CAREC Institute Quarterly Economic Monitor

Chief Economist Team

April 2026

No. 20

CAREC Institute

Quarterly Economic Monitor

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This 20th 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 Vugar Bayramov and Nigar Islamli, Insert II – by Aliya Musina. Special thanks go to Hoe Ee Khor for providing comments and suggestions.

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The authors would like to acknowledge the use of AI models (www.deepseek.com and www.deepl.com) for assistance with language editing and translation during the preparation of this manuscript.

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Abbreviations

ADB	Asian Development Bank
ADO	Asian Development Outlook
CAREC	Central Asia Regional Economic Cooperation
CIT	Corporate Income Tax
CPI	Consumer Price Index
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
IFI	International Financial Institution
IIT	Individual Income Tax
IMF	International Monetary Fund
MCI	Monthly Calculation Index
OECD	Organization for Economic Cooperation and Development
PRC	People's Republic of China
Q1	First Quarter
Q2	Second Quarter
REU	Regional Economic Update
SRC	State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan
STR	Special Tax Regime
USD	US Dollar
VAT	Value-added Tax
WEO	World Economic Outlook
yoy	year-on-year

The CAREC region maintains steady real GDP growth despite persistent external shocks and inflationary pressure

Global commodity prices surged in March 2026 amid escalating geopolitical conflict in the Middle East, with energy and fertilizer prices rising sharply, while gold prices stayed high, although they moderated from earlier peaks. According to statistics, the conflict has not yet fully materialized in output development of the region. The CAREC region continued to grow by average rate above 6.0% in 2025 and at the beginning of 2026. Services and industry were the main drivers of this growth, which was mostly supported by manufacturing, construction and financial activities.

As geopolitical disruptions from the Middle East have begun to impact the region, food and fuel prices are emerging as the principal contributors, particularly in import-dependent economies. Meanwhile, high domestic demand, rapid credit growth and rising wages together with adjustments to utility tariffs sustained underlying domestic pressures on inflation. In general, inflation in several CAREC countries remains above central bank benchmarks, with average inflation remaining steady at around 6.5% (yoy). Inflation accelerated sharply in the Kyrgyz Republic, Mongolia and Pakistan in March 2026 and stayed elevated, although it eased somewhat in Kazakhstan and Uzbekistan. Inflation stayed low or moderate in the PRC, Azerbaijan, Georgia and Tajikistan. The monetary policy stance on average stayed unchanged but diverged in the first quarter of 2026: the National Bank of the Kyrgyz Republic raised its policy rate, while central banks in Tajikistan and Azerbaijan cut rates to support growth.

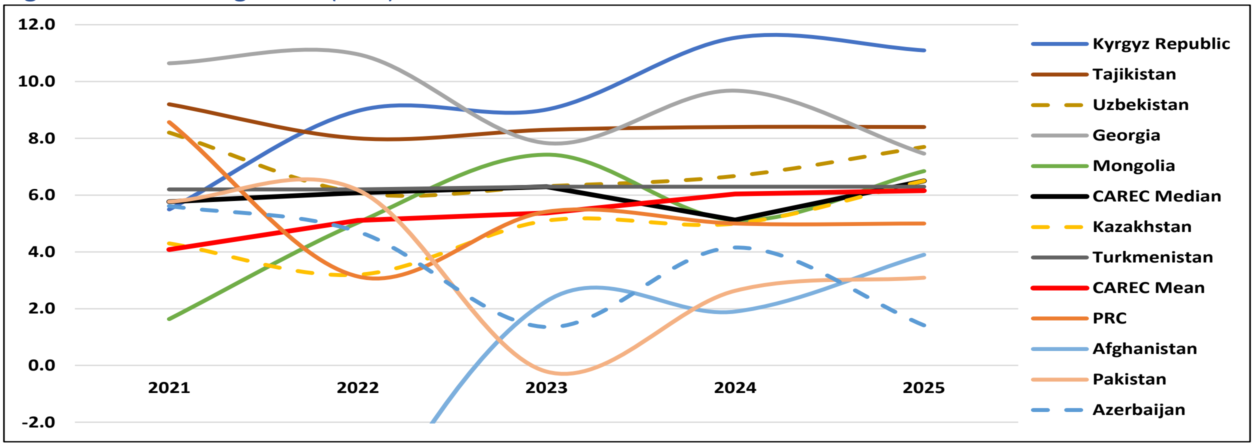
Trade performance across the CAREC region was uneven. Statistics from early 2026 show that economies exporting gold and mineral products continued benefiting from high prices and strong external demand, while strong domestic demand drove import growth across the region. Intra-CAREC trade strengthened modestly. Current account balances improved across the region in 2025, with oil exporters facing narrowing surpluses or widening deficits, while gold exporters and remittance-receiving countries showed stronger external positions. The PRC stands out as both the region's main trading partner and leading investor. FDI flows to landlocked CAREC economies contracted sharply due to persistent structural barriers including high transport costs and institutional constraints.

The ongoing Middle East conflict poses downside risks in the near future because rising energy costs and supply chain disruptions may exacerbate inflation and put stress on external balances. According to forecasts of international financial institutions, growth in the CAREC region is expected to moderate in the medium term due to higher food and commodity prices, weaker domestic demand and weaker business activity. Institutional barriers remain a key structural challenge facing the CAREC region. Near-term priorities include managing inflation and supporting growth through coordinated policies, while longer-term goals center on accelerating the renewable energy transition, diversifying economies beyond resource sectors, strengthening financial buffers, and deepening regional connectivity.

Output:
The CAREC region maintained steady real GDP growth despite persistent external dependence and inflationary pressures

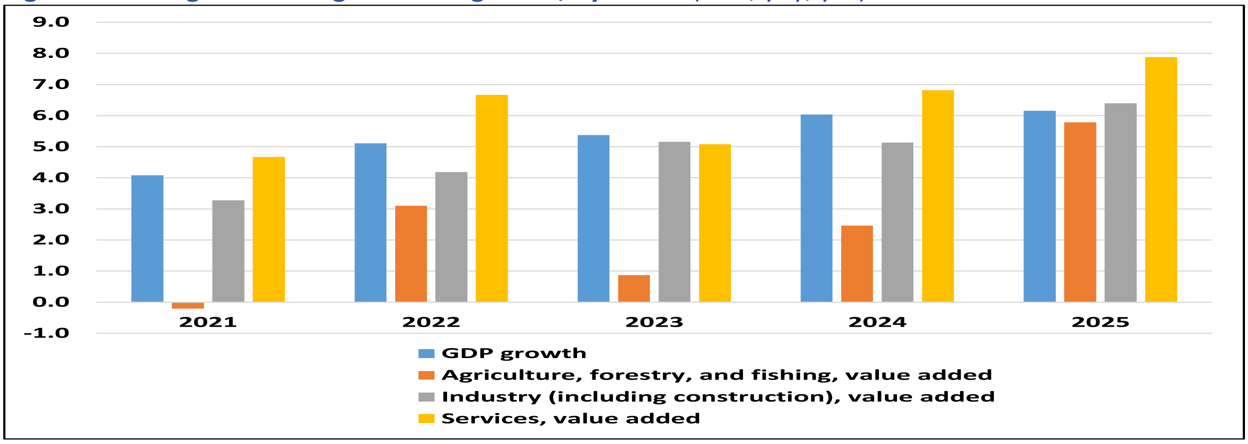
The GDP growth of the CAREC region averaged at 6.2% in 2025 compared with 6.0% in 2024, maintaining steady expansion (Figure 1). The growth was characterized by unevenness, and driven by industry and domestic demand. However, the unevenness of growth across countries remains pronounced. The Kyrgyz Republic was the fastest-growing economy in the region in 2025, at 11.1%, and it maintained a high growth rate of 10.1% in Q1 2026. The high-growth group also includes Tajikistan (8.4%), Uzbekistan (7.7%), Georgia (7.5%), Mongolia (6.8%), Kazakhstan (6.5%), and Turkmenistan (6.3%). The PRC, the largest economy in the region, grew by 5.0% in 2025, same as in 2024. In contrast, Pakistan and Azerbaijan recorded relatively lower growth of 3.1% and 1.4% in 2025, respectively. In Q1 2026, Azerbaijan's GDP grew by -0.3%.

