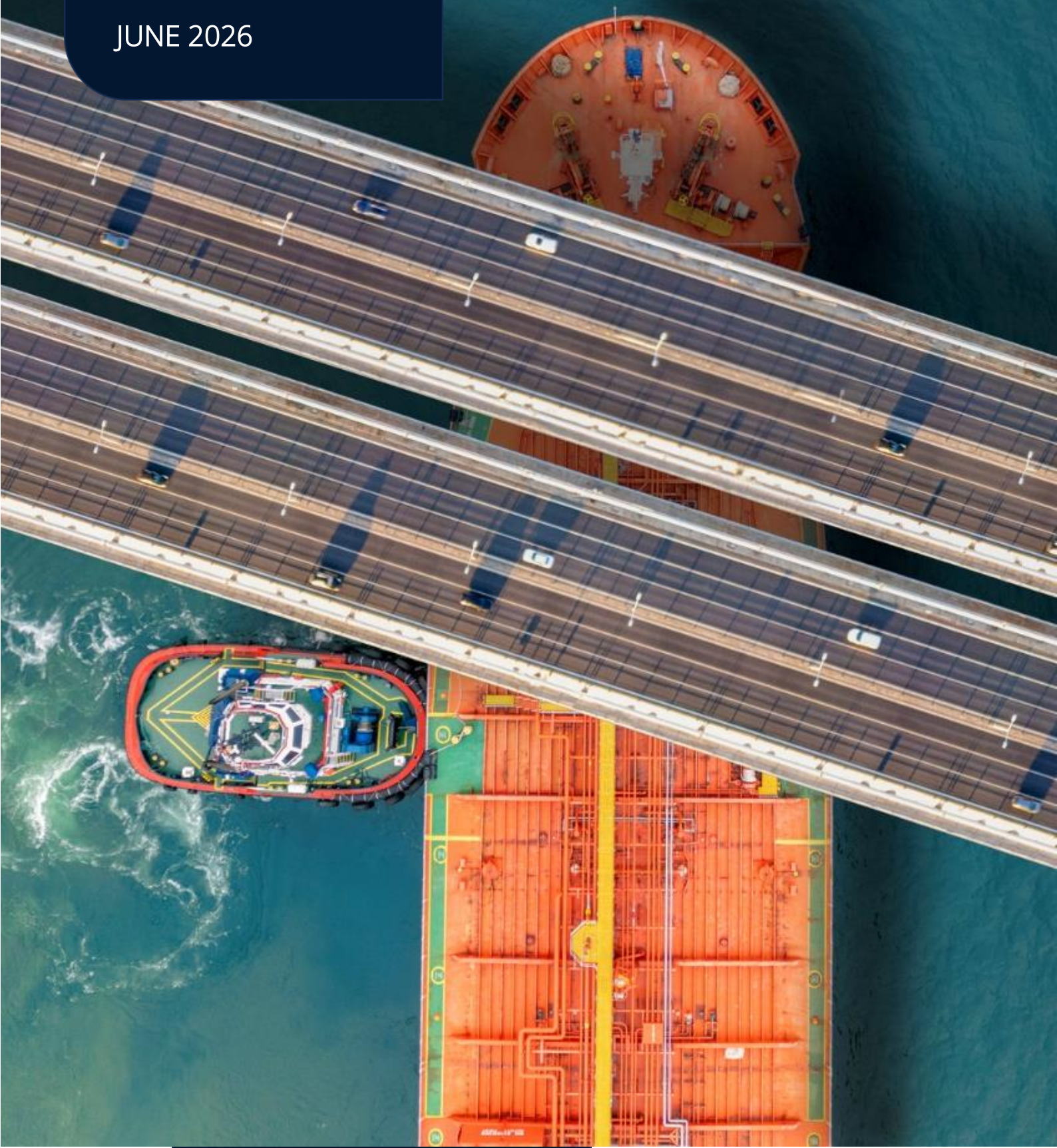


REGIONAL ECONOMIC PROSPECTS

JUNE 2026



European Bank
for Reconstruction and Development



Regional Economic Prospects in the EBRD Regions

Strai(gh)t talk

June 2026

Growth in the EBRD regions picked up from 3.1 per cent in 2024 to 3.4 per cent in 2025, broadly in line with the forecasts made early in 2025, before the escalation of trade tensions in April 2025. However, even before the start of hostilities in the Middle East in late February 2026, the economies in the EBRD regions were facing a difficult external environment and purchasing managers' indices (PMIs) pointed to a weak momentum in manufacturing amidst rising global trade tensions. As the conflict in the Middle East raised energy prices and disrupted supply chains, growth momentum slowed in the first quarter of 2026, with an estimated year-on-year growth of 2.9 per cent, with the latest data pointing to weaker than expected outturns in a number of large economies in the EBRD regions, including in Egypt, Kazakhstan, Romania, Türkiye and Ukraine.

Growth in the EBRD regions is expected to slow from 3.4 per cent in 2025 to 3.1 per cent in 2026 before picking up to 3.6 per cent in 2027. This is 0.5 and 0.1 percentage points below the projection made in February 2026.

As the conflict in the Middle East escalated, oil and gas prices have risen sharply, reflecting damage to energy facilities and disruptions to shipping through the Strait of Hormuz. The wedge between gas prices in Europe and those in the United States widened further, exceeding a factor of five and weighing on European competitiveness. Electricity prices in Europe are also much higher than in the United States. Following the sharp rise in energy prices in 2022 in the aftermath of Russia's invasion of Ukraine, the structure of industrial production in Europe shifted away from more energy-intensive to less energy intensive sectors. The weak performance of energy-intensive industries has since persisted in both advanced EU economies and EBRD-EU economies.

Inflation in the EBRD regions moderated in late 2025 on positive and rising real interest rates and slower nominal wage growth. However, inflation jumped by 1.2 percentage points between February and April 2026, to 6.4 per cent on average (and 5.3 per cent in the 'typical' median economy) reflecting higher prices of energy and, to a lesser extent, food. It is likely to remain higher for longer than previously anticipated. Energy and especially food account for higher shares of consumer baskets in the EBRD regions than in advanced economies further exacerbating inflationary pressures in the region. In addition, inflation expectations were found to follow food price inflation closely. In some economies, currency depreciations relative to the US dollar have further contributed to inflationary pressures.

The fallout from the conflict is adding to fiscal pressures, especially in the southern and eastern Mediterranean and sub-Saharan Africa where debt-to-GDP ratios and the ratios of interest payments to government revenue were already high prior to the conflict in the Middle East. More generally, while unanticipated inflation helped stabilise debt ratios in 2021-23 despite large fiscal deficits and higher policy interest rates, the debt-reducing effect of higher inflation has been fading. Bond yields increased in response to the conflict in the Middle East before moderating somewhat. Tighter global financing conditions resulted in spread decompression whereby increases in yields tended to be larger in more indebted economies.

Almost two-thirds of economies in the EBRD regions (and around a quarter of economies globally) have implemented at least one policy measure to conserve energy or support consumers in response to the shock to energy prices. Policy measures intended at supporting consumers – in particular lower energy taxes, fuel price caps and sectoral support – were widespread across the EBRD regions. In turn, policy measures intended at conserving energy (widespread in Asia) were used mostly in the southern and eastern Mediterranean.

US import tariffs increased sharply in 2025. Higher tariffs on goods from China introduced in January-February were followed by broad-based 'reciprocal' tariffs in April 2025. In response to shifts in relative tariff rates, trade flows have shown significant reorientation: US imports from China dropped sharply, while imports from the Association of Southeast Asian Nations (ASEAN) rose. Changes in US imports from the EBRD regions were modest on average. The expansion of AI supply chains continued to

support growth globally. In line with this global trend, AI supply chain exports from the EBRD regions also grew more rapidly than other exports from the EBRD regions. The expansion of global AI supply chains contributed to greater resilience of the global economy in 2025 compared with forecasts made in the second quarter of the year.

On 4 March 2026, the European Commission published a proposal for an Industrial Accelerator Act (IAA) aimed at strengthening industrial competitiveness, accelerating decarbonisation and reducing foreign dependencies in strategic sectors. The proposal is expected to shift public demand towards EU producers and a set of eligible partner countries. This shift affects a diverse set of products (from relatively simple upstream materials such as cement to complex components and final goods such as battery cells and electric vehicles), primarily those where the EU already has a comparative advantage and many of which are also frequently targeted by industrial policies globally. Among EU member states, Germany appears to have the largest capacity to meet increased demand in the affected product groups while within the EBRD regions capabilities are strongest in industrialised economies in emerging Europe. The extent to which selected trading partners outside the EU could benefit from the provisions of the act depends on the still-uncertain eligibility rules of third countries with respect to the union-content requirements.

Growth in **central Europe and the Baltic states** picked up from 2.4 per cent in 2024 to 2.6 per cent in 2025 and is expected to reach 2.8 per cent in 2026 before moderating to 2.5 per cent in 2027. Forecasts for both years have been revised down on the expected impact of the energy shock resulting from the conflict in the Middle East, though investment is anticipated to rise further ahead of upcoming Recovery and Resilience Facility (RRF) deadlines.

Growth in the **south-eastern EU** decelerated from 1.4 per cent in 2024 to 1.2 per cent in 2025 and is expected to decline to around 0.5 per cent in 2026 (revised down on fiscal consolidation and political uncertainty weighing on growth in Romania). Growth is expected to pick up to 2.0 per cent in 2027.

Growth in the **Western Balkans** slowed from 3.7 per cent in 2024 to 2.6 per cent in 2025. It is expected to pick up to 2.9 per cent in 2026, a weaker rebound than previously expected, reflecting the impact of the energy shock and the resulting increased inflationary pressures. Growth is expected to rise to 3.5 per cent in 2027, supported by major public investment and infrastructure projects across the region.

Growth in **Central Asia** increased from 5.9 per cent in 2024 to a 6.9 per cent in 2025. It is expected to moderate to 5.6 per cent in 2026 and 5.3 per cent in 2027. The 2026 forecast for the Kyrgyz Republic has been revised down on the expected impact of new EU sanctions.

In **eastern Europe and the Caucasus**, growth slowed from 3.9 per cent in 2024 to 2.7 per cent in 2025 as the boost from intermediated trade to and from Russia and inflows of labour and capital to the economies of the Caucasus waned. In Ukraine, extensive disruptions to the energy sector and infrastructure due to Russia's ongoing war weighed on growth. In eastern Europe and the Caucasus, growth is expected to remain around 2.8 per cent in 2026, revised down on higher energy import bills and potentially weaker tourism in Armenia and Georgia. It is expected to pick up to 3.9 per cent in 2027. The 2026 growth forecast for **Ukraine** has been revised down on continued disruptions to industrial production and logistics due to the military invasion of Ukraine by Russia as well as a higher expected energy import bill and rising inflation.

In **Türkiye**, growth picked up from 3.3 per cent in 2024 to 3.6 per cent in 2025. Growth forecasts have, however, been revised down, to 3.5 per cent in 2026 and 4 per cent in 2027, on rising energy imports, significant inflationary pressures and potential effects of the conflict in the Middle East on tourism and manufacturing value chains.

Growth in the **southern and eastern Mediterranean** is estimated to slow from 3.1 per cent in 2025 to 2.5 per cent in 2026, with the sharpest downward revisions for Lebanon and Iraq, the economies most directly affected by the conflict in the Middle East. Growth is expected to pick up to 4.2 per cent in 2027, though with significant risks to the downside.

Growth in **sub-Saharan Africa** picked up from 5.1 per cent in 2024 to 5.2 per cent in 2025. Growth is, however, expected to moderate to 4.7 per cent in 2026 and 4.8 per cent in 2027. The forecasts have been revised down on trade disruptions and higher energy import costs due to the conflict in the Middle East (in particular in Kenya) while sluggish investment weighs on the growth outlook in Senegal.

Table 1. GDP growth in real terms

	Actual			Forecast (June 2026)		Revision since Feb'2026	
	2024	2025	2026 Q1	2026	2027	2026	2027
EBRD regions	3.1	3.4	2.9	3.1	3.6	-0.5	-0.1
EBRD regions incl. Czechia	3.0	3.4	2.8	3.1	3.6	-0.5	-0.1
Central Asia	5.9	6.9	5.3	5.6	5.3	0.0	0.0
Kazakhstan	5.0	6.5	3.0	4.7	4.5	0.0	0.0
Kyrgyz Republic	11.5	11.1	10.1	8.7	7.0	-0.3	0.0
Mongolia	5.1	6.8	7.9	5.5	5.5	0.0	0.0
Tajikistan	8.4	8.4	8.0	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	8.7	6.5	6.0	0.0	0.0
Central Europe and the Baltic states	2.4	2.6	2.7	2.8	2.5	-0.1	-0.2
Croatia	3.8	3.4	2.7	e 2.7	2.5	0.0	0.0
Estonia	-0.1	0.6	1.3	2.1	2.3	-0.1	-0.2
Hungary	0.6	0.5	1.7	1.8	2.5	-0.2	0.0
Latvia	0.0	2.1	2.0	e 2.0	2.3	-0.2	-0.2
Lithuania	3.0	2.9	2.1	3.0	2.2	-0.3	-0.3
Poland	3.0	3.6	3.4	3.5	2.8	-0.2	-0.2
Slovak Republic	1.9	0.8	0.9	0.5	1.5	-0.5	-0.3
Slovenia	1.7	1.1	3.0	2.0	2.2	-0.2	-0.2
Eastern Europe and the Caucasus	3.9	2.7	1.2	2.8	3.9	-0.1	0.0
Armenia	5.9	7.2	7.1	5.5	5.5	0.0	0.0
Azerbaijan	4.2	1.4	-0.3	2.0	2.5	0.0	0.0
Georgia	9.7	7.5	9.1	6.0	5.0	0.5	0.0
Moldova	0.1	2.4	2.8	e 2.8	3.5	-0.2	0.0
Ukraine	2.9	1.8	-0.5	2.2	4.0	-0.3	0.0
South-eastern EU	1.4	1.2	-1.0	0.5	2.0	-1.0	-0.3
Bulgaria	3.4	3.1	2.7	2.7	2.5	0.0	-0.1
Romania	0.8	0.7	-2.1	-0.2	1.8	-1.4	-0.4
Southern and eastern Mediterranean	1.9	3.1	2.4	2.5	4.2	-1.7	0.1
Egypt	3.1	5.1	4.5	e 4.9	4.9	-0.2	-0.1
Iraq	0.1	-0.4	-1.5	e -1.5	4.0	-5.1	0.3
Jordan	2.5	2.8	2.6	e 2.6	2.8	-0.2	-0.1
Lebanon	-7.5	3.5	-2.0	e -2.0	4.0	-6.0	0.0
Morocco	3.8	4.6	5.0	e 4.4	4.0	0.0	0.0
Tunisia	1.6	2.5	2.2	e 2.2	2.2	-0.1	0.0
Sub-Saharan Africa	5.1	5.2	4.7	4.7	4.8	-0.3	-0.1
Benin	7.5	8.1	7.0	e 7.0	6.7	0.2	0.1
Côte d'Ivoire	6.1	6.5	6.1	e 6.1	6.5	-0.3	0.0
Ghana	5.8	6.0	5.0	e 5.0	5.0	-0.2	0.0
Kenya	4.7	4.6	4.6	e 4.6	4.9	-0.4	-0.2
Nigeria	4.1	4.0	4.1	e 4.1	3.9	-0.1	0.0
Senegal	6.5	6.7	2.5	e 2.5	2.7	-1.5	-1.3
Türkiye	3.3	3.6	3.5	e 3.5	4.0	-0.5	-0.5
Western Balkans	3.7	2.6	3.0	2.9	3.5	-0.2	0.0
Albania	4.0	3.8	3.4	e 3.4	3.5	-0.1	0.0
Bosnia and Herzegovina	3.2	2.1	2.4	e 2.4	2.8	-0.3	0.0
Kosovo	4.6	3.6	3.5	e 3.5	3.9	-0.4	0.0
Montenegro	3.2	2.7	2.9	e 2.9	3.0	-0.3	-0.2
North Macedonia	3.0	3.5	3.0	e 3.0	3.2	-0.2	-0.1
Serbia	3.9	2.0	3.0	2.8	3.8	-0.2	0.0
Memo: Egypt (fiscal year to June)	2.4	4.4	5.3	4.9	4.9	-0.2	-0.1
Memo: Belarus	4.0	1.3	-0.4	1.1	1.5	-0.2	0.0
Memo: Czechia	1.3	2.6	2.1	2.2	2.5	-0.4	0.0
Memo: Russia	4.9	1.0	-0.2	0.8	1.0	0.0	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 also 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 Agreements Establishing the EBRD. As of 26 April 2026, Czechia is no longer an EBRD investee economy. For comparability with earlier forecasts, averages for the EBRD regions are reported both with and without Czechia. "e" denotes unofficial estimates. Where growth estimates for the first quarter of 2026 were not available at the time of writing, forecasts of annual growth were used to calculate regional averages.

Resilient growth in 2025

Growth in the EBRD regions picked up from 3.1 per cent in 2024 to 3.4 per cent in 2025.¹ As highlighted in the February 2026 *Regional Economic Prospects*, this outturn was broadly in line with the forecasts made early in 2025, before the escalation of trade tensions in April 2025. A similar pattern could be observed for forecasts for global growth made at various points in time by the International Monetary Fund (IMF). These patterns reflect US effective import tariffs increasing less strongly than initially expected, adjustments in trade flows as well as a boom in AI-related trade (see Box 1).

Notwithstanding a stronger than expected outturn in 2025, economies in the EBRD regions were facing a challenging external environment even before the conflict in the Middle East. Growth in some key trading partners, in particular Germany, remains sluggish.

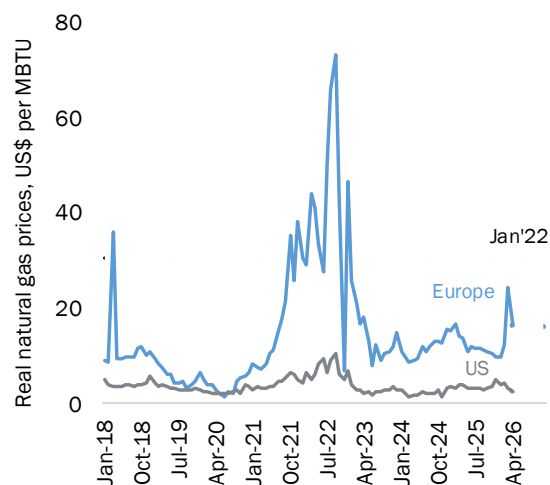
Purchasing managers' indices (PMIs) point to a weak momentum in manufacturing in the EBRD regions predating the conflict in the Middle East. Manufacturing PMIs remained in contractionary territory for several large economies in the EBRD regions including Kazakhstan, Poland, Romania and Türkiye.

Higher energy prices

The conflict in the Middle East which started on 28 February 2026 led to sustained increases in the prices of oil, gas and related commodities as shipping through the Strait of Hormuz was disrupted and production facilities sustained considerable damage. Before the war, around 18 per cent of global oil production passed through the Strait, inclusive of refined oil products. Only a quarter of those volumes could be rerouted in the short term through other ports on the Arabian Peninsula. Qatar was a major supplier of liquified natural gas (LNG).

Gas prices (including liquified natural gas, LNG) in Europe more than doubled between February 27 and March 19 before moderating somewhat in subsequent weeks. While gas prices have remained below the recent peak of mid-2022 caused by the military invasion of Ukraine by Russia, as of end-April they were around two thirds higher than in January 2026 (see Chart 1).

Chart 1. Gas prices have moderated somewhat but remain significantly above pre-conflict levels

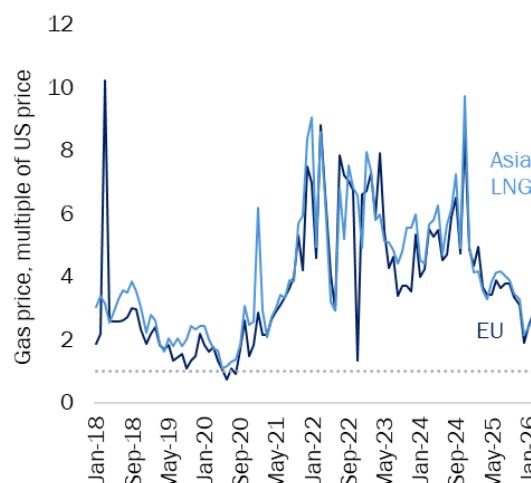


Source: Bloomberg, Refinitiv and authors' calculations.

Note: Prices adjusted for US inflation.

As gas prices in Europe responded more strongly to the conflict than those in the United States, the wedge between European and US gas prices exceeded a factor of five, weighing on European competitiveness (see Chart 2). In Asia gas prices were more than six times higher than in the United States.

Chart 2. Gas prices in Europe are more than five times higher than in the United States



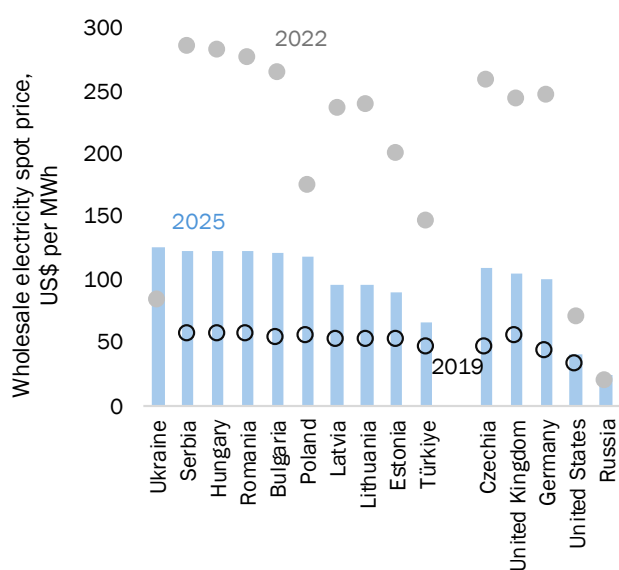
Source: Refinitiv and authors' calculations.

Note: European gas prices are based on TTF front-month futures prices. US and Asian gas prices are based on spot benchmarks. Horizontal line at 1.

¹ As of 26 April 2026, Czechia is no longer an EBRD investee economy. For comparability with earlier forecasts, averages for the EBRD regions are reported both with and without Czechia in Table 1.

Higher gas prices also tend to translate into higher electricity prices, even if a greater supply of renewables may be making the relationship between the two somewhat weaker than in the past. Wholesale electricity spot prices in Europe increased sharply in 2021-22 as Europe shifted away from Russian gas towards alternative sources of pipeline gas as well as LNG. Electricity spot prices in most European economies remain below their 2021-22 levels. This more muted effect reflects, in part, a now larger share of renewables and lower electricity demand. Nonetheless, electricity spot prices in Europe are much higher than in the United States (see Chart 3).

Chart 3. Electricity prices in Europe are also much higher than in the United States

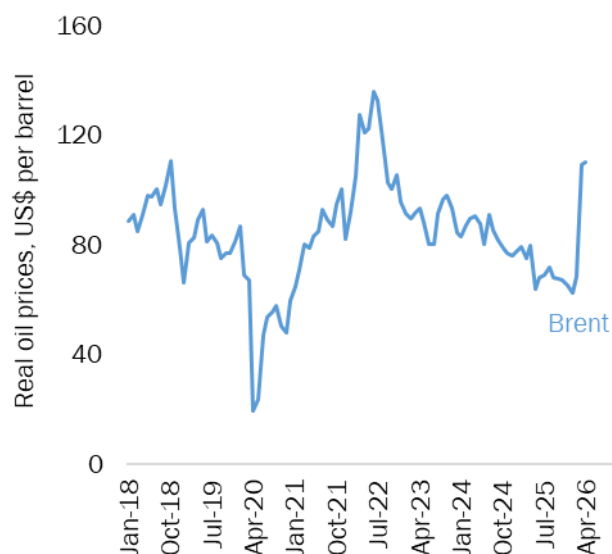


Source: IEA Real-Time Electricity Tracker and authors' calculations.

Note: Some policy interventions, such as EU ETS carbon prices or measures affecting electricity generation costs (for example the Iberian gas price cap), are reflected indirectly in wholesale prices. Household support measures, such as retail subsidies or reductions in electricity taxes/VAT for consumers, are not captured in these wholesale price series.

Oil prices surpassed US\$ 100 on 9 March 2026, returning to the levels of early 2022 in real terms (see Chart 4). As shipping activity through the Strait of Hormuz fell sharply reflecting higher insurance costs, elevated security risks and successive blockades by Iran and the US, seaborne exports of oil from the Middle East and North Africa declined (see Chart 5). There has, however, been some increase in seaborne exports from Asia and the Americas as supply elsewhere responded to price signals and the International Energy Agency started releasing reserves.

