

REGIONAL ECONOMIC OUTLOOK

2024 SUMMER



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ABBREVIATIONS

Armstat	Statistical Committee of the Republic of Armenia
BEA	Bureau of Economic Analysis
Belstat	National Statistical Committee of the Republic of Belarus
BLS	Bureau of Labour Statistics
BM	broad money
BMS	broad money supply
BNS ASPR RK	Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan
CA	Current Account of the Balance of Payments
CB RA	Central Bank of the Republic of Armenia
CIS	Commonwealth of Independent States
CPI	consumer price index
EAEU	Eurasian Economic Union
EONIA	Euro Overnight Index Average
Eurostat	European Statistical Office
FAO	Food and Agriculture Organisation of the United Nations
FCC	freely convertible currency
FDI	foreign direct investments
FRS	US Federal Reserve System
GS	government securities
HPP	hydro power station
ILO	International Labour Organisation

LCR	Liquidity Coverage Ratio
LE	legal entity
MinFin	Ministry of Finance
NBS	National Bureau of Statistics of China
NBT	National Bank of the Republic of Tajikistan
NFA	net foreign assets
NPL	non-performing loan
NSC KR	National Statistical Committee of the Kyrgyz Republic
NSFR	Net Stable Funding Ratio
NWF	National Wealth Fund of Russia
OPEC+	Organisation of the Petroleum Exporting Countries
PI	private individual
PMI	Purchasing Managers' Index
REER	real effective exchange rate
SME	Small and medium-sized enterprises
Tajstat	Statistical Agency under the President of the Republic of Tajikistan
VAT	value added tax
q/q	quarter-on-quarter
USD/t	US dollars per tonne
y/y	year-on-year
YTD	year-to-date

CHIEF ECONOMIST'S FOREWORD

Dear Colleagues,

In 2024Q1, the changes in the key economic indicators in most EFSD member states exceeded the expectations of the expert community yet again: in Russia and Belarus, economic growth rates significantly surpassed consensus estimates, while the slowdown in economic activity projected in Armenia, Kyrgyzstan, and Tajikistan never materialised. In all the countries, domestic demand, supported in most cases by rising public sector salaries and expansionary fiscal policies designed to boost investment activity, remains the key growth driver. In Armenia and Kyrgyzstan, some of the economic growth factors are opportunistic, and can be attributed to the substantial foreign trade upsurge generated by the sanctions imposed on Russia. In Kazakhstan and Russia, expansionary fiscal policies and structural problems arising in the labour market create major challenges, forcing central banks to normalise their monetary policies and bring inflation down to medium-term target levels. At the same time, deceleration of the rise of prices for imported food products substantially reduced inflationary pressures in Kyrgyzstan and Tajikistan, enabling national banks to cut their key rates.

Taking into consideration the relatively favourable foreign economic conditions and 2024Q1 actual data, we revised our 2024 economic growth forecasts for the EFSD member states (with the exception of Kazakhstan) upward compared to those presented in [REO I \(Spring\)](#). Significantly faster than expected economic growth in Russia will have a positive impact on exports and investments in the region's smaller economies, and on consumer demand (through additional cash remittances sent home by labour migrants). Prices of oil, gold, most metals, and potassium fertilisers also grew at rates that were faster than those envisaged by our spring forecasts, which will give an additional impetus to economic growth. There were only slight adjustments to our inflation forecasts, and we generally expect that in 2024 monetary conditions will finally normalise in all member countries with the exception of Russia and Kazakhstan. Revisions we made to budget parameters presented in the previous forecast were also insignificant.

In the short term, we do not see any serious threats to macroeconomic and financial stability in the EFSD member states. Resilience of their fiscal and debt positions will remain under control, as will inflationary processes. At the same time, we note that in some countries there is a risk of mounting macroeconomic imbalances due to insufficient alignment of fiscal and monetary policies against the backdrop of persistent structural constraints. Those imbalances are already producing signs of overheating of economies, including tightening of labour market conditions (Russia, Belarus, Kazakhstan), persistent inflationary pressures in Russia and Kazakhstan, and elevated lending activity in all countries. In addition, in some countries' national currencies continue to strengthen despite the deterioration of the balance of payments.

Our medium-term expectations have not changed compared to the spring forecast. In 2025–2026, most economies will continue to gradually decelerate to their potential levels amid normalisation of monetary conditions and budget constraints. We expect that only in Kazakhstan will economic growth accelerate, primarily due to structural factors, including a boost in oil production following the review of OPEC+ limits. We also see persistent risks to economic growth and balances of payments in the smaller EFSD economies. Those risks are related, among other things, to the possible deterioration of foreign trade terms, and the adaptation of trade and financial flows to parallel export and import of products subject to the impact of sanctions on Russia's financial infrastructure and the risk of secondary sanctions. Due to the gradual erosion of balances of payments and emergence of potential budget financing gaps, vulnerability of the countries that are recipients of EFSD funding to external shocks will remain high. We also note the persistent non-economic risks that may affect economic growth and price stability in the smaller economies of the region, in particular, harvest losses caused by unfavourable weather conditions and natural disasters.



Sergei Ulatov
Chief Economist
Eurasian Fund for Stabilization and Development

EXTERNAL SECTOR

In 2024Q1, the dominant trend in the world economy was improvement of the business environment combined with elevated price pressures. The S&P Global composite business activity index has been growing for the last six months, surpassing the 10-month high (since June 2023) at 52.4 points. The positive dynamics persist both in Services and Industry. The rate of growth of ex-factory prices has remained close to its average value for the last 12 months, despite a slight decline in April.

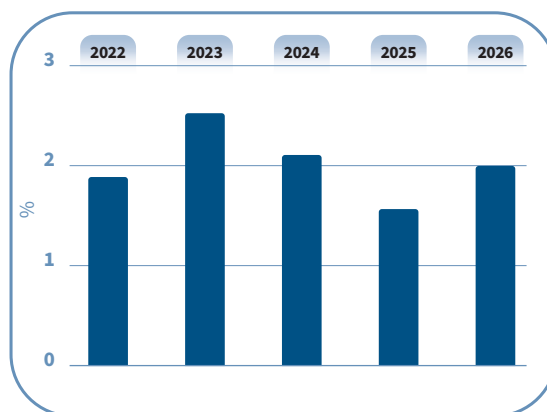
USA

In 2024Q1, economic growth in the US slowed to 1.6% q/q from 3.4 q/q in 2023Q4, producing a cool spell in the labour market in early 2024Q2. The key drivers of deceleration of economic activity were private consumption expenditures (their contribution to GDP growth decreased from 2.2 p.p. to 1.7 p.p.), public expenditures (from 0.8 p.p. to 0.2 p.p.), and the outstripping growth of imports which, for the first time since 2022, resulted in a negative contribution by net exports to the GDP at (-0.9 p.p.) (2023Q4: +0.25 p.p.). In 2024Q1, the labour market remained strong, but certain cooling signs emerged in April, with the number of new jobs dropping to 175,000 from 315,000 in March, and unemployment rising from 3.8% to 3.9%.

According to our estimates, in 2024–2025 the US economy will continue to slow down (Figure 1A). Consumer activity dynamics will remain positive, but will be

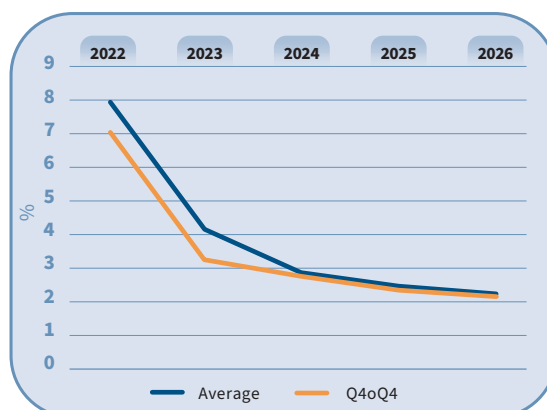
Figure 1 (A, B, C). Key Macroeconomic Indicators of the USA

A. GDP Growth



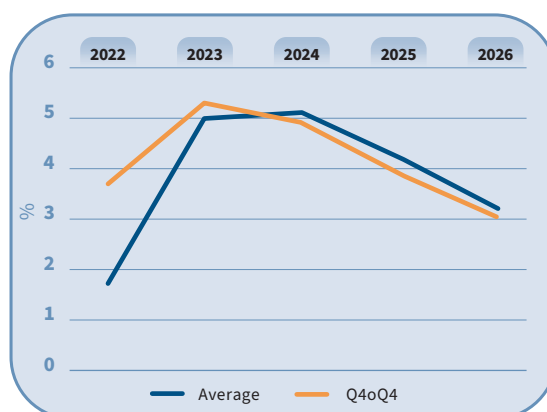
Source: BEA, authors' calculations

B. Inflation



Source: BLS, authors' calculations

C. FRS Federal Funds Interest Rate



Source: FRS, authors' calculations

constrained by lower lending¹ and slower wage and salary growth². According to our estimates, by the end of 2024 the GDP increase will be 2.1%, and in 2025 it will decelerate to 1.7% (as growth recovers gradually) to bounce back to 2% in 2026.

The rate of growth of prices at the beginning of 2024 testifies to the resilience of pro-inflationary factors.

Monthly seasonally adjusted inflation rate persists at 0.3–0.4%, and in April the annualised inflation rate was 3.4%. The rate of growth of food and energy prices was slower than average, while service prices increased faster, with housing and transport services being the main drivers. According to our estimates, this year inflation is not likely to drop below 3.0%, and will approach the 2% target at the end of 2026 at the earliest (Figure 1B).

The FRS will need more time to make sure that the inflation slowdown is sustainable, and will act with more caution than anticipated.

We expect that in 2024H2 the FRS Federal Funds Interest Rate will be cut only twice, going down to 4.75–5.0%. The contractionary monetary policy will continue throughout 2025, and the rate will be cut to 3.75–4.0% (Figure 1C).

EUROZONE

Economic activity in the eurozone is gradually recovering.

In 2024Q1, the eurozone economy increased by 0.3% q/q, scoring the highest growth rate in the last six quarters. The acceleration was secured

by increasing exports and consumption, and was supported by low energy prices. Germany and France, the two largest economies of the bloc, reported positive growth rates of 0.2% q/q despite fears of possible recession, but Southern Europe outstripped them, with economies in Italy and Spain increasing by 0.3% q/q and 0.7% q/q, respectively. In 2024Q1, employment also demonstrated impressive dynamics with a growth rate of 0.3% q/q. Unemployment in the eurozone has been at a historical low of 6.5% since the end of 2023. According to our estimates, in 2024H2 the eurozone economy will accelerate, and by the end of 2024 the GDP will have increased by 0.7% (Figure 2A), while in 2025–2026 the negative output gap will close, and growth rates will be close to their potential values (about 1.5%).

Inflation dynamics in the eurozone were more favourable than in the US, with inflation dropping to 2.4% in April.

Base inflation (excluding food and energy prices) declined from 2.9% to 2.7% due to a reduction of prices for a broad range of products and services, and downward pressure on prices which cannot be attributed exclusively to the effect of low gas prices. We forecast that, by the end of the year, annual inflation will decline to 2.3%, returning to the ECB 2% target as early as in 2025 (Figure 2B).

¹ There are concerns regarding a decrease in credit card debts and an increase in overdue credit card loans and car loans, which has already forced commercial banks to resort to more stringent lending terms (Federal Reserve Bank of New York. Household Debt Rose by USD 184 Billion in Q1 2024; Delinquency Transition Rates Increased Across All Debt Types. Available at: <https://www.newyorkfed.org/newsevents/news/research/2024/20240514>).

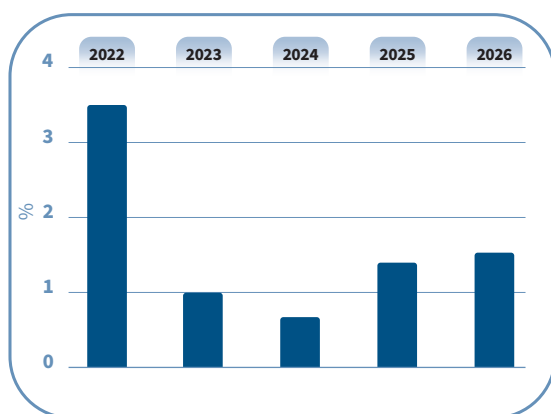
² Bureau of Labour Statistics. Available at: <https://www.bls.gov/news.release/realer.nr0.htm>

**ECONOMIC GROWTH
IN THE EUROZONE**

0.3%

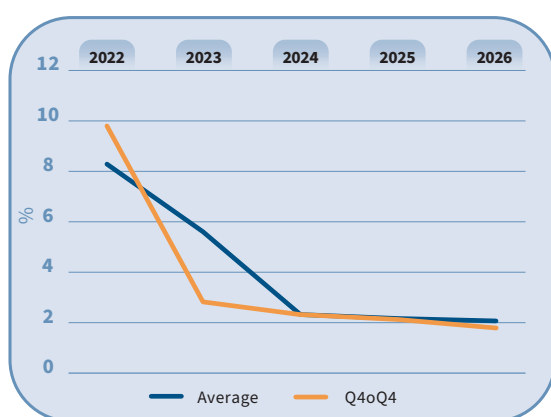
Figure 2 (A, B, C). Key Macroeconomic Indicators of the Eurozone

A. GDP Growth



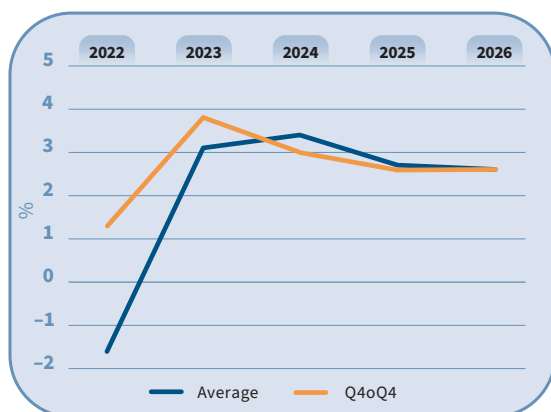
Source: Eurostat, authors' calculations

B. Inflation



Source: Eurostat, authors' calculations

C. ECB Rate



Source: ECB, authors' calculations

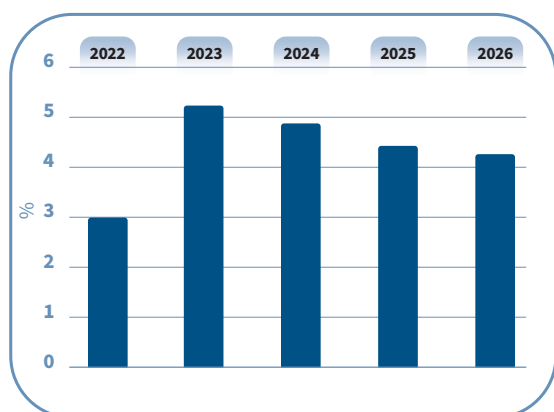
Due to the general price deceleration, in early June 2024 the ECB cut its base rate by 0.25% to 4.25%, and will probably continue its easing policy in 2024H2. Several national and central banks of eurozone member states also pursued rate-cutting policies: the Hungarian National Bank consistently cut the rate eight times to 7.25%, the Czech National Bank cut the rate five times to 5.25%, and in May 2024 the Bank of Sweden cut the rate from 4.0% to 3.75%. We anticipate that in 2024Q4 the average EONIA rate will be 3%. By the end of 2025, the bloc's monetary policy will assume a neutral stance: the rate will be cut to 2.6% (Figure 2C), and remain at that level until the end of the period under review (2026). The euro exchange rate may strengthen from USD 1.08 per EUR 1.00 in 2024 to USD 1.13 per EUR 1.00 in 2026 due to the narrowing of the interest rate gap between the US and the eurozone, and recovery of economic activity in the eurozone.

CHINA

In 2024Q1, the rate of economic growth in China exceeded forecasts and reached 5.3%. Indirect indicators demonstrate that external demand was the main driver of the acceleration of economic activity: over a period of four months, exports increased by 12.2%, and industrial output was up by 4.3%. Consumer activity was rather restrained: retail sales rose by 4.1% and generally tended to slow down, and in April the increase was merely 2.3% y/y vs 3.1% y/y in May. The slump in the real estate market continued: in January–April 2024, sales (measured by the living area of residential properties) went down by 20.5% y/y, while commissioning of newly built residential properties dropped by 24.6% y/y. To stabilise the real estate sector, the People's Bank of China announced a CNY 1 trillion set of measures designed to provide additional financing and ease

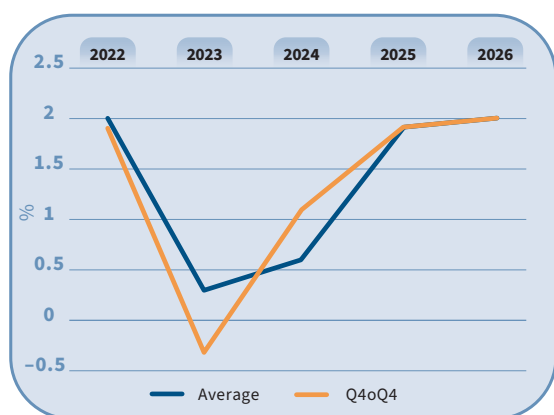
Figure 3 (A, B, C). Key Macroeconomic Indicators of China

A. GDP Growth



Source: NBS, authors' calculations

B. Inflation



Source: NBS, authors' calculations

C. USD/CNY Exchange Rate



Source: NBS, authors' calculations

GDP GROWTH IN CHINA
5.3%

mortgage rules³. Local authorities, in turn, will purchase residential properties. The government's 2024 economic growth target remains at 5%. We improved our 2024 forecast for the Chinese economy to 4.9% (from 4.5%). However, we expect that in 2025–2026 it will slow down to 4.4% and 4.2%, respectively (Figure 3A).

Annualised consumer inflation overcame the deflationary trend. In February–April 2024, price growth rates were low, but stayed in the positive domain. In April, consumer prices increased by 0.3% y/y. At the beginning of May 2024, the Bank of China announced that it would supply the economy with sufficient liquidity, and engage in credit expansion to support the economy. In these conditions, we anticipate that the 2024 average annual inflation will be 0.6%, and then accelerate to 2% in 2025–2026 (Figure 3B).

The USD to CNY exchange rate has been about 7.2 since February due to a certain relaxation of the fixed exchange rate regime by the Chinese authorities in response to the global strengthening of the dollar. In May 2024, the real effective exchange rate weakened by 6% compared to the beginning of 2023, which lends support to the growth of exports. According to our estimates, the 2024 average annual exchange rate will also be about CNY 7.2 per USD. In 2025–2026, the yuan will strengthen to CNY 7.1–6.9 per USD, which is consistent with the long-term priorities of the Chinese government seeking to maintain a strong yuan.

³ In particular, the following measures are envisaged: redemption of residential properties from developers for subsequent use as social housing; reduction of the minimum down payment to 15% (previously 20%) for first home mortgages, and to 25% (previously 30%) for second home mortgages; reduction by 0.25 p.p. of interest rates on long-term and short-term mortgage loans extended to private individuals.

COMMODITIES

At the beginning of 2024, world oil prices were rising due to geopolitical tensions and ~2 MBD production cuts by OPEC+.

In January–April 2024, Brent prices increased by 3.4% year-on-year to USD 84.9 per barrel. Urals continues to trade at a discount, but above the sanction ceiling of USD 60 per 1 barrel. According to our estimates, in the event of imposition of more severe secondary sanctions, the gap between Brent and Urals prices will persist, and the 2024 export price of Russian oil will be USD 68.6 per 1 barrel, and remain close to USD 68.0 per 1 barrel in 2025–2026.

Gold prices are at all-time highs due to the soaring demand in the world markets.

Even the fact that the anticipated FRS Fed Funds Exchange Rate cut was postponed to the end of the year did not cool those prices. Accordingly, we estimate that the average annual price of gold will be around USD 2,270 per ounce in 2024, and continue to grow to USD 2,370 per ounce in 2025. High gold prices will gradually dampen demand, and in 2026 prices will go down to USD 2,300 per ounce.

In May 2024, copper prices reached all-time highs, peaking at USD 11,000 per tonne.

The rise of copper prices can be explained by higher demand on the part of the green energy sector, expectations regarding industrial output growth on the back of softening monetary policies in developed countries, an attempted purchase of Anglo American by its competitor, the Australian mining group BHP, which attracted the attention of investors, and traders' asset diversification. Subject to the foregoing, the consensus forecast of copper prices is revised upward to an annual average of USD 9,500 per tonne in 2024, with a subsequent increase to USD 10,400 per tonne in 2026.

Based on World Bank metal price projections, the Metals Price Index will increase from 101.8 in 2024 to 103.1 in 2026.

The anticipated increase in manufacturing output in the global economy, particularly in the environmentally friendly production sector, will boost demand for non-ferrous metals, placing their prices on an upward path. On the other hand, ferrous metal prices will increase only slightly due to the slump in the residential construction sector.

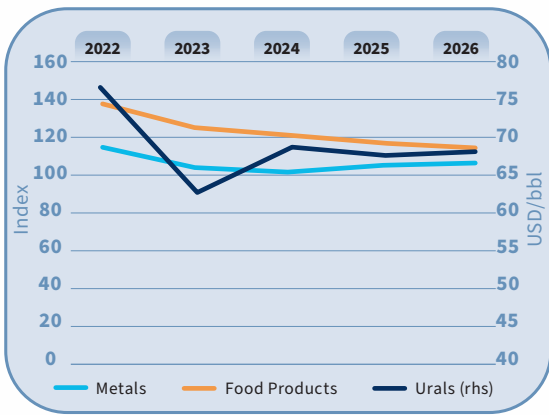
According to the World Bank, the Food Price Index will be gradually declining from 120.7 in 2024 to 114.5 in 2026, due to the expansion of supply (Figures 4 A, B).

**PRICE OF GOLD PER
OUNCE IN 2024
USD 2,270**

The key risk factor that may affect commodity prices over the short term is climate shocks, as unfavourable weather conditions may result in crop losses, while hurricanes and natural disasters threaten to disrupt supply chains. For example, frosts in Russia in May have already forced the government to revise wheat harvest projections. Uncertainties in the global oil market are related to compliance with, and renewal of, oil production cuts imposed by OPEC+ member states.

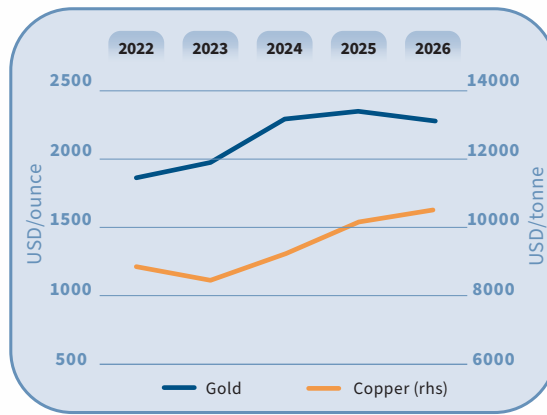
Figure 4 (A, B). Commodity Prices

A. Metals, Food Products, Urals Oil



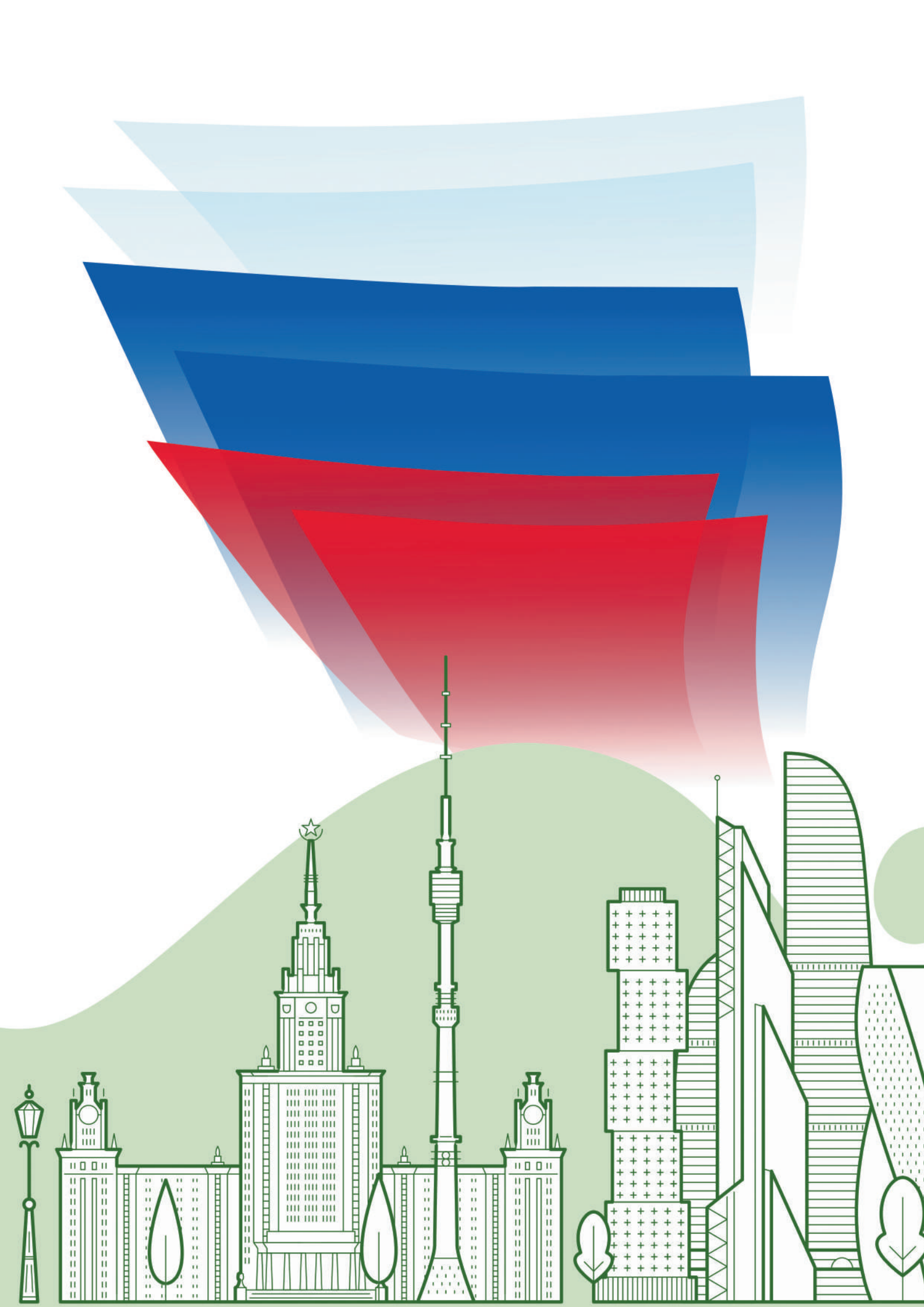
Source: World Bank, authors' calculations

B. Gold, Copper



Source: World Bank, authors' calculations





In 2024Q1, the Russian economy increased by 5.4% y/y, surpassing the consensus estimate by a wide margin. Industrial Production and Trade were the key growth drivers. The unemployment rate dropped to an all-time low of 2.8%, which became an additional factor contributing to wage and salary hikes and real income growth. The inflation rate was consistently elevated in 2024Q1, forcing the Central Bank to keep the key rate at 16%. The exchange rate of the national currency stabilised at about RUB 91 per USD, despite exports shrinking in value terms. The rouble exchange rate was supported by decelerating imports, and by Central Bank operations mirroring the expenditures of the National Wealth Fund.

