RECOVERY IN TRADE BETWEEN THE EDB COUNTRIES
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Recovery in Trade Between the EDB Countries

The stabilisation of commodity prices and the resultant stabilisation of national currencies in most EDB countries in 1Q 2017 create a favourable basis for a recovery in trade in the EDB region. Suffice it to note that all EDB countries showed growth in mutual trade turnover in 1Q of the year; notably, the highest turnover growth rates were observed in Kazakhstan (nearly 41% y-o-y) and the Russian Federation (33.7% y-o-y). The considerable growth rates in trade turnover between the Republic of Belarus and EDB countries (30.2% y-o-y) may receive additional impetus now that the Russian-Belarusian agreement on the prices and supplies of energy commodities has been concluded.

The situation with the countries’ mutual ties also improved as regards migrants’ remittances: growth in remittances to Kyrgyzstan exceeded 54% in 1Q 2017, while in Armenia this indicator was 14% y-o-y in 1Q 2017. The situation was the opposite in Tajikistan, where migrants’ remittances in 4Q 2016 decreased by 39% compared with the same period the previous year.

In this review, our special report focuses on macroeconomic ties among the EDB countries and the economic growth transmission channels, mainly as regards foreign trade and remittance flows. Our study testifies to a considerable role of these factors in the regional countries’ economic recovery, but we also note that the region’s economies remain highly vulnerable to external shocks, and to energy price fluctuations above all.

Apart from trade turnover and remittance growth, this year’s recovery in economic cooperation between the countries has been boosted by the signing of the Customs Code by the EAEU countries, the agreement reached on the elimination of obstacles to the free movement of goods, services, capital, and labour in the EAEU (the White Book), the instruments of the EEC Council and Collegium aiming to create a single Eurasian pharmaceuticals market that enter into force in May 2017, the energy price agreement reached between Russia and the Republic of Belarus, and the signing of instruments between the Republic of Kazakhstan and the Kyrgyz Republic on the provision of technical and financial assistance to Kyrgyzstan in adapting its economy to membership of the Eurasian Economic Union. Also notable are the issue of a new USD 300 million tranche of the EFSD loan to the Republic of Belarus and the decision of the Russian Federation to write off Kyrgyzstan’s USD 240 million debt at once.

Further easing of monetary policy based on a considerable slowdown in inflation, which has reached record-low levels in the Russian Federation, is additional potential stimulus for accelerated economic growth in most EDB countries this year. In addition to the interest rate reduction effect, investment growth in the EDB countries may be supported by an inflow of foreign direct investment, given both its relatively low base in the past few years and...
an improving external background. That said, the opportunity to deploy a public budget boost is still limited, as the EDB countries’ budgets remain insufficiently adapted to lower and more volatile commodity prices.

Russia’s economic growth outlook for 2017 has improved from 0.8% to 1.3%. The projection change was influenced by the first quarter’s economic data and a revised oil price projection that took into account the first quarter’s trends in world energy prices. The improvement in the Belarusian GDP projection from minus 0.5% to positive 1.3% over 2017 is caused by higher than expected economic activity recovery rates in the 1st quarter and by the agreement reached on gas prices and oil supply from the Russian Federation. Kazakhstan’s improved GDP outlook is caused by stronger external demand and by the expansion of the State budget deficit with a view to revitalising the banking system. More optimistic assumptions concerning the foreign economic situation and a revised fiscal boost were the main factors behind the improved GDP outlook for Kyrgyzstan. Tajikistan’s economic growth projection was revised downwards as its banking sector situation deteriorated.

A key risk for the remainder of 2017 is renewed volatility in the commodity markets after a period of strengthening exchange rates of some EDB countries’ currencies. Early May developments in both the Russian and Kazakh financial markets showed that, after a considerable strengthening in the preceding months, the national currencies have become more sensitive to increased volatility in oil prices. With some developing markets’ currencies overvalued, the oil price volatility factor may be compounded by increased Fed rates, which may additionally pressurise developing countries’ currencies. We expect that, given the increased external risks, the Central Bank of the Russian Federation may harden its rhetoric and slow the reduction in the key rate in the coming months.

Yaroslav Lissovolik,
Chief Economist of the Eurasian Development Bank
This bulletin is the first and only comprehensive macroeconomic review of the member states of the Eurasian Economic Union. The review provides a detailed description of the current internal and external macroeconomic conditions and a forecast that takes into account interlinks between the economies of the region and the external sector.

In the present review, EDP employs methods that are a sort 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 with a view to meeting 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 make analysis and forecasting for both each particular EAEU member country and the integration alliance as a whole.

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

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EXTERNAL CONDITIONS

World markets increasingly optimistic about global economic improvement

After accelerating somewhat in 4Q 2016, global GDP growth was 3.1% in 2016 (3.4% the year before). The improved world economic growth outlook1 for 2017, raised from 3.4% to 3.5%, including increased estimates of economic growth in both China (from 6.5% to 6.6%) and developed countries (from 1.9% to 2%) point to emerging recovery trends.

US economic growth slows to the lowest level in recent years, while Fed’s rhetoric is becoming more hawkish

The US economic growth rate in 1Q 2017 was 1.9% vs. 1Q 2016 (1.6% a year before). With both consumer and investment activity weak in 1Q 2017, the annualised growth rate slowed to 0.7% vs. the previous period after 2.1% in 4Q 2016 (seasonal factors). Inflation expectations are rising with gradually increasing prices in the commodity markets – due to the possibility of a fiscal economic stimulation programme being implemented, on a scale that is yet uncertain. In this situation, the Fed increased its refinancing rate in March to 0.75-1% and intends to continue gradually normalising its monetary policy. According to provisional data from Eurostat, GDP growth in the Eurozone was 1.7% in 1Q 2017 vs. the same quarter of 2016 (1.7% growth in the preceding year), fostered by continued recovery trends in both domestic and foreign demand amid a stimulative monetary policy.

Demand and supply balance in world oil market restored in 1Q 2017

The oil output reduction agreement reached with the OPEC countries, together with its parties’ commitment to their quotas and other obligations, generated a considerable recovery and stabilisation in petroleum prices in 1Q 2017 at an average level of USD 52 per barrel (of Urals oil). Noteworthy among the main risks associated with a further change in price direction are non-extension of the oil output reduction agreement and growing production of US oil from shale deposits. Proceeding from the futures price movement in 1Q 2017, we rely on a projection of Urals oil prices in the range of USD 52-53 per barrel in the medium term. In the foodstuffs sector, the recovery in world prices accelerated somewhat in 1Q 2017. These are expected to continue recovering as demand recovers in the world markets.

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>2017</td>
<td>52.1</td>
<td>1237</td>
<td>96.5</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>2018</td>
<td>52.2</td>
<td>1259</td>
<td>98.1</td>
<td>1.1</td>
<td>2.3</td>
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<tr>
<td>2019</td>
<td>53.1</td>
<td>1288</td>
<td>99.8</td>
<td>1.1</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Estimates by the authors, EEU

1 As estimated by the IMF.
A considerable decline in agricultural and construction output in 2H 2016 determined the low GDP growth rate in 2016.

GDP growth in Armenia over 4Q 2016 remained in negative territory, 1% down year-on-year. The main factors behind the decline in economic activity include decreased output in agriculture and an accelerated fall in the construction sector. Domestic demand remained weak despite the reduced refinancing rate, a stimulative monetary policy, and some support provided by growing remittances from Russia in late 2016. Exports retained their key position among the drivers of Armenia’s economic growth in 2016, which was promoted by both the Government’s export stimulative policy and by the positive EAEU integration effects. Armenia’s GDP growth slowed to 0.2% in 2016, after 3% in the previous year.

Recovery of domestic and external demand accelerating industrial output, trade and services growth.

Economic activity in Armenia accelerated in 1Q 2017 as a result of the stimulative policy pursued in 2016 and the gradual improvement in the external environment. The economic activity index grew by 6.6% in 1Q 2017 compared with the same quarter last year (0.5% in 2016). The main factors behind the positive trends since the beginning of 2017 were:

• on the expenditure side: exports continued to grow at a high rate: export growth in the 1st quarter was 16.5% vs. 1Q 2016. Russia remains a key destination of growing exports, with 53% growth over the same period. High growth in remittances in 1Q 2017 promoted a more active recovery in consumer demand, as reflected in import growth (17.9% vs. 1Q 2016) and high growth in retail turnover (5.1% vs. 1Q 2016);

• on the value added side: the gradual recovery in both external and domestic demand as well as in world prices of the main Armenian export goods had a stimulative effect on the 1st quarter’s movement of industrial output (16.1% growth vs. 1Q 2016) and trade volume and service turnover (11.3% and 10% growth, respectively, vs. 1Q 2016). The trend is still negative in construction and agriculture, with 13.6% and 1.5% respective declines vs. 1Q 2016.
Trends in the leading indicators calculated by the EEC augur well for the Armenian economy in the short term. Economic activity growth is expected to continue in 2Q 2017. The main factors behind the positive trend in the leading indicators were: growth in deposits of private non-financial resident entities and growth in exports of copper (both ore and concentrates) in monetary terms.

