



Eurasian
Development Bank

MACROECONOMIC FORECASTS 2025–2027



December 2024



MACROECONOMIC OUTLOOK

DECEMBER 2024

2024

The GDP growth estimate for the Bank's region of operations is revised upwards to 4.2% y-o-y.



GDP growth in 2024

Mixed consumer price developments in the region

7.9%

Aggregate inflation in the region at the end of 2024

An increase in the CB RF key rate and a pause in the NB RK base rate reduction cycle

23%

Key rate in Russia at the end of 2024

> 15%

Base rate in Kazakhstan at the end of 2024

2025

Continued high rates of economic growth



GDP growth in 2025

Accelerating economic growth



GDP growth in 2025

Inflation gradually approaching targets

6.4%

Aggregate inflation in the region at the end of 2025

Start of CB RF key rate cuts and continued NB RK base rate reduction cycle

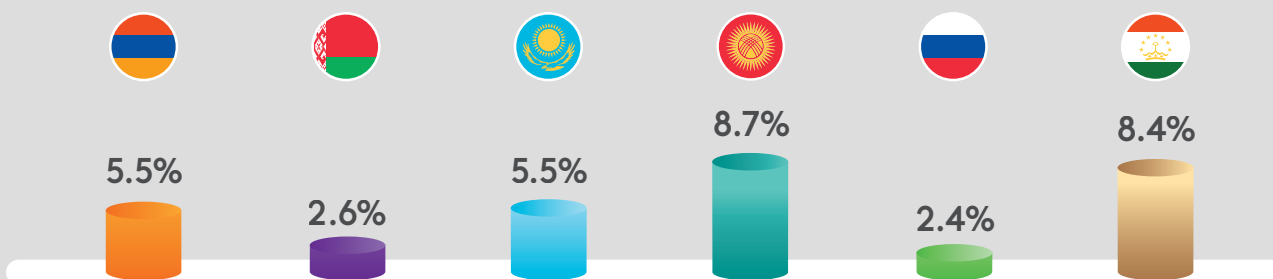
19%

Key rate in Russia at the end of 2025

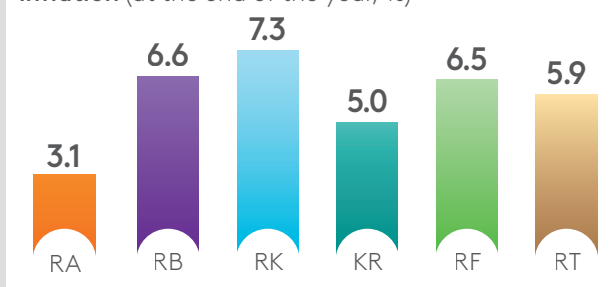
11.25%

Base rate in Kazakhstan at the end of 2025

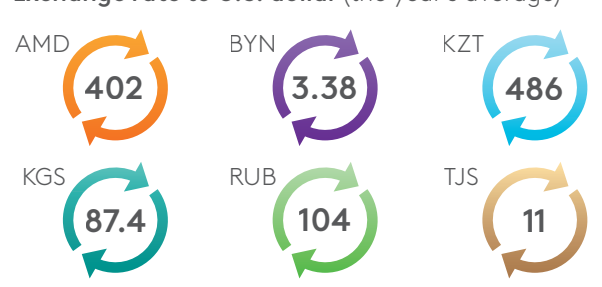
GDP growth in 2025



Inflation (at the end of the year, %)



Exchange rate to U.S. dollar (the year's average)



Vinokurov, E., Kuznetsov, A., Sobolevskaya, M., Berdigulova, A., Fedorov, K., Dolgovechny, A., Babajanyan, V. (2024) *Macroeconomic Forecasts 2025–2027. December 2024*. Moscow: Eurasian Development Bank.

Authors

Evgeny Vinokurov, Chief Economist, EDB, vinokurov_ey@eabr.org

Alexey Kuznetsov, Head of Research Department kuznetsov_as@eabr.org

Marina Sobolevskaya, Head of the Centre for Country Analysis, Research Department, melikhova_MV@eabr.org

Aigul Berdigulova, Senior Analyst, Centre for Country Analysis, Research Department, berdigulova_ar@eabr.org

Konstantin Fedorov, Senior Analyst, Centre for Country Analysis, Research Department, fedorov_ks@eabr.org

Anton Dolgovechny, Senior Analyst, Centre for Country Analysis, Research Department, dolgovechny_ap@eabr.org

The document includes a detailed description of current domestic and external macroeconomic conditions, as well as harmonised forecasts. The analysis takes into account the existing interrelationships between the economies of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and the main trading partner countries. The macroeconomic forecasts are prepared by the EDB using an integrated system of models based on a multi-country structural dynamic macroeconomic general equilibrium model. More detailed information on this system is presented in a joint EDB and EEC report (EDB, 2016).

Keywords: economic growth, forecasts, GDP, inflation, exchange rate, demand, monetary policy, budget, interest rate, investment.

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

This document is for information purposes only and cannot be regarded as a recommendation to buy or sell financial instruments. Neither the information contained in this document nor any other information relating to the subject matter of this document that may be disseminated in the future may be used as the basis for any contract. Whilst every care has been taken in the preparation of this document, no analyst, director, officer, employee or counterparty of EDB makes any warranty or representation, express or implied, or accepts any liability whatsoever as to the reliability, accuracy or completeness of the information contained in this research document. EDB expressly disclaims responsibility and liability in connection with any information in this document. Any information contained in the paper is subject to change at any time without notice.

Reprinting of the text for non-commercial purposes, in whole or in parts, including large fragments, and posting of the text on external electronic resources is permitted with obligatory reference to the original text.

An electronic version of the document can be found at <https://eabr.org/analytics/ceg-quarterly-reviews>.

© Eurasian Development Bank, 2024

TABLE OF CONTENTS

SUMMARY	5
EDB MEMBER STATES	6
FROM THE CHIEF ECONOMIST	7
REPUBLIC OF ARMENIA	17
Current situation	18
Forecasts	20
Risks	22
REPUBLIC OF BELARUS	23
Current situation	24
Forecasts	26
Risks	28
REPUBLIC OF KAZAKHSTAN	29
Current situation	30
Forecasts	32
Risks	34
KYRGYZ REPUBLIC	35
Current situation	36
Forecasts	38
Risks	39
RUSSIAN FEDERATION	41
Current situation	42
Forecasts	44
Risks	47
REPUBLIC OF TAJIKISTAN	49
Current situation	50
Forecasts	52
Risks	54
LIST OF SOURCES	55
LIST OF ABBREVIATIONS	56
GLOSSARY	57

SUMMARY

The global economy is entering a slowdown phase. Despite the end of the period of high interest rates, structural factors will constrain economic gains. Lower productivity growth rates, weakening foreign trade as a driver of economic growth, increasing fragmentation and unfavourable demographic trends will be the key reasons slowing down global economic activity. We forecast the US economy to slow its growth to 1.6% in 2025, the Eurozone economy to recover to around 1.1%, and China's economy to accelerate to 5% on the back of a stimulative fiscal policy and lower interest rates. Inflation in advanced economies has slowed, but price growth will remain elevated due to rising costs caused by the fragmentation of the global economy and continued pressure from a tight labour market. Leading central banks have begun a cycle of rate cuts, but risks of accelerating inflation remain high. This will make regulators cautious about cutting rates, which will remain above the average levels of the past decade.

The EDB region's GDP growth of 4.2% in 2024 will be the highest since 2012, excluding the period of recovery from the coronavirus pandemic. We have [raised](#) our 2024 economic growth forecast for the region by 0.8 p.p., and it is ahead of the global rate (3.2%). Expanding domestic demand, supported by the countries' stimulative fiscal policy, together with improving export opportunities have fuelled strong growth in the region's economies. We expect GDP growth in 2024 to be: 6.0% in Armenia, 4.3% in Belarus, 4.5% in Kazakhstan, 9.4% in Kyrgyzstan, 4.1% in Russia and 8.4% in Tajikistan.

In 2025, the region's economy will grow by 2.9%. Domestic sources of growth will remain the key drivers of economic gains. Kazakhstan's economic growth rate will steadily increase to 5.5% due to the launch of a new investment cycle. Budget stimulus will support domestic demand growth in Russia, where the economy will expand by 2.4% YoY. Growing demand from Russia and strong consumer activity will create conditions for Belarus' economy to expand by 2.6%. High growth rates will continue in Armenia (5.5%), Kyrgyzstan (8.7%) and Tajikistan (8.4%) due to investment projects and increased exports.

Inflation in the EDB region will be around 6.4% for 2025. The inflation picture across countries remains mixed: in Armenia, and Tajikistan price growth is below the target ranges, in the Kyrgyz Republic in May-October 2024 it was below target, while in Belarus it remains within the target corridor, and in Russia and Kazakhstan it remains above target. We forecast a gradual movement of inflation towards the target levels in 2025. Against the background of continuing high interest rates, inflation will start to slow down to 6.5% in Russia and 7.3% in Kazakhstan. In Armenia, inflation will rise towards the boundaries of the target range at 3.1%. Price growth in Tajikistan will return to the target range and in the Kyrgyz Republic it will stabilise within its boundaries. At the end of 2025, inflation in Kyrgyzstan will reach 5.0%, while in Tajikistan it will reach 5.8%. Price growth in Belarus will moderately accelerate to 6.6%.

EDB MEMBER STATES

↓ Table 1. EDB Forecasts. Main macroeconomic indicators of the Bank's member states (*baseline scenario*)
% growth year on year unless otherwise stated

Indicator	2023	2024 F	2025 F	2026 F	2027 F
Republic of Armenia					
GDP in constant prices	8.3	6.0	5.5	5.3	5.0
Inflation (<i>at the end of the period</i>)	-0.6	1.8	3.1	3.0	2.5
IBL rate (<i>the year's average</i>), %	10.4	8.3	7.0	6.8	6.0
Armenian dram to U.S. dollar exchange rate (<i>the year's average</i>)	393	392	402	405	407
Republic of Belarus					
GDP in constant prices	3.9	4.3	2.6	1.9	1.5
Inflation (<i>at the end of the period</i>)	5.8	5.9	6.6	7.9	7.4
Refinancing rate (<i>the year's average</i>), %	9.5	9.5	9.5	9.5	9.5
Belarusian rouble to U.S. dollar exchange rate (<i>the year's average</i>)	3.00	3.25	3.38	3.57	3.81
Republic of Kazakhstan					
GDP in constant prices	5.1	4.5	5.5	5.5	5.5
Inflation (<i>at the end of the period</i>)	9.8	8.5	7.3	5.6	5.1
TONIA rate (<i>the year's average</i>), %	16.4	14.0	12.3	9.5	8.0
Kazakhstan's tenge to U.S. dollar exchange rate (<i>the year's average</i>)	456.3	466	486	492	503
Kyrgyz Republic					
GDP in constant prices	9.0	9.4	8.7	6.4	5.6
Inflation (<i>at the end of the period</i>)	7.3	5.6	5.0	5.5	6.3
7-day Repo rate (<i>the year's average</i>), %	11.4	7.6	5.2	7.1	9.0
Kyrgyzstan's som to U.S. dollar exchange rate (<i>the year's average</i>)	87.9	87.1	87.4	89.7	93.1
Russian Federation					
GDP in constant prices	3.6	4.1	2.4	1.7	1.5
Inflation (<i>at the end of the period</i>)	7.4	8.5	6.5	5.6	4.5
Key rate (<i>the year's average</i>), %	9.9	17.5	21.1	15.5	11.5
Russian rouble to U.S. dollar exchange rate (<i>the year's average</i>)	85.2	92.5	104	106	109
Republic of Tajikistan					
GDP in constant prices	8.3	8.4	8.4	8.0	7.4
Inflation (<i>at the end of the period</i>)	3.9	3.9	5.9	6.7	6.8
Refinancing rate (<i>the year's average</i>), %	10.5	9.2	9.2	9.9	10.6
Tajikistan's somoni to U.S. dollar exchange rate (<i>the year's average</i>)	10.8	10.8	11.0	11.5	12.1

Note: here and in the rest of the tables F = forecast

Sources: national agencies of EDB member states, EDB analysts' calculations.

FROM THE CHIEF ECONOMIST

WORLD ECONOMY: CURRENT SITUATION, FORECASTS AND IMPACT ON THE EDB REGION OF OPERATIONS

The growth rate of the global economy will slow down, as evidenced by leading indicators. The Global Composite PMI fell to 52 p. in September, its lowest level for eight months, albeit recovering slightly in October to 52.3 p. The Conference Board Leading [Economic](#) Index for the US as well as that for the Eurozone are also steadily declining, having reached their lowest levels in eight and ten years, respectively.

Leading central banks are cutting interest rates amid slowing inflation and risks of a significant weakening of economic activity. The cycle of rate cuts will continue in 2025, but regulators will be cautious about easing monetary policy as **risks of accelerating inflation** persist. In the US and the Eurozone, interest rates in 2025–2027 will remain above the 2010–2019 averages. Nevertheless, central bank policies will have a positive impact on economic growth.

Structural factors linked to the increasing fragmentation of the global economy, demographic processes and changes in people's preferences (both in terms of consumption patterns and labour supply) **also have a negative impact on the growth rate of the global economy.**

Box 1. Structural factors of the global economic slowdown

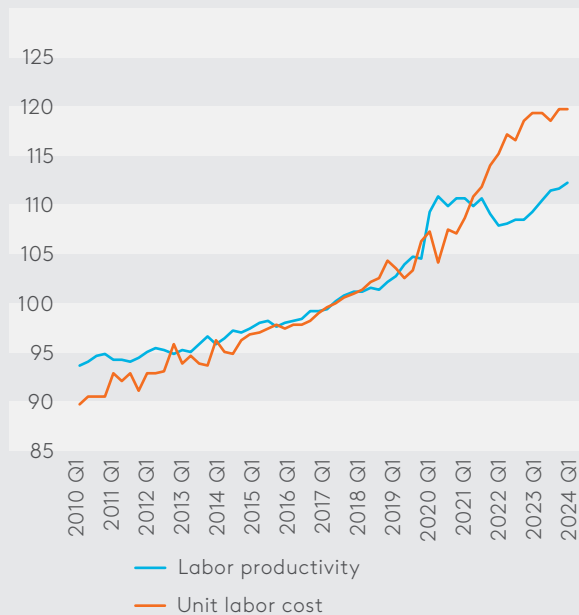
The slowdown in productivity growth against the background of increasing labour remuneration ([Figure 1](#)) **restrains economic growth.** The coronavirus pandemic had a notable negative impact on productivity. During that period, companies raised wages despite production cuts in order to retain staff, even at the expense of investment and innovation spending.

The efficiency of labour resource allocation is decreasing. This is explained, among other factors, by demographic processes: an ageing population and decreasing labour supply ([EDB, 2024c](#)). We also observe a **shift of labour resources to low-productivity sectors of the economy**, such as trade, tourism and hospitality, catering and others. In the US, the service sector has accounted for 90 per cent of employment growth over the past three years, with medical and social services, hospitality and government services accounting for more than 60 per cent. At the same time, industrial production accounted for only 5% of employment growth. In the EU, industrial employment fell by 2.6%, or 0.9 million jobs, over 2019–2023, with total employment growth of more than 1%.

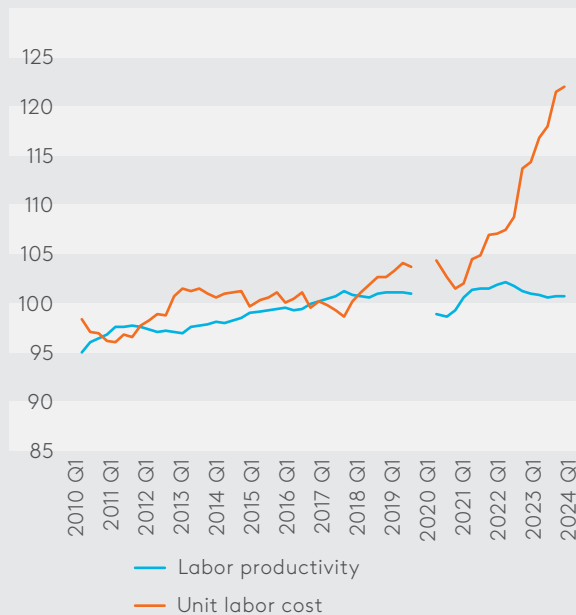
Labour productivity growth rates are also declining in emerging economies (Figure 2). However, their growth remains markedly more pronounced than in developed economies, as demographic trends and changing consumption patterns (in favour of the services sector) have not yet fully developed. This creates a window of opportunity for accelerated industrialisation in a number of countries, including Central Asian countries in the EDB region.

↓ **Figure 1: Productivity and labour costs (2017Q1 = 100)**

1.1 U.S.



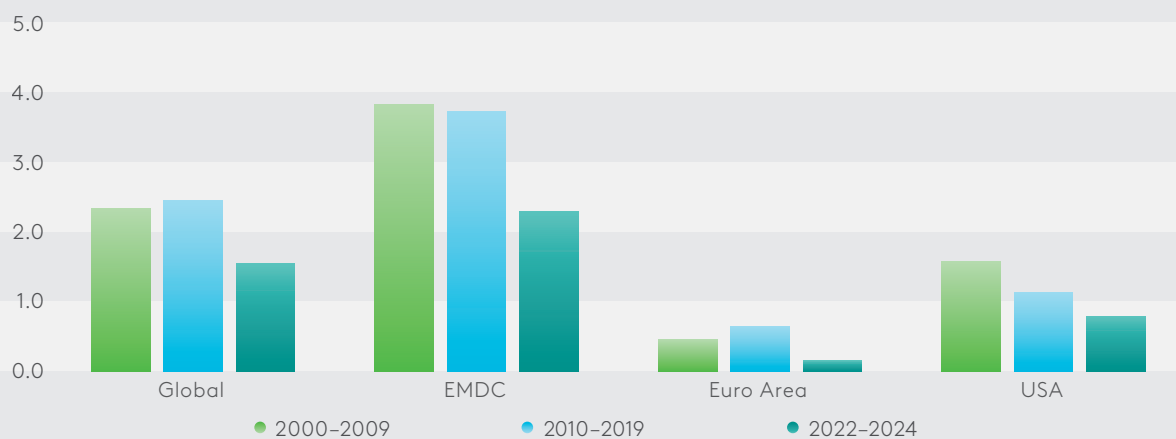
1.2 Eurozone



Source: calculations based on U.S. Bureau of Labor Statistics data.