According to our estimates, in 2024 the GDP will increase by 3.4%. The 2025–2026 forecast envisages a gradual economic slowdown fuelled by cooling consumer and investment demand. In 2024, inflation will decelerate to 5.7% , and then continue along the downward path to reach the 4% target by 2026. Under the baseline scenario, the Central Bank will keep the key rate at 16% until 2024Q4, and then gradually reduce it to 10% by the end of 2025, and to 8% by the end of 2026. It is expected that the exchange rate of the Russian rouble will remain stable throughout 2024 at about RUB 92 per USD, and then weaken to RUB 95 per USD by the end of 2026.



CURRENT SITUATION

REAL SECTOR AND LABOUR MARKET

In 2024Q1, the growth of economic activity in Russia once again exceeded the expectations of most analysts and government bodies, with the economy going up by 5.4% y/y (Figure 1). This is partially attributable to the leap year effect adding one more workday in February. According to our estimates, the seasonally adjusted annualised real GDP growth rate remains high at 4.8% q/q, slightly down from 5% q/q in 2023Q4. GDP growth rates still significantly exceed their potential values, which points to a widening positive output gap and persistent overheating of the economy.

We believe that household consumption remains a key driver of the economy: in 2024Q1, it increased by 7.4% y/y¹.

At the sectoral level, Trade and Industrial Production remain the key growth drivers (Figure 2). Wholesale turnover demonstrated impressive growth at 11.7% y/y, with retail turnover up by 10.5% y/y — a sign of ongoing expansion of consumer demand. By the end of 2024Q1, Industrial Production increased by 5.6% y/y, with the manufacturing sector reporting the highest growth rate (8.8% y/y). Extraction of Mineral Resources was up by 1.1% y/y. Construction showed moderate growth at 3.5% y/y following

**GDP UP BY
5.4% Y/Y**

a downturn that started at the end of 2023. The slowdown in the construction sector (compared to the 7.8% increase during the same period in 2023) was caused by the tightening of soft mortgage terms and workforce shortages.

In 2024Q1, the Business Climate Indicator (BCI) reached 8.6 points, an increase of 1.7 points from 2023Q4. The BCI growth was determined by positive changes in both current demand and output estimates and expectations for the next three months. In May 2024, the BCI reached 11.1 points, which is close to 12-year highs. Although current estimates have been growing for four months in a row, expectations for the next three months were somewhat sluggish in April and May, ending a long rally that had lasted since July 2023 (Box 1). Bank of Russia's Monitoring of Businesses indicates that in 2024Q1 corporate investment activity estimates reached a new high at 9.4 points. Investments continued to grow despite the tight monetary policy whose effects are still not fully manifested due to the low elasticity of investment processes in a high-margin environment.

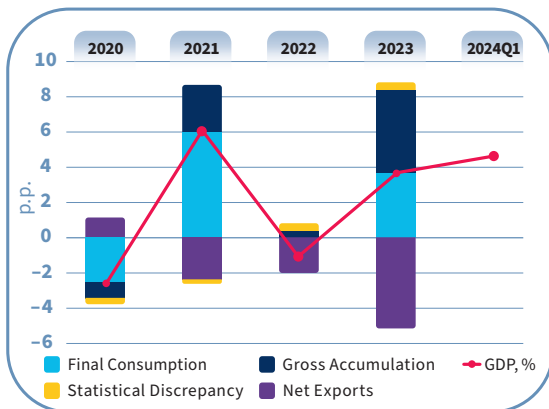
¹ Estimate based on Rosstat report on the social and economic situation in Russia.



Box 1. Operating Indicators

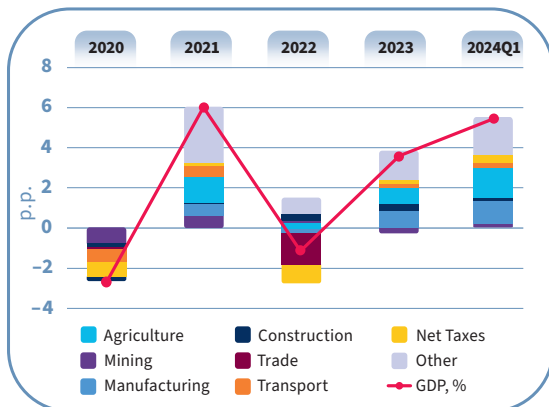
Several Q2 operating indicators show a certain slowdown in April vs March, although it remains moderate. PMI persists at above 50, but in April it decreased relative to March (from 55.7 to 54.3 in Manufacturing).

Figure 1. Decomposition of Annual GDP Growth Using the Expenditure Approach



Source: calculations based on Rosstat data

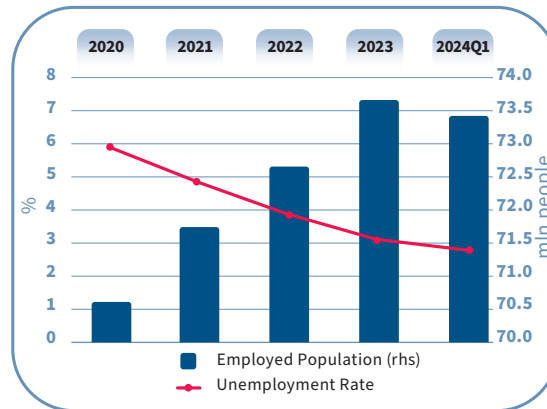
Figure 2. Decomposition of Annual GDP Growth Using the Production Approach



Source: calculations based on Rosstat data

In 2024Q1, tensions in the labour market flared up, fuelled by accelerating economic activity, adverse demographic trends, and workforce shortages. The average Jan24–Mar24 rate of unemployment reached a new all-time low at 2.8% (Figure 3). Workforce shortages continue to exert upward pressure on wages, with seasonally adjusted² average Jan24–Feb24 wages rising by 18.2% relative to Jan23–Feb23. According to preliminary data, real disposable income of the population also demonstrated a substantial increase, going up by 5.8% y/y in 2024Q1 (Figure 4).

Figure 3. Labour Market Indicators



Source: Rosstat

Figure 4. Household Income



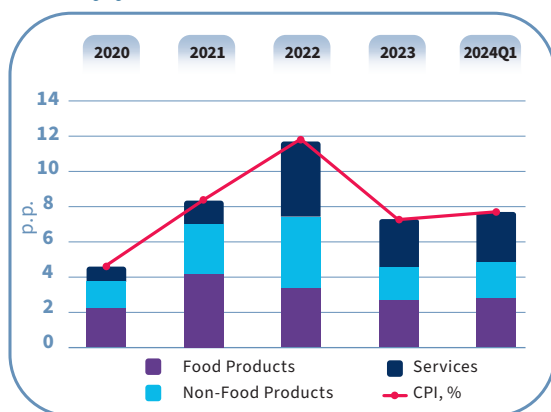
Source: calculations based on Rosstat data

² Subject to leap year effect.

INFLATION AND MONETARY POLICY

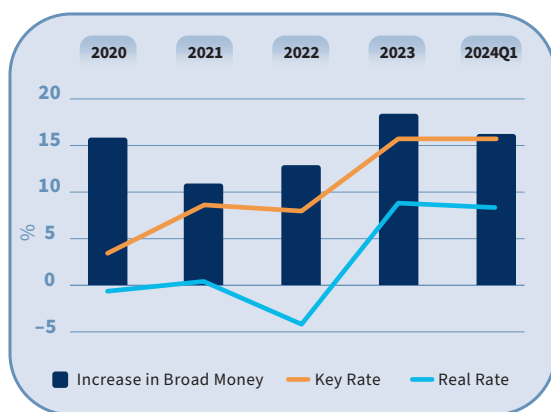
In 2024Q1, inflation slowed to 7.7% y/y, or to 6.6% (SAAR, seasonally adjusted annualised rate) relative to 9.4% (SAAR) in 2023Q4 (Figure 5). Even though inflationary pressures are down from their autumn peak values, inflation is still significantly higher than the 4% target. The main driver keeping inflation at a high level is the robust growth of domestic demand, which exceeds potential expansion of supply of products and services. In April, inflation (including core inflation) accelerated after a slowdown in March, with price growth in April being close to the Q1 average.

Figure 5. Decomposition of Inflation (EoP, y/y)



Source: Bank of Russia

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



Source: calculations based on Bank of Russia data

At its three latest meetings in 2024, the Bank of Russia maintained the key rate at 16%, taking into consideration the high inflation risks and the stable positive output gap. Operating data for April–May 2024 point to persistent inflationary pressures and a possible deceleration of the disinflation trend. In these circumstances, the Bank of Russia uses “hawkish” rhetoric to describe its next steps, and does not exclude a possible Q3 rate hike if inflationary risks increase.

In 2024Q1, the annual rate of growth of the M2 monetary aggregate slowed to 17.4% vs 19.4% at the end of 2023.

The rate of growth of broad money also declined from 21.7% in December 2023 to 16.7% in March 2024 (from 16.3% to 14.2% excluding foreign currency revaluation). The rate of growth of paper money and coin currency in circulation (M0) continued to slow down from 14.5% in December 2023 to 5.1% in March 2024 (Figure 6). High bank deposit interest rates strongly encouraged the increase in rouble-denominated household term deposits from 35.1% y/y in December 2023 to a record-breaking 41.3% in March 2024 (April 2024: 43%).

In 2024Q1, the annual rate of growth of banking sector assets was 19.7% (+2.1% since the beginning of the year).

Bank equity increased by 17.8% year-on-year, with individual deposits showing a record-breaking annual growth rate of 24.2%. The non-financial entity loan portfolio increased by 19.6% year-on-year (Figure 7), while loans to individuals rose by 23%. Even though demand for loans took a slight downturn compared to the peak values reported in autumn 2023, it remains rather high despite the persistently tight monetary policy.

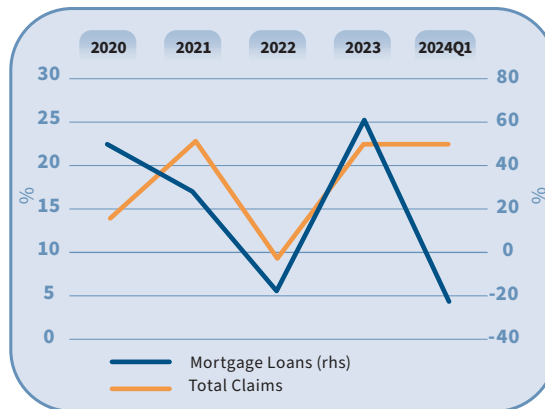
Q1 INFLATION RATE

7.7% Y/Y

By the end of 2024Q1, total mortgage loans reached RUB 18.6 trillion, a 27.2% increase year-on-year. On the other hand, by March 2024, outstanding residential mortgage loans (RML) fell by 21.5% year-on-year (Figure 8). The tightening of the terms of soft mortgage programmes strongly dampened demand for mortgage loans. The most dramatic decline occurred in the new construction RML segment (residential mortgage loans extended under shared construction contracts), where a total of 95,600 loans with an aggregate principal amount of RUB 491.4 billion were extended in 2014Q1 vs 236,200 loans with an aggregate principal amount of RUB 1,170.6 billion extended in 2023Q4.

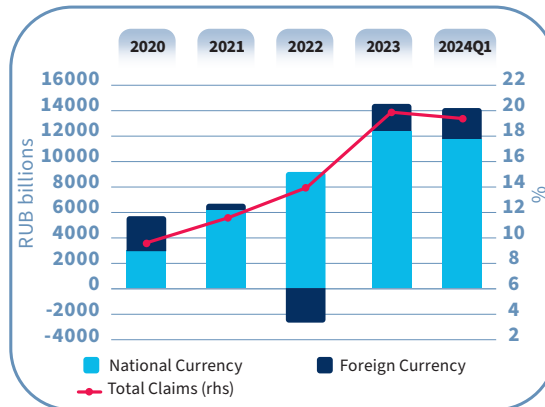
Interest rates on deposits and loans denominated in the national currency continued to grow in 2024Q1 (Figure 9). However, according to Bank of Russia's Monitoring of Businesses, in May the tightening of lending terms was less pronounced than in April. This may testify to an increase in monetary policy transmission lags, including due to partial subsidy of rates, especially for manufacturing enterprises. Therefore, the effect of monetary policy tightening may materialise later, in the second half of the year.

Figure 7. Increase in Bank Claims on Individuals (EoP)



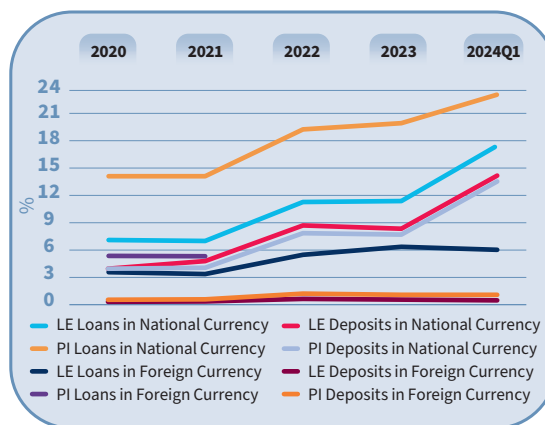
Source: Bank of Russia

Figure 8. Increase in Business Loans, broad definition (EoP)



Source: Bank of Russia

Figure 9. Interest Rates on New Loans and Deposits



Source: Bank of Russia

FISCAL SECTOR AND GOVERNMENT DEBT

In 2024Q1, federal budget revenues significantly exceeded expectations, supported by strong economic growth. Total revenues amounted to RUB 8.7 trillion, a 53.6% increase year-on-year, with oil and gas and non-oil and gas revenues up by 79% y/y and 43.3% y/y, respectively. In March 2024, monthly revenues reached a record-breaking RUB 3.7 trillion. Expenditures in 2024Q1 amounted to RUB 9.3 trillion, a 20.1% increase year-on-year. In January–April 2024, budget expenditures were RUB 13.2 trillion, or 36% of total expenditures of RUB 36.7 trillion planned for 2025 (Figure 10).

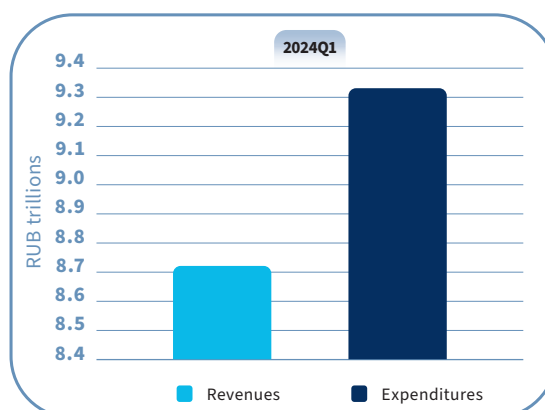
To implement the directions stated in the Address of the President of the Russian Federation, the Ministry of Finance of Russia suggested a number of changes, including an increase in the profit tax rate (from 20% to 25%), introduction of a progressive individual income tax scale, and adjustment of SME taxes. Tax hikes re-enable our earlier hypothesis regarding the normalisation of fiscal policy (return to zero primary structural deficit as of 2025).

In 2023, Russia’s public debt was 14.7% of GDP. According to our estimates, in 2024Q1 it remained virtually unchanged at 14.6% of GDP. Domestic debt decreased from 12.1% of GDP at the end of 2023 to 11.9% of GDP at the end of 2024Q1. Foreign debt remained at 2.7% of GDP (Figure 11).

As of 1 April 2024, the National Wealth Fund (NWF) reached RUB 12.5 trillion, having increased by 4.8% since the beginning of the year. In 2024Q1, the liquid part of the NWF increased by 1.5% to about RUB 5.1 trillion. Exchange gains/losses on assets denominated in foreign

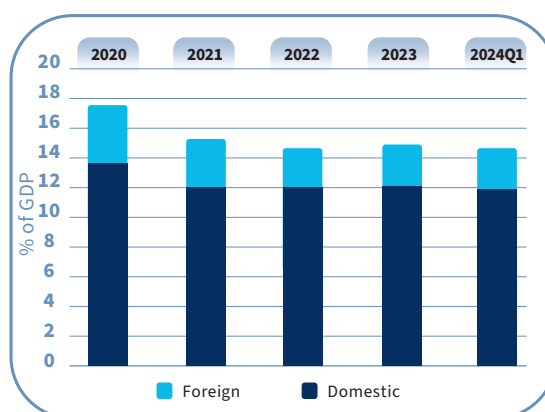
currencies and revaluation of gold held by the NWF totalled RUB 241.5 billion.

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 and authors' estimates

BUDGET REVENUES INCREASED BY 53.6%

EXTERNAL SECTOR

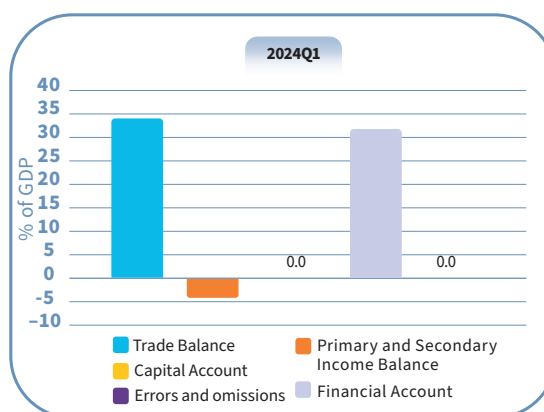
In 2024Q1, the Current Account surplus was USD 25.2 billion (Figure 12), having increased by USD 9.7 billion year-on-year. The main driver of that growth was the rapid decline in imports of goods and services (-9.7% y/y), while exports declined by merely 2.6% y/y. The Current Account surplus increase can also be attributed to the decrease in the deficit of the primary and secondary income balances. The deficit declined relative to 2023Q1 due to a reduction in the amount of dividends accrued to non-residents and in the amount of outgoing personal transfers. In value terms, exports continued to decline because of foreign trade restrictions and lower world prices of gas, coal, and metals. Imports declined as well due to high interest rates, weakening of the rouble, and payment problems that have been escalating since December 2023 as counterparty banks are stalling settlements by Russian importers. In 2024Q1, the positive balance of the Financial Account (excluding reserve assets) amounted to USD 32 billion, a USD 14 billion increase year-on-year. The bulk of that increase can be attributed to the growth of foreign assets by USD 27.1 billion due to the increasing amounts due from non-residents for foreign trade deals, and delayed receipt of export revenues. Reduction of foreign liabilities slowed to USD 4.9 billion, as outflow of non-resident capital continued to decline.

In 2024Q1, the Russian rouble weakened slightly relative to the US dollar (Figure 13). The average exchange rate was RUB 91 per USD, a 2.3% decrease quarter-on-quarter. Despite the reduction in export revenues and the strengthening of the US dollar against world currencies, significant weakening of the Russian rouble was averted. The rouble was supported by foreign currency sales carried out to mirror the Ministry of Finance's operations with NWF assets.

CURRENT ACCOUNT BALANCE

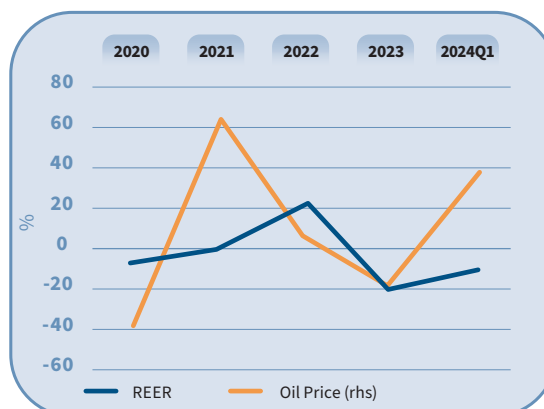
\$25.2 BLN

Figure 12. Balance of Payments



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

Figure 13. Changes in Foreign Trade Price Terms



Source: Bank of Russia

MEDIUM-TERM FORECAST

	2022 Actual	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast
Economic Growth in Russia, %	-2.1	3.6	3.4	1.4	1.6
Rate of Inflation in Russia, Dec/Dec, %	11.9	7.4	5.7	4.2	4.0
Rate of Inflation in Russia, average, % y/y	13.7	5.9	7.0	4.6	4.1
USD/RUB Exchange Rate (average)	68.5	85.2	92.3	94.0	95.4
Key Rate in Russia (average), %	10.5	9.9	15.4	11.5	8.3

We improved our Russian economic growth forecast for 2024 to 3.4% (+1 p.p. vs the April forecast³), as estimated real GDP growth in 2024Q1 strongly exceeded our expectations. High 2024Q1 indicators and strong 2023Q4 results create a high base effect. Still, we anticipate a gradual slowdown of economic activity starting in 2014Q2 in response to the tight monetary policy and the resultant decline in consumer activity. The tight monetary policy with its high interest rates will stimulate the population to increase the savings ratio. The anticipated deceleration of wage growth due to stabilisation of the labour market will also contribute to the slump in consumer activity. Private investments will slow down because of stringent lending terms, while public investments will remain high to support development of infrastructure. In 2024, exports will continue to adapt to new terms of trade, with supplies rerouted to new destinations. Imports will decline due to high interest rates and sluggish consumer activity. Persistent and acute workforce shortages will remain a critical constraining factor for the economy from the production perspective.

³ EFSO Regional Economic Outlook 2024 No. 1(1). Moscow: Eurasian Fund for Stabilisation and Development. Available at: <https://efsd.org/en/research/regional-economic-outlook/spring-24-regional-economic-outlook/>

In 2025–2026, as interest rates gradually decrease, the Russian economy will return to a balanced growth path at the level of 1.4–1.6%. Exports will expand as logistical chains and trade ties continue to improve. An important contribution to the increase in gas exports will be made by the Power of Siberia pipeline, which will reach its design capacity by 2025. Russian exports will also be supported by the global economic recovery.

According to our estimates, by the end of 2024, the rate of inflation in Russia will decline to 7.4%. Despite the significant deceleration of inflation after it reached peak values in autumn 2023, it will remain high throughout 2024. We anticipate that in response, the Central Bank will keep the key rate at 16% until 2024Q4.

In 2025–2026, inflation will continue along a downward path to reach the 4% target by 2026. The Central Bank will gradually soften its monetary policy by reducing the key rate to 10% by the end of 2025, and to 8% by the end of 2026.

In 2024, the RUB/USD exchange rate will stabilise at about RUB 92 per USD, with a subsequent increase to RUB 95 per USD by the end of 2026 due to key rate reductions and the difference between the rates of inflation in Russia and foreign countries.

RISKS AND UNCERTAINTIES OF THE MEDIUM- TERM FORECAST

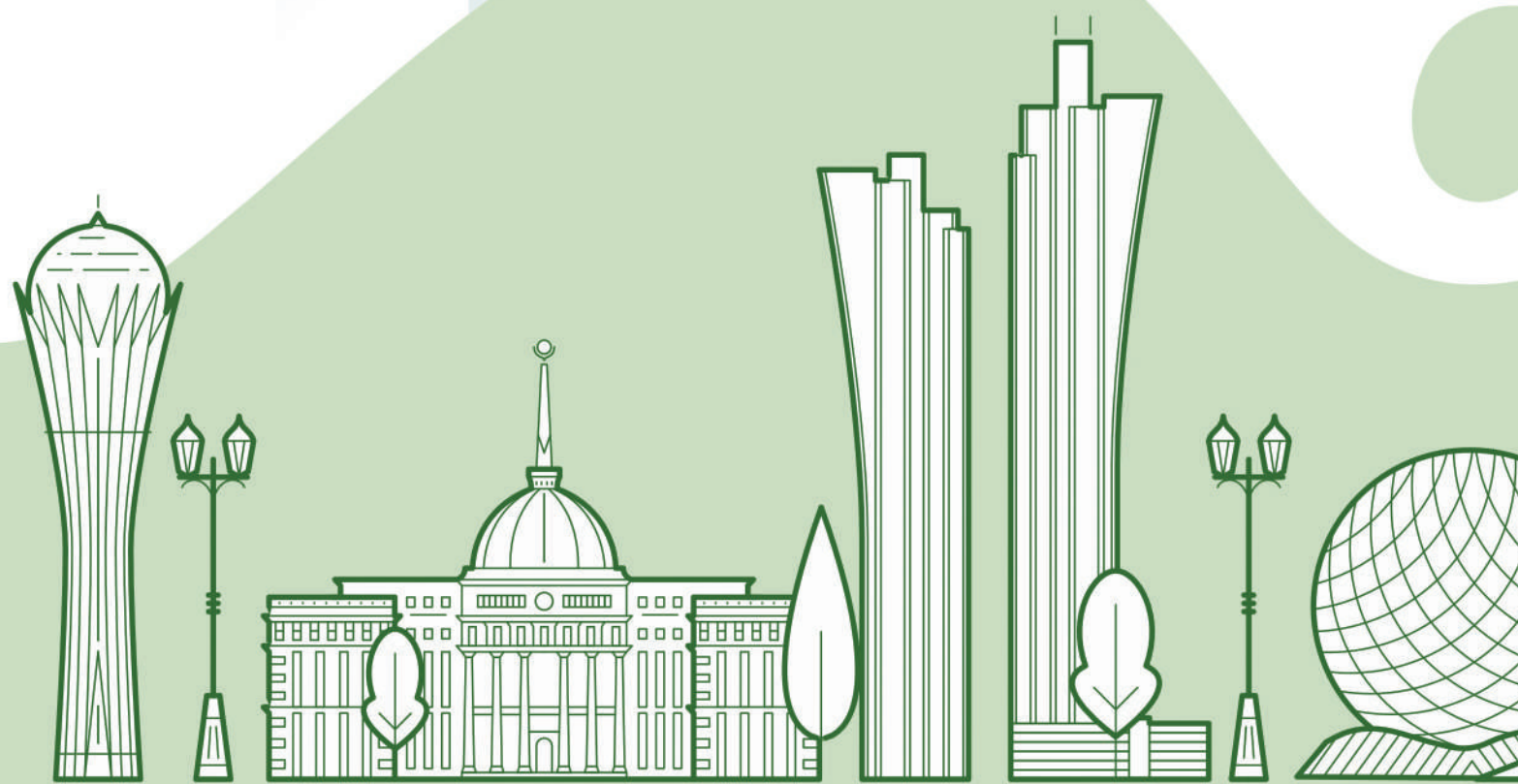
Further deterioration of foreign trade terms remains one of the main downside risks. Strengthening of sanctions and disruption of existing trade chains may significantly hamper recovery of exports and boost transport and logistical costs, which will have an adverse impact on the exchange rate of the Russian rouble. Additional problems with the acceptance of payments from Russian importers may lead to shortages of certain goods in the market, which will build up inflationary pressures.

