

CAUCASUS AND CENTRAL AND WEST ASIA

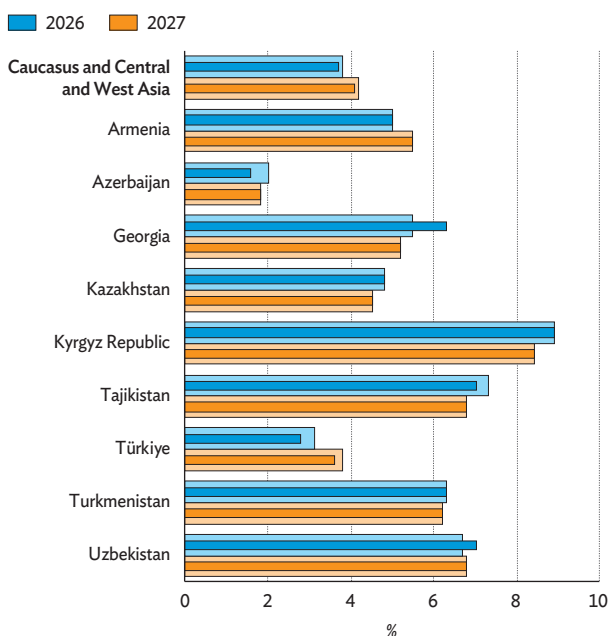
Asian Development Outlook (ADO) September 2026 lowers growth projections for the subregion for both 2026 and 2027. Non-hydrocarbon exporters in Central Asia and most Caucasus countries have continued to expand robustly, supported by public investment, construction, and resilient consumption. However, the region's two large hydrocarbon exporters—Azerbaijan and Kazakhstan—have slowed from 2025 as oil-sector-specific disruptions have weighed on headline growth, even as their non-oil economies held up. Inflation forecasts for 2026 have been revised up for Azerbaijan, Georgia, Türkiye, and Uzbekistan, largely reflecting hydrocarbon price pass-through and administered tariff adjustments but are unchanged for other countries.

Subregional Assessment and Prospects

The Caucasus and Central and West Asia growth outlook is revised down 0.1 percentage points for 2026 and 2027. The *ADO September 2026* now projects growth at 3.7% in 2026, down from 3.8% in July, and at 4.1% in 2027, down from 4.2% (Figure 3.1.1). The revisions reflect lower growth projections for Azerbaijan, Tajikistan, and Türkiye. In Türkiye, disinflation has continued but slowed as regional conflicts have raised energy costs and are expected to weaken external demand. These headwinds are also expected to weigh on the Turkish economy in 2027, lowering growth. The ADO reduces Tajikistan's 2026 growth forecast as Russia's war in Ukraine has escalated, disrupting fuel imports and constraining near-term activity. Contraction in the oil sector has also lowered Azerbaijan's growth projection. In contrast, the 2026 growth forecasts for Georgia and Uzbekistan are upgraded as activity in both economies has expanded faster than previously projected. The stronger momentum is expected to continue in 2027, despite spillovers from price shocks in external oil markets. Growth in other countries has stayed in line with earlier ADO projections.

Figure 3.1.1 Gross Domestic Product Growth in the Caucasus and Central and West Asia

Growth projections for 2026 and 2027 have been reduced, as external headwinds are expected to weigh on activity in several economies across the subregion.



Note: Lighter-colored bars are *Asian Development Outlook July 2026* forecasts.

Source: *Asian Development Outlook* database.

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Economies in Central Asia have grown moderately, supported mainly by strong domestic demand, public investment, construction, and expanding services and manufacturing. However, growth prospects are expected to moderate in some economies as external demand weakens, energy costs remain elevated, and regional trade and supply disruptions persist. The Kyrgyz Republic's economy has accelerated as continued public investment, strong private consumption, and broad-based sectoral gains have driven expansion, with a surge in construction supported by continued infrastructure financing and expanded state-backed housing programs. Growth is expected to moderate as trade and domestic demand soften and electricity constraints weigh on industry; forecasts remain unchanged at 8.9% for 2026 and 8.4% for 2027. Tajikistan's growth remained strong at 8.2% in the first half, led by expansion in manufacturing, food processing, and metallurgy, and strong retail-driven services. The *ADO September 2026* reduces the 2026 forecast to 7.0% from 7.3% in July, amid the impact of Russia's war in Ukraine; the 2027 forecast remains at 6.8%. Turkmenistan's reported growth has remained at 6.3%, underpinned by public investment in industrial and social infrastructure and broad-based gains in construction, trade, transport and communications, and agriculture. Uzbekistan's growth accelerated strongly to 8.5% in the first half, exceeding expectations, led by rapid growth in services, industrial expansion, construction, and considerable growth in fixed investment in energy, manufacturing, transport, and housing. The 2026 forecast is raised to 7.0% from 6.7%, although growth is expected to slow in the second half as external demand weakens and energy prices remain high. The 2027 forecast is retained at 6.8%.

Growth among the Caucasus countries diverged in the first half of 2026. Georgia outperformed expectations, supported by strong services, consumption, and exports. With activity exceeding expectations and regional spillovers remaining limited, the 2026 growth forecast is raised to 6.3% from 5.5%; the 2027 forecast remains at 5.2%. Growth in Armenia moderated amid softer demand. Strong construction, supported by public infrastructure and real estate activity, and a rebound in industry partly offset slower services growth and a contraction in agriculture. Forecasts remain unchanged at 5.0% for 2026 and 5.5% for 2027, supported by domestic demand, construction, services, and tourism. Growth was

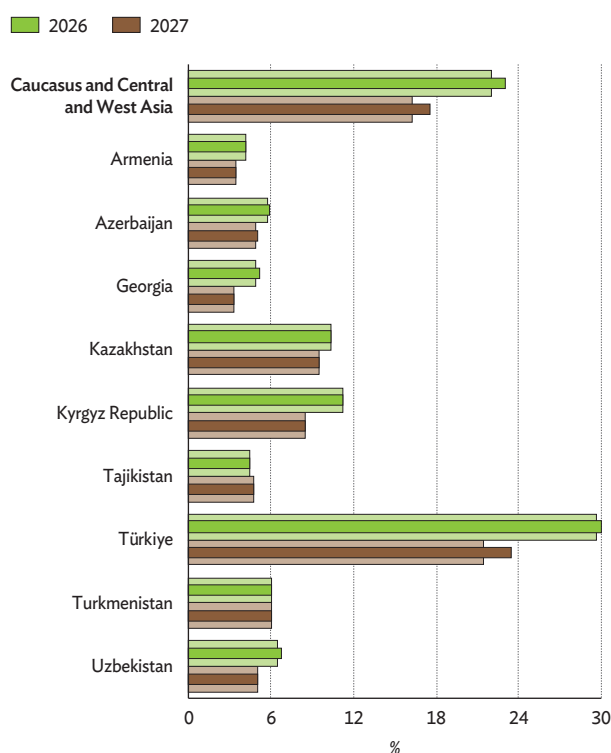
weakest in Azerbaijan as declining hydrocarbon output and construction activity weighed on the economy. The 2026 forecast is reduced to 1.6% from 2.0%, while the 2027 forecast is maintained at 1.8%, reflecting an expected recovery.

Inflation projections for the Caucasus and Central and West Asia region are revised upward despite the diverging dynamics across its economies.

Higher fuel and food prices and energy-related cost pressures have remained the main drivers of inflation. The subregional inflation forecast is raised from 22.0% to 23.1% for 2026 and from 16.3% to 17.6% for 2027 (Figure 3.1.2). Compared to 2025, price pressures have intensified in Armenia, Georgia, the Kyrgyz Republic, Tajikistan, and Turkmenistan, while inflation has moderated in Kazakhstan, Türkiye, and Uzbekistan. Georgia recorded the sharpest acceleration, driven by higher fuel, transport, and food prices, prompting

Figure 3.1.2 Inflation in the Caucasus and Central and West Asia

Higher fuel and food prices and energy-related cost pressures have raised inflation in several economies, prompting a rise in inflation forecasts.



Note: Lighter-colored bars are Asian Development Outlook July 2026 forecasts.

Source: Asian Development Outlook database.

an increase in its policy rate to 8.25% and an upward revision to its 2026 inflation forecast to 5.2%. Inflation in the Kyrgyz Republic rose to 10.6%, reflecting import dependence and electricity-generation shortfalls, while Uzbekistan has faced renewed price pressures from higher electricity and gas tariffs. Inflation in Tajikistan remained within the target range despite higher fuel costs. The ADO keeps Turkmenistan's forecasts at 6.0% for both years, supported by exchange-rate management and administrative controls. In Türkiye, disinflation has continued but inflation remained high at 31.8% in July, reflecting persistent input-cost pressures. Kazakhstan's inflation remained in double digits but is expected to ease gradually, with forecasts unchanged at 10.4% for 2026 and 9.5% for 2027.

