

SUMMARY

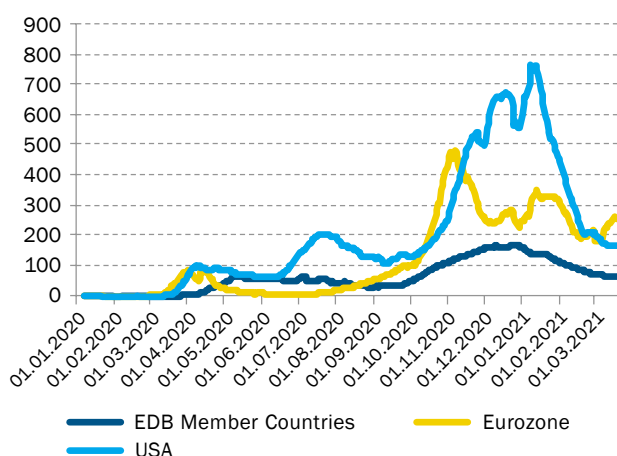
The world economy is on a path to recovery. The Global PMI Composite Output Index remains above the 50-point threshold: it stood at 53.2 points in February 2021. However, recovery is proceeding at an extremely uneven pace on both national and sectoral levels. Business activity is steadily growing in the U.S., China, and Russia, while in the Eurozone and UK this process is inhibited by difficult epidemiological situations. Manufacturing remains the key economic recovery driver, with services still struggling to deal with the remaining restrictions.

The global economy will be growing rapidly in 2021, as the pandemic recedes amid mass vaccinations, and major world economies preserve their current monetary and fiscal stances. As a result, foreign demand for goods and services exported by EDB member countries will increase. The 2021 GDP growth in the Eurozone, the U.S., and China is projected at 4.3%, 5.5%, and 8.5%, respectively. Recovery of global economic activity will support energy prices. Throughout 2021, the average Urals oil price is expected to stay around USD 55 per barrel, a level with which most countries in the EDB region of operations are comfortable.

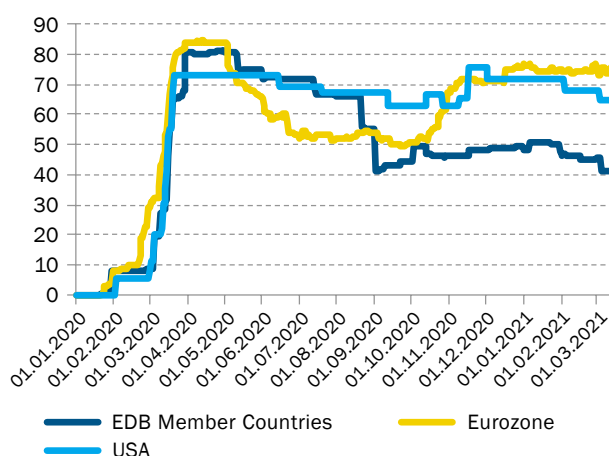
The epidemiological situation in EDB member countries is improving. The number of daily new COVID-19 cases registered in countries in the EDB region of operations, and in the world at large, has decreased relative to December 2020 – January 2021. In conjunction with the vaccination campaigns launched around the world, this enables a step-by-step lifting of restrictions which were the key driver of the 2020 economic slowdown. The gradual reduction of the number of new coronavirus cases and the easing of restrictions across the region are generally consistent with the assumptions made in the EDB November forecast (EDB, 2020).

Course of the Pandemic and Strength of Response

(A) Number of Officially Confirmed COVID-19 Cases
(per 1 million population, 7-day average)

