25TH CAREC MINISTERIAL CONFERENCE

Ulaanbaatar I 29 September 2026

Presentation

Regional Economic Prospects at a Time of Geopolitical Turbulence



Presenter

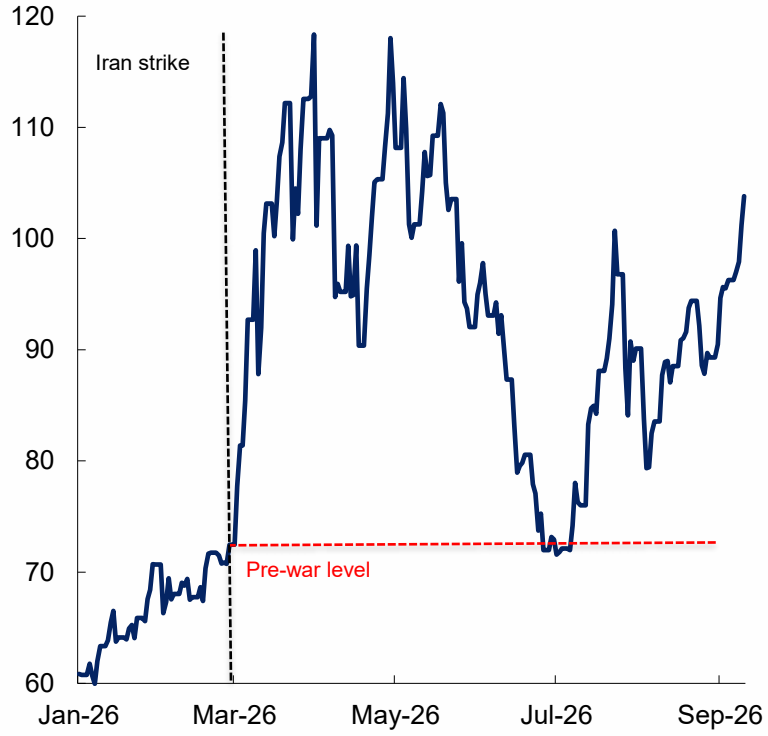
Mr. Subir Lall

Deputy Director, Middle East and Central Asia Department, International Monetary Fund

The global economy has exhibited a remarkable capacity to absorb shocks, but as the Middle East conflict reignites, concerns about debt and inflation are emerging

Oil prices have spiked again since July on an escalation of hostilities in the Middle East…

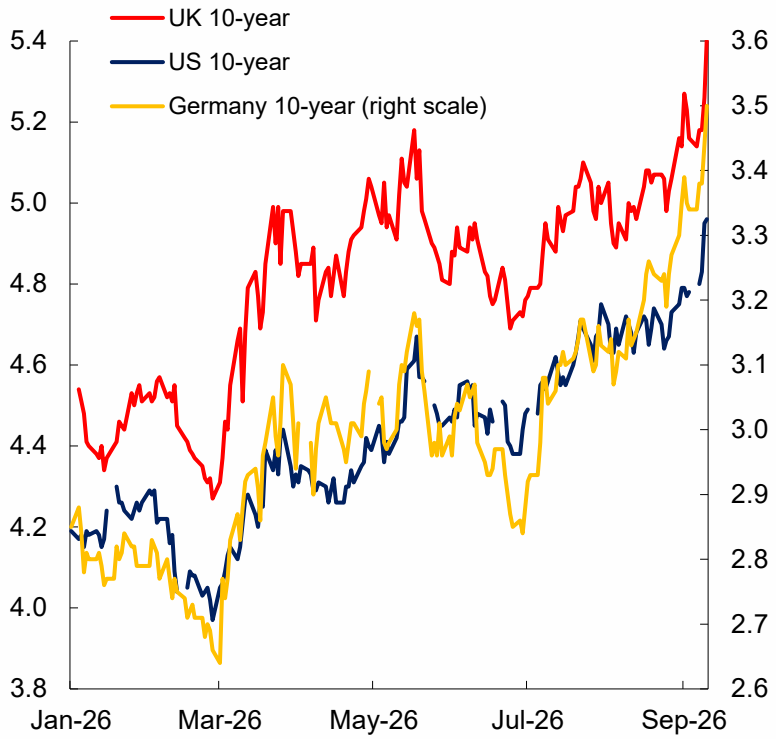
Brent Crude Oil Prices
(US Dollars per barrel)



Source: Bloomberg Finance L.P.

