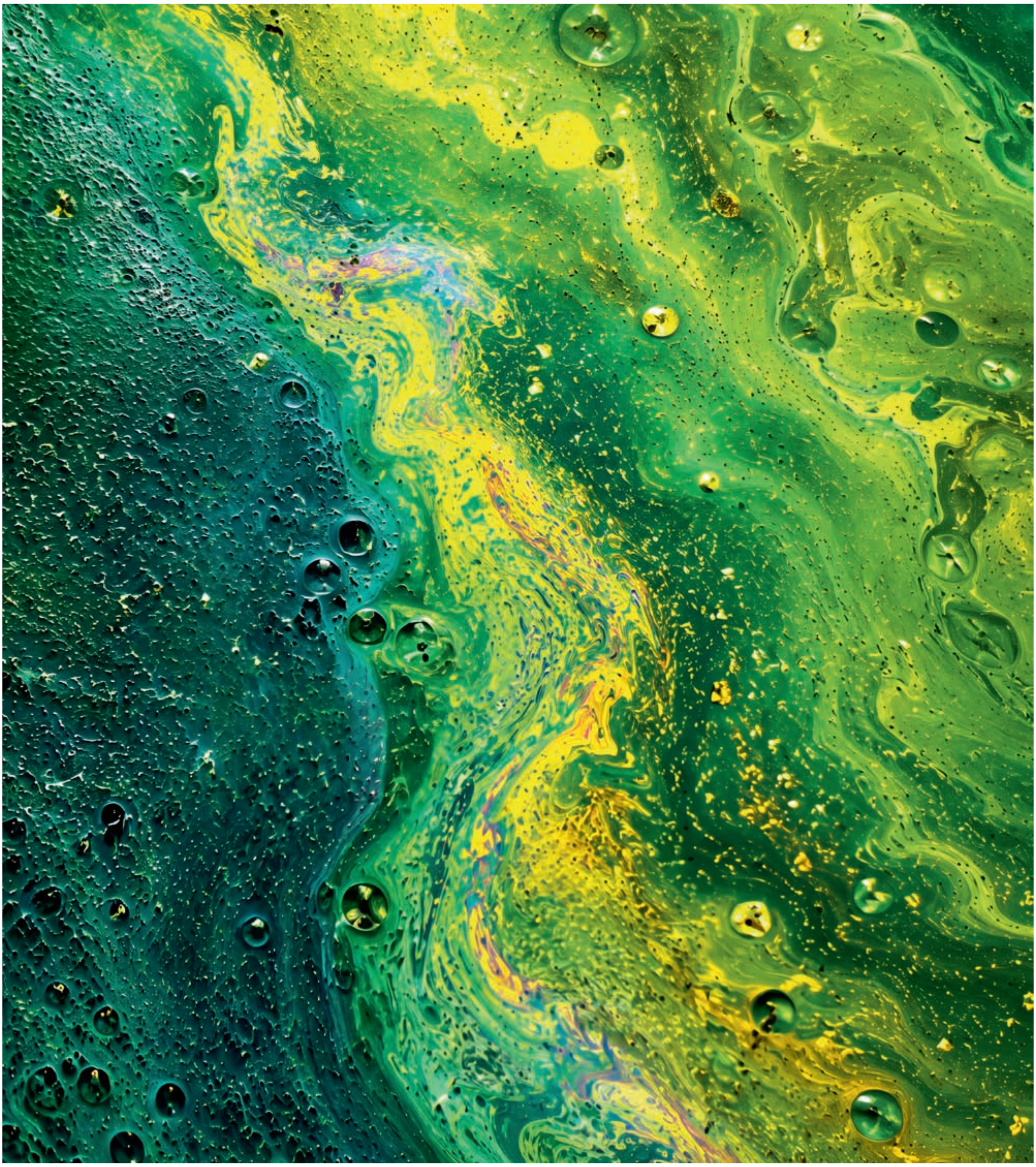
EFSD
EURASIAN FUND FOR STABILIZATION AND DEVELOPMENT

SUMMER 2026 / №2 (10)



REGIONAL ECONOMIC OUTLOOK

SUMMER UPDATE

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

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EURASIAN FUND FOR STABILIZATION AND DEVELOPMENT

SUMMER 2026 UPDATE

In Q1 2026, most countries in the region recorded a significant slowdown in economic activity, which led us to revise our estimates.

2026 ESTIMATE

GDP growth estimate for 2026 revised downwards for most countries in the region

GDP growth, y/y, %

	2025	2026 (E)	change, p. p.
Russia	1.0	0.6	-0.6
Kazakhstan	6.5	5.0	-0.2
Armenia	7.1	5.5	-0.2
Belarus	1.3	1.3	0.9
Kyrgyz Republic	11.1	8.5	0.2
Tajikistan	8.4	7.1	0

The inflation estimate for 2026 has been revised downwards for some countries. We expect inflation to accelerate in countries that import food and energy and have strong domestic demand

Inflation, y/y, %

	Dec 2025	May 2026	Dec 2026 (E)	change, p. p.
Russia	5.6	5.3	6.0	0.6
Kazakhstan	12.3	10.4	9.8	-0.3
Armenia	3.3	4.2	3.9	-0.1
Belarus	6.8	4.6	4.8	-1.3
Kyrgyz Republic	9.4	11.0	9.5	2.9
Tajikistan	3.5	4.1	6.3	1.4

CURRENT SITUATION

Domestic demand remains the key driver of growth

Fixed capital investment, y/y, %

	Jan–Apr 2026
Kyrgyz Republic	69.7
Tajikistan	34.2
Armenia*	7.2
Kazakhstan	6.7
Belarus**	1.5
Russia*	-14.3

*Jan-Mar, **Jan-May

Retail sales, y/y, %

	Jan–Apr 2026
Tajikistan	30.3
Kyrgyz Republic	13.6
Armenia	7.5
Belarus	6.2
Russia	4.3
Kazakhstan	3.4

Fiscal policy in most countries remains expansionary

Russia	Kazakhstan	Armenia	Kyrgyz Republic	Tajikistan
Strongly expansionary	Formally restrictive	Restrictive	De facto expansionary	Restrictive

Monetary conditions remained mostly tight despite policy rate cuts

Changes in key policy rates in 2026

Russia	Kazakhstan	Armenia	Belarus	Kyrgyz Republic	Tajikistan
-1.75 p.p.	-1.00 p.p.	no change	-0.50 p.p.	+1.00 p.p.	-0.50 p.p.

RISKS

UPSIDE RISKS TO GDP GROWTH

- More active economic stimulus in Belarus, Kazakhstan, and the Kyrgyz Republic.
- More favourable external economic conditions, including commodity prices and demand from trading partners.

DOWNSIDE RISKS (PRIMARILY INFLATIONARY)

- **Kazakhstan:** uncertainty following the lifting of the moratorium on increases in utility and fuel prices.
- **Kyrgyz Republic:** overheated domestic demand and rising fuel and food prices.
- **Tajikistan:** possible disruptions to fuel supplies and rising wheat prices.
- **Armenia:** external trade risks.

Executive Summary

In Q1 2026, most countries in the region experienced a substantial slowdown in economic activity, prompting us to revise our forecasts for 2026. The decline in growth rates was primarily driven by one-time, unforeseen factors. For example, in the Russian Federation, the slowdown in construction was driven by colder weather and heavier snowfall in winter; in Kazakhstan, oil production fell temporarily due to a technical failure at the Tengiz field; and in Armenia, there was a downturn in the financial sector. The exception was Belarus, where the weak start to the year was largely attributable to unfavourable external conditions. In the Kyrgyz Republic and Tajikistan, economic activity continued to grow at a rapid pace. Therefore, we expect a rebound in Q2 which, compared with historical levels, is likely to be quite significant. We already see it emerging based on the latest data for Belarus and Kazakhstan. Nevertheless, our forecasts for 2026 have been revised slightly downwards. We expect GDP growth to be lower than in 2025: at 0.6% in Russia, 5.0% in Kazakhstan, 5.5% in Armenia, 1.3% in Belarus, 8.5% in the Kyrgyz Republic, and 7.1% in Tajikistan.

In most countries in the region, investment activity remains strong, while consumer spending appears to be easing in several countries. The Kyrgyz Republic is in the lead, with growth in fixed capital investment reaching 69.7% YoY over the first four months. Investment is falling only in Russia, due to high real interest rates and heightened uncertainty. Overall, the year is expected to see more moderate growth in consumer activity in Russia, Kazakhstan, and Armenia. In other countries, retail sales are growing at comparably high rates or are even accelerating amid rising incomes, increased lending, and incoming remittances. This trend indicates that the contribution of domestic demand to economic growth remains significant.

The positive effect of external demand is evident in Armenia, where exports (excluding re-exports) rose by approximately 29% between January and March. Kazakhstan and Tajikistan are seeing an increase in the value of their exports against a backdrop of favourable market conditions. Meanwhile, external demand works as a constraint in Belarus, given the weak economic activity in Russia. In the Kyrgyz Republic, the sluggish growth in exports is primarily due to a six-fold YoY fall in gold exports.

In early 2026, inflationary pressures began to ease in several countries, while intensifying significantly in others, particularly in those importing food and energy. Inflation in Russia remained high early in the year, largely due to the one-off effect of the VAT increase; however, figures for April–May showed a slowdown to 5.3% YoY. According to our estimates, inflation in Russia will be 6.0% by the end of 2026. In Kazakhstan, inflation is slowing — from 12.3% at the end of last year to 10.4% in May, though uncertainty remains regarding future trends as the moratorium on increases in regulated prices expires. Our forecast for the end of the year has been revised downwards, although still high — at 9.8%. A robust trend towards disinflation has emerged in Belarus: annual inflation fell from 6.8% to 4.8% in May, driven by a favourable external price environment, a slowdown in inflation in Russia, and BYN appreciation. This is accompanied by increased inflationary pressures in Armenia, the Kyrgyz Republic, and Tajikistan. In Armenia, the pressures are driven by external supply-side factors, although there have still been signs of growing domestic demand. In the

Kyrgyz Republic, it is due to rising import prices for energy (diesel fuel prices have increased by 12.9% since the start of the year) and food, while domestic demand remains strong. In Tajikistan, it is due to rising global oil prices (prices for fuel and lubricants have risen by 18% since the start of the year) and wheat prices. As a result, our inflation forecasts for the end of 2026 have been revised upwards 9.5% for the Kyrgyz Republic, and 6.3% for Tajikistan.

The key interest rate has been cut in response to current inflation trends in Russia, Kazakhstan, and Belarus; however, monetary policy and signals from the Bank of Russia and the NBRK remain tight. The refinancing rate in Armenia remained unchanged, despite mounting inflationary pressures. The NBKR has not raised its interest rate since February. In Tajikistan, the refinancing rate was left unchanged in late April, as inflation remained within the target range (5±2%).

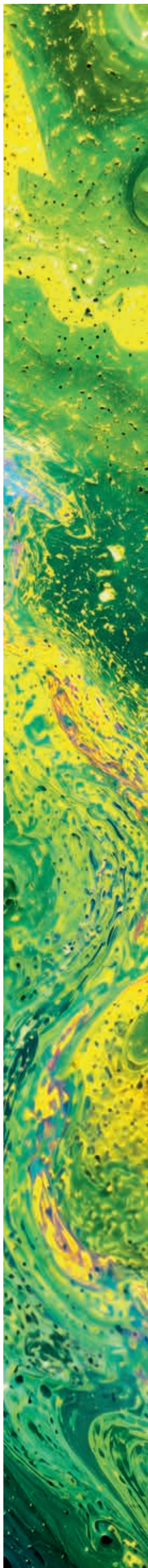
Foreign exchange markets remained relatively stable. Local currencies across the region appreciated against the U.S. dollar, following the lead of the Russian ruble (+7.4% in May compared with December), with the exception of the Kyrgyz Republic and Tajikistan, where the nominal exchange rate against the USD remained stable. This, in turn, was accompanied by depreciation against the Russian ruble, which became an additional source of inflationary pressures in several countries.

