

# REGIONAL ECONOMIC OUTLOOK

2024 AUTUMN



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**DISCLAIMER:**

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# ABBREVIATIONS

<b>AMD</b>	Armenian dram
<b>Armstat</b>	Statistical Committee of the Republic of Armenia
<b>BCI</b>	business climate indicator
<b>BEA</b>	Bureau of Economic Analysis
<b>BLS</b>	Bureau of Labour Statistics
<b>BNS ASPR RK</b>	Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan
<b>BoP</b>	Balance of payments
<b>CA</b>	Current account of the balance of payments
<b>CB RA</b>	Central Bank of the Republic of Armenia
<b>CIS</b>	Commonwealth of Independent States
<b>CNY</b>	Chinese yuan
<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>Eurostat</b>	European Statistical Office
<b>FAO</b>	Food and Agriculture Organisation of the United Nations
<b>FCS</b>	Federal Customs Service
<b>FDI</b>	foreign direct investments
<b>FRS</b>	US Federal Reserve System
<b>GDP</b>	gross domestic product
<b>HPP</b>	hydro power station
<b>IEA</b>	International Energy Agency
<b>IIT</b>	individual income tax
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>KGS</b>	Kyrgyzstan som
<b>KZT</b>	Kazakhstan tenge
<b>LCR</b>	Liquidity Coverage Ratio

<b>LE</b>	legal entity
<b>National Fund</b>	National Fund of the Republic of Kazakhstan
<b>NBKR</b>	National Bank of the Kyrgyz Republic
<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 Tajikistan
<b>NFA</b>	net foreign assets
<b>NPL</b>	non-performing loan
<b>NSFR</b>	Net Stable Funding Ratio
<b>NWF</b>	National Wealth Fund of Russia
<b>NSC KR</b>	National Statistical Committee of the Kyrgyz Republic
<b>OPEC</b>	Organisation of the Petroleum Exporting Countries
<b>PCE</b>	Personal Consumption Expenditures
<b>PI</b>	private individual
<b>PPI</b>	producer price index
<b>PRC</b>	People's Republic of China
<b>REER</b>	real effective exchange rate
<b>Rosstat</b>	Federal State Statistics Service
<b>RUB</b>	Russian rouble
<b>SAAR</b>	seasonally adjusted annual rate
<b>SRE</b>	standard risk estimate
<b>Tajstat</b>	Agency on Statistics under the President of the Republic of Tajikistan
<b>USA</b>	United States of America
<b>VAT</b>	value added tax
<b>q/q</b>	quarter-on-quarter
<b>USD/t</b>	US dollars per tonne
<b>USD/oz</b>	US dollars per ounce
<b>y/y</b>	year-on-year
<b>% y/y</b>	percentage growth year-on-year

# CHIEF ECONOMIST'S FOREWORD

**Dear colleagues,**

In the first half of 2024, economic activity continued to expand at a brisk pace in all EFSD member states. Despite the tightening of monetary conditions, the Russian economy sustained robust growth, creating a favourable environment for the expansion of foreign trade, investment activity, and remittances in the region. This, combined with favourable external conditions, enabled an acceleration of economic activities in several EFSD member states. At the same time, we see that positive externalities related to temporary factors in the Russian markets are gradually waning. In Armenia, for example, this resulted in economic growth slowing down to 6.5%.

In most EFSD member states, fiscal policies continued to play a major role in stimulating consumer and investment activities, which remain the key growth drivers. Besides, despite the relatively tight monetary conditions, extensive bank lending continues to support domestic demand. In Russia and Kazakhstan, the rapid growth of bank lending, combined with a substantial fiscal impulse, generates high inflationary pressure, which requires keeping key interest rates at high levels. At the same time, inflation in the smaller EFSD economies moved closer to targets of central banks, including due to administrative measures. Most countries reported moderate improvement in their balance of payments, which helped to keep exchange rates relatively stable. Yet, we see that in some countries BoP statistics do not fully reflect the existing trade and financial flows, which makes it difficult to analyse their external sustainability and exchange rate risks.

Taking into consideration the actual economic data for the first half of 2024 and expected changes in global and regional outlook, we slightly revised our 2024 growth estimates: for some countries upwards (Kyrgyz Republic, Russia) and some downwards (Armenia, Kazakhstan). For 2025–2027, we kept our growth forecasts almost unchanged in all countries with growth rates slowing down to their potential levels. The economic policy challenges discussed in the summer REO generally remain in place. Russia and Kazakhstan need to balance macroeconomic policies, facing a difficult trade-off between high growth rates and the risk of growing imbalances related to their economies overheating, including persistent inflationary pressure and structural constraints in the labour market. For the smaller EFSD economies, the key challenge is the adverse impact from potential reversal of trade and financial flows, resulting from the adaptation of economic processes in Russia to sanctions.

Despite the decline in the level of uncertainties with respect to medium-term prospects of the global and regional economies during the first half of 2024, macroeconomic, financial and geopolitical risks remain substantial. The potential sharp weakening in external demand is the key risk to our baseline growth projections. The main concern is the possible rapid deceleration or stagnation of economic activity in the world's major economies (USA, China, and Europe). Economic growth in most economies in the region can be further jeopardised by a stronger-than-expected slowdown of the Russian economy, as well as

faster adaptation of economic activities in Russia to sanctions. The risks for global demand are already translating into higher price volatility of key commodities, which in the near term could trigger a substantial decline in prices on commodity and energy markets. This, in turn, could create additional policy challenges for the EFSD member states in terms of maintaining external and fiscal sustainability, and price stability.

In general, in our baseline scenario (which we define as “moderately optimistic”), we expect that economic policies in all EFSD countries will be focused on maintaining macroeconomic balances, including normalisation of monetary policy. Nevertheless, although the external position of the EFSD member states is likely to remain relatively stable in the medium term, we see risks for development of budget and BoP financing gaps in several countries, which could create an additional challenge for governments to maintain macroeconomic and financial stability.



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

# EXTERNAL SECTOR

In 2024Q2, the world economy demonstrated solid growth, among other things due to the continued positive dynamics of business activity in the leading economies. At the same time, some business metrics have experienced a slight decline: in July, the S&P Global Purchasing Managers Index (PMI) dropped to 52.5 from the May high of 53.7 as the situation in the manufacturing industry deteriorated, while the services sector held its ground. The Producer Price Index (which tracks consumer price trends) plunged to its lowest level since October 2020, which may point to a possible decline in inflation in the coming months.

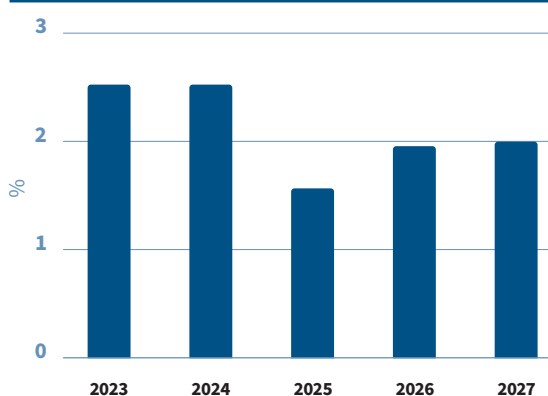
## USA

In 2024Q2, real GDP growth accelerated to 2.8% q/q (SAAR, seasonally adjusted annualised rate) from 1.4% in 2024Q1, benefiting from strong domestic demand growth. The aggregate contribution of personal consumption expenditures (1.6 p.p.), business investments (0.7 p.p.) and housing investments (despite a slight decrease of (-0.05 p.p.) to total real GDP growth was 2.2 p.p. Government expenditures and investments (0.5 p.p.) whose increase was largely attributable to higher national defence investments by the federal government, and changes in private sector inventories (0.8 p.p.) also contributed to the expansion of the economy. Net exports produced a negative impact on the GDP (-0.7 p.p.), as imports surged and the trade gap reached a two-year maximum.

**Tension in the labour market persists, but the gap between labour demand**

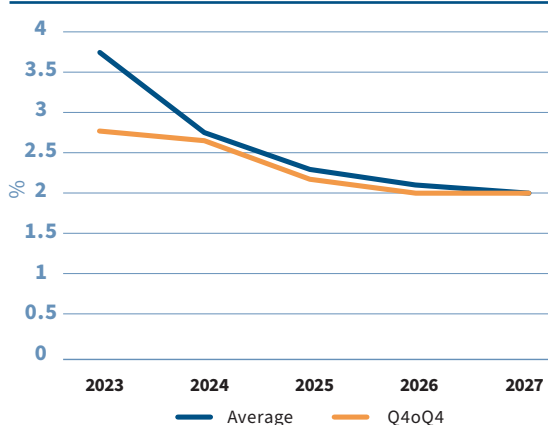
Figure 1 (A, B, C). Key Macroeconomic Indicators of the USA

### A. GDP Growth



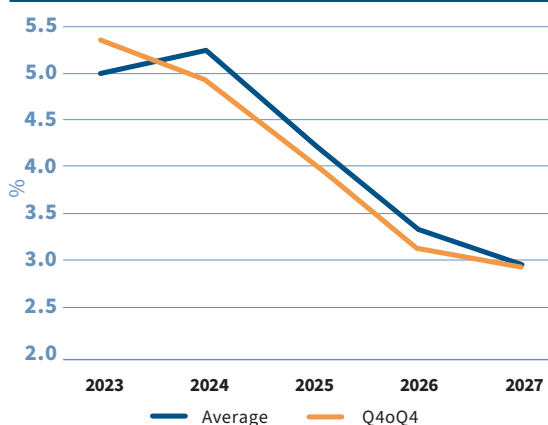
Source: BEA, authors' calculations.

### B. Inflation (PCE)



Source: BLS, authors' calculations.

### C. FRS Federal Funds Interest Rate



Source: FRS, authors' calculations.

**and supply is closing.** In 2024Q2, labour demand subsided. In May, the number of free vacancies sank to a three-year minimum, with the job openings-to-unemployment ratio down to 1.22, close to the pre-pandemic maximum of 1.24. The number of new vacancies remained relatively high throughout 2024Q2 (averaging at 177,000 job openings per month), but was significantly lower compared to 2024Q1 levels (267,000 job openings per month). As a result, in March–June the unemployment rate increased by 0.3 p.p. to 4.1%, having exceeded the 4% mark for the first time since November 2021. The government, however, believes it is still below the noncyclical unemployment rate.

**We anticipate that in 2024H2 economic growth will continue to slow down, with quarterly dynamics starting to recover only in the beginning of 2025.** Domestic demand supported by the fiscal impulse will remain the main growth driver. In 2024, the GDP growth will remain at the 2023 level of 2.5%, slowing down to 1.7% in 2025 while quarter-on-quarter increase rates gradually accelerate, and then reverting to the balanced growth path at 2% in 2027 (Figure 1A).

**Inflation is approaching target values, but some of its components continue to generate elevated inflationary pressure.** In July 2024, the inflation rate went down to 2.9% year-on-year, with core inflation at 3.2%, the lowest level since 2021. In May–June, monthly seasonally adjusted inflation rates also declined relative to the beginning of the year. In July, seasonally adjusted prices were up by 0.2%, which represents a small increase compared to the unusually low June figure (-0.01%). Housing rent was the largest contributor to the overall consumer basket price growth, whereas prices of most other items included in the basket increased at a slower rate. According to our estimates, in 2024 the average annual inflation rate will decrease

to 2.6%, and then gradually slow down to 2% in 2026 (Figure 1B).

**Despite the relatively favourable economic dynamics and conditions enabling the FRS to proceed with interest rate cuts in September, there are still challenges to achieving a balanced monetary policy.** Throughout 2025, the regulator will be faced with the task of keeping the balance between preventing an excessive deceleration of economic growth and achieving the inflation reduction target. Under our baseline scenario, we expect that the FRS will cut the Fed Funds interest rate to 4.75–5.0%, and that by the end of 2025 it will go further down to 3.75–4.0%. (Figure 1C).

## EUROZONE

**In 2024Q2, the Eurozone economy was up by 0.3% q/q, retaining the rate of growth achieved in 2024Q1, primarily due to the expansion of the services sector. However, GDP dynamics differed from country to country.** In 2024Q2, the German economy contracted by 0.1% q/q, while France experienced a 0.3% increase, including due to preparations for the Olympics. Significant growth was observed in Poland (1.5%), Ireland (1.2%), and the Netherlands (1%). The services sector remained the main growth driver, while the manufacturing industry declined at an increasing rate: in June, it dropped by 3.9% y/y compared to a 1.2% decline in March. Production of energy-intensive investment goods was affected the most (June: -7.9% y/y). Among the largest economies of the bloc, the most significant decline in production output was observed in the Netherlands (-3.3%), Germany (-4.1%), and Austria (4.4%)<sup>1</sup>. Despite the

<sup>1</sup> Website of the statistical office of the European Union (Eurostat). Production output decreased by 0.1% in the Eurozone, and remained unchanged in the EU. Available at: <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/4-14082024-bp>.

recession in the manufacturing industry, the rate of unemployment in the Eurozone in July reached a historic low of 6.4% again after a slight increase to 6.5% in June.

Over the medium term, economic growth in the region is likely to be curbed by tight fiscal policies. On the other hand, economic growth may be spurred by the private investment incentives included in the 2025 German budget<sup>2</sup>. By the end of 2024, the Eurozone’s real GDP is projected to increase by 0.8% (see [Figure 2A](#)). We anticipate that in 2025–2027 the negative manufacturing gap will close, while growth rates will be close to the potential level of 1.5%.

**Inflation in the Eurozone shows signs of deceleration following a protracted period of stable prices.** According to preliminary data, in August 2024 inflation slowed down to 2.2%, the lowest rate since July 2021, compared to 2.4–2.6% in the previous six months. Energy prices dropped by 3.0%, becoming the main deceleration driver. However, in other commodity groups prices continued to edge higher despite the weak economic growth. The largest increase was observed in the services sector, where in August inflation gathered momentum and reached 4.2%. As overall inflation continued to slow down, core inflation stood at 2.8%, having only marginally decreased from March and June levels (2.9%). We forecast that by the end of 2024 the annual inflation will decrease to 2.4%, returning to the ECB 2% target by 2025 ([Figure 2B](#)).

**Weak economic growth, divergent GDP dynamics in the eurozone countries, and persistent price pressure in the**

<sup>2</sup> Website of the Federal Government of Germany. The government of the Federal Republic of Germany adopted a draft budget for 2025, and a development programme. Available at: <https://www.bundesregierung.de/breg-en/news/2025-budget-growth-initiative-2299754>.

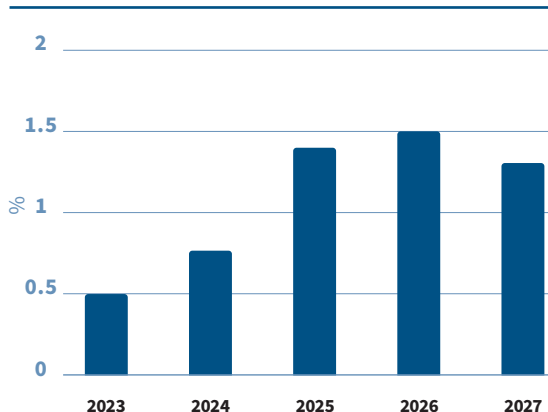
# 0.8%

## THE EUROZONE GDP IN 2024

**services sector will force the ECB to maintain a cautious stance.** Lending recovery is proceeding slowly despite the beginning of a new cycle of ECB rate cuts. In September 2024, the ECB cut interest rates for the second time this year since January, which should reinvigorate lending activity. In 2025, the monetary policy will be gradually loosened to the neutral level (see [Figure 2C](#)), and then neutral rates will persist throughout 2026–2027. With the USD index at high levels, the narrowing gap between the US and the Eurozone rates as the bloc’s economic growth recovers will lead to euro appreciation. It is expected that the euro will appreciate from USD 1.08 for EUR 1.00 in 2024 to USD 1.14 for EUR 1.00 in 2027.

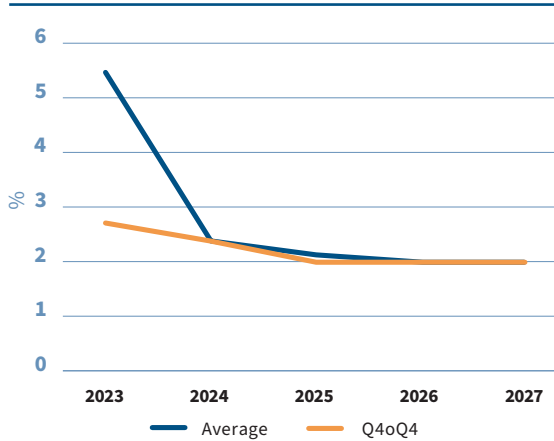
**Figure 2 (A, B, C). Key Macroeconomic Indicators of the Eurozone**

### A. GDP Growth



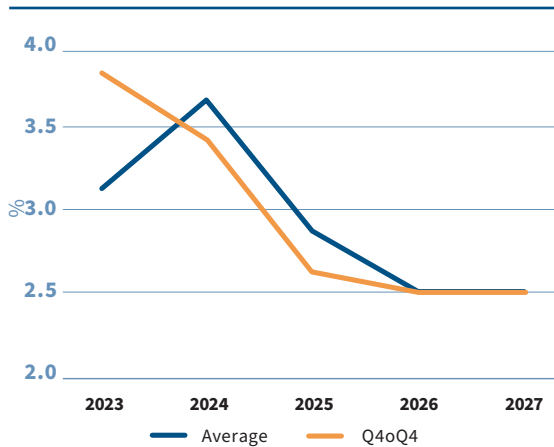
Source: Eurostat, authors’ calculations.

## B. Inflation



Source: Eurostat, authors' calculations.

## C. ECB Rate



Source: Eurostat, authors' calculations.

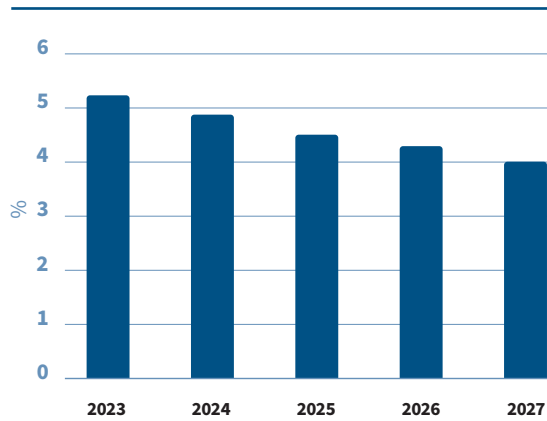
# CHINA

**In 2024H1, China's GDP increased by 5% y/y, aligning with the government's economic growth target.** In 2024Q2, however, the growth rate fell short of the forecasts at 4.7% y/y and 0.7% q/q. Export was the main growth driver, having increased by 5.8% y/y in 2024Q2 and 3.6% in 2024H1. In 2024H1, exports to Central Asia demonstrated the highest rate of growth (14.3%), while exports to the USA demonstrated a more modest increase (1.5%), and exports to from 6.2% in 2024Q1 to 4.2% in 2024Q2. The retail sales growth rate dropped from 4.7% in 2024Q1 to 2.6% in 2024Q2. The real estate sector remains in a slump, with 2024Q2 investments and sales down by 10.5% and 18.6%, respectively. The PRC

government is taking steps to support consumer demand, investments, and the real estate market, which may drive the 2024 GDP growth close to 5% by the end of the year. However, over the longer term (by 2027) we expect economic growth to gradually grind down to 4% (Figure 3A).

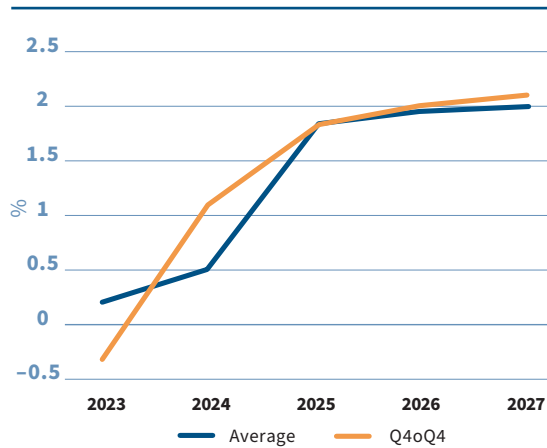
**Figure 3 (A, B, C). Key Macroeconomic Indicators of China**

## A. GDP Growth



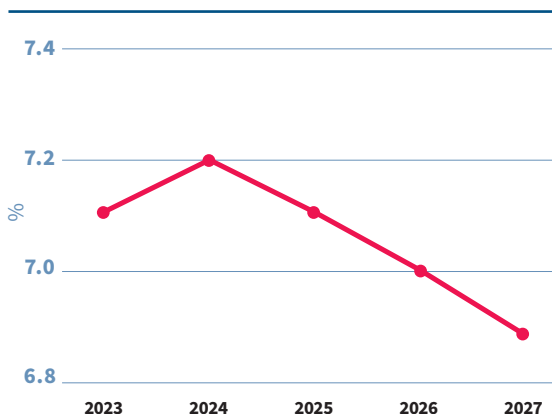
Source: NBS, authors' calculations.

## B. Inflation



Source: NBS, authors' calculations.

### C. USD/CNY Exchange Rate



Source: NBS, authors' calculations.

#### **Inflation remains low despite the government incentives and record-breaking interest rate cuts.**

The annualised consumer inflation has remained positive since February 2024 and is gradually speeding up, but it still remains very low. In July, it accelerated to 0.5% vs 0.2% in June and 0.1% in March. The PPI remains negative, reflecting the persistent overproduction in the manufacturing sector. The deflation rate decreased from (-2.8%) y/y in March to (-0.8%) y/y in June and July. With these inflation levels, the real rates set by the People's Bank of China remain high despite a spate of cuts resulting in a series of record-breaking lows in July. The Loan Prime Rate (LPR) was cut from 3.45% to 3.35%, and the Loan Prime Rate 5Y from 3.95% to 3.85%. In addition, the interest rate on one-year medium-term lending facility (MLF) loans to financial institutions was cut from 2.5% to 2.3%. According to our baseline estimates, recovery of domestic

**CHINA'S GDP  
IN 2024  
4.8%**

demand and the impact of the recent policy measures will push the CPI and the PPI further up in 2024H2. As a result, by the end of 2024, inflation may accelerate to 1%, with an average annual rate of 0.5%. Price increases will normalise in the subsequent years, and in 2027, inflation will accelerate to 2% (Figure 3B).

#### **The global USD appreciation of more than 4% in 2024H1 led to a 2.45% CNY depreciation.**

However, the yuan recovered most of that drop at the beginning of 2024Q3 as the dollar began to weaken on the back of FRS rate cut expectations. The emerging exchange rate apparently suits the economy and, according to our estimates, will remain stable in the near term. The average 2024 annual exchange rate will be CNY 7.20 for USD 1.00. In the following years, there will be a gradual appreciation of the yuan nominal exchange rate without affecting the competitiveness of Chinese exporters.

## COMMODITIES

#### **Global Brent oil prices remained stable, but by the end of August they dropped to almost USD 70 per barrel.**

The main reasons for that decrease include the lower-than-expected economic growth rates in China, deterioration of the economic situation in the USA, recovery of oil production in Libya, and market expectations regarding an oil production boost, mostly by non-OPEC countries. According to IEA, the discount on the price of Russian oil continued to decrease, reaching USD 10.58 per barrel in July. It is expected that this year the export price of Russian oil will amount to USD 67.5 per barrel, and remain at about USD 65 per barrel throughout 2025–2026.

