Recent developments: Growth in Europe and Central Asia (ECA) slowed to 2.5 percent in 2025, driven by softening domestic demand—particularly in the Russian Federation due to weaker fiscal stimulus and tight monetary policy. Excluding Russia and Türkiye, regional growth edged up to 3.4 percent, with Central Asia remaining the fastest-growing subregion.

Data for early 2026 point to moderation in ECA growth momentum amid some tightening of financial conditions following the outbreak of the conflict in the Middle East, with pressures on equities, sovereign spreads, and currencies. Disinflation has stalled, as inflation picked up following the rise in energy prices due to the conflict. Median headline inflation increased above 5 percent in recent months, remaining above pre-pandemic levels and central bank targets in most countries. Inflation has been highest in Türkiye and Central Asia, and lowest in Central Europe and the Western Balkans. In this context, the scope for further monetary policy easing has narrowed. These developments point to a more challenging macroeconomic outlook.

Outlook: Growth in ECA is projected to decelerate further, to 2.1 percent in 2026, weakening in about 70 percent of economies, before picking up to 2.4 percent by 2027–28. Slowing growth is expected to weigh on labor markets, dampening job creation in the near term, against a backdrop of ongoing demographic pressures. Excluding Russia and Türkiye, regional growth is projected to remain comparatively resilient, moderating to 2.8 percent in 2026 before firming to 3.1 percent by 2027-28. The baseline assumes that the most acute phase of commodity trade disruptions ends in July, with shipping volumes through the Strait of Hormuz recovering in the second half of the year, allowing energy supplies to gradually return close to pre-conflict levels. Higher oil prices, with elevated trade and geopolitical uncertainty, have led to downward revisions to 2026 growth projections since January for most commodity importers, outweighing limited upward revisions for commodity exporters.

Most ECA economies are net energy importers and are expected to face headwinds from higher commodity prices in 2026. Since January, the largest downward revisions particularly have been in Romania, Türkiye, Moldova and Ukraine, largely driven by the commodity price shock, alongside country-specific developments. In Ukraine, earlier electricity and gas supply disruptions due to targeted attacks are also expected to weigh on activity in the context of Russia's invasion. Growth for commodity exporters is envisaged to slow in 2026 and remain subdued in 2027–28, although higher commodity prices are expected to support export revenues in energy exporters—including Azerbaijan, Kazakhstan, and Turkmenistan—and metals exporters. In Russia, the impact of the conflict in the Middle East on activity is anticipated to be contained. Oil revenue gains—estimated at about 1.5 percent of 2025 GDP for each $10 per barrel increase in oil prices—are envisaged to be mainly directed toward fiscal consolidation, amid elevated fiscal and financial pressures.

Domestic demand is expected to remain the primary driver of regional growth, though it is likely to be constrained in 2026 by elevated energy prices, which raise inflation and erode real incomes, and by tighter monetary conditions. A gradual recovery is anticipated as commodity price pressures ease. Net exports are projected to continue to weigh on growth amid the euro area slowdown, before gradually strengthening in 2027–28 alongside its recovery.

Inflation is set to rise in 2026, driven by higher energy and food prices, before moderating over 2027–28 as commodity price pressures ease. The pass-through from energy prices to inflation is expected to be stronger in energy importers with large consumer price index energy weights, such as Armenia, Georgia, and Serbia. Indirect effects via upward pressures on input costs are also likely to be more pronounced in economies with greater fertilizer import dependence, including Moldova, Romania, and most Western Balkan countries. Against this backdrop, monetary policy is envisaged to remain restrictive amid persistent inflation pressures, notably in Türkiye.

Fiscal policy is expected to be broadly supportive of growth in most economies over 2026–28. Fiscal deficits are projected to remain elevated amid persistent spending pressures, including defense spending and temporary economic measures, such as domestic subsidies and price management measures, to cushion the impact of higher energy prices. Limited fiscal space, particularly in Montenegro, Romania, and Ukraine, will likely constrain authorities' ability to absorb this shock. Upcoming elections in many countries add uncertainty to the fiscal outlook. Energy exporters stand apart, with stronger hydrocarbon revenues aiding consolidation efforts. The median public debt across the region is projected to increase to about 40 percent of GDP by 2027.

External balances among energy-importing economies are anticipated to weaken in 2026, reflecting higher energy costs and softer external demand due mainly to the euro area slowdown. Elevated energy prices are likely to weigh most heavily on Armenia, Georgia, Moldova, and Türkiye, where net energy imports exceed 70 percent of domestic energy use. Economies with already-large current account deficits, notably Moldova, Montenegro, and Ukraine, remain particularly vulnerable to deteriorations in their terms of trade. Slower euro area growth is likely to weigh on manufacturing exports, particularly in Central Europe and the Western Balkans. Energy exporters, by contrast, are expected to record stronger current account positions. These external pressures are set to ease in 2027-28, supported by softer commodity prices and a gradual recovery in the euro area.

External balances will also be shaped by tourism, remittances, and ongoing structural trade shifts. Tourism is envisaged to moderate compared to the post-pandemic rebound, while remittance inflows—after surging following Russia's invasion and supporting consumption, especially in Central Asia—are expected to stabilize amid weaker growth in Russia. The Carbon Border Adjustment Mechanism is also expected to gradually influence trade patterns in the Western Balkans, affecting the composition and competitiveness of carbon-intensive exports to the European Union.

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Europe and Central Asia Economy Forecasts
(Annual percent change unless indicated otherwise)

	2023	2024	2025e	2026f	2027f	2028f
GDP at market prices (average 2010–19 US$)						
Albania	4.0	4.0	3.8	3.4	3.7	3.6
Armenia	8.3	5.9	7.1	5.3	5.1	5.0
Azerbaijan	1.4	4.2	1.4	2.0	1.8	1.8
Belarus	4.1	4.3	1.3	1.1	0.8	0.7
Bosnia and Herzegovina [a]	2.0	3.2	2.1	2.5	3.0	3.2
Bulgaria	1.7	3.4	3.1	2.6	2.9	3.0
Croatia	3.8	3.8	3.4	2.4	2.3	2.3
Georgia	7.8	9.7	7.5	5.0	5.5	5.0
Kazakhstan	5.1	5.0	6.5	4.6	3.9	3.5
Kosovo	4.1	4.6	3.6	3.7	3.9	4.0
Kyrgyz Republic	9.0	11.5	11.1	6.1	5.8	6.1
Moldova	1.2	0.3	2.4	1.9	2.9	3.2
Montenegro	6.5	3.2	2.7	2.9	3.1	3.1
North Macedonia	2.6	3.0	3.5	2.9	3.0	3.0
Poland	0.2	3.2	3.6	3.1	2.6	2.9
Romania	2.3	0.9	0.7	0.0	1.7	2.0
Russian Federation	4.1	4.9	1.0	0.8	0.7	0.7
Serbia	3.7	3.9	2.0	2.7	3.0	4.0
Tajikistan	8.3	8.4	8.4	6.5	5.0	4.8
Türkiye	5.0	3.3	3.6	2.8	3.7	4.3
Turkmenistan [b]	6.3	6.3	6.3	..	..	..
Ukraine	5.5	3.2	1.8	1.2	4.0	4.5
Uzbekistan	6.3	6.7	7.7	6.4	6.7	6.8

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing global circumstances. Consequently, projections presented here may differ from those in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
a. GDP growth rate at constant prices is based on production approach.
b. Macroeconomic projections for Turkmenistan are not currently included, pending further alignment of data with international statistical practices.