



EFSD

EURASIAN FUND FOR  
STABILIZATION AND DEVELOPMENT

# REGIONAL ECONOMIC OUTLOOK

| AUTUMN 2025

This quarterly publication of the Eurasian Fund for Stabilization and Development provides an analysis of key macroeconomic indicators, as well as forecasts of macroeconomic parameters in the short and medium term.

This document is published in Russian and English on the Eurasian Fund for Stabilization and Development website.

The electronic version of this document is available at:

[efsd.org/research/regional-economic-outlook/](https://efsd.org/research/regional-economic-outlook/)

**For citation:** EFSD Regional Economic Outlook 2025 No. 3(7). Moscow: Eurasian Fund for Stabilization and Development.

**Keywords:** economic growth, macroeconomic forecasts, GDP, inflation, exchange rate, balance of payments, monetary policy, fiscal policy, interest rate, unemployment, investments, consumer demand.

**JEL:** E17, E20, E27, E30, E40, E50, F15, H60, O10.

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The authors are grateful to **Tigran Kostanyan** and **Natalia Pisareva** for valuable comments and recommendations.

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Cut-off date — 04.09.2025.

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## CHIEF ECONOMIST'S FOREWORD

Massive transformation in global trade triggered by unprecedented changes in US trade policy has not had a serious impact on the world economy as it was expected in spring. Global markets gradually adjusted to the heightened uncertainty and volatility and, by mid-year, had recovered from their initial decline. The real sector in major economies and economic blocs showed resilience and sustained economic momentum, supporting global demand. However, the uncertainty regarding potential trade conflicts remains elevated. We do not rule out further escalation of such conflicts between major economies, which could spread trade tensions to developing countries and adversely affect global demand and commodity markets.

An important trend in our region is the economic slowdown in Russia, which appeared to be more pronounced in the first half of the year than it was initially expected. The cooling of the Russian economy has not yet had a significant effect on other economies in the region, except for Belarus, where the economic momentum has notably weakened. Other EFSD member states continued to demonstrate robust economic growth. In some countries, economic activity even accelerated in the first half of the year, driven by fiscal stimulus and rapid credit expansion. However, the acceleration of economic activity in Kazakhstan and the Kyrgyz Republic has been accompanied by a sharp increase in inflationary pressures, including those stemming from external factors.

Taking into account recent economic trends and changes in external conditions, we have slightly revised our baseline forecast presented in the summer edition. Despite the gradual

transition towards more balanced growth, economic activity in some countries is likely to remain overheated in the near term, resulting in persistent inflationary pressures and greater vulnerability to market-driven factors. Nevertheless, we expect fiscal and monetary policies in most countries to remain focused on maintaining macroeconomic balances.

The shift in the balance of risks for our region and countries is primarily associated with the slowdown in Russia. In some countries, especially Armenia and Belarus, this could significantly weaken external demand and lead to a slowdown or even a reduction in investment and trade flows. In Kyrgyz Republic and Tajikistan, a likely contraction in external demand may be accompanied by a substantial decline in remittances, particularly in light of the expected weakening of the rouble. A common risk for our countries is a potential fall in the prices of key export commodities and resources if global demand softens. In addition, some countries continue to face risks of stronger inflationary pressures due to the overheating of domestic demand.

Despite persistent risks and vulnerabilities of the EFSD member states to external factors and shocks, we do not expect critical imbalances to emerge that could threaten their macroeconomic or financial stability in the medium-term.



**Sergei Ulatov**  
Chief Economist  
Eurasian Fund for Stabilization and Development

## EXECUTIVE SUMMARY

The first half of 2025 saw a divergence of economic trends in EFSD countries. Russia and Belarus slowed more sharply than forecast, while the rest of the region experienced stronger growth, prompting revisions of growth estimates for all economies this year. In Kazakhstan, Belarus and the Kyrgyz Republic, high investment activity was an important growth driver. However, inflationary pressures continued to build in these countries amid persistently strong domestic demand, largely supported by fiscal measures, which led to higher inflation projections for 2025. In the external sector, all countries remained balanced, with exchange rates showing relative stability and international reserves continuing to grow. Overall, EFSD countries have been adapting successfully to the changing environment, and no significant new risks are currently identified.

### RUSSIA

Russia's economy continues on a soft-landing trajectory, with a steady slowdown in activity. GDP growth fell to 1.1% YoY in Q2 2025. The deceleration became more pronounced, with all key sectors — industrial production, trade and construction — slowing during the quarter. As a result, the 2025 growth forecast has been revised down to 1.1% (from 1.6% previously).

Inflationary pressures are easing, with consumer inflation expected to slow to 7.6% by year-end. The Bank of Russia remains focused on a gradual easing of monetary policy, with the key rate

projected to decline to 16% per annum by the end of the year. Following significant appreciation in the first half of the year, the average annual rouble exchange rate is forecast at RUB 85 per US dollar. No major risks are foreseen that would trigger a sharp adjustment of the rouble compared with the baseline scenario.

Looking ahead to 2026–2028, the economy is expected to gradually close the positive output gap, with growth of 1.3% in 2026, 1.5% in 2027 and 1.7% in 2028. Inflation should continue to ease, reaching 4.2% by end-2026 and returning to the 4% target no earlier than 2027.

Recession risks for Russia's economy are assessed as low. Business activity is normalising smoothly, with overcooling concerns limited to certain sectors. The key short-term uncertainty is the potential for new sanctions against Russian economic agents and buyers of Russian exports. Russia's slowdown poses a significant challenge to the region, particularly Belarus and Armenia, where lower demand in the Russian market and weaker investment and tourist flows could weigh on growth.

### KAZAKHSTAN

Kazakhstan is recording stronger-than-expected growth in 2025. Robust activity in Q2 prompted an upward revision of the full-year real GDP growth forecast by 0.7 p.p. to 5.7%. The main contribution will come from expanding oil production at the Tengiz field, alongside multiplier effects on

transport, trade and construction. Strong investment activity, including government-backed infrastructure projects, will also play a key role. Consumer demand remains a key driver but may ease in the second half of the year amid tighter monetary policy, slower lending and declining real incomes.

By end-2025, inflation is expected to reach 11.7%, driven by several pro-inflationary factors: VAT increases, expansionary fiscal policy and depreciation of the tenge. In response to growing inflation risks, the National Bank is expected to maintain tight monetary policy.

In the medium term (2026–2028), growth will moderate towards its potential rate of 4.2–4.5%, as expected fiscal consolidation reduces fiscal stimulus. Inflation will decline but remain above target. Monetary policy will remain tight, with the base rate projected to fall from an average of 15.9% in 2025 to 9.8% by 2028.

Inflation risks remain elevated due to strong inflation expectations and the prolonged persistence of a positive output gap. Compared with the previous forecast, depreciation risks for the tenge have increased, reflecting higher imports driven by resilient domestic demand, along with weakening factors supporting the currency over the medium term.

## ARMENIA

In the first half of 2025, Armenia's economy continued steady growth, largely driven by actively expanding domestic demand. This added to price pressures, but the inflationary backdrop began to stabilise in the summer, with inflation easing to 3.6% YoY by end-August. Since March, the

regulator has kept the refinancing rate unchanged at 6.75%, noting risks of both slowing and accelerating economic growth.

Fiscal policy was marked by higher tax revenues, which rose to 30.9% of GDP in H1 2025 compared to 29.1% a year earlier. However, execution of the state budget fell short for both current and capital expenditures.

The current account was in deficit, mainly reflecting lower re-exports of precious metals and stones.

Full-year GDP growth is forecast at 6.2% in 2025, revised up by 1.3 p.p. on the back of stronger-than-expected Q2 results. In the medium term, growth is expected to stabilise around its potential of 4.0–5.0%, supported by a more restrained fiscal stance with a focus on gradual deficit reduction.

Risks to future growth in the coming years include the potential fading of geopolitical factors that previously supported the economy, as well as increasing dependence on domestic demand. EFSD estimates also indicate a widening credit gap, which adds to demand pressures and raises the banking sector's exposure to credit risks. Risks of under-execution of the budget remain, both in current and capital spending, along with growing fiscal commitments to support resettlers from Nagorno-Karabakh, adding uncertainty to fiscal policy.

## BELARUS

In the first half of 2025, Belarus's economy began to slow. Real GDP growth in Q2 was 1.2% YoY, compared with 3.1% in Q1. The key factors behind this were

the contraction of external demand and a gradual weakening of consumer activity. At the same time, economic activity was supported by rising investment, driven by amendments to the Law on Investments, which came into force in the second half of 2024.

By the end of Q2, inflation stood at 7.3%, accelerating due to high inflation in Russia, as well as a surge in fruit and vegetable prices, partly the result of a poor domestic harvest and high import costs.

Strong domestic demand, combined with weaker external demand, widened both the foreign trade deficit and, consequently, the current account deficit. The foreign trade balance was supported by inflows into the financial account. The foreign exchange market showed no signs of increased volatility.

With Russia's slowdown, Belarus's economic growth is expected to decelerate towards potential rates. The real GDP growth forecast for 2025 has been revised down by 1.1 p.p. to 1.6%. Accumulated pressure from domestic demand, the labour market and price growth in Russia will keep inflation slightly above target, with gradual deceleration as these factors ease. The slowdown in economic activity and the normalisation of trade price conditions will limit the expansion of the current account deficit, helping to preserve external balance.

Risks of a more stimulative government policy amid weaker external demand remain. The use of administrative measures to curb inflationary pressures carries the risk of deepening price imbalances, which would negatively affect company margins and investment plans. A further

drop in demand for Belarusian products in Russia, as Russian producers adapt to the new environment, could lead to a faster-than-expected slowdown in Belarus's economy. Sanctions against 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.

## KYRGYZ REPUBLIC

The economic growth forecast for the entire period has been raised by 0.9 p.p. In the baseline scenario, economic growth in 2025 is expected to be around 9%, in line with the pace of the past three years, largely driven by accelerated infrastructure and housing construction and strong domestic demand. The Kyrgyz Republic's economy is projected to slow down to 6.4%, 6.0% and 5.5% YoY in 2026–2028, respectively.

In 2025, inflationary pressures intensified due to food prices, electricity tariffs and domestic demand. As a result, consumer inflation is expected to reach 8.1% by year-end, exceeding the National Bank's target range of 5–7%. In the following years, as monetary policy tightens and the economy cools, inflation is projected to ease, with its average returning to the National Bank's target range.

The republican budget, which recorded a surplus in 2023–2024, is expected to remain in surplus in the medium term (2.1%, 1.6% and 1.0% of GDP in 2025, 2026 and 2027, respectively). However, the gradual decline in tax revenues is expected to result in a deficit of 0.2% of GDP in 2028.

The downward trend in the current account deficit that began in Q2 2024 is set to

continue. By the end of 2025, the current account deficit is forecast to narrow to 16% of GDP and decline further to 14% of GDP by the end of the medium term as imports stabilise.

Economic growth may exceed forecasts if current market-driven factors persist longer than anticipated, or following the start of underground mining at Kumtor (potentially adding up to 1.5 p.p. to GDP in 2026). However, a number of downside risks persist, including inflationary pressures from rising petrol prices, the risk of a widening budget deficit due to large-scale programmes for recapitalising state-owned enterprises and supporting infrastructure mega-projects, and a possible 2–3 p.p. of GDP fall in remittances from Russia, which would strain both the balance of payments and the labour market.

## TAJIKISTAN

In January–June 2025, Tajikistan’s economic growth slowed to 8.1% YoY from 8.4% in 2024, mainly due to weaker consumer demand. At the same time, economic activity was supported by investment in infrastructure projects and housing construction, as well as by the expansion of exports driven by rapid growth in mining output. The fall in global wheat and energy prices, along with the appreciation of the somoni’s real effective exchange rate, helped contain inflationary pressures, with consumer inflation at 3.5% YoY in July, close to the lower boundary of the National Bank’s target range. In January–June 2025, the state budget recorded a surplus of 2% of GDP, compared with a deficit of 0.6% of GDP a year earlier.

Tajikistan’s real GDP growth forecast for 2025 has been raised from 7.5% to 7.8%. Over the medium term, growth is expected to ease gradually to 7.1% in 2026, 6.7% in 2027 and 6.0% in 2028, as remittances normalise and growth slows in key trading partners (Russia, China and Kazakhstan). In 2025, consumer inflation is projected to rise to 3.9%, later stabilising at around 5%. Fiscal policy will remain conservative, given Eurobond repayments and limited fiscal space linked to the construction of the Rogun HPP. In 2025–2028, the state budget deficit is projected at 0.6–1.9% of GDP. In the medium term, the balance of payments will remain under pressure due to the gradual normalisation of remittances and ongoing Eurobond redemption.

Tajikistan’s economy remains vulnerable to external shocks due to its dependence on remittances from Russia and imports, which is exacerbated by peak public debt payments in 2025–2027. Significant risks to fiscal sustainability are also posed by the costs of completing the Rogun hydroelectric power plant (HPP) — the potential increase in its cost and the need to find new sources of financing — which could crowd out other budget expenditures, including social ones. Quasi-fiscal risks posed by state-owned enterprises, particularly in the electricity sector where tariffs are not expected to reach cost recovery until 2027, add further pressure.

	Actual	Forecasts			Deviation from previous forecasts		
	2025	2026	2027	2028	2025	2026	2027
 <b>Russian Federation</b>							
GDP growth, %	1.1	1.3	1.5	1.7	-0.5	-0.5	-0.2
Inflation (Q4), %	7.6	4.2	4	3.9	-0.2	-0.4	0
Annual average exchange rate (USD)	85.2	94.5	94.7	96.1	-3.1	-3.4	-2.9
Key rate, %	19.0	11.8	8.5	7.5	-0.9	-2	-1
 <b>Republic of Kazakhstan</b>							
GDP growth, %	5.7	4.5	4.3	4.2	0.7	0	0
Inflation (Q4), %	11.7	9	7.2	6.1	0.8	0	0
Annual average exchange rate (USD)	523.3	554.5	569.1	585.1	11.3	24.5	9.1
TONIA, %	16.1	14.8	12.0	9.8	0	0	0
 <b>Republic of Armenia</b>							
GDP growth, %	6.2	5.0	4.8	4.8	1.3	0.5	0.2
Year-end inflation, %	4.0	3.3	3.0	3.0	-0.5	-0.2	0
Annual average exchange rate (USD)	393.4	408.5	420.6	433.2	-3.2	0	0
Refinancing rate, %	6.8	6.8	6.5	6.0	-0.3	0	0
Fiscal balance, %	-5.0	-4.5	-3.5	-2.8	0.6	-0.3	-0.3

	Actual	Forecasts				Deviation from previous forecasts		
	2025	2026	2027	2028	2025	2026	2027	
 <b>Republic of Belarus</b>								
GDP growth, %	1.6	1.3	1.0	1.2	-1.1	0.2	0.1	
Year-end inflation, %	8.0	6.8	6.1	5.0	0.2	-0.1	-0.3	
Annual average exchange rate (USD)	3.1	3.4	3.6	3.7	0	-0.1	-0.1	
Refinancing rate, %	9.75	9.75	9.75	9.75	0	0	0	
Fiscal balance, %	-0.5	0.6	0.9	1.1	-1.1	-0.1	-0.1	
 <b>Kyrgyz Republic</b>								
GDP growth, %	9.0	6.4	6.0	5.5	0.9	0.8	0.6	
Year-end inflation, %	8.1	6.3	6.3	5.6	1.6	0	0.4	
Annual average exchange rate (USD)	87.6	96.0	97.6	98.5	-1.4	-1.9	-0.7	
Policy rate, %	11.0	10.0	9.0	9.0	2.0	1	0	
Fiscal balance, %	2.1	1.6	1.0	-0.2	-0.4	1.3	1.5	
 <b>Republic of Tajikistan</b>								
GDP growth, %	7.8	7.1	6.7	6.0	0.3	0	0	
Year-end inflation, %	5.3	4.1	5.6	4.6	-1	0.4	-0.1	
Annual average exchange rate (USD)	10.2	10.6	11.1	11.7	0	-0.1	-0.1	
Refinancing rate, %	8.3	8.5	8.5	8.5	0	0	0	
Fiscal balance, %	-1.9	-1.3	-0.6	-0.9	-0.1	0	1	

Chief  
Economist's  
Foreword

Executive  
Summary

**Trends  
in the Global  
Economy**

Russia

Kazakhstan

# TRENDS IN THE GLOBAL ECONOMY



Armenia

Belarus

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



## TRENDS IN THE GLOBAL ECONOMY

**The impact of U.S. protectionist policies on the global economy and inflation remains limited, with global growth displaying resilience.** Since the start of the year, the average U.S. tariff on imports has increased by more than 14 p.p., but this is significantly less than was initially expected following the U.S. President's statements. World exports of both goods and services showed robust growth — UNCTAD estimates that growth in exports of goods and services accelerated to 2% YoY in Q2, up from 1.5% in Q1<sup>1</sup>. This was fuelled by advance shipments and active redirection of trade flows, as well as soft fiscal policies in major economies.

**In Q2 2025, the U.S. saw growth rates recover, while inflationary pressures intensified.** Real GDP increased by 0.7% QoQ, adjusted for seasonality; in annual terms, growth rebounded to 2%. The consumer price index rose from 2.4% in May to 2.7% in July, with core inflation at 3.1%. PMI indices suggest that price pressures are increasing in the U.S. compared with other countries. The enactment of the One Big Beautiful Bill Act package is expected to support growth by easing fiscal policy. In light of recent trends and policy changes, we have kept our forecast for U.S. economic growth at around 2%, while revising our inflation forecast upwards slightly — it is expected to revert to the target level in 2027 (Table 1).

<sup>1</sup> Global trade grew \$300 billion in the first half of 2025, led by US imports and EU exports — Available at: <https://unctad.org/news/global-trade-grew-300-billion-first-half-2025-led-us-imports-and-eu-exports>.

**The eurozone economy suffered a sharp slowdown in growth, reaching just 0.1% QoQ in Q2 2025 (down from 0.6% in Q1), with annual growth standing at 1.4%.** The main contributor to that is the weakness of export-oriented economies, particularly those in Germany and Ireland, which have been affected by the U.S. duties imposed in April and euro appreciation. We expect growth rates to remain relatively low in 2025–2026 (around 1%) and to accelerate slightly to 1.3–1.4% in 2027–2028. Growth will primarily be supported through fiscal stimulus, including investment in infrastructure and defence, as budgetary constraints are eased by the EU. A key development will be the German 'debt brake' constitutional reform, involving the creation of a EUR 500 billion fund for infrastructure and power generating sector modernisation. The full effects of this reform will be seen in the medium term. Inflation in the eurozone slowed to reach the ECB's target (2%) in H1 2025, with the year average at 2.1%. It is expected to deviate slightly downward from the target level in 2026 due to lower wholesale oil and gas prices, as well as lower electricity taxes and network charges in Germany, before returning to the target level.

**China's economy posted growth of 5.3% YoY in H1 2025, with Q2 growth of 5.2% YoY and 1.1% QoQ (seasonally adjusted), above analysts' expectations.** Consumption showed steady growth, with retail sales up 5.4% in Q2 thanks to government subsidies under product renewal programmes and large-scale sales campaigns. Exports also showed resilience, accelerating from 5.7% in Q1 to 6.1% in Q2, driven by recovering global demand, market diversification, advance shipments, and growing competitiveness

in the high-tech and new energy vehicle sectors. Headline inflation remained low in H1 2025, with the consumer price index declining by an average of 0.1% YoY, while the core index showed a slight increase of 0.4%. Despite the current trend, we expect China's economic growth to gradually decelerate to below 5% in the medium term, as the momentum of consumer spending begins to wane.

Under the baseline scenario, Urals **oil price** dynamics are expected to be moderate near USD 55 per barrel (Table 2). The main factor restraining prices is the continued competitive standoff between OPEC+ countries and U.S. shale oil producers, which has led to excess supply in the market.

The medium-term **gold price** forecast has been revised upwards slightly, to a range of USD 3,200–USD 3,400 per ounce. The main contributing factors are the ongoing presence of geopolitical risks and stable demand from central banks looking to diversify their reserves, amid weakening confidence in the U.S. dollar.

The outlook for the **food price index** remains close to current levels. The market is expected to stabilise based on FAO's optimistic projections, which predict growth in the production of most crops (except for sugar)

**Metals prices** are expected to rise slightly in the medium term as price volatility subsides due to lower global macroeconomic uncertainty.

**TABLE 1. KEY MACROECONOMIC INDICATORS OF THE U.S., EUROZONE, CHINA**

	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2028 Forecast
<b>U.S.</b>					
Real GDP growth, %	2.8	1.6	1.8	2.0	2.0
Inflation, eop	2.4	3.0	2.3	2.1	2.0
FRS rate, eop	4.25–4.50	3.75–4.00	3.25–3.50	3.00–3.25	3.00–3.25
<b>Eurozone</b>					
Real GDP growth, %	0.8	1.2	1.1	1.4	1.3
Inflation, eop	2.4	2.0	1.8	2.1	2.0
ECB rate, eop	3.2	2.0	2.0	2.2	2.2
EUR/USD exchange rate	1.08	1.13	1.17	1.17	1.17
<b>China</b>					
Real GDP growth, %	5.0	5.0	4.5	4.2	4.0
Inflation, eop	1.1	0.5	0.8	1.4	1.7
USD/CNY exchange rate	7.2	7.2	7.1	7.0	6.9

Source: BEA, BLS, ECB, Eurostat, FRS, NBC, authors' calculations.

**TABLE 2. COMMODITY PRICES**

	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2028 Forecast
Gold, USD/XAU	2 377	3 210	3 367	3 275	3 155
Metals price index	106.5	107.7	110.1	111.3	112.5
Food price index	115.5	113.3	113.3	113.3	113.4
Brent crude oil prices	81	70	66	66	66
Urals crude oil prices	68	58	55	55	55
Copper, USD/t	9 178	9 515	9 722	9 834	9 934

Source: World Bank, authors' calculations.



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# RUSSIA



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**Russia's economy continues to follow a 'soft landing' trajectory, demonstrating a steady slowdown. The GDP growth rate declined to 1.1% YoY in Q2 2025. The slowdown in economic activity became more pronounced, with cooling recorded in Q2 across all key sectors, including industrial production, trade, and construction.**

**Inflationary pressures are easing and we estimate that consumer inflation will slow to 7.6% by the end of the year. The Bank of Russia remains focused on consistent monetary policy easing, with the key rate projected to decline to 16% per annum by the end of the year. The year-average RUB exchange rate, given its significant appreciation in H1 2025, is forecast at the level of RUB 85 per USD.**

**Looking ahead to 2026–2028, the economy is expected to close the positive output gap smoothly, with growth rates of 1.3% in 2026, 1.5% in 2027, and 1.7% in 2028. The gradual reversion to the inflation target is expected, with inflation at 4.2% by the end of 2026 and the 4% target being reached in 2027.**

## REAL SECTOR AND LABOUR MARKET

**Russia's economy continued to slow down in Q2 2025, which suggests a 'soft landing' while avoiding a recession.** The GDP growth rate slowed to 1.1% YoY, while we estimate quarterly growth at 1.4% (SAAR). The output gap continued to narrow gradually following its peak in late 2024.

**Indirect measures suggest that domestic demand in the economy slowed down in Q2 2025.** Fixed capital investment grew by 1.5% YoY in real terms following 8.7% YoY in Q1, with half-year growth of 4.3% YoY. Consumer demand cooled down, with retail sales dropping to 1.6% YoY in Q2 from 2.6% in Q1, while the growth of paid services to households and public catering was close to Q1 levels.

