# CAREC Institute
# Quarterly Economic Monitor

Chief Economist Team

No.19

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## Disclaimer

This 19th issue of the CAREC Institute Economic Monitor was prepared by the Chief Economist Team, including Elvira Kurmanalieva (summary, trade, and inflation), Yixin Yao (output), Shiliang Lu (outlook), and Jian Zhang (investment), under the guidance and supervision by Kouqing Li. Insert I is contributed by Kakha Gogolashvilli, Insert II – by Razia Abdieva, Insert III – by Tuvshintugs Batdelger & Nomun Enkhbold. Special thanks go to Hoe Ee Khor for providing comments and suggestions.

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## Abbreviations

| | |
|---|---|
| ADB | Asian Development Bank |
| ADO | Asian Development Outlook |
| CAREC | Central Asia Regional Economic Cooperation |
| CPI | Consumer Price Index |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GEP | Global Economic Prospects |
| IMF | International Monetary Fund |
| PRC | People’s Republic of China |
| Q1 | First Quarter |
| Q2 | Second Quarter |
| Q3 | Third Quarter |
| USD | US Dollar |
| WB | World Bank |
| WEO | World Economic Outlook |
| yoy | year-on-year |

## Executive Summary:

Resilient growth amid divergent inflation pressures and trade patterns sets the stage for a moderating outlook

*In 2025, the CAREC region sustained resilient economic growth, with average*[1] *GDP expansion estimated at **5.6%**. This strong performance was achieved despite heightened global uncertainty and was underpinned by robust domestic demand, continued public and private investment, and selective gains from commodity and services exports. However, the composition of growth increasingly reflects **demand-led and externally contingent dynamics**, raising questions about its durability as global conditions normalize.*

*Growth performance across the region remained uneven. Fast-growing economies such as the Kyrgyz Republic, Tajikistan, Georgia, Kazakhstan, and Uzbekistan expanded above the regional average, largely supported by construction activity, services expansion, and strong consumption. In contrast, Pakistan, Afghanistan, and Azerbaijan recorded slower growth due to sector-specific constraints, most notably in extractive industries. Mongolia and the PRC provided a stabilizing anchor to regional growth, while agriculture rebounded sharply in Mongolia following weather-related disruptions in the previous year. **Insert III** analyzes the profound economic and household-level vulnerabilities caused by extreme weather in winter.*

*Inflationary pressures moderated toward the end of 2025, with average consumer price inflation easing to around **5.8% year on year**. This disinflation was largely **policy-driven**, reflecting tighter monetary conditions in economies with elevated inflation, including Kazakhstan, the Kyrgyz Republic, Mongolia, and Uzbekistan. At the same time, inflation accelerated in Afghanistan, Azerbaijan, Georgia, and Pakistan, pulling the regional average above the median. Persistent domestic demand pressures remained evident in continued rapid broad money growth, particularly in the Kyrgyz Republic, where strong expansion of consumer and mortgage lending boosted demand and contributed to rising inflation (**Insert II**).*

*External balances weakened for several commodity exporters amid softer global energy prices, while precious metals exporters benefited from strong gold demand. Regional trade remained exposed to global commodity price fluctuations but also showed signs of reshaping and deeper integration. Oil and gas exporters experienced shrinking surpluses, while gold exporters saw improvements. The PRC recorded a record-high surplus driven by high-technology manufacturing exports. Azerbaijan and Georgia strengthened their roles as transit hubs, supported by improvements in cross-border infrastructure. **Insert I** provides a detailed analysis of Georgia's exceptional growth, highlighting its reliance on temporary factors—such as migration inflows, tourism, and re-exports—rather than durable structural transformation. The PRC remained the largest source of foreign direct investment to the region, although FDI inflows to landlocked CAREC economies contracted sharply in 2024.*

*Looking ahead, regional growth is projected to moderate to **4.6% in 2026 and 4.5% in 2027**. This slowdown reflects diminishing returns from domestic-demand-led expansion, tighter financial conditions, and softer external demand. Sustaining growth will require addressing structural vulnerabilities, including over-reliance on remittances and specific commodities, as well as accelerating export diversification and productivity-enhancing reforms.*

[1] Regional medians and averages in this text are calculated using the available data.

## Output:
## Strong and resilient growth driven by domestic demand and led by resource and manufacturing sectors

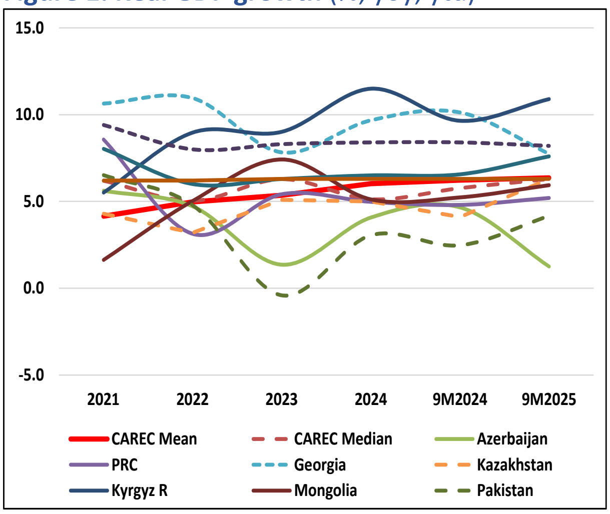
The CAREC region's economic growth remained resilient in 2025, though with notable differentiation across countries. By September 2025, the region's average GDP growth reached 6.3% year on year, up from 5.8% in the first nine months of 2024 (Figure 1). This strong performance was achieved despite a sluggish global recovery, underscoring the region's continued growth momentum.

Within the region, the Kyrgyz Republic recorded the fastest growth at 10.0%, followed by Tajikistan (8.2%), Georgia (7.7%), Uzbekistan (7.6%), and Kazakhstan and Turkmenistan (both 6.3%). Mongolia and the PRC provided stable support, with growth reaching 5.9% and 5.2%, respectively, by September. In contrast, Pakistan and Azerbaijan lagged behind, with growth of 4.2% and 1.3%, reflecting structural and sector-specific constraints (Table 1).

Industrial activity—including construction—expanded by an average of 7.5% year on year by September 2025 (Figure 2). The Kyrgyz Republic led industrial growth, supported by large-scale infrastructure projects, including the China–Kyrgyzstan–Uzbekistan railway. Pakistan's industrial expansion was driven by infrastructure investment linked to the China–Pakistan Economic Corridor, while Uzbekistan's growth reflected ongoing reforms supporting manufacturing and services. Kazakhstan's industrial growth was led by transport and construction, and the PRC continued to serve as a regional growth engine, supported by recovery in consumption and manufacturing, particularly in new-energy and digital economy sectors.

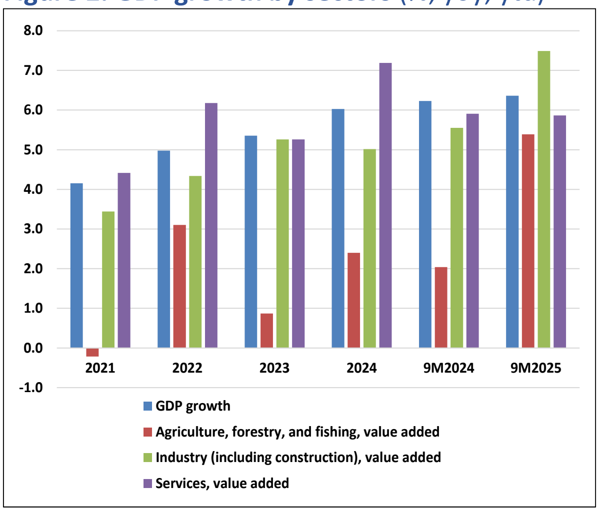
Agricultural output rebounded strongly, growing by 5.4% year on year, more than double the rate recorded in September 2024. The rebound was especially pronounced in Mongolia, where agricultural growth surged following a sharp contraction caused by severe winter conditions in the previous year. Afghanistan's agricultural sector also showed gradual recovery, supported by improved security and increased cross-border trade.

