REGIONAL ECONOMIC OUTLOOK
WINTER '25

EFSD
EURASIAN FUND FOR STABILIZATION AND DEVELOPMENT

Key Trends

- EFSD countries sustained robust growth during 2022–2025, driven by strong domestic demand and high investment activity. Fiscal policy has supported the key growth drivers.
- Inflation remains close to target only in Armenia and Tajikistan and is expected to remain so there. In the other countries, inflation remains persistently high due to overheating domestic demand, fiscal stimulus, accelerated increases in tariffs (housing, utilities and energy), fuel and lubricant shortages, and volatility in food prices.
- The central banks of Russia, Kazakhstan and the Kyrgyz Republic are either maintaining high interest rates or raising them to combat inflation. The NBRB is implementing differentiated measures. Only Armenia and Tajikistan retain some scope to pause or cut rates, thanks to slower inflation.
- All countries are facing negative trends in foreign trade: exports are declining (Russia, Belarus and Armenia), imports are rising, and commodity deficits are expanding (Belarus, the Kyrgyz Republic and Tajikistan).

Macroeconomic Outlook

- Growth is projected to slow in all countries during 2026–2028 compared with 2024–2025. Economic activity is expected to moderate in Russia, Belarus and Armenia. In 2025, growth in Kazakhstan, the Kyrgyz Republic and Tajikistan peaks and is forecast to decelerate in 2026.
- A gradual decline in inflation is expected. The central banks in four countries will face the challenge of returning inflation to target levels.
- Tensions remain in fiscal policy: some countries (Armenia, Russia and Kazakhstan) will need fiscal consolidation, while others (the Kyrgyz Republic and Tajikistan) face large-scale spending requirements for infrastructure and support for state-owned enterprises.
- The outlook is dominated by external risks: a slowdown in the Russian economy, an unfavourable commodity price environment (oil, metals), and the threat of tighter sanctions.

GDP growth, %

	2025	2026	2027	2028
Russia	0.7	1.1	1.6	1.7
Kazakhstan	6.1	4.6	4.3	4.2
Armenia	6.1	5.1	4.8	4.8
Belarus	1.5	1.1	1.0	1.2
Kyrgyz Republic	9.0	6.4	6.0	5.5
Tajikistan	7.8	7.1	6.7	6.0

Inflation (Dec/Dec), %

	2025	2026	2027	2028
Russia*	6.9	5.1	4.1	4.0
Kazakhstan*	12.5	10.0	8.4	7.0
Armenia	3.7	3.3	3.0	3.0
Belarus*	7.1	6.6	6.2	6.0
Kyrgyz Republic	8.9	6.4	6.3	5.8
Tajikistan	4.3	4.8	5.5	5.0

* Q4/Q4

RUSSIA

RAPID ECONOMIC SLOWDOWN — PRO-INFLATIONARY SHOCKS — CAUTIOUS RATE CUTS

Macroeconomic Outlook for 2026–2028

- **GDP growth in 2026 will remain relatively low at 1.1%** due to reduced investment under tight monetary conditions, a smaller fiscal impulse and declining oil and gas export revenues. By end-2026 the economy will exit its overheated phase, and from 2027 growth will begin to recover towards its potential level.
- **Inflation is projected at 6.9% at end-2025.** Pro-inflationary shocks — including the VAT increase to 22%, higher fees on imported cars and the crisis in the motor-fuel market — will keep inflation elevated in 2026.
- **Monetary policy is expected to ease** in 2026, although at a cautious pace, with the average key rate at 13.5%.
- **The rouble average is forecast at 84 per US dollar in 2025,** gradually weakening to 91 in 2026 and 95–96 in 2027–2028.

Risks and Uncertainties

- **Fiscal risks:** weaker fiscal revenues due to slower activity and volatility in oil prices and exchange rates, which may require revisions to forecasts and policies.
- **Macroeconomic risks:** negative effects on economic activity in 2026 from the high key rate, higher VAT and recycling fees, as well as new restrictions on individual entrepreneurs and SMEs, all of which could dampen consumer demand and create disinflationary pressures.
- **Currency risks:** a sharper weakening of the rouble due to lower oil prices amid trade conflicts and reduced foreign-exchange sales from the National Wealth Fund.