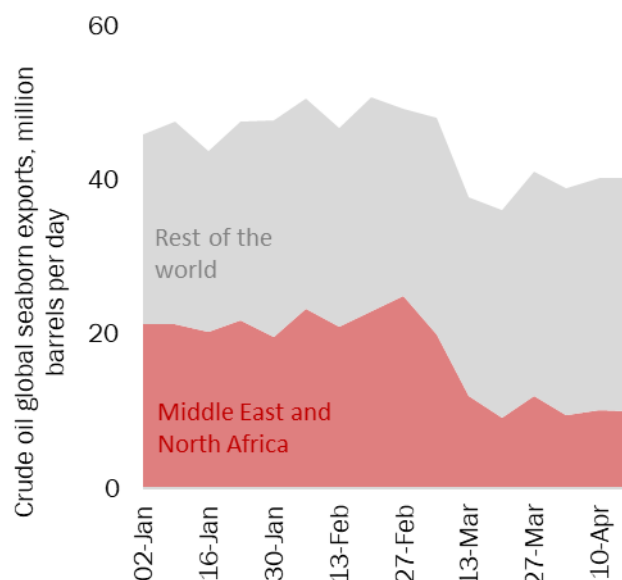
Chart 4. Oil prices returned to the levels of early 2022 in inflation-adjusted terms



Source: Bloomberg, Refinitiv and authors' calculations.

Note: Prices adjusted for US inflation.

Chart 5. Seaborne exports of crude oil from the Middle East and North Africa fell sharply

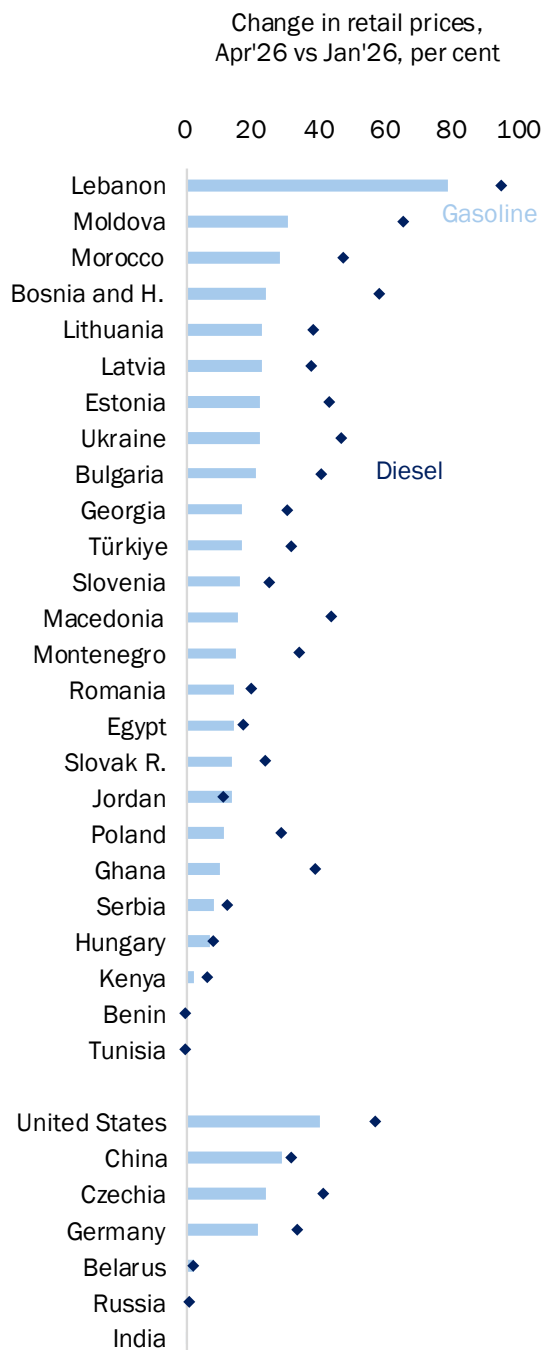


Source: Bloomberg.

Higher oil prices translated into even larger price hikes for selected oil products such as aviation fuel and diesel, in particular in Asia, owing to the shortage of refining capacity outside the Gulf Cooperation Council (GCC) in the short term and challenges of switching refining production from one grade of crude oil to another. Across the EBRD regions, diesel prices at the pump increased by 32 per cent on average between January and April 2026, gasoline prices increased by 18 per cent on average over the same period

(see Chart 6; averages across 25 economies shown in the chart).²

Chart 6. Across the EBRD regions, diesel prices at the pump increased by 32 per cent on average between January and April 2026



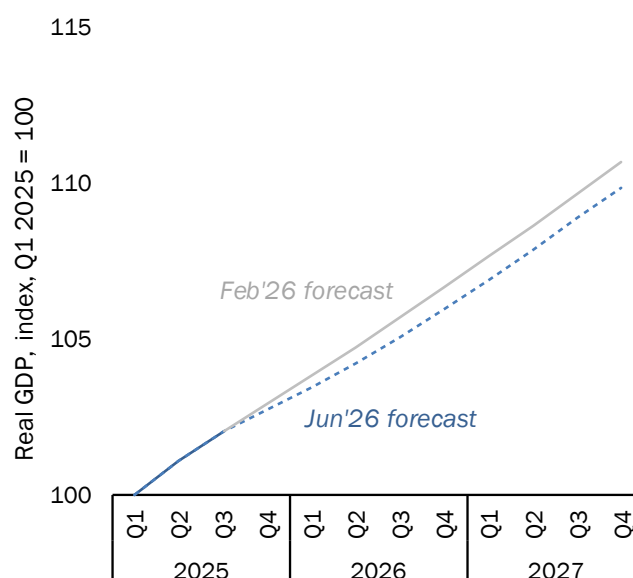
Source: GlobalPetrolPrices.com and authors' calculations.

Note: Per cent change in retail price after all taxes and fees in local currency.

Weaker growth momentum in the first quarter of 2026

As a result, growth momentum weakened in the first quarter of 2026. Based on data available as of early May, economic growth in the EBRD regions averaged 2.9 per cent year on year, down from 3.4 per cent in 2025 (see Table 1 and Chart 7). The latest data point to notably weaker-than-expected outcomes in a number of large economies in the EBRD regions, including in Egypt, Kazakhstan, Romania, Türkiye and Ukraine.

Chart 7. Growth momentum weakened in the first quarter of 2026



Source: National authorities via CEIC and EBRD forecasts.

Note: The chart represents estimates up to the first quarter of 2026 and forecasts thereafter. EBRD average based on the values of gross domestic product in 2024 in current US dollars from the IMF.

² Where outcomes were not available at the time of writing, the calculations assumed the outturn was in line with the forecast made for the year as a whole.

Adjustments in industrial structures in response to higher energy prices

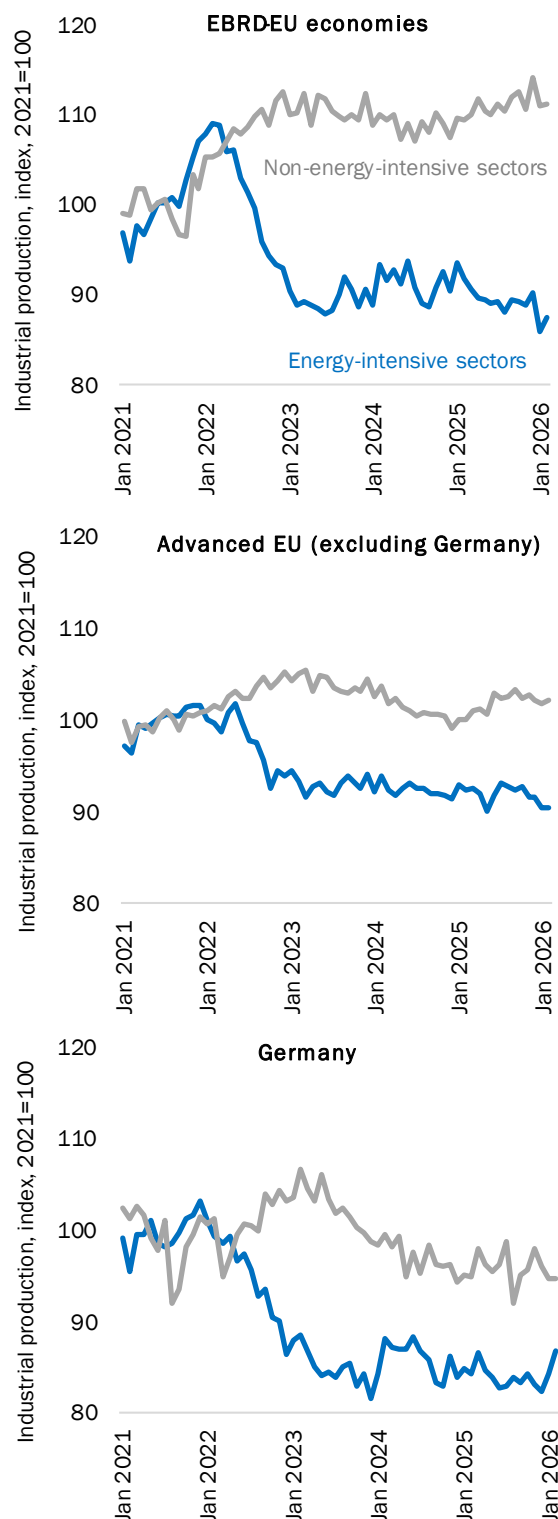
Europe was last exposed to a major energy supply shock in early 2022. Following Russia's military invasion of Ukraine in February 2022, energy prices in Europe rose sharply and consumption of gas fell by more than 20 per cent. This adjustment was accompanied by a pronounced shift in the structure of industrial production from more energy-intensive industries (such as chemicals and basic metals) to less energy-intensive industries (such as pharmaceuticals; see Chart 8).

These shifts were observed in Germany, other advanced economies in Europe and EBRD-EU economies alike. They were more pronounced in economies where electricity prices for industrial consumers increased more.³ In contrast, prior to February 2022 the trends for industrial productions in more and less energy intensive sectors had been remarkably similar.

Since 2022, industrial production in energy-intensive sectors has continued to lag that of non-energy-intensive sectors in both advanced EU economies and EBRD-EU economies. While in Germany industrial output in non-energy-intensive sectors has also been declining (see Chart 8, third panel), the share of energy-intensive sectors in industrial output (excluding energy supply) declined from 22 to 20 per cent between 2021 and 2024-25. In EBRD-EU economies, the decline was more pronounced, from 24 to 19 per cent of total industrial output (in other EU economies the share of energy intensive industries also declined, from 27 to 24 per cent).

The sustained weaker performance of the energy-intensive sectors reflects in part the relatively high energy prices in Europe (in particular, compared with those in the US, see Chart 2 and Chart 3).

Chart 8. Following the sharp rise in energy prices in 2022, industrial structures in Europe shifted away from energy-intensive sectors



Source: Eurostat, Plekhanov and Sassoon (2023) and authors' calculations.

Note: Weighted averages across 6 EBRD-EU and 12 advanced EU economies (excluding Germany) and industries with available

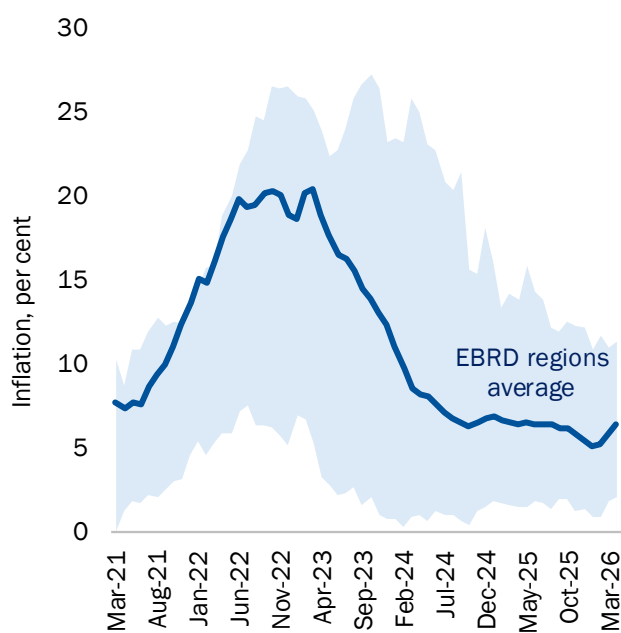
³ See Plekhanov and Sassoon (2023).

data (Belgium, Bulgaria, Czechia, Denmark, Germany, Greece, Spain, France, Italy, Latvia, Lithuania, Hungary, Netherlands, Austria, Poland, Portugal, Romania, Finland, Sweden). Weights are based on the value of output in each country-sector in 2021. Energy-intensive sectors include chemicals, basic metals, paper, and others listed in Table 4 in Plekhanov and Sassoon (2023) with carbon intensity above 100 (10 sectors in total). Non-energy-intensive sectors include computer electronics, apparel, and other industries with carbon intensity below 100 (18 in total).

Renewed inflationary pressures

Inflation in the EBRD regions moderated in late 2025, coming down to a low of 5.2 per cent on average in February 2026 (3.6 per cent for the 'typical' median economy; see Chart 9). This disinflation was supported by positive and rising real interest rates and slower nominal wage growth.

Chart 9. Inflation in the EBRD regions picked up in March and April 2026 after moderating in late 2025



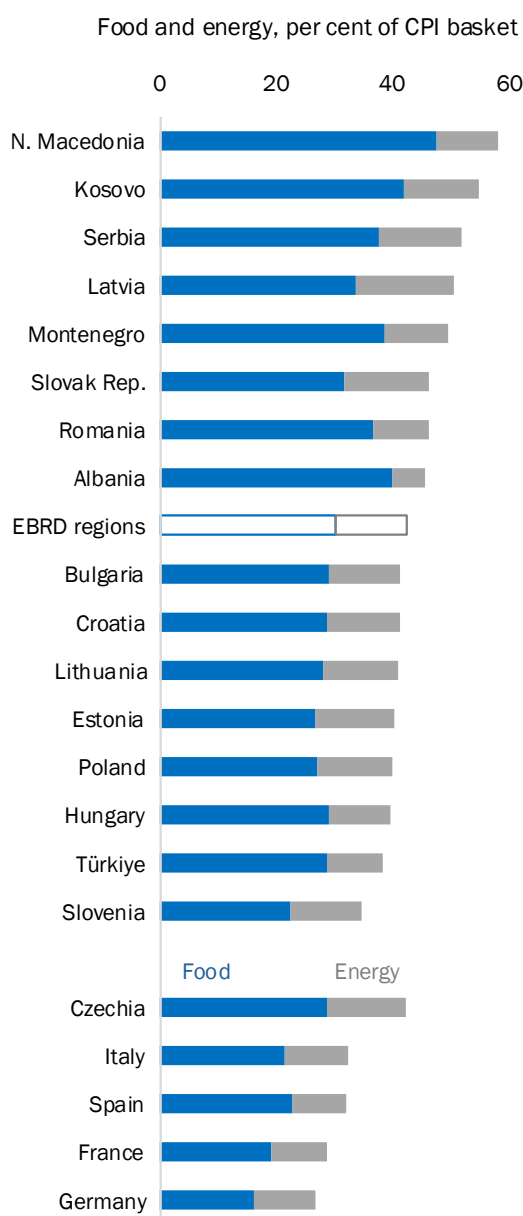
Source: Refinitiv and authors' calculations.

Note: Based on a balanced panel of 41 economies in the EBRD regions. The shaded area shows the range between the 10th and 90th percentiles of inflation in each month.

However, between February and April 2026 average inflation increased by 1.2 percentage points, to 6.4 per cent, reflecting higher prices of energy and, to a lesser extent, food (median inflation also increased by 1.7 percentage points, to 5.3 per cent). This pick-up was broadly in line with that expected in the March 2026 *Regional Economic Update*. Inflation is likely to remain higher for longer than previously anticipated. Energy accounts for higher shares of consumer baskets in the EBRD regions than in advanced economies (14 per cent for

the median economy in the EBRD regions shown in Chart 10 compared with 10 per cent in Germany). The difference in contributions of food prices is starker still: 29 per cent in a typical economy in the EBRD regions versus 16 per cent in Germany. The inflationary effects of energy price increases are thus higher in the EBRD regions than in advanced economies; they tend to be highest in lower-income countries (see Chart 10).

Chart 10. Energy and food account for higher shares of consumer baskets in the EBRD regions than in advanced economies

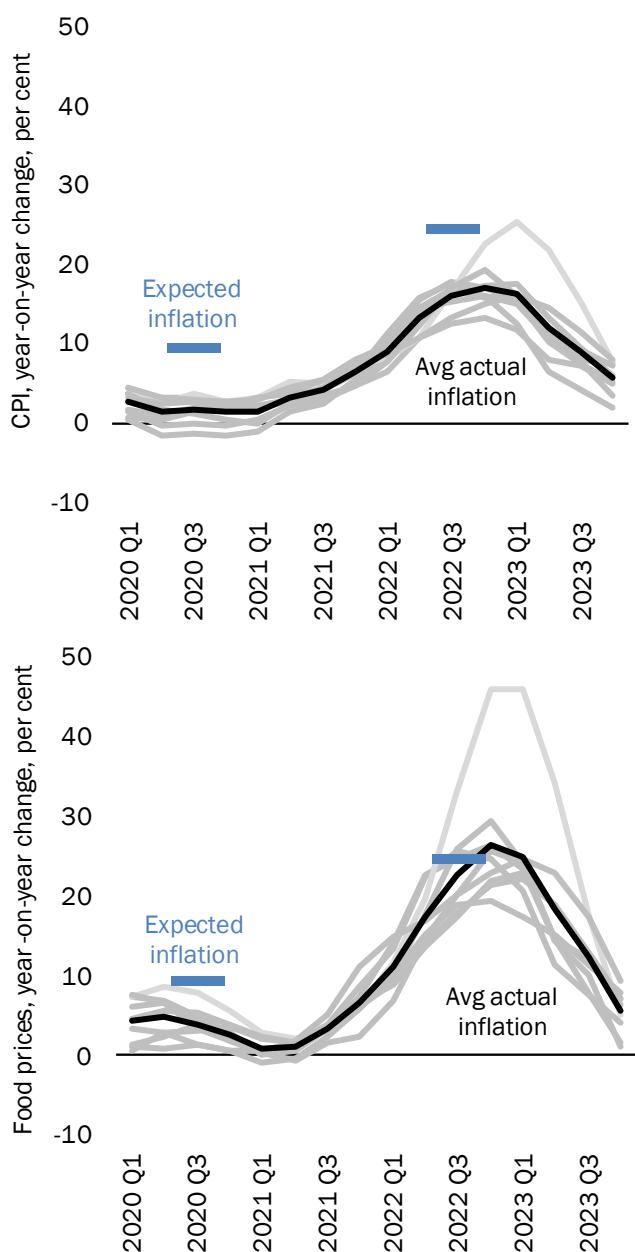


Source: Eurostat and authors' calculations.

Note: Food CPI includes food products and non-alcoholic beverages (CP01) and alcoholic beverages, tobacco and narcotics (CP02). EBRD regions is the median across the economies shown in the chart.

Looking at recent high-inflation episodes, such as the post-Covid spike in inflation in 2022-23, suggests that individuals' inflation expectations tend to follow food price inflation closely (see Chart 11 and the May 2024 *Regional Economic Prospects*), while the link between expectations and the overall inflation tends to be weaker.⁴

Chart 11. Inflation expectations have tended to follow food price inflation closely



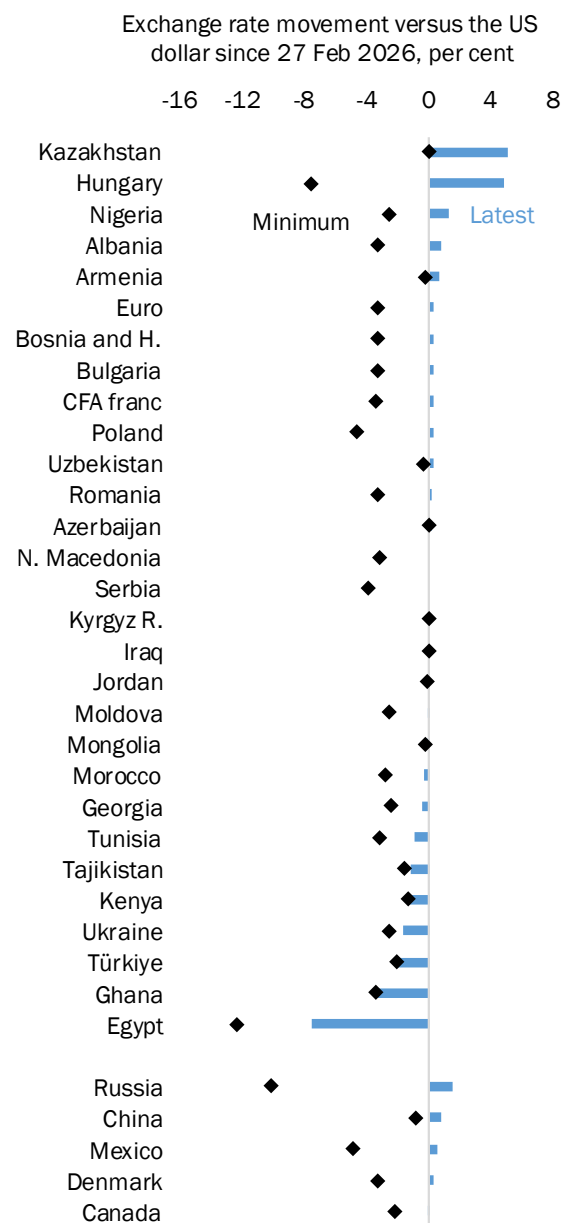
Source: May 2024 *Regional Economic Prospects*, OeNB Euro Survey and authors' calculations.

Note: Year-on-year inflation. Simple averages across 9 economies (grey lines).

In some economies (in particular in Egypt, Ghana and Türkiye), recent currency depreciations relative to the US dollar have contributed to inflationary pressures (see Chart 12).

In contrast, the currencies of major oil exporters (such as Kazakhstan and Nigeria) have strengthened on higher energy prices.

Chart 12. In some economies depreciations have contributed to inflationary pressures



Source: Bloomberg and authors' calculations.

Note: Latest observation as of April 17, 2026.

⁴ See EBRD (2024a).

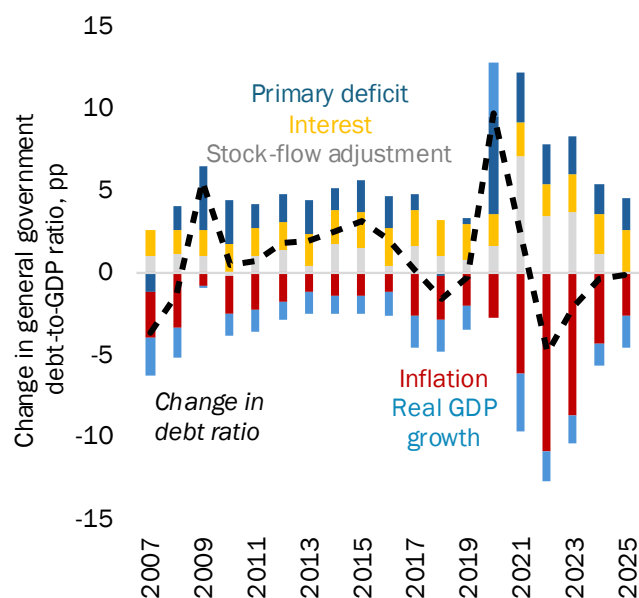
Increased fiscal pressures

The fallout from the conflict in the Middle East is also adding to fiscal pressures, especially in the southern and eastern Mediterranean and sub-Saharan Africa where debt-to-GDP and interest-to-government revenue ratios were already high prior to the war (see Chart 13).

Chart 14 further decomposes recent and projected changes in general government debt into the contributions of the primary deficit, interest payments as well as real GDP growth and inflation.

The unanticipated increase in inflation after the Covid-19 pandemic helped reduce debt-to-GDP ratios by as much as 10 percentage points in 2022. The contribution of inflation to debt reduction has been fading since.