**Figure 1. Real GDP growth** (%, yoy, ytd)




Source: CEIC, national agencies, authors' calculations

**Figure 2. GDP growth by sectors** (%, yoy, ytd)



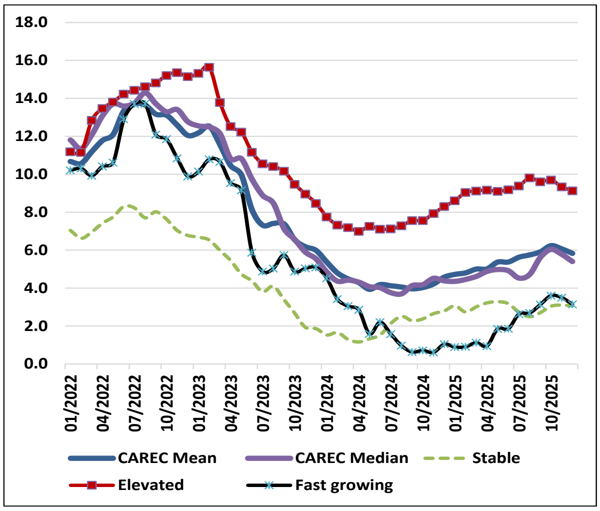

Source: CEIC, national agencies, authors' calculations

## Inflation:
Moderated amid higher interest rates, but demand pressures persist

Inflationary pressures in the CAREC region began to ease in the final quarter of 2025. Average consumer price inflation declined to 5.8% year on year in December, slightly lower than three months earlier and below the regional median (Figure 3). This moderation largely reflected tighter monetary policy in economies with previously elevated inflation, notably Kazakhstan, the Kyrgyz Republic, Mongolia, and Uzbekistan.

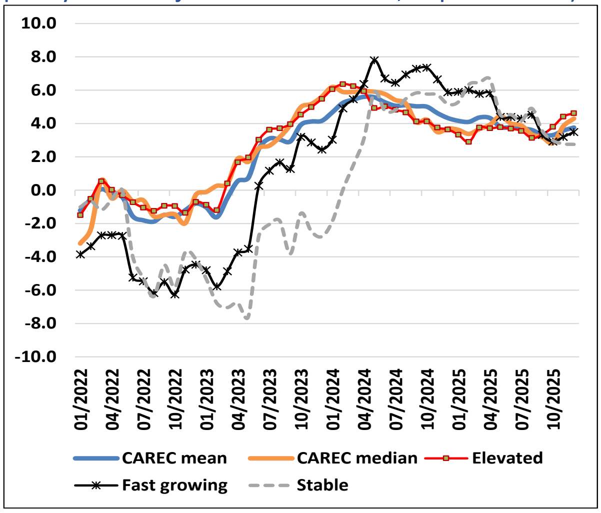
Despite this easing, inflation in these economies remained higher than in December 2024, indicating incomplete adjustment. At the same time, a second group of countries—Afghanistan, Azerbaijan, Georgia, and Pakistan—experienced rising inflation, with average rates increasing to around 3.1%, up from 2.2% a year earlier. A third group, comprising the PRC and Tajikistan, continued to record relatively low and stable inflation, although modest increases emerged toward the end of the year as earlier monetary easing began to take effect.

**Figure 3. Inflation: Consumer price index** (%, yoy)




Source: CEIC, national agencies, authors' calculations

**Figure 4. Monetary policy stance** (central bank policy rates adjusted for inflation, % per annum)




Source: CEIC, national agencies, authors' calculations

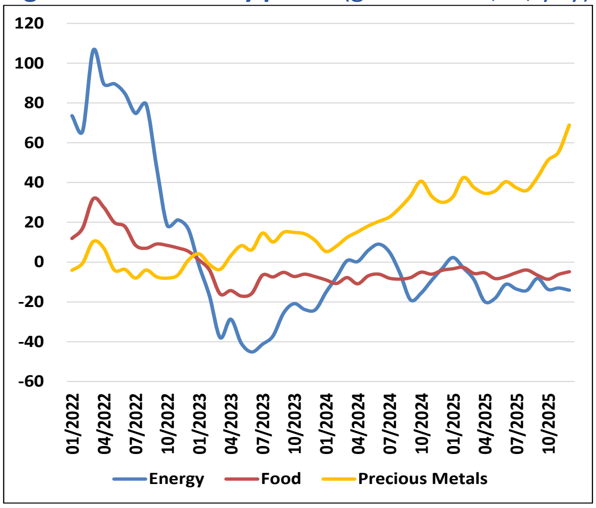
Underlying demand pressures remained strong. Broad money growth averaged 18.8% year on year in November 2025, accelerating from September and remaining above its end-2024 level. Growth was particularly rapid in economies with elevated inflation, including the Kyrgyz Republic and Uzbekistan, where credit expansion—especially in consumer and mortgage lending—continued to support domestic demand (Insert II).

Although central banks raised policy rates in several countries during 2025, the region's average real monetary stance remained broadly unchanged (Figure 4). In some economies, real interest rates remained low or negative, continuing to fuel demand and inflation. In others, notably Mongolia and Uzbekistan, tighter policy helped soften inflationary pressures. Overall, the persistence of strong demand suggests that disinflation remains fragile and dependent on continued policy discipline.

## Trade:
## Exposure to global price fluctuations persists despite reshaping trade patterns

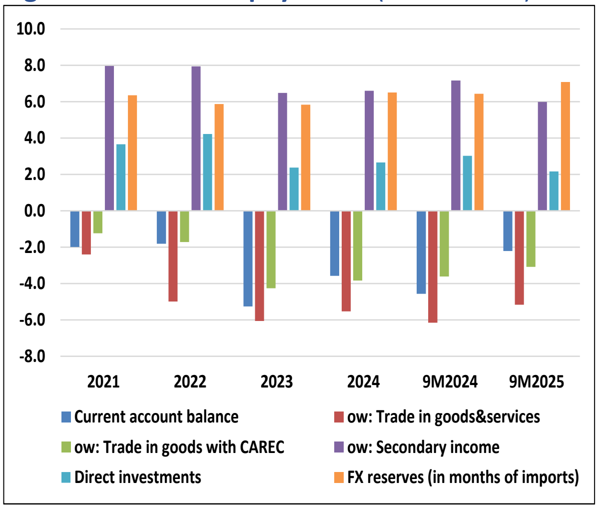
Trade developments in the CAREC region during 2025 were shaped by softer global energy prices, strong demand for precious metals, and continued improvements in regional connectivity (Figure 5). Slowing global oil demand, combined with oversupply, kept energy prices under pressure, while heightened geopolitical uncertainty supported strong gold prices. Food prices declined moderately, reflecting improved supply conditions and lower energy costs.