Forecasts

	GDP growth, %	CPI (Dec/Dec), %	Key rate (year-average), %
2025	0.7	6.9	18.9
2026	1.1	5.1	13.5
2027	1.6	4.1	8.3
2028	1.7	4.0	7.5

KAZAKHSTAN

GROWTH ABOVE EXPECTATIONS — QUASI-FISCAL STIMULUS — ADMINISTRATIVE COOLING OF INFLATION

Macroeconomic Outlook for 2026–2028

- In 2025, real GDP growth will reach 6.1%, while **in the medium term the economy will slow to 4.2–4.6%** as fiscal reforms, including fiscal consolidation, are implemented and monetary policy remains tight.
- **Inflation will decelerate slowly** due to stronger inflationary factors, reaching **10% in Q4 2026**. As the positive output gap closes, inflation will continue to ease and decline to 7% by end-2028.
- **The nominal tenge exchange rate will weaken to KZT 554–594 per US dollar in 2026–2028** due to lower transfers from the National Fund and a deteriorating price environment in commodity markets.

Risks and Uncertainties

- **Expansion of the quasi-fiscal impulse** through development institutions and national companies may strengthen domestic demand, alter the economic growth trajectory and heighten inflation risks.
- The introduction of administrative measures to freeze housing and utilities tariffs and fuel and lubricant prices could lead to the accumulation of **deferred inflation**.
- The key external risk is a potential decline in prices for oil and other commodities, which would put pressure on export earnings as well as fiscal and National Fund revenues, and increase pressure on the tenge.

Forecasts

	GDP, %	CPI (Dec/Dec), %	TONIA rate (average), %
2025	6.1	12.5	16.1
2026	4.6	10.0	16.9
2027	4.3	8.4	12.9
2028	4.2	7.0	10.4

ARMENIA

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INCREASED DOMESTIC DEMAND — INFLATION WITHIN TARGET — GRADUAL FISCAL CONSOLIDATION

Macroeconomic Outlook for 2026–2028

- Economic growth in 2025 is projected at 6.1%, supported by strong activity in construction and services; in 2026–2028 it is expected to moderate to around 4–5%.
- Inflation is forecast at 3.7% in 2025 (within the target range), stabilising at about 3% in 2026–2028.
- Fiscal consolidation will proceed gradually: the fiscal deficit is expected to narrow from 5.0% of GDP in 2025 to 2.8% of GDP by 2028.
- The current account deficit will remain at 4–5% of GDP.

Risks and Uncertainties

- Armenia's economy is steadily returning to balanced growth, although worsening external conditions, including Russia's influence, could weigh on its momentum.
- Against the backdrop of credit activity, the economy's reliance on domestic demand is increasing. If these trends persist, the economy may remain in an overheated state for longer than envisaged in the baseline scenario.
- Volatile food and energy prices as well as a possible weakening of the real effective exchange rate could push inflation above the Central Bank of Armenia's target range.
- On the fiscal side, risks are mixed: in 2025, capital and current expenditure plans may be underexecuted, while in the longer term pressures may arise from higher social spending.
- A positive deviation from the baseline scenario could come from the commissioning of the Amulsar gold mine in 2026.

Forecasts

	GDP, %	CPI (Dec/Dec), %	State budget, % of GDP
2025	6.1	3.7	–5.0
2026	5.1	3.3	–4.5
2027	4.8	3.0	–3.5
2028	4.8	3.0	–2.8

BELARUS

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WEAK EXTERNAL DEMAND — ECONOMIC SLOWDOWN — REDUCED INFLATIONARY PRESSURES

Macroeconomic Outlook for 2026–2028

- A slowdown in Russia's economic activity is a key factor dampening **economic growth** in Belarus.
- In 2025, real GDP growth is expected at 1.5%, **slowing** to 1–1.3% in the **medium term**.
- Accumulated pressure from domestic demand, the labour market and higher price growth in Russia will keep **inflation** above target.
- **Fiscal policy** will remain balanced at the level of the consolidated budget.
- The **external balance** will be supported by a gradual reduction in the current account deficit.

