

**Recent developments:** In 2023, growth in Europe and Central Asia (ECA) picked up to 2.7 percent, from 1.2 percent in 2022. This acceleration in growth was driven by strengthened domestic demand, backed by additional fiscal support, robust labor market conditions, and the resumption of growth in the Russian Federation and Ukraine.

However, if these countries and Türkiye are excluded, ECA witnessed a notable slowdown in growth in 2023, estimated at 1.8 percent. This deceleration was widespread, impacting 78 percent of the region's economies. The impact of weak external demand from the euro area was particularly pronounced in Central Europe, where growth was subdued at 0.7 percent— the lowest among the subregions— and in the Western Balkans. Growth also slowed in South Caucasus but accelerated in Central Asia. Remittance flows played an important role in supporting demand in Armenia, Kyrgyz Republic, and Tajikistan. In Eastern Europe, growth returned to positive territory, with Ukraine experiencing a growth rate of 4.8 percent. Despite this positive trend, Ukraine's output in 2023 remained 30 percent below its pre-invasion level.

Headline inflation in the region has decelerated, alongside easing energy and food price pressures, but remains above target in most countries. With subdued activity and easing inflation, policy interest rates have likely reached their peak in many economies, prompting several central banks to start lowering rates. However, both Türkiye and Russia have embarked on a tightening cycle.

**Outlook:** Growth in ECA is projected to moderate to 2.4 percent in 2024 and then firm to 2.7 percent in 2025. The main drivers of this growth include private consumption, which is supported by reduced inflationary pressures, and exports, which are boosted by a gradual recovery in the euro area. However, uncertainty surrounding the evolution of Russia's invasion of Ukraine plays an important role in shaping the regional outlook. Excluding these two economies, growth in the region is expected to accelerate to 3.1 percent this year and to 3.7 percent in 2025. Most ECA countries are likely to continue easing monetary policy, as inflation is projected to decline. However, projected fiscal consolidation dampens the outlook.

Regional growth is expected to remain below its pre-pandemic trend due to the lingering effects of the pandemic and Russia's invasion of Ukraine. The pace of income per capita convergence in ECA is expected to remain sluggish, with average income per capita reaching only 24 percent of the EU level in 2025.

**Risks:** Risks to the regional outlook remain tilted to the downside. An escalation of the conflict in the Middle East could increase energy prices, tighten financial conditions, and negatively affect confidence. Geopolitical risks in the region, including an escalation of the Russian Federation's invasion of Ukraine, are elevated and could materialize, worsening already heavy human and economic losses. Higher-than-anticipated inflation could keep monetary policies tighter for longer. A weaker-than-expected recovery in the euro area, the region's main trading partner, would also negatively impact regional activity. Additionally, a more significant slowdown in China or a sharper-than-expected reduction in remittances from Russia would represent external headwinds to Central Asia and the South Caucasus. Further delays in the disbursement of EU funds pose another downside risk for Central Europe, as do delays in reforms tied to EU accession in the Western Balkans.

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## Europe and Central Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f
GDP at market prices (average 2010-19 US\$)					
<b>Albania</b>	8.9	4.8	3.6	3.2	3.2
<b>Armenia</b>	5.8	12.6	7.1	4.7	4.5
<b>Azerbaijan</b>	5.6	4.6	1.5	2.4	2.5
<b>Belarus</b>	2.4	-4.7	3.0	0.8	0.8
<b>Bosnia and Herzegovina<sup>a</sup></b>	7.4	3.9	2.2	2.8	3.4
<b>Bulgaria</b>	7.7	3.9	1.7	2.4	3.3
<b>Croatia</b>	13.8	6.3	2.5	2.7	3.0
<b>Georgia</b>	10.5	10.4	6.5	4.8	4.5
<b>Kazakhstan</b>	4.3	3.2	4.5	4.3	4.5
<b>Kosovo</b>	10.7	5.2	3.2	3.9	4.0
<b>Kyrgyz Republic</b>	5.5	6.3	3.5	4.0	4.0
<b>Moldova</b>	13.9	-5.0	1.8	4.2	4.1
<b>Montenegro</b>	13.0	6.4	4.8	3.2	3.1
<b>North Macedonia</b>	4.5	2.2	1.8	2.5	2.9
<b>Poland</b>	6.9	5.1	0.5	2.6	3.4
<b>Romania</b>	5.7	4.6	1.8	3.3	3.8
<b>Russian Federation</b>	5.6	-2.1	2.6	1.3	0.9
<b>Serbia</b>	7.7	2.5	2.0	3.0	3.8
<b>Tajikistan</b>	9.4	8.0	7.5	5.5	4.5
<b>Türkiye</b>	11.4	5.5	4.2	3.1	3.9
<b>Ukraine</b>	3.5	-29.1	4.8	3.2	6.5
<b>Uzbekistan</b>	7.4	5.7	5.5	5.5	5.5

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 contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan owing to a lack of reliable data of adequate quality. Turkmenistan is excluded from cross-country macroeconomic aggregates.

a. GDP growth rate at constant prices is based on production approach.