**Figure 5. Commodity prices** (growth rate, %, yoy)




Source: World Bank, authors' calculations.

**Figure 6. Balance of payments** (in % of GDP)




Source: CEIC, national agencies, authors' calculations

These global trends translated into divergent trade outcomes across the region. Oil and gas exporters experienced narrowing trade and current account surpluses amid falling energy prices and strong import demand, while gold exporters benefited from favorable price dynamics (Figure 6). Import-dependent economies continued to run sizable trade deficits, reflecting strong domestic demand for consumer and capital goods.

The PRC recorded a record-high external surplus, driven by resilient exports of high-value manufactured products. At the same time, improvements in transport infrastructure and deeper regional integration reshaped trade patterns within CAREC. Enhanced connectivity along the Middle Corridor strengthened Azerbaijan's and Georgia's roles as transit hubs, increasing their participation in intra-regional trade. Trade between the PRC and several CAREC economies—including the Kyrgyz Republic, Azerbaijan, and Georgia—expanded significantly, reflecting growing economic linkages.

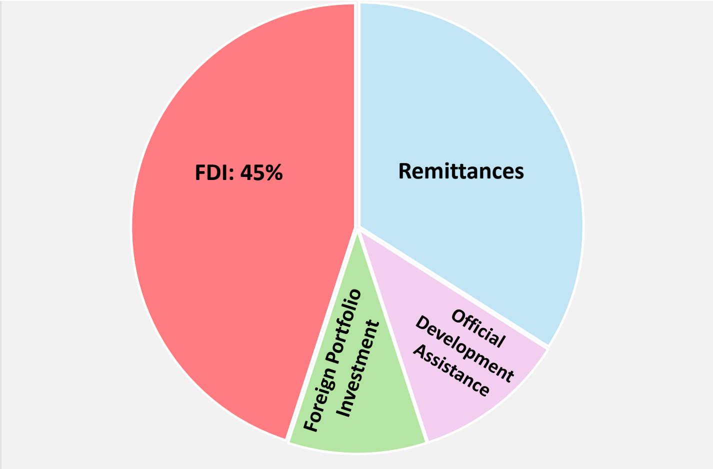
## Investment:
## The PRC remains a leading FDI source amid declining inflows to landlocked economies

Foreign direct investment continues to be the most stable source of external financing for developing economies, accounting for around 45% of total external financial flows in 2024 (Figure 7). Within CAREC, most economies—excluding the PRC, Georgia, and Pakistan—are classified as landlocked developing countries, a structural characteristic that continues to constrain investment attractiveness.

FDI inflows to landlocked economies in Asia contracted sharply in 2024, declining by 42% to around USD 7 billion, driven primarily by reduced inflows to Kazakhstan and several non-CAREC countries. This weak performance reflects persistent structural barriers, including limited market size, high transport costs, and institutional constraints, which deter long-term private investment despite strong headline growth.

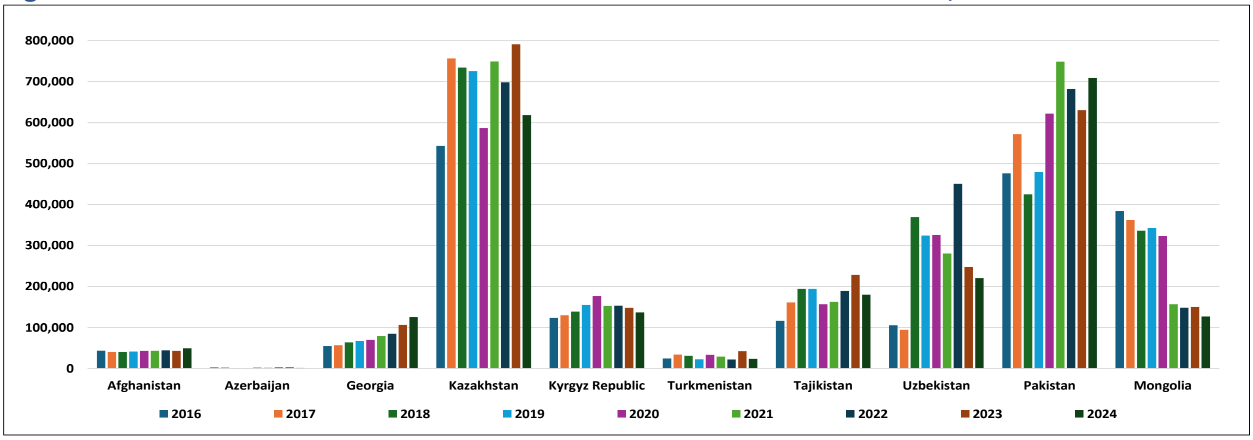
Globally, the United States, Japan, and the PRC remained the largest sources of FDI outflows. The PRC was the single largest investor in landlocked developing economies in 2023, as measured by FDI stocks (Figures 8 and 9). However, portfolio investment from the PRC to CAREC economies remained minimal, underscoring the limited penetration of non-strategic private capital into the region.

**Figure 7. Share of external financial flows by category for developing countries in 2024, %**



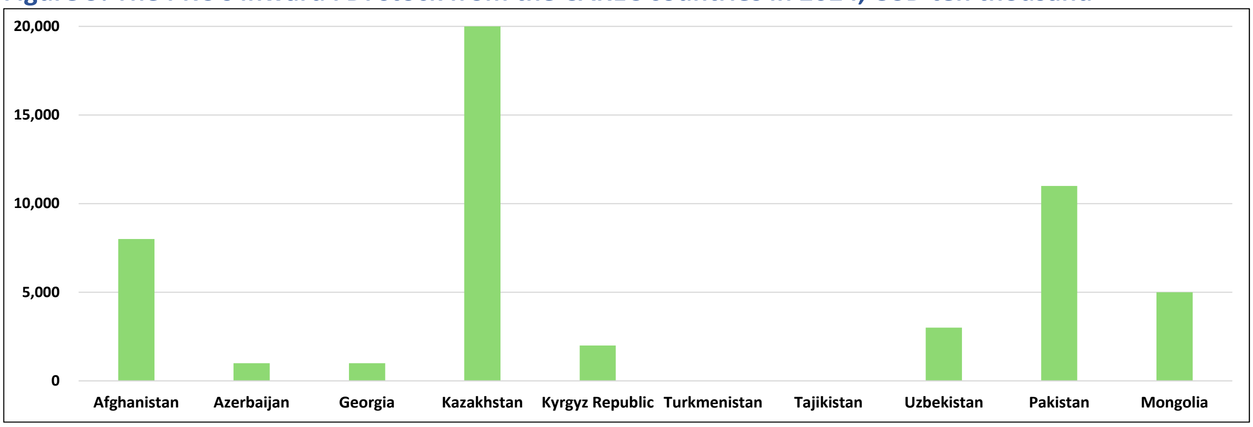

Source: UNCTAD, IMF, World Bank and OECD database

**Figure 8. The PRC's outward FDI stock to the CAREC countries from 2016-2024, USD ten thousand**




Source: Ministry of Commerce of PRC

**Figure 9. The PRC's inward FDI stock from the CAREC countries in 2024, USD ten thousand**




Source: Ministry of Commerce of PRC

## Outlook:
## Growth expected to moderate as demand-driven momentum fades

The CAREC region's economic performance remained robust in 2025, supported by strong domestic consumption, stable investment, and resilient trade. However, growth in several economies is increasingly constrained by structural vulnerabilities, including heavy reliance on remittances and commodity-linked sectors, which heighten exposure to external shocks.

