# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction by chief economist</td>
<td>2</td>
</tr>
<tr>
<td>Information disclosure</td>
<td>4</td>
</tr>
<tr>
<td>External conditions</td>
<td>5</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>6</td>
</tr>
<tr>
<td>Republic of Armenia</td>
<td>13</td>
</tr>
<tr>
<td>Republic of Belarus</td>
<td>19</td>
</tr>
<tr>
<td>Republic of Kazakhstan</td>
<td>26</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>34</td>
</tr>
<tr>
<td>Republic of Tajikistan</td>
<td>41</td>
</tr>
<tr>
<td>Special report: Integration impulses of growth</td>
<td>45</td>
</tr>
<tr>
<td>Appendix</td>
<td>49</td>
</tr>
</tbody>
</table>
Eurasian trends: stabilization of exchange rate and output dynamics

In recent years, positive expectations have not been met for the second half of the year regarding economic recovery in the EDB member countries. In both 2015 and 2014, unfavorable external factors, primarily the fall in oil prices, had a negative effect on the dynamics of economic growth in the region. Available data for Q3 2016 indicate a more favorable scenario. This is suggested by both macroeconomic data and leading indicators, as well as signals from international credit rating agencies.

Trends in regional growth dynamics in the past several months point to the start of economic recovery. Indeed, judging by data for July-August 2016, there are grounds for positive GDP growth rates in the EDB countries in Q3 2016. The dynamics of the real sector in Q3 2016 may be supported by growth in the agricultural sector as a result of a good harvest. Improvements can be observed in a number of leading indicators, as well as in the transport sector, which provides grounds for the aggregate GDP fall of the EDB member countries to slow from 3.1% in 2015 to 0.6% in 2016 and shift into positive growth of 0.5% in 2017.

To all appearances, one can also expect positive changes in inflation before the end of 2016. The inflation rate in Russia is expected to be lower than 6% in 2016. It will hit an all-time low in 2017-2018 and be close to the central bank’s target of 4%. We expect a fall in the aggregate inflation rate of the EDB countries from 12.8% in 2015 to 6.1% in 2016, and a further slowdown in the rise in consumer prices to 4.8% in 2017 and 4.2% in 2018.

Apart from the low world prices on food and primary commodities, a significant contribution to the decline in inflationary pressure is delivered by the stabilization of the exchange rates of the EDB countries’ currencies throughout Q2-Q3 2016. In January-August 2016 the national currency strengthened in Russia, Armenia and Kyrgyzstan; while in Armenia and Kazakhstan, after a fall at the start of 2016, the exchange rate exhibited an upward trend in February and March. This trend is partially due to a decline in the outflow of capital from EDB countries, and makes it possible for the countries to replenish their foreign exchange reserves.

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1 The indicator is calculated as a weighted average on the basis of weights reflecting the share of real GDP at PPP in the aggregate GDP of the EDB member states.
Due to the improved macroeconomic indicators and the expected relative recovery in economic activity in the EDB countries, leading credit rating agencies began to improve their assessments of the state of the region’s economies. In July Fitch Ratings affirmed the Russian Federation’s Long-Term Local Currency Issuer Default Rating at BBB- (the lowest level of investment grade) with negative outlook; while Standard & Poor’s affirmed the long-term sovereign credit rating of the Russian Federation at BB+ and upgraded the country’s outlook from negative to stable.

An important factor for the recovery of economic activity in a number of the EDB countries was the rise in exports, primarily to the Russian Federation. In our special report, we analyze this trend with the examples of Armenia and Kyrgyzstan. In some countries, including Armenia, the acceleration of the rise in exports may be attributable to the depreciation of the national currency. However, Kyrgyzstan showed an increase in exports to Russia despite the strengthening of the som against the ruble, which suggests that integration factors may have played a certain role.

Apart from the rise in exports, there continues to be a recovery in cash remittances from Russia\(^2\) to other EDB countries. The year-on-year dynamics of migrant remittances in dollar terms entered positive territory in Q2 2016. The main contribution to the recovery of migrant remittances in the region is made by Kyrgyzstan, where the total volume of remittances increased by 22% compared with Q2 2015. This was largely attributable to the preferential treatment of migrant workers from the Kyrgyz Republic in the EAEU.

Despite the positive changes however, there are lingering risks of imbalances in a number of macroeconomic sectors, primarily in the budgetary sphere. There are still significant global risks related to: the slowdown in the growth of the Chinese economy; the fall in the prices of primary commodities; the deterioration of the situation in the banking sector of European countries; as well as an increase in the Fed rate.

In conclusion, developments so far this year suggest that the economic dynamics of the EDB countries is trending towards gradual normalization. This is from the standpoint of both the normalization of rates (a gradual fall from the high levels in recent years) and the parameters of the balance of payments amid the decline in capital outflows. Although the gradual loosening of monetary policy will provide an additional impetus to the recovery of the region’s economies, most of the potential for an accelerated recovery continues to be concentrated in the field of structural transformation, including the benefits that the EDB countries can obtain from economic integration.

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\(^2\) According to data from the Bank of Russia on the dynamics of cross-border remittances by individuals.
INFORMATION DISCLOSURE

This bulletin is a comprehensive macroeconomic review of the member states of the Eurasian Economic Union (EAEU countries). The review provides a detailed description of the current internal and external macroeconomic conditions, and a forecast that takes into account interlinkages between the economies of the region and the external sector.

In the present review, EDB employs methods that are part of mainstream economic analysis and forecasting, and are successfully used by central banks and leading international financial institutions. The main analysis and forecasting tool used by EDB is an integrated model system (IMS), which is based on a multi-country structural dynamic macroeconomic model of general equilibrium. The IMS was developed and introduced by the EDB Center for Integration Studies in 2013-2014. Its aim was to meet the needs of EDB and the Eurasian Economic Commission for analyzing and forecasting the macroeconomic situation in the region. The use of this tool also makes it possible to analyze strategic measures in response to shocks and risks related to: the world and national economic systems; and changes in prices of primary commodities. An important advantage of the model complex is the opportunity to conduct analysis and forecasting for both a particular EAEU country and the EAEU as a whole.

More detailed information about the structure of the IMS, its main components, and its use within the framework of the analysis and forecasting of the macroeconomic situation can be obtained from the joint report by the EDB Center for Integration Studies and the Eurasian Economic Commission. It is titled “The System of Analysis and Macroeconomic Forecasting,” and the full text is available at EDB’s website: http://eabr.org/r/research/centre/projectsCII/projects_cii/index.php?id_4=49198&linked_block_id=0.

The present report is solely for information purposes and cannot be viewed as a recommendation to buy or sell securities or other financial instruments. Neither information contained in the present analytical review nor other information related to the subject of this review that can be disseminated in the future can be used as a basis for the emergence of any contract. Information contained in the present review and conclusions drawn on its basis was obtained from open sources that EDB considers to be reliable. Despite all the scrupulousness in the preparation of this review, none of the experts, directors, managers, officers or counteragents of EDB give any guarantee or assurance expressed or implied, and undertake any responsibility with regard to the reliability, accuracy and fullness of the information contained in the present review. Any information contained in the present review can be changed any time without preliminary notice. None of the members of EDB undertake the obligation to update, alter or supplement the present analytical review, or notify readers in any way if any of the facts, opinions, estimates, forecasts or assessments change or lose its meaning.
World economic growth in 2016 is expected to be at the level of 2015. A decline in the probability of the U.S. Federal Reserve System normalizing its monetary policy.

Prices of major exchange-traded commodities stabilize.

The determining factors behind the slowdown in world economic growth continue to be: the weak recovery of the economies of primary commodity exporting countries; a slowdown in growth in developed economics; and the continuing instability in global financial markets. The world’s GDP is forecast to grow by 3.1% in 2016.

The economy of the Eurozone continues to show moderate growth, with a year-on-year increase of 1.6% in Q2 2016. Positive growth factors continue to include: a recovery of consumption amid low rates; a rise in lending and wages; and a decline in unemployment. The growth rate of the United States’ GDP continued to fall, decreasing to 1.2% year-on-year in Q2 2016. The positive dynamics of consumer demand in the U.S. economy was partially offset by weak external demand and a decrease in investment.

After a six-month rise, oil prices averaged $44.5 per barrel in Q3 2016. Oil prices fluctuated under the influence of changes in the exchange rate of the dollar and conflicting signals about measures to restore a balance between demand and supply in the oil market. The recovery of food prices, which started in early 2016, slowed down to some extent in July and August. Given the expected further recovery of demand in world markets, oil prices are forecast to continue to recover. Data on economic activity in the United States caused gold prices to rise to an average level of $1,335 per ounce in Q3 2016.

### Forecast for major external economic indicators

<table>
<thead>
<tr>
<th></th>
<th>Average annual price of URALS oil, in U.S. dollars per barrel</th>
<th>Average annual price of gold, in U.S. dollars per ounce</th>
<th>Food price index, 2010=100</th>
<th>Average annual exchange rate of the euro to the U.S. dollar</th>
<th>Average annual FED funds rate, in percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>41.4</td>
<td>1,279</td>
<td>91.1</td>
<td>1.1</td>
<td>0.5</td>
</tr>
<tr>
<td>2017</td>
<td>49.6</td>
<td>1,354</td>
<td>92.6</td>
<td>1.1</td>
<td>1.8</td>
</tr>
<tr>
<td>2018</td>
<td>52.6</td>
<td>1,370</td>
<td>94.2</td>
<td>1.1</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: Estimates by the authors, EEC
The fall in Russia’s GDP continues to slow down

Russia’s GDP dynamics continued to stabilize in Q2 2016. According to data from the Federal State Statistics Service (Rosstat), the year-on-year fall in GDP slowed from 1.2% in Q1 2016 to 0.6% in Q2. If seasonal factors are not taken into account, GDP growth remained close to zero in Q2 2016 compared with Q1 2016. Russia’s GDP fell by 0.9% year-on-year in January-June 2016.