Fiscal policies in the region are also mixed. Russia's policy was distinctly expansionary, with front-loaded expenditures (up 17% YoY in Q1 and faster-than-planned fulfilment of the annual budget) accompanied by a sharp fall in oil and gas revenues (-45.4% YoY), resulting in a record deficit (RUB 4.6 trillion in Q1). In the Kyrgyz Republic, the budget formally recorded a surplus (18% of GDP) due to a one-off transfer of profits from the NBKR. At the same time, the practice of generating significant below-the-line expenditures through capital injections into state-owned companies continued, which the EFSD sees as leading to a deficit. In Kazakhstan, the apparent improvement in the fiscal position — with the non-oil deficit narrowing to 4.1% of GDP (4.8% of GDP a year earlier) — was accompanied by a significant increase in quasi-fiscal investment. In Armenia, fiscal policy was restrained, with the budget showing a surplus of 2.3% of GDP thanks to lower-than-planned expenditures and high tax revenues. This was also the case in Tajikistan, where the fiscal position strengthened due to robust growth in both tax revenues (profit tax, VAT) and grants combined with a moderate increase in primary expenditures.

Overall, the risk outlook for the region remains mixed. As for GDP growth, upside risks prevail — in Belarus, Kazakhstan, and the Kyrgyz Republic, economic activity is likely to increase due to more vigorous economic stimulus measures or should external economic trends prove more favourable. Inflationary risks remain a key adverse factor for most countries: in Kazakhstan — due to uncertainty surrounding the expiry of the moratorium on housing and utility tariff hikes and fuel and lubricant price increases; in the Kyrgyz Republic — driven by domestic demand and import prices for fuel and food; and in Tajikistan — due to potential disruptions to fuel and lubricant supplies as well as rising wheat prices.

	Actual	Estimates	Forecasts		Deviation from previous forecasts		
	2025	2026	2027	2028	2026	2027	2028
Russian Federation							
GDP growth, %	1.0	0.6	1.6	1.8	*-0.6*	*0.1*	*0.1*
Inflation (Q4), %	5.6	6.0	4.2	3.9	*0.6*	*0.1*	*-0.1*
Annual average exchange rate (USD)	83.4	79.2	90.2	91.6	*-7.6*	*-4.4*	*-3.3*
Bank of Russia key rate (year-average), %	19.2	14.5	8.8	7.5	*0.1*	*-0.6*	*0*
Republic of Kazakhstan							
GDP growth, %	6.5	5.0	4.6	4.2	*-0.2*	*0.3*	*0*
Inflation (Q4), %	12.3	9.8	8.1	7.0	*-0.3*	*-0.8*	*-0.8*
Annual average exchange rate (USD)	522	497	536	569	*-34*	*-28*	*-12*
Base rate (year average), %	15.8	16.8	14.2	11.5	*-0.2*	*0*	*0*
Republic of Armenia							
GDP growth, %	7.1	5.5	5.1	5.0	*-0.2*	*0.1*	*0*
Year-end inflation, %	3.3	3.9	3.0	3.0	*-0.1*	*0*	*0*
Annual average exchange rate (USD)	387	376	385	389	*-7*	*-11*	*-12*
Refinancing rate, %	6.5	6.5	6.5	6.5	*-0.3*	*-0.3*	*0*
Fiscal balance, %	-3.7	-4.1	-3.4	-2.8	*0.1*	*0*	*0*
Republic of Belarus							
GDP growth, %	1.3	1.3	0.8	1.2	*0.9*	*0*	*-0.4*
Year-end inflation, %	6.8	4.8	5.5	5.0	*-1.3*	*-0.4*	*0*
Annual average exchange rate (USD)	3.1	2.9	3.3	3.5	*0*	*-0.2*	*0*
Refinancing rate, %	9.8	9.0	9.0	9.0	*-1*	*-1*	*0*
Fiscal balance, %	0.1	-0.5	-0.3	-0.1	*0*	*0*	*0*
Kyrgyz Republic							
GDP growth, %	11.1	8.5	6.7	6.3	*0.2*	*0*	*0*
Year-end inflation, %	9.4	9.5	7.0	6.5	*2.9*	*0.7*	*0.7*
Annual average exchange rate (USD)	87.4	88.2	89.7	91.3	*0*	*0*	*0*
Policy rate, %	11.0	15.0	15.0	15.0	*0*	*0*	*0*
Fiscal balance*, %	-1.5	-3.2	-2.9	-2.3	*0.1*	*0*	*0.1*
Republic of Tajikistan							
GDP growth, %	8.4	7.1	6.7	6.0	*0*	*0*	*0*
Year-end inflation, %	3.5	6.3	5.0	5.0	*1.4*	*0.5*	*0.5*
Annual average exchange rate (USD)	10.0	9.4	9.6	9.8	*-0.8*	*-1.2*	*-1.5*
Refinancing rate, %	7.5	8.0	8.0	8.0	*0*	*0*	*0*
Fiscal balance, %	-0.2	-1.1	-1.9	-1.3	*0.3*	*0.2*	*0.2*

Note: * — EFSD estimates.



EXTERNAL SECTOR

In our previous spring outlook, we shared two scenarios — a baseline scenario and a risk scenario. Under the risk scenario, the assumption was that the conflict with Iran would drag on and have adverse impacts on the global economy throughout 2026. Given the signing of the Memorandum of Understanding regarding the cessation of hostilities, we build one scenario in the current forecasting round as our baseline, drawing on current trends. Under this scenario, prices for certain commodities have been revised substantially, as were the macroeconomic indicators for major economies.

The outlook for the external sector broadly reflects a combination of slowing growth in advanced economies, persistent inflationary pressures, and volatility in commodity markets.

Following a decrease in 2025, prices on commodities markets are expected to rise on average in 2026. The average Urals crude oil price has been revised upwards to USD 70.7 per barrel (up from USD 50 per barrel under the spring baseline scenario) against a backdrop of rising global oil prices due to supply constraints. Metal prices have also been revised upwards — the metal price index is projected to reach 146.6 points, while the price for copper — USD 13,000 per tonne. Gold will retain its status as a safe-haven asset: the average price is likely to exceed USD 4,700 per troy ounce in the context of high global uncertainty. The food price index is expected to rise following a drop of more than 10 p. p. in 2025 (Table 1).

The U.S. economy remains resilient: GDP growth accelerated to 2.6% YoY in Q1 2026, although the structure of demand remains mixed. Consumption is being driven by high-income groups, while household debt is rising and the quality of new jobs is deteriorating. The growth forecast for 2026 has been revised downwards from 2.4% to 2.1%. As a result of rising energy prices, the year-end inflation forecast has been revised upwards from 2.5% to 3.1%, while the FRS would have to maintain a cautious approach to monetary easing: the average interest rate is expected to be at 3.6% in 2026.

The eurozone economy is hovering on the brink of stagnation. GDP growth slowed to 0.8% YoY in Q1, while

Table 1. Key Commodity Price Outlook

	2025 Actual	2026 Estimates	2027 Forecasts	2028 Forecasts
Gold, USD/XAU	3,442	4,745	4,822	4,685
Metal price index	112.2	146.6	144.1	144.6
Food price index	109.2	119.4	123.1	122.8
Urals crude oil prices, USD/BBL	55.6	70.7	62.9	61.4
Copper, USD/t	9,947	13,000	12,800	12,850

Source: IMF, Bloomberg, authors' estimates.

Table 2. Key Macroeconomic Indicators of the U.S., Eurozone, and China

	2025 Actual	2026 Estimates	2027 Forecasts	2028 Forecasts
U.S.				
Real GDP growth, %	2.1	2.1	2.0	2.0
Inflation, eop	2.8	3.1	2.4	2.1
FRS rate, eop, %	4.25–4.5	3.5–3.75	3.0–3.25	3.0–3.25
Eurozone				
Real GDP growth, %	1.5	0.8	1.2	1.3
Inflation, eop	2.1	3.0	2.0	2.1
EONIA rate (eop), %	2.1	2.2	2.2	2.2
EUR/USD exchange rate	1.13	1.17	1.18	1.19
China				
Real GDP growth, %	5.0	4.7	4.4	4.3
Inflation, eop	0.4	0.9	1.4	1.7
CNY/USD exchange rate	7.2	6.9	6.8	6.8

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

the rise in inflation to over 3.0% in the spring of 2026 increased the pressure on the ECB. The forecast for economic growth in 2026 has been revised downwards from 1.2% to 0.8%, with the year-end inflation forecast revised upwards from 1.9% to 3.0%. Financial conditions are expected to tighten, with at least one interest rate hike of 25 basis points. Meanwhile, the EUR would continue appreciating moderately against the USD, averaging USD 1.17 per EUR in 2026.

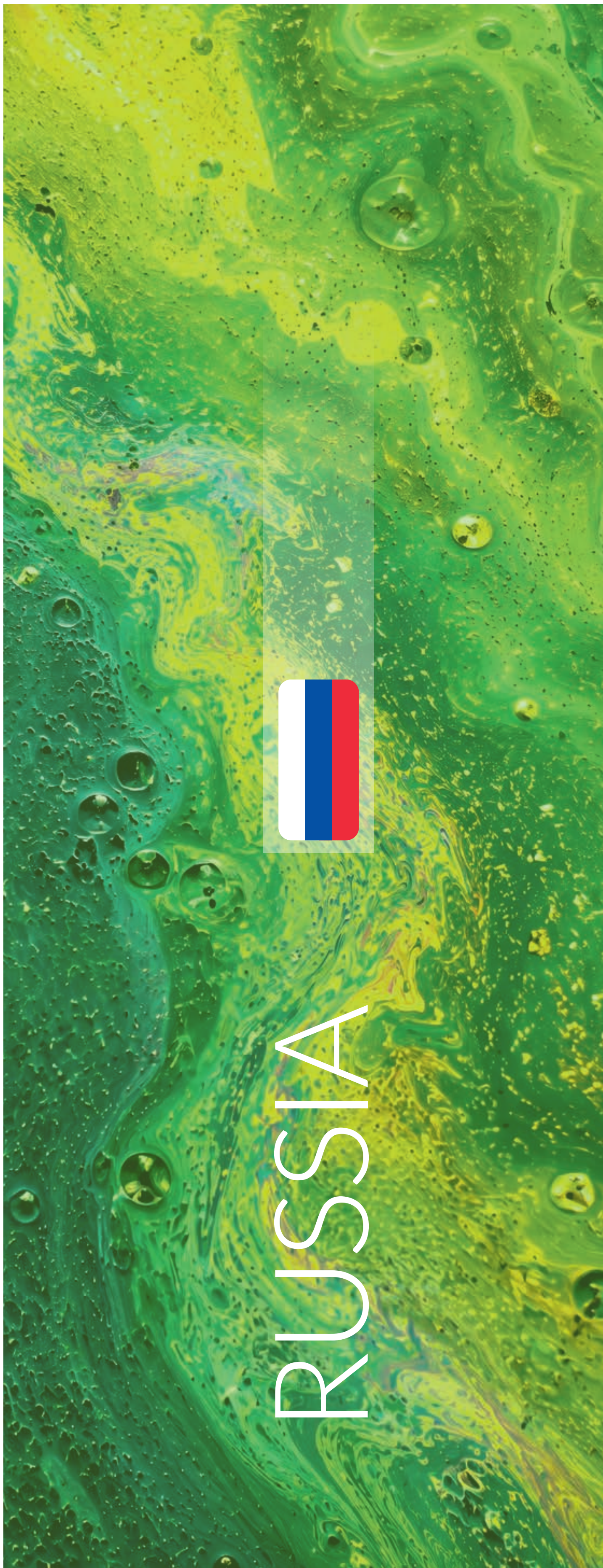
China continues to post higher growth rates than developed countries: GDP grew by 5% YoY in Q1 2026. The GDP growth forecast remains unchanged at 4.7%. The economy is supported by investment in high-tech sectors and the green economy, as well as by robust exports. Inflation remains low — at around 0.9% — which enables expansionary monetary policy. CNY is expected to appreciate moderately, averaging CNY 6.9 per USD in 2026 (Table 2).

