



Eurasian  
Development Bank

# Macroeconomic Outlook

The Region's Economies  
in the New Reality



May 2022





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## The Region's Economies in the New Reality

May 2022



Centre for Macroeconomic Analysis  
Research Department

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

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

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

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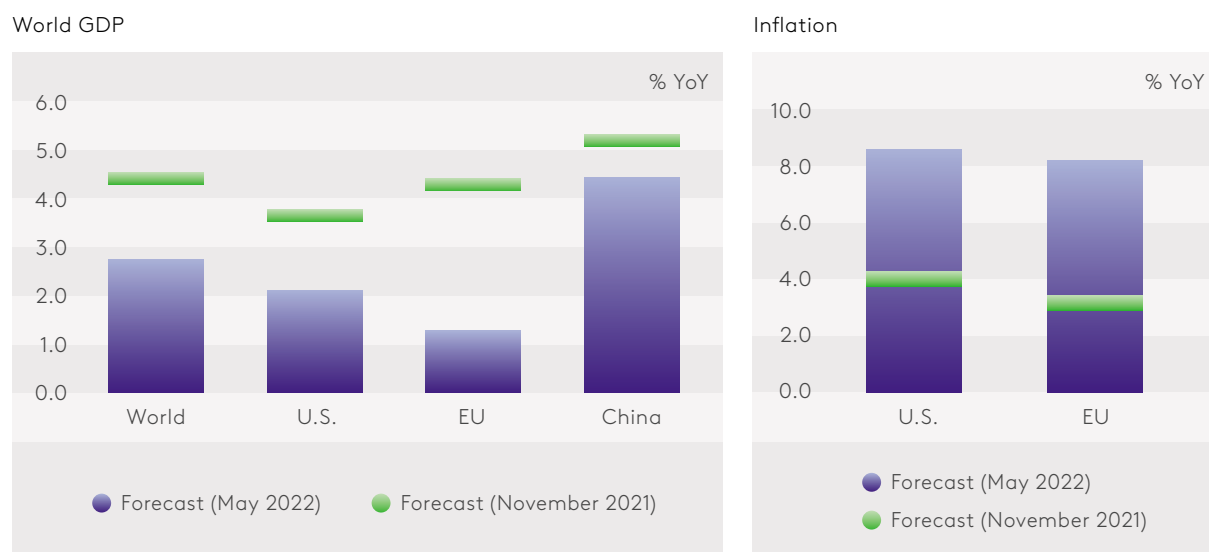
# SUMMARY

**The global economy is facing a period of turbulence.** The beginning of the year saw geopolitical risks materialise that sharply increased negative sentiment on the markets and all but dashed any hopes that the global economy would soon return to sustained economic growth. Energy, food and fertiliser prices have reached multi-year highs, exacerbating last year's inflation problem. Monetary regulators are forced to respond to the massive rally, having already begun to tighten their policies, which is why the global economy is now once again experiencing a combination of supply and demand shocks. This risks setting back the post-pandemic recovery, and a recession is highly likely in the world's major economies in 2022–2023.

**The global economy is struggling with the highest inflation in many years in developed countries and with soaring commodity prices.** The acceleration of inflation is due both to risks from production, transport, and logistics and to pressure from an overheated labour market. These factors could compel price increases in the U.S. and the Eurozone to briefly reach double digits in 2Q and 3Q2022. By the end of 2022, we believe the inflation in the U.S. and the Eurozone will slow down to 8–9%, propelled by the expected weakening in business activity (Figure 1). Commodity prices will remain high throughout the 2022–2024 projection horizon, but will gradually decline from the second half of 2022, as global demand growth slows. The baseline scenario assumes an average Urals oil price in 2022 near USD 80/bbl, while maintaining a discount to Brent for the remainder of this year of around USD 30/bbl.

**Re-establishing control of inflation will require the tightening of monetary policy in developed countries.** Under the baseline scenario, we expect the U.S. Federal Reserve's key rate to rise to 2–2.25% by the end of 2022 with a subsequent reduction to 1.75–2% in 2023. An interest rate hike of 2 p.p. in a relatively short period of time would lead to a rapid cooling of the U.S. economy as early as 2022 and have a dampening effect on economic activity and inflation around the world.

↓ Figure 1. World Economic Growth and Inflation Forecast for 2022



Source: calculations by EDB analysts.