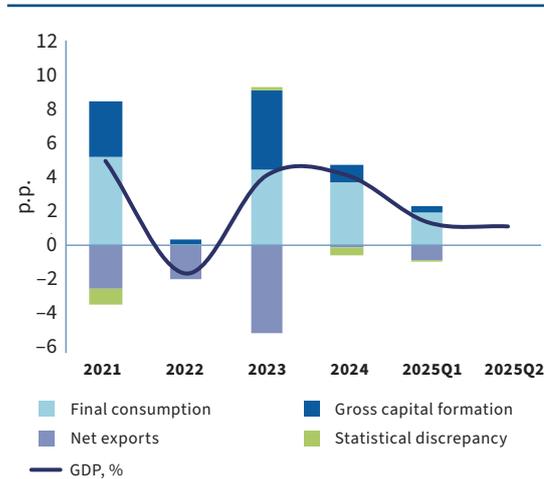
**Q2 2025 statistics by sector show a slowdown in economic activity across all key sectors (Figure 2).** According to Rosstat, the growth rate of the industrial production index slowed to 1.8% YoY compared to 4.2% YoY a year earlier. The mining sector continued to shrink under the impact of sanctions restrictions, with mining output declining by 1% YoY in Q2 2025. The growth rate of manufacturing industries was 3.7% YoY compared to 8.3% YoY a year earlier. The sharpest slowdown was recorded in trade, with retail sales falling to 1.6% YoY compared to 8.5% in Q2 2024, while wholesale trade turnover decreased by 4.2% YoY following an 8.1% increase the previous year, indicating weakening consumer demand. The construction sector also started to show signs of slowing down, with construction work growth declining to 2.4% YoY compared to

## BOX 1

### GDP COMPONENTS EXHIBITED HETEROGENEOUS DYNAMICS IN Q1 2025: CONSUMPTION GROWTH RATES DECLINED, WHILE INVESTMENT ACTIVITY REMAINED HIGH (FIGURE 1)

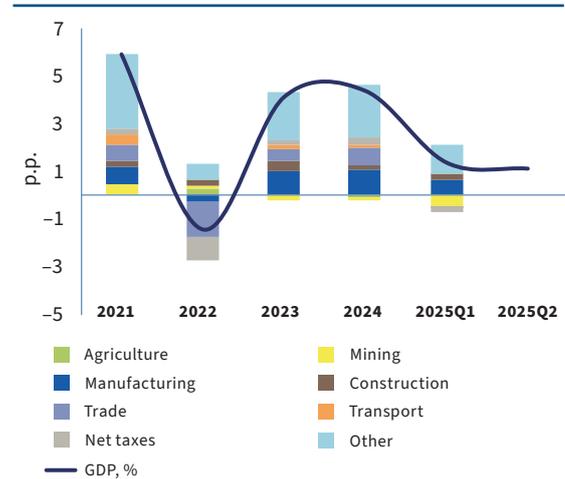
While remaining the main driver of growth, final consumption slowed to 2.6% YoY compared to 6.3% YoY in Q1 2024, reflecting the impact of tight monetary conditions on domestic demand. This slowdown affected both household spending, up 3% YoY compared to 7% YoY in Q1 2024, and government spending, up 1.5% YoY compared to 4.6% YoY a year earlier. Gross fixed capital formation maintained high growth rates at 8.5% YoY compared to 9.4% YoY a year earlier, reflecting the resilience of investment activity in the context of the general economic slowdown. Changes in inventories of tangible current assets and net exports made a negative contribution to GDP growth.

**Figure 1. Decomposition of Annual GDP Growth (Expenditure Approach)**



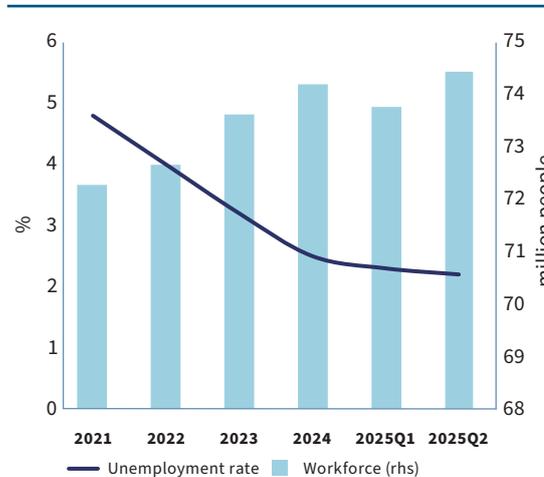
Source: estimates based on Rosstat data.

**Figure 2. Decomposition of Annual GDP Growth (Production Approach)**



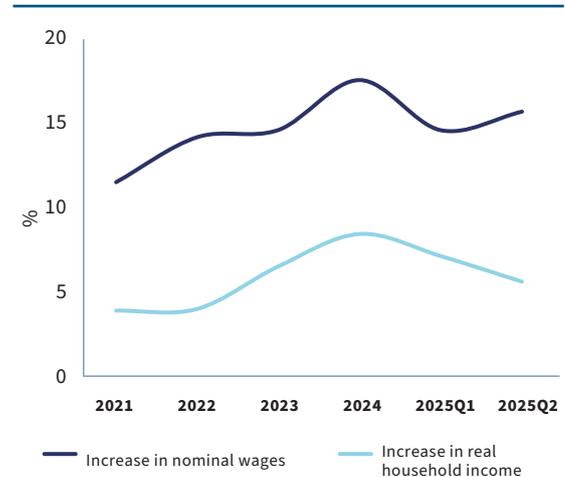
Source: estimates based on Rosstat data.

**Figure 3. Labour Market Indicators**



Source: Rosstat.

**Figure 4. Household Income**



Source: estimates based on Rosstat data.

2.9% YoY in Q2 2024. Growth in agricultural output remained stable at 1.4% YoY, unchanged from Q2 2024.

**A fundamental imbalance between labour supply and demand persists in the labour market.** In Q2 2025, the unemployment rate reached a new historic low, averaging at 2.2% (Figure 3). However, according to the Bank of Russia's

monitoring of businesses, companies reported that labour shortages had fallen to end-2023 levels by Q2, still almost double the 2022 average.

**The rate of wage growth is slowing down.** Nominal wage growth fell to 15.6% YoY in Q2 2025 from 17.6% YoY in the same period last year and 19% YoY for the full year. Real household incomes showed

a more pronounced slowdown to 5.6% YoY compared to 8.1% YoY a year earlier (Figure 4).

## INFLATION AND MONETARY TRENDS

### **A more pronounced than expected slowdown in inflation was observed in Q2 2025.**

The annual growth of consumer prices was 9.4% in Q2 compared to 10.3% in Q1 2025 (Figure 5). Core inflation slowed to 8.7% YoY in Q2 compared to 9.7% YoY in Q1. The slowdown affected all key components of the consumer basket: food prices rose by 11.9% YoY compared to 12.4% YoY, non-food prices by 4.5% YoY compared to 5.9% YoY, and services by 12.0% YoY compared to 12.9% YoY. According to estimates from the Bank of Russia, the seasonally-adjusted average monthly price increase in annual terms came substantially closer to the target in May–July, totalling 5.6% for inflation as a whole, with core inflation reaching 4.4%, food products 5.2%, non-food goods 1.2%, and services 11.7%. The main contributor to price growth in July was tariff hikes for housing and utilities — removing these from the equation, price growth for services amounted to only 3.5%. The Bank of Russia's tight monetary policy and RUB appreciation were the key factors contributing to the slowdown in inflation.

### **The Bank of Russia shifted to gradual monetary policy easing in response to lower inflationary pressure.**

The key rate was cut to 20% per annum in Q2 2025, followed by a further reduction to 18% per annum in July. However, the regulator maintained a conservative approach, noting that despite a significant fall in inflation in the period from May to July, it was too

early to discuss the sustainability of this trend. The prudence can be partly explained by companies' growing price expectations in July, caused by housing and utilities tariff hikes, as well as announced plans for further increases. The response of the financial sector to the monetary policy easing was uneven (Figure 6). Deposit rates declined quickly, while lending rates showed some growth in Q2 compared to the previous quarter, suggesting delayed transmission of monetary impulses to the real sector amid sustained elevated domestic demand.

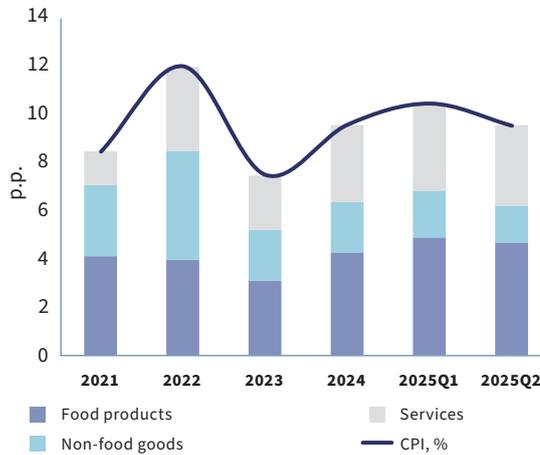
### **The credit market continued to slow down in Q2 2025.**

Corporate lending dropped to 11.5% YoY from 21.5% YoY a year earlier (Figure 7). The situation in the retail lending segment is even more pronounced, with a 0.4% YoY decline following a 23.4% increase a year earlier (Figure 8). There are signs of a gradual recovery in the mortgage segment, but disbursements do not exceed those of July 2024, when concessional lending programmes were significantly curtailed. The mortgage market remains highly dependent on government support, with around 85% of all mortgage loans still being issued under government-subsidised programmes.

### **The growth rate of monetary aggregates remained moderate in Q2 2025.**

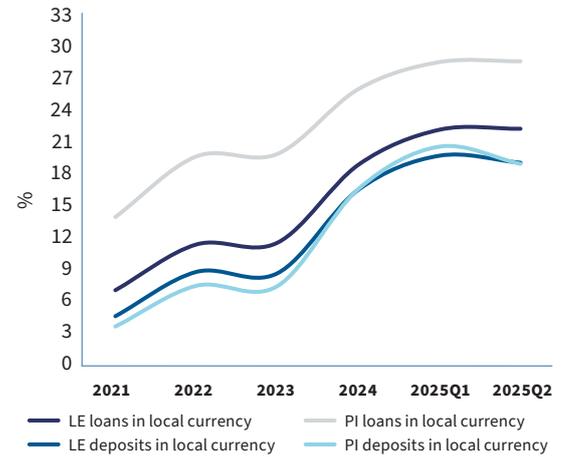
In Q2, the growth rate of the ruble money supply (M2) fell to 15% per annum, down from 17% in Q1, while the growth rate of the broad money supply declined to 12.8%, down from 13.8% in Q1 (Figure 9). The significant cooling of lending did not lead to a comparable slowdown in money supply growth rates. The key factor supporting the heightened dynamics of monetary aggregates remains large-scale fiscal stimulus.

Figure 5. Decomposition of Inflation (eop, YoY)



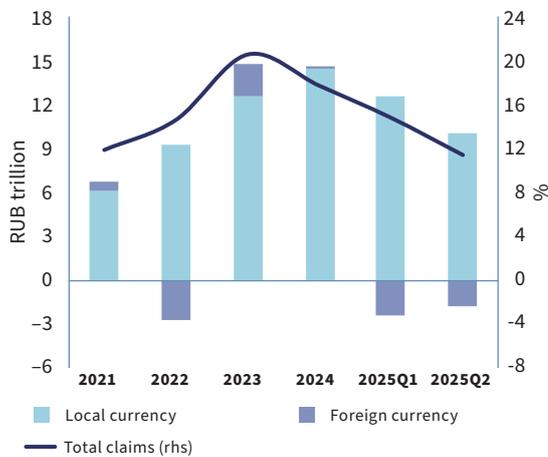
Source: estimates based on Bank of Russia data.

Figure 6. Interest Rates on New Loans and Deposits



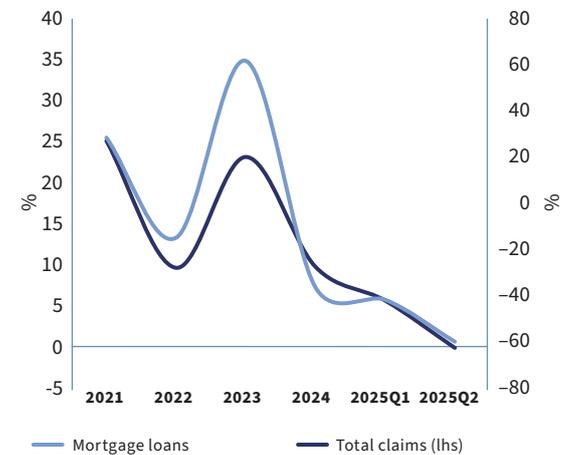
Source: Bank of Russia.

Figure 7. Increase in Corporate Loans (extended definition, eop, YoY)



Source: Bank of Russia.

Figure 8. Increase in Banks' Claims on Private Individuals (eop, YoY)

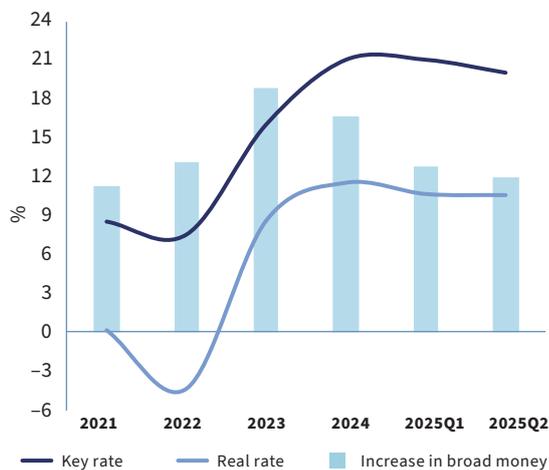


Source: Bank of Russia

## FISCAL SECTOR AND PUBLIC DEBT

**Execution of the federal budget in Q2 2025 suggested a mounting imbalance, driven by a significant slowdown in revenue growth amid an intensive**

**increase in expenditures (Figure 10).** Budget revenues showed minimal growth of 2.9% YoY (to RUB 17.6 trillion), which is significantly lower than in the same period last year (38.1% YoY). The main pressure came from a 16.9% YoY decline in oil and gas revenues (down to RUB 4.7 trillion), while revenues from other sectors

**Figure 9. Change in Monetary Indicators (YoY, eop)**

Source: estimates based on Bank of Russia data.

grew by 12.8% (up to RUB 12.9 trillion). Expenditures continued to grow strongly, reaching RUB 20.1 trillion (+18.5% YoY). At the same time, less than half of the annual plan (RUB 42.3 trillion) was implemented in H1 2025. The budget deficit widened to RUB 3.4 trillion, which is already close to the annual plan (RUB 3.8 trillion). The main reason for the deterioration was the larger-than-expected decline in revenues, which was caused by lower exports resulting from a drop in energy prices, sanctions restrictions, and RUB appreciation. Under the current circumstances, budget expenditure adjustments may be needed for the remainder of the year to meet deficit targets.

**The debt burden of the Russian economy remains at a comfortable level.** According to our estimates, public debt reached 14.6% of GDP in Q2 2025, which is slightly higher than in the same period in 2024 (14.2% of GDP), but still below levels seen in 2022 (Figure 11). The key factor limiting the growth of the

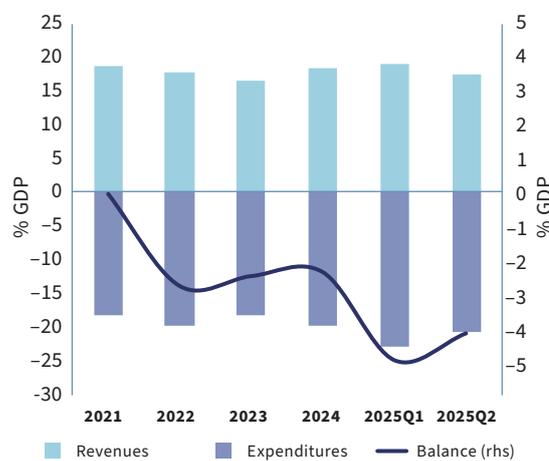
debt burden is the ongoing decrease in external borrowing due to sanctions restrictions — foreign debt declined from 2.6% in Q2 2024 to 2.1% of GDP.

## EXTERNAL SECTOR

**The current account surplus in the balance of payments continued to shrink in Q2 2025.** It narrowed to USD 7.5 billion for the quarter, compared to USD 22.9 billion in January–June and USD 40.5 billion for the same period in 2024 (Figure 12). The main drivers of this contraction were the weakening trade balance and the widening services balance deficit. The goods trade surplus narrowed to USD 57.3 billion in H1, down from USD 70.9 billion a year earlier, due to lower exports and steady imports. The services trade deficit widened to USD 20.7 billion compared to USD 16.1 billion in the same period last year due to higher imports of services, including increased overseas travel spending. The combined deficit of the primary and secondary income accounts narrowed to USD 11.6 billion compared to USD 12.7 billion in Q2 2024.

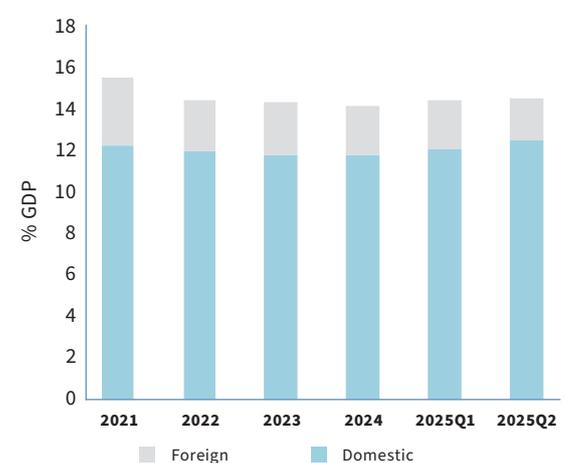
**The financial account balance showed a contraction driven by changes in the structure of financial flows.** In Q2, the surplus declined to USD 7.5 billion from USD 22.9 billion in January–June compared to USD 40.5 billion in the same period of 2024. The growth of foreign assets (excluding reserve assets) slowed to USD 24.9 billion in H1 compared to USD 38.9 billion in January–June 2024, partly due to a decrease in the outstanding foreign trade settlements of non-residents. External liabilities of the Russian economy increased by USD 1.9 billion in January–June 2025, while in the same period of 2024 there was

Figure 10. State Budget



Source: Ministry of Finance of the Russian Federation

Figure 11. Public Debt



Source: estimates based on data of the Ministry of Finance of the Russian Federation and authors' calculations.

a decrease of USD 1.6 billion. The increase in liabilities was driven by higher direct investment.

**In Q2 2025, the RUB exchange rate appreciated more than expected, reaching an average value of RUB 80.9 per USD, compared to RUB 92.4 in the previous quarter (Figure 13).** This was largely due to high interest rates affecting both components of the balance of payments. On the current account side, tight monetary conditions curbed importers' demand for foreign exchange. On the financial account side, the significant interest rate differential boosted the attractiveness of ruble assets, facilitating capital inflows.

## MEDIUM-TERM OUTLOOK

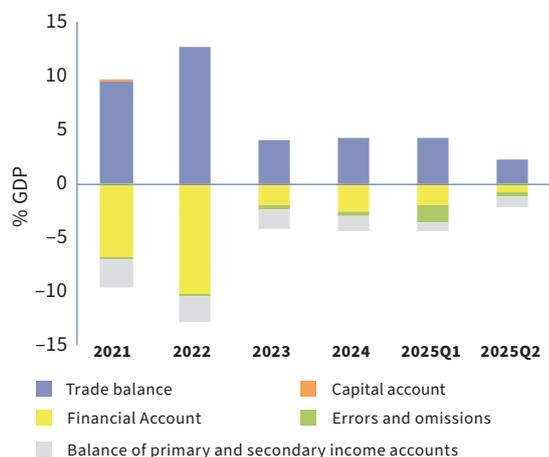
**The forecast for the growth of the Russian economy in 2025 has been revised down to 1.1% (compared to 1.6% in the previous forecast).** The downward revision of the forecast was influenced by the GDP

growth estimate for Q2, which was lower than expected. However, we believe that the economy will continue its 'soft landing' trajectory in 2025, with the positive output gap closing consistently. Consumer activity will be gradually slowing down throughout the year. Investment demand will remain subdued amid still relatively tight monetary conditions, despite the beginning of the key rate cuts. Export revenues will be under pressure from low global energy prices and continuing sanctions restrictions. Conversely, imports will recover supported by the RUB appreciation.

**In 2026–2028, the economy would move towards closing the positive output gap completely.** We estimate the GDP growth rate to be 1.3% in 2026. As the economy approaches equilibrium, growth rates will return to their potential values of 1.5% in 2027 and 1.7% in 2028.

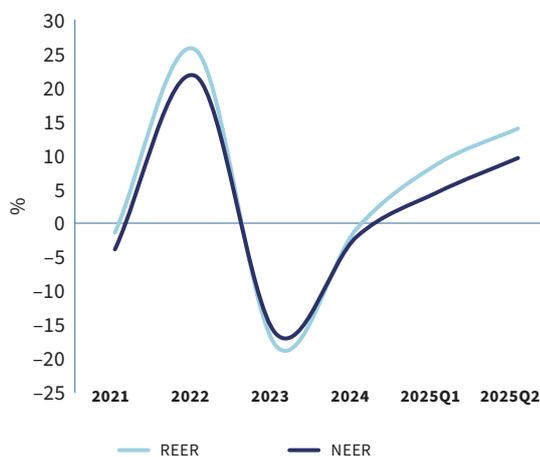
**Consumer inflation will be 7.6% YoY in 2025.** The downward revision of the forecast is due to the accelerated slowdown in price growth in Q2. However, we do not

Figure 12. Balance of Payments



Source: Bank of Russia.

Figure 13. Exchange Rate



Source: Bank of Russia, Ministry of Finance of the Russian Federation.

## TABLE 1. FORECASTS OF KEY MACROECONOMIC INDICATORS

	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2028 Forecast
Real GDP growth, %	4.3	1.1	1.3	1.5	1.7
Inflation (Dec-on-Dec), %	9.5	7.6	4.2	4.0	4.0
Inflation (year-average), %	8.4	9.1	4.9	4.1	4.0
USD/RUB exchange rate (year-average)	93	85	94	95	96
Bank of Russia key rate (year-average), %	17.3	19.0	11.8	8.5	7.5

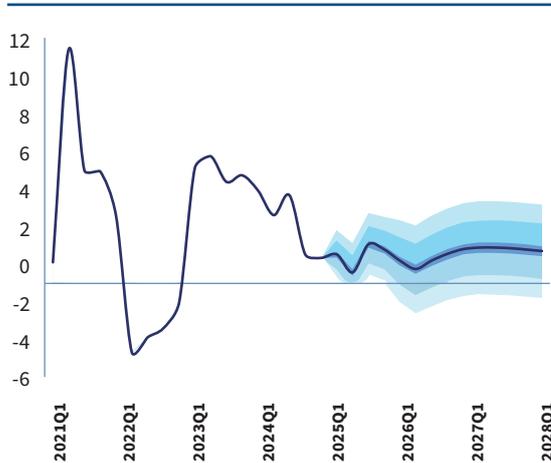
Source: national agencies and authors' calculations.

expect a rapid return to target levels due to a host of pro-inflationary factors, including continued overheating in the economy, steady wage growth against the backdrop of labour shortages, elevated inflation expectations, and the anticipated RUB depreciation. Any further deceleration of inflation would be gradual and dependent on the reduction of the positive output gap, as well as the influence of non-monetary factors. Inflation is expected to fall to 4.2%

by the end of 2026, with the 4% target most likely not to be reached until 2027.

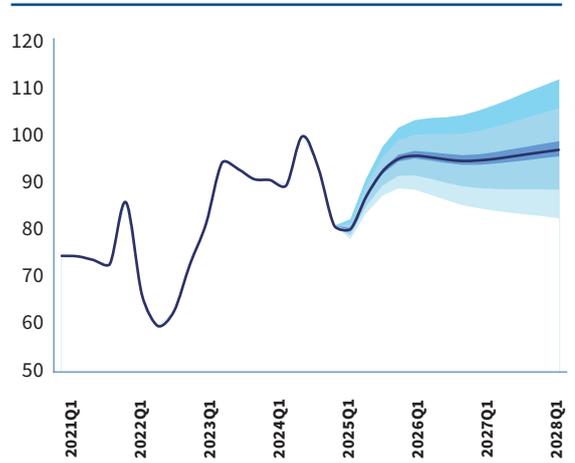
**We expect that the Bank of Russia would be consistently relaxing its monetary policy.** The key rate would be cut to 16% per annum by the end of 2025 and to 10% by the end of 2026. The rate would reach a neutral range of 7.5–8.5% per annum in 2027–2028. We expect the regulator to focus on adjusting monetary

Figure 14. GDP Growth, % YoY



Source: authors' calculations.