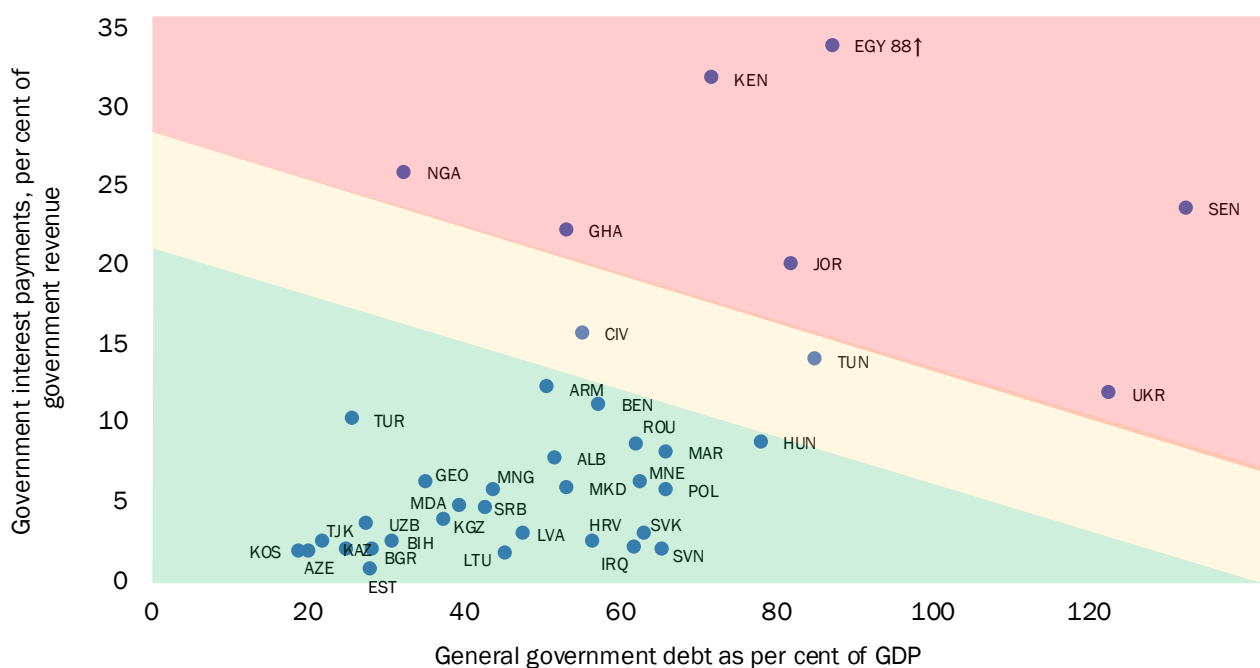
Chart 14. The debt-reducing effect of inflation has been fading



Source: IMF (April 2026) and authors' calculations.

Note: Data refer to 2026. Simple average across 40 economies in the EBRD regions. Year-on-year changes in debt ratios.

Chart 13. The fallout from the conflict is adding to fiscal pressures, especially in the southern and eastern Mediterranean and sub-Saharan Africa

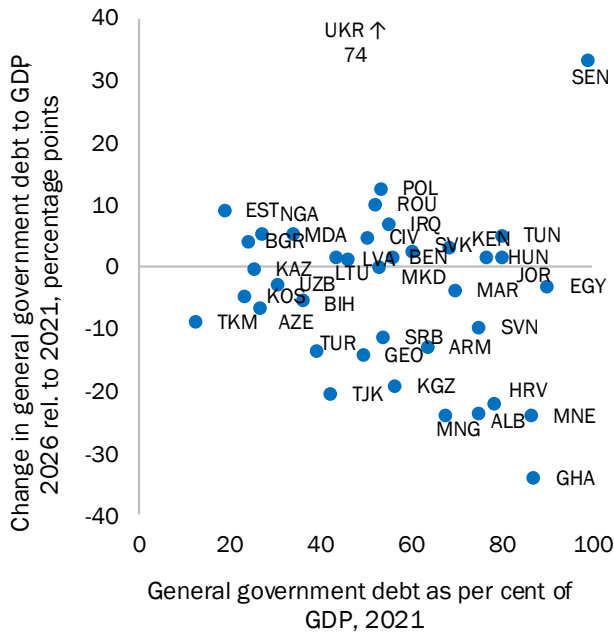


Source: IMF (April 2026) and authors' calculations.

Note: Data refer to 2026.

Alongside some fiscal consolidation measures and in some cases debt restructurings, the inflation surprise helped reduce debt-to-GDP ratios in many economies in the EBRD regions in recent years (see Chart 15).

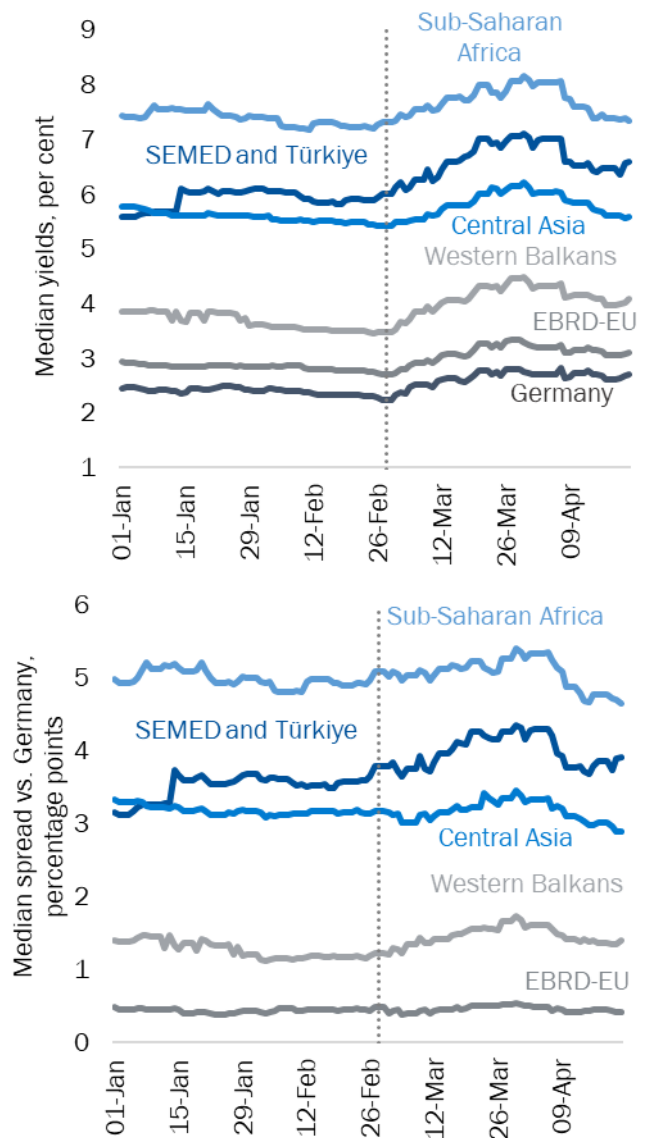
Chart 15. Many economies in the EBRD regions saw reductions in their debt-to-GDP ratios in recent years



Source: IMF (April 2026) and authors' calculations.

Debt financing burdens may, however, increase going forward. Yields on euro or US dollar denominated government bonds increased across most economies in the EBRD regions in response to the conflict in the Middle East, more so in economies neighbouring the areas directly involved in the conflict. Yields have since moderated somewhat but in many cases remain above pre-conflict levels (see Chart 16).

Chart 16. Bond yields rose in response to the conflict in the Middle East

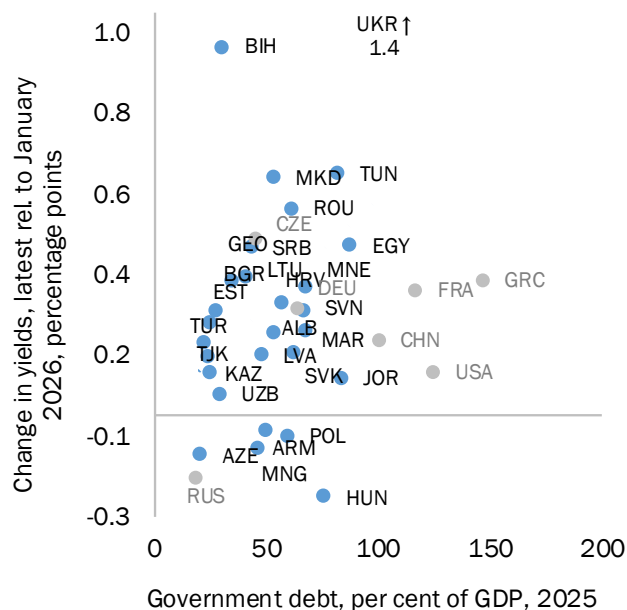


Source: Bloomberg and authors' calculations.

Note: Based on EUR- or USD-denominated bonds with maturities of five to ten years. As of April 17, 2026.

Yields increased more strongly in economies with higher levels of government debt as investors demanded extra compensation for holding debt that is perceived to be riskier, resulting in decompression of spreads (see Chart 17).

Chart 17. Bond yields rose more strongly in more indebted economies



Source: Bloomberg, IMF WEO (April 2026) and authors' calculations.

Note: Based on EUR- or USD-denominated bonds with maturities of five to ten years. As of April 22, 2026.

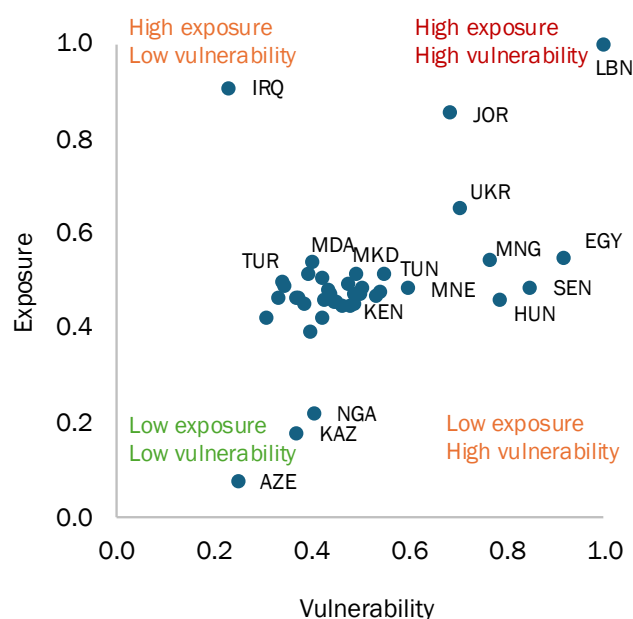
Exposure to the conflict in the Middle East and underlying economic vulnerabilities

The *Regional Economic Update* in March 2026 examined economies' exposure to the conflict based on direct disruptions from the conflict, energy imports, fertiliser and food import needs, remittances from the Gulf Cooperation Council (GCC) countries, and fiscal capacity to cushion increases in the prices of energy and food.⁵ Examining these factors together, Lebanon, Jordan, Iraq, Egypt, Ukraine, Mongolia, Senegal, Tunisia, Moldova, Kenya, Türkiye and North Macedonia were deemed to be among the most impacted economies in the EBRD regions.

The likely economic impact of the conflict reflects the extent of exposure to the conflict on the one hand and available fiscal and external buffers that determine the capacity of economies to absorb the shock from higher food and energy prices on the other hand. The measure of economies' pre-existing vulnerabilities, normalised to range between 0 (low vulnerability) and 1 (high vulnerability) looks at economies' external debt as well as their government interest bill (both as shares of GDP), while the measure of

exposure combines the energy import bill, fertiliser imports, remittances from the GCC and direct exposure to the conflict (for instance, the destruction in Lebanon, reduction in tourist bookings for Jordan or inaccessibility of Iraq's ports). As illustrated in Chart 18, Lebanon, Iraq, Jordan and Ukraine may have the highest exposure to the conflict. Of these economies, Iraq has somewhat stronger buffers and lower levels of indebtedness. Among less exposed economies, vulnerabilities are high in Egypt and Senegal.

Chart 18. Exposure to the conflict and underlying vulnerabilities vary across economies



Source: Authors' calculations.

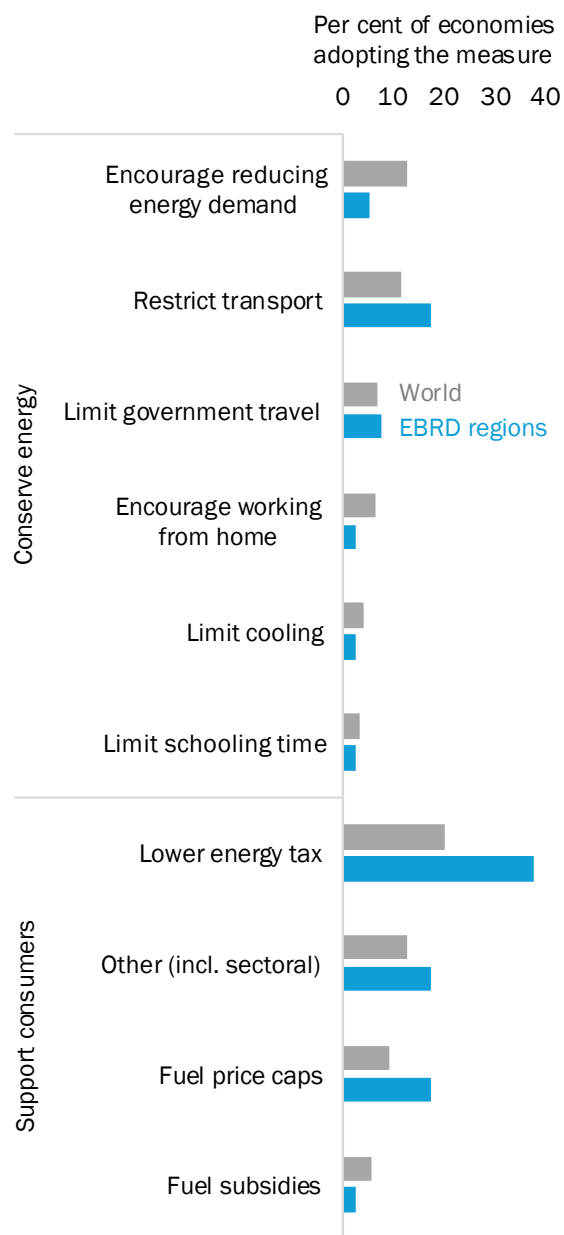
Note: The index of exposure takes into account the military impact, direct disruptions to trade and tourism, oil imports, gas imports, fertiliser imports and remittances from GCC economies. The index of vulnerability accounts for the fiscal capacity of governments to absorb shocks from higher energy and food prices, looking at external debt and interest payments.

Policy responses

Almost two-thirds of economies in the EBRD regions (and around a quarter of economies globally) have implemented at least one policy measure to conserve energy or support consumers in response to higher energy prices. Chart 190 builds on the IEA's 2026 Energy Crisis Policy Response Tracker and complements this information with manually collected information on measures introduced in economies in the EBRD regions.

⁵ See EBRD (2026b).

Chart 19. Almost two-thirds of economies in the EBRD regions implemented at least one policy measure to conserve energy or support consumers



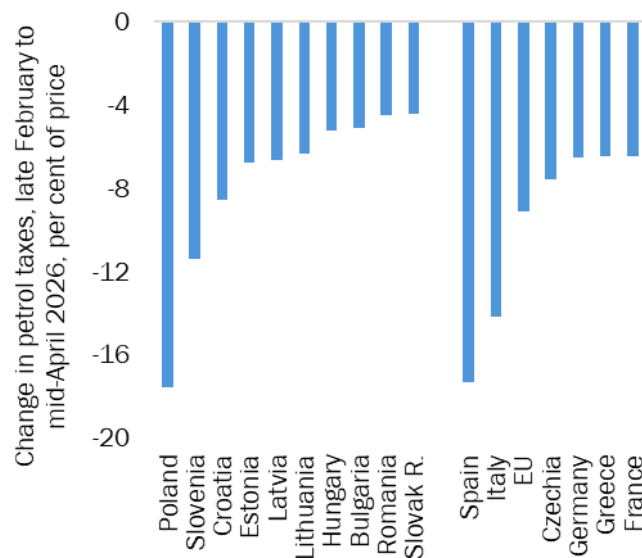
Source: IEA 2026 Energy Crisis Policy Response Tracker (as of 14 April 2026) and national authorities.

Policy measures intended at conserving energy (widespread in Asia) were used mostly in the southern and eastern Mediterranean. These included, for instance limiting cooling (in Jordan, see Table 2), encouraging reductions in energy demand (for instance limiting commercial and public lighting and opening times in Egypt, restricting electricity sales to private firms during peak hours in Moldova), encouraging more working from home (in Egypt), limiting government travel (in Egypt, Jordan and Senegal) and restricting private transport (for instance through lowering costs of public transportation in Ghana or

Lithuania, or temporarily capping fuel purchases for instance in the Slovak Republic and Slovenia). Egypt and Jordan, among other economies, introduced a number of measures simultaneously.

Policy measures intended at supporting consumers – in particular through lower energy taxes, fuel price caps and sectoral support – were widespread across the EBRD regions. Twelve economies in the EBRD regions cut VAT and/or fuel excise duties to mitigate the impact of price increases on consumers (Chart 20 shows the changes in petrol taxes for EU economies, with substantial cuts in Poland, Slovenia and Croatia, as well as Spain and Italy). In a similar vein, Türkiye removed customs duties for urea-type products and selected fertilisers. Some economies capped fuel prices (Croatia, Hungary, Poland, Serbia). Sectoral support measures were also common, for instance to agriculture (Bulgaria, Croatia, Jordan), tourism (Jordan) or transportation (Croatia, Morocco, Romania).

Chart 20. Poland, Slovenia and Croatia reduced petrol taxes significantly to mitigate the impact of price increases on consumers



Source: Eurostat, national authorities and authors' calculations.

Some economies also aimed to secure alternative or more stable energy supplies, for instance through incentives for investments in green energy (Croatia), bilateral agreements (Mongolia) or by increasing domestic capacity (for instance, Romania obtained a waiver from the US to re-open the previously-sanctioned Lukoil-owned refinery).

Economies most directly affected by the conflict introduced further measures. These include, for instance the Aqaba-Tartus corridor, a new two-way agreement to facilitate trade between the Mediterranean and the Red Sea. Jordan

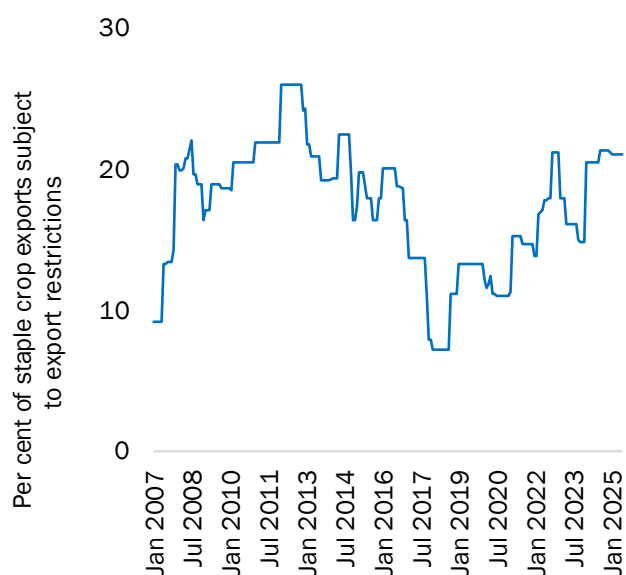
waived customs duties on increases in shipping costs and fast-tracked the clearance of essential goods to limit supply chain disruptions. Iraq has been exploring alternative energy export routes (including a pipeline to Türkiye and transportation via tanker trucks to Banyas port in Syria and Aqaba port in Jordan), with the maximum alternative export capacity reaching around 12 per cent of total production so far. In Tunisia, access to foreign currency has been tightened. In Egypt, banks were reported to have raised local currency commission fees and cash collateral requirements.

The fiscal cost of these measures is estimated to have been modest so far. The Bruegel 2026 European energy crisis fiscal response tracker provides an overview of the fiscal cost of the measures implemented by 12 European governments to mitigate the impact of the energy shock on households and firms (only measures with clearly defined amounts were included, estimates are as of end-April). On average, across these 12 economies, fiscal measures amounted to less than 0.1 per cent of GDP, ranging from being almost budget neutral in France and the United Kingdom to reaching 0.2 per cent of GDP in Bulgaria and 0.3 per cent of GDP in Spain. So far, almost 80 per cent of the total amount across these European economies consisted of untargeted measures, such as general energy excise duty or VAT cuts. Comparing these responses to those implemented during the 2022-23 energy crisis, fiscal costs so far have been more limited, and measures have focused predominantly on supporting consumers rather than targeting industry.

Limiting the extent of fiscal support helps to sharpen price signals and facilitate the necessary adjustment of energy markets to a prolonged period of a lower global supply of oil, LNG and derivative products.

In response to higher food prices during 2022-23, many economies introduced restrictions on the exports of staple crops (see Chart 21). The WTO Trade Monitoring Database points, for example, to ongoing bans of corn exports from Nigeria and exports of key grains including rice, corn and soybeans from Ghana since 2024. Such restrictions may become more common again if food price inflation picks up. While such restrictions may be deemed to be an appropriate response to other countries' imposing such restrictions, the resulting web of restrictions fragments the global markets exacerbating shortages and inefficiencies.

Chart 21. In response to higher food prices during 2022-23, many economies introduced restrictions on exports of staple crops



Source: OECD database of export restrictions on staple crops (last updated in September 2025).

Note: If no end date was reported in the data, the restriction was assumed to remain in place for one year. Staple crops consist of around 30 HS6 codes that appeared in the database at least once, including products such as wheat, rice, maize, soybeans, vegetable oils and processed cereal products.

Table 2. Policy measures implemented by economies in the EBRD regions

	Conserve energy						Support consumers				Energy supply
	Encourage working from home	Limit cooling	Limit government travel	Limit schooling time	Encourage reducing energy demand	Restrict transport	Fuel price caps	Fuel subsidies	Lower energy tax	Other (incl. sectoral)	
Albania							x		x		
Bosnia and Herz.									x	x	
Bulgaria								x		x	
Croatia						x	x		x	x	x
Egypt	x		x	x	x	x					
Ghana						x			x		
Hungary						x	x		x		
Jordan		x	x							x	
Kenya									x		
Kosovo							x				
Latvia									x		
Lithuania						x					x
Moldova					x						
Mongolia											x
Montenegro									x		
Morocco										x	
North Macedonia									x		
Poland							x		x		
Romania									x	x	x
Senegal			x								
Serbia							x		x		x
Slovak Republic						x					
Slovenia						x			x		
Türkiye									x		

Source: IEA 2026 Energy Crisis Policy Response Tracker (as of 14 April 2026) and national authorities.

Sustained upward pressures on energy prices

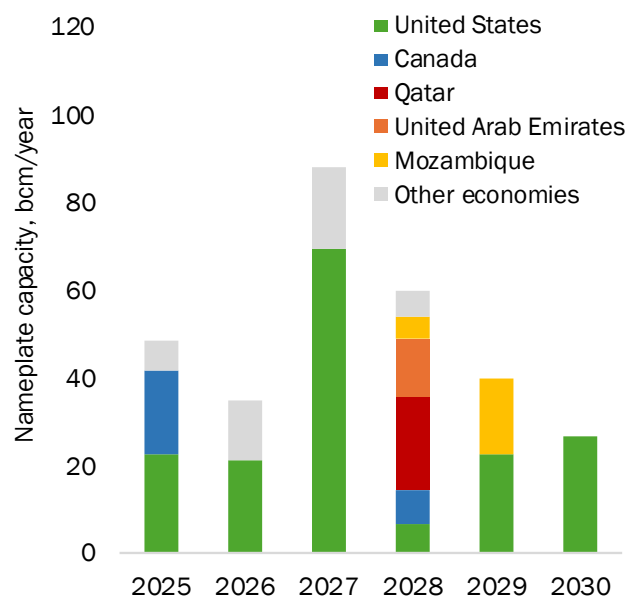
The overall economic impact of the war will be determined by the duration of the conflict and the extent of the damage to energy infrastructure. The impact will likely linger beyond the end to hostilities.

Gas prices could remain around 60 per cent above their pre-conflict levels in 2026 as a whole, reflecting both damage to facilities and infrastructure and the need to refill storage.

According to the International Energy Agency (IEA), LNG supply losses from Qatar and the United Arab Emirates for 2026 could reach 30 bcm, with a total cumulative loss of around 120 bcm for the period 2026-2030, when considering the combined effect of the near-term supply disruptions and the medium-term implications for supply (for instance, the North Field West capacity expansion project in Qatar, with a nameplate capacity of 21.7 bcm per year, which was approved in 2024 with construction expected to begin in 2026, has been delayed).⁶

New LNG capacity may, in due course, rebalance supply and demand. In recent years, the US accounted for over half of new LNG capacity coming online. Five new LNG projects (with a total capacity of 35 bcm per year) are expected to come online in 2026 (in Australia, Gabon, Indonesia, Mexico and the United States; see Chart 22). In addition, LNG exports from African economies, in particular from Nigeria and Angola (the largest and third largest exporters on the continent) and Mozambique (which became an LNG exporter in 2025) increased sharply in the first quarter of 2026.

Chart 22. Five new LNG projects are expected to come online in 2026



Source: IEA.

Note: Other economies include Argentina, Australia, Cameroon, Congo, Gabon, Indonesia, Malaysia, Mexico, Nigeria, Oman, Russia and Senegal. Nameplate capacity (also referred to as installed capacity, maximum effect or gross capacity) refers to the full-load operation intended by the designer and guaranteed by the equipment manufacturer.

