



Eurasian
Development Bank

MACROECONOMIC OUTLOOK 2024–2026



June 2024



MACROECONOMIC OUTLOOK

JUNE 2024

2024

Economic growth estimates for the Bank's member states

Armenia **7.5%** Belarus **3.4%** Kyrgyzstan **5.5%** Russia **3.0%** Tajikistan **8.0%**

GDP growth in 2024

Estimate for Kazakhstan's growth is confirmed at

5.0%

GDP growth in 2024

Inflation to keep slowing due to monetary policy measures and easing external sector pressures

5.8%

Aggregate inflation in the region at the end of 2024

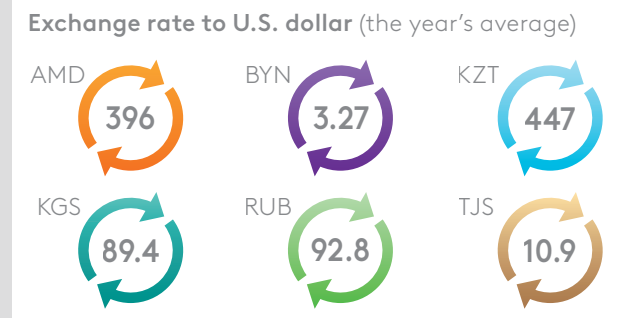
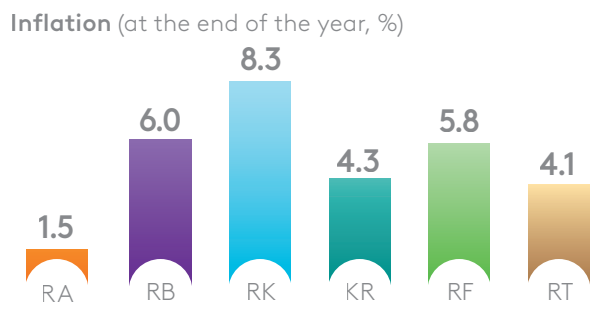
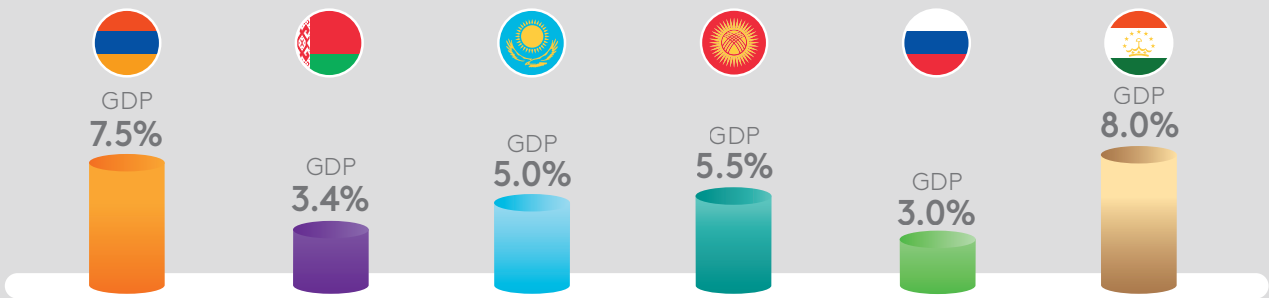
Start of key rate cut in Russia and further easing of monetary policy in Kazakhstan

15%

Key rate in Russia at the end of 2024

13.5%

Base rate in Kazakhstan at the end of 2024



2025

Slowdown in economic activity after accelerated growth

4.2%

Armenia's GDP growth in 2025

1.1%

Belarus's GDP growth in 2025

5.3%

Kyrgyzstan's GDP growth in 2025

1.1%

Russia's GDP growth in 2025

Strong growth in Kazakhstan and Tajikistan

5.5%

Kazakhstan's GDP growth in 2025

8.2%

Tajikistan's GDP growth in 2025

Inflation gradually approaching targets, barring additional shocks

5.1%

Aggregate inflation in the region at the end of 2025

Further easing of monetary policy

11%

Key rate in Russia at the end of 2025

8.75%

Base rate in Kazakhstan at the end of 2025

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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.

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

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CONTENTS

SUMMARY	5
EDB MEMBER STATES	6
FROM THE CHIEF ECONOMIST	7
REPUBLIC OF ARMENIA	18
Current situation	18
Forecast	19
Risks	21
REPUBLIC OF BELARUS	24
Current situation	24
Forecast	25
Risks	27
REPUBLIC OF KAZAKHSTAN	30
Current situation	30
Forecast	31
Risks	33
KYRGYZ REPUBLIC	36
Current situation	36
Forecast	37
Risks	39
RUSSIAN FEDERATION	42
Current situation	42
Forecast	43
Risks	45
REPUBLIC OF TAJIKISTAN	48
Current situation	48
Forecast	49
Risks	51
REFERENCES	52
LIST OF ABBREVIATIONS	53
GLOSSARY	54

SUMMARY

Global economic growth will remain at 3% in 2024. We do not expect an acceleration in growth due to the low activity in developed economies. After overheating, the U.S. economy will slow down, with its GDP rising by 1.9% in 2024 after 2.5% in 2023. The Eurozone's GDP growth will not change from 0.5%, last year's indicator, amid constrained economic activity. China will go beyond its growth target of 5%, fuelled by the government's supporting policies. A slowdown will be delayed until 2025. The developed economies will see inflation accelerate as growing global economic fragmentation causes wages and production costs to rise. The Fed's and ECB's policies were not strict enough to curb a rise in inflation. We expect monetary policy easing in the euro area to continue in the second half of 2024, while in the US it will start towards the end of the year.

GDP in the Bank's operating region will increase by 3.4% in 2024, after 3.9% in 2023. We raised the GDP 2024 growth projection for the majority of the Bank's member countries, supported by their domestic sources of growth and better export prospects. For example, the projection for Armenia's GDP has been raised to 7.5% because of its continued elevated domestic demand and increasing exports as gold prices surge. When raising the projections for Kyrgyzstan (5.5%) and Tajikistan (8%), we factored in rising exports of base metals and increased household consumption. The growth forecast for the Russian economy has been raised to 3% due to business activity in sectors focused on domestic demand, and rising wages. For Belarus, the forecast has been raised to 3.4% due to greater demand from Russia and continued rising wages. Kazakhstan's economy will grow by 5% as projected in December 2023.

Inflation in the Bank's operating region will slow to 5.8% in 2024, after 7.2% in 2023. Each country is dealing with its own issues when it comes to inflation: deflation persists in Armenia at the beginning of the year; Belarus is regulating prices to handle market signals; Tajikistan's and Kyrgyzstan's inflation has gone way down, lower than its target range. Elevated inflationary pressure is lingering in Russia and Kazakhstan. Rising domestic consumer demand will return consumer price rates to positive figures in Armenia, with inflation accelerating to 1.5% in late 2024. The government of Belarus is pushing forward regulations to curb rising prices, so we have lowered our inflation projection to 6%. Kazakhstan has revised its utility tariffs; this, along with elevated inflation expectations, led us to raise the inflation projection to 8.3% in 2024. We have to dial back the inflation projection for Kyrgyzstan (to 4.3%) and Tajikistan (4.1%), as the exchange rates of their national currencies have stabilised, and foreign energy and food prices have had no impact on inflation. In Russia, overheated domestic demand and pressure on prices from rising wages are hindering the disinflationary impact of tight monetary policy, so we have raised the inflation projection to 5.8%.

As inflation slows, **most national banks in the EDB operating region will lower their interest rates before 2024 is over.** We expect a 15% rate from the Bank of Russia, and 13.5% from the National Bank of the Republic of Kazakhstan in late 2024.

No significant deviations for national currency rates in the baseline scenario till the end of 2024. We project the Russian rouble to cost 95.5 per dollar, and Kazakhstan's tenge to value at 447 per dollar in late 2024.

EDB MEMBER STATES

↓ Table 1. EDB Forecasts. Main Macroeconomic Indicators of the EDB Member States (*baseline scenario*)
increase year-on-year, % (unless otherwise indicated)

Indicator	2022	2023	2024F	2025F	2026F
Republic of Armenia					
GDP in constant prices	12.6	8.7	7.5	4.2	4.9
Inflation (<i>at the end of the period</i>)	8.6	-0.6	1.5	2.5	2.0
IBL rate (<i>the year's average</i>), %	9.0	10.0	8.3	6.7	6.0
Armenian dram to U.S. dollar exchange rate (<i>the year's average</i>)	436	392	396	398	399
Republic of Belarus					
GDP in constant prices	-4.7	3.9	3.4	1.1	1.3
Inflation (<i>at the end of the period</i>)	12.8	4.9	6.0	6.8	7.7
Refinancing rate (<i>the year's average</i>), %	11.6	10.1	9.5	9.5	9.5
Belarusian rouble to U.S. dollar exchange rate (<i>the year's average</i>)	2.62	3.01	3.27	3.43	3.58
Republic of Kazakhstan					
GDP in constant prices	3.2	5.1	5.0	5.5	5.5
Inflation (<i>at the end of the period</i>)	20.3	9.8	8.3	6.3	4.8
TONIA rate (<i>the year's average</i>), %	13.9	16.4	13.4	9.4	7.5
Kazakhstan's tenge to U.S. dollar exchange rate (<i>the year's average</i>)	460.5	456.3	447.1	455.4	473.3
Kyrgyz Republic					
GDP in constant prices	9.0	6.2	5.5	5.3	4.1
Inflation (<i>at the end of the period</i>)	14.7	7.3	4.3	6.9	6.5
7-day Repo rate (<i>the year's average</i>), %	12.1	11.4	11.0	10.7	10.7
Kyrgyzstan's som to U.S. dollar exchange rate (<i>the year's average</i>)	84.1	87.9	89.4	92.6	94.9
Russian Federation					
GDP in constant prices	-1.2	3.6	3.0	1.1	1.6
Inflation (<i>at the end of the period</i>)	11.9	7.4	5.8	4.7	4.1
Key rate (<i>the year's average</i>), %	10.6	9.9	15.8	12.5	7.9
Russian rouble to U.S. dollar exchange rate (<i>the year's average</i>)	68.5	85.2	92.8	96.7	98.4
Republic of Tajikistan					
GDP in constant prices	8.0	8.3	8.0	8.2	7.8
Inflation (<i>at the end of the period</i>)	4.2	3.8	4.1	6.0	5.8
Refinancing rate (<i>the year's average</i>), %	13.3	10.5	9.3	9.7	9.8
Tajikistan's somoni to U.S. dollar exchange rate (<i>the year's average</i>)	11.0	10.8	10.9	11.1	11.4

Note: F = Forecast.

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

FROM THE CHIEF ECONOMIST

GLOBAL ECONOMIC TRENDS

The global economy is now less likely to slow down significantly as leading indicators point to economic acceleration. The global composite PMI was 52.4 in April (Figure 1), a 1.4 year-to-date surge. Business activity has cooled since the previous decade, a bellwether of weaker global GDP growth in 2024. Elevated inflation is still expected to linger around the globe, with price growth going beyond its 2024 targets in developed economies and remaining high in the medium term. The leading central banks will slowly begin their round of rate cuts in the second half of 2024. Interest rates will not go down to the average of the two previous decades in the U.S. and Eurozone over 2024–2026, keeping economic growth subdued and commodity prices varied. For the EDB operating region, the projection is neutral.

Recession is becoming less of a threat in developed economies. Late 2023 showed signs of a downturn in the Eurozone economy as its aggregate PMI was below 50. In contrast, **the PMI went up and beyond the threshold** in March 2024 for the first time in 10 months, **culminating at 51.7** in April. The Eurozone's services sector is showing strong growth (PMI at 53.3 in April), with industry still lagging behind (PMI at 45.7). Domestic demand encourages the non-manufacturing sector in the Eurozone's economy, while the industrial sector is discouraged by all disruptions of economic liaison with Europe's key trading partners. The Eurozone's stable growth was followed by **a slowdown in U.S. GDP growth** (Figures 2 и 3): 1.3% in 1Q2024¹ after 3.4% in 4Q2023, showing the Fed's strict policy at work. Industrial production slowed in April, too: its growth in the U.S. went to -0.4% YoY (vs. 0.0% YoY in March). Retail sales weakened to 3.0% YoY (vs. 3.8% YoY in March). Slowing economic growth in the U.S. paves the way for interest rate cuts around the globe.

Large developing economies are showing the strongest momentum: for example, India's composite PMI was 61.5 in April 2024, the highest recorded indicator in 14 years, fuelled by revamped international trade flows and structural domestic reforms. Brazil showed a slightly lower result, at 54.8, as the country began a round of monetary policy easing last year.

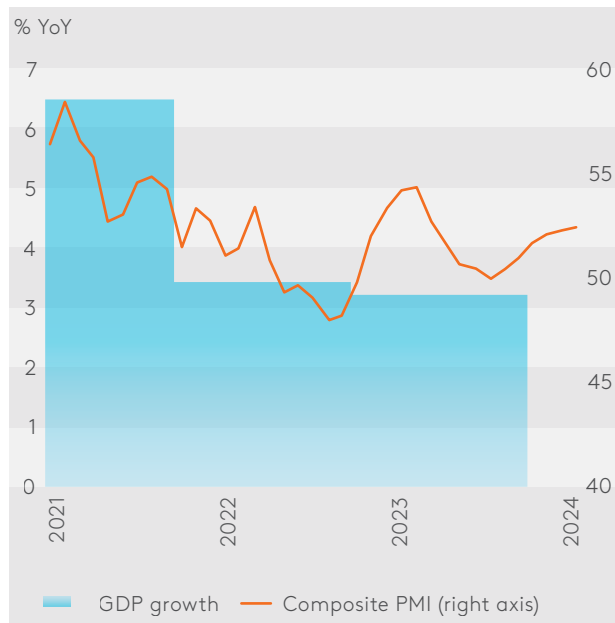
Early 2024 saw the Chinese economy picking up pace. In 1Q2024, the country's GDP grew by 5.3% YoY, the fourth consecutive quarter of GDP growth above 5%. The composite PMI totalled 52.8 in April, the highest since May 2023 (Figure 4). The government is eager to boost economic activity by investing in infrastructure and technological development. The Chinese economy's growth will even out until the end of the year, with several factors at play. First, the real estate sector is recovering financially. Second, domestic demand is underperforming, and low inflation is the proof of that: it was 0.3 YoY in April 2024.

China will struggle to adapt to changes in its external trade and investment in the medium term, **as its economy has historically been export-oriented.** The world is reorganising trade and financial flows (see box 1). We are optimistic about today's trend: the Chinese (and global) economy can function even as the world is going through all these changes, and remain almost as strong when it comes to business activity. Such a massive structural transformation will always curb economic growth in all countries involved — in this case, in the medium term.

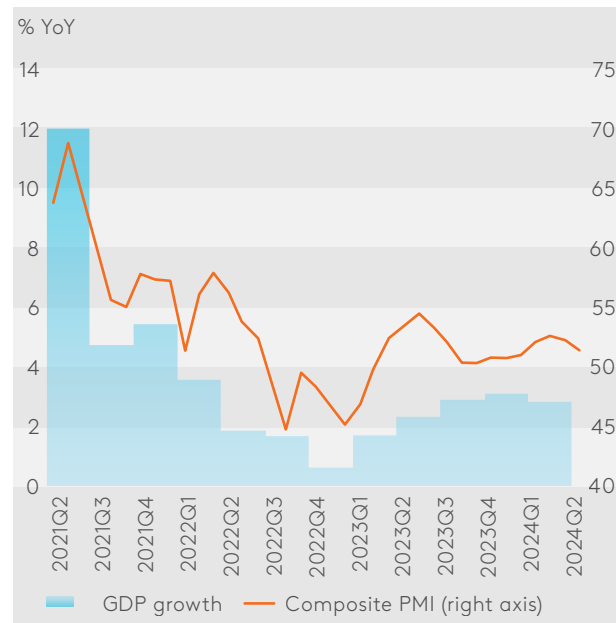
Inflation slowdown decelerated in early 2024 in developed economies: while in 2023, inflation fell from 9.2% YoY to 2.9% YoY in the Eurozone and from 6.4% YoY to 3.3% YoY in the U.S., in April 2024 consumer price growth was 2.4% YoY in the Eurozone and 3.4% YoY in the U.S. (Figures 5 и 6). We believe that, while a strict monetary policy puts a damper on inflation, there are multiple pro-inflationary factors at play here: labour shortages, associated wage growth, and rising production costs caused by increased fragmentation of the global economy.

¹ Annualised GDP growth as compared to the previous quarter and cleared of seasonal factor effects.

