REGIONAL ECONOMIC PROSPECTS

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Regional Economic Prospects in the EBRD Regions

European Bank
for Reconstruction and Development

Resilient growth amid continued trade tensions

February 2026

Growth in the EBRD regions picked up from 2.9 per cent in 2023 and 3.0 per cent in 2024 to an estimated 3.4 per cent in 2025. This outturn was broadly in line with the forecasts made early in the year, before the escalation of trade tensions in April 2025 and 0.2 percentage points above the forecast made in September 2025. While trade and economic policy uncertainty remain high, to date trade tensions have not reduced external demand as much as previously expected, in part due to rapid adjustment in supply chains and rising demand for AI-related products. The full impact of US tariffs may not have been felt yet as US imports were frontloaded earlier in the year in anticipation of tariff increases.

The growth momentum is expected to be sustained with growth forecast to pick up to 3.6 per cent in 2026 and 3.7 per cent in 2027. This represents a 0.2 percentage point upward revision for 2026 compared with the projection made in September 2025.

The escalation of trade tensions resulted in a further reduction in trade between China and the United States. At the same time, China's total exports as well as exports from most economies in the EBRD regions rose in 2025 relative to 2024 while the US replaced imports from China with imports from other economies. While in aggregate the EBRD regions played a limited role in this shift, in the case of precious metals, computers, phones, chocolate and a number of other product lines, the EBRD regions' exports to the US increased significantly as China's exports of those products to the US declined. In some of those cases, exporters from the EBRD regions gained market share in the US. Exports from China to the EBRD regions also rose reflecting increased production capacity and price competitiveness in China as well as shifts in global demand for certain goods (such as AI-related products) and to a much lesser extent reallocation of exports previously destined for the US market.

Most economies in the EBRD regions export relatively diverse baskets of goods. They tend to export a greater variety of products than two decades ago, with a rising share of goods in which they have a revealed comparative advantage (RCA; those products account for a larger share of a country's total exports than that product's share of world trade).

Previous Regional Economic Prospects highlighted growing similarities between the export baskets of China (which accounts for more than a quarter of global exports) and economies in the EBRD regions as well as advanced economies. As a result, the overlap between products that economies in the EBRD regions and China export with an RCA has been rising. For a typical (median) economy in the EBRD regions this share stands at 28 per cent (and 34 per cent for Germany).

For products where China's exports rose most over the last two decades, exports from advanced economies grew relatively more slowly reflecting rising competition across global product markets. For emerging markets, however, the opposite trend is observed: for products where China's exports rose most, *emerging markets' exports also tended to increase faster than for other products, in particular in the case of lower-income economies and economies receiving more foreign direct investment from China.*

Average inflation in the EBRD regions moderated to 5.5 per cent in December 2025, despite more expansionary fiscal stances than previously anticipated. Disinflation reflects a slowdown in nominal wage growth and financing conditions characterised by positive real interest rates that have been increasing in recent months.

Growth in central Europe and the Baltic states *picked up from 2.2 per cent in 2024 to an estimated 2.6 per cent in 2025, a better-than-expected outturn. Exports were supported by improved sentiment in the Nordic economies and some improvements in Germany's economic outlook. Growth is expected to pick up to 2.9 per cent in 2026 (revised up) as investment is expected to rise further ahead of upcoming Recovery and Resilience Facility (RRF) deadlines before moderating to 2.7 per cent in 2027.*

Growth in the south-eastern EU *decelerated from 2.2 per cent in 2023 to 1.4 per cent in 2024 and 2025. It is expected to remain broadly at this level in 2026 (revised down on fiscal consolidation weighing on consumption in Romania) before picking up to 2.3 per cent in 2027.*

Growth in the Western Balkans *slowed from 3.7 per cent in 2024 to an estimated 2.5 per cent in 2025, a weaker-than-expected outturn reflecting, in particular, slower-than-anticipated growth in Serbia. Growth is expected to pick up to 3.1 per cent in 2026 and rise further to 3.5 per cent in 2027, supported by domestic demand, including major public investment and infrastructure projects across the region.*

Growth in Central Asia *picked up from 5.9 per cent in 2024 to an estimated 6.9 per cent in 2025. This outturn was better than previously expected on stronger consumption, high credit growth, robust remittances and high investment. The 2026 forecasts have also been revised up to 5.6 per cent on account of large-scale investment projects, in particular in the Kyrgyz Republic and Tajikistan. Growth is expected to moderate to 5.3 per cent in 2027.*

In eastern Europe and the Caucasus*, growth slowed from 3.9 per cent in 2024 to an estimated 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 on Ukraine weighed on growth. In eastern Europe and the Caucasus, growth is expected to pick up to 2.9 per cent in 2026 and 3.9 per cent in 2027. The 2026 growth forecast for* Ukraine *has been revised down as the economic impact of a potential peace deal would take time to fully materialise.*

In Türkiye*, growth picked up from 3.3 per cent in 2024 to an estimated 3.7 per cent in 2025, reflecting better-than-expected outturns across most sectors despite episodes of market volatility and a tight fiscal and monetary policy mix. Growth is expected to pick up to 4 per cent in 2026 and 4.5 per cent in 2027.*

After averaging 2.2 per cent in 2023 and 1.8 per cent in 2024 growth in the southern and eastern Mediterranean *is estimated to have picked up to 3.4 per cent in 2025. Outcomes exceeded expectations with the notable exception of Iraq where oil output was lower than anticipated. The growth forecast for the region has been revised up, to 4.2 per cent in 2026, driven by a recovery in oil output in Iraq. Growth is expected to remain around 4.1 per cent in 2027.*

Growth in sub-Saharan Africa *picked up from 4.5 per cent in 2023 to 5.1 per cent in 2024 and an estimated 5.4 per cent in 2025. This was much better than previously expected, as economic activity was boosted by rising commodity export receipts. Growth is expected to moderate somewhat to 5 per cent in 2026 and 4.9 per cent in 2027.*

Table 1. GDP growth in real terms

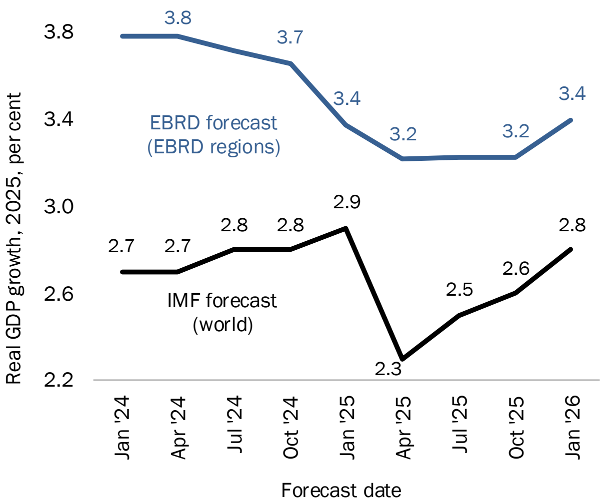
	Actual				Prelim.	Forecast (Feb'26)		Revision since Sep'25	
	2023	**2024**	**2025 Jan-Sep**		**2025**	**2026**	**2027**	**2025**	**2026**
EBRD regions	**2.9**	**3.0**	**3.4**		**3.4**	**3.6**	**3.7**	**0.2**	**0.2**
EBRD regions incl. Greece	**2.9**	**3.0**	**3.4**		**3.4**	**3.6**	**3.7**	**0.2**	**0.3**
Central Asia	**5.9**	**5.9**	**6.7**		**6.9**	**5.6**	**5.3**	**0.7**	**0.4**
Kazakhstan	5.1	5.0	6.3		6.5	4.7	4.5	0.8	0.2
Kyrgyz Republic	9.0	11.5	10.0		11.1	9.0	7.0	2.1	3.0
Mongolia	7.4	5.1	5.9	e	6.4	5.5	5.5	0.6	0.0
Tajikistan	8.3	8.4	8.2		8.4	7.9	7.0	0.9	2.2
Turkmenistan	6.3	6.3	6.3	e	6.3	6.3	6.3	0.0	0.0
Uzbekistan	6.3	6.7	7.2		7.7	6.5	6.0	1.0	0.5
Central Europe and the Baltic states	**0.4**	**2.2**	**2.5**		**2.6**	**2.9**	**2.7**	**0.2**	**0.2**
Croatia	3.8	3.8	3.0		3.0	2.7	2.5	-0.2	-0.1
Czechia	0.0	1.3	2.6		2.5	2.6	2.5	0.5	0.4
Estonia	-2.7	-0.1	0.3		0.5	2.2	2.5	0.0	0.2
Hungary	-0.8	0.6	0.3		0.4	2.0	2.5	-0.1	0.0
Latvia	-0.9	0.0	1.7		1.7	2.2	2.5	0.8	0.3
Lithuania	0.7	3.0	2.8		2.8	3.3	2.5	0.2	0.1
Poland	0.2	3.0	3.5		3.6	3.7	3.0	0.1	0.3
Slovak Republic	2.1	1.9	0.7		0.8	1.0	1.8	-0.3	-0.6
Slovenia	2.4	1.7	0.7		1.0	2.2	2.4	0.3	0.2
Eastern Europe and the Caucasus	**4.7**	**3.9**	**2.3**		**2.7**	**2.9**	**3.9**	**-0.3**	**-1.5**
Armenia	8.3	5.9	6.0	e	6.0	5.5	5.5	1.0	1.0
Azerbaijan	1.4	4.2	1.3		1.4	2.0	2.5	-0.6	-0.5
Georgia	7.8	9.7	7.7		7.5	5.5	5.0	0.5	0.5
Moldova	0.7	0.1	2.0		2.5	3.0	3.5	1.0	-0.8
Ukraine	5.3	2.9	1.3		2.0	2.5	4.0	-0.5	-2.5
South-eastern EU	**2.2**	**1.4**	**1.8**		**1.4**	**1.5**	**2.3**	**0.0**	**-0.3**
Bulgaria	1.7	3.4	3.1		2.9	2.7	2.6	-0.3	0.1
Romania	2.4	0.8	1.5		0.9	1.2	2.2	0.0	-0.4
Southern and eastern Mediterranean	**2.2**	**1.8**	**3.3**		**3.4**	**4.2**	**4.1**	**-0.3**	**1.0**
Egypt	2.9	3.1	5.0		5.1	5.1	5.0	0.3	0.6
Iraq	0.9	-0.2	0.5	e	0.5	3.6	3.7	-2.0	2.2
Jordan	2.9	2.5	2.7		2.7	2.8	2.9	0.3	0.2
Lebanon	-0.2	-7.5	3.5	e	3.5	4.0	4.0	1.6	1.1
Morocco	3.7	3.7	4.8		4.8	4.4	4.0	0.6	0.4
Tunisia	0.2	1.6	2.4		2.4	2.3	2.2	0.4	0.2
Sub-Saharan Africa	**4.5**	**5.1**	**5.6**		**5.4**	**5.0**	**4.9**	**0.7**	**0.4**
Benin	6.4	7.5	8.0	e	7.5	6.8	6.6	0.9	0.5
Côte d'Ivoire	6.5	6.0	8.0	e	7.0	6.4	6.5	0.7	0.0
Ghana	3.1	5.7	6.1		6.2	5.2	5.0	1.9	0.4
Kenya	5.7	4.7	4.9		4.8	5.0	5.1	0.1	0.1
Nigeria	3.3	4.1	3.8		3.9	4.2	3.9	0.5	0.9
Senegal	4.3	6.9	9.3	e	8.0	4.0	4.0	-0.4	-0.1
Türkiye	**5.0**	**3.3**	**3.7**	**e**	**3.7**	**4.0**	**4.5**	**0.6**	**0.5**
Western Balkans	**3.5**	**3.7**	**2.5**		**2.5**	**3.1**	**3.5**	**-0.2**	**-0.1**
Albania	4.0	4.0	3.7		3.7	3.5	3.5	0.2	0.0
Bosnia and Herzegovina	2.0	3.0	2.0		2.0	2.7	2.8	-0.2	0.0
Kosovo	4.1	4.6	3.5		3.7	3.9	3.9	-0.2	0.0
Montenegro	6.5	3.2	3.2		3.2	3.2	3.2	0.6	0.5
North Macedonia	2.6	3.0	3.4		3.2	3.2	3.3	0.2	0.2
Serbia	3.7	3.9	2.0		2.0	3.0	3.8	-0.5	-0.3
Memo: Egypt (fiscal year to June)	3.8	2.4	5.0		4.4	5.1	5.0	-0.1	0.7
Memo: Belarus	3.9	4.0	1.6		1.3	1.3	1.5	-0.4	-1.0
Memo: Greece	2.3	2.3	1.9		2.1	2.0	1.6	-0.1	-0.1
Memo: Russia	4.1	4.3	1.0		1.0	0.8	1.0	-0.3	-0.5

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 1 January 2026, Greece is no longer an EBRD investee economy. For comparability with earlier forecasts, averages for the EBRD regions are reported both with and without Greece. “e” denotes unofficial estimates.

Growth in the EBRD regions picked up from 3.0 per cent in 2024 to an estimated 3.4 per cent in 2025

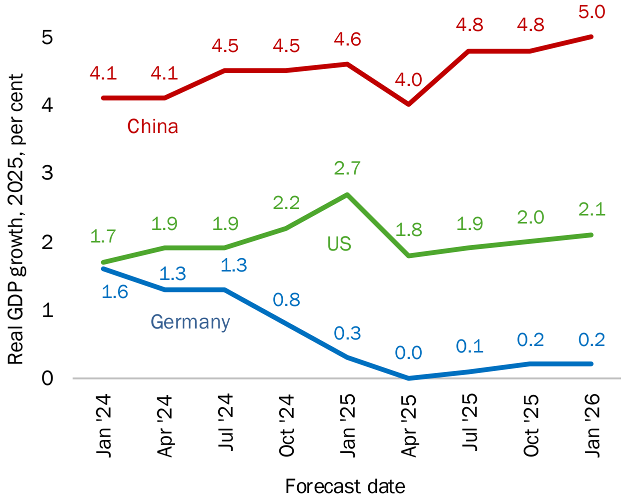
Growth in the EBRD regions picked up from 2.9 per cent in 2023 and 3.0 per cent in 2024 to an estimated 3.4 per cent in 2025.[1] This outturn was 0.2 percentage points stronger than expected in September 2025 and broadly in line with the forecasts made early in the year, before the escalation of trade tensions in April 2025 (see Chart 1). A similar pattern can be observed for forecasts for global growth made at various points in time by the International Monetary Fund. IMF forecasts for 2025 have seen upward revisions for China (reaching 5 per cent in the January 2026 *World Economic Outlook*) and the United States. In contrast, growth in Germany remains lacklustre (see Chart 2).

Chart 1. Growth outturns in 2025 are in line with forecasts made before the escalation of trade tensions (in the EBRD regions and globally)



Source: National authorities via CEIC and EBRD and IMF forecasts.
Note: Forecast date refers to the dates of the World Economic Outlook and World Economic Outlook Update. Country weights are based on the values of gross domestic product in current US dollars (at market exchange rates). Forecasts for sub-Saharan Africa and Iraq before September 2025 are assumed to be the ones available from the IMF at that point in time.

Chart 2. IMF forecasts for 2025 have seen upward revisions for China and the US, growth in Germany remains lacklustre



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

Trade and economic policy uncertainty remain high, as evidenced by the latest change in US import tariffs, effective from 24 February 2026 (see Box 0). Yet, to date, trade tensions have not reduced external demand as much as previously expected, in part due to rapid adjustment in supply chains and rising demand for AI-related products. In many economies, domestic demand was stronger than expected, as disinflation supported consumption and investment growth was boosted by large infrastructure projects.

Purchasing managers' indices (PMIs), in turn, point to a divergence between the outlooks for manufacturing and services. Momentum is stronger for services (in advanced Europe, China and the United States), with neutral readings for manufacturing in China and advanced Europe. Manufacturing PMIs remain in contractionary

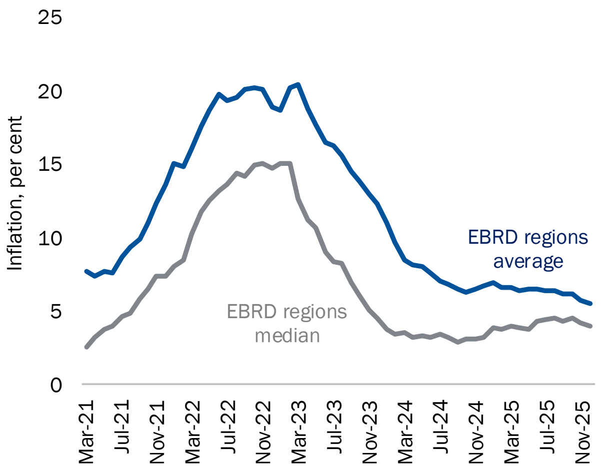
[1] As of 1 January 2026, Greece is no longer an EBRD investee economy. For comparability with earlier forecasts, averages for the EBRD regions are reported both with and without Greece in Table 1.

territory for several large economies in the EBRD regions including Poland, Romania and Türkiye.

Inflation moderated

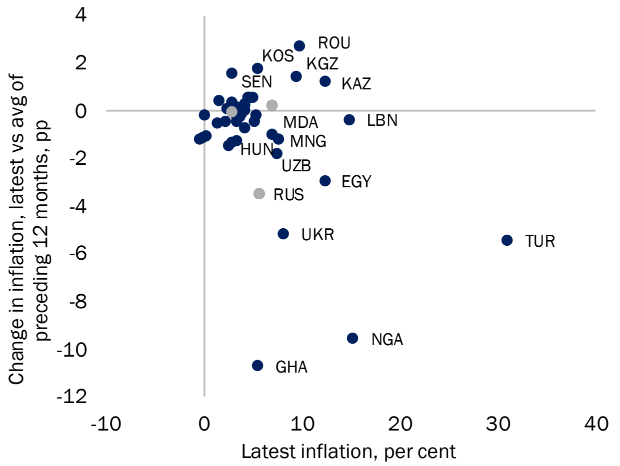
Average inflation in the EBRD regions moderated towards the end of 2025, to 5.5 per cent in December 2025. Inflation in a typical (median) economy came down to 4 per cent (see Chart 3) as inflation has been declining in most economies (see Chart 4 and Box 1 discussing disinflation in Türkiye).

Chart 3. Average inflation in the EBRD regions moderated towards end-2025



Source: Refinitiv Eikon, national authorities and authors' calculations.
Note: Unweighted mean and median across 41 economies.

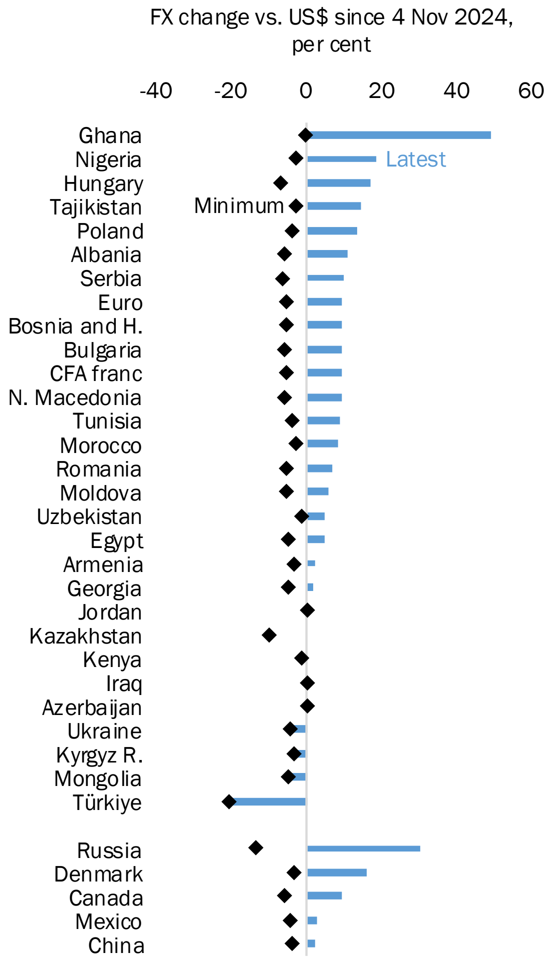
Chart 4. Inflation has been coming down in most economies



Source: Refinitiv Eikon, national authorities and authors' calculations.
Note: Level in December 2025 or latest available; change in December 2025 or latest available relative to the average reading over the preceding 12 months (for instance, December 2024-November 2025). EBRD regions in blue, select economies labelled.

As the US dollar has weakened, the currencies of most economies in the EBRD regions have appreciated against the US dollar since the US election in November 2024 (see Chart 5). Appreciation was especially pronounced in Ghana on rising demand for its cocoa and gold exports and improvements in investor sentiment. Türkiye is a notable exception, with continued depreciation since April 2025.

Chart 5. Most economies in the EBRD regions have seen their currencies appreciate against the US dollar



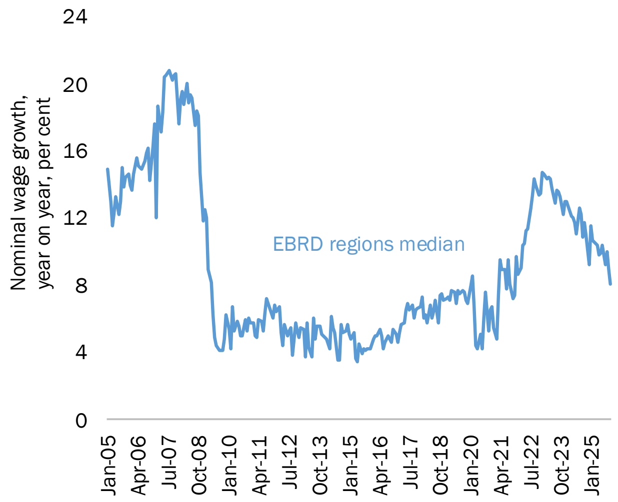
Source: Refinitiv and authors' calculations.
Note: As of 30 January 2026.

Bulgaria joined the eurozone on 1 January 2026, having previously maintained a fixed exchange rate under a currency-board arrangement in place since 1997. It pegged the lev first to the German mark (helping to bring down inflation from over 500 per cent in 1997 to single digits) and then to the euro.

Wage growth slowed

Disinflation in part reflects a slowdown in nominal wage growth. Median nominal wage growth in the EBRD regions slowed to 8 per cent (see Chart 6), driven by slowdowns in EU-EBRD economies and the Western Balkans and in part reflecting inflation expectations gradually becoming more strongly anchored following the post-Covid inflation spike.