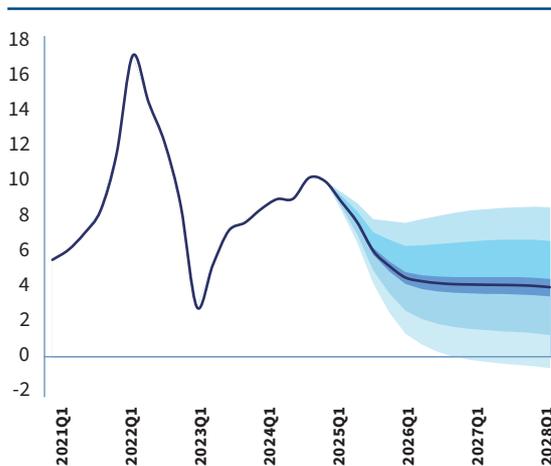
Figure 16. USD/RUB Exchange Rate



Source: authors' calculations.

Note: chart ranges correspond to confidence intervals of 10%, 50% and 75%.

Figure 15. Inflation, % YoY



Source: authors' calculations.

conditions smoothly in response to slowing inflation, while ensuring that risks to price stability are kept under control. The scenario of faster rate cuts seems unlikely, as it could trigger large-scale refinancing of corporate loans. This, in turn, could stimulate excessive economic growth and increase inflationary pressures.

**The exchange rate forecast for 2025 has been revised to reflect its appreciation – taking into account the strong performance in H1, the year-average USD exchange rate is expected to be RUB 85.** However, in the medium term, the currency is projected to depreciate gradually due to the monetary policy easing cycle. In the short term, the ruble will be supported by highly attractive RUB-denominated assets against the backdrop of continued tight monetary conditions. However, banks have already started lowering deposit rates in anticipation of a key rate cut, as evidenced by the slowdown in corporate deposit growth to 7.4% YoY in 2Q 2025 compared to 15.9% YoY a year earlier. This will further lead to asset diversification and increased demand for foreign currency. According to our forecast, the USD exchange rate will be RUB 94 per USD in 2026. It is then expected to depreciate slightly to RUB 95 per USD in 2027 and RUB 96 in 2028.



Chief  
Economist's  
Foreword

Executive  
Summary

Trends  
in the Global  
Economy

Russia

**Kazakhstan**

# KAZAKHSTAN



Armenia

Belarus

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



**Kazakhstan is experiencing high economic growth rates in 2025 that exceed initial expectations. We estimate that real GDP will grow by 5.7% in 2025, mainly due to the expansion of oil production at the Tengiz field and the multiplier effect this will have on transport, trade, and construction. High investment activity, including infrastructure projects implemented with budget support, will also make a significant contribution. Although consumer demand remains a key driver of the economy, it could slow down in H2 due to tighter monetary policy, cooling lending, and declining real incomes.**

**Inflation will reach 11.7% in 2025 due to a host of pro-inflationary factors working in parallel, including an increase in VAT rates, expansionary fiscal policy, and KZT depreciation. In response to mounting inflation risks, the National Bank will maintain its tight monetary policy.**

**In the medium term (2026–2028), the economy's growth rate will gradually decelerate to its potential level of around 4.2–4.5%, in the context of expected fiscal consolidation and reduced fiscal impetus. Although inflation will decline, it will remain above the target level. The monetary policy will remain tight, with the year-average rate falling from 15.9% in 2025 to 9.8% by 2028.**

## REAL SECTOR AND LABOUR MARKET

**In Q2 2025, Kazakhstan's economy continued to grow at a high rate, exceeding experts' expectations.** Real GDP accelerated to 6.2% YoY in H1 2025 compared to 5.6% in Q1. Based on revised official data<sup>1</sup>, we estimate that the seasonally adjusted annual rate (SAAR) of growth remained at 5.3% in Q1.

**Indirect measures of consumer and investment activity confirm that domestic demand accelerated against the backdrop of a stronger negative contribution from net exports.** Retail trade growth accelerated to 6.6% YoY in January–June (following 4.8% YoY in Q1), exceeding the previous year's level (5.6%). Fixed capital investment showed a steep increase, growing by 19.3% YoY in H1 (compared to 6.3% in Q1), with budget funds accounting for over half of this growth (their share up from 14.5% to 21.9%). The dominant role is played by construction works (21.3% YoY), the share of which in fixed capital investment reached 68%. The decline of nominal exports accelerated from (-2.7%) YoY in Q1 to (-7.6%) YoY in Q2, while imports accelerated from 1.1% to 6%. According to GDP statistics based on final consumption, domestic demand and gross capital formation were the main drivers of growth in Q1, while net exports contributed negatively (Figure 1).

**In H1, economic growth was mainly driven by the mining sector, thanks to**

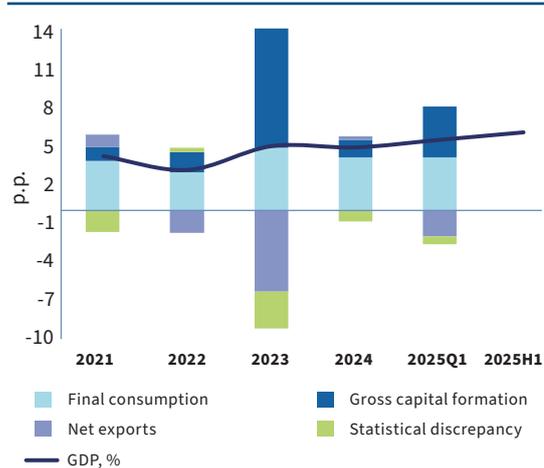
**the expansion of the Tengiz field and associated growth in transport and trade (Figure 2).** The mining industry's contribution to GDP growth increased to 1.0 p.p. YoY in H1 (compared to 0.7 p.p. YoY in Q1), driven by accelerating growth in crude oil (up 11.6% YoY), coal (up 11.7% YoY), and other minerals (up 12.6% YoY). Transport and warehousing (1.5 p.p.), trade (1.4 p.p.), construction (0.9 p.p.), and manufacturing (0.8 p.p.) also contributed the bulk of GDP growth. Growth in transport was supported by an increase in both pipeline oil pumping and railway and road freight traffic. However, the contribution of the manufacturing sector to GDP growth declined from 1.1 p.p. in Q1 to 0.8 p.p. in H1, due to slower growth in food production, the chemical industry, the production of fabricated metal products, and the machine building industry.

**The labour market remains stable in the context of growing labour supply and historically low unemployment rates (Figure 3).** Employed population grew by 1.2% YoY to 9.3 million in Q2 2025. The unemployment rate, as measured using the ILO methodology, remained at a record low of 4.6% for the fourth consecutive quarter.

**Despite record-high growth rates of economic activity, wage growth slowed down significantly and real incomes of households fell (Figure 4).** Real wage growth was zero in annual terms in Q2 2025, following a 1.2% YoY increase in Q1. We estimate that real household income showed negative growth of (-2.7%) YoY in Q2, following growth of 1.1% in Q1 2025.

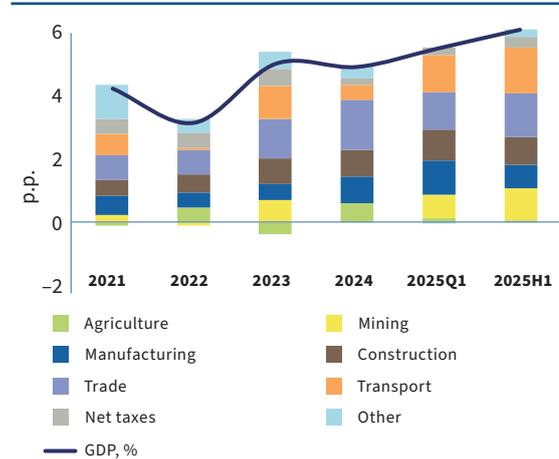
<sup>1</sup> BNS ASPR RK has refined the GDP data for 2024, which has resulted in a downward revision of the high growth base for Q3 and Q4.

**Figure 1. Decomposition of GDP Growth (Expenditure Approach)**



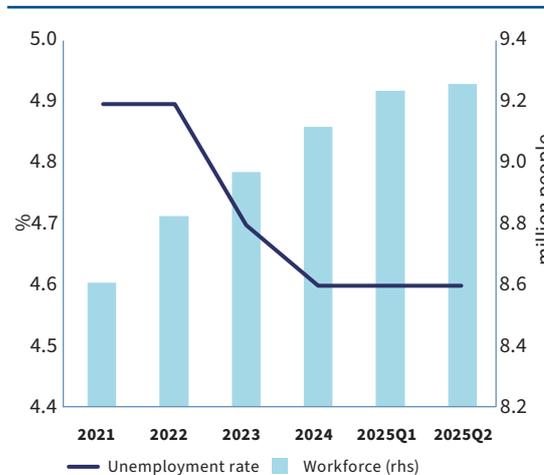
Source: estimates based on BNS ASPR RK data.

**Figure 2. Decomposition of GDP Growth (Production Approach)**



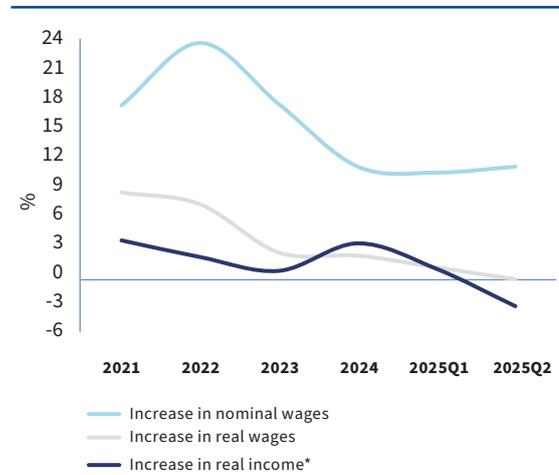
Source: estimates based on BNS ASPR RK data.

**Figure 3. Labour Market Indicators**



Source: BNS ASPR RK.

**Figure 4. Household Income**



Note: \* — estimate for Q2 2025

Source: BNS ASPR RK.

## INFLATION AND MONETARY TRENDS

**Inflation grew in Q2 due to accelerating price growth across all major components, particularly food products.** On an annual basis, inflation increased progressively from 10.0% in March to 11.8% in June before stabilising in July. Paid

services went up in price the most (14.9% in July), followed by food products (11.2%) and non-food goods (9.5%). However, the NBRK estimates that seasonally adjusted average monthly price growth slowed to 0.9% in May–July compared to 1.1% in Q1<sup>2</sup>. A number of factors contribute to

<sup>2</sup> NBRK publication 'Inflation Trends' and estimates of seasonally adjusted inflation.

inflationary pressures in the economy. The key factors are strong domestic demand and the spill over effect from the KZT depreciation. Expansionary fiscal policies, as evidenced by investment growth and high lending rates, also make a significant contribution. The ongoing reform of the housing and utilities sector and the adoption of the new Tax Code put additional pressure.

### **The NBRK is tightening the monetary stance using additional instruments.**

There have been four resolutions adopted to keep the NBRK base rate unchanged (at 16.5%) since April, signalling a willingness to raise it. At the same time, the minimum reserve requirement was raised from September 2025 onward, with additional macroprudential measures introduced to curb retail lending and reduce inflationary pressures<sup>3</sup>. Against the backdrop of no change to the NBRK base rate, interest rates on corporate loans in the local currency remained stable in Q2 (19.0% in March and 19.1% in July). For private individuals, however, they saw a slight decrease, from 21.4% in March to 20.3% in July. The interest rates on deposits mobilised in the local currency increased both for legal entities (from 15.0% in March to 15.4% in July) and for private individuals (from 13.6% in March to 14.2% in July) (Figure 9).

**Broad money supply growth slowed to 16.6% YoY in July compared to 17.5% YoY in March (Figure 6).** The dynamics were affected by a mix of diverging factors — lower base money restrained growth, whereas an increase in cash in circulation and deposits supported it.

<sup>3</sup> NBRK [press release](#) 'On Base Rate Increase' dated 29 August 2025.

### **Credit to the economy continues to grow at a high rate, supporting both consumer demand and the economic activity of enterprises.**

By the end of July 2025, credit growth (extended definition) had accelerated to 22.7% YoY (up from 20.4% in March). Lending to households remained high, growing at 23.0% YoY in July (compared to 22.0% YoY in March), supported by growth in both consumer loans (32.1% YoY in July up from 31.5% in March) and mortgage loans (14.7% YoY up from 12.0%) (Figure 7). Corporate lending accelerated to 22.2% YoY (up from 18.5% in March). Lending to medium-sized businesses (35.2% YoY) and large enterprises (31.9% YoY) grew most dynamically, while the growth rate of lending to small businesses remained at 6.6% YoY (Figure 8).

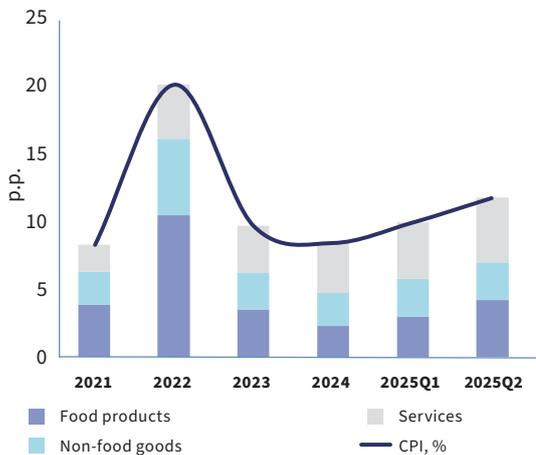
### **Although the quality of banks' loan portfolios deteriorated slightly in H1 2025, it remains relatively high (Figure 10).**

The share of non-performing loans increased from 3.3% as at 1 April to 3.5% as at 1 August. Despite this, the banking sector's net profit recorded growth, reaching KZT 1.6 trillion as at 1 August, compared to KZT 1.4 trillion a year earlier. The rate of dollarisation continued to decline, falling from 8.8% to 7.9% for loans and from 20.9% to 19.4% for deposits between 2024 and Q2 2025.

## **FISCAL SECTOR AND PUBLIC DEBT**

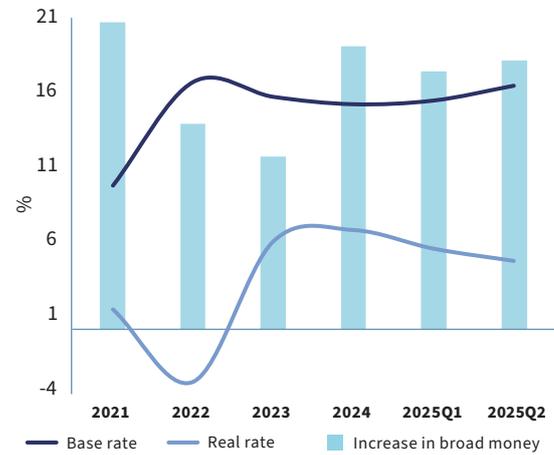
**In H1 2025, the fiscal stance was slightly better than last year. However, the non-oil fiscal deficit remains high (Figure 11).** Despite revenue growth accelerating to 17.6% YoY (compared to 8.5% a year earlier), the level remained virtually unchanged relative to GDP

Figure 5. Decomposition of Inflation (YoY, eop)



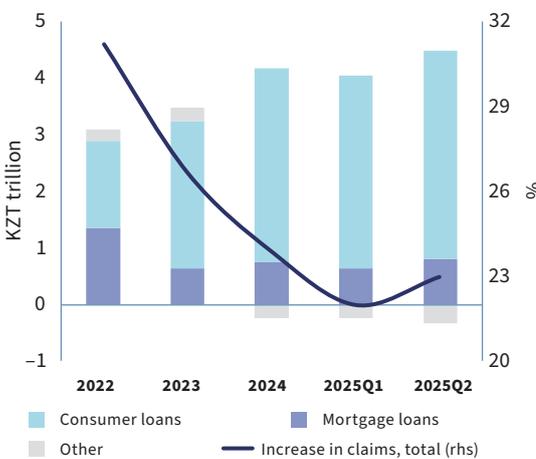
Source: BNS ASPR RK.

Figure 6. Change in Monetary Indicators (YoY, eop)



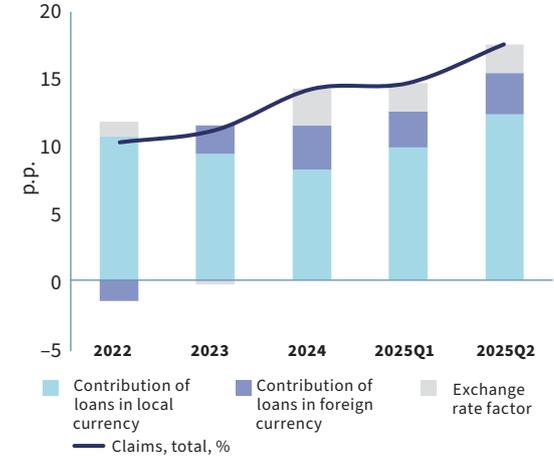
Source: NBRK.

Figure 7. Banks' Claims on Private Individuals (eop)



Source: NBRK.

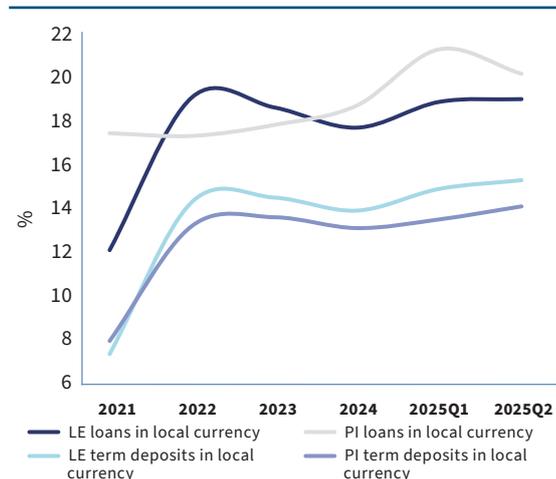
Figure 8. Increase in Corporate Loans (extended definition, eop)



Source: NBRK.

(23.7%). That said, tax revenues rose to 17.5% of GDP (17% in H1 2024) and plan execution improved significantly, reaching 104.9% compared to 90.2% in H1 2024, with particularly strong growth in VAT revenues (92.9% execution and +21.9% YoY) on the back of strong trade growth. Expenditures increased by 15.2% YoY, while their share of

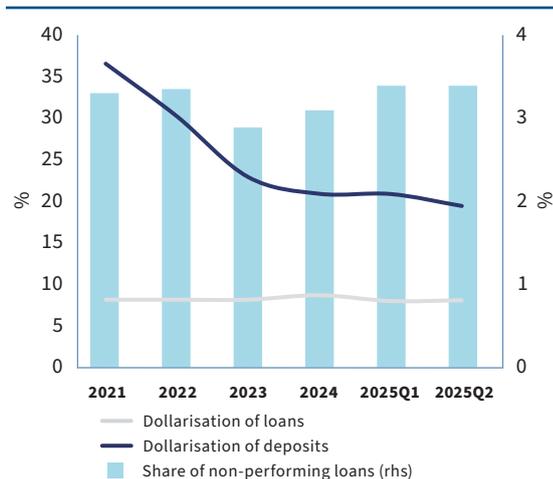
GDP declined to 24.7% (25.1% a year earlier). The main expenditure items are still social assistance (5.4% of GDP compared to 5.7% of GDP in the same period of 2024), education (5.8% of GDP compared to 6% of GDP), housing and utilities (1.4% of GDP compared to 1.2% of GDP), and debt service (2.7% of GDP, unchanged from last year). Transfers

**Figure 9. Interest Rates on New Deposits and Loans (eop)**

Source: NBRK.

from the National Fund totalled KZT 3.1 trillion, and their share in budget revenues fell to 21.5% (22.3% in H1 2024). The budget deficit stood at 1.6% of GDP (compared to 1.8% of GDP a year earlier), while the non-oil deficit fell to 7.9% of GDP (from 8.3% of GDP).

**The public debt level increased to 23.0% of GDP in Q2 2025 (from 22.6% of GDP in Q1) (Figure 12).** The growth in public debt in Q2 was primarily driven by an increase in domestic borrowing, rising from 16.0% to 16.3% of GDP, due to the issuance of long-term treasury bills. External debt also increased slightly, from 5.7% to 5.8% of GDP — the rise that can be attributed to the depreciation of the KZT against the USD — while the volume of external debt remained virtually unchanged in USD terms, despite the issuance of Eurobonds. Local government debt remained stable (1.6% of GDP), while the National Bank's debt was repaid in full and removed from the statistics in Q1 2025.

**Figure 10. Banking Sector Indicators**

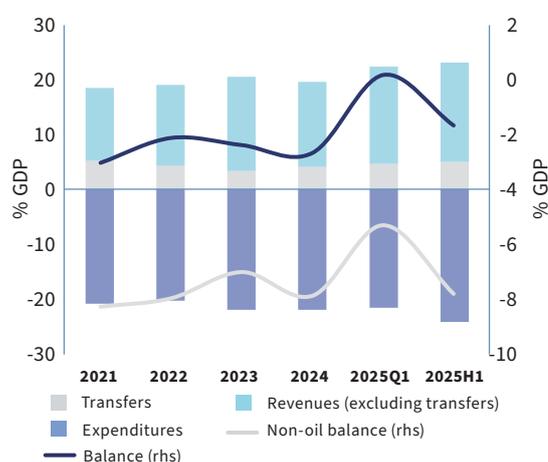
Source: NBRK.

**The value of the National Fund's foreign currency assets increased by 4.3% YoY in Q2, reaching USD 60.3 billion.** Return on investment was USD 4.8 billion in H1 (-15.1% YoY), partially offset by lower tax revenues from the oil sector (-21.9% YoY). That was accompanied by faster use of the National Fund's resources: in Q2, expenditures grew by 29.8% YoY due to the need to finance guaranteed transfers to the budget and infrastructure projects.

## EXTERNAL SECTOR

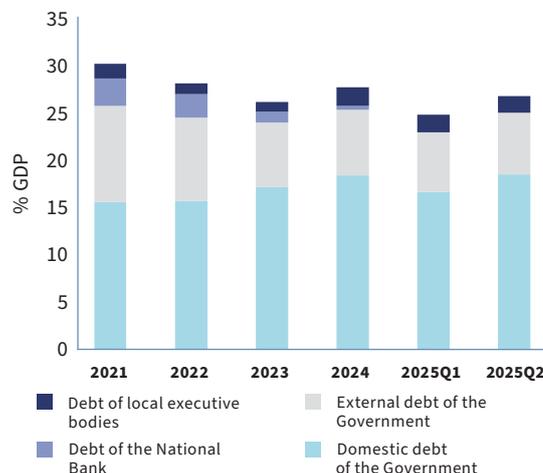
**In Q2, according to NBRK preliminary estimate, the balance of payments generated a surplus of USD 1.7 billion, which was facilitated by a significant inflow under errors and omissions (Figure 14).** The current account deficit rose to USD 2.8 billion in Q2 2025 from USD 1.6 billion in the same period last year, which we estimate at 4.6% of GDP (2.6% in Q2 2024). The current account contracted in Q2 mainly due to weaker trade balance. However, there

Figure 11. State Budget



Source: Ministry of Finance of the Republic of Kazakhstan.

Figure 12. Public Debt



Source: Ministry of Finance of the Republic of Kazakhstan.

were improvements in other components: the deficit in trade in services and the primary income account deficit declined.

**The financial account recorded a net capital outflow (excluding the NBRK's reserve assets) of USD 1.7 billion in Q2.** This was primarily due to an outflow (USD 1.1 billion) of direct investments, which offset a sharp slowdown in the outflow of portfolio investments (from USD 3.1 billion in Q1 to USD 0.3 billion in Q2). Conversely, other short-term capital flows recorded a modest net inflow (USD 25.9 million).

**Gross international reserves rose by USD 1.7 billion in Q2 2025 to USD 51.8 billion, equivalent to 7.9 months of imports (Figure 15).** Regarding the composition of reserves, growth was recorded in monetary gold (+USD 3.1 billion), while assets denominated in freely convertible currencies decreased by USD 1.4 billion.

