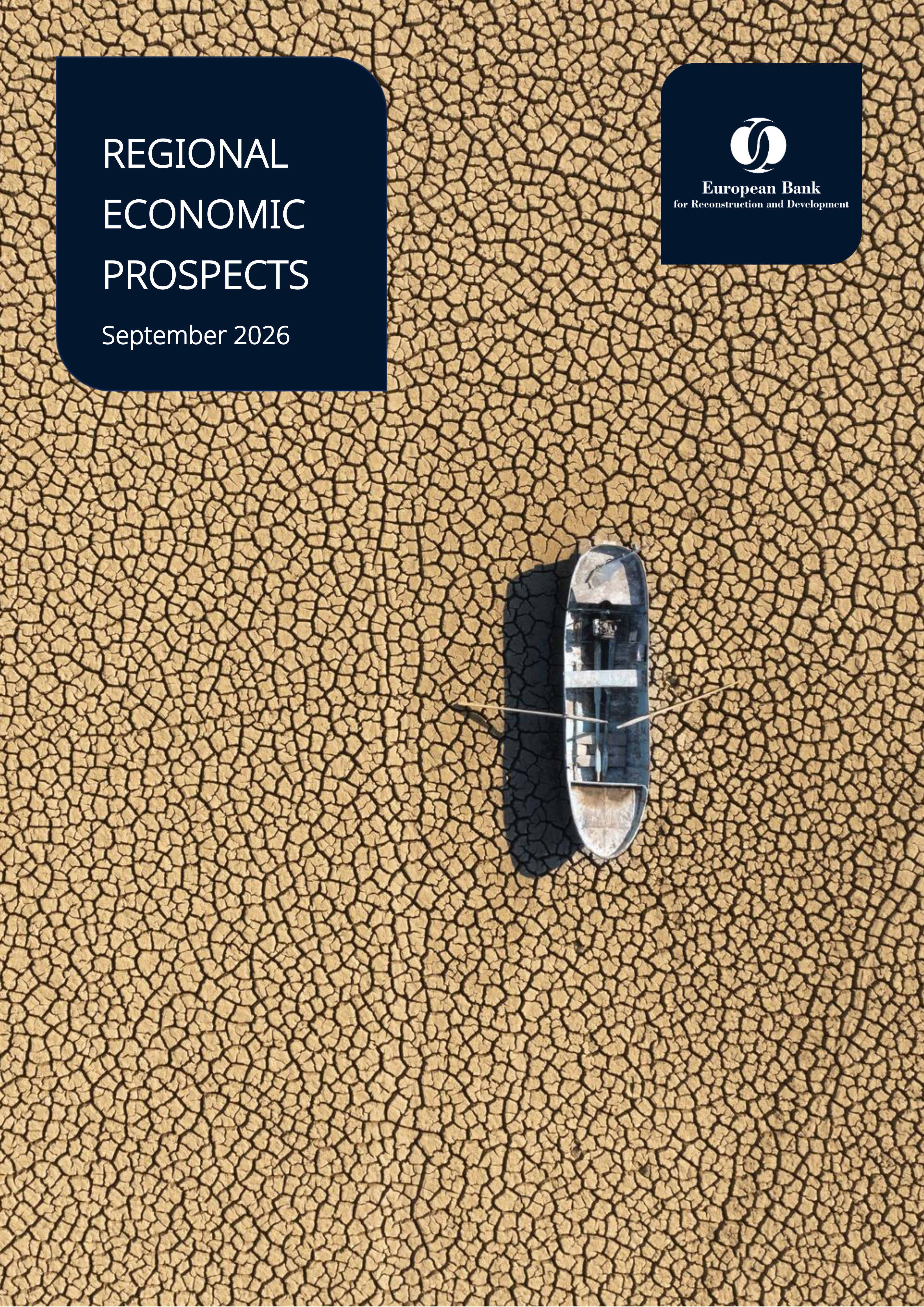
REGIONAL ECONOMIC PROSPECTS

September 2026

European Bank
for Reconstruction and Development



Regional Economic Prospects in the EBRD Regions

Running dry

September 2026

Growth in the EBRD regions picked up from 3.1 per cent in 2024 to 3.4 per cent in 2025, before slowing to an estimated 2.4 per cent year on year in the first half of 2026. Growth is expected to reach 2.5 per cent in 2026, picking up to 4.0 per cent in 2027. The 2026 forecast has been revised down by 0.6 percentage points relative to the forecast published in June 2026 while the 2027 forecast has been revised up by 0.4 percentage points. The revisions are largely driven by a deep recession in Iraq on account of a collapse in oil exports followed by a rebound. Excluding Iraq, the forecast for 2026 has been revised down by 0.1 percentage points, reflecting in part tighter financing conditions, the impact of drought in Europe and the Black Sea blockade, precipitated by Russia's continued military invasion of Ukraine, while the outlook for 2027 is unchanged.

Oil prices rose from about US$ 65 per barrel of Brent before the conflict to over US$ 100 by April 2026, after seaborne crude exports from the Middle East and North Africa halved. Prices remain 30 to 60 per cent above their pre-conflict levels. Increases were larger for prices of refined products, particularly diesel and jet fuel, than for crude. The estimated rise in import bills was uneven, with the largest increases in Bosnia and Herzegovina, North Macedonia and Moldova, reflecting sourcing arrangements and the extent of indirect exposure to the Middle East via oil product supply chains.

Gas prices have risen by more than 70 per cent since February 2026, as Middle East cargoes have largely stopped and global seaborne exports of LNG fell by 40 per cent. EU gas storage averaged 65 per cent full in August 2026, the lowest August level in fifteen years, and is unlikely to reach the 90 per cent pre-winter filling target at the historical average injection rate.

Shipment of grain from Ukraine as well as Russia via the Black Sea has been severely disrupted as a result of attacks on infrastructure and vessels as Russia's military invasion of Ukraine has entered a new stage of escalation. For Ukraine, low water on the Danube has also reduced capacity on the main alternative route. The Black Sea blockade compounded the impact of higher fertiliser prices. As a result, wheat prices have risen by more than a third and are expected to stay high through 2028. Harvests themselves have held up, with drought stress below the average since 2010 outside central Europe.

In Europe, record low water levels in the Danube and Rhine weighed on shipment of industrial goods and energy generation, cutting output from hydropower and nuclear plants by a third.

Average inflation in the EBRD regions has stabilised at about 6 per cent after peaking at 6.7 per cent in April 2026. Energy accounted for about a quarter of headline inflation, with limited pass-through to other components. Policy rates have been broadly unchanged through 2026. Recent levels of inflation are around 2 percentage points above the pre-Covid average, increasingly feeding into higher inflation expectations.

Higher inflation, higher government deficits and increased corporate borrowing to finance investment in artificial intelligence resulted in upward pressures on longer-term interest rates in advanced economies. Five-year government bond yields in the United States, Germany and France have risen further from an already elevated base. While in most EBRD economies sovereign spreads over Germany have returned to or below their pre-conflict levels, yields on government bonds rose in line with increases observed in advanced economies, resulting in tighter financing conditions. Fiscal space is most limited in Egypt and Kenya, where interest payments absorb more than 30 per cent of government revenue.

The region's structural exposure to volatile global fossil fuel prices remains high. Oil and gas still supply about two-thirds of primary energy, and their share has risen as coal has been gradually phased out. In electricity generation, renewables and nuclear now provide more than half of output in the EBRD economies inside the European Union, but only about a quarter in the rest of the EBRD regions. Reducing reliance on gas hinges on further leveraging renewables, energy storage and nuclear generation. Renewable capacity per person remains relatively low. Nuclear already supplies between a fifth and two-thirds of electricity in the seven economies that have it, but most new capacity arrives only in the 2030s. Energy costs remain elevated in Europe: firms in the European Union pay about 2.4 times the United States price for electricity, prompting a shift away from energy-intensive production.

Average statutory tariffs imposed by the United States on imports from the EBRD regions fell from 11.6 to 8.6 per cent after the changes introduced in July 2026, with reductions with respect to 34 of the 40 economies in the EBRD regions. At the same time, trade policy uncertainty remains elevated, with frequent changes in tariff regimes.

Growth in central Europe and the Baltic states picked up from 2.4 per cent in 2024 to 2.7 per cent in 2025 and reached 2.9 per cent year on year in the first half of 2026, as absorption of Recovery and Resilience Facility (RRF) funds peaked ahead of the end-August 2026 deadline and lifted public investment. Growth is expected to moderate from 2.9 per cent in 2026 to 2.5 per cent in 2027, as RRF financing ends. The 2026 growth forecast has been revised up for Slovenia, where post-flood reconstruction drove investment higher.

Growth in the south-eastern EU decelerated from 1.4 per cent in 2024 to 1.2 per cent in 2025. Output was broadly flat in the first half of 2026, reflecting a contraction in Romania, where fiscal consolidation and high inflation weighed on household spending and manufacturing output fell. Growth in Bulgaria held up at close to 3 per cent. Growth is expected at 0.5 per cent in 2026 and 2.0 per cent in 2027, with forecasts unchanged.

Growth in the Western Balkans slowed from 3.7 per cent in 2024 to 2.6 per cent in 2025 before picking up to 3.4 per cent year on year in the first half of 2026. Growth is expected at 3.0 per cent in 2026 and 3.5 per cent in 2027, supported by improving external demand, stronger investment activity and tourism.

Growth in Central Asia increased from 5.9 per cent in 2024 to 6.9 per cent in 2025 before returning to 5.9 per cent year on year in the first half of 2026. Growth is expected at 5.8 per cent in 2026 and 5.3 per cent in 2027. Forecasts have been revised up for Uzbekistan, where domestic demand has been strong, and for Mongolia, on record mining output. Disruptions to fuel supplies from Russia remain a downside risk.

In eastern Europe and the Caucasus, growth slowed from 3.9 per cent in 2024 to 2.7 per cent in 2025 and to 1.5 per cent year on year in the first half of 2026, weaker than expected, as intensifying Russian strikes on energy, production and logistics infrastructure weighed on activity in Ukraine and oil and gas output contracted in Azerbaijan. Growth is expected to pick up to 2.5 per cent in 2026 and 3.1 per cent in 2027. Forecasts for Ukraine have been revised down in both years on Russia’s renewed attacks on Ukraine's Black Sea ports and vessels using those ports. Forecasts for Georgia have been revised up in both years reflecting broad-based growth momentum.

In Türkiye, growth picked up from 3.3 per cent in 2024 to 3.6 per cent in 2025 before slowing to 2.5 per cent year on year in the first half of 2026. The latest reading was weaker than previously expected, as exports fell in real terms. Growth is expected to accelerate to 3.0 per cent in 2026 and 4.0 per cent in 2027. The 2026 forecast has been revised down by 0.5 percentage points on persistent inflationary pressures necessitating tighter financing conditions.

Growth in the southern and eastern Mediterranean picked up from 1.9 per cent in 2024 to 3.1 per cent in 2025 before output contracted by 0.6 per cent year on year in the first half of 2026. Growth is expected at -0.7 per cent in 2026. The regional averages are dominated by the sharp contraction in Iraq, where following the closure of the Strait of Hormuz exports of oil through alternative routes amounted to less than a quarter of last year's export capacity. Lebanon has also been in recession exacerbated by military escalation, which caused further damage to infrastructure. Growth is projected to rebound to 7.1 per cent in 2027 once shipment of oil from Iraq normalises. Excluding Iraq, growth in the region is expected to average 3.9 per cent in 2026 and 4.3 per cent in 2027. Forecasts for Morocco and Tunisia have been revised up on strong agricultural output.

Growth in sub-Saharan Africa picked up from 5.1 per cent in 2024 to 5.2 per cent in 2025 before moderating slightly to 5.1 per cent year on year in the first half of 2026, supported by services, agriculture and commodity exports. Growth is expected at 4.8 per cent in 2026 and 4.7 per cent in 2027 as commodity windfalls fade. The 2026 forecast has been revised up, mainly on account of Nigeria, where growth accelerated in agriculture and services, while rising output at the Dangote refinery helped to cut fuel imports.

Table 1. GDP growth in real terms

	Actual				Forecast (Sep'26)		Revision since Jun'26	
	2024	2025	2026H1		2026	2027	2026	2027
EBRD regions	**3.1**	**3.4**	**2.4**		**2.5**	**4.0**	**-0.6**	**0.4**
EBRD regions excl. Iraq	**3.3**	**3.6**	**3.1**		**3.3**	**3.6**	**-0.1**	**0.0**
Central Asia	**5.9**	**6.9**	**5.9**		**5.8**	**5.3**	**0.2**	**0.0**
Kazakhstan	5.0	6.5	4.1		4.7	4.5	0.0	0.0
Kyrgyz Republic	11.5	11.1	11.9		8.7	7.0	0.0	0.0
Mongolia	5.1	6.8	7.7		6.3	5.5	0.8	0.0
Tajikistan	8.4	8.4	8.2		7.9	7.0	0.0	0.0
Turkmenistan	6.3	6.3	6.3		6.3	6.3	0.0	0.0
Uzbekistan	6.7	7.7	8.5		7.5	6.0	1.0	0.0
Central Europe and the Baltic states	**2.4**	**2.7**	**2.9**		**2.9**	**2.5**	**0.1**	**0.0**
Croatia	3.8	3.4	1.9		2.4	2.5	-0.3	0.0
Estonia	-0.1	1.3	2.3		2.4	2.3	0.3	0.0
Hungary	0.6	0.5	1.7		1.8	2.5	0.0	0.0
Latvia	0.0	2.1	2.8		2.4	2.1	0.4	-0.2
Lithuania	3.0	2.9	3.3		3.0	2.2	0.0	0.0
Poland	3.0	3.6	3.5		3.5	2.8	0.0	0.0
Slovak Republic	1.9	0.8	0.8		0.8	1.5	0.3	0.0
Slovenia	1.7	1.1	4.1		3.6	2.2	1.6	0.0
Eastern Europe and the Caucasus	**3.9**	**2.7**	**1.5**		**2.5**	**3.1**	**-0.3**	**-0.8**
Armenia	5.9	7.1	6.0		5.5	5.5	0.0	0.0
Azerbaijan	4.2	1.4	0.8		2.0	2.5	0.0	0.0
Georgia	9.7	7.5	7.9		6.5	5.5	0.5	0.5
Moldova	0.1	2.4	1.0	e	2.8	3.5	0.0	0.0
Ukraine	2.9	1.8	0.0		1.5	2.5	-0.7	-1.5
South-eastern EU	**1.4**	**1.2**	**0.0**		**0.5**	**2.0**	**0.0**	**0.0**
Bulgaria	3.4	3.1	2.8		2.7	2.5	0.0	0.0
Romania	0.8	0.7	-0.8		-0.2	1.8	0.0	0.0
Southern and eastern Mediterranean	**1.9**	**3.1**	**-0.6**		**-0.7**	**7.1**	**-3.2**	**2.9**
Egypt	3.1	5.1	5.0	e	4.6	5.0	-0.3	0.1
Iraq	0.1	-0.4	-12.0	e	-12.0	14.0	-10.5	10.0
Jordan	2.5	2.8	2.9	e	2.5	2.8	-0.1	0.0
Lebanon	-7.5	3.5	-5.0	e	-5.0	4.0	-3.0	0.0
Morocco	3.8	4.9	4.6	e	4.8	3.9	0.4	-0.1
Tunisia	1.6	2.6	2.4		2.4	2.3	0.2	0.1
Sub-Saharan Africa	**5.1**	**5.2**	**5.1**		**4.8**	**4.7**	**0.1**	**-0.1**
Benin	7.5	8.1	7.8	e	7.0	6.7	0.0	0.0
Cote d'Ivoire	6.1	6.5	4.7	e	6.1	6.5	0.0	0.0
Ghana	5.8	6.0	6.4	e	5.0	5.0	0.0	0.0
Kenya	4.7	4.6	5.3	e	4.7	4.6	0.1	-0.3
Nigeria	4.1	4.0	4.2		4.2	4.0	0.1	0.1
Senegal	6.5	6.7	5.2	e	2.5	2.7	0.0	0.0
Türkiye	**3.3**	**3.6**	**2.5**	**e**	**3.0**	**4.0**	**-0.5**	**0.0**
Western Balkans	**3.7**	**2.6**	**3.4**		**3.0**	**3.5**	**0.1**	**0.0**
Albania	4.0	3.8	3.7	e	3.5	3.5	0.1	0.0
Bosnia and Herzegovina	3.2	2.1	2.2	e	2.1	2.8	-0.3	0.0
Kosovo	4.6	3.6	5.4	e	3.5	3.9	0.0	0.0
Montenegro	3.2	2.7	3.2		3.1	3.0	0.2	0.0
North Macedonia	3.0	3.5	3.7		3.3	3.2	0.3	0.0
Serbia	3.9	2.0	3.5		3.1	3.8	0.3	0.0
Memo: Egypt (fiscal year to June)	2.4	4.4	5.3	e	4.8	4.9	-0.1	0.0
Memo: Belarus	4.0	1.3	1.5		1.3	1.5	0.2	0.0
Memo: Czechia	1.3	2.6	2.2	e	2.2	2.4	0.0	-0.1
Memo: Russia	4.9	1.0	0.6		0.5	0.7	-0.3	-0.3
Southern and eastern Mediterranean excl. Iraq	**2.7**	**4.6**	**4.1**		**3.9**	**4.3**	**-0.2**	**0.0**

Source: Eurostat for EU economies, national authorities and EBRD.
Note: Weights are based on the values of gross domestic product in 2024. The table includes forecasts for Belarus and Russia notwithstanding the fact that Belarus and Russia have had their access to Bank resources suspended under Article 8.3 of the Agreement Establishing the EBRD. "e" denotes unofficial estimates. Where growth estimates for the first half of 2026 were not available at the time of writing, forecasts of annual growth were used to calculate regional averages.

Growth eased

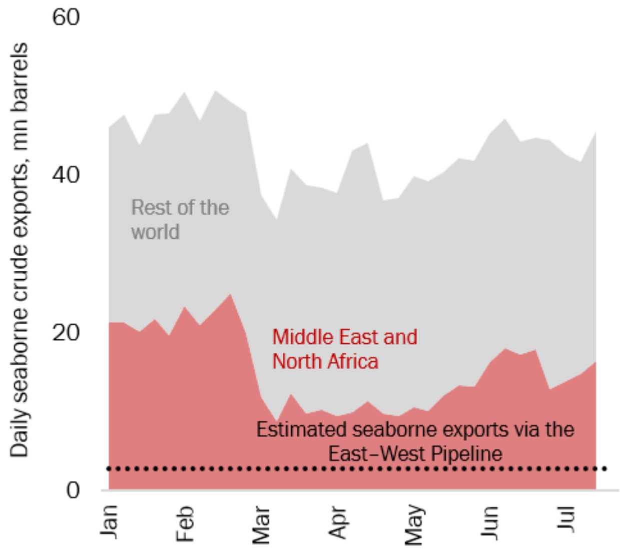
Growth in the EBRD regions picked up from 3.1 per cent in 2024 to 3.4 per cent in 2025, before slowing to an estimated 2.4 per cent year on year in the first half of 2026 (see Table 1). The slowdown reflects a sharp contraction in Iraq, where the conflict that began in the Middle East on 28 February 2026 and the disrupted traffic through the Strait of Hormuz left oil exports below a quarter of the pre-conflict export capacity.

Excluding Iraq, growth in the EBRD regions eased more modestly, from 3.6 per cent in 2025 to 3.1 per cent year on year in the first half of 2026, reflecting higher energy prices, disruptions to shipping and near-stagnation in Ukraine amid intensified military attacks by Russia.

Oil prices remain elevated

Seaborne exports of oil and gas fell sharply once traffic through the Strait of Hormuz came to a near standstill following the start of the conflict in the Middle East on 28 February 2026. Crude oil shipped from the Middle East and North Africa fell from an average of 23 million barrels a day in February to 11 million between March and May (see Chart 1A). Global shipments have been recovering since. Global volumes in August were back close to their January level, as exporters elsewhere shipped more oil, some Gulf cargoes resumed and higher amounts of Gulf oil could be exported via Red Sea ports.

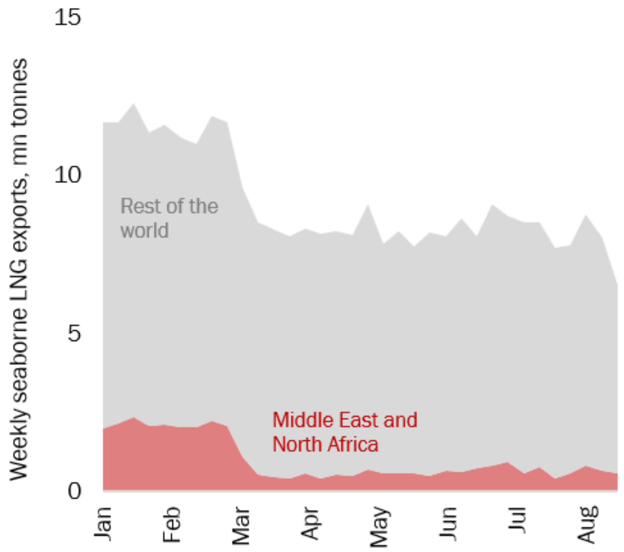
Chart 1A. Global crude exports have been recovering gradually



Source: Bloomberg, S&P Global and authors' calculations.
Note: Based on weekly data. Latest observation as of early September 2026. Estimated average daily seaborne exports via the East–West Pipeline in August 2026.

Exports of LNG have not recovered since the start of the conflict. Middle East cargoes have largely stopped, and global seaborne LNG exports remain about 40 per cent below their level at the start of the year (see Chart 1B).

Chart 1B. LNG exports remain well below their February level



Source: Bloomberg and authors' calculations.
Note: Based on weekly data. Latest observation as of early September 2026.

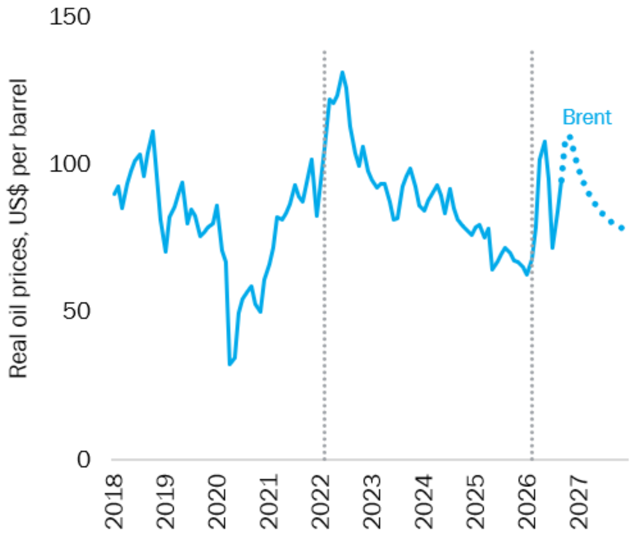
Brent crude rose from below US$ 65 a barrel before the conflict to above US$ 100 in April and May 2026 (see Chart 2). The path of the price largely followed the state of negotiations, with prices falling after a memorandum of understanding between the United States and Iran and rising after renewed attacks on tankers transiting the strait.

A further escalation in the Middle East in September 2026 led to the closure of the East-West Pipeline in Saudi Arabia, estimated to carry around 5 per cent of seaborne crude exports (see Chart 1A). As a result, Brent oil price traded above US$ 100 per barrel as of mid-September 2026.

On the demand side, subdued oil imports in China have limited the rise in prices, with Chinese crude imports down 11.4 per cent year on year in the first half of 2026. A recovery in Chinese demand is a key upside risk to prices.

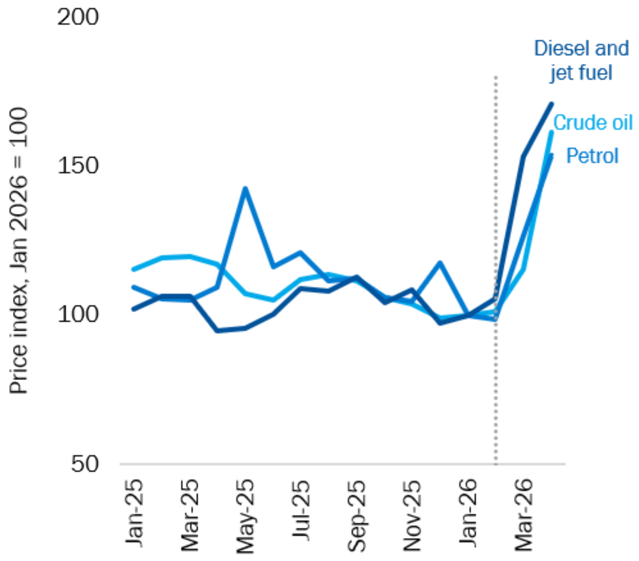
Brent oil price is expected to average US$ 80-100 per barrel in 2026 before declining in 2027.

Chart 2. Oil prices remain 30 to 60 per cent above their pre-conflict levels



Source: Bloomberg, Refinitiv and authors' calculations.
Note: Prices adjusted for US inflation. Latest observation as of mid-September 2026.

Chart 3. Prices of imported oil rose sharply after February 2026, led by diesel and jet fuel



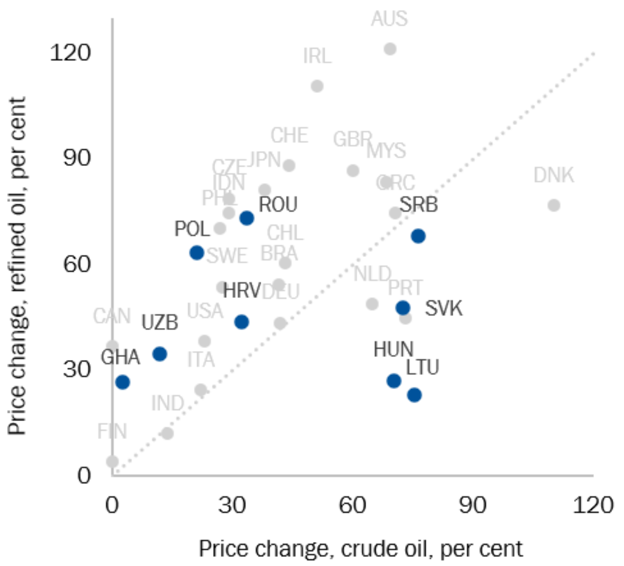
Source: UN Comtrade and authors' calculations.
Note: Crude oil = HS270900; petrol = HS271012; diesel and jet fuel = HS271019; refined oil combines HS271012 and HS271019. Unit values are aggregate values calculated as total CIF import value divided by total net weight. Country coverage for crude oil: Hungary, Lithuania, Poland; for refined oil: Armenia, Azerbaijan, Bosnia and H., Côte d'Ivoire, Estonia, Georgia, Hungary, Kyrgyz R., Latvia, Lithuania, N. Macedonia, Poland, Romania, Serbia, Slovak R., Uzbekistan. Latest observation as of April 2026.