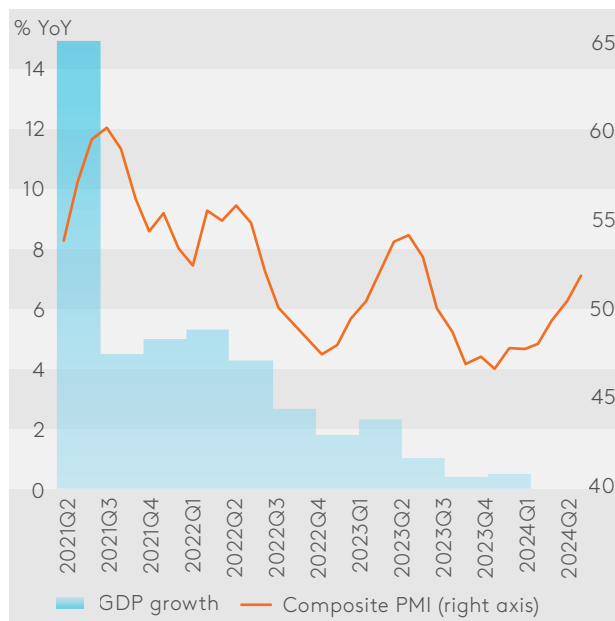
↓ Figure 1. Global economy: PMI and GDP Growth



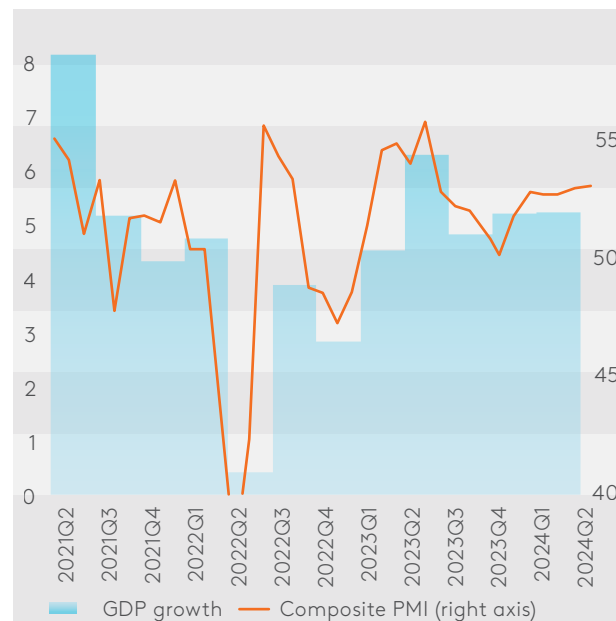
↓ Figure 2. U.S.: PMI and GDP Growth



↓ Figure 3. Eurozone: PMI and GDP Growth



↓ Figure 4. China: PMI and GDP Growth



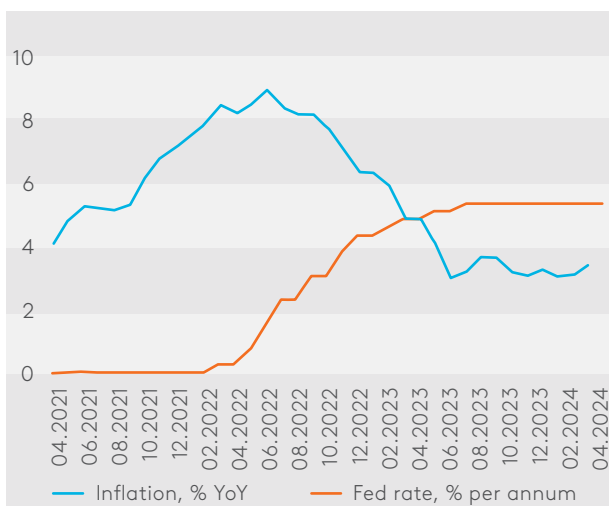
Sources: Bloomberg, national statistical agencies, IMF.

According to our estimates, these pro-inflationary factors will **keep inflation high in the Eurozone and U.S. in 2024**, with prices rising by 3.1% YoY in the Eurozone and by 3.7% YoY in the U.S.

Albeit elevated, inflation will slow down over 2025–2026. The slowdown will happen as the U.S. and Eurozone economies adapt to international fragmentation. Inflation will decrease to 2.8% YoY in 2025 and to 2.5% YoY in 2026 in the U.S. The Eurozone’s inflation will be higher on account of monetary authorities’ concern over weak economic growth and their consequent incentives: it will be 3.2% YoY in 2025 and 2.9% YoY in 2026, going back to the target beyond the forecast horizon.

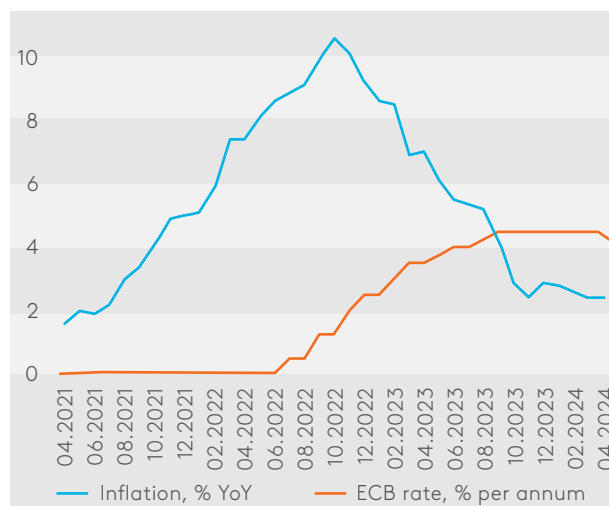
The central banks in the U.S. and Eurozone have been keeping their interest rates the same for over six months. A slowdown in disinflation occurred due to a delay in the easing of the Fed’s and ECB’s monetary policies. The ECB cut its rates by 0.25pc in early June, while the Fed continues to pause.

↓ Figure 5. U.S.: Inflation and Interest Rate



Sources: Bloomberg, Fed.

↓ Figure 6. Eurozone: Inflation and Interest Rate



Sources: Bloomberg, ECB.

We agree with the financial markets expectations² on the ECB policy. We believe that the European Central Bank will continue to cut rates as early as Q3 2024. This decision, albeit pro-inflationary, will become a necessary measure to accelerate slow economic growth. The ECB's interest rate will reach 3% in mid-2025, never straying up or down in the medium term. A deeper cut in the rate will be hindered if inflation remains above the ECB's target level.

We expect the Fed to lower its interest rate in late 2024. The rate will average 3.8% in the second half of 2026, after it is gradually lowered over the intervening years. It will be higher than in 2000–2019, as in Europe.

There are multiple reasons why **elevated inflation will linger, and high interest rates will not budge.** First is the unbalanced labour market: there are not enough labor force, so competition for talent is only natural, a consequence of demographic trends that have been taking hold, in particular, in most emerging economies. These include declining birth rates, ageing populations, and decreasing labour supply. Second, we expect the fragmentation of the global economy to persist in the long term, which raises production costs. Third, public spending is likely to increase over the medium term on account of both high debt in developed economies and the geopolitical situation. The central banks will ease their monetary policy, but will have to keep the key rate higher than before to lower pro-inflationary risks, a decision that will have consequences for business loan costs in the medium and long term.

All in all, we expect global economic growth to be lower in 2024–2026 than in 2022–2023. (Table 2). In 2024, GDP will rise by 1.9% in the U.S. after 2.5% in 2023; by 0.5% in the Eurozone (as it was in 2023), and by 5.1% in China vs. 5.2% in 2023. In 2025, however, GDP growth will slow to 1.2% in the U.S. and to 4.5% in China. The Eurozone will enjoy economic recovery at 1.6%. In 2026, as the interest rates are lowered, economic growth will increase to 1.8% in the U.S. and stabilise at 1.4% in the Eurozone. Compared to the vigour of the 2010s, economic activity will be subdued in the U.S. and Eurozone over the forecast horizon. The Chinese economy will gradually slow its growth to 4.4% in 2026, This process is determined by long-term structural constraints.

² According to Bloomberg's market-based estimates.

↓ Table 2. Projected Values of Key Foreign Economic Indicators (baseline scenario)

Indicator	2022	2023	2024F	2025F	2026F
Oil price (\$/bbl annual average)					
Brent	101	83	82	80	80
Urals	76	63	68	68	72
GDP growth (%)					
U.S.	1.9	2.5	1.9	1.2	1.8
Eurozone	3.4	0.5	0.5	1.6	1.4
China	3.0	5.2	5.1	4.5	4.4
Inflation (% , the year's average)					
U.S.	8.0	4.1	3.5	3.2	2.5
Eurozone	8.4	5.5	2.8	3.2	3.0
Key interest rates (% , the year's average)					
Fed	1.7	5.0	5.3	4.7	3.9
ECB	0.7	3.9	4.1	3.2	3.0

Sources: 2022–2023 — data from IMF, World Bank, Fed, ECB; 2024–2026 — forecasts by EDB analysts. Commodity price forecasts are based on forward market quotations according to Bloomberg data.

The global economic outlook does not open the door to a commodity price rise, but prices will be varied. The future of the **oil market** largely depends on the OPEC+ policy. The world's largest oil producers keep a significant supply in the market to support prices. Our projection does not suggest an oil supply upturn while the OPEC+ countries agree to cut oil production, a move that will keep Brent oil at 80 dollars per barrel. Russia's Urals will be at 68 dollars per barrel in 2024, rising to 72 dollars per barrel in 2026 as the discount to Brent decreases. **Food** prices will keep declining, albeit more slowly than in 2022–2023. **Non-precious metals** will enjoy moderate growth, with demand fuelled by the global transition to low-carbon energy. **Gold prices** will keep rising amid interest rate cuts in developed economies and continued global geopolitical uncertainty.

External conditions will not change in any way significant for the EDB member countries. Prices for energy, the region's main export, will not dip down. Metal exports will enjoy price growth, so countries specialising in those will make a profit. Lower food prices reduce pro-inflationary risks for economies in the Bank's operating region that depend on grain imports.

External demand does not drive economic growth in the Bank's member countries when it comes to the baseline scenario; rather, these countries will rely on domestic factors such as better economic performance, investment, as well as through cooperation between states.

Scenario analyses never offer 100% certainty, **so let us examine the major risks** and possible consequences for the economies of the EDB operating region.

A slowdown in economic activity in trading partner countries and an increase in oil supply from non-OPEC countries. High interest rates in developed countries and structural problems in the Chinese economy might well decrease consumer and investment activity.

Under the risk scenario, we believe that demand for energy carriers will decline when major economies slow their growth. If non-OPEC countries start producing more oil, the market will experience oversupply. The Brent oil price might fall to 60 dollars per barrel by 3Q2024, never going up or down in the medium term.

This is a risk scenario condition, with oil prices falling to \$60 per barrel; should it happen, the EDB operating region will make less export revenue, in particular, Russia and Kazakhstan. Other EDB member countries will see a decline in revenue from trading with the region's key economies and lower investment and remittance inflows. Consequently, the majority of currencies in the region will weaken. Under the risk scenario, inflation will accelerate, and countries will temporarily introduce a stricter monetary policy. We might expect GDP to contract moderately. The region will start to recover in 2026, as demand from the key trading partners rises, and monetary conditions ease.

Box. Global economic fragmentation

The global economy is in the midst of radical transformation, as trade and investment flows are being redirected and reconfigured. Many countries are now sticking to a de-risking policy and are friendshoring and nearshoring their supply chains. This basically means that they are reshaping all their economic ties to secure markets and sources of commodities and intermediate goods in countries that are considered geopolitical allies, i.e., neutral or friendly.

There are multiple reasons why this is now a growing trade practice:

- geopolitical tensions are rising: trade wars, sanctions, and overall political instability are prompting businesses to reconsider their dependence on single-source suppliers;
- supply chains get disrupted: the pandemic, natural disasters, and other force majeure events have exposed vulnerabilities in logistics links, so businesses are now looking to de-risk their trade by diversifying and regionalising;
- responsible consumption is on the rise: countries are willing to make an effort to reduce negative impacts on the environment and pick sustainable suppliers;
- increasing production efficiency: automation and digitalisation can pave the way for industries to remain competitive, even in high-wage countries.

Some of these factors are more important than others, and all of them contribute **differently to sustainable goals**. Geopolitical tensions are growing rapidly, and this is undoubtedly the single most important factor at the moment that heavily affects fragmentation.

There are more and more foreign trade barriers, and their number grows with every passing year. For reference, countries introduced about 3.000 interventions per year (on average) in 2009–2019, and this number grew to 5.500 per year (on average) in 2020–2023³.

As we analyse foreign trade of the major non-EDB developing economies, namely China, India, Brazil, Indonesia, and Mexico, we see that these countries pick diverse solutions, in the midst of a global transformation. (See **Figures A and B**).

³ Sources: Global Trade Alert https://www.globaltradealert.org/global_dynamics

The most tell-tale example is perhaps China's reconfiguration of its economic ties: the country has pushed away the majority of developed economies and is now eagerly trading with Russia. Mexico has taken the opposite approach as it moves towards the western sector of the fragmentation: the U.S.'s neighbour is now favouring developed economies and has cut ties with Russia and China. Other major developing economies stay out of such polarisation and have deepened their trade ties with both developed countries and China and Russia. We have reason to believe (Gopinath et al., 2024) that this response has stemmed the negative impact of economic fragmentation on global GDP growth.

Fragmentation has also affected investment and the country distribution of direct capital investment flows. Countries that do not have mutual foreign policy interests are now investing less: direct investments among them [accounted for 23% of total international FDI in 2013 and fell to 13% in 2022](#). It is especially obvious in production: trade tensions escalated in 2019, and rose in 2022, proving that they are purely geopolitical. Countries that have similar foreign policy agendas invest more in each other than they do in their geographical neighbours.

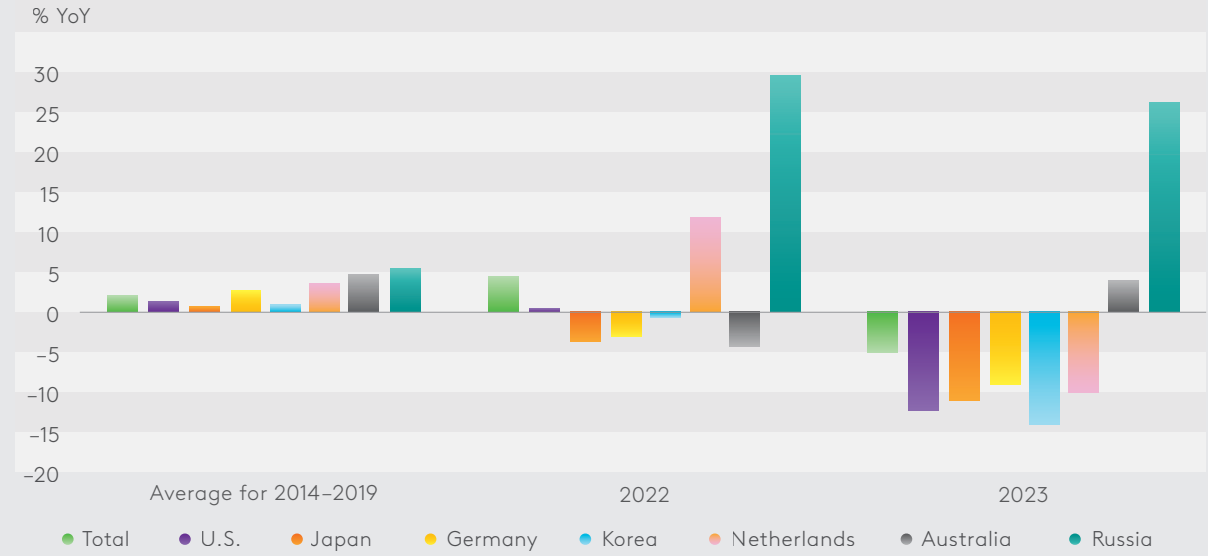
Investments are now smaller, too: they no longer follow global GDP and international trade, so although [the global economy grew by 3.2%, direct investment fell by 7% in 2023](#).

China is the best example of how global economic fragmentation has affected FDI inflows (See [Figure B1](#)). Direct investment into China has plummeted as the country has focused on domestic sources of capital investment financing. We cannot tell whether fragmentation has affected FDI inflows into other developing economies. (See [Figure B2–B5](#)).

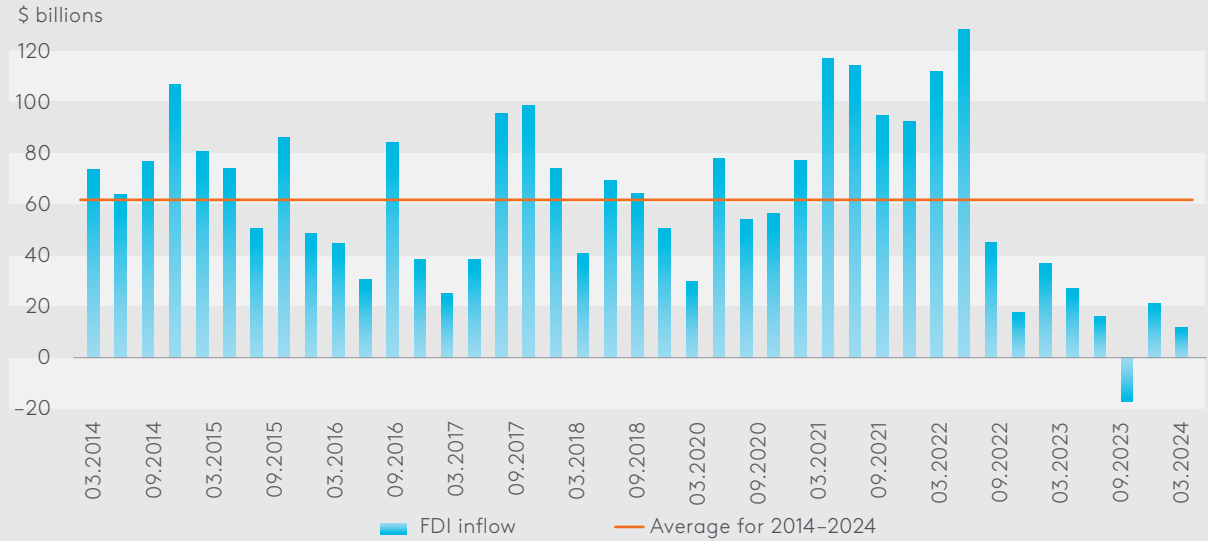
The threats of fragmentation have been accelerating, undermining cooperation and trust among countries, which are changing the way they build up their reserve assets. Many are willing to move away from the dollar, looking for alternative reserve currencies. There has been a steady decline in the dollar's share of global foreign-exchange reserves: from 57% in early 2020 to 54% in early 2023, due in part to the dollar's strength against world currencies. Meanwhile, the central banks are buying up gold: net gold purchases increased by 290 tonnes 1Q2024, following an increase of 220 tonnes in the previous quarter. Such great demand for gold is justified, but it is now causing prices to go up.

