

An impressionistic landscape painting featuring a body of water in the foreground, reflecting the sky and surrounding hills. The sky is a mix of light blue and white, with soft, textured brushstrokes. The hills are rendered in vibrant colors like yellow, orange, purple, and green, also with visible brushwork. The overall style is expressive and colorful.

EFSD

EURASIAN FUND FOR  
STABILIZATION AND DEVELOPMENT

# REGIONAL ECONOMIC OUTLOOK

| SPRING 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.

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**DISCLAIMER:**

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# CONTENTS

Chief Economist’s Foreword .....	2
Executive Summary .....	4
Trends in the Global Economy .....	10
Russia.....	16
Kazakhstan .....	28
Armenia .....	40
Belarus.....	52
Kyrgyz Republic .....	64
Tajikistan .....	76
Risks to the Baseline Scenario .....	88
Abbreviations .....	96

## CHIEF ECONOMIST'S FOREWORD

The global economy has entered a period of complex transformation amid fundamental changes in the rules of global trade. After the announcement of the tariff hikes, uncertainty regarding the US policies had been amplified by uncertainties regarding the response of major economies to new trade restrictions and adaptation of the global economy and trade to the new reality. The balance of risks for major economies and economic blocs — including the US, the European Union, China, India, Japan and others — has deteriorated sharply. The materialisation of these risks could result in a significant slowdown in global demand, adversely affecting many smaller economies, including countries in our region.

Key macroeconomic indicators for Q1 2025 in EFSD member states suggest that the main trends observed in Q4 2024 continued. In Russia we observe signs of a slowdown in economic and credit activity amid persistent overheating, fuelled by fiscal stimulus and extremely tight labour market. Growth has also moderated in Armenia and Belarus, while Kazakhstan, the Kyrgyz Republic and Tajikistan maintained growth momentum of last year.

Our baseline forecast for 2025–2027 remains broadly unchanged from the previous round. In the medium term, most countries are expected to move gradually towards more balanced economic growth. This will ensure a “soft landing” in the environment when effects of the

temporary growth drivers disappear. The exception is Kazakhstan, where growth rates are projected to remain stable, at a relatively high level.

However, the balance of risks for EFSD member states has also deteriorated, primarily due to external threats such as a potential sharp decline in prices of key export commodities and resources, as well as a potential increase in inflationary pressures driven by external factors. Another shared risk is the potential adjustment of Russia's economy to the possible easing of sanction restrictions. This may lead to an outflow of labour and financial resources from the region's smaller economies with negative implication for economic activity.

Despite the increased risks and heightened vulnerability of our economies to external shocks, we do not anticipate the emergence of critical imbalances in the short or medium term, which could seriously threaten macroeconomic and financial stability in EFSD member states.



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

## EXECUTIVE SUMMARY

In 2025, all countries, except Kazakhstan, are expected to experience a slowdown in economic growth with a reduced contribution from cyclical factors. Early in the year, indicators point to a cooling Russian economy. Economic expansion is decelerating in Armenia and Belarus. Output growth remains robust in Kazakhstan, the Kyrgyz Republic and Tajikistan. Our baseline forecast for 2025-2027 has not changed significantly from the previous round. Most economies are expected to achieve a soft landing over the medium term as cyclical factors wane. Inflationary pressures will persist in a number of countries and balance of payments sustainability will deteriorate somewhat.

No new domestic risks have emerged since the previous forecast round, whereas external risks and uncertainties have risen markedly. The realisation of risks associated with tariff wars may lead to a significant slowdown in the global economy, a sharp drop in prices for key export goods and resources, and an increase in import prices, which will have a negative impact on the countries of the region. Smaller economies in the region face growth headwinds from the reorientation of trade flows and the outflow of financial and labour resources back to Russia as the Russian economy adapts to new geopolitical realities.

Nevertheless, the emergence of systemic imbalances that pose a threat to macroeconomic and financial stability appears unlikely.

### RUSSIA

In 2025, the Russian economy enters a phase of gradual cooling — the first signs of slowdown became visible already at the beginning of the year. GDP growth is projected to decelerate to 1.9% in 2025, down from 4.1% in 2024. Inflation in 2025 will also gradually decline from the current double-digit values to 7.9% at the end of the year. The Central Bank of Russia is expected to begin monetary easing in mid-2025, with the key rate projected to reach 17% by year-end. The ruble is expected to trade near its equilibrium level, supporting external balance and fiscal stability, creating predictable conditions for economic growth. In the medium term, growth is expected to slow to 1.4% in 2026, with a subsequent recovery to 1.9% in 2027. Inflation will decline to 4.6% by the end of 2026 and will only reach the target level of 4% in 2027.

Risks to the baseline scenario stem primarily from external factors. Reduction in global demand and prices for oil and other resources may lead to a reduction in export revenues and budget revenues.

We observe an increase in the level of uncertainty regarding the sanctions regime, and economic agents are forming expectations of sanctions easing, which may affect their behaviour in the short term. A partial easing of sanctions could prompt foreign firms to re-enter the market, boosting supply and easing economic overheating. However, it will also increase inflationary pressure due to growing demand for labour, which to some extent may be offset by the return of Russian capital and labour.

## KAZAKHSTAN

Kazakhstan's economy is expected to maintain strong growth momentum in 2025, with GDP expanding by 5.2%. The forecast has been revised upward slightly, reflecting stronger-than-expected growth in late 2024 and its carryover effect into early 2025. Economic expansion will be primarily supported by rising oil production and exports, progress on major infrastructure projects, and greater public sector investment. Inflation is projected to reach 10.6% by the end of 2025 due to persistent domestic inflationary pressures. The National Bank of Kazakhstan plans to keep monetary policy restrictive through at least 2026, with the average benchmark interest rate anticipated to stand at 16.5% during 2025. Between 2026 and 2027, the output gap is expected to gradually close as fiscal stimulus diminishes, with GDP growth moderating to 4.5% and 4.3% in those respective years.

Key downside risks include potential weakening of global commodity markets which could adversely affect macroeconomic indicators. Growth faces additional challenges from possible

shortfalls in planned oil output due to OPEC+ quota requirements and potential supply disruptions through the Caspian Pipeline network. Inflationary pressures may intensify should fiscal tightening be delayed, government spending rise, or external shocks occur. The tenge exchange rate remains vulnerable to increased volatility stemming from unfavorable external conditions, foreign currency sales from the National Fund, and constraints in domestic market liquidity.

## ARMENIA

In 2025, Armenia's GDP growth will slow down to 4.7% against strong performance in the previous year. Growth dynamics will be primarily demand-driven, supported by accommodative fiscal and monetary policies alongside robust credit expansion. These policy measures should help anchor inflation within the central bank's target band. A significant increase in government spending — particularly on social programs and capital investment — is expected to widen the fiscal deficit to 5.7% of GDP. The current account deficit is projected to widen as temporary tailwinds from foreign trade fade. Under the baseline scenario, output growth is expected to converge toward its potential rate of 4-5% during 2026-27, consistent with maintaining inflation near the target level.

The economy faces downside risks from potential temporary softening of activity as cyclical support diminishes. Fiscal risks stem from possible revenue shortfalls relative to projections and potential expenditure under-execution. Social spending could rise due to delays in labour market integration for resettlers from Nagorno-Karabakh.

## BELARUS

Belarus' economic growth is projected to decelerate to 1.6% in 2025, reflecting spillover effects from Russia's slowdown and tighter domestic macroeconomic policies. Medium-term growth is expected to converge toward its potential level. Persistent pressures from domestic demand, labour market tightness, and imported inflation from Russia continue to pose upside risks to price stability. So far, inflation remains under control through the price regulation system, tight monetary policy, and exchange rate stability. Nevertheless, inflation is forecast to average 6-7% in 2025-2026. The fiscal stance is expected to remain broadly neutral, notwithstanding a modestly widening surplus. A moderation in economic activity and improving terms of trade should support external stability, keeping the current account deficit in check.

Domestic risks to Belarus' baseline outlook stem primarily from maintaining growth-stimulus policies amid weakening external demand and unfavourable terms-of-trade dynamics. At the same time, domestic reserves to absorb shocks remain limited. External risks are associated with growing uncertainty about the Russian economy, including secondary effects of tariff wars and change of sanctions rhetoric. As Russian firms adjust to sanctions, Belarusian exporters may face growing competitiveness challenges in the Russian market.

## KYRGYZ REPUBLIC

The Kyrgyz Republic is projected to maintain above-potential GDP growth through 2025–2027, with annual expansion of 5.9%, 5.6%, and 5.4%, respectively. Growth in the services sector — a key driver in recent years — is expected to moderate, while construction and industrial output will remain robust. Faster food price growth in late 2024–early 2025, coupled with planned electricity tariff hikes in May 2025, will fuel inflationary pressures. Inflation is forecast to average 6.7% in 2025, near the upper bound of the NBKR's target band. Without additional shocks, price growth will moderate to a level near 6.0% in 2026-2027. The republican budget will remain in surplus. The revenue side will continue to be supported by high non-tax revenues in the form of dividends from state-owned companies and NBKR profits, as well as revenues from the placement of temporarily free budget funds. The normalization of balance-of-payments trends observed since Q2 2024 is likely to persist through 2027.




Risks to the budget balance are posed by the increased support of enterprises in the inefficient energy sector, implementation of large infrastructure projects (Kambar-Ata HPP-1 and the China — Kyrgyzstan — Uzbekistan railway), as well as potential recapitalisation needs for the State Mortgage Company. At the same time, budget revenues may decrease due to a decline in imports of goods and gold production, which together form almost 50% of budget revenues. Externally, declining remittance inflows—linked to shifting labour market dynamics in Russia —pose a key vulnerability.

## TAJIKISTAN




Tajikistan's GDP growth is projected to decelerate to 7.5% in 2025, reflecting weaker domestic demand amid shrinking remittance inflows as a share of GDP. The fiscal deficit is expected to narrow from 1.5% of GDP in 2025 to 0.7% by 2027. With limited fiscal space, authorities are likely to maintain a conservative fiscal stance. The current account surplus is forecast to decline to 2.5% of GDP in 2025, turning to a deficit of 1.9% by 2027. Remittance inflows are expected to normalise gradually after peaking in 2022–2024. However, the balance of payments should remain stable, supported by reduced capital flight (including FX hoarding).

Elevated global food prices are expected to keep 2025 inflation near the upper limit of the target band. Medium-term inflation should converge to the midpoint of the target range.

A worsening external environment could depress remittance inflows and export earnings, adversely affecting the balance of payments position and exerting downward pressure on the domestic currency. Upside inflation risks stem primarily from food price shocks exceeding baseline projections. Fiscal sustainability will depend on the provision of financing from international donors and the cost of construction of the Rogun HPP.

	Forecasts			Deviation from previous forecasts		
	2025	2026	2027	2025	2026	2027
 <b>Russian Federation</b>						
GDP growth, %	1.9	1.4	1.9	0.4	-0.3	-0.1
Year-end inflation, %	7.9	4.6	4	2.4	0.3	0
Annual average exchange rate (USD)	97	98.6	100	-0.5	0.4	-0.5
Key rate, %	19.2	13.5	9.5	0.9	2	1.5
 <b>Republic of Kazakhstan</b>						
GDP growth, %	5.2	4.5	4.3	0.2	-0.1	-0.6
Year-end inflation, %	10.6	8.1	6	3.6	2.5	1
Annual average exchange rate (USD)	508	515	530	10.2	9.3	10.6
TONIA, %	16.5	14.0	10.1	3.6	4.9	2.5
 <b>Republic of Armenia</b>						
GDP growth, %	4.7	4.6	4.6	-0.3	-0.4	-0.4
Year-end inflation, %	3	3	3	0	0	0
Annual average exchange rate (USD)	404.5	416.6	428.9	-3.8	-3.9	-4.1
Refinancing rate, %	6.5	6.3	6.3	-0.3	-0.5	-0.5
Fiscal balance, %	-5.7	-4.2	-3.2	0	0	0

Armenia	Belarus	Kyrgyz Republic	Tajikistan	Risks to the Baseline Scenario
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	Forecast			Deviation from previous forecasts		
	2025	2026	2027	2025	2026	2027
 <b>Republic of Belarus</b>						
GDP growth, %	1.6	1.2	0.9	-0.9	0.1	-0.2
Year-end inflation, %	6.1	7.2	5.0	1.1	2.2	0
Annual average exchange rate (USD)	3.4	3.5	3.7	-0.1	0	0
Refinancing rate, %	9.5	9.5	9.5	0	0	0
Fiscal balance, %	0.6	0.8	1.1	0.3	-0.1	0.1
 <b>Kyrgyz Republic</b>						
GDP growth, %	5.9	5.6	5.4	1.3	1.2	1.3
Year-end inflation, %	6.1	6.1	5.4	0.7	1	-0.7
Annual average exchange rate (USD)	92.4	97.9	103.8	3.9	8.0	12.2
Policy rate, %	9	9	9	0	0	0
Fiscal balance, %	1.5	2.0	2.1	1.0	0.8	-0.6
 <b>Republic of Tajikistan</b>						
GDP growth, %	7.5	7.1	6.7	0	0	0
Year-end inflation, %	7.7	3.7	5.7	1.7	-2.3	-0.3
Annual average exchange rate (USD)	11.2	11.6	12.1	0	0	0
Refinancing rate, %	9	8.8	8.5	0.5	0.3	0
Fiscal balance, %	-1.5	-0.9	-0.7	0	0.7	0.3

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

While general trends remain intact, our outlook for the world's largest economies has been adjusted due to the negative impact of tariff wars initiated by the US. The level of uncertainty and the probability of risk scenarios remain extremely high. However, alongside downside risks, there are also positive factors that could improve certain projections.

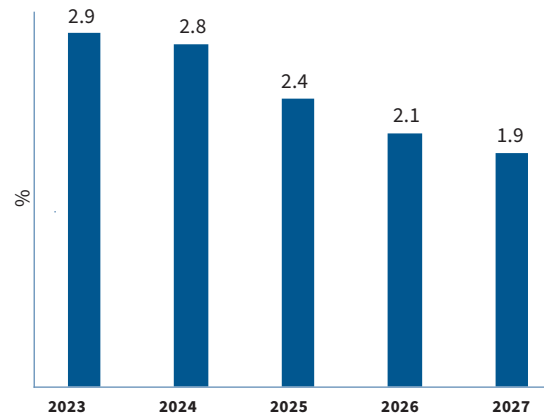
**The US economy** will continue to grow at a relatively high rate, though it will slow from 2.8–2.9% in 2023–2024. In 2025, GDP growth is expected to reach 2.4%, influenced by both supportive and restrictive factors. The fiscal stimulus from the extension of existing tax incentives and the introduction of new ones will encourage investment and consumer activity. At the same time, higher costs and import restrictions resulting from the unfolding trade war with major trading partners will negatively impact industrial output and, consequently, exports and domestic consumption. The imposition of import duties is expected to have a temporary inflationary spike, pushing it to 2.5% in 2025. As this effect fades and economic activity slows, inflation will decline to 2% in 2026.

**Rising inflation will require the Fed to maintain a high interest rate.**

Rising inflation expectations from early 2025, combined with accelerating actual inflation, will require the Fed to maintain a high rate — we anticipate only two rate cuts to 3.75–4.00% in 2025. Over the next

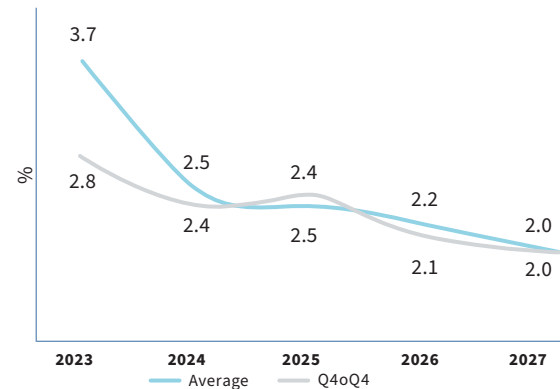
Figure 1 (A, B, C). U.S. Key Macroeconomic Indicators

### A. GDP Growth



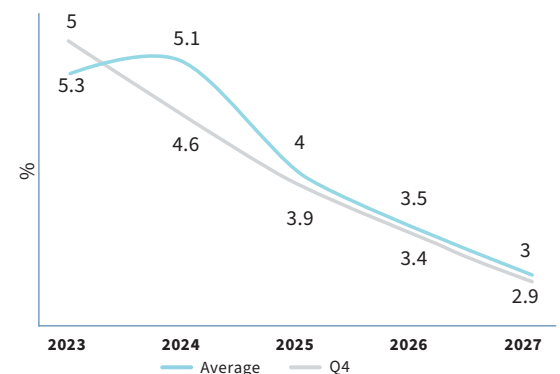
Source: BEA, authors' calculations.

### B. Inflation (PCE)



Source: BLS, authors' calculations.

### C. FRS Federal Funds Interest Rate



Source: FRS, authors' calculations.

two years, the rate is projected to decline gradually to 3%.

The **eurozone** will continue to experience sluggish growth due to challenges faced by the bloc's largest economies. By the end of 2024, eurozone GDP growth stood at 0.8%, with Germany's economy contracting by 0.2%. We forecast a 1% growth for 2025. Industrial activity, already experiencing negative growth rates, will continue to struggle with high energy costs, labour shortages, declining competitiveness in some sectors (such as electric vehicles) and rising US import tariffs. High fiscal deficits and public debt in certain countries limit the ability to increase government spending.

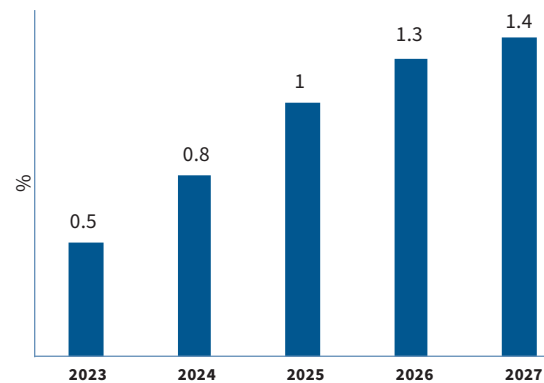
**Amid geopolitical instability, defence expenditures will rise, reducing the multiplier effects of public spending.**

In response to weak domestic demand, the ECB will continue easing monetary policy, with the policy rate expected to fall to 2.5% by Q4 2025. The EUR/USD exchange rate will average 1.05, appreciating to 1.08 as the key rate differential narrows.

**China's** economic growth is projected to slow by 0.5 p.p. to 4.5% in 2025. Large-scale government measures are helping to mitigate existing challenges. Key reforms include a gradual increase in the retirement age starting in 2025 and the nationwide expansion of the private pension system. Domestic demand will also be bolstered by reduced barriers for the private sector. However, overcoming the effects of the property market downturn observed in recent years and restoring consumer confidence will take time. Additionally,

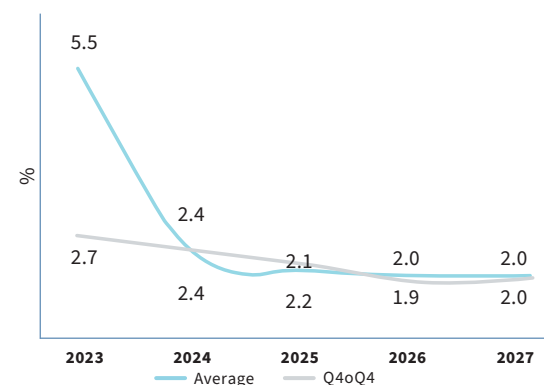
**Figure 2 (A, B, C). Eurozone Key Macroeconomic Indicators**

#### A. GDP Growth



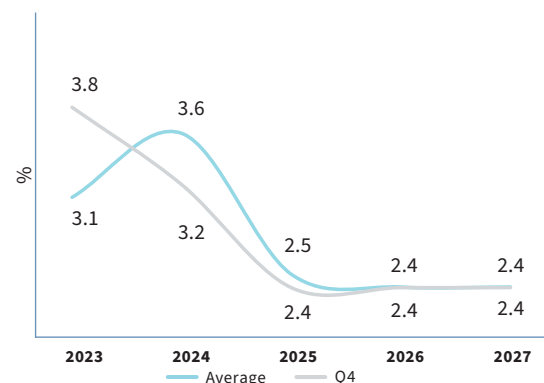
Source: Eurostat, authors' calculations.

#### B. Inflation



Source: Eurostat, authors' calculations.

#### C. ECB Rate



Source: ECB, authors' calculations.

trade tensions with the US and the EU will weigh on export growth.

**China's economic expansion is expected to slow to 4% in the medium term.**

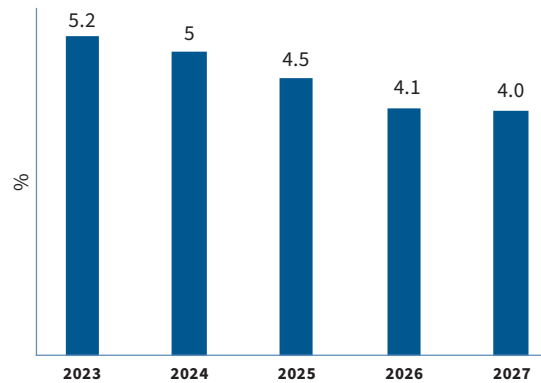
The gradual recovery of domestic demand will support price normalisation, with inflation projected to accelerate to 1.3% by the end of 2025 and 2% in the medium term.

In our baseline scenario, **oil prices** are expected to decline slightly. In 2025, Brent crude oil is projected to average around USD 75 per barrel. OPEC+ is unlikely to fully lift production restrictions amid rising US oil output. Given ongoing geopolitical tensions around oil-producing countries, there are upside risks to oil prices. Additionally, uncertainty surrounding US foreign policy could drive **gold prices** to new historical highs, with the average annual price exceeding USD 2,800 per ounce. So far, metal prices have shown little reaction to trade wars. **Food prices** will remain elevated, with continued volatility due to the impact of extreme weather conditions on crop yields in various regions.

For the EFSD region, the persistence of an unstable external environment will continue to pose heightened risks and challenges. While countries in the region will not be directly affected by tariff restrictions, they will still experience negative spillover effects, including higher prices, reduced external demand and cross-border investment, and increased protectionism.

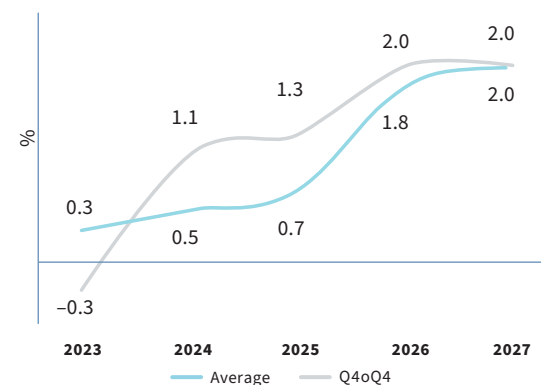
Figure 3 (A, B, C). China's Key Macroeconomic Indicators

#### A. GDP Growth



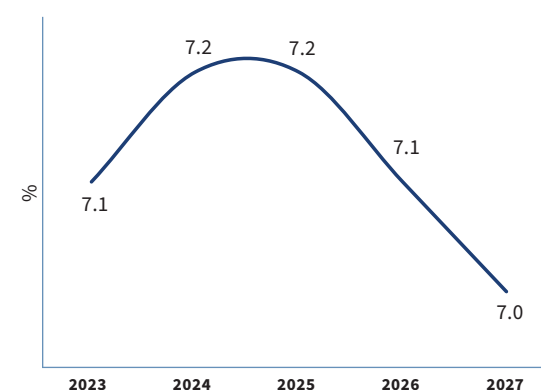
Source: NBS, authors' calculations.

#### B. Inflation



Source: NBS, authors' calculations.

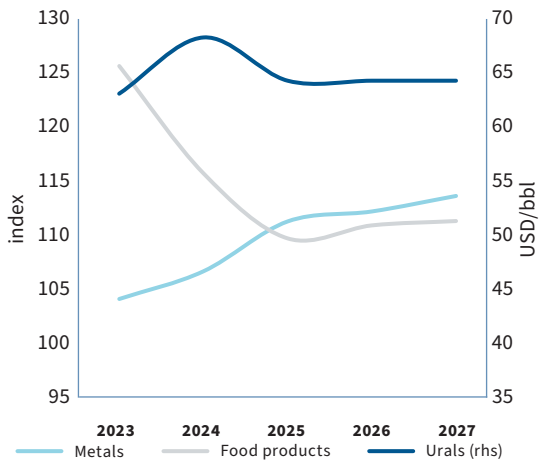
#### C. USD/CNY Exchange Rate



Source: NBS, authors' calculations.

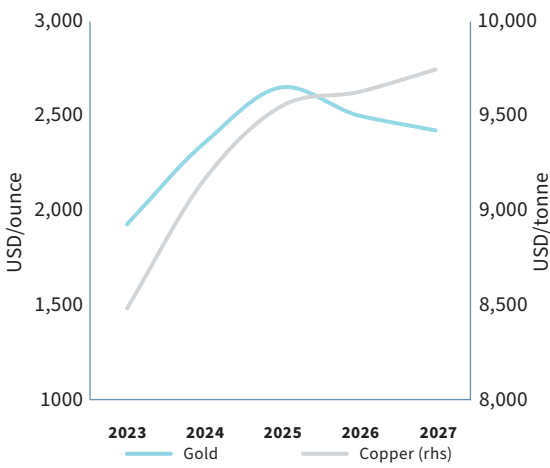
Figure 4 (A, B). Commodity Prices

A. Metals, Food Products, Urals Oil



Source: World Bank, authors' calculations.

B. Gold, Copper



Source: authors' calculations.