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

CPI and the refinance rate, in percent

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

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

Deflation continues over 2016

Inflation in Armenia was 1.1% over 2016, after 0.1% deflation in 2015. Low prices in world energy and food markets, along with a weak recovery in consumer activity and low agricultural produce prices, generated the main deflationary pressure during 2016.

Reduction in tariffs in early 2017 slowing normalisation of inflationary processes

The deflationary processes in the Armenian economy are still being observed in 2017, driven in the 1st quarter by gas and electricity tariff reductions, low inflation expectations, and weak consumer demand, together with the price situation in world markets. Annual deflation in 1Q 2017 was 0.3% (1.4% deflation in 1Q 2016) and still remains below the Central Bank’s inflation target of 4%.

The Exchange Rate

AMD to RUR exchange rate movement continues to make Armenian goods more competitive abroad

The nominal effective dram exchange rate weakened by 0.2% in 1Q 2017 compared with the same quarter of the preceding year. The real effective exchange rate of the dram depreciated by 4.5% and, according to our estimates, became undervalued over the 1st quarter relative to its equilibrium level.

The nominal AMD to USD exchange rate in 1Q 2017 strengthened somewhat compared with 1Q 2016. The nominal AMD to RUR exchange rate depreciated by 27% in 1Q 2017 vs. the same period in 2016, which continued to make Armenian goods more competitive in the Russian market.

2016 current account deficit at preceding year’s level

In Armenia’s external economic relations, despite improved trade balance trends, the reduced net inflow of labour migrants’ remittances, increased liability servicing payments to investors, and an expanded deficit of the services balance all contributed to growth in the current account deficit. The latter was USD 285.5 million in 2016 (2.7% of GDP), slightly above its 2015 level of USD 279.1 million (2.6% of GDP).

Sharp growth in remittances from Russia since the beginning of 2017 promoting domestic demand recovery

The beginning of 2017 saw a breakthrough trend in individuals’ remittances from Russia. According to the Central Bank of Armenia, the remittance volume grew by 20% in 1Q 2017 compared with the same period last year, which alleviated significantly the pressure on the current balance of payments account and improved economic activity trends due to increased consumer expenditures. The trend in remittances to Armenia is expected to remain positive as the Russian economy continues to recover.
**Fiscal Policy**

**Budget deficit expanded over 2016, leading to considerable growth in public debt**

Armenia’s fiscal policy in 2016 was accompanied by growth in public expenses, while the income side of the State budget was under pressure due to decreasing VAT revenues and an economic slowdown in the second half of the year. The State budget posted a deficit of 5.4% of GDP in 2016 after the preceding year’s deficit of 4.8% of GDP.

**Public debt above 50% of GDP requires Government to cut spending**

In 2017, the Government is planning a soft fiscal policy and deficit reduction to 2.8% of GDP. The State budget recorded a deficit of AMD 19.2 billion in 1Q 2017, less than 50% of the same period’s level in 2016.

The stimulative fiscal policy resulted in a public debt level of 56.7% of GDP at the end of the year, 7.9 pp above the previous year’s level. Armenia’s public debt increased by USD 54.1 million to reach 57.1% of GDP in 1Q 2017, mainly on account of external loans raised and State bonds placed.

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**Monetary Policy**

**Interest rate decrease continues in 2017**

Monetary policy included substantial refinancing rate reductions over 2016 and in early 2017 – on seven occasions, from 8.75% at the beginning of 2016 to 6% in February 2017. The policy was loosened with a view to reducing the deflationary overhang and supporting economic activity. It should be noted that the possibility of a stimulative monetary policy in the future is limited.
The economy remains highly dollarized

The effectiveness of the current monetary policy is mainly limited by high and persistent dollarization of the economy. If calculated as the share of foreign currency in total residents’ deposits, the dollarization level was 59.4% at the end of 1Q 2017 (63.7% the year before).

FORECASTS

Economic activity to stay strong during 2017, GDP growth to accelerate to 3.6% in 2019

The economic growth projection for 2017-2019 has not changed much. The gradual recovery in consumer demand as exports grow steadily will cause economic growth to increase to 2.9% over 2017. Remittances are expected to contribute significantly to economic recovery, with their positive trend expected to continue over the same projection period. Continued implementation of Government programmes and structural changes in the economy will increase potential GDP and help to accelerate economic growth to 3.6% in 2019.

4% inflation target to be attained by 2019 barring new shocks

The inflation projection is also generally unchanged. The deviation from the inflation target will decrease somewhat by the end of 2017, with inflation reaching 1.7%. Inflation pressure is expected to mount due to both domestic and external factors, including higher domestic demand and higher prices of imported commodities and other goods. The recovery of the price level in 2017 will be constrained by the inflation expectations that the Bank of Armenia estimates to be still low, as well as fiscal policy, which is planned to be restrictive. In the absence of new shocks, price growth is expected to be 3.6% and 4.1% in 2018 and 2019, respectively.

GDP in comparable prices (growth in percent, y/y)$^2$

Source: Estimates by the authors, EEC

Nominal exchange rate, Armenian drams per U.S. dollar

$^2$ Here and below the ranges of the fan charts correspond to 10%, 50% and 75% confidence intervals.
SUMMARY

Forecast for the Major Macroeconomic Indicators of the Republic of Armenia

<table>
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<tr>
<th>Indicator</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>CPI (growth in percent as of year-end)</td>
<td>1.7</td>
<td>3.6</td>
<td>4.1</td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>2.9</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Interbank repo rate (in percent per annum)</td>
<td>6.2</td>
<td>7.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Exchange rate of the national currency against the U.S. dollar (final average for the year)</td>
<td>484</td>
<td>486</td>
<td>494</td>
</tr>
</tbody>
</table>

Source: Estimates by the authors, EEC
The Belarusian economy continued to post a negative growth rate in 2016. Based on provisional data, GDP decreased by 2.6% in 2016 after a 3.9% decline in 2015. Output continued to decline amid weak domestic and external demand as well as conservative monetary and fiscal policies. Reduced crude oil supplies from Russia were another obstacle to a recovery in economic growth in the second half of 2016, affecting industrial output trends. An output decline was observed in all the main sectors of the economy except agriculture.

According to provisional estimates by the National Statistics Committee of the Republic of Belarus, GDP growth turned positive in 1Q 2017 at 0.3% vs. 1Q 2016, after declining by 1% y-o-y over January and February 2017. The main factors were:

- on the expenditure side: retail turnover, an approximation of household consumption, is still declining; it decreased by 1.4% in 1Q 2017 compared with 1Q 2016. The negative trend mainly resulted from a decline in the population’s real disposable income, that has been continuing since 2015.

- Businesses adapting to protracted decline in incomes

- Sharp growth in investment activity at the end of the 1st quarter

The decline in fixed capital investment slowed considerably in 1Q 2017, to 6.5% vs. 1Q 2016 (compared with a 25.7% decrease the year before). March saw a positive growth surge in fixed capital investments, up 11% compared with 2016, largely caused by the low base and growing investment activity in the energy sector (the construction of a nuclear power plant, above all) and road construction (the reconstruction of the M6 motorway, the second Minsk circular road, etc.). The recovery in economic activity is still hindered by a high debt burden on companies and their limited ability to pay.
Further industrial output recovery expected following oil and gas agreement

- On the value added side: industrial output volume in 1Q 2017 grew by 4.3% compared with the same period in 2016 (a 4.3% fall the year before). This was the best growth rate in recent years and it was attained due to positive growth across virtually all the industries, which partly resulted from the low base in 2016. Growth was still held back in 1Q 2017 by decreased oil refinement volumes (a 32% decline compared with 1Q 2016).

Growth in construction recorded in March 2017 helped to slow the decline to 5.1% in 1Q 2017 vs. 1Q 2016 after a 14.4% fall in January and February 2017.

Agriculture continues to show a positive, stable trend, with 3.4% growth in 1Q 2017 vs. the same period in 2016, after 3.4% growth in 2016.

Generally, the 1st quarter of 2017 saw a fairly stable external environment for the Belarusian economy, with a gradual recovery in economic growth in those countries that are Belarus’ main trade partners, together with conservative fiscal and monetary policies. The agreement reached on gas prices and oil supply from the Russian Federation opens up prospects of a quicker growth rate recovery.

The output gap describing the difference between economic activity and the potential GDP level remains negative, at minus 2.1% in 1Q 2017.

Source: The national statistical agency, EEC, estimates by the authors
**Trends in leading indicators testify to improving economic outlook in the short term**

The leading indicators calculated by the EEC point to continued recovery in economic activity in 2Q 2017. Trends in freight turnover and the prices of fuel and energy commodities both contributed to the leading indicator’s improvement. Freight turnover showed 3.9% growth in 1Q 2017 compared with the same period in 2016, after a 0.6% decline the year before.

**Inflation**

**National Bank’s inflation target met**

Inflation was 10.6% year-on-year in December 2016, while the National Bank’s inflation target is 12%.