Industrial output experiences an unstable recovery

Industrial output, which began to rise in April 2016, kept rising throughout Q2 2016, increasing by 1% compared with Q2 2015. In Q2 2016, for the first time since 2014, there was a quarter-on-quarter rise in output in the manufacturing industry. The industry’s output increased by 0.9%, supported by both import substitution and a rise in exports. There was a steady rise in agricultural output, which increased by 2.5% year-on-year in Q2 2016. The growth in the agricultural sector is expected to accelerate in Q3 2016 on the back of a favourable harvest this season. Freight transportation, which had been in positive territory since Q3 2015, increased by 1.0% in Q2 2016 compared with Q2 2015.
Domestic demand remains weak amid consumer and investment uncertainty

Both investment and consumer demand remained weak. Fixed capital investment fell by 3.9% year-on-year in Q2 2016 against a 4.8% year-on-year fall in Q1 2016. The fall in fixed capital investment is expected to slow down further in Q3 2016 amid a significant slowdown in the decline observed in investment goods and construction in July-August 2016. Consumer activity remained low at the beginning of Q3 2016. Although the growth in real wages became positive, household’s overall real disposable income continued to decrease as did retail sales, which fell by 5.9% in July 2016 compared with July 2015.

Leading indicators suggest a possible improvement in the economic situation

Leading indicators calculated by the Eurasian Economic Commission suggest some improvement in economic activity in Russia in Q3/Q4 2016. An improvement compared with Q3/Q4 2015 is evidenced by almost all components of the Consolidated Leading Indicator (CLI) that characterize the external, domestic and financial sectors of the economy. A deterioration took place in August 2016 in the dynamics of the business certainty index in the manufacturing and extractive industries.

Inflation

Inflation continues a downward trend in Q3 2016

Inflation continued slowing down in Q3 2016. Major factors holding back the rise in prices included: weak domestic demand; the strengthening of the ruble; and the stabilization of world food and energy prices. The dynamics of industrial and agricultural producer prices also imported a downward effect on the general level of prices. In July 2016, industrial producer prices were 6.6% higher than at the start of 2016 compared with a rise of 13.1% in Q1-Q2 2015. Agricultural producer prices fell by 2.8% in the period between July 2015 and July 2016 compared with an increase of 0.8% in 2015.

Current macroeconomic conditions contribute to a further slowdown in inflation

Annual inflation fell to 6.9% in August 2016. The annual core inflation rate fell from 7.5% in May to 7% in August. A further slowdown in inflation will result from: the continued limitations on the demand side; and the moderately tight monetary and budgetary policies pursued by the Bank of Russia and the government. In this regard, it should be noted that, according to estimates by the Bank of Russia, there continues to be a heightened level of inflation expectations, which constitute a major inflation risk amid external economic uncertainty.
Exchange rate

The dynamics of the ruble stabilized to a significant extent since January 2016. In Q2 2016, the exchange rate of the ruble was less dependent on fluctuations in oil prices and stabilized in July-August 2016 at USD/RUR 64.5. The real effective exchange rate of the ruble against foreign currencies rose by 11.3% in Q2 2016 compared with Q1 2016. The ruble’s real effective rate increased by 8.7% in January-August 2016 compared with December 2015.

The ruble was undervalued as of the beginning of the forecast period. We estimate the gap between the real effective exchange rate and its equilibrium trajectory at 7.5%. Therefore, there continue to be conditions in the market for the Russian ruble to strengthen in the short term.

According to preliminary estimates by the Bank of Russia, the current account surplus of Russia’s balance of payments decreased from $51.9 billion in January-August 2015 to $14.8 billion in January-August 2016. This decrease was primarily due to: a sharp shrinkage of the export surplus in foreign trade amid weak external demand; the strengthening of the ruble; the low prices of exported primary commodities; and a slowdown in the fall in imports. At the same time the outflow of capital from the Russian economy decreased significantly. In particular, according to preliminary estimates by the Bank of Russia, the country’s net capital outflow in January-August 2016 totaled $9.9 billion compared with an outflow of $50.8 billion in January-August 2015.
Fiscal policy

The federal budget deficit decreases amid a rise in oil prices

According to data from the Finance ministry, Russia’s federal budget posted a deficit of 1,442 trillion rubles, or 3.2% of GDP, in January-July 2016 against a deficit of 4.5% of GDP in January-April 2016. The federal budget featured a deficit of only 0.048 billion rubles in June-July 2016. The main factor behind the fall in public revenue was a decrease in oil and gas proceeds, while expenditures fell due to more even spending on national defense and security than in 2015 and limited spending on the economy. The federal budget deficit was mainly financed through a drawdown of the outstanding balances of the budget and the Reserve Fund of Russia. Judging by the finance ministry’s most recent statements, the Russian authorities are aiming to limit the budget deficit in 2016 to 3% of GDP.

The finance ministry placed federal bonds amounting to 709.1 billion rubles in January-August 2016, successfully implementing its public borrowing program. As a consequence, domestic public debt grew by 0.1 trillion rubles in June-August 2016 to 7.3 trillion rubles. At the same time external public debt continued to decline in June and July due to a revaluation of the external debt in foreign currency terms, and amounted to 3.4 trillion rubles. In late September the finance ministry also raised $1.25 billion from the placement of 10-year Eurobonds.

Source: The federal statistical agency, EEC, estimates by the authors
Monetary policy

The central bank’s monetary policy remains moderately tight

The interest rate policy of the Bank of Russia continues to be described as moderately tight despite the reduction in the key policy rate in September 2016. The implementation of a tight policy is a necessary condition for the stabilization of inflation expectations, which the Bank of Russia estimated to be still elevated in August. The real interest rates in the economy continue to be at levels that stimulate savings.

The base rate is to fall further in 2017

According to the statement by the Bank of Russia on its rate decision, the regulator plans to keep the key rate at the current level until the end of 2016 in order to strengthen the downward trend in inflation. There continued to be a structural liquidity shortage in August, but it decreased compared with July. The regulator estimates that there will be a structural liquidity shortage until the end of 2016.

Forecast

The impact of negative shocks is gradually diminishing

Economic activity should increase in the medium term mainly due to an improvement in external demand and a recovery of domestic demand amid the gradual loosening of monetary policy and a decline in uncertainty. However, economic activity will be held back by the continued Western sanctions, including the ban on technology exports to Russia, and a weak recovery of investment activity. Given these circumstances, we expect a weak recovery of economic growth in the next two years. Russia’s GDP is forecast to grow by 0.3% in 2017 and 1.2% in 2018. As for 2016, we have improved our forecast for GDP from a fall of 1.0% to a decline of 0.7%.

The cyclical and potential components deliver a negative contribution to output dynamics

The contraction in output in 2016 will be caused by both the dynamics of potential output and the contribution of the cyclical component. The fall in the growth rate of potential output - whose recovery is expected only by 2018 - is caused by: a decline in the equilibrium price of oil; the depreciation of capital assets (investment keeps falling); a decrease in the labour force (possible relief through the inflow of migrants); and technological restrictions (the ban on technology exports to Russia). The significant negative contribution of the cyclical component - the output gap will remain in negative territory until mid-2018 - is due to: the impact of the cyclical component of oil prices; the moderately negative effect of external demand; and restrictions on external financing.
The predicted gradual rise in oil prices and the closure of the existing gap in the real effective exchange rate will contribute to the strengthening of the ruble in the short term, which in turn will serve to lower inflation. However, weak investment activity and lingering risks of increased capital outflows may change the direction of the exchange rate dynamics.

**GDP in comparable prices**

*(growth in percent, y/y)*

**Nominal exchange rate,**

*Russian rubles per U.S. dollar*

Inflation has been gradually slowing down since the beginning of 2016. The growth rate of consumer prices is forecast to be 5.5% at the end of 2016, which would result from: moderately tight monetary policy; weak domestic demand; and the stabilization of the ruble’s exchange rate. Heightened inflation expectations and possible changes in household saving behavior continue to be among the key factors that may boost inflation. Nonetheless, the general downward trend in inflation will continue until the end of 2016. If the authorities stick to the current monetary policy in the next two years, inflation is expected to slow to 4.6% in 2017 and 3.9% in 2018.