# RUSSIA

Chief  
Economist's  
Foreword

Executive  
Summary

Trends  
in the Global  
Economy

**Russia**

Kazakhstan



Armenia

Belarus

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



**In 2025, Russia's economy is expected to enter a phase of gradual cooling. GDP growth would drop from 4.1% in 2024 to 1.9%. The first signs of a cooling economy were already visible in January with a decline in industrial production to 2.2% YoY, corporate loans down 1.2% YoY, and households' propensity to save rising.**

**Inflation is expected to gradually decline in 2025 from the current double-digit level to 7.9% at the end of the year. The Bank of Russia kept the key rate at 21% in Q1 but is expected to start cutting rates later, bringing it to 17% by the end of the year. The ruble is projected to trade near its equilibrium level, supporting external balance stability while maintaining sound fiscal parameters and creating predictable conditions for economic growth.**

**In the medium term, growth is expected to slow further to 1.4% in 2026, before recovering to 1.9% in 2027. Inflation would continue to fall to 4.6% by the end of 2026 and would only reach the 4% target in 2027.**

## REAL SECTOR AND LABOUR MARKET

**Russia's economy has shown steady growth and retained clear signs of overheating.** GDP grew by 4.1% in 2024, driven by strong consumer and investment demand. Our preliminary estimates suggest that economic growth accelerated to 3.3% YoY in Q4 2024 (or 4.2% SAAR, up from 2.8% in Q3). The acceleration reflected a late-year fiscal stimulus, driven by higher government spending.

**Industrial production became the key growth driver among productive sectors.** In 2024, the aggregate index of industrial production grew by 4.6%, above the 2023 level of 4.3%. Growth was particularly notable in the manufacturing sector, where output increased by 7.6% for the second consecutive year as a result of successful import substitution and localisation of production. Trade also made a significant contribution to economic growth, showing a 6.9% increase in turnover during the year in response to rising consumer demand (2023: +4.8%). This was accompanied by decelerating growth in construction, down to 1.7% in 2024 against 9.5% in 2023, due to lower credit availability and reduced concessional mortgage programmes. The finance and insurance sector contributed significantly, supported by active lending. In addition, high budget expenditures led to sustained significant contribution of the public administration sector. GDP was negatively affected by the mining sector, which contracted by 0.9% due to sanctions restrictions, and agriculture, which contracted by 3.4% as a result of unfavourable weather conditions (Figure 1).

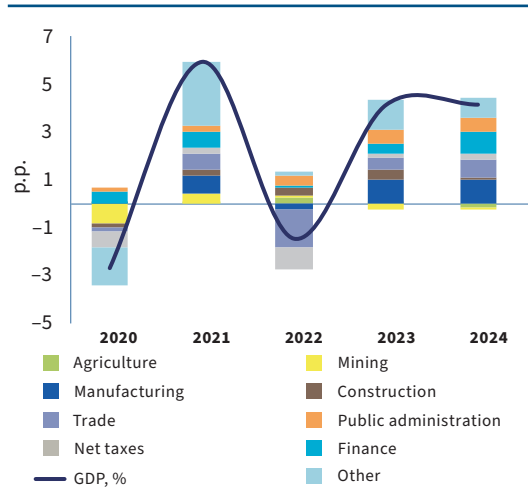
**In terms of consumption, the composition of economic growth has undergone significant changes.**

**While consumption remained the key driver of growth, the contribution of gross capital formation fell sharply, offset by an improvement in net exports.**

Consumption continued to grow at a strong pace of 5.2% in 2024 and, although the growth was lower than 6.4% in 2023, its share of GDP reached a record 71%. The growth rate of household consumption slowed slightly to 5.5% in 2024 from 7.5% in 2023. Despite tighter credit conditions, consumption remained resilient, buoyed by record wage and real income growth (Figure 3). Real government expenditures increased by 4.5% YoY compared to 3.8% in 2023, pointing to the active role of the government in stimulating the economy. Investment normalised, with growth in gross fixed capital formation slowing to 3.7% against 19.7% in 2023. Foreign trade performance remained at around the 2023 level, indicating that the economy is adapting to the new international trade environment.

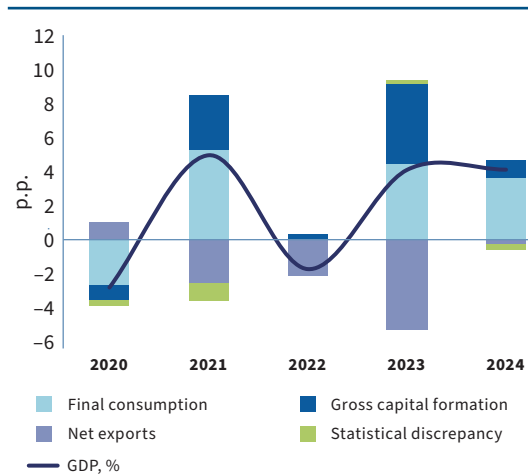
**Labour market conditions tightened further, with unemployment declining to a record low of 2.5% in 2024 (2.3% in Q4), exacerbating staffing shortages and constraining business activity (Figure 4).** Businesses report the lowest staffing levels in the history of observation. In this context, companies are starting to revise their hiring plans for 2025, lowering them relative to 2023–2024, which could be a serious constraint on further economic growth.

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



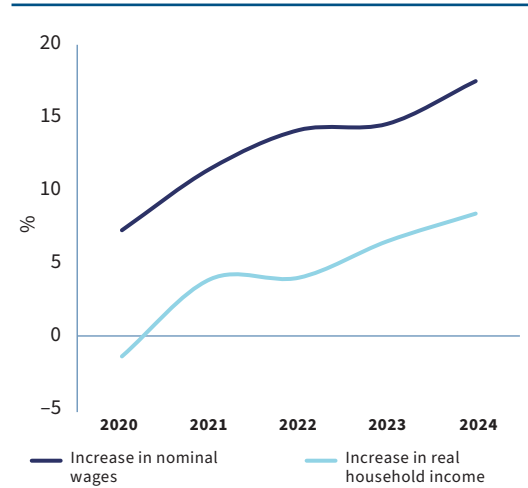
Source: estimates based on Rosstat data.

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



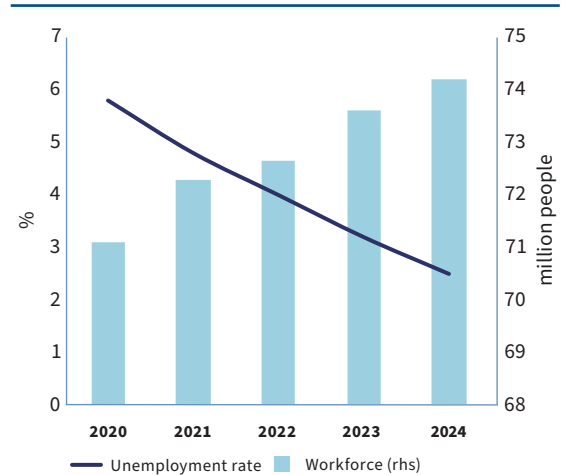
Source: estimates based on Rosstat data.

**Figure 3. Household Income**



Source: Rosstat.

**Figure 4. Labour Market Indicators**



Source: estimates based on Rosstat data.

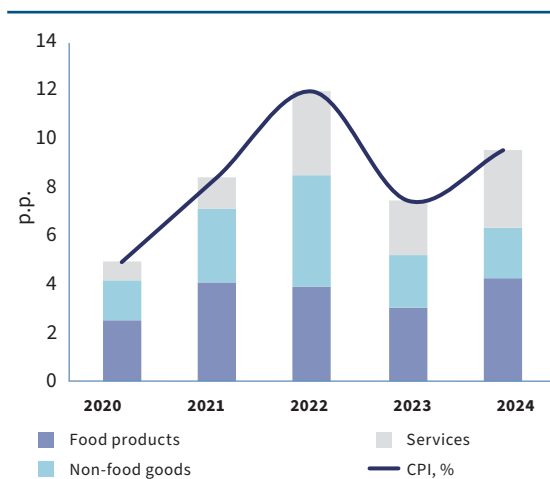
## INFLATION AND MONETARY TRENDS

**Inflationary pressure remains high in the Russian economy.** In 2024, inflation reached 9.5%, with a pronounced acceleration to 12.1% (SAAR) in Q4 compared to 11.3% (SAAR) in Q3 (Figure 5), confirming the persistence of inflationary processes. The core consumer price index also showed

an increase to 8.9% in 2024. In terms of components, analysis shows that inflation accelerated mainly in the segment of food products and in the services sector, where price growth reached 11.1% and 11.5% at the end of the year, respectively, while the growth of prices for non-food products remained stable at 6.1%. Short-term factors, such as the local currency depreciation in November–December

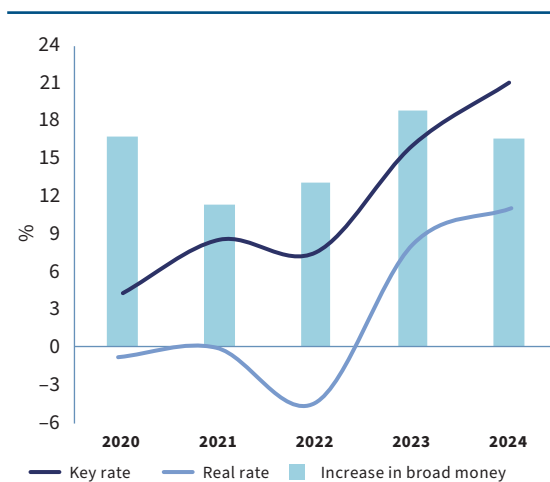
2024, added to inflationary pressures late in the year. However, the key reason for the persistence of high inflation is the fundamental imbalance between robust consumer demand and limited production capacity. The payment of annual bonuses and dividends at the end of the year, driven by the desire to avoid increased taxation in 2025, added to the imbalance.

**Figure 5. Decomposition of Inflation (YoY, eop)**



Source: estimates based on Bank of Russia data.

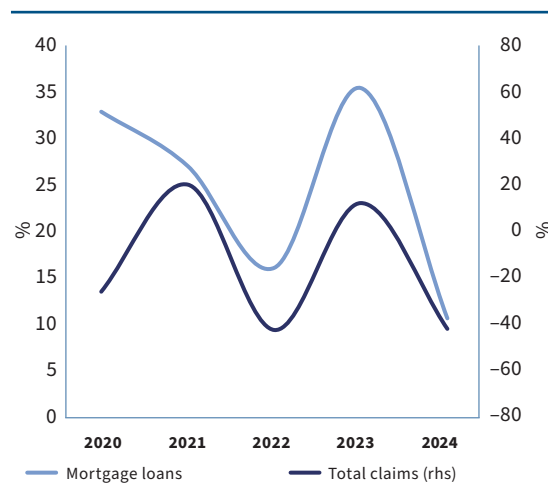
**Figure 6. Change in Monetary Indicators (YoY, eop)**



Source: estimates based on Bank of Russia data.

**The Central Bank of Russia maintained a tight monetary stance to anchor inflation expectations.** At its meetings in December 2024, February and March 2025, the regulator kept the key rate at 21%, justifying its decision by arguing that the achieved tight monetary stance was already forming the prerequisites for inflation to return to the target level. The effectiveness of the transmission mechanism is confirmed by the significant increase in lending and deposit rates during Q4 2024 (Figure 9). An important result of this policy was the slowdown in the growth rate of lending to legal entities that emerged in November 2024. The cooling of investment activity is evidence of the trend and indicates the transmission of monetary policy effects to the corporate sector. Lending to households has been steadily declining since Q3 2024.

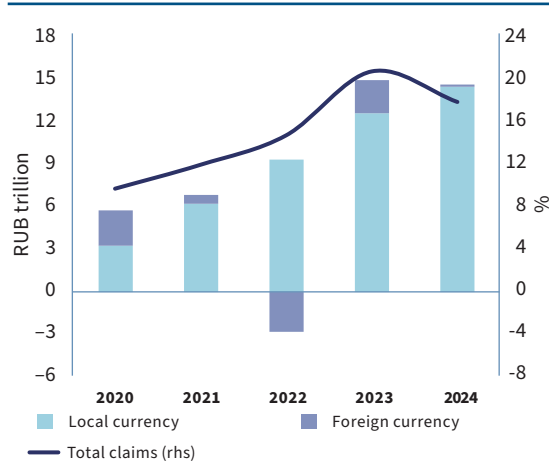
**Figure 7. Increase in Banks' Claims on Private Individuals (eop)**



Source: Bank of Russia.

**Changes in the structure of money supply reflect prudent adjustment of economic agents to changing macroeconomic conditions.** The growth rate of the RUB money supply (M2) was 19.2% in 2024, the same level as

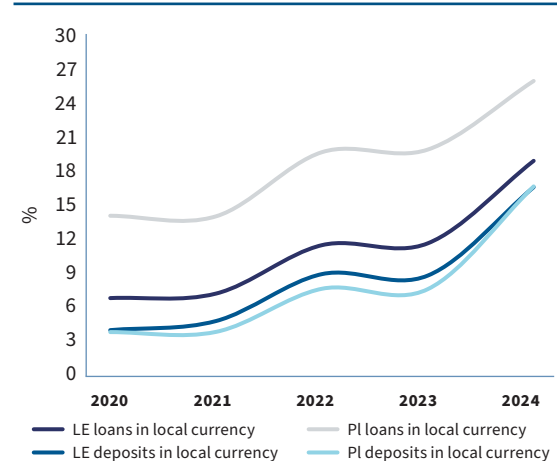
**Figure 8. Increase in Corporate Loans (broad definition, eop)**



Source: Bank of Russia.

in the previous year, which exceeds the indicators required to achieve the inflation target. The main source of this significant expansion of money supply is elevated budget expenditures. This is accompanied by qualitative changes in the structure of money supply: the growth of cash in circulation slowed down significantly to 0.8% against 11% in 2023, while the growth of funds in other (term) RUB deposits accelerated to 43.8% against 35.1% a year earlier. These structural changes indicate a significant transformation of household financial behaviour — stronger propensity to save and redistribution of funds from cash and demand accounts to term deposits. This trend is confirmed by banking statistics, which show an acceleration in the growth rate of private individuals' deposits throughout 2024, which is a direct consequence of the increased attractiveness of deposits in the environment of high interest rates.

**Figure 9. Interest Rates on New Loans and Deposits**



Source: Bank of Russia.

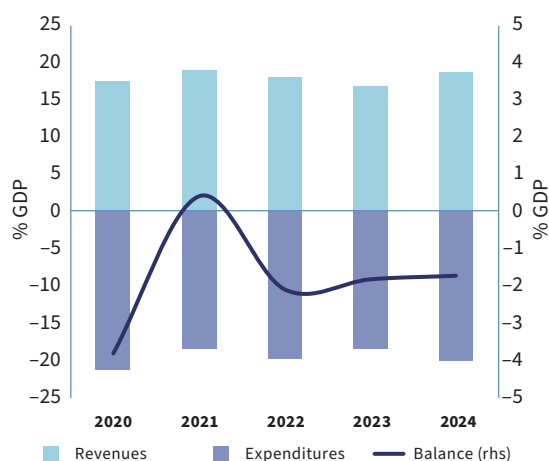
## FISCAL SECTOR AND PUBLIC DEBT

**Russia's fiscal policy in 2024 was characterised by fiscal stimulus with a sustained moderate deficit.** The federal budget recorded a deficit of RUB 3.5 trillion (1.7% of GDP) in 2024. (Figure 10). Budget revenues expanded by 26% year-on-year to RUB 36.8 trillion, driven by higher oil and non-oil receipts. Oil and gas revenues totalled RUB 11.1 trillion, up 26.2%, while non-oil and gas revenues rose by 26% to RUB 25.6 trillion.

**Budget expenditures reached RUB 40.2 trillion, which is 24% higher than in the previous year.**

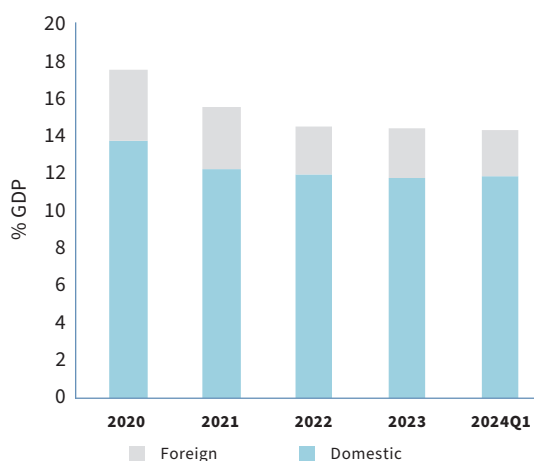
The deficit was financed through National Wealth Fund drawdowns (RUB 1.3 trillion) and domestic bond issuance, reducing the Fund's liquid assets by one-third to RUB 3.8 trillion. The dynamics of budget

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.

indicators point at sustained expansionary fiscal policy, which continues to support above-potential economic growth, creating inflation risks.

### Actual budget execution deviated significantly from the original plans.

The actual budget deficit in 2024 was almost twice as high as the planned amount of RUB 1.6 trillion (0.9% of GDP) set at the beginning of the year. Actual revenues exceeded the initially planned revenues by 5%, due to both higher revenues from turnover taxes and additional oil and gas revenues of RUB 1.3 trillion. Budget expenditures exceeded the original projections by 10%. However, the final budget execution is in line with the revised autumn forecasts of the Ministry of Finance.

**The debt burden of the Russian economy remains at a comfortable level.** In 2024, public debt was 14.3% of GDP (Figure 11).

## EXTERNAL SECTOR

**Russia's current account shows stability despite the changing global market conditions and the increasing complexity of the international settlement system.**

**The current account balance surplus widened to USD 54 billion in 2024 (2023: USD 50 billion), primarily reflecting a narrowing deficit in primary and secondary income accounts.**

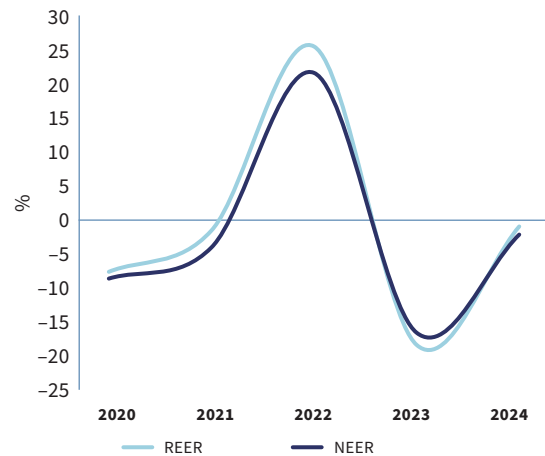
This improvement was driven by reduced outward transfers amid ruble depreciation, while the investment income deficit remained broadly stable. The goods and services surplus narrowed slightly to USD 84.5 billion (2023: USD 86.3 billion), with the value of both exports and imports declining by 1% YoY. A marked deterioration in performance occurred in Q4 2024, when the

current account balance surplus declined to USD 5 billion (Q4 2023: USD 11 billion), driven by declining exports due to falling oil prices combined with increased imports due to stronger domestic demand.

**The financial account of the balance of payments shows continued net capital outflows with increasing signs of destabilisation towards the end of the year.** In 2024, the financial account surplus was USD 48 billion (2023: +USD 52 billion). The structure of the financial account reflects complex adjustments in the context of limited access to international capital markets. There was an increase in foreign assets driven mainly by claims under other investment, among other things due to increased lags in settlements in foreign trade. This is accompanied by an increase in foreign liabilities, mainly liabilities under other investment, due to the return of funds to Russian bank accounts in the framework of foreign trade operations in the context of increasingly complex international settlement arrangements.

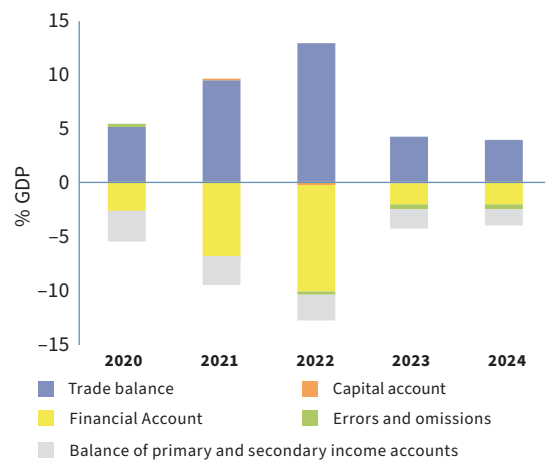
**The RUB exchange rate tended to depreciate gradually in 2024 with pronounced volatility at the end of the year.** During 2024, there was gradual depreciation of the local currency, resulting in the average exchange rate of RUB 93 per USD for the year (2023: RUB 86 per USD). The most significant depreciation was recorded in Q4, especially in November, when the exchange rate reached RUB 108 per USD. The key factor of pressure on the RUB during this period was the decline in the current account balance surplus caused by a combination of lower export revenues and stronger imports, as well as mounting depreciation expectations of economic agents amidst increased sanctions pressure.

Figure 12. Exchange Rate



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

Figure 13. Balance of Payments



Source: Bank of Russia.

## MEDIUM-TERM OUTLOOK

**The main assumptions of the macroeconomic forecast for 2025–2027 remain unchanged, including continued sanctions pressure at the current level.** Budget expenditures in 2025 will remain

Armenia	Belarus	Kyrgyz Republic	Tajikistan	Risks to the Baseline Scenario
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**TABLE 1. FORECASTS OF KEY MACROECONOMIC INDICATORS**

	2023 Actual	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast
Real GDP growth, %	4.1	4.1	1.9	1.4	1.9
Inflation (Dec-on-Dec), %	7.4	9.5	7.9	4.6	4.0
Inflation (year-average), %	5.9	8.4	9.3	5.5	4.1
USD/RUB exchange rate (year-average)	85.2	92.5	97.0	98.6	100.0
Bank of Russia key rate (year-average), %	9.9	17.3	19.2	13.5	9.5

Source: national agencies and authors' calculations.

within the parameters fixed in the law, which implies a slight reduction in the fiscal stimulus relative to 2024. The Bank of Russia will continue to pursue its monetary policy tightly focused on reducing inflation and stabilising inflationary processes.

**Russia's GDP growth rate in 2025 is forecast at 1.9%, reflecting the emerging cooling cycle for the economy.** We expect the economy to decelerate gradually throughout 2025 as a result of weakening domestic demand amidst tight monetary conditions. January 2025 statistics record trends that began to take shape as early as 2024 and confirm the emerging slowdown in both investment activity and consumer demand. Credit to the corporate sector contracted by 1.2% in January compared to December 2024. This was accompanied by a steady contraction in retail lending. The structure of money supply continues to show a faster decline in cash in circulation and transferable deposits (M1: -1.3% since the beginning of the year) relative to the total RUB money supply (M2: -0.6% since the beginning of the year), signalling stronger propensity to save due to attractive term deposit interest rates.

**On the supply side, further economic growth is constrained by overutilised production capacity and persistent acute labour shortages.**

The industrial production index decelerated to 2.2% YoY in January from 4.3% a year earlier, also pointing to a slowdown in economic activity.

**The output gap is expected to narrow gradually in 2026–2027 with the economy cooling further.** As production capacity utilisation normalises and actual output converges with potential output, the economy would return to a balanced growth trajectory. Growth would be 1.4% in 2026, recovering to 1.9% in 2027.

**Inflation is expected to slow to 7.9% by the end of 2025, slightly above the previous forecast due to the higher actual inflation as at the end of 2024.** Data for early 2025 show the first signs of easing price pressures, with the seasonally adjusted annual rate of consumer price growth at 10.7%, down from 14%

in December. A similar trend is seen in the core consumer price index, which slowed to 11% YoY from 14.5% a month earlier. At the same time, the persistent positive output gap in the context of the overheated economy would create further inflationary pressure, which would gradually ease owing to tight monetary policy. The indexation of utility tariffs scheduled for July 2025 would temporarily slow down the pace of the disinflation process.

**Inflation would take longer to return to the target than under earlier forecasts.**

In 2026, inflation would continue to slow down and reach 4.6% by the end of the year, while the return to the Bank of Russia's 4% target is not expected until 2027.

**The Bank of Russia kept its key rate at 21% in Q1 2025, after which it would begin a gradual cycle of monetary policy easing.** The rate cut cycle is expected to begin in Q2–Q3 2025, as evidence of a sustained slowdown in inflation accumulates.

**By the end of 2025, the key rate is projected to reach 17%.**

Consistent normalisation of monetary conditions would continue in 2026–2027, with the interest rate reaching a neutral level of 8% at the end of 2027.

**The average RUB exchange rate in 2025 would be RUB 97 per USD, while the trade balance would remain at levels comparable to those of 2023–2024.**

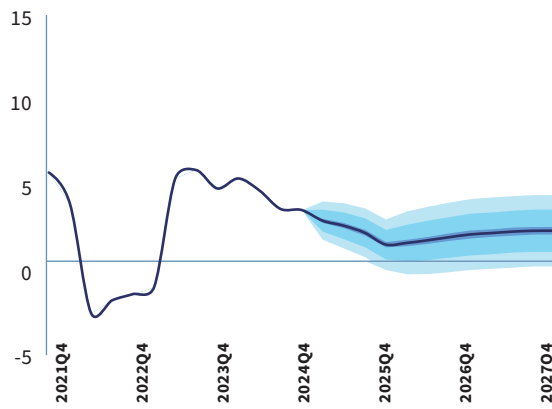
Russia's economy has completed the fundamental phase of adaptation to the sanctions restrictions, and we do not expect significant structural changes in foreign

trade operations if the current sanctions regime continues.

**The value of exports would be constrained due to the projected decline in the prices of key commodities, while imports would be held back by the domestic demand weakening in the face of slowing economic activity.**

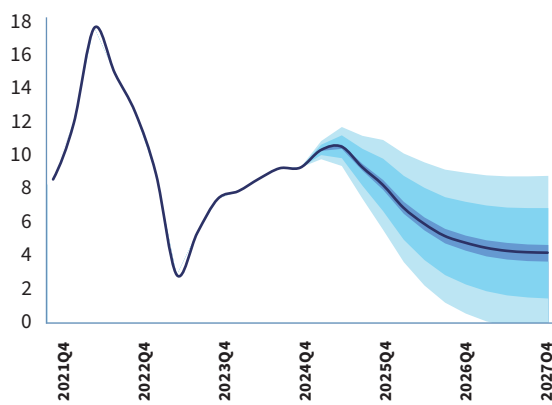
Despite the RUB appreciation in early 2025 — in February–March, the average exchange rate was RUB 89.3 per USD — it is expected to depreciate gradually by the end of the year. This depreciation would be driven by domestic macroeconomic factors: the gradual key rate cuts by the Bank of Russia and the persisting inflation differential between Russia and the major world economies. In the medium term, we expect further gradual RUB depreciation to the level of RUB 100 per USD in 2027.

