Eurasian Development Bank

MACROECONOMIC OUTLOOK 2023–2025

June 2023

MACROECONOMIC OUTLOOK

JUNE 2023

2023

Economic growth estimates for the Bank's member states improved

Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	Tajikistan
7.5%	2.2%	4.3%	4.2%	1.0%	7.9%

GDP growth in 2023

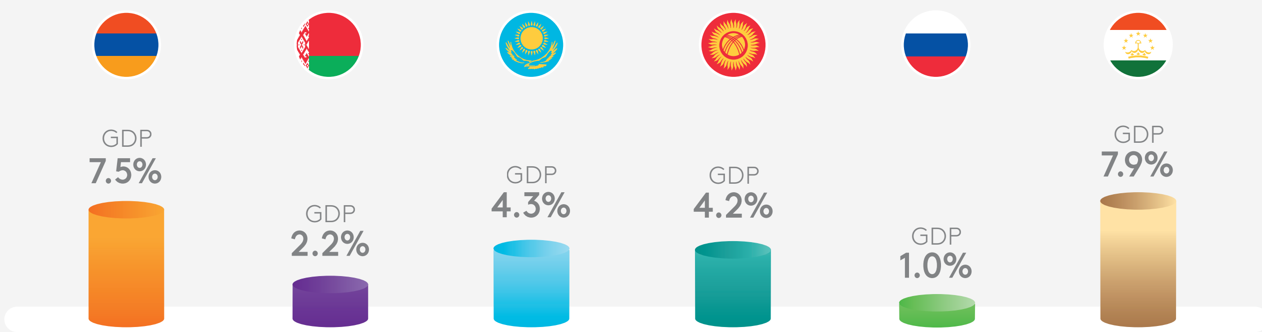
Inflation slowdown to single digits due to monetary policy measures and easing external pressure

6.4%
aggregate inflation in the region at the end of 2023

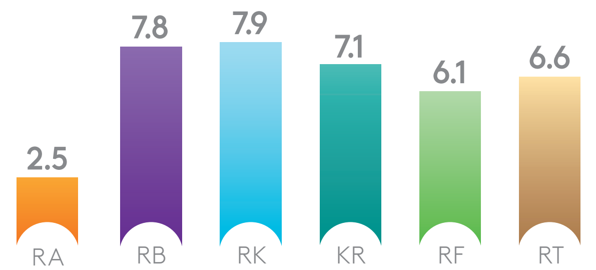
Key rate in Russia on hold and start of the base rate reduction cycle in Kazakhstan from the second half of the year

7.5%
key rate in Russia at the end of 2023

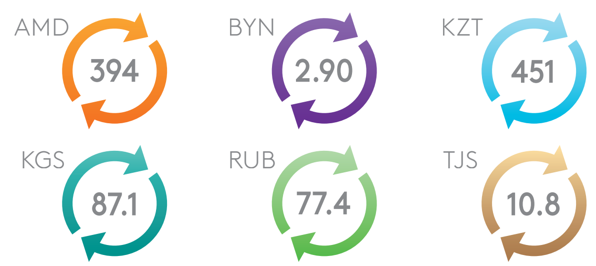
≈15%
base rate in Kazakhstan at the end of 2023



Inflation (at the end of the year, %)



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



2024

Economic growth near its potential amid external constraints

1.3%
Russia's GDP growth in 2024

1.1%
Belarus's GDP growth in 2024

High growth rates in Kazakhstan, Armenia, Kyrgyzstan, and Tajikistan

4.4%
Kazakhstan's GDP growth in 2024

5.1%
aggregate GDP growth in Armenia, Kyrgyzstan, and Tajikistan in 2024

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

5.2%
aggregate inflation in the region at the end of 2024

Easing of monetary conditions

≈7%
key rate in Russia at the end of 2024

11–12%
base rate in Kazakhstan at the end of 2024

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

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

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

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SUMMARY

The global economy is growing slowly, accompanied by higher inflation rates. The major central banks are likely to end their monetary tightening cycle soon. Major economies see weakening demand and runaway inflation, which is significantly higher than in the previous decade. In the medium term, the U.S. and Eurozone economies will have to function amid weak GDP growth and markedly higher price growth and interest rates than observed during the 2010s. The baseline scenario projects the U.S. GDP at 0.4% in 2023 and assumes recession in some quarters of 2023 and 2024, with meaningful recovery growth of 2.8% expected only in 2025. The rate of recovery in the Eurozone will be even slower, at 0.3% in 2023 and 1.9% in 2025. China is expected to lift its rigid lockdown policies, driving GDP to accelerate to 5.6% in 2023; the Chinese economy, however, is very likely to slow down in the medium term.