The risks associated with the deviation of the exchange rate of the Russian rouble

from the baseline scenario are also related to non-economic exogenous factors. They include, for example, changes in administrative capital controls, including the mandatory sale of foreign currency earnings by exporters, and imposition of new sanctions affecting foreign currency payments. Such restrictions may induce higher volatility of the exchange rate of the Russian rouble, and change its annual average value.

The situation in the labour market remains the key inflationary risk. Further expansion of workforce shortages may become a long-term problem. A rise in wages and salaries caused by understaffing may spur consumer activity and drive inflation beyond the level indicated in our baseline forecast.

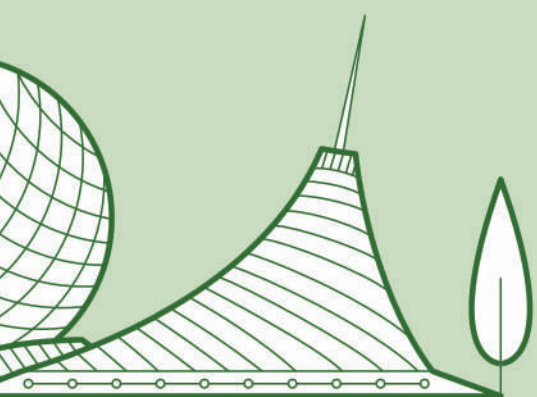




In 2024Q1, economic activity in Kazakhstan slowed to 3.7% y/y. According to our estimates, quarterly dynamics remained at a level close to that recorded in 2023Q4. Economic growth was fuelled by consumer demand, while investment activity was on the decline. Imports decreased faster than exports against the backdrop of a downturn in re-exports to Russia, which led to an improvement of the foreign trade balance, with the Current Account deficit dropping to (-0.3%) of GDP. The fiscal policy continued to incentivise and support domestic demand: the budget deficit and non-oil deficit stood at (-1.1%) and (-7.6%) of GDP, respectively. In March, inflation decreased

to 9.1% y/y due to the decline in food prices, strengthening of the tenge, and the moderately tight monetary policy.

We estimate that, as of 2024Q2, economic activity will speed up, and by the end of the year the real GDP growth will be 4.3%. Domestic demand will remain the key growth driver. Budget expenditures on social programmes and large investment projects will support consumer and investment demand. Inflation will continue to slow down, and by December 2024 will be as low as 8.6%. This will enable the NBRK to continue monetary policy normalisation, and the average annual base rate will be 12.6%.



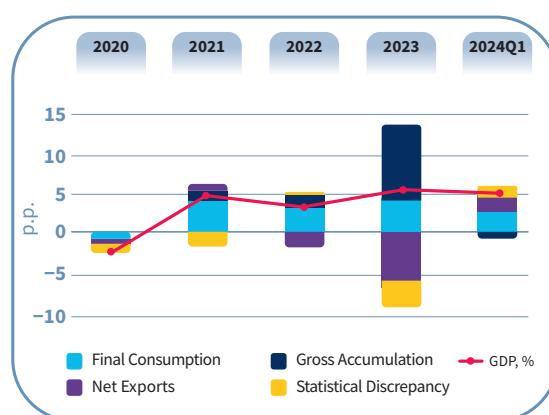
REAL SECTOR AND LABOUR MARKET

In the beginning of 2024, economic activity in Kazakhstan slowed down relative to 2023. In 2024Q1, real GDP increased by 3.7% year-on-year (2023Q1: 5.6%). However, according to our estimates, the seasonally adjusted annualised growth rate was 3.1% q/q, slightly up from 2.8% q/q in 2023Q4. Still, the economy has a positive output gap.

On the demand side, we estimate that economic growth was fuelled by consumer demand and net exports, while gross accumulation made a negative contribution (Figure 1). In January–March 2024, Retail Trade increased by 4.9%, with trade in food products growing faster than trade in non-food products (7.6% vs 3.9%). Investments dropped by 0.8% (2023Q1: +16.1%) due to a decrease in Other Costs (volume index: 38.5%) and an increase in Construction and Capital Repair of Buildings (volume index: 101.4%) and Costs of Acquisition of Machines, Equipment, and Vehicles (126.3%). At the sectoral level, the worst investment slump was in Mining (-23.7%) due to the termination of works at the Tenghiz field, and in Agriculture (-18.2%) due to massive floods. Net Exports made a positive contribution, as in 2024Q1 imports dropped faster than exports (-10.6% vs -1.9%). Floods in several regions of the country had a strong negative impact on economic activity.

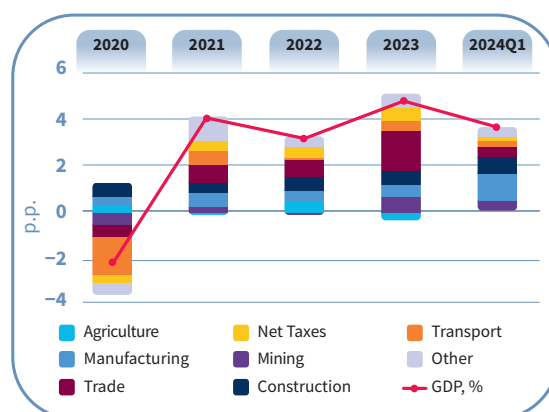
Economic growth was supported by positive changes in most key sectors (Figure 2). In 2024Q1, the largest contributions to the GDP increase were made by Manufacturing (0.8 p.p.), Construction (0.6 p.p.), Trade, and Transport (0.5 p.p. each). Contribution by Mining was 0.2 p.p., with positive growth supported by extraction of metal ores (7.3%) and natural gas (3.4%). Production of crude oil was capped by the existing OPEC+ limits (growth rate: 0.3%). Net Taxes made a contribution of 0.3 p.p. (2023Q1: 0.5 p.p.).

Figure 1. Decomposition of Annual GDP Growth Using the Expenditure Approach



Note: 2024Q1 — authors' estimate
Source: calculations based on BNS ASPR RK data

Figure 2. Decomposition of Annual GDP Growth Using the Production Approach



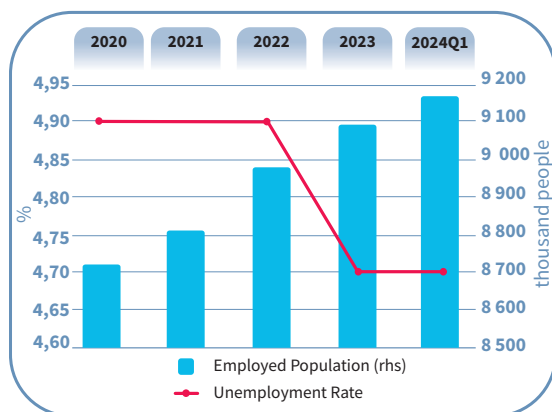
Source: calculations based on BNS ASPR RK data

Despite the increase in supply, the situation in the labour market remained tense. In 2024Q1, total workforce increased by 1.5% year-on-year (2023Q1: 0.8%). The rate of unemployment measured in accordance with the ILO methodology remained at a historically low level of 4.7% for the fourth month running (Figure 3). The highest demand was for low- and medium-skilled specialists¹. Labour market imbalances emerged at the regional level between the

¹ Zakon.kz. Shortage of Specialists: What Is Happening in the Labour Market in Kazakhstan. Available at: <https://www.zakon.kz/stati/6434067-defitsit-spetsialistov-chto-proiskhodit-na-rynke-truda-v-kazakhstane.html> (in Russian)

INFLATION SLOWDOWN TO 8.7% (APRIL)

Figure 3. Labour Market Indicators



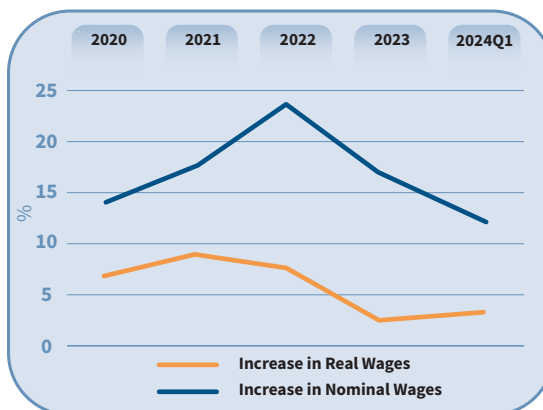
Source: BNS ASPR RK

southern regions (labour surplus) and the northern regions (labour deficit).

Despite the high inflation, the rates of increase in the real income of the population, including wages and salaries, remain in positive at 3.3% and 2.7%, respectively (Figure 4). Wage and salary growth is supported by the private sector of the economy and certain categories of public sector workers, excluding teachers and doctors². The largest salary increases were in Finance (18.7%), Real Estate (12.5%), Information and Communications (10.7%), Arts, Entertainment, and Leisure (10.6%), and Agriculture (8.2%).

² Salaries of teachers and doctors were progressively doubled over the last five years, and no further increases are scheduled for 2024.

Figure 4. Household Income



Source: BNS ASPR RK

INFLATION AND MONETARY TRENDS

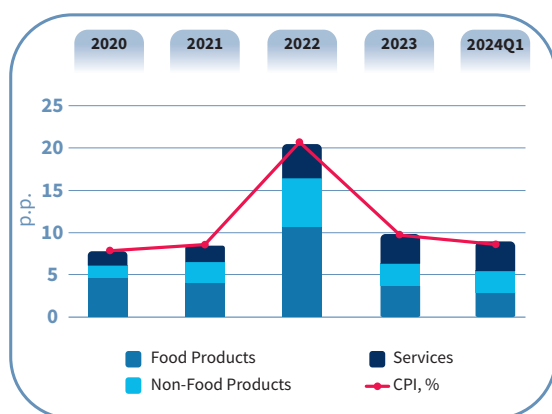
Starting in March, the rise in prices showed signs of deceleration (Figure 5). Annualised inflation decreased from 9.8% in December 2023 to 9.1% in March 2024, and then to 8.7% in April 2024. According to NBRK estimates, following a 0.8% price increase spike in January and February, in March seasonally adjusted three-month rolling averages dropped to the December level (0.7%), and continued to decline in April (0.6%). Continuation of a moderately tight monetary policy by the NBRK, strengthening of the tenge, and reduction of global food prices all drive down prices for food products (from 8.5% y/y in December 2023 to 6.9% y/y in March 2024 and 6.3% y/y in April 2024) and non-food products (9.1%, 8.2%, and 7.6%, respectively). By the same token, inflation is affected by several pro-inflationary factors. The expansionary monetary policy and growing wages and consumer loans give rise to the inflationary pressure generated by the elevated domestic demand. In addition, housing and utility reforms³ increased prices of commercial services (from 12.4% y/y in December 2023 to

³ The reforms envisage an extensive modernisation of power, heat, water, and sanitation networks, and introduction of higher tariffs for regulated housing and utility services (for details, see <https://efsd.org/en/research/regional-economic-outlook/spring-24-regional-economic-outlook/>).

13.2% y/y in March 2024 and 13.5% y/y in April 2024).

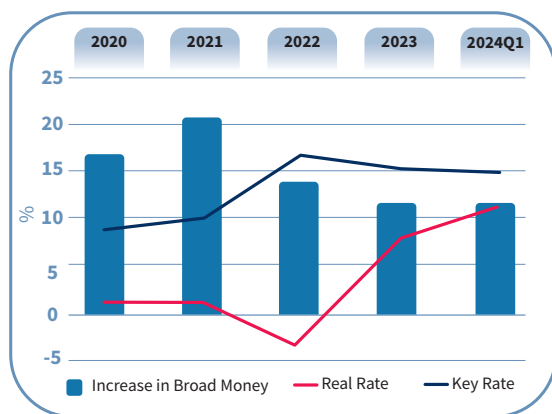
Inflation expectations of the population remain high. In April, after a decline in February–March and despite the slowdown in inflation, inflation expectations rose again to 16.1% (December 2023: 16.4%), while perceived inflation was 16.3% (December 2023: 18.2%).

Figure 5. Decomposition of Inflation (EoP, y/y)



Source: BNS ASPR RK

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



Source: BNS ASPR RK

Monetary policy remains moderately tight: in April, the NBRK kept the base rate at 14.75%. At the end of 2024Q1, loan market rates demonstrated divergent trends: interest rates on tenge-denominated loans to legal entities went down from 18.7% in December 2023 to 17.9% in April 2024, while rates on loans to private individuals rose from 17.9% to

20.8%, respectively. During the same period, interest rates on term deposits for legal entities decreased from 14.6% to 13.7%, but did not change for private individuals, remaining at 13.7% (Figure 9). The NBRK continues to remove large amounts of free tenge liquidity: its open position balance increased from KZT (-5.0) trillion in January to KZT (-5.5) trillion in April.

In April 2024, broad money increased by 12.7% y/y vs 16.1% y/y the year before (Figure 6). The M2 monetary aggregate is growing at a relatively faster rate (16.3% y/y vs 20.7% y/y the year before), while foreign currency deposits are declining (-5% y/y), due to both the reduction of their nominal dollar value (contribution: 2.5 p.p.) and the strengthening of the tenge (2.5 p.p.). The growth of tenge-denominated money supply can be attributed to large-scale lending and growing budget expenditures.

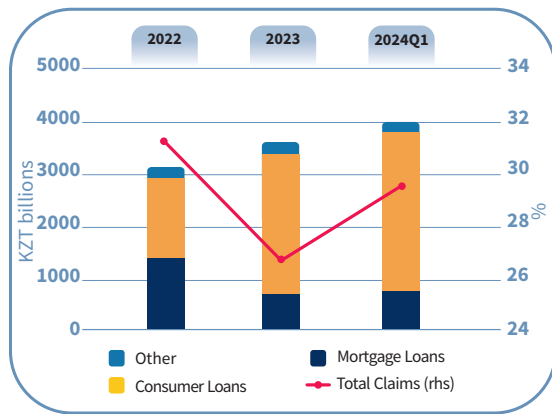
At the end of April, the rate of increase of loans to the economy in the extended definition⁴ went up to 21.4% y/y (18.7% y/y the year before). Loans to the public — which account for more than half (53.6%) of the total loan portfolio — increased by 27.6% (28.5% the year before), and loans to businesses by 15.0% (10.1% the year before). In April, the increase in mortgage loans extended by the banking sector⁵ to the population slowed to 14.5% y/y vs 31.7% y/y the year before, while the increase in consumer loans, conversely, accelerated to 37.2% y/y vs 28.3% y/y the year before (Figure 7). Loans to small businesses remain high, with April growth at 19.2% y/y (19.8% y/y the year before). Loans to medium-sized businesses slowed to 3% y/y from 12% the year before, while loans to large businesses accelerated from 1.1% to 5.9%, respectively (Figure 8).

⁴ Including actual loan balances repayable to the banking sector, mortgage companies, other quasi-public sector entities, and microfinancing organisations.

⁵ Including second-tier banks and the Development Bank of Kazakhstan.

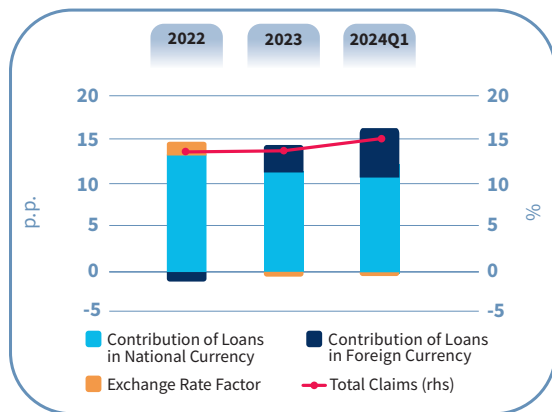
The net profit of the banking sector increased despite the dropping returns. As of 1 April 2024, the net profit of the banking sector was KZT 0.6 trillion (+11.7% y/y). Return on Total Assets (ROTA) decreased to 3.2% from 3.9% the year before, and Return on Equity (ROE) decreased to 23.9% (from 32.1%). The loan portfolio quality is lower than at the beginning of the year, but remains high: the share of non-performing loans increased, and on 1 April 2024 stood at 3.1% of the total loan portfolio (Figure 10). Resilience of the country's largest banks to financial risks is reflected in their improved international ratings⁶.

Figure 7. Increase in Bank Claims on Individuals (EoP)



Source: authors' calculations based on NBRK data

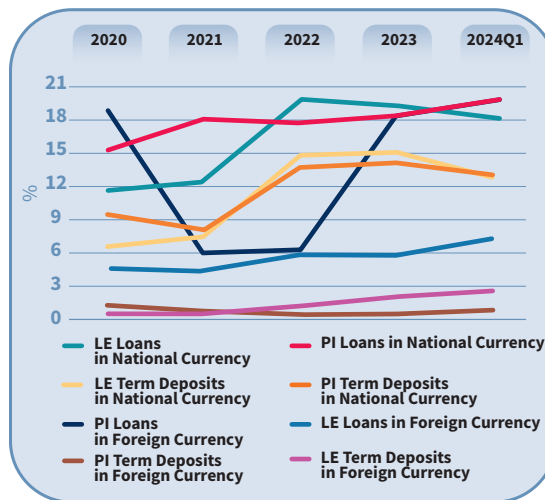
Figure 8. Increase in Business Loans, broad definition (EoP)



Source: NBRK

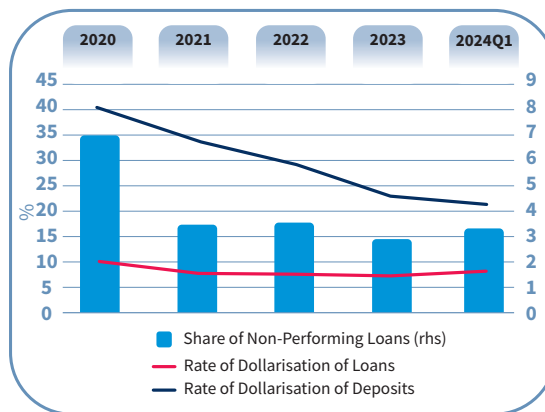
⁶ S&P Global. Outlook for five Kazakhstan banks changed to "Positive" to reflect improved quality of assets and regulatory supervision; ratings confirmed. Available at: <https://disclosure.spglobal.com/ratings/ru/regulatory/article/-/view/type/HTML/id/3140354> (in Russian)

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



Source: NBRK

Figure 10. Banking Sector Indicators



Source: NBRK

FISCAL SECTOR AND PUBLIC DEBT

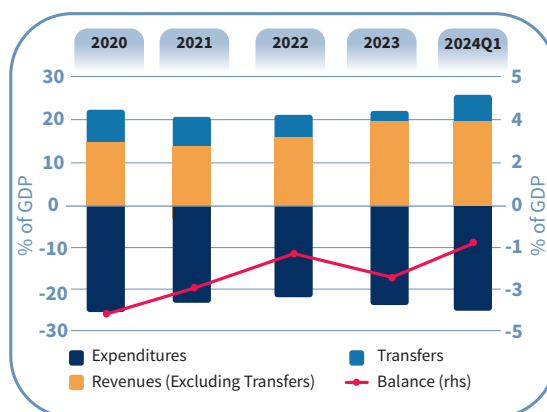
The expansionary fiscal policy supports domestic demand, but raises the budget deficit. In 2024Q1, budget revenues increased by 7.6% year-on-year to KZT 6.0 trillion; conversely, their share in the GDP decreased from 23.6% to 23.4% (Figure 11). Tax revenues were down by 2.5%, primarily because of reduced taxes on international trade and foreign operations (KZT (-0.5) trillion) and domestic taxes on works, goods, and services (KZT (-0.1) trillion). Transfers from the National Fund increased by

47.7% to KZT 1.5 trillion, which amounts to 24% of total budget revenues, or 5.6% of GDP. Expenditures grew at the same rates as revenues, and increased by 7.6% to KZT 6.1 trillion, while their share in GDP dropped from 24.2% to 23.9%. Almost half of total nominal increase in expenditures (44%) was attributable to higher social assistance and social expenses following a substantial hike of all types of public benefits and of the base pension. In addition, public debt service expenses increased by 29% to KZT 0.7 trillion, which accounts for 11.8% of total budget expenditures. Due to a drop in net budget loans (-54.3%) and in the balance of operations with financial assets (-30.5%) against the background of parallel growth of revenues and expenditures, at the end of 2024Q1 the state budget deficit amounted to 1.1% of GDP vs 1.6% of GDP the year before (Figure 11). The non-oil deficit increased from (-7.4%) to (-7.6%) of GDP.

In 2024Q1, public debt declined from 22.5% to 22.2% of GDP due to the relatively faster rate of growth of the GDP (Figure 12). External public debt was down by KZT 0.3 trillion to KZT 6.8 trillion (5.5% of GDP, of 24.9% of total debt). Domestic public debt was up by KZT 1.2 trillion to KZT 19.1 trillion (15.5% of GDP), with short-term state bonds accounting for more than 75% of that increase. The debt of the NBRK continued to decrease, and went down by KZT 0.7 trillion to KZT 0.5 trillion (0.4% of GDP), as did the debt of local executive bodies, which declined by KZT 0.2 trillion to KZT 1.8 trillion (1.5% of GDP).

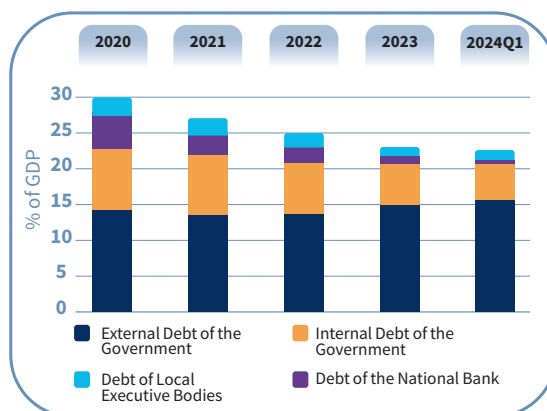
In 2024Q1, international assets of the National Fund increased by 1.3% to USD 60.8 billion. The increase was due to investment income, while foreign currency sales to finance budget transfers (USD 2.4 billion) were higher than foreign currency earnings (USD 2 billion).

Figure 11. State Budget



Source: Ministry of Finance of the Republic of Kazakhstan

Figure 12. Public Debt



Source: Ministry of Finance of the Republic of Kazakhstan

**NON-OIL
BUDGET
DEFICIT
7.6%
OF GDP**

EXTERNAL SECTOR

According to preliminary data, in 2024Q1, the Current Account deficit decreased from USD 1.6 billion to USD 0.9 billion (or, according to our estimates, 1.6% of GDP), mostly due to the increase in the balance of foreign trade in goods (Figure 13).

The surplus of trade in goods went up to USD 5.7 billion from USD 5.2 billion the year before, as product imports decreased faster than product exports (-6.9% vs -2.6%). The fact that imports declined despite growing demand and the strengthening tenge can be explained by a downturn in re-exports to Russia: exports to Russia were down by 27.6%, or USD 0.9 billion, while imports from other countries fell by 8.3%, or USD 1.1 billion⁷. At the same time, exports to non-EAEU countries were up by 4.6%, with the value of oil exports growing due to favourable prices. The balance of trade in services declined from USD (-0.39) billion to USD (-0.44) billion because imports increased faster than exports (+8.8% vs +8.2%). The negative primary income balance decreased from USD 6.2 billion to USD 6.0 billion, due, among other things, to an increase in the amount of income from National Fund reserves and assets by 66.5% to USD 0.4 billion. The secondary income deficit went down from USD 0.2 billion to USD 0.1 billion.

According to the Financial Account of the Balance of Payments, net borrowings amounted to USD 0.7 billion (Figure 14).

The inflow of funds into the economy was supported by direct investments of USD 1.9 billion, and income from other types of capital and investment operations (USD 0.5 billion), while the outflow of portfolio investments was USD 1.7 billion. At the sectoral level, the bulk of the inflow was generated by the government and the banking sector (USD 0.5 billion and USD 1.6 billion, respectively). This was

CURRENT ACCOUNT DEFICIT \$0.9 BLN

largely attributable to active security sales by the government to non-residents. The other sectors produced a net outflow of USD 1.4 billion.

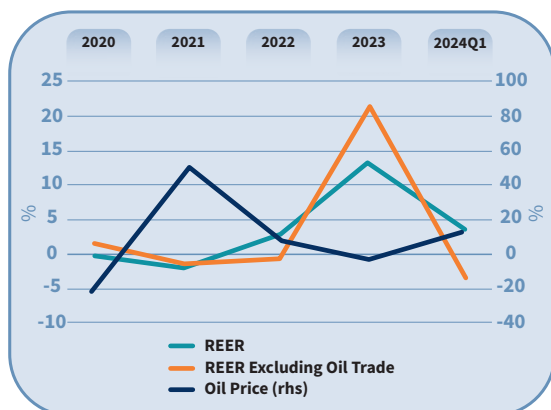
The long-term trend of national currency strengthening persisted — after a 15.6% aggregate strengthening of the real effective exchange rate of the tenge in 2021–2022, in 2024Q1 it appreciated by an additional 4.2% (Figure 13). The nominal exchange rate of the tenge against the dollar strengthened by 1.8% from KZT 457.8 per USD in December 2023 to KZT 449.7 per USD in March 2024. The strengthening was driven by the decrease in the Current Account deficit and the sale of foreign currency from the National Fund.

In 2024Q1, gross international reserves increased by almost USD 1.9 billion to USD 37.8 billion, which is equivalent to 6.4 months of imports (Figure 15).

The value of gold in the reserves increased by USD 2.5 billion, driving their share up to 58.2%, while the value of assets denominated in freely convertible currencies decreased by USD 0.6 billion.

⁷ Preliminary data for January 2024 — April 2024.