**Figure 14. GDP Growth, % YoY**



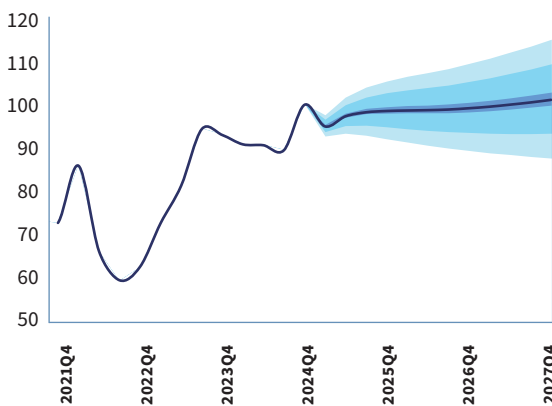
Source: authors' calculations.

**Figure 15. Inflation, % YoY**



Source: authors' calculations.

**Figure 16. RUB/USD Exchange Rate**



Source: authors' calculations.

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

Chief  
Economist's  
Foreword

Executive  
Summary

Trends  
in the Global  
Economy

Russia

**Kazakhstan**

# KAZAKHSTAN



Armenia

Belarus

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



In 2025, Kazakhstan's economy is projected to maintain strong growth momentum, with GDP expanding by 5.2%. Key growth drivers will include increased oil production and exports following capacity expansion at the Tengiz field. Government consumption is expected to rise amid elevated budget expenditures, while consumer demand is likely to moderate due to higher interest rates and prudential measures, which will weigh on consumer lending.

Early 2025 has seen emerging inflationary pressures stemming from expansionary fiscal policy (with uncertainty about future tightening), housing utilities reform, and external factors including high price levels in Russia and risks of accelerating global inflation amid heightened geopolitical and trade tensions. Inflation is expected to accelerate to 10.6% by year-end. The National Bank has signaled its intention to maintain a tightening bias in response to persistent inflationary pressures, with the base rate projected to average 16.5% in 2025. Fiscal policy, however, is anticipated to remain accommodative.

Over the medium term (2026-2027), the output gap is expected to narrow gradually as the fiscal impulse diminishes, with economic growth moderating to 4.5% and 4.3%, respectively.

## REAL SECTOR AND LABOUR MARKET

**Kazakhstan's GDP grew by 4.8% YoY in 2024 compared to 5.1% growth in 2023.** The economy slowed down in 1H and accelerated in 2H to reach strong growth. We estimate that GDP grew by 7.9% (SAAR) and 6.8% YoY in Q4, with the economy maintaining a positive output gap on the back of stronger domestic demand.

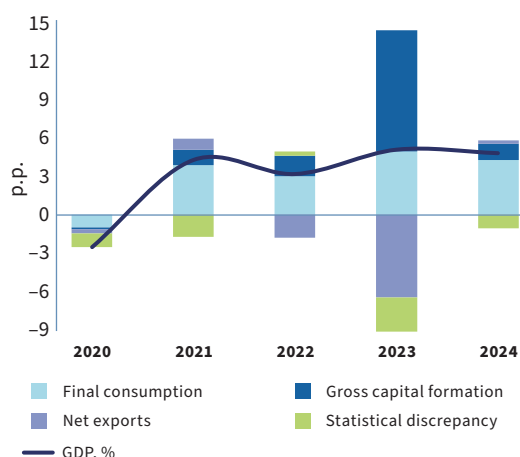
**Strong domestic demand persists, maintaining a positive output gap in the economy.**

**Accelerated economic growth during the year was driven by domestic demand (Figure 1).** Despite a decline in 1H, investment grew by 7.5% in 2024. While businesses' equity remained the main source of financing (64.4% of total investment), the share of the state budget (up from 16.7 to 21.2%) and bank loans (up from 2.9 to 3.8%) increased compared to the previous year as a result of expansionary fiscal policy and active lending to the economy. Stronger demand came from both households and the public sector. Against the background of slow growth in household income (1.9% in real terms and 10.8% in nominal terms) and wages (1.8% and 10.5% respectively) in 2024 (Figure 4), consumption was largely supported by expanding credit — consumer bank loans increased by 33.5% or KZT 3.5 trillion during the year. Despite marked depreciation of the exchange rate, imports increased slightly, by 0.1%, in 2024 amid strong domestic demand,

with growth accelerating to 6.2% in Q4. Exports contracted by 0.5% over the year, with the decline deepening to (-6.4%) in Q4.

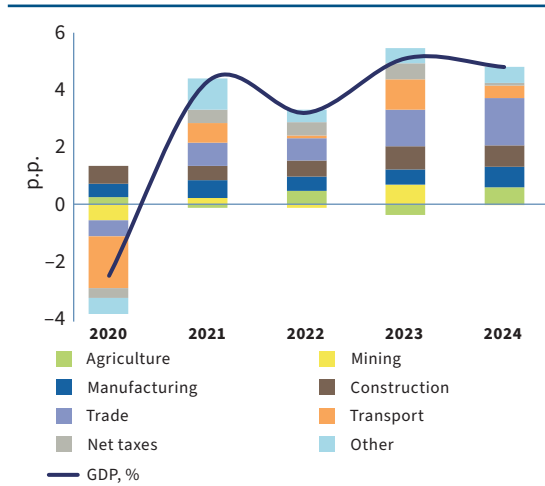
**In terms of sectors, trade, construction, and manufacturing were the three sectors that accounted for two thirds of GDP growth in 2024 (Figure 2).** These same sectors also contributed the most to the acceleration of economic growth in Q4. Construction was supported by expanding mortgage lending and increased government capital investment. In Q4, retail trade accelerated from 7.3% (January–September) to 9.8% (January–December) and wholesale trade went up from 5.7% to 8.6% respectively. In general, most sectors made a positive contribution to economic growth. However, lower oil production led to a decrease in the contribution of the mining sector to GDP growth.

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



Source: estimates based on BNS ASPR RK data.

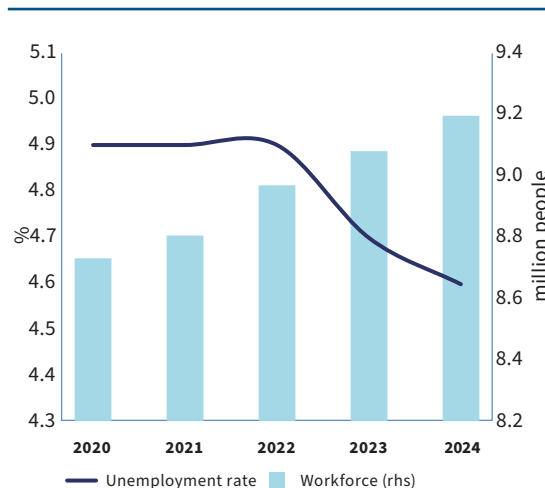
**Figure 2. Decomposition of GDP Growth (Production Approach)**



Source: estimates based on BNS ASPR RK data.

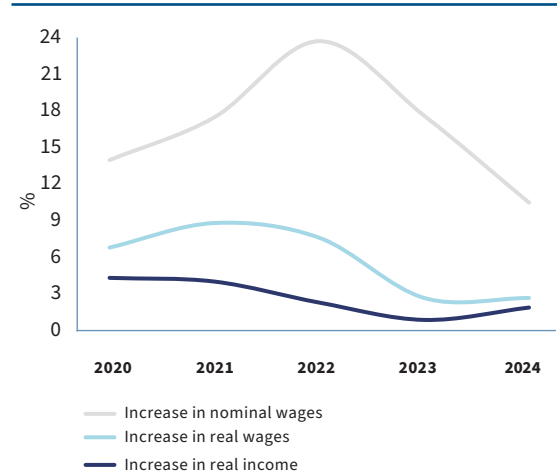
**Labour market conditions remained relatively stable in Q4.** Unemployment rate was unchanged at 4.6%, the same as in Q3. At the same time, the growth rate of employed population accelerated to 1.5% y/y — the highest reading in the past two years (Figure 3) — driven primarily by an increase (of 1.8% y/y) in the number of wage earners. Wage growth rates remained moderate and did not generate significant pro-inflationary pressures (Figure 4).

**Figure 3. Labour Market Indicators**



Source: BNS ASPR RK.

**Figure 4. Household Income**



Note: Real income is for January–September 2024.

Source: BNS ASPR RK.

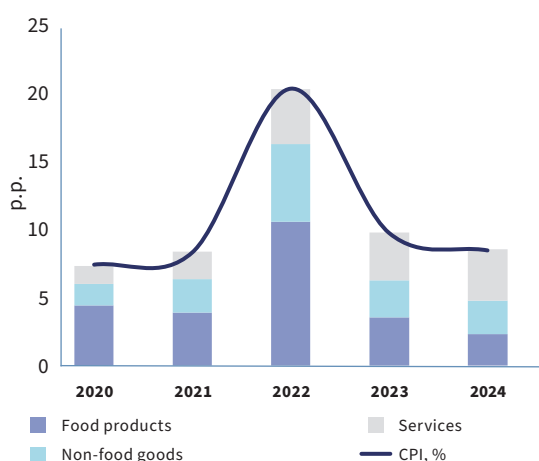
## INFLATION AND MONETARY TRENDS

**Inflationary pressures were declining in 1H, but started to increase rapidly in Q4 (Figure 5).** Annual inflation stood at 8.6% in December, below the end-2023 level of 9.8% but well above the NBRK's target (5%). The contribution of paid services to inflation remained the highest (3.8 p.p.), while there was an increase in the contribution of food products (from 2.1 to 2.3 p.p.) and non-food goods (from 2.3 to 2.5 p.p.) compared to the end of Q3. According to NBRK estimates, the average seasonally adjusted price increase over the previous three months remained unchanged at 0.8% from September onwards, compared with 0.4–0.6% in mid-year. In our view, the inflation picked up due to the combined effects of KZT/USD nominal exchange rate depreciation, stronger domestic demand on the back of expansionary fiscal policy and active lending to the economy, and increases in utility tariffs under the Tariff for Investment

Programme. On the external side, high price growth in the Russian Federation and accelerating food price inflation played a role.

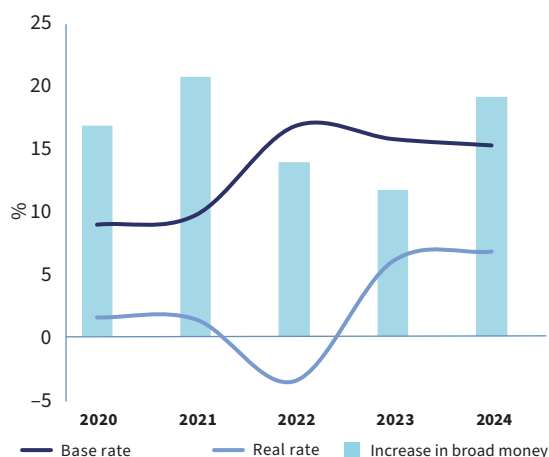
**Inflation expectations started to rise in Q4, reaching 14.6% in December on the back of accelerating inflation and KZT depreciation.** However, the difference between actual and expected inflation over the next 12 months was stable during the year and smaller than in other countries covered by the Outlook.

**Figure 5. Decomposition of Inflation (YoY, eop)**



Source: BNS ASPR RK.

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



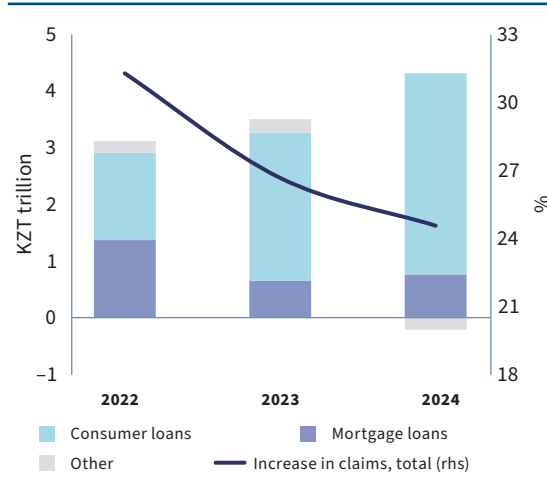
Source: BNS ASPR RK.

**After successive base rate cuts in 1H, the National Bank turned to tightening monetary policy in the face of accelerating inflation.** As a result, by the end of the year the base rate had returned to its level registered at the beginning of the year — 15.25%. Broad money increased by 19.2% over the year, well above the growth rate of the previous two years (13% on average) with comparable GDP dynamics (Figure 6). This was driven by fiscal stimulus, active lending to the economy, and KZT depreciation.

Lending to the economy continues to grow at a strong pace. Loans to the economy from the banking sector and loans from other entities grew by 20.6% and 21.9% respectively, accelerating from the high levels of the previous year (20.3% and 16.5% respectively). Lending to households was more active (up 23.5%) than to businesses (up 17.9%) (Figure 7). The share of loans to households in total loans to the economy reached 54.2%, which continues to indicate a rather low level of lending to businesses. Loan rates remained high at the end of the year, close to the level of the previous year (Figure 9).

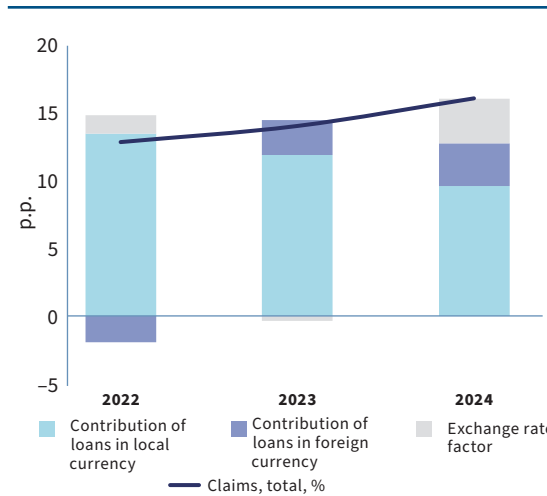
**The quality of the loan portfolio deteriorated slightly but remained at a high level.** The share of non-performing loans increased from 2.9% in early 2024 to 3.1% in early 2025 (Figure 10).

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



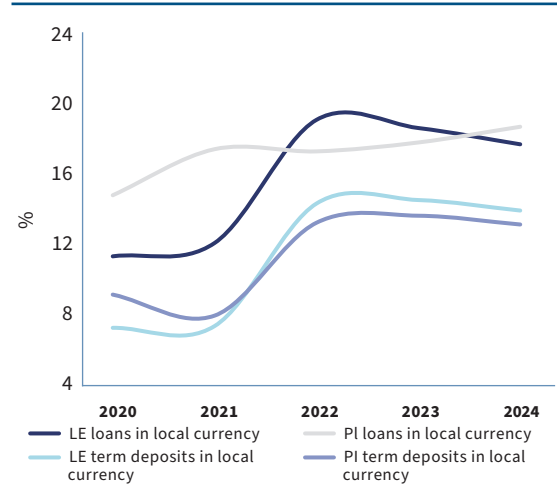
Source: NBRK.

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



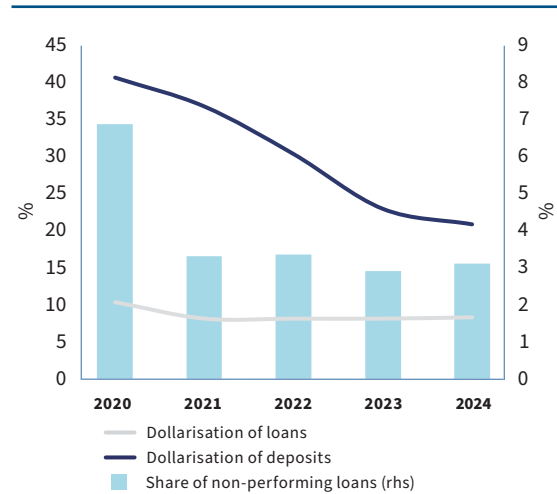
Source: NBRK.

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



Source: NBRK.

**Figure 10. Banking Sector Indicators**



Source: NBRK.

## FISCAL SECTOR AND PUBLIC DEBT

**Fiscal policy remained expansionary, supporting strong domestic demand.**

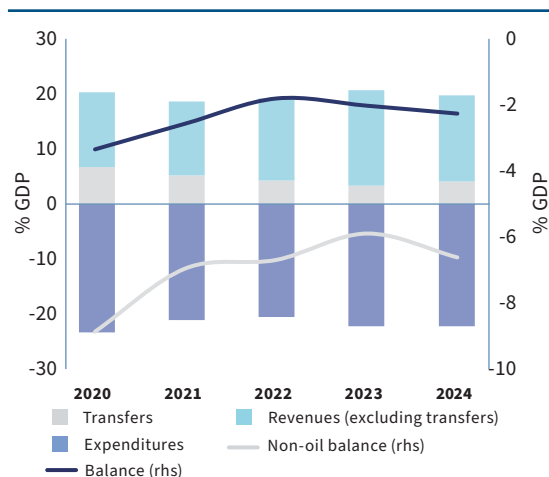
While state budget revenues fell from 20.9% of GDP in 2023 to 20.1% in 2024 as a result of lower tax revenues, expenditures remained unchanged at 22.4% of GDP. This led to an

increase in the state budget deficit in 2024 to 2.7% of GDP from 2.3% of GDP a year earlier, and the non-oil deficit to 8.3 from 8.1% of GDP respectively (Figure 11). While formally complying with the fiscal rule on guaranteed transfers from the National Fund, targeted transfers exceeded the guaranteed amount by a factor of 1.8. Total transfers from the National Fund were KZT 5.6 trillion (KZT 4.0 trillion in 2023). In addition, the

National Fund financed the acquisition of Kazatomprom shares (KZT 0.5 trillion).

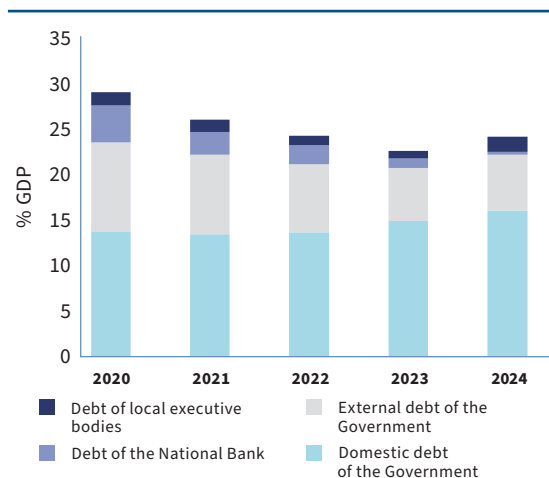
**Gross financing needs were covered mainly through debt issuance**, which led to an increase in domestic debt by KZT 3.9 trillion and external debt by USD 0.3 billion. As a result, public debt relative to GDP increased by 0.8 p.p. in 2024 to 23.5% (Figure 12).

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.

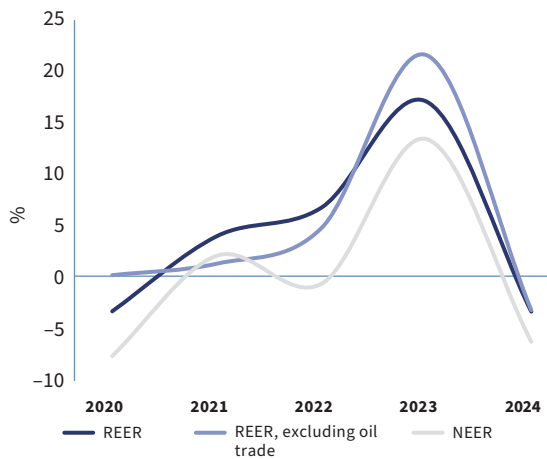
## EXTERNAL SECTOR

**The current account deficit narrowed due to lower revenues from direct investment, while import volumes remained unchanged.**

The current account deficit declined from (-3.4%) of GDP in 2023 to (-1.5%) of GDP in 2024. The key factor was a decrease in the primary income deficit (from (-9.9) to (-7.5%) of GDP respectively) due to lower income from direct investment of non-residents in the economy of Kazakhstan. The balance of trade in goods and services decreased slightly (from 6.8% to 6.1% of GDP respectively). This was mainly due to a decline in non-commodity exports, while the value of exports of major commodities (oil, natural gas, uranium, metals) increased and imports did not change significantly. The financial account generated a surplus of 0.2% of GDP. In this context, the volatility of the exchange rate was driven by both domestic factors — uneven sales of foreign exchange from the National Fund — and market factors — appreciation of the USD on global markets and depreciation of the RUB. The average real effective exchange rate (excluding oil trade) depreciated by 3.3% in 2024 after appreciating by 21.4% in 2023 (Figure 13).

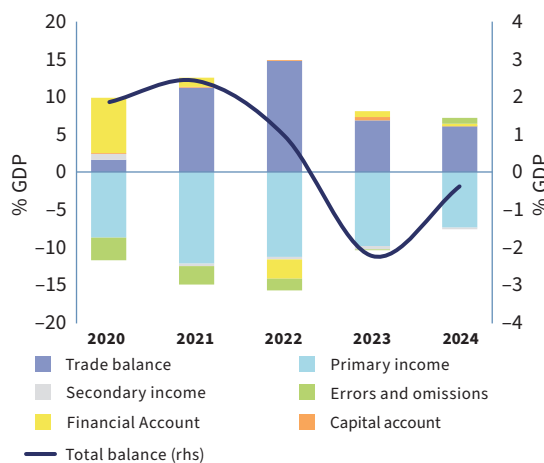
**Kazakhstan's consolidated international reserves grew by USD 8.7 billion to USD 104.7 billion during the year**, while in Q4 they declined by USD 2.5 billion due to a decline in the National Fund's assets (Figure 15).

Figure 13. KZT Exchange Rate



Source: NBRK, World Bank.

Figure 14. Balance of Payments

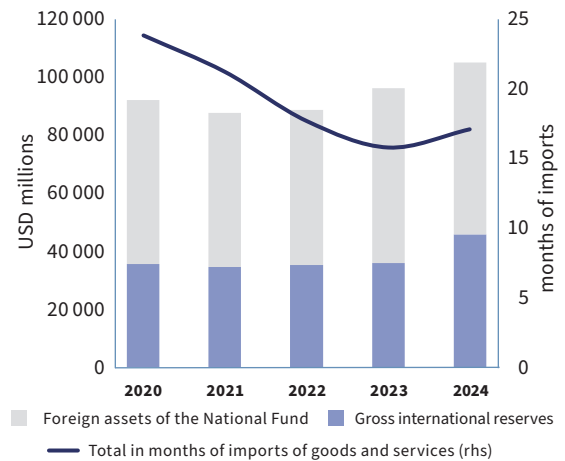


Source: NBRK, authors' estimates.

## MEDIUM-TERM OUTLOOK

**GDP growth is expected to be 5.2% in 2025, above 5% for the third consecutive year and contributing to the persistence of a positive output gap (Figure 16).** The economy started the year on an optimistic note, with GDP growth of 5.4% YoY in the first two months. The main drivers

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



Source: NBRK.

of growth are mining (due to expanded production of coal, oil, and metal ores), construction, trade, and transport (due to transport of agricultural products).

**In the coming months, the key drivers of growth will be expanded oil production and the implementation of major infrastructure projects.**

Oil production is expected to rise to 96.2 million tonnes in 2025, up from 87.7 million tonnes in 2024, while oil exports are expected to increase from 68.6 million tonnes to 70.5 million tonnes as the Tengiz project reaches its full capacity in mid-year.

On the demand side, consumer demand is expected to slow as a result of higher interest rates, which will have a dampening effect on consumer lending. However, government consumption would grow at a high rate against the background of the persistently high non-oil budget

Armenia	Belarus	Kyrgyz Republic	Tajikistan	Risks to the Baseline Scenario
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**TABLE 1. FORECASTS OF KEY MACROECONOMIC INDICATORS**

	2023 Actual	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast
Real GDP growth, %	5.1	4.8	5.2	4.5	4.3
Inflation (Dec-on-Dec), %	9.8	8.6	10.6	8.1	6.0
Inflation (year-average), %	14.8	8.7	10.0	9.1	6.7
USD/KZT exchange rate (year-average)	456	469	508	515	530
TONIA rate (year-average), %	16.4	13.8	16.5	14.0	10.1

Source: national agencies and authors' calculations.

deficit (7.3% of GDP under the Law on the Republican Budget). This would keep the economy growing above the equilibrium level and maintain a positive output gap.

**In 2026–2027, the gap between actual and potential output would gradually narrow as the fiscal impulse weakens and economic growth would slow to 4.5% and 4.3% respectively.**

However, public investment to support long-term development would remain high.

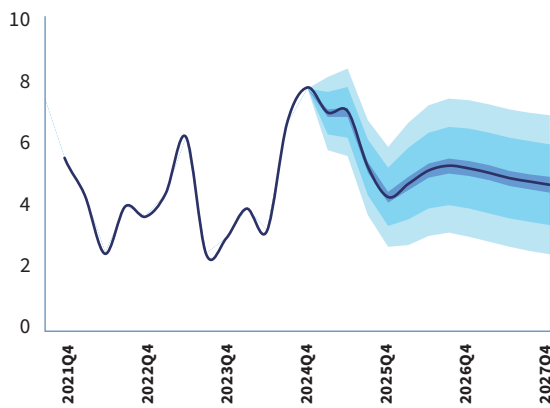
**In early 2025, inflation remained on an upward trend and is expected to rise to 10.6% by the end of the year.** Inflation reached 9.4% in February, which led to a key rate hike to 16.5%. The National Bank's rhetoric indicates its intention to tighten monetary policy in the context of strong pro-inflationary factors in early 2025: expansionary fiscal policy and uncertainty about its forthcoming tightening, ongoing reform of the housing and utilities sector, and liberalisation of fuel and lubricant prices.

**The increase in the value added tax rate will have a significant impact on inflation in 2026, especially in the early months.** Over time, inflation is expected to decelerate to 8.1% by the end of 2026 on the back of less overheated domestic demand. Given the high inertia of growth, inflation is projected to approach, but not yet reach, the target of 6% by the end of 2027 (Figure 17).