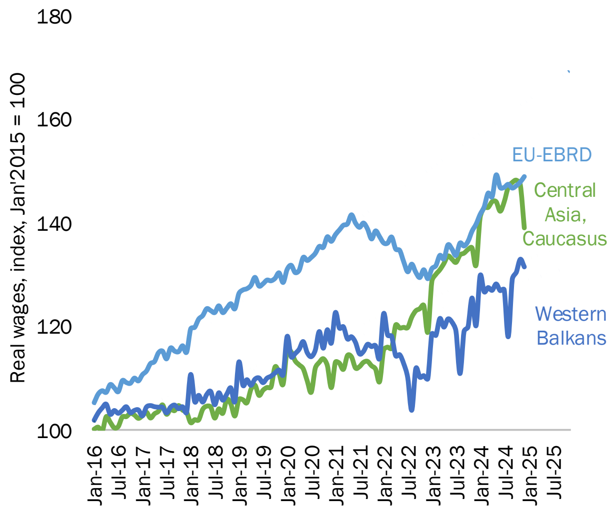
Chart 6. Median nominal wage growth in the EBRD regions slowed sharply



Source: Refinitiv Eikon, national authorities and authors' calculations.
Note: Simple averages across an unbalanced panel of up to 23 economies in the EBRD regions.

Real wages remain far below their pre-Covid trend in EU-EBRD economies. In contrast, in Central Asia and the Caucasus and the Western Balkans they are above their (flatter) pre-Covid trends (see Chart 7).

Chart 7. Real wages remain far below their pre-Covid trend in EU-EBRD economies

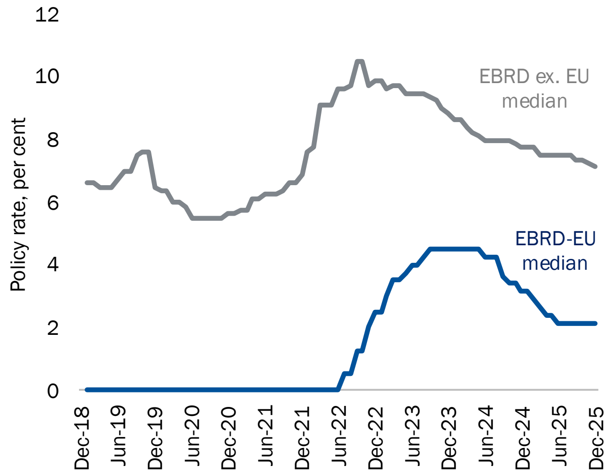


Source: Refinitiv Eikon, national authorities and authors' calculations.
Note: Solid lines are actuals, dashed lines denote pre-Covid trends. Simple averages across an unbalanced panel of up to 10 EU-EBRD economies, up to 6 economies in Central Asia and the Caucasus and 5 economies in the Western Balkans.

Easing financing conditions

With inflation moderating, policy rates have been coming down in most economies in the EBRD regions (see Chart 8). Rates have come down sharply (relative to October 2022) in Ukraine, Moldova, Armenia, Tajikistan as well as Czechia, Hungary and Poland. In contrast, rates have increased (relative to October 2022) and remain high in Türkiye, Egypt and Kazakhstan reflecting sustained inflationary pressures in those economies.

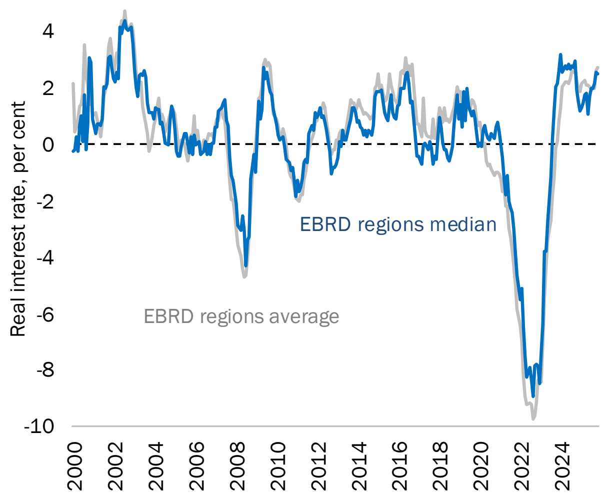
Chart 8. Financing conditions started to ease



Source: CEIC, national authorities and authors' calculations
Note: Mean and median across an unbalanced sample of up to 12 EBRD-EU economies and 12 EBRD non-EU economies.

While real interest rates (nominal rates net of inflation) in the EBRD regions are below their 2023 peak, they remain positive and have recently been increasing, thus supporting disinflation (see Chart 9). In contrast, real interest rates in the EBRD regions have been mostly negative or around zero since the mid-2000s.

Chart 9. Real rates remain positive

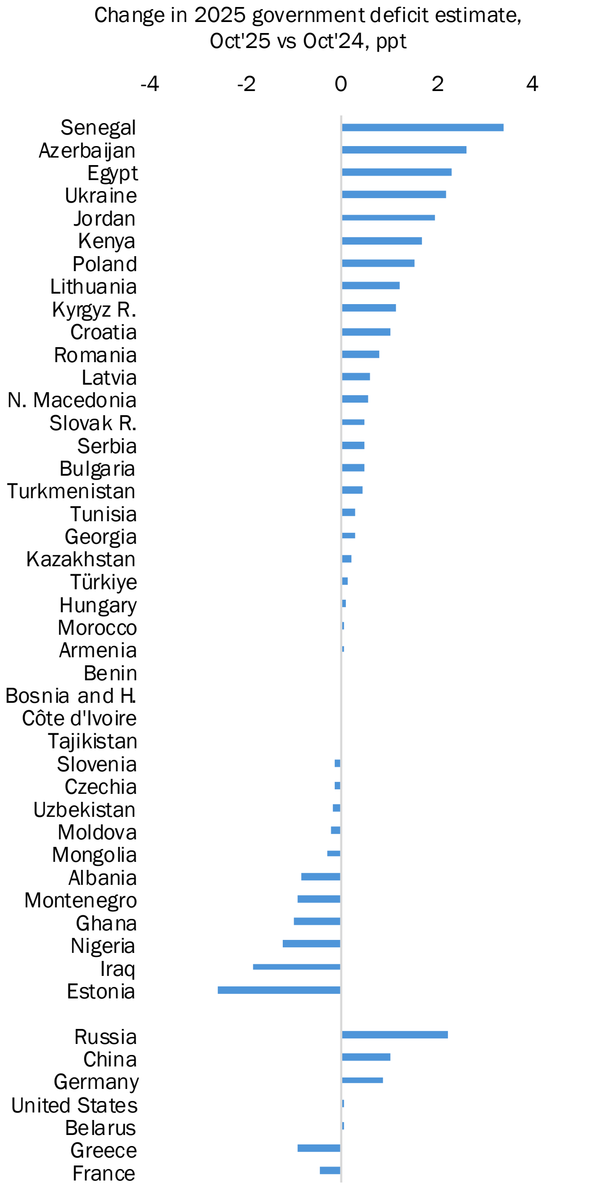


Source: CEIC and authors' calculations.
Note: Average and median across an unbalanced sample of up to 36 economies.

Fiscal stances more expansionary than expected

In most economies in the EBRD regions fiscal policies were more expansionary in 2025 than previously anticipated. In particular, government deficits were larger than previously expected in some economies with high levels of government debt, such as Senegal, Egypt and Ukraine (see Chart 10).

Chart 10. Fiscal stances more expansionary than previously expected



Source: IMF (October 2025 and October 2024 World Economic Outlook) and authors' calculations.
Note: Difference in forecasts for 2025 government deficits (based on general government net lending/borrowing) in the October 2025 WEO relative to the October 2024 WEO.

For the EBRD regions as a whole, government deficits were 0.3 percentage points wider than previously expected, with large revisions (in both directions) in several economies in sub-Saharan Africa and the southern and eastern Mediterranean. Over the period 2025-2029, fiscal deficits in the EBRD regions are expected to be 0.3 per cent of GDP larger (comparing forecasts in the *World Economic Outlooks* published by the IMF in October 2024 and October 2025).

Higher import tariffs in the US

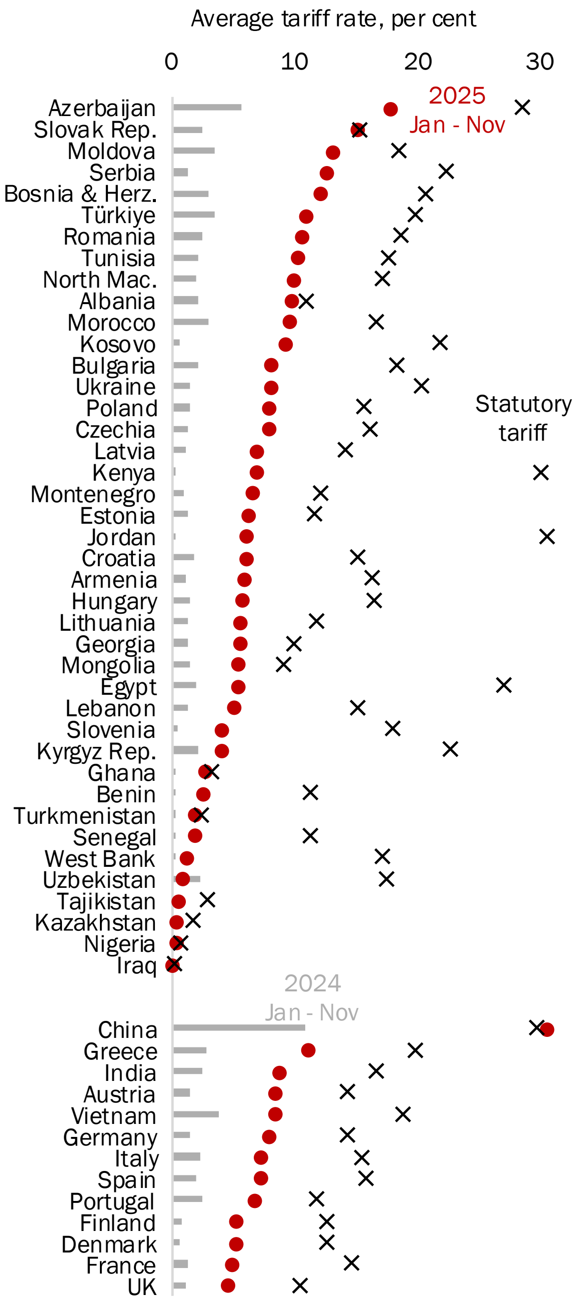
The average effective tariff rate paid on US imports from the EBRD regions rose by 5.2 percentage points in January-November 2025 relative to the same period of 2024, to 6.6 per cent on average (these changes reflect both changes in tariffs and changes in the composition of imports in response to changes in tariff structures). Over the same period, the average US tariff on imports from China increased by around 20 percentage points (see Chart 11).

The latest average statutory tariff rate (as of January 2026) is around 14 per cent for the EBRD regions and 37 per cent for China. These estimates are weighted by trade in 2024 and include the headline tariffs imposed on various economies (for instance, the15 per cent in the case of the EU or 10 per cent for the UK) as well as various exemptions and goods-specific tariffs.

The full impact of US tariffs may thus not have been felt yet as a large share of trade arrived in the US prior to tariffs being imposed, with some frontloading of imports in anticipation of tariff increases (this frontloading is visible in Chart 15 where US imports spike in the first quarter of 2025).

The following analysis examines changes in trade patterns following the escalation of trade tensions in April 2025. It draws on data that was available by mid-February 2026 and thus does not reflect full-year effects from changes in applicable tariff rates.

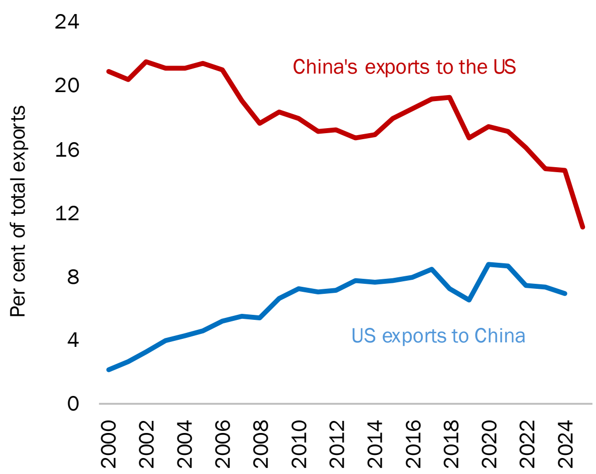
Chart 11. The average effective tariff rate on US imports from the EBRD regions rose by 5 percentage points



Source: Global Trade Alert, USITC and authors' calculations.
Note: Jan-Nov 2025 refers to the average effective rate based on import duties reported by the USITC. The estimate for Azerbaijan is driven by exports of aluminium to the US which were already subject to a high tariff rate in 2024. Statutory rates reflect the new US import tariffs assuming the 15 per cent tariffs under Section 122 (see also Box 0).

The escalation of trade tensions resulted in a further reduction in trade between China and the United States (see Chart 12). For China's exports to the US, this represents an acceleration of longer-term trends. China's exports to the US declined from over 20 per cent of its exports in 2000 to around 10 per cent in 2025 (corresponding to a decline from about 4 to 2 per cent of its GDP). In contrast, US exports to China had been on an upward trend until about 2020, up from around 2 per cent of total exports (0.2 per cent of US GDP) in 2000 to a peak of 9 per cent of total exports (0.6 per cent of US GDP) in 2020. They have since declined to 7 per cent of total exports (0.5 per cent of US GDP) in 2024.

Chart 12. Further reduction in trade between China and the United States



Source: UNCTAD and authors' calculations.

Resilient global trade amid rising tensions

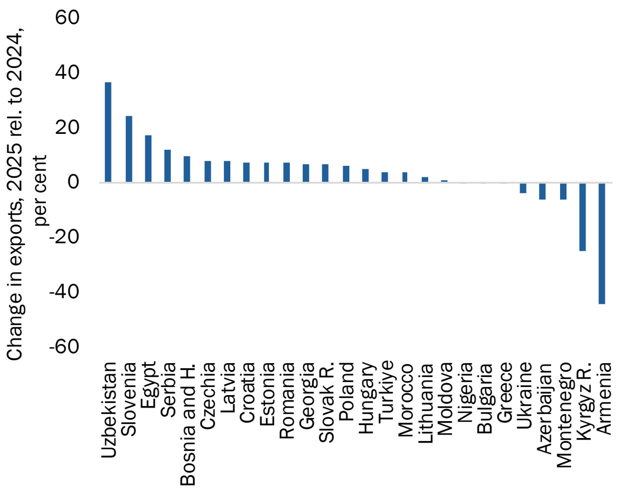
Despite the rise in US tariffs, China's total 2025 exports increased by 5.5 per cent relative to 2024. A 20 per cent drop in sales to the US was offset by a 8.5 per cent increase in exports to the EU and a 10 per cent rise in exports to the rest of the world (see Chart 13).

For the median economy in the EBRD regions imports from China rose by 0.4 per cent of GDP year on year in January-November 2025, to 4.6 per cent of GDP. Exports of most economies in the EBRD regions also rose in 2025 relative to 2024 (see Chart 14).

Chart 13. China's global exports increased in 2025

Source: China's customs database and authors' calculations.

Chart 14. Exports of most economies in the EBRD regions rose in 2025

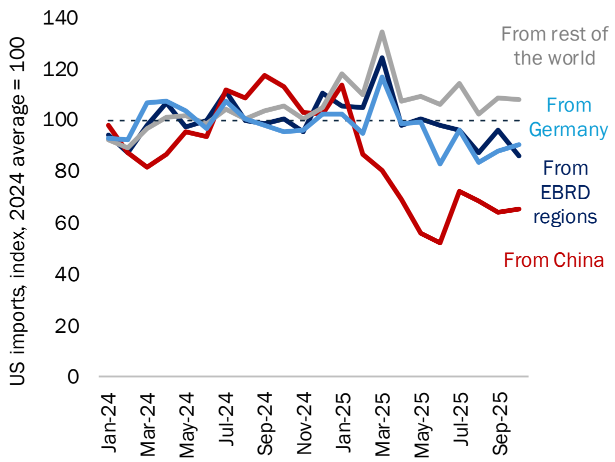


Source: UNCTAD and authors' calculations.
Note: As reported by exporters, based on months with available data in 2025 relative to the same months in 2024.

Rapid changes in the structure of US imports

As US imports from China dropped by 27 per cent in January-October 2025 relative to the same period in 2024, US imports from the rest of the world increased by 12.6 per cent (see Chart 15). US imports from the EBRD regions increased by 0.3 per cent. The largest increases in absolute terms (in nominal US dollars) were observed for Kazakhstan, Côte d'Ivoire and Uzbekistan; the largest relative increases were recorded for exports from Uzbekistan, Turkmenistan and the Kyrgyz Republic. The sharpest declines were seen for Slovenia, the Slovak Republic and Nigeria (in absolute terms) and Kosovo, Tajikistan and Armenia (in relative terms). In some cases, aggregate changes mask complex adjustments through value chains. For instance, US reported imports from Slovenia decreased while Swiss exports to the US rose and so did Slovenia's exports to Switzerland, reflecting the growing integration of the Slovenian and Swiss pharmaceutical value chains. As a result, exports of Slovenia's value added to the US as a final destination actually increased over this period.

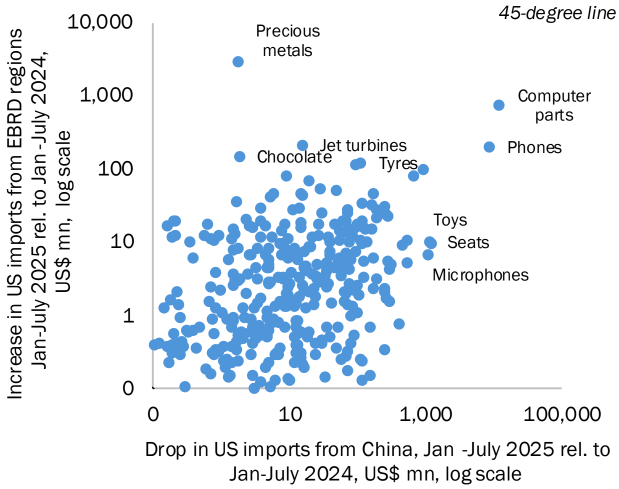
Chart 15. US imports from China dropped while US imports from the rest of the world increased



Source: USITC and authors' calculations.
Note: Latest observation is October 2025. EBRD regions refers to total US imports from economies in the EBRD regions. Based on imports reported by the US.

While in aggregate the increase in the EBRD regions' exports to the US has been modest, substitution away from China towards suppliers from the EBRD regions is observed for specific product lines. For precious metals, computers, phones, chocolate and some other goods where US imports from China fell, exports of those goods from the EBRD regions to the US rose (see Chart 16).

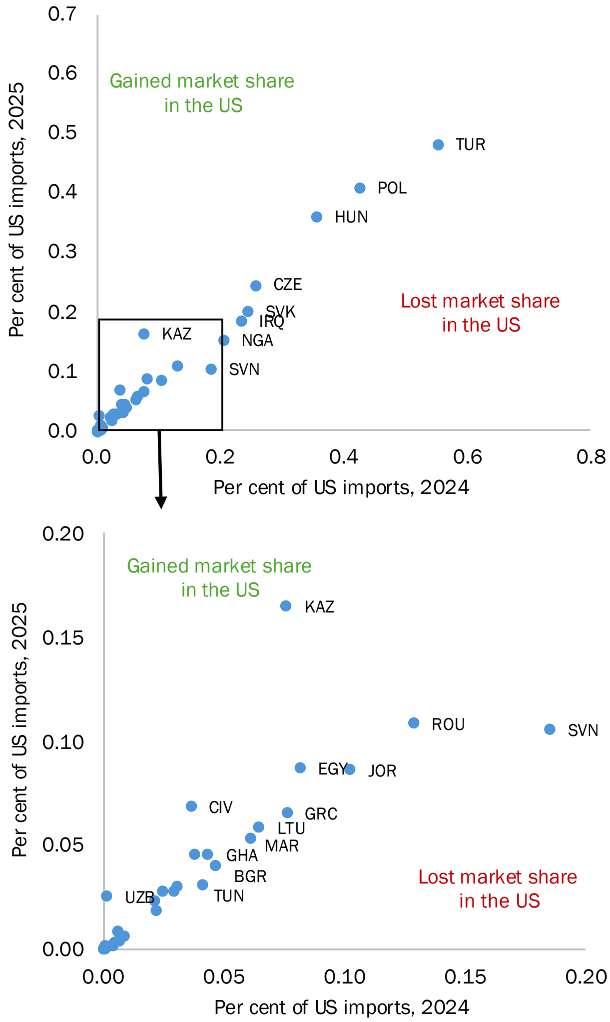
Chart 16. Substitution in US imports from China to the EBRD regions is observed for some products



Source: UN Comtrade and authors' calculations.
Note: The sample is restricted to the subset of HS4 product groups where US imports from China fell and imports from the EBRD regions increased between January-July 2024 and January-July 2025. Based on imports reported by the US.

In some of those cases, exporters from the EBRD regions gained market share in the US (see Chart 17). The largest gains were recorded in the cases of Kazakhstan and Uzbekistan (precious metals) and Côte d'Ivoire (cocoa beans). While trends for precious metals in part reflect higher prices, volumes also increased, possibly reflecting rising demand for AI-related components.

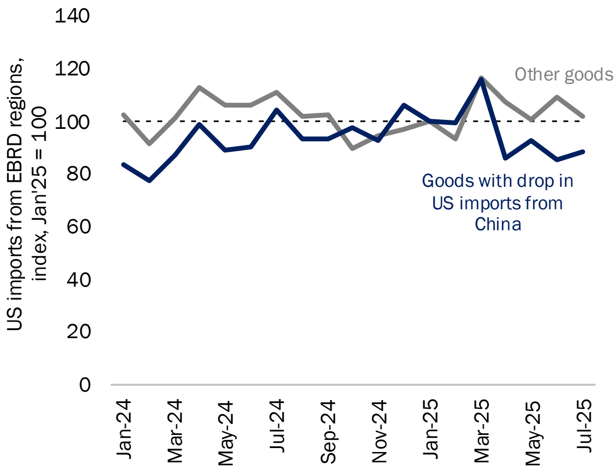
Chart 17. For some products, exporters from the EBRD regions gained market share in the US



Source: UNCTAD and authors' calculations.
Note: January-July 2025 relative to January-July 2024. The chart shows an economy's exports to the US as per cent of total US imports.