Figure 1. Real GDP growth (in %)



Note: Afghanistan and Pakistan present GDP growth rate on a fiscal year basis; Pakistan's GDP growth rate is presented by gross value-added approach, consistent with government report practice.
Source: CEIC database, World Bank; authors' calculations

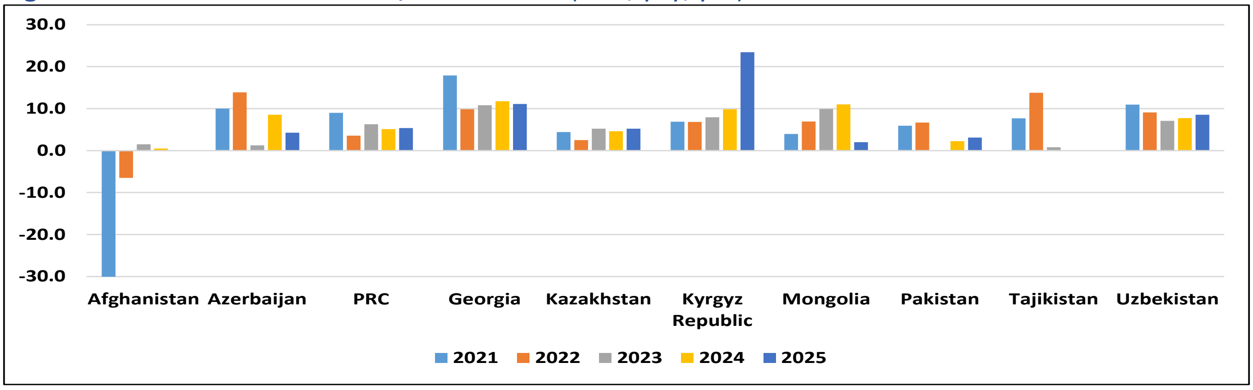
Figure 2. Average CAREC region's GDP growth, by sector (in %, yoy, ytd)



Note: Industry growth for Kazakhstan excludes construction; growth of GDP components is presented based on data availability.
Source: CEIC database, World Bank; authors' calculations

Regarding sectoral performance, the CAREC region's growth is mainly driven by the service sector with an average growth of 7.9% in 2025, compared with 6.8% in 2024 (Figure 2). The strong expansion of the service sector in the region in 2025 could be seen in the Kyrgyz Republic (23.5%), notably in financial and insurance activities; and Georgia (11.1%), with rapid growth in information and communication services (Figure 3).

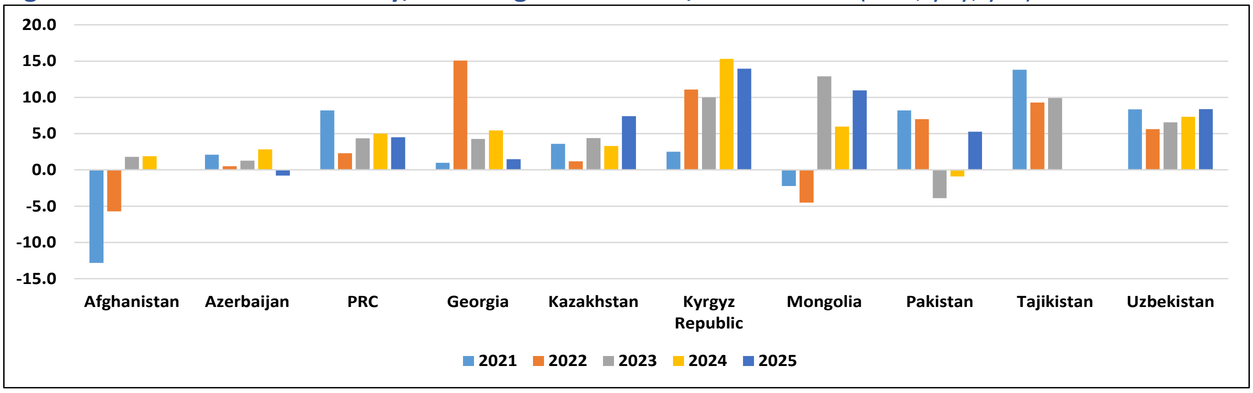
Figure 3. Growth rate of services, value added (in %, yoy, ytd)



Source: CEIC database, World Bank; authors' calculations

The average growth rate of the industrial sector was 6.4% in 2025, compared with 5.1% in 2024, fueled by manufacturing and construction. The Kyrgyz Republic (14.0%), Uzbekistan (8.4%), and Mongolia (11%) delivered strong performance, while Azerbaijan (-0.8%) and Georgia (1.5%) were held back by extractive industries (Figure 4).

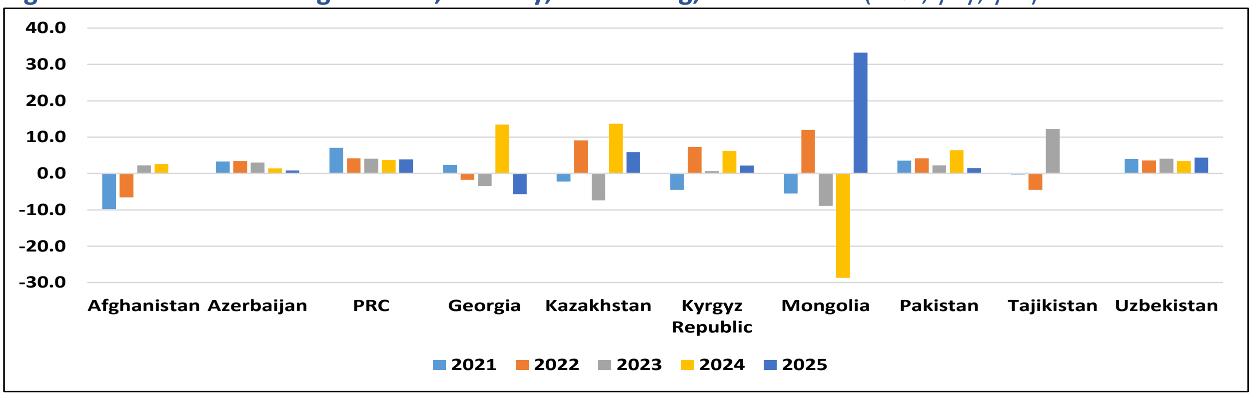
Figure 4. Growth rate of industry, including construction, value added (in %, yoy, ytd)



Note: Industry growth for Kazakhstan excludes construction.
Source: CEIC database, World Bank; authors' calculations

Agriculture is vulnerable to shift in weather conditions due to climate change. Agriculture, forestry, and fishing increased by 5.8% in the CAREC region in 2025, up from 2.5% in 2024. It was led by Mongolia's agriculture which surged by 33.2% due to strong recovery from the weather-related heavy losses in 2024, when the agriculture output contracted by 28.7% (Figure 5). Excluding Mongolia, the average growth stood at 1.9% in the region in 2025, compared with 2.5% in 2024.

Figure 5. Growth rate of agriculture, forestry, and fishing, value added (in %, yoy, ytd)



Source: CEIC database, World Bank; authors' calculations

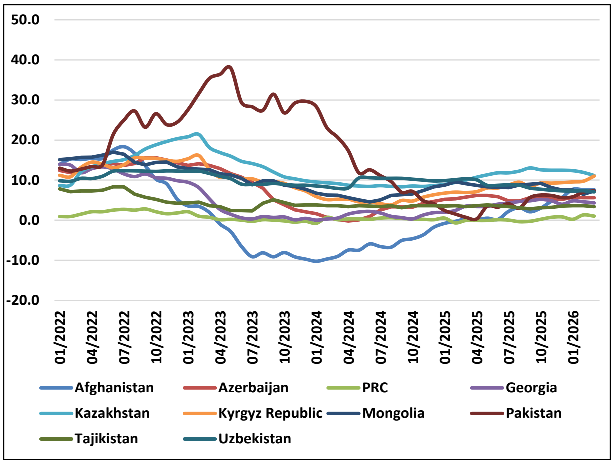
Inflation:
Staying elevated driven by combination of cost-push influence of global shocks and persistent pressure amid relatively tight monetary policy stance

By March 2026, median headline inflation of the CAREC region has increased to 7.2% (yoy), while its average has stayed at 6.5% (yoy) since December 2025. Inflation has remained high and above central banks' targets and forecasts in most countries (Figure 6), but was especially high in Kazakhstan (11.1%), the Kyrgyz Republic (11%), Mongolia (7.3%), Pakistan (7.3%) and Uzbekistan (7.1%). In contrast, it stayed relatively moderate in Azerbaijan (5.6%), Georgia (4.3%) and Tajikistan (3.6%), while the PRC recorded low inflation of 1.0%. Pakistan experienced a sharp acceleration in inflation to 7.3% in March 2026 from 0.7% a year ago. The CAREC region is experiencing a challenging mix of cost-push pressure from external factors and persistent demand-side pressure, leaving central banks with limited scope for monetary easing to support growth while continuing to pursue their inflation targets.

Although the composition of inflation in the CAREC region in March 2026 did not fully reflect the impact from external shocks (Figure 7), prices for non-food commodities, including fuel, accelerated from 4.7% in December 2025 to 5.5% in March 2026. Food prices were the other major contributor to headline inflation. Their impact was particularly evident in Georgia, Mongolia, Pakistan and the Kyrgyz Republic – countries that have a higher share of imported goods in their consumption basket – where rising global food and fuel prices are transmitted quickly to consumer prices. In Pakistan, food inflation turned positive in early 2026, while non-food inflation surged to 9.3%. In the PRC, food prices increased modestly by 0.3%, while non-food prices and services rose by 1.2% and 0.3%, respectively. Increase in services prices also contributed to inflationary pressure – increase in regulated utility tariffs led to higher headline inflation in Kazakhstan, Uzbekistan and Tajikistan, where tariffs for electricity, heating were raised in 2025 and early 2026.