Benchmark market prices, such as Brent oil, however, do not necessarily reflect the prices paid by individual economies for specific oil products. Those prices may vary significantly depending on refining capacity, supply routes, contract terms and other factors. The analysis below uses granular information on monthly bilateral trade flows at the HS6 level of disaggregation. Combining data on the value and quantity of trade, the analysis tracks the unit values (prices) of imported energy across time, economies and oil products.

By April 2026, the average price of jet fuel, diesel and other medium and heavy distillates imported in the EBRD regions rose by 71 per cent compared with January 2026, while for petrol and other light distillates the corresponding increase stood at 54 per cent. Imported crude oil prices were 62 per cent above their January values, broadly in line with the movements observed for Brent oil (see Chart 3).

For individual importers, refined oil prices rose more than crude oil prices between January 2026 and March-April 2026, albeit with some exceptions (see Chart 4). Hungary and the Slovak Republic, for example, were affected by the closure of the Druzhba pipeline on 27 January 2026, a month before the start of the conflict in the Middle East, amplifying the subsequent price shock to the crude oil import prices from the Strait of Hormuz crisis (the pipeline was damaged).

Chart 4. For individual importers, refined oil prices rose more than crude oil prices between January 2026 and March-April 2026, albeit with some exceptions

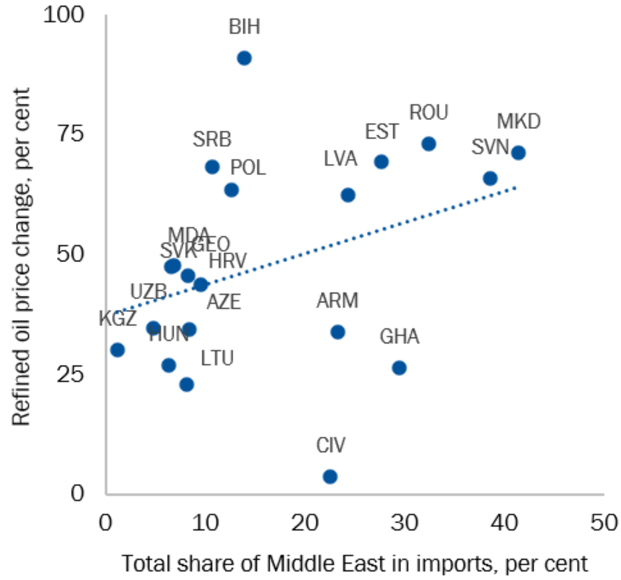


Source: UN Comtrade and authors' calculations.
Note: Product definitions as in Chart 3. Price changes compare March 2026 or April 2026 values, depending on availability, with the 2025 average. The sample comprises countries that imported more than US$ 1 billion of crude oil and more than US$ 100 million of refined oil in 2025. Azerbaijan is excluded as a net oil exporter.

Exposure to the Middle East via stages of oil product supply chain explains part of the price differences across importers. Direct exposure to oil supplies from the Middle East in the EBRD regions was limited, as most economies in the EBRD regions sourced less than 20 per cent of their refined oil imports from the Middle East in 2025. The increases in import prices of refined oil show no clear link to that direct dependence.

Indirect exposure through suppliers matters more. Many of the economies that supply refined oil to the EBRD regions refine crude bought from the Middle East. Once this indirect exposure is also accounted for, economies previously more exposed to Middle East oil supplies recorded larger increases in refined oil import prices, with a correlation of 0.36 (see Chart 5).

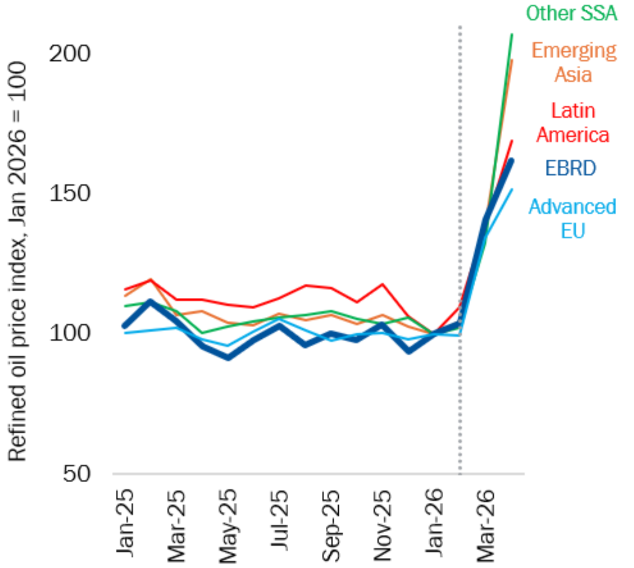
Chart 5. Refined oil price increases were higher where prior dependence on the Middle East via oil product supply chains was greater



Source: UN Comtrade and authors' calculations.
Note: Product definitions and unit values as in Chart 3. The sample comprises countries that imported more than US$ 100 million of refined oil in 2025. The y-axis uses data for March 2026 or April 2026, as available. The Middle East comprises Bahrain, Iran, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates and Yemen. Total share of Middle East in imports is the sum of the direct share of refined oil imports sourced from the Middle East in 2025 and an indirect share, obtained by weighting each supplier's share in refined oil imports by that supplier's share of crude oil imports from the Middle East in 2025.

On balance, the EBRD regions have been less affected by rising refined oil prices than other emerging markets (see Chart 6). Refined oil import prices doubled in emerging Asia and in sub-Saharan African economies outside the EBRD regions between January and April 2026. The increase in the EBRD regions was 62 per cent, comparable to those seen for Latin America (69 per cent) and the advanced EU (54 per cent).

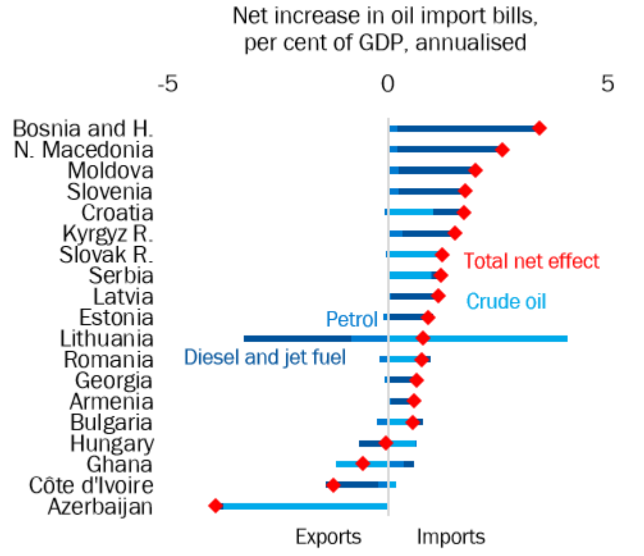
Chart 6. EBRD regions have on average seen lower increases in refined oil product prices than other emerging market economies



Source: UN Comtrade and authors' calculations.
Note: Product definitions, unit values and sample coverage as in Chart 3. Emerging Asia: India, Indonesia, Malaysia, Pakistan, Philippines, Thailand. Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Dominican R., Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru. Other sub-Saharan Africa: Angola, Mauritius, Namibia, South Africa, South Sudan, Togo, Zimbabwe. Dashed line marks the start of the conflict in the Middle East. Latest observation as of April 2026.

As a result of these differences, the estimated increase in the annual oil import bill varies across economies (see Chart 7). For most countries in the sample, the import cost increase is driven by diesel and jet fuel. Bosnia and Herzegovina and North Macedonia have experienced the largest increase in net bills, at 3.0 and 2.3 per cent of GDP respectively (based on April-May prices and annualised). Countries with refining capacity, such as Lithuania and Hungary, had their import cost increase largely offset by higher export revenue. For net exporters like Azerbaijan, the estimated effect was a 3.9 per cent of GDP increase in export revenue.

Chart 7. The estimated increase in import bills is driven by diesel and jet fuel and is uneven across economies

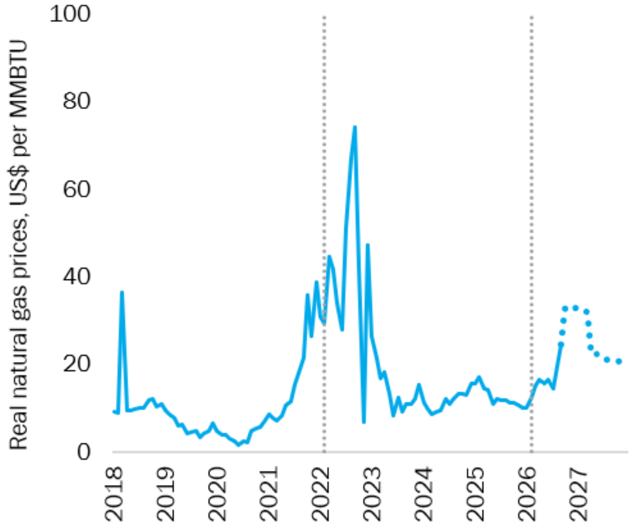


Source: UN Comtrade, World Bank and authors' calculations.
Note: Product definitions and unit values as in Chart 3. The net increase in each country's energy import bill compares average 2025 prices with March 2026 or April 2026 prices, as available, separately for crude oil, petrol and diesel and jet fuel. For each product, the added cost is the country's 2025 import value times that price increase, offset by any equivalent revenue gain on its exports of the same product. The three products are summed and expressed as a share of 2025 GDP.

Gas price increase has been less pronounced than in 2022

In September 2026, the gas price in the EU almost doubled from its pre-conflict level in February 2026 (see Chart 8). Notwithstanding this large increase, the September 2026 price was about a third of the September 2022 peak recorded in the aftermath of Russia's invasion of Ukraine when deliveries of pipeline gas from Russia to Europe were sharply reduced. The difference reflects the nature of the two shocks. Russia supplied 63 per cent of the pipeline gas imported by the EBRD economies in the EU in 2021 and this share was down to 19 per cent by 2024 (while advanced EU cut its share from 47 to 13 per cent over the same three years, see Chart 9, first panel). In 2026 the volumes lost were smaller as a share of the global market, in which Europe competes on price.

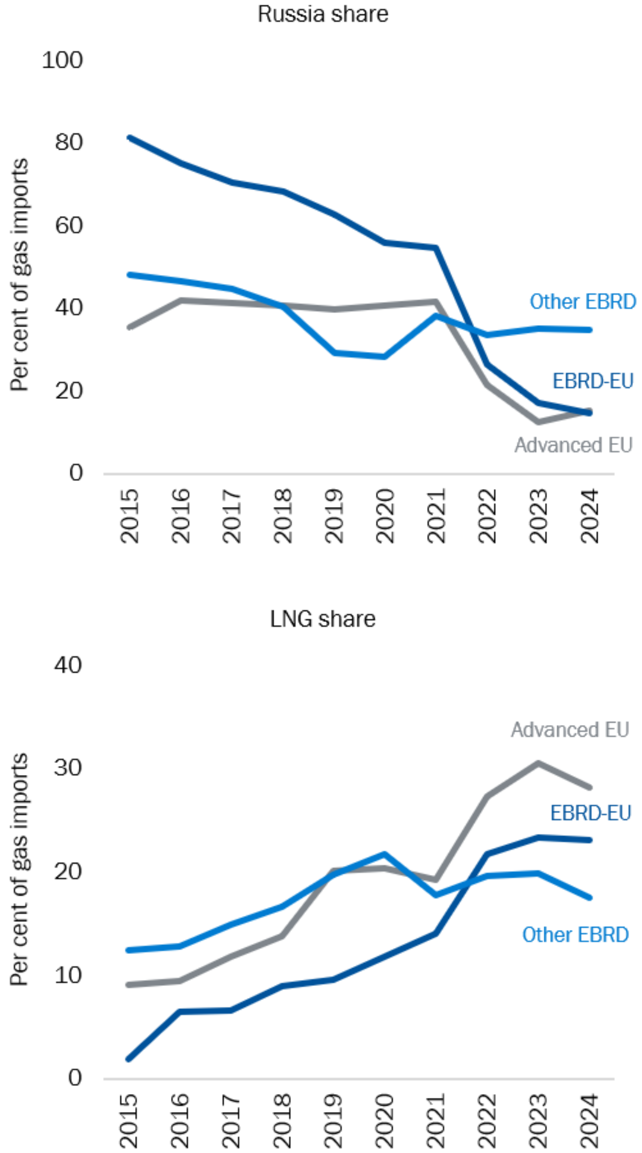
Chart 8. Gas prices have risen by more than 70 per cent since February but remain far below the 2022 peak



Source: Bloomberg, Refinitiv and authors' calculations.
Note: Prices adjusted for US inflation. Latest observation as of mid-September 2026. Dutch TTF natural gas prices.

The share of LNG in gas imports of the EBRD-EU economies rose from 2 per cent in 2015 to 23 per cent in 2024, with most of the increase occurring after 2021, and from 9 to 28 per cent in advanced EU (see Chart 9, second panel).

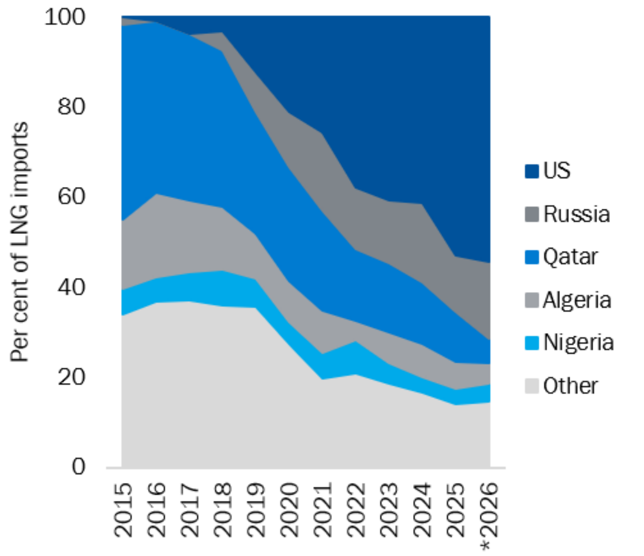
Chart 9. Europe is exposed to volatile global LNG prices



Source: Eurostat and authors' calculations.
Note: Regional shares calculated as the total import volume across the region for the given category divided by the region's total import volume, in terajoules. The other EBRD sample comprises Georgia, Moldova, Türkiye, Bosnia and Herzegovina, North Macedonia, Serbia.

The European Union now buys more than half of its LNG from the United States, while Qatar, which supplied 43 per cent of the EU's LNG in 2015, accounted for 6 per cent as of May 2026 (see Chart 10). The adjustment limited the disruption from the blockade of the Strait of Hormuz. Russia's share of LNG supplies climbed back to around 17 per cent, roughly where it stood before 2022.

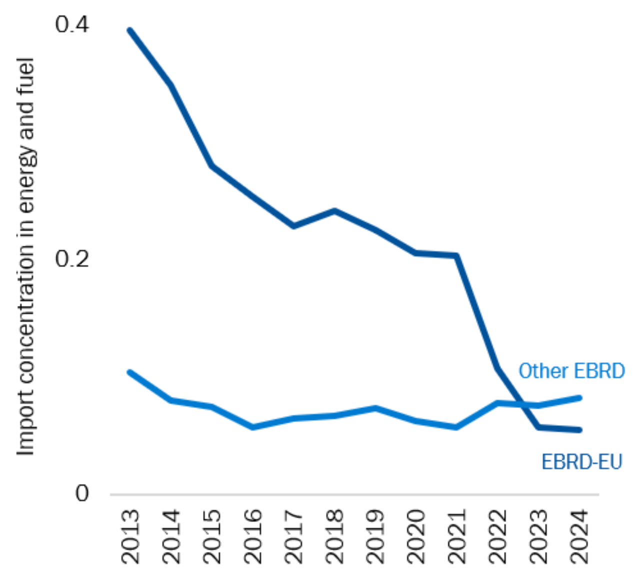
Chart 10. The United States now supplies more than half of EU LNG, Qatar just 6 per cent



Source: Eurostat and authors' calculations.
Note: Country shares are imports from each country as a share of the region's total imports, by volume in kilograms. Data are annual for 2015 to 2025; the 2026 value covers imports to May.

With sources of LNG more diversified than sources of pipeline gas, the concentration of energy and fuel imports across suppliers has been declining steadily from high initial levels in the EBRD-EU economies and is now lower than in the rest of the EBRD regions (see Chart 11).

Chart 11. Import concentration in energy has fallen sharply in the EBRD-EU economies



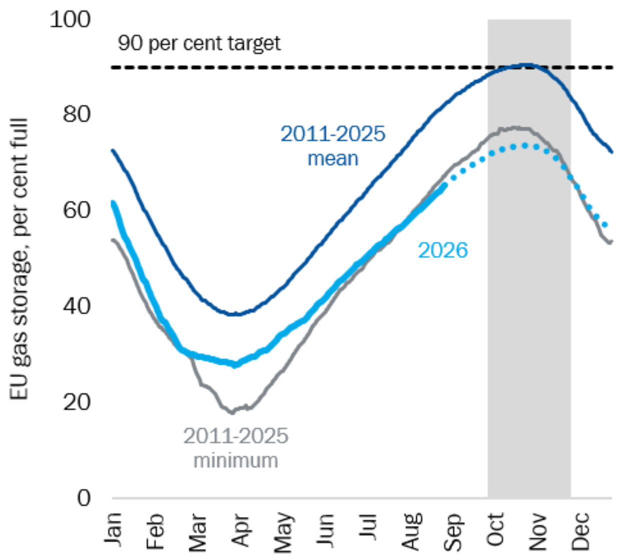
Source: UN Comtrade and authors' calculations.
Note: Energy and fuel (HS2 chapter 27) include mineral fuels, mineral oils and products of their distillation, bituminous substances and mineral waxes. Countries within each group are pooled into a single combined importer. Concentration is given by the Herfindahl-Hirschman index (HHI).

A thin gas storage buffer

High prices and the need to change suppliers resulted in thinner gas storage buffers in Europe ahead of the winter season. In August 2026, gas storage in the European Union was below the lowest level recorded for the time of year in the past fifteen years. At 65 per cent full, it was 17 percentage points (pp) below the fifteen-year average for August (see Chart 12). At the historical average injection rate, storage would fall 16 pp short of the 90 per cent target at its early November peak.

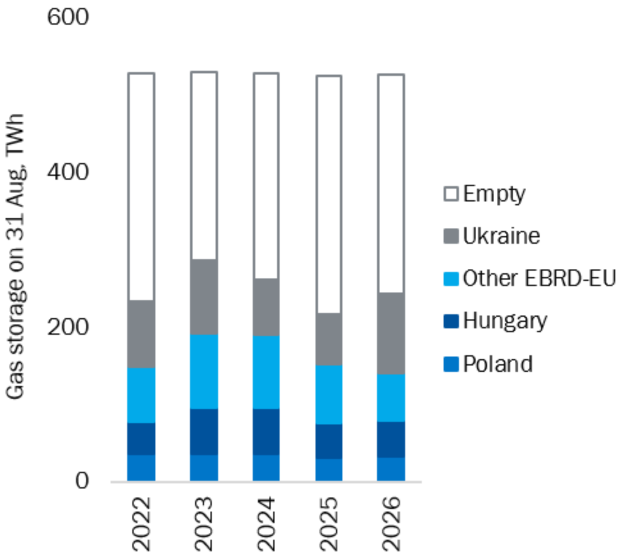
The need to refill the storage suggests that high gas prices are likely to persist for some time. The average storage levels conceal differences across economies: Poland and Hungary had similar storage levels to last year's, and Ukraine held more gas in storage in mid-2026 than at any point since 2022 (see Chart 13).

Chart 12. EU gas storage is at its fifteen-year low, and is set to miss the 90 per cent pre-winter target



Source: GIE AGSI+ and authors' calculation.
Note: The navy line shows the 2011-2025 mean and the solid grey line the 2011-2025 minimum. The solid light blue line shows 2026, with the dashed light blue line showing the projection based on the 2011-2025 average injection rate. The dashed black line shows the 90 per cent filling target, which can be met at any point between 1 October and 1 December (shaded area). Latest observation as of 31 August 2026.

Chart 13. Ukraine holds more gas in storage than at any point since 2022

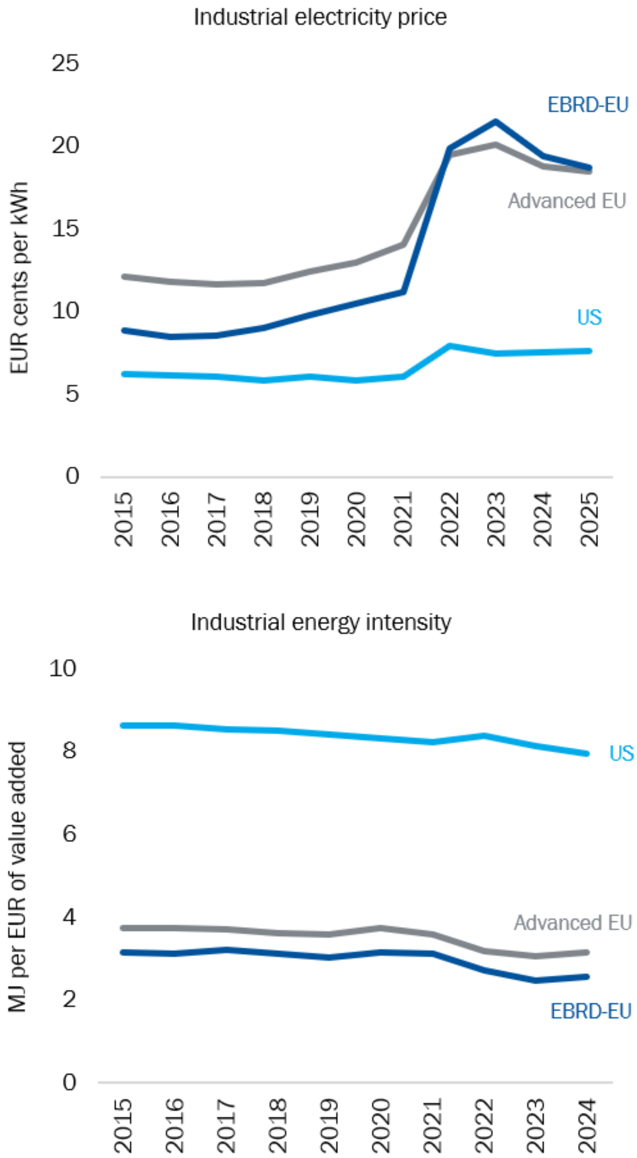


Source: GIE AGSI+ and authors' calculations.
Note: The full height of each bar shows total gas storage capacity. Coloured segments show gas held in storage on 31 August of each year and the white segment shows the capacity left empty.

Gas prices putting upward pressure on electricity prices

Higher prices of imported gas pass through to electricity prices as gas-powered generation often meets marginal demand in the grid (see Box 3). Firms in the EU pay about 2.4 times what firms in the United States pay for electricity, a gap that widened in 2022 and has not closed (see Chart 14). In the EBRD economies in the EU, the average industrial price rose by 77 per cent between 2021 and 2022. As a result, the energy intensity of industrial output in those economies declined by around a fifth between 2021 and 2024, a more pronounced decline than in the United States. Adjustment came through output and employment rather than firm exits, with no sign that bankruptcies rose faster in energy-intensive sectors (see Box 2).

Chart 14. EU industry pays about 2.4 times the US price for electricity and has cut energy intensity since 2021



Source: Eurostat, U.S. Energy Information Administration, FRED and authors' calculations.
Note: Eurostat prices (nrg_pc_205, band IC, excluding VAT and other recoverable taxes) are weighted by industrial energy consumption (nrg_bal_c). US prices are converted to EUR at that year's average EUR/USD exchange rate (DEXUSEU). Energy intensity is calculated as total industry final energy consumption across the group divided by the group's total gross value added of industry (nama_10_a64, chain-linked volumes referenced to 2020).

Black Sea blockade brings food security into spotlight

As Russia's military invasion of Ukraine has entered a new stage of escalation, a renewed blockade of Black Sea shipping has severely disrupted grain exports from Ukraine as well as from Russia. As port infrastructure and vessels were targeted, daily transits through the Bosporus fell from 60 in early June to 40 in the seven days to 16 August 2026. Cargo traffic out of the Black Sea was below the lowest levels recorded in 2022 (see Chart 15).

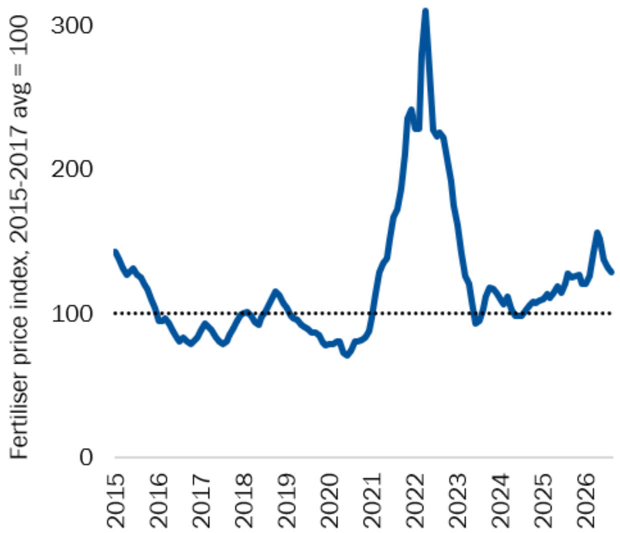
Russia and Ukraine together account for about a quarter of world wheat exports. A prolonged disruption to exports may significantly raise food prices and intensify inflationary pressures. Rerouting grain by land or rivers is expensive and logistically challenging. Low water levels in the Danube have also limited the main alternative route for Ukraine's exports.