…long-term Treasury yields have increased further…

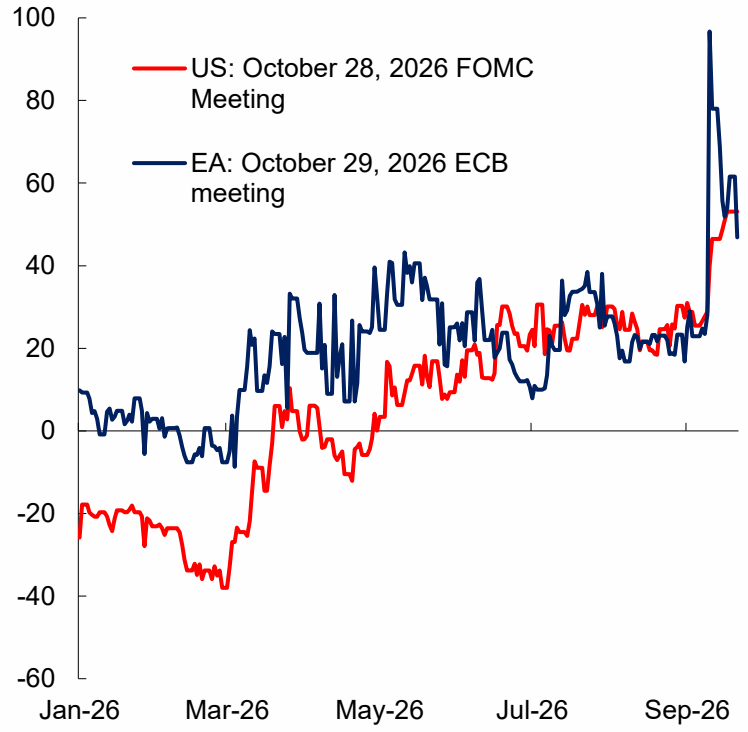
Government Bond Yields
(YTD, Percent)



Source: Haver Analytics.

…and markets expect major central banks to turn hawkish

Probability of Policy Interest Rate Increase
(Percent)



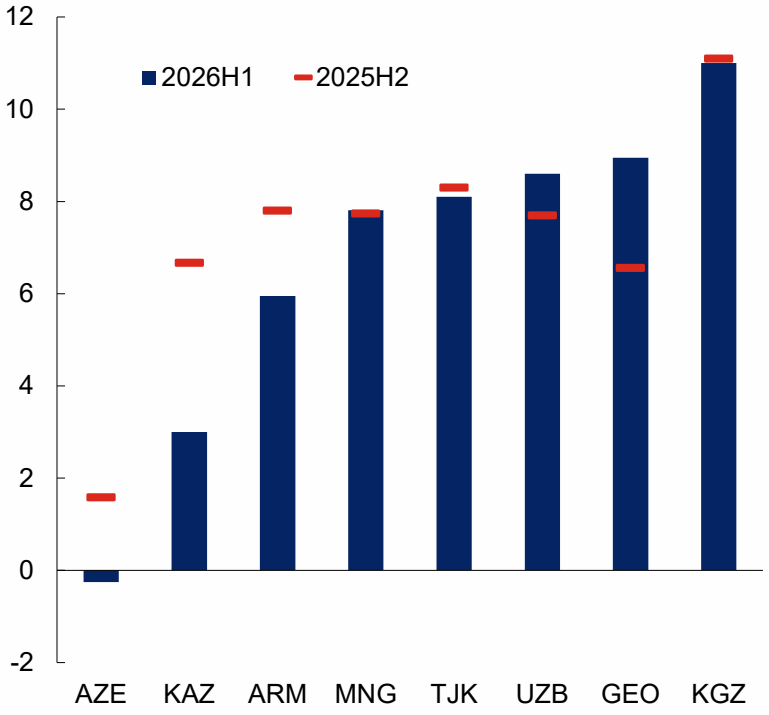
Source: Bloomberg Finance L.P.
Note: Pricing data as of September 21, 2026. The probability of a hike or cut in percent is estimated on the current forward-curve structure using the futures model.

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Growth has remained resilient in 2026 across CCA oil importers, but slowed in oil exporters affected by conflict-related disruptions

GDP growth in H1:2026 slowed in oil exporters, but was generally resilient in oil importers…

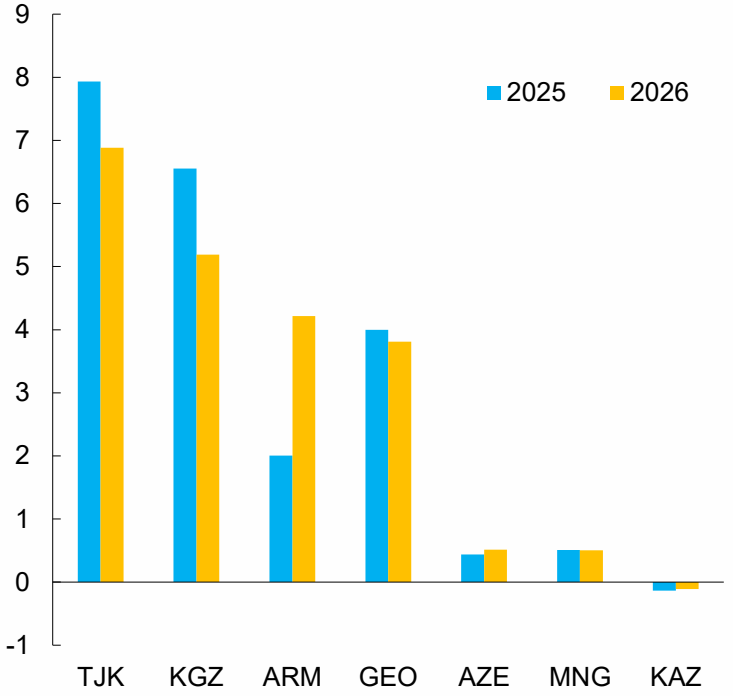
Real GDP Growth*
(Year-over-year percent change)



Sources: Haver Analytics; and IMF staff calculations.
Note: *For AZE, GEO, and KAZ data are as of 2026Q1.