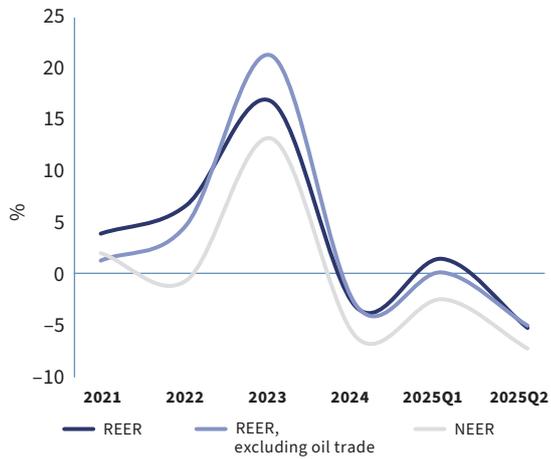
**The real effective exchange rate index weakened by 5.4% in Q2, including the**

**non-oil trade index (-5.2%) (Figure 13).** Thus, REER partially recovered from its sharp appreciation in 2022–2023, having depreciated over the last four quarters, except for Q1 2025 when this trend was interrupted. The KZT nominal exchange rate remained stable in Q2, averaging at KZT 513 per USD, but it then rose sharply to levels above 530 in July and August. The exchange rate came under pressure from lower oil prices, rising imports, seasonal demand for foreign exchange, and inflationary pressures. Support factors included foreign exchange sales from the National Fund and the NBRK's reserves, which were used to sterilise the emission resulting from gold purchases in the domestic market, as well as mandated foreign exchange sales by quasi-public companies.

## MEDIUM-TERM OUTLOOK

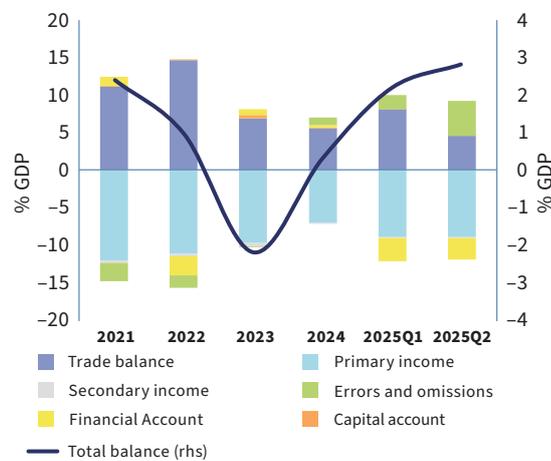
According to our estimates, real GDP growth will reach 5.7% in 2025. The

Figure 13. KZT Exchange Rate



Source: NBRK.

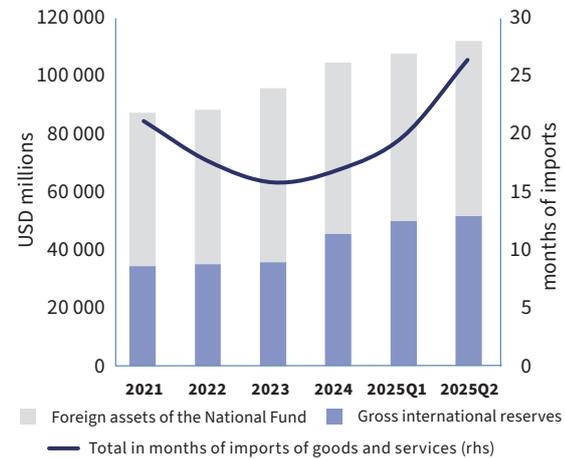
Figure 14. Balance of Payments



Source: NBRK.

forecast was revised upwards by 0.7 p.p. as the economy performed stronger than expected in Q2. Until the end of the year, growth will be supported by increased oil production at the Tengiz field — a development that will continue a series of positive multiplier effects for related industries. Projected oil production volumes this year may exceed expectations due to

Figure 15. Gross International Reserves and Foreign Assets of the National Fund (eop)



Source: NBRK.

the capacity expansion at the Tengiz field starting earlier than expected, following the OPEC+ decision to increase oil production. In addition, high levels of investment activity, including the implementation of major infrastructure projects supported by the budget, will drive growth in non-commodity sectors, such as manufacturing, trade, and construction.

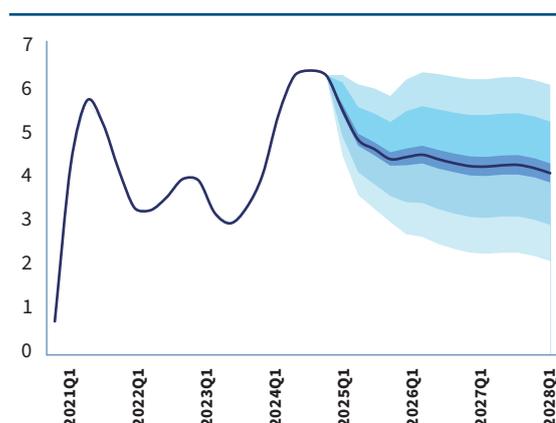
Consumer demand could slow down slightly against the backdrop of relatively tight fiscal policies, measures introduced to curb lending to households, a slowdown in real wage growth, and negative real income trends.

We estimate that, due to continued tight fiscal policy, expected fiscal consolidation, and waning fiscal impetus, economic growth will gradually approach its potential value of 4.2–4.5% in 2026–2028. This would, in turn, lead to a gradual reduction in the positive output gap and lower inflationary pressures.

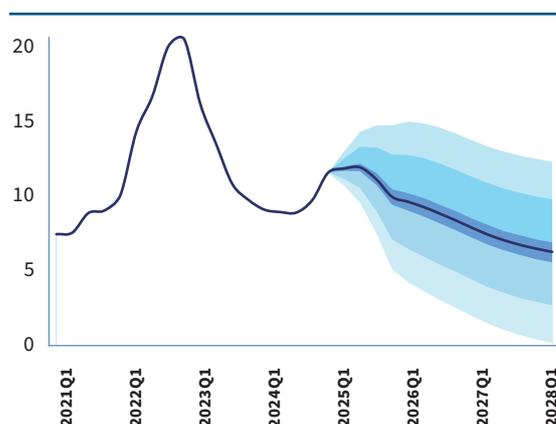
**TABLE 1. FORECASTS OF KEY MACROECONOMIC INDICATORS**

	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2028 Forecast
Real GDP growth, %	4.8	5.7	4.5	4.3	4.2
Inflation (Dec-on-Dec), %	8.6	11.7	9.8	7.9	6.5
Inflation (year-average), %	8.7	11.0	9.0	7.2	6.1
USD/KZT exchange rate (year-average)	469.0	523.3	554.5	569.1	585.1
TONIA rate (year-average), %	13.8	15.9	14.8	12.0	9.8

Source: national agencies and authors' calculations.

**Figure 16. Real GDP Growth, % YoY**

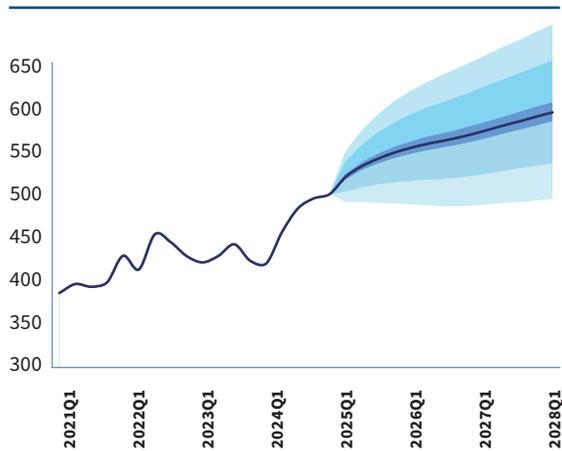
Source: authors' calculations.

**Figure 17. Inflation, % YoY**

Source: authors' calculations.

Against the backdrop of accelerating price growth in the summer of 2025, we revised our inflation forecast upwards by 0.8 p.p. to 11.7% in Q4, with inflation expected to peak at the turn of 2025–2026 due to higher VAT rates. In the medium term, we expect inflation to slow due to tight monetary policy and balanced fiscal measures. However, reaching the 5% target is unlikely — inflation is expected to remain at 9.0% in 2026, 7.2% in 2027, and 6.1% in 2028. Under these conditions, no monetary policy easing is expected in 2025, but from 2026 onwards, the year-average rate is projected to gradually decline: from 15.9% in 2025 to 14.8% in 2026, 12.0% in 2027, and 9.8% in 2028.

In 2025, the KZT exchange rate will be supported by transfers from the National Fund, foreign exchange sales by the quasi-public sector, and sterilisation operations through gold purchases. In 2026–2028, the pressure on the exchange rate may intensify due to the continued downward trend in global

**Figure 18. USD/KZT Exchange Rate**

**Source:** authors' calculations.

**Note:** chart ranges correspond to confidence intervals of 10%, 50%, and 75%.

energy prices, the anticipated decrease in transfers from the National Fund, and the ongoing inflation differentials with major trading partners. In the medium term, the year-average KZT/USD exchange rate is forecast at KZT 523.3 per USD in 2025 and KZT 554–585 in 2026–2028.



# ARMENIA

Chief  
Economist's  
Foreword

Executive  
Summary

Trends  
in the Global  
Economy

Russia

Kazakhstan



Armenia

Belarus

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



In H1 2025, the economy of the Republic of Armenia continued to show steady growth, largely due to the strong expansion of domestic demand. This created price pressures, but the inflationary background began to stabilise in the summer months, with inflation reaching 3.6% YoY by the end of August. From March onward, the regulator kept the rate at 6.75%, noting the potential risks of economic growth either slowing down or accelerating.

Fiscal policy was characterised by an increase in tax revenues — to 30.9% of GDP in H1, up from 29.1% a year earlier. This was accompanied by continued under-performance of current and capital expenditures against the state budget plan.

The current account balance was in deficit, primarily due to a decline in re-exports of precious metals and stones.

We expect economic growth to accelerate to 6.2% in 2025. In the medium term, it would stabilise at levels close to potential values of 4.0–5.0%. Adopting more restrained fiscal policies, with a focus on gradually reducing the deficit, would be helpful.

## REAL SECTOR AND LABOUR MARKET

**Armenia’s economy grew by 5.9% YoY in Q2 2025, (compared to 5.2% in Q1), but seasonally adjusted growth slowed to 1.4% QoQ compared to 1.6% QoQ in Q1.** Growth decelerated to 5.5% YoY in H1 compared to 7.1% a year earlier in the context of weaker foreign economic activity.

**Domestic demand remained the main driver of growth (Figure 1).** Consumer activity was supported by high growth rates in consumer lending (30.6% YoY), increased remittances (22.7%)<sup>1</sup>, and rising real wages (2.4%) (Figure 4). The role of investment demand in GDP growth increased – mainly due to housing construction, fuelled by the growth of mortgage (30.7%) and construction loans (35.7%). In contrast, the external sector held back economic activity. A significant decrease in re-exports of precious metals and stones resulted in a negative contribution of net exports to GDP.

**In terms of sectors, the financial sector, information and communication, construction, and net taxes were the main contributors to GDP growth.** However, lower re-exports of gold and silver led to poorer performance in the manufacturing sector, which had a dampening effect on trade and overall GDP growth (Figure 2).

### Labour market indicators improved against the backdrop of stronger

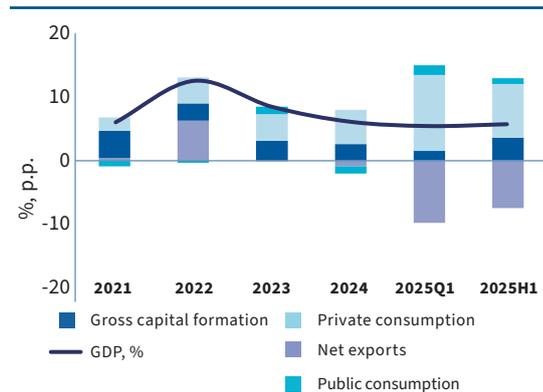
<sup>1</sup> Estimate of the Ministry of Finance of the Republic of Armenia, published in the ‘State Budget Report – H1 2025’. Available at: [https://minfin.am/hy/page/hy\\_hashvetvutyunner](https://minfin.am/hy/page/hy_hashvetvutyunner).

**economic activity.** We estimate that the unemployment rate fell to 12.2% in Q2 2025, down from 13.8% a year earlier, supported by a 3.9% increase in employment (Figure 3).

## INFLATION AND MONETARY TRENDS

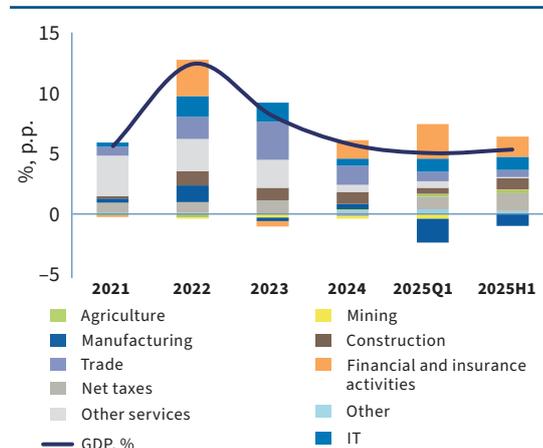
**The rate of inflation is approaching the upper limit of the target range set by the CB RA.** The main drivers of its growth were food products and services

Figure 1. Decomposition of Annual GDP Growth (Expenditure Approach)



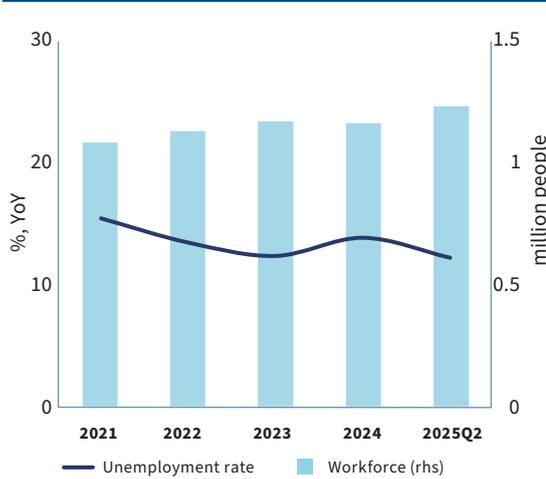
Source: Armstat.

Figure 2. Decomposition of Annual GDP Growth (Production Approach)



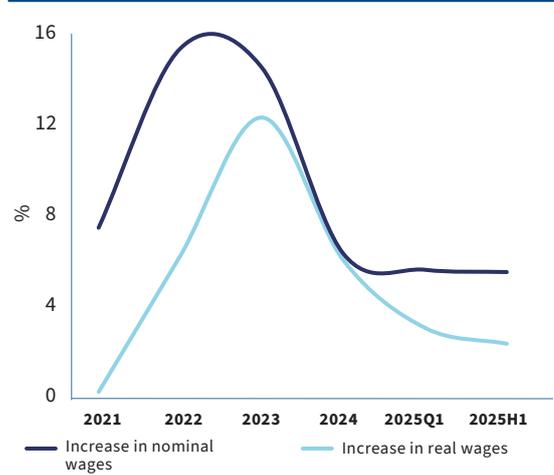
Source: Armstat.

Figure 3. Labour Market Indicators



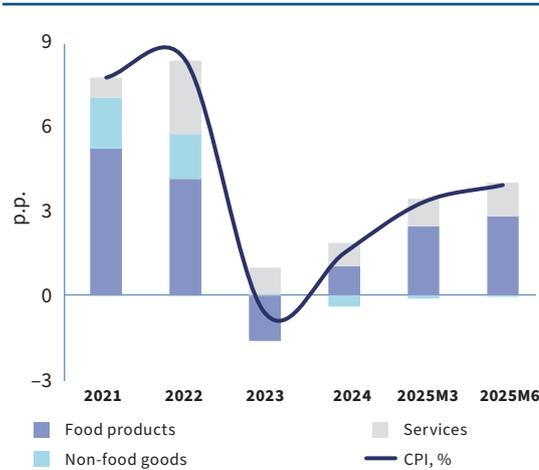
Source: Armstat.

Figure 4. Household Income



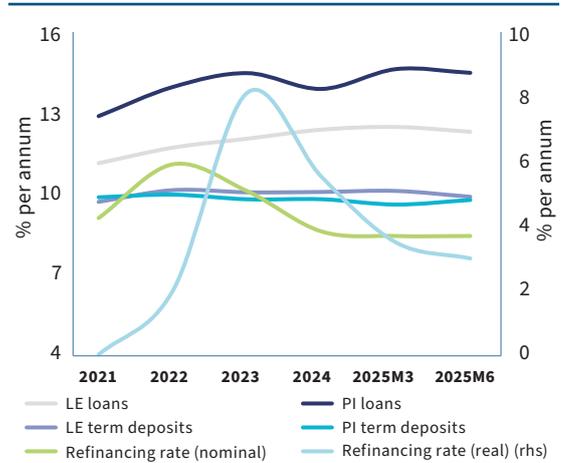
Source: CB RA, Armstat.

Figure 5. Inflation (YoY, eop)



Source: Armstat.

Figure 6. Interest Rates (eop)



Note: the figure shows interest rates on new loans and deposits.

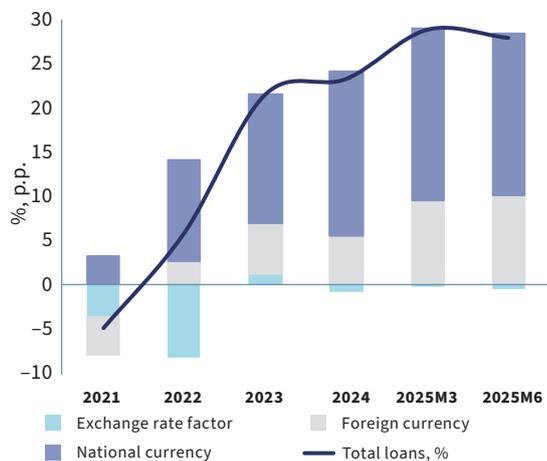
Source: CBA, Armstat.

in the context of higher prices for certain imported categories of goods, while the contribution of non-food goods was zero (Figure 5). In August 2025, the inflation rate was 3.6% YoY, compared to 3.9% in June — the seasonally adjusted trend suggests gradual easing of inflationary pressures.

**In Q2 2025, the CB RA kept the refinancing rate unchanged at 6.75%**<sup>2</sup> in the banking sector, adjustments in interest rates on loans and term deposits were limited. In particular, in June 2025 compared to December 2024,

<sup>2</sup> The meeting of the CB RA Council held on 5 August 2025 also resolved to keep the refinancing rate at 6.75%. Available at: <https://www.cba.am/en/press-releases/8766>.

Figure 7. Increase in Commercial Bank Loans



Source: CBA.

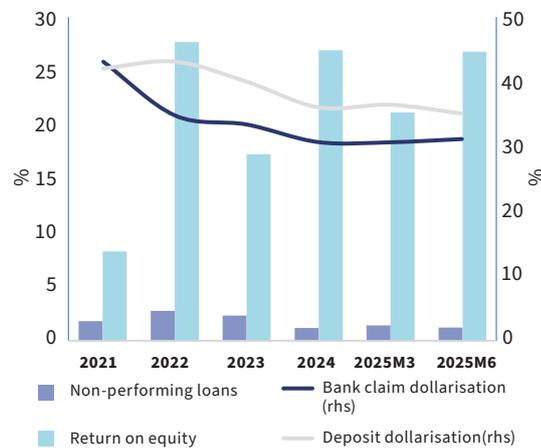
weighted average interest rates on time deposits in the local currency decreased by 0.1 p.p., while those on loans increased by 0.4 p.p. (Figure 6). This reflects strong lending activity, with commercial banks' loan portfolios growing by 29.0% YoY by end-June (compared to 24.2% in 2024). The growth was driven by all sectors of the economy, with the highest rates (over 30% YoY) seen in consumer lending, mortgages, construction, and services (Figure 7). Despite the boom in lending, the share of non-performing loans remains minimal at no more than 2% (Figure 8).

## FISCAL SECTOR AND PUBLIC DEBT

**Tax revenues grew, but expenditures exceeded revenues — in H1 2025, the deficit was 0.8% of GDP compared to a surplus of 0.3% a year earlier (Figure 9).**

**Budget revenues increased to 30.9% of GDP, up from 29.1% a year earlier,**

Figure 8. Banking Sector Indicators



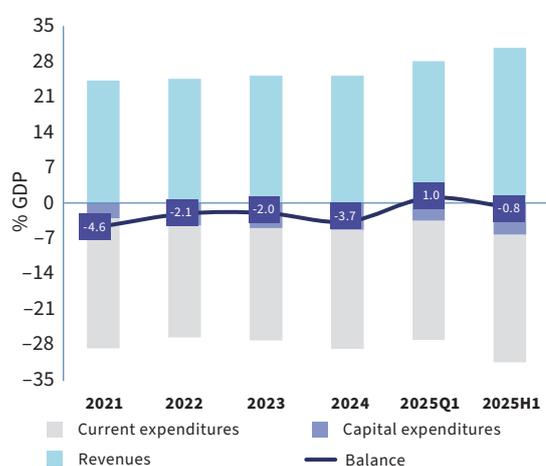
Source: CBA.

**primarily due to a 1.5 p.p. Increase in tax revenues to 29.2% of GDP.** VAT and profit tax saw the main growth. Several timing factors, coupled with improvements in tax administration, contributed to this. In particular, a delay in payments on acceptance and transfer certificates for construction projects completed in 2024 resulted in payment of accumulated tax liabilities in 2025. Significant profit growth in the financial sector also contributed to higher profit tax revenues. Consequently, the planned revenue of the state budget for H1 was exceeded by 2.2%<sup>3</sup>.

**Total budget expenditures rose to 31.7% of GDP (from 28.8% of GDP a year earlier) driven by growth in both current and capital expenditures.** Current expenditures went up to 25.4% of GDP, mainly due to increases in social benefits, pensions, and interest payments.

<sup>3</sup> An estimate of the Ministry of Finance of the Republic of Armenia, published in the 'State Budget Report — H1 2025'. Available at: [https://minfin.am/hy/page/hy\\_hashvetvutyunner](https://minfin.am/hy/page/hy_hashvetvutyunner).

Figure 9. State Budget



Source: Ministry of Finance of the Republic of Armenia.

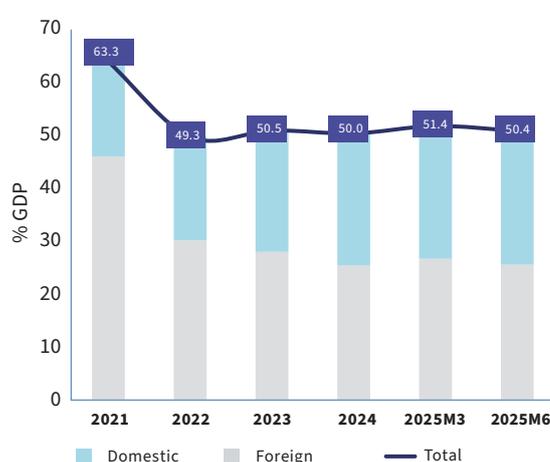
Over the past year, the composition of current expenditures has shifted towards social benefits and pensions due to support for internally displaced persons from Nagorno-Karabakh and the implementation of personal income tax rebate programmes<sup>4</sup>. Capital expenditures increased to 6.4% of GDP (up 2.7 p.p.). However, the state budget plan for current and capital expenditures for H1 2025 was not implemented fully, resulting in shortfalls by 11.6% and 25.5% respectively.

### The level of public debt remained virtually unchanged compared to 2024.

Despite a USD 750 million Eurobond issued early in the year, the public debt-to-GDP ratio increased marginally from 50.0% of GDP in 2024 to 50.4% of GDP in H1 2025, which is attributable to the AMD appreciation and high economic growth (Figure 10).

<sup>4</sup> In January–July 2025, the amount of personal income tax rebates totalled AMD 68 billion — the same amount as for the whole of 2024 and 41.2% more than in the same period last year.

Figure 10. Public Debt



Source: authors' estimates.

## EXTERNAL SECTOR<sup>5</sup>

**The current account deficit widened significantly on the back of deteriorating trade balance.** We estimate that the current account deficit widened to 10.1% of GDP in January–June 2025, up from 3.6% of GDP a year earlier. The main reasons were lower re-exports of precious metals and stones (gold, platinum, silver, and diamonds) and a fall in tourist traffic early in the year. However, starting in May, the trend changed — the growth rate of tourist traffic accelerated compared to the same period last year. In addition, there was an increase in remittances (up 22.7%) as a result of the Russian ruble appreciation against the USD (Figure 11).