Risks and Uncertainties

- **Implementation of a stimulative policy** amid declining external demand.
- **Tougher competition for Belarusian producers** in the Russian market as Russian manufacturers adapt successfully to sanctions.
- **Sanctions** against Russia and Belarus may act as either a negative factor if restrictions are expanded and/or harmonised or a positive one if pressures are eased.
- A potential upside risk to the forecasts is the **positive impact of ongoing investment projects** on economic capacity.

Forecasts

	GDP, %	CPI (Dec/Dec), %	Consolidated budget, % of GDP
2025	1.5	7.1	–0.3
2026	1.1	6.6	+0.1
2027	1.0	6.2	+0.2
2028	1.2	5.0	+0.3

KYRGYZ REPUBLIC

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CONSTRUCTION DRIVE — PRO-INFLATIONARY PRESSURE — SIGNIFICANT BELOW-THE-LINE COSTS

Macroeconomic Outlook for 2026–2028

- **Economic growth** will stabilise at around 6%, driven by strong investment and housing construction.
- **High inflation** will persist, with average price growth exceeding 6% YoY in 2026–2028 due to elevated food, fuel and lubricant prices, annual increases in electricity tariffs and pressure from domestic demand.
- The **budget** will be in surplus owing to high non-tax revenues, with a substantial part of that surplus used to finance "below-the-line" spending, including major socio-economic development projects.

Risks and Uncertainties

- A **fiscal gap** may emerge as expenditure rises on large infrastructure projects, support for energy enterprises, and recapitalisation of state-owned banks and construction companies.
- Short-term deceleration in economic activity is possible due to **winter electricity shortages**.
- **Remittances may decline** as Russia tightens hiring requirements for migrant workers and wage growth slows.

Forecasts

	GDP, %	CPI (Dec/Dec), %	National budget, % of GDP
2025	9.0	8.9	+2.6
2026	6.4	6.4	+1.6
2027	6.0	6.3	+1.5
2028	5.5	5.8	+0.8

TAJIKISTAN

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HIGH REMITTANCE INFLOWS — AMBITIOUS INVESTMENT PROJECTS — PUBLIC DEBT LIQUIDITY RISKS

Macroeconomic Outlook for 2026–2028

- Growth is expected to ease gradually to 6.0% in 2028 as remittances normalise and growth moderates in key trading partners (Russia, China and Kazakhstan).
- The **fiscal deficit will widen to 2.5% of GDP in 2026** amid a significant rise in expenditure (+3.7 p.p. YoY), including on the Rogun HPP and wages. In 2027–2028, the deficit will remain at 2.5% of GDP.
- **Consumer inflation will rise to 5%**, consistent with the target range.
- The current account surplus will turn into a deficit (0.2% of GDP in 2027 and 0.8% in 2028) due to a gradual decline in labour income and secondary income inflows (as a % of GDP).

Risks and Uncertainties

- Sustained **elevated remittance inflows** could drive economic growth above the baseline forecasts.
- **Public debt liquidity risks** will remain high in 2026–2027 due to Eurobond repayments.
- Risks arise from **failure to achieve fiscal revenue targets** while maintaining high expenditure.
- **Completion of the Rogun HPP** poses risks to fiscal and debt sustainability due to possible delays in external financing and the need to finance costs from domestic revenues, as well as the need to source additional financing if construction costs increase.

Forecasts

	GDP growth, %	CPI (Dec/Dec), %	State budget, % of GDP
2025	7.8	4.3	–0.3
2026	7.1	4.8	–2.5
2027	6.7	5.5	–2.5
2028	6.0	5.0	–2.5