Chart 15. Black Sea blockade cuts Bosporus traffic by a third and Ukrainian and Russian grain exports stalled

Source: IMF PortWatch.
Note: 30-day centred rolling average. Daily vessel count includes container, dry bulk, general cargo vessels and excludes tankers. Latest observation as of early September 2026.

Fertiliser prices rose following the start of the conflict in the Middle East and stabilised around 30 per cent above their 2015-2017 average (see Chart 16). The 2026 peak was less than half the level reached in 2022, in line with the smaller rise in gas prices, the main input into fertiliser production. As price controls are widespread and many economies buy fertiliser in bulk at the start of the year, the effect of higher fertiliser prices on farm costs is likely to materialise in full in 2027.[1]

Chart 16. Fertiliser prices are about 30 per cent above their 2015-2017 average



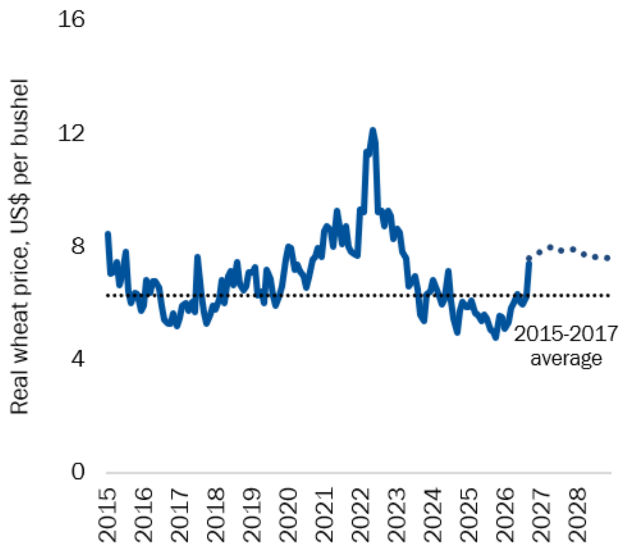
Source: Bloomberg and authors' calculations.
Note: Based on the average prices of ammonia, phosphate, potash, and urea fertilisers. Latest observation as of early September 2026.

Black Sea blockade and higher fertiliser costs have pushed up the price of wheat. It has risen by more than a third since February 2026, to around US$ 7.5 per bushel, and futures point to prices close to US$ 8 through 2028 (see Chart 17). That is well short of the 2022 peak above US$ 12, but above the 2015-2017 average of about US$ 6.2. Higher wheat prices tend to feed more strongly into headline inflation in lower-income economies.[2] For instance, food accounts for 29 per cent of the consumer basket in a typical economy in the EBRD regions compared with 16 per cent in Germany.

[1] See EBRD (2026).

[2] See EBRD (2026).

Chart 17. Wheat price has risen by more than a third since February 2026 and is expected to stay high through 2028



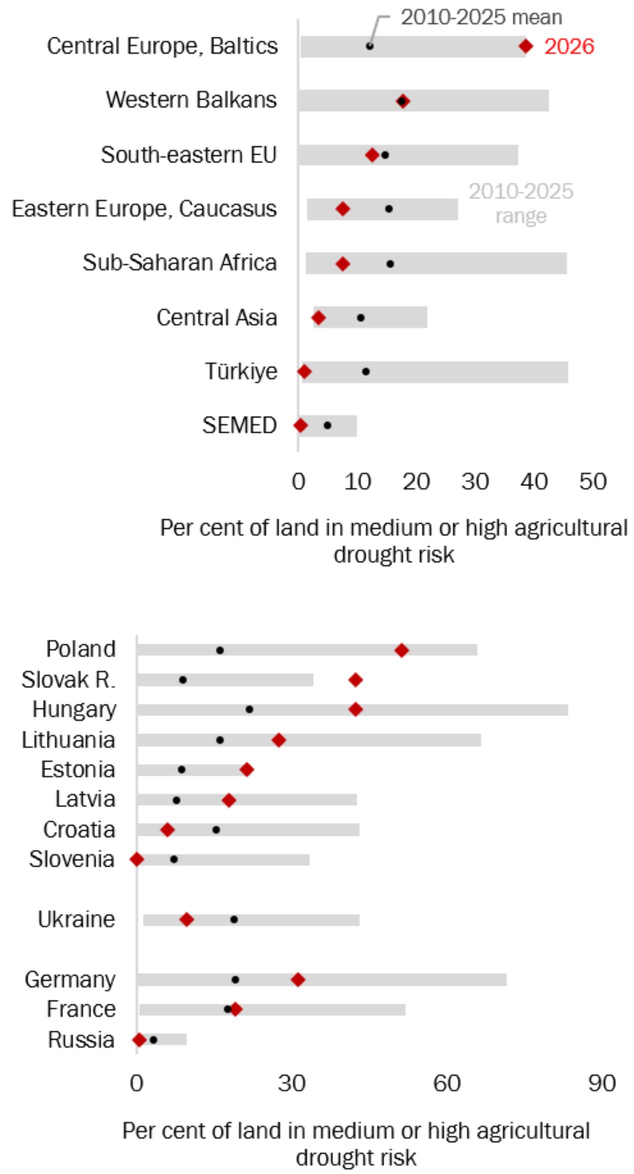
Source: Bloomberg and authors' calculations.
Note: Latest observation as of early September 2026.

Drought in Europe resulted in record-low water levels in rivers

Central Europe and the Baltic states experienced a hot and dry summer. As a result, 38 per cent of land was deemed to be at medium or high agricultural drought risk against an average of 12 per cent since 2010 (see Chart 18, first panel). Elsewhere, the incidence of droughts was at or below the respective long-run averages.

Within central Europe the burden of drought was uneven: over 40 per cent of the land area in Poland, the Slovak Republic and Hungary faced medium or high risk in 2026, while Croatia and Slovenia stayed well below their long-run averages (see Chart 18, second panel). Drought was mild in Ukraine, where the Black Sea blockade rather than the harvest limits the supply of grain to the market.

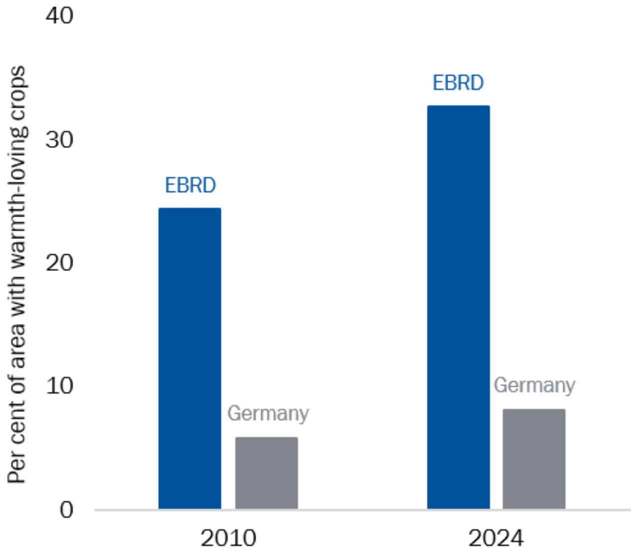
Chart 18. Drought in 2026 is concentrated in central Europe and the Baltic states, with Poland most affected



Source: Global Drought Observatory (GDO) Risk of Drought Impact for Agriculture (RDrI-Agri) and authors' calculations.
Note: For each country or region, the share of its land area in Medium or High risk is calculated at each 10-day update, then averaged across all updates in a calendar year. The 2026 average value is year-to-date. Latest observation as of 11 August 2026.

Over the past fifteen years farmers in Europe have been shifting land use towards crops suited to warmer conditions, including corn, sunflowers and soybeans. These "warmth-loving" crops covered 33 per cent of harvested area in the EBRD regions in 2024, up from 24 per cent in 2010, four times the German share of 8 per cent (see Chart 19). Crops better matched to warmer and drier summers should help to protect harvests.

Chart 19. Farmers in Europe have been shifting land use towards warmth-loving crops

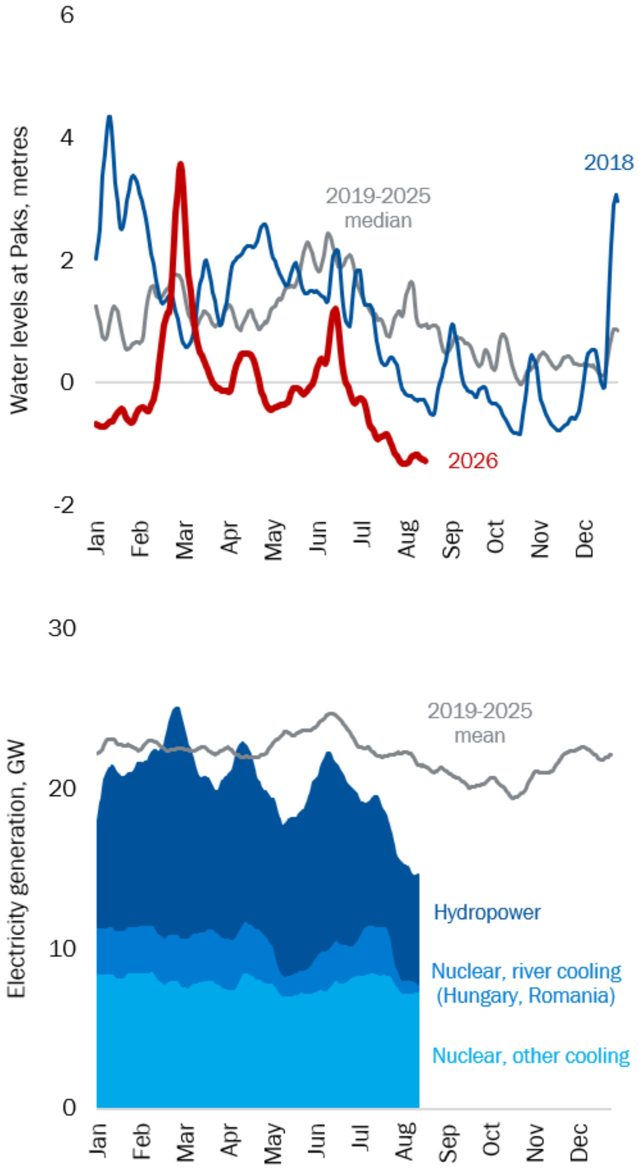


Source: Federal Statistical Office of Germany (Destatis), area under cultivation, table 41241-0005; FAOSTAT, authors' calculations.
Note: Definition of warmth-loving crops follows a classification used by the German Environment Agency, including maizes, sunflowers and soybeans. EBRD economies in sample: Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia, Bulgaria, Romania, Armenia, Georgia, Moldova, Ukraine, Türkiye, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia.

At the same time, low water levels in Europe's rivers weighed heavily on energy generation and shipping. Water levels on the Danube fell below normal in March and have stayed below their 2018 levels since (2018 being the previous dry year). At Paks, where Hungary's only nuclear station draws its cooling water, the average level in August reached 2.4 metres below normal (see Chart 20, first panel). Nuclear power plants in Hungary and Romania have no alternative to river water cooling, while the Czech and Slovak fleets use cooling towers and Bulgaria has relied on releases from dams upstream.

Generation across the eleven economies in the Danube basin fell by 7.1 GW, or 32 per cent, below its seasonal normal over 1-19 August (see Chart 20, second panel). Almost all of that shortfall came from hydro power and from nuclear plants cooled directly by the river. River-cooled nuclear power was down 76 per cent in August compared with July, while plants with a fallback were barely affected.[3] Imports and additional fossil-fuels-based generation covered the gap, resulting in higher electricity prices across the interconnected markets (see Box 1). Shipment of industrial goods was also disrupted by low river levels, notably in the Rhine and the Danube.

Chart 20. Low water on the Danube reduced hydropower and nuclear power by a third



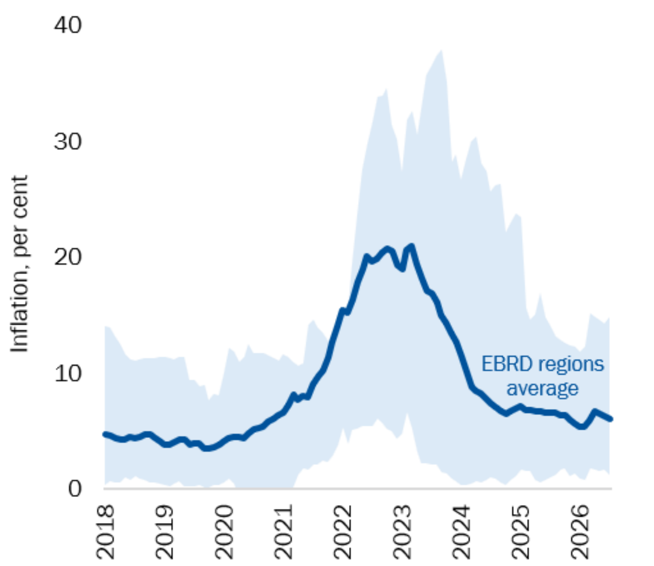
Source: Hydroinfo, ENTSO-E Transparency Platform and authors' calculations.
Note: Daily mean generation in eleven Danube basin economies: Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Germany, Hungary, Romania, Serbia, Slovak Republic and Slovenia. Ukraine and Montenegro are excluded owing to data availability. Hydro covers run-of-river and reservoir plants in all eleven; nuclear is split by cooling arrangement: river cooling covers Hungary and Romania, other cooling covers Bulgaria, Czechia, Slovak Republic and Slovenia. Series are smoothed using a centred seven-day mean. Latest observation as of 19 August 2026.

[3] The dip in May and June reflects a scheduled refuelling outage at Cernavodă in Romania, unrelated to water levels.

Limited pass-through from higher energy prices into core inflation

Average inflation in the EBRD regions edged up from 5.3 per cent in January 2026 to 6.7 per cent in April 2026, before moderating to 6.1 per cent in July 2026 (see Chart 21). It has fluctuated around 6 per cent since 2025, with a median of 4.5 per cent. This is around 2 percentage points above the levels of inflation prevailing in pre-Covid years. The dispersion of inflation rates across economies has returned to its 2021 level, reflecting slower inflation in Hungary and Ghana.

Chart 21. Inflation has been stable at around 6 per cent in the EBRD regions on average since 2025

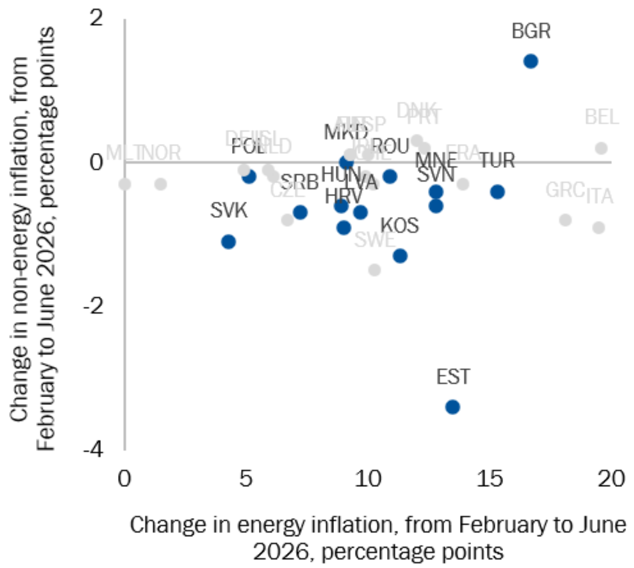


Source: Refinitiv and authors' calculations.
Note: Based on a balanced panel of 39 economies in the EBRD regions. The sample excludes Turkmenistan and West Bank and Gaza owing to data availability. Shaded area shows the range between 10th and 90th percentile of inflation in each month. Last observation as of July 2026.

Energy inflation, on average, has not yet passed through to non-energy prices, which moderated somewhat between February and June 2026 on a weaker economic outlook (see Chart 22). The limited pass-through reflects, in part, government intervention. Regulated household tariffs held down electricity and gas prices in Bulgaria, Hungary and Serbia, while Poland and Serbia cut fuel taxes temporarily (see Box 1).

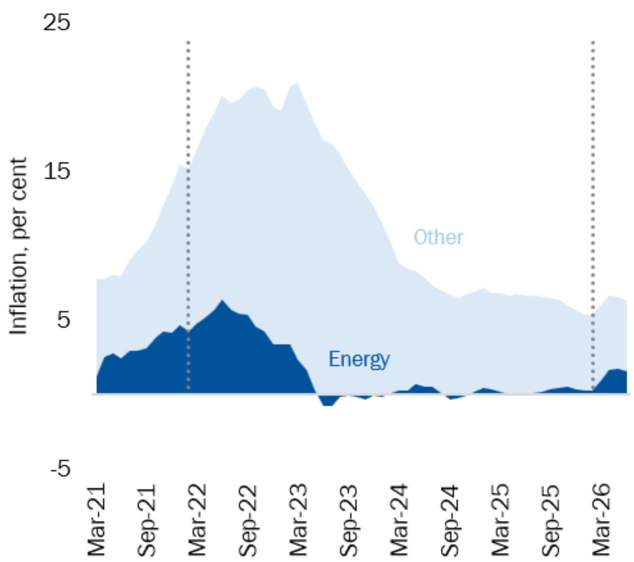
In June 2026, energy accounted for a quarter of headline inflation, up from about 4 per cent before the conflict in the Middle East (see Chart 23). That share reflects both the rise in energy prices and the limited pass-through to other components. In percentage points, energy contributed about 1.5 points in June 2026 against 6.4 points during the 2022 energy price spike episode.

Chart 22. Higher energy inflation has not yet passed through to other prices



Source: Eurostat and authors' calculations.
Note: The energy/non-energy split is based on a balanced panel of the 16 EBRD economies with Eurostat HICP coverage.

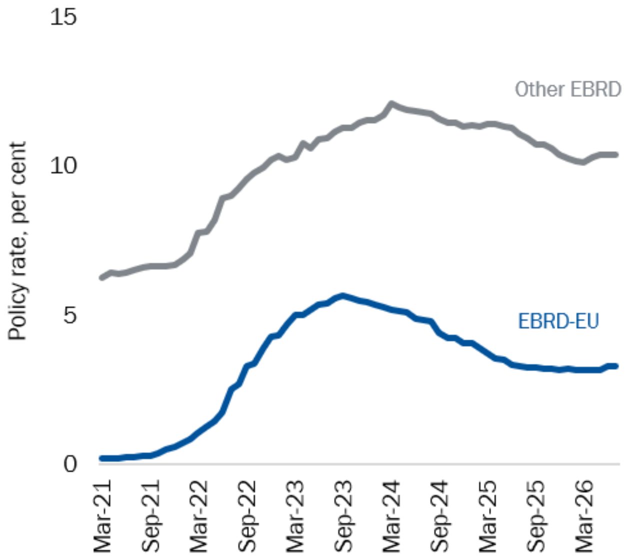
Chart 23. Energy accounts for a quarter of headline inflation in the EBRD regions



Source: CEIC, Eurostat and authors' calculations.
Note: Year-on-year changes. Headline inflation is the EBRD average across 40 economies in the EBRD regions. The sample excludes West Bank and Gaza owing to data availability. The energy/non-energy split is based on a balanced panel of the 16 EBRD economies with Eurostat HICP coverage, March 2021-June 2026. The decomposition is scaled to overall inflation in the EBRD regions. Last observation as of June 2026.

As wider inflationary pressures from higher energy prices have been limited, the average monetary policy rate across the EBRD regions remained relatively stable in 2026 (see Chart 24). Between January and July 2026, 7 economies in the EBRD regions including Ukraine and the European Central Bank raised policy rates, while rates were lowered in 12 economies including Hungary, Kazakhstan, Poland, Egypt and Kenya.

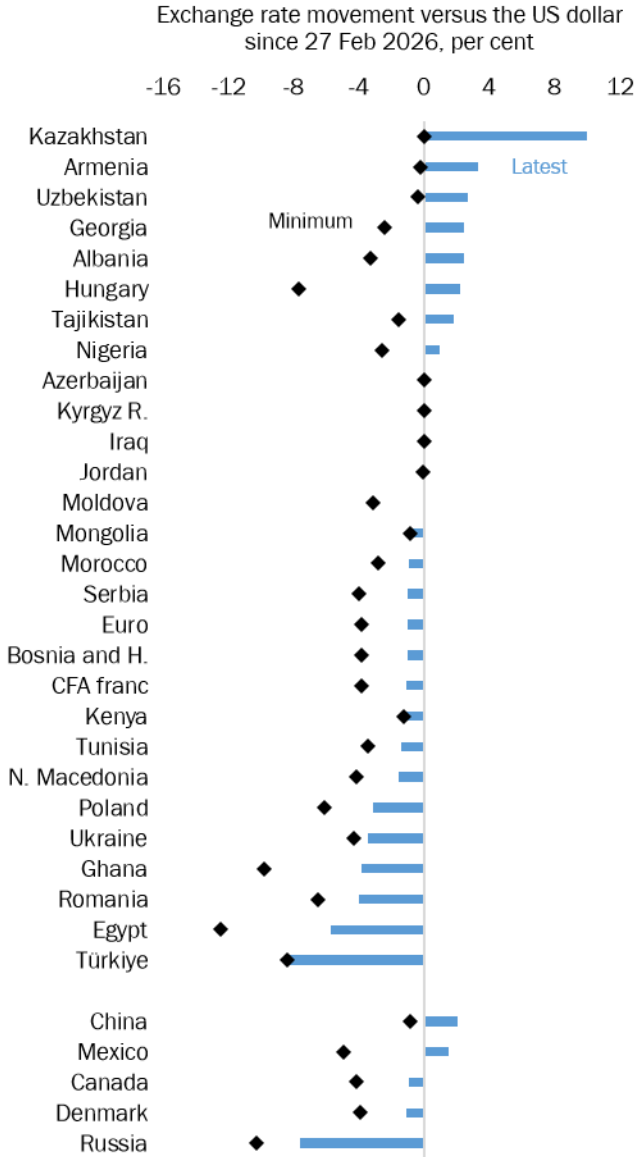
Chart 24. Policy rates in the EBRD regions have remained relatively stable throughout 2026



Source: CEIC, Refinitiv Eikon and authors' calculations.
Note: Unweighted mean across 28 EBRD economies outside the EU and 12 EBRD-EU economies. Latest observation as of July 2026.

As higher oil prices raise export earnings and fiscal revenue, the Kazakh tenge was 10 per cent stronger against the US dollar in August than before the conflict (see Chart 25). In Türkiye, Egypt and Romania, currencies weakened against the US dollar, with depreciations partly improving cost-competitiveness while contributing to inflationary pressures.

Chart 25. The Kazakh tenge has appreciated on higher oil prices, while depreciations elsewhere have contributed to inflationary pressures

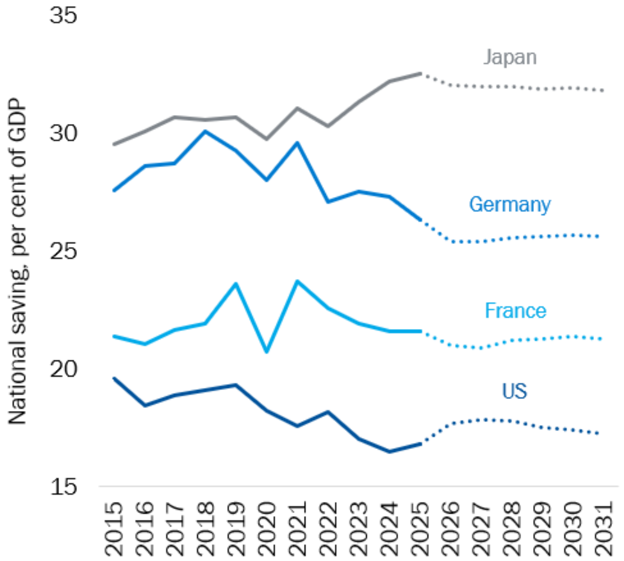


Source: Bloomberg and authors' calculations.
Note: Latest observation as of 20 August 2026.

Higher borrowing costs

National saving rates in the advanced economies have been falling, most clearly in the United States, from 20 per cent of GDP in 2015 to 17 per cent in 2025, as well as in Germany (see Chart 26). This reflects to a large extent high levels of fiscal deficits (and hence high government borrowing needs). Corporate borrowing to finance investment in artificial intelligence has added to the demand for funds.

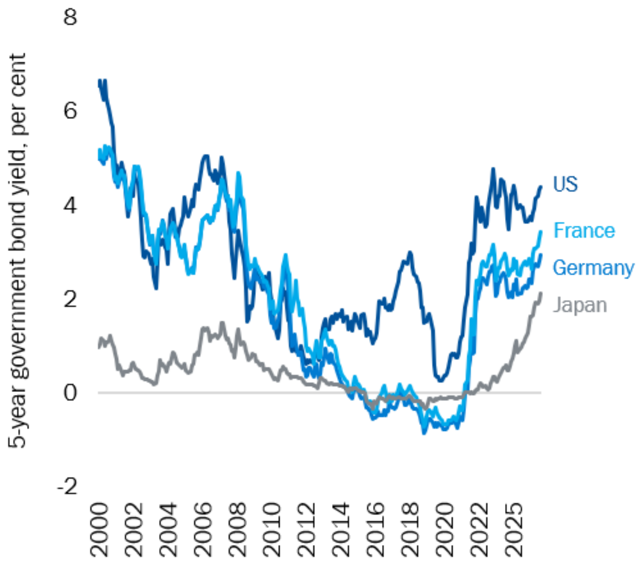
Chart 26. National saving has fallen in the United States and Germany and is projected to stay below 2015 levels



Source: IMF WEO and authors' calculations.
Note: Latest observation as of April 2026.