**The AMD appreciation against the USD in H1 2025 was driven by foreign exchange inflows and the strong position of the RUB.** From February onwards, the CB RA purchased foreign

<sup>5</sup> Authors' estimates.

exchange totalling USD 749 million in order to offset excessive AMD appreciation. In June 2025, gross international reserves increased by 9.7% to USD 4.0 billion compared to 2024<sup>6</sup> (2.9 months of imports)<sup>7</sup>.

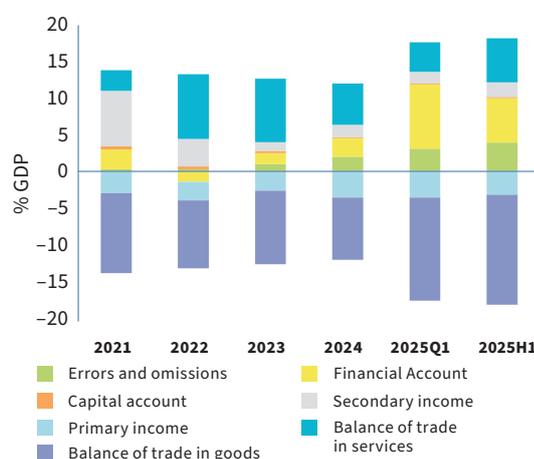
## MEDIUM-TERM OUTLOOK

**The economic growth forecast for 2025 has been revised upwards by 1.3 p.p. due to higher growth in Q2 2025.**

It was previously assumed that gradual weakening of activity in the construction sector would begin in 2025, following the suspension of the government's mortgage interest rebate programme for Yerevan starting in 2025. However, based on the outcomes for H1, growth in these segments has remained consistently high — construction activity has continued in the suburbs of Yerevan and in tourist regions. In addition, the previous forecast assumed a decline in tourist flows and subsequent weakening of domestic demand. However, Q2 2025 saw an increase in the number of tourists compared to the same period last year — a trend that continued in July. Therefore, we have revised the forecast upwards, raising economic activity to 6.2% for 2025. Domestic demand will remain the main driver, supported by expanded lending and the expected increase in government expenditures envisaged in budget projections.

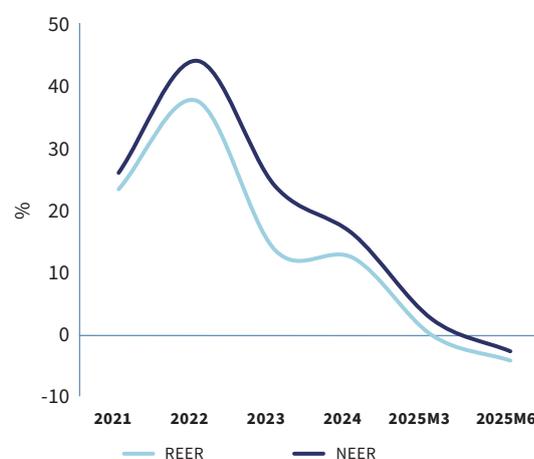
In the medium term, economic growth will be close to potential averaging at

Figure 11. Balance of Payments



Source: CBA.

Figure 12. Real and Nominal Effective Exchange Rate (YoY)



Note: (+) refers to REER appreciation.

Source: CBA.

4.9%<sup>8</sup>. Until 2027, when the mortgage interest rebate programme ends, consumer and investment demand will continue to underpin sustainable economic growth through credit expansion and increased public

<sup>6</sup> Gross international reserves increased to USD 4.1 billion in July 2025.

<sup>7</sup> Authors' estimates.

<sup>8</sup> CB RA estimate published in the Inflation Report dated 17 June 2025: (potential rate of 4.5–5.0%). Available at: <https://www.cba.am/en/reports/8581/>.

investment in housing construction. The forecast includes both downside and upside risks (for more details see 'Risks to the Baseline Scenario').

**Monetary policy will be aimed at keeping inflation within the target range.** Based on August data, the inflation forecast was revised downwards by 0.5 p.p. to 4.0%. This is based on lower than expected food prices. In light of inflation reverting to the target range, the CB RA is likely to maintain the current level of the refinancing rate unchanged. Due to the gradual shift to neutral fiscal policy, inflation in the medium term is projected to remain within the target range.

**The expected growth of government expenditures in 2025 to 30.3% of GDP will be replaced by stabilisation at 28–29% of GDP in the medium term.** As a result of the upward revision of the GDP growth forecast, the fiscal deficit has been adjusted to 5.0% of GDP for 2025 (from 5.5% of GDP previously). The expected high deficit suggests the need for fiscal tightening. In particular, when debt-to-GDP levels are in the range of 50–60%, current expenditure growth is capped at the average GDP growth rate for the past 7 years. In this regard, the Government of Armenia is developing a programme to reduce the debt burden, which involves current expenditure cuts within the period between 2026

and 2028, compared to 2025. The plan is to gradually reduce the proportion of grants and subsidies, as well as expenditures on social benefits provided to internally displaced persons from Nagorno-Karabakh. Instead, programmes aimed at addressing housing problems and promoting employment are being implemented.

Government revenues would gradually increase, reaching 25.4% of GDP by the end of 2028. Tax revenue growth will be 0.7 p.p. of GDP in 2025 and average about 0.2 p.p. of GDP annually in 2026–2028, mainly due to improvements in the efficiency of tax administration and changes in tax policy. On the back of revenue growth and expenditure decline to 28.2% of GDP by 2028, the fiscal deficit is expected to gradually decrease from 5.0% of GDP in 2025 to 2.8% of GDP in 2028.

**Sustained current account deficits would remain at 4–5% of GDP.** The current account deficit is projected to widen to 5.1% of GDP in 2025, mainly due to lower re-exports of precious metals and stones. In 2026–2028, the current account deficit would average 4.5% of GDP. The level of international reserves is expected to remain relatively stable, averaging 2.7 months of imports of goods and services over the period between 2025 and 2028.

**TABLE 1. FORECAST OF KEY MACROECONOMIC INDICATORS**

	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2028 Forecast
<b>National accounts and prices (%)</b>					
Nominal GDP					
AMD billions	10 193	11 160	12 058	13 028	14 177
USD billions	26.0	28.1	29.5	31.0	32.7
Real GDP growth	5.9	6.2	5.0	4.8	4.8
CPI (December, YoY)	1.5	4.0	3.3	3.0	3.0
<b>Money and credit (eop)</b>					
Broad money, % change	13.7	11.7	10.6	9.2	9.2
<b>Public finance (% of GDP)</b>					
Revenues and grants	25.3	25.3	25.3	25.4	25.4
of which tax revenues	23.5	24.1	24.4	24.6	24.7
Budget expenditures	29.0	30.3	29.7	28.8	28.2
Current expenditures	23.7	24.3	23.9	23.0	22.4
Capital expenditures	5.3	6.0	5.8	5.8	5.8
Budget balance («-» deficit / «+» surplus)	-3.7	-5.0	-4.5	-3.5	-2.8
<b>External sector (% of GDP)</b>					
Current account	-4.6	-5.1	-4.7	-4.5	-4.5
Foreign direct investment	0.5	0.5	0.6	0.8	1.1
Gross reserves, months of imports of goods and services	2.2	2.5	2.6	2.9	2.9

Source: national agencies and authors' estimates.



# BELARUS

Chief  
Economist's  
Foreword

Executive  
Summary

Trends  
in the Global  
Economy

Russia

Kazakhstan



Armenia

**Belarus**

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



The economy of Belarus started to slow down in H1 2025. Real GDP growth was 1.2% in Q2. The contraction of external demand and the gradual slowdown in consumer activity were the key factors driving such dynamics. Economic activity was supported by investment growth in the context of amendments to the Law on Investment, which came into force in H2 2024.

Inflation stood at 7.3% in Q2, accelerating due to high inflation in Russia and a price shock for fruit and vegetables, caused by a low domestic harvest and high import prices.

A combination of strong domestic demand and a contraction in external demand contributed to the widening of the trade deficit and, consequently, the current account deficit. The external balance was supported by an inflow of funds under the financial account. There was no increase in volatility on the foreign exchange market.

Against the backdrop of the slowdown in the Russian economy, the economic growth in Belarus is expected to decelerate and approach its potential rate. Real GDP growth is expected to be 1.6% in 2025. Accumulated pressure stemming from domestic demand, the labour market, and price growth in Russia suggests that inflation would remain slightly above the target level, gradually slowing down as the effects of these factors subside. The slowdown in economic activity and the gradual normalisation of price terms of trade are expected to help maintain the external balance and contain the current account deficit.

## REAL SECTOR AND LABOUR MARKET

**There was a significant slowdown in economic activity in Belarus in H1 2025.** Real GDP growth was 2.1% YoY in H1 2025, compared to 5.0% YoY in H1 2024. According to our estimates, seasonally adjusted real GDP growth for Q2 was close to zero — by comparison, the average quarterly growth over the last year was around 0.3%. The output gap, while still positive, is declining smoothly.

**The dynamics of economic activity were shaped by lower external demand and weaker consumer activity.** Over the past two years, domestic consumption has been a key driver of economic growth, with seasonally adjusted real retail turnover growing by around 3% on average each quarter. However, the seasonally adjusted trend of this indicator turned negative in Q2 2025, at around (-1%). The annual growth rate was 9% YoY for H1 2025, compared to 11.5% a year earlier.

**Investment growth accelerated markedly in H1 2025.** The growth of fixed capital investment was 14% YoY in H1 2025 (compared to 7.6% a year earlier). We attribute this acceleration to expansionary policies, as reflected in the amendments to the Law on Investments, which provide extensive tax incentives for investment. We estimate that the seasonally adjusted real investment growth was 5% QoQ in Q1 and 2.5% QoQ in Q2 2025. Investment increased most at the expense of bank loans (up 50.9% YoY) and republican budget funds (up 23.7%).

**In terms of economic sectors, the role of the driver has shifted from industry to construction and services.** With weak external demand, industrial production grew by just 0.3% YoY in H1 2025. The stagnation in industry was accompanied by a rise in inventories, which reached 83.7% of the average monthly output (compared to 64% a year earlier) — marking a 5-year high. Declining exports had a negative impact on wholesale trade performance, with a 5.4% YoY contraction in H1 2025, following growth of 8.3% YoY a year earlier. Supported by rising investment, construction contributed more to economic activity. The IT and services sectors also saw a recovery in activity during the year (Figure 2).

**The labour market remains tight due to increased demand for labour.** The unemployment rate<sup>1</sup> continued to decline in 2025 to a record low 2.6% in Q2 (3.0% a year earlier). Employed population stabilised (up 0.1% YoY in H1 2025) following a decline of 1% annually over the past 5 years (Figure 3). We assume that this was enabled by measures designed to encourage the employment of foreign nationals, which offset the negative effects of demographic factors to some extent. Although there are signs of stabilisation, the labour shortage remains acute, supporting elevated rates of nominal wage growth (Figure 4). However, in real terms, the growth of household incomes is slowing down due to mounting inflationary pressures.

<sup>1</sup> Based on the ILO criteria.

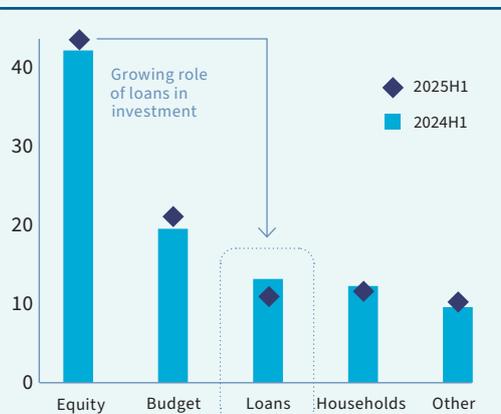
# BOX 1

## WHAT CHANGES HAVE OCCURRED IN INVESTMENT FLOWS AND COMPOSITION?

There have been changes in the sources of investment over the past year. The availability of credit facilities and robust economic growth boosted the importance of loans as a source of investment financing, while reducing the proportion of equity to some extent (Figure A). There was also an increase in the proportion of household funds in the composition of sources of financing. The share of other funds decreased.

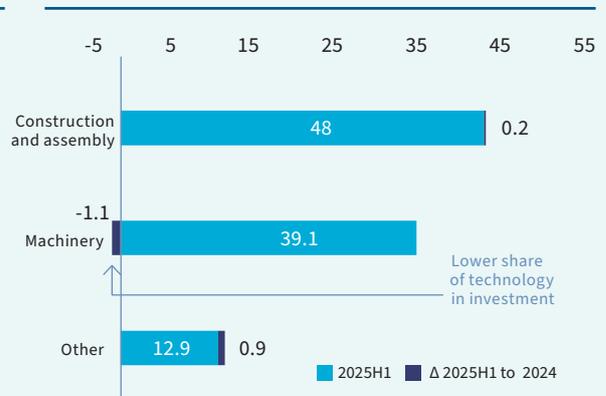
The technological composition also changed, with investment in machinery and equipment being lower than in construction and other sectors in H1 2025 (Figure B).

**Figure A. Sources of Investment Financing, %**



Source: Belstat.

**Figure B. Technological Composition of Investment, %**



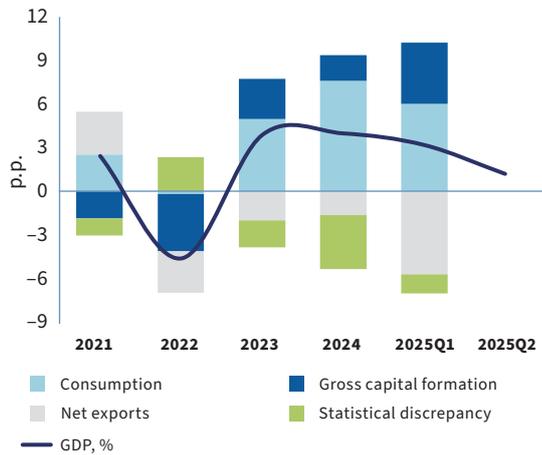
Source: Belstat.

## INFLATION AND MONETARY TRENDS

**Inflation in Belarus increased in the context of high inflation in Russia and shocks in fruit and vegetable prices.** In June 2025, consumer price growth was 7.3% YoY, with the target of ‘no more than 5%’ (Figure 5). Domestic demand

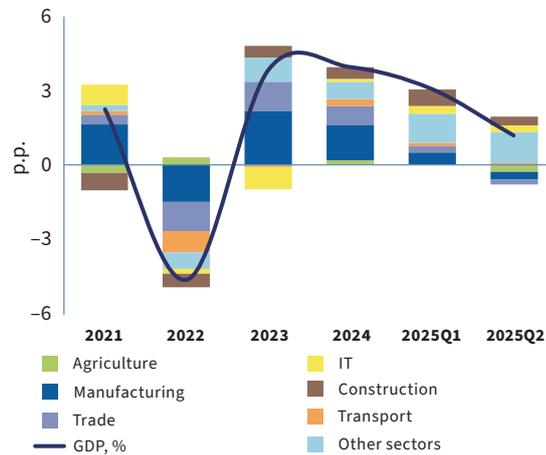
growth was most notably reflected in the acceleration of core inflation, which rose to 7.4% in June 2025 (5.5% in 2024). The increase in prices for horticultural products (+17.6% YoY) is partly explained by the poor domestic harvest and high import prices. Reduction of the list of commodity items under price control also had a short-term pro-inflationary effect. The intensification of inflationary

**Figure 1. Decomposition of GDP Growth (Expenditure Approach)**



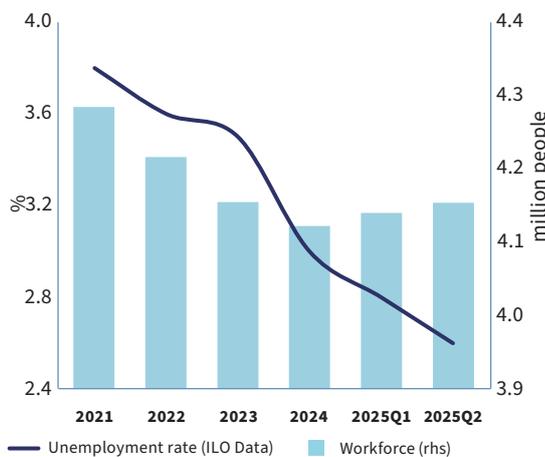
Source: Belstat.

**Figure 2. Decomposition of GDP Growth (Production Approach)**



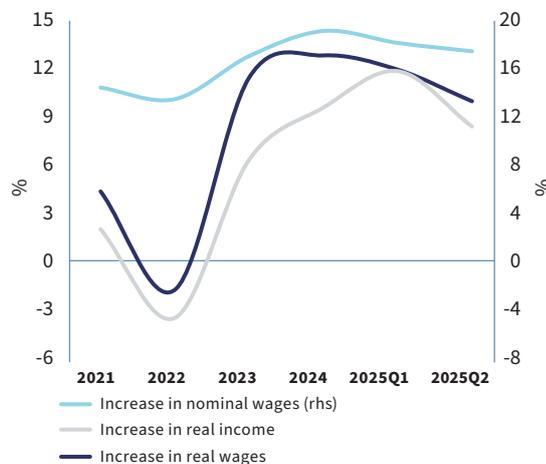
Source: Belstat.

**Figure 3. Labour Market Indicators**



Source: Belstat.

**Figure 4. Household Income**



Source: Belstat.

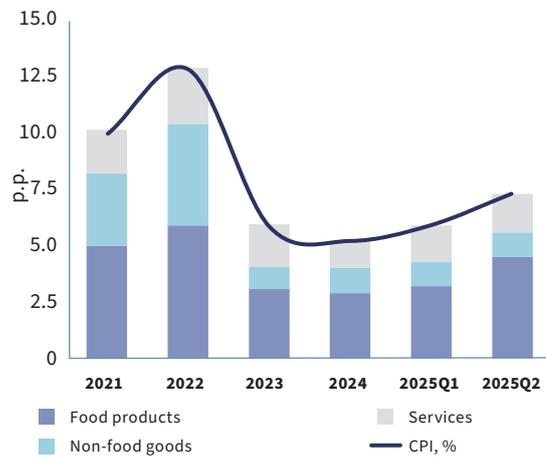
pressures is also reflected in higher inflation expectations of households: price growth is expected to be 11.3% over the year (10.1% in March 2025).

**To stabilise inflation dynamics and expectations, the regulator focused on tightening credit conditions.** In H1 2025, the NBRB raised the refinancing rate (Figure 6) by 0.25 p.p. (from 9.5%

to 9.75% per annum) and the EVSR<sup>2</sup> prudential ratio from 12.5% to 12.9% for loans to legal entities (up to 3 years) and from 17.7% to 18.2% for private individuals. Rising interest rates (Figure 7) led to a slowdown in lending.

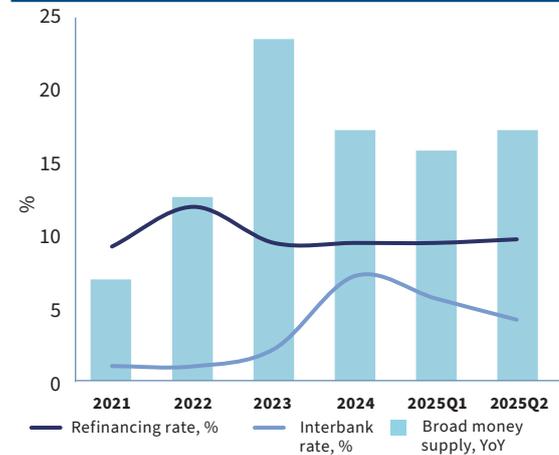
<sup>2</sup> Banks setting interest rates above the threshold defined by the National Bank are considered to have a risky business model, leading to the imposition of stricter prudential requirements.

Figure 5. Decomposition of Inflation



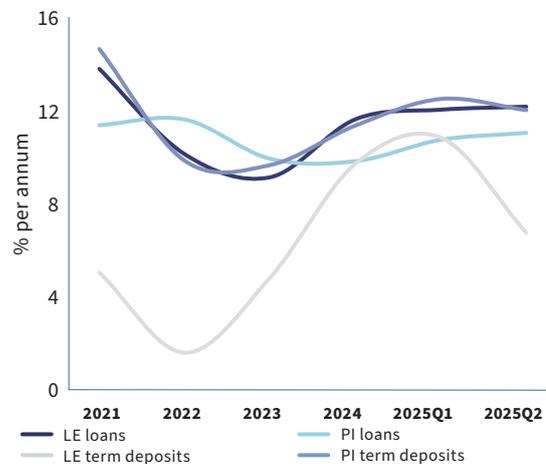
Source: Belstat.

Figure 6. Monetary Indicators (eop)



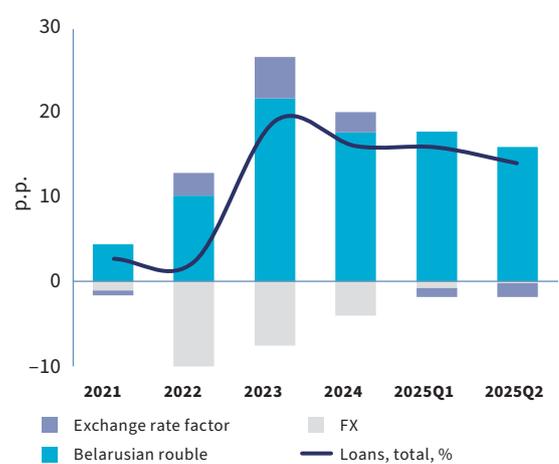
Source: NBRB.

Figure 7. Interest Rates on New Loans and Deposits



Source: NBRB.

Figure 8. Decomposition of Annual Increase in Banks' Claims on the Economy



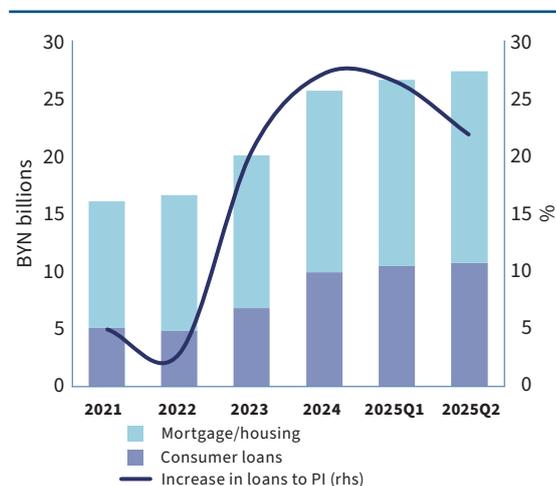
Source: NBRB.

Credit growth was 14.1% YoY in June 2025 (following 16.0% in March 2025) (Figure 8). Lending slowed down most markedly in the consumer lending segment, with growth of 34.8% YoY following 44.1% in March 2025 (Figure 9).

## EXTERNAL SECTOR

**Declining exports and strong imports led to a wider trade deficit.** The current account deficit was 5.3% of GDP in H1 2025 (4.1% of GDP a year earlier). The widening of the current account deficit was driven by the trade channel: a negative balance of trade in goods at (-6.7%) of GDP compared

Figure 9. Loans to Households (eop)



Source: NBRB.

to (-4.2%) of GDP a year earlier (Figure 10). Even the recovery of exports of services (up 16.5%) was not enough to fully offset the decline in merchandise exports.

**In the context of the current account deficit, financial account operations contributed to the external balance.** Inflows under the financial account were 7.2% of GDP (compared to 2.8% a year earlier). They were driven by reinvestment of earnings by foreign direct investors (3.7% of GDP) and inflows on other investments (4.1% of GDP) due to a reduction in foreign assets.

**Exchange rate dynamics demonstrated relative stability.** The situation in the domestic foreign exchange market in H1 2025 was characterised by supply of foreign exchange by market players exceeding demand by USD 0.3 billion. The average nominal effective exchange rate depreciated by 0.9% in H1. That was accompanied by depreciation of the real effective exchange rate by 2.9% amid higher inflation in Russia.

### Rising gold prices on the world market contributed to an increase in the NBRB's gross international reserves.

Gross international reserves increased by USD 2.6 billion in H1 2025 reaching USD 11.5 billion (2.7 months of imports) as at 1 July 2025. Cumulatively, the official reserves and other foreign currency-denominated assets of the NBRB increased by USD 1.5 billion in that period and stood at USD 12.8 billion (3.0 months of imports) as at 1 July 2025 (Figure 11). The growth in reserves was facilitated by asset revaluations, mainly due to gold price dynamics on the world market – the value of monetary gold in gross international reserves grew by USD 1.2 billion in H1.