**Considerable slowdown in inflation in 1Q 2017**

Inflation continued to slow in 1Q 2017. While annual inflation was 9.5% in January 2017, it was down to 6.4% by March, compared with the inflation target of 9% at the end of 2017. According to the National Bank of Belarus, inflation is not expected to accelerate in the coming months. Weak consumer activity, the relatively stable national currency and moderate money supply growth rates as the share of the national currency in the money stock gradually increases are the main factors stabilising inflationary processes.

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![CPI and the refinance rate](image1.png)

**CPI and the refinance rate**

*in percent*

![External trade and the real exchange rate](image2.png)

**External trade and the real exchange rate**

*in percent, y/y*

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

Forex market remains stable

The foreign exchange market saw a net supply of foreign currency in 2016, mainly on account of individuals’ transactions. The situation that emerged in the forex market was largely driven by reduced foreign currency purchases by the population due to decreased real disposable income to maintain their accustomed level of consumption using their savings, as well as by increased confidence in the Belarusian rouble. The same causes were behind the USD 693 million decrease in the population’s foreign currency deposits in 2016. Over 2016, the Belarusian rouble’s exchange rate decreased by 14.7% versus the official currency basket, which helped to keep Belarusian products competitively priced during the year.

The 1st quarter of 2017 saw no significant changes in the forex market. The population remains a net seller of foreign currency, whose transaction balance was minus USD 500 million. The slowdown in inflation in the country caused the real effective exchange rate of the Belarusian rouble to weaken by 2.8% in 1Q 2017 from the preceding quarter’s level, and by 3.1% year-on-year. Further, according to our estimates, the real effective exchange rate was 3.9% undervalued as of the end of 1Q 2017.

Russian demand supports the trade balance

The current account showed a deficit of USD 1.7 billion, or 3.6% of GDP, over 2016. The trade balance deficit grew as exports declined by 12.2% due to the disrupted supply of potash fertilisers, as well as oil and gas differences with Russia. On the other hand, the trade balance excluding energy commodities improved, which was caused by growing physical volumes in both investment and consumer exports.

Turnover in foreign trade in goods and services increased by 17% year-on-year in 1Q 2017. The first quarter’s goods and services balance was positive, at USD 191.8 million.

Gradual growth in international reserves

Despite the Belarusian Government’s and National Bank’s considerable foreign currency debt servicing obligations, the National Bank managed to increase its international reserves by USD 751.3 million in 2016, mainly on account of net sales of foreign currency by the population, bond sale receipts, and two tranches of the EFSD loan obtained.

The National Bank of the Republic of Belarus continued to build up its reserves in 2017, growing by USD 181.5 million in January to April 2017 to reach USD 5.11 billion.
Fiscal Policy

2016 budget also in surplus

The Republic’s budget posted a surplus of 1% of GDP in 2016 after a surplus of 1.7% of GDP in 2015. The budget surplus was largely achieved through measures taken to consolidate additional incomes and to hold back some public spending items, including State subsidies.

Over 1Q 2017, the Republic’s budget showed a surplus of BYN 0.37 billion, or 1.8% of GDP, staying at its level of 1Q 2016. In 2017, it is planned to keep the Republic’s budget in surplus at 1.5% of GDP so that payments for both domestic and external liabilities can be made.

Foreign debt decreases as domestic debt rises

Sovereign foreign debt was USD 13.6 billion at the end of 1Q 2017 (28% of GDP), USD 65.2 million or 0.5% less than at the beginning of 2017 (taking exchange rate fluctuations into account). Domestic public debt increased by 6.4% over 1Q 2017. Gross public debt (comprising the central Government’s debt and that guaranteed by the central Government) was BYN 35 billion at the end of the 1st quarter, or 38.7% of GDP, a 5.3% decrease from the beginning of 2017.

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

**Conditions required to meet inflation target still exist**

The National Bank incrementally reduced its refinancing rate from 25% to 18% in 2016. The reason was a slowdown in inflation and the need to maintain financial stability. The average interest rate of the overnight inter-bank market in the national currency decreased from 29.4% in January to 10.5% in November 2016, which was caused by a structural surplus in the banking sector amid weak demand for loans. Moreover, the nominal interest rates of the credit and deposit market decreased.

**Reduced interest rates supported lending to the population**

Given the stronger than expected inflation slowdown, the stability of the national currency and the moderate money supply growth rate, the National Bank has so far reduced its refinancing rate on four occasions this year, down to 14% since 19 April 2017. The average interest rates on individuals’ new fixed-term bank deposits in national currency decreased from 14.4% in 4Q 2016 to 12.3% in 1Q 2017. Banks’ average interest rates on new loans in national currency to legal entities decreased from 21.2% in 4Q 2016 to 18.5% in 1Q 2017, while those provided to individuals decreased from 20.8% to 18.2% in the same period. The decrease in loan interest rates supported lending to the population in national currency. Loans to individuals increased by 1.9% in 1Q 2017 (taking into account debt repayments in foreign currency), or by BYN 140 million. The main growth occurred in March (BYN 90 million).

**Dollarization of the economy decreasing**

The maintenance of a positive difference between returns on deposits in national and foreign currency as the population gradually regains confidence in the Belarusian rouble is conducive to the de-dollarization of the economy. Thus, the ratio of rouble to foreign currency deposits was 34.2% at the start of 2016, and it had widened to 42.5% by the start of 2017. The tendency to save in the national currency has continued into 2017: by the beginning of April the ratio of rouble to foreign currency deposits had reached 45%.

**FORECASTS**

**Inflation still set to remain below the National Bank’s target for 2017**

The full-year 2017 inflation projection has been revised downward somewhat, as inflation slowed markedly in 1Q 2017. It is projected to be 8.6% by the end of the year. Inflation is expected to accelerate from its current level of 6.4% (March 2017) in the 3rd quarter, after housing and utility tariffs are raised again and as the nominal exchange rate weakens gradually, in line with the general trend towards a weakening in emerging markets’ currencies. The current balanced monetary policy will help keep inflation within the targets. Inflation is projected to decrease further in 2018-2019, within targets set by the National Bank, to 7.3% and 6.1%, respectively.
Economic growth to accelerate over 2017, and economic activity to develop further within the prevailing potential growth pattern

The improved economic growth outlook for 2017 follows from the economic activity recovery rates that were higher than expected in the 1st quarter, as well as from the agreement reached on gas prices and oil supply from the Russian Federation. The recovery of crude oil supplies from the low base of the second half of 2016 will promote accelerated growth in both industry and energy exports. Investment activity trends will be temporarily boosted by the implementation of projects in the energy sector and road construction. However, as businesses are still in a difficult financial situation, their investment activity will remain weak in 2017. Amid those factors, GDP is expected to grow by 1.3% over the current year. As domestic demand recovers further, monetary policy is loosened and a high 2017 base forms in a number of indicators, the GDP growth rate will reach 0.8% and 1% in 2018 and 2019, respectively. In the current economic climate, mid-term economic growth recovery will be limited to a potential growth level of 1-1.2% due to the remaining structural limitations in the economy.

As inflation slows further, the monetary authorities are expected to take interest rate policy measures in order to reduce the nominal rates on loans and deposits in the banking sector to stimulate economic activity.
SUMMARY

Forecast for the major macroeconomic indicators of the Republic of Belarus

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
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<tbody>
<tr>
<td>CPI (growth in percent, end of year)</td>
<td>8.4</td>
<td>7.3</td>
<td>6.1</td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>1.3</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Interest rate on overnight interbank loans (in percent per annum)</td>
<td>11.8</td>
<td>12.1</td>
<td>11.2</td>
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<tr>
<td>Exchange rate*, Belarusian rubels per U.S. dollar (final average for the year)</td>
<td>1.942</td>
<td>2.042</td>
<td>2.161</td>
</tr>
</tbody>
</table>

Source: Estimates by the authors, EEC

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* The exchange rate of the new (post-redenomination) rubel.
TRENDS

GDP

GDP growth accelerates in 4Q 2016

The beginning of production at the Kashagan oil field was a key event in 4Q 2016 for Kazakhstan’s economic growth, helping to reverse the downward trend in the country’s industries. According to provisional estimates, growth recovered to its 2016 maximum of 2.3% y-o-y in the 4th quarter. The nearly doubled quarterly GDP growth rate strengthened considerably the dynamics in cumulative GDP. GDP growth in 2016 was 1.0% (0.4% over January to September 2016).

