increases

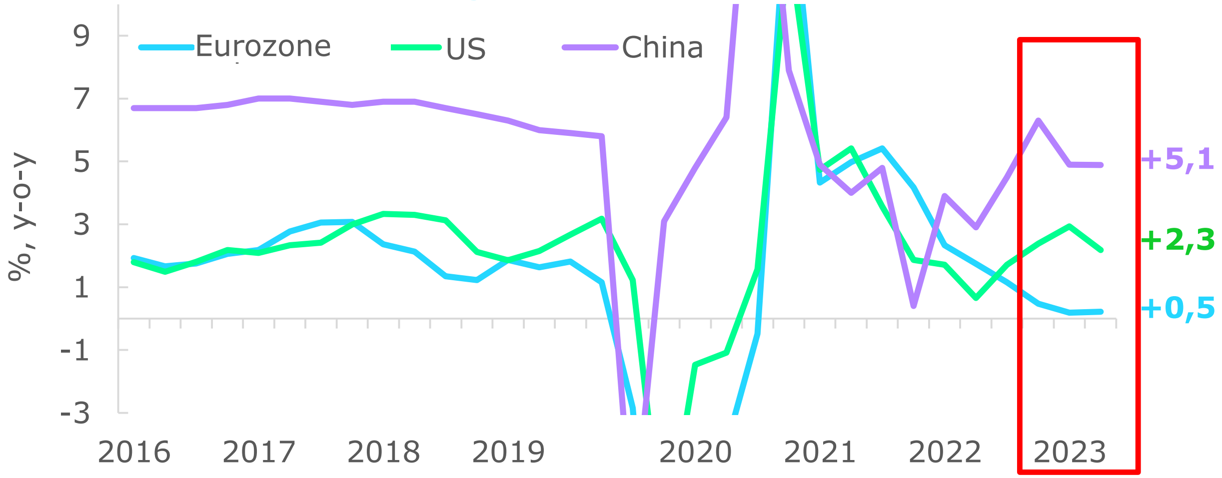
Trend 1: Inflation has slowed down but remains elevated



