Eurasian Development Bank

Macroeconomic Outlook

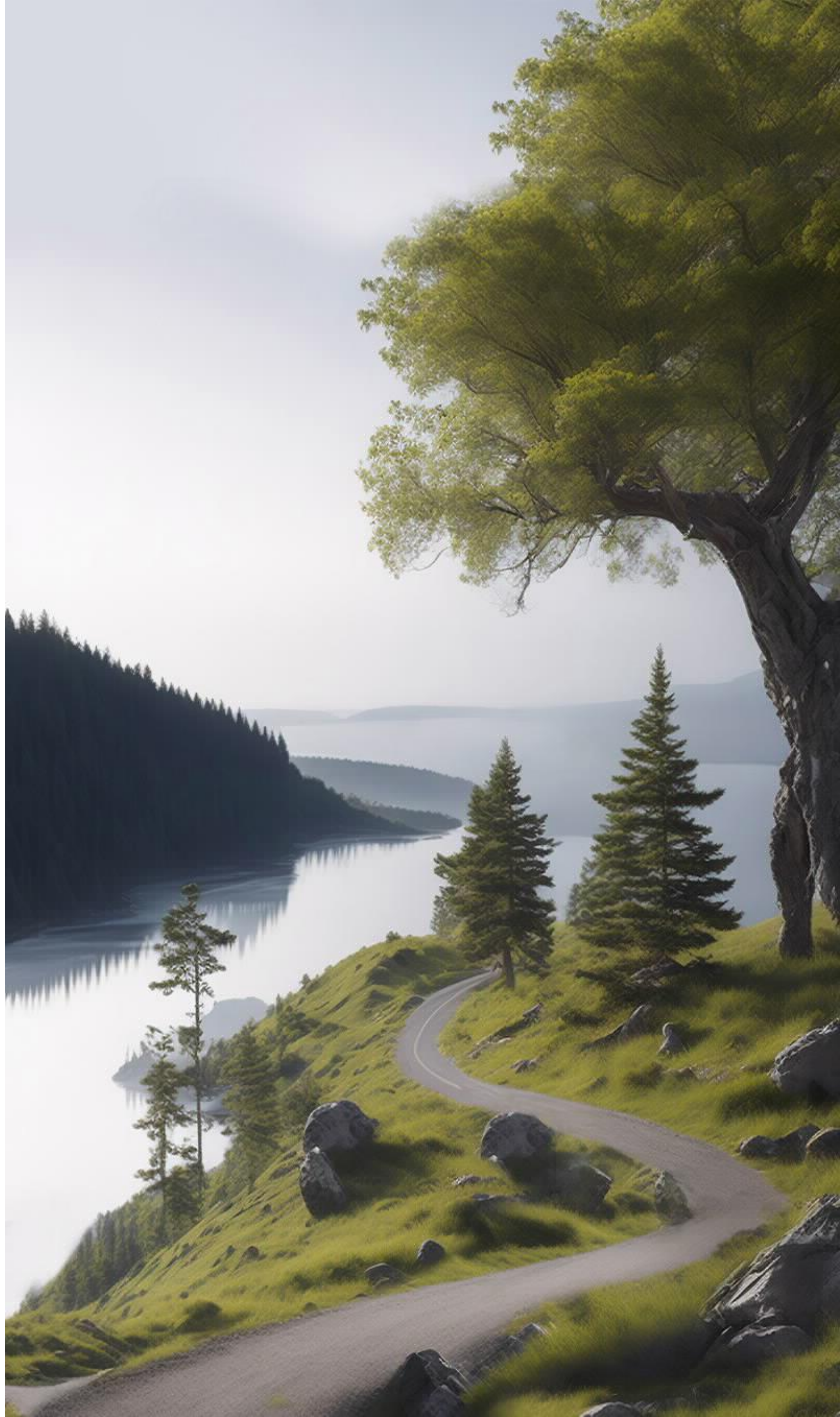
2023-2025

Outlook Presentation
June 1, 2023

Eurasian Development Bank

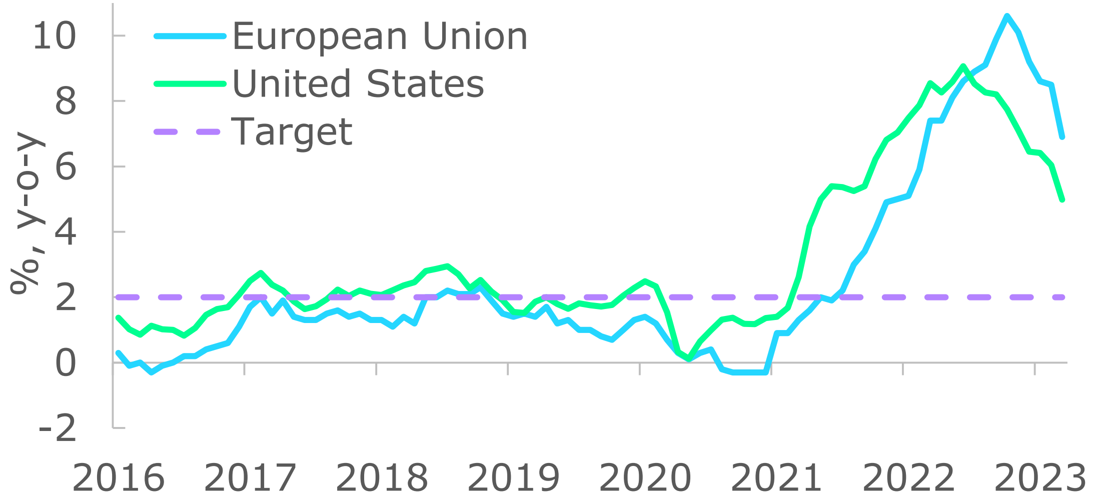
1 Macroeconomic Outlook

External Economic Conditions

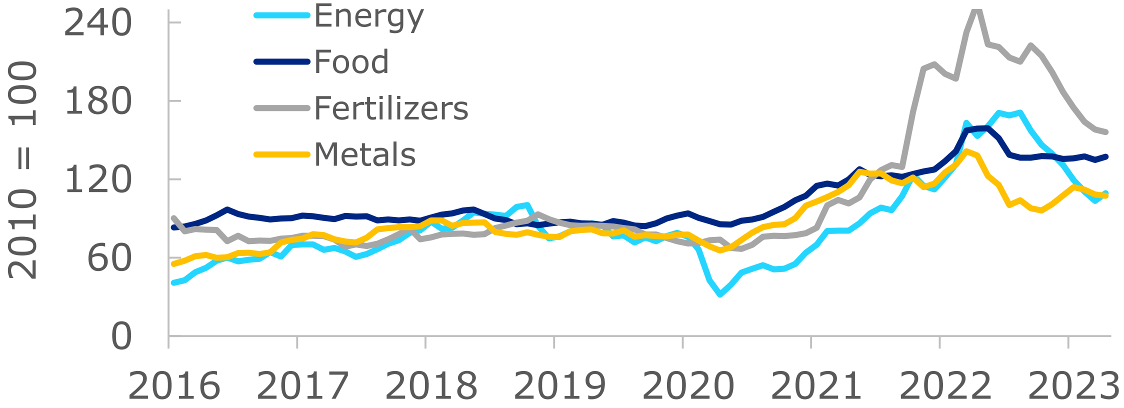


Trend 1
Global inflation is slowing down. Is this dynamic sustainable?