**The average annual base rate will be 16.5% in 2025, reflecting continued inconsistent monetary and fiscal policies.** Against the backdrop of continued high inflation, the average interest rate would be 14.0% in 2026 and would fall to 10% by the end of 2027.

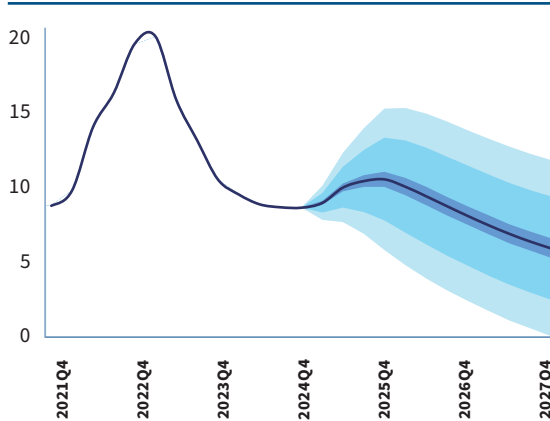
**The KZT exchange rate would be supported by the sale of foreign exchange from the National Fund for budget transfers and a stable balance of payments, averaging KZT 508 per USD in 2025 (Figure 18).** The local currency appreciated in early 2025, falling below 500 KZT per USD in March. In the context of the limited domestic market, the intra-year changes of the exchange rate would

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



Source: authors' calculations.

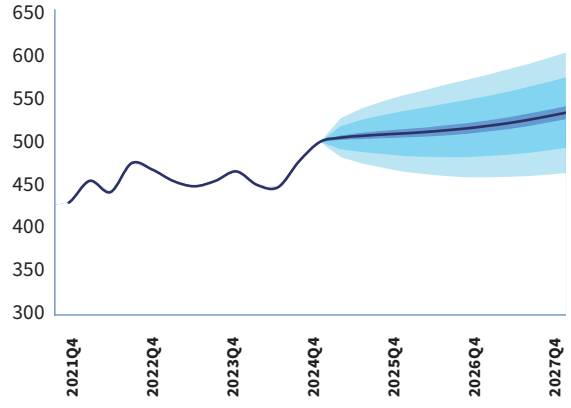
**Figure 17. Inflation, % YoY**



Source: authors' calculations.

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

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



Source: authors' calculations.

remain volatile due to fluctuations in the volume of supply and demand, as well as the volatility of exchange rates in the global financial markets. Pressures on the KZT exchange rate would be exerted by the higher inflation rate in Kazakhstan compared to its trading partners: by 2027, the average annual exchange rate can reach KZT 530 per USD.

Armenia

Belarus

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



# ARMENIA

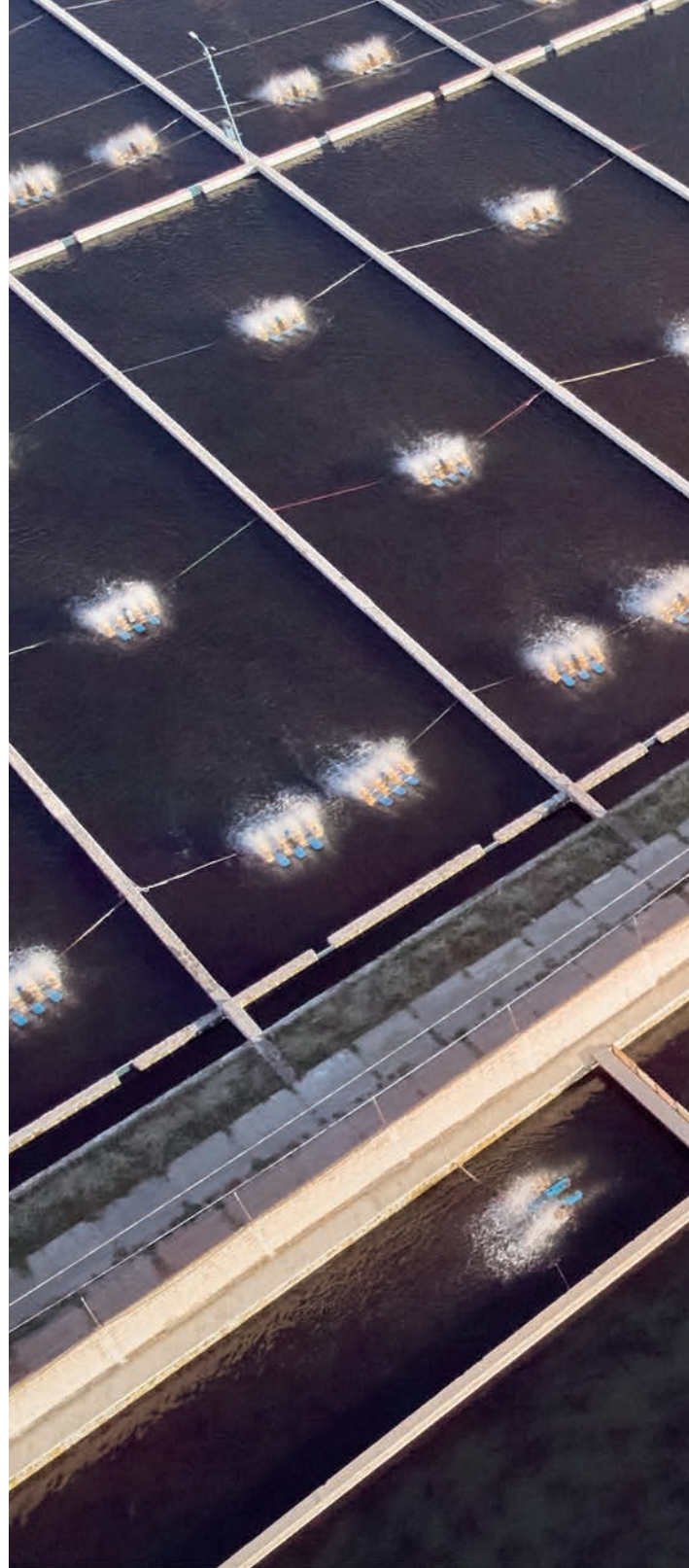
Chief  
Economist's  
Foreword

Executive  
Summary

Trends  
in the Global  
Economy

Russia

Kazakhstan



Armenia

Belarus

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



Following strong growth in 2024, Armenia's GDP expansion is projected to moderate to 4.7% in 2025. Growth will be primarily demand-driven, supported by accommodative fiscal and monetary policies alongside robust credit expansion. These measures are also expected to help anchor inflation within the central bank's target band.

A significant increase in government spending—particularly on social programs and capital investment—is projected to widen the fiscal deficit from 3.7% to 5.7% of GDP. The current account deficit is expected to expand as temporary tailwinds from foreign trade fade.

Under the baseline scenario, output growth is expected to converge toward its potential rate of 4.0–5.0% during 2026–2027. Monetary policy will remain focused on keeping inflation close to target. Fiscal policy is likely to stay expansionary in 2025–2026, potentially requiring additional financing sources. Starting in 2027, fiscal rules are expected to bring the budget stance to neutrality. Meanwhile, the current account deficit is projected to widen further due to anticipated deterioration in the trade balance.

## REAL SECTOR AND LABOUR MARKET

**In 2024, Armenia's economic growth slowed significantly, particularly in the second half of the year.** Real GDP grew by 5.9% YoY, down from 8.3% in 2023. The primary reason for this deceleration was the reduction in current public expenditures. In Q4, GDP growth slowed to just 3.7% YoY, compared to 6.1% YoY in Q3. Based on our estimates, seasonally adjusted quarterly real GDP growth turned negative, declining from +0.2% in Q3 to -0.5% in Q4.

**By the end of 2024, investment demand and net exports made the largest contributions to GDP growth, largely driven by record-high re-exports of precious metals and stones (Figure 1).** Investment demand was primarily fuelled by housing construction (+2.4 p.p.), supported by a +37.4% YoY increase in mortgage lending and a +32.7% YoY rise in commercial lending to the construction sector. Net exports contributed 2.2 p.p. to GDP growth due to the re-export of precious metals and stones (Figure 5).

**We estimate that re-exports contributed between 1.9 p.p. and 2.3 p.p. to real GDP growth.**

Excluding this factor, real GDP growth was approximately 3.6–4.0%<sup>1</sup>. Public consumption had a negative impact on

<sup>1</sup> Assuming that the foreign trade structure of 2023 remained unchanged, GDP growth was estimated using the expenditure approach, excluding net exports of precious metals and stones over the past five quarters.

GDP growth (-3.1 p.p.), as public spending was reallocated toward social and pension payments, leading to a 43.1% YoY decline in procurement volumes. Meanwhile, private consumption contributed 4.4 p.p., driven by rising consumer lending (28.5% YoY) and an increase in real wages (6.1% YoY) (Figure 4).

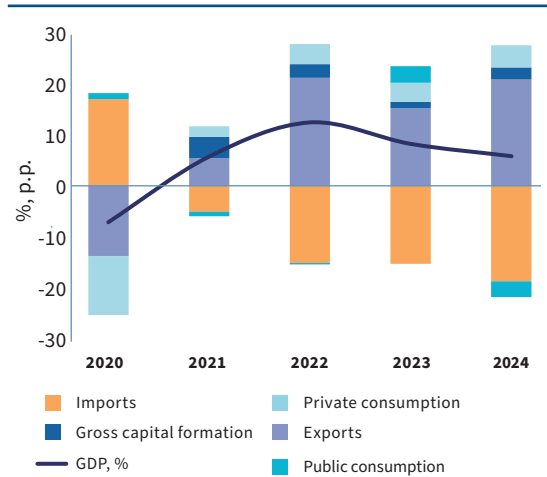
**Sector-wise, other services and trade were the main contributors to economic growth, yet with a significant decline in their contribution compared to 2023 (Figure 2).** The services sector contributed 2.4 p.p. to GDP growth (down from 3.5 p.p. in 2023), supported by strong growth in financial, insurance and real estate services, while other service industries experienced slower or declining growth. The contribution from wholesale and retail trade fell to 2.1 p.p. (from 2.7 p.p. the previous year) due to weaker domestic demand. Nonetheless, wholesale trade growth remained supported by re-exports.

**Unemployment rose by the end of 2024.** Based on our estimates, the unemployment rate increased from 12.4% in 2023 to 13.8% in 2024, primarily due to low labour market participation among employable internally displaced persons from Nagorno-Karabakh (Figure 3).

## INFLATION AND MONETARY TRENDS

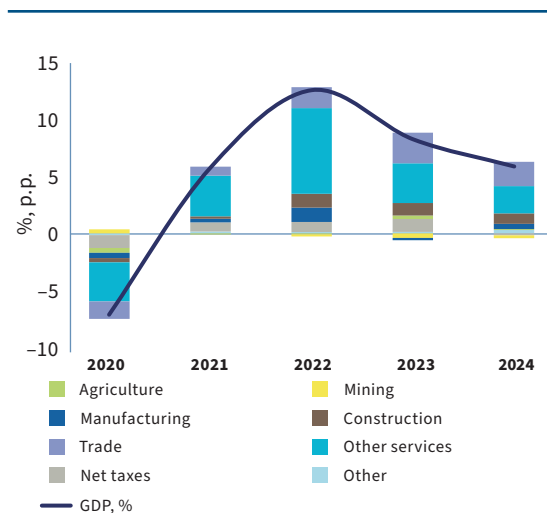
**In 2024, inflation remained below target due to the appreciation of the Armenian dram (AMD) and subdued inflation expectations.** By the end of December 2024, 12-month inflation stood at 1.5%, up from -0.6% in December 2023, while

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



Source: Armstat.

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

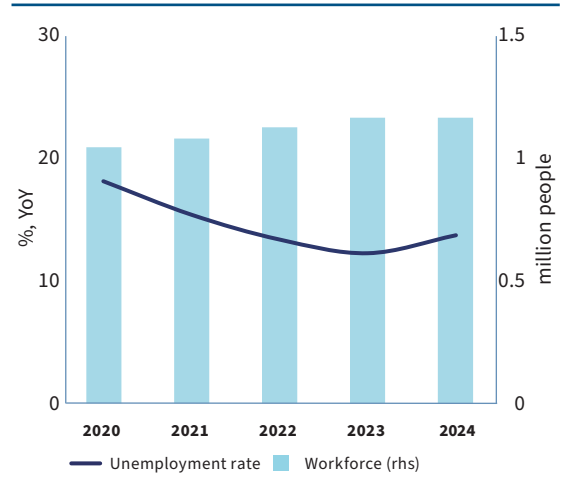


Source: Armstat.

annualised core inflation rose to 0.9% compared to -0.4% the previous year. The main inflation drivers were rising food and service prices, while non-food items had a negative contribution (Figure 6). By the end of February 2025, inflation had accelerated to 2.5%.

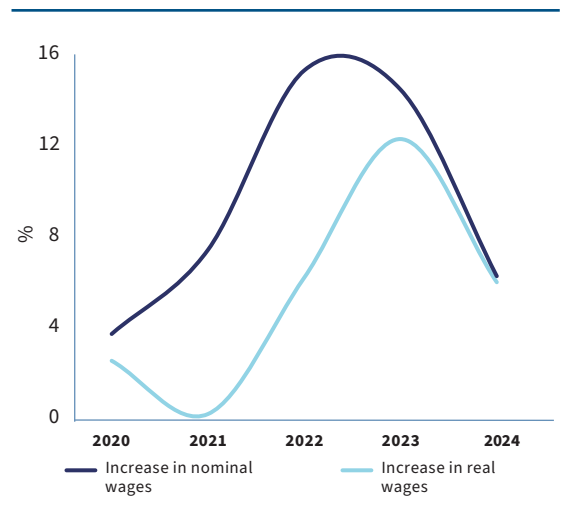
**Given persistently low inflation, the Central Bank continued to ease**

**Figure 3. Labour Market Indicators**



Source: Armstat.

**Figure 4. Household Income**

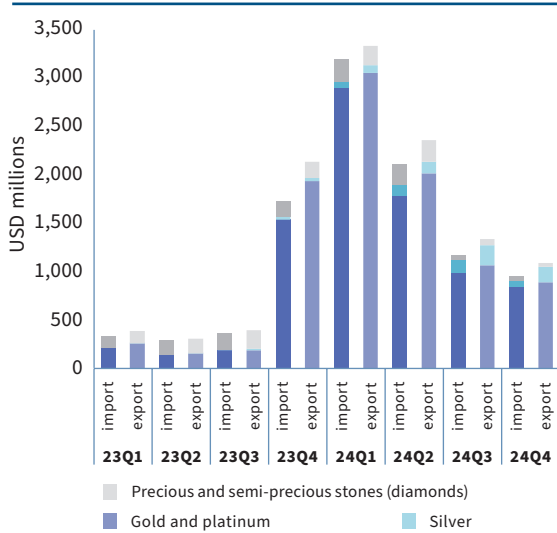


Source: CBA, Armstat.

**monetary policy, though its impact on bank interest rates remained moderate.** Since early 2024, the refinancing rate has been reduced eight times, from 9.25% to 7.0% per annum<sup>2</sup>.

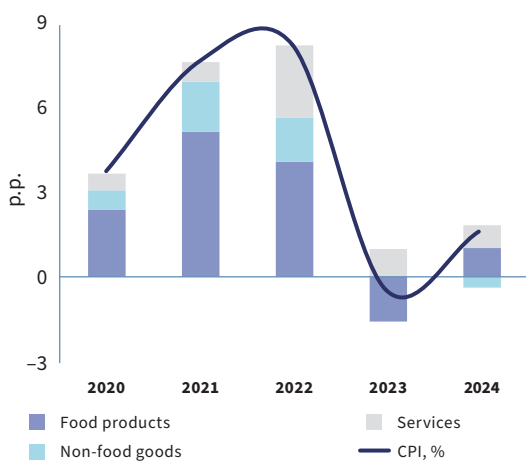
<sup>2</sup> On 4 February 2025, the Central Bank's Board decided to cut the refinancing rate by another 0.25 p.p. to 6.75%. Available at: [https://www.cba.am/RU/News/Pages/news\\_04022025\\_01.aspx#sthash.xsNTMViS.dpbs](https://www.cba.am/RU/News/Pages/news_04022025_01.aspx#sthash.xsNTMViS.dpbs)

Figure 5. Exports and imports of precious metals and stones



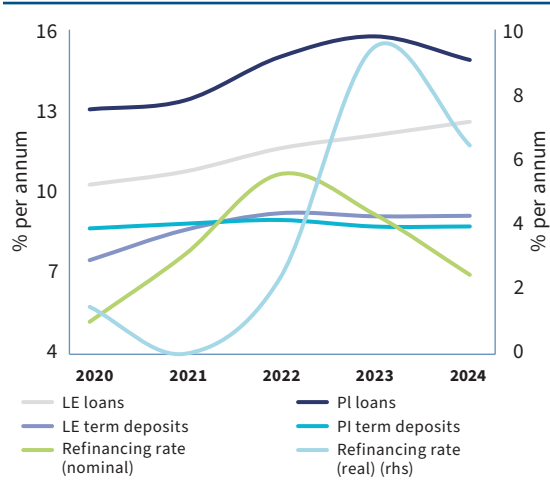
Source: Armstat.

Figure 6. Inflation (YoY, eop)



Source: Armstat.

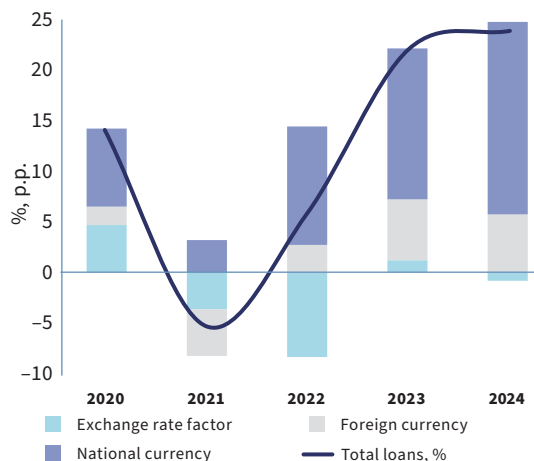
Figure 7. Interest Rates (eop)



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

Source: CBA, Armstat.

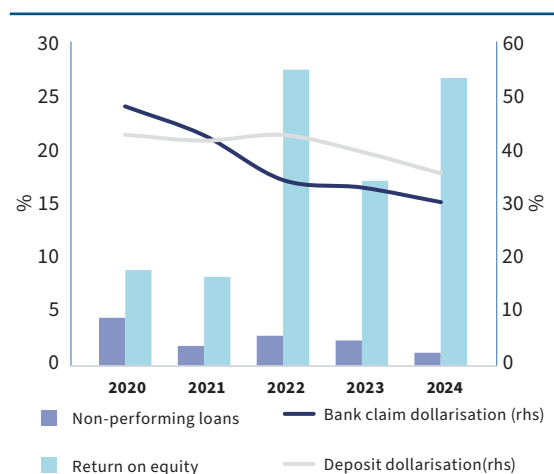
Figure 8. Increase in Commercial Bank Loans



Source: CBA.

However, banks were slow to adjust interest rates on AMD-denominated loans and term deposits, with rate reductions seen only for personal loans (from 15.9% to 15.0%).

Despite relatively high interest rates, banks remained active lenders throughout the year (Figure 8). By the end of December 2024, annual growth in commercial bank loans had accelerated to 24.2% YoY (up from 22.4% in 2023). Lending expanded across all sectors, with construction and mortgage lending growing at over 30% YoY. The surge

**Figure 9. Banking Sector Indicators**

Source: CBA.

in lending activity in 2024 was largely driven by the anticipated completion of the government's mortgage interest compensation programme in Yerevan in 2025<sup>3</sup>. Amid increased bank lending, the financial stability of the banking system improved significantly — return on equity rose, while the share of non-performing loans declined (Figure 9).

## FISCAL SECTOR AND PUBLIC DEBT

**In 2024, a stimulative fiscal policy led to a widening of the fiscal deficit.** By year-end, the state budget recorded a deficit of 3.7% of GDP, compared to a surplus of 2.0% in the previous year, primarily due to increased spending on social benefits and pensions (Figure 10).

Budget revenues remained close to 2023 levels, while tax revenues declined. The state budget's tax revenue target for 2024 was underperformed by 6.4%, leading to a 0.4 p.p. drop in tax revenues to 23.6% of GDP. Specifically, VAT revenues fell by 0.7 p.p. due to lower import-related revenues, though this was partially offset by a 0.4 p.p. increase in environmental taxes and fees for natural resource use. However, non-tax revenues and grants compensated for the tax revenue shortfall, bringing total budget revenues to 25.5% of GDP<sup>4</sup>, comparable to the previous year.

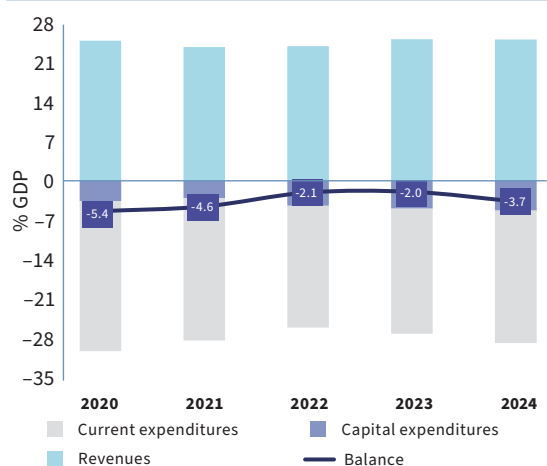
**Total budget expenditures rose to 29.2% of GDP, up from 27.5% in 2023, driven by increases in both current and capital spending.** Current expenditures reached 23.8% of GDP, mainly due to a 34.6% increase in social benefits and pensions, which accounted for 10.1% of GDP. In 2024, the composition of current expenditures shifted in response to government support for internally displaced persons from Nagorno-Karabakh<sup>5</sup>. Capital expenditures increased to 5.3% of GDP (+0.3 p.p.). However, budget execution fell short of the 2024 target, with current expenditures underperformed by 1.5% and capital expenditures by 22.1%.

<sup>3</sup> Social and Economic Development in the First Half of 2023 and Medium-Term Prospects, October 2023. Available at: [https://efsd.org/en/research/macroeconomic\\_references/october-2023-republic-of-armenia-social-and-economic-development-in-the-first-half-of-2023-and-medium-term-prospects/](https://efsd.org/en/research/macroeconomic_references/october-2023-republic-of-armenia-social-and-economic-development-in-the-first-half-of-2023-and-medium-term-prospects/) pp. 16–18.

<sup>4</sup> Revenues and expenditures include income tax refunds under mortgages.

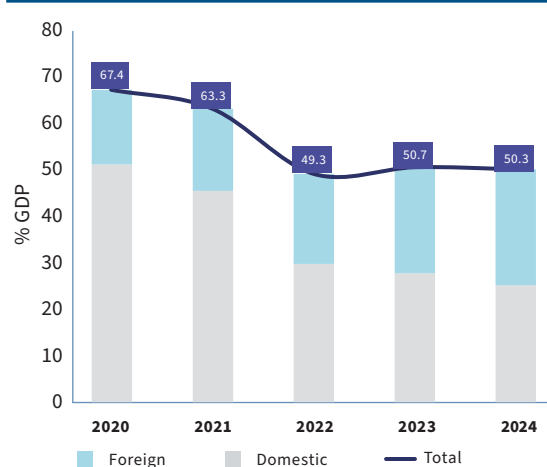
<sup>5</sup> Social benefits and pensions accounted for approximately 43% of current expenditures in 2024, up from 36% in 2023.

Figure 10. State Budget



Source: Ministry of Finance of the Republic of Armenia.

Figure 11. Public Debt



Source: authors' estimates.

**Public debt declined year-on-year** to 50.3% of GDP from 50.7% of GDP at the end of 2023, driven by GDP growth and AMD appreciation (Figure 11).

## EXTERNAL SECTOR<sup>6</sup>

**The current account deficit widened slightly due to a decline in the surplus of trade in services and remittances.**

In 2024, the current account deficit rose to an estimated 2.6% of GDP, up from 2.3% of GDP in 2023. The balance of trade in goods improved, supported by strong re-exports of precious metals and stones (particularly gold, platinum, silver and diamonds). While export and import growth rates for precious metals began to slow significantly from May 2024, they remained about four times higher at the end of Q4 compared to Q3 2023, amounting to an increase of approximately USD 600–700 million (Figure 5).

**The surplus in the services trade balance declined due to a 4.7% drop in tourist arrivals, including a decrease of 199,000 visitors from Russia compared to 2023.**

Additionally, personal remittance inflows saw a sharp decline (by approximately 34.9%) as the Russian rouble depreciated against the US dollar and fewer Armenian migrant workers travelled to Russia for employment<sup>7</sup> (Figure 12).

**The current account deficit was offset by other investment inflows and unrecorded transactions classified as “omissions and errors.”** Foreign currency inflows not reflected in key balance

<sup>6</sup> Authors' estimates.

<sup>7</sup> Central Bank of Armenia's estimate published in the Inflation Report, 10 December 2024 Available at: [https://www.cba.am/EN/ppublications/MPR\\_2024Q3\\_Eng.pdf](https://www.cba.am/EN/ppublications/MPR_2024Q3_Eng.pdf) p. 28.

of payments items were evident in Central Bank interventions throughout 2024, during which it purchased an equivalent of USD 706 million to curb excessive AMD appreciation.

By the end of 2024, gross international reserves had risen slightly by 1.7% compared to 2023, reaching USD 3.7 billion<sup>8</sup> (equivalent to 2.4 months of imports)<sup>9</sup>.

**We continue to assess the Armenian dram as overvalued.** The real effective exchange rate (REER) appreciated by 12.7% YoY, driven by appreciation against the Russian rouble (13.3%), the US dollar (2.0%) and the euro (5.9%) (Figure 13).

