

ARMENIA



HIGHLIGHTS

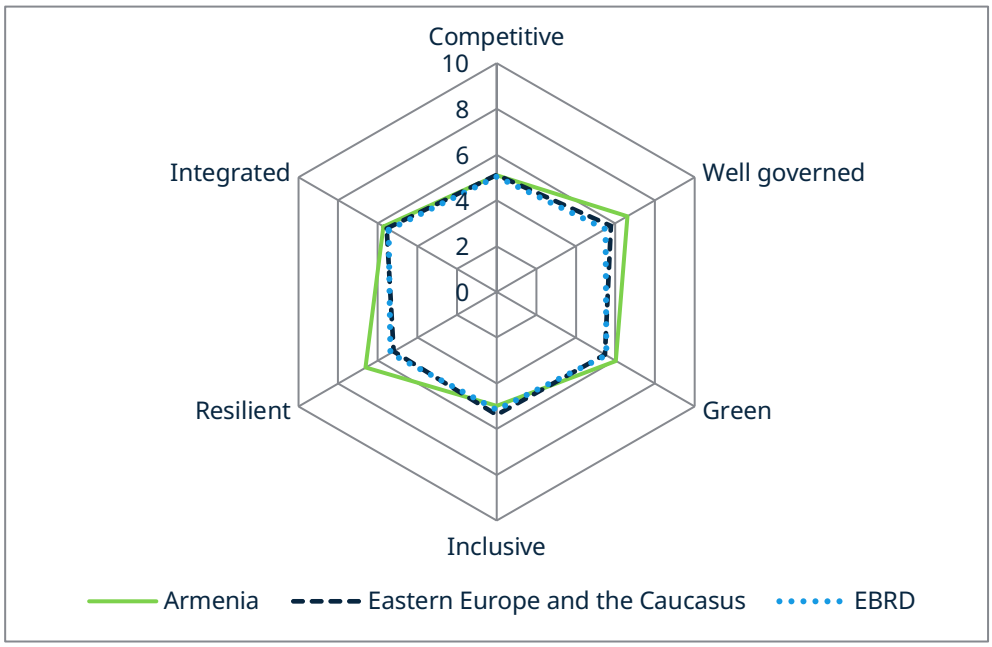
- **Economic growth has remained strong in 2026.** Real gross domestic product (GDP) grew 6.0 per cent year on year in the first half of 2026, led by construction and services. Inflation averaged 4.6 per cent in the first six months, remaining above the central bank's target. Foreign-exchange purchases by the central bank helped lift international reserves to a record high in July 2026, even as the trade deficit widened in the first half of the year.
- **The economy has shown resilience to Russian trade restrictions on traditional export products.** In the first three quarters of 2026, the dram was stable. External buffers and financial-sector balance sheets remained sound. The authorities promptly introduced targeted support for affected exporters to help them reach alternative markets and partly compensate for losses.
- **Armenia deepened its engagement with the European Union (EU).** This included the new Strategic Agenda, the first EU-Armenia summit and a Connectivity Partnership spanning transport, energy and digital links. These steps could support policy approximation, connectivity and Armenia's access to European markets.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Implement reforms for closer EU alignment.** The Strategic Agenda for the EU-Armenia Partnership provides an opportunity to strengthen governance, market institutions, regulatory quality, and green and digital standards.
- **Make progress on developing new trade links with neighbouring countries to strengthen Armenia's role in east-west trade.** Effective implementation of the Trump Route for International Peace and Prosperity (TRIPP) could lead to growth-enhancing infrastructure investments and improved connectivity.
- **Further decarbonise the energy system and strengthen regional energy connectivity.** This could help improve energy security and reduce Armenia's import dependence on a single dominant supplier of fossil fuels. Modernising and expanding energy transmission and developing storage capacity would allow the country to scale up renewables and energy trading, while improving residential energy efficiency could help reduce energy demand.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Investment climate

- A new Investment Law entered into force in August 2026, replacing the 1994 Foreign Investments Law and establishing a common framework of rights and protections for domestic and foreign investors.

Financial-sector legislation

- A new Bankruptcy Code was adopted in June 2026 and will come into force in July 2027. It introduces preventive restructuring for firms at risk of insolvency and modernises rehabilitation, liquidation and creditor procedures.