Inflation is slowing down, but still far from the targets



Commodities prices have declined from the previous year’s peak



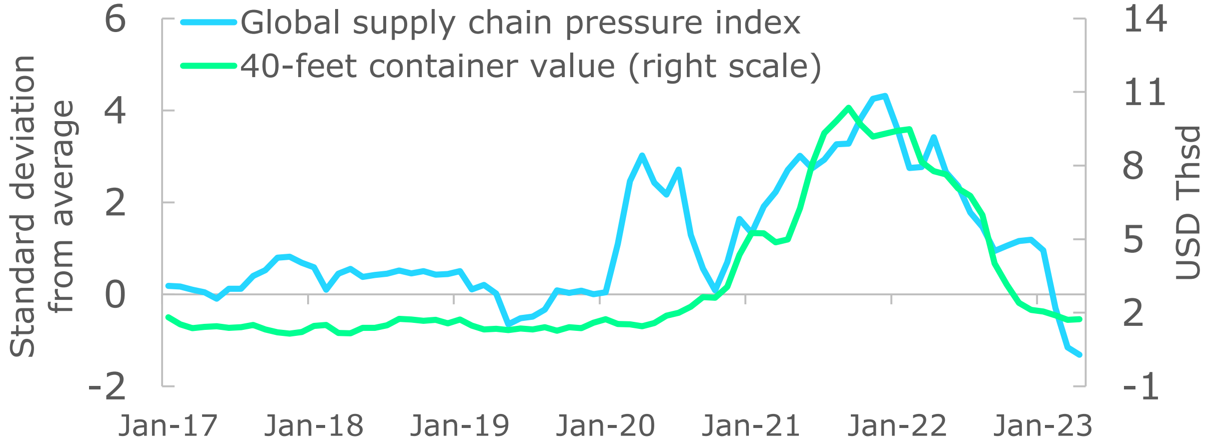
Inflation-reducing factors

- Tightening of monetary policy
- Easing of commodities price pressure
- Decline of transportation costs

Threats

- Overheated labor market
- Fragmentation of global economy
- China’s demand growth