Trend 2: Final phase of monetary tightening cycle



Trend 3: Weakening of business activity

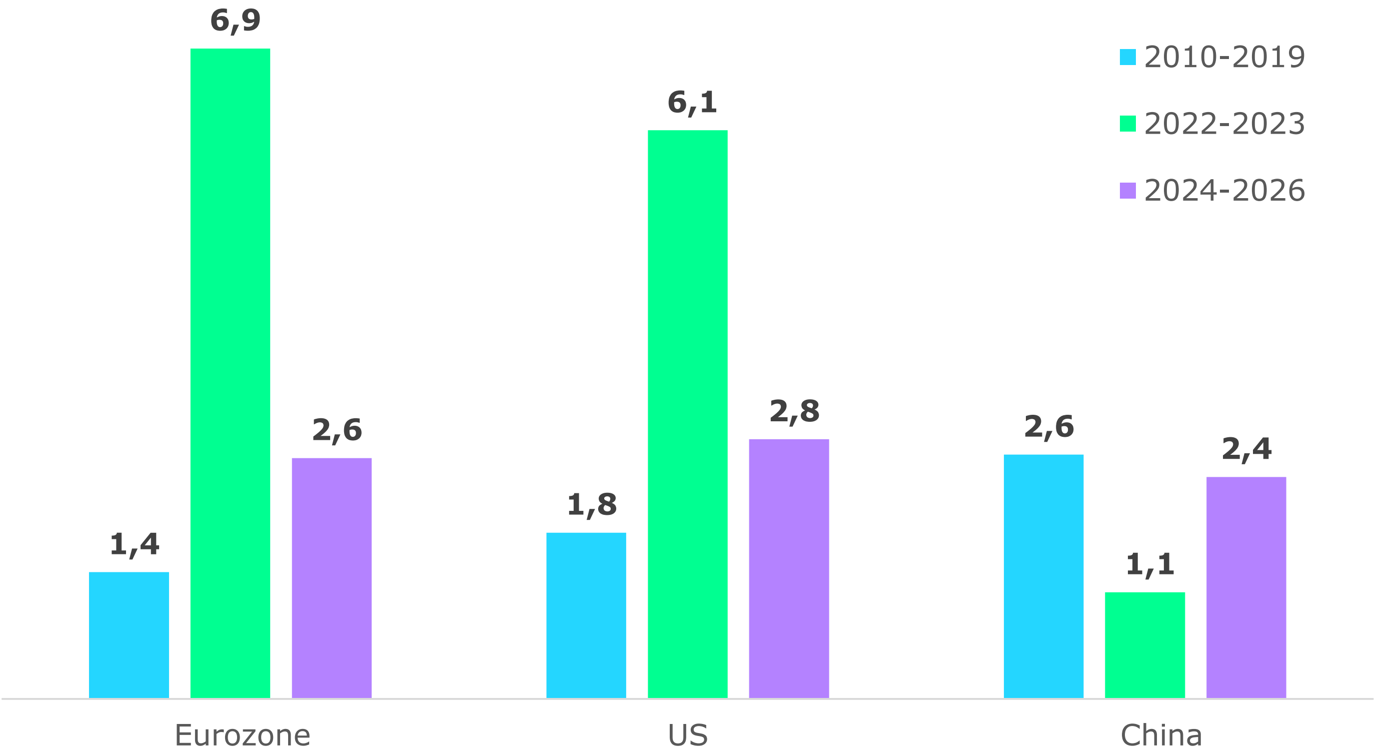


- ✓ The growth rate of consumer prices has decreased, but the pro-inflation risks remain
- ✓ The trend towards increasing interest rates in the U.S. and the Eurozone is highly likely to have ended
- ✓ The trend towards a decline in global economic activity is not only incomplete, but also has the prerequisites for strengthening

Sources: National State Agencies, Bloomberg, EDB staff estimation

Inflation in the U.S. and the Eurozone will remain above the target level of 2% throughout the entire outlook

Average inflation, %



Inflation slowdown in developed economies is prevented by:

- growing costs of economic fragmentation
- overheated labor market

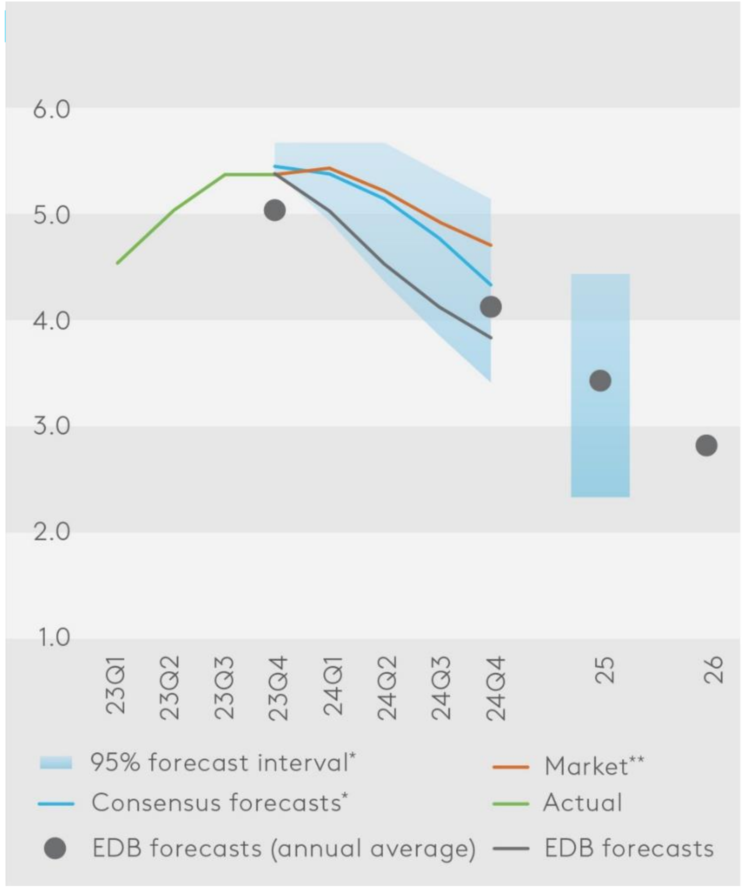
Our forecast is more conservative compared to the analysts' consensus

