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Disclaimer

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Abbreviation

ADB	Asian Development Bank
ADO	Asian Development Outlook
CAREC	Central Asia Regional Economic Cooperation
CESD	Center for Economic and Social Development
CPI	Consumer Price Index
EBRD	European Bank for Reconstruction and Development
EDB	Eurasian Development Bank
EFSD	Eurasian Fund for Stabilization and Development
ERI	Economic Research Institute
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GFSIS	Georgian Foundation for Strategic and International Studies
ICT	Information and Communications Technology
IFI	International Financial Institution
IMF	International Monetary Fund
mom	month-on-month
PRC	People's Republic of China
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
REO	Regional Economic Outlook
REP	Regional Economic Prospects
US\$	US Dollar
VAT	Value-added Tax
WEO	World Economic Outlook
WIUT	Westminster International University in Tashkent
WTO	World Trade Organization
yoy	year-on-year

*Country Code: AFG=Afghanistan AZE=Azerbaijan PRC= People's Republic of China GEO=Georgia KAZ= Kazakhstan
KGZ=Kyrgyz Republic MON=Mongolia PAK= Pakistan TAJ=Tajikistan TKM=Turkmenistan UZB= Uzbekistan

Growth remains strong on average but is narrowly based and diverging. Real GDP growth averaged about 6.2% across the 11 CAREC economies in the first half of 2026, unchanged from a year earlier. The stable average hides a region moving at three different speeds. The Kyrgyz Republic, Uzbekistan, Tajikistan, Georgia and Mongolia are growing at 7–11%. Turkmenistan, Kazakhstan and the PRC are growing at a moderate 4.5–6.5%, and Azerbaijan and Pakistan at below 4%. In most rapidly-growing economies one engine dominates, whether a public construction boom, a mining surge or remittance-financed consumption. Private, non-resource investment remains weak. IFIs have raised their regional forecasts to 5.3% for 2026 and 5.0% for 2027, but these still imply a slowdown as one-off drivers fade.

An energy-price shock has interrupted the disinflation trend. Energy prices rose about 32% (yoy) in the first nine months of 2026 because of the Middle East conflict, and food prices followed. Average inflation rose to 7.5%, and global factors now explain a growing share of it. Inflation is above target in six of the nine economies with explicit inflation targets, and close to double the inflation target in Kazakhstan, the Kyrgyz Republic, Mongolia and Pakistan. The monetary response has been uneven. Real policy rates remain high in Kazakhstan and Uzbekistan but are close to zero in Mongolia and the Kyrgyz Republic, where inflation expectations are above target and demand is strong. In several countries, fiscal policy is adding to demand when it should be saving the windfall revenue from higher commodity prices.

The commodity windfall has strengthened external balances, but unevenly and likely temporarily. The average current account deficit narrowed from 4.1% of GDP to 1.2% in H1 2026. The gains went to oil, metal and gold exporters and reflect prices more than volumes, since oil output fell in Azerbaijan and Kazakhstan. Net energy importers face higher import bills, and Uzbekistan's current account deficit widened to 7.0% of GDP. Foreign reserves exceed three months of imports in all countries. However, a large part of these reserves is held in gold in Kazakhstan, Uzbekistan and the Kyrgyz Republic, so buffers are exposed to a correction in gold prices.

Structural change is under way but remains largely led by the state. FDI is shifting from resource extraction toward manufacturing, energy and infrastructure, and the PRC is the leading investor. Large corridor projects, digital customs systems and tax reforms are the main levers of diversification. However, FDI is still relative small, and intra-regional integration remains shallow.

Risks are tilted to the downside, and policy needs to lean against the cycle. The main risks are renewed energy-price volatility, the expiry of the US–PRC tariff suspension on 10 November, secondary sanctions, tighter global financial conditions and climate shocks. Policy priorities are to: (i) tighten monetary policy where real rates are near zero and inflation expectations are elevated; (ii) save commodity windfalls, and replace broad price subsidies with targeted, temporary fiscal support; (iii) strengthen fiscal rules and medium-term frameworks so that fiscal policy stops amplifying the economic cycle; and (iv) raise private investment and deepen regional trade facilitation, so that transport corridors become economic corridors.

1. Cyclical Developments and Macroeconomic Policy

1.1 Growth dynamics and drivers: resilient but narrowly based

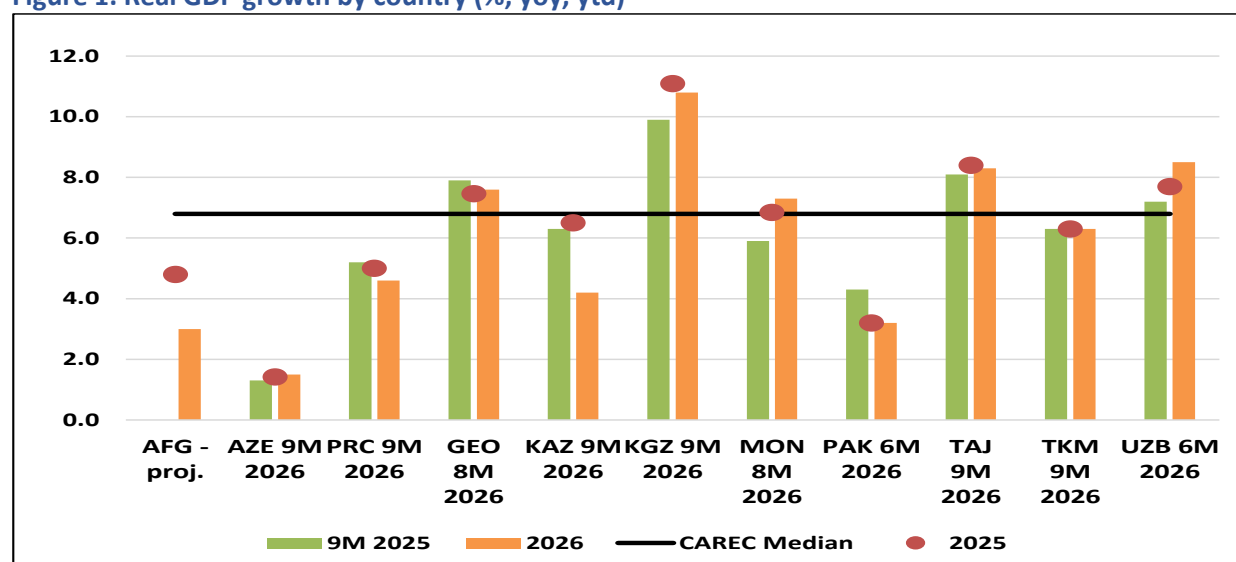
Average growth is stable, but dispersion is wide. Average real GDP growth in the CAREC region was about 6.2% in H1 2026, about the same as in H1 2025.¹ Across countries, growth ranged from 1.5% in Azerbaijan (9M) to 10.8% in the Kyrgyz Republic (9M) (Figure 1). Georgia (7.6%, 8M), Mongolia (7.3%, 8M), Uzbekistan (8.5%, H1) and Tajikistan (8.2%, H1) also grew rapidly. Turkmenistan (6.3%, 9M), Kazakhstan (4.2%, 9M) and the PRC (4.6%, 9M) grew moderately, and Pakistan (3.7% in FY2025/26) lagged. Grouping economies by their main growth driver, rather than by growth rate, shows how fragile some of this momentum is (Table 1).

Table 1. Main drivers of growth in CAREC economies, 2026

Growth pattern	Economies (latest growth, %)	Main drivers	Main vulnerability
Public investment and construction	Kyrgyz Republic (10.8, 9M); Uzbekistan (8.5, H1)	Railway and housing construction; investment +17.4% (UZB); services	Import surge, overheating and inflation; gold-dependent exports
Mining and commodity volumes	Mongolia (7.3, 8M); Turkmenistan (6.3, 9M)	Copper and coal output (mining +3.4 pts, MON); gas and LPG (TKM)	One commodity, one main buyer; investment contracting (MNG)
Consumption: remittances, returnees, services	Tajikistan (8.2, H1); Georgia (7.6, 8M); Pakistan (3.7, FY26); Afghanistan (4.8, FY25)	Remittances and real wages; ICT and transit services; returnee spending (AFG)	Remittance shocks; very low investment (PAK 14.5% of GDP); falling per capita income (AFG)
Non-oil growth offsetting falling oil output	Kazakhstan (4.2, 9M); Azerbaijan (1.5, 9M)	Construction, manufacturing, trade and transport; oil and gas output falling	Field depletion, CPC pipeline disruption; weak non-oil investment (AZE +3.1%)
High-tech manufacturing and exports	PRC (4.6, 9M)	High-tech manufacturing +14.3%; exports; fiscal stimulus	Property (investment -20.6%); weak credit demand; US tariffs

Source: Country sections of this Monitor; CEIC; national agencies. Growth is real GDP, yoy, for the latest available period; FY = fiscal year.

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



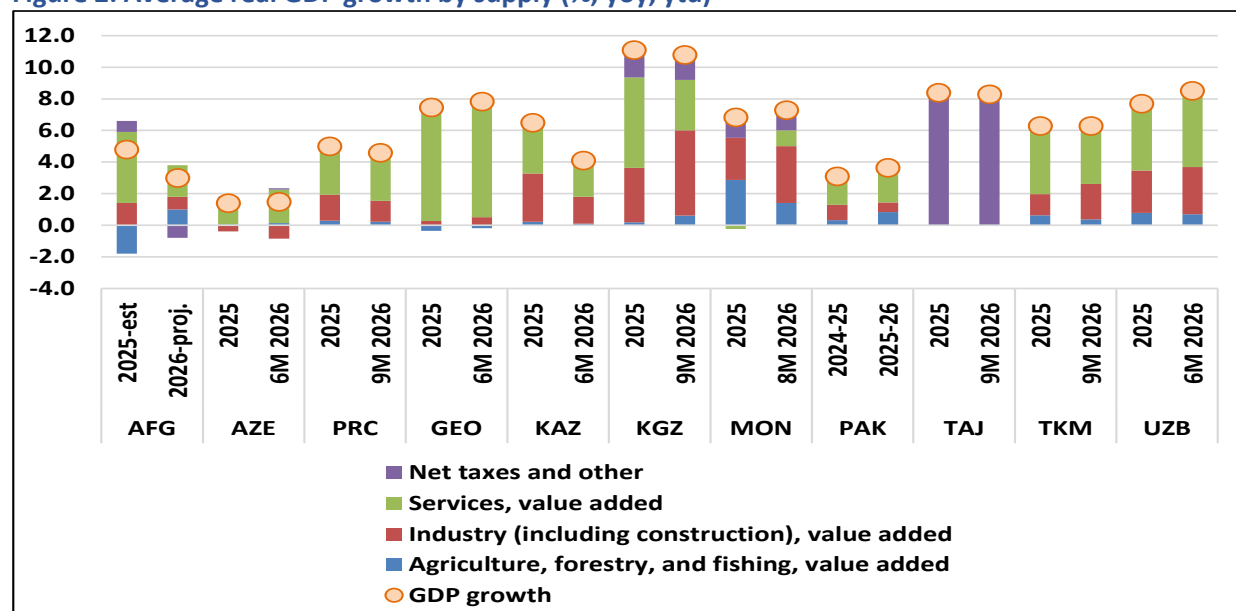
Note: GDP growth rates are presented based on data availability. To make it comparable with other countries, Pakistan's half-year GDP growth rate is presented on the calendar year basis; also, Pakistan's GDP growth rate is presented by gross value-added approach, consistent with its government report practice.

Source: CEIC database, World Bank; authors' calculations

¹ The 6.2% regional average mixes periods (9M, 8M and H1).

On the supply side, two booms drive the industrial average; services are the broad-based driver. Regional industrial growth averaged 13.7% in 9M 2026, but this simple average is dominated by construction in the Kyrgyz Republic (+62.2%) and mining in Mongolia (+25.8%) (Figure 2). Excluding these two countries, industrial growth was 1 ppt lower than a year earlier and slowed in the PRC, Kazakhstan and Pakistan. The Kyrgyz construction boom was driven by the state housing programme² and the China–Kyrgyzstan–Uzbekistan railway; Mongolia's mining surge reflects higher copper and coal output for the PRC market. Services, which grew 6.8% on average (6.4% a year earlier), are the most broadly shared driver. They are led by trade, transport and logistics along the new corridors, ICT in Georgia and finance in Pakistan. Agricultural growth eased to 4.3% from over 5%, largely because of the high base in Mongolia after its 2025 rebound from the “dzud”; agricultural output contracted in Georgia (–3.4% in H1).

Figure 2. Average real GDP growth by supply (% , yoy, ytd)



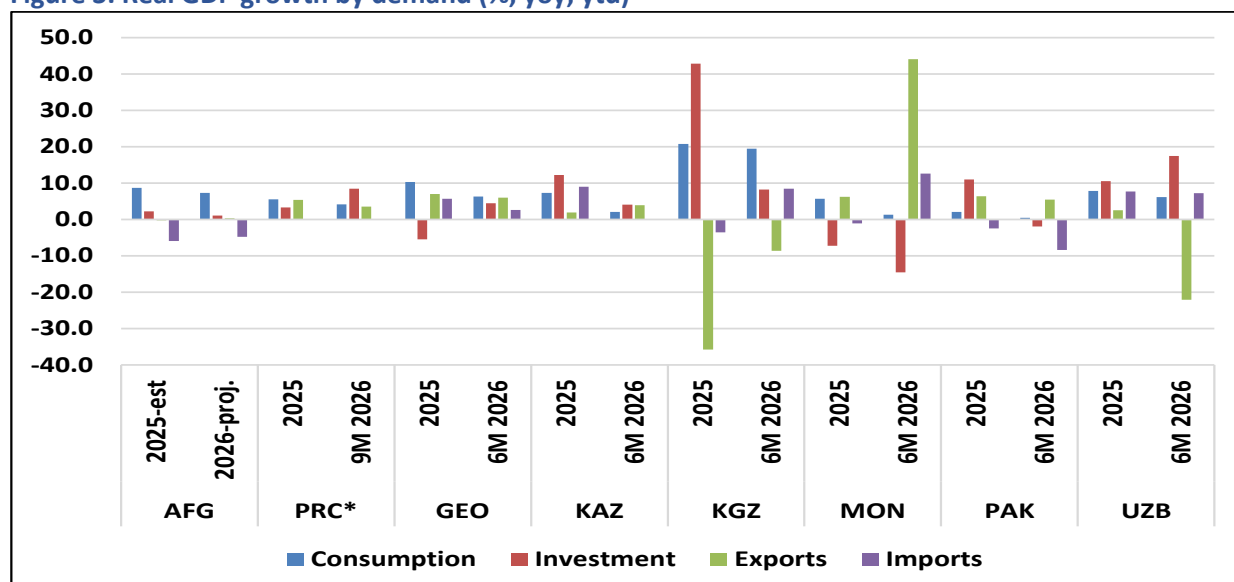
Note: GDP and its sectoral growth rates are presented based on data availability.

Source: CEIC database, World Bank; authors' calculations

On the demand side, consumption is resilient but slowing, and private investment is the weak link. Available data shows that final consumption grew in all countries with data availability, supported by strong real wages in Tajikistan (+16.5%) and Uzbekistan (+10.9%) and by remittances. It slowed in Kazakhstan, where real wages fell 1.8%, and in Mongolia and Pakistan (Figure 3). Investment is polarised. It rose 17.4% in Uzbekistan, driven by public projects. Elsewhere it fell: Mongolia's gross capital formation dropped 14.5% because of a large inventory drawdown, the PRC's fixed-asset investment fell 7.2% (property –20.6%), and Pakistan's investment remains at 14.5% of GDP, among the lowest in Asia. Net exports added to growth where commodity volumes rose (Mongolia, +13.0 ppts) and subtracted from growth where investment imports surged and gold shipments paused (Uzbekistan, –16.4 ppts in Q1). Labour markets remain stable, with unemployment of 4.5% in Kazakhstan, 4.8% in Uzbekistan and 5.2% in the PRC. In Georgia, however, the fall in unemployment reflects lower participation rather than higher job creation.

² More than 25,000 families have received homes under the state housing programme “My Home” in recent years, and about 100,000 citizens were on the waiting list as of September 2026 (<https://en.kabar.kg/news/kyrgyzstan-presents-my-home-program-in-geneva/>; <https://news.kg/ru/news/ipotechnoe-zhile-v-kyrgyzstane-obemy-stroitelstva-sroki-sdachi-i-status-ocheredi>).

Figure 3. Real GDP growth by demand (% , yoy, ytd)



Note: Countries are presented based on data availability.

Source: CEIC database, national statistical agencies; authors' calculations

The policy issue is the quality and durability of growth. In most fast-growing economies, one driver dominates and is either publicly financed or commodity-linked. The Kyrgyz Republic and Uzbekistan rely on public construction, Mongolia on mining exports, Tajikistan on consumption supported by remittances and real wages, and Afghanistan on returnee-financed consumption. In Azerbaijan and Kazakhstan, non-oil sectors are offsetting declining oil output, but in Azerbaijan non-oil investment rose only 3.1%. Signs of overheating are emerging in countries where growth is above potential, including double-digit inflation in the Kyrgyz Republic and Mongolia and rapid credit growth in Georgia (14.8%) and Mongolia (14.3%).

The outlook has improved, but growth is expected to slow. IFIs raised the average CAREC growth forecast from 5.1% to 5.3% for 2026 and from 4.9% to 5.0% for 2027 (Table 2). This is still well below the 6.2% recorded in 2025. Upgrades are concentrated in Georgia, the Kyrgyz Republic and Uzbekistan, where the IMF and World Bank raised their 2026 forecasts by 1.3–3.5 ppts. The central banks of Mongolia (to 6.4% from 5.2%) and Uzbekistan (to 7.5–8.0% from 7–7.5%) also raised their growth forecasts. Downgrades affect Afghanistan, while Azerbaijan's growth outlook remains constrained by declining hydrocarbon output, despite the Central Bank raising its 2026 GDP growth forecast to 1.3% from 0.5%. The expected slowdown reflects fading one-off drivers (re-exports in the Kyrgyz Republic, returnee consumption in Afghanistan), capacity constraints in economies growing above potential, declining oil output and tight monetary policy.

Table 2. Real GDP growth and forecasts (%)

	2015-19	2020	2021	2022	2023	2024	2025	2026F	2027F	2026F	2027F
								Average forecast by IFIs		Official forecast (national authorities)	
Afghanistan*	-2.4	-2.1	-20.7	-6.2	2.3	1.9	4.8	2.3	2.8		
Azerbaijan	0.8	-4.3	5.6	4.7	1.4	4.2	1.4	1.6	2.1	1.3	2.3
PRC	6.7	2.3	8.6	3.1	5.4	5.0	5.0	4.6	4.3	4.5-5.0	
Georgia	4.0	-6.3	10.6	11.0	7.8	9.7	7.5	6.8	5.5	6.5	5.0
Kazakhstan	2.5	-2.5	4.3	3.2	5.1	5.0	6.5	4.7	4.6	4.5-5.5	4.5
Kyrgyz Republic	4.2	-7.1	5.5	9.0	9.0	11.5	11.1	9.2	7.4	10.0	8.6

Mongolia	3.9	-4.6	1.6	5.0	7.4	5.1	6.8	6.0	5.8	6.4	5.3
Pakistan*	3.8	-0.9	5.8	6.2	-0.2	2.6	3.2	3.7	3.7		3.5-4.5
Tajikistan	6.9	4.5	9.2	8.0	8.3	8.4	8.4	7.5	6.7	8.5	8.4
Turkmenistan	6.3	5.9	6.2	6.2	6.3	6.3	6.3	5.0	5.0		
Uzbekistan	5.8	1.6	8.2	6.1	6.3	6.7	7.7	7.6	6.7	7.5-8.0	6.0-7.0
CAREC avg.	3.9	-1.2	4.1	5.1	5.4	6.0	6.2	5.3	5.0		

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

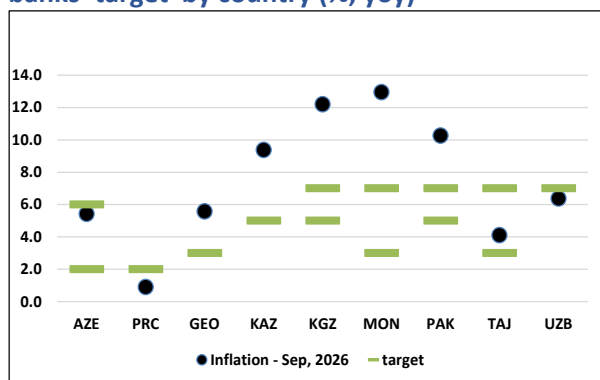
Note: IFIs here include ADB, IMF, World Bank, EBRD and EFSD; simple average is taken across IFIs' forecasts for each country; forecast for "CAREC avg." is the simple average of all member countries; Afghanistan's GDP growth for 2025 is an estimate by the World Bank; the green figures indicate that the projected growth is higher than in 2025, red figures lower than in 2025; Official forecasts are mostly from central banks; Tajikistan's forecasts for 2026 and 2027 are from the country's Ministry of Economic Development and Trade; the PRC's forecast for 2026 refers to the target set in its "Report on the Work of the Government" in 2026.

Sources: ADB (ADO, Sep 2026 forecasts), IMF (WEO, Oct 2026 forecasts), World Bank (Economic Update, Oct 2026 forecasts), EBRD (REP, Sep 2026 forecasts), EFSD (REO, Autumn/Oct 2026 forecasts), CEIC database, National agencies

1.2 Inflation, monetary and fiscal policy: an energy shock interrupts disinflation

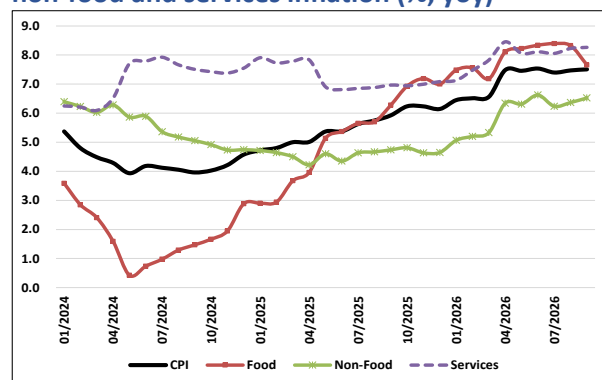
Inflation has turned up again and is above target in most countries. After easing through 2025, inflation rose in Q2–Q3 2026 to a regional average of 7.5% (median 7.1%) (Figure 5). The average is above the median because of a few high-inflation economies: Mongolia (12.9%), the Kyrgyz Republic (12.2%), Pakistan (10.3%) and Kazakhstan (9.3%) (Figure 4). Of the nine economies with explicit targets, inflation is above target in six, within the range in Azerbaijan and Tajikistan, and below target in the PRC, where producer prices have only just exited a three-year deflation (PPI +3.8% in August) (Table 3).