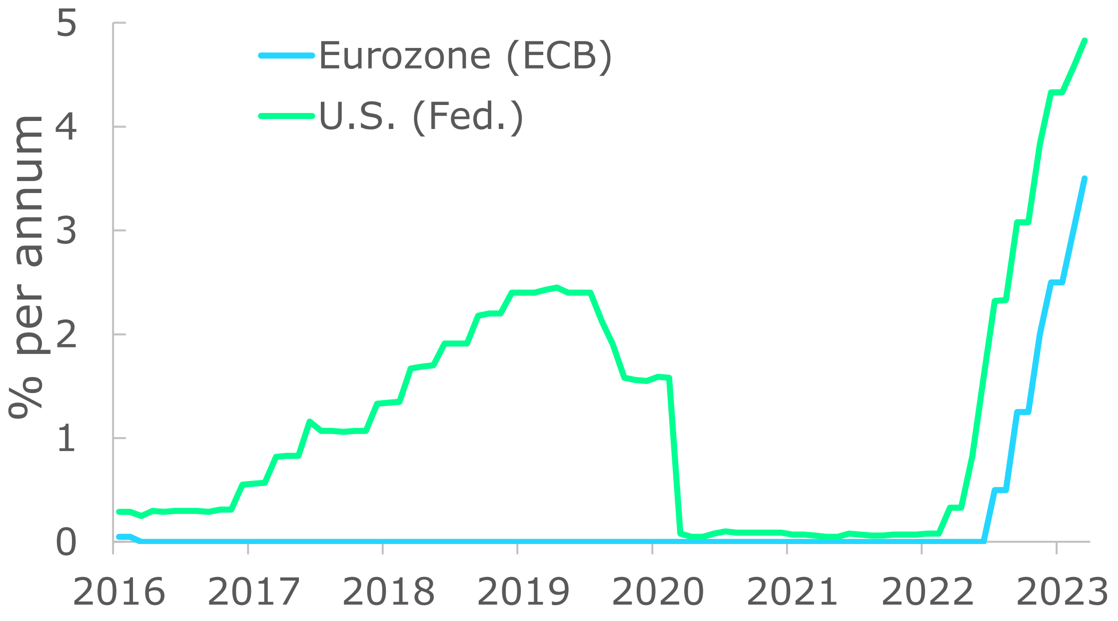
Pressure in supply chains has fallen below the historical average



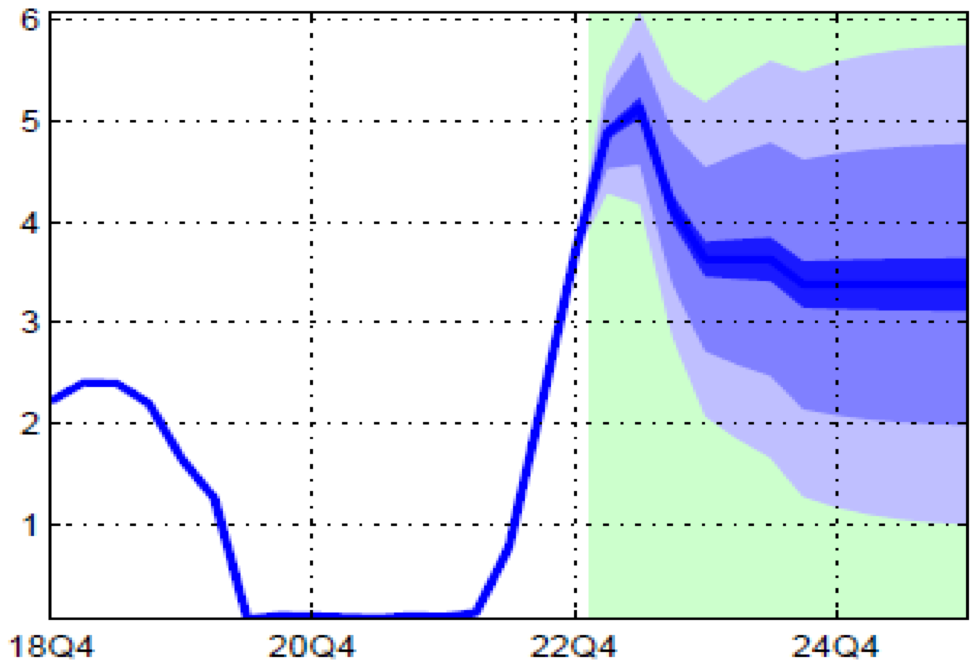
Source: National State Agencies, Eurostat, World Bank, Bloomberg, Drewry, EDB staff estimation

Trend 2
Final phase of monetary tightening cycle

Interest rates are the highest in many years



The Fed shifts to cycle of interest rate cuts in Q3 2023



Threat to financial stability

Concerns about sustainability of the real estate sector, both residential and commercial