Inflation in developed countries will remain above the target level throughout the entire forecast period

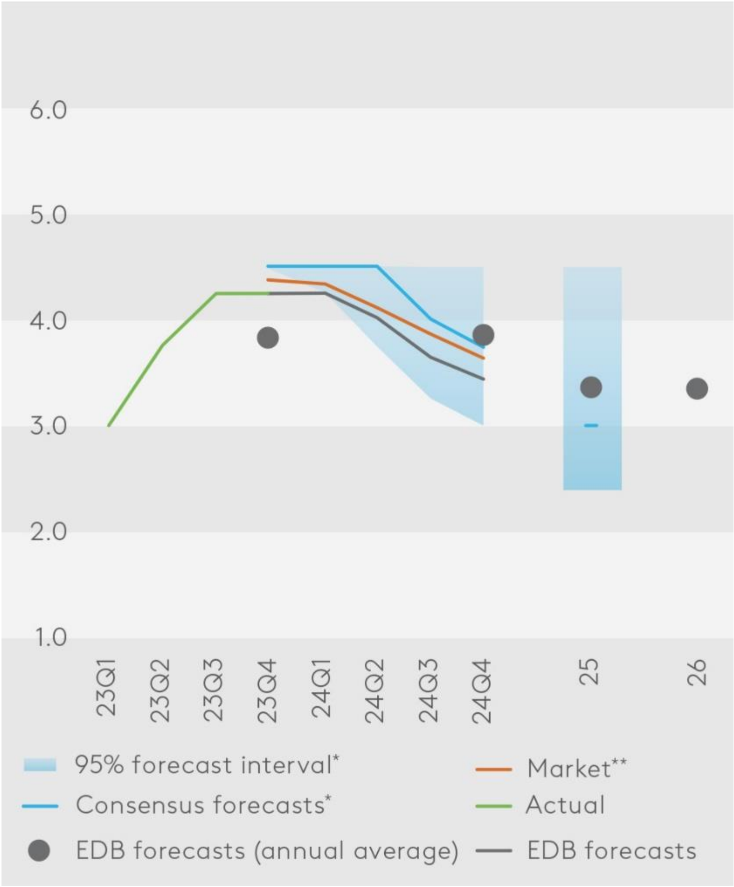
Sources: National State Agencies, Bloomberg, EDB staff estimation

Federal Reserve and ECB may begin cutting rates as early as the first half of 2024

Fed Funds rate, %



ECB's rate, % p.a.