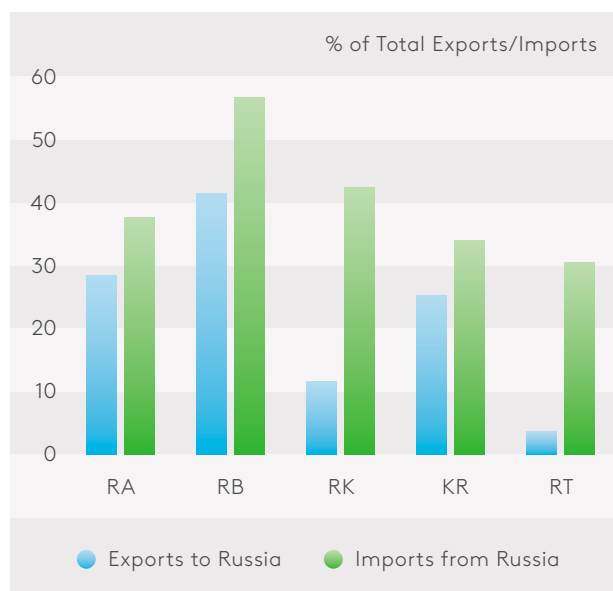
**From late 2022 to 2023 we will witness a significant slowdown in the growth of the world's leading economies,** compelled by a surge in inflation and tightening monetary conditions. We project that the global economy will experience a slowdown to 2.7% growth in 2022 from 5.8% in 2021. Our GDP growth projections for the world's largest economies are below consensus estimates: 2.1% in 2022 and 0.1% in 2023 for the U.S., 1.3% and 0.6% for the Eurozone, and 4.4% and 5% for China (Figure 1).

**The acute phase of the COVID-19 pandemic seems to be ending, which might make a positive contribution to the world economic situation.** The progress made in vaccination of the population has opened the door to a gradual relaxation of health restrictions in most economies. The pandemic is no longer the main determinant behind negative GDP dynamics. However, there are still associated risks. In particular, the current spread of COVID-19 in China has triggered severe restrictive measures and has suspended businesses and seaports in the affected regions of China. Disruptions in the supply of Chinese products have a widespread negative impact on production processes in other countries<sup>1</sup>; these disruptions will accelerate China's GDP growth slowdown, with negative consequences for the entire global economy.

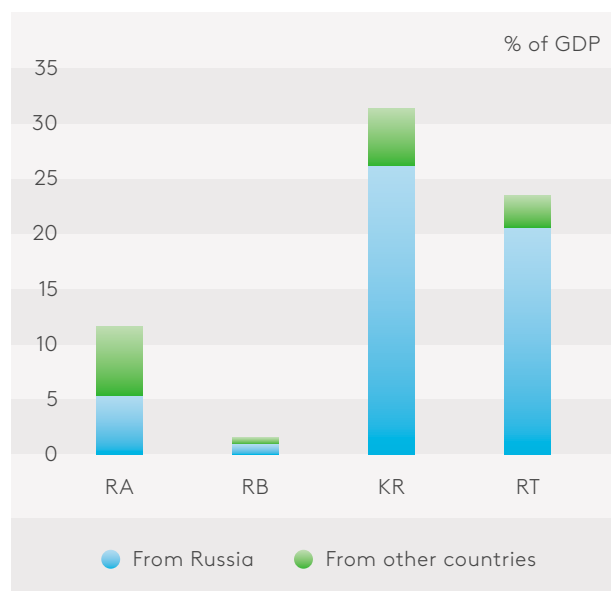
**A cooling of the economy of the Bank's operating region after high growth in early 2022.** Real GDP in 1Q, according to preliminary estimates, increased by 8.6% YoY in Armenia<sup>2</sup>, by 4.4% YoY in Kazakhstan, by 4.5% YoY in Kyrgyzstan, by 3.5% YoY in Russia, by 7.5% YoY in Tajikistan, and declined by 0.4% YoY in Belarus. However, since March, many high-frequency indicators point to a slowdown in growth or the start of a contraction in the region's economies, due to the restrictions imposed on Russia and Belarus. They are causing business interruptions, difficulties in export deliveries, and production and logistics chain disruptions.