…as remittances have remained supportive…

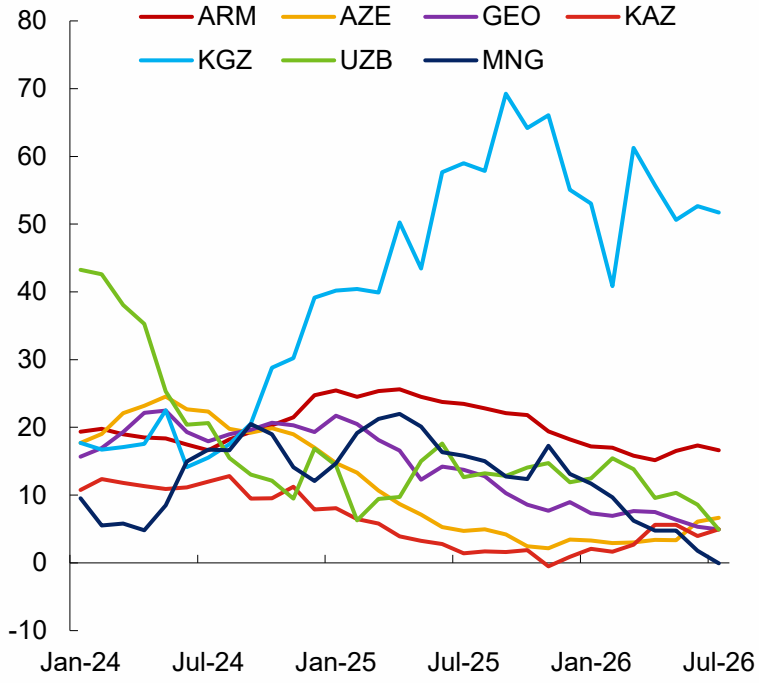
Remittances
(Year to date, share of 2026 GDP vs share of 2025 GDP)



Sources: Haver Analytics; and IMF staff calculations.
Note: TJK data is as of 2026Q1 while the remaining are of 2026Q2 for all countries. For MNG, remittances include only compensation of employees.

…and real credit growth also remained broadly supportive

Real Credit Growth
(Year-over-year percent change)



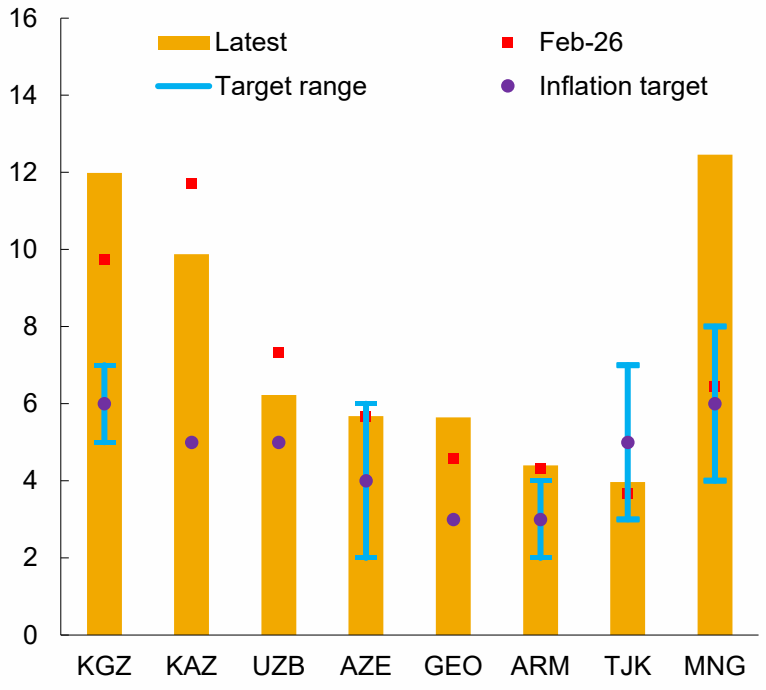
Sources: Haver Analytics; and IMF staff calculations.

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Inflation remains high and generally above targets, though policy measures and ER appreciation limited the pass-through from the commodity price shock

Very heterogenous inflation developments in the region..

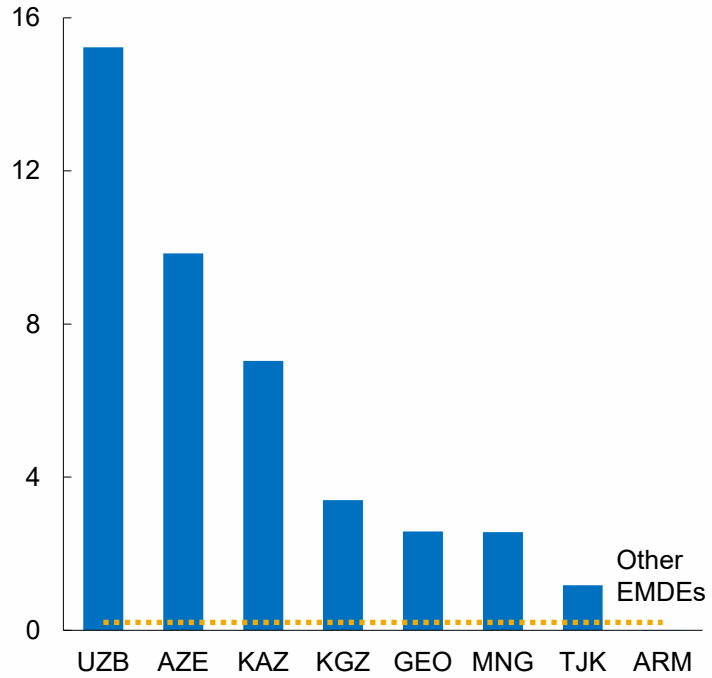
Headline Inflation
(Year-on-year growth)



Sources: Haver Analytics; IMF, Regional Economic Outlook database; and IMF staff calculations.