International financial institutions project a gradual deceleration of regional growth, with average GDP growth slowing from 5.6% in 2025 to 4.6% in 2026 and 4.5% in 2027 (Table 1). While some economies—notably Afghanistan, Mongolia, and Pakistan—are expected to see temporary acceleration, growth in most CAREC countries is projected to ease as domestic demand moderates and external conditions soften.

Over the medium term, sustaining growth will require shifting from demand-driven expansion toward productivity-enhancing reforms. Priorities include diversifying exports, strengthening private sector development, improving human capital, and building resilience to external and climate-related shocks. Without such reforms, the region risks a gradual erosion of growth momentum as current drivers lose strength.

**Table 1. Real GDP growth** (%, yoy)

| | 2015-19 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 9M | 2025E | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Average forecast by ADB, IMF and WB | | |
| **Afghanistan*** | -2.4 | -2.1 | -20.7 | -6.2 | 2.3 | 1.7 | | 3.1 | 2.8 | 3.5 |
| **Azerbaijan** | 0.8 | -4.3 | 5.6 | 4.6 | 1.1 | 4.1 | 1.3 | 1.4** | 2.1 | 1.7 |
| **PRC** | 6.7 | 2.3 | 8.6 | 3.1 | 5.4 | 5.0 | 5.2 | 5.0** | 4.4 | 4.1 |
| **Georgia** | 4.0 | -6.3 | 10.6 | 11.0 | 7.8 | 9.7 | 7.7 | 7.1 | 5.3 | 5.0 |
| **Kazakhstan** | 2.5 | -2.5 | 4.3 | 3.2 | 5.1 | 5.0 | 6.3 | 6.5** | 4.5 | 4.1 |
| **Kyrgyz Republic** | 4.2 | -7.1 | 5.5 | 9.0 | 9.0 | 11.5 | 10.0 | 11.1** | 6.7 | 6.8 |
| **Mongolia** | 3.9 | -4.6 | 1.6 | 5.0 | 7.4 | 4.9 | 5.9 | 5.7 | 5.6 | 5.5 |
| **Pakistan*** | 3.8 | -0.9 | 5.8 | 6.2 | -0.2 | 2.5 | 4.2 | 2.8 | 3.1 | 3.8 |
| **Tajikistan** | 6.9 | 4.5 | 9.2 | 8.0 | 8.3 | 8.4 | 8.2 | 8.4** | 6.2 | 4.7 |
| **Turkmenistan** | 6.3 | 5.9 | 5.0 | 6.2 | 6.3 | 6.3 | 6.3 | 4.3 | 4.1 | |
| **Uzbekistan** | 5.8 | 1.6 | 8.0 | 6.0 | 6.3 | 6.5 | 7.6 | 6.5 | 6.2 | 5.9 |
| **CAREC avg.** | 3.9 | -1.2 | 4.0 | 5.1 | 5.3 | 6.0 | 6.3 | 5.6 | 4.6 | 4.5 |

*Annual GDP growth rate is on a fiscal year basis. However, to make countries comparable, 9-month GDP growth rate here is on a calendar year basis.
** Real GDP growth as reported by national statistical agencies.
Note: 1. Green figures indicate that the growth of the year (projection) is higher than in 2024, red figures lower than in 2024. 2. The figures shown in column "2027F" are World bank's forecasts only, with the exception of the PRC, Kazakhstan and Pakistan where average of the IMF's and the World bank's projections are taken into account.
Sources: ADB (ADO, Sep 2025 forecasts, Dec 2025 forecasts for the PRC and Kazakhstan), IMF (WEO, Oct 2025 forecasts, Jan 2026 forecasts for the PRC, Kazakhstan and Pakistan), WB (Global Economic Prospects, Jan 2026 forecasts)

## Insert I:
## What Are the Driving Forces of High Economic Growth in Georgia?

*Kakha Gogolashvili*[2]

**Anatomy of Growth**

Georgia's exceptional growth in 2024 - 9.7%**,** followed by around 7–8% in the first three quarters of 2025 reflects a rare convergence of external inflows, migration-driven demand, trade reconfiguration, and emerging structural transformation. While this combination has produced impressive headline numbers, much of today's growth rests on temporary engines whose durability is limited. The central policy challenge is therefore not how to sustain high growth in the short term, but how to convert today's windfall into durable productivity-based development. With growth near double digits in 2024 and remaining high through 2025, Georgia stands out within the CAREC region. Yet high growth alone does not guarantee development. The sustainability of Georgia's expansion depends on the composition of its growth — whether it is driven by structural productivity gains or by temporary external and cyclical forces. To move beyond headline growth rates, it is useful to map the principal mechanisms currently generating output and demand in Georgia. The analysis below identifies five interacting forces—some largely temporary and shock-driven, others more structural—that together explain the country's exceptional performance.

***External Inflows:*** Tourism revenues, services exports, and remittances form the first major growth pillar. Tourism has surpassed pre-pandemic levels, while ICT and professional services have emerged as meaningful export earners. In 2023–2024, tourism revenues bounced back strongly following pandemic disruption, rising above pre-COVID levels with inflows from the EU, Gulf states, Israel, and Turkey. This trend has continued into 2025, with travel and tourism income increasing by 5.1 % year-on-year to a record USD 3.6 billion in January–September 2025, reflecting resilience in the services sector. Parallel expansion of ICT outsourcing and software services exported mainly to the EU and US by Georgian firms and relocated tech teams has contributed to growth in services exports, while information and communication activities were among the leading contributors to economic expansion in 2025[3]. These external inflows stabilize the macro environment, support consumption, and finance imports. These inflows support consumption and imports and help stabilize the balance of payments. However, they differ in their long-term value: tourism and remittances are more cyclical and geopolitically sensitive, while ICT and professional service exports are more "structural," because they can embed skills, innovation, and tradable capacity. Overall, external inflows are powerful near-term drivers, but only the tradable services component can reliably support long-run convergence.

***Migration Shock:*** *Imported Demand and Capital.* Since 2022, large inflows of migrants from Russia, Ukraine, and Belarus have injected Georgia with new demand, skills, capital, and business networks. This has fueled ICT services, real estate, rentals, and consumption—factors that have been among the strongest contributors to growth from 2022 up to the present, but also among the most fragile. Migration-driven growth is structurally reversible and vulnerable to geopolitical shifts. While official statistics do not fully disaggregate activity by migrant status, continued growth[4] in information, communication, and professional services in 2025 suggests ongoing dynamism in sectors where relocated talent has been concentrated**.**

***Re-exports and Trade Reconfiguration.*** Georgia's rise as a re-export hub—especially for vehicles and consumer goods imported from the US, Japan, and the EU through Georgian ports to Kazakhstan, Kyrgyzstan, Armenia, Azerbaijan, and Russia—has boosted logistics, wholesale trade, and customs

[2] Senior Fellow at Rondeli Foundation
[3] https://www.economy.ge/index.php?lang=en&nw=2891&page=news&utm
[4] https://www.economy.ge/index.php?lang=en&nw=2891&page=news&utm

revenues. Re-exports have been a visible growth engine: merchandise exports including vehicle re-exports rose strongly in the first half of 2025, with vehicle re-exports up by over 30 %.[5] Rustavi and Poti have developed into major automobile trading and logistics hubs, contributing to increased throughput and customs receipts. In 2025, Poti and Batumi ports recorded significant growth:[6] cargo throughput increased, vehicle handling expanded, and container traffic rose year-on-year, reinforcing Georgia's role as a regional trade node. Yet this engine remains highly dependent on sanctions regimes, transport corridors, and geopolitical conditions, limiting its long-term durability.