Despite some trade diversion in response to tariffs imposed by the US on individual economies, common global demand and supply factors often dominated for trade in specific products. On average, the role of economies in the EBRD regions in the reconfiguration of the US supply chains has been limited so far. If anything, for goods where US imports from China fell in 2025, US imports from the EBRD regions also tended to decline (see Chart 18).

Chart 18. In aggregate, for products where US imports from China fell, US imports from the EBRD regions also fell

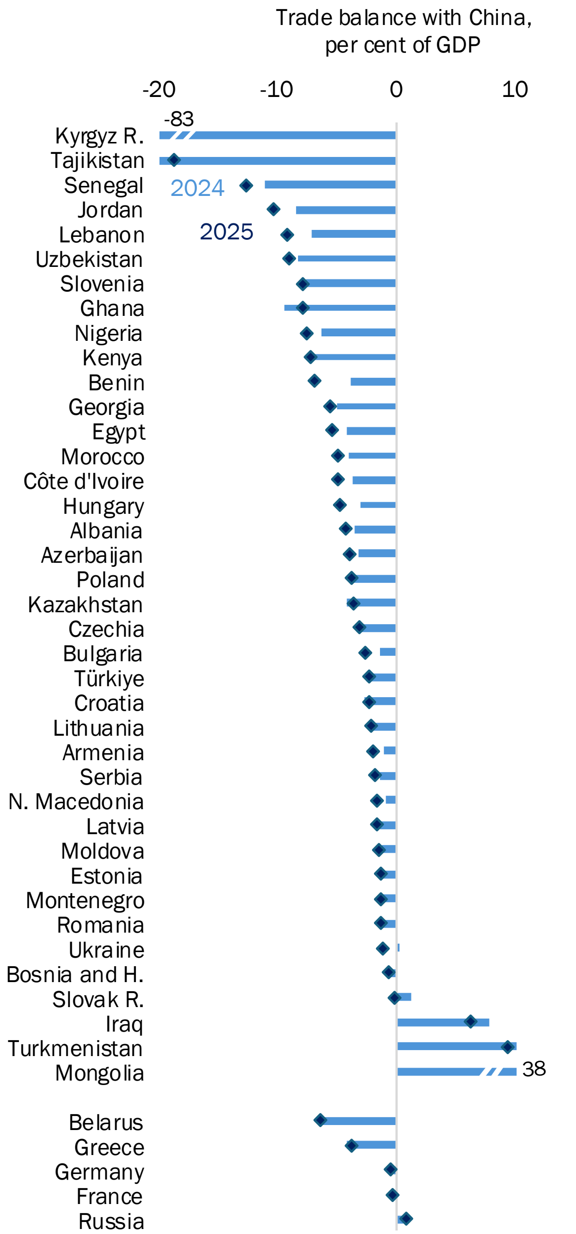


Source: UNCTAD and authors' calculations.
Note: Goods with a drop in US imports from China are defined as HS6 products with decreasing US-China imports between January-July 2024 and January-July 2025.

Trends in the EBRD regions' trade with China

Most economies in the EBRD regions run a trade deficit with China (see Chart 19). These trade deficits are especially large for the Kyrgyz Republic and Tajikistan. Notable exceptions are Mongolia, Turkmenistan and Iraq, with large trade surpluses with China driven by commodity exports. Trade balances with China worsened for almost three-quarters of economies in the EBRD regions between 2024 and 2025, reflecting rising imports from China.

Chart 19. Most economies in the EBRD regions have a trade deficit with China



Source: China's customs statistics and authors' calculations.
Note: Based on bilateral trade over 12 months as reported by China.

In aggregate, China accounts for a rising share of imports for most economies in the EBRD regions (and globally outside the US). This appears to largely reflect increased production capacity and price competitiveness in China as well as shifts in global demand for certain goods.

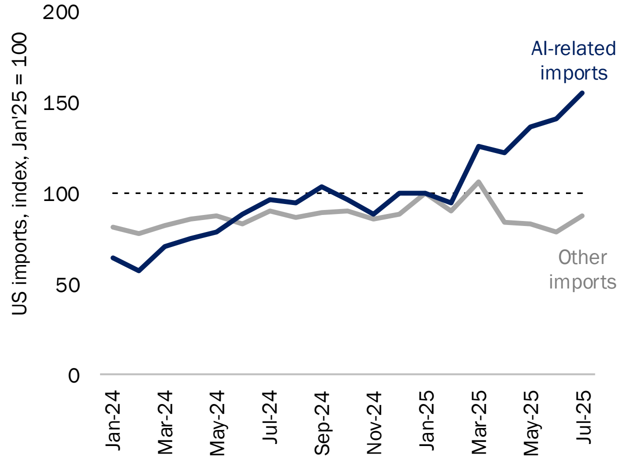
As far as possible spillover effects of higher US import tariffs are concerned, as Chinese goods previously sold in the US are redirected to other markets, this could put pressure on exporters from the EBRD regions (as well as exporters elsewhere). Yet, so far, for most goods where US imports from China fell significantly, exports of those goods from the EBRD regions actually *rose*.

In addition, only in Hungary and a few other economies were the increases in imports from China more pronounced specifically for goods where US imports from China dropped sharply. Elsewhere, the increase in imports from China was broad-based with China's import share increasing for 80 per cent of HS6 products imported by the EBRD regions.

The rise of AI supply chains

These trends point to the importance of common demand factors. For instance, exports related to the AI supply chain have been on the rise across the board. The relevant technologies extend beyond semiconductors and microchips and cover the broader infrastructure required to build, connect and operate data centres. US imports of AI-related products rose by 65 per cent year on year in the first seven months of 2025 (see Chart 20).

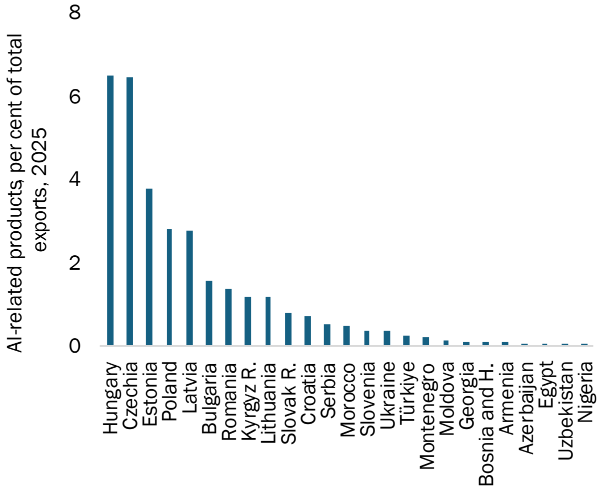
Chart 20. US imports of AI-related goods have risen sharply



Source: UN Comtrade and authors' calculations.
Note: 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).

These developments open new opportunities for economies in the EBRD regions. Hungary, Czechia, Estonia and Poland, among other economies, already developed substantial export capabilities that could potentially be leveraged in the AI supply chain (see Chart 21). In 2025, their relevant exports included, for instance, computing hardware (such as servers and processors) sold by Czechia and Hungary and computing systems and network infrastructure from Poland. Key export destinations for Czechia's and Poland's exports were Germany, the Netherlands and the United Kingdom. Hungary's top export destination was the United States. These economies could further benefit from new opportunities in this sector.

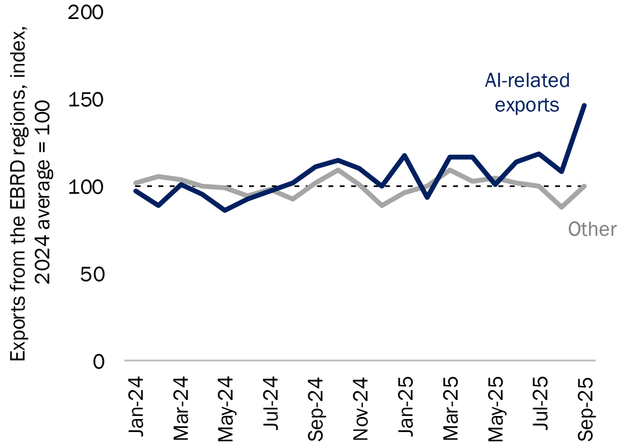
Chart 21. Hungary, Czechia, Estonia and Poland could benefit from new opportunities in AI supply chains



Source: UN Comtrade and authors' calculations.
Note: 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).

In 2025 (based on months with available data), the EBRD regions' exports of AI-related technologies increased by 19 per cent year on year, with especially strong growth recorded in Hungary, Czechia and Poland, and in the cases of servers, computing units, computers and processors. This compares with a growth rate of 5 per cent for other goods (see Chart 22). Faster growth of nominal exports in AI-related sectors in part reflect higher prices of goods as global demand has outpaced global supply of these components.

Chart 22. Growth of exports of AI-related technologies from the EBRD regions outpaced 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).

Changes in revealed comparative advantage

The following section examines longer-term changes in the structure of exports from the EBRD regions drawing on the analysis in Koczan et al. (2026a). While the analysis above focused on short-term responses to changes in tariff barriers, the focus of this section is on longer-term patterns in trade among countries, focusing on the evolution of countries' areas of revealed comparative advantage (RCA) – products where countries enjoy an above-average share of the global market.

RCA is thus a term used as a proxy for economies' competitive export strengths as 'revealed' by observed trade flows. In particular, a country is said to have a revealed comparative advantage in a given product if that product's share of a country's total exports is higher than that product's share of world trade. This measure can be straightforwardly calculated using global trade data.

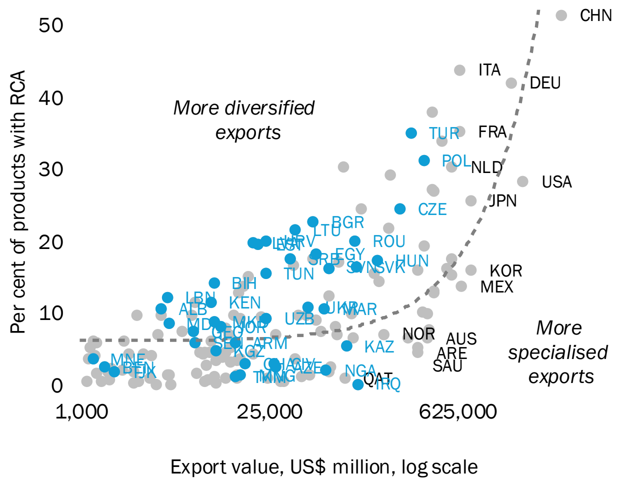
For instance, in 2024, medicaments (HS code 300490) represented 1.7 per cent of world trade but accounted for 34 per cent of Slovenia's total exports. Slovenia thus exports 20 times its 'share' of total exports of medicaments and is thus said to have a (strong) revealed comparative advantage in this sector.

In order to restrict analysis to meaningful exports, the following analysis is restricted to goods with at least US$ 100,000 in exports for a particular HS6 product (one of approximately 5,500 categories in the classification) from a given country.

Most economies in the EBRD regions export relatively diverse baskets of goods. The average economy in the EBRD regions has an RCA in 11 per cent of exported goods, compared with 9 per cent for the rest of the world. Goods exported with an RCA account for most exports (around 80 per cent of the total in the case of the EBRD regions).

In general, larger exporters tend to have more diversified export structures and thus larger shares of products exported with an RCA. For instance, China (in the top right corner of Chart 22) exports 97 per cent of all traded HS6 lines and has an RCA in over half of them. Economies in the EBRD regions tend to have high shares of products with an RCA for their level of exports (see Chart 23; economies in the EBRD regions are typically above the fitted line).

Chart 23. Most economies in the EBRD regions have high shares of products with an RCA for their level of exports



Source: BACI (2026) and authors' calculations.
Note: The chart plots the share of products with an RCA among all products with global exports of at least US$ 100,000 in 2024. Economies in the EBRD regions are shown in blue. Linear trend line.

In contrast, the share of products with an RCA is not clearly related to countries' level of development, in part due to the fact that lower-income and higher-income economies specialise in different products leveraging their competitive strengths.

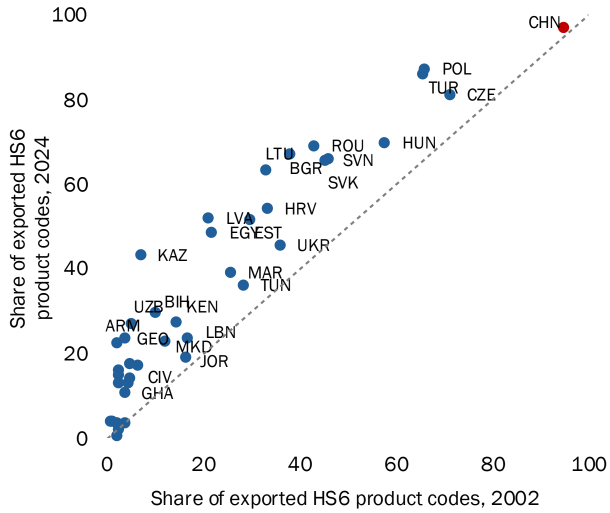
In economies exporting few goods, exports are, on average, focused in the areas of those countries' relative strengths. As countries export more products, the dominance of goods exported with a revealed comparative advantage in their export baskets tends to first decline before picking up again for exporters covering nearly all the nomenclature of products such as large economies in advanced Europe, China, Japan, Korea, the US as well as Poland and Türkiye (see the trend line in Chart 24).

Chart 24. As countries diversify their export baskets, the dominance of goods with an RCA declines

Source: BACI (2026) and authors' calculations.
Note: Data refer to 2024. The chart plots the share of products with an RCA among all products with global exports of at least US$ 100,000 (y axis) against the ratio of the number of products with at least US$ 100,000 in exports to the total number of HS6 products. Economies in the EBRD regions are shown in blue. Trend line based on quadratic fit.

Most economies in the EBRD regions have also become more diversified over time and now export more products than they did two decades ago. The increase in diversity of exports was especially pronounced in Lithuania, Latvia, Bulgaria, Romania, Poland and Türkiye (from already relatively high levels), as well as Kazakhstan (from a relatively lower level; see Chart 25).

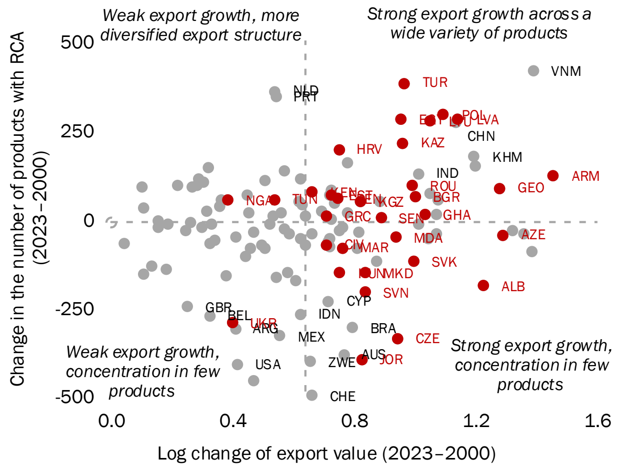
Chart 25. Most economies in the EBRD regions export more products now than in 2002



Source: BACI (2026) and authors' calculations.
Note: The chart shows the share of HS6 products with exports in excess of US$ 100,000 in the total number of HS6 products.

Most economies in the EBRD regions (as well as China, India and Vietnam among other emerging markets) saw strong export growth over the last two decades accompanied by a rising share of goods exported with an RCA (see Chart 26). In contrast, for instance, in the United States, the United Kingdom and a number of other advanced economies, export growth was relatively slow, and the share of products exported with an RCA declined.

Chart 26. Most economies in the EBRD regions saw strong export growth over the last two decades accompanied by export diversification



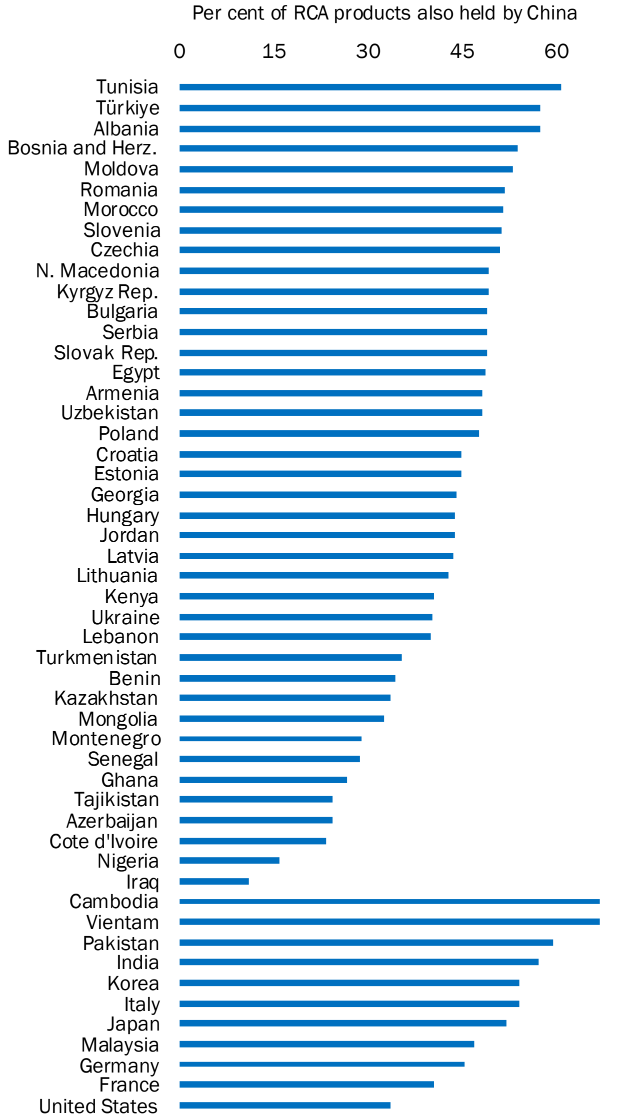
Source: UN Comtrade and authors' calculations.
Note: The vertical dashed line corresponds to the median value of change in exports across all economies.

Overlap in economies' RCA

China, the world's largest exporter, sells nearly all products (97 per cent; with trade of at least US$ 100,000 in each of them). Of the HS6 products imported by economies in the EBRD regions, China exports around 87 per cent, up from around 58 per cent in 2002. For the US, this share rose from 63 to 77 per cent over the same period.

China has an RCA in over half of all traded HS6 goods. About a third of exports from the EBRD regions are in products in which China has an RCA. For Tunisia, Türkiye and a number of other economies in the EBRD regions, over half of exports with an RCA are goods where China also has an RCA (see Chart 27; the extent of overlap between an economy's areas of RCA and those of China has no clear relationship with income per capita).

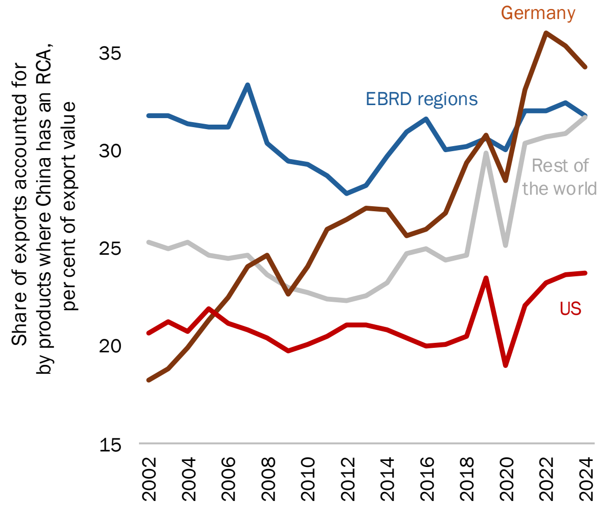
Chart 27. For some economies in the EBRD regions, over half of exports with an RCA are goods in which China also has an RCA



Source: BACI (2026) and authors' calculations.
Note: Data refer to 2024. The bars show the share of products where China has an RCA in the total number of products that an economy exports with RCA.

The share of EBRD regions' exports (by value) accounted for by products where China enjoys an RCA rose from 28 per cent in 2012 to 32 per cent in 2024 (see Chart 28; an even starker rise in overlap between areas of RCA is observed for Germany versus China). This rising overlap is mostly driven by the EBRD regions' growing exports of products in which China had an RCA. However, for a few economies (such as Benin, Jordan, North Macedonia, Poland, Slovenia and Ukraine) the trend is driven by China developing new areas of RCA, for instance, in vehicles, engines, coke and semi-coke of coal and steel bars.

Chart 28. The overlap between areas of RCA of economies in the EBRD regions and those of China has been rising since 2012



Source: BACI (2026) and authors' calculations.

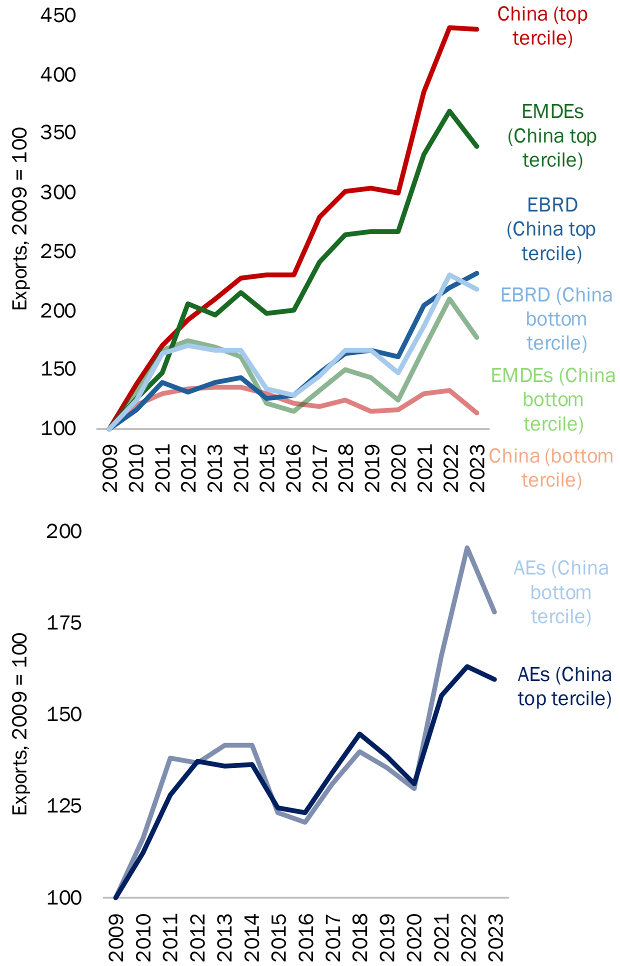
Exports of China and other economies: product-level trends

The rising overlap in areas of RCA between China and other economies raises the question whether exports of economies in the EBRD regions may be crowded out by China as a result of increased competition in export markets.