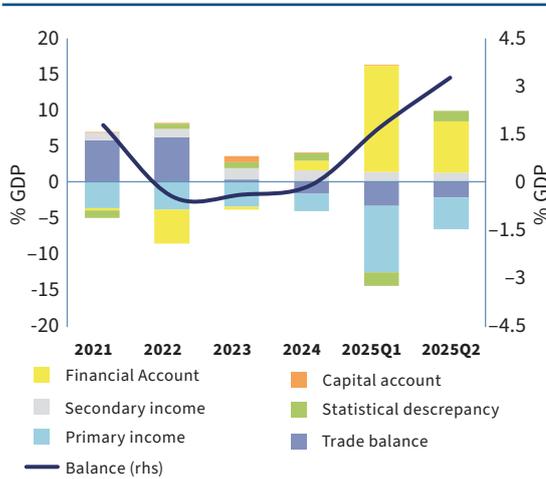
## MEDIUM-TERM OUTLOOK

**The estimate of real GDP growth in the Republic of Belarus in 2025 was revised downwards compared to the previous forecast<sup>3</sup>, from 2.8% to 1.6%.** This adjustment was due to a faster-than-anticipated slowdown in the economy in Q2 2025 in the context of slower growth of the Russian economy causing a contraction in external demand, as well as more modest dynamics of domestic consumption. The expected inflation estimates for 2025 were revised upwards due to the ongoing external price pressures and realised price shock in horticultural products.

It is not expected that the internal or external economic environment would

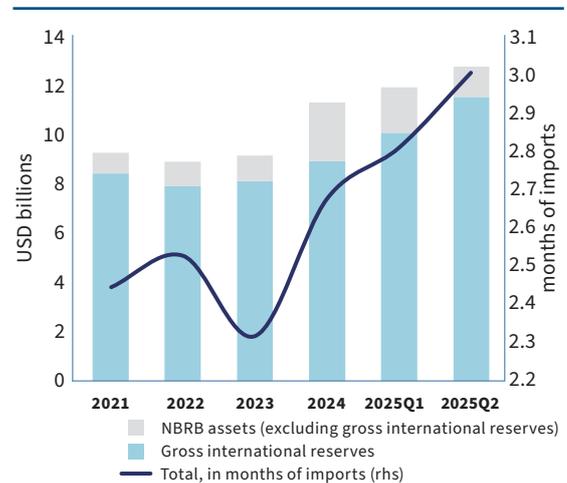
<sup>3</sup> EFSO Regional Economic Outlook. Summer 2025. Available at: <https://efso.org/en/research/regional-economic-outlook/regional-economic-outlook-summer-25/>.

Figure 10. Balance of Payments



Source: NBRB, Belstat.

Figure 11. NBRB's Foreign Currency Assets



Source: NBRB, authors' estimates.

change significantly. In particular, labour market conditions will be tight amid declining employed population, which will put pressure on wage growth. Monetary and fiscal policies would aim to maintain the macroeconomic equilibrium by balancing the need to curb inflationary pressures with the need to support economic growth.

## REAL SECTOR

**The slowdown in activity in the Russian economy will be a key factor behind the lower growth rate in Belarus.** Real GDP growth in 2025 is projected at 1.6% (Figure 12). Between 2026 and 2028, the economy is expected to grow by 1–1.5%, which would account for the gradual closing of the positive output gap over the medium term. If the economic structure remains unchanged, the risk of moving into recession increases as the gap closes faster.

## INFLATION AND MONETARY POLICY

**With the persistence of a positive output gap, more active monetary policy tightening could be needed to maintain stable inflation.** The key pressures on prices will still come from the positive output gap, labour market shortages, and strong external inflation. The most marked manifestation of pro-inflationary factors is expected in late 2025. In this context, inflation is expected to be around 8% in 2025. In subsequent years, as pro-inflationary factors weaken, price growth is projected to slow down and inflation is projected to approach the target in 2028, creating conditions for gradual relaxation of price controls (Figure 13).

## FISCAL SECTOR

**Fiscal policy will be characterised by a gradual increase in the fiscal surplus following a moderate deficit in 2025.**

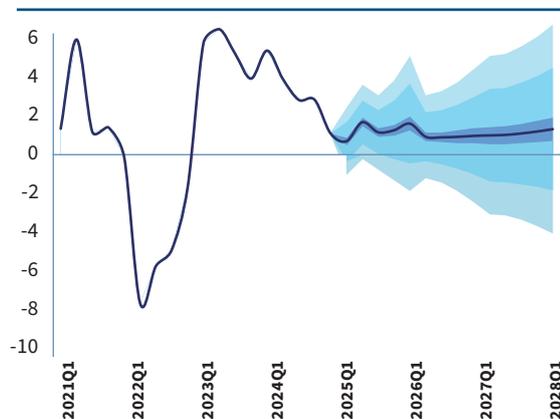
In 2025, the consolidated budget is expected to have a deficit of 0.5% of GDP. The projected slowdown in the growth of budget expenditures would support a moderate surplus in the medium term (around 1% of GDP). With relatively stable budget revenues, one of the areas of consolidation will be more restrained growth of salaries and wages in the budget sector following a significant increase in previous years, as well as moderate growth of capital expenditures. The primary balance would be in surplus at around 1.5–2% of GDP in 2026–2028.

## EXTERNAL SECTOR

**The projected slowdown in domestic demand growth would contribute to maintaining the external balance.**

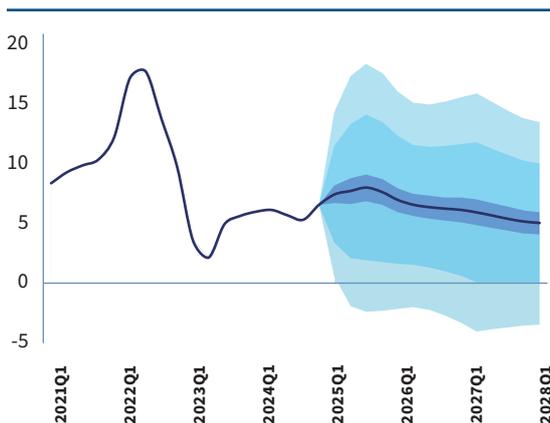
The current account deficit is projected at 2.9% of GDP in 2025, followed by a gradual decline to 0.7% of GDP by 2028. The current account deficit containment would be facilitated by weaker domestic demand growth and some improvement in the price terms of trade. Exchange rate dynamics in this case would help to keep the real effective exchange rate close to equilibrium (Figure 14). Public debt repayments and service payments will put pressure on the NBRB's reserves. However, the NBRB's total foreign assets are projected to be equivalent to about USD 12 billion over the medium term.

Figure 12. GDP Growth, % YoY



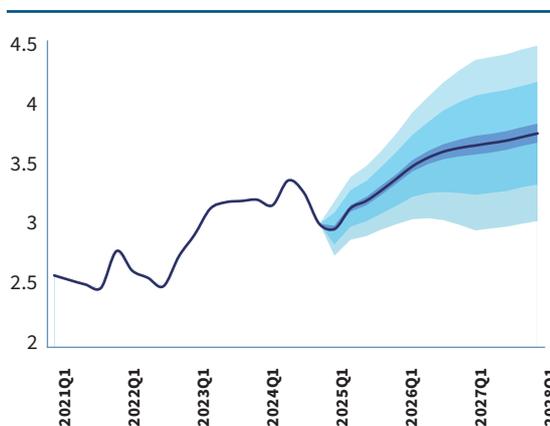
Source: authors' calculations.

Figure 13. Inflation, % YoY



Source: authors' calculations.

Figure 14. USD/BYN Exchange Rate



Source: authors' calculations.

Note: chart ranges correspond to confidence intervals of 10%, 50%, and 75%.

**TABLE 1. FORECAST OF KEY MACROECONOMIC INDICATORS**

	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2028 Forecast
<b>National accounts and prices, %</b>					
Nominal GDP, BYN billions	241.4				
Real GDP growth	4.0	1.6	1.3	1.0	1.2
CPI (December, YoY)	5.2	8.0	6.8	6.1	5.0
Nominal average monthly wage, BYN	2 272	2 675	2 996	3 325	3 682
Real wage growth	13.1	10.4	4.2	4.3	4.3
<b>Money and credit (eop)</b>					
Broad money, % change	17.3	12.9	12.3	13.2	11.1
Credit to the economy, % change	16.1	11.5	13.6	14.6	12.9
Refinancing rate, % per annum	9.5	9.75	9.75	9.75	9.75
<b>Public finance, % of GDP</b>					
Budget revenues	29.2	28.5	28.7	28.7	28.7
tax revenues	25.4	25.3	25.2	25.2	25.3
Budget expenditures	28.6	29.0	28.1	27.8	27.5
Budget balance («-» deficit / «+» surplus)	0.6	-0.5	0.7	0.9	1.2
Primary budget balance	1.7	0.8	1.7	1.7	1.8
<b>External sector, % of GDP</b>					
Current account	-2.5	-2.9	-1.4	-0.9	-0.7
Foreign direct investment («-» inflow/«+» outflow)	2.1	1.8	1.7	1.8	1.7
<b>NBRB foreign assets*</b>					
USD billions	11.3	12.2	12.1	12.1	12.6
months of imports of goods and services	2.6	2.6	2.8	2.8	2.8

**Note:** \*official reserve assets + other NBRB foreign currency-denominated assets; 2024 budget execution data is provided based on EFSD estimates.

**Source:** national agencies and authors' estimates.





# KYRGYZ REPUBLIC

Chief  
Economist's  
Foreword

Executive  
Summary

Trends  
in the Global  
Economy

Russia

Kazakhstan



Armenia

Belarus

**Kyrgyz Republic**

Tajikistan

Risks to the  
Baseline  
Scenario



Under the EFSD baseline scenario, economic growth is expected to reach around 9% in 2025 — on par with the outcome of the previous three years — primarily due to the acceleration of infrastructure and housing construction, as well as robust domestic demand growth. The Kyrgyz economy is projected to slow down to +6.4% YoY in 2026, 6.0% YoY in 2027, and 5.5% in 2028.

In 2025, inflationary processes intensified due to rising food prices, electricity tariffs, and domestic demand. As a result, consumer inflation is expected to reach 8.1% by the end of 2025, which is above the NBKR target range (5–7%). Over the next few years, inflation will slow down, with its average rate returning to the target range set by the National Bank, due to monetary policy tightening and the economy cooling down.

The republican budget, executed with a surplus in 2023–2024, will continue to run a surplus in the medium term (2.1% of GDP in 2025, 1.6% in 2026, and 1.0% in 2027). However, the gradual decline in tax revenues will lead to a deficit of 0.2% of GDP in 2028.

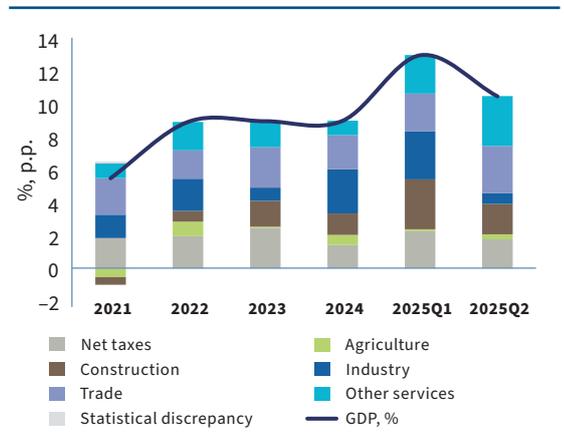
The trend of the current account deficit decrease that emerged in Q2 2024 will continue. The current account deficit is projected to narrow to 16% of GDP in 2025 and to 14% of GDP by the end of the medium term as imports stabilise. International reserves will remain at a sufficient level (5.9 months of imports of goods and services).

## REAL SECTOR AND LABOUR MARKET

**In H1 2025, high economic growth was maintained thanks to trade and construction.** The growth rate was 11.7% YoY (8.6% YoY in H1 2024). However, growth slowed to 10.5% YoY<sup>1</sup> in Q2 compared to 13.1% in Q1 (Figure 1). The main contributors were trade (+2.9 p.p.) and construction (+1.9 p.p.) – the former due to strong domestic demand and the latter largely thanks to housing construction under the Programme ‘My Home’.

In terms of the GDP composition by expenditure approach, the EFSO estimates that consumption made the largest contribution to growth, while exports declined strongly due to a negative trend in gold shipments (Figure 2). Employment growth slowed from 5.3% YoY to 5.0% YoY in January–June (Figure 3), while real wage growth was 7.2% YoY compared to 6.9% YoY in January–March (Figure 4).

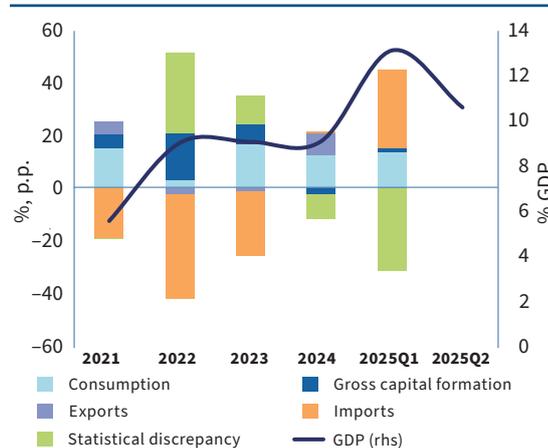
**Figure 1. Contribution to Real GDP Growth (Production Approach)**



Source: NSC KR, EFSO calculations.

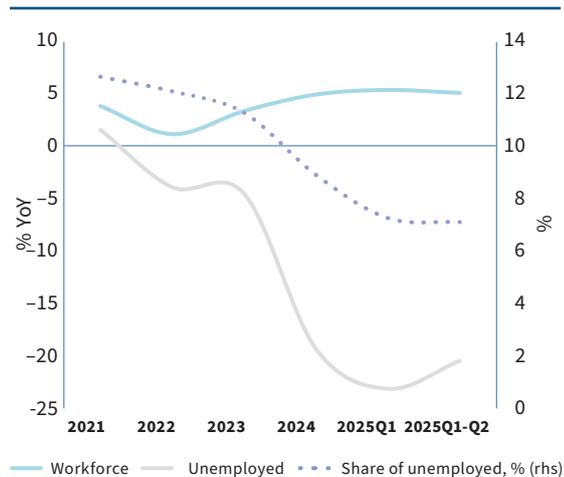
<sup>1</sup> Seasonally adjusted growth was 1.7% QoQ in Q2 following 2.7% QoQ in Q1.

**Figure 2. Contributions to Real GDP Growth (Expenditure Approach)**



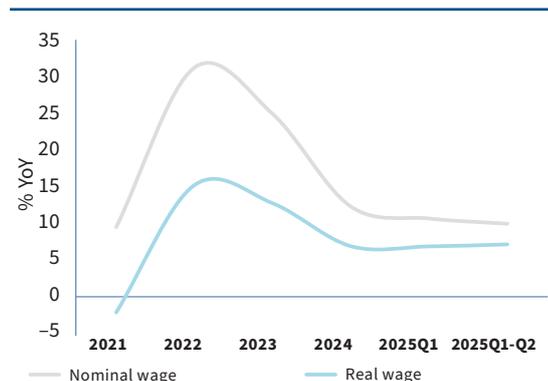
Source: NSC KR, authors' estimates.

**Figure 3. Labour Market Indicators**



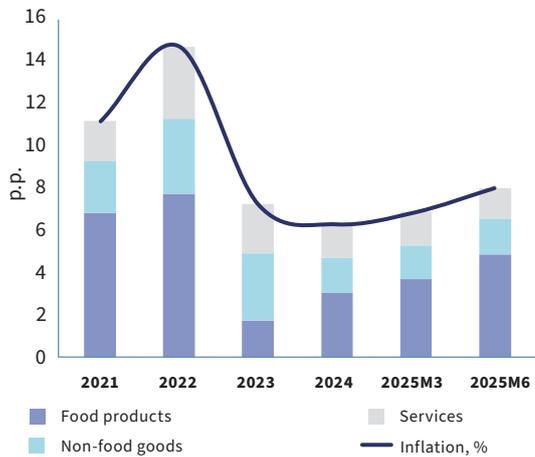
Source: NSC KR, authors' calculations.

**Figure 4. Household Income**



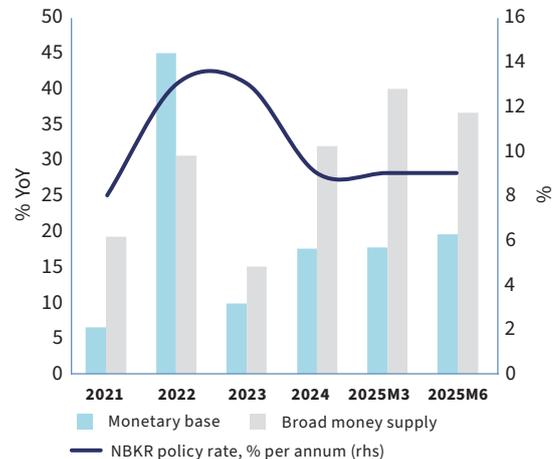
Source: NSC KR, authors' calculations.

Figure 5. Decomposition of Inflation



Source: NSC KR, authors' calculations.

Figure 6. Monetary Indicators



Source: NBKR.

## INFLATION AND MONETARY TRENDS

**Inflation exceeded the NBKR target range in April–July 2025.** Food inflation accelerated from 7.7% YoY in March to 10.2% YoY in June 2025, mainly driven by vegetables and meat. An electricity tariff hike (+23.8% in May) and rising costs of residential renovation services following the construction boom provided added impetus. As a result, inflation rose from 6.9% YoY in March to 8.0% in June 2025 (Figure 5) and 8.8% in July 2025 (based on preliminary data). The risk of inflation acceleration due to an increase in the cost of fuel and lubricants cannot be ruled out (see Box 1). To curb further price increases, the authorities introduced a 90-day (August to November) cap on meat prices, and the NBKR raised the policy rate from 9.0% to 9.25% per annum in July. The seasonally adjusted 3-month inflation rate was 0.6% MoM in March and 0.7% MoM in June.

**Monetary aggregates continue to grow rapidly.** Base money and money supply

(Figure 6) continued to grow at high rates in Q2 — at 19.6% and 36.6%, respectively, compared to 17.7% and 39.9% YoY in Q1. The rapid growth rate of the consumer loan portfolio (2-fold) contributed to the acceleration of total loan portfolio growth from 38.2% to 48.3% YoY (Figure 7), while deposit portfolio growth slowed from 43.6% to 34.9% YoY (Figure 9). Interest rates on new term loans and deposits in local currency (Figures 8 and 10) changed insignificantly, primarily due to changes in the maturity structure of portfolios. The dollarisation of the deposit portfolio remained at 37.4% following a 5.5 p.p. decrease in Q1 (due to a reduction in the volume of settlement and demand accounts of legal entities), while the dollarisation of the loan portfolio went down by 1.1 p.p. to 18.0%.

**Banks' profitability remains at a high level, but credit risks are growing.** Return on equity increased by 2.3 p.p. relative to Q1, while return on assets increased by 0.3 p.p. (Figure 11). However, both remained well below the 2024 figures (-1.0 and -6.4 p.p., respectively)

## BOX 1

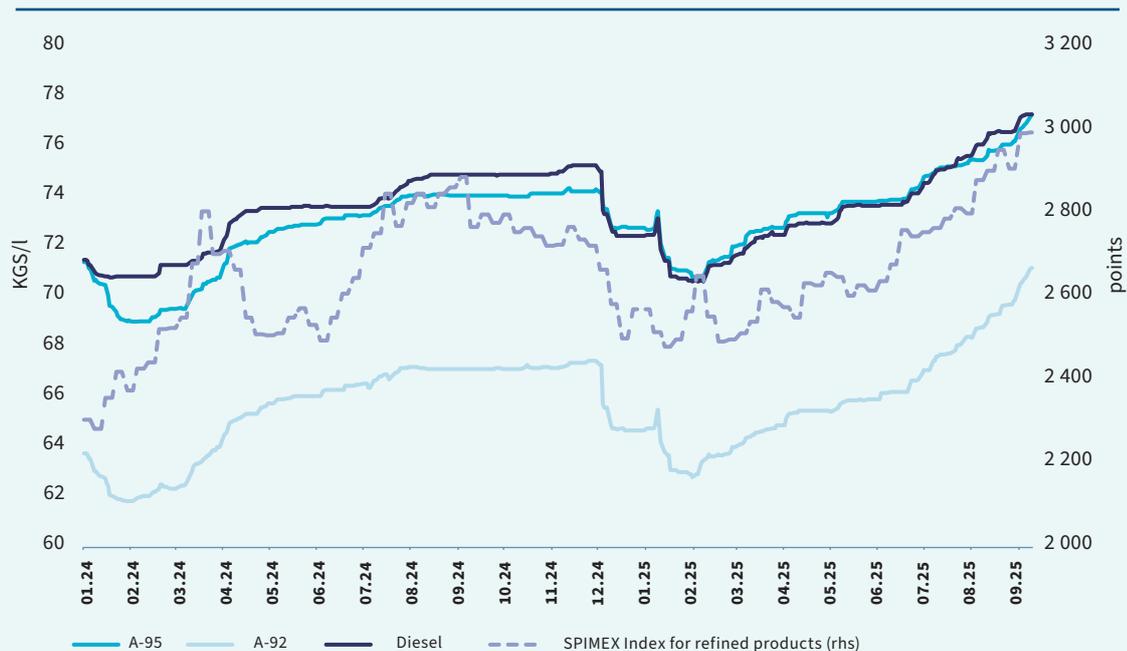
## COULD THE INCREASE IN FUEL AND LUBRICANTS PRICES LEAD TO A NEW BOUT OF INFLATION?

The increase in consumer prices for fuel and lubricants (primarily petrol and diesel) in July 2025 was 1.9% MoM — the highest level since April 2024.

The main channel for fuel and lubricants price growth is imports — more than 80% of petrol and diesel fuel consumed is imported, primarily from Russia (74% in H1 2025) and Kazakhstan (21%). According to daily monitoring data, the price dynamics of fuel and lubricants in the Kyrgyz Republic from August to September correlate closely with the growth of domestic prices in Russia (Figure A), suggesting a high likelihood of further inflation acceleration.

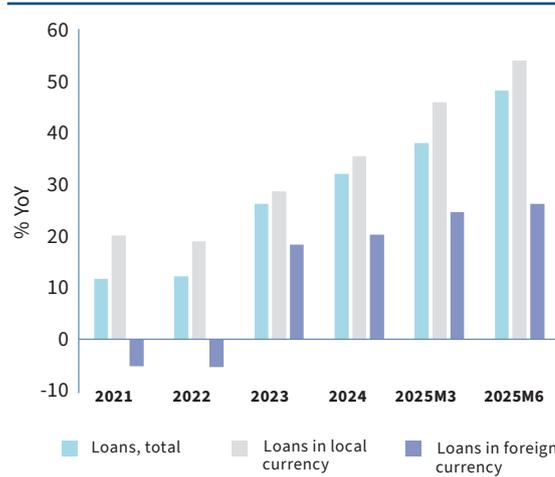
Although the direct effect is likely to be limited — the contribution of fuel and lubricants prices to the consumer basket is only 1.3% — the indirect effect could lead to an increase in transport service costs, as well as in transport costs within producer cost structures.

Figure A. Retail Prices for Fuel and Lubricants in the Kyrgyz Republic



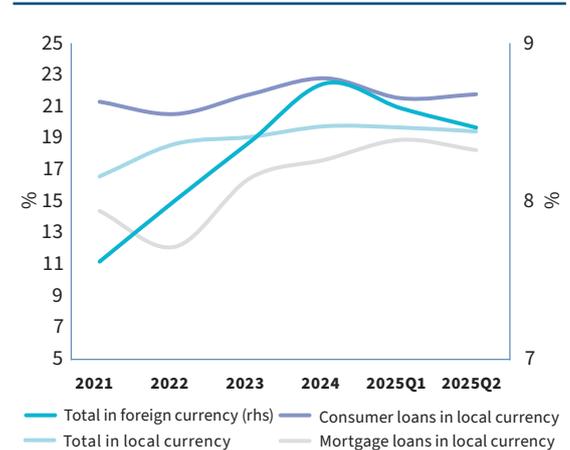
Source: NSC KR, St. Petersburg International Mercantile Exchange, authors' estimates.