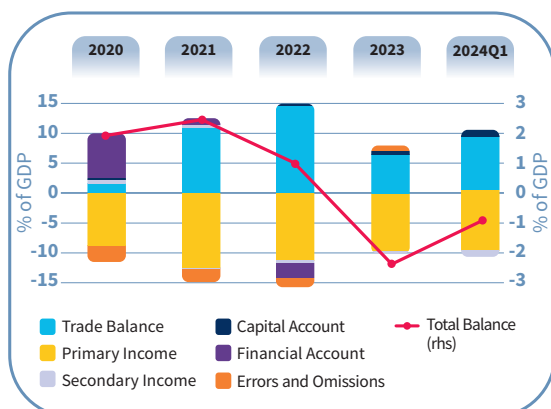
Figure 13. Changes in Foreign Trade Price Terms



Source: NBRK, World Bank

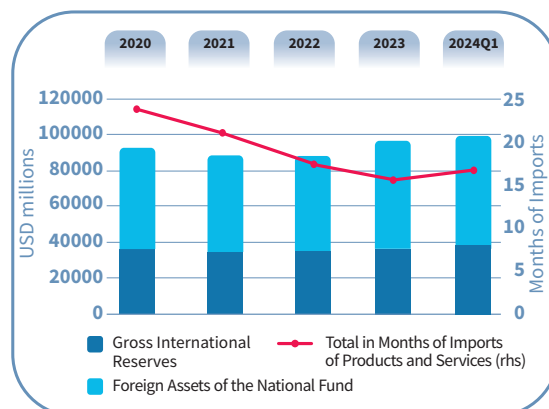
GROWTH OF REAL INCOME OF THE POPULATION
3.3%

Figure 14. Balance of Payments



Source: NBRK

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



Source: NBRK

MEDIUM-TERM FORECAST

	2022 Actual	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast
Economic Growth in Kazakhstan, %	3.2	5.1	4.3	4.9	4.7
Rate of Inflation in Kazakhstan (Dec/Dec), %	20.8	9.8	8.6	6.7	5.4
Rate of Inflation in Kazakhstan (average), % y/y	14.9	14.9	9.2	7.3	5.9
USD/KZT Exchange Rate (average)	460.2	456.2	450.5	470.8	492.4
Key Rate in Kazakhstan (average), %	13.8	16.4	12.6	8.8	7.7

We revised our 2024 economic growth forecast downward to 4.3% to account for 2024Q1 developments. We also believe that the local minimum occurred in 2024Q1 due to flooding and the impact of the decline of oil and gas investments. Quarterly GDP dynamics will pick up as the impact of those factors weakens in 2024Q2. The fiscal boost will continue to fuel economic activity in 2024.

Domestic consumer demand will remain the main growth driver, and consumer activity will be driven by accelerating growth of real wages and decelerating inflation, and by the ongoing expansion of consumer lending. Investment demand will be stimulated by the reconstruction of heat, water, and sanitation systems, implementation of large-scale investment projects, and completion of restoration works to eliminate the consequences of the spring floods. Export growth will be capped until the end of the year in line with OPEC+ agreements.

**GDP GROWTH
IN 2024
4.3%**

In 2025 and 2026, GDP growth rates will remain high at 4.9% and 4.7%, respectively. In 2025, economic growth will be aided by the projected expansion of oil production⁸. The relatively high economic growth rate will be supported by the anticipated improvement of the country's economic potential upon

⁸ OPEC. OPEC Monthly Oil Report. Available at: https://www.opec.org/opec_web/static_files_project/media/downloads/publications/OPEC_MOMR_April_2024_archive.pdf

completion of a series of reforms designed to boost its competitiveness (in particular, by taking steps set forth in the economic liberalisation decree (Box 1)). The contribution of the expansionary fiscal policy will be progressively declining at the end of the period under review with reinforcement of fiscal rules and reduction of non-oil budget deficit.



Box 1. Economic Liberalisation Decree

The Decree “On Measures for Liberalisation of the Economy” was signed on 10 May 2024⁹. The key measures set forth in the Decree are designed to:

- rapidly and massively decrease the share of the public sector in the economy;
- improve the self-reliance, quality, and independence of corporate governance in the National Welfare Fund “Samruk-Kazyna”;
- develop competition in commodity markets;
- ensure fair competition in financial markets;
- improve regulatory policies, and liberalise business setup and liquidation procedures;
- strengthen protection of the rights and lawful interests of businesses, including through decriminalisation of economic offences, etc.

⁹ Official website of the President of the Republic of Kazakhstan. On Measures for Liberalisation of the Economy. Available at: <https://akorda.kz/ru/o-merah-po-liberalizacii-ekonomiki-1141556> (in Russian)

By the end of 2024, inflation will decrease to 8.6% due to the moderately tight monetary policy, and reduction of food inflation and inflation in trading partner countries. However, in the next several years deceleration of inflation will be hampered by expansionary fiscal policy and high domestic demand, with inflation expectations of the population remaining high. Inflation will approach 5% (NBRK target) only in 2026.

The NBRK will continue to normalise the monetary policy and reduce the base rate in response to deceleration of inflation and abatement of inflation expectations. The average base rate in 2024 will be 12.6%. The monetary policy will become neutral only by 2026, as the base rate is progressively reduced to 7.7%.

The exchange rate at the end of the year will be about KZT 450 per USD. However, going forward, the national currency will be gradually weakening as the volume of foreign currency sales by the National Fund declines, and the gap between the NBRK base rate and foreign rates gradually closes. After a gradual depreciation, the exchange rate will decrease to KZT 492 per USD in 2026.

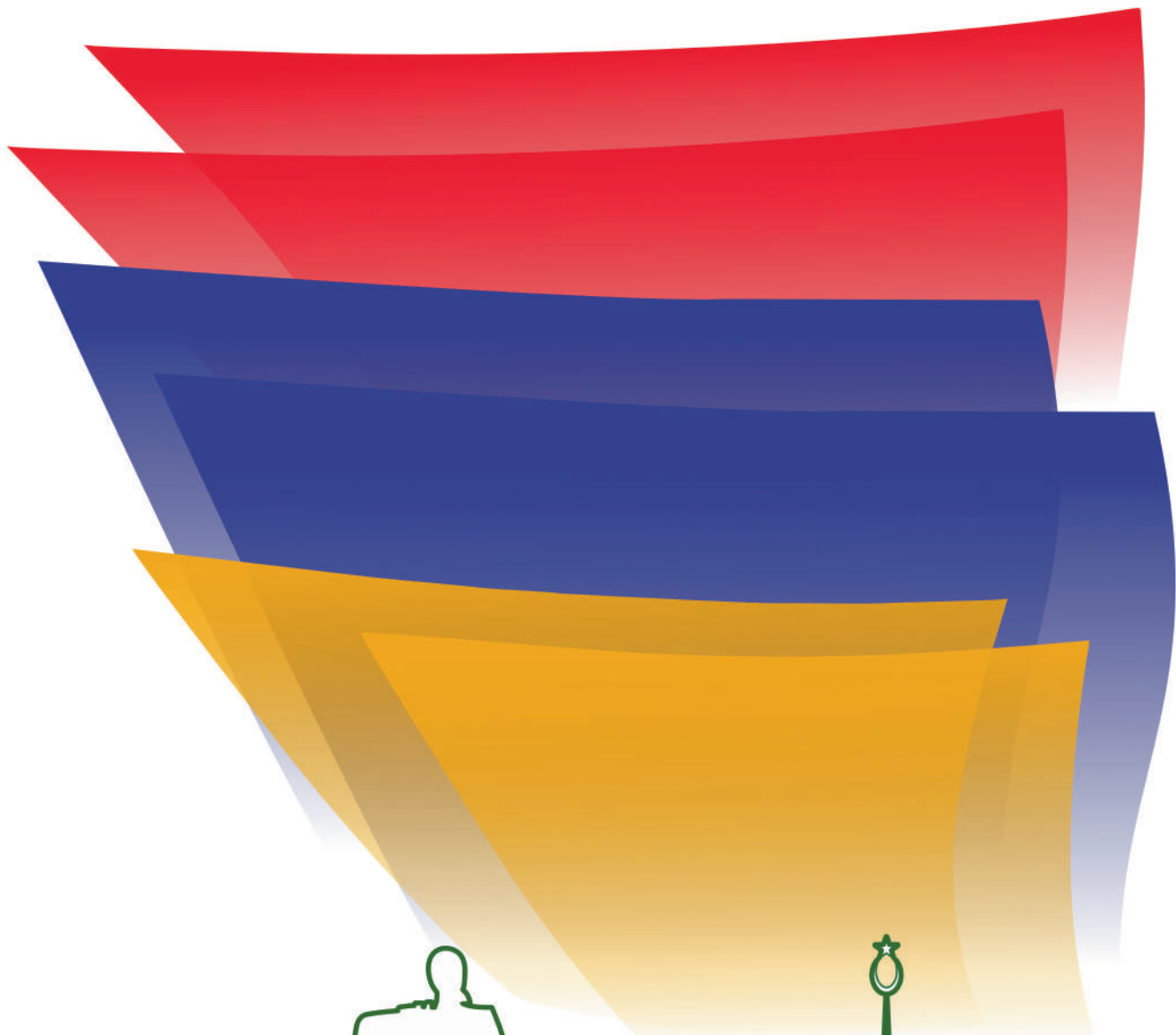
RISKS AND UNCERTAINTIES OF THE MEDIUM- TERM FORECAST

The key risks to economic growth are related to uncertainties with respect to the volume of production and export of oil. GDP growth rates may be revised downward in the event of further delays with the commencement of development of new oil fields, and possible changes in the limits imposed by the OPEC+ deal. The forecast may be revised both upward and downward in the event of any changes in fiscal policy parameters, for example, if the budget deficit is higher or lower relative to the approved target.

Potential economic growth forecast may be revised downward in the event of slower than expected implementation of scheduled investment projects and reforms designed to increase the country's competitiveness.

It should be noted that continued adherence to the expansionary fiscal policy may give rise to short- and medium-term risks of steady deceleration of inflation, and produce a long-term impact on the quality and structure of economic growth.





In 2024Q1, the economy of the Republic of Armenia continued to demonstrate robust growth, driven by expansion of domestic demand. Inflation, as at the end of 2023, was in the negative domain due to external deflationary pressure, monetary constraints, and abatement of inflation expectations. In these conditions, the Central Bank of the Republic of Armenia continued to cut the refinancing rate. The fiscal policy was somewhat softened, but generally retained its contractionary

nature. The Current Account balance had a surplus produced by increasing exports of products and services.

Under the baseline scenario, in 2024–2026 economic growth rates will be close to potential values. The monetary policy will be directed at bringing inflation back within the target corridor. The budget deficit will increase due to a significant growth of budget expenditures, which may result in the emergence of a financing gap.



REAL SECTOR AND LABOUR MARKET

In 2024Q1, the economy of the Republic of Armenia continued to grow at a brisk pace in an environment of major structural changes. The real GDP

increased by 9.2% year-on-year compared to 11.8% the year before. According to our estimates, in 2024Q1, the seasonally adjusted real GDP was up by about 2.1% q/q, which is consistent with the trend observed over the last five quarters, where the average quarter-on-quarter growth rate was about 2.0%. During the period under review, the largest contribution to total GDP growth was made by net exports (12.4 p.p.), with re-export of gold to the UAE being the main driver (Figure 1 and Box 1). The contribution by consumer demand declined significantly (from 7.0 p.p. in 2023Q1 to 2.0 p.p.), as the share of private consumption dropped from 4.5 p.p. to 3.5 p.p. and public consumption went into the negative domain (-1.4 p.p.). Private consumption was supported by the growth of real wages (by 9.5%) and consumer lending (by 24.8%). The contribution of investment demand to GDP growth became negative (-4.8 p.p.) compared to +4.4 p.p. in 2023Q1, due to a decrease in inventories. Housing construction continued to grow with the support of expanding mortgage loans (by 23.9%) and commercial loans in the construction sector (by 42.7%).

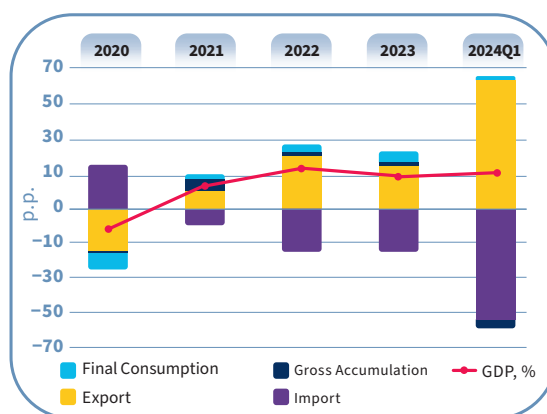
At the sectoral level, the largest contribution to the increase in economic activity was made by Trade, Manufacturing, and Other Services (Figure 2). Wholesale and Retail Trade contributed 3.2 p.p., Manufacturing 3.0 p.p., and Other Services 2.2 p.p. (including 1.5 p.p. from Finance and Insurance and 0.6 p.p. from Real Estate). Notably, the contribution by Information and Communications was negative (-0.2 p.p.), in contrast to a positive contribution of 2.9 p.p. the year before due to the massive 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 1.0 p.p. the year before due to a decrease in the value of services, primarily air transport services.

The upsurge in economic activity continues to produce a beneficial effect on labour market indicators. We estimate that at the end of 2024Q1, with the workforce up by 5.2%, the official unemployment rate

dropped to 13.1% from 13.7% the year before (Figure 3). The annual real wage and salary increase slowed down by 9.5% compared to 14.7% in 2023Q1 (Figure 4). At the sectoral level, the largest wage and salary increases were recorded in Finance and Insurance, Wholesale and Retail Trade, and Arts, Entertainment and Leisure.

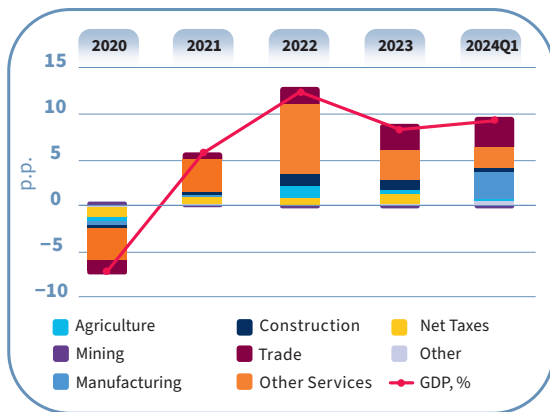
Figure 1. Decomposition of Annual GDP Growth Using the Expenditure Approach



Source: Armstat

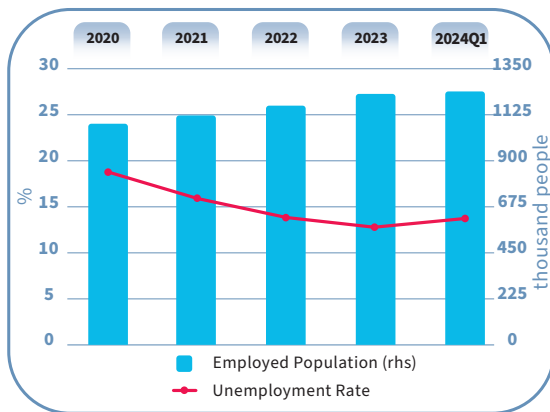
**GDP
INCREASED BY
9.2%**

Figure 2. Decomposition of Annual GDP Growth Using the Production Approach



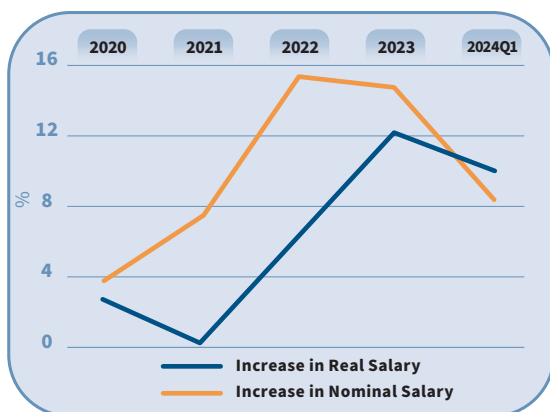
Source: Armstat

Figure 3. Changes in Employment and Unemployment Rates



Source: Armstat

Figure 4. Household Income



Source: CB RA, Armstat

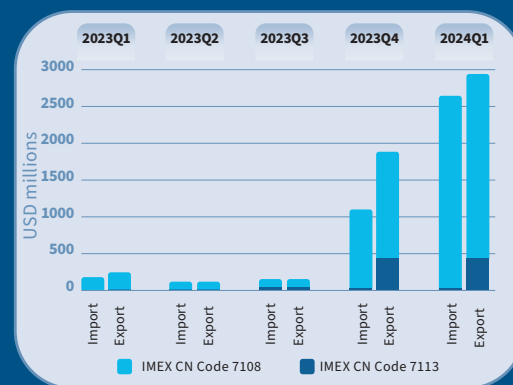


Box 1. Impact of Re-Export of Gold

Since 2023Q4, re-export of gold (Figure A) has been producing a significant impact on the rate of growth in Manufacturing (by the end of 2024Q1, manufacture of jewellery increased 12-fold), and on external sector indicators (the Current Account balance is currently positive). As a result, in 2024Q1 the contribution to GDP growth by Manufacturing and Net Exports reached 3 p.p. and 12.4 pp, respectively.

With 2024Q1 data as the baseline (the “natural level”), GDP growth was remeasured using the production approach (to exclude the unprecedented surge in manufacture of jewellery) and the expenditure approach (to exclude net export of gold). It was established that, in the absence of the aforementioned drivers, by the end of 2024Q1 the annual real GDP growth rate would have been 5.0–6.0% (instead of 9.2%)¹.

Figure A. Changes in Export and Import of Gold



Note: IMEX CN — Code 7108 (Gold unwrought, or in semi-manufactured forms, or in powder form), Code 7113 (Articles of jewellery and parts thereof, of precious metals or of metal clad with precious metals).

Source: Armstat

¹ Estimate by the Central Bank of the Republic of Armenia: real GDP increased by 3.8%, excluding gold. Published in “Inflation Report” dated 11 June 2024: https://www.cba.am/AM/ppperiodicals/MPR_2024Q2_Arm.pdf

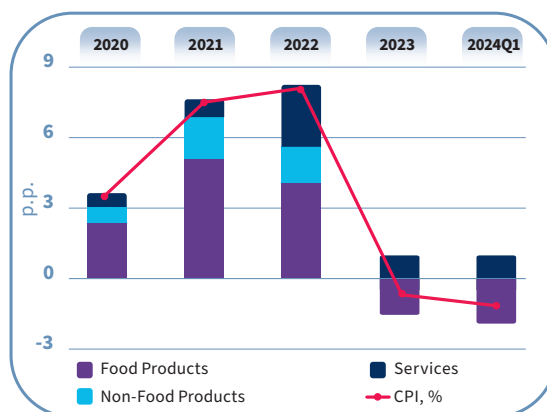
INFLATION AND MONETARY TRENDS

In 2024Q1, price dynamics remained in the deflation zone due to the weakening of external price pressure (Figure 12), monetary constraints² and abatement of inflation expectations. At the end of March 2024, 12-month inflation was (-1.2%) (vs (-0.6%) in December 2023), while annualised base inflation went down to (-0.7%) (vs (-0.4%)). Price cuts affected primarily food products (bread and bakery products, oils and fats, vegetables and fruit, meat products, and other products), whose contribution to changes in consumer prices amounted to (-1.9 p.p.) (vs (-1.6 p.p.) in December 2023) (Figure 5).

Operating in a deflationary environment, the Central Bank of the Republic of Armenia gradually softened its monetary policy. In 2024Q1, the refinancing rate was cut twice, and ultimately went down from 9.25% p.a. to 8.5% p.a. 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 March 2024, average-weighted interest rates on new term deposits denominated in the national currency decreased by 0.2 p.p., while interest rates on new loans, conversely, increased by 0.1 p.p. (Figure 6).

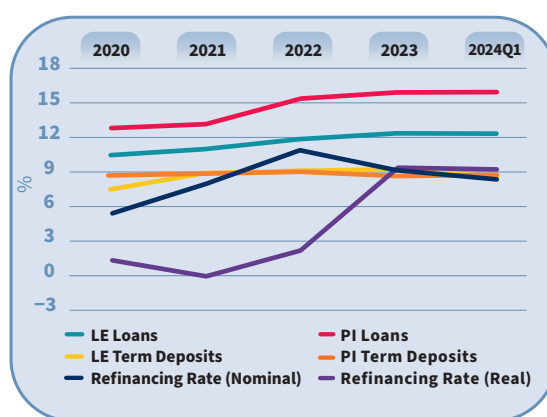
² Appreciation of the Armenian dram and stringent interest rate policy measures (the interest rate is higher than the neutral rate according to both our estimates and the estimates of the Central Bank of the Republic of Armenia). Available at: https://www.cba.am/EN/pperiodicals/MPR_2024_Q1_Eng.pdf (p. 25, Figure 3.D.3).

Figure 5. Decomposition of Inflation (y/y, EoP)



Source: Armstat

Figure 6. Interest Rates (EoP)



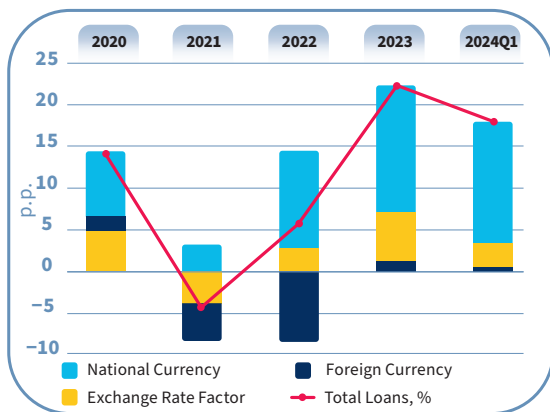
Note: The figure shows interest rates on new loans and deposits

Source: CB RA, Armstat

Because of the ongoing rise of interest rates on loans denominated in the national currency, lending activity of banks slowed down, but still remained rather high. By the end of 2024Q1, year-on-year increase in the amount of loans originated by commercial banks slowed down to 17.9% (vs 22.4% at the end of 2023) due to deceleration of lending to legal entities, although origination of consumer loans picked up (Figure 7). Increased lending in the national currency accounted for most of the growth (contribution: 14.5 p.p.). Loans denominated in foreign currencies (excluding the exchange rate factor) accounted for 3.4 p.p. of the total increase. The share of mortgage loans (21.5% vs 20.8%

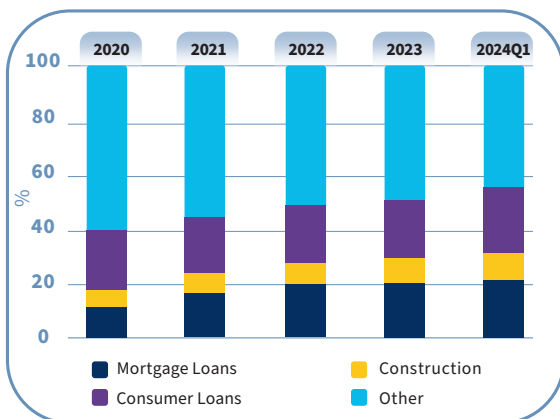
at the end of 2023) and construction loans (10.2% vs 9.7% at the end of 2023) increased (Figure 8) after the government had taken steps to stimulate housing construction and mortgage lending through income tax refunds³. The growth of consumer loans accelerated (to 22.4% vs 21.1% at the end of 2023), and their share in total loans increased.

Figure 7. Increase in Commercial Bank Loans



Source: CB RA

Figure 8. Structure of Commercial Bank Loans



Source: CB RA

The indicators of financial resilience of the banking system remained stable. During the period from December 2023 to March 2024, return on total assets increased

³ Estimates made by the authors and published in the report “Social and Economic Development in the First Half of 2023 and Medium-Term Prospective”, October 2023: https://efsd.org/en/research/macroeconomic_references/october-2023-republic-of-armenia-social-and-economic-development-in-the-first-half-of-2023-and-medium-term-prospective/

DEFLATION WAS 1.2%

from 2.7% to 4.2%, and return on equity increased from 17.4% to 27.3%, as interest income rose due to more extensive lending. The spread between the average-weighted interest rates on loans and deposits widened. The quality of the loan portfolio improved, as the share of non-performing loans went down from 2.4% to 1.2%.

FISCAL SECTOR AND PUBLIC DEBT

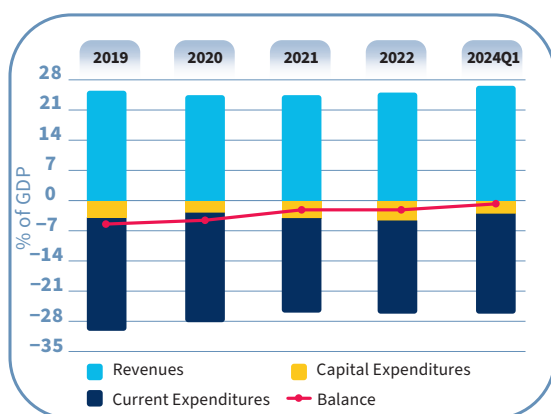
In 2024Q1, the state budget was nearly balanced (deficit: 0.1% of GDP) compared to a 3.4% budget surplus the year before (Figure 9).

Budget revenues declined to 26.6% of GDP (vs 27% the year before) as tax revenues went down by 0.4 p.p. to 25.4% of GDP. In particular, there was a decrease in VAT revenues (by 0.9 p.p.) and excise revenues (by 0.3 p.p.) due to lower inflow of imported products. Other revenues increased, including profit tax revenues (by 0.4 p.p.) as the financial position of enterprises improved, income tax revenues (by 0.2 p.p.) due to higher employment and higher salaries, and other revenues (by 0.2 p.p.).

Total budget expenditures increased to 26.7% of GDP vs 23.6% the year before, as both current and capital expenditures rose. Current expenditures

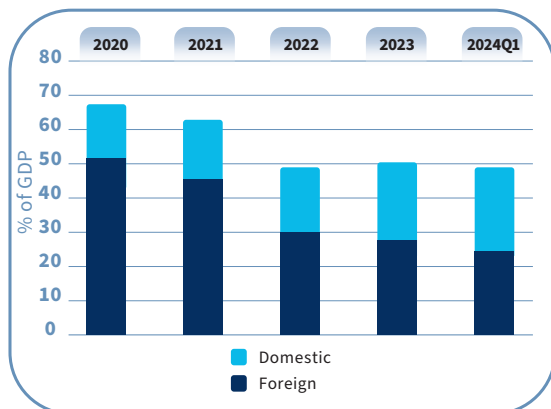
increased by 1.4 p.p. to 23.4% of GDP due to higher social benefits, pensions, and subsidies, while other items went down (with actual budget plan performance falling 15.5% short of the target). Capital expenditures increased by 1.7 p.p. to 3.3% of GDP, with actual budget plan performance falling 25.1% short of the target. Governance issues and problems with implementation of capital projects were the main reason for that underperformance.

Figure 9. State Budget



Source: Ministry of Finance of the Republic of Armenia

Figure 10. Public Debt



Source: authors' estimates

At the end of March 2024, public debt went down to 49.4% of GDP (from 50.5% of GDP in 2023) due to ongoing GDP growth and the strengthening of the Armenian dram against the dollar (Figure 10). The share of external debt liabilities continued to decline, going from 54.9% to 52.8% of gross public debt, which

is generally in line with the government's public debt management strategy, envisaging its restructuring in favour of domestic borrowing.

EXTERNAL SECTOR⁴

According to our estimates, in 2024Q1 the Current Account balance was positive at 1.5% of GDP (vs a deficit of 7.4% of GDP the year before), the surplus being generated by re-export of gold since the end of the previous year (Figure 11).