In early 2026, Russia's economy continued to shift from the overheated growth of 2023–2024 to a more modest and mixed pattern. In Q1 2026, Rosstat recorded a 0.2% YoY GDP contraction (−2.8% QoQ, SAAR, based on our estimates). The overall economic trends early in the year showed a mix of temporary and more persistent factors. On the one hand, the performance in Q1 2026 was heavily impacted by calendar effects — the reporting period was three business days shorter than the previous year — as well as by weather anomalies, which had a pronounced effect on the construction sector in particular. On the other hand, the data for April are indicative of stronger signs of a downturn: seasonally adjusted GDP decreased by 0.5% MoM, while estimates prepared by the Ministry of Economic Development show that economic growth in January–April stood at just 0.2% YoY.

Gross value added in industry decreased by 0.3% YoY in Q1 2026, following a 2.0% YoY increase in Q4 2025. The main contributor to the decrease was the manufacturing sector, which contracted by 1.5% YoY following growth of 4.3% YoY in the previous quarter. The main positive contribution came from electricity supply (a 3.4% YoY increase, following a 0.9% YoY decline in Q4 2025). Industry growth was also supported by the mining sector, growing by 0.4% YoY in Q1 2026, following a 0.5% YoY contraction in the previous quarter (Figure 1).

The labour market remains tight, despite a decline in demand for labour from companies since the end of last year. Unemployment in Q1 2026 remains at a historic low of 2.2%, indicating that the labour market remains tight. The labour shortage is fuelling wage growth. However, the decline in income from business activities and interest income on deposits resulted in slower growth of real money incomes at 2.6% YoY, down from 6.0% YoY in the previous quarter.

Inflationary pressures remained high in Q1 2026, partly due to the one-off effect of the VAT increase. In Q1 2026, inflation stood at 5.9% YoY. The strongest growth was registered in the services sector — 10% YoY; prices for non-food products rose by 3.6% YoY, whilst those for food went up by 5.0% YoY (Figure 2). In April–May, the inflation rate slowed to 5.3% YoY, driven by food prices, the rise in which slowed to 2.9% YoY. This



was accompanied by an acceleration in price growth in the services sector — 10.1% YoY — and for non-food products — 4.2% YoY. The inflationary dynamics was accompanied by a decrease in inflation expectations, which stood at 12.4% in June, down from 13.0% in May[1]. This marks **a two-year low, with businesses' price expectations also showing a decline for the fifth month running.** Companies attribute this to a slight cooling of demand, which is holding back their plans to raise their selling prices in the coming months.

At its meeting on 19 June, the Bank of Russia resolved to cut the key rate by 25 basis points to 14.25% per annum, while maintaining a cautious stance regarding further easing. As stressed by the regulator, the recent price growth has slowed, yet inflation remains steady at 4–5% YoY, inflation expectations are still elevated, and the fiscal policy over a three-year period has been more expansionary than previously anticipated. This limits the scope for rapid interest rate cuts and implies a continued tight monetary stance.

In early 2026, the federal budget remained an important source of support for domestic demand. In Q1 2026, the deficit reached a record high for that period, reflecting both a decline in oil and gas revenues and faster than expected financing of expenditure. As a result, the federal budget deficit for that period stood at RUB 4.6 trillion. Federal budget revenues fell to RUB 8.3 trillion in Q1 2026, which is 8.2% lower than in the previous year. This was accompanied by a continued shift in the revenue mix towards revenues not related to oil and gas: revenues from the oil and gas sector fell by 45.4% YoY, while non-oil and gas revenues rose by 7.1% YoY. Expenditures amounted to RUB 12.9 trillion in Q1, up 17.0% on the previous year's level.

[1] Median direct estimates of annual inflation. Respondents are asked the following question: "How do you expect prices to change in general over the next 12 months (one year)?"

Spending remained high in April and May 2026: expenditures over the five-month period totalled RUB 20.8 trillion (47.2% of the annual target). The cumulative deficit has risen to RUB 6.2 trillion, twice the level recorded in the same period last year, mainly due to faster than expected financing of budget expenditures (Figure 3).

In Q1 2026, the current account surplus narrowed further to reach 2.1% of GDP, compared with 3.6% of GDP a year earlier. The foreign trade surplus fell to USD 27.1 billion, down from USD 30.7 billion in Q1 2025 (Figure 4). This is due to the fact that imports are growing at a faster rate than export revenues. The services deficit rose to USD 8.7 billion, compared with USD 7.6 billion a year earlier. In April, the trend of faster growth in imports compared with exports continued; as a result, the current account surplus for the first four months of the year remained 4.3% YoY lower than in the same period last year. The narrowing current account surplus indicates a gradual weakening of the economy's external buffer. At the same time, the RUB appreciation supports imports and keeps inflation in check in the short term, while undermining the price competitiveness of non-oil and gas exports and may put further pressure on the trade balance.

The growth in foreign assets (excluding reserves) slowed to USD 13.3 billion, compared with USD 16.8 billion a year earlier. The economy's external liabilities increased by USD 5.1 billion.

In Q1 2026, the Russian currency depreciated slightly — by 3.9% by the end of the quarter, reaching RUB 81.3 per USD, with an average exchange rate of RUB 78.2 per USD. In April and May, the appreciation trend resumed, and the exchange rate reached RUB 71.0 per USD as at the end of May. This trend came as a surprise to market actors. The RUB appreciation in April and May seems to reflect a mix of factors: higher foreign

Table 1. Forecasts of Key Macroeconomic Indicators

	2024 Actual	2026 Estimates	2027 Forecasts	2028 Forecasts
Real GDP growth, %	1.0	0.6	1.6	1.8
Inflation (Dec-on-Dec), %	5.6	6.0	4.2	3.9
Inflation (year-average), %	8.7	6.0	4.2	4.0
USD / RUB exchange rate (year-average)	83.0	79.2	90.2	91.6
Bank of Russia key rate (year-average), %	19.2	14.5	8.8	7.5

Source: national agencies and EFSD estimates.

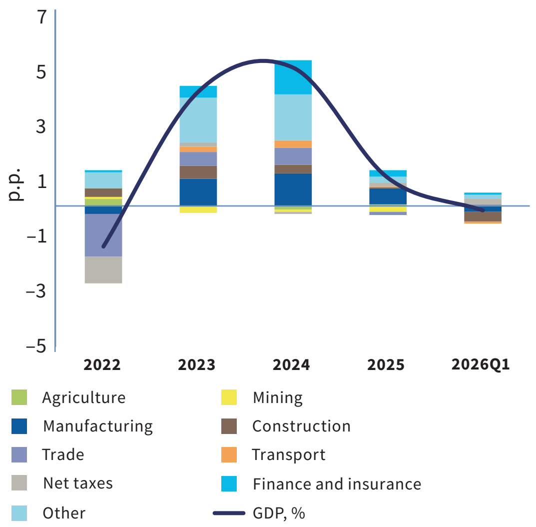
currency earnings for exporters due to rising commodity prices on global markets, lower foreign exchange purchases under the fiscal rule, and the continued attractiveness of RUB-denominated assets given the Bank of Russia's high key rate.

The 2026 GDP growth forecast has been revised downwards from 1.2% to 0.6%, taking into account the weak performance in Q1 and the data for January–April. The economy is gradually slowing down following a period of overheating, which suggests that the positive output gap will narrow during 2026. Consumer spending is likely to grow moderately against a backdrop of a slowdown in real disposable income growth; meanwhile, investment demand will remain under pressure due to high real interest rates and heightened uncertainty. In the external sector, robust imports, coupled with a gradual decline in export revenues, are expected to contribute to a further reduction in the trade surplus and a lower contribution of net exports to economic growth. At the same time, fiscal stimulus will continue to offer substantial support to domestic demand and will cushion the effect of the tight monetary stance.

According to our estimates, inflation will be 6.0% by the end of 2026. Inflationary pressures may be more sustained due to rising fuel prices. We anticipate that inflation is unlikely to meet the 4% objective again until 2028. Apart from transitory factors, several persistent pro-inflationary headwinds are impeding rapid progress towards the target inflation level. These include active fiscal stimulus, the planned housing and utility tariff hikes in 2026–2027, and the anticipated RUB depreciation from its current levels. We forecast that the Bank of Russia will proceed with greater caution in lowering its key rate to 13.5–14.0% per annum by the end of 2026. As inflation and inflation expectations continue to weaken, the regulator will extend its policy easing cycle and cut the rate to 7.5–8.0% by the end of 2027.

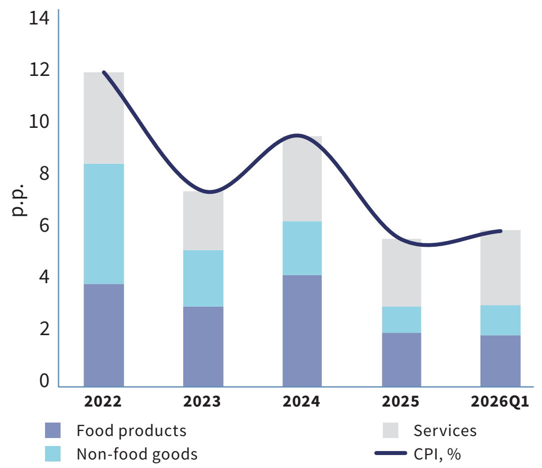
Given RUB exchange rate appreciation in April–May, **we have revised its average annual forecast for 2026 to RUB 79.2 per USD.** However, the exchange rate is expected to depreciate to RUB 91.4 per USD by the end of 2027, driven by a lower current account balance, primarily as a result of faster growth in imports than in exports. In 2028, pressures on the exchange rate will persist, with the rate remaining in the 91–92 RUB per USD range.

Figure 1. Decomposition of GDP Growth (Production Approach)



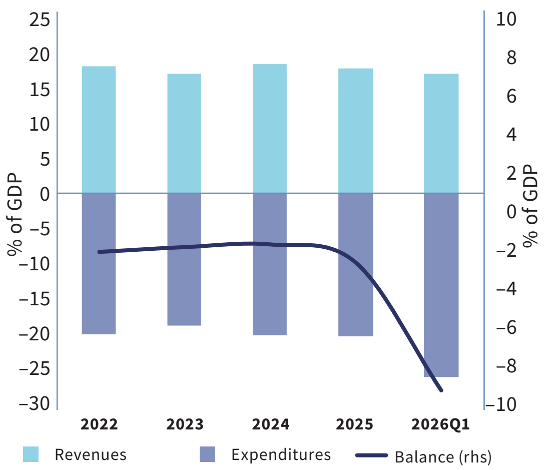
Source: Rosstat.

