CAREC Institute Quarterly Economic Monitor

Chief Economist Team

July 2026

No. 21

CAREC Institute

Quarterly Economic Monitor

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Disclaimer

This 21st 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 Fazliddin Nasriddinov, Insert II – by Berdimyrat Orazov, and Insert III by Kahramon Bakozoda. Special thanks go to Hoe Ee Khor for providing comments and suggestions.

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. However, they remain fully responsible for the accuracy, integrity and originality of all data, findings, conclusions and visualizations.

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Abbreviations

ADB	Asian Development Bank
ADO	Asian Development Outlook
CAREC	Central Asia Regional Economic Cooperation
CPI	Consumer Price Index
EBRD	European Bank for Reconstruction and Development
EDB	Eurasian Development Bank
EFSD	Eurasian Fund for Stabilization and Development
EV	Electric Vehicle
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GEP	Global Economic Prospects
ICT	Information and Communications Technology
IFI	International Financial Institution
IIP	International Investment Position
IMF	International Monetary Fund
IPO	Initial Public Offering
kWh	Kilowatt hour
MO	Macroeconomic Outlook
mom	month-on-month
PRC	People’s Republic of China
Q1	First Quarter
Q2	Second Quarter
REO	Regional Economic Outlook
REP	Regional Economic Prospects
TJS	Tajik Somoni
UAE	United Arab Emirates
USD	US Dollar
UzNIF	National Investment Fund of the Republic of Uzbekistan
UZS	Uzbekistani Som
VAT	Value-added Tax
WEO	World Economic Outlook
WTO	World Trade Organization
yoy	year-on-year

Executive Summary

During the first half of 2026, the CAREC region is characterized by stark growth divergence, persistent inflationary pressures, and ongoing structural reorientation of trade flows.

- ***Divergent Growth Paths:*** *Growth remains highly uneven across the region. The fastest-growing economies—the Kyrgyz Republic, Georgia, and Uzbekistan—are expanding rapidly, buoyed by strong remittances, active market reforms, and major infrastructure investments. In Uzbekistan, structural reforms like tax simplification and public service digitalization have successfully reduced the informal economy. The People's Republic of China (PRC) and Kazakhstan continue to post stable growth supported by resilient exports and industrial expansion, while Turkmenistan's growth is driven by robust capital investments and a strong services sector. Conversely, Azerbaijan experienced moderate economic contraction, constrained by geopolitical risks, high external debt, narrow industrial base, and external economic shocks.*

- ***Persistent Inflationary Pressures:*** *High domestic demand, wage growth, rapid credit expansion, and higher fuel prices have kept inflation elevated. The regional median inflation reached 7.2% year-on-year (yoy) in June 2026, with four countries, including Pakistan, Mongolia, Kyrgyz Republic and Kazakhstan experiencing double-digit inflation. External supply shocks, particularly geopolitical tensions in the Middle East, have spiked global energy and commodity prices, heavily impacting oil-importing countries. In response, central banks in the region are adopting divergent policies: some are raising policy rates to anchor inflation, while others are cutting rates to stimulate growth.*

- ***Reshaping of Trade and the Middle Corridor:*** *Volatile energy prices and geopolitical realignments are reshaping regional trade dynamics. Some net energy exporters have registered widening trade surpluses, whereas energy-importing nations face mounting trade deficits. These shifts have accelerated the rise of the "Middle Corridor" as a primary transit route between Asia and Europe. However, trade competitiveness remains hampered by border closures, sanctions-related payment hurdles, and rising shipping costs.*

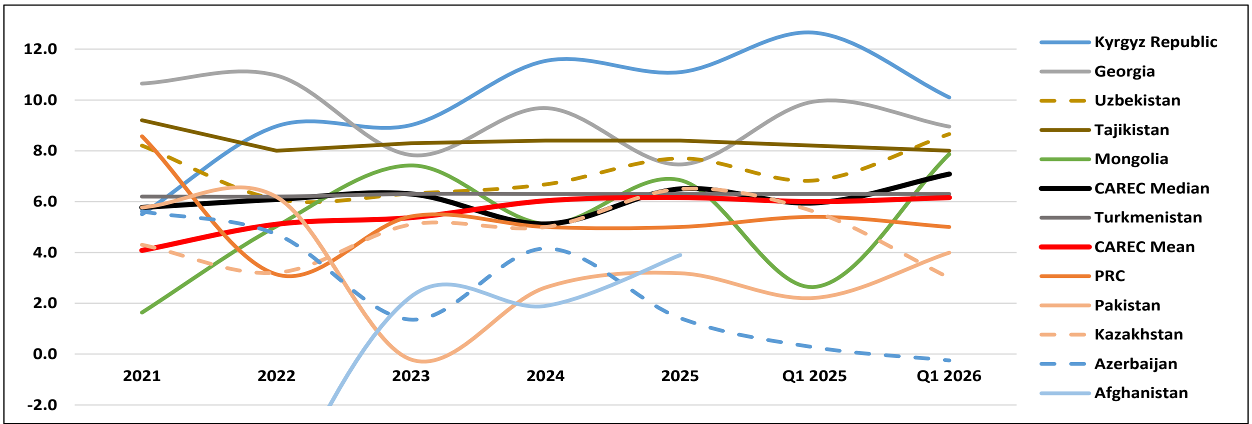
- ***Investment and Capital Flows:*** *The region remains a net recipient of foreign direct investment (FDI), primarily directed toward natural resources and renewable energy. While official reserves serve as the primary buffer against external shocks for most CAREC members, the PRC, Georgia, and Kazakhstan exhibit highly diversified external assets. In contrast, Mongolia's heavy reliance on debt financing highlights a vulnerability shared by several leveraged economies in the region.*

- ***Improved but Divergent Outlook:*** *International financial institutions (IFIs) have raised the average real GDP growth forecast for the CAREC region to 5.1% for 2026 and 4.9% for 2027. However, this positive outlook is highly uneven: upward revisions for the Kyrgyz Republic and Uzbekistan reflect strong early-year performance, while growth projections for oil-exporting nations have been trimmed due to Middle East geopolitical risks and volatile global energy markets.*

GDP Growth:
The economic performance of CAREC member countries shows prominent divergence

GDP growth across the CAREC member economies in Q1 2026 (yoy) was highly divergent, ranging from rapid expansion to near stagnation or contraction (Figure 1). Fast-growing economies were driven mainly by remittances, infrastructure expansion, resource exports, and market-oriented reforms. In contrast, slower economies were plagued by imported inflation, geopolitical turbulence, and a narrow economic base.

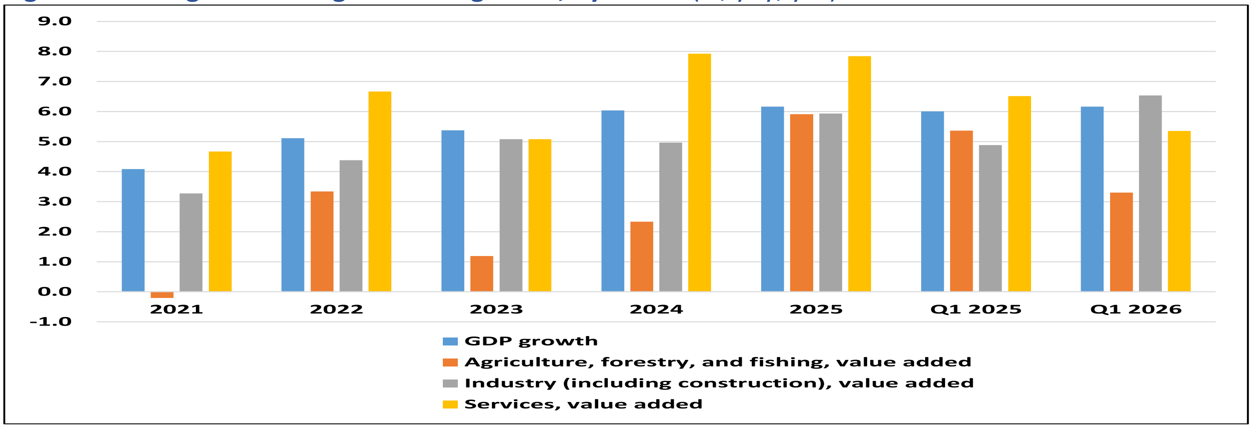
Figure 1. Real GDP growth (%)



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. Q1 2026 data on Afghanistan's economic growth is unavailable.
Source: CEIC database, World Bank; authors' calculations

In Q1 2026, industrial value-added (6.5%) grew faster than the service sector (5.4%) for the first time since 2021 (Figure 2). This shift was mainly driven by three key factors: First, surging global commodities prices for energy, minerals and gold - lifted by geographic tension in the Middle East - boosted resource-based industries. Second, cross-border infrastructure projects, including major CAREC corridors and China-Kyrgyzstan-Uzbekistan Railway, spurred growth in construction (classified as industry). Third, regional industrialization policies began taking effect: Uzbekistan and Kazakhstan scaled up industrial parks and manufacturing investment, while high-tech and equipment manufacturing in China maintained rapid expansion, acting as a regional growth anchor.

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



Note: Industry growth for Kazakhstan excludes construction; growth of GDP components is presented based on data availability. Q1 2026 data on Afghanistan's economic growth is unavailable.
Source: CEIC database, World Bank; authors' calculations

Several economies in the region experienced rapid growth in Q1 2026, led by the Kyrgyz Republic (10.1%), Georgia (9.0%), Uzbekistan (8.7%), Tajikistan (8.0%), Mongolia (7.9%) and Turkmenistan (6.3%). These countries share prominent common features: robust infrastructure investment, strong domestic demand supported by remittances, and substantial dividends from regional trade integration.

- Surging remittances from Russia and Kazakhstan were the main contributors to the strong economic expansion of the Kyrgyz Republic. The construction sector boomed, driven by supporting infrastructure development and port upgrading under the China-Kyrgyzstan-Uzbekistan Railway project. Meanwhile, high international gold prices have boosted domestic gold mining and transit trade.
- The recovery of tourism and expanding cross-Caspian transit logistics, together with infrastructure financing from the EU supported Georgia in achieving stable growth. However, geopolitical conflicts acted as the main external disruption.
- In-depth market-oriented reforms have benefited Uzbekistan. Foreign exchange liberalization and improved business environment have invigorated private enterprises and service industries. Maturing industrial chains have led to import substitution and export expansion. Consequently, the country, as a core CAREC cross-border logistics hub, maintains strong economic resilience supported by increased gold export revenues.
- The high growth of Tajikistan was driven by infrastructure projects, while stable overseas remittances underpinned household consumption and recovering agricultural production. However, the country remains highly dependent on imported fuel. Rising global oil prices have caused imported inflation and squeezed profit margins in the manufacturing industry.
- The economic performance of Mongolia was mainly driven by the recovering exports of coal, copper, and iron ore to the PRC. Facilitated customs clearance under the CAREC framework boosted cross-border trade, while animal husbandry exports and domestic consumption provided additional support. However, the economy remains highly vulnerable to commodity price cycles and lacks endogenous growth momentum.
- The steady growth of Turkmenistan has been backed by stable volumes and prices of natural gas exports to the PRC and Europe. The economy is underpinned by petrochemical deepening projects, government-led infrastructure investment, and public consumption. Its vulnerabilities lie in its highly concentrated industrial structure.

Meanwhile, the region's largest economies recorded moderate growth, with the PRC expanding by 5.0%, Pakistan by 4.0%, and Kazakhstan by 3.0%. These economies collectively serve as the main pillar of regional economic stability, maintaining steady growth with minor structural deficiencies.