Figure 4. Consumer price inflation and central banks' target by country (% , yoy)



Source: CEIC, national agencies, authors' calculations

Figure 5. CAREC simple average: headline, food, non-food and services inflation (% , yoy)



Source: CEIC, national agencies, authors' calculations

Global factors explain more of inflation, but they interact with strong domestic demand. A principal-components decomposition³ shows that the global component has risen since early 2026 in Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia and Pakistan (Figure 6). The drivers fall into three groups. Imported supply shocks dominate in Mongolia, where fuel shortages followed air strikes on Russian refineries that supply about 95% of its fuel, and food inflation reached 21.5%. They also dominate in Pakistan (transport prices +27.4%) and Georgia, where headline inflation (5.6%) is well above core (3.7%). Demand pressure amplified by external shocks characterizes the Kyrgyz Republic, where credit,

³ The decomposition follows Krusper (2012). Principal components are first extracted from the inflation rates of the whole sample (global factor), then from the residuals of the CAREC countries (regional factor). Each country's inflation is regressed on the two factors, and the residual is the country-specific component. Afghanistan and Turkmenistan are excluded for lack of data. Krusper, B. (2012), "The role of external and country specific factors in Hungarian inflation developments", MNB Working Papers 2012/5, Magyar Nemzeti Bank.

wages and construction are booming, and Mongolia, where core inflation of 7.7% shows pressures broadening. Administered price adjustments (energy tariffs) are the main domestic drivers in Uzbekistan, Tajikistan and Kazakhstan; in Kazakhstan, tenge appreciation helped bring inflation down from 12.3% at end-2025 to 9.3%.

Risk of second round effects rising. An energy shock is a relative price change, and central banks can normally look through its first-round effects. They cannot do so when inflation expectations are already above target and demand is strong, because second-round effects then become likely. This is the case in Kazakhstan (household inflation expectations 12.1%), Uzbekistan (10.1%) and the Kyrgyz Republic, where both households and firms expect inflation above the target range.

The monetary response has been uneven, and real rates have fallen across the region. Inflation has risen faster than policy rates, so average real policy rates have declined during 2026 and monetary conditions have eased (Figures 7–8). Real rates⁴ remain clearly positive in Kazakhstan (about 7 ppts) and Uzbekistan (7.6 ppts), are moderately positive in Georgia, Tajikistan, Pakistan, Azerbaijan and are close to zero in Mongolia and the Kyrgyz Republic (Table 3). Mongolia's September hike to 12.9%, combined with higher reserve requirements, was a clearly hawkish move, but real rates are still only around zero. The Kyrgyz central bank held its policy rate at 12% and relied on FX interventions, while the government introduced fuel subsidies and price caps. With inflation at 12.2%, the stance is not tight in real terms. Kazakhstan cut its policy rate by 175 bp to 16.25% while raising reserve requirements. That is cautious easing, and could be premature as inflation expectations remain high. Georgia held its rate at 8.25% and cut reserve requirements on FX liabilities to support de-dollarisation. Pakistan raised its rate by 100 bp to 11.5% in April and has held it since. In the PRC, two RRR cuts and bank recapitalisation have not revived credit growth: loans contracted in July, and M1 growth (4.0%) lags M2 (7.7%).

Table 3. Inflation, targets and monetary policy stance (latest available)

Economy	CPI, % yoy	Target, %	Policy rate, %; latest action	Real rate, ppts	Assessment of stance
Kazakhstan	9.3 (Sep)	5	16.25; cut 175 bp from 18; 15.75 effective from Oct. 27	7.0	Restrictive; easing premature
Uzbekistan	6.4 (Q2)	5	14.0; on hold; FX RR cut 14→7%	7.6	Tight
Tajikistan	4.1	5 ± 2	7.0; on hold	2.9	Neutral
Georgia	5.6 (Sep); core 3.7	3	8.25; on hold	2.7	Moderately tight
Pakistan	10.3 (Sep)	5–7*	11.5; +100 bp (Apr)	1.2	Mildly restrictive
Mongolia	12.9 (Sep)	6 ± 2*	12.5; hike (Aug); RR raised	0.4	Tightening, but behind the curve
Kyrgyz Republic	12.2 (Sep)	5–7	12.0; on hold; FX intervention	–0.2	Loose in real terms
Azerbaijan	5.7 (Jan–Aug)	4 ± 2*	6.5	0.8	US\$ peg
PRC	0.8 (Aug); PPI +3.8	~2*	RRR cuts; bank recapitalisation	–	Accommodative
Turkmenistan	3.6 (H1)	–	–	–	Peg; administrative controls
Afghanistan	7.6 [date]	–	–	–	FX auctions

Real rate = policy rate minus latest yoy CPI. RR = reserve requirement. * To be confirmed with the central bank.

Source: Country sections of this Monitor; CEIC; central banks.

Fiscal policy is procyclical in several commodity exporters. High commodity prices have lifted fiscal revenues, but part of the windfall is being spent (Table 4). Mongolia's deficit reached 2.4% of GDP by August, already above the full-year target, as capital spending jumped 30.7%. Fiscal policy is therefore offsetting the central bank's tightening, and the pending budget amendment needs to cut spending, not only reallocate it. In Kazakhstan, quasi-fiscal spending is diluting the planned consolidation to a 2.5%-of-GDP deficit. Azerbaijan, by contrast, is saving through SOFAZ, with a budget surplus of US\$2.2 billion in January–August. Among importers, Pakistan has consolidated sharply: its deficit fell to 2.6% of GDP in FY2025/26 from 6.8% two years earlier, supported by a 2.9% primary surplus. However, its revenue relies on regressive consumption taxes, and interest costs are rising. Georgia's surplus reflects under-executed

⁴ The real policy rate is the nominal policy rate minus the latest year-on-year CPI inflation rate.

public investment rather than deliberate restraint. Uzbekistan's back-loaded spending will take the 2026 deficit to about 3% of GDP.

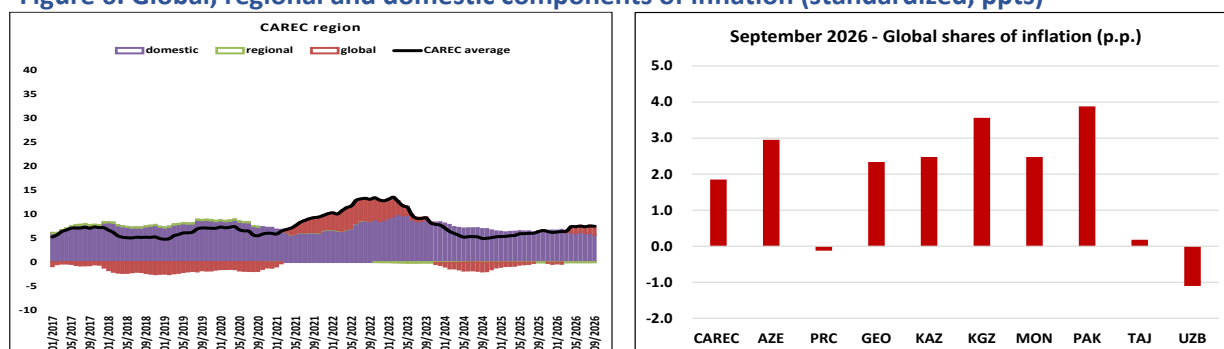
Fiscal and monetary policy need to pull in the same direction. As the IMF notes, automatic stabilisers are weak across the region, so governments rely on discretionary measures that are often procyclical or slow, while price caps delay rather than prevent pass-through. Three responses are in order. First, save windfall revenues through stabilisation funds rather than spending them. Second, replace broad fuel subsidies and price caps with targeted, temporary transfers. Third, anchor budgets in credible fiscal rules and medium-term frameworks. Financial-sector risks reinforce the case for caution: credit is growing at 14–24% in Georgia, Mongolia, Tajikistan and Turkmenistan, and NPLs remain elevated in Mongolia (5.3%) and Pakistan (5.5%). Macroprudential tools should complement monetary tightening.

Table 4. Fiscal positions and stance

Economy	Latest outcome	Stance and main issue
Mongolia	Deficit 2.4% of GDP by Aug (above full-year target); capex +30.7%	Procyclical; working against monetary tightening
Kazakhstan	Deficit target 2.5% of GDP; debt 20.9% of GDP	Consolidation diluted by quasi-fiscal spending
Azerbaijan	Surplus US\$2.2 bn (Jan–Aug); revenue 2% above plan	Windfall partly saved through SOFAZ
Turkmenistan	Revenue 100.1%, spending 97.2% of plan (9M); debt ~4% of GDP	Cautious
Pakistan	Deficit 2.6% of GDP (FY26), from 6.8% (FY24); primary surplus 2.9%	Consolidating; narrow, regressive tax base; rising interest bill
Georgia	Surplus GEL 1.35 bn (H1), up from GEL 0.45 bn	Surplus reflects under-executed capital spending
Uzbekistan	Surplus in H1; deficit ~3% of GDP expected for 2026	Back-loaded spending; reliance on non-tax revenue
Tajikistan	Planned deficit ~1% of GDP (IFIs: 2.2–2.5%); debt 18.3%	Disciplined; tax revenue +34.6%
Kyrgyz Republic	Surplus [6.6% of GDP]; debt 39.5% of GDP	Sound; debt mostly concessional
PRC	Deficit 4% of GDP; RMB 5.7 tn special and ultra-long bonds	Expansionary; land revenue –21.2%
Afghanistan	Revenue and grants 33.1% of GDP (58.1% in FY2018)	Aid-dependent; capital spending 2.1% of GDP

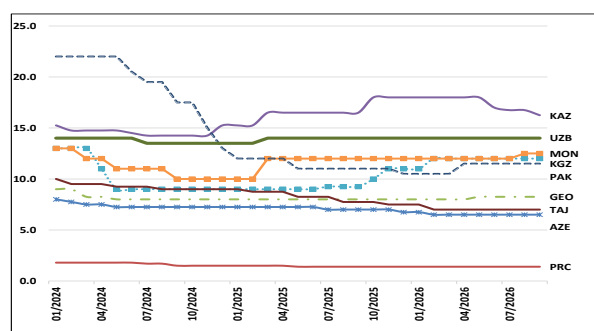
Source: Country sections of this Monitor; ministries of finance; IMF.

Figure 6. Global, regional and domestic components of inflation (standardized, ppts)



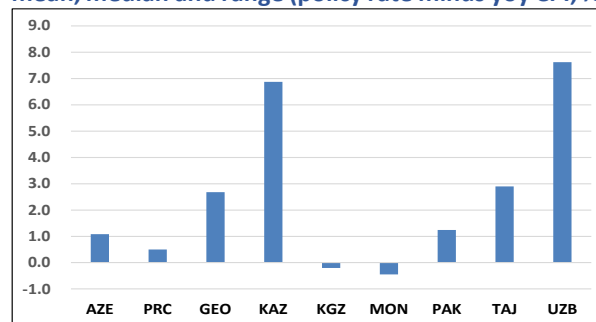
Source: CEIC, national agencies, authors' calculations

Figure 7. Central bank policy rates (% per annum)



Source: CEIC, national agencies, authors' calculations

Figure 8. September 2026 - Real policy rates: CAREC mean, median and range (policy rate minus yoy CPI, %)



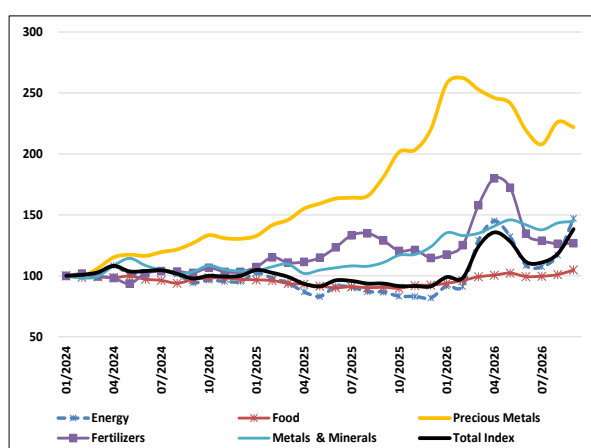
Source: CEIC, national agencies, authors' calculations

1.3 External balance, trade and financial flows: a price-driven windfall, unevenly shared

Terms-of-trade shifts have split the region. In the first nine months of 2026, energy prices rose 32.1% (yoy), metals 34.6%, grain 24.9% and food 12.4% (Figure 9). Exporters of oil, metals and gold (Kazakhstan, Azerbaijan, Mongolia, the Kyrgyz Republic and Tajikistan) recorded the largest terms-of-trade gains, while Afghanistan, Pakistan, Georgia and the PRC recorded losses (Figure 10). Gold makes the Kyrgyz Republic and Tajikistan net gainers even with their dependence on imported fuel.

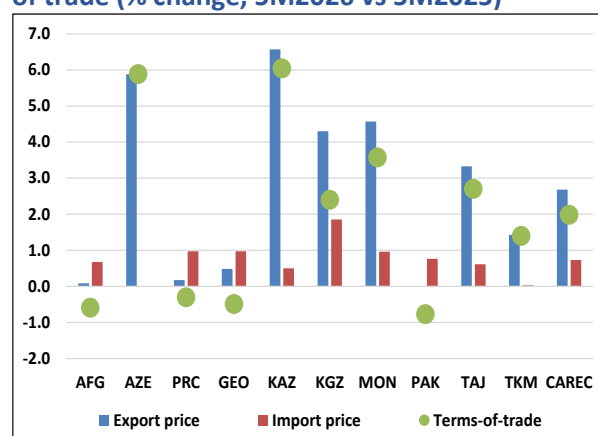
Export growth reflects prices more than volumes. Kazakhstan's exports rose 19.5% despite lower oil output. Azerbaijan's crude export volumes fell 12.1%, but higher prices lifted their value by 4.9%. Azerbaijan's headline export surge (+39.1%) mainly reflects gold sales by SOFAZ (US\$3.5 billion), a portfolio reallocation rather than a gain in competitiveness. Mongolia (+51.2%) is the main case of genuine volume growth, in copper and coal. Higher gold prices lifted exports in the Kyrgyz Republic (+25.0%) and Tajikistan (+20.5%). Georgia's 22.1% rise is largely vehicle re-exports. Export concentration remains high: three products make up about 60% of Kazakhstan's exports, mining 95% of Mongolia's, hydrocarbons 71% of Azerbaijan's, natural gas most of Turkmenistan's and textiles about 60% of Pakistan's. Uzbekistan is the main diversifier, having doubled its exports to US\$34.2 billion between 2021 and 2025.

Figure 9. Commodity prices (Jan. 2024=100)



Source: CEIC, national agencies, authors' calculations

Figure 10. Export prices, import prices and terms of trade (% change, 5M2026 vs 5M2025)

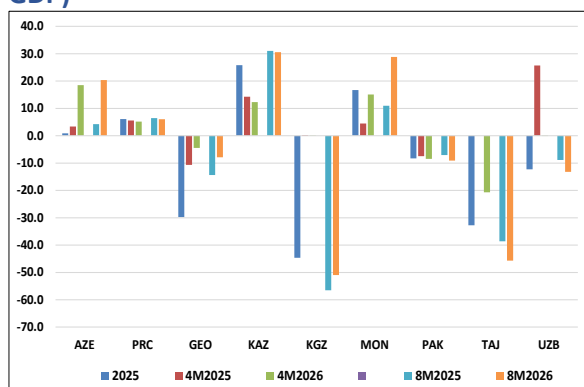


Source: CEIC, national agencies, authors' calculations

Trade is being redirected toward the PRC and the Middle Corridor. The PRC is the main trading partner for most members: it accounts for a third of the Kyrgyz Republic's trade and 29% of Tajikistan's exports, and it is Turkmenistan's main gas buyer. Russia remains the main energy supplier, providing 31% of Kazakhstan's imports and about 95% of Mongolia's fuel. Transit along the Trans-Caspian route is gaining share, lifting transport services in Azerbaijan (+8.7%), Georgia and Kazakhstan. Kazakhstan's trade with other CAREC members rose 25.8%, and the CAREC share of Pakistan's exports rose to 16.1% from 10.1%. How deep regional integration depends on the measure used. On average, CAREC partners account for about 37.5% of each member's trade (up from 35.7% in H1 2025), but intra-CAREC trade is only about 5% of the region's total trade, against over 20% in ASEAN and over 60% in the EU.⁵ For the Central Asian economies, the region is already a major market, but for the region as a whole, integration remains shallow.

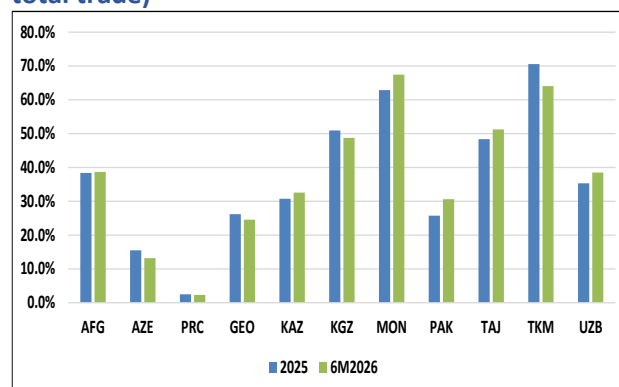
⁵ The first measure is the simple average, across members, of the share of CAREC partners (including the PRC) in each member's total trade. The second is total intra-CAREC trade as a share of the region's total trade, which the PRC's large trade with the rest of the world dominates (<https://www.adb.org/news/carec-marks-25-years-over-60-billion-investment>). Comparable figures are over 20% for ASEAN (<https://www.amro-asia.org/asean-at-a-crossroads-pathways-for-deeper-economic-integration>) and above 60% for the EU (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_goods).

Figure 11. Merchandise trade balance (% of GDP)



Source: CEIC, national agencies, authors' calculations

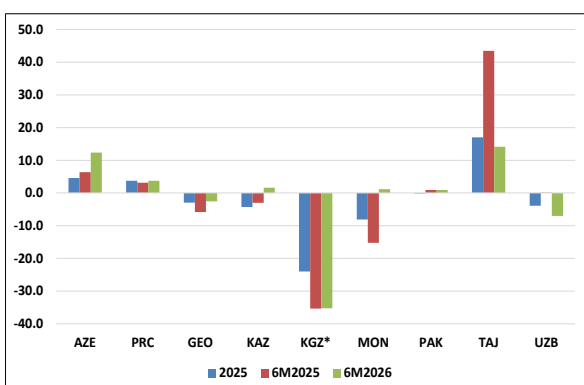
Figure 12. Share of intra-regional CAREC trade (% of total trade)



Source: CEIC, national agencies, authors' calculations

Current accounts have improved, mostly for cyclical reasons. The average current account deficit narrowed to 1.2% of GDP in H1 2026 from 4.1% a year earlier (Figure 13; Table 5). Surpluses widened in Azerbaijan (12.4% of GDP) and Tajikistan (14.1% of GDP). Kazakhstan swung from a US\$3.6 billion deficit to a US\$2.4 billion surplus, and Mongolia moved into surplus despite a doubling of profit repatriation by mining investors. Among deficit countries, Georgia and Pakistan narrowed their deficits due to remittances and ICT services exports. Uzbekistan's widened to 7.0% of GDP as gold shipments paused and remittances fell to 6.0% of GDP from 8.1%, and the Kyrgyz Republic's large trade deficit (US\$7.5 billion in H1) was covered by unrecorded inflows. Because the improvement rests on prices rather than on export volumes or diversification, a fall in commodity prices would reverse much of it.

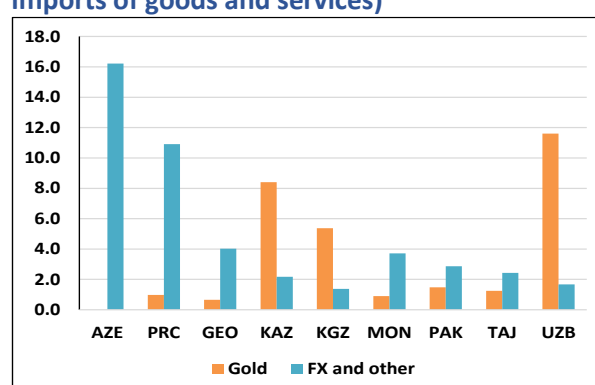
Figure 13. Current account balances (% of GDP)



Source: CEIC, national agencies, authors' calculations

Note: Data for Afghanistan and Turkmenistan are not available, KGZ – data for 1st quarter of 2026

Figure 14. International reserves (months of imports of goods and services)



Source: CEIC, national agencies, authors' calculations

Financing has improved and buffers are adequate, but gold exposure is a new vulnerability. Market access has returned for frontier borrowers. Pakistan issued a US\$3 billion Eurobond in September, its first since 2022, and the Kyrgyz Republic issued its debut US\$700 million Eurobond in 2025. However, Uzbekistan's external debt rose 16.5% to US\$84.1 billion, half of it owed by corporates, and Afghanistan's deficit of 36.1% of GDP is covered only by remittances and declining grants. Foreign reserves exceed three months of imports in every country with data (Figure 14). A large share is held in gold, however, in Kazakhstan, Uzbekistan, the Kyrgyz Republic and Tajikistan, so the gold rally has inflated the size of buffers, and a price correction would shrink them just as export earnings fall. Windfalls should therefore be saved, and gold valuation gains should not be treated as room to loosen policy.

Table 5. External positions: trade, current account and buffers

Economy	Exports: main driver	Current account	Buffers and financing
Azerbaijan	+39.1% (Jan–Aug); SOFAZ gold sales; oil volumes –12.1%	Surplus 12.4% of GDP (H1)	Strategic reserves US\$90.8 bn
Kazakhstan	+19.5% (Jan–Aug); prices, not volumes	Surplus US\$2.4 bn (H1), from –US\$3.6 bn	Reserves US\$70.2 bn
Mongolia	+57.2% (Jan–Jul); copper and coal volumes	Surplus; primary income deficit doubled	Reserves US\$8.4 bn
Turkmenistan	Exports to PRC –2.8% (Jan–Aug; China Customs, all goods)	Surplus narrowing to ~1% of GDP (2026F)	External debt 5.2% of GNI
PRC	+14.0% (Jan–Jul); machinery and electronics	Surplus 3.8% of GDP (2025)	Reserves US\$3.44 tn
Tajikistan	+20.5% (Jan–Aug); gold, minerals, textiles	Surplus US\$407 m (H1)	Reserves US\$6.8 bn vs external debt US\$2.9 bn
Georgia	+22.1% (Jan–Aug); vehicle re-exports	Deficit US\$147 m (Q2), narrowing	Remittances; ICT services
Pakistan	+10.8% vs imports +13.2% (Q1 FY27)	Deficit US\$543 m (Jul–Aug)	Reserves US\$21.4 bn; US\$3 bn Eurobond
Kyrgyz Rep.	+25.0% (H1); gold	Large deficit; trade gap US\$7.5 bn (H1)	Reserves US\$8.9 bn (6.7 months)
Uzbekistan	Gold shipments paused Oct 2025–Mar 2026	Deficit 7.0% of GDP (H1), from 3.9%	External debt US\$84.1 bn (+16.5%)
Afghanistan	US\$1.8 bn vs imports US\$13.2 bn (FY25)	Deficit 36.1% of GDP (FY25)	Remittances (15.7% of GDP) and grants

Source: Country sections of this Monitor; CEIC; central banks

2. Structural and Institutional Developments

2.1 Investment, FDI and industrial policy

FDI is diversifying but remains small relative to the investment boom. Gross FDI inflows fell in Kazakhstan (–7.8% to US\$9.4 billion in H1) and Georgia (–22% to US\$750 million), mainly because reinvested earnings declined. Inflows recovered in the Kyrgyz Republic (led by the PRC) and rose in Pakistan, though from a low base (US\$495 million in July–August). The sectoral mix is shifting from resource extraction toward manufacturing, renewable energy, infrastructure, pharmaceuticals and chemicals, with the PRC the primary investor and the Netherlands, Russia, Qatar and Türkiye also active. The pull factors are tax and capital-market reforms in Kazakhstan, localization incentives in Uzbekistan and critical-mineral endowments in Kazakhstan, Mongolia, Pakistan and Tajikistan. The push factors are geopolitical risk diversification and the rerouting of Europe–Asia supply chains. Mongolia remains the exception, with FDI still concentrated in mining.