Fiscal policy across the region was broadly prudent in the first half of 2026, supported by strong revenue performance and deliberate expenditure restraint. Türkiye recorded its strongest fiscal outturn in years, with the central government deficit narrowing to 2.6% of GDP. Buoyant commodity-linked receipts narrowed Armenia's deficit and helped produce a fiscal surplus in Georgia, while capital-expenditure cuts produced a fiscal surplus in Azerbaijan. In Central Asia, Tajikistan's revenue increased considerably as tax administration strengthened, helping to reduce public debt through Eurobond and other debt repayments. In Kazakhstan, higher tax revenues—supported by increased value-added tax collections—contributed to a declining deficit despite reduced transfers from the sovereign wealth fund. Turkmenistan and Uzbekistan have continued to target balanced budgets or contained deficits under explicit medium-term fiscal frameworks.

External positions have diverged along the same hydrocarbon/non-hydrocarbon fault line as growth. Hydrocarbon exporters have benefited from higher oil and gas prices while several non-hydrocarbon and remittance-dependent economies have seen wider deficits. Kazakhstan's current account shifted to a surplus of 0.7% of GDP in the first half of 2026 as merchandise exports rose sharply, while Azerbaijan's surplus reached 9.5% and its combined official reserves increased to \$85.8 billion. Tajikistan's surplus widened to 21.5% of GDP, as precious-metal exports surged. Armenia's deficit stood at 12.6% of GDP amid trade disruptions, while the Kyrgyz Republic's deficit increased to 24.4% of GDP as exports and remittances

declined. Georgia's deficit narrowed to 3.8% of GDP on stronger merchandise exports, although weaker tourism may temper this improvement. Türkiye's deficit widened to 4.2% of GDP as higher energy import costs outpaced export growth. Uzbekistan's external balance weakened as gold exports declined and imports increased strongly, while Turkmenistan's current account surplus is projected to narrow as import growth exceeds export growth.

Kazakhstan

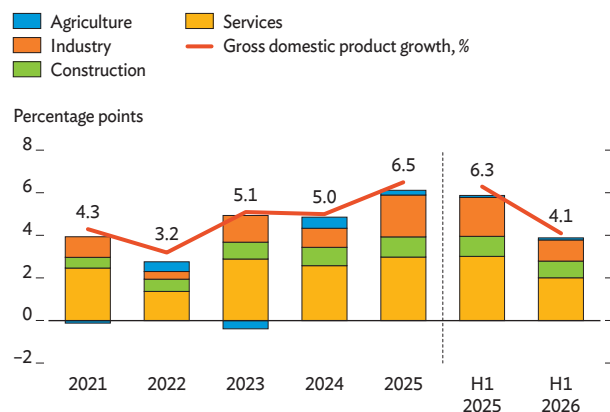
Growth moderated in the first half of 2026, with expansion outside hydrocarbons partly cushioning weaker oil output. Inflation remained in double digits. Public investment and off-budget financing will continue to support growth in 2026 and 2027. Inflation is projected to slow gradually amid utility and fuel price adjustments and external pressures.

Updated Assessment

Growth moderated in the first half of 2026, reflecting disruption in the oil sector. Expansion was 4.1% year on year, down from 6.3% in the same period of 2025, as an 8.4% decline in oil production led to a 4.0% contraction in mining (Figure 3.1.3). The decline reflected an extended outage at the Tengiz oil field in the first quarter and repeated disruptions to the Caspian Pipeline Consortium, which

Figure 3.1.3 Supply-Side Contributions to Growth

Growth moderated in the first half of 2026 amid weaker oil output.



H = half.

Source: Republic of Kazakhstan, Agency for Strategic Planning and Reforms, Bureau of National Statistics.

carries over 80% of Kazakhstan's oil exports. Growth in manufacturing accelerated to 9.8% from 5.6% on expanded government support programs. Construction eased to 15.2% from 18.4% as state infrastructure projects continued. Growth in services slowed to 3.6% from 5.3%, as growth in trade and transport moderated to 5.7% and 7.1%, respectively. Agriculture expanded by 4.4% as crop production increased by 7.7% and livestock by 4.4%.

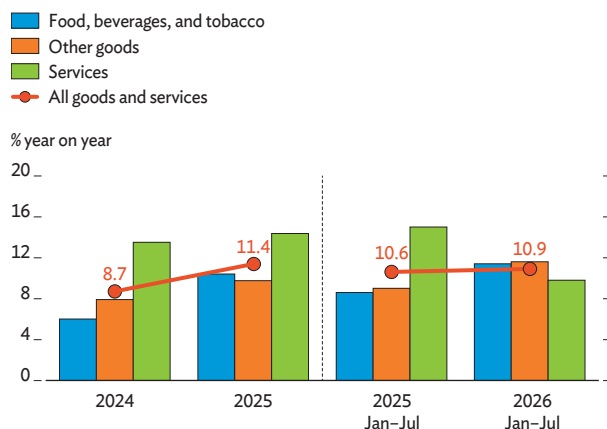
Consumption and investment supported growth while net exports declined.

Demand-side data—available only for the first quarter of 2026—show that consumption growth accelerated to 6.7% year on year from 5.5% in the comparable period of 2025. This reflects increases of 5.7% in private consumption and 12.8% in public consumption. Growth in investment remained healthy but moderated to 7.2% from 9.8%, with gross fixed capital formation rising by 7.9% from 7.4%. Net exports of goods and services declined as exports contracted by 5.9% while imports increased by 3.1%.

Inflation remained in double digits following the end of temporary price controls. Annual average inflation accelerated to 10.9% in the first 7 months of 2026 from 10.6% a year earlier (Figure 3.1.4). Price increases for nonfood items averaged 11.6%, followed by food at 11.4% and services at 9.8%. The temporary freeze on utility and fuel prices through April 2026, weaker consumer lending and business activity amid tax and regulatory changes, and a firmer exchange rate

Figure 3.1.4 Average Inflation

Inflation remained in double digits in the first 7 months of 2026.

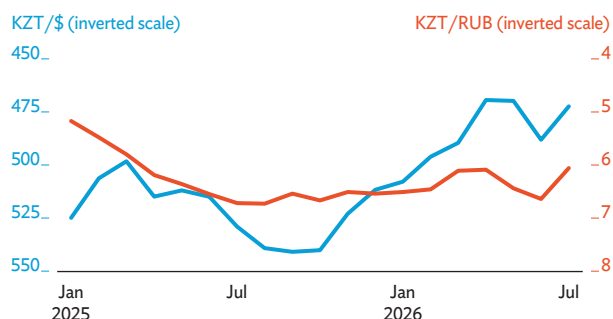


Source: Republic of Kazakhstan, Agency for Strategic Planning and Reforms, Bureau of National Statistics.

all helped ease inflationary pressures. The Kazakhstan tenge appreciated by 5.8% on average against the US dollar in the first 7 months of 2026 but depreciated by 4.8% against the Russian ruble (Figure 3.1.5). The appreciation against the US dollar reflected a high policy interest rate for most of the period, the central bank's gold-mirroring operations, foreign exchange sales by quasi-public entities, and non-resident inflows into government securities.

Figure 3.1.5 Average Nominal Tenge Exchange Rate

The tenge appreciated against the US dollar but depreciated against the Russian ruble in the first 7 months of 2026.



KZT = Kazakhstan tenge, RUB = Russian ruble.

Source: National Bank of the Republic of Kazakhstan.

The policy rate was cut as headline inflation eased.

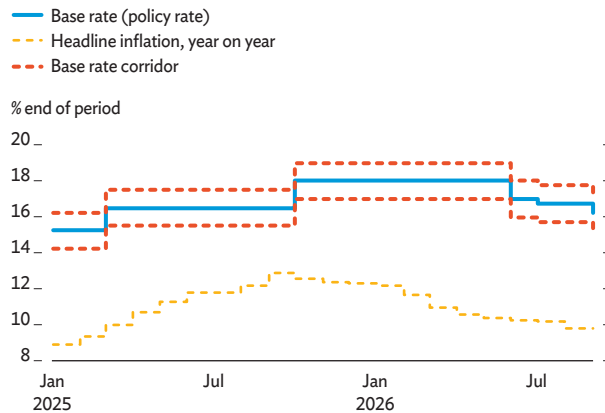
The National Bank of Kazakhstan, the central bank, maintained the key policy rate at 18.00% through May 2026 before cutting it by a cumulative 175 basis points to 16.25% by September. The central bank's actions followed 11 consecutive months of declining headline inflation, which eased to 9.8% in August from 12.2% a year earlier (Figure 3.1.6). Broad money (M3) grew by 4.3% in the first half of 2026, up from 2.7% in the same period of 2025. To absorb excess liquidity, the central bank resumed issuing short-term notes and further raised minimum reserve requirements for banks.

Tax revenue increased amid higher value-added tax and oil export duties.

In the first half of 2026, general government revenue declined to 21.2% of GDP from 23.7% in the same period of 2025. Transfers from the National Fund of the Republic of Kazakhstan, the sovereign wealth fund, fell to 2.6% of GDP from 5.1%, reflecting the absence of targeted transfers. Tax revenue edged up to 17.7% of GDP from 17.5%, driven by nominal increases of 41.9% in value-added tax (VAT) and 7.3% in corporate income tax, while higher

Figure 3.1.6 Monetary Policy and Headline Inflation

The policy rate was lowered following a sustained decline in headline inflation.