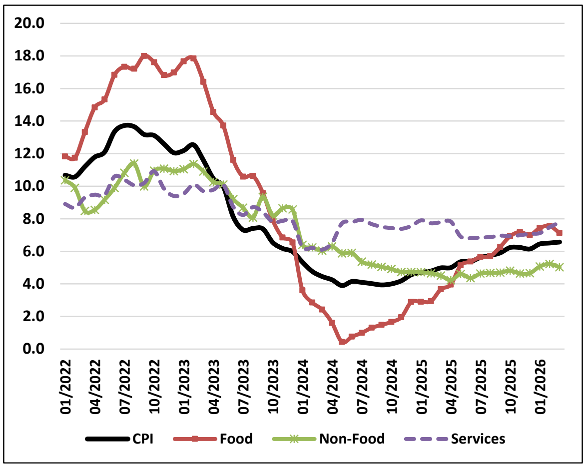
Inflation in the first three months of 2026 in the CAREC region was initially driven by mix of domestic factors. Some governments across the region implemented or continued tax reforms and adjustment of regulated utility tariffs for electricity and heating, which had cost-push effects on inflation in Kazakhstan, Tajikistan, Uzbekistan and Georgia. On the demand side, robust domestic spending driven by rapid bank loans growth, rising wages, and capital inflows, have sustained inflationary pressure. Broad money growth in the region averaged to 19.9% yoy in February 2026, with particularly high, albeit moderating, money supply growth in the Kyrgyz Republic (32.7% yoy). The most significant external driver, that started impacting the CAREC region in March 2026, has been a surge in global energy prices following the geopolitical conflicts in the Middle East. Afghanistan and Pakistan experienced up to 2 percentage points increase in inflation rate as rising oil and fuel costs affected transportation and logistics, production costs, and consumer prices.

Figure 6. Inflation: Consumer price index growth in CAREC countries (in %, yoy)



Source: CEIC database, national agencies, authors' calculations

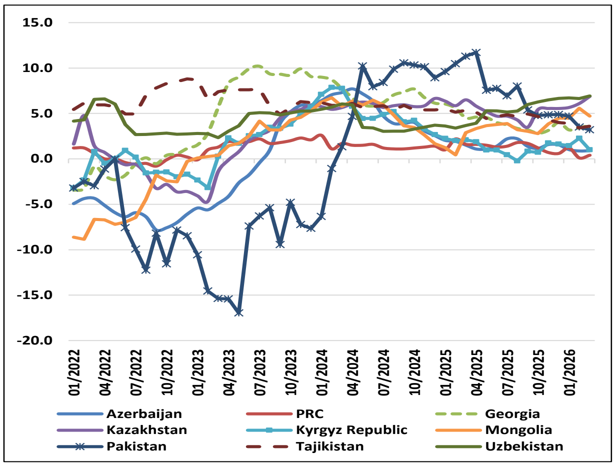
Figure 7. Inflation: Growth of headline CPI, food, nonfood, services (in %, yoy)



Source: CEIC database, national agencies, authors' calculations

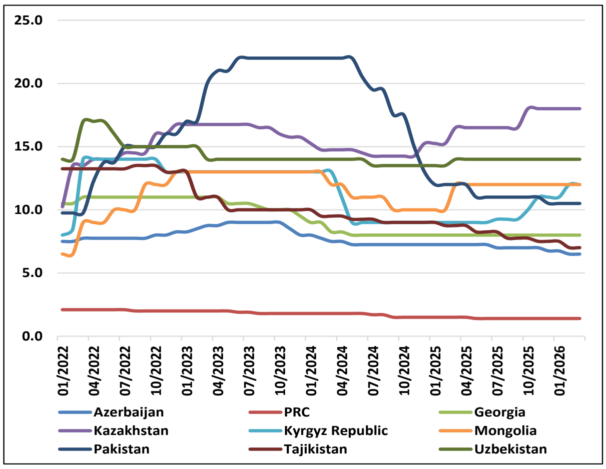
Monetary policy responses diverged across the CAREC region, but monetary policy stance remained broadly unchanged. The National Bank of the Kyrgyz Republic was the only central bank that raised its policy rate at the beginning of 2026, which kept the real interest rate positive and dampened money growth (Figure 8). In contrast, several central banks adopted an accommodative monetary policy stance amid moderate inflation. The Central Bank of Azerbaijan reduced its rate by 25 basis points in February 2026 with the goal to stimulate non-oil sector. The National Bank of Tajikistan cut its policy rate by 50 basis points. All other central banks maintained their policy rates in the first quarter of 2026 (Figure 9). A decisive tightening by the National Bank of Kazakhstan in raising its policy rate by 150 basis points in October 2025, helped to moderate inflation from its peak of 13% in September 2025 to 11% in March 2026. Tighter monetary policy stance in Mongolia, and Uzbekistan also contributed to some moderation in inflation by March 2026. The People's Bank of China has kept its policy rate unchanged at 1.4% since May 2025, prioritizing measures to boost consumption. As a result, inflation remained positive at the beginning of 2026 despite weak domestic demand, reflecting the impact of global energy price increase.

Figure 8. Central bank policy rates adjusted for inflation (% per annum)



Source: CEIC database, national agencies, authors' calculations

Figure 9. Central bank policy rates in CAREC countries (% per annum)



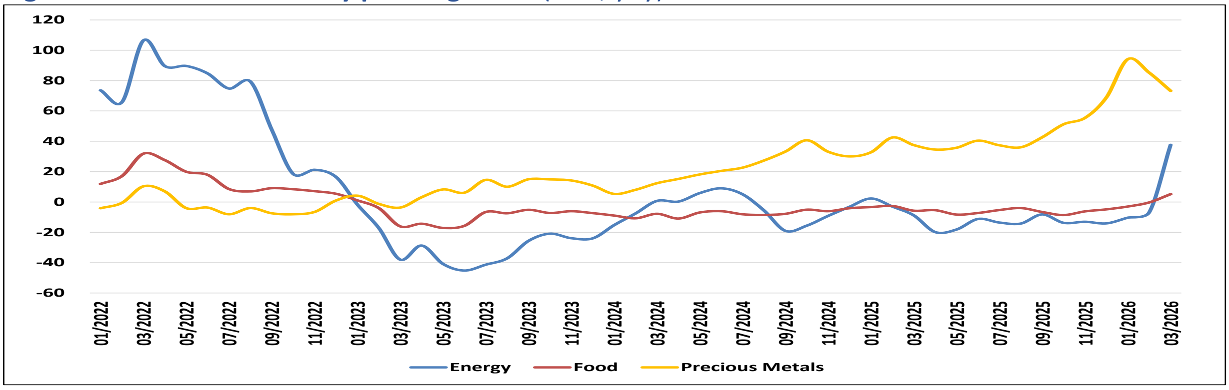
Source: CEIC database, national agencies, authors' calculations

Trade:
Global commodity prices surged in early 2026 amid escalating crisis in the Middle East, leaving CAREC region split between booming mineral exports and struggling import-dependent economies

In 2025 global commodity prices were driven by softening demand and an underlying oversupply of oil and gas, while trade tensions and uncertainty drove up the gold price, which peaked at above USD 5,400 per ounce in late January 2026 (Figure 10). After a year-long decline, which averaged -7.7% (yoy) during March 2025–February 2026, the World Bank commodity price index surged dramatically by 25.4% (yoy) in March 2026 amid with the outbreak of geopolitical conflict in the Middle East. The most dramatic increase was in energy prices (+37.7% yoy) and fertilizers (+42.5% yoy), while gold price declined from this peak and averaged around USD 4,855 per ounce in March 2026. Prices for food and other raw materials remained relatively stable between February and March 2026, as the impact of fuel price increase had not yet fully materialized.

Trade dynamics across the CAREC region in 2025 and early 2026 demonstrated a divergent pattern: robust exports in some economies alongside persistent structural deficits in others. On the export side, some countries benefited from high prices and strong external demand for commodities such as coal and gold. The PRC continued to play a major role as the region's largest trading partner and key driver of external demand. Exports of Mongolia grew significantly by 62.3% in Q1 2026, driven by mineral commodities, particularly coal, copper and gold. Tajikistan's exports' growth was also driven by an increase in mineral product exports, and Uzbekistan's exports - by gold. Georgian economy benefited from re-exports of vehicles and metals. However, not all CAREC economies enjoyed this commodity boom. Azerbaijan's total exports declined, although at the same time non-oil exports increased. The Kyrgyz Republic demonstrated a notable decline in exports, while Pakistan's exports remained stagnant amid structural challenges. On the imports side, strong domestic demand in many CAREC countries fueled increase in volumes of imports. Pakistan, Kyrgyz Republic, Tajikistan and Uzbekistan saw increases in imports driven by demand for investment and consumption goods and subsequent widening of their trade deficits. Georgia and Mongolia reduced their imports which helped to narrow their trade imbalances. Afghanistan's trade remained fragile and constrained by border closures and regional instability.

