

## Forecast Revision

- Russia's economy slowed more than expected, negatively affecting only Belarus: growth estimates for both economies in 2025 have been downgraded. Other economies continued to expand strongly: we revised their growth projection for 2025 upward. Medium-term forecasts have remained largely unchanged.
- In Kazakhstan, Belarus, and the Kyrgyz Republic, strong investment activity and consumer demand, fueled by fiscal measures, supported economic growth but also contributed to inflationary pressures. This has led to an upward revision of the inflation forecast for 2025.

## Risks and Uncertainties

- Overall, EFSD countries have been adapting well to heightened uncertainty and changing environment. No significant new risks have been identified compared with the previous forecast.
- The key risks arise from Russia's slowdown, which could weaken external demand — especially in Armenia and Belarus — and reduce remittances to Kyrgyz Republic and Tajikistan.
- Downside risks to commodity prices remain amid global trade tensions.

Despite risks and vulnerabilities, critical imbalances that could threaten macroeconomic stability in the medium term are not expected in EFSD countries.

### GDP growth, %

	2025	2026	2027	2028
<b>Russia</b>	1.1	1.3	1.5	1.7
<b>Kazakhstan</b>	5.7	4.5	4.3	4.2
<b>Armenia</b>	6.2	5.0	4.8	4.8
<b>Belarus</b>	1.6	1.3	1.0	1.2
<b>Kyrgyz Republic</b>	9.0	6.4	6.0	5.5
<b>Tajikistan</b>	7.8	7.1	6.7	6.0

### Inflation (Dec/Dec), %

	2025	2026	2027	2028
<b>Russia</b>	7.6	4.2	4.0	4.0
<b>Kazakhstan</b>	11.7	9.0	7.2	6.1
<b>Armenia</b>	4.0	3.3	3.0	3.0
<b>Belarus</b>	8.0	6.8	6.1	5.0
<b>Kyrgyz Republic</b>	8.1	6.3	6.3	5.6
<b>Tajikistan</b>	5.3	4.1	5.6	4.6

## EXITING “OVERHEATING” — SLOWING INFLATION — MONETARY POLICY EASING

### Macroeconomic Outlook for 2025–2028:

- **In 2025, economy is expected to slow to 1.1%** — a “soft landing” following a period of overheating — and return to its potential growth rate around 1.7% by 2028.
- **Inflation: 7.6% by the end of 2025**, as pro-inflationary risks (economic overheating and wage growth) persist. A return to the 4% target is anticipated in 2027.
- **Monetary policy: the key policy rate is expected at 16% at the end of 2025** and within neutral range of 7.5–8.5% in 2027–2028.
- **The rouble exchange rate is expected to average RUB 85 per USD in 2025**, gradually depreciating to 96 by 2028.

### Risks and Uncertainties

- There is risk of overcooling in several sectors of the economy.
- The key uncertainty — **additional sanctions pressure** on Russian companies and buyers of Russia’s exports.
- Declining deposit rates and a shift in the structure of savings may lead to **higher rouble volatility**, negatively affecting price dynamics and financial stability.
- Prolonged low oil prices, combined with a strong rouble, could lead to **budget revenue shortfalls**.

### Forecast

	GDP growth, %	CPI (Dec/Dec), %	Key rate (year-average), %
2025	1.1	7.6	19.0
2026	1.3	4.2	11.8
2027	1.5	4.0	8.5
2028	1.7	4.0	7.5

## STRONGER-THEN-EXPECTED GROWTH — INFLATION SQUEEZING REAL INCOMES — CONTINUED FISCAL STIMULI

### Macroeconomic Outlook for 2025–2028:

- **In 2025, real GDP growth is projected to accelerate to 5.7%**, supported by expanding production of oil at the Tengiz field and government-backed infrastructure projects.
- **In the medium term, the economy is expected to slow to 4.2–4.5%** amid tighter monetary policy and the anticipated fiscal consolidation.
- **Inflation is forecast to peak at 11.7% in Q4 2025, driven by expected VAT increase.** Thereafter, inflation is expected to ease as a result of tight monetary policy and more balanced fiscal measures.
- Between 2026 and 2028, the nominal **exchange rate of the tenge is projected to depreciate** to KZT 554–585 per USD, reflecting lower energy prices, reduced transfers from the National Fund, and a persistent inflation differential with trading partners.

### Risks and Uncertainties

- The risk of accelerating inflation has already materialised, **with a threat of inflation remaining persistently high** amid elevated inflation expectations and prolonged economic overheating.
- **The tenge could depreciate further** if imports continue to grow and supporting factors weaken (transfers from the National Fund, foreign currency sales, suspension of gold purchase mirroring).
- Risks associated with high dependence of the economy on oil prices persist.

### Forecast

	GDP growth, %	CPI (Dec/Dec), %	TONIA rate (average), %
2025	5.7	11.7	16.1
2026	4.5	9.0	14.8
2027	4.3	7.2	12.0
2028	4.2	6.1	9.8

## GROWTH DRIVEN BY DOMESTIC DEMAND — INFLATION AT THE UPPER BOUND — HIGH FISCAL DEFICIT

### Macroeconomic Outlook for 2025–2028:

- **In 2025, economic growth is projected to accelerate to 6.2%**, driven by strong expansion in construction and services, before slowing to 4.8% in 2026–2028, close to its potential rate of 4–5%.
- **Inflation in 2025 is expected at the upper bound of the central bank target range (4%)**, stabilising at 3.0% in 2026–2028.
- **The fiscal deficit is anticipated at 5.0–4.5% of GDP** in 2025–2026, gradually narrowing to 2.8% of GDP in 2028 as a result of fiscal consolidation.
- **The current account deficit will remain** within the range of 4–5% of GDP.