Coupled with persistently higher inflation, high fiscal deficits and the AI investment boom have pushed up yields on medium-term and longer-term bonds. Five-year government bond yields in Germany, France and Japan are at their highest since around the time of the Global Financial Crisis of 2008-09, while in the United States yields are close to their 2023 peak (see Chart 27). Between February and August 2026, the five-year yield rose by 0.7 percentage points in the United States, 0.8 points in France and 0.6 points in Germany. In Japan, where five-year yields were close to zero as recently as 2022, they now stand above 2 per cent.

Chart 27. Government yields up in advanced markets

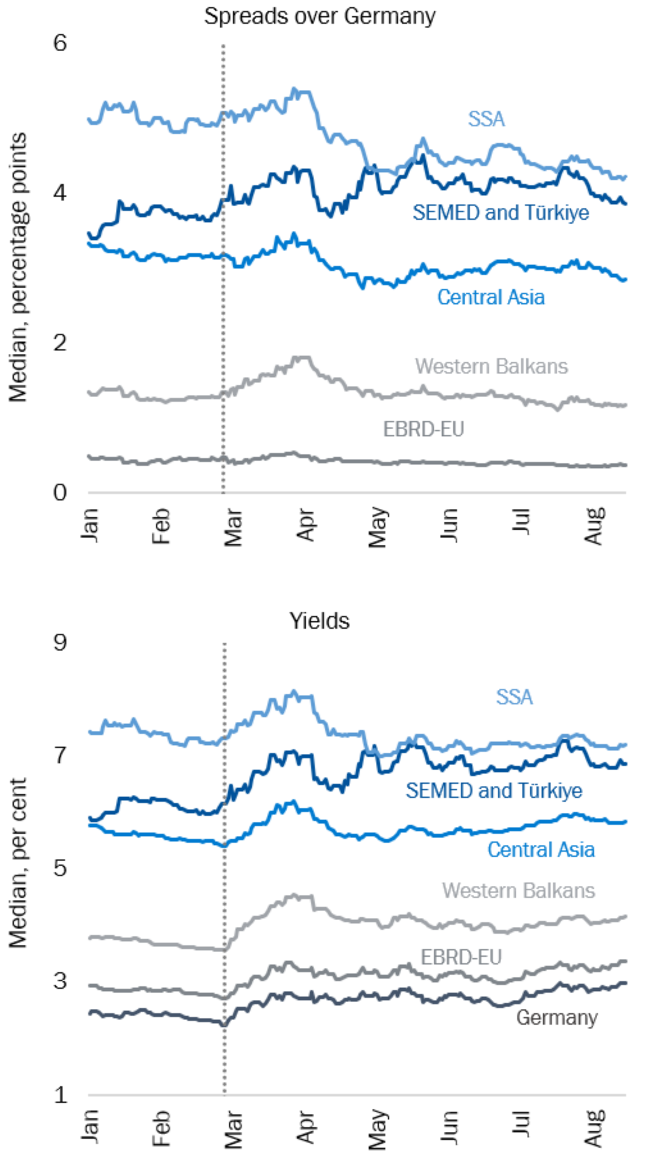


Source: Bloomberg and authors' calculations.
Note: Based on government bonds with maturities of five years, as of 26 August 2026.

Spreads over Germany widened across the EBRD regions in March 2026 following the start of the conflict in the Middle East. They have since returned to or below their pre-conflict levels in most economies (see Chart 28, first panel). Relative to the start of the year, spreads were 0.6 percentage points wider in Türkiye as of mid-September 2026, reflecting reliance on imported energy and a slower than expected pace of disinflation. In Egypt, spreads were 0.3 points wider, reflecting large government financing needs.

As a result, yields on government bonds in the EBRD regions have increased in line with a global repricing of long-dated government debt (see Chart 28, second panel).

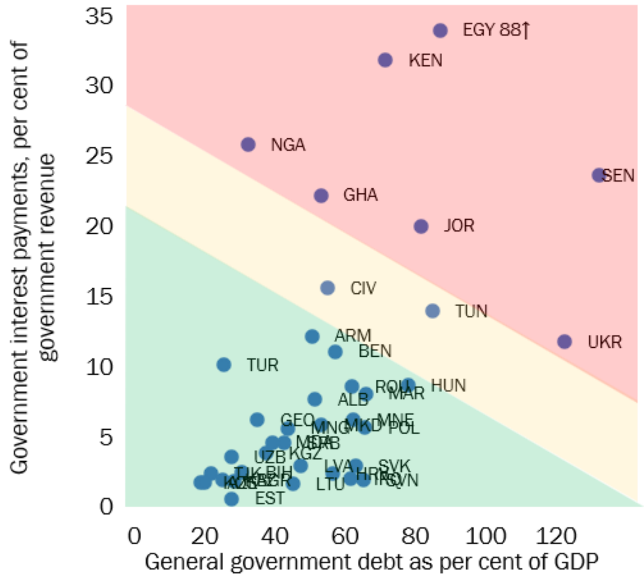
Chart 28. Yields on government bonds in the EBRD regions have increased in line with global trends



Source: Bloomberg and authors' calculations.
Note: Based on euro- or USD-denominated bonds with maturities of five to ten years. Latest observation as of 20 August 2026.

Where governments spend a large share of revenue on debt servicing, tighter global financing conditions translate more strongly into higher government spending further raising government financing needs. In the EBRD regions, fiscal space is most limited in the southern and eastern Mediterranean and sub-Saharan Africa, where debt-to-GDP and interest-to-revenue ratios were already high (see Chart 29). Interest payments absorb 88 per cent of government revenue in Egypt and more than a fifth in Kenya, Nigeria, Ghana, Senegal and Jordan.

Chart 29. Interest payments absorb more than a fifth of government revenue in Egypt, Kenya, Nigeria, Ghana and Senegal



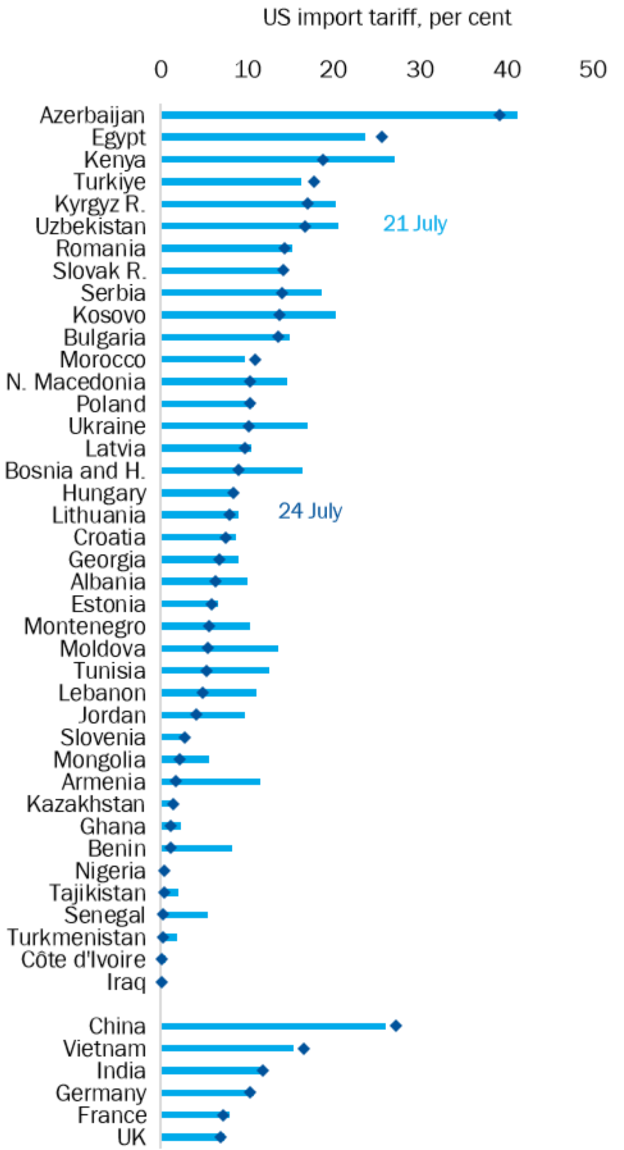
Source: IMF (April 2026) and authors' calculations.
Note: Data are IMF projections for 2026.

Continued trade policy uncertainty

On 23 July 2026, the US invoked the so-called Section 301 to announce tariffs on goods from 60 trading partners, including the EU and the UK, following investigations into alleged forced labour practices. The new tariffs, set at four different rates of up to 12.5 per cent, applied on top of existing duties and took effect on 24 July 2026, when the temporary Section 122 tariffs lapsed.

As a result of the July 2026 changes, statutory US import tariffs have decreased for 34 economies in the EBRD regions, from an average rate of 11.6 per cent to 8.6 per cent (see Chart 30). Armenia saw the biggest reduction while for six economies the rates increased, by up to 2 percentage points.

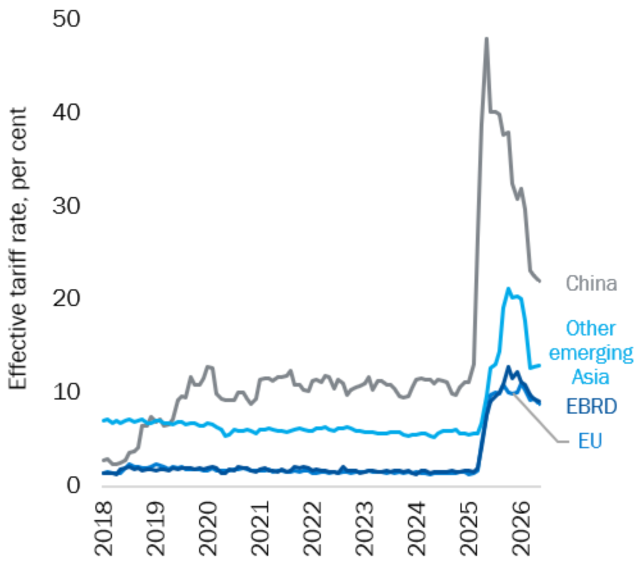
Chart 30. Average statutory US tariffs have come down for 34 of 40 EBRD economies after the July 2026 changes



Source: Global Trade Alert and authors' calculations.
Note: Section 122 tariffs lapsed between 21 and 24 July 2026. Section 301 tariffs were implemented on 24 July.

The average effective tariff rate paid on US imports from the EBRD regions peaked at 12.8 per cent in October 2025 and decreased to 9 per cent in May 2026, above its average pre-2025 levels of around 1.6 per cent (see Chart 31). The rates applied to imports from other regions also peaked around the same time (at 21.2 per cent for Emerging Asia (excluding China) in October 2025 and at 10.9 per cent for the EU in January 2026).

Chart 31. Average effective US tariff rate on imports from EBRD regions declined after peaking at 12.8 per cent in October 2025 but remains above pre-2025 levels



Source: U.S. Department of Commerce, Census Bureau (USITC DataWeb) and authors' calculations.
Note: Effective tariff rates are calculated by dividing calculated duties by customs value. Other emerging Asia comprises India, Indonesia, Philippines, Thailand, Malaysia, Vietnam, Bangladesh, Pakistan, Sri Lanka, Cambodia. Last observation as of May 2026.

The effective tariff rates on US imports varied widely across the EBRD regions and the variation has increased over time. Moldova faced the highest average effective tariff rate of 18.9 per cent in May 2026, while Tajikistan faced a zero effective tariff, with differences reflecting product-specific treatments and the structure of trade. Effective tariffs tended to be higher in the Western Balkans, Türkiye and eastern Europe and the Caucasus, and lower in Central Asia and sub-Saharan Africa.

US import tariff rates also varied widely from month to month for a given economy, reflecting both policy changes and changes in the mix of goods imported. While the level of tariffs affects trade, uncertainty about the application of tariffs and future policy by itself discourages trade, with an impact of up to half of that stemming from the higher level of tariffs.[4] In July 2026 alone, three changes in the US tariff regime were announced in the span of just four days.[5]

Uncertainty regarding further changes remains. Recent US legislation grants the executive the power to impose import tariffs of up to 100 per cent on economies that continue to trade with Iran and Russia.

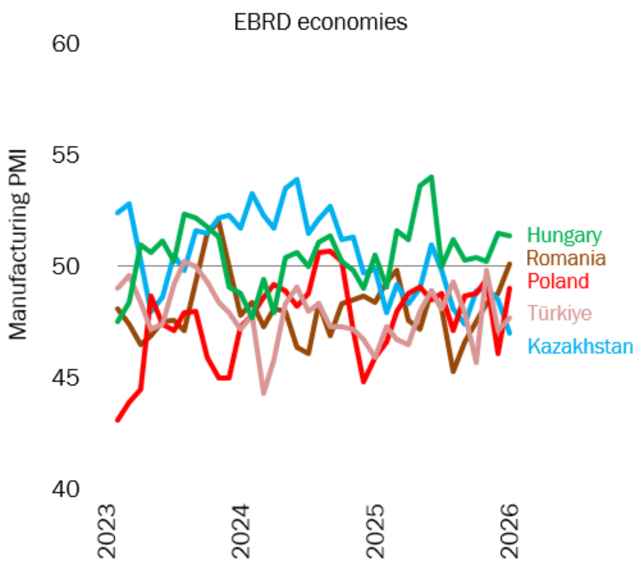
[4] See Boer and Rieth (2024).

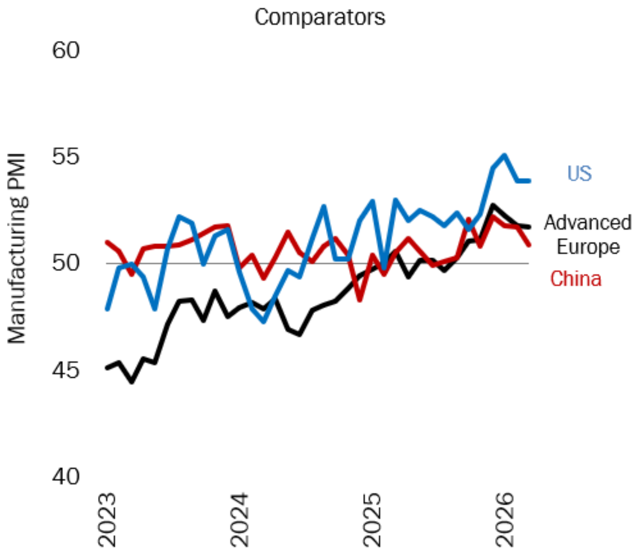
[5] See Fritz (2026).

Growth in the EBRD regions

Purchasing managers' indices (PMIs) point to weak momentum in manufacturing in the EBRD regions, which predates the conflict in the Middle East. Manufacturing PMIs remained in contractionary territory for several large EBRD economies, while those in the advanced economies and China have returned to expansion in 2026 (see Chart 32). Hungary is the exception, where the release of frozen EU funds in May 2026 and the global AI boom have supported demand.

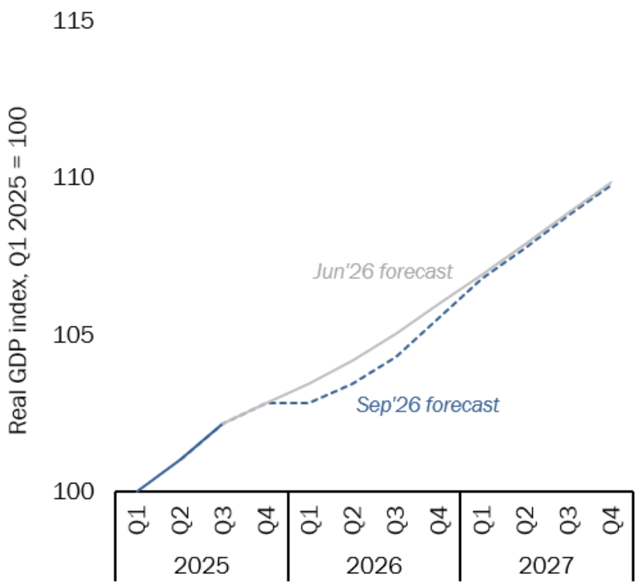
Chart 32. Manufacturing outlook has been improving in the US, advanced Europe, China and Hungary





Source: CEIC and authors' calculations.
Note: Advanced Europe based on the IMF country grouping, excluding EBRD economies. Latest observation as of July 2026. PMI above 50 means expansion on the previous month.

Chart 33. Growth forecast for 2026 has been revised down by 0.6 percentage points on account of the recession in Iraq



Source: National authorities via CEIC and EBRD forecasts.
Note: EBRD average based on the values of gross domestic product in 2024 in current US dollars from the IMF.

Growth in the EBRD regions is expected to reach 2.5 per cent in 2026, picking up to 4.0 per cent in 2027. The 2026 forecast has been revised down by 0.6 percentage points relative to the forecast published in June 2026 while the 2027 forecast has been revised up by 0.4 percentage points (see Chart 33 and Table 1).

The revisions are largely driven by a deep recession in Iraq on account of a collapse in oil exports followed by a rebound.

Excluding Iraq, the forecast for 2026 has been revised down by 0.1 percentage points, reflecting in part tighter financing conditions, the impact of drought in Europe and the Black Sea blockade, while the outlook for 2027 is unchanged.

Regional outlooks

Growth in central Europe and the Baltic states picked up from 2.4 per cent in 2024 to 2.7 per cent in 2025 and reached 2.9 per cent year on year in the first half of 2026, as absorption of Recovery and Resilience Facility (RRF) funds peaked ahead of the end-August 2026 deadline and lifted public investment. Growth is expected to moderate from 2.9 per cent in 2026 to 2.5 per cent in 2027, as RRF financing ends. The 2026 growth forecast has been revised up for Slovenia, where post-flood reconstruction drove investment higher.

Growth in the south-eastern EU decelerated from 1.4 per cent in 2024 to 1.2 per cent in 2025. Output was broadly flat in the first half of 2026, reflecting a contraction in Romania, where fiscal consolidation and high inflation weighed on household spending and manufacturing output fell. Growth in Bulgaria held up at close to 3 per cent. Growth is expected at 0.5 per cent in 2026 and 2.0 per cent in 2027, with forecasts unchanged.

Growth in the Western Balkans slowed from 3.7 per cent in 2024 to 2.6 per cent in 2025 before picking up to 3.4 per cent year on year in the first half of 2026. Growth is expected at 3.0 per cent in 2026 and 3.5 per cent in 2027, supported by improving external demand, stronger investment activity and tourism.

Growth in Central Asia increased from 5.9 per cent in 2024 to 6.9 per cent in 2025 before returning to 5.9 per cent year on year in the first half of 2026. Growth is expected at 5.8 per cent in 2026 and 5.3 per cent in 2027. Forecasts have been revised up for Uzbekistan, where domestic demand has been strong, and for Mongolia, on record mining output. Disruptions to fuel supplies from Russia remain a downside risk.

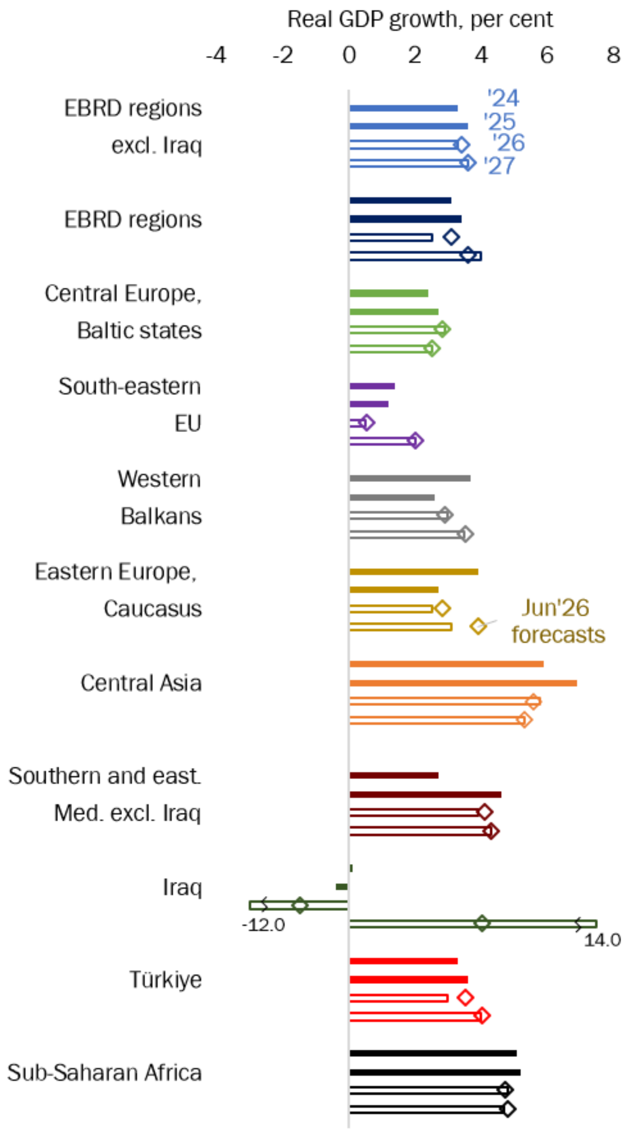
In eastern Europe and the Caucasus, growth slowed from 3.9 per cent in 2024 to 2.7 per cent in 2025 and to 1.5 per cent year on year in the first half of 2026, weaker than expected, as intensifying Russian strikes on energy, production and logistics infrastructure weighed on activity in Ukraine and oil and gas output contracted in Azerbaijan, while growth momentum in Armenia remained strong. Growth is expected to pick up to 2.5 per cent in 2026 and 3.1 per cent in 2027. Forecasts for Ukraine have been revised down in both years on Russia’s renewed attacks on Ukraine's Black Sea ports and vessels using those ports. Forecasts for Georgia have been revised up in both years reflecting broad-based growth momentum.

In Türkiye, growth picked up from 3.3 per cent in 2024 to 3.6 per cent in 2025 before slowing to 2.5 per cent year on year in the first half of 2026. The latest reading was weaker than previously expected, as exports fell in real terms. Growth is expected to accelerate to 3.0 per cent in 2026 and 4.0 per cent in 2027. The 2026 forecast has been revised down by 0.5 percentage points on persistent inflationary pressures necessitating tighter financing conditions.

Growth in the southern and eastern Mediterranean picked up from 1.9 per cent in 2024 to 3.1 per cent in 2025 before output contracted by 0.6 per cent year on year in the first half of 2026. Growth is expected at -0.7 per cent in 2026. The regional averages are dominated by the sharp contraction in Iraq, where following the closure of the Strait of Hormuz exports of oil through alternative routes amounted to less than a quarter of last year's export capacity. Lebanon has also been in recession exacerbated by military escalation, which caused further damage to infrastructure. Growth is projected to rebound to 7.1 per cent in 2027 once shipment of oil from Iraq normalises. Excluding Iraq, growth in the region is expected to average 3.9 per cent in 2026 and 4.3 per cent in 2027. Forecasts for Morocco and Tunisia have been revised up on strong agricultural output.

Growth in sub-Saharan Africa picked up from 5.1 per cent in 2024 to 5.2 per cent in 2025 before moderating slightly to 5.1 per cent year on year in the first half of 2026, supported by services, agriculture and commodity exports. Growth is expected at 4.8 per cent in 2026 and 4.7 per cent in 2027 as commodity windfalls fade. The 2026 forecast has been revised up, mainly on account of Nigeria, where growth accelerated in agriculture and services, while rising output at the Dangote refinery helped to cut fuel imports.

Chart 34. Growth forecast for Iraq has been revised sharply down



Source: National authorities via CEIC and EBRD forecasts.
Note: EBRD average based on the values of gross domestic product in 2024 in current US dollars from the IMF.

Risks to the outlook

The outlook for growth in the EBRD regions is subject to numerous risks. A prolonged conflict in the Middle East could put further upward pressure on energy prices if demand for oil recovers in China and disrupt supply chains, weighing on growth while adding to inflationary pressures. Gas storage at a fifteen-year low leaves less of a buffer ahead of the winter in Europe. The Black Sea blockade weighs on global food security. Higher longer-term yields in advanced economies amplify risks associated with existing external and fiscal vulnerabilities. A further slowdown in key trading partners, in particular Germany, is also a source of risk for the region's open economies.

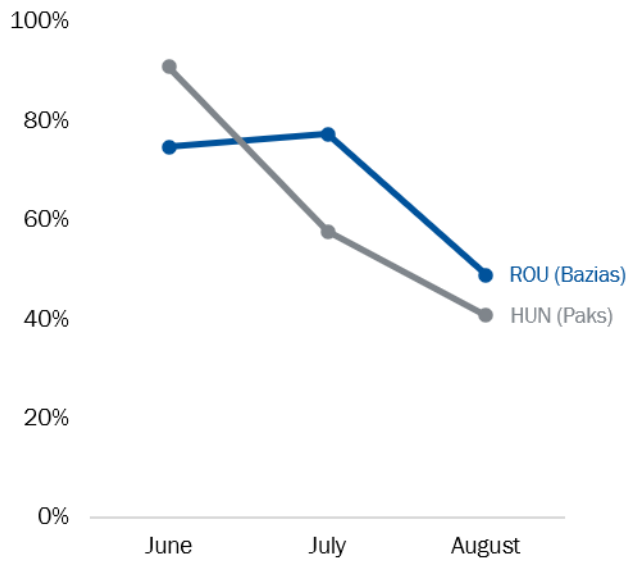
Box 1. Record low water levels in the Danube: a stress test for energy and logistics systems

The 2026 drought resulted in exceptionally low water flows across the middle and lower Danube, disrupting electricity generation and inland navigation. As reduced hydropower production and water-related constraints on nuclear generation tightened regional electricity supply, particularly in Hungary and Romania, additional fossil-fuel-based power generation, imports and lower consumption prevented shortages. Cross-border trade redistributed available electricity but transmitted the drought-related shock more widely through higher regional prices. Differences in generation mix, storage and system flexibility shaped country outcomes. The episode highlights the need to incorporate climate risks, system flexibility and shared water and transport dependencies more systematically into energy and infrastructure planning.