***Domestic Demand, Credit, Construction.*** Strong consumption, expanding credit, and booming construction and housing have amplified growth. Construction is largely derivative, responding to inflows and demand rather than generating autonomous productivity. These sectors produce rapid short-term gains but carry risks of overheating, asset inflation, and sharp corrections. The booming residential and commercial construction sectors in cities like Tbilisi and Batumi in 2025[7] demonstrate this pattern: increased activity in high-rise residential projects and expanding mortgage credit have supported construction growth. The real estate market has remained active, with stable transaction volumes and rising average prices year-on-year in Tbilisi's residential sector. Financial and insurance activities have emerged as one of the fastest-growing sectors in 2025, with real value-added expanding by 11.8 % in Q2 and 14.7 % in Q3, accounting for around 4.5–4.8 % of GDP. Indeed, this expansion does not represent an autonomous growth engine, but rather reflects the financial deepening and credit intermediation associated with migration-driven inflows, construction and real-estate expansion, rising trade activity, and the scaling of ICT and professional services. Important, official growth estimates in late 2025[8] show a decline in construction activity's direct contribution to GDP growth, even as other sectors expand, indicating some moderation in this cycle.

***Agriculture and Fisheries***

In 2024–2025, agricultural value added has shown weak and uneven dynamics, reflecting weather-related factors, lower productivity growth, and structural constraints in the sector. While agriculture continues to account for a meaningful share of annual GDP (around 6–8% annually), its short-term contribution to quarterly economic growth remains limited and unstable**,** justifying its exclusion from quarter-to-quarter sectoral comparisons.

***Emerging Structural Transformation.*** The most promising channel lies in tradable, higher-productivity activities—manufacturing, logistics, and modern tradable services (ICT, engineering, business process outsourcing, and professional services)—which can generate sustained productivity gains and support long-term convergence. In 2025, data indicate 9 that manufacturing, transportation and storage, information and communication, and professional, scientific, and technical activities made significant positive contributions to growth, reflecting structural evolution beyond temporary drivers. Examples include ongoing expansion of logistics infrastructure10 linked to the Middle Corridor, with warehouse demand accelerating and permitted space growing, reflecting deeper integration into regional value chains. Meanwhile, growth in software development, fintech, business process outsourcing, and engineering services continues to diversify exports, serving markets in the EU, US, and MENA region.

**Temporary vs Structural Growth**

To assess the sustainability of Georgia's high growth, it is useful to distinguish between channels that deliver strong short-term momentum and those that raise long-run potential. Table 2 provides a qualitative typology of the main growth channels shaping Georgia's performance in 2024–2025. External

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[5] https://gbc.ge/en/news/finanse/adb-forecasts-georgias-gdp-to-grow-by-7-in-2025?utm
[6] https://georgiatoday.ge/poti-and-batumi-ports-post-strong-2025-performance-reinforcing-georgias-strategic-role/?utm
[7] https://cushwake.ge/wp-content/uploads/2025/09/Georgia_2025-Q1-Q2-Overview.pdf?utm
[8] https://www.economy.ge/index.php?lang=en&nw=2891&page=news&utm
[9] https://www.economy.ge/index.php?lang=en&nw=2891&page=news&utm
[10] https://www.investor.ge/2025/10/23/investment-news-34/?utm_source

inflows—tourism receipts and remittances—have produced a large immediate boost, yet remain exposed to geopolitical and cyclical shocks. Migration-related inflows and "imported demand" have amplified consumption and services activity, but are structurally reversible. Re-exports and logistics have benefited from trade reconfiguration, while also remaining contingent on sanctions regimes and corridor dynamics. Domestic demand, credit, and construction act primarily as amplifiers and may generate overheating risks. By contrast, the expansion of tradable and higher-productivity sectors—ICT, manufacturing, and business services—offers the most durable development pathway.

**Table 2. Qualitative assessment of Georgia's growth channels (2024–2025)** [11]

| Growth Channel | Immediate Impact | Durability | Developmental Quality |
|---|---|---|---|
| **External inflows (tourism, remittances)** | High | Medium | Medium |
| **Migration shock & imported demand** | High | Low | Low–Medium |
| **Trade re-exports & logistics** | Medium | Low–Medium | Medium |
| **Domestic demand, credit, construction** | Medium | Low | Low |
| **Structural sectors (ICT, manufacturing, services)** | Rising | High | High |

Georgia's growth success therefore rests on a paradox: its strongest current engines are also its least durable.

**Conclusion: A Fragile Success**

Georgia's rapid expansion in 2024–2025 is real and economically meaningful, but it is also structurally unbalanced. Much of the momentum has been driven by inflows (tourism, remittances, migration-linked capital), trade reconfiguration and re-exports, and demand-sensitive sectors such as construction and credit. These channels can lift growth quickly, yet they are vulnerable to shocks and reversals—geopolitical shifts, sanctions dynamics, and changes in migration patterns. The key question is whether the current upswing becomes a platform for durable convergence or the high point of a temporary boom. Converting high growth into development requires using today's favorable conditions to strengthen Georgia's international competitiveness and expand the share of tradable, higher-productivity sectors. Priorities include: (1) redirecting investment and policy support toward export-capable activities (ICT and modern tradable services, manufacturing, logistics); (2) upgrading human capital and innovation systems to raise productivity; (3) improving institutional quality and predictability to attract long-term investment; and (4) managing credit and construction cycles to reduce overheating and ensure resources are not locked into low-productivity uses. In short, Georgia's headline growth can endure only if temporary windfalls are treated as accelerators of structural transformation, not substitutes for it.

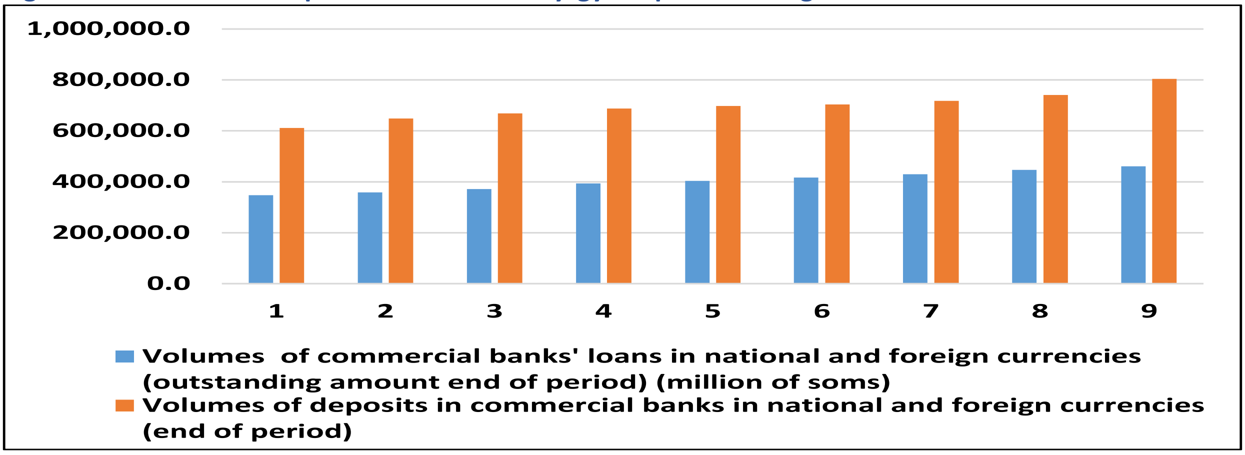
[11] This table classifies key growth channels by (i) immediate macroeconomic impact, (ii) expected durability, and (iii) long-run developmental quality. The classification is the author's analytical judgment, informed by GeoStat national accounts and sectoral dynamics, and National Bank of Georgia balance-of-payments indicators.