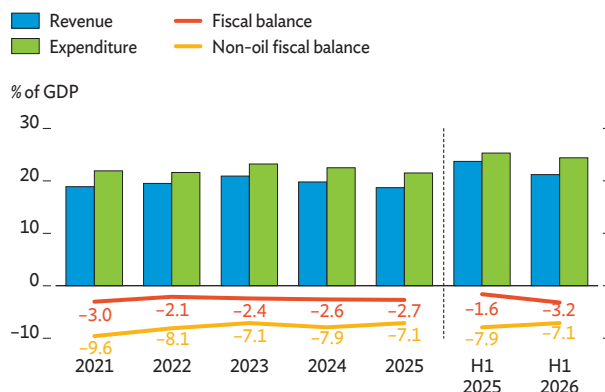
Source: National Bank of the Republic of Kazakhstan.

oil prices boosted crude oil export duties by 23.3%. Nontax revenue decreased to 0.6% of GDP from 1.0%. General government expenditure declined to 24.4% of GDP from 25.3%. The state budget deficit widened to 3.2% of GDP from 1.6%, while the non-oil deficit narrowed to 7.1% of GDP from 7.9% (Figure 3.1.7). Debt service costs rose to 3.0% of GDP from 2.7%.

Higher merchandise exports moved the current account into surplus. Preliminary estimates show a current account surplus of 0.7% of GDP in the first half of 2026, compared with a deficit of 3.0% a year earlier (Figure 3.1.8). The trade surplus expanded to 10.3% of GDP from 6.4%, as merchandise exports

Figure 3.1.7 Fiscal Indicators

The fiscal deficit widened in the first half of 2026 while the non-oil deficit narrowed.

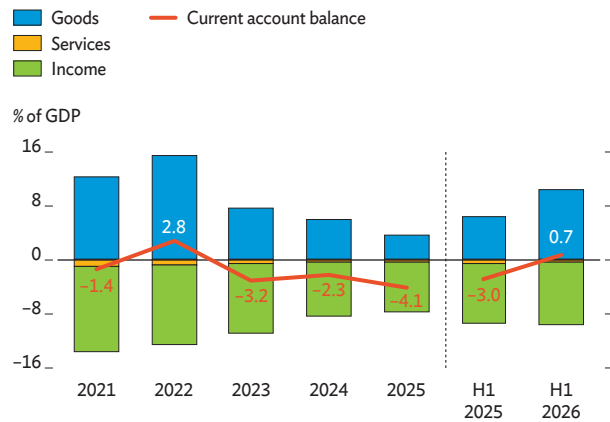


GDP = gross domestic product, H = half.

Source: Ministry of Finance of the Republic of Kazakhstan.

Figure 3.1.8 Current Account Balance

The current account recorded a small surplus in the first half of 2026.



GDP = gross domestic product, H = half.

Note: Preliminary data for the first half of 2026.

Source: National Bank of the Republic of Kazakhstan.

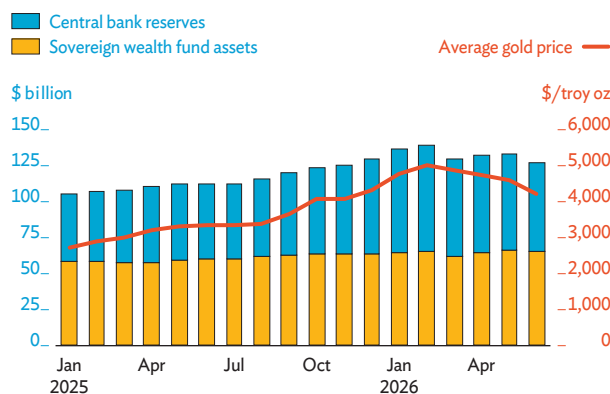
grew by 24.7% year on year due to higher metals and grain exports. Oil export volumes declined by 8.1%, while elevated oil prices cushioned export earnings. Merchandise imports grew by 6.7% amid higher purchases of machinery and equipment. The services deficit narrowed to 0.3% of GDP from 0.6% on stronger exports of transport services. The primary income deficit widened to 9.4% of GDP from 8.8%, reflecting larger net income accruing to foreign direct investors. The secondary income balance shifted from a deficit to a surplus of 0.1% of GDP.

International assets reached \$127.3 billion, with lower gold prices weighing on central bank reserves.

In the first half of 2026, the central bank's foreign exchange reserves decreased by 5.0% to \$62.2 billion, providing 9 months of import cover. Monetary gold, which accounted for 76.5% of central bank reserves, declined by 9.5%, reflecting a downward correction in gold prices from March 2026. Sovereign wealth fund assets increased by 2.0% to \$65.1 billion (Figure 3.1.9). Over the period, the central bank converted \$2.6 billion of the sovereign wealth fund's foreign currency assets into tenge to finance budget transfers, down from \$5.0 billion in the first half of 2025. In the first quarter of 2026, external debt increased to \$182.8 billion, or 58.2% of GDP, with private-sector external debt at \$138.1 billion, or 43.9% of GDP. Public-sector external debt rose to \$44.7 billion, or 14.2% of GDP, in the first quarter (Figure 3.1.10). This was followed by new Eurobond and Panda bond issuances in the

Figure 3.1.9 International Assets and Gold Prices

Central bank reserves declined on lower gold prices, while sovereign wealth fund assets increased.

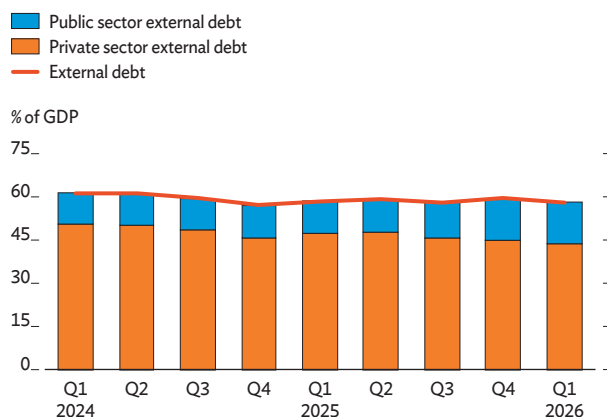


oz = ounce.

Sources: World Bank Commodity Price Data; National Bank of the Republic of Kazakhstan.

Figure 3.1.10 External Debt

External debt increased in nominal terms but declined as a share of GDP in the first quarter of 2026.



GDP = gross domestic product, Q = quarter.

Source: National Bank of the Republic of Kazakhstan.

second quarter. In August 2026, S&P Global Ratings upgraded Kazakhstan's sovereign credit rating to BBB/A-2, with a stable outlook.

Prospects

Non-oil sectors will underpin growth in 2026 and 2027 (Table 3.1.1). In 2026, mining is forecast to contract by 1.0%—a downward revision from ADO July 2026 forecast—as the expected recovery in oil production only partly offsets earlier disruptions. Oil output will also remain constrained by the Organization of the Petroleum Exporting Countries and its partners

Table 3.1.1 Selected Economic Indicators in Kazakhstan, %

Earlier projections for growth and inflation remain unchanged.

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	6.5	4.8	4.8	4.5	4.5
Inflation	11.4	10.4	10.4	9.5	9.5

GDP = gross domestic product.

Source: Asian Development Bank estimates.

(OPEC+) compensation requirements and risks to exports through the Caspian Pipeline. Manufacturing growth is projected at 8.0%, above the July baseline, underpinned by government programs supporting manufacturing and investment. Growth in services is projected at 4.3%, slightly below the July baseline, reflecting slower momentum in trade and transport. Construction will remain robust, supported by continuing state infrastructure projects. Agriculture will grow amid expanded concessional financing. In 2027, growth will rely increasingly on non-oil sectors as oil production remains near capacity while planned maintenance and potential disruptions constrain output. Manufacturing and trade are expected to benefit from normalizing domestic demand, while construction will stay robust. Expansion in agriculture will remain sensitive to weather and harvest conditions, and to the scale of state support.

Off-budget fiscal stimulus will support demand-side growth. Consumption growth is projected at 5.0% in 2026, slightly above the July baseline, strengthening further in 2027 due to higher public consumption. Further tightening of consumer lending rules is expected to constrain private consumption. Investment growth is projected at 8.0% in 2026 before moderating in 2027, supported by state infrastructure projects and financing from Baiterek National Investment Holding and Samruk-Kazyna. By mid-2026, Baiterek had provided around \$6.2 billion of its planned annual \$16.4 billion in lending, while Samruk-Kazyna had planned \$10.9 billion in investment expenditure. Net exports of goods and services will decline in both years as imports of intermediate and investment goods continue to grow while exports remain exposed to oil-sector disruptions. New US tariffs will have a limited direct impact, as uranium and other commodities, Kazakhstan's key exports to the United States, are exempt.

Inflation is projected to slow gradually in 2026 and 2027 (Table 3.1.1).

Annual average inflation is forecast at 10.4% in 2026 and 9.5% in 2027, unchanged from the July forecast. In 2026, lagged effects of monetary tightening and prudential measures are expected to contain price pressures. The increase in the VAT rate has had limited impact on inflation, reflecting earlier pass-through to consumer prices. Inflation for food and other goods is expected to decrease as tax and external cost pressures ease. Services inflation is projected to decline more slowly, reflecting utility tariff and fuel price adjustments. In 2027, moderately tight monetary conditions and lower private demand should support disinflation, while further increases in regulated prices and off-budget spending will keep inflation risks elevated.