1 From the fourth quarter of 2025 to October 2026.

- A new bank resolution framework, adopted in July 2026, establishes a dedicated crisis management regime and equips the central bank with resolution tools, including the possibility of transfer to a bridge bank.
- Legislative changes in December 2025 revised audit reporting and clarified licensing arrangements for crypto-asset service providers to strengthen central bank oversight and protect customers.

Universal health insurance

- The first phase of universal health insurance was launched in January 2026, providing coverage to nearly 1.8 million people by June. The authorities aim to extend coverage to all population groups by 1 January 2029.

Human capital development

- The Higher Education and Science Law, which was adopted in September 2025 and entered into force in October, revises the governance and quality assurance of universities and research institutions. Amendments to the vocational education and training framework, adopted in June 2026, updated licensing, accreditation and teacher-attestation arrangements.

Green economy transition

- Armenia submitted its updated Nationally Determined Contribution (NDC 3.0) in December 2025, targeting an unconditional 44 per cent reduction in greenhouse gas emissions from 1990 levels by 2035 and a 52 per cent decrease subject to international support.
- Armenia's Climate Law entered into force in February 2026 and was followed by the launch of a digital greenhouse gas emissions database in May.

Public governance

- Procurement law amendments were adopted in July 2026, modernising procurement procedures, expanding disclosure and public oversight, and introducing annual ceilings on the use of single-source procurement.

Digitalisation and cybersecurity

- Cybersecurity and public information laws entered into force in January 2026, establishing regulatory frameworks for critical information infrastructure and for the collection, management and exchange of public-sector data.

Trade and connectivity

- Armenia signed the TRIPP Framework Agreement with the United States of America in June 2026 and initiated ratification in July. The agreement provides for the establishment of a joint venture between Armenia and the United States to facilitate the implementation of TRIPP investments and sets out the corresponding governance and operational arrangements.
- A new Strategic Agenda for the EU-Armenia Partnership was adopted in December 2025, followed by the signing of a landmark Connectivity Partnership in May 2026. The Agenda introduces short-term (three- to four-year) and medium-term (seven-year) priorities in line with Armenia's reform agenda. Connectivity is one of the key priorities, with a view to enhancing energy, transport and digital links in the region, along with visa liberalisation dialogue, security, crisis management and cyber-resilience.

- Armenia advanced preparations for EU visa liberalisation in May 2026 by adopting legislation on biometric identity documents and agreeing the text of a new border-management cooperation arrangement with Frontex, the EU border agency.



AZERBAIJAN



COUNTRY ASSESSMENTS

HIGHLIGHTS

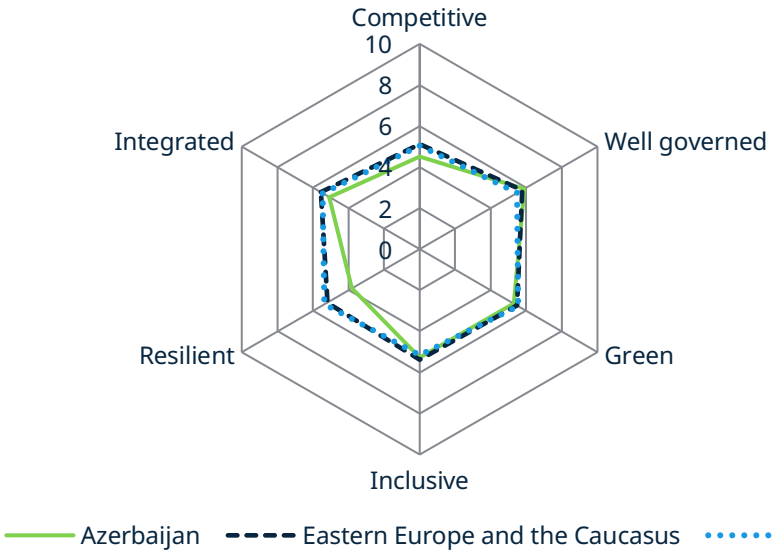
- **Real gross domestic product (GDP) expanded by 1.4 per cent year on year in the first seven months of 2026.** While oil and gas GDP contracted by 0.6 per cent year on year, the rest of the economy generated growth of 2.2 per cent year on year. At 5.8 per cent in July 2026, annual inflation stood near the upper bound of the central bank's target range. The state budget and merchandise trade balance remained in surplus during this period, while strategic foreign-exchange reserves increased further.
- **Azerbaijan commissioned and connected two major utility-scale renewable energy projects to the national grid.** These are the 240 MW Khizi-Absheron wind power plant and the 100 MW Gobustan solar power plant, the latter contract being awarded through a competitive renewable energy auction. Since the feasibility study for the Caspian-Black Sea-Europe Green Energy Corridor was completed in July 2026, work has now started on preparing the project for a final investment decision.
- **The authorities took steps to improve the investment climate and governance.** Various legislative changes were adopted to enhance the private sector's liquidity, provide incentives for technology-oriented sectors and improve access to early-stage financing.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Continue to focus diversification policies on fostering a competitive, export-oriented private sector.** Greater access to startup financing and capital-market instruments, combined with skills training linked to employers' needs, could support faster growth in the non-oil economy.
- **Continue to decarbonise the energy sector.** Matching renewable capacity growth with grid upgrades, increased storage, advances in electricity market reform and stronger energy-efficiency incentives could help accelerate the green energy transition.
- **Maintain momentum in developing the Middle Corridor.** Improving connectivity with Central Asia, neighbouring South Caucasus countries and European markets would strengthen Azerbaijan's position as a regional trade and logistics hub. Priorities include expanding multimodal transport infrastructure, streamlining customs and border procedures through digitalisation, and fostering higher value-added logistics and trade services.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Management of public finances