**Figure 7. Trends in Credit Growth in Commercial Banks**



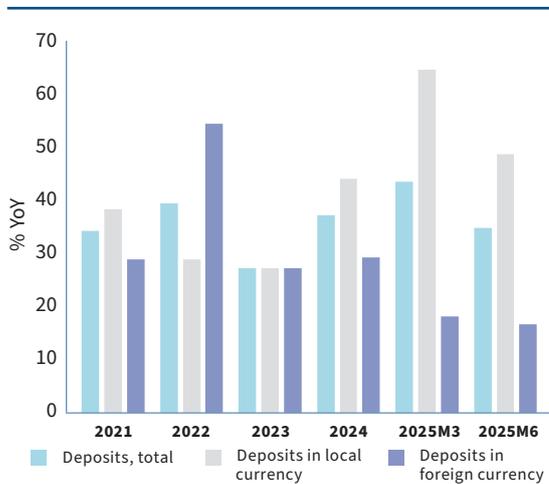
Source: NBKR, authors' calculations.

**Figure 8. Average Interest Rates on New Loans**



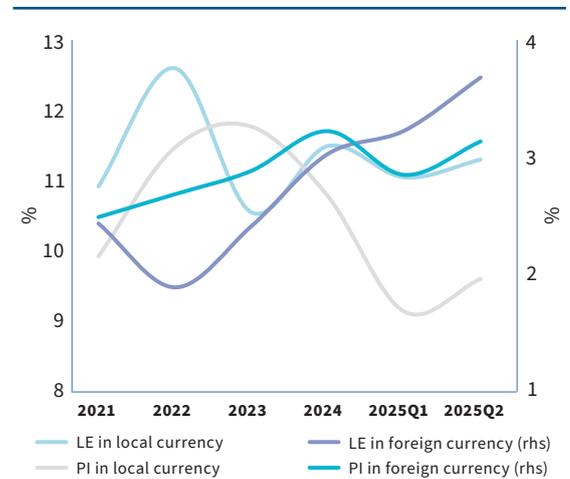
Source: NBKR, author's calculations.

**Figure 9. Trends in Deposit Growth in Commercial Banks**



Source: NBKR, authors' calculations.

**Figure 10. Average Interest Rates on New Term Deposits**



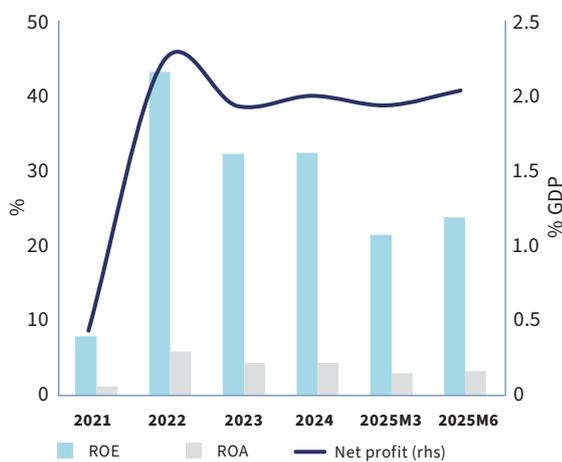
Source: NBKR, authors' calculations.

due to higher loan loss provisions by banks, which reduce profits. At the same time, the volume of these provisions is relatively insignificant – KGS 2.7 billion, or 0.2% of GDP. The share of distressed assets (Figure 12) was at 10.7% (2.7% of GDP), within the average values of recent years.

## FISCAL SECTOR AND PUBLIC DEBT

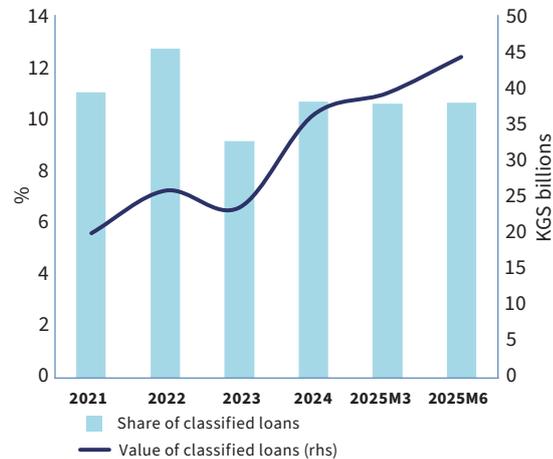
**The budget is executed with a record surplus, mainly due to the growth of non-tax revenues.** The transfer of the NBKR profits for 2024, worth KGS 45.7 billion (6.4% of GDP), to the

Figure 11. Banking Sector Profitability



Source: NBKR, authors' calculations.

Figure 12. Classified Loans



Source: NBKR.

republican budget in February 2025 led to a significant increase in non-tax revenues (13.1% of GDP, compared to 8.6% a year earlier). As a result, the republican budget surplus was 7.6% of GDP (5.2% of GDP in H1 2024). Excluding the regulator's profit transfer factor<sup>2</sup>, the surplus was 2.6% of GDP, compared to 3.1% a year earlier (Figure 13). Tax revenues increased by 1.2 p.p., to 25.5%, while total expenditures (excluding the NBKR profits transferred to the Stabilisation Fund) increased by 1.4 p.p., to 30.2% of GDP.

**Public debt levels increased in H1 2025 following significant debt issuance in the external and domestic markets.** Issuing Eurobonds worth USD 700 million in May 2025 led to an increase in external debt of 3.4 p.p. to 27.9% of GDP (Figure 14). The proceeds from the

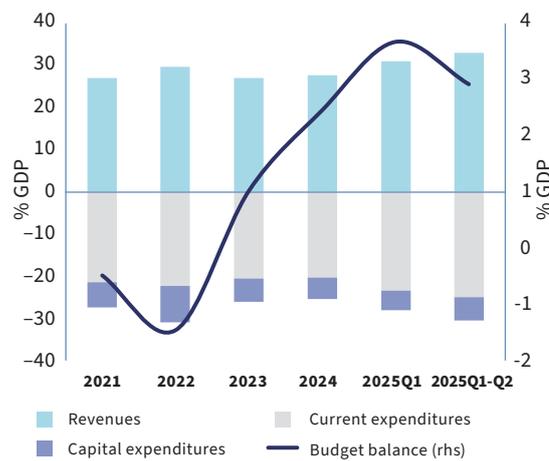
Eurobonds were used to recapitalise Eldik Bank OJSC. In turn, the Bank used these funds to purchase a 15-year issue of short-term treasury bills at an interest rate of 3% per annum, worth KGS 60 billion (~USD 700 million), on the primary market. As a result, domestic debt also increased by 4.6 p.p., to 16.7% of GDP. Total debt reached 44.6% of GDP.

## EXTERNAL SECTOR

**The current account deficit remains at a high level due to lower exports.** The EFSD estimates that the current account deficit widened from 30.6% of GDP in Q1 to 42.7% of GDP in Q2 2025. The dynamics are mainly driven by a significant drop in exports (-38.5% YoY), in particular gold (-53.7% YoY), due to a rise in purchases of non-monetary gold by the NBKR on the domestic market to add to its reserves. Imports were relatively stable (-2.5% YoY) following a sharp decline a quarter earlier (-16.1%).

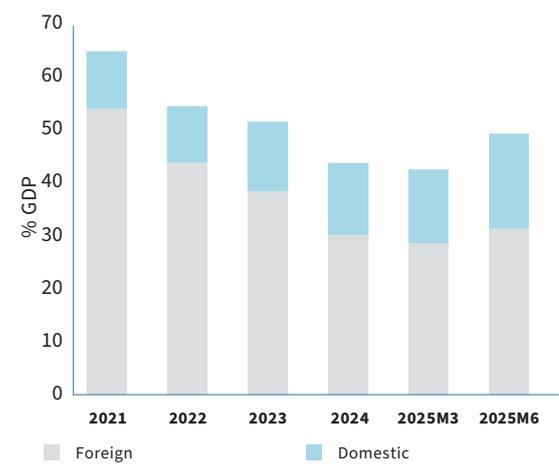
<sup>2</sup> Profits are excluded entirely from revenues and only partially from expenditures (KGS 10 billion transferred to the Stabilisation Fund as operating expenses), since most of the funds were used to recapitalise state-owned companies, which is not recorded as expenditures.

Figure 13. Republican Budget



Source: Ministry of Finance of the Kyrgyz Republic, authors' calculations.

Figure 14. Public Debt



Source: Ministry of Finance of the Kyrgyz Republic, authors' calculations.

**Cross-border transfers remained at a high level.** Gross remittances to the Kyrgyz Republic from abroad grew by 24.9% YoY in Q2 due to continued high wage growth in Russia (+15.6% YoY) and appreciation of the RUB exchange rate to the USD (+10.8% YoY). At the same time, remittances from the country are growing more slowly (+2.3%), contributing 28.5% to net remittances growth (to 18% of GDP).

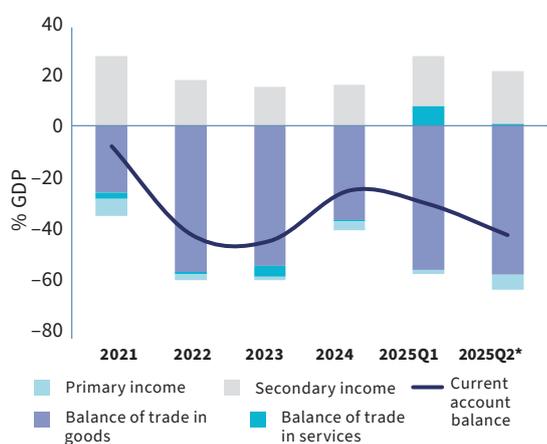
**International reserves continue to grow driven by gold and the balance of payments surplus.** By the end of Q2 2025, monetary gold in gross international reserves had increased by a factor of 2.1 YoY, due to growth in both gold prices on the world market (+40.4%) and physical volumes (+50.7%). The additional increase in reserves is due to an inflow under the financial account of the balance of payments. According to EFSD estimates, gross international reserves reached USD 6.5 billion (+72.0% YoY) and covered 5.5 months of average monthly imports.

**The KGS exchange rate is stable.** The average nominal exchange rate of the local currency against the USD appreciated by 1.0% YoY in Q2 2025. The real effective exchange rate remained unchanged due to the opposite effect of the KGS depreciation against the RUB (-11.1% YoY) and accelerating domestic inflation (+7.0% YoY on average in Q2).

## MEDIUM-TERM OUTLOOK

**The economic growth forecast for the whole period was revised upwards by 0.8 p.p.** In 2025, the GDP growth rate is expected at 9.0%, slowing down to 6.4%, 6.0%, and 5.5% in subsequent years, respectively. The main reason for the revision is the strong growth in construction, driven by accelerated investment activity in industry and the expansion of housing construction under the updated Programme 'My Home'.

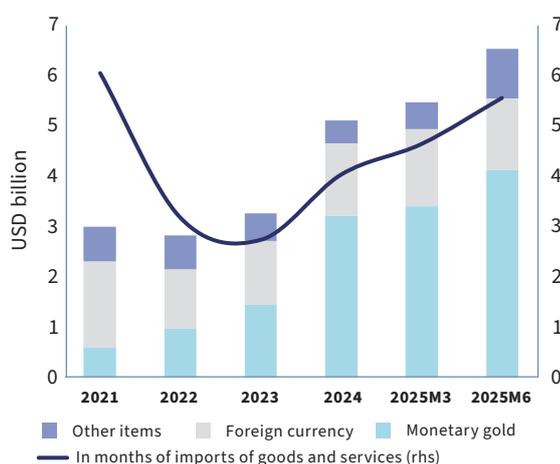
**Figure 15. Balance of Payments: Current Account**



Note: \* — authors' estimates.

Source: NBKR, authors' calculations.

**Figure 16. Gross International Reserves**



Source: NBKR, authors' calculations.

Thanks to construction, the economy is expected to grow at rates above its potential in the medium term.

### **Inflation will exceed the target range in 2025, stabilising in subsequent years (6.4% on average).**

The acceleration in food prices throughout 2025, the increase in electricity tariffs in May 2025, and the surge in domestic demand, reflected in substantial price hikes for certain goods and services (for instance, home repair services), will push consumer inflation up to 8.1% by the end of 2025, which is well above the NBKR target. Further monetary policy tightening, mitigation of food price impacts, and weaker domestic demand would lead to an average inflation within the target range.

**The budget is projected to have a surplus to ensure the fulfilment of below-the-line obligations,** primarily the additional capital injections into state-owned enterprises in the

power generating, banking, and construction sectors (in line with the 2025–2027 budget). The budget surplus will average 1.6% of GDP in 2025–2027 due to the high level of revenues (23% of GDP on average). A gradual reduction in tax revenues to 15% of GDP in 2028 would result in a deficit of 0.2% of GDP.

### **The current account deficit will continue to narrow.**

In 2025, the current account deficit will be at 16% of GDP due to a decline in exports and imports relative to previous years (to 42% and 73% of GDP, respectively) and an increase in net transfers to 17% of GDP. Going forward, lower imports (66% of GDP in 2028) would enable a reduction of the current account deficit to 14% of GDP, assuming stable exports and declining net remittance inflows. Given the relative stability of the balance of payments and the favourable price situation in the gold market, gross international reserves are expected to average 5.9 months of imports.

**TABLE 1. FORECAST OF KEY MACROECONOMIC INDICATORS**

	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2028 Forecast
<b>National accounts and prices (%)</b>					
Nominal GDP (KGS billions)	1 523.2	1 867.3	2 170.9	2 497.4	2 848.6
Real GDP growth	9.0	9.0	6.4	6.0	5.5
CPI (December, YoY)	6.3	8.1	6.3	6.3	5.6
CPI (year-average)	5.0	7.9	6.6	6.3	6.2
<b>Money and credit (eop)</b>					
Broad money supply, YoY	31.9	26.1	13.7	10.1	7.2
Credit to the economy, YoY	33.9	20.7	15.0	12.1	9.8
<b>Public finance (% of GDP)</b>					
Revenues and grants	27.4	27.0	22.6	20.9	19.7
tax revenues	20.7	18.8	17.1	15.7	14.6
Budget expenditures	25.2	24.9	21.0	19.9	19.9
Budget balance («-» deficit / «+» surplus)	2.3	2.1	1.6	1.0	-0.2
<b>External sector (% of GDP)</b>					
Current account	-23.5	-15.9	-14.6	-14.1	-13.8
Exports of goods and services	48.4	41.7	43.2	40.6	39.3
Imports of goods and services	86.4	73.4	73.6	68.6	65.8
Remittances	15.9	16.8	16.7	14.9	13.8
Foreign direct investment («-» inflows)	-1.4	-2.4	-2.7	-2.7	-2.7
Gross reserves, months of imports of goods and services of the current year	4.0	5.9	5.8	6.1	5.7

**Note:** \* republican budget indicators are given for revenues, expenditures and budget balance.

**Source:** national agencies and authors' calculations.



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# TAJIKISTAN



Armenia

Belarus

Kyrgyz Republic

**Tajikistan**

Risks to the  
Baseline  
Scenario



Tajikistan's economic growth decreased from 8.4% in 2024 to 8.1% in January–June 2025. The key driver behind these dynamics was weakening consumer demand. Economic activity was supported by growing investment in infrastructure projects and housing construction, as well as expanded exports against a backdrop of strong growth in output from extractive industries. Consumer inflation stood at 3.5% YoY in July, up from 3.4% in March. Lower world prices for wheat and energy commodities, coupled with the appreciation of the TJS real effective exchange rate, curbed inflationary pressures. The state budget recorded a surplus of 2% of GDP in January–June 2025 due to revenue growth, compared to a deficit of 0.6% of GDP a year earlier.

Tajikistan's real GDP growth forecast for 2025 has been revised upwards from 7.5% to 7.8%. Due to the normalisation of remittances and lower growth in key trading partners (Russia, China, and Kazakhstan), growth is expected to slow gradually in the medium term, down to 7.1% in 2026, 6.7% in 2027, and 6.0% in 2028. Consumer inflation is expected to go up to 3.9% in 2025, with consumer price growth stabilising at around 5% thereafter. Against the backdrop of repaying the principal on the Eurobonds and the limited fiscal space stemming from the construction of the Rogun HPP, fiscal policy will remain conservative. In 2025–2028, the state budget deficit is expected to be 0.6–1.9% of GDP. In the medium term, the balance of payments will come under pressure due to the gradual normalisation of remittances and the ongoing repayment of Eurobonds.

## REAL SECTOR AND LABOUR MARKET

**In H1 2025, Tajikistan's economic growth remained high despite a slight slowdown.** The decline in GDP growth from 8.4% in 2024 to 8.1% YoY was driven by weakening consumer demand — growth in retail sales, a measure of consumer demand, slowed to 6.2% YoY in H1 2025, down from 13.6% a year earlier. The slowdown in consumer demand occurred against the backdrop of a high base in 2024 and a potential decrease in the number of migrant workers due to Russia — the main destination for labour migration — tightening its migration policy. Meanwhile, the growth rate of capital investment increased from 8.4% in H1 2024 to 14.6% YoY in H1 2025, driven by strong investment growth in leisure, entertainment, culture, sports, and housing construction.

**The main growth drivers in January–June 2025 were trade, agriculture, and transport (Figure 1).** Gross output growth in the agricultural sector was 9% YoY in H1 2025 (+10.6% in 2024), driven by significant increases in fruit, melon and gourd harvests, as well as meat and egg production. The significant contribution to GDP growth from the wholesale and retail trade (1.7 p.p.) and transport (1.4 p.p.) sectors was supported by high growth rates in the extractive industries — 70% YoY compared to 46% in 2024. The production of metal ores grew by 70% YoY, while the production of other minerals increased by 50% YoY. Growth in the manufacturing sector slowed to 5% YoY compared to 11%

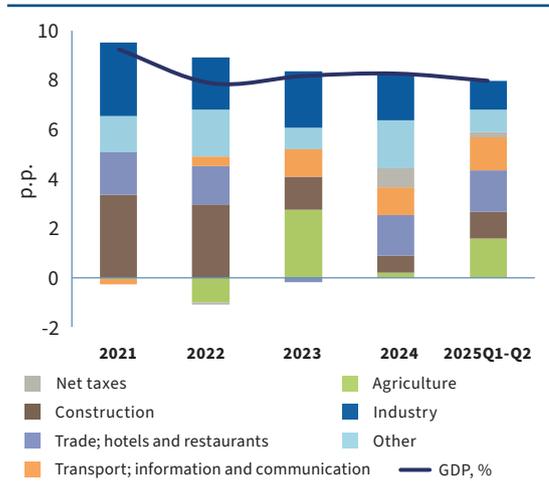
YoY in the same period last year, due to lower growth rates in metallurgy, the production of fabricated metal products, rubber and plastic products, and lower production of textiles. The growth in electricity generation was 13.2% YoY in H1, partly due to increased export volumes.

**The growth of employed population accelerated in H1 2025 (Figure 2).** The number of employed persons grew by 4.5% YoY compared to 1.8% growth in 2024. High rates of economic growth in the Republic of Tajikistan and potential difficulties with employment of migrant workers in Russia supported employment growth. Following a 3% YoY decline in H1 2024, the number of officially registered unemployed individuals increased by 2.5% YoY in January–June 2025.

**Higher salaries in the budget sector, as well as an increase in the minimum wage, supported high economy-wide wage growth.** In June 2025, the annual growth of average monthly wages was 23.6% YoY in nominal terms and 19.4% in real terms (Figure 3). In the real sector, nominal wages grew most rapidly in the water sector (up 29.5% YoY) and agriculture (up 26.5% YoY). In services, the leaders in nominal wage growth were the health<sup>1</sup> and social care sectors (up 34.5% YoY) and hotels and restaurants (up 33.4% YoY). Wages in non-budget services sectors grew more slowly, with transport services increasing by 0.1% and showing a fall in real terms.

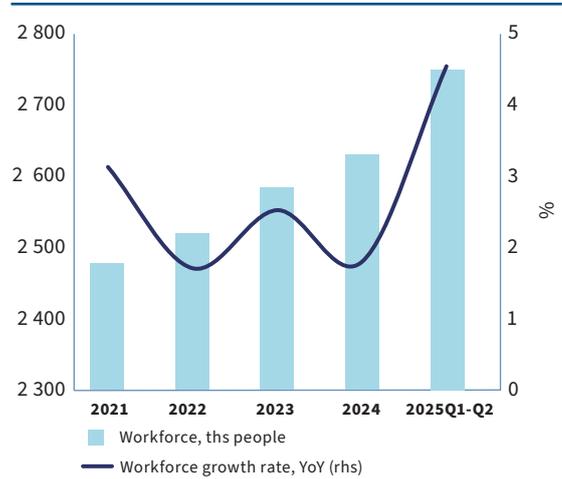
<sup>1</sup> Salaries in the public administration, education, and health sectors were raised on 1 July 2024.

**Figure 1. Decomposition of Annual GDP Growth (Production Approach)**



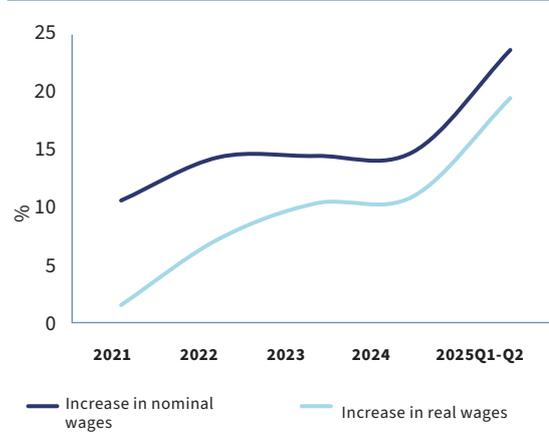
Source: Tajstat.

**Figure 2. Labour Market Indicators**



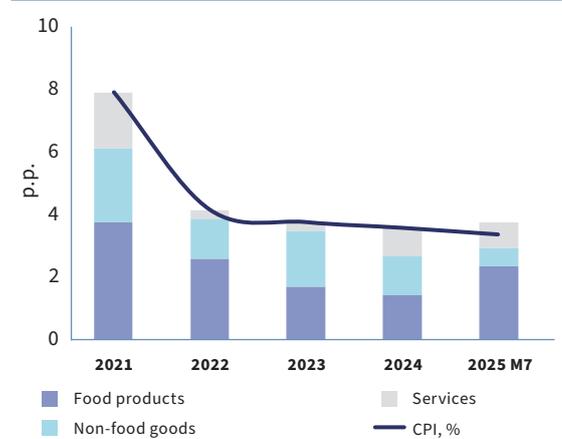
Source: Tajstat.

**Figure 3. Household Income (eop, YoY)**



Source: Tajstat.

**Figure 4. Decomposition of Inflation (YoY, eop)**



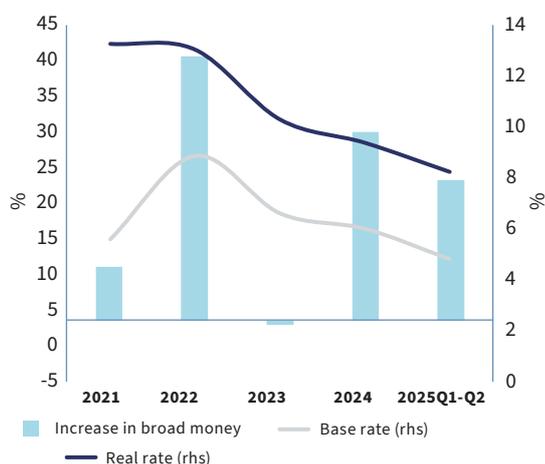
Source: Tajstat.

## INFLATION AND MONETARY TRENDS

**Consumer inflation is close to the lower end of the NBT target range (Figure 4).** In July 2025, consumer price growth was 3.5% YoY, with the NBT target at  $5 \pm 2\%$  for 2025. Food inflation rose from 3.1% YoY in March to 4.5% YoY in July 2025, mainly driven by vegetable

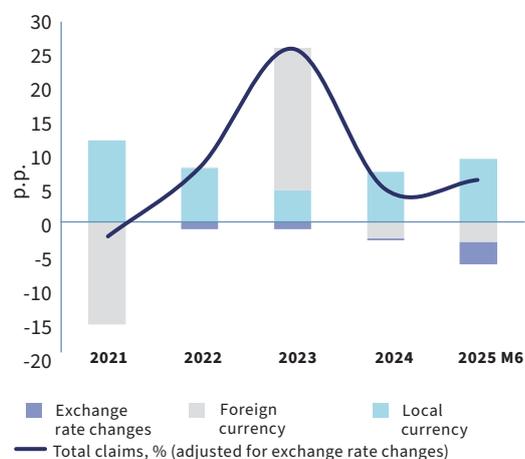
and egg prices. In the services sector, an electricity tariff hike of 15% in April 2025 gave added impetus. As a result, services price growth accelerated from 3.3% to 4.1% YoY. Non-food inflation dropped from 3.7% to 1.7% due to a fall in fuel and lubricants prices. Overall, consumer inflation increased slightly in July compared to the level in March 2025 (3.4%). Significant dependence

Figure 5. Monetary Indicators (eop, YoY)



Source: NBT, Tajstat.