…though the impact of the commodity price shock was cushioned by subsidies....

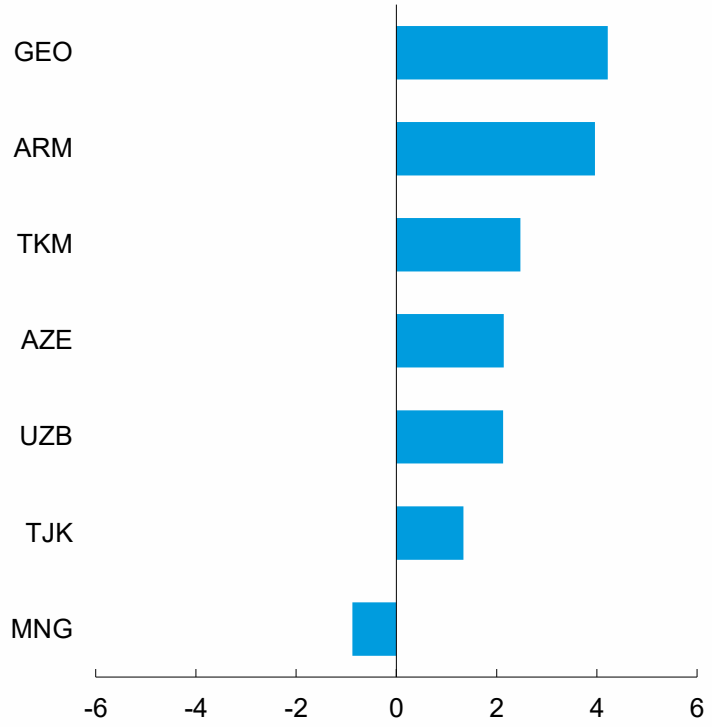
Fuel Subsidy Relative to Non-oil GDP
(Percent)



Sources: IMF FAD Country-level Energy Subsidy Estimates; and IMF staff calculations.

..and the exchange rate appreciation

Nominal Effective Exchange Rate
(Percent change, February-August 2026)



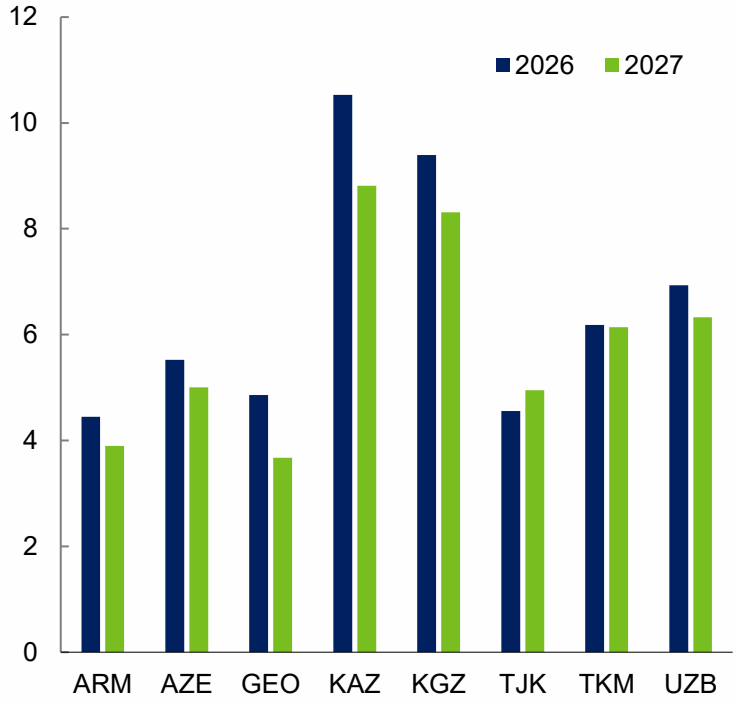
Sources: IMF, INS database; and IMF staff calculations.