- In December 2025 Azerbaijan established a new agency under the Ministry of Finance to consolidate and improve financial oversight of state-owned enterprises (SOEs).
- At the same time, a new dividend policy was introduced to establish a more rules-based framework for transfers from profitable SOEs to the state budget. SOEs within the scope of the policy must transfer at least 30 per cent of their net profit to the state budget as dividends, subject to financial safeguards and specified exemptions.

1 From the fourth quarter of 2025 to October 2026.

Banking regulation

- The Central Bank of the Republic of Azerbaijan (CBAR) amended capital rules in December 2025 to align banks' capital structure, adequacy ratios and buffers with Basel III. Banks will need to fully comply from 1 January 2027.
- In February 2026, S&P Global Ratings upgraded Azerbaijan's industry risk score in its Banking Industry Country Risk Assessment. The change reflected stronger banking regulation and supervision, including improved corporate governance standards and liquidity requirements aligned with Basel III.
- In March 2026 the CBAR approved the Banking Supervision Strategy for 2026-27, which aims to strengthen supervision by placing greater emphasis on each bank's individual risk profile. The CBAR also strengthened existing stress-testing requirements through common rules for testing methods and reporting.
- The CBAR amended its regulations, effective 9 February 2026, to improve environmental, social and governance (ESG) practices in banks and support integration of climate and ESG considerations into their governance and risk management systems.

Green economy transition

- Azerbaijan has strengthened its sustainable finance architecture through the adoption of the National Green Taxonomy in May 2026. This provides a framework for classifying environmentally sustainable economic activities and promoting green investment and finance.

Access to finance and capital market development

- In June 2026 the mandate to provide guarantees and interest subsidies for manat-denominated business loans was transferred to the Azerbaijan Business Development Fund. The aim is to improve the efficiency of the state's support framework for businesses.
- In July 2026 a package of legislative amendments was adopted to modernise corporate governance, expand startup financing and enhance business liquidity. The changes create a legal framework for venture capital funds, equity crowdfunding and employee stock options. Eligible non-oil businesses gained cash-flow relief by being allowed to pay employee social insurance contributions directly out of their value-added tax (VAT) deposit accounts.

Connectivity and trade

- The Baku-Tbilisi-Kars railway became fully operational in June 2026 after Azerbaijan-funded work to modernise the Georgian section was completed. The upgrade increased annual freight-handling capacity fivefold.
- The Law on Freight Forwarding was enacted in December 2025, establishing a framework for domestic and international freight services.

Digital governance

- Azerbaijan adopted the Digital Economy Strategy for 2026-29 and the Action Plan for 2026-28 on Accelerating Digital Development. They cover digitalisation, artificial intelligence, innovation and cybersecurity.
- In June 2026 the president of Azerbaijan signed a decree to develop an intelligent customs information system. Customs Code amendments published in August

2026 expanded electronic submission of customs documents, advancing the digitalisation of customs administration.

Human capital development

- In July 2026 Azerbaijan approved a 2026-30 action plan to implement its existing Employment Strategy. It sets out measures to expand vocational training and active labour-market programmes, improve access to employment services and reduce informal employment.