## Insert II:
Credit Trends in Kyrgyz Republic: Sources and Economic Impact

Razia Abdieva[12]

During the first nine months of 2025, the outstanding stock of commercial bank loans in national and foreign currencies increased from KGS 347.2 billion to KGS 460.6 billion, indicating a rapid expansion of banks' credit portfolios (Figure 10).

**Figure 10. Volumes of deposits and loans in Kyrgyz Republic during 9 months of 2025**




Source: Bulletin of the National Bank of the Kyrgyz Republic, №09/2025

By the end of the first quarter of 2025, the banking system's loan portfolio increased by 9.0% on a quarterly basis, reaching KGS 371.5 billion. The growth of the loan portfolio was mainly driven by an increase in loans denominated in national currency, which rose by 10.3% to KGS 300.5 billion. The expansion of lending in national currency during the first quarter was largely driven by growth in consumer loans (+16.4%), loans for trade and commercial operations (+9.4%), and mortgage loans (+7.0%) (The National Bank of the Kyrgyz Republic, 2025a).

In the second quarter of 2025 too active lending to the economy continued. By the end of the second quarter of 2025, the banking system's loan portfolio increased by 12.2% over the quarter, reaching KGS 416.9 billion. The volume of consumer loans grew both in nominal terms (by 2.1 times) and in real terms, thereby contributing to higher economic activity. The banks' loan portfolio denominated in national currency increased by 54% over the year. The growth of lending in national currency was supported by an increase in consumer loans (+18.7%), mortgage loans (+8.9%), and loans for trade and commercial operations (+8.0%).

The implementation of infrastructure projects and housing construction, including those carried out under measures by the Cabinet of Ministers of the Kyrgyz Republic, contributed to an expansion of construction activity across the country. In addition, a 69.9% increase in newly issued mortgage loans was recorded, further stimulating growth in real estate transactions (The National Bank of the Kyrgyz Republic, 2025b).

In the third quarter of 2025, the credit market continued its active expansion. During the quarter, the banking system's loan portfolio increased by 10.5%, reaching KGS 460.6 billion. Since the beginning of the year, credit growth reached 35.2%. The main driver of growth was the expansion of loans denominated in national currency, which rose by 10.8% to KGS 378.6 billion. The market for loans denominated in national currency recorded strong annual growth of 57.2%. Demand for loans denominated in national currency was supported by accelerated lending to key sectors, primarily consumer loans (+16.5%). Positive

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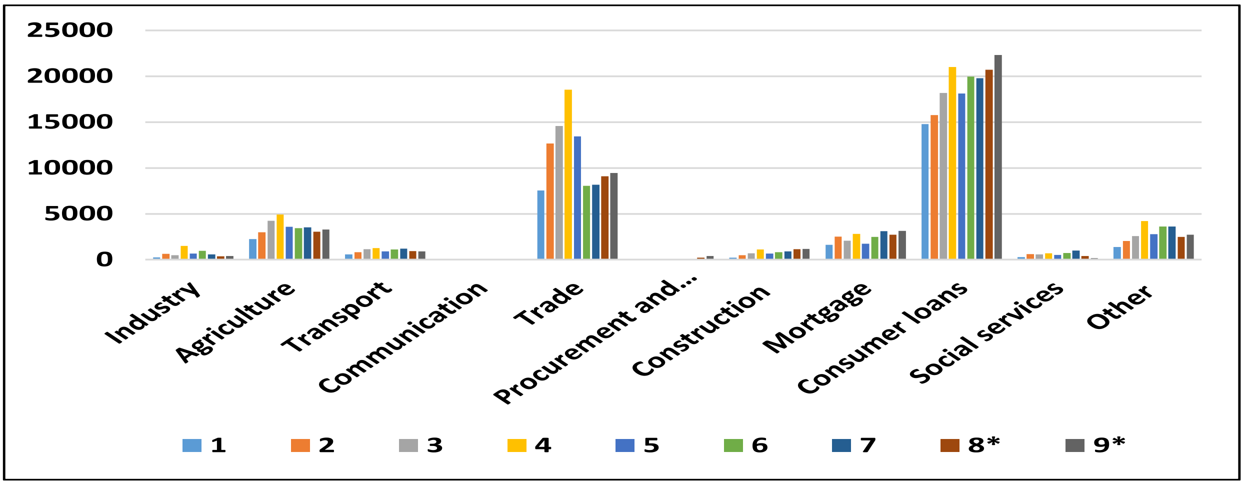
trends were also observed in mortgage lending (+10.5%), agricultural lending (+3.1%), as well as in lending for procurement and processing, which increased to KGS 4.9 billion. Foreign-currency lending also demonstrated positive dynamics (+9.1%), with loans to trade and commercial operations making the largest contribution to growth (+9.9%). At the same time, favorable trends were observed in construction (+15.1%), consumer lending (+28.8%), and mortgage lending (+12.7%) (The National Bank of the Kyrgyz Republic, 2025c). (Figure 11)

**Figure 11. Volumes of newly issued loans by commercial banks in Kyrgyz Republic in national and foreign currencies for nine months of 2025**

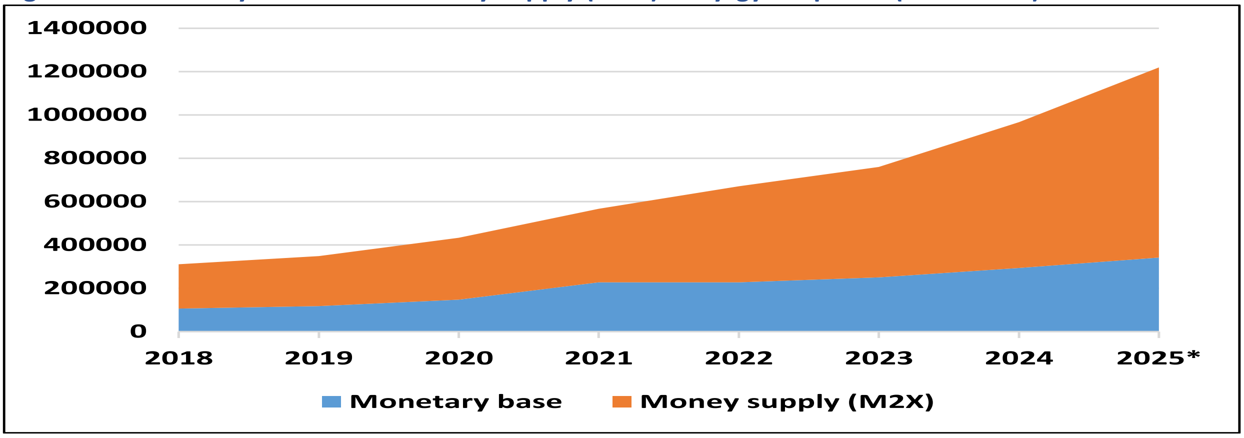



* preliminary data
Source: Bulletin of the National Bank of the Kyrgyz Republic, №09/2025