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Inflation expected to fall as the terms-of-trade shock recedes. If, however, energy prices continue to increase, monetary policy stances may need to tighten

Markets expect inflation to fall…

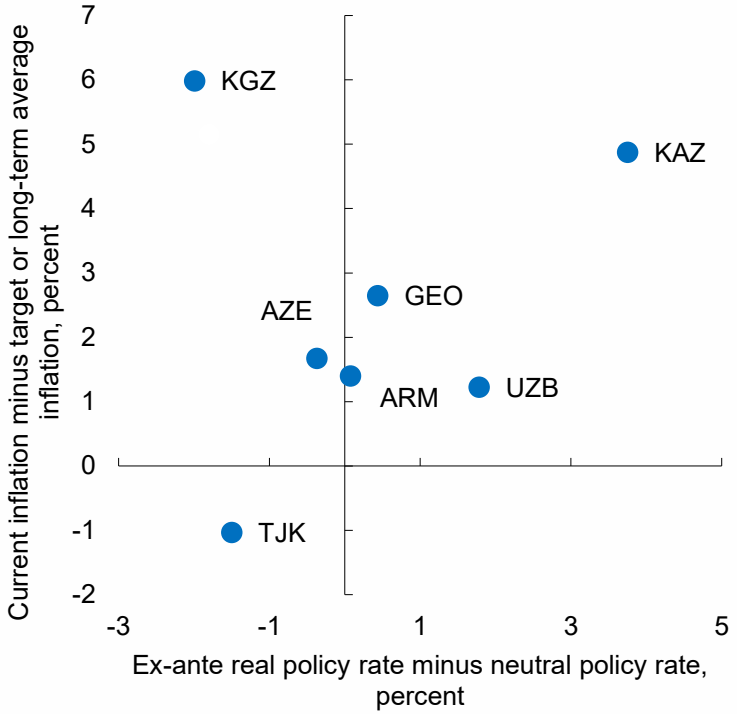
Focus Economics: Headline Inflation Forecast
(Year-over-year percent change, September 2026)



Sources: Focus Economics; and IMF staff calculations.

…with some differentiation in monetary policy stances

Monetary Policy Stance



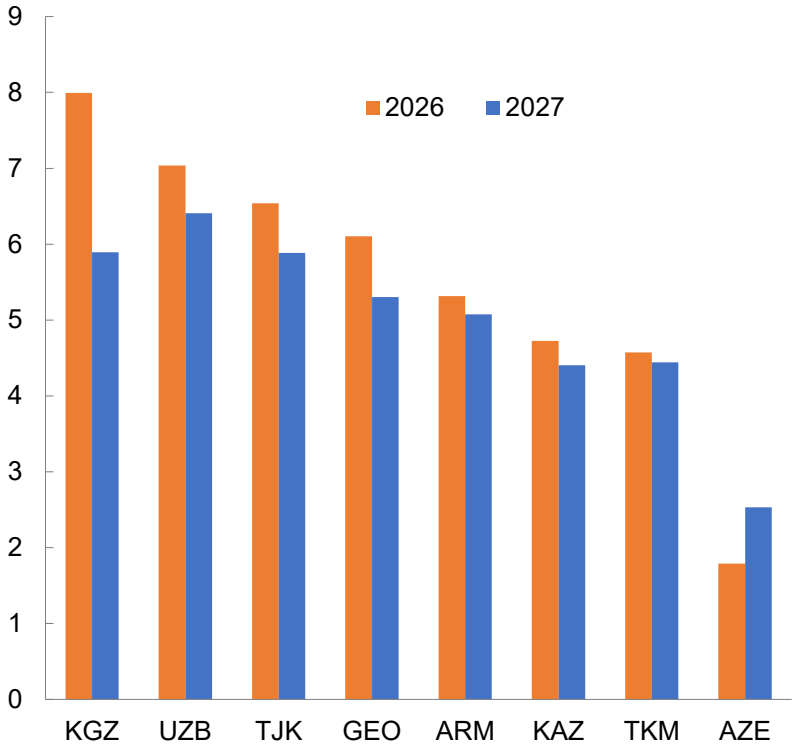
Sources: Haver Analytics; IMF, Regional Economic Outlook database; and IMF staff calculations.

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Growth is expected to slow, although estimates of potential growth have been revised upward in recent years

Markets expect growth to slow…

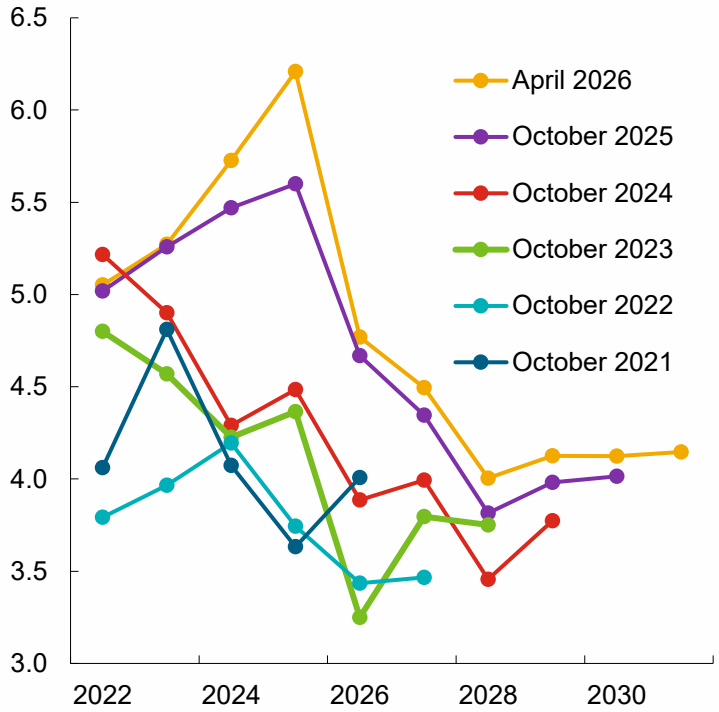
Focus Economics: GDP Growth Forecast
(*Year-over-year percent change, September 2026*)



Sources: Focus Economics; and IMF staff calculations.