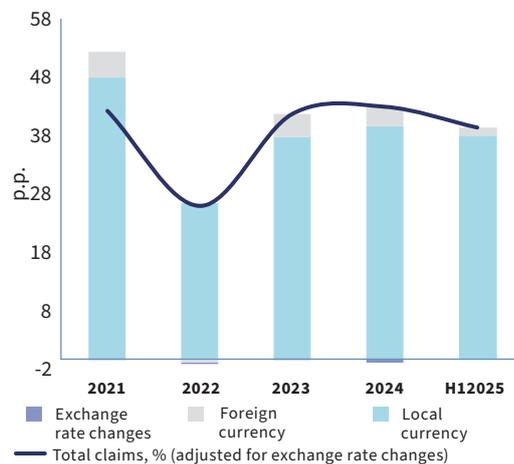
Figure 7. Increase in Corporate Loans (eop, YoY)



Source: NBT.

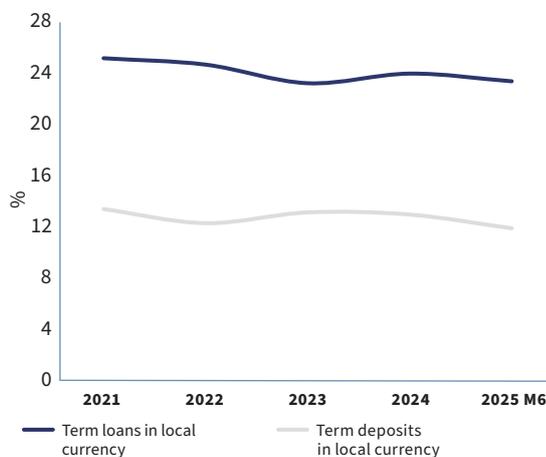
of Tajikistan's economy on imports strengthens the role of non-monetary factors (world prices and exchange rate) in the dynamics of consumer inflation. In 2025, lower world prices for wheat and energy commodities, coupled with the appreciation of the TJS real effective exchange rate, curbed consumer inflation.

Figure 6. Increase in Loans to Households (eop, YoY)



Source: NBT.

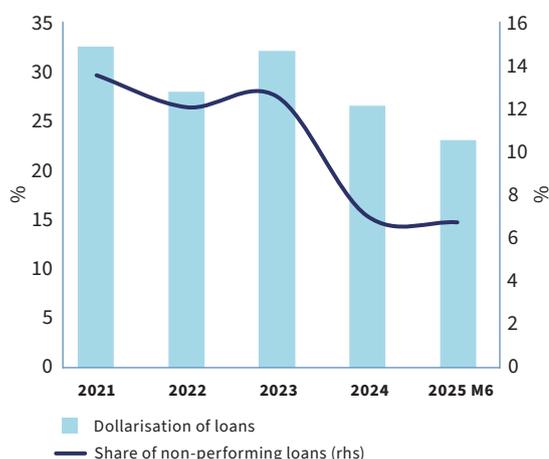
Figure 8. Interest Rates on New Loans and Deposits (eop)



Source: NBT.

**Against a backdrop of low consumer inflation, the NBT continued to cut the refinancing rate in 2024.** The rate was cut by 50 basis points to 7.75% in August and by 1.25 p.p. in 2025 in total. As a result, the real refinancing rate was 4.5% at the end of August, down from 5.3% at the end of 2024. Compared to December 2024, deposit and lending rates declined by 1.1 p.p. and 0.6 p.p., respectively (Figure 8).

Figure 9. Banking Sector Indicators (eop)



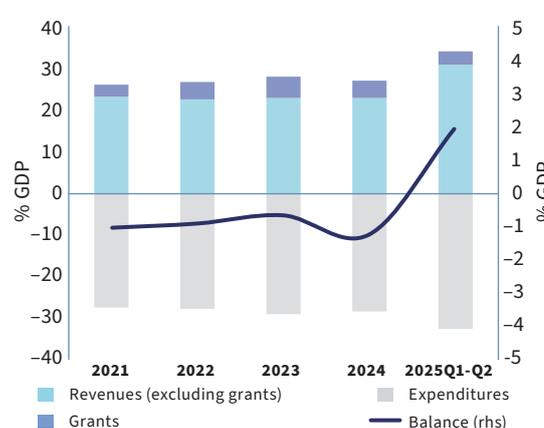
Source: NBT.

**Continued remittance inflows<sup>2</sup> and purchases of gold by the NBT contributed to ongoing YoY growth in broad money supply.** Significant inflows associated with migrant workers and purchases of gold by the NBT led to higher liquidity in the banking system, which was partially sterilised by the NBT through its open market operations. However, as at end-June 2025, the BMS grew by 21% YoY, while reserve money growth was 23% YoY (Figure 5). The main contribution to the growth of monetary aggregates came from cash outside banks.

**Lending growth eased slightly, while the quality of the loan portfolio improved.** In June 2025, banks' loan portfolio grew by 19.1% YoY compared to 23.3% in December 2024. The growth in bank lending was driven primarily by an increase in loans to households (39.2% YoY) (Figure 6) and corporate loans

<sup>2</sup> Inbound remittances (associated mostly with migrant workers) grew by 65% YoY in Q1 2025. Data for Q2 have not been released.

Figure 10. State budget



Source: Ministry of Finance of the Republic of Tajikistan, Tajstat.

in the local currency (18.5% YoY) (Figure 7). The share of non-performing loans (NPLs) in banks' total loans declined from 7.1% at the end of 2024 to 6.8% due to write-offs of older loans (Figure 9). Return on assets and regulatory capital increased compared to December 2024 to 5.7% and 31.8% respectively as at 1 July 2025. The regulatory capital adequacy ratio was 23.8%, with a threshold of at least 12%.

## BUDGET

**The fiscal stance remained stable in H1 2025.** The state budget recorded a surplus of 2% of GDP<sup>3</sup> in January–June 2025 due to revenue growth, compared to a deficit of 0.6% of GDP a year earlier (Figure 10). State budget tax revenues increased by 2.6 p.p. compared to H1 2024, reaching 25.1% of GDP, driven by higher profit tax and VAT revenues, the cancellation of several exemptions,

<sup>3</sup> Based on the international methodology (principal repayment is spread evenly over the year).

and enhanced tax administration. Non-tax revenues grew by 1.8 p.p. Total state budget revenues grew by 4 p.p. to 35.1% of GDP. This was accompanied by a 1.5 p.p. Increase in total expenditures, bringing them to 33.1% of GDP, driven by growth in expenditures on the fuel and power generating sector (+1.1 p.p.) and education (+0.9 p.p.). A 40% increase in public sector wages from 1 July 2024 onward led to a hike in wage costs, equivalent to 1.5% of GDP. However, it was offset through consolidation of expenditures on goods and services (-1.5% of GDP). Capital budget expenditures increased by 1.4 p.p. to 8.7% of GDP, most of these expenditures are related to the construction of the Rogun HPP.

## EXTERNAL SECTOR

**Growing prices for exported metals (aluminium, nickel, lead and gold) and antimony, as well as increased mining volumes, led to higher revenues from merchandise exports for the Republic of Tajikistan.** In January–June 2025, merchandise exports increased by 35.1% YoY to USD 941 million. Higher revenues from antimony exports to the EU accounted for the bulk of the increase in merchandise exports in nominal terms. Electricity exports increased by 60% YoY. Imports of goods grew by 22% to USD 3.76 billion on the back of continued rapid growth in investment and consumer demand and appreciation of the TJS real effective exchange rate.

**In Q2 2025, the TJS real effective exchange rate appreciated by 0.7% QoQ and foreign assets of the NBT remained**

**unchanged**, indicating the sustainability of the balance of payments in Q2 2025 despite the tightening of migration policies in Russia (Figures 11 and 12).

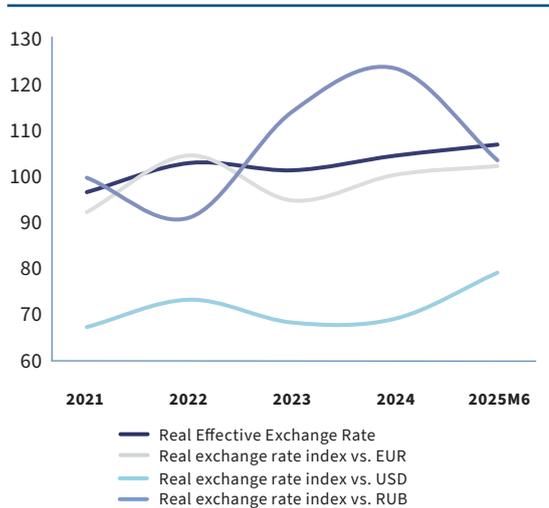
## MEDIUM-TERM OUTLOOK

**Tajikistan's real GDP growth forecast for 2025 has been revised upwards from 7.5% to 7.8%.** The adjustment is due to stronger-than-expected performance in Q1 and Q2, supported by robust growth in the extractive industries, increased migrant remittances, and strong investment demand. Due to the normalisation of remittances and lower growth in key trading partners (Russia, China, and Kazakhstan), growth is expected to slow gradually in the medium term, down to 7.1% in 2026, 6.7% in 2027, and 6.0% in 2028. We expect monetary and fiscal policies to focus on maintaining a macroeconomic equilibrium in the context of limited fiscal space, given the ongoing construction of the Rogun HPP.

**Consumer inflation will rise slightly in 2025 and remain at 5% in the medium term.** We expect the average consumer inflation rate to rise to 3.9% in 2025 and 5.0% in 2026. The increase will be driven by sustained growth in prices for non-food goods and services (including further electricity tariff hikes), as well as gradual depreciation of the TJS exchange rate. Stabilising food prices and lower global oil prices will have a restraining effect.

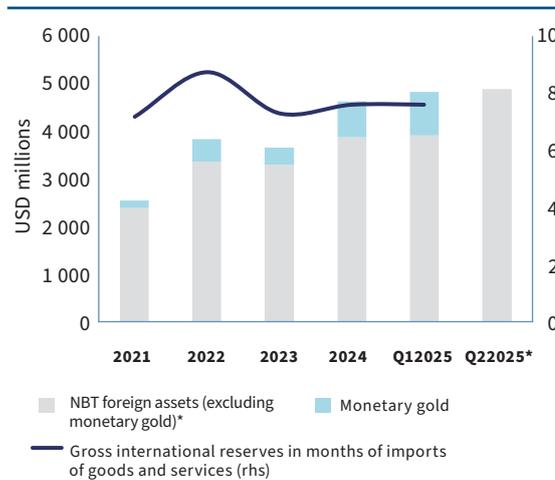
**The state budget deficit is expected to be between 0.6 and 1.9% of GDP.** Tax revenues are projected to grow

**Figure 11. TJS Exchange Rate Indices (December 2009 = 100)**



Source: NBT.

**Figure 12. NBT Foreign Assets (eop)**



Note: \* — data on monetary gold are not available.

Source: NBT.

in 2025–2027 due to the repeal of inefficient tax exemptions<sup>4</sup> and ongoing efforts to enhance tax and customs administration, with tax revenues reaching 19.5% of GDP in 2027–2028. However, grant revenues will decline, leading to a decrease in state

<sup>4</sup> Medium-Term Public Expenditure Framework of the Republic of Tajikistan for 2024–2029.

budget revenues (in % of GDP). The government's expenditure consolidation plans will help to maintain a sustainable fiscal stance in the medium term<sup>5</sup>. Following a substantial raise in 2024–2025, we anticipate more modest wage growth in the budget sector, alongside moderate increases in capital expenditures other than those on the Rogun HPP.

**The current account surplus is projected to be replaced by a deficit due to the expected decline in inflows under the labour income and secondary income accounts.** A gradual decline in inflows under the labour income and secondary income accounts (in % of GDP) will result in the current account surplus being replaced by a deficit of 0.6% of GDP in 2027 and 1.3% of GDP in 2028. At the same time, although the level of gross international reserves is expected to decline from 7.6 months of imports in 2024 to 6.7 months in 2028, it will remain sufficient to ensure external stability.

<sup>5</sup> State budget expenditures under the baseline scenario match the planned expenditures shared by the Ministry of Finance of the Republic of Tajikistan with the EFSD. It is understood that expenditures could increase if new sources of financing are identified. However, assumptions are made that the RT Government's fiscal policy will aim to maintain budget and debt sustainability, with the state budget deficit not exceeding 2.5% of GDP in the forecast period.

**TABLE 1. KEY MACROECONOMIC INDICATORS**

	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2028 Forecast
<b>National accounts and prices</b>					
Nominal GDP, TJS billions	153.4	171.7	193.1	216.3	240.7
Real GDP growth, %	8.4	7.8	7.1	6.7	6.0
CPI (average, YoY), %	3.6	3.9	5.0	5.0	5.0
<b>Money and credit (eop)</b>					
Broad money, % change	28.8	18.3	12.5	12.0	9.4
<b>Public finance (% of GDP)</b>					
Revenues and grants	27.7	27.2	26.2	26.0	25.7
of which tax revenues	19.0	18.9	19.0	19.5	19.5
Budget expenditures	28.9	29.1	27.5	26.5	26.5
Current expenditures	17.3	19.3	18.6	18.3	18.3
Capital expenditures	11.6	9.8	8.9	8.2	8.2
Budget balance («-» deficit / «+» surplus)	-1.2	-1.9	-1.3	-0.6	-0.9
<b>External sector (% of GDP)</b>					
Current account	6.2	2.9	0.7	-0.6	-1.3
Remittances	44.7	38.9	35.9	34.0	32.4
Foreign direct investment	1.3	1.3	1.3	1.3	1.3
Gross reserves, months of imports of goods and services of the current year	7.6	7.4	7.2	6.9	6.7

Source: national agencies and authors' estimates.

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# RISKS TO THE BASELINE SCENARIO



Armenia

Belarus

Kyrgyz Republic

Tajikistan

**Risks to the  
Baseline  
Scenario**



## RISKS TO THE BASELINE SCENARIO

Trade conflicts continue to pose the main risks to the global economy. There is still uncertainty surrounding U.S. tariff policy, including the extension of deferrals and exceptions to existing restrictions, the imposition of new comprehensive tariffs on certain countries and product-specific tariffs. Although responses to the U.S. have been limited so far, further escalation could provoke retaliation and spread trade tensions to Third World countries. In this context, commodity markets remain at risk.

A new risk is that countries bolster their support for industry through subsidies and restrictive trade policies in 2025. This will put additional pressure on international trade, particularly in strategically important and high-tech sectors.

The potential upside for oil prices comes from the possibility of trade wars easing faster than expected and the global economy accelerating, as well as the risk of escalating tensions in the Middle East. Conversely, the prolonged adverse effect of imposed trade restrictions could result in lower oil prices. The build-up of production by OPEC+ countries also poses a downside risk.

FAO's updated summer food outlook is relatively optimistic, striking a balance between supply and demand. However, global food production remains vulnerable to climate conditions, geopolitical conflicts, uncertain international trade policies, and fluctuating biofuel prices — factors that

could adversely affect trade prospects and lead to price increases and accelerating inflation in food-importing countries.

However, the EFSD countries are successfully adapting to the changing environment, and we do not anticipate any new risks for them.

### RUSSIA

Russia's economy is making a 'soft landing', bypassing the risks of recession that we warned about in our previous Outlook, although Q2 statistics prompted a downward revision of the year-end estimate. Business activity is normalising smoothly, and threats of overcooling persist only in certain sectors of the economy. In the short term, we see the threat of new sanctions, whether directly against Russian economic agents or against buyers of Russian export goods, as the key source of uncertainty in economic dynamics.

However, a slowdown in the Russian economy poses a serious challenge to the rest of the region, particularly Belarus and Armenia. These economies could face significant downward pressure due to lower demand in the Russian domestic market, coupled with reduced investment and tourist flows from Russia.

Despite the risk of increased sanctions pressure, we do not anticipate any significant adjustments to the RUB

exchange rate compared to our baseline forecast. Nevertheless, the RUB volatility is likely to increase in light of the declining attractiveness of savings and the uncertainty of the sanctions regime.

## KAZAKHSTAN

The risk of increased inflationary pressure — as a result of sustained growth in consumption and fiscal stimulus measures, particularly investment activity — which was mentioned in our previous Outlook, has now materialised. At the same time, the risk of inflation remains high due to strong inflation expectations and the persistent positive output gap in the economy.

Compared to the previous Outlook, the risk of the KZT depreciation has increased due to rising imports against a backdrop of stable domestic demand coupled with the weakening of factors supporting the local currency in the medium term, such as transfers from the National Fund, mandated foreign exchange sales by the quasi-public sector, and operations to mirror gold purchases (the latter being a temporary measure to offset the impact).

Meanwhile, the risks associated with high dependence on oil prices persist. A decline in oil prices would put pressure on the fiscal stance, calling for active use of the National Fund to finance expenditures.

## ARMENIA

We should reiterate that the diverging internal and external risks previously mentioned still exist.

In the face of the persistent AMD overvaluation, Armenia's economy has

seen a steady structural shift towards the non-traded sector over the past three years. As a result, the economy becomes more dependent on domestic demand and less competitive in terms of exports.

The EFSD estimates that the credit gap continues to widen, putting additional pressure on domestic demand and increasing the vulnerability of the banking system to credit risks. Overheating in the property market also poses risks such as a potential slowdown in construction and an adjustment in housing prices, which could adversely affect related sectors of the economy.

If the AMD depreciates faster and the prices of imported food products rise, inflation may exceed the range targeted by the CB RA.

The risk of underperformance against the budget plan for current and capital expenditures still exists, creating uncertainty regarding fiscal policy. The focus is also on the costs of supporting internally displaced persons from Nagorno-Karabakh, which could take longer and cost more than anticipated in the baseline scenario.

In the coming years, the factors related to geopolitical processes that have thus far underpinned the situation may lose their effectiveness. These factors include growth in tourist influx from the Russian Federation, growth in remittances, and the relocation of IT companies and qualified personnel to Armenia.

However, positive deviations from the baseline scenario are also possible. In particular, the launch of the Amulsar mine, scheduled for November 2025,

according to the CB RA's estimates, may generate an additional 1–2 p.p. contribution to GDP growth.

## BELARUS

There are still risks of more expansionary policies followed by the authorities, coupled with weaker external demand. Providing excessive support for domestic demand through fiscal and monetary policy may adversely affect inflation and exchange rate dynamics, thereby making Belarus' economy more vulnerable to external and domestic shocks.

Administrative controls introduced to reduce inflationary pressures have already had an adverse effect on companies' margins and investment plans, and the risk of further price imbalances persists. The decline in demand for Belarusian products in Russia as Russian producers adapt to the new environment could lead to economic activity in Belarus cooling faster than the forecast suggests.

The sanctions policy against Russia and Belarus could have either an adverse or a positive effect, depending on whether sanctions are expanded and/or unified or whether the pressure is eased.

## KYRGYZ REPUBLIC

There is a risk of higher economic growth than is assumed under the baseline scenario. This could be driven by existing market factors, as well as a rise in gold production resulting from the commencement of underground gold mining at Kumtor in August 2025. Output growth at Kumtor could add up to 1.5 p.p. of GDP growth in 2026.

It is important to highlight the risk of inflationary pressure increasing due to rising fuel and lubricant prices among the adverse risks. Imports, mainly from Russia, cover more than 80% of domestic diesel and petrol consumption. The planned upgrade of the Junda refinery, which is expected to be completed by the end of 2025, will mitigate this risk to some extent.

There are still risks associated with budget financing of large-scale programmes to re-capitalise state-owned companies in the power generating, banking, and construction sectors, as well as infrastructure mega projects such as Kamar-Ata HPP-1 and the China–Kyrgyzstan–Uzbekistan railway. Significant growth in these expenditures could result in budget financing gaps.

The external sector is dominated by risks related to remittances. The risk of deportation of migrant workers who fail to legalise their stay in Russia by 10 September, as well as slower wage growth in Russia, could reduce remittances by 2–3 p.p. of GDP. The legal status of around 70,000 migrant workers remains uncertain, and their deportation could put additional strain on the labour market and the country's balance of payments.

## TAJIKISTAN

Tajikistan's economy remains vulnerable to external shocks due to its high dependence on remittances — primarily from Russia — and imports, as well as its low level of export diversification. This vulnerability is exacerbated by increased principal repayments on external public debt between 2025 and 2027.

The completion of the Rogun HPP, which is estimated to require USD 6.3 billion in financing<sup>1</sup>, poses risks to the country's fiscal and debt sustainability. The main risks are related to potential delays in external financing, which would require these expenditures to be funded from own revenues, thereby crowding out financing for other areas, including social expenditures. The cost of construction could increase, requiring new sources of financing to be identified, although the sources for the current estimate of the required financing are not yet fully confirmed.

The large share of state-owned enterprises in the economy carries quasi-fiscal risks, especially in the power generating sector. Although the Government remains committed to the financial rehabilitation of the sector, the tariff is not expected to reach cost recovery until 2027.

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<sup>1</sup> Project appraisal document on a proposed grant to the Republic of Tajikistan for a sustainable financing for Rogun Hydropower Project. World Bank. Available at: <https://documents1.worldbank.org/curated/en/099112024121021960/pdf/BOSIB-401c31c2-2fe4-4029-881c-d65e28bfc04d.pdf>.

# ABBREVIATIONS

<b>AMD</b>	Armenian dram
<b>Armstat</b>	Statistical Committee of the Republic of Armenia
<b>Belstat</b>	National Statistical Committee of the Republic of Belarus
<b>BMS</b>	broad money supply
<b>BNS ASPR RK</b>	Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan
<b>BYN</b>	Belarusian ruble
<b>CB RA</b>	Central Bank of the Republic of Armenia
<b>CPI</b>	Consumer Price Index
<b>ECB</b>	European Central Bank
<b>EFSD</b>	Eurasian Fund for Stabilization and Development
<b>eop</b>	end of period
<b>EUR</b>	euro
<b>EVSR</b>	Estimated Value of Standard Risk
<b>FAO</b>	Food and Agriculture Organisation of the United Nations
<b>FRS</b>	U.S. Federal Reserve System
<b>GDP</b>	gross domestic product
<b>HPP</b>	hydroelectric power plant
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>KGS</b>	Kyrgyz som
<b>KZT</b>	Kazakhstani tenge
<b>LE</b>	legal entity
<b>MoF</b>	Ministry of Finance
<b>MoM</b>	month-on-month

<b>National Fund</b>	National Fund of the Republic of Kazakhstan
<b>NBKR</b>	National Bank of the Kyrgyz Republic
<b>NBRB</b>	National Bank of the Republic of Belarus
<b>NBRK</b>	National Bank of the Republic of Kazakhstan
<b>NBT</b>	National Bank of the Republic of Tajikistan
<b>NEER</b>	nominal effective exchange rate
<b>NPL</b>	non-performing loan
<b>NSC KR</b>	National Statistical Committee of the Kyrgyz Republic
<b>OPEC+</b>	Organisation of Petroleum Exporting Countries plus other oil-producing countries
<b>p.p.</b>	percentage point
<b>PI</b>	private individual
<b>QoQ</b>	quarter-on-quarter
<b>REER</b>	real effective exchange rate
<b>RUB</b>	Russian ruble
<b>SAAR</b>	seasonally adjusted annual rate
<b>Tajstat</b>	Agency on Statistics under the President of the Republic of Tajikistan
<b>TJS</b>	Tajikistani somoni
<b>U.S.</b>	United States of America
<b>USD</b>	U.S. dollar
<b>USD/t</b>	USD per tonne
<b>USD/XAU</b>	U.S. dollars per ounce
<b>VAT</b>	value added tax
<b>YoY</b>	year-on-year
<b>% YoY</b>	annual growth rate



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