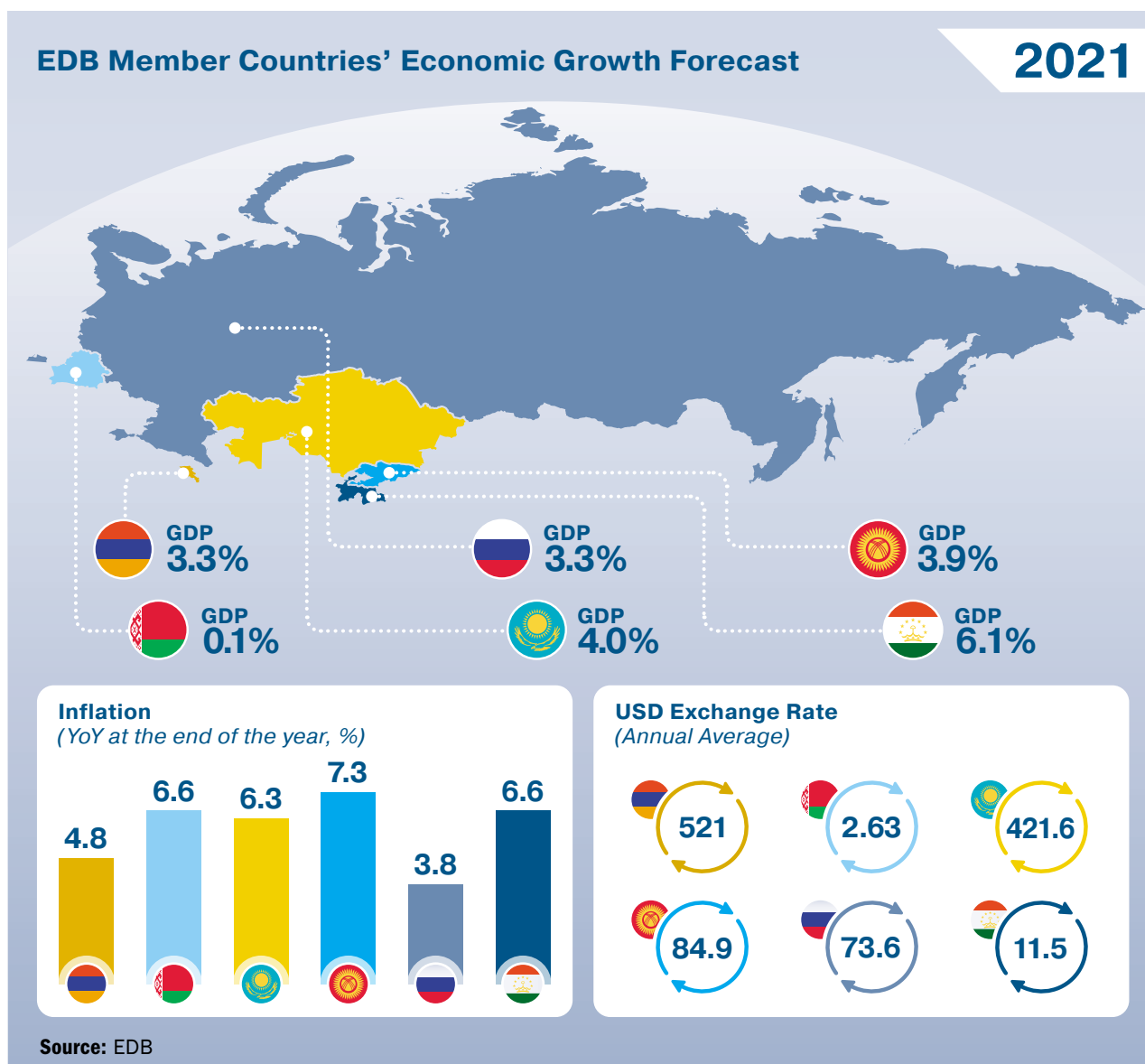


(B) COVID-19 Government Response Stringency Index
(points, maximum = 100)



Source: Oxford University, Johns Hopkins University, EDB calculations

The year 2021 will become a period of a strong recovery for the EDB member countries' economies. The rollback of social distancing measures and improvement of external economic conditions will become the key factors that will encourage expansion of consumer and investment demand. Growth of remittances by migrant workers will be an additional growth driver in Armenia, the Kyrgyz Republic, and Tajikistan. The EDB forecasts that in 2021 the aggregate GDP of the region will increase by 3.3%, following a drop by 3% in 2020. By the end of 2021, the economies of Kazakhstan and Russia will have grown by 4% and 3.3%, respectively, reaching their pre-crisis levels by late 2021 – early 2022. In Armenia and the Kyrgyz Republic, economic recovery will take more time, and is likely to be completed some time in 2022. This is largely attributable to the depth of recession in 2020, smaller fiscal capacity, and heightened political risks. The 2021 GDP growth in Armenia and the Kyrgyz Republic is projected at 3.3% and 3.9%, respectively. Economic activity in Belarus in 2021–2022 will remain below pre-crisis levels. In 2021, its GDP is projected to increase only by 0.1% due to elevated uncertainty and worsening economic sentiment.