All sectors of the economy have been in growth territory since 4Q 2016

The key factors affecting economic activity in Kazakhstan in 4Q 2016 included:

- on the value added side: all sectors of the economy began to contribute positively to the GDP trend in 4Q 2016 (which was last observed in 2Q 2015). Growth was still being driven by sectors receiving support under Government programmes. In particular, the construction sector made the greatest contribution to the GDP dynamics (10.3% growth compared with 4Q 2015). Agricultural segments also supported growth in 4Q 2016 (6.2% y-o-y). Growth in the service sector, at a level of 2.3% compared with 4Q 2015, was driven by the recovering trade sector and the provision of transport and real estate brokering services. Industrial production segments also crossed into positive territory, but still showed moderate growth (0.8% versus 4Q 2015);

- on the income side: according to provisional estimates adjusted for the GDP deflator, the downward trend in labour income continued in 4Q 2016 (-15.1% vs. 4Q 2015), while net profit and taxes on production contributed positively to GDP;

- on the expenditure side: domestic demand was mainly driven by the investment component (4.8% y-o-y) in 4Q 2016. Consumption remains limited (1.4%). Net exports of goods and services declined by 2.6% vs. 4Q 2015, mainly due to the weak price situation in global commodity markets.

The output gap in 4Q 2016 was in negative territory, and was estimated at -2.9%. 
Leading indicators point to continued growth in economic activity

The accelerated growth in the short-term economic indicator in January to March 2017 to 4.8% y-o-y signals that business activity continued improving in 1Q 2017. The consolidated leading indicator calculated by the EEC predicts economic activity in the Republic to accelerate in 2Q 2017. This is indicated by positive shifts in the foreign economic environment, improving industrial employment expectations, trade businesses’ optimism and decreasing interest rates on loans to non-banking entities. Despite the decreasing interest rates, the credit impulse remained limited in 4Q 2016 and 1Q 2017, suggesting that domestic demand will get no significant support from the banking sector in the near future.

GDP growth structure by expenditure component in comparable prices (in percentage points)

Source: The national agencies, EEC, estimates by the authors

Inflation

Annual inflation over 2016 approaches the upper threshold of the inflation range

The high base effect was exhausted in the 4Q 2016 inflation reading. Annualised inflation slowed sharply, from 17.3% in 3Q 2016 to 9.6% in 4Q 2016. The exhaustion of the devaluation effect is indicated by the non-food goods price trend. Whereas prices in the non-food goods sector grew by 22.6% y-o-y in 2015, their 2016 growth was 9.5%. Overall inflation was 8.5% y-o-y by the end of 2016, quite near its 6-8% target range.
Inflation target met

The acceleration in price growth for individual goods and services was short-lived and had no significant effect on the downward trend in annual inflation. Inflation crossed the upper threshold of the target range in 2017 and continued to decrease in the following two months, reaching 7.7% y-o-y by the end of March 2017.

**CPI and the refinance rate, in percent**

[Graph showing CPI and refinance rate]

Source: The national agencies, EEC, estimates by the authors

The Exchange Rate

**Tenge strengthening again quarter-on-quarter**

The effective tenge exchange rate strengthened in both nominal and real terms in 4Q 2016 compared with 3Q 2016, thereby slowing the annual tenge index depreciation trend. Whereas the real effective exchange rate weakening was 37.0% year-on-year in 1Q 2016, it decelerated to 0.5% y-o-y in 4Q 2016. The foreign trade indicators turned positive: goods export growth was 2.6%, while import growth was 3.5% (compared with 4Q 2015). The expansion of the current account deficit in 4Q 2016 resulted from growing interest payments on previously raised liabilities. This was more than offset by the net inflow of foreign direct investment and by the repayment of portfolio investments previously placed by State authorities in foreign funds. The current account deficit was 6.4% of GDP in 2016 (2.8% of GDP in the preceding year).

With global prices relatively stable and export revenue recovering in nominal terms, the tenge’s strengthening continued in 1Q 2017 and the National Bank of the Republic of Kazakhstan continued its non-interference policy in the domestic foreign exchange market.
Fiscal Policy

Budget deficit in 2016  The State budget posted a deficit of 1.6% of GDP in 2016 (2.2% in 2015). The recovery of business activity was reflected in the structure of the budget’s income side, which recorded 23.3% growth in tax revenues compared with 2015 (after a 4.5% decrease in the preceding year). The transfer volume grew by 16.2% y-o-y (25.7% in 2015). Overall, the rate of growth on the budget’s income side accelerated to 21.9%. The increase in its expenditures was driven by growth in both current expenses (19.1%) and allocations directed to the economy as part of the anti-crisis measures and development programmes (in the form of transfers, public budget loans and investment in the authorised capital of quasi-public structures). The volume of payments on previously attracted loans also increased.

Moderate debt level in public sector  Public debt grew by 29.1% over 2016 compared with 2015, to reach USD 34.3 billion (25.3% of GDP) as of 1 January 2017. Public debt grew mainly on account of foreign loans and due to the growth of the National Bank’s domestic debt, whose share been increasing rapidly since the second half of 2016.

Source: The national agencies, EEC, estimates by the authors
Monetary Policy

Base rate reduced incrementally

As the devaluation effect was exhausted, inflation expectations stabilised and the dollarization of bank deposits decreased, the National Bank of the Republic of Kazakhstan reduced its base rate. This was reduced on four occasions during 2016, from 17.0% to 12.0%.

The new monetary policy basis adopted helped stabilise interest rates in the money market. Hence, after the percentage range was established, the TONIA rate was reduced from 80.0% at the beginning of January 2016 to 18% at the beginning of February 2016. In the following months of 2016 the money market rate varied within this percentage range, mostly near its lower boundary, thus reflecting the persistent liquidity surplus and leading the National Bank to increase the volume of notes in circulation, which grew 7.1 fold over 2016.

FORECASTS

Inflation to reach the target range

The National Bank’s consistent monetary policy and transparent communication policy helped stabilise inflation expectations, which favours inflation levels reaching the target range. The efforts being made to build a risk-free yield curve will help stabilise inflation expectations further and enhance the effectiveness of the interest rate channel.

During 2017, inflation will move within its target range of 6-8% due to the moderately tight monetary conditions and the exhaustion of the effect of inflation translation into retail prices. In the medium term, inflation will follow a downward trend, partly as a result of the monetary authorities’ desire to incrementally reduce the inflation target.

Incremental easing of monetary conditions

Despite the favourable inflation outlook, the risks of strengthened external shocks (intensified capital outflow from developing markets, or price fluctuations in world energy markets) remain significant, which necessitates the maintenance of moderately tight monetary conditions in the medium term, with the base rate to be progressively reduced as materialisation of the risks becomes less probable and the transmission channels strengthen.
Mid-term growth limited by weak banking sector performance

The economy of Kazakhstan has entered a growth recovery phase, which results from several factors: the stabilised external environment, the positive impulse from the implementation of the Government’s package of anti-crisis measures, the switch from currency pegging to inflation targeting, and the launch of the Kashagan oil field. All these factors lay the basis for gradual growth in the medium term.
SUMMARY

Forecast for the major macroeconomic indicators of the Republic of Kazakhstan

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CPI</strong> (growth in percent, end of year)</td>
<td>7.2</td>
<td>6.5</td>
<td>5.5</td>
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<td>3.4</td>
<td>3.6</td>
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<td><strong>TONIA rate</strong> (in percent per annum)</td>
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<td>8.9</td>
</tr>
<tr>
<td><strong>Exchange rate of the national currency against the U.S. dollar</strong> (average for the year)</td>
<td>315</td>
<td>330</td>
<td>346</td>
</tr>
</tbody>
</table>

Source: Estimates by the authors, EEC
The previous year’s high base and the high gold output resulted in 9.0% GDP growth in 4Q 2016. The indicators of the second half of 2016 more than offset the negative trend of the first half of 2016, as a result of which GDP grew by 3.8% y-o-y over 2016 (3.9% y-o-y in 2015).

The main factors driving economic trends in Kyrgyzstan included:

- **on the value added side**: growth in 4Q 2016 was still driven by industry (a 4.6 pp contribution) and the service sector (2.8 pp). Industry’s strong performance resulted from greater output of gold (54% y-o-y), while the service sector’s increase originated from retail trade. Economic growth was also supported by greater output from the construction sector (7.6% y-o-y) and agriculture (6.6% y-o-y);

- **on the income side**: real incomes grew against a low inflation background and with net remittances rising rapidly;

- **on the expenditure side**: stronger domestic consumer demand, investment recovery, and growth in goods and services exports were observed.

The output gap was in negative territory in 4Q 2016, estimated at -0.5%.
Leading indicators signal a slowdown in growth

GDP growth was 7.8% year-on-year in 1Q 2017, but the market indicators show that such rapid growth is short-lived and will probably slow in the near future. Positive signals come from indicators of the household’s purchasing power and the fiscal sector; on the other hand, some slowdown in the construction industry points to limited growth opportunities in the coming two or three months. The credit impulse remained high in 4Q 2016 and 1Q 2017, suggesting that domestic demand will gain support from the banking sector. Household demand is also supported by an increased inflow of labour migrants’ remittances (up 22.8% in January-February 2016 but up 61.0% in January-February 2017).

Inflation

Deflation in 2016

The weak price situation in world energy and food markets together with tight monetary conditions intended to limit exchange rate fluctuations drove the consumer price index into deflation territory. Deflation averaged 0.4% over 4Q 2016 with 0.5% deflation as of the end of 2016. Prices of services and non-food items grew by 3.6% compared with 4Q 2015, while consumer goods saw 5.6% y-o-y deflation.