RE-EXPORT OF GOLD ACCELERATED 13-FOLD

The balance⁵ of trade in goods improved, and stood at (-6.6%) of GDP vs (-14.7%) of GDP the year before. In value terms, export of goods increased from 35.6% to 90.5% of GDP due to re-export of gold to the Arab market. The largest export growth contributors (172%) were Precious Metals (mostly from the commodity groups "gold unwrought, or in semi-manufactured forms, or in powder form" and "articles of jewellery») (179.5 p.p.) due to re-export and rising world gold prices (Figure 12); and Machinery and Equipment (5.6 p.p.). The contribution to total export of Land, Air, and Water Transport was negative (-8.9 p.p.). The value of imported goods increased from 50.3% to 97.1% of GDP due to re-exports

⁴ Balance of Payments data for 2024Q1 (with the exception of the balance of trade) — authors' estimates.

⁵ The structure of trade flows changed significantly due to the increase in exports to the UAE (7.1-fold) and China (5.9-fold). As a result, the shares of the UAE and China in Armenia's trade turnover for the period were 22.5% and 9.6%, respectively. The Russian Federation remains Armenia's main trading partner with 41.1%.

and robust consumer and investment demand. The largest contributors to total import increase (which was about 76%) were Precious Stones and Metals (84.1 p.p.) and Machinery and Equipment (1.9 p.p.), while Land, Air, and Water Transport produced a negative impact (-10.9 p.p.)⁶. The surplus of the balance of trade in services declined to 8.9% of GDP from 10.4% of GDP the year before, as the number of tourists decreased by 3.2%.

The negative primary income balance decreased to (-1.9%) of GDP from (-5.1%) of GDP the year before. The positive secondary income balance decreased to 0.9% of GDP from 1.9% of GDP the year before, due to a significant reduction of cash remittances and the weakening of the Russian rouble against the US dollar.

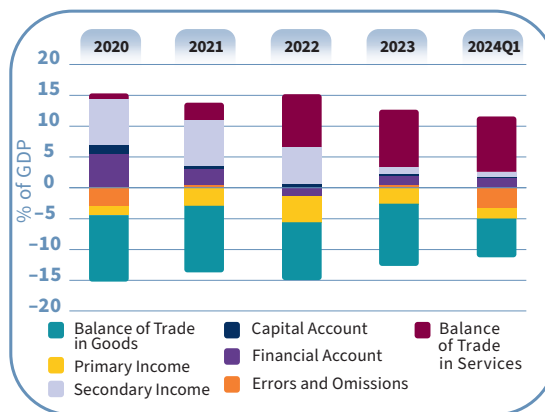
According to our estimates, the Financial Account of the Balance of Payments was characterised by net borrowings of 1.5% of GDP vs 1.6% of GDP the year before. Most of the inflow was provided by direct foreign investments which amounted to 0.7% of GDP, while other investments produced an aggregate outflow of about 7% of GDP, as payables owed by deposit organisations and other sectors to non-residents decreased relative to 2023.

The Current Account deficit was set off by unrecorded negative flows posted under Omissions and Errors which, according to our estimates, amounted to 3.2% of GDP. At the same time, by the end of March 2024, gross international reserves decreased relative to December 2023 by USD 0.3 billion to USD 3.3 billion (which is equivalent to 1.8 months of imports).

We believe that in 2024Q1 the Armenian dram remained overvalued. The real

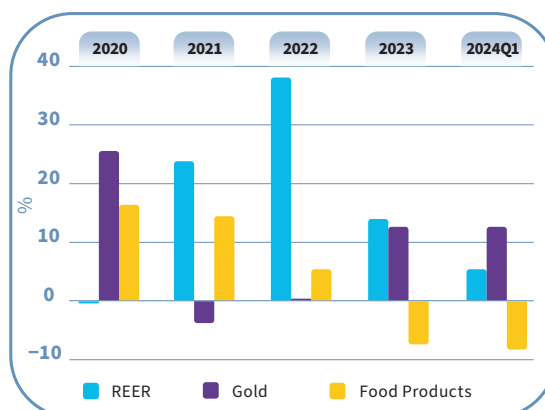
effective exchange rate strengthened by 5.0% (following a 13.9% strengthening in 2023) (Figure 12). This further undermines the competitiveness of Armenian exports.

Figure 11. Balance of Payments



Source: CB RA

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



Note: (+) REER strengthening
Source: CB RA, World Bank

⁶ 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

MEDIUM-TERM PROSPECTS

Our forecasts were slightly adjusted to account for changes in several indicators.

Despite the fast economic growth recorded in 2024Q1, the 2024 GDP forecast remained unchanged due to significant structural changes observed at the time. All key growth drivers, with the exception of net exports (re-export of gold) demonstrated a substantial slowdown. The 2026 budget deficit was revised upward by 0.6 p.p. due to the anticipated increase in budget expenditures. A slower-than-expected return of prices from the deflation zone led to a reduction of the 12-month inflation forecast for 2024 by 0.2 pp. The projected Current Account deficit was revised upward to account for the expanding foreign trade deficit: starting in 2024H2, the growth of export of products and services will slow down due to a deceleration of the re-export of gold.

Under the baseline scenario, in 2024 economic growth will decelerate somewhat, remaining at a relatively high level of 6.3%.

Even though net exports were the main GDP growth contributor in 2024Q1, it is expected that starting in 2024H2, growth of export of products and services will slow down due to deceleration of the re-export of gold and persistent overvaluation of the Armenian dram. Consumer and investment demand will remain the main growth drivers. Consumer demand will be supported by the ongoing growth of consumer lending and wages. It should be noted, however, that the rate of growth of real wages will decrease somewhat. The increase in investment demand will be fuelled by further growth of government investments⁷ and housing

construction. In the medium term, the rate of economic growth will be consistent with its potential level⁸, and in 2025–2026 it will be about 5.6%. and in 2025–2026 it will be about 5.6%.

Monetary policy will be directed at bringing inflation back within the target corridor (4±1.5%).

According to our 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 the medium term, inflation will remain close to its target values.

It is expected that during the period under review, budget expenditures will increase to 30.3% of GDP due to higher current and capital expenditures.

Current expenditures will increase from 21.8% of GDP (2023) to 23.5% of GDP throughout the period under review as social expenditures rise. We also anticipate a significant increase in capital expenditures, as envisaged by the Medium-Term Public Expenditures Programme for 2024–2026. In addition, there are plans to finance a number of large-scale integration projects for the construction of housing to support internally displaced persons from Nagorno-Karabakh.

Government revenues will be gradually increasing.

In 2024, tax revenues will increase by approximately 0.75 p.p. of GDP, of which 0.5 p.p. will come from improved tax administration and changes in tax policies. In 2025 and 2026, annual increases in tax revenues will be about 0.5 p.p. of GDP.

⁷ Ministry of Finance of the Republic of Armenia. Medium-Term Public Expenditure Programme for 2024–2026. Available at: https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/

⁸ Estimate by the Central Bank of the Republic of Armenia published in “Inflation Report” dated 12 March 2024. Available at: https://www.cba.am/EN/ppublications/MPR_2024_Q1_Eng.pdf

IN 2026, GDP GROWTH WILL DECELERATE TO 5.6%

Subject to the foregoing, in 2024–2026, the average budget deficit will be 4.5% of GDP, almost twice the 2023 figure, which may result in a financing gap.

In 2024, the Current Account deficit will increase to 2.8% of GDP due to a decline in the inflow of cash remittances, while in 2025–2026 it may be as high as 3.5% of GDP (on average) because of the projected deterioration of the balance of trade. Despite the mounting Current Account deficit, resilience of the Balance of Payments will not sustain any major changes, and the number of months of imports covered by reserves will remain stable throughout 2024–2026.

RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM FORECAST

The main upward macroeconomic risk is the continued re-export of gold, both in 2023Q4 and 2024Q1. If that risk materialises, GDP growth in 2024 will be substantially higher than the baseline forecast due to the positive contribution of net exports.

The main downward risks in terms of the impact on GDP growth include the strengthening of geopolitical tensions,

possible capital outflow and reduction of consumption by Russian citizens (according to our estimates, in 2022 the positive impact of the inflow of Russian capital and consumption by Russian citizens on economic growth in Armenia was about 4.0 p.p.), and failure of the government to reach capital expenditure targets.

Another risk related to the fiscal sector is the aftermath of the recent floods in the north of Armenia. In 2024, this may lead to higher than expected budget expenditures to restore destroyed infrastructure, and to the need to make compensatory payments to businesses and people. As noted, the possible consequences include the widening of the budget deficit and the potential emergence of a financing gap vs the baseline forecast.

Overheating of the real estate market is another major risk that may affect the entire economy. It is linked primarily to steps made by the government to stimulate housing construction and mortgage lending through income tax refunds. According to our estimates, current prices may exceed the fundamental level by 30–35%, which is also confirmed by the calculations of the Central Bank of the Republic of Armenia⁹. Further price hikes may have an adverse impact on the quality of bank assets, and undermine financial stability. The massive increase in state budget expenditures related to income tax refunds also gives rise to certain risks to budget resilience.

One of the key inflationary risks is accelerated devaluation of the national currency from its currently overvalued level. This risk is exacerbated by the decline in cash remittances, reduction of gross international reserves, and possible capital outflow.

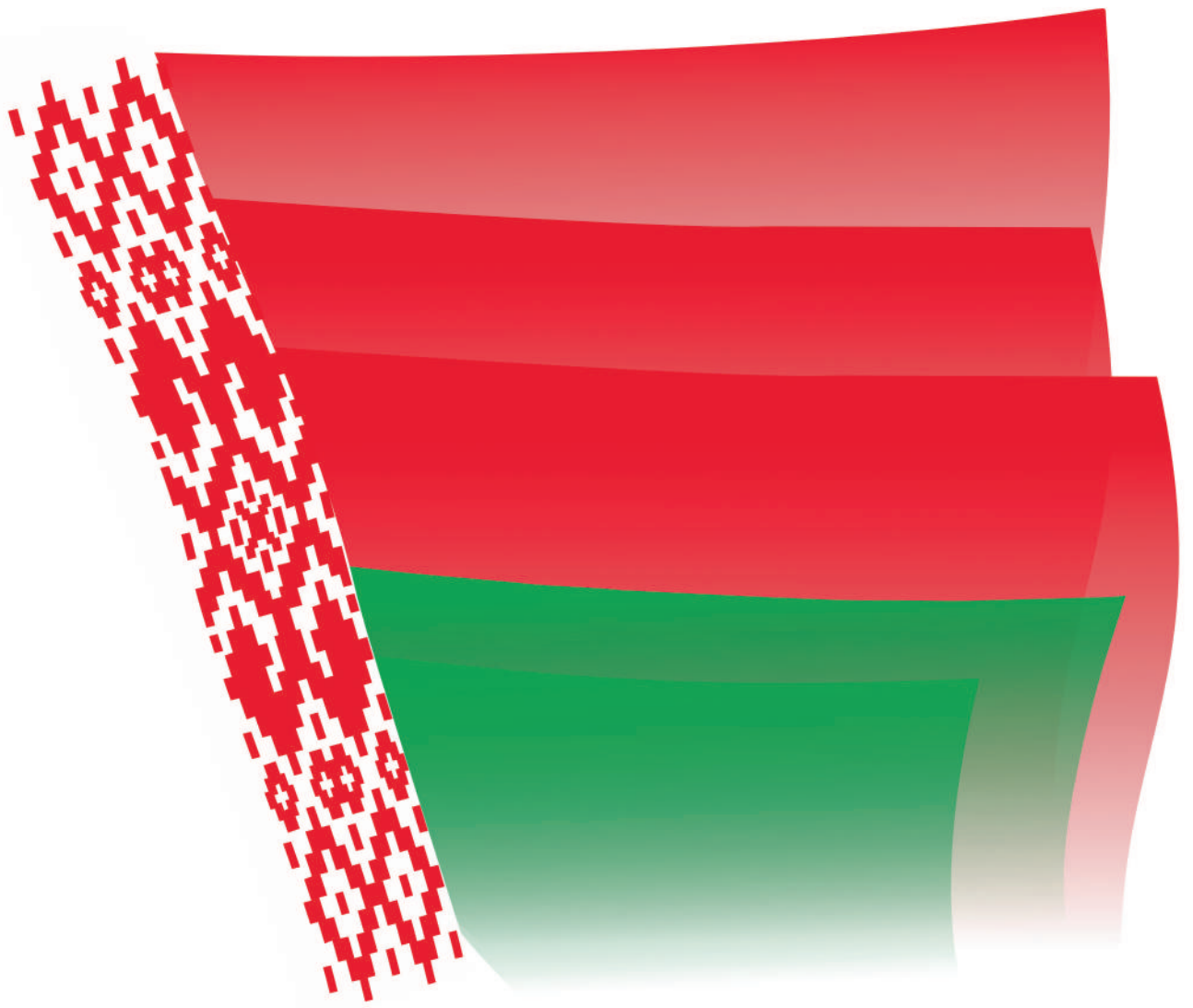
⁹ Estimate by the Central Bank of the Republic of Armenia published in “Financial Stability Report” dated 30 April 2024. Available at: https://www.cba.am/AM/ppperiodicals/Stability_Report_2023.pdf

TABLE 1. FORECAST OF THE KEY MACROECONOMIC INDICATORS

	2022 Actual	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast
National accounts and prices, %					
Nominal GDP					
AMD billions	8 501	9503	10674	11880	13060
USD billions	19.5	24.2	26.4	28.5	30.4
Real GDP Increase	12.6	8.7	6.3	5.6	5.6
CPI (December, y/y)	8.3	-0.6	3.0	4.0	4.0
Money and credit (EoP)					
Broad money, % change	16.1	17.4	15.5	12.8	11.2
Key rate	10.75	9.25	7.5	7.5	7.5
Public finance, % of GDP					
Income and grants	24.3	24.8	25.2	25.6	26.2
Tax revenues	22.7	23.4	24.1	24.6	25.1
Budget expenditures	26.4	26.8	30.0	30.2	30.3
Current expenditures	21.9	21.8	23.5	23.5	23.5
Capital Expenditures	4.5	5.0	6.5	6.7	6.8
Budget balance ("-" deficit / "+" surplus)	-2.1	-2.0	-4.8	-4.6	-4.1
External sector, % of GDP					
Current Account	0.8	-2.1	-2.8	-3.3	-3.6
Foreign Direct Investments ("-" inflow; "+" outflow)	-5.1	-1.8	-2.7	-3.2	-3.3
Gross reserves in months of import of products and services	4.8	3.0	2.9	3.1	3.1

Source: national agencies and authors' calculations





In 2024Q1, the Belarusian economy continued to grow at a relatively high rate. Domestic demand supported by the rising real income of the population and extensive consumer lending remained the key growth driver. Inflation slowed to a certain degree due to the relative stability of the exchange rate and preservation of the price administration system.

The growth of domestic demand and foreign trade led to a significant improvement of

fiscal parameters and expansion of the budget surplus. According to our estimates, in 2024Q1, there was a significant decrease in the ratio of public debt to GDP.

Recovery of domestic demand (which encouraged outstripping growth of imports relative to exports) and deterioration of price terms of trade due to the weakening of the Russian rouble against the dollar resulted in a foreign trade balance deficit and widening of the negative Current Account balance.



REAL SECTOR AND LABOUR MARKET

In 2024Q1, the Belarusian economy continued its steady recovery. The real GDP increased by 4.1% y/y (compared to a decrease by 1.9% the year before). According to our estimates, in 2024Q1, the seasonally adjusted real GDP¹ was up by about 0.5% after virtually zero growth at the end of 2023Q4. In general, we estimate that the economy is operating in a positive output gap environment, which is manifested in higher marginal costs and emergence of inflationary pressures countered by price administration.

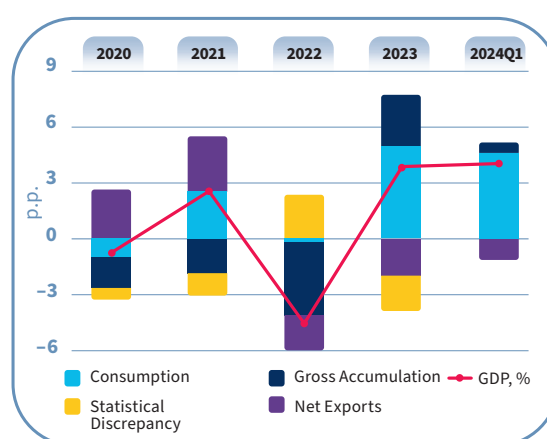
According to our estimates, increase in domestic demand was the main contributor to the real GDP increase (Figure 1). In 2024Q1, retail turnover increased by 13.1% y/y compared to a decrease of 3.5% y/y the year before, and was supported by the rapid recovery of demand for non-food products (up by 18.9% y/y after a drop by 5.8% y/y the year before). Consumer activity was supported by an increase in real disposable income of the population by 9% y/y (+0.3% y/y the year before) and active consumer bank lending which went up by 42.6% y/y (+1.7% the year before).

Capital investments are recovering from the slump of the previous years, but their growth rate is still not sufficient to regain 2021 levels. In 2024Q1, capital investments increased by 4.8% y/y (-2.8% y/y the year before) on the back of a substantial growth of expenditures on procurement of machines, equipment, and vehicles (by 10.8%), while investments in construction and assembly works rose only insignificantly (by 1.3%). The highest rates of increase of funding to finance investment projects were reported with respect to bank loans (by 22.7%), local budgets (by 25%), and enterprises' own funds (by 12.9%).

¹ Ratio of seasonally adjusted real GDP for the given quarter to the GDP for the previous quarter.

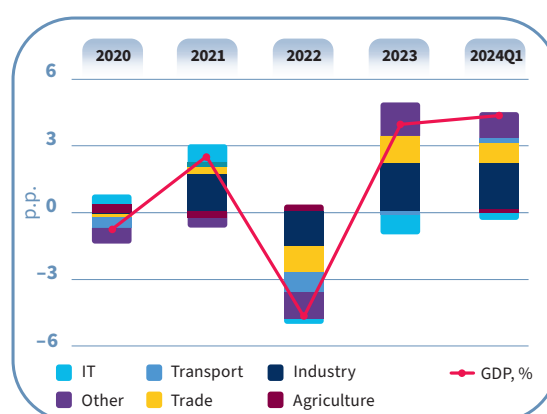
At the sectoral level, the key economic growth drivers were Industry, Wholesale and Retail Trade (Figure 2). Industrial production increased by 6.5% y/y (contribution to real GDP growth: 2.0 p.p.), and was accompanied by a reduction of warehouse stocks of finished products (to 68.5% of average monthly output vs 75.2% the year before). The ongoing recovery of exports and higher domestic consumption encouraged the growth of Wholesale and Retail Trade by 11% (0.9 p.p.). Recovery was also reported in Transport, where added value gains amounted to 5.4% (0.2 p.p.), following a long-lasting slump in 2022 and 2023 (-16.8% and -1.8%, respectively).

Figure 1. Decomposition of GDP Growth Using the Expenditure Approach



Note: 2024Q1 — authors' estimate
Source: Belstat

Figure 2. Decomposition of GDP Growth Using the Production Approach



Source: Belstat

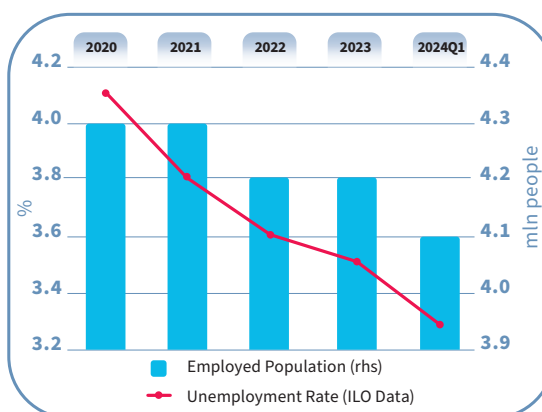
Despite the economic growth, financial results of Belarusian organisations deteriorated. Decrease in operating profit by 10.3% y/y occurred under the influence of a relatively faster increase in production costs (15.7%), including as a result of faster growth of nominal wages (20.0%) compared to sales revenues (12.9%). The largest drop of sales margins was recorded in Manufacturing (-2.8 p.p.). The strengthening of the Belarusian rouble against the Russian rouble and price administration measures were probably the key factors restraining the growth of revenues. Despite the relatively stable share of loss-making entities (16.4%) at the end of 2024Q1, net losses per entity increased by 48.3% y/y to BYN 1.6 million.

The situation in the labour market became more challenging as demand for labour exceeded its supply. In 2024Q1, the rate of unemployment in accordance with ILO criteria continued to decline and reached 3.3% (vs 3.6% the year before). Notably, the average annual workforce declined by 0.9% y/y vs a 1.7% y/y decrease the year before (Figure 3). This can be attributed, among other things, to demographic factors, such as ageing of the workforce and the small number of people reaching active working age.

Wages and salaries continued to increase at a fast pace due to the stimulation of remuneration of labour in the public sector and workforce shortages in the private sector. In 2024Q1, real wages rose by 13% y/y (Figure 4) vs a 3.8% increase the year before, while real payroll was up by 11.2% y/y, which is much higher than the rate of increase of productivity of labour (5.0%). The highest real wage increases were recorded in Construction (23.7%) and Trade (16.4%).

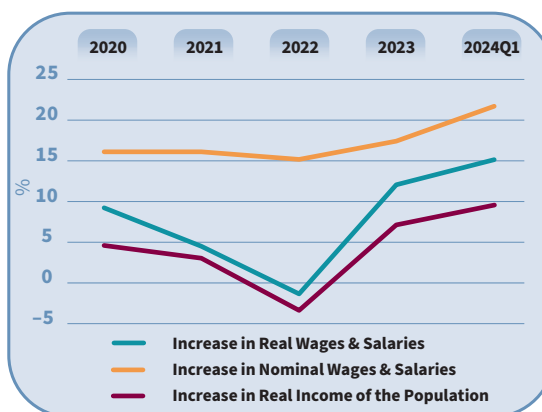
UNEMPLOYMENT DOWN TO 3.3%

Figure 3. Changes in Employment and Unemployment Rates



Source: Belstat

Figure 4. Household Income



Source: Belstat

INFLATION AND MONETARY TRENDS

Despite the upward pressure generated by the rapid growth of domestic demand, in 2024Q1 annual inflation slowed down slightly. At the end of March 2024,

consumer prices increased by 5.6% year-on-year (March 2023: 6%), while the target set by the National Bank was 6% or less (Figure 5). During the same period, base inflation decelerated from 5.6% to 4.1%. At the sectoral level, the largest contribution to inflation was made by price rises in the following sectors of the consumer market: Food Products (+6.2%, contribution: 2.7 p.p.) and Services (+7.1%, contribution: 1.8 p.p.). Despite a significant increase in demand, the contribution of the growth of prices of Non-Food Products to total inflation was moderate at 3.5% and 1.1 p.p., respectively.

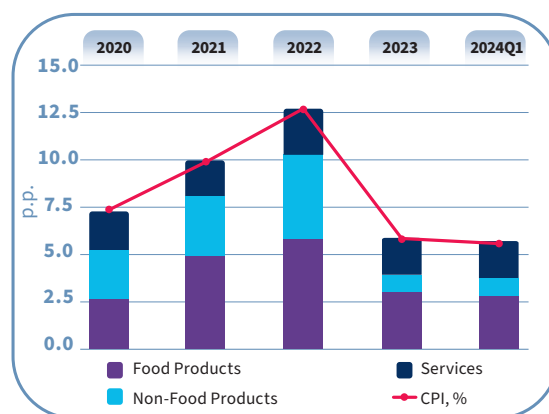
Deceleration of inflation processes at the beginning of 2024 could be attributed, among other things, to the relative stability of the exchange rate, abatement of inflation expectations, and the price administration system². According to our estimates, in 2024Q1, the annualised inflation rate³ was about 4.5%, while in 2023Q3 and 2023Q4 that indicator stood at 6% and 9%, respectively. Despite the pro-inflationary pressure from domestic demand, deceleration of inflation was supported by the levelling of the shock produced by the rise in prices of fruit and vegetable products⁴, and price administration measures. In addition, deceleration of inflation processes reflected a certain abatement of inflation expectations⁵ to 11.0% in March 2024 from 11.5% in December 2023 and 12.4% the year before.

In 2024Q1, monetary policy was rather soft, which was reflected in a high rate of growth of monetary aggregates. Thus, broad money increased by 21.5% year-on-

year (vs 12.6% the year before). The rate of growth of money supply in Belarusian roubles was the highest at 31.8% (31.1% the year before), while the foreign currency component decreased by 2.6%, and by 1 April 2024 the level of dollarisation of broad money dropped to 44.5% (48.8% the year before).

To restrain the pro-inflationary impact of domestic demand, the NBRB took steps to gradually normalise monetary conditions. Renewed withdrawal of excess liquidity by the NBRB became an important component of that process. As a result, in 2024Q1 the increase in the BYN monetary base decelerated to 5.7% vs 24.1% at the beginning of 2024. In those conditions, the interbank rate remains below the inflation rate, even though it increased from 2.2% p.a. in December 2023 to 4.4% p.a. in March 2024 (Figure 6). The hike of the SRE⁶ prudential normative gave an additional impetus to the interest rate rise. In the aggregate, those measures pushed the interest rate on new loans from 9.3% at the end of 2023 to 10.2% at the end of 2024Q1. The interest rate on new term deposits remained almost at the 2023 EoY level, and in March 2024 stood at 5.4% p.a.

Figure 5. Decomposition of Inflation (EoP, y/y)



Source: Belstat

² Resolution of the Council of Ministers of the Republic of Belarus No. 713 dated October 19, 2022 “On the price regulation system”.

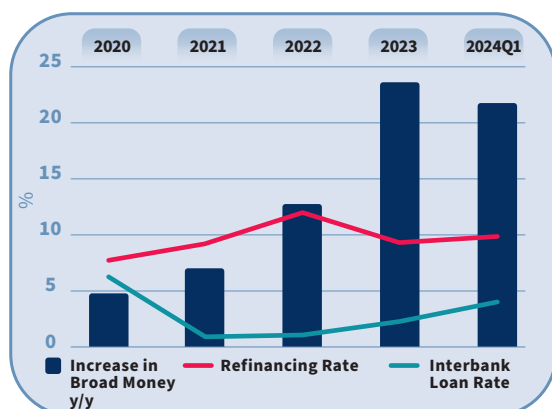
³ Seasonally adjusted price growth rate for the quarter annualised by raising it to the 4th power. Allows to estimate what annual inflation would be if prices continued to increase at the current rate throughout the year.

⁴ Observed in 2023H2.

⁵ According to NBRB data.

⁶ Standard Risk Estimate (SRE). If banks set rates above the threshold stipulated by the National Bank, it is interpreted as a high-risk business model, which entails the application of more stringent prudential standards.