The summer 2026 drought produced one of the most severe episodes of low water flow observed along the middle and lower Danube in recent decades. Water levels reached record or near-record lows at several gauges in Hungary and Serbia and remained exceptionally low downstream in Romania and Bulgaria. In August, discharge entering Romania at Baziaș fell to approximately 1,350–1,600 m^3/s, around 59-65 per cent below the multiannual August average of 3,900 m^3/s, with similarly depressed flows recorded along the Bulgarian-Romanian section (see Chart 1.1).[6]

The economic significance of the drought extends well beyond hydrological conditions. As Europe's second-longest river, the Danube is a major freight corridor and an important source of water for power generation, agriculture, industry and ecosystems. Significantly reduced river flows therefore placed simultaneous pressure on hydropower production, cooling-water availability for thermal and nuclear power generation, irrigation and industrial water supply, inland navigation and the associated logistics (including the supply of coal to thermal power plants). Higher water temperatures further resulted in constraints on cooling systems and ecological stress.

Chart 1.1. Average Danube discharge in 2026 relative to the corresponding month of 2025



Source: Danube HIS and authors' calculation.
Note: Based on raw near-real-time data on river discharge.

Impact on the energy sector

The energy sector absorbed the most immediate and measurable impact. Hydropower generation declined across much of the region as river flows weakened during July and fell further in August. Low water levels also constrained cooling at the Paks and Cernavodă nuclear plants, which use river water for cooling and normally supply around one-half of Hungary's electricity generation and one-fifth of Romania's.

Additional fossil-fuel generation, renewable output and higher imports offset much of the lost water-dependent power generation, although the composition of adjustment differed by country (see Table 1.1). Gas-fired output increased most strongly in Romania, while coal generation rose in Romania and Serbia; Bulgaria combined higher solar generation with continued availability of thermal and nuclear power.

Hungary recorded the largest temporary fall in total generation, largely reflecting reduced Paks output (units returned to full capacity in the last week of August). In Romania, the decline in total power generation was almost fully offset by lower consumption of energy in August compared to July.

[6] See INHGA (2026).

Table 1.1. Change in electricity generation by source in August 2026 versus July 2026 (GWh)

	BGR	HUN	ROU	SRB
Nuclear	-28.3	-728.4	-572.1	N/A
Hydro	-74.4	-2.2	-118.3	-31.2
Coal	8.9	35.0	91.5	43.2
Gas	-1.5	122.8	279.0	40.9
Solar	122.8	31.2	88.5	N/A
Wind	-2.2	-7.4	112.3	42.4
Other/balance	64.7	96.7	-5.2	78.9
Generation (total)	**89.3**	**-452.4**	**-125.0**	**174.8**
Consumption	***80.4***	***-29.0***	***-110.1***	***169.6***

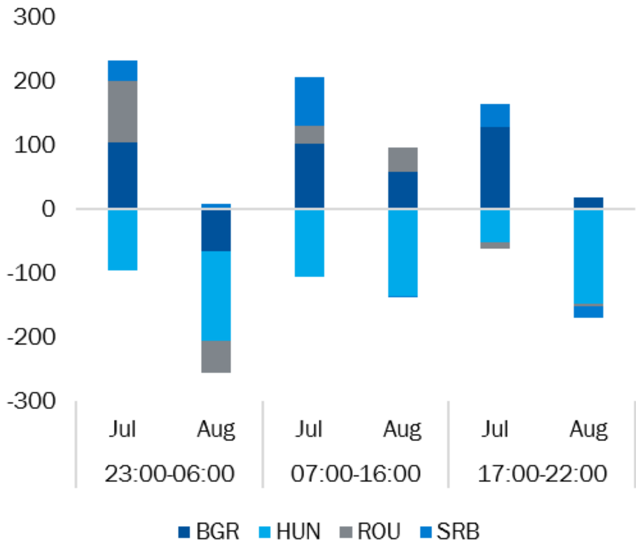
Source: ENTSO-E and authors' calculation.
Note: Changes are calculated from monthly average hourly output. Serbia's solar generation is unavailable. "Other/balance" includes residual generation categories and data adjustments.

In response, the authorities and system operators introduced emergency supply and demand measures. Romania and Hungary intervened to maintain access to cooling water and called for lower peak-hour consumption, while Serbia adjusted fuel supply logistics and encouraged demand restraint.

Hourly net cross-border positions show that regional supply pressures intensified in August, particularly in Hungary. Relative to July, Hungary's net imports increased by around 44 GWh overnight, 31 GWh during daytime hours and 96 GWh in the evening (see Chart 1.2). As a result, Hungary imported around 617 GWh overnight and 461 GWh during 17:00-22:00 in August (see Chart 1.3). Romania recorded a smaller deterioration overnight and, in the evening, partly offset by higher daytime net exports.

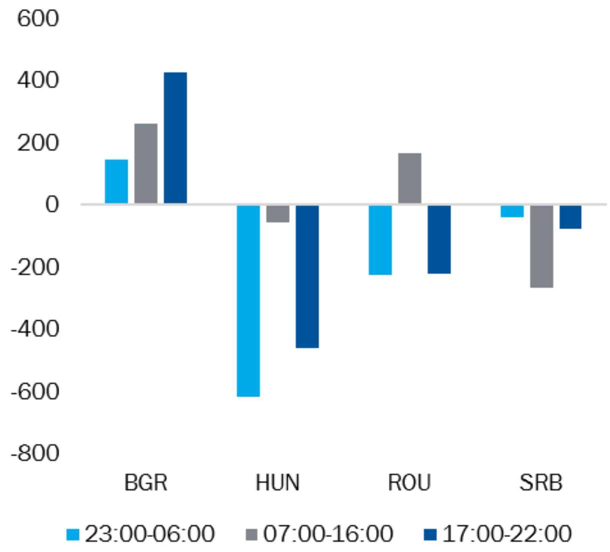
By contrast, Bulgaria further increased its net exports, with higher net exports recorded in the evening hours in August. This profile is consistent with greater Bulgarian system flexibility, including dispatchable thermal generation, pumped storage and rapidly expanding battery capacity (approximately 4 GW of operational battery energy storage capacity as of mid-2026). The regional adjustment began already in July and became more pronounced in August as Hungary's baseload shortfall widened.

Chart 1.2. Net cross-border physical flows by time block in July and August 2026 (GWh)



Source: ENTSO-E and authors' calculations.
Note: Positive values indicate higher exports or lower imports; negative values indicate lower exports or higher imports.

Chart 1.3. Net cross-border position by time of day, August 2026 (GWh)



Source: ENTSO-E and authors' calculations.
Note: Positive values indicate net exports; negative values indicate net imports.

Physical flows shifted towards the most supply-constrained markets in August (see Table 1.2). Bulgaria supplied around 655 GWh to Romania and 228 GWh to Serbia, while flows from Romania towards Hungary reached around 284 GWh. Greece also shifted from receiving around 103 GWh from Bulgaria in July to supplying Bulgaria with around 115 GWh in August.

The Slovak Republic was another important actor supplying around 0.9 TWh to Hungary in both July and August. While physical flow data do not identify contractual origin, destination or transit, the patterns are consistent with a broader redistribution of electricity towards Romania and Hungary.

Table 1.2. Total monthly physical cross-border flows (GWh)

	June	July	August
BGR → ROU	733	503	655
ROU → HUN	207	31	284
BGR → SRB	186	126	228
GRC → BGR	387	-103	115
HUN → SRB	17	27	71
SRB → ROU	51	-20	4

Source: ENTSO-E and authors' calculations.
Note: For each border, positive values indicate flows in the direction stated in the row label; negative values indicate flows in the opposite direction.

Against tighter regional supply conditions, day-ahead electricity prices rose sharply and converged across Bulgaria, Hungary, Romania and Serbia. In August 2026, average prices in Bulgaria, Hungary and Romania reached approximately €143-152/MWh, compared with around €76-81/MWh in August 2025, representing an increase of roughly 90 per cent (see Table 1.3). Prices were also around one-quarter higher than in July 2026 across the four countries.

Convergence was not complete: Bulgaria's daily spot electricity prices in August were around 6 per cent below those in Hungary and Romania, it also recorded fewer hours with either negative prices or prices above €200/MWh, and less intraday price volatility.

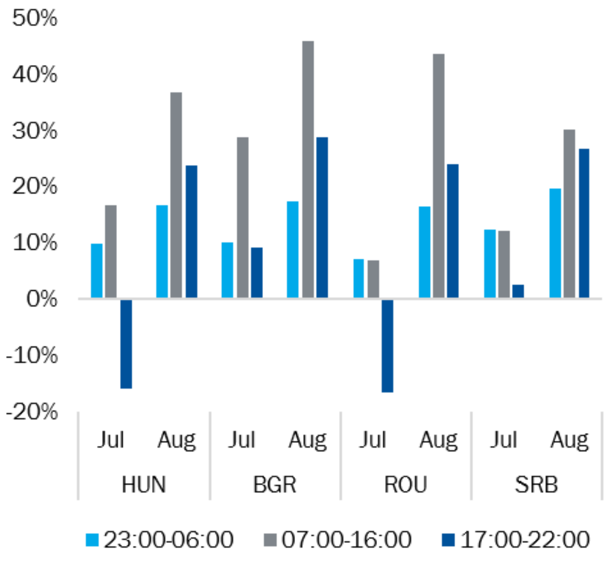
Table 1.3. Average day-ahead wholesale electricity prices

Country	Prices (€/MWh)			% change	
	25-Aug	26-Jul	26-Aug	Aug-26 vs Aug-25	Aug-26 vs Jul-26
BGR	75.8	112.6	142.7	88.3	26.7
HUN	80.5	123.2	152.1	89.1	23.5
ROU	78.3	121.1	151.1	93.1	24.8
SRB	108.1	109.3	138.2	27.9	26.5

Source: Ember energy

The August increase in the price of power was broad-based rather than confined to evening scarcity hours. Prices exceeded both June and July levels through most of the day in all four markets, with the largest proportional increases recorded during 07:00-16:00, when solar output would normally suppress prices (see Chart 1.4). Evening prices remained elevated compared with June and higher than in July, but the increase was smaller in relative terms than during midday hours.

Chart 1.4. Month-on-month change in average day-ahead prices by time of day, July 2026 and August 2026



Source: ENTSO-E and authors' calculations.

Based on these prices as well as changes in consumption and load profiles, the wholesale market value of electricity consumed in the four countries increased from around €1.5 billion in June to €1.55 billion in July and €2.0 billion in August. This estimate is not a direct measure of the drought's cost: June is not a seasonally identical counterfactual, and prices also capture wider market conditions.

Direct replacement costs also differed according to the resources used to compensate for unavailable water-dependent generation. In Hungary, the estimated gross market value of additional net imports amounts to around €110 million. Romania's extra imports were smaller, with higher domestic replacement costs linked to gas-fired generation. At the August gas TTF price of €53/MWh, the additional gas generation implied around €46 million in fuel and carbon costs, excluding additional coal generation and the cost of starting and operating plants.

Bulgaria increased coal generation, adding an estimated €26 million in carbon costs. The estimated hourly market value of its net exports increased by €76 million between June and August (these estimates are not indicative of actual revenues, which are derived from contracts where prices may differ). Serbia also increased domestic thermal generation. Being outside the EU ETS, it did not face an explicit carbon cost, although fuel supply costs likely increased due to low river levels.

The wholesale price shock was not transmitted uniformly to end consumers. Regulated household tariffs limited the immediate pass-through in Bulgaria, Hungary and Serbia, shifting part of the short-run cost to suppliers, utilities or public support mechanisms. Non-household consumers were generally more exposed, although pass-through depended on contract duration, terms and hedging. Retail exposure was higher in Romania following the removal of the general price-cap and compensation scheme, but contractual prices still did not track day-ahead prices one-for-one.

Impact on logistics and supply chains

Low water levels disrupted inland freight transport along the Danube. Draft restrictions forced vessels to operate with substantially reduced loads, in some sections carrying less than a third of normal cargo volumes. This resulted in delays and higher costs as broadly similar resources had to be deployed to transport lower volumes of cargo.

The combination of lower payloads, longer waiting times and less predictable navigation weakened the reliability of the corridor and encouraged a shift towards rail and road transport.

The severity and form of disruption differed across the basin. In Bulgaria and Romania, navigation continued but restrictions around locations including Batin and Belene reduced usable capacity, while the Oryahovo–Bechet and Svishtov–Zimnicea ferry services were suspended because of critically low water levels. On the Hungarian section, the remaining barges operated at substantially reduced capacity, with the Danube Bend and southern stretches among the most constrained areas.

In Serbia, low water levels had a particularly visible effect on energy-related logistics. Barges operated at only around 30–40 per cent of normal carrying capacity and river-borne fuel imports in July reached only around 20–25 per cent of the planned volumes.[7] This also affected grain and other bulk commodity flows towards Constanța. These constraints prompted the release of emergency diesel reserves, a reduction in excise duties and adjustments to fuel-supply logistics.

Policy implications

The 2026 Danube low flow highlights the need for a more diversified and flexible power system, supported by electricity storage and stronger regional interconnections. It also suggests that future system adequacy assessments should place greater emphasis on flexibility and climate resilience alongside installed capacity targets. Bulgaria experienced less severe market disruption despite significant hydro capacity losses, partly because its nuclear capacity remained available and partly because higher system flexibility enabled the grid to absorb additional solar generation, maintain exports and limit price volatility. By contrast, countries with greater dependence on a smaller number of large water-dependent assets faced larger operational challenges. This points to the growing value of grid reinforcement and generation portfolios that are diversified not only by technology, but also by their exposure to climate risks.

Regional integration mitigated local power shortages by distributing the shock more widely. Cross-border trade allowed available generation in Bulgaria, Greece and other neighbouring markets to support deficit systems and helped avoid more severe localised curtailment of demand. However, prices converged at elevated levels because several interconnected countries were affected simultaneously. Additional interconnections can help better mitigate supply shocks and limit price increases.

Finally, the episode illustrates the need for an integrated approach to climate adaptation planning. Reduced river flows simultaneously affected power generation, cooling-water availability and fuel and commodity transport, as well as irrigation, industrial water supply and aquatic ecosystems. Climate adaptation strategies therefore need to extend beyond individual sectors to cover shared physical dependencies, particularly on water resources and critical transport corridors, which can become systemic bottlenecks during prolonged droughts.

[7] See Todorović (2026).

Box 2. Bankruptcies in Europe: Recent trends

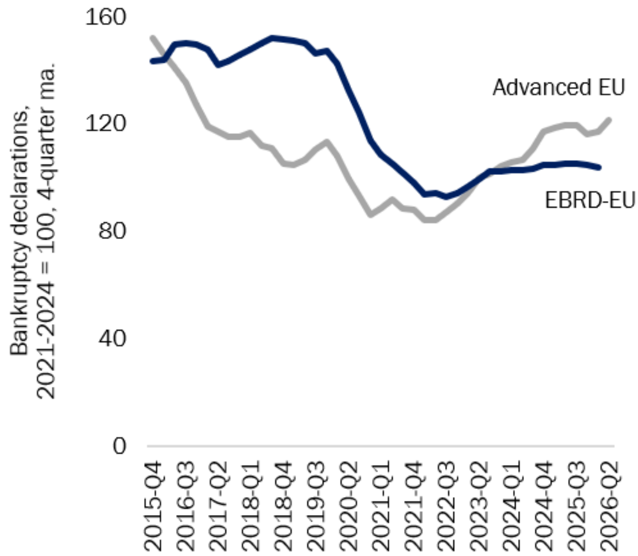
Bankruptcy declarations have risen across Europe as insolvency patterns normalised following pandemic-era policy support. The increase has been modest in EBRD-EU economies and remains below 2019 levels, in contrast with sharper rises in advanced EU economies. In Germany, there has been no evidence that bankruptcy rates in energy-intensive sectors increased more rapidly than those in less energy-intensive sectors. While output and employment in energy-intensive sectors grew significantly more slowly than in low-energy-intensity sectors following the increase in gas and electricity prices, these differences have not translated into firm exits. Instead, the rise in bankruptcies has been faster in services, trade and construction, as well as in downstream metal products, while in EBRD-EU bankruptcies have been more pronounced in transportation. Data from Poland further suggests that corporate restructurings have been on the rise, with incidence increasing much faster than that for bankruptcies, after restructuring procedures were simplified in 2020-2021.

Recent data point to a rise in bankruptcy declarations across Europe (see Chart 2.1). Bankruptcies fell sharply during the pandemic, reflecting policy support, court and administrative disruptions, moratoria and other temporary factors that delayed insolvency procedures. The subsequent increase partly reflects normalisation of insolvency patterns. Cross-country comparisons should, however, be interpreted with caution, given differences in insolvency procedures and reporting practices. This box relies on Eurostat's definition of bankruptcies as legal units that have entered bankruptcy proceedings following a court declaration.

This increase in insolvencies was more pronounced in advanced European economies than in EBRD-EU (see Chart 2.2). In 2025, bankruptcy declarations in EBRD-EU were 4.7 per cent above their 2021-2024 average, compared with 16.4 per cent in advanced EU economies. They were also lower than in 2019. The largest increases observed in EBRD-EU – those in Czechia (included in EBRD-EU for the purposes of this analysis), Hungary and Estonia – were smaller than those registered in France and Germany.

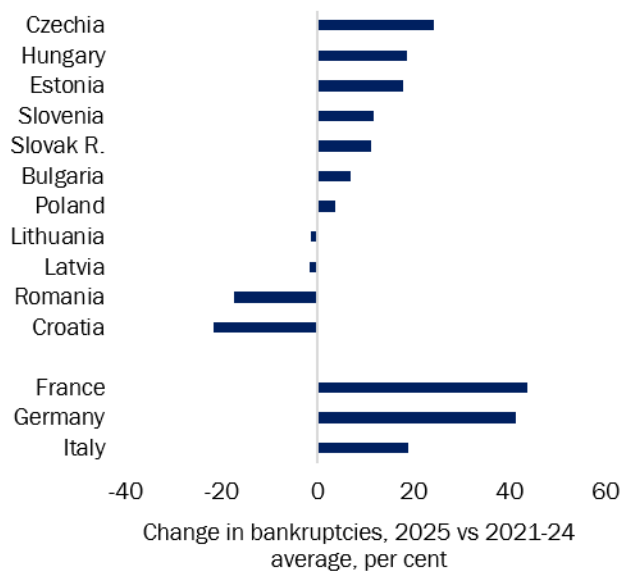
In 2025, seven out of 11 EBRD-EU economies recorded bankruptcy declarations above their 2021-2024 average, with a median increase of 6.9 per cent. Bankruptcy declarations in France and Germany, in contrast, were more than 40 per cent above their 2021-2024 averages.

Chart 2.1. Recent increase in bankruptcy declarations in advanced Europe



Source: Eurostat and authors' calculations.
Note: Series are rebased so that each country's 2021-2024 average equals 100 before aggregation. Country groups are simple averages of unbalanced panels. Four-quarter moving averages are shown. EBRD-EU comprises Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. Advanced EU comprises Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Spain and Sweden.

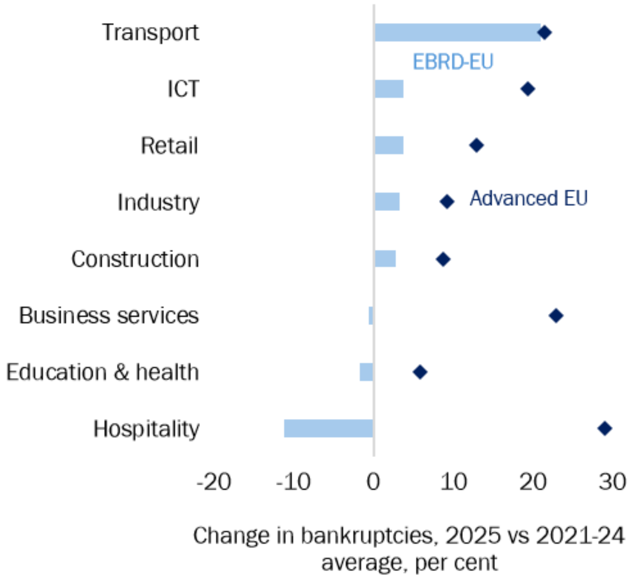
Chart 2.2. Bankruptcy dynamics varied across countries



Source: Eurostat and authors' calculations.
Note: Bars show the percentage difference between the 2025 average and the 2021-2024 average.

In EBRD-EU economies, the increase in bankruptcies was led by the transport sector, followed by information and communications technologies (ICT), retail, industry and construction (see Chart 2.3). In advanced EU economies bankruptcies were disproportionately concentrated in hospitality, business services, transport and communications technologies.

Chart 2.3. Increase in bankruptcy declarations was led by hospitality, business services, transport and ICT

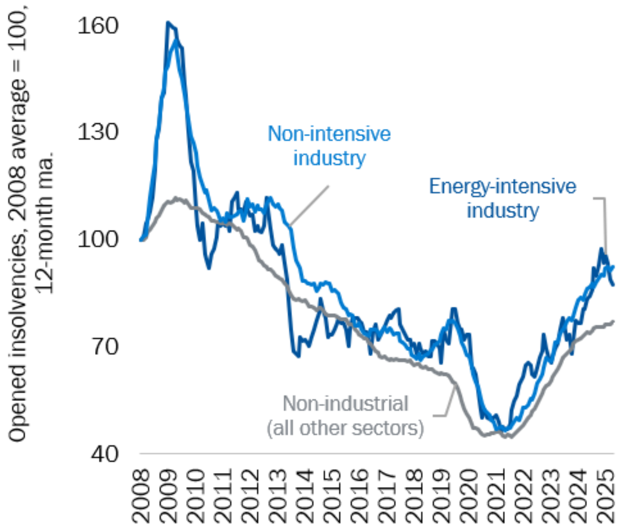


Source: Eurostat and authors' calculations.
Note: Detailed NACE sector bankruptcy declaration indices are used. Each country-sector series is rebased to a 2021-2024 average of 100. Bars and diamonds show the unweighted average of percentage changes observed in each economy. EBRD-EU comprises Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. Advanced EU comprises Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Spain and Sweden.

Using detailed data on bankruptcy proceedings in Germany obtained from the Federal Statistical Office of Germany, the analysis further zooms in on sectoral differences in bankruptcy rates (see Chart 2.4). The data confirm the recent upward trend.

So far, there has been no evidence that bankruptcy rates in energy-intensive sectors increased more rapidly than those in less energy-intensive sectors. While the output and employment in energy-intensive sectors grew significantly more slowly than in low-energy-intensity sectors following the increase in gas and electricity prices, these differences have not translated into firm exits as firms adjusted to higher energy prices by lowering output, employment and drawing on temporary government subsidies.[8]

Chart 2.4. Bankruptcy rates in Germany increased in industries with high and low energy intensity in equal measure



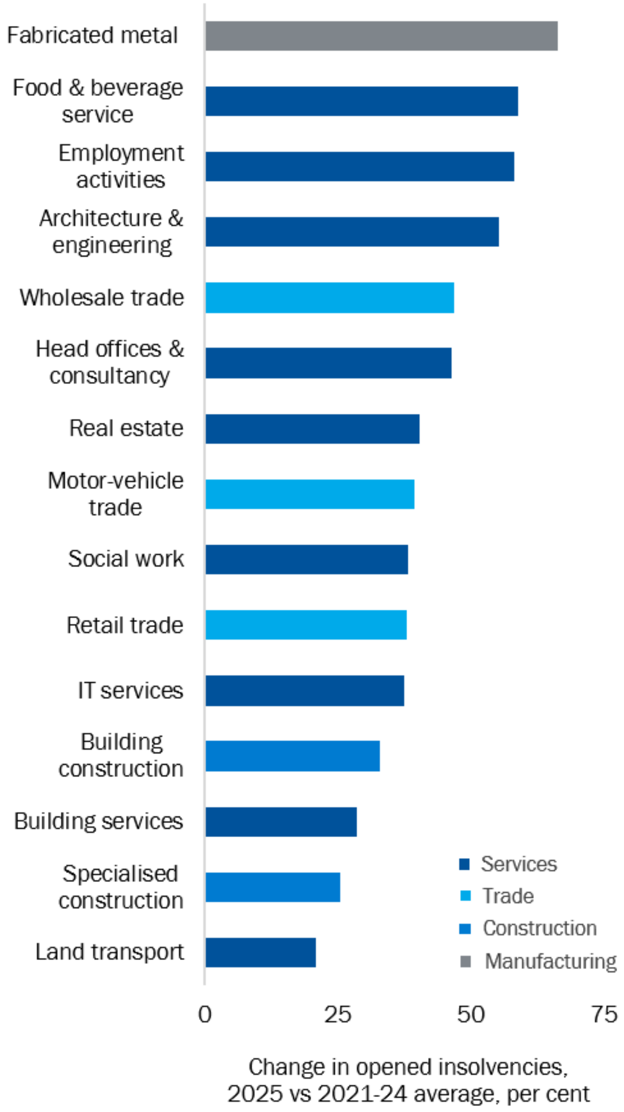
Source: Federal Statistical Office of Germany (Destatis), insolvency statistics, table 52411-0019; Plekhanov, A. and J. Sassoon (2023), "Gas consumption in Europe during the winter of 2022-23", EBRD Working Paper No. 284; authors' calculations.
Note: Insolvencies refer to opened corporate insolvency proceedings, shown as a 12-month moving average indexed to the 2008 monthly average (= 100). Industrial divisions (NACE Rev. 2, sections B–E) are split by carbon intensity per euro of output, based on data for Germany, as reported in Plekhanov and Sassoon (2023). High energy-intensity industries comprise those with a carbon intensity above 100: mining and quarrying (section B), paper (division 17), coke and refined petroleum products (19), chemicals (20), other non-metallic mineral products (23), basic metals (24) and water supply (36). Low energy-intensity industries comprise the remaining manufacturing divisions. Non-industrial covers all other sectors. Oil and gas extraction (06), other manufacturing (32) and energy supply (35) are not covered by the intensity data and are excluded from the industrial groups.

The rise in bankruptcies has been faster in services, trade and construction, as well as in downstream metal products (see Chart 2.5). This pattern is consistent with the withdrawal of pandemic-era support, with delayed insolvencies now materialising, with higher financing costs weighing on construction and real estate, and with weak demand and depleted financial buffers in consumer-facing sectors.[9] Cost pressures associated with higher energy prices may have been largely passed through to downstream users of energy-intensive inputs.