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Here and below the ranges of the fan diagrams correspond to 10%, 50% and 75% confidence intervals.
**SUMMARY**

**Forecast for Russia’s Major Macroeconomic Indicators**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CPI</strong> (growth in percent as of year-end)</td>
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<td>4.6</td>
<td>3.9</td>
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<tr>
<td><strong>GDP</strong> in comparable prices (growth in percent, y/y)</td>
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<td>1.2</td>
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<td><strong>MIACR</strong> (in percent per annum)</td>
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<td>10.0</td>
<td>8.9</td>
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<tr>
<td><strong>Exchange rate</strong>, the national currency against the U.S. dollar (final average for the year)</td>
<td>67.3</td>
<td>63.8</td>
<td>64.4</td>
</tr>
</tbody>
</table>

*Source: Estimates by the authors, EEC*
**REPUBLIC OF ARMENIA**

**TRENDS**

**GDP**

**Economic growth slows down in June-August 2016**

Armenia was the leader among the EAEU countries in the level of GDP growth in Q1-Q2 2016 with a 2.8% year-on-year growth rate. However, Q2 2016 saw a slowdown in Armenia’s economic growth to 1.5% year-on-year compared with a growth of 4.5% in Q1 2016. A rise in exports commodities strengthened its role as the main driver of growth. The Indicator of Economic Activity continued to deteriorate at the beginning of Q3 2016. The indicator’s six-month positive dynamics gave way to year-on-year falls of 4.3% and 0.5% in July and August, respectively. The decline in economic activity was attributable to a slowdown in the growth of industrial output and a decrease in agricultural output.

Key factors determining economic activity in Armenia included:

- *from the standpoint of the expenditure approach* there was a rise in exports, which increased by 9.6% year-on-year in Q2 2016, whereas imports fell by 5%. The increase was mostly due to a rise in exports (in terms of value) to EAEU countries, primarily Russia, which is Armenia’s main trading partner. Armenia’s exports to Russia and Belarus rose by 87.4% and 47.2% year-on-year, respectively, in Q1-Q2 2016. This increased the share of EAEU countries in the total volume of Armenia’s exports from 13.6% in Q1-Q2 2015 to 21.5% in Q1-Q2 2016;

- *from the standpoint of the value-added approach* there was a positive contribution made to GDP growth in Q2 2016 by the manufacturing and extractive industries, which showed year-on-year growth rates of 5.6% and 4.3%, respectively. There continued to be negative dynamics in the construction sector, whose output fell by 5.4% year-on-year in Q2 2016. Agricultural output decreased by 1.3% in Q2 2016, which was attributable to the high base of 2015. Retail sales fell by 4.3% year-on-year in Q1-Q2 2016, which reflected the continuing low consumer activity in the economy of Armenia.

The output gap remained in negative territory at -1.9% in Q2 2016.
Inflation

Actual inflation continues to be below the target level

The impact of external deflationary factors on the level of prices in Armenia was gradually diminishing throughout 2016. In July and August, the dynamics of prices were mostly determined by domestic factors such as weak consumer activity and scheduled decreases in the prices of utilities. As a result, the country had an annual deflation rate of 1.6% in August 2016. The dynamics of consumer prices are expected to return to the central bank’s inflation target of 2.5 to 5.5% in 2017.
Exchange rate

The dynamics of the exchange rate has a positive effect on the competitiveness of Armenian goods in the Russian market. Nominal and real effective exchange rates of the dram fell by 0.6% and 2.6%, respectively, in January-July 2016. At the same time the national currency strengthened by 1.3% against the U.S. dollar, but weakened by 7.1% against the Russian ruble compared with December 2015. This led to a recovery in the price competitiveness of the exporting sector of the Armenian economy in the Russian market.

The real effective exchange rate of the dram in Q2 2016 was slightly overvalued (by 0.7%) against its equilibrium exchange rate, but it was undervalued (by 1.3%) against the U.S. dollar and had the potential to rise.

The country’s international reserves began to grow in May 2015, increasing by $171.5 million within three months. The growth was mainly due to the central bank’s purchases of foreign currency.

The current account deficit decreased in Q1 2016 to $166.7 million, the lowest level for the first quarter of a year in 10 years. The main factor behind the decrease was a fall in the foreign trade deficit, which was due to a significant increase in exports and a simultaneous decline in imports.

Cash remittances from Russia fell by 15.6% year-on-year in January-July 2016 against a 39% year-on-year decrease in January-July 2015. The impact of the decreased amount of remittances on domestic demand was partially offset by the government’s expansionary monetary and fiscal policies.

Fiscal policy

The implementation of the budget meets figures projected for 2016. The government’s fiscal policy continued to be accommodative in Q2 2016. The state budget posted a deficit of 57.8 billion drams in Q1-Q2 2016, which was mainly financed from domestic sources. The rise continued in social and public service spending. State budget revenue was supported by an increase in revenue from excise taxes, value-added tax and profit tax. We expect Armenia to show a state budget deficit equal to 4.1% of GDP in 2016.
Public debt grows to 51.9% of GDP by the end of August 2016

Armenia’s public debt grew by 8% from January 2016 to $5,484.9 million at the end of August. The increase was largely due to a rise of 23.8% in domestic debt, while external debt increased by 5.2%. External loans and state bonds issued in national currency were the main sources of the growth of public debt. As a result, the debt burden grew to 51.9% of GDP at the end of August 2016 from 48.2% of GDP at the end of 2015.

Source: The national statistical agency, estimates by the authors, EEC

Monetary policy

The central bank lowers interest rates to get on the inflation target trajectory

In order to fuel economic activity and alleviate deflationary pressure, the central bank continued loosening its monetary policy in June-August 2016, reducing the refinance rate twice, from 7.75% to 7.25%. Consequently, the interest rates on the instruments of liquidity management in the banking sector were reduced accordingly.

The degree of dollarization remains high

The degree of dollarization of the economy remains high. The share of residents’ deposits in foreign currency in the total volume of residents’ deposits was 62% in July 2016, while foreign-currency loans made up 66.4% of the total volume of loans. Given this circumstance, the monetary authorities state that they will be cautious in easing the monetary conditions going forward.
Forecast

**Economic growth may accelerate if the government implements stimulus programs**

A gradual recovery of domestic demand amid expansionary monetary, budgetary and tax policies will help restore Armenia’s economic growth in the medium term. Exports will continue to be the main driver of growth in Q3-Q4 2016. Measures taken by the government to stimulate exports and investment, and an improvement in the external economic environment will contribute to the acceleration of economic growth in Armenia in 2017-2018. Given the dynamics of GDP in Q1-Q2 2016 and the decline in economic activity at the beginning of Q3 2016, the country’s GDP is expected to grow by 2.0% in 2016. EDB forecasts that economic growth will accelerate to 2.3% in 2017 and 4.1% in 2018 as domestic demand recovers and the government implements its stimulus programs.

**Actual inflation will continue to be below the central bank’s target level until the end of 2016**

A decline in the deflationary impact of external factors in Q3-Q4 2016 amid a recovery in consumer activity will cause the level of prices in Armenia to gradually move closer to the authorities’ inflation target. Prices are expected to rise slightly by the end of 2016, but inflation will still be below the band set by the central bank. If there are no new external shocks, consumer prices will post a negative growth rate of -1.1% in 2016. As a result of stronger domestic demand and a rise in the price of imported primary commodities and goods, inflation is expected to accelerate to 2.4% in 2017 and 3.6% in 2018.
SUMMARY

Forecast for the Major Macroeconomic Indicators of the Republic of Armenia

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
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<tbody>
<tr>
<td><strong>CPI (growth in percent as of year-end)</strong></td>
<td>-1.1</td>
<td>2.4</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>GDP in comparable prices (growth in percent, y/y)</strong></td>
<td>2.0</td>
<td>2.3</td>
<td>4.1</td>
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<tr>
<td><strong>Interbank repo rate (in percent per annum)</strong></td>
<td>8.2</td>
<td>8.4</td>
<td>8.6</td>
</tr>
<tr>
<td><strong>Exchange rate, the national currency against the U.S. dollar (final average for the year)</strong></td>
<td>480</td>
<td>473</td>
<td>477</td>
</tr>
</tbody>
</table>

Source: Estimates by the authors, EEC
TRENDS
GDP

GDP falls in January-August 2016 amid domestic and external headwinds

Despite the slowdown in its output decline in Q1-Q2 2016, Belarus still featured the worst economic growth rate among the EAEU member countries. Moreover, according to preliminary data from the National Statistical Committee (Belstat), July and August witnessed an acceleration in GDP decline, with Belarus GDP falling by 3% year-on-year in January-August 2016. The contraction of output continued amid weak domestic and external demand and conservative monetary and fiscal policies.

Key factors behind the fall in economic activity in Belarus included:

- **from the standpoint of the income approach** household real disposable money income, fell in January-August 2016 to 93% of the level of January-August 2015;

- **from the standpoint of the expenditure approach** there was some acceleration of the fall in household consumption expenditure in Q2 2016 (down 2.1% year-on-year) and a slowdown in the contraction of gross fixed capital formation (down 11.2% compared with Q2 2015) amid a fall in household real disposable money income;

- **from the standpoint of the value-added approach** the growth dynamics of industrial output was positive in Q2 2016 compared with Q2 2015, but returned to negative territory at the beginning of Q3 2016. This was mostly due to a decrease in the volume of oil processing following Russia’s decision to reduce the supply of crude oil to Belarus. Industrial output fell by 1.8% year-on-year in January-August 2016, down from a year-on-year fall of 2.5% in January-April 2016. The positive dynamics of agricultural output in January-July 2016 was followed by a sharp 15.5% fall in August. This was due to: last year’s high base as grain crops were harvested in a later period in 2015; and a year-on-year decrease in grain output. Belarus’s agricultural output fell by 2.2% year-on-year in January-August 2016 after a year-on-year rise of 4.2% in January-July 2016.