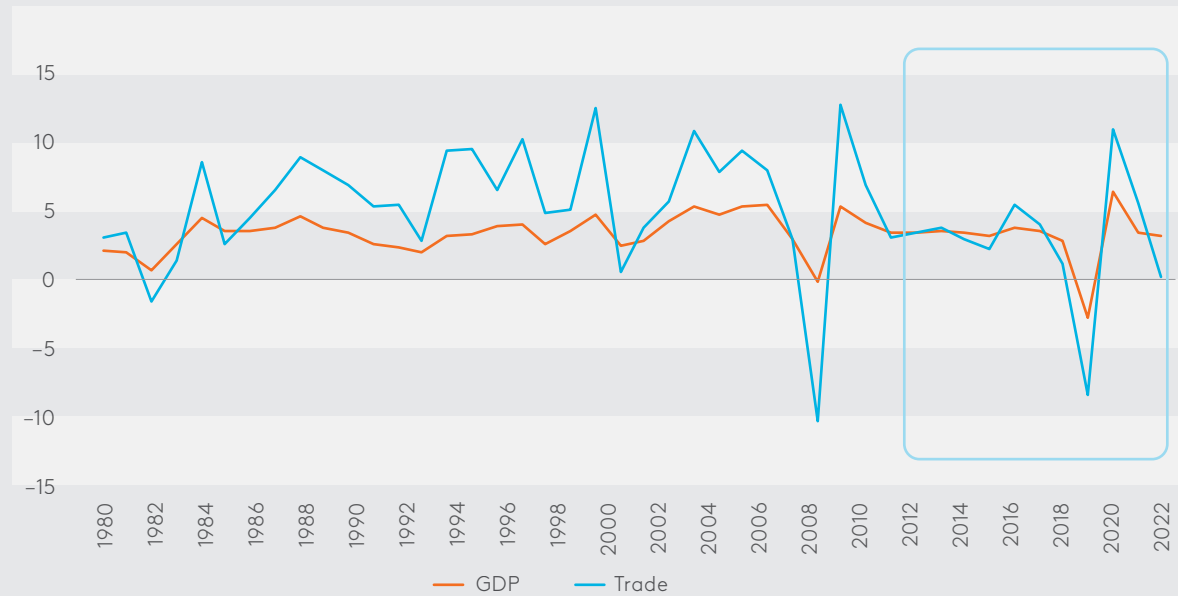
Source: calculations based on ECB data

↓ **Figure 2: Labour productivity growth, average % for the period**



Sources: OECD, EDB analysts' calculations.

↓ Figure 3: Growth of world trade and world GDP, %



Note: the graph shows the real growth rate of the indicators.

Source: IMF.

Despite the influence of common structural factors, the performance of the world's economies will be mixed.

The US economy has maintained high growth rates in 2024 (Table 2). According to our estimates, GDP will grow by 2.8% this year (growth in 2023 was 2.9%). The main driver of economic growth is consumer spending, supported by rising wages against the backdrop of an overheated labour market. However, signs of a slowdown in economic activity are already appearing, and this could affect growth rates as early as next year. Industrial production has been in decline since mid-2024 (minus 0.3% YoY in October). The leading indicators are not encouraging: the PMI for industry has been in the negative zone since March, falling to 46.5 p. in October — the lowest for this year. The GDP performance also suggests that the economy is gradually cooling: after peaking at 3% YoY in Q2, growth slowed to 2.4% YoY in Q3, and we expect the trend to continue until the end of the year.

We forecast a further slowdown of the US economy to 1.6% in 2025 (Table 2). Consumer spending will decline, as evidenced by a drop in the [consumer confidence index](#), primarily due to a worsening assessment of the current state of the economy. Public debt service costs have increased significantly (to 3.2% of GDP in this fiscal year), and it is logical to expect a reduction in the fiscal stimulus to stabilise the budget deficit, which could have a negative impact on economic development.

The Eurozone economy has maintained low growth rates (Table 2). According to our estimates, GDP will grow by 0.7% this year. The services sector remains the growth driver: the PMI remains firmly above the neutral level, reaching 51.6 p. in October 2024.

Industrial production has been steadily contracting throughout 2024. In September, its decline was 2.8% YoY. Industrial PMI remains well below the neutral level of mid-2022, coming in at 45.2 p. in November 2024.

Germany, the most industrialised economy in the Eurozone, has failed to achieve positive GDP growth for the fifth consecutive quarter. Labour costs are outpacing productivity growth, and this is one of the main reasons for the low growth of industry and the Eurozone economy as a whole. The drop in the efficiency of energy-intensive industries against the background of high energy prices has led to a reduction in output and, often, to the closure of some enterprises (examples: chemicals producer BASF in Germany and zinc producer Nurstar in the Netherlands). As these companies have higher productivity levels than the average for the economy, the fall in their output has also markedly reduced the overall performance of the Eurozone (ABN-Ambro, 2024). At the same time, however, the increase in wages and salaries against the backdrop of falling interest rates has contributed to an improvement in consumer sentiment and a return to growth in retail consumption. This is confirmed by the gradual recovery of economic activity. The GDP growth rate reached 0.9% YoY in Q3 after 0.6% YoY in Q2 and 0.5% YoY in Q1.

The recovery of economic activity in the Eurozone will continue (Table 2). We forecast GDP growth of 1.1% in 2025. The gradual reduction of interest rates will create conditions for the expansion of consumer demand. In addition, lower energy prices will be a positive factor for industrial recovery and will give impetus to economic growth in the Eurozone.

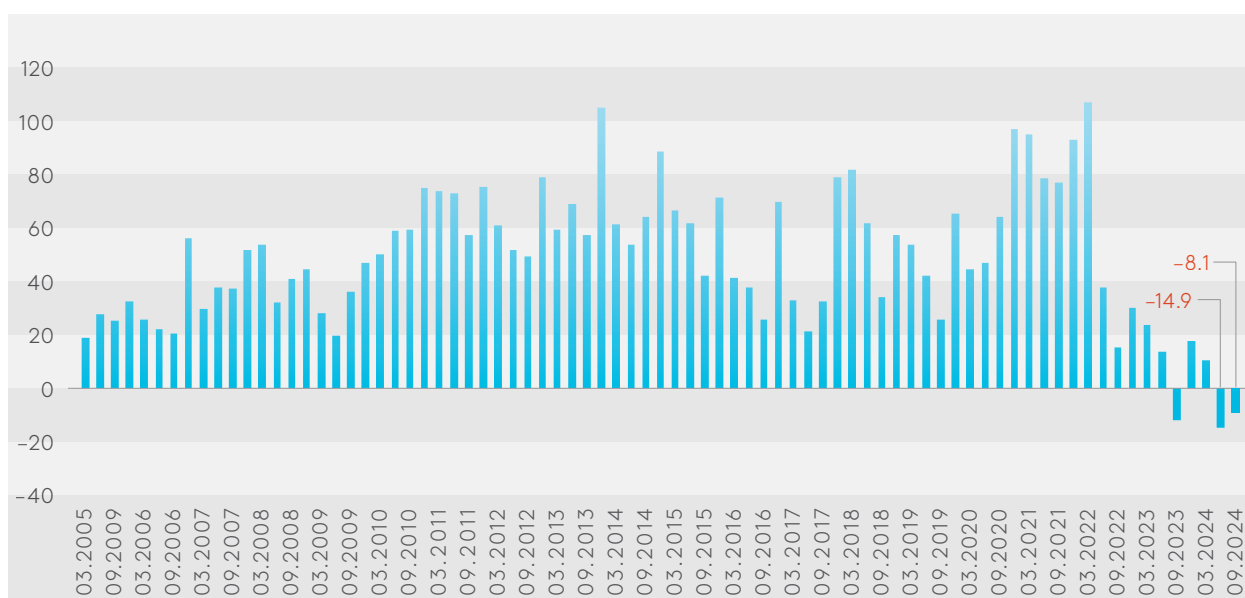
Large emerging economies are showing a strong performance. In particular, India's GDP grew by 6.7% YoY in Q2 2024 after 7.8% YoY growth in Q1. At the same time, leading indicators show a further expansion of business activity in India: the aggregate PMI in November totalled 59.5 p., which is close to the historical highs over the last 14 years. The country's economic growth is benefiting from the ongoing realignment of international trade flows as well as domestic structural reforms. In Brazil, another major emerging economy, GDP growth accelerated to 3.3% YoY in Q2 after 2.5% YoY in Q1 on the back of a key rate cut at the start of the year. The fact that economic activity continues to grow is evidenced by the services and manufacturing PMIs, which have been consistently above neutral since the start of the year. In addition, the leading composite indicator has been growing steadily since March 2023, indicating an expansion of economic activity.

The Chinese economy has slowed down somewhat, but maintains impressive growth rates (Table 2). The country's GDP grew by 4.6% YoY in Q3 2024 — after 4.7% YoY in Q2 and 5.3% YoY in Q1. The composite PMI stood at 51.9 p. in October, up for the first time in six months. Nevertheless, risks of a slowdown in growth this year remain. Weak consumer demand and structural problems in the construction sector are still holding back the economy, preventing it from crossing the 5% threshold. Retail sales growth has lagged behind economic growth for most of 2024. This trend was

interrupted only in October, when retail sales **rose** by 4.8% YoY under the influence of the authorities' stimulus policy. At the same time, the consumer confidence indicator is not only below the neutral level (100 p.), but also continues to decline, **coming** close to its historical minimum level (November 2022, 85.5 p.). Low demand is also affecting the construction sector, with construction output **declining** since 2022. The high debt burden of the construction sector amid declining new home prices remains an unresolved problem for the Chinese economy. We estimate that China's GDP will grow by 4.8% in 2024.

China's economy is still driven by exports. Therefore, **a shift in economic policy towards domestic consumption will require structural reforms**, which could have a dampening effect on growth in the medium term. The severity of the challenges facing China's economy is evidenced by the decline in foreign direct investment (FDI) inflows into the country to an all-time low (see [Figure 4](#)).

↓ **Figure 4: China: gross FDI inflows**



Sources: IMF, State Administration of Foreign Exchange (SAFE).

Against the backdrop of risks of economic slowdown, **the Chinese authorities have taken a number of stimulus measures**. The People's Bank of China cut interest rates in September 2024, and the Ministry of Finance has prepared a plan for additional budget spending, which should amount to about **10 trillion yuan** (\$1.4 trillion), for the next few years. This will have a positive impact on economic activity — in terms of both new investment and consumption. We expect Chinese growth to accelerate, but the main economic impact is likely to come next year. We forecast GDP growth of 5% in 2025.

Inflation has slowed down significantly in developed countries, but it is premature to talk about defeating it. In the US, the growth rate of consumer prices decreased to 2.6% YoY in October 2024, largely due to the decline in energy prices (by 4.9% YoY).

At the same time, growth in prices for services remains high. Core inflation¹ is falling more slowly and erratically, from 3.9% YoY in January to 3.3% YoY in October, remaining well above target. In the Eurozone, inflation fell to 2% YoY in October 2024 after 2.8% YoY at the start of the year. Lower energy prices (down 4.6% YoY) and low growth in non-energy prices (0.5% YoY) were also key drivers. However, food (2.9% YoY) and services (4.0% YoY) remain above 2% YoY. Meanwhile, the sustainable part of inflation, after a significant decline in Q1, remains at around 2.7% YoY. Continued wage increases and strong labour demand in the services sector also complicate the disinflation process. Thus, it is not yet possible to claim that inflation is fully under control.

On the horizon for 2025–2027, inflation in the US and the Eurozone will remain above the targets (Table 2). The stability of core inflation, growth of wages and producers' costs against the background of fragmentation of the global economy will support higher price growth. At the same time, the risks of inflation acceleration in the context of declining interest rates remain high.

US and Eurozone central banks will continue the cycle of interest rate cuts. The expected cooling of the US economy and subdued growth in the Eurozone against the background of relatively low inflation create conditions for further easing of monetary policy. Nevertheless, the risks of inflation reversal remain, which requires a cautious approach on the part of regulators when cutting interest rates. We expect interest rates to remain above the average levels of the past decade (Table 2).

↓ Table 2. Forecasts of the main international trade indicators (baseline scenario)

Indicator	2023	2024F	2025F	2026F	2027F
Oil price (\$/bbl annual average)					
Brent	83	81	75	74	73
Urals	62.8	69	67	65	65
GDP growth (%)					
U.S.	2.9	2.8	1.6	1.1	1.5
Eurozone	0.5	0.7	1.1	1.4	1.3
China	5.2	4.8	5.0	4.1	4.0
Inflation (% , the year's average)					
U.S.	4.1	2.9	2.6	2.5	2.3
Eurozone	5.5	2.4	2.3	2.3	2.1
Key interest rates (% , the year's average)					
Fed	5.0	5.2	4.2	3.4	2.8
ECB	3.9	4.0	2.9	2.5	2.5

Sources: 2023–2024. — data from IMF, World Bank, US Federal Reserve System, ECB, 2024–2026. — EDB analysts' forecasts.

¹ Does not take into account changes in the prices of volatile components of the consumer basket.

The performance of commodity prices in the baseline scenario will be mixed: non-energy commodity prices will grow, while oil prices will decline. Restrained growth of the global economy and lower interest rates in developed countries will contribute to the **growth of metal prices**. At the same time, the increase in prices for **precious metals** will be additionally supported by increased demand for reserve assets in the context of geopolitical instability. Accelerating economic activity in China will increase demand for **non-precious metals**, the basis for low-carbon energy. **Food prices**, after declining in 2023–2024, will move upwards, in particular due to the negative impact of climate change on crops. **Oil**, unlike non-energy feedstocks, will be cheaper than in 2024 on the back of global supply growth and the low-carbon energy transition.

As a result, the average annual **prices for Brent crude oil** will reach \$75 per barrel in 2025, \$74 per barrel in 2026, and \$73 per barrel in 2027. For comparison: in 2024, oil has cost an average of \$81 per barrel ([Table 2](#)).

Projected trends in the global economy and commodity markets do not pose significant obstacles to economic growth in the region. A moderate decline in energy prices will be partly offset by higher prices for export commodities such as metals and food, and is therefore unlikely to significantly worsen the balance of payments in the Bank’s member countries. In addition, the negative effect of lower commodity revenues may be partly offset as the export offerings of the Bank’s member countries become more diversified. Lower interest rates in advanced economies are gradually opening up access to foreign capital for the region’s economies. This has become noticeable compared with the past two to three years, when high rates effectively closed external borrowing in hard currency for emerging economies. Thus, the risks of currency market volatility, inflationary pressures and reduced real economic activity from the outside world remain subdued.

Box 2. Central Asia is a large and dynamic region

In the report “[The Economy of Central Asia: A Fresh Perspective](#)”, we focused on a fast-growing and promising region – Central Asia. The study found that, from 2000 to 2021, the region’s GDP grew at an average of 6.4% YoY in real terms, outpacing emerging market economies (5.2% YoY) and the global economy (3.6% YoY).

Central Asian economies have been growing strongly over the past two years despite external challenges. GDP growth averaged 4.8% YoY in 2022–2023, while emerging markets grew by 4.2% YoY and the global economy by 3.4% YoY. Over the past 24 years, the region’s total GDP has increased 10.8 times and its share of world GDP based on PPP terms has increased 1.9 times (see [Figure 5A](#)).

In 2024, Central Asia’s nominal GDP could exceed \$500bn. According to our estimates, it will increase by more than 10% and reach \$519bn.

The population of Central Asia has reached 80 million, growing by 3.7% since 2021 and 1.4 times in the last 24 years. Demographic trends are fuelling the growth of the economies of the Central Asian states. The age distribution of the population suggests that the labour force will grow in the future.

The volume of accumulated foreign investments from third countries has increased by 4.2% over the last two years and is estimated at \$223bn at the end of 2023. A strong performance was also noted in foreign trade turnover, which has increased by 34.6% since 2021.

↓ **Figure 5A. Achievements and structural changes in the region**

Increase in 2000-2023	2021	2023	2024F
 1.4x Population, millions	77	80	82
 10.8x GDP, \$ billions	347	469	519
 1.9x Share in global GDP (PPP), %	0.7	0.79	0.80
 7.7x Turnover of foreign trade in goods, \$ billion	165.5	228.9	235

Note: F = forecast.

Source: Compiled by EDB analysts based on data from national agencies, ADB, IMF, CEIC.

Central Asia is a diverse region with economies that vary in size and structure. Kazakhstan is the largest economy, accounting for 57 per cent of total GDP. Uzbekistan is the most populous country in the region, with 45 per cent of Central Asia’s population (see [Figure 5B](#)). The three largest economies — Kazakhstan, Uzbekistan and Turkmenistan — account for 95% of Central Asia’s total GDP and are net exporters of hydrocarbons. Kyrgyzstan’s and Tajikistan’s exports are chiefly metals and metal ores. All countries in the region have open economies, with the Kyrgyz Republic being the leader in terms of involvement in foreign trade.