↓ **Figure 2. The Importance of the Russian Economy to the Economies of the Bank's Member Countries**

A) Foreign Trade in Goods in 2021



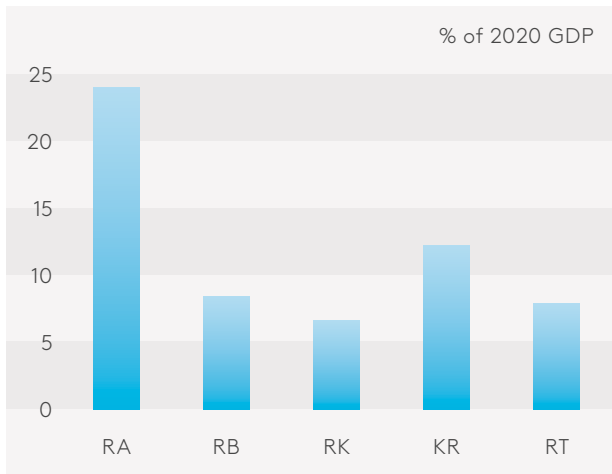
B) Remittances in 2021



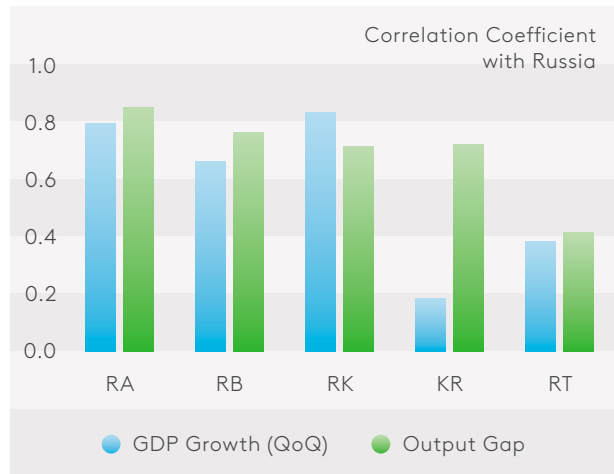
<sup>1</sup> See, for example: Toyota to Suspend Work at Eight Plants in Japan Due to Quarantine in Shanghai, Interfax, 11 May 2022.

<sup>2</sup> The economic activity grew 9.4% YoY in January–April in Armenia.