Investments are mostly led by the state as they are largely infrastructure projects. The region's investment pipeline is dominated by public and quasi-public projects. These include the China–Kyrgyzstan–Uzbekistan railway, the Rogun hydropower plant in Tajikistan, the fourth phase of the Galkynysh gas field and the TAPI pipeline in Turkmenistan, Trans-Caspian links in Georgia and Azerbaijan, and road corridors in Uzbekistan and Kazakhstan. In Kazakhstan, two-thirds of fixed investment is financed from firms' own funds rather than credit or FDI. New strategies (the PRC's 15th Five-Year Plan, Tajikistan's NDS 2030 and Turkmenistan's 2030–2045 industrial strategy) emphasize diversification. However, their contribution to growth will depend on whether these projects attract private investment; without it, they would add to fiscal and external debt without lifting potential growth.

2.2 Institutional and regulatory reforms

Reforms focus on trade facilitation and revenue mobilization. The CAREC Advanced Transit System (CATS) and Information Common Exchange (ICE) completed their pilot with Azerbaijan, Georgia and Uzbekistan. The Kyrgyz Republic and Pakistan joined in June 2026, and Tajikistan and Turkmenistan are in the process of joining. Customs digitalization is spreading, and the new Capital Market Development Forum aims to mobilize long-term finance beyond bank lending. On the fiscal side, Kazakhstan raised VAT from 12% to 16% and introduced a progressive personal income tax. Tajikistan plans to cut VAT to 13%

and raise export rent taxes on raw materials from 2027, measures that broaden the tax base and lower trade costs. Turkmenistan continues to prepare for WTO accession. These reforms should broaden the tax base and lower trade costs. The next step is to turn transport corridors into economic corridors through harmonized border procedures, logistics services and investment in processing along the routes.

2.3 Key risks and policy priorities

Risks are tilted to the downside and are correlated across the region (Table 6). The same commodity cycle drives exports, fiscal revenue, reserves and FDI in many members, so a single price shock would hit several channels at once. A drop in energy-price linked to the Strait of Hormuz would reverse the exporters' windfall and while an increase would add to importers' inflation. A correction in gold or copper prices would hit the Kyrgyz Republic, Tajikistan, Uzbekistan and Mongolia through both exports and reserves. Escalation of US–PRC trade tensions after the tariff suspension expires on 10 November, combined with a still-weak PRC property market, would weigh on PRC demand for regional commodities. Secondary sanctions on banks and firms in the region threaten payments, re-exports and remittance channels. Tighter global financial conditions would raise refinancing costs for Pakistan, Uzbekistan, Mongolia and Georgia. Climate shocks, including a strengthening El Niño and water scarcity, threaten harvests and hydropower in Mongolia, Pakistan, Tajikistan and Afghanistan.

Table 6. Key risks: transmission channels and most exposed economies

Risk	Main transmission channel	Most exposed	Policy response
Energy-price swings (Middle East, Strait of Hormuz)	Exporters: revenue and reserves; importers: inflation and current account	AZE, KAZ, TKM (revenue); PAK, GEO, KGZ, TAJ, MON (imports)	Save windfalls; targeted, temporary support
Gold and copper price correction	Exports, reserves valuation, FDI	KGZ, TAJ, UZB, MON	Diversify reserves; avoid spending valuation gains
US–PRC tariff escalation; PRC property slump	PRC demand for commodities; transit trade	PRC, MON, TKM, KAZ	Diversify markets; support domestic demand
Secondary sanctions; Russia spillovers	Payments, re-exports, remittances, fuel supply	KGZ, KAZ, UZB, TAJ, MON	Compliance capacity; alternative payment and supply routes
Tighter global financial conditions	Refinancing costs, capital outflows, currency pressure	PAK, UZB, MON, GEO, KGZ	Lengthen debt maturities; maintain reserve buffers
Climate shocks (El Niño, water scarcity)	Harvests, food prices, hydropower	MON, PAK, TAJ, AFG, KGZ	Climate-resilient infrastructure; contingency financing
Domestic overheating	Entrenched inflation, credit booms	KGZ, MON, GEO	Monetary tightening; macroprudential tools; fiscal restraint

Source: CAREC Institute staff assessment based on the country sections of this Monitor.

Policy should rebuild resilience while the windfall lasts. Four priorities stand out. First, monetary policy should tighten, or delay easing, where real rates are near zero and inflation expectations are above target (the Kyrgyz Republic, Mongolia and Kazakhstan). Second, fiscal policy should save commodity windfalls and phase out broad price caps and subsidies, backed by fiscal rules and medium-term frameworks. Third, external buffers should be rebuilt, with reserve compositions that reduce exposure to gold-price swings and with greater exchange-rate flexibility where regimes allow. Fourth, structural policy should raise private, non-resource investment and deepen regional integration through CAREC trade-facilitation and corridor programmes, so that geopolitical uncertainty becomes an opportunity to diversify rather than a constraint.

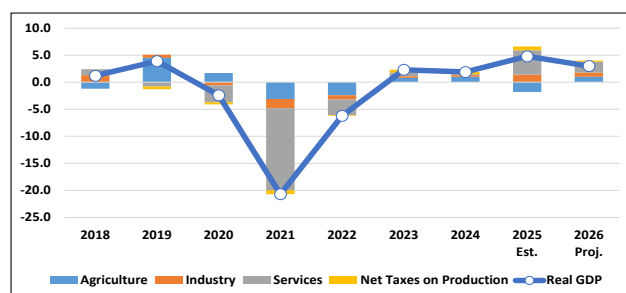
Annex I:

I-A: Afghanistan

Ghulam Samad⁶, Ghulam Nabi⁷

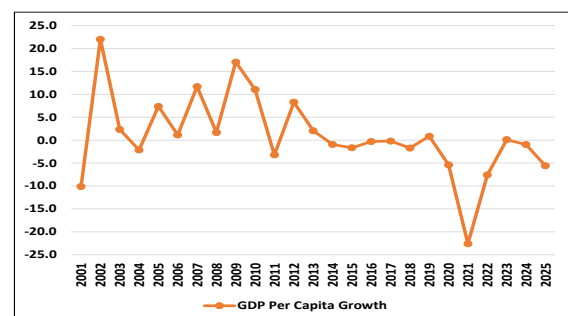
Headline growth is recovering, but it is driven by domestic demand and return of Afghan refugees. The World Bank estimates real GDP growth of 4.8% in FY2025 (March 2025–March 2026), and project growth rate of 3.0% for October 2026. Services led the expansion on demand for transport, health, education and retail, while construction, manufacturing and mining supported industry (Figure A-1). Agriculture, which employs most of the rural population, grew only by 0.8% in 2026, so the sector that matters most for livelihoods is contributing least. The main growth driver is the return of about 3.7 million refugees from Pakistan and Iran in FY2025. Aggregate output rose, but per capita GDP fell 5.6% after a 1.0% decline in FY2024 (Figure A-2), so living standards are deteriorating because of weak investment opportunities and declining international aid.

Figure A-1: Contribution to GDP growth by sector (%)



Source: National Statistics and Information Authority (NSIA) up to 2024 and World Bank estimates for 2025; author compilation

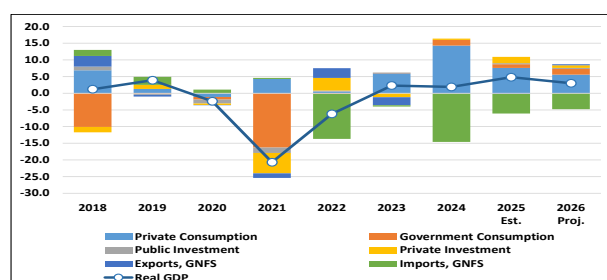
Figure A-2: Per capita GDP growth (%)



Source: World Bank WDI; author compilation

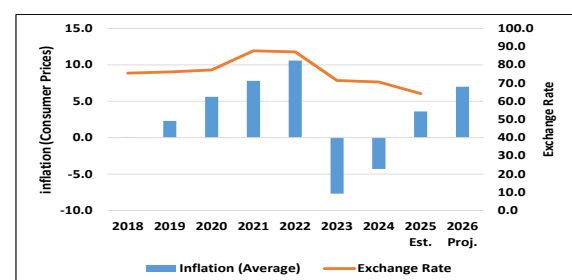
Demand is consumption-led and investment is negligible. Private consumption contributed 7.6 ppts to growth in FY2025 (down from 14.3 ppts) as returnees spent on food, housing and health; the World Bank projects 5.6 ppts in FY2026. This is a one-off level effect rather than a durable source of growth. Government consumption added 1.1 ppts, capped by limited fiscal space and the loss of aid. Public and private investment contributed only 0.3 and 1.9 ppts, reflecting weak investment opportunities and policy uncertainty (Figure A-3).

Figure A-3: Contribution to GDP growth by demand (%)



Source: National Statistics and Information Authority (NSIA) up to 2024 and World Bank estimates for 2025; author compilation

Figure A-4: Inflation and exchange rate (%)



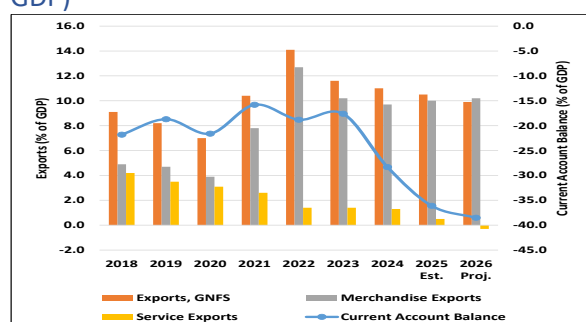
Source: World Bank WDI; author compilation

⁶ CAREC Institute (CI)

⁷ Independent consultant

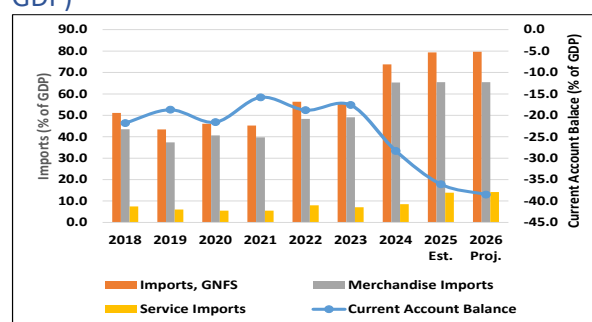
Inflation has turned positive on demand and supply pressures; the afghani remains stable. Average inflation was 3.6% in FY2025, with year-on-year inflation reaching 7.9% in September 2026 from 2.1% a year earlier (Figure A-4). Returnee-driven demand, a poor harvest and trade disruptions pushed up both food and non-food prices, eroding household real incomes. The afghani appreciated in nominal terms, while in real terms it fell by 8.4% yoy in August 2026.

Figure A-5: Export and current account (% of GDP)



Source: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections; author compilation

Figure A-6: Import and current account (% of GDP)

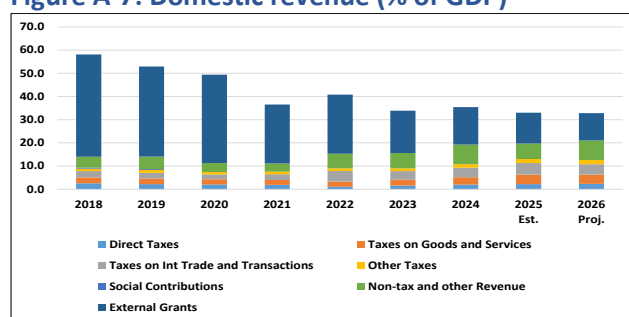


Source: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections; author compilation

External and fiscal accounts depend on aid and remittances that are now declining (Figure A-5 and A-6).

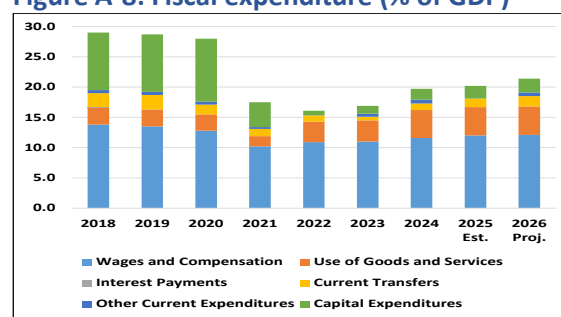
According to IMF DOTs statistics, Afghanistan merchandise exports were US\$0.4 billion in January-June 2026, concentrated in a few low-value products, against imports of US\$2.3 billion. Afghanistan's imports are categorized as petroleum, machinery and equipment, which account for 48 percent of total imports, while food items and metals account for 14 percent and 9 percent, respectively. Afghanistan mainly imports from Pakistan, Russia, Uzbekistan, Iran, and China, which account for 56.1 percent of total imports. A large trade deficit, combined with lower external aid, caused the current account deficit to reach 36.1% of GDP during FY 2025 (Figure A-5 and A-6). Total tax revenue declined from 13% of GDP in FY2025 to 12.6% in FY2026, as grants dropped. Domestic revenue relies heavily on trade taxes (5.0% of GDP) and taxes on goods and services (4.1%) (Figure A-7). Total spending of 33.6% of GDP is dominated by wages (12.0% of GDP), leaving capital spending at just 2.1% of GDP (Figure A-8). The government prioritizing expenditure to manage fiscal balance to ensure limited fiscal resources are effectively utilized for economic and social gain.

Figure A-7: Domestic revenue (% of GDP)



Source: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections; author compilation

Figure A-8: Fiscal expenditure (% of GDP)



Source: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections; author compilation

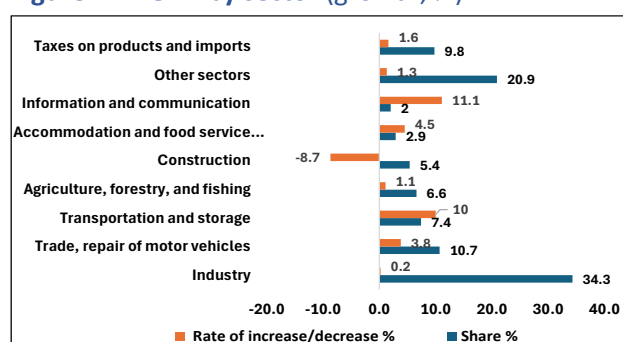
Outlook and risks. Growth will slow as the consumption boost from returnees fades. Key risks are further aid cuts, renewed trade disruptions with neighbors, weak harvests and the strain of absorbing returnees into housing, jobs and public services. Raising agricultural productivity, diversifying exports and expanding transit and trade facilitation are the main levers for more durable growth.

I-B: Azerbaijan

Vugar Bayramov, Karamat Ismayilov, Nigar Islamli⁸

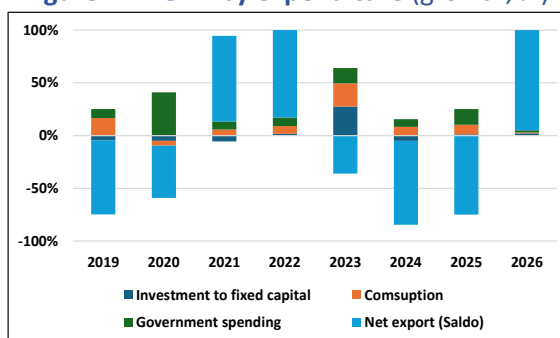
Growth is weak but picking up, as non-oil activity offsets a shrinking hydrocarbon sector. Real GDP grew by 1.5% yoy in the first 9 months of 2026, up from 0.8% in H1, reached 60 billion USD. The oil and gas sector experienced a decline of 1.2%, while the non-oil and gas sector saw an increase of 2.6%. The industrial sector accounted for 34.3% of the GDP, though its output was 0.8% lower than in the first nine months of the previous year. Trade and the repair of motor vehicles accounted for 10.7%; transportation and warehousing accounted for 7.4%; agriculture, forestry, and fishing accounted for 6.6%; while construction accounted for 5.4%, taxes on products and imports for 10%, and other sectors for 25.7% (Figure B-1). Fixed investment rose 10.9%, but the increase was concentrated in oil and gas (+30.8%), with non-oil investment up only 3.1% (Figure B-2). Forecasts for 2026 range from 1.2% (WB) to 2.0% (EBRD), and for 2027 from 1.8% (ADB and WB) to 2.5% (EBRD).

Figure B-1: GDP by sector (growth, %)



Source: CEIC, national agencies, authors' calculations

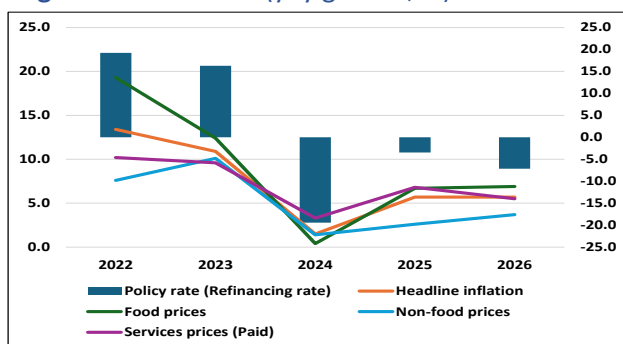
Figure B-2: GDP by expenditure (growth, %)



Source: CEIC, national agencies, authors' calculations

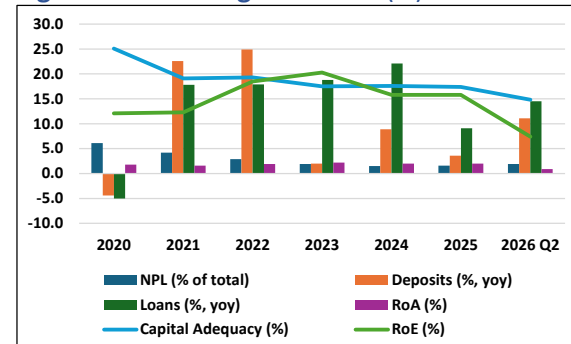
Inflation is moderating within a stable peg. Inflation was 5.4% in September 2026, driven by food (7.0%) and services (5.1%), while non-food goods rose 3.5% (Figure B-3). Wage and income growth above inflation point to some demand pressure, but the main drivers are food and services prices. The manat remains pegged to the US dollar; its non-oil nominal and real effective exchange rates have depreciated moderately, supporting non-oil competitiveness. Inflation is forecast to ease to 5.0% in 2026. Inflation is at the upper limit of the Central Bank of Azerbaijan's (CBA) target range ($4 \pm 2\%$). The CBA has maintained the policy rate at 6.5% since February 2026 and the upper bound of the interest rate corridor at 7.5%, while reducing the lower bound by 50 basis points to 5%, thereby widening the interest rate corridor with the intention of keeping stable inflation expectations. Banks are stable with low NPL (Figure B-4).

Figure B-3: Inflation (yoy growth, %)



Source: CEIC, national agencies, authors' calculations

Figure B-4: Banking indicators (%)



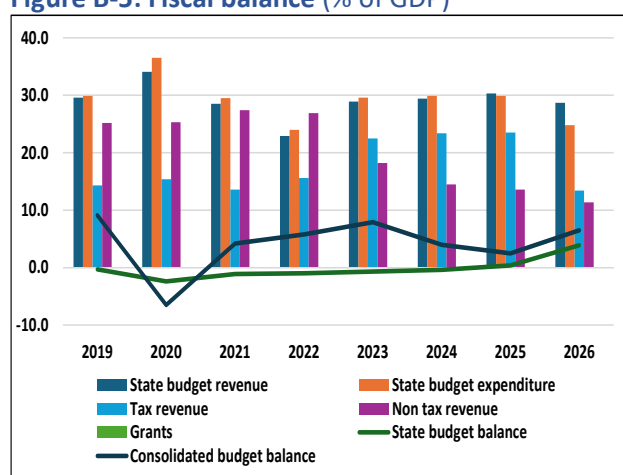
Source: CEIC, national agencies, authors' calculations

⁸ Center for Economic and Social Development (CESD)

External surpluses widened sharply, largely due to gold flows rather than stronger oil. Exports rose 28.3% and imports fell 20.4% in January–September, producing a trade surplus which is 5-7 times last year's level. The swing reflects SOFAZ's gold operations: gold purchases (imports) collapsed from about 33 tonnes in H1 2025 to under 0.1 tonne in H1 2026, while 21.9 tonnes worth US\$3.5 billion were exported to the United Kingdom in January–July. Crude oil export volumes fell 12.1%, but higher prices lifted their value 4.9% to US\$8 billion. Hydrocarbons still made up 71% of exports. The current account surplus doubled to US\$4.7 billion (12.4% of GDP) in H1; the CBA expects US\$6.1 billion for the year.

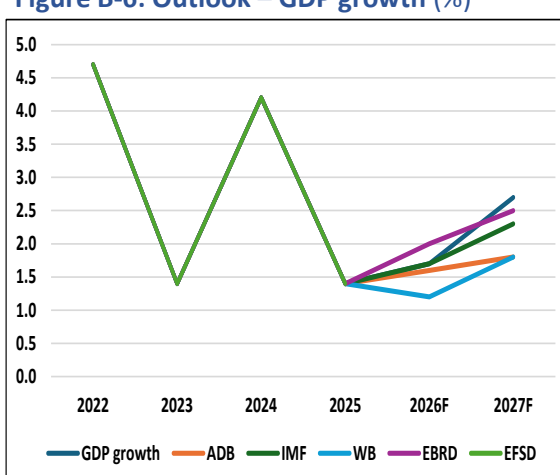
Buffers are large and fiscal policy is in surplus. The state budget recorded a surplus of US\$2.2 billion in January–August, and full-year revenue is now projected 2% above plan, led by corporate profit tax. Defence and security take the largest share of spending (21%). Strategic FX reserves rose 15.7% to US\$90.8 billion, of which SOFAZ held US\$72.6 billion at end-June (Figure B-5), and external debt fell 7.8% to US\$4.6 billion. SOFAZ's large gold holdings make reserves increasingly sensitive to gold prices as well as oil.

Figure B-5: Fiscal balance (% of GDP)



Source: CEIC, national agencies, authors' calculations

Figure B-6: Outlook – GDP growth (%)

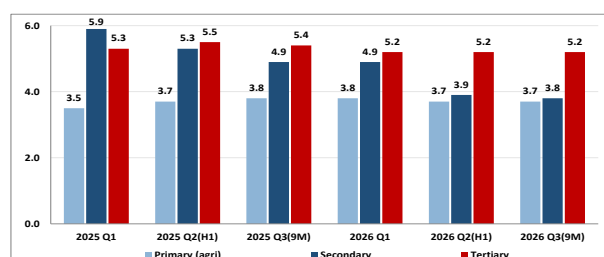


Source: CEIC, national agencies, IFIs

Outlook and risks. Growth will stay modest as oil output declines (Figure B-6). Key risks are lower oil prices, faster field depletion and a slowdown in non-oil investment. Sustaining non-oil growth requires raising private investment outside hydrocarbons, since oil and gas account for most of this year's investment increase.

