

# Regional Economic Prospects

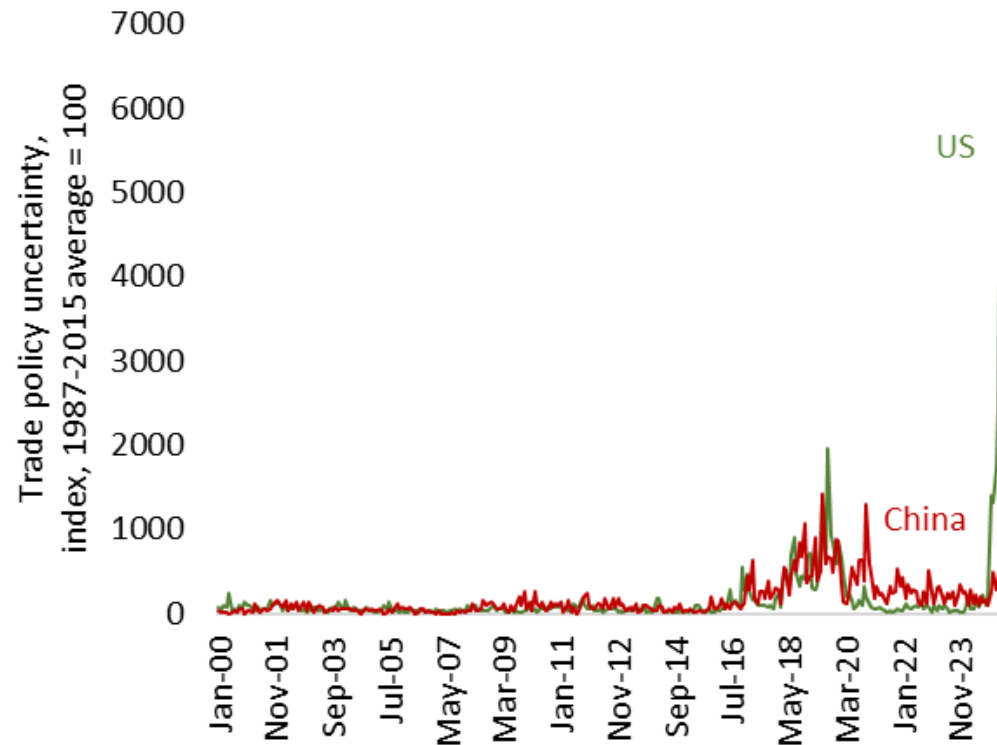
May 2025

*Uncertain times*

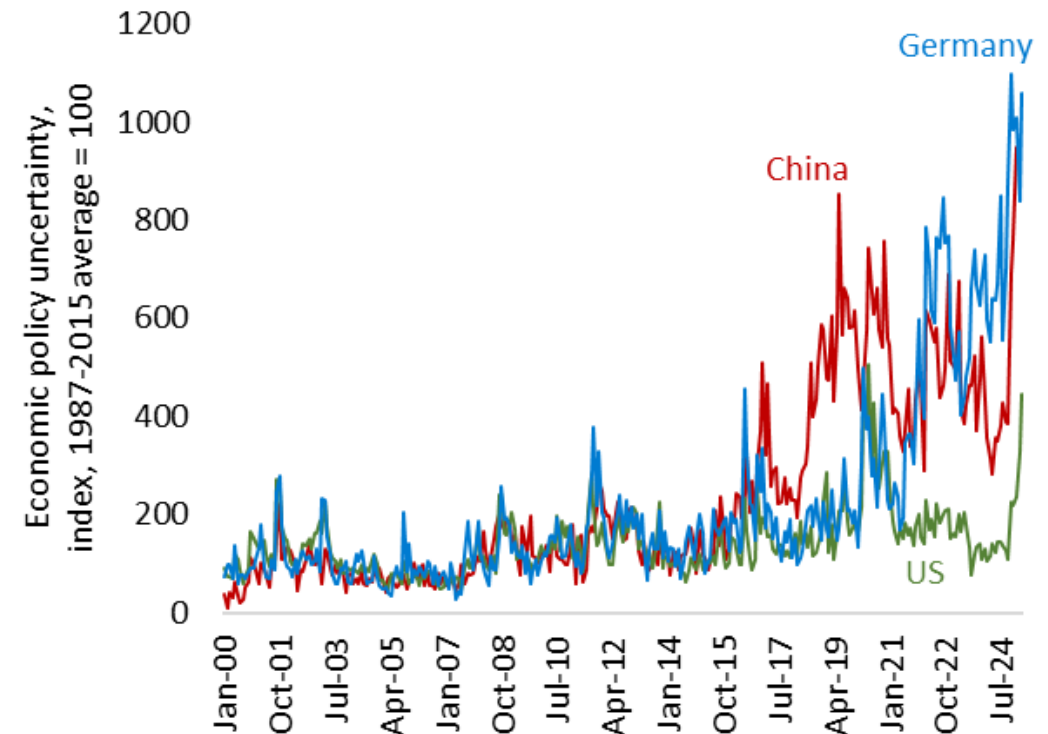


# Trade and economic policy uncertainty