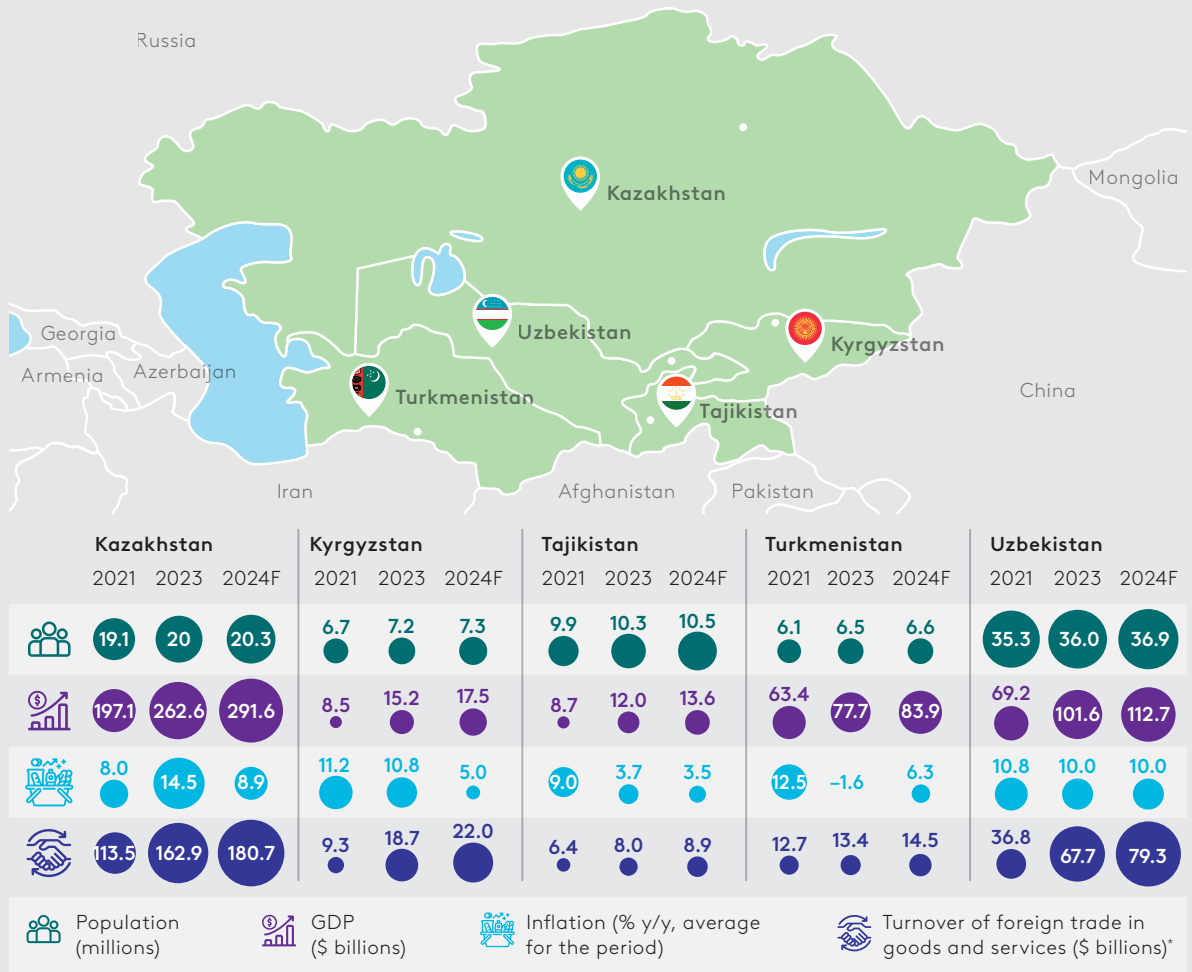
Macroeconomic policy is becoming noticeably more balanced. One of its results is a decline in inflation (in the early 2000s, price growth exceeded 20 per cent). In the last five years, even against the backdrop of challenges from global markets, inflation has averaged around 10% in the region.

The strategic role of Central Asia in the vast Eurasian space is set to grow. The transit position of the region’s countries and their integration into emerging

international transport corridors is an opportunity to access external markets and increase the potential of economies.

Coordinated development of the water and energy sector, including green energy, offers significant opportunities. In order to unlock the region's potential, it is important for countries to overcome other challenges, such as landlockedness, resource dependence, a low level of financial development, and the impact of climate change.

↓ Figure 5B. Main macroeconomic indicators of the Central Asian region



Note: * – for Turkmenistan data on foreign trade turnover of goods are applied.

Source: Compiled by EDB analysts based on data from national agencies, ADB, IMF, CEIC.

REPUBLIC OF ARMENIA



Source: [midjourney.com](https://www.midjourney.com)



REPUBLIC OF ARMENIA

Armenia's GDP growth is projected at 5.5% in 2025. Inflation in 2025 will accelerate to 3.1% in the context of a recovery in the growth of world food prices, a reduction in the refinancing rate and a moderate weakening of the dram exchange rate. The forecast for 2025 includes the stimulative effect of the budget policy on the economy.

Current situation

In 2024, the economic growth rate has slowed down but remained strong.

In January-October, the indicator of economic activity increased by 8.1% YoY (4.2% YoY in October). The sectors of trade (18.8% YoY), services (5.8% YoY) and industry (11.7% YoY) made the main contributions to economic growth in the first ten months of this year. At the same time, the performance of industry has been weakening since the end of the second quarter due to the slowdown in the growth of manufacturing industries. Whereas at the end of Q1 they accounted for almost 40% of economic activity, in the period from June to October the contribution was small (0.6 p.p., or about 10% of economic activity²). The slowdown in industry was largely offset by an acceleration in the services sector in the summer months and at the beginning of the fourth quarter. At the same time, the growth of the manufacturing industry (6.5% YoY in September after 3.8% YoY in August) was mainly driven by the production of base metals (including gold), which increased by 3.3 times YoY in January-September (2.2 times YoY in September). Accelerated growth in services was driven by financial activities (7.4% YoY in September), entertainment and recreation (29.8% YoY in September) and accommodation and food services (14.7% YoY in September). The persistently high growth rate of construction (15.5% YoY in January-October) was supported by mortgage lending (28.5% YoY in October). At the same time, domestic demand is actively expanding as a result of stable growth in household lending (22.9% YoY in October) and the implementation of planned government spending in Q4 2024. In January-September, household consumption growth was 7.4% YoY, while fixed capital investment grew by 13.6% YoY, acting as the main drivers of the economy in the same period (GDP growth was 6.0% YoY in January-September 2024).

GDP will increase by 6.0% YoY in 2024. *The forecast has been downgraded* taking into account the revision of Q1 2024 GDP data³ and the reduced contribution of the precious metals processing and export sector to value added (for details see [EDB Macroeconomic Review. October 2024. Box 2](#)).

The foreign trade deficit decreased in January-October 2024 to \$3.1bn (in January-October 2023 it was \$3.8bn). In the first ten months, exports grew 1.9 times against

² EDB estimate based on data from the Statistical Committee of the Republic of Armenia.

³ Q1 2024 GDP was revised downward in August: 6.6% YoY instead of 9.2% YoY. For more details see: <https://armstat.am/ru/?nid=157&id=1072>

the background of increased production and export of precious metals and gold products. These accounted for 66% of goods exports (growth of 6.6 times YoY in January-September 2024). Together with sales of mineral products, these items ensured a positive trend in exports. Imports in

January-October grew by 50.8% YoY, mainly driven by the import of precious metals for processing and subsequent export (6.1 times YoY). The shares of vehicles and mineral products in imports significantly decreased. Excluding trade in precious metals, the performance of both imports and exports in January-September was negative (minus 7.6% YoY and minus 10.6% YoY, respectively).

Inflation remains below the target range of the Central Bank of Armenia (4±1.5%). The growth rate of consumer prices stabilised at 0.6% YoY in October. Prices in the food segment continued to decline — food products decreased by 0.5% YoY in October after declining by 1.0% YoY a month earlier. In October, the growth of prices for services also slowed down, to 3.3% YoY after 3.6% YoY a month earlier, while the decline in prices in the non-food segment intensified. The disinflationary impact of global prices for commodities and raw materials, lower inflationary expectations and a stable dram exchange rate are limiting price growth in the country. At the same time, the reduction of the Central Bank’s refinancing rate and the stimulative budgetary policy act as pro-inflationary factors in 2024. We forecast price growth at 1.8% YoY by the end of the year.

The Central Bank continued the cycle of refinancing rate reduction in 2024. At the meeting on 29 October, the rate was lowered by 0.25 p.p., to 7.25%. The decision was made in the context of a weak inflationary background and lower inflationary expectations. Since the beginning of the monetary easing cycle in H2 2023, the refinancing rate has decreased by 3.5 p.p. in total. We expect that, against the backdrop of weak price growth and slowing economic activity, the rate may be reduced by another 0.25 p.p. in December, and that by the end of the year it will amount to 7.0%.

The state budget recorded a deficit of 2.1% of GDP in January-October 2024⁴ (in the same period of 2023 the deficit was 0.2% of GDP). Revenues increased by 9.1% YoY, while expenditures increased by 16.3% YoY. And this is 44 per cent of the current year’s planned deficit level of 4.8 per cent of GDP (75 per cent of planned revenues and 71 per cent of planned expenditures), creating room for increased public spending at the end of the year.

⁴ Relative to GDP of the last 4 quarters.

Forecasts

↓ Table 3: Armenia's main macroeconomic indicators (*baseline scenario*)

Indicator	2023	2024F	2025F	2026F	2027F
GDP in constant prices (% growth YoY)	8.3	6.0	5.5	5.3	5.0
Consumer price index (% growth YoY at the end of the year)	-0.6	1.8	3.1	3.0	2.5
IBL rate (%, the year's average)	10.4	8.3	7.0	6.8	6.0
Armenian dram to U.S. dollar exchange rate (the year's average)	393	392	402	405	407

Sources: national agencies, EDB analysts' calculations.

Economic activity and inflation

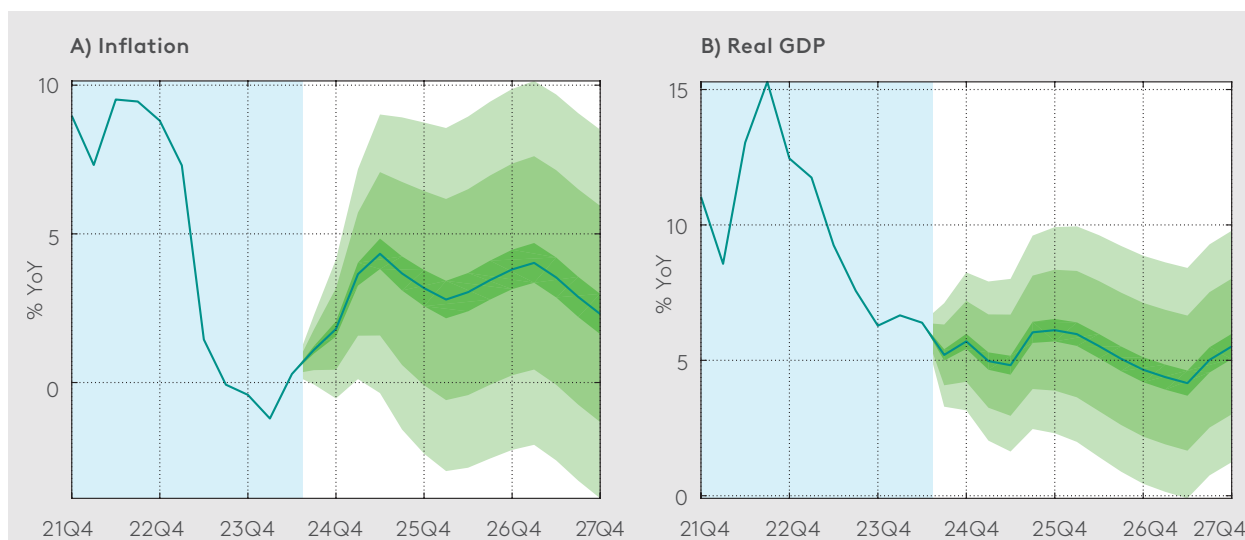
Armenia's GDP will grow by 5.5% in 2025. Economic growth will approach a balanced pace (Figure 6.A) after the strong performance of the last three years (for details, see [EDB Macroeconomic Review, October 2024, Box 2](#)). The stimulative impact of fiscal policy and easing monetary conditions will support demand in 2025. In 2026 and 2027, economic growth will be near the long-term rates of 5.3 per cent and 5.0 per cent, respectively (Table 3).

On the external demand side, a positive impact on the Armenian economy is expected. In 2025, China's economic growth rates will accelerate and business activity in the Eurozone is expected to recover. In Russia and the United States, economic growth will moderate, but will still remain quite high.

Relatively stable external demand for exported goods, rising international copper prices, as well as the recovery of positive trends in net remittances after a decline in 2024 will support the Armenian economy over the entire forecast horizon.

Inflation is forecasted at 3.1% YoY at the end of 2025 (Figure 6.B). We expect inflation to return to the target range (4±1.5%) as early as Q1 2025. This will be facilitated by: a recovery of growth in global food prices, the impact of the refinancing rate cut over the last one and a half years, stimulative fiscal policy and a moderate weakening of the dram exchange rate. In 2026–2027, inflation will slow down slightly after recovery in 2025 and will be near the lower boundary of the target range of the Central Bank of Armenia, averaging 2.8% per year. This performance will be driven by stability of the dram exchange rate and world food prices, as well as by the return of the economy to long-term growth rates.

↓ Figure 6. Forecast economic activity and inflation in Armenia



Note: from here onwards GDP and inflation data are seasonality adjusted; chart ranges correspond to confidence intervals of 10%, 50% and 75%.

Source: EDB analysts' calculations.

Monetary policy and the Armenian Dram exchange rate

The interbank lending rate will be close to the refinancing rate and will amount to 7.0% on average in 2025 (Figure 7.A). With inflation returning to the CBR target range and domestic demand gradually strengthening, we expect the refinancing rate cut cycle to be completed in the first half of 2025. According to our estimates, monetary policy will have a stimulative effect on demand over the next year. In 2026–2027, the rate will be near 6.5%, which will correspond to inflation remaining within the CBR's target range and GDP growth rates at the long-term sustainable level.

The average annual exchange rate of the Armenian dram to the dollar is projected at 402 in 2025 (Figure 7.B). The value of the dram will slightly decrease in 2025. Gradual moderate weakening of the Armenian dram compared to the current year will take place against the backdrop of declining money market rates and slowing economic growth. In addition, the dram exchange rate will also be affected by the growth of imports in the context of strengthening domestic consumer and investment demand. Recovery of remittances to a net inflow after a decline in 2024 as well as steady growth of tourism will support the national currency. In 2026–2027, the average annual exchange rate will be around AMD 406 per dollar.

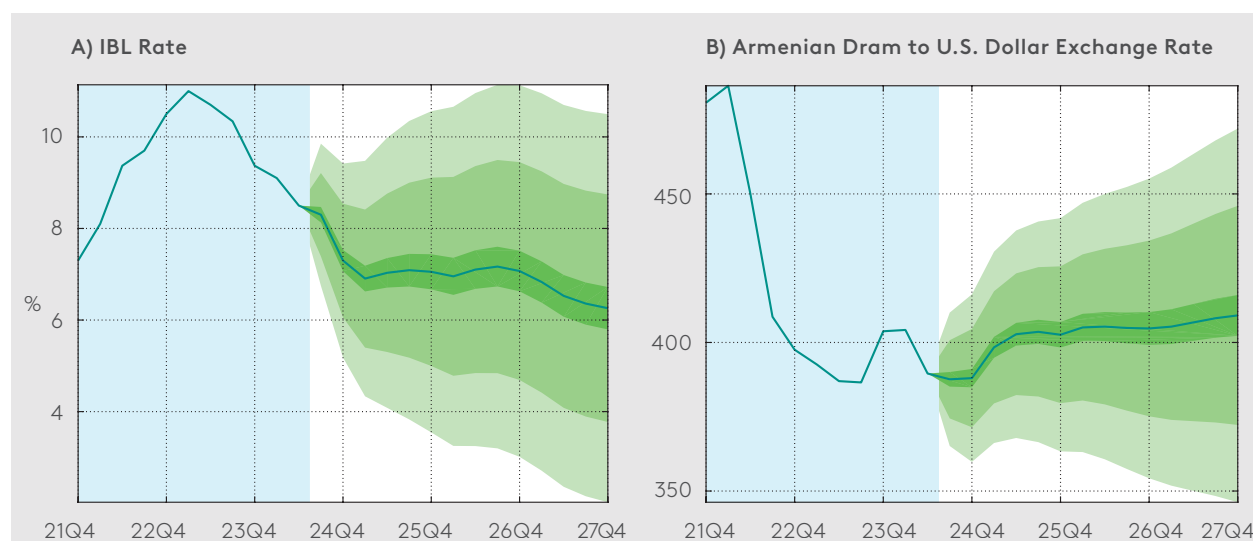
Stimulative nature of fiscal policy in 2025. We estimate that the impact of fiscal policy on demand in 2025 will be stimulative, given the government's plans to widen the fiscal deficit to 5.5% of GDP after 4.8% in 2024⁵. The widening of the deficit will be driven by an increase in the level of expenditure by 1.1 pp. to 31.5% of GDP, while revenues will increase by 0.3 p.p. to 26% of GDP in 2025. The government plans to increase the level of capital expenditure to 6.6% of GDP in 2025 and to 7.1% of GDP

⁵ The State Budget 2025 project

in 2026. Successful implementation of these plans will contribute to an increase in overall productivity, which will have a positive impact on the economy's potential growth rate in the medium term.