Inflation accelerates in 1Q 2017

The inflation trajectory in 2017 does not come off any high base effect, which reduces the significance of one of the factors behind deflation calculated on an annualised basis. The consumer price index returned to positive territory as early as January 2017 and began its monthly growth at a high pace. 12-month inflation was 2.8% y-o-y in March 2017.
The Exchange Rate

The nominal depreciation of the Kyrgyz som’s real effective exchange rate in 4Q 2016 was 0.7% compared with 3Q 2016, and 0.5% in real terms. Annualised REER strengthened by 0.9% (compared with 4Q 2015), and in nominal terms it strengthened by 5.6% y-o-y. Although the goods export growth rate decelerated to 3.5% in 4Q 2016 compared with 3Q 2016, net remittance inflow growth remained high (27.0% y-o-y), which helped reduce the current account deficit in 4Q 2016.

The net inflow of foreign direct investment decreased by 85.0% (vs. 4Q 2015), which resulted from the preceding year’s high base (in 2015, the FDI inflow growth was largely generated by the establishment of the Russian-Kyrgyz Fund, whose authorised capital was formed with the Russian Government’s participation). The current account deficit was 9.6% of GDP over 2016 (16.2% of GDP in the preceding year).

After three months of steady monthly depreciation, the KGS to USD exchange rate has strengthened every month since February 2017. This was a decisive factor leading the National Bank to halve its interventions in the domestic foreign exchange market compared with 4Q 2016, to USD 17.7 million over 1Q 2017.
Fiscal Policy

Budget in deficit over 2016

The budget posted a deficit of 4.6% of GDP in 2016 (1.5% in 2015). The budget’s income grew by 1.9% during the year (7.3% in 2015). The income side growth slowed as non-tax revenues decreased by 21.5% y-o-y, while tax revenues increased by 10.8% y-o-y. The current expenses growth rate remained at its 2015 level, 10.2% y-o-y. Expenses on the purchase of non-financial assets grew by 21.5% y-o-y (13.9% in 2015).

Public debt increased by 6.8% in 2016 compared with 2015, to reach USD 4.1 billion (61.4% of GDP) as of 1 January 2017. Public debt mainly increased on account of foreign loans raised.

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

Monetary Policy

Refinancing rate incrementally reduced over 2016

Despite the low inflation background in early 2016, tight monetary conditions were created – through both a high (10%) interest rate, and by restricting som depreciation versus the US dollar. The volume of forex market interventions in January 2016 amounted to 3.7% of the money stock. As pressures on the domestic foreign exchange market eased, the National Bank of Kyrgyzstan began acting as a net buyer, expanding the volume of som money supply in the economy. An additional money supply increase resulted from National Bank lending to the real sector of the economy, in a volume equivalent to 4.7% of the money supply over 2016.
The system’s liquidity surplus rose sharply from March 2016, and the spread between the policy rate and the money market rates grew. During 2016, the National Bank reduced its refinancing rates on four occasions, from 10% to 5%, while money market rates varied at a level of 1.5-2.0%. The volume and number of deals in the inter-bank market decreased, and between June and September there were no transactions at all.

**FORECASTS**

**Inflation to accelerate**  
As the period of low prices in the energy and food markets is coming to an end, the deflationary trends in Kyrgyzstan are expected to cease and inflation should reach its target range of 5-7% as early as this year. In the following years it will move near the upper threshold of the range, which will be partly caused by a loose fiscal policy. On the monetary sector’s side, inflation is being supported by the current mildly negative real interest rate, with the money market rate (1.6% at the end of 2016) differing from the base rate (5.0% at the end of 2016).

**Steady growth in economic activity**  
The economy of Kyrgyzstan has passed its crisis phase. The foreign economic environment is expected to be relatively stable in the projection period and growth recovery in the countries that are Kyrgyzstan’s main trade partners is expected to support household purchasing power, for which remittances are the main source of income. The economy will gain an additional impetus from the fiscal sector. A decrease in gold production at the Kumtor mine might be a limiting factor in the medium term.
SUMMARY

Forecast for the major macroeconomic indicators of the Kyrgyz Republic

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI (growth in percent, end of year)</td>
<td>6.4</td>
<td>7.2</td>
<td>6.9</td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>4.0</td>
<td>4.2</td>
<td>4.2</td>
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<tr>
<td>Interbank repo rate (in percent per annum)</td>
<td>4.0</td>
<td>8.3</td>
<td>9.5</td>
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<tr>
<td>Exchange rate of the national currency against the U.S. dollar (average for the year)</td>
<td>68.8</td>
<td>70.3</td>
<td>72.2</td>
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</tbody>
</table>

Source: Estimates by the authors, EEC
RUSSIAN FEDERATION

TRENDS

GDP

Positive growth rate reached in 4Q 2016

The Russian economy continued to recover in 4Q 2016. According to Rosstat’s revised 2015-2016 GDP data, GDP growth turned positive in 4Q 2016, reaching 0.3% year-on-year. Weak domestic demand amid low consumer and investment activity was the main obstacle to a stronger growth recovery, while the positive net export trend and the tangible working assets inventory increase on hopes of a consumer demand increase in 2017 continued to support growth. Over 2016 as a whole, the Russian GDP decrease rate slowed to 0.2%, compared with a 2.8% decline in 2015.

Consumer and investment activities recovering since early 2017

Factors conducive to a domestic demand recovery were also observed in 1Q 2017. Unemployment staying low, growing real wages, and a considerable slowdown in the decline in retail turnover all testify to a gradual recovery in consumer activity. Increasing imports and the manufacture of investment goods may turn growth in fixed capital investment positive over 1Q 2017. The contribution of net exports to GDP growth may decrease considerably as physical imports grow while the rouble exchange rate strengthens significantly.

Moderate recovery in industrial output and decreasing growth in agriculture

After revising trends in industrial output indices in 2015-2016, Rosstat improved its 2016 assessment somewhat, from 1.1% growth to 1.3%. Revised manufacturing data had the greatest effect on the reassessment of industrial growth. The 1.7% annual industrial growth rate in 4Q 2016 was supported by both the mining and manufacturing industries. In 1Q 2017, the positive industrial trend slowed to 0.1% year-on-year. The main factor behind the output decrease was the calendar (with two working days fewer in February than last year).

Rosstat switched to using new versions of the classifiers OKVED2 and OKPD2 in its statistical practice in January 2017.
The high agricultural growth rates observed in 4Q 2016 (5% growth vs. 4Q 2015) on the back of a good harvest subsided into moderate 0.7% growth in 1Q 2017.

Transport freight turnover over 1Q 2017 showed 5.4% annual growth, the highest recorded since 2010 (1.5% a year before).

**Leading indicators testify to continued recovery in the Russian economy**

PMIs of Russian manufacturing industries and the service sector stayed high, pointing to an improved market situation and business activity growth.

The leading indicators calculated by the EEC show economic activity in Russia will continue to recover in 2Q 2017. Among the positive factors, we note expectations of an improvement in the performance of manufacturing industries, oil price movements, the high transport freight turnover growth rate and a recovery in real disposable income.

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5 The data was provided prior to the revision by Rosstat in January 2017 of GDP dynamics. GDP growth for 2015 was revised from -3.7% to -3%.
Inflation

Considerable slowdown in inflation processes over 2016

Annual inflation in Russia reached the level of 5.4% at the end of 2016, compared with 12.9% at the end of 2015. The slowdown in inflation processes was largely caused by factors such as rouble strengthening, a good harvest and domestic demand that stayed low. The main inflation risks during the year resulted from trends in inflation expectations.

Inflation approaches its target

The inflation rate slowdown in 2017 exceeded the monetary authorities’ expectations somewhat. Annual inflation decreased to 4.1% in January to April 2017 and continued approaching the 4% target amid a moderately tight monetary policy and gradually decreasing inflation expectations. According to Bank of Russia estimates, the downward trend in inflation expectations continued in January to April 2017, but their level remains elevated and higher than the mid-term inflation target. Persisting demand limitations and the authorities’ moderately tight monetary policy will contribute to a continued slowdown in the inflation processes.

The Exchange Rate

Considerable strengthening of the Russian rouble in 1Q 2017

The Russian rouble maintained its trend towards strengthening into 1Q 2017, but at a considerably higher pace. The rouble’s real effective exchange rate versus foreign currencies strengthened by 33.2% in 1Q 2017 compared with 1Q 2016. This mainly resulted from increased sales of foreign exchange revenues by exporters and by non-residents’ interest in Russian financial assets, driven by increased interest rates and a decreasing country risk premium. The foreign exchange purchases in the domestic market that the Russian Ministry of Finance began in February to replenish its sovereign funds failed to provide the expected resistance to rouble strengthening.

Source: The national statistical agency, EEC, estimates by the authors
There remain conditions for moderate rouble weakening. We estimate that the Russian rouble was priced above its equilibrium trajectory in 1Q 2017 (the real effective exchange rate gap is estimated at 4.7%). Therefore, the market situation still favours a moderate weakening in the Russian currency.