Looking at the evolution of exports over the last 15 years, for products where China's exports rose the most, emerging markets' exports also tended to increase faster than for other products (see Chart 29, panel 1). Products are split into those where China increased its share of world exports the most between 2009 and 2023 (the top tercile of HS6 products, including, for instance electric vehicles; see also Box 2) and those where it increased its share the least (the lowest tercile of HS6 products, including, for instance, electric alarm clocks).

In contrast with the co-movement observed between the exports of China and other emerging markets, exports from advanced economies expanded faster over the long term for products where China's exports were growing more slowly (see Chart 29, panel 2).

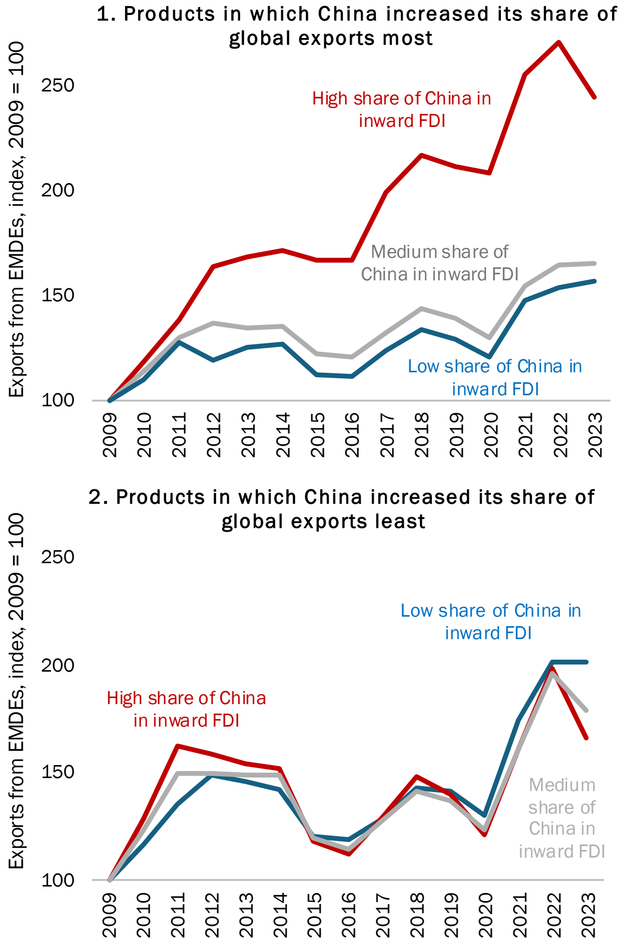
Chart 29. Emerging markets' exports comoving with China's



Source: BACI (2025 version) and authors' calculations.
Note: The chart shows export dynamics across two product groups: products in which China increased its share of world exports the most between 2009 and 2023 (highest tercile; 1,740 HS6 products) and products in which China increased its share the least (lowest tercile; 1,740 HS6 products). AE and EMDE denote advanced economies and emerging markets and developing economies respectively, following IMF country groupings.

Emerging market export growth was more aligned with China's (across products) for economies with lower levels of GDP per capita, and for those with higher shares of FDI projects from China (see Chart 30). This was also the case for economies with stronger geopolitical alignment with China (based on voting patterns in the UN General Assembly, UNGA), more so since 2017. As these variables are closely correlated across countries, their effects on the evolution of product structures of exports are difficult to disentangle empirically.

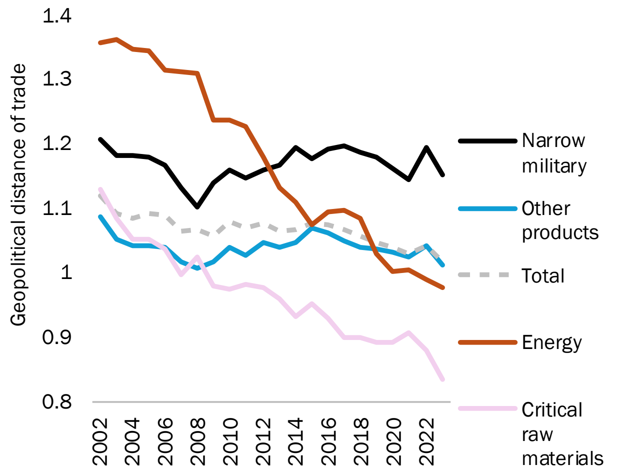
Chart 30. Emerging market export growth was more aligned with China's for economies with higher shares of FDI inflows from China



Source: BACI (2025 version), FT fDi Markets database and authors' calculations.
Note: The chart shows export dynamics across two product groups: products in which China increased its share of world exports the most between 2009 and 2023 (highest tercile; 1,740 HS6 products, upper panel) and products in which China increased its share the least (lowest tercile; 1,740 HS6 products, lower panel). EMDE denotes emerging markets and developing economies, following IMF country groupings. EMDEs are divided into three equally sized groups based on the share of Chinese FDI in total inward FDI into the economy over the period 2003–2025.

More generally, the geopolitical distance of international trade has been shrinking, implying more trade between economies with stronger geopolitical alignment and less trade between geopolitically distant economies. This trend has been more pronounced for energy and critical raw materials than for other goods (see Chart 31).

Chart 31. The geopolitical distance of international trade has been shrinking



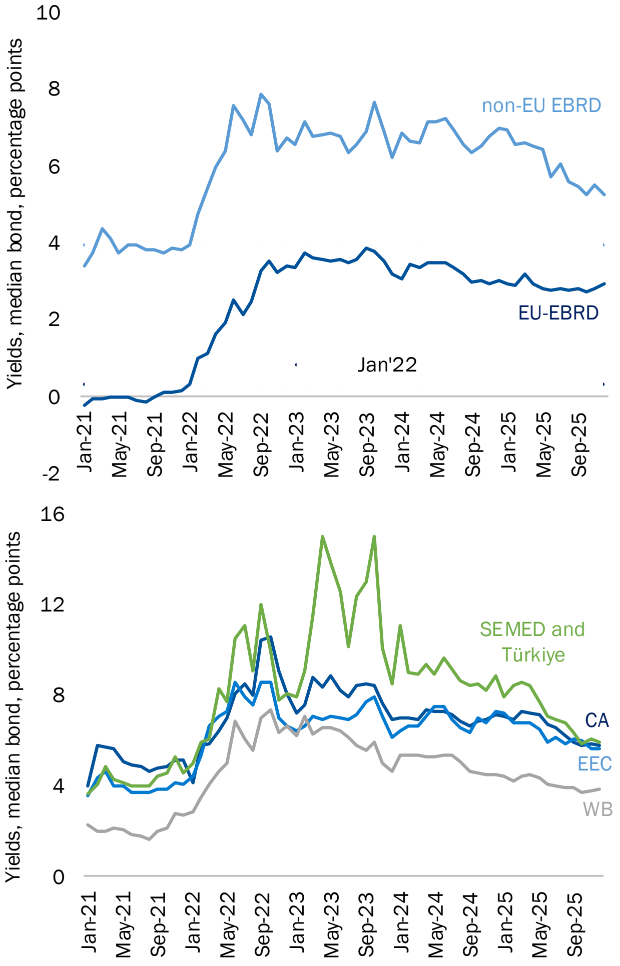
Source: BACI (2025 version), European Commission (2024), IEA (2023), Liu et al. (2025), Voeten (2009) and authors' calculations.
Note: The lines represent the geopolitical distance travelled by trade, measured as a weighted average of bilateral geopolitical distances (based on voting in the UN in 2021), where the weights are the value of bilateral trade in each year. Military products are those included either in the EU list of common high-priority items or in the original 2007 US–China Military Catch-All Rule list.

Vulnerabilities

Rising geopolitical tensions have been reshaping trade and investment patterns, leading to increased spending on industrial policies and defence (see Box 3) and weighing on borrowing costs.

Bond yields in the EBRD regions increased sharply in February 2022, following the start of the war on Ukraine. They have since come down across the EBRD regions (more recently in non-EU-EBRD economies), though they remain above their January 2022 levels (see Chart 32).

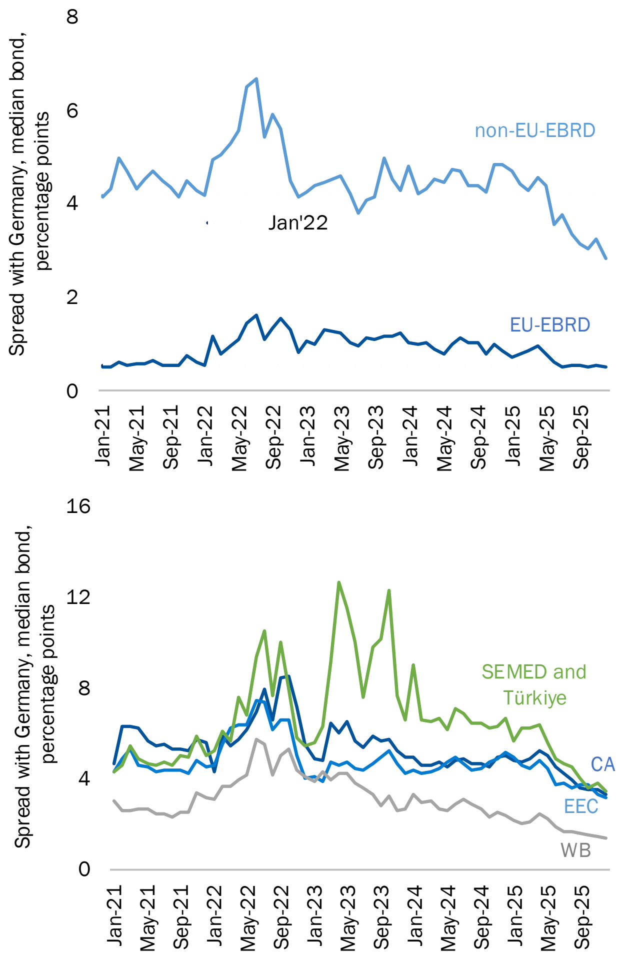
Chart 32. Bond yields have come down across the EBRD regions



Source: Bloomberg and authors' calculations.
Note: Government bonds in euros or US$ with maturities of 4 to 7 years. EU-EBRD and non-EU-EBRD refer to medians across these sub-regions. EU-EBRD average is based on data for Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

As similar trends were observed in advanced economies, the median spread relative to Germany is currently lower than it was in January 2022 (see Chart 33).

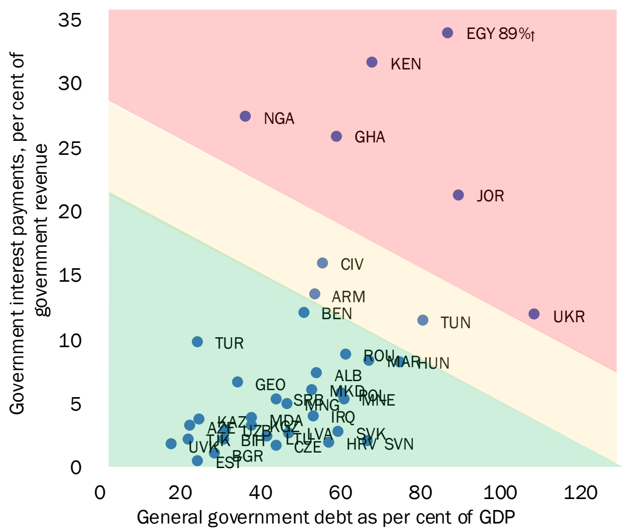
Chart 33. The median spread relative to Germany is lower than it was in January 2022



Source: Bloomberg and authors' calculations.
Note: Spread between the German 5-year bond and median government bond in EUR or USD of maturity between 4 and 7 years. EU-EBRD average is based on data for Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia.

A number of economies in the EBRD regions are facing both high ratios of government debt to GDP and high ratios of interest payments to government revenues (see Chart 34). For instance, government interest payments reached 89 per cent of government revenues in Egypt in 2025 and are estimated to account for over 30 per cent of revenues in Kenya, and over 20 per cent in Nigeria, Ghana, Senegal and Jordan.

Chart 34. A number of economies in the EBRD regions face high interest payments as per cent of revenues



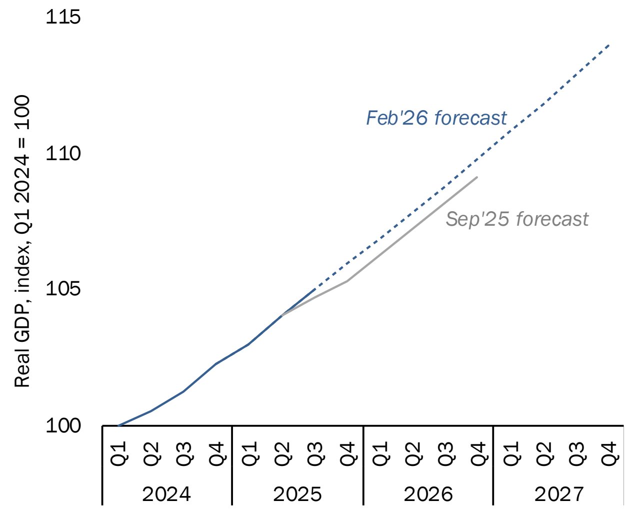
Source: IMF and authors' calculations.
Note: Data refer to 2025 or latest available.

Output in the EBRD regions is expected to grow by 3.6 per cent in 2026 and 3.7 per cent in 2027

Growth in the EBRD regions is expected at 3.6 per cent in 2026 and 3.7 per cent in 2027 (see Chart 35). For 2026, this represents an upward revision of 0.2 percentage point relative to the forecast made in September 2025,[2] with large upward revisions in the southern and eastern Mediterranean (driven by an expected pick-up in growth in Iraq), Türkiye, Central Asia, sub-Saharan Africa and, to a lesser extent, central Europe and the Baltic states. Growth momentum is expected to be sustained as continued disinflation supports consumption, large infrastructure projects boost investment, and external demand remains stronger than previously expected.

The quarterly path of average GDP shown in Chart 34 illustrates that while previous forecasts assumed a relatively weaker second half of 2025, the latest estimates point to growth more in line with historical averages.

Chart 35. Previous forecasts assumed a relatively weaker second half of 2025



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.

Regional outlooks

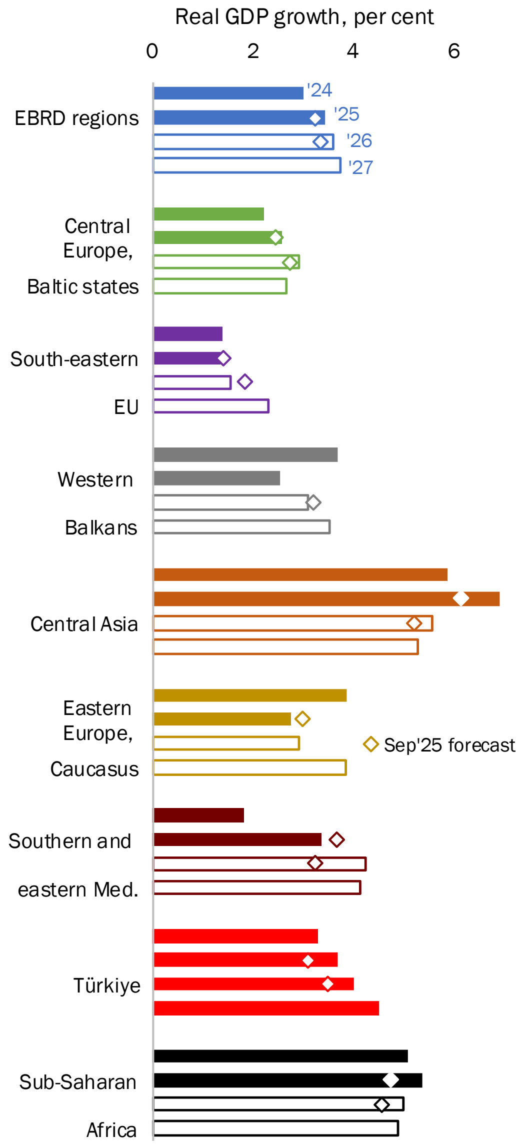
Growth in **central Europe and the Baltic states** picked up from 2.2 per cent in 2024 to an estimated 2.6 per cent in 2025. Outturns for 2025 were better than expected, boosted by strong domestic demand (see Chart 36). Exports were also supported by improved sentiment in the Nordic economies and some improvements in Germany's economic outlook. Growth is expected to pick up to 2.9 per cent in 2026 (revised up) as investment is expected to rise further ahead of upcoming Recovery and Resilience Facility (RRF) deadlines before moderating to 2.7 per cent in 2027.

Growth in the **south-eastern EU** decelerated from 2.2 per cent in 2023 to 1.4 per cent in 2024 and 2025. It is expected to remain broadly at this level in 2026 (revised down on fiscal consolidation

[2] As of 1 January 2026, Greece is no longer an EBRD investee economy. For comparability with earlier forecasts, averages for the EBRD regions are reported both with and without Greece in Table 1. The 2026 growth forecast for the EBRD regions *including Greece* has been revised up by 0.3 percentage points relative to the September 2025 *Regional Economic Prospects*.

weighing on consumption in Romania) before picking up to 2.3 per cent in 2027.

Chart 36. Largest upward revisions to forecasts for 2026 in the southern and eastern Mediterranean, Türkiye, sub-Saharan Africa and Central Asia



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

Growth in the **Western Balkans** slowed from 3.7 per cent in 2024 to an estimated 2.5 per cent in 2025, a weaker-than-expected outturn reflecting, in particular slower-than-anticipated growth in Serbia. Growth is expected to pick up to 3.1 per cent in 2026 and rise further to 3.5 per cent in 2027, supported by domestic demand, including major public investment and infrastructure projects across the region.

Growth in **Central Asia** picked up from 5.9 per cent in 2024 to an estimated 6.9 per cent in 2025. This outturn was better than previously expected on stronger consumption, high credit growth, robust remittances and high investment. The 2026 forecasts have also been revised up to 5.6 per cent on account of large-scale investment projects, in particular in the Kyrgyz Republic and Tajikistan. Growth is expected to moderate to 5.3 per cent in 2027.

In **eastern Europe and the Caucasus**, growth slowed from 3.9 per cent in 2024 to an estimated 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 and extensive disruptions to the energy sector, infrastructure and logistics due to Russia's ongoing war weighed on growth in Ukraine. Growth in eastern Europe and the Caucasus is expected to pick up to 2.9 per cent in 2026 and 3.9 per cent in 2027. The 2026 growth forecast for **Ukraine** has been revised down as the economic impact of a potential peace deal would take time to materialise fully.

In **Türkiye**, growth picked up from 3.3 per cent in 2024 to an estimated 3.7 per cent in 2025, reflecting better-than-expected outturns across most sectors despite episodes of market volatility and a tight fiscal and monetary policy mix. Growth is expected to pick up further to 4.0 per cent in 2026 and 4.5 per cent in 2027.

After averaging 2.2 per cent in 2023 and 1.8 per cent in 2024 growth in the **southern and eastern Mediterranean** is estimated to have picked up to 3.4 per cent in 2025. The outcomes exceeded expectations with a notable exception of Iraq where oil output was lower than anticipated. The growth forecast for the region has been revised up, to 4.2 per cent in 2026, driven by an expected recovery in oil output in Iraq following the lifting of earlier production caps. Growth is expected to remain around 4.1 per cent in 2027.

Growth in **sub-Saharan Africa** picked up from 4.5 per cent in 2023 to 5.1 per cent in 2024 and an estimated 5.4 per cent in 2025. This was much better than previously expected, as economic activity was boosted by rising commodity export receipts. Growth is expected to moderate somewhat to 5 per cent in 2026 and 4.9 per cent in 2027.

Risks to the outlook

The outlook for growth in the EBRD regions is subject to numerous risks. Given their high degree of openness, many economies in the EBRD regions could be negatively impacted by a further escalation of global geopolitical tensions, both directly and indirectly via key trading partners such as Germany. A sudden tightening of financing conditions, as a result of renewed inflationary pressures, presents a source of risk, in particular for economies with already substantial external and fiscal vulnerabilities. For commodity exporters, extreme weather events as well as commodity price fluctuations pose further risks to the outlook.

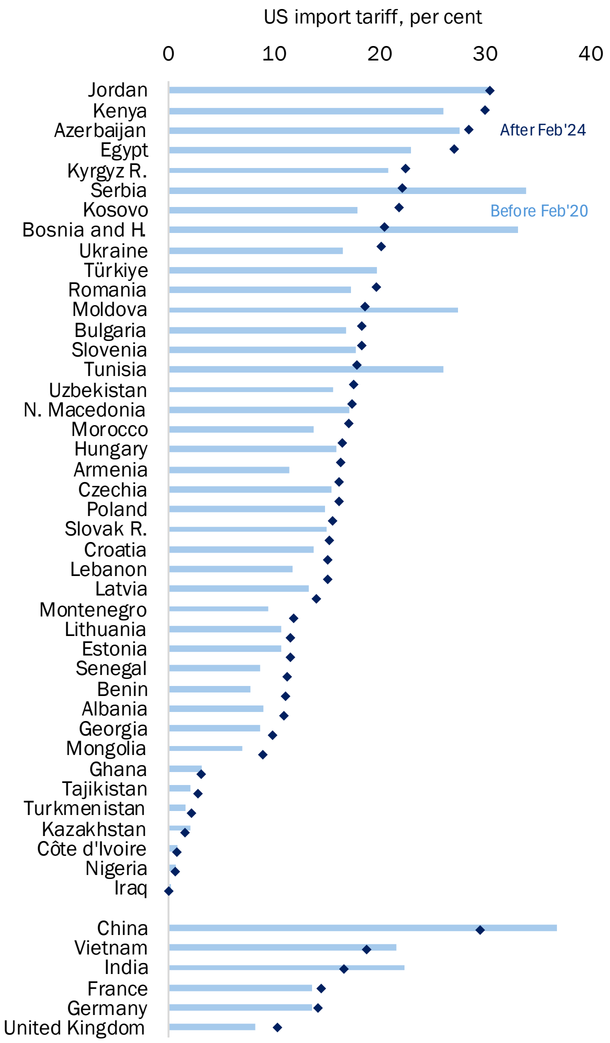
Box 0. Changes in US import tariffs in February 2026

A new set of US import tariffs came into force at the end of February 2026. At the time of writing, the level of the new tariff remained uncertain. Assuming a 15 per cent new tariff under Section 122, the trade-weighted average US import tariff declined by about 2 percentage points relative to the pre-ruling level. Globally, Brazil, China and India emerged as the biggest winners having faced higher country-specific tariffs before the latest announcement, while the UK, Italy and Singapore now face significantly higher US import tariffs. The US import tariff faced by the EBRD regions, on average, increased by 0.3 percentage points with 29 economies in the EBRD regions now being subject to higher tariffs. Armenia, Egypt, Kenya, Kosovo and Ukraine saw the largest increases while the biggest winners were Bosnia and Herzegovina, Serbia, Moldova and Tunisia.