- The PRC's economic growth was supported by targeted policies to boost domestic demand and infrastructure investment, as well as resilient exports of high-end manufacturing goods and renewal energy products. The PRC is the largest investor and end-market in CAREC. Its economic growth is constrained by weak domestic demand arising from the ongoing real estate adjustment.
- The China-Pakistan Economic Corridor (CPEC) served as the long-term growth stabilizer for Pakistan. However, the economy is constrained by fiscal consolidation measures, imported inflation from energy and food imports, and high cost of post-flood infrastructure restoration projects.
- Kazakhstan has achieved remarkable progress in diversifying its industrial base, with strong expansion in the manufacturing, construction, and transportation sectors. Nonetheless, peaking crude oil output, high inflation, and rising global financing costs, have weakened overall growth, which is significantly lower than in 2025.

In contrast, Azerbaijan experienced economic contraction in Q1 2026, constrained by geopolitical risks, high external debt, narrow industrial base, and external economic shocks. Afghanistan's economy has remained highly vulnerable in recent years, despite data unavailability for 2026.

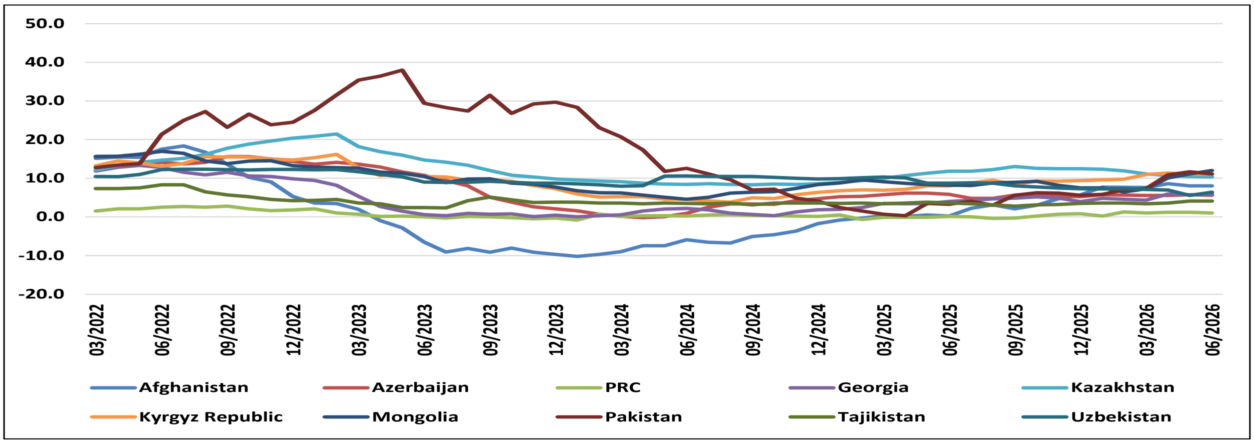
- The negative GDP growth of Azerbaijan (-0.3%) was due to weakened oil and gas export, the fiscal crowding-out effect from post-conflict reconstruction spending in Nagorno-Karabakh, and diverted regional trade flows.
- Currently, data on Afghanistan's economic growth is unavailable. However, the economy is vulnerable obviously because of sustained international sanctions, frozen foreign exchange reserves, and severe humanitarian and food crises.

Inflation:
Stays at elevated levels and is driven by combination of global shocks and persistent demand-side pressure

Strong economic growth in some CAREC economies, accompanied by rising wages, rapid growth in bank loans and money supply, and higher fuel prices were the factors for the persistent inflationary pressure across the CAREC region in the first half of 2026. In addition, some governments implemented adjustments in regulated utility tariffs for electricity and heating, adding to cost-push factors of inflation as higher production costs were passed to consumers. Broad money growth averaged 20.4% (yoy) in May 2026, and was especially high in Uzbekistan (37.1%), Kyrgyz Republic (26.8%), and Mongolia (26.8%). In Uzbekistan, it was driven by fiscal stimulus and investments in infrastructure, while in the Kyrgyz Republic, it was fueled by the rapid expansion of construction and bank loans.

These factors were also further influenced by recent geopolitical shock. An escalation of the Middle East conflict and disruption of shipping in the Strait of Hormuz led to a sharp increase in global prices for oil, gas, gold and fertilizers. The biggest impact was from March to May 2026, when global oil prices jumped above USD 100 per barrel. As a result, median headline inflation in the CAREC region increased to 7.2% (yoy), and mean inflation to 7.5% (yoy), compared to 5.7% and 6.1%, respectively, in December 2025 (Figure 3).

Figure 3. Inflation: Consumer price index in CAREC countries (%, yoy)



Note: Data for Turkmenistan is not available.
Source: CEIC, national agencies, authors' calculations

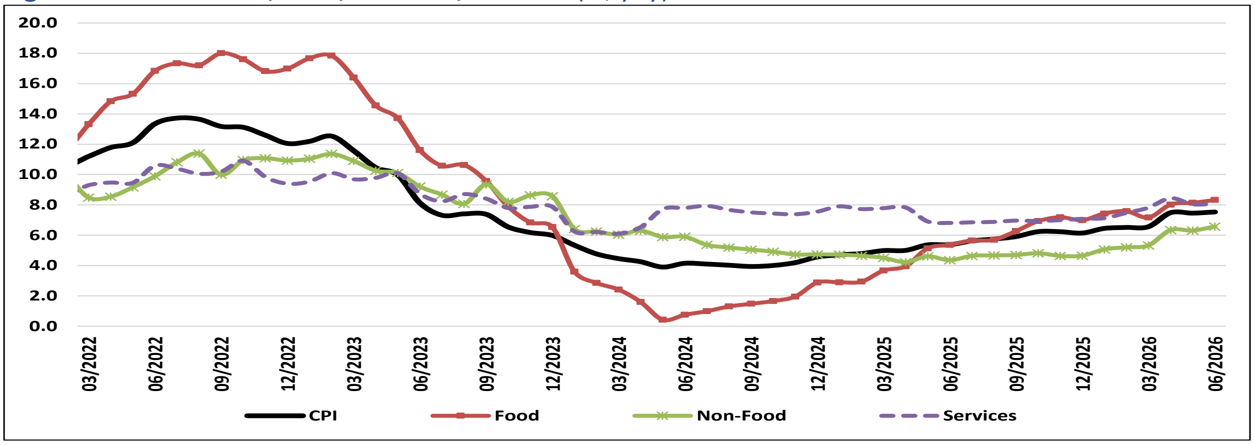
Double digit inflation rates were observed in four countries in June 2026: Mongolia (12.0% yoy), Pakistan (11.1% yoy), Kyrgyz Republic (11.0% yoy), and Kazakhstan (10.3% yoy).

- In Mongolia inflation accelerated, driven by higher meat prices due to the shortage of livestock after last year's harsh winter ("dzud").
- Pakistan is the country that was most directly affected by the impact of the oil price increase. Its headline inflation accelerated by 5.5 ppts to 11.1%, while food and non-food inflation jumped by 6.1 and 6.6 ppts, respectively, in the second quarter amid escalating conflict in Iran and border tensions with the neighboring country.
- Although inflation has remained in the double digits in the Kyrgyz Republic and Kazakhstan, it has started to slow down reflecting earlier monetary policy rate hikes.

Inflation stayed moderate in Azerbaijan (5.6%), Georgia (5.8%) and Tajikistan (4.1%), while the PRC recorded low inflation of 1.0%. Strong domestic demand fueled by remittances, fiscal stimulus, and rapid credit growth was the primary reason for inflation in the Kyrgyz Republic. Meanwhile, Uzbekistan saw a significant decline in inflation to 6.4%, although this was mostly attributed to a high base effect from substantial utility tariff hikes in May 2025.

Georgia's inflation remained volatile, with figures above its 3% target, primarily driven by the Middle East conflict's oil price shock and strong domestic demand. Azerbaijan and Tajikistan maintained moderate inflation. The PRC continued to record exceptionally low inflation, reflecting weak domestic demand and excess supply of manufactured products.

Figure 4. Headline CPI, food, nonfood, services (%, yoy)

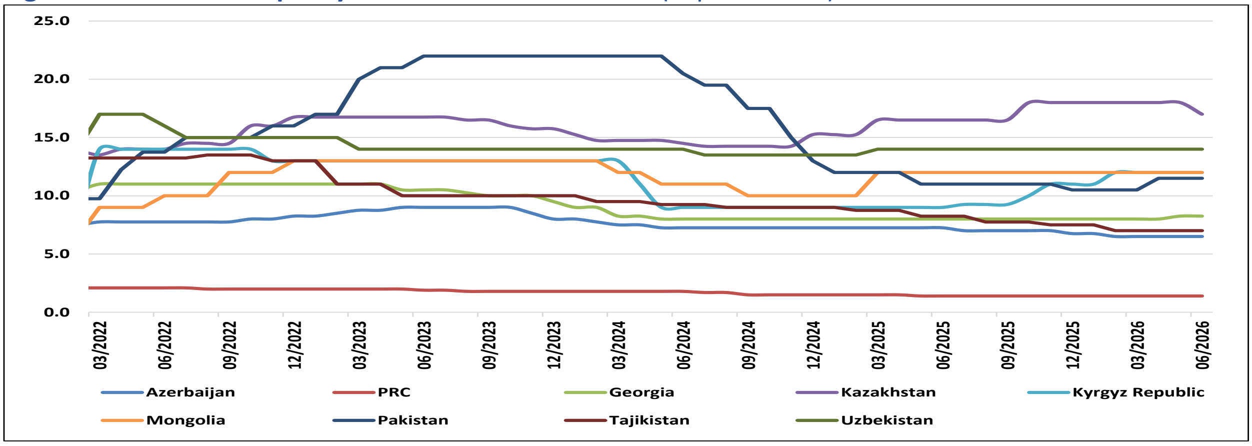


Source: CEIC, national agencies, authors' calculations

In Q2 2026, inflation in the CAREC region was greatly affected by external shock (Figure 4), especially prices of non-food commodities. On average, non-food inflation accelerated from 4.7% (yoy) in December 2025 to 6.5% (yoy) in June 2026. The rise in inflation was particularly sharp in Pakistan, where non-food inflation jumped from 6.3% (yoy) to 13.0% (yoy). Food inflation increased by 1.3 ppts from 7.0% (yoy) in December 2025 to 8.3% (yoy) in June 2026, affecting countries with a high share of imported food. Georgia, Mongolia, Pakistan, and the Kyrgyz Republic were among the hardest hit countries, with Mongolia experiencing a spike in food inflation from 11.3% (yoy) in December 2025 to 24.8% (yoy) in June 2026, as a result of higher meat prices caused by natural disaster.

In contrast, the PRC bucked the regional trend, showing a decline in food prices of 1.6% (yoy) in June 2026, while prices for non-food goods and services rose by 1.1% (yoy) and 0.8% (yoy), respectively. In addition to the sharp rise in good prices, the increase in service prices has also contributed significantly to rising inflation in the region, with the hikes in utility tariffs in Tajikistan and the Kyrgyz Republic in February and May 2026 being one of the drivers for services inflation.

