

REGIONAL ECONOMIC OUTLOOK

2024 SPRING



This quarterly publication of the Eurasian Fund for Stabilization and Development (EFSD) provides an analysis of key macroeconomic indicators, and a forecast of macroeconomic parameters in the short and medium term.

The document is published in Russian and English languages on the EFSD website.

The electronic version of this document is available at:

efsd.org/research/

For citation: EFSD Regional Economic Outlook 2024 № 1(1). Moscow: Eurasian Fund for Stabilization and Development.

Keywords: economic growth, macroeconomic forecast, GDP, inflation, exchange rate, balance of payments, monetary policy, fiscal policy, interest rate, unemployment, investment, consumer demand.

JEL: E17, E20, E27, E30, E40, E50, F15, H60, O10.

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The authors are grateful to **Tigran Kostanyan and Natalia Pisareva** for valuable comments and recommendations.

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CONTENTS

ABBREVIATIONS.....	2
FOREWORD.....	4
EXTERNAL SECTOR.....	6
RUSSIA.....	12
KAZAKHSTAN.....	22
ARMENIA.....	34
BELARUS.....	46
KYRGYZSTAN.....	60
TAJIKISTAN.....	72

ABBREVIATIONS

AMD	Armenian dram
Armstat	Statistical Committee of the Republic of Armenia
Belstat	National Statistical Committee of the Republic of Belarus
BEA	Bureau of Economic Analysis
BLS	Bureau of Labor Statistics
BMS	broad money supply
BNS of ASPR RK	Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan
BYN	Belarusian ruble
CA	current account
CBA	Central Bank of Armenia
CIS	Commonwealth of Independent States
CNY	Chinese yuan
CPI	consumer price index
EAEU	Eurasian Economic Union
ECB	European Central Bank
EONIA	Euro Overnight Index Average
eop	end of period
EU	European Union
Eurostat	European Statistical Office
FAO	Food and Agriculture Organisation
FCY	foreign currency
FDI	foreign direct investment
(the) Fed	U.S. Federal Reserve System
GDP	gross domestic product
HPP	hydropower plant
ILO	International Labour Organisation
IMF	International Monetary Fund
KGS	Kyrgyzstan som
KR	Kyrgyz Republic
KZT	Kazakhstan tenge

LCR	liquidity coverage ratio
LCY	local currency
Minfin RF	Ministry of Finance of the Russian Federation
MoF	Ministry of finance
NB	National bank
NB KR	National Bank of the Kyrgyz Republic
NBRK	National Bank of the Republic of Kazakhstan
NBS	National Bureau of Statistics of China
NBT	National Bank of Tajikistan
NFA	net foreign assets
NSC KR	National Statistical Committee of the Kyrgyz Republic
NSFR	net stable funding ratio
NPL	Non-performing Loan
p.p.	percentage point
QoQ	quarter on quarter
RA	Republic of Armenia
RB	Republic of Belarus
REER	real effective exchange rate
RF	Russian Federation
RK	Republic of Kazakhstan
Rosstat	Federal State Statistics Service
RT	Republic of Tajikistan
RUB	Russian ruble
SME	small and medium enterprises
Tajstat	Agency on Statistics under the President of the Republic of Tajikistan
TJS	Tajikistan somoni
UAE	United Arab Emirates
USA	United States of America
USD	United States dollar
VAT	value added tax
y-o-y	year-over-year

FOREWORD

Dear Colleagues,

The EFSD is launching the publication of the regular Regional Economic Outlook (REO), which analyses the current trends and medium-term prospects of the Fund's member states in view of the key world economy trends. The medium-term outlook presented in the report also discusses the main risks and challenges to the macroeconomic sustainability of the EFSD member states.

In 2023, economic growth in all EFSD member states exceeded expectations of authorities and analysts, despite a slowdown in global demand, tighter financial market conditions and high levels of uncertainty. The key driver of growth in all countries was domestic demand, which was supported in most countries by stimulative fiscal policy. However, the strong economic recovery in Russia, labour and capital influx, as well as shifting cross-border trade logistics, were significant factors in boosting economic activity, especially in the EFSD recipient countries. In general, governments and central (national) banks of all countries pursued well-balanced macroeconomic policies aimed at maintaining fiscal and external sustainability as well as reducing inflationary pressures.

In 2024, economic growth is expected to slow down in all EFSD member states. At the same time, it will remain at a relatively high level, in some countries still exceeding potential rates. The expected slowdown in the global and Russian economies will weaken external demand and reduce remittances to the EFSD recipient countries, which, in turn, may lead to a slowdown in consumption and investment activity and worsen external sustainability. Central (national) banks will continue maintaining consistent policies to

achieve normalisation of monetary conditions and stabilise inflation. However, external factors and internal imbalances will not allow achieving inflation targets in a number of countries.

In the medium term, economic growth is expected to slow further in most participating states amid high uncertainty, limited potential and shrinking fiscal space. What is more, the medium-term outlook is characterised by downside risks, including those related to the tightening of sanctions restrictions. Vulnerability of countries to external shocks will remain high due to gradual worsening of external sustainability and formation of potential gaps in budget financing. Risks to debt sustainability in a number of countries will also increase due to limited access to international financial markets and low level of domestic market development for financing remaining budget deficits and refinancing current liabilities of the states.



Sergei Ulatov
Chief Economist

Eurasian Fund for Stabilization and Development

EXTERNAL SECTOR

Global economic growth has slowed down after a post-pandemic recovery spurt. According to the IMF, global GDP growth decreased from 3.5% in 2022 to 3.1% in 2023, well below the historical trend of 3.8% (2000–2019). The slowdown occurred at the expense of developed economies, while developing economies maintained their growth momentum.

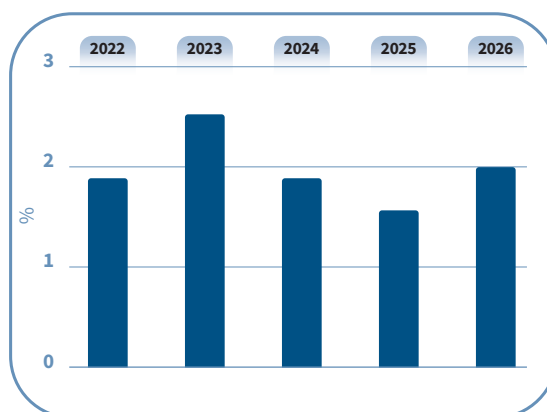
THE USA

The US economic growth exceeded most analysts' expectations, reaching 2.5% in 2023, despite monetary tightening. The unprecedentedly high level of assistance provided to households during the COVID-19 pandemic continued to support household consumption, which was the main contributor (1.5 p.p.) to economic growth. In addition, government expenditures (0.7 p.p.) and net exports (0.6 p.p.) made significant contributions to GDP growth. Tension in the labour market persisted: the number of new jobs in the non-agricultural sector at the end of 2023 exceeded the forecasts of analysts and the authorities, and real wages rose by 4.1% in 2023.

According to our estimates, US economic growth would stabilise at around 2% in the medium term after a soft landing in 2024 under conditions of gradual monetary policy normalisation (Figures 1A and 1C). At the same time, the US economy is expected to continue to grow faster than the eurozone and other developed economies. In 2024, consumer spending would slow down as the household savings accumulated as a result of COVID support measures are exhausted. The high cost of servicing loans would constrain expendi-

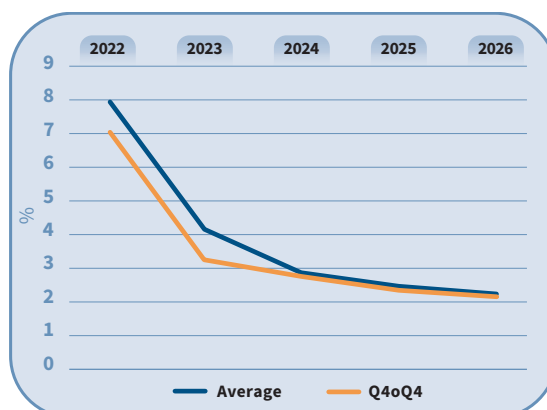
Figure 1 (A, B, C). The US key macroeconomic indicators

A. GDP growth



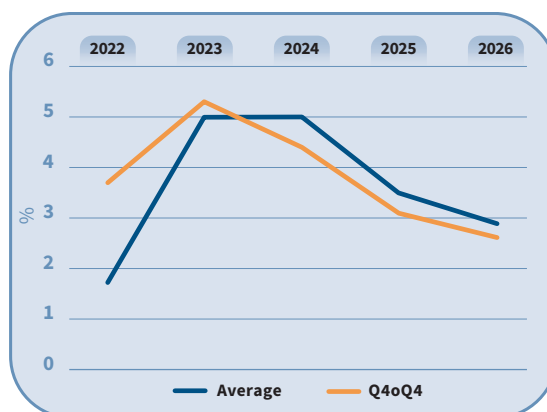
Source: BEA, authors' estimates

B. Inflation



Source: BLS, authors' estimates

C. Fed interest rate



Source: Fed, authors' estimates

ture growth in the corporate sector. In the second and third quarters of this year, GDP growth may fall below 1% q-o-q and start to recover towards the end of the year. As a result, the US economy would grow by 1.9% in 2024, slowing to 1.7% in 2025. The normalisation of monetary policy would bring economic growth back to around 2% in 2026.

Price pressures would persist in 2024–2025 in the context of the continued labour market tensions. The downward trend in inflation observed in 2023 was interrupted in early 2024. The rate of price growth in January–February was above analysts’ expectations, with annual inflation still within the range of 3.5–4.0%. The main risks of higher inflation are related to the labour market and wage growth. According to our estimates, inflation would decelerate to 2.7% by the end of the year and gradually approach the target (2%) by the end of 2026 in the context of a gradual reduction in the Fed interest rate (Figure 1B and 1C).

Under the baseline scenario, the Fed is expected to be cautious in its rate cuts. Given the positive output gap and the emerging momentum in the economy, the Fed would be able to keep its interest rate at a high level to fight inflation until the third quarter of this year. By the end of 2024, the rate is expected to decrease to 4.25–4.50%. Monetary conditions would remain tight despite the interest rate cuts. The interest rate is expected to decline to 4.25–4.50% by the end of 2024 (Figure 1C).

EUROZONE

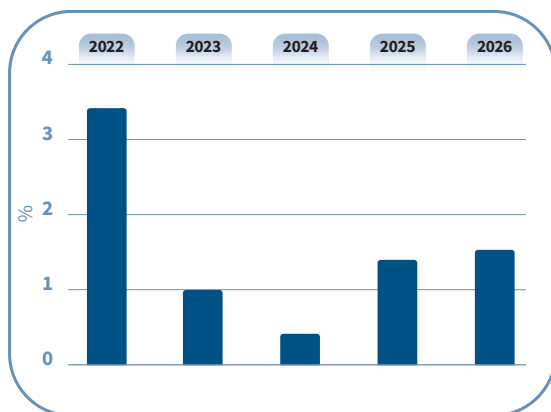
The eurozone managed to avoid a technical recession in 2023. A downturn was only recorded in the third quarter, while in the fourth quarter, output dynamics were close to zero, and by the end of 2023, GDP growth amounted to 1.0%. However, the

dynamics of the countries within the zone went in several directions. Annual growth rates were negative in a number of countries, including the largest economy in the eurozone, Germany (-0.3%), while moderate growth was observed in Southern Europe. The composite eurozone PMI Index has been below 50 since June 2023, but thanks to the momentum in the services sector, readings improved slightly at the beginning of this year – from 47.6 in December to 49.2 in February.

According to our estimates, eurozone economic growth would decelerate to 0.4% in 2024 and accelerate to 1.5% in 2025–2026 (Figure 2A). Tight monetary policy would continue to dampen consumption and investment in 2024. Fiscal policy would also be restrictive and support measures to counter high energy prices would be rolled back. In countries with a relatively high share of industry, falling demand in the global economy and weaker competitiveness of European manufacturers would continue to exert downward pressure. In 2025–2026, the main factor driving the acceleration in economic activity would be stronger consumption against the backdrop of monetary policy normalisation and decelerating inflation. Growth of investment in the green economy and digital transformation would be limited by increasing defence spending. This would temporarily support domestic demand but may limit long-term productivity growth.

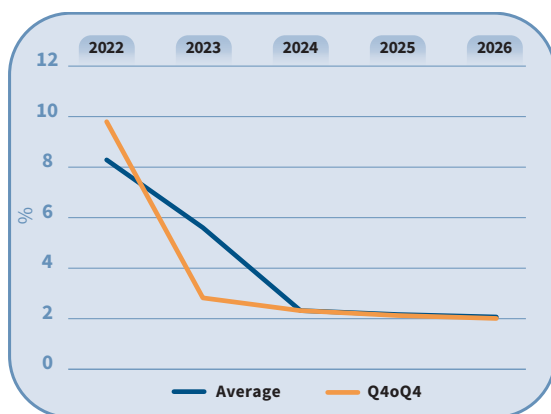
Figure 2 (A, B, C). Eurozone key macroeconomic indicators

A. GDP growth



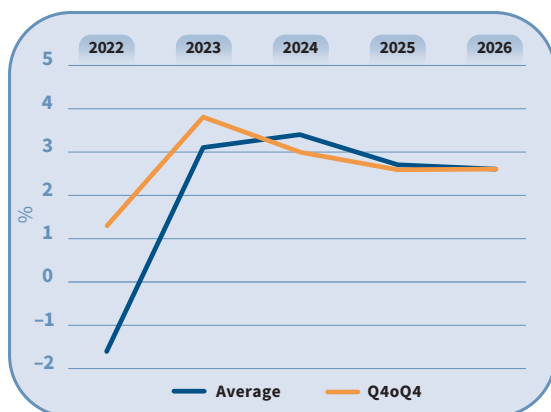
Source: Eurostat, authors' estimates

B. Inflation



Source: Eurostat, authors' estimates

C. ECB rate



Source: ECB, authors' estimates

Inflation would continue to decelerate in 2024 but would remain above the ECB's target despite tight monetary and fiscal conditions (Figure 2B). The trend of slowing inflation continues in 2024, with inflation decelerating to 2.6% in February from

2.8% in the previous month. The main source of pressure on prices is stronger wage growth, particularly in the services sector, due to the relatively higher share of labour costs. The main deflationary factor is lower energy prices.

Given the urgent need to support the economy and maintain moderate inflation, we expect the ECB to start cutting interest rates as early as the second quarter of 2024. However, persistent inflationary pressures would not enable sharp interest rate cuts. By the end of 2024, we expect the EONIA rate at 3.0%. A reduction in inflationary pressures as a result of slowing wage growth and adjustment to post-pandemic shocks, with domestic demand weaker than in the USA, would allow the ECB to bring inflation closer to 2% by the end of 2025 (Figure 2C). The euro would appreciate to USD 1.15 per EUR as the interest rate differential between the USA and the eurozone narrows.

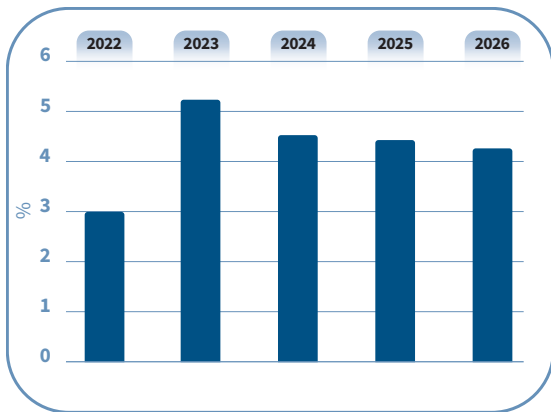
CHINA

China's economy grew by 5.2% in 2023 after post-pandemic restrictions were lifted. Although the authorities' official target was exceeded, the recovery was uneven, with weak export and investment growth offset by consumer spending. At the same time, the labour market was depressed – in the fourth quarter, wages for new hires declined by 1.3%. This was accompanied by weakening consumer confidence.

In the medium term, the growth potential of China's economy would decline. Problems in the property market, high domestic debt, ageing population, and the fragmentation of global value chains limit the growth prospects of China's economy. However, growth would be supported by new sources of growth in the production of electric vehicles, new-type energy storage systems, semiconductors, and the expansion

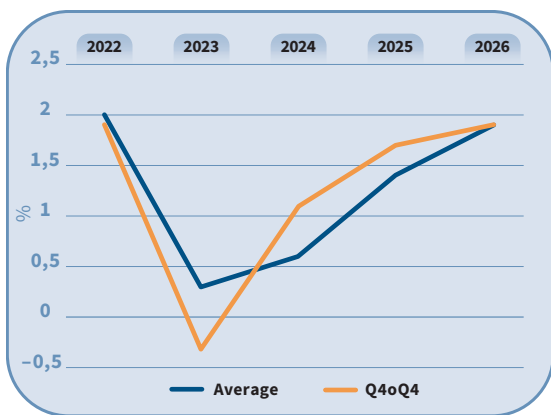
Figure 3 (A, B, C). China's key macroeconomic indicators

A. GDP growth



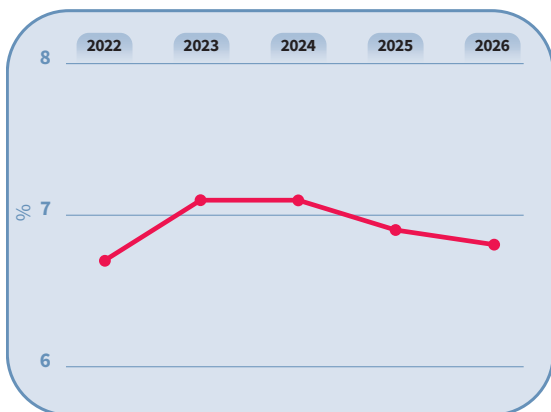
Source: NBS, authors' estimates

B. Inflation



Source: NBS, authors' estimates

C. CNY/USD exchange rate



Source: NBS, authors' estimates

sion of exports to new markets. According to our forecast, China's GDP growth rate would slow down from 4.5% in 2024 to 4.2% in 2026 (Figure 3A).

A deflationary trend emerged in the second half of 2023, which did not stop until February 2024. Fiscal stimulus measures are expected to be implemented in China to combat deflationary pressures, supporting domestic demand over the forecast period and contributing to price growth of up to 2% with a statutory ceiling of 3% (Figure 3B).

We expect the yuan to appreciate over the forecast period – the exchange rate would fall back below 7 per USD, maintaining the stability of the domestic financial market and improving the attractiveness of Chinese assets. This is also in line with the authorities' plans to pursue a strong yuan policy.

COMMODITIES

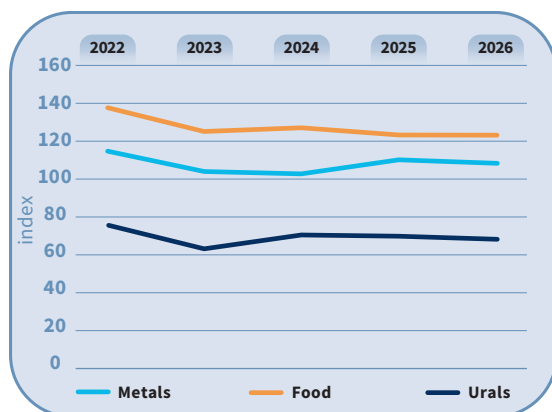
The forecast for commodity prices is based on the assumption of no new shocks and volatility in global markets. According to our estimates, the geopolitical risks and logistics challenges that have built up over the past few years are already priced in. Imbalances in commodity markets caused by pandemic restrictions have also been largely resolved. In this context, prices in commodity markets are primarily determined by macroeconomic factors of supply and demand. As a result, the Metals Price Index would decline from 104 in 2023 to 103 in 2024, before rising to 108.5 in subsequent two years as global economic growth accelerates. The forecast for copper prices mirrors this trend, with prices down from USD 8,490 per ton last year to USD 8,479 per ton in 2024 and up to USD 8,806 per ton in 2026. The Food Price Index, after falling (-9.2%) last year, would increase by 2% in 2024 and remain relatively stable in 2025–2026. (Figures 4 A, B).

The oil price forecast assumes a moderate decline in the price per barrel of Urals oil – from USD 70.9 this year to USD 68.6 in 2026.

Stronger demand for gold from central banks looking to reduce the share of hard currencies in their reserves would determine price dynamics in the coming years. According to our estimates, gold prices would continue to rise, averaging USD 2,067 in 2024 and USD 2,104 in 2025, before adjusting to USD 2,026 in 2026.

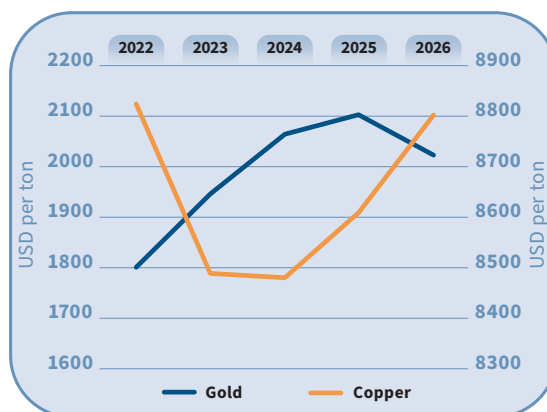
Figure 4 (A, B). Commodity prices

A. Metals, food, Urals oil



Source: WB, authors' estimates

B. Gold, copper



Source: authors' estimates

The main upside risks to commodity prices are still the possibility of heightened geopolitical tensions, particularly in the Middle East, and logistics challenges in the Red Sea region. A downside risk is weaker demand due to slower growth of China's economy and the realisation of the hard landing scenario in developed economies.

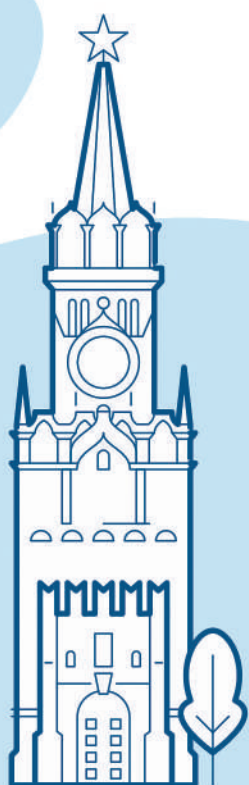




As a result of the rapid adjustment of key economic processes to sanctions restrictions and expansionary fiscal policy, the growth of the Russian economy in 2023 significantly exceeded the expectations shared by the authorities and analysts at the beginning of the year. Real GDP grew by 3.6%, driven by increases in household consumption, investment, and inventories. In the context of expansionary fiscal policy, the consolidated budget deficit was 2.3% of GDP – below the 2.7% of GDP targeted in the Main Fiscal Policy Guidelines due to higher-than-expected budget revenue growth. Inflation was 7.4% in 2023. Amid high inflationary pressures, the policy rate was raised from

7.5% in June to 16% at the end of the year. Against a background of labour shortage, the unemployment rate went down to 3.2%, while real wages rose by 7.8%.

According to our estimates, real GDP growth would be 2.4% in 2024. Consumption would decline slightly as a result of a shift towards savings, while the contribution of investment to economic growth would remain unchanged despite high lending rates. Inflation would decelerate to 5.6% by the end of 2024 and return to the target 4% only in 2026. The Bank of Russia is expected to begin a cycle of gradual policy rate cuts in the third quarter of 2024, with the rate set at the end the year at nearly 13%.



CURRENT SITUATION

REAL SECTOR AND LABOUR MARKET

In 2023, the Russian economy grew by 3.6%, showing high stability and adaptability of economic processes to sanctions restrictions. A significant expansion in domestic demand became a key driver of growth (Figure 1), with household final consumption expenditures up by 6.1%, government expenditures by 3.6%, and gross fixed capital formation by 10.5%. The high level of investment activity was due to significant investment in infrastructure projects financed by the National Wealth Fund and an increase in private investment. Net exports made a negative contribution to GDP growth in 2023. Exports fell both in physical volume and in value terms as the logistics infrastructure struggled to redirect export flows to new markets. In contrast, the redirection of import flows to friendly countries is happening more quickly, which, together with stronger domestic demand, has fuelled rapid import growth.

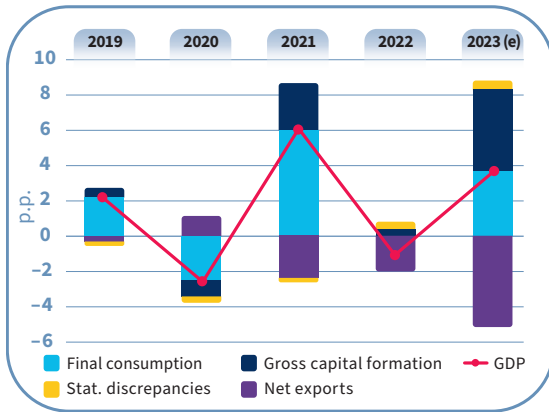
**RUSSIAN
ECONOMY GREW
BY 3.6%
IN 2023**

In 2023, manufacturing and trade became the key drivers of GDP growth decomposed by production components (Figure 2). Manufacturing grew by 7%, above the level of 2021. The highest growth rates were recorded in the production of metal products, electronics, including computer hardware, and vehicles. Wholesale trade showed a robust recovery of 8.4%, while retail trade volumes recovered less strongly at a rate of 2.5%. Finance and insurance grew by 8.6%, driven by strong lending to the economy. Construction grew by 7%, maintaining a strong positive trend for the second year in a row. Agriculture showed almost no growth, which is associated with a high base in 2022 due to a large grain harvest.