GEORGIA



COUNTRY ASSESSMENTS

HIGHLIGHTS

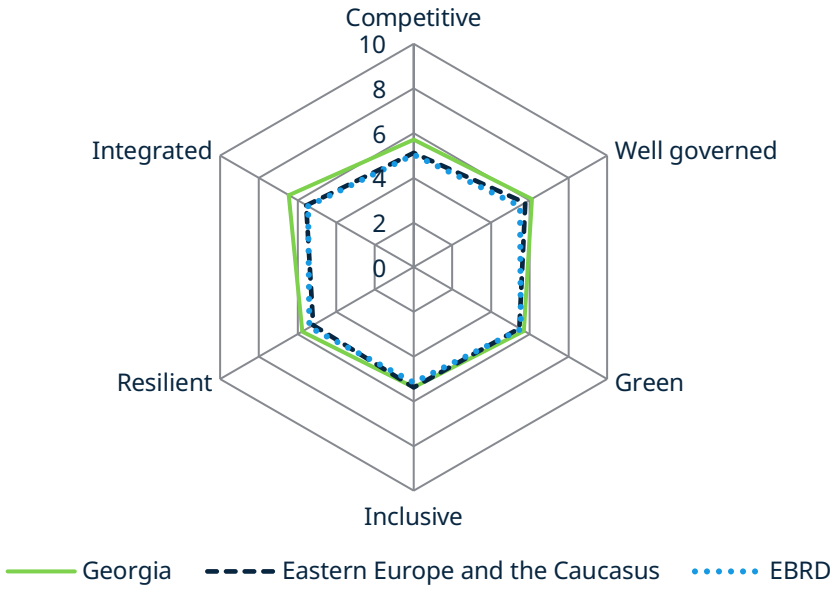
- **Economic growth has remained robust in 2026, despite inflationary pressures.** Real gross domestic product (GDP) is estimated to have expanded by 7.6 per cent year on year in the first eight months of 2026. Higher energy prices exerted upward pressure on inflation, prompting the National Bank of Georgia (NBG) to increase the policy rate by 25 basis points in May 2026. Sizeable foreign-exchange purchases by the NBG contributed to a further buildup of gross international reserves in the first half of 2026.
- **Georgia made strides in improving connectivity.** The realisation of regional connectivity initiatives continued with the implementation of transport infrastructure projects and the improved coordination of freight services along the Middle Corridor. Considerable multilateral development bank financing was approved for further projects in this area.
- **The financial sector saw continued reform progress.** A new factoring law, adopted in April 2026, will formalise the transfer of receivables with a view to easing small and medium-sized enterprise (SME) access to working capital. Measures to strengthen the NBG's autonomy and improve the tracking of sustainable finance are steps in the right direction.

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KEY PRIORITIES FOR 2027

- **Improve regulatory predictability, anti-corruption institutions and judicial independence.** Progress in these areas could help attract more foreign direct investment and reinforce Georgia's position as a regional trade and services hub.
- **Implement structural reforms to boost productivity and competitiveness.** Key reforms should include further improvements to education and skills, innovation, state-owned enterprise governance and the business environment, while increasing connectivity and accelerating the deployment of green energy infrastructure.
- **Advance regulatory and institutional alignment with European Union (EU) standards.** This could help sustain reform momentum, strengthen investor confidence and promote long-term competitiveness gains and closer integration with European markets.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Financial sector

- The October 2026 amendments to the Organic Law on the National Bank of Georgia clarified the succession framework, specified qualification requirements for Board members in greater detail, and introduced a collegial decision-making model, in line with recommendations by the International Monetary Fund.
- The Law on Factoring, adopted in April 2026, aims to improve access to working capital financing. The new law, which will take effect in January 2027, introduces a legal framework to enable invoice financing and the transfer of receivables, primarily by SMEs.

1 From the fourth quarter of 2025 to October 2026.

Public governance

- Legislative amendments, enacted in December 2025, took effect on 2 March 2026, abolishing the Anti-Corruption Bureau and Personal Data Protection Service as separate entities and transferring their functions to the State Audit Office.
- In March 2026 parliament adopted a set of amendments that broadened the categories of foreign grants requiring government approval and introduced criminal liability for specific violations. The same package introduced restrictions and penalties related to foreign-funded political activities.

Immigration policy

- Amendments adopted in June 2025 took effect in March 2026, requiring foreign nationals without permanent residency to obtain authorisation for work or remunerated self-employment in Georgia.