Figure 5. Central bank policy rates in CAREC countries (% per annum)



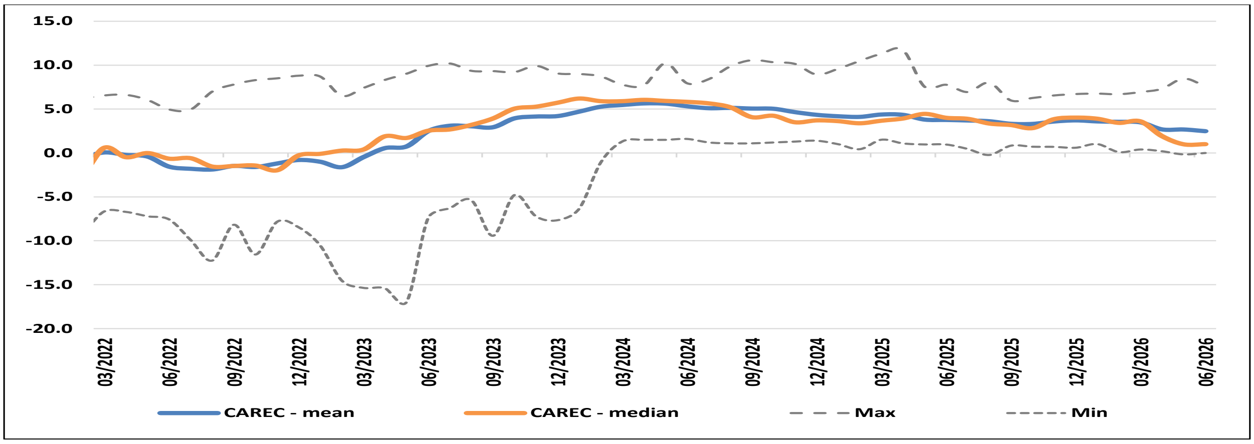
Note: Data for Afghanistan and Turkmenistan are not available.

Source: CEIC, national agencies, authors' calculations

Overall, monetary policy across the CAREC region differed by country reflecting the divergence in macroeconomic developments across the region (Figure 5). In particular, the central banks in the Kyrgyz Republic and Pakistan increased their policy rates by 100 basis points while the Georgia central bank increased its policy rate by 25 basis points to contain rising inflation. In contrast, central banks of Azerbaijan and Tajikistan cut their policy rates by 25 and 50 basis points each in February 2026 to support their economy, as their inflation rates have moderated and economic growth became a priority for them.

Still some other central banks kept their policy rates unchanged. In particular, the central banks in Kazakhstan, Uzbekistan, and Mongolia kept their policy rates constant at relatively high levels to contain inflationary pressure. However, with the recent moderation in inflation, Kazakhstan's central bank decided to cut its policy rate by 100 bps to 17.0% in June 2026. Unlike the other CAREC member countries, the PRC has been experiencing very low or sometimes negative CPI inflation over the past two years and the PBOC has kept its policy rate unchanged at a low level since May 2025 to support the economy. More recently, however, inflation has turned positive and is now expected to reach 1.4 %.

Figure 6. Monetary policy stance (central bank policy rates adjusted for inflation, % per annum)



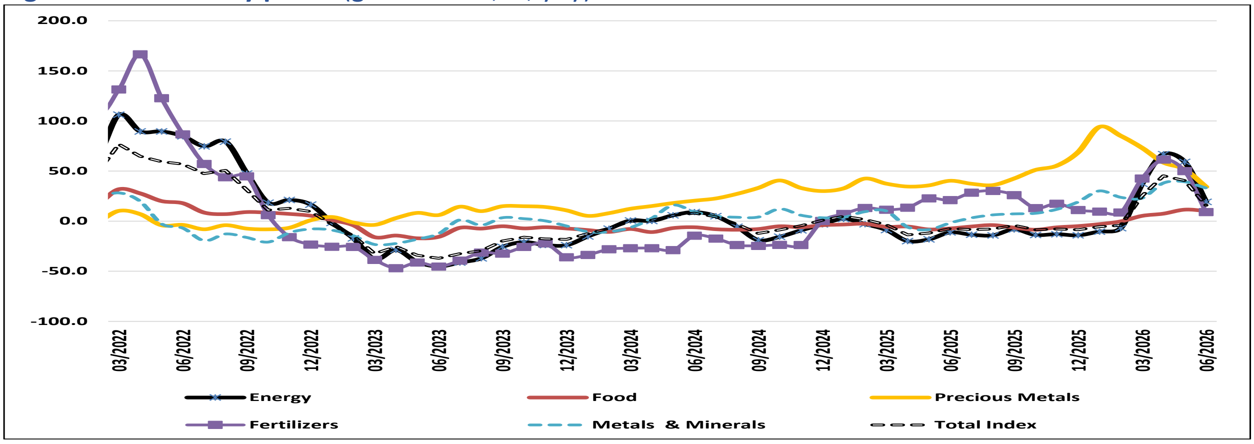
Source: CEIC, national agencies, authors' calculations

The region is currently dealing with inflationary pressures from several sources: cost-push inflation, high energy prices, and strong domestic demand from high economic growth, with Kazakhstan, Mongolia, Uzbekistan, and the Kyrgyz Republic in a particularly tough spot due to ongoing elevated inflation. The central banks in these countries have little room to maneuver, since raising the policy rates would hinder economic activity, while loosening them would lead to inflation surges. Consequently, the central banks in these countries are maintaining relatively high real policy rates (Figure 6), with Kazakhstan and Uzbekistan having a 7 percentage points difference between their nominal policy rate and headline inflation.

Trade:
Geopolitics and commodity price volatility created a tectonic shift that is reshaping CAREC region

The first half of 2026 was characterized by high volatility in global commodity markets, driven by geopolitical conflict in the Middle East and the subsequent blockade of the Strait of Hormuz. Heightening geopolitical tensions were felt most acutely in energy and precious metals prices. The disruption to predominant oil and gas shipments through the Strait of Hormuz sent energy prices soaring, with crude oil price experiencing its largest monthly increase on record as it surged above USD 100 per barrel. After a full year of relative price stability, the World Bank Commodity Price Index experienced a dramatic surge of 26.3% month-on-month (mom) in March 2026 amid the escalating Middle East conflict, followed by a sharp drop of 13.1% (mom) in June 2026, as signs of a possible peace deal emerged. The biggest spike in volatility occurred in the second quarter of 2026: Brent crude oil prices were on average 45.3% above their 2Q 2025 level, fertilizer prices jumped by 75.3% (yoy) and natural gas prices rose by 31.3% (yoy). Prices for gold and other precious metals, which are typically considered "safe haven assets," jumped on average by 48.2% (yoy), as investors sought hedges against inflation, currency depreciation, and geopolitical uncertainty. Food prices, which had been decreasing throughout 2025, started increasing in the first half of 2026, reaching 10.2% (yoy) growth in June 2026 amid rising concern about food affordability in import-dependent economies (Figure 7).

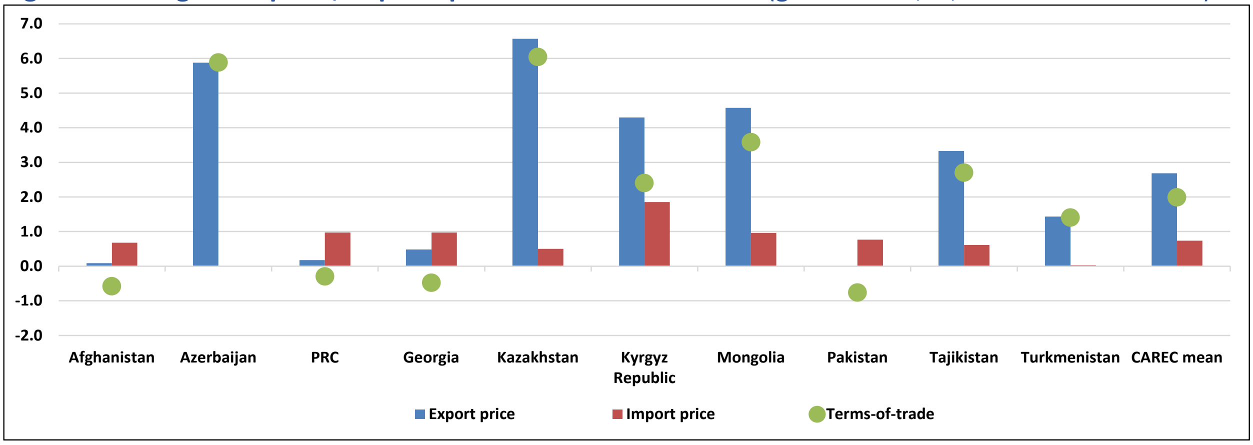
Figure 7. Commodity prices (growth rate, %, yoy)



Source: World Bank, authors' calculations

Changes in global commodity prices had a mixed effect on the terms of trade in the CAREC region (Figure 8). There was a significant surge in export prices, followed by a rise in export revenues, in countries that are net exporters of oil, natural gas, and mineral resources, such as Azerbaijan, Kazakhstan, Turkmenistan, and Mongolia. At the same time, the sharp rise in export prices in Kazakhstan was accompanied by an increase in the volume of imported goods, driven by domestic investment and infrastructure spending, which partially reduced its trade surplus. The rapid growth in coal and copper exports from Mongolia was driven by both rising prices and a substantial increase in demand from the PRC. The gold price increase served as a buffer against rising energy import costs in the Kyrgyz Republic, Tajikistan, and Uzbekistan, by supporting their export earnings and external positions. In contrast, net energy-importing countries such as the PRC and Georgia faced pressure from increasing import costs, resulting in a smaller trade surplus or a wider trade deficit, while in Pakistan the trade deficit widened, exacerbated by a decrease in exports.

Figure 8. Change in exports, imports prices and terms-of-trade (growth rate, %, 5M2026 to 5M2025)



Note: Data for Uzbekistan is not available.
Source: IMF, authors' calculations

Overall, trade trends among CAREC countries in the first months of 2026 (Figure 9) paint a picture of the region's divergent development paths and shifts in trade corridors. The CAREC region is undergoing a structural transformation driven by a combination of shocks in commodity markets, geopolitical realignments, and higher investment in infrastructure. Azerbaijan and Mongolia have significantly increased their trade surpluses. At the same time, Georgia, the Kyrgyz Republic, and Tajikistan have reduced their trade deficits, thereby easing pressure on their current accounts.

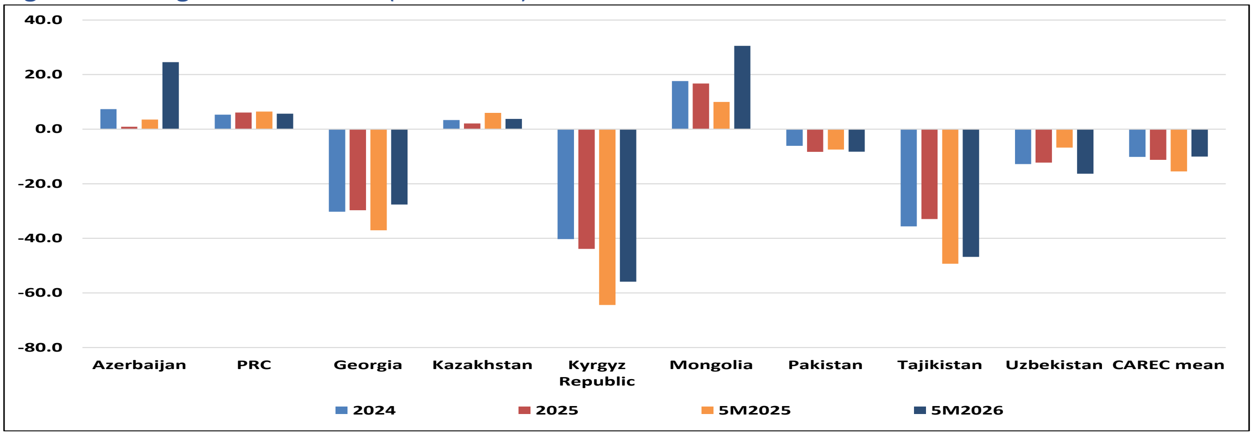
Driven by geopolitical factors, the "Middle Corridor" is emerging as an important alternative to existing northern routes, creating new opportunities for transit and logistics services for some CAREC countries, such as Georgia and Azerbaijan. Azerbaijan is actively reorienting itself toward the "Middle Corridor," strengthening its transport and trade ties with Central Asian partners. Georgia, which has benefited from the rapid growth of trade with the PRC (+145.7%), is significantly expanding its role as a key regional transit and trade hub linking Asia, the South Caucasus, and Europe.