#### **In August, gold prices reached a new historical high, having exceeded USD 2,564 per ounce.**

The market price of gold has increased by more than 20% since the beginning of 2024. Central

# GOLD PRICE IN 2024

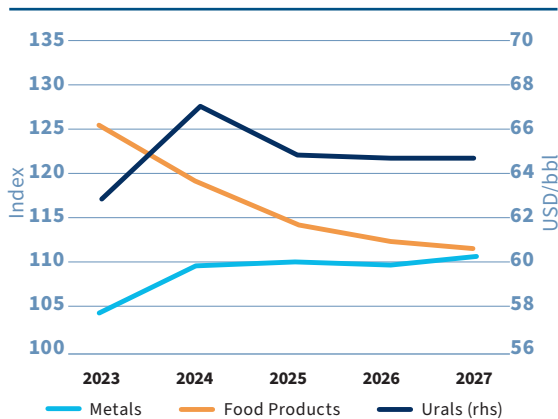
# 2 300 USD/OUNCE

banks purchased 480 tonnes of gold, a 5% increase year-on-year. The stable demand for gold is supported by a loosening of monetary policies pursued by the central banks of the developed countries, ongoing geopolitical tensions, and the fact that many countries increased the share of gold in their international reserves. As a result, we believe that in 2024 the average gold price will be higher than USD 2,300 per ounce, while in 2025–2026 it may exceed USD 2,500 per ounce.

**We expect a rebalancing of demand and supply in the metal market.** First, non-ferrous metal prices will be supported by the “green transition”. In 2024, the average annual metal price index will go up to 109.4, and remain close to 110 throughout 2025–2027. The spring and summer surge of copper prices was followed by an adjustment, but, according to IFC estimates<sup>3</sup>, over the longer term demand for copper will be growing at a rate of approximately 3% per year. As a result, by 2050 global consumption of copper will increase 2.3-fold compared to the early 2020s. Based on futures prices, in 2024 the average annual copper price will be USD 9,225 per tonne, gradually increasing to USD 9,900 per tonne by 2027.

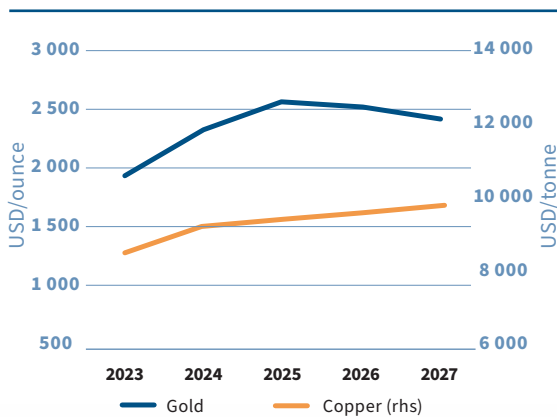
Figure 4 (A, B). Commodity Prices

## A. Metals, Food Products, Urals Oil



Source: World Bank, authors' calculations.

## B. Gold, Copper



Source: authors' calculations.

According to the World Bank, the Food Price Index will be gradually declining from 118.7 in 2024 to 113.7 in 2027, as supply stabilises and inflation in several developed and developing countries slows down (Figures 4 A, B).

<sup>3</sup> International Finance Corporation. Net Zero Roadmap for Copper and Nickel Value Chains. Available at: <https://commdev.org/publications/ifc-net-zero-roadmap/>.



# RUSSIA

In 2024Q2, economic growth in Russia slowed to 4.1% y/y down from 5.4% y/y in 2024Q1. Significant infrastructure investments and strong domestic demand were the main drivers of growth. Despite the slowdown, our estimates indicate that the economy remains overheated. Shortage of labour and overutilisation of production facilities are becoming increasingly serious concerns. In 2024Q2, unemployment dropped to a historic low of 2.6%, while real personal income growth accelerated to 9.6%. By the end of 2024Q2, inflation had risen to 8.6% y/y, surpassing 9% in July and August. In response to mounting inflationary pressures, the Bank of Russia raised the key rate to 18% p.a. in July, followed by an increase to 19% p.a. in September. The fiscal position remains sustainable, supported by growing revenues and the execution of budget expenditures in accordance with the plan. The current account balance increased 2.2-fold due to a stronger balance of trade,

while the overall balance of payments recorded a slight deficit.

We project that the real GDP will grow by 3.7% in 2024. However, the economy is expected to start slowing down in 2024Q3 due to persistent shortage of constraints on production capacity and labour resources. In 2025, the rate of economic growth is forecast to drop to 1.4%, reflecting both the high base effect and limited supply. By the end of 2024, inflation is expected to reach 7.2% y/y; remaining elevated due to the domestic demand pressures, and gradually decreasing to 5% by the end of 2025. The 4% inflation target is anticipated to be met by the end of 2026. The Bank of Russia will begin to cut rates in 2025. Pressure on the balance of payments is projected to remain moderate. As a result, the exchange rate is expected to stabilise at RUB 92 for USD 1.00 by the end of 2024, and weaken to RUB 94–96 for USD 1.00 in 2025–2027 following the anticipated interest rate cuts.



# CURRENT SITUATION

## REAL SECTOR AND LABOUR MARKET

**In 2024Q2, the Russian economy grew by 4.1% y/y, a slowdown relative to the 5.4% y/y growth in 2024Q1.** As a result, in 2024H1 the economy grew by 4.7% year-on-year vs 1.8% the year before. According to our estimates, the quarterly dynamics (SAAR) significantly decelerated from 4% in Q1 to 1.9% in Q2. Despite that, the economy retained a positive output gap and continued to experience inflationary pressure.

**Domestic demand remains the key growth driver.** At the end of 2024Q2, indirect demand driver indicators showed that Q1 trends had persisted (Box 1), with the Q2 increase in retail turnover, market services to the population, and public catering up by 7.3%, 4.1%, and 5.4%, respectively. In 2024Q2, investments rose by 8.3% y/y following a 14.5% y/y increase in 2024Q1. Notably, investments by large and medium-sized entities retained double-digit growth rates: 11.5% y/y in 2024Q2 compared to 14.6% y/y the quarter before. According to preliminary estimates, in 2024Q2 the total value of exports began to increase (2.7% y/y) following a (-4.0% y/y) drop in 2024Q1, while the decrease in the value of imports slowed down slightly from (-10.1% y/y) in 2024Q1 to (-8.4% y/y) in 2024Q2.

**INFLATION**  
**> 9%**



### Box 1.

#### Decomposition of 2024Q1 GDP Using the Expenditure Approach

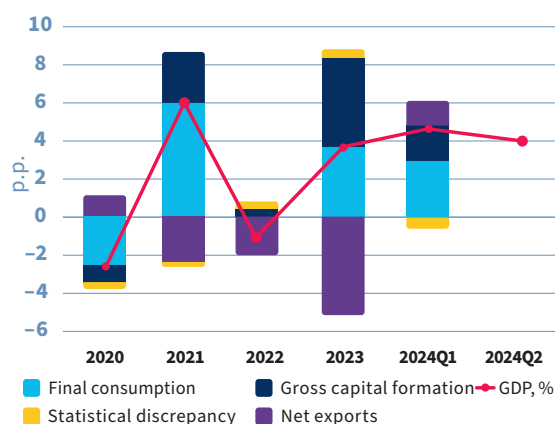
In 2024Q1, final consumption and investments remained the key economic growth drivers (Figure 1). Final consumption expenditures increased by 4.6% y/y, with household spending demonstrating the highest growth rate at 6.7% y/y, while government spending was down by 0.3% y/y. Gross capital formation rose by 9.7% y/y due to significant private investments and government support of large-scale infrastructure projects.

In 2024Q1, net exports increased and made a positive contribution to the GDP, but it happened mostly because imports declined faster than exports. High interest rates and new sanctions continued to produce restrictive pressure on imports throughout 2024H1.

**In 2024Q2, activity in all key sectors of the economy slowed down relative to 2024Q1 (Figure 2).** Industrial production output declined from 9.0% to 8.1% y/y, but continued to remain the main economic growth driver.

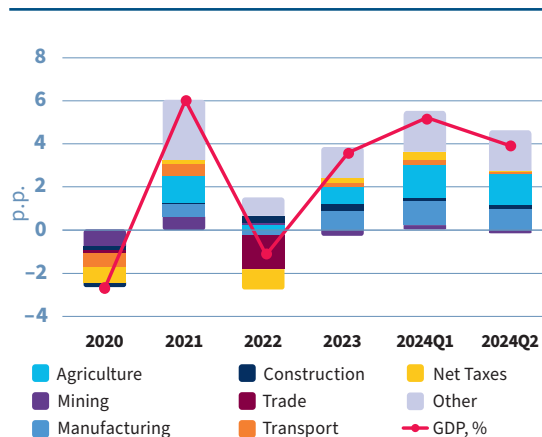
Mechanical engineering retained the leading positions in the industry with a more than 30% share in total manufacturing sector growth in 2024Q2. Production of computers and peripherals, and motor vehicles remained the key contributors with double-digit growth rates. On the other hand, mining industry was down by 1.1% y/y after a 1.4% increase in 2024Q1 as a result of the weakening of external demand for commodity products. Trade also slowed down, with growth rates plunging from 11.4% in 2024Q1 to 8% in 2024Q2, pointing to a gradual slackening of consumer activity. In the transport sector, growth in 2024Q2 stood at 2.0% compared to 3.1% the quarter before, indicating that logistics and transport services were slowing down. The only sector which did not show signs of deceleration was construction, where growth rates rose from 4.8% in 2024Q1 to 5.6% in 2024Q2 due to intense investment activity and elevated demand for new housing provoked by the termination of subsidised mortgage lending programmes.

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



Source: calculations based on Rosstat data.

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



Source: calculations based on Rosstat data.

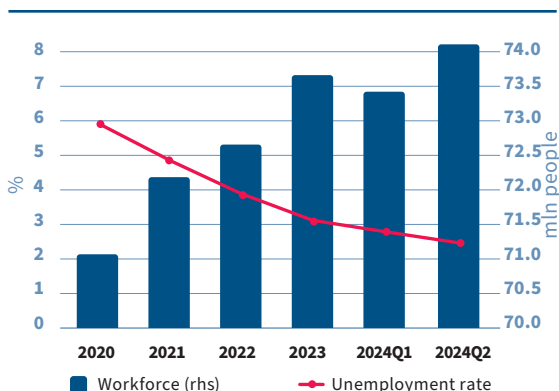
**In 2024Q2, the composite Business Climate Index (BCI) remained at historical highs, fluctuating in the 10.5–11 points range.** However, at the beginning of 2024Q3 (in July and August), it plummeted to 7.1 points. The decrease was caused by a rapid deterioration in the perception of the current situation from 7.2 points in June to 1.5 points in August. Despite the stable demand expectations, there was a general decline in the level of economic optimism. In 2024Q2, investment activity also slowed down compared to 2024Q1 (to 7.6 points from 9.3 points), with business entities forecasting further deceleration in 2024Q3. Utilisation of production capacities in 2024Q2 remained at the 2023 level.

**GDP GROWTH**  
**4.1%**

**In 2024Q2, the situation in the labour market remained dire due to the persistent shortage of labour. The rate of unemployment hit a record-breaking**

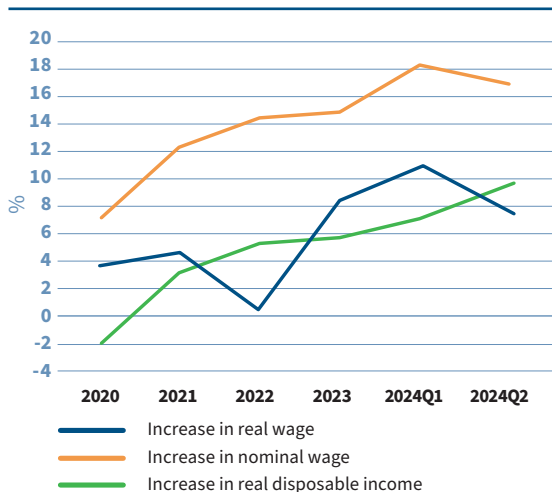
low, with the average quarterly decrease at 2.6% (Figure 3). A Bank of Russia survey showed that enterprises were severely understaffed, which generated upward pressure on wages and salaries. Although in 2024Q2 the rate of increase of nominal average wages slowed down to 17.6% compared to 20.7% in 2024Q1, real personal income continued to rise at a fast pace and increased by 9.6% year-on-year, which is significantly higher than 6.4% in 2024Q1 (Figure 4).

**Figure 3. Labour Market Indicators**



Source: Rosstat.

**Figure 4. Household Income**



Source: calculations based on Rosstat data.

**REAL DISPOSABLE INCOME GROWTH IN 2024Q2**  
**9.6%**

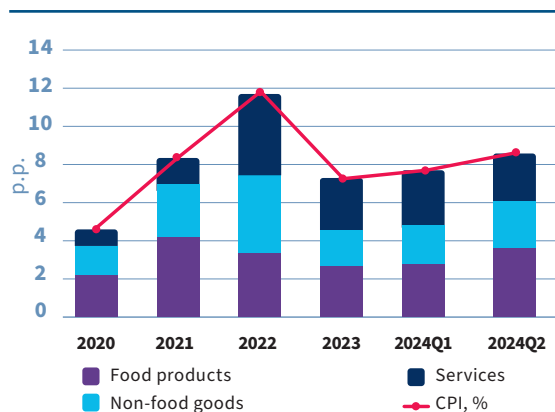
## INFLATION AND MONETARY POLICY

By the end of 2024Q2, inflation in Russia accelerated to 8.6% y/y from 7.7% y/y in 2024Q1 (Figure 5). According to Bank of Russia estimates, seasonally adjusted price growth rates increased even more significantly from 5.8% (SAAR) in 2024Q1 to 8.67% (SAAR) in 2024Q2. With inflationary pressure building up since May, in July the rate of growth of prices reached 9.1% y/y, or 16.1% (SAAR), primarily due to the indexation of utility tariffs (12.1% (SAAR) excluding utility tariffs). The main contributing factors were the rapid growth of wages and salaries (which were increasing much faster than labour productivity, and boosted producer costs) and the persistently high volume of consumer lending.

At the latest meeting of the Board of Directors of the Bank of Russia on 13 September 2024, it was resolved to hike the key interest rate to 19% p.a. The monetary environment that emerged during the first half of the year was deemed insufficiently tight, as loan and deposit dynamics failed to slow down inflation. In addition, the real neutral interest rate was hiked by 1.5 p.p. to 3.4–4.5%. The Bank of Russia explained the revision of the neutral rate by the increased need to build up domestic savings as a source of investment funding during the economic restructuring period. Other reasons included the rise of risk premiums caused by changing externalities and mounting sanctions pressure, and the easing of fiscal rule parameters.

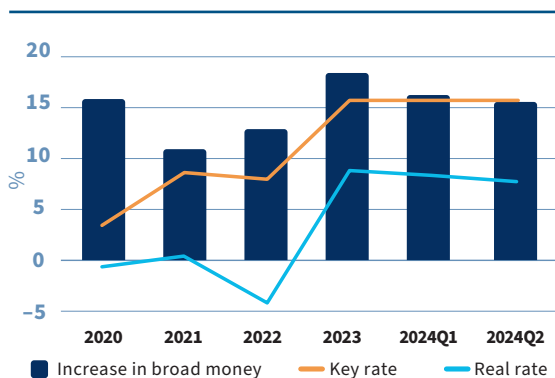
In 2024Q2, the annual rate of growth of rouble money supply increased to 18.7% vs 17.4% in 2024Q1. At the same time, as the Russian rouble continued to strengthen, and the rate of expansion of broad money slowed down from 16.7% y/y in March to 15.8% y/y in June (Figure 6).

**Figure 5. Decomposition of Inflation (y/y, eop)**



Source: Bank of Russia.

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



Source: calculations based on Bank of Russia data.

**Even though the monetary policy remained rather tight throughout the first half of the year, lending continued to expand at a high rate, and failed to slow down as expected (Figure 8).** In 2024Q2, the annual rate of growth of banking sector assets slightly accelerated to an average 21.3% y/y per quarter (+5.9% since the beginning of the year) compared to 19.3% in 2024Q1. Lending to non-financial organisations also accelerated to 20.9% year-on-year in 2024Q2, and to 21.2% in July (+10% since the beginning of the year). Demand for retail loans remained stable throughout 2024Q2, and the loan portfolio increased by 23.4% year-on-year, mostly due to the expansion of mortgage lending (Box 2).

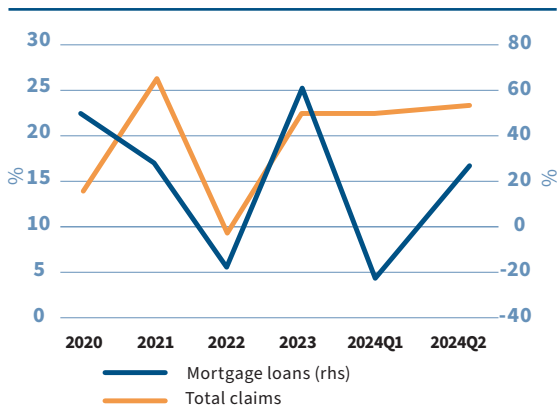


## Box 2.

### Mortgage Lending

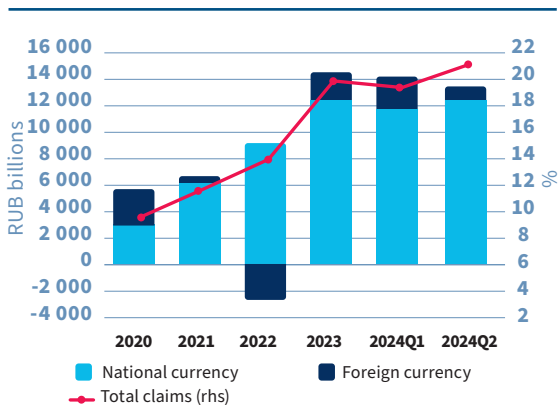
In 2024Q2, the overall volume of mortgage lending rose by RUB 1.12 trillion to RUB 19.8 trillion, an almost triple gain compared to the RUB 0.4 trillion increase observed in 2024Q1 (Figure 7). New housing construction accounted for the bulk of that increase with 196.6 thousand loans for a total amount of RUB 992 billion, or 55% of total mortgage loans extended during the quarter. The peak of loan origination occurred in July, when banks extended mortgage loans for a total amount of RUB 788.5 billion, with 85% of those loans covered by government subsidised lending programmes. The surge was caused by the termination of the “Subsidised Mortgage” programme and changes in the terms of the “Family Mortgage” programme in July. Data for July reflect the anticipated massive contraction of the market for retail residential housing loans: the overall mortgage portfolio shrank to RUB 19.7 trillion, while new loans were reduced by more than half from June levels to RUB 356 billion.

**Figure 7. Increase in Bank Claims on Individuals (y/y, eop)**



Source: Банк России.

**Figure 8. Increase in Business Loans, broad definition (y/y, eop)**

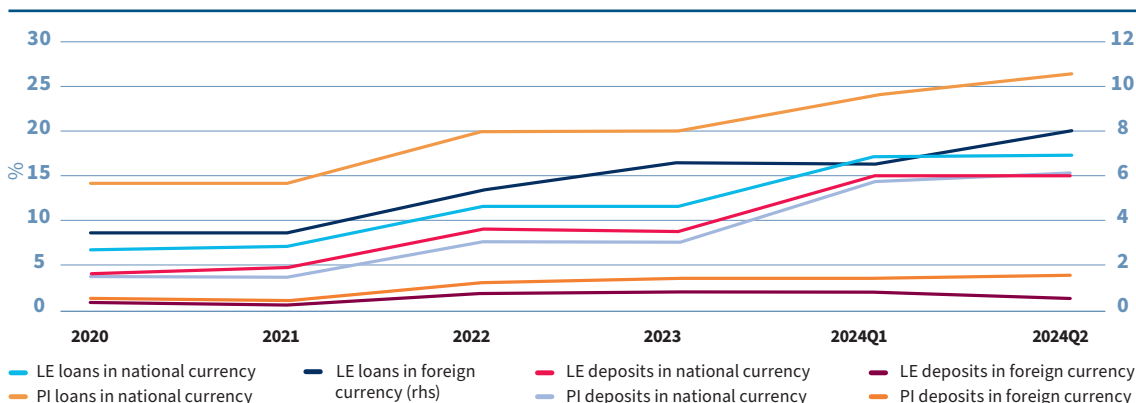


Source: Bank of Russia.

**In 2024Q2, corporate loan and deposit rates remained almost unchanged at 17.1% and 14.9%, respectively. On the other hand, interest rates on retail**

products did change: average retail deposit rates rose from 14.4% in 2024Q1 to 15.3% in 2024Q2, while loan rates went up from 23.6% to 26% (Figure 9).

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



Source: Bank of Russia.

## FISCAL SECTOR AND PUBLIC DEBT

**Stable growth of budget revenues and strict execution of budget expenditures ensured sustainability of the fiscal position and compliance with the deficit target.** In 2024Q2, federal budget revenues amounted to RUB 8.4 trillion. In 2024H1, total revenues reached RUB 17.1 trillion, a 38% year-on-year increase. Oil and gas revenues increased by 68% y/y, non-oil and gas revenues by 27% y/y. In 2024Q2, federal budget expenditures decreased to RUB 8.6 trillion from RUB

9.0 trillion in 2024Q1 (Figure 10). Total 2024H1 expenditures amounted to RUB 17.7 trillion (a 20% increase year-on-year) and accounted for 48% of total expenditures planned for 2024. In July, the Russian parliament approved a series of amendments to increase the planned 2024 budget expenditures from RUB 36.7 trillion to RUB 37.2 trillion, and increase the budget deficit from RUB 1.6 trillion (0.9% of GDP) to RUB 2.1 trillion (1.1% of GDP). However, those amendments do not qualify as a loosening of the budget policy, because

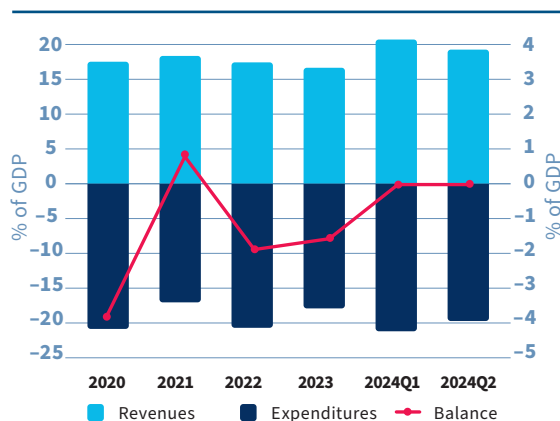
**AVERAGE DEPOSIT RATE IN 2024Q2** **15.3%**

additional revenues are financed by higher non-oil and gas revenues, while the budget deficit increase is related to a reduction of foreign currency purchases for inclusion in the NWF.

**According to our estimates, in 2024Q2 Russia's public debt decreased to 14.2% of GDP vs 14.6% of GDP at the end of 2024Q1.** Domestic debt continued to decrease, going down from 11.9% of GDP at the end of 2024Q1 to 11.6% of GDP at the end of 2024Q2. Foreign debt remained virtually unchanged at 2.6% of GDP (Figure 11).

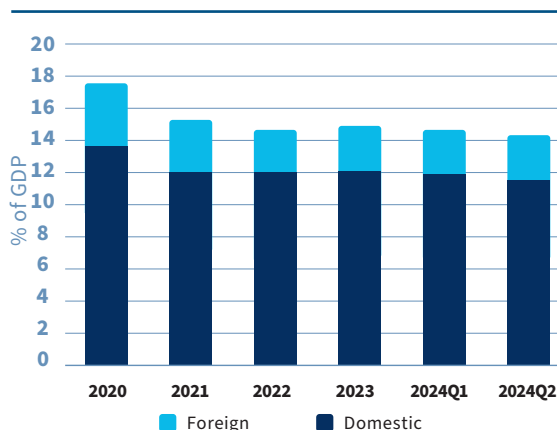
**As of 1 July 2024, the National Wealth Fund (NWF) amounted to RUB 12.6 trillion, or 7% of the projected 2024 GDP, having increased by 5% since the beginning of the year.** The liquid part of the NWF decreased by 8% since the beginning of the year to about RUB 5.6 trillion, or 2.6% of GDP. In 2024H1, income from investing NWF funds in financial assets (excluding the account in the Bank of Russia) amounted to RUB 38.5 billion, which is almost eight times less than in 2023H1.

**Figure 10. State Budget**



Source: Ministry of Finance of the Russian Federation.

**Figure 11. Public Debt**



Source: calculations based on data from Ministry of Finance of the Russian Federation.