Sources: National State Agencies, Bloomberg, staff estimation

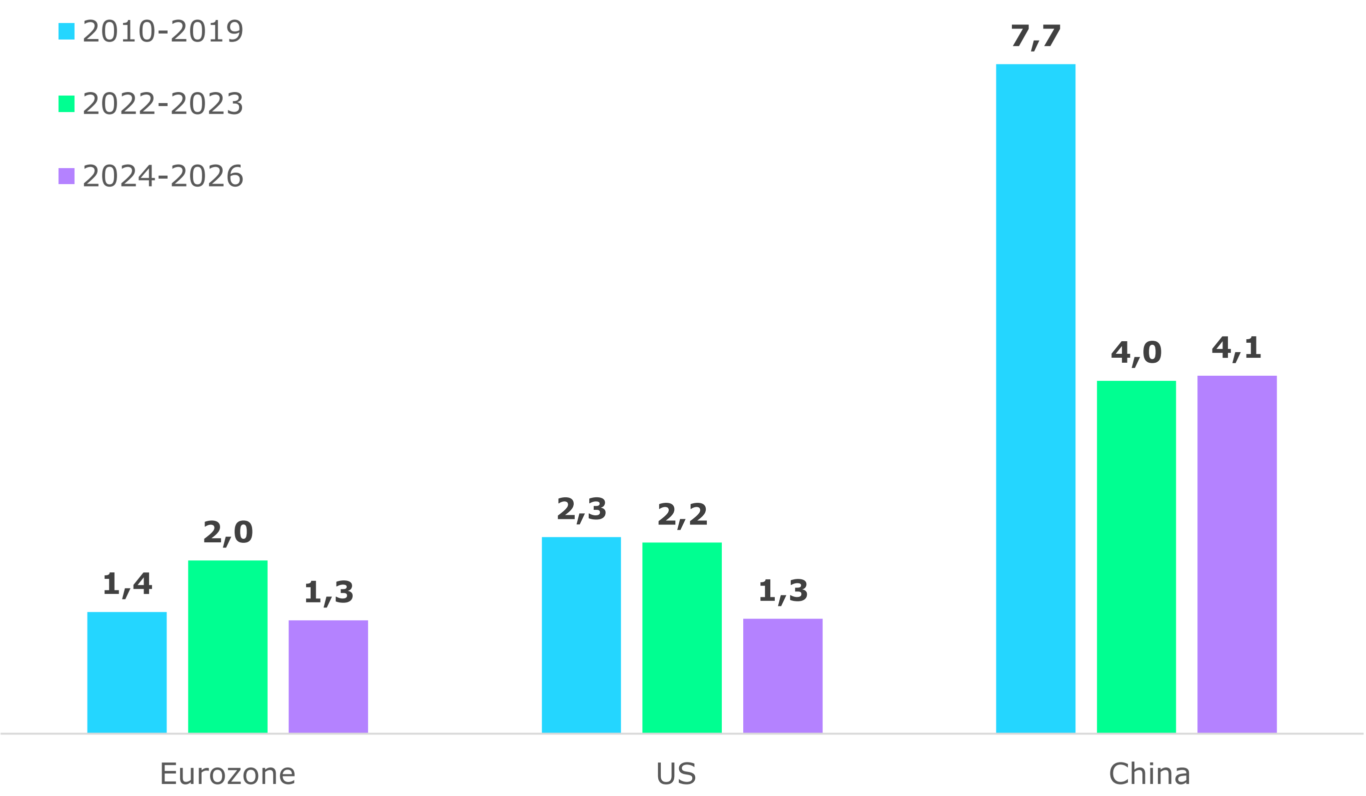
Against the backdrop of a high probability of recession in the eurozone and a significant slowdown in growth in the U.S., there are more and more reasons to start lowering interest rates.

We assume that after a significant inflation slowdown, regulators will lower rates in order to prevent a decline in economic activity.

Interest rates will remain higher than in the previous decade.

It is expected that the world’s leading economies will show a weak growth resulting from the fight against inflation

Average GDP growth, %



Source: National State Agencies, Bloomberg, EDB staff estimation

The increase in key interest rates in developed countries has affected **the increase in borrowing costs for households and businesses.**

We forecast a slowdown in U.S. GDP growth in early 2024 and continued low growth rates in the eurozone.