In the fourth quarter of 2023, quarterly growth slowed as a result of tighter monetary policy and weaker domestic demand. The observed slowdown suggests that the peak deviation from a steady pace of economic growth occurred in the third quarter.

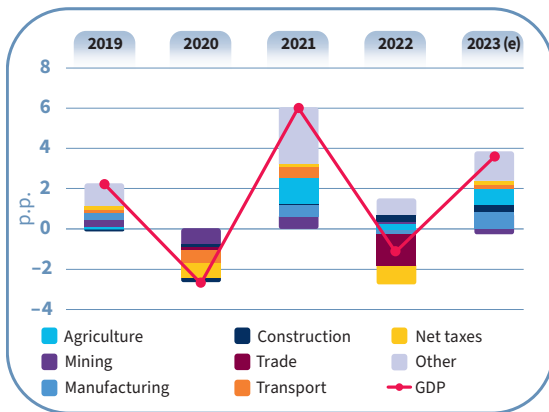
According to the Bank of Russia survey, the average annual value of the consolidated business climate indicator was 6.7 points in 2023. This is the highest level since 2013, when the average annual value of the indicator was 7.9. The business sentiment improved significantly compared to 2022, when it was in the negative territory (-0.2 points). The seasonally adjusted indicator has been growing since mid-2023 and maintained its momentum in early 2024.

Figure 1. Decomposition of annual GDP growth by expenditure components



Source: estimates based on Rosstat data

Figure 2. Decomposition of annual GDP growth by production components



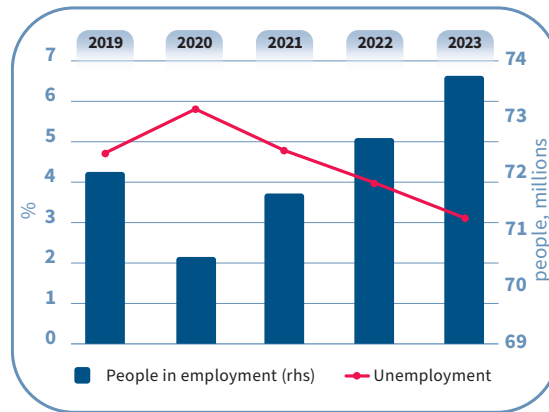
Source: estimates based on Rosstat data

The situation on the labour market remained tense in 2023 in the face of unfavourable demographic trends and labour shortage. The unemployment rate continued to decrease in 2023, reaching a new historical low of 2.8% of the labour force in the fourth quarter (Figure 3). Labour shortage puts pressure on nominal and real wage growth, which, according to preliminary

UNEMPLOYMENT RATE IN 2023
3.2%

data, was 12.8% and 7.4% respectively in 2023 (Figure 4). According to preliminary data, the growth of real disposable household income had reached its peak since 2010 at 5.4%.

Figure 3. Labour market indicators



Source: Rosstat

Figure 4. Household income



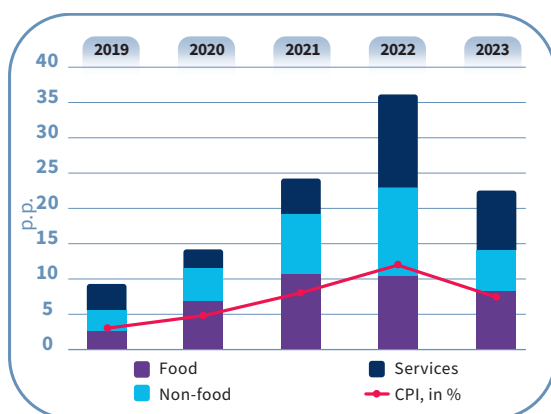
Source: estimates based on Rosstat data

INFLATION AND TRENDS IN THE MONETARY SECTOR

Despite the deceleration of inflation to 7.4% in December 2023 compared to 11.9% in December 2022 (Figure 5), there was a substantial increase in inflationary pressure in the second half of the year. Opposing inflation trends were observed throughout 2023: there was a gradual decrease in inflation in early 2023 to a year-on-year low of 2.6% in May, while inflationary pressures began to mount

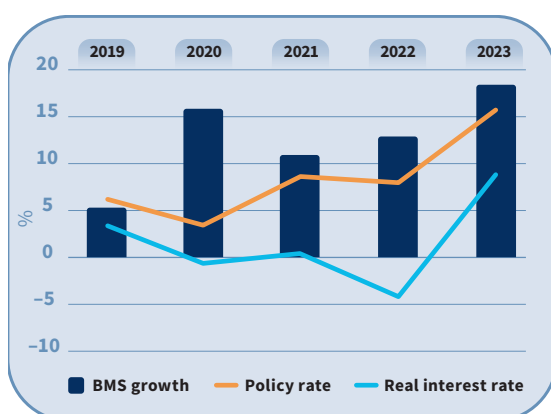
from mid-year onwards. Inflation accelerated as a result of rapid growth in domestic demand in excess of the potential for production expansion and rising prices for imported goods driven by significant depreciation of the ruble in the second half of the year.

Figure 5. Inflation decomposition (eop, y-o-y)



Source: Bank of Russia

Figure 6. Dynamics of monetary indicators (eop, y-o-y)



Source: estimates based on Bank of Russia data

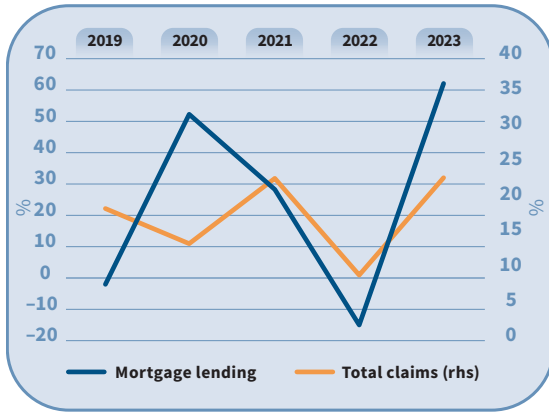
The Bank of Russia took decisive actions to combat rising inflation by consistently raising the policy rate during 2023. Between July and the end of 2023, the policy rate was raised five times, from 7.5% to 16%. Despite the sharp increase in the policy rate and the slowdown in inflation in December 2023, it is too early to draw firm conclusions about a steady decline in inflation. Current data for January–February 2024 suggest that inflationary pressures remain high.

Between January 2023 and February 2024, the seasonally adjusted ruble money supply (M2) increased by 21.5%. In this period, the annual growth rate of broad money supply decelerated from 24–26% in the first quarter of 2023 to 18.3% in February 2024. Policy rate hikes improved the attractiveness of bank deposits and contributed to an increase in household term ruble deposits, whose annual growth accelerated from 6.1% in July 2023 to 38.5% in February 2024. In parallel, the growth of currency in circulation (M0) decelerated from 28.9% in September 2023 to 7.3% in February 2024 (Figure 6).

In 2023, the assets of the banking sector in Russia increased by 24.6% to 98% of GDP, showing record growth since 2014. Banks' own funds increased by 19.3% and deposits of households by 20.4%. Although the Bank of Russia tightened monetary policy in the second half of the year, lending remained strong during the year. The portfolio of loans provided to non-financial organisations increased by 20.5% and lending to households by 24.3% (Figures 7, 8). Demand for loans began to weaken in the fourth quarter of 2023 in the context of tighter monetary policy stance but remained at a relatively high level according to data for January 2024.

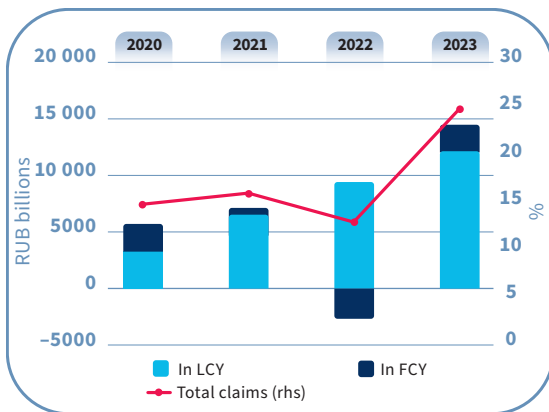
Total mortgage lending increased by 29.4% to RUB 18.2 trillion in 2023, with the issuance of 2 million mortgage loans worth RUB 7.8 trillion, which is 1.5 times higher than in 2022. Government programmes of concessional lending were particularly popular, accounting for 61% of mortgage lending. However, due to the tightening of concessional lending conditions, portfolio growth declined to 0.7% already in January 2024 compared to 1.6% in December 2023, which is close to the dynamics seen at the beginning of the previous year.

Figure 7. Growth of banks' claims on private individuals (eop)



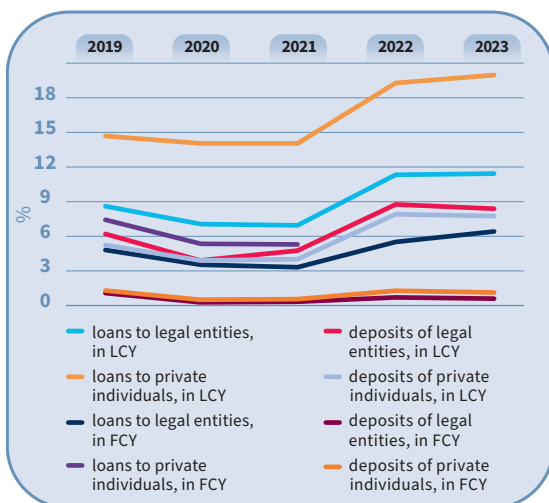
Source: Bank of Russia

Figure 8. Growth of loans to businesses, 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

According to preliminary data, the consolidated budget deficit of Russia amounted to RUB 3.9 billion in 2023, equivalent to 2.3% of GDP (Figure 10). The deficit expanded from RUB 1.4 billion in 2022, but it was lower than envisaged in the Main Fiscal Policy Guidelines primarily due to higher-than-expected budget revenue growth. Most of the increase in expenditures occurred in the fourth quarter, when 33% of the total annual expenditures of RUB 63 billion were made. And although total budget revenues in 2023 increased by RUB 6 billion compared to 2022, government revenues related to oil and gas decreased by RUB 2.7 billion (-24%).

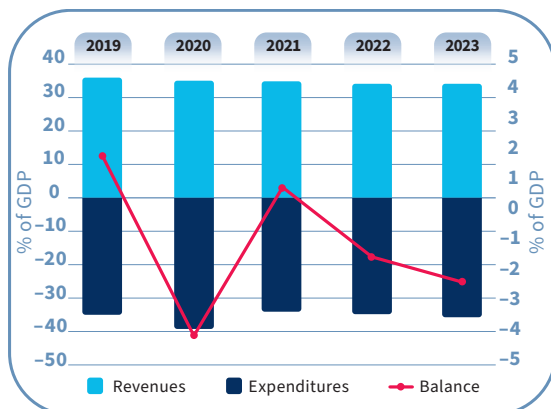
Government debt remains low and stood at 15.1% of GDP at the end of the year, up slightly from 14.7% a year earlier. Domestic debt increased from 12.1% to 12.2% of GDP, while external debt rose from 2.6% to 2.8% of GDP (Figure 11).

The National Wealth Fund reached almost RUB 12 trillion at the end of 2023 (RUB 10.4 trillion at the end of 2022), including its liquid part at RUB 5 trillion (RUB 6.1 trillion) and funds invested in assets at almost RUB 7 trillion (RUB 4.3 trillion). In nominal terms, the National Wealth Fund increased mainly due to the effect of revaluation against the background of the ruble depreciation against the yuan and

CONSOLIDATED BUDGET DEFICIT IN 2023
2.3% OF GDP

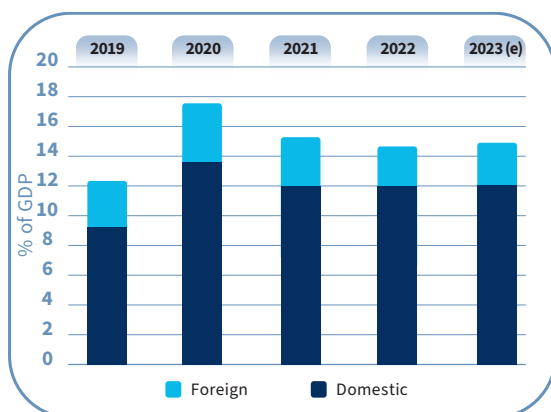
the growth of the ruble price of gold. At the same time, the draw-down on the liquid part to finance the federal budget deficit amounted to RUB 3.5 trillion.

Figure 10. Government budget



Source: Minfin RF

Figure 11. Government debt



Source: estimates based on data of the Minfin RF

EXTERNAL SECTOR

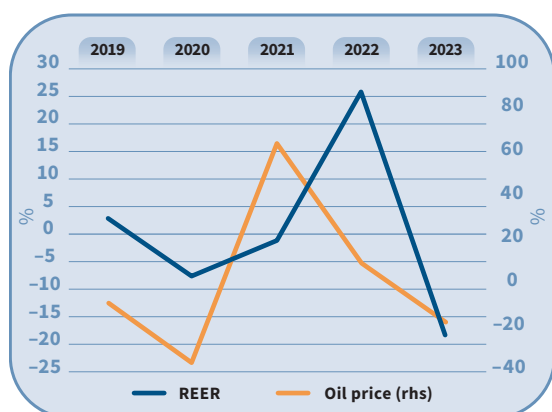
The current account surplus dipped from USD 238 billion in 2022 to USD 50.2 billion in 2023. This was mainly due to a sharp reduction in the trade surplus from USD 315.6 billion to USD 118.3 billion. The trade balance change was driven by a 29% fall in exports to USD 422.7 billion, mainly due to lower prices for Russia's main export items, and a 10% rise in imports to USD 304.4 billion, due to higher imports from friendly countries. The financial account balance was USD 40.1 billion, mainly due to a USD 38 billion increase in external assets, reflecting

residents' activity in foreign markets and direct investment abroad. At the same time, external liabilities decreased by USD 1.8 billion, reflecting the withdrawal of funds by non-residents and the repayment of debt owed to non-residents (Figure 13).

**CA PROFIT
\$50.2
BILLION**

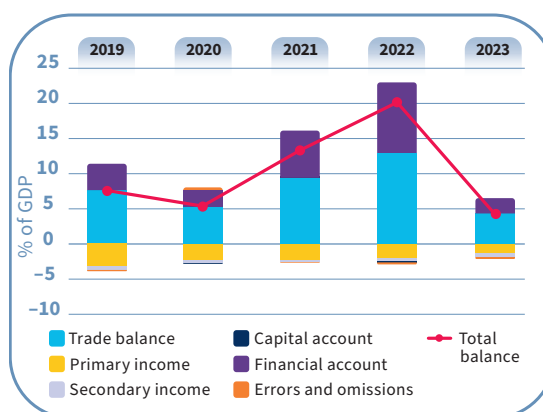
In 2023, the Russian ruble depreciated significantly against the US dollar, due to a slowdown in foreign exchange earnings, a currency mismatch in payments for exports and imports, and the overvaluation of the ruble at the beginning of the period. These factors led to the depreciation of the local currency by about 35–40%, with the exchange rate peaking at RUB 98–101 per USD in August 2023. In response to these challenges, measures were taken to ensure the surrender of foreign exchange earnings by exporters and significant tightening of monetary policy. These measures improved the attractiveness of ruble savings and set the stage for gradual ruble appreciation. Despite its initial depreciation, in late 2023 and early 2024, the Russian currency appreciated to RUB 89–91 per USD (Figure 12).

Figure 12. Dynamics of factors of terms of trade



Source: Bank of Russia, Minfin RF

Figure 13. Balance of payments



Source: Bank of Russia

MEDIUM-TERM OUTLOOK

	2022 Actual	2023 Actual	2024 Estimates	2025 Forecast	2026 Forecast
Russia's economic growth (%)	-2.1	3.6	2.4	1.4	1.6
Inflation in Russia, (December to December of the previous year, in %)	11.9	7.4	5.6	4.2	4.0
Inflation in Russia, (average, in %, y-o-y)	13.7	5.9	7.0	4.5	4.1
RUB / USD exchange rate (average)	68.5	85.2	92.1	93.4	95.9
Policy rate in Russia (average, in %)	10.5	9.9	14.9	10.5	7.4

According to our estimates, economic growth in Russia is expected to slow down to 2.4% in 2024. At the same time, economic activity would remain at a relatively high level, largely explained by the carry-over effect of the high base of the fourth quarter of 2023 and the result of an upward revision of past estimates. Consumption would slow down somewhat in 2024, as households shift towards savings in a context of high deposit interest rates. Private sector investment, although constrained by high lending interest rates, would remain at a high level, driven by the desire to expand production capacities and the need for automation deployment in response to labour shortage. Government expenditures would continue to stimulate economic activity. Imports would decline

in 2024 as a result of lower domestic demand growth rates due to high interest rates and the relatively high cost of imported goods.

GDP WILL GROW BY IN 2024 2.4%

In 2025–2026, the economy is projected to gradually approach the trajectory of long-term growth of 1.4–1.6%. By 2026, imports should return to a balanced growth trajectory. Exports would continue to decline in 2025 due to voluntary oil production cuts and transport and logistics constraints. However, we expect a gradual recovery over the subsequent two years as the process of export redi-



rection is completed. In the context of the economic slowdown and the introduction of programmes to increase the mobility of citizens to ensure efficient allocation of labour, wage growth would decelerate, while the unemployment rate would remain close to current levels.

Inflation would decline to 5.6% in 2024 due to continued tight monetary policy and weaker domestic demand. The Bank of Russia would maintain a conservative approach to easing monetary policy and would only proceed to prudent interest rate cuts in response to decelerating inflation in the third quarter of 2024. The interest rate is expected to decrease to around 13% by the end of the year and further to 7% by 2026.

Given the high inertia, inflation would remain elevated and would not return to the targeted level of 4% until 2026. A more rapid decline in inflation would be hampered by elevated and unanchored inflation expectations, an active fiscal stimulus, and a new trend towards an increase in the share of investment in GDP, which is reflected in continued high investment.

The ruble exchange rate would stabilise at around RUB 92 per USD in 2024, and then go to RUB 96 per USD by the end of 2026 due to interest rate cuts and the inflation differential between Russia and the rest of the world. The stabilisation of the ruble exchange rate will help to avoid additional inflationary pressures.



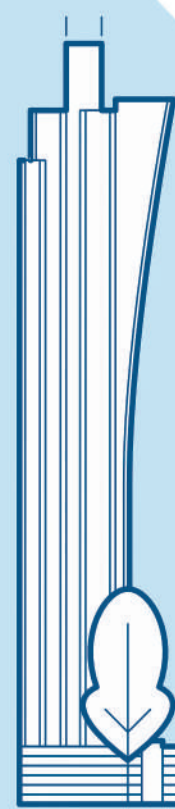
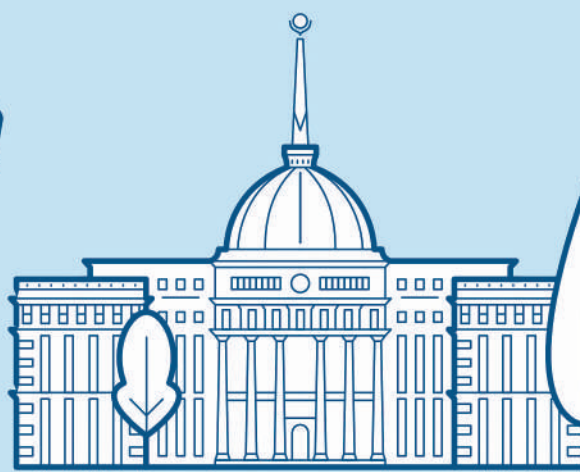
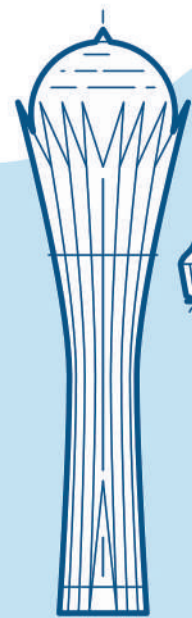
RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM OUTLOOK

One of the main downside risks to the baseline scenario is the potential imposition of new trade, financial, and logistics restrictions on Russia, which could disrupt existing logistics chains and hinder the creation of new ones. This would make it more difficult to redirect Russian exports, slowing down their recovery, and to access the technology needed to upgrade production facilities.

Among the main pro-inflationary risks are potential difficulties with the recovery of export flows, which could lead to ex-

change rate volatility and, as a result, a rise in inflation. Another risk is that the slower pace of shifting consumer demand from imported to domestic goods associated with the inertia of consumer preferences may support inflationary pressures due to the continued high import dependency.

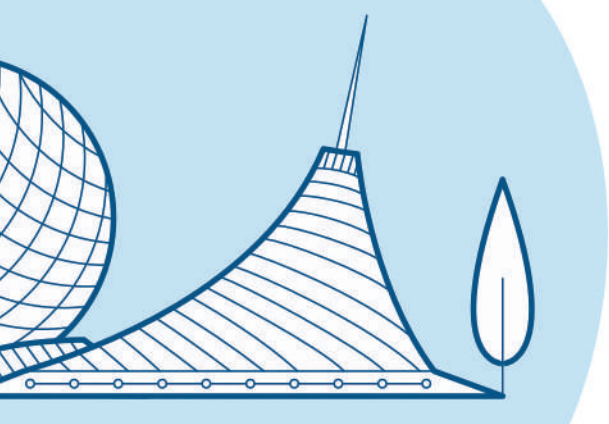
In the context of the labour market, the inflationary risk associated with above-average wage growth is prominent, given the historically low unemployment rate, limited production resources, and continued high demand for labour.



In 2023, Kazakhstan's economy recorded the highest growth rate of the decade at 5.1%. Economic growth was driven by investment and consumer demand supported by expansionary fiscal policies and credit expansion. With expenditure growth outpacing revenue growth, the budget deficit rose to 2.3% of GDP in 2023 on the back of record transfers from the National Fund. Rapid import growth, combined with a decline in exports due to falling oil prices, led to a current account deficit of 3.8% of GDP — the highest since 2020. Inflation slowed steadily throughout the year, peaking at 23.1% y-o-y in February 2023, before falling to a single-digit rate of 9.8% in December

2023. Against this background, the NBRK started to bring down the policy rate in July, which stood at 14.75% at the end of the year.

Kazakhstan's economy is expected to maintain high growth rates in 2024, with real GDP growing by 4.6%. Domestic demand would continue to be a key driver of growth. Fiscal policy would be expansionary, with the social sector and major government investment programmes supported through expenditures. Inflation would continue to decelerate, falling to 8.5% by December 2024. This would help the NBRK to further normalise monetary policy, with the policy rate averaging 12.7% over the year.



REAL SECTOR AND LABOUR MARKET

Kazakhstan's economy grew by a record **5.1% in 2023**, more than a quarter above the average growth rate of the past decade. GDP peaked at USD 261.4 billion¹. GDP per capita in US dollar terms was USD 13,136. Based on preliminary data, economic growth slowed to 4.2% y-o-y in January–February 2024.

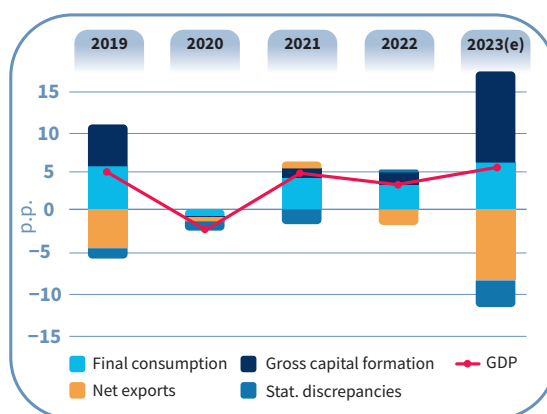
Economic growth in 2023 was driven by domestic investment and consumer demand, with imports growing faster than exports, resulting in a negative contribution of net exports (Figure 1). Gross capital formation was the main contributor to economic growth, with capital investment rising by 13.7%. The highest investment growth rates were recorded in information and communication, transport, as well as the social sector and utilities. Wholesale trade grew by 12.3% and retail trade by 7.7%, with non-food growing faster than food trade.

GDP \$261.4 BILLION

All sectors, with the exception of agriculture, made a positive contribution to economic growth (Figure 2). The largest contribution was made by trade (1.9 p.p.). The contribution of mining (0.7 p.p.) exceeded that of manufacturing (0.5 p.p.) on the back of growing crude oil (6.6%) and natural gas (10.8%) production, despite Kazakhstan's OPEC+ production cut commitments and repair work at several mining facilities. Budget expenditures supported the construction sector, which contributed 0.7 p.p. to GDP growth.

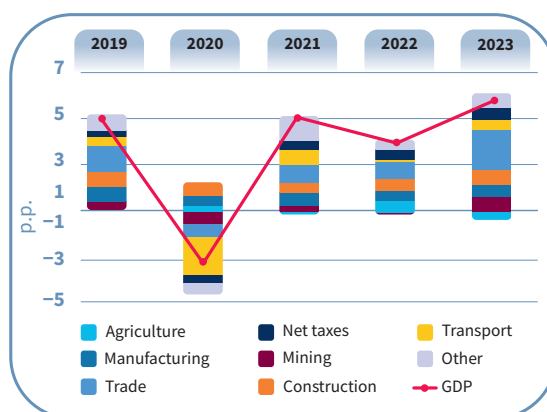
¹ Kazakhstan's 2029 National Development Plan sets a target of reaching a GDP of USD 450 billion by 2029.