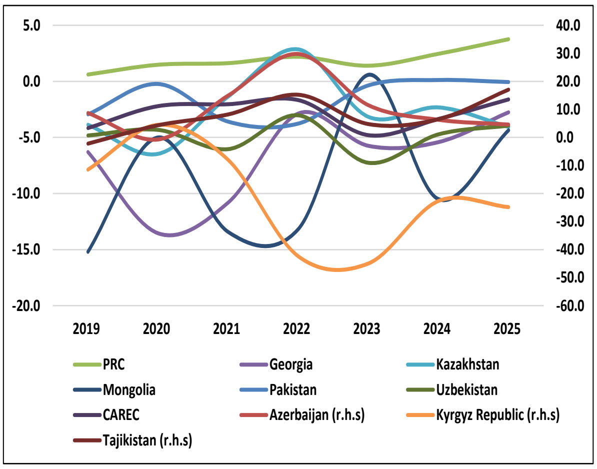
Figure 10. Global commodity prices' growth (in %, yoy)



Source: World Bank, authors' calculations.

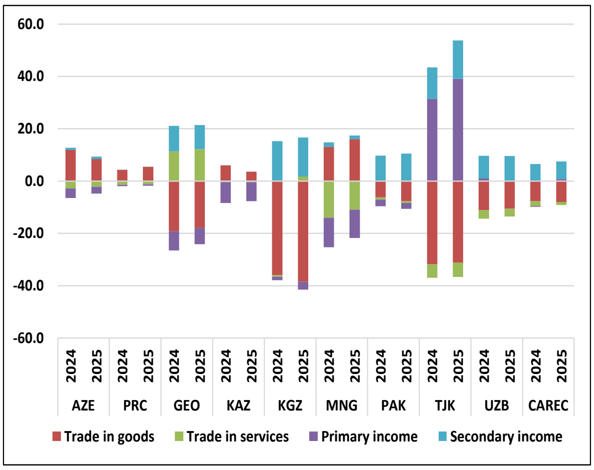
Intra-regional trade in CAREC region continued to strengthen in 2026 and increased by 5.1% yoy. Although the total export share to other CAREC members in 2025 remained at around 4.4% on average, it ranged from 2.8% for the PRC and 4.3% for Azerbaijan, to 87.8% and 85.4% for Mongolia and Turkmenistan, respectively. The PRC and Kazakhstan remain among the top trading partners for other CAREC members. While some countries such as Pakistan are pursuing policies to deepen integration through improved cross-border facilities, others such as Afghanistan remain constrained by geopolitical disruptions and increasingly rely on Central Asian corridors to access global markets.

Figure 11. Current account balances in CAREC countries (in % of GDP)



Source: CEIC database, national agencies, authors' calculations

Figure 12. Components of current accounts in CAREC region (in % of GDP)



Source: CEIC database, national agencies, authors' calculations

Current account balances across CAREC region improved somewhat in 2025, reflecting divergent impact of movements in commodity prices, persistent though decreasing remittance flows and domestic demand pressures (Figures 11 and 12). Oil and gas exporters such as Azerbaijan and Kazakhstan saw surpluses narrow or deficits widen, driven by strong domestic demand and fueled growth in consumption and imports. In contrast, some commodity exporters and remittance-receiving countries showed improvement in their current account balances. While Mongolia and Uzbekistan narrowed their external deficits, Tajikistan recorded a remarkable current account surplus of 17% of GDP. Georgia's external deficit narrowed, partly driven by services exports. Although Mongolia significantly narrowed its current account deficit, it continued to run services deficits and net primary income outflows. Pakistan maintained a near-balanced current account during 2023–2025, supported by remittances and luxury import contraction measures. The PRC recorded an increase in current account surplus of 3.8% of GDP in 2025, driven by strong export growth and a narrowing services deficit, fueled by a surge in inbound tourism following relaxed visa policies.

Investment:
The PRC's investment role remains robust as both prime recipient and top global source

Within CAREC, most economies—except for the PRC, Georgia, and Pakistan—are classified as landlocked developing countries, and the majority are net recipients of FDI, with the PRC standing out as the foremost long-term investment destination within the region (Figure 13). However, for nine consecutive years, the PRC was also among the world's top three investors with FDI outflow reaching USD 174.4 billion in 2025, a 7.1% growth. Indeed, the PRC became the single largest investor in landlocked developing economies in 2023.

Figure 13. Net FDI positions in recent years (in USD billion)

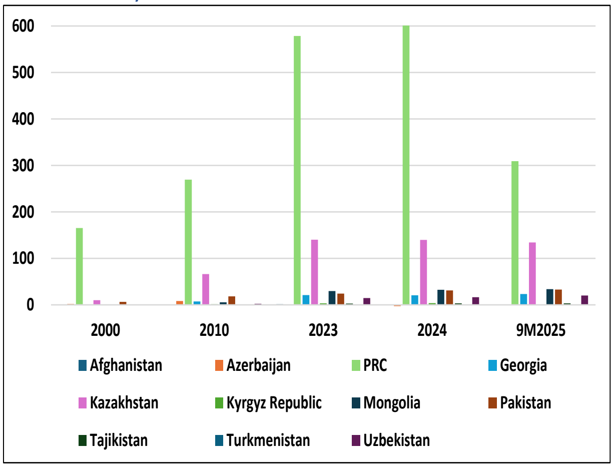
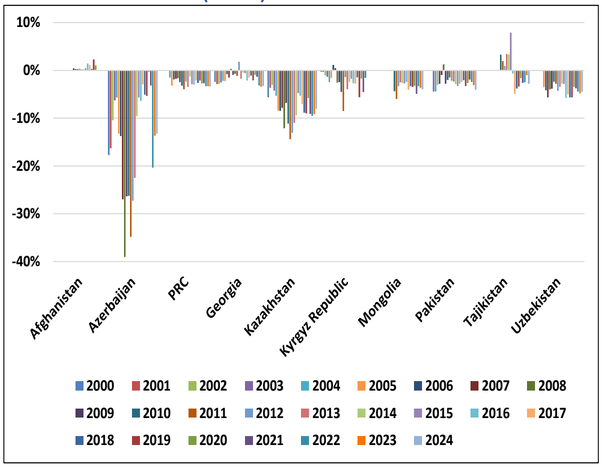


Figure 14. Net rates of return on investments from 2000-2024 (in %)



Note: Net FDI positions are calculated as inward FDI positions minus outward FDI positions. Values for Afghanistan, Azerbaijan, the Kyrgyz Republic and Turkmenistan are not available in certain years and cannot be displayed. Net rates of return on investments are calculated as investment incomes credits/ IIP (International Investment Position) assets minus investment incomes debits/ IIP liabilities, investments include direct investment, portfolio investment, other investment and reserve assets. Net rate of return for Azerbaijan's investment is for direct investment only due to its IIP data shortage.
Source: UNCTAD; CEIC database; author's calculations.

Globally, FDI flows to developing economies declined by 2% to around USD 877 billion in 2025. Reflecting comparatively higher returns on investment inflow (Figure 14), foreign direct investment accounts for around 45% of total external capital inflows in 2024 for developing economies worldwide, continuing to be their primary source of external financing (Figure 15, 16 and 17).