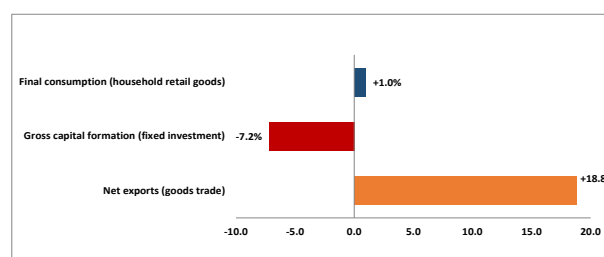
Growth is moderating as high-tech manufacturing and exports offset a deepening property contraction. Real GDP grew 4.6% (yoy) in 9M 2026 (5.0% in Q1, 4.3% in Q2, 4.5% in Q3), down from 5.0% in 2025 (Figure C-1). Industrial value added rose 5.3% in January–September, led by high-tech (+14.3%) and equipment manufacturing (+10.2%), with output of industrial robots, lithium-ion batteries and 3D printers growing 29.1–62.5%. Domestic demand is the weak link: fixed-asset investment fell 7.2%, dragged down by a 20.6% drop in property investment, and was still down 4.2% excluding property (Figure C-2). Goods retail sales rose only 1%, against 5.0% for services. Urban unemployment was steady at 5.2%. IFIs expect growth from 4.5% (IMF and WB) to 4.6% (ADB and EFSD) in 2026 and from 4.0% (IMF) to 4.5% (ADB and EFSD) in 2027 (Figure C-3).

Figure C-1: GDP by sector (growth, %)



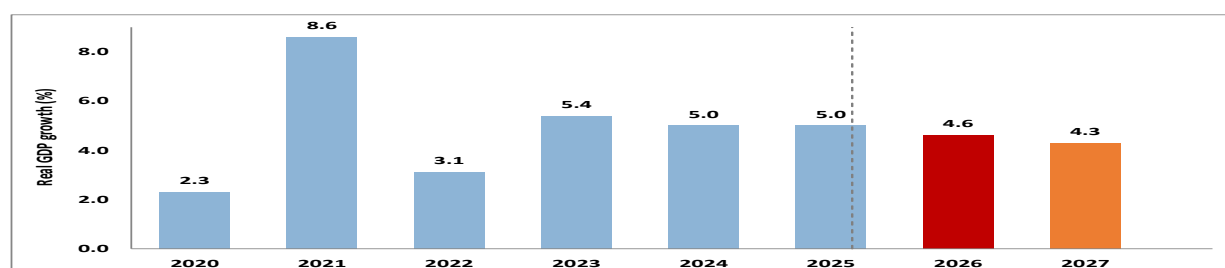
Source: National Bureau of Statistics of China (NBS)

Figure C-2: GDP by expenditure (growth, %)



Source: National Bureau of Statistics of China (NBS)

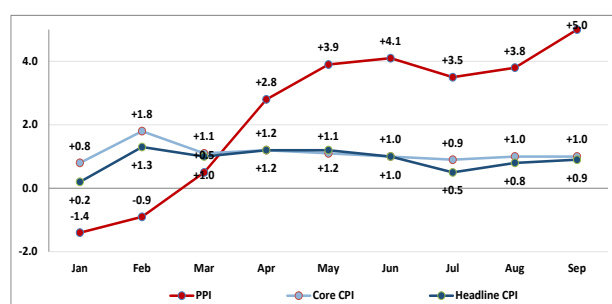
Figure C-3: Outlook – GDP growth (%)



Source: IFI forecasts (ADB, IMF, World Bank, EBRD, EFSD) via CAREC QEM; authors' calculations

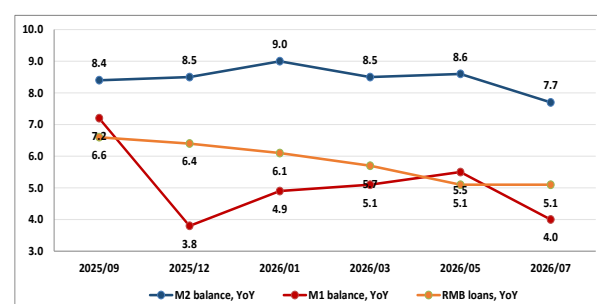
Producer prices have exited deflation; consumer inflation stays low. Headline CPI rose 0.9% (yoy) in September, while PPI turned positive (+5.0% in September, +2.3% in January–September) after more than three years of deflation (Figure C-4). This is the key cyclical turning point: it eases pressure on industrial margins, though weak household demand keeps consumer inflation subdued.

Figure C-4: Inflation (yoy growth, %)



Source: National Bureau of Statistics of China (NBS)

Figure C-5: Banking indicators (%)

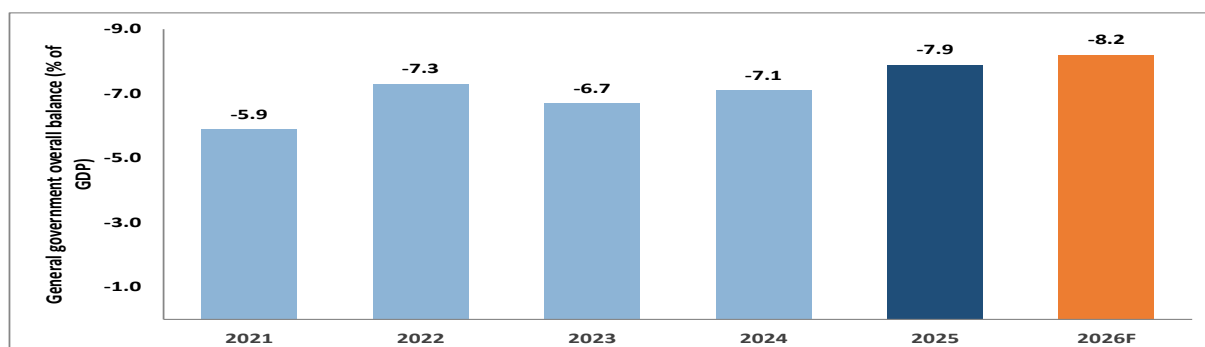


Source: People's Bank of China (PBC)

⁹ CAREC Institute (former staff)

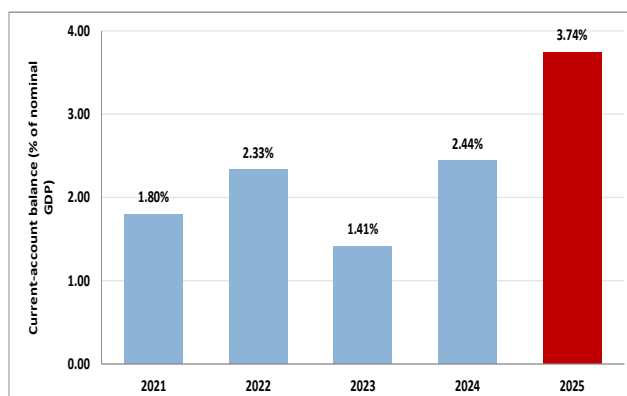
Monetary and fiscal policy are both supportive, but credit demand is weak. Two RRR cuts released over RMB 2 trillion of long-term liquidity, and RMB 360 billion was injected into major banks in September as part of over RMB 800 billion in recapitalization. Yet the loan balance fell 0.1% (mom) in July, the first monthly contraction since 2024, as households repaid RMB 827 billion of loans in January–July. M1 growth (4.0%) lagging M2 (7.7%) confirms that liquidity is not turning into spending (Figure C-5). Fiscal policy is expansionary: the deficit ratio was raised to 4% of GDP, general budget spending exceeded RMB 30 trillion, and RMB 4.4 trillion of special-purpose bonds and RMB 1.3 trillion of ultra-long special treasury bonds were issued. The general government fiscal deficit increased to 7.9 percent. (Figure C-6)

Figure C-6: Fiscal balance (% of GDP)



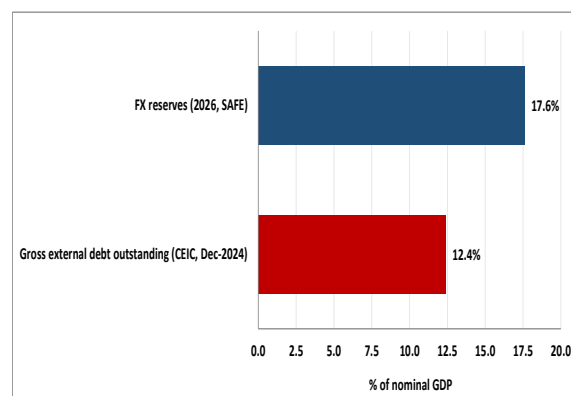
Source: IMF and Ministry of Finance of the PRC (MOF)

Figure C-7: Foreign trade and current account (% of GDP)



Source: National Bureau of Statistics of China (NBS, goods trade) and State Administration of Foreign Exchange (SAFE, current account)

Figure C-8: Foreign investments and debt (% of GDP)



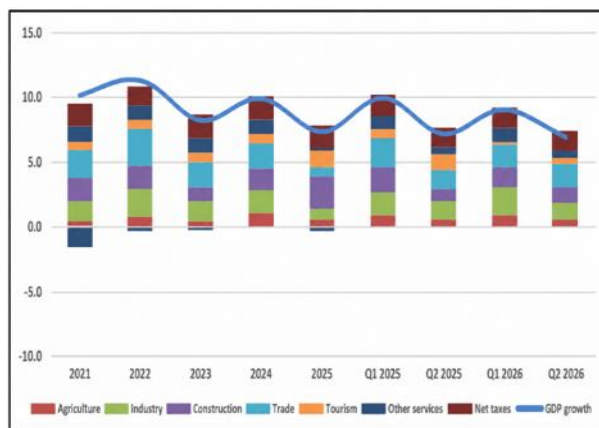
Source: CEIC (gross external debt outstanding) and SAFE (FX reserves), converted to % of nominal GDP (World Bank)

The external position is strong. Goods trade rose 18.8% (yoy) in January–September, with exports up 16.4% and imports up 22.3%; machinery and electronics made up 64.3% of exports. The 2025 current account surplus reached a record RMB 5.24 trillion (about US\$735 billion, 3.8% of GDP), and FX reserves stood at US\$3.44 trillion, equivalent to 17.6% of GDP (Figure C-7 and C-8). Net FDI recovered to RMB 238 billion in Q1 2026 after an outflow in Q3 2025.

Structural shift and risks. The 15th Five-Year Plan (2026–2030) centres growth on "new-quality productive forces" — advanced manufacturing, AI, green energy and the digital economy — and shifts fiscal resources toward healthcare (+9.8%) and social security (+7.0%). Key downside risks are the 10 November expiry of the US tariff suspension, a property market that has not bottomed, falling local-government land revenue (-21.2%) and fragile household demand.

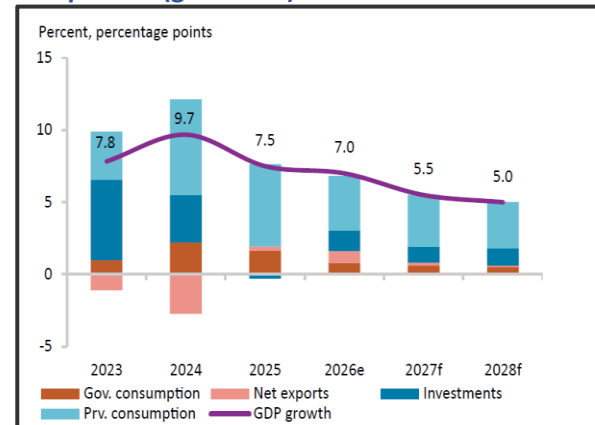
Growth remains robust but is starting to moderate. Real GDP grew 7.6% (yoy) in January–August 2026, after 7.5% in 2025, but monthly growth slowed from 8.0% in July to 6.3% in August. Manufacturing, ICT, financial services, trade and transport led the expansion, while construction contracted in August. On the demand side, private consumption remained the main driver and public investment was weak (Figure D-2). Labour market gains are less strong than they look: labour-force participation and employment fell, and unemployment in Q2 lowered. Forecasts put growth at 6.3 (ADB)–7.2% (IMF) in 2026, easing to 5.2 (ADB)–5.7% (IMF) in 2027 (Figure D-3).

Figure D-1: GDP by sectors (growth %)



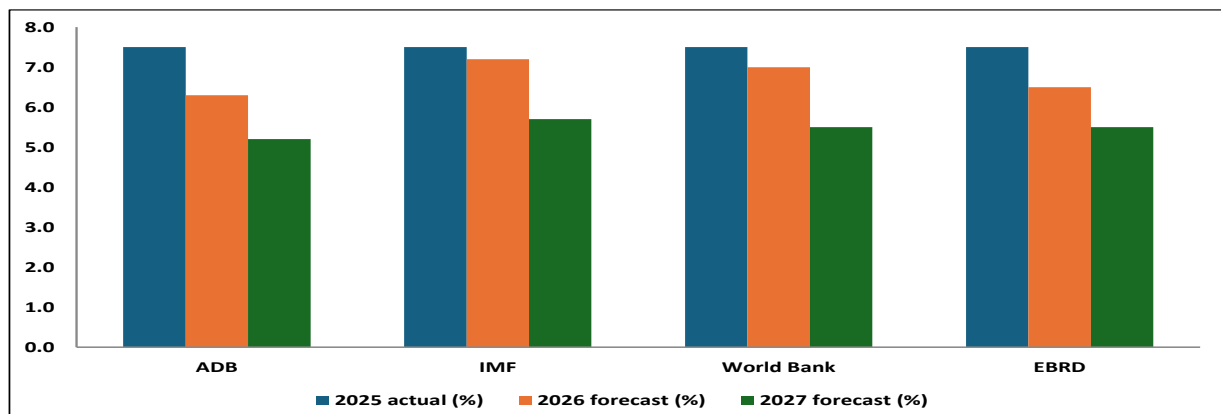
Source: GeoStat; Author's calculations

Figure D-2: Real GDP by expenditure component (growth %)



Source: GeoStat and World Bank

Figure D-3: Economic growth outlook, 2026-2027

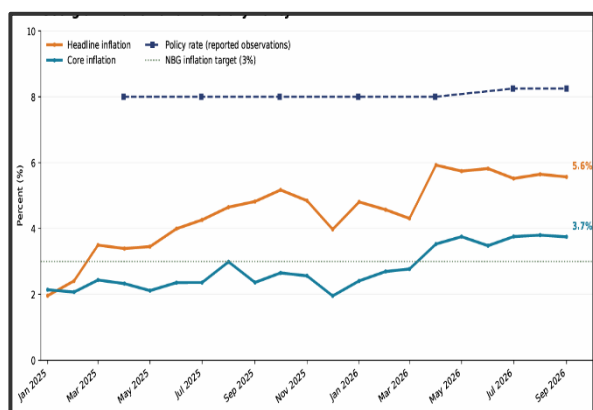


Source: Compiled from ADB, IMF, World Bank and EBRD (October 2026).

Inflation is well above target, keeping monetary policy tight. Headline inflation reached 5.6% in September, against the National Bank of Georgia's (NBG) 3% target, while core inflation was 3.7% (Figure D-4). Transport, food and housing costs were the main contributors, pointing to supply-side pressures. However, strong domestic demand and rapid credit growth raise the risk of second-round effects: loans grew 14.8% and deposits 21.7% (yoy, excluding FX effects) in August (Figure D-5). The NBG kept its policy rate at 8.25% in September and expects inflation to average about 5.2% in 2026, signalling it will stay on hold until inflation returns toward target.

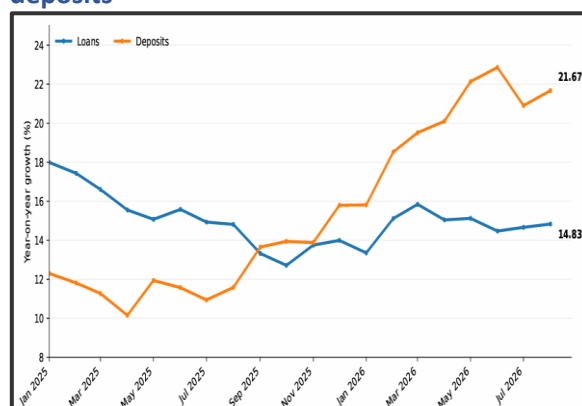
¹⁰ Georgian Foundation for Strategic and International Studies (GFSIS)

Figure D-4: Inflation and monetary policy



Source: National Bank of Georgia (NBG), monthly banking statistics. FX effects excluded. January 2025 August 2026

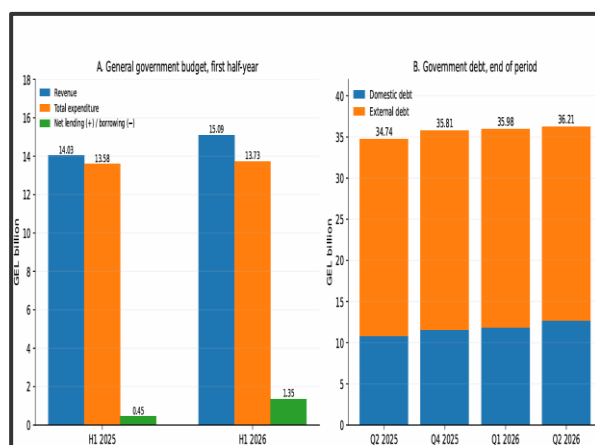
Figure D-5: Annual growth of bank loans and deposits



Source: National Bank of Georgia (NBG), monthly banking statistics. FX effects excluded. January 2025 August 2026

Fiscal policy is prudent, but public investment is under-executed. General government revenue rose to GEL 15.1 billion in H1 2026 from GEL 14.0 billion, while spending edged up only to GEL 13.7 billion. The surplus therefore widened to GEL 1.35 billion from GEL 0.45 billion (Figure D-6). The improvement partly reflects slow capital spending, which weakens the contribution of public investment to growth.

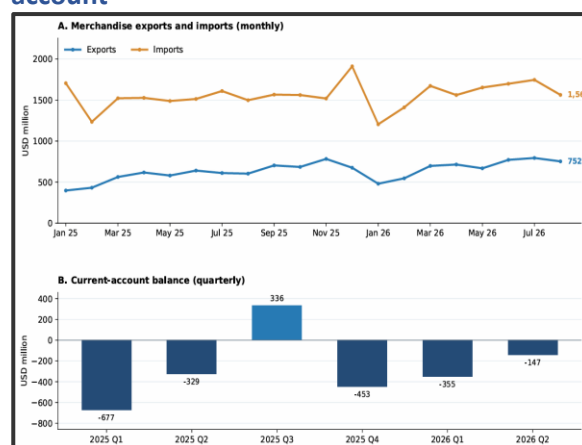
Figure D-6: Fiscal developments



Notes: Total expenditure = expense + net acquisition of nonfinancial assets; fiscal balance = net lending/borrowings

Source: GeoStat, General Government Budget (Ministry of Finance of Georgia); last updated 8 September 2026, preliminary

Figure D-7: Merchandise trade and current account

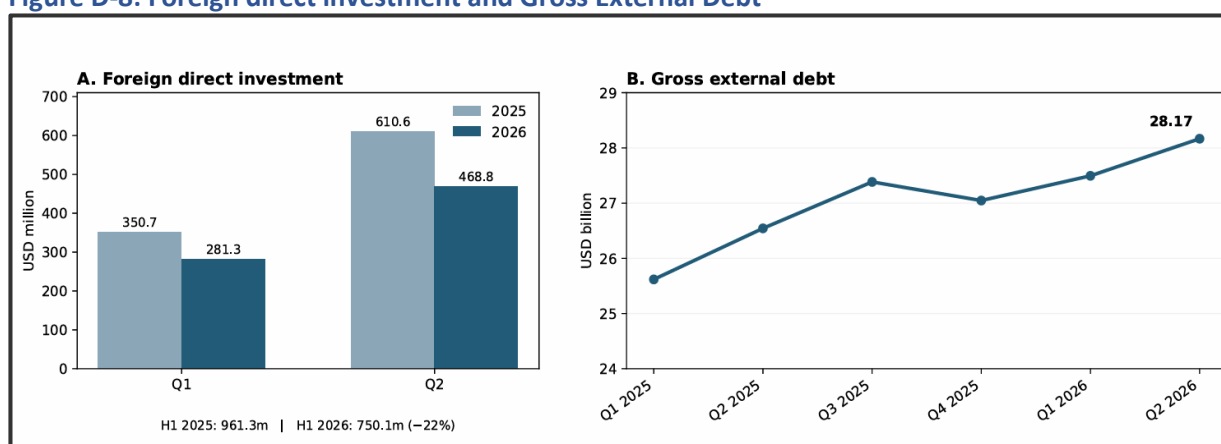


Note: Merchandise trade and balance-of-payments current account are different statistical concepts; latest data: Aug 2026 and Q2 2026

Source: GeoStat, External Merchandise Trade (monthly); NBG, Balance of Payments (BPM6, quarterly). 2026 Q1 2026 Q2

Export growth is strong and the current account deficit is narrowing. Merchandise exports rose 22.1% to US\$5.4 billion in January–August, while imports grew 3.4% to US\$12.5 billion, leaving a US\$7.1 billion trade deficit. Türkiye, China and Russia were among Georgia's principal trading partners by total turnover, while Kyrgyzstan, China and Russia were leading export destinations. Exports are concentrated in vehicles (largely re-exports), petroleum products and minerals, so headline growth overstates domestic export capacity. Services exports rose 7.8% in Q2 on ICT services, despite lower travel receipts. Together with remittances, this narrowed the current account deficit to US\$147 million in Q2 2026 from US\$329 million a year earlier (Figure D-7).

Figure D-8: Foreign direct investment and Gross External Debt

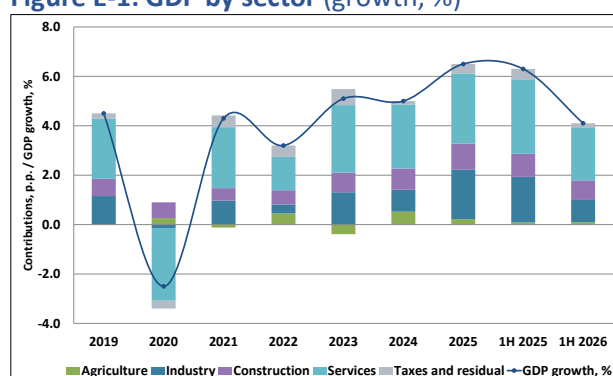


Source: GeoStat (FDI; 2026 preliminary); National Bank of Georgia, ED-6 BPM6 (external debt, end-quarter)

Structural issues and risks. FDI fell 22% to US\$750 million in H1 2026 (Figure D-8), mainly due to lower reinvested earnings; inflows went to finance, real estate and manufacturing. Middle Corridor connectivity is an opportunity, backed by the World Bank's US\$372 million Trans-Caspian project. Uneven reform implementation, weak public investment management and skills gaps may hold back diversification. Key risks are regional geopolitical tensions, commodity-price swings, tighter financing conditions and competition from alternative transit routes.