**Resources of Bank Lending**

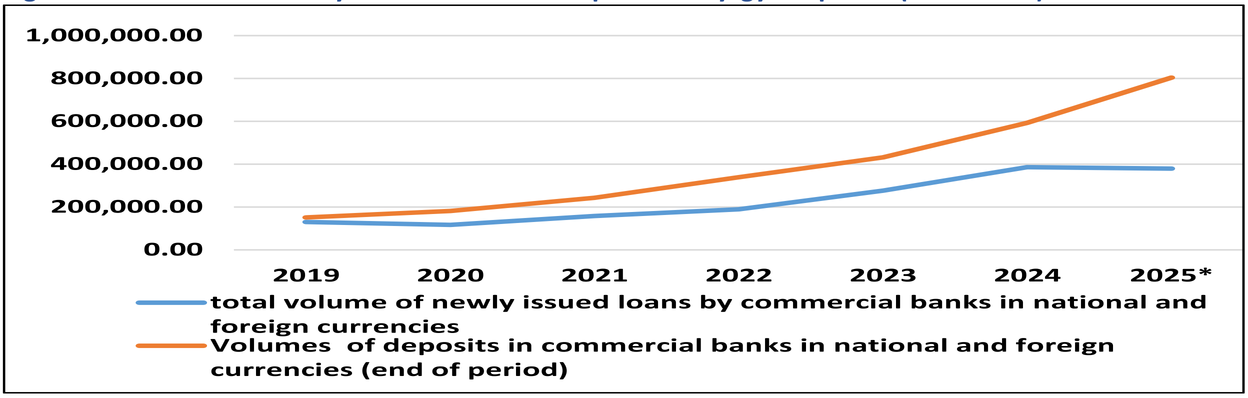
Over the first nine months of 2025, the deposit base expanded significantly, increasing from KGS 611.3 billion to KGS 804.1 billion. Deposits remained the primary source supporting banks' lending capacity and strengthening their funding bases. This expansion created favorable conditions for robust credit growth in 2025 and enhanced banks' ability to finance loan expansion through domestic funding sources (Figure 12).

**Figure 12. Monetary base and monetary supply (M2X) in Kyrgyz Republic (2018-2025)**




Source: Bulletin of the National Bank of the Kyrgyz Republic, №09/2025

**Figure 13. Volumes of newly issued loans and deposits in Kyrgyz Republic (2018-2025)**




Source: Bulletin of the National Bank of the Kyrgyz Republic, №09/2025

In 2025, growth in the monetary base played an important role in supporting the accelerated expansion of bank lending in the Kyrgyz Republic (Figure 13). In the first quarter of 2025, the monetary base expanded, and positive dynamics were observed across all monetary aggregates. The pace of quantitative growth exceeded both the previous quarter and the corresponding period of the previous year. The main factor behind this increase was a significant year-on-year rise in deposits in national currency transferable on demand (funds held in settlement and demand deposit accounts) by 93.5%, as well as a 36.0% increase in time deposits denominated in national currency. This trend was driven by macroeconomic conditions observed in the first quarter of 2025, including increased activity in the construction and trade sectors, growth in investment in fixed capital, and an increase in average nominal wages. These developments contributed to higher incomes for households and enterprises, thereby creating conditions for an expansion of funds held in settlement accounts for current needs and an increase in time deposits for savings (The National Bank of the Kyrgyz Republic, 2025a). By the end of the third quarter of 2025, the monetary base amounted to KGS 342.0 billion, recording an annual growth of 24.7%. The main contribution to the overall growth of the monetary base came from an increase in net foreign assets, in particular the rise in international reserves in the form of gold (an increase of 22.2%) (The National Bank of the Kyrgyz Republic, 2025c: 26).

A sustained fiscal surplus has a positive effect on credit conditions in the economy. By reducing the government's need for domestic borrowing, it limits competition between the public and private sectors for bank resources and lowers crowding-out pressures. This allows commercial banks to allocate a larger share of their liquidity to private sector lending, supporting credit growth. Overall, the favorable fiscal stance in 2025 created supportive conditions for expanded bank lending in the country.

Another important driver of credit growth in Kyrgyzstan in 2025 was the rapid expansion of online lending. Digital loan platforms, mainly concentrated in consumer and micro-lending segments, significantly reduced transaction costs, shortened approval times, and expanded access to credit for households and small entrepreneurs. As a result, the number of loans increased sharply, driven by a high frequency of small, short-term loans issued via mobile applications and online banking channels. Although the average size of online loans remained relatively modest, their cumulative effect made a meaningful contribution to overall credit expansion, particularly in consumer lending, thereby supporting domestic demand and accelerating money circulation. However, online lending has led to an increase in digital financial fraud, and in response to this problem, a self-restriction mechanism was introduced starting from November 1, 2025. This system allows individuals to voluntarily prohibit the issuance of new loans or credits in their name and is aimed at protecting consumers from unauthorized lending using forged or stolen identification documents (Kwan, 27.11.2025).

**Economic Impact of Loans**

In the first quarter of 2025, the expansion of consumer lending emerged as one of the key factors supporting the strengthening of domestic demand in the Kyrgyz Republic. Rising real household incomes, continued growth in consumer credit, and increased inflows of cross-border remittances further reinforced domestic demand conditions. As a result, real GDP growth reached 11.4% in the first half of 2025 (The National Bank of the Kyrgyz Republic, 2025b).

The expansion of bank lending to the real sector, alongside sustained growth in consumer credit, contributed to higher levels of consumption and investment activity across the economy. Elevated economic activity among households and businesses supported a notable increase in the national-currency loan portfolio over the first nine months of 2025.

However, while the acceleration of domestic demand provided a significant boost to economic activity, it also generated inflationary pressures over the medium term. In the third quarter of 2025, inflation in the Kyrgyz Republic accelerated to 8.9%, up from 7.7% in the second quarter (quarter-on-quarter, year-on-year). In September 2025, inflation stood at 8.4% on an annual basis, reflecting the growing impact of demand-side pressures on price dynamics (The National Bank of the Kyrgyz Republic, 2025c: 27).

According to the preliminary estimates of the National Statistical Committee, GDP growth in 2025 increased by 11.1% compared to the previous year (www.stat.kg, 22.01.2026). At the same time, inflation exceeded the target range of 5–7% and reached 9.2% on a year-on-year basis. In response, the National Bank raised the policy (key) interest rate to 11% (The National Bank of the Kyrgyz Republic, https://www.nbkr.kg, 22.01.2026). Taken together, these developments point to elevated demand pressures and warrant close monitoring to assess potential risks of economic overheating.

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https://stat.gov.kg/ru/news/po-itogam-2025-goda-rost-vvp-sostavil-111-procenta

## Insert III:
## Dzud Impact on Mongolian Economy

*Tuvshintugs Batdelger[13] & Nomun Enkhbold[14]*

Dzud is an extreme weather event in Mongolia characterized by harsh winter and early spring conditions that severely restrict livestock survival and lead to widespread losses. It manifests in multiple forms, all of which reduce the availability of forage. Heavy snowfall can accumulate and compact, preventing livestock from accessing forage; this is referred to as "white" dzud. In late winter and early spring, rising temperatures can melt snow, while sudden drops in temperature can create ice layers over pasture vegetation in a very short period, making grazing impossible. This phenomenon is known as "iron" or "ice" dzud.