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



Source: Belstat, NBRB

In 2024Q1, lending activity remained high, primarily due to lending in the national currency. By the end of March 2024, claims by banks and the Development Bank increased by 16.9% year-on-year vs 16.0% at the end of 2023. Bank claims on the economy (excluding the Development Bank) continued to grow at a relatively fast rate, and by the end of March 2024 rose by 19.2% year-on-year (2023: 19.1%) (Figure 7). Expansion of the Belarusian rouble-denominated loan portfolio accounted for the bulk of the increase (33.3%), while the share of foreign exchange-denominated loans declined (by 21.1%). In these conditions, the dollarisation of claims of banks and the Development Bank on the economy continued to decline, and on 1 April 2024 was 27.3% vs 35.7% the year before. The growth of the Belarusian rouble-denominated loan portfolio held by Belarusian banks was driven primarily by higher demand for loans on the part of both state-owned enterprises (portfolio increase by 30.1%) and private enterprises (by 49.0%), and expansion of consumer lending (by 42.6%). Loans extended to private individuals to finance acquisition of real properties⁷

⁷ To finance construction (reconstruction) and acquisition of housing, including loans where subsidies are granted to partially pay interest and repay the principal, pursuant to Decree of

grew at a more moderate rate (15.4%). Despite the significant portfolio growth in the retail segment (Figure 8), the debt repayment and servicing burden of households declined slightly, and amounted to 9.2%⁸ of household income (9.4% and 9.9% at the beginning of 2023 and 2022, respectively).

Financial indicators of Belarusian banks continued to improve. In 2024Q1, bank profits increased by 33.1% year-on-year due to the growth of interest and fee income and income from released loan loss provisions. Robust bank profits caused further growth of return on assets and return on regulatory capital (from 2.5% and 15.8% at the beginning of the year to 2.6% and 16.4%, respectively). At the end of 2023, the regulatory capital ratio was 20% (vs 19.9% at the beginning of the year) with the threshold value of 10% or more. In March 2024, the share of non-performing loans (NPLs) was 4.8% vs 5% at the beginning of the year (Figure 9). Notably, in the corporate lending segment the share of NPLs declined to 7.8% vs 8.3% at the beginning of the year. In terms of liquidity risks, the situation in the banking sector took a slight turn for the worse, but remained generally acceptable. In 2024Q1, the LCR went down to 141.8% from 157.8% at the beginning of the year, while the NSFR⁹ remained relatively stable, and on 1 April 2024 stood at 132.2%.

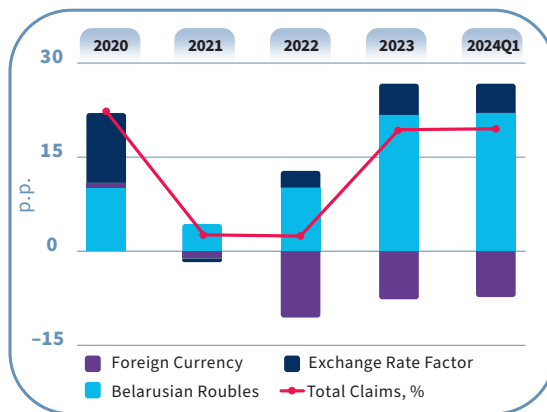
BANKS' PROFIT FOR THE 2024Q1 INCREASED BY 33.1%

the President of the Republic of Belarus No. 240 "On State Support of Citizens in Connection with the Construction (Reconstruction) of Residential Premises".

⁸ According to NBRB data as of 1 January 2024.

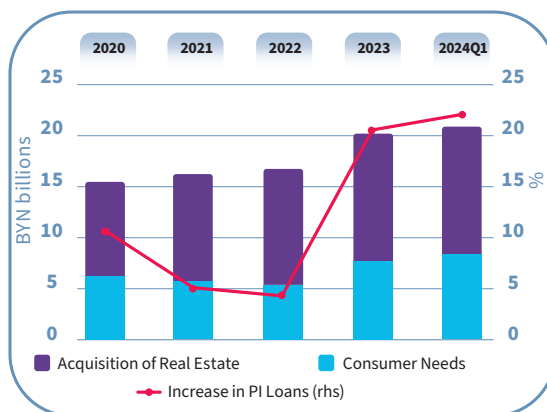
⁹ LCR — Liquidity Coverage Ratio. NSFR — Net Stable Funding Ratio. The standard value for these indicators is set by the NBRB at or above 100%.

Figure 7. Decomposition of Annual Increase in Bank Claims on the Economy



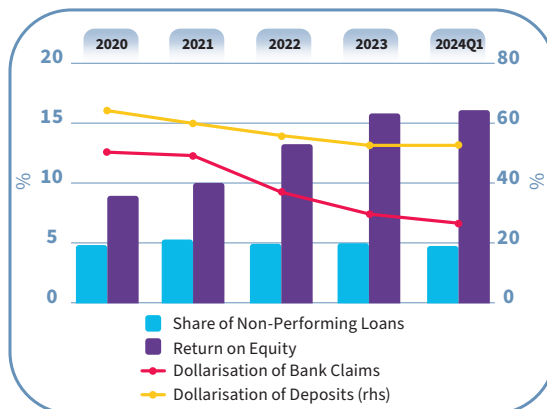
Source: NBRB

Figure 8. Private Individual Loans (EoP)



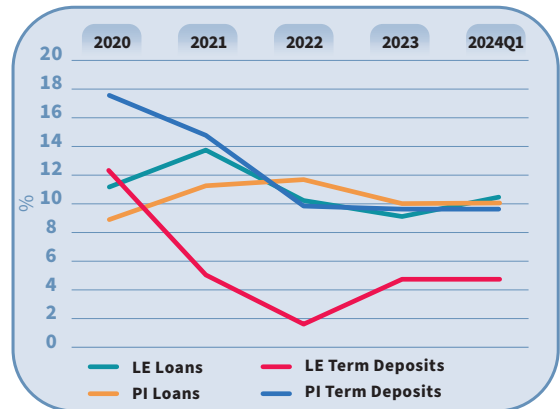
Source: NBRB

Figure 9. Banking Sector Indicators



Source: NBRB

Figure 10. Interest Rates



Source: NBRB

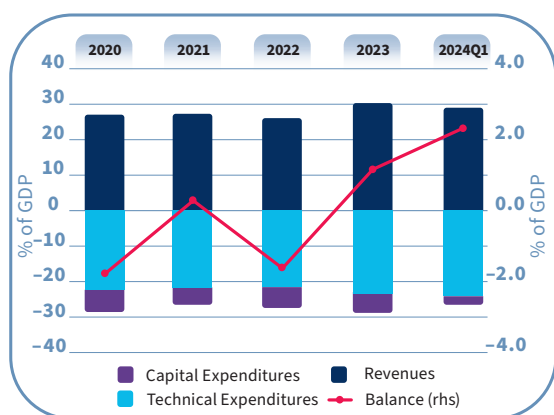
FISCAL SECTOR AND PUBLIC DEBT

The increase in tax revenues generated by the faster growth of household incomes and vigorous foreign trade activity on the one hand, and a modest increase in expenditures on the other, led to further improvement of the fiscal position of the Republic of Belarus.

According to preliminary data, execution of the consolidated budget in 2024Q1 resulted in a surplus of 2.2% of GDP (Figure 11) vs a surplus of 1.0% of GDP the year before. Consolidated budget revenues increased to 29.5% of GDP (+1.9 p.p.), with non-tax revenues accounting for 26% of GDP (+1.7 p.p.) and tax revenues for 3.5% of GDP (+0.2 p.p.). The largest contributors to tax revenues were VAT, customs duties, and income tax, which can be attributed to robust domestic consumption (mostly due to the growth of household incomes) and extensive foreign trade. The increase in expenditures was less substantial at 27.2% of GDP (+0.8 p.p.), the key items being purchase of goods and services (+0.5 p.p.) and debt service (+0.3 p.p.), while capital expenditures were down by 0.4 p.p. The primary surplus also expanded noticeably to 4% of GDP (2.4% of GDP the year before).

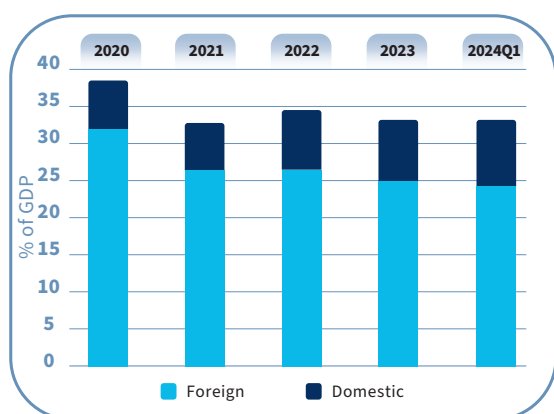
According to our estimates, in 2024Q1 the public debt of the Republic of Belarus decreased due to stability of the exchange rate and increase of the primary surplus. In 2024Q1, direct government debt (excluding guaranteed debt and local budget debt) decreased by 0.9 p.p. to 30.8% of GDP compared to the end of 2023 (Figure 12).

Figure 11. State Budget



Source: Ministry of Finance of the Republic of Belarus

Figure 12. Public Debt



Note: 2022 and later — authors' estimate

Source: Ministry of Finance of the Republic of Belarus

EXTERNAL SECTOR

In 2024Q1, the negative balance of the Current Account expanded as the balance of foreign trade shifted into the negative domain. Emergence of a significant Current Account deficit in the first quarter is generally typical for the Republic of Belarus, and is usually related to accrual of income to foreign investors and explosive growth of the negative primary income balance (Figure 13). In 2024Q1, the Current Account deficit increased compared to the previous year to USD 1.9 billion (11.3% of GDP), while the year before it was USD 1.8 billion (10.5% of GDP). The expansion of the Current Account deficit was caused by the transition of the balance of foreign trade in goods and services into the negative domain: the deficit was USD 0.1 billion (-0.6%) of GDP compared to a surplus of USD 0.2 billion (1.1% of GDP) the year before. According to our estimates, emergence of the foreign trade deficit can be attributed to the outstripping rate of growth of physical imports relative to exports due to expanding domestic demand. The foreign trade balance was also negatively impacted by the faster decrease in export prices compared to import prices, as the Russian rouble continued to weaken against the US dollar (see Box 1).

Reinvestment of FDI proceeds had a critical impact on the Financial Account of the Balance of Payments in 2024Q1. In January–March 2024, the inflow of funds to the Financial Account was USD 1.3 billion (7.9% of GDP¹⁰) (Figure 14) vs USD 1.6 billion (9.4% of GDP) the year before. The main source of funds was reinvestment of income received by foreign investors from direct investments. At the same time, due to poor financial performance of Belarusian enterprises,

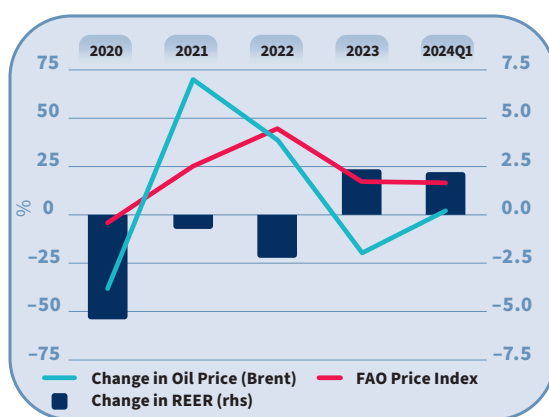
¹⁰ Including reserve assets.

**CURRENT
ACCOUNT DEFICIT
\$1.9 BLN**

CONSOLIDATED BUDGET SURPLUS 2.2% OF GDP

the amount of income they reinvested decreased by 8.9% to USD 1.5 billion (9.3% of GDP) vs USD 1.7 billion (10% of GDP) the year before. Banks continued to accumulate net foreign assets, although at a somewhat slower rate. In 2024Q1, NFA held by Belarusian banks increased by USD 0.2 billion (1.1% of GDP).

Figure 13. Changes in Foreign Trade Price Terms



Note: "+" — national currency appreciation, "-" — national currency depreciation

Source: FAO, Belstat, NBRB

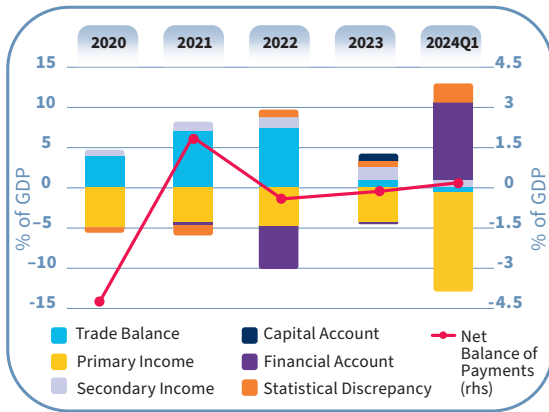


Box 1. Effect of Exchange Rate Dynamics on Foreign Trade Price Indices

The negative impact that the weakening of the Russian rouble against the US dollar has on the price terms of foreign trade is related to the significant share of Russia in the structure of foreign trade of Belarus, and the operation of pricing mechanisms. In 2023, the shares of CIS countries (primarily Russia) in Belarus's total exports and imports were 67.6% and 56.2%, respectively. Export prices and related settlements with the Russian Federation are denominated predominantly in Russian roubles, while prices of a substantial part of imported products (such as oil and natural gas) are pegged to the US dollar. As a result, when the Russian rouble weakens against the US dollar, the dollar equivalent of import prices decreases slower than the dollar equivalent of export prices. This thesis is validated by research (Vechersky, 2011¹¹) examining the effect of changes in foreign trade prices on the balance of payments. It was shown that exchange rate changes were not fully reflected in export prices (excluding energy and fertiliser prices), and that changes in the USD/RUB exchange rate had the most impact. At the same time, changes in the nominal effective rate affect import prices to the full extent.

¹¹ Balance of Payment Forecasting Model, Vechersky, A. // Banking Bulletin, October 2011.

Figure 14. Balance of Payments

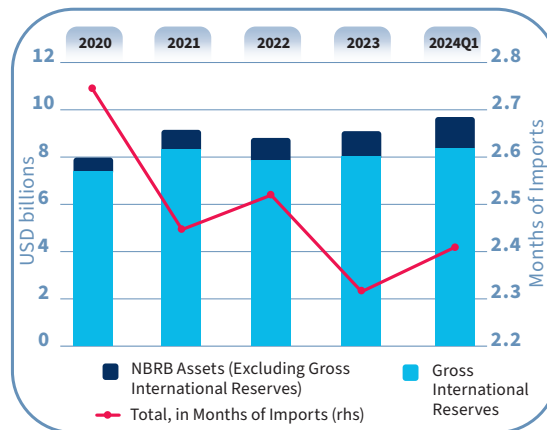


Source: NBRB, Belstat

The National Bank increased its foreign currency assets, including those not included in the gross international reserves. The gross international reserves increased by USD 0.3 billion, and as of 1 April 2024 amounted to USD 8.4 billion (2.1 months of imports). Despite the pressure generated by debt service payments, the gross international reserves increase was supported by asset revaluation, primarily due to the rise of global gold prices: during

the quarter, the value of monetary gold in the gross international reserves increased by USD 0.3 billion. In addition, other assets of the National Bank of the Republic of Belarus denominated in foreign currencies and not included in the gross international reserves increased by USD 0.3 billion in the dollar equivalent, indicating a strengthening of possible sources of support of the country's solvency (Figure 15).

Figure 15. Changes in NBRB Assets Denominated in Foreign Currencies



Source: NBRB, authors' calculations



MEDIUM-TERM FORECAST

Based on the actual dynamics of the key macroeconomic indicators, we adjusted the forecast to reflect higher economic growth. Our estimate of the anticipated increase of the 2024 real GDP of the Republic of Belarus is revised upward by 1.5 p.p. compared to the previous forecast (presented in REO I (Spring¹²)). The revision is related to the faster-than-expected growth of domestic demand and acceleration of economic activity in certain sectors, primarily export-oriented sectors. Subject to the foregoing, slight improvements were made to the estimates related to anticipated budget execution and dynamics of the Current Account. Pro-inflationary impact of high economic growth rates is less pronounced (compared to the previous forecast), prompting a downward revision of projected inflation (by 0.3 p.p.), firmly placing it within the boundaries of the NBRB target.

REAL SECTOR

With both external and domestic demand remaining strong, the rate of growth of the Belarusian economy will be relatively high throughout 2024. It is expected that by the end of 2024 the real GDP will increase by 3.7% y/y, which is close to the government's target of 3.8%. The fact that economic activity remains relatively high is explained, among other things, by the continued adaptation of the economy to changed operating conditions (creation of new transport and financial logistics channels and production ties, implementation of

investment projects). Starting in 2025, with the adaptation process completed and structural limitations of the existing economic model still in place, we expect a deceleration of economic growth to 1%, which is within the current range of most analysts estimates of potential growth.

INFLATION AND MONETARY POLICY

Despite the persistent pro-inflationary pressure from expanding domestic demand, inflation dynamics will remain relatively stable. By the end of 2024, inflation is projected at 5.8% (NBRB target: 6% or less). Both the expected gradual normalisation of monetary conditions through money market interest rate hikes and the preservation of the price administration system will facilitate efforts to keep inflation within the target range. Presumably, over the next several years the government will seek to keep the inflation rate at ~5%. In these conditions, we estimate that broad money increase will slow to 15.7% in 2024 and 9–12% in the subsequent years. Stabilisation of inflation around the 5% medium-term target will create conditions conducive to a gradual reduction of the refinancing rate in 2025H2.

PUBLIC SECTOR

The rise of wages and salaries in the public sector will build up the stimulatory fiscal boost in 2024, with a gradual consolidation of the budget expected in 2025 and 2026. The 2024 consolidated budget balance is expected to be negative (-0.7% of GDP), while the primary balance will be positive at 1.1% of GDP. The expected slowdown of the growth

¹² EFSD Regional Economic Outlook 2024 No. 1(1). Moscow: Eurasian Fund for Stabilisation and Development. Available at: <https://efsd.org/en/research/regional-economic-outlook/spring-24-regional-economic-outlook/>

of budget expenditures to finance the payment of wages and salaries will make it possible to achieve a budget surplus (0.2% of GDP) as early as in 2025.

EXTERNAL SECTOR

The projected deceleration of the outflow of funds from the Financial Account and the gradual reduction of the Current Account deficit will help to keep foreign trade in a balanced state. In 2024, the Current Account balance is projected to be negative at 0.6% of GDP, with the deficit subsequently decreasing to 0.4% of GDP in 2025, and the Current Account balance becoming positive with a surplus of 0.1% of GDP in 2026. The restoration of the Current Account surplus will be facilitated by slower growth of domestic demand and a certain improvement of price conditions of foreign trade. The expected slowdown of the outflow of funds from the Financial Account is related to the fact that banks and enterprises have, to a large extent, repaid their earlier USD- and EUR-denominated debts, and gradually built up new channels of financing in other currencies. Even though gross international reserves will be decreasing under the pressure produced by public debt servicing and repayment, they are not projected to go below USD 6.5 billion (~1.5 months of imports). Notably, the Main Directions of Monetary Policy for 2024 define the threshold minimum value of the gross international reserves at USD 6.0 billion.

RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM FORECAST

Despite the relatively favourable dynamics of the key macroeconomic indicators under the baseline scenario, the economy of the Republic of Belarus remains vulnerable to external and internal shocks. The risks related to the occurrence of external shocks caused by

the strengthening of the adverse effect of the sanctions and deterioration of the economic situation in Russia may have the most impact on the medium-term forecast. In particular, it may become more difficult to both maintain the logistics that support exports of finished products and imports of production components, and make related payments due to both excessive compliance controls instituted by foreign banks and limited access to sources of funding to refinance foreign debt accumulated by the banking sector and other sectors. In the event of additional negative shocks (relative to the baseline scenario), the ability of Belarus to counter their impact on macroeconomic and financial stability will be substantially impaired.

It should also be noted that credit risks in the banking sector may mount if Belarusian enterprises become more heavily leveraged. If the financial position of Belarusian enterprises deteriorates and they are forced to cut their output because of negative shocks, their debt burden may build up, provoking an increase in non-performing bank assets.

TABLE 1. FORECAST OF THE KEY MACROECONOMIC INDICATORS

	2022 Actual	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast
National accounts and prices, %					
Nominal GDP					
BYN billions	193.7	216.3	251.0	274.1	293.9
USD billions	75.1	71.7	76.6	79.9	81.4
Real GDP increase	-4.7	3.9	3.7	1.4	0.9
CPI (December, y/y)	12.8	5.8	5.8	5.0	5.0
Nominal average monthly salary					
BYN thousands	1.6	1.9	2.1	2.3	2.5
USD	633	634	652	671	680
Increase in real salary	-1.2	11.0	6.2	2.0	1.6
Money and credit (EoP)					
Broad money, % change	12.7	23.6	16.1	12.6	9.4
Credit to the economy, % change	2.4	19.1	11.8	11.9	8.3
Key rate	12.0	9.5	9.5	8.5	8.5
Public finance, % of GDP					
Budget revenues	25.5	30.1	28.3	28.3	28.3
Tax revenues	22.2	24.8	24.3	24.3	24.4
Budget expenditures	27.1	29.5	28.9	28.1	27.7
Budget balance ("-" deficit / "+" surplus)	-1.6	0.6	-0.7	0.2	0.6
Primary balance	-0.2	2.2	1.1	1.7	1.9
External sector, % of GDP					
Current Account	3.4	-1.4	-0.6	-0.4	0.1
Foreign direct investments ("-" inflow; "+" outflow)	-1.9	-2.8	-2.0	-2.0	-2.1
Gross international reserves	2.3	2.1	1.9	1.7	1.5

Source: national agencies and authors' calculations





In 2024Q1, the economy of the Kyrgyz Republic continued to grow at high rates, accelerating compared to 2023. Real GDP increased by 8.8%, mainly due to high consumer and investment activity. The largest contribution to growth was the service sector (8.0%), including wholesale and retail trade, which grew by 19.1%. Increased activity in the service sector contributed to employment growth.

Slower food price rises played a key role in bringing inflation down to 5.2% from 7.3% at the end of 2023. Monetary policy was aimed at limiting monetary factors of inflation: the real discount rate remained positive (5.8% p.a.), operations were conducted to withdraw excess liquidity in the banking system.

Consumer lending growth is beginning to negatively affect banks' financial indicators:

the volume of overdue loans has grown by 8.0% since the beginning of the year.

The state budget was formed with a surplus of 3.7% of GDP on the background of growth in tax revenues.

Despite the recovery of gold exports, the CA deficit continued to expand due to the growth of imports and under-recording of re-export operations.

In the medium term, the Kyrgyz economy is expected to slow down in the context of declining public investment and a gradual slowdown in domestic and external demand. The slowdown in consumer activity and global food prices will lead to a decline in annual inflation to 5.9% in 2024 and 5.4% in 2026.



REAL SECTOR AND LABOUR MARKET

In 2024Q1, the Kyrgyz economy accelerated to 8.8% y/y vs 2.8% y/y in 2023Q1, due to high consumer activity and investment growth. Data on the structure of GDP growth by use has not been published, but we can note the growth of household consumption due to the increase in wages (by 11.0% y/y) and consumer lending (by 66.0% y/y). The growth of investment in fixed assets accelerated to 66.6% y/y (vs. 3.1% y/y in 2023Q1), mainly due to internal sources: investments of residents — individuals (1.6-fold) and enterprises (1.8-fold). Financing from external sources (mainly in the form of loans) increased by 83.9%. In the sectoral context, the largest inflow of investments came from mining (2.4-fold growth). Net exports slowed down, most likely due to the outstripping growth of imports of goods over exports of goods.

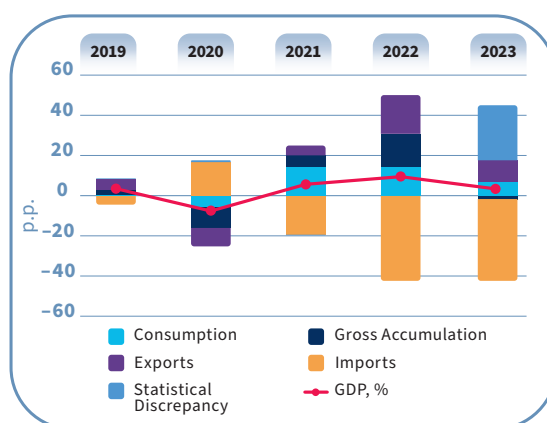
By sector, the largest contribution to real GDP growth in 2024Q1 was made by services (3.8 p.p.) and construction (1.8 p.p.). The value added of the services sector increased by 8.0% (after growing by 1.5% in 2023Q1) (Figure 2). The dynamics were mainly driven by wholesale and retail trade (+2.1 p.p.), which grew by 19.1% (1.7% a year earlier), due to a rapid increase in domestic consumption and demand from Russia. Trade in motor vehicles and spare parts continued to grow strongly, up 71.7% y/y (7.0% y/y a year earlier). Construction output grew by 53.8% (1.8 p.p.) due to the implementation of the My House 2021-2026 programme, including the introduction of a shared housing construction mechanism. Industrial production increased by 5.1% (7.8% y/y), mainly due to the production of food products (+17.6%). Gold production fell 0.3% in January-March¹ (up 13.6% a year

¹ The decline continued in January-April 2024: (-6.3% y/y) (up 1.0% in January-April 2023).

GDP GROWTH REACHED 8.8%

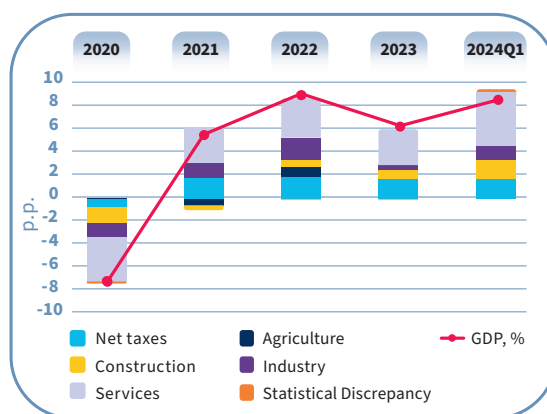
earlier). Net tax collections increased by 9.0% (+0.2 p.p.), mainly due to the rise of tax revenues from imported goods (+36% y/y).