Current account surplus expands as world prices of the main Russian exports grow. As provisionally estimated by the Bank of Russia, the Russian Federation’s current account surplus was USD 22.8 billion in 1Q 2017 (USD 12.9 billion the year before). The main source of the improved current account operations was the strengthening trade balance, as world prices of the main Russian export goods grew. The increase in the trade balance surplus to USD 34.5 billion, from USD 22.3 billion in 1Q 2016, resulted from a 36% increase in exports, while imports grew by 25% (1Q 2017 vs. 1Q 2016).

Net capital outflows by the private sector in 1Q 2017 were estimated by the Bank of Russia at USD 15.4 billion, almost twice the previous year’s level (USD 8.8 billion in 1Q 2016). The capital outflow trend was more related to banking sector operations and net private capital outflows are expected to slow later in 2017.

Fiscal Policy

2016 budget executed as planned. Turning to the State budget, expenditure growth was restrained in real terms, as a result of which the 2016 federal budget deficit was 3.5% of GDP. The deficit was mainly financed by changing the budgets’ balances and by transfers from the Reserve Fund.

As provisionally estimated by the Ministry of Finance, the Russian federal budget posted a deficit of RUR 274 billion in 1Q 2017, or 1.4% of GDP (3.3% of GDP in 1Q 2016). A reduction in the deficit to 3.2% of GDP is planned for 2017.

Russian Ministry of Finance starts forex transactions in the domestic market. With a view to a stabler and more predictable domestic economic environment, as well as less influence of the volatile energy market situation on the Russian economy and public finances, the Russian Ministry of Finance began foreign currency operations in February 2017 in the domestic market. The additional oil and gas revenues (incomes resulting from Urals oil prices above USD 40 per barrel) will be converted and deposited in the Reserve Fund.
Public FLBs issued

On 26 April, the Russian Ministry of Finance began placing public issues of federal loan bonds as an additional savings instrument for households. The issue volume was RUR 15 billion, and the circulation period is three years. The first coupon rate is set at 7.5% p.a., and then it will increase every half-year to reach 10.5% p.a.

Domestic public debt grows while foreign debt decreases over 1Q 2017

With the domestic borrowing programme being implemented successfully, domestic public debt grew by RUR 0.3 trillion from the beginning of 2017 to reach RUR 8.3 trillion by early April. Foreign debt was USD 50.6 billion as of early April, USD 0.6 billion less than at the beginning of the year.

Monetary Policy

Central Bank continues its moderately tight monetary policy

The decrease in inflation to near the Central Bank’s 4% target enhanced the Central Bank’s ability to reduce its refinancing rate, which was lowered by 50 basis points in late April. This step was the second key rate reduction from its 10% level of early 2017. A continued downward trend in the key rate opens opportunities for more active economic growth in the consumer and investment sectors alike.
FORECASTS

Gradual recovery of economic growth to 1.6% by 2019

The projection of Russia’s economic growth for 2017 has changed somewhat – in the light of data on the first quarter’s economic activity indicators and a revised projection of petroleum prices given the 1Q trends in world energy markets. With external demand expected to recover slowly, domestic economic factors will be the main drivers of growth. The emerging recovery trend in consumer and investment activity will be supported by a gradual loosening of monetary policy. This is expected to result in 1.1% GDP growth over 2017 and gradual recovery to 1.6% by 2019.

Real exchange rate gap to close as nominal RUR exchange rate weakens

The projected closure of the existing real effective exchange rate gap will be conducive to rouble weakening in the short term. Its possible inflation impact will be offset by continued moderately tight monetary policy. Exchange rate movement risks remain from a petroleum price retracement due to growing shale oil production in the US.

Source: Estimates by the authors, EEC

Inflation to develop within the targets set by the Central Bank

The formation of a steady trend towards lower inflation expectations, supported by a moderately tight monetary policy with domestic demand still weak, will cause inflation to decrease further, to 3.7% in 2017 and stabilising at the 4% level in 2018-2019. As inflation decelerates, the Bank of Russia will continue to reduce its key rate, which will give additional impulse to the recovery in lending and economic activity.
SUMMARY

Forecast for the Major Macroeconomic Indicators of the Russian Federation

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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</thead>
<tbody>
<tr>
<td>CPI (growth in percent as of year-end)</td>
<td>3.7</td>
<td>3.9</td>
<td>4.0</td>
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<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>1.1</td>
<td>1.4</td>
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<td>MIACR (in percent per annum)</td>
<td>9.1</td>
<td>7.6</td>
<td>7.5</td>
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<td>Exchange rate of the national currency against the U.S. dollar (final average for the year)</td>
<td>59.1</td>
<td>61.7</td>
<td>64.2</td>
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</tbody>
</table>

Source: Estimates by the authors, EEC
REPUBLIC OF TAJIKISTAN

TRENDS
GDP

GDP growth at 6.9% in 2016
The GDP growth rate in the Republic of Tajikistan was 7.5% year-on-year in 4Q 2016 (6.9% vs 3Q 2016). Economic growth was supported by high investment activity funded from foreign direct investment. GDP growth accelerated from 6.0% in 2015 to 6.9% in 2016.

Activity decelerates in consumer sector
The main factors behind economic growth in Tajikistan included:

- **on the income side**: the growth in real disposable incomes accelerated to 10.0% y-o-y in the first 11 months of 2016 (in January to September 2016, they grew by 7.4% y-o-y);

- **on the value added side**: the high growth rate in industry (15.7% y-o-y) and the construction sector (15.2% y-o-y) in 4Q 2016. A deceleration in economic activity was noted in agriculture, to 0.4% y-o-y, as well as in retail trade (from 14.8% y-o-y in 3Q 2016 to 4.0% y-o-y in 4Q 2016).

GDP growth was 6.5% in 1Q 2017. The mining and manufacturing industries as well as investment growth played key roles in keeping the economic growth indicators high. Problems in the banking sector, a protracted decline in the flow of remittances in USD equivalent, and accelerated inflation may hold economic growth back.
Inflation

Inflation was 6.1% y-o-y in 2016

The policy of limiting the growth of the somoni exchange rate that the National Bank of Tajikistan pursued in 2Q 2016, together with the outflow of deposits from troubled banks, were some of the factors behind the accelerated growth in the cash in circulation. Whereas in May it grew at an annual rate of 27.0%, by December it had reached 65.3%. The latter factor offset the weak price situation in world food and energy markets and set the stage for an elevated inflationary background in 3Q and 4Q 2016. Inflation accelerated to 6.1% in 2016, from 5.1% in 2015.

Inflation accelerates in 1Q 2017

Inflation accelerated month-on-month in March 2017 as the somoni depreciated (1.5% vs. February 2017). The annual inflation rate accelerated to 7.3% y-o-y (5.9% y-o-y in February 2017) and thus exceeded the 7.0% target.

The Exchange Rate

Exchange rate fixed at TJS 7.8 per USD

In annual terms, the Tajik somoni’s real effective exchange rate depreciated by 10.7% in 4Q 2016, while in quarterly terms the somoni’s real effective exchange rate strengthened by 1.2% compared with 3Q 2016. This was partly due to the restricted adjustment of the TJS-USD currency pair, which had remained at the level of 7.8 somoni per USD since February 2016. The 54.7% decline in remittance inflow in 2016 (according to the Central Bank of Russia) was largely offset by a fall in imported goods and services in monetary terms. Net capital inflows to the current account will be mainly determined by the inflow of foreign direct investment.
Fiscal Policy

State budget in deficit in 2016

The State budget deficit was 1.7% of GDP in 2016, while in the preceding year a surplus of 0.8% of GDP had accumulated. The budget’s revenues increased by 8.9% over the year (20.3% in 2015). The revenue side grew more slowly on account of reduced grant revenues. Tax revenue growth remained moderate, at a level of 5.6%. The expenditure growth rate was generally the same as in 2015, 17.6% y-o-y. The greatest growth in public spending was noted in the fuel and energy complex (13.0%), industry and construction (2.6 fold), and other expenses (2.2 fold).

Public debt increased by 19.6% over 2016 compared with 2015, to reach USD 3.1 billion (44.9% of GDP) as of 1 January 2017. Public debt was mainly raised by the issue of securities in the amount of TJS 3.9 billion, aimed at turning around troubled banks.

Monetary Policy

Refinancing rate increased

With the gold and foreign exchange reserves being low and the banking sector increasingly problematic, the National Bank of Tajikistan attempted to use all available leverage to fix the exchange rate at the level of 7.8 somoni per USD. In addition to tighter administrative control of currency exchange, the National Bank increased its refinancing rate from 9.0% to 11.0%. Nevertheless, the cash in circulation is growing fast, which results from the outflow of deposits from troubled banks and from unsterilised purchases of foreign currency by the National Bank in 2Q 2016. The banking system’s credit portfolio decreased by 12.4% at the end of December 2016 compared with December 2015. The share of non-performing loans (including inter-bank loans) grew to 54.0% at the end of 2016 (29.9% at the end of 2015).
**FORECASTS**

**High investment activity to support economic growth**

The factor of Chinese investment that comes in the form of both foreign direct investment and lending will be instrumental to economic growth in the medium term. The bilateral economic co-operation programme to 2020 envisages China’s active participation in Tajikistan’s infrastructural projects (including funding for the construction of a transit pipeline). The implementation of the investment projects will be accompanied by a gradual recovery in the remittance flow. The weak performance of the banking sector may affect economic growth in the medium term.