…but the region has repeatedly surprised to the upside relative to our forecasts…

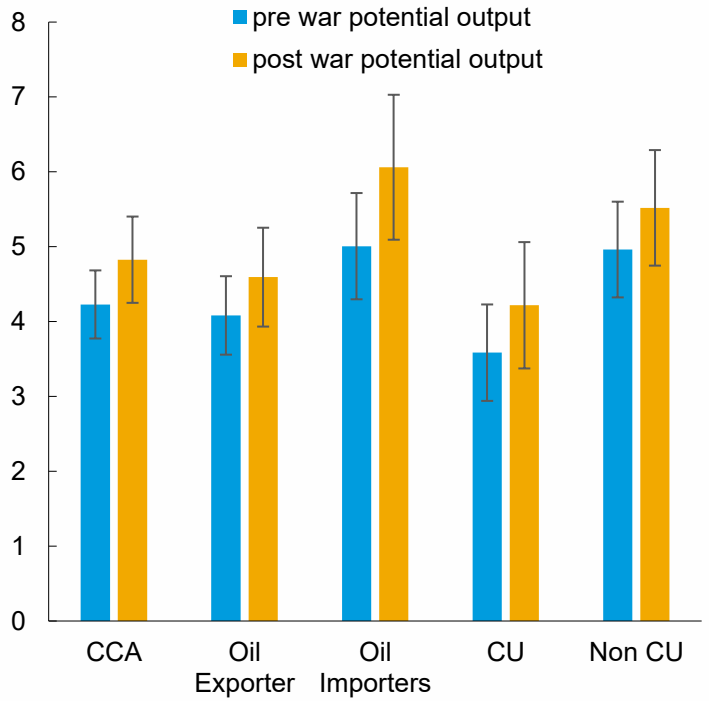
IMF GDP Growth Forecasts
(*Year-over-year percent change*)



Sources: IMF, Regional Economic Outlook database; and IMF staff calculations.

…and potential growth estimates have been revised upward.

Potential Growth
(pre & post-war)



Sources: Rao et al. (2026): Potential Output in the Caucasus and Central Asia: Beyond the Growth Surge , IMF WP, forthcoming.

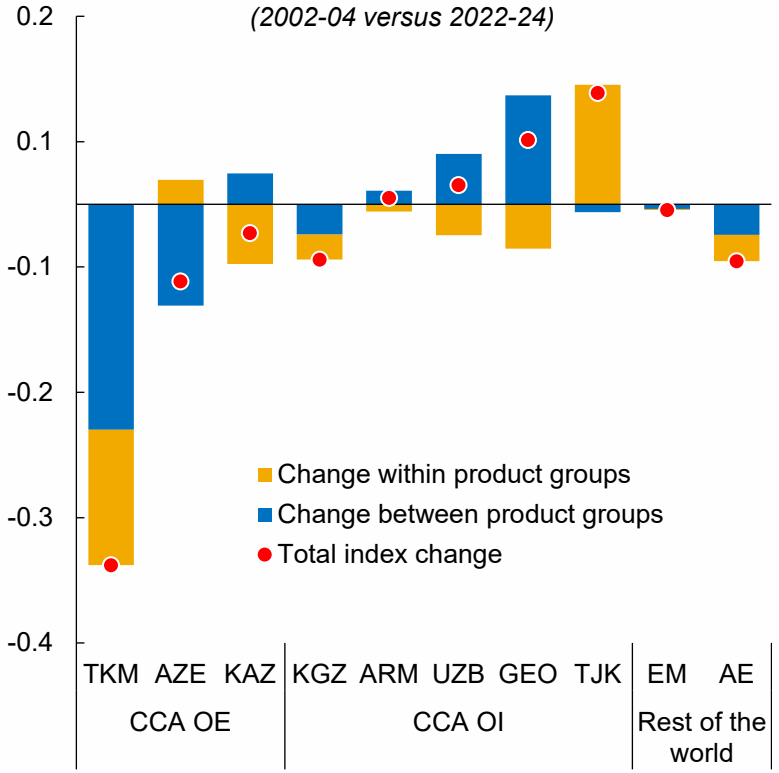
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Despite progress by oil importers, CCA trade diversification remains below other EMDEs