## EXTERNAL SECTOR

In 2024Q2, the current account surplus amounted to USD 18 billion, which is USD 10 billion more than in 2023Q2 (USD 8 billion). An 8% y/y contraction of imports was the main contributor to surplus increase. According to the FCS of Russia, that contraction affected goods imported from all regions of the world, primarily from Europe (whose share in total imports declined from 29% to 26%) and America (from 6% to 5%), while the share of imports from Asia rose from 64% to 67%.

The value of Russian exports increased by 1% y/y (2024Q1: -4%) due to higher oil prices, although the physical volume of exports declined because of foreign trade restrictions. Exports were supported by redirecting shipments that previously were sent to Europe to other regions, in particular, to Asia whose share in total Russian exports increased from 68% to 76%.

**BUDGET EXPENDITURE GROWTH IN 2024Q2**

**20% Y/Y**

# BROAD MONEY SUPPLY INCREASE IN JUNE **15.8% Y/Y**

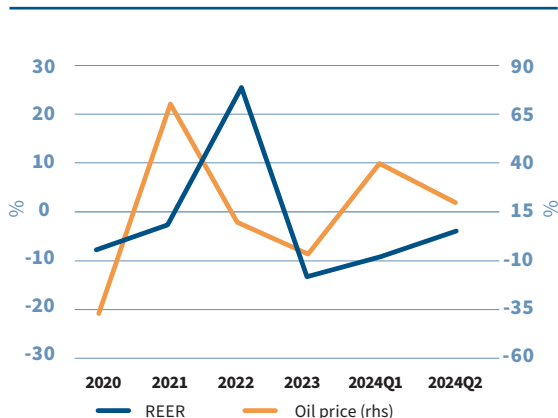
while the share of Europe decreased from 24% to 15%. The current account surplus was also supported by a reduction of the primary revenue deficit resulting from a decrease in dividend payments to non-residents (Figure 13).

In 2024Q2, the outflow from the financial account increased year-on-year and amounted to USD 17 billion (2023Q2: USD 6 billion). The bulk of the increase in the financial account balance was attributable to the growth of foreign assets by USD 17 billion, which is more than in 2023Q2 (USD 11 billion), but less than in 2024Q1 (USD 24 billion). The 2024Q2 increase in assets was related mostly to the growth of amounts owed by non-residents for completed export supplies. At the same time, external obligations remained

virtually unchanged, having increased by merely USD 1 billion, which is partially attributable to the deferral of dividend payments to non-residents from “unfriendly” jurisdictions.

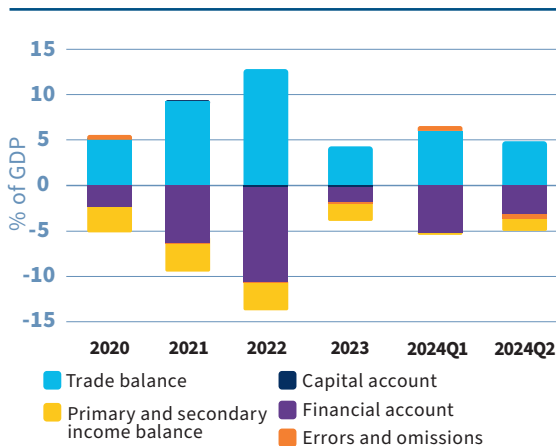
In 2024Q2, the average rouble exchange rate remained stable at RUB 90.50 for USD 1.00, a minimal change from 2024Q1 (RUB 90.80 for USD 1.00). In our opinion, it can be attributed to the persistently high foreign trade surplus, high interest rates, and mandatory sale of foreign currency revenues by exporters. It should also be noted that the insignificant short-term fluctuations of the exchange rate in 2024Q2, including the difference between cross rates and global indicators, were caused by the operation of non-economic factors, in particular, by the new MOEX service terms<sup>1</sup>.

**Figure 12. Changes in Price Terms of Trade (y/y, eop)**



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

**Figure 13. Balance of Payments**



Source: Bank of Russia.

<sup>1</sup> As of 12 June 2024, following the imposition of sanctions on MOEX, dollar and euro trading on MOEX was suspended, and the CBR started to set currency exchange rates on the basis of OTC data.

# MEDIUM-TERM FORECAST

	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast	2027 Forecast
Economic growth in Russia, %	3.6	3.7	1.4	1.7	1.9
Inflation rate in Russia, Dec/Dec, %	7.4	7.2	5.0	4.1	4.0
Inflation rate in Russia, average, % y/y	5.9	7.7	5.9	4.3	4.0
USD/RUB exchange rate (average)	85.2	90.8	93.7	94.4	95.5
Key rate in Russia (average), %	9.9	17.3	15.0	11.0	8.5

**We project that Russia’s real GDP will grow by 3.7% in 2024.** Our original forecast was revised upwards following the publication of 2024Q2 statistics that proved to be more positive than we expected, despite some signs of an economic slowdown. The Russian economy remains overheated, and we expect growth to start decelerating in 2024Q3. The main growth constraints include labour shortage and overutilisation of production facilities. Besides, we anticipate that the Bank of Russia’s tight monetary policy will likely dampen investment and consumer activity.

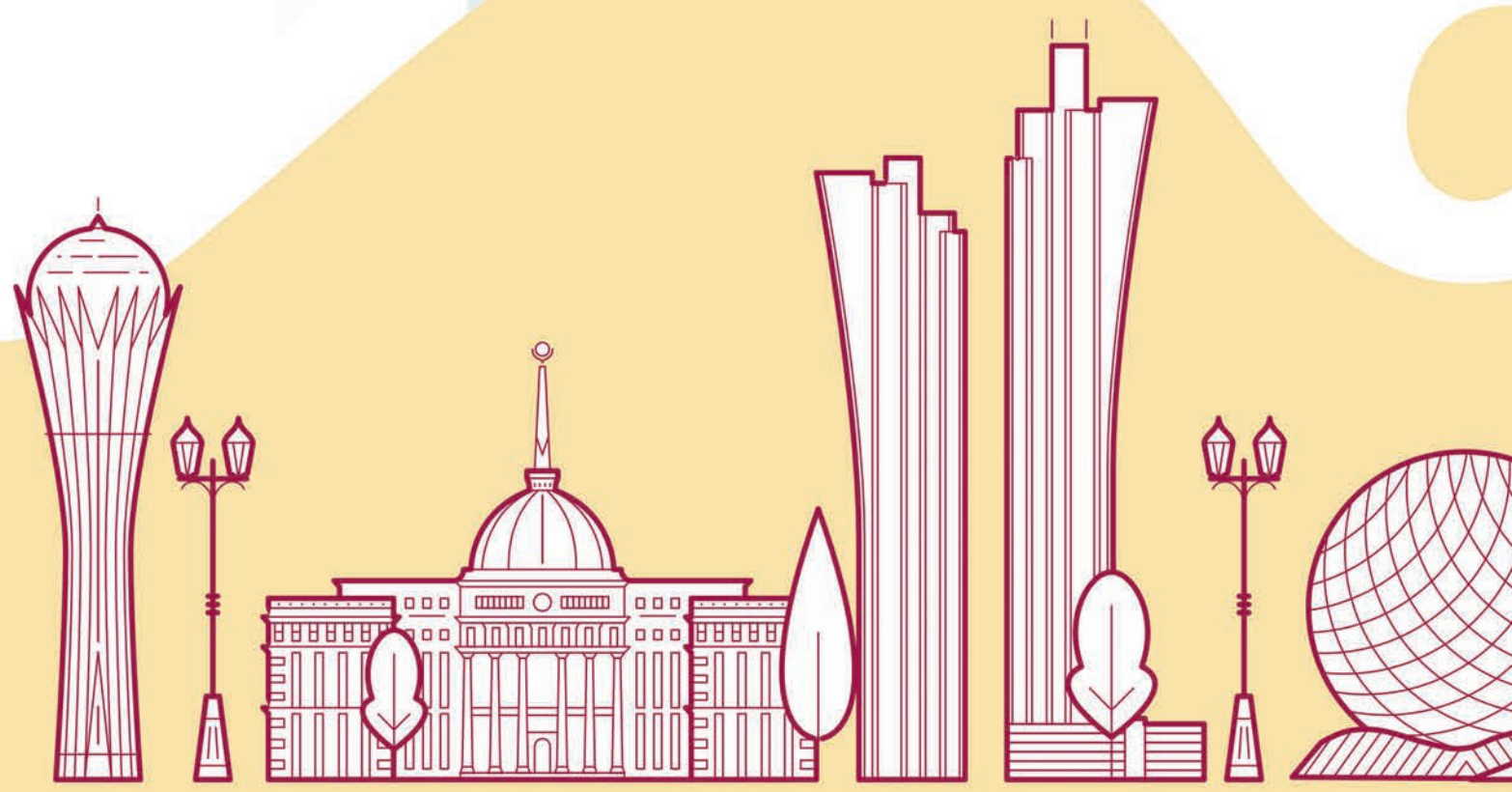
We project that the slowdown will primarily affect sectors most dependent on investment and of labour availability. The construction sector will face pressure due to the declining investment activity, rising lending costs, and reduced demand for residential housing following the contraction of subsidised mortgage lending programmes. Manufacturing industries, including machinery and equipment, textile, food, and electrical equipment, may face resources shortages, exacerbated by dependence on imported parts and components. Wholesale and retail trade will also decelerate, as rising lending costs and persistently high inflation reduce real personal incomes. The mining industry will be constrained by foreign trade barriers limiting further expansion of production.

Economic deceleration will continue in 2025H1, but quarterly GDP dynamics should show signs of recovery in the second half of the year. Taking into consideration the 2024 high base, we project the annual growth rate of approximately 1.4% in 2025. After this cooling-down period, the economy will return to a balanced growth path, with growth rates of 1.7% and 1.9% in 2026–2027, respectively.

Inflation is expected to decrease to 7.2% by the end of 2024. Wage growth and stable domestic demand will continue to generate price pressures, irrespective of the anticipated slowdown of GDP growth associated with supply-side constraints. In response, the Bank of Russia maintains a hawkish stance, with a possible key rate adjustment to 20% at the next Board of Directors meeting.

As inflation eases and the economy cools, the Bank of Russia is expected to cut the key rate in 2025, reaching the neutral level of 8.5% by the end of 2026. We expect the inflation target to be achieved by the end of 2026.

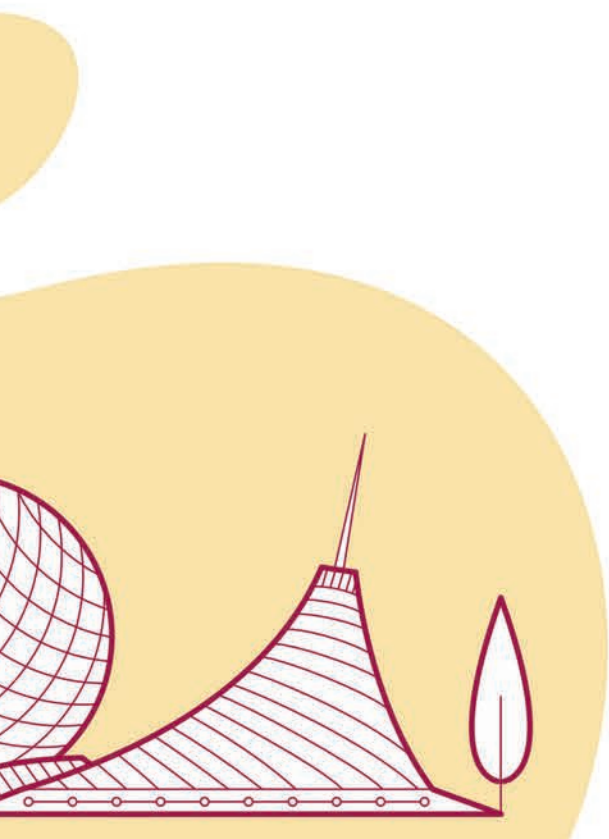
By the end of 2024, the RUB/USD exchange rate will stabilise at about RUB 92.00 for USD 1.00. In 2025–2027, we expect a gradual weakening to RUB 94.00–96.00 for USD 1.00, which will enhance the competitiveness of Russian producers in global markets, and help maintain a balanced budget.



By the end of 2024H1, economic activity in Kazakhstan slowed down significantly, with GDP growth rate down to 3.3% from 3.8% in 2024Q1. Domestic consumer demand remained the primary growth driver, supported by expanding consumer lending and persistent increase in real wages, while the unemployment rate fell to a record low of 4.7%. Investment activity, however, decreased by 3.5%. Fiscal policy continued to stimulate domestic demand, with the budget deficit and non-oil deficit at 1.9% and 8.3% of GDP, respectively. Annualised inflation dropped from 9.1% in March to 8.4% in June 2024, but subsequently accelerated to 8.6% in July. Inflationary pressure stemmed from expansionary fiscal policy, a weakening tenge, and rising inflation in Russia. The current account deficit narrowed to USD 0.7 billion, due

to a higher foreign trade surplus and significant income from National Fund assets. Reserves continued to grow, reaching USD 61.5 billion. However, the tenge exchange rate weakened due to the dwindling foreign currency supply in the domestic FX market.

Due to the weak economic growth in 2024H1, we revised our 2024 economic growth forecast downward to 3.8%. Nevertheless, we expect a recovery of economic activity in 2024H2. In 2025–2027, the GDP growth rates are projected at about 5%. In 2024H2, inflation is anticipated to continue decreasing, and by the end of the year is expected to be as low as 8.0%, with the 5% target likely to be achieved only by 2027. Following a pause in Q2, the NBRK is expected to return to the normalisation of the monetary environment.



## REAL SECTOR AND LABOUR MARKET

In 2024H1, economic growth in Kazakhstan slowed down to 3.3% y/y compared to 3.8% in 2024Q1 and 5.3% in 2023H1. According to our estimates, in 2024Q2, the GDP growth declined to 2.7% y/y<sup>1</sup>, which testifies to a significant economic slowdown.

**On the demand side, we believe that, like in 2024Q1, economic growth was fuelled by consumer demand and net exports, while gross accumulation made a negative contribution (Figure 1).**

In 2024H1, the increase in the volume of retail trade accelerated to 5.6% from 4.9% at the end of Q1. In 2024H1, the volume of trade in food products increased faster than the volume of trade in non-food goods (9.6% vs 4.0%), but it was attributable to the base effect in 2023H1, when trade in food products was down by 6.4%, while trade in non-food goods was up by 16.8%. In 2024H1, the fall of investments accelerated to (-3.5%) (2024Q1: -0.8%). The structure of investment activity shows that the negative dynamics are exclusively attributable to a drop of other investments<sup>2</sup> by 62.2%, while the cost of construction and assembly works and the cost of acquisition of machines, equipment and vehicles went up by 2.7% and 7.7%, respectively. Total

# GDP GROWTH SLOWED DOWN TO 3.3%

investments for the first seven months of the current year increased by 0.4%. We believe that in 2024H1 the contribution of net exports remained positive, with imports of goods decreasing (-7.6% in nominal terms) and exports increasing (2.1%).

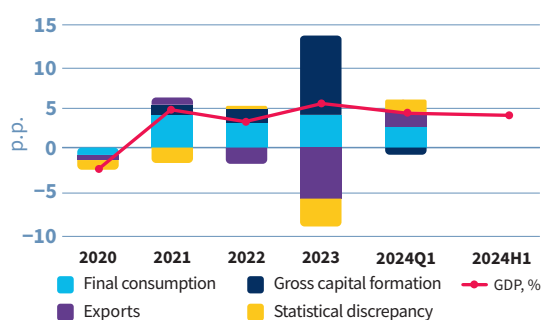
**The weak economic performance metrics are attributable to the slowdown in mining and construction, while services and agriculture demonstrated a surge of economic activity (Figure 2).**

The contribution of the mining industry to the GDP plunged to 0.04 p.p. (2024Q1: 0.2 p.p.) due to oil production cuts in 2024Q2 (following a surplus in 2024Q1) in line with Kazakhstan's obligations under the OPEC+ deal. The contribution of the construction sector also declined from 0.6% in 2024Q1 to 0.4% by the end of 2024H1. The contribution of net tax revenues went down from 0.3 p.p. to 0.1 p.p., which also affected fiscal system metrics, resulting in revenue shortfalls. The contribution of the services sector relative to 2024Q1 increased from 1.6 p.p. to 1.8 p.p., that of agriculture — from 0 p.p. to 0.1 p.p.

<sup>1</sup> BNS ASPR RK revised the quarterly breakdown of the 2023 real GDP; as a result, growth shifted towards Q3 and Q4. At the time of writing the 2024 review, only the GDP growth rate data had been published, while the real GDP data remained unchanged. Accordingly, our calculations are based on our expert estimates of quarterly dynamics of the 2024 GDP, taking into account the adjusted official data on the rate of growth of the nominal GDP.

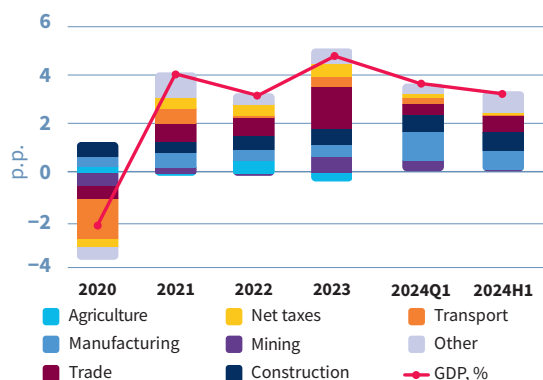
<sup>2</sup> Other costs — design and survey costs, construction design supervision costs, work-in-progress construction management costs, cultivated biological resources maintenance costs, and costs related to facilities created or acquired by entities where such facilities have been used in business operations for more than one year, have monetary value, are alienable, and generate income, but are not classified as tangible assets.

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



Source: calculations based on BNS ASPR RK data.

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



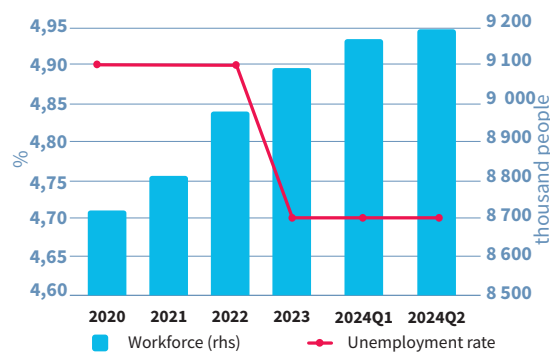
Source: calculations based on BNS ASPR RK data.

**Supply in the labour market continued to expand, but the unemployment rate remained low.** In 2024Q2, total workforce increased by 0.8% year-on-year (2023Q2: 1.6%). The rate of unemployment measured in accordance with the ILO methodology remained at a historically low level of 4.7% for the fifth month running (Figure 3).

**The growth of wages and salaries slowed down due to the deceleration of economic growth and completion of the public sector pay rise period.** In 2024Q2, real salaries rose by 1.7% y/y, a slowdown compared to 2.7% in 2024Q1 (Figure 4). The growth of real income, in turn, also decelerated from 4.7% y/y in 2024Q1 to 4.2% in 2024H1<sup>3</sup>.

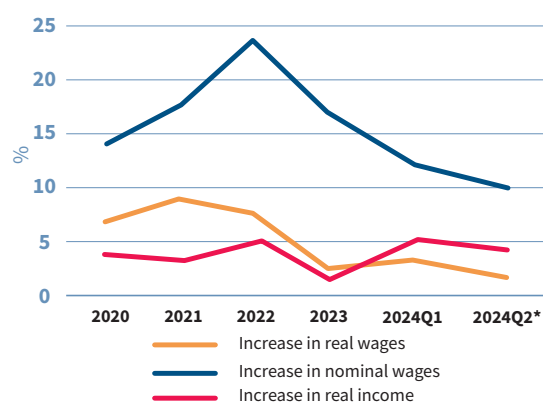
<sup>3</sup> Adjusted data.

**Figure 3. Labour Market Indicators**



Source: BNS ASPR RK.

**Figure 4. Household Income**



Note: \*real income for January–June 2024.

Source: BNS ASPR RK.

## INFLATION AND MONETARY TRENDS

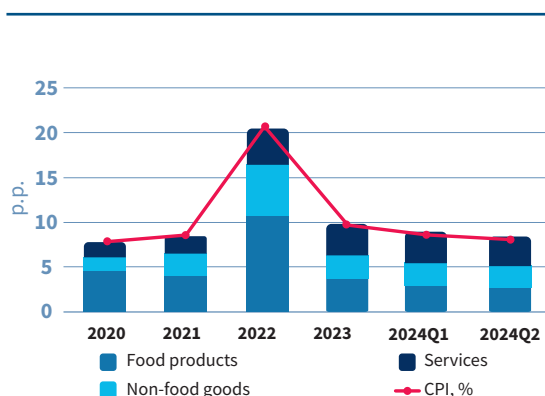
**In 2024Q3, the decline in inflation came to a halt due to the adverse impact of certain internal and external factors (Figure 5).** The annualised inflation rate decreased from 9.1% in March to 8.4% in June, but in July–August the downward trend stopped. Notably, the contribution of prices of food and non-food goods remained unchanged, while the contribution of prices of paid services increased. In addition to the effect of utility reforms<sup>4</sup>, the growth of

<sup>4</sup> The reforms envisage an extensive modernisation of power, heat, water, and sanitation networks, which requires imposition of higher tariffs for regulated housing and utility services (for details, see EFSD Regional Economic Outlook 2024 No. 1(1). Moscow: Eurasian Fund for Stabilization and Development).

service prices in summer was attributable to house rents, communication services, and comprehensive recreation services. According to NBRK estimates, in May–June seasonally adjusted three-month rolling averages dropped to 0.4%, with a subsequent acceleration in July and August to 0.9% and 0.8%, respectively. Inflationary pressure was generated by the expansionary fiscal policy, weakening of the tenge, and acceleration of inflation in Russia.

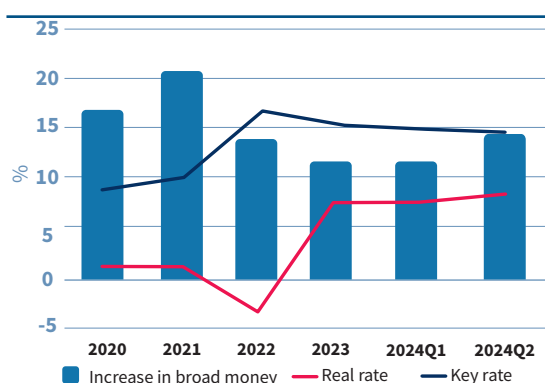
**Household inflation expectations declined from 14.2% in March to 13.3% in June, and then to 13.1% in August.** Perceived inflation also decreased from 14.6% in March to 13.4% in June and August.

**Figure 5. Decomposition of Inflation (y/y, eop)**



Source: BNS ASPR RK.

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



Source: BNS ASPR RK.

Available at: <https://efsd.org/research/regional-economic-outlook/vesna-24-regionalnyy-ekonomicheskij-obzor/>.

**The monetary policy normalisation cycle is currently on hold.** Inflation and inflation expectation dynamics enabled the NBRK to cut the base rate in June from 14.50% to 14.25% (total cut since the beginning of the year: 1.50 p.p.). However, in August, despite the continuous decline of inflation expectations, the base rate was left unchanged due to the acceleration of inflation and the strengthening of inflation drivers. In addition, according to NBRK estimates, the monetary environment relaxed with the weakening of the tenge. The NBRK continued to sterilise increasingly large amounts of tenge liquidity from the economy: its open position balance increased from KZT (-5.2) trillion at the end of April to KZT (-5.7) trillion at the end of June, and KZT (-6.3) trillion at the end of July, ultimately reaching 15.7% of broad money. Corporate loan interest rates kept growing throughout 2024Q2 (from 17.8% in March to 18.0% in June) to decline to 17.7% in June, while retail loan interest rates increased from 20% in March to 20.3% in July. Conversely, deposit interest rates decreased throughout 2024Q2: from 13.6% in March to 13.2% in July for corporate deposits, and from 13.8% to 13.5% for retail deposits (Figure 9).