**Source:** Estimates by the authors

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![GDP in comparable prices](image1)

**GDP in comparable prices**

*(growth in percent, y/y)*

![Nominal exchange rate](image2)

**Nominal exchange rate,**

*Tajik somoni per U.S. dollar*

![CPI](image3)

**CPI**

*(growth in percent, end of year)*

![Interbank rate](image4)

**Interbank rate**

*(in percent per annum)*

**Source:** Estimates by the authors
SUMMARY

Forecast for the main macroeconomic indicators of the Republic of Tajikistan

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CPI</strong> (growth in percent, end of year)</td>
<td>8.6</td>
<td>7.4</td>
<td>7.0</td>
</tr>
<tr>
<td><strong>GDP in comparable prices</strong> (growth in percent, y/y)</td>
<td>6.2</td>
<td>6.3</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Interest rate on interbank loans</strong> (in percent per annum)</td>
<td>14.8</td>
<td>13.7</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>Exchange rate</strong>, somoni per U.S. dollar (average for the year)</td>
<td>8.2</td>
<td>8.6</td>
<td>9.1</td>
</tr>
</tbody>
</table>

*Source:* Estimates by the authors
SPECIAL REPORT.
AN ASSESSMENT OF THE SENSITIVITY OF EDB COUNTRIES’ MACRO INDICATORS

Y. D. Lissovolik, Dr. Sc. (Economics); A. S. Kuznetsov; A. R. Berdigulova

After the oil prices plummeted in 2015, economic growth slowed in the EDB countries, and in some economies (Russia and Belarus) it crossed into negative territory. The commodity orientation of exports from Russia and Kazakhstan makes them vulnerable to external price shocks, which, in turn, affect the economic situation of Armenia, Belarus, Kyrgyzstan and Tajikistan via mutual trade, remittances, and financial flow channels. The existing inter-linkages dictate the need to study the effects of petroleum prices and take them into account in developing responses to external risks with a view to reducing the vulnerability of specific economies and the regional economy as a whole. This paper quantifies the influence of oil prices on the macroeconomic indicators of Russia and Kazakhstan and assesses the effect of Russian GDP trends on the regional economies using an integrated system of models.

THE COMMODITY ORIENTATION OF EXPORTS FROM RUSSIA AND KAZAKHSTAN MAKES THEM VULNERABLE TO EXTERNAL SHOCKS.

The bank’s operating region comprises six EDB member States. On the one hand, the region’s economies share a common history and face similar structural problems. On the other hand, each State’s economic geography makes it unique. The region can generally be divided into a group of net exporters of oil and gas (Russia and Kazakhstan) and a group of net importers of hydrocarbons (Armenia, Belarus, Kyrgyzstan and Tajikistan). Russia is the main supplier of oil and oil products to the domestic market of Belarus and the main oil product importer to Armenia (76%) and Tajikistan (88%) [National Bank of Tajikistan (2015)]. Oil supplies to Kyrgyzstan originate from Russia (72%) and Kazakhstan (25%).

---

6 The share of Russia and Kazakhstan in the total volume of the importing country’s oil product imports was calculated on the basis of statistics from the UN comtrade database.
Russia accounted for 12.4% of worldwide oil production in 2015, while Kazakhstan accounted for 1.8% [BP (2016)]. For all the difference between the two countries’ economies, their oil industries are key contributors to their GDP, exports, and State budgets’ income side (Diagram 1). Oil and oil products account for half of the exports of both Russia and Kazakhstan, which makes them vulnerable to external price shocks, despite their steadily growing oil production volumes. Oil output was 3.3 times higher in Kazakhstan in 2015 compared with 1993 and 1.5 times higher in Russia. Oil prices also nearly tripled over that period (Diagram 2). However, as opposed to the steady trajectory of oil production growth, the oil price trend was quite volatile in the period under review.

Earlier studies of the effect of the oil price on economic trends in Russia show the following estimates: oil price elasticity of real GDP was 0.2 (Rautava, 2013), 0.24-0.25 (Ito, 2008; Korhonen, Ledyaeva, 2010), 0.15 (Kuboniwa, 2012), or 0.2 (Suni, 2007). According to estimates by the Russian Ministry of Economic Development published in April 2017, a change in the oil price by USD 5 per barrel leads to a real GDP change of 0.4-0.5 pp and to a change in the RUR to USD exchange rate by 5-7%. Given the actual oil price, this is equivalent to oil price elasticity of real GDP at a level of 0.04-0.05 and oil price elasticity of the exchange rate at a level of 0.5-0.7. As assessed by [Nurmakhanova Mira], the oil price elasticity of Kazakhstan’s real GDP is 0.05.

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7 To calculate the share of oil revenues in the revenues of the state budget of Kazakhstan, the article “Receipt of transfers from the National Fund” was used.
To estimate on our own how much the world oil price affects Russia’s and Kazakhstan’s economic performance, we used the Integrated System of Models (ISM) implemented at the Eurasian Development Bank. The ISM supports the EDB’s and the Eurasian Economic Commission’s analysis and forecasting of the macroeconomic environment in the region and provides broader opportunities for analysing monetary policy responses to shocks and risks originating from the world and national economic systems, and from changes in commodity prices [EDB, EEC, 2016].

The ISM is based on semi-structural models with monetary and fiscal sectors. This integrated model used by the EDB covers all the Bank’s six member countries. An important advantage of the integrated model is the possibility to analyse and forecast each individual member country and the whole region simultaneously, taking into account the existing inter-linkages between the economies and the outside world.

To assess the effect of energy prices on the macroeconomic performance of Russia and Kazakhstan, we modelled a long-term oil price shock by changing the balances in the model’s equations that determine the oil price level.

The calculation results show that the cumulative effect of 10% long-term oil price growth leads to:

- growth of Russian GDP by 0.41 pp and a strengthening of the RUR to USD nominal exchange rate by 5.6%;
- growth of Kazakh GDP by 0.8 pp and a strengthening of the KZT to USD nominal exchange rate by 3.2%.

Table 1. Response of Macroeconomic Indicators of Russia and Kazakhstan to 10% Long-Term Oil Price Growth

<table>
<thead>
<tr>
<th>Country</th>
<th>Oil price growth, %</th>
<th>GDP 9, pp</th>
<th>Oil price elasticity of GDP</th>
<th>National currency/USD 10, % (“+”= strengthening)</th>
<th>Oil price elasticity of the exchange rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>10</td>
<td>0.41</td>
<td>0.04</td>
<td>5.6</td>
<td>0.056</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10</td>
<td>0.8</td>
<td>0.08</td>
<td>3.2</td>
<td>0.032</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations

8 All the shocks in the model are symmetric due to its linearity.
9 An effect realised over four quarters.
10 An effect realised over four quarters.
The results reflect the net effect of oil price changes and exclude other factors that can be concurrently present both in the world economy and within each State. The elasticities obtained for the Russian economy match the estimates by the Russian Ministry of Economic Development. The deviation from earlier alternative estimates may be explained by both the assessment methods used and the gradual decrease in the dependence of real GDP on oil price movements. It should be noted that these elasticities ignore the effect of the new budgetary rule being applied since this year. According to estimates by the Ministry of Economic Development, the oil price elasticity of real GDP taking into account the new budgetary rule is 0.01-0.02, and that of the exchange rate, 0.15-2.5, which is less than a third of the results obtained without taking it into account.

**REMITTANCES, TRADE AND FINANCIAL FLOWS AS THE MAIN CHANNEL OF RUSSIA’S ECONOMIC INFLUENCE ON THE COUNTRIES OF THE REGION**

The 2015 decrease in economic activity in Russia mainly affected external demand trends in the EAEU countries. Among the common factors, we note decreased revenue, as Russia is a major trade partner for Belarus (accounting on average for 40.3% of the country’s exports in 2010-2015), Armenia (18.9%) and Kyrgyzstan (11.2%). The decrease in export revenues reduced aggregate income in the economy and, consequently, affected domestic demand trends. A considerable decrease in labour migrants’ remittances from Russia to Armenia, Kyrgyzstan and Tajikistan also affected domestic demand and the formation of long-term macroeconomic trends. Remittances are of paramount importance for those countries’ economic policies, accounting on average for 17.6%, 28.6% and 38.1% of GDP in Armenia, Kyrgyzstan and Tajikistan, respectively, over six years. Studies of Kyrgyzstan show that trends in remittances received in the Republic are procyclically dependent on real GDP trends in Russia and, importantly, this dependence is strengthening [Berdigulova, Imaraliyeva, 2017]. A statistical analysis made by a group of IMF experts showed that Russian GDP determines, with a certain time lag, trends in remittances to Armenia [Armine Ghazaryan et al, 2012].