Figure 1. Decomposition of GDP Growth Using the Expenditure Approach



Source: NSC KR, authors' estimates

Figure 2. Decomposition of GDP Growth Using the Production Approach



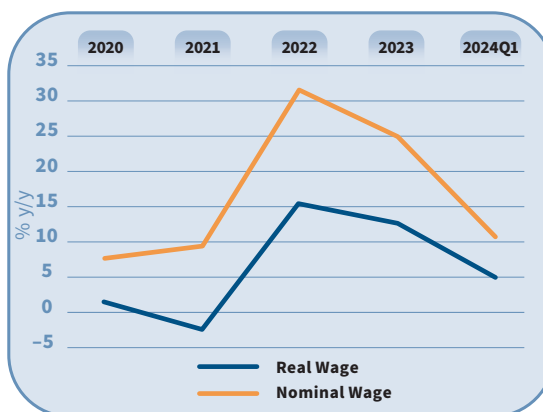
Source: NSC KR, authors' estimates

A significant increase in activity in the Service sector contributed to the rise in the number of employed persons and decline in the number of registered unemployed. In January-March 2024, employment increased by 5.2% y/y (vs. 2.2% y/y a year earlier). Employment in hotels and restaurants (36.9% y/y) and trade (21.3% y/y) continued to grow the fastest. Employment growth in occupational, scientific and technical activities (15.0%) and construction (13.4%) resumed after declining in 2023. Employment growth in manufacturing slowed to 8.0% y/y. The number of officially registered unemployed decreased by 12.6% y/y ((-3.6% y/y) in January-March 2023).

In a number of sectors there was an acceleration of real wage growth rates against the background of slowdown of the average indicator for the economy. Despite the acceleration of economic activity, wage growth in real terms slowed to 5.3% in January-March against 27.9% in the corresponding period last year (Figure 3). At the same time, after the recession in 2023, wages started to rise in the mining sector (18.7%), while growth accelerated in construction, trade and transport (up to 24.2% on average). The wage dynamics in the sectors that were leading in 2023 worsened: manufacturing (10.3%), agriculture (2.4%), public administration (-2.1%), hotel and restaurant business (-0.5%).

**INFLATION
SLOWED TO
5.2%**

Figure 3. Household Income



Source: NSC KR, authors' estimates

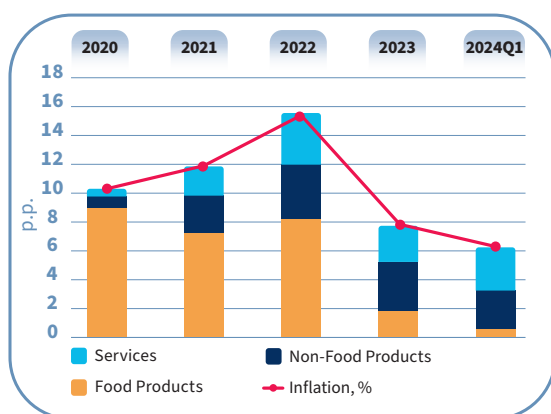
INFLATION AND MONETARY TRENDS

Slow growth in food prices has played a key role in lowering inflation. The annual inflation rate was 5.2% y/y in March 2024, down from 7.3% y/y in December 2023 and 12.7% y/y in March 2023 (Figure 4). The main role in the slowdown in inflation since the beginning of the year was played by food prices (contribution — 0.5 p.p.), which increased by only 0.9%. However, a rise in food inflation in the coming months cannot be ruled out: more than 90% of grain is imported from Russia, where, due to cold weather and export quotas, grain prices rose by 3% y/y, 23% y/y, and 21% y/y in April, May, and June, respectively. Price growth for services remained almost unchanged (9.2% vs. 9.1% in December 2023), while non-food prices slowed (9.6% vs. 12.2%), contributing 2.3 p.p. and 2.5 p.p., respectively. In April, the trends did not change, as price growth remained at 5.2%.

In the conditions of slowing inflation, the NBKR began to reduce the rate, but the real cost of borrowing remained unchanged. In April and May 2024, the discount rate and the boundaries of the interest rate corridor for 'overnight' instruments were reduced by a combined 4 p.p. to 9% p.a. With lower inflation, the real interest rate remained at the end-2023 level of 5.8% p.a.

In March 2024, the regulator continued liquidity absorption operations: sales of NBKR notes increased by 30.8% y/y, and the volume of banks' funds placement on overnight deposits by 42.1% y/y. As a result, despite growth of 13.7% y/y, since the beginning of the year the monetary base shrank by 2.6% (Figure 5). At the same time, the money supply continued to grow at a faster pace (22.4% y/y vs. 15.0% y/y in December 2023), due to the growth of deposits in both local (33.7% vs. 22.5%) and foreign currency (28.5% vs. 26.3%)².

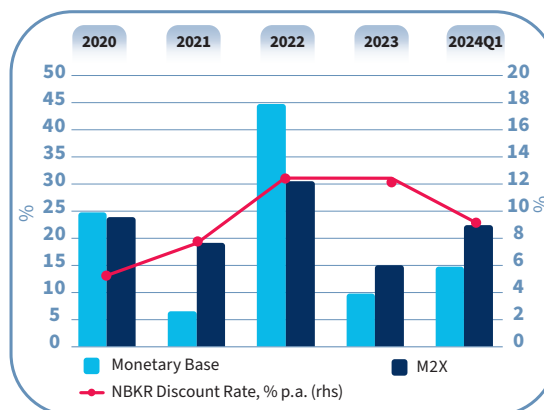
Figure 4. Inflation Decomposition (EoP, y/y)



Source: NSC KR, authors' estimates

**THE DEPOSIT PORTFOLIO
ACCELERATED TO
32%
IN MARCH 2024**

Figure 5. Changes in Monetary Indicators (EoP, y/y)

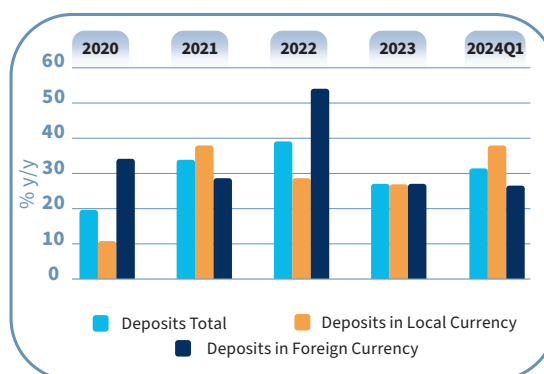


Source: NBKR

Banks' deposit and loan portfolios continue to grow, with dollarisation declining.

The growth of the aggregate deposit portfolio accelerated to 32.0% y/y in March 2024 (27.3% y/y in December 2023), mainly due to the growth of legal persons' deposits in the local currency (49.2%), primarily funds on current accounts (52.4%) and call accounts (80.5%) (Figure 6). The growth of retail deposits accelerated to 26.0% y/y (25.1% y/y in December 2023) at the expense of time deposits from 6 months to 3 years (39.6%). The growth of deposits in foreign currency was also supported by legal entities' funds on settlement accounts (35.3%). The level of deposits dollarisation decreased to 45.5% (-1.8 p.p. y/y, -0.2 p.p. by the end of 2023).

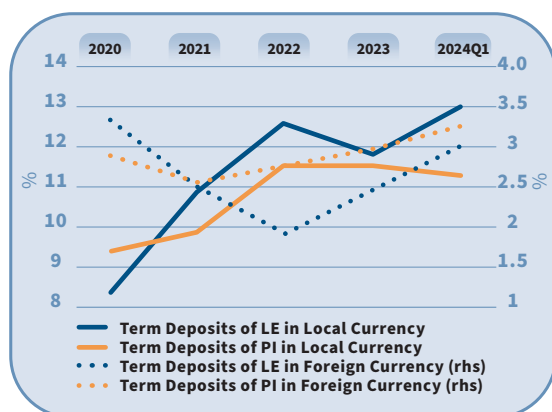
Figure 6. Growth of Deposits with Commercial Banks (EoP)



Source: NSC KR

² Dynamics on deposits accounted for in broad money supply.

Figure 7. Average Interest Rates on New Term Deposits



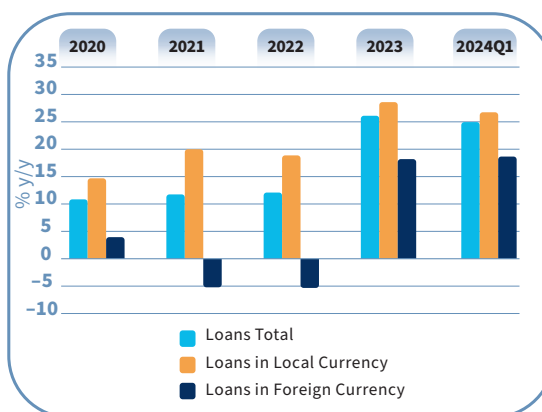
Source: NBKR

In January-March, the average rates on new term deposits of individuals in local currency decreased slightly to 11.2% per annum (11.5% on average in 2023) (Figure 7). Rates on legal persons' deposits, on the contrary, increased from 11.9% to 13.0% per annum due to allocation of a part of excess liquidity on term deposits with maturities of 6 to 12 months. The weighted average level of rates decreased slightly, from 11.9% to 11.8% per annum.

Banks' loan portfolio growth slowed to 25.4% y/y in March 2024 (26.3% y/y in December 2023), due to slower growth of the local currency portfolio (27.4% vs. 28.8%) (Figure 8). Consumer lending remains the main growth driver (66.2%). Foreign currency lending accelerated slightly to 18.7% y/y (vs. 18.3% y/y), mainly due to a smaller decline in industrial lending (-18.1%) vs (-31.3%) in December 2023. Despite this, loan dollarisation fell to 21.7% (-1.2 p.p. y/y, -0.3 p.p. YTD).

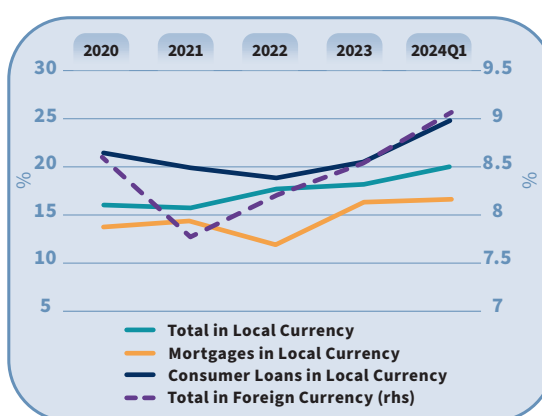
Average rates on new loans in January-March 2024 increased by 1 p.p. to 18.4% p.a. (Figure 9). The cost of lending rose most significantly to industrial enterprises (+2.9 p.p., to 19.2% p.a.), as well as to individuals (+2.2 p.p., to 24.1% p.a.).

Figure 8. Growth of Loans of Commercial Banks (EoP)



Source: NSC KR

Figure 9. Average Interest Rates on New Loans (% p.a.)

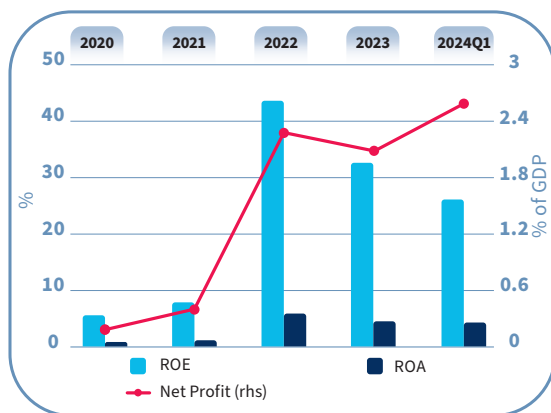


Source: NBKR

Banks' financial indicators remain high, but the quality of the loan portfolio is declining. Amid rapid growth in banks' assets and capital, their profitability (ROA and ROE) declined to 3.9% and 25.1%, respectively, in March 2024 (4.4% and 32.4% in December 2023). Banks' net profit increased by 13.1% y/y (vs. 4.7% y/y in December 2023), due to higher income from non-lending operations (27.8% vs. (-7.4%)) as well as lower provisions for losses from such operations. Return on equity remained high (24.9% vs. 24.8% under the standard of 12%), which indicates the banking sector's resilience to possible negative shocks. The share of classified ('problem') loans increased from 9.2% to 10.4% (by 15.4% in absolute terms), mainly due to substandard

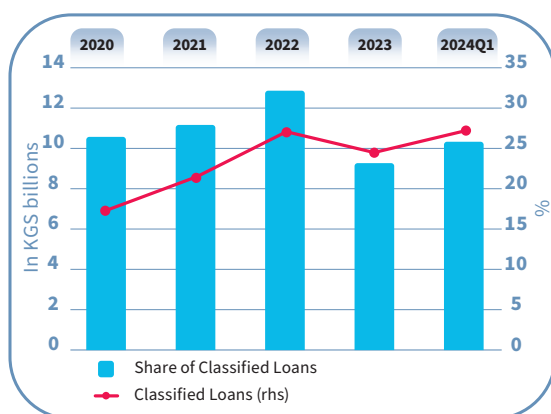
quality loans. The share of overdue loans increased by 8.0% since the beginning of the year, primarily due to consumer loans.

Figure 10. Banking Sector Profitability Indicators



Source: NSC KR, authors' estimates

Figure 11. Classified Loans



Source: NBKR

FISCAL SECTOR AND PUBLIC DEBT

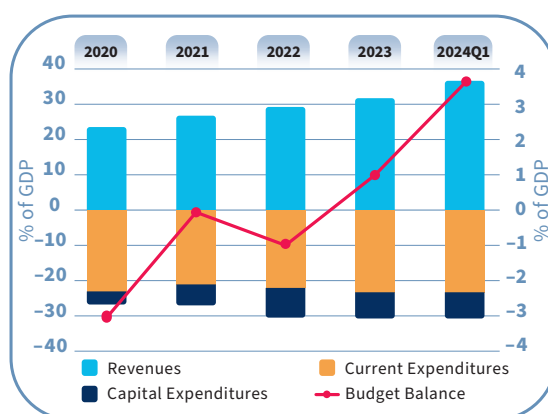
State budget surplus grew to 3.7% of GDP in January-March 2024 (vs. 0.1% of GDP a year earlier) mainly due to expenditure cuts. Tax revenues grew by 2.2 p.p. to 30.8% of GDP in January-March 2024 (28.6% of GDP in January-March 2023). The decrease in revenues from Kumtor gold mine (-0.6 p.p. of GDP) was offset by the growth of revenues from the single tax applicable to small and medium enterprises (+1.8 p.p. of GDP), as well as VAT on import supplies (+1.6 p.p. of GDP). Non-tax revenues, on the contrary,

decreased by 1.9 p.p. GDP to 3.9% of GDP due to a drop in revenues from the provision of paid services (-1.3 p.p. of GDP). At the same time, there was a significant increase in car registration fees - by 83.8%, which was due to a rise in demand ahead of Russia's increase in the utilisation fee.

Current expenditures decreased by 2.6 p.p. of GDP (nominal growth of expenditures — 7.6%). Expenditures on education (-1.2 p.p.) and social protection (-1.3 p.p.) decreased the most. Capital expenditures also decreased by 0.5 p.p. to 5.2% of GDP (Figure 12).

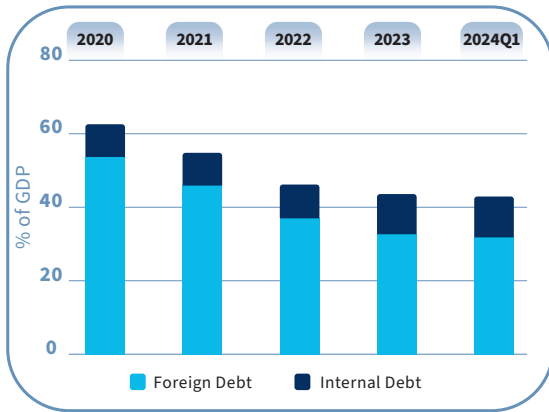
Public debt decreased by 1.4 p.p. to 44.1% of GDP in 2024Q1 (Figure 13). This was ensured by high rates of economic growth and a stable KGS exchange rate. The level of external debt decreased by 1.5 p.p. to 32.3% of GDP, while domestic debt increased by 0.03 p.p. to 11.8% of GDP. In absolute terms, domestic and external liabilities decreased by 0.1%, mainly due to the repayment of external loans to the Eximbank of China and the IMF. Domestic borrowings grew by 3.3%, due to the issue of long-term treasury bonds.

Figure 12. State Budget



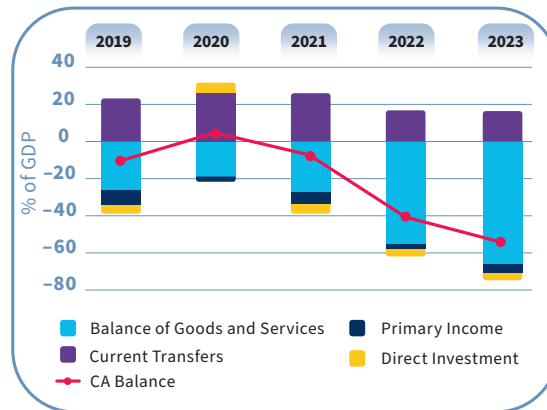
Source: Ministry of Finance of the Kyrgyz Republic

Figure 13. Public Debt



Source: Ministry of Finance of the Kyrgyz Republic

Figure 14. Current Account of the Balance of Payments

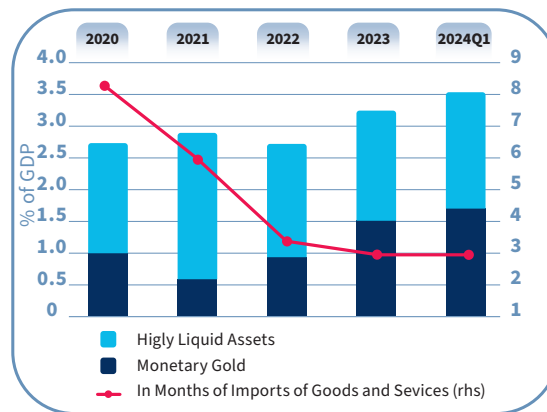


Source: NBKR, NSC KR, authors' estimates

EXTERNAL SECTOR

CA deficit continued to widen due to rising imports and under-reporting of re-exports³. In 2023, the CA deficit widened to USD 7.0 billion (50.4% of GDP), against USD 5.1 billion (42.4% of GDP) in 2022. The main contribution to the CA deficit was the negative balance of trade in goods, at 58.7% of GDP (Figure 14). In January-March 2024, the widening of the merchandise trade deficit continued amid a 33.0% increase in imports, with exports growing by only 12.8%. The low volume of exports is most likely explained by the underestimation of commodity supplies to the EAEU countries (primarily Russia). This is indirectly confirmed by the growth of the 'net errors and omissions' balancing item to USD 6.5 billion in 2023 (46.6% of GDP) against USD 4.4 billion (36.0% of GDP) in the same period of the previous year, as well as by the absence of significant pressure on reserves or the exchange rate.

Figure 15. Gross International Reserves



Source: NBKR, authors' estimates

Gold supplies continue to support total exports. For 2023, merchandise exports grew 46.6% to USD 3.3 billion, while non-gold exports declined 9.9%. Meanwhile, gold exports increased almost 100-fold, from USD 13.1 million to USD 1.3 billion. The main importer was Switzerland (share 84.7%). The decline in non-gold exports was due to a decrease in the supply of textile products (including due to the growth of clothing production in Russia) and the strengthening of the KGS real exchange rate. In January-March 2024, there were similar trends: while gold supplies increased 2.8-fold y/y (to USD 139.7 million), non-gold exports declined by 6.5% y/y (to USD 373.5 million), mainly due to precious metal ores, copper scrap, and automobiles. Meanwhile, March saw a sharp increase in

³ The under-recording of re-exports is evidenced by the fact that after the NSC KR refined the 2022 GDP statistics by type of expenditure, the entire volume of transactions under the item 'Statistical discrepancy' (167.3 billion KGS) was moved to the item 'Exports of goods and services'.

car exports to Russia (+56.4% y/y) ahead of the increase in Russia's recycling fee.

Secondary income (current transfers) receivable and payable decreased by 14.4% and 52.4% in January-December 2023 due to a reduction in transit payments and changes in the forms of payment for re-export of goods to Russia. At the same time, the secondary income balance increased by 7.2% in 2023 due to a faster decline in income receivable. Volumes of transfers have returned to 2018-2021 average levels after peaking in 2021. In January-March 2024, remittance inflows to Kyrgyzstan increased by 12.8% y/y, presumably to pay for imported cars. Outflows declined by 12.8%.

The financial account of the balance of payments in January-December 2023 recorded net borrowing of USD 385 million or 2.8% of GDP (USD 297 million or 2.4% of GDP in 2022). The main source of inflows was direct investment of USD 489 million, or 3.5% of GDP, mainly for the construction of facilities in the mining and manufacturing sectors. The main outflow was through other investments, in the amount of USD 95 million, or 0.7% of GDP.

**NON-GOLD EXPORTS
DECREASED BY
6.5%**

The nominal exchange rate of the Kyrgyz som against the dollar weakened by 0.4% in January-March since the beginning of 2024 (and by 2.3% y/y). During the period, the som was supported by the NBKR, by net sale of currency worth USD 23 million (USD 307 million a year earlier). At the same time, the real effective exchange rate weakened by 1.4% YTD (2.5% y/y), on the background of slowing inflation.

By the end of the first quarter of 2024, gross international reserves reached USD 3.5 billion, having increased by 7.8% YTD (Figure 15). The main driver of reserve growth continues to be the increase in physical gold reserves (up to 24.8 tonnes: an increase of 3.2 tonnes or 15.0%) and the rise in metal prices (up 7.5%). The level of reserves adequacy remains relatively low due to the rapid growth of imports — 2.9 months of imports. In April, the growth of reserves continued due to the indicated factors to USD 3.7 billion.

MEDIUM-TERM FORECAST

Forecast values of key macroeconomic indicators have been slightly adjusted compared to the forecast presented in REO I (Spring). The GDP and budget deficit forecasts have been adjusted within 0.1-0.2 p.p. due to reassessment of investment volumes and net exports. Faster than expected deceleration of inflation in January-March led to a decrease in the forecast of average annual inflation by 0.4 p.p. on average. The forecast CA deficit was increased, taking into account the outstripping growth of imports relative to exports.

By the end of the forecast period, the impact of positive externalities will be levelled out and the economy will return to the long-term growth trend. The key factors of economic growth slowdown are a decline in gold production, inventories, as well as public investment (in line with the government's intentions). Domestic consumer activity will remain the main driver of growth. As a result, real GDP growth will slow to 4.8% in 2024, 4.5% in 2025 and 4.0% in 2026.

In 2024-2025, the budget deficit is expected to remain, but will be replaced by a surplus in 2026. Budget revenues will decline from 31.9% of GDP in 2023 to 24.8% of GDP in 2026, due to a reduction in non-tax revenues from the provision of paid services, which will not be compensated by an increase in tax revenues. The automation of fiscal procedures and high import volumes will allow maintaining the level of tax collection, but the high tax base of the previous years will not permit continued increasing of the growth rate. The decline in the expenditure budget component from 27.9% of GDP in 2024 to 24.5% of GDP in 2026 will be mainly due to the reduction of capital expenditures, given the optimisation of the expenditure budget by the Kyrgyz authorities. This will lead to a state budget deficit of 0.3% of GDP in 2024-2025, while a surplus of 0.3% of GDP is projected for 2026.

A slowdown in consumer activity and world food prices will lead to a reduction in inflationary pressures. Slower growth of consumer activity, world food prices, as well as ending the impact of the fiscal impulse will contribute to stabilisation of inflation. The slowdown in inflation to the boundaries of the target range (the NBKR's medium-term inflation target rate of 5-7%) has occurred earlier than we expected, leading to an adjustment of the forecast from 6.3% to 5.5% in 2026.

The NBKR will cut the interest rate in response to the slowdown in inflation. The refinancing rate will average 10% per annum in 2024 and 8% in 2025-2026.

The CA deficit is expected to decrease due to a reduction in external demand and gold exports. The slowdown in economic growth and active import substitution processes in Russia will gradually reduce both the re-export flows

from Kyrgyzstan and the volume of imports to the country. However, the recovery of gold exports will support export volumes, which will lead to a reduction in the CA deficit to 19.5% of GDP in 2026. In such circumstances, the gradual transfer of non-monetary NBKR gold to monetary gold will increase international reserves from 2.7 months of imports in 2023 to 4.7 months in 2026, which will strengthen the stability of the balance of payments⁴.

RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM FORECAST

Risks to economic growth and the state budget of Kyrgyzstan are associated with both external and internal factors. External factors include the adaptation of the Russian economy to sanctions, including the expansion of import-substituting industries, the establishment of transport and logistics channels, and financing schemes for foreign trade operations, which may lead to a stronger slowdown in the Kyrgyz service sector. Significant threats may also be posed by the imposition of sanctions against the gold mining industry, in particular in the form of export restrictions similar to the measures of 2021-2022. Internal factors include an increase in government spending aimed at refinancing the obligations of enterprises mainly in the energy sector, as well as natural events, including earthquakes and floods.

There is still a risk of falling gold prices, which may lead to a decrease in exports and international reserves. Faster growth and volatility of prices for food and fuel and energy products than anticipated in the baseline scenario will lead to an

⁴ Until the normalisation of Kyrgyzstan's balance of payments statistics, the forecast assumes that the CA deficit will be financed from the item 'Net errors and omissions'.

expansion of imports and an increase in inflationary processes. The assumption of reducing the size of the “net errors and omissions” article and the current account deficit may also not be justified if the authorities’ measures aimed at adjusting foreign economic statistics do not lead to the expected results.