Recovery growth in the U.S. and the Eurozone in 2025

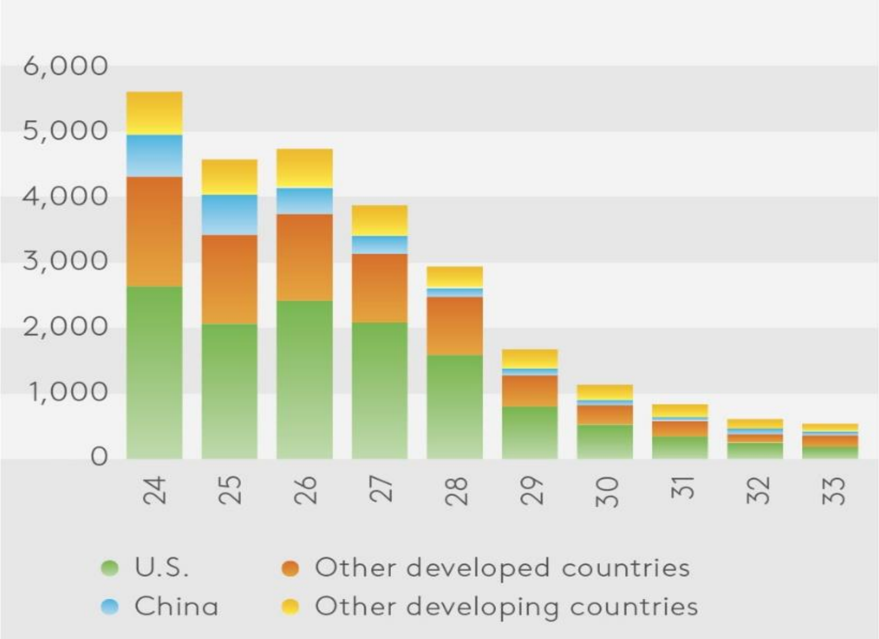
Starting next year, the economic growth slowdown in China will be an additional negative factor in the weakening of the global economy.

Economic growth will be extremely unstable

Refinancing crisis risk in developed countries

A wave of repayments is ahead

Volume of corporate debt repayments, Billions of Dollars

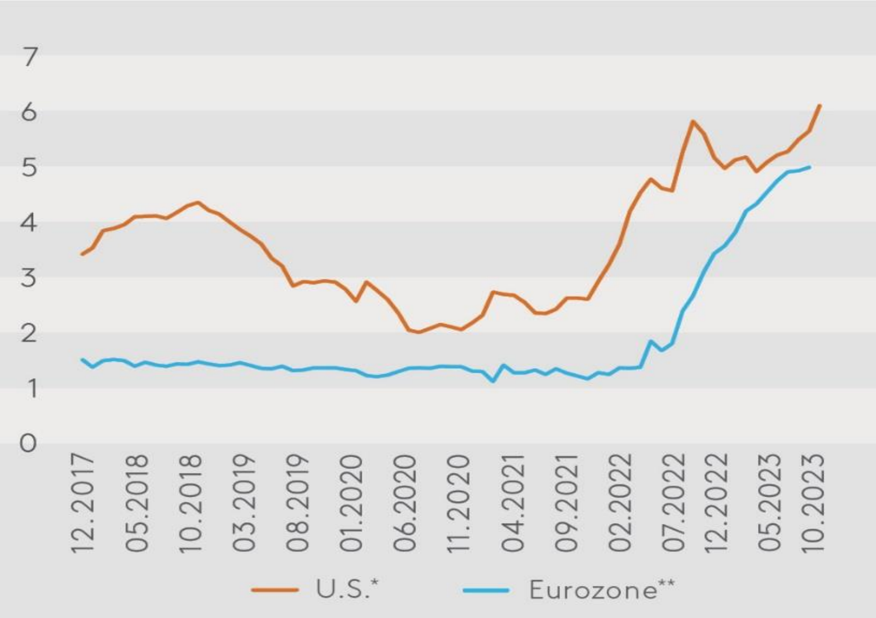


Source: IMF, Financial Stability Report, April 2023.

According to IMF estimates, the global level of corporate debt repayments will peak **in 2024** with **about $6 trillion** and over a three-year horizon. The bulk of problem debt has accumulated in the **real estate** sector