Global economic fragmentation is far from over. There is more to come, and everything will intensify further. The reconfiguration of global value chains cancels out any positive effect from the international division of labour, creates pro-inflationary risks, and increases transaction costs (Clancy, 2024). But there are two sides to the coin. Fragmentation can also increase financial stability (Claessens, 2019) and trigger new sources of growth. These might, however, hinder sustainable goals.

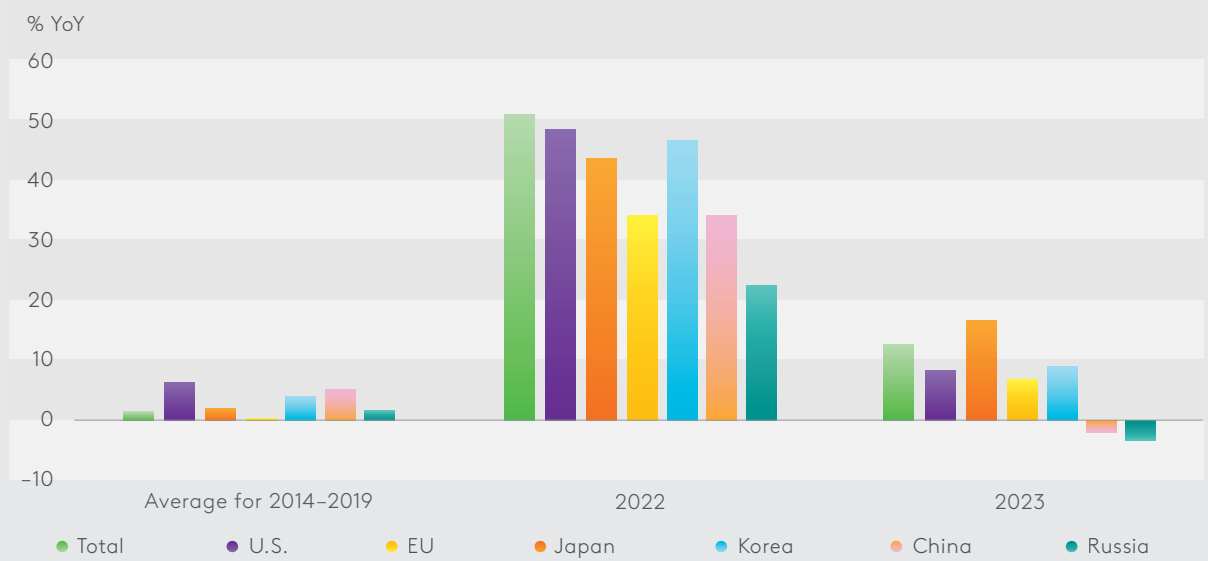
↓ Figure A1. China's Foreign Trade Turnover



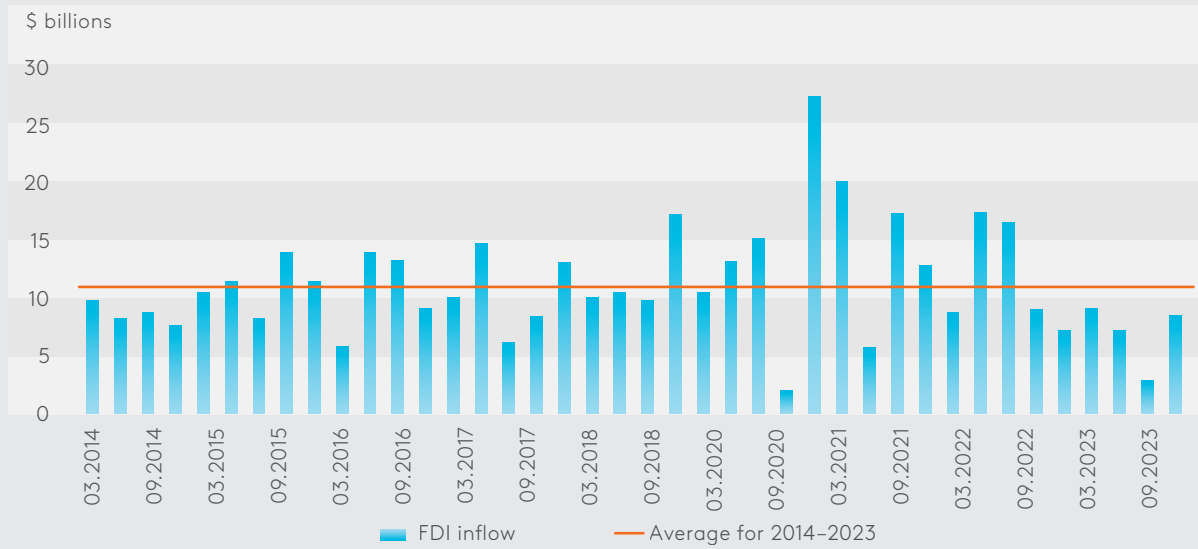
↓ Figure B1. FDI Inflow into China



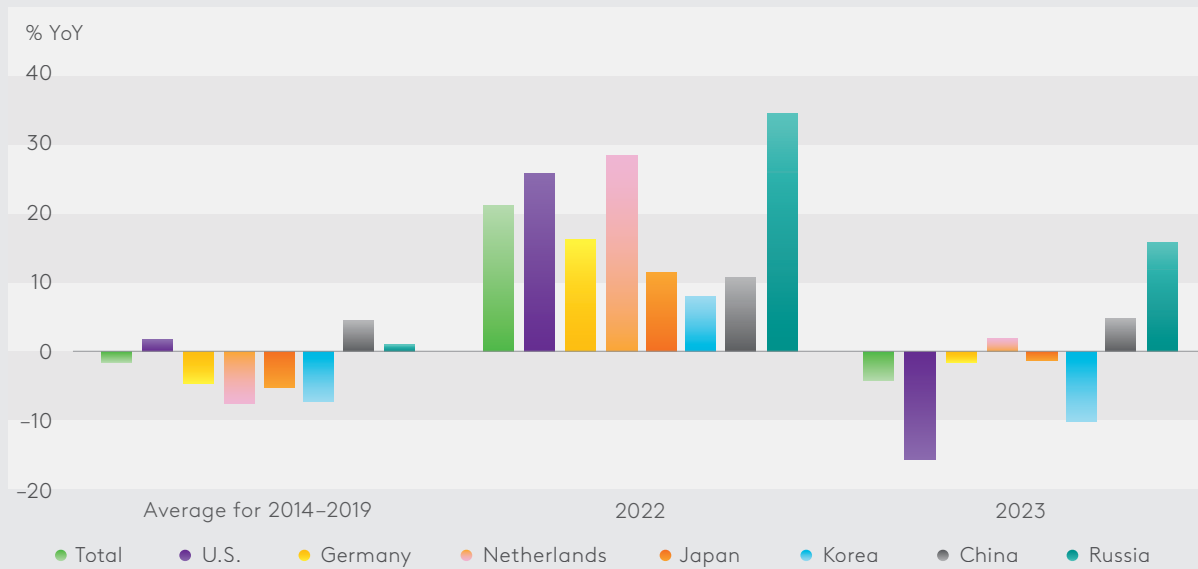
↓ Figure A2. India's Foreign Trade Turnover



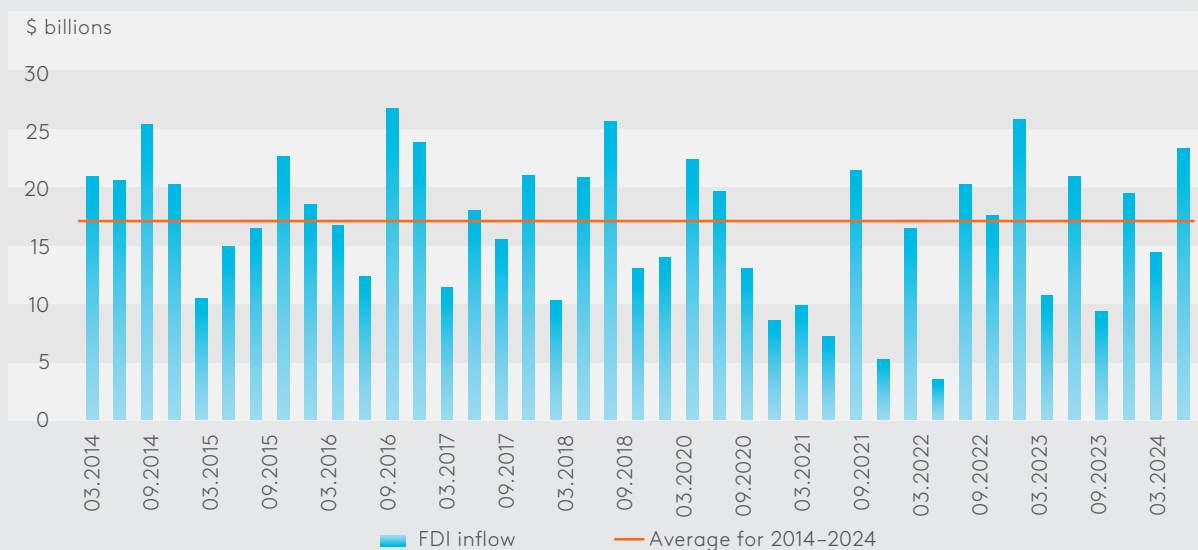
↓ Figure B2. FDI Inflow into India



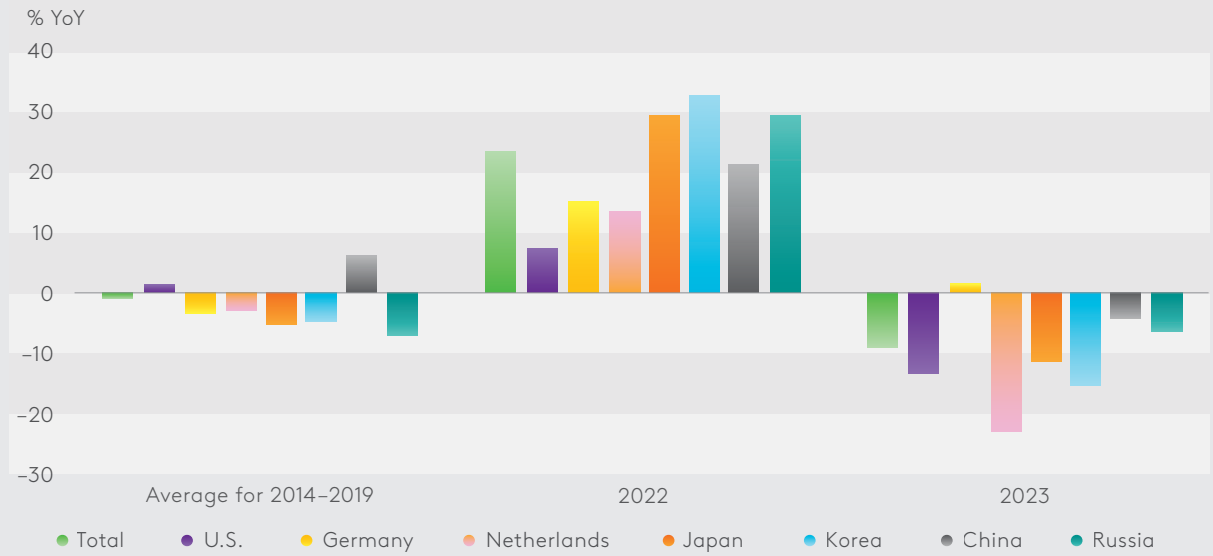
↓ Figure A3. Brazil's Foreign Trade Turnover



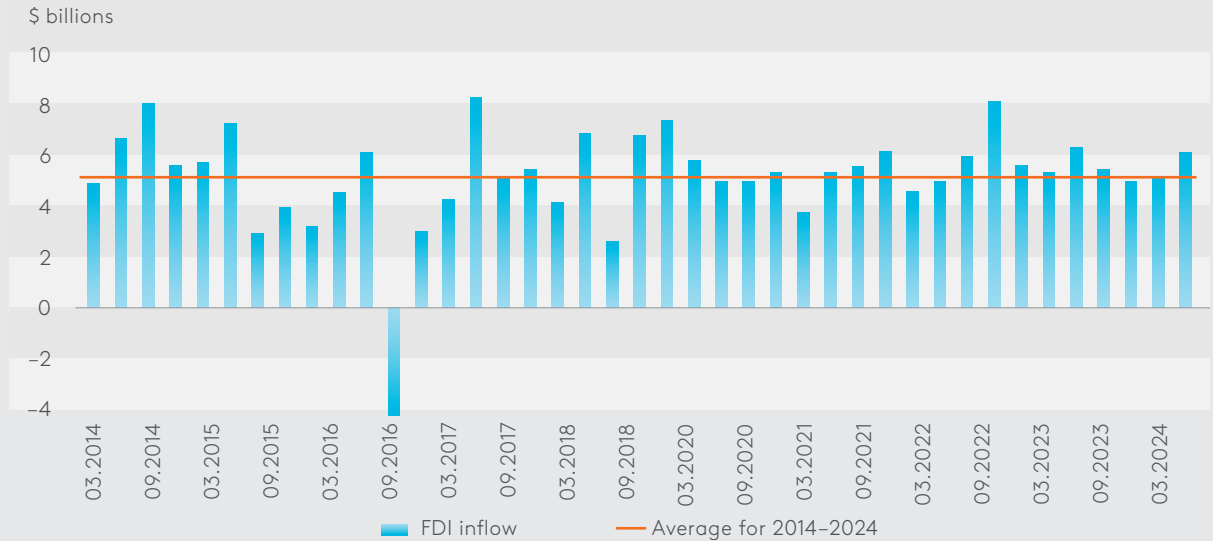
↓ Figure B3. FDI Inflow into Brazil



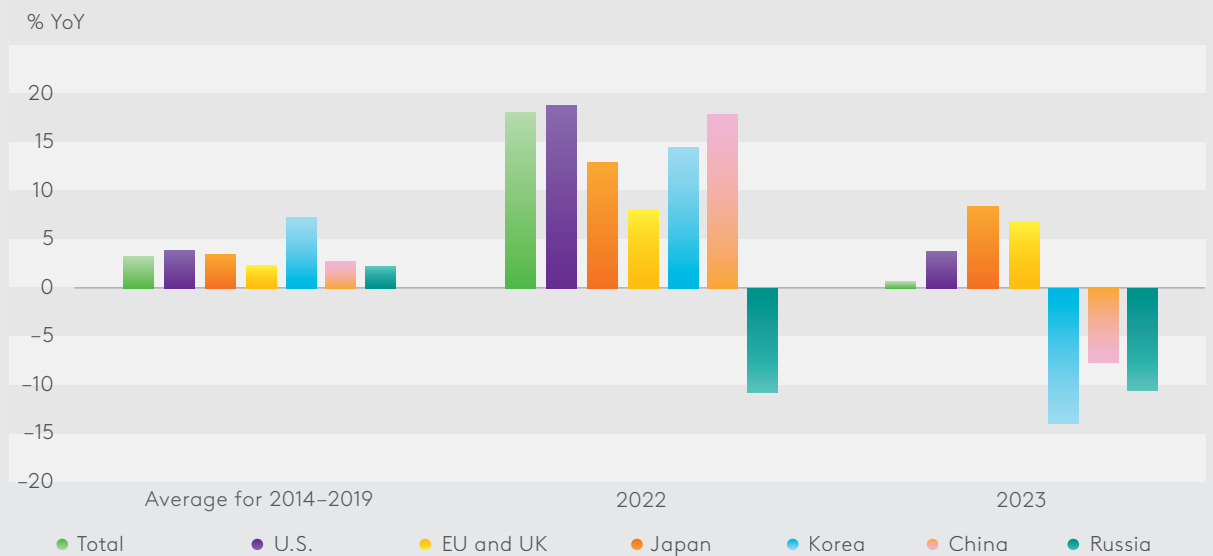
↓ Figure A4. Indonesia's Foreign Trade Turnover



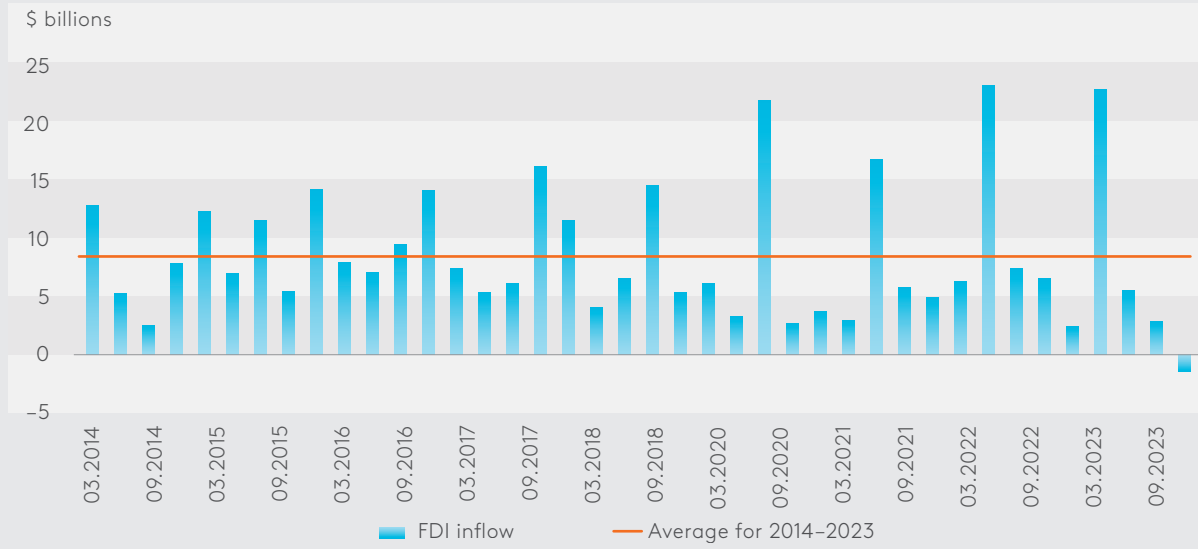
↓ Figure B4. FDI Inflow into Indonesia



↓ Figure A5. Mexico's Foreign Trade Turnover



↓ Figure B5. FDI Inflow into Mexico



Sources: national banks and agencies, EDB calculations.