C) FDI Stock from Russia in 2020



D) Economic Cycle Synchronisation with Russia

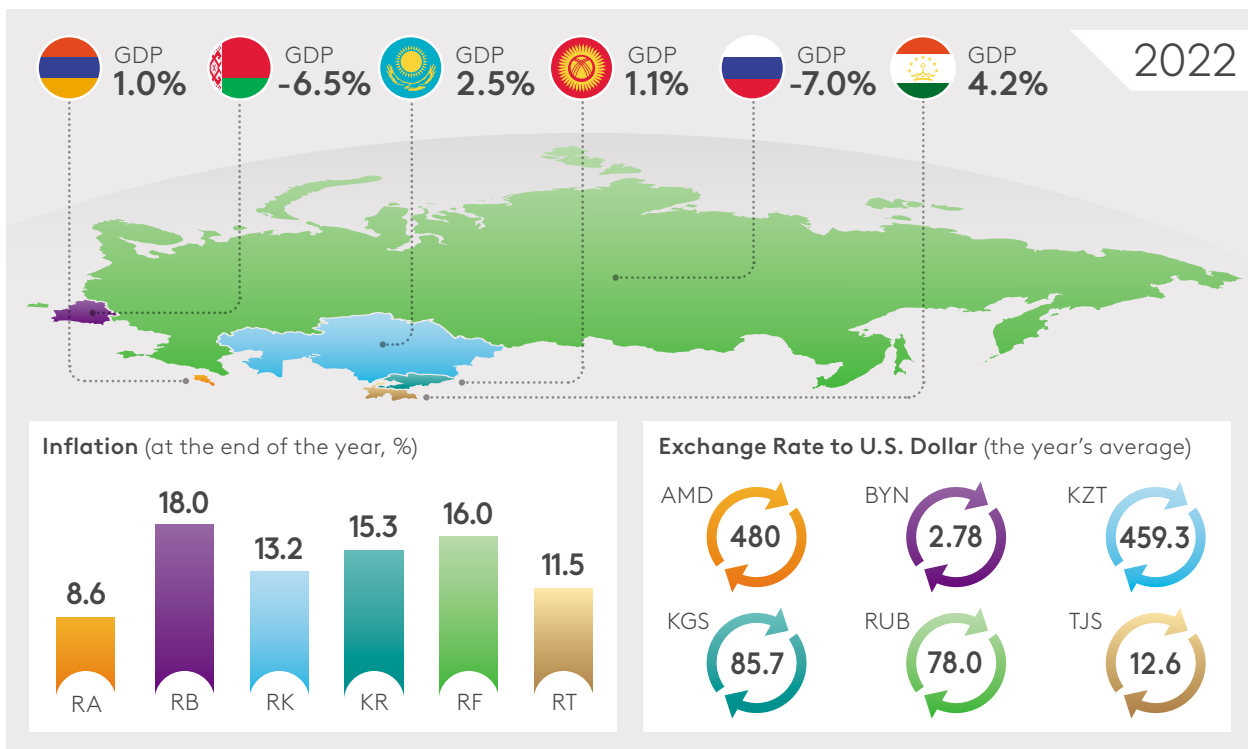


**Notes:** C) Investment stock according to EDB Monitoring of Mutual Investments database (Kuznetsov and Vinokurov, 2021); D) Correlation coefficients are calculated on a quarterly basis for the period from 1Q2012 to 4Q2021. GDP growth (QoQ) is the quarter-on-quarter growth rate of real GDP, seasonally adjusted. The output gaps are the results of the integrated EDB model system. See the joint report by the EDB and Eurasian Economic Commission for more information on this system (EDB, 2016).

**Sources:** EDB Monitoring of Mutual Investments, Eurasian Economic Commission, national agencies of the EDB member countries, calculations by EDB analysts.

**Multidirectional dynamics of the region’s economies.** In the baseline scenario, we project the Russian GDP to decline by 7% in 2022. The Belarusian GDP will also experience a decline — by 6.5%. This is a result of restrictions, supply chain disruptions, and increased uncertainty. The growth of the remaining member economies will slow down due to their close economic ties with Russia (Figure 2) and to the lower global economic growth. **We project GDP growth of 1.0% in Armenia, 2.5% in Kazakhstan, 1.1% in Kyrgyzstan, and 4.2% in Tajikistan in 2022.**

↓ Figure 3. Outlook for the Main Macroeconomic Indicators of EDB Member States



Source: calculations by EDB analysts.

**It will take longer for the aggregate growth of the EDB's operating region to return to positive rates than in previous crisis episodes.** While GDP contractions in 2009, 2015, and 2020 in most countries of the region were followed by growth the following year, the recession in 2022 is likely to be followed by weak growth in Russia and Belarus in 2024. There are several factors behind this: the long-term impact of restrictions on imports of machinery and equipment, high-tech products, and investment interaction with companies from Russia and Belarus; apart from that, Western countries (primarily the EU) are switching to sources of energy other than Russia. We project the 2023 GDP to decrease by 3.0% in Russia and in Belarus and to accelerate in other EDB member states. **According to the baseline projection, Kazakhstan's economy will grow by 4.8% in 2023,** helped by the completion of work to increase oil production capacity at the Tengiz field and state programmes aimed at increasing household incomes. **GDP growth in Kyrgyzstan and Armenia will be 1.6% and 3.5%, respectively,** bolstered by exporters and migrant workers switching to new markets.

**It may take several years for the region's economy to adapt to the new conditions,** which will require Russian and Belarusian authorities and businesses to introduce a wide range of measures, both short-term (to mitigate the negative effects of the crisis) and long-term. As long-term measures, countries can launch programmes to replace restricted imported goods and technology, reconfigure infrastructure to use alternative sources, and expand internal sources for funding capital investments. The scale of investment required to move forward in these areas is unprecedented for the EDB member countries. The aggregate growth rate for the Bank's operating region can therefore be expected to be about 1 p.p. lower in 2024–2026 than the rate we previously thought to be sustainable. Notably the findings of a survey conducted among representatives of large and medium-sized businesses from the EDB member states engaged in foreign economic activities show that the key expectations of the business community with respect to foreign trade incentives are the following: tax and customs exemptions, soft loans, the need to consider the opinion of the private sector and to establish rapid response agencies in the area of foreign trade (Chimiris et al., 2022).