Many CCA oil importers have boosted their export diversification…

Changes in Export Product Diversification Index

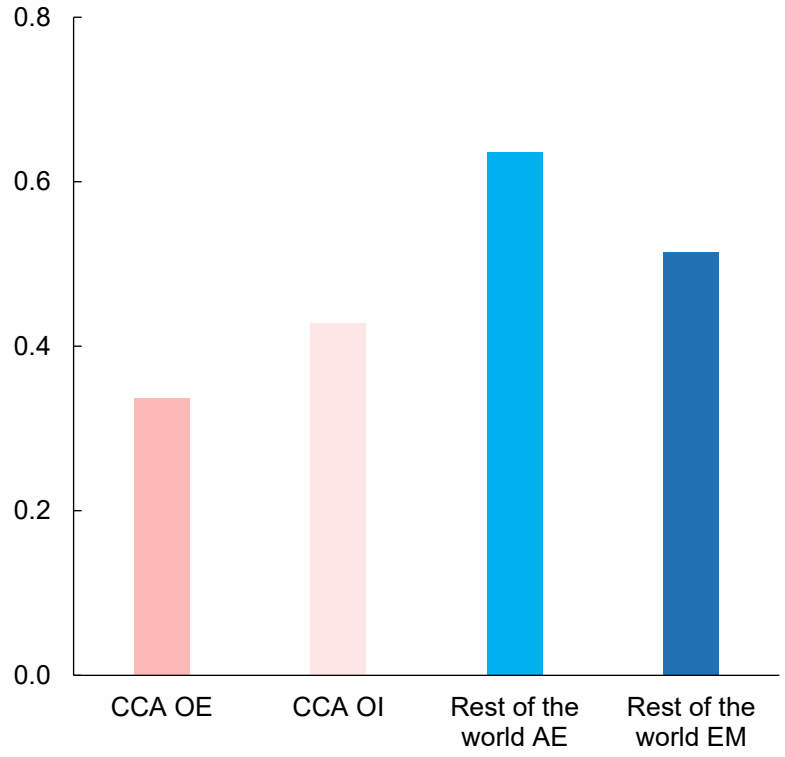
(2002-04 versus 2022-24)



Sources: CEPII BACI database; and IMF staff calculations.
Note: Diversification = 1 – normalized Theil index, such that it ranges from 0 to 1, with higher values indicating greater diversification along the indicated dimensions.

…but the CCA still remains less diversified than the average EMDEs.

Export Product Diversification Index

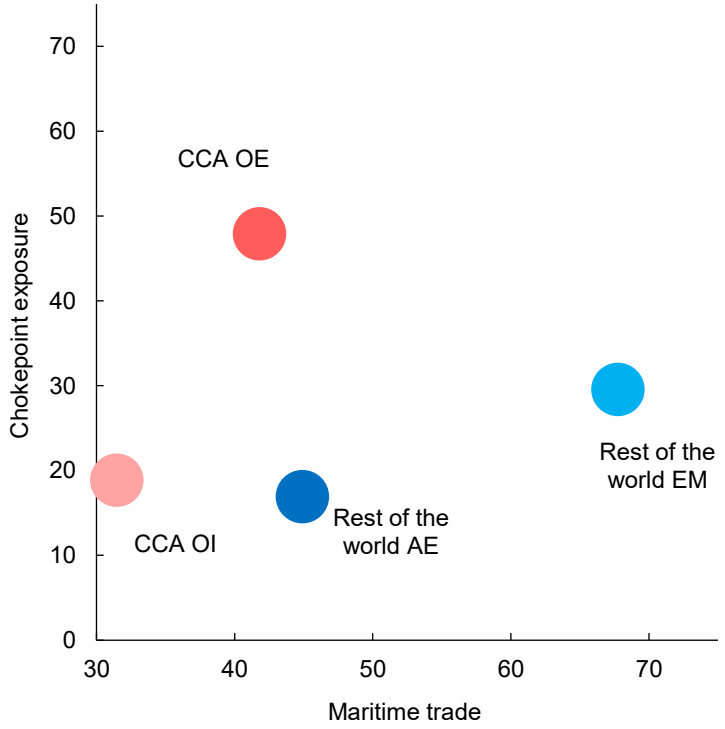


Sources: BACI database, Observatory of Economic Complexity (OEC) and IMF staff calculations.
Notes: Diversification measured by normalized Theil Index (higher values imply greater diversification). Rest of the world refers to economies outside MENAP and the CCA.

Lower exposure to chokepoints open opportunities for alternative Asian trade routes

Exposure to Maritime Trade & Chokepoints

(Percent of total value of goods exports)



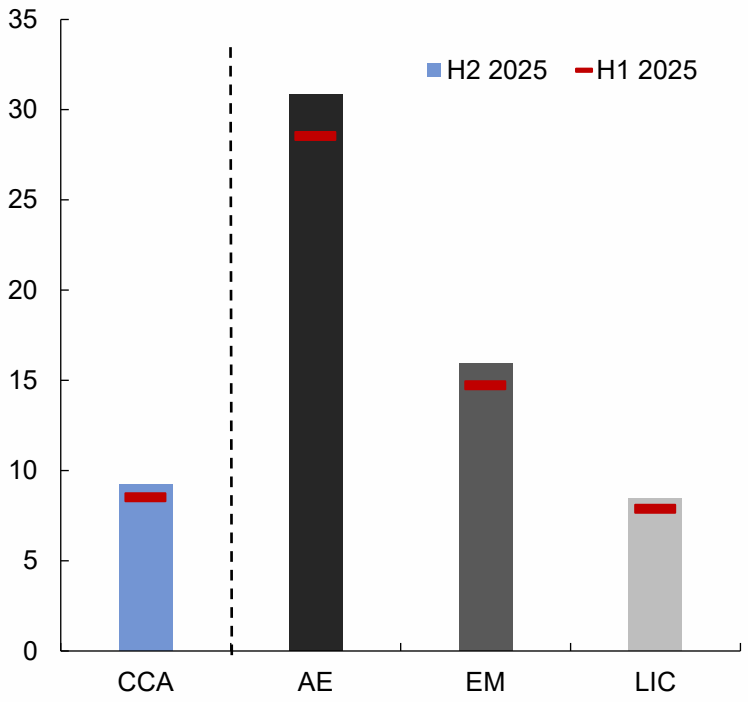
Source: Portwatch; Verschuur et al. (2025); REO and staff calculation.