On 20 February 2026 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 White House invoked Section 122 of the Trade Act of 1974 and imposed a flat 10 per cent tariff on most US imports, effective 24 February 2026, for 150 days. On 22 February, the US administration declared an intention to raise the tariff further, from 10 per cent to 15 per cent. Steel, aluminium, copper, lumber and automobiles (products which were already subject to Section 232 tariffs), Annex II goods (approximately 1,100 product codes) and articles entering duty-free under the United States-Mexico-Canada Agreement (USMCA) are exempt.[3] The goods-specific component of earlier tariffs remained unchanged while country-specific tariffs changed to 10 (or 15) per cent across all economies, overriding earlier agreements (including any tariff exemptions for specific goods embedded in those agreements). The new Section 122 tariffs could remain in place for a maximum of 150 days from February 24, 2026 (expiring July 24, 2026), unless extended by US Congress.

Assuming the 15 per cent tariff under Section 122, the trade-weighted average US import tariff declined by about 2 percentage points (from 15.3 per cent before the court ruling to 13.2 per cent). In the absence of Section 122 tariffs imposed after the ruling, the average would have come down to 8.3 per cent.[4]

Chart 0.1. Jordan, Kenya, Azerbaijan and Egypt now face the highest US import tariffs in the EBRD regions



Source: Global Trade Alert and authors' calculations. Note: Before Feb'20 refers to US import tariffs before the Supreme Court ruling. After Feb'24 refers to the new US import tariffs assuming the 15 per cent tariffs under Section 122.

[3] See Fritz (2026) and The White House (2026).

[4] See Fritz (2026).

While the overall change in tariffs was relatively small, the new regime resulted in clear winners and losers. Among the top 20 source countries of US imports, countries that faced steep IEEPA tariffs now saw substantial declines in the US import tariffs they are facing. These include Brazil (-14 ppt), China (-7 ppt), India (-6 ppt) as well as Canada, Mexico, Vietnam, Thailand and Malaysia (see Chart 0.1). In turn, countries with relatively lower pre-ruling tariffs now face higher US import tariffs: among the top 20 source countries of US imports, the United Kingdom (+2.1 ppt), Italy (+1.7 ppt), and Singapore (+1.1 ppt) saw the largest increases as the new 15 per cent tariffs exceed what they faced under the IEEPA regime. While China still faces high tariffs in relative terms, the gap between the rate applied to imports from China and those from other countries has narrowed.[5]

The US import tariff faced by the EBRD regions, on average, increased from 14.6 to 15 per cent, with 29 economies in the EBRD regions now facing higher tariffs. Armenia, Egypt, Kenya, Kosovo and Ukraine saw the largest increases in US import tariffs (+3.7 to 4.8 ppt). The biggest winners, in turn, were Bosnia and Herzegovina (-12 ppt), Serbia (-12 ppt), Moldova (-9 ppt) and Tunisia (-8 ppt), which had faced high US import tariffs under IEEPA (see Table 0.1). US import tariffs faced by Kazakhstan and Iraq also declined, but by less than one percentage point, while tariffs remained unchanged for Côte d'Ivoire, Ghana, Jordan, Nigeria, North Macedonia and Türkiye. Jordan, Kenya, Azerbaijan and Egypt now face the highest US import tariffs in the EBRD regions, in excess of 25 per cent (see Chart 0.1).

[5] See Fritz (2026).

Table 0.1. US import tariffs faced by select economies

Country	Before Supreme Court ruling	IEEPA accounting for exemptions	After IEEPA was removed	With 10 per cent tariff under S122	With 15 per cent tariff under S122
Jordan	30.6	13.2	17.3	26.2	30.6
Kenya	26.0	8.0	18.0	26.0	30.0
Azerbaijan	27.5	2.0	25.6	27.5	28.5
Egypt	23.0	8.3	14.7	23.0	27.1
Kyrgyz Rep.	20.8	3.5	17.3	20.8	22.6
Serbia	34.0	20.6	13.4	19.3	22.2
Kosovo	17.9	8.0	9.9	17.9	21.9
Bosnia and Herz.	33.1	25.0	8.1	16.4	20.6
Ukraine	16.6	7.4	9.3	16.6	20.3
Türkiye	19.8	10.5	9.4	16.3	19.8
Romania	17.4	6.0	11.4	16.3	18.7
Moldova	27.4	22.5	4.9	13.9	18.4
Bulgaria	16.9	6.9	10.0	15.5	18.3
Slovenia	17.7	1.4	16.3	17.4	18.0
Tunisia	26.0	21.0	5.1	13.4	17.6
Uzbekistan	15.6	3.6	12.0	15.6	17.4
N. Macedonia	17.1	7.2	9.9	14.7	17.1
Morocco	13.7	5.7	8.0	13.7	16.6
Hungary	16.0	3.1	12.8	15.2	16.4
Armenia	11.4	9.6	1.9	11.4	16.2
Czechia	15.4	7.4	8.0	13.4	16.2
Poland	14.8	8.5	6.3	12.5	15.7
Slovak Rep.	15.1	1.5	13.6	14.7	15.3
Croatia	13.8	6.3	7.5	12.6	15.2
Lebanon	11.7	6.7	5.0	11.7	15.1
Latvia	13.3	9.9	3.3	10.5	14.1
Montenegro	9.5	5.1	4.4	9.5	12.0
Lithuania	10.8	6.7	4.1	9.2	11.7
Estonia	10.7	7.0	3.7	8.9	11.6
Senegal	8.7	5.2	3.5	8.7	11.2
Benin	7.8	6.7	1.1	7.8	11.2
Albania	9.0	4.0	5.0	9.0	11.0
Georgia	8.7	2.5	6.2	8.7	9.9
Mongolia	7.0	3.9	3.1	7.0	9.0
Ghana	3.1	1.9	1.3	2.5	3.1
Tajikistan	2.0	1.6	0.4	2.0	2.8
Turkmenistan	1.6	1.3	0.3	1.6	2.2
Kazakhstan	2.1	1.3	0.8	1.4	1.6
Côte d'Ivoire	0.9	0.7	0.2	0.6	0.9
Nigeria	0.6	0.6	0.1	0.4	0.6
Iraq	0.1	0.1	0.0	0.0	0.0
China	36.8	15.6	21.2	26.9	29.7
Vietnam	21.6	11.2	10.4	16.0	18.8
India	22.3	14.1	8.2	13.9	16.7
France	13.6	8.8	4.8	11.3	14.6
Germany	13.7	6.0	7.7	12.1	14.3
United Kingdom	8.3	4.1	4.2	8.3	10.3

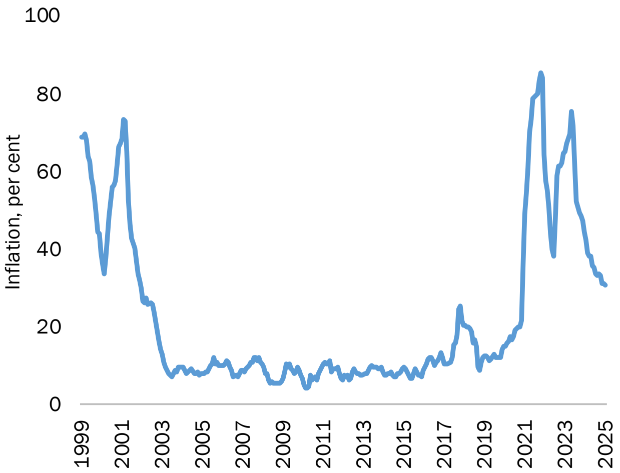
Source: Global Trade Alert and authors' calculations.

Box 1. Disinflation in Türkiye: Demand-supply decomposition

This box looks at the ongoing disinflation episode in Türkiye and compares it with the earlier disinflation episode in the aftermath of the 2001 economic crisis.

Inflation in Türkiye peaked at 86 per cent year on year in October 2022. After declining to 38 per cent in June 2023, the inflation rate climbed back to 75 per cent by May 2024 in part reflecting inflationary pressures from a weaker currency. Disinflation subsequently took hold, with inflation gradually declining to 31 per cent year on year in December 2025 (see Chart 1.1) as the mix of monetary and fiscal policy stances became tighter following an earlier period of unconventional policy choices.

Chart 1.1. Two major disinflation episodes in Türkiye since the late 1990s

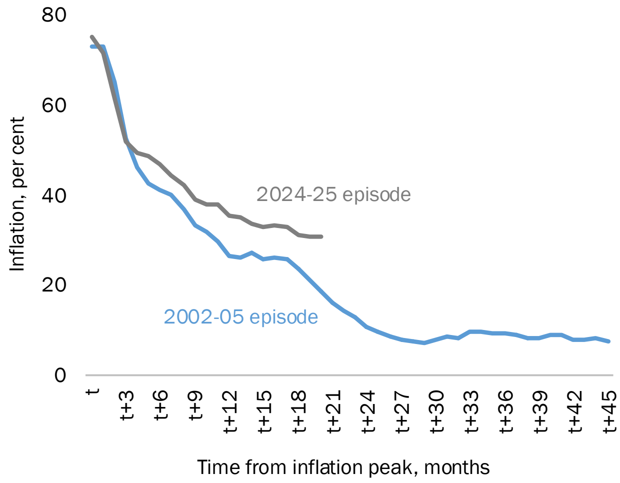


Source: TURKSTAT and authors' calculations.
Note: CPI inflation, year-on-year change.

Following the 2001 crisis, inflation similarly peaked at 73 per cent at the beginning of 2002. In 2004, inflation declined to single-digit levels, supported by the "Transition to a stronger economy" programme introduced in the aftermath of the crisis. The programme combined fiscal, monetary, and structural policies, including greater central bank independence, the adoption of a floating exchange rate regime, inflation targeting, fiscal consolidation efforts and reforms in the banking sector aimed at strengthening supervision and reducing the ratio of non-performing loans.

In that earlier episode, the transition from the inflation peak to a relatively stable price environment took around four years (see Chart 1.2), underscoring the fact that successful disinflation typically requires time and sustained implementation of structural reforms as well as a tighter mix of monetary and fiscal policy. In addition, the lags involved in monetary policy transmission can be substantial.

Chart 1.2. The pace of disinflation was slower than in 2002-05



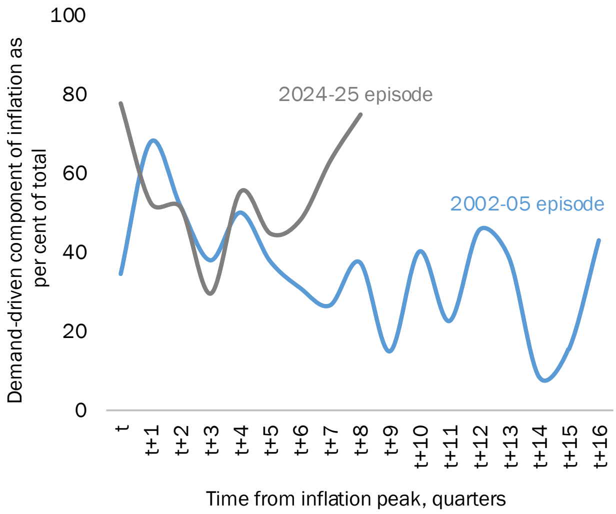
Source: TURKSTAT and authors' calculations.
Note: CPI inflation, year-on-year change. Inflation peaks are January 2002 and May 2024.

The pace of disinflation in the latest episode was initially similar to that after the 2001 crisis. Subsequently, the two paths started diverging as disinflation in 2025 has been somewhat slower than initially projected by the authorities. The central bank's year-end inflation forecast for 2025 was revised from 21 per cent in November 2024 to 24 per cent in early 2025 and eventually towards the 30 per cent mark even as the interim target of 24 per cent was maintained.[6]

To examine inflation dynamics across the two episodes, the methodology in Shapiro (2022) is applied to decompose Türkiye's inflation into supply- and demand-driven components, using national accounts data in lieu of personal consumption expenditures or retail sales, based on available data with a sufficiently long time series dimension.[7] In these calculations, as in earlier *Regional Economic Prospects*, the drivers of inflation are decomposed using output and deflator data for specific sectors and a vector autoregression (VAR) model. The model uses four lags for sectoral deflators (capturing changes in output prices) and quarterly output volumes. The model is used to generate one-period-ahead forecasts and the residuals (errors) from these forecasts are then used to categorise inflation in a given sector as demand- or supply-driven. The underlying logic is that while demand-side shocks push prices and quantities in the same direction (for instance, expansionary fiscal policies cause prices and sales to rise), supply-side shocks move them in opposite directions (for instance, spikes in energy prices increase the prices of goods while output contracts). If the residuals (forecast errors) for prices and output share the same sign, the price change is classified as demand-driven; if they have opposite signs, the price change is attributed to supply-side factors.[8]

During the early months of both disinflation episodes, the estimated contributions of demand-side factors to inflationary pressures were similar, averaging around 50 per cent (see Chart 1.3, contributions estimated using GDP deflators are applied to the headline CPI inflation). In the 2002-05 episode, demand-side pressures moderated further in subsequent quarters. In contrast, in the latest disinflation episode the contribution of the demand-driven component of inflation increased.

Chart 1.3. The contribution of the demand-side component of inflation increased in recent quarters, in line with global trends



Source: TURKSTAT and authors' calculations.

Persistent demand-side pressures likely reflect policy objectives balancing growth priorities with a more moderate path of disinflation, inflation expectations that are not yet fully anchored, and wealth effects that have supported economic activity, thereby slowing the transmission of tighter financing conditions. For example, increases in the prices of gold, stocks, other securities and housing may have contributed to higher household spending, in turn boosting aggregate demand.[9] On the other hand, moderate global commodity prices and reduced exchange rate volatility have helped ease inflationary pressures on the supply side. The increase in demand-side inflationary pressures in 2025 is also in line with global trends, as discussed in recent *Regional Economic Prospects*.

On current trends, disinflation is expected to continue, albeit at a more gradual pace than during the earlier episode.

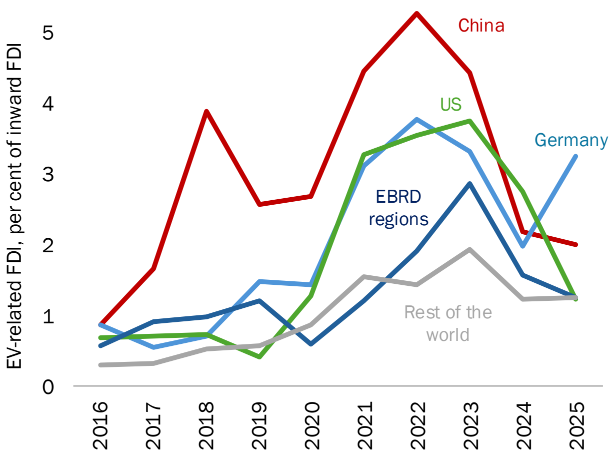
[6] See CBRT (2024, 2025a).
[7] See Shapiro (2022). Retail sales data are used, for instance, by Akarsu and Aktuğ (2024).
[8] See EBRD (2025a, b).
[9] See CBRT (2025b).

Box 2. Foreign direct investment in electric vehicles

This box examines foreign direct investment (FDI) inflows into electric vehicles (EVs), batteries and related sectors in the EBRD regions and beyond. EV-related FDI inflows account for the highest shares of FDI projects in traditional automotive hubs such as Hungary and the Slovak Republic, as well as economies such as Tajikistan, the Kyrgyz Republic and Benin. China accounts for a larger share of FDI projects in EVs than in other sectors, both in the EBRD regions and in the rest of the world.

Electric vehicles, batteries and related sectors have seen sustained FDI inflows into the EBRD regions, although the numbers of such investments moderated from the peak levels seen in 2022-23 (see Chart 2.1). EV-related FDI accounted for 1.7 per cent of all foreign direct investment projects globally and 2.8 per cent in the EBRD regions.

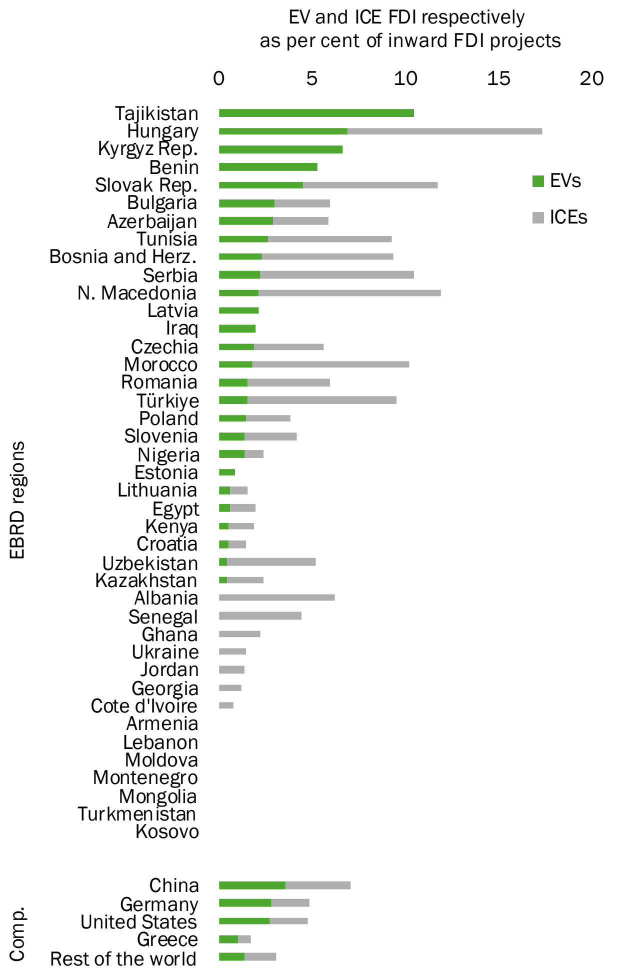
Chart 2.1. Sustained FDI inflows into electric vehicles, batteries and related sectors



Source: FT fDi database and authors' calculations.
Note: The share is calculated based on the counts of investment projects. Investments include all projects identified with an EV flag.

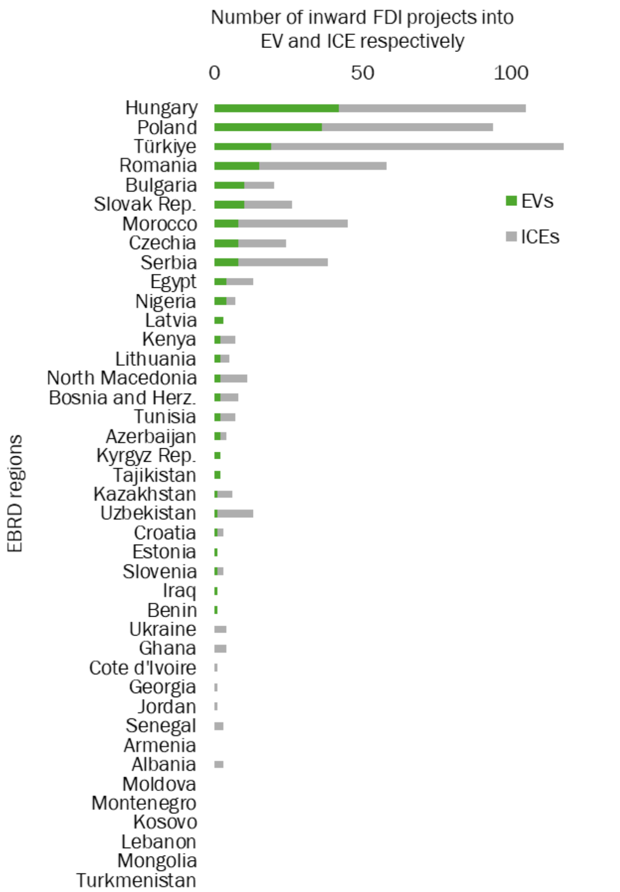
EV-related FDI inflows account for the highest shares of FDI projects in traditional automotive hubs such as Hungary and the Slovak Republic, where FDI into the internal combustion engine (ICE) sector also remains important, as well as in Tajikistan, the Kyrgyz Republic and Benin (see Chart 2.2). The highest numbers of EV-related FDI projects are observed in Hungary, Poland and Türkiye, which also receive most ICE FDI projects (see Chart 2.3).

Chart 2.2. EV-related FDI inflows account for large shares of FDI projects



Source: FT fDi database and authors' calculations.
Note: Data for 2020–2025 Q3. ICE investments include projects in the Automotive OEM and Automotive components sectors without an EV flag. EV investments include all projects identified with an EV flag. FDI inflows into EV and ICE respectively as per cent of all inward FDI projects.