[8] See Plekhanov and Sassoon (2023) and EBRD (2026).

[9] See Müller (2025), Bundesbank (2024) and Creditreform (2025).

Chart 2.5. Bankruptcies in Germany have risen fastest in services, trade and construction

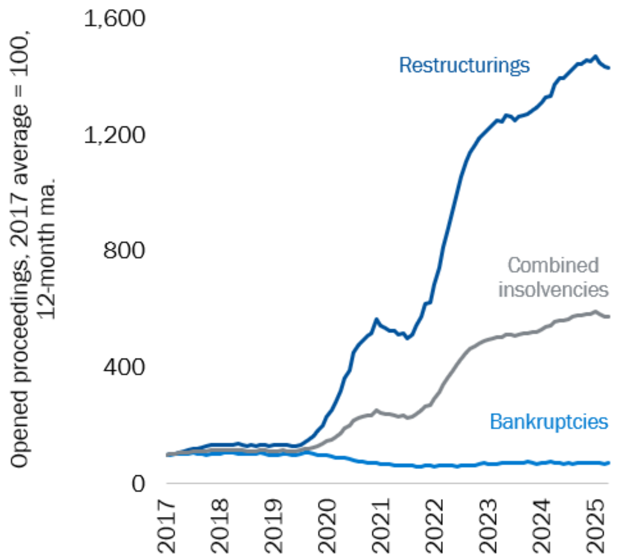


Source: Federal Statistical Office of Germany (Destatis), insolvency statistics, table 52411-0019; authors' calculations. Note: The chart shows the 15 NACE Rev. 2 divisions with the largest percentage increase in opened corporate insolvency proceedings in Germany in 2025 relative to the 2021–24 annual average, among divisions with at least 250 opened proceedings in 2025.

Relatively low increases in bankruptcy rates in EBRD-EU economies may also reflect increased use of restructuring provisions by firms in financial distress, in line with the EU's 2019 Preventive Restructuring Directive, which sought to facilitate early restructuring and prevent insolvency[10]. This can be seen in Poland, where a simplified restructuring procedure was introduced in June 2020 and further revised in December 2021. This procedure lowered barriers to restructuring and provided firms with a more accessible alternative to bankruptcy.[11] In parallel, the liberalisation of consumer bankruptcy in March 2020 provided sole proprietors with an additional avenue to resolve insolvency outside business bankruptcy proceedings: in 2025 alone, over 2,500 entrepreneurs filed for consumer rather than business bankruptcy.[12] Formal restructurings rose from around 400 to 500 proceedings annually before 2020 to more than 5,000 in 2025, leaving the combined number of proceedings at roughly five to six times its 2017 level.

As a result, a marked increase in restructuring proceedings coincided with a roughly constant rate of court announcements of insolvency, according to the data compiled by the Centralny Ośrodek Informacji Gospodarczych (COIG), a private business information provider (see Chart 2.6).

Chart 2.6. Formal insolvency proceedings in Poland shifted from bankruptcies to restructurings after the 2020–2021 reforms



Source: Centralny Ośrodek Informacji Gospodarczych (COIG), based on court announcements published in the Court and Commercial Gazette (MSiG) and, from December 2021, the National Register of Debtors (KRZ); authors' calculations. Note: Monthly number of opened proceedings, shown as 12-month moving averages and indexed to the 2017 monthly average (= 100). Bankruptcies refer to court declarations of bankruptcy; restructurings comprise proceedings opened under the Restructuring Law of 2015. The combined series is the sum of the two and may double-count firms that enter bankruptcy following an unsuccessful restructuring.

[10] See European Union (2019).

[11] See Act of 19 June 2020, Act of 28 May 2021 and EBRD (2022b).

[12] See Act of 30 August 2019 and COIG (2026).

Box 3. Exposure to hydrocarbon fuel prices

Oil and gas supply about two-thirds of primary energy in the EBRD regions, thus economic activity remains sensitive to swings in the prices of hydrocarbon fuels. Reducing that exposure rests on leveraging nuclear power and renewables. Renewables and nuclear power supply more than half of electricity in the EBRD economies inside the European Union, but only about a quarter elsewhere in the EBRD regions where renewable capacity per person has expanded more slowly than in advanced economies and in China. Meanwhile, the focus of innovation has moved from generating solar and wind power to storing it. Nuclear already supplies between a fifth and two-thirds of electricity in the seven economies that operate reactors, and capacity under construction or planned is three times the operating base, though most of it arrives only in the 2030s.

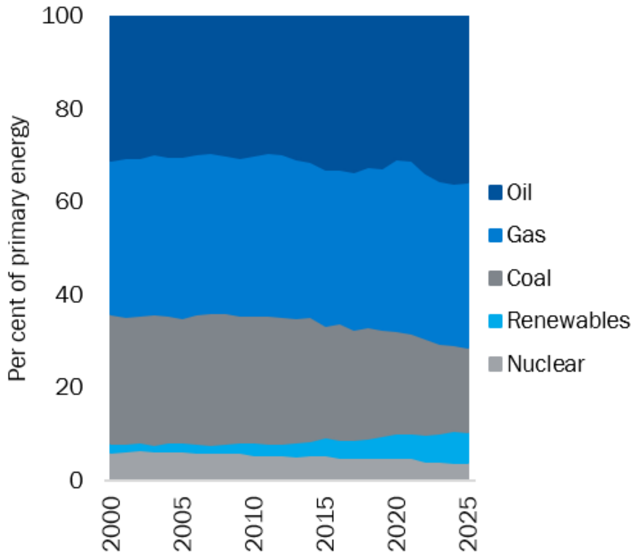
The energy mix

Energy prices in the EBRD regions have been hit by two shocks in four years: the withdrawal of Russian pipeline gas from Europe in 2022, and this disruption to shipping through the Strait of Hormuz after the conflict that began in the Middle East on 28 February 2026. Both fed into hydrocarbon fuel prices.

Oil and gas still supply roughly two-thirds of primary energy in the EBRD regions, and their share has risen, from 64 per cent in 2000 to 71 per cent in 2025 (see Chart 3.1). Gas was for many years the largest single source of energy, but its use has fallen back slightly since 2022. As a result, oil and gas now account for 36 per cent of primary energy consumption each. The shares of coal and nuclear power have declined since the early 2010s, while the share of renewables has grown almost fourfold since 2000, from 2 to 7 per cent.

Renewables have largely displaced coal and nuclear power, with little change in the share of oil and gas. As a result, economic activity remains sensitive to swings in the prices of hydrocarbon fuels, though less so than in the past, as more output is now produced per unit of hydrocarbons consumed.[13]

Chart 3.1. Oil and gas account for roughly two-thirds of primary energy in the EBRD regions



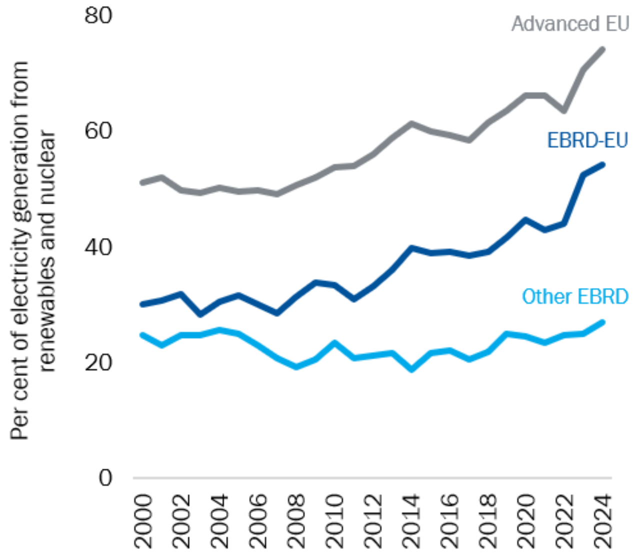
Source: Our World in Data / Energy Institute Statistical Review of World Energy and authors' calculations.
Note: Regional shares calculated as consumption of each source divided by total regional energy consumption. Sample includes Azerbaijan, Egypt, Iraq, Kazakhstan, Morocco, North Macedonia, Türkiye, Turkmenistan, Ukraine, Uzbekistan and 10 EBRD-EU economies.

Power generation

Renewables and nuclear power now generate about three quarters of electricity in advanced EU and more than half in the EBRD economies in the European Union (see Chart 3.2). Outside the Union renewables and nuclear generate around a quarter of electricity while gas and coal largely cover the rest.

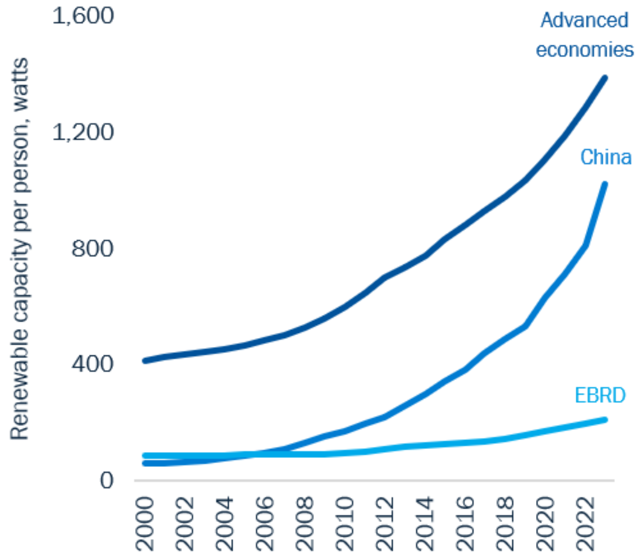
[13] See EBRD (2022a).

Chart 3.2. Renewables and nuclear supply more than half of electricity in the EU versus a quarter in the non-EU economies in the EBRD regions



Source: Our World in Data / Energy Institute Statistical Review of World Energy and authors' calculations.
Note: Regional shares calculated as generation of each source divided by total regional electricity generation. Sample excludes Ukraine, Kosovo and Montenegro owing to data availability.

Chart 3.3. Renewable generation capacity has expanded relatively slowly in the EBRD regions



Source: IRENA - INSPIRE, World Bank and authors' calculations.
Note: Regional averages calculated as total renewable electricity-generating capacity divided by total regional population. Advanced economies follow the IMF country group definitions, excluding EBRD economies. The EBRD sample excludes Kyrgyz Republic, West Bank and Gaza and Côte d'Ivoire owing to data availability. Latest observation as of 2023.

Renewables and storage

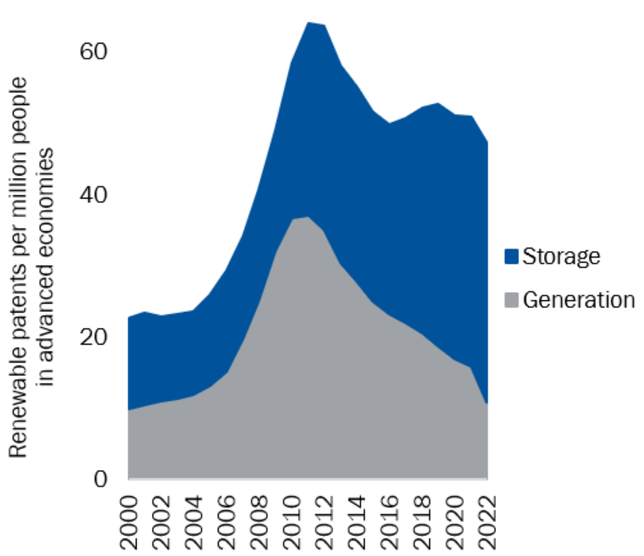
Renewables have advanced unevenly, both globally and in the EBRD regions. Advanced economies have more than tripled their renewable capacity per person since 2000, from around 400 to 1,400 watts (see Chart 3.3). The expansion of renewables in EBRD economies has on average been slower, with per capita renewable capacity across the EBRD regions around a fifth of the level in China (which had a similarly lower starting level in the 2000s). Investment is nonetheless picking up in parts of the region. For example, Uzbekistan has become the main destination for new foreign direct investment in energy in Central Asia, with recent commitments including a 1 GW wind project and a 1,500 MW wind-plus-storage project.[14]

Innovation in renewable energy has meanwhile moved downstream, from generating power to storing it, reflecting the fact that lack of storage is increasingly seen as the weak link when it comes to decarbonising the grid (see Chart 3.4). Patenting related to generation peaked in the early 2010s, while storage patenting has continued to rise. As renewable capacity grew faster than the networks and storage needed to absorb it, the return to integrating renewable power rose relative to generating more of it. Regulation has begun to follow. Romania has legislated to require small-scale solar producers to install battery storage, allowing a midday solar surplus to cover evening peak demand.[15]

[14] See IEA (2026).

[15] See Maisch (2024).

Chart 3.4. Innovation in renewable energy has shifted from generating power to storing it

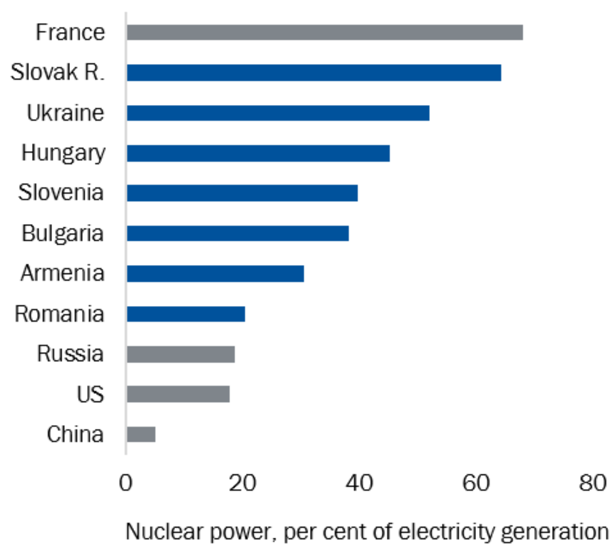


Source: IRENA - INSPIRE, World Bank and authors' calculations.
Note: Regional averages calculated as total renewable patents divided by total regional population. Advanced economies follow the IMF country group definitions, excluding EBRD economies.

Nuclear power and uranium

In several economies in the EBRD regions nuclear power supplies between a fifth and two-thirds of electricity, with higher contribution of nuclear power to generation than in Russia, the United States and China, though below the level in France (see Chart 3.5).

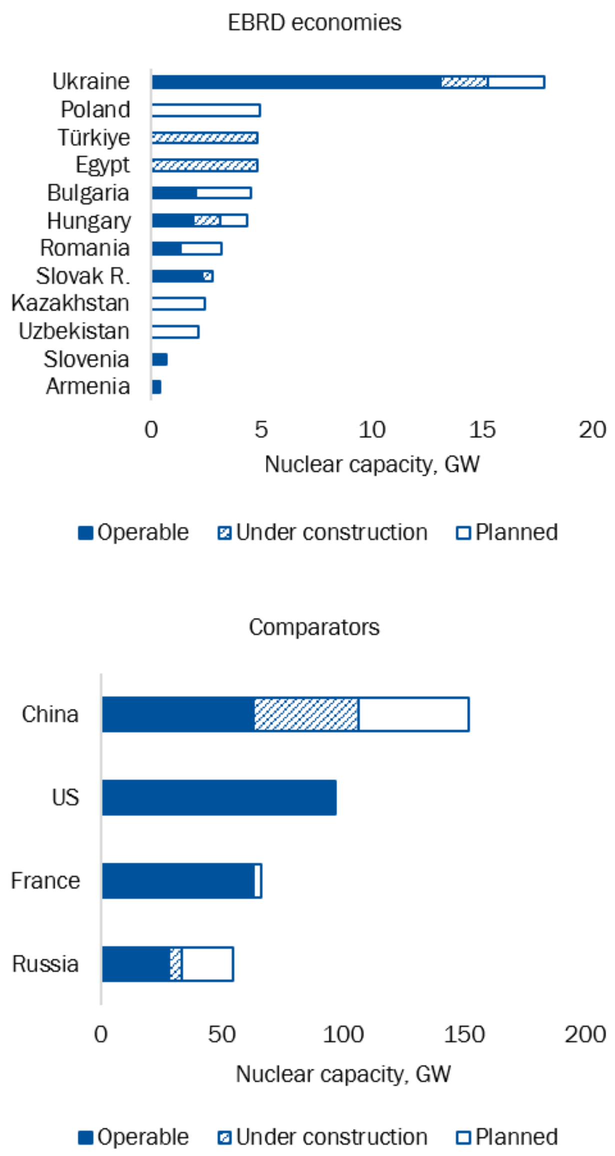
Chart 3.5. Nuclear plants supply up to two-thirds of electricity in the seven EBRD economies with reactors



Source: World Nuclear Association.
Note: EBRD economies in blue, comparators in grey. Latest observation as of 2025.

Excluding Ukraine, nuclear reactors under construction or planned exceed the current capacity by a factor of three (see Chart 3.6, first panel). The plants in Slovak Republic and Türkiye are closest to completion, both targeting generation before the end of 2026, followed by the ones in Egypt in 2028 and a small reactor in Uzbekistan in 2029. Most of the rest are scheduled to arrive in the 2030s. Taken together, the capacity that is operable, under construction or planned comes to 52.8 GW across the EBRD regions, not far short of the 63-GW France operates today (see Chart 3.6, second panel).

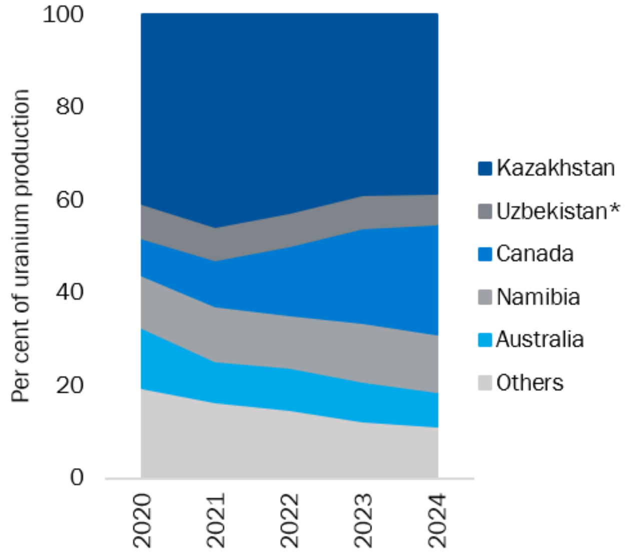
Chart 3.6. The nuclear pipeline in the EBRD regions is large relative to a small operating base



Source: World Nuclear Association and authors' calculations.
Note: Latest observation as of July 2026.

A nuclear build-out therefore raises demand for uranium, and the EBRD regions sit upstream of this industry. Kazakhstan and Uzbekistan together produced 46 per cent of the world's uranium in 2024 (see Chart 3.7). Kazakhstan alone accounted for 39 per cent, ahead of Canada at 24 per cent.

Chart 3.7. Kazakhstan and Uzbekistan together produced 46 per cent of the world's uranium in 2024



Source: World Nuclear Association and authors' calculations.
Note: Shares of world uranium production, measured in tonnes of uranium. Uzbekistan's figures are estimated.

Regional updates

Central Asia

Economic growth across Central Asia remained strong in the first half of 2026. The Kyrgyz Republic, Tajikistan and Uzbekistan recorded the fastest growth rates, driven by construction, services and manufacturing, while Mongolia benefited from a rise in mining output and exports. Kazakhstan's growth moderated due to lower oil production following disruptions to export routes, although non-oil sectors remained resilient. Turkmenistan's economy continued to expand at a stable pace, supported by services, construction and state-led investment. Inflationary pressures increased across the region amid higher food and energy prices, reflecting elevated global energy costs linked to the conflict in the Middle East and fuel-market disruptions in Russia. While most central banks maintained tight monetary policy stances, Kazakhstan embarked on a cautious easing cycle as inflation moderated. Overall, growth in the region is expected to remain robust in 2026 and 2027. Downside risks are dominated by external factors, including weaker growth in the region's main trading partners, disruptions to fuel supplies from Russia, interruptions to trade routes and lower commodity prices, which could dampen export receipts, remittances and household purchasing power across the region.

Kazakhstan

Economic growth slowed to 4.1 per cent year on year in the first half of 2026. Disruptions along the Caspian Pipeline Consortium export route, together with fire- and power-related incidents at the Tengiz field in early 2026, resulted in an 8.9 per cent contraction in oil and gas output in January-July 2026. Consequently, the authorities revised the country's annual oil production target from 98 million to 96 million tonnes, with output likely to fall short of the previous year's level. At the same time, non-oil sectors remained robust. Manufacturing output increased by 9.0 per cent year on year over the same period, supported by strong performance in machine building, particularly the production of motor vehicles, trailers and semitrailers, as well as equipment repair and installation, food processing and chemicals. Construction expanded by 15.3 per cent year on year, driven by large-scale infrastructure projects. On the expenditure side, growth was underpinned by fixed capital investment. Tight monetary policy, more restrictive credit conditions and the appreciation of the tenge helped to reduce inflation from a peak of 12.9 per cent year on year in September 2025 to 9.8 per cent in August 2026. Against this backdrop, the National Bank of Kazakhstan cut the base rate by a cumulative 175 basis points in the year to September 2026, bringing it to 16.25 per cent. Government revenues increased by 16.5 per cent year on year in January-July 2026, supported by stronger tax receipts, in part reflecting changes to the tax code. Expenditures rose by 13.1 per cent over the same period, resulting in a budget deficit of KZT 3 trillion (€5.6 billion, or around 2 per cent of GDP). Growth is projected to reach 4.7 per cent in 2026 before moderating to 4.5 per cent in 2027. Stronger-than-expected construction activity presents an upside risk to the outlook, while the main downside risks stem from further disruptions to oil export routes, weaker external demand and lower commodity prices.

Kyrgyz Republic

Real GDP expanded by 11.1 per cent year on year in January-July 2026, driven primarily by strong investment activity. Fixed capital investment rose by 58.8 per cent year on year, largely directed towards transport, mining and energy infrastructure projects, while construction output increased by 60.6 per cent year on year. Manufacturing growth remained robust at 11.8 per cent year on year despite declining textile production and electricity generation. Meanwhile, remittance inflows fell by 9 per cent year on year in the first half of 2026, reflecting tighter migration policies and slower economic growth in Russia. Inflationary pressures intensified amid higher energy and food prices, as well as expansionary fiscal policy. In response, the authorities introduced temporary fuel subsidies (estimated at around KGS 1 billion (€9.96 million)), retail fuel price caps, excise tax deferrals and a one-year moratorium on tariff and fee increases. The National Bank has kept the policy rate at 12 per cent since February, as inflation accelerated to 11.5 per cent year on year in July 2026 from 8.8 per cent the year before. In the first half of the year, government spending increased by 61.5 per cent year on year, driven by both current and capital expenditure. At the same time, strong economic activity boosted revenue mobilisation, with government revenues rising by 49 per cent year on year. Consequently, the fiscal balance remained in surplus, at 6.1 per cent of GDP. Real GDP growth is projected at 8.7 per cent in 2026 and 7.0 per cent in 2027. Key downside risks stem from the Kyrgyz Republic's dependence on Russia for remittances and fuel imports, as well as the increased use of secondary sanctions. Prolonged disruptions to Russian fuel supplies (which account for more than 90 per cent of Kyrgyz fuel imports) could further raise transport and production costs, fanning inflation and eroding household purchasing power.

Mongolia

Economic growth reached 7.7 per cent year on year in the first half of 2026, driven mainly by mining and exports. Coal production increased by 52.4 per cent year on year from a low base in the previous year, while copper output rose by 20.0 per cent year on year as the Oyu Tolgoi underground mine continued to ramp up production. Higher export volumes and elevated copper prices increased export revenues by 57.5 per cent year on year in January-July, while imports rose by 10.4 per cent during the same period, partly due to higher spending on diesel and petrol. As a result, the trade surplus more than quadrupled. Meanwhile, household consumption remained broadly flat, edging up by just 0.5 per cent year on year. Inflation accelerated to 13.0 per cent year on year in July 2026 amid higher prices for meat and food more generally and rising energy costs linked to the conflict in the Middle East and fuel shortages in Russia. In response, the Bank of Mongolia raised the policy rate by 50 basis points to 12.5 per cent in August 2026. The budget deficit widened to 2.5 per cent of GDP in January-July 2026 on higher capital expenditures. International reserves remained adequate, at close to US$ 8 billion (€6.98 billion) in July 2026, covering around eight months of imports. The economy is forecast to grow by 6.3 per cent in 2026 and 5.5 per cent in 2027. Key downside risks include higher energy prices, weaker demand from China and the country's dependence on fuel imports from Russia, which leaves the economy vulnerable to supply disruptions.

Tajikistan

Real GDP grew by 8.2 per cent year on year in the first half of 2026. Growth was underpinned by an expansion in services, manufacturing and agriculture. On the demand side, household consumption remained resilient, supported by rising real wages, which were up 16 per cent year on year, and strong remittance inflows. Fixed capital investment grew by 35.9 per cent year on year in January-July 2026, reflecting continued infrastructure development. Exports expanded by 57.2 per cent year on year on rising shipments of precious metals and minerals. Nevertheless, the trade deficit widened as imports increased by 38.6 per cent. Inflation accelerated to 4.1 per cent in mid-2026 (within the National Bank of Tajikistan's target range), reflecting higher fuel and utility costs. Pressures stemming from elevated global energy prices were amplified by fuel market disruptions in Russia. The country's fiscal performance improved thanks to strong revenue collection and ongoing reforms aimed at improving spending efficiency, leading to a fiscal surplus of 3.4 per cent of 2025 GDP. External buffers strengthened, with international reserves rising to a record US$ 6.8 billion (€5.9 billion) in May 2026, covering more than nine months of imports. Economic growth is projected to moderate to 7.9 per cent in 2026 and 7 per cent in 2027. Key downside risks stem from Tajikistan's dependence on Russia as its main source of remittances and fuel. Prolonged disruptions to Russian fuel supplies could weaken growth in agriculture, trade and industry.