Figure 1. Decomposition of annual GDP growth by expenditure components



Source: estimates based on data of the BNS of ASPR RK

Figure 2. Decomposition of annual GDP growth by production components



Source: estimates based on data of the BNS of ASPR RK

Unemployment declined to 4.7% in the fourth quarter of 2023 from the level of 4.8–4.9% at which it had stayed since mid-2016, including youth unemployment, which fell to its lowest ever of 3.4% (Figure 3). This was accompanied by the growth of people in employment (+9% y-o-y) in excess of the growth of the labour force (+7% y-o-y). Employment rose by 76,700 to over 9 million people.

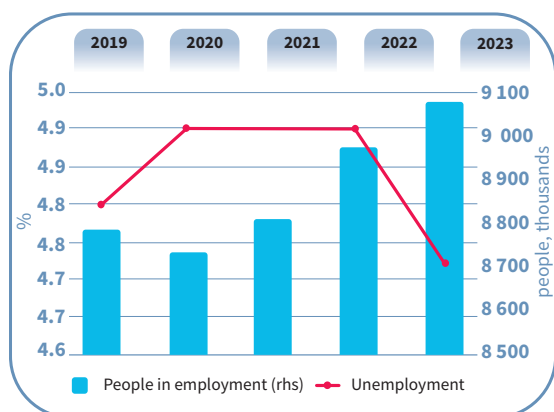
Real wage growth slowed to 2.6% in 2023, compared to an average growth of 8% in 2019–2022 (Figure 4). The largest real wage increases were in information and communication (11.1% y-o-y), finance (9.3%), electricity and water supply

UNEMPLOYMENT RATE IN 2023

4.7%

(8.2% and 6.4% respectively), and transport (5.5%). A decline in real wages was recorded in education, construction, and hotel and restaurant services. The growth of the nominal average monthly wage in 2023 also slowed down significantly compared to 2022 but remained at a relatively high level of 17.1% in the context of high price growth.

Figure 3. Labour market indicators



Source: BNS of ASPR RK

Figure 4. Household income



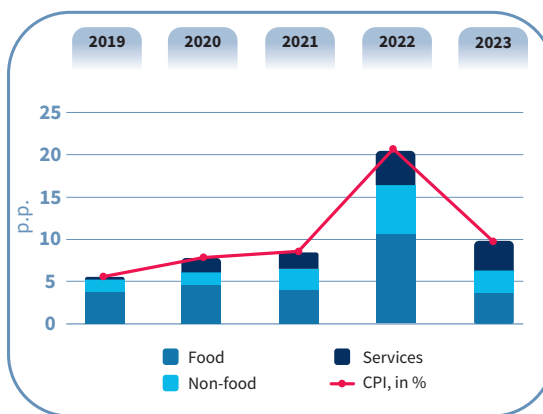
Source: BNS of ASPR RK

INFLATION AND MONETARY POLICY

During 2023, consumer prices were on a steady downward trend in the context of the National Bank’s moderately tight monetary policy, the appreciation of the tenge exchange rate, and the decline in global food prices. However, the inflation rate remained above the NBRK’s target (close to 5%). After peaking at 23.1% y-o-y in February 2023, consumer inflation decelerated to 9.8% y-o-y in December 2023 (Figure 5) and to 9.3% y-o-y in February 2024. A significant slowdown in price growth was recorded for both food – 7.4% y-o-y in February 2024 compared to 26.2% y-o-y a year earlier – and non-food prices – 8.5% y-o-y in February 2024 compared to 20.5% y-o-y.

Household inflation expectations remain elevated. In February 2024, inflation expectations were 14.6%, and perceived inflation was 16.3%.

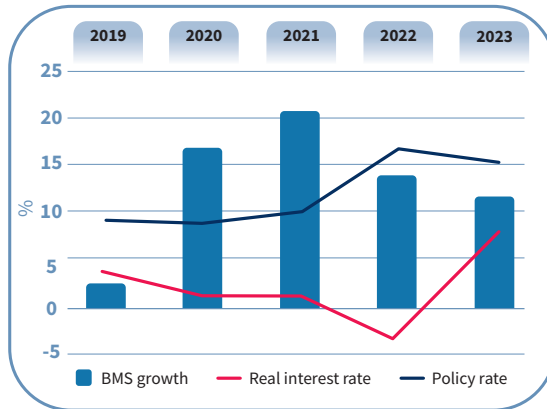
Figure 5. Inflation decomposition (eop, y-o-y)



Source: BNS of ASPR RK



Figure 6. Dynamics of monetary indicators (eop, y-o-y)



Source: BNS of ASPR RK

Since November 2023, the slowdown in inflation has been hampered by increases in regulated utility tariffs and the cost of market services. Prices for paid services accelerated to 12.8% y-o-y in February 2024, contributing almost half of the increase in inflation. Against this background, the monthly price increase exceeded the historical average – 0.7% in February 2017–2021 as reported by the NBRK – and amounted to 1.1%, with an increase in prices of services six times higher than the historical average – 1.7% compared to 0.3%. The growth was mainly driven by a 14.4% increase in tariffs for housing and utilities in February 2024 compared to February of the previous year, resulting from the implementation of the new government programme for the housing and utilities sector "Tariff in Exchange for Investment" (Box 1).

Box 1. "Tariff in Exchange for Investment"

In 2023, Kazakhstan began the implementation of the government programme "Tariff in Exchange for Investment"². The programme covers the period of 2023–2029 and aims to upgrade the utilities networks for electricity, heat, and water supply, as well as sewage, and to reduce the depreciation of municipal infrastructure by 20% by 2029. Under the programme, it is planned to mobilise more than KZT 3 trillion of investment in the renovation of 62,000 km of utilities infrastructure and to put 25,000 km of unattended networks on the books. The launch of the programme also enabled a raise of the salaries and wages of more than 200,000 housing and utilities sector workers from the current KZT 135,000 to KZT 200,000–300,000.

The programme envisages the engagement of private investors in the upgrading and development of the country's housing and utilities sector. The programme includes an increase in regulated housing and utilities tariffs to ensure high quality services at reasonable prices.

Vulnerable groups can count on akimats to help them pay for utilities by providing compensation for part of the cost of utility bills. Since 2022, the maximum allowable household spending to qualify for housing assistance has been 10%.

Investment in infrastructure will be financed both by consumers paying for services and by the government budget and natural monopolies.

² Committee on regulation of natural monopolies of the Ministry of national economy of the Republic of Kazakhstan. Implementation of the "Tariff in Exchange for Investment" programme. Available at: <https://www.gov.kz/memleket/entities/krem/press/article/details/139374?lang=ru>

The NBRK maintains moderately tight monetary conditions in order to bring inflation down to 5% in the medium term. As a result of five consecutive resolutions on policy rate cuts adopted between July 2023 and February 2024, the rate declined from 16.75% to 14.75%. Since the monetary policy tightening at the end of 2022, credit market interest rates had mostly been above 19%, but at the end of last year they declined to 18.7% for legal entities and 17.9% for private individuals. Term deposit interest rates for both legal entities and private individuals show no clear signs of declining following the policy rate (Figure 9). The NBRK's open position increased on average from KZT 3.9 trillion in January 2023 to KZT 5.2 trillion³ in January 2024.

The growth of broad money supply decelerated compared with previous years (Figure 6). In 2023, broad money supply increased by 11.7%, compared with an average increase of 17% in the previous three years, including 13.9% in 2022. The tenge component of the money supply grew faster, increasing by 16.8% over the year (18% in 2022), while nominal GDP grew by 8.5%. The interest rate differential between deposits in tenge and in hard currencies led to a 20% increase in local currency deposits of private individuals and legal entities, while foreign currency deposits decreased by 11.4%. As a result, the dollarisation of the broad money supply had decreased to its lowest level in 24 years – 14.5% – by the end of 2023.

The growth rate of credit to the economy, based on its broad definition⁴, remained quite high, amounting to 19.7% at the end of 2023 (21.7% in

³ National Bank of the Republic of Kazakhstan. Open position of the NBK's operations Available at: <https://nationalbank.kz/en/nbkoperation/otkrytaya-poziciya-po-operaciyam-nbk>

⁴ Including outstanding loans from the banking sector, mortgage organisations, other quasi-public entities, microfinance organisations.



Box 2. Preferential lending to SMEs

Preferential lending programmes for small businesses are widespread in Kazakhstan. Subsidies are available for both investment and working capital. The interest rate on preferential loans is equal to the policy rate of the NBRK plus 7 p.p., of which 8% is paid by the entrepreneur and the rest is subsidised by the government.

The Government has developed a new programme that envisages a gradual transition from SME subsidies to guarantees and other non-financial support measures.

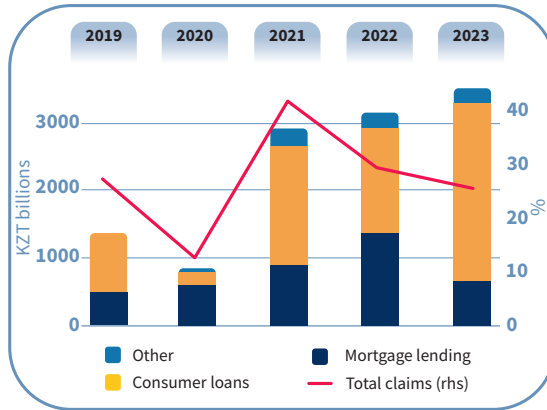
2022). Loans to households, which make up more than half – 52.5% – of the total loan portfolio, increased by 25.4% and loans to businesses by 14.1%. Loans from the banking sector⁵ to households grew due to consumer lending (+34.2%), while mortgage lending started to slow down after a period of rapid growth (+14.2%) (Figure 7). The growth in loans to businesses was driven by demand from small enterprises (+25.2%), while loans to medium and large enterprises increased by 4 and 5% respectively (Figure 8).

Net profits of the banking sector increased by 49% to KZT 2.2 trillion, while the return on total assets grew by 4.7% (3.7% as at the same date of the previous year) and the return on equity increased by 36.7% (30.4%). One of the sources of interest income for banks was also investment of uncommitted funds in government securities and NBRK notes. Better financial performance was also supported by an im-

⁵ Including second-tier banks and Development Bank of Kazakhstan JSC

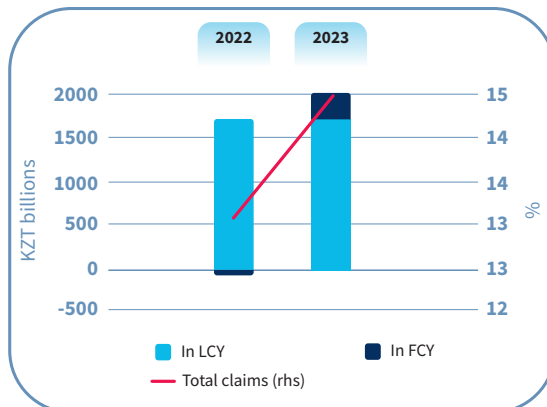
provement in the quality of the loan portfolio — the share of non-performing loans decreased from 3.4% to 2.9% (Figure 10).

Figure 7. Growth of banks' claims on private individuals (eop)



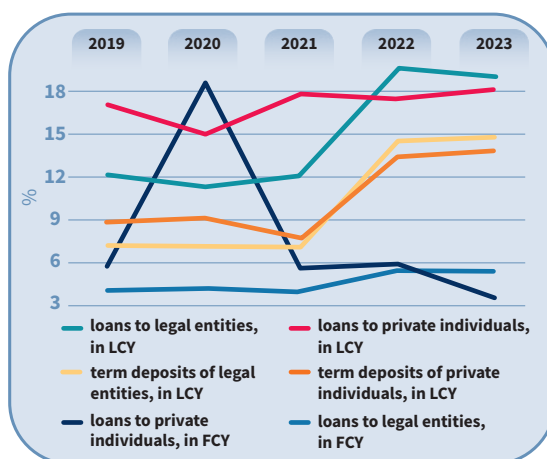
Source: authors' estimates based on NBRK data

Figure 8. Growth of loans to businesses, based on their broad definition (eop)



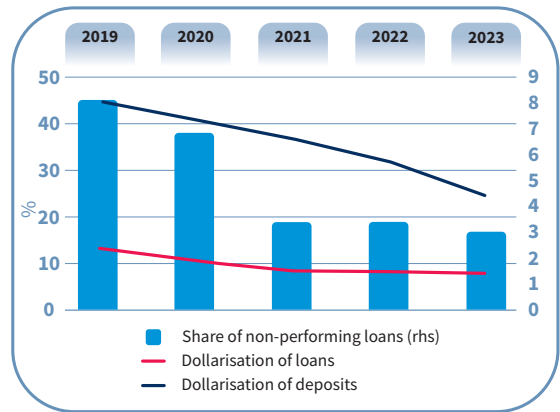
Source: NBRK

Figure 9. Interest rates on new loans and deposits



Source: NBRK

Figure 10. Banking sector indicators



Source: NBRK

FISCAL SECTOR AND GOVERNMENT DEBT

In 2023, fiscal policy was expansionary and aimed at expanding social sector financing, largely supported by transfers from the National Fund. In 2023, government budget revenues increased by 23.1% (KZT 4.7 trillion) to 20.9% of GDP (Figure 11) due to the growth of both tax (+KZT 4.1 trillion) and non-tax revenues (+KZT 1.2 trillion). During the year, the volume of transfers from the National Fund was adjusted from KZT 3.2 trillion to KZT 4.0 trillion, accounting for 16% of total budget revenues or 3.4% of GDP. An additional KZT 1.3 trillion was received by the budget due to the sale of KazMunay-Gas shares⁶. This means that, leaving the crisis year 2020 aside, transfers reached a peak. Expenditures increased by 24.3% (KZT 5.2 trillion) to 22.4% of GDP in 2023. Almost half of the increase (47%) was due to higher expenditures on education, health, and social security. The highest growth rates were recorded for nominal expenditures on fuel and energy (52%), utilities (47%), and government debt service (37%). The share of government debt service costs in total costs remains quite

⁶ The Samruk-Kazyna Fund paid KZT 1.3 trillion to the budget as a result of the sale of KazMunayGas shares. The National Fund was the buyer of the KazMunayGas shares.

GOVERNMENT BUDGET DEFICIT IN 2023

2.4% OF GDP

low – 7% in 2023. As a result of expenditure growth outpacing revenue growth, the budget deficit increased from 2.1% of GDP in 2022 to 2.4% of GDP in 2023 (Figure 7). The non-oil deficit remains high, although it declined from 8.1% of GDP in 2022 to 7.1% of GDP in 2023.

NATIONAL FUND INTERNATIONAL ASSETS AT THE END OF 2023

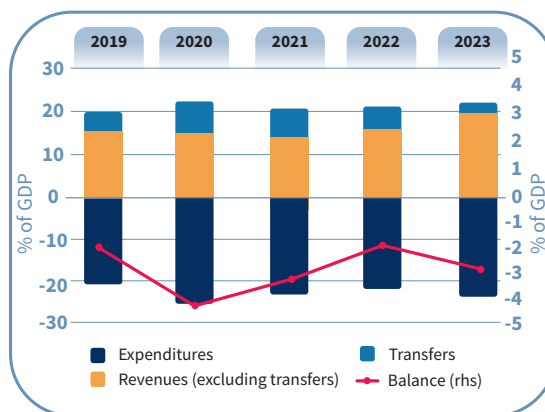
\$60 BILLION

The level of government debt in 2023 declined from 24.4% to 22.8% of GDP due to faster GDP growth, while in nominal terms it increased from KZT 25.3 trillion to KZT 27.2 trillion (Figure 12). Foreign government debt decreased by KZT 0.8 trillion to 5.9% of GDP (26.1% of the total). Domestic government debt increased by KZT 3.7 trillion to 15.0% of GDP, with more than 70% of the increase driven by long-term State Treasury bills. Investors continue to show high demand for government securities as their profitability remains above the expected inflation, despite the policy rate cuts and planned changes to the taxation of banks' profits from government securities⁷.

⁷ Kursive Newspaper № 04: What will happen to the government debt on the stock exchange in 2024? Available at: <https://kz.kursiv.media/2024-02-02/print1021-lbrv-governmentbonds/>

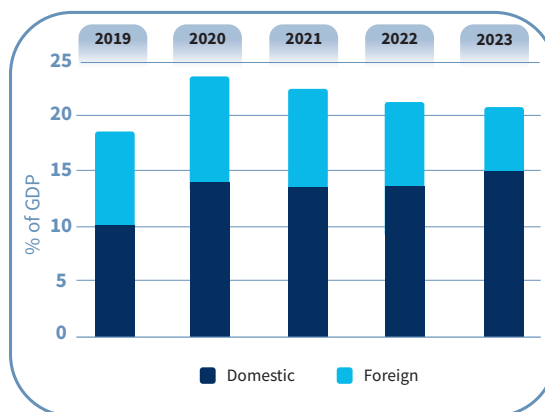
The National Fund provides regular budget support, thus unable to embark on a growth path. The National Fund's international assets grew by 7.7% last year to more than USD 60.0 billion – they have hovered around this level for the past 10 years⁸.

Figure 11. Government budget



Source: MoF RK

Figure 12. Government debt



Source: MoF RK

EXTERNAL SECTOR

Imports increased due to strong domestic demand and the appreciation of the tenge exchange rate, combined with worsening export prices, leading to a deterioration in the trade balance and the formation of the largest current ac-

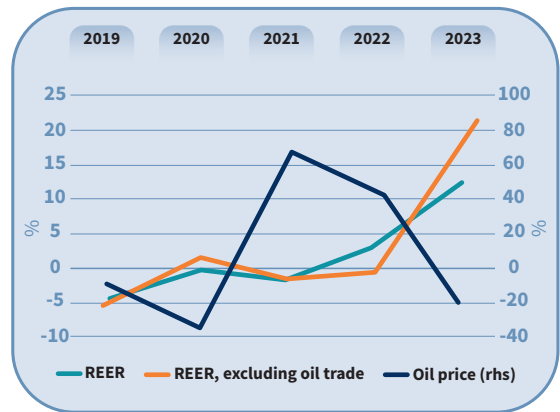
⁸ From February 2024, 50% of the Fund's annual investment income will be allocated to dedicated savings accounts opened for children until they reach the age of 18, as part of the implementation of the National Fund for Children project.

count deficit since 2020 (3.8% of GDP) (Figure 13). Exports of goods and services fell by 4.1% to USD 89.7 billion – an increase in oil production was unable to offset the drop in oil prices. This was accompanied by a 21.1% increase in imports to an all-time high of USD 72.8 billion (27.9% of GDP). As a result, the trade balance decreased from 14.8% to 6.5% of GDP in 2023 (Figure 14). The balances of primary and secondary incomes remained close to their historical trends.

Net borrowing, according to the financial account of the balance of payments, amounted to USD 0.2 billion (Figure 14). The inflow of direct investment to the economy was close to the volumes in 2021–2022 – around USD 5.0 billion. In terms of sectors, the Government and the NBRK reduced both external assets (-USD 1.8 billion) and external liabilities (-USD 1.7 billion) as a result of expenditures from the National Fund and the repayment of external debt. At the same time, banks increased both claims on non-residents (+USD 2.7 billion) and liabilities to non-residents (+USD 2.4 billion). Other sectors also increased both their claims on and liabilities to non-residents, but the balance of their operations remained close to the level of 2022.

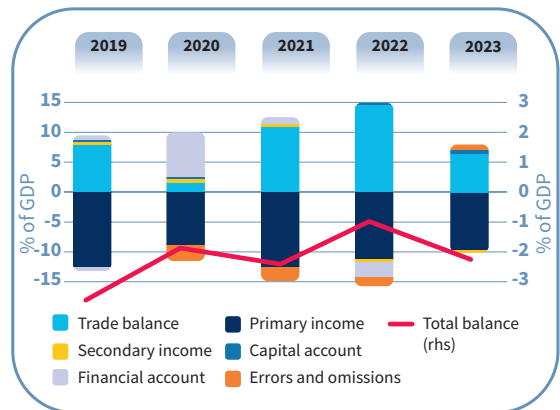
In 2023, international reserves increased by almost USD 900 million to USD 36 billion, equivalent to 5.9 months of imports (Figure 15). Within reserves, assets in hard currencies increased by USD 1.9 billion and assets in gold decreased by USD 1.0 billion as a result of the sale of 57.43 tons of gold by the NBRK. However, gold still accounts for more than half of the country's reserves – 54%. The decline in reserves was the result of payments on government debt amounting to USD 1.8 billion and a decline in the balances of banks' foreign currency accounts with the NBRK.

Figure 13. Dynamics of factors of terms of trade



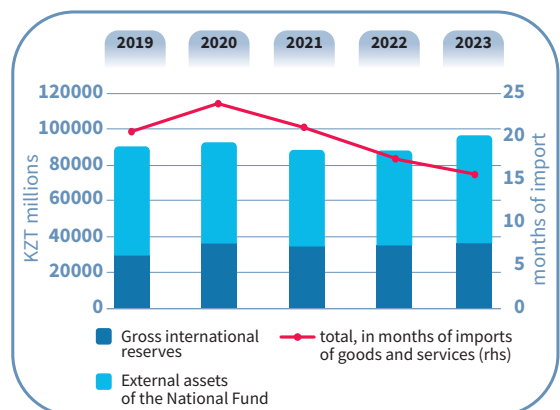
Source: NBRK, World Bank

Figure 14. Balance of payments



Source: NBRK

Figure 15. Gross international reserves and external assets of the National Fund (eop)



Source: NBRK

MEDIUM-TERM OUTLOOK

	2022 Actual	2023 Actual	2024 Estimates	2025 Forecast	2026 Forecast
Kazakhstan's economic growth (%)	3.2	5.1	4.6	5.0	4.7
Inflation in Kazakhstan, (December to December of the previous year, in %)	20.8	9.8	8.4	6.8	5.5
Inflation in Kazakhstan, (average, in %, y-o-y)	14.9	14.9	9.0	7.4	5.9
KZT / USD exchange rate (average)	460.2	456.2	467.5	488.8	510.1
Policy rate in Kazakhstan (average, in %)	13.8	16.4	12.7	8.8	7.7

Under the baseline scenario, macroeconomic stability is expected to be maintained, supported by oil prices still at levels comfortable for Kazakhstan's economy and lower external inflationary pressures.

GDP WILL GROW BY 4.6% IN 2024

Kazakhstan's economy is expected to maintain high growth rates in 2024. According to our estimates, GDP growth would be 4.6%. Domestic demand would remain a key driver of growth, fuelled by the implementation of large-scale government investment programmes and stronger consumption. This trend would persist throughout the forecast period. Consumption would be supported by accelerating wage growth in a context of decelerating inflation, as well as the continued expansion of consumer loans.

High growth rates would be supported by expansionary fiscal policy. In 2024–2026, the guaranteed transfer from the National Fund is envisaged at KZT 2 trillion, with KZT 1.6 trillion to be also allocated from the National Fund in 2024 to finance major nationwide infrastructure projects. In 2024, the salaries and wages of certain categories of public sector employees are expected to increase further, taking into account the 21.4% increase in the minimum wage and the expected adjustment of the correction coefficient for civil servant salaries.

High investment activity would be facilitated by the implementation of measures to improve the investment climate and attract investment to the economy. The authorities expect that the volume of investment to the economy would grow by 22%⁹. The priority areas include housing construction, road construction, gasification, and the implementation of projects in manufacturing and agriculture. A significant part of the projects will be financed directly or indirectly by the government.

According to OPEC forecasts¹⁰, Kazakhstan's hydrocarbon production will increase by 0.1 thousand barrels per day to 1.9 million barrels per day in 2024. At the same time, Kazakhstan will honour

⁹ Official Information Source of the Prime Minister of the Republic of Kazakhstan. Unified benefits package for investors proposed to be introduced as part of new Tax Code of Kazakhstan. Available at: <https://primeminister.kz/ru/news/edinnyy-paket-lgot-dlya-investorov-predlagaetsya-vesti-v-ramkakh-novogo-nalogovogo-kodeksa-rk-27472>

¹⁰ OPEC. Monthly Oil Market Report. Available at: <https://momr.opec.org/pdf-download/>

its commitments to voluntarily reduce oil production under the OPEC+ agreements. In addition, imports would be restrained by the depreciation of the tenge exchange rate, which would stabilise the contribution of net exports to GDP growth.

The output gap would be gradually closing over the entire forecast period. In 2025, economic growth would accelerate to 5.0% as oil production rises to 2.1 million barrels per day due to increased production capacity at the Tengiz oil field and rising global demand. In 2026, GDP would grow by 4.5% as the effects of the government's economic development measures take hold.

Inflation would decline to 8.5% at the end of 2024 as a result of continued moderately tight monetary policy, lower food inflation, and lower inflation in trading partners. However, the slowdown in inflation will be contained in the coming years by expansionary fiscal policy and high domestic demand, accompanied by still high inflation expectations of households. Inflation would approach 5% — targeted by the NBRK — only in 2026.

The NBRK would remain on the path of monetary policy normalisation and would continue to lower the interest rate in response to decelerating inflation and lower inflation expectations. The average annual policy rate would be 12.7% in 2024. Monetary policy would only become neutral by 2026, with a steady reduction in the interest rate to 7.7%.