Significant acceleration of inflation in EDB member countries will be temporary, and inflation will slow down in the second half of 2021. At the end of 2020, the rise of consumer prices in the Eurasian region exceeded targets set by most national/central banks. The main reason was a substantial global rise in food prices. Under the influence of that factor, inflation in countries in the EDB region of operations remained high at the beginning of this year. Additional price pressure is generated by pandemic-driven supply chain disruptions and COVID-19 response costs. Under the baseline scenario, we anticipate the combined impact of those factors on consumer prices to be gradually diminishing throughout 2021. Together with stabilization of national currency exchange rates, this will encourage disinflation across the region by the end of 2021. The Consumer Price Index increase by the end of 2021 is projected at 4.8% in Armenia, 6.6% in Belarus, 6.3% in Kazakhstan, 7.3% in the Kyrgyz Republic, 3.8% in Russia, and 6.6% in Tajikistan.

EDB member country exchange rates against the U.S. dollar will stabilize in 2021. At the beginning of this year, currencies of countries in the EDB region of operations remain relatively stable vs. the U.S. dollar. National currencies are supported by rising oil prices. Average 2021 exchange rates of the Russian rouble and Kazakh tenge against the U.S. dollar are projected at 73.6 and 421.6, respectively.

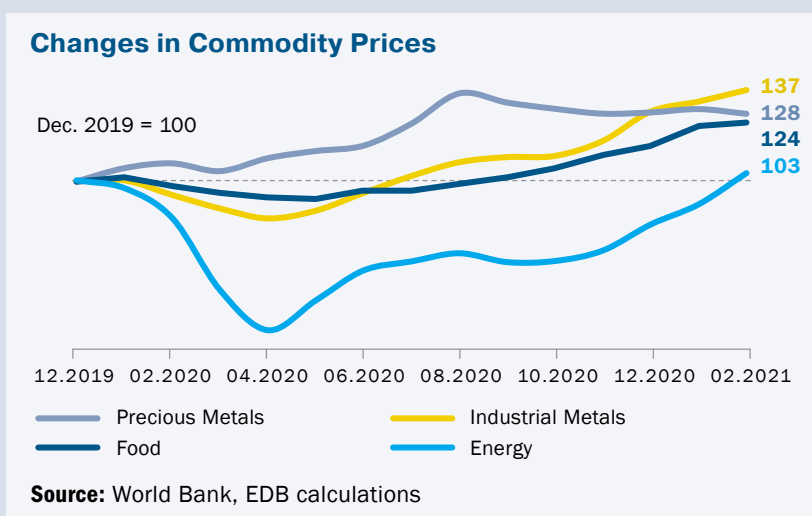
Expansionary monetary policies will continue in most countries of the region throughout 2021, while the scale of fiscal support will decline. Instability and high uncertainty associated with the economic recovery process warrant preservation of soft monetary conditions. However, acceleration of inflation in EDB member countries and growing inflationary expectations leave virtually no room for reduction of key rates by central/national banks. We expect monetary regulators to maintain a balance between the need to support business activity and to restrain rise in prices. Average 2021 interbank market interest rates are projected at about 6.2% in Armenia, 8.3% in Belarus, 8.4% in Kazakhstan, 4.0% in the Kyrgyz Republic, and 4.6% in Russia. Most countries in the region intend to take steps to reduce their fiscal deficits and curb public debt growth.

Strong recovery but certain risks may impact its realization. COVID-19 pandemic prospects and the post-crisis global economy recovery path remain the key uncertainty factors. The vaccination against the new coronavirus is proceeding around the world unevenly and, in most countries, sluggishly. Its impact on the spread of infection will have become meaningful by the middle of the year at the earliest. New waves of coronavirus cannot be ruled out both globally and within the EDB operating region. The impact that the pandemic may have on potential GDP growth rates in certain economies, including major economies, remains highly uncertain. With all those threats in mind, the EDB has developed a risk scenario envisaging slow recovery of the global economy. If it is realized, global GDP growth will fall short of the baseline scenario by 1.1 p.p. in 2021, by 1.6 p.p. in 2022, and by 1.0 p.p. in subsequent years. In that case, the average Urals oil price in 2021 will be USD 44 per barrel.