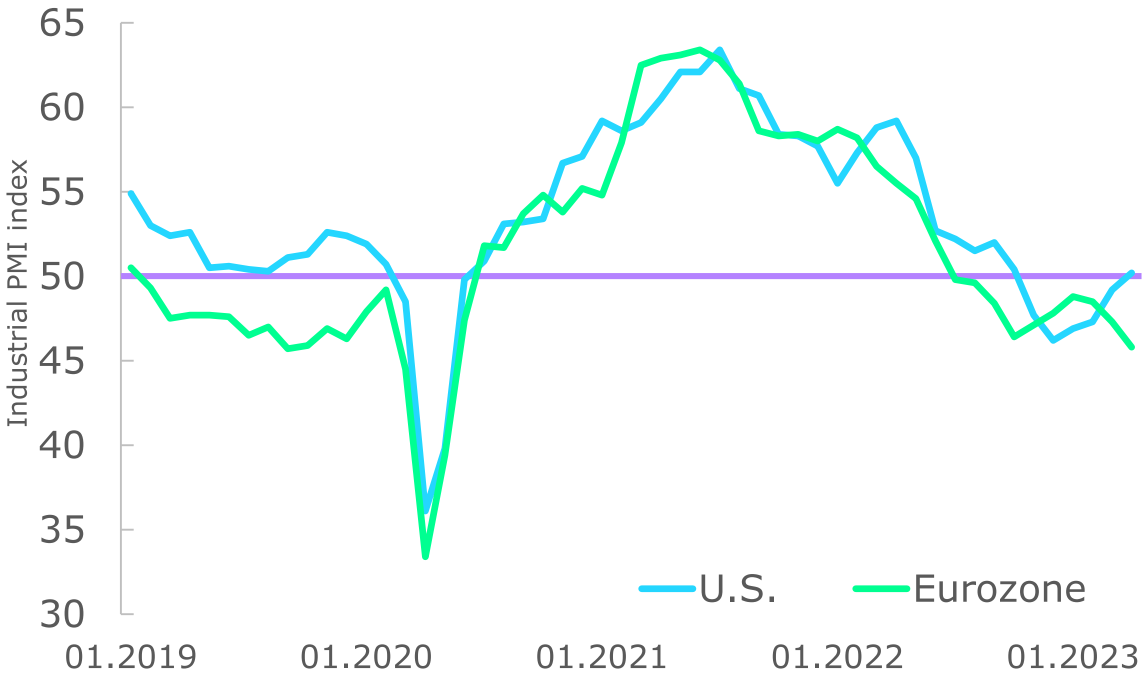
Declining demand for consumption and investment

Interest rate hikes allow the Fed and ECB to reduce inflationary expectations and constrain demand, but **structural drivers of price growth will maintain inflation at elevated levels.**

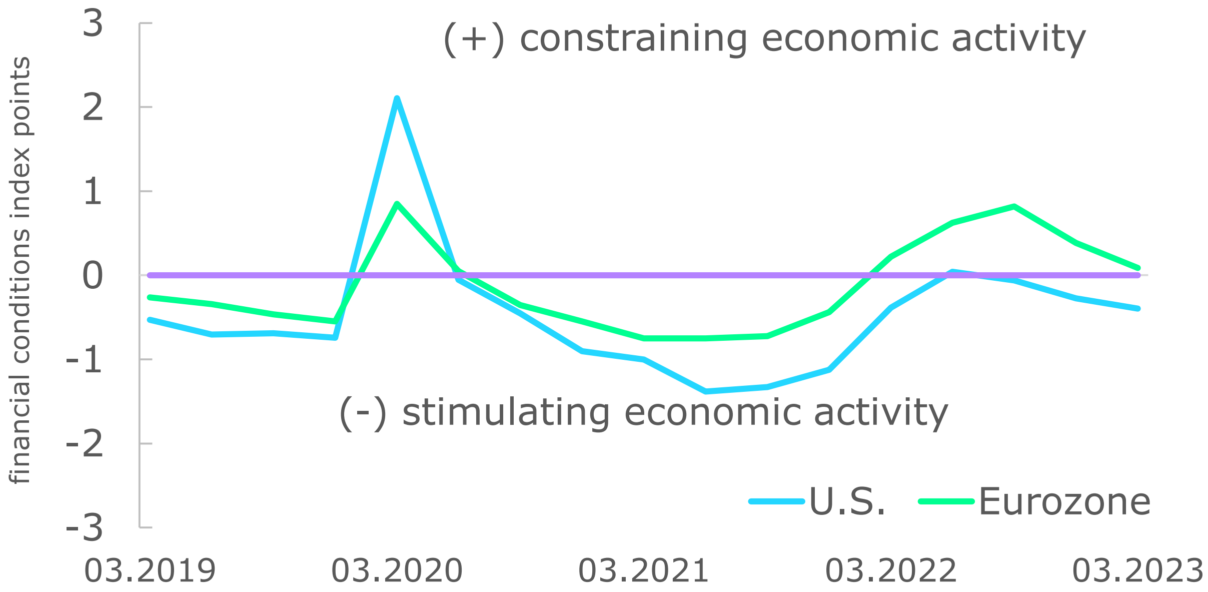
Source: National State Agencies, Eurostat, World Bank, Bloomberg, EDB staff estimation

Trend 2
Weakening of business activity in developed economies

Business activity has declined



Tighter financial conditions overburden businesses and the banking sector



Post-pandemic recovery growth has come to an end.

Weakening of fiscal stimulus.