Higher tax collection will support revenue while expenditure remains rigid.

In 2026, based on government projections, the state budget deficit is expected to widen to 3.0% of GDP from 2.7% in 2025. Higher VAT receipts, improved tax administration, and additional revenue from higher oil prices are expected to help cushion lower sovereign wealth fund transfers. The non-oil deficit is projected to decline to 5.4% of GDP from 7.1%. In 2027, fiscal space will remain limited, although fewer tax exemptions will support revenue. Expenditure will remain rigid, with the government aiming to gradually raise household incomes, including for public-sector workers.

The current account will post a small deficit in 2026 before widening in 2027.

In 2026, a larger trade surplus will support the external balance, with stronger non-hydrocarbon exports. Merchandise imports will also expand as off-budget financing and public investment sustain demand for intermediate and investment goods. In 2027, faster import growth and weaker export momentum will narrow the trade surplus and widen the current account deficit. The services deficit is projected to remain broadly unchanged over the forecast period, while the income deficit is expected to widen.

The outlook is subject to risks, mainly downside.

Repeated disruptions to the Caspian Pipeline, tighter OPEC+ compensation requirements, and extended maintenance could reduce oil output and exports, while higher oil prices would provide a partial offset. Weaker growth in key trading partners and tighter

global financial conditions could also weigh on the outlook. On the upside, larger off-budget financing and public investment could support non-oil sectors and domestic demand. Higher budget and off-budget fiscal stimulus, further utility and fuel price adjustments, renewed exchange rate pressures, and higher global food prices could add to inflation. However, weaker household consumption, slower credit growth, and softer import demand for consumer goods could reinforce disinflation.

Türkiye

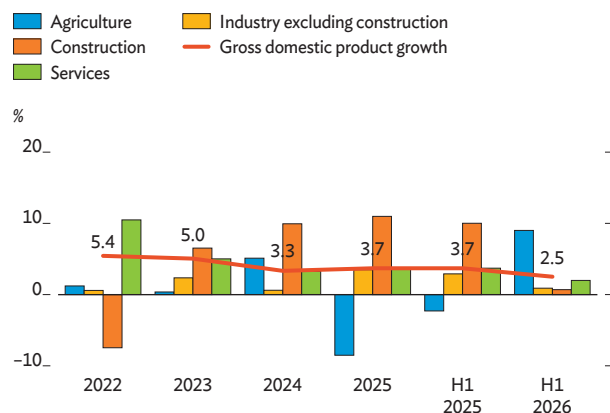
Türkiye's growth slowed but remained underpinned by domestic demand, services, and investment, despite softening activity in industry and persistent external vulnerabilities. The Middle East conflict intensified inflationary pressures by raising energy prices and disrupting trade, slowing disinflation. With a projected growth slowdown and persistent inflationary pressures, the challenge is to sustain disinflation and fiscal discipline while improving external balances and supporting industry.

Updated Assessment

Growth moderated in early 2026 as weak external demand and slow expansion in manufacturing offset higher private consumption. Growth was an estimated 2.5% in the first half of 2026, year on year, down from 3.7% a year earlier (Figure 3.1.11).

Figure 3.1.11 Gross Domestic Product Growth by Sector

Growth softened in the first half of 2026.



H = half.

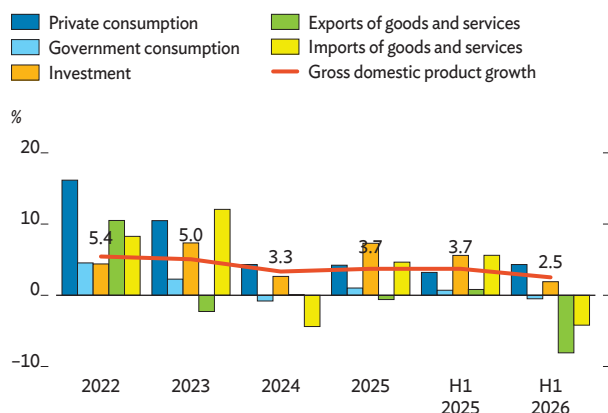
Source: [Turkish Statistical Institute](#).

On the supply side, expansion in industry slowed to 0.9% from 2.9% in the same period of 2025 amid tighter financial conditions. Growth in construction fell to 0.7% from 10.0% a year before as private investment in housing declined (with a quarter of firms in the industry facing financial constraints), while manufacturing grew by 0.6% compared to 2.7% a year earlier amid lower demand for durable consumer goods. Agriculture expanded by 9.0%, reversing a 2.3% contraction a year before, reflecting improved weather and harvest, while growth in services slowed to 2.0% from last year's 3.7%, because of reduced growth in trade, transportation, and accommodation. Within services, the fastest expansion was in information and communication (8.8%), finance and insurance (2.9%), and real estate (2.6%).

On the demand side, private consumption contributed most to growth. It expanded by 4.3% in the first half of 2026, up from 3.2% in the same period of 2025. Government consumption contracted by 0.5% in the same period, as fiscal discipline continued, reversing a 0.7% expansion (Figure 3.1.12). Growth in investment moderated to 1.9% from 5.6%, because of reduced spending on machinery and equipment. Moreover, net exports contracted significantly, reflecting higher imports of energy and gold purchases. The unemployment rate decreased to 7.4% in June 2026 from 8.5% a year before, despite the slowdown in industry.

Figure 3.1.12 Gross Domestic Product Growth by Expenditure

Growth in the first half of 2026 was driven by expansions in private consumption and investment.



H = half.

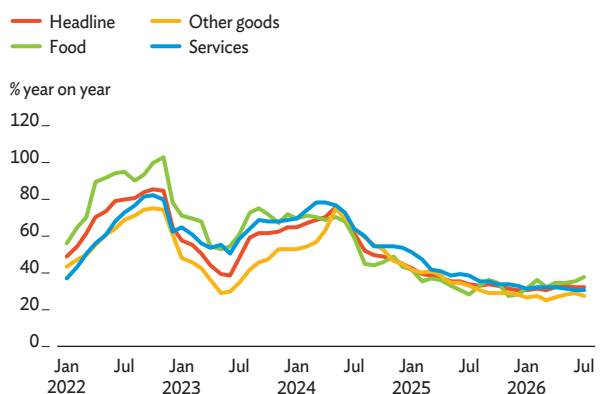
Source: Turkish Statistical Institute.

Headline inflation continued to decrease but remained significant.

Year-on-year inflation decelerated to 31.8% in July 2026 from 33.5% in July 2025 (Figure 3.1.13). Food inflation, at 37.5%, reflecting persistent supply-side pressures, drove headline inflation, while inflation in housing (40.3%) and transportation (30.8%) remained elevated. Inflation in services, at 30.7%, remained higher than that for other goods (27.2%), signaling inertia and relatively slow adjustment in labor-intensive sectors. Producer price inflation increased to 27.8% from 24.2% a year before, indicating persistent input cost pressures. The lira depreciated by 16.9% to the US dollar and 15.9% to the euro from July 2025 to July 2026. However, any gains in competitiveness from currency depreciation were largely offset by weaker external demand as the Middle East conflict disrupted trade.

Figure 3.1.13 Monthly Inflation

Inflation slowed further in 2026.



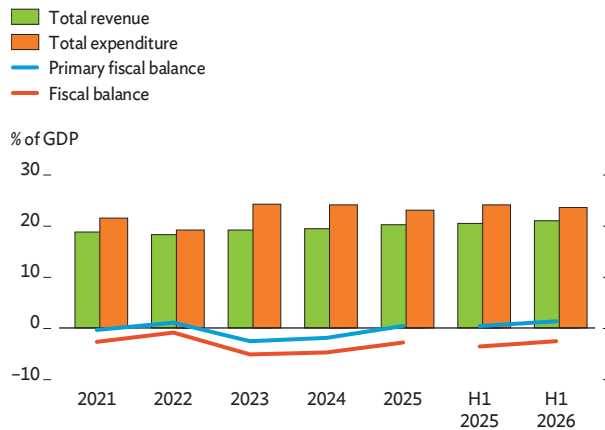
Source: Central Bank of the Republic of Türkiye.

Fiscal performance strengthened in the first half of 2026, supported by strong revenue growth.

The central government budget deficit narrowed to 2.6% of GDP from 3.6% in the same period of 2025 (Figure 3.1.14). Revenue increased to 21.1% of GDP from 20.6% a year earlier, despite a drop in special consumption tax receipts from lower taxes on fuel products aimed at minimizing the pass-through of higher prices to consumers. Expenditure declined to 23.6% of GDP from 24.2% as consolidation curbed government primary spending, despite the challenging external environment and pressures for higher government subsidies to offset the impact of the Middle East conflict. The primary surplus rose to 1.4% of GDP from 0.5% a year earlier, providing

Figure 3.1.14 Fiscal Indicators

Higher revenue and lower expenditure trimmed the fiscal deficit further.



GDP = gross domestic product, H = half.

Sources: Republic of Türkiye Ministry of Treasury and Finance; Turkish Statistical Institute.