In 2026–2027, we project a neutral impact of fiscal policy on demand, given a smooth decline in spending to 29.5% of GDP in 2027 accompanied by an increase in revenues to 26.5% of GDP.

↓ Figure 7. Forecast interest rate and exchange rate of the Armenian dram



Source: EDB analysts' calculations.

Risks

The likelihood of a sharp capital and labour outflow and associated economic losses (see [EDB Macroeconomic Outlook 2023–2025](#) for details) **becomes a low-probability risk** for the Armenian economy. The outflow process is likely to be spread over time and its impact will be gradual, so the economy should have time to adapt to the new conditions.

Deterioration of the geopolitical situation in the region. This increases the uncertainty of forecasts of key macroeconomic indicators. If unfavourable scenarios materialise, pro-inflationary risks, risks of weakening external demand and the country risk premium will increase.

REPUBLIC OF BELARUS



Source: [midjourney.com](https://www.midjourney.com)



REPUBLIC OF BELARUS

The economy will expand by 2.6% in 2025 on the back of increased consumer activity and demand from Russia. As a consequence of expanding domestic demand and weakening price regulation, inflation will rise from 5.9% in 2024 to 6.6% in 2025. In the baseline scenario, we expect the refinancing rate to remain close to the current level (9.5%) over the entire forecast horizon.

Current situation

Belarus' GDP growth will amount to 4.3% in 2024. The expansion of domestic demand and growth of exports to Russia have been the factors behind the increase in output. In the first ten months of the current year, the country's GDP grew by 4.2% YoY. The expansion of lending and measures taken by the authorities to stimulate investment have had a significant impact on economic activity. The growth estimate for the current year has been raised by 1 p.p. compared with the [previous forecast \(EDB, 2024b\)](#), and the main reason for the revision was the continued strong demand from the main trading partner — Russia.

In terms of sectors, there has been an increase in output across all the key ones, but industrial production is still the main driver of economic growth. The industrial sector grew by 6.2% YoY in January-October 2024, and its contribution to GDP growth reached 1.6 p.p. Almost 90% of the total industrial growth is the contribution of manufacturing industries, whose output increased by 6.3% YoY. The key factor of this performance was high demand from Russia. A significant contribution to GDP growth (about 0.9 p.p. in January-October 2024) was provided by the expansion of wholesale and retail trade, up 11.8% YoY and 4.6% YoY, respectively. 0.4 p.p. of GDP growth came from the 9.1% YoY increase in construction value added. The 3.2% YoY increase in agricultural production, mainly due to livestock breeding, contributed another 0.2 p.p. to GDP growth. The emerging recovery in the Information & Communication sector after the downturn in 2022–2023 is also a positive signal. The emergence of new orders led to an increase in employment, with the sector growing by 1.2% YoY in January-October 2024.

Domestic demand has grown significantly in the current year. The increase in household consumption was supported by the growth of real disposable household income by 9.4% YoY in January-September and the expansion of consumer lending by an average of 2.9% per month in January-September 2024. Investment activity also increased significantly (by 7.6% YoY in January-September 2024), which could have been facilitated, among other factors, by the introduction of tax incentives: VAT exemption on imports of production equipment which has no equivalent produced in the country, as well as components and spare parts. As a result, expenditures on capital investments in equipment grew by 13.4% YoY, accounting for 2/3 of the total investment growth. The increase in investment construction (+5.9%) also supported the growth of investments.

Inflation remains on target. We expect consumer prices to increase by 5.9% in 2024. The indicator has remained at around 6% throughout the year, amounting to 5.9% YoY in October 2024 (5.8% YoY in December 2023). Continued price controls on almost the entire consumer basket, introduced at the end of 2022, are a key factor keeping inflation in check. Core inflation has been gradually rising over the year, reaching 5.3% YoY in October 2024 (3.8% YoY in December 2023). An important role has been played by the weakening of the Belarusian ruble exchange rate and a significant acceleration of inflation in Russia, which, together with rising wages, has led to higher costs for enterprises, and those in turn have translated into higher prices. An additional pro-inflationary impact was exerted by an 11% YoY increase in prices for seasonal fruits and vegetables in October.

Foreign trade in goods and services is no longer in surplus due to the growth of domestic demand. In January-September this year, the foreign trade deficit was \$0.36bn, while in the same period last year the surplus was almost \$0.53bn. The negative balance of trade in goods almost doubled, amounting to \$2.94bn (a year earlier the deficit was \$1.52bn) and was a factor behind the change in the foreign trade performance. The reason for this is the noticeably faster growth rates of imports (+7.6% YoY) compared with exports (+3.1% YoY). As before, deteriorating price conditions are still a factor driving the imbalance in foreign trade. Given the dominant share of the Russian market in exports of industrial goods, the weakening of the Russian ruble against the dollar leads to a reduction in export revenues. At the same time, imports of goods are growing against the background of expanding domestic demand. The increase in the surplus of foreign trade in services to \$2.58 billion against the background of the increase in exports of tourist and transport services made it possible to compensate for about 40% of the growth in the deficit of trade in goods.

Bank lending conditions have moderately tightened. Following the resumption of the National Bank's liquidity dampening operations from January 2024, interbank market rates increased from 2.2% in December 2023 to 5.5% in January 2024 and remained in the range of 4.5–5.8% on average throughout January-September this year. Reduced liquidity led to an increase in new deposit rates to 8.2% in September 2024 after 4.9% in December 2023. As a result, rates on new BYR-denominated loans rose to 10.8% from 8.8%. The banks' loan portfolio increased by 8.1% at the end of September 2024 compared with the beginning of the year, including in national currency by 15.9%.

The level of gold and foreign exchange reserves has noticeably increased and amounts to \$8.93bn as of the beginning of November. The growth in reserves since the beginning of the year of \$0.81bn was driven by a revaluation of gold in the portfolio of \$1.16bn due to an increase in prices.

Forecasts

↓ Table 4: Main macroeconomic indicators of Belarus (*baseline scenario*)

Indicator	2023	2024F	2025F	2026F	2027F
GDP in constant prices (% growth YoY)	3.9	4.3	2.6	1.9	1.5
Consumer price index (% growth YoY at the end of the year)	5.8	5.9	6.6	7.9	7.4
Refinancing rate (% per annum, the year's average)	10.1	9.5	9.5	9.5	9.5
Belarusian rouble to U.S. dollar exchange rate (the year's average)	3.00	3.25	3.38	3.57	3.81

Sources: national agencies, EDB analysts' calculations.

Economic activity and inflation

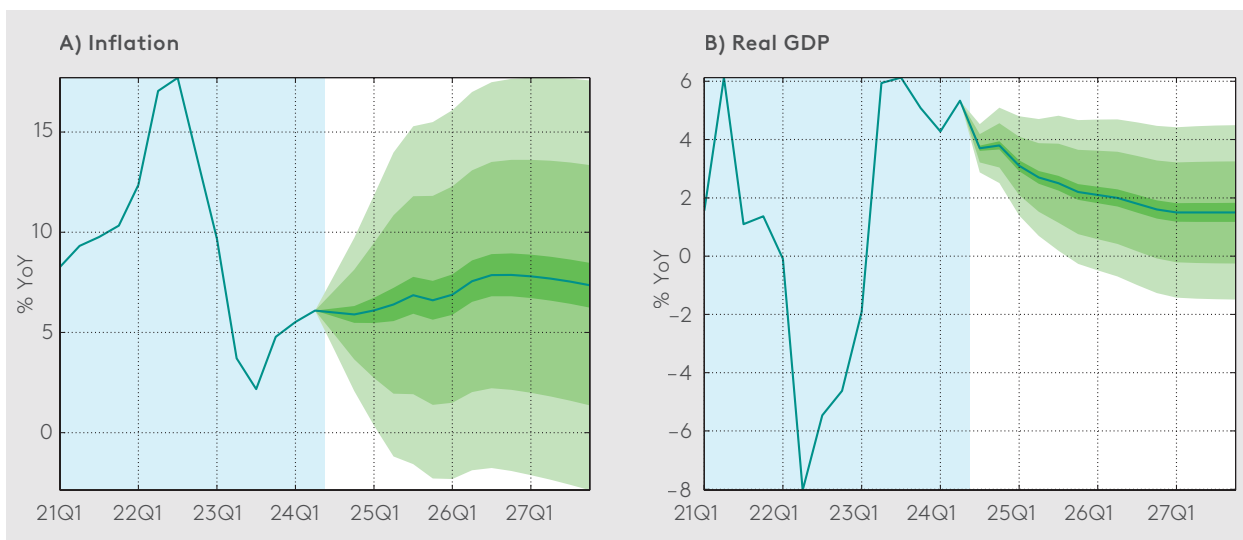
GDP will increase by 2.6% in 2025. Wage growth, taking into account both the planned increase in the public sector and the increase in the private sector amid a tight labour market, will support domestic demand. In addition, relatively loose monetary policy will boost demand. The growth in domestic demand will drive an increase in imports, which, according to our estimates, will roughly match the growth in exports. At the same time, exports in 2025 will maintain a positive performance on the back of the expected increase in demand from Russia. Export growth will be restricted by increased competition in the key market amid the expansion of import-substituting production in Russia. At the same time, the implementation of a common industrial policy for Belarus and Russia in terms of using measures and instruments of financial support of the two countries as well as increasing financial support for joint projects may become a factor increasing the growth potential of the Belarusian economy. In the context of high capacity utilisation, we expect capital investment to expand against the backdrop of a stimulative investment policy and continued availability of credit. Labour shortages and limited access to advanced technologies will hamper the expansion of the economy.

In 2026–2027, the gradual movement towards balanced growth rates will continue (Figure 8.A). The slowdown in GDP gains in the medium term will allow the economy to return to a balanced growth trajectory after a period of overheating. The expansion of the economy's potential will be constrained by the deficit of labour resources and the effect of the imposed restrictions on access to technology.

Inflation will accelerate to 6.6% in 2025. Inflationary pressures from domestic demand, wages and accelerating price growth in Russia are restrained by administrative price regulation. The passing on of accumulated costs to consumer prices will be stretched out over time due to the impossibility of a quick abandonment of the price regulation policy. We assume a gradual relaxation of price regulation in order to improve the

financial state of enterprises due to accumulated price costs. In addition, higher inflation in Russia will also have a pro-inflationary impact on the Belarusian market. Higher inflation will persist in 2026–2027 (Figure 8.B).

↓ **Figure 8. Forecast economic activity and inflation in Belarus**

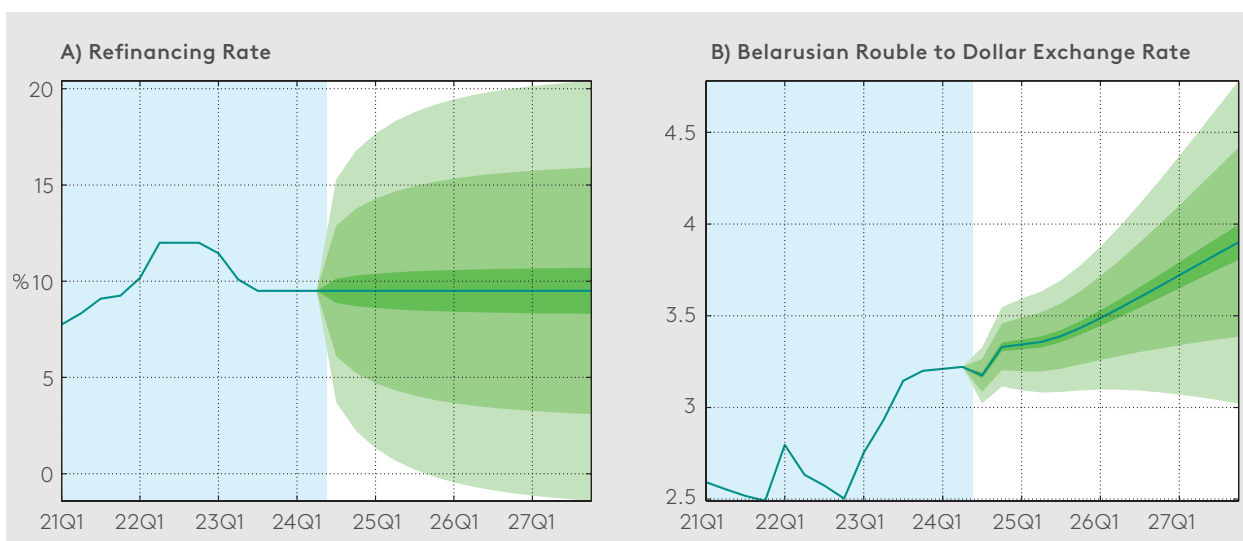


Source: EDB analysts' calculations.

Monetary policy and the Belarusian ruble exchange rate

Monetary conditions will remain soft in 2025. The refinancing rate of the National Bank may remain at 9.5%. There are no preconditions for its decrease, given the forecasted acceleration of inflationary processes. At the same time, in real terms, its value will decrease due to higher price growth. We forecast the refinancing rate at the level of 9.5% throughout the forecast period (Figure 9.A).

↓ **Figure 9. Forecast refinancing rate and Belarusian ruble exchange rate**



Source: EDB analysts' calculations.

The average annual exchange rate of the Belarusian ruble to the dollar is projected to be around 3.4 in 2025 (Figure 9.B). The foreign trade deficit may widen in 2025 due to limited opportunities for export growth while the demand for imports persists. This will lead to a moderate weakening of the Belarusian ruble against the dollar. The exchange rate will be supported by the continued net supply of foreign exchange in the domestic foreign exchange market due to the sale of foreign exchange by individuals and non-residents. In the medium term, the downward trend in the value of the national currency will continue due to relatively low rates of potential GDP growth and elevated inflation.

Risks

A significant slowdown in growth in Russia remains a risk for the Belarusian economy. Given the high degree of synchronisation of business cycles of the Belarusian economy with the Russian economy, a slowdown in GDP growth in Russia in the risk scenario will lead to a reduction in exports. Belarusia's high concentration of exports to Russia limits the opportunity to redirect export flows to other countries, which will lead to a reduction in output. This will result in lower revenues, due to both the lower physical volumes of exports and the even more significant deterioration of the terms of trade compared with the baseline scenario. This will significantly limit the opportunity to support the growth of domestic demand. In order to maintain the competitiveness of Belarusian producers, the weakening of the Belarusian ruble exchange rate will be a compulsory measure, which will create additional pro-inflationary pressure. In the context of rising costs and declining profitability from export operations, strengthening price regulation will not be effective, and higher interest rates will be required to curb inflation. Under the risk scenario, the probability of stagnation in the Republic of Belarus increases significantly.

The risk of disruption of logistics chains and new serious sanctions restrictions against Belarus remains pertinent. The need to create new routes for the delivery of goods to countries outside the EAEU and to conduct foreign trade settlements with them will create additional costs for Belarusian companies. At the same time, an increase in sanctions pressure to the Russian level may lead to the loss of the remaining transit potential. As a consequence, the volume of foreign trade, primarily imports of components, will decrease, which will have a negative impact on the level of production and competitiveness of Belarusian enterprises.

REPUBLIC OF KAZAKHSTAN



Source: [midjourney.com](https://www.midjourney.com)



REPUBLIC OF KAZAKHSTAN

We forecast an increase in economic growth to 5.5% in 2025, followed by a steady growth trajectory in the medium term. This becomes possible due to the implementation of government initiatives aimed at developing strategically important infrastructure and socially significant projects. Inflation will slow down to 7.3% YoY by the end of 2025, which will create conditions for the continuation of the base rate reduction cycle.

Current situation

The economy is steadily recovering from the negative impact of floods. GDP growth accelerated to 4.1% YoY in January-September after 3.2% YoY in January-June 2024. In the second half of 2024, there has been an expansion of activity in the construction sector, including due to the [restoration of damage \(EDB, 2024a\)](#) caused by floods. In the first 10 months of 2024, the key economic indicator⁶ grew by 5.3% YoY. Strong domestic demand provided the basis for growth in January-October 2024. Thus, output in retail trade increased by 7.3% YoY, and fixed capital investment in the non-natural resources sector⁷ grew by 9.4% YoY. The growth of total investment (1.9% YoY in January-October 2024) was constrained by a decline in capital investment in the oil sector due to the completion of the upgrading of the Tengiz field ([NBRK 2024](#)). In Q4 2024, growth in the industrial sector is expected to slow down. The reason will be a decline in oil production due to scheduled maintenance at the Kashagan field as well as fulfilment of Kazakhstan's OPEC+ commitments. The decline will be compensated by the implementation of government initiatives such as "Comfortable School", "Tariff in exchange for investment", "Accessible Internet", as well as the expansion of investment activity in manufacturing industries. Therefore, we expect the GDP growth rate to increase to 4.5% for 2024 as a whole.

Inflation has continued to slow down in 2024. Price growth slowed to 8.5% YoY in October 2024, down from 9.8% YoY in December 2023. This has been facilitated by the moderately tight monetary policy pursued by the NBRK over the past two years. An additional factor in reducing inflation has been the slowdown in price growth in world food markets. Thus, food inflation was 4.9% YoY in October 2024 after 8.5% YoY in December 2023. The weakening of the tenge in the second half of 2024 and the increase in tariffs for housing and communal services have hindered a more significant decline in inflation. The effects of the weakening tenge were reflected in the fact that the consumer price index for non-food products began to rise again from August 2024 after 16 months of steady decline, standing at 7.8% YoY at the

⁶ The calculation of the short-term economic indicator is based on changes in output indices for the basic sectors (agriculture, industry, construction, trade, transport and communications), which account for more than 60% of GDP.