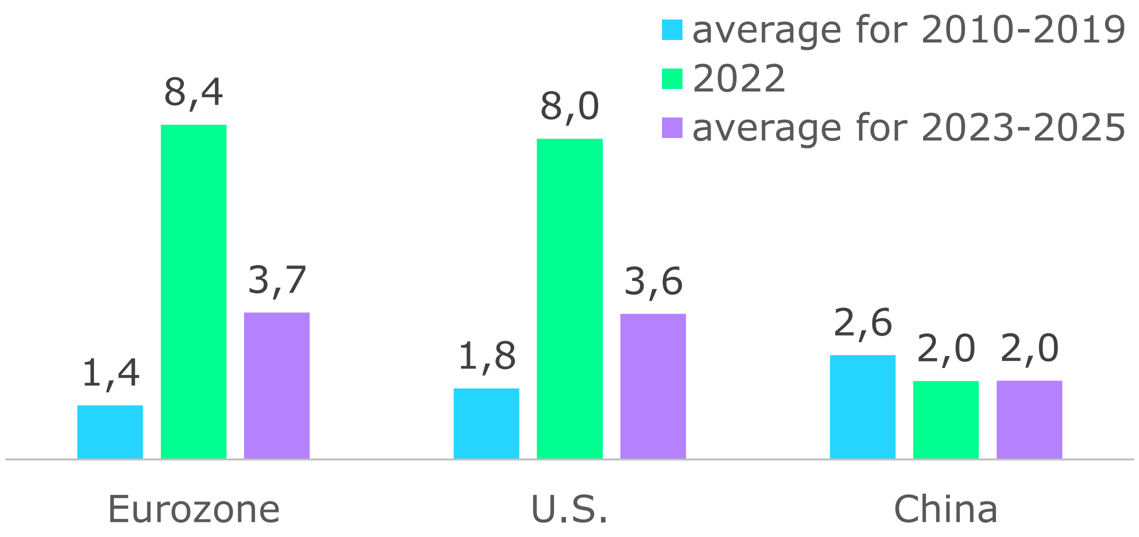
Financial conditions are tight because of interest rate hikes.

Pressure is increasing on business, the banking sector, and households. Demand in the largest economies is slowing down.

Source: Refinitiv, International Monetary Fund, EDB staff estimates

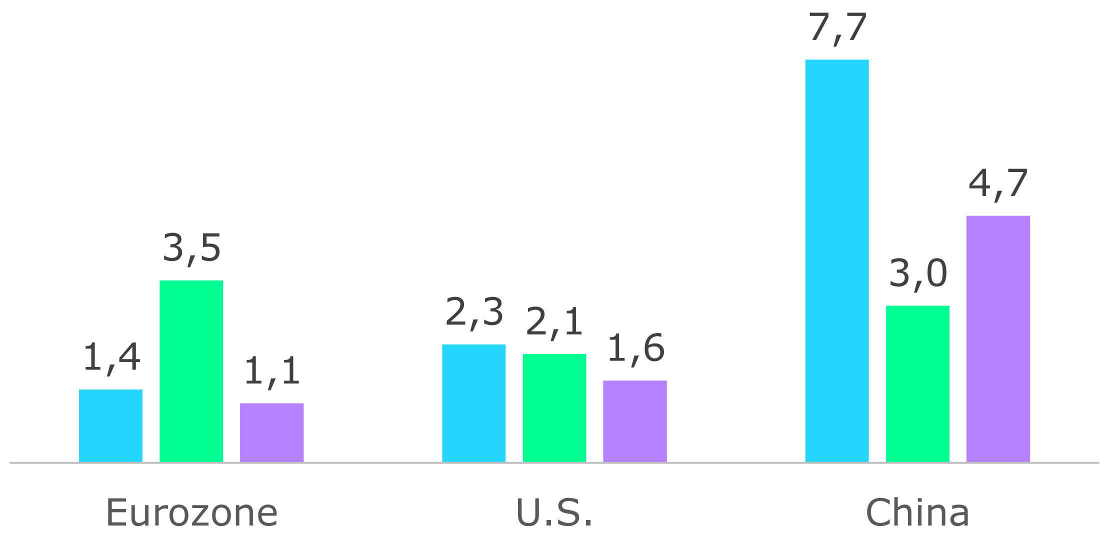
Baseline scenario:
Low economic growth in developed countries accompanied by elevated inflation

Inflation remains elevated during the whole forecast period



Inflationary pressure from changes in the global economic architecture and expected interest rate cuts will prevent U.S. and Eurozone inflation from returning to the 2% target in the medium term.

Weak growth in leading economies as a result of the fight against inflation



Recession is possible in certain quarters of 2023–2024.

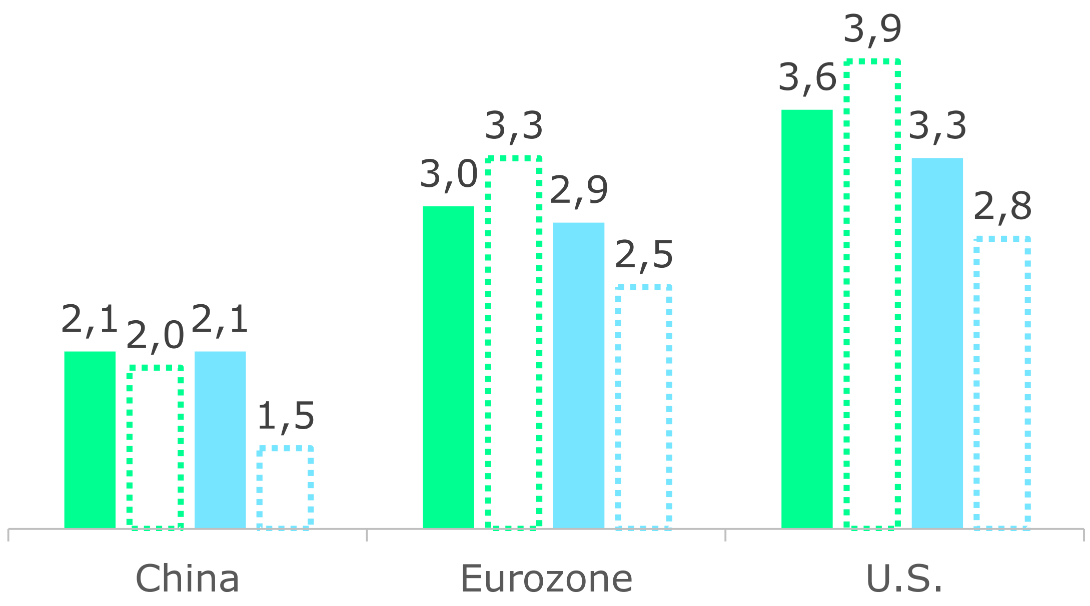
Recovery growth as of the second half of 2024 because of monetary policy easing