Higher gas prices could also translate into higher prices of fertilisers (potentially also around 60 per cent above their pre-conflict levels), with a lag putting upward pressure on the price of food.

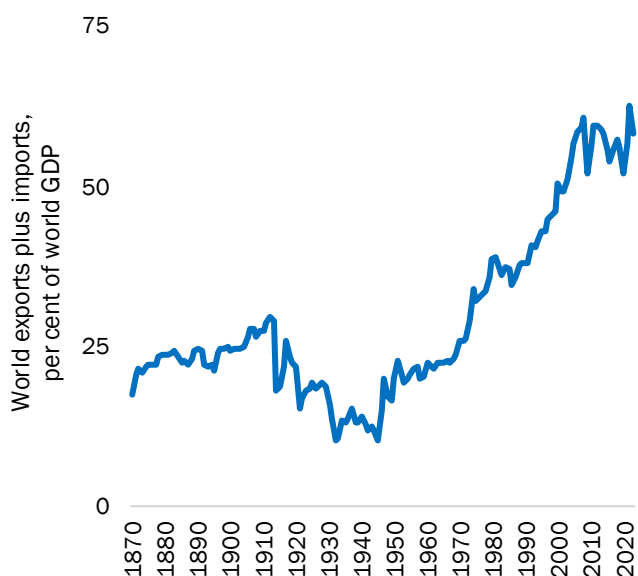
Oil prices have been volatile but could average in the range of US\$ 80 to 100 per barrel of Brent in 2026 as a whole.

Slower growth ahead

Globalisation – proxied as the sum of world exports and imports as a share of world GDP – has stalled, weighing on highly open and integrated economies in the EBRD regions (see Chart 23).

⁶ See IEA (2026).

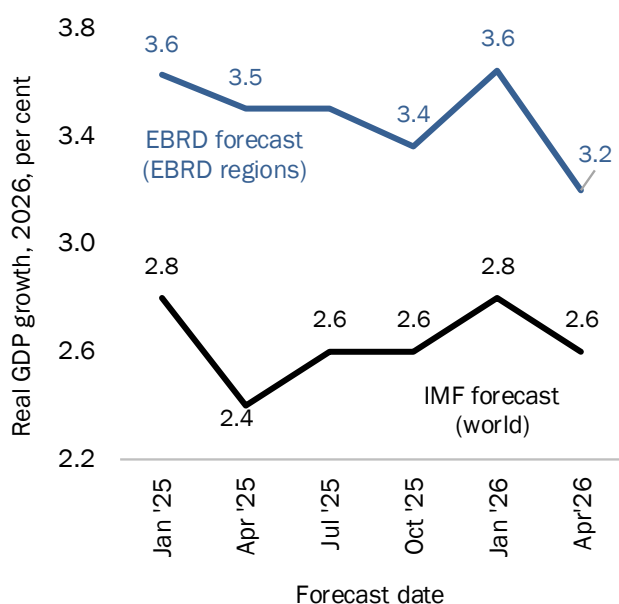
Chart 23. Globalisation has stalled



Source: Klasing and Milionis (2014); Feenstra et al., Penn World Table (2025); World Bank, World Development Indicators, all series processed by Our World in Data.

In April 2025, the IMF revised down its 2026 growth forecasts for the world as a whole as well as for major economies including China, the United States and, to a greater extent, Germany, a key trading partner for economies in Emerging Europe (see Charts 24 and 25).

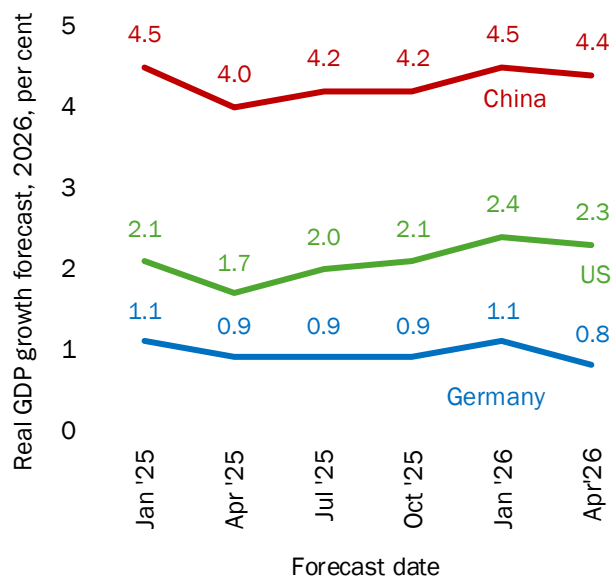
Chart 24. IMF global growth forecasts for 2026 have been revised down



Source: EBRD and IMF forecasts.

Note: Forecast date refers to the dates of the World Economic Outlook and World Economic Outlook Update and Regional Economic Prospects respectively.

Chart 25. IMF forecasts for 2026 have seen downward revisions for major economies



Source: IMF forecasts.

Note: Forecast date refers to the dates of the World Economic Outlook and World Economic Outlook Update.

Growth in the EBRD regions is expected to slow to 3.1 per cent in 2026 before picking up to 3.6 per cent in 2027. This is 0.5 and 0.1 percentage points below the projection made in February 2026. The downward revision for 2026 is 0.1 percentage point larger than expected in the March 2026 *Regional Economic Update* reflecting the protracted nature of the conflict in the Middle East.

In part, downward revisions for 2026 reflect weak outturns in early 2026 recorded in a number of large economies in the EBRD regions, including in Egypt, Kazakhstan, Romania, Türkiye and Ukraine (see Chart 26 and Table 1).

Regional outlooks

Growth in **central Europe and the Baltic states** picked up from 2.4 per cent in 2024 to 2.6 per cent in 2025 and is expected to reach 2.8 per cent in 2026 before moderating to 2.5 per cent in 2027. Forecasts for both years have been revised down on the expected impact of the energy shock resulting from the conflict in the Middle East, though investment is anticipated to rise further ahead of upcoming Recovery and Resilience Facility (RRF) deadlines.

Growth in the **south-eastern EU** decelerated from 1.4 per cent in 2024 to 1.2 per cent in 2025 and is expected to decline to around 0.5 per cent in 2026 (revised down on fiscal consolidation and political uncertainty weighing on growth in Romania). Growth is expected to pick up to 2.0 per cent in 2027.

Growth in the **Western Balkans** slowed from 3.7 per cent in 2024 to 2.6 per cent in 2025. It is expected to pick up to 2.9 per cent in 2026, a weaker rebound than previously expected, reflecting the impact of the energy shock and the resulting increased inflationary pressures. Growth is expected to rise to 3.5 per cent in 2027, supported by major public investment and infrastructure projects across the region.

Growth in **Central Asia** increased from 5.9 per cent in 2024 to a 6.9 per cent in 2025. It is expected to moderate to 5.6 per cent in 2026 and 5.3 per cent in 2027. The 2026 forecast for the Kyrgyz Republic has been revised down on the expected impact of new EU sanctions.

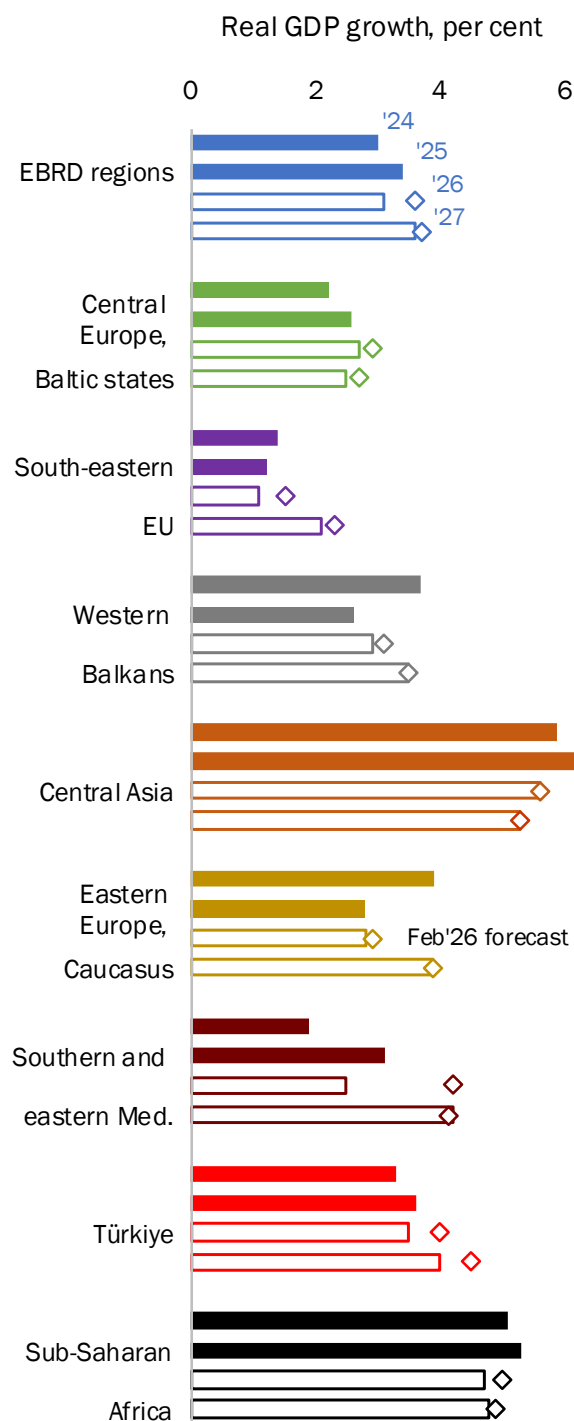
In **eastern Europe and the Caucasus**, growth slowed from 3.9 per cent in 2024 to 2.7 per cent in 2025 as the boost from intermediated trade to and from Russia and inflows of labour and capital to the economies of the Caucasus waned. In Ukraine, extensive disruptions to the energy sector and infrastructure due to Russia's ongoing war weighed on growth. In eastern Europe and the Caucasus, growth is expected to remain around 2.8 per cent in 2026, revised down on higher energy import bills and potentially weaker tourism in Armenia and Georgia. It is expected to pick up to 3.9 per cent in 2027. The 2026 growth forecast for **Ukraine** has been revised down on continued disruptions to industrial production and logistics due to the military invasion of Ukraine by Russia as well as a higher expected energy import bill and rising inflation.

In **Türkiye**, growth picked up from 3.3 per cent in 2024 to 3.6 per cent in 2025. Growth forecasts have, however, been revised down, to 3.5 per cent in 2026 and 4 per cent in 2027, on rising energy imports, significant inflationary pressures and potential effects of the conflict in the Middle East on tourism and manufacturing value chains.

Growth in the **southern and eastern Mediterranean** is estimated to slow from 3.1 per cent in 2025 to 2.5 per cent in 2026, with the sharpest downward revisions for Lebanon and Iraq, the economies most directly affected by the conflict in the Middle East. Growth is expected to pick up to 4.2 per cent in 2027, though with significant risks to the downside.

Growth in **sub-Saharan Africa** picked up from 5.1 per cent in 2024 to 5.2 per cent in 2025. Growth is, however, expected to moderate to 4.7 per cent in 2026 and 4.8 per cent in 2027. The forecasts have been revised down on trade disruptions and higher energy import costs due to the conflict in the Middle East (in particular in Kenya) while sluggish investment weighs on the growth outlook in Senegal.

Chart 26. Growth has been revised down in the southern and eastern Mediterranean



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, result in further supply chain disruptions and thus weigh on growth while further exacerbating inflationary pressures. The resulting further tightening of financing conditions would be a key risk for economies with already significant external and fiscal vulnerabilities. A further slowdown in key trading partners, in particular in Germany, would weigh on the outlook in the region's open economies that are highly integrated in the European and global supply chains.

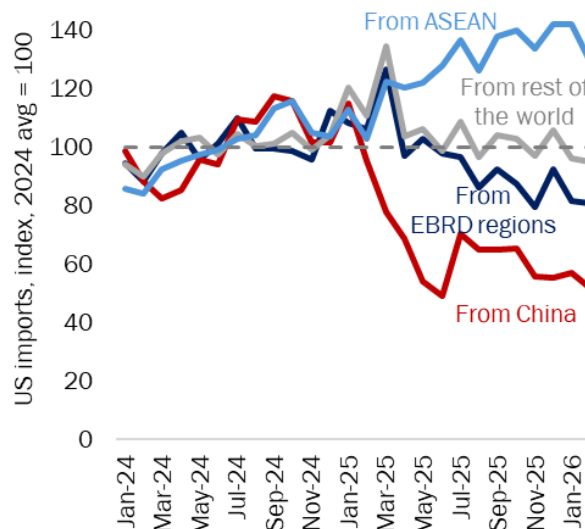
Box 1. One year of higher US import tariffs

This box examines the reorientation in trade flows in response to US import tariff increases in 2025. US imports shifted from China towards ASEAN economies and from automotives, solar panels and batteries towards goods related to data centres and the AI supply chain. Overall changes in US imports from the EBRD regions were limited, with a small shift from manufactured goods towards commodities. The expansion of AI supply chains supported growth globally. In line with this global trend, AI supply chain exports from the EBRD regions also grew more rapidly than other exports from the EBRD regions.

US import tariffs increased sharply in 2025. US tariffs on China increased in January-February 2025, followed by the introduction of broad-based 'reciprocal' tariffs in April 2025. Those tariffs were revised in February 2026 after the US Supreme Court ruled against the previously enacted US import tariffs under the International Emergency Economic Powers Act (IEEPA). Within hours of the ruling, the tariffs were replaced with new ones invoked under Section 122 of the Trade Act of 1974, with a flat 10 per cent tariff on most US imports, effective until 24 July 2026 (see February 2026 Regional Economic Prospects, Box 0). The validity of those tariffs was also questioned in courts, with a narrowly applicable ruling against them in May 2026. That ruling applies to three specific plaintiffs and may be appealed in higher courts. The US administration is conducting several trade investigations that may pave way for a new set of tariffs once the Section 122 tariffs expire. Separately, the US has maintained 25 per cent Section 232 tariffs on automobiles and auto parts, with negotiated lower tariff rates of 15 per cent for some trading partners, including the EU and the UK.

In response to shifts in relative tariff rates, trade flows have shown significant reorientation. In 2025, US imports from China dropped by 30 per cent year on year, while imports from the Association of Southeast Asian Nations (ASEAN) rose by 27 per cent (see Chart 1.1). US imports from the EBRD regions increased by 2 per cent while those from the rest of the world picked up by 9 per cent over the same period. While some economies, in particular China, Canada and Japan lost market share in the US in 2025 relative to 2024, Taipei China, Vietnam and Switzerland saw large gains in market share. Within the EBRD regions, Slovenia, the Slovak Republic and Hungary saw the largest relative losses in terms of their market share in the US, while Kazakhstan, Côte d'Ivoire and Uzbekistan saw the largest gains, though these changes were modest.

Chart 1.1. Reorientation of US imports away from China

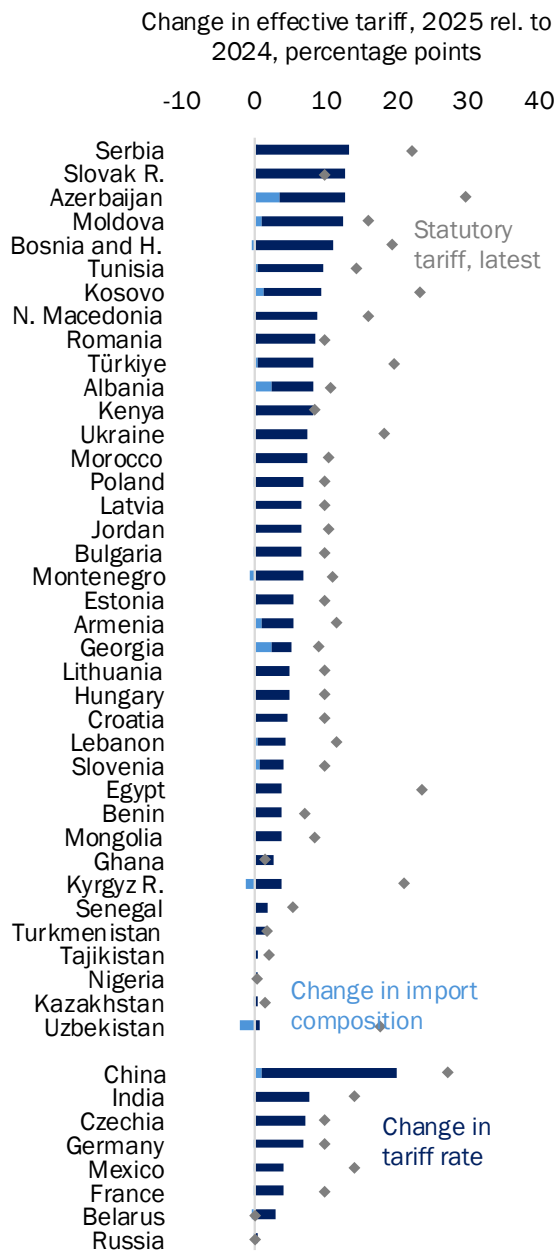


Source: USITC and authors' calculations.

Note: Latest observation is February 2026. EBRD regions refers to total US imports from economies in the EBRD regions. Based on imports reported by the US.

In the EBRD regions, effective US import tariffs increased most for Serbia and the Slovak Republic (see Chart 1.2). Changes in effective tariff rates mostly reflected changes in statutory tariff rates while changes in the product composition of imports in response to tariff increases were limited.

Chart 1.2. In the EBRD regions, effective US import tariffs increased most for Serbia and the Slovak Republic

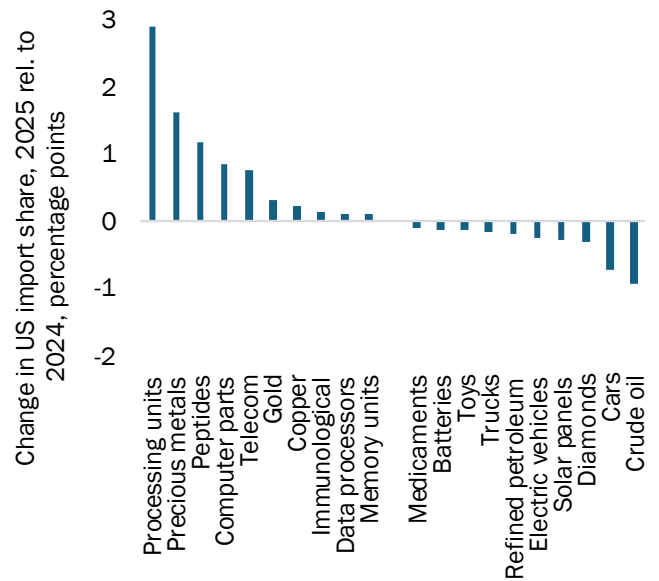


Source: USITC, UN Trade and Development and authors' calculations.

Note: Based on imports reported by the US. Statutory tariff as of February 27, 2026. The change in the effective tariff is between 2024 and 2025.

In terms of products, total US imports shifted from automotives, solar panels and batteries to goods related to data centres and the AI supply chain (see Chart 1.3 presenting the largest changes).

Chart 1.3. US imports shifted towards goods related to data centres and the AI supply chain

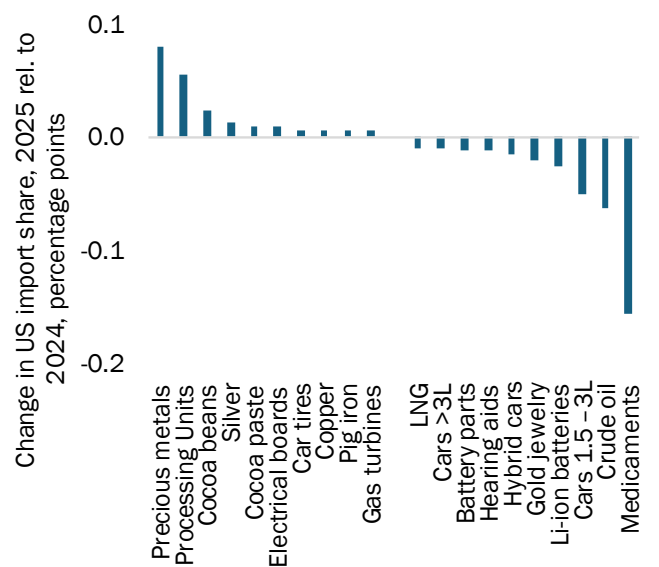


Source: UN Comtrade and authors' calculations.

Note: Based on imports reported by the US. Products with ten largest and ten smallest changes shown.

US imports from the EBRD regions shifted away from manufactured goods (including cars and batteries, from the Slovak Republic and Hungary) towards commodities (such as precious metals and cocoa beans, from Kazakhstan, Uzbekistan and Côte d'Ivoire; see Chart 1.4 presenting the largest changes).

Chart 1.4 US imports from the EBRD regions shifted from manufactured goods towards commodities

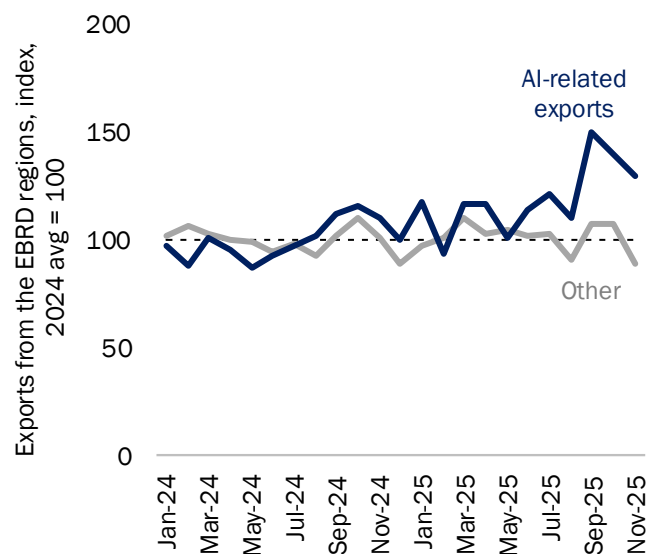


Source: UN Comtrade and authors' calculations.

Note: Based on imports reported by the US. Change in import shares of exports from EBRD regions. Products with ten largest and ten smallest changes shown.

More generally, the expansion of AI supply chains supported exports and economic growth globally. In line with this global trend, AI supply chain exports from the EBRD regions also grew more rapidly than other exports from the EBRD regions (see Chart 1.5, the list of AI-related products in this analysis comprises 15 HS6 codes and is narrower than the products considered in Waugh (2026) which span HS10 products across 285 different HS6 codes). In 2025, the largest absolute increases in the exports of AI-related products were observed for Hungary (increasing by 42 per cent year on year), Poland (increasing by 21 per cent year on year). Over the same period, China's exports of AI-related products increased by 19 per cent.

Chart 1.5. AI supply chain exports from the EBRD regions also grew more rapidly than other exports



Source: UN Comtrade and authors' calculations.

Note: Unbalanced panel of up to 28 EBRD economies. Based on available months. AI-related goods are defined as HS 854231 and related processor and controller chips (HS 854232, 854233, 854239); automatic data-processing machines and units (HS 847150, 847141, 847149, 847180, 847330); communications and networking equipment essential for data transmission (HS 851762, 851769); imaging and optical input devices used in computer vision systems (HS 852580); and industrial robots and precision measuring and control instruments supporting AI-enabled automation (HS 847950, 903180, 903210).

Box 2. Public procurement in the EU under the draft Industrial Accelerator Act: Economic opportunities

On 4 March 2026, the European Commission published a proposal for an Industrial Accelerator Act (IAA) aimed at strengthening industrial competitiveness in the EU, accelerating decarbonisation and reducing foreign dependencies in strategic sectors. The proposal is expected to shift public demand towards EU producers and a set of eligible partner countries. This shift primarily affects products where the EU already has a revealed comparative advantage, many of which are frequently targeted by industrial policies globally. This box discusses export capabilities with respect to products covered by the draft public procurement provisions on the Act and highlights existing capabilities that may enable economies within the EU and potentially selected partners outside the EU to increase their exports to various EU member states.

Industrial accelerator act

On 4 March 2026, the European Commission published a proposal for an Industrial Accelerator Act (IAA) aimed at strengthening industrial competitiveness in the European Union (EU), accelerating decarbonisation and reducing foreign dependencies in strategic sectors.⁷ The draft legislation (that may be revised as part of legislative process) introduces local content provisions and low-carbon provisions for public procurement and public support schemes in the EU in specific energy intensive sectors; the automotive supply chain and net-zero related sectors. Public procurement accounts for around 15 per cent of EU GDP.⁸

The provisions are expected to be applied from 1 January 2029 in energy-intensive sectors; six months after entry into force in the automotive supply chain; and at various specified points in time for the net-zero technologies. For example, in battery storage, battery cells, management system and at least one other component must be of union origin after three years after entry into force of this regulation (see Table 2.1; see also White and Case 2026 for further discussion).