⁷ Excluding investments from the state budget.

end of October. As a result of tariff increases, inflation in paid services accelerated to 14.3% YoY in October 2024 (from 12.4% YoY in December 2023). The above factors will remain pertinent until the end of 2024 and in early 2025. According to our estimates, inflation at the end of 2024 will be 8.5%.

Improvement in the current account. The current account deficit totalled \$269.6 m in January-September 2024 (\$6.4bn a year earlier). This trend is due to the \$3.4bn expansion of the balance of goods and services surplus.

Trade surplus in 2024. Positive trade balance in January-September 2024 totalled \$18.4bn and grew by \$5.4bn YoY. The growth of the indicator was fuelled by a 5.6% YoY increase of exports and a 4.8% YoY decrease in imports. The key contribution to the increase in exports was made by sales abroad of energy resources (3.4 p.p.), chemical industry products (1.9 p.p.), as well as metals and metal products (1.3 p.p.). The export performance was restrained by the decrease in exports of foodstuffs, mainly grain (by 1.1 p.p.). The reduction in imports was mainly due to the fall in imports of machinery and equipment (by 4.5 p.p.) and mineral products (by 0.6 p.p.).

Smooth reduction of the base rate in 2024. The National Bank of the Republic of Kazakhstan has followed a conservative approach in conducting monetary policy. In 2024, the regulator reduced the rate three times. As a result, the base rate has been reduced from 15.75% at the beginning of the year to 14.25%. Annual inflation is still above target and pro-inflationary risks remain pertinent. In particular, upward pressure from the external sector started to intensify again in the autumn months, while the growth of tariffs for housing and communal services continues. All this increases the volatility of inflationary expectations of the population. In addition, the depreciation of the tenge exchange rate increased in the fall against the backdrop of increased volatility in regional financial markets. All this together required an increase in the base rate to 15.25% at the November meeting.

State budget deficit in 2024. The negative balance of the state budget of Kazakhstan in January-September 2024 amounted to KZT 3.0 trillion (a year earlier — KZT 2.2 trillion). Budget revenues grew by 5.1% YoY. The growth was due to an increase in non-tax revenues (by 3.7 times) and the volume of transfers from the National Fund (by 19.6% YoY). The increase in budget revenues was constrained by a decline in VAT, excise tax and corporate income tax revenues. State budget expenditures grew by 7.2% YoY against the backdrop of increased spending on education, social security and debt servicing.

Improvement of the sovereign rating. International rating agency Moody's has upgraded the long-term rating of the Republic of Kazakhstan from Baa2 to Baa1, with a stable outlook. The sovereign rating assigned to Kazakhstan is now the highest it has ever been since the Republic gained independence. Progress in reforming the sphere of public administration and the ongoing policy to diversify the economy are the key factors behind assigning the high rating. Meanwhile, Fitch Ratings has

affirmed Kazakhstan’s sovereign credit rating at BBB with a stable outlook, noting the country’s strong external buffers and financial flexibility. Both agencies emphasise the positive changes in the business climate and the development of the non-oil sector, which contributes to economic stability and investment attractiveness.

Forecasts

↓ **Table 5: Main macroeconomic indicators of the Republic of Kazakhstan (baseline scenario)**

Indicator	2023	2024F	2025F	2026F	2027F
GDP in constant prices (% growth YoY)	5.1	4.5	5.5	5.5	5.5
Consumer price index (% growth YoY at the end of the year)	9.8	8.5	7.3	5.6	5.1
TONIA rate (% per annum, the year’s average)	16.4	14.0	12.3	9.5	8.0
Kazakhstan’s tenge to U.S. dollar exchange rate (the year’s average)	456	466	486	492	503

Source: national agencies, EDB analysts’ calculations.

Economic activity and inflation

In 2025, GDP growth will increase to 5.5% YoY. We have maintained the growth estimate given in our [previous forecasts](#) (EDB, 2024b) (Table 5). Government initiatives aimed at developing strategically important infrastructure and socially significant projects, as well as creating growth points in the regions (MF RK, 2024; [Government of Kazakhstan, 2024](#)) will be among the key drivers of the economy in 2025. A key premise of our forecast is that the economy’s potential will grow as a result of the launch of a new investment cycle aimed at increasing the stock of foreign direct investment attracted to \$150bn by 2029 (\$143bn at end-June 2024). This will expand the potential of the non-natural resources sector of the economy, in particular, in manufacturing. The economy will be further supported by the resumption of grain exports. In the second half of the year, oil production and exports are expected to grow following the launch of new capacity at the Tengiz field. This will add an additional 0.4–0.6 p.p. to GDP growth. A base rate cut in 2025 will give a further impetus to the economy.

Steady growth of Kazakhstan’s economy at 5.5% in 2026–2027 (Figure 10.A).

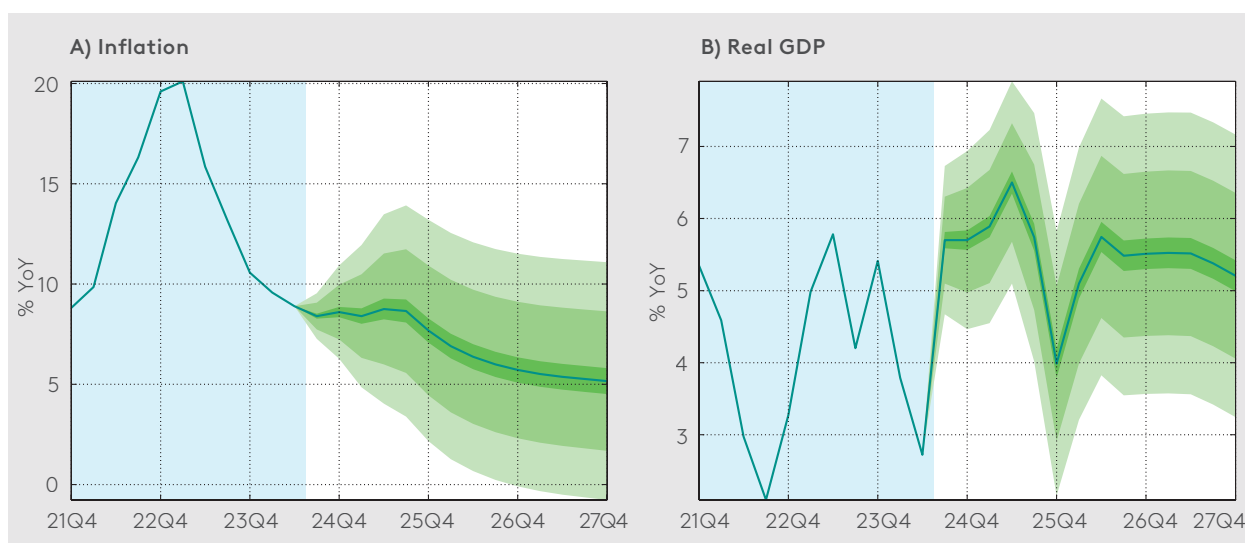
Unlocking the potential of non-natural resources sectors, especially manufacturing, through the implementation of the new investment policy, will support GDP growth in the medium term. The easing of monetary conditions will have an additional positive effect, while the stimulative effect of fiscal policy, on the contrary, will diminish.

Inflation will fall to 7.3% at the end of 2025. This figure is 1.0 p.p. higher than in the [previous forecasts](#) (EDB, 2024b), and this adjustment is explained by the more significant weakening of the tenge than anticipated in the spring of 2024. In 2025,

the next phase of tariff increases for housing and communal services is expected to be 10–15% on average. In addition, credit growth will continue to support domestic demand. These factors will impede a faster decline in inflation. On the other hand, maintaining moderately tight monetary conditions in early 2025 will stabilise inflationary expectations and contribute to a further slowdown in price growth.

We forecast inflation at close to the targets. In 2026–2027, we expect a gradual decline in inflation to target levels against the background of cooling consumer demand after the strong performance of previous years (Figure 10.A). By the end of 2027, we forecast the consumer price growth rate to be 5.1% YoY.

↓ Figure 10. Forecast economic activity and inflation in the Republic of Kazakhstan



Note: seasonally adjusted data.

Source: national agencies, EDB analysts' calculations.

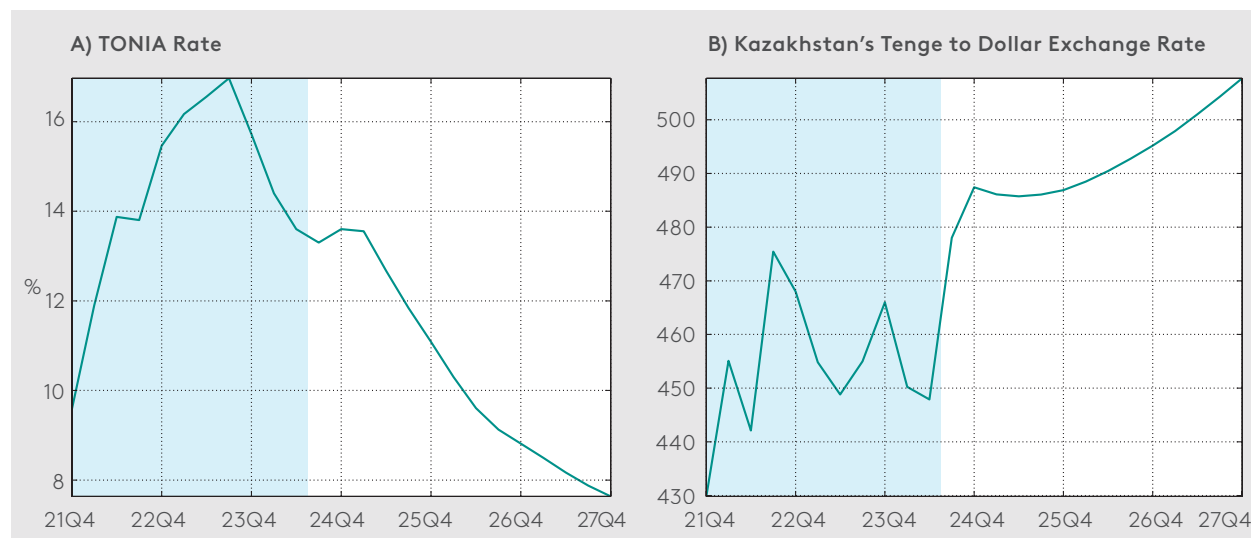
Monetary policy and the Kazakhstani tenge exchange rate

Reduction of the base rate as inflationary pressures subside. Taking into account that pro-inflationary risks are still pertinent, we expect the NBRK to keep the rate above 15% until April 2025. A sustained slowdown in inflation will create preconditions for further easing of monetary policy. We forecast the base rate at 11.25% by the end of 2025. In the medium term, inflation approaching the 5% target will create conditions for a base rate cut to a neutral level of 8% by the end of 2027 (Figure 11.A).

Moderate weakening of the tenge in the medium term. In 2025, the exchange rate of the national currency is estimated at an average of 486 tenge per dollar (Figure 11.B). In early 2025, the high base rate will continue to support the tenge. In addition, in 2025, the volume of transfers from the National Fund will remain at an elevated level of KZT 5.25 trillion, which will create an additional supply of foreign currency in the domestic market. In 2025, export revenues are also expected to increase as a result of the resumption of grain sales and increased oil sales abroad. The return of the norm of mandatory sale of 50 per cent of foreign currency earnings

by quasi-public sector entities will also support the tenge. The factors driving a tenge weakening, on the other hand, will be the increase in imports and payments on external debt servicing. In the medium term, a moderate decline in the value of the tenge is forecasted.

↓ Figure 11. Kazakhstan tenge exchange rate and TONIA rate



Source: national agencies, EDB analysts' calculations.

Risks

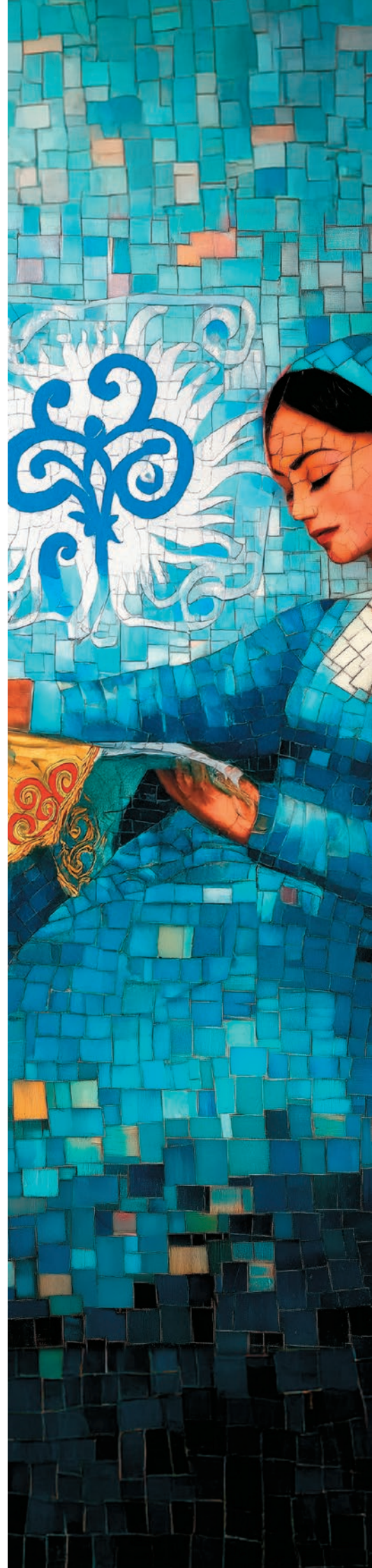
The risk of a slowdown in economic activity. A more significant reduction in global demand for oil may lead to a greater decline in global energy prices. This, in turn, will have a negative impact on oil production and export volumes, as well as reducing tax revenues to the budget. Another risk limiting economic activity could be a prolonged suspension of the Caspian Pipeline Consortium or a shift in the timing of the future expansion project at Tengiz.

Pro-inflationary risks remain pertinent. An increase in tariffs for services as well as stronger growth of global food prices may raise inflationary expectations of the population. In addition, there is still a risk of capital outflow from emerging markets, which may negatively affect the currencies of those countries, including causing a more pronounced depreciation of the tenge compared with the baseline scenario.

KYRGYZ REPUBLIC



Source: [midjourney.com](https://www.midjourney.com)



KYRGYZ REPUBLIC

We forecast GDP growth of the Kyrgyz Republic at 8.7% in 2025 against the background of strong investment demand. Inflation in 2025 will be 5.0%. We assume a gradual increase in the policy rate as inflation steadily reaches the target range.

Current situation

Strengthening domestic demand has become a key factor in the expansion of economic activity. GDP of the Kyrgyz Republic grew by 9.6% YoY in January-October 2024. The trends in retail and wholesale trade explain 22% of output growth. The services sector, excluding domestic trade, and the construction sector provided an additional 21% each. The increase in consumer activity was accompanied by an increase in real wages (of 6.7% YoY in January-September 2024) and growth in credit to the trade sector, as well as consumer loans. High investment activity was observed in the extractive industries, transport, energy and manufacturing, including as part of the implementation of state development programmes. In the second half of 2024, the economy received an additional impetus from agriculture on the back of the poor harvest a year earlier. In Q4, we expect a decline in the output of base metals, which will slow down economic growth. We forecast GDP growth at 9.4% in 2024.

Inflation has been below target for most of 2024. In October 2024, the indicator stood at 4.8% YoY after 7.3% YoY in December 2023. The key factor behind the slowdown in the growth of the consumer price index, as we [anticipated \(EDB 2023\)](#), was the easing of pro-inflationary pressure from global food markets. Thus, price growth for food products and non-alcoholic beverages slowed to 2.5% YoY in October 2024, from 3.4% YoY in December 2023. Additional disinflationary impact was exerted by the KGS exchange rate, which by mid-November had strengthened by 3.8% compared to the beginning of the year. As a result, non-food inflation declined to 4.6% YoY in October 2024 from 12.2% YoY in December of the previous year. Inflationary pressures came from both higher excise duties on tobacco products and higher electricity tariffs. In Q4 2024, the disinflationary impact of external prices and exchange rate movements is expected to be exhausted, which will lead to an increase in the growth of the consumer price index. We forecast inflation at 5.6% YoY by the end of 2024.

Current account deficit in 2024. The negative current account balance of the balance of payments of the Kyrgyz Republic amounted to \$3.9bn in the first half of 2024, according to the preliminary estimate of the NBKR. A year earlier, the figure was \$3.3bn. The expansion of the negative balance was driven by the increase in the deficit of the balance of goods and services, as well as the growth of investment income paid to non-residents. The secondary income surplus grew by 11.5% YoY due to stronger remittance inflows. Turning to financial account operations excluding reserve assets, there was a capital inflow in the first half of 2024 due to the inflow of foreign direct investments and the raising of debt instruments.

Expanded foreign trade operations in 2024. The foreign trade turnover of the Kyrgyz Republic grew by 8.4% YoY in January-September 2024. The growth of this indicator was caused by an increase in exports of 28.2% YoY and of imports by 3.7% YoY. The increase in export revenues was mainly due to a 37.8% YoY increase in the value of shipments of base metals abroad. Imports grew mainly due to an increase in imports from China (of 16.7% YoY). The largest shares of imports from China are accounted for by fabrics, machinery and equipment.

The National Bank has cut interest rates. Inflation has been below the target (5–7%) since May 2024. This created prerequisites for the reduction of the policy rate from 13.0% (at the beginning of the year) to 9.0%, where it has been kept since the end of May 2024. In April 2024, the NBKR started to expand the interest rate corridor around the policy rate. At the beginning of 2024, the interest rate corridor was set at 13% (+/-2 p.p.). Since August 2024, the lower threshold of the interest rate corridor — the overnight deposit rate — has been set at 4%. Thus, the new interest rate corridor is 9% plus 2 p.p. and minus 5 p.p.. As a consequence, the rate on the interbank credit market for seven-day REPO fell from 12.0% at the beginning of the year to 4.3% at the end of October. We estimate that the policy rate will remain at 9% at the end of the year.