have risen sharply in 2025, to levels not seen in recent decades

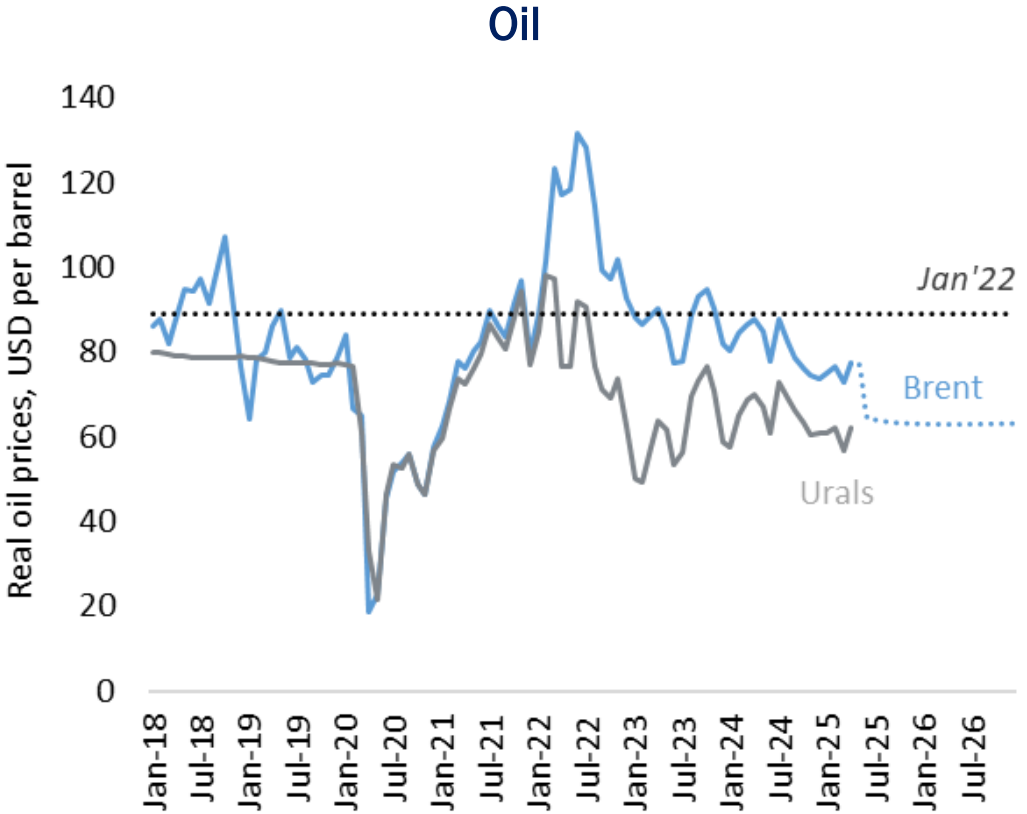
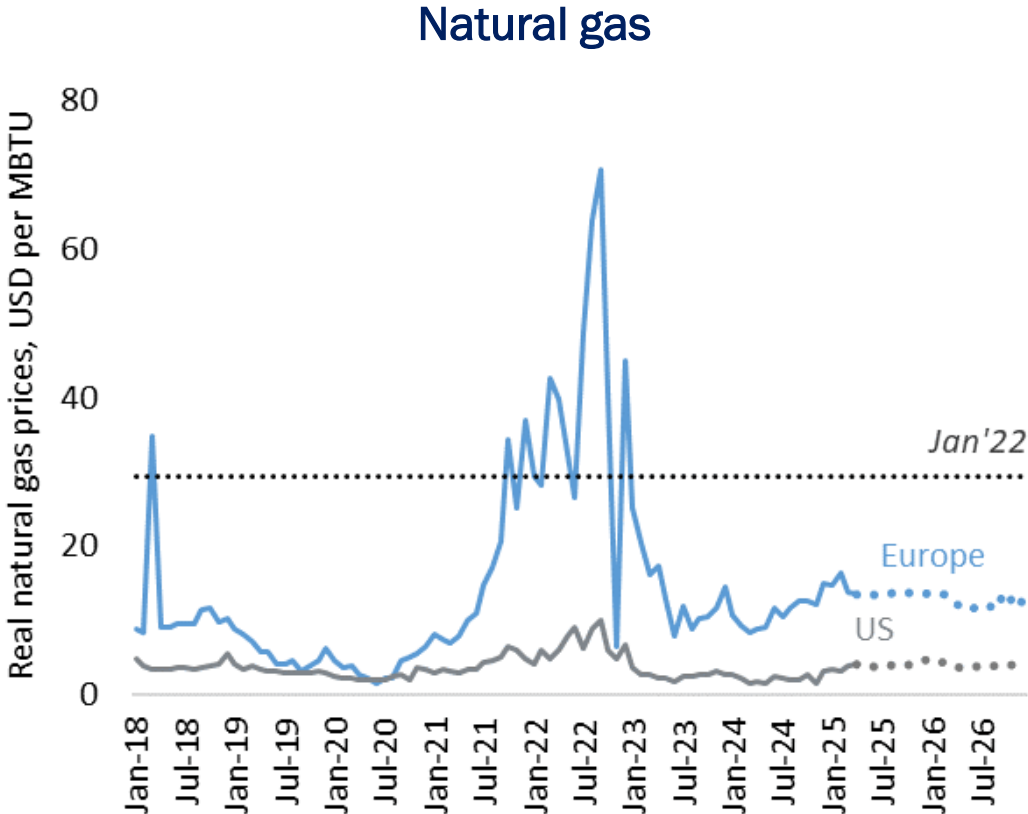
## Trade policy uncertainty