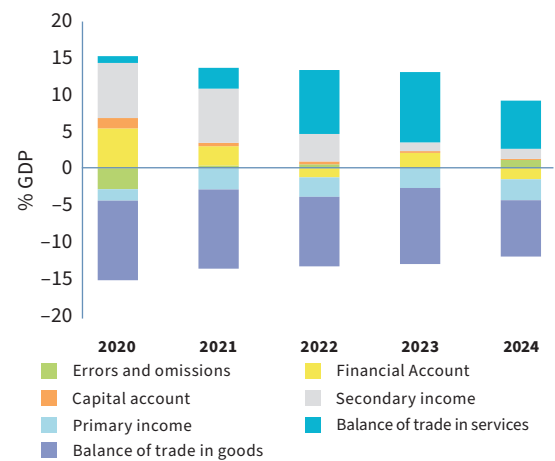
## MEDIUM-TERM OUTLOOK

**The economic growth outlook for 2025 has been revised downward due to a significant slowdown in Q4 2024.**

**Economic growth is projected to decelerate to 4.7% in 2025 as temporary market factors fade and the positive impact of housing construction diminishes.**

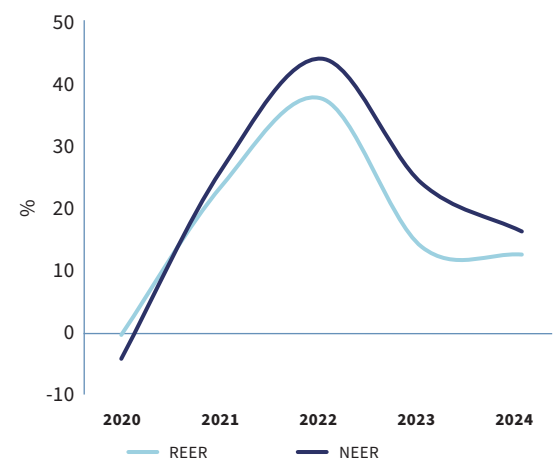
However, fiscal and monetary policies will remain stimulative, helping to sustain domestic consumption. The normalisation of net exports — declining by USD 600–700 million from 2024 due to the cessation of gold and silver

Figure 12. Balance of Payments



Source: CBA.

Figure 13. Real and Nominal Effective Exchange Rate (YoY)



Note: (+) refers to REER appreciation.

Source: CBA.

re-exports — will negatively affect real GDP growth. The suspension of the government's mortgage interest compensation programme in 2025–2027 (beginning with Yerevan in 2025) will contribute to a gradual slowdown in the construction sector.

Under the baseline scenario, medium-term economic growth is expected to

<sup>8</sup> As of the end of January 2025, gross international reserves have decreased to USD 3.3 billion.

<sup>9</sup> Authors' estimates.

align with its potential rate, averaging around 4.6%<sup>10</sup>. Growth will be driven primarily by consumer and investment demand. Consumer demand will benefit from continued credit expansion, while investment demand will be supported by sustained public investment growth<sup>11</sup>.

The baseline outlook incorporates both downside and upside risks stemming from internal and external factors (for more details, see [Risks to the Baseline Scenario](#)).

**Monetary policy will focus on bringing inflation back within the target range and maintaining it there through 2025–2027.**

**Given the expectation of relatively low inflation in 2025, monetary policy will remain accommodative, with inflation projected to approach 3.0% by year-end.**

Over the medium term, 12-month inflation is expected to stay within the target band, supported by strong credit growth and continued fiscal stimulus in 2025–2026.

**Fiscal policy in 2025 will be more stimulative than in 2024, driven by increased current and capital**

**expenditures.** As a result, public debt will rise in 2025, reaching a level where budgets for 2026–2027 will need to comply with fiscal rules. This will involve a decline in the share of current expenditures in 2026–2027 compared to 2025. Current expenditures on social payments and pensions will gradually be reduced as support for internally displaced persons from Nagorno-Karabakh is phased out, transitioning to a subsidised mortgage lending programme for them.

**Public revenues are expected to increase steadily throughout the forecast period.** Tax revenue growth is projected to average around 0.6 p.p. of GDP per year from 2025 to 2027, driven by improved tax administration and tax policy adjustments. By the end of 2027, revenues are expected to rise to 26.3% of GDP, while expenditures will decline to 29.5% of GDP, leading to a gradual reduction in the fiscal deficit from 5.7% of GDP in 2025 to 3.2% of GDP in 2027.

**The balance of payments will remain under pressure as the current account deficit widens.** In 2025–2027, the deficit is expected to average 4.7% of GDP due to the worsening balance of trade in goods and services. Despite the widening current account deficit, international reserves are projected to remain relatively stable, covering an average of 2.7 months of imports of goods and services.

<sup>10</sup> Central Bank of Armenia's estimate published in the Inflation Report, 10 December 2024 (with potential levels estimated at 4.5–5.0%). Available at: [https://www.cba.am/RU/ppperiodicals/MPR\\_2024Q3\\_Rus.pdf](https://www.cba.am/RU/ppperiodicals/MPR_2024Q3_Rus.pdf) p. 22.

<sup>11</sup> 2025–2027 Medium-Term Public Expenditure Framework. Available at: [https://minfin.am/hy/page/petakan\\_mijnazhamket\\_tsakhseri\\_tsragre/](https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/)

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

	2023 Actual	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast
<b>National accounts and prices (%)</b>					
Nominal GDP					
AMD billions	9,453	10,127	10,982	11,983	13,071
USD billions	24.1	25.8	27.1	28.8	30.5
Real GDP growth	8.3	5.9	4.7	4.6	4.6
CPI (December, YoY)	-0.6	1.5	3.0	3.0	3.0
<b>Money and credit (eop)</b>					
Broad money supply, % change	17.4	13.7	10.7	9.2	9.1
<b>Public finance (% of GDP)</b>					
Revenues and grants	25.5	25.5	25.7	26.0	26.3
of which tax revenues	24.1	23.6	24.8	25.3	25.5
Budget expenditures	27.5	29.2	31.4	30.3	29.5
Current expenditures	22.5	23.8	24.6	23.4	22.9
Capital expenditures	5.0	5.3	6.7	6.9	6.6
Budget balance ("-" deficit / "+" surplus)	-2.0	-3.7	-5.7	-4.2	-3.2
<b>External sector (% of GDP)*</b>					
Current account	-2.3	-2.6	-4.5	-4.9	-4.9
Foreign direct investment	2.4	1.3	1.4	1.5	1.8
Gross reserves, months of imports of goods and services	3.0	2.4	2.8	2.7	2.7

**Note:** \*estimate for 2024.

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

**Armenia**

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Executive  
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# BELARUS



Armenia

**Belarus**

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



In 2025, Belarus' economic growth is projected to decelerate to 1.6%, reflecting spillovers from Russia's economic slowdown and the authorities' shift toward more conservative macroeconomic policies. Several macroeconomic indicators in the second half of 2024 already showed signs of moderating activity. Medium-term growth is expected to converge toward potential.

Nevertheless, accumulated pressures from domestic demand, labor market conditions, and price dynamics in Russia continue to pose upside risks to inflation. While inflation remains contained through administered price controls, monetary tightening measures, and relative exchange rate stability, the persistence of a positive output gap is expected to keep inflation elevated at 6-7% during 2025-2026. Achieving the 5% inflation target may require more decisive monetary policy tightening.

The fiscal stance is anticipated to remain broadly neutral, with a gradually widening surplus. Moderating economic activity and improving terms of trade should support external stability, helping to contain the current account deficit.

## REAL SECTOR AND LABOUR MARKET

**Belarus's economy maintained high growth rates in 2024.** Real GDP growth was 4.0% YoY, up from 3.9% YoY in 2023. The first half of the year, during which the economy entered a positive output gap, set the foundation for this growth. However, starting in the second half of the year, signs of cooling economic activity emerged amid restrained external demand.

**We estimate seasonally adjusted real GDP growth in Q4 at -0.8%.**

**Increased domestic demand remained the primary contributor to real GDP growth,** with domestic consumption playing the most significant role (Figure 1). Retail sales for 2024 increased by 11.8% YoY compared to 8.5% YoY in the previous year. The seasonally adjusted growth rate of retail sales remained relatively stable at around 3% per quarter throughout 2024. Consumer activity was supported by a 9.7% YoY increase in real disposable household incomes, driven by a 13% rise in real wages. Wage growth was fuelled by public sector wage stimulation and overall labour shortages. Strong consumer bank lending (+45.9% over 2024) further boosted consumer activity.

**Investment continued to recover in 2024, albeit at a slower pace.** Fixed capital investment growth for 2024 was 8% YoY, down from 14.8% in 2023. The key sources of investment growth were bank loans (+39.6%) and enterprises' own funds (+8.1%), which together financed over half of all investments (54.6%). In contrast, the

share of budget financing for investments declined from 23.1% in 2023 to 21.5% in 2024. The share of foreign sources<sup>1</sup> of fixed capital investments remained insignificant and continued to decline (2.2% in 2024, down from 3.3% in 2023).

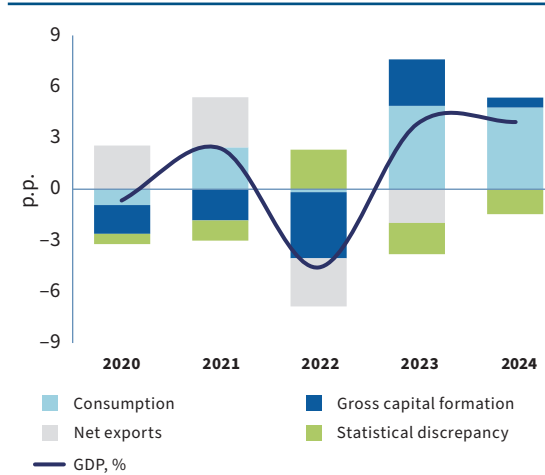
**Industry remained a key driver of economic growth in 2024, despite a slight decline in output in the second half of the year.** Industrial output growth for 2024 was 5.4% YoY, contributing 1.4 p.p. to real GDP growth. However, the seasonally adjusted industrial output in Q4 is estimated to have contracted by 2%. Increased domestic consumption fuelled value-added growth in wholesale and retail trade, while investment spurred construction, supporting overall economic activity. The transport and IT sectors showed signs of recovery, demonstrating moderate growth after two years of contraction (Figure 2).

**Labour market conditions tightened due to persistently high demand for workforce and a decline in the number of employed persons.** The unemployment rate, based on ILO criteria, continued to fall in 2024, reaching 3.0% (down from 3.5% in 2023). Meanwhile, the decrease in the average annual workforce slightly decelerated (-0.9% YoY compared to -1.4% in 2023) (Figure 3).

**This slower decline may be linked to measures facilitating the employment of foreign nationals, which somewhat offset the negative impact of demographic factors.**

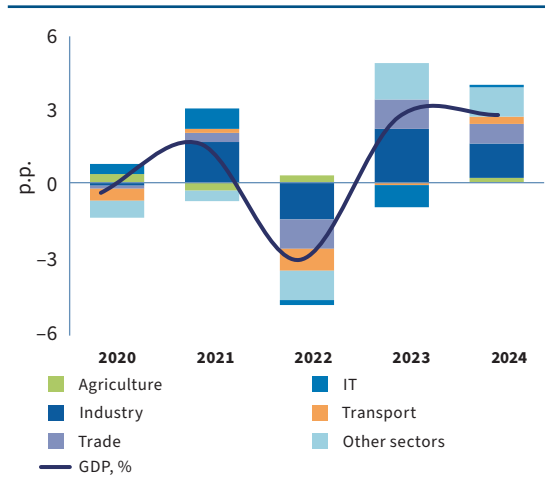
<sup>1</sup> Including loans/borrowings from foreign banks and loans under foreign loan facilities.

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



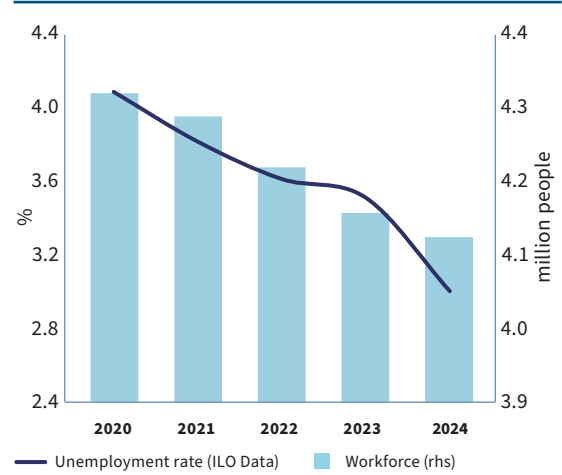
Note: 2024 — authors' estimates  
Source: Belstat.

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



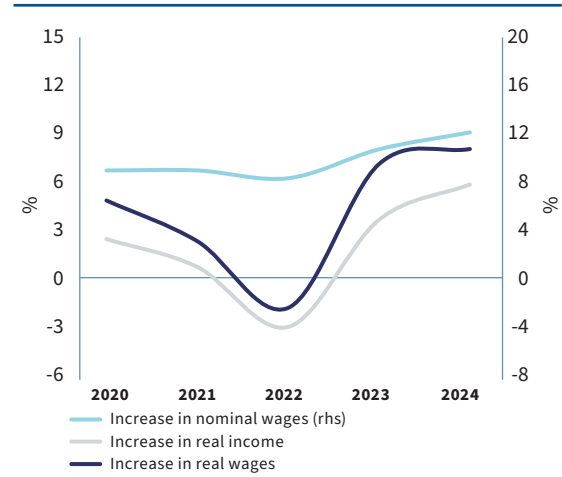
Source: Belstat.

**Figure 3. Labour Market Indicators**



Source: Belstat.

**Figure 4. Household Income**



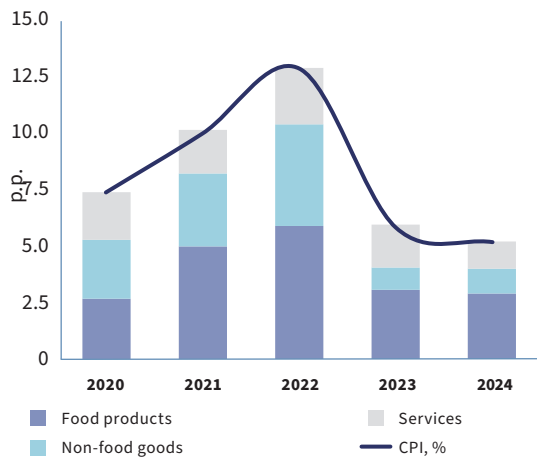
Source: Belstat.

However, persistent labour shortages continued to drive rapid wage growth (Figure 4).

## INFLATION AND MONETARY TRENDS

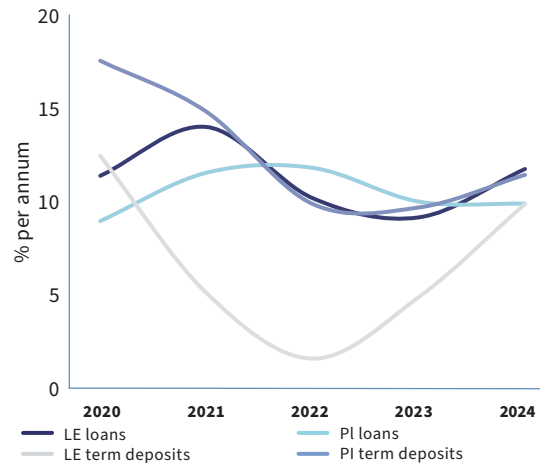
**Core inflation is rising, driven by strong domestic demand and high inflation in Russia.** By the end of 2024, consumer price growth stood at 5.2% YoY, within the “no more than 6%” target set for the year

Figure 5. Decomposition of Inflation



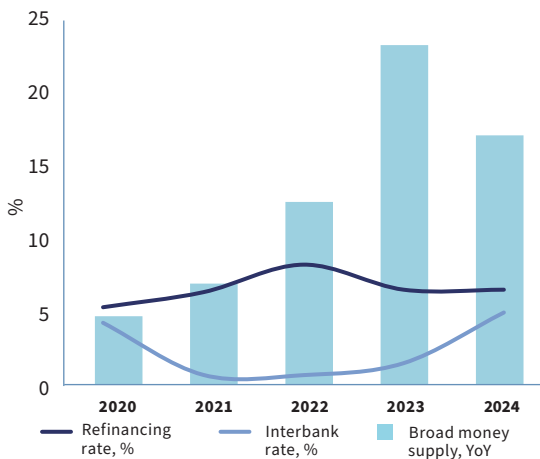
Source: Belstat.

Figure 7. Interest Rates on New Loans and Deposits



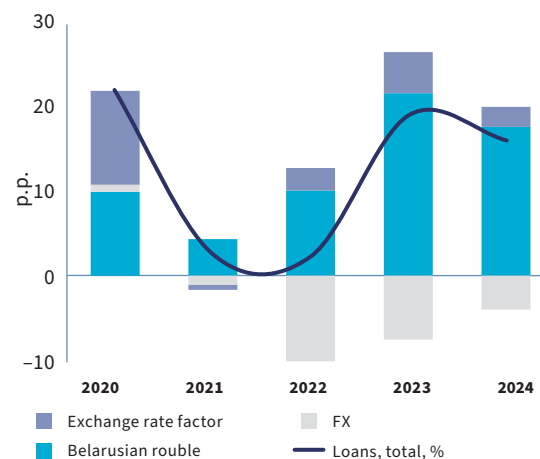
Source: NBRB.

Figure 6. Monetary Indicators (eop)



Source: Belstat, NBRB.

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

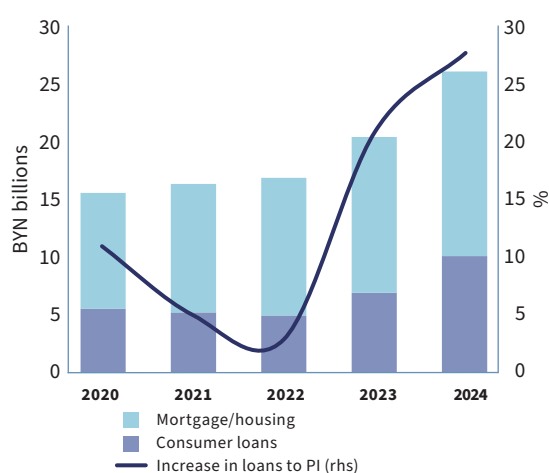


Source: NBRB.

(Figure 5). The growth in domestic demand was most evident in the acceleration of core inflation, which rose to 5.5% by year-end (up from 3.9% in 2023). In contrast, the growth of administratively regulated prices and tariffs slowed to 4.4% YoY (down from 8.9% in 2023), while fruit and vegetable price inflation decelerated to 5.2% (from 18.5% in 2023).

**To limit the pro-inflationary impact of domestic demand, the National Bank implemented measures aimed at normalising monetary conditions.** Since early 2024, the National Bank has resumed operations to sterilise excess

Figure 9. Loans to Households (eop)



Source: NBRB.

liquidity, increasing the EVSR<sup>2</sup> prudential ratio (from 10.99% and 15.25% to 12.5% and 17.71% for loans to legal entities and households, respectively) and raising the required reserve ratio for bank funds mobilised in foreign currency (from 18% to 20%). These measures collectively led to higher interest rates in both the interbank market (Figure 6) and the credit and deposit markets (Figure 7).

**The rise in interest rates resulted in a slight slowdown in lending, though overall lending remained quite high.**

The increase in banks' loans in 2024 was 16.1% (down from 19.1% in 2023) (Figure 8). The retail segment was a key driver of lending growth, with banks' loans to households (including consumer loans and mortgages) expanding by 27.6% (Figure 9).

<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.

## EXTERNAL SECTOR

### Growing domestic demand and unfavourable terms of trade led to a widening trade deficit.

The current account deficit for 2024 was 2.5% of GDP (up from 1.5% of GDP in 2023). The widening deficit resulted from the foreign trade balance moving into negative territory (-1.7% of GDP after a surplus of 0.3% of GDP in 2023) (Figure 10), driven by faster growth in imports of goods (6.3%) compared to exports (1.2%). The deterioration in trade price conditions, caused by the depreciation of the Russian rouble against the US dollar, restrained export growth in value terms<sup>3</sup>. Even a 14% recovery in service exports failed to fully offset the growing trade deficit in goods.

### Despite the current account deficit, the foreign trade balance was supported by financial account operations.

The financial account recorded an inflow of 1.4% of GDP (following an outflow of 0.4% in 2023), driven by reinvestment of earnings by foreign direct investors (1.8% of GDP). Additionally, there was a notable reduction in other investment outflows, which totalled 0.4% of GDP in 2024 (down from 3.6% in 2023).

**The slowdown in other investment outflows reflects the Belarusian economy's adaptation to financial sector sanctions.**

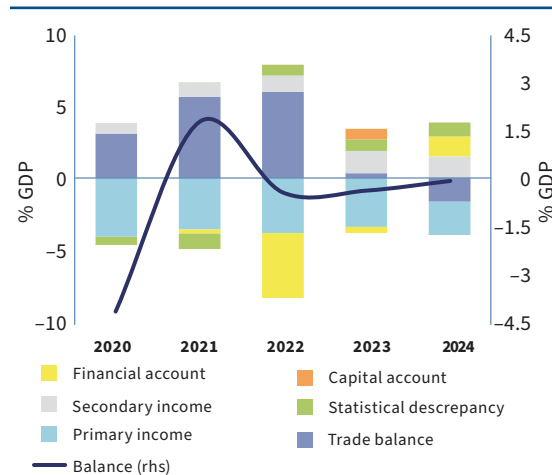
<sup>3</sup> For more details on this effect, refer to the EFSD Regional Economic Outlook 2024, 2(2). Available at: <https://efsd.org/en/research/regional-economic-outlook/summer-24-regional-economic-outlook/>

That necessitated the repayment of previously accumulated liabilities and significantly reduced demand for domestic foreign currency financing, particularly in dollars and euros.

**The exchange rate remained relatively stable.** The domestic foreign exchange market was characterised by balanced demand and supply, with the net balance of market participant transactions close to zero by year-end. The average nominal and real effective exchange rates weakened over the year by 0.9% and 0.8%, respectively.

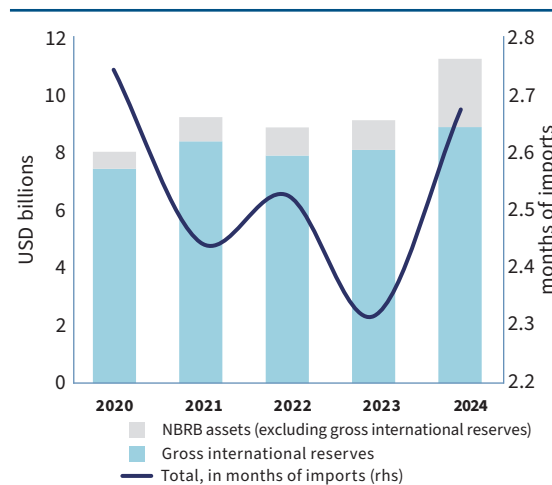
**Rising global gold prices contributed to an increase in the National Bank's gross international reserves.** In 2024, gross international reserves expanded by USD 0.8 billion, reaching USD 8.9 billion (equivalent to 2.1 months of imports) as of 1 January 2025. This growth was driven by asset revaluations, primarily due to rising global gold prices — the value of monetary gold in gross international reserves increased by USD 0.9 billion over the year. Additionally, the National Bank recorded a USD 1.3 billion increase in other foreign currency-denominated assets, which are not part of gross international reserves, further enhancing an increase in sources that can be used to maintain the country's solvency (Figure 12). By year-end 2024, the National Bank's official reserves and other foreign currency assets totalled USD 11.3 billion.

Figure 10. Balance of Payments



Source: NBRB, Belstat.

Figure 11. NBRB's Foreign Currency Assets



Source: NBRB, authors' estimates.

## MEDIUM-TERM OUTLOOK

**The estimate for Belarus's real GDP growth in 2025 has been revised downward from 2.5% to 1.6% compared to the previous outlook<sup>4</sup>.** This adjustment reflects a faster-than-expected economic

<sup>4</sup> EFSO Regional Economic Outlook 2024, 3(3). Available at: <https://efso.org/en/research/regional-economic-outlook/fall-24-regional-economic-outlook/>

slowdown in Q4 2024, primarily due to weaker industrial output. Meanwhile, the expected inflation estimate has been revised upward, driven by continued strong price growth in Russia and increasing wage pressures.

**The key forecast assumptions remain largely inertial**, with the expectation that internal and external economic conditions will remain relatively unchanged. In particular, labour market conditions — putting upward pressure on wages — are anticipated to remain tight. Monetary and fiscal policies will continue to aim at maintaining macroeconomic stability by balancing inflation control with economic growth support.

## REAL SECTOR

The slowdown in Russia's economic activity will be a key factor dampening economic growth in Belarus. Real GDP growth for 2025 is projected at 1.6%. In 2026–2027, the economy is expected to expand at around 1%, as structural constraints within Belarus's current economic model persist, gradually closing the positive output gap (Figure 12).

**However, this adjustment will be moderated by ongoing wage pressures resulting from labour shortages, leading to rising marginal costs and inflationary pressures.**

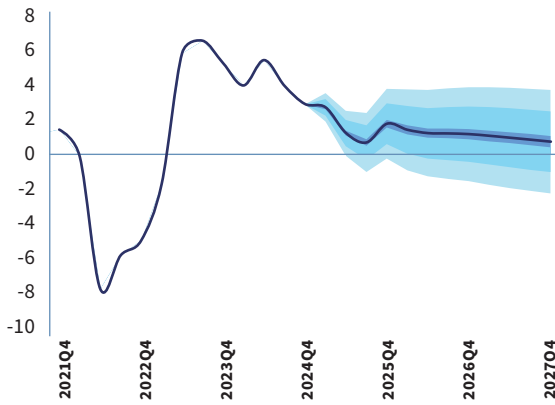
## INFLATION AND MONETARY POLICY

**With the persistence of a positive output gap, a more active tightening of monetary policy may be required to stabilise inflation.** A positive output gap, labour market pressures and sustained external inflationary influences remain key drivers of price growth. The most pronounced inflationary effects are expected in late 2025 and the first half of 2026. Under these conditions, inflation is projected to remain around 6% at the end of 2025, accelerating to 7.2% in 2026. However, a slowdown in economic activity and the normalisation of Russia's inflationary environment are expected to help bring inflation closer to target levels by the end of 2027 (Figure 13).