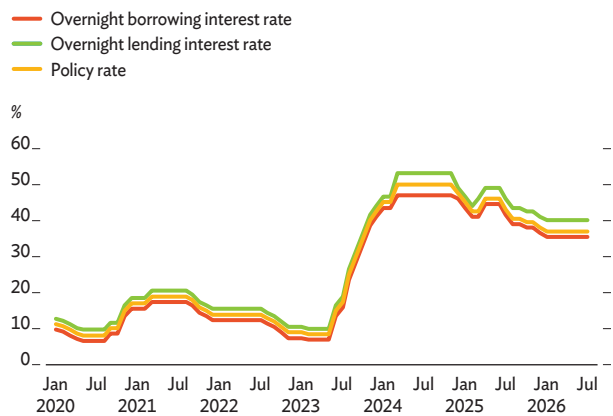
additional room to cushion external shocks. Public debt stayed modest by international standards, at 23.1% of GDP at end-March 2026 compared with 24.1% a year earlier, providing fiscal space despite elevated borrowing requirements and ongoing expenditure pressures.

Monetary policy remained restrictive despite some easing at the beginning of 2026. With lower inflation, the policy rate was reduced to 37.0% in January 2026, from 38.0% at the end of 2025, where it stayed through August. The overnight borrowing rate fell to 35.5% in July from 41.5% a year earlier, and the overnight lending rate declined to 40.0% from 46.0% (Figure 3.1.15). Annual growth in broad money (M3) slowed to 28.6% from 42.9%, indicating that liquidity moderated gradually as monetary policy remained tight. Credit growth also decelerated, to 37.7% in July 2026 year on year from 42.3% in July 2025, but still above the rate of inflation. In June 2026, 37.8% of deposits and 37.0% of banking assets were in foreign currency. Banking soundness indicators remained favorable, with nonperforming loans low at 2.8%, the capital adequacy ratio at 16.6%, and return on equity—while declining—at 12.9%.

The latest data suggest weakening external balances. During the first half of 2026, the current account deficit widened to 4.2% of GDP from 3.6% a year earlier, while the merchandise trade deficit increased to 5.3% of GDP from 5.1% (Figure 3.1.16).

Figure 3.1.15 Overnight Interest Rates and the Policy Rate

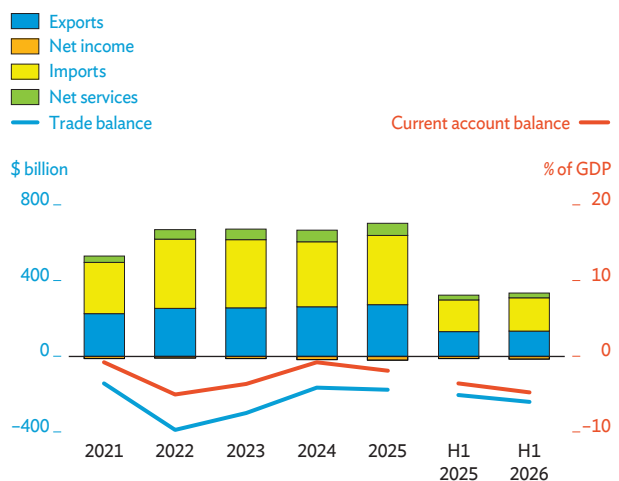
Overnight borrowing and lending rates declined from their peaks.



Source: Central Bank of the Republic of Türkiye.

Figure 3.1.16 Current Account Components

The current account deficit widened in the first half of 2026.



GDP = gross domestic product, H = half.

Source: Central Bank of the Republic of Türkiye.

Merchandise exports rose by only 3.6% in the first half of 2026, year on year, reflecting subdued external demand and the adverse effects of the regional geopolitical tensions on trade. Imports grew by 4.6%, largely from higher prices on imported energy. Excluding energy and gold imports, the current account deficit stood at 0.1% of GDP compared with a 1.0% surplus a year earlier. Crude oil import values increased by 32.9% through June, year on year, while manufacturing remained the key driver of exports, accounting for 93.8% of total exports. Intermediate goods accounted for 71.5% of total imports,

highlighting the economy's reliance on imported inputs. The current account deficit widened more than the merchandise trade deficit, pointing to weaker income receipts, despite continued strength in tourism. Exports of services increased by 1.4% year on year during the first half of 2026, while service imports rose by 1.7%, increasing net services by 1.0%. Foreign exchange reserves declined by 13.8% from the end of 2025 to \$196 billion, cover for 6 months of imports, with gold reserves falling by \$18.1 billion.

Prospects

Growth is expected to moderate in 2026 before strengthening in 2027. From current trends, forecast growth has been reduced from the projections in *ADO July 2026* to 2.8% in 2026 and 3.6% in 2027 (Table 3.1.2 and Figure 3.1.17). Domestic demand is likely to remain the main growth driver, supported by higher real incomes as inflation declines and by continued investment in construction and infrastructure. Services and construction are expected

to outperform industry, while manufacturing should gradually recover as financing conditions improve and external demand picks up. However, persistent weakness in exports suggests that growth will likely remain below recent levels. Manufacturing capacity utilization rose slightly to 74.5% in June 2026 from a year before, with the manufacturing Purchasing Managers' Index, a leading indicator of economic activity, remaining close to 50, suggesting a neutral stance among manufacturers.

On the supply side, services and construction are expected to remain the principal growth drivers, with manufacturing staying relatively weak. Services and construction are projected to expand by 2.5% and 4.5% in 2026, respectively, and by 3.0% and 8.4% in 2027, driven by infrastructure projects and digital services. Manufacturing is also expected to expand, though not as quickly. Agriculture is expected to maintain recent growth momentum, rising to 5.2% in 2026 before moderating slightly to 4.1% in 2027.

On the demand side, private consumption is expected to continue to drive growth. Being the main component of domestic demand, it is projected to grow by less than 4.0% in 2026 as tight monetary conditions restrain credit growth but accelerate in 2027 as conditions become more accommodative. Investment should also remain supportive, expanding by 2.3% in 2026 and 3.1% in 2027, particularly in construction and infrastructure-related activities. Net exports are expected to reduce growth in 2026 before gradually turning positive in 2027 as external demand recovers and import growth moderates.

Table 3.1.2 Selected Economic Indicators in Türkiye, %

Growth is projected to decelerate in both 2026 and 2027 with inflation easing but still elevated.

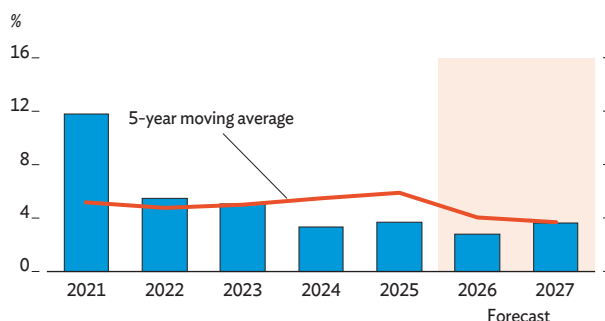
	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	3.7	3.1	2.8	3.8	3.6
Inflation	35.2	29.7	31.5	21.5	23.5

GDP = gross domestic product.

Sources: Turkish Statistical Institute; Asian Development Bank estimates.

Figure 3.1.17 Gross Domestic Product Growth

Growth will weaken in 2026 before strengthening somewhat.

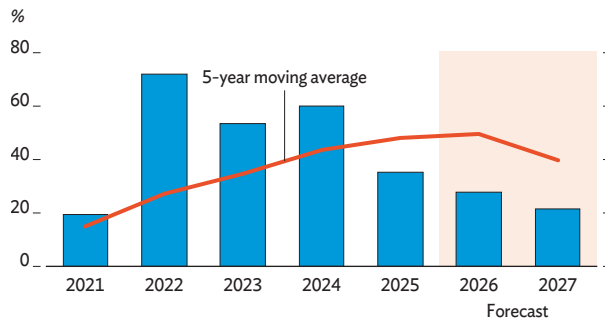


Sources: Turkish Statistical Institute; Asian Development Bank estimates.

Inflation is projected to continue declining but remain elevated over the forecast horizon. Average inflation is forecast to decrease to 31.5% in 2026 and to 23.5% in 2027—upward revisions from previous projections due to renewed external price pressures (Figure 3.1.18). Slowing money and credit growth should help reduce inflation, while tight monetary policy should help anchor inflationary expectations. Food prices are projected to remain elevated, while service inflation is likely to ease gradually despite some inertia. Although headline inflation is expected to continue declining, pressures from exchange rate movements, higher energy prices, and geopolitical shocks may slow the pace of disinflation.

Figure 3.1.18 Inflation

Inflation will decline further in 2026 and 2027.



Sources: Central Bank of the Republic of Türkiye; Asian Development Bank estimates.

Fiscal policy is expected to continue consolidation while preserving priority spending.

The strong fiscal outturn in the first half of 2026 suggests that the budget deficit could be limited to 3.5% of GDP in 2026 overall, with solid tax revenue collection. It could then narrow to 3.0% in 2027 as revenues continue to benefit from better tax administration and compliance. Revenue growth could nonetheless diminish as domestic demand slows. The primary surplus is projected at about 0.8% of GDP in 2026 and 0.5% in 2027, supported by stronger fiscal discipline and lower financing costs. A prolonged Middle East conflict, with higher energy costs, could increase pressures for budgetary support to affected sectors. However, the direct fiscal impact is likely to remain manageable, particularly as the fuel tax adjustment mechanism is phased out toward the end of 2026. Public debt is expected to remain broadly stable at around 25% of GDP over the forecast period, preserving fiscal sustainability and providing buffers against external shocks.