## Economic policy uncertainty

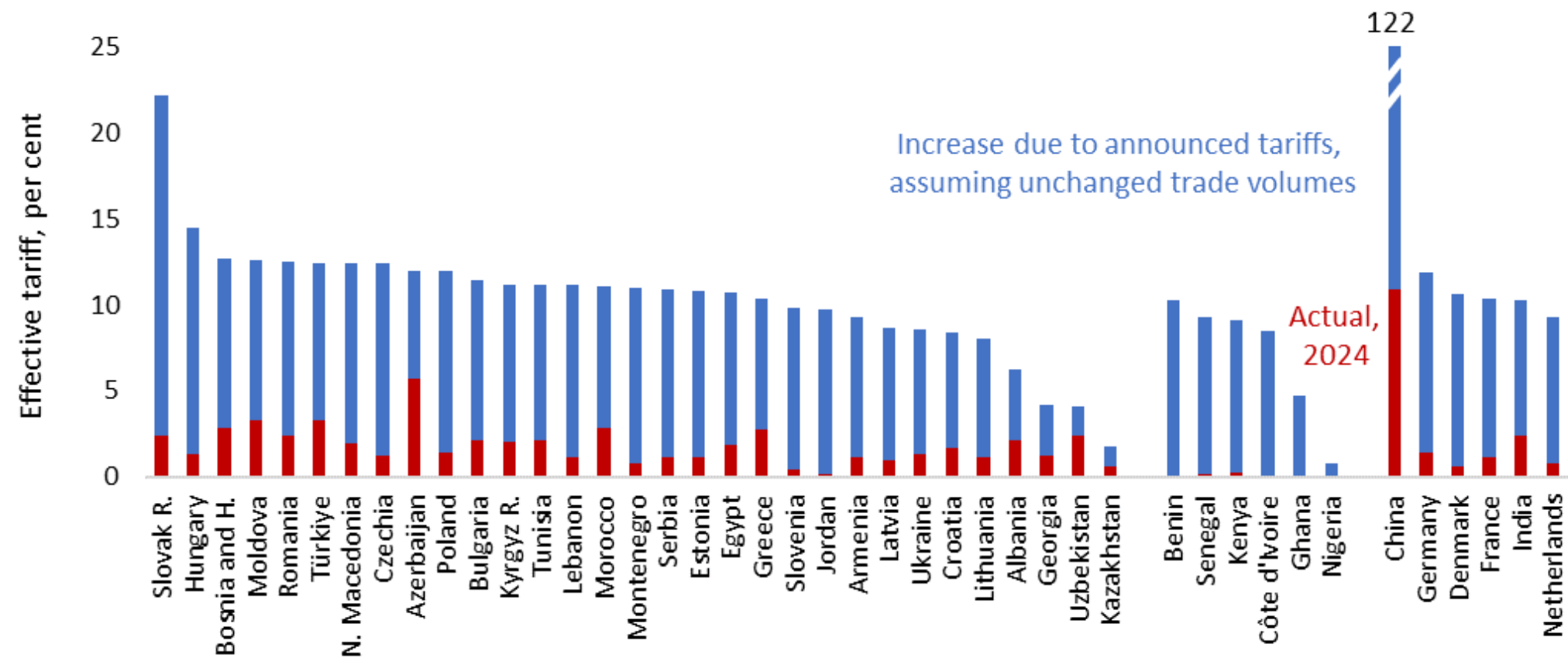


# Energy prices moderated – and expectations fell on recent tariff announcements



Source: Refinitiv, IMF and authors' calculations. Note: Prices adjusted for US inflation.

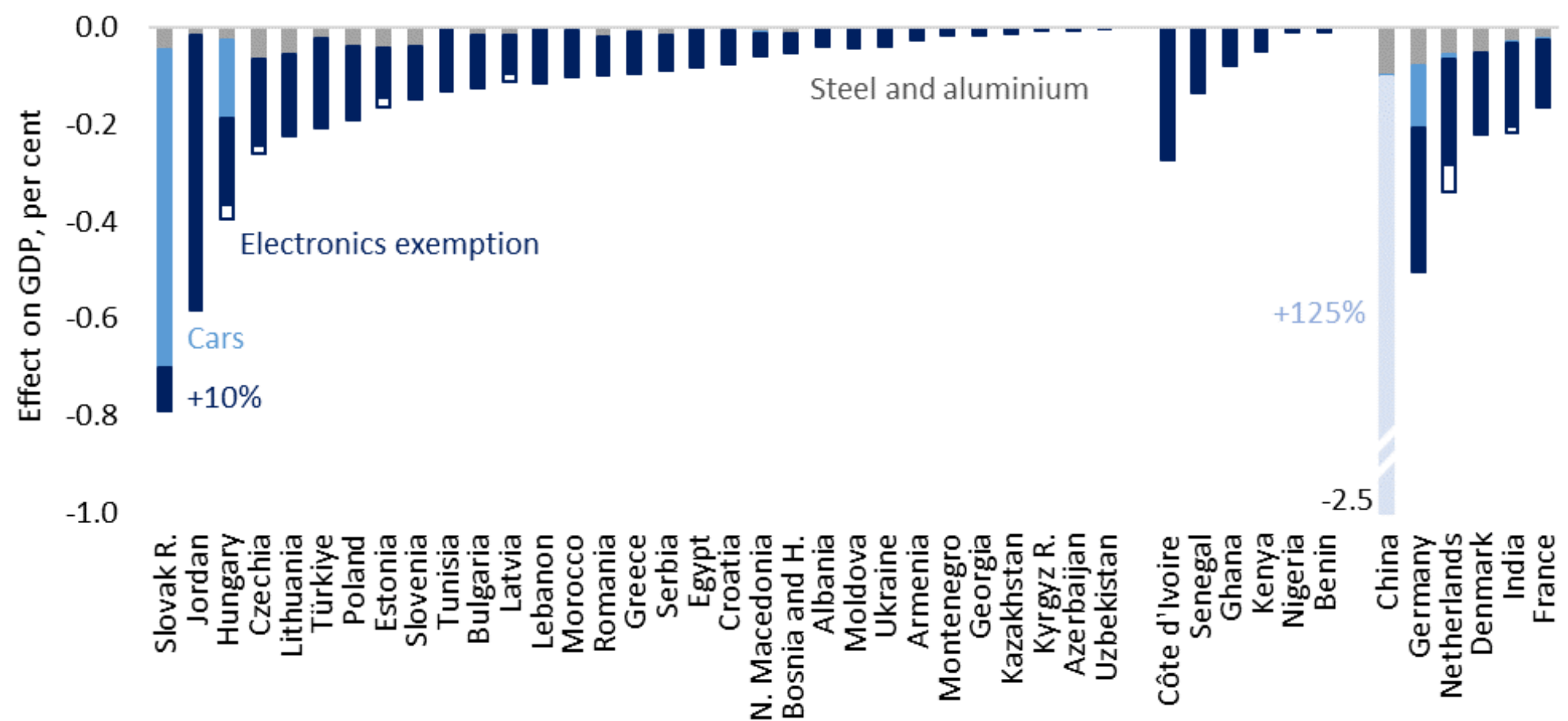
Increases in US import tariffs (in force as of mid-April) would push the expected average effective US tariff on imports from the EBRD regions from 1.8% in 2024 to 10.5%



Source: United States International Trade Commission (USITC), UN COMTRADE, White House and authors' calculations. Note: For 2024, the effective US tariff is calculated as import duties collected by the US in 2024 divided by total imports for consumption (goods that have been cleared through customs). Tariffs on steel and aluminium calculated based on Section 232. Azerbaijan in 2024 is driven by exports of aluminium to the US which were already subject to a high tariff rate in 2024. The increase in effective tariffs is estimated based on existing HS6-level exports to the US dividing duties collected from newly announced tariffs by total imports. Estimates account for exemptions as listed in Annex II of the Executive Order. Any provisions in FTAs assumed to be overwritten as per Annex I of the Executive Order. Selected comparators shown.