The debt will be refinanced **at higher rates**

Cost of borrowed resources for the corporate sector, % per annum



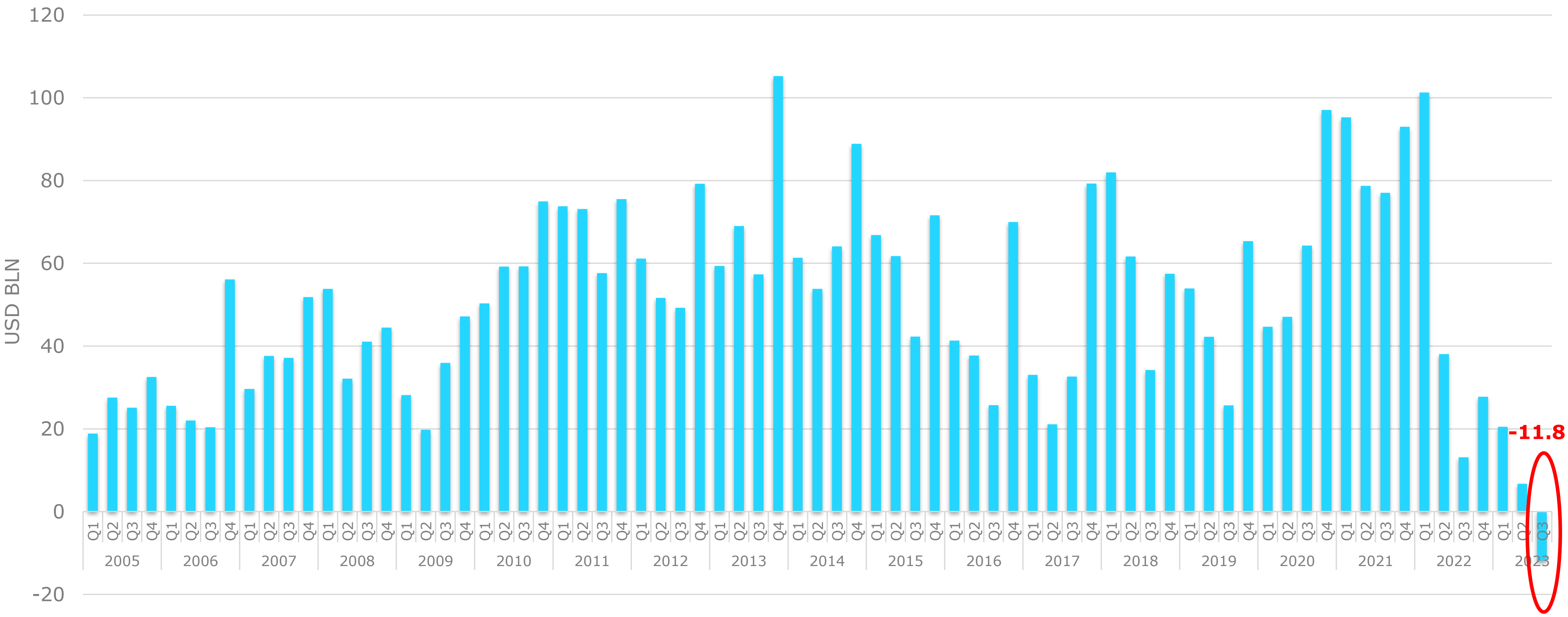
* — Spot price of 10-year corporate securities
** — Cost of new corporate loans (source: ECB)

Consequences

Company defaults and cost cutting.

With limited opportunities for fiscal stimulus, this will lead to a recession in developed countries and a reduction in global demand, which will affect the economies of the EDB region of operations

China: FDI inflow is negative for the first time



Source: National State Agencies

It's too early to draw conclusions, but we need to monitor the situation…

2 Macroeconomic Outlook

Country Forecasts

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Macroeconomic Outlook

Republic of Armenia

Republic of Armenia

Balanced economic growth rates

Economic Growth

8.3% | **5.7%**

2023 ***2024***

- Growth will return to the balanced path
- Weak external demand amid slowing global business activity
- Expansionary fiscal policy
- Easing of monetary policy
- Domestic demand strengthening
- Construction and operation of the Amulsar gold mine

≈5.0%

2025-2026

Inflation

3.6%

*CPI growth at the end of **2024***

- Easing monetary conditions of the Central Bank of the Republic of Armenia (CBA), Expansionary fiscal policy
- Domestic demand strengthening
- Depreciation of dram

In the medium term, within the CBA's target range

Average price growth by

3.6%

2025-2026

Interest Rate

8.6%

*refinancing rate in **2024***

Taking into account the steady slowdown in price growth, as well as inflation below the CBA's target range (4±1.5%), we can forecast a continuation of the rate reduction cycle in the first half of 2024.