The current account deficit is projected to remain elevated in 2026 before improving in 2027.

Merchandise imports are expected to grow faster than merchandise exports during the rest of 2026, although moderating domestic demand should help contain imports. Energy imports should decline if global oil prices are contained. Service exports, including tourism, are expected to remain strong and partly offset the large merchandise goods deficit, while reserve accumulation is likely to remain modest. External financing conditions are projected to remain tight, with foreign direct investment and portfolio

inflows expected to recover gradually, supported by new tax incentives aimed at strengthening Türkiye's investment environment.

Risks to the outlook remain on the downside.

A prolonged Middle East conflict could sustain higher energy prices, weaken trade activity, and increase financial pressures. By contrast, faster-than-expected disinflation, continued policy discipline, and lower borrowing costs could strengthen the fiscal position and improve investor confidence, enhancing macroeconomic stability despite an uncertain external environment. Türkiye's role as a regional transport and logistics hub should help offset some of the adverse effects of external shocks.

Other Economies

Armenia

Growth remained broadly stable despite softer demand, edging up to 6.0% in the first half of 2026 from 5.9% a year earlier. On the supply side, industry and services drove growth, while agriculture contracted. Industry excluding construction grew by 6.6%, reversing a 4.3% decline a year earlier, as mining and quarrying accelerated sharply and manufacturing rebounded from contraction. Construction growth eased marginally to 20.2% from 20.7% a year earlier but remained robust, supported by continued infrastructure investment and residential construction. Growth in services slowed to 6.0% from 7.0% a year earlier. This occurred as moderation in wholesale and retail trade, information and communication, finance and insurance, and professional services more than offset gains in transportation and warehousing, tourism-related activities, and administrative and support services. Agriculture plunged by 11.0%, reversing growth of 5.9% a year earlier, as crop production fell.

On the demand side, overall consumption drove growth.

Slowing domestic demand did cut the expansion of private consumption to 7.1% from 12.1% a year earlier. However, growth in public consumption accelerated to 13.8% from 7.6% a year earlier, reflecting higher allocations for pensions and increased healthcare spending following the

introduction of universal health insurance in January 2026. Total investment growth slowed sharply to 0.4% in the first half of 2026 from 25.2% a year earlier, as growth in fixed capital formation was largely offset by a drawdown of more than 50% of inventories. Import restrictions imposed by Russia and regional trade disruptions from the Middle East conflict will constrain growth. However, domestic demand, expansion in construction and services, rising tourism, and continued fixed investment should support growth over the forecast horizon. Accordingly, growth forecasts for 2026 and 2027 remain unchanged (Table 3.1.3).

Table 3.1.3 Selected Economic Indicators in Armenia, %

Despite growing external uncertainties, growth and inflation forecasts are unchanged.

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	7.1	5.0	5.0	5.5	5.5
Inflation	3.3	4.2	4.2	3.5	3.5

GDP = gross domestic product.

Sources: Statistical Committee of the Republic of Armenia, Asian Development Bank estimates.

Inflation accelerated in the first 7 months of 2026, reflecting higher global food and commodity prices and disruptions to regional trade routes. Average inflation rose to 4.5% in January–July 2026 from 3.2% a year earlier, amid a 7.5% increase in food prices. Services prices rose by 2.6% and for other goods by 1.6%. Year on year inflation, at 4.5% in July 2026, was above the Central Bank of Armenia's 2%–4% target range. Despite higher inflation, the central bank kept its refinancing rate at 6.5% during the first 7 months of 2026 to support growth. With inflation developments in those 7 months broadly in line with expectations, inflation forecasts for 2026 and 2027 likewise are unchanged.

Fiscal policy benefited from growth and spending restraint. Budget revenue grew by 14.7% in the first half of 2026 as the economy continued to expand tax collection. Current expenditure rose by 7.0%—driven by rising pension, social benefit, and healthcare spending—partly offsetting a 28.9% decline in capital outlays. Much higher revenues and lower-than-planned capital outlays created a budget surplus of about 1.4%

of GDP in the first half of the year. Accordingly, the 2026 fiscal deficit is now projected to be lower than the originally forecast 4.5% of GDP.

The current account deficit narrowed to 12.6% of GDP in the first quarter of 2026 from 15.0% a year earlier. A more negative income balance more than offset larger surpluses in services and transfers. The merchandise trade deficit in nominal terms remained broadly unchanged at about \$950 million in the quarter, although as a share of GDP it narrowed to 15.5% from 17.5% a year earlier, as exports grew more than imports. Russia's restrictions on imports and disruptions to regional trade from the Middle East conflict will limit export growth for the rest of the year. However, higher exports of services, particularly transportation, information and communication technology, and tourism, will partly offset the widening merchandise trade deficit for the rest of the year.

Azerbaijan

Economic growth slowed in the first half of 2026 as hydrocarbons declined and non-hydrocarbons weakened. It fell to 0.8% in the first 6 months—from 1.5% in the first half of 2025—as the hydrocarbon sector contracted by 0.7% while the rest of the economy expanded by 1.5%. Industry shrank by 1.6% compared to a 0.5% contraction in the first half of 2025, reflecting a 3.1% decline in oil production, a 1.1% rise in natural gas output, and a 13.0% drop in construction. Growth in services moderated to 3.0% from 3.1% a year earlier, reflecting slower expansion in tourism and communications. Growth in agriculture accelerated to 2.2% from 1.4%, driven by stronger expansion in livestock. With slower growth expected to continue through the end of the year, this report lowers the growth forecast for 2026 but maintains the 2027 forecast amid anticipated economic recovery (Table 3.1.4).

Weak demand helped trim cost-push inflation during the first half of 2026. Average annual inflation declined from 5.9% in the first half of 2025 to 5.7% in the first half of 2026, driven by price increases of 6.7% for food, 3.8% for other goods, and 5.7% for services. Although higher hydrocarbon prices in Azerbaijan's trading partners were expected to pass through to the domestic economy, declining demand slowed the

Table 3.1.4 Selected Economic Indicators in Azerbaijan, %

Slower growth through the end of 2026 prompts a downward revision to the 2026 growth forecast, while inflation projections for 2026 and 2027 have been raised.

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	1.4	2.0	1.6	1.8	1.8
Inflation	5.6	5.7	5.9	4.9	5.0

GDP = gross domestic product.

Sources: State Statistical Committee of Azerbaijan; Asian Development Bank estimates.

transmission of inflation from import prices. Inflation is expected to rise for the remainder of 2026 as the effects of higher hydrocarbon prices continue to feed into the domestic economy. In response to rising inflation expectations, the central bank paused its monetary easing cycle and raised its inflation forecast. With higher inflation expected in the second half of 2026, ADB has raised its projections for 2026 and 2027.

Measures to optimize the budget led to a fiscal surplus equivalent to 3.7% of GDP. In the first half of 2026, the government continued efforts to reduce reliance on hydrocarbon revenues and improve expenditure efficiency. As part of this policy, it decreased transfers of hydrocarbon revenues from the sovereign wealth fund to the budget, which reduced budget revenue to 29.4% of GDP from 32.0% in the first half of 2025. However, higher tax collections boosted non-hydrocarbon revenue by 6.8%, raising its share of total revenue to 57%. Budget expenditure decreased to 25.7% of GDP from 27.6% in the first half of 2025. Total outlays fell by 1.9%, reflecting a 23.8% cut in capital expenditure that outweighed a 10.1% increase in current spending.

The external position remained strong, supported by higher hydrocarbon prices. In the first quarter of 2026, the current account recorded a surplus of \$1.7 billion, equivalent to 9.5% of GDP, compared to 6.5% of GDP during the same period of 2025. Merchandise trade amounted to \$9.9 billion, with exports totaling \$6.0 billion and imports \$3.9 billion. As in previous years, a surplus in oil and gas trade offset a deficit in other goods, creating an overall trade surplus of \$2.0 billion. Non-hydrocarbon exports increased by 9.5%, while non-hydrocarbon

imports grew by 7.7%. The services balance remained negative, although a larger decline in service imports (7.2%) than in exports (1.7%) cut the deficit to \$0.6 billion from \$0.8 billion in the first quarter of 2025. During the first six months of 2026, combined foreign exchange reserves held by the sovereign wealth fund and the central bank increased by \$0.6 billion to \$85.8 billion, equivalent to 113% of GDP and about 19 times the country's public external debt. Central bank reserves stood at \$13.2 billion, cover for about 10 months of goods imports.