Figure 2. Decomposition of Inflation (YoY, eop)



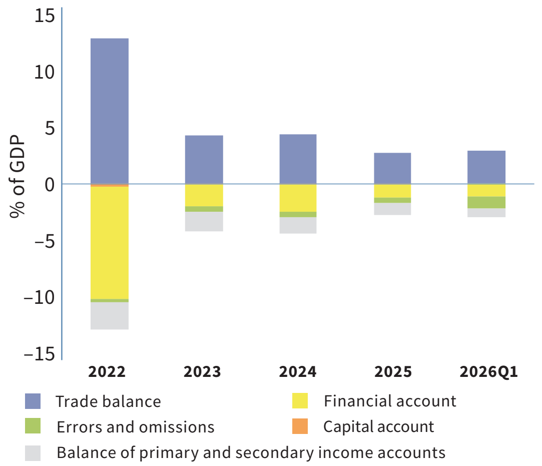
Source: Rosstat.

Figure 3. State Budget



Source: Ministry of Finance of the Russian Federation.

Figure 4. Balance of Payments



Source: Bank of Russia.

The economic growth forecast for 2026 has been revised downwards slightly, following the suspension of production at the Tengiz field early this year. This factor, however, is offset by strong growth in non-commodity sectors. In contrast, the forecast for 2027 has been revised upwards compared with the spring forecast — driven by a recovery in oil production and higher investment activity in the quasi-public sector. The inflation forecast has been revised downwards amid a sharper slowdown in price growth. Given the actual trends early this year, the forecast for the KZT exchange rate has been revised in favour of appreciation. The budget forecast remains unchanged.

In terms of the trade-off between risks, upside risks prevail — faster growth is possible if oil production increases and investment through quasi-fiscal channels accelerates. There are still risks associated with uncertainty regarding the path of inflation — primarily the timing and scale of renewed housing and utility price hikes and fuel and lubricant price rises as the moratorium expires.

Economic growth slowed significantly in Q1 due to trends in oil production. Real GDP growth was 3.0% YoY (compared with 5.6% YoY a year earlier) (Figure 1), while the SAAR was -0.3%. This occurred against the backdrop of an 11.4% YoY decline in the mining sector (compared with 6.2% YoY growth a year earlier), following an emergency shutdown of production at the Tengiz field. At the same time, non-commodity sectors mitigated the impact of the production decline, maintaining high growth rates (manufacturing +8.5% YoY, construction +14.8% YoY, transport +12.8% YoY). From the second quarter onwards, oil and gas condensate production began to recover (the cumulative decline in oil production narrowed from 32.1% YoY in January to 13.8% YoY in January–April). As a result, the GDP growth forecast for 2026 has been revised downwards by just 0.2 p.p. to 5.0%. In contrast, the forecast for 2027 has been revised upwards — to 4.6% — due to increased oil production and the expected rise in investment activity in the quasi-public sector as a result of major investment projects being implemented.

Domestic demand remains the driver of growth. Following a slight decline early this year, investment activity recovered quickly: in Q1, the growth rate reached 6.4% YoY (6.3% YoY a year earlier). Compared with the same period last year, the share of investment financed out of companies' own funds increased, while budget financing fell by 46.3% YoY. Consumer demand was more subdued in Q1, with growth in retail sales slowing to 2.8% YoY (4.8% YoY a year earlier). The value of exports rose by 3.6% YoY in the context of a favourable price environment; however, until the SNA data are released, it is unclear how much of a contribution was made by the trends in physical volumes.

Inflation in the spring of 2026 has been falling faster than expected, which has led to a downward revision of the inflation forecast. Annual inflation fell from 12.3% at the end of 2025 to 11.1% in Q1 and 10.4% in May, driven by lower contributions from services and food (Figure 2). This decline was driven by joint efforts by the Government and the NBRK (a moratorium on increases in fuel and lubricant prices and housing and utility tariff hikes, an expansion of the list of socially important food products), as well as KZT exchange rate appreciation early in the year. An additional factor is the tightening of macroprudential regulation by the NBRK, resulting in a slowdown in the growth of lending to households in Q1 2026 to 18.3% YoY (compared with 22.0% YoY a year earlier). The NBRK cut its base rate by 1 p.p. to 17% per annum, keeping the strong signal in place and noting the uncertainty arising because of the end of the moratorium on price hikes for housing and utilities, fuel and lubricants. The inflation forecast for the end of 2026 has been revised downwards to 9.8% (compared with 10.1% previously).

Amid rising expenditures and lower transfers from the National Fund, the budget deficit widened, while the non-oil deficit narrowed. In Q1 2026, budget revenues rose by 4.0% YoY (compared with 16.2% YoY a year earlier), with tax revenues growing at a faster rate of 19.9% YoY (18.6% YoY a year earlier). Due to the specific nature of VAT accrual and payment, VAT revenues rose by 48.6% YoY in Q1 2026 (compared with 13.2% YoY a year earlier), mirroring increased demand towards the end of last year in the run-up to the tax reform. As part of fiscal consolidation, transfers from the National Fund to the budget showed a substantial decline of 44.8% YoY — from KZT 1.45 trillion to KZT 0.8 trillion (unchanged from a year earlier) (Figure 3). Expenditures rose by 13.3% YoY (compared with 9.5% a year earlier) driven by increased expenditures associated with servicing the public debt, social welfare, and defence. The budget posted a deficit of 1.1% of GDP (compared with a surplus of 0.3% of GDP a year earlier), but the non-oil fiscal deficit narrowed to 4.1% of GDP (4.8% of GDP a year earlier). This was accompanied by continued strong growth in quasi-fiscal financing of investment activities. Capital expenditures of Sovereign Wealth Fund Samruk-Kazyna, JSC, rose by 57.0% YoY in Q1, reaching KZT 714.3 billion[1], against an annual target of KZT 5.3 trillion (KZT 2.7 trillion in 2025)[2]. Baiterek National Investment Holding, JSC, contributed about KZT 3 trillion to support the economy in the first five months of 2026, out of an annual target of KZT 8 trillion[3].

The external sector remains stable thanks to accumulated reserves and the strong KZT

1 Sovereign Wealth Fund Samruk-Kazyna, JSC. Interim summary consolidated financial statements (unaudited) as at 31 March 2026 and for the three months ended on that date. Note 29 'Segment Reporting' (capital expenditure by segment).

2 Samruk-Kazyna: the investment expenditure planned for 2026 is KZT 5.3 trillion (KZT 2.7 trillion in 2025). Statement by N. Zhakupov, Chairman of the Management Board. Press Office of the Government of the Republic of Kazakhstan.

3 Board Meeting of Baiterek National Investment Holding, JSC. Official website of the Prime Minister of the Republic of Kazakhstan, primeminister.kz, 3 June 2026

exchange rate. The current account deficit widened to 2.6% of GDP in Q1 2026 (from 1.7% a year earlier) due to a lower trade surplus. Against a backdrop of strong investment growth, imports rose by 9.0% YoY (2.7% YoY a year earlier), while exports grew by only 3.6% YoY (-2.6% YoY a year earlier) (Figure 4). This offset the improvement in the balance of primary and secondary income accounts. In terms of the financial account, the net capital outflow rose to USD 1.4 billion (2.1% of GDP), compared with USD 0.8 billion (1.4% of GDP) a year earlier, mainly due to a stronger outflow of direct and short-term investment. The National Fund's total gross international reserves and external assets rose to 26.2 months of imports as at the end of Q1, compared with 23.4 months at the start of the year.

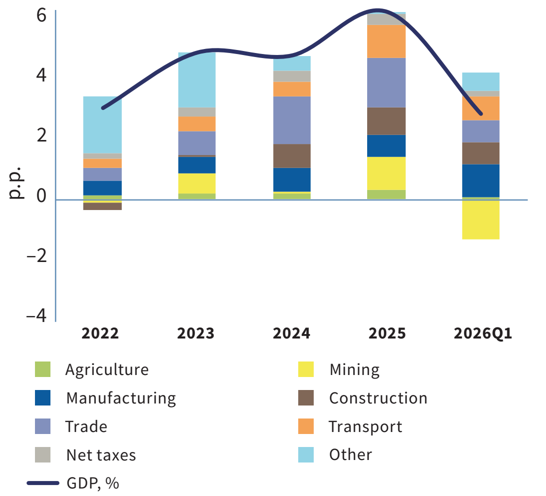
The real effective exchange rate, excluding oil trade, appreciated by 7.3% following 2.1% depreciation a year earlier. The exchange rate was supported by tight monetary policy, rising commodity prices, and foreign exchange sales on the domestic market by the NBRK and the quasi-public sector. Taking into account the stronger actual exchange rate in Q1, the forecast for 2026 has been revised in favour of appreciation from KZT 531 to around KZT 497 per USD.

Table 1. Forecasts of key macroeconomic indicators

	2025 Actual	2026 Estimates	2027 Forecasts	2028 Forecasts
Real GDP growth, %	6.5	5.0	4.6	4.2
Inflation (Dec-on-Dec), %	12.3	9.8	8.1	7.0
Inflation (year-average), %	11.4	10.6	8.8	7.3
USD/KZT exchange rate (year-average)	521.6	496.8	536.2	568.5
Base rate (year average), %	15.8	16.8	14.2	11.5

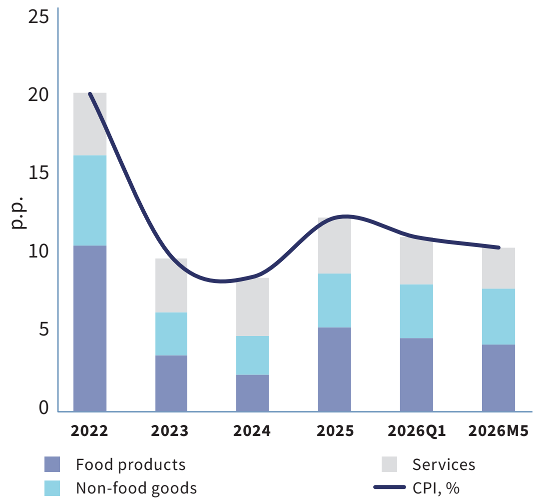
Source: national agencies and EFSD estimates.

Figure 1. Decomposition of GDP Growth (Production Approach)



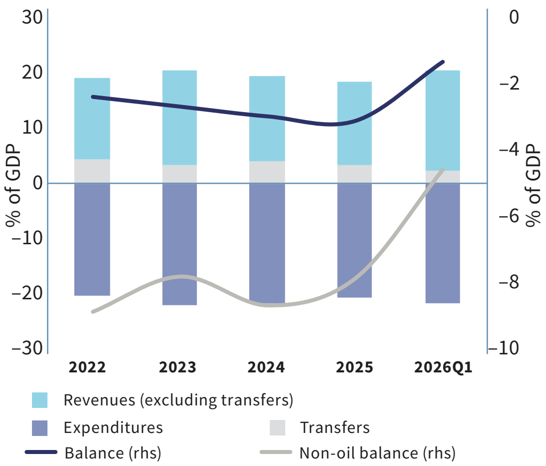
Source: estimates based on BNS ASPR RK data.