**In July 2024, the growth of broad money accelerated to 18.3% y/y vs 12.4% y/y in March (Figure 6).** According to NBRK estimates, the credit and fiscal channels were the largest contributors, with their July contributions at 17.8 p.p. and 5.9 p.p., respectively. There was a non-recurrent contribution in July when the National Fund acquired stock in JSC Kazatomprom, with a subsequent conversion of its assets into foreign reserves as the operation was mirrored in the foreign exchange market<sup>5</sup>.

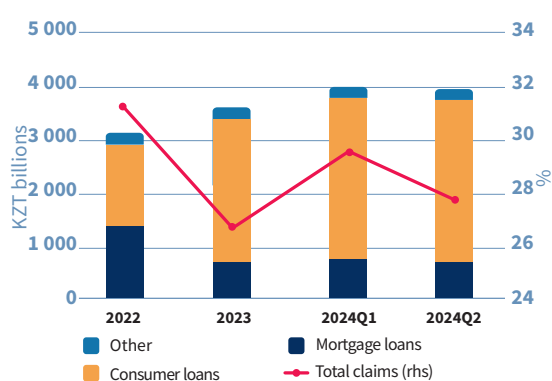
**Lending to the economy continued to grow at a high rate, supporting economic**

<sup>5</sup> Website of the National Bank of the Republic of Kazakhstan. Monetary Policy Paper. August 2024. Available at: <https://www.nationalbank.kz/ru/page/obzor-inflyacii-dkp>.

**activity in the country.** At the end of July, the rate of growth of loans to the economy in the extended definition<sup>6</sup> was 21.5%, almost the same as at the end of April (21.4%). During the same period, the rate of growth of retail loans somewhat slowed down from 27.7% to 26.5%, but still remained rather high, while the rate of growth of corporate loans went up from 14.9% to 16.3%. The increase in banking sector loans<sup>7</sup> to private individuals slowed down both as regards mortgage loans (from 15.3% y/y in March to 15.0% y/y in July) and consumer loans (from 37.9% y/y to 33.6% y/y, respectively) (Figure 7). Despite a slight slowdown relative to 2024Q1, small business loans demonstrated the highest rate of growth: in July it was 22.7% y/y vs 23.4% y/y in March. During the same period, large business loans also increased quite significantly from 6.9% to 10.7% (Figure 8).

**The loan portfolio quality remains high, and as of 1 August 2024 the share of non-performing loans was 3.1% of total portfolio,** having not changed since the end of 2024Q1 (Figure 10). Net bank profit for the first seven months of 2024 was KZT 1.4 billion vs KZT 1.2 billion the year before.

**Figure 7. Increase in Bank Claims on Individuals (eop)**



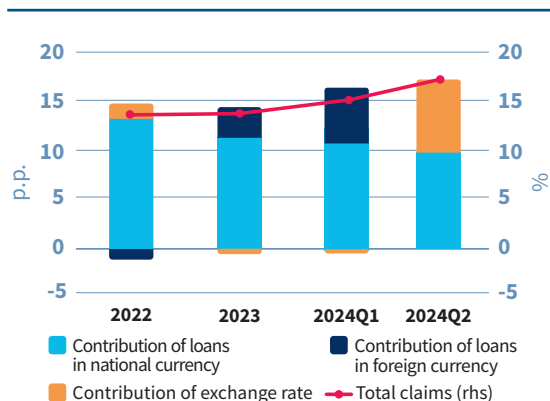
Source: NBRK.

<sup>6</sup> Including actual loan balances due to the banking sector, mortgage companies, other quasi-public sector entities, and microfinancing organisations.

<sup>7</sup> Including Level 2 banks and the Development Bank of Kazakhstan.

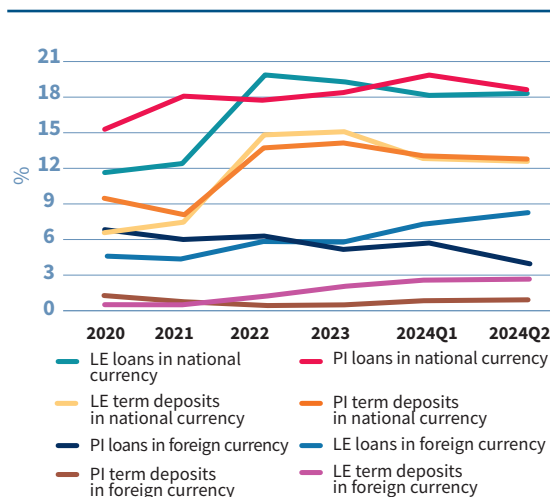
# INFLATIONARY EXPECTATIONS 13.1% (AUGUST)

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



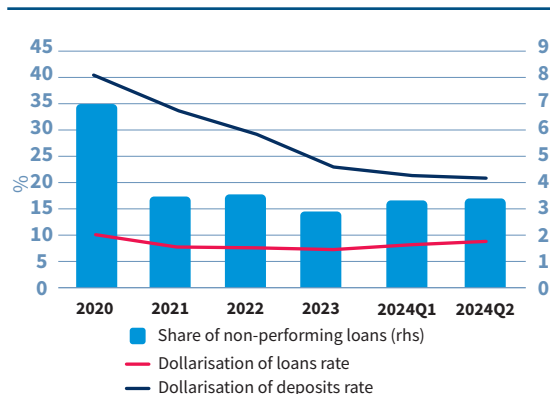
Source: NBRK.

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



Source: NBRK.

**Figure 10. Banking Sector Indicators**



Source: NBRK.

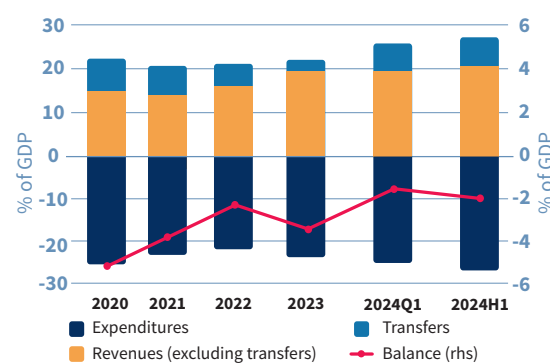
## FISCAL SECTOR AND PUBLIC DEBT

**In 2024H1, the fiscal position generally improved as state budget deficit declined; however, we observe a number of alarming trends, including an increase in debt service costs.** By the end of 2024H1, the rate of growth of state budget revenues accelerated to 8.5% y/y from 7.6% y/y in 2024Q1. The share of revenues in the GDP declined year-on-year from 24.1% to 23.8% (Figure 11). The value of tax revenues continued to decrease, although at a slower rate which at the end of 2024H1 stood at (-0.8%) y/y vs (-2.5%) y/y in 2024Q1. Collection of tax revenues fell even further behind schedule, and amounted to 90.2% of the plan (2024Q1: 94%). The weakest tax revenue collection metrics were reported for the corporate income tax (86.9%) and VAT (71.8%). As a consequence, transfers from the National Fund increased to KZT 2.75 trillion (5.3% of GDP), or 22.3% of total budget revenues. Conversely, the rate of growth of budget expenditures decreased from 7.6% in 2024Q1 to 6.5% at the end of 2024H1. The share of budget expenditures in the GDP stood at 25.3%. Like in 2024Q1, almost half of the total nominal increase in expenditures was attributable to an increase in social assistance and social expenses following a substantial hike of all types of public benefits and of the base pension. Public debt service costs also increased (+31.2%), and their share in total budget expenditures reached 10.7%. Net budget loans and the balance of operations with financial assets decreased. As a result, at the end of 2024H1 budget deficit stood at 1.9% of GDP vs 3.5% of GDP the year before, while non-oil deficit went down from 9.6% to 8.3% of GDP (Figure 11).

as the tenge weakened against the dollar, and domestic debt increased from 15.6% to 16.2% of GDP following the placement of long-term treasury bonds. The debt owed by local executive bodies remained unchanged at 1.5% of GDP, while the NBRK continued to reduce its debt which decreased from 0.4% to 0.3% of GDP.

**In 2024Q2, foreign currency assets of the National Fund increased by 1.2% to USD 61.5 billion.** In 2024Q2, transfers to the National Fund increased by 15% y/y, although their value declined on a cumulative basis by 6.6% since the beginning of the year. The increase was supported by revenues from the sale of agricultural lands, while 2024Q2 oil sector tax revenues decreased by 17.7% y/y (2024H1: (-10.6%) y/y). The utilisation of the National Fund in 2024Q2 increased by 9.1% y/y (2024H1: 26.5% y/y) due to the need to support the state budget.

**Figure 11. State Budget**

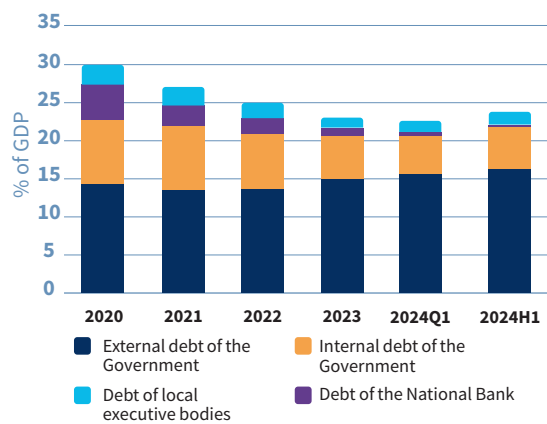


Source: Ministry of Finance of the Republic of Kazakhstan.

**BUDGET DEFICIT 1.9% OF GDP**

**According to our estimates, in 2024H1 public debt increased from 22.3% to 23.1% of GDP of GDP in 2024Q1 (Figure 12).** The government's foreign debt increased from 5.6% to 5.7% of GDP

Figure 12. Public Debt



Source: Ministry of Finance of the Republic of Kazakhstan.

## EXTERNAL SECTOR

**In 2024Q2, the balance of payments was positive at USD 0.2 billion, with the current account deficit narrowing, and the financial account in a net borrowing position.** According to preliminary data, in 2024Q2, the current account deficit decreased from USD 3.4 billion to USD 0.7 billion which, according to our estimates, equivalent to 1.2% of GDP (Figure 13). The trade surplus in goods went up from USD 4.4 billion to USD 5.5 billion, as product exports increased (4.2%) and product imports decreased (-1,8%). High global commodity prices fueled export growth, particularly in oil (January–July 2024: +USD 1.2 billion year-on-year), inorganic chemicals (+USD 0.7 billion), and copper (+USD 0.5 billion). Exports of iron ore and ore concentrates also increased (+USD 0.1 billion) despite the fall of ferrous metal prices. The reduction in imports was largely due to fewer motor vehicles imported for re-export to Russia (January–July 2024: USD 0.3 billion year-on-year). In 2024Q2, the balance of trade in services remained unchanged from 2024Q1 at USD (-0.6) billion. The negative primary income balance decreased from USD 6.8 billion to USD 5.4 billion, including due to the increase in the income on National Fund reserves and assets from USD 0.5 billion

## GROSS INTERNATIONAL RESERVES (END OF 2024Q2)

# \$40 BLN

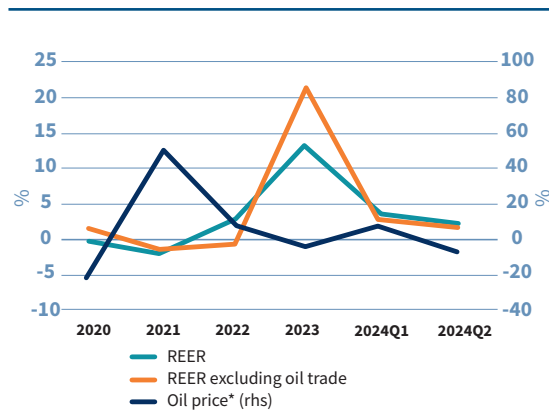
to USD 1 billion. The secondary income deficit went down from USD 0.3 billion to USD 0.2 billion.

**In the financial account, net borrowings totalled USD 0.6 billion (Figure 14).** The inflow of funds into the economy was supported by other short-term capital flows (USD 2.4 billion) and medium- and long-term investments (USD 0.3 billion). Outflows were driven by operations related to direct investments (USD 0.2 billion) and portfolio investments (USD 2.0 billion). At a sectoral level, the banking sector saw an inflow of USD 2.0 billion, while operations by the Government and the National Bank resulted in an outflow of USD 1.0 billion, with other sectors contributing a USD 0.4 billion outflow.

**Gross international reserves increased by USD 2.1 billion in 2024Q2, reaching USD 40.0 billion, or 6.8 months of imports (Figure 15).** Freely convertible currencies and gold in the reserves increased by USD 1.8 billion and USD 0.3 billion, respectively.

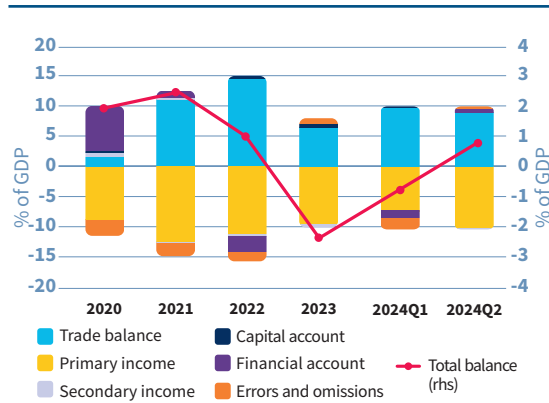
**By the end of 2024Q2, the tenge began to weaken after a long period of appreciation.** From a peak of KZT 442.20 per USD 1.00 in May, the average monthly exchange rate depreciated to KZT 474.90 per USD 1.00 in July. Between May and July, the real effective exchange rate decreased by 4.0% (by 8.1% excluding oil trade) (Figure 13). At the same time, the exchange rate remained rather volatile, including due to irregularity of transfers from the National Fund.

**Figure 13. Changes in Price Terms of Trade**



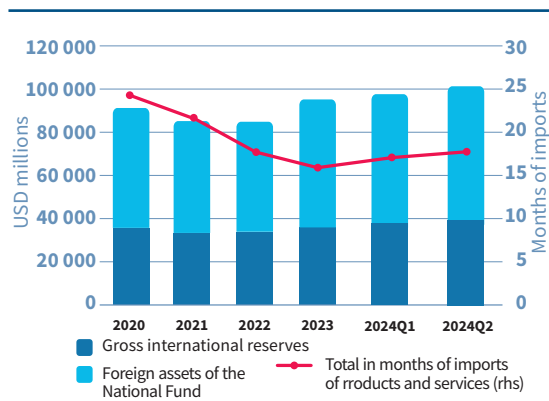
Note: oil price rate (eop).  
Source: NBRK, World Bank.

**Figure 14. Balance of Payments**



Source: NBRK, authors' calculations.

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



Source: NBRK.

# GDP GROWTH IN 2025 5.0%

## MEDIUM-TERM FORECAST

Due to weaker-than-expected economic activity in 2024H1, we revised our 2024 economic growth forecast downward to 3.8%. However, we still expect a recovery in 2024H2 driven by expansionary fiscal policy. Domestic consumer demand remains the main growth driver, and will continue to rise, supported by expanding consumer lending and increasing wages<sup>8</sup>. The need to offset an insufficient oil production cuts in 2024H1 under the OPEC+ agreement will become a significant growth constraint until the end of 2024. The growth of industrial production and exports will, however, be supported by other commodity products. Investment activity is expected to return to positive territory as more capital flows into a range of sectors, and the impact of the oil sector slump gradually wanes. In addition, construction will continue contribute positively to gross accumulation, particularly with restoration efforts following floods damage earlier in the year.

**In 2025–2027, we project economic growth to accelerate, with GDP growth rates of around 5%. The commissioning of new oil production facilities and the relaxation of OPEC+ limits will boost oil**

<sup>8</sup> In July, the Consumer Confidence Index calculated in Kazakhstan within the framework of a Freedom Finance Global survey increased for the fourth month running.

	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast	2027 Forecast
Economic growth in Kazakhstan, %	5.1	3.8	5.0	4.7	4.8
Inflation rate in Kazakhstan (Dec/Dec), %	9.8	8.0	6.9	5.4	5.0
Inflation rate in Kazakhstan (average), % y/y	14.9	8.7	7.3	5.9	5.1
USD/KZT exchange rate (average)	456.2	465.1	486.6	497.7	511.6
Base rate in Kazakhstan (average), %	16.4	14.1	11.5	8.8	7.6

exports in 2025. Fiscal incentives will continue to support domestic demand, though their effect will gradually diminish as fiscal rules compliance becomes more stringent, and non-oil budget deficit narrows. Growth in lending and real household incomes sustain consumer demand. Considering the government's ambitious plans<sup>9</sup>, investment activity will remain robust.

**In 2024H2, inflation will continue to decrease, though at a slower rate due to the weakening of the tenge and imported inflation from Russia.** By the end of 2024, we expect the rate of inflation drop to 8.0%. However, further reductions to the 5% target will be constrained by high consumer demand combined with the

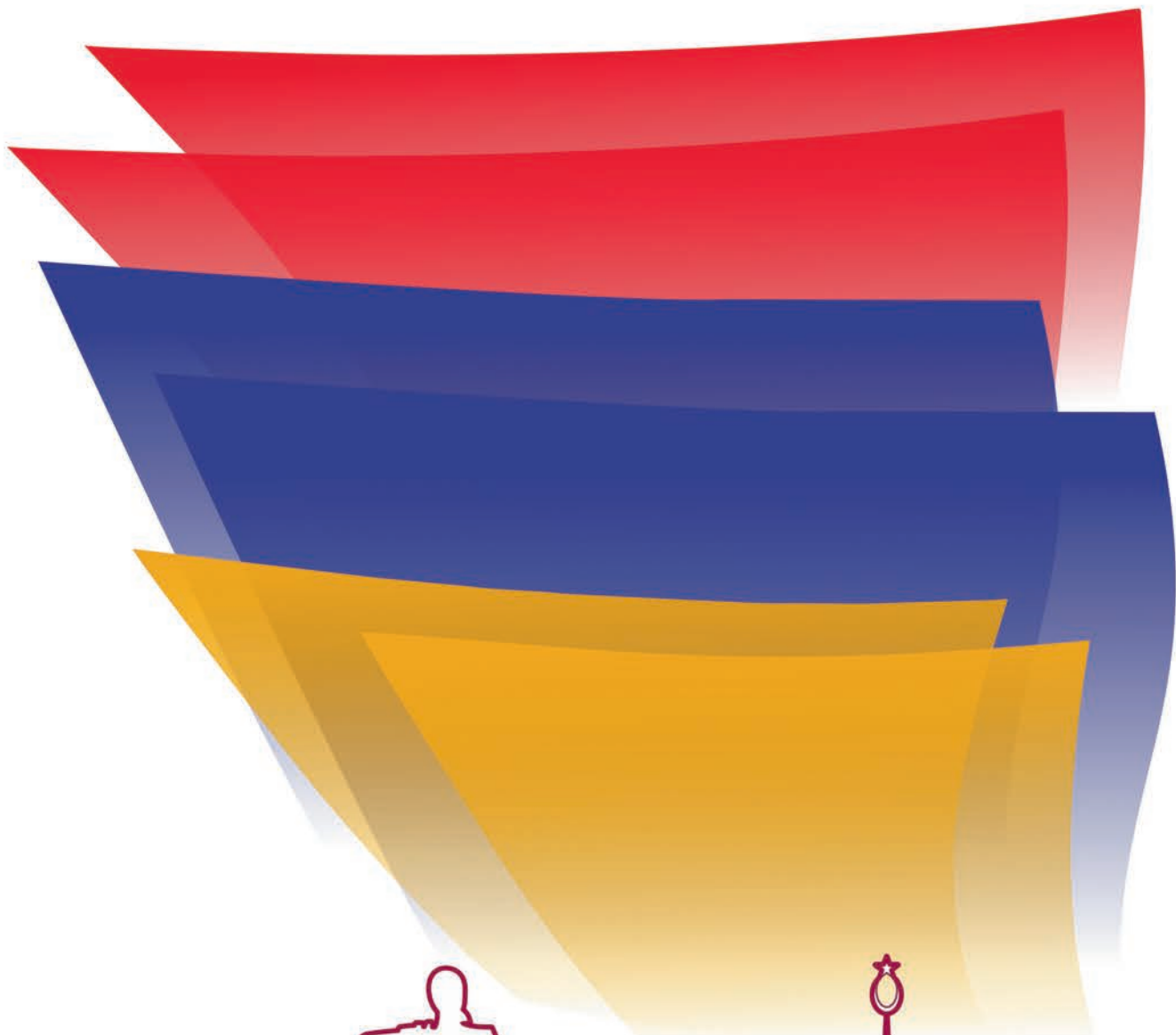
expansionary fiscal policy and persistently elevated inflation expectations. Inflation is projected to reach 5% only by 2027.

**Following a pause in 2024Q3, the NBRK is expected to resume gradual interest rate cuts.** Nevertheless, taking into consideration the high inflationary pressure in Russia and the tight monetary policy of the Bank of Russia, we expect that the NBRK will proceed cautiously with loosening its monetary policy. According to our estimates, monetary conditions will enter the neutral zone in 2027.

**The average annual exchange rate for 2024 will be about KZT 465.00 for USD 1.00.** However, it will be gradually weakening throughout the forecast period, approaching its equilibrium value. The reduction in sales foreign currency sales from the National Fund as part of the expected fiscal policy normalisation will also contribute to the exchange rate's weakening.

<sup>9</sup> Website of the Ministry of National Economy of the Republic of Kazakhstan. Forecast of the Social and Economic Development of the Republic of Kazakhstan for 2025–2029. Available at: <https://www.gov.kz/memleket/entities/economy/documents/details/670517?lang=ru>.





In 2024H1, the economy of the Republic of Armenia experienced a significant slowdown as a result of the weakening of the positive impact of situational market factors and reduction of public consumption. Despite the exit from the deflation zone, inflation stayed below the lower boundary of the target range in an economic environment characterised by external deflationary pressure and reduced inflation expectations. In these conditions, the CB RA continued to cut the refinancing rate. The fiscal policy was also somewhat loosened compared to the previous year,

while tax revenues continued to decrease. The current account balance had a deficit produced by increasing imports of products and services.

Under the baseline scenario, in 2024–2026 economic growth rates will be close to their potential values. It is expected that the monetary policy will be directed at bringing inflation back to the target range. The budget deficit will increase due to a significant growth of budget expenditures, which will require attracting new sources of funding.



## REAL SECTOR AND LABOUR MARKET

**In 2024H1, the economic growth in the Republic of Armenia decelerated quite significantly as a result of reduction of public consumption and weakening of the positive impact of situational factors<sup>1</sup>.**

In 2024H1, the real GDP increased by 6.5% year-on-year compared to 10.5% the year before (Figure 1). According to our estimates, in 2024Q2, the increase of the seasonally adjusted real GDP was about 1.4% q/q, which is 0.2 p.p. less than in 2024Q1. In 2024H1, the largest contributor to the GDP growth was investment demand (about 3.9 p.p.), driven primarily by housing construction which continued to grow with the support from the increase in mortgage loans (by 22.5%) and commercial loans in the construction sector (by 37.8%). The contribution of consumer demand contracted significantly from 7.9 p.p. in 2023H1 to 3.0 p.p. in 2024H1, primarily because of the negative contribution of public consumption (-1.8 p.p. vs +2.7 p.p. last year). The contribution of private consumption decreased from 5.2 p.p. to 4.8 p.p. The contribution of net exports to the GDP growth was (-0.4) p.p., as imports increased faster than exports and the Armenian dram continued to strengthen.

**At the sectoral level, the largest contribution to the increase in economic activity was made by trade, other services, and manufacturing (Figure 2).** Wholesale and retail trade contributed 3.0 p.p., other services —

1.6 p.p. (also due to the increase in finance and insurance (1.4 p.p.) and real estate (1.3 p.p.), while information and communications had negative contribution (-0.5 p.p.), manufacturing — 1.0 p.p., and construction — 0.8 p.p. The negative contribution of ICT and communications (following a positive contribution of 2.8 p.p. the year before) can be attributed to the high base effect in 2022–2023, a period of considerable inflow/relocation of Russian citizens and IT companies. Similarly, the contribution by transport and warehousing was negative at 0.2 p.p. following a positive contribution of 0.9 p.p. the year before, primarily due to a decrease in the value of air transport services.