The tenge exchange rate would gradually depreciate. In 2024, the average annual exchange rate would depreciate to KZT 467.5 per USD, against the background of a decrease in the volume of foreign exchange sales by the National Fund and a lower differential between the NBRK interest rate and foreign interest rates. As a result of its gradual depreciation, the ex-

change rate would go to KZT 510.1 in 2026, which is consistent with market expectations. Bringing the exchange rate closer to the equilibrium would normalise the current account balance and ease pressures on the government budget.

RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM OUTLOOK

Downside risks prevail in the baseline scenario of the GDP growth forecast. GDP growth rates may be revised downwards if there are further delays in the commissioning of new oil fields. The economy's growth potential may also be revised downwards if planned investment projects are implemented more slowly and the expected returns do not materialise.

**INFLATION RATE
WILL GO DOWN TO
8.5%**

The key inflationary factor over the forecast horizon is the implementation of expansionary fiscal policy. Growth of budget expenditures at a rate higher than the GDP growth rate in an environment of unanchored inflationary expectations of households may lead to the formation of an inflationary spiral. Depreciation of the tenge exchange rate also poses a risk to inflation stabilisation in the event of declining export revenues due to falling oil prices, oil supply disruptions, or weakening demand in trading partners (China, eurozone).

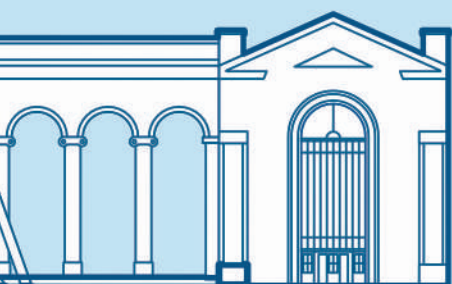




In 2023, the economy of the Republic of Armenia continued to grow at high rates, driven by further expansion of domestic demand. However, under external deflationary pressures, prices moved into the deflation zone, monetary conditions tightened, and inflation expectations declined. Against this background, the CBA started normalisation of its monetary policy in the second half of 2023. Fiscal policy was tightened somewhat but remained expansionary. The CA deficit

widened slightly against the background of a decline in remittances.

Under the baseline scenario, economic growth rates would be close to potential in 2024–2026. Monetary policy would be aimed at bringing inflation back within the targeted range. The budget deficit would widen against a background of rising budget expenditures, leading to a financing gap.



REAL SECTOR AND LABOUR MARKET

In 2023, the Republic of Armenia maintained high economic growth rates due to an increase in domestic consumer and investment demand. In 2023, real GDP grew by 8.7% (after 12.6% in the previous year) (Figure 1). The largest contribution to GDP growth was made by consumer spendings (6.6 p.p.), due to an increase in private and public consumption (contributing 4.2 and 2.3 p.p. to GDP growth, respectively). The rapid growth in private consumption was driven by an increase in real wages (by 12.4%) and consumer lending (by 21.2%). Investment demand contributed 2.2 p.p. to GDP growth. The main driver was residential construction, supported by a 26.4% increase in mortgage loans and a 42.4% increase in commercial loans to the construction sector. The contribution of net exports to GDP growth was (-0.1 p.p.), down from 6.2 p.p. in the previous year, against the background of higher import growth compared to exports and the appreciation of the Armenian dram – the real effective exchange rate appreciated by 13.9% over the year.

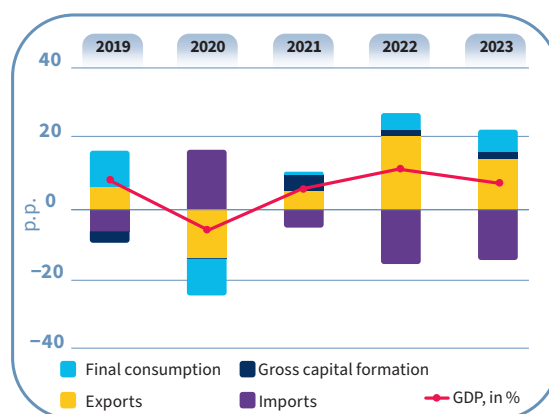
In terms of production, the main contributors to the growth of economic activity were trade, construction, and other services (Figure 2). The contribution of wholesale and retail trade was 2.9 p.p., construction 1.1 p.p., and other services 3.3 p.p., including information and communication (1.7 p.p.)¹, public administration and defence, mandatory social insurance (0.9 p.p.), and arts, entertainment and recreation (0.6 p.p.). However, it is worth noting the negative contribution of the finance and insurance sector (-0.6 p.p.), compared with its positive contribution of 2.8 p.p. in the previous year, when there was a significant inflow of Russian capital.

¹ Despite the positive contribution of the information and communication sector to GDP growth, there is a significant slowdown in its growth rate (from 68% y-o-y in April to -0.3% y-o-y in December).

GDP GREW BY 8.7%

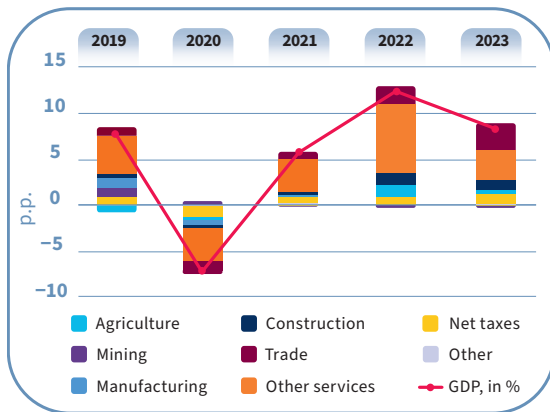
The high level of economic activity continues to have a positive effect on labour market indicators. In 2023, with an increase of 4.6% in the number of persons in employment, the officially registered unemployment rate decreased from 13.5% in 2022 to 12.5% (estimate) (Figure 3). The growth rate of nominal wages slowed to 14.6% from 15.5% in the previous year. However, real wages in the economy grew by an average of 12.4%, almost twice as fast as last year (6.3%), against the background of a marked slowdown in inflation (Figure 4). The largest wage increases were recorded in information and communication, wholesale and retail trade, finance and insurance, and arts, entertainment and recreation.

Figure 1. Decomposition of annual GDP growth by expenditure components



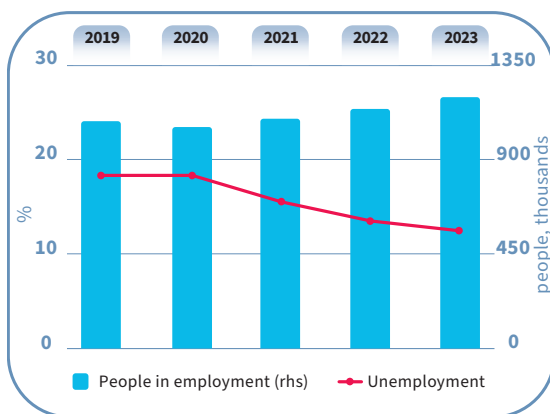
Source: Armstat

Figure 2. Decomposition of annual GDP growth by production components



Source: Armstat

Figure 3. Dynamics of employment and unemployment



Source: Armstat

Note: for 2023 — average values for 3 quarters

Figure 4. Wage dynamics



Source: CBA, Armstat

INFLATION AND MONETARY TRENDS

By the end of 2023, inflation had moved towards deflation in the face of weakening external price pressures, restrictive monetary policy stance², and a decline in inflation expectations. As at end-December 2023, the 12-month inflation rate was (-0.6%) compared to 8.3% in December 2022, the core inflation rate decreased to (-0.4%) in annual terms compared to 9.5% in December 2022. The decrease in prices was mainly observed for food products (bread and bakery products, oils and fats, vegetables and meat products, and other goods), which contributed (-1.6 p.p.) to the change in consumer prices (compared with 4.1 p.p. in 2022) (Figure 5).

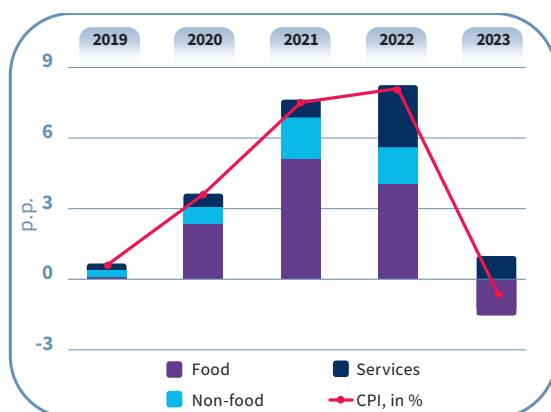
UNEMPLOYMENT RATE AT THE END OF 2023

12.5%

The CBA implemented gradual normalisation of monetary policy in the context of a significant slowdown in inflationary processes during the year and transition to deflation. In 2023, the refinancing rate was cut on 5 occasions from 10.75% per annum in June to 9.25% per annum in December. It is worth noting, however, that the response of banks in terms of changes in interest rates on loans and term deposits was limited. In particular, in the second half of 2023, the weighted average interest rates on new term deposits in the local currency decreased (-0.1 p.p.), while those on new loans increased by 0.2 p.p. (Figure 6).

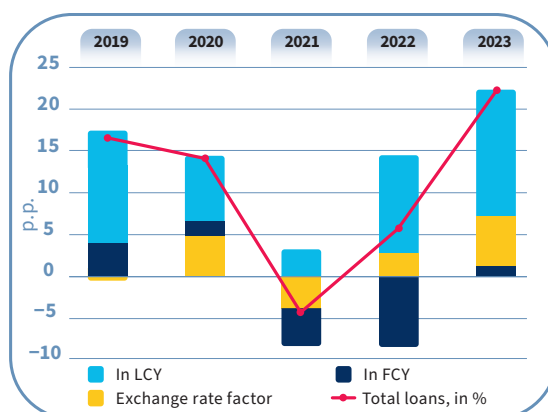
² Against the backdrop of the appreciation of the Armenian dram and a restrictive interest rate policy.

Figure 5. Inflation decomposition (y-o-y, eop)



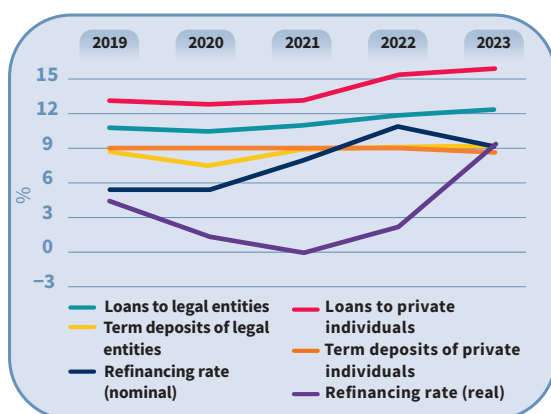
Source: Armstat

Figure 7. Increase in loans from commercial banks



Source: CBA

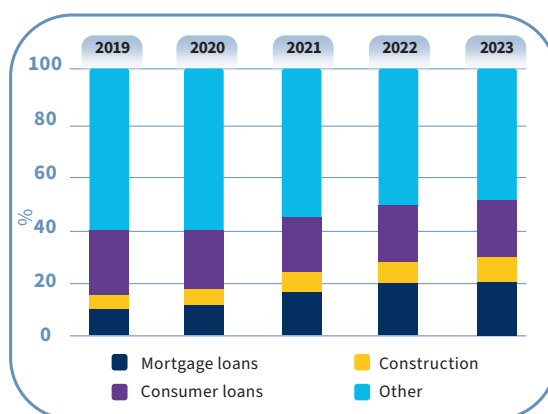
Figure 6. Interest rates (eop)



Source: CBA, Armstat

Note: the Figure shows interest rates on new loans and deposits

Figure 8. Composition of loans from commercial banks



Source: CBA

Despite further increases in interest rates on local currency loans, bank lending accelerated. During the 12-month period, the total volume of loans provided by commercial banks increased by 22.4% compared to 6.1% in the previous year (Figure 7). This increase was mainly driven by growth in local currency loans (contributing 15.1 p.p.). The contribution of growth in foreign currency loans, net of the exchange rate factor, to the total increase was 6.1 p.p. In terms of sectors, there was a further increase in the share of mortgage loans (20.8% compared with 20.2% in 2022) and loans for construction (9.7% compared with 8.3% in 2022) (Figure 8), against the background of government measures aimed at encouraging

residential construction and mortgage lending through income tax refunds³.

The financial soundness indicators of the banking system remain at adequate levels. Over 12 months, the return on assets fell from 4.1% to 2.7%, and the return on equity from 27.9% to 17.4%, against the background of a decline in non-interest income compared with 2022, when there was a boom of new bank accounts opened by non-residents. The quality of the loan portfolio improved slightly due to a decrease in the share of bad loans from 2.8 to 2.4%.

³ Social and Economic Development in the First Half of 2023 and Medium-Term Prospective. Republic of Armenia. Available at: https://efsd.org/upload/iblock/0f4/RA_makro_2023Q2.pdf

FISCAL SECTOR AND GOVERNMENT DEBT

In 2023, the government budget was executed with a deficit of 2.0% of GDP, compared with a deficit of 2.1% of GDP in the previous year (Figure 9).

Budget revenues increased reaching 24.8% of GDP (against 24.3% a year earlier) due to the growth of tax revenues by 0.7 p.p. to 23.4% of GDP. In particular, revenues from profit tax increased (by 0.8 p.p.) on the back of an improvement in the financial position of enterprises; social contributions increased (by 0.2 p.p.) as a result of an increase in the social contribution rate for employees from 4.5% to 5% as of 1 January 2023; personal income tax revenues increased (by 0.3 p.p.) as a result of growth in employment and wages, despite a reduction in the tax rate from 22% to 21%; and revenues from other taxes increased (by 0.6 p.p.). A decrease in tax revenues was recorded for environmental payments and payments for environmental management (by 0.5 p.p.), mainly due to a decrease in royalties from the extraction of metallic minerals, and for state duties (by 0.5 p.p.), as a result of the elimination of export duties on copper-molybdenum ore concentrate.

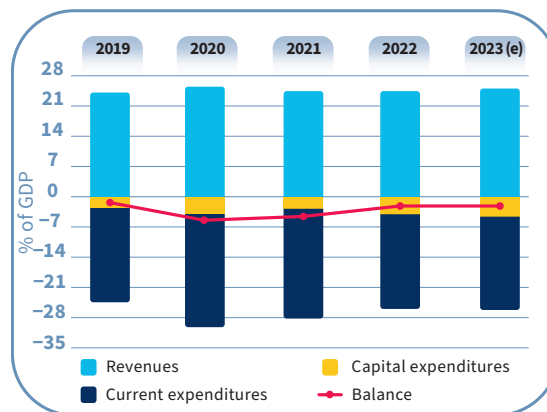
GOVERNMENT BUDGET DEFICIT 2% OF GDP

Total budget expenditures increased to 26.8% of GDP from 26.4% a year earlier due to a rise in capital expenditures. Current expenditures decreased

by 0.1 p.p. to 21.8% of GDP for the items "goods and services" and "other expenditure", while an increase was observed for other items. Capital expenditures increased by 0.5 p.p. to 5.0% of GDP – a shortfall of 13.7%. The main reason for the underperformance continues to be problems with the management and implementation of capital projects.

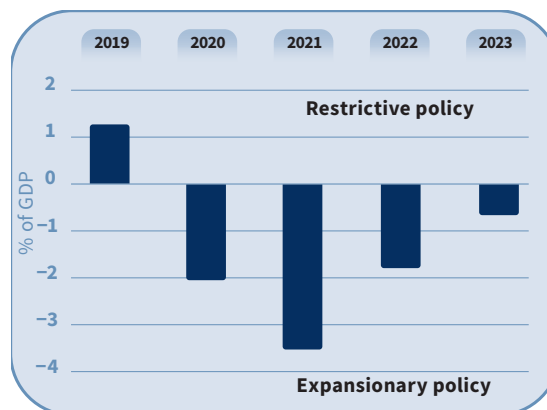
In our view, fiscal policy tightened but remained expansionary. The cyclically-adjusted budget deficit declined from 1.9% of GDP in 2022 to 0.7% in 2023, indicating a much less expansionary fiscal policy (Figure 10). However, the fiscal impulse amounted to (-1.2 p.p.) of GDP, including impulses from revenues (-0.7 p.p. of GDP) and expenditures (-0.5 p.p. of GDP) (Figure 11).

Figure 9. Government budget



Source: MoF RA

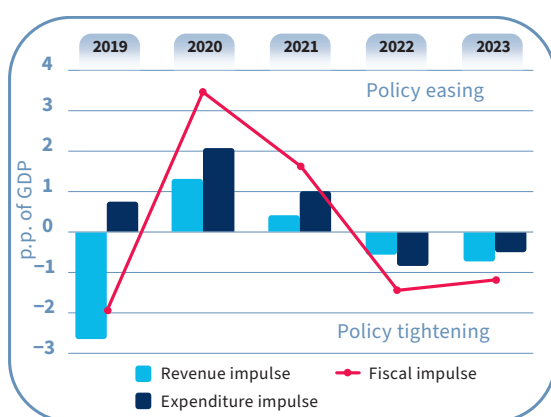
Figure 10. Cyclically-adjusted budget balance



Source: authors' estimates

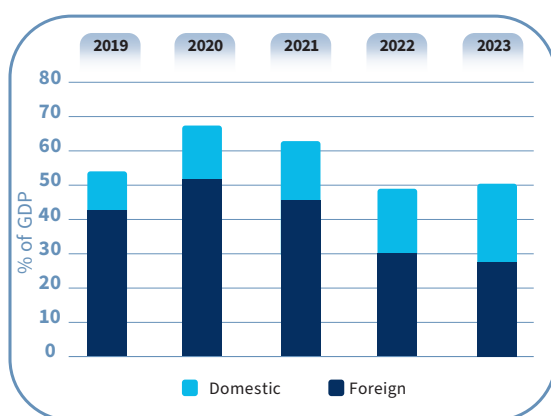
By the end of 2023, government debt rose to 50.5% of GDP from 49.2% a year earlier, reflecting a significant increase in local currency borrowings⁴ and the depreciation of the Armenian dram against the US dollar towards the end of the year (Figure 12). Meanwhile, the share of foreign currency denominated debt continued to decline from 64% to 56% of gross government debt, which is broadly in line with the Government’s strategy for managing its debt in terms of changing its composition in favour of domestic borrowings.

Figure 11. Fiscal impulse



Source: authors’ estimates

Figure 12. Government debt



Source: authors’ estimates

⁴ In accordance with Resolution of the RA Government No. 2326 dated 28 December 2003, Government Treasury Bonds worth AMD 206.4 billion were issued in exchange for the assignment of monetary claims (property rights) of a number of financial organisations.

EXTERNAL SECTOR

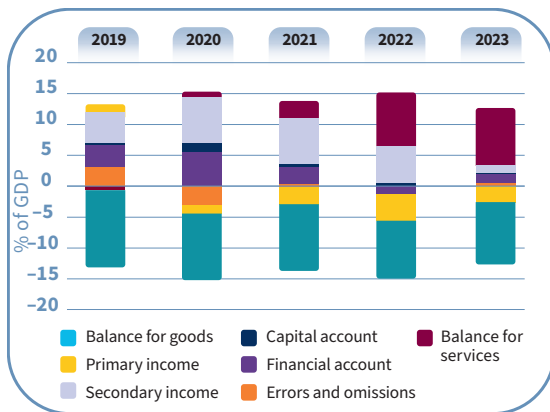
In 2023, the CA balance showed a deficit of 2.1% of GDP, compared with a surplus of 0.8% of GDP in the previous year, due to a significant decline in remittances (Figure 9).

The balance⁵ for goods also deteriorated reaching a level of (-10.1%) of GDP, compared to (-9.5%) of GDP in the previous year. The value of exports of goods increased from 29.3% to 35.2% of GDP, which was facilitated by the growth of external demand in the Russian and Arab markets. The largest contributors to export growth (up by 48.8%) were precious metals, against the background of rising world gold prices (Figure 13), and machinery and equipment. The value of imports of goods rose from 38.8% to 45.2% of GDP, reflecting growing consumer and investment demand. The largest contribution to the increase in imports (by 44.5%) was made by precious stones and metals, means of land, air and water transport, machinery and equipment. The surplus recorded for services increased to 9.4% of GDP from 8.8% of GDP a year earlier, on the back of a 39.1% increase in inbound tourism.

The primary income deficit decreased to (-2.7%) of GDP in 2023 from (-4.3%) of GDP in the previous year. The secondary income surplus fell to 1.2% of GDP from 5.9% of GDP a year earlier, reflecting a significant decline in remittances and the depreciation of the Russian ruble against the US dollar.

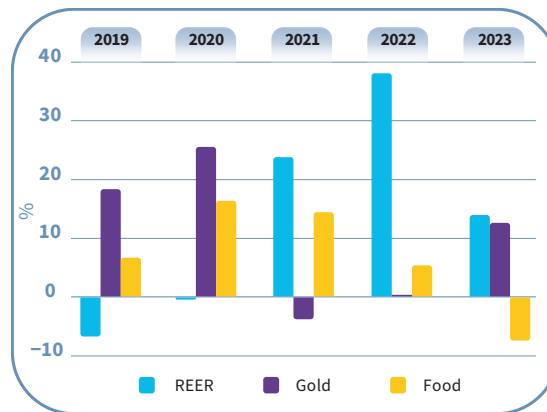
⁵ There was a significant change in the composition of trade flows, with exports to the UAE increasing by a factor of 4.2 and to Russia by 38.8% and imports by 24.6% and 47.2%, respectively. As a result, the shares of the UAE and the Russian Federation in Armenia’s trade for the period were 11.1% and 35.3%, respectively. Armenia’s main trading partners also include the EU countries (12.9%) and China (10.3%).

Figure 13. Balance of payments



Source: CBA

Figure 14. Dynamics of external price variables (y-o-y)



Source: CBA, World Bank

Note: (+) means REER appreciation

Under the financial account of the balance of payments, net borrowing was 1.6% of GDP, compared with net lending of 1.3% of GDP a year earlier. The main source of inflows was foreign direct investment, which amounted to 1.6% of GDP. The total outflow of other investment was 2.7% of GDP, compared with an inflow of 5.6% of GDP in the previous year, reflecting a significant reduction in payables of deposit-taking organisations and other sectors to non-residents of 2.3% of GDP and a repayment of deposits by deposit-taking organisations of 0.7% of GDP.

Taking the above into account, gross international reserves declined by USD 0.5 billion to USD 3.6 billion (or 3.0 months of imports) in 2023⁶.

Our assessment is that the Armenian dram remained overvalued in 2023. The real effective exchange rate appreciated by 13.9% (following an appreciation of 38.1% in 2022) (Figure 14). This has implications for further erosion of the competitiveness of Armenian exports.

⁶ Authors' estimates.



MEDIUM-TERM OUTLOOK

REAL SECTOR

Under the baseline scenario, the pace of economic growth is expected to gradually slow to potential over the forecast period. In 2024, economic growth would slow slightly, but remain at a high level of 6.3%. Consumer and investment demand would remain the main drivers of growth. Consumer demand would be supported by further growth in consumer lending and wages. However, the growth rate of real wages would decelerate slightly. The growth in investment demand would be driven by further growth in public investment⁷ and residential construction. The growth of exports of goods and services would slow down against the background of the persistent overvaluation of the Armenian dram. In the medium term, the economic growth rate would be close to its potential level (about 5.5%)⁸.

**GDP WILL
GROW BY
6.3%**

⁷ The Government plans to gradually increase public investment to 6.6% of GDP in the medium term.

⁸ It corresponds to the CBA's assessment published in the "Inflation Report" on 12 March 2024.

INFLATION AND MONETARY POLICY

Monetary policy would be aimed at bringing inflation back within the targeted range (4±1.5%). According to our estimates, 12-month inflation in December 2024 would be 3.2% (y-o-y), against the background of gradual normalisation of monetary conditions (reduction of the refinancing rate and depreciation of the Armenian dram). In the medium term, inflation would remain close to its targeted values.

**INFLATION RATE
BY THE END OF
2024 WILL BE
3.2%**

FISCAL SECTOR

Budget expenditures are projected to rise from 26.8% of GDP in 2023 to 30% of GDP throughout the forecast period, as a result of increased current and capital expenditures. Current expenditures would increase significantly, mainly as a result of statistical changes related to the transfer of a loan to Nagorno-Karabakh from sources of financing (below the line) to expenditures (above the line). Social

expenditures related to the payment of pensions and social benefits to citizens of Nagorno-Karabakh would also be reflected in the current expenditures of the RA budget. However, from 2025 onwards, the share of current expenditures in GDP would be gradually reduced in line with the requirements of the budget rule, against the background of an increase in capital expenditures from 2024 onwards.

Government revenues would gradually increase throughout the forecast period.

The increase in tax revenues in 2024 would amount to around 0.75 p.p. of GDP, including due to improved tax administration and changes in tax policy. In 2025–2026, tax revenues would grow by 0.5 p.p. of GDP annually.

Given the above, the budget deficit would average 4.1% of GDP in 2024–2026, almost double the 2023 value, leading to the emergence of a potential financing gap.

EXTERNAL SECTOR

The current account deficit is expected to widen to 3% of GDP (on average) in 2024–2026, reflecting a projected deterioration in the trade balance and a slowdown in remittance inflows. Against the background of faster growth in imports than in exports on the back of rising consumer and investment demand, international reserves would stand at 2.9–3.1 months of imports throughout the forecast period.

RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM OUTLOOK

The main risks that could have a negative impact on further GDP growth are escalating geopolitical tensions, potential capital outflows, and lower consumption by Russian citizens — according to our estimates, the positive effect of Russian capital inflows and consumption by Russian citizens on Armenia’s economic growth amounted to about 4.0 p.p., — as well as the Government’s failure to implement planned capital expenditures and their low efficiency.

There is also a high risk of overheating in the real estate market, mainly related to Government measures to support residential construction and mortgage lending through income tax refunds. According to our estimates, current prices could be 30–35% above their fundamental levels, which is also supported by the CBA’s estimates⁹.

The main pro-inflationary risks include more rapid depreciation of the local currency against the background of its current overvaluation.

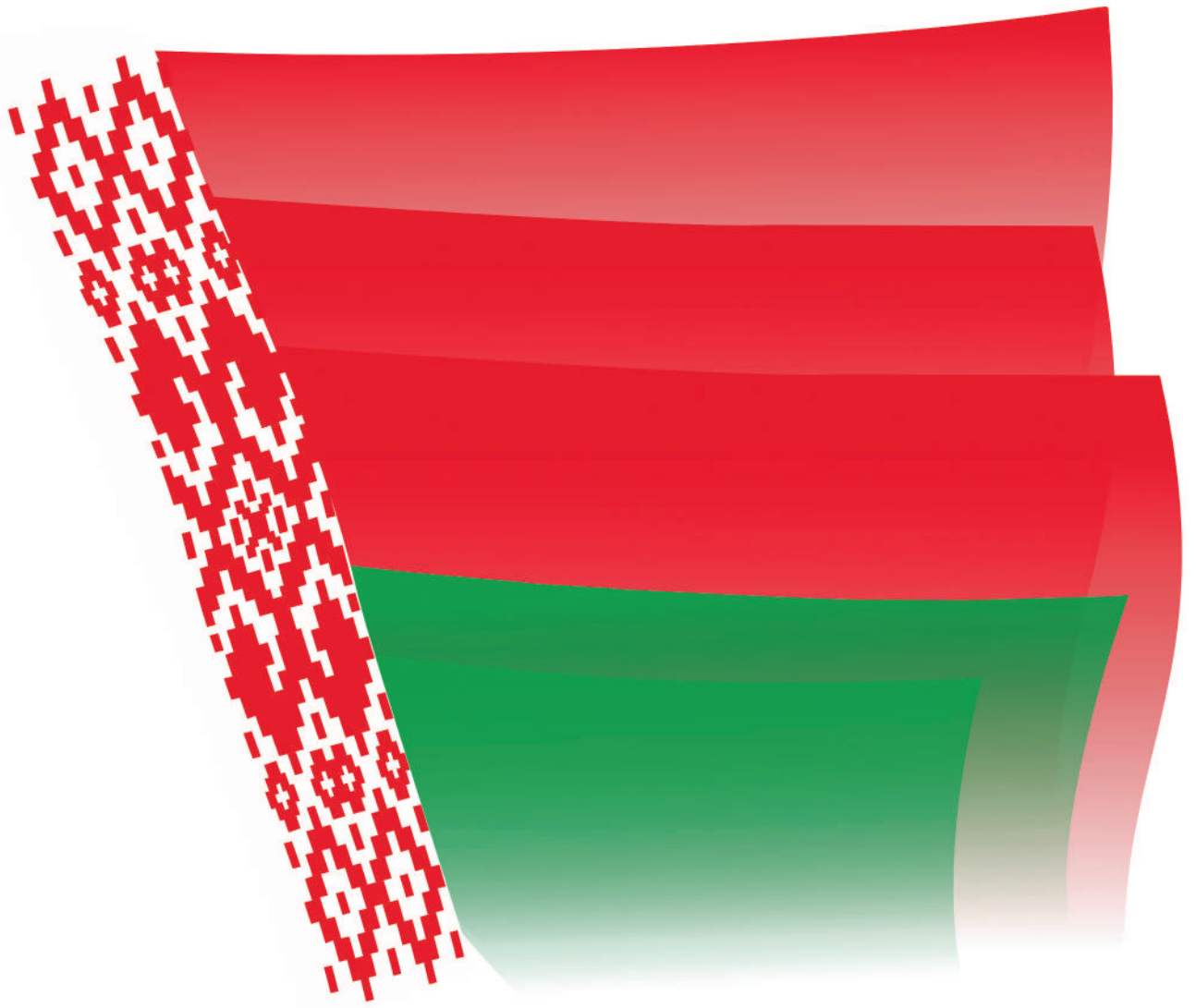
⁹ Central Bank of Armenia. Financial stability. Key Indicators (Q4 2023). Available at: https://www.cba.am/Storage/AM/downloads/finstability/CCyB_presentation_2023Q4.pdf

TABLE 1. OUTLOOK OF KEY MACROECONOMIC INDICATORS

	2022 Actual	2023 Actual	2024 Estimates	2025 Forecast	2026 Forecast
National accounts and prices (in %)					
Nominal GDP					
in AMD billions	8 501	9503	10675	11875	13060
in USD billions	19.5	24.2	26.4	28.5	30.4
Real GDP growth	12.6	8.7	6.3	5.5	5.5
CPI (December, y-o-y)	8.3	-0.6	3.2	4.0	4.0
Money and credit (eop)					
Broad money, percentage change	16.1	17.4	15.5	12.8	11.2
Policy interest rate	10.75	9.25	7.5	7.5	7.5
Public finance (in % of GDP)					
Revenues and grants	24.3	24.8	25.2	25.6	26.2
tax revenues	22.7	23.4	24.2	24.7	25.2
Budget expenditures	26.4	26.8	30.0	29.7	29.7
Current expenditures	21.9	21.8	23.5	23.2	23.1
Capital expenditures	4.5	5.0	6.5	6.5	6.6
Budget balance ("-" deficit / "+" surplus)	-2.1	-2.0	-4.8	-4.1	-3.5
External sector (in % of GDP)					
Current account	0.8	-2.1	-2.5	-3.1	-3.5
Foreign direct investment (- inflow; + outflow)	-5.1	-1.8	-2.4	-2.9	-3.3
Gross reserves, in months of imports of goods and services	4.8	3.0	2.9	3.0	3.1

Source: national agencies and authors' estimates





In 2023, Belarus's economy was recovering from the adverse shock of the previous year. The key growth factor was a recovery in domestic demand supported by a marked increase in real wages and an acceleration in consumer credit. Inflation, which was generally decelerating until the end of 2023, accelerated in the second half of the year under the influence of high price growth rates in the Russian Federation and stronger domestic demand. Meanwhile, price controls continued to put downward pressure on domestic prices.

Growth in domestic demand and foreign trade, as well as increases in some tax

rates, contributed to a significant improvement in fiscal parameters and to the transition of the budget balance to a surplus. We estimate that government debt declined by almost 1.4% of GDP in 2023.

The recovery in domestic demand, which led to a rapid increase in imports, as well as a faster decline in export prices relative to import prices, against the background of a significant depreciation of the Russian ruble against the US dollar, led to a sharp reduction in the trade surplus, with the CA balance turning negative.



REAL SECTOR AND LABOUR MARKET

In 2023, Belarus's economy recovered from the adverse shock of 2022. Real GDP growth was 3.9% in 2023 compared to the same period of the previous year (against a decline of 4.7% a year earlier). We estimate that the negative output gap had closed by mid-2023, with a significant slowdown in economic activity emerging in the second half of the year. Thus, with an average quarterly growth rate of seasonally adjusted real GDP¹ of around 1.5% during the year, this indicator was close to zero in the fourth quarter.

GDP GREW BY 3.9%

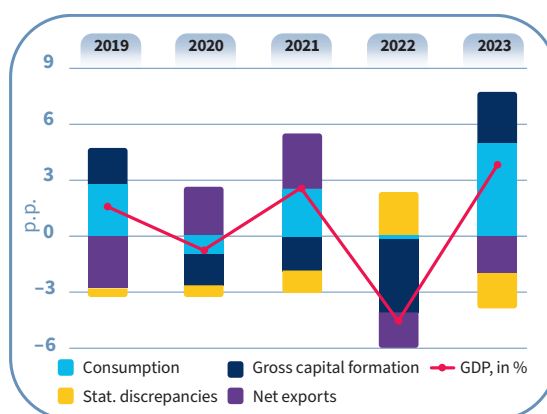
The main contribution to real GDP growth came from stronger domestic demand (Figure 1). Retail sales rose by 8.5% in 2023, against a drop of 3.7% in the previous year, accompanied by a rapid recovery in demand for non-food products (up by 12%, against a fall of 7% in the previous year). Consumption was supported by a 6.3% increase in the real disposable income of households (against a 3.6% decline in the previous year) and a 39.6% increase in consumer credit (against a 5.2% decline in the previous year).

Despite an upturn in investment activity, the growth rate of capital investment in 2023 did not make up for the decline in investment in the previous year. The 14.8% growth in investments in 2023 (compared to a 19.1% decline in the previous year) was mainly due to a signif-

icant increase in the purchase of machinery, equipment and vehicles (32.0%), while investments in construction increased by 8.1%. Investment financing grew at the fastest pace due to concessional loans from banks (by 46.7%), funds from the republican and local budgets (9.3% and 41.8%, respectively), as well as own funds of enterprises (16.5%).

The largest contribution to GDP growth came from industry, while value added in transport and IT continued to decline. Industrial production grew by 7.7% (contributing 2.2 p.p. to real GDP growth), accompanied by a slight decline in inventories (to 65.8% of the average monthly output from 69.4% a year earlier). The resumption of exports and the recovery of domestic consumption contributed to growth in wholesale and retail trade of 12.7% (+1.2 p.p. of GDP). There was also a recovery in construction, where value added grew by 11.1% (+0.5 p.p. of GDP). Negative trends continued in the IT sector (a decline by -14.2%) and in transport (-1.8%), against the background of a redirection of trade flows and more active use of foreign carriers.

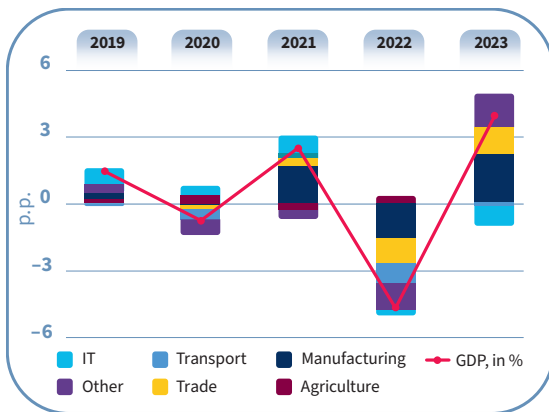
Figure 1. Decomposition of annual GDP growth by expenditure components



Source: Belstat

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

Figure 2. Decomposition of annual GDP growth by production components



Source: Belstat

Despite economic growth, the financial performance of organisations was deteriorating. Profits on sales (-7.8%) decreased as a result of a faster increase in production costs (14.7%), including a rise in nominal wages (11.0%), compared to sales (12.0%). One of the factors limiting sales revenue growth could be price controls. Despite the fact that the share of loss-making organisations decreased to 10.7% in 2023 from 11.3% in the previous year, the amount of net loss per organisation increased by 76% to BYN 7.7 million.

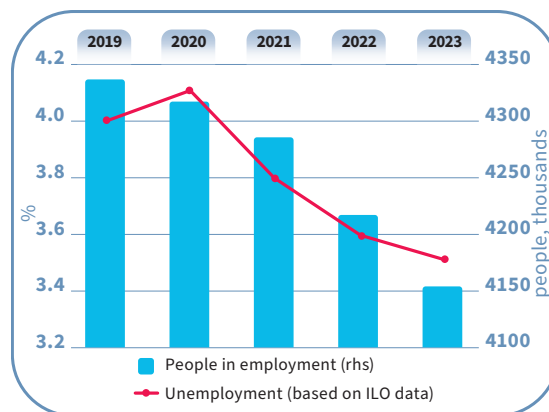
The labour market situation was marked by a continued low unemployment rate and a decline in the number of persons in employment. The unemployment rate based on ILO criteria was 3.5% in Q4 2023 (compared with 3.6% a year earlier). At the same time, the average annual number of persons in employment decreased by 1.5% in 2023, compared with a decline of 1.6% in the previous year (Figure 3). One of the reasons for the decline in employment with a relatively low unemployment rate is the effect of demographic factors associated with the shrinking working-age population in the context of ageing and a small number of young skilled workers entering the labour force due to low fertility.

UNEMPLOYMENT RATE BY THE END OF 2023

3.5%

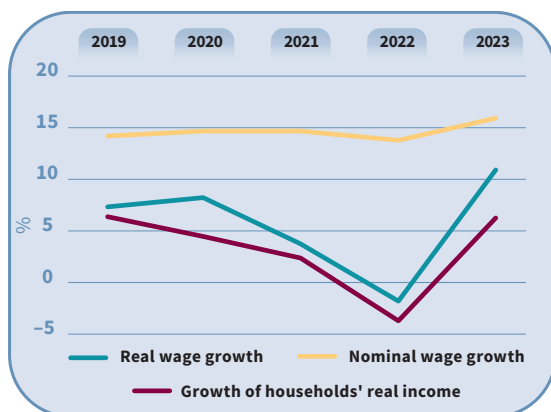
A decline in labour supply and the dynamics of wage growth, including those associated with rapid fiscal sector wage growth, led to an increase in the average wage in the economy. Real wages rose by 11% in 2023 (compared with a decline of 1.8% in the previous year) and the wage bill increased by 8.5% in real terms (Figure 4), well above the growth rate of labour productivity (5.5%). The highest wage growth rates were recorded in construction (18.9%) and public administration (16.9%).

Figure 3. Dynamics of employment and unemployment



Source: Belstat

Figure 4. Household income



Source: Belstat

INFLATION AND MONETARY TRENDS

Inflation decelerated in 2023 under the influence of weakening external inflationary pressures, appreciation of the Belarusian ruble against the Russian ruble, and lower inflation expectations in the context of price controls². In 2023, consumer prices increased by 5.8% in annual terms compared to 12.8% as at end-2022 and the NBRB's targeted range of 7–8% (Figure 5). During that period, the core inflation decelerated from 14.0% to 3.8%. In terms of consumer market segments, the main contribution to inflation in 2023 was made by an increase in prices for food products (6.9%, a contribution of 3.0 p.p.) and services (8.1%, a contribution of 1.9 p.p.). Despite a noticeable increase in demand for non-food products, the contribution of rising prices for non-food products to headline inflation was moderate, amounting to 0.9 p.p., also due to the effect of price controls. The slowdown in annual inflation contributed to a slight decrease in inflation expectations³ to 11.5% in December 2023 from 12.6% a year earlier.

² Resolution of the Council of Ministers of the Republic of Belarus No. 713 "On the Price Regulation System" dated 19 October 2022.

³ Expected price changes in the coming 12 months according to a household survey commissioned by the NBRB.

As the disinflationary effects of domestic demand and the exchange rate faded, a marked acceleration of inflation was observed from the second half of 2023 onwards. In particular, we estimate that the annualised inflation rate⁴ in Q4 2023 was around 9%. At the same time, in Q2 and Q3, it was about 3 and 6%, respectively. The acceleration of inflation in Belarus at the end of the year was driven by an increase in the rate of price growth in the Russian Federation, as well as the dynamics of domestic demand in the context of the closing negative output gap and its transition to a positive value⁵.

The NBRB's monetary policy remained expansionary in 2023, with gradual tightening towards the end of the year in the context of the closing negative output gap and increasing inflationary pressures. An important contributor to the formation of soft monetary conditions under the monetary targeting regime was the maintenance of structural excess current liquidity in the banking system in the absence of operations by the NBRB to absorb it. As a result, the ruble base money increased by BYN 3.7 billion in 2023, or 24.1%. In such conditions, the interbank market rate remained within the range from 1 to 3% per annum (Figure 6). The NBRB's decisions to reduce the refinancing rate (from 12% at the beginning of the year to 9.5% per annum at the end of June 2023) and the prudential EVSR ratio⁶ created additional incentives to reduce interest rates on new ruble loans in the first half of the year from

⁴ The annualised inflation rate is the seasonally adjusted rate of price growth for a quarter, converted to an annual value by raising it to the 4th power. This indicator gives a sense of what the annual inflation could be if the quarterly rate of price growth in the economy persists throughout the year.

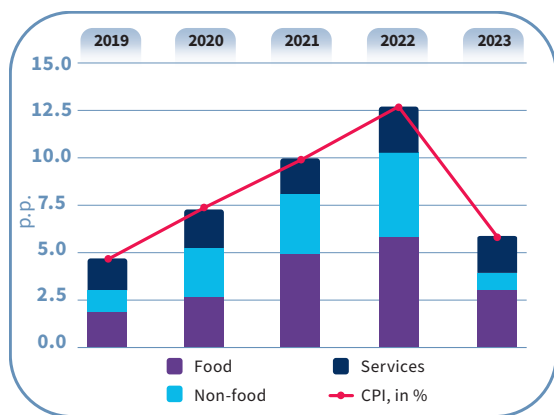
⁵ According to the NBRB's estimates.

⁶ Estimated value of standard risk (EVSR). If banks set their interest rates above the threshold specified by the NBRB, the regulator will interpret it as the banks' transition to a risky business model and will establish higher capital adequacy and reserve requirements.

10.3% at the end of 2022 to 8.5% per annum in June 2023. However, from the second half of 2023, as inflation accelerated and excess liquidity diminished, interest rates began to rise. The interest rate on new ruble term deposits increased from 2.9% per annum in June to 5.3% per annum in December 2023, while the interest rate on new ruble loans increased to 9.3% per annum. In addition, in December, the NBRB decided to resume liquidity absorption operations from 2024 and to increase reserve requirements for funds raised in foreign currency.

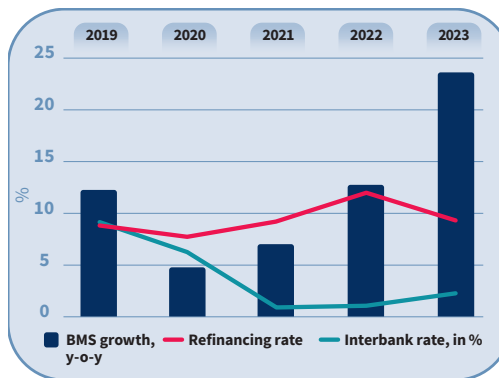
Soft monetary conditions were reflected in accelerating growth of monetary aggregates in 2023. Broad money supply growth amounted to 23.6% (against 12.7% a year earlier) (Figure 6). At the same time, the ruble money supply grew at the fastest pace, by 34.7% (25.0% a year earlier). The foreign exchange component declined by 3.6%, bringing the broad money supply dollarisation ratio down to 44.5% from 49.1% at the beginning of the year.

Figure 5. Decomposition of inflation (y-o-y, eop)



Source: Belstat

Figure 6. Dynamics of monetary indicators (y-o-y, eop)



Source: Belstat, NBRB

Lending accelerated markedly in 2023, mainly due to the expansion of local currency lending. Claims of banks and the Development Bank increased by 16.0% in annual terms at end-2023, compared with an increase of 4.4% at end-2022. In 2023, claims of banks (excluding the Development Bank) on the economy increased by 19.1% (against 2.4% in 2022) (Figure 7). At the same time, banks' loan portfolio grew by 32.2% in Belarusian rubles and declined by 21.1% in foreign currency. The dollarisation of claims of banks and the Development Bank on the economy fell further to 29.2% against 37.3% at the beginning of the year. The main drivers of the growth of banks' ruble loan portfolios were lending to both state-owned (+31.7%) and private enterprises (+49.6%), as well as expanded consumer lending (+39.6%). Loans to private individuals to finance real estate⁷ grew at a moderate pace (+13.2%). Despite the strong growth in the retail portfolio (Figure 8), the debt service and repayment burden for households actually declined slightly to 9.2%⁸ of their in-

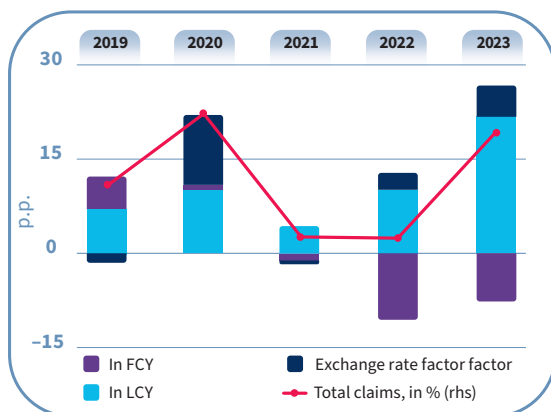
⁷ Residential construction (reconstruction) and purchase, including loans with subsidies covering part of interest and principal payments, which were received under Decree of the President No. 240 "On State Support for Citizens in the Construction (Reconstruction) of Residential Premises".

⁸ According to the NBRB as at 1 October 2023.

come, down from 9.4% at the start of 2023 and 9.9% at the start of 2022.

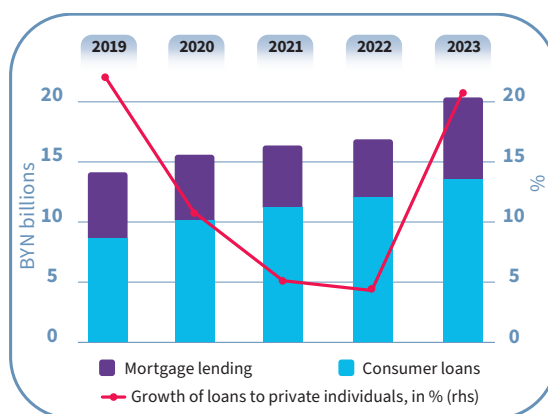
In 2023, there was a marked improvement in the financial performance of banks. Banks' profits rose by 40.1% in 2023 compared to the same period of the previous year, boosted by an increase in the net interest margin to 4.41% from 4.09% a year earlier and income from the release of provisions made to cover potential losses. The growth in banks' profits led to an improvement in their return on assets and regulatory capital (from 2.0% and 13.2% at the beginning of the year to 2.5% and 15.8%, respectively). The regulatory capital adequacy was 19.9% in 2023 (against 21% at the beginning of the year) with a threshold value of at least 10%. The share of non-performing loans (NPLs) was 5% at end-2023 compared to 4.9% at the beginning of the year (Figure 9). It should also be noted that there was growth of NPLs in the segment of legal entities to 8.3% against 7.2% at the beginning of the year. In terms of liquidity risks, the situation in the banking sector has deteriorated somewhat but remains generally acceptable. The LCR and NSFR⁹ decreased in 2023 from 180.6 to 157.8% and 137.6 to 132.6%, respectively.

Figure 7. Decomposition of annual increase in banks' claims on the economy



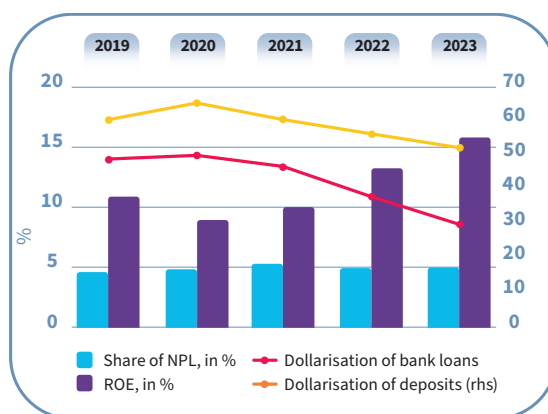
Source: NBRB

Figure 8. Loans to private individuals (eop)



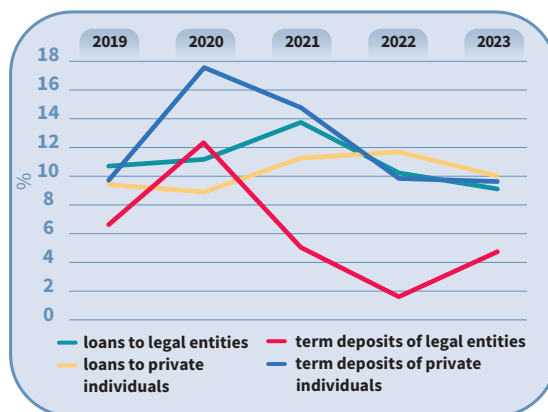
Source: NBRB

Figure 9. Banking sector indicators



Source: NBRB

Figure 10. Interest rates



Source: NBRB

⁹ The LCR is the liquidity coverage ratio; the NSFR is the net stable funding ratio. The requirement established by the NBRB for these ratios is at least 100%.