State budget surplus in 2024. The surplus amounted to 5.0% of GDP in January-September 2024 (2.8% of GDP a year earlier). Revenues grew by 17.4% YoY, and half of the growth was due to the increase in VAT revenues on imported goods. The 21.7% YoY growth in non-tax payments to the budget was driven by a 33.1% YoY increase in property and interest income. The 10.3% YoY growth of expenditures was mainly due to the increase in spending on economic development (2.8 times). In accordance with the Main Priorities of Fiscal Policy of the Kyrgyz Republic for 2025–2029, the state budget surplus is expected to be 0.9% of GDP in 2024.

International rating agency Moody's has confirmed the long-term rating of the Kyrgyz Republic at the level of B3 and improved the outlook, changing it from negative to stable. The economy and state budget have demonstrated resilience to the negative impact of external shocks. According to the agency, financing from development partners, which reduces debt servicing costs, is a key factor supporting the rating.

Forecasts

↓ Table 6: Key macroeconomic indicators of the Kyrgyz Republic (*baseline scenario*)

Indicator	2023	2024F	2025F	2026F	2027F
GDP in constant prices (% growth YoY)	9.0	9.4	8.7	6.4	5.6
Consumer price index (% growth YoY at the end of the year)	7.3	5.6	5.0	5.5	6.3
7-day REPO rate (% per annum, the year's average)	11.4	7.6	5.2	7.1	9.0
Kyrgyzstan's som to U.S. dollar exchange rate (the year's average)	87.9	87.1	87.4	89.7	93.1

Source: national agencies, EDB analysts' calculations.

Economic activity and inflation

GDP growth in 2025 is forecasted at 8.7%. High investment activity will continue to fulfil the role of a key driver of the economy. In 2025, FDI is expected to flow into the mining sector (MJ KR, 2024). Investment activity will receive an additional impetus through the implementation of government initiatives in water supply, the energy sector and road infrastructure. These projects are financed by international development organisations. The economy will receive additional support as a result of increased production in manufacturing industries, including the production of base metals, oil products, textiles, and construction materials (MJ KR, 2024). Consumer activity will decline from the high values of 2024 by the end of the year (Table 6).

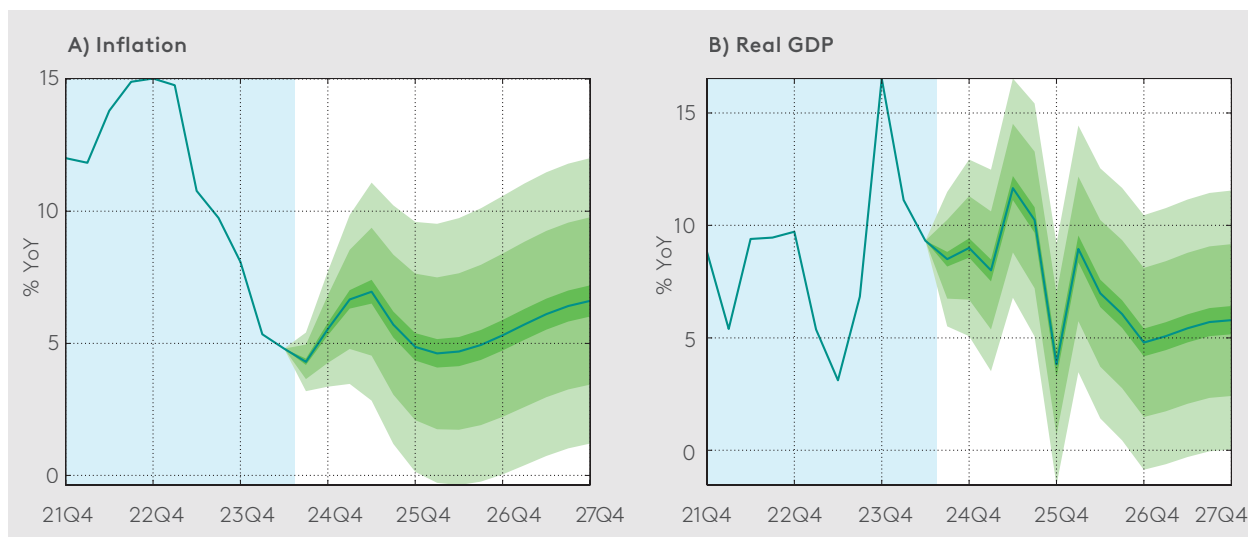
In the medium term, the growth rate will be 6.0%. The slowdown to 6.4% YoY in 2026 will be due to a decline in the production of base metals (MJ KR, 2024). Thereafter, the growth rate will tend towards the equilibrium level (Figure 12 A).

We forecast inflation of around 5.0% YoY at end-2025. The expected increase in global food prices as well as the planned increase in electricity tariffs (MJ KR, 2021) will put pressure on domestic prices. On the other hand, weaker domestic consumer demand and the higher policy rate will restrain consumer price growth (Figure 12 B).

Inflation to stay within the target range in the medium term. Rising global food prices will continue to put upward pressure on domestic prices. Further increases in the policy rate will stabilise inflationary expectations and keep inflation around 5.9% on average over 2026–2027.

Increasing of the policy rate as inflation reaches the target level. According to our estimates, the policy rate will be around 9.25% at the end of 2025. In the medium term, we expect the interest rate corridor to shrink to +/-1 p.p. and the policy rate to reach the equilibrium level, which we estimate at around 9.75% (Figure 13 A).

↓ Figure 12: Economic activity and inflation in the Kyrgyz Republic

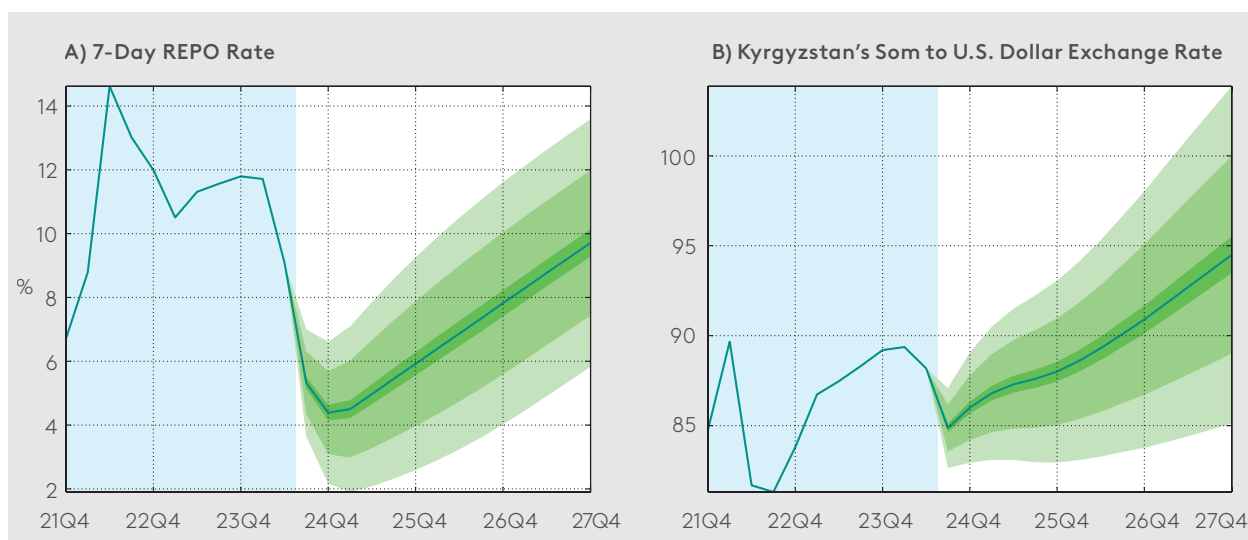


Note: seasonally adjusted data.

Source: national agencies, EDB analysts' calculations.

Moderate weakening of the som in the medium term. We forecast the KGS exchange rate at the level of 87–90 per US dollar in 2025. The exchange rate will be supported by an increase in exports against the background of rising world gold prices, as well as a slowdown in the growth of imports. In the long term, we expect a weakening of the KGS exchange rate as the inflation differential between the Kyrgyz Republic and trading partner countries decreases (Figure 13 B).

↓ Figure 13. Kyrgyz som exchange rate and repo rate



Source: national agencies, EDB analysts' calculations.

Risks

Risks of economic growth slowdown. A deeper recession in the global economy than expected in the baseline scenario will primarily affect the international trade of the Kyrgyz Republic and will slow down economic growth. Another risk limiting economic

activity could be a shift in the timing of implementation of planned investment projects.

Risks of inflation acceleration. The risk of capital outflow from emerging markets remains, which may increase the volatility of the KGS exchange rate. This, in turn, will accelerate inflation and require a tighter monetary policy compared with the baseline scenario.

RUSSIAN FEDERATION



Source: [midjourney.com](https://www.midjourney.com)



RUSSIAN FEDERATION

High economic growth rates in 2025 will be supported by fiscal stimulus and increased exports to China. At the same time, high interest rates and limited capacity to increase production will continue to restrain the expansion of domestic demand. Stimulative fiscal policy will complicate the disinflation process, which will require the Bank of Russia to stick to the “pro-inflationary scenario”, which does not rule out the possibility of further key rate hikes. We expect the rate reduction cycle to start no earlier than in the second half of 2025 in the absence of new shocks. Under these conditions, we forecast inflation to slow down to 6.5% in 2025.

Current situation

Record economic growth this year. We expect GDP to expand by 4.1% in 2024, which will be the highest in the last 12 years, excluding the recovery from the lifting of covid restrictions in 2021. Nevertheless, there is a predictable cooling in the quarterly output performance due to the Central Bank’s policy to reduce inflation. The economy grew by 3.1% YoY in Q3 2024 after 4.1% YoY and 5.2% YoY in Q1 and Q2, respectively. Despite the slowdown in growth rates, their level remains high in the context of rising domestic demand. In Q4, output growth is likely to accelerate on the back of increased budget expenditures.

Industrial production is an important driver of economic growth. According to our estimates, the contribution of industry to GDP growth was about 1.3 p.p. in January-September 2024, with output expanding by 4.4% YoY. The manufacturing sector, the largest industrial sector, grew output by 7.9% YoY in the face of expanding domestic demand. The exception was oil refining, where output fell by 2.4% due to the removal of some production capacity during unscheduled refinery repairs. Mineral extraction decreased by 0.6% YoY in January-September, with a mixed performance within the industry. Production of coal and metal ores grew by 0.4% YoY and 1.3% YoY, respectively, while production of other minerals declined by 2.6% YoY, primarily due to the commitments made to reduce oil production under the OPEC+ agreements.

Domestic demand grew significantly. The increase in household consumption was supported by the 8.6% YoY growth of real disposable income in January-September as well as an expansion of lending. An important source of household income growth is the increase in wages and salaries, which in real terms totalled 9% YoY in January-September. The high growth of labour remuneration is primarily due to the shortage of skilled workers in the context of the need to expand production capacity. Unemployment has remained at a historic low (2.4%) since June this year, with record levels of capacity utilisation — over 80%⁸. Companies’ optimism about the growth in demand for manufactured products is driving high rates of investment, supported by fiscal spending and lending. Investment activity increased by 8.6% YoY over January-September, despite difficulties with supplies and import payments.

⁸ Bank of Russia’s monitoring of enterprises.

Pro-inflationary processes prevail. The growth of domestic demand with limited opportunity to expand production leaves its handprint on prices. Inflation accelerated in the second half of the year, reaching double-digit rates⁹ in the third quarter. The rate of increase in consumer prices is more than double the inflation target. Rising logistics costs and the costs of cross-border payments have made imports more expensive, putting additional pressure on prices. Core¹⁰ inflation accelerated in the second half of the year, reaching 9.7%¹¹ m/m in October. High sustained inflation is reinforced by rising inflationary expectations among both households and businesses. Inflationary expectations of the population¹² returned to growth in May 2024 and reached 13.4% in October, the highest since December 2023. Surveys of professional analysts also showed an increase in expected inflation, but on a more moderate scale. The professional community's expected inflation for the year ahead¹³ rose to 5.3%, from 4.0% at the start of 2024. By October, businesses' price expectations had added 1.5 p. to reach 23.3 p. compared with the start of the year.

The high inertia of inflationary processes and a possible increase in inflation against the background of growing budget expenditures require a tighter monetary policy. We expect the Bank of Russia to stick to the "pro-inflationary scenario" in its decisions, which indicates the possibility of a further increase in the key rate. Our updated inflation estimate is 8.4% for 2024.

Tightening of monetary conditions in 2024 as a result of an increase in the key rate and tougher requirements for loan issuance. Taking into account the strengthening of pro-inflationary processes, the Bank of Russia has raised the key rate by a total of 5 p.p. in three stages – to 21% in October 2024. In addition, changes in the conditions for granting favourable mortgages and macroprudential measures enhancing the stability of the financial system have further tightened lending conditions. Demand for loans nevertheless remains strong, with banks' loan portfolios growing by 14.2% from the beginning of the year to September 2024¹⁴. The tightening of subsidised mortgage terms has had a dampening effect on mortgage growth since July, but the credit volume accumulated earlier has markedly expanded domestic demand. In addition, the expected increase in the cost of cars against the background of the increase in the utilisation fee has caused a sharp increase in demand for car loans. We believe that the effect of the key rate hike will slow down lending growth in Q4 2024.

⁹ Seasonally adjusted annualised growth rate of consumer prices against the previous quarter: 5.9% in Q1, 8.7% in Q2 and 11.2% in Q3. Source: Bank of Russia.

¹⁰ Core inflation is measured on the basis of the core consumer price index (CPI) and refers to the sustainable part of the overall inflation rate.

¹¹ Seasonally adjusted in annual terms. Source: Bank of Russia.

¹² Median inflationary expectations of the population for the year ahead according to the data of the population surveys of LLC inFOM.

¹³ Median inflation forecast for the end of 2025, according to the Bank of Russia's macroeconomic survey for October.

¹⁴ Excluding SME loans.

The current account surplus increased by more than 30% in January-October 2024. More complicated foreign trade settlements, higher logistics costs and the expansion of import-substituting industries led to a 5.3% YoY decline in imports of goods in January-October 2024. Exports remained at the level of January-October 2023, with the decline in oil prices partially offset by the growth of non-oil exports, which was largely due to the refocussing of supplies to friendly markets. In the first ten months of 2024, trade turnover between China and Russia grew by 2.8% YoY, and in 2023 it increased by a record 26.3%. Thus, the current account surplus was driven by a decrease in imports with relatively stable exports.

High volatility and weakening of the ruble towards the end of the year. The introduction of new sanctions in the financial sector in the second half of the year has narrowed the opportunities to use foreign currencies in settlements. This has led to a decline in imports and was a factor in the ruble's strengthening in July-August to an average of RUB 88 per dollar. However, the recovery of settlement operations for imports, coupled with the loosening of requirements to sell foreign currency proceeds and a decline in export revenues in recent months amid low oil prices, has returned the ruble exchange rate to a weakening trajectory. We expect the exchange rate of the national currency to be around RUB 100 per dollar at the end of 2024.

Additional budget expenditures may increase the deficit to 1.7% of GDP in 2024. From January to October, the budget posted a deficit of RUB 0.2 trillion compared with a deficit of RUB 1.1 trillion in the same period a year earlier. The decline in the deficit was due to 28.4% YoY growth in revenues in January-October compared with a year earlier, while expenditures grew by 23.7% YoY over the same period. However, the amendment to the budget law envisages a significant increase in budget expenditures in Q4, as a result of which expenditures may exceed revenues by RUB 3.3 trillion by year-end.

Forecasts

↓ **Table 7: Russia's main macroeconomic indicators (baseline scenario)**

Indicator	2023	2024F	2025F	2026F	2027F
GDP in constant prices (% growth YoY)	3.6	4.1	2.4	1.7	1.5
Consumer price index (% growth YoY at the end of the year)	7.4	8.5	6.5	5.6	4.5
Key rate (% the year's average)	9.9	17.5	21.1	15.5	11.5
Russian rouble to U.S. dollar exchange rate (the year's average)	85.2	92.5	104	106	109

Sources: national agencies, EDB analysts' calculations.