## FISCAL SECTOR

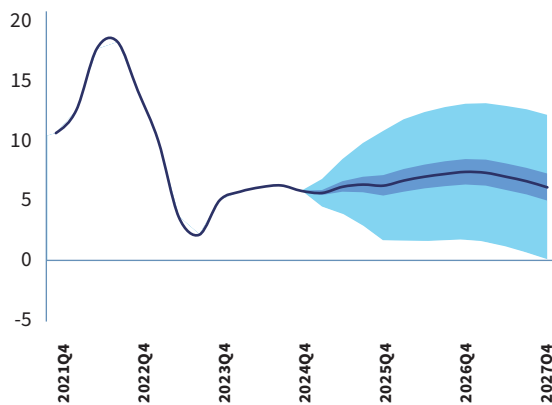
Fiscal policy is expected to remain broadly neutral, with a gradual increase in the surplus. A projected slowdown in budget expenditure growth will support a moderate surplus in the medium term (within 1% of GDP). With relatively stable budget revenues, fiscal consolidation efforts will focus on moderating wage growth in the public sector — following strong increases in previous years — as well as maintaining moderate capital expenditures. The primary balance is expected to remain in surplus at around 2% of GDP in 2025–2027.

Figure 12. GDP Growth, % YoY



Source: authors' calculations.

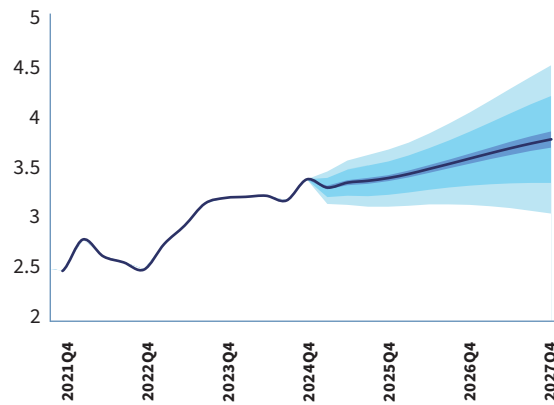
Figure 13. Inflation, % YoY



Source: authors' calculations.

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

Figure 14. BYN/USD Exchange Rate



Source: authors' calculations.

## EXTERNAL SECTOR

**A projected slowdown in domestic demand growth and a gradual reduction in the current account deficit will help to maintain balance in foreign trade.** The current account deficit is forecast to be 2.1% of GDP in 2025, gradually narrowing to 0.6% of GDP by 2027. Slower domestic demand growth and some improvement in foreign trade price conditions will help limit the current account deficit. Meanwhile, public debt repayments and servicing fees will exert pressure on the National Bank's reserves. However, the National Bank's total foreign assets are projected to reach approximately USD 10 billion in the medium term. The exchange rate is expected to be relatively stable under such conditions (Figure 14).

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

	2023 Actual	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast
<b>National accounts and prices (%)</b>					
Nominal GDP, BYN billions	216.1	241.4	277.8	305.2	334.2
Real GDP growth	3.9	4.0	1.6	1.2	0.9
CPI (December, YoY)	5.8	5.2	6.0	7.2	5.0
Nominal average monthly wage, BYN	1,902	2,272	2,610	2,926	3,220
Real wage growth	11.0	13.1	8.8	5.0	3.1
<b>Money and credit (eop)</b>					
Broad money supply, % change	23.6	14.0	13.8	12.1	11.7
Credit to the economy, % change	19.1	16.1	16.9	13.3	12.6
Refinancing rate, % per annum		9.5	9.5	9.5	9.5
<b>Public finance (% of GDP)</b>					
Budget revenues	30.1	29.0	28.8	28.8	28.8
tax revenues	24.8	25.2	25.2	25.3	25.3
Budget expenditures	28.9	28.6	28.2	28.1	27.7
Budget balance ("-" deficit / "+" surplus)	1.1	0.4	0.6	0.8	1.1
Primary budget balance	2.8	2.2	1.9	1.8	2.0
<b>External sector (% of GDP)</b>					
Current account	-1.5	-2.5	-2.1	-1.5	-0.7
Foreign direct investment (- inflow; + outflow)	2.7	2.1	2.0	1.9	1.9
NBRB foreign assets*					
USD billions	9.2	11.3	10.2	9.7	9.8
months of imports of goods and services	2.3	2.7	2.4	2.2	2.2

**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.

Armenia

**Belarus**

Kyrgyz Republic

Tajikistan

Risks to the  
Baseline  
Scenario



# KYRGYZ REPUBLIC

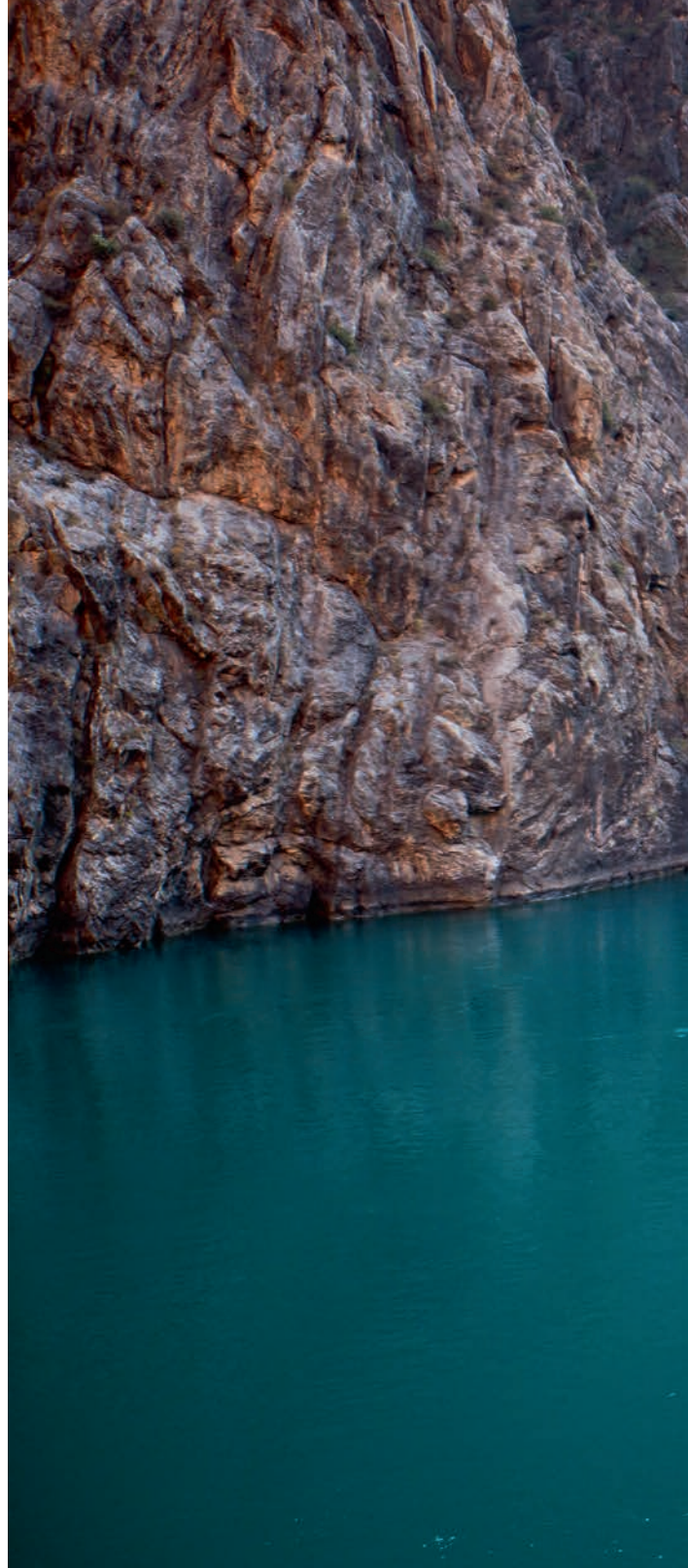
Chief  
Economist's  
Foreword

Executive  
Summary

Trends in  
the Global  
Economy

Russia

Kazakhstan



Armenia

Belarus

**Kyrgyz Republic**

Tajikistan

Risks to the  
Baseline  
Scenario



The EFSD baseline forecast projects that the Kyrgyz economy will continue growing above potential during 2025-2027, with GDP expanding by 5.9%, 5.6%, and 5.4% respectively. While the services sector's outperformance observed over the past three years is expected to moderate in the medium term, construction and industrial output will maintain robust growth momentum supported by investment activity.

Food price acceleration in late 2024-early 2025 and planned electricity tariff hikes in May 2025 will reinforce inflationary pressures. Annual inflation is projected to average 6.7% in 2025, near the upper bound of the central bank's target range. Barring additional shocks, price growth is expected to moderate to 6.1% in 2026 and 5.9% in 2027.

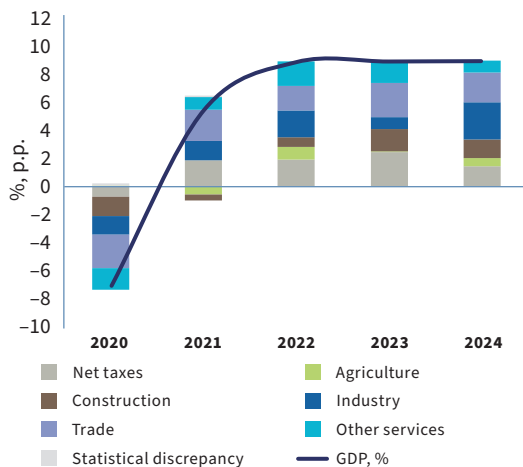
The republican budget is forecast to maintain its surplus position throughout the medium term. Revenue performance will continue benefiting from strong non-tax receipts, including dividends from state-owned enterprises and NBKR profits, along with investment income from temporary budget deposits.

Balance of payments normalisation trends observed since Q2 2024 are expected to persist through 2027, strengthening external sustainability through both current account adjustment and reduced net errors and omissions.

## REAL SECTOR AND LABOUR MARKET

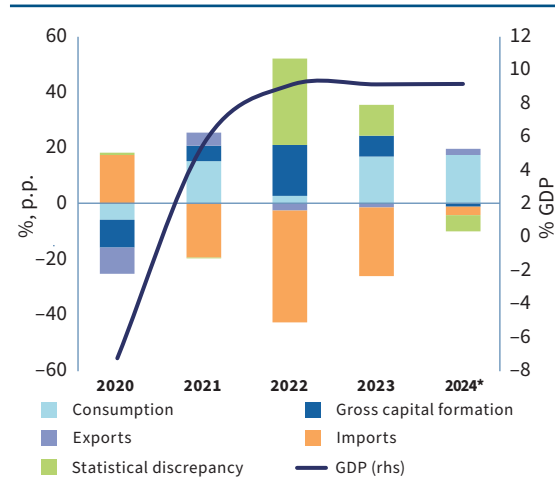
**Trade and construction contributed to robust economic growth in 2024.** The Kyrgyz economy expanded by 9.0% YoY for the third consecutive year. The sectoral breakdown of growth remained largely unchanged (Figure 1), with trade (2.7 p.p.) and construction (1.3 p.p.) making the largest contributions. Agriculture, which added only 0.07 p.p. to growth in 2023, contributed 0.6 p.p. in 2024 due to increased gross harvests and higher crop yields. The EFSD estimates that in Q4 2024, GDP growth reached 6.8% YoY, or 1.9% QoQ, decelerating from Q3's growth of 12.2% YoY and 5.3% QoQ.

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



Source: NSC KR, EFSD calculations.

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

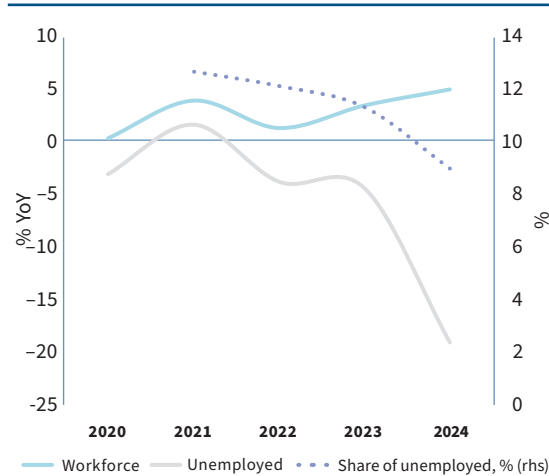


Source: NSC KR, EFSD's estimates.

The structure of economic growth by expenditure (Figure 2) remains uncertain due to a lack of complete 2024 data (published with a lag) and inconsistencies in intra-annual indicators<sup>1</sup>. However, available data indicate a notable rise in consumption, supported by increasing employment (+4.9% YoY) (Figure 3), real wages (+6.9% YoY) (Figure 4) and real credit growth (+25.9% YoY). Real investment also expanded (+25.6% YoY), mainly driven by manufacturing. However, the overall contribution of gross investment may have been limited by NBKR's substantial gold sales in October and November 2024, which are classified as net disposals of valuables. The negative contribution of net exports diminished, with EFSD estimates indicating that real merchandise exports grew by 5.9% YoY, while real imports increased by 3.0% YoY.

<sup>1</sup> Official publications indicate GDP growth of 10.1% YoY in January–September 2024. However, based on the expenditure approach, economic growth for the same period is estimated at 0.7% YoY.

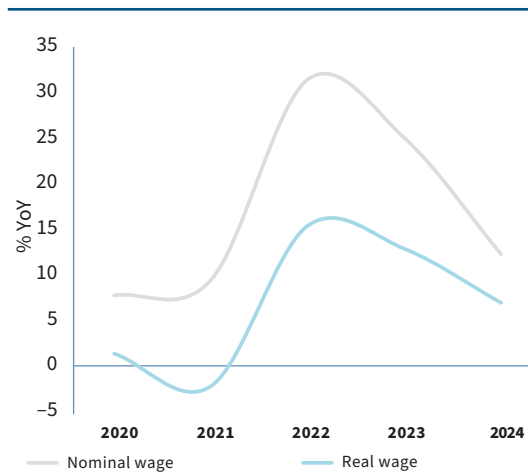
Figure 3. Labour Market Indicators



**Note:** for 2021–2024, employment figures refer to the number of employees at enterprises; before 2021, they reflect the total employed population.

**Source:** NSC KR, EFSO calculations.

Figure 4. Household Income



**Source:** NSC KR, EFSO calculations.

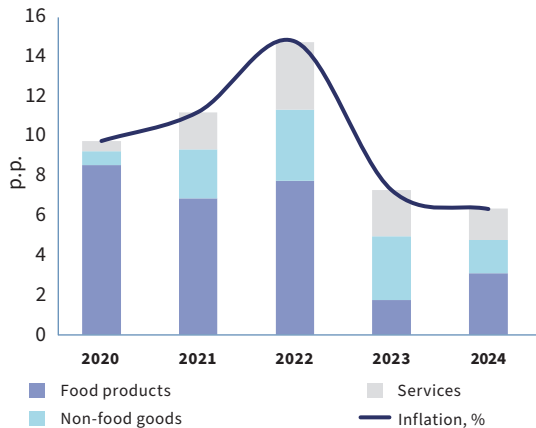
## INFLATION AND MONETARY TRENDS

**Inflation is accelerating, primarily due to rising food prices.**

Food inflation surged from 0.0% YoY in August 2024 to 5.4% YoY in December and 6.1% in January 2025, driven mainly by increases in vegetable and meat prices. The high share of food in the consumption basket (approximately 50%) pushed the CPI from 3.8% YoY in August to 6.3% in December (Figure 5) and further to 6.7% in January 2025. Service price growth also accelerated (from 7.3% YoY in August to 8.1% in December and 8.7% in January), primarily due to the lifting of the moratorium on tariff increases for paid educational services in July 2024. The seasonally adjusted three-month inflation rate was 0.5% MoM in December and 0.6% MoM in January.

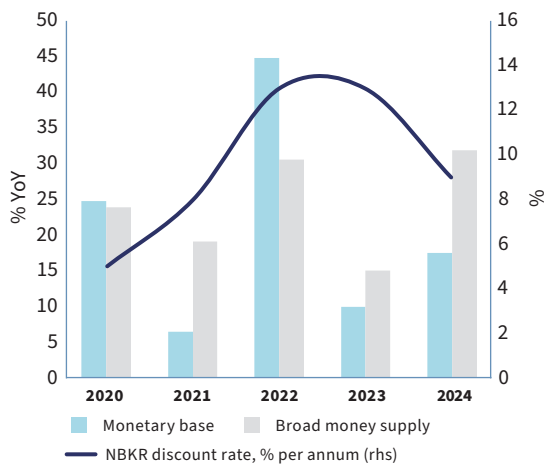
**Monetary policy parameters remain unchanged.** The NBKR has maintained the discount rate at 9% per annum since May 2024, marking the completion of the monetary policy normalisation cycle that began in late 2022. The overnight deposit and lending rates have been set at 4% and 11% per annum, respectively, since mid-2024. The rates on new term loans and deposits denominated in local currency (Figures 8 and 10) have shown a downward trend (from 19.9% to 19.2% per annum for loans, and from 12.3 to 9.6% per annum for deposits), mainly reflecting shifts in the time structure of portfolios.

Figure 5. Decomposition of Inflation



Source: NSC KR, EFSD calculations.

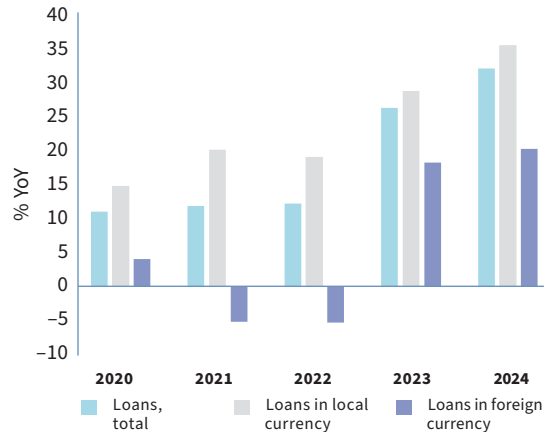
Figure 6. Monetary Indicators



Source: NBKR.

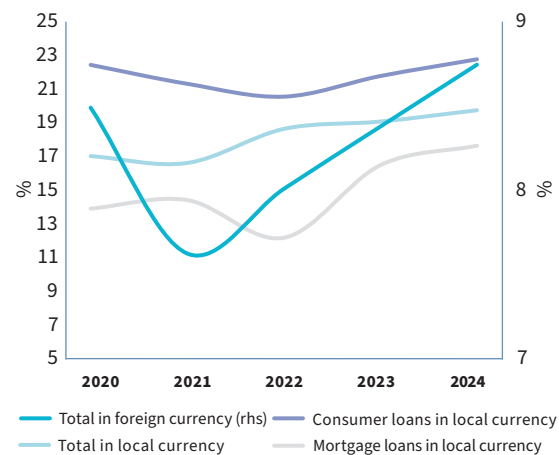
**The loan portfolio increased by 35.5% YoY in 2024, contributing to the credit gap<sup>2</sup>, though it remains relatively low (22.4% of GDP compared to 19.3% the previous year).**

Figure 7. Trends in Credit Growth in Commercial Banks



Source: NBKR, EFSD calculations.

Figure 8. Average Interest Rates on New Loans

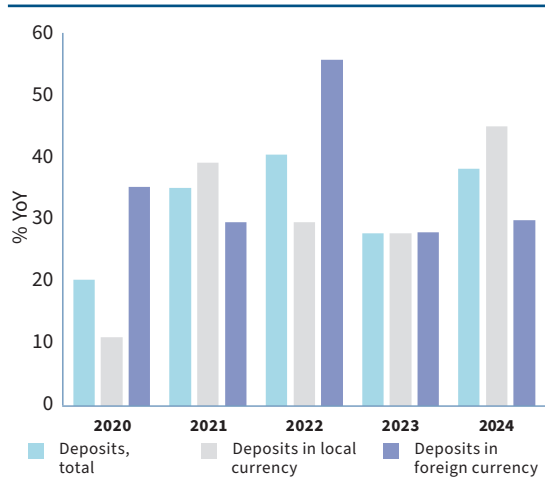


Source: NBKR, EFSD calculations.

Consumer loans grew by 77.8% (to 6.5% of GDP), while mortgage loans increased by 30.5% (to 2.6% of GDP). The broad money supply expanded by 31.9% YoY (to 44.2% of GDP). Despite a 2.7 p.p. decline to 42.9%, the dollarisation of the deposit portfolio remains in line with recent years' average levels. Meanwhile, the dollarisation of the loan portfolio continues to decline steadily (by 2.0 p.p. to 20.1%).

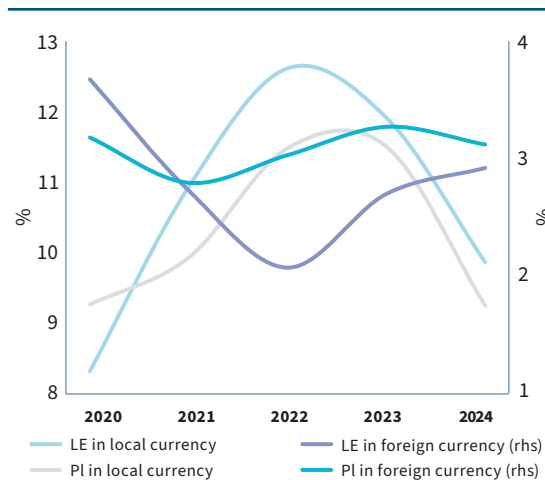
<sup>2</sup> Difference between the credit-to-GDP ratio and its long-term trend.

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



Source: NBKR, EFSD calculations.

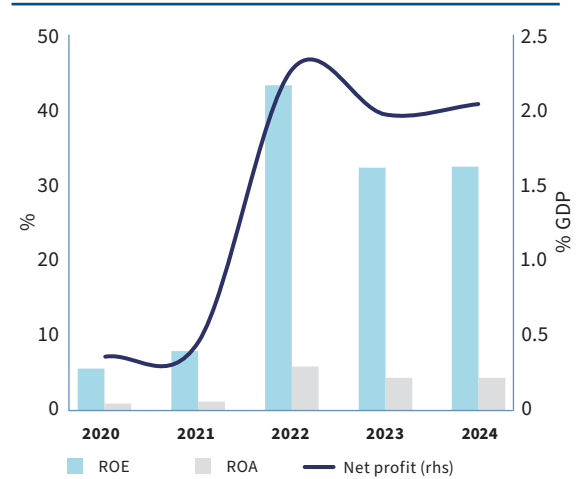
**Figure 10. Average Interest Rates on New Term Deposits**



Source: NBKR.

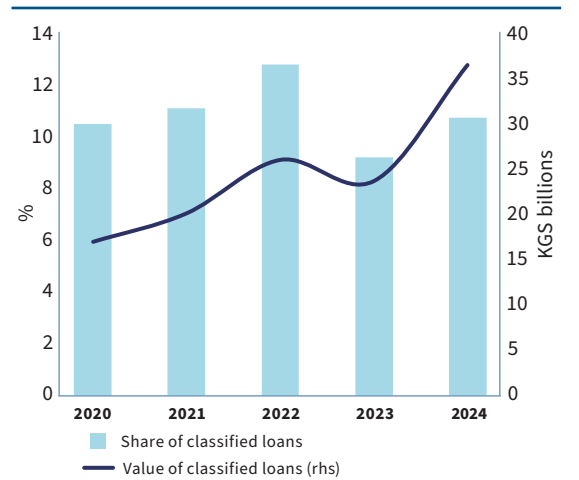
**Banking sector indicators changed only slightly over the year.** Return on equity and return on assets (Figure 11) adjusted within 0.1 p.p. (to 32.5% and 4.3%, respectively). The share of non-performing assets (Figure 12) increased to 10.8% but remains within the average range observed in recent years.

**Figure 11. Banking Sector Profitability**



Source: NBKR, EFSD calculations.

**Figure 12. Classified Loans**

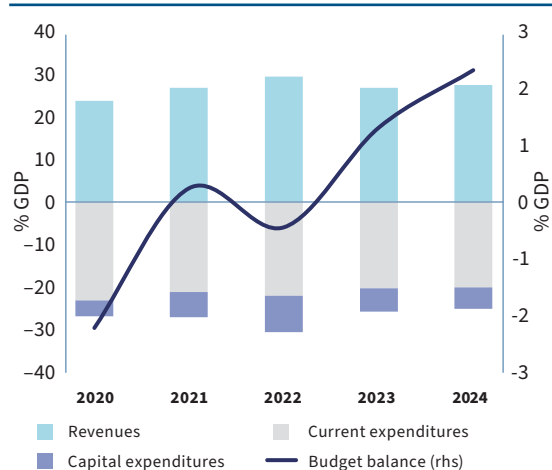


Source: NBKR.

## FISCAL SECTOR AND PUBLIC DEBT

**The budget surplus emerged due to expenditure underperformance.** According to the revised 2024 budget, the national budget surplus (Figure 13) was expected to reach 0.4% of GDP. However, due to the under-execution of

Figure 13. State Budget

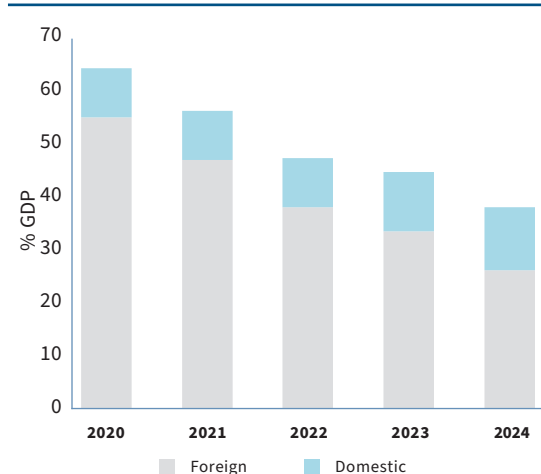


Source: Ministry of Finance of the Kyrgyz Republic, ESFD calculations.

both current and capital expenditures by KGS 21 billion, or 1.4% of GDP, the actual surplus amounted to 2.2% of GDP (up from 1.0% of GDP in the previous year). Relative expenditures decreased by 0.6 p.p. to 25.2% of GDP compared to the previous year, while revenues slightly increased by 0.5 p.p. to 27.4% of GDP, driven primarily by tax revenues. The net balance of budgetary funds slightly declined over the year (by KGS 1.8 billion or 0.1% of GDP). Meanwhile, in December, the Ministry of Finance placed KGS 15 billion (1.0% of GDP) in deposits with commercial banks, indicating sufficient free liquidity.