The fall in output accelerates in major industrial sectors in 2016

Belarus’s industrial output fell by 4.3% year-on-year in January-August 2016 after a year-on-year rise of 3.8% in January-April 2016. Industrial output fell in all major sectors in January-August 2016, with the drop in the volume of oil processing following Russia’s decision to cut crude oil supplies to Belarus. Industrial output fell by 5.7% year-on-year in January-August 2016, down from a year-on-year fall of 4.4% in January-April 2016. The positive dynamics of manufacturing output in January-July 2016 was followed by a sharp drop in August. This was due to: last year’s high base as grain crops were harvested in a later period in 2015; and a year-on-year decrease in grain output. Belarus’s manufacturing output fell by 5.5% year-on-year in January-August 2016 after a year-on-year rise of 4.1% in January-July 2016.
January-August 2016 negative dynamics continued in the construction and trade sectors, which experienced year-on-year falls of 16.9% and 6.1%, respectively.

High loan rates limit investment recovery

The elevated debt burden and high rates on loans continued to hold back investment activity. The fall in fixed capital investment slowed to 19.7% year-on-year in January-August 2016 from 24% in January-April 2016. The output gap (the difference between actual GDP and potential GDP) remained negative at -2.8% in Q2 2016.

Liading indicators exhibit lack of changes in economic activity

Leading indicators calculated by the Eurasian Economic Commission showed the lack of significant changes in economic activity in Belarus in Q3 2016. The overall leading indicator suggested the probability of a protracted recovery.

Inflation

Inflation slows to the target level of the National Bank for 2016

The annual inflation rate reached 11.8% in August 2016. Consumer prices had risen by 7.6% since December 2015, increasing insignificantly from the level of 7% in May 2016; whereas the government had projected a 12% increase for the whole of 2016. The stabilization of inflation was largely due to weak consumer activity amid restrictive monetary, tax and budgetary policies, as well as the strengthening of the Belarusian rubel.
Relative stability in Belarus’ foreign exchange market continued in June-August 2016. The strengthening of the national currency resulted from: a surplus of liquidity in the banking sector; an excess of supply over demand from households; and the pressure waning on the exchange rate of the rubel from external factors. In addition, the real exchange rate against the U.S. dollar remained some 5% undervalued and had a potential to rise.

The current account balance posted a surplus of $3.4 million in Q2 2016. Major deterrent factors included: a deterioration of the terms of trade in oil and petroleum products; a fall in world potash prices; and a weak recovery of external demand. Belarus recorded a current account deficit of $1.5 billion (7% of GDP) in Q1-Q2 2016 compared with a deficit of $0.9 billion (3.2% of GDP) in Q1-Q2 2015.

Although the National Bank and the government underlook significant repayments of foreign-currency debt, the National Bank managed to increase the international reserves by $440.3 million in June-August 2016. The reserves grew due to: a rise in the supply of foreign currency from individuals; a rise in gold prices in the world market; sales of bonds and the receipt of the second loan tranche of $300 million from the Eurasian Fund for Stabilization and Development (EFSD).
Fiscal policy

The government continued to maintain a federal budget surplus, which amounted to 1 billion new (post-redenomination) rubels, or 2% of GDP. A fall in revenue from external economic activity due to a significant deterioration of the terms of trade in Q1-Q2 2016 called for budget consolidation measures. The government undertook a set of measures that helped reduce expenditure in Q1-Q2 2016 by a total of about 2 billion new rubels and plans to keep a state budget surplus in 2016 to be able to meet its domestic and external liabilities.

External public debt in dollar terms grew from $13.1 billion as of May 1, 2016 to $13.3 billion as of August 1. The main driver of growth in the period under review was the second, $300-million loan tranche from the EFSD. Domestic public debt decreased by 3.8% since January 2016. Overall public debt, which includes the central government debt and the debts guaranteed by the central government, amounted to 49.1% of GDP as of August 1, 2016.

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*Source: The national statistical agency, estimates by the authors, EEC*

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*Belarus knocked four zeroes off the rubel at midnight on July 1, 2016 in a third currency redenomination since August 1994.*
Monetary policy

Authorities soften loan terms to reduce financial instability risks

The deceleration of inflation and the need to reduce financial instability risks (to increase economic entities’ ability to meet their liabilities to creditors) prompted the National Bank to further reduce its refinance rate to 18% on August 17. The refinance rate was lowered twice in June-August 2016, from 22% to 18%. Nominal rates on loans and deposits fell simultaneously in the banking sector, which helped alleviate the debt burden on companies and stimulate economic activity in general.

The degree of dollarization remains high

The degree of dollarization of the economy remained high despite signs of a recovery of trust in the Belarusian rubel by households. At the beginning of September 2016 foreign currency accounted for 73.2% of the total bank deposits of individuals and legal entities, down from 75% at the start of 2016.

Forecast

The National Bank’s 2016 inflation target will not be exceeded

In our view the National Bank’s 2016 inflation target is unlikely to be exceeded due to: weak domestic demand; moderately tight monetary policy; and the lack of external inflationary pressure. EDB forecasts an inflation rate of 11.9% for 2016 (December on December) and a subsequent slowdown to 8.9% in 2017 and 6.9% in 2018.

A further stabilization of the Russian ruble amid the expected recovery of oil prices will continue to have a positive effect on the dynamics of the Belarusian rubel. The nominal exchange rate of the rubel is expected to rise in the short term, which would result in the closure of the existing positive gap with regard to the real exchange rate. The Belarusian rubel’s rate is expected to gradually fall amid the general weakening of the currencies of developing economies.
External shocks and weak domestic and external demand impede the recovery of economic growth.

Given the existing domestic factors, which deter the recovery of economic growth, the reduction in the supply of crude oil from Russia at the beginning of Q3 led to a revision of our GDP forecast for 2016 from a fall of 1.9% to a fall of 2.6%. EDB expects a gradual recovery of the country’s economy to a growth of 0.6% in 2017 and a growth of 0.9% in 2018.

Belarus’ recovery from the recession may be affected by a deterioration of the external environment or the materialization of financial instability risks amid the growth of troubled assets in the banking sector. As inflation slows further, the monetary authorities are expected to take measures in the field of interest rate policy to ensure a reduction in nominal rates on loans and deposits in the banking sector to stimulate economic activity. EDB forecasts that the government will take the next steps to loosen monetary policy no earlier than 2017.
SUMMARY

Forecast for the Major Macroeconomic Indicators of the Republic of Belarus

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
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<tr>
<td>CPI (growth in percent as of year-end)</td>
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<td>GDP in comparable prices (growth in percent, y/y)</td>
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<td>Interest rate on overnight interbank loans (in percent per annum)</td>
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<td>14.3</td>
<td>12.2</td>
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<td>Exchange rate(^5), the national currency against the U.S. dollar (final average for the year)</td>
<td>2.003</td>
<td>2.057</td>
<td>2.163</td>
</tr>
</tbody>
</table>

Source: Estimates by the authors, EEC

\(^5\) The exchange rate of the new (post-redenomination) rubel.
GDP growth recovers in Q2 2016

In the course of this year recession was averted by Kazakhstan’s National Bank and government via the implementation of a stimulus anti-crisis package of measures. It was accompanied by a decline in the volatility of the external economic environment. According to preliminary data, the country’s GDP grew by 0.3% year-on-year in Q2 2016 after a fall of 0.1% in Q1 2016.

Key factors affecting the economic activity in Kazakhstan included:

- **The construction sector is the key driver of economic growth**
  - From the standpoint of the value-added approach there was a 7.1% increase in output in the construction sector that was driven by the implementation of the government’s Nurly Zhol (The Bright Path) program. This more than compensated for a 2.7% year-on-year fall in output in the industrial sector, which was largely due to decreased output in the extractive industry. In addition, the dynamics of the services sector moved into positive territory in Q2 2016, with a growth of 0.4% against a fall of 0.8% in Q1 2016. Economic growth was supported by the agricultural sector, whose output increased by 2.8% compared with Q2 2015;

  - From the standpoint of the income approach household real income decreased by 1.6% year-on-year (according to preliminary estimates) amid high inflation and a slowdown in the growth of nominal income. Gross income, adjusted for inflation, increased by 0.5% compared with Q1 2015;

  - From the standpoint of the expenditure approach there was a 9.2% year-on-year fall in external demand in Q1 2016, which was partially offset by a limited rise in domestic consumption (+1.7% year-on-year) and the expansion of investment demand (+3.4% year-on-year).

The output gap was in negative territory in Q2 2016 and was estimated at -1.6% at the beginning of Q3 2016.
The positive dynamics of economic activity continues into Q3 2016

The Short-Term Economic Indicator continued to show positive dynamics in July and August 2016, rising by 0.6% and 0.2% year-on-year, respectively. The recovery of industrial output was still unsteady due to continued risks to stable growth in the extractive industry, which fell 15.9% year-on-year in August 2016, and the electricity, gas and water supply industries (-3.7% year-on-year). The fall in output in these branches of the industrial sector was more than compensated for by the positive dynamics of output in the manufacturing sector, which exhibited growth for the fifth consecutive month. A stable growth trajectory was observed in the agricultural sector (+11.6% year-on-year in August 2016) and the construction sector (+7.4% year-on-year).