Acceleration of China's GDP growth to 5.6% in 2023 as strict quarantine policy is abandoned

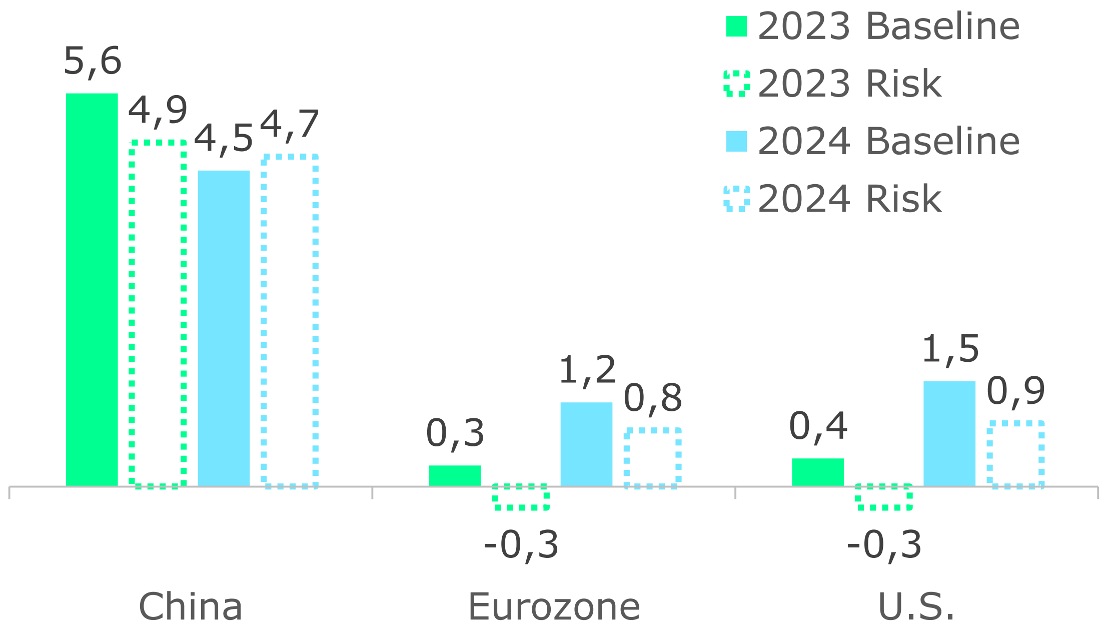
Source: National State Agencies, EDB staff estimation

Risk scenario
High inflation, high interest rates, recession

Inflation



GDP growth



Increased fragmentation of the global economy will push up labor costs.

More pronounced impact of structural drivers of inflation compared to baseline scenario

Tighter monetary policy (interests rates are 50 b.p. higher than in baseline scenario)

Recession – interest rate hikes continue to depress economy growth.