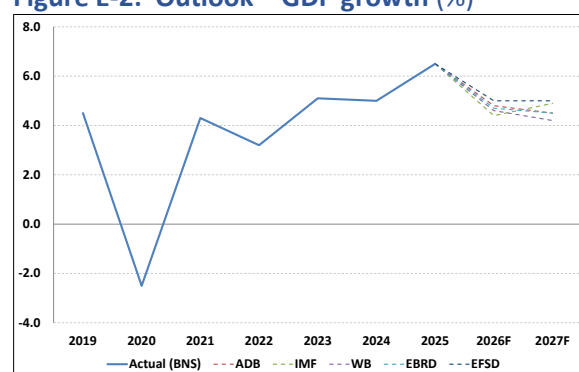
Growth has slowed from 2025 but remains solid, driven by non-oil sectors and investment. In 1H 2026, agriculture, industry, construction and services expanded by 4.3%, 3.2%, 15.2% and 3.7%, respectively. Trade, industry and construction contributed 0.95, 0.89 and 0.79 percentage points to GDP growth (Figure E-1). According to the government's preliminary estimate, real GDP grew by 4.2% in January–September 2026, compared with 6.5% in 2025. Short-term operational output indicators for January–September 2026 estimated continued expansion in agriculture (5.8%), industrial production (2.9%), construction work (11.5%), trade (6.2%) and transport and storage services (7.2%). On the expenditure side, household consumption increased by 2.0%, government consumption by 3.4% and gross fixed capital formation by 5.0% in real terms in 1H 2026 compared with 1H 2025 (Figure E-3). Net exports contributed an estimated 1.5 percentage points to GDP growth over the same period. Unemployment was stable at 4.5%, but real wages fell 1.8%, squeezing household purchasing power. The NBK expects growth of 4.5–5.5% in 2026 and 4.5% in 2027, while the IFIs project the country's economy to grow by 4.4 (IMF)–5.0% (EFSD) for 2026, and by 4.2 (WB)–5.0% (EFSD) for 2027 (Figure E-2).

Figure E-1: GDP by sector (growth, %)



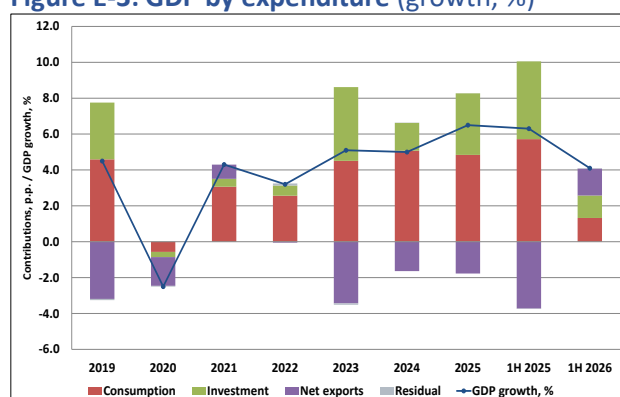
Source: CEIC, national agencies, authors' calculations

Figure E-2: Outlook – GDP growth (%)



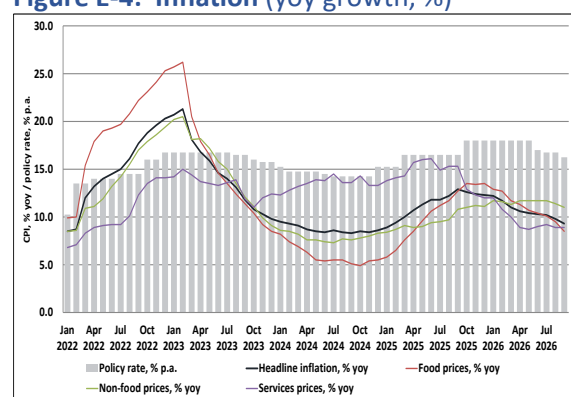
Source: CEIC, national agencies, IFIs

Figure E-3: GDP by expenditure (growth, %)



Source: CEIC, national agencies, authors' calculations

Figure E-4: Inflation (yoy growth, %)



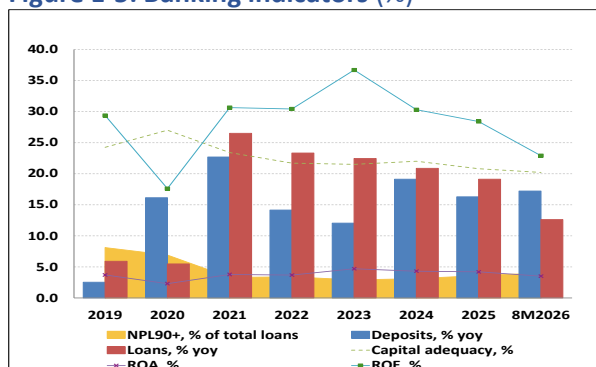
Source: CEIC, national agencies, IFIs

Disinflation is under way, but inflation is still nearly double the target. Inflation fell from 12.3% at end-2025 to 9.3% in September 2026, against the NBK's 5% target. A stronger tenge, easing food and import prices and tight monetary conditions helped. However, fuel prices, regulated tariff increases and fiscal stimulus continue to push prices up, and household inflation expectations remain high at 12.1% (July)

¹¹ Economic Research Institute (ERI)

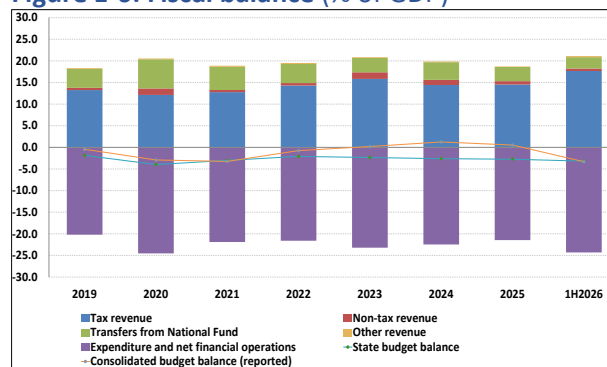
(Figure E-4). The NBK cut the base rate gradually from 18% to 16.25% by September, but higher reserve requirements keep conditions restrictive. Its stance is cautious easing: further cuts depend on expectations falling.

Figure E-5: Banking indicators (%)



Source: CEIC, national agencies, authors' calculations

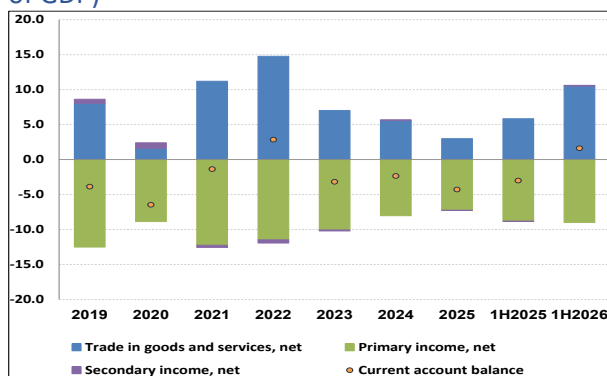
Figure E-6: Fiscal balance (% of GDP)



Source: CEIC, national agencies, authors' calculations

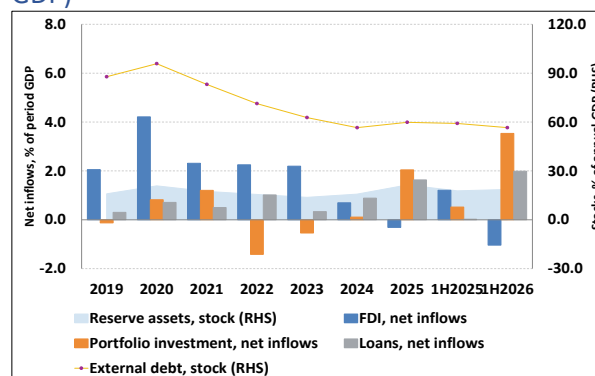
Fiscal consolidation is planned; banks are well capitalised. The government targets a republican budget deficit of 2.5% of GDP in 2026, but continued quasi-fiscal spending could dilute the consolidation. Government debt is moderate at 20.9% of GDP (Figure E-6). Banks hold ample buffers (capital adequacy 20.7%, highly liquid assets 30.7% of total assets), though NPLs of 4.1% warrant monitoring (Figure E-5).

Figure E-7: Foreign trade and current account (% of GDP)



Source: CEIC, national agencies, IFIs

Figure E-8: Foreign investments and debt (% of GDP)



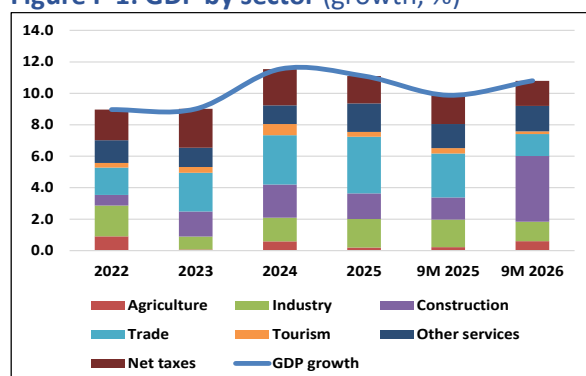
Source: CEIC, national agencies, IFIs

Higher commodity prices have turned the current account to surplus. Exports rose 19.5% to US\$60.4 billion in January–July, outpacing imports (+4.5% to US\$42.6 billion), and the trade surplus widened to US\$14.0 billion. The increase reflects prices rather than volumes, as oil output fell. Exports remain concentrated: crude oil, refined copper and radioactive elements make up nearly 60% of the total. China and the EU are the main export markets, while Russia (31%) and China (29.8%) dominate imports. Trade with other CAREC members rose 25.8%, led by Uzbekistan, Afghanistan, the Kyrgyz Republic and Tajikistan. The current account swung from a USD3.6 billion deficit in 1H2025 to a USD2.4 billion surplus in 1H2026, and reserves reached US\$70.2 billion (Figure E-7).

Structural shift and risks. Policy is focused on diversification: manufacturing's share of fixed investment rose to 14.1%, the Trans-Caspian corridor is being developed, and new tax and budget codes aim to raise non-oil revenue. Gross FDI fell 7.8% to US\$9.4 billion in 1H2026 on lower mining and ICT inflows (Figure E-8); the Netherlands, Russia, China and Qatar were the leading investors. Key risks are oil price volatility, CPC pipeline disruptions, sanctions spillovers from Russia and tighter global financial conditions. Persistent inflation and quasi-fiscal stimulus could delay rate cuts and crowd out private investment.

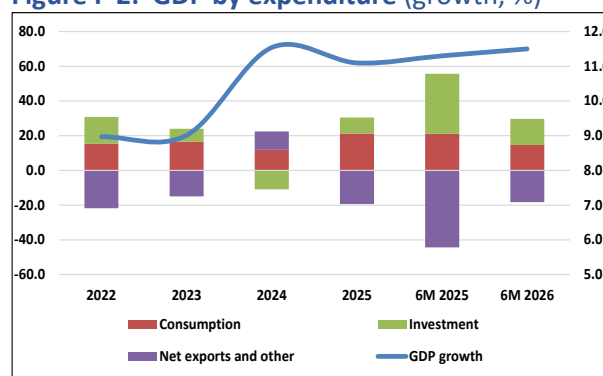
Growth remains exceptionally strong, but its drivers are shifting from re-exports to public construction. Real GDP grew 10.8% (yoy) in January–September 2026, only slightly below 11.1% in 2025 (Figure F-1). Construction added 4.2 ppts, driven by large public projects such as the China–Kyrgyzstan–Uzbekistan railway. Industry added 1.2 ppts, helped by gold mining, while trade and services benefited from strong consumption and logistics. Part of the trade growth still reflects re-exports, which are normalising and unlikely to persist at the same pace. On the demand side, domestic consumption and investment drive growth, while net exports are a drag as imports outpace exports. In 1H 2026, household consumption increased by 15.5%, government consumption by 2.5% and gross fixed capital formation by 62.7% in real terms compared with 1H 2025 (Figure F-2). IFIs expect growth to stay high but slow in 2026–2027, ranging from EBRD’s 8.7% to EFSD’s 9.7% in 2026, and from IMF’s and EBRD’s 7.0% to EFSD’s 7.5% in 2027, as the re-export boom plateaus and construction growth eases (Figure F-3).

Figure F-1: GDP by sector (growth, %)



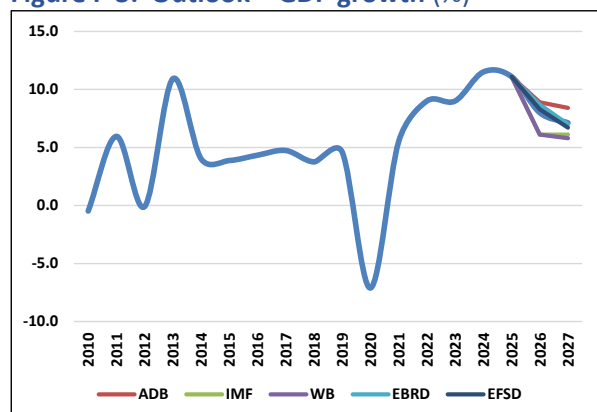
Source: CEIC, national agencies, authors' calculations

Figure F-2: GDP by expenditure (growth, %)



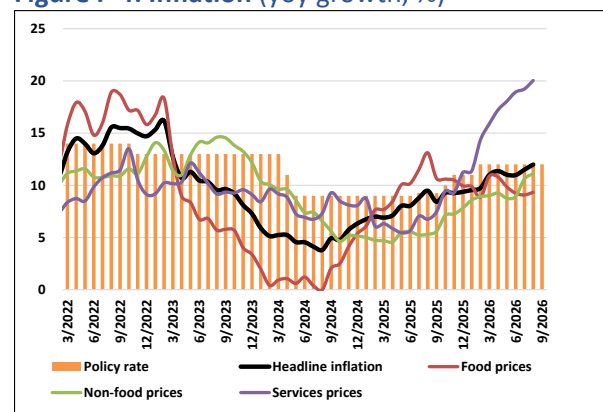
Source: CEIC, national agencies, authors' calculations

Figure F-3: Outlook – GDP growth (%)



Source: CEIC, national agencies, IFIs

Figure F-4: Inflation (yoy growth, %)



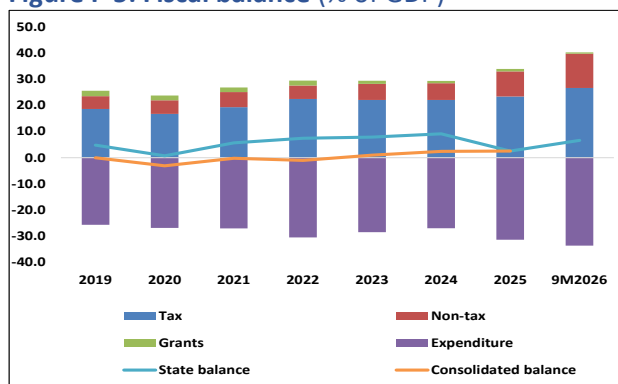
Source: CEIC, national agencies, authors' calculations

Inflation is rising, and monetary policy has not tightened in response. Inflation reached 12.2% (yoy) in September 2026 (Figure F-4), up from 9.3% in December 2025 and well above the National Bank’s 5–7% target range. Strong domestic demand, fast lending and wage growth are the main drivers, amplified by higher food and energy prices and scheduled electricity and heating tariff increases. The National Bank has kept its policy rate at 12% since Feb 2026 and continues FX interventions to stabilize the som. With inflation now above the policy rate, real rates are negative; the IMF notes that monetary conditions have eased markedly since 2024, keeping expectations above target. This suggests a need for tighter policy.

¹² CAREC Institute (CI)

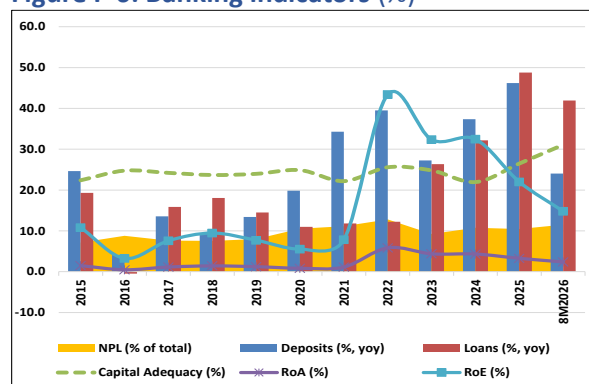
Fiscal and banking positions are sound, but credit growth needs watching. The fiscal balance is in surplus of 6.6% of GDP in January – September 2026 and government debt is 39.5% of GDP, mostly concessional (Figure F-5). Banking sector remains generally sound, supported by strong capital (31.1% in August 2026) and liquidity, continued asset growth and decent profitability (ROE-14.8). However, rapid lending growth (41.9%, yoy, in August 2026) and relatively high NPLs (11.5% in total loans) warrant close monitoring (Figure F-6).

Figure F-5: Fiscal balance (% of GDP)



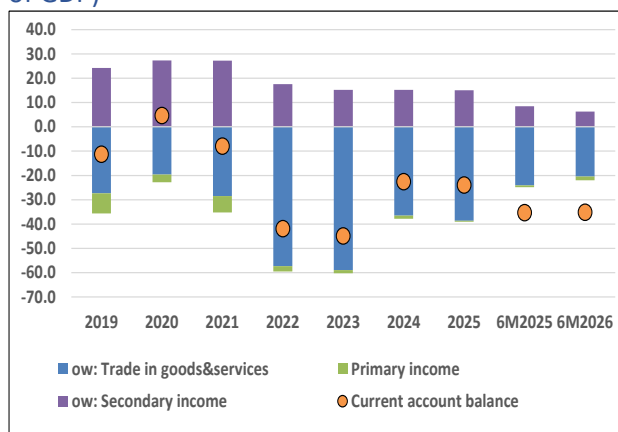
Source: CEIC, national agencies, authors' calculations

Figure F-6: Banking indicators (%)



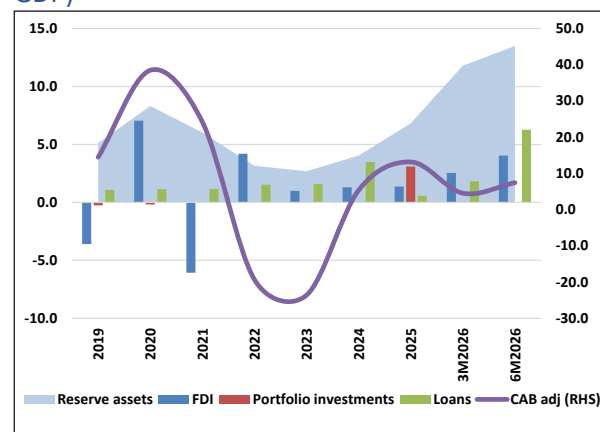
Source: CEIC, national agencies, authors' calculations

Figure F-7: Foreign trade and current account (% of GDP)



Source: CEIC, national agencies, authors' calculations

Figure F-8: Foreign investments and debt (% of GDP)



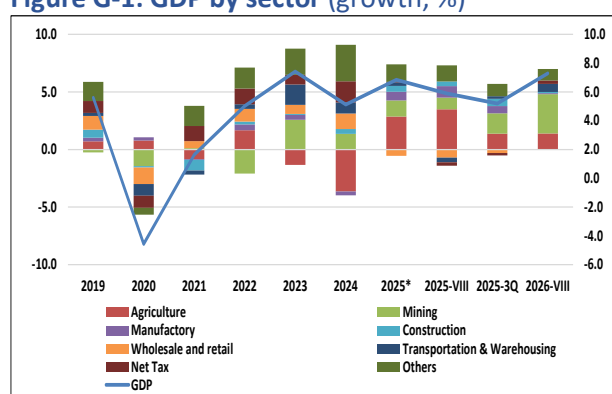
Source: CEIC, national agencies, authors' calculations

A wide current account deficit is offset by gold-boasted reserves. In 8M 2026 exports rose 25.0% and imports 16.4%, leaving a trade deficit of USD 7.5 billion. High gold prices lifted export earnings, while dependence on imported fuel, gas and wheat leaves the import bill exposed to energy prices. The PRC (33.5%) and Kazakhstan (11.7%) dominate trade, and trade with other CAREC members is rising. Gold also lifted reserves above USD 8.9 billion (6.7 months of imports), and large unrecorded inflows (errors and omissions) has been keeping the overall balance in surplus.

Structural issues and risks. FDI has recovered (Figure F-8) and is increasingly PRC-led, flowing to construction, infrastructure, manufacturing and energy; Russia, Türkiye and Kazakhstan remain important investors. The first Eurobond (USD 700 million) in 2025 funds infrastructure. Key risks are remittance volatility, geopolitical shocks, swings in gold and energy prices and rising inflation. Sustaining growth as the economy nears potential will require investment to deliver productivity gains in agro-processing, manufacturing, tourism, ICT and logistics.

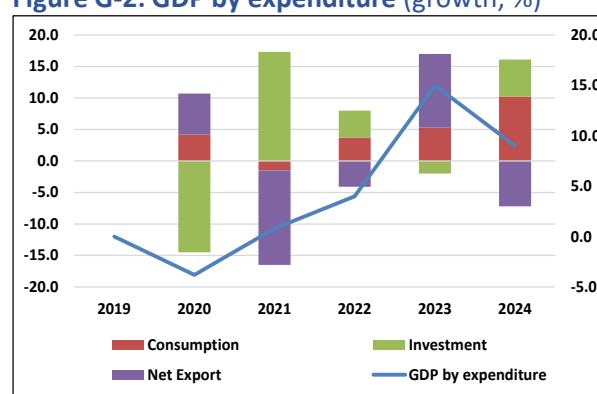
Growth has accelerated, but it is narrow and mining-led. Real GDP grew by 7.3% (yoy) in January–August 2026, up from 6.8% in 2025 (Figure G-1). Mining contributed 3.4 ppts, compared with 1.4 ppts in 2025, on higher copper and coal output. Agriculture added 1.4 ppts and transportation 0.7 ppts, while manufacturing and construction added only 0.1 ppts each and net taxes contributed 0.3 ppts. On the demand side, economic growth is mainly export-led, with net exports contributing 13.0 ppts, while gross capital formation subtracted 6.5 ppts and household consumption added just 1.3 ppts (Figure G-2). The economy is therefore growing on export volumes, not domestic spending or investment. Forecasts for 2026 range from 5.7% (ADB and W B) to 6.3% (EBRD), and for 2027 from 5.5% (EBRD) to 6.0% (ADB). The Central Bank of Mongolia projected 6.4% in 2026 and 5.3% in 2027 (Figure G-3).