The country-of-origin and low-carbon provisions can be waived, for instance, if their application results in significant increase in costs (25 per cent or above) or significant delays

(in excess of six months), and possibly for other reasons. Some additional derogations are also foreseen.

Potential eligibility of trade partners

Value added generated in economies with free trade agreements (FTAs) with the EU or parties to the Government Procurement Agreement (GPA) of the World Trade Organization (WTO) could potentially count towards local content, although it is unclear whether this treatment will be afforded on a reciprocal basis only (that is, where EU-made goods are eligible for public procurement in the respective economies). Further instrument-conditions may apply (see Table 2.2 for a list of GPA signatories and economies with an FTA with the EU). This approach has parallels with provisions under the US Inflation Reduction Act, where access to certain subsidy schemes was extended to countries with which the United States has free trade agreements (Cheng et al. 2025 discuss the effect of such incentives on manufacturing in Morocco and other eligible economies).

While public procurement provisions seek to increase domestic demand for specific products manufactured in the EU, the proposal also introduces several supply-side policies. Measures to accelerate permitting for manufacturing and decarbonisation projects may reduce project delays and costs (McKinsey 2025). At the same time, tighter rules on foreign direct investment in selected strategic sectors, particularly from countries that are dominant producers (for example, China in electric vehicles; see EBRD 2026a), may discourage investment from affected economies (see Cheng et al. 2025).

Mapping targeted sectors to trade data

Low-carbon criteria for public procurement and public support schemes appear to apply to steel and aluminium products in construction and infrastructure (25 per cent) and concrete and mortar (5 per cent). Low-carbon requirements for steel extend to vehicle manufacturing. Country-of-origin provisions do not apply to steel products, but they apply to aluminium, concrete and mortar. They also apply to vehicles and parts, electric vehicles, batteries, wind, solar (with specific requirements for parts, for instance, in the case of inverters and cells), heat pumps, nuclear energy, hydrogen and electrolyzers.

⁷ See also García Bercero, McWilliams and Tagliapietra (2026).

⁸ See European Commission (2026), p. 19.

Table 2.1 approximately maps these provisions into product codes of the Harmonized System at the six-digit level of disaggregation (the most detailed level comparable across economies, which contains around 5,500 product codes). The analysis below builds on this mapping to first characterise the affected sectors and then assess the existing export capabilities of economies in those sectors.

Targeted sectors: A portrait

First, the proposal focuses on sectors that are most frequently targeted by industrial policies globally (with some notable exceptions, such as cement). This largely reflects the fact that the covered sectors have a combination of large environmental externalities, are important employers (as in the case of the automotive supply chain) and are important inputs in production across the economy (in particular in the case of energy and metals).

While the HS6 product codes covered by the IAA represent around 5 per cent of all traded product codes, they account for approximately 16 per cent of industrial policy interventions worldwide (industrial policies here refer to government interventions that favour specific sectors of firms at the expense of other parts of the economy). The underlying calculations are based on a global dataset of industrial policies constructed in Koczan et al. (2025) and EBRD (2024) based on Juhasz et al. (2023) and Global Trade Alert.

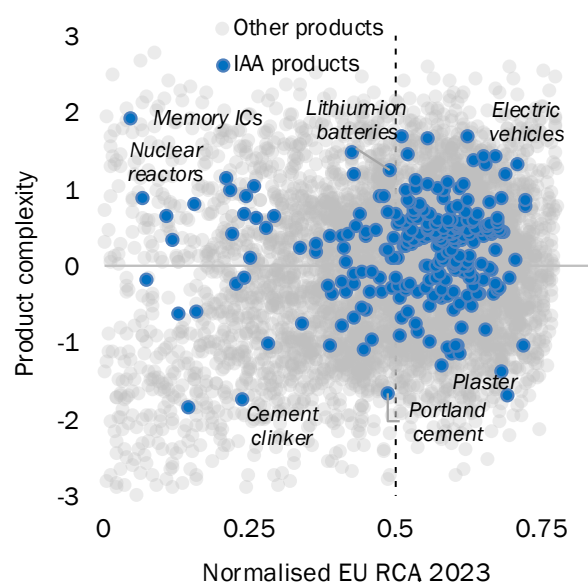
The analysis next looks at whether the EU economies are already major producers (exporters) of products covered by the IAA or whether the legislation is tilted more towards supporting “infant” industries. It builds on measures of revealed comparative advantage (RCA) – the ratio of the EU’s share of the global exports of a particular product to the EU’s share of global exports across all products. The scores are further normalised to range from 0 to 1 by applying a transformation $x / (1 + x)$. Transformed values above 0.5 correspond to products where the EU has above-average market share and thus enjoys a revealed comparative advantage.

This analysis also examines how complex the products are (Hausmann et al. 2014), which is often interpreted as a proxy for the technological sophistication of products. Product complexity scores are calculated using a recursive algorithm, whereby products are deemed to be more complex if they are exported by a small number of highly sophisticated economies, while economies are deemed to

have sophisticated export structures if they export a wide range of complex products.

The results suggest that the products covered by the proposal are predominantly those in which the EU already enjoys a comparative advantage, with only slightly above-average complexity (see Chart 2.1). For example, the EU enjoys a revealed comparative advantage in electrical vehicles (complex, upper right quadrant) or in plaster (simple, lower right quadrant). In other cases, the legislation targets sectors where the EU’s current capabilities are weaker, both in complex (batteries, memory integrated circuits or nuclear reactors, left-upper quadrant) or simple (cement clinkers, lower bottom quadrant) products.

Chart 2.1. Products targeted by the IAA tend to have complexity slightly above average and stronger-than-average production capabilities in the EU



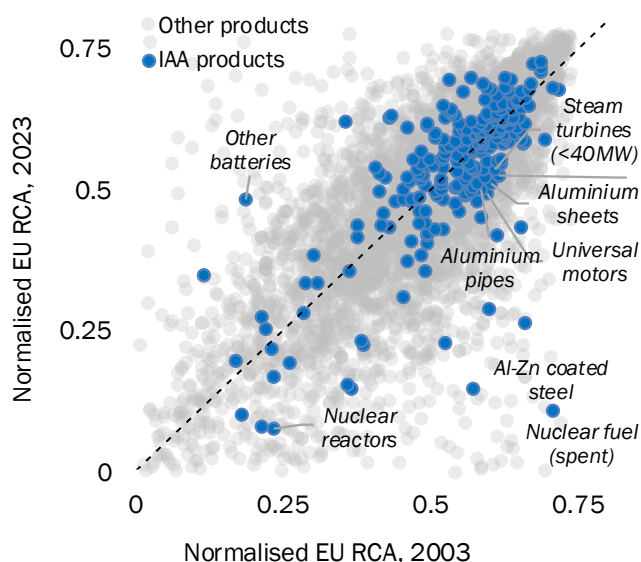
Source: BACI (2026), European Commission (2026), Hausmann et al. (2014) and authors’ calculations.

Note: RCA is revealed comparative advantage, calculated for aggregate EU exports and normalised using the $x/(1+x)$ transformation.

The proposal covers, in roughly equal measure, a mix of industries where the EU’s comparative advantage used to be stronger and those where EU economies have been building new capabilities. Sectors where the EU experienced a gradual loss of global market share include aluminium sheets, pipes, motors, turbines or nuclear reactors. In the majority of cases, the levels of revealed comparative advantage are broadly similar to those observed 20 years ago (see Chart 2.2) and in some cases (such as batteries) the policy is clearly “forward-looking”.

Overall, the proposal is not disproportionately focused on reviving “sunset” sectors with rapidly declining competitiveness.

Chart 2.2. IAA targets both products where EU competitiveness has been declining and those where it has been growing fast



Source: BACI (2026), European Commission (2026) and authors' calculations.

Note: RCA is revealed comparative advantage, calculated for aggregate EU exports and normalised using the $x/(1+x)$ transformation.

Economic opportunities in the EU

Among EU member states, Germany appears to have by far the largest existing capacity to meet increased demand in the affected product groups, while other large economies in the EU, such as France and Italy, have a relatively smaller presence in these markets (see Chart 2.3, where the horizontal axis shows economies' global exports of products covered by the IAA as a measure of existing production capabilities). On the other hand, relative to exporting countries' GDP, production capabilities are highest in the Slovak Republic, Hungary and Czechia (see Chart 2.3, vertical axis).

In terms of total exports of specific products from EU economies, capabilities are relatively strong in vehicle components (Poland, Hungary, Romania), hybrid vehicles (Slovak Republic, Hungary), battery components (Hungary, Romania), steel structures (Poland, Slovak Republic), hydrogen filtration equipment (Poland) and e-powertrains (Hungary) among others (see Table 2.3).

In relative terms, revealed comparative advantages in the affected sectors are highest in plaster (Latvia), batteries (Hungary, Romania), vehicle parts (Romania), concrete (Estonia, Latvia, Croatia), wind turbine components (Slovenia), electronics systems controls (Bulgaria) and aluminium products (Slovenia, Croatia, see Table 2.4). In the latter cases, potential trade volumes are not large from the perspective of procurement in the EU but can be large for the relatively small exporting economies.

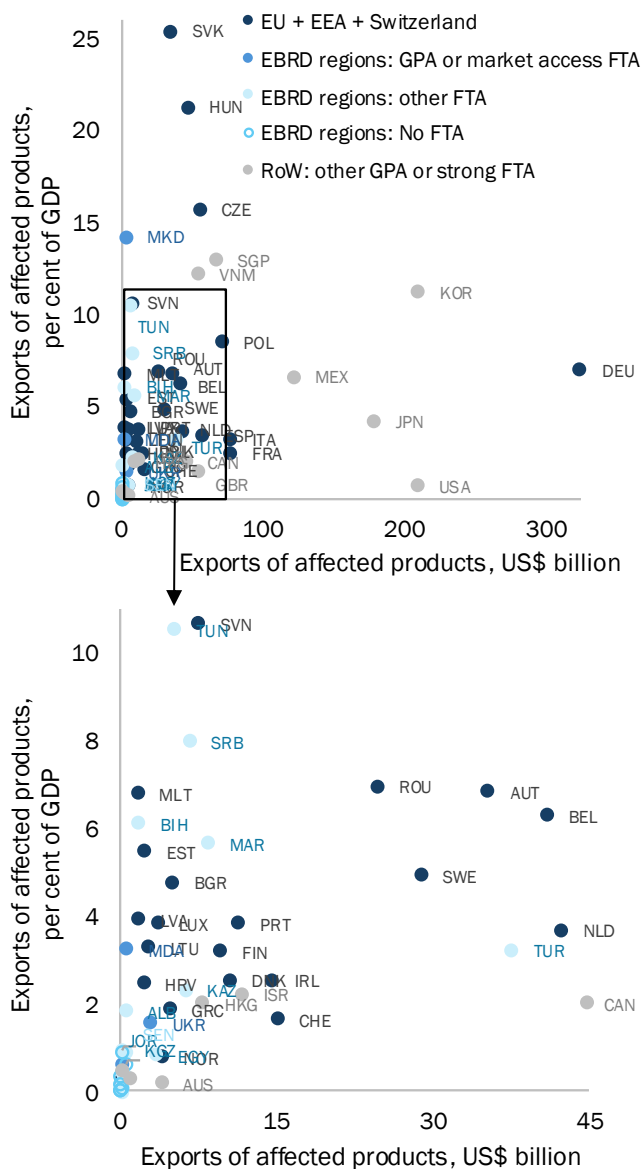
These sectors and economies could receive a boost from public procurement provisions of the IAA in the short term. In the longer term, capabilities in other sectors covered by the IAA, where they are presently weaker, could be developed, although it remains unclear whether incentives afforded by the provisions of the IAA are sufficiently strong in this regard.

Economic opportunities outside the EU

Outside the EU, exports of affected products as a share of GDP are also significant in North Macedonia, Tunisia, Serbia and Bosnia and Herzegovina and, outside the EBRD regions, Singapore and Vietnam (here the focus is limited to economies with GPA membership or some form of FTA with the EU). In absolute terms, the largest exporters of the affected products are outside the EBRD regions and include Korea, Japan, the United States, Mexico and, to a lesser extent, Canada and the United Kingdom.

In the EBRD regions, Türkiye, a member of a customs union with the EU, enjoys the strongest export capabilities in the affected sectors, followed by Morocco. Export capabilities in absolute terms are relatively high in vehicle parts (Türkiye, Morocco, Tunisia, Serbia), nuclear materials (Kazakhstan) and steel provided it can meet low-carbon certification requirements (Türkiye, Egypt, see Table 2.5). In relative terms, revealed comparative advantages are highest in cement products (Moldova), nuclear materials (Kazakhstan), vehicle parts (Tunisia, Moldova, Morocco) and plaster (Tunisia, Egypt, see Table 2.6). These sectors could benefit from the provisions of the IAA if they prove to be eligible under the final union-content provisions of the legislation.

Chart 2.3. Germany has the largest production capacity in IAA-covered products in absolute terms while the Slovak Republic, Hungary and Czechia have the highest capabilities relative to the size of their economies

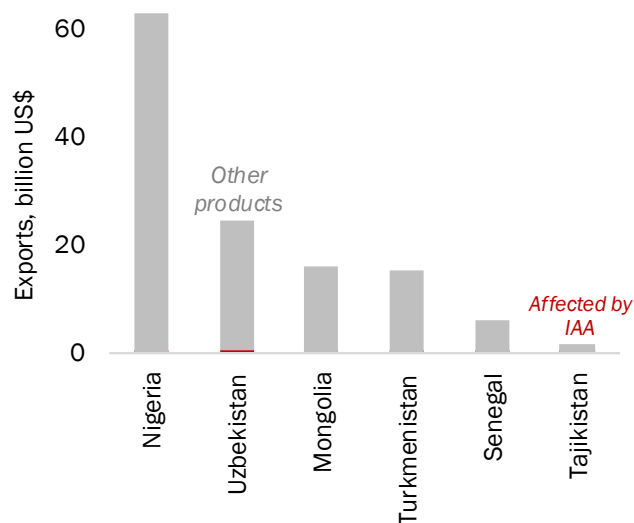


Source: BACI (2026), European Commission (2026) and authors' calculations.

Note: Global exports across all products covered by the IAA (see Table 2.1).

In contrast, in economies in the EBRD regions that are clearly ineligible under local-content provisions (such as Nigeria, Uzbekistan, Mongolia, Turkmenistan, Senegal or Tajikistan), exports of the affected products account for only a small share of economic activity and IAA by itself does not strengthen incentives for these economies to join the WTO GPA or seek an FTA with the EU (see Chart 2.4).

Chart 2.4. Limited capabilities in IAA-covered products in economies in the EBRD regions with no FTA with the EU or GPA membership



Source: BACI (2026), European Commission (2026) and authors' calculations.

Note: Global exports in 2023 across all products covered by the IAA (see Table 2.1).

Overall, the proposal introduces a redirection of public demand through new eligibility requirements in procurement and support schemes. The extent to which these provisions might provide a boost to production capabilities in the EU and in selected partner economies will depend on the final details of provisions and their implementation. These effects may be further reinforced by rising public spending on defence (see EBRD 2025b), energy security and the green transition.

Table 2.1 Low-carbon and Union origin requirements

Sector/Product	Local content requirement	Percentage	Entry into force
Products from energy-intensive industries			
Steel products in buildings, infrastructure and vehicles	Low-carbon share only	25%	1 Jan 2029
Concrete and mortar in buildings and infrastructure	Low-carbon + EU content	5%	1 Jan 2029
Aluminium products in buildings, infrastructure and vehicles	Low-carbon + EU content	25%	1 Jan 2029
Vehicles (PEVs, OVC-HEVs and FCVs)			
All + small electrics M1E	Assembly in EU		After 6 months
All + small electrics M1E	EU components (excl. battery)	70%	After 6 months
Battery components (incl M1E)	Cells + 2 components	100%	After 6 months
Battery components	Cells, cathode, BMS + 2 components	100%	After 3 years
E-powertrain		50%	After 3 years
Electronics systems		50%	After 3 years
Net zero technologies			
Battery storage	Battery cells, battery management system + one component	100%	After 3 years
PV inverters		100%	After 3 years
PV cells		100%	After 3 years
Hydronic heat pumps		100%	After 3 years
Hydrogen	Electrolyzers, stacks + 2 components	100%	After 3 years
Wind turbines	Two main components	100%	After 3 years
Nuclear	Three main components	100%	After 6 years

Source: European Commission (2026).

Table 2.2. Eligibility of non-EU economies under the Industrial Accelerator Act

Economy	GPA	FTA Market access	Free trade agreement (FTA)
EBRD regions			
Albania		Specific	SAA (2009)
Armenia	Yes	Yes	CEPA (2018)
Azerbaijan			FTA (1999)
Benin			ECOWAS-EU EPA under negotiation
Bosnia and Herzegovina		Specific	SAA (2015)
Côte d'Ivoire			Stepping Stone EPA provisionally applied (2016)
Egypt			AA (2004)
Georgia		Specific	DCFTA (2016)
Ghana			Stepping Stone EPA provisionally applied (2016)
Iraq		Specific	PCA (2012)
Jordan			AA (2002)
Kazakhstan		Specific	FTA (2020)
Kenya			EPA (2024)
Kosovo		Selected	SAA (2016)
Kyrgyz Republic		Upon signing	EU Enhanced FTA awaiting signature
Lebanon			AA (2006)
Moldova	Yes	Yes	DCFTA (2016)
Mongolia			
Montenegro	Yes	Yes	SAA (2010)
Morocco			AA (2000); DCFTA under negotiation
Nigeria			
North Macedonia	Yes	Yes	SAA (2004)
Senegal			
Serbia		Selected	SAA (2013)
Tajikistan			No
Tunisia			AA (1998); DCFTA under negotiation
Türkiye			Customs Union (1995)
Turkmenistan			
Ukraine	Yes	Yes	DCFTA (2016)
Uzbekistan			
Other economies			
Australia	Yes	Yes	FTA under negotiation
Canada	Yes		CETA (2017 provisional)
Hong Kong SAR	Yes	Yes	
Iceland	Yes	Yes	EEA (1994)
Japan	Yes		EPA (2019)
South Korea	Yes		FTA (2014)
Liechtenstein	Yes	Yes	EEA (1995)
Mexico		Yes	GA (2000), MGA (2025)
New Zealand	Yes	Yes	FTA (2024)
Norway	Yes	Yes	EEA (1994)
Singapore	Yes	Yes	EUSFTA (2019)
South Africa		Limited	EPA (2016)
Switzerland	Yes	Yes	FTA (1972)
Taipei China	Yes	Yes	
United Kingdom	Yes		TCA (2021)
United States	Yes	Yes	
Vietnam		Yes	EVFTA (2020)

Source: European Commission (2026).

Table 2.3. Largest exports of the IAA-covered products from EBRD-EU economies

<i>Description</i>	<i>Export (million US\$)</i>
POL: Vehicle components (excl. battery)	19,865
SVK: Vehicles: hybrid and plug-in hybrid	13,125
POL: Battery components: Li-ion cells	11,721
HUN: Vehicle components (excl. battery)	10,023
HUN: Battery components: Li-ion cells	9,951
ROU: Vehicle components (excl. battery)	8,178
POL: Vehicle components (excl. battery): engines and power systems	7,603
SVK: Vehicle components (excl. battery)	7,579
HUN: Vehicle components (excl. battery): engines and power systems	5,675
HUN: Vehicles: hybrid and plug-in hybrid	3,688
ROU: Battery components: BMS and control panels	3,450
POL: Steel: structures	3,378
POL: Hydrogen: gas processing and filtration	3,198
HUN: Battery components: BMS and control panels	2,823
SVK: Steel: flat steel products	2,596
ROU: Vehicle components (excl. battery): wiring sets	2,581
HUN: E-powertrain: Electric motors	2,391
POL: Vehicles: hybrid and plug-in hybrid	2,386
HUN: Solar PV: inverters	1,964
HUN: Vehicles: battery electric	1,951
POL: Battery components: BMS and control panels	1,921
SVK: Vehicles: battery electric	1,921
POL: Solar PV: inverters	1,629
POL: E-powertrain: Electric motors	1,564
SVN: Vehicle components (excl. battery)	1,532
POL: Steel: pipes, tubes and fittings	1,519
ROU: Steel: pipes, tubes and fittings	1,448
ROU: Vehicle components (excl. battery): engines and power systems	1,380
POL: Aluminium: structures	1,235
POL: Battery components: batteries and accumulators	1,215

Source: BACI (2026), European Commission (2026) and authors' calculations.

Note: Global exports in 2023.

Table 2.4. Highest revealed comparative advantage in the IAA-covered products: EBRD-EU economies

<i>Description</i>	<i>RCA (normalized)</i>
LVA: Concrete & mortar: plaster	0.94
SVK: Vehicles: hybrid and plug-in hybrid	0.93
HRV: Concrete & mortar: cement	0.92
HUN: Battery components: Li-ion cells	0.92
ROU: Vehicle components (excl. battery): wiring sets	0.91
EST: Concrete & mortar: concrete products	0.90
ROU: Battery components: BMS and control panels	0.89
HRV: Concrete & mortar: lime	0.89
LVA: Concrete & mortar: concrete products	0.88
SVN: Wind turbines: key components	0.87
BGR: Electronics systems: parts of control equipment	0.87
SVN: Aluminium: profiles, bars and rods	0.86
HRV: Aluminium: plates and sheets	0.86
LVA: Concrete & mortar: cement	0.86
SVK: Hydronic heat pumps	0.85
POL: Battery components: Li-ion cells	0.85
EST: Wind turbines: key components	0.84
POL: Steel: rails and infrastructure	0.83
HUN: E-powertrain: Electric motors	0.82
BGR: Aluminium: profiles, bars and rods	0.82
HUN: Vehicle components (excl. battery): engines and power sy	0.82
LVA: Steel: structures	0.82
HUN: Battery components: BMS and control panels	0.81
ROU: Aluminium: profiles, bars and rods	0.81
EST: Steel: rails and infrastructure	0.81
BGR: Vehicle components (excl. battery): wiring sets	0.80
POL: Aluminium: structures	0.80
SVN: Battery components: batteries and accumulators	0.80
EST: Steel: structures	0.80
BGR: Aluminium: tubes and fittings	0.80

Source: BACI (2026), European Commission (2026) and authors' calculations.

Note: Based on exports in 2023, the Balassa RCA for each sector–economy pair is normalized using the $x/(1+x)$ transformation.

Table 2.5. Largest exports of the IAA-covered products from non-EU economies in the EBRD regions

<i>Description</i>	<i>Export (million US\$)</i>
TUR: Vehicle components (excl. battery)	7,515
TUR: Vehicles: hybrid and plug-in hybrid	4,963
MAR: Vehicle components (excl. battery): wiring sets	4,409
KAZ: Nuclear: fuel and nuclear materials	3,859
TUR: Steel: structures	2,718
TUR: Vehicle components (excl. battery): engines and power systems	2,628
TUR: Steel: flat steel products	2,558
TUR: Steel: pipes, tubes and fittings	2,458
TUN: Vehicle components (excl. battery): wiring sets	2,311
TUR: Aluminium: profiles, bars and rods	1,898
SRB: Vehicle components (excl. battery): wiring sets	1,745
TUR: Concrete & mortar: cement	1,546
MAR: Vehicle components (excl. battery)	1,387
KAZ: Steel: flat steel products	1,352
TUR: Steel: structural sections	1,337
EGY: Steel: flat steel products	1,175
TUR: Hydrogen: gas processing and filtration	1,098
SRB: E-powertrain: Electric motors	1,082
TUR: Aluminium: plates and sheets	958
TUR: Battery components: BMS and control panels	920
EGY: Concrete & mortar: cement	875
TUR: Steel: fasteners	828
SRB: Vehicle components (excl. battery)	811
UKR: Steel: flat steel products	810
MAR: Battery components: semiconductors and ICs	802
UKR: Vehicle components (excl. battery): wiring sets	734
TUR: E-powertrain: Generators / drive systems	705
TUN: Vehicle components (excl. battery)	702
TUR: Aluminium: structures	668
UKR: Steel: pipes, tubes and fittings	644

Source: BACI (2026), European Commission (2026) and authors' calculations.

Note: Global exports in 2023.