Figure 2. Decomposition of Inflation (YoY, eop)



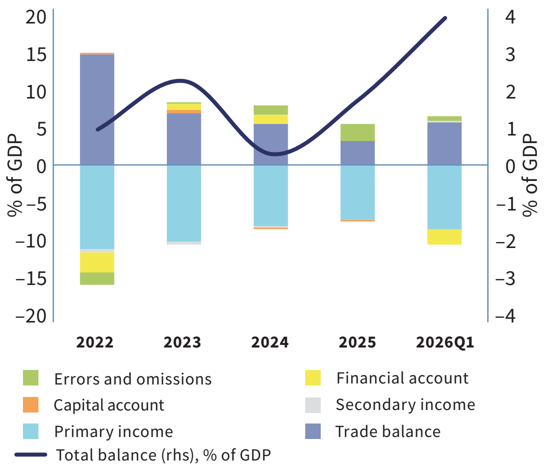
Source: estimates based on BNS ASPR RK data.

Figure 3. State Budget



Source: Ministry of Finance of the Republic of Kazakhstan.

Figure 4. Balance of Payments

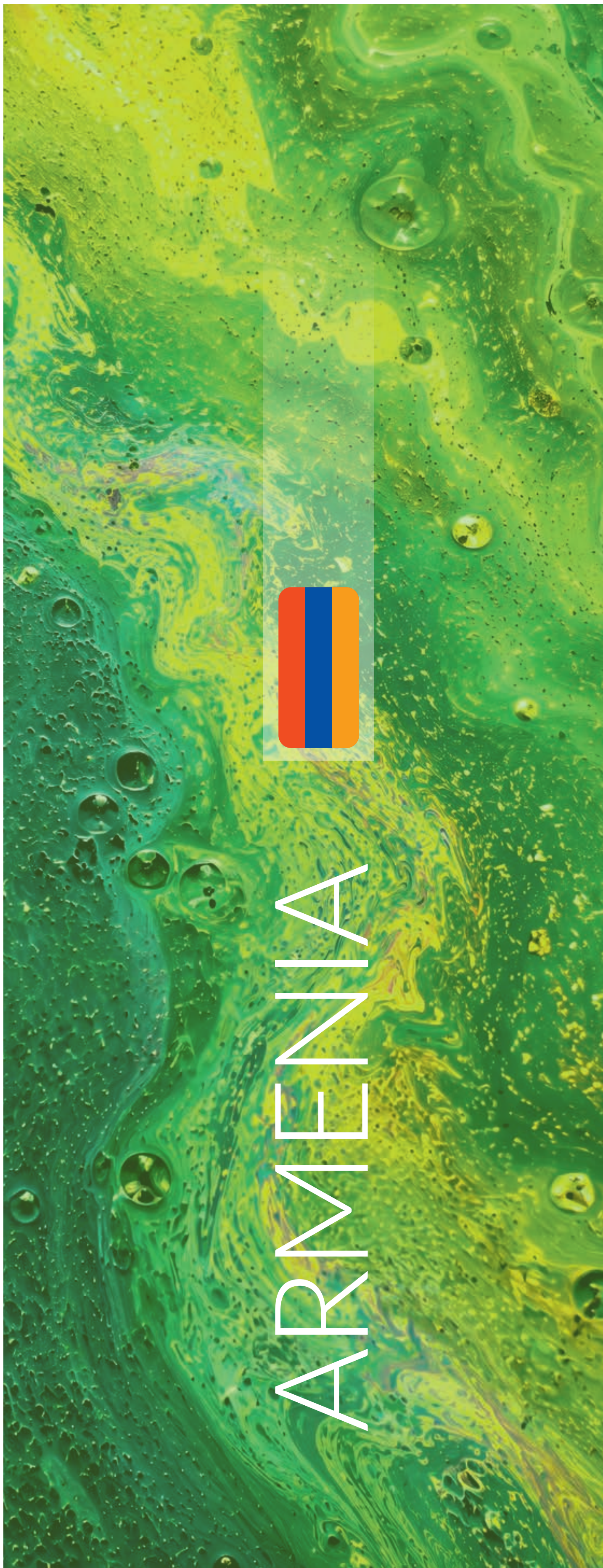


Source: NBRK.

Armenia's economy slowed down in Q1 2026, primarily due to a downturn in the financial sector (estimated to be a one-time effect). In Q1, GDP growth slowed to 4.0% YoY, compared with 9.3% YoY in Q4 2025. A key factor behind the slowdown in growth was a contraction in the financial sector (from +13.2% YoY in Q4 2025 to -13.0% YoY), which we expect to have been driven primarily by one-time and statistical factors. This category aside, economic activity followed a more robust trajectory. Growth in lending and incoming remittances continued to support consumer and investment activity. This manifested in the expansion of imports and retail trade. It was accompanied by stronger external demand driven by an influx of tourists visiting Armenia (17.2% YoY, compared with 8.7% YoY in Q4 2025). In terms of sectors, given the downturn in the financial sector[1], the main contributors to GDP growth were construction, the services sector, and the mining sector, which resumed growth after a prolonged period of contraction (Figure 1).

Inflationary pressures intensified in early 2026, driven primarily by external supply-side factors, although there were still signs of growing domestic demand. In March 2026, inflation rose to 4.5% YoY, up from 3.3% in December 2025, while core inflation rose to 4.7%, up from 4.3%. Food prices were the main driver of inflation (Figure 2), partly due to a spill-over from the external shock. However, rising core inflation indicates that price pressures were not limited solely to the volatile components of the consumer basket. In May, as food price growth slowed, inflation fell to 4.3%, from 5.3% in April. In H1 2026, the CB RA kept its policy rate unchanged, balancing the risks of weakening external demand against the need to contain domestic inflationary pressures[2].

Actual budget performance in Q1 2026 was contractionary, despite the more expansionary fiscal stance planned for the year. The state budget



1 We understand that the slower GDP growth in Q1, driven by developments in the financial sector, is partly attributable to one-time and statistical factors. Their effect is expected to wear off as early as Q2 2026, which would lead to a recovery in the sector's growth rate.

2 At its meeting held on 16 June 2026, the CB RA Board resolved to keep the refinancing rate at 6.5%. Available at: https://old.cba.am/RU/News/Pages/news_16062026.aspx#sthash.ZwufRB1X.dpbs

recorded a surplus of 2.8% of GDP, compared with 1.0% in H1 2025 (Figure 3). The surplus was driven by higher-than-expected growth in tax revenue, as well as actual expenditures below the planned level. Capital expenditures were the main factor contributing to the underspending, which is consistent with the trend of recent years and points to ongoing constraints on investment project implementation. As a result, the short-term risks of excessive fiscal stimulus somewhat eased, though this does not eliminate the possibility of increased spending in H2.

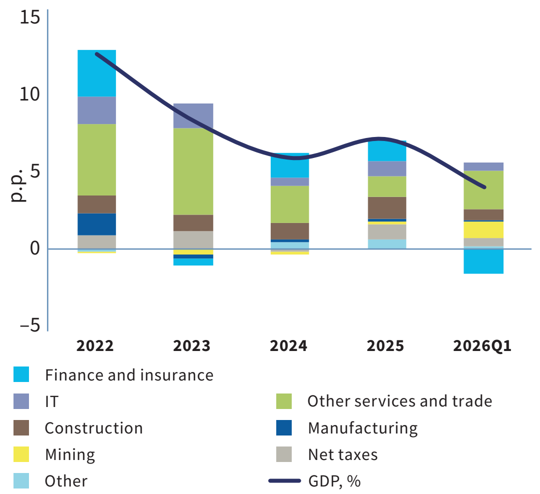
In Q1 2026, the external sector experienced both a recovery in exports and continued strong import demand. Following a significant decline in foreign trade flows in 2025, the reporting period saw a positive trend in foreign trade. Exports rose by 4.5% YoY and imports grew by 4.6% YoY. At the same time, the trade deficit improved slightly, down from 20% of GDP in Q1 2025 to 19% of GDP in Q1 2026 (Figure 4). The high level of the trade deficit is largely attributable to robust domestic demand driving imports of consumer and capital goods. We estimate that, in January–March, exports (excluding re-exports) grew by approximately 29%, indicating continued positive momentum in the economy's traditional export sectors. Tourist arrivals rose by 17.2% YoY in Q1 2026, mainly due to an increase in the number of tourists from Russia; by May, growth had accelerated to 19.3% YoY. This indicates that external demand for services remains robust and supports foreign exchange inflows from the tourism sector.

Gross international reserves stood at USD 5.9 billion at the end of May, up USD 0.8 billion compared with December 2025. The main driver of growth was the CB RA's foreign exchange purchases totalling around USD 1 billion.

The forecast for Armenia's economic growth in 2026 has been revised downwards by 0.2 p.p. to 5.5%, reflecting weaker-than-expected GDP growth in Q1 and signs of a slowdown in the Russian economy. That said, the baseline scenario still assumes that economic growth will remain quite strong, driven by robust domestic demand, supported by lending and remittances. Taking into account the data for May, the inflation forecast for 2026 has been revised by 0.1 p.p. to 3.9%.

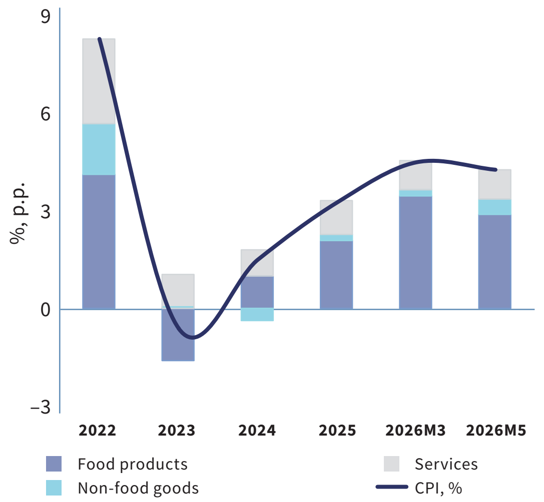
In 2027–2028, economic growth rates are expected to approach their potential level (around 5%), meaning that the economy will shift towards a more balanced growth trajectory. Consumer and investment demand will remain the key drivers of economic activity, although their contribution will gradually decline as credit growth slows. Monetary policy is expected to be geared towards bringing inflation back to the target level of 3% (±1.0 p.p.). Fiscal policy in 2026 is quite likely to become more expansionary as the pace of spending accelerates from April 2026 onwards (although the start of the year looks rather weak). In 2027–2028, we expect to see a shift towards gradual fiscal consolidation, including a reduction in the total deficit and the achievement of a primary budget surplus. Under the baseline scenario, the current account deficit is expected to narrow gradually from 6.4% of GDP in 2026 to 5.4% of GDP in 2028. A gradual reduction in the current account deficit would depend on the economy's ability to expand its export potential beyond re-export operations and to enhance the competitiveness of the tradable sector.

Figure 1. Decomposition of GDP Growth (Production Approach)



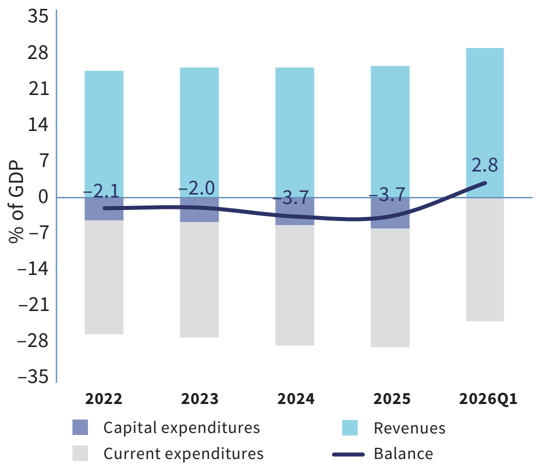
Source: Armstat.