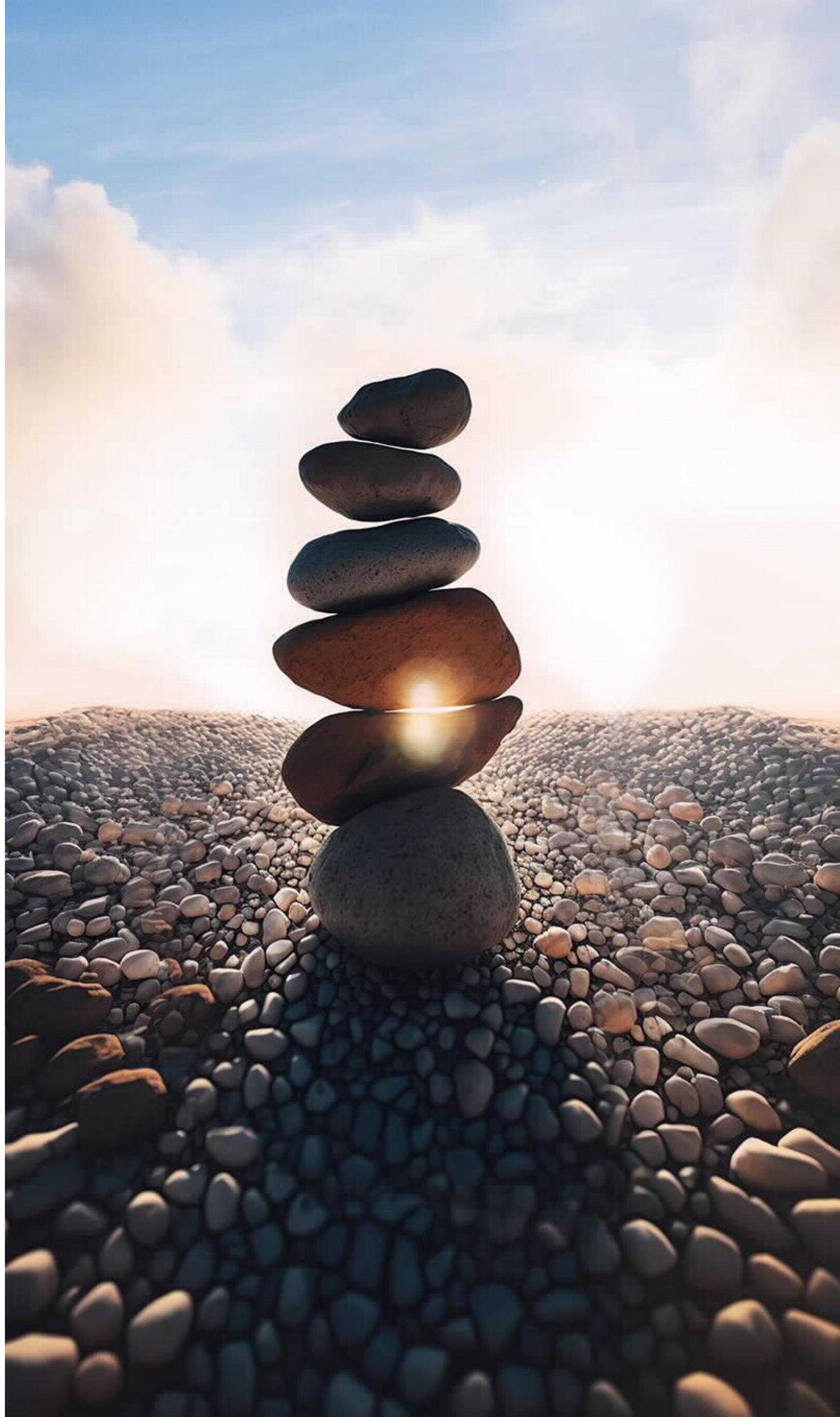
Longer period of tight monetary policy: growth above 1% in U.S. and the Eurozone is expected only in 2025.

Source: EDB staff estimation

Eurasian Development Bank

2 Macroeconomic Outlook

Country Forecasts



Republic of Armenia
Strong economic growth

Economic growth

7.5%

*growth of GDP in **2023***

- ↑ Export growth
- ↑ Expansionary fiscal policy
- ↑ Tourism, capital inflow
- ↑ Construction and exploitation of Amulsar gold mine
- ↓ Stabilization of demand in 2nd half of 2023
- ↓ Weak external demand as world business activity slows

5.1%
Economic growth in **2024**

Inflation

2.5%

*growth of CPI at the end of **2023***

- ↓ Weakening of external price pressure
- ↓ Correction of demand
- ↓ Dram exchange rate overvalued

Prices will rise by
3.2% in **2024**

Inflation within target range in the medium term

Interest rate

9.7%

*refinancing rate in **2023***

Interest rate cuts could start by the end of the second quarter as inflationary pressures ease, demand stabilizes, and inflation is close to the target of CB RA (4 +/-1.5).

Interest rate around
6.4% by the end of **2024**

Dram exchange rate

394

*Armenian Dram per USD **2023***

- ↓ Tourism
- ↓ Remittances inflow
- ↓ Export growth
- ↑ Devaluation expectations
- ↑ Interest rate cut

The Dram will remain overvalued in **2024** – 414 per dollar on average.

Republic of Belarus
Return to a trajectory of potential GDP growth

Economic Growth

2.2%

*GDP growth in **2023***

- Adaptation to restrictions – growth recovery in Russia – increased exports
- Domestic demand recovery
- Supportive monetary policy

≈ 1.0%

*GDP growth in **2023***

Suppressed growth in **2024-2025** due to the imposed restrictions, limited market expansion and technology imports; high uncertainty of business environment

Inflation

7.8%

*CPI growth in **2023***

- Slowdown in price rises in Russia
- Preserving price control
- Logistical restructuring
- Domestic demand

Reduction to **7.0%** in **2025**

Interest Rate

9-10%

*Refinancing rate **2023** end-of-year*

Monetary policy will be oriented to support economic activity.

Interest rate cuts to below **9%** in **2024-2025** if inflation declines

Exchange Rate

2.90

*BYR/USD **2023** average*

External trade surplus decline due to deterioration of term of trade

3.05

*BYR/USD **2024** average*

Real effective exchange rate will be close to equilibrium.