Investment and export promotion

- In April 2026 the Public-Private Partnership (PPP) Agency was transformed into the Investment Agency, with an expanded mandate. The Agency retained PPP-related responsibilities and was assigned new functions including investment attraction and support, export promotion and exporter services.

Sustainable finance

- In January 2026 the NBG started publishing monthly data on bank loans classified as green under its Sustainable Finance Taxonomy. The dashboard illustrates sectoral composition and helps track the taxonomy-aligned lending.

Climate policy

- In March 2026 Georgia submitted its third Nationally Determined Contribution (NDC 3.0) under the Paris Agreement, committing to reduce net greenhouse gas emissions by 47 per cent from 1990 levels by 2030 and by 50 per cent by 2035, while strengthening mitigation and adaptation priorities across key sectors.

Human capital development

- In December 2025 parliament adopted a legislative package pertaining to the higher education system. The changes provide for full state financing of Georgian citizens studying at government-established higher education institutions and introduce a 3+1 structure, with three-year bachelor's and one-year master's programmes, subject to exceptions for regulated fields.



MOLDOVA



COUNTRY ASSESSMENTS

HIGHLIGHTS

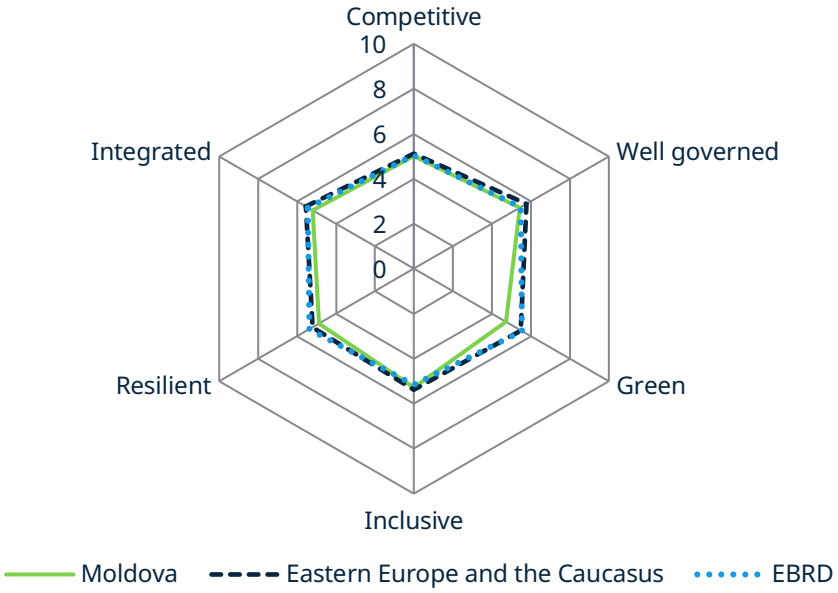
- **The economy continued to grow in the first half of 2026, despite an unfavourable external environment.** Manufacturing, retail trade, transport and agriculture drove growth of 0.6 per cent year on year in the first half, while construction and information and communication technology underperformed. Widening external imbalances and persistent energy security challenges remain downside risks.
- **European Union (EU) accession negotiations advanced with the opening of four negotiating clusters:** cluster 1 on fundamentals in June 2026, cluster 6 on external relations in July 2026, and clusters 2 (on internal market) and 3 (on competitiveness and inclusive growth) in October 2026. Moldova became an operational member of the Single Euro Payments Area (SEPA) in October 2025.
- **The authorities presented a revised fiscal package for 2027 and advanced local government reforms.** The package covers formalisation of the economy, investment incentives, excise duties and value-added tax (VAT). Local government reforms also progressed, with financial incentives encouraging local government units to merge voluntarily.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Advance EU accession reforms.** The authorities should maintain the momentum by meeting the reform benchmarks, in line with the government's objective of signing the accession treaty by the end of 2028.
- **Keep driving tax and local government reforms.** The implementation of the 2027 fiscal package, reform of local government and the gradual fiscal integration of Transnistria will require sustained political commitment and government stability, and must remain aligned with Moldova's EU accession agenda.
- **Shift the green transition from capacity expansion to system integration, resilience and market liberalisation.** With renewable generation capacity now exceeding 1 GW, efforts should focus on deploying energy storage, completing strategic interconnectors with Romania and deepening electricity market liberalisation.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

EU accession

- The EU and Moldova opened cluster 1 (fundamentals) of the accession negotiations in June 2026, covering the judiciary and fundamental rights, justice-sector reform, public procurement and economic criteria. Negotiations on cluster 6 (external relations) followed in July 2026, and on clusters 2 (internal market) and 3 (competitiveness and inclusive growth) in October 2026.