Figure 2. Decomposition of Inflation (YoY, eop)



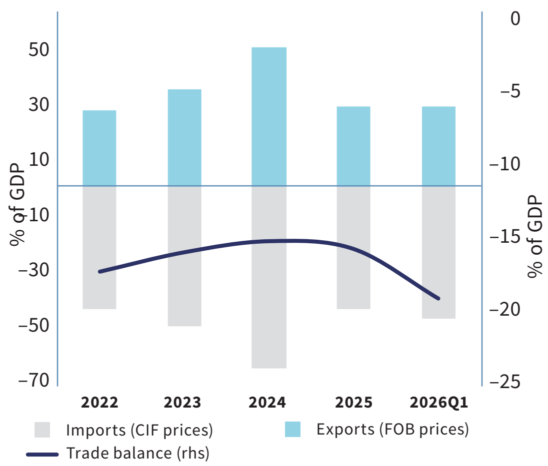
Source: Armstat.

Figure 3. State Budget



Source: Ministry of Finance of the Republic of Armenia.

Figure 4. Trade Balance



Source: Armstat.

Table 1. Forecasts of Key Macroeconomic Indicators

	2025 Actual	2026 Estimates	2027 Forecasts	2028 Forecasts
National accounts and prices (%)				
Nominal GDP				
AMD billions	11,343	12,382	13,603	14,788
USD billions	29.2	32.9	35.4	38.0
Real GDP growth	7.1	5.5	5.1	5.0
CPI (December, YoY)	3.3	3.9	3.0	3.0
Money and credit (eop)				
Broad money, % change	17.8	15.7	11.3	9.5
Public finance (% of GDP)				
Revenues and grants	25.5	25.6	25.6	25.7
of which tax revenues	24.1	24.3	24.3	24.4
Budget expenditures	29.2	29.8	29.0	28.3
Current expenditures	23.1	24.1	23.8	23.1
Capital expenditures	6.1	5.7	5.3	5.4
Fiscal balance («-» deficit / «+» surplus)	-3.7	-4.1	-3.4	-2.8
External sector (% of GDP)				
Current account	-7.2	-6.4	-6.1	-5.4
Foreign direct investment	1.2	1.5	1.6	1.7
Gross reserves, months of imports of goods and services	3.8	3.8	3.7	3.6

Source: national agencies and EFSD estimates.

Key changes in the forecasts compared with the previous round are related to a faster recovery in economic activity following a weak start to the year and more moderate inflation in the context of favourable external factors. Government policies, notably monetary policy, have shifted towards a more expansionary stance through interest rate cuts. That said, the external economic situation remains balanced.

There are still risks associated with the authorities' more expansionary policy in the context of weak external demand, with the risks of adverse effects of geopolitical tensions in the region also increasing. However, sanctions policy can be either an adverse factor if sanctions are expanded or a positive one if the pressure is eased.

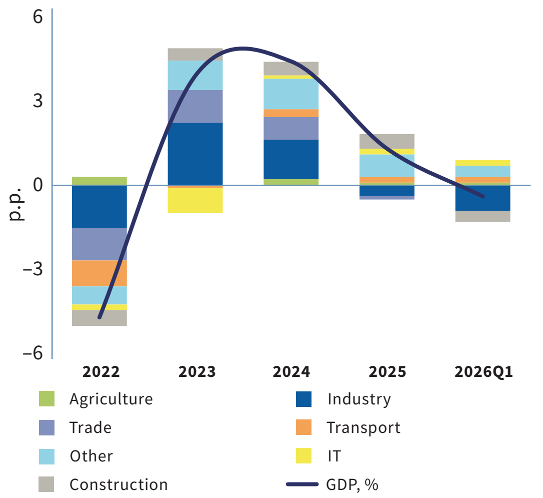
Economic activity is better than expected following a weak start to the year. Despite a 0.4% YoY GDP contraction in Q1 2026 (Figure 1), data for the spring months point to a recovery in economic activity. Seasonally adjusted real GDP growth averaged 1.2% MoM in March–May 2026; real GDP growth is expected to be around 3% YoY as at the end of Q2. The recovery of industry was a key factor in the improved economic performance. Although industrial production declined by 1.4% between January and May, seasonally adjusted output rose by an average of 1.8% MoM in March–May 2026. This probably reflects not a broad improvement in the external economic environment, but a recovery in demand for products from certain sub-sectors of industry. External demand remains generally limited, given the weak economic activity in Russia, the country's key trading partner. Investment activity is also recovering faster than expected following a significant decline in early 2026. In the first five months of 2026, investment rose by 1.5% YoY, following a 7.1% decline in January–February. Consumer spending remains strong, with real sales up 7.1% YoY between January and May 2026. This trend indicates that the contribution of domestic demand to economic growth remains significant. Given the stronger performance in the spring months, the GDP growth forecast for 2026 has been revised upwards to 1.4% YoY (+1.0 p.p. compared with the previous forecast). In the coming years, growth is expected to be around 1%. The upward revision to the forecast means that the positive output gap will persist longer than previously anticipated.

Favourable external price conditions and a decline in prices for fruit and vegetables have contributed to more moderate inflation. In May 2026, inflation slowed to 4.8% YoY, down from 6.8% YoY in December 2025 (Figure 2). Core inflation also slowed, to 5.3%, down from 7.3% in December 2025. The key factors behind disinflation were the slowdown in inflation in Russia and the BYN appreciation against the USD, which, in turn, helped curb imported inflation. Prices for fruit and vegetables fell more sharply than expected: in May, they were 7.8% lower YoY compared with the previous year, following a 4.9% increase in 2025. Given the more favourable current trends, the inflation forecast for 2026 has been revised downwards. Inflation is expected to stand at 4.8% in 2026, which is significantly below the target set for the year — no more than 7%. In the coming years, the monetary authorities are expected to aim to keep inflation at around 5%, consistent with the medium-term target.

The slowdown in inflation has created scope for interest rate cuts; however, this easing is accompanied by a recovery in economic activity and continued strong domestic demand. The monetary authorities have begun to cut interest rates in the economy. Specifically, the refinancing rate was lowered by 0.5 p.p. to 9.25% from June 2026. The EVSR macroprudential ratios keep decreasing. While earlier steps were aimed at relaxing the terms of investment loans and tightening those for consumer loans, starting in 2026, the trend toward cutting interest rates is evident across all market segments. In particular, the average interest rate on new commercial loans in May 2026 stood at 11.0% per annum, down from 11.7% in Q4 2025. Budget indicators remain well within expectations. The fiscal deficit is still expected to stand at 0.5% of GDP in 2026, gradually moving towards a balanced position in the medium term.

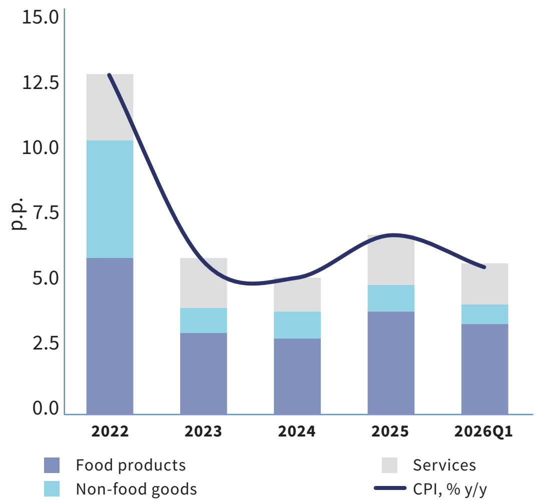
The outlook for the external sector remains largely unchanged. In Q1 2026, the trade deficit in goods and services narrowed significantly (from 3.5% to 0.9% of GDP) and came very close to a balanced level (Figure 3). The key factors behind this trend were favourable market conditions and growth in exports of services, primarily IT and transport services. Given this trend, the projected current account deficit for 2026 remains at around 1% of GDP. In the medium term, the external balance is likely to approach its equilibrium, provided that domestic demand gradually returns to normal and exports remain robust. Given the upcoming debt repayments and servicing costs, the pressure on reserves may intensify. However, they remained at a reasonably safe level of 3.8 months of imports as at the end of Q1 (Figure 4) and are generally expected to stay within the range of 3–3.5 months of imports over the forecast period.

Figure 1. Decomposition of GDP Growth (Production Approach)



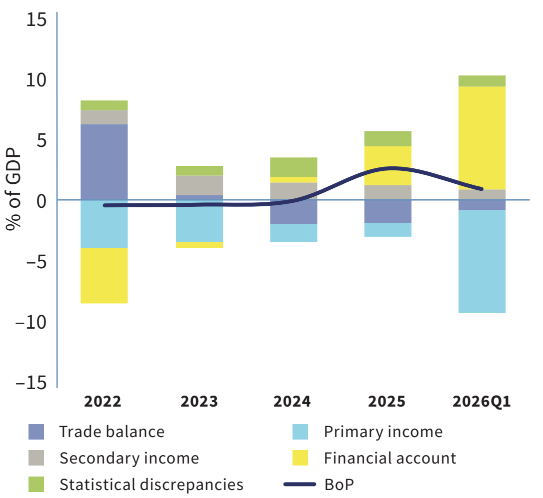
Source: Belstat.

Figure 2. Decomposition of Inflation



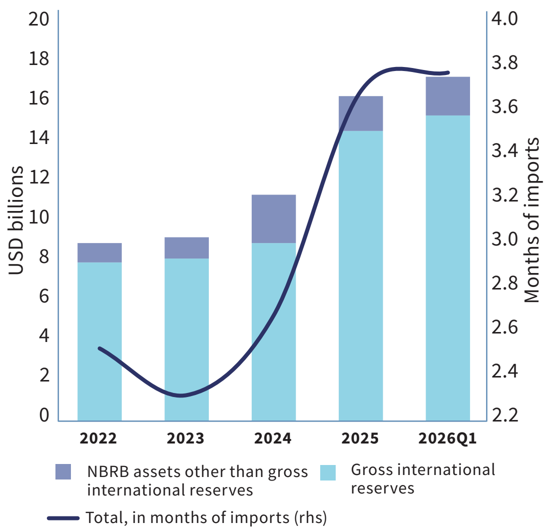
Source: Belstat.

Figure 3. Balance of Payments



Source: NBRB, Belstat, EFSD estimates.

Figure 4. NBRB's Foreign Currency Assets



Source: NBRB, EFSD estimates.

Table 1. Forecasts of Key Macroeconomic Indicators

	2025 Actual	2026 Estimates	2027 Forecasts	2028 Forecasts
National accounts and prices (%)				
Nominal GDP, BYN billions	286.6	325.9	358.3	386.6
Real GDP growth	1.3	1.3	0.8	1.2
CPI (December, YoY)	6.8	4.8	5.5	5.0
Real wage growth	11.3	7.4	4.6	3.5
Money and credit (eop)				
Broad money, % change	16.1	11.5	11.1	9.0
Credit to the economy, % change	11.3	9.6	7.1	8.5
Refinancing rate	9.75	9.0	9.0	9.0
Public finance (% of GDP)				
Budget revenues	28.6	27.8	27.7	27.8
of which tax revenues	25.5	24.7	24.7	24.8
Budget expenditures	28.6	28.3	28.0	27.9
Fiscal balance («-» deficit / «+» surplus)	0.1	-0.5	-0.3	-0.1
Primary fiscal balance	1.3	0.7	0.8	0.9
External sector (% of GDP)				
Current account	-1.8	-0.9	-0.2	0.0
Foreign direct investment («-» inflow; «+» outflow)	1.7	1.5	1.6	1.6
NBRB foreign assets				
USD billions	13.5	14.2	14.8	15.8
months of imports of goods and services of the respective year	3.0	3.1	3.4	3.5

Source: national agencies and EFSD estimates.