Georgia

The economy remained resilient in the first half of 2026, despite external shocks. Growth was strong at 7.9%, compared with 8.3% in the same period of 2025. On the supply side, first quarter data show services leading the expansion, growing by 13.9%, unchanged from a year earlier. Information and communication technology (ICT) services grew strongly, by 36.0%, while transportation and storage growth more than doubled to 18.0% from 8.4% a year earlier. Industry expanded by 2.0%, up from 0.8% in the first quarter of 2025, while agriculture contracted by 3.3%, less than the 7.5% decline a year earlier. On the demand side, private consumption accelerated by 8.0% from 3.9%, supported by sustained growth in bank lending. Fiscal policy remained prudent, with the budget recording a surplus in the first quarter of 2026, compared with a deficit a year earlier. Government consumption growth slowed sharply to 1.8% from 21.5% a year earlier, while slower public investment execution further restrained domestic demand. Gross fixed capital formation growth moderated to 2.1% from 11.8% a year earlier. External demand strengthened, with exports of goods and services growing by 6.8%, up from 5.2% in 2025, while import growth slowed markedly to 2.3% from 11.8%. Given stronger-than-expected economic activity and as negative spillovers from heightened regional tensions remain limited, the 2026 growth forecast has been raised (Table 3.1.5).

Inflationary pressures intensified in the first half of 2026, largely from external price shocks. Average inflation rose to 5.2% from 3.1% in the same period of 2025, well above the 3% target of the National Bank of Georgia, the central bank. Energy and food were the main drivers. Although Georgia experienced no physical supply disruptions, higher international oil prices due

Table 3.1.5 Selected Economic Indicators in Georgia, %

Stronger-than-expected economic activity in the first half of 2026 prompts a rise in the 2026 growth forecast, while the 2026 inflation projection has increased because of higher import prices.

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	7.5	5.5	6.3	5.2	5.2
Inflation	3.9	4.9	5.2	3.3	3.3

GDP = gross domestic product.

Source: National Statistics Office of Georgia; Asian Development Bank estimates.

to the Middle East conflict fed directly into fuel prices and indirectly into transport and production costs, with transport inflation accelerating to 7.7% from –2.2% a year earlier. Food prices rose by 8.0%, up from 6.1% a year earlier, reflecting high food import dependence and increased global price pressures. Core inflation remained contained at 3.2%, supported by slower wage growth and productivity gains, while services inflation rose to 4.1%, increasing the risk of broader second-round effects. The central bank raised the policy rate by 25 basis points to 8.25% and has maintained a tight monetary stance. In view of these developments, the 2026 inflation forecast has been raised.

Georgia's external position remained sound in the first half of 2026 despite weaker tourism. The current account deficit narrowed to 3.8% of GDP in the first quarter from 8.5% a year earlier. Merchandise exports increased by 20.0% in the first half, partly reflecting higher global commodity prices. Imports were broadly unchanged, rising by only 0.7% as lower motor-car imports offset higher energy import costs. Refined petroleum products emerged as the second-largest export category, with exports increasing nearly elevenfold. Precious metal and copper ore exports also rose strongly, by 74.3% and 287.4%, respectively. Motor vehicle re-exports remained the largest category despite declining by 22.9%. While overall spillovers from the Middle East conflict remained limited, disruptions to regional air travel weakened tourism. Tourism revenues declined by 2.0% in the first half of 2026, reversing a 3.8% increase a year earlier. Other services provided a buffer, with total services exports rising by 7.2% in the first quarter, led by a 65.7% surge in ICT services exports. Remittances also increased by 4.0% in the first half of 2026 from 3.5% a year earlier. Strong foreign-currency inflows supported the stability of the

lari and reserve accumulation, with reserves exceeding 118% of the International Monetary Fund's Assessing Reserve Adequacy metric.

Kyrgyz Republic

Growth accelerated to an estimated 11.9% in the first half of 2026 from 11.3% a year earlier.

Continued public investment, strong private consumption, and broad-based sectoral gains drove expansion. Construction sector growth surged by 69.6%, up from 33.1% a year earlier, propelled by continued public infrastructure financing and expanded state-backed housing programs. Industry grew by 12.8%, little changed from 12.5%, as gains in metals processing and construction materials offset a decline in electricity generation. Agriculture accelerated to 4.3% from 1.9% on continued gains in livestock production. Growth in services eased to 6.0% from 9.8%, as wholesale trade and transport slowed amid tighter regional trade controls. On the demand side, with data available for only the first quarter, private consumption remained the principal driver, rising by 20.5% year on year. Real wages and consumer lending have expanded steadily over the past several years, rising by 5.3% and 8.8% in the first quarter, respectively. Net money transfers, including remittances from abroad, by contrast, fell by 6.9% year on year in the first half of 2026, a sharp reversal from growth of 26.2% a year earlier, reflecting tighter migration regulations and weaker labor demand in host countries. This report retains the growth forecasts published in *ADO July 2026*, in view of an expected moderation in trade, domestic demand, and electricity-constrained output in industry over the rest of the year (Table 3.1.6). Downside risks include a

Table 3.1.6 Selected Economic Indicators in the Kyrgyz Republic, %

Robust growth momentum and above-target inflation leave both forecasts unchanged.

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	11.1	8.9	8.9	8.4	8.4
Inflation	8.2	11.2	11.2	8.5	8.5

GDP = gross domestic product.

Sources: National Statistics Committee of the Kyrgyz Republic; Asian Development Bank estimates.

weaker recovery in remittances and further tightening of regional trade; upside risks stem from election-related fiscal spending.

Inflation accelerated further above the central bank's target range. Average inflation rose from 7.3% in the first half of 2025 to 10.6% a year later, while year-on-year inflation reached 11.0% in June 2026, well above the 5%–7% target of the National Bank of the Kyrgyz Republic, the central bank. A high import share in the consumption basket, together with domestic electricity generation shortfalls, contributed to recent price pressures, pointing to a need to strengthen domestic supply. Higher services prices added momentum, rising mainly due to changes in service charges in hospitality, alongside scheduled utility tariff increases. Bilateral arrangements for fuel supplies have partly cushioned the impact of higher international fuel prices. The central bank has kept its policy rate unchanged at 12.0% since February 2026, although its effect has been constrained, partly by excess banking system liquidity. The Kyrgyz som remained broadly stable against the US dollar, supported by net foreign exchange sales of \$1.3 billion in the first half of 2026, equivalent to 15.0% of international reserves at the start of 2026, up from \$297 million a year earlier. Given these structural pressures, this report retains its inflation forecasts for both 2026 and 2027, with risks tilted to the upside.

The current account deficit widened to an estimated 24.4% of GDP in the first quarter of 2026, up from 16.9% a year earlier, driven mainly by a deepening trade deficit and smaller surpluses in services and secondary income. The trade deficit widened as exports fell by 13.5%, with both gold and non-gold exports declining, the latter by a more moderate 7.5%. Imports declined by a smaller 1.7%, even as energy imports rose. The secondary income balance softened as remittances declined, while the services surplus narrowed slightly from a year earlier. Reserve coverage increased from 4.2 months of imports at the end of March 2025 to 6.1 months a year later. Disruption to regional e-commerce and logistics channels widely used by small and medium businesses in the country has increased the downside risks to the external and growth outlook.

Tajikistan

Growth remained strong at 8.2% in the first half of 2026, similar to 8.1% a year earlier, despite external shocks. Escalation of Russia's war in Ukraine has disrupted fuel imports, limiting domestic supply, which may constrain growth. The Middle East conflict has had limited impact on growth, despite disrupting trade with some regional partners.

On the supply side, manufacturing and trade remained the main growth drivers. Growth in industry slowed to 14.1% from 24.0% a year earlier. Manufacturing expanded by 26.0%, reflecting gains in garments (15.2%), food processing (23.6%), and metallurgy (9.8%) as new plants, food processing lines, and chemical/fertilizer mixing units opened. However, mining output fell by 6.7% from disruptions at several mines and processing plants and shortages of imported inputs. Growth in services slowed to 10.6% from 12.8% a year earlier. Retail turnover expanded by 31.8%, while wholesale trade contracted by 3.9%, reflecting disruptions in fuel trade and regional markets. Despite floods and mudflows that disrupted mid-summer harvests, agriculture expanded by 7.2%, down from 9.7% in 2025.

On the demand side, strong transfers and public sector pay raises boosted consumption. In the first quarter of 2026, net personal transfers, including remittance inflows, rose 5.3% year on year to \$1.93 billion, equivalent to 50.7% of GDP. Annual increases in public sector salaries (up to 30%), the minimum wage (25%), stipends, and pensions implemented in September 2025 strengthened household purchasing power and demand. These income gains boosted real wages by 14.9% and contributed to a 26.8% year-on-year rise in credit to the private sector in January–May 2026, promoting consumption growth. In view of fuel-related disruptions and heightened external risks, forecast growth for 2026 has been reduced (Table 3.1.7).

Inflation rose to 2.4% in the first half of 2026 from 1.8% in the same period last year but remained within the central bank's 3%–7% target band. Year-on-year inflation was 3.7% at end-June 2026, near the 3.6% in June 2025. Fuel prices were the main inflation driver, rising 22.2%, including increases for liquefied

Table 3.1.7 Selected Economic Indicators in Tajikistan, %

Amid heightened uncertainty and external risks, the 2026 growth forecast has been reduced, while the inflation outlook remains unchanged from the July update.

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	8.4	7.3	7.0	6.8	6.8
Inflation	3.5	4.5	4.5	4.7	4.7

GDP = gross domestic product.