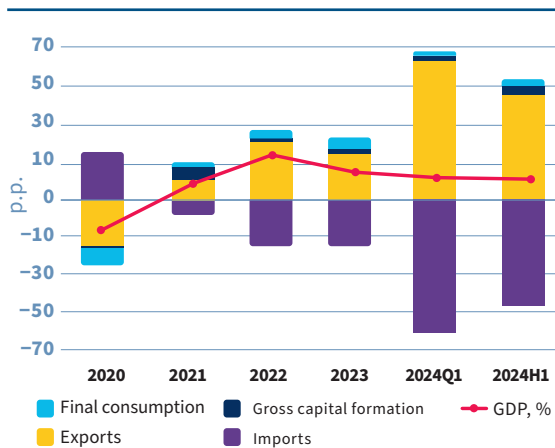
**The deceleration of economic activity is beginning to affect labour market indicators.**

According to our estimates, in 2024H1, the total workforce was down by 1.2% compared to 2023H1, and the official unemployment rate rose to 13.5% compared to 11.7% the year before (Figure 3). Besides the economic slowdown, the worsening of these indicators can be attributed to the low level of involvement in Armenia's labour market of employable internally displaced persons from Nagorno-Karabakh who are now officially included in the economically active population of the Republic of Armenia. The growth rate of annual real wages decelerated to 7.4% compared to 14.7% in 2023H1 under the influence of the general economic slowdown (Figure 4). At the sectoral level, the largest salary increases were recorded in finance and insurance, wholesale and retail trade, and real estate.

<sup>1</sup> As a result of reclassification of certain types of economic activity associated with re-export of gold (reclassification of certain types of economic activity in the manufacturing sector (codes 24 (metallurgical products) and 32 (other manufacturing products)), the Statistical Committee of the Republic of Armenia revised certain annual and quarterly GDP indicators for 2023 and 2024Q1. As a result, the GDP growth figures for 2023 were reduced from 8.7% to 8.3%, and those for 2024Q1 — from 9.2% to 6.6%. Source: Armstat. Available at: <https://www.armstat.am/file/doc/99550173.pdf>.

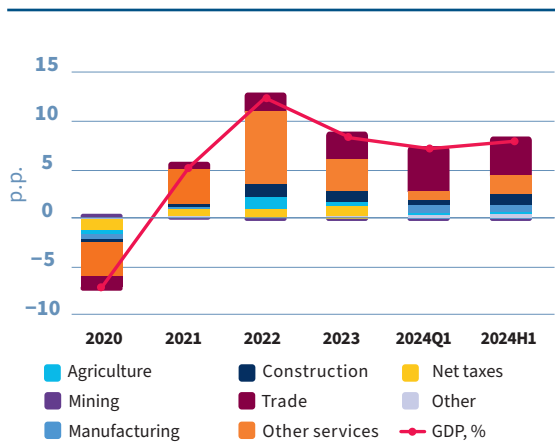
**GDP GROWTH  
SLOWED DOWN TO  
6.5%**

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



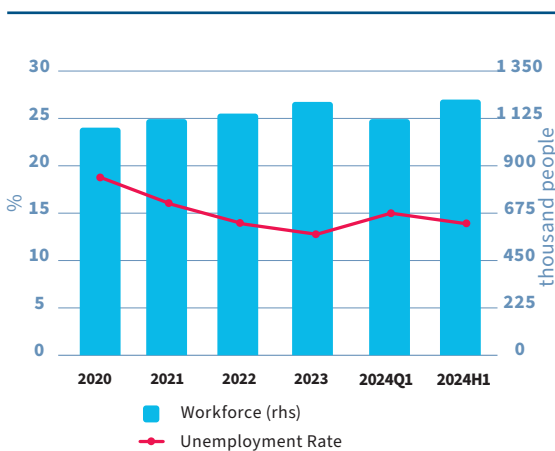
Source: Armstat.

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



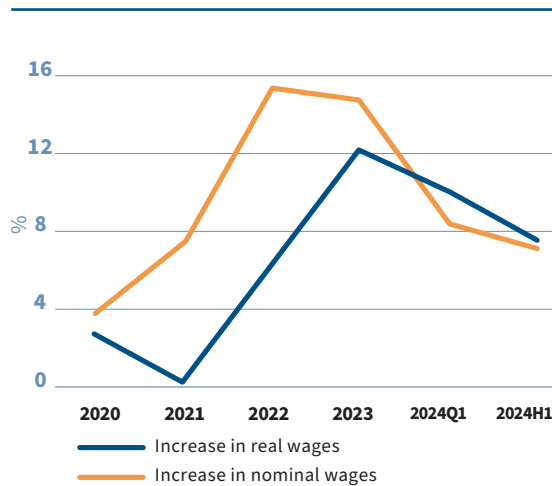
Source: Armstat.

**Figure 3. Changes in Employment and Unemployment Rates**



Source: Armstat.

**Figure 4. Household Income**



Source: CB RA, Armstat.

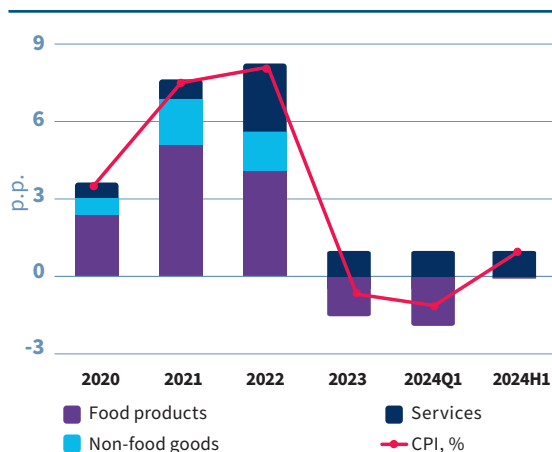
## INFLATION AND MONETARY TRENDS

**In May 2024, price dynamics moved into the positive domain, but inflation remained considerably below the CB RA target.** Prices of services remained the main inflation driver, contributing 0.9 p.p. to the Consumer Price Index change. At the end of June 2024, 12-month inflation was 0.8% vs (-0.6%) in December 2023, while annualised core inflation was 0% vs (-0.4%). There was a substantial decrease in the negative contribution of food prices (-0.1 p.p.) vs December 2023 (-1.6 p.p.) (Figure 5).

**Due to the low inflation, the CB RA gradually loosened its monetary policy, which had a moderate effect on bank rates.** In 2024Q1, the refinancing rate was cut four times, and ultimately dropped from 9.25% p.a. to 8.0% p.a.<sup>2</sup> Notably, this had limited effect on the interest rates set by banks on loans and term deposits. In particular, during the period from December 2023 to June 2024, average-weighted interest rates on both new term deposits and new loans denominated in the national currency decreased by merely 0.1 p.p. (Figure 6).

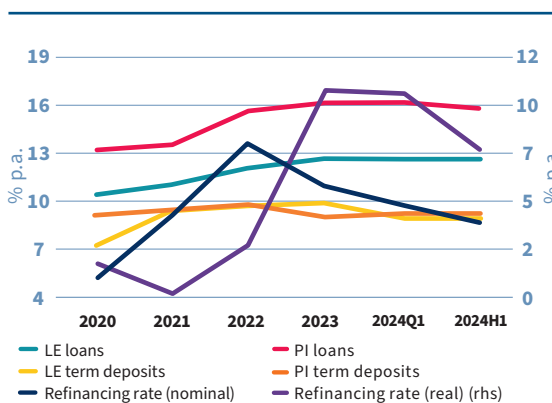
<sup>2</sup> At the meeting of the CB RA Board on 10 September 2024, it was resolved to cut the refinancing rate by another 0.25 p.p. to 7.5%.

**Figure 5. Decomposition of Inflation (y/y, eop)**



Source: Armstat.

**Figure 6. Interest Rates on New Loans and Deposits (eop)**



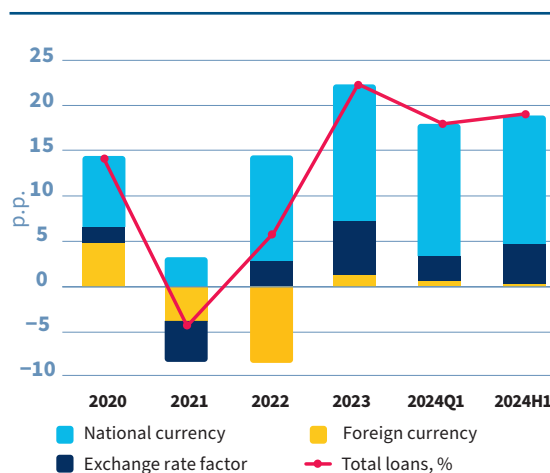
Source: CB RA, Armstat.

**Lending activity of banks remained high despite the persistently high interest rates on loans denominated in the national currency.** By the end of 2024H1, year-on-year increase of commercial bank loans somewhat slowed down to 19.4% y/y following an increase by 22.4% y/y at the end of 2023 due to a decrease in the rate of growth of corporate lending, while origination of consumer retail loans accelerated. Increased lending in the national currency accounted for most of the growth (contribution: 14.6 p.p.). Loans denominated in foreign currencies (excluding the exchange rate factor) accounted for 3.4 p.p. of the total increase. (Figure 7). The share of mortgage loans (21.5% vs 20.8% at the end of 2023) and

construction loans (10.1% vs 9.7% at the end of 2023) remained high (Figure 8), as the government had taken steps to stimulate housing construction and mortgage lending through income tax refunds<sup>3</sup>. It should be noted that the high demand for mortgage and construction loans was caused by the government's plan to suspend the programme in 2025–2027 (for Yerevan, in 2025). As the growth of consumer loans accelerated (to 25.5% vs 21.1% at the end of 2023), their share in total loans also increased.

In 2024H1, bank loans grew faster than bank deposits (19.4% y/y and 11.9% y/y, respectively), which gradually reduced excessive liquidity in the banking system. As a result, in 2024H1, the difference between the value of deposits and the value of loans decreased to AMD 330 billion from AMD 527 billion at the end of 2023.

**Figure 7. Increase in Commercial Bank Loans**



Source: CB RA.

<sup>3</sup> EFSD. Social and Economic Trends of the First Half of 2023 and Medium-Term Prospects, October 2023. Available at: <https://efsd.org/upload/iblock/9fb/t1xk6sbw0cmftfebhris6h698zxcxd26/RA.pdf> (pp. 16–18).

# INFLATION RATE

# 0.8%

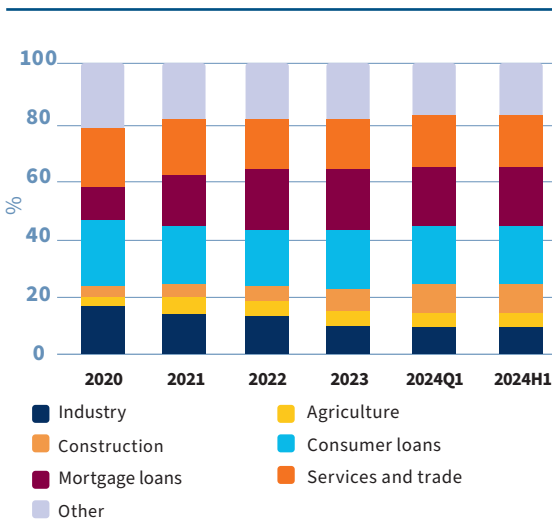
## FISCAL SECTOR AND PUBLIC DEBT

In 2024H1, the state budget was executed with a modest surplus of 0.3% of GDP, which is significantly lower than the surplus of 3.4% of GDP in 2023H1 (Figure 9).

The revenue part of the budget dropped to 29.5% of GDP<sup>4</sup> (vs 30.2% the year before), mostly due to a reduction in tax revenues by 0.5 p.p. to 28.2% of GDP, in particular, as regards the VAT (down by 1.0 p.p.), the profit tax (0.2 p.p.), and excise duties (0.2 p.p.). The fall was attributable primarily to a decrease in revenues from imported goods and, probably, an increase in the share of untaxed sectors experiencing economic growth. Revenues from other taxes rose; in particular, revenues from environmental payments and charges for the use of natural resources went up by 0.6 p.p. due to a hike of the royalty on metallic minerals by a factor of 2.8 year-on-year. It should be noted that the 2024H1 revenues fell short of the target by 9% (or by USD 300 million).

**Total budget expenditures increased from 26.7% to 29.3% of GDP as both current and capital expenditures rose.** Current expenditures increased by 1.8 p.p. to 25.6% of GDP due to higher social benefits, pensions, subsidies, wages, and interest payments, while other items went down (with the actual current expenditures falling 9.7% short of the target). Despite the increase in capital expenditures by 0.8 p.p. to 3.7% of GDP, the relevant plan performance also fell short of 26% of the target. Governance issues and problems with the implementation of capital projects were the main reasons for that underperformance.

Figure 8. Structure of Commercial Bank Loans

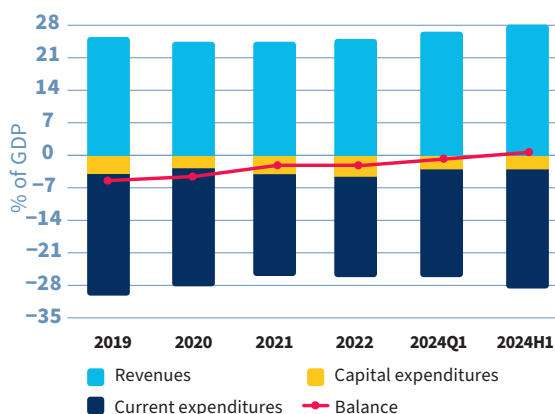


Source: CB RA.

**The key financial indicators of the banking system improved.** During the period from December 2023 to June 2024, return on total assets increased from 2.7% to 4.5%, and return on equity from 17.4 to 28.6%, as interest income rose due to more extensive lending, and the spread between average weighted loan and deposit interest rates widened. The quality of the loan portfolio improved, as the share of non-performing loans went down from 2.4% to 1.2%.

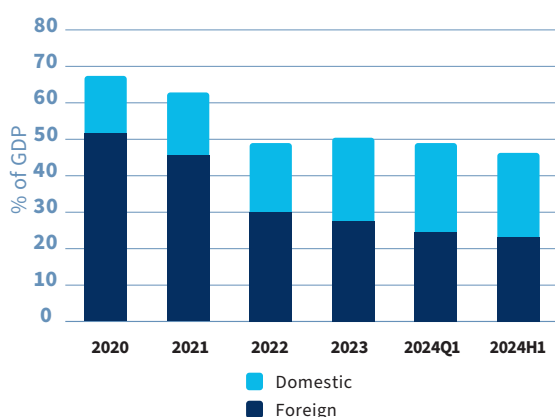
<sup>4</sup> Revenues and expenditures include income tax refunds under mortgage loans.

**Figure 9. State Budget**



Source: Ministry of Finance of the Republic of Armenia.

**Figure 10. Public Debt**



Source: authors' estimates.

**At the end of June 2024, public debt went down to 48.5% of GDP from 50.7% of GDP at the end of 2023** due to the GDP growth and the strengthening of the Armenian dram against the dollar (Figure 10). The share of external debt obligations continued to decline, going down from 54.9% to 51.4% of gross public debt, which is generally in line with the government public debt management strategy envisaging its restructuring in favour of domestic borrowing.

**IN 2025-2027, GDP GROWTH WILL DECLINE TO 5.4-5.5%**

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

**According to our estimates, in 2024H1, the current account deficit increased to (-8.5%) of GDP from (-5.3%) of GDP the year before, mostly because of a deterioration of the balance of trade in services.**

The balance of trade in goods remained virtually unchanged, and stood at (-13.4%) of GDP vs (13.3%) of GDP the year before (Figure 11). In value terms, export of goods increased from 33.9% to 74% of GDP, in most cases due to re-export of gold to the Arab market<sup>6</sup> (primarily in January–April 2024). In May 2024, the growth of rate of exports began to slow down because of a massive drop in the volume of re-export of gold. The largest export growth contributors (130%) were precious metals (commodity groups “gold unwrought, or in semi-manufactured forms, or in powder form” and “articles of jewellery”) (146.4 p.p.)<sup>7</sup> and mineral products (2.3 p.p.). In turn, the contribution to export of land, air and water transport was negative (9.2 p.p.). The value of imported goods increased substantially from 47.1% to about 98% of GDP due to the growth of re-export and higher investment demand. Precious stones and metals became the largest contributor (96.3 p.p.) to the increase in total imports by 87%. The contribution of land, air and water transport was negative (10.5 p.p.)<sup>8</sup>. The surplus of the balance of

<sup>5</sup> Balance of payments data for 2024H1 (with the exception of the balance of trade) — authors' estimates.

<sup>6</sup> The structure of trade flows changed significantly due to the increase in exports to the UAE (7.8-fold) and China (11.4-fold). As a result, the share of the UAE in Armenia's trade turnover for the period was 20.1%, although the Russian Federation remains Armenia's main trading partner (45.4%).

<sup>7</sup> Website of the Ministry of Finance of the Republic of Armenia. State Budget Report for 2024H1. Available at: [https://minfin.am/hy/page/petakan\\_byujei\\_hashvetvutyun\\_2024\\_1-in\\_kisamyak](https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2024_1-in_kisamyak).

<sup>8</sup> Website of the Ministry of Finance of the Republic of Armenia. State Budget Report for 2024Q1. Available at: [https://minfin.am/hy/page/petakan\\_byujei\\_hashvetvutyun\\_2024\\_1-in\\_eramsyak](https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2024_1-in_eramsyak).

trade in services declined from 10.1% to 6.8% of GDP, as the number of tourists decreased by 6.1% (in particular, the number of tourists from the Russian Federation was down by 124 thousand people compared to 2023H1).

The primary income deficit expanded to (-4.4%) of GDP from (-3.4%) of GDP the year before. The secondary income surplus rose to 2.4% of GDP from 1.3% of GDP the year before as a result of a decrease in the outflow of public sector current transfers against the background of a decrease in the inflow of personal transfers.

**According to our estimates, the financial account of the balance of payments had a net borrowings position of 6.8% of GDP vs 1.4% of GDP the year before.** Other investments were the main source of inflow of funds, while amounts owed by deposit organisations and other sectors to non-residents increased, as in 2024Q1.

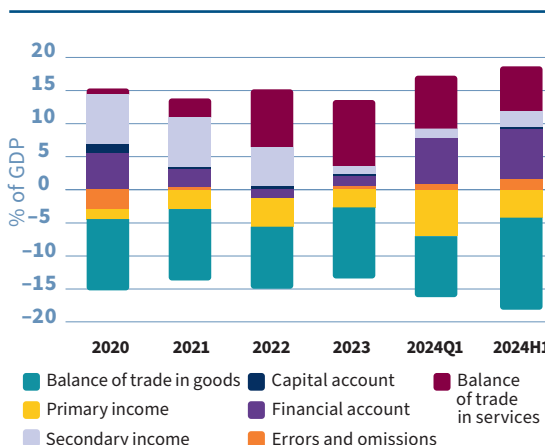
The current account deficit was offset by unrecorded negative flows classified under errors and omissions which, according to our estimates, amounted to 2.0% of GDP. In April–June, the CB RA conducted a series of interventions and purchased foreign currencies for a total amount of USD 257 million to smooth out the excessive appreciation of the national currency, which testifies to the existence of foreign currency inflows not reflected in the main balance of payments items. It should be noted that the overall turnover of the currency market of the Republic of Armenia remained rather high. In particular, intra-bank purchases of foreign currencies exceeded intra-bank sales, primarily due to large-scale acquisitions of the Russian rouble. At the same time, by the end of June 2024 gross international reserves decreased relative to December 2023 by USD 0.3 billion

## IN 2025, BUDGET DEFICIT WILL INCREASE TO 5.7% OF GDP

to USD 3.3 billion (which is equivalent to 1.9 months of imports)<sup>9</sup>.

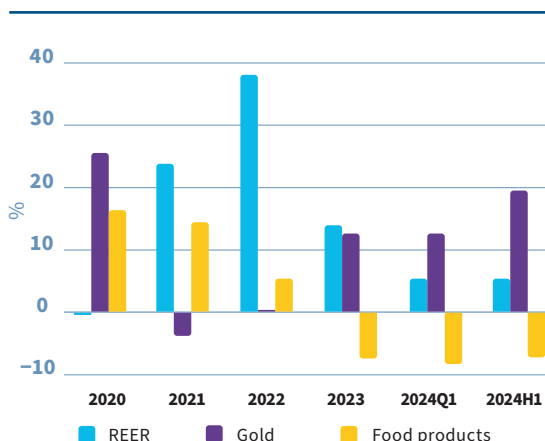
**We believe that in 2024H1 the Armenian dram remained overvalued.** The real effective exchange rate strengthened by 4.8% y/y (following a 13.9% strengthening in 2023) (Figure 12).

Figure 11. Balance of Payments



Source: CB RA, authors' estimates.

Figure 12. Changes in Price Terms of Trade (y/y)



Note: (+) REER strengthening.

Source: CB RA, World Bank.

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

# MEDIUM-TERM FORECAST

**Our updated economic growth forecast has changed little from the summer forecast. According to the baseline scenario, the rate of economic growth will gradually decelerate until it reaches its potential level.** In 2024, economic growth will slow down to 6.1%, which is in line with the weakening effect of situational market factors (re-export of gold). Investment and consumer demand will be the key growth drivers. The ongoing rapid growth of consumer lending and wages will support consumer demand. The increase in investment demand will be fuelled by further growth of government investments<sup>10</sup> and housing construction. In the medium term, the rate of economic growth will slow down to its potential level<sup>11</sup>, and under the baseline scenario, it will range from 5.4% to 5.5% in 2025–2027. In the baseline scenario, downside risk, both external and internal, are predominant and may influence the situation more significantly than projected in the baseline forecast (for more details, see “[Risks and Uncertainties of the Baseline Forecast](#)”).

**Our inflation forecast is also very similar to the summer forecast, and we expect that the monetary policy will be directed at returning inflation to the target corridor (4±1.5%).** According to our updated estimates, in December 2024 12-month inflation will be 3.0% (y/y) due to the gradual normalisation of monetary conditions, as the refinancing rate keeps falling, and the Armenian dram becomes weaker. In 2025–2027, inflation will remain close to its target values at about 4%.

<sup>10</sup> Website of the Ministry of Finance of the Republic of Armenia. Medium-Term Public Expenditure Programme for 2025–2027. Available at: [https://minfin.am/hy/page/petakan\\_mijnazhamket\\_tsakhseri\\_tsragre/](https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/).

<sup>11</sup> Website of the Central Bank of the Republic of Armenia: CB RA estimate published in “Inflation Report” on 10 September 2024. Available at: [https://www.cba.am/AM/ppperiodicals/MPR\\_2024Q3\\_Arm.pdf](https://www.cba.am/AM/ppperiodicals/MPR_2024Q3_Arm.pdf).

**Our 2024 budget deficit estimate has changed little compared to the previous forecast (4.8%), but deficit estimates for 2025–2026 were revised upwards by 0.9 p.p. (on average) to reflect the increase in current and capital expenditures.** According to the Medium-Term Public Expenditures Programme for 2025–2027, current expenditures will rise to 24.5% of GDP in 2025 due to an increase in social expenses, while capital expenditures will rise to 7.1% of GDP, including in connection with the financing of large-scale integration projects of residential housing construction to support internally displaced persons from Nagorno-Karabakh. As a result, in 2025, the budget deficit will increase to 5.7%. During the remainder of the forecast period (2026–2027), budget expenditures will gradually decline to 30.1% of GDP, subject to compliance with fiscal rules. Public revenues are expected to grow throughout the forecast period, with tax revenues expected to rise by approximately 0.5 p.p. of GDP each year from 2024 to 2027, driven by improved tax administration and changes in tax policies.

**The balance of payments will remain under pressure from the expanding deficit of the current account.** In 2024, the deficit of the current account will increase to 4.0% of GDP due to a decline in the inflow of remittances, while in 2025–2027 it may be as high as 4.3% of GDP (on average) because of the projected deterioration of the balance of trade in goods and services. Despite the growth of international reserves from USD 3.6 billion in 2023 to USD 4.5–4.7 billion in 2026–2027, they will be covering only 2.7–2.8 months of imports throughout the forecast period due to increasing imports.