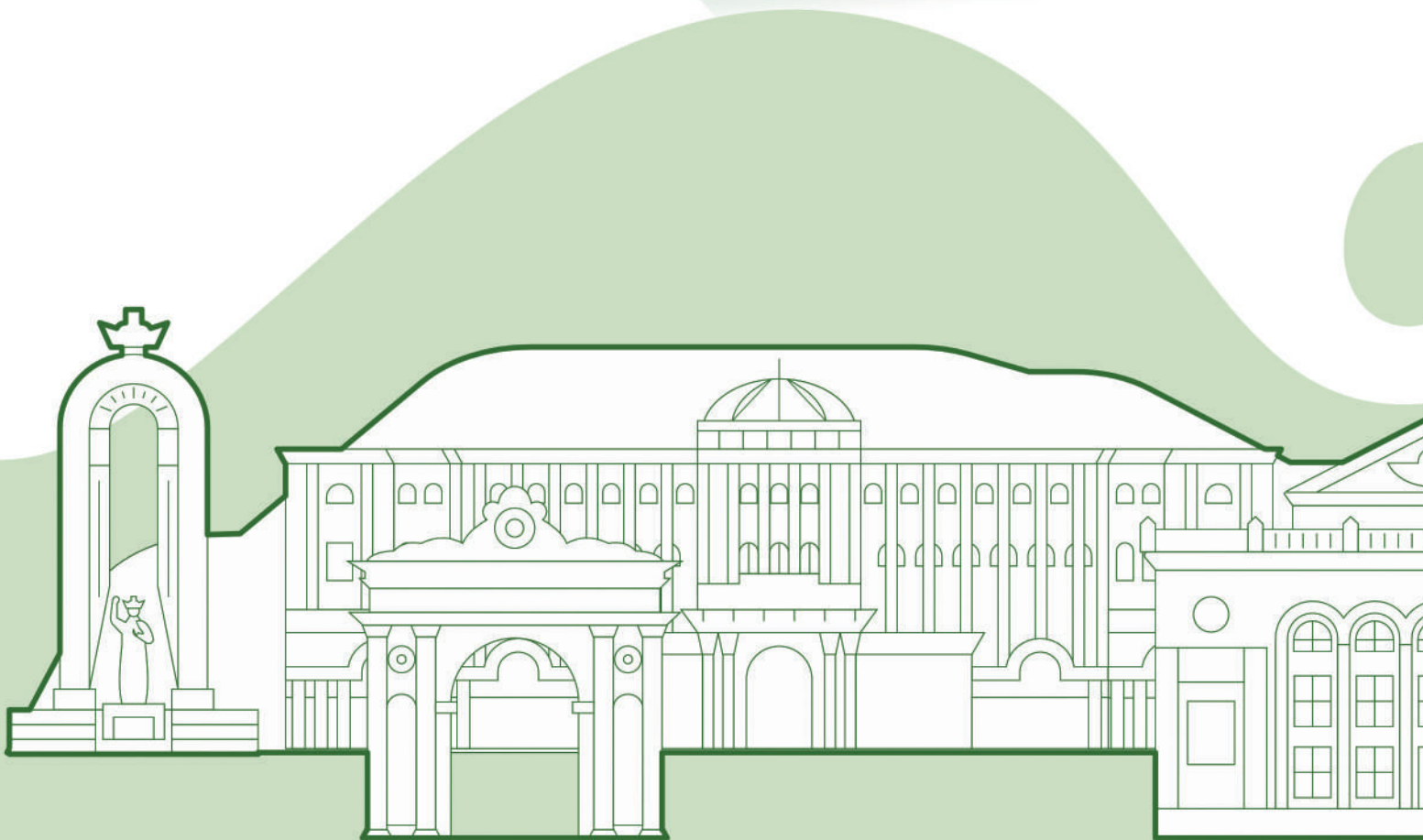
Expectations of improved debt sustainability may not be justified in the event of rapid growth in the portfolio of infrastructure projects and related obligations, a significant weakening of the national currency, as well as a faster slowdown in economic growth.



TABLE 1. FORECAST OF THE KEY MACROECONOMIC INDICATORS

	2022 Actual	2023 Actual	2024 Estimate	2025 Estimate	2026 Estimate
National accounts and prices ,%					
Nominal GDP					
KGS billions	1 020.7	1 228.9	1 387.3	1 546.9	1 685.5
USD billions	12.1	14.0	15.6	17.2	18.4
Real GDP growth	9.0	6.2	4.8	4.5	4.0
CPI (December, y/y)	14.7	7.3	5.9	5.5	5.4
CPI (annual average)	13.9	10.8	6.1	5.9	5.5
Money and credit (EoP)					
Broad money, y/y	30.6	15.0	12.4	12.2	9.6
Credit to the economy, y/y	11.5	25.9	30.8	22.2	14.3
Refinancing rate	13.0	13.0	10.0	8.0	8.0
Public finance (in % of GDP)					
Revenues and grants	29.4	31.9	27.6	26.2	24.8
tax revenues	22.4	24.0	23.2	22.5	21.5
Budget expenditures	30.5	30.9	27.9	26.5	24.5
Budget balance ("-" deficit / "+" surplus)	-1.0	1.0	-0.3	-0.3	0.3
Government debt	46.8	45.5	40.6	36.4	31.9
External sector (in % of GDP)					
Current account	-42.4	-50.3	-27.3	-22.9	-19.5
Export of goods and services	29.9	38.9	51.6	49.6	46.9
Import of goods and services	87.8	102.2	91.6	83.6	76.3
Remittances	17.8	16.5	15.0	13.3	12.2
Foreign direct investment ("-" inflow; "+" outflow)	-4.2	-3.5	-4.7	-4.7	-4.8
Gross reserves, in months of imports of goods and services of the upcoming year	3.2	2.7	3.5	4.2	4.7
Gross reserves, USD billions	2.8	3.2	4.2	5.1	5.5
Average exchange rate, KGS per USD	84.1	87.9	88.7	90.0	91.4

Source: national agencies and authors' estimates



In 2024Q1, Tajikistan's economic growth remained high and totalled 8.2%. The main driver of growth continued to be domestic demand, against the background of a slight decrease in the contribution from the consumption side and an increase on the investment side. Inflation in 2024Q1 remained at the level of December 2023. Accelerated growth in prices for paid services was offset by a slowdown in food and non-food prices. The resumption of gold exports had a positive impact on the trade balance and CA. However, the decline in international reserves indicated a decline in the balance of payments. The state budget was executed with a surplus of 2.1% of GDP, due to the increase of tax revenues and execution of expenditures below the planned level.

According to the baseline scenario, GDP growth will slow to 7.6% in 2024 due to a decline in remittance inflows and economic growth in trading partner countries and stabilise at around 7% in the medium term. Inflation will rise to 5.3% by end-2024, influenced by higher imported energy prices, and stabilise at around 6% in 2025-2026. Fiscal policy is expected to be stimulative, due to the need to finance public investment and maintain social spending, manifested in a widening of the fiscal deficit to 1.9% in 2024 and to 2.4% of GDP by 2026. The balance of payments will be under pressure, including due to the growth of public investment and the upcoming repayment of Eurobonds starting in 2025.



REAL SECTOR AND LABOUR MARKET

In 2024Q1, economic growth remained at the same level as in 1Q2023 (8.2%).

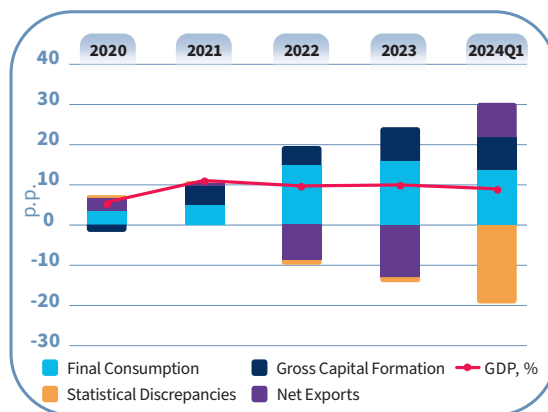
According to our estimates, seasonally adjusted real GDP growth in 2024Q1 was 1.9% q/q, which is in line with the trend of the last five quarters. Domestic demand continued to be the main driver of growth: turnover grew by 12.3% and capital investment by 22.2% (Figure 1). Due to the more active construction of the Rogun hydropower plant, the share of investment directed to the electricity, gas and water sector increased from 33.5% in 2023Q1 to 42.4% in 2024Q1, while the government's share of total capital investment increased from 38.4% to 48.7% over the same period. In addition, high investment growth rates were recorded in mining, wholesale and retail trade, and hotel and restaurant construction.

GDP GROWTH REMAINS ABOVE 8%

The decrease in the contribution of services and agriculture to economic growth was offset by an increase in the contribution of industry and construction (Figure 2). The contribution of the Services sector decreased from 4.7 p.p. to 4.3 p.p., due to a significant decrease in the contribution of wholesale and retail trade and other services, despite the growth of transport, information and communication services. As a result of outpacing growth in industry and investment, the contribution of Agriculture decreased to 0.1 p.p. (0.5 p.p. in 2023Q1). The contribution of

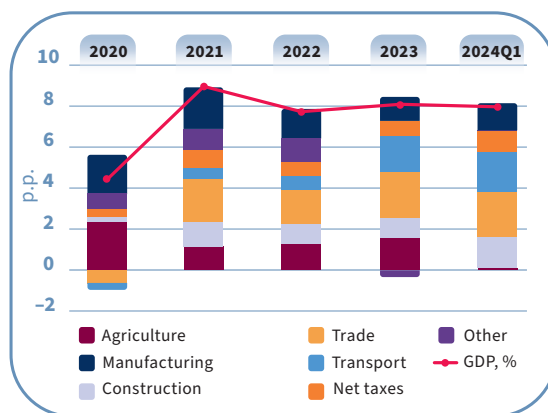
Manufacturing increased from 1 p.p. to 1.3 p.p. amid 1.5-fold growth of metal ore mining. The contribution of Construction to economic growth increased from 1 p.p. to 1.4 p.p., and Net taxes from 1 p.p. to 1.1 p.p.

Figure 1. Decomposition of Annual GDP Growth Using the Expenditure Approach



*2023 — estimate
Source: Tajstat

Figure 2. Decomposition of Annual GDP Growth Using the Production Approach

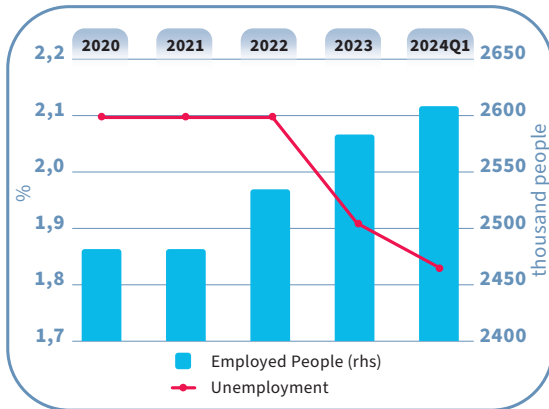


Source: Tajstat

Labour market indicators have improved amid high economic growth rates (Figure 3). The officially registered labour force grew by 3.8% in 2024Q1 compared to the same period in 2023, while the number of employed persons increased by 4%. The officially registered unemployment rate fell to 1.8% (2% in 2023Q1).

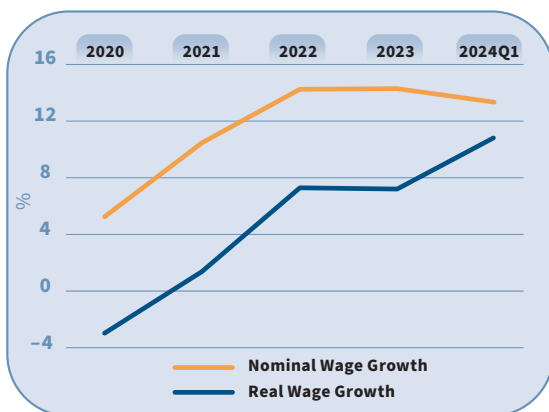
Economic growth and low inflation contributed to rising real wages. The rise of average monthly wages in nominal terms in March 2024 was 13.7%, in real terms 9.7% (Figure 4). In the real sector, nominal wages grew most rapidly in mining by 16.9%, and in manufacturing by 12.2%. In the services sector, real estate operations (by 32.9%) and wholesale and retail trade (by 18.3%) were the leaders in nominal wage growth. The nominal wages of public sector employees also increased significantly: in health care and social services by 19.8%, in education by 15.6%.

Figure 3. Labour Market Indicators



Source: Tajstat

Figure 4. Household Income



Source: Tajstat

**UNEMPLOYMENT DROPPED
TO 1.8%**

INFLATION AND MONETARY TRENDS

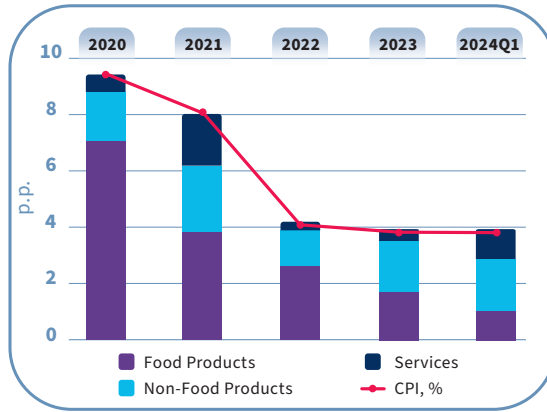
Inflation in March 2024 remained at 3.8% y/y compared to December 2023, despite an acceleration in the rise of prices for services. The annual rate of increase in food prices declined from 3.4% in December 2023 to 2% in March 2024. The low growth rate of food prices in late 2023 and early 2024 is due to a good harvest of potatoes, vegetables, melons, and livestock products in 2023¹. Non-food price growth declined from 6.6% in December 2023 to 6% in March 2024, but remains relatively high compared to food price growth, due to increases in prices of construction materials, pharmaceutical products, and household goods. The annual rate of price growth for paid services to households accelerated from 1.2% to 4.9% in March 2024. At the end of March 2024, the largest contribution to 12-month inflation was made by non-food products, at 1.7 p.p. The contribution of food products was 1 p.p., and services 1.1 p.p. (Figure 5).

The National Bank of Tajikistan reduced the refinancing rate, but kept the growth rate of the money supply low. Low inflation allowed the NBT to reduce the refinancing rate from 10% at the end of 2023 to 9.5% in February 2024 and to 9.25% from 1 May 2024. The monetary base was maintained at the end of 2024Q1 at almost the same level as at the end of 2023. Its annual growth rate was 3.2%, compared with a decrease of 5.6% in 2023. The M4 aggregate at the end of 2024Q1 increased by 5% (y/y) compared to a decline of 0.8% in 2023 (Figure 6). Despite the refinancing rate cuts, the average rate on term loans in local currency increased by 0.47 p.p. in 2024Q1 to 23.77% in March 2024. Over the same

¹ In December 2023, vegetable prices fell by 9%, oils and fats by 24.5%, and dairy products, cheese, and eggs by 10.4%.

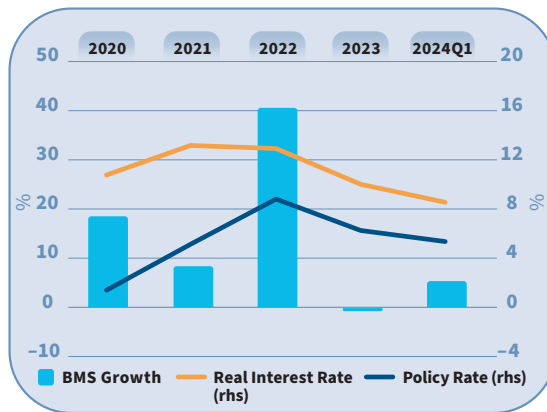
period, the average rate on time deposits in the national currency decreased by 0.61 p.p. to 12.53% (Figure 9).

Figure 5. Decomposition of Inflation (EoP, y/y)



Source: Tajstat

Figure 6. Monetary Indicators



Source: NBT, Tajstat

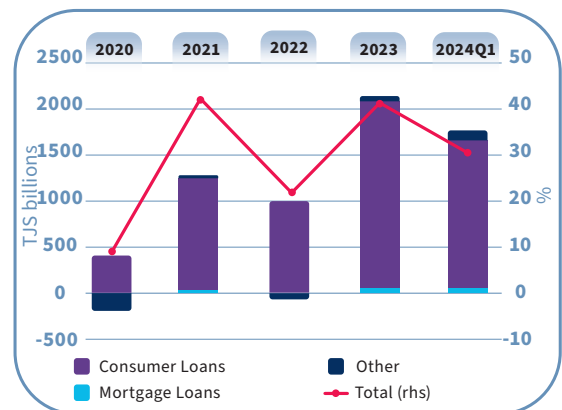
**INFLATION IN
2024Q1 WAS AT
A LOW RATE OF
-3.8%**

Credit growth rates slowed due to a decline in foreign currency lending to legal entities and a slowdown in lending to individuals.

According to the results of 2024Q1, bank lending increased by 2.5% compared to December 2023. The growth of the banking system's loan portfolio decreased to 23.8% y/y from 31.2% y/y in 2023, due to the repayment of previously issued loans. The growth rate of the retail loan portfolio declined in 2024Q1 to 30.9% y/y from 41.8% y/y in 2023 (Figure 7). Also in 2024Q1, lending to legal entities in foreign currency decreased by 0.6% (Figure 8), which resulted in a decrease in the annual growth rate of lending to legal entities from 24.8% in December 2023 to 14.5% in March 2024 and a decrease in the share of all loans in foreign currency from 32.6% in December 2023 to 31.5% in March 2024 (Figures 9, 10).

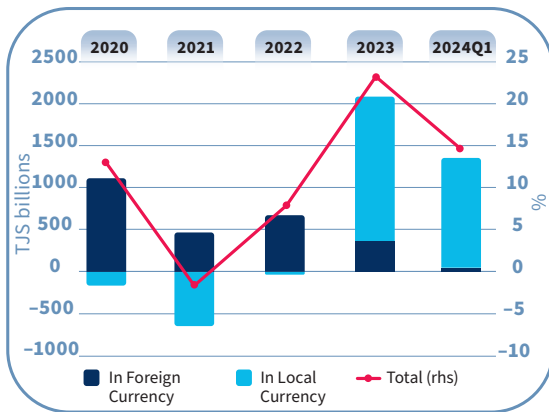
Banks' financial performance deteriorated somewhat. While the share of non-performing loans remained at 12.7% in March (compared to December 2023) (Figure 10), return on assets in 2024Q1 declined from 3.7% to 2.77% and return on equity decreased from 19.2% to 13.82%.

Figure 7. Increase in Loans to Private Individuals (EoP)



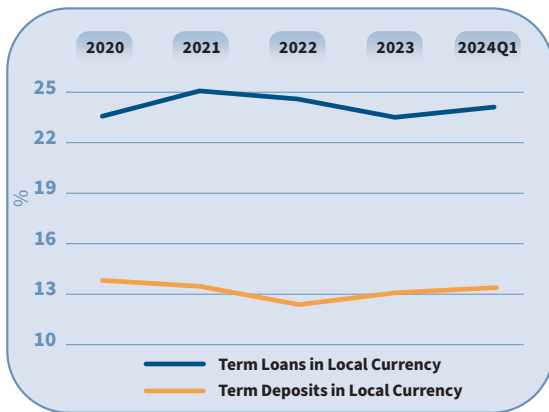
Source: authors' calculations based on NBT data

Figure 8. Increase in Loans to Businesses (EoP)



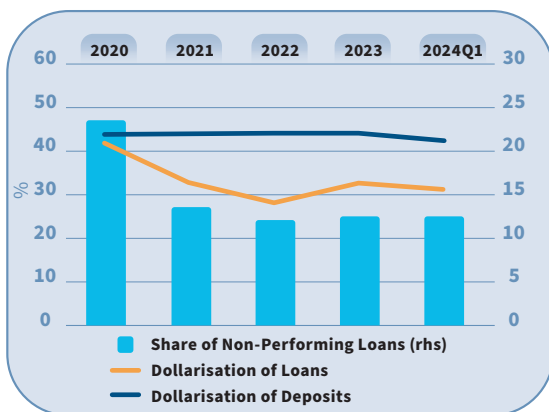
Source: authors' calculations based on NBT data

Figure 9. Interest Rates on New Loans and Deposits



Source: NBT

Figure 10. Banking Sector Indicators



Source: NBT

FISCAL SECTOR

At the end of 2024Q1, a state budget surplus² of 2.1% of GDP was recorded (1.8% in Q1 2023), due to an increase in budget revenues excluding grants, and expenditures performing less than planned (Figure 11). Budget revenues declined from 38.9% of GDP in Q1 2023 to 36.2% of GDP in 2024Q1, due to a decrease in grants from 7.8 to 3.1% of GDP. However, tax revenues increased from 25.1% to 25.8% of GDP and non-tax revenues from 6.1% to 7.4% of GDP. Growth in consumption and imports contributed to the increase in tax collections. Expenditures, in turn, decreased from 37.1 to 34.1 % of GDP. Current expenses decreased to a greater extent in the reporting period.

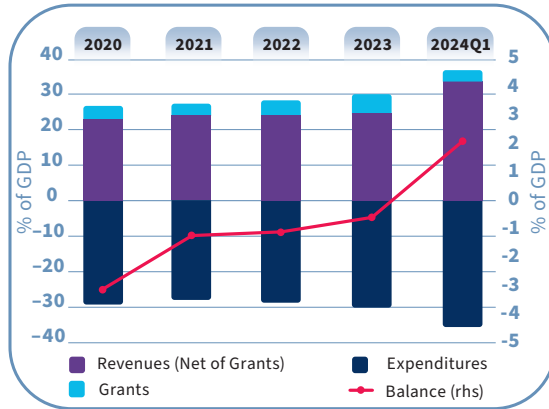
EXTERNAL SECTOR

The resumption of gold exports offset the growth of imports, which had a restraining effect on the foreign trade deficit. Compared to 2023Q1, in January–March 2024, exports of goods increased 1.8-fold. The main contribution to the growth of exports was made by the resumption of gold exports, while there was also an increase in exports of several commodity groups, including foodstuffs, and textile

STATE BUDGET SURPLUS WAS 2.1% OF GDP

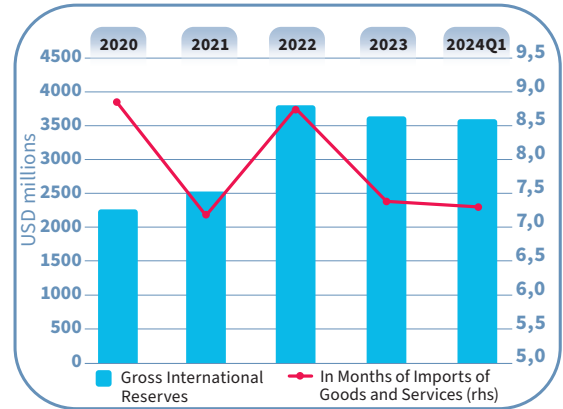
² Hereinafter, the state budget figures are calculated in accordance with the international methodology, according to which credit receipts are excluded from revenues and debt principal repayments are excluded from expenditures.

Figure 11. State Budget



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

Figure 12. Gross International Reserves (EoP)



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

products. Imports of goods increased by 21.3% due to growth of imports of foodstuffs, mineral products, and capital goods. As a result, the trade deficit in the first quarter of this year totalled USD 0.9 billion, virtually unchanged compared to the same period of 2023. With persistence of the trade deficit in the

first quarter of 2024, gross international reserves shrank by USD 56.6 million, or from 7.4 to 7.3 months of imports of goods and services, indicating deterioration of the balance of payments (Figure 12). The nominal exchange rate of the TJS to the USD remained almost unchanged.



MEDIUM-TERM FORECAST

Compared to the spring forecast, GDP growth has been revised upwards.

According to the baseline scenario, GDP growth in 2024 will amount to 7.6% (7.2% in the previous forecast). The increase in the growth rate compared to the previous forecast takes into account a higher than expected GDP growth rate in 2024Q1, an improved outlook for economic growth in the Russian Federation, an expansion of investment activity, and a rise in the gold price. Real GDP growth is expected to slow slightly to 7-7.3% in 2024-2026, due to the expected decline in remittances growth and, consequently, decelerating consumer demand.

Inflation will accelerate slightly from 2021-2023 levels to 5.3% by end-2024 and remain at around 6% in 2025-2026. Compared with the spring forecast, inflation has been revised downward slightly by 0.3 p.p. in 2024 due to lower than expected external inflation. In the medium term, inflation is projected within the NBT target interval ($6\pm 2\%$). This will be facilitated by balanced growth of monetary aggregates and stability of prices for key raw materials and food imports in 2025-2026.

Fiscal policy is expected to be stimulative due to the need to finance public investments and increase social expenditures (no significant changes were made in the estimates of budget parameters compared to the spring forecast). This will manifest itself in a widening of the budget deficit to 1.9% of GDP in 2024 and to 2.4% by 2026, due to a greater reduction in the revenue side of the budget compared to the expenditure side. State budget expenditures will decrease from 30% of GDP in 2023 to

29.2% in 2026. In addition to the planned growth of capital expenditures, in 2025-2026 an increase in debt servicing costs is expected, due to the start of repayment of Eurobonds (\$167 million annually). The revenue side of the budget will decline from 29.5 to 26.8% of GDP. Downward pressure on the volume of tax revenues will be caused by a reduction in the rates of certain taxes because of changes in the tax legislation. In 2025-2026, tax revenues will increase due to a reduction in tax credits and exemptions, while a gradual reduction in grants is expected (from 5.3% of GDP in 2023 to 4.5% in 2026), which will continue to play an important role in fiscal and debt sustainability³.

**GDP GROWTH
FORECAST FOR
2024 REVISED
UP TO 7.6%**

Balance of payments sustainability will decline slightly. We estimate that the CA surplus will narrow to 2.5% of GDP in 2024 and continue to decline to 0.3% by 2026 as a result of higher consumer and investment imports and higher external debt service payments with lower remittance growth. Meanwhile, the export estimate has been raised slightly from the spring forecast, due to an expected rise in gold prices in 2024-2025. Gross international reserves

³ According to our assessment, in order to maintain fiscal and debt sustainability, the state budget deficit of Tajikistan should not exceed 2.5% of GDP.

will decline from 7.4 months of imports of goods and services in 2023 to 7 months of imports in 2026.

RISKS AND UNCERTAINTIES OF THE MEDIUMTERM FORECAST

The main risk to economic growth is unfavourable external conditions and in particular a significant downward trend in the Russian economy, which could result in reduction of remittances to the Republic of Tajikistan.

One of the main risks in terms of fiscal and debt sustainability is the financing of HPP

‘Roghun’. A possible increase in the cost of construction of the Rogun HPP may lead to a reduction in the financing of other important infrastructure projects and social expenditures. At the same time, under conditions of uncertainty about the sources of financing of payments on Eurobonds starting in 2025, the Government of the Republic of Tajikistan may have additional need for budgetary support from international financial organisations.

In case non-monetary factors preserve their significant influence on inflation, a faster than is stipulated in this forecast rise of global commodity prices may result in inflation exceeding the upper limits of the NBT target in the medium term.



TABLE 1. FORECAST OF THE KEY MACROECONOMIC INDICATORS

	2022 Actual	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast
National accounts and prices, %					
Nominal GDP growth					
TJS billions	115.7	130.8	149.6	170.7	193.7
USD billions	10.5	12.1	13.3	14.7	16.2
Real GDP growth	8.0	8.3	7.6	7.3	7.0
CPI (December, y/y)	4.2	3.8	5.3	6.0	6.0
Money and credit (EoP)					
Broad money, % change	40.4	-0.8	14.0	14.1	12.4
Public finance, % GDP					
Revenues and grants	28.0	29.5	27.4	27.1	26.8
tax revenues	18.8	19.7	19.2	19.4	19.5
Budget expenditures	28.9	30.0	29.3	29.5	29.2
Current expenditures	17.2	18.9	17.4	16.9	16.6
Capital expenditures	11.6	11.1	11.9	12.6	12.6
Budget balance ("-" deficit / "+" surplus)	-0.9	-0.5	-1.9	-2.4	-2.4
External sector, % of GDP					
Current account	15.6	4.8	2.5	1.4	0.3
Remittances	49.2	37.0	34.4	32.1	30.4
Foreign direct investment ("-" inflow; "+" outflow)	-1.5	-0.8	-1.0	-0.9	-0.9
Gross reserves, in months of imports of goods and services	8.7	7.4	7.3	7.3	7.0



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