The occurrence of dzud is officially announced by the Institute of Hydrometeorology and Environmental Research on January 31 of each year, based not only on the depth and density of snow and ice cover but also on several other factors, including the previous summer's vegetation growth, deviations of average air temperature from long-term norms, minimum daily air temperatures, and the number of days with strong winds.

Historically, the increasing frequency and intensity of dzud over the past two decades have posed growing risks to both the livestock sector and the wider economy. In Mongolia, agriculture is the second-largest economic sector after mining, and the livestock sector accounts for approximately 90% of agricultural output. Although the livestock sector contributed over 15% of GDP prior to 2008, rapid expansion of the mining sector has reduced its share to about 10–11% in recent years. Livestock exports, which once represented more than 7% of total exports, have declined to around 4% since the COVID-19 pandemic.

Despite this decline, the sector remains vital. Over the past 17 years, livestock numbers have increased from 43 million to 70 million, and the sector supplies most of the country's animal-based food products. Its reliance on traditional nomadic livestock husbandry and environmental conditions makes it particularly vulnerable to extreme weather events such as dzud.

Dzud has repeatedly inflicted massive losses on Mongolian pastoral communities (Figure 14). Data from the National Statistics Office show that between 1999 and 2002, approximately 10.3 million livestock were lost, representing 30.8% of the total herd. During 2009–2010, losses amounted to 10.2 million animals, accounting for 23.1% of the total. Most recently, dzud conditions from 2022 to 2024 resulted in the loss of 14.1 million livestock, corresponding to 19.9% of the national herd.

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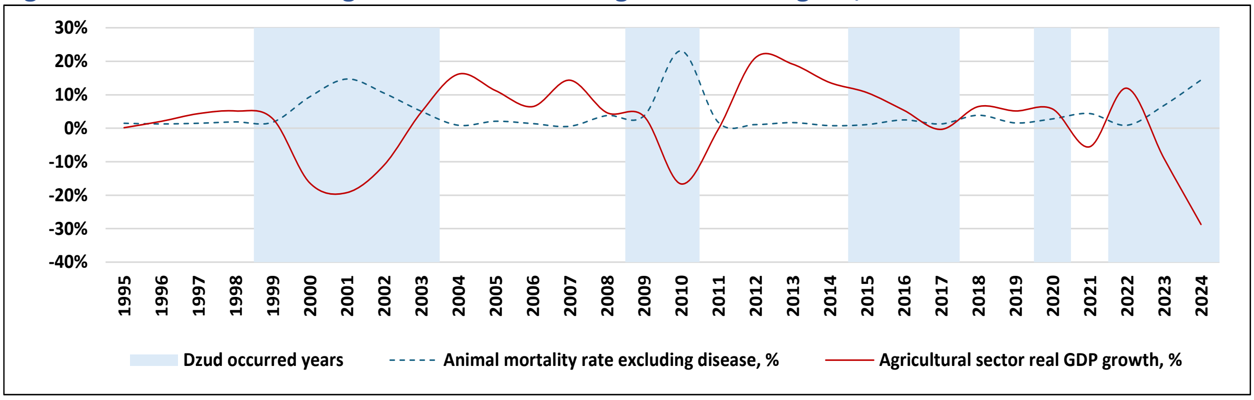
**Figure 14. Animal loss and agricultural sector GDP growth in Mongolia, 1995-2024**




Source: National Statistics Office, and Ministry of Food, Agriculture and Light Industry

Looking forward, projections for the winter of 2025–2026 suggest a possible continuation of dzud conditions. The general dzud risk assessment conducted by the National Agency for Meteorology and Environmental Monitoring in December 2025 identified 23% of the country's territory as being at very high dzud risk and 58% as high risk, with 11 of the country's 21 provinces classified as high risk (NEMA 2025).

It should be noted that climate change has increased both the frequency and intensity of dzud events (MECC 2015) by altering precipitation patterns and intensifying temperature extremes, thereby contributing to the manifestations of dzud described above. Disaster risk assessments project that by 2050, high dzud-risk areas will increase by 10.4 percentage points and very high-risk areas by 17.4 percentage points compared with the 2020–2022 average (NEMA 2023). As the effects of climate change intensify, economic costs are expected to continue rising, further challenging policymakers' efforts to protect both livestock and livelihoods.

The economic consequences of dzud are felt most acutely at the household level. Livestock husbandry remains the primary source of income for more than 190,000 herder households, representing about 20% of all households. For these households, livestock simultaneously represents assets, income, and social status. When dzud occurs, it directly undermines their economic foundation through the loss of current income, assets, and future productive capacity. Although measures exist to prevent, cope with, and adapt to dzud, they remain insufficient in the face of extreme events. During the 2010 dzud, 75,000 households lost more than half of their livestock (Sternberg 2010). In the most recent dzud episode, as of April 2024, approximately 5,000 households had lost more than 70% of their livestock (UNICEF 2024). A study of the socioeconomic impacts of the 2023–2024 dzud, based on data from four affected provinces, estimated that real income per household member was expected to decline by an average of 9–20% following the event (UNDP 2025). The study also highlighted that households owning between 201 and 500 animals in Dornod, Zavkhan, and Sukhbaatar provinces face a very high risk of falling into poverty.

Beyond household-level impacts, dzud has significant short-term consequences for the macroeconomy due to the livestock sector's central role in agriculture. During the dzud years of 2022–2024, real agricultural GDP (at 2015 constant prices) declined sharply by 35%, reducing aggregate GDP growth by 1.3 and 3.6 percentage points in 2023 and 2024, respectively (NSO 2025). Consequently, the livestock sector's share of GDP fell to 6.1% in 2024. At the provincial level, where the livestock sector typically accounts for around 45% of provincial GDP on average (excluding urban and large-scale mining provinces), its share declined to 31% due to dzud. Livestock exports—dominated by low-processed cashmere and finished cashmere textile products—also contracted, falling by 7.6% year on year in 2024.

Thus, dzud not only disrupts household livelihoods but also generates broader macroeconomic instability. Over time, these developments—ultimately driven by climate change—undermine Mongolia's comparative advantage in pastoralism and threaten the sustainability of rural economies.

Taking a longer-term view, extreme cold, low precipitation, and short growing seasons limit the stock of natural forage, which is the primary feed source in nomadic animal husbandry, making large-scale supplementary feeding ecologically impractical. Combined with logistical and economic barriers, these conditions constrain adaptive and mitigating strategies such as migration to alternative grazing areas, seasonal *otor* movements, herd composition diversification, fodder and hay harvesting and storage, and livestock trading, which have proven insufficient to fully offset losses during severe weather events.

These household-level responses highlight a fundamental challenge: herder communities remain inherently vulnerable, and the increasing intensity and unpredictability of dzud exceed the capacity of conventional interventions. In recognition of this, the government has implemented, with varying degrees of success, a range of measures aimed at reducing exposure, limiting losses, and facilitating recovery. These include early warning systems, index-based livestock insurance, targeted fodder allocation to high-risk and affected provinces, livestock restocking programs, and conditional relief measures such as loan deferment during extreme events. Beyond these reactive interventions, promoting diversification of rural household income sources, reorienting livestock production away from quantity-driven herd expansion toward higher-quality and value-added production, and fostering rural employment opportunities can further enhance herders' resilience to dzud events.

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