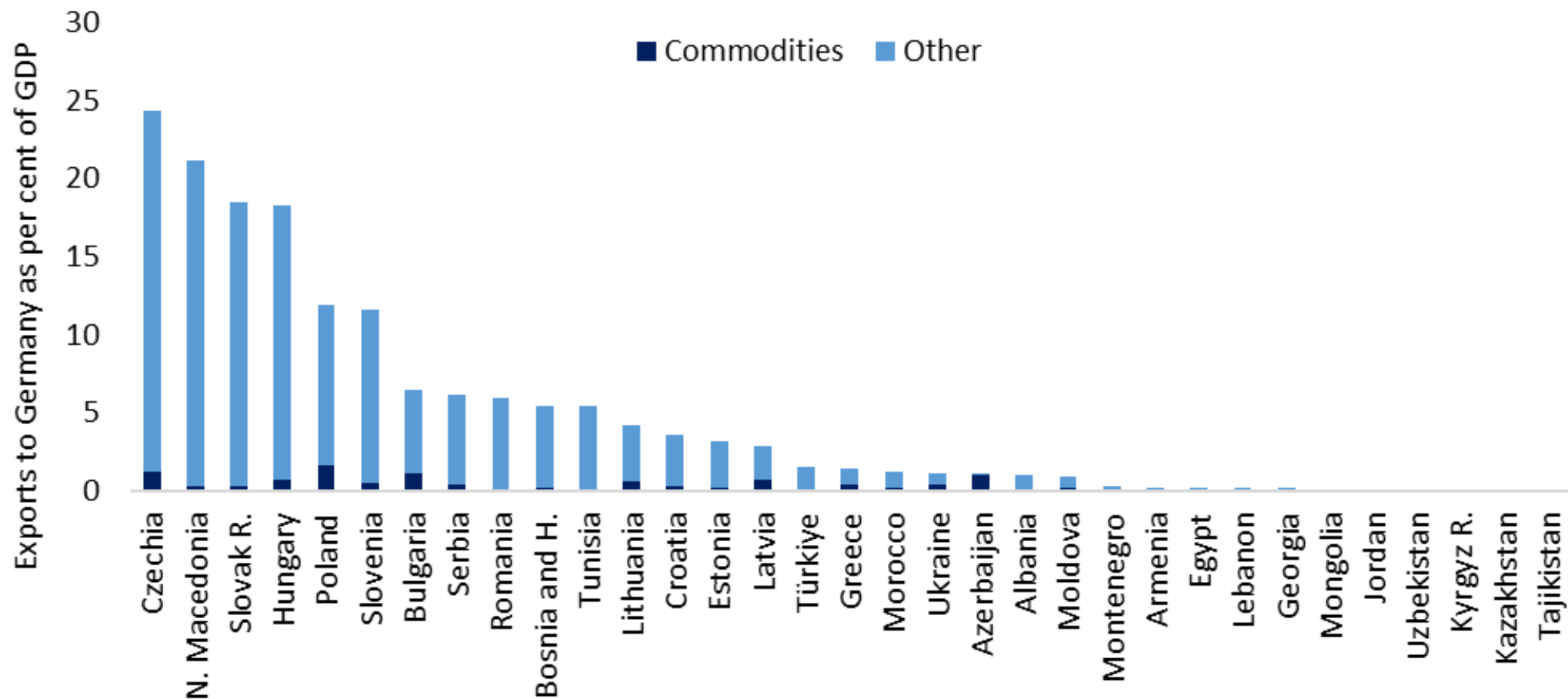


In the EBRD regions, the largest **direct negative effect** of tariff increases on output is estimated for the Slovak R., Jordan, Hungary (0.8-0.4% of GDP); 0.5% of GDP in Germany