1 From the fourth quarter of 2025 to October 2026.

- Integration into the EU single market advanced with accession to SEPA and the introduction of Roam Like at Home measures, reducing the cost of cross-border payments and communications. By mid-August 2026, nearly 80 per cent of euro transfers were processed through SEPA, cutting average transaction costs from between €20 and €150 to around €1 and enabling Moldovan firms to operate under the same payment standards as EU businesses.

Tax reform

- The draft package, proposed in August 2026, would raise the personal income tax exemption by approximately 35 per cent to MDL 40,000 (€2,000), in a bid to reduce the informal economy. The package would also expand the tax base for capital income, increase dividend and bank profit taxes, extend the zero-tax regime for reinvested profits to larger firms, and align tax treatment for small agricultural households with that of enterprises.
- From September 2026, Transnistrian firms importing non-essential goods are subject to Moldovan VAT and excise duties, with tax coverage to be extended to 2030 under a phased convergence plan. The resulting revenues are earmarked for regional infrastructure and development projects through the Convergence Fund – a new mechanism created by the Moldovan authorities to finance Transnistria's gradual economic and social integration.

Energy market reform

- From April 2027, household gas and electricity consumption above set thresholds will be subject to the standard 20 per cent VAT rate. The reform protects basic consumption by vulnerable households while taxing higher energy use at the full rate. This supports fiscal sustainability and brings Moldova into line with EU VAT rules.
- Moldova held its second renewables auction at the end of 2025, which introduced co-located battery-storage requirements. Together with the launch of OPEM's (the energy market operator of Moldova) day-ahead electricity market in December 2025, these measures reflect a growing policy focus on deploying energy storage and liberalising the electricity market.

Local government reform

- Launched in April 2026, the reform will improve the management of municipalities, including public financial management and project development. It will also introduce a minimum population threshold of 3,000 inhabitants for mayoralties and consolidate the 32 districts into larger regional zones, with the aim of strengthening local economies and improving the efficiency of public-service delivery. The authorities are facilitating progress by providing financial incentives to local governments to merge voluntarily.

Education reform

- The "Restart in Education" reform places schools under Ministry of Education and Research oversight through 35 territorial education agencies. It also shifts school financing to the state budget, aiming to reduce regional disparities and improve governance.

UKRAINE



COUNTRY ASSESSMENTS

HIGHLIGHTS

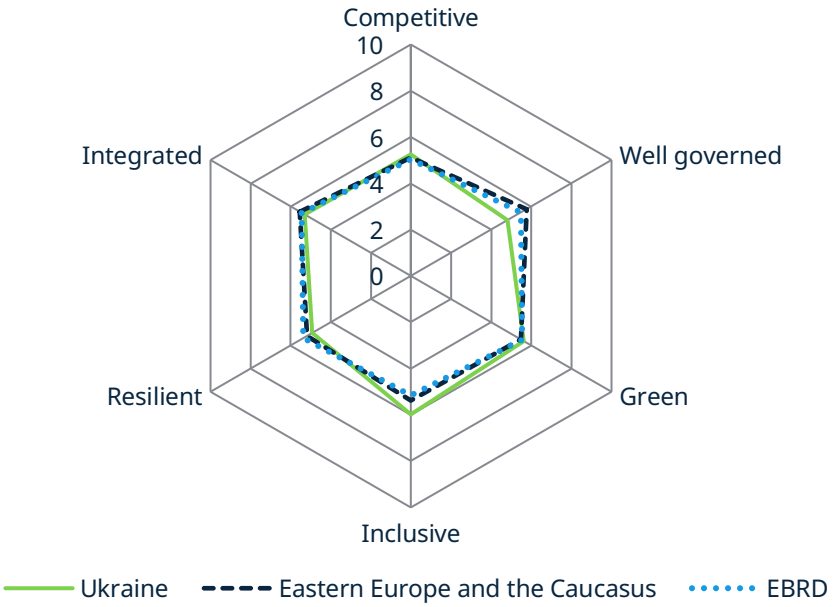
- **Economic activity stagnated in the first half of 2026.** Real gross domestic product (GDP) returned to slow growth of 0.4 per cent year on year in the second quarter of 2026, after contracting by 0.6 per cent in the first quarter, as Russian strikes on energy and logistics infrastructure continued and inflationary pressures re-intensified. External financing was reinforced by the European Union (EU)'s finalisation of a €90 billion Ukraine Support Loan in April 2026, anchoring the International Monetary Fund-supported programme and easing near-term fiscal pressure.
- **Ukraine's EU accession process advanced.** The cluster on fundamentals opened in June 2026, covering rule of law, democratic institutions and public administration reform. This was followed by the opening of the external relations cluster in July and clusters on the internal market and competitiveness and inclusive growth in October 2026.
- **Anti-corruption bodies have regained their powers and resources, but enforcement has been slow.** Last year's high-profile corruption scandal exposed significant governance weaknesses in state-owned enterprises (SOEs) and highlighted the fragility of the corruption prevention system and broader challenges for institutional governance.