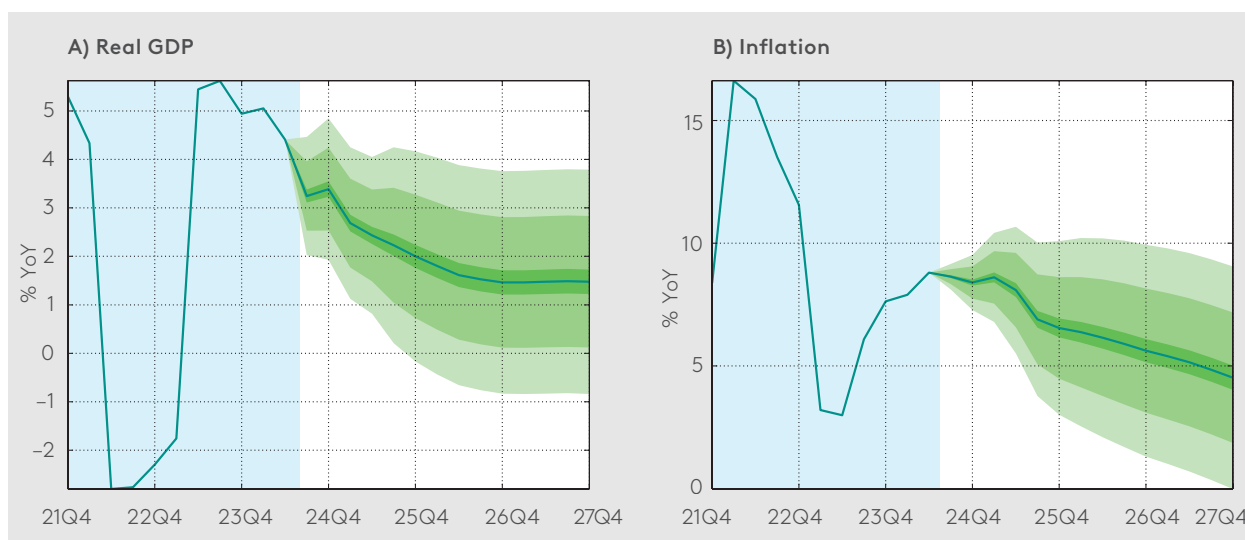
Economic activity and inflation

We forecast GDP growth of 2.4% in 2025. The increase in expenditures envisaged by the budget law for the next year to RUB 41.5 trillion (RUB 39.4 trillion in 2024) gives grounds to believe that the trajectory of output slowdown will be flatter and the reduction of overheating of the economy will be stretched out over time. Exports growth due to increased sales volumes amid growing demand from key trading partners, primarily China, will support GDP growth. At the same time, high interest rates and a gradual decline in the growth rate of real disposable household incomes will be factors restraining economic activity (Table 7). We expect moderate growth of imports in 2025 in the context of increasing domestic demand, which will be restrained by the weakening of the ruble exchange rate.

The economy will continue to move towards balanced growth in 2026–2027 (Figure 14.A). As the economy cools down from the overheating of previous years, it will tend towards its potential.

This will be largely facilitated by the return of the budget policy of setting expenditures within the framework of the budget rule. Structural factors will have a restraining effect on GDP, including negative demographic trends and a shortage of personnel in the labour market. The growth of import-substituting industries, as well as the diversification of trade routes and export offerings, will partially compensate for structural constraints, thereby increasing the growth rate of the economy.

↓ Figure 14. Forecast economic activity and inflation in Russia



Source: EDB analysts' calculations.

Inflation is above the target over the entire forecast horizon. We forecast a slowdown in price growth to 6.5% in 2025. The main effect of a significant tightening of monetary policy will materialise in 2025. A rapid slowdown in inflation will be hindered by: a stimulative fiscal policy, high inflationary expectations, the planned indexation of housing and utilities tariffs (+11.9%) and an increase in the utilisation

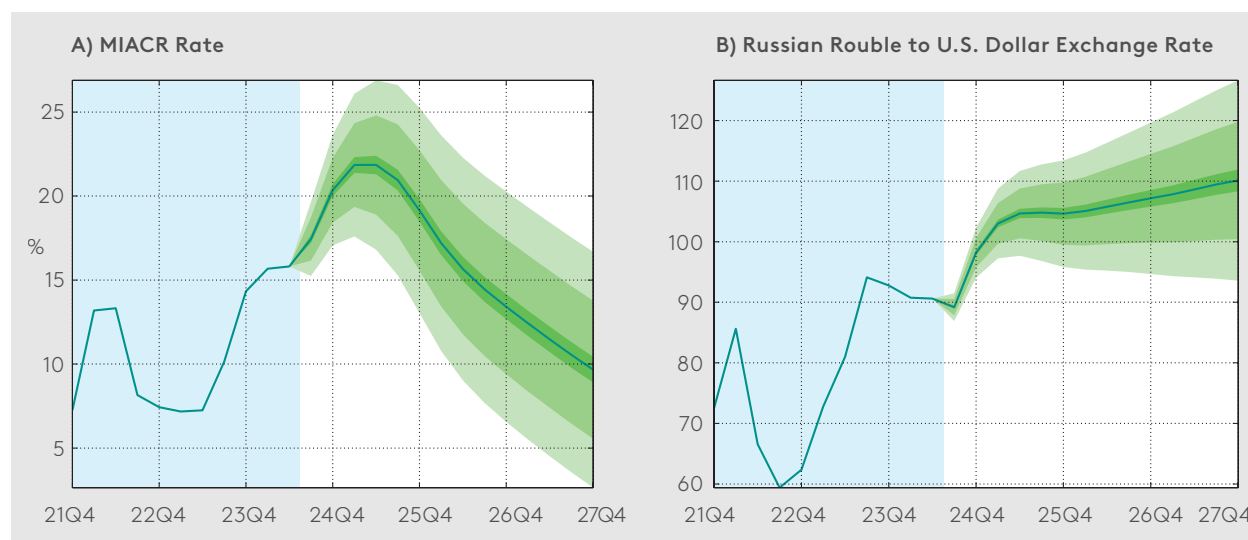
fee¹⁵ for motor vehicles. The weakening ruble exchange rate will further complicate the disinflation process. Inflation will continue to slow down in 2026–2027, but will remain at elevated levels (Figure 14.B).

Monetary policy and the Russian ruble exchange rate

Monetary policy under the “pro-inflationary scenario”. Against the background of the factors discussed above, achievement of rapid disinflation seems unlikely. The Bank of Russia will keep the key rate unchanged until at least mid-2025, and in case of additional pro-inflationary shocks, an increase in the rate cannot be ruled out. In the baseline scenario, we expect the key rate to fall to 19% by the end of 2025. As the budget consolidates and inflation slows, the regulator will be able to ease monetary conditions more actively in 2026–2027. We forecast the key rate to decrease to around 10% by the end of 2027 (Figure 15.A).

The average annual exchange rate will be around 104 rubles per dollar in 2025 (Figure 15.B). We expect a moderate weakening of the exchange rate. Strong domestic demand and budget expenditures will increase imports, which will be reflected in the demand for currency and will reduce the value of the ruble. At the same time, high interest rates and growth of export revenues will support the national currency. Looking into 2025–2026, in the absence of additional external shocks we expect the nominal exchange rate to weaken in line with the difference in inflation rates in Russia and abroad.

↓ Figure 15. Forecast interest rate and Russian ruble exchange rate



Source: EDB analysts' calculations.

¹⁵ From 1 October 2024, the utilisation fee indexation was 70–85%, with further increases of 10–20% each year until 2030. The amount of indexation for passenger cars depends on engine size, while that for lorries depends on age and weight.

Risks

A significant decline in oil prices remains a key risk for the Russian economy.

Demand for oil could decline in the context of a more significant slowdown in global economic growth than the baseline scenario assumes. The downside risk to oil prices increases in the event of an increase in oil supply in non-OPEC countries. A decline in global oil prices in the risk scenario would lead to a squeeze on export revenues. This could become a serious challenge to the sustainability of both the budget and the currency market. Against the background of the expected growth of budget expenditures in 2025, the reduction of oil revenues will require the search for additional sources of financing. In the case of increasing government debt, the availability of financial resources for the private sector will be limited. Under the current conditions of increased importance of oil exports for the stability of the currency market, a decline in oil prices will lead to a significant weakening of the ruble exchange rate. This will intensify the growth of inflationary expectations and consumer prices. Against the backdrop of slowing wage growth, real incomes will fall, leading to a contraction in domestic demand. Additional tightening of monetary conditions against the background of already high interest rates will create preconditions for a significant decline in business activity.

The probability of new trade restrictions against Russia remains high. Additional restrictions on international settlements pose risks to both uninterrupted foreign exchange earnings and imports of equipment. Realisation of such a scenario would require additional restructuring of logistics chains, which would significantly increase exchange rate volatility and complicate the disinflation process. This may require a longer period of sustained high interest rates in the economy and will negatively affect economic growth. The establishment of alternative mechanisms for international settlements may be a way to mitigate this risk.

REPUBLIC OF TAJIKISTAN



Source: [midjourney.com](https://www.midjourney.com)



REPUBLIC OF TAJIKISTAN

We forecast the economy to grow by 8.4% in 2025 under the conditions of strong domestic demand, as well as improved terms of foreign trade – higher gold prices and lower energy prices. Inflation will rise in 2025 and stabilise within the NBT's target range (6±2%) in 2026–2027, influenced by strong consumer activity. The National Bank may start raising the interest rate in 2025 against the background of rising inflation.

Current situation

High rates of economic growth in 2024. GDP grew by 8.4% YoY in January-September. The contribution of agriculture to GDP growth was 2.7 p.p. against the background of accelerated growth of the agricultural sector in Q3, which is explained by the [shift in the timing](#) of harvesting operations (EDB, 2024a) due to unfavourable weather conditions in spring of this year. The industrial sector contributed 1.0 p.p. in January-September due to sustained high growth rates in mining. Trade and construction contributed 1.5 p.p. and 0.4 p.p. to GDP growth, respectively.

Positive data on agriculture, which is performing better than in January-September 2023, gives reason to expect a strong performance economy-wide for the year as a whole, as the sector, together with the food industry, contributes approximately 28% of GDP¹⁶. Taking into account that the contribution to output growth from the industrial sector, trade and construction remains quite high, we forecast that GDP growth will be 8.4% in 2024.

The development of industry contributes to the rapid growth of the economy. The industrial sector increased production in January-October 2024. The highest growth was demonstrated by the extractive industry – 38.7% YoY due to the increase in ore extraction. Manufacturing industries grew by 8% YoY, largely due to a strong performance in food processing and metallurgy (5% YoY and 12.6% YoY output growth in January-October, respectively), focused on both domestic and external demand. The production of non-metallic mineral products required in construction also showed significant growth (16.1% YoY in January-October). The production of electricity, heat and gas recorded low growth of 2.3% YoY in January-October. The energy sector overcame the recession observed in the first half of the year, caused by a drop in electricity generation at hydro power plants, but has not yet returned to sustainable growth. According to our estimates, the industrial sector will continue to deliver economic growth rates above the average for the EDB's region of operations over the forecast horizon.

Trade and investment may reach double-digit growth rates this year. Retail sales and investments increased by 13.3% YoY and 6% YoY in January-October, respectively.

¹⁶ EDB analysts' estimate.

Trade and investment growth rates may accelerate in Q4. In the case of trade, the acceleration may be driven by the [mid-year](#) increase in public sector wages (EDB, 2024a). For investments, a possible acceleration may be driven by active financing of capital construction from the budget (the share of the state in the annual volume of investments consistently exceeds 40%).

Import grows faster than export. In January-October, the country shipped \$1.5 billion worth of goods abroad, a 1.6% YoY increase. By comparison, exports increased by 14.3% YoY in 2023. Shipments increased to foreign markets of non-precious metals, as well as textiles. Shipments of precious metals decreased. Strong domestic demand in the economy contributed to a 24.2% YoY increase in imports to \$5.8 billion in January-October. The foreign trade deficit in goods totalled \$4.2 billion. A year earlier, this indicator was \$3.1 billion.

The national currency appreciated in 2024. The somoni exchange rate strengthened gradually from an average of 10.96 somoni per dollar in December 2023 to 10.6 on the average in October. This was supported by an improving balance of payments — at the end of the first half of the year¹⁷ the current account surplus was \$0.3bn (6.2% of GDP) after a deficit of \$0.2bn (4.6% of GDP) in the first half of 2023 — mainly due to remittance flows into the country.

Consumer price growth has slowed down compared with last year. While in December 2023 inflation was 3.8% YoY, the rate of price growth has slowed since February 2024. In October, inflation was 3.6% YoY. The low inflation is attributed to the strengthening of the local currency and lower international prices of imported food and energy. Given the low monthly inflation rate in November last year, when prices fell by 0.2% m/m with consumer prices rising by an average of 0.9% m/m in November from 2018 to 2022, we can expect an acceleration in annual price growth by the end of 2024. We forecast that inflation will be 3.9% YoY in December 2024 — close to the lower boundary of the National Bank's target range (6±2%).

The National Bank reduced the refinancing rate by 1.0 p.p. to 9.0% in the period from the end of 2023 to October 2024. The rate will remain at this level until the end of the year — the last monetary policy meeting in 2024 was held on 25 October. Monetary policy easing has partially counterbalanced the impact of disinflationary factors on consumer price growth. The accumulated impact of successive interest rate cuts¹⁸ in 2024 will help accelerate inflation towards the target next year.

The state budget is recording a surplus. In January-September 2024, the surplus increased to TJS 2.9 billion or 2% of GDP, from TJS 1.9 billion in January-September

¹⁷ Balance of payments data for January–September have not yet been released.

¹⁸ Monetary policy easing in the country was more significant than can be concluded on the basis of the refinancing rate reduction alone. While in December 2023 the growth of money supply M2 was minus 4.3% YoY, by September 2024 it had accelerated to 36.8% YoY.

2023. Revenues grew by 10.9% YoY to TJS 33.3 billion, exceeding the planned level by 5.4% in the context of high growth of the economy and, consequently, the tax base. Expenditures increased by 9.3% YoY to TJS 31.3 billion. At the same time, financing of key investment areas other than energy and housing and utilities, such as agriculture, industry, transport and communications, decreased compared with the same period last year or stayed put. By the end of the year, we can expect¹⁹ growth of expenditures aimed at supporting most of these sectors to accelerate, and this will have a positive impact on the overall economic performance in 2024.

Forecasts

↓ Table 8: Main macroeconomic indicators of the Republic of Tajikistan (baseline scenario)

Indicator	2023	2024F	2025F	2026F	2027F
GDP in constant prices (% growth YoY)	8.3	8.4	8.4	8.0	7.4
Consumer price index (% growth YoY at the end of the year)	3.9	3.9	5.9	6.7	6.8
Refinancing rate (% per annum, the year's average)	10.5	9.2	9.2	9.9	10.6
Tajikistan's somoni to U.S. dollar exchange rate (the year's average)	10.8	10.8	11.0	11.5	12.1

Sources: national agencies, EDB analysts' calculations.

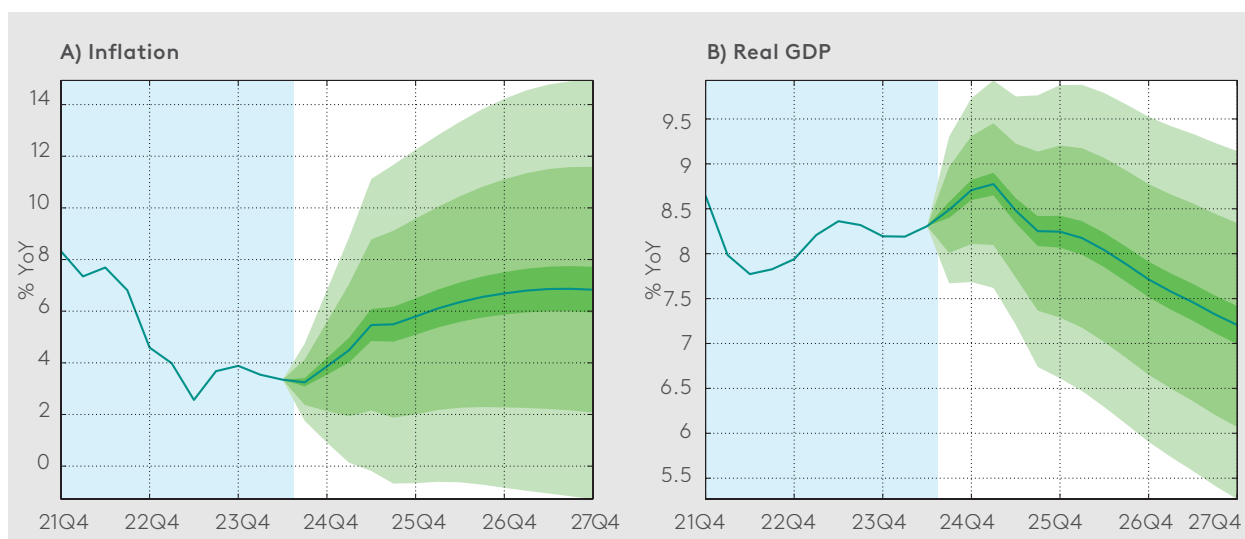
Economic activity and inflation

We raise our 2025 economic growth forecast by 0.4 p.p. to 8.4% (Table 8). The revision is driven by expectations of higher prices for gold and other metals, which are the key exports, as well as lower prices for imported energy and food products than we forecast in June (EDB, 2024b). Reducing the imports bill will free up additional funds that the country can use to finance consumption and investment, which will have a positive impact on economic growth.

We forecast a gradual slowdown in GDP growth in 2026–2027 (Figure 16.A). The influence of the factors driving rapid economic growth in 2024–2025 will weaken. The growth of metal prices will slow down, which will be reflected in a slower growth rate in the mining and metallurgical industry. The gradual slowdown of economic growth in Russia will negatively affect trends in the textile industry, which are to considerable extent determined by demand in the neighbouring countries of the region, as well as hitting the inflow of remittances to Tajikistan. Nevertheless, GDP growth in Tajikistan will remain the highest among the EDB member countries due to the catch-up nature of development and the high rate of population growth in the country.

¹⁹ On the basis of the plans foreseen in the 2024 budget.