Republic of Kazakhstan
Accelerating GDP growth in 2023

Economic growth

4.3%

*GDP growth in **2023***

- The government's measures to promote entrepreneurship:
  - SME support: +KZT 224 billion (0.2% GDP)
  - nationwide pool of investment projects
- Launch of new facilities at the Tengiz oil field
- Low oil prices

4.4%

GDP growth in **2024-2025**
Increased business activity and expansion of Tengiz oil field

Inflation

7.9%

*CPI growth in **2023***

- Hike in housing and utilities tariffs
- Changes in logistic chains
- Declining world prices
- Monetary policy
- KZT appreciation

Decreasing to **4-5%** in **2024-2025**

Interest rate

≈ 15%

*Base rate at the end of **2023***

In the first half of 2023, the base rate may be kept at 16.75% in order to stabilize inflation expectations.

Base rate cuts could start in the second half of 2023 when the downtrend in inflation becomes stable.

Base rate **11-12%** at the end of 2024

Exchange rate

451

*Kazakh Tenge to USD, **2023** average*

The high base rate will continue to support the attractiveness of Kazakhstan's financial assets.

As the base rate declines, we can expect a reversal in the tenge exchange rate.

Gradual depreciation of the tenge in the medium term

Kyrgyz Republic
Reaching potential growth rates

Economic growth

4.2%

*GDP growth in **2023***

- ↑ Increased exports, easing of restrictions in China
- ↑ Supporting domestic demand with fiscal policies
- ↑ Increase in gold production
- ↓ Waning effects of migration shock

4.1%

Reaching potential growth rates **2024-2025**

Inflation

7.1%

*CPI growth in **2023***

- ↑ Increased electricity tariffs
- ↓ Disruption of logistics chains will ease.
- ↓ Lower world prices
- ↓ Monetary policy

Decline to about **6%** in **2024-2025**

Interest rate

11-12%

*Policy rate at the end of **2023***

We expect the policy rate to start declining in 3Q 2023 as inflation pressures ease.

Inflation expectations are elevated, and this may require the policy rate to be kept above 9% for a longer period of time.

Policy rate about **10%** at the end **2024**

Exchange rate

87.1

*Kyrgyz Som to USD, **2023** average*

- ↓ Growth of exports to EAEU
- ↓ Exchange rate policy of the NBKR
- ↑ Decrease in net inflow of remittances

We expect the Som to weaken in the medium term.

Russian Federation
Active recovery of growth in 2023

Economic growth

1.0%

*GDP growth in **2023***

Adaptation to externally imposed restrictions – restructuring of foreign trade logistics, lower discounts on Russian oil

Fiscal policy

High uncertainty

1.3%

*GDP growth in **2024 and 2025***

In **2024-2025** GDP growth will continue to be constrained by sanctions limiting tech imports and access to foreign markets.

Inflation

6.1%

*CPI growth in **2023***

Supply chain disruptions sorted out, large 2022 harvest

Inflation expectations decreasing

Ruble depreciation

Fiscal easing

Rising wages

Slowing down to

4.9% in **2024**

4.0% in **2025**

Interest rate

≈7.5%

*Key rate at the end of **2023***

Key rate at 7.5% to keep monetary policy stance neutral and maintain the balance between controlling inflation risks and supporting economic transformation

Key rate cut to **6.5%** in **2025** as inflation slows

Exchange rate

77.4

*Ruble per USD, **2023** average*

Weakening in comparison with 2022 due to reduction in current account surplus

79.5

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

80.6

*Ruble per USD, **2025** average*

.

Republic of Tajikistan
High GDP growth in the medium term

Economic growth

7.9%

*GDP growth in **2023***

- Capacity expansion in key industries (metals, food, energy)
- Development programs (e.g., energy)

5.8% and 6.7%

*GDP growth in **2024 and 2025***

- Rapid population growth, catch-up economic development
- Lower remittance inflows

Inflation

6.6%

*CPI growth in **2023***

- Interest rate cuts in late 2022 and early 2023
- Global commodity prices decrease
- Somoni weakening

6.2% in 2025

National bank policy and lower global commodity prices

Interest rate

≈10%

*Refinancing rate at the end of **2023***

Need to keep inflation risks at bay

Inflation stabilization at the middle of the target interval (6±2%) will set the stage for further interest rate cuts.

Refinancing rate **9-10% in 2025** with inflation within National Bank targets

Exchange rate

10.8

*Somoni per USD, **2023** average*

- Remittance inflow decreases
- Inflation higher than in trading partner countries

11.0 Somoni per USD on the average **in 2024**

11.3 in 2025

Gradual weakening of the 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)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Armenia	7.5	5.1	5.4	2.5	3.2	3.5	394	414	422
Belarus	2.2	1.1	1.0	7.8	8.2	7.2	2.90	3.05	3.17
Kazakhstan	4.3	4.4	4.4	7.9	5.5	4.1	451	465	472
Kyrgyz Republic	4.2	4.1	3.6	7.1	6.3	6.3	87.1	88.8	91.8
Russia	1.0	1.3	1.3	6.1	4.9	4.0	77.4	79.5	80.6
Tajikistan	7.9	5.8	6.7	6.6	5.6	6.2	10.8	11.0	11.3

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

Sources: calculations by EDB analysts