In 2021, economies of EDB member countries will be recovering even under the risk scenario, albeit at a slower rate. In 2021, Russia's GDP will increase by 1.9% under the risk scenario, 1.4 p.p. less compared to the baseline scenario. Kazakhstan's economic growth rate under the risk scenario will be 1.8 p.p. less than suggested by the baseline scenario, and amount to 2.2%. National currencies of countries in the EDB region of operations will come under pressure as global uncertainty builds up, and investors flee into safe-haven assets. Inflation risks will go up due to devaluation of national currencies, higher inflationary expectations, and persistent supply-chain issues. In such conditions, the

leeway for monetary stimulus will be limited, while mounting threats to debt sustainability will hamper the use of fiscal stimuli.

A global asset inflation trend emerged in the middle of last year. By the end of February 2021, prices in all key commodity groups exceeded their pre-crisis levels. Food prices have gone up by 24% since December 2019, reaching the highest level since 2013. Over the same period, industrial metals prices have risen by 37.5% – metals have not been so expensive since 2011. Having started with metals and food, asset inflation later spread on to energy products. Since the beginning of 2021, the oil price has increased by more than 20%, reaching pre-crisis values.



This strong growth of commodity prices is largely attributable to temporary factors, including supply disruptions, pandemic-provoked production chain gaps, and the rapid recovery of the Chinese economy. Over the next two quarters, the upward pressure that those factors are exerting on commodity prices will be weakening, and price rises will be decelerating. It is this course of events that the EDB has used as the foundation for its baseline scenario. However, this is primarily the effect of extremely soft monetary policies pursued by the world's largest central banks, and the impact of that factor will persist for a rather long period of time.

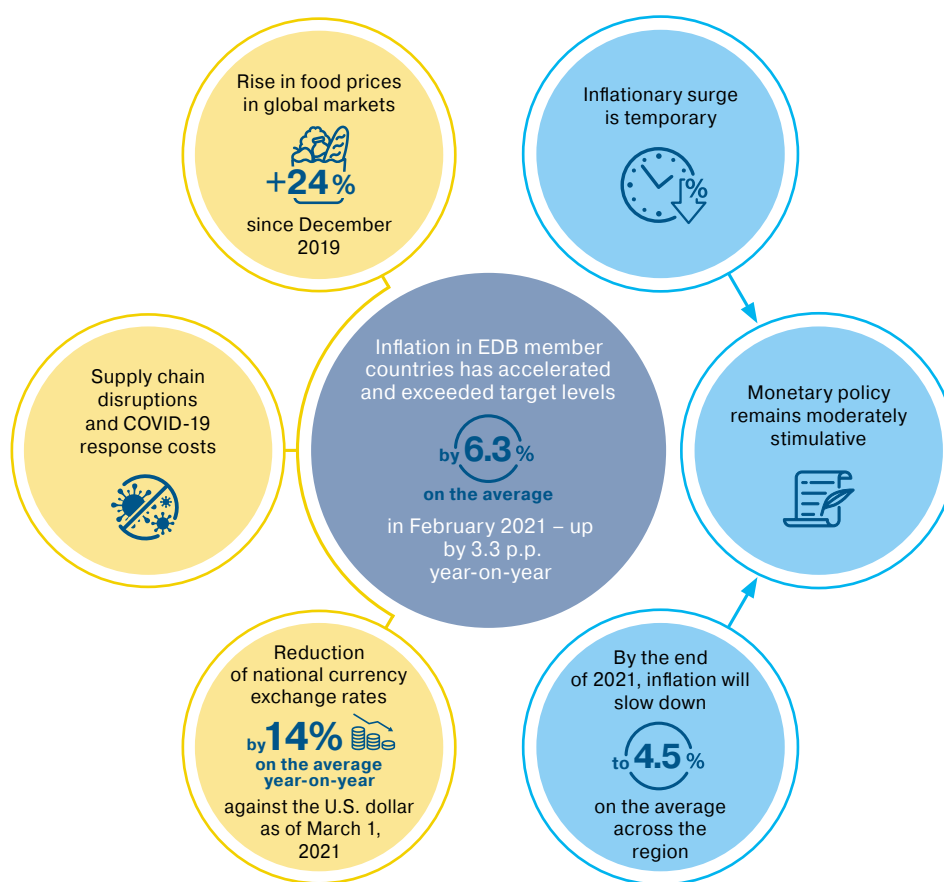
For the Eurasian region – a supplier of commodities to the world market – appreciation of metals and energy is generally a positive development. It produces growing export proceeds, higher budget revenues, and an upbeat economic sentiment. Naturally, that positive impact is largely felt in Russia and Kazakhstan, countries where commodities account for a large chunk of the national economy, but that impact is passed on to the other EDB member countries because of their close economic and financial integration. According to an EDB study, even a temporary increase of oil prices by 10% per year is capable of boosting the aggregated GDP of EDB member countries by an additional 0.14 p.p. (EDB, 2019).