The key forecasts for economic growth, the budget, and the external sector remain unchanged, reflecting the continued strength of the main drivers of the economy (construction, trade, and industry), the fiscal stimulus, and a high current account deficit. However, the materialising of external shocks in terms of food and energy prices has resulted in a significant upward revision of inflation forecasts.

There are still risks of further acceleration in inflation, as well as of increased budget expenditures on both major infrastructure projects and capital injections for state-owned companies.

Economic growth trends remain in line with expectations. GDP growth stood at 10.1% YoY in Q1 2026 (12.5% YoY a year earlier) (Figure 1) due to rapid growth in housing and infrastructure construction (+29.6% YoY), trade (+14.8% YoY), and industry, particularly the production of gold, cement, and food products (+13.4% YoY). The slowdown in growth is mainly attributable to the construction sector (-0.7 p.p.), due to factors relating to the timing of capital injections for the State Mortgage Company from the national budget (Q1 in 2025 and Q2 in 2026). The strong growth in fixed capital in January–April, reaching +69.7% YoY (+53.1% YoY a year earlier), as well as the acceleration in GDP growth in January–April to +12.4% YoY (+12.0% YoY a year earlier), indicates that the contribution from the construction sector has remained at least at last year's level. The slowdown in trade (-0.6 p.p.) is mainly attributable to slower growth in wholesale trade (+8.2% YoY compared with +50.0% YoY a year earlier), while retail trade growth has accelerated (+16.1% compared with +8.3% YoY a year earlier), indicating that consumer demand growth still tends to be higher. Therefore, growth is expected to reach 8.5% YoY in 2026 (+0.2 p.p. compared with the previous forecast). The forecasts for the coming years remain unchanged due to the expected slowdown in consumer demand and weaker fiscal stimulus.

The materialising of pro-inflationary risks has led to a significant upward revision of inflation forecasts. Inflation accelerated to 11.0% YoY in March 2026 (6.9% YoY in March 2025) (Figure 2), while the share of core goods and services, the prices of which are growing at a pace above the upper bound of the NBKR's target range (5–7%),

rose from 33% to 69%. In April and May, price growth remained at a level above 11%. Inflation is driven by both monetary factors (increased demand, fuelled by growth in lending and household incomes) and non-monetary factors, such as electricity tariff hikes, rising costs for livestock farms, and increases in import prices for fuel and food. The tightening of monetary conditions by the NBKR in 2025–2026 — the de facto risk-free rate[1] was raised by 6 p.p. to 10% per annum, while the real rate remains negative for the time being — will take effect over the course of several quarters; consequently, the stabilisation of inflation in the short term is expected to be achieved mainly through administrative measures: price controls on socially important food products and direct subsidies for fuel imports[2]. However, average inflation is expected to be significantly above the target range, reaching 10.2% in 2026 (+2.5 p.p. compared with the previous forecast), 7.8% in 2027 (+1.4 p.p.), and 6.6% in 2028 (+0.4 p.p.).

Budget indicators remain well within expectations. The budget surplus (according to the Ministry of Finance of the Kyrgyz Republic[3]) was 18.0% of GDP in January–March 2026 (13.2% a year earlier) (Figure 3) as a result of the transfer to the budget of the NBKR's profits for 2025, amounting to KGS 61 billion (14.2% of GDP). This was combined with an increase in tax revenues (27.4% compared with 24.6% of GDP), accompanied by higher capital expenditures (up from 4.3% to 9.7% of GDP). Operating expenditures remained unchanged (24.7% compared with 24.6% of GDP), although they are expected to rise over the course of the year due to the budgeted increases in public sector salaries and wages, as well as payments to pensioners and families with children. At the same time, the practice of generating significant below-the-line expenditures through capital injections for state-owned companies continued[4], which the EFSD sees as leading to a deficit. These operations were also factored into the previous forecast; therefore, the budget deficit forecast has been revised by no more than 0.1 p.p.

The external sector forecasts have become more conservative due to weak growth in exports and remittances. According to preliminary data, the current account balance showed a deficit of USD 1.5 billion in Q1 2026 (-30.2% of GDP) (Figure 4) due to weak export growth, primarily exports of gold (a six-fold YoY decline), as well as lower transfers (-10% YoY)[5]. For this reason, the projected current account deficit has been revised to 22.3% of GDP (-1.7 p.p. compared with the previous forecast), with the forecasts remaining unchanged for 2027–2028. Despite pressures in the foreign exchange market, which necessitated currency interventions totalling USD 725 million in Q1, reserves are expected to remain at a sufficient level of 6.4 months of imports of goods and services (on average) in the medium term thanks to favourable conditions in the gold market, as gold accounts for over 70% of the country's gross international reserves.

1 In the context of excess liquidity, market rates are tending to gravitate towards the lower bound of the NBKR's interest rate band — the overnight deposit rate.

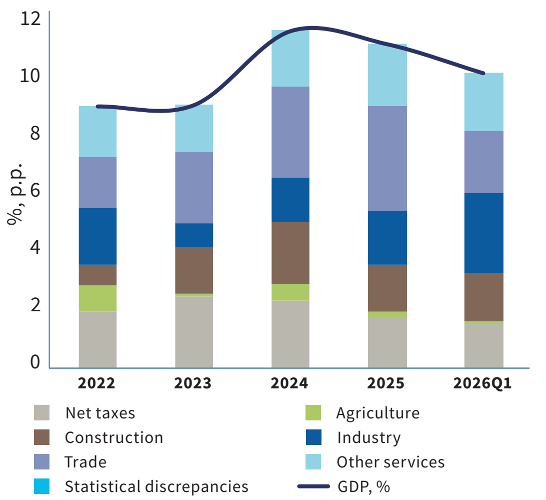
2 Order of the Cabinet of Ministers of the Kyrgyz Republic No. 253-t dated 15 April 2026 and Resolution of the Cabinet of Ministers of the Kyrgyz Republic No. 369 dated 25 May 2026, respectively.

3 Under the approach adopted by the Ministry of Finance of the Kyrgyz Republic for recording budget revenues and expenditures, financial flows related to capital injections for state-owned companies are treated as sources of budget deficit financing rather than as expenditures. Under the EFSD approach, which is based on the principles set out in the IMF's Government Finance Statistics Manual 2014 (see below), these expenditures are treated as capital transfers.

4 ABank (formerly Ayyl Bank) — KGS 60 billion and the State Mortgage Company — KGS 35 billion.

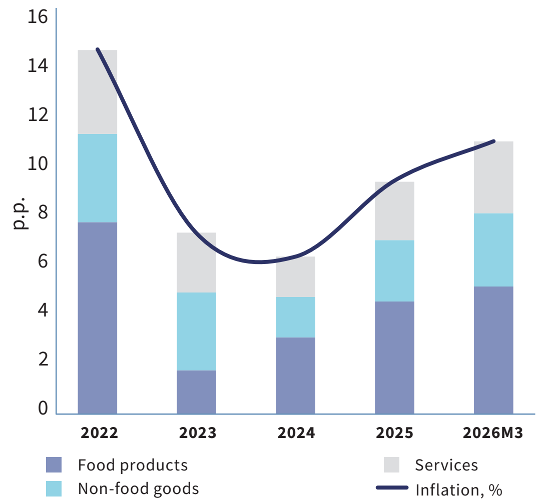
5 At the same time, remittances from Russia (in RUB equivalent) fell by 25% YoY, possibly indicating a decline in migration flows.

Figure 1. Decomposition of GDP Growth (Production Approach)



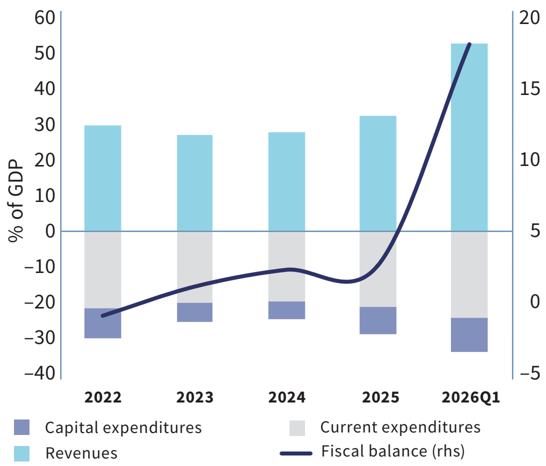
Source: NSC KR, EFSD estimates.

Figure 2. Decomposition of Inflation



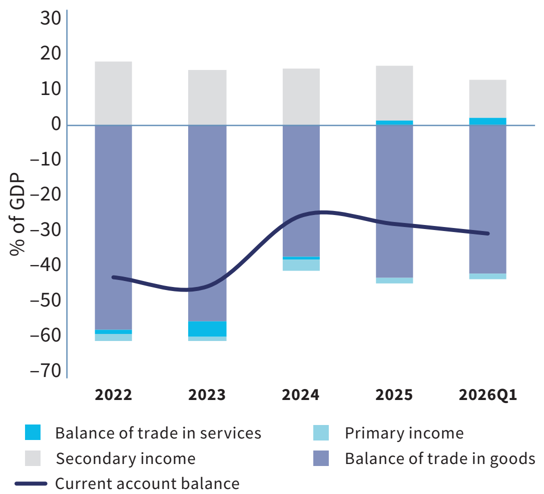
Source: NSC KR, EFSD estimates.

Figure 3. National Budget



Source: Ministry of Finance of the Kyrgyz Republic, EFSD estimates.

Figure 4. Current Account of the Balance of Payments



Source: NBKR, EFSD estimates.

Table 1. Forecasts of Key Macroeconomic Indicators

	2025 Actual	2026 Estimates	2027 Forecasts	2028 Forecasts
National accounts and prices (%)				
Nominal GDP (KGS billions)	1,985.9	2,463.0	2,868.8	3,329.6
Real GDP growth	11.1	8.5	6.7	6.3
CPI (December, YoY)	9.4	9.5	7.0	6.5
CPI (year-average)	8.2	10.2	7.8	6.6
Money and credit (eop)				
Broad money supply, YoY	43.3	23.9	14.7	13.2
Credit to the economy, YoY	57.9	29.0	14.5	11.7
Public finance (% of GDP)*				
Revenues and grants	31.9	30.2	29.5	28.8
tax revenues	21.3	20.5	20.7	20.7
Budget expenditures	28.5	29.5	28.6	27.6
Fiscal balance («-» deficit / «+» surplus)	2.5	0.7	0.9	1.3
Fiscal balance as estimated by the EFSD («-» deficit / «+» surplus)	-1.5	-3.2	-2.9	-2.3
External sector (% of GDP)				
Current account	-25.6	-22.3	-21.0	-19.3
Exports of goods and services	26.8	24.1	22.9	21.9
Imports of goods and services	66.7	57.4	54.2	50.7
Remittances	15.0	10.6	10.7	9.9
Foreign direct investment («-» inflows)	-3.8	-3.8	-4.0	-4.2
Gross reserves, months of imports of goods and services of the current year	6.8	7.1	5.9	6.2

Note: *National budget indicators are given for revenues, expenditures, and the budget balance.
Source: national agencies and EFSD estimates.