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KEY PRIORITIES FOR 2027

- **Accelerate EU accession reforms** by maintaining momentum on the rule of law, public administration, governance and economic reforms.
- **Advance anti-corruption and governance reforms** by strengthening the independence and effectiveness of oversight institutions, enhancing SOE governance and ensuring accountability through transparent appointments and enforcement of integrity standards.
- **Continue energy-sector reform by prioritising decentralised, resilient generation and grid investment.** This should come alongside deeper capital-market development, building on the National Securities and Stock Market Commission's expanded responsibilities, to help mobilise private financing for reconstruction.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

EU accession

- The EU and Ukraine opened negotiations on cluster 1 (fundamentals) in June 2026, covering the rule of law, democratic institutions and public administration; cluster 6, covering external relations, followed in July and clusters 2 (internal market) and 3 (competitiveness and inclusive growth) in October 2026.

1 From the fourth quarter of 2025 to October 2026.

- The National Programme for the Adaptation of Ukrainian Legislation to EU law (NPAA) was approved in April 2026, providing a roadmap for legislative alignment and the transposition of over 1,600 EU legal acts. Implementation risks remain substantial, as Ukraine has been slow to deliver its reform commitments under the Ukraine Facility. Opening the remaining negotiating clusters will also depend on further progress on reforms to the rule of law, anti-corruption, and judicial and public administration.

SOE corporate governance

- Following the exposure of the "Midas"[2] corruption scheme in late 2025, the authorities accelerated corporate governance reforms across major state-owned energy companies.
- Between January and July 2026, new supervisory boards were installed at Naftogaz, Energoatom, Ukrenergo and the Gas Transmission System Operator of Ukraine (GTSOU) to strengthen independent oversight and reduce political influence over strategic energy assets.

National Securities and Stock Market Commission reform

- In May 2026 a selection commission was established to run a competitive process to appoint members of the National Securities and Stock Market Commission (NSSMC), a key step in the NSSMC's ongoing institutional reforms. The measures are expected to improve market integrity, investor confidence and alignment with EU capital-market standards.

National Energy and Climate Plan

- In June 2026 Ukraine updated its National Energy and Climate Plan (NECP) to reflect wartime realities, evolving energy-sector needs and progress with EU accession.
- The revised plan strengthens decarbonisation objectives, energy security and renewable-energy policies, providing a clearer path towards climate neutrality by 2050. It serves as the key policy framework guiding Ukraine's energy transition and alignment with EU climate and energy legislation.

Digitalisation of public investment management

- In June 2026 the Cabinet of Ministers approved the Concept for the Development of a Unified Digital Ecosystem for Public Investment Management. This integrates project preparation, financing, monitoring and reporting into a single digital platform.
- The reform is expected to improve transparency and strengthen oversight of public investment, particularly for reconstruction spending, and support alignment with EU governance standards.

2 Operation Midas was a major anti-corruption crackdown by Ukrainian anti-corruption institutions in November 2025. It exposed a massive, US$ 100 million wartime money-laundering and bribery network, which forced 10 to 15 per cent kickbacks from contractors at state-owned nuclear energy operator Energoatom and implicated high-ranking government officials.

Labour market reform

- In January 2026 the government approved the draft Labour Code, which is designed to modernise employment regulation, accommodate flexible forms of work and align with EU labour legislation.
- The reform is intended to reduce labour-market rigidities, bring more workers into formal employment and improve the matching of skills and jobs, helping to raise productivity in a labour-constrained economy.