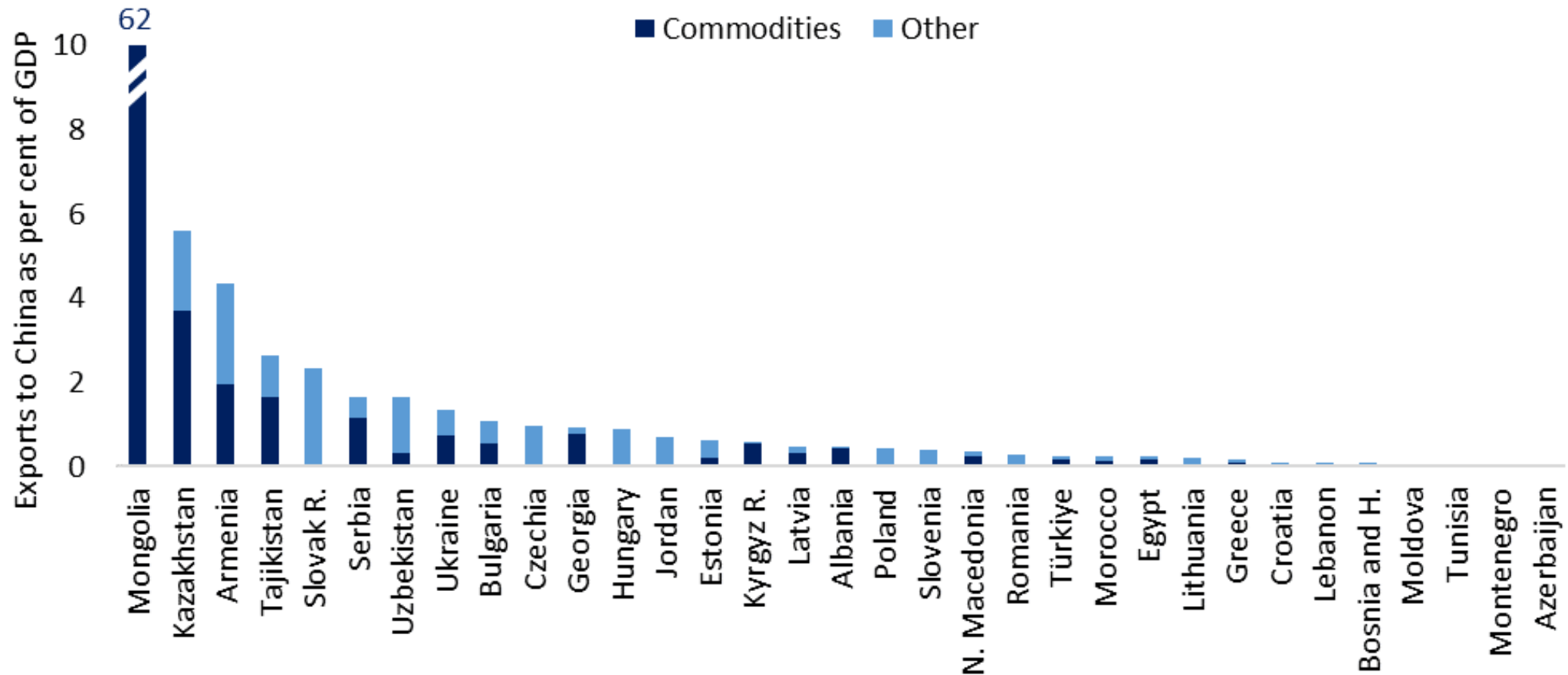
Source: Kee, Nicita and Olarreaga (2008, 2009), UN COMTRADE, White House and authors' calculations. Note: Based on HS6-level elasticities. For steel and aluminium products, passenger cars and trucks tariffs are assumed to increase to 25%. Steel and aluminium products are based on actual tariff schedules for HS-8 goods aggregated at the HS-6 level. For China tariffs are assumed to increase by 125%. For all other economies shown, tariffs are assumed to increase by 10%. Exemptions for smartphones and computers from the 10% tariff increase (announced on 11 April 2025 and as listed in CSMS # 64724565) would have the largest mitigating impact in the EBRD regions for Czechia, Estonia, Hungary and Latvia, reducing the GDP impact by around 0.02 pp (exemptions shown as hollow bars). For China, these exemptions would reduce the overall impact from 2.5% of GDP to 2% of GDP. Where elasticities were missing in Kee, Nicita and Olarreaga (2008, 2009) the median elasticity of around -1 is used. If these lines are instead omitted from the analysis, impacts are somewhat smaller. The demand shock for a particular HS6 product is capped at 100% of existing exports. Estimates account for exemptions as listed in Annex II of the Executive Order. Select comparators shown.