Leading indicators suggest the stabilization of the economy

The business confidence index, calculated by the Committee on Statistics, suggests that a rise in business activity in all the surveyed sectors, including the industrial, trade and construction sectors could be expected in Q3 2016. Leading indicators calculated by the Eurasian Economic Commission also signal a recovery of economic activity in the short term. Factors favoring this recovery include a rise in the number of employees in the industrial sector and an upward price trend in the world oil market.
Inflation

Annual inflation in Q2 2016 is driven by low base effects

The annual inflation rate was 17.3% at the end of Q2 2016. High annual inflation was largely due to the low base effect of Q1-Q2 2015. The month-on-month dynamics of inflation had been declining since the start of 2016. This suggests that the exchange rate pass through effect that took place in late 2015 and early 2016 faded completely in Q1 2016, and had virtually no impact throughout Q2 2016. There continued to be a strong difference between the inflation rates for tradable and non-tradable goods and services. In Q2 2016, the annual rise in food prices was 13.8%, while for non-food consumer goods it reached 27.4%, whereas services increased in price by only 10.1%.

Reversal in annual inflation dynamics in the middle of Q3 2016

Annual inflation reached its peak of 17.7% in July 2016. In August 2016, it fell for the first time in 12 months declining to 17.6%. However, there are risks with respect to a steady downward trend. Following July’s surge of currency depreciation, household inflation expectations increased appreciably in August 2016. According to data from the National Bank, the share of respondents expecting the rise in prices to accelerate or to remain at the current level in the next 12 months grew from 36.6% in June 2016 to 51.1% in August 2016.
Exchange rate

The tenge strengthens throughout Q2 2016

Keeping in line with the global trend, the Kazakh tenge strengthened in Q2 2016 in both nominal effective terms (+2.1% compared with Q1 2016) and real effective terms (+3.1%). In the domestic currency market there was an excess of supply over demand for foreign currency amid: a decrease in the current account deficit; an increase in the volume of foreign direct investment, which grew 6.5-fold compared with Q2 2015; and a 2.7-fold rise in medium-term and long-term borrowing. The resulting $992.0 million surplus of foreign currency in Q2 2016 was absorbed by the National Bank for the purpose of replenishing the gold and foreign exchange reserves.

An upsurge in the volatility of the tenge-dollar exchange rate in July-August 2016

Due to increased volatility in the world oil market, the depreciation of the tenge against the U.S. dollar accelerated in late July and early August 2016. As a consequence, in July-August 2016 the National Bank was a net seller in the domestic currency market, and the regulator’s forex interventions totaled $344.5 million.

Fiscal policy

The state budget posts a deficit in Q1-Q2 2016

According to preliminary data for Q1-Q2 2016 the state budget recorded a deficit of 2.4% of GDP compared with a deficit of 3.0% of GDP in Q1-Q2 2015. The actual deficit amounted to 90.3% of the initial estimate, as revenue totaled 101.3 % of the expected amount and expenditure totaled 99.4% of the projected figure. The projected revenue was adjusted because of an increase in tax revenue and the decreased contribution of transfers from the National Fund of Kazakhstan. The annual growth rate of expenditure slowed to 14.3% in Q1-Q2 2016.
External debt indicators improve in Q1-Q2 2016

Public debt grew by 18.1% in Q1-Q2 2016 to total $31.4 billion, or 24.5% of GDP, as of July 1, 2016. The dollar equivalent of domestic public debt (debts of the government and the National Bank) increased by 26.7% to $17.6 billion. The external debt of the government of Kazakhstan grew by 8.6% in Q1-Q2 2016 to total $13.8 billion. Despite the increase in public debt in absolute terms, the debt burden was still relatively low. In particular, the ratio of debt service payments to revenue was below 10%, with the maximum admissible level being 15%.

Monetary policy

The National Bank continued to loosen its monetary policy in July 2016

Tight monetary policy helped stabilize inflation expectations and restore people’s confidence in the national currency. The share of bank deposits in foreign currency shrank by 12 percentage points in Q1-Q2 2016. This prompted the National Bank to continue to loosen its monetary policy: on July 11, 2016, the policy rate was lowered by another 200 basis points to 13.0%.

Interest rates in the money market continued fluctuating close to the lower boundary of the policy rate corridor. This reflected the continued liquidity surplus amid a decline in the degree of dollarization of the economy. Commercial banks’ lending activity started to recover in May 2016 and was accompanied by a steady reduction in interest rates and a gradual recovery of the economy of Kazakhstan.
Forecast

**Inflation is expected to stabilize in Q3-Q4 2016**

The latter half of 2016 will see the cessation of the factors that have favoured high annual inflation in the past 12 months: in particular, the effect of currency depreciation faded in Q1 2016 and the low base effect will fade throughout Q3-Q4 2016. Weak domestic demand in Q3-Q4 2016 will also contribute to a slowdown in inflation, which is expected to fall to 10.0% by the end of 2016. Inflation will slow to 4.8 to 6.1% in 2017-2018 due to: the continued negative output gap; the relatively low prices in the world food market; and the stabilization of the tenge’s exchange rate.

**Authorities will pursue a tight monetary policy in the remainder of 2016**

The monetary authorities will have to keep interest rates in the financial market at an elevated level due to: the need to increase the attractiveness of assets nominated in tenge amid the high degree of dollarization; the increased risk premium; and the unstable dynamics of inflation expectations. Monetary policy is expected to be loosened gradually as inflation stabilizes.

The exchange rate of the tenge may appreciate slightly in 2017 as a result of a decline in currency depreciation expectations. Afterwards, the tenge will be gradually depreciating amid the lack of a significant rise in oil prices and the general downward trend in the exchange rates of the currencies of developing economies.

**CPI, growth in percent as of year-end**

**TONIA (in percent per annum)**

Source: Estimates by the authors, EEC
The use of extra-budgetary resources will serve to keep economic growth on track until the end of 2016. Manufacturing industry, which has received an impetus from the depreciation of the tenge, will continue to be the main driver of economic growth until the end of 2016. A 30 to 40% pay increase in the government-funded sector at the beginning of 2016 became an additional factor supporting domestic demand. Apart from the implementation of the Nurly Zhol medium-term program, the government is going to provide additional extra-budgetary funds in the amount of 2.8% of GDP to carry out its plan of anti-crisis measures. This may lead to a 0.4 percentage point increase in GDP growth in 2016. However, the expected fall in the physical volume of oil production and the prolonged period of low oil prices will cause a further decrease in export revenue and a decline in domestic demand in the remaining part of 2016. GDP is expected to grow by 0.1% in 2016.

Weak recovery in commodity prices constrains medium term growth rates. Exports and private consumption are expected to rise in 2017-2018 amid: a recovery of external demand from Russia and the European Union; a gradual rise in oil prices; and the start of the exploitation of an offshore oil and gas field in the Caspian Sea. The implementation of state projects aimed at supporting infrastructure investment and a 2015-2018 industrial innovation development program will contribute to the acceleration of economic growth. At the same time the probability of oil prices standing at a level of $40 to $50 per barrel for a significant period of time would limit the ability of budgetary and tax policies to stimulate domestic demand. Given these circumstances, budgetary consolidation is expected to increase in the medium term and GDP is forecast to grow by 1.4 to 1.8% a year in 2017-2018.

Source: Estimates by the authors, EEC
The tenge’s real exchange rate gap vis-a-vis the U.S. dollar (in percent)

Output gap (in percent)

Source: Estimates by the authors, EEC

SUMMARY

Forecast for the Major Macroeconomic Indicators of the Republic of Kazakhstan

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CPI</strong> (growth in percent as of year-end)</td>
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<td>4.8</td>
<td>6.1</td>
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<tr>
<td><strong>GDP</strong> in comparable prices (growth in percent, y/y)</td>
<td>0.1</td>
<td>1.4</td>
<td>1.8</td>
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<tr>
<td><strong>TONIA</strong> (in percent per annum)</td>
<td>15.2</td>
<td>10.0</td>
<td>8.8</td>
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<tr>
<td><strong>Exchange rate</strong>, the national currency against the U.S. dollar (final average for the year)</td>
<td>340</td>
<td>327</td>
<td>343</td>
</tr>
</tbody>
</table>

Source: Estimates by the authors, EEC
The economy posted zero growth in Q2 2016. Despite the high base of Q2 2015 (+7.3% year-on-year), the economy of Kyrgyzstan recovered from the bottom of the recession at quite a fast pace. The 4.9% decline observed in Q1 2016 was followed by zero year-on-year growth in Q2 2016. This volatility in GDP growth was mainly driven by the dynamics of gold output.

Key factors impacting economic activity in Kyrgyzstan included:

- *from the standpoint of the value-added approach* industrial output decreased by 11.4% year-on-year in Q2 2016. This slowdown was largely due to a recovery of gold output in June 2016. The services sector was traditionally the main factor behind growth recovery: its main driver of growth was retail trade, which had a year-on-year increase of 5.3%. An additional positive contribution was delivered by the construction and agricultural sectors, which showed year-on-year growth rates of 3.9% and 6.2%, respectively;

- *from the standpoint of the income approach* household real income resumed growth in Q1 2016, increasing by 6.3% in annual terms after falling throughout four consecutive quarters. The growth was determined by low inflation, a recovery in migrant remittances, and an increase in wages;

- *from the standpoint of the expenditure approach* statistical data for Q1 2016 confirmed the assumption made in the previous EDB Review that domestic consumer demand recovered following a 16% fall in Q4 2015. Despite the positive dynamics, domestic and external demand remained weak, with growth rates close to zero in Q1 2016. Investment demand continued to decline. Gross fixed capital formation decreased by 23.2% year-on-year in Q1 2016.