Turkmenistan

Official real GDP grew at the rate of 6.3 per cent year on year in the first half of 2026. Growth was broad based, driven by the strong performance of transport and communications, trade and other services. Retail trade turnover increased by 10.1 per cent year on year and foreign trade turnover rose by 7.5 per cent. Construction activity grew by 6.7 per cent year on year, supported by continued state-led investment and the implementation of large-scale infrastructure and industrial projects. Meanwhile, fixed capital investment increased by 4.3 per cent year on year in the first six months. Strong hydrocarbon production and favourable energy prices continued to underpin external and fiscal stability. While pressures from Iran's restrictions on food exports have largely subsided, elevated meat prices added to inflationary pressure. At the same time, the parallel exchange rate appreciated in early September 2026 after remaining stable for several years, which could help to contain inflation by lowering import costs. In July 2026, Fitch Ratings affirmed the country's sovereign credit rating at 'BB-' with a stable outlook, citing low public debt and ample international reserves. Growth is projected at 6.3 per cent in both 2026 and 2027. Downside risks stem mainly from weaker demand from China and lower energy prices.

Uzbekistan

Economic growth accelerated to 8.5 per cent year on year in the first half of 2026, driven primarily by services, which accounted for 4.4 percentage points of the overall growth rate. Manufacturing output grew by 8.8 per cent year on year and trade expanded by 13.5 per cent year on year amid rising wages (up 18.4 per cent year on year) and remittances (up 13 per cent year on year). Fixed capital investment increased by 17.5 per cent year on year, reflecting strong investment growth. After easing in May, inflation picked up to 6.4 per cent year on year in July, reflecting elevated global energy prices. Against this backdrop, the central bank has kept the policy rate at 14 per cent since March 2025. Exports declined by 4.5 per cent year on year in January-July 2026 owing to lower gold shipments, while imports rose by 17.8 per cent year on year in the same period, leading the trade deficit to more than double to US$ 9.7 billion (€8.5 billion). Public debt reached 27 per cent of GDP in mid-2026. Meanwhile, international reserves increased by 32 per cent year on year to US$ 64 billion (€55.8 billion) at end-July 2026, supported by higher gold purchases. Real GDP is projected to grow by 7.5 per cent in 2026 and 6.0 per cent in 2027. Key downside risks include a slowdown in Russia and prolonged disruptions to Russian fuel supplies amplifying the impact of elevated global energy prices.

Central Europe and the Baltic states

Economic growth in central Europe and the Baltic states (CEB) picked up from 2.7 per cent in 2025 to 2.9 per cent year on year in the first half of 2026. Growth is forecast at 2.9 per cent in 2026 and 2.5 per cent in 2027. Absorption of Recovery and Resilience Facility (RRF) funds peaked ahead of the end-August 2026 deadline for milestones and targets, boosting EU-financed public investment. As final payments fall due in December, growth in public investment is expected to moderate in 2027. Defence spending is running at around 5 per cent of GDP in Poland and the Baltic states in 2026, financed in part through the EU Security Action for Europe (SAFE) loan instrument, which requires at least 65 per cent of the equipment it funds to be made in Europe. The conflict in the Middle East has pushed up fuel and gas prices across the region, with varying inflationary impacts. Based on Eurostat's estimates for August 2026, Estonia recorded the lowest rate in the euro area and Lithuania the highest. Fiscal positions diverged widely, too, with Poland and Hungary heading for general government deficits of 7 per cent of GDP or more this year compared with less than 3 per cent in Latvia. Downside risks include a longer conflict in the Middle East, a cold winter that prompts a draw on European gas storage (which, as at August 2026, was filling too slowly to reach the 90 per cent pre-winter target) and slippage in the final drawdown of RRF funds. Faster absorption of the funds unblocked for Hungary presents a potential upside.

Croatia

Growth slowed from 3.4 per cent in 2025 to 1.9 per cent year on year in the first half of 2026 as real wage growth decelerated from the end of 2025. HICP inflation peaked at 5.4 per cent in April 2026 as food and energy prices moderated in the following months, stood at 3.7 per cent in August 2026. The investment cycle also eased after five years of robust growth. The last two RRF tranches should be requested by end-September. Net exports remained a drag on growth, as imports continued to outpace exports, while concerns about the price competitiveness of the tourism sector persisted. The growth forecast for 2026 has been revised down to 2.4 per cent, with a rebound expected in the second half of the year on improving industrial activity, higher wage growth and a robust tourism season. In 2027, growth is forecast to stay close to potential, at 2.5 per cent, as RRF-supported investment fades.

Estonia

Growth picked up from a revised estimate of 1.3 per cent in 2025 to 2.3 per cent year on year in the first half of 2026, as household consumption recovered while investment fell and net exports turned negative for the first time since 2024. Estonia's participation in the Nordic-Baltic regional electricity market, where hydropower, nuclear and wind dominate, has attenuated the impact of the energy shock. Estonia’s harmonised index of consumer prices (HICP) inflation fell to 1.3 per cent in August 2026, the lowest in the euro area. A uniform monthly tax-free income threshold of €700 introduced in January 2026 has supported household consumption. The 2026 budget allocates 5.4 per cent of GDP to defence, though the central bank expects much of it to be spent on imported equipment. The general government deficit is expected to widen from 1.3 per cent of GDP in 2025 to 4.4 per cent in 2026 and stay above 4 per cent of GDP until 2029 on lower income-tax receipts and higher defence outlays, with public debt reaching 38.6 per cent of GDP by 2030. Growth is forecast at 2.4 per cent in 2026 and 2.3 per cent in 2027, supported by Rail Baltica construction and real wage growth. The main risks stem from weaker euro-area demand.

Hungary

Growth picked up from 0.5 per cent in 2025 to 1.7 per cent year on year in the first half of 2026, its fastest pace since 2024, despite a negative contribution from net exports. Drought, almost on a par with that of 2022, cut agricultural output, while low water levels on the Danube shut down the majority of capacity at the Paks nuclear plant, which generates about half of Hungary's electricity and is cooled by river water. HICP inflation, at 1.8 per cent in August 2026, is among the lowest in the EU, as the appreciation of the forint has moderated price pressures. Consequently, the central bank has cut its policy rate at successive meetings since June. Years of frozen funding have left Hungary with the smallest RRF drawdown percentage in the EU. The European Commission released the funds in May 2026 and the government expects receipts from EU programmes to more than double this year. The general government deficit is projected to widen from 4.7 per cent of GDP in 2025 to 7.5 per cent of GDP in 2026, more than double the figure in the original budget, with public debt reaching 77.5 per cent of GDP by the end of the year. Growth is forecast at 1.8 per cent in 2026 and 2.5 per cent in 2027. Risks are tilted to the downside, stemming from renewed disruptions to electricity generation and the rising costs of government financing. Investment may prove stronger if the government draws down the unblocked EU funds quickly.

Latvia

Growth picked up from 2.1 per cent in 2025 to 2.8 per cent year on year in the first half of 2026, as investment expanded while imports outpaced exports. The Nordic-Baltic electricity market has softened the impact of the energy shock, with HICP inflation at 3.0 per cent in August 2026, suppressed by falling food prices after a temporary cut in value-added tax. Parliament has legislated for a minimum defence spending threshold of 5 per cent of GDP from 2027, up from more than 3 per cent in 2025, and Latvia's defence investment plan has been approved under SAFE. The general government deficit is expected to widen from 2.5 per cent of GDP in 2025 to 4.2 per cent of GDP in 2027 and 5.4 per cent in 2028 under the EU national escape clause for defence, with public debt rising towards 54 per cent of GDP by 2030. AirBaltic, the state-owned airline, may require a further capital injection. Growth is forecast at 2.4 per cent in 2026 and 2.1 per cent in 2027, as EU fund absorption loses momentum.

Lithuania

Growth accelerated from 2.9 per cent in 2025 to 3.3 per cent year on year in the first half of 2026, as manufacturing expanded and household spending was boosted by withdrawals from the second-pillar pension system, which became voluntary in January 2026. Savers may withdraw funds at any point during a two-year window that closes in December 2027, with the central bank estimating potential withdrawals at up to €3.4 billion out of the total savings of €9 billion. HICP inflation reached 5.6 per cent in August 2026, the highest in the euro area that month, reflecting higher energy prices, higher excise duties and rapidly rising labour costs. The 2026 budget allocates 5.4 per cent of GDP to defence, supported by a €6.4 billion SAFE allocation. The general government deficit was 1.8 per cent of GDP in 2025 and public debt was around 40 per cent. The International Monetary Fund (IMF) expects both to rise as defence, ageing and social spending pressures build, and has warned that the pension withdrawals will weaken the adequacy of pension coverage in the long term, adding to future fiscal pressures. Growth is forecast at 3.0 per cent in 2026 and 2.2 per cent in 2027, as the boost to consumption from the pension withdrawals fades. The failure of productivity to keep up with wage growth is a source of risk.

Poland

Growth was 3.6 per cent year on year in 2025 and 3.5 per cent year on year in the first half of 2026 as gross fixed capital formation recorded its fastest expansion since 2023, with absorption of EU funds peaking in the final year of the RRF. To hold down fuel prices, the government cut VAT and excise duty on petrol and diesel, and capped prices at the pump from late March to the end of June and again for two weeks in August. The Ministry of Finance put the cost at 0.13 per cent of GDP, with full tax rates applied again from September. At 3.4 per cent in August 2026, CPI inflation was within the National Bank of Poland's tolerance band of 1.5 per cent to 3.5 per cent, and the policy rate has remained unchanged since the last cut in March. Poland has the largest SAFE allocation, at €43.7 billion, and the government expects more than 80 per cent of it to be spent domestically. At 7.3 per cent of GDP in 2025, the general government deficit was the second highest in the EU, and Poland remains subject to the bloc’s excessive deficit procedure. The deficit is expected to exceed the 6.8 per cent target in 2026, as fiscal commitments, including the fuel-price measures, are outpacing tax revenue. The draft 2027 budget targets a gap of 7.1 per cent of GDP, with a risk of further fiscal loosening ahead of the 2027 election. Growth is forecast at 3.5 per cent in 2026 and 2.8 per cent in 2027 as the utilisation of RRF funds fades. Risks are tilted to the downside and stem largely from weaker euro-area demand.

Slovak Republic

Growth totalled 0.8 per cent in 2025 and the first half of 2026, the slowest in the region, as investment fell, industrial output contracted and car production, which dominates the Slovak manufacturing sector, remained flat. Exports outside the EU fell sharply early in 2026, while sales within the EU held up. HICP inflation stood at 3.1 per cent in August 2026, down from 4.4 per cent a year earlier. The general government deficit, at 4.5 per cent of GDP in 2025, and public debt of 61 per cent of GDP triggered the strictest tier of the domestic debt brake. Despite the obligation to bring debt down, in August 2026, the government raised its deficit target for 2027 and scrapped the country’s tax on financial transactions from January. The Council for Budget Responsibility estimates that meeting the revised target will require further measures worth 1 per cent of GDP in 2027. Growth is forecast at 0.8 per cent in 2026 and 1.5 per cent in 2027, when a new car plant near

Kosice is due to start production. Risks are tilted to the downside and relate to further fiscal slippage and weaker euro-area demand.

Slovenia

Growth rebounded strongly from 1.1 per cent in 2025 to 4.1 per cent year on year in the first half of 2026 as investment expanded by 13.2 per cent, in part reflecting post-flood reconstruction. Manufacturing output returned to growth in March 2026 and corporate loans grew at almost double the pace seen last year. Exports also recovered. Fiscal pressures remain elevated owing to public-sector wage reforms and reconstruction spending. HICP inflation stood at 3.4 per cent in August 2026. Forecast growth has been revised up to 3.6 per cent in 2026 and maintained at 2.2 per cent in 2027. Downside risks include headwinds to exports feeding into a slowdown in private investment.

Eastern Europe and the Caucasus

The conflict in the Middle East has weighed on the economic outlook in eastern Europe and the Caucasus in 2026. Armenia and Georgia have maintained robust, broad-based growth in the face of inflation running above central bank targets and, in Armenia's case, new Russian trade restrictions. Azerbaijan's economy has returned to modest growth after contracting earlier in the year, supported by non-oil sectors. Moldova's recovery remains fragile, with growth slowing sharply in the first quarter as a renewed energy shock, cushioned only partly by EU support, squeezed purchasing power. Ukraine's outlook has weakened further, with intensified Russian attacks on energy infrastructure and Black Sea shipping. Across the region, the near-term outlook hinges on the trajectory of the conflict in the Middle East, Russia's military invasion of Ukraine, and progress on peace and connectivity initiatives in the Caucasus.

Armenia

Growth picked up from 5.2 per cent year on year in the first quarter of 2026 to 6.7 per cent in the second quarter, despite a series of trade restrictions imposed by Russia from April 2026. The expansion in the first half of the year was broad based, led by construction, mining, information and communications technology, financial services, and transportation and storage. Headline inflation averaged 4.5 per cent in the first seven months of 2026, above the central bank's target of 3.0 per cent. The central bank left the policy rate unchanged at 6.5 per cent over the summer. On a rolling four-quarter basis, the current account deficit widened to 8.3 per cent of GDP in the first quarter of 2026. Meanwhile, the Armenian dram appreciated modestly against the US dollar over the first seven months of 2026, while gross international reserves reached a record US$ 6.2 billion (€5.4 billion) in July, up from US$ 4.1 billion (€3.6 billion) a year earlier, providing more than four months of import cover. Economic growth is forecast at 5.5 per cent in both 2026 and 2027. Downside risks stem from the potential for protracted disruptions to exports and further economic sanctions by Russia. Progress on a peace framework with Azerbaijan, the implementation of the Trump Route for International Peace and Prosperity (a US-brokered transit corridor through southern Armenia), the potential opening of the land border with Türkiye and deeper economic cooperation with the EU present upside opportunities.

Azerbaijan

After contracting in the first quarter of 2026, economic output rebounded and growth recovered to 1.4 per cent year on year in the first seven months of 2026. Over this period, the oil and gas economy contracted by 0.6 per cent, while non-hydrocarbon GDP expanded by 2.2 per cent year on year, with information and communication services, transport and storage, and industry all performing strongly. Fixed capital investment expanded by 10.7 per cent year on year, driven mainly by investments in the oil and gas sector. Inflation averaged 5.7 per cent and stood near the upper limit of the central bank's target range. Following a 25 basis point reduction in February, the central bank kept the policy rate unchanged at 6.5 per cent. The state budget recorded a surplus of approximately 4.5 per cent of GDP in the first seven months of 2026. On a rolling four-quarter basis, the current account surplus amounted to 5.3 per cent of GDP in the first quarter of 2026. Strategic foreign-currency reserves totalled 114 per cent of 2025 GDP at the beginning of August 2026, up 12.2 per cent year on year. Real GDP growth is forecast at 2.0 per cent in 2026 and 2.5 per cent in 2027. The growth outlook remains sensitive to hydrocarbon prices and production volumes. Progress on a peace framework with Armenia and new regional connectivity initiatives present upside potential. Continued large-scale investment in renewable energy could support economic diversification in the medium term.

Georgia

Real GDP expanded by an estimated 7.9 per cent year on year in the first half of 2026, with growth moderating from 9.0 per cent in the first quarter to 7.0 per cent in the second. Growth in the first half of the year was broad based, with information and communications services, manufacturing, transport and storage, and financial and insurance activities among the principal contributors, while income from tourism declined by 2.0 per cent year on year. Over the same period, merchandise export growth stood at an estimated 20 per cent year on year, outpacing import growth of 2.3 per cent, with EU countries accounting for 10 per cent of exports. Inflation reached 5.6 per cent year on year in August, remaining above the National Bank of Georgia's 3 per cent target, as higher energy prices contributed to inflationary pressures. On a rolling four-quarter basis, the current account deficit narrowed to 1.9 per cent of GDP in the first quarter of 2026 from 6.0 per cent of GDP a year earlier, supported by the strong performance of information and communications services, as well as an improved merchandise trade balance. Gross international reserves increased to a record US$ 8.1 billion (€7.1 billion) at end-August 2026, putting them at 128.2 per cent of the IMF's adequacy metric. Real GDP is forecast to grow by 6.5 per cent in 2026 and 5.5 per cent in 2027, with major investment projects in real estate, connectivity and renewable energy presenting a further upside. Downside risks relate to tensions with the EU and the impact of the conflict in the Middle East on tourism revenues and energy costs.

Moldova

Real GDP growth slowed to 0.4 per cent year on year in the first quarter of 2026 amid a renewed energy shock linked to the war in the Middle East. Domestic demand was supported by wage growth, credit expansion and EU-backed investment, while higher energy costs weighed on purchasing power and business confidence. Stronger exports have so far offset some of the pressure on the external account and helped to narrow the current account deficit. After briefly dipping below 5 per cent in January 2026, inflation rose to 6.3 per cent year on year in July, prompting the central bank to raise the base rate to 7.5 per cent in August. International reserves remain comfortable, underpinned by EU assistance, remittances and official inflows, while the €1.9 billion EU Reform and Growth Facility and the new IMF non-financing Policy Coordination Instrument provide important policy anchors. Growth is projected at 2.8 per cent in 2026 and 3.5 per cent in 2027, with risks tilted to the downside, reflecting energy price volatility, weak external demand, the effects of Russia's military invasion of Ukraine and delayed implementation of reforms.

Ukraine

Ukraine's macroeconomic outlook has weakened materially, with the economy shifting from slow recovery to near stagnation amid an escalation in Russian air attacks. Real GDP contracted by 0.6 per cent year on year in the first quarter of 2026 and expanded by 0.6 per cent in the second quarter, leaving output broadly flat in the first half of the year. While defence production, public spending and resilient services supported activity, damaged energy infrastructure, labour shortages, weak confidence and renewed logistics bottlenecks constrained growth. Inflation accelerated to 7.7 per cent in July, reflecting higher fuel and energy costs, exchange-rate pass-through, labour-market pressures and wider supply disruptions, prompting the central bank to raise the policy rate to 15.5 per cent. The goods trade deficit widened sharply as energy and defence imports increased, while export capacity was hit by renewed Russian attacks on Black Sea ports, civilian shipping and transport infrastructure. Alternative land and river routes can mitigate, but not replace, the lost deep-sea shipping capacity, while low Danube water levels, strikes on Danube infrastructure and rolling-stock shortages add further constraints. Official financing has helped to stabilise reserves, which stood at around US$ 49 billion (€43 billion) in August. Growth is now forecast at 1.5 per cent in 2026 and 2.5 per cent in 2027, with downside risks stemming from any prolonged disruption to Black Sea shipping, renewed Russian attacks on energy infrastructure and wider external financing gaps.

South-eastern EU

In the first half of 2026, Bulgaria's economy remained resilient, supported by robust domestic demand, investment and improving exports, despite higher inflation and a deteriorating fiscal position. The EU's decision to open an excessive deficit procedure for Bulgaria in July 2026 is expected to place fiscal consolidation at the heart of the country's economic policy over the medium term. In Romania, by contrast, weak external demand, tighter macroeconomic policies and high inflation have weighed on output growth, despite continued EU-funded infrastructure investment. Fiscal and external imbalances have started to narrow, reflecting tight macroeconomic policies. Regional growth is expected to remain subdued in 2026 before improving moderately in 2027 as inflationary pressures ease.

Bulgaria

Real GDP expanded at a rate of 2.8 per cent year on year in the first half of 2026 as domestic consumption and investment demand remained resilient, manufacturing output moved into positive territory after a significant contraction in 2025, and services and construction continued to grow robustly. Exports fell significantly in the first quarter, recovering in part by mid-year. Harmonised inflation reached 6.3 per cent in May 2026, driven by higher energy prices, while food inflation had declined by July 2026. The fiscal position has deteriorated considerably in the year to date, with the budget targeting a general government deficit of 5.7 per cent of GDP in 2026. With Bulgaria subject to the EU's excessive deficit procedure since July 2026, fiscal consolidation is expected to be a key policy priority over the medium term. Following earlier setbacks, the absorption of RRF funds has been prioritised and Bulgaria should be able to mop up a significant share of its allocation by year end. Growth is projected at 2.7 per cent in 2026 and 2.5 per cent in 2027. The key downside risk is the impact of the required fiscal consolidation on consumer and business confidence.

Romania

After a steep decline in economic output in the last quarter of 2025, real GDP contracted by 0.8 per cent year on year in the first half of 2026, owing to a 4.6 per cent decline in manufacturing output, a contraction in services and falling retail sales. In contrast, construction expanded, boosted by EU-funded infrastructure projects. While external imbalances have started to moderate, Romania's current account deficit remains among the largest in the EU. HICP inflation picked up to 9.7 per cent in May 2026, then decelerated to 6.3 per cent in August 2026, but it remained at the highest level in the EU. The depreciation of the currency against the euro, coupled with higher energy prices, could prolong inflationary pressures. After narrowing to 7.9 per cent of GDP in 2025, the general government deficit was 37 per cent lower in nominal terms in January-July than in the corresponding period in 2025, with the full-year deficit target of 6.2 per cent of GDP looking achievable. Assuming a gradual recovery in household demand and the finalisation of EU-funded investments, along with a mild recovery in exports linked to partially restored cost competitiveness, GDP growth could return in the second half of the year. The economy is expected to shrink by an average of 0.2 per cent in 2026 then grow by 1.8 per cent in 2027, notwithstanding a likely decline in public investment. Downside risks persist, linked to fiscal policy uncertainty, energy price shocks and weak foreign demand.

Southern and eastern Mediterranean

Egypt and Jordan showed notable resilience in the first half of 2026, despite the negative effects of the conflict in the Middle East. In contrast, Lebanon was severely impacted by the wars at home and across the region, suffering further damage to infrastructure. Iraq's oil exports continue to be affected by the closure of the Strait of Hormuz in the absence of viable alternatives in the short term. Growth in Tunisia and Morocco slowed as weaker industrial activity and investment spending, respectively, were only partially offset by strong agricultural output. The wars in the region present significant downside risks to the outlook, with disruptions to commodity markets and supply chains weighing on growth prospects, fiscal positions and foreign-currency reserves. While inflation has moderated from its peak in April 2026 in most economies, it remains elevated, driven by energy and food price pressures. Growth in the southern and eastern Mediterranean (SEMED) region is expected to slow in 2026, driven by strong contractions in Iraq and Lebanon, before bouncing back in 2027, with risks primarily pertaining to the trajectory of the conflict in the Middle East.

Egypt

Real GDP growth accelerated from 4.8 per cent in the first half of 2025 to 5.0 per cent in the first half of 2026, supported by the communications, trade and petroleum refining sectors, while manufacturing decelerated after a strong performance in 2025. Domestic natural gas output contracted for the 16th consecutive quarter, raising Egypt's reliance on imports of liquified natural gas (LNG) and pipeline gas to cover 36 per cent of domestic demand. Inflation stabilised in the 12-15 per cent range over the first half of the year, above the Central Bank of Egypt's target of 5-9 per cent. Liberalisation of the housing rental market compounded pressures from higher energy prices. The central bank held its policy rate at 19.5 per cent for the third consecutive meeting in July 2026, pausing a monetary loosening cycle that had delivered 825 basis points of cuts. Egypt has completed seven of its eight IMF Extended Fund Facility reviews and two of its three Resilience and Sustainability Facility reviews, drawing down US$ 7.3 billion (€6.3 billion) in total disbursements. Public debt was stable as at March 2026, at 83.9 per cent of GDP, with government gross financing needs estimated at around 50 per cent of GDP for the coming fiscal year (July 2026 to June 2027). Remittance and tourism receipts, the country's key sources of foreign exchange, rose by 36.3 and 9.4 per cent, respectively, to a total of US$ 16.9 billion (€14.7 billion), and net international reserves reached a record US$ 56.3 billion (€48.8 billion) in July 2026. Growth is forecast at 4.6 per cent in 2026 and 5.0 per cent in 2027 amid significant downside risks related to the impact of instability in the Middle East on energy markets and foreign investor sentiment.

Iraq

The disruption of commercial traffic through the Strait of Hormuz has suppressed Iraq's oil exports severely and triggered a contraction. Shipments by alternative routes amounted to less than a quarter of pre-war levels in the first half of 2026, while interrupted supplies of Iranian gas have exacerbated power shortages. As oil accounts for more than 90 per cent of Iraq's public revenues, domestic public borrowing has been increasingly used to finance government expenditure. Foreign-exchange reserves declined from US$ 97 billion (€81.8 billion) in January (about 12 months of imports) to US$ 83 billion (€72.7 billion) in June 2026. Following months of deflation in 2025, inflation peaked at 4.3 per cent in April 2026, before slowing to 3.1 per cent in June, reflecting higher food prices. In 2026, the economy is expected to contract by 12 per cent, with a deeper contraction if severe disruptions to shipments continue for the rest of the year. Economic activity is expected to rebound in 2027, with growth forecast at 14 per cent, provided that trade disruptions are resolved by the beginning of the year.

Jordan

The Jordanian economy grew by 2.9 per cent year on year in the first quarter of 2026, despite brief disruptions to energy supply and tourism in March against the backdrop of the conflict in the Middle East. Robust activity in agriculture, manufacturing and trade was partially offset by a slowdown in mining, construction and tourism-related services. Higher fuel prices pushed inflation to a peak of 2.8 per cent in May 2026 (it moderated to 2.7 per cent in July). The Central Bank of Jordan raised its main policy rate by 25 basis points in September 2026 to 6.0 per cent, mirroring the decision of the US Federal Reserve, as part of the country’s efforts to preserve the currency peg. The current account deficit narrowed in the first quarter of 2026 as a result of lower imports and stronger remittances, despite decreasing goods exports and tourism income. Notwithstanding a recent decline owing to gold revaluations and higher spending on energy imports, international reserve levels have remained comfortable, at US$ 26.5 billion (€23.0 billion) as at July 2026, covering more than eight months of imports. Growth is expected to slow to 2.5 per cent in 2026, weighed down by regional instability, trade interruptions and increased uncertainty surrounding tourism and investment flows. In 2027, growth is expected to recover to 2.8 per cent, provided trade bottlenecks are resolved and energy prices decline.