REPUBLIC OF ARMENIA



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



REPUBLIC OF ARMENIA

The baseline scenario projects Armenian GDP growth at 7.5% in 2024. Inflation could accelerate to 1.5% in 2024 amid strengthening domestic demand, moderate weakening of the national currency, and likely further reductions of the refinancing rate. We expect fiscal policy to propel the Armenian economy in 2024.

Current situation

Armenia's economic growth rates accelerated in early 2024. The country's economic activity rose by 13.2% YoY over January–April, fuelled by the industry sector with its contribution of about 5.1 p.p. of growth, accounting for +26.8% YoY over January–April. The main sectors encouraged business activity, but this was primarily due to concentrated growth in some industries. For example, industry and trade grew by 26.7% YoY thanks to a manifold increase in the processing of, and foreign trade in, goldware; the services sector went up 3.9% YoY because of an increase in financial activities (+16.8% YoY). At the same time, most other services and manufacturing sectors showed weak output.

Industry growth accelerated in early 2024 because of an increase in the processing of, and foreign trade in, exportable goldware at the end of the previous year. Output in other key industry sectors dropped after it peaked in 2022–2023. A 4.6-fold YoY increase in goldware production in January–April offset the decline and slowdown in other major industry sectors. Construction, however, is keeping up the pace (up 13.7% YoY in January–April), bolstered by high mortgage lending (+23.3% YoY in April). Overall lending (up 21.2% YoY in April), significant savings, and lower consumer prices propped up domestic demand.

Cross-border remittances amounted to \$1.7 billion over January–April 2024, traditionally high, as in 2022–2023, albeit slightly lower (down 18.2% YoY)⁴. Remittance outflows, however, surged by 1.5% to \$1.3 billion, with Russia and the UAE as the target countries, so cross-border net remittances declined by 54.5% YoY.

Foreign trade volumes kept going up in the first half of 2024. In January–April, exports grew by a factor of 2.8 amid increased production and exports of goldware. Precious stones and metals boosted exports, along with supplies of machinery and equipment, as they rose 9-fold YoY in January–April. Imports in January–April grew by a factor of 2.1 YoY and were mainly driven by imports of precious stones and metals for processing and subsequent export, as well as machinery and equipment. There were fewer motor vehicles and non-precious metals imported, but other imports were steady in January–April.

The Armenian dram has strengthened since the beginning of the year: it appreciated by 4.3% against the dollar, by 6.2% against the euro, and by 4.4% against the Russian rouble in the end of May compared to late 2023. Strong exports encouraged the dram to gain strength. But the appreciation of the national currency curbs external demand for exports of most goods and services. As the dram strengthened over February–May 2024, it put a damper on the rise of consumer prices.

Prices increased for the first time in May after an extended period of desinflation. Prices rose 0.3% in May after a 0.7% decline a month earlier, with prices continuously falling in the food segment: for example, food fell in price by 2 % YoY in May after a 4.5% YoY decline in April.

⁴ Inflows were \$5.6 billion in 2023 and \$5.1 billion in 2022, compared to an average of \$1.9 billion per year in 2018–2021.

Consumer price dynamics are uneven, mostly owing to a decrease in the cost of imported food amid lower prices on international markets, tight monetary conditions⁵, and the strengthening exchange rate of the dram. Inflation is steady when it comes to non-traded goods and services, but it slowed slightly to 2.4% YoY in March⁶, a bellwether of cooling inflation expectations.

The Central Bank of Armenia had a meeting on 11 June, where it decided to reduce the refinancing rate for the ninth time in a row, this time by 0.25 p.p. to 8%, a decision brought about by low inflation from declining international commodity prices, the strengthening exchange rate of the dram, and the cooling labour market. Overall, the Bank has decreased the refinancing rate by 2.75 p.p. since it started its round of cuts in the second half of 2023.

Forecast

↓ **Table 3. Key Macroeconomic Indicators of Armenia (baseline scenario)**

Indicator	2022	2023	2024F	2025F	2026F
GDP in constant prices (% growth YoY)	12.6	8.7	7.5	4.2	4.9
Consumer price index (% growth YoY at the end of the year)	8.6	-0.6	1.5	2.5	2.0
IBL rate (%, the year's average)	9.0	10.0	8.3	6.7	6.0
Armenian dram to U.S. dollar exchange rate (the year's average)	436	392	396	398	399

Sources: National agencies, calculations by EDB analysts.

Economic activity and inflation

The baseline scenario projects the Armenian GDP to increase by 7.5% in 2024. (Figure 7.B). This rate is faster than [we previously expected](#); it is attributed to strong business activity in January–April amid strong growth in goldware processing and exports. This factor will no longer have any effect on GDP in 4Q2024; rather, its growth will be encouraged by strengthening domestic demand due to expanding individual lending and investment, and low consumer prices. We see the government employing a stimulative fiscal policy. Economic growth will balance at 4.2% in 2025 and 4.9% in 2026. (Table 3).

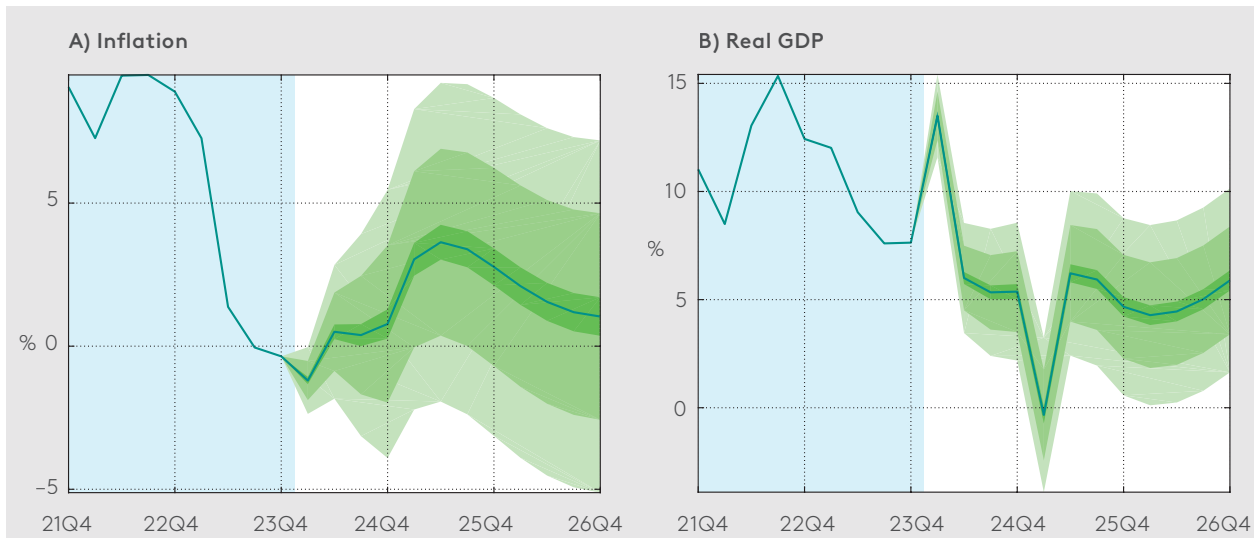
The country's major economic partners are likely to experience a cooling of their economic growth in 2024, hindering remittances and external demand on most exports. Exports, however, will not suffer much and will still go strong due to ultra-big foreign trade in goldware.

Under the baseline scenario, we project inflation at 1.5% YoY at the end of 2024. (Figure 7.A). A disinflationary effect from global commodity prices will curb prices, along with lower inflation expectations and the strengthening exchange rate of the dram. The easing by the Central Bank of the Republic of Armenia, a stimulative fiscal policy, and higher domestic demand will accelerate inflation in 2024. Inflation will form at the lower end of the Central Bank's target range in 2025–2026 (4±1.5%).

⁵ With core inflation minus 0.7% YoY in March, the same result it showed in February.

⁶ Non-traded rigid price inflation includes the prices of housing, health care, schooling, and other consumer basket goods and services that do not participate in international trade. For more information, please see: https://www.cba.am/AM/News/Pages/news_30042024.aspx#sthash.2Xy5mIWU.dpbs, https://www.cba.am/EN/ppperiodicals/MPR_2024_Q1_Eng.pdf.

↓ Figure 7. Economic Activity and Inflation Forecast for Armenia



Note: Here and elsewhere, GDP and inflation data are seasonally adjusted; the chart ranges correspond to the 10%, 50%, and 75% confidence intervals.

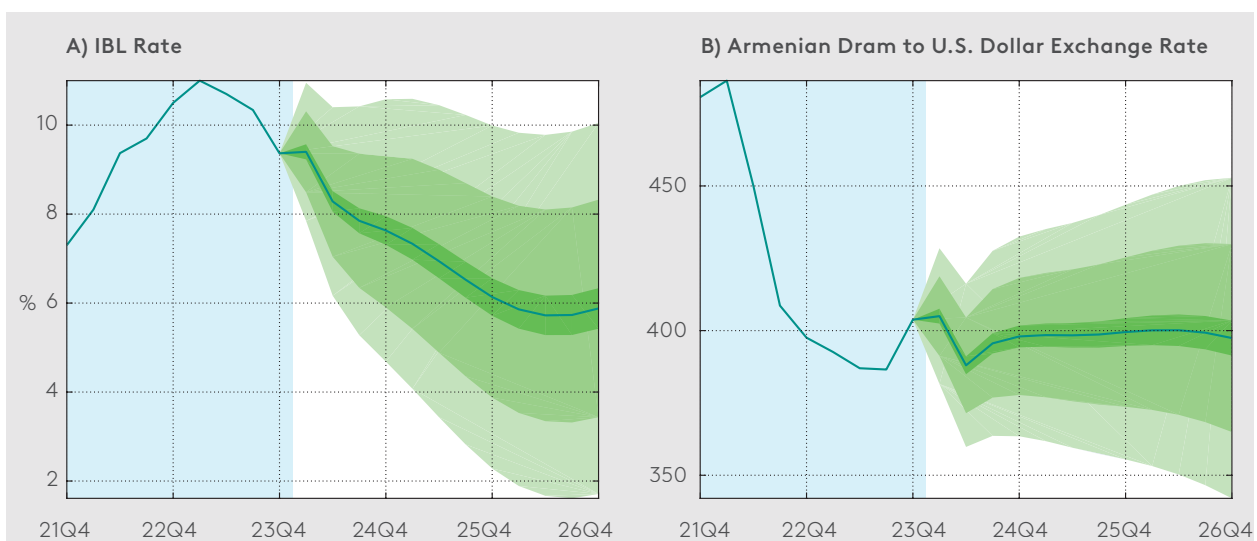
Source: calculations by EDB analysts.

Monetary policy and the Armenian dram exchange rate

The Central Bank will continue reducing its refinancing rate to 7.5% in late 2024. (Figure 8.A). This will only happen if inflation remains under the CB RA target range ($4 \pm 1.5\%$). We believe that monetary policy will gradually cease its curbing of demand in 2024. The IBL rate will fall to 7% in 2025, which will be on a par with the CB RA's stable inflation target range.

The average annual exchange rate of the Armenian dram against the dollar is projected at 396 in 2024. (Figure 8.B). The inflow of remittances, strong exports, and stable tourism will, however, bolster the national currency in 2024. The Armenian dram is likely to depreciate somewhat, and there are multiple factors at play here, in particular, an adjustment in the growth rate of exports of goods, depreciation expectations caused by the geopolitical situation, a rate cut in the money market, and slower economic growth.

↓ Figure 8. Interest Rate and Armenian Dram Exchange Rate Forecast



Source: calculations by EDB analysts.

Stimulative fiscal policy in the medium term. Fiscal policy will stimulate demand in 2024, according to our estimates, given the government's plans to increase the budget deficit to 4.6% of GDP vs. 2.0% in 2023 in the context of expenditures rising by 1.1 p.p., to 28.7% of GDP. The government is looking to increase capital spending by 0.6 p.p. to 6.6% of GDP in 2024 and keep it at that level until 2026. This will help boost productivity and expand the economy's growth potential in the medium term. Under the government's Medium-Term Expenditure Programme for 2024–2026, expenditure rates will stabilise around 28% of GDP, and tax revenues will grow by 0.6 p.p. per annum.

Risks

The strong concentration of economic growth in a select few industries might prevent growth from reaching sustainability under the baseline scenario. It was increased production and exports of jewellery that boosted economic growth in Armenia in the first half of 2024. If that was a one-time spurt, then economic growth is more likely to slow down in 2024 than was expected in the baseline scenario.

Significant slowdown in the global economy and in major trading partner countries. High interest rates in developed countries and structural problems in the Chinese economy might well decrease consumer and investment activity. The Russian economy will suffer from lower demand for energy. These conditions will cause Armenia's external demand and remittances to decrease and depreciation to attack the Armenian dram.

Armenia's economic growth driver for 2022–2023 could pose a risk to the economy. The likelihood of capital and labour outflows is a significant threat to the economy and to the stability of the national currency. A reversal of the net inflow of cross-border remittances would lead in the first place to sharp depreciation of the national currency and a surge in prices (for more information, please see [EDB Macroeconomic Outlook for 2023–2025](#)).

REPUBLIC OF BELARUS



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



REPUBLIC OF BELARUS

The economy of Belarus will maintain increased growth rates in 2024 due to continued demand in both the domestic and Russian markets. Industry is showing progress, too. Wages are rising significantly, lending is increasing, and both factors are supporting consumer activity. Administrative regulation is restraining price growth, but creates pent-up pro-inflationary risks. The country is also continuing to accumulate gold and foreign exchange reserves.

Current situation

The Belarusian economy managed to maintain its high growth rate in 2024. We believe that the country's economy has overheated due to output going beyond the planned growth indicators. GDP rose by 5.1% YoY in January–April 2024. According to preliminary data, almost half of the growth was provided by industry, whose output increased by 7.7% y/y in January–April. Growing demand in both domestic and Russian markets propels the industry to grow. The increase in electricity generation at BelNPP helps, too. Wholesale and retail trade rose, totalling 11.3% YoY in January–April 2024, contributing about 1 p.p. to GDP growth. The country also saw growth in agriculture (up 6.4% YoY). The transport industry showed better performance, too (+5.7%), boosted by a 4.1% YoY increase in cargo turnover that recovered successfully as Belarus set up new logistics chains. There has been an improvement in construction, including an increase in housing construction. Information and communication still show negative numbers, although the country is now less likely to curb these services (as of April 2024).

Domestic demand is the key driver of growth. High growth in real wages (up 13.5% YoY in January–April 2024) and continued expansion of individual lending may raise final consumption. Retail sales grew by 12.1% YoY in January–April 2024; food service rose by 11.2% YoY. Investment in fixed assets went up, too, by 10% YoY in January–April 2024, boosting domestic demand. We cannot, however, claim that investment activity will steadily rise, because the growth is attributed to public institutions, whereas the private sector has not shown any upward trends.

Inflation remained within the official target in January–April 2024 (6% and less). It was 5.6% YoY in April, March, and February 2024. Services inflation slowed to 6.9% YoY in April after 7.1% YoY in March. Non-food inflation accelerated to 3.9% YoY in April from 3.5% YoY in March, while food prices grew by 6.2% YoY, never straying up or down from the previous month. The government is keeping a lid on prices, so they might have a subdued reaction to rising domestic demand. This might lead to a monetary overhang affecting prices in the medium term.