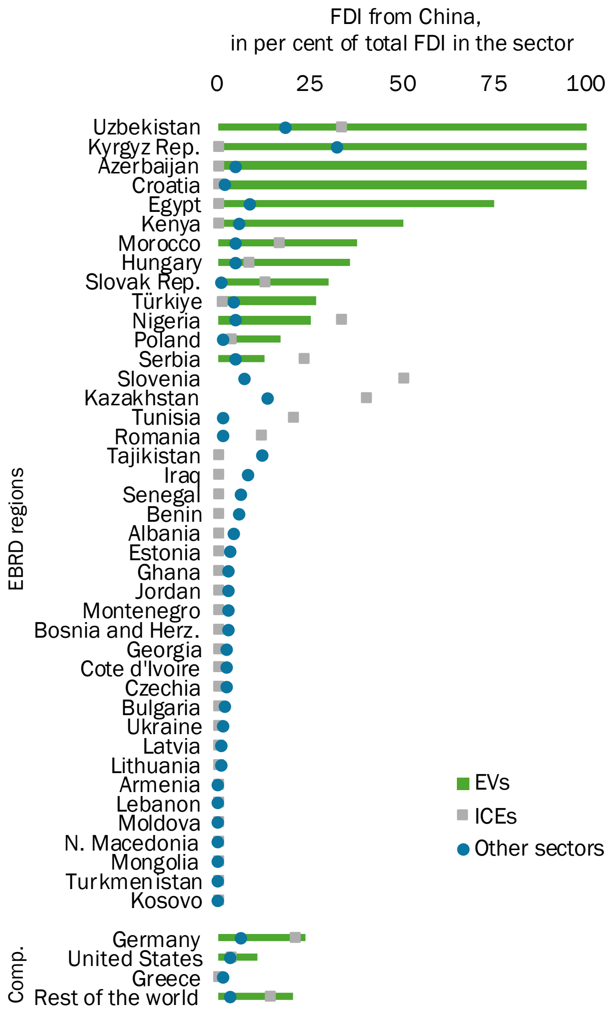
Chart 2.3. Diverse geography of EV-related FDI projects



Source: FT FDI database and authors' calculations. Note: Data for 2020–2025 Q3. ICE investments include projects in the Automotive OEM and Automotive components sectors without an EV flag. EV investments include all projects identified with an EV flag. Number of FDI inflow projects into EV and ICE respectively.

China accounts for a larger share of FDI projects in EVs than in other sectors, both in the EBRD regions and in the rest of the world (see Chart 2.4). In the EBRD regions, China accounts for 17 per cent of EV-related FDI projects, compared with 6 per cent for ICEs and 4.5 per cent across all other sectors (in the rest of the world, the corresponding shares are 11 per cent, 3 per cent and 3 per cent respectively).

Chart 2.4. China accounts for a larger share of EV-related FDI projects than in other sectors, both in the EBRD regions and in the rest of the world



Source: FT FDI database and authors' calculations. Note: Data for 2020–2025 Q3. ICE investments include projects in the Automotive OEM and Automotive components sectors without an EV flag. EV investments include all projects identified with an EV flag. Inward FDI from China into EV and ICE as per cent of all inward FDI projects into these sectors.

Box 3. Industrial policies in defence

Earlier Regional Economic Prospects highlighted rising defence spending and military employment (see EBRD 2025a). This box examines industrial policies in defence-related sectors. Industrial policies targeting defence-related sectors are more likely to have secure supply objectives than those targeting other sectors, they are more likely to target specific firms and lack end clauses but are less likely to be 'backward-looking' and tend to target goods with shorter technology cycles.

This box builds on forthcoming work in Koczan et al. (2026b) and earlier analysis in EBRD (2024) and Koczan et al. (2025) and examines the characteristics of industrial policies by drawing on a novel global dataset covering more than 31,000 industrial policies in 150 economies over the period 2009-2022 and using large-scale machine learning methods applied to policy texts to systematically classify the objectives of industrial policies. In this analysis, industrial policies are defined as any policies that target sectoral shifts in production – by benefitting specific industries, firms or technologies at the expense of others.

To identify defence-related industrial policies, the box looks first at a narrower definition of 'high priority' products based on the goods included either in the EU list of common high-priority items or in the original 2007 US–China Military Catch-All Rule list[10] (see, for instance, Liu et al. 2025 for a discussion). It also looks at a broader definition based on dual-use goods, military technology items and firearms as identified in EU documents (see, for instance, Chupilkin et al. 2025). If a certain policy targets a product at the HS6 level of the Harmonized System which is defence-related, the policy is deemed to target defence-related products.

Using this definition, around five per cent of industrial policies target 'high priority' goods and around 40 per cent of industrial policies target defence-related products broadly defined. These shares have been broadly stable over the period 2009-2022.

Industrial policies targeting defence-related products may systematically differ from policies targeting other sectors in terms of their objectives and design characteristics. In general, the majority of industrial policies target growth, but most have (multiple) other objectives. For instance, industrial policies often target environmental objectives alongside secure supply, or employment as well as regional development objectives.[11]

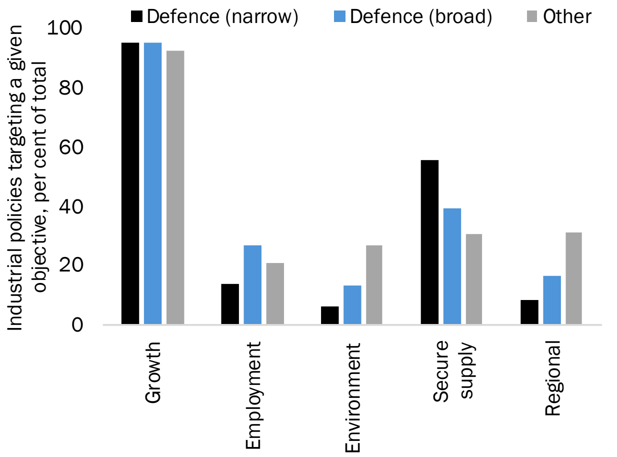
Perhaps not surprisingly, industrial policies targeting defence-related sectors are more likely to have secure supply objectives than those targeting other sectors (see Chart 3.1). In turn, as might be expected, they are less likely to have environmental or regional objectives. In fact, defence-related policies are more likely to be focused in terms of their objectives and less likely to have three or more of them.

Industrial policies targeting defence-related goods are more likely to have design characteristics that may make them 'addictive' (see Chart 3.2). In particular, they are less likely to have an end clause specifying a date when the policy is reviewed or discontinued. This makes them less likely to be phased out in cases when they do not prove to provide good value for the taxpayer.

[10] The US–China Military Catch-All Rule list was implemented in 2007 by the US Bureau of Industry and Security and tightened rules governing the exports of certain dual-use items to China.

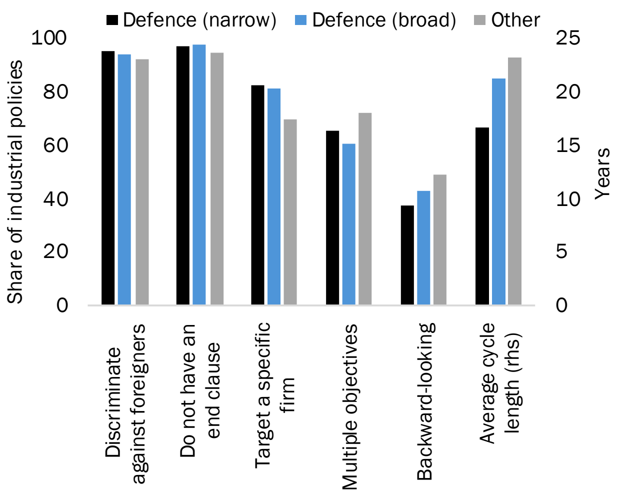
[11] See EBRD (2024).

Chart 3.1. Industrial policies targeting defence-related sectors are more likely to have secure supply objectives



Source: Authors' calculations based on Koczan et al. (2026b), European Commission (2024), GTA, Koczan et al. (2025), Juhasz et al. (2023a), Liu et al. (2025). Note: Objectives can add to more than 100 per cent as a typical policy targets multiple objectives.

Chart 3.2. Industrial policies targeting defence-related goods more likely to be 'addictive'



Source: Authors' calculations based on Koczan et al. (2026b), European Commission (2024), GTA, Koczan et al. (2025), Juhasz et al. (2023a), Liu et al. (2025).

They are more likely to target a specific firm than industrial policies targeting other sectors, making them potentially more prone to capture by special interest.

The overwhelming majority of all industrial policies, including those targeting defence, discriminate against foreigners. This potentially shields beneficiary firms from competitive market pressures.

On the other hand, policies focused on defence are less likely to be 'backward-looking', that is, targeting goods where an economy used to have a revealed comparative advantage in the past but no longer has a revealed comparative advantage in global export markets. In other words, policies focused on defence are more likely to target new areas where economies aspire to develop a comparative advantage rather than to restore past ones.

Defence-related policies are also more likely to target goods with shorter technology cycles, that is, those goods where know-how evolves more rapidly, for example, semi-conductors (in this analysis, the technology cycle is measured using the average citation length of patents using the approach in Hall et al. 2001).

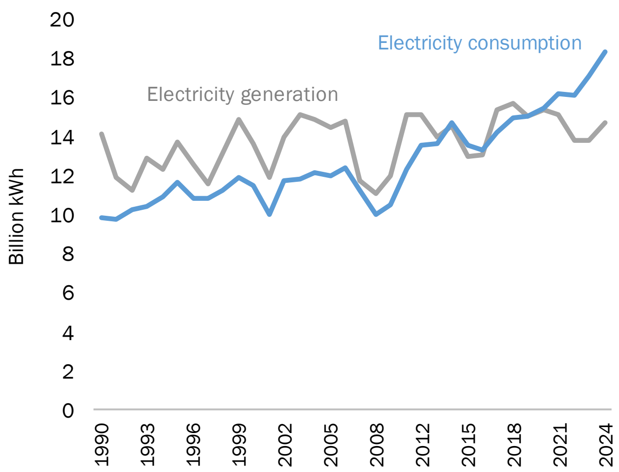
Box 4. Energy sector developments in Central Asia

This box examines energy sector developments in Central Asia in a context of rising energy demand, ageing infrastructure and tariffs below cost-recovery levels. Recent years have seen a series of electricity tariff reforms across the region, aimed at improving cost recovery and mobilising investment. Investments in new energy sources and regional cooperation in the sector have increased.

Rising energy demand

Central Asia's energy demand has been rising rapidly on the back of robust economic activity. Fast GDP growth, expansion of industrial production, growing populations and urbanisation have all contributed to a steep increase in the demand for electricity. By 2024, electricity consumption exceeded production in almost all Central Asian economies. In particular, the Kyrgyz Republic's power output has been lagging consumption for several years, culminating in a 3.6 billion kWh electricity deficit in 2024, the largest in the region (see Chart 4.1).

Chart 4.1. Electricity consumption growth has outpaced electricity generation in the Kyrgyz Republic



Source: National Statistical Committee of the Kyrgyz Republic.

The rise of new industries is expected to intensify this trend. For instance, in Kazakhstan, expanding AI-related and data-centre infrastructure is expected to place new baseload pressure on the grid. According to the World Bank, Central Asia's electricity demand could triple by 2050.[12]

Ageing infrastructure

Underinvestment and ageing infrastructure, a large share of which dates to Soviet times, exacerbate Central Asia's energy imbalances. Much of the region's electricity grids, heating networks and transmission systems have become outdated and worn-out. In Kazakhstan, for instance, the share of heat and steam networks requiring replacement was estimated at almost 30 per cent in 2024 (based on data from the Bureau of National Statistics of Kazakhstan).

Decades of underinvestment resulted in mounting technical losses and reduced system reliability, leading to service disruptions and jeopardizing energy security. For example, in Mongolia and the Kyrgyz Republic, transmission losses were around 10 and 15 per cent of total electricity supply in 2024 respectively (based on data from the National Statistics Office of Mongolia and the National Statistical Committee of the Kyrgyz Republic).

Electricity tariff reforms

A combination of rising demand, ageing infrastructure, tariffs set below costs and binding fiscal constraints have prompted electricity tariff adjustments across the region with the aim to reach cost recovery and mobilise investment.

Uzbekistan has shifted to a consumption-based tariff regime, with sharp increases in household electricity tariffs under a block pricing structure introduced in May 2024. In May 2025, tariff rates were raised further while charges were lowered for vulnerable groups. Concurrently, discounts for selected users, such as households with electric stoves and fully electrified heating systems are being considered. Beginning in 2026, Uzbekistan

[12] See World Bank (2026).

is expected to start indexing tariffs to inflation, with annual increases capped at 10 per cent.

In November 2024, Mongolia's Energy Regulatory Commission approved the first residential electricity tariff increase since 2019, raising the average rate by roughly 30 per cent.

System failures during the 2022-2023 winter season prompted Kazakh authorities to accelerate energy sector reforms. Kazakhstan launched the Single Electricity Buyer model in 2023 and introduced a National project for modernisation of energy and utility sectors (2025-2029) in 2024, aiming to reduce infrastructure wear. In 2025, maximum generation tariffs were revised upward to finance asset modernisation.

In Tajikistan and the Kyrgyz Republic, electricity tariffs were increased in 2025 and are expected to be gradually adjusted to reach cost recovery levels by 2027 and 2030, respectively. In Tajikistan, these measures are also accompanied by improved efficiency of collections, a rollout of smart meters, and stricter penalties for theft of electricity.

Nonetheless, as of 2025, average household electricity tariffs across the region still fall short of generating the funds needed to upgrade and modernise power systems.

Investments in new energy resources

Central Asian economies have also been investing in the development of new energy sources. In 2025, Kazakhstan inaugurated the construction of its first nuclear power plant with a planned capacity of 2.4 GW. Two additional nuclear power plants are under consideration.

In June 2025, the Kyrgyz Republic adopted the National Development Programme covering the period until 2030 and setting the stage for the expansion of solar, wind, and hydropower generation.

Tajikistan adopted its Energy Development Programme for 2026–2030, which aims to attract US$6.5 billion in energy sector investments to modernise infrastructure and boost generation capacity.

By 2025, the share of renewables in Uzbekistan's electricity generation approached 20 per cent, with plans for this to be increased to 54 per cent by 2030.[13] Concurrently, Kazakhstan commissioned 503 MW of new renewable energy, raising the share of renewables to 7 per cent of its electricity mix in 2025, aiming to expand this to 20 per cent by 2035.[14] In late 2025, Mongolia launched the Just Energy Transition framework in partnership with UNDP to support a gradual shift toward a greener and more sustainable energy solutions. That said, coal remains central to the energy systems of both Kazakhstan and Mongolia

Increased regional cooperation

Central Asian countries are also deepening regional cooperation in the energy sector. In 2025, Kazakhstan, the Kyrgyz Republic, and Uzbekistan agreed to commence joint financing of the 1800 MW Kambar-ata-1 hydropower plant in 2026. Kazakhstan and Uzbekistan reached an agreement with Tajikistan on electricity purchase terms in the context of Tajikistan's Roghun hydropower project (once completed it is expected to be the world's tallest dam with the plant's capacity of 3.8 GW). These agreements are expected to support downstream countries in meeting their growing electricity needs, while strengthening Tajikistan's capacity to mobilise the financing needed to complete construction.

[13] Based on the updated nationally determined contribution of the Republic of Uzbekistan (NDC 3.0) for the period up to 2035 within the framework of the Paris Climate Agreement.

[14] Based on the nationally determined contribution of the Republic of Kazakhstan to the global response to climate change until 2035.

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Regional updates

Central Asia

Economic growth across Central Asia and Mongolia remained strong in 2025, underpinned by expanding industrial output and large-scale investment projects in infrastructure and energy while household consumption was supported by rising wages, rapid expansion of lending, and high remittance inflows in the Kyrgyz Republic, Tajikistan and Uzbekistan. Inflationary pressures intensified amid higher food prices, utility tariff adjustments, strong domestic demand, and fiscal stimulus, prompting tighter monetary policy across the region. While inflation eased in Mongolia, Tajikistan, and Uzbekistan, it remained elevated in Kazakhstan and the Kyrgyz Republic. Solid growth and improved tax administration strengthened revenue performance and supported fiscal positions against the backdrop of rising expenditure needs. Uzbekistan and Tajikistan benefitted from favourable precious metal prices, while weaker oil and coal receipts weighed on current account balances in Kazakhstan and Mongolia. At the same time, international reserves increased across the region, driven largely by the rising price of gold. In the short term, strong growth is expected to continue, though moderating from its 2025 highs, supported by sustained investment momentum and reform progress.

Kazakhstan

Real GDP growth accelerated to 6.5 per cent in 2025, the fastest pace since 2011, largely driven by the long-awaited completion of the Tengiz oil field expansion, which boosted industrial output by 7.5 per cent year on year. Economic activity also strengthened in the transport and trade sectors, supported by rising freight volumes, including along the Middle Corridor, and strong consumer lending. Inflationary pressures persisted due to high food prices, rising utility tariffs, fiscal stimulus measures, and exchange rate volatility. In response, the National Bank of Kazakhstan raised its policy rate to 18 per cent, increased minimum reserve requirements to absorb excess liquidity, and introduced a mechanism for balancing gold purchases and sales of foreign exchange. Nevertheless, inflation remained high, standing at 12.3 per cent in December 2025. On the external side, the current account deficit is estimated to have widened by almost 50 per cent, driven by lower export revenues and rising imports. Fiscal deficit was estimated at around 2.5 per cent of GDP in 2025, with tax receipts falling short of the target. Newly introduced tax and budget codes should support fiscal consolidation in the medium term, while ample international reserves continue to provide a buffer against external shocks. Economic growth is expected to moderate to 4.7 per cent in 2026 and 4.5 per cent in 2027, reflecting lower oil prices. Downside risks stem from overreliance on Caspian Pipeline Consortium infrastructure for oil exports. These are mitigated by the ongoing infrastructure investment and diversification efforts.

Kyrgyz Republic

The Kyrgyz Republic was the fastest-growing economy in the region in 2025, with real GDP expanding by 11.1 per cent. Growth was driven primarily by strong domestic demand and investment, which more than offset a sharp decline in exports. Construction activity surged (up 21.1 per cent year on year) on investment in transport, warehousing, energy, and mining-related infrastructure. Industrial output also strengthened (up 10.6 per cent year on year) on the back of higher manufacturing and mining activity. Household consumption remained buoyant, underpinned by rapid credit growth, rising real wages, and robust remittances inflows. At the same time, strong consumer demand and upward utility tariff adjustments contributed to renewed inflationary pressures, with CPI inflation reaching 9.4 per cent in December 2025. Following months of rising inflation, monetary tightening began in mid-2025, with the National Bank of the Kyrgyz Republic gradually raising its policy rate by a cumulative 200 basis points, to 11 per cent by November 2025. Fiscal performance remained strong, with the budget posting a surplus on the back of solid revenue growth. International reserves were bolstered by higher gold prices and gold acquisition, reaching US$ 8.6 billion by year-end and providing an adequate buffer against external shocks. The economy is projected to remain on a robust growth trajectory in the short term, with real GDP expanding by 9 per cent in 2026 and 7 per cent in 2027. The country stands to gain from export recovery and the momentum of large-scale infrastructure projects, which should spur investment, improve connectivity, and support growth in the coming years. Inflationary pressures remain a source of notable downside risk.

Mongolia

Real GDP expanded by 5.9 per cent year on year in the first nine months of 2025, with full-year growth likely to exceed earlier expectations. Growth was driven by a strong rebound in agriculture (up 33.8 per cent year on year). In 2025, industrial output expanded (up 4.8 per cent year on year) underpinned by stronger performance in manufacturing and mining. Increased tourist arrivals (up 16.5 per cent) and nominal wage growth boosted activity in services, particularly in the hospitality sector. The Bank of Mongolia's 200-basis-points policy rate hike in March 2025 helped to contain inflationary pressures, with headline inflation dropping to 7.5 per cent in December. Budget revenues declined by 1.2 per cent due to lower tax collection, while expenditures increased by 2 per cent, resulting in a small fiscal deficit, while elevated copper exports partially offset weaker coal receipts. International reserves reached a record US$ 7 billion in December. Growth is expected to ease in the short term, with real GDP growing by 5.5 per cent in 2026 and 2027. Investment in the mining sector, including the development of rare earth deposits, provides upside potential, while uncertainty surrounding China's demand remains the key downside risk.

Tajikistan

The economy continued to grow strongly, with real GDP growth reaching 8.4 per cent in 2025. Growth was broad-based, led by wholesale and retail trade, agriculture and industry. The development of metal ore deposits led to a major expansion in mining (up 36.2 per cent year on year), boosting industrial output. Household consumption remained robust, supported by rising real wages and remittances. Fixed capital investment rose by 23 per cent year on year. Inflation remained low at 3.5 per cent year on year in December 2025, supported by a strong Tajik somoni, which appreciated by 18 per cent year on year against the US dollar as of end-December. The current account surplus more than doubled in the first nine months of the year, as growth of wage remittances (up 50 per cent year on year) outpaced that of imports. International reserves reached the equivalent of eight months of imports in September 2025. Fiscal performance also improved, supported by strong revenue collection. In December 2025, the IMF concluded its final review under the Policy Coordination Instrument. Economic growth is projected to moderate to 7.9 per cent in 2026 and 7 per cent in 2027 as growth of remittance inflows slows down while investments in infrastructure, including the Roghun hydropower station, continue. Uncertainty surrounding external demand is a key downside risk to the outlook.

Turkmenistan

According to official data, real GDP growth stood at 6.3 per cent year on year in the first eleven months of 2025, despite a significant drop in the value of gas exports to China. Transportation activities expanded, supported by the implementation of a free trade regime with Uzbekistan and increased trade with all neighbouring countries. Exports by private sector companies continued surging on the back of a heavily undervalued currency, as well as exceptionally low prices for production inputs. Public infrastructure investment supported construction sector growth. Regular indexation of public wages and social benefits, as well as strong demand for technical and managerial expertise in the labour market contributed to inflationary pressures. These pressures were contained by means of import subsidies (including selective access to foreign currency at one fifth of the commercial exchange rate), price controls and regulatory restrictions on bank credit. Public debt further declined and is low. Growth, as reported by the authorities, is expected to remain at 6.3 per cent in 2026 and 2027. Higher growth could be achieved via accelerated investment in export-oriented activities, assuming current credit restrictions are phased out.

Uzbekistan

Economic growth accelerated to 7.7 per cent in 2025, supported by rising real wages, remittances, and credit expansion. Industrial output grew by 6.8 per cent year on year, led by the manufacturing sector. Fixed capital investment increased by 10.5 per cent year on year, underpinned by foreign investment in the manufacturing and energy sectors. Inflation eased to 7.3 per cent year on year in December, reflecting the base effect following a substantial hike in electricity tariffs in 2024. The Central Bank of Uzbekistan maintained a tight monetary stance, keeping the policy rate at 14 per cent since March 2025. Fiscal consolidation continued, with the budget deficit coming in at 2.1 per cent of GDP, below the initially planned 3 per cent, supported by reduced energy subsidies and strong revenue growth. The external position strengthened further as elevated gold prices boosted export receipts and lifted international reserves to record levels. As a result, the Uzbek Som appreciated by 7 per cent year on year against the US dollar as of end-2025. Growth is projected at 6.5 per cent in 2026 and 6.0 per cent in 2027, supported by strong investment activity and the continuation of structural reforms. Downside risks to the outlook arise from commodity price volatility and weaker external demand.