Figure G-1: GDP by sector (growth, %)



Source: CEIC, national agencies, authors' calculations

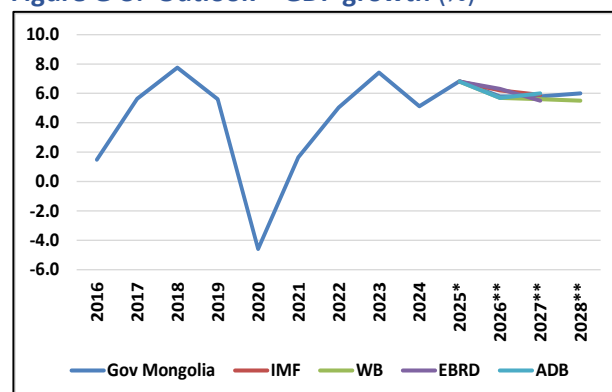
Figure G-2: GDP by expenditure (growth, %)



Source: CEIC, national agencies, IFIs

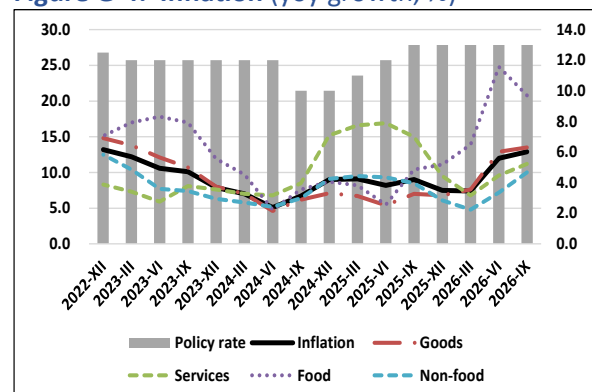
Inflation is now the main macroeconomic concern, prompting sharp tightening. Headline inflation reached 12.9% (yoy) in September 2026 (Figure G-4), almost 4 ppts higher than a year earlier and well above the Bank of Mongolia's target of 5% (+/-2ppts). Food inflation of 20.8% contributed 5.6 ppts, driven by meat and fuel prices. Fuel shortages followed Ukrainian strikes on Russian oil infrastructure, since Mongolia sources about 95% of its fuel from Russia; higher fuel costs then passed through to transport and food. Core inflation of 8.0% shows pressures are also spreading more broadly. In August the central bank raised the policy rate to 12.5% and sharply raised reserve requirements, a clearly hawkish move to stop inflation becoming entrenched.

Figure G-3: Outlook – GDP growth (%)



Source: CEIC, national agencies, authors' calculations

Figure G-4: Inflation (yoy growth, %)

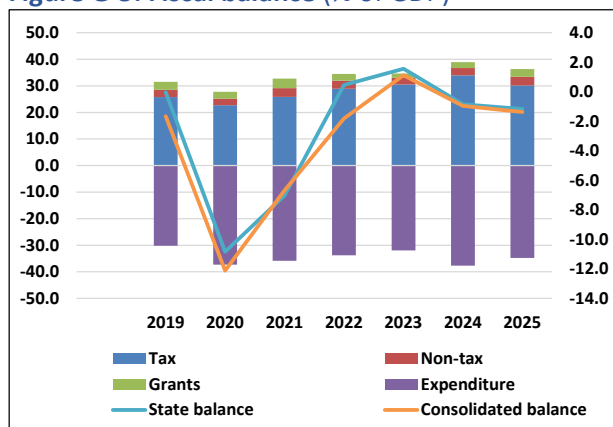


Source: CEIC, national agencies, IFIs

¹³ CAREC Institute (CI)

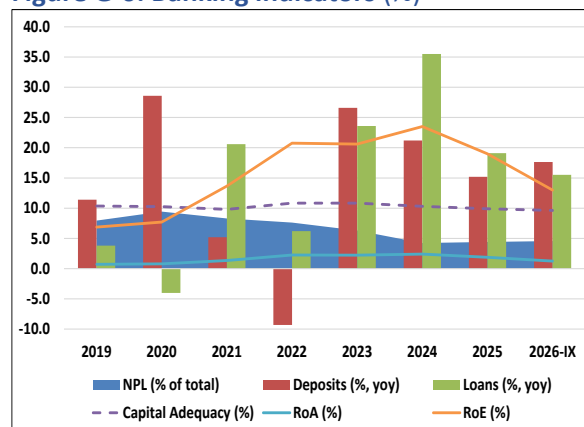
Fiscal policy is overshooting, adding to demand pressure. By September the consolidated budget deficit had reached about 1.6% of projected GDP. Revenue rose 10.6% (yoy), but spending grew faster, 11.3% driven by a 17.5% jump in capital expenditure (Figure G-5). The government has submitted a budget amendment that cuts spending and redirects savings to pensions, civil-service wages and strategic reserves. Bank credit grew 15.5%, while NPLs remain high at 4.6% and profitability has weakened (ROE 12.98%) (Figure G-6).

Figure G-5: Fiscal balance (% of GDP)



Source: CEIC, national agencies, authors' calculations

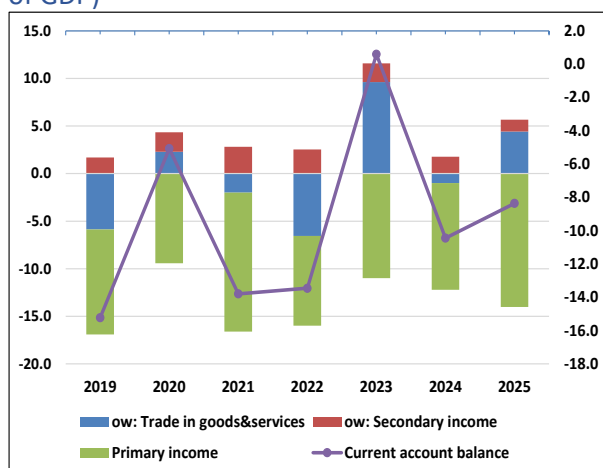
Figure G-6: Banking indicators (%)



Source: CEIC, national agencies, IFIs

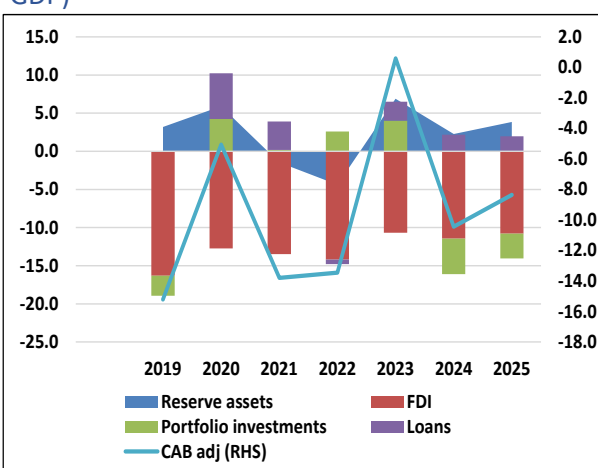
The external position has strengthened on commodity exports. Exports surged 51.2% in January–September, led by copper and coal, while imports rose 13.8%, so the trade surplus rose 3.6-fold (Figure G-7). This turned the balance of payments to surplus, although profit repatriation by foreign mining investors doubled the primary income deficit in H1. Reserves reached a record US\$8.9 billion in September, up 51.4% (yoy). Mining makes up 95% of exports, and FDI is also concentrated in mining (Figure G-8).

Figure G-7: Foreign trade and current account (% of GDP)



Source: CEIC, national agencies, authors' calculations

Figure G-8: Foreign investments and debt (% of GDP)

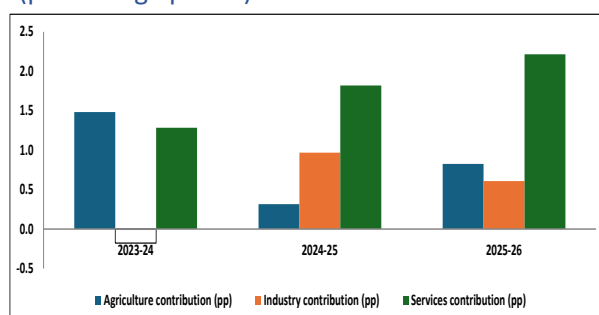


Source: CEIC, national agencies, IFIs

Structural issues and risks. Exports, FDI and fiscal revenue all depend on the same commodity cycle and largely on one buyer, leaving the economy highly exposed. Key risks are a fall in copper or coal prices, weaker PRC demand, further disruption to fuel supplies from Russia, and inflation becoming entrenched if fiscal and monetary policy pull in opposite directions.

The recovery is steady but held back by very low investment. Real GDP grew 3.7% in FY2025/26 (July 2025–June 2026), the third year of recovery, with quarterly growth at 4.4% during January–March in 2026 and 2.0% from April to June. Services contributed 2.2 ppts, led by finance and trade, while agriculture added 0.8 ppts and industry 0.6 ppts after a negative contribution of –0.2 ppts in FY2023/24 (Figure H-1). The weak link is investment, which stayed at 14.4% of GDP (Figure H-2), among the lowest in Asia. Without higher investment or productivity, growth above 4% is unlikely. Early FY2026/27 indicators are mixed: car production rose 27.6% in July on pent-up demand and cheaper credit, and domestic cement sales rose 8.0%, but cement exports fell 16.7%. A 24.5% drop in DAP (phosphatic) fertiliser offtake in Kharif 2026 is a downside risk to crop yields. IMF, ADB and the World Bank project FY2026/27 growth of 3.5%, 3.7% and 3.8%, respectively (Figure H-3).

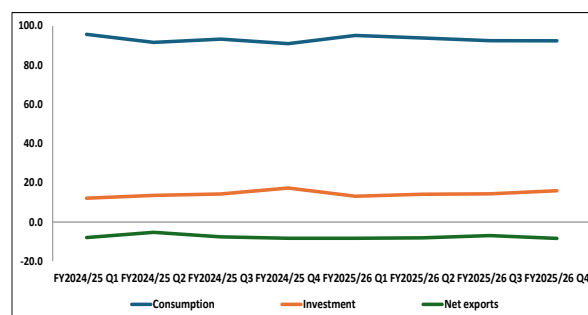
Figure H-1: GDP growth contributions by sector (percentage points)



Note: Annual contribution chart remains on fiscal-year basis

Source: Pakistan Economic Survey 2025-26 / PBS.

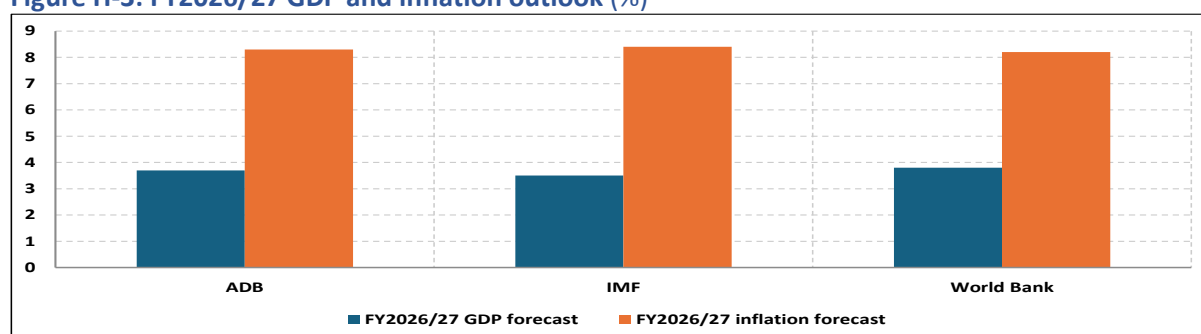
Figure H-2: GDP by expenditure (% of GDP)



Note: Pakistan fiscal quarters correspond to calendar quarters as follows: FY Q1 = CY Q3, FY Q2 = CY Q4, FY Q3 = CY Q1 of the following year, and FY Q4 = CY Q2 of the following year.

Source: Pakistan Economic Survey 2025-26 / PBS.

Figure H-3: FY2026/27 GDP and inflation outlook (%)

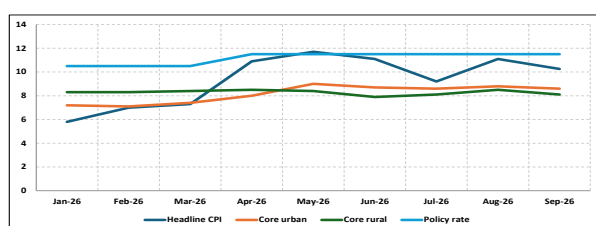


Source: ADB, IMF and World Bank. Forecasts, not actual observations.

Inflation has returned to double digits on energy and administered prices. Headline CPI rose from 5.8% in January to 11.7% in May 2026 and eased to 10.3% in September, averaging about 10.2% in Q1 FY2026/27 (July–September 2026) (Figure H-4). The main pressures were transport (+27.4%), reflecting fuel price adjustments, and housing (+12.4%), reflecting electricity tariff increases under the IMF programme. Food inflation was lower at 8.2%. Core inflation (8.1–8.6%) eased slightly, so demand pressure persists but is not broadening. The SBP kept the policy rate at 11.5% since April 2026 before raising it by 50 bps to 12.0% in October, reflecting renewed inflation risks from high energy prices and domestic supply pressures.

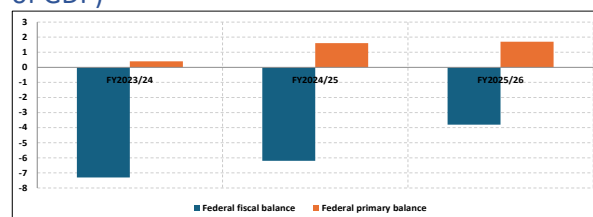
¹⁴ CAREC Institute (CI)

Figure H-4: Inflation and policy rate (%)



Source: PBS September 2026 CPI Review; SBP monetary policy statements.

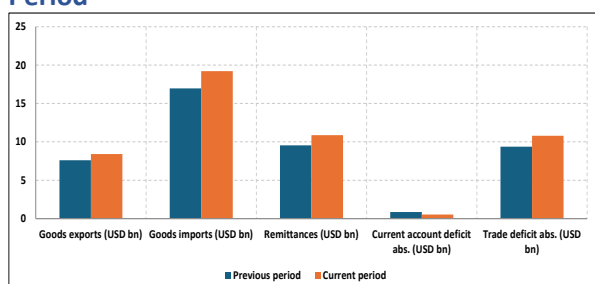
Figure H-5: Federal fiscal and primary balance (% of GDP)



Source: Pakistan Economic Survey 2025-26 / PBS

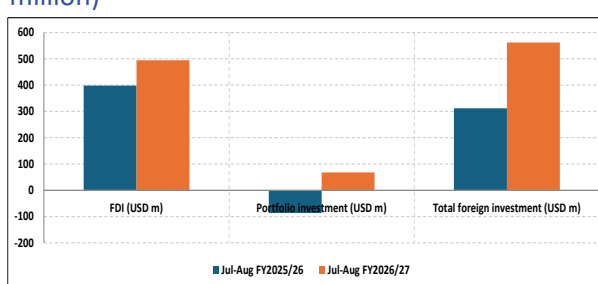
Fiscal consolidation has delivered results, but revenue quality is weak. The consolidated deficit narrowed to 2.6% of GDP in FY2025/26 from 6.8% in FY2023/24, with a primary surplus of 2.9% — the third in a row (Figure H-5). However, FBR tax collection in July–August FY2026/27 grew only 3.7% in real terms and relies mainly on consumption taxes, which are regressive and sensitive to demand. Interest payments rose 61.7% (yoy) in July alone, crowding out development spending.

Figure H-6: External sector – previous vs current Period



Source: Pakistan Economic Survey 2025-26 / PBS

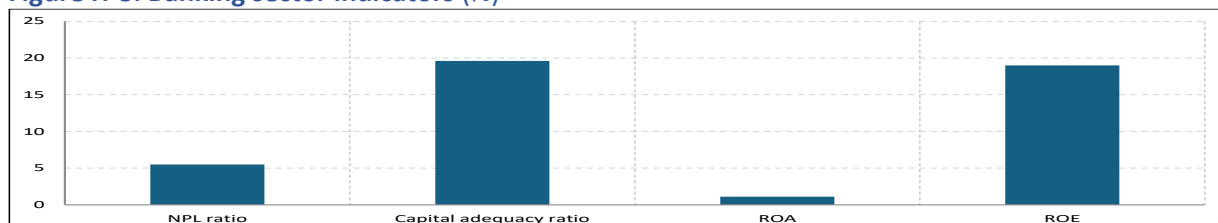
Figure H-7: Foreign investment flows (USD million)



Source: Pakistan Economic Survey 2025-26 / PBS

The external position has improved, supported by remittances and market access. In Q1 FY2026/27 exports rose 11.13% to US\$8.445 billion, but imports rose 13.20% to US\$19.213 billion, widening the goods deficit to US\$10.77 billion (Figure H-6). Textiles make up about 60% of exports, leaving Pakistan exposed to global apparel demand. Remittances of US\$10.9 billion in the quarter (+14%) — helped by a shift to formal channels since the 2023 exchange-rate unification — covered most of the gap, and the current account recorded a deficit of about US\$874 million in Q1 FY2026/27, compared with US\$755 million a year earlier. Net FDI increased 24.0% year on year to about US\$494.5 million during July–August FY2026/27 (Figure H-7). A US\$3.0 billion Eurobond in September 2026, the first since 2022, signals restored market access. SBP reserves rose from US\$18.4 billion at end-June to US\$21.4 billion by 25 September, and the rupee was stable at about PKR 277/US\$. Banks are sound (NPLs 5.5%, capital adequacy 19.6%), though high returns rest largely on holdings of government securities rather than private lending (Figure H-8).

Figure H-8: Banking sector indicators (%)

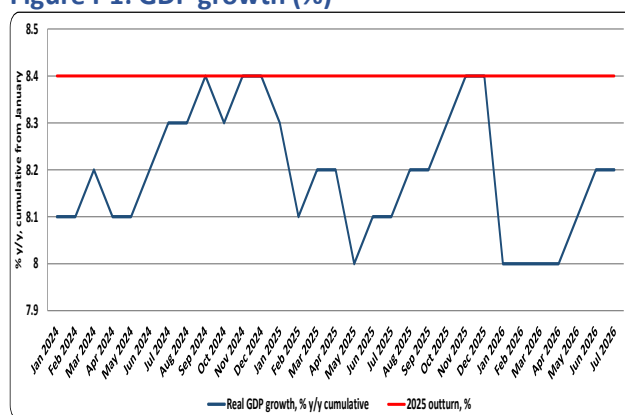


Source: Pakistan Economic Survey 2025-26 / PBS

Structural issues and risks. Low investment, a narrow and regressive tax base, and undiversified exports keep Pakistan in a low-growth, high-debt-service trap. Net FDI rose 24% to US\$495 million in July–August, but remains small. Key risks are higher oil prices, slippage on the IMF programme, and a weaker Kharif harvest. Continued policy discipline could allow reserves, exchange-rate stability and investor confidence to reinforce one another.

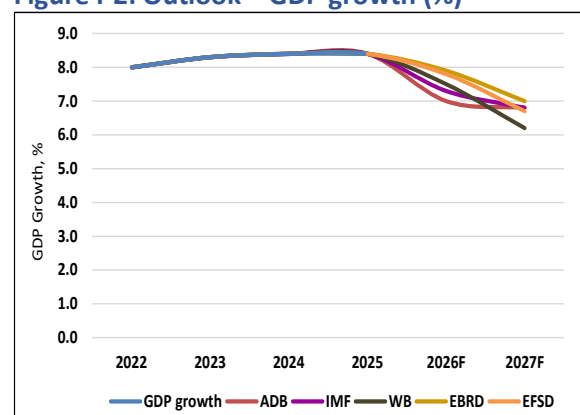
Growth remains among the fastest in CAREC, driven by consumption and services. Real GDP grew 8.2% (yoy) in H1 2026 (8.0% in Q1), moving close to the government's 8.5% target for 2026 but below the 2025 peak of 8.4% (Figure I-1). Trade, transport and other services led growth, adding 7.9 pp of the 15.3-point nominal GDP growth in H1 2026, while industry grew at 5.3% and the industrial production index rose 14.1% in real terms. Manufacturing grew 26% and electricity 16.8%, but mining fell 6.7% (Figure I-3). Consumption is the largest component of demand, with final consumption equal to about 114% of GDP, supported by remittances and gold export receipts; net exports are a deficit of about 26% of GDP. Payroll employment rose 1.7% and real wages rose 16.5%, alongside retail trade growth of about 27–30%. IFIs expect growth of 7.0% (ADB)–7.9% (EBRD) in 2026 and 6.2% (WB) –7.0% (EBRD) in 2027, reflecting the normalization of remittances and the possibility of disruption to energy imports (Figure I-2).

Figure I-1: GDP growth (%)



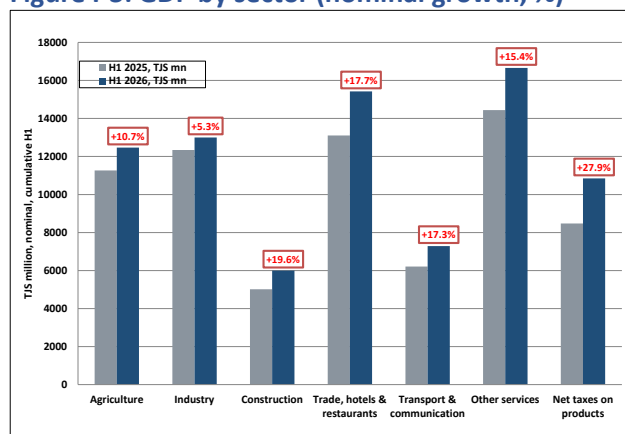
Source: CEIC, national agencies, authors' calculations

Figure I-2: Outlook – GDP growth (%)



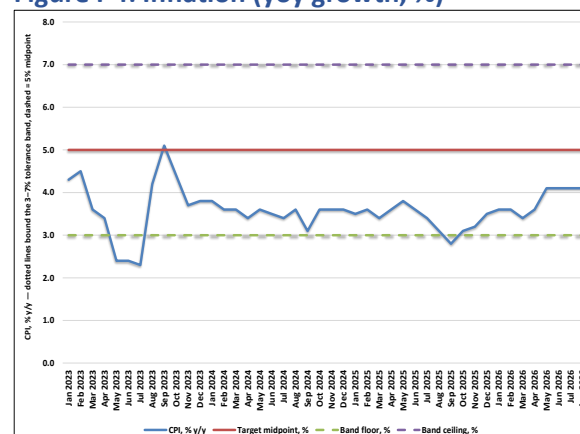
Source: CEIC, national agencies, IFIs

Figure I-3: GDP by sector (nominal growth, %)



Source: CEIC, national agencies, authors' calculations

Figure I-4: Inflation (yoy growth, %)

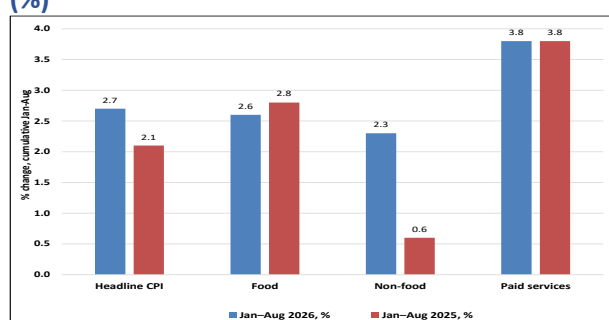


Source: CEIC, national agencies, authors' calculations

Inflation is within target, but fuel costs are a rising risk. Cumulative inflation was 2.7% in January–July (Figure I-4), with services up 3.8%, food 2.6% and non-food goods 2.3% (Figure I-5); annual inflation of about 4.1% since May 2026 and is within the National Bank's 5% $\pm$ 2 ppt target range. However, fuel prices have surged (Figure I-6) — diesel +53.7%, petrol +28.6%, LPG +26% — linked to the Middle East conflict, prompting ADB to raise its inflation forecast to 4.5%. Combined with strong demand, this poses upside risks. The refinancing rate has been held at 7.0% and the somoni has appreciated slightly, so policy is neutral. Banks are well capitalized (capital adequacy 23.1%), credit grew 23.6% and NPLs fell to 3.4%.