Uzbekistan's rapid growth in imports, driven by purchases of capital goods for industrialization, has led to an increase in the trade deficit to 15.7% of GDP; however, the growth in its trade with the PRC (by 48.8%) and neighboring countries in the region indicates that the country is transforming into a manufacturing hub for Central Asia. The PRC, as the region's largest economy and trading partner, continues to strengthen its role as both the primary export market for energy resources and minerals from CAREC countries and the main source of imports for machinery and electronics.

Against the backdrop of favorable conditions, intra-CAREC trade is growing significantly. According to available statistics, intra-regional trade grew rapidly in Georgia (145.7%), Kazakhstan (12.1%), the Kyrgyz Republic (27.5%), Mongolia (59.1%), Pakistan (24.3%), and Uzbekistan (3.5%) compared to the first five months of last year. Moreover, Kazakhstan's bilateral trade with Uzbekistan expanded by 26.5%, as did Uzbekistan's bilateral trade with the Kyrgyz Republic and Tajikistan, by 45.5% and 41.4%, respectively.

However, this trend towards greater regional trade integration faces some obstacles: the closure of the borders between Pakistan and Afghanistan, difficulties in processing payments due to sanctions, and exchange rate volatility have complicated payment settlements for trade transactions, while rising marine insurance premiums and transportation costs have undermined the competitiveness of intraregional trade, especially for the landlocked countries of Central Asia.

Figure 9. Foreign trade balance (% of GDP*)



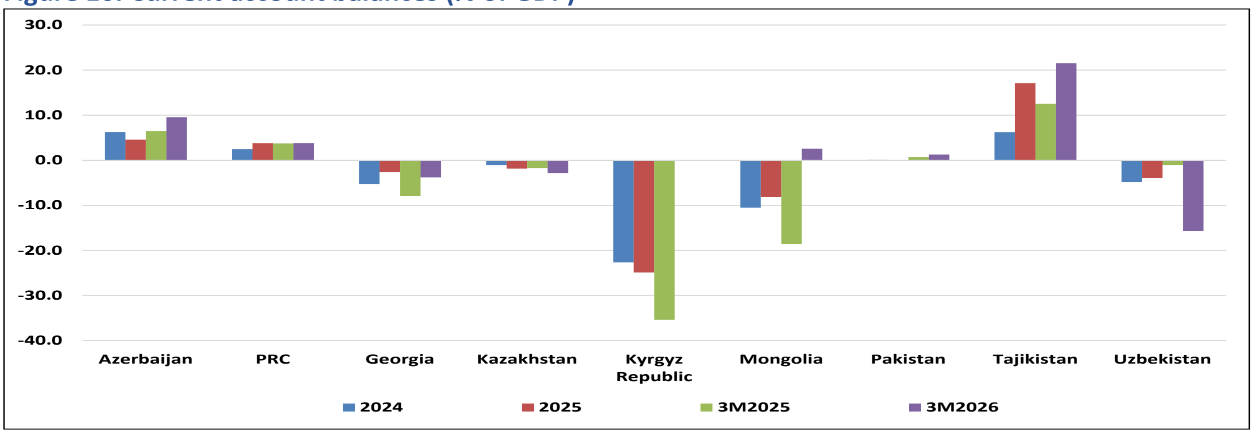
Notes: Nominal GDP for five months is estimated; data for Afghanistan and Turkmenistan are not available.
Source: CEIC, national agencies, authors' calculations

In the first quarter of 2026, current account balances in several CAREC countries improved compared to January–March 2025 (Figure 10), mainly due to favorable changes in terms of trade. At the same time, in Uzbekistan and Kazakhstan, the external deficit actually increased due to rising domestic demand, which led to a rise in imports.

While the Kyrgyz Republic reduced its current account deficit, Tajikistan recorded a significant current account surplus of 21.5% of GDP in the first quarter of 2026, the highest in the region. Georgia's current account deficit narrowed, partly due to exports of services, including the recovery of the tourism sector. Azerbaijan's current account surplus rose to 9.5% of GDP, while Mongolia recorded a current account surplus of 2.6% of GDP for the first time reflecting strong trade surplus, despite a deficit in the services sector and a net outflow of primary income. The improvement in Pakistan's current account was driven by higher remittances. The PRC recorded a current account surplus of 3.8% of GDP, driven by both strong export growth of EVs, solar panels and other tech products and a narrowing of the services deficit caused by a surge in inbound tourism, reflecting the easing of visa policies, particularly for tourists from Europe and Southeast Asia.

Thus, the development of the external sector in the CAREC region remains uneven: commodity-exporting countries are benefiting from favorable terms of trade, while import-dependent countries are facing balance-of-payments pressures. This underscores the urgent need for diversification, improved energy efficiency, and the establishment of regional risk-sharing mechanisms, to strengthen resilience to commodity price volatility and geopolitical shocks.

Figure 10. Current account balances (% of GDP)



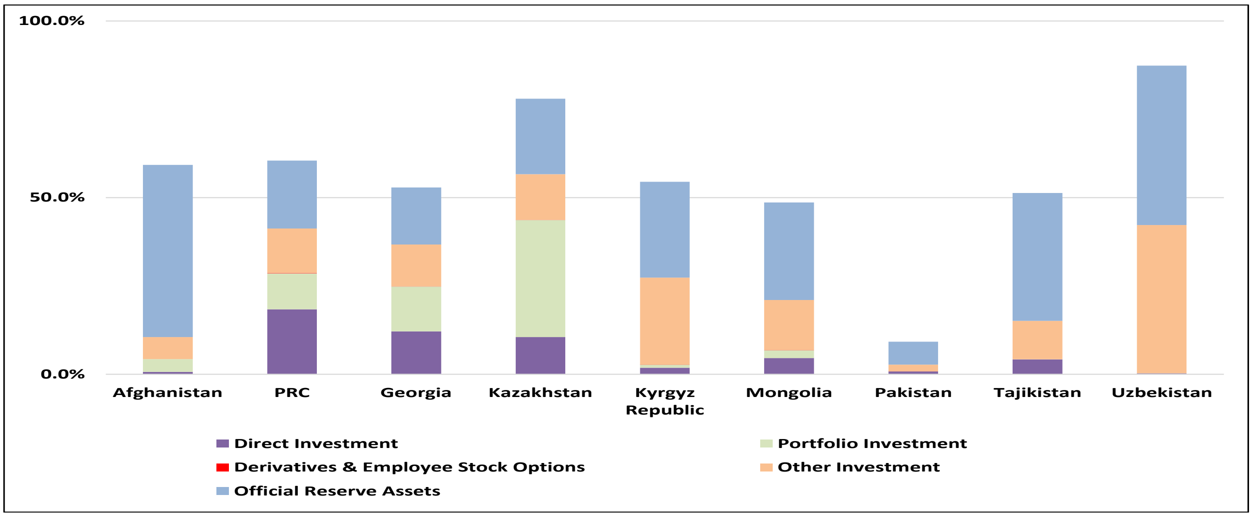
Source: CEIC, national agencies, authors' calculations

Investment:
PRC stands out as the preeminent diversified investment market

The majority of economies in CAREC region are considered as landlocked developing economies, except for the PRC, Georgia and Pakistan. Most member countries are net recipients of foreign investment, with the PRC being the most diversified investment market, both as a prime destination of inward investment and a major source of outward investment. The data also show that some CAREC economies have relied on official reserves to cushion the impact of external shocks, while the PRC, Georgia and Kazakhstan have adopted a more diversified approach, reflecting their greater integration into the global markets.

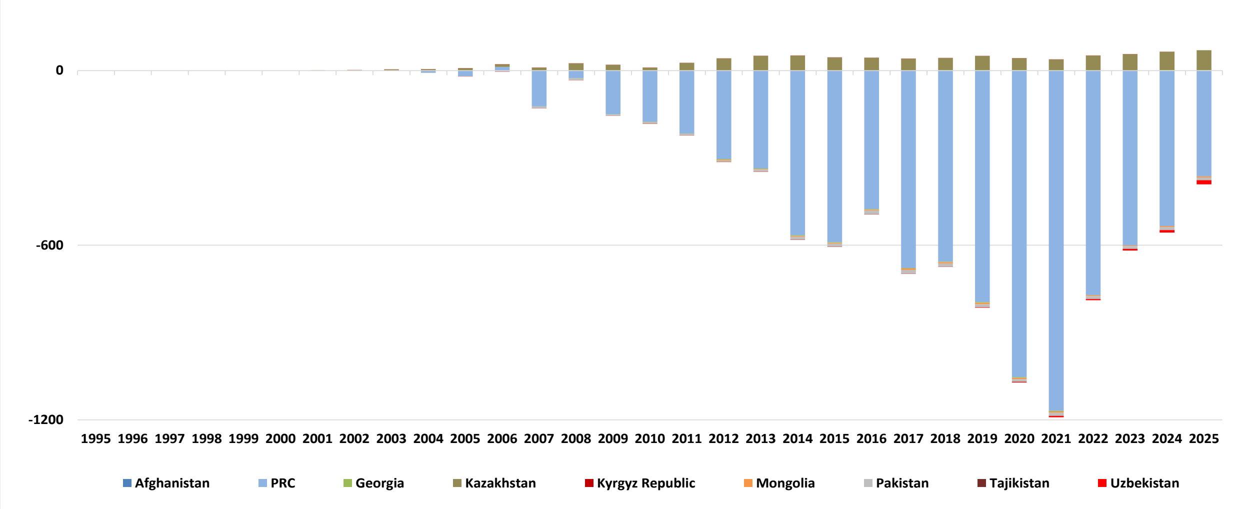
Available data show that official reserve assets constitute the largest or second-largest external financial assets for the region (Figure 11). Specifically, Afghanistan, Uzbekistan, and Tajikistan recorded the highest reserve asset-to-GDP ratios, making such assets the primary financial buffer against external shocks. In contrast, outward FDI and portfolio investments remain relatively modest for the majority of CAREC member countries except for the PRC, Georgia, and Kazakhstan, whose external assets are more diversified, reflecting their deeper integration into global financial markets. Notably, the PRC, Georgia, and Kazakhstan are the three countries with significant portfolio investments abroad, with Kazakhstan recording the highest portfolio investment-to-GDP ratio at 33.1%. Among the CAREC countries, the PRC has the most negative net portfolio investment position, although that has been narrowing in the last several years, reflecting the PRC's rapidly growing capital outflows (Figure 12). Most CAREC countries have significant other investments abroad with Uzbekistan registering the highest other investment-to-GDP ratio at 42%.