Table 2.6. Highest revealed comparative advantage in the IAA-covered products:

Non-EU economies in the EBRD regions

<i>Description</i>	<i>RCA (normalized)</i>
MDA: Concrete & mortar: plaster	0.99
KAZ: Nuclear: fuel and nuclear materials	0.98
SEN: Concrete & mortar: cement	0.98
SEN: Concrete & mortar: lime	0.98
TUN: Vehicle components (excl. battery): wiring sets	0.98
TUN: Concrete & mortar: plaster	0.97
MDA: Vehicle components (excl. battery): wiring sets	0.97
MAR: Vehicle components (excl. battery): wiring sets	0.97
EGY: Concrete & mortar: plaster	0.97
TJK: Concrete & mortar: lime	0.97
KEN: Concrete & mortar: cement	0.97
MKD: Vehicle components (excl. battery): wiring sets	0.96
TJK: Concrete & mortar: cement	0.96
EGY: Concrete & mortar: cement	0.96
GHA: Concrete & mortar: lime	0.96
SRB: Vehicle components (excl. battery): wiring sets	0.96
ALB: Concrete & mortar: cement	0.95
BIH: Aluminium: structures	0.95
BIH: Wind turbines: key components	0.93
BIH: Concrete & mortar: concrete products	0.93
BIH: Aluminium: profiles, bars and rods	0.93
ALB: Vehicle components (excl. battery): wiring sets	0.93
BIH: Steel: structures	0.92
BIH: Concrete & mortar: lime	0.92
JOR: Concrete & mortar: cement	0.92
LBN: E-powertrain: Generators / drive systems	0.92
SRB: Wind turbines: key components	0.92
MKD: Battery components: batteries and accumulators	0.91
MAR: Concrete & mortar: plaster	0.91
TUN: Concrete & mortar: cement	0.91

Source: BACI (2026), European Commission (2026) and authors' calculations.

Note: Based on exports in 2023, the Balassa RCA for each sector–economy pair is normalized using the $x/(1+x)$ transformation.

Box 3. Missing Einsteins in emerging Europe and Central Asia?

Strong science, technology, engineering and maths (STEM) skills increasingly represent a source of economies' comparative advantage. This is an area, where, on average, a significant gap remains between advanced economies and emerging markets. Moreover, women and students from disadvantaged socio-economic background often feel discouraged from pursuing STEM studies, resulting in talent being missed. This box shows that in post-communist economies in emerging Europe and Central Asia, the tradition of STEM education remains relatively strong. OECD PISA maths scores among high school students tend to be higher than in other emerging markets. In addition, the maths gender gaps among top performers in these economies are significantly narrower than in advanced economies or other emerging markets.

Strong maths performance in post-communist economies

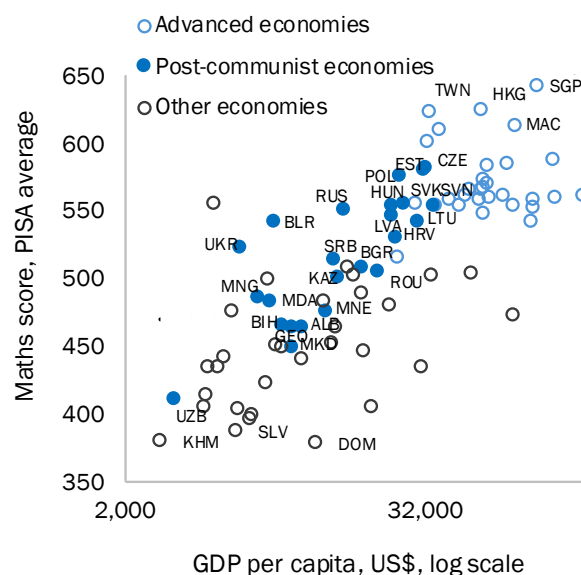
Strong science, technology, engineering and maths (STEM) skills increasingly represent a source of economies' comparative advantage.⁹ This is an area, where, on average, a significant gap remains between advanced economies and emerging markets. This gap is reflected, for instance, in the results of standardized mathematics assessments for school children aged 15-16 conducted by the Organisation for Economic Cooperation and Development across close to 100 economies.¹⁰ Across all waves since 2012, advanced economies record an average mathematics score of 574, compared with 474 in emerging economies.¹¹

Post-communist economies in emerging Europe and Central Asia, on the other hand, are characterized by relatively strong performance in PISA maths tests, a legacy of a strong education and science base under central planning (see Chart 3.1).¹² The average score across post-

communist economies, at 512, lies in between those for other emerging markets and for advanced economies.

At the same time, emerging markets remain important suppliers of top global STEM and IT technology talent. Nearly half of founders of US unicorns (young companies valued above US\$1 billion) are foreign-born.¹³ This reflects the fact that people with exceptional talents are found in all economies and come from all backgrounds (on average, the scores of top performers and average performers tend to be closely aligned across economies).

Chart 3.1. Post-communist economies tend to have strong maths performers relative to their income levels



Source: IMF, OECD PISA and authors' calculations.

Note: Simple averages of maths scores by economy across PISA waves (2012–2022). China and Azerbaijan not shown as samples cover major urban areas only. GDP per capita at market exchange rates as of 2024. Logarithmic trend line shown.

⁹ See European Commission (2025).

¹⁰ See OECD (2023).

¹¹ Post-communist economies in this analysis comprise Albania, Bulgaria, Bosnia and Herzegovina, Belarus, Czechia, Estonia, Georgia, Croatia, Hungary, Kazakhstan, Kosovo, Lithuania, Latvia, Moldova, North Macedonia, Montenegro, Mongolia, Poland, Romania, Russia, Serbia, Slovak Republic, Slovenia, Ukraine, Uzbekistan. Advanced economies comprise Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Korea, Liechtenstein, Luxembourg, Macao SAR, Malta, Netherlands, New Zealand, Norway, Portugal,

Singapore, Spain, Sweden, Switzerland, Taipei China, United Kingdom, United States. Other emerging market economies comprise: Argentina, Brazil, Brunei Darussalam, Cambodia, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Indonesia, Jamaica, Jordan, Lebanon, Malaysia, Mexico, Morocco, Panama, Paraguay, Peru, Philippines, Qatar, Saudi Arabia, Thailand, Trinidad and Tobago, Tunisia, Türkiye, United Arab Emirates, Uruguay, Vietnam.

¹² See also EBRD (2018) and Byrne and Plekhanov (2021) for a discussion.

¹³ See Strebulaev (2024).

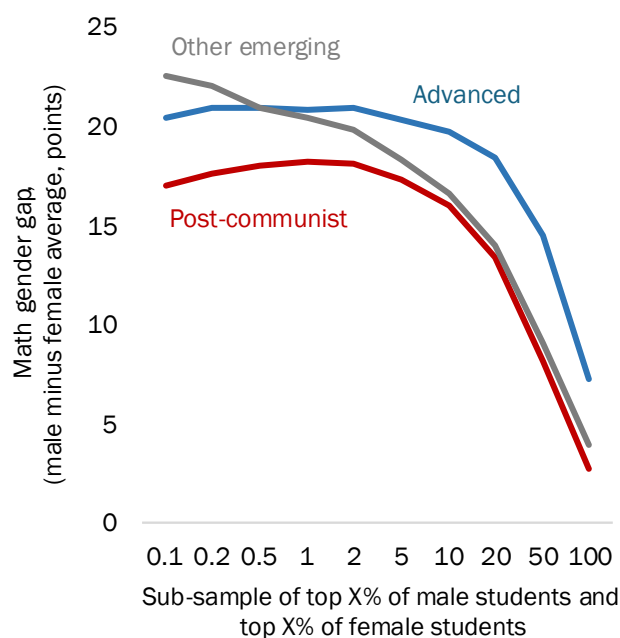
Missing Einsteins?

At the same time, women and students from disadvantaged socio-economic background often feel discouraged from pursuing STEM studies, resulting in extraordinary talent being missed. A recent study estimates that innovation in the US could be four times higher if women, minorities, and low-income individuals had the same economic opportunities as high-income men.¹⁴ Such innovators are sometimes referred to as “missing Einsteins”.¹⁵

Smaller gender gaps among top performers in post-communist economies

Overall gender gaps in maths performance persist. In OECD PISA tests, male students outperform female students on average both in advanced economies and in emerging markets, although the gaps in emerging markets tend to be narrower (see Chart 3.2). Cultural norms and institutional factors all play a role in shaping gender gaps in mathematics across economies.¹⁶

Chart 3.2. The gender gap in maths performance tends to be narrower in post-communist economies



Source: OECD PISA and authors' calculations.

Note: The calculations are based on simple averages of maths scores by economy across PISA waves (2012–2022). The chart compares the average score of, say, top 2 per cent of male

students and that of the top 2 per cent of female students for each economy and year separately and plots the average difference across all economies and years. This is repeated for each top percentile of male and female students. The 100th percentile represents the full sample.

While the average gaps across all students are relatively small, they widen sharply for the top performers, those that potentially account for the bulk of innovation.¹⁷ The widening of the gap becomes particularly pronounced around the top 2nd percentile (the chart compares, for instance, the average score of the top 2 per cent male students with that of the top 2 per cent female students). In emerging markets, the gender gap keeps rising at the very top (that is, it becomes larger still for the top 0.1 per cent).

In post-communist economies in Emerging Europe and Central Asia, on the other hand, the gender gap among top performers does not widen as much and is 15-20 per cent narrower than the one observed in advanced economies (see the left side of Chart 3.2). In other emerging markets the gap among the top performers, if anything, becomes larger than in advanced economies, although the differences lose statistical significance as samples become exceedingly small.

Another way of seeing this trend is to focus on the share of female students among the top two per cent performers in each economy (see Chart 3.3). For instance, in Mongolia or Bulgaria, female students account for around two-fifths of the top 2 per cent of students, compared with the average of around one third in the G7 economies. These patterns are explored further in the regression analysis using pooled PISA data from four survey waves (2012, 2015, 2018 and 2022) covering the performance of 2.1 million randomly selected students aged 15-16.

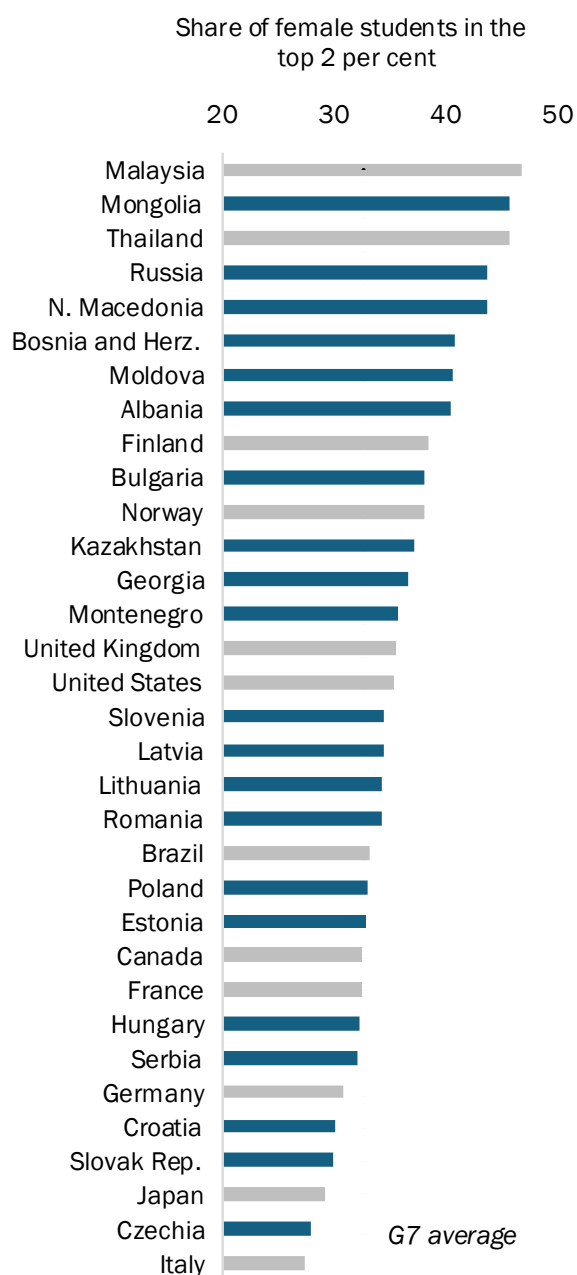
¹⁴ See Linke (2018).

¹⁵ See Bell et al. (2018).

¹⁶ See, for instance, Anghel et al. (2020), Guiso et al (2008), Alesina and Fuchs-Schündeln (2007), Nollenberger et al (2016).

¹⁷ See Bell et al. (2018), Linke (2018).

Chart 3.3. Higher shares of female students among top maths performers in post-communist economies in emerging Europe and Central Asia



Source: OECD PISA and authors' calculations.

Note: G7 economies comprise Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

The analysis links individual mathematics scores (a simple average across plausible values for each individual) to an index of socio-economic characteristics of each individual (measured by the PISA ESCS index), a gender dummy, other individual characteristics (such as being older or younger than the average student in the cohort) and interaction terms between gender and country group indicators (post-communist economies in emerging Europe and Central Asia) as well as a full set of country-year fixed effects. This difference-in-difference identification focuses on the within-country-year comparisons between female and male students and the differences in these differences between post-communist economies and others (advanced economies and other emerging markets), the base group in the analysis. Standard errors are clustered at the economy level. The results are presented in Table 3.1.

In the full sample, the gender gap in maths in advanced and other emerging economies is around 6 points (6 per cent of a standard deviation), more than tripling, to 21 points, for the top 2 per cent. As expected, students from stronger socio-economic background tend to do better.

In post-communist economies, the gender gap is around half the size of that in other economies (the gap corresponds to the sum of coefficients on the female dummy variable and the interaction term between the female dummy variable and post-communist economies). This differential in the size of the gender gap between post-communist economies and others is also observed among the top performers, in line with the evidence presented in the earlier chart (as the samples become exceedingly small, the coefficient on the interaction term loses statistical significance but remains similar in magnitude).

These results suggest that in post-communist economies the legacies of higher female labour force participation and more egalitarian norms in STEM-related fields continue to shape educational outcomes, an important source of potential comparative advantage in the modern economy.

Table 3.1. Narrower gender gap among top performers in maths in post-communist economies in emerging Europe and Central Asia: Regression analysis

	Sub-samples of top scorers									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Top x% sample	All	0.1	0.2	0.5	1	2	5	10	20	50
Dependent variable: Average math score										
Female	-5.884*** (1.331)	-21.487*** (1.330)	-21.438*** (1.086)	-21.036*** (0.862)	-20.853*** (0.808)	-20.735*** (0.836)	-19.898*** (0.878)	-18.901*** (0.952)	-17.099*** (1.053)	-12.734*** (1.204)
Female × Post-communist	3.080** (1.623)	3.876 (2.552)	3.435 (2.215)	2.824 (1.875)	2.397 (1.693)	2.258 (1.516)	2.127 (1.388)	2.484* (1.373)	2.921** (1.430)	3.801** (1.570)
Socio-economic status index (ESCS)	31.284*** (1.002)	0.735 (0.581)	1.516*** (0.419)	1.912*** (0.255)	2.709*** (0.257)	3.452*** (0.273)	4.865*** (0.321)	6.249*** (0.336)	8.578*** (0.424)	14.810*** (0.591)
Country × year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,106,424	2,440	4,591	11,051	21,810	43,309	107,664	214,641	427,621	1,062,712
Economies	98	98	98	98	98	98	98	98	98	98
R ²	0.40	0.93	0.92	0.90	0.89	0.87	0.84	0.80	0.75	0.62
Within R ²	0.14	0.31	0.28	0.24	0.21	0.18	0.14	0.11	0.09	0.09

Source: OECD PISA and authors' calculations.

Note: Based on the 2012, 2015, 2018 and 2022 waves of the PISA survey. Robust standard errors in parentheses are clustered at the country level. *, **, *** denote statistical significance at the 10 per cent, 5 per cent and 1 per cent levels, respectively. Each column represents the results of a regression linking student-level maths score (a simple average of plausible values) to student characteristics (including age and age squared) as well as country-year fixed effects in a subsample of the top X per cent of girls and top X per cent of boys in each country-year pair (for example, the top 2 per cent).

Regional updates

Central Asia

Economic activity in Central Asia remained resilient in early 2026, but showed signs of gradual moderation. Strong domestic consumption and investment continued to support growth, with the services sector emerging as a key driver alongside construction and manufacturing. Inflation dynamics diverged across countries. Price pressures intensified in the Kyrgyz Republic and Mongolia, and remained elevated in Kazakhstan. They eased towards target levels in Uzbekistan and remained subdued in Tajikistan. Progress on fiscal consolidation in some areas has been offset by quasi-fiscal activity and rising social and infrastructure spending. Downside risks have intensified recently, driven by energy price volatility, supply-chain disruptions, economic sanctions and slower growth in Russia and China. At the same time, external buffers remain broadly adequate, helping cushion potential shocks. Overall, growth prospects remain robust, but are increasingly dependent on the pace of domestic reforms and diversification efforts to strengthen resilience to external shocks.

Kazakhstan

Economic growth moderated to 3.0 per cent year on year in the first quarter of 2026 from 5.6 per cent a year earlier, as oil sector disruptions weighed on output. Construction, transportation and manufacturing sustained their momentum. Mining contracted by 11.4 per cent year on year following disruptions to the Caspian Pipeline Consortium (CPC) pipeline and an incident at the Tengiz oil field, with a recovery expected by the end of the year. Fixed capital investment expanded by 6.4 per cent year on year in the first quarter, with notable gains in manufacturing and energy supply. Household consumption softened as consumer credit growth decelerated (to 17 per cent year on year in April) and real wages declined. Inflation slowed to 10.6 per cent year on year in April 2026, supported by tenge appreciation and tighter liquidity conditions on account of higher reserve requirements set by the National Bank of Kazakhstan. While fiscal consolidation is expected under the new tax and budget codes that entered into force this year, quasi fiscal activity has continued to expand, leaving the overall fiscal stance loose. Public and publicly guaranteed debt reached almost 25 per cent of 2025 GDP in March 2026. International reserves, including National Fund assets, amounted to around 42 per cent of 2025 GDP as of March, providing a meaningful buffer against external shocks. Growth is projected to moderate to 4.7 per cent in 2026 and 4.5 per cent in 2027. Key risks include oil price

volatility, further disruptions to CPC and other oil export routes, and slowdowns in China and Russia.

Kyrgyz Republic

Real GDP continued to expand rapidly in 2026, growing by 10.1 per cent year on year in the first quarter of 2026, driven by industry, construction and trade. Fixed capital investment rose by 25.5 per cent year on year, reflecting strong investment in infrastructure, energy and housing. Private consumption remained robust, supported by elevated household credit growth and rising real wages (up 5.6 per cent year on year in the first two months of the year). Remittance inflows fell by 3.7 per cent year on year in January-February, likely reflecting stricter migration rules in Russia. Inflation accelerated to 11.0 per cent year on year in March 2026, driven mainly by higher food prices. A global energy price shock has already led to significant increases in diesel and AI-92 gasoline import prices, indicating that inflationary pressures may intensify further. The National Bank of the Kyrgyz Republic kept the policy rate unchanged at 12 per cent in April 2026, following a 100 basis-point increase in February. The trade deficit remained broadly stable, while international reserves increased 60 per cent year on year to US\$ 8.7 billion in March, providing around seven months of import cover. Strong economic growth is expected to continue in the short term, with real GDP growth moderating to 8.7 per cent in 2026 and 7.0 per cent in 2027. The dominant near-term risk is the EU's 20th sanctions package, adopted in late April 2026, which restricts dual-use goods exports to the Kyrgyz Republic and tightens controls on the financial and logistics sectors, thus weighing on economic activity. Higher energy prices and a potential economic slowdown in Russia create additional downside risks.

Mongolia

Economic growth accelerated to 6.8 per cent in 2025, supported by a recovery in agriculture and robust mining activity, and this momentum has carried on into 2026. Industrial output expanded by 61.2 per cent year on year in the first quarter, driven by a large rebound in the extraction of coal (up 68.7 per cent year on year) and copper (up 36.4 per cent year on year) following weak performance in early 2025. Private consumption remained resilient, partly supported by consumer lending growth of 16.5 per cent year on year in March 2026. Inflation accelerated to 10.1 per cent year on year in April 2026, driven by rising food prices, particularly for meat, and higher transportation costs as a result of spillover effects from the conflict in the Middle East. The fiscal position has deteriorated in 2026, with the fiscal deficit widening significantly in the first

quarter, as expenditures rose 17.9 per cent year on year on construction works, public sector wages and social benefits in advance of the upcoming elections. Strong mining output and surging copper prices boosted export receipts by 62 per cent year on year, widening the trade surplus. International reserves reached a record US\$ 7.2 billion in March 2026, up nearly 44 per cent on the year. Real GDP growth is projected to ease to 5.5 per cent in 2026 and 2027. The main downside risks include a slowdown in China's economic activity, driven by higher energy costs linked to the conflict in the Middle East, as well as rising fuel prices.

Tajikistan

Tajikistan's economy grew by an estimated 8 per cent year on year in the first quarter of 2026, driven by expansions in trade, transport and communication, alongside strong manufacturing activity (up 29.6 per cent year on year) and higher electricity generation (up 7.5 per cent year on year). In contrast, mining output contracted by 9.8 per cent year on year. On the expenditure side, rising employment and nominal wages translated into real income gains, while fixed capital investment expanded by 34.2 per cent year on year, reflecting in part strong public spending commitments, including on the Roghun hydropower project. On the external side, imports rose 16.6 per cent, supported by robust domestic demand, while exports remained broadly flat. In February 2026, the National Bank of Tajikistan cut its policy rate by 50 basis points to 7 per cent amid low inflation, which stood at 3.4 per cent year on year in March. The fiscal surplus was maintained last year, underpinned by elevated tax receipts, though social security and energy spending continued to increase. In March 2026, Moody's upgraded Tajikistan's sovereign credit ranking by one notch to B2 with a stable outlook, citing continued economic resilience and improved fiscal management. Growth is forecast to ease to 7.9 per cent in 2026 and 7 per cent in 2027. The key vulnerability remains the economy's dependence on Russia, where a slowdown would compress the remittance inflows that underpin household income. Rising inflationary pressures linked to the conflict in the Middle East present an additional downside risk.

Turkmenistan

Turkmenistan's economy grew by 6.3 per cent year on year in the first quarter of 2026, according to official estimates. The oil and gas sector exceeded planned extraction and processing volumes, while overall industrial output grew more modestly, at 2.4 per cent year on year. Construction was supported by strong public investment and the

continued implementation of large infrastructure projects. Though budget revenues continued to exceed target levels in early 2026, the absence of pension and social-transfer indexation – a departure from previous years – signalled a tighter fiscal stance. Inflationary pressures are likely to intensify amid the ongoing conflict in the Middle East. Although bilateral trade with Iran remains limited, Turkmenistan's imports are predominantly food products, amplifying price and supply risks from the disruptions. On the structural front, the authorities have launched the fourth phase of the Galkynysh gas field expansion, which is expected to provide additional support to economic activity in the medium term. Nevertheless, Turkmenistan's gas exports remain highly concentrated on the Chinese market, leaving the economy vulnerable to fluctuations in Chinese demand. The economy is forecast to grow by 6.3 per cent in both 2026 and 2027, with potential upside from higher investment activity and gas field expansion.

Uzbekistan

Economic momentum strengthened in early 2026, with real GDP expanding by 8.7 per cent year on year in the first quarter. Broad-based growth was consumer led. Rising remittances and strong wage growth fuelled a service sector expansion. Industry and construction added further momentum, expanding by 8 per cent and 15.5 per cent year on year, respectively. Inflation eased to 7.0 per cent year on year in April 2026, but inflationary risks remain elevated as supply-chain disruptions continue to push up logistics, food and energy costs, prompting the central bank to maintain the policy rate at 14 per cent. To contain excessive volatility in food prices, the authorities introduced temporary subsidies covering up to 50 per cent of air transportation costs for imports of selected meat products and cattle. Import growth remained strong, while exports declined by nearly 30 per cent year on year following the suspension of gold exports. International reserves edged down slightly in March 2026 on declining gold prices, to US\$ 69 billion, providing a strong buffer of around 16 months of imports cover. The economy is forecast to grow by 6.5 per cent in 2026 and 6.0 per cent in 2027. Upside potential could stem from faster-than-expected progress on privatisation, while downside risks are mainly associated with an economic slowdown in Russia and inflationary spillovers from the conflict in the Middle East.

Central Europe and the Baltic states

Growth in Central Europe and the Baltic states (CEB) is projected to pick up from 2.6 per cent in 2025 to around 2.8 per cent in 2026, before stabilising at 2.5 per cent in 2027. This is a downward revision of 0.1 percentage point for 2026

compared with the February Regional Economic Prospects forecast, reflecting the energy shock from the conflict in the Middle East.¹⁸ Private consumption remains a key growth driver, although real wage gains are moderating. Public investment has been supported by peak absorption of Recovery and Resilience Facility (RRF) funds ahead of the end-August 2026 deadline, while defence outlays from national budgets have risen sharply. Poland and the Baltic states are targeting defence outlays of 5 per cent or more of GDP, with Latvia becoming the first North Atlantic Treaty Organization (NATO) member to legislate a 5 per cent floor from 2027. The energy shock has fed through unevenly, with Lithuania most exposed due to gas-fired electricity generation, while Estonia and Latvia are partly insulated by the Nordic-Baltic regional electricity market. Fiscal positions are under pressure across the region. Downside risks to the outlook include a prolonged conflict in the Middle East, renewed Druzhba pipeline disruption affecting Hungary and the Slovak Republic, and slippages in the utilisation of RRF funds. Faster reactivation of frozen EU funds in Hungary following the recent election is a potential upside.