## TABLE 1. FORECAST OF THE KEY MACROECONOMIC INDICATORS

	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast	2027 Forecast
<b>National accounts and prices, %</b>					
Nominal GDP					
AMD billions	9453	10 244	11 126	12 240	13 572
USD billions	24.1	26.4	27.9	29.7	32.0
Real GDP growth	8.3	6.1	5.5	5.5	5.4
CPI (December, y/y)	-0.6	3.0	4.0	4.0	4.0
<b>Money and credit (eop)</b>					
Broad money, % change	17.4	14.0	10.9	10.1	9.5
Refinancing rate	9.25	7.25	7.0	7.0	7.0
<b>Public finance, % of GDP</b>					
Income and grants	25.5	25.6	25.9	26.4	26.5
Tax revenues	24.1	24.5	25.0	25.5	25.9
Budget expenditures	27.5	30.4	31.6	31.1	30.1
Current expenditures	22.5	23.9	24.5	24.0	23.8
Capital expenditures	5.0	6.5	7.1	7.1	6.3
Budget balance ("-" deficit / "+" surplus)	-2.0	-4.8	-5.7	-4.7	-3.6
<b>External sector, % of GDP</b>					
Current account	-2.3	-4.0	-4.2	-4.4	-4.4
Foreign Direct Investments ("-" inflow; "+" outflow)	-2.4	-2.5	-2.6	-2.8	-2.8
Gross reserves in months of import of products and services	3.0	2.8	2.8	2.8	2.7

Source: national agencies and authors' calculations.





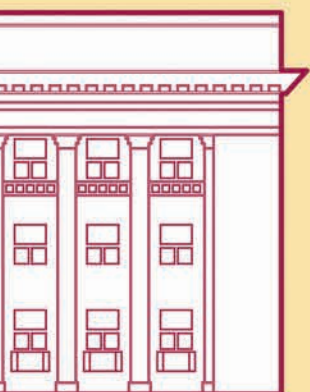
In 2024H1, the economy of the Kyrgyz Republic continued to grow at a high rate, having accelerated year-on-year. The real GDP grew by 8.1%, primarily due to strong consumer and investment activity. At the sectoral level, the services sector remained the main growth driver, while the contribution of construction also increased quite significantly.

The deceleration of growth of food prices played a key role in the decrease of 12-month inflation to 4.5% in June 2024 from 5.2% in March 2024 and 7.3% at the end of 2023. The monetary policy was aimed at curtailing the impact of the monetary factors of inflation.

The state budget had a surplus of 6.9% of GDP due to the growth of both tax and non-tax revenues.

Import and export of machinery and equipment declined following the hike of the recycling fee in Russia. However, the number of net errors and omissions in the balance of payments keeps growing, which testifies to the Kyrgyz Republic's continuing role as a transit hub and problems with the country's foreign trade statistics.

Over the medium term, we anticipate that the GDP growth rate will decrease due to the reduction of government investments and the gradual deceleration of domestic and external demand. The slowdown of consumer activity and global food prices will bring average annual inflation down to 4.6% in 2024 and 5.4% in 2027.



## REAL SECTOR AND LABOUR MARKET

**In 2024H1, the economy of the Kyrgyz Republic accelerated to 8.1% y/y vs 2.2% y/y in 2023H1, due to robust consumer activity and expanding investment<sup>1</sup>.**

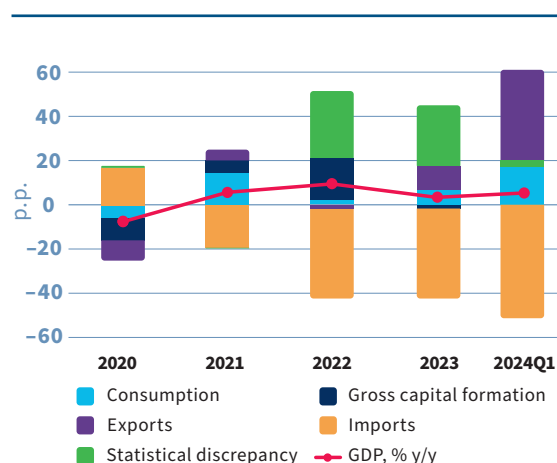
In 2024Q1, we observed rapid growth of private consumption (+17.2% y/y) and investment (+20.8% y/y), with their contribution to the GDP growth at 17.8 p.p. and 3.2 p.p., respectively (Figure 1). Those trends persisted to the end of 2024H1. Consumption continued to grow thanks to the increase in wages and salaries (+10.4% y/y) and consumer lending (+60.6% y/y). The growth of capital investment accelerated to 54.7% y/y (vs 10.2% in 2023H1) and was primarily fuelled by domestic sources. On the other hand, gross accumulation was growing at a slower rate due to a significant reduction in net acquisition of valuable items after the NBKR discontinued purchases of non-monetary gold. The negative contribution of net exports to the economic growth increased due to the ongoing growth of import of goods (+12.4%) and decline in export of goods (-3.2%).

**The services sector remained the key economic growth driver, while the contribution of construction also rose.**

The added value generated by the services sector increased by 7.7% (2023H1: +2.8%), with the contribution of that sector to the GDP growth reaching 4.1 p.p. (Figure 2). The increase was primarily supported by wholesale and retail trade (GDP growth contribution: 2.2 p.p.) which increased by 18.3% (by 6.9% the year before) due to the rapid growth of domestic consumption and persistent demand from Russia. The contribution of construction to the GDP growth increased from 0.9 p.p. in 2023H1 to

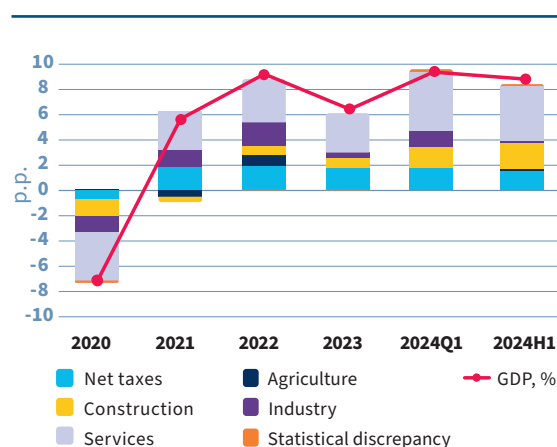
2.0 p.p. in 2024 (Figure 2). The volume of construction rose by 48.5% y/y due to the implementation of the programme “My Home 2021–2026”, significant expansion of construction of social infrastructure facilities (schools, kindergartens) and industrial facilities (mostly for the mining industry). Industrial output increased insignificantly by 0.9% (by 0.03% the year before), with food production being the main driver (+16.4%). In 2024Hn1, the decrease in gold production accelerated to 11.4% y/y (following a drop by 9.0% the year before). Net tax revenues increased by 8.4% (+1.6 p.p.), mostly due to higher VAT revenues.

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



Source: NSC KR, authors' estimates.

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



Source: NSC KR, authors' estimates.

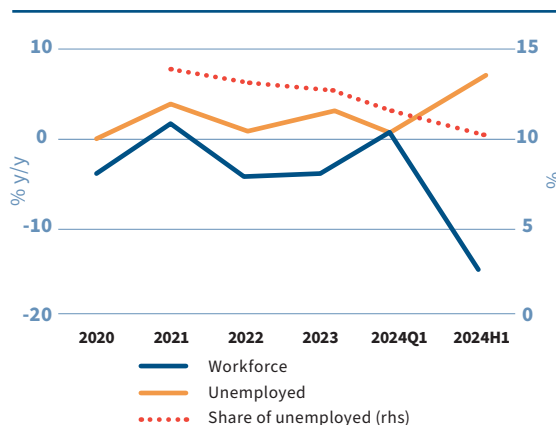
<sup>1</sup> According to the authors' estimates, in 2024Q2 the seasonally adjusted real GDP increased by 1.7% q/q, following zero change in 2024Q1.

# GDP GROWTH 8.1%

**A substantial expansion of activity in services and construction prompted an increase in the number of workers and employees and a decrease in the number of registered unemployed.** In 2024H1, the rate of employment rose by 4.8% y/y (vs 2.7% the year before) (Figure 3). The fastest employment growth rates were reported for hospitality (34.1% y/y) and trade (22.1% y/y). On the back of high economic activity, employment grew in construction (+15.2% following a (-9.8%) decrease in 2023H1). The growth of employment in manufacturing slowed down to 8.8% y/y (vs 11.5% the year before). In 2024H1, the number of officially registered unemployed dropped by 16.7% y/y to 10.5% (2.6% in 2023H1).

**Despite the acceleration of economic activity, the average real wage growth decelerated to 5.0% y/y in 2024H1 vs 18.7% y/y in 2023H1 (Figure 4).** Construction and trade reported the highest real wage increases, with wage growth rates accelerating to 21.0% and 24.9%, respectively. Because of the high base effect, the performance of the services sector was rather subdued (+2.9% vs 14.7%), with real wage decrease in arts and culture (-2.7%), healthcare (-2.0%), and education (-1.2%). Average-weighted real wages of industry workers increased by 9.0%, with the highest raises reported in water supply (+20.0%) and extraction of mineral resources (+18.1%).

**Figure 3. Changes in Employment and Unemployment Rates**



**Note:** 2021–2024: dynamics of the number of employees of enterprises; before 2021 — dynamics of the number of employed.

**Source:** NSC KR, authors' calculations.

**Figure 4. Household Income**



**Source:** NSC KR, authors' estimates

## INFLATION AND MONETARY TRENDS

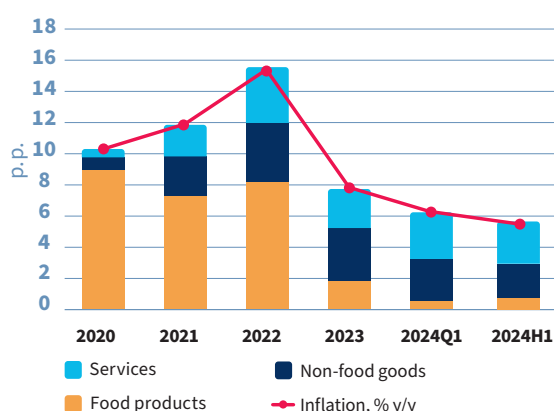
**The significant slowdown in food price growth played the key role in slowing down inflation.** In June 2024, the annual rate of inflation was 4.5% y/y, down from 7.3% in December 2023 and 10.5% in June 2023 (Figure 5). Food prices played the main role in the deceleration of inflation (with a contribution of 0.5 p.p.) due to a moderate increase in imported grain prices (+1.1% y/y) and higher domestic yield of milled flour (+51.0% y/y). The growth in prices of non-food products (7.4% vs 14.1% in June 2023) was faster than the rate of CPI increase, due

to high prices of imported petrol, primarily originating from Russia (+29% y/y). The growth of prices of services slowed down (6.8% vs 11.2% the year before), but was still faster than CPI increase because of the hike of public transport fares at the beginning of 2024. Therefore, non-monetary factors continued to produce a significant impact on inflation.

**With inflation at a low level, in May 2024 the NBKR cut the refinancing rate to 9% p.a. (4 p.p. since the beginning of the year), with the real rate dropping below 5% p.a.**

**Volume of excess liquidity in the banking sector continued to expand.** In 2024H1, the regulator took active steps to absorb liquidity. With commercial banks' priorities shifting from NBKR notes to overnight deposits, the sales of NBKR notes increased by only 7.7% y/y, while the amount of funds placed by banks on overnight deposits soared by a factor of 2.1. The money base increased by 19.1%, while money supply rose by 26.0%, mostly due to the increase in the amount of deposits in the national currency<sup>2</sup> (+43.9%) (Figure 6).

**Figure 5. Inflation Decomposition (y/y, eop)**

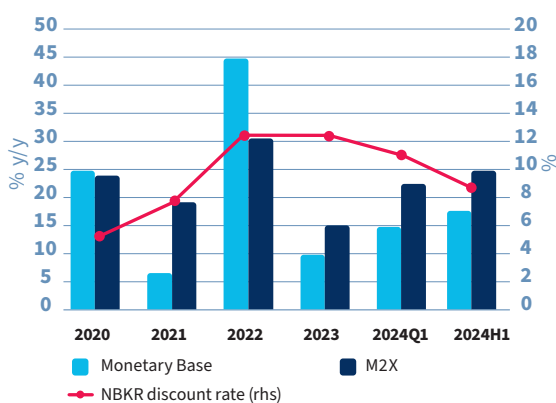


Source: NSC KR, authors' estimates.

<sup>2</sup> Data on deposits included in broad money.

# INFLATION SLOWED DOWN TO 4.5%

**Figure 6. Changes in Monetary Indicators**

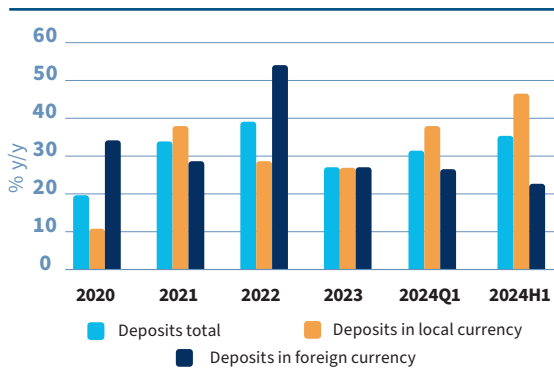


Source: NBKR, authors' estimates.

**The growth of the bank deposit portfolio slowed down, mostly because of a sharp decline in the rate of growth of deposits placed by non-residents.** In June 2024, the growth of the aggregate deposit portfolio decelerated to 34.6% y/y (55.5% y/y in June 2023) (Figure 7), primarily due to much slower growth of non-resident deposits (31.1% vs 185.0% the year before). Corporate deposits in the national currency also increased at a slower rate, but remained at a high level (41.7% vs 58.8%), while resident private individual deposits continued to grow steadily (26.7% vs 29.7%), while average weighted interest rates increased from 11.1% to 11.3% (Figure 8). The rate of dollarisation of deposits dropped to 43.2% (-3.8 p.p. y/y).

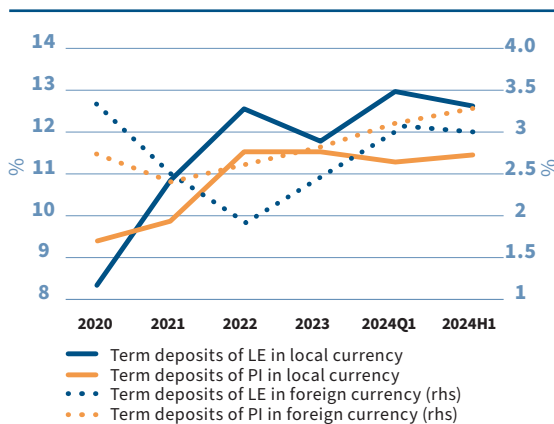
# CONSTRUCTION GROWTH 48%

**Figure 7. Growth of Deposits with Commercial Banks (eop)**



Source: NBKR, authors' calculations.

**Figure 8. Average Interest Rates on New Term Deposits**



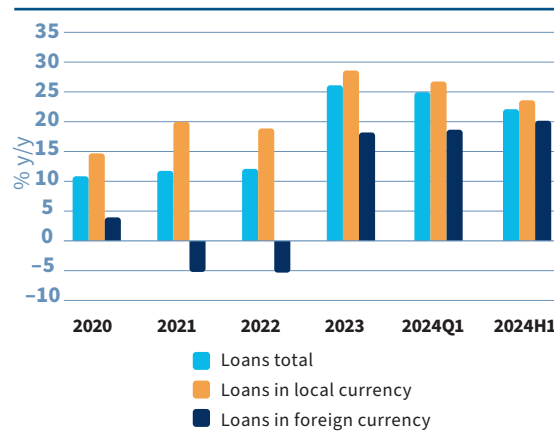
Source: NBKR, authors' calculations.

**The growth of lending accelerated despite rising interest rates.** In June 2024, the growth of the bank loan portfolio accelerated to 23.1% y/y (20.2% the year before), mostly due to the increase in the origination of mortgage loans (23.9% vs 21.1%), recovery in construction lending (10.1% vs (-7.2%)), and stable growth of the consumer loan portfolio (60.6% vs 61.7%) (Figure 9). The rate of growth of loans in the national currency remained stable (24.0% vs 24.3%), while lending in foreign currencies accelerated to 19.7% (from 7.3% the year before). Demand for loans increased despite the growth of average interest rates on loans in the national currency by 1.8 p.p. to 20.2% p.a. (Figure 10), including the growth of mortgage loan rates from 15.7% p.a. to 16.6% p.a. The highest interest rate increases were reported for

# CONSUMER LOAN PORTFOLIO GROWTH 61%

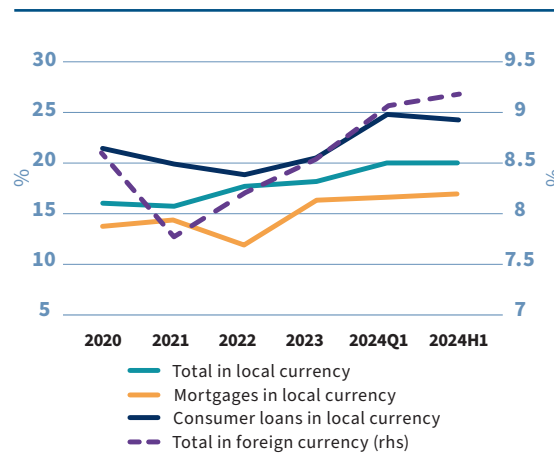
consumer loans (+3.6 p.p. to 23.9% p.a.) and loans to transport companies (+1.7 p.p. to 19.8% p.a.). The rate of dollarisation of loans decreased to 21.1% (-0.6 p.p. y/y).

**Figure 9. Growth of Loans of Commercial Banks (eop)**



Source: NBKR, authors' calculations.

**Figure 10. Average Interest Rates on New Loans**

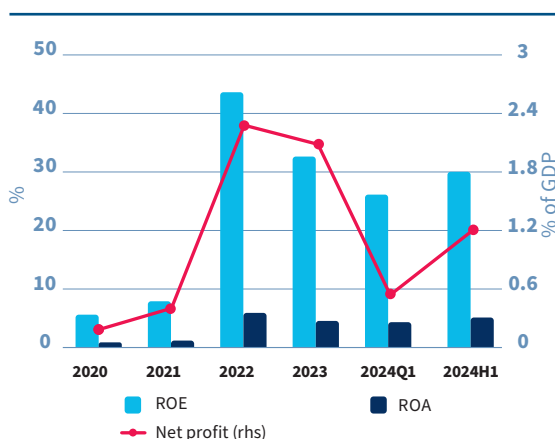


Source: NBKR, authors' calculations.

**The key financial indicators of banks are deteriorating, but remain high.** Due to the rapid growth of bank assets and equity, in June 2024 the ROA and ROE indicators decreased slightly to 4.3% and

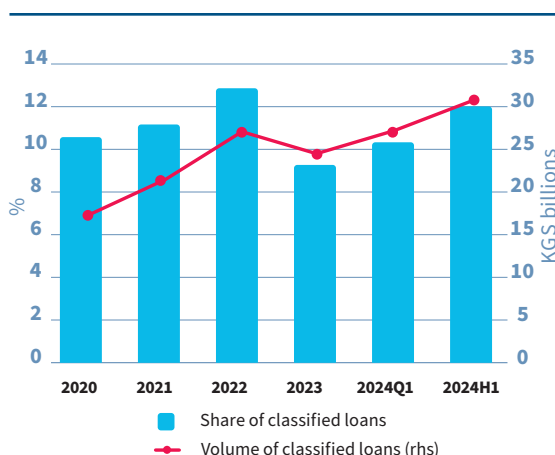
30.0%, respectively (from 4.6% and 32.5%, respectively, the year before) (Figure 11). The net profit of banks increased by 17.7% y/y (vs 39.2% y/y in June 2023), mostly due to the growth of non-interest income, especially from foreign currency operations (40.5% vs (-2.4%) the year before). The capital adequacy ratio remained above the statutory 12% level (at 22.3% vs 23.5%), signalling that that the banking sector is able to withstand potential adverse shocks. The share of classified (“problem”) loans increased from 10.9% to 12.1% (35.6% in absolute terms, primarily through substandard loans). The amount of overdue loans increased by 13.8% y/y, with most of them being consumer loans (Figure 12).

**Figure 11. Banking Sector Profitability Indicators**



Source: NBKR, authors' calculations.

**Figure 12. Classified Loans**



Source: NBKR, authors' calculations.

## FISCAL SECTOR AND PUBLIC DEBT

**In 2024H1, the state budget surplus reached 6.9% of GDP vs 1.1% of GDP the year before, mostly due lower budget expenditures.**

In 2024H1, tax revenues increased by 1.2 p.p. to 28.5% of GDP (2023H1: 27.3% of GDP). The drop in revenues from the Kumtor field (0.5 p.p. of GDP) was offset by higher revenues from the single tax imposed on small and medium-sized businesses (+1.2 p.p. of GDP) and VAT on imports (+0.2 p.p. of GDP). Non-tax revenues increased faster — by 2.0 p.p. to 9.8% of GDP, mostly due to the transfer of the NBKR profits to the budget. As a result, total 2024H1 non-tax revenues amounted to KGS 55.1 billion, overshooting the annual target by KGS 7.5 billion. The drop in motor vehicle imports following the hike of the recycling fee in Russia in April 2024 led to a rapid fall in motor car registration fees growth to 3.9% y/y in 2024H1 (2024Q1: 83.8% y/y).

**BUDGET SURPLUS  
6.9% GDP**

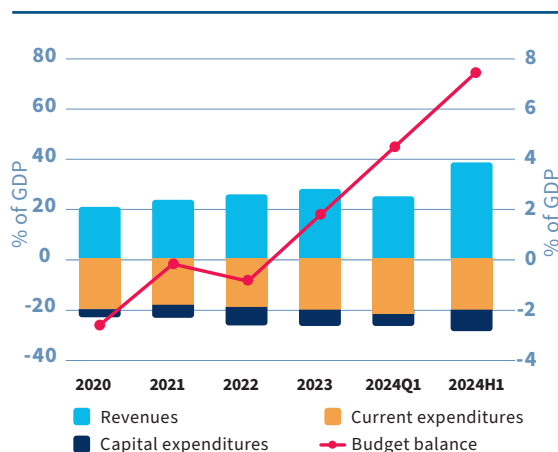
Current expenditures went down by 1.4 p.p. to 27.0% of GDP, primarily due to fast GDP growth (nominal increase in expenditures: 9.8%). Education and social welfare expenditures decreased the most (-1.2 p.p. each). Capital expenditures also decreased by 1.6 p.p. to 5.5% of GDP (Figure 13).

**Public debt decreased by 2.9 p.p. since the beginning of the year to 42.4% GDP (Figure 14).** Debt reduction can be attributed to the high rate of economic growth and the stable KGS exchange rate. Foreign debt decreased by 5.5 p.p.

# GROSS INTERNATIONAL RESERVES 3.0 MONTHS OF IMPORTS

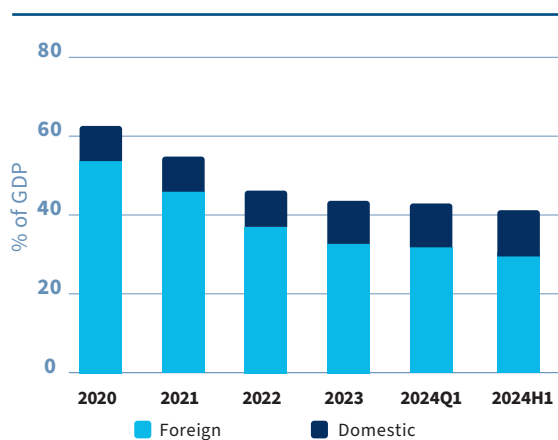
to 29.8% of GDP, while domestic debt increased by 2.5 p.p. to 12.3% of GDP. In absolute terms, public debt declined by 0.7%, mostly due to the repayment of external loans to Eximbank of China and the IMF. The domestic loan portfolio was up by 48.0% because of the issuance of long-term treasury bonds.