In addition to being an important market for EDB member countries, Russia is also a key investor, holding key positions in the list of foreign direct investors in all other five countries of the region. Belarus is the leading recipient of foreign direct investment from Russia, followed by Armenia, with third place shared by Kyrgyzstan and Tajikistan.

Compared with other countries of the region, Kazakhstan has looser ties with Russia as regards both trade and financial flows.
Earlier studies point to the considerable influence of Russian economic growth on neighbouring countries’ economies. Thus, a study dedicated to the influence of the Russian economy on CIS and East European countries [Fahad Alturki et al, 2009] notes that an increase in Russia’s GDP by 1 pp leads to an increase in real GDP growth by 0.35-0.45 pp in the CIS countries, and by 0.45-0.52 pp in the oil importing CIS countries.

In this paper, the effect of Russia’s GDP on the economy of the Bank’s member countries was calculated as the difference between the base projection scenario for the countries of the region 11 for 2017 and an alternative one, envisaging growth of Russia’s GDP by an additional 1% in 2017. The Russian GDP shock was assumed to occur in 1Q 2017, and the effect of its occurrence over the following three quarters was taken into account. The results obtained are shown in Table 2; they reflect the net effect of the change in real GDP of Russia and ignore other factors that may simultaneously exist in the world and national economies.

Table 2. Russian GDP Elasticity of EDB Countries’ Real GDP12

<table>
<thead>
<tr>
<th></th>
<th>Armenia</th>
<th>Belarus</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elasticity</td>
<td>0.63</td>
<td>0.35</td>
<td>0.09</td>
<td>0.59</td>
<td>0.51</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations

12 All the shocks in the model are symmetric due to its linearity.
The model calculations confirm the findings of the above statistical analysis that the Kazakh economy is the most resistant to shocks occurring in the Russian economy. The Armenian and Kyrgyz economies are the most sensitive to changes in Russia’s economic trends.

**SUMMARY**

The economies of the countries in the EDB region remain vulnerable to external shocks. The commodity orientation of exports from Russia and Kazakhstan makes them dependent on movements in world oil prices. We estimate the oil price elasticity of Russia’s GDP to be 0.04, and that of Kazakhstan’s GDP to be 0.08.

The high degree of integration of oil-importing EDB countries with Russia also makes them dependent on trends in world oil prices. On the one hand, a decrease in world oil prices has a positive effect on their foreign trade balance. On the other hand, a deterioration in the economic situation in Russia resulting from the fall in world oil prices has a negative effect on the economies of Armenia, Belarus, Kyrgyzstan and Tajikistan via trade and financial flow channels. We estimate the oil price elasticity of GDP of this group of countries to be 0.52 on average.
REFERENCES


Nurmakhanova Mira. Oil and growth challenge in Kazakhstan. // Economic education and research center. Working paper No E16/06


51
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>Full Form</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>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>ECB</td>
<td>European Central Bank</td>
</tr>
<tr>
<td>EDB</td>
<td>Eurasian Development Bank</td>
</tr>
<tr>
<td>EDB/CIS</td>
<td>Center for Integration Studies of Eurasian Development Bank</td>
</tr>
<tr>
<td>EEC</td>
<td>Eurasian Economic Commission</td>
</tr>
<tr>
<td>EFSD</td>
<td>Eurasian Fund for Stabilisation and Development</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<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>
</tr>
<tr>
<td>IMS</td>
<td>Integrated Model System</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPPI</td>
<td>Industrial Producer Price Index</td>
</tr>
<tr>
<td>ITR</td>
<td>Inflation Targeting Regime</td>
</tr>
<tr>
<td>KASE</td>
<td>Kazakhstan Stock Exchange</td>
</tr>
<tr>
<td>MEKR</td>
<td>Ministry of Economy of the Kyrgyz Republic</td>
</tr>
<tr>
<td>MERB</td>
<td>Ministry of Economy of the Republic of Belarus</td>
</tr>
<tr>
<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>
</tr>
<tr>
<td>MNERK</td>
<td>Ministry of National Economy of the Republic of Kazakhstan</td>
</tr>
<tr>
<td>NBKR</td>
<td>National Bank of the Kyrgyz Republic</td>
</tr>
<tr>
<td>NBRB</td>
<td>National Bank of the Republic of Belarus</td>
</tr>
<tr>
<td>NBRK</td>
<td>National Bank of the Republic of Kazakhstan</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>PPI</td>
<td>Producer Price Index</td>
</tr>
<tr>
<td>RTS</td>
<td>Russian trade system</td>
</tr>
<tr>
<td>SNA</td>
<td>System of National Accounts</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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</tbody>
</table>
### Major macroeconomic indicators of the EDB member countries

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Russia</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI (growth in percent as of year-end)</td>
<td>11.4</td>
<td>12.9</td>
<td>5.4</td>
<td>3.7</td>
<td>3.9</td>
<td>4.0</td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>0.7</td>
<td>-2.8</td>
<td>-0.2</td>
<td>1.1</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>MIACR (in percent per annum)</td>
<td>8.5</td>
<td>12.8</td>
<td>10.6</td>
<td>9.1</td>
<td>7.6</td>
<td>7.5</td>
</tr>
<tr>
<td>Exchange rate, the national currency against the U.S. dollar (final average for the year)</td>
<td>38.4</td>
<td>60.9</td>
<td>67.1</td>
<td>59.1</td>
<td>61.7</td>
<td>64.2</td>
</tr>
<tr>
<td><strong>Armenia</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>4.6</td>
<td>-0.1</td>
<td>-1.1</td>
<td>1.7</td>
<td>3.6</td>
<td>4.1</td>
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<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>3.6</td>
<td>3.0</td>
<td>0.2</td>
<td>2.9</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Interbank repo rate (in percent per annum)</td>
<td>7.25</td>
<td>10.1</td>
<td>7.8</td>
<td>6.2</td>
<td>7.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Exchange rate, the national currency against the U.S. dollar (final average for the year)</td>
<td>416</td>
<td>478</td>
<td>480</td>
<td>484</td>
<td>486</td>
<td>494</td>
</tr>
<tr>
<td><strong>Belarus</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>16.2</td>
<td>12.0</td>
<td>10.6</td>
<td>8.4</td>
<td>7.3</td>
<td>6.1</td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>1.7</td>
<td>-3.8</td>
<td>-2.6</td>
<td>1.3</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Interest rate on overnight interbank loans (in percent per annum)</td>
<td>23.2</td>
<td>29.9</td>
<td>19.2</td>
<td>11.8</td>
<td>12.1</td>
<td>11.2</td>
</tr>
<tr>
<td>Exchange rate, the national currency against the U.S. dollar (final average for the year)</td>
<td>1.02</td>
<td>1.59</td>
<td>1.989</td>
<td>1.942</td>
<td>2.042</td>
<td>2.161</td>
</tr>
<tr>
<td><strong>Kazakhstan</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI (growth in percent as of year-end)</td>
<td>7.4</td>
<td>13.6</td>
<td>8.5</td>
<td>7.2</td>
<td>6.5</td>
<td>5.5</td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>4.2</td>
<td>1.2</td>
<td>1.0</td>
<td>2.8</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>TONIA (in percent per annum)</td>
<td>10.6</td>
<td>15.7</td>
<td>15.6</td>
<td>10.5</td>
<td>10.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Exchange rate, the national currency against the U.S. dollar (final average for the year)</td>
<td>180</td>
<td>223</td>
<td>342</td>
<td>315</td>
<td>330</td>
<td>346</td>
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<tr>
<td><strong>Kyrgyz Republic</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>10.5</td>
<td>3.4</td>
<td>-0.5</td>
<td>6.4</td>
<td>7.2</td>
<td>6.9</td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>4.0</td>
<td>3.9</td>
<td>3.8</td>
<td>4.0</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Interbank repo rate (in percent per annum)</td>
<td>6.8</td>
<td>9.0</td>
<td>3.7</td>
<td>4.0</td>
<td>8.3</td>
<td>9.5</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>69.9</td>
<td>68.8</td>
<td>70.3</td>
<td>72.2</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>6.1</td>
<td>8.6</td>
<td>7.4</td>
<td>7.0</td>
</tr>
<tr>
<td>GDP in comparable prices (growth in percent, y/y)</td>
<td>6.7</td>
<td>6.0</td>
<td>6.9</td>
<td>6.2</td>
<td>6.3</td>
<td>6.0</td>
</tr>
<tr>
<td>Interest rate on interbank loans (in percent per annum)</td>
<td>20.4</td>
<td>9.8</td>
<td>14.8</td>
<td>13.7</td>
<td>12.8</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>7.8</td>
<td>8.2</td>
<td>8.6</td>
<td>9.1</td>
</tr>
</tbody>
</table>

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