Rate close to

8.0%

2025-2026

Exchange rate

414

*Armenian Dram per USD, **2024** average*

- Tourist activity
- Inflow of money transfers
- Import growth outpaces export
- Depreciation expectations
- Lower money market rates

The rate will be **420 in 2025, 426 in 2026.** Weakening due to lower foreign exchange earnings as the global economy slows down

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Macroeconomic Outlook

Republic of Belarus

Republic of Belarus
Corrective entry into the potential growth trajectory

Economic Growth

3.9% *2023* | **2.0%** *2024*

- Incentive economic policy; growing domestic demand
- Slowdown in export growth: loss of price advantages, import substitution in Russia
- Completion of the recovery period

around **1.0%**
*GDP growth in **2025-2026***

Corrective deceleration in **2025-2026**: labor shortage; more difficult access to advanced technologies.

Inflation

8.0%
*CPI growth at the end of **2024***

- Reduced external price pressure
- Logistical restructuring
- Weakening of price regulations
- Domestic demand
- Price overhang implementation

Gradual reduction to **6.4%** in **2026**

Interest Rate

9-10%
*refinancing rate at the end of **2024***

Monetary policy will continue to focus on supporting economic activity

Gradual weakening of the incentive due to a decrease in the volume of soft loans

Keeping the rate around
9%
2025-2026

Exchange Rate

3.25
*BYR/USD, **2024** average*

Decrease in foreign trade surplus due to weakening support from the price factor

Elimination of overvaluation of the real BYR exchange rate

Slow exchange rate depreciation in the future against the backdrop of low GDP rates and continued price growth ahead of the Russian Federation

3.54
*BYR/USD **2026** average*

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Macroeconomic Outlook

Republic of Kazakhstan

Republic of Kazakhstan

Acceleration of economic growth in 2024

Economic Growth

4.8% | **5.0%**

*GDP growth in **2023*** *GDP growth in **2024***

The implementation of new government initiatives will lead to an increase in output in the manufacturing and service sectors

High investment activity

≈5%

GDP growth in ***2025-2026***

Improving the quality of economic growth as a result of structural transformations

Inflation

7.1%

*CPI growth in **2024***

Increase in tariffs for housing and communal services

Increased inflation expectations

Decline in world prices

Monetary policy

Reduction to **5-6%** in ***2025-2026***

Interest Rate

10%

*base rate at the end of **2024**.*

Systematic reduction of the base rate to 10% at the end of 2024 as inflationary pressure from the external sector weakens and inflation expectations become more stable

The base rate of **7-8%** at the end of ***2025***

Exchange Rate

470

*Kazakh Tenge to USD, **2024** average*

At the beginning of 2024, the high base rate will continue to support the tenge exchange rate

State of the trade balance

Gradual weakening of the tenge in the medium term

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Macroeconomic Outlook

Republic of Kyrgyzstan

Republic of Kyrgyzstan

Return to potential level

Economic Growth

4.6% | **4.5%**

*GDP growth in **2023*** | *GDP growth in **2024***

- ↑ Domestic consumer demand
- ↑ Investment activity
- ↑ Increase in output of the manufacturing industry
- ↓ Low water level

Slowdown to potential level

3.5%

GDP growth in ***2025-2026***

Inflation

7.8%

*CPI growth in **2024***

- ↑ Strong consumer demand
- ↑ Increase in grain import prices
- ↓ Weakening of the external inflationary background
- ↓ Monetary policy

Reduction to around **6%**

2025 -2026

Interest Rate

11-12%

*policy rate at the end of **2024***

A reduction in the policy rate is expected from the second half of 2024 as inflationary pressure weakens

Inflation expectations are elevated, which causes the discount rate to be kept above 11% for a longer period of time

The rate is about **11%** at the end of **2025**

Exchange Rate

89.7

*Kyrgyz Som to USD, **2024** average*

- ↑ Increase in imports against the backdrop of a decrease in the inflow of remittances
- ↓ Increase in imports of base metals

We expect the Som to weaken in the medium term.