Figure 13. State Budget



Source: NSC KR, authors' calculations.

Figure 14. Public Debt

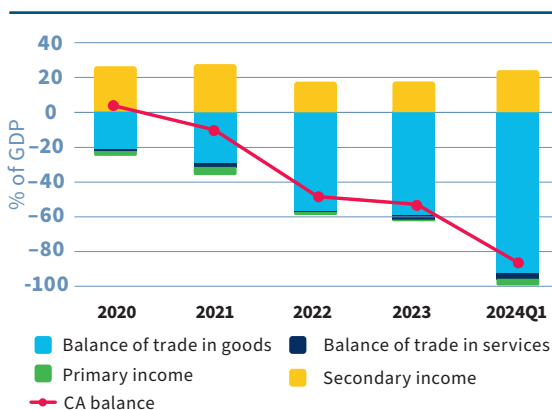


Source: Ministry of Finance of the Kyrgyz Republic, authors' estimates.

## EXTERNAL SECTOR

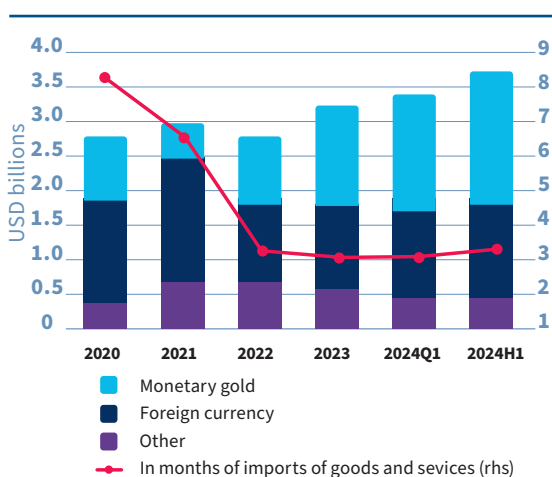
The current account deficit expanded significantly due to the persistent growth of imports and underrecorded re-exports. In 2024Q1, the current account deficit increased to USD 2.2 billion (80.4% of GDP) vs USD 1.5 billion (60.0% of GDP) in 2023Q1. The negative balance of trade in goods at 89.6% of GDP was the main contributor to the current account deficit (Figure 15). According to customs statistics, the deficit contracted slightly due to higher gold exports in 2024Q2. The volume of net errors and omissions in the balance of payments continued to increase (according to the authors' preliminary calculations), meaning that transit goods flows remained quite significant.

Figure 15. Current Account of the Balance of Payments



Source: NBKR, authors' calculations.

Figure 16. Gross International Reserves



Source: NBKR, authors' estimates.

**Gold and machinery and equipment items continued to define the dynamics of trade in goods.**

According to customs statistics, in 2024H1, exports decreased by 3.2% y/y, with machinery and equipment remaining the main contributor<sup>3</sup> (-36.5% y/y, mostly passenger motor vehicles and spare parts exported to Russia). However, the overall decrease was minimal thanks to rising gold exports primarily to China and the UK (+34.0%). We expect that exports will continue to contract in the future due to a downward trend in non-gold exports and gold production.

Imports increased by 12.4% y/y, with machinery and equipment being the main contributor (+44.4% y/y), while imports of food, chemical products, and metals decreased (-36.5% y/y on average). Given that import of machines and equipment is gradually slowing down, we expect overall imports to decline by the end of the year.

**The secondary income balance expanded, as incoming remittances increased and outgoing remittances decreased.**

Cross-border remittances to the Kyrgyz Republic rose by 12.8% in 2024Q1 and by 6.4% in 2024H1, as the number of citizens of the Kyrgyz Republic entering Russia increased (by 10.4% y/y in 2024Q1 and by 7.7% in 2024H1). At the same time, outgoing cash remittances from the Kyrgyz Republic declined by 15%, due to the decline of remittances to Russia (87% of total payments), as fewer Russian citizens travelled to the Kyrgyz Republic (-8.2% and -13.8%)<sup>4</sup>.

**In 2024Q1, net borrowings of USD 26 million, or 0.9% of GDP, were recorded in the financial account of the BoP**

(2023: USD 125.0 million, or 5.1% of GDP). Direct investments equalling USD 100.2 million (3.6% GDP), the main source of cash inflow, were used mostly to finance the construction of mining and manufacturing facilities. Outflows are mostly attributed to the purchase of foreign currencies and the opening of FX deposits by residents in the amount of USD 171.4 million, or 6.2% GDP.

Since the beginning of the year, the KGS nominal exchange rate strengthened against USD by 3.0%. Due to the declining demand for USD (in 2024Q1 its share in foreign trade settlements went down to 35% vs 64% the year before, while the shares of settlements in the RUB and CNY share went up from 24% to 26% and from 0% to 24%, respectively). In 2024H1 the NBKR acted as the net buyer of the US dollar for a total amount of USD 226.5 million.

Gross international reserves reached USD 3.5 billion by the end of 2024Q1, and USD 3.8 billion by the end of 2024H1, having increased by 40.2% and 55.1% y/y, respectively (Figure 16). The increase in tangible monetary gold stocks (by 9.0 tonnes to 25.8 tonnes, or +53.3% by the end of 2024H1) and the rise of gold prices (by 22.7%) remained the key drivers for reserves' growth. In relative terms, the reserves increased to 3.0 months of imports by the end of 2024H1 (2.3 months the year before).

<sup>3</sup> HS codes from 84 through 90.

<sup>4</sup> Suspension of remittances to Russian banks by several Kyrgyz banks starting in August 2024 and imposition by the US of restrictions on the developer of the Zolotaya Korona funds transfer software may inflate remittances costs and decrease their volumes over the short term. Complete termination of such transfers is unlikely, as they can be rechannelled to other Russian banks and payment services (e.g., Unistream and Money Gram supporting more than 20% of cross-border fund transfers).

# MEDIUM-TERM FORECAST

**We revised our economic growth projections for the Kyrgyz Republic for the entire forecast period upwards by 0.1–0.2 p.p., taking into consideration the growth dynamics in 2024H1 and the draft budget for 2025–2027.** Under the baseline forecast, the real GDP growth will slow down to 4.9% in 2024 from 6.2% in 2023, due to the acceleration of economic activity in construction and steady growth of the services sector. In 2025–2027, we expect economic growth to gradually decelerate to 4.1%, close to the potential level of 4.0%.

**In 2024–2027, budget indicators will generally deteriorate.** The 2024 budget surplus (1.7% GDP) will be replaced with a deficit (-0.3% GDP) in 2025 and a small surplus (0.8% GDP) in 2026 on the back of a decrease in budget revenues from 32.6% to 29.9% of GDP and a relatively slower drop of budget expenditures from 30.9% GDP in 2024 to 29.1% of GDP in 2026. The fall in budget expenditures to 27.3% GDP in 2027 due to a decrease in current expenditures will lead to a 2.4% GDP budget surplus.

**Due to much slower inflation in the spring and summer of 2024, we made a downward revision of our average annual inflation forecast for 2024 and for the entire forecast period by 0.9 p.p. (on average) to the lower boundary of the NBKR target range (5% y/y).** We expect moderate consumer activity and stable food prices to support steady inflation dynamics. Despite the fact that by the end of 2024 the rate of inflation will be below the target level (4.1%), in 2025–2027 the low base effect and the persistent growth of the prices of services (due to tariff hikes) and non-food goods (primarily fuels and lubricants) will keep the CPI at around 5%. In these conditions,

we expect that the NBKR will cut the policy rate to 8% p.a. in 2025, and maintain it at that level through 2027, ensuring stability of real interest rates.

**The balance of payments dynamics during the forecast period will somewhat improve due to the reduction of the current account deficit.** With imports declining faster than exports throughout 2025–2027, the current account deficit will gradually decrease from 48.2% GDP in 2023 to 40.7% GDP in 2027. Concurrently, we anticipate changes in the structure of trade operations: the declining production and export of gold and the expanding import substitution in Russia will lead to a drop in exports from 38.9% GDP in 2023 to 35.0% GDP in 2027. Deceleration of economic growth and transit demand for machinery and equipment will gradually reduce both re-export flows from the Kyrgyz Republic and imports into the country from 102.2% GDP in 2023 to 89.2% GDP in 2027.

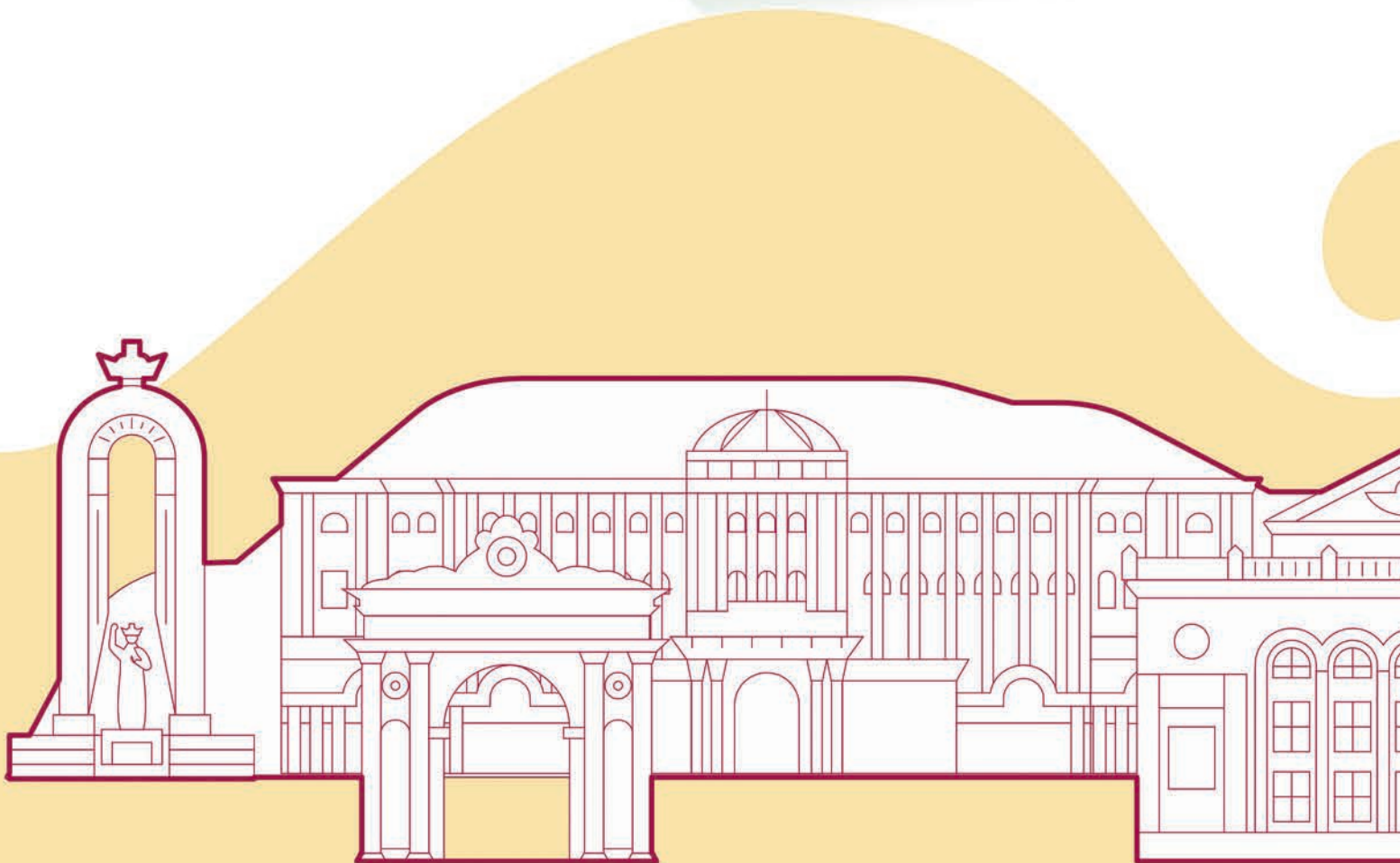
**The balance of payments will be supported by the projected growth of international reserves from USD 4.3 billion in 2024 to USD 5.1 billion in 2027.** Thanks to the growth of gold prices and ongoing purchases of gold in the domestic market, gross international reserves coverage will increase from 2.7 months of import in 2023 to 3.8–3.9 months of import by the end of the forecast period. Higher external debt payments will be the main factor weighing down the level of reserves.

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

	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast	2027 Forecast
<b>National accounts and prices ,%</b>					
Nominal GDP					
KGS billions	1 228.9	1 305.8	1 401.1	1 514.5	1 642.5
USD billions	14.0	15.0	15.8	16.9	17.9
Real GDP growth	6.2	4.9	4.6	4.4	4.1
CPI (December, y/y)	7.3	4.1	5.6	4.9	5.2
CPI (annual average)	10.8	4.6	5.2	5.0	5.4
<b>Money and credit (eop)</b>					
Broad money, y/y	15.0	15.0	8.5	8.1	8.5
Credit to the economy, y/y	25.9	20.9	7.9	7.5	8.2
Refinancing rate	13.0	9.0	8.0	8.0	8.0
<b>Public finance (in % of GDP)</b>					
Revenues and grants	31.9	32.6	30.6	29.9	29.8
Tax revenues	24.0	24.9	25.7	25.5	25.7
Budget expenditures	30.9	30.9	30.9	29.1	27.3
Budget balance ("-" deficit / "+" surplus)	1.0	1.7	-0.3	0.8	2.4
Government debt	45.5	42.6	41.3	39.0	35.4
<b>External sector (in % of GDP)</b>					
Current account	-48.2	-45.3	-45.6	-43.0	-40.7
Export of goods and services	38.9	37.3	35.8	35.3	35.0
Import of goods and services	102.2	97.3	95.7	92.1	89.2
Remittances	16.5	15.9	15.2	14.3	13.4
Foreign direct investment ("-" inflow; "+" outflow)	-1.1	-1.8	-1.7	-1.8	-1.8
Gross reserves, in months of imports of goods and services	2.7	3.6	3.8	3.9	3.9
Gross reserves, USD billions	3.2	4.3	4.8	5.1	5.1
Average exchange rate, KGS per USD	87.9	87.2	88.5	89.8	91.6

Source: national agencies and authors' estimates.





In the first half of 2024, economic growth in Tajikistan remained high, totalling 8.2% y/y. Supported by remittance inflow (at 50% of GDP) and infrastructure projects, domestic demand remained the main growth driver. In June 2024, annual consumer inflation slightly decelerated (to 3.5%) due to the lower contribution of non-food goods prices. With inflation at a low level, the NBT cut the policy rate by 0.25 p.p. to 9.0% in August. Weak export dynamics and growing imports led to a widening of the trade balance deficit. Meanwhile, massive remittance inflow supported the current account, which registered a surplus of 6.2% of GDP compared to a deficit of 4.6% in 2023H1. International reserves resumed growth in 2024Q2. The fiscal surplus of 0.5% of GDP recorded at the end of 2023H1 switched to a 0.5% deficit because of a decline in budget revenues. While the state budget's current expenditures declined, payroll expenses expanded and underpinned an increase in real wages (+12.1% y/y in June 2024).

Taking into consideration the favourable economic growth dynamics in the first half

of 2024 supported by domestic demand, we revised our estimate of GDP growth in 2024 to 8% y/y compared to 7.6% in the summer forecast. We expect growth to moderate in 2025–2026; however, due to an improvement of the global market conditions and a stronger growth momentum in 2024, moderation will be milder than initially projected in summer with growth revised up by 0.2 p.p. and 0.1 p.p. to 7.5% and 7.1% respectively. Economic growth in 2027 is projected at 6.7%. In 2024, consumer inflation will remain close to the lower bound of the target range, but we expect it to accelerate to 6% over the medium term because of the low base effect and rising prices of services and non-food goods. The fiscal policy will be expansionary, and the budget deficit will increase to 1.7% of GDP in 2024 and 2.4–1.8% in 2025–2027. Over the medium term, the balance of payments will remain under pressure with gradual remittance normalisation from the peak levels of 2022–2024, growth of government investment and the forthcoming redemption of Eurobonds starting in 2025.



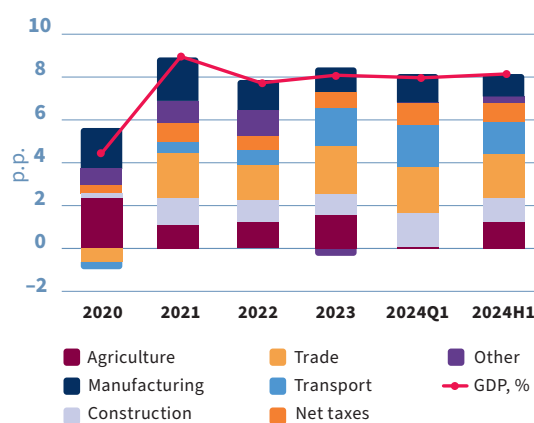
## REAL SECTOR AND LABOUR MARKET

**In the first half of 2024, economic growth stayed at 8.2% y/y, same as in the first half of 2023.** According to our estimates, in 2024Q2, the seasonally adjusted real GDP<sup>1</sup> grew by about 2.0% after an increase by 1.8% in 2024Q1 and by 2.0% in 2023Q4. Domestic demand supported by migrant remittances and infrastructure projects continued to be the main growth driver. Retail trade growth accelerated to 16.1% y/y in 2024H1 from 14.3% in 2023H1 pointing to continued consumer demand growth. Investment growth decelerated sharply from 27.1% y/y in 2023H1 to 15.7% in 2024H1, and then to 8.1% in January–August 2024. Nevertheless, investment continued to be an important economic growth driver. Investments in the production, transmission and distribution of electric power sector (mostly in the construction of the Rogun HPP) continued to dominate. The share of that sector in total investments increased from 31.2% y/y in 2023H1 to 35.3% in 2024H1, with the share of the state in total investment going up from 40.5% to 43.9%. In addition to electricity production, transmission and distribution sector, a strong increase in investments in 2024H1 was recorded in manufacturing (4.5-fold) due to the 8.9-fold growth of investments in textile and apparel production.

**At the sectoral level, trade, transport, and agriculture were the main growth drivers, but the contribution of trade to economic growth decreased compared to 2023H1 (Figure 1).** The contribution of services remained unchanged at 3.8 p.p. of GDP, while the contributions of wholesale and retail trade and construction decreased significantly from 2.7 p.p. to 1.9 p.p. and from 1.4 p.p. to 0.9 p.p., respectively, and

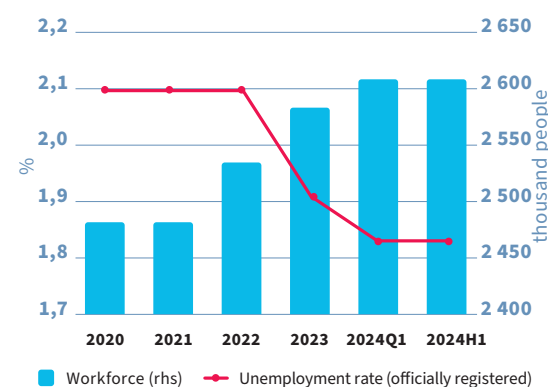
the contribution of transport increased from 1.0 p.p. to 1.6 p.p. In 2024H1, the contribution of agriculture rose from 1.4 p.p. to 1.5 p.p. due to an increase in crop production. The contribution of industrial production grew from 0.8 p.p. to 1.1 p.p. due to the increase in mining of metal ores by 31.6% y/y and mining of black and brown coal by 34.1%, and the growth of manufacturing output (with metallurgy and apparel production expanding by 18.6% and 17.8%, respectively).

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



Source: Tajstat, authors' estimates.

**Figure 2. Labour Market Indicators**



Source: Tajstat.

**Employment kept increasing amidst continued high economic growth (Figure 2).** In 2024H1, the number of employed increased by 2.8% y/y vs 1.5% in 2023H1. The bulk of that increase could be attributed to the low base effect

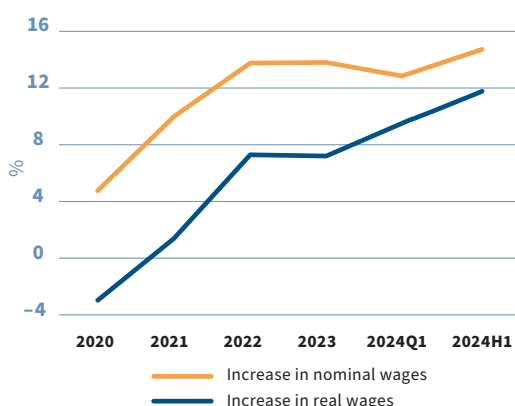
<sup>1</sup> Ratio of seasonally adjusted real GDP for the given quarter to the GDP for the previous quarter.

in January–April 2023. In July 2024, the number of employed increased by 0.7% y/y.

**Rising wages in the public sector supported the overall wage increase in the economy.**

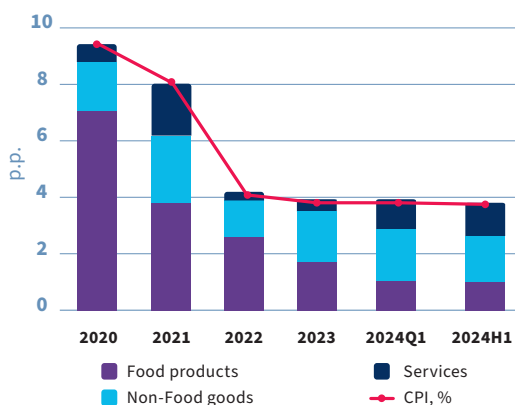
In June 2024, the annual increase in average monthly wages stood at 16% in nominal terms and 12.1% in real terms (Figure 3). In the real sector, wages saw the most growth in agriculture and mineral resource extraction, with nominal wages increasing by 19.1% y/y and 8.4% y/y, respectively. In services, nominal wages grew the most in ICT (20.9% y/y) and wholesale and retail trade (16.6% y/y). Nominal wages of public sector employees also increased quite significantly, particularly in health care and social services (19.3% y/y) and education (24.4% y/y).

**Figure 3. Household Income (y/y, eop)**



Source: Tajstat.

**Figure 4. Inflation Decomposition (y/y, eop)**



Source: Tajstat.

## INFLATION AND MONETARY TRENDS

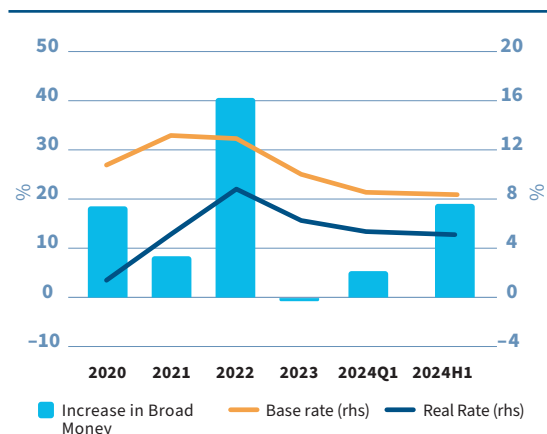
**In June 2024, the annual consumer inflation slightly decelerated with lower contribution of non-food goods inflation.**

Consumer prices increased by 3.5% year-on-year vs 3.6% in March 2024. In terms of the consumer basket structure, non-food goods remained the main contributor to inflation with 1.5 p.p. (Figure 4). At the same time, non-food inflation decelerated from 6% in March 2024 to 5.2% in June due to the slower growth of prices of imported petroleum products, textiles, and construction materials. In June 2024, the annual growth of prices of services accelerated to 5.2% from 4.6% in March as communal services became more expensive. Food inflation moderated to 1.8% in June 2024 from 1.9% in March 2024 due to a good vegetable harvest and reduction of prices of a number of imported food products. The strengthening of the somoni against the US dollar in April–June 2024 also contributed to the abatement of inflationary pressure. Nevertheless, the relatively faster growth of prices of non-food products and services in June–July 2024 led to a significant acceleration of consumer inflation, with annualised rate of inflation<sup>2</sup> in July and June at 6.2% and 4.8%, respectively, compared to 2.3% and 2.7% in May and April. Meanwhile consumer inflation stayed within the medium-term NBT target range (6±2%).