### Risks and Uncertainties

- There is a **sustained structural shift toward the non-tradable sector** in Armenia's economy on the backdrop of the likely overvalued Armenian dram. This development increases the economy's reliance on domestic demand and reduces export competitiveness.
- If dram depreciation accelerates and food import prices rise, **inflation could exceed the Central Bank's target range**.
- **Lending has accelerated, while the property market remains overheated**.
- The **support to resettlers from Nagorno-Karabakh could be more costly** than initially planned.

### Forecast

	GDP growth, %	CPI (Dec/Dec), %	State budget, % of GDP
2025	6.2	4.0	-5.0
2026	5.0	3.3	-4.5
2027	4.8	3.0	-3.5
2028	4.8	3.0	-2.8

## REDUCED EXTERNAL DEMAND — ECONOMIC SLOWDOWN — HIGH INFLATION

### Macroeconomic Outlook for 2025–2028:

- A slowdown in Russia’s economic activity is expected to be the key factor weighing on Belarus’s **economic performance**.
- By end-2025, real GDP growth is forecast at 1.6%, easing to 1–1.3% in the **medium term**.
- Accumulated pressure from domestic demand, the labour market and price growth in Russia will keep **inflation** above the target.
- **Fiscal policy** is expected to produce a stronger budget surplus following a moderate deficit in 2025.
- The current account deficit is anticipated to narrow gradually, keeping the **external balance** stable.

### Risks and Uncertainties

- **Macroeconomic imbalances may arise** from continued attempts to stimulate growth amid weakening external demand and deteriorating terms of trade.
- **Belarusian producers are likely to face tougher competition** in the Russian market as Russian firms adapt successfully to sanctions.
- Sanctions on Russia and Belarus may act as either a negative factor, in the event of the further expansion and/or harmonisation of sanctions, or a positive one, if pressures are eased.

### Forecast

	GDP growth, %	CPI (Dec/Dec), %	Consolidated budget, % of GDP
2025	1.6	8.0	-0.5
2026	1.3	6.8	+0.6
2027	1.0	6.1	+0.9
2028	1.2	5.0	+1.1

## HIGH GROWTH — HIGH INFLATION — HIGH FISCAL RISKS

### Macroeconomic Outlook for 2025–2028:

- After expanding by 9.0% YoY in 2025, **economic growth rates** are anticipated to stabilise around **6%** over the next few years amid slowing trade growth, with support from strong investment and housing construction.
- **Inflation** is expected to exceed the target range in 2025 and to **average above 6% YoY** in the medium term, reflecting high food prices, increased electricity tariffs and heated domestic demand.
- The budget is expected to remain in surplus, although a significant part of this surplus will be allocated to “below-the-line” expenditures, including major socio-economic development projects.

### Risks and Uncertainties

- Risks to budget financing are heightened by support **for low-efficiency energy enterprises, large infrastructure projects** (such as the Kambarata HPP and the China–Kyrgyz Republic–Uzbekistan railway), and further **recapitalization** of the **State Mortgage Company** and state-owned banks. These factors may require additional donor funding and increased public debt, both domestic and external.
- **Inflation is expected to accelerate** because of rising fuel and lubricant prices.
- **Budget revenues may fall** due to lower imports and declining gold production, which together account for nearly 50% of fiscal income.
- **Remittance inflows may weaken** as conditions for migrant workers in Russia change and wage growth slows.

### Forecast

	GDP growth, %	CPI (Dec/Dec), %	Republican budget, % of GDP
2025	9.0	8.1	+2.1
2026	6.4	6.3	+1.6
2027	6.0	6.3	+1.0
2028	5.5	5.6	-0.2

## INVESTMENT AND EXPORT GROWTH — HIGH REVENUES GENERATING BUDGET SURPLUS — LOW CONSUMER INFLATION

### Macroeconomic Outlook for 2025–2028:

- **Real GDP growth forecast for 2025 has been revised upward from 7.5% to 7.8%.** Growth is expected to ease gradually to 6.0% in 2028 as remittances normalise and growth in key trading partners (Russia, China and Kazakhstan) slows.
- **The fiscal deficit** is projected at 0.6–1.9% of GDP over 2025–2028.
- **Consumer inflation is expected to edge up slightly in 2025,** stabilising at 5% in the medium term.
- **The current account surplus is projected to turn into a deficit of 1.3% of GDP in 2027.** Large international reserves will continue to support balance of payments stability.

### Risks and Uncertainties

- **Tajikistan’s economy remains vulnerable to external shocks,** a risk compounded by rising principal repayments on external public debt in 2025–2027.
- Completion of **the Rogun HPP poses risks to fiscal and debt sustainability** due to possible delays in external financing and the need to spend from domestic revenue, as well as the need for new sources of financing if construction costs increase.

### Forecast

	GDP growth, %	CPI (Dec/Dec), %	State budget, % of GDP
2025	7.8	5.3	-1.9
2026	7.1	4.1	-1.3
2027	6.7	5.6	-0.6
2028	6.0	4.6	-0.9