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Macroeconomic Outlook

Russian Federation

Russian Federation
Slowdown in economic growth in 2024

Economic Growth

3.1% | **1.5%**

2023 ***2024***

- Completion of the recovery cycle
- Decline in the domestic demand
- Tight monetary policy
- Expansionary fiscal policy
- Restoring exports by reorienting trade flows

1.6% *and* **2.1%**

*GDP growth in **2025 and 2026***

Inflation

5.4%

*CPI growth at the end of **2024***

- Tight monetary policy
- Decline in the domestic demand
- Expansionary fiscal policy

In the medium term, inflation will be close to the target level of the CBR

≈4.0%

2025-2026

Interest Rate

10.5%

*Key rate at the end of **2024***

Monetary conditions will remain tight in 2024, but will gradually soften as inflation processes slow down.

The key rate will start reducing no earlier than the second quarter of 2024.

The key rate is around

6.0%

*at the end of **2025-2026***

Exchange Rate

92.4

*Ruble per USD, **2024** average*

- Export recovery
- Reducing the price discount for Russian Urals oil to Brent
- Reduction in imports against the backdrop of slowing domestic demand
- Currency purchases within the framework of the budget rule

The rate is near equilibrium in the medium term.

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Macroeconomic Outlook

Republic of Tajikistan

Republic of Tajikistan

GDP growth remains strong in the medium term

Economic Growth

8.2% | **7.3%**

2023 | ***2024***

- ↓ Decrease in metal prices
- ↓ Decrease in the volume of incoming money transfers
- ↑ Expansion of enterprise capacities, government development programs

6.3% and **7.1%**

*GDP growth in 2**025 and 2026***

- ↑ Population growth, catch-up development

Inflation

6.6%

*CPI growth in **2024***

- ↑ Strong consumer demand
- ↑ Increase in inflation in Russia

5.8% in **2025**

6.1% in **2026**

Monetary policy and a decrease in global prices for raw materials

Interest Rate

≈10.5%

*Refinancing rate at the end of **2024***

Need to control pro-inflationary risks

The rate is below **10%** from the **second quarter of 2025**

Stabilization of inflation in the middle of the target range of 6±2% will create conditions for a rate reduction

9-10% in **2026** with inflation in the target range of the National Bank.

Exchange Rate

10.9

*Somoni per USD, **2024** average*

= The current equilibrium in the foreign exchange market remains relevant

11.1 Somoni per USD in **2025**

Differences in inflation rates with trading partners, softer NBT policy

11.4 in **2026**

Continued trend of weakening Somoni in the medium term

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

State	GDP			Inflation (end of year)			Exchange rate (year's average)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Armenia	5.7	5.3	5.0	3.6	3.6	3.6	414	420	426
Belarus	2.0	0.8	1.0	8.0	7.4	6.4	3.25	3.37	3.54
Kazakhstan	5.0	5.1	5.1	7.1	5.6	5.1	470	486	507
Kyrgyzstan	4.5	3.5	3.4	7.8	6.6	6.1	89.7	92.1	95.6
Russia	1.5	1.6	2.1	5.4	4.0	3.9	92.4	93.4	95.1
Tajikistan	7.3	6.3	7.1	6.6	5.8	6.1	10.8	9.7	9.3

Note: GDP, inflation - % YoY; exchange rate - units of the national currency for 1 US dollar

Sources: calculations by EDB analysts

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Շնորհակալություն ուշադրության համար.

Дзякуй за ўвагу!

Назар аударғандарыңызға рахмет!

Назар салганыңыздарга рахмат!

Благодарим за внимание!

Раҳмати калон!

EDB Macroeconomic Outlook 2024–2026

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