**Public debt is declining due to rapid GDP growth and the appreciation of the KGS exchange rate.** By the end of 2024, public debt (Figure 14) had decreased by 4.4 p.p. to 37.6% of GDP, while its nominal growth stood at 2.2%. The decline was primarily driven by external debt (-5.3 p.p. to 25.8% of GDP), while domestic debt increased by 0.9 p.p. to 11.7% of GDP. Treasury bond placements dropped by 17.6% YoY but remained significantly (2.5 times) above the recent years' average.

Figure 14. Public Debt



Source: Ministry of Finance of the Kyrgyz Republic.

## EXTERNAL SECTOR

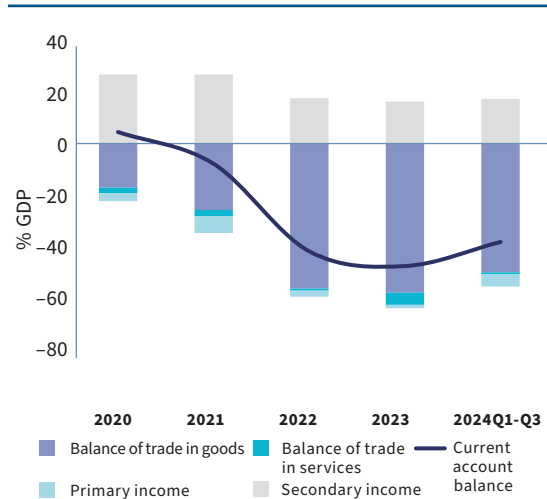
**The current account deficit narrowed amid export growth and import contraction.** By the end of the first nine months of 2024, the balance (Figure 15) had contracted by 14 p.p. to 39% of GDP, primarily due to a drop in imports (down 7 p.p. to 74% of GDP) and an increase in exports (up 3 p.p. to 23% of GDP). In Q3, the import-to-export ratio stood at just 1.8x — a ratio typical before 2022.

**The main factor behind the import decline was reduced passenger car and spare part supplies following Russia's end-of-life vehicle levy hike on 1 April 2024.**

Favourable export dynamics were driven by rising gold prices (gold accounts for 37% of exports) and higher export volumes of textiles and engineering products.

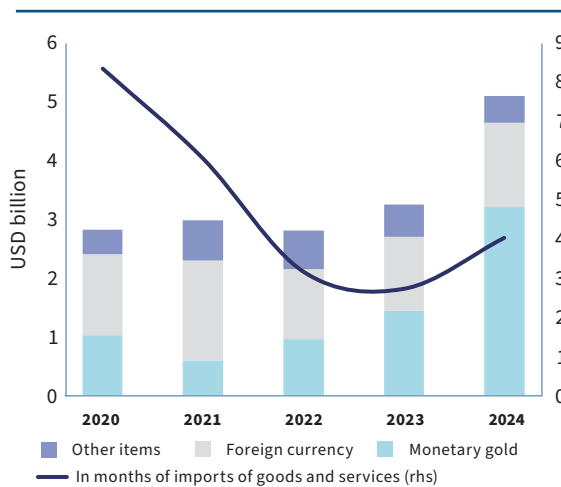
**The balance of payments turned positive, boosting reserves.** Alongside

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



Source: NBKR, EFSD calculations.

**Figure 16. Gross International Reserves**



Source: NBKR, EFSD calculations.

a reduced current account deficit, foreign exchange inflows on the financial account grew (+5 p.p. to 7% of GDP), supported by increased external borrowing and direct investment. These inflows generated a balance of payments surplus of 3% of GDP (compared to -4% of GDP the previous year), despite the reduction in net errors and omissions (-12 p.p. to 34% GDP) following lower car imports. As a result,

financial account flows contributed 8.6%, or USD 277 million, to international reserve growth.

**Monetary gold reserves also expanded, contributing to an increase in international reserves.** The NBKR continued actively increasing its physical gold reserves, which rose by 16.6 tonnes (+76.8%) to 38.1 tonnes. Additional support came from a 26.5% YoY rise in global gold prices in December 2024. According to EFSD estimates, gross international reserves (Figure 16) totalled USD 5.1 billion (+58.6% YoY), equivalent to 4.0 months of imports.

**The som appreciated across all major currency pairs.** In 2024, the average KGS/USD exchange rate strengthened by 0.8% YoY, partly due to the NBKR's net sales of USD 305.8 million<sup>3</sup>. The som also gained 9.4% against the Russian rouble and 3.2% against the yuan. Given relatively low inflation in the Kyrgyz Republic, the average real effective exchange rate appreciated by 0.9%.

**Cross-border remittances remained high.** Gross remittances to the Kyrgyz Republic declined by 0.7 p.p. to 17% of GDP, reaching a historical low. However, as wages rose in Russia (the source of 93% of remittances), nominal remittances grew by 10.5% YoY to USD 3.0 billion. Outflows of remittances from the Kyrgyz Republic decreased by 1.1 p.p. to 3% of GDP, leading to a 0.4 p.p. increase in net remittances to 15% of GDP.

<sup>3</sup> Foreign currency sales peaked in Q4 (USD 525.7 million), while the first nine months of 2024 saw a net foreign currency purchase of USD 219.9 million.

## MEDIUM-TERM OUTLOOK

**The economic growth outlook was subject to an upward revision of 1.2-1.3 p.p.** According to the EFSD’s baseline forecast, the Kyrgyz Republic’s strong economic growth in 2022–2024 and continued rapid GDP expansion in January–February 2025 (+10.7% YoY) will drive real GDP growth to 5.9% in 2025 (compared to the previous forecast of 4.6%), which is then expected to moderate to 5.6% in 2026 and 5.4% in 2027. The construction sector will continue to grow at a strong pace, supported by increased investment activity across industries and the expansion of housing construction under the revamped “My House” programme, which offers subsidised mortgage lending.

**However, economic growth will slow relative to previous years due to a declining contribution from trade.**

**Inflation is projected to hover near the upper boundary of the NBKR’s target range.** Rising food prices in late 2024 and early 2025, combined with an anticipated increase in electricity tariffs in May 2025, will create stronger inflationary pressures than previously forecast. By the end of 2025, average consumer inflation is projected to reach 6.7%, before easing to 5.9% by 2027.

**The fiscal outlook remains largely unchanged.** Fiscal policy will maintain a neutral stance. By the end of 2027, government revenues are expected to decline to 24% of GDP, while expenditures

will decrease to 21% of GDP, driving the budget surplus up from 1.5% of GDP in 2025 to 2.7% of GDP in 2027. The growing surplus will primarily be used to build reserves for financing “below-the-line” liabilities, mainly the recapitalisation of state-owned enterprises in the energy sector.

**Balance-of-payments indicators are projected to normalise more significantly than previously anticipated.** Strong exports in Q4 2024, coupled with a slowdown in engineering imports, will narrow the current account balance to 22% of GDP. While relative imports are expected to return to pre-pandemic levels and exports to surpass them, the deficit will exceed historical values due to a gradual decline in remittances (to 13% of GDP by the end of the period). The forecast for gross international reserves has also been revised upward (to an average of 4.0 months of imports) amid favorable gold prices and NBKR’s active purchases.

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

	2023 Actual	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast
<b>National accounts and prices (%)</b>					
Nominal GDP, KGS billions	1,333.7	1,523.2	1,712.3	1,910.3	2,117.6
Real GDP growth	9.0	9.0	5.9	5.6	5.4
CPI (December, YoY)	7.3	6.3	6.1	6.1	5.4
CPI (annual average)	10.8	5.0	6.7	6.1	5.9
<b>Money and credit (eop)</b>					
Broad money supply, YoY	15.0	28.3	21.6	11.6	10.8
Credit to the economy, YoY	25.9	26.2	21.7	17.1	13.8
<b>Public finance (% of GDP)*</b>					
Revenues and grants	26.8	27.4	24.6	23.8	23.8
tax revenues	20.0	20.7	20.6	20.3	20.6
Budget expenditures	25.8	25.2	23.1	21.7	21.7
Budget balance ("-" deficit / "+" surplus)	1.0	2.2	1.5	2.0	2.1
<b>External sector (% of GDP)</b>					
Current account	-44.4	-27.8	-25.6	-23.7	-21.6
Export of goods and services	35.8	45.5	40.2	38.3	39.3
Import of goods and services	94.2	87.1	78.7	73.7	71.6
Remittances	15.2	15.4	14.4	13.5	12.6
Foreign direct investment ("-" inflows)	-1.0	-3.4	-4.3	-4.9	-5.8
Gross reserves, months of imports of goods and services	2.6	4.0	4.3	3.9	3.8

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

**Source:** national agencies and EFSD calculations.

Armenia

Belarus

**Kyrgyz Republic**

Tajikistan

Risks to the  
Baseline  
Scenario

Chief  
Economist's  
Foreword

Executive  
Summary

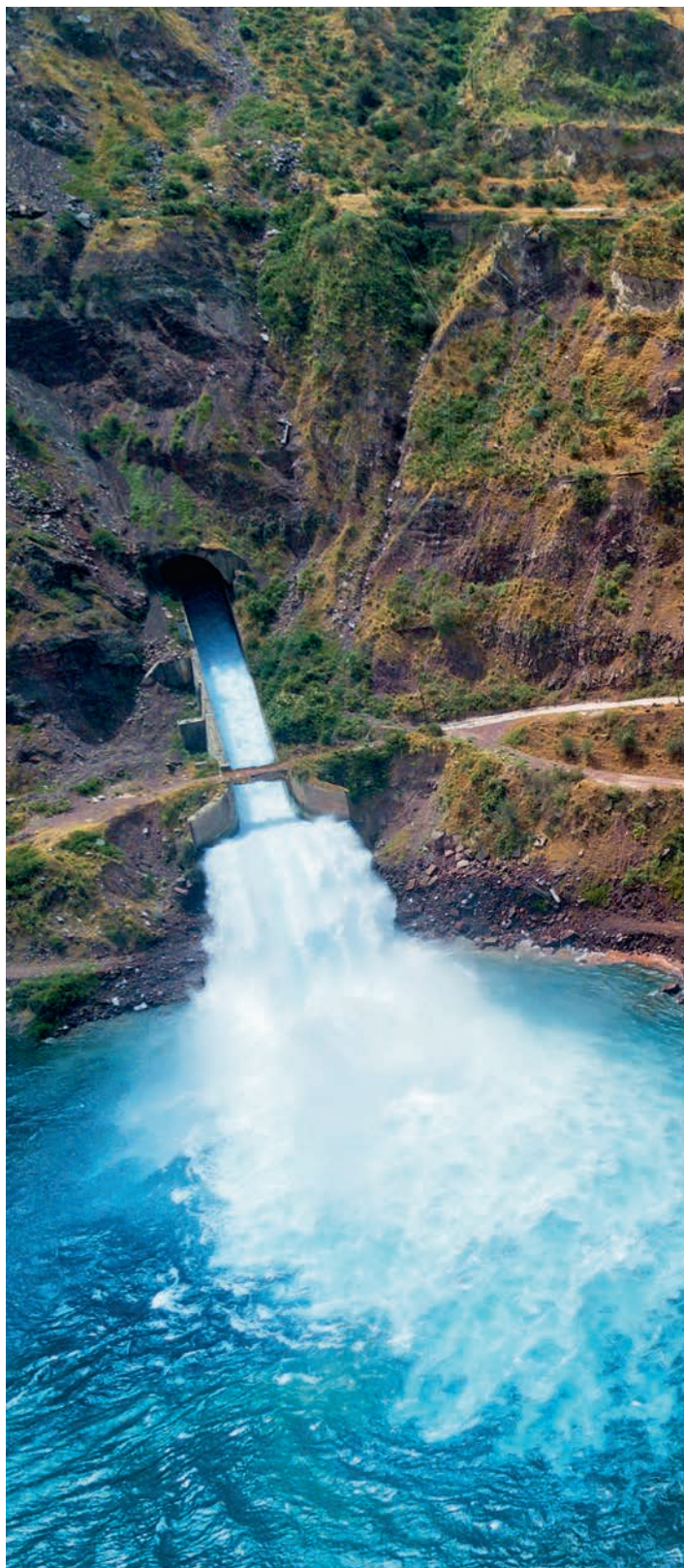
Trends in  
the Global  
Economy

Russia

Kazakhstan



# TAJIKISTAN



Armenia

Belarus

Kyrgyz Republic

**Tajikistan**

Risks to the  
Baseline  
Scenario



The three-year GDP growth forecast remains unchanged, projecting a moderation from 8.4% in 2024 to 6.7% in 2027. This slowdown reflects the expected normalisation of remittance flows following their elevated 2022-2024 levels, as Russia's economy (the primary source of migrant remittances) converges toward its potential growth rate.

With global food prices remaining elevated in 2025 (contrary to earlier expectations of decline), the inflation forecast has been revised upward, now projected near the upper bound of the target range. Medium-term inflation is expected to stabilize around the midpoint of the target range (5.1% in 2026 and 5.0% in 2027), supported by stabilizing global food inflation trends.

The fiscal deficit is projected to narrow from 1.2% of GDP in 2024 to 0.9-0.7% during 2025-2027 under conservative fiscal management. However, fiscal space remains constrained due to ongoing Rogun HPP construction and increasing external debt principal repayments.

The balance of payments will remain under pressure due to the gradual normalisation of remittance flows following the elevated levels of 2022–2024, alongside rising public investment and eurobond repayments commencing in 2025.

## REAL SECTOR AND LABOUR MARKET

In 2024, the economy of the Republic of Tajikistan continued to grow at a high rate, supported by significant migrant remittances and a favourable external environment. Real GDP growth was 8.4% in 2024, up from 8.3% in the previous year.

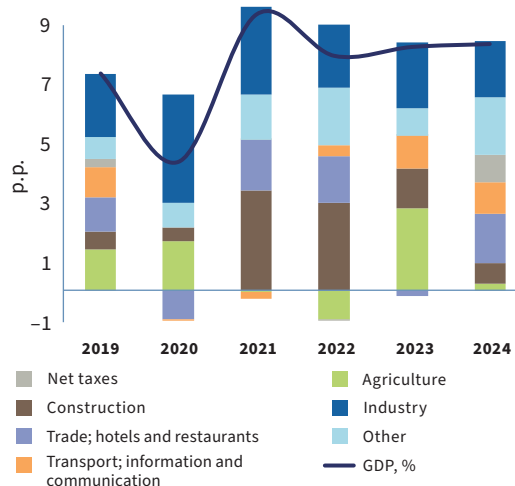
Statistics based on the dynamics of real sector output<sup>1</sup> suggest that the key driver of growth in 2024 was domestic demand, supported by rising migrant remittances, real wage growth, infrastructure projects, and growing inventories.

The contribution of net exports to GDP growth was negative due to higher imports and lower export volumes against the high base of 2023<sup>2</sup>. The slowdown in retail trade growth — a proxy for consumer demand — from 15.4% in 2023 to 13.5% in 2024, as well as in fixed capital investment growth from 22.5% in 2023 to 8.4% in 2024, indicates a decline in the contribution of consumer demand and fixed capital investment to GDP growth in 2024. Combined with the significant negative contribution of net exports and the marginal acceleration in GDP growth from 8.3% to 8.4% in 2024, it suggests that the contribution to GDP growth of changes in inventories of tangible current assets and net acquisition of valuables, including those related to the purchase of gold by the NBT, increased.

<sup>1</sup> Statistics of the System of National Accounts from the demand side will be published at a later date.

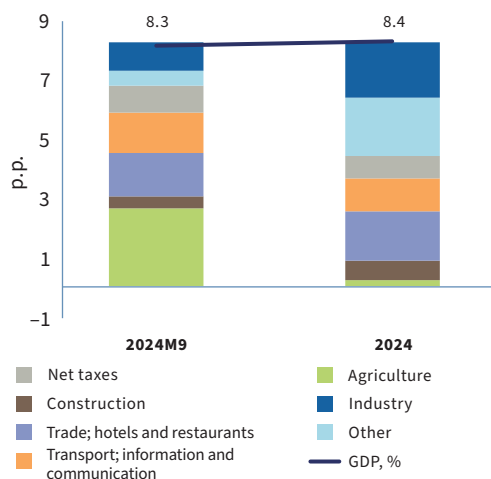
<sup>2</sup> The NBT exported gold in 2023. Gold exports were not resumed in 2024.

Figure 1. Decomposition of GDP Growth (Production Approach)



Source: Tajstat, EFSD estimates.

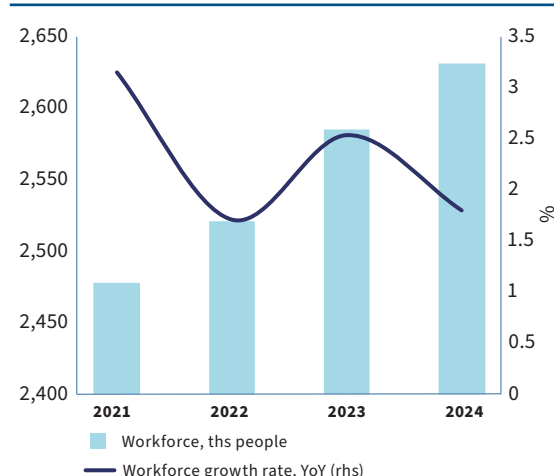
Figure 2. Change in Decomposition of GDP Growth (Production Approach)



Source: Tajstat, EFSD estimates.

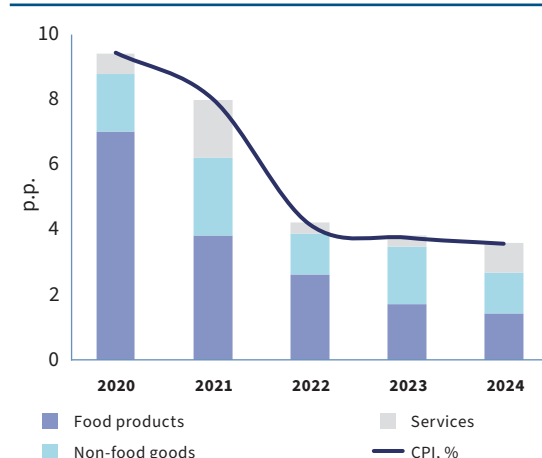
In terms of sectors, the key drivers of economic growth are industry, trade, and transport (Figure 1). The mining sector grew by 43%, driven by metal ores (+50% YoY). Growth in remittances and wages fuelled growth in wholesale and retail trade. In construction, growth slowed to 8.9% from the high base of the previous year — 12.7% in 2023. However, growth in manufacturing

Figure 3. Labour Market Indicators



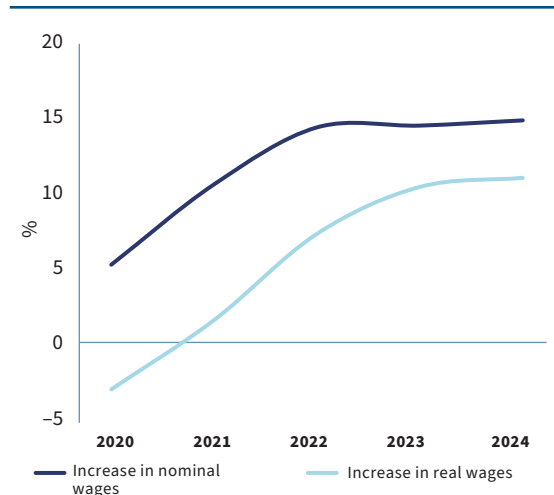
Source: Tajstat, EFSD estimates.

Figure 5. Decomposition of Inflation (YoY, eop)



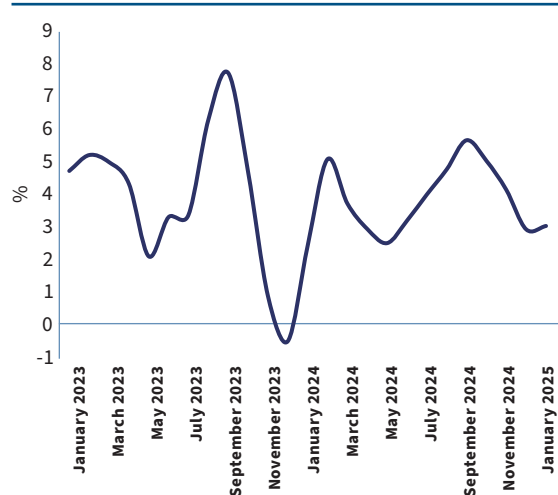
Source: Tajstat.

Figure 4. Household Income (eop, YoY)



Source: Tajstat.

Figure 6. Consumer inflation (SAAR)



Source: Tajstat.

slowed due to a 7% YoY drop in textile and apparel production. An upward revision of mining data and a poor cotton harvest (-25% in 2024) led to a significant change in the growth composition in January–December compared to January–September 2024. The contribution of agriculture to GDP growth decreased to 0.2 p.p. compared to 2.7 p.p. in January–September 2024, the contribution of industry went up by 0.9 p.p.

to 1.9 p.p., and the contribution of other sectors increased (Figure 2).

Against the backdrop of continued strong economic growth, the workforce grew by 1.8% YoY in 2024 compared to 2.5% in 2023<sup>3</sup> (Figure 3).

<sup>3</sup> The unemployment rate based on ILO criteria is not published by the Republic of Tajikistan.

**Household income growth continued, supported by real wage growth and migrant remittances.** In 2024, the growth of average monthly wages was 14% in nominal terms and 10.5% in real terms. Among the production sectors, nominal wages grew fastest in mining (up 13.2% YoY). In the services sector, the leaders in nominal wage growth were wholesale and retail trade (up 15.7% YoY) and real estate (up 12.4% YoY). Salaries of public sector employees also increased significantly: in health and social services — by 23.1% YoY, in education — by 20.5% YoY<sup>4</sup>. Remittances of migrant workers grew by 53% in January–September 2024 YoY.

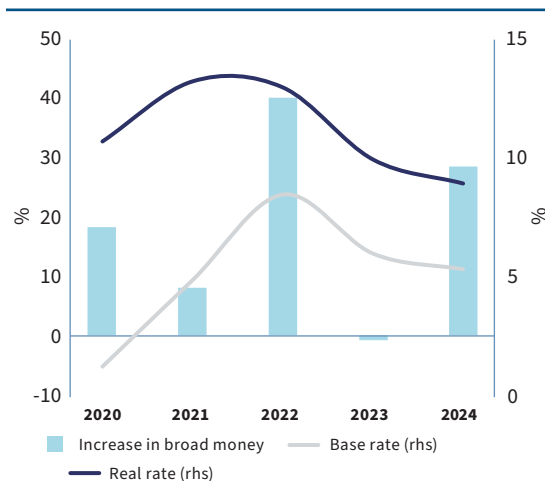
## INFLATION AND MONETARY TRENDS

**Consumer inflation accelerated due to food products but remained below the NBT target (6±2%)<sup>5</sup>.** The acceleration in food price growth to 2.4% YoY in December 2024 from 0.6% YoY in September 2024 contributed to consumer inflation growth to 3.6% from 2.8% in September 2024. In terms of the consumer basket composition, the main contributors to inflation continued to be food (1.4% p.p.) and non-food (1.3% p.p.) prices (Figure 5). Consumer prices for services grew by 4.9% YoY in December (0.9 p.p. contribution) on the back of higher electricity prices driven by tariff hikes in January 2024. The seasonally adjusted consumer price index was 2.9% (SAAR) in December 2024 and 3.0% (SAAR) in January 2025 (Figure 6).

<sup>4</sup> Position salaries of military and law enforcement personnel were raised by 40% from 1 January 2024, and those in public administration, education, and health — from 1 July 2024.

<sup>5</sup> On 1 January 2025, the NBT target was cut by 1 p.p. to 5±2%.

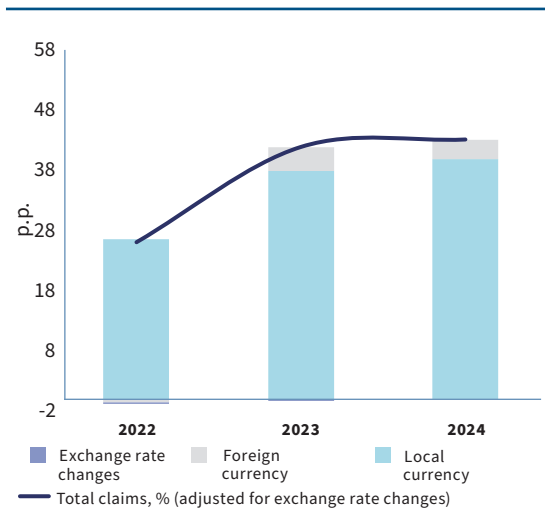
Figure 7. Monetary Indicators (eop, YoY)



Note: the real rate is calculated based on the actual inflation.

Source: NBT, Tajstat.

Figure 8. Increase in Loans to Households (eop, YoY)

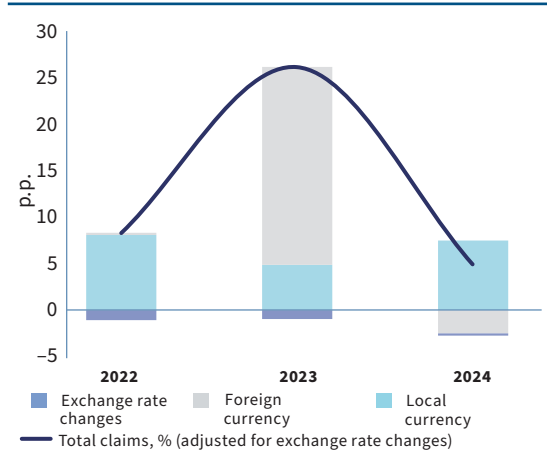


Source: NBT.