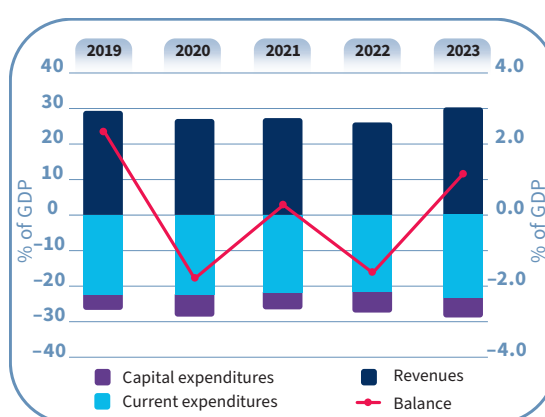
FISCAL SECTOR AND GOVERNMENT DEBT

Rapid recovery growth of the economy, as well as increases in some tax rates, led to a significant increase in revenues, which, combined with a moderate increase in expenditures, contributed to an improvement in the fiscal position. According to preliminary data, the consolidated budget for 2023 was executed with a surplus of 1.1% of GDP against a deficit of 1.9% of GDP a year earlier (Figure 11). The primary balance also moved to a surplus (2.8% of GDP against (-0.9%) of GDP). Consolidated budget revenues increased to 30.1% of GDP, of which tax revenues increased to 24.8% of GDP (+2.3 p.p.), and non-tax revenues rose to 5.3% of GDP (+2.0 p.p.), mainly due to an increase in transfers from the Russian Federation to compensate for the reverse excise tax. The largest contribution to the increase in taxes came from stronger foreign trade (an increase in VAT revenues and revenues from foreign economic activities), as well as an increase in household incomes and a raise of profit and personal income tax rates for certain categories. Expenditure, however, did not increase as much – to 28.9% of GDP (+1.2 p.p.), mainly due to an increase in interest payments on debt (+0.6 p.p.) and in the salaries of public sector employees (+0.5 p.p.), while capital expenditures declined by 0.3 p.p. against the background of lower expenditures to replenish the authorised funds of state-owned enterprises.

CONSOLIDATED GOVERNMENT BUDGET PROFICIT
1.1% OF GDP

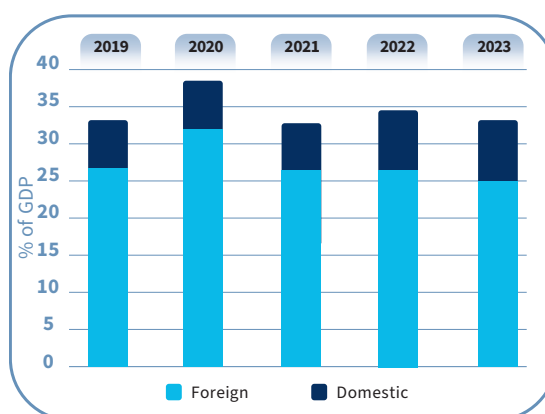
According to our estimates, the level of government debt in the Republic of Belarus declined in 2023 as a result of the primary budget surplus and limited refinancing options. At the end of 2023, the direct Government debt¹⁰ amounted to 31.7% of GDP (Figure 12), down by 1.4 p.p. since the end of 2022 due to a marked decrease in external debt by 1.5 p.p., among other things due to the repayment of Eurobonds in the equivalent of USD 800 million¹¹.

Figure 11. Government budget



Source: MoF RB

Figure 12. Government debt



Source: MoF RB

Note: from 2022 onward – authors' estimates

¹⁰ Net of the guaranteed debt and the debt of local budgets.

¹¹ The payment was made by the MoF RB in Belarusian rubles through their placement on a dedicated account with ASB Belarusbank, with a number of requirements set for potential recipients of the income. As a result, a significant number of bond holders are unable to receive the income due.

EXTERNAL SECTOR

The country's external position in 2023 was mainly influenced by a marked decline in the trade surplus and a slowdown in capital outflows. In 2023, the CA had a deficit in the amount of USD 1.0 billion (-1.4% of GDP) against a surplus of USD 2.5 billion (3.4% of GDP) a year earlier. The shift of the CA balance from surplus to deficit was driven by a significant decline in the trade balance to USD 0.5 billion (0.7% of GDP) from USD 4.6 billion (6.2% of GDP) a year earlier, which was insufficient to cover the primary income deficit as in 2022. The value of exports increased by 2.1% in 2023 compared to the previous year, while imports grew by 12.1% (Figure 14). We estimate that the decrease in the foreign trade surplus was driven by faster growth rates of volumes of imports compared to exports against the background of growing domestic demand. Another factor that had a negative impact on the trade balance was a faster decline in export prices than in import prices, against the background of the depreciation of the Russian ruble exchange rate against the US dollar. The share of exports to the CIS countries¹² in 2023 remained at about 68% of total exports.

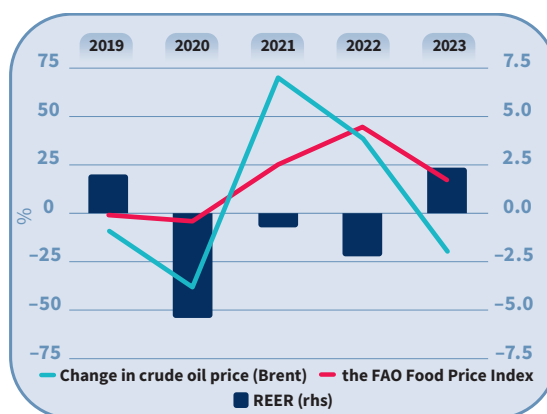
**CA DEFICIT
\$1 BILLION**

The financial account of the balance of payments recorded net lending in the amount of USD 0.2 billion, or 0.3% of GDP (against USD 3.4 billion, or 4.6% of GDP a year earlier). The traditional source of inflows was foreign direct investment, which amounted to USD 2.0 billion or 2.8% of GDP in 2023 (USD 1.4 billion or 1.9% of

¹² Primarily formed through trade with the Russian Federation.

GDP a year earlier). The total outflow of portfolio and other investment in 2023 decreased to USD 2.2 billion (3.1% of GDP) from USD 4.9 billion (6.6% of GDP) a year earlier. These dynamics were largely driven by a lack of growth in trade credits and advance payments made by Belarusian enterprises to non-residents (after an increase of USD 0.9 billion or 1.3% of GDP a year earlier), as well as an increase in accounts payable of Belarusian enterprises to non-residents of USD 0.6 billion (0.8% of GDP) after a decrease of USD 0.6 billion (0.8% of GDP) a year earlier. At the same time, significant capital outflows were recorded in the banking sector, caused by compression of domestic demand for foreign currency loans. In 2023, banks' net foreign assets increased by USD 2.4 billion or 3.4% of GDP (compared to USD 2.0 billion or 2.8% of GDP a year earlier)¹³.

Figure 13. Dynamics of factors of terms of trade (y-o-y)

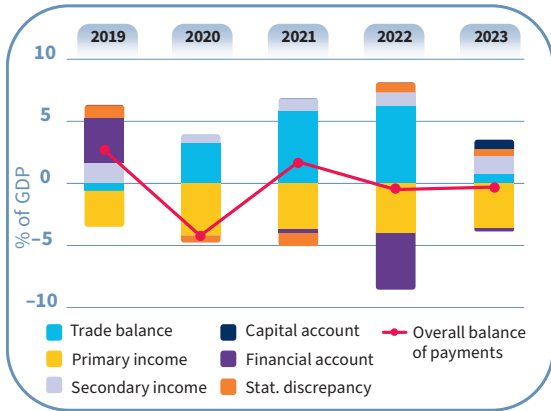


Source: FAO, Belstat, NBRB

Note: "+" — LCY appreciation, "-" — LCY depreciation.

¹³ According to the Monetary Review as of 1 January 2024, the NFA amounted to USD 1.3 billion, as of 1 January 2023 — down by USD 1.1 billion, and as of 1 January 2022 — down by USD 3.1 billion.

Figure 14. Balance of payments

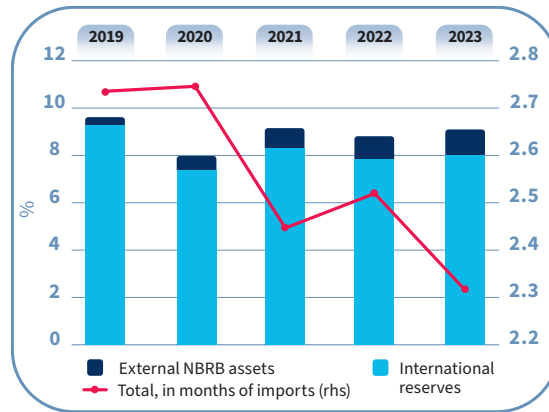


Source: NBRB, Belstat

Gross international reserves increased by USD 0.2 billion in 2023 to USD 8.1 billion (2.0 months of imports) as at 1 January 2024. Despite the pressure of debt repayment and servicing, the NBRB's purchases of foreign exchange on the domestic market, which we estimate to have amounted to about USD 0.2 billion, as well as the revaluation of assets associated, inter alia, with the rise in the global gold price, contributed to maintaining

international reserves. The value of monetary gold within international reserves increased by USD 0.4 billion. Belarus honoured its obligations to repay Eurobonds and pay coupon income in Belarusian rubles in February 2023 that alleviated the expected pressure on international reserves of around USD 0.85 billion. However, such pressure may materialise later as investors gain access to their funds.

Figure 15. Dynamics of factors of terms of trade (y-o-y)



Source: NBRB, authors' estimates



MEDIUM-TERM OUTLOOK

REAL SECTOR

Under the baseline scenario, the growth of Belarus's economy would slow down to its potential level in the medium term in the face of continued sanctions pressure on Belarus and Russia. At the same time, it is expected that the adaptation of the economy to the changed conditions would continue, including the establishment of new logistics channels and production links, as well as the implementation of certain investment projects to substitute imports from third countries to the Russian Federation. In 2024, real GDP growth is projected at 2.2% in the context of relatively rapid growth in real incomes and continued implementation of investment projects. From 2025 onwards, economic growth rates are expected to approach the potential rate, which we and the expert community estimate at around 1%, given the structural constraints of the existing economic model.

**GDP WILL
GROW BY
2.2%
IN 2024**

INFLATION AND MONETARY POLICY

Monetary policy is expected to be guided by the priority of macroeconomic stabilisation. As wages and domestic demand grow, a slight acceleration in the rate of price growth is expected. However, inflation is projected to be 6.1% by the end of 2024, close to the NBRB's target of no more than 6%. In the coming years, the authorities are expected to aim to keep inflation close to 5%. Given the strengthening pro-inflationary factors in 2024, the baseline scenario assumes actions by the NBRB aimed at a gradual transition from a soft to neutral monetary policy stance. Broad money supply growth would slow down to 14.3% in 2024 and to 9–11% in subsequent years.

FISCAL SECTOR

In 2024, fiscal policy would support the economy through a raise of salaries and wages in the public sector, with gradual consolidation assumed for 2025 and 2026. The consolidated budget balance is projected to show a deficit of 0.8% of GDP in 2024, which corresponds to a general government primary budget surplus of 1.3% of GDP. The expected slowdown in the growth of budget expenditures on salaries and wages would ensure a balanced budget in 2025 and a budget surplus of 0.4% of GDP in 2026 (a primary surplus of 1.8% of GDP).

EXTERNAL SECTOR

The expected slowdown in outflows under the financial account, with a gradual reduction of the CA deficit, would contribute to maintaining an external economic equilibrium over the forecast horizon. The CA balance is projected to be in deficit of 0.8% of GDP in 2024, followed by a narrowing of the deficit to 0.4% of GDP in 2025, then turning into a surplus of 0.3% of GDP in 2026. A slowdown in domestic demand growth and some improvement in the terms of trade, against the background of the expected stabilisation of the exchange rate of the Russian ruble, would contribute to a return to a CA surplus. The slowdown in the outflow of funds under the financial account would be facilitated by the already realised repayment by banks and enterprises of previously accumulated debt in dollars and euros, as well as an expansion of financing in other currencies. Under these conditions, although gross reserves would decline under the pressure of government debt repayment and service payments, their level is not projected to fall below USD 6.5 billion (about 1.6 months of imports). At the same time, the Monetary Policy Guidelines for 2024 set international reserves lower limit at USD 6.0 billion.

RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM OUTLOOK

Despite the fairly stable dynamics of key macroeconomic indicators under the baseline scenario, Belarus's economy remains extremely vulnerable to both internal and external shocks. The most substantial risks to the medium-term forecast are associated with potential external shocks, including those caused by the mounting sanctions pressure and the deterioration in the economic situation in Russia. The list of companies and organisations targeted by sanctions in Belarus may be expanded and the impact of the restrictions imposed could be more adverse. In particular, difficulties may increase in terms of exports of goods and imports of components for production, as well as in terms of making payments, due to excessive compliance controls exercised by foreign banks, and limited access to sources of external debt refinancing available to the banking sector and other sectors. In this context, Belarus's own capacity to withstand the impact of additional shocks and to smooth their effects on macroeconomic and financial stability is severely limited, in particular against the background of the expected convergence of international reserves towards the lower limit.

TABLE 1. FORECAST OF KEY MACROECONOMIC INDICATORS

	2022 Actual	2023 Actual	2024 Estimates	2025 Forecast	2026 Forecast
National accounts and prices (in %)					
Nominal GDP					
in BYN billions	193.7	216.1	247.0	265.0	284.8
in USD billions	75.1	71.8	75.3	77.5,	77.7
Real GDP growth	-4.7	3.9	2.2	0.9	1.1
CPI (December, y-o-y)	12.8	5.8	6.1	5.0	5.0
Real wage growth	-1.2	11.0	6.0	2.0	1.6
Money and credit (eop)					
Broad money, percentage change	12.7	23.6	14.3	10.6	9.7
Credit to the economy, percentage change	2.4	19.1	10.4	9.2	7.4
Policy interest rate	12	9.5	9.5	8.0	8.0
Public finance (in % of GDP)					
Budget revenues	25.5	30.1	28.3	28.4	28.4
tax revenues	22.2	24.8	24.3	24.4	24.5
Budget expenditures	27.1	28.9	29.0	28.4	28.0
Budget balance ("-" deficit / "+" surplus)	-1.6	1.1	-0.8	0.0	0.4
Primary budget balance ¹⁴	-0.2	3.4	1.3	1.6	1.8
External sector (in % of GDP)					
Current account	3.4	-1.4	-0.8	-0.4	0.3
Foreign direct investment (- inflow; + outflow)	-1.9	-2.8	-2.1	-2.1	-2.2
Gross reserves, in months of imports of goods and services of the relevant year	2.3	2.0	1.9	1.7	1.6

Source: national agencies and authors' estimates

¹⁴ Consolidated budget.





The economy of the Kyrgyz Republic continued to grow at a fast pace in 2023, with real GDP rising by 6.2%, mainly due to high consumption and gold exports. The highest growth was observed in the services sector, including wholesale and retail trade, which grew by 15.1% as a result of a rapid expansion of domestic consumption and demand from Russia. Increased activity in the services sector contributed to employment growth.

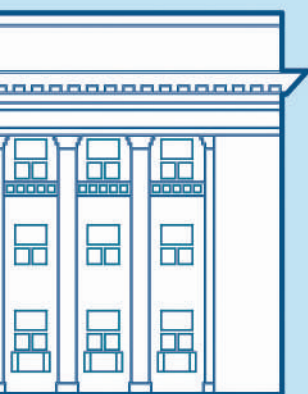
A slowdown in the food price growth played a key role in reducing inflation from 14.7% at end-2022 to 7.3% at end-2023. Monetary policy aimed to contain the monetary drivers of inflation by maintaining the discount rate at 13% and by conducting operations to absorb excess liquidity from the banking system.

The 2023 government budget was executed with a surplus of 1% of GDP on the back of increased revenues from VAT, excise duties, and import taxes.

Despite the recovery in gold exports, the CA deficit widened further in 2023 due to an increase in imports and under-recording of "shadow" exports.

In the medium term, Kyrgyzstan's economy is set to decelerate amid expected declines in gold production, inventories, and public investment, as well as a gradual slowdown in consumption. Economic growth would reach 4.8% in 2024 and gradually slow down to 4.0% in 2026.

A slowdown in consumer activity and global food prices would bring annual inflation down to 6.7% in 2024 and 5.5% in 2026.



REAL SECTOR AND LABOUR MARKET

The growth of the Kyrgyz economy slowed down from 9.0% in 2022 to 6.2% in 2023. The main contributors to growth were exports (mainly due to the resumption of gold exports) and consumer demand (Figure 1). Household consumption was supported by wage growth (+23.6% y-o-y) and consumer credit (+68.8% y-o-y).

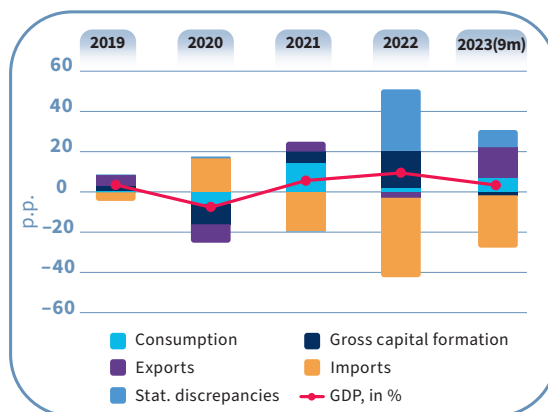
GDP GREW BY 6.2%

Capital investment growth amounted to 18.8% in 2023 (4.0% in the previous year), supported by both the government and the private sector. Financing of investment from domestic sources increased by 37.0%, while financing from external sources decreased by 25.1%.

In terms of sectors, the largest contributors to real GDP growth in 2023 were the services sector (+3.2 p.p.) and construction (+0.7 p.p.) (Figure 2). The value added of the services sector increased by 6.2%, mainly due to wholesale and retail trade (contributing +2.3 p.p. to GDP), which grew by 15.1% (11.1% in the previous year) due to the rapid growth of domestic consumption and demand from Russia. Wholesale trade in cars increased by 48.2% (compared to 47.7% in 2022), which is explained by strong demand for this category of goods from Russia (exports to Russia increased by a factor of 2.7 in 2023). Construction, supported among other things under the housing programme "My House 2021–2026", showed an increase of 10.3% in 2023 (+0.7 p.p. of GDP). At the same time, a 12.8% fall in gold production had a dampening effect on industrial growth:

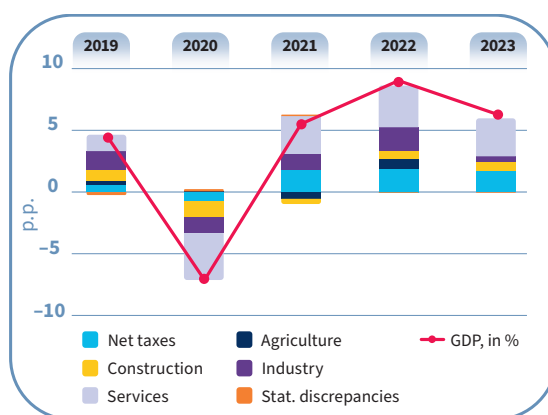
the growth rate of this sector dropped to 2.7% (+0.5 p.p. of GDP) from 11.9% in the previous year. The growth rate of net taxes decreased by 2.5 p.p. to 12.7% (+1.8 p.p. of GDP) in 2023, largely due to a decline in the growth rate of imports.

Figure 1. Decomposition of annual GDP growth by expenditure components



Source: NSC KR, authors' estimates

Figure 2. Decomposition of annual GDP growth by production components



Source: NSC KR

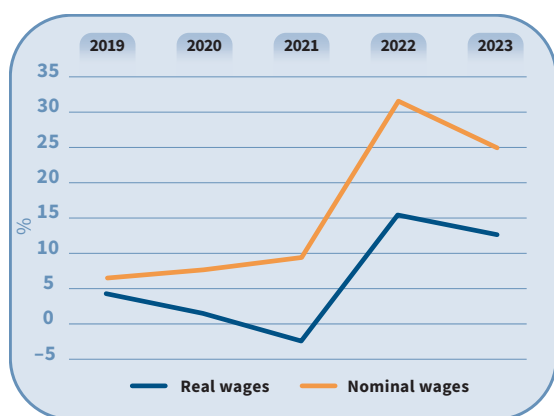
A significant increase in activity in the services sector contributed to a rise in the number of persons employed and a fall in the number of registered unemployed. In 2023, the growth of persons in employment averaged 3.3%, compared to 1.1% in the previous year. The largest increases in the number of employees were in hotels and restaurants (70.6%) and in trade (17.8%). The number of employees continued to grow strongly in manufacturing (15.8%) and finance (9.2%). Accord-

ing to the NSC KR, in 2023 the number of officially registered unemployed decreased by 9.5% to 67,600 people.

Real wages continued to grow at a faster pace in a number of sectors in 2023, while average wage growth in the economy became more subdued.

In the context of a slowdown in economic activity, the growth of average employee wages in real terms slowed down from 15.3% in 2022 to 12.8% in 2023 (Figure 3). The highest real wage growth rates were recorded in manufacturing (67.3%), agriculture (33.9%), public administration (27%), and tourism (20.8%).

Figure 3. Wage dynamics



Source: NSC KR, authors' estimates

INFLATION AND MONETARY TRENDS

A slowdown in the food price growth played a key role in reducing inflation.

In December 2023, the annual inflation rate was 7.3%, down from 14.7% in December 2022 (Figure 4). This price level was largely determined by the dynamics of imported food prices. In particular, the decline in world food prices during the year — the FAO price index for cereals fell by 16.6% — put downward pressure on food prices in Kyrgyzstan (with the share of imported cereals of about 88%). As a result, the contribution of food prices to the CPI amounted to 1.8 p.p. (7.7 p.p. a year earlier). In the context of strong domestic demand, prices

of non-food products and services pushed up the CPI throughout 2023. Their contributions to the CPI were 3.2 and 2.4 p.p., respectively.

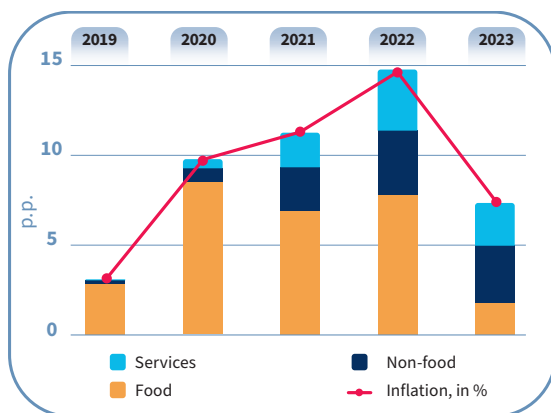
REAL WAGES GREW BY 12.8%

The NB KR's monetary policy aimed to contain the monetary drivers of inflation by maintaining the discount rate at 13% and by conducting operations to absorb excess liquidity from the banking system. In April 2023, the NB KR narrowed the interest rate band for overnight deposits, raising the lower threshold to 11.0% and maintaining the upper one at 15.0%. The dynamics of short-term money market rates followed those of the discount rate, with interest rates remaining within the interest rate band. During 2023, the banking system maintained a high level of excess liquidity. To absorb excess liquidity, the NB KR actively engaged in operations with securities on the open market. In addition, at the end of the previous year, the NB KR's net liabilities to government agencies increased by 22.2% as a result of the Government revenues exceeding expenditures. Combined with the NB KR's operations, it contributed to a significant reduction of the growth rate of base money from 44.9% in 2022 to 9.9% in 2023 (Figure 5).

Money supply growth also slowed in 2023. The growth rate of M2X supply was 15% in 2023 against 30.6% a year earlier (Figure 5).

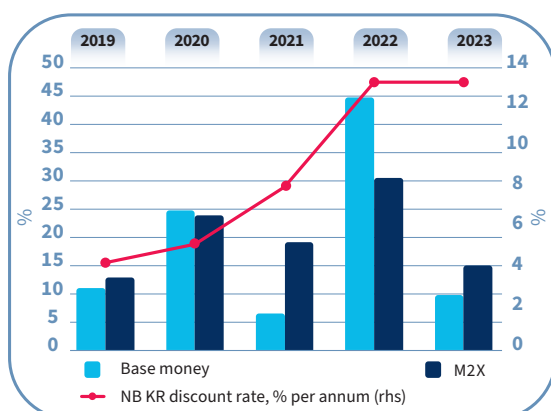
The main drivers of money supply growth were deposits in the local (+27.2%) and foreign currencies (+27.3%).

Figure 4. Decomposition of inflation (y-o-y, eop)



Source: NSC KR, authors' estimates

Figure 5. Monetary indicators (y-o-y, eop)



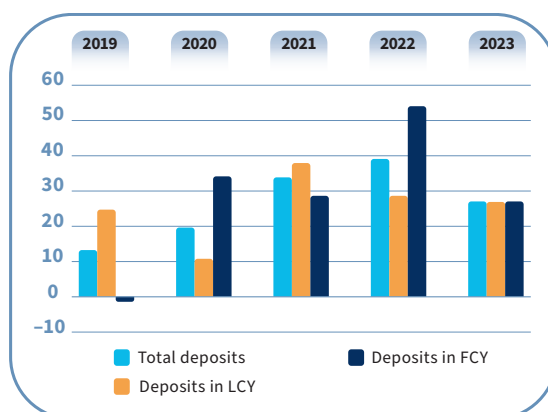
Source: NB KR

In 2023, the growth rate of deposits with commercial bank slowed to 27.3% (39.5% in 2022) (Figure 6). The main contributors to the deceleration of the deposit base growth were lower growth rates of foreign currency deposits of resident legal entities (26.0% in 2023 against 47.8% in 2022) and foreign currency deposits of non-residents (27.3% in 2023 against 4.6 times in 2022). The 27.2% increase in the volume of local currency deposits in 2023 was mainly driven by a 32.4% increase in deposits other than term deposits. Overall, the share of local currency non-term deposits increased by 2.6 p.p. to 65.3% in

2023. The level of deposit dollarisation remained unchanged in 2023 at 45.6%.

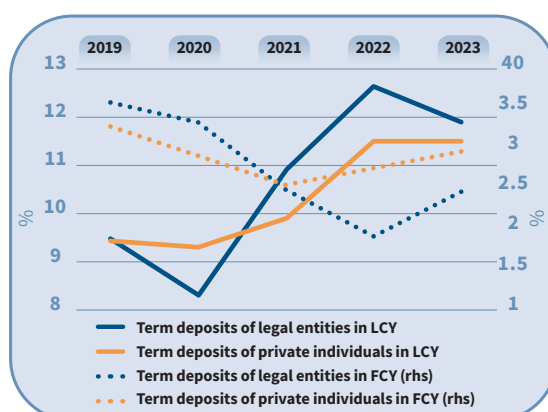
In 2023, interest rates on new local currency term deposits of private individuals remained on average at the level of the previous period (11.5%), while interest rates on new term deposits of legal entities tended to decrease from 12.6% in 2022 to 11.9% in 2023 (Figure 7). The interest rates on new term deposits of both legal entities and private individuals increased slightly in 2023.