The output gap remained negative in Q2 2016 at -0.5%.
A survey of the business activity of industrial companies in Q2 2015 found that the share of managers reporting a decline in demand for their companies’ products was 19.8%, down from 22.6% in Q1 2016, whereas the share of managers expecting a rise in solvent demand grew to 7.0% from 6.2% in Q1 2016.

Recovery in industrial sector (ex-gold) faces head winds

Available data for July-August 2016 suggest that the recovery of economic activity in industrial sectors (ex-gold) may be protracted and unsteady. The textile and construction materials industries continued to experience a recession, while the output of major metals increased by 9% year-on-year in July 2016 and jumped 2.1-fold in August. Economic growth continued to be supported by the agricultural, construction and trade sectors.

Investment continues to rise

The growth of fixed capital investment accelerated to 4.6% year-on-year in January-August 2016 from 0.3% in January-May 2016. However, the rise in investment was mainly due: to public investment, which increased by 90% year-on-year; and foreign loans, which showed a 7.4% year-on-year rise; whereas foreign direct investors and business owners reduced their fixed capital investment by 3.6% and 14.4% year-on-year, respectively.
Inflation

Reversal in inflation dynamics in Q2 2016

Annual inflation slowed to 0.3% in Q2 2016 compared with 1.2% in Q1 2016. The annual consumer price index reached its lowest level of 99.4% in April 2016, and rose to 101.3% in June. The low inflation rate was determined by: weak price trends in the world energy and food markets; the strengthening of the som; the positive real interest rate; and weak economic activity.

The first months of Q3 2016 point to an upward trend

The upward inflation trend that began in Q2 2016 was reversed in July-August 2016. Annual inflation continued to slow down in August, falling to 0.5%. There was still deflation in the food segment (-6.5% year-on-year), which was determined by weak price trends in international agricultural markets. A slowdown in annual inflation also occurred for the non-food sector. The annual growth rate of prices of non-food consumer goods fell from 6.4% in July to 5.6% in August 2016.

Source: The national statistical agency, estimates by the authors, EEC

CPI and the refinance rate
(in percent)

External trade and the real exchange rate
(growth in percent, y/y)
Exchange rate

The som strengthens in Q2 2016

The exchange rate of the Kyrgyz som against the U.S. dollar followed the global upward trend in Q2 2016. The effective exchange rate of the som appreciated by 2.3% in nominal terms and by 0.2% in real terms in April-June 2016. According to preliminary estimates, demand for foreign currency increased in Q2 2016 on the back of net imports of goods and services increasing by 27.8% year-on-year. However, the volume of current transfers remained at approximately the level of Q2 2015. This was due to a slowdown in the annual growth of the net inflow of remittances6 to 7.8% from 15.9% in Q1 2016, as well as to a decrease in the inflow of grants to the public sector. There was a surplus in the supply of foreign currency in Q2 2016 as a result of a rise in the net capital inflow in the financial account. This made it possible for the National Bank to increase its international reserves by $55.6 million.

Q3 2016 marked by elevated volatility in the currency market

The month-on-month appreciation of the exchange rate of the som slowed down in July 2016. The real effective exchange rate rose by 0.9% in June 2016 compared with May 2016 and by only 0.1% in July. The dynamics in the som to dollar exchange rate was reversed and the som started depreciating against the U.S. dollar, which prompted the National Bank to change the direction of its forex interventions in the domestic currency market. The National Bank was a net purchaser in the market throughout March-July 2016, whereas the regulator’s net sales of foreign currency amounted to $8.2 million in August.

Fiscal policy

The state of the public finances deteriorates in Q1-Q2 2016

The budgetary situation changed sharply and became less favorable in Q1-Q2 2016. A budget surplus, which amounted to 3.4% of GDP in Q1 2016, was followed a deficit equal to 7.0% of GDP in Q1-Q2 2016. Revenue decreased by 19.0% year-on-year in Q2 2016, which was due to a 63.1% year-on-year fall in non-tax revenue and a 26.8% decrease in revenue from official assistance. Operating expenditure grew by 17.2% year-on-year and the government’s spending for purchases of non-financial assets increased 2.6-fold compared with Q2 2015. The budget deficit was financed both from domestic sources and with external loans, which affected the amount of external public debt. The ratio of external public debt to GDP rose to 61.0% at the end of June 2016 from 59.8% at the end of March.

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6 The figures were calculated on the basis of data from the NBKR.
High budget deficit posted in January-July 2016

The budget deficit was still large in January-July 2016, although it decreased to 6.3% of GDP. Revenues grew by 6.5% year-on-year in July 2016, while the public sector’s capital expenditure kept growing, increasing by 30.8% compared with July 2015.

Public debt

State budget implementation

Source: The national statistical agency, estimates by the authors, EEC

Monetary policy

The National Bank continues to loosen its monetary policy in May 2016

Despite weak economic activity and low inflation, the parameters of monetary policy did not change throughout the summer months of 2016; and the National Bank’s policy rate was kept at 6.0%. Interest rates in the money market fluctuated around the lower boundary of the corridor, which was set at 0.25%. Deviations of interest rates in the money market from the National Bank’s policy rate were determined by: a rise in the money supply from the National Bank through the issuance of long-term loans and the prolongation of loans issued earlier; and a build-up of the international reserves through purchases of foreign currency in the domestic currency market. In Q1-Q2 2016, the National bank provided loans totaling 3.5 billion som, which made up 4.4% of the money base.

Forecast

The external environment will account for weak economic growth and low inflation

The external economic environment in the remaining part of 2016 will be characterized by a low growth rate of the world economy and a weak recovery of prices in the global energy and food markets.
Weaker economic activity in the countries that are the main trading partners of Kyrgyzstan will lead to a fall in both domestic and external demand for Kyrgyz goods. In particular, domestic demand will be limited by a moderate rise in the volume of migrant remittances. The recession in Russia and the slowdown in economic growth in Kazakhstan will affect the volume of Kyrgyz exports to these countries. In addition, the nominal volume of export revenue will be influenced by the weak rise in world gold prices.

Key factors that may hold back economic growth include the rather tight monetary conditions observed in late 2015 and early 2016, as well as the low growth rate of gold production. The fall in the som’s exchange rate in Q4 2015 helped alleviate the growing pressure, and improve the balance of trade and price competitiveness. Therefore, we expect consumer demand to shift to the products of domestic manufacturers and food exports to increase in 2016. An additional impetus to domestic demand will be given in 2016 and 2017 by the planned increase in the consolidated budget deficit. We expect the economic growth rate of Kyrgyzstan to fall to 2.4% in 2016 and stabilize at 3.2% in 2018.

Electricity and heat prices are expected to rise by 20 - 30% in 2017-2018. However, tight monetary conditions, weak domestic demand and low world food and fuel prices will lead inflation towards the authorities’ target band of 5 to 7% in 2017-2018.
SUMMARY

Forecast for the Major Macroeconomic Indicators of the Kyrgyz Republic

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td><strong>CPI (growth in percent as of year-end)</strong></td>
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<td>6.3</td>
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<tr>
<td><strong>GDP in comparable prices (growth in percent, y/y)</strong></td>
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<td><strong>Interbank repo rate (in percent per annum)</strong></td>
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<td><strong>Exchange rate, the national currency against the U.S. dollar</strong></td>
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<td>71.5</td>
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</table>

*Source:* Estimates by the authors, EEC
**TRENDS**

**GDP**

**Investment activity supports economic growth**

Year-on-year GDP growth in the Republic of Tajikistan accelerated from 6.5% in Q1 2016 to 6.7% in Q2 2016 and was supported by strong investment activity, which offset the influence of an unfavorable external environment.

The main factors behind economic growth in Tajikistan included:

- *from the standpoint of the income approach* there was a recovery of household real disposable money income, which grew by 5.4% year-on-year in Q1-2 2016;

- *from the standpoint of the value-added approach* there was support for economic growth from the growing output in the construction sector (+19.5% year-on-year), the industrial sector (+11.1%), and the agricultural sector (+15.2%).

**The economy continues to grow at a high rate**

The upward trend in household real income continued in July and August 2016, which led to an improvement in the dynamics of domestic demand. The annual growth rate of retail trade was 14.4% in August 2016 compared with 4.6% in March 2016. There continued to be high growth rates in the construction, industrial and agricultural sectors.
Inflation

**Consumer prices rise by 5.4% year-on-year in Q2 2016**

Inflation slowed down in Q2 2016. The annual growth rate of the consumer price index fell from 6.0% on average in Q1 2016 to 5.4% in Q2 2016. This was caused by weak price trends in the world food and energy markets and the moderation in exchange-rate shocks.

**Inflation continues to be moderate**

Annual inflation accelerated in July-August 2016. The annual growth rate of the consumer price index was 6.4% in August, with non-food consumer goods increasing in price by 8.1% and foodstuffs rising by 5.5% year-on-year. The rise in prices of services accelerated to 6.3%, which was due to an increase in airfares and an increase in the price of natural gas.