**Inflation in the Bank's operating region accelerated in March–April 2022 and will remain elevated in 2023.** By the end of 2022, consumer price growth will reach its peak in Russia and Belarus, to 16% and 18%, respectively. The main drivers behind it are supply chain disruptions, increased volatility of national currencies, greater depreciation and inflation expectations, and rising commodity prices. In countries not directly affected by the restrictions, the inflation rate will be lower in 2022: 8.6% in Armenia, 13.2% in Kazakhstan, 15.3% in Kyrgyzstan, and 11.5% in Tajikistan (Figure 3). As the economies adapt to the new operating conditions, the inflation will slow down to single digits in 2023. Nevertheless, due to the costs involved in setting up new supply chains, price increases in Russia and Belarus will remain above central bank targets. We expect aggregate inflation for the Bank's operating region to be 6.7% by the end of 2023, following 15.5% in 2022, and slowing to 4.5% in 2024.

**National and central banks will ensure that monetary conditions remain contractionary in 2022,** balancing between the priorities of fighting inflation and supporting economic activity. The key rate could fall to about 9% in Russia by the end of the year from 11% in May, and to 12% from the current 14% in Kazakhstan. As inflation slows, we expect key rates in Russia and Kazakhstan to be reduced significantly in 2023 and return to single digits.

**Developed countries still face the risk of a surge in commodity prices and an acceleration of inflation above 10%.** A drastic restriction of oil and gas supplies to the European market from Russia could cause energy prices to soar by dozens of percent from current levels. There is a high risk of significant food price growth acceleration. Should these threats materialise, global inflation will increase further, triggering a global recession in 2023. The economic downturn in such an adverse scenario is unlikely to be greater than in the pandemic, but the recovery may take longer. Stagnation in the global economy will have a negative impact on economic development in the EDB operating region.

# EDB MEMBER STATES

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

*year-over-year growth rate (%), unless otherwise indicated*

Indicator	2020	2021	2022F	2023F	2024F
<b>Republic of Armenia</b>					
GDP in constant prices	-7.6	5.7	1.0	3.5	3.1
Inflation ( <i>at the end of the period</i> )	3.7	7.7	8.6	5.0	3.0
IBL Rate ( <i>the year's average</i> ), %	4.9	6.4	9.2	8.8	8.6
Armenian dram to U.S. dollar exchange rate ( <i>the year's average</i> )	489	504	480	516	528
<b>Republic of Belarus</b>					
GDP in constant prices	-0.7	2.3	-6.5	-3.0	1.5
Inflation ( <i>at the end of the period</i> )	7.4	10.0	18.0	8.0	5.5
Refinancing rate ( <i>the year's average</i> ), %	8.2	8.6	11.6	11.6	10.5
Belarusian rouble to U.S. dollar exchange rate ( <i>the year's average</i> )	2.43	2.54	2.78	3.15	3.42
<b>Republic of Kazakhstan</b>					
GDP in constant prices	-2.5	4.1	2.5	4.8	4.5
Inflation ( <i>at the end of the period</i> )	7.5	8.4	13.2	5.8	4.4
TONIA rate ( <i>the year's average</i> ), %	9.0	8.9	12.7	10.7	8.5
Kazakhstan's tenge to U.S. dollar exchange rate ( <i>the year's average</i> )	413	425.9	459.3	473.6	485.6
<b>Kyrgyz Republic</b>					
GDP in constant prices	-8.4	3.6	1.1	1.6	3.2
Inflation ( <i>at the end of the period</i> )	9.7	11.2	15.3	4.6	4.0
7-day Repo rate ( <i>the year's average</i> ), %	3.6	5.6	13.3	10.9	7.7
Kyrgyzstan's som to U.S. dollar exchange rate ( <i>the year's average</i> )	77.3	84.6	85.7	92.1	97.7
<b>Russian Federation</b>					
GDP in constant prices	-2.7	4.7	-7.0	-3.0	1.7
Inflation ( <i>at the end of the period</i> )	4.9	8.4	16.0	7.0	4.5
Key rate ( <i>the year's average</i> ), %	5.1	5.8	11.2	7.7	7.0
Russian rouble to U.S. dollar exchange rate ( <i>the year's average</i> )	71.9	73.6	78.0	88.0	93.0
<b>Republic of Tajikistan</b>					
GDP in constant prices	4.5	9.2	4.2	6.8	8.0
Inflation ( <i>at the end of the period</i> )	9.4	8.0	11.5	5.0	5.5
Refinancing rate ( <i>the year's average</i> ), %	11.5	12.2	14.0	11.8	9.4
Tajikistan's somoni to U.S. dollar exchange rate ( <i>the year's average</i> )	10.3	11.3	12.6	12.5	12.7

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