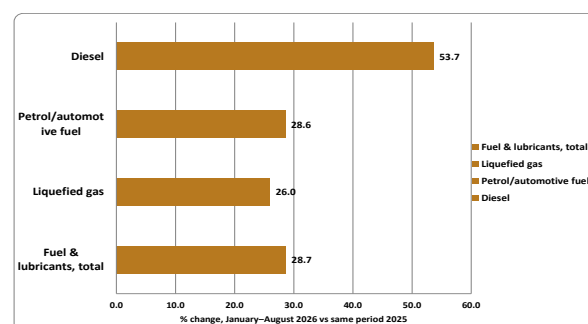
¹⁵ CAREC Institute (CI)

Figure I-5: Inflation by component, Jan-Aug 2026 (%)



Source: CEIC, national agencies, authors' calculations

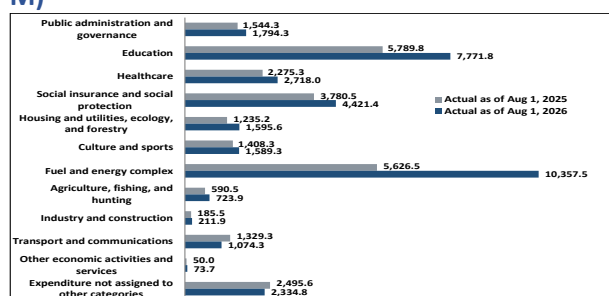
Figure I-6: Cost-push pressures (% change)



Source: CEIC, national agencies, authors' calculations

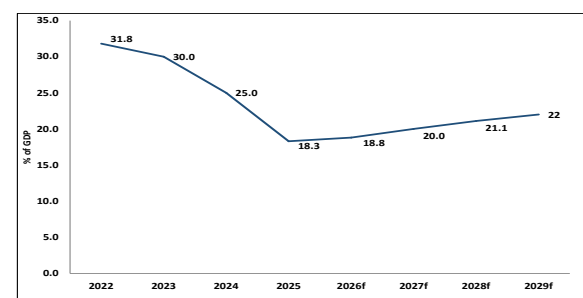
Fiscal policy is disciplined. The 2026 budget plans a deficit of about 1% of GDP (Figure I-7), against the World Bank and ADB expectations of 2.2–2.5%. Tax revenue rose 34.6% in January–July, helped by tax-base broadening, fewer exemptions and stronger activity. Government debt fell to 18.3% of GDP in 2025 (Figure I-8), and S&P (B+) and Moody's (B2) upgraded the sovereign; Figure I-8 projects the ratio rising to 22.0% of GDP by 2029.

Figure I-7: Budget execution, Jan-Aug 2026 (TJS M)



Source: CEIC, national agencies, authors' calculations

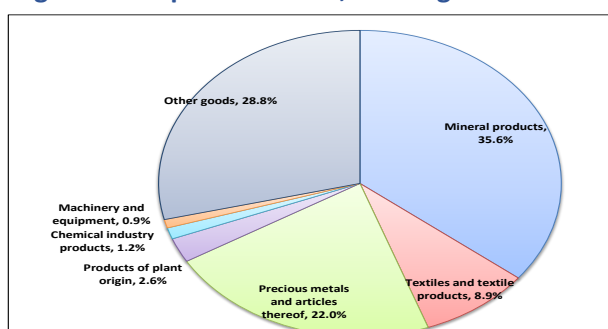
Figure I-8: Public debt (% of GDP)



Source: CEIC, national agencies, authors' calculations

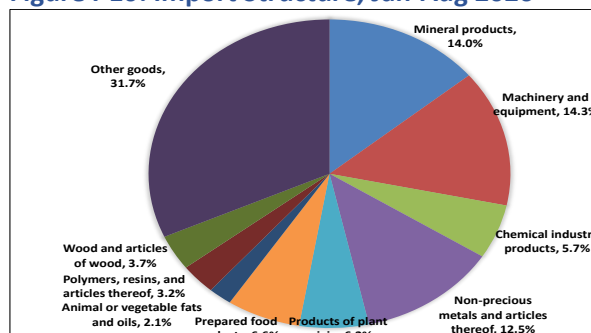
Exports are growing and the current account is in surplus. Exports rose 20.5% to US\$2.0 billion in January–August, led by minerals, precious metals and textiles (Figure I-9), and imports grew faster with the trade deficit widening to US\$5.3 billion (Figure I-10). The PRC is now the main trading partner, accounting for 28.9% of exports and supplying 27.0% of imports; Switzerland accounts for 25.9% of exports (gold) and Russia supplies 21.6% of imports. The current account was in surplus (US\$820 million in Q1), and reserves of US\$6.8 billion far exceed foreign debt of US\$2.9 billion.

Figure I-9: Export structure, Jan-Aug 2026



Source: CEIC, national agencies, authors' calculations

Figure I-10: Import Structure, Jan-Aug 2026



Source: CEIC, national agencies, authors' calculations

Structural issues and risks. Under NDS 2030, policy aims to diversify a production base that is concentrated in a few sectors; investment is flowing to Rogun hydropower, transport corridors, solar power and food processing. Planned tax reforms include cutting VAT to 13% and raising export rent taxes on raw materials to 6% from 2027. Key risks are lower gold prices, fuel-price shocks and lower remittances.

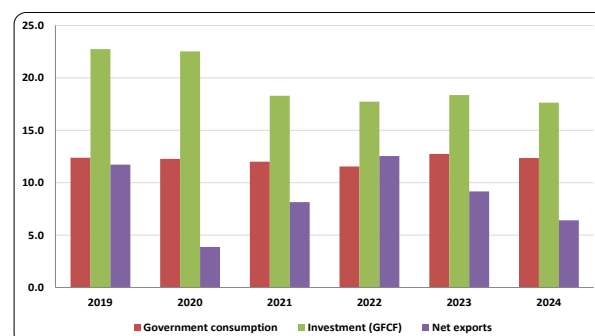
Growth is steady, with industry picking up as services slow slightly. According to official data, GDP grew 6.3% (yoy) in January–September 2026, the same as a year earlier (Figure J-1). Services still grew fastest — transport and communications 10.4%, trade 8.4% — but most branches slowed slightly. Industry accelerated to 3.0% from 1.8%, helped by higher LPG (+64.5% in H1) and cement output under the import-substitution policy. Retail trade rose 10.5% and capital investment 3.5%, while its share to GDP eased to 16.5% in H1 from 17.7%. ADB and EBRD both project 6.3% growth in 2026 and 6.2–6.3% in 2027, in line with the government's target (Figure J-3).

Figure J-1: GDP by sector (growth, %)



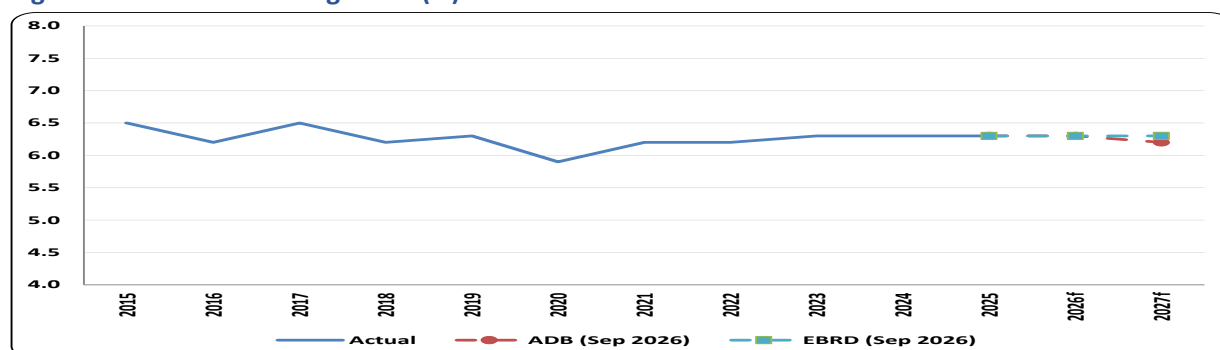
Source: Government of Turkmenistan (Cabinet of Ministers meetings). Growth rates, not contributions.

Figure J-2: GDP by expenditure: selected components (% of GDP)



Source: World Bank, WDI. Selected components: no household consumption data, so shares do not add up to 100.

Figure J-3: Outlook – GDP growth (%)

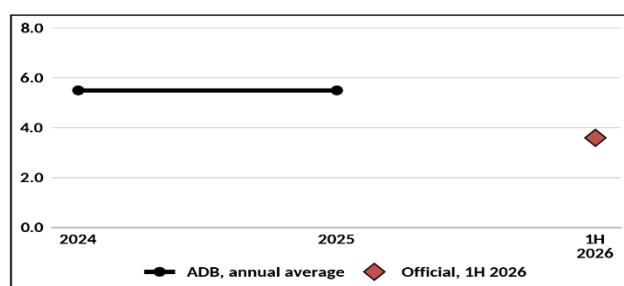


Source: Government of Turkmenistan; World Bank (2015–2018); ADB; EBRD. Forecast lines start from the 2025 value.

Prices are held down by a fixed exchange rate and administrative controls. Monetary policy is based on a fixed official exchange rate of 3.50 manat per US dollar, which the President instructed in July to keep stable, alongside what ADB describes as administrative price controls and what the authorities describe as a mix of credit, tax and price instruments. The Ministry of Finance and Economy reports inflation of 3.6% in H1 2026 (Figure J-4), compared with ADB's estimate of 5.5% for 2025. Credit to the private sector (+23.6%) and to households (+24.5%) is growing far faster than lending for the development of the economy (+7.4%), in line with the goal of expanding the private sector (Figure J-5). Rapid household lending may add to demand pressure, though its price effect cannot be assessed from available data. Fiscal policy is cautious: revenue was at 100.1% of plan in January–September and spending at 97.2%, and public debt is very low at about 4% of GDP (Figure J-6).

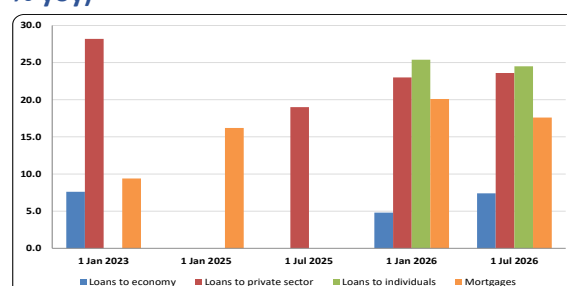
¹⁶ CAREC Institute (CI)

Figure J-4: Inflation (%)



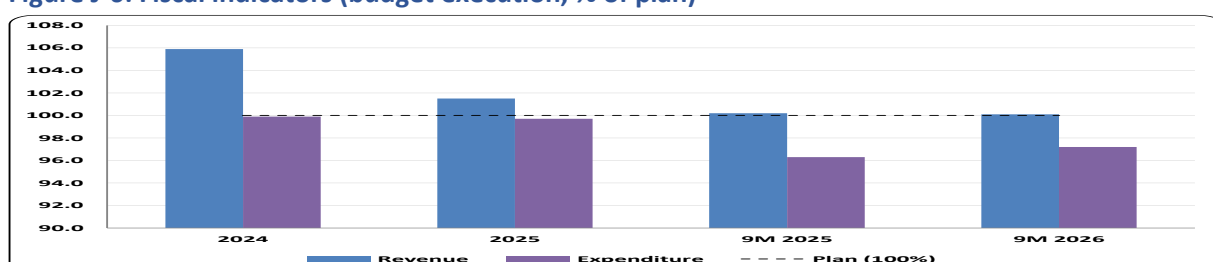
Source: ADB; Ministry of Finance and Economy (1H 2026 as stated by the Minister; basis not specified).

Figure J-5: Banking indicators (credit growth, % yoy)



Source: Central Bank of Turkmenistan, as reported at Cabinet of Ministers meetings. Growth vs the same date a year earlier; blank = not reported.

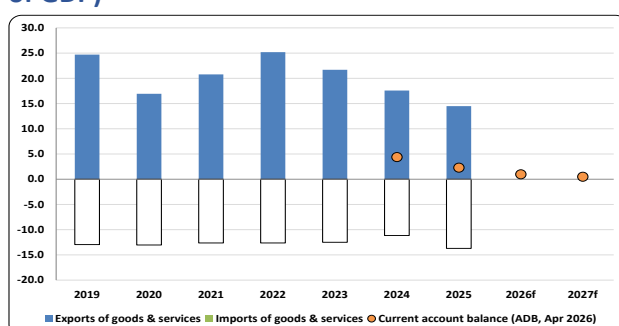
Figure J-6: Fiscal indicators (budget execution, % of plan)



Source: Government of Turkmenistan (Cabinet of Ministers meetings). Axis starts at 90; dashed line = 100% of plan.

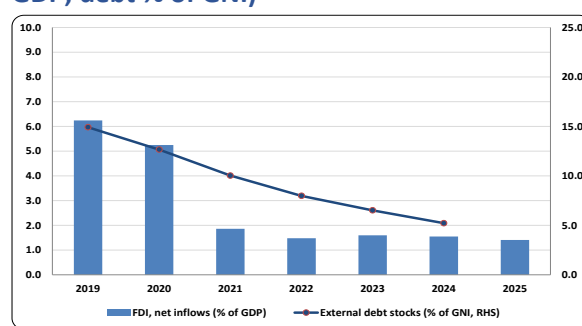
The external surplus is narrowing as gas earnings soften. Foreign trade turnover rose 8.3% in January–September (Figure J-7). Natural gas remains the main export and the PRC the main buyer. PRC customs data show imports from Turkmenistan down 2.8% to US\$5.6 billion in January–August, while PRC exports to Turkmenistan rose 24.2%, narrowing the bilateral surplus to US\$4.3 billion from US\$4.7 billion. ADB estimates the current account surplus fell from 4.4% of GDP in 2024 to 2.3% in 2025 and expects 1.0% in 2026. Regionally, agreements on gas supply to Herat and faster construction of the Serhetabat–Herat section of TAPI aim to open southern markets.

Figure J-7: Foreign trade and current account (% of GDP)



Source: World Bank (WDI), ADB (Apr 2026). Imports shown as negative; the two sources are not reconciled.

Figure J-8: Foreign investment and debt (% of GDP; debt % of GNI)



Source: World Bank, WDI (FDI series as revised on 8 October 2026).

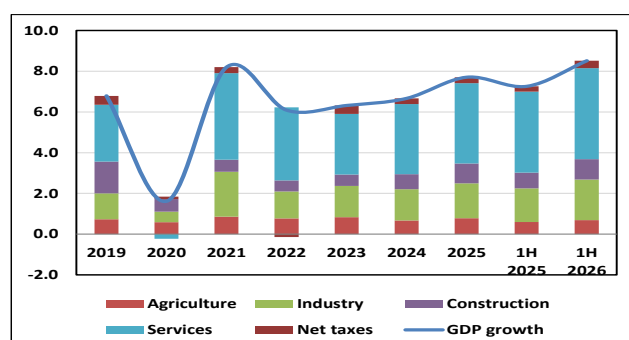
Structural shift and risks. Medium-term growth rests on state-led investment, gas development and industrial diversification. The fourth phase of the Galkynysh field, launched with the PRC in April 2026, adds a 10 bcm/year gas-treatment facility. A National Industrial Development Strategy for 2030–2045 was approved in September, and WTO accession preparations continue. FDI has been stable at about 1.5% of GDP since 2022, and external debt fell to 5.2% of GNI in 2024 (Figure J-8). Key risks are lower energy prices, dependence on a few gas buyers, Middle East tensions that raise trade costs, and delays in large projects.

I-K: Uzbekistan

Akhtem Useinov, Zohid Askarov, Komiljon Karimov, Sarvar Abdullaev¹⁷

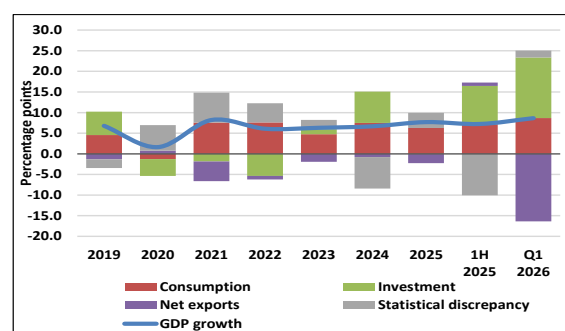
Growth has strengthened, led by services and investment. Real GDP grew 8.5% in H1 2026. Services contributed 4.4 ppts (up from 4.0 ppts a year earlier), industry 2.0 ppts, construction 1.0 ppt and agriculture 0.7 ppts (Figure K-1). On the demand side, investment added 14.7 ppts and consumption 8.7 ppts in Q1, while net exports subtracted 16.4 ppts (Figure K-2). Most of the net export drag reflects gold: no gold was exported from October 2025 to March 2026, and shipments resumed only in April. Real retail sales rose 18.8% in January–August, and real wages rose 10.9% in H1, supporting consumption. Unemployment was 4.8% in Q1, but job creation slowed in Q2. IFIs project GDP growth for 2026 and 2027 ranging from 7.0% (ADB) - 7.9% (WB), and from 6.0% (EBRD) - 7.5% (WB), respectively (Figure K-3).

Figure K-1: GDP by sector (growth, %)



Source: UzStat, authors' calculations

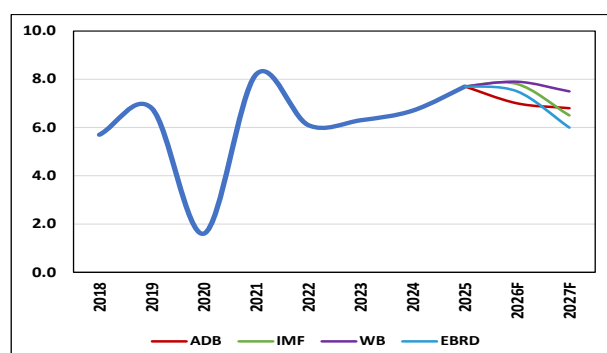
Figure K-2: GDP by expenditure (growth, %)



Source: UzStat; authors' calculations.¹⁸

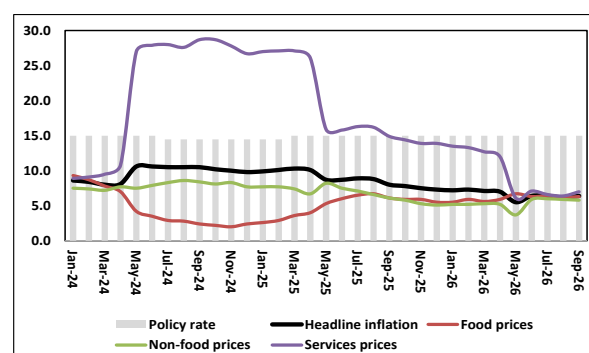
Inflation is easing, but expectations remain high and policy stays tight. Headline inflation fell to 6.4% (yoy) in September 2026 from 8.0% a year earlier, mainly as the effect of 2025 energy tariff increases dropped out (Figure K-4). Core inflation was steady at 5.7%, as slower non-food and services prices were offset by faster core food inflation. Household (10.1%) and business (9.9%) inflation expectations remain well above the 5% target. The central bank has kept its policy rate at 14% throughout 2026, keeping real rates positive and supporting soum savings. It halved the reserve requirement on FX deposits from 14% to 7% in July. A 1.7% appreciation of the soum since end-2025 has helped contain imported inflation; the central bank expects inflation of about 6.5% at end-2026 and 5% target by the end of 2027.

Figure K-3: Outlook - GDP growth (%)



Source: UzStat; IMF; ADB; the World Bank; EBRD; authors' calculations

Figure K-4: Inflation (yoy growth, %)



Note: Policy rate (grey)--14.0% throughout, except 13.5% between 26 July 2024 and 23 March 2025.

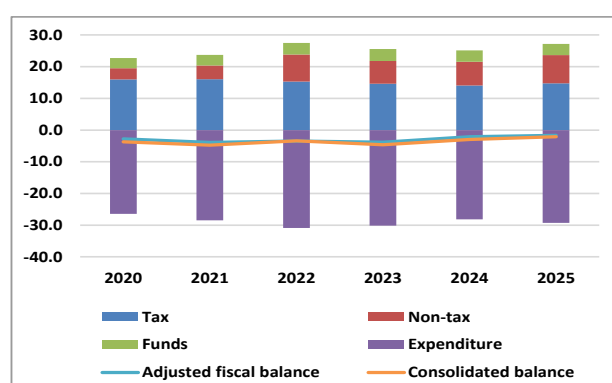
Source: UzStat; Central Bank of Uzbekistan; authors' calculations

¹⁷ Westminster International University in Tashkent (WIUT).

¹⁸ Contributions in percentage points of the previous year's GDP. The final two columns are not annual: 1H 2025 covers January–June, Q1 2026 covers January–March. The net exports contribution in Q1 2026 reflects the suspension of gold exports between October 2025 and March 2026. The statistical discrepancy reflects non-additivity in the published constant-price expenditure series.

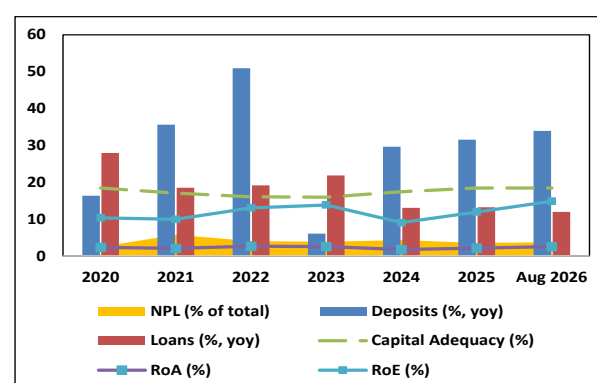
Fiscal and banking positions are stable. The budget was in surplus in H1, but spending will rise in H2 under the revised budget, taking the deficit to about 3% of GDP for 2026. The 2025 deficit of 2.1% rested increasingly on non-tax revenue (8.9% of GDP), which is less predictable than taxes (Figure K-5). Credit growth slowed to 11.9% (yoy) by August while deposits grew 33.9%; capital adequacy is 18.4% and NPLs 3.7% (Figure K-6).

Figure K-5: Fiscal balance (% of GDP)



Source: UzStat; IMF, authors' calculations

Figure K-6: Banking indicators (%)

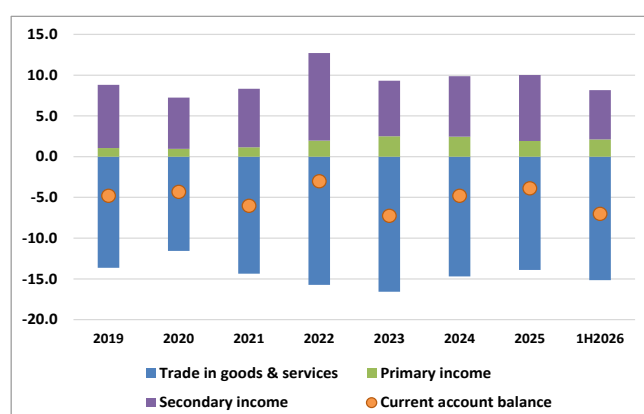


Note: Observations as of 1 December of each year; final column as of 1 August 2026.