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### CPI and the refinance rate

**(in percent)**

<table>
<thead>
<tr>
<th>CPI (in percent, y/y)</th>
<th>Average refinance rate (base rate) per quarter</th>
<th>Inflation target</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>8</td>
<td>4</td>
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<tr>
<td>4</td>
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<tr>
<td>0</td>
<td>-10</td>
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</table>

### External trade and the real exchange rate

**(growth in percent, y/y)**

<table>
<thead>
<tr>
<th>Exports of goods</th>
<th>Imports of goods</th>
<th>Real effective exchange rate, rhs</th>
</tr>
</thead>
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<tr>
<td>30</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>20</td>
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<tr>
<td>-20</td>
<td>-40</td>
<td>-50</td>
</tr>
</tbody>
</table>

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**Source:** The national statistical agency, estimates by the authors

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**Exchange rate**

**Samoni fixed against USD at 7.8**

Despite the worldwide weakening of the U.S. dollar, the Tajik somoni was in fact fixed at the level of 7.8 somoni for one dollar. This was most likely due to interventions undertaken by the National Bank of Tajikistan with a view to replenishing the international reserves. As of the end of July 2016, the foreign exchange reserves tripled compared with December 2015. The real effective exchange rate of the somoni depreciated by 6.0% in Q2 2016 compared with Q1 2016, which was due to the weakening of the somoni against the Russian ruble.
Fiscal policy

The state budget posted a deficit in Q2 2016. The state budget posted a deficit equal to 0.9% of GDP in Q1-Q2 2016. State revenue rose by 19.9% in comparison with Q1-Q2 2015. The year-on-year rise in tax revenue remained moderate at 6.4%. Expenditure grew by 37.1% year-on-year in Q1-Q2 2016, which was mainly due to the government’s strong investment activity. Public spending in the fuel and energy sector grew 2.2-fold year-on-year in Q1-Q2 2016.

The state budget deficit persists into July 2016. The fiscal sector exhibited a deficit of 352.9 million somoni in January-July 2016 as a consequence of a slowdown in revenue growth to 15.4% year-on-year, whereas expenditure continued to grow at a higher rate, increasing by 28.1% compared with January-July 2015.

Monetary policy

The National Bank increases its refinance rate from 9.0% to 11.0% in July 2016. Despite the continued moderate inflation environment, the National Bank raised its refinance rate from 9.0% to 11.0% in July 2016. On the other hand, the monetary authorities took measures to limit changes in the somoni’s exchange rate against the U.S. dollar by increasing foreign exchange reserves. This, in its turn, led to an acceleration in the growth of money supply to 49.0% compared with January 2016. At the same time the loan portfolio of the banking sector at the end of June 2016 was 3.7% smaller than it was in December 2015.
Forecast

**Strong investment activity to support economic growth**

Public investment financed with foreign loans and grants not only has an effect on the investment situation but also serves to reduce imbalances in domestic consumer demand, caused by a fall in the inflow of migrant remittances. In the forecast period, investment is expected to remain a key driver of economic growth and simultaneously lead to a recovery of domestic consumer demand. The probability of continued stable dynamics of foreign investment is increased by the determination of China, a key investor, to forge ahead with its Silk Road Economic Belt project, which includes Tajikistan.

**The dynamics of inflation will be close to the target level**

The dynamics of inflation will be close to the government’s target of 7.0%. This will be due to the influence of opposite factors that include: the smooth depreciation of the Tajik somoni; and the relatively low level of prices in external food markets.

**SUMMARY**

**Forecast for the Major Macroeconomic Indicators of the Republic of Tajikistan**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td><strong>CPI (growth in percent as of year-end)</strong></td>
<td>6.4</td>
<td>7.1</td>
<td>7.0</td>
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<tr>
<td><strong>GDP in comparable prices (growth in percent, y/y)</strong></td>
<td>6.7</td>
<td>6.2</td>
<td>5.0</td>
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<td><strong>Interest rate on interbank loans (in percent per annum)</strong></td>
<td>10.4</td>
<td>12.1</td>
<td>12.5</td>
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<td><strong>Exchange rate, the national currency against the U.S. dollar (final average for the year)</strong></td>
<td>8.0</td>
<td>8.5</td>
<td>8.8</td>
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**Source:** Estimates by the authors
SPECIAL REPORT
INTEGRATION IMPULSES OF GROWTH

By Yaroslav Lissovolik, Aleksey Kuznetsov, Aigul Berdigulova

The improved global economic backdrop and national anti-crisis measures appear to be not the only reason the economies of the EDB region have been stabilizing and recovering throughout 2016. In some of the EDB countries there has also been an increase in trade with they EAEU partners, most notably in Armenia and Kyrgyzstan. However, the increase in their exports to other EAEU countries differs in source and degree. In particular, a sharp rise in food exports made a significant contribution to the increase in Armenia’s exports to EAEU countries; whereas the increase in Kyrgyzstan’s exports was less significant and was temporary in a number of sectors.

ARMENIA: EXPORTS TO EAEU COUNTRIES BECOMING KEY FACTOR OF GROWTH

| Armenia’s exports fall in 2015 | From 2007 to 2014, the share of EAEU countries in Armenia’s exports ranged from 16% to 23.7%. This share fell to 11.3% in early 2015 as a consequence of: the recession in Russia, the depreciation of the national currencies and a decline in economic activity in other countries of the Union. In 2015, Armenia’s total exports fell by 4%. |
| Exports become the main driver of growth in 2016 | In early 2016, the rise in exports became one of the main factors behind the acceleration of economic growth in Armenia. In January–June 2016, the country’s exports increased by 16.7% year-on-year in value terms. The increase was mostly due to a rise in exports to EAEU countries including Russia, which is the main trading partner of Armenia within the EAEU. Armenia’s exports to Russia and Belarus increased by 87.4% and 47.2% year-on-year, respectively, in January–June 2016. This caused the share of EAEU countries in Armenia’s total exports to grow from 13.6% in January–June 2015 to 21.5% in January–June 2016. The increase was attributable to the government’s policy aimed at stimulating exports, as well as to the positive effect from integration within the framework of the EAEU amid a fall in Russia’s food and agricultural imports from third countries. Simultaneously, the share of Armenia’s exports to the European Union decreased from 29.5% to 28.3% and the share of exports to other countries7 declined from 54.8% to 49.2%. |

7 Countries other than the member countries of the CIS and the EU.
Agricultural products account for most of the rise in Armenia’s exports to EAEU countries

The depreciation of the dram in 2016 favors the external competitiveness of Armenian goods

Food products, agricultural raw materials, precious stones, metals and metal products accounted for most of the rise in exports.

We should also note that the dynamics of the exchange rate of the dram in the first half of 2016 led to an increase in the competitiveness of Armenia’s exports. The real effective exchange rate and the real exchange rate of the dram against the Russian ruble fell by 3.6% and 10.7%, respectively (June 2016 on December 2015), after rising by 5% and 5.3%, respectively, in 2015 (December 2015 on December 2014).

Source: The national statistical agency, estimates by the authors
KYRGYZSTAN: POTENTIAL FOR INCREASE IN EXPORTS IN FOOD SECTOR

Kyrgyzstan’s exports of goods to Russia exhibited negative dynamics before the country joined the EAEU

The upward trend that had taken place in Kyrgyzstan’s exports to Russia until 2011 gave way to a downward trend that lasted from 2012 to mid-2015. In that period, Russia’s share in the total amount of Kyrgyzstan’s exports decreased from 13.2% in 2011 to 6.0% in the first six months of 2015.

Export growth returned to positive territory after Kyrgyzstan joined the EAEU, and its goods gained duty-free access to the partner countries’ markets. Although the price competitiveness of Kyrgyz products in CIS markets deteriorated (the real effective exchange rate appreciated by 12.6% in 2015 and by 5.7% in the first six months of 2016), Kyrgyz exports to Russia started to rise rapidly in mid-2015, rising by 143.7% year-on-year in September 2015, 150.9% in December and 180% in January 2016. However, statistical data from the Eurasian Economic Commission suggest that those upsurges were temporary, and did not result from a sharp recovery of food and agricultural exports to Russia. The emphatic increase in the volume of imports to Russia from Kyrgyzstan was mostly due to arrangement of supply of medical instruments and an increase in imports to Russia of copper and aluminum scrap. In addition, Russia’s imports of clothing and textiles from Kyrgyzstan began to recover: Russia’s imports of clothing from Kyrgyzstan grew 11.3-fold in the first six months of 2016 compared with the same period of 2015; they had been declining up to the end of 2015.

Agricultural deliveries to Russia begin to increase

In the agricultural sector Kyrgyzstan’s food deliveries to Russia began to increase in August 2015. They rose initially at a moderate rate, increasing by 4.0% year-on-year in August-December 2015; they then accelerated significantly to 60% year-on-year in the first six month of 2016.

Kyrgyzstan’s dairy products are introduced into new markets

Kyrgyz dairy manufacturers began to enter the Russian market in early 2016. Previously Kyrgyz dairy products were hardly exported to Russia during 2013-2015. Supply of Kyrgyz cheese and cottage cheese to Russia started in February 2016. Dairy products accounted for only 0.3% of the total amount of Russia’s imports from Kyrgyzstan in February 2016. A gradual increase in dairy imports throughout January-June 2016 caused the share of dairy products in Russia’s imports from Kyrgyzstan to grow to 6.6% in June 2016.
Given the above, we can conclude that it may be premature to claim definitely that the rise in exports from Armenia and Kyrgyzstan is a consequence of their EAEU membership. Nonetheless, we can note that regional factors delivered a contribution to the stabilization and recovery of economic growth in the EAEU countries. In the case of Armenia, the depreciation of the national currency may have played a role in the increase in competitiveness of its exports. At the same time exports to Russia were likely facilitated by more favorable treatment for both Armenia and Kyrgyzstan than for other countries. Apart from this, we can say that in the case of Kyrgyzstan exports rose even though the som strengthened against the Russian ruble. It is an open question as to how long the upward trend in exports will last considering the fact that the food sector accounts for a great part of the positive dynamics of exports. Under these circumstances, it is necessary to take further steps to eliminate trade restrictions, primarily non-tariff barriers, in order to ensure a steady rise in exports and import-substitution production.