Foreign trade in goods and services posted a deficit of \$96.1 million over January–March 2024 vs. a surplus of \$186 million YoY. Such a balance is only natural after imports of goods and services rose by 2.3% YoY in January–March, and exports fell by 0.1% YoY. Exports of goods went up 0.6% YoY due to higher physical volumes. Export prices, however, are falling, either due to the deterioration of the economy or weaker competition in the key Russian market. Exports of services went down 3.1% YoY, likely because of the contraction in computer services. The value of imports of goods increased by 2.9% YoY, mainly due to physical volumes and expanding domestic demand. Services imports were cut by 1.5% YoY. Foreign trade, although in deficit, had little effect on reserve assets: the value of gold in reserves went up, and so did reserve assets—by \$314 million at the end of April, a year-to-date increase.

The exchange rate of the Belarusian rouble against the currency basket did not change over January–April 2024; the basket value averaged as much as it did in January. Currencies in the basket showed different trends. The Belarusian rouble depreciated by 2.7% against the

dollar and by 1.8% against the renminbi, but strengthened against the Russian rouble by 1.5%. The Belarusian rouble is closely related to the Russian rouble, hence its varying value against the key global currencies. This shows the Russian economy's effect on the Belarusian economy. The real effective exchange rate of the Belarusian rouble strengthened by 1.5% in April since late 2023. The nominal value of the Belarusian rouble increased against the Russian rouble, but it was offset by consumer prices in Russia rising higher than domestic prices, so the real exchange rate strengthened by a mere 0.2%, direct proof that Belarusian producers are still able to compete with Russian producers in terms of prices.

The government tightened monetary conditions in 1Q2024 from the end of 2023. The National Bank has been keeping the refinancing rate at 9.5% since late June 2023, but it made almost no difference to deposits, because they went up slightly, with the regulator releasing tools for absorption of liquidity so banks can access them freely again. This step boosted activity in the interbank market and encouraged the inter-bank lending rate to rise to 4%–5% per annum, after 2.4% per annum in 4Q2023. Rising rates slowed the lending growth to an average of 0.8% MoM for 1Q2024 vs. the average of 2.1% MoM for 4Q2023.

Forecast

↓ Table 4. Belarus's Key Macroeconomic Indicators (*baseline scenario*)

Indicator	2022	2023	2024F	2025F	2026F
GDP in constant prices (% growth YoY)	-4.6	3.9	3.4	1.1	1.3
Consumer price index (% growth YoY at the end of the year)	12.8	5.8	6.0	6.8	7.7
Refinancing rate (% per annum, the year's average)	11.5	10.1	9.5	9.5	9.5
Belarusian rouble to U.S. dollar exchange rate (the year's average)	2.62	3.00	3.27	3.43	3.58

Sources: National agencies, calculations by EDB analysts.

Economic activity and inflation

The baseline scenario projects Belarusian GDP growth at 3.4% in 2024, a 1.4 p.p. increase due to strong performance in 1Q, increased household consumption, and an improved outlook for the Russian economy. Higher domestic demand in Russia will keep Belarusian GDP growth above its potential. Rising real incomes will fuel consumer activity. The nuclear power plant will generate more energy, stimulating consumption as the plant reaches its standard capacity. Better investment activity will lend a hand to GDP, too, both through the stimulation of equipment purchases and recovering growth in construction. Domestic demand in Russia will cool, taking the Belarusian economy with it.

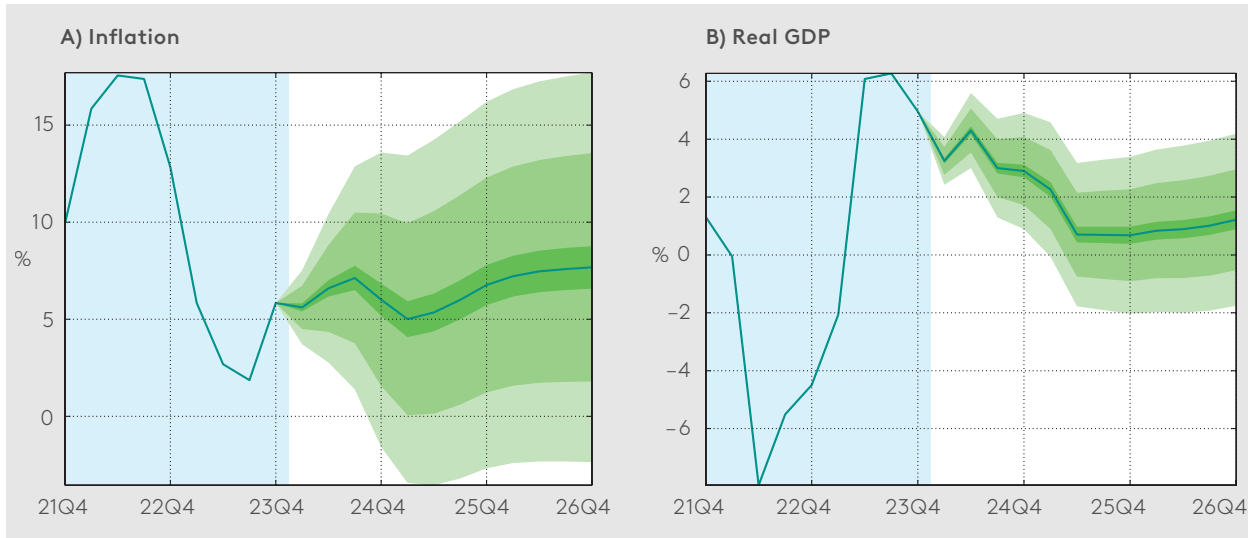
GDP will slow to 1.1% in 2025 and 1.3% in 2026. (Figure 9.B). Wages and consumer activity will gradually slow their growth. Russia's falling demand will prevent exports from encouraging the growth of the Belarusian economy. The Russian market will rival that of Belarus, so the latter's export opportunities will be curbed as the RF doubles down on its import-substitution efforts and continue to increase imports from friendly countries, primarily China. Labour shortages, caused by a downward trend in employment, along with some other structural limitations, will hinder possible growth acceleration. That said, the baseline scenario suggests that no new sanctions will

be introduced, and no logistics chains will fail. Growth might rise if Russia and Belarus decide to team up on import-substituting projects in Belarus that would benefit both countries, a measure that will increase investment demand.

The government will continue to curb inflation in 2024, but it will accelerate due to high demand, rising wages, and the weakening Belarusian rouble. **We can expect inflation to keep at 6%** in late 2024 and rise in 2025–2026.

Inflation will accelerate in 2025–2026. (Figure 9.A). This will be conditioned by companies requiring a helping hand for their financial position as it suffered due to wages rising in 2023–2024. We expect the regulator to ease up on its inflation-curbing policies to offset the imbalance.

↓ **Figure 9. Economic Activity Forecast for Belarus**

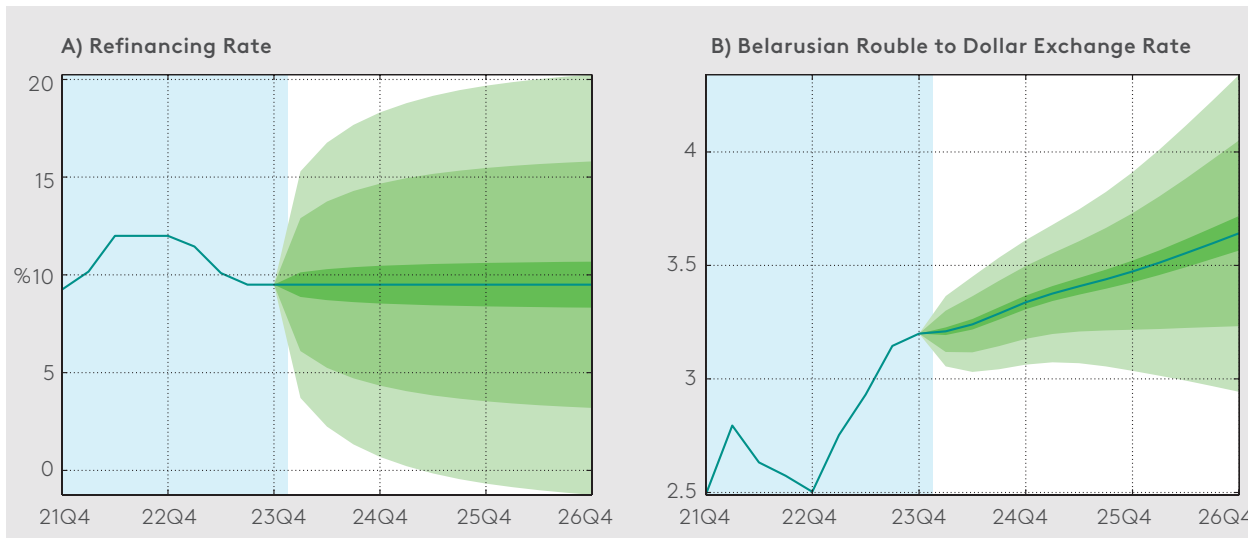


Source: calculations by EDB analysts.

Monetary policy and the Belarusian rouble exchange rate

The National Bank will keep its refinancing rate throughout the entire forecast horizon under the baseline scenario. (Figure 10.A). It is not likely to soften its monetary policy much, hindered by inflationary pressure.

↓ **Figure 10. Refinancing Rate and Belarusian Rouble Exchange Rate Forecast**



Source: calculations by EDB analysts.

The average annual exchange rate of the Belarusian rouble against the dollar is projected at about 3.27 in 2024. (Figure 10.B). The foreign trade balance will experience some issues, and the Belarusian rouble will consequently weaken. Everything that comes after will highly depend on the Russian rouble's relationship with the dollar, as the Belarusian rouble exchange rate against the dollar follows the Russian economy.

Risks

Falling global oil prices will contract the Belarusian economy, but indirectly, in case of the deterioration economic situation in Russia, which will consequently have less demand for Belarusian goods. Belarus is highly unlikely to find and switch to another market, so industrial production will fall. The financial position of companies and the state budget would significantly worsen due to reduced foreign currency revenues, both because of lower physical supply and deteriorating terms of trade owing to the depreciation of the Russian rouble against world currencies. Once the Belarusian rouble weakens, inflation will rise, and real incomes will fall, discouraging domestic demand. The country is unlikely to pursue a counter-cyclical fiscal policy, so the situation may escalate further: the growing cost of borrowing in the Russian market and no access to international capital markets hinder external financing. This would greatly increase the risk of recession for Belarus and reduction in wages relative to neighbouring countries. This will lower employment and the potential GDP growth rate.

REPUBLIC OF KAZAKHSTAN



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



REPUBLIC OF KAZAKHSTAN

Kazakhstan's economic growth is projected at 5%. The government will stimulate investment, which will drive economic development. Monetary policy will cause inflation to slow towards the target in late 2026. The NBK will continue its base rate cuts, lowering the rate to 13.5% per annum at the end of the year.

Current situation

Expansion of economic activity in 1Q2024. GDP grew by 3.7% YoY in January–March 2024, mostly driven by the construction sector with its 2.6 p.p. output contribution, especially in Astana and the Jetisu Region (created in June 2022). The services sector remained a key driver of the economy, but it contributed 1.6 p.p. to GDP growth, down from 2.9 p.p. a year earlier, a factor that can be attributed to the stabilisation of consumer demand. Retail sales grew 3.3% YoY in 1Q2024 (11.1% YoY a year earlier). Industrial production rose by 3.9% YoY, largely driven by manufacturing industries, mainly machine building and metal sectors. Agriculture showed a positive trend in 1Q2024 after the poor harvest in the second half of 2023. The economy slowed somewhat in January–April 2024⁷ as the country dealt with the consequences of flooding. The government had to take appropriate [measures](#) to deal with any negative economic consequences from that natural disaster and keep growth from going down. The composite PMI was above neutral in April 2024, a bellwether of a continued pick-up in private sector activity and highly positive economic growth prospects.

Inflation fell to 8.7% YoY in April 2024 from 9.8% YoY at the end of 2023, pushed down by stabilization of global prices in the commodity markets, monetary policy curbing consumer prices, and the tenge exchange rate strengthening since mid-October 2023. Annualised core inflation has also been trending downwards since early 2024. It would have gone down faster but for an increase in utility tariffs. Food inflation slowed to 6.3% YoY in April 2024; non-food price rises slowed to 7.6% YoY, whereas services inflation accelerated to 13.5% YoY.

Current account balance improves. The deficit of the current account balance went down to \$892.5 million in 1Q2024 from \$1.6 billion a year earlier, according to the NBK's preliminary estimates. This is because the surplus of the balance of goods and services grew by 8.8% YoY, and income paid to foreign direct investors fell. The trade surplus expanded because the value of imports declined more—by 6.9% YoY, vs. a 2.6% YoY decrease in exports. The total value of exports decreased due to a decline in supplies of food, machinery, equipment, and chemical products abroad, as well as a slowdown in the growth rate of energy exports. Imports went down due to a reduction in the volume of imported machinery and equipment. Net capital inflows for financial account amounted to \$740.8 billion due to increased foreign direct investment and return on portfolio investments made previously.

The NBK continued easing its monetary policy in 1Q2024: it lowered the base rate from 15.75% at the beginning of the year to 14.75% in late March. The external sector weakened its price pressure, and tight monetary conditions worked well, so inflation slowed. In April, the regulator took a pause in the downward cycle, keeping rate at 14.75% due to uncertainty about the extent of the impact of the floods on inflation. In May, after assessing the impact of the floods on the Kazakh economy, the NBK continued to cautiously ease monetary conditions and lowered the policy rate to 14.5%.

Kazakhstan posted a state budget deficit of KZT 271.3 million for January–March 2024, while a year earlier the negative balance of the state budget totalled KZT 382.2 million. Budget

⁷ Short-term economic indicator declined its growth to 3.9% YoY in January–April from 4.7% YoY in January–March 2024.

revenue went up by 7.6% YoY, and there were three major contributors: the growth in transfers from the National Fund (by 47.7% YoY), non-tax revenues (by 46.9% YoY), and proceeds from the sale of fixed assets (1.9-fold). The budget received 40.3% of the annual volume of transfer from the National Fund planned for 2024 in 1Q2024. Non-tax revenues rose because of the rising number of fines, penalties, and other such proceeds. Growing public spending mostly went to social security and debt servicing.

The sovereign ratings have been confirmed: S&P kept its rating at “BBB” with a “stable” outlook, saying that they took into account the country’s fiscal stability, significant external reserves, and the upcoming public administration reforms. They were also guided by the fiscal rule introduced to curb public spending. Fitch also kept its rating at “BBB” with a “stable” outlook, citing a stable fiscal position and moderate exposure to external risks.

Forecast

↓ Table 5. Main Macroeconomic Indicators of the Republic of Kazakhstan (baseline scenario)

Indicator	2022	2023	2024F	2025F	2026F
GDP in constant prices (% growth YoY)	3.2	5.1	5.0	5.5	5.5
Consumer price index (% growth YoY at the end of the year)	20.3	9.8	8.3	6.3	4.8
TONIA rate (% per annum, the year’s average)	13.9	16.4	13.4	9.4	7.5
Kazakhstan’s tenge to U.S. dollar exchange rate (the year’s average)	460.5	456.3	447.1	455.4	473.3

Note: F = Forecast.

Sources: National agencies, EDB calculations.

Economic activity and inflation

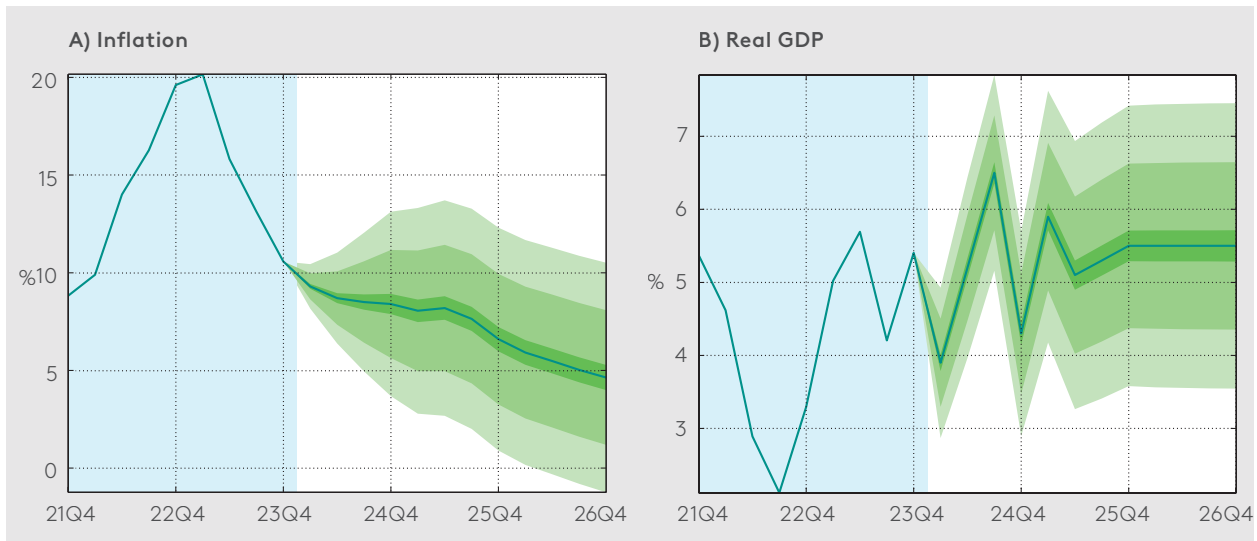
Kazakhstan’s GDP growth is forecasted at 5.0% in 2024. There has been no change in the estimate since the previous forecast. We still believe that measures taken by the government to attract foreign direct investment into Kazakhstan will catalyse economic growth. The country is planning to launch 400 new investment projects worth KZT 4.6 trillion over 2024, building capacity in the manufacturing, agriculture, energy, transport, and services sectors. It is expected that these economic sectors might well offset the planned zero growth in oil production since Kazakhstan complies with OPEC+ constraints. Fiscal policy will also support the economy.