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AI could lift growth in CCA, but the dividend hinges on ambitious economic reforms and continued access to AI technologies

Although rising, AI use in the CCA remains below the EM average

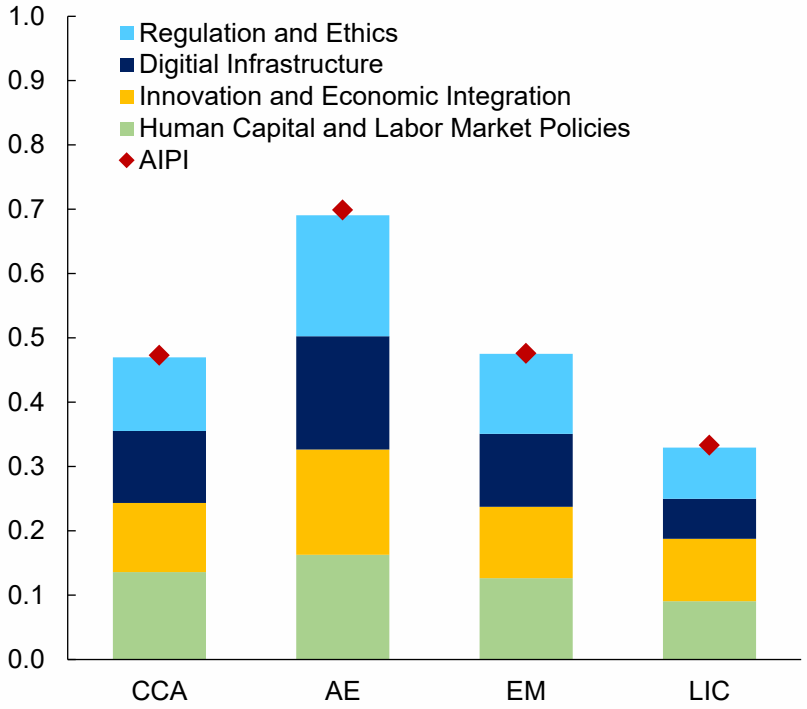
AI Diffusion
(Percent of total population)



Sources: Brynjolfsson, Chandar, and Chen (2025); Microsoft AI Economy Institute (2026); OECD; and IMF staff calculations.

AI readiness matches EM average, with reform scope across all areas

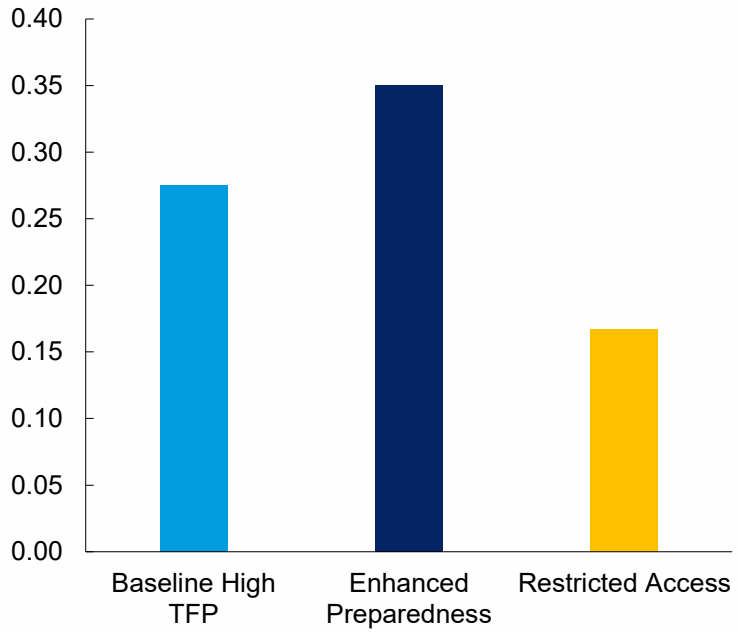
Components of AI Preparedness Index
(Index, 0 to 1)



Sources: Cazzaniga and others (2024); and IMF staff calculations.

Reforms could raise annual growth gains to nearly 0.4 percentage points

Enhanced Preparedness and Restricted Access: Impact on Real GDP
(Percentage point deviation from no shock scenario, 10-year average annual impact)



Sources: Sources: IMF GIMF; and IMF staff calculations.

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With inflation risks elevated, policies should avoid excessive loosening

Fiscal Policy

- Support, if any, should be targeted, time-bound, and consistent with fiscal sustainability
- Avoid large fiscal impulse that would lead to overheating

Monetary Policy

- Look through the first-round impact of commodity shocks
- The window for action could be narrow especially where inflation expectations are elevated
- Monetary policy needs to be agile to address second-round effects, avoiding an excessively loose stance

Structural Reforms Are Key

- Productivity growth can support non-inflationary growth

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Thank you