The rapid rise of global food prices deserves special mention. We pay significant attention to that factor in our Macroeconomic Forecast, as it became the key inflation acceleration driver in countries in the EDB region of operations in late 2020 – early 2021. In February, its average rate reached 6.3%, by 3.3 p.p. higher than a year earlier. As we point out in the Macroeconomic Forecast, the

inflationary surge will be temporary, and price growth will decelerate in the second half of the current year. We expect that monetary regulators will be cautious in making tightening decisions, and this year their policies will remain moderately stimulative in most EDB member countries. At the same time, the risk of steady inflation growth in the region remains high, and needs to be considered with due care. If it does materialize, tighter monetary policies will need to be pursued to assure price stability, which may in turn decelerate post-crisis economic recovery.

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Inflation: Drivers and Forecasts



Source: EDB

EDB MEMBER COUNTRIES

Key Macroeconomic Indicators (Baseline Scenario)

Indicator	2018	2019	2020	2021F	2022F	2023F
EDB Member Countries						
Aggregated Real GDP, % y/y	3.0	2.3	-3.0	3.3	2.7	2.7
Republic of Armenia						
GDP in Constant Prices, % y/y	5.2	7.6	-7.6	3.3	4.3	5.3
Inflation (EoP), % y/y	1.8	0.7	3.7	4.8	3.0	3.2
IBL Rate (annual average), %	6.1	5.8	5.1	6.2	6.6	6.8
Exchange Rate, Local Currency Unit per USD (annual average)	483	480	489	521	511	508
Republic of Belarus						
GDP in Constant Prices, % y/y	3.1	1.4	-0.9	0.1	0.7	1.5
Inflation (EoP), % y/y	5.6	4.7	7.4	6.6	5.2	4.7
IBL Rate (annual average), %	10.7	10.1	7.8	8.3	8.4	8.2
Exchange Rate, Local Currency Unit per USD (annual average)	2.04	2.09	2.43	2.63	2.68	2.74
Republic of Kazakhstan						
GDP in Constant Prices, % y/y	4.1	4.5	-2.6	4.0	4.5	5.1
Inflation (EoP), % y/y	5.3	5.4	7.5	6.3	5.0	4.8
TONIA Rate (annual average), %	8.4	8.4	9.0	8.4	7.9	7.6
Exchange Rate, Local Currency Unit per USD (annual average)	344.7	382.8	413.0	421.6	424.8	430.0
Kyrgyz Republic						
GDP in Constant Prices, % y/y	3.8	4.6	-8.6	3.9	5.5	3.7
Inflation (EoP), % y/y	0.5	3.1	9.7	7.3	4.1	4.8
REPO-7 Rate (annual average), %	2.2	3.0	3.6	4.0	5.0	6.3
Exchange Rate, Local Currency Unit per USD (annual average)	68.8	69.8	77.3	84.9	85.2	85.7
Russian Federation						
GDP in Constant Prices, % y/y	2.8	2.0	-3.1	3.3	2.5	2.5
Inflation (EoP), % y/y	4.3	3.0	4.9	3.8	3.7	4.0
MIACR (annual average), %	7.1	7.2	4.9	4.6	5.0	5.2
Exchange Rate, Local Currency Unit per USD (annual average)	62.5	64.7	71.9	73.6	71.4	72.5
Republic of Tajikistan						
GDP in Constant Prices, % y/y	7.6	7.4	4.5	6.1	7.5	7.1
Inflation (EoP), % y/y	5.4	8.0	9.4	6.6	5.1	5.8
Refinancing Rate (annual average), %	14.2	13.8	11.5	11.0	10.6	10.0
Exchange Rate, Local Currency Unit per USD (annual average)	9.2	9.5	10.3	11.5	11.9	12.3

Source: national agencies of the EDB member countries, EDB calculations