Tajikistan's economy continues to grow, with domestic demand being the main driver of this growth. Similar to the previous forecasting round, a gradual slowdown in growth is expected as migrant remittances return to normal levels. The forecast for consumer inflation has been revised upwards given the rising energy and food prices on global markets; however, inflation is expected to stay within the target range. The fiscal position remains sound. The forecast for the current account surplus has been revised upwards, mainly as a result of the expected less sharp decline in incoming migrant remittances. Changes in the prices for key export commodities are projected to have mixed effects on export revenues (the adverse effect of lower gold prices than in the previous forecast round will be offset by higher metal prices).

The upside risk is faster economic growth should the trend in current account inflows observed between 2023 and 2025 persist. There remains a high level of vulnerability to external shocks, largely linked to the Russian economy. Risks associated with the completion of the Rogun HPP persist.

Robust economic growth was recorded in Q1 2026 in the context of continued growth in domestic demand. Tajikistan's GDP growth stood at 8.0% YoY in Q1 2026 (8.2% YoY a year earlier) (Figure 1). Trade, other services, and industry were the main contributors to GDP growth. Unlike last year, the main driver of growth in industrial production was the manufacturing sector (+29.6% YoY) given the accelerating growth in the production of metallurgical and food products. This was accompanied by a decline in the output of extractive industries by 9.8% YoY, following last year's high base. Steady growth continued in the agricultural sector (+8% YoY). Domestic demand was the main driver of growth against a backdrop of accelerating trade growth (22.1% YoY in January–March, compared with 10.6% a year earlier) and rising investment (+34.2% YoY), including investment in the construction of the Rogun HPP, the rehabilitation of the Nurek HPP, and housing construction. The expansion in trade was supported by continued strong lending to households, rising real wages, and incoming migrant remittances. Despite the lack of balance of payments data for Q1 2026, the relatively stable TJS nominal exchange rate against the USD (1.4% QoQ depreciation as at the end of March), may serve as an indicator that there is no

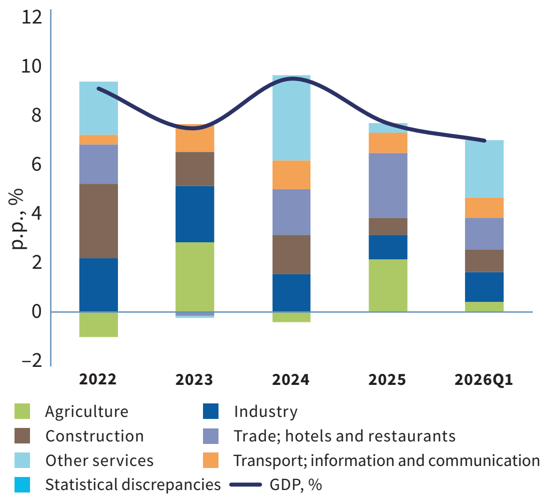
significant pressure on the current account. At the same time, the findings of the ‘Listening to Tajikistan’ survey (World Bank) for Q1 2026 indicate a decline in the share of remittances from migrant workers in household incomes and a decrease in the proportion of households with migrant workers. Data from Rosstat also point to a decline in the number of people coming to Russia from Tajikistan. Therefore, the baseline scenario assumes a gradual slowdown in economic growth, from 7.1% in 2026 to 6% in 2028, as migrant remittances return to normal levels.

Following an upward revision to the forecasts for energy and food prices on global markets, the forecasts for consumer inflation in Tajikistan have been revised upwards. Consumer inflation in April 2026 remained close to the lower end of the target range (3.6% YoY) (Figure 2), although inflationary pressures intensified in categories such as fuel and lubricants, sugar, and fruit. As Tajikistan is heavily dependent on imports of fuel and lubricants, their prices are expected to continue rising due to revised global oil prices and disruptions to refinery operations in Russia. Rising wheat prices on global markets will also exert upward pressure via imports. A relatively stable TJS nominal exchange rate should be a supportive factor, not least through its positive effect on inflation expectations. Given the relatively weak transmission mechanism, administrative price controls and the sale of socially important food products from state reserves are expected to be important factors in curbing inflation. Average inflation is expected at 4.9% YoY in 2026 (+0.7 p.p. compared with the previous forecast). The higher inflationary pressure is set to continue in 2027 — 5.2% (+0.6 p.p.).

A slight improvement in the fiscal position is driven by higher tax revenues and grants received in Q1 2026. Tax revenues recorded solid growth in Q1 2026 (profit tax +1.4 p.p., VAT +0.9 p.p., foreign trade taxes +0.6 p.p.), partly reflecting the favourable economic conditions in December 2025, the authorities’ efforts to improve the efficiency of tax administration and digital transformation, as well as higher prices (YoY) for a number of export commodities (such as copper, aluminium, and gold). The forecast for tax revenues has been revised upwards by 0.3 p.p. Primary expenditures were 0.6 p.p. higher in Q1 2026 than in the previous year (due to expenditures on labour costs, goods and services) (Figure 3); however, the forecast for total expenditures remains unchanged.

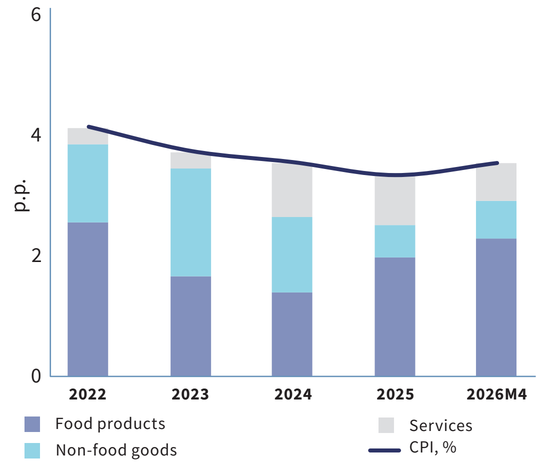
The forecast for the current account surplus has been revised upwards. The absence of significant pressure on the foreign exchange market (Figure 4) suggests that the inflow of funds under the current account will be sustained. The trajectory of the normalisation of the inflow of funds is expected to be smoother than in the previous forecast round. The forecast for export revenues has been revised upwards slightly, against the backdrop of a stronger-than-expected actual base for 2025, as well as the projected rise in prices for aluminium, copper, zinc, and nickel. However, a decline in the gold price compared to the previous forecast round will have an adverse effect on export revenues. The decline in cotton fibre exports in March 2026 was short-lived; exports recovered in April and May (it is possible that some of the cotton fibre was redirected from Iran to other countries). The import forecast has also been revised upwards due to a higher actual base for 2025, as well as higher prices for fuel and lubricants and several food products. As a result of the revision to the external sector forecasts, the current account surplus has strengthened, but it is still expected to narrow gradually.

Figure 1. Decomposition of GDP Growth (Production Approach)



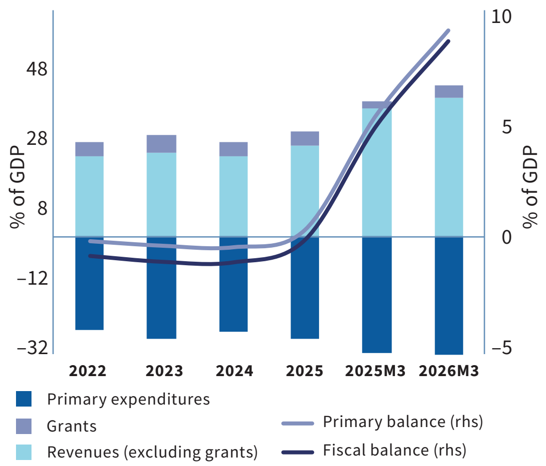
Source: Tajstat, EFSD estimates.

Figure 2. Decomposition of Inflation



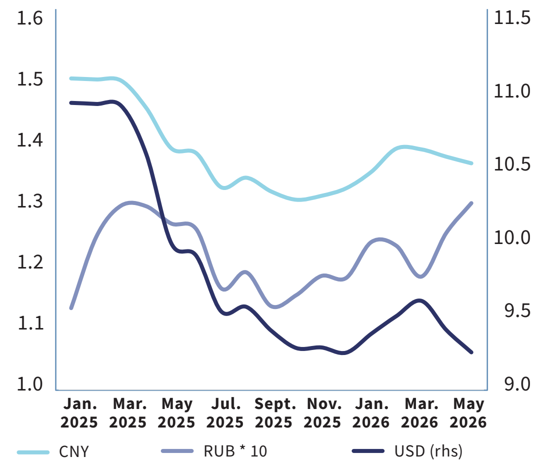
Source: Tajstat, EFSD estimates.

Figure 3. State Budget



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

Figure 4. Nominal Exchange Rate



Source: NBT.

Table 1. Forecasts of Key Macroeconomic Indicators

	2025 Actual	2026 Estimates	2027 Forecasts	2028 Forecasts
National accounts and prices (%)				
Nominal GDP, TJS billions	176.9	198.2	221.2	245.3
Real GDP growth, %	8.4	7.1	6.7	6.0
CPI (Dec-on-Dec), %	3.5	6.3	5.0	5.0
CPI (average), %	3.4	4.9	5.2	5.0
Money and credit (eop)				
Broad money, % change	23.0	17.2	11.6	11.3
Public finance (% of GDP)				
Revenues and grants	30.5	31.0	28.7	28.3
of which tax revenues	21.2	21.1	20.7	20.9
Budget expenditures	30.6	32.1	30.5	29.6
Current expenditures	18.3	18.8	17.6	16.8
Capital expenditures	12.3	13.3	12.9	12.8
Fiscal balance («-» deficit / «+» surplus)	-0.2	-1.1	-1.9	-1.3
External sector (% of GDP)				
Current account	17.1	6.6	4.0	2.6
Remittances	54.5	44.6	40.0	38.0
Foreign direct investment	0.0	1.0	1.0	1.0
Gross reserves, months of imports of goods and services of the current year	8.9	9.2	9.8	9.9

Source: Tajstat, NBT, EFSD estimates.

ABBREVIATIONS

AMD	Armenian dram
Armstat	Statistical Committee of the Republic of Armenia
Belstat	National Statistical Committee of the Republic of Belarus
BNS ASPR RK	Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan
BoP	balance of payments
BYN	Belarusian ruble
CB RA	Central Bank of the Republic of Armenia
CIF	Cost, Insurance, and Freight
CPI	Consumer Price Index
ECB	European Central Bank
EFSD	Eurasian Fund for Stabilization and Development
eop	end of period
EVSR	Estimated Value of Standard Risk
FOB	Free on Board
FRS	U.S. Federal Reserve System
GDP	Gross Domestic Product
HPP	hydroelectric power plant
IMF	International Monetary Fund
IT	information technology
JSC	joint-stock company
KGS	Kyrgyz som

KZT	Kazakhstani tenge
MoM	month-on-month
National Fund	National Fund of the Republic of Kazakhstan
NBKR	National Bank of the Kyrgyz Republic
NBRB	National Bank of the Republic of Belarus
NBRK	National Bank of the Republic of Kazakhstan
NBT	National Bank of the Republic of Tajikistan
NSC KR	National Statistical Committee of the Kyrgyz Republic
p.p.	percentage point
QoQ	quarter-on-quarter
REO	Regional Economic Outlook
RUB	Russian ruble
SA	Seasonally Adjusted Rate
SAAR	Seasonally Adjusted Annual Rate
Tajstat	Agency on Statistics under the President of the Republic of Tajikistan
TJS	Tajikistani somoni
U.S.	United States of America
USD	U.S. dollar
VAT	value added tax
YoY	year-on-year
% YoY	annual growth rate

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