**Indirect effects:** for 10 economies in the EBRD regions, Germany remains the top trading partner

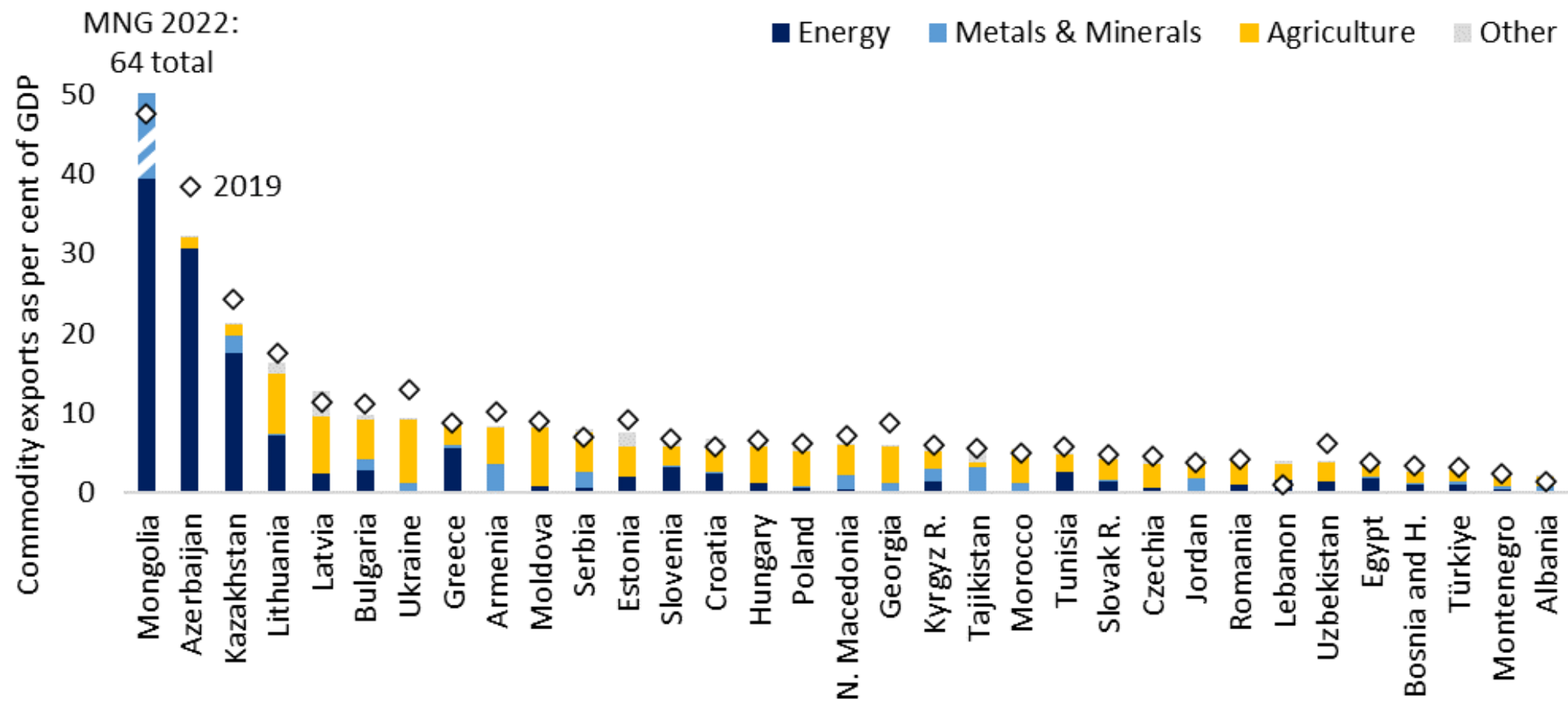


Source: UN COMTRADE and authors' calculations. Note: 2024 or latest available. Definition of commodity is based on Broad Economic Categories classification and manual coding.

## Indirect effects: Exports to China (primarily commodities) exceed 62% of GDP in Mongolia, 4% of GDP in Kazakhstan, Armenia



Dependence on **commodity exports** has fallen since 2019, but remains high in Mongolia, Azerbaijan and Kazakhstan

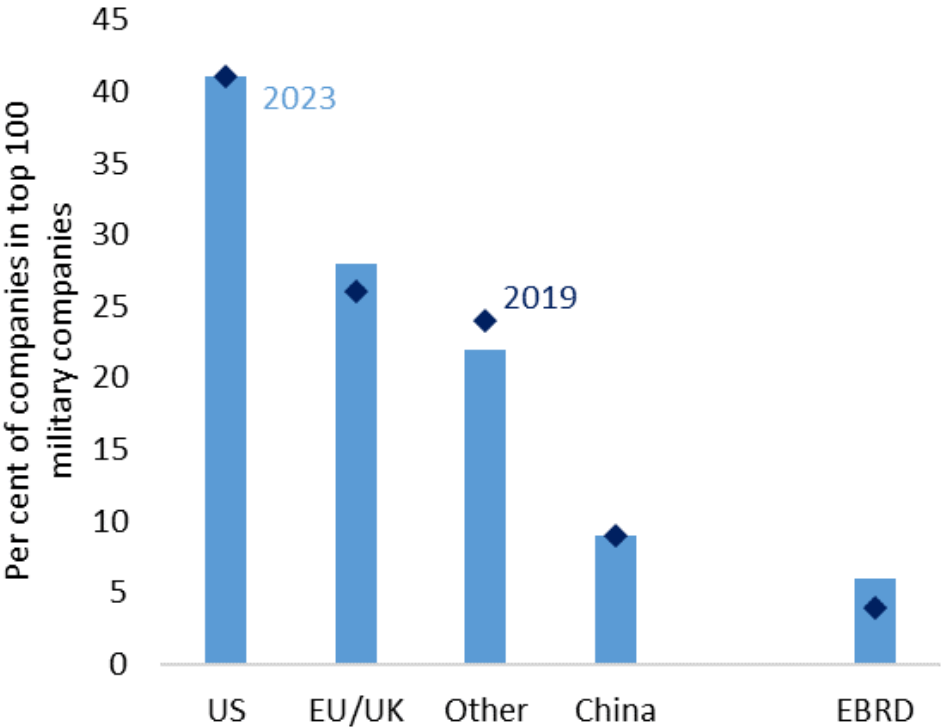


Source: UN COMTRADE and authors' calculations. Note: 2024 or latest available. Definition of commodity is based on Broad Economic Categories classification and manual coding.

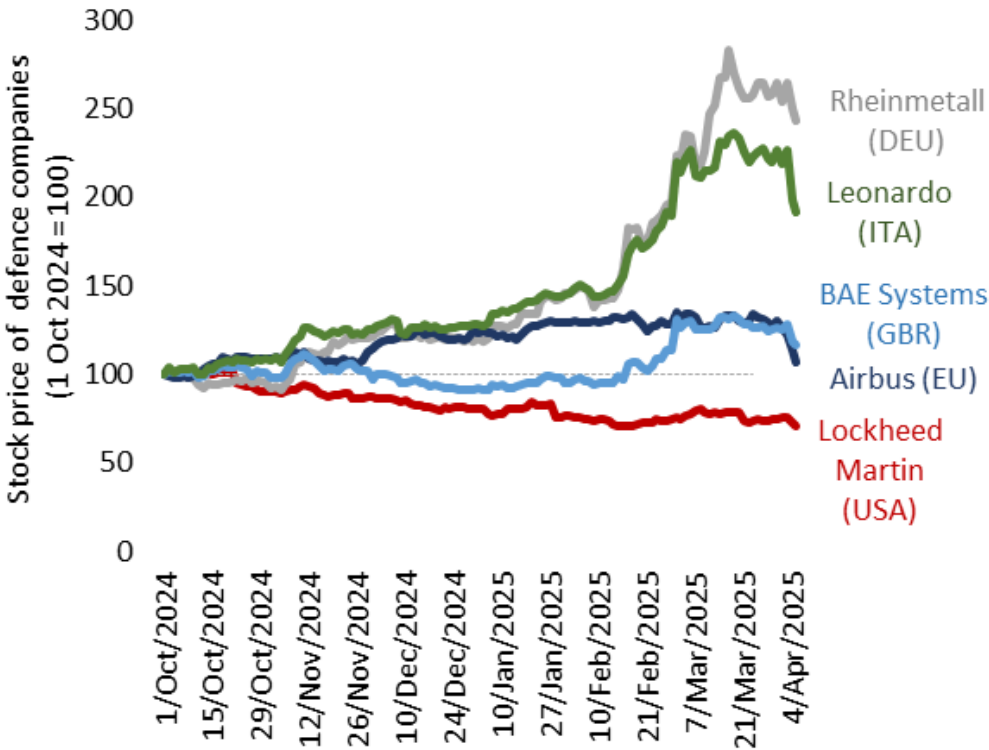


41 of the top 100 military firms are American; stock prices of European defence companies increased on announcement of €150bn ‘buy European’ EU rearmament fund