**GDP GROWTH IN 2024H1** **8.2%**

<sup>2</sup> Seasonally adjusted price growth rate for the month annualised by raising it to the 12th power. That allows the estimation of annual inflation while prices keep rising at the current rate throughout the year.

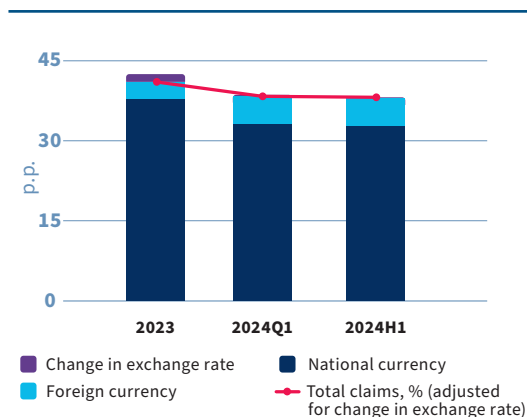
**Figure 5. Monetary Indicators (y/y, eop)**



Note: the real rate is calculated on the basis of actual inflation as adaptive expectations dominate in the economy.

Source: NBT, Tajstat.

**Figure 6. Increase in Bank Loans to Private Individuals (y/y, eop)**



Source: NBT.

**The increase in remittances facilitated the growth of reserve money, but yet remained within the NBT target range.**

A significant inflow of remittances and gold purchases in 2024H1 boosted the banking system liquidity that was partially sterilised by NBT open-market operations<sup>3</sup>. As a result, by the end of June 2024, reserve money and broad money increased by 15.4% y/y and 20.7% y/y, respectively (Figure 5). Cash outside banks was the main contributor to the growth of money aggregates. Term deposits were also reported to have increased (+24% y/y).

<sup>3</sup> In June, the volume of liquidity absorption operations increased by 37% compared to 2024Q1.

Despite the acceleration of the growth of money aggregates in 2024Q2, the amount of reserve money as of June 2024 was consistent with the NBT target. With inflation at a low level, the NBT continued policy rate cuts. In August, the policy rate was cut by 0.25 p.p. to 9% following cuts by 0.5 p.p. in February and by 0.25 p.p. in April. As a result real policy rate stood at 5.3% in August.

**Credit growth slowed down, especially in the segment of loans to firms in national currency.**

By the end of 2024H1, banking sector credit growth moderated to 20.5% y/y from 28.3% y/y at the end of 2023<sup>4</sup>. With real interest rates on loans to firms remaining high in June 2024 (19.7%), corporate credit growth dropped to 10% y/y vs 21% in 2023 (Figure 7). The slowdown affected loans denominated both in national and foreign currencies. Retail credit growth went down to 37% y/y from 40% at the end of 2023 (Figure 6) due to moderation of credit growth in national currency. In June 2024, the share of loans in foreign currencies decreased to 31% from 31.6% in March 2024 and 31.1% in December 2023, largely due to the strengthening of the nominal TJS/USD exchange rate.

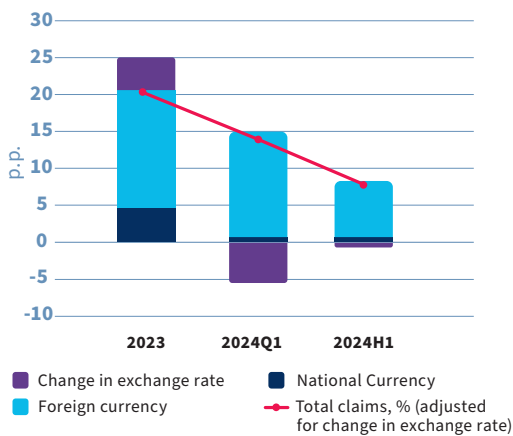
Despite policy rate cuts in 2024, the average interest rate on term loans in the national currency in June 2024 (24.1%) was by 0.9 p.p. higher than in December 2023. During the same period, the average interest rate on term deposits in the national currency increased by 0.8 p.p. to 13.3% (Figure 8).

**Banking sector financial indicators improved slightly.**

In June 2024, the share of non-performing loans decreased to 12.1% from 12.8% in March 2024 (Figure 9). In 2024Q2, return on assets increased to 4.7% from 3.5% in 2024Q1, and return on equity increased to 18.1% from 13.8%.

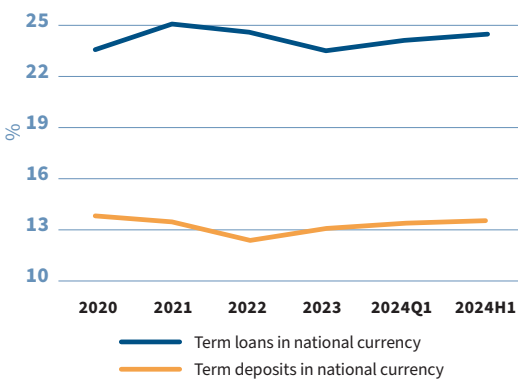
<sup>4</sup> Subject to an adjustment for the change in the TJS/USD exchange rate.

**Figure 7. Increase in Business Loans (y/y, eop)**



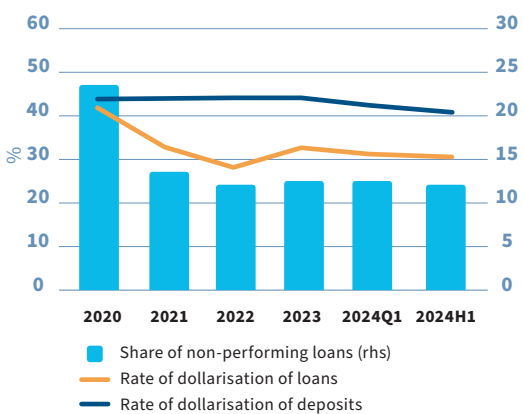
Source: NBT.

**Figure 8. Interest Rates on New Loans and Deposits**



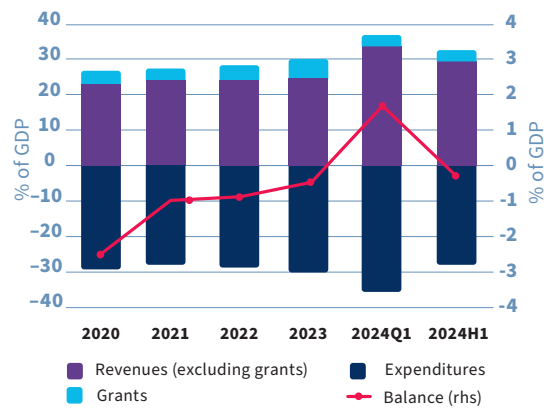
Source: NBT.

**Figure 9. Banking Sector Indicators (eop)**



Source: NBT.

**Figure 10. State Budget**



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

## FISCAL SECTOR

In 2024H1, the state budget of the Republic of Tajikistan was executed with a deficit of 0.5% of GDP vs a surplus of 0.5% of GDP the year before (Figure 10). Budget revenues went down from 33.5% of GDP in 2023H1 to 31% of GDP in 2024H1 as a result of a decrease in grants (from 5.6% to 3.8% of GDP) and special funds of budget-funded entities. Tax revenues increased to 22.6% of GDP from 22.5% of GDP, and non-tax revenues were up to 2.3% of GDP from 2% of GDP. In the structure of tax revenues, a small decline of the share of excise and customs duties in GDP was amply offset by higher income tax and VAT revenues. Budget expenditures, in turn, went down from 33% to 31.5% of GDP, primarily due to a decrease in current expenditures from 26% to 24% of GDP. Payroll expenses increased substantially from 7.2% to 8% of GDP, while expenditures on goods and services dropped sharply from 13.8% to 11% of GDP. Capital expenditures increased from 7.0% to 7.5% of GDP. At the functional classification level, an increase in expenditures (as a percentage of GDP) on education, health care, social protection, culture, and sports was accompanied by a slight decrease in expenditures on agriculture, transport, and communications. Therefore, in 2024H1

the fiscal policy aimed at increasing capital and social expenditures at the cost of expenditures on goods and services, as external grants continued to diminish. Notably, the fiscal deficit did not exceed 2.5% of GDP, a limit agreed within the framework of the IMF programme, which contributed to the country's fiscal sustainability.

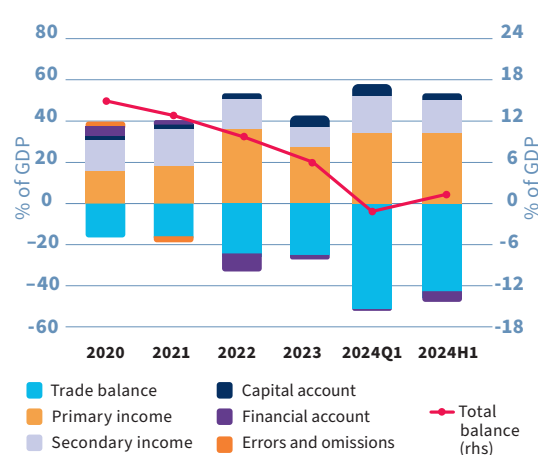
## EXTERNAL SECTOR

**Despite the increase in the trade deficit in 2024H1, the current account registered a surplus of 6.2% of GDP vs a deficit of 4.6% of GDP in 2023H1 (Figure 11) due to a massive inflow of remittances.** Compared to 2023H1, export of goods in 2024H1 dropped from 12.5% to 10.8% of GDP (USD (-8.2) million, or 13.7%<sup>5</sup> y/y). The reduction of export of mineral products (-27.8% y/y) was the main contributor to the overall decrease in the value of exports. Export of machines and equipment in value terms went down by 90% y/y. Export of aluminium and cotton increased by 40% and 27.4%, respectively, as the physical volume of exports surged. Export of chemical products rose as well. In terms of export destinations, the largest decrease in the value of exports was reported for Kazakhstan (USD (-34.7) billion) and Russia (USD (-25.6) million). The persistently high rate of growth of domestic demand supported an increase in the import of goods from 47.9% of GDP in 2023H1 to 48.2% of GDP in 2024H1 (+USD 310.8 million, or +12.8% y/y). There was an increase in the import of mineral products, investment goods, and food products. As a result, in 2024H1 the trade balance deficit rose to 37.4% of GDP vs 35.7% of GDP in

2023H1. Meanwhile, following a massive inflow of migrants into the Russian Federation in 2023H2 and a substantial increase of average wages in that country<sup>6</sup>, the value of incoming cash remittances reached 50.1% of GDP (+13.3 p.p. of GDP compared to 2023H1). As a result, the current account deficit was replaced with a surplus of 6.2% of GDP.

The outflow of funds from the financial account amounted to 6.7% of GDP vs 4.1% of GDP in 2023H1. The expansion of capital outflow occurred due to the increase in foreign financial assets of the banking sector and the NBT classified under "other investments". The inflow of direct investments stood at 1.7% of GDP (2023H1: 1.9% of GDP), and was largely attributable to reinvestment of profits. Due to the current account surplus and the growth of international reserves fuelled by acquisition of monetary gold in 2024H1, foreign assets of the NBT increased by USD 560.1 million compared to December 2023 (Figure 13). As the balance of payments improved, the real effective exchange rate of the somoni strengthened by 0.4% y/y (Figure 12).

**Figure 11. Balance of Payments Indicators**

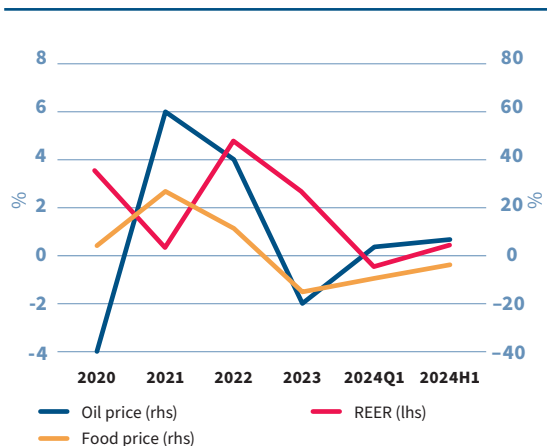


Source: NBT.

<sup>5</sup> According to the Statistical Agency under the President of the Republic of Tajikistan, in 2024H1 export of goods increased by 47% compared to 2023H1. This gap in export dynamics was caused by the use of different methods to account for exports of monetary gold for refining. That operation is not classified as an export operation in the balance of payments, as it does not involve transfer of ownership.

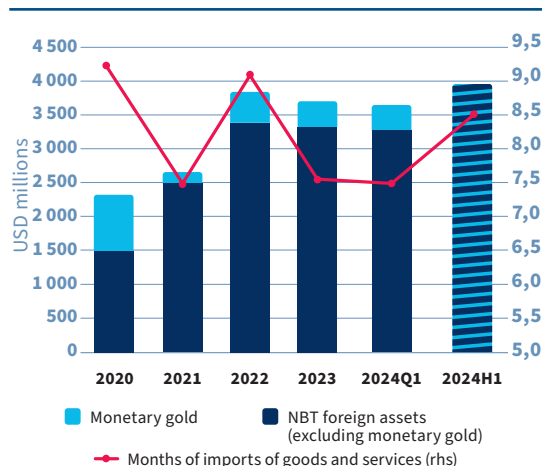
<sup>6</sup> In the rouble equivalent, the increase in migrant cash remittances amounted to 77% y/y due to a weakening of the ruble against the dollar.

**Figure 12. Changes in Price Terms of Trade**



Source: NBT.

**Figure 13. NBT Foreign Assets (eop)**



Note: 2024Q2 data on monetary gold are not available.  
Source: NBT.

## MEDIUM-TERM FORECAST

**We revised 2024 GDP growth upwards to 8% from 7.6% in the summer forecast.** The acceleration of growth could be attributed to more positive dynamics of economic activity in 2024H1, higher estimates of 2024 economic growth in the Russian Federation, faster-than-expected rise in metal prices, and the significant increase in remittances. As in the previous forecast, we expect a deceleration of the real GDP growth in 2025–2026, but the projected rates of growth were revised upwards by 0.2 p.p. and 0.1 p.p. to 7.5% and 7.1%, respectively, due to an improvement of the global market situation and a stronger growth momentum in 2024. The rate of economic growth in 2027 is projected at 6.7%.

**By the end of 2024, inflation is expected to accelerate to 5%, staying close to the lower bound of the target range, and then increase to 6% in 2025–2027.** The average annual consumer inflation estimate for 2024 was revised down to 3.8% from 4.1% in the summer forecast, as the dynamics in 2024H1 were more positive than anticipated. Over the medium term, we project an increase in inflation to

6%, due to the low base effect and rising prices of services and non-food goods. The average annual consumer inflation will remain within the NBT target range ( $6\pm 2\%$ ), as prices of the key commodities and imported food products are projected to remain stable throughout 2025–2027.

**The fiscal deficit will expand to 1.7% of GDP in 2024 and to 2.4–1.8% of GDP in 2025–2027.** In 2025–2027, budget expenditures will slightly increase due to rising payroll expenses. Overall, state budget expenditures will remain at about 30% of GDP until 2027. The share of investment expenses is expected to decline due to the anticipated rise in debt service costs and current expenditures in general. Budget revenues will decline from 29.5% of GDP in 2023 to 28.8% of GDP in 2027. Reduction of grant receipts (as a percentage of GDP) will exert downward pressure on budget revenues. Tax revenues will gradually increase due to the elimination of ineffective tax benefits and expansion of the tax base.

**In 2024, sustainability of the balance of payments will improve due to**

**a significant increase in remittances.** We revised our estimate of the current account surplus in 2024 upwards to 2.9% of GDP compared to 2.5% in our previous forecast. On the other hand, the 2024 export estimate was revised slightly downwards compared to the summer forecast on the basis of the latest balance of payments statistics. Over the medium term, we expect the current account surplus to gradually decrease to 0.4% of GDP in 2026, and then transform into a deficit of ( 0.6%) of GDP in 2027 as

a result of the growth of consumer and investment imports and a decrease in the rate of growth of remittances. The ongoing influx of capital from remittances and exports will cause a persistent outflow of funds from the financial account (at about 2% of GDP) in 2024–2027, including in the form of acquisition of foreign exchange cash and deposits. The GIR coverage will increase from 7.4 months of imports of goods and services in 2023 to 8.0 months of imports in 2027.



## TABLE 1. FORECAST OF THE KEY MACROECONOMIC INDICATORS

	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast	2027 Forecast
<b>National accounts and prices, %</b>					
Real GDP growth	8.3	8.0	7.5	7.1	6.7
CPI (December, y/y)	3.8	5.0	6.0	6.2	6.0
<b>Money and credit (eop)</b>					
Broad money, % change	-0.8	11.8	14.0	12.5	13.8
<b>Public finance, % of GDP</b>					
Budget revenues	29.5	28.7	28.2	28.5	28.8
Tax revenues	19.7	19.9	20.2	20.5	20.8
Budget expenditures	30.0	30.3	30.6	30.5	30.6
Current expenditures	18.9	19.7	19.8	20.1	20.3
Capital expenditures	11.1	10.6	10.8	10.4	10.4
Fiscal balance ("-" deficit / "+" surplus)	-0.5	-1.7	-2.4	-2.0	-1.8
<b>External sector, % of GDP</b>					
Current account	4.8	2.9	1.8	0.4	-0.6
Remittances	37.0	41.3	38.5	35.8	34.8
Foreign direct investments ("-" inflow; "+" outflow)	-0.8	-0.8	-0.8	-0.8	-0.8
Gross international reserves, in months of imports of goods and services	7.4	7.6	7.9	8.0	8.0

Source: national agencies and authors' calculations.

# RISKS AND UNCERTAINTIES OF THE BASELINE FORECAST

In light of the normalisation of economic policy and moderate improvement of macroeconomic conditions in the world's major economies, along with the higher-than-expected economic growth in Russia, we adhere to a moderately optimistic approach in our baseline scenario. Yet, despite the somewhat lower level of uncertainty, macroeconomic, financial and geopolitical risks remain significant, both in the global economy and the EFSD operating area.

The steady inflation decline in the developed countries enabled their central banks to continue the rate-cutting cycle throughout 2024H1. However, the diminishing inflation concerns are being replaced by mounting fears of possible deceleration of economic growth in the world's major economies. In the USA, these risks are related to the rapid deceleration of consumer spending, as households face increasing debt burdens and nearly depleted savings. In particular, there are concerns that the rate cuts came too late and that the FRS has missed the timing to properly support the rapidly weakening consumer demand. In the Eurozone, the key risk relates to uncertainty regarding the ability of the German economy to return to a steady growth path, crucial for providing an economic impetus to the entire European region. China is facing an increasing risk that traditional drivers of economic growth will no longer be sufficient to keep growth at 5% despite unprecedented fiscal and monetary support measures, because of the critical structural problems and the expanding trade restrictions on Chinese products in the world's largest markets.

The risk related to the decline of external demand, combined with economic

uncertainty in the USA and China and the weakness of the European economy, is the main threat to our growth projections in the EFSD member states under the baseline scenario. Besides, economic growth in all economies of the region can be additionally jeopardised by a more significant slowdown in Russia, which in turn may reduce the volume of foreign trade, financial inflows and remittances in most countries.

**All EFSD member states** remain exposed to risks originating from wide fluctuations in oil prices caused by geopolitical tensions around the conflict in the Middle East, the uncertainty around OPEC+ oil production cuts and oil production in Libya. We believe, however, that Brent oil prices could drop below USD 70 per barrel only in the event of a significant deceleration of growth in the major economies, which will also depress prices of other commodities, including metals. This could have an adverse effect on export and budget revenues of the majority of the EFSD member states. The increase in oil prices presents an inflationary risk for Armenia and Tajikistan.

Another key risk for **all EFSD member states** is the remaining high uncertainty around the adaptation of the Russian economy and population to sanctions. Since 2023H2, we have been observing declining impacts of positive externalities in Armenia<sup>1</sup> and Kyrgyzstan<sup>2</sup>, which relates

<sup>1</sup> According to our estimates, in 2022 the positive impact produced on the economic growth in Armenia by the inflow of Russian capital and consumption by Russian citizens was about 4.0 p.p. (of 12.6%).

<sup>2</sup> Positive externalities accounted for 35% of total GDP growth in Kyrgyzstan in 2022 (3.2 p.p. of 9.0%), and for 23% in 2023 (1.4 p.p. of 6.2%).

to flows of international trade, capital and labour resources associated with sanctions imposed on Russia. Acceleration of these trends, coupled with mounting risk of secondary sanctions on enterprises and banks in Armenia, Kazakhstan, Kyrgyz Republic, and Tajikistan, may have additional adverse impact on economic activities in these countries, including contraction of trade, bank transfers, IT and other services (see below).

The key risk for **Russia** is related to achieving macroeconomic balance in a difficult policy trade-off between maintaining a relatively high rate of economic growth and bringing inflation down to the target level. We believe that if the Russian government chooses to move along the fast GDP growth path (above the potential level), which may include boosting domestic demand through additional fiscal stimulus, it will be extremely difficult for the Bank of Russia to bring inflation to the target range during the projection period. Besides, it may bring additional devaluation pressure on the Russian rouble. It should be noted, however, that the positive effect of accelerated GDP growth in Russia is likely to exceed the adverse impact from additional pressure on inflation and exchange rates in Kyrgyz Republic, and Tajikistan.

In **Kazakhstan**, the risks to macroeconomic balance, mostly related to excessive fiscal stimulation of the economy, are already beginning to materialise. Given these conditions, if the non-oil budget deficit does not decline during the projection period, it is likely that the rate of inflation will be higher than envisaged in the baseline with limited effectiveness of monetary policy to bring inflation closer to the target. The build-up of non-oil deficit and the resultant increase in transfers from the National Fund relative to the baseline scenario will produce upward pressure on

the exchange rate, likely keeping the tenge overvalued. This could, in turn, provoke additional devaluation expectations and impair the country's external sustainability.

In 2025, the rate of economic growth in Kazakhstan may fall short of the baseline forecast, if oil output fails to reach the target because of OPEC+ limits and delayed start of production at new fields.

Downside risks prevail in the baseline forecast for economic growth in **Armenia**. The main risks include: (1) a faster disappearance of transitory growth factors (re-export of gold and other precious metals); (2) the increase in geopolitical tensions, and (3) the negative impacts from external factors, including the outflow of capital and reduction of consumption by Russian citizens, relocation of IT companies and personnel from Armenia, and reduction of Armenian exports to Russia. If these risks materialise, economic activity could decline at the end of 2024 and at the beginning of 2025.

The fiscal sector faces asymmetric risks. On the one hand, there might be additional needs to increase social and other expenses (unemployment benefits, social support expenses, etc.) to support displaced population, which came from Nagorno-Karabakh and have limited involvement in Armenia's labour market. This will likely result in an expansion of the budget deficit and a potential financing gap relative to the baseline forecast. On the other hand, there remains the probability that the Government will not execute all planned capital expenditures, which will reduce total budget expenditures but negatively impact economic growth in Armenia.

One of the key inflationary risks relates to the likely rapid depreciation of the Armenian dram from its currently overvalued level. This risk may increase

in view of a possible deterioration of the balance of foreign trade in goods and services, faster outflow of capital, and reduction of gross international reserves.

The main risks to economic activity in **Kyrgyz Republic** relate to the volatility of external factors. A drop in gold prices may result in a reduction of exports, international reserves, and budget revenues generated by the Kumtor field. In addition, there remains the risk of excessive appreciation of the national currency which, combined with the expansion of import substitution production in Russia, may have an adverse impact on economic activity in export-oriented and service sectors.

The key domestic risk for Kyrgyz Republic is the possible increase in the liabilities of loss-making energy companies, which may

force them to seek a government bailout, thereby creating additional risks for the budget. Another risk relates to the planned implementation of large-scale infrastructure projects (in Power Engineering and Transport) which will require significant foreign and domestic borrowing with the potential negative implication for the country's debt and budget sustainability.

In **Tajikistan**, the main external risks relate to abrupt changes in the Russian economy and transitory factors, which could negatively affect commodity exports, remittances and imports. In addition, the Rogun HPP construction project continues to generate internal and external risks for budget and debt sustainability, despite the improvement of the country's sovereign rating and identified sources of funding.





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