Figure 11. Five categories of investment assets to GDP by the end of 2025 (%)



Note: Five investment asset-to-GDP ratios for Afghanistan used 2020 data and 2024 data for the Kyrgyz Republic.
Source: CEIC; authors' calculations

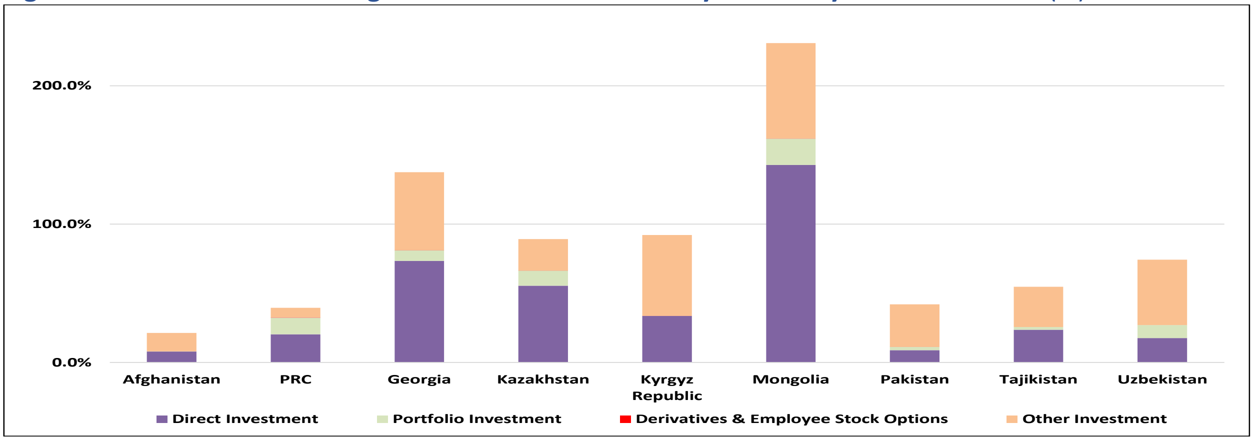
Figure 12. Net portfolio investment positions from 1995-2025 (USD billion)



Note: Net portfolio investment positions are calculated as portfolio investment assets minus portfolio investment liabilities under IIP (International Investment Position); data for Azerbaijan and Turkmenistan are not available and cannot be displayed.
Source: CEIC; authors' calculations

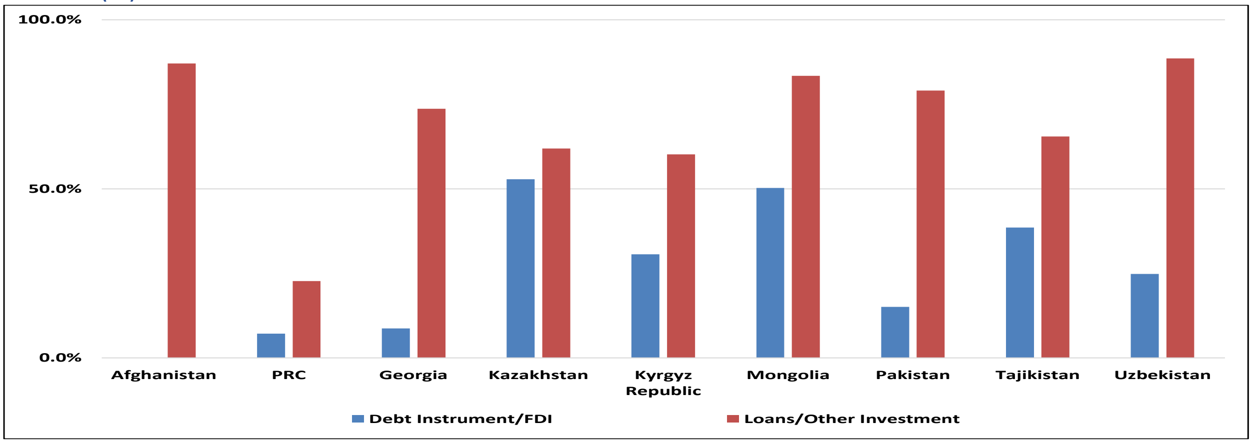
Across the CAREC region, inward FDI driven by renewable energy and resource-based projects, and other investments, are the dominant external financial liabilities. In contrast, portfolio investment remains comparatively small except for the PRC and Mongolia (Figure 13), as illustrated by the soaring amount in Chinese equity securities held by nonresidents, which registered 38.5% (yoy) growth in 2025. Notably, the PRC's large negative net portfolio investment position is steadily improving; the narrowing deficit signals its progressive transition from being a net capital importer to a major foreign investor with rapidly expanding outward direct and portfolio investment. In contrast, Mongolia exemplifies an economy which is highly indebted externally. According to the CEIC data, the country has 94.4% of portfolio investment liability in long-term debt securities, 80.1% of other investment liability in long-term loans, and 50.2% of FDI liability in debt instruments. Its total external financial liability is equivalent to more than 2.3 times the country's annual GDP, rendering Mongolia the most highly indebted and FDI-dependent economy in the region. More broadly, the reliance on debt financing is not exclusive to Mongolia, but also applies to several other CAREC countries, whose economies are thus highly exposed to external shocks, interest rate fluctuations and currency risk, and which therefore need to develop a more diversified and resilient external financing structure (Figure 14).

Figure 13. Five functional categories of investment liability to GDP by the end of 2025 (%)



Note: Values for Azerbaijan and Turkmenistan are not available and cannot be displayed. Afghanistan and the Kyrgyz Republic only update their data up to 2020 and 2024, respectively.
Source: CEIC; authors' calculations

Figure 14. Loan and debt instruments constitute a significant part of FDI and other investment liabilities in 2025 (%)



Note: Values for Azerbaijan and Turkmenistan are not available and cannot be displayed. Afghanistan and the Kyrgyz Republic only update their data up to 2020 and 2024, respectively.
Source: CEIC; authors' calculations

Outlook:
Projections by national and international financial institutions generally improved but varied significantly across member countries

Growth projections by international financial institutions (IFIs) for 2026 and 2027 improved in general. Although average CAREC real GDP growth is likely to ease to 5.1% in 2026 and to 4.9% in 2027, it is 0.3 and 0.2 percentage points higher than their previous projections (Table 1). The inclusion of the projections from EBRD and EDB in this Monitor played a key role in raising the overall average. For example, EDB in its June 2026 Macroeconomic Outlook revised its growth projections of Uzbekistan and the Kyrgyz Republic upward by 1.1 and 0.9 percentage points compared with its December 2025 edition, to reach 7.9% and 10.2% in 2026, respectively. It also revised its 2027 projections for Uzbekistan, the Kyrgyz Republic and Tajikistan upwards by 0.5, 0.7 and 0.5 percentage points to 6.9%, 8.3% and 7.7%, respectively. Another example is a 0.5 percentage points upward revision for Georgia in EBRD's June 2026 Regional Economic Prospects compared to its February 2026 edition, from 5.5% to 6.0% for 2026. In contrast, the magnitude of the revisions from ADB, IMF, the World Bank and EFSD was relatively insignificant in their July/June outlooks compared to their April editions, remaining within a ±0.5 percentage point range. One exception is that the ADB revised Pakistan's economic growth from 3.5% to 3.7% for 2026, but lowered its projection substantially from 4.5% to 3.7% for 2027 due to its concerns over elevated energy prices in the country and pressure on remittances.

In line with the adjustments by IFIs, growth forecasts for 2026 were revised upward by central banks in several member countries. Specifically, the central banks of Georgia, Kazakhstan, Pakistan and Uzbekistan have revised their growth projections upwards for 2026, mainly due to the strong economic growth observed in Q1 2026. Meanwhile, the National Bank of the Kyrgyz Republic has kept its growth projection for 2026 unchanged at around 10.0%, based on robust performance in construction, industrial, trade, and tourism sectors. Central banks with downward revisions include Azerbaijan where growth has been adjusted down from 2.4% in February to 1.1% in May, due mainly to geopolitical tensions in the Middle East as well as the weakened growth in non-oil and gas sector, and Mongolia which revised its growth projection down from 5.5% in March to 5.2% in June, on account of lower-than-expected growth in Q1 2026 and a slowdown in non-mining sectors.

Despite upward revisions by IFIs and national financial institutions, the outlook for growth in the CAREC region is clouded by a multitude of risks. In particular, the renewed escalation of the conflict in the Middle

East, together with the volatile status of the Strait of Hormuz, have significantly driven up the global energy costs, disrupted supply chains, and threatened regional energy and food security. The situation now has been further exacerbated by a recent ban on diesel exports by Russia due to its strained domestic fuel supply, and by prolonged restrictions on export of certain oil products by Kazakhstan in order to ensure stability in its domestic fuel market.

The CAREC countries, notably net oil importers including the Kyrgyz Republic, Pakistan, Tajikistan and Uzbekistan, are thus likely to be further hit by fuel shortages and higher oil prices. Meanwhile, incidents at the Caspian Pipeline Consortium (CPC) pipeline and the Tengiz oil field in Kazakhstan, and spillover effects from the economic slowdown in Russia and weaker demand from the PRC, could weigh on economic activities in the respective countries.

To mitigate these risks, CAREC countries with natural resources or renewable energy should leverage on them as a buffer to smoothen domestic energy price volatility and gradually reduce external dependency. Concurrently, diversifying the economy by reshaping the economic structure will enhance the region's capacity to absorb external shocks, transforming it into a more resilient and self-sustaining area.

Table 1. Real GDP growth (%)

	2015-19	2020	2021	2022	2023	2024	2025	2026F	2027F	2026F	2027F
								Average forecast by IFIs		Forecasts by central bank of the country	
Afghanistan*	-2.4	-2.1	-20.7	-6.2	2.3	1.9	4.8	3.2	3.5		
Azerbaijan	0.8	-4.3	5.6	4.7	1.4	4.2	1.4	2.1	2.2	1.1	3.2
PRC	6.7	2.3	8.6	3.1	5.4	5.0	5.0	4.5	4.3		
Georgia	4.0	-6.3	10.6	11.0	7.8	9.7	7.5	5.5	5.2	6.5	5.0
Kazakhstan	2.5	-2.5	4.3	3.2	5.1	5.0	6.5	4.9	4.6	4.5-5.5	3.5-4.5
Kyrgyz Republic	4.2	-7.1	5.5	9.0	9.0	11.5	11.1	8.1	7.1	10.0	7.6
Mongolia	3.9	-4.6	1.6	5.0	7.4	5.1	6.8	5.4	5.6	5.2	5.4
Pakistan*	3.8	-0.9	5.8	6.2	-0.2	2.6	3.1	3.4	3.5	3.75-4.75	
Tajikistan	6.9	4.5	9.2	8.0	8.3	8.4	8.4	7.2	6.3		
Turkmenistan	6.3	5.9	6.2	6.2	6.3	6.3	6.3	5.1	4.8		
Uzbekistan	5.8	1.6	8.2	6.1	6.3	6.7	7.7	6.8	6.5	7.0-7.5	
CAREC avg.	3.9	-1.2	4.1	5.1	5.4	6.0	6.2	5.1	4.9		