Kazakhstan’s GDP growth is projected at about 5.5% in 2025–2026 (Figure 11.B). encouraged by a return to positive growth in oil production and exports as OPEC+ restrictions are eased. We also believe that the expected loosening of monetary conditions will less and less constrain the momentum of economic activity. The structural changes the country has planned will result in higher potential growth.

EDB analysts believe that inflation will decrease to 8.3% in late 2024 (Figure 11.A), i.e., 1.2 p.p. higher than in the previous forecast, attributed to utility tariffs rising since early 2024. All utility tariffs will grow by an average of 20%–30% in 2024, according to Kazakhstan’s government. We believe that keeping the base rate at 16.75% from the end of 2022 made it possible to bring high inflation expectations under control. This will cause inflation to go down in 2024.

Inflation will reach its target by mid-2026, spurred by moderately tight monetary conditions, lower inflation expectations, and no pressure from the external sector. The tariff revision might prevent inflation from slowing down faster in the medium term.

↓ **Figure 11. Economic Activity and Inflation Forecast in the Republic of Kazakhstan**



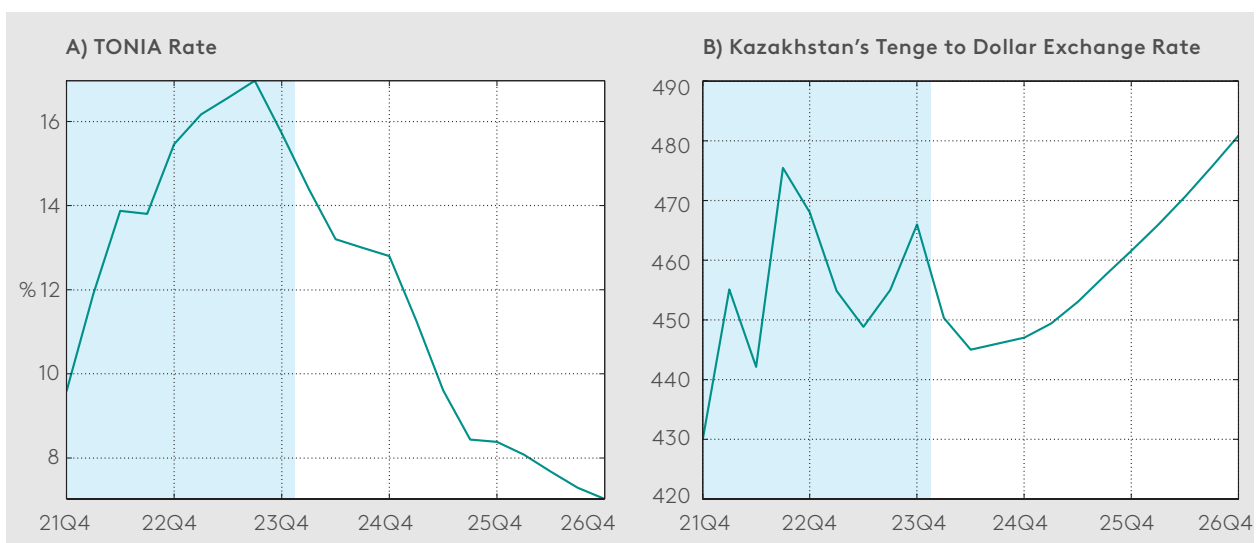
Note: seasonally adjusted data.
Source: EDB calculations.

Monetary policy and tenge exchange rate

The base rate decreases as inflationary pressure eases (Figure 12.A). The NBK will have its reservations about softening the monetary policy, since inflation is expected to reach its target by the end of the projection period only, despite the projected slowdown. We believe that the base rate might be above 13.0% in late 2024, going down to 7.75% by the time 2026 ends.

Moderate weakening of the tenge in the medium term (Figure 12.B). The decline in export revenues will reverse tenge appreciation in the second half of 2024, according to our estimates, and it will average about 447 in 2024. As the base rate declines over the year, tenge assets will lose their appeal, causing the national currency to weaken.

↓ **Figure 12. Kazakhstan’s Tenge Exchange Rate and TONIA Rate**



Source: EDB calculations.

Risks

Reduced demand from trading partners for key export items and a decline in the price of Brent crude oil to around \$60 per barrel. This risk scenario will cause the tenge to depreciate by an average of 7% in 2024 because export revenues from oil supplies will fall, and public spending will be high. The regulator will be required to curb inflation as a response to the exchange rate issues, so it will keep the base rate at 14.75% till the end of the first half of 2025. Lower net exports and tight monetary conditions set the stage for a slowdown in economic growth to 3.8% in 2024. We expect GDP growth to recover at 4.7% in 2025, driven by a bigger budget deficit. The economy will adjust to oil prices at \$60 per barrel in the medium term, but this will impair balanced growth.

Kazakhstan is still likely to be affected by pro-inflationary risks. Higher service tariffs and deteriorating food wheat supply pose risks as they might destabilise inflation expectations, and, consequently, the base rate is unlikely to increase much.

KYRGYZ REPUBLIC



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



KYRGYZ REPUBLIC

In the baseline scenario, we project GDP growth in the Kyrgyz Republic to be 5.5% in 2024 amid high investment activity. It is expected to slow to below 5% in subsequent years. Inflation will decelerate to 4.3% in 2024, facilitated by the stabilisation of global prices in the commodity markets. The NB KR will keep the policy rate at 9.0% over the projection period.

Current situation

Economic recovery at the beginning of 2024. The GDP of the Kyrgyz Republic increased by 8.8% YoY in 1Q2024. It was 2.8% YoY the year before. High consumer demand and strong investment activity are the main drivers of the economic growth: for example, wholesale and retail trade accounted for 24% of GDP growth, and 20% was attributed to the construction sector. Remittances rose (up 21.8% YoY in January–March 2024), and new consumption loans grew (up 26.2% YoY in January–March 2024), and both strengthened domestic consumer demand. Investment activity surged thanks to growing foreign direct investment in the extractive industries. The services sector was the biggest supply contributor to GDP: 4.3 p.p., with 2.2 p.p. attributed to other services and 2.1 p.p. generated by domestic trade. Industrial production contributed 0.83 p.p. thanks to an increase in output in the food industry. Agriculture output grew by 1.4% YoY largely on account of the livestock sector. GDP growth slowed to 7.4% YoY in January–April as production of base metals declined and retail sales slowed, according to the preliminary estimates of the National Statistical Committee.

Inflation entered the target range of 5%–7% in early 2024. In April, the consumer price growth rate was 5.2% YoY after 7.3% YoY in December 2023. The calculation did not include last year's spike in price increases, which is why annual inflation went down to the lower end of the target range. Falling global prices for a range of food commodities translated into a slowdown in food price growth to 1.0% YoY in April 2024 (8.9% YoY a year earlier). In April 2024, inflation was elevated in other sectors: 9.6% YoY in the non-food sector and 8.9% YoY in the services sector, attributable to increases in tobacco and alcohol excise duties and transport fares. Strong consumer demand pushed up the cost of services and non-food goods. Inflation continued to slow down in May, culminating in the 4.4% YoY figure on 17 May.

External sector operations increased. The negative current account balance of the balance of payments in the country grew 1.4-fold in 2023, according to the National Bank of the Kyrgyz Republic's preliminary estimates. This is driven by the bigger deficit of goods and services, which increased by a factor of 1.3 compared with 2022. The secondary income surplus grew by 7.2% YoY. According to financial account operations in 2023, the inflow of capital was from direct foreign investment.

Increase in foreign trade turnover by 29.8% YoY in January–March 2024. Export revenues grew by 12.8% YoY due to the resumption of base metal supplies abroad since metals were not exported the previous year. Exports to the EAEU countries decreased by 21.8% YoY owing to a drop in the value of supplies to Russia (mainly copperware, clothing, and accessories) and Kazakhstan (ores and concentrates of precious metals). Import value rose by 33.0% YoY, an increase largely (90%) due to rising imports of goods from China (mainly machinery, equipment, and related parts).

The NB KR began cutting its policy rate in early 2Q2024, having kept it at 13.0% since 2022 to stabilise high inflation expectations. Inflation entered the target range in early 2024, whereas inflation expectations were lower, encouraging the regulator to start easing its monetary policy. The policy rate lost 2 p.p., reaching 11.0% in April, and went down 2 p.p.

in May, to 9.0%. Rates on deposits placed in national currency stood at 1.61% in April 2024, 0.23 p.p. higher than in December 2023. The cost of loans increased by 0.14 p.p. over the period and stood at 20.05% in April 2024.

The state budget posted a surplus of 3.7% of GDP at the end of January–March 2024 vs. 0.1% of GDP a year earlier. Revenue grew in January–March 2024 by 19.8%. This is attributable to two factors. First, tax proceeds rose, largely because of a revenue increase from VAT on goods imported to the KR (35.7% YoY). Second, proceeds from income tax went up. Operating expenses increased by 7.6% YoY, mostly fuelled by increasing allocations for economic affairs and general public service. We may expect a budget surplus of 0.9% of GDP at the end of 2024 vs. 1.0% of GDP a year earlier, according to the draft budget law for 2024–2026. This means that the fiscal sector will gradually cut back its restraining effect on the economy.

Forecast

↓ Table 6. Main Macroeconomic Indicators of the Kyrgyz Republic (baseline scenario)

Indicator	2022	2023	2024F	2025F	2026F
GDP in constant prices (% growth YoY)	9.0	6.2	5.5	5.3	4.1
Consumer price index (% growth YoY at the end of the year)	14.7	7.3	4.3	6.9	6.5
7-day REPO rate (% per annum, the year's average)	12.1	11.4	11.0	10.7	10.7
Kyrgyzstan's som to U.S. dollar exchange rate (the year's average)	84.1	87.9	89.4	92.6	94.9

Note: F = Forecast.

Sources: National agencies, calculations by the authors.

Economic activity and inflation

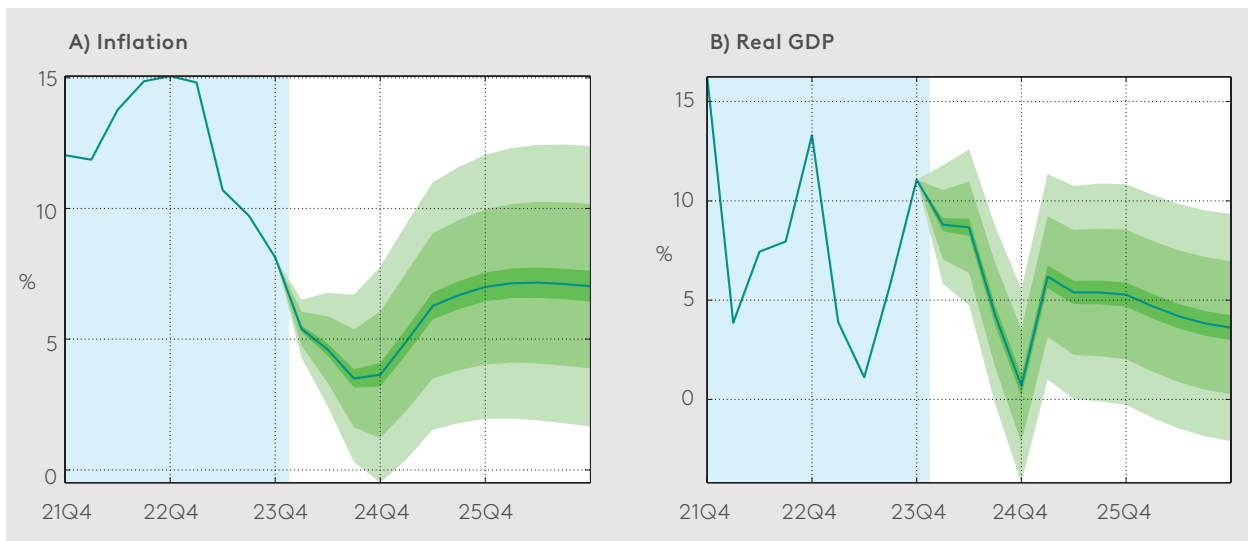
GDP growth is projected at 5.5% in 2024. This is 1.0 p.p. higher than in the [previous Outlook](#), largely due to bigger investment activity. We believe that international development institutions will play a huge role in funding capital investment growth; in particular, the EDB's projects in the [hydropower](#) and [manufacturing sectors](#) deserve special mention. Intensified capital investment, strong domestic demand, and increased output of base metals will help keep GDP growth above 8% in the first half of 2024. We expect economic growth to slow down in the second half of the year as growth rates in the production of base metals and their exports even out. We also believe that consumer activity will decline, no longer pushing prices up as monetary policy comes into play to stabilise inflation expectations. The planned budget surplus at the end of 2024 will have an additional restraining effect.

In the medium term, the growth rate will be around 4.1%–5.3% (Figure 13.B). The economy will move towards its potential rates at 3.5%–4.0%, according to our estimates. Fiscal policy will restrain economic growth more in 2025 as the budget surplus rises from 0.9% of GDP in 2024 to 1.7% of GDP in 2025–2026. Monetary conditions will have no effect on economic activity. Output of base metals will decline in line with the Ministry of Economy of the Kyrgyz Republic's gold production forecasts, resulting in slower industrial and export growth. Investment activity will return to equilibrium levels.

Inflation is projected at 4.3% YoY at the end of 2024 (Figure 13.A). EDB analysts believe that high investment activity will have less and less effect on inflation in 2Q and further on, culminating in 2Q2025 when it will show no effect. Low prices in global food markets will offset the 10% increase in electricity tariffs in May 2024. The stable nominal exchange rate will also have a restraining effect on the consumer price index, so inflation will be below its target in May–October 2024. It will, however, rise in late 2024 due to global food markets no longer putting a damper on it.

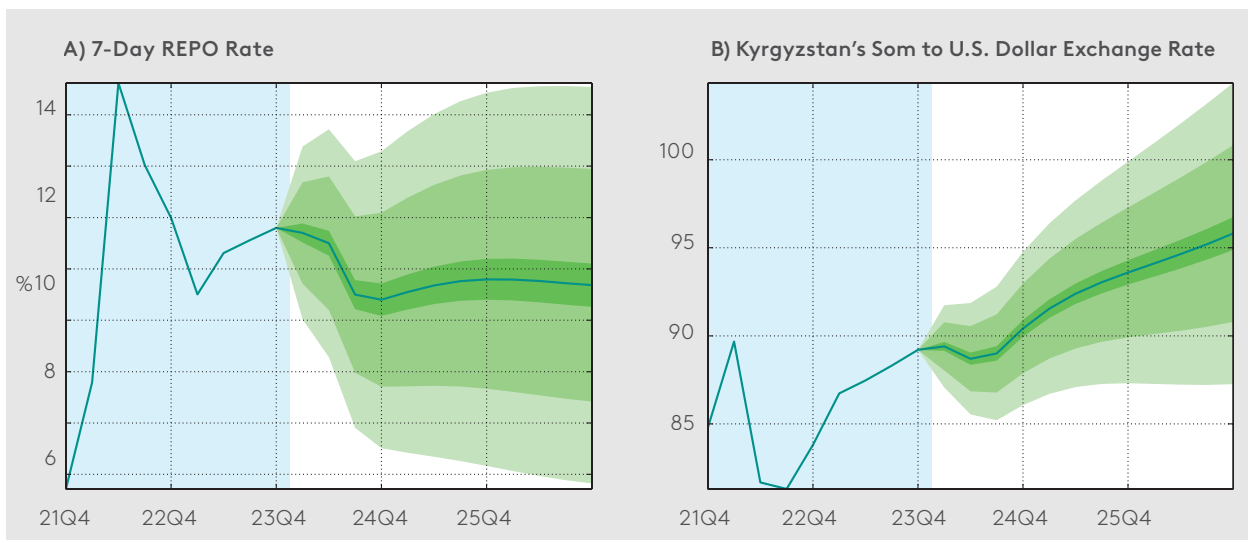
Inflation is projected to stay within the target range in 2025–2026. We expect the consumer sector to stop pushing prices up in the second half of 2025. Commodity markets will have no effect on consumer prices in the country throughout the entire medium-term forecast horizon. Monetary conditions will continue to have a neutral effect till the end of 2026.

↓ Figure 13. Economic Activity and Inflation in the Kyrgyz Republic



Note: seasonally adjusted data.
Source: EDB calculations.

↓ Figure 14. Kyrgyzstan’s Som Exchange Rate and REPO Rate



Source: EDB calculations.

We expect the policy rate to remain at 9.0% till the end of the forecast period (Figure 14.A). Monetary conditions are now neutral, according to our estimates. A slowdown

in inflation projected for 2024 is due to temporary factors; it will not affect economic growth. As global prices no longer cause deflation, inflation will return to its target range in the Kyrgyz Republic. This is why we believe that the NB KR will keep the policy rate at 9.0% till the end of 2026.