Top 100 military companies

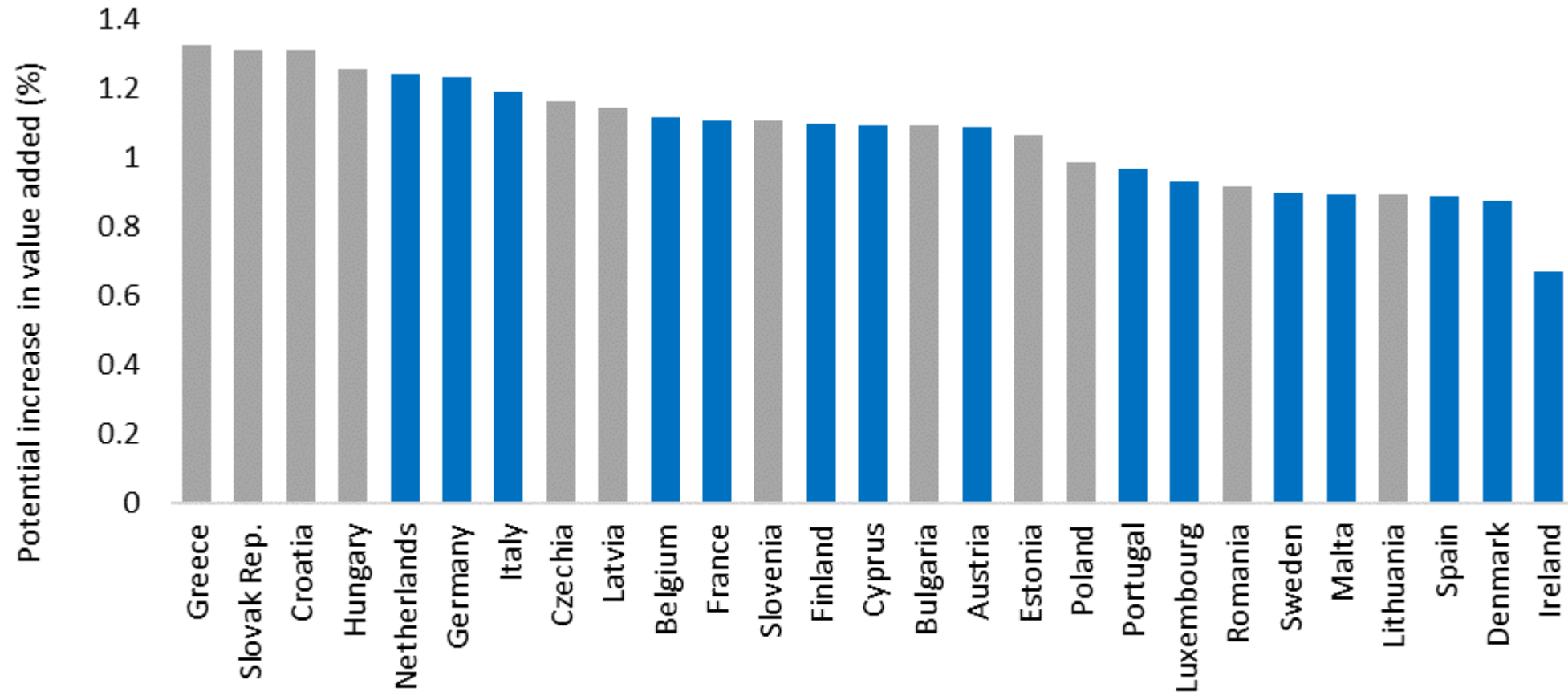


Stock prices of defence companies

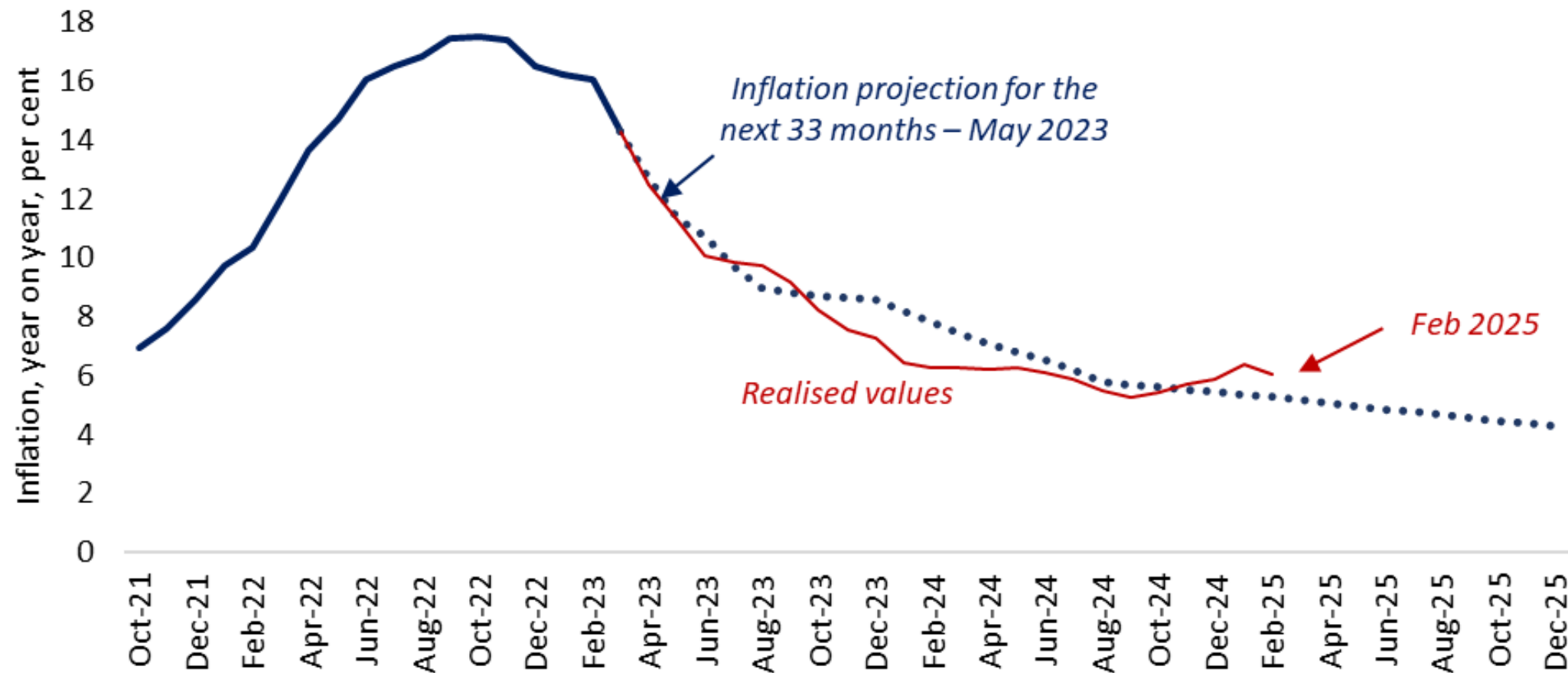


## A 10% [US\$ 170 bn] increase in demand for **defence-related products** from the EU would increase global output by 0.2%, up to 1-1.5% in Slovak R, Greece, Croatia, Hungary

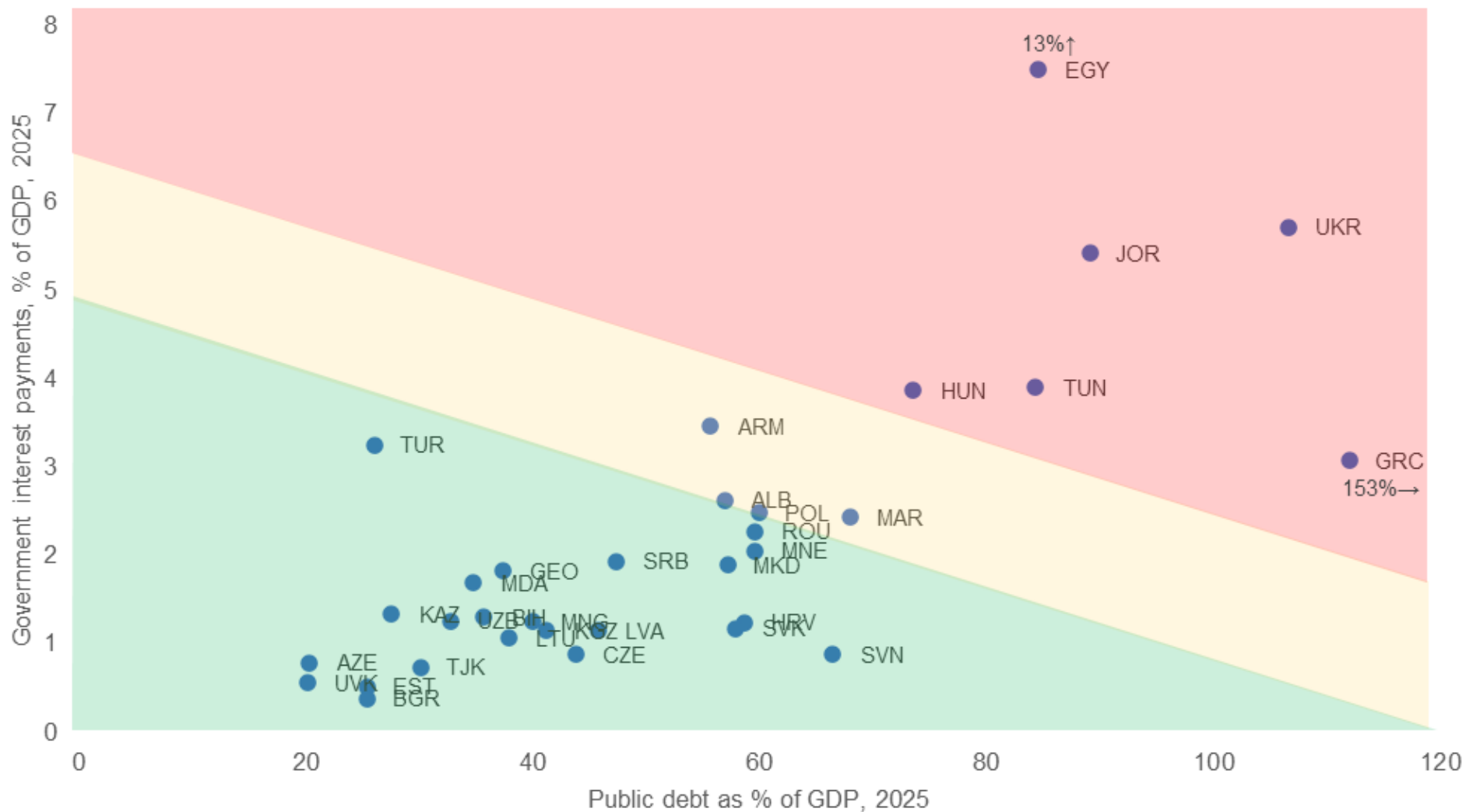
Currently, 92% of EEA/UK defence-related sector demand for goods and services is sourced within the EEA/UK



# Inflation in the EBRD regions started picking up from a low of 5.3% in September 2024, to 6.1% as of February 2025



# Substantial fiscal vulnerabilities remain in EGY (with interest payments of 13% of GDP), UKR, JOR, TUN, HUN and GRC



Largest downward revisions for Central Europe (especially SVK and HUN with greatest exposure to higher US tariffs), Western Balkans, on weak external demand