**Source:** The national statistical agency, EEC, estimates by the author
GLOSSARY

**Basis point.** A common unit of measure for interest rates and other percentages in finance. One basis point is equal to one hundredth of 1%, or 0.01%.

**Consumer Price Index (CPI).** The CPI characterizes changes over time in the general level of prices of goods and services that are purchased by households for non-productive consumption. It is an indicator for changes in the value of a fixed set of consumer goods and services in the current period compared with the previous (base) one. The CPI is calculated by the national statistical agency on the basis of data about the actual structure of consumer expenses, and therefore is the main indicator of the cost of living faced by households.

**Core inflation.** Inflation measured on the basis of the core consumer price index (Core CPI), which excludes changes in prices of certain goods and services regulated by the government, as well as the prices of goods and services that are subject to seasonal changes, such as fruits, fuel, passenger transport services, telecommunications services and most utilities.

**Dollarization.** The share of foreign currency deposits and loans in the total volume of deposits and loans in the banking sector.

**Floating exchange rate regime.** The International Monetary Fund describes a floating exchange rate as a largely market determined rate. The floating exchange rate regime implies that the centrally bank does not set targets and lets the rate be determined by market factors. However, the central bank reserves the right to purchase foreign currency to replenish the international reserves and make direct or indirect interventions to influence the exchange market to moderate the volatility of the exchange rate and prevent undue fluctuations.

**Inflation targeting regime.** A monetary policy regime envisaging that the main priority of the central bank is to ensure price stability. This involves the public announcement of numerical targets for inflation, with an institutional commitment by the central bank to achieve these targets. The monetary authorities influence the economy through changes in interest rates. Monetary policy decisions are primarily made on the basis of forecasts for economic development and the dynamics of inflation. An important component of the inflation targeting regime is that the public is regularly informed about measures taken by the central bank, which ensures its accountability for achieving its inflation objectives.
**KASE Index.** A free-float capitalization-weighted index that is the main index of the Kazakhstan Stock Exchange (KASE). The index is the ratio of the market prices of the stocks on the KASE Index list on the date of listing to their prices on a particular date.

**Managed float exchange rate regime.** In a managed float exchange rate regime, the central bank does not influence trends in the dynamics of the national currency’s exchange rate that are determined by fundamental macroeconomic factors. The regulator does not impose fixed restrictions on the exchange rate of the national currency and does not set target levels. The central bank smooths out fluctuations in the exchange rate to ensure the gradual adaptation of economic entities to changes in the external economic situation.

**Monetary policy transmission mechanism.** A process of influencing the economy and, primarily, the dynamics of prices through monetary policy decisions, including the central bank’s decisions with regard to changes in the interest rates on its transactions. The most important channel of monetary policy transmission is the interest rate channel, whose influence is based on the impact of the central bank’s policy on the interest rates at which economic entities can deposit or obtain funds and its impact on decisions on consumption, saving and investment, and thereby on the level of overall demand, economic activity and inflation.

**Nominal effective exchange rate.** A measure of the value of a country’s currency against a weighted average of foreign currencies. The rate compares the local currency against a basket of the currencies of the country’s most important trading partners, as well as the world’s major currencies. The value of foreign currencies in the basket are weighted according to the share of trade with the domestic country.

**Real effective exchange rate.** The weighted average value of a country’s currency against a basket of foreign currencies, adjusted for the effects of inflation. The weights are determined by comparing the relative trade balance of a country’s currency against each country represented in the basket. A country’s real effective exchange rate is derived by taking the average of the bilateral real exchange rates between the country and its trading partners and then weighting it using the share of each partner in the total volume of trade. The real effective exchange rate reflects changes in the competitiveness of a country’s goods against the goods of its major trading partners.

**RTS (Russia Trading System) Index.** A free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Stock Exchange, calculated in U.S. dollars. The list of stocks is reviewed every three months by the RTS Information Committee. The RTS Index value is calculated in a real-time mode. The index was introduced on September 1, 1995 with a base value of 100.
**Output gap.** An indicator of the difference between the actual output of an economy and the maximum potential output, expressed as a percentage of GDP. The output gap characterizes the ratio between demand and supply and is an aggregated indicator of the impact of demand on inflation. A country’s output gap can be either positive or negative. A positive output gap indicates that the actual output is higher than the economy’s recognized maximum-capacity output. A positive output gap is a sign of an acceleration in the rise in prices, whereas a negative output gap indicates a slowdown in inflation.

**Potential (inflation-neutral) output.** The overall level of output in an economy that can be produced and sold without creating conditions for changes in the rise in prices. The level of inflation-neutral output is not linked to any specific level of inflation and only indicates the existence or non-existence of conditions for its acceleration or deceleration.

**Short-Term Economic Indicator of Kazakhstan.** An instrument used to measure economic activity, which provides periodic tracking of economic trends generally at frequencies of more than once a year and is based on changes in the output indices of major sectors such as agriculture, industrial production, construction, trade, transportation and telecommunications. These sectors account for 67 to 68% of the nation’s GDP.

**Structural liquidity deficit of the banking sector.** The banking sector’s state characterized by lending organizations’ steady need to obtain liquidity through transactions with the central bank. A structural liquidity surplus means that lenders have a steady need to deposit resources with the central bank. The estimated level of a structural liquidity deficit or surplus is the difference between the debts in the central bank’s refinancing transactions and its liquidity-absorbing transactions.
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>CB RA</td>
<td>Central Bank of the Republic of Armenia</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>Core CPI</td>
<td>Core Consumer Price Index</td>
</tr>
<tr>
<td>DSGE</td>
<td>Dynamic Stochastic General Equilibrium</td>
</tr>
<tr>
<td>EAEU</td>
<td>Eurasian Economic Union</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EDB</td>
<td>Eurasian Development Bank</td>
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<tr>
<td>EDB/CIS</td>
<td>Center for Integration Studies of Eurasian Development Bank</td>
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<tr>
<td>EEC</td>
<td>Eurasian Economic Commission</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FRS</td>
<td>Federal Reserve System of the United States</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GFCF</td>
<td>Gross Fixed Capital Formation</td>
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<tr>
<td>IMS</td>
<td>Integrated Model System</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IPPI</td>
<td>Industrial Producer Price Index</td>
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<tr>
<td>ITR</td>
<td>Inflation Targeting Regime</td>
</tr>
<tr>
<td>KASE</td>
<td>Kazakhstan Stock Exchange</td>
</tr>
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<td>MEKR</td>
<td>Ministry of Economy of the Kyrgyz Republic</td>
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<tr>
<td>MERB</td>
<td>Ministry of Economy of the Republic of Belarus</td>
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<td>MEDRF</td>
<td>Ministry of Economic Development of the Russian Federation</td>
</tr>
<tr>
<td>MEDTRT</td>
<td>Ministry of Economic Development and Trade of the Republic of Tajikistan</td>
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<td>MNERK</td>
<td>Ministry of National Economy of the Republic of Kazakhstan</td>
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<td>NBKR</td>
<td>National Bank of the Kyrgyz Republic</td>
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<td>NBRB</td>
<td>National Bank of the Republic of Belarus</td>
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<tr>
<td>NBRK</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PPI</td>
<td>Producer Price Index</td>
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<td>RTS</td>
<td>Russian trade system</td>
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<td>SNA</td>
<td>System of National Accounts</td>
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<td>WB</td>
<td>World Bank</td>
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Major macroeconomic indicators of the EDB member countries

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<td>12.9</td>
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<td>4.6</td>
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<td>63.8</td>
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<td>480</td>
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<tr>
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<td>1.0</td>
<td>6.3</td>
<td>6.3</td>
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<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
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<td>3.5</td>
<td>2.4</td>
<td>3.6</td>
<td>3.2</td>
<td></td>
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<tr>
<td>Interbank repo rate (in percent per annum)</td>
<td>6.8</td>
<td>9.7</td>
<td>4.5</td>
<td>7.7</td>
<td>9.6</td>
<td></td>
</tr>
<tr>
<td>Exchange rate, the national currency against the U.S. dollar (final average for the year)</td>
<td>53.7</td>
<td>64.5</td>
<td>70.2</td>
<td>71.5</td>
<td>74.5</td>
<td></td>
</tr>
<tr>
<td><strong>Tajikistan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI (growth in percent as of year-end)</td>
<td>6.1</td>
<td>5.8</td>
<td>6.4</td>
<td>7.1</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>6.7</td>
<td>6.0</td>
<td>6.7</td>
<td>6.2</td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>Interest rate on interbank loans (in percent per annum)</td>
<td>20.4</td>
<td>10.4</td>
<td>12.1</td>
<td>12.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate, the national currency against the U.S. dollar (final average for the year)</td>
<td>4.9</td>
<td>6.2</td>
<td>8.0</td>
<td>8.5</td>
<td>8.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: National statistical agencies, estimates by the authors, EEC