Croatia

Real GDP growth decelerated to 3.4 per cent in 2025 from 3.8 per cent in 2024, driven by resilient, albeit moderating, private consumption, which was supported by robust real wage growth. Inflation accelerated to 4.4 per cent in 2025, fuelled by food and energy, as well as persistent services price pressures, and rose further to 4.6 per cent in March 2026 as energy prices surged by 10.8 per cent year on year. Export growth moderated as the services surplus narrowed further to around 16 per cent of GDP from a peak of nearly 21 per cent in 2022. Investment remained robust, bolstered by high absorption of RRF funds and higher net foreign direct investment (FDI). Croatia remains a front-runner in the EU when it comes to RRF absorption, having received 73 per cent of its allocation as of March 2026. Increased spending on public-sector wages and social benefits pushed the 2025 general government deficit to 3 per cent of GDP. In March 2026, the government adopted a €450 million package of measures covering fuel price caps, an electricity price freeze for six months and support for energy resilience and decarbonisation. The growth forecast of 2.7 per cent in 2026 is unchanged, with stronger downside risks linked to rising inflation. Investment will be supported by defence spending and the push to absorb the remaining RRF funds. In 2027, growth is

forecast to moderate further to 2.5 per cent as the RRF cycle expires.

Estonia

The economy returned to growth in 2025 after three years of recession, with real GDP growth of 0.6 per cent. This was supported by a recovery in services exports, while stable demand from Nordic trading partners helped to offset weak demand from the German economy. The energy shock stemming from the conflict in the Middle East has been muted by Estonia's participation in the Nordic-Baltic regional electricity market, where hydro, nuclear and wind generation dominate, giving Estonia substantial protection from higher gas prices. Defence spending was stepped up to 5 per cent of GDP in 2026, the highest in NATO, while the introduction of a uniform €700 monthly tax-free income threshold replaced the previously planned personal income tax increase. The general government deficit in 2025, at 1.3 per cent of GDP, was smaller than projected. It is expected to widen sharply to 4.5 per cent in 2026, reflecting higher defence spending and tax measures. Public debt remains the lowest in the EU, at 24 per cent of GDP, providing for substantial fiscal headroom. Growth is forecast at 2.1 per cent in 2026 and 2.3 per cent in 2027. Economic activity will remain supported by Rail Baltica construction, a 32 per cent rise in nationally financed public investment, and real wage growth. Risks are skewed to the downside, stemming from the possibility of a prolonged conflict in the Middle East, weaker euro area demand and possible delays in the Rail Baltica project.

Hungary

Last year was the third consecutive year of near stagnation for Hungary, with real GDP expanding 0.5 per cent. Export-oriented industries were held back by delays at new battery and electric vehicle plants, notably the CATL facility in Debrecen, where mass production is starting in the first half of 2026. The three-month outage of the Druzhba pipeline affected Russian crude oil deliveries. While flows resumed on 23 April 2026, the episode underlined Hungary's continued dependence on Russian energy. Parliamentary elections on 12 April 2026 delivered a landslide victory for Péter Magyar's Tisza party, ending 16 years of Fidesz rule and giving the new pro-European government a two-thirds parliamentary majority. At 4.7 per cent of GDP, the general government deficit exceeded the target by 1 percentage point in 2025, and the European Commission expects it to widen further in 2026, while the

¹⁸ Czechia is no longer included in the CEB average, as the EBRD's temporary mandate to operate there ended in March 2026.

incoming government is expected to revise fiscal plans by mid-2026. Public debt currently stands at 75 per cent of GDP. Real GDP growth is forecast at 1.8 per cent in 2026 and 2.5 per cent in 2027, as EU-funded investment is expected to accelerate following the elections. The new government's priority is reactivating around 9 per cent of GDP in frozen cohesion funds and salvaging the RRF allocations of around 5 per cent of GDP before the end-August 2026 deadline. Success on these fronts could lower borrowing costs (the 10-year sovereign yield in late April 2026 stood around 6.2 per cent, against 2.5 per cent on comparable German Bunds) and boost growth by close to a percentage point, according to European Commission estimates. Risks are tilted to the downside, reflecting potential spillovers from a prolonged conflict in the Middle East and slower-than-expected reactivation of EU funds.

Latvia

Growth accelerated to 2.1 per cent in 2025, supported by strong investment and a recovery in consumption and service exports. Wage growth outpaced productivity, with compensation per employee rising by 8 per cent in 2025. This growth momentum carried into 2026, with economic sentiment moving into expansionary territory for the first time since 2022. The Middle East energy shock is mitigated by Latvia's participation in the Nordic-Baltic regional electricity market, dominated by Nordic hydro, nuclear and wind generation, which decouples local power prices from the global gas markets. On 26 March 2026, parliament enshrined in law a minimum defence spending threshold of 5 per cent of GDP from 2027. At 2.5 per cent of GDP, the general government deficit in 2025 was smaller than projected. The October 2025 draft budgetary plan sees the deficit widening to 3.6 per cent of GDP in the medium term under the EU national escape clause for defence. Public debt is projected to rise from the current 47 per cent of GDP towards 55 per cent by 2027. Real GDP growth is forecast at 2.0 per cent in 2026 and 2.3 per cent in 2027, supported by EU fund absorption, Rail Baltica construction and rising real wages. Risks are tilted to the downside and stem from the possibility of a prolonged conflict in the Middle East, Rail Baltica delays, and difficulties at airBaltic, where part of the fleet has been grounded by Pratt & Whitney engine issues, prompting a €30 million state loan to the airline in April 2026.

Lithuania

Lithuania recorded the strongest economic performance of the Baltic states in 2025, with real GDP expanding 2.9 per cent on the back of rising real wages and a recovery in investment. The country is more exposed to global gas

markets than its Baltic neighbours; a substantial share of its electricity is generated from gas and supplied through the Klaipėda liquefied natural gas (LNG) terminal. This exposure has amplified the pass-through of the Middle East energy shock, pushing harmonized index of consumer prices (HICP) inflation to a near three-year high of 4.9 per cent as at April 2026. Two policy shifts are shaping the 2026 outlook. The second-pillar pension system is becoming voluntary, with withdrawals expected to inject around €1.2 billion into household spending, while defence spending is rising to 5.4 per cent of GDP. Although the general government deficit, at 1.8 per cent of GDP in 2025, is set to rise significantly in 2026 once off-balance-sheet military equipment acquisitions are taken into account, public debt remains relatively low, at 39.5 per cent of GDP. Real GDP growth is forecast at 3.0 per cent in 2026 and 2.2 per cent in 2027, with inflation easing by 2027 as the energy shock fades. The moderation of growth in 2027 reflects the unwinding of the fiscal impulse on the back of pension withdrawals. Downside risks relate to the conflict in the Middle East and persistent wage pressures weighing on competitiveness.

Poland

Real GDP expanded by 3.6 per cent in 2025, supported by real wage gains in a tight labour market and EU-funded investment. Growth momentum slowed in the first quarter of 2026, despite strong credit demand and a pick-up in corporate investment lending as firms gear up for the implementation of projects co-financed by the EU. Wage growth in 2025 outpaced HICP inflation of around 4 per cent. To limit the pass-through from the Middle East energy shock, the government capped retail fuel prices and cut fuel value-added tax (VAT) from 23 per cent to 8 per cent on 31 March 2026, at an estimated cost of less than 0.4 per cent of GDP in 2026. In 2025, the general government deficit reached 7.3 per cent of GDP, the second-highest level in the EU. The Ministry of Finance projects a modest narrowing of the deficit to 6.8 per cent of GDP in 2026, with public debt rising from 60 per cent to 65 per cent of GDP. The country remains under the EU's excessive deficit procedure, with no clear path to compliance before 2028. Real GDP growth is forecast at 3.5 per cent in 2026 and 2.8 per cent in 2027. Economic activity is expected to be supported by peak absorption of RRF funds before the end-August 2026 deadline and by defence spending rising to 4.8 per cent of GDP. Poland's €43.7 billion allocation under the EU Security Action for Europe (SAFE) defence loan instrument is the largest in the EU; a presidential veto on the enabling legislation is being addressed by channelling proceeds through an armed forces fund. Risks relate to a

possible escalation of the conflict in the Middle East and weaker euro-area demand.

Slovak Republic

Fiscal consolidation worth around 2 per cent of GDP – including a 3 percentage-point VAT hike, a financial transactions tax and higher corporate levies – weighed on consumption and private investment in 2025, containing growth to 0.8 per cent for the year. GDP growth was around 0.9 per cent year on year in the first quarter of 2026. The opening of Volvo's electric vehicle plant near Košice has been delayed to early 2027. The automotive sector, which accounts for around half of industrial output, was also hit by the 15 per cent US tariff imposed on imports of EU vehicles. Russian crude oil resumed flowing through the Druzhba pipeline on 23 April 2026 after a three-month outage following a Russian strike on Ukrainian energy infrastructure. The government targets a reduction in the general government deficit from 4.5 per cent of GDP in 2025 to 4.1 per cent in 2026, which the independent Council for Budget Responsibility considers optimistic. Peak absorption of RRF funds before the end-August 2026 deadline is anchoring public investment, although fewer than half of the requisite payment milestones had been met by February 2026. Public debt stands at 61 per cent of GDP. Real GDP growth is forecast at 0.5 per cent in 2026, amid inflation close to 4 per cent, as domestic demand contracts further while foreign trade and public investment make positive contributions. Growth is expected to pick up to 1.5 per cent in 2027 as the Volvo plant starts production. Risks stem from a prolonged conflict in the Middle East, which would exacerbate energy price pressures. RRF slippages could adversely impact public investment, while any renewed Druzhba disruption would constrain refinery output.

Slovenia

The economy grew 1.1 per cent in 2025, as private consumption and investment rebounded in the second half of the year. Industrial production and exports were weighed down by global trade uncertainty and weak external demand from key trading partners. Processing activities in the pharmaceutical industry were frontloaded ahead of the US tariffs announced in April 2025. Inflation averaged 2.5 per cent for the year, while wages rose by 6 per cent, reflecting a major public sector wage reform. The general government deficit widened to 2.5 per cent of GDP in 2025, driven by higher public sector wage bills and continued post-flood reconstruction spending. Real GDP growth is expected at 2.0 per cent in 2026 and 2.2 per cent in 2027, supported by the absorption of RRF funds and a

projected drop in the household savings rate. On the downside, persistently weak foreign demand weighs on the outlook for Slovenia's export-oriented economy, while higher inflation could dent consumer confidence.

Eastern Europe and the Caucasus

Economic performance in eastern Europe and the Caucasus remained uneven in 2025 and early 2026. Under wartime conditions, Ukraine preserved macroeconomic stability, underpinned by substantial international financing, but growth was constrained by Russia's attacks on energy infrastructure, labour shortages and inflation risks linked to the Middle East crisis. The Moldovan economy has been expanding modestly, but now faces renewed inflationary and growth risks from energy shocks, though the impact will be partly mitigated by EU support. Armenia and Georgia continued to record strong growth, with construction, information and communications technology (ICT) and financial services expanding briskly in Armenia and the services sector booming in Georgia. Inflationary pressures have re-emerged in both economies, with price growth exceeding central bank targets. Azerbaijan's economy has lost momentum in the past year, with declining hydrocarbon output pushing the economy into contraction in early 2026. In Ukraine and Moldova, the outlook is uncertain, tied to the duration of the war, external financing, energy security and reconstruction needs. In the Caucasus, the outlook depends primarily on regional security conditions, energy price developments, and progress on peace and regional connectivity.

Armenia

Real GDP expanded by 7.2 per cent year on year in 2025, with a broad-based expansion led by construction, ICT and financial services, all of which posted double-digit growth. This momentum carried over into 2026, with growth of 7.1 per cent year on year in the first quarter. Headline inflation, which averaged 3.3 per cent in 2025, rose to 5.3 per cent year on year in April 2026, exceeding the central bank's target of 3.0 per cent. The fiscal deficit stood at 3.7 per cent of GDP in 2025, unchanged from 2024, while public debt had stabilised at 49.5 per cent of GDP as at year end. While the current account deficit widened from 4.6 per cent of GDP in 2024 to 7.2 per cent of GDP in 2025 as trade in precious stones and metals declined significantly, the Armenian dram remained broadly stable. Gross international reserves increased to US\$ 5.7 billion in April 2026 from US\$ 3.9 billion a year earlier, providing four months of import cover. Economic growth is forecast to reach 5.5 per cent in 2026 and 2027. Upside potential stems from a potential border opening with Türkiye, the

Trump Route for International Peace and Prosperity (TRIPP), and enhanced cooperation with the EU. In contrast, economic spillovers from the conflict in the Middle East could weigh on the growth outlook by raising the cost of commodity imports, reducing tourism inflows, and complicating trade and logistics.

Azerbaijan

Real GDP growth slowed to 1.4 per cent in 2025 and output contracted by 0.3 per cent year on year in the first quarter of 2026 as oil and gas sector output fell by 1.2 per cent and non-hydrocarbon growth decelerated to 0.2 per cent. Inflation averaged 5.7 per cent in the first quarter of 2026, near the upper bound of the central bank's target range. The overall fiscal surplus narrowed from 4.1 per cent of GDP in 2024 to an estimated 2.6 per cent in 2025, while public and publicly guaranteed debt remained low, at 28 per cent of GDP at year end. The current account surplus fell from 6.3 per cent in 2024 to 4.6 per cent of GDP in 2025. Against this backdrop, the combined foreign assets of the central bank and the state oil fund (SOFAZ) continued to grow, reaching 112 per cent of GDP in 2025. Real GDP growth is forecast to pick up to 2.0 per cent in 2026 and 2.5 per cent in 2027 following a weak economic performance at the beginning of 2026. The growth outlook remains sensitive to hydrocarbon prices and production volumes. Increases in global energy prices triggered by the conflict in the Middle East could generate a revenue windfall for Azerbaijan and support growth-enhancing spending and investment, counteracting negative spillovers from the conflict. In addition, regional connectivity and trade initiatives enabled by the US-brokered peace framework with Armenia as well as continued large-scale investment in renewables may boost growth and economic diversification in the medium term.

Georgia

Georgia's real GDP grew by 7.5 per cent in 2025, led by services, as tourism remained an important driver of economic performance. Income from inbound travel was equivalent to 12.3 per cent of GDP in 2025, though growth in the sector was nearly flat in the first quarter of 2026. On the demand side, private consumption was underpinned by solid real wage growth and strong credit expansion, while capital investment contracted for the first time since 2021. Growth accelerated further to an estimated 9.1 per cent year on year in the first quarter of 2026. Inflation has exceeded the National Bank of Georgia's 3.0 per cent target since March 2025, reaching 5.9 per cent year on year in April 2026. The fiscal deficit narrowed from 2.3 per cent in 2024 to 1.4 per cent of GDP in 2025 on the back of robust

revenue growth and under-execution of capital spending. The public debt-to-GDP ratio fell to 34.4 per cent in 2025, supported by strong nominal GDP growth and a stable exchange rate. The current account deficit declined from 5.3 per cent in 2024 to an historical low of 2.6 per cent of GDP in 2025. Gross international reserves increased to US\$ 6.5 billion in April 2026, providing around four months of import cover. Real GDP is forecast to grow by 6.0 per cent in 2026 and 5.0 per cent in 2027. The implementation of flagship investment projects in the real estate, transport and renewables sectors could foster even higher growth. However, the conflict in the Middle East may damp economic momentum by way of lower tourism revenues and higher costs for imported energy.

Moldova

Real GDP expanded 2.4 per cent in 2025, supported by a strong performance from agriculture, construction and ICT, alongside robust investment. Net exports declined markedly, however, as imports surged, widening the current account deficit. The conflict in the Middle East caused another energy shock for Moldova, which may lead to a resurgence of inflation and weaken economic growth. The authorities have introduced a state of high readiness in the energy sector, effective for 60 days from the end of April 2026, to ensure a prompt response to the persistent damage to electricity lines from Romania and instability in the Middle East. After falling to 4.9 per cent in December 2025, inflation rose again to 5.8 per cent in March 2026. Fiscal policy remains accommodative, with the budget deficit projected to widen from 4.0 per cent of GDP in 2025 to 4.8 per cent in 2026 amidst higher public investment and energy-related spending, largely financed by external concessional support. EU financial support for energy security has been maintained in early 2026 and is likely to continue playing a critical stabilising role. Growth is projected at 2.8 per cent in 2026 and 3.5 per cent in 2027. Risks stemming from global energy price volatility linked to the conflict in the Middle East and weak external demand remain significant.

Ukraine

Ukraine has preserved macroeconomic stability in the past year thanks to large, frontloaded external financing, despite Russia's war of aggression persisting for a fifth year. Real GDP growth slowed to 1.8 per cent in 2025, as the economy was constrained by labour shortages and frequent disruptions to electricity supply and logistics owing to targeted Russian military attacks. After declining to 7.4 per cent in January 2026, inflation has been rising again since the start of the Middle East conflict. Higher

energy costs threaten to widen the already large external financing gap weighing on economic growth. The fiscal deficit, excluding grants, stood at 23.6 per cent of GDP in 2025 and is projected to remain large in 2026, at 19.3 per cent, reflecting the country's extraordinarily high defence and social spending, financed predominantly by external official support under the recently approved International Monetary Fund (IMF)-supported programme and EU assistance. The IMF-backed programme, which envisages US\$ 133.7 billion in official financing for 2026-29, and the unblocking of the EU €90 billion Ukraine Support Loan, underpin the near-term outlook. Growth is projected at 2.2 per cent in 2026, rising to 4.0 per cent in 2027 if the war can be brought to a halt and if post-war reconstruction begins. A major downside risk comes from the energy crisis caused by the conflict in the Middle East, which could significantly aggravate Ukraine's fragile energy situation.

South-eastern EU

Growth in the south-eastern EU region moderated in 2025, reflecting divergent demand dynamics and fiscal positions in Bulgaria and Romania. Bulgaria recorded robust expansion driven by rapid wage growth and buoyant household credit, though widening fiscal and current account deficits point to emerging imbalances. Growth is expected to ease in 2026 as real wage gains cool and fiscal space tightens, with investment anchored by RRF absorption and improved confidence following political stabilisation. Romania, in contrast, experienced a sharp slowdown last year as high inflation, fiscal consolidation and falling real wages constrained consumption, partially offset by public investment and a modest improvement in net exports. Ongoing fiscal consolidation, accelerating inflation, weak external demand and political uncertainty weigh on the outlook in the short term, though these factors will be partly offset by EU-funded investment and lower imports.

Bulgaria

Real GDP growth reached 3.1 per cent in 2025, despite lower energy exports and a contraction in the manufacturing sector, as domestic consumption was boosted by nominal wage growth of 12 per cent, a decline in the unemployment rate to 3.5 per cent, and household credit expansion of 21 per cent year on year. The current account deficit widened to almost 3 per cent of GDP in 2025, while HICP inflation averaged 3.5 per cent. The general government deficit widened to approximately 3.5 per cent of GDP in 2025, fuelled by higher pensions, social transfers and defence investments, leading to a 6 percentage-point increase in the public debt ratio to 30 per cent of GDP. Growth is projected to moderate to 2.7 per

cent in 2026 and 2.5 per cent in 2027. Economic activity will be supported by ongoing RRF-driven investment and improved investor confidence following euro adoption and the establishment of a new government, which are expected to provide more clarity on the reform path and fiscal policy. At the same time, cooling wage growth and tighter fiscal constraints weigh on the outlook.

Romania

At 0.7 per cent, 2025 economic growth was broadly in line with that of 2024, though the composition of growth changed. Private consumption almost stagnated as real wage growth dropped from 8 per cent in 2024 to a contraction of 5 per cent from mid-2025. Government spending fell by 11 per cent year on year in the last quarter of 2025, weighing on the annual growth figure. In contrast, public investment totalled 7 per cent of GDP and net exports expanded on the back of higher exports of capital and intermediate goods. Inflation accelerated sharply in the second half of the year to around 9.5 per cent following the July 2025 removal of electricity price caps implemented alongside VAT and excise duty hikes. In April 2026, inflation picked up again to almost 11 per cent on higher energy prices. Consequently, the National Bank of Romania held its policy rate at 6.5 per cent through early 2026. The general government deficit narrowed from 9.3 per cent of GDP in 2024 to 7.9 per cent in 2025 and is projected to decline to 6.2 per cent in 2026. Following a contraction in the first quarter of 2026 on declines in household consumption and industrial production, GDP growth forecasts have been revised down to a contraction of 0.2 per cent in 2026 and 1.8 per cent growth in 2027. While consumer spending will remain constrained by ongoing fiscal adjustments and elevated inflation, investments could support growth, contingent on RRF absorption and a recovery in business confidence. Downside risks remain tied to potential deviations from the long-term fiscal consolidation path (any deviation would only provide short-term relief), volatile international trade and prolonged political uncertainty.

Southern and eastern Mediterranean

Economic performance across the southern and eastern Mediterranean region improved in 2025, with solid growth in Egypt and Morocco, partial recovery in Lebanon and continued, if modest, growth in Jordan and Tunisia. In Iraq, however, real GDP contracted as oil production caps weighed on exports and non-oil growth remained subdued. Tourism receipts provided support to the external accounts in several economies, notably Morocco and Egypt. The conflict in the Middle East has generated significant downside risks to the outlook, with disruptions to commodity markets and supply

chains weighing on growth prospects and fiscal positions, particularly in Iraq, as the closure of the Strait of Hormuz has severely curtailed oil exports. Inflation rose across most economies in the region in early 2026, driven by energy and food price pressures. Growth in the southern and eastern Mediterranean is expected to reach 2.5 per cent in 2026 and 4.2 per cent in 2027, with risks centred primarily on the duration of the conflict in the Middle East and its broader spillover effects, alongside uncertainty surrounding global trade policy.

Egypt

Real GDP grew 5.1 per cent in 2025, up from 3.1 per cent the preceding year, despite the challenging regional environment. Growth was driven by the manufacturing sector (following a contraction in 2022-24), alongside gains in wholesale and retail trade, telecommunications and tourism. The country's oil and gas output has contracted in 14 of the last 15 quarters, increasing Egypt's reliance on imported gas, which now satisfies one-third of domestic demand. After stabilising in the 12-13 per cent range in the second half of 2025, inflation rose to a 10-month high of 15.2 per cent in March 2026 amid rising energy costs and food price pressures linked to the conflict in the Middle East. In April 2026, the Central Bank of Egypt held its policy rate at 19.5 per cent, citing higher regional uncertainty, thereby pausing the cycle of monetary tightening. Egypt has completed six of the eight reviews under its IMF Extended Fund Facility and one of the three reviews under its Resilience and Sustainability Facility, drawing down US\$ 5.2 billion in total disbursements. The government is targeting a budget deficit of 4.9 per cent of GDP in fiscal year (FY) 2027 (ending June 2027) and a primary balance of 5.0 per cent of GDP (debt servicing costs account for a significant share of spending). International reserves, at US\$ 52.8 billion as at March 2026, are at near-record highs, driven in large part by a revaluation of gold reserves amid higher market prices. Growth is expected to reach 4.9 per cent in FY2026 and FY2027 amid high uncertainty as the conflict in the Middle East weighs on investor sentiment and external financing needs.

Iraq

After growing 0.1 per cent in 2024, real GDP contracted by 0.4 per cent in 2025, as caps on oil production in response to weak global demand suppressed exports, while growth in non-oil GDP remained muted. This, in turn, led to a current account deficit of 1.7 per cent of GDP and a fiscal deficit of 6.4 per cent of GDP. Following the closure of the Strait of Hormuz, Iraq has been able to reroute only 12-15 per cent of its oil exports through alternative channels, thereby

losing a significant source of income that normally constitutes more than 90 per cent of export and government revenues. The country's high dependence on Iranian gas for electricity generation is also a notable vulnerability that has resulted in multiple recent cuts in power supply. Inflation turned positive in March 2026, coming in at 2.2 per cent, compared with deflation of 1.2 per cent in December 2025. Iraq entered 2026 with a comfortable level of reserves, covering over 10 months of imports, but a prolonged conflict in the Middle East could exert significant pressure on the economy. Both Standard & Poor's and Moody's recently placed Iraq's long-term credit rating on negative watch. In 2026, the economy is likely to contract further, by 1.5 per cent, as oil production remains low, though Iraq could benefit from higher oil prices in the short term if exports resume. A stronger contraction in 2026 is likely if disruptions persist into the second half of the year. In 2027, growth is expected to recover to 4.0 per cent as oil export capacity is restored. Further risks to the outlook include limited progress on economic diversification as tighter fiscal space constrains public investment.