Central Europe and the Baltic states

Growth in Central Europe and the Baltic states is projected to accelerate from an estimated at 2.6 per cent in 2025 to 2.9 per cent in 2026 before moderating to 2.7 per cent in 2027. Private consumption remains the main growth driver, though its pace is moderating as real wage gains ease. Public investment is gaining momentum, supported by accelerating EU fund absorption ahead of the August 2026 Recovery and Resilience Facility (RRF) deadline and focused on transport, digitalisation and the energy transition, while defence outlays from national budgets have risen sharply. Poland and the Baltic states are targeting defence spending of 5 per cent of GDP or above, including support for new domestic defence manufacturing capacity, while continuing to rely predominantly on imports. Fiscal positions are under pressure, with general government deficits widening across the region. Heightened US trade policy uncertainty poses risks for export-oriented economies, with the Slovak Republic, Czechia, Hungary and Slovenia most exposed through supply-chain linkages to Germany, which faces prolonged industrial weakness. The EU's new trade partnerships with Mercosur and India potentially add 1.7 billion consumers to its preferential trade network, though both trade deals face lengthy ratification. Downside risks include escalating trade tensions and a weaker German recovery while faster absorption of EU funds is a source of upside risk.

Croatia

GDP growth moderated to an estimated 3.0 per cent in 2025, supported by real wage growth, which stabilised at around 6 per cent year on year. As the labour market tightened further, inflation edged up to an average of 3.7 per cent in 2025. Industrial production had a strong start and end of year, bolstering goods exports, while exports of services declined in real terms. Investment activity remains strong, driven by the continued absorption of RRF funds. Following a 1.9 per cent general government deficit in 2024, fiscal spending increased, including on social transfers and public sector wage hikes, with the year-end general government deficit estimated at 3 per cent of GDP. Growth is projected at 2.7 per cent in 2026 as spending is tempered by lower increases in minimum and public wages. On the other hand, the planned utilisation of RRF funds should boost investment, together with higher defence spending. In 2027, growth is projected to moderate to 2.5 per cent as the current EU investment cycle reaches maturity. Downside risks remain tied to tourism price competitiveness and a prolonged weakness in Germany affecting exports.

Czechia

Real GDP growth accelerated to 2.5 per cent in 2025, supported by recovery in investment and inventory accumulation. Household consumption was supported by robust wage growth and easing inflation, while the savings rate declined. Construction activity strengthened on the back of public infrastructure projects and a recovery in the residential mortgage market. While manufacturing expanded only marginally, performance was stronger than initially expected, with industrial orders improving towards the end of the year. The general government deficit is estimated at just below 2 per cent of GDP in 2025 and expected to stay at a similar level in 2026, while defence spending is projected to reach 2 per cent of GDP. Growth is projected at 2.6 per cent in 2026 and 2.5 per cent in 2027, assuming some degree of diversification of export markets.

Estonia

After three consecutive years of contraction, the economy returned to modest growth, estimated at 0.5 per cent in 2025. Recovery has been constrained by weak external demand and subdued household spending. Private consumption is estimated to have declined for the third consecutive year, weighed down by tax measures including the July 2025 increase in the rate of value added tax (VAT). Exports remained subdued given weak demand in the Nordic markets and erosion of cost competitiveness. While private investment stayed weak, public investment expanded in defence and transport infrastructure. Recovery is projected to gain momentum in 2026 and 2027, with growth of 2.2 and 2.5 per cent, respectively. Household incomes will receive a significant lift from an increase in the universal tax-free allowance under personal income tax changes coming into force in 2026. However, the fiscal cost of these measures is substantial: the government projects a general government deficit of 4.5 per cent of GDP in 2026, driven by the income tax reform and a sharp increase in defence spending to over 5 per cent of GDP, with public debt rising to 26 per cent of GDP. Downside risks stem from further erosion of export competitiveness.

Hungary

Hungary's growth in 2025 is estimated at 0.4 per cent, the second consecutive year of near-stagnation following the 2023 recession. Industrial activity remained subdued while household consumption expanded on the back of rising real wages and government income support measures. Fixed investment is estimated to have contracted sharply, weighed down by elevated financing costs, policy uncertainty and the continued freeze on EU recovery funds linked to concerns about the rule of law. As inflation moderated to around 3 per cent, the central bank held its policy rate at 6.5 per cent for 16 consecutive meetings, citing persistent services price pressures. Growth is forecast to pick up to 2.0 per cent in 2026 and 2.5 per cent in 2027. Ahead of the April 2026 parliamentary elections, the government has introduced a pre-election fiscal package including additional pension payments, public sector wage increases and tax relief for small businesses. These measures will support household spending but add to fiscal pressures. The central bank estimates a general government deficit of 4.7 per cent of GDP in 2025, with fiscal consolidation deferred until 2027 and public debt edging towards 75 per cent of GDP. Investment is expected to rebound gradually as external demand improves and new automotive and battery manufacturing capacity comes on stream, including CATL's €7.3 billion battery gigafactory near Debrecen, which is set to begin production in early 2026. Risks are tilted to the downside, linked to external demand weakness and prolonged uncertainty over EU funding.

Latvia

Economic activity gained momentum in 2025, with real GDP growth estimated at 1.7 per cent — significantly above the 0.9 per cent projected in September 2025. Investment is estimated to have expanded by close to 10 per cent on the back of EU-funded projects, defence procurement and improving credit conditions. Household spending accelerated in the second half of 2025 as real wages rose strongly, and consumer confidence climbed to its highest level in over a decade. Mortgage lending picked up notably, supporting a revival in the housing market, while household debt remains among the lowest in the euro area. Exports of ICT services performed well while exports of goods remained subdued amid soft external demand. Growth is forecast at 2.2 per cent in 2026 and 2.5 per cent in 2027, underpinned by continued real wage gains, while a temporary VAT cut on selected food items from mid-2026 will ease price pressures. Public investment will stay elevated on account of defence outlays approaching 5 per cent of GDP and ongoing work on Rail Baltica. The government projects a general government deficit of 3.3 per cent of GDP in 2026, up from 2.9 per cent in 2025, largely reflecting higher defence spending under the EU's national escape clause, with public debt remaining below 55 per cent of GDP. Continued erosion of cost competitiveness is a source of downside risk.

Lithuania

Buoyed by resilient domestic demand, the economy outperformed its Baltic neighbours in 2025, with growth estimated at 2.8 per cent, supported by robust wage gains and a tight labour market. Public investment expanded on the back of defence procurement and EU-funded projects. While manufacturing of transport equipment and chemicals contracted, electronics production expanded strongly. Growth is forecast to accelerate to 3.3 per cent in 2026 before moderating to 2.5 per cent in 2027. The pension reform providing for voluntary withdrawals from second-pillar savings accounts, could channel an estimated €1 billion into household spending, giving a temporary boost to consumption. Defence expenditure is set to reach a record 5.4 per cent of GDP in 2026, while the absorption of EU funds will peak ahead of RRF deadlines. The government projects a general government deficit of 2.7 per cent of GDP in 2026, with public debt rising to 45 per cent of GDP, as higher social and defence spending outpaces revenue growth. Weak external demand is a source of downside risk.

Poland

The economy outperformed expectations in 2025, with real GDP growth accelerating to an estimated 3.6 per cent, the fastest pace since 2022. After contracting in 2024, fixed investment rose by more than 4 per cent, supported by faster absorption of EU funds and a pickup in private capital spending linked to the energy transition and digitalisation. Private consumption also expanded, though at a slower pace than in 2024, as household savings rate increased. By end-2025, inflation eased to 2.4 per cent. The central bank cut its policy rate by a cumulative 175 basis points to 4.0 per cent, with further easing anticipated. Growth is forecast to reach 3.7 per cent in 2026 before moderating to 3.0 per cent in 2027. Public investment will be underpinned by peak EU fund disbursements ahead of RRF deadlines and increased spending on defence: Poland has secured a €43.7 billion allocation under the EU's new SAFE lending facility, with disbursements due to start in early 2026. However, the boost from increased defence spending will be tempered by heavy reliance on imported equipment. Weaker export demand is a source of downside risk.

Slovak Republic

Growth slowed from 1.9 per cent in 2024 to an estimated 0.8 per cent in 2025, weighed down by fiscal consolidation and soft external demand. A tax package worth nearly 2 per cent of GDP took effect in early 2025, including a three-percentage-point VAT increase, a financial transaction tax and higher corporate taxes on large firms. Weak demand from Germany, which buys over a fifth of Slovak exports, hit the automotive sector which accounts for around half of industrial output. Although direct exports to the United States represent only 4 per cent of the total, the exposure through German supply chains is larger. Those automotive exports now face a 15 per cent US tariff following the July 2025 EU-US deal. Growth is forecast to recover modestly to 1.0 per cent in 2026 and 1.8 per cent in 2027, supported by the absorption of EU funds and the launch of Volvo's €1.2 billion electric vehicle plant near Košice. The December 2025 EU decision to ease the 2035 emissions target, providing for continued sales of hybrid vehicles and alternative fuels, may bring some relief to the automotive sector. The government targets a general government deficit of 4.1 per cent of GDP in 2026, declining to below 3 per cent by 2028, one year later than required under the Excessive Deficit Procedure. According to the Council for Budget Responsibility, measures worth an additional 2.5 per cent of GDP are yet to be identified for this target to be met.

Slovenia

The economy grew by an estimated 1.0 per cent in 2025, overcoming a period of stagnation in the first half of the year. While industrial production and investment were initially weighed down by global trade uncertainty, a recovery in the construction sector supported growth. Inflation averaged 2.5 per cent for the year, while wage growth accelerated to 7 per cent, reflecting a major public sector wage reform and considerable labour shortages as unemployment rate reached a low of 3.4 per cent by the end of 2025. The fiscal position deteriorated in 2025 as the general government deficit more than doubled, to 2.4 per cent of GDP, driven by higher public wages, with a similar deficit expected for 2026. Slovenia remains integrated into the Swiss pharmaceutical supply chain and the recent US-Switzerland trade deal, which established a 15 per cent tariff ceiling on pharma goods, has mitigated the risks associated with the 39 per cent levies announced earlier. Real GDP growth is projected to rebound to 2.2 per cent in 2026 and 2.4 per cent in 2027, supported by the absorption of EU funds and recovering private consumption.

Eastern Europe and the Caucasus

Growth rates varied widely in this region during 2025. Ukraine's economy, buffeted by Russia's ongoing war of aggression, has shown remarkable resilience, with macroeconomic stability being underpinned by a restrictive monetary policy stance and major international support, while the Moldovan economy has rebounded strongly in recent months, helped by EU assistance and progress in structural reforms. Both Armenia and Georgia continue to grow robustly while the Azeri economy slowed significantly last year as a result of a contraction in the hydrocarbon sector. Short-term prospects for the region remain highly uncertain, depending on the outcome of peace talks and progress in efforts to promote cross-border cooperation and regional connectivity.

Armenia

Economic growth moderated in the first nine months 2025 as temporary post-2022 growth drivers receded. Following an average growth rate of 8.9 per cent in 2022–23 and 5.9 per cent in 2024, real GDP expanded by 6.0 per cent year on year in the first nine months of 2025. Economic activity was supported by strong growth in financial services, construction and the information and communications sectors. After low readings in 2024, headline inflation converged towards the central bank's target range of 3 per cent ±1 percentage point, averaging 3.3 per cent in 2025. With inflation within the target band, the Central Bank of Armenia reduced the refinancing rate in February and December 2025 by a total of 50 basis points. The central government budget deficit is estimated to have widened to around 5.0 per cent of GDP in 2025 but is expected to follow a growth-friendly consolidation track from 2026. Meanwhile, public debt stabilised at around 50 per cent of GDP by September 2025. Exports and imports declined sharply in 2025 as re-export flows shrank. Armenia's international reserves increased to US$ 5.1 billion by December 2025, providing more than three months of import coverage, partly supported by the sovereign Eurobond issuance in March 2025. Economic growth is forecast to remain steady at 5.5 per cent in 2026 and 2027. Upside potential stems from regional trade and connectivity opportunities, including border opening with Türkiye, Trump Route for International Peace and Prosperity (TRIPP), and enhanced cooperation with the EU, but delays in implementing the peace framework could weigh on the outlook.

Azerbaijan

Economic momentum weakened in 2025, with real GDP growth slowing to 1.4 per cent from 4.2 per cent in 2024. The deceleration was driven by a 1.6 per cent contraction in hydrocarbon output. Growth in non-hydrocarbons sectors moderated from 6.5 per cent in 2024 to 2.7 per cent, while consumer price inflation accelerated to 5.6 per cent in 2025, driven mainly by prices of food and services, although it remained within the central bank's target range of 4 per cent ±2 percentage points. The Central Bank of Azerbaijan implemented two 25 basis point cuts, in July and December 2025, bringing cumulative easing since November 2023 to 225 basis points. Despite softer growth, fiscal and external buffers remained robust. The state budget posted a surplus of 0.4 per cent of GDP in 2025. Public debt is low, at around 20 per cent of GDP as of September 2025. The foreign trade surplus narrowed in the first three quarters of 2025 amid lower energy export revenues and higher imports of goods. Foreign reserves, including assets held by the sovereign oil fund and foreign exchange reserves of the central bank, reached US$ 85.1 billion (112 per cent of GDP) by December 2025. Real GDP growth is forecast to pick up to 2.0 per cent in 2026 and 2.5 per cent in 2027. The growth outlook remains sensitive to hydrocarbon prices and production volumes. On the upside, regional connectivity and trade initiatives enabled by the US-brokered peace framework with Armenia as well as continued large-scale investment in renewables could boost growth and economic diversification.

Georgia

The economy grew by 7.7 per cent year on year in the first three quarters of 2025, showing signs of gradual deceleration as year-on-year growth slowed from 9.9 per cent in the first quarter to 7.4 per cent in the second quarter and 6.4 per cent in the third quarter. Growth was propelled by services sectors, with strong contributions from information and communications technology (ICT), education, transportation and storage. Domestic demand was supported by rising wages and robust credit growth. Headline inflation breached the central bank's 3 per cent target, averaging 3.9 per cent in 2025. The National Bank of Georgia kept the policy rate unchanged at 8.0 per cent throughout the year, expecting inflation to retreat to the target. On a four-quarter rolling sum basis, the current account deficit narrowed from 5.2 per cent of GDP a year earlier to 3.5 per cent of GDP in the third quarter of 2025. Official reserve assets rebounded from a low of US$ 4.1 billion in October 2024 to US$ 6.2 billion by December 2025, providing around four months of import coverage. Public debt fell to a 10-year low of 34.9 per cent of GDP by September 2025, supported by strong nominal GDP growth and a stable exchange rate. Real GDP is forecast to grow by 5.5 per cent in 2026 and 5.0 per cent in 2027. Implementation of flagship investment projects in real estate, transport and renewables could foster even higher growth, but continued tensions with key economic partners may adversely affect the outlook.

Moldova

Following a weak first half of 2025, the economy rebounded in the second half of the year, with growth accelerating to 5.2 per cent year on year in the third quarter. Strong performances of agriculture and construction more than offset weaknesses in manufacturing and real estate services, while robust investment and resilient consumption supported domestic demand. Policy measures helped cushion the impact of the energy shock following the expiry of the Russia-Ukraine transit agreement. Nevertheless, external pressures intensified due to gas supply disruptions, higher-cost electricity imports from Romania and widening trade and current account deficits. Inflation spiked early in 2025 on energy and food price shocks but eased to 6.8 per cent in December 2025 against the backdrop of monetary tightening. Despite rising external imbalances, EU financial support helped stabilise the outlook and preserve foreign reserves. Energy security has become a key priority, backed by EU assistance and expanded renewable investments. Growth is projected at 3.0 per cent in 2026 and 3.5 per cent in 2027, supported by EU funding and structural reforms, although risks from energy price volatility and weak external demand persist.

Ukraine

Despite the ongoing war, macroeconomic stability has been maintained, supported by secured and largely front-loaded external financing. Power shortages, weak agricultural output and labour constraints weighed on growth in 2025, while the trade deficit widened due to lower grain exports, discontinued EU trade preferences and persistent logistical bottlenecks caused by Russian targeted attacks on infrastructure. Nevertheless, many sectors continued to expand, showing strong business resilience and wartime adaptation. Economic growth remained subdued overall in 2025, with real GDP growth picking up to 2.1 per cent year on year in the third quarter of 2025 from 0.8 per cent in the first half of the year. Inflation was elevated early in 2025 but declined sharply in the second half of the year, easing to 8.0 per cent in January 2026 amid tighter monetary policy, easing cost pressures and a stable exchange rate. The central bank maintained a restrictive stance throughout 2025 before cutting the policy rate by 50 basis points in January 2026. The large fiscal deficit is fully financed by external partners, enabling continued spending on public services and defence and providing for overall macroeconomic stability. Committed external financing of over €110 billion for 2026-27 is expected to contain short-term risks. Under a baseline scenario, in which Russia's war on Ukraine continues throughout 2026, real GDP growth is expected at 2.5 per cent in 2026, rising to 4.0 per cent in 2027 if the war ends. An early-2026 peace deal could substantially boost growth in both years, but power shortages, weak agricultural output and labour constraints pose significant short-term risks.

South-eastern EU

In Bulgaria, growth momentum in 2025 was supported by rising real wages. The country's eurozone entry in January 2026 is expected to boost confidence and support investment, even as political instability poses risks to RRF absorption. In Romania, weak private consumption and tighter fiscal policy offset gains from EU-funded investment and improving exports. Inflation surged last year to the highest level in the EU, prompting the National Bank of Romania to maintain a restrictive stance. Growth is projected to improve slightly in 2026 as EU fund absorption peaks, though risks remain tilted to the downside.

Bulgaria

Real GDP growth remained robust in 2025 at an estimated 2.9 per cent, supported by strong real wage growth of around 8 per cent while net exports declined as the Lukoil Neftohim refinery faced maintenance shutdowns and a complex transition to non-Russian crude under new state-appointed external management. CPI inflation cooled to 5.0 per cent in December 2025 after an annual high of 5.3 per cent in July, though services and food prices remained elevated following VAT rate adjustments. The 2025 fiscal deficit approached 3.0 per cent of GDP owing to higher social spending and defence investments. On January 1, 2026, Bulgaria officially joined the eurozone. This transition is expected to reduce long-term financing costs. At the same time, the resurgence of political instability in early 2026 poses risks to public investment implementation and the timely absorption of remaining RRF funds. Growth is projected at 2.7 per cent in 2026 and 2.6 per cent in 2027, supported by the implementation of the already disbursed RRF tranches and improved business sentiment following euro adoption.

Romania

Economic growth remained subdued in 2025, estimated at 0.9 per cent. An uptick in EU-funded investment and recovering exports of goods partially offset weakness in private consumption on the back of a five per cent decline in real wages in the second half of the year. Business sentiment remained downbeat on political turbulence in the first half of the year and fiscal consolidation measures implemented in the second half. The fiscal deficit is estimated to have narrowed from 9.3 per cent of GDP to around 8 per cent in 2025 and is expected to decrease to 6.2 per cent of GDP in 2026. The VAT increase and energy prices pushed annual inflation to a year-end peak of 9.7 per cent, the highest in the EU. The National Bank of Romania (NBR) maintained its restrictive policy rate to combat persistent inflationary pressures. Growth is expected to reach 1.2 per cent in 2026 and 2.2 per cent in 2027, supported by a projected peak in EU fund absorption from the RRF and an improving trade balance. Weak external demand is a notable source of downside risk.

Southern and eastern Mediterranean

Growth in the southern and eastern Mediterranean accelerated in 2025 supported by a rebound in tourism, reduced uncertainty in Jordan and Lebanon and better agricultural seasons in Morocco and Tunisia while weaknesses in Iraq's economy, one of the largest in the region, weighed on the regional average. Growth in the region is expected to reach 4.2 per cent in 2026 and 4.1 per cent in 2027 amid significant geopolitical risks.

Egypt

Real GDP grew by 5.0 per cent year on year in January-September 2025, up from 2.7 per cent in the same period of the preceding year. Growth was driven by a recovery in manufacturing as well as expansions in tourism, trade and telecommunications while oil and gas output contracted in 13 of the last 14 quarters, increasing Egypt's reliance on imported gas. Egypt completed the fifth and sixth reviews of its IMF programme in December 2025. The average annual inflation rate halved to 14.1 per cent in 2025, supported by easing food prices and a stronger Egyptian pound (up 6.1 per cent against the US dollar). The Central Bank of Egypt has cut its main policy rate by a cumulative 725 basis points since April 2025, to 20.5 per cent. At 7.1 per cent of GDP, the budget deficit in fiscal year 2025 was slightly lower than targeted. Improved tax collection, up by over a third on the previous year, was counterbalanced by higher interest payments, which absorbed around 50 per cent of expenditures. The external position has improved significantly, with net international reserves reaching US$ 51.5 billion in December 2025, covering nearly seven months of imports. In October 2025, S&P upgraded Egypt's sovereign debt rating to B (from B-). Output is expected to expand by 5.1 in calendar year 2026 and 5.0 per cent in 2027, provided reform momentum is sustained.

Iraq

Iraq's economy is estimated to have grown by 0.5 per cent in 2025, following a contraction of -0.2 per cent in 2024, helped by the gradual unwinding of the extended OPEC+ production cuts in response to weak global demand for oil. Inflation dipped into negative territory in June and reached -1.2 per cent year on year in December 2025 owing to lower food prices. Lower oil prices exerted pressure on external and fiscal balances, reducing the current account surplus and increasing the government deficit from 4.1 to an estimated 6.3 per cent of GDP. As a result, total public debt increased to an estimated 53 per cent of GDP by year end. Nevertheless, Iraq's international reserves remained comfortable at US$ 98 billion as of end-2025, covering over 10 months of imports, and global credit rating agencies maintained a stable outlook. In the short term, growth is expected to continue benefitting from the unwinding of oil production cuts for longer than previously expected, rising to 3.6 per cent in 2026 and 3.7 per cent in 2027. However, risks to the outlook are significant, related to protracted period of lower oil prices and escalation of geopolitical tensions.

