

Recent developments: Growth in Europe and Central Asia (ECA) is estimated to have slowed in 2024 to 3.2 percent. This slowdown is primarily due to weaker expansions in the Russian Federation and Türkiye, partly reflecting tighter monetary policy and elevated inflation. Growth in Ukraine is also estimated to have softened to 3.2 percent in 2024 due to reduced energy capacity and winter power outages, though the economy has shown significant resilience. Overall, Russia's invasion of Ukraine continues to weigh on regional activity.

Disinflation stalled in ECA, with headline inflation remaining elevated and core inflation being twice as high as pre-pandemic levels. Declining commodity prices offered some relief but wage pressures from tight labor markets, especially in services, continue to be elevated. Most ECA central banks have consequently paused easing monetary policy.

External challenges persist, with weak European Union (EU) demand slowing exports in Central Europe and the Western Balkans, which are heavily integrated into European automobile supply chains. However, tourism activity—now surpassing pre-pandemic levels—supported growth in those subregions, notably benefiting Albania and Montenegro. While remittance inflows have moderated, they remain above pre-invasion levels in several South Caucasus countries. Meanwhile, remittances in Central Asia, particularly Tajikistan, remain robust, sustaining private consumption.

Outlook: Growth in ECA is forecast to moderate to 2.5 percent in 2025 before firming to 2.7 percent in 2026. The slowdown in 2025 is primarily attributed to reduced economic growth in Russia and Türkiye. In Russia, the expansion of private consumption and investment is expected to moderate due to decelerating wage growth and tighter monetary policy. In Türkiye, the lagged effects of tight monetary policy are expected to weigh on growth, which is expected to gradually rebalance in 2025 toward a larger contribution from net exports. In 2026, private consumption and investment are expected to drive ECA growth, supported by a gradual disinflation process and monetary policy easing. Excluding Russia, Türkiye, and Ukraine, growth in the region is expected to strengthen to 3.3 percent in 2025–26, led by Poland.

Inflation is expected to decline gradually, supported by moderating commodity prices and easing labor market pressures. This slow disinflation is likely to lead to a more cautious approach to easing monetary policy. Government debt is anticipated to rise in half of ECA's economies in 2025. Given the limited scope of fiscal consolidation, fiscal policy is expected to have a modest impact on growth.

Risks: Risks to the outlook remain tilted to the downside. Global policy uncertainty remains elevated, with risks of adverse trade policy shifts threatening the region's trade, capital flows, and growth outlook. Additional trade restrictions could further dampen trade and economic performance. Military expenditures have risen across ECA, and any further escalation of Russia's invasion of Ukraine could lead to further disruption across the region. While progress toward central bank inflation targets is expected to remain gradual, the disinflation process could slow further in the region, and the ensuing higher-for-longer interest rates would likely constrain growth. Weaker-than-expected growth in Russia could significantly impact Central Asia and the South Caucasus, primarily through reduced remittance inflows. Structural reform delays may hinder EU fund disbursements in Central Europe and the Western Balkans, slowing EU accession efforts and infrastructure projects. Climate risks also remain a significant challenge for the region, driven by increasing exposure to extreme weather events such as droughts and floods.

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

	2022	2023	2024e	2025f	2026f
GDP at market prices (average 2010-19 US\$)					
Albania	4.8	3.9	3.7	3.5	3.3
Armenia	12.6	8.3	5.5	5.0	4.6
Azerbaijan	4.6	1.1	4.0	2.7	2.4
Belarus	-4.7	3.9	4.0	1.2	0.8
Bosnia and Herzegovina ^a	4.2	2.1	2.8	3.2	3.9
Bulgaria	4.0	1.9	2.2	2.8	2.7
Croatia	7.3	3.3	3.5	3.0	2.8
Georgia	11.0	7.5	9.0	6.0	5.0
Kazakhstan	3.2	5.1	4.0	4.7	3.5
Kosovo	4.3	3.3	3.8	3.9	4.0
Kyrgyz Republic	9.0	6.2	5.8	4.5	4.5
Moldova	-4.6	0.7	2.8	3.9	4.5
Montenegro	6.4	6.3	3.4	3.5	3.2
North Macedonia	2.8	2.1	2.4	3.0	3.2
Poland	5.3	0.1	3.0	3.4	3.2
Romania	4.0	2.4	1.3	2.1	2.6
Russian Federation	-1.2	3.6	3.4	1.6	1.1
Serbia	2.6	3.8	3.9	4.2	4.2
Tajikistan	8.0	8.3	8.0	6.0	5.0
Türkiye	5.5	5.1	3.2	2.6	3.8
Ukraine	-28.8	5.3	3.2	2.0	7.0
Uzbekistan	6.0	6.3	6.0	5.8	5.9

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.