Jordan

Economic growth picked up from 2.5 per cent in 2024 to 2.8 per cent in 2025, reflecting a recovery in tourism and a resilient export performance, despite elevated global trade policy uncertainty. Inflation edged slightly higher in March 2026, to 1.9 per cent, as global oil prices spiked. After the start of the conflict in the Middle East, Jordan faced temporary disruptions in access to natural gas. That access was swiftly restored and Jordan's fuel reserves enabled it to stave off severe disruptions to economic activity. The country's budget deficit reached 5.2 per cent of GDP in 2025 and gross general government debt (including guarantees) stood at 108 per cent of GDP at the end of 2025. The current account deficit widened to 5.6 per cent of GDP in 2025, due to higher imports. Gross foreign exchange reserves cover over seven months of imports. Growth is expected to slow to 2.6 per cent in 2026 as regional instability weighs on tourism and investment, while trade disruptions and costlier food and energy imports widen external deficits. In 2027, growth is expected to recover to 2.8 per cent provided regional tensions subside. Jordan's high import dependence remains a key vulnerability in an inflationary global environment, while prolonged regional conflict could deter tourism and investment.

Lebanon

Following a 7.5 per cent contraction in 2024, the Lebanese economy grew by an estimated 3.5 per cent in 2025, supported by some recovery in tourism. Despite improved external flows, however, the current account deficit reached 22.5 per cent of GDP in 2025 and the budget deficit widened to 3.3 per cent of GDP as revenue collection remained curtailed. The renewed hostilities with Israel in 2026 have caused further severe damage to Lebanon's economic activity and physical infrastructure, especially in the south of the country, where more than 1.3 million people have been displaced. Coupled with the global energy shock, this pushed inflation to 17.3 per cent in March and raised the cost of running private power generators, as the national network continued to struggle to provide sufficient electricity supply. In 2026, the economy is expected to contract by 2.0 per cent as the implications of the war linger, with growth recovering to 4.0 per cent in 2027, provided peace is achieved. Risks to the outlook include possible military escalation causing further damage to infrastructure, limited traction on reconstruction and delayed progress on the critical economic reforms required to avail of international donor support.

Morocco

Growth picked up from 3.8 per cent in 2024 to 4.6 per cent in 2025. Inflation swung from an average 0.7 per cent rate in 2025 to deflation of 0.1 per cent in the first quarter of 2026 as a result of falling food prices. Citing elevated geopolitical uncertainty, Bank al-Maghrib maintained its policy rate at 2.25 per cent in March 2026, following a cumulative cut of 75 basis points over the preceding 18 months. The government is targeting a fiscal deficit of 3.5 per cent of GDP in 2026, with increased investment spending and social expenditure outlays. The current account deficit doubled in 2025 to 2.4 per cent of GDP, reflecting a wider trade deficit, partly offset by a record 19.8 million tourist arrivals and strong remittances. Official reserves stood at US\$ 49.0 billion in March 2026, equivalent to almost six months of imports. Growth is forecast to reach 4.4 per cent in 2026 and 4.0 per cent in 2027. Downside risks relate to higher commodity prices and global trade policy uncertainty.

Tunisia

Growth accelerated from 1.6 per cent in 2024 to 2.5 per cent in 2025, driven by a continued recovery in agriculture, particularly olive oil and cereal production, and expansion in the mechanical and electrical industries, wholesale and retail trade, and hospitality. The average annual inflation rate fell to 5.4 per cent in 2025 from 7.0 per cent in 2024.

Disinflation slowed in early 2026 due to higher food prices, with inflation averaging 4.9 per cent in January to March. Citing renewed inflation risks, the Central Bank of Tunisia held its policy rate at 7.0 per cent in March 2026, following a 50 basis-point cut in December 2025. The government is aiming for a fiscal deficit of 6.0 per cent of GDP in 2026, a target that will come under pressure from higher international fuel prices. The current account deficit widened from 1.6 per cent of GDP in 2024 to 2.5 per cent of GDP in 2025. International reserves stood at US\$ 8.4 billion in March 2026, equivalent to 3.5 months of imports. Growth is expected to moderate to 2.2 per cent in 2026 and 2027. Downside risks include rising energy and food prices weighing on the external and fiscal accounts amid high global trade policy uncertainty.

Sub-Saharan Africa

Economic performance across the six economies in sub-Saharan Africa remained solid in 2025, supported by continued expansion of the services, agriculture and extractive industries, with hydrocarbons driving growth in Senegal and Nigeria, and cocoa and gold underpinning strong performances in Ghana and Côte d'Ivoire. Fiscal positions improved in most economies, apart from Kenya, which continued to face elevated fiscal and debt-servicing pressures, and Senegal, where the revelation of previously unreported debt continued to weigh on fiscal credibility and financing conditions. External balances strengthened on the back of higher commodity exports. In the near term, growth is expected to be supported by commodity output and investment. While disruptions linked to the conflict in the Middle East have been met with resilience, the short-term outlook has nevertheless deteriorated, compounding existing fiscal vulnerabilities, commodity price volatility, renewed inflationary pressures owing to higher energy and freight costs, and spending pressures ahead of elections in Kenya and Nigeria.

Benin

Growth accelerated from 7.5 per cent in 2024 to 8.1 per cent in 2025, driven by strong performances in services, construction, agriculture and private investment, coupled with structural reforms implemented under the IMF-supported programme, which was successfully concluded in February 2026. The disinflation that began in September 2025 continued into 2026, with headline inflation turning negative in March 2026, at -0.4 per cent, on account of falling food prices. At 17 per cent, revenue growth exceeded the government's target in 2025, and the fiscal deficit narrowed more than expected, to 2.7 per cent of GDP, below the West African Economic and Monetary

Union (WAEMU) ceiling of 3 per cent. Public debt edged down to 52 per cent of GDP at end year, while debt servicing absorbed 10.6 per cent of budget revenues. On the external side, the merchandise trade deficit narrowed by around 70 per cent in 2025, driven primarily by a steep decline in imports, notwithstanding a rise in rice imports, the country's leading import commodity. Growth is expected to reach 7.0 per cent in 2026 and 6.7 per cent in 2027, underpinned by a peacefully concluded election in April 2026, pre-negotiated oil and fertiliser import prices that will shield the country from global price pressures in 2026, expanding agricultural and manufacturing output, and ongoing investment in the Glo-Djigbé Industrial Zone. Key downside risks include potential upward pressures on global oil and fertiliser prices beyond 2026, alongside the security situation in the northern cotton-producing regions, threatening agricultural output and political stability.

Côte d'Ivoire

Economic growth accelerated from 6.1 per cent in 2024 to 6.5 per cent in 2025, supported by a rebound in construction and agriculture. Inflation averaged 0.1 per cent throughout 2025 before picking up to 2.0 per cent in February 2026, driven by higher food and utility prices. Stronger revenue collection contributed to a narrowing of the fiscal deficit from 3.5 per cent of GDP in 2024 to 3 per cent in 2025, in line with the WAEMU convergence target. Central government debt remained broadly stable, at 59 per cent of GDP as at September 2025, with external debt accounting for around 60 per cent of the total and interest payments absorbing around 12 of budget revenues, down from 15 per cent in 2021-24. With strong cocoa and rubber exports combining with lower imports to drive a near-fivefold increase in the merchandise trade surplus, the current account deficit narrowed from 4.5 per cent of GDP in 2024 to 0.7 per cent of GDP in 2025. Growth is projected to moderate to 6.1 per cent in 2026 before rising to 6.5 per cent in 2027. The near-term slowdown in the growth rate reflects spillover effects from the conflict in the Middle East on global oil and food prices, which are expected to stoke inflation and weigh on domestic consumption. The situation is compounded by a sharp decline in cocoa prices, which is straining export revenues and farmer incomes. These headwinds will be partially offset by a ramp-up in domestic hydrocarbon production and continued expansion of the manufacturing base. The 2027 forecast is based on the assumption of a more stable international environment and domestic political continuity after President Ouattara's re-election to a fourth term in October 2025, which should accelerate the pace of structural reform. Key downside risks include a prolonged cocoa price slump, which would curtail

fiscal revenues and export earnings, an escalation in security spillover effects from the Sahel and adverse weather affecting agricultural output.

Ghana

GDP growth picked up from 5.8 per cent in 2024 to 6.0 per cent in 2025, supported by elevated cocoa and gold prices and an expansion in agriculture and services, even as industrial output slowed. Inflation fell to 3.2 per cent in March 2026, the lowest since the rebasing of the series in 2021. This was down to the cedi appreciating by 37 per cent against the US dollar in 2025 and continuing to strengthen in early 2026, helped by strong export demand and improved foreign-exchange inflows. The appreciation enabled the Bank of Ghana to cut its policy rate by a cumulative 400 basis points since November 2025 to 15 per cent in March 2026. The fiscal deficit narrowed sharply from 3.4 cent in 2024 to 0.6 per cent of GDP in 2025, while the debt-to-GDP ratio declined to 45 per cent. The current account surplus rose from 2 per cent of GDP in 2024 to 8 per cent of GDP in 2025 on strong export receipts. In April 2026, Moody's revised its outlook for the country to positive, maintaining its Caa1 rating. Growth is expected to moderate to 5.0 per cent in 2026 and 2027, with risks tilted to the downside. A high base effect from the country's exceptional gold-mining performance in 2025 will weigh on headline growth, while the deepening cocoa sector crisis – marked by collapsing farmgate prices, payment backlogs and declining output – presents a structural risk. The conflict in the Middle East adds to the uncertainty through higher import costs and weaker external demand. On the upside, a stronger cedi and low inflation could support consumption and boost investor confidence.

Kenya

Real GDP growth reached 4.7 per cent in 2024 and 4.6 per cent in 2025. While agricultural output weakened and manufacturing activity slowed, construction, services and mining partly cushioned the drop in growth. Inflation moderated in early 2026 before ticking up to 4.4 per cent in March 2026, with inflationary pressures building on rising oil prices. Amid global energy pressures, the central bank paused monetary easing at its April 2026 meeting. The Kenyan shilling remained broadly stable at around KES 129 per US dollar in early 2026. Fiscal pressures intensified in 2025, with the deficit widening to 6.1 per cent of GDP at year end, driven by a surge in government spending, while public debt rose to 70 per cent of GDP, nearly half of it external. Debt servicing costs absorb roughly half of government revenues. The current account deficit widened to 2.1 per cent of GDP in 2025, reflecting weaker exports

and slower remittance growth. GDP growth is expected to remain at 4.6 per cent in 2026, rising to 4.9 per cent in 2027. In the near term, the outlook for growth reflects elevated oil prices, inflationary pressures, disruptions in the core export sectors owing to the conflict in the Middle East, and the adverse impact of higher transport costs on tourism. With the country's fiscal position already constrained by these shocks, political dynamics ahead of the 2027 elections amplify the risk of fiscal slippage and social unrest. The 2027 forecast is contingent on a de-escalation in the Middle East and easing oil prices, while a continued delay in securing another IMF-supported programme remains a key downside risk.

Nigeria

Growth totalled 4.1 per cent in 2024 and 4.0 per cent in 2025, supported by successful macroeconomic stabilisation and driven by expansion in the services sector, industry and agriculture. Oil production remained stable, averaging 1.46 million barrels per day, equivalent to around 97 per cent of Nigeria's Organization of the Petroleum Exporting OPEC quota. Inflation peaked at 34.2 per cent in June 2024 before easing steadily throughout 2025 and early 2026. In March 2026 it edged up to 15.4 per cent in March 2026, breaking an 11-month disinflation trend. The central bank cut its policy rate by a further 50 basis points in February 2026, following an initial cut in September 2025. The fiscal deficit narrowed to 2.9 per cent of GDP in the first half of 2025 and the debt-to-GDP ratio eased to 36 per cent by end 2025, while total debt servicing absorbed over 70 per cent of federal government revenue. The current account surplus eased to 4.2 per cent of GDP in 2025. Growth is expected to reach 4.1 per cent in 2026 and 3.9 per cent in 2027, underpinned by continued services expansion. Elevated oil prices will support fiscal revenues and the naira while compressing household purchasing power, with the net effect expected to weigh more on inflation than on aggregate output. Key downside risks include inflationary pressures stemming from the conflict in the Middle East, a possible investment slowdown ahead of the 2027 elections, and adverse weather conditions affecting agricultural output.

Senegal

Real GDP growth increased to 6.7 per cent in 2025 from 6.5 per cent in 2024, driven by higher-than-expected hydrocarbon output from the Sangomar field, where oil production exceeded 36 million barrels. The resulting surge in hydrocarbon exports narrowed the current account deficit to an estimated 5.6 per cent of GDP in 2025 from 11.5 per cent a year before. Inflationary pressures,

which had picked up in the second half of 2025, eased in early 2026, with headline inflation falling to 0.8 per cent in February 2026. On the fiscal side, stronger economic activity boosted revenue mobilisation, while expenditure came in below planned levels, helping to narrow the fiscal deficit from 12 per cent of GDP at end 2024 (the Court of Auditors' revised estimate) to 6.4 per cent at end 2025. Nonetheless, the debt-to-GDP ratio remained elevated, at 120 per cent at end 2025 and sovereign creditworthiness deteriorated markedly, reflecting heightened debt sustainability concerns. Senegal's sovereign rating remained under pressure: in March 2026; Standard & Poor's downgraded the country's local-currency rating to CCC+/C with a negative outlook, citing elevated refinancing risks, high 2026 financing needs and stalled IMF programme negotiations. Growth is forecast to slow to 2.5 per cent in 2026 and 2.7 per cent in 2027, as the one-off boost from the start of production at the Sangomar field fades and production volumes are expected to decline slightly. Spillover effects from the Middle East conflict are expected to raise energy and food prices, weighing on domestic consumption through inflation. Limited fiscal space, a consequence of the consolidation efforts needed to contain further debt accumulation, will constrain the government's ability to cushion the economy from these external pressures. On the upside, ongoing discussions with the IMF on a new programme could, if successful, improve market sentiment and ease financing conditions.

Türkiye

Real GDP expanded by 3.6 per cent in 2025, driven by private consumption and investment. Consumer price inflation declined to 32.4 per cent year on year in April 2026 from 37.9 per cent a year before, though the disinflation stalled towards end 2025 and into 2026 amid increased upward pressures on food and services prices. In response to spillovers from the conflict in the Middle East, the Central Bank of the Republic of Türkiye (CBRT) held its policy rate at 37 per cent in March and April 2026, after five consecutive cuts since April 2025. One-week repo auctions were suspended, effectively shifting funding to the upper bound of the interest rate corridor. The CBRT also deployed liquidity management tools, including foreign exchange-backed lira swap auctions and adjustments to reserve requirements, while intervening to support exchange-rate stability. International reserves have come under pressure following the outbreak of the conflict in the Middle East, reflecting portfolio outflows, the unwinding of carry trades and CBRT liquidity injections. Gross international reserves fell from US\$ 210.3 billion at end February 2026 to US\$150.8 billion at end March, before partially recovering

to US\$ 165.5 billion at the end of April. After shrinking to 1.9 per cent of GDP in 2025, the four-quarter rolling current account deficit has started widening again in recent months, to an estimated 2.5 per cent of GDP in the first quarter of 2026. The central government deficit narrowed to 2.9 per cent of GDP in 2025, with a primary surplus of 0.4 per cent of GDP. General government debt remained low at 24 per cent of GDP as of end-2025. Growth is projected at 3.5 per cent in 2026 and 4.0 per cent in 2027 against the background of less favourable external conditions. Higher energy import costs, capital outflows, lower tourism receipts and disruptions to industrial supply chains arising from the conflict in the Middle East may raise inflation and put pressure on the current account. At the same time, strengthened fiscal and external buffers provide meaningful shock absorption capacity.

Western Balkans

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 2.9 per cent in 2026 and 3.5 per cent in 2027, supported by improving external demand, strengthening investment and a recovery in exports. However, significant downside risks stem from the conflict in the Middle East. Elevated fuel prices, supply-chain disruptions and higher food prices may put upward pressure on inflation and constrain 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 southern and eastern Mediterranean region. Early 2026 indicators point to continued consumption-driven growth, with trade and services expanding across the region, while industrial production remains subdued amid weak external demand. In response to the oil price shock, governments have deployed a number of fiscal measures that have cushioned the impact of higher energy prices while weakening fiscal positions and reducing space for investment and structural reforms.

Albania

Economic growth in Albania moderated from 4.0 per cent in 2024 to 3.8 per cent in 2025. Public administration, real estate, ICT and construction were the main growth drivers, while industry and agriculture contracted amid a strong lek, weak external demand and rising wages that weighed on competitiveness. On the demand side, growth was supported by government consumption and service exports, while exports of goods declined. The current account deficit narrowed sharply to 0.7 per cent of GDP, helped by strong tourism and remittances, while FDI remained broadly unchanged, concentrated in real estate

and financial intermediation. Tourism remained strong into the first quarter of 2026, and household consumption continued to benefit from minimum-wage increases. At 2.6 per cent in March 2026, inflation has stayed within the central bank's target, with fuel price shocks partly absorbed by excise cuts and price caps. The central bank's policy rate has remained unchanged since mid-2025, at 2.5 per cent. The fiscal deficit rose to 1.8 per cent of GDP in 2025, but remained below expectations, while public debt had declined to 53 per cent of GDP at end year. Growth is expected to reach 3.4 per cent in 2026 and 3.5 per cent in 2027, supported by investment and reforms in the context of EU accession negotiations. External competitiveness pressures, climate risks and energy price volatility linked to the conflict in the Middle East pose downside risks, which may be partially offset by the diversion of tourism from some of the countries closer to the conflict.

Bosnia and Herzegovina

Economic growth slowed from 3.2 per cent in 2024 to 2.1 per cent in 2025, as weaker external demand and lower consumer confidence weighed on performance, while investment made a positive contribution to growth. The current account deficit narrowed to 3.2 per cent of GDP in 2025, thanks to a reduced trade gap and higher remittances, although the services surplus declined. Inflation picked up to 5.1 per cent in March 2026, mainly due to fuel price increases. In response to fuel price pressures, the authorities cut excise and import tariffs. The Global Framework of Fiscal Balance and Policies for 2026-28, adopted with a delay, paves the way for an increase in state-level public-sector salaries. As a result, the fiscal deficit is likely to widen from the 1.8 per cent of GDP recorded in 2024 before gradually narrowing from 2027, with a projected increase in public debt to around 30 per cent of GDP by 2028. Growth is expected to pick up to 2.4 per cent in 2026 and 2.8 per cent in 2027, supported by higher real incomes and investment. Downside risks arise from the supply shock caused by the conflict in the Middle East and the ensuing upward pressures on fuel and food prices, as well as political uncertainty and a slowdown in external demand.

Kosovo

Kosovo's economy has demonstrated notable resilience in the past year, with strong capital formation and robust household consumption. Real GDP growth eased to 3.6 per cent in 2025, the lowest growth rate since the pandemic, reflecting weak external demand and heightened political uncertainty amidst repeated elections. The current account deficit narrowed from 8.4 per cent of GDP in 2024 to 8.2

per cent in 2025, reflecting a rise in the services trade surplus more than offsetting the increase in the merchandise trade deficit. Inflation has risen steadily in recent months, reaching 7.5 per cent in April 2026 – its highest level in the past three years – driven primarily by higher fuel prices, alongside rising housing and utility costs. In response, the government introduced temporary price caps for fuel. The labour market continued to improve, with rising formal employment rates and steady wage growth. The fiscal balance recorded a deficit of 0.8 per cent of GDP in 2025, while public debt stood at 17.5 per cent of GDP (based on the latest estimates from the IMF's World Economic Outlook). Growth is projected to moderate to 3.5 per cent in 2026, amid uncertainties related to the conflict in the Middle East, before accelerating to 3.9 per cent in 2027. Downside risks, including political uncertainty, weaker euro-area growth and potential declines in remittance inflows, underscore the need for prudent policies and continued progress on structural reforms.

Montenegro

Montenegro's real GDP growth moderated to 2.7 per cent in 2025 on account of the closure of the Plevlja power plant and weaker tourism, while other services remained robust. Private consumption was supported by sizeable wage and pension increases, while net exports remained a drag on growth as exports declined and electricity imports increased following the temporary closure of the Pljevlja power plant. Tourism remained relatively weak in the first quarter of 2026, while electricity production showed some improvement following the resumption of power generation at Pljevlja and retail trade continued to benefit from rising real incomes. Inflation rose to 3.1 per cent in March 2026, driven by higher oil prices, expansionary fiscal policy and previously strong wage growth. The government partially offset the impact of higher oil prices by cutting excise duty, adding to pressures on the country's already strained public finances (the fiscal deficit totalled 4 per cent of GDP in 2025 and public debt rose above 60 per cent of GDP). Growth is projected at 2.9 per cent in 2026, rising to 3.0 per cent in 2027, supported by EU accession progress and infrastructure investment. Limited fiscal buffers and a lack of diversification leave the economy vulnerable to external shocks. Risks related to the conflict in the Middle East are partly mitigated by the potential diversion of tourism from countries closer to the conflict.

North Macedonia

Economic growth strengthened to 3.5 per cent in 2025 as investment benefitted from the expansion of motorway construction, and weaker activity in the financial and real-

estate sectors was more than offset by the strong performance of construction, ICT services, trade and manufacturing. The current account deficit doubled as a share of GDP in 2025, to 4.3 per cent, while net FDI inflows declined sharply, reflecting subdued activity in the European automotive sector and heightened global uncertainty. After easing to 2.6 per cent in April 2025, inflation rebounded to 4.9 per cent in March 2026 amid fuel-price spikes. The government responded by temporarily reducing the VAT rate on fuel, while the central bank paused rate cuts and kept the policy rate at 4 per cent. The 2026 budget targets a modest reduction in the deficit, to 3.5 per cent of GDP, while public debt (including guarantees) is projected to remain below 60 per cent of GDP. Growth is forecast to reach 3.0 per cent in 2026 and 3.2 per cent in 2027, supported by large public-investment projects. While deeper structural reforms could lift growth further, limited fiscal space, implementation constraints, the ongoing restructuring in the European automotive industry and supply-chain disruptions owing to the conflict in the Middle East pose significant downside risks.

Serbia

Growth picked up from 2.0 per cent in 2025 to an estimated 3.0 per cent year on year in the first quarter of 2026, driven by robust services sector performance. Private consumption was supported by rising real incomes, together with investment and goods exports underpinning growth. The current account recorded a surplus in the first two months of 2026, reflecting narrower trade and primary income deficits and a stronger services balance. Net FDI inflows showed early signs of recovery after declining in 2025. Inflation remained contained at 2.8 per cent in March 2026, despite the expiry of retail margin caps, reflecting fuel excise cuts introduced in response to the conflict in the Middle East. While expenditure growth exceeded government revenues, the fiscal deficit remained below 3 per cent of GDP in 2025, with public debt easing to 42 per cent of GDP as of February 2026. Growth is projected to reach 2.8 per cent in 2026 and to accelerate to 3.8 per cent in 2027, supported by a recovery in private and public investment and tourism related to Expo 2027, which the country is hosting. Downside risks stem from energy supply vulnerabilities and global tensions, which could reignite inflationary pressures and weigh on exports.

Belarus

GDP contracted by 0.4 per cent year on year in the first three months of 2026 as manufacturing output declined and agricultural yields remained stagnant. The manufacturing downturn underscores ongoing challenges, including diminished export opportunities to Russia and constrained financing for import substitution. Annual inflation peaked at 7.4 per cent in July 2025, gradually easing to 5.4 per cent in March 2026. Disinflation was largely supported by food price controls. Economic growth is expected to remain sluggish in the short term, reaching 1.1 per cent in 2026 and 1.5 per cent in 2027. Economic sanctions and Belarus's dependence on the Russian economy are significant downside risks.

Russia

Economic growth slowed abruptly, from 4.9 per cent in 2024 to 1.0 per cent in 2025, despite economic activity having been propped up by expansionary war-driven fiscal policy. While manufacturing output continued to increase in the first three months of 2026 on the back of the sustained expansion of the military industrial complex and unemployment reached the low of 2.2 per cent, the overall momentum of the economy has weakened further and GDP declined by 0.2 per cent year on year. Annual inflation subsided to 5.6 per cent in April 2026. In early 2026, oil export earnings fell by 30 per cent from their average 2025 levels, to below US\$ 10 billion in February, in part due to tighter enforcement of sanctions. However, the conflict in the Middle East subsequently increased demand for Russian oil, with the average price of a barrel reaching US\$ 95 in April 2026. The unexpected windfall gains from oil prices, significantly in excess of the 2026 budget assumptions, are expected to reverse the 25 per cent decline in oil and gas budget revenues recorded in 2025. Real GDP growth is expected to slow to 0.8 per cent in 2026, and remain sluggish, at 1.0 per cent, in 2027. The continued war of aggression against Ukraine, the related economic sanctions and oil price volatility expose the economy to significant downside risks.

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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 May 14, 2026. Headline inflation numbers (including in Chart 9) reflect information available through May 22, 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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