Source: Central Bank of Uzbekistan; authors' calculations

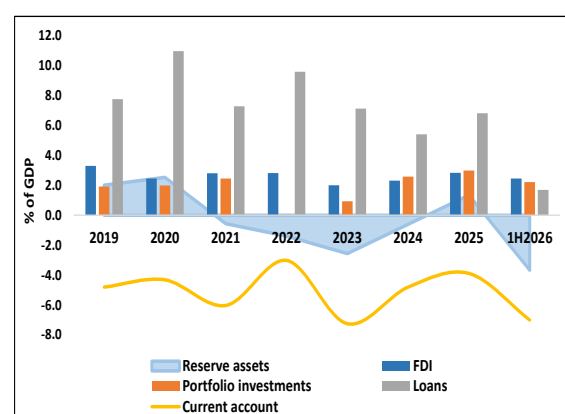
The current account deficit has widened on the gold pause and lower remittances. Exports were US\$22.9 billion and imports US\$34.5 billion in January–August. The goods and services deficit widened to 15.2% of GDP in H1 2026 from 13.9% in 2025, while secondary income, mainly remittances, fell from 8.1% to 6.0% of GDP (Figure K-7). As a result, the current account deficit widened to 7.0% of GDP from 3.9%. External debt rose 16.5% to US\$84.1 billion by July, split almost evenly between public (US\$41.7 billion) and corporate (US\$42.4 billion) borrowers; GDP growth and soum appreciation kept the debt ratio in check.

Figure K-7: Foreign trade and current account (% of GDP)



Source: UzStat; Central Bank of Uzbekistan; the World Bank; authors' calculations

Figure K-8: Foreign investments and debt (% of GDP)



Source: UzStat; Central Bank of Uzbekistan; the World Bank; authors' calculations

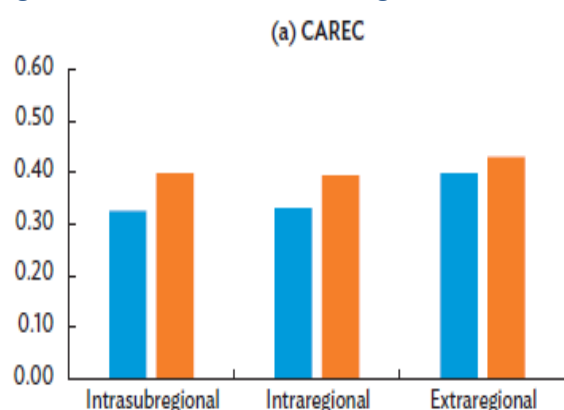
Structural issues and risks. Trade has expanded and diversified rapidly, with exports doubling from US\$16.7 billion in 2021 to US\$34.2 billion in 2025; the PRC, Kazakhstan, Russia and Türkiye are the main partners. FDI and other investment inflows reached 2.4% of GDP in H1 (Figure K-8). Key risks are lower gold prices, weaker remittances, rapid growth in external debt and inflation expectations that remain well above target.

Annex II:

II-A: Intra-regional trade development in the CAREC region

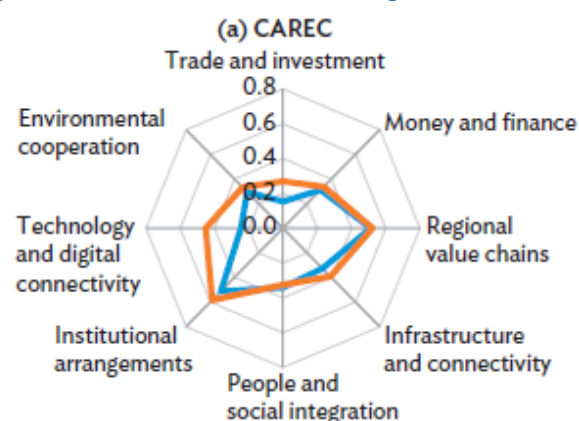
According to the Asian Regional Cooperation and Integration Index (ARCI), which aggregates integration scores in different fields (Figure A-2), integration rose by approximately 8% from 2006 to 2023, placing Asia just behind the European Union. Regional value chain development, and infrastructure and connectivity investments, were the main driving forces behind this growth. At the same time, Asian Economic Integration Report 2026 (AEIR-2026) identifies a distinct pattern of integration for the CAREC subregion compared to other Asian subregions. According to AEIR-2026, overall Asian intra-regional integration increased; however, the CAREC region exhibited weaker intra-subregional ties than groups like the Great Mekong Subregion. At the same time CAREC subregion exhibits higher extra-regional integration and is more deeply integrated into global value chains (Figure A-1). The report notes that intra-regional trade in CAREC is only about 4-5% of CAREC's total trade, which leaves significant potential for further growth.

Figure A-1. Index of Economic Integration



Source: AEIR-2026 report, ADB, p. 12

Figure A-2. Dimensions of CAREC Integration



Source: AEIR-2026 report, ADB, p. 13

A key development in the first half of 2026 was steady growth in the share of intra-regional trade in CAREC. The average share of intra-regional trade in CAREC's total merchandise trade rose to 5.1%, from 4.6% in the first half of 2025 (Figure A-3). In particular, trade among CAREC countries, excluding PRC are increasing for some countries like Afghanistan, Kyrgyz Republic, Pakistan (Figure A-4). At the same time, trade between China and other CAREC countries increased by 66.7% (Figure A-5), supported by industrial cooperation, energy and agricultural exports. This growth is driven by several factors.

- First, net energy exporting countries are gaining importance with trade volumes rising, especially with China. Azerbaijan, Kazakhstan, Mongolia and Turkmenistan account for 85% of other CAREC countries exports to China, and increased their exports by 36.0%.
- Second, Pakistan has expanded its transit capabilities thanks to improved access to Middle Eastern markets. The PRC's share of Pakistan's exports rose to 16.1% (from 10.1% in 6M 2025) opening up new markets in Central Asia and China for textiles and agricultural products.
- Third, the PRC is increasing its exports to other CAREC countries (by 85.3% in 6M 2026) serving as a supplier of diversified goods.

Figure A-3. Share of Intra-CAREC trade

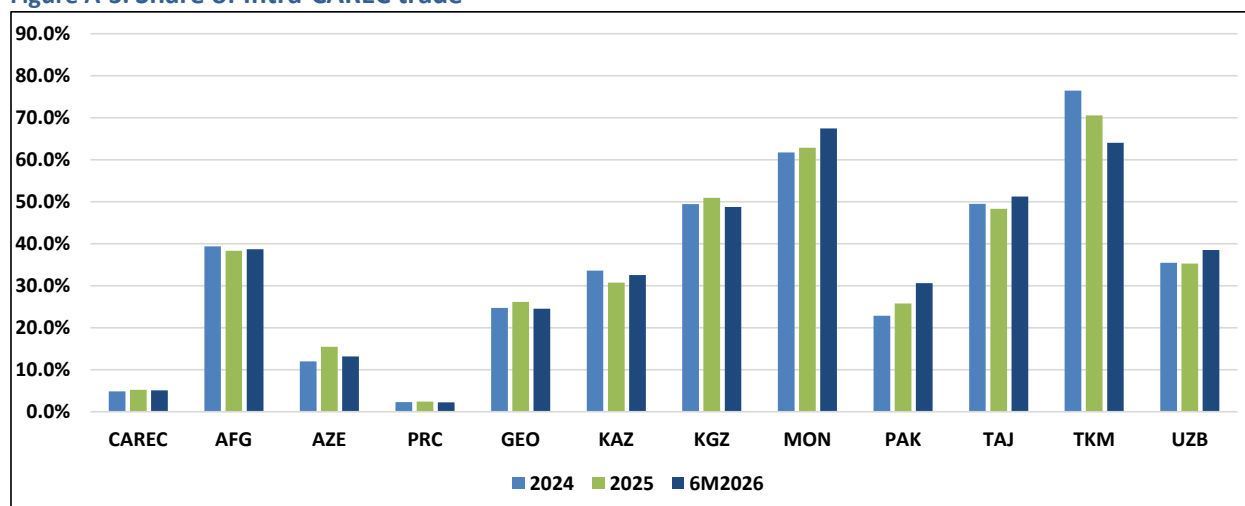


Figure A-4. Share of Intra-regional trade, excluding PRC

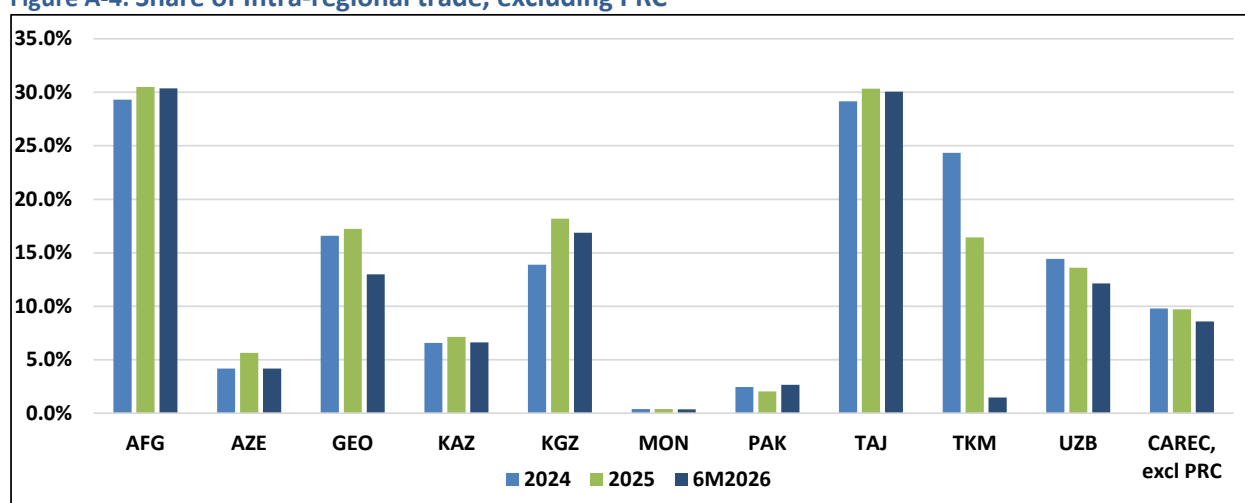
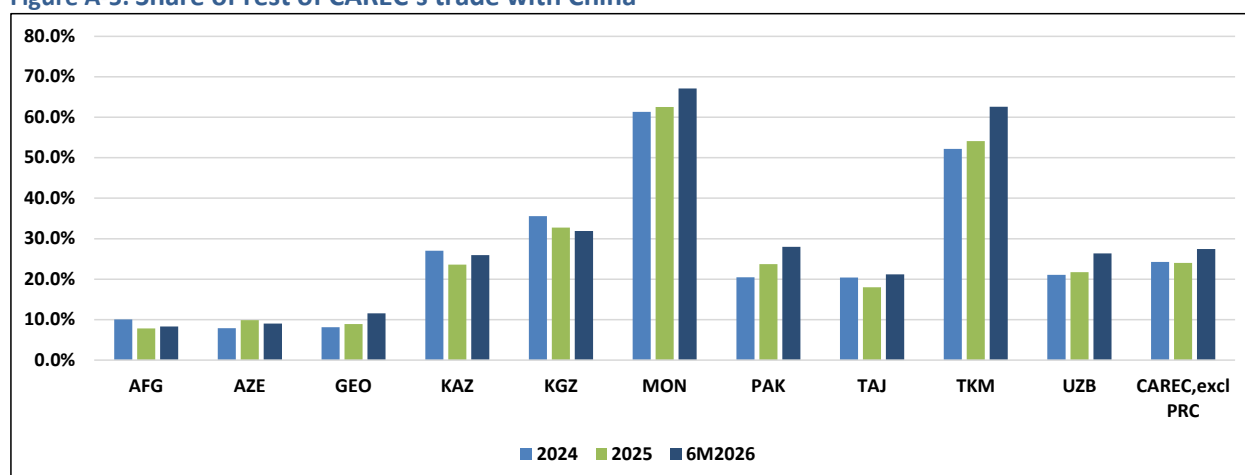


Figure A-5. Share of rest of CAREC's trade with China



In 2026, concrete steps advanced the integration agenda. These steps reflect AEIR-2026's central finding that CAREC is transitioning from hard to soft infrastructure.

- At the June 2026 joint meeting of the CAREC Regional Trade Group and the Customs Cooperation Committee in Ulaanbaatar, Mongolia signed an MoU to join the CATS/ICE pilot project alongside Azerbaijan, Georgia, the Kyrgyz Republic, Pakistan and Uzbekistan, and a pilot project on the electronic exchange and mutual recognition of product conformity certificates was launched.

- The 25th Customs Cooperation Committee meeting reviewed progress on customs digitization, including "smart customs," and on the role of customs authorities in supporting digital trade ecosystems. The CARTIF Agreement aims to modernize rules covering digital trade and investment facilitation, creating a more predictable environment for goods, services and capital; digital customs and paperless trade are prioritized to reduce costs and address non-tariff barriers, and the new BUILD facility targets border crossing modernization.
- Progress toward a regional customs transit and information exchange system demonstrates the potential of practical coordination, while the 2026 UN ESCAP–CI assessment stresses paperless trade and implementation capacity, which are also relevant for e-commerce and SME participation.

Constraints remain, however: differences in trade regimes, technical standards, border management and the implementation of international commitments still limit regional potential, and digital gains depend on interoperability, mutual recognition of electronic documents and signatures, and coordinated customs procedures.

II-B: Decomposition of inflation in CAREC region

Inflation dynamics in the CAREC region in 2026 remained relatively high and were characterized by divergence in terms of key drivers. The figure B-1 below presents a decomposition of inflation into domestic, global and regional components based on principal component analysis (PCA) based on Krusper (2012)¹⁹. This is a statistical method that captures the correlation between time series and therefore describes inflation dynamics. The estimation distinguishes between a global factor, a regional factor, and a purely domestic component of inflation. It entails three steps. First, principal components are obtained for the inflation of the whole sample. Second, a regional principal component is derived from residuals of the first step for the CAREC region. Finally, inflation in each country is regressed against the regional and global components and the residuals give the country-specific component. The figure shows the contribution of each of the three factors in each CAREC economy, and the first graph shows the average for nine countries in the region. We exclude Afghanistan and Turkmenistan due to the unavailability of data.

Three patterns stand out. First, domestic factors dominate. In the CAREC aggregate and in most individual economies, the purple domestic component accounts for the largest share of inflation throughout all the analyzed years. This is visible in Kazakhstan, Mongolia, Tajikistan and Uzbekistan, where the domestic bar consistently provides the bulk of the total. Second, global shocks are transmitted primarily through the red global component, and this transmission is highly episodic. The clearest episode is the inflation surge of 2021–2022, when the global component (red) widened sharply in the CAREC aggregate, Azerbaijan, Georgia, Kazakhstan, Mongolia and Pakistan, pushing headline inflation to peaks of roughly 13–15% in the aggregate, about 15–16% in Azerbaijan and Mongolia, and over 35% in Pakistan. After 2023, the global component contracted and even turned negative in several economies, reflecting disinflation in imported prices. Third, the regional component is small and relatively stable, rarely exceeding a few percentage points, which is consistent with the low share of intra-regional trade relative to extra-regional trade.

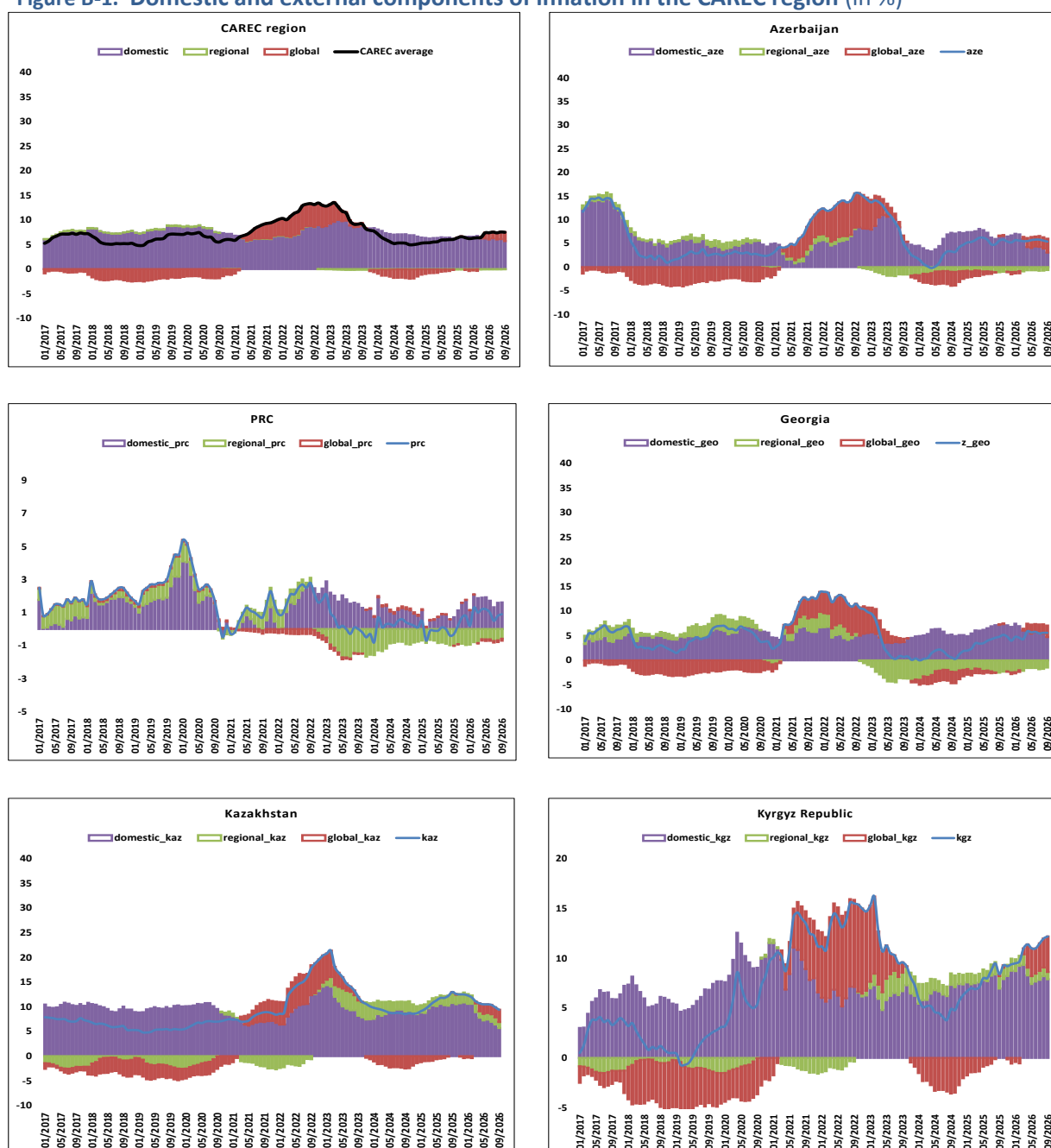
The figure also shows significant cross-country heterogeneity. China stands apart: both its inflation level and the amplitude of its components are much lower, with the domestic component near zero or negative for much of 2023–2025, indicating deflationary rather than inflationary pressure. Pakistan shows the highest volatility and the largest amplitude, with headline inflation peaking above 35% in 2023 before falling sharply. Tajikistan displays a pronounced domestic-driven pattern, with the domestic component remaining the dominant contributor even when global prices eased. Uzbekistan shows a steady decline in

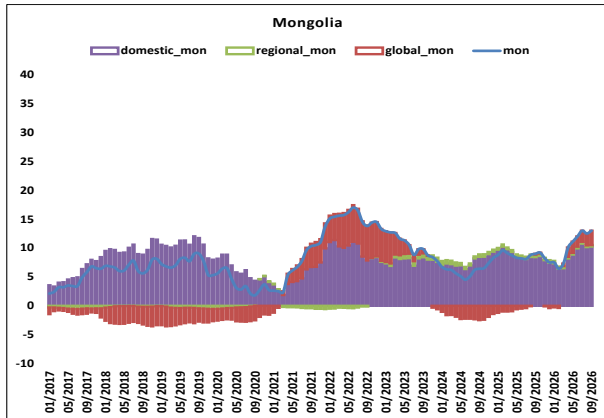
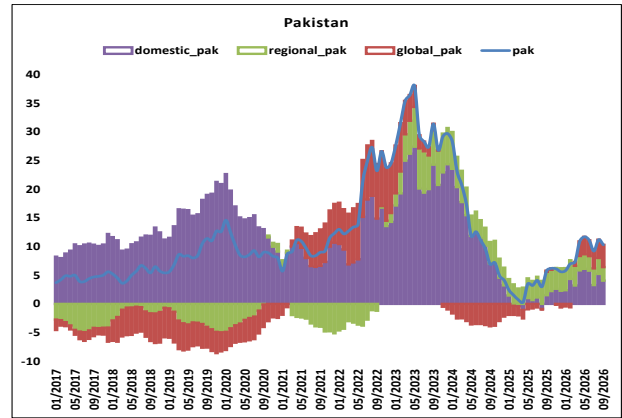
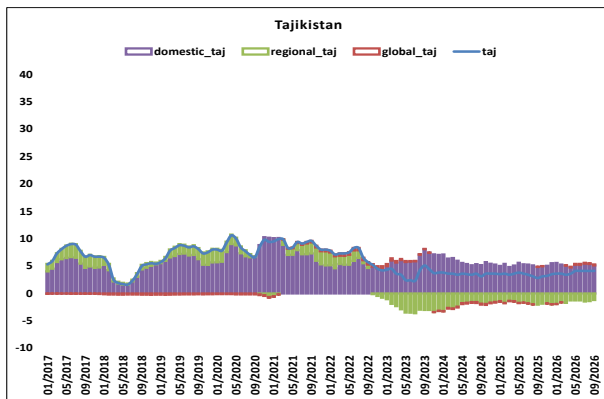
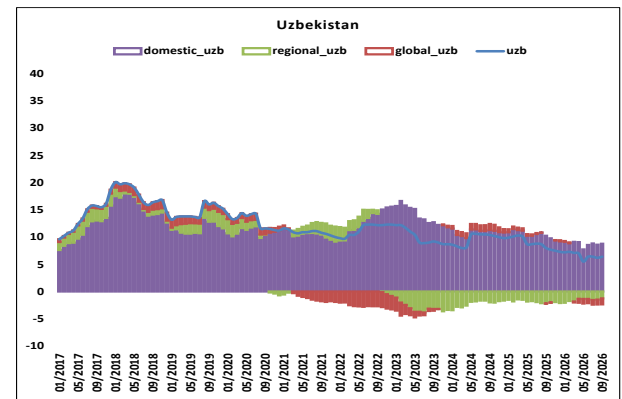
¹⁹ Krusper, Balazs (2012), The role of external and country specific factors in Hungarian inflation developments, MNB Working Papers 2012/5, Magyar Nemzeti Bank (Central Bank of Hungary). This study estimates $\pi = \alpha G + \beta R + \varepsilon$, where π is the standardized annual headline inflation rate, G – global factor and R – regional factor, and ε is the country-specific component.

headline inflation from around 20% in 2017 to single digits by 2024–2025, driven largely by the shrinking domestic component.

This confirms the structural exposure to external price shocks: the 2021–2022 episode shows that global commodity prices can rapidly translate into domestic inflation, particularly in smaller, more open economies. At the same time, it shows that domestic factors remain the dominant and more persistent driver of inflation across the region, which qualifies a purely commodity-price explanation and supports the case for domestic macroeconomic and structural policies alongside trade integration. The relatively minor role of the regional component is also consistent with AEIR-2026's finding that intra-regional trade remains limited.

Figure B-1. Domestic and external components of inflation in the CAREC region (in %)





Source: CEIC, national agencies, authors' calculations



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