**Against the backdrop of low consumer inflation, the NBT implemented monetary easing measures in 2024.**

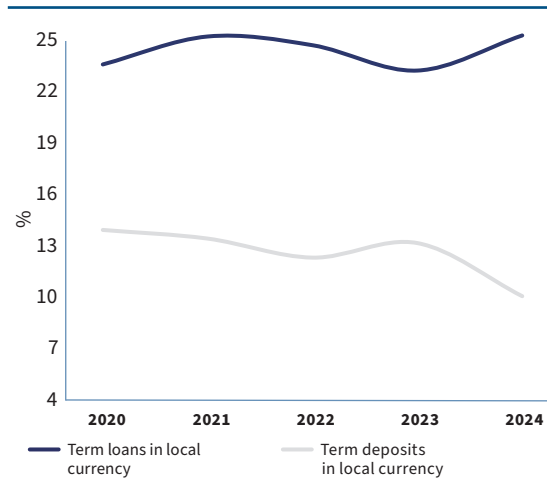
The NBT cut the rate by 0.25 p.p. to 9% in August, after cuts by 0.5 p.p. in February and 0.25 p.p. in April amid consumer inflation below the range targeted by the NBT. The NBT continued to cut the rate in February 2025: -0.25 p.p. to 8.75%. Significant inflows under the labour

**Figure 9. Increase in Corporate Loans (eop, YoY)**



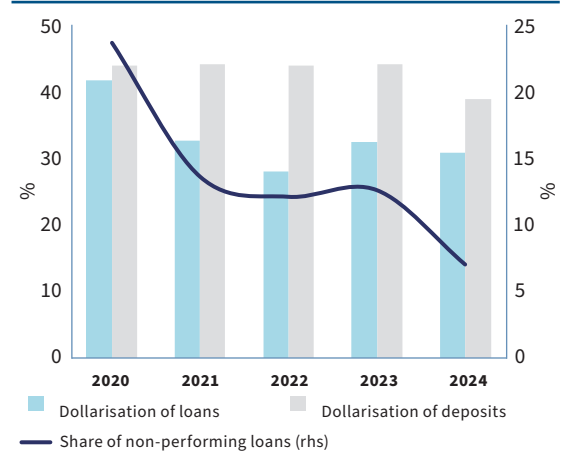
Source: NBT.

**Figure 10. Interest Rates on New Loans and Deposits (eop)**



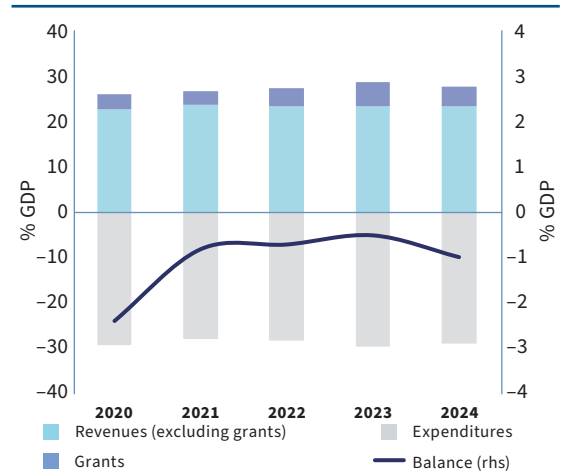
Source: NBT.

**Figure 11. Banking Sector Indicators (eop)**



Source: NBT.

**Figure 12. State Budget**



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

income and secondary income accounts and the purchase of gold by the NBT led to higher liquidity in the banking system, which was partially sterilised through the NBT's open market operations. Despite greater sterilisation from Q2 onwards, broad money growth was 28.8% YoY and reserve money growth was 27% YoY at end-December 2024 (Figure 7).

**With banks' liquidity going up, loans continued to grow strongly in 2024.** In 2024, the growth of banks' loan portfolio was 16% YoY in real terms. At the same time, the growth of lending by banks was mainly driven by an expansion of the household loan portfolio (Figure 8), which grew by 39% in real terms in 2024. Deposit growth was 28% YoY in real terms.

## FISCAL SECTOR

**According to preliminary data, the state budget deficit widened by 0.5 p.p. to 1.2% of GDP in 2024 amid declining revenues.** In 2024, state budget revenues decreased by 1.2 p.p. of GDP to 27.7% of GDP mainly due to lower grants and special funds of budget institutions. Tax revenues fell by 0.4 p.p. to 19% of GDP. The VAT rate cut from 15% to 14% from 1 January 2024 resulted in a decrease in VAT revenues by only 0.1 p.p. against the backdrop of improved tax administration and a broader tax base. Tax revenues related to foreign trade decreased by 0.3 p.p. due to a fall in cotton exports and the imposition of a ban on imports of cars manufactured before 2013. State budget expenditures decreased by 0.6 p.p. to 29% of GDP. Wage increases in the public sector led to an increase in labour costs from 6.1% of GDP in 2023 to 7.0% of GDP. This was accompanied by a drop in expenditures on goods and services by 2.3 p.p. to 10.5% of GDP. Despite the reduction in state budget expenditures, budget spending on social sectors increased with expenditures (% of GDP) on education, social protection, culture, and sport raised and expenditures on agriculture, transport, and communication reduced significantly.

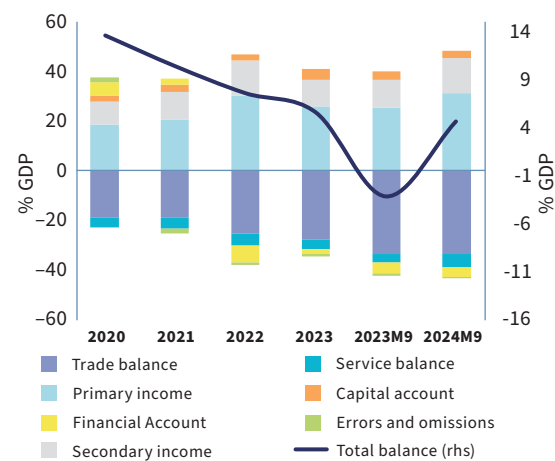
## EXTERNAL SECTOR

**Preliminary foreign trade data show strong growth in exports excluding gold<sup>6</sup>, yet the trade deficit widened in 2024 thanks to faster growth in imports of**

**goods.** According to preliminary estimates, the value of merchandise exports excluding precious metals grew by 22.4% in 2024.

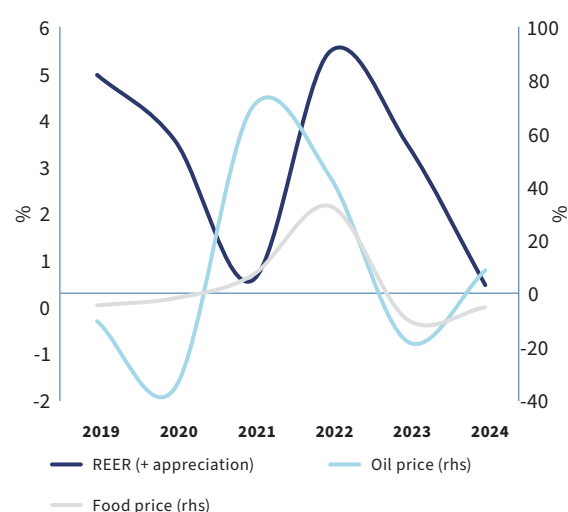
**Significant growth was noted in exports of aluminium, antimony, metal ores, and chemical products.**

Figure 13. Balance of Payments Indicators



Source: NBT.

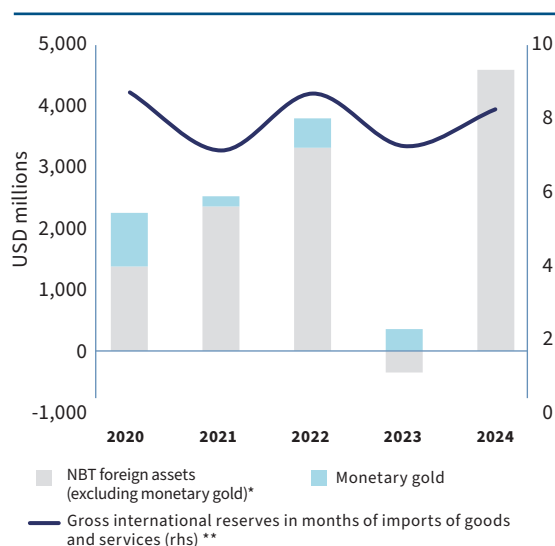
Figure 14. Price Terms of Trade



Source: NBT.

<sup>6</sup> Balance of payments data including Q4 2024 were not published as of 19 March 2025.

Figure 15. NBT Foreign Assets (eop)



Note: \*data for 2024 reflect total NBT foreign assets; \*\*as of end-September 2024.

Source: NBT.

The poor cotton harvest led to lower exports of cotton and textile products. Exports of machinery and equipment fell by 85%. Imports of goods increased by 10.5% due to a rise in household incomes supported by stronger migrant remittances and wage growth. Against the backdrop of inflows under the labour income and secondary income accounts, the current account surplus in 2024 is estimated at 5.3% of GDP, up from 4.8% of GDP in 2023. That was accompanied by increased capital outflows under the financial account, as estimated by the EFSD, at 3.0% of GDP, up from 1.9% of GDP in 2023.

Against the background of a surplus in the balance of payments and the growth of gross international reserves through the acquisition of monetary gold, NBT foreign assets increased by USD 980 million in 2024 (Figure 15). The TJS real effective exchange rate appreciated by 0.2% in 2024 (Figure 14).

## MEDIUM-TERM OUTLOOK

**The GDP growth forecast for 2025–2027 is unchanged and assumes a slowdown from 8.4% in 2024 to 6.7% in 2027.** By 2027, migrant remittances are expected to gradually decline to 33% of GDP, compared to 41% of GDP<sup>7</sup> in 2024 and 36.4% of GDP in 2023. Lower remittances would bring down the contribution of consumer demand to GDP growth. A negative fiscal impulse against the backdrop of conservative fiscal policy would also have a dampening effect on economic growth. However, a slowdown in import growth and resumed export volume growth given the low base of 2024 would support GDP growth. In terms of production, we expect a higher contribution of agriculture to GDP growth after the poor cotton harvest in 2024. The growth of retail trade and paid services would slow down amid a slowdown in the growth of migrant remittances.

**There were already signs of deceleration in the growth of retail trade and paid services to households in January 2025.**

The growth of retail turnover was 11.2%, down from 16.6% in the same period of the previous year; paid services to households grew by 5.5%, down from 10.7% in the previous year.

**Against the backdrop of continued high global food prices in 2025, the forecast for consumer inflation in 2025 has been**

<sup>7</sup> EFSD estimate.

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

	2023 Actual	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast
<b>National accounts and prices (%)</b>					
Nominal GDP, TJS billions*	132.8	153.4	174.3	196.2	219.9
Real GDP growth*	8.3	8.4	7.5	7.1	6.7
CPI (December, YoY)	3.8	3.6	7.7	3.7	5.7
<b>Money and credit (eop)</b>					
Broad money, % change	-0.8	14.1	13.6	12.6	12.1
<b>Public finance (% of GDP)</b>					
Revenues and grants	29.6	27.7	27.4	26.4	25.6
of which tax revenues	18.9	19.0	18.9	19.0	19.0
Budget expenditures	30.6	29.0	28.8	27.3	26.3
Current expenditures	19.7	20.9	19.5	18.4	18.2
Capital expenditures	10.9	8.1	9.3	8.9	8.1
Budget balance ("-" deficit / "+" surplus)	-1.0	-1.2	-1.5	-0.9	-0.7
<b>External sector (% of GDP)</b>					
Current account*	4.8	5.3	2.5	-0.2	-1.9
Remittances*	36.4	42.0	37.6	34.4	32.2
Foreign direct investment*	0.8	1.2	0.8	0.8	0.8
Average annual exchange rate	10.8	10.8	11.2	11.6	12.1
Gross reserves, in months of imports of goods and services of the current year*	7.3	8.1	8.5	8.4	8.0

Note: \*the 2024 value is an estimate.

Source: national agencies and authors' estimates.

**revised upwards, closer to the upper end of the target range.** Average annual consumer inflation in 2025 is estimated at 5.7%, up from 5.3% in the autumn forecast, due to an upward revision of projected

global food prices<sup>8</sup>. The increase in electricity tariffs on 1 April 2025, as well

<sup>8</sup> Food products accounted for ~40% of merchandise imports in 2023.

as tariff increases planned for 2026–2027 as part of the ongoing financial rehabilitation of the power generation sector, will support inflationary pressures in the services sector. Gradual TJS depreciation would also contribute to the build-up of inflationary pressures. In the medium term, average annual inflation is expected to decline to the target — 5.1% in 2026, 5% in 2027 — on the back of stabilising global food inflation.

**In the medium term, the authorities are expected to take a conservative approach to planning state budget expenditures against the background of growing external debt repayments and declining grants.** Budget revenues are expected to drop from 27.7% of GDP in 2024 to 26.0% of GDP in 2027, largely due to lower grants<sup>9</sup>.

**Faced with declining revenues and limited fiscal space due to the construction of the Rogun Hydroelectric Power Plant and increasing principal repayments<sup>10</sup>, the authorities are expected to maintain a conservative fiscal stance on the expenditure side.**

As a result, the state budget deficit would fall from 1.2% of GDP in 2024 to 0.9-0.7% of GDP in 2025–2027.

**The current account surplus would be replaced by a deficit on the back of the expected decline in inflows under the labour income and secondary income accounts.** Between 2025 and 2027, a gradual decline in incoming migrant transfers (as % of GDP) would reduce the current account surplus to 2.5% of GDP in 2025 and form a current account deficit of 1.9% of GDP in 2027. Despite the decline in government grants in 2026–2027, they generate a capital account surplus and remain an important source of balance of payments support — 3.4% of GDP and 2.7% of GDP respectively. In 2027, gross international reserves would shrink to 7.5 months of imports of goods and services. Despite the current account deficit in 2027, the balance of payments would be balanced due to lower capital outflows (among other things in the form of cash foreign exchange purchases).

<sup>9</sup> In the medium term, the growth of GDP per capita will lead to Tajikistan's withdrawal from grant programmes for low-income countries of some international financial institutions, which is one of the factors weakening the role of grants as a source of budget revenues. In 2026–2027, grants will be 3.4% of GDP and 2.7% of GDP, down from 4.1% to 4.5% of GDP in 2024–2025.

<sup>10</sup> Due to the Eurobond principal repayments in 2025–2027.

Armenia

Belarus

Kyrgyz Republic

**Tajikistan**

Risks to the  
Baseline  
Scenario

Chief  
Economist's  
Foreword

Executive  
Summary

Trends in  
the Global  
Economy

Russia

Kazakhstan

# RISKS TO THE BASELINE SCENARIO



Armenia

Belarus

Kyrgyz Republic

Tajikistan

**Risks to the  
Baseline  
Scenario**



## GLOBAL ECONOMY

The level of uncertainty surrounding the state of the global economy has increased significantly over the past two months due to Donald Trump's "revolutionary" policies and rising geopolitical tensions. Baseline growth projections for key economies may be revised downwards in light of the retaliatory import tariffs imposed by the US (announced by the US President on 2 April 2025).

The US economy could face stagflation due to higher tariffs, with inflation returning to an upward trajectory amid slowing GDP growth. In Q2, the introduction of stricter-than-expected tariff restrictions may lead to a decline in quarterly GDP growth rates. However, the impact of the tariffs is likely to be short-lived; once the negative effects subside, the economy is expected to resume positive growth. In the meantime, it is assumed that measures to support certain sectors, including fiscal and regulatory incentives aimed at protecting the domestic market from imports, may partially offset the damage caused by the tariff increases in the medium term.

An additional risk to the US economic outlook is the current migration policy. A significant outflow of migrants could increase competition for scarce labour resources, leading to imbalanced wage growth.

**Countries that are major trading partners of the US – including China, India, Mexico, Canada, Japan and large economies within the European Union – will also experience negative effects.**

Trade restrictions imposed against them would increase production costs and reduce export competitiveness, potentially undermining economic growth. The situation could be worsened by these countries' retaliatory restrictive measures on US exports.

China's economy, in contrast, may once again face deflation. The main risk lies in weak consumer activity: if consumer demand fails to accelerate during 2025 in response to stimulus measures, consumer inflation could begin to fall again. However, economic growth may exceed forecasts, as the country's authorities aim to maintain growth at 5% and have sufficient resources to provide additional support for both domestic demand and key exporters amid increasing trade restrictions from the US (particularly for suppliers to "friendly" markets).

A global slowdown could also negatively affect oil prices. Additionally, downside risks to prices are linked to Donald Trump's policy to support oil producers, as well as the global oversupply of oil.

## RUSSIA

In the context of growing uncertainty, growth forecasts for Russia's economy remain highly variable. The baseline scenario does not envisage any change in the sanctions regime. However, the ongoing discussion regarding the potential easing of sanctions is already influencing the behaviour of economic agents. The euphoria in the markets earlier this year was short-lived. The situation is gradually stabilising and will primarily evolve in line with macroeconomic factors.

**The materialisation of the risk associated with the easing of sanctions could have a significant impact on Russia's economy, although this impact will only be fully realised in 2026–2027.**

The most likely scenario for easing restrictions involves, first and foremost, the liberalisation of payment mechanisms and import operations. In the short term, this may lead to an inflow of speculative capital and a temporary appreciation of the rouble. However, in the medium term, this effect will be offset by a gradual increase in capital outflows. At the same time, even a partial easing of sanctions would facilitate the return of foreign companies and boost investment in Russia's economy. On the one hand, this would expand supply and reduce the accumulated overheating, but on the other, it would increase inflationary pressures: in the context of acute labour shortages, additional demand for labour from new and expanding industries would result in accelerated wage growth.

This development may have negative consequences for countries in the region due to the return flow of Russian capital and labour resources. The positive effects that previously supported high GDP growth may rapidly diminish, leading to a sharp slowdown in economic growth in these countries, particularly in the Kyrgyz Republic and Armenia.

While operating under sanctions, Russian manufacturers have undergone a successful transformation, utilising unused capacity and creating new facilities. Therefore, the materialisation of

the risk of economic acceleration in Russia is unlikely to result in a corresponding increase in demand for products from friendly countries, including Belarus. However, a sharper-than-expected slowdown relative to the baseline forecast could negatively affect all economies in the region.

## KAZAKHSTAN

One of the key risks for the country's economy is a decline in global oil prices, which could result in reduced budget revenues from oil companies and, consequently, a widening of fiscal imbalances. In addition, a global economic slowdown below anticipated growth rates would reduce demand for commodities and negatively impact Kazakhstan's physical export volumes. In such a scenario, a slowdown in economic growth caused by declining external demand could exacerbate domestic imbalances if support for domestic demand remains unchanged or is increased to compensate for falling external demand.

The baseline scenario anticipates oil production from the Tengiz field to grow by 9.7% in 2025. However, this planned increase assumes Kazakhstan's non-compliance with the OPEC+ production quota; if the country does comply with the quota, oil production will decline. Moreover, disruptions in the operation of the Caspian Pipeline Consortium — a key export route for Kazakhstan's crude oil — due to geopolitical or technical factors could lead to a decrease in crude oil exports and a forced reduction in production.

**Against the backdrop of overheated domestic demand and an active fiscal policy, high inflation remains the most serious threat to Kazakhstan's economy.**

While the baseline scenario projects persistently elevated inflation throughout this year and next, the actual rate may be even higher. A situation in which fiscal consolidation fails to meet the stated parameters will accelerate inflation. External factors — such as rising inflation among key trading partners and increasing food prices — could also play a negative role.

## ARMENIA

The key risks to Armenia's economy are linked to its high vulnerability to external shocks.

**With a rapid decline in temporary growth drivers (such as trade in precious metals, tourism, etc.), there is a risk of a short-term recession in 2025, with negative implications for fiscal and external sustainability.**

However, from 2026 onwards, the country's GDP growth may exceed the baseline outlook if the Amulsar gold mine — scheduled to commence operations in November 2025 — becomes operational (according to estimates by the Central Bank, this could contribute an additional 1–2 p.p. to GDP growth).

On the fiscal side, persistent risks relate to the underperformance of the State Budget Plan in terms of both tax revenues and the

execution of planned capital and current expenditures. Consequently, there remains uncertainty about the extent of the fiscal policy's stimulative impact on the economy. Another ongoing risk stems from rising social and other expenditures linked to the slow integration of Nagorno-Karabakh resettlers into the labour market.

In addition, the geopolitical situation represents a major source of uncertainty. Notably, the government is considering the possibility of initiating Armenia's accession to the European Union and, consequently, withdrawing from the EAEU. Given Armenia's current advantages within the EAEU and its deep economic integration with Russia, such a move could negatively affect the country's macroeconomic stability and economic potential.

## BELARUS

The key risk for Belarus remains the materialisation of external shocks resulting from the cumulative negative effects of sanctions and uncertainty regarding the economic outlook in Russia.

**There is still a risk that the authorities may adopt more stimulative policies in response to weak external demand. In the context of a positive output gap, this could adversely affect overall macroeconomic balance.**

At the same time, any active containment of inflationary pressures through administrative control measures may slow monetary overhang but would negatively impact the financial performance of economic agents and their growth potential.

## KYRGYZ REPUBLIC

The EFSD's baseline forecast for 2025–2027 is dominated by downside risks, both internal and external. The main domestic risk stems from increased budgetary allocations to large-scale programmes to provide additional capitalisation to state-owned enterprises in the energy, banking and construction sectors, as well as infrastructure mega-projects such as the Kamar-Ata HPP 1 and the China–Kyrgyz Republic–Uzbekistan railway.

**A substantial rise in such expenditures could reduce fiscal space and create budget financing gaps.**

Inflationary pressures could intensify due to regulated price hikes, particularly given the scheduled 20% increase in electricity tariffs under the 2025–2030 medium-term tariff policy.

The external sector also presents significant risks. A decline in global gold prices could weaken exports, reduce international reserves and lower budget revenues from gold mining companies. Sharper increases in food and energy imports from Russia would push up the cost of imports, adding pressure on consumer inflation. A steeper-than-expected decline in cross-border remittances relative to the baseline scenario, driven by tighter migration regulations and slower wage growth in Russia, could widen the current account deficit, put additional pressure on the KGS exchange rate and necessitate foreign exchange interventions, reducing

the adequacy of international reserves and straining the balance of payments.

However, upside risks to GDP growth also remain relevant in the medium term. Economic expansion could surpass the EFSD's baseline forecast if trade remains robust, construction accelerates further (bolstered by the expansion of State Mortgage Company programmes) and manufacturing benefits from stronger foreign investment inflows.

## TAJIKISTAN

The EFSD's baseline outlook for Tajikistan carries negative risks, the materialisation of which could undermine the country's macroeconomic stability. In particular, risks to the balance of payments remain elevated due to a sharper-than-expected decline in migrant remittances and reduced commodity exports in a worsening external environment.

**A decline in the balance-of-payment stability may lead to a further depreciation of the national currency, with knock-on effects on fiscal and debt sustainability.**

(especially given the higher principal repayments on public external debt expected between 2025 and 2027), the financial sector and poverty levels.

If non-monetary factors continue to exert significant pressure on consumer prices, energy and food inflation could exceed expectations under the baseline scenario.

Financing the completion of the Rogun hydropower plant poses fiscal sustainability risks, including potential delays in funding from international donors and a significant increase in project costs. Tajikistan's substantial public investment needs (in education, healthcare and climate-related initiatives) could widen the state budget deficit to over 2.5% of GDP, resulting in higher public debt. Any delays in the financial rehabilitation of the energy

sector (particularly in terms of tariff increases, payment collection and reduction of electricity losses) would further increase fiscal and debt risks beyond 2027.

Additionally, the materialisation of adverse climate events could reduce agricultural output, which, given agriculture's significant role in the economy and employment, would weigh on economic growth and increase poverty.

Armenia

Belarus

Kyrgyz Republic

Tajikistan

**Risks to the  
Baseline  
Scenario**

# ABBREVIATIONS

<b>Armstat</b>	Statistical Committee of the Republic of Armenia
<b>BCI</b>	Business Climate Indicator
<b>BEA</b>	Bureau of Economic Analysis
<b>Belstat</b>	National Statistical Committee of the Republic of Belarus
<b>BLS</b>	Bureau of Labour Statistics
<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>CBA</b>	Central Bank of the Republic of Armenia
<b>CIS</b>	Commonwealth of Independent States
<b>CPI</b>	Consumer Price Index
<b>EAEU</b>	Eurasian Economic Union
<b>ECB</b>	European Central Bank
<b>EONIA</b>	Euro Overnight Index Average
<b>EOP</b>	end of period
<b>Eurostat</b>	European Statistical Office
<b>EVSR</b>	Estimated Value of Standard Risk
<b>FAO</b>	Food and Agriculture Organisation of the United Nations
<b>FDI</b>	foreign direct investment
<b>FRS</b>	U.S. Federal Reserve System
<b>GDP</b>	gross domestic product
<b>GIR</b>	gross international reserves
<b>HPP</b>	hydroelectric power plant
<b>IEA</b>	International Energy Agency
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>LCR</b>	Liquidity Coverage Ratio
<b>MoF, MF</b>	Ministry of Finance

<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>NBS</b>	National Bureau of Statistics of China
<b>NBT</b>	National Bank of the Republic of Tajikistan
<b>NEER</b>	nominal effective exchange rate
<b>NFA</b>	net foreign assets
<b>NPL</b>	non-performing loan
<b>NSC KR</b>	National Statistical Committee of the Kyrgyz Republic
<b>NSFR</b>	Net Stable Funding Ratio
<b>NWF</b>	National Wealth Fund of Russia
<b>OPEC+</b>	Organisation of Petroleum Exporting Countries plus other oil-producing countries, formed in late 2016
<b>p.p.</b>	percentage point
<b>PBC</b>	People's Bank of China
<b>PPI</b>	Producer Price Index
<b>QoQ</b>	quarter-on-quarter
<b>REER</b>	Real Effective Exchange Rate
<b>SAAR</b>	seasonally adjusted annual rate
<b>Tajstat</b>	Agency on Statistics under the President of the Republic of Tajikistan
<b>UK</b>	United Kingdom
<b>U.S.</b>	United States of America
<b>USD U.S.</b>	dollar
<b>USD/t</b>	USD per tonne
<b>VAT</b>	value added tax
<b>YoY</b>	year-on-year
<b>% YoY</b>	annual growth rate



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