Figure 6. Growth of deposits with commercial banks (in % y-o-y, eop)



Source: NB KR

Figure 7. Average interest rates on new term deposits



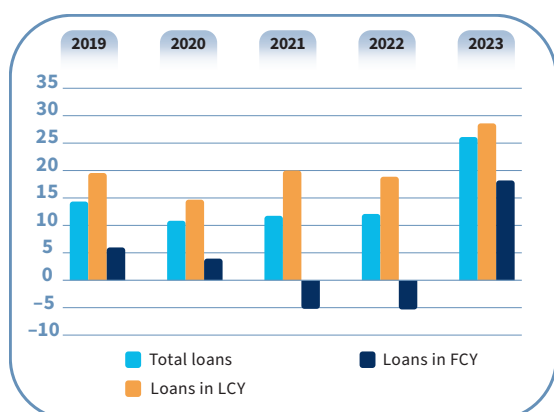
Source: NB KR

The growth of banks' loan portfolios accelerated to 26.3% in 2023, mainly driven by a 28.8% increase in local currency loans (Figure 8). The segments with the highest growth rates in loans denominated

ed in the local currency were: consumer credit (68.9%), trade (23.1%), and mortgage loans (22.8%). The volume of foreign currency loans increased by 18.3% in 2023, with the trade sector playing a major role, accounting for 54.1% of the foreign currency loan portfolio. The level of dollarisation of commercial banks' loan portfolio was 22.0% in 2023, a decrease of 1.5 p.p. compared to 2022.

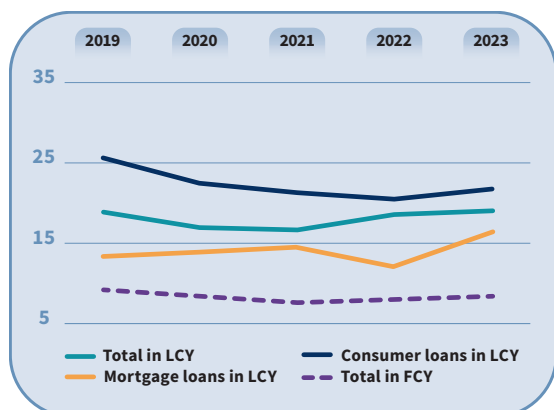
Interest rates on new loans increased in 2023 (Figure 9). The largest increase was recorded for mortgage interest rates – from 12.2% in 2022 to 16.5% in 2023. The segment with the highest interest rate for new loans was consumer credit – 21.8% on average in 2023.

Figure 8. Growth of loans of commercial banks (in % y-o-y, eop)



Source: NB KR

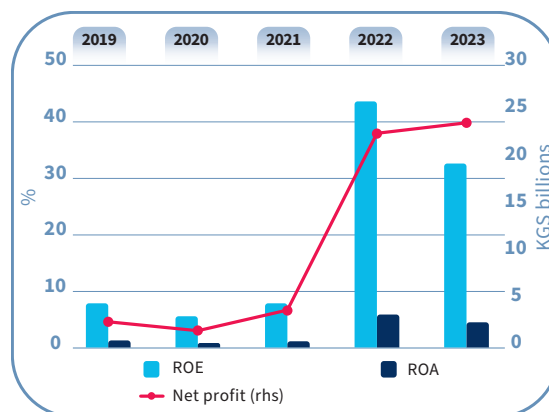
Figure 9. Average interest rates on new loans (in % per annum)



Source: NB KR

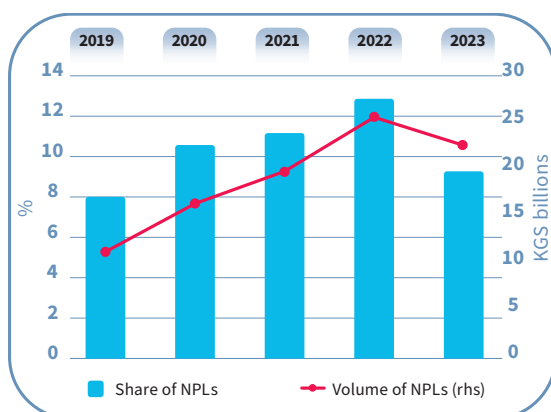
The financial performance of banks remained stable in 2023. Due to high growth rates of banks' assets and equity, the profitability of the sector declined slightly in 2023 compared to the previous period but remained at high levels – banks' return on assets (ROA) and return on equity (ROE) were 4.4% and 32.4%, respectively, as at year end. Banks' net profits increased by 4.7% in 2023 compared to the previous year, reaching KGS 24.2 billion (Figure 10). At the same time, net interest income increased by 49.2%, while net non-interest income decreased by 27.6%. The regulatory capital adequacy ratio was 24.8% at the end of 2023 (compared with 25.6% at the beginning of the year), with a threshold of at least 12%, which indicates the banking sector's reserve of stability against potential adverse shocks. The share of classified non-performing loans (NPLs) fell to 9.2% at the end of 2023 from 12.8% at the beginning of the year (in nominal terms, the volume of such loans declined by 9% over the years) (Figure 11). In terms of sectors, the largest volume of classified non-performing loans is traditionally in the trade sector.

Figure 10. Banking sector profitability indicators



Source: NB KR

Figure 11. Non-performing loans



Source: NB KR

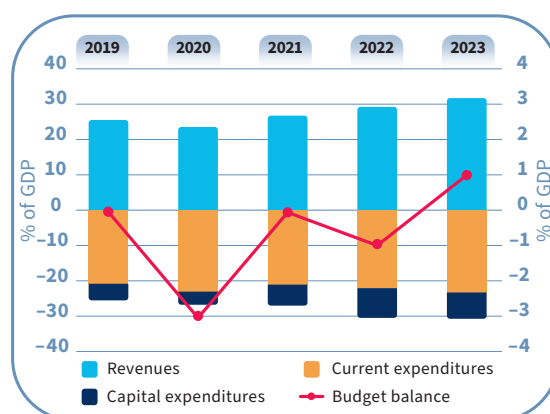
FISCAL SECTOR AND GOVERNMENT DEBT

The government budget had a surplus of 1.0% of GDP in 2023 (against a deficit of 1.0% in 2022) due to a significant increase in tax revenues and moderate capital expenditures. Government budget revenues increased by 2.4 p.p. in 2023 and amounted to 31.9% of GDP (29.4% of GDP in 2022) (Figure 12). A decline in revenues from the Kumtor mine (-1.8 p.p. of GDP) was offset by revenues from foreign trade and further effects from measures to improve tax administration. As a result, tax revenues increased by 1.5 p.p. to 24% of GDP. An additional driver of budget revenue growth was a significant increase in non-tax revenues (6.6% of GDP, up from 5.1%), due to an increase in revenues from the provision of paid services and transfers of the NB KR's profits and dividends from state-owned enterprises. Grants decreased from 1.9% in 2022 to 1.3% of GDP in 2023. Budget expenditures were 30.9% of GDP (against

30.5% of GDP in 2022) due to an increase in current expenditures (+1.4 p.p.) and a decrease in capital expenditures (-1.0 p.p.). Current expenditures (23.4% in 2023 compared to 22.0% of GDP in 2022) increased due to purchases of goods and services as well as transfers to the Social Fund and the Compulsory Health Insurance Fund.

The level of Kyrgyzstan's government debt decreased by 1.3 p.p. in 2023 to 45.5% of GDP (Figure 13). The reduction in government debt was secured by high economic growth rates and a relatively stable exchange rate of the som. The level of foreign government debt decreased from 37.6% to 33.7% of GDP, while the portfolio of domestic obligations increased from 9.2% to 11.8% of GDP. In absolute terms, domestic and external obligations increased by a combined 17%, primarily due to a surge in domestic obligations in circulation, which went up by 54% over the year (from KGS 94 billion to KGS 145 billion). Domestic borrowings focused mainly on recapitalising companies in the financial and energy sectors – the total amount of recapitalisation in 2023 was KGS 39.4 billion.

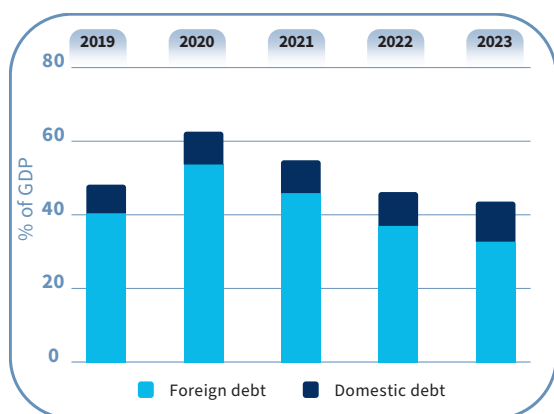
Figure 12. Government budget



Source: MoF KR

CA PROFICIT
1% OF GDP

Figure 13. Government debt



Source: MoF KR

EXTERNAL SECTOR

The CA deficit continued to widen driven by an increase in imports and under-recording of "shadow" exports. In the first 9 months of 2023, the CA deficit expanded to USD 5.4 billion (56.4% of GDP) against USD 4.2 billion (51.5% of GDP) in the corresponding period of 2022 (Figure 14). The main contributor to the CA deficit was the deficit of trade in goods, which was USD 6.2 billion, or 64.6% of GDP in January–September 2023. The low level of exports was most likely due to an underestimation of commodity deliveries to the EAEU countries (mainly Russia). This is indirectly confirmed by a significant increase in net errors and omissions to USD 4.8 billion (49.9% of GDP) in 9 months of 2023 (USD 3.2 billion or 49.9% of GDP in the same period of the previous year)¹, as well as the absence of significant pressure on reserves or the exchange rate.

Resumed gold exports supported the overall export volumes. Commodity exports increased by 50.2% to USD 2.1 billion in 9 months of 2023 compared to the same period of the previous year, while non-gold exports increased by only 6.3% to USD 1.5 billion. Exports of non-mone-

tary gold amounted to USD 619.7 million (USD 0.9 million in January–September 2022). Switzerland was the main importer of gold, with its share at 81.1%. Non-gold exports declined in the context of weaker demand from a number of countries and the appreciation of the real effective exchange rate of the local currency.

Secondary income (current transfers) decreased due to a reduction in transit payments and changes in payment forms for parallel imports to Russia (Figure 14). The balance of secondary income for 9 months of 2023 decreased by 4.5% to USD 1.6 billion (17.1% of GDP) compared to the same period of the previous year, while income payable fell by 48% to USD 419.6 million, and income receivable by 18% to USD 2.1 billion. As a result, after peaking in 2022, the volume of transfers approached the average level for 2018–2021.

Under the financial account of the balance of payments, net borrowing was recorded at USD 117 million, or 1.2% of GDP for January–September 2023 (USD 600 million, or 7.3% of GDP for the same period in 2022). According to balance of payments statistics, direct investment in the amount of USD 403 million, or 4.2% of GDP, was the main source of inflows. The main outflow was through other investment, amounting to USD 277 million, or 2.9% of GDP.

GROSS INTERNATIONAL RESERVES
\$3.2 BILLION

The nominal exchange rate of the Kyrgyz som against the US dollar depreciated by 4% in 2023. During the year, the local currency was supported by the NB KR, whose net foreign exchange sales in the domestic market amounted to USD 655.7 million (against USD 229.1 million a year earlier).

¹ We believe that some of the unrecorded flows in the financial account of the balance of payments can also be reflected under net errors and omissions.

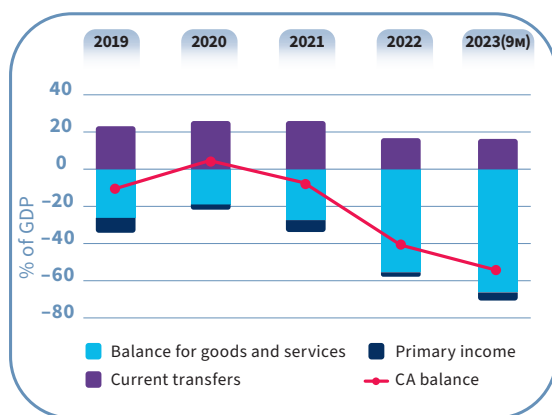
At the same time, the index of the real effective exchange rate increased by 6.1%, reflecting the deterioration in the price competitiveness of Kyrgyz exports against the background of higher inflation rates compared with trading partners.

The gross international reserves increased by 15.7% in 2023, from USD 2.8 billion to USD 3.2 billion, as a result of conversion of non-monetary gold to monetary gold

by the NB KR. Physical volumes of monetary gold increased by 5.2 tons to 21.6 tons (+31.6%) over the year. At the same time, the gross international reserves in months of imports of goods and services continued to decrease and amounted to 2.9² at the end of the year (Figure 15).

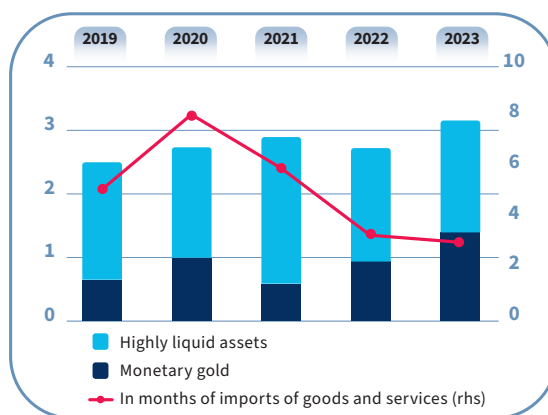
² The decrease in the reserve adequacy in 2022 and 2023 is explained by an increase in imports destined for re-export and paid directly to third country suppliers by final consumers.

Figure 14. Current account of the balance of payments



Source: NB KR, NSC KR, authors' estimates

Figure 15. Gross international reserves (in USD billions, eop)



Source: NB KR, authors' estimates

MEDIUM-TERM OUTLOOK

The baseline scenario assumes a slowdown in economic activity in Kyrgyzstan and a return to the long-term trend growth trajectory. The expected declines in gold production, inventories, and public investment would be key factors in decelerating economic activity in the medium term. As the effect of the positive externalities associated with the functioning of the Russian economy diminishes, a gradual slowdown in consumption and investment and in the growth rate of non-gold exports is also expected. As a result, the growth rate of real GDP would slow down to 4.8% in 2024, 4.6% in 2025, and 4.0% in 2026.

A small budget deficit is expected to remain in 2024–2025, while the level of revenues and expenditures as a share of GDP would decline substantially. Further implementation of measures to automate fiscal procedures and continued high import volumes would enable the level of tax revenues to be maintained, but the high base of previous years would limit the rate of revenue growth. An increase in the car recycling levy in the Russian Federation would lead to a reduction in car exports and hence in non-tax revenues. As a result, budget revenues would decrease from 31.9% in 2023 to 25.7% of GDP in 2026. The decrease in budget expenditures from 30.9% in 2023 to 25.2% of

GDP in 2026 would be mainly driven by a decrease in capital expenditures against the background of budget expenditure optimisation implemented by the Kyrgyz authorities. Given the above factors, the government budget deficit is expected to reach 0.3–0.4% of GDP in 2024–2025 and a surplus of 0.5% of GDP in 2026, against the background of a significant reduction in capital expenditures.

**GDP WILL GROW BY
4.8% IN 2024**

A slowdown in consumption and global food prices would ease inflationary pressures and lead to a slowdown in inflation.

The slowdown in inflation would also be facilitated by the discontinued impact of the fiscal impulse. As a result, consumer inflation (end-of-period) would slow down from 7.3% in 2023 to 5.5% in 2026 (with the NB KR's medium-term inflation target of 5–7%).

The NB KR is expected to lower the interest rate in response to decelerating inflation. The average annual discount rate would be 10% in 2024 and 8% in 2025–2026.

The CA deficit would decline due to an increase in gold exports and a decrease in imports. The slowdown in economic growth and active import substitution in Russia would lead to lower imports to Kyrgyzstan, which, coupled with the expected growth in gold exports, would reduce the CA deficit to 16.2% of GDP in 2026, despite a decline in remittances. In this context, the gradual conversion of the NB KR's non-monetary gold to monetary gold would result in an increase in international reserves from 2.8 months of imports in 2023 to 3.7 months in 2026, enhancing the stability of the balance of payments³.

RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM OUTLOOK

The baseline scenario has several downside risks, mainly of an external nature. The gradual adjustment of the Russian economy to the sanctions restrictions, including the expansion of import-substitution industries, the establishment of transport and logistics channels, and financing arrangements for foreign trade operations, may lead to a more pronounced slowdown in Kyrgyzstan's services sector with an adverse effect on economic growth and budget revenues. Stronger fluctuations and hikes in world food and commodity prices than assumed under the baseline scenario could have a negative impact on the dynamics of inflation and the country's energy security.

The risks associated with natural and climatic phenomena (drought, low water, severe winters), which can have a negative impact on power generation and agriculture, are also significant. Throughout the forecast period, the risk of potential accidents in the energy networks with subsequent negative impacts on the industrial and social sectors would remain due to the high level of infrastructure deterioration.

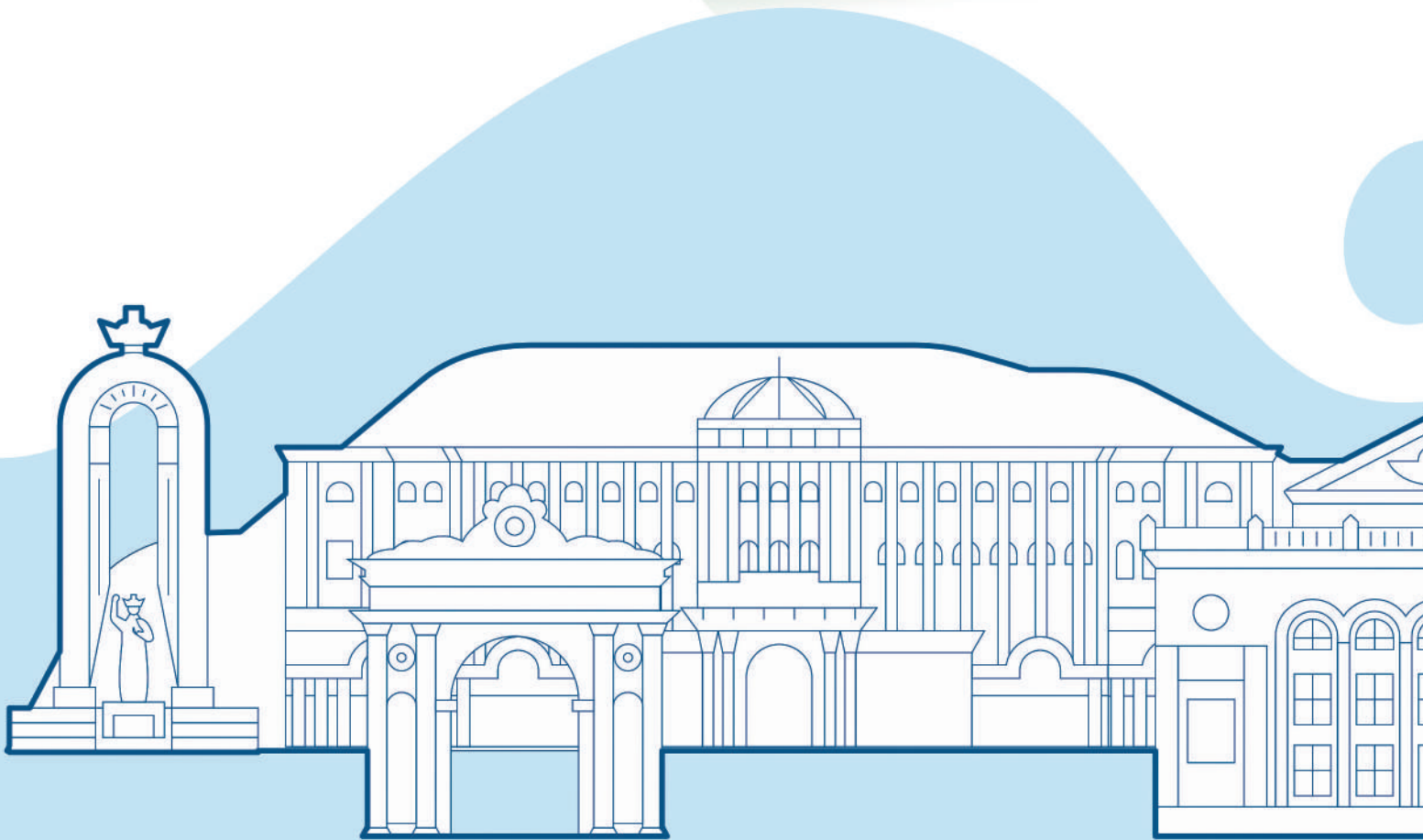
³ Pending the normalisation of Kyrgyzstan's balance of payments statistics, the forecast assumes financing of the CA deficit through net errors and omissions.

TABLE 1. FORECAST OF KEY MACROECONOMIC INDICATORS

	2022 Actual	2023 Actual	2024 Estimates	2025 Forecast	2026 Forecast
National accounts and prices (in %)					
Nominal GDP					
in KGS billions	1 020.7	1 228.9	1 344.5	1 478.5	1 618.6
in USD billions	12.1	14.0	14.8	15.8	17.1
Real GDP growth	9.0	6.2	4.8	4.6	4.0
CPI (December, y-o-y)	14.7	7.3	6.7	6.1	5.5
CPI (annual average)	13.9	10.8	6.9	6.2	5.5
Money and credit (eop)					
Broad money, percentage change	30.6	15.0	9.8	10.0	9.5
Credit to the economy, percentage change	11.5	25.9	7.2	1.8	-3.2
Discount rate	13.0	12.0	10.0	8.0	8.0
Public finance (in % of GDP)					
Revenues and grants	29.4	31.9	28.4	27.4	25.7
tax revenues	22.4	24.0	23.9	23.5	22.3
Budget expenditures	30.5	30.9	28.8	27.7	25.2
Budget balance ("-" deficit / "+" surplus)	-1.0	1.0	-0.4	-0.3	0.5
External sector (in % of GDP)					
Current account	-42.4	-45.1	-23.8	-19.8	-16.2
Remittances	15.4	13.6	13.2	12.5	11.8
Foreign direct investment (- inflow; + outflow)	-4.2	-4.0	-5.7	-5.9	-6.0
Gross reserves, in months of imports of goods and services	2.4	2.8	3.0	3.6	3.7

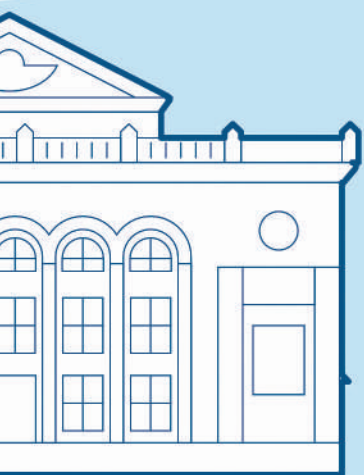
Source: national agencies and authors' estimates





In 2023, Tajikistan's economic growth reached 8.3%, remaining above 8% for the third year in a row. The main driver of growth, as in 2022, was consumer demand, supported by rapid growth in consumer lending and real wages. Investment also expanded rapidly due to the active construction of the Rogun Hydroelectric Power Plant and the implementation of projects in other priority sectors. In the context of lower external inflationary pressures, consumer inflation decelerated to 3.8% y-o-y at the end of the year. Gold exports resumed in late 2023, allowing the balance of payments and the exchange rate to remain stable. The government budget deficit decreased from 0.9% to 0.5% of GDP, due to an increase in tax revenues and grants from international financial institutions.

Under the baseline scenario, real GDP growth would slow down to 7.2% in 2024 and then stabilise around 7% in the medium term. Inflation would pick up from historically low levels to 5.6% by the end of 2024 and remain close to 6% in 2025–2026. Fiscal policy would be expansionary given the need to finance public investment and maintain social expenditures, resulting in a wider budget deficit of 1.8% in 2024 and 2.4% of GDP in 2026. The stability of the balance of payments would come under pressure from the gradual reduction of the current account surplus and the start of external debt repayments under Eurobonds from 2025 onward.



REAL SECTOR AND LABOUR MARKET

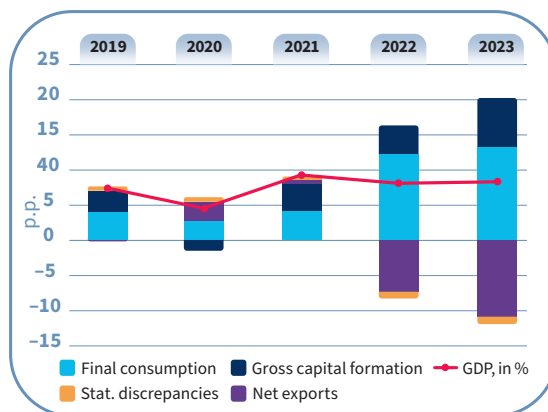
Tajikistan's economic growth exceeded 8% for the third consecutive year. The short-term indicator for economic activity in the main sectors accelerated to 8.3% in 2023 (8% in 2022). GDP per capita was USD 1,173.5.