↓ Figure 16. Forecast economic activity and inflation in Tajikistan

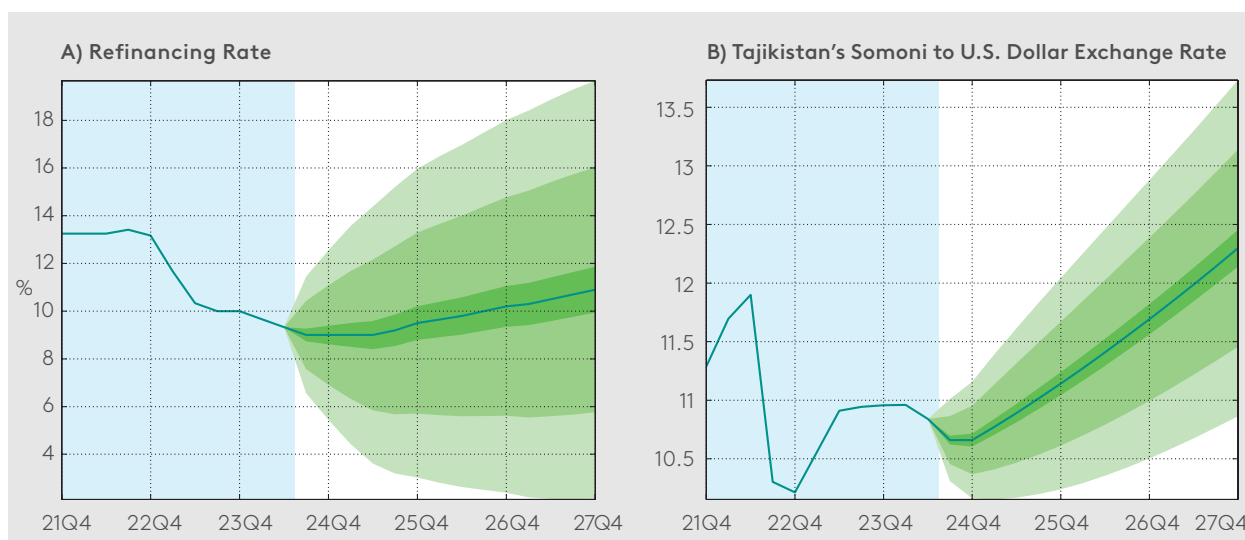


Source: EDB analysts' calculations.

In 2025, inflation will return to the NBT target range (6±2%) and will be 5.9% for the year as a whole. Consumer demand, supported by wage growth, will ensure acceleration of price growth to target levels (Figure 16.B). Imported energy prices will have a restraining effect – we expect oil prices to decline by an average of 7.4% in 2025 compared to 2024.

In 2026–2027, inflation will stabilise near the middle of the target range. Consumer price growth of 6–7% per year will be driven by domestic demand trends and a gradual weakening of the somoni. Additional pro-inflationary impact on prices in 2026–2027 will be caused by the growth of world food prices.

↓ Figure 17. Refinancing rate and the somoni exchange rate



Source: EDB analysts' calculations.

Monetary policy and the somoni exchange rate

In 2025–2026, the somoni will return to its gradual weakening against the dollar (Figure 17.B). This will be facilitated by an increase in demand for foreign exchange in the context of increased imports caused by growth in consumption and investment. At the same time, the exchange rate of the somoni will be affected by a slowdown in exports due to the declining potential for building new production facilities in sectors focussed on external markets, as well as a decline in remittances.

In the second half of 2025 the NBT may start to increase the refinancing rate under conditions of stabilised inflation rates near 6% YoY. The rate will reach around 11% by the end of 2027 (Figure 17.A), providing conditions for balanced growth of the country's economy.

Risks

The key risks for Tajikistan's economy are related to external factors. If weak growth in developed economies and a slowdown in long-term GDP growth in China lead to a more significant decline in commodity prices than in the baseline scenario, Tajikistan will face a decline in export revenues. At the same time, in the risk scenario, there may be a reduction in remittance inflows due to lower economic activity and a weakening of national currencies in key economic partners. As a result, the growth of household consumption and economic activity of the country as a whole will slow down.

A possible fall in gold prices is another external source of risk for Tajikistan's economy. The price of gold increased significantly in 2024, posting new historical highs during the year. In October 2024, the average monthly increase in gold prices was 41 per cent in annual terms — a record high for the past 13 years. However, a cheapening of gold is possible due to various factors, including the suspension of interest rate cuts by leading central banks or the easing of geopolitical tensions. Given that gold accounts for almost half of Tajikistan's exports¹³, a decline in its price could lead to a significant reduction in export earnings. This, in turn, would have a marked negative impact on the country's economic growth.

LIST OF SOURCES

EDB (2016) Forecasting System for the Eurasian Economic Union. Moscow: EEC, Saint Petersburg: EDB Centre for Integration Studies. Available at: <https://eabr.org/en/analytics/integration-research/cii-reports/forecastingsystemforthe-urasian-economic-union/> (Accessed 22 November 2024).

Vinokurov, E., Akhunbaev, A., Babajanyan, V., Berdigulova, A., Zabojev, A., Kuznetsov, A., Malakhov, A., Pereboev, V., Usmanov, N., Fedorov, K., Kharitonchik, A. (2022) Central Asia's Economy: A New Look. Papers and Working Papers 22/3. November 2022. Almaty, Bishkek, Moscow: Available at: <https://eabr.org/analytics/special-reports/ekonomika-tsentralnoy-azii-novyy-vzglyad/> (Accessed 22 November 2024).

Vinokurov, E., Kuznetsov, A., Melikhova, M., Berdigulova, A., Fedorov, K., Dolgovechny, A., Babajanyan, V. (2023) Macroeconomic Forecasts 2024–2026. December 2023. Almaty: Eurasian Development Bank. Available at: https://eabr.org/upload/iblock/04b/EDB-Macroeconomic-Outlook-2024_2026_rus.pdf (Accessed 22 November 2024).

Kuznetsov, A., Sobolevskaya, M., Berdigulova, A., Fedorov, K., Dolgovechny, A., Babajanyan, V. (2024a) EDB Macroeconomic Review. October 2024. Almaty: Eurasian Development Bank. Available at: <https://eabr.org/analytics/monthly-review/makroekonomicheskij-obzor-eabr-oktyabr-2024/> (Accessed 21 November 2024).

Vinokurov, E., Kuznetsov, A., Sobolevskaya, M., Berdigulova, A., Fedorov, K., Dolgovechny, A., Babajanyan, V. (2024b) Macroeconomic Forecasts 2024–2026. June 2024. Almaty: Eurasian Development Bank. Available at: <https://eabr.org/analytics/ceg-quarterly-reviews/makroekonomicheskij-prognoz-eabr-2024-2026-June/> (Accessed 21 November 2024).

Kuznetsov, A., Sobolevskaya, M., Berdigulova, A., Fedorov, K., Dolgovechny, A., Babajanyan, V. (2024c) EDB Macroeconomic Review. August 2024. Almaty: Eurasian Development Bank. Available at: <https://eabr.org/analytics/monthly-review/makroekonomicheskij-obzor-eabr-avgust-2024/> (Accessed 22 November 2024).

MF RK (2024) Ministry of Finance of the Republic of Kazakhstan. Draft Law of the Republic of Kazakhstan “On the Republican Budget for 2025–2027”. August 2024. Available at: <https://www.gov.kz/memleket/entities/minfin/documents/details/711702?lang=ru> (Accessed 19 November 2024).

MJ KR (2021) Ministry of Justice of the Kyrgyz Republic. Medium-term tariff policy of the Kyrgyz Republic for electricity for 2021–2025. September 2021. Available at: <https://cbd.minjust.gov.kg/158785/edition/6855/ru> (Accessed 20 November 2024).

MJ KR (2024) Ministry of Justice of the Kyrgyz Republic. Resolution of the Cabinet of Ministers of the Kyrgyz Republic dated 1 July 2024 No. 344 “On the forecasts of socio-economic development of the Kyrgyz Republic for 2025–2029”. July 2024. Available at: <https://cbd.minjust.gov.kg/7-30474/edition/13545/ru> (Accessed 20 November 2024).

NBRK (2024) National Bank of the Republic of Kazakhstan. Report on monetary policy. August 2024. Available at: <https://www.nationalbank.kz/ru/news/obzor-inflyacii/rubrics/2207> (Accessed 17 November 2024).

Government of the RK (2024) Official information resource of the Prime Minister of the Republic of Kazakhstan. Majilis approved the Law “On the Republican Budget for 2025–2027”. October 2024. Available at: <https://primeminister.kz/ru/news/mazhilis-odobril-zakon-o-respublikanskom-byudzhete-na-2025-2027-gody-29247> (Accessed 19 November 2024).

Deutsche Bundesbank 2021 Monthly Report, January 2021, available at: <https://www.bundesbank.de/resource/blob/858448/144b27fb6dae9364eff8c7e6a4a74fb4/mL/2021-01-produktivitaetswachstum-data.pdf> (Accessed 20 November 2024).

ABN-Ambro, 2024 Global Monthly Group Economics, May 2024 available at: https://assets.ctfassets.net/1u811bvgvthc/6F2Nn845cb79Lmwt7cCMXY/e00b29fea6f9f3c2136b27609b9df37e/2024-05_-_Global-Monthly_-_Updated.pdf (Accessed 20 November 2024).

Da Silva, 2024, António Dias da Silva, Paola Di Casola, Ramon Gomez-Salvador and Matthias Mohr Labour productivity growth in the euro area and the United States: short and long-term developments ECB Economic Bulletin, Issue 6/2024, available at <https://www.ecb.europa.eu/press/economic-bulletin/html/eb202406.en.html> (Accessed 20 November 2024).

LIST OF ABBREVIATIONS

%	per cent
% YoY	annual growth rate
\$	U.S. dollar
bbl	oil barrel
bn	billion
CBRA	Central Bank of the Republic of Armenia
CBR	Central Bank of the Russian Federation (Bank of Russia)
COVID-19	Coronavirus 2019, coronavirus infection
EDB / The Bank	Eurasian Development Bank
EAEU	Eurasian Economic Union
ECB	European Central Bank
EU	European Union
FDI	foreign direct investments
GDP	gross domestic product
KGS	kyrgyz som
KR	Kyrgyz Republic
KZT	kazakh tenge
IBL	interbank lending market
m	million
MIACR	Moscow Interbank Actual Credit Rate (actual rate on granted interbank loans)
NBKR	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NBT	National Bank of Tajikistan
OPEC+	Organisation of Petroleum Exporting Countries
p.	point
p.p.	percentage point
PMI	Purchasing Managers' Index (business activity index)
PPP	purchasing power parity
RA	Republic of Armenia
RB	Republic of Belarus a type of transaction in which securities are sold and at the same time an agreement is made to repurchase them at a predetermined price
REPO	
RK	Republic of Kazakhstan
RT	Republic of Tajikistan
RF	Russian Federation
RUB	Russian ruble
SWF	Sovereign Wealth Fund
TONIA	Tenge Overnight Index Average
U.S.A. / U.S.	United States of America
U.S. FED	U.S. Federal Reserve
VAT	value added tax

GLOSSARY

Budget (fiscal) reserves

The amount of available state budget funds available to finance expenditures.

Budget (fiscal) impulse

Describes the impact of fiscal policy on economic activity. A positive fiscal impulse indicates a positive contribution of fiscal policy to GDP.

Dollarization of bank deposits (loans)

Share of deposits (loans) in foreign currency in the total volume of deposits (loans) of commercial banks.

Neutral rate

An interest rate level that corresponds to inflation and inflationary expectations being sustainably at target levels, and GDP and the real exchange rate at equilibrium levels.

Potential (equilibrium) GDP

The volume of real GDP that would be produced in the economy in a certain time period under the most efficient use of factors of production. Potential GDP can also be understood as the volume of real GDP that the economy is able to produce sustainably without creating economic imbalances.

Equilibrium exchange rate

A real exchange rate that has neither additional inflationary nor disinflationary effects.

Output gap

Deviation of the volume of real GDP from its potential level. A positive output gap, as a rule, depicts excess demand in the economy and is an indicator of inflationary pressure. The opposite is true for a negative output gap.

Purchasing Managers' Index (PMI)

An indicator depicting changes in business activity and operating conditions of private enterprises in manufacturing and services. The indicator is calculated on the basis of monthly surveys of purchasing managers. PMI values above 50 points signal an increase in business activity, while those below it signal a decrease.



RESEARCH AT THE EDB WEBSITE



Macroeconomic Outlook (RU/EN)

Macroeconomic Outlook 2024–2026

The EDB forecasts that the aggregate GDP of the Bank's member countries will grow by more than 3% in 2024. The economic growth rates of the Eurasian region will be higher than the global average



Report 24/7 (RU/EN)

Capital in Multilateral Development Banks

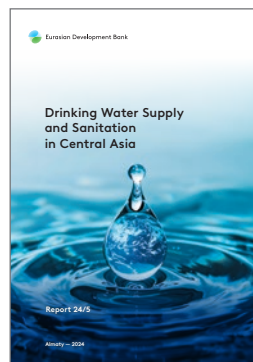
This paper covers the whole 'MDB family' of institutions but highlights regional and sub-regional MDBs because of their specifics of raising shareholders' capital. The study discusses seven standard and novel options for increasing capital



Report 24/6 (RU/EN)

The Eurasian Transport Network

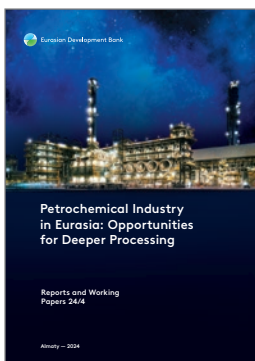
The report examines ten system elements of the Eurasian transport framework concept. Among them are the formation of a transport crossroads in Central Asia, priorities for intraregional transport connectivity, an impetus for realizing the agro-industrial potential of the countries of the region, and improvement of soft infrastructure.



Report 24/5 (RU/EN)

Drinking Water Supply and Sanitation in Central Asia

In Central Asia, 10 million people do not have access to safe drinking water. Given the priority importance of drinking water for public health and the scale of the challenges, a comprehensive approach is required in the region. A new EDB report presents a set of practical steps that shape such an approach.



Report 24/4 (RU/EN)

Petrochemical industry in Eurasia: Opportunities for Deeper Processing

The analytical report uses a balance approach to assess the production and export potential of the petrochemical complex of the Eurasian region (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, Uzbekistan) in the perspective up to 2035.



Report 24/3 (RU/EN)

Infrastructure in Eurasia: short-term and medium-term trends

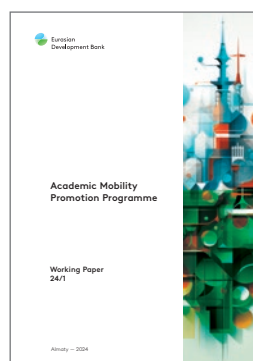
The EDB's report highlights ten important short- and medium-term investment and institutional trends in the region's energy, transportation, logistics, water supply and telecommunications sectors.



Report 24/2 (RU/EN)

Economic Cooperation in Eurasia: Practical Solutions

The EDB's report "Economic Cooperation in Eurasia: Practical Solutions" contains a "menu" of pragmatic applied solutions that can be enabled relatively fast and with flexible configurations among participating countries aimed at fostering mutually beneficial economic cooperation among Eurasian countries.



Report 24/1 (RU/EN)

EDB Monitoring of Mutual Investments – 2023

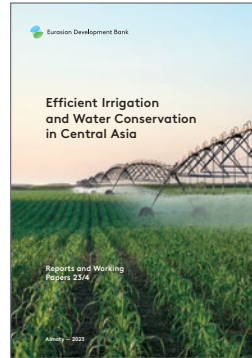
Eurasian countries' FDI stock reached \$48.8 billion by mid-2023, following a 5.4% increase in 2022 and with continued growth in 2023.



Report 23/5
(RU/EN)

EDB Monitoring of Mutual Investments — 2023

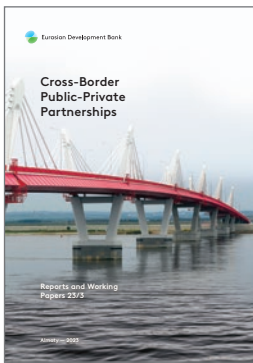
Eurasian countries' FDI stock reached \$48.8 billion by mid-2023, following a 5.4% increase in 2022 and with continued growth in 2023.



Report 23/4
(RU/EN)

Efficient Irrigation and Water Conservation in Central Asia

A new EDB study outlines ten practical steps for preserving irrigated land potential and promoting water conservation. The list includes four recommendations for adoption at the regional level and six at the national level.



Report 23/3
(RU/EN)

Cross-Border Public-Private Partnerships

The report outlines the criteria and scope of cross-border PPP projects, evaluates their potential for fostering cross-border infrastructure development in the EAEU, Central Asia, and the South Caucasus, and suggests guidelines for the successful implementation of cross-border PPPs in the region.



Report 23/2
(RU/EN)

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

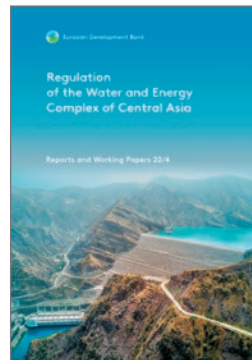
The report provides a comprehensive analysis of the challenges and prospects for low-carbon transition in Eurasia, covering EAEU countries, Tajikistan, and Uzbekistan.



Report 23/1
(RU/EN)

Food Security and Agro-Industrial Potential of the Eurasian Region

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



Report 22/4
(RU/EN)

Regulation of the Water and Energy Complex of Central Asia

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



Report 22/3
(RU/EN)

The Economy of Central Asia: A Fresh Perspective

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



Report 22/2
(RU/EN)

International North-South Transport Corridor: Investments and Soft Infrastructure

The study assesses the investment potential of the INSTC, identifies barriers to its development and provides recommendations on how to eliminate them.



Eurasian Development Bank

**CENTRE FOR MACROECONOMIC ANALYSIS
RESEARCH DEPARTMENT
EURASIAN DEVELOPMENT BANK**

Your comments and suggestions concerning
this document are welcome at:

pressa@eabr.org



Eurasian Development Bank

www.eabr.org