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

Figure 15. Inward FDI positions (in % of GDP, 2024)

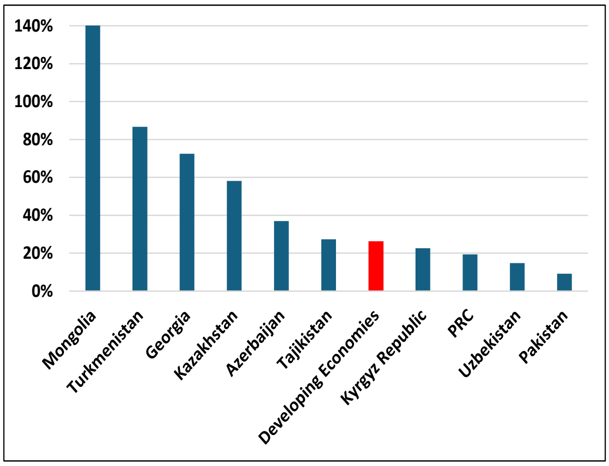
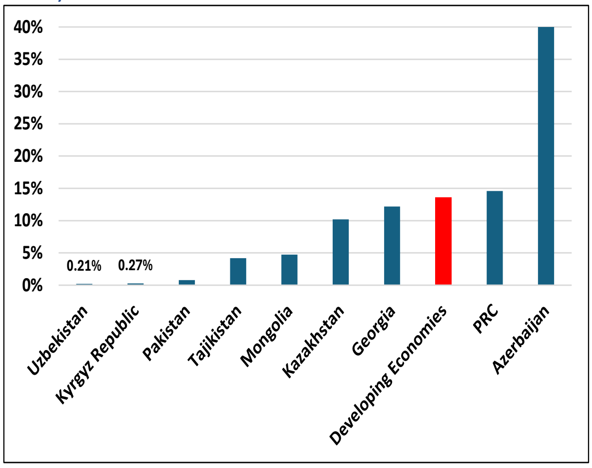
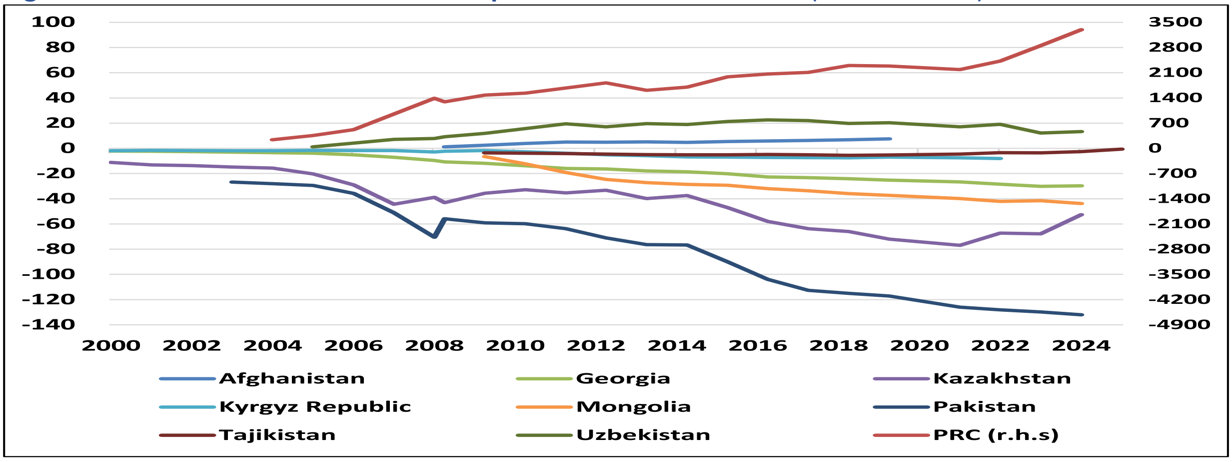


Figure 16. Outward FDI positions (in % of GDP, 2024)



Note: Ratios are calculated using FDI positions and GDP in 2024. Values for Afghanistan are not available and cannot be displayed. Values for Turkmenistan are shown where data are available. Ratios for developing economies are calculated with UNCTAD and IMF data which are justified on a comparable basis.
Source: UNCTAD, CEIC database, World Bank and IMF database, author's calculations.

Figure 17. Net international investment positions from 2000-2025 (in USD billion)



Note: Values for Azerbaijan and Turkmenistan are not available and cannot be displayed.
Source: CEIC database

The recent eruption of geopolitical conflict in the Middle East is transmitting severe shocks across the global economy through supply chains disruptions. Constricted Hormuz flows and soaring logistics costs are fueling inflation and weakening economic growth, thereby eroding household purchasing power. Within CAREC region, energy exporters may benefit temporarily from elevated commodity prices. However, a prolonged disruption would compel energy importers to confront fiscal strains and current account deterioration, placing downward pressure on local currency and exposing investors to exchange losses (Figure 18 and 19). However, this fuel oil crisis has strengthened the economic argument for renewable energy. Investing in green infrastructure, including solar, wind, smart grids, storage, electric mobility and green ammonia—has evolved from being a climate imperative into a critical risk-mitigation measure to enhance economic resilience against disruptions from geopolitical volatility.

Figure 18. Dividends and withdrawals from income of quasi-corporations from 2000-2025 (in USD billion)

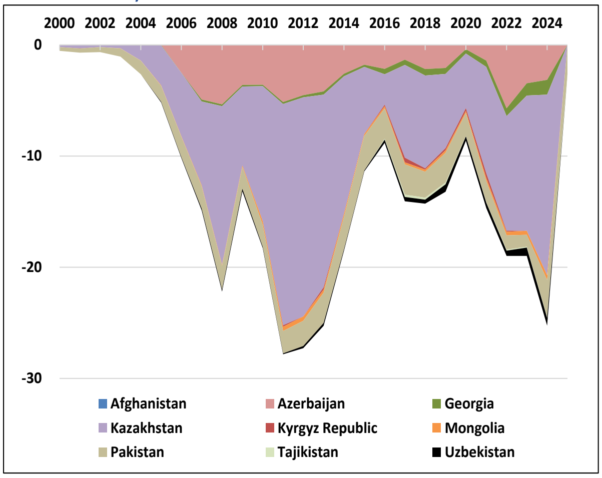
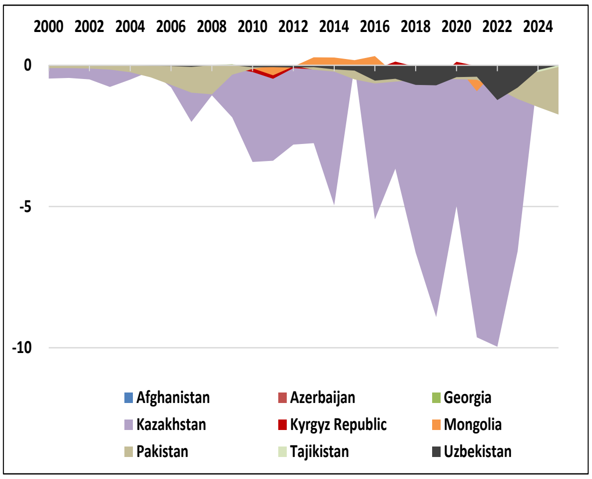


Figure 19. Reinvested earnings from 2000-2025 (in USD billion)



Note: Values for the PRC and Turkmenistan are not available and cannot be displayed. According to State Taxation Administration of the PRC, foreign businesses reinvested a record of USD 22.3 billion in the PRC in 2024. Historically, about half of investment income in the PRC has been reinvested each year.
Source: CEIC database; based on information from State Taxation Administration of the PRC (www.chinatax.gov.cn)

Outlook:
Growth is likely to slow down but IFIs remain optimistic despite recent geopolitical tensions in the Middle East

The economies of the CAREC region expanded robustly in 2025, supported by exceptional performance in agriculture, industry and services. However, growth moderated in some countries, reflecting weaknesses in certain sectors.

Growth is likely to weaken in the next two years. According to the forecasts by major international financial institutions (IFIs), growth in the CAREC region is expected to decelerate from an average of 6.2% in 2025 to 4.8% in 2026 and further to 4.7% in 2027 (Table 1). CAREC member countries, except for Azerbaijan and Pakistan, are projected to have lower growth rates in 2026 and 2027 compared to 2025. These lower growth forecasts are consistent with those from the respective national agencies, albeit with differing magnitudes. The key drivers of the projected slowdown include normalization of elevated business activities to more sustainable levels, price declines in some commodities, and weaker domestic demand.

The recent geopolitical conflict in the Middle East also casts a dark shadow on economic developments of the CAREC countries, particularly on those that are highly indebted, import-dependent, and have low foreign exchange reserves. With several members in the region being net oil importers, surging energy prices together with supply chain disruptions, may significantly increase their import costs, thus exacerbating current inflationary pressures that are hurting business operations and eroding household incomes. Meanwhile, tightening global financial conditions could limit the capacity for debt (re)financing, amplifying default risks while dampening investment.

Despite the challenges above, IFIs have revised upwards or at least maintained their GDP growth forecasts for 2026 and 2027 for most CAREC countries in their latest April 2026 Outlooks, reflecting their optimism on the region's economic resilience. For 2026, the IFIs revised the GDP growth forecasts of Afghanistan, Tajikistan, and Turkmenistan up by 0.4 percentage point, and of the Kyrgyz Republic, Pakistan, and Uzbekistan by 0.3 percentage point, and of Kazakhstan by 0.2 percentage point. Meanwhile, the growth forecasts for Azerbaijan, the PRC, and Georgia were kept unchanged. The only exception was Mongolia, where the growth forecast was adjusted downward by about 0.3 percentage point, although it would still be robust at 5.3%, due to vibrant mining and infrastructure activities. Faced with potential risks, in the short term, it is important for the CAREC countries to balance inflationary pressure with economic growth via coordinated fiscal and monetary policies. In the medium and long term, priorities include accelerating transition to renewables, diversifying their economies towards non-resource sectors, optimizing financial resilience, and strengthening intra-regional connectivity.