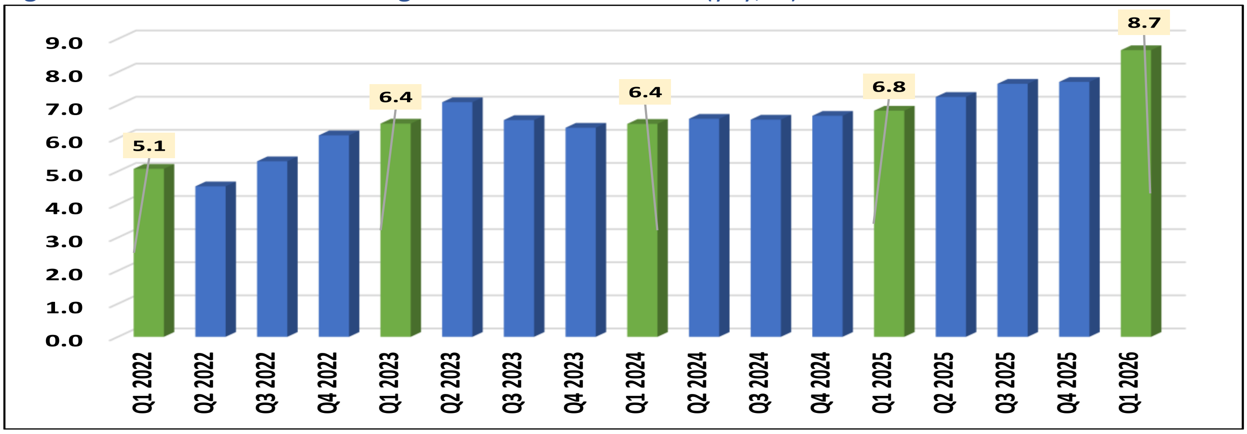
*Annual GDP growth rate is on a fiscal year basis.
Note: IFIs here include ADB, IMF, World Bank, EBRD and EDB; simple average is taken across IFIs' forecasts for each country; forecast for "CAREC avg." is the simple average of all member countries; Afghanistan's GDP growth for 2025 is an estimate by the World Bank; the green figures indicate that the projected growth is higher than in 2025, red figures lower than in 2025.
Sources: ADB (ADO, July 2026 forecasts), IMF (WEO, Apr 2026 forecasts, July 2026 updates for the PRC, Kazakhstan and Pakistan), World Bank (GEP, June 2026 forecasts), EBRD (REP, June 2026 forecasts), EDB (MO 2026-28, June 2026 forecasts), EFSD (REO, Summer/July 2026 forecasts), CEIC database, National agencies

Insert I:
From structural reforms to steady outcomes: first-quarter results and drivers of Uzbekistan's economic stability

Fazliddin Nasriddinov[1]

Uzbekistan's economy strengthened in Q1 2026, supported by broad-based expansion. Nominal GDP reached UZS 447.9 trillion (USD 36.9 billion), while real GDP grew by 8.7% year-on-year—the strongest first-quarter result in recent years, up from 6.8% in Q1 2025 and above the 7.7% recorded for 2025 as a whole (Figure 15). The stronger growth performance suggests that recent reforms have continued to support productive capacity across the country's main economic sectors.

Figure 15. Uzbekistan: Real GDP growth in 2022–Q1 2026 (yoy, %)

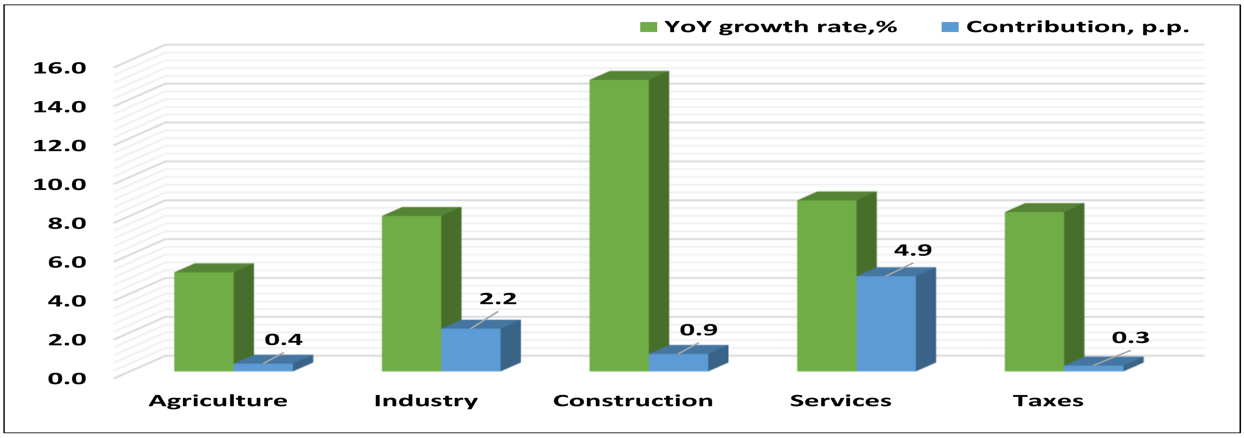


Source: National Statistics Committee of Uzbekistan

The main sectors of the economy recorded positive growth in the first quarter of 2026. Construction expanded by 15.0%, followed by services (8.8%), industry (8.0%), and agriculture (5.1%). Services made the largest contribution to overall GDP growth, adding 4.9 percentage points, while the industry, construction, and agriculture contributed 2.2, 0.9, and 0.4 percentage points, respectively (Figure 16).

These developments reflect the continued changes in the structure of the economy. Between 2017 and 2025, agriculture's share of gross value added declined from 34.0% to 17.3%. Over the same period, the share of services, industry, and construction increased from 38.1% to 48.6%, 22.2% to 26.8%, and 5.7% to 7.3%, respectively.

Figure 16. Uzbekistan: Sectoral growth and contribution to GDP growth, Q1 2026



Source: National Statistics Committee of Uzbekistan

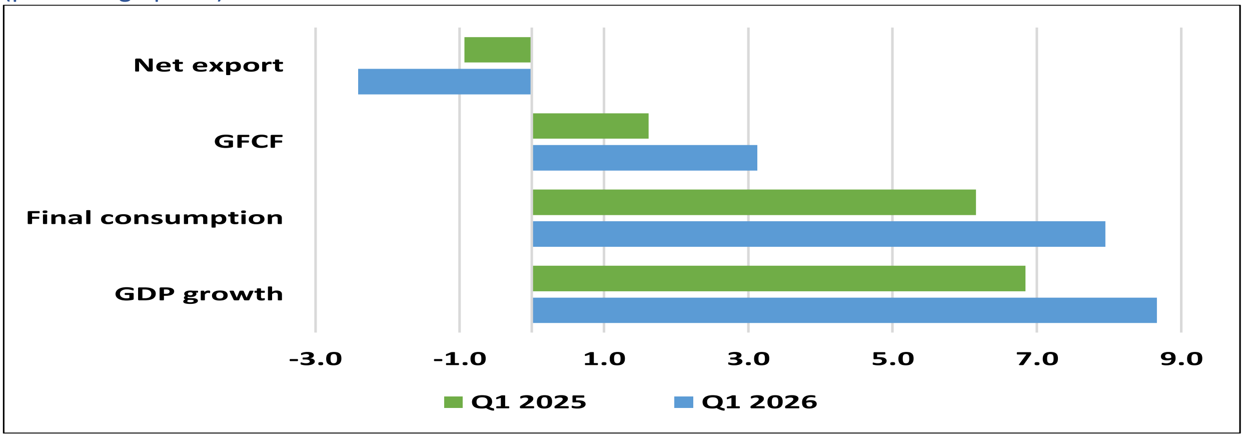
[1] Center for Economic Research and Reforms (CERR), Uzbekistan

These changes demonstrate that the structure of the economy has continued to develop. So, the economic activity is shifting from lower-productivity primary sectors to higher value-added industrial and services. This trend is in line with Uzbekistan's broader economic diversification.

From the expenditure side, household consumption remained the main driver of economic growth. In Q1 2026, final consumption increased by 10.8% and contributed 8.0 percentage points to real GDP growth, up from 6.2 points in Q1 2025, mainly due to a stronger household contribution (6.7 percentage points). Gross fixed capital formation grew by 29.6% and added 3.1 points, up from 1.6 points in Q1 2025. Net exports remained a drag, subtracting 2.4 points from growth in Q1 2026, compared with 0.9 points in Q1 2025 (Figure 17).

Import growth was concentrated in investment-related goods, rather than consumer products. So, imports of machinery and transport equipment reached USD 4.1 billion, increasing by 29.9% year-on-year. Imports of chemical products and industrial goods also rose to USD 1.5 billion (+21.5%) and USD 1.7 billion (+14.2%), respectively, pointing to higher demand for equipment, intermediate inputs and technology.

Figure 17. Contribution of expenditure components to real GDP growth in Q1 of 2025 and 2026
(percentage point)



Source: Author's calculation based on data of National Statistics Committee of Uzbekistan

Fixed capital investment increased by 29.6% to USD 12.9 billion. Manufacturing attracted the largest share, at 28.5%. Foreign investment and loans directed to fixed capital reached USD 9.7 billion, including USD 6.9 billion classified as foreign investments. The quality of growth also improved over the medium term. Investment efficiency strengthened, with the national ICOR[2] declining from an average of 7.2 in 2016–2020 to 4.2 in 2021–2025.

Inflation dynamics also signaled improving macroeconomic stability. Headline CPI inflation stood at 7.1% year-on-year in March 2026, slightly below 7.3% at end-2025 and well below 10.3% in March 2025. This indicates continued disinflation, although inflation remains above the Central Bank's medium-term target, requiring a cautious macroeconomic policy stance.

Reform Foundations of Economic Stability

The results for Q1 2026 reflect the impact of reforms introduced since the start of economic liberalization in 2017. Four recent reform areas are particularly important for understanding these results.

[2] ICOR (Incremental Capital Output Ratio) measures how much additional investment is needed to generate one unit of additional output. A lower ICOR indicates higher investment efficiency, meaning that less capital is required to produce the same increase in GDP.

Tax policy and business formalization. Tax policy remained stable and continued to support a more predictable business environment. The tax amendments that came into effect on 1 January 2026 left the main tax rates unchanged, including corporate income tax (15%), value-added tax (12%), personal income tax (12%), and social tax (12%)[3].

The 2026–2028 tax policy guidelines also confirmed the government's commitment to maintaining stable tax rates over the medium term. At the same time, the regime for individual entrepreneurs and self-employed persons was simplified.

From 1 January 2026, individual entrepreneurs and self-employed persons with annual turnover up to UZS 1 billion became subject to a 1% turnover tax. For individual entrepreneurs previously under the standard regime, this reduced the rate from 4%, while the fixed personal income tax payment was abolished. The non-observed economy declined from 24.8% of GDP in Q1 2025 to 22.9% in Q1 2026.

Digital tools supported formalization: 6.8 million consumers received fiscal cashback through the “Soliq” app in 2025, while turnover recorded through online cash registers rose by 18.4%. This was reflected in stronger revenue collection: in Q1 2026, tax revenues increased by 24% year-on-year to UZS 63.6 trillion, with corporate profit tax rising by 43%, VAT by 27%, and personal income tax by 15%, accounting for the largest collections.

Business entry and digital public services. Presidential Decree No. DP-214 [4]introduced the “Start a Business in 15 Minutes” system from 1 January 2026, integrating company registration, VAT certification, online cash-register issuance and labor-system enrolment. By reducing aggregate administrative costs for entrepreneurs by up to UZS 90 billion and saving up to 15 days in the business-startup process, the reform helped lower entry barriers and supported business formalization.

Business activity strengthened in Q1 2026: as of 1 April, the number of operating business entities reached 422,000, up 11.8% year-on-year, including 19,072 enterprises with foreign investment. In Q1, 22,351 small business entities were newly created, up 16.3%. Small enterprises accounted for 72.7% of active businesses, while small business entities generated 45.6% of gross value added. Digital public-service use also continued to expand. Uzbekistan rose from 69th to 63rd in the UN E-Government Development Index[5] between 2022 and 2024, entering the “Very High” EGDI group, while by 2025 the public-services portal had more than 12.5 million registered users and delivered over 40 million services.