Source: Agency on Statistics under the President of the Republic of Tajikistan; Asian Development Bank estimates.

natural gas (34.8%), diesel (20.6%), and gasoline (10.0%). Prices of construction materials rose 5.1%, compared to 1.6% a year earlier, reflecting trade route disruptions and slower cement production. Services prices were also inflated, partly on higher utility tariffs and public service fees. The central bank lowered its policy rate by 50 basis points to 7.0% in February 2026, stimulating credit growth. The local currency, the somoni, depreciated by 0.9% against the US dollar in January–June 2026, compared to last year's appreciation by 17.7%. In view of the developments, inflation forecasts remain unchanged.

Revenues expanded while public debt declined to \$3.4 billion. Revenues increased 14% to \$3.9 billion in the first half of 2026, reflecting strong tax administration, an increase in registered firms and entrepreneurs, and higher non-tax receipts. Revenues and grants equaled 44.9% of GDP, while expenditure reached \$3.2 billion or 37.1% of GDP. Public debt declined by \$100 million, from 19.7% of GDP in December 2025 to 16.0% in June 2026, with repayments of a Eurobond and other debt.

The current account surplus widened in the first quarter of 2026 from 12.6% to 21.5% of GDP, reflecting higher merchandise trade and personal transfers. Data on trade, available for the first 6 months, show merchandise exports rising by 64.5% year on year, with precious metals representing 32.7% of these exports, mineral products 31.7%, and base metals 20.9%. Merchandise imports rose by 38.8%, reflecting currency appreciation relative to early 2025, with vehicles and equipment representing 14.2%, mineral products 14.1%, and base metals 13.0% of these imports. Gross international reserves

decreased slightly from \$6.4 billion at the end of 2025 to \$6.3 billion—equivalent to 8.7 months of import cover—at the end of March 2026.

Turkmenistan

The government reported the economy expanding by 6.3% in the first half of 2026, unchanged from the same period in 2025, with growth reported across all major sectors. Industry excluding construction increased by 2.6%, mainly reflecting higher hydrocarbon production. Stronger gains were recorded in construction (6.7%), agriculture (4.5%), wholesale and retail trade (8.5%), transport and communications (10.3%), and catering and other services (8.4%).

On the demand side, growth was supported by increased public investment in industrial and social infrastructure. Investment from all financing sources rose by 4.7% year on year during the first half of 2026. More than half of total investment went toward social sectors, including housing and urban development, healthcare, education, and social welfare. The remainder was allocated to industrial infrastructure, particularly in oil and gas, petrochemicals, chemicals, textiles, light industry, food processing, consumer goods, and construction materials. Given the strong performance in the first half of the year, consistent with official targets, growth forecasts for 2026 and 2027 remain the same as in *ADO July* (Table 3.1.8).

Table 3.1.8 Selected Economic Indicators in Turkmenistan, %

Growth and inflation forecasts for 2026 and 2027 remain unchanged.

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	6.3	6.3	6.3	6.2	6.2
Inflation	5.5	6.0	6.0	6.0	6.0

GDP = gross domestic product.

Source: Asian Development Bank estimates.

Inflationary pressures intensified during the first half of 2026, as prices of both imported and domestically produced goods accelerated. Monetary policy remains focused on containing inflation through the fixed exchange rate regime

and administrative controls on selected basic goods and services. Access to concessional credit and foreign exchange loans continues to be directed primarily toward priority enterprises engaged in import substitution and export-oriented activities. While pressures in the foreign exchange market persist because of foreign currency rationing, overall conditions remain broadly stable. Inflation forecasts are retained for both 2026 and 2027.

The fiscal outlook remains broadly aligned with maintaining macroeconomic stability. The government aims to preserve a balanced state budget in 2026 and 2027, supported by favorable prospects for energy exports and related fiscal revenues. In July 2026, Fitch Ratings affirmed Turkmenistan's long-term foreign-currency issuer default rating at BB- with a stable outlook, citing the country's strong sovereign balance sheet, substantial net foreign assets, and very low public debt. The latter is projected to decline to 2.7% of GDP by end-2027, from an estimated 3.5% currently. Underpinning these strengths are Turkmenistan's significant natural gas reserves. Fitch also noted that further progress in diversification and institutional development could help strengthen economic resilience. In particular, it suggested that the country could do so by reducing the economy's dependence on hydrocarbons, diminishing concentration in export markets, strengthening the exchange rate framework, and enhancing economic data reporting.

Gas exports to the People's Republic of China, Turkmenistan's largest export market, are estimated to have remained broadly stable. However, recently concluded gas export agreements point to stronger regional demand and suggest scope for future export expansion. The People's Republic of China is expected to remain the principal destination for Turkmen gas under existing long-term supply contracts. Prospects for higher production have also improved since the commencement of the fourth development phase of the Galkynysh gas field in April 2026. The large-scale project, financed domestically, is expected to increase annual gas export volumes by 25% over current levels in the medium term.

Looking ahead, imports are projected to rise, reflecting increased demand for construction-related goods and equipment. While hydrocarbon

exports are expected to continue rising, their expansion is likely to be offset by rising imports. As a result, the current account surplus is projected to narrow to about 1.5% of GDP in 2026 and 1.0% of GDP in 2027 from 3.3% in 2025.

Uzbekistan

Growth accelerated strongly during the first half of 2026. According to official estimates, the economy expanded by 8.5% year on year in the first half of the year, up from 7.2% a year earlier and exceeding prior expectations.

Stronger services-led growth on the supply side. Services expanded by 9.2% in the first half of 2026, versus 8.2% in the first half of 2025. Faster growth in information and communication technology services (23.2% versus 21.9%), transportation and storage (15.8% versus 11.3%), trade (15.0% versus 10.9%), and accommodation and food services (10.8% versus 9.5%) supported the acceleration. Industry grew by 8.0%, up from 6.6% a year earlier, as manufacturing expanded by 8.8%. Construction expanded by 13.8%, up from 10.7%, reflecting continuing large infrastructure and housing projects. Agriculture grew by 4.7%, up from 4.0%, reflecting higher crop production.

Demand-side expansion remained broad-based. Fixed capital investment in the first half of 2026 increased by 17.5% year on year, accelerating from 5.5% in the first half of 2025, supported by large-scale projects in energy, manufacturing, transport, and housing. Household consumption remained strong during the same period, reflecting a 23.8% increase in household final consumption in the first quarter of 2026 and strong retail trade growth. Government consumption rose by 30.9% year on year. With a stronger-than-expected first half, the 2026 growth forecast has been raised, despite expected moderation in the second half (Table 3.1.9). The 2027 growth forecast is maintained.

Inflation moderated during the first half of 2026 but remained above the Central Bank of Uzbekistan's 5% target. Consumer prices increased by 3.3% during this period, down from 4.2% a year earlier. Services inflation fell to 4.1% from 10.7%, while food inflation accelerated to 2.4% from 1.7% and other goods inflation to 3.9% from 3.1%. Headline inflation eased

Table 3.1.9 Selected Economic Indicators in Uzbekistan, %

Strong first-half growth warrants an increase to the 2026 growth forecast. Projected 2026 inflation is raised to reflect higher energy prices, including fuel.

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth	7.7	6.7	7.0	6.8	6.8
Inflation	7.3	6.5	6.7	5.0	5.0

GDP = gross domestic product.

Sources: National Statistics Committee of the Republic of Uzbekistan; Central Bank of the Republic of Uzbekistan; Asian Development Bank estimates.

to 6.4% year on year in June from 8.7% a year earlier. Inflationary pressures strengthened in June following further administered-price adjustments, including average increases of 9.6% in electricity and 10.7% in natural gas. These adjustments are expected to generate additional second-round effects on transport, logistics, and services during the remainder of 2026. Consequently, the inflation forecast for 2026 is raised, while the 2027 forecast is maintained.

Monetary and fiscal policies remain focused on preserving macroeconomic stability. The authorities have continued implementing fiscal reforms aimed at strengthening medium-term sustainability. The Fiscal Strategy 2027–2029 refers to an expected fiscal deficit of 3.0% of GDP in 2026 while maintaining infrastructure and social spending. Consistent

with IMF recommendations, fiscal and monetary policies are expected to remain prudent to contain inflation and moderate domestic demand. The central bank is expected to maintain a tight monetary stance to contain inflationary pressures and anchor inflation expectations.

The trade deficit expanded during the first half of 2026. Merchandise exports declined by 8.8% year on year to \$15.9 billion, largely due to lower gold exports, while imports increased by 21.0% to \$25.1 billion. This widened the trade deficit to \$9.3 billion from \$3.2 billion in the first half of 2025. However, non-gold exports increased by 29.4% to \$6.5 billion, while services exports rose by 34.9% to \$4.6 billion. First quarter data show the current account remaining in deficit, with a shortfall of about \$5.8 billion versus \$5.7 billion a year earlier. Strong growth in services exports and remittance inflows partly offset pressures from the widening trade deficit. International reserves remained substantial, at \$64.35 billion, in July 2026.

Risks remain tilted to the downside. Slower growth among major trading partners, heightened geopolitical tensions, disruptions to trade and logistics networks, commodity-price volatility, and tighter international financing conditions could weigh on external demand, remittances, and investment. Strong domestic demand could also complicate efforts to reduce inflation. On the upside, stronger-than-expected investment and continued strength in exports of services could see growth higher than current projections.