Table 1. Real GDP growth (in %)

	2015-19	2020	2021	2022	2023	2024	2025	2026F	2027F	2026F	2027F
								Average forecast by ADB, IMF and World Bank		Forecasts by national agencies	
Afghanistan*	-2.4	-2.1	-20.7	-6.2	2.3	1.9	3.9	3.2	3.2		
Azerbaijan	0.8	-4.3	5.6	4.7	1.4	4.2	1.4	2.1	2.0	1.7	3.3
PRC	6.7	2.3	8.6	3.1	5.4	5.0	5.0	4.4	4.3	4.5-5.0	
Georgia	4.0	-6.3	10.6	11.0	7.8	9.7	7.5	5.3	5.2	5.0	5.2
Kazakhstan	2.5	-2.5	4.3	3.2	5.1	5.0	6.5	4.7	4.3	5.4	5.5
Kyrgyz Republic	4.2	-7.1	5.5	9.0	9.0	11.5	11.1	7.0	6.8	4.3	6.5
Mongolia	3.9	-4.6	1.6	5.0	7.4	5.1	6.8	5.3	5.6	5.7	6.3
Pakistan*	3.8	-0.9	5.8	6.2	-0.2	2.6	3.1	3.4	3.8	3.25-4.25	

Tajikistan	6.9	4.5	9.2	8.0	8.3	8.4	8.4	6.6	5.5	8.5	8.3
Turkmenistan	6.3	5.9	6.2	6.2	6.3	6.3	6.3	4.6	4.1		
Uzbekistan	5.8	1.6	8.2	6.1	6.3	6.7	7.7	6.5	6.5	6.5-7.0	
CAREC avg.	3.9	-1.2	4.1	5.1	5.4	6.0	6.2	4.8	4.7		

*Annual GDP growth rate is on a fiscal year basis.

Note: Afghanistan's GDP growth for 2025 is an estimate, taking the simple average of IMF's and World Bank's estimates; forecasts for Afghanistan and Pakistan for 2027 take World Bank's projections made in January 2026 into account as in the latest April REU data for the two countries for 2027 are unavailable; green figures indicate that the projected growth is higher than in 2025, red figures lower than in 2025.

Sources: ADB (ADO, Apr 2026 forecasts), IMF (WEO, Apr 2026 forecasts), World Bank (REU, Apr 2026 forecasts), CEIC database, National agencies

Insert I:
What are the main pillars behind the growth of non oil-gas sector in Azerbaijan?

Vugar Bayramov & Nigar Islamli[1]

Anatomy of Growth

Since 2015, structural reforms in Azerbaijan have advanced transparency, curtailed monopolistic practices, and reduced the size of the shadow economy, laying the groundwork for sustained non-oil sector growth[2]. Three factors stand out as the primary drivers: anti-corruption enforcement, enhanced fiscal and regulatory transparency, and formalisation of economic activity.

The nominal GDP of Azerbaijan was 129,094.0 million manats (USD 75.937 billion), with the oil and gas sector at 34,888.6 million manats (USD 20.522 billion), and the non-oil and gas sector including industry, construction, agriculture, trade, transportation, information and communication, at 81,807.3 million manats (USD 48.260 billion) in 2025 (Figure 20). Non-oil and gas GDP sector grew by 2.7% in 2025.[3] Although the value added in the oil and gas sector decreased by 1.6% in 2025, the non-oil and gas sector in GDP increased by 2.7%. At the same time, the total non oil-gas industrial sector grew by 5.5% yoy. Despite the volatility in energy markets, the growth in the non-oil and gas sector is enhancing the stability of economic development in 2025.

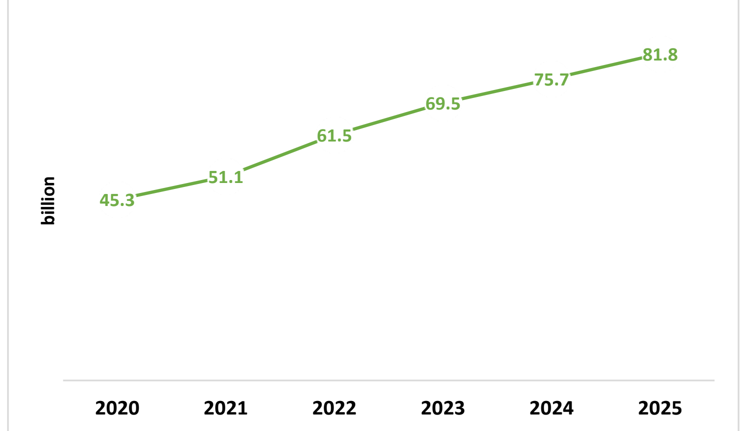
Macro-economic stability: Deepening reforms is a leading factor in the macroeconomic stability of Azerbaijan. The United Nations (UN) has projected Azerbaijan's economic growth to be 2.7% in 2026. This growth will be driven by increased natural gas production and exports, as well as continued growth in the non-oil and gas sector.[4] The non-oil and gas sector will account for 57.0% of budget revenues and 68.0% of GDP in 2026[5]. According to the Ministry of Economy's forecasts, the oil and gas sector is expected to decline by 2.4%, while the non-oil and gas sector is expected to grow by 5%. At the same time, the Ministry notes that although oil and gas production will decrease, growth in non-oil sectors will compensate for the decline.[6] Economic regulations and continued diversification in the economy have led to an increase in the share of the non-oil and gas sector in the GDP over the years.[7] Export diversification is considered important for the long-term sustainability of economic growth[8]. In 2025, USD 3.628 billion of total USD 24.526 billion exports were non-oil and gas exports, which makes export diversification even more relevant[9].

Fiscal Diversification: Strengthening transparency and widespread use of electronic services have been the main factors underpinning fiscal diversification. Azerbaijan began implementing a digital financial information system in early 2026, in order to digitize the budget process[10]. According to forecasts for 2026, the state budget revenues will amount to 38.609 billion manats (USD 22.79 billion), and expenditures to 41.703 billion manat (USD 24.58 billion). The share of the non-oil and gas sector in fiscal

[1] Center for Economic and Social Development, Azerbaijan
[2] Taxes.Gov.Az. *Kölgə iqtisadiyyatına qarşı mübarizə necə aparılır?* Taxes.Gov.Az. https://www.taxes.gov.az/az/post/2119
[3] System of national accounts and balance of payments. The State Statistical Committee of the Republic of Azerbaijan. https://www.stat.gov.az/source/system_nat_accounts/?lang=en
[4] EXPERT GROUP, CESD, A Preliminary Assessment of the Impact of the COVID-19 Pandemic on Azerbaijani Economy (August 19, 2020). http://dx.doi.org/10.2139/ssrn.3676919
[5] İlkin büdcə göstəriciləri. https://maliyye.gov.az/static/253/ilkin-budce-gostericileri
[6] XQ. (2026, January 10). *Qeyri-neft sektoru yüksəliş meydanıdır.* Xalqqazeti.az. https://xalqqazeti.az/az/iqtisadiyyat/250959-qeyri-neft-sektoru-yukselis-meydanidir
[7] Azerbaijan Statistical Information Service. https://www.azstat.gov.az/portal/tblInfo/TblInfoList.do#
[8] Bayramov, V., & Abbas, G. (2017). Oil shock in the Caspian Basin: Diversification policy and subsidized economies. Resources Policy, 54, 149–156. https://doi.org/10.1016/j.resourpol.2017.10.006
[9] Foreign trade relations. The State Statistical Committee of the Republic of Azerbaijan. https://stat.gov.az/news/index.php?lang=en&id=6611
[10] "Rəqəmsal dövlət maliyyəsi" informasiya sistemi haqqında ƏSASNAMƏ » Azərbaycan Prezidentinin Rəsmi internet səhifəsi. https://president.az/az/articles/view/71405

revenues will increase from 51.0% in 2025 to 57.0% in 2026. Fiscal diversification is also one of the main indicators of real sector development[11].

Figure 20. Nominal GDP volume by non-oil sector (in billion manat)



2020	2021	2022	2023	2024	2025
45.3 AZN (26.73 USD)	51.1 AZN (30.15 USD)	61.5 AZN (36.29 USD)	69.5 AZN (41.01 USD)	75.7 AZN (44.66 USD)	81.8 AZN (48.26 USD)

Source: Statistical Information Committee of the Republic of Azerbaijan, 2026

Pillars

Enhancing Transparency

Successive national action plans — the Anti-Corruption Strategy (2007–2011)[12] and the National Action Plan for 2022–2026[13] — have established a coherent legal and institutional framework for transparency. Implementation measures include the ASAN Service electronic platform, digital tax and customs administration, e-procurement controls, single-window trade facilitation, and mobile public services. These reforms have reduced compliance costs, curbed rent-seeking opportunities, and improved the business environment for domestic and foreign investors.