Consumer and investment demand remained the main drivers of growth in 2023 (Figure 1). Retail trade grew by 15.3%. Consumption was supported by high rates of growth in consumer credit, real wage growth, and remittances from abroad. Capital investment increased by 22.5%, reflecting an expansion of both public and private investment. Nearly a third of total investment went to the electricity, gas, and water sector (29.2%) as part of the active phase of construction of the Rogun Hydroelectric Power Plant. There were also high rates of investment growth in transport and communications, mining, textiles and clothing, agriculture, and wholesale and retail trade. There was a significant increase in non-industrial construction – residential (42.8%), hotels and restaurants (39.5%).

In terms of output, the main drivers of accelerating economic growth in 2023 were the services sector and agriculture, while other sectors of the economy continued to make a positive contribution (Figure 2). The services sector's overall contribution rose to 3.7 p.p. (3.6 p.p. in 2022) due to accelerating growth in transport and retail trade. The increase in the contribution of agriculture to 1.6 p.p. (1.3 p.p. in 2022) was driven both by high growth rates in fruit, melon, cotton, and vegetable harvests and by an increase in the number of sheep, goats, and cattle. The contribution of industry was 1.2 p.p., as industrial production grew by 12%. At the same time, growth in the manufacturing sector slowed from 16.4 to 12.3%, and the mining industry moved from a con-

traction (-2.3%) to an expansion of 11.7%. Contributions from construction (1 p.p.) and net taxes (0.8 p.p.) were significant.

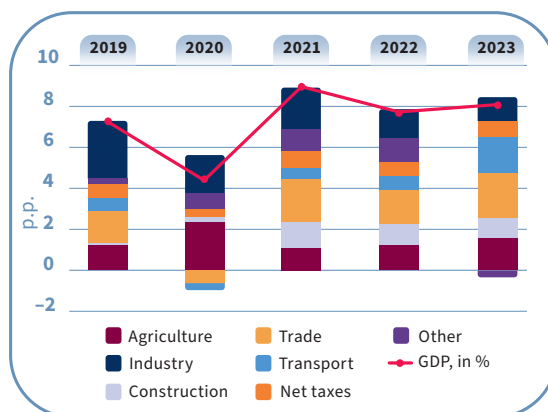
Figure 1. Decomposition of annual GDP growth by expenditure components



*2023 — estimate

Source: Tajstat

Figure 2. Decomposition of annual GDP growth by production components



Source: Tajstat

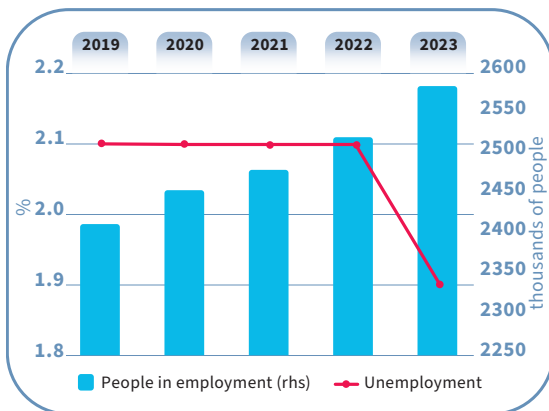
Labour force growth accelerated in 2023, while the unemployment rate started to decline (Figure 3). The officially registered labour force grew by 2.2% and the number of persons in employment by 2.5% (the average growth over the last three years was 1.5%). The officially registered unemployment rate decreased from 2.1% to 1.9%.

The economic growth and low inflation contributed to increase of real wages. Average monthly wages increased by 14.4% in nominal terms and by 7.2% in real terms (Figure 4).

GDP GREW BY 8.3% IN 2023

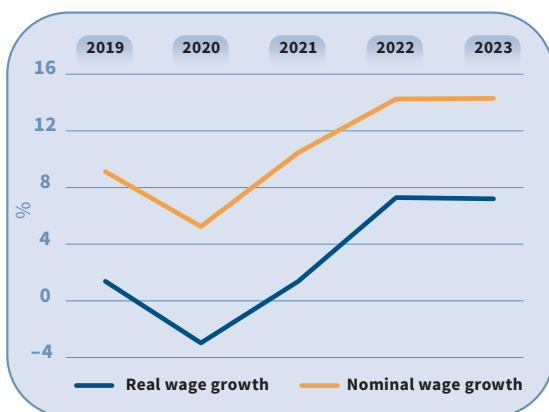
The highest nominal wage increases were in services: information and communication – 23.6%, transport – 15.8%, manufacturing – 4%, and agriculture – 3.3%. Due to an 18.1% increase in government budget expenditures on salaries and wages, nominal salaries of public sector employees also increased significantly: by 19.1% in health and social services and by 14.8% in education.

Figure 3. Labour market indicators



Source: Tajstat

Figure 4. Household income



Source: Tajstat

INFLATION AND MONETARY TRENDS

Inflation slowed to 3.8% y-o-y in December 2023 (4.2% y-o-y in 2022) as a result of lower external inflationary pressures, a stable somoni exchange rate, and lower money supply. The largest contribution to the slowdown in inflation was made by food, due to a good harvest and a fall in world prices for food and energy. Food price growth decelerated from 5.2% to 3.4% y-o-y in 2023, and services from 1.9% to 1.2% y-o-y. The increase in non-food prices accelerated from 4% to 6.6% over the same period (Figure 5).

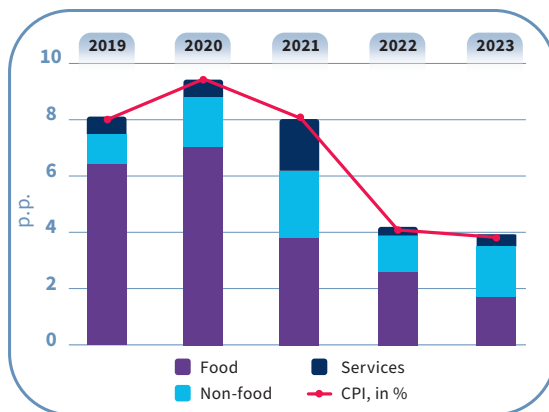
UNEMPLOYMENT RATE IN 2023 WAS 1.9%

The National Bank of Tajikistan tightened monetary conditions, reducing the money supply in the economy in 2023. The base money fell by 5.6% y-o-y in 2023, after rising by 52.9% a year earlier, mainly due to a 7.4% fall in cash in circulation. The main channel for liquidity withdrawals was the NBT's interventions in Q1–Q3 against the backdrop of rising demand of households for foreign exchange. Slowing inflation enabled the NBT to steadily reduce the refinancing rate from 13% to 12% in January, to 10% in May 2023, and to 9.5% in February 2024. At the same time, the average interest rate on fixed-term local currency loans declined by 0.9 p.p. to 23.3% as at end-2023. Meanwhile, the average interest rate on term local currency deposits rose by 1.1 p.p. to 13.1% as at end-2023 (Figure 9).

Monetary aggregates declined as a result of a decrease in the volume of cash, despite an increase in deposits. In 2023, M4 declined by 0.8% (Figure 6) and M3 by 4.3%, reflecting a drop in cash (-9%) and demand deposits (-9.2%). Local currency term deposits increased by 29.4%, while foreign currency deposits went up by 33.4%. Deposits with commercial banks grew by 25.5% over the year, including 30.5% from private individuals and 20.1% from legal entities. Private individuals expanded their savings in local currency more rapidly than in foreign currency (the growth rates of deposits were 33.4% and 26.5%, respectively), while legal entities increased their savings in foreign currency more rapidly (15.2% and 25.5%, respectively).

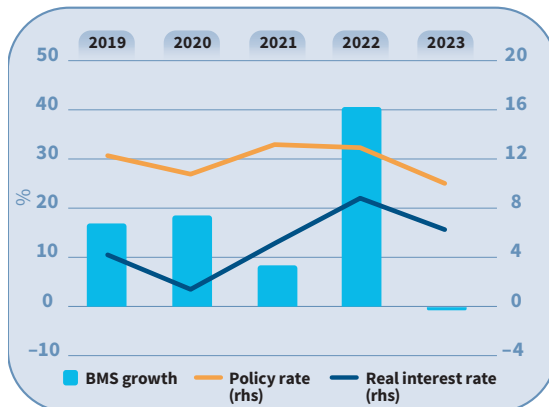
High rates of economic growth were supported by accelerated lending. The growth of the banking system's loan portfolio accelerated from 13.3% in 2022 to 31.2% y-o-y in 2023. Almost half (48%) of the increase in the volume of the loan portfolio was attributable to growth in loans to private individuals, which increased by 42.1% (Figure 7). Loans to entrepreneurs (32.3%) and private enterprises (23%) also grew at a high rate (Figure 8). The share of loans denominated in foreign currency increased from 28.3% to 32.6% due to faster growth of outstanding loans in foreign currency (51.2%) – at the expense of private enterprises – compared to outstanding local currency loans (23.4%) (Figures 9, 10).

Figure 5. Inflation decomposition (eop, y-o-y)



Source: Tajstat

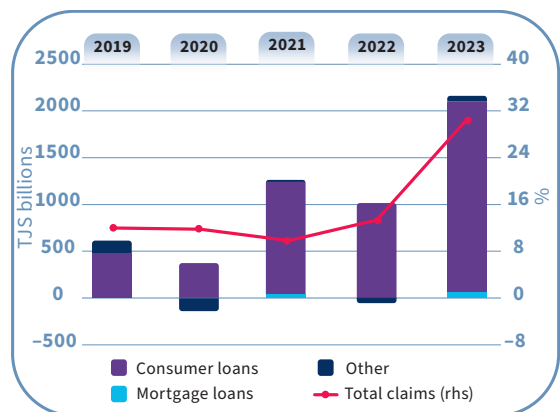
Figure 6. Monetary indicators



Source: NBT, Tajstat

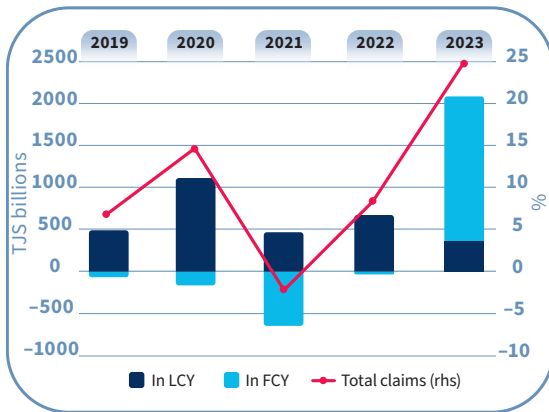
The financial soundness indicators of the banking system deteriorated. The share of non-performing loans increased from 12.2% as at end-2022 to 12.7% as at end-2023 (Figure 10). The return on assets decreased from 5.9% to 3.7% during the reporting period, and the return on equity went down from 28.3% to 19.2%.

Figure 7. Increase in loans to private individuals (eop)



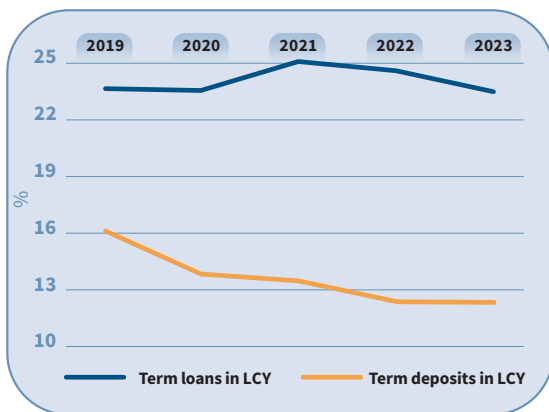
Source: authors' estimates based on NBT data

Figure 8. Increase in loans to businesses (eop)



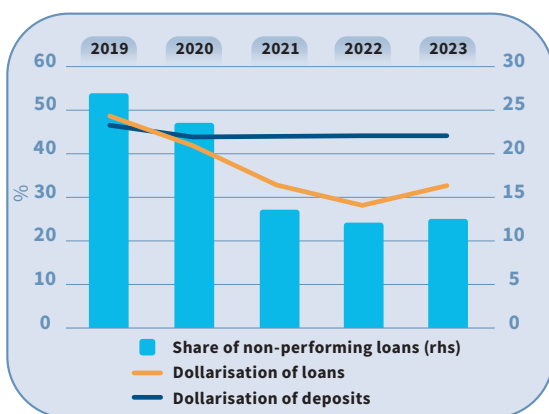
Source: authors' estimates based on NBT data

Figure 9. Interest rates on new loans and deposits



Source: NBT

Figure 10. Banking sector indicators

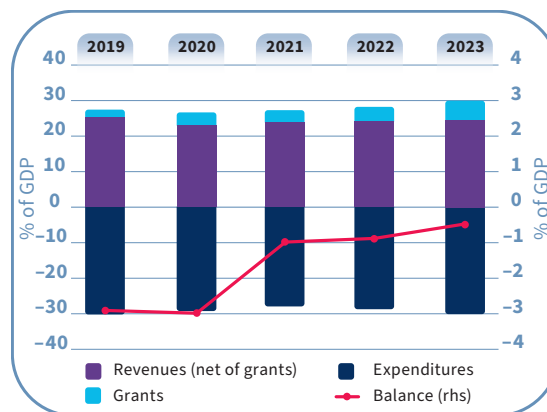


Source: NBT

FISCAL SECTOR

In 2023, the government budget deficit¹ decreased to 0.5% of GDP (0.9% in 2022), as budget revenue growth outpaced that of expenditures, due to an increase in tax revenues and grants from international financial institutions (Figure 11). Budget revenues increased from 28 to 29.5% of GDP, including tax revenues from 18.8 to 19.7% of GDP. Non-tax revenues decreased from 2.1% to 1.6% of GDP. The increase in VAT and excises was due to stronger consumption, while the increase in customs duties was driven by a rise in imports. The increase in grants was related to the active phase of construction of the Rogun HPP and the implementation of a number of social projects. Expenditures, in turn, increased from 28.9 to 30% of GDP, including current expenditures from 17.2 to 18.9% of GDP. At the same time, capital expenditures decreased from 11.6% to 11.1% of GDP. Investment was mainly directed towards priority sectors of the economy – power generation, transport and communication, and agriculture.

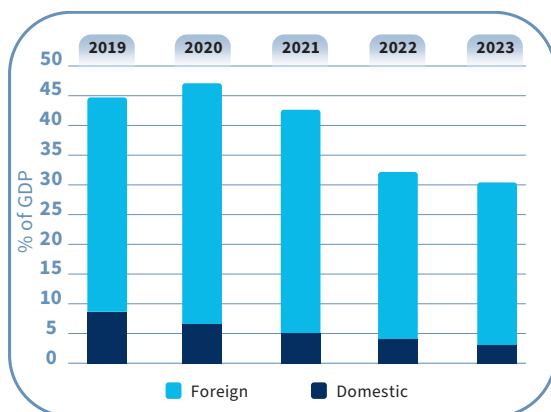
Figure 11. Government budget



Source: MoF RT, Tajstat

¹ Hereinafter the authors calculate government budget indicators using the international methodology, which excludes loan proceeds from revenues and principal repayments from expenditures.

Figure 12. Government debt



Source: MoF RT, Tajstat

The government debt declined to 30.5% of GDP from 32.5% of GDP a year earlier, mainly as a result of continued high economic growth rates (Figure 12). This was accompanied by a slight change in the composition of government debt – the share of foreign debt in total debt increased from 87.6% to 89.2%. The level of foreign debt decreased from 28.5% to 26.9% of GDP.

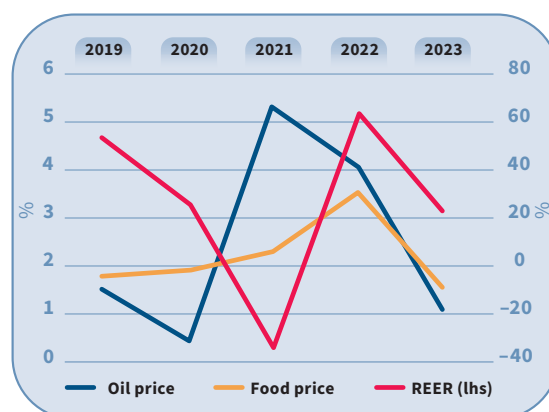
GOVERNMENT BUDGET DEFICIT 0.5% OF GDP

EXTERNAL SECTOR

Despite a decline in the trade deficit, lower remittances of migrants resulted in a reduction of the current account surplus to 4.8%, the lowest level since 2020 (Figure 14). After a surge in 2022, against the background of the appreciation of the Russian ruble, remittances returned to their historical average, with their volume down by 11.4% (from 51.4 to 39.6% of GDP). At the same time, the trade deficit for goods and services decreased from 33.4% to 31.7% of GDP, mainly due to stronger growth in exports of goods (14.3%) than in imports (13.8%).

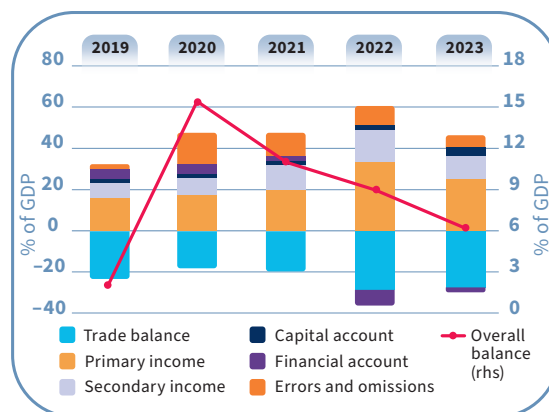
A key factor in export growth was the resumption of gold exports in Q4 2023. As a result, the volume of exports of precious and semi-precious stones and metals increased by a factor of 2.2 y-o-y in 2023. There were also increases in exports of textiles, chemical products, machinery and equipment. Capital account inflows were 4% of GDP. Outflows under the financial account amounted to 1.9% of GDP. Inflows of direct investment (0.8% of GDP) were offset by demand for cash foreign exchange at 3.2% of GDP.

Figure 13. World prices and REER² (y-o-y)



Source: World Bank, national authorities, authors' estimates

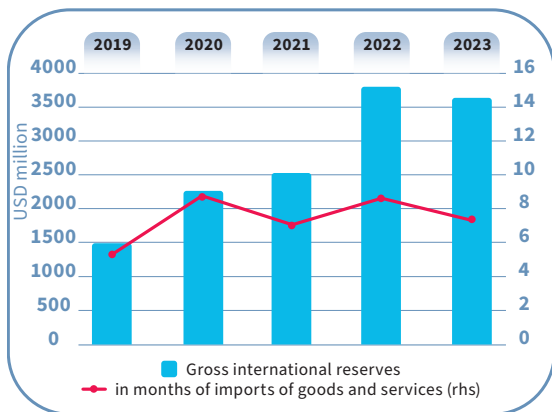
Figure 14. Balance of payments



Source: NBT, Tajstat

² "+" under REER means LCY appreciation

Figure 15. Gross international reserves (eop)



Source: NBT

In 2023, the average annual exchange rate appreciated by 1.6% y-o-y in nominal terms. At the same time, in Q1, the nominal exchange rate depreciated by more than 7%, before stabilising around TJS 10.9 per US dollar. The NBT smoothed out volatility by conducting interventions

CA PROFICIT 4.8% OF GDP

in Q2–Q3. The average annual real effective exchange rate appreciated by 3.2% due to the somoni appreciation against the Russian ruble (Figure 13).

An increase in gold and foreign currency reserves in Q4 did not offset their decline in Q1–Q3. The volume of reserves fell to USD 3.6 billion at the end of 2023 from USD 3.8 billion a year earlier, and in months of imports from 8.7 to 7.4 months.



MEDIUM-TERM OUTLOOK

TABLE 1. FORECAST OF KEY MACROECONOMIC INDICATORS

	2022 Actual	2023 Actual	2024 Estimates	2025 Forecast	2026 Forecast
National accounts and prices (in %)					
Nominal GDP					
in TJS billions	115.7	130.8	149.4	170.0	192.5
in USD billions	10.5	12.1	13.3	14.7	16.1
Real GDP growth	8.0	8.3	7.2	7.0	6.8
CPI (December, y-o-y)	4.2	3.8	5.6	6.0	6.0
Money and credit (eop)					
Broad money, percentage change	40.4	-0.8	14.3	13.8	12.2
Public finance (in % of GDP)					
Revenues and grants	28.0	29.5	27.5	27.2	26.9
tax revenues	18.8	19.7	19.2	19.4	19.5
Budget expenditures	28.9	30.0	29.3	29.6	29.3
Current expenditures	17.2	18.9	17.4	16.9	16.6
Capital expenditures	11.6	11.1	11.9	12.7	12.7
Budget balance ("-" deficit / "+" surplus)	-0.9	-0.5	-1.8	-2.4	-2.4
External sector (in % of GDP)					
Current account	15.6	4.8	2.5	1.4	0.1
Remittances	49.2	37.0	34.4	32.2	30.5
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

Under the baseline scenario, real GDP growth would slow down to 7.2% in 2024 and then stabilise around 7% in the medium term. The decline in growth rates from peak levels is mainly due to weaken-

ing consumer demand as a result of an expected decline in the growth rate of remittances. However, high growth rates would be supported by stable exports of precious metals, active expansion of investment,

GDP WILL GROW BY 7%

including through the implementation of the Rogun HPP project³ and growth of investment in other infrastructure projects, as well as a favourable labour market situation.

Inflation would accelerate slightly from its historically low levels of 2021–2022 to 5.6% by the end of 2024 and remain close to 6% in 2025–2026. This would be facilitated by balanced growth of monetary aggregates, an increase in the price of Urals crude oil in 2024, and stable prices for key raw materials and food imports in 2025–2026.

Fiscal policy would be expansionary given the need to finance public investment and maintain social expenditures, resulting in a wider budget deficit of 1.8% in 2024 and up to 2.4% of GDP by 2026. Government budget expenditures would decrease from 30% of GDP in 2023 to 29.3% in 2026. However, given the budgetary constraints, current expenditures (except for protected social expenditures)

³ The Rogun Hydroelectric Power Plant is one of the major development projects of the Republic of Tajikistan. According to the World Bank, an additional USD 6.4 billion (about half of 2023 GDP) would need to be invested by 2035 to complete its construction.

could be substituted by capital expenditures in order to expand the financing of public investment, including the Rogun HPP. It is assumed that in 2024–2026, 2.1–3.1% of GDP per year would be allocated to the Rogun HPP from internal financing sources only. In addition to the planned increase in capital expenditures, debt service costs are expected to increase in 2025–2026 due to the start of Eurobond repayments (USD 167 million per year). Budget revenues would decrease from 29.5% to 26.9% of GDP. In 2024, certain tax rates would be reduced as a result of changes in tax legislation, which would put downward pressure on tax revenues. In 2025–2026, tax revenues would increase due to tax incentives and exemptions being scaled back, while grants are expected to gradually decline from the historically high level of 5.3% of GDP in 2023, although they would continue to play an important role for fiscal and debt sustainability⁴.

The stability of the balance of payments would deteriorate slightly. We estimate that the CA surplus would decline to 2.5% of GDP in 2024 and continue to decrease to almost zero by 2026, as a result of increases in consumption and investment imports and in external debt service payments coupled with a decline in the growth rate of remittances. Thus, the level of gross international reserves could decrease from 7.4 months of imports of goods and services in 2023 to 7 months of imports in 2026.

RISKS AND UNCERTAINTIES OF THE MEDIUM-TERM OUTLOOK

The main downside risk to the baseline scenario is a deterioration in the economic situation in Russia. Lower economic growth rates, as well as a more pro-

⁴ In order to maintain fiscal and debt sustainability, we expect that Tajikistan's government budget deficit should not exceed 2.5% of GDP.



nounced depreciation of the Russian ruble than assumed under the baseline scenario, could lead to lower remittances. This, in turn, would lead to weaker consumption and, hence, economic growth.

The financing of the Rogun HPP is also a downside risk to the medium-term baseline scenario with regard to fiscal and debt sustainability. By the end of 2023, almost all of the required financing had been agreed between development partners and the Government of the Republic of Tajikistan. However, the project is long-term and its total cost may increase due to rising prices and other factors, leading to potential financing gaps. Due to insufficient internal resources, the Rogun HPP may become a priority area for financing in the government budget, instead of other important infrastructure projects and social expenditures.

An additional risk to the sustainability of the external and fiscal sectors is the

uncertainty about the sources of financing for Eurobond repayments from 2025 onwards. The lack of options to simultaneously finance the government budget deficit and refinance Eurobonds could lead to an increase in borrowing on the domestic securities market or from the NBT and a decline in gross international reserves. This could crowd out lending to the private sector and put additional pressure on the exchange rate.

Given the continued strong effects of non-monetary factors on inflation, higher volatility in world commodity prices may lead to a deviation of the inflation rate from the baseline scenario.

The upside risk is associated with stronger economic growth in Tajikistan's main trading partners than projected under the baseline scenario. This would contribute to more significant increases in remittances, consumption, and investment, coupled with faster inflation.



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