Lebanon

The Lebanese economy has been severely impacted by the resumption of hostilities with Israel in the first half of 2026. Further damage to infrastructure, especially in the south, has added to the already substantial US$ 11 billion (€9.5 billion) reconstruction bill from previous rounds of conflict. Around 360,000 Lebanese remained displaced as at August 2026, according to the United Nations, down from a peak of 1.3 million earlier in the year. The resulting economic and humanitarian shock has disrupted activity across tourism (a major source of foreign exchange) and other key sectors, and fuelled inflation, which doubled to around 20 per cent year on year in April 2026 before slowing somewhat to 15.7 per cent in July. Consequently, the economy is expected to contract by 5.0 per cent in 2026, before rebounding by 4.0 per cent in 2027, provided a sustained ceasefire is achieved and the country is able to repair its damaged infrastructure. Heightened uncertainty remains a key risk to the outlook, alongside the lack of tangible progress on critical economic reforms that could restore access to finance for the private sector.

Morocco

Growth moderated to 4.6 per cent year on year in the first quarter of 2026 from 5.0 per cent in the same quarter of 2025, as investment spending slowed from an exceptionally high base. The recovery in agriculture continued following a multi-year drought, with output rising by 18.4 per cent year on year, offsetting softer activity in industry and construction. Inflation averaged 0.5 per cent year on year in January-June 2026, despite a temporary acceleration due to higher energy prices. Bank al-Maghrib maintained its policy rate at 2.25 per cent for the fifth consecutive time in June 2026, citing elevated geopolitical uncertainty. The government projects a fiscal deficit of 3.4 per cent of GDP in 2026, in line with the budgetary target, and a debt-to-GDP ratio of 65.8 per cent, down from 66.6 per cent in 2025. Morocco’s international bond issuance in May 2026 was oversubscribed. The current account deficit amounted to 1.2 per cent of GDP in the first quarter of 2026 as the widening of the trade deficit was offset by strong tourism receipts and remittances. Official reserves stood at US$ 54.3 billion (€46.7 billion) in August 2026, equivalent to around 5.3 months of imports. Real GDP growth is forecast at 4.8 per cent in 2026 and 3.9 per cent in 2027. Downside risks centre on commodity price volatility and global trade policy uncertainty.

Tunisia

Real GDP grew by 2.4 per cent in the first half of 2026, down from 2.7 per cent a year earlier. Expansion in agriculture and food processing offset contractions in chemicals, textiles and other industrial sectors. As annual inflation averaged 5.1 per cent in January-July 2026, amid higher commodity prices and a temporary spike in food prices, the Central Bank of Tunisia held its policy rate at 7.0 per cent for the third consecutive time in July 2026. While government subsidies softened the inflationary impact of higher global energy prices, the energy import bill swelled by 31.6 per cent year on year in January-July 2026, likely adding to the 2026 fiscal deficit, projected at 6.0 per cent. The current account deficit widened to 2.3 per cent of GDP in the first half of 2026, up from 1.6 per cent the preceding year, with tourism and remittance receipts, the key source of foreign exchange, growing by around 5.0 per cent. International reserves stood at US$ 8.5 billion (€7.3 billion) in August 2026, an 11 per cent decline on a month earlier, following a €700 million principal payment on the last outstanding international government bond. Tunisia also signed financing agreements with African Export–Import Bank (Afreximbank) and the Arab Monetary Fund worth US$ 812 million (€704 million). GDP is forecast to grow by 2.4 per cent in 2026 and 2.3 per cent in 2027. Downside risks include vulnerability to higher global commodity prices and trade policy uncertainty.

Sub-Saharan Africa

Growth across the six sub-Saharan African economies in early 2026 was supported by services, agriculture and commodity exports, although higher oil prices and trade disruptions linked to the conflict in the Middle East are now weighing on the outlook. Headline inflation has picked up in Kenya and Ghana, while price pressures have remained more contained elsewhere. Confidence in fiscal and external positions has improved: Benin, Côte d'Ivoire and Ghana have successfully completed IMF-supported programmes, while Kenya, Ghana and Nigeria have seen sovereign rating upgrades. Nevertheless, fiscal vulnerabilities remain significant in parts of the region. In Senegal, public debt is close to 120 per cent of GDP and the country saw another sovereign downgrade in August. The authorities reached a staff-level agreement with the IMF on 1 September. Kenya also continues to face notable fiscal pressures. In the near term, growth in the region's economies is expected to be supported by oil and mining, manufacturing, services and agriculture, with momentum moderating as commodity windfalls fade. The conflict in the Middle East, weaker cocoa prices, pre-election spending pressures in Kenya and Nigeria, and El Niño-related risks to agricultural output and food prices are key downside risks.

Benin

Real GDP growth accelerated to 7.8 per cent in the first quarter of 2026 from 7.4 per cent a year earlier, driven by agriculture, trade, construction and transport. Headline inflation turned negative, standing at -0.4 per cent year on year in June 2026, on falling food prices, despite a 10.4 per cent rise in transport costs. Government measures have so far limited the domestic impact of higher global fuel and fertiliser prices. Pump prices were raised once, in May, to CFAF 725-750 (€1.11-1.14) per litre. Benin's IMF-supported programme was successfully completed in February 2026, thanks to a strong macroeconomic performance and continued access to international capital markets. In January, the government reopened its 2038 Eurobond for an additional US$ 350 million (€305 million), alongside the issuance of a US$ 500 million (€436 million) sovereign sukuk. The fiscal deficit forecast was revised up to 3.1 per cent of GDP for 2026, above the 3 per cent ceiling set by the West African Economic and Monetary Union (WAEMU), due to higher debt-servicing costs and social transfers. Public debt had eased to 49.6 per cent of GDP at end-March, although interest payments absorbed 29.4 per cent of revenues in the first quarter of 2026. The May 2026 transfer of power and the subsequent decision to retain the government economic team support policy continuity, and Moody's Ratings upgraded the sovereign rating by two notches to Ba3 in August, citing fiscal consolidation and sound debt management. Growth is projected at 7.0 per cent in 2026 and 6.7 per cent in 2027, supported by expanding agriculture and industrial activity and continued investment in the Glo-Djigbé Industrial Zone. Key downside risks include sustained high prices for oil and fertiliser, jihadist attacks in the cotton-producing north, the continued closure of the Benin-Niger border, and climate-related shocks exacerbated by the El Niño phenomenon.

Côte d'Ivoire

Real GDP growth eased to 4.7 per cent year on year in the first quarter of 2026 from 5.1 per cent a year earlier, as weaker industrial and construction activity and lower investment partially offset expansion in household consumption, trade and agriculture. Inflation rose from an average of 0.1 per cent in 2025 to 1.8 per cent in June 2026 on food and housing costs. The current account deficit narrowed from 4.5 per cent of GDP in 2024 to 0.7 per cent of GDP in 2025 on stronger cocoa, gold and rubber exports, with the trade surplus up 37 per cent year on year in the first quarter of 2026. The fiscal deficit narrowed to 3.0 per cent of GDP in 2025, meeting the WAEMU target, although tax revenue, at 14.9 per cent of GDP, remained below the 20 per cent convergence goal. Côte d'Ivoire completed its IMF-supported programme in June 2026 and the Fund upgraded its debt-distress risk to "low". A US$ 1.3 billion (€1.13 billion) Eurobond issuance in February and an Abidjan investment conference in July, which saw US$ 80 billion (€70 billion) pledged for the 2026-30 development plan, underscored market confidence. Growth is expected to reach 6.1 per cent in 2026 and 6.5 per cent in 2027. Headwinds from the conflict in the Middle East and lower cocoa prices are set to persist through the 2026-27 season, but are expected to be offset by a ramp-up in hydrocarbon and mining production and continued manufacturing growth. As a net fuel and fertiliser importer, Côte d'Ivoire remains exposed to further price shocks that could raise the cost of fuel subsidies and strain agriculture, which employs two-thirds of the workforce. Other downside risks include a prolonged cocoa slump, a deterioration in the security situation in the Sahel and adverse weather, exacerbated by El Niño.

Ghana

Real GDP grew at a rate of 6.4 per cent year on year in the first quarter of 2026, up from 6.2 per cent a year earlier, on buoyant investment and consumption. Inflation fell to 3.2 per cent in March, its lowest level since the 2021 rebasing of the price index. It subsequently peaked at 5.3 per cent in June, owing to higher fuel costs, before easing to 5 per cent in August. The Bank of Ghana cut its policy rate by 400 basis points to 14 per cent as at March and has held it at that level since then. The cedi, having gained around 40 per cent against the US dollar in 2025, weakened by 5 per cent in January-August 2026. The fiscal deficit narrowed to 1.2 per cent of GDP in the first quarter of 2026 from 3.3 per cent a year earlier. The IMF completed its final review of Ghana's Extended Credit Facility in July, paving the way for a Policy Coordination Instrument. Debt restructuring is largely, though not fully, complete. The IMF upgraded its debt-distress risk assessment to “moderate”, and the debt-to-GDP ratio fell from 62 per cent in 2024 to 40.6 per cent in the first quarter of 2026. The current account surplus widened to 6.6 per cent of GDP in the first half of 2026 on stronger gold exports, while international reserves stood at US$ 12.9 billion (€11.2 billion), covering five months of imports. The sovereign credit profile improved, with Fitch Ratings upgrading Ghana’s issuer rating to B (with a positive outlook) in May and Moody’s Ratings revising its Caa1 outlook to positive in April. Growth is expected to moderate to 5.0 per cent in 2026 and 2027, with risks skewed to the downside. Elevated global gold prices should remain supportive, but the high base set by the sector's exceptional 2025 performance will cap the incremental contribution of gold exports. Growth is likely to be driven increasingly by investment in oil, gas and transport infrastructure, offsetting the impact of the deepening cocoa-sector crisis, which has been marked by sharply lower farmgate prices and falling output. On the downside, a stronger El Niño weather phenomenon could weigh on output in the last quarter of 2026, while fuel and shipping costs could rise further.

Kenya

Real GDP growth accelerated to 5.3 per cent year on year in the first half of 2026 from 4.8 per cent a year earlier, driven by agriculture, financial services and real estate, and supported by the Central Bank of Kenya’s earlier easing cycle. Momentum has since cooled: the effective closure of the Strait of Hormuz has raised freight costs and weighed on Kenya’s tea, meat and horticultural exports to Gulf markets. Nevertheless, the Stanbic Bank Kenya Purchasing Managers’ Index (PMI) returned to expansion territory in July after three months of contraction. Inflation accelerated from 4.4 per cent in March 2026 to 6.6 per cent in August, prompting the central bank to hold its policy rate at 8.75 per cent at three consecutive meetings since February. The fiscal deficit widened to an estimated 7.5 per cent of GDP in the first quarter of 2026 on a 20 per cent rise in spending, while public debt was around 70 per cent of GDP in March, with debt servicing absorbing roughly a fifth of revenue. S&P Global Ratings and Moody's Ratings upgraded Kenya's sovereign rating over the past year to B and B3, respectively, while talks on a new IMF-supported programme resumed in August. Growth is projected to reach 4.7 per cent in 2026 and 4.6 per cent in 2027, supported by the resilient services and industrial sectors, a gradual recovery in agriculture and continued strength in private investment. The dominant near-term risks stem from higher oil prices and the continued disruption of key exports and tourism linked to the conflict in the Middle East, compounded by El Niño-related weather disruptions that could weigh on agriculture and add to food-price pressures. Fiscal pressures are likely to build ahead of the August 2027 elections, with limited scope for new revenue measures as the electoral cycle advances. Continued delays in securing a new IMF programme remain a key downside risk to financing conditions.

Nigeria

Real GDP grew at a rate of 4.2 per cent year on year in the first half of 2026 (and 4.5 per cent in the second quarter), up from 3.9 per cent a year earlier, driven by agriculture, telecoms, real estate and financial services. Headline inflation eased to a five-year low of 15.1 per cent in February 2026, before edging up on global energy price pressures and easing again to 15.4 per cent in July. The Central Bank of Nigeria held its policy rate unchanged between late February 2026 and mid-September. The naira has remained on an appreciating path, thanks to increasing oil revenues. The current account surplus rose to 6.2 per cent of GDP in the first quarter of 2026 from 5.4 per cent a year earlier, thanks to higher crude exports and lower refined-fuel imports, driven by the ramp-up of the Dangote refinery. S&P Global Ratings upgraded Nigeria's sovereign rating to B in May 2026, its first upgrade since 2012. The debt-to-GDP ratio fell to 35.2 per cent in March 2026 from 38.9 per cent a year earlier. Revenue mobilisation remains a challenge, with oil receipts persistently undershooting budgetary assumptions, even as non-oil collections improve. Growth projections have been revised up to 4.2 per cent in 2026 and 4.0 per cent in 2027 on account of continued services sector dynamism, elevated oil prices and rising output at the Dangote refinery. Key downside risks include revenue underperformance and food-price pressures from higher fertiliser costs, erratic rainfall and insecurity in northern farming areas.

Senegal

Real GDP growth slowed from 6.7 per cent in 2025 to 5.2 per cent year on year in the first quarter of 2026, as base effects from the 2024 start of Sangomar oil production faded. At the same time, non-hydrocarbon growth strengthened to 4.7 per cent in the first quarter of 2026 from 2.8 per cent a year earlier, with a marked acceleration in services. Headline inflation eased to 0.4 per cent year on year in June 2026 on falling food and housing costs. The current account flipped from a deficit of 11.7 per cent of GDP in 2024 to a surplus of 3.6 per cent of GDP in 2025 on surging hydrocarbon exports, while the fiscal deficit narrowed from a revised 13.4 per cent of GDP in 2024 to 6.4 per cent of GDP in 2025. Central government debt stood at 120 per cent of GDP at end-2025 (132 per cent including broader state liabilities). Moody's Ratings cut Senegal's issuer rating to Caa2 in late August 2026, while S&P Global Ratings rated Senegal CCC+. On 1 September, the authorities and the IMF reached a staff-level agreement on a new US$ 2.2 billion (€1.9 billion) 36-month Extended Credit Facility. Growth is projected to slow to 2.5 per cent in 2026 and 2.7 per cent in 2027 as the Sangomar boost fades and higher energy and food prices weigh on consumption. El Niño-related weather disruptions pose a risk to agriculture and food security, while limited fiscal space will constrain the government's ability to cushion these shocks. A successful IMF programme is the key upside risk, offering a path to improved market sentiment and easing financing conditions.

Türkiye

Economic growth moderated to an estimated 2.5 per cent year on year in the first half of 2026. Domestic demand weakened, reflecting the impact of high inflation and tight financial conditions. The conflict in the Middle East and cost competitiveness pressures continued to adversely affect exports of goods and services, which declined by 3.4 per cent year on year in real terms in the second quarter, extending the sharp decrease observed in the previous quarter (imports also contracted in real terms). Growth was strongest in information and communications services, agriculture, trade, transport and hospitality. Owing to higher energy prices, consumer price inflation edged up to 31.5 per cent in August 2026 from 30.9 per cent year on year at end-2025. In August, the central bank raised its end-2026 inflation forecast from 26 per cent to 28 per cent. Gross international reserves fell from US$ 218 billion (€190 billion) at end-January to US$ 147 billion (€128 billion) at end-June, before recovering to US$ 188 billion (€164 billion) by the last week of August. On a 12-month basis, the current account deficit widened to 2.2 per cent of GDP in June 2026 from 1.6 per cent a year earlier. A wider goods trade deficit was only partially offset by a modest increase in the services surplus. The number of visitors to Türkiye declined by 2.7 per cent year on year, while tourism receipts edged down by 0.1 per cent year on year in the first half of 2026. Budgetary execution remained broadly on track, despite high interest payments and forgone revenues associated with the temporary reduction in fuel tax rates implemented in response to rising prices. Real GDP growth is projected at 3.0 per cent in 2026 and 4.0 per cent in 2027. This growth outlook is subject to downside risks. An escalation of hostilities in the Middle East could exert additional pressure on energy prices, dent tourism revenues, trigger capital outflows and disrupt trade. Growing foreign-exchange liabilities expose the balance sheets of the corporate sector to lira depreciation. On the upside, lasting peace in the Middle East, stronger external demand and continued policy discipline could foster investment and faster growth.

Western Balkans

Real growth in the Western Balkans slowed to 2.6 per cent in 2025, as weaker external demand weighed on activity. Growth is projected to pick up to 3.0 per cent in 2026 and 3.5 per cent in 2027, supported by improving external demand and investment. However, significant downside risks stem from the prolonged conflict in the Middle East. Elevated fuel prices, supply-chain disruptions and higher food prices are putting upward pressure on inflation and constraining growth. At the same time, the Western Balkans could benefit from the near-shoring of EU industries aimed at reducing transport costs, as well as from a partial redirection of tourism away from the SEMED region. Growth in the first half of 2026 remained consumption driven, while industrial production remained subdued amid weak external demand. In response to the oil price shock, governments deployed a number of fiscal measures, which cushioned the impact of higher energy prices *but weakened fiscal positions and reduced the fiscal space for public investment and structural reforms.*

Albania

Real economic growth was 3.8 per cent in 2025 and 3.7 per cent in the first quarter of 2026, driven by public administration, real estate and construction. Industry and agriculture continued to contract as a stronger lek, weak external demand and rising wages weighed on competitiveness. The current account deficit continued to narrow in early 2026, supported by record tourism revenues and strong remittances, even as the goods trade deficit continued to widen. Net foreign direct investment (FDI) inflows grew by 11 per cent year on year in the first quarter of 2026, concentrated in real estate and financial intermediation. Inflation rose above the central bank's target, reaching 3.4 per cent in July 2026, driven by transport, food and housing prices, with the government using excise cuts, price caps and a public transport subsidy to cushion the impact of global fuel-price increases. The central bank's policy rate has remained unchanged at 2.5 per cent since mid-2025. Credit growth remained strong [in the first half, while bank profitability weakened on higher funding costs and provisions, despite improving asset quality. Following a fiscal deficit of 1.8 per cent of GDP in 2025, the budget recorded a surplus in the first half of 2026 on higher VAT revenues, and public debt declined to 49 per cent of GDP at mid-year. Growth is expected to ease to 3.5 per cent in both 2026 and 2027. The 0.1 percentage point upward revision for 2026 since June reflects EU accession-related reforms and investment. Competitiveness pressures, climate risks and energy-price volatility linked to the conflict in the Middle East are the main downside risks.

Bosnia and Herzegovina

Real economic growth slowed from 3.2 per cent in 2024 to 2.1 per cent in 2025, then edged up marginally to 2.2 per cent year on year in the first quarter of 2026, supported by rising wages and remittances, as well as investment. On the production side, trade and hospitality led growth, while industrial output declined for the third consecutive year. The current account deficit narrowed to 6 per cent of GDP in the first quarter on a stronger services surplus, while net FDI inflows rose by 15 per cent year on year after two years of decline. Industrial output took a further hit after Zenica Steelworks, the largest steel producer, halted operations in April and declared bankruptcy in August, with plans to convert the site into an industrial logistics park. Inflation rose to 6.8 per cent in April 2026 before easing to 4.2 per cent in June as food and transport price growth decelerated. Both administrative entities introduced fiscal measures, including excise duty refunds, wage hikes and a temporary fuel-tariff suspension, to cushion the impact of higher energy prices. The IMF estimates the general government deficit at 2.5 per cent of GDP in 2025, with government debt at around 30 per cent of GDP. Growth is expected to reach 2.1 per cent in 2026, accelerating to 2.8 per cent in 2027, supported by investment. Risks stem from the impact of the conflict in the Middle East on fuel and food prices, weaker external demand, the EU's carbon border tax on exports and political tensions.

Kosovo

Real growth accelerated from 3.6 per cent in 2025 to 5.6 per cent year on year in the first quarter of 2026, boosted by public administration and other services, as well as net exports and government consumption, while investment grew modestly and household consumption edged down amid elevated inflation. The current account deficit narrowed to €579.2 million in the first five months of 2026 on a higher surplus in services and remittances, while FDI inflows trended downwards. Inflation peaked at a three-year high of 7.5 per cent in April before easing to 6.5 per cent in July as transport, housing and energy price pressures softened. The government has maintained an oil-margin cap since mid-2025 and passed new price-cap and mandatory health insurance laws in April 2026. Private-sector credit growth remained strong. The fiscal deficit widened to 0.8 per cent of GDP in 2025, driven by faster growth in wages and social spending, though a small surplus was recorded in the first quarter of 2026 due to the under-execution of spending plans. Growth is projected to moderate to 3.5 per cent in 2026 amid volatility linked to the conflict in the Middle East, before picking up to 3.9 per cent in 2027, with political uncertainty, weaker euro-area growth and a potential decline in remittances the main downside risks.

Montenegro

Real GDP growth accelerated from 2.7 per cent in 2025 and 2.6 per cent year on year in the first quarter of 2026 to 3.8 per cent in the second quarter, driven by highway construction and higher electricity exports following last year’s reconstruction of the Pljevlja plant. Private consumption, in contrast, was held back by falling real wages. The current account deficit widened further in the first half of 2026. FDI inflows edged down from the year before and remained concentrated in real estate and, increasingly, the financial sector. After easing in early 2026, inflation picked up to 3.8 per cent in July on higher oil and transport prices, prompting the government to cut excise duty on diesel and gasoline. Public debt eased to 60 per cent of GDP in the first quarter of 2026, while the budget deficit is expected to widen from 4 per cent of GDP in 2025. Growth is projected at 3.1 per cent in 2026 and 3.0 per cent in 2027, supported by EU accession progress and infrastructure investment, although limited fiscal buffers and low diversification remain key risks.

North Macedonia

Real growth was 3.5 per cent in 2025, 3.1 per cent in the first quarter of 2026 and 4.3 per cent in the second quarter, driven by motorway construction, manufacturing and a sharp rebound in investment. Household consumption also strengthened on a rise in disposable income, more than offsetting a negative contribution to growth from net exports. The current account deficit widened in the first half of 2026, while net FDI rose 40 per cent year on year after a weak 2025. After peaking at 5.7 per cent in April 2026, inflation declined to 2.3 per cent in July 2026 on slower food and transport price increases, even as oil prices remained elevated. The government temporarily cut VAT and excise duty on petroleum products and released fuel from state reserves to stabilise the market. The central bank raised its policy rate by 25 basis points to 4.25 per cent in June, while the European Central Bank granted the central bank access to a €50 billion Eurosystem repo facility for central banks (EUREP) to bolster euro liquidity. The 2026 budget deficit forecast was revised up to 4.1 per cent of GDP on higher investment spending. Public debt stood at 58.8 per cent of GDP in the first half of 2026. Real GDP growth is forecast at 3.3 per cent in 2026 and 3.2 per cent in 2027, supported by public investment. Limited fiscal space, restructuring in the European automotive sector and supply disruptions related to the conflict in the Middle East are the key downside risks.

Serbia

Real growth accelerated from a post-pandemic low of 2 per cent in 2025 to 3.2 per cent in the first quarter of 2026 and 3.6 per cent year on year in the second quarter, as retail trade benefitted from wage and pension increases and tourism rebounded. Industrial production, in contrast, declined slightly. The current account deficit narrowed by 30 per cent year on year in the first half of 2026 on a smaller trade deficit and a larger services surplus. Volatile FDI inflows registered a small year-on-year increase in the first half of 2026. Inflation fell sharply to 1.9 per cent in July, well below the core inflation rate of 4.5 per cent, driven by lower food prices. The government has shielded households from fuel price hikes related to the conflict in the Middle East through a partially reversed excise cut and an export ban on oil products, which was extended to August. The central bank has held its policy rate at 5.75 per cent since September 2024 amid strong real wage and pension growth. While the government deficit doubled year on year in the first half of 2026 on double-digit growth in expenditure, public debt fell to 43.8 per cent of GDP as at end-June 2026. Growth is projected at 3.1 per cent in 2026 and 3.8 per cent in 2027, supported by an investment recovery and Expo 2027-related tourism, with risks related to global and domestic political tensions, energy supply vulnerabilities and low Danube water levels that could impact logistics and electricity production.

Belarus

Real GDP growth averaged 2.1 per cent year on year in January-July 2026, supported mainly by wage gains, investment and state-backed construction, while weak external demand, sanctions-related logistical constraints, limited export diversification and heavy dependence on Russia continued to weigh on the outlook. Inflation eased to 4.4 per cent year on year in July 2026, helped by food-price controls and rouble stability, but the underlying inflationary pressures remain as wage growth outpaces improvements in productivity. Real GDP growth is expected to reach 1.3 per cent in 2026 and 1.5 per cent in 2027. Economic sanctions and Belarus's dependence on the Russian economy remain significant downside risks.

Russia

Real growth dropped from 4.9 per cent in 2024 to 1.0 per cent in 2025, as the economy became increasingly reliant on public spending, including military outlays, amid a weakening of private-sector momentum. After declining by 0.2 per cent year on year in the first quarter of 2026, GDP rebounded by 1.3 per cent year on year in the second quarter, while industrial activity and business sentiment remained soft. Although inflation eased to 6.0 per cent year on year in July 2026, prompting policy rate cuts, labour shortages and fiscal stimulus are creating persistent inflationary pressure. High defence spending has resulted in a widening of the government deficit and greater reliance on domestic borrowing, although the external position has remained robust on the back of higher oil prices. Real GDP growth is expected to total 0.5 per cent in 2026 and 0.7 per cent in 2027, with downside risks stemming from sanctions and further damage to Russia's logistics and energy infrastructure as a result of its military invasion of Ukraine.

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About this report

The Regional Economic Prospects report is published twice a year. The report is prepared by the Office of the Chief Economist and the Department for Policy Strategy and Delivery and contains a summary of regional economic developments and outlook, alongside the EBRD's growth forecasts for the economies where it invests. The report also touches on the economic developments in Belarus and Russia notwithstanding the fact that Belarus and Russia have had their access to Bank resources suspended under Article 8.3 of the Agreement Establishing the EBRD. All historical data are based on estimates by country statistical offices. Since 2022, Russia has stopped releasing detailed statistics on the government budget, external trade and current-account balance.

The estimates and projections are based on statistical information available through September 14, 2026. Headline inflation numbers (including in Chart 21) reflect information available through August 20, 2026.

For more comprehensive coverage of economic policies and structural changes, see the EBRD's country strategies and updates, as well as the Transition Report 2025-26, which are all available on the Bank's website at www.ebrd.com.

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