Weakening of the som in the medium term. In the baseline scenario, EDB analysts forecast an exchange rate of 88–91 (Figure 14.B). for the som in 2024, partially encouraged by the NB KR's foreign currency policy that seeks to smooth out any fluctuations. In the long term, fundamental factors will cause the Kyrgyz som to depreciate by about 3% per year.

Risks

Risks of economic growth slowdown. Slower growth rates in the Russian economy could lower remittance inflows and, consequently, cool consumer demand.

If interest rates rise in developed economies, **global gold prices might go down**, pushing investors to turn to securities. Exports will contribute less to GDP growth.

Risk of drought and less water in rivers. Low water levels will affect agriculture and the energy sector. A more pessimistic scenario suggests reduced production and ensuing spillover effects: rolling blackouts will limit production in all sectors of the economy.

Inflation growth risks outweigh any other risks. Agricultural prices are highly likely to increase in 2024 due to concerns about low crop yields as a result of the projected water shortage. Turbulence is also likely to increase in the regional or global financing market, causing the som to depreciate and inflation to rise beyond the target, an event that will push the NB KR to tighten its monetary policy.

RUSSIAN FEDERATION



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



RUSSIAN FEDERATION

Rising domestic demand will push the economy up by 3% in 2024. Increased inflation will persist against the backdrop of limited opportunities to increase production. Monetary policy will show no signs of easing soon, and the key rate will not start to decrease until at least 4Q2024. The economy is expected to return to a balanced growth trajectory as the forecast horizon draws to a close.

Current situation

Russia's GDP managed to keep its high growth rate in early 2024. Despite tight monetary conditions and stronger sanctions, GDP grew by 5.1% YoY in January–April this year, a result that exceeded analysts' expectations significantly. Rising real incomes, lending, expanding lending, and budget impulse accelerated growth in early 2024.

Value added growth is observed in most sectors of the economy. Industrial production increased by 5.2% YoY over January–April 2024, a 1.3 p.p. addition to GDP, according to our estimates. Manufacturing was the main growth driver with its 8.7% YoY rise in output. Production increased for all major groups, apart from oil refining, which showed a 4.1% YoY decrease. In addition to industry, construction is growing (+3.8% YoY), and domestic consumption sectors are also showing promise: retail trade went up by 9.9% YoY, and food service gained 4.8% YoY. Output in the extractive sector, however, had little to show (+0.4% YoY).

Domestic demand keeps rising in 2024. Real disposable household incomes grew by 5.8% YoY over January–March 2024, and individual lending rose by an average of 1.1% per month, encouraging households to increase their consumption. Strong demand growth has boosted business activity: PMI indices have been above neutral for over a year, proof that business activity has been on the rise in companies amid a steady increase in new orders. Expanding business activity is attended by the country's struggles with increasing production: production facilities worked at historically peak capacity in 1Q2024, the personnel shortage is growing. Unemployment once again hit an all-time low, falling to 2.6% in April 2024. On top of all that, domestic demand is growing, and all the above factors keep overheating the economy and pushing prices up.

Inflation, albeit still high, has slowed from its 2023 peak. It slightly accelerated in April to 7.8% YoY after 7.7% YoY in March. Core⁸ inflation was 8.3% YoY in April after 7.8% YoY in March. The rising cost of the consumer basket, with no attention given to volatility, signals an increase in inflationary pressure. Changes in inflation expectations are direct proof of that: for individuals, they rose to 11.7% in May from 11% in April but are still close to the 2023 average. Price expectations of companies rose to 19.9 p. in April, the first increase since the beginning of the year and the same as average of the last year, according to the Bank of Russia's monitoring data. Individuals and companies have elevated expectations, and this, along with some other factors, will deter disinflation in the forecast horizon.

Monetary conditions are still tight; the Bank of Russia has been keeping the key rate at 16% per annum since December 2023, but high interest rates do not discourage lending activity. Beginning of the year saw banks' loan portfolio growth accelerate: up 1.9% MoM in April after 1.7% MoM in March and 1.2% MoM in February, both in terms of corporate and

⁸ Core inflation is based on the core consumer price index (CPI); it shows the stable part of the overall inflation rate.

individual loans. The regulator said it would raise the rate if the disinflation process stops, but we do not think it is going to happen in the baseline scenario.

The current account surplus stood at \$32 billion in January-April, up \$16.1 billion YoY, largely due to a more significant decrease in imports of goods and services (-9.8% YoY) compared to their exports (-1.3% YoY); another reason is the reduction in the deficit of the balance of primary and secondary incomes. In January-April, exports of goods declined by 2.3% YoY amid both external constraints and lower prices for gas, coal, and metals; the decline was partially offset by higher prices for exported oil. Exports of services went up 9.1% YoY, mainly due to construction services. Imports of goods decreased by 9.6% YoY, due to the weakening of the Russian rouble and more complicated logistics and payment terms. Imports of services declined by 10.3% YoY after tourism and business trips declined.

The Russian rouble weakened moderately against the dollar in early 2024. Declining export revenues and extended foreign currency refund deadlines pushed the exchange rate to depreciate by 2.3% in January-April compared to late 2023. Exporters show good numbers when it comes to selling foreign currency revenues. Rouble-denominated assets have high interest rates. These factors supported the Russian rouble: in May 2024, the average value of the rouble-dollar exchange rate returned to the level of December of the previous year. Inflation, although still higher in Russia compared to its trading partners, pushed up the real effective exchange rate of the Russian rouble, helping it appreciation and setting the stage for import demand recovery.

The budget deficit shrank significantly, amounting to RUB 1.5 trillion (0.8% of GDP) at the end of April 2024; a year earlier, the deficit reached RUB 3.049 trillion in January-April). This improvement is attributed to revenues growing more strongly than expenses (up RUB 3.9 trillion, or 50.1% YoY, vs. up RUB 2.3 trillion, or 21.5% YoY, respectively). Oil and gas revenues increased by RUB 1.9 trillion, or 82.2% YoY, in January-April 2024, driven by higher oil prices and a 22.1% YoY depreciation of the Russian rouble against the dollar, as well as a one-time collection of a mineral extraction tax for 4Q2023. Non-oil and gas revenues grew by RUB 2 trillion (36.8% YoY) amid expanding business activity and one-time non-tax revenues. The beginning of the year saw an acceleration of expenditure funding due to advances on certain contracted expenditures.

Forecast

↓ Table 7. Russia's Key Macroeconomic Indicators (*baseline scenario*)

Indicator	2022	2023	2024F	2025F	2026F
GDP in constant prices (% growth YoY)	-1.2	3.6	3.0	1.1	1.6
Consumer price index (% growth YoY at the end of the year)	11.9	7.4	5.8	4.7	4.1
Key rate (% the year's average)	10.6	9.9	15.8	12.5	7.9
Russian rouble to U.S. dollar exchange rate (the year's average)	68.5	85.2	92.8	96.7	98.4

Sources: National agencies, calculations by EDB analysts.

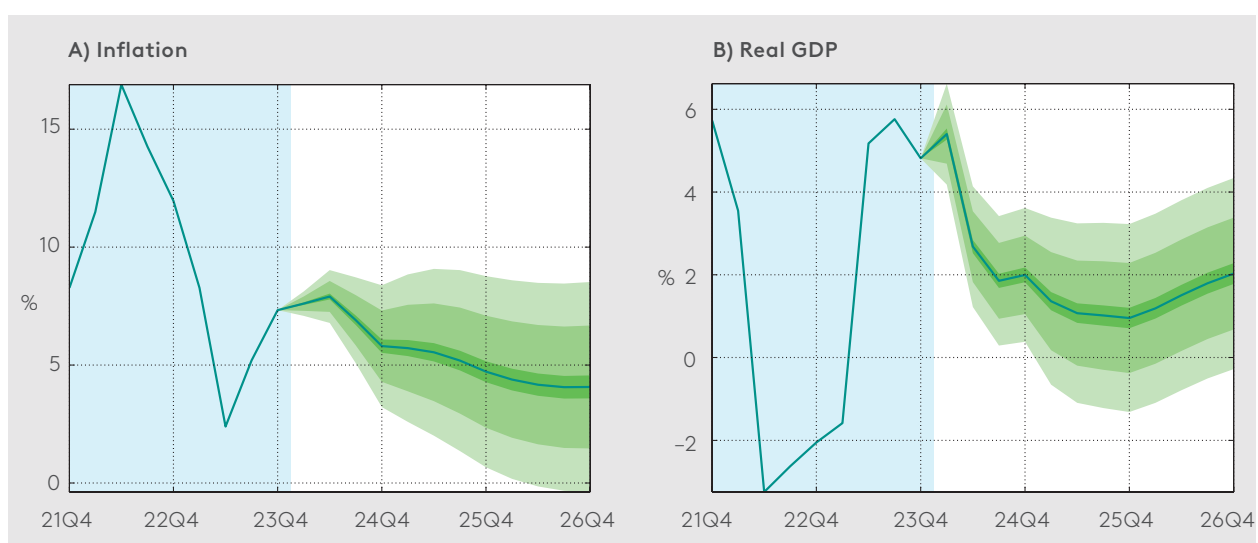
Economic activity and inflation

Russia's GDP growth is projected at 3% in 2024. Strong results in the first quarter and the continued high level of domestic demand led to an increase in the forecast GDP indicators for the current year by 1.5 percentage points. The tighter monetary policy did not have the effect the regulator thought it would; real incomes keep rising, and the fiscal stimulus preserves the ability of the economy to grow at an accelerated pace in 2024. Labour market issues will prevent output from growing further. As monetary conditions tighten, they will cool domestic demand in the second half of 2024. Under the baseline scenario, external demand has almost zero impact on economic growth, so we expect the foreign trade balance to stabilise around the current levels. Exports will be supported by a reduction in the discount of the Urals oil price to global prices, but the strengthening of the real exchange rate will restrain the expansion of non-energy exports. Imports will not change much, and there are multiple factors to blame: for example, the fiscal stimulus of domestic demand will be offset by a contraction of credit to the economy.

Under the baseline scenario, the country's GDP will increase by 1.1% in 2025 and 1.6% in 2026. (Figure 15.B). GDP growth will slow in 2025 after overheating in 2023 and the first half of 2024. We expect the fiscal boost to go down in 2025, and wages to decelerate, keeping domestic demand from rising further. In 2026, we expect the economy to grow evenly again at around 2%. There are some structural factors preventing growth from reaching its higher potential, with failure to increase employment being one of them. It will also take a long time to increase production capacity, and external constraints make matters worse because they stymie investment.

Inflation will slow to 5.8% in 2024. The high figure in 2024 and partially in 2025 is largely due to higher inflation expectations, overheated domestic demand, and pressure on producer prices from rising wages. Tight monetary conditions will discourage lending and further expansion of domestic demand. The low volatility of the exchange rate of the Russian rouble against key global currencies will also have a disinflationary effect, restraining the rise of importers' costs and stabilising inflation expectations. **Inflation will keep slowing in 2025–2026,** returning to the target in the second half of 2026. (Figure 15.A).

↓ Figure 15. Economic Activity and Inflation Forecast for Russia



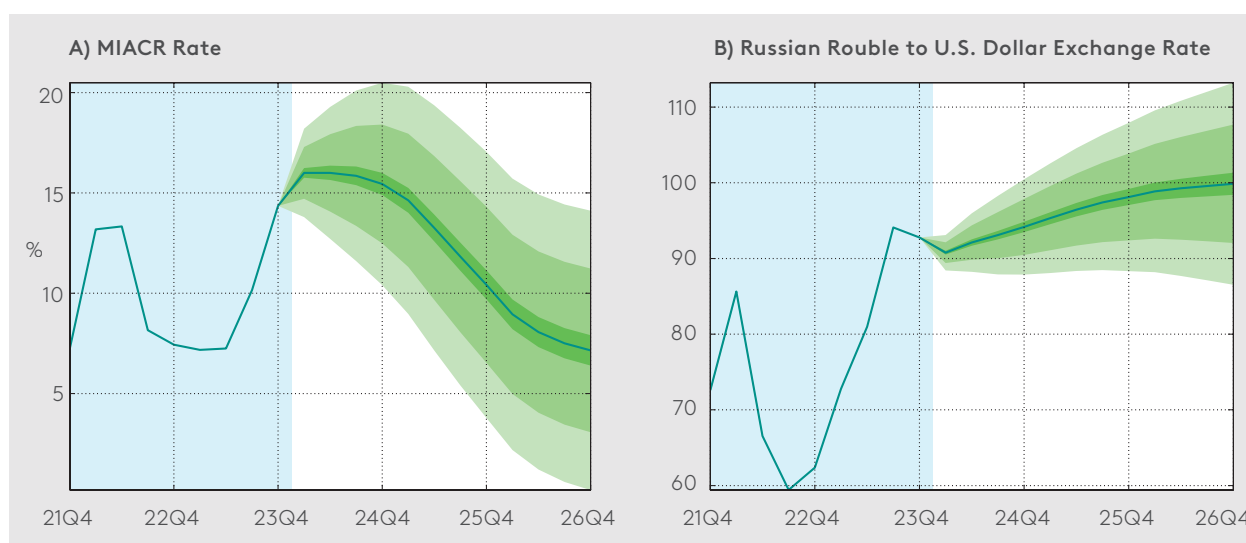
Source: EDB calculations.

Monetary policy and the Russian rouble exchange rate

Monetary conditions will remain tight. In the baseline scenario, we do not expect the Bank of Russia to start cutting rates before 4Q2024. Due to inertial inflation expectations, the worsening external situation pushing prices up, and a significant fiscal impulse in 2024, the Bank will have reservations about softening monetary policy, so we do not expect the rate to reach single digits until 2026. (Figure 16.A).

The average annual exchange rate against the dollar is projected at about 93 in 2024. (Figure 16.B). The national currency is looking at moderate reduction if volatility persists in the forecast horizon. High interest rates will support the rouble exchange rate, but not strengthen the national currency, offset by fiscal policy and strong domestic demand. The baseline scenario in 2025–2026 suggests that the nominal exchange rate will weaken, adjusting to inflation rates in Russia and abroad.

↓ Figure 16. Key Rate and Russian Rouble Exchange Rate Forecast



Source: EDB calculations.

Risks

Rising uncertainty makes the baseline scenario less likely. We have analysed possible consequences for the Russian economy in the event of worsening trade conditions or more sanctions. You can see them below.

Reduced demand from trading partners for key export items and a decline in the price of Urals crude oil to around \$60 per barrel. This risk scenario will cause the rouble to depreciate by about 10% in 2024 because oil and gas export revenues will fall, public spending will be high, and funding will be hard to attract. The regulator will be required to curb inflation as a response to the exchange rate issues, and will raise interest rates. The risk scenario will also cause economic growth to slow to below 2% in 2024 and a possible short recession in late 2024 and early 2025, as net exports decrease, real incomes fall, and inflation speeds up. The economy will begin its recovery in the second half of 2025.

Stronger sanctions would be an unfavourable turn of events for Russia. **If secondary sanctions are imposed** on Russian trading partners, then costs of transport and payments will go up, modernisation of technology will slow down, and production will have a hard time increasing, so output expansion will not be able to keep up with consumption growth. Import substitution, however, might make up for and offset these risks and threats, along with some internal factors.

REPUBLIC OF TAJIKISTAN



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



REPUBLIC OF TAJIKISTAN

Strong domestic demand is accelerating economic growth. The country's GDP will rise by 8.0% in 2024. The National Bank will boost the economy next year as it lowers the interest rate and makes its exchange rate policy more flexible. As the regulator eases monetary policy, it will cause inflation to return to the target range (6±2%) at the end of 2024 and stabilise within it in 2025–2026.

Current situation

The economy managed to keep its high growth rate in early 2024. GDP increased by 8.2% YoY in January–March 2024, largely driven by strong domestic demand. Trade contributed 1.4 p.p., and construction added 2.2 p.p. to GDP growth. Passenger air traffic increased by 35% YoY, contributing another 2.0 p.p. to GDP growth. Industry's contribution was 1.3 p.p., although industry is almost twice the size of construction in the economy. Agriculture only provided 0.1 p.p. of GDP growth. Output in the agricultural and industrial sectors will slightly reduce GDP growth in 2Q2024 to 8.0%, according to our estimates.

Industry's growth was uneven: the industrial sector increased output by 9.5% YoY in January–April 2024, while the extractive industries increased production by 22.4% YoY, driven by ore mining. Manufacturing output grew by 10.2% YoY thanks to the textile, construction material production, and metallurgy. The energy sector [saw a decline](#) of 11.2% YoY in January–April 2024. We expect energy sector growth to accelerate in the medium term, which will be one of the factors behind strong GDP dynamics next year.

Retail sales and investment continued to grow faster than GDP: retail sales rose 14.5% YoY in January–April 2024, on account of strong economic growth in the EDB operating region and rising incomes and wages in the Bank's member countries, from where remittances flow into Tajikistan—an important source of income for the country. Fixed asset investments increased by 17.8% YoY in January–April 2024, with public investment showing the highest growth (up 45.6% YoY), as it is meant to develop the economy. Tajikistan spent most of its major construction public funds on energy: it amounted to 49.8% of all investment in the economy in January–April.