Privatization, finance, and capital markets. Privatization remained an important part of Uzbekistan's economic reforms. The Law on Privatization of State Property, adopted in 2024, created the legal framework for reducing state ownership and transferring state assets to private investors. In 2025, assets worth nearly UZS 30 trillion were privatized, generating more than UZS 10 trillion in budget revenues. State-owned enterprises also transferred UZS 49 trillion in dividends to the state budget. As a result, the state's share in the economy declined from more than 55% in 2020 to 42% in 2026. Over the same period, the number of state-owned enterprises fell by about 60%.

The National Investment Fund of Uzbekistan (UzNIF) was established to manage minority stakes in major state-owned enterprises under Franklin Templeton. The fund is expected to support future privatization through capital market instruments. A notable development came in May 2026, when UzNIF completed

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[3] Law of the Republic of Uzbekistan No. LRU-1108 of 25 December 2025, “On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Adoption of the Main Directions of Tax and Budget Policy for 2026.”

[4] Presidential Decree No. DP-214 of 14 November 2025, “On Further Measures to Simplify Doing Business, as well as Licensing and Permitting Procedures.”

[5] The UN E-Government Development Index (EGDI) is a composite indicator measuring national e-government development across three equally weighted dimensions: the scope and quality of online public services, telecommunication infrastructure, and human capital. The index is published by the United Nations as part of its E-Government Survey.

its initial public offering on the London Stock Exchange. The IPO raised more than USD 690 million and received investor orders exceeding USD 2.8 billion. The banking sector also continued to grow. By 1 April 2026, banking system assets reached UZS 959.4 trillion, which was 20% higher than a year earlier.

WTO accession and trade policy anchoring. WTO accession continued to play an important role in Uzbekistan's economic reform agenda. The accession process moved forward through a series of Working Party meetings, with the latest round held in March 2026, while the government continued to target membership in 2026. In 2025, Uzbekistan brought 68 legal[6] and regulatory acts into line with WTO requirements. The reforms included the removal of export restrictions, improvements to export-duty regulations, revisions to technical and sanitary standards, and the abolition of mandatory certification for 747 commodity items, reducing the certification list by 27%. Together, these measures reduced trade-related regulatory barriers and brought the country's trade framework closer to international standards.

Reforms were carried out through three main channels. (i) The services sector remained the main source of economic growth in Q1 2026. Lower transaction costs, wider use of digital payment systems, rising household incomes, and stronger consumer demand supported service-sector activity. Trade services expanded by 19.4%, while financial services grew by 22.4%. Nominal wages increased by 17.4%, and remittance inflows reached approximately USD 3.8 billion, 13% higher than a year earlier. (ii) Industrial growth was supported by higher investment.

During the first quarter of 2026, 1,508 investment projects worth USD 1.2 billion were launched, creating around 28,000 jobs. The ICT sector also continued to expand. Its share in GDP increased from 2.6% in the first quarter of 2024 to 3.2% in the first quarter of 2026, while programming and consultancy services grew by 45.7%. ICT services contributed 1.3 percentage points to overall services growth. (iii) Construction also made a strong contribution to economic activity. Value added in the sector increased by 15.0%, contributing 0.9 percentage points to overall GDP growth.

Macroeconomic stability in the first quarter of 2026 was supported by continued coordination between monetary and fiscal policy. The Central Bank maintained a tight monetary policy stance by keeping the policy rate positive in real terms. Energy subsidies were gradually reduced, together with targeted social support for vulnerable households. By 1 April 2026, banking-system assets had increased by 20% to UZS 959.4 trillion. The sector also maintained strong capital buffers, with the capital adequacy ratio at 18.5%, Tier 1 capital adequacy at 15.8%, and the CET1 ratio at 15.3%. Together, these indicators point to a stable macroeconomic environment during the first quarter of 2026.

Uzbekistan’s location at the centre of Central Asia gives it an important role in CAREC transport and trade corridors. Recent WTO-related reforms complement this geographic position by making cross-border trade rules more predictable. These measures help lower non-tariff barriers and support trade facilitation, especially when combined with ongoing transport and logistics investments along CAREC corridors. Over time, stronger regulatory alignment and connectivity can support Uzbekistan’s role as a regional logistics and production hub, while contributing to more stable regional trade links.

Overall, Q1 2026 results demonstrate that Uzbekistan has maintained macroeconomic stability while sustaining strong and broad-based growth. Stable inflation dynamics, continued investment expansion, a growing private sector and progress in trade and institutional reforms point to a more resilient economic base. Preserving this stability will require keeping macroeconomic policy cautious, completing WTO accession, strengthening post-privatization governance, expanding access to finance for small businesses and continuing administrative simplification.

[6] President.uz, official website of the President of the Republic of Uzbekistan, “Progress of Uzbekistan’s accession to the World Trade Organization reviewed,” 6 May 2026.

Insert II:
What are the main priorities driving economic development in Turkmenistan?
Evidence from the first half of 2026

Berdimyrat Orazov[7]

Development in the first half of 2026

At the enlarged meeting of the Cabinet of Ministers on 10 July 2026, Turkmenistan reported GDP growth of 6.3% for January-June. The headline figure is important, and the composition of activity further clarifies the policy direction. Three features stand out in the official data: the scale of capital investment, continued emphasis on the country's core industrial sectors, and comparatively rapid growth in transport, communications and several credit portfolios. Together, the half-year results present a development model focused on investment, modernization, connectivity and broad-based economic stability.

Retail trade increased by 10.1% and foreign trade turnover by 7.5% compared with the first half of 2025.[8] Growth was reported in every major sector, with transport and communications recording the highest rate. Trade and services also expanded strongly, while industry, construction and agriculture maintained positive growth (Table 2). The pattern highlights the dynamic contribution of connectivity and market services alongside continued development across the productive sectors.

Table 2. Reported sectoral growth rates in Turkmenistan, January-June 2026 (yoy, %)

Sector	Growth rate
Industry (excluding construction)	2.7%
Agriculture	2.0%
Construction	6.7%
Trade	8.5%
Services	8.4%
Transport and communications	10.4%

Source: Author's compilation based on official reporting from the Cabinet of Ministers meeting of 10 July 2026[9]

Capital investment and fiscal policy

Capital formation remains central to the state-led development model. Investment from all financing sources amounted to about 18.6 billion manat in the first half of 2026. This was 4.3% more than in the corresponding period of 2025 and was equivalent to 16.5% of GDP.[10] Production facilities received 45.1% of the total, while 54.9% went to social and cultural facilities. The distribution shows that the programme combined additions to productive capacity with housing and public infrastructure.

Budget execution was reported against the approved plan: state revenue reached 102.1% of the half-year target and expenditure 97.4%; the corresponding figures for local budgets were 103.8% and 97.9%.[11] These ratios indicate how collections and spending compared with the plan. Revenue collection exceeded

[7] Turkmen State Institute of Economics and Management, Turkmenistan
[8] Turkmenistan State News Agency (TDH), "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi," 10 July 2026, https://tdh.gov.tm/tk/post/49178/turkmenistanyn-ministrler-kabinetinin-ginisleyin-mejlisi-33; TDH, "The extended meeting of the Cabinet of Ministers of Turkmenistan," 10 July 2026, https://tdh.gov.tm/en/post/49224/extended-meeting-cabinet-ministers-turkmenistan-11
[9] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi."
[10] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi"; Business Turkmenistan, "January-June: Capital investment in Turkmenistan reached 18.6 billion manat," 11 July 2026, https://business.com.tm/ru/post/15925/yanvariyun-v-turkmenistane-osvoeno-kapvlozhenii-na-186-mlrd-manatov
[11] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi."

the target while expenditure remained consistent with budget discipline. This combination supports fiscal stability and the continued financing of national development priorities.

Industrial performance

Official reporting combines physical output, year-on-year changes and fulfilment of administrative production plans, providing a broad picture of industrial performance. Natural gas output was reported at 39.147 billion cubic meters and crude oil output at 4.130 million tonnes in January-June.[12] Over the same period, Turkmennebit fulfilled 108.3% of its oil extraction plan and 104.1% of its refining plan. Product-specific plan fulfilment reached 116% for gasoline, 111.4% for diesel fuel, 119.4% for lubricants and 118.5% for liquefied gas; the plan for natural and associated gas extraction was fulfilled by 107.6%.[13]

The construction and industrial complex reported aggregate plan fulfilment of 127.9%, while the figure for the Turkmenhimiya State Concern was 114%.[14] These results demonstrate strong execution and output above planned levels. They also indicate active use of industrial capacity and provide a solid foundation for higher productivity, increased value added, export growth and the continued modernization of production facilities.

Credit growth and connectivity

As of 1 June 2026, the outstanding balance of loans extended by Turkmenistan's credit institutions to enterprises, organizations and individuals in the national currency amounted to approximately 100.2 billion manat.[15] As of 1 July 2026, outstanding bank loans to the economy increased by 7.4% year-on-year.[16] Within the reported portfolios, lending to the private sector rose by 23.6%, loans to individuals by 24.5%, and housing loans issued in Ashgabat, Arkadag and the regions by 17.6%.[17] The faster growth of these categories demonstrates expanding financial activity among private businesses and households. Housing lending also supports construction activity and the continuing improvement of living conditions.

The transport and communications complex reported a 13.9% increase in its service volume index. Freight turnover rose by 3.7%, passenger turnover by 2.0%, and the volume of communications services by 15.3%.[18] Service growth rates differed across agencies: 6.8% for rail transport, 20.3% for motor transport, 18.1% for Turkmenhowayollary, 0.3% for marine and river transport, and 15.3% for the Ministry of Communications.[19] The simultaneous growth of physical turnover and communications services highlights the broad role of connectivity in the current infrastructure agenda.

Cashless bank-card transactions exceeded 9.05 billion manat in January-June 2026.[20] The volume demonstrates the expanding use of modern payment channels and growing public participation in digital finance. Together with the rapid growth of communications services, it reflects the increasing role of digital infrastructure in everyday economic activity.

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[12] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi"; Business Turkmenistan, "Turkmenistan produced more than 39.1 billion cubic metres of gas in January-June," 11 July 2026, https://business.com.tm/ru/post/15922/v-turkmenistane-za-yanvariyun-dobyto-bolee-391-mlrd-kubometrov-gaza

[13] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi."

[14] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi."

[15] Business Turkmenistan, "Outstanding loans issued by Turkmen banks approached 100.2 billion manat," 9 July 2026, https://business.com.tm/ru/post/15909/ostatok-kreditov-vydelennyh-turkmenskimi-bankami-priblizilsya-k-1002-mlrd-manatov

[16] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi."

[17] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi."

[18] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi"; TDH, "The extended meeting of the Cabinet of Ministers of Turkmenistan."

[19] TDH, "The extended meeting of the Cabinet of Ministers of Turkmenistan."

[20] Business Turkmenistan, "January-June: Cashless turnover in Turkmenistan exceeded 9 billion manat," 13 July 2026, https://business.com.tm/ru/post/15927/yanvariyun-beznalichnyi-oborot-v-turkmenistane-prevysil-9-milliardov-manatov

Agricultural performance

Agriculture continues to make an important contribution to food security. In January-June 2026, grain production increased by 11.6% year-on-year, while the country's grain growers delivered more than 1.4 million tonnes of wheat. Vegetable production increased by 12.8%, melon and gourd production by 3.3%, potato production by 4.2%, and milk production by 0.3%.[21] The gains in wheat and vegetables are substantial and reinforce the sector's contribution to food security. The expansion of output also supports regional employment and provides a favorable basis for resource-efficient, climate-resilient agricultural development and the further growth of private producers.

Conclusion and outlook

The first-half data point to a development strategy with four connected elements. First, capital investment and the state budget continue to organize a large share of economic activity. Second, hydrocarbons, chemicals and construction remain central to industrial policy. Third, transport, communications and expanding credit portfolios are being used to strengthen links between producers, households and markets. Fourth, agriculture and social infrastructure retain an important role in food supply and living conditions.