Minimizing the informal Economy

Formalising economic activity has been pursued through regulatory reform, targeted business support, and labour market policies.[14] The Law on Special Economic Zones provides a framework for bringing informal operators into the formal economy.[15] The number of registered labour contracts increased by 458,000 and reached 1.86 million from early 2019 to 2025.[16] Especially, in the non-oil sector, this indicator raised by 430,000, proving the necessity of legal employment and development of tax basis.[17] Moreover, starting as a pilot project between 2016-2019, mandatory health insurance has fully started nationwide in 2021. For all workers, this insurance provides primary healthcare with particular contributions from the employers.[18] Additionally, to provide gender equality and to eliminate gender stereotypes, government

[11] Bayramov, V., & Orujova, L. (2017, October 31). Volatility, Diversification and oil Shock in Resource-Rich Turkic Countries: Avenues for recovery. https://dergipark.org.tr/en/pub/bilig/article/519424
[12] E-QANUN. *Şəffaflığın artırılması və korrupsiyaya qarşı mübarizə üzrə Milli Strategiyanın təsdiq edilməsi barədə.* https://e-qanun.az/framework/13657
[13] E-QANUN. *"Korrupsiyaya qarşı mübarizənin gücləndirilməsinə dair 2022–2026-cı illər üçün Milli Fəaliyyət Planı"nın təsdiq edilməsi haqqında.* https://e-qanun.az/framework/49349
[14] Bayramov, V., Hasanov, R., Aghayarli, L., Aghahasanli, I., Isayev, S. "A Comparative Study on Development of Small and Medium Enterprises (SMEs) in Azerbaijan, Baku, 2017." https://cesd.az/new/wp-content/uploads/2017/11/CESD_SME_Paper_2017.pdf
[15] E-QANUN. *Xüsusi iqtisadi zonalar haqqında*. https://e-qanun.az/framework/17833
[16] Azertag. (2025, February 2). *Son 6 ildə bağlanan əmək müqavilələrinin sayı açıqlanıb*. The Azerbaijan State News Agency. https://azertag.az/xeber/son_6_ilde_baglanan_emek_muqavilelerinin_sayi_achiqlanib-3423523
[17] *Azərbaycan üçün postpandemiya dövründə qeyri-leqal iqtisadiyyatın payının azaldılması prioritet istiqamətlərdən olacaq.* (2020, May 21). Vergilər Qəzeti. https://vergiler.az/news/economy/8697.html
[18] Its.Gov.Az. Haqqımızda. ITS. https://its.gov.az/page/about-us

has recently made essential changes and adjustments in the labor code. Equal pay for employees who performs same or similar valued work should be provided by the employer regardless of gender.[19]

Fighting Corruption

Anti-corruption fight is followed in two routes. The first route is administrative and the second route comprised of promotional one. In depth, “The National Action Plan for Strengthening the Fight against Corruption for 2022-2026” consists of steps for legislative framework improvement for anti-corruption fight, attempts to ensure transparency of finance and fight funds legalization or other property obtained through crime and terrorism financing, steps to thrive public services and mechanisms, enhancing collaboration with civil society establishments and international partnership for anti-corruption combat, and raising awareness on anti-corruption measures.[20]

In 2024 Corruption Perceptions Index, Azerbaijan ranked 154th place with 22 points, however, in 2025, it positioned on the 130th place with 30 points, 8 points of upgrading depicts the improvement of steady fight against corruption.[21]

Conclusion

Recently, Azerbaijan has showed substantial development on thriving its non-oil sector and the diversification of economy still stays as main precedence. The main pillars behind the growth of the non-oil sector in Azerbaijan are strengthening the fight against the shadow economy, widespread use of electronic services, enhancing transparency and accountability, and firm support for the private sector. In addition, along with GDP and fiscal diversification, increasing the share of the non-oil and gas sector in exports is one of the main goals. This makes the diversification of non-oil and gas export markets and products even more relevant. The above-mentioned areas have great potential for the development of the non-oil and gas sector. Leveraging the experiences of partner CAREC countries in diversifying their economy and taking them into account in economic policy in Azerbaijan remains a priority. A sustained reform trajectory across all sectors will be essential to translating current momentum into long-term, inclusive economic growth.

[19] Azərbaycan Respublikasının Əmək Məcəlləsində Və “Gender (Kişi Və Qadınların) Bərabərliyinin Təminatları Haqqında” Azərbaycan Respublikasının Qanununda Dəyişiklik Edilməsi Barədə. https://meclis.gov.az/news-layihe.php?id=2621&lang=az&par=0

[20] “Korrupsiyaya qarşı mübarizənin gücləndirilməsinə dair 2022 - 2026-cı illər üçün Milli Fəaliyyət Planı”nın layihəsi. Anti korrupsiya. https://antikorrupsiya.gov.az/az/xeberler/korrupsiyaya-qarsi-mubarizenin-guclendirilmesine-dair-2022-2026-ci-iller-ucun-milli-fealiyyet-planinin-layihesi

[21] Transparency International. (2026, February 10). Corruption Perceptions Index 2025. Transparency.org. https://www.transparency.org/en/cpi/2025?gad_source=1&gad_campaignid=23552156524&gbraid=0AAAAADud0D_kIN2FxwtQES7br8mdRbAxK&gclid=Cj0KCQjwy_fOBhC6ARIsAHKFB7-aF46kFDXOW24Q3VF8iiLTYvWMCEjtGDAv3QcC9mtohHMP58JlAJgaAj3gEALw_wcB

Insert II:
How is Kazakhstan's 2026 tax reform reshaping the economy?

Aliya Musina[22]

The tax reform of the Republic of Kazakhstan, which came into force on January 1, 2026 (Tax code of the Republic of Kazakhstan of July 18, 2025 No. 214-VIII ZRK[23]), represents one of the most significant changes in fiscal policy in recent years (Table 2). It is aimed at strengthening the revenue base of the budget, improving the efficiency of tax administration, and forming a more sustainable economic model. In the context of fluctuations in commodity prices, the reform is intended to strengthen non-resource fiscal revenues and thereby reduce budget vulnerability to commodity price volatility. This objective is directly linked to the 2026 tax reform, which is designed to strengthen fiscal sustainability by broadening the non-resource tax base and increasing the role of domestic taxation in budget formation. By reducing reliance on volatile extractive-sector revenues, the reform aims to enhance the resilience of public finances to external shocks and support a more diversified and stable economic structure.

The reform rationalizes special tax regimes (STR) for small and medium-sized businesses, consolidating the multiple regimes to three main ones: the STR for self-employed individuals (individuals without individual entrepreneur status and without employees), the STR based on a simplified declaration (for individual entrepreneurs and small business legal entities), and the STR for peasant or farm households.

According to the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan (SRC), following the transition period that ended on March 1, 2026, more than 1.2 million entrepreneurs chose the simplified declaration regime with a single rate of 4% and exemption from VAT. According to the SRC, 265 thousand newly registered taxpayers joined the formal tax system under the special tax regime, representing a significant formalization of previously informal economic activity[24][25].

An important element of the reform is the improvement of value-added tax (VAT) administration. The base VAT rate has been increased from 12% to 16%[26]. At the same time, preferential rates are provided: for medical services and pharmaceuticals, the rate is 5% in 2026 with a subsequent increase to 10% in 2027. The threshold for mandatory VAT registration has been reduced to 10,000 MCI (approximately 43.3 million tenge)[27], which expands the tax base[28].

The differentiation of corporate income tax (CIT) provides for sectoral rates: for banks and the gambling business — 25%, for organizations in the social sphere — 5% in 2026 (with an increase to 10% in 2027). A progressive scale of individual income tax (IIT) applies to incomes exceeding 8,500 MCI per year (more than 36.8 million tenge), with a rate of 15%. The practical impact of CIT differentiation can be illustrated by the example of a manufacturing enterprise in the agro-industrial sector. The application of a reduced rate of 3% significantly reduces the tax burden on profit. Despite the increase in the VAT rate, for

[22] Economic Research Institute, Kazakhstan
[23] Tax Code of the Republic of Kazakhstan of July 18, 2025 No. 214-VIII ZRK. https://adilet.zan.kz/eng/docs/K2500000214
[24] KazTAG. The transition period for choosing a tax regime has been completed in Kazakhstan. https://kaztag.kz/ru/news/perekhodnyy-period-po-vyboru-nalogovogo-rezhima-zavershen-v-kazakhstane
[25] Zakon.kz. What taxation regimes have been chosen by Kazakhstanis, told in the SRC. https://www.zakon.kz/finansy/6509904-kakie-rezhimy-nalogooblozheniya-vybrali-kazakhstantsy-rasskazali-v-kgd.html
[26] EY Kazakhstan. Overview of tax legislation submitted to the Senate of the Parliament of the Republic of Kazakhstan. https://www.ey.com/en_kz/technical/tax-alerts/kazakhstan-tax-legislation-update
[27] MCI (Monthly Calculation Index) - a standardized fiscal indicator used in the Republic of Kazakhstan for calculating taxes, fines, social payments, and other statutory amounts required by law. Unlike a fixed currency amount, the MCI is annually adjusted for inflation, which simplifies indexation of payments. In 2026, the value of 1 MCI is officially set at 4,325 tenge (approximately USD 8.5 at current exchange rates). For comparison, in 2025, 1 MCI was 3,932 tenge. The MCI should not be confused with the minimum wage (MW) — they serve different fiscal purposes.
[28] Moore Global. New Tax Code: key changes. https://kazakhstan.moore-global.com/new-tax-code-key-changes/

manufacturing companies this effect is partially offset by the mechanism of input VAT credit. As a result, the overall tax burden may even decrease, especially when oriented towards exports.