As investment and consumer demand grow, so do imports: in value terms, supplies of goods from abroad went up by 18.3% YoY to \$2.0 billion in January–April 2024. The foreign trade deficit in goods remained almost the same as in January–April 2023 (\$1.3 billion), driven by a 70% YoY increase in exports to \$0.7 billion due to supplies of gold, non-ferrous metals, and textiles to foreign markets.

The exchange rate of the national currency is stable: it was 10.91–10.97 per dollar from February 2023 to April 2024. The real effective exchange rate of the somoni has declined from a multi-year high in October 2023 due to the appreciation of the Russian rouble (from 97 per dollar in October 2023 to 91.7 per dollar on average in March 2024) and high inflation in Russia. This decline curbs the foreign trade deficit as Tajikistan's companies are becoming more competitive in the domestic and foreign markets. These conditions might keep the exchange rate of somoni at 10.9 per dollar until the end of 2024, because its stability depends on the country's balance of payments.

Inflation was 3.4% YoY at the end of April, down 0.4 p.p. from the end of the previous year. Consumer price growth in the country remains below the target range of the National Bank of Tajikistan (6±2%) due to the stability of the somoni-dollar exchange rate and the

decline in global food prices (the food price index published by the World Bank fell by 2.3% from December 2023 to March 2024). We believe that these factors will keep inflation below the NBT's target in 2Q and 3Q2024.

The National Bank cut the refinancing rate by 0.75 p.p., to 9.25% per annum over late 2023–May 2024, the lowest rate since mid-2016. The regulator decided to lower the rate in February and in April amid low inflation in the country. If the regulator continues to ease the monetary policy in the coming quarters of this year, it will help bring inflation back within the NBT's target range ($6\pm 2\%$) by the end of 2024.

The state budget surplus has gone up. The surplus was TJS 1.1 billion (4.1% of GDP) in January–March 2024, vs. TJS 0.9 billion (3.9% of GDP) last January–March. Such trend is attributable to revenues one-upping expenditures: 7.3% YoY increase against 5.6% YoY, respectively. The budget increased allocations for housing and utilities (+28.1% YoY), social insurance and protection (+27.6% YoY), and public administration (+50.2% YoY). Energy complex declined by 2.8% YoY. It is one of the largest areas of budget financing. According to our expectations (EABP, 2024), the dynamics of spending, in particular of an investment nature, will accelerate during the rest of the year, which will have a positive impact on economic growth in 2024.

Forecast

↓ Table 8. Key Macroeconomic Indicators of the Republic of Tajikistan (*baseline scenario*)

Indicator	2022	2023	2024F	2025F	2026F
GDP in constant prices (% growth YoY)	8.0	8.3	8.0	8.2	7.8
Consumer price index (% growth YoY at the end of the year)	4.2	3.8	4.1	6.0	5.8
Refinancing rate (% per annum, the year's average)	13.3	10.5	9.3	9.7	9.8
Tajikistan's somoni to U.S. dollar exchange rate (the year's average)	11.0	10.8	10.9	11.1	11.4

Sources: National agencies, calculations by EDB analysts.

Economic activity and inflation

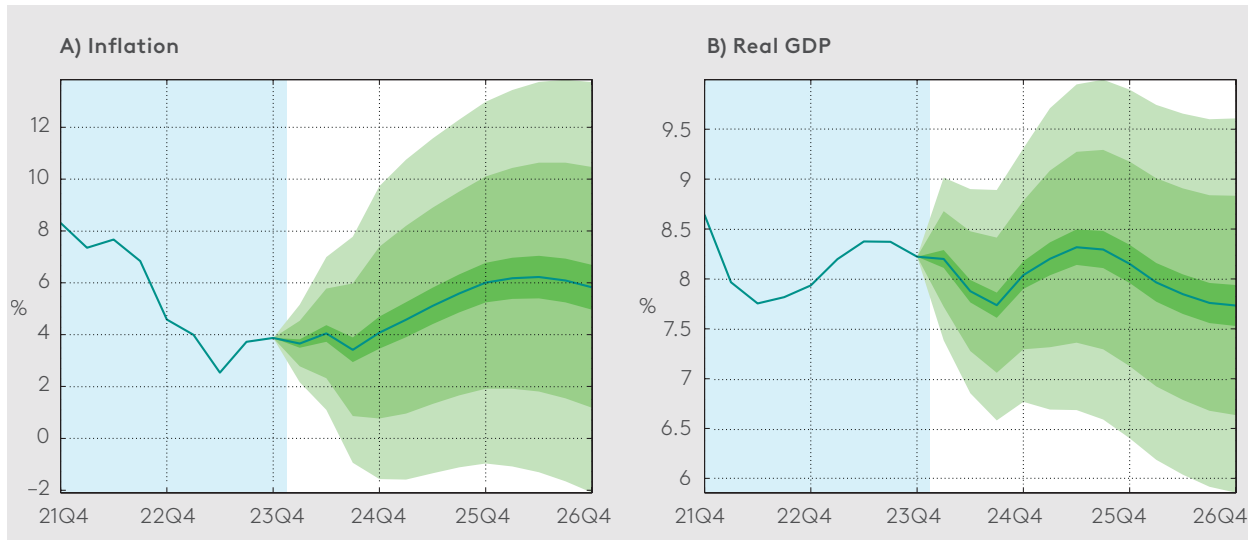
Tajikistan's GDP is projected to grow by 8.0% in 2024. (Table 8). We have raised the projection by 0.7 p.p. since our last Outlook (EABP, 2023), after the strong performance in 1Q2024. Our December projection put Tajikistan's economic growth lower than it actually is. This can be explained by multiple factors. Prices for gold and non-ferrous metals exported by the country went up, and so did remittances (largely due to wage increases in the EDB operating region). Slowdown in growth of demand from foreign markets will constrain economic growth in 2Q–4Q2024, both outside and within the EDB operating region. This will bring down exports volume, remittances, and investment in the country's economy. Weaker demand from external economies will be offset by rising prices for metals exported by Tajikistan, especially gold.

We expect GDP growth to accelerate in 2025. Softer monetary conditions and investments made by authorities to develop the economy will boost demand. Second, electricity generation will recover in the second half of 2024, following a decline in the power sector

of more than 12% YoY in 1Q2024 caused by low reservoir occupancy due to winter weather conditions. This will propel demand, too.

The economy will rise by 7.8% in 2026, keeping the rate high, reaching potential growth rates of 6%–7% beyond the forecast period. (Figure 17.B). The balanced growth rate of Tajikistan’s economy is higher than average for the region as it is catching up, and the country’s population is growing fast. The government’s policies in energy, transport, other types of infrastructure development, and industrial development, help the country capitalise on favourable conditions.

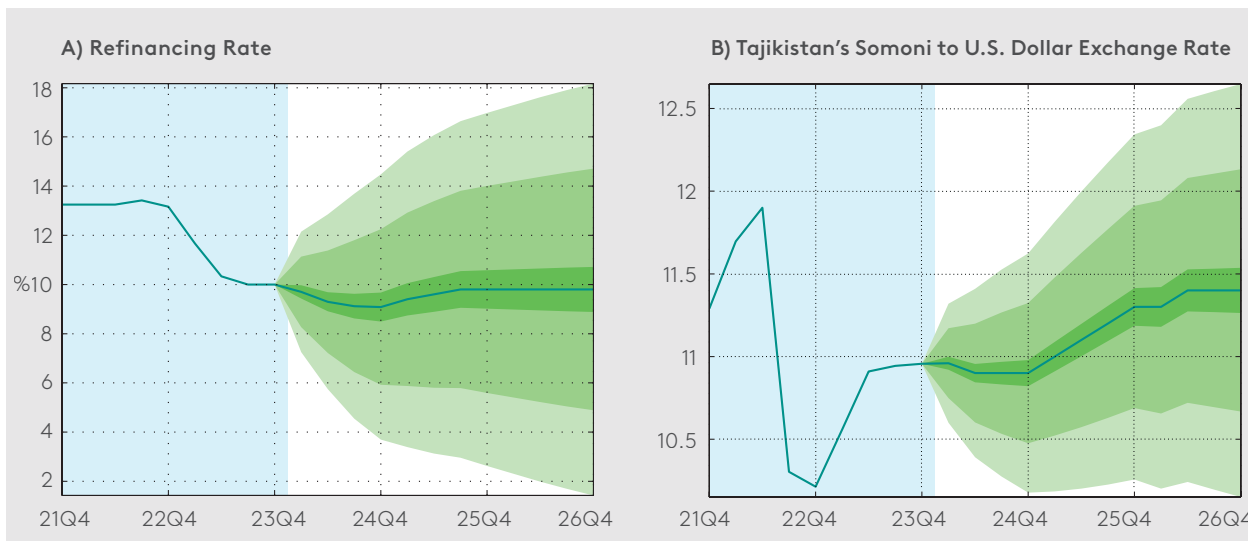
↓ Figure 17. Economic Activity and Inflation Forecast for Tajikistan



Source: calculations by EDB analysts.

By the end of 2024, inflation will be back within the NBT’s target range (6±2%) and, according to our estimates, could be 4.1%, pushed up by strong domestic demand that rose thanks to a decrease in the interest rate. The stable exchange rate of the somoni will curb inflation recovery to the NBT’s target. (Figure 17.A) Under our baseline scenario, rising energy and food prices in global markets are not supposed to increase inflation in the country.

↓ Figure 18. Refinancing Rate and Somoni Exchange Rate



Source: calculations by EDB analysts.

In 2025–2026, inflation is projected to be around 6.0%, in the middle of the NBT’s target range, as the somoni slowly weakens against the dollar. (Figure 18.B) Once the NBT makes its exchange rate policy more flexible, it will pave the way for a monetary policy that will keep inflation within the Bank’s target.

Monetary Policy and National Currency Exchange Rate

The TJS/USD exchange rate will remain at the current rate until the end of 2024. (Figure 18.B). Growing export revenues offset any impact that the high real exchange rate of the somoni might have on the stability of the country’s balance of payments. Tajikistan’s current account in 2023 posted a surplus of \$0.5 billion. The current account balance was positive for the fourth year in a row, so the somoni has no reason to weaken against the dollar in the short term.

The national currency will slowly weaken against the dollar in 2025–2026. As the value of the somoni gradually declines, the country’s balance of payments is unlikely to deteriorate in the medium term, when the country’s exports stabilise after doubling since the middle of the last decade, largely driven by the growth of gold mining and exports. The somoni exchange rate’s gradual depreciation against the dollar will also have a positive impact on GDP growth. It will also keep inflation within the NBT’s target range.

If it persists below the target range, then the regulator might ease its monetary policy. We believe the refinancing rate may be cut from 9.25% per annum in 2024.

In the second half of 2025, the NBT might raise it as inflation stabilises near 6% YoY. It will return to 10% per annum (Figure 18.A). At the same time, the rate will remain lower in real terms than in 2023–2024, potentially propelling the country’s economic growth.

Risks

The key risks for Tajikistan’s economy come from the external sector. High interest rates in developed countries and structural problems in the Chinese economy might well decrease global economic growth and push commodity prices down. This will lower demand for goods exported by Tajikistan or remittances sent to the country from the oil-exporting countries. Household consumption growth will slow down, and non-public investment will decline; GDP growth will go below its equilibrium level. Multiple factors can support Tajikistan’s economy under this scenario, such as the fiscal policy, international financial institutions, and falling prices for food and energy imported by Tajikistan.

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LIST OF ABBREVIATIONS

%	percent
% YoY	Year-on-Year growth rate
\$	U.S. dollar
bbl	U.S. oil barrel
BeINPP	Belarusian Nuclear Power Plant
CB RA	Central Bank of the Republic of Armenia
EAEU	Eurasian Economic Union
ECB	European Central Bank
EDB / the Bank	Eurasian Development Bank
EU	European Union
GDP	Gross Domestic Product
IBL	Interbank Loans Market
KR	Kyrgyz Republic
MIACR	Moscow Interbank Actual Credit Rate
NBK	National Bank of the Republic of Kazakhstan
NB KR	National Bank of the Kyrgyz Republic
NBT	National Bank of Tajikistan
OPEC+	Organisation of Petroleum Exporting Countries
PMI	Purchasing Managers' Index
p.p.	percentage point
Q	quarter
RA	Republic of Armenia
Repo	a transaction which involves the purchase of securities with the agreement to sell them back for a specific price
RF	Russian Federation
RK	Republic of Kazakhstan
(the) Fed	U.S. Federal Reserve System
TJS	tajik somoni
TONIA	Tenge OverNight Index Average
U.S.	United States of America
VAT	Value added tax

GLOSSARY

Budget (fiscal) impulse

Characterises the impact of fiscal policy on economic activity. If the budget impulse is positive, then the contribution of fiscal policy to GDP is positive.

Budget (fiscal) reserves

Available state budget funds that can be used to finance expenditures.

Equilibrium exchange rate

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

FX penetration of bank deposits (loans)

Share of deposits (loans) denominated in foreign currencies in the total deposit (loan) portfolios of commercial banks.

Output gap

Deviation of real GDP from its potential level. As a rule, a positive output gap points to excess demand in the economy, and is an indicator of inflationary pressure. The reverse is true for a negative output gap.

Neutral rate

The interest rate that corresponds to inflation and inflationary expectations being at stable, target levels, and with GDP and the real exchange rate being at equilibrium levels.

Potential (equilibrium) GDP

The real GDP that would be produced by the economy in a certain period of time if production factors were used in the most efficient fashion. Potential GDP can also be defined as real GDP that can be sustainably produced by the economy without creating any economic imbalances.

Purchasing Managers' Index (PMI)

An indicator that characterises a change in business activity and operating conditions of private enterprises in the processing industries and the services sector. It is calculated on the basis of data collected during monthly surveys of purchasing managers. If the PMI is above 50 points, business activity is expanding; if it is below 50 points, business activity is contracting.



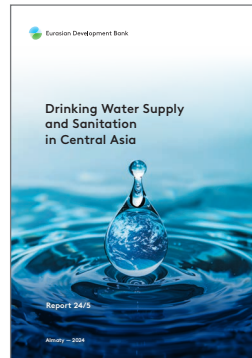
RESEARCH AT THE EDB WEBSITE



Report 24/6 (RU/EN)

The Eurasian Transport Network

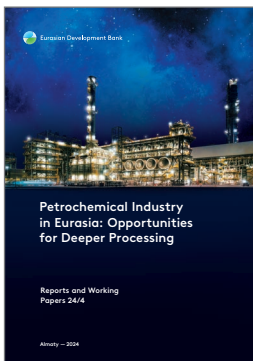
The report examines ten system elements of the Eurasian transport framework concept. Among them are the formation of a transport crossroads in Central Asia, priorities for intraregional transport connectivity, an impetus for realizing the agro-industrial potential of the countries of the region, and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

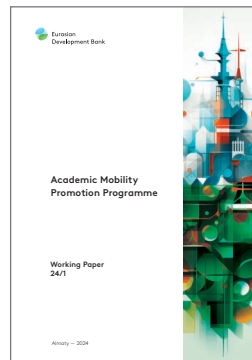
The EDB's report highlights ten important short- and medium-term investment and institutional trends in the region's energy, transportation, logistics, water supply and telecommunications sectors.



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)

Academic Mobility Promotion Programme

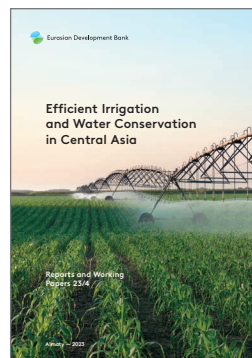
The EDB's working paper "Academic Mobility Promotion Programme" contains a comprehensive analysis of problems and specific practical solutions to ensure the sustainable growth of interuniversity relations and educational exchanges across the Eurasian region (the EAEU and CIS countries).



Report 23/5 (RU/EN)

EDB Monitoring of Mutual Investments — 2023

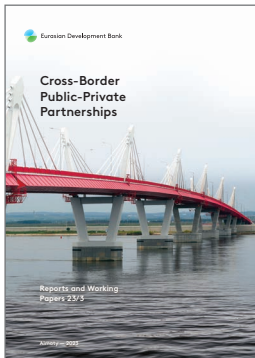
Eurasian countries' FDI stock reached \$48.8 billion by mid-2023, following a 5.4% increase in 2022 and with continued growth in 2023.



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

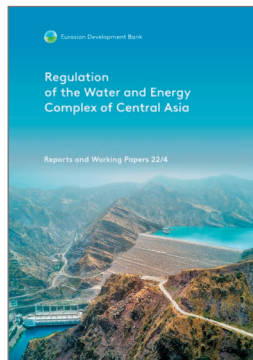
The report provides a comprehensive analysis of the challenges and prospects for low-carbon transition in Eurasia, covering EAEU countries, Tajikistan, and Uzbekistan.



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

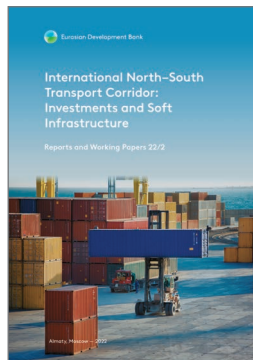
The report scrutinises historical data and international experience to suggest five institutional solutions for effective regulation and development of Central Asia's water and energy complex that would benefit all countries of the region.



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.



Report 22/1
(RU/EN)

EDB Integration Business Barometer

About 73% of companies feel positive about the EAEU and say it makes doing business easier.



Eurasian Development Bank

**CENTRE FOR MACROECONOMIC ANALYSIS
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