Continued attention to project completion, capacity utilization, labor and capital productivity, the sectoral allocation of credit, crop yields and digital-payment participation will strengthen the contribution of these priorities to long-term development. The half-year evidence shows a consistent direction: investment is expanding productive and social capacity, while infrastructure, finance and agriculture are broadening the foundations of sustainable economic growth.

Insert III:
Is Tajikistan's energy system ready to support industrial growth?

Kahramon Bakozoda[22]

Many factors support private business growth: taxes, investment climate, access to finance, regulation, as well as infrastructure basics such as access to electricity, water, and connectivity. Reliable electricity does not guarantee industrial growth on its own, but it is a basic condition for it. A factory cannot use its equipment and capital fully without a stable power supply. Tajikistan's energy reform should be seen not as the main driver of business growth, but as an attempt to strengthen one of its key foundations.

For twenty years, Tajikistan's energy policy has focused mainly on generation capacity. The Rogun hydropower plant, the rehabilitation of Nurek, and the modernization of Kayrakkum should increase output, improve safety, and reduce winter shortages. But new capacity solves only part of the problem: electricity must also be transmitted, distributed, and metered. For businesses, what matters is not national output, but whether they get the power they need, where and when they need it.

Official data show that electricity production grew from 19.7 billion kWh in 2018 to 22.4 billion kWh in 2024, while domestic consumption grew from 14.3 to 16.3 billion kWh[23] (Table 3). Exports reached 3.9 billion kWh, while imports rose to 1.6 billion kWh. This mix reflects the seasonal nature of the system: summer surpluses do not remove the need for winter supplies. Production is higher than consumption each year, but this does not mean the system has enough capacity in every region and season. Hydropower dominates generation. Output depends on water levels, while winter demand rises because of heating.

[21] TDH, "Türkmenistanyň Ministrler Kabinetiniň giňişleýin mejlisi."
[22] Zerkalo Analytics Group
[23] Industry of the Republic of Tajikistan, p.27. https://www.stat.tj/wp-content/uploads/2026/02/machmuai-sanoat-2025.pdf

Table 3. Electricity balance of Tajikistan, billion kWh

Indicator	2018	2019	2020	2021	2022	2023	2024
Production	19.742	20.677	19.771	20.624	21.400	21.861	22.428
Domestic consumption	14.274	15.141	15.420	13.829	14.711	15.341	16.269
Exports	2.945	3.175	1.870	3.307	3.344	3.462	3.907
Imports	0.559	0.281	0.379	0.883	0.797	0.945	1.618
Losses	2.878	2.429	2.549	4.071	3.920	3.786	3.628

Note: The table presents selected indicators rather than a complete electricity balance.
Source: Agency on Statistics under the President of the Republic of Tajikistan, Industry of the Republic of Tajikistan 2025, p.27

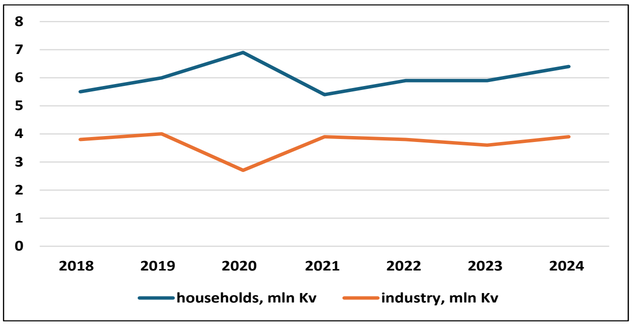
As Table 3 shows, the sharp decline in recorded domestic consumption in 2021 mainly reflected an accounting reclassification following the unbundling of Barqi Tojik, rather than an equivalent fall in actual electricity demand.

Grid limits are another problem. Even when there is enough power nationally, a single substation can be overloaded. According to the national electricity balance, recorded network losses declined from 4.1 billion kWh in 2021 to 3.6 billion kWh in 2024 (Table 3). Using a separate operational indicator, the World Bank reports that transmission and distribution losses fell from 27 percent in 2021 to 15.6 percent in 2025, mainly due to new metering equipment and stronger control over electricity theft. It also notes ongoing problems with payment discipline among large consumers.

Note: Following the unbundling of Barqi Tojik, part of the electricity previously recorded as domestic consumption was reclassified as network losses. This explains the simultaneous decline in recorded consumption and increase in losses in 2021. The absolute figures from the national electricity balance and the percentage indicator reported by the World Bank are not directly comparable because they may use different coverage and calculation methods.

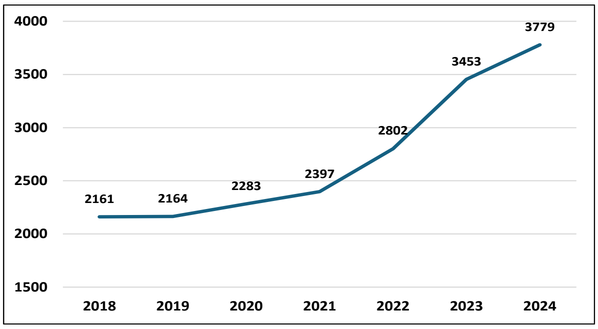
The structure of consumption is changing unevenly. Between 2018 and 2024, household electricity consumption increased from 5.6 to 6.4 billion kWh, while industrial electricity consumption increased only slightly, from 3.8 to 3.9 billion kWh[24] (Figure 18). The number of industrial enterprises increased from 2,161 to 3,779 over the same period[25] (Figure 19). This divergence may reflect changes in the size and sectoral composition of enterprises, improvements in energy efficiency, or constraints on electricity use. The aggregate data do not allow these explanations to be distinguished.

Figure 18. Household vs. industry electricity consumption, 2018-2024



Source: Agency on Statistics under the President of the Republic of Tajikistan, Industry of the Republic of Tajikistan 2025, p. 27

Figure 19. Number of enterprises 2018-2024, units



Source: Agency on Statistics under the President of the Republic of Tajikistan, Industry of the Republic of Tajikistan 2025, p. 9

[24] Agency on Statistics under the President of the Republic of Tajikistan, "Industry of the Republic of Tajikistan 2025", p.27
[25] Industry of the Republic of Tajikistan, p.9. https://www.stat.tj/wp-content/uploads/2026/02/machmuai-sanoat-2024.pdf

The most recent comparable assessment of connection procedures was the World Bank's Doing Business 2020, based on 2019 data[26]. It cannot judge today's situation but shows the starting point: connecting a standard warehouse in Dushanbe took nine procedures and about 98 days, ranking Tajikistan 163rd out of 190 economies for electricity connection.

Today, the application step is being digitized through a public services portal, which can reduce travel, paperwork, and administrative processing time[27]. However, this alone does not shorten the technical stages of connection – an online form does not build a power line. World Bank cross-country evidence suggests that full digitization can reduce connection time by up to 40 percent in lower-income economies[28]. Since Tajikistan has so far digitized only the application stage, this benchmark should not be treated as an estimate of the reform's actual effect. Changes in total connection time will need to be measured as implementation progresses.

Reform goes beyond connections. In 2022, Barqi Tojik was split up: generation stayed with Barqi Tojik, while transmission and distribution became separate state companies – Shabakahoi Intiqoli Barq and Shabakahoi Taqsimoti Barq. The goal is clearer responsibility and more transparent finances. The government is also carrying out tariff reform, debt restructuring, and expanding automated metering. An Asian Development Bank program plans to install about 370,000 modern meters in Dushanbe and six other cities, expected to cut billing costs and losses[29]. The main directions of the ongoing reforms and their expected results are summarized in Table 4.

Table 4. Main reform directions and expected results

Reform direction	Expected result
Unbundling generation, transmission, and distribution	Clearer responsibility and cost transparency
Smart meters and billing	Accurate metering, less theft, higher collection
Network and substation reconstruction	Fewer overloads, losses, and outages
Online application system	Lower administrative costs for consumers
Gradual tariff adjustments and financial reform	Progress towards cost recovery and improved financial sustainability
Expanding import and export capacity	Better management of the seasonal balance

Source: Asian Development Bank, Power Sector Development Program (PSDP), Project No. 53315-001

Electricity tariffs increased by 17 percent in 2026 as part of the sector's financial reform. Since February 2026, the residential tariff has been TJS 0.4137 per kWh, while the standard tariff for industrial and other non-residential consumers has been TJS 0.9465 per kWh, excluding VAT. Preferential rates continue to apply to some consumer groups. The latest quantified World Bank estimate put tariff cost recovery at 76 percent following the 2025 adjustment. Although tariffs have since increased further, full cost recovery has not yet been achieved and remains a reform target to be reached by December 2027[30].

[26] The World Bank, Doing Business 2020 Indicators, Economy Profile of Tajikistan. https://documents1.worldbank.org/curated/en/703921575350150410/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Tajikistan.pdf

[27] Centralized portal of public services. https://ekhizmat.tj/

[28] World Bank Malaysia Hub, Digitalization and the Use of Technology in the Electricity Sector. https://documents1.worldbank.org/curated/en/585901592343461602/pdf/Digitalization-and-the-Use-of-Technology-in-the-Electricity-Sector.pdf

[29] Asian Development Bank, "Power Sector Development Program" (PSDP), Project No. 53315-001. https://www.adb.org/projects/53315-001/main

[30] World Bank. Program for the Recovery of the Electricity Sector in Tajikistan: Implementation Status and Results Report, November 2025. https://documents1.worldbank.org/curated/en/099111225115685140/pdf/P168211-4fa90d05-b807-4086-9414-797c776a1a0e.pdf
World Bank. Program for the Recovery of the Electricity Sector in Tajikistan, May 2026. https://documents.worldbank.org/curated/en/099052826074565257/pdf/P168211-9d1ad1ef-2e04-4079-84af-b6163212fb60.pdf

The Ministry of Energy and Water Resources oversees sector policy and development. Tariffs are calculated by the Antimonopoly Service's Tariff Unit and approved by the Government. Tajikistan does not yet have an independent energy regulator, and the World Bank notes that the Tariff Unit still requires additional capacity to assume this role.

In July 2026, the government also introduced rules for private solar and wind producers to supply surplus electricity to the grid through a regulated system[31]. However, the Rules do not yet specify the purchase tariffs or identify the organization that will act as the "single buyer" responsible for purchasing the supplied electricity. Therefore, it is too early to assess how the system will work in practice.

Tajikistan's energy reform addresses the sector's main weaknesses: high losses, weak metering, unclear finances, and aging networks. Falling losses and new meters already show early results. Still, it is too early to judge the full effect on businesses. The number of meters installed shows the amount of work done, not the quality of the final service. Key things to watch include connection times, outage frequency, voltage quality, and business spending on backup power.

To conclude, Tajikistan's energy system is moving toward greater stability, efficiency, and reliability. This creates a solid base for industrial development. But much depends on continued reform and investment. Energy reform alone cannot guarantee fast business growth - that also depends on the investment climate, tax policy, and access to finance. Still, without reliable electricity, many benefits of these other reforms may not be realized. Energy reform is a necessary but not a sufficient condition for industrial growth.

World Bank. Tajikistan Second Development Policy Operation, July 2026.

[31] Government of the Republic of Tajikistan. Decree No. 449 of 1 July 2026, Rules for the Supply of Energy Produced from Renewable Energy Sources to the Energy System and Its Sale to Consumers.

National Center of Legislation under the President of the Republic of Tajikistan. Law on the Use of Renewable Energy Sources. https://ncz.tj/system/files/Legislation/1.ru__1.pdf

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