Table 2. Comparison of tax rates: before and after the reform

Tax type	Taxpayers	Rate before reform (2025)	Rate after reform (2026)
VAT (standard rate)	All VAT payers	12%	16%
VAT (reduced rate)	Medical services, pharmaceuticals	12%	5% (2026) → 10% (2027)
VAT registration threshold	Mandatory registration	~20,000 MCI	10,000 MCI (~43.3 mln tenge)
CIT (general)	Legal entities (except preferential categories)	20%	20% (no change)
CIT (banks and gambling)	Banks, casinos, bookmakers	20%	25%
CIT (social sector)	Education, healthcare, culture organizations	20%	5% (2026) → 10% (2027)
CIT (agricultural production)	Agricultural producers, food processors	20%	3%
IIT (general)	Individuals (income up to 8,500 MCI/year)	10%	10% (no change)
IIT (progressive rate)	Individuals (income above 8,500 MCI/year, >36.8 mln tenge)	10%	15%
STR (simplified declaration)	Sole proprietors, small legal entities	3% (of turnover)	4% + VAT exemption
STR for self-employed	Individuals without IE status, no employees	no clear regime	special regime (fixed payments)

Sources: State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan, analysis of data for 2021–2026.

The social consequences of the reform call for a balanced approach. For households with average incomes, an increase in VAT translates into higher prices for consumer goods. Since consumption accounts for a large share of spending in such households, their effective tax burden rises. The progressive personal income tax primarily affects higher-income groups; however, the inflationary effect of the VAT increase is regressive, which heightens the need for targeted social support measures to protect vulnerable populations.

The digitalization of tax administration remains a central pillar of the reform. The State Revenue Committee continues to advance the implementation of electronic invoicing, data analytics systems, and automated control mechanisms. Tighter oversight of financial flows reduces opportunities for informal tax optimization practices, while greater transparency helps build investor confidence and improves access to international capital markets.

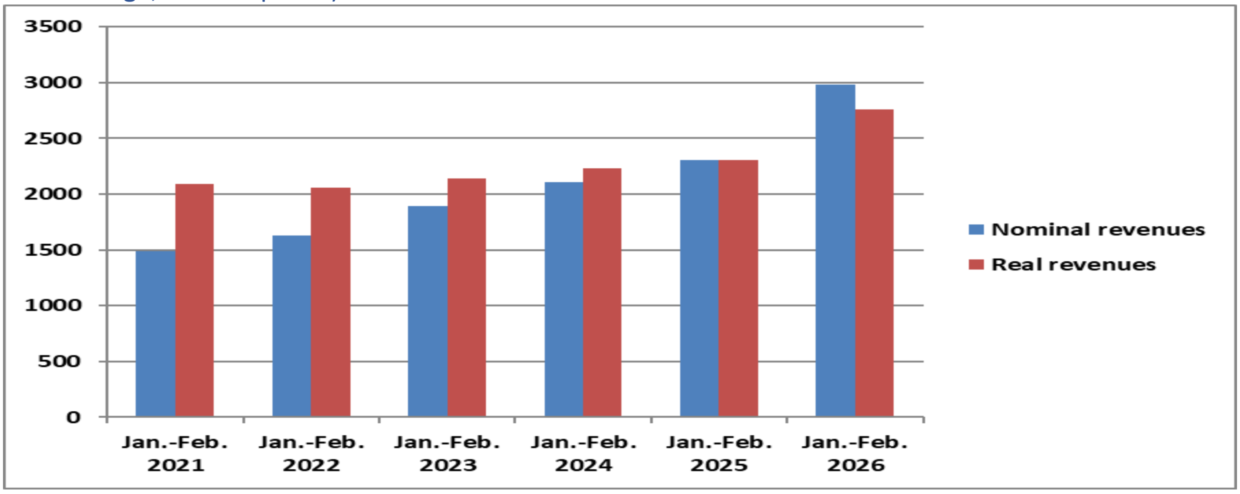
The outcomes observed in the first months of 2026 suggest that the reform is effective. Still, it is worth noting that a significant share of tax revenues related to the fourth quarter of 2025 is traditionally generated and recorded in February, which influences the interpretation of current data. According to the State Revenue Committee, as of March 1, 2026, the tax revenue target was met at 113.7%, with the budget receiving 2,979 billion tenge—677.5 billion tenge more than in the same period of 2025. Corporate income tax revenues rose by 16.9% (+118.0 billion tenge), while VAT revenues increased by 38.8% (+428.6 billion tenge).

The five-year trend in tax revenues, illustrated in Figure 21, clearly reflects the impact of the reform. Between 2021 and 2025, nominal growth was moderate and accompanied by slight fluctuations. In contrast, the first two months of 2026 show a marked increase, with nominal revenues rising by 29.4% compared to the same period in 2025.

However, after adjusting for inflation using the consumer price index—with inflation for January–February 2026 at approximately 8% year-on-year—real tax revenue growth is estimated at +19.9%. This still represents a solid increase, exceeding the average growth rates of previous years, although it is less pronounced than the nominal figures suggest.

The tax-to-GDP ratio over the same period rose from 16.2% to 16.8%, confirming the positive impact of the reform on fiscal sustainability, even after accounting for inflation.

Figure 21. Dynamics of tax revenues to the republican budget (January–February) (nominal vs real, in billion tenge, in 2025 prices)



Sources: State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan, analysis of data for 2021–2026.

At the same time, tax control mechanisms are being refined. In particular, desk audits are now carried out with prior notification to taxpayers. For relatively small arrears, the authorities apply more flexible administrative measures. For instance, if the debt ranges from 20 to 45 MCI, transactions on bank accounts may be temporarily restricted, whereas debts exceeding 45 MCI can lead to account suspension and the application of additional enforcement measures.

In assessing Kazakhstan's competitiveness following the 2026 tax reform, it is important to consider not only domestic effects but also the broader trend in tax policy across the CAREC region. The standard CIT rate of 20% lies within a moderate range. The increase of the VAT rate to 16% moves Kazakhstan from the group of countries with the lowest consumption tax burden in the region to a group with levels approaching the CAREC average, which may potentially affect the price competitiveness of domestic goods in certain market segments. The shift to a progressive IIT scale (10–15%) reflects a global trend, while the top marginal rate remains moderate. An important offsetting factor is the preservation of a zero VAT rate in special economic zones, as well as a simplified regime for small businesses (a flat 4% rate combined with VAT exemption). These instruments allow Kazakhstan to maintain certain areas of competitive advantage, despite the overall increase in the standard VAT rate.

Another important dimension of the reform is alignment with global taxation trends, including the regulation of the digital economy. Kazakhstan is progressively adapting its tax framework to international initiatives promoted by organizations such as the OECD, which aim to enhance transparency and fairness in cross-border taxation.

The increase in VAT to 16% is consistent with the broader global trend of post-pandemic fiscal consolidation. At the same time, the rate remains below the OECD average (approximately 19%), allowing Kazakhstan to maintain a degree of tax competitiveness. The introduction of a progressive individual income tax (IIT) and the differentiation of corporate income tax (CIT) bring the national tax system closer to those of developed economies.

In the short term, the reform produces mixed effects. Large export-oriented companies may benefit from improved transparency, while small and medium-sized enterprises in the trade and services sectors face dual pressure: a reduced VAT threshold alongside a higher overall tax burden.

Overall, the 2026 tax reform exerts a multifaceted influence on Kazakhstan's economy. The increase in the VAT rate and the broadening of the tax base contribute to higher budget revenues—data from the first months of 2026 indicate a 29.4% growth in collections. The streamlining of tax regimes and the digitalization of administration contribute to the formalization of business: around 265 thousand self-employed individuals have been brought into the formal economy.

From a strategic perspective, the reform is intended to accelerate the shift from a resource-dependent growth model toward one driven by manufacturing, technology, and human capital. Lowering the tax burden on industry and agriculture, alongside higher taxation of the financial sector and consumption, is designed to reallocate resources in favor of the real sector. If supported by an effective industrial policy and sustained investment in infrastructure, the reform will provide a strong foundation for long-term, inclusive economic growth.

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