Jordan

Economic growth accelerated to 2.7 per cent year on year in the first three quarters of 2025, compared with 2.4 per cent in the same period of 2024, reflecting a recovery in tourism receipts (after a short-lived shock in 2024 due to regional instability) alongside a robust export performance amid global trade uncertainty. Inflation remains low, at 1.3 per cent in December 2025, and foreign exchange reserves cover nine months of imports. The budget deficit remained elevated over the first nine months of 2025, at 5.5 per cent of GDP, while gross general government debt (including guarantees) is high, estimated at 108.6 per cent of GDP as of the end of 2025. The current account deficit widened to 6.6 per cent of GDP in January-September 2025, from 6.3 per cent in the same period of 2024, as imports outpaced exports and remittances inflows. Growth is expected to reach 2.8 per cent in 2026 and 2.9 per cent in 2027, provided Jordan continues to benefit from renewed access to regional markets such as Syria and Iraq. Risks to the outlook include resurging regional conflicts that could deter tourism and investment flows. Higher global commodity prices pose additional risk given Jordan’s high dependence on energy imports.

Lebanon

The economy is estimated to have grown by 3.5 per cent in 2025, partially recovering after the 7.5 per cent contraction in 2024 caused by the war with Israel. The rebound was supported by partial recoveries in tourism and domestic consumption after severe disruptions following population displacement and infrastructure damages. Following hyperinflation in the aftermath of the 2020 crisis, inflation eased to 12.2 per cent in December 2025, as the exchange rate stabilized at 89,500 LBP per US dollar. The current account deficit is estimated to have narrowed from 22.2 to 15.8 per cent of GDP in 2025, benefitting from improved tourism flows and strong remittances. In parallel, the budget deficit remained low at an estimated 0.1 per cent of GDP in 2025, as fiscal consolidation efforts continued. However, government revenues remain insufficient to ensure basic services delivery or investment in critical infrastructure. The situation is exacerbated by limited donor support and constrained access to international debt markets, given the lack of progress on debt restructuring. Growth is expected to pick up to 4.0 per cent in 2026 and 2027, driven by a gradual rebound in tourism alongside limited reconstruction inflows, provided progress is made in the area of banking sector reform and the authorities reach an agreement on an IMF-supported programme. Risks from regional instability remain ever-present and robust recovery hinges on the resumption of international donor support.

Morocco

Real GDP grew by 4.8 per cent year on year in January-September 2025, up from 3.7 per cent in 2024, supported by a broad-based expansion across both agricultural and non-agricultural sectors. The unemployment rate declined to 13.1 per cent from 13.6 per cent a year prior. Average inflation eased from 1 per cent in 2024 to 0.7 per cent in 2025, largely reflecting falling food prices. The Central Bank of Morocco held its policy rate at 2.3 per cent in December 2025, following a cumulative cut of 75 basis points over the preceding 18 months, citing heightened uncertainty. The fiscal deficit is estimated to have narrowed from 3.9 per cent in 2024 to 3.6 per cent of GDP in 2025 owing to higher tax revenues. Despite record tourist arrivals of 19.8 million in 2025 and strong remittances, the external position weakened as import growth in January-

November outweighed that of exports. At US$ 43.0 billion in December 2025, official reserves were up 28.8 per cent year on year, covering nearly six months of imports. Growth is projected at 4.4 in 2026 and 4.0 per cent in 2027. Downside risks relate to weaknesses in European markets and adverse weather shocks to agriculture.

Tunisia

Real GDP grew by 2.4 per cent year on year in January-September 2025, up from 1.0 per cent over the same period of 2024, driven by a continued recovery in agriculture and expansion in trade, construction and parts of manufacturing. The average annual inflation rate declined from 7 per cent in 2024 to 5.4 per cent, as food prices eased. The Central Bank of Tunisia (CBT) cut its policy rate by 50 basis points to 7.0 per cent in December 2025, its first cut in nine months. The fiscal deficit is estimated to have narrowed from 6.4 per cent in 2024 to 5.6 per cent of GDP in 2025 on better revenue mobilisation and lower basic goods subsidies. To cover spending needs, the government has repeatedly resorted to obtaining direct financing from the CBT, with a further US$ 3.7 billion in such financing expected in 2026. The current account deficit widened from 0.9 per cent of GDP in 2024 to 1.9 per cent of GDP in January-September 2025 as tourism and remittances receipts rose by over 6.5 per cent year on year as of December 2025. International reserves stood at US$ 9.5 billion in December 2025, covering nearly four months of imports. The economy is forecast to grow at the rate of 2.3 per cent in 2026 and 2.2 per cent in 2027, with downside risks related to external vulnerabilities and fiscal pressures.

Türkiye

Growth picked up from 3.3 per cent in 2024 to 3.7 per cent year on year in January-September 2025, exceeding expectations as strong private consumption and investment offset lower net exports on the demand side, while weak agricultural performance was compensated by stronger activity in other production sectors. The seasonally adjusted unemployment rate fell from 8.6 per cent at the end of 2024 to 7.7 per cent at the end of 2025, although broader metrics of labour force underutilisation remained elevated. Headline annual inflation declined from its May 2024 peak of 75.5 per cent to 30.9 per cent in December 2025, supported by tight monetary conditions (see Box 1). The budget deficit is estimated at 2.9 per cent of GDP in 2025. An estimated primary surplus of 0.4 per cent of GDP exceeded the Medium-Term Programme projections. Following a temporary tightening in April 2025 aimed at containing market volatility triggered by domestic political developments, the central bank gradually reduced the policy rate from 46.0 per cent to 37.0 per cent (as of January 2026). Financial conditions stabilised and investor confidence recovered in the second half of 2025, as manifested by narrower credit default swap spreads and improved access to international capital markets. The current account deficit widened from 0.8 per cent of GDP in 2024 to an estimated 1.5 per cent of GDP in 2025 on fast growth of imports, including those of gold. As gold prices rose, in January 2026 gross international reserves exceeded US$ 200 billion for the first time, with gold accounting for 60 per cent of total reserve assets. Growth is projected to pick up to 4.0 per cent in 2026 and 4.5 per cent in 2027 as macroeconomic stabilisation programme balances growth and disinflation objectives.

Western Balkans

Growth in the Western Balkans slowed in 2025 as weaker external demand weighed on activity. It is expected to gradually pick up to an average of 3.1 per cent in 2026 and 3.5 per cent in 2027, as external demand improves and investment strengthens. Inflation has remained sticky in most countries, partly because of robust wage and pensions growth, and central banks remain cautious about moving towards a looser policy stance. Overall, prospects for 2026–27 hinge on a modest rebound in the euro area and the EU Growth Plan catalysing reforms. The main risks stem from weaker external demand, high *commodity prices, and domestic policy uncertainty.*

Albania

Real GDP growth eased slightly to 3.7 per cent year on year in January-September 2025. Growth was supported by real estate, ICT services, and construction, while industry and agriculture contracted due to a strong domestic currency and weak external demand. Government consumption and exports of services offset a decline in goods exports. The current account recorded a small surplus, buoyed by tourism and remittances, even as the goods deficit widened. FDI reached a record high in 2025, concentrated in real estate and financial services. Inflation stood at 2.3 per cent in December 2025, although core inflation increased due to rising rents and energy prices. The central bank policy rate was cut to 2.5 per cent in July 2025 and has remained unchanged since then. Growth is expected to stay near 3.5 per cent in 2026 and 2027, supported by reforms aligning regulations with those in the EU and potential EU-funded investment. Climate risks, particularly droughts affecting energy production, are partially mitigated by a more diversified renewable mix.

Bosnia and Herzegovina

Economic growth slowed to 2 per cent year on year in the first three quarter of 2025 as weaker external demand, political instability, and lower consumer confidence weighed on performance. The current account deficit narrowed slightly, supported by a reduced trade deficit and higher remittances amid a declining services surplus. Inflation edged up to 4.1 per cent in December 2025, driven by rising wages and utility costs, even as food prices eased. Minimum wages and public sector pay were increased in 2025, with pensions adjusted as per statutory rules. The fiscal deficit widened due to higher debt servicing, and delays in budget approval for 2026 led to interim financing, holding back planned salary increases for state employees. Growth is set to pick up to 2.7 per cent in 2026 and 2.8 per cent in 2027, supported by higher real incomes and investment. Weaker demand from the eurozone and potential political tensions in 2026, an election year, are sources of risk to the outlook.

Kosovo

Kosovo’s growth slowed slightly to 3.5 per cent year on year in the first three quarters of 2025, as weaker net exports were offset by strong fixed capital formation and robust government consumption. Although the current account deficit has widened because of a growing trade gap, foreign investment, remittances, and official financing remained robust. Inflation rose from 0.4 per cent in late 2024 to 5.3 per cent in December 2025. Fiscal policy has shifted from a surplus to a modest deficit, but public debt remains low at around 16 per cent of GDP. The labour market is improving, marked by increasing formal employment and steady wage growth, and the minimum wage was hiked by 21.4 per cent, effective from January 2026, with an additional 11 per cent increase planned for July 2026. Banking sector health remains strong, with credit more readily available and low levels of bad loans. Real GDP growth is forecast at 3.9 per cent in 2026 and 2027. Risks to the outlook relate to potential political instability, economic weakness in the eurozone, and declining remittances. On the upside, prudent macroeconomic policies and an enhanced focus on structural reforms could further boost potential growth.

Montenegro

Real GDP increased by 3.2 per cent year on year in January-September 2025, maintaining the same pace as in 2024. Strong investment and sizeable wage and pension hikes offset the impact of increased electricity import needs after the Pljevlja plant closure and declining exports. The current account deficit widened in 2025 as a rising merchandise trade deficit outpaced a modest increase in the services surplus, and FDI inflows fell slightly, remaining concentrated in real estate. Inflation rose to 4.0 per cent in December, fuelled by expansionary fiscal policy, strong wage growth, and higher pensions. Fiscal pressures intensified during last year: the budget deficit widened as expenditures outpaced revenues, and public debt neared 60 per cent of GDP (as of September 2025), with borrowing needs financed partly through an €850 million eurobond. Real GDP growth is projected to stay at the level of 3.2 per cent in 2026 and 2027, supported by EU accession progress and infrastructure investment. Weak fiscal buffers and low diversification leave the economy vulnerable to external and climate-related shocks.

North Macedonia

Economic growth strengthened to 3.4 per cent year on year in the first three quarters of 2025, supported by rising investments, including motorway construction. Weaker growth in the financial and real estate sectors was offset by robust construction and steady gains in ICT services, trade and manufacturing. The current account deficit widened and net FDI dropped sharply, reflecting weakness in the European automotive sector and global trade policy uncertainty. After two years of easing, inflation fell to 2.6 per cent in April 2025 before climbing to 4.1 per cent in December following the removal of profit margin caps on certain staple goods. In response, the central bank paused rate cuts, with the policy rate at 4 per cent, and introduced a new operational policy framework. Fiscal consolidation remains challenging, with the 2026 budget targeting a 0.5 percentage point reduction in fiscal deficit, to 3.5 per cent of GDP, with public debt declining modestly. Real GDP growth is forecast at 3.2 per cent in 2026 and 3.3 per cent in 2027, driven by major public investment, while weak external demand is a notable source of risk.

Serbia

After two strong years, economic growth slowed to an estimated 2.0 per cent in 2025. The slowdown was broad-based, as contraction in construction and energy was partially offset by continued expansion in services and manufacturing of electric vehicles and tyres. The current account deficit stayed close to 2024 levels at 4.3 per cent of GDP in the first three quarters of the year, but net FDI halved, reflecting weaker investor sentiment and increased investment outflows. Inflation fell sharply during 2025, reaching 2.7 per cent in December 2025, helped by temporary retail margin caps, although core inflation pressures persisted. With inflation easing, the central bank cautiously reduced the policy rate from 6.5 to 5.75 per cent by August 2025, amid continued wage and pension growth pressures and higher fiscal spending. The fiscal deficit widened in 2025 while remaining within the 3 per cent of GDP target, as expenditure outpaced revenue. Public debt declined slightly to 43.7 per cent of GDP by November 2025. Growth is projected to rise to 3.0 per cent in 2026 and 3.8 per cent in 2027, supported by recovering investment, stronger tourism and Expo 2027 hosted by Serbia. Risks stem from energy supply vulnerabilities and ongoing social tensions affecting investment and consumer confidence.

Sub-Saharan Africa

Economic performance across the six sub-Saharan African economies strengthened in 2025, underpinned by robust growth in agriculture, services, and extractive industries, notably hydrocarbons in Senegal and Nigeria, alongside strong cocoa and gold exports in Ghana and Côte d'Ivoire. Inflation eased markedly in Ghana and Côte d'Ivoire, but it remains elevated in Nigeria and picked up modestly in Kenya and Senegal. Fiscal positions improved in Benin, Ghana, and Côte d'Ivoire, supported by stronger revenue mobilisation, although fiscal pressures persisted in Kenya and Senegal amid high debt burdens. External balances benefited from higher commodity exports and remittances. In the short term, growth across the region is expected to remain resilient, supported by sustained output in key commodity sectors and continued investment. However, the outlook is subject to downside risks tied to commodity price volatility, climate shocks, fiscal consolidation challenges, elevated debt servicing costs, and delays in structural reform implementation.

Benin

Real GDP grew by 8 per cent year on year over the first three quarters of 2025, up from 6.8 per cent in the same period of 2024, driven by robust performance in agriculture, services, and construction. Inflation accelerated in the second half of the year but remains low, at 1.4 per cent in December 2025, within the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO) target range of 1-3 per cent. The recent increase was fuelled by rising food and transport prices. The 2025 budget deficit is estimated at 2.9 per cent of GDP, broadly unchanged from the previous year and below the Africa Economic and Monetary Union (WAEMU) ceiling of 3 per cent of GDP. Public debt also edged down slightly, from 53.4 per cent at end-2024 to 51.5 per cent of GDP in June 2025. The merchandise trade deficit more than doubled over the first three quarters of 2025, driven by a 40 per cent drop in exports, particularly those of cotton (which accounts for over half of merchandise exports), amid lower global prices and a shift towards domestic processing. Growth is expected to reach 6.8 per cent in 2026 and 6.6 per cent in 2027, supported by higher investments, expansion of the Glo- Djigbé Industrial Zone (GDIZ) and rising agricultural output. Downside risks include adverse weather, security challenges in key cotton-producing regions, and regional political tensions that could disrupt cross-border trade.

Côte D'Ivoire

Economic growth accelerated to 8.0 per cent year on year over January-September 2025, up from 5.6 per cent over the same period of 2024, supported by stronger performance in the agricultural and extractive sectors. Inflation fell sharply in 2025, averaging 0.1 per cent throughout the year, owing to lower global food and energy prices and improved local harvests. Stronger revenue collection and expenditure discipline contributed to a decline in the fiscal deficit to 2.5 per cent of GDP over the period January-September 2025, from 3.6 per cent in the same period of the preceding year. Central government debt remained broadly stable at 59.3 per cent of GDP in September 2025, almost two-thirds of it external, with interest payments absorbing around 11.9 per cent of budgetary revenues. In this context, in December 2025 Fitch upgraded its rating for Côte D'Ivoire from BB- to BB, with stable outlook. Higher exports of dried cocoa beans, gold, and rubber boosted the merchandise trade surplus threefold. Growth is projected at 6.4 per cent in 2026 and 6.5 per cent in 2027, supported by strong agricultural output and favourable export prices. Downside risks include commodity price volatility and climate shocks, which could significantly affect cocoa and cashew production.

Ghana

Real GDP growth accelerated to 6.1 per cent year on year in January-September 2025, up from 5.7 per cent a year earlier. Growth was broad-based, supported by high prices of cocoa and gold, key export commodities. Inflation declined steadily over the course of 2025, reaching 5.3 per cent year on year in December 2025, the lowest level recorded since the series was rebased in 2021. The Ghanaian cedi appreciated markedly against the US dollar on strong export demand, reversing much of the depreciation seen in recent years and further supporting disinflation. The Bank of Ghana eased monetary policy in the second half of the year, cutting the policy rate by a cumulative 1,000 basis points to 18 per cent. The fiscal deficit narrowed to 1.5 per cent of GDP in January-September 2025, from 5.7 per cent a year earlier, while public debt declined to 48.9 per cent of GDP. The current account surplus rose to 4.4 per cent of GDP in January-September 2025, up from 0.6 per cent in the same period of the previous year, on the back of strong export receipts. Improved macroeconomic fundamentals boosted investor confidence, leading to lower yields on domestic treasury bills and government bonds. Towards end-2025, Moody's and S&P upgraded Ghana to Caa1 (from Caa2) and B- (from CCC+), respectively. Growth is forecast to reach 5.2 and 5.0 per cent in 2026 and 2027, respectively, supported by high gold prices. Downside risks continue to arise from delays in structural reforms, commodity price volatility, and food price pressures.

Kenya

As social tensions following protests against the 2024 finance bills eased, economic activity aimed momentum, with real GDP growth increasing to 4.9 per cent year on year in the first three quarters of 2025, from 4.6 per cent a year earlier. Growth was driven by a rebound in agriculture, real estate, and mining, while performance across most services sectors remained subdued. Inflation trended upward in 2025, driven by higher food prices and transport costs, but stayed within the central bank's target range of 5 ± 2.5 per cent. Monetary easing continued, although at a slower pace, with the Central Bank of Kenya cutting its policy rate by 225 cumulative basis points during 2025 to 9 per cent in December. Following strong appreciation in 2024, the Kenyan shilling remained broadly stable in 2025, ending the year at around KES 129 per US dollar. The fiscal deficit widened to 6.7 per cent of GDP in January-September 2025 from 5.7 per cent in 2024, driven by a sharp increase in government spending. Public debt rose to 67 per cent of GDP, nearly half of which is external, and debt-servicing costs absorb about half of government revenues. The current account deficit widened to an estimated 2.2 per cent of GDP in 2025, reflecting weaker exports and slower remittance growth. Growth is projected at 5.0 per cent in 2026 and 5.1 per cent in 2027, supported by accommodative policy and improving business conditions. Downside risks relate to rising inflation, fiscal pressures, high debt-servicing costs, alongside slower progress on structural reforms.

Nigeria

Real GDP growth strengthened to 3.8 per cent year on year in January-September 2025, up from 3.2 per cent a year earlier. Growth was driven by agriculture, telecommunications, real estate and financial services, alongside a recovery in crude oil production, which averaged 1.5 million barrels per day in 2025. Inflation trended downward in 2025, falling from 34.8 per cent in December 2024 to 14.5 per cent by November 2025, reflecting easing food prices and targeted price-stabilisation measures. Consumer price indices and national accounts were rebased in 2025, leading to large data revisions. The Central Bank of Nigeria cut its policy rate by 50 basis points to 27.0 per cent in September 2025, the first cut following hikes totalling 860 basis points, which began in February 2024. The naira appreciated against the US dollar over the year, supported by foreign exchange liberalisation and general US dollar weakness. The fiscal deficit narrowed to 2.9 per cent of GDP in the first half of 2025, while the debt-to-GDP ratio eased to 37.7 per cent. Total debt service remained high, at over 80 per cent of federal government revenue. The current account surplus rose to 7.1 per cent of GDP over January-September 2025, supported by higher oil exports despite declining prices, rising remittances, and lower imports of refined petroleum following the ramp-up of production at the Dangote refinery. Growth is expected to reach 4.2 per cent in 2026 and 3.9 per cent in 2027, supported by services and non-oil industry. Downside risks include a decline in oil prices, security challenges, stalled reforms and adverse weather impacting the agricultural sector, which accounts for about a quarter of GDP.

Senegal

Real GDP growth accelerated sharply to 9.3 per cent in the first three quarters of 2025, up from 5.3 per cent in the same period of 2024, driven by higher-than-expected oil and gas output from the offshore Sangomar field, with annual oil output exceeding 36 million barrels. The surge in hydrocarbon exports led to a current account surplus of 1.4 per cent of GDP in January-September 2025, compared with a deficit of 11.5 per cent of GDP in 2024. Inflationary pressures picked up in the second half of 2025, with year-on-year inflation reaching 2.8 per cent in December, reflecting higher food prices and slightly more accommodative monetary policy. Stronger economic activity, improved revenue mobilisation, and expenditure execution below planned levels contributed to a narrowing of the fiscal deficit from 12 per cent in 2024 (the Court of Auditors' revised estimate) to 7.3 per cent of GDP in January-September 2025. Sovereign creditworthiness deteriorated markedly last year, with multiple downgrades by S&P, from B to CCC+. and by Moody's, from B1 to Caa1, reflecting heightened debt sustainability concerns. Economic growth is forecast to moderate to 4.0 per cent in 2026 and 2027, as the one-off boost from the start of production at the Sangomar field wanes while fiscal consolidation efforts are needed to contain debt accumulation. Downside risks relate to the uncertainty surrounding the new IMF programme, fiscal and debt vulnerabilities and oil and gas price volatility.

Belarus

In 2025, growth was subdued, at 1.3 per cent, reflecting contraction in manufacturing (by 2.5 per cent) alongside nearly stagnant agricultural output. The downturn in manufacturing reflects diminished export opportunities to Russia and constrained import substitution financing. Headline CPI inflation reached 7.4 per cent in July 2025 before easing to 6.8 per cent by December, largely due to efforts to control food price increases. Economic growth is expected to remain sluggish, at 1.3 per cent in 2026 and 1.5 per cent in 2027. Significant downside risks are related to persistent economic sanctions and dependence on the Russian economy.

Russia

Economic growth slowed to 1.0 per cent year on year in January-September 2025, supported primarily by robust government spending, especially in defence and public administration. Increasing military spending boosted output in vehicle and metal production. Real wages recorded a solid increase last year as the unemployment rate reached a record low of 2.1 per cent. Inflation subsided to 5.6 per cent year on year in December 2025, a five-year low. However, as oil and gas revenues dropped by a quarter in 2025, the budget deficit widened to 2.6 per cent of GDP. In response, the authorities raised the basic rate of VAT from 20 to 22 per cent as of 1 January 2026, which may temporarily push inflation up. Real GDP growth is projected to moderate to 0.8 per cent in 2026 before recovering to 1.0 per cent in 2027, with downside risks stemming from oil price weakness and further economic sanctions.

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 Agreements 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 February 12, 2026. Box 0 reflects information as of February 24, 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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