Thanks to domestic sources of growth, the GDP of the EDB operating region will increase by 1.5% in 2023. The outlook for 2023 has been revised and changed for the better for all member states of the Bank. The key drivers behind the revision were the strong performance at the start of this year, as economies adjusted rather quickly to the changed operating environment in 2022, and fiscal policy support in some countries. The economies of Russia and Belarus will return to positive annual growth rates as early as the first half of 2023. In 2023, the two countries' GDPs will increase by 1% and 2.2%, respectively. Kazakhstan's economic growth forecast is raised to 4.3%. The next year also expects to see high growth rates of 7.5% in Armenia, 4.2% in Kyrgyzstan, and 7.9% in Tajikistan.

Inflation in the Bank's operating region could slow from 12.4% in 2022 to 6.4% in 2023, encouraged by the adapting economies due to rapid recovery from shocks experienced in early 2022, a period of skyrocketing devaluation and inflation expectations. The countries of the region are now largely seeing a slowdown in the inflation rate; their expectations have stabilised, and economic sentiment has improved. In addition, global commodity prices are easing up their pressure on the economies. Global supply chains are returning to normal, with transport costs dropping. The increase in consumer prices by the end of 2023 is projected at 2.5% in Armenia, 7.8% in Belarus, 7.9% in Kazakhstan, 7.1% in Kyrgyzstan, 6.1% in Russia, and 6.6% in Tajikistan. We expect inflation in the majority of the countries of the region to approach the target values in 2024–2025.

A slowdown in inflation sets the stage for key rate cuts by the majority of central/national banks in the region. We believe the CB RF is going to maintain a neutral monetary policy in 2023. The baseline scenario assumes no changes will be made to the key rate this year. In 2024–2025, the Central Bank of Russia will start to reduce the key rate gradually, and by the end of the forecast period, it will be about 6–6.5%. The National Bank of Kazakhstan may start to reduce the base rate from the second half of 2023 in stages, and by the end of the year, there is a potential for reduction to 15% from 16.75% at the end of the May. In case of easing of inflationary pressures from the external sector, we might expect a base rate reduction to 11–12% by the end of 2024.

EDB MEMBER STATES

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

year-on-year growth rate, % (unless otherwise indicated)

Indicator	2021	2022	2023F	2024F	2025F
Republic of Armenia					
GDP in constant prices	5.8	12.6	7.5	5.1	5.4
Inflation *(at the end of the period)*	7.7	8.6	2.5	3.2	3.5
IBL rate *(the year's average), %*	6.4	9.0	9.7	6.4	6.8
Armenian dram to U.S. dollar exchange rate *(the year's average)*	504	436	394	414	422
Republic of Belarus					
GDP in constant prices	2.5	–4.7	2.2	1.1	1.0
Inflation *(at the end of the period)*	10.0	12.8	7.8	8.2	7.2
Refinancing rate *(the year's average), %*	8.6	11.6	10.2	9.3	9.0
Belarusian rouble to U.S. dollar exchange rate *(the year's average)*	2.54	2.62	2.90	3.05	3.17
Republic of Kazakhstan					
GDP in constant prices	4.3	3.3	4.3	4.4	4.4
Inflation *(at the end of the period)*	8.4	20.3	7.9	5.5	4.1
TONIA rate *(the year's average), %*	8.9	13.8	15.9	12.0	9.5
Kazakhstan tenge to U.S. dollar exchange rate *(the year's average)*	425.9	460.2	450.5	465.3	472.3
Kyrgyz Republic					
GDP in constant prices	6.2	7.0	4.2	4.1	3.6
Inflation *(at the end of the period)*	11.2	14.7	7.1	6.3	6.3
7-day Repo rate *(the year's average), %*	5.6	12.1	10.1	9.4	9.5
Kyrgyzstan som to U.S. dollar exchange rate *(the year's average)*	84.6	84.1	87.1	88.8	91.8
Russian Federation					
GDP in constant prices	5.6	–2.1	1.0	1.3	1.3
Inflation *(at the end of the period)*	8.4	11.9	6.1	4.9	4.0
Key rate *(the year's average), %*	5.8	10.5	7.5	7.1	6.4
Russian rouble to U.S. dollar exchange rate *(the year's average)*	73.6	68.4	77.4	79.5	80.6
Republic of Tajikistan					
GDP in constant prices	9.2	8.0	7.9	5.8	6.7
Inflation *(at the end of the period)*	8.0	4.2	6.6	5.6	6.2
Refinancing rate *(the year's average), %*	12.2	13.3	10.3	10.0	9.3
Tajikistan somoni to U.S. dollar exchange rate *(the year's average)*	11.3	11.0	10.8	11.0	11.3

Note: Here and in other tables, F = Forecast.
Sources: national agencies of the EDB member countries, calculations by EDB analysts.