

Economic trends in EU candidates and Russia

This OeNB Report is divided into two sections. Section 1 focuses on macroprudential policies in the Western Balkan countries. It takes a closer look at how macroprudential policies have evolved since 2020 in this part of Europe. Section 2 presents country reports on recent economic developments in Georgia, Moldova, Türkiye, Ukraine and Russia.

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Stable financial sector in the Western Balkans

The Western Balkan countries are aligning their macroprudential frameworks with EU and international standards as they aspire to join the EU and EU-owned banks dominate in the region. The region's banking sector is stable, with high capitalization, low nonperforming loans and strong profitability.



Progress in macroprudential implementation

Since 2020, the Western Balkan countries have strengthened their macroprudential frameworks by improving the legal basis for conducting macroprudential policy and by closing data gaps.



Mixed performance in EU candidates and Russia

Economic performance in Georgia, Moldova, Ukraine, Türkiye and Russia is mixed, with year-on-year GDP growth ranging from 0.7% (Ukraine) to over 7% (Georgia) in the second quarter of 2025. Despite their disparities, all the economies are affected by Russia's war of aggression against Ukraine.

1 Macprudential policies in the Western Balkans: What has changed over the past five years?

For various reasons, the Western Balkan¹ economies must align their macroprudential frameworks with EU² and international standards: First, they all seek EU membership. Second, their banking sectors are dominated by EU-owned institutions. The ultimate objective of macroprudential policy and the related regulations and tools is to safeguard the stability of the financial system as a whole (ESRB, 2018). The Western Balkan economies are clearly progressing fast in their macroprudential development, albeit at different speeds, reflecting i.a. varying institutional capacities and financial sector developments. To provide further insights, Barisitz and Hildebrandt (2020) conducted a stock-taking exercise for the period from 2015 to 2020, offering an overview of macroprudential instruments and toolkits used in the Western Balkans. Five years later, the time has come to take a closer look at how macroprudential policies have since evolved in this part of Europe. Since 2020, the Western Balkan region – like other parts of the world – has gone through significant upheavals: the COVID-19 pandemic and post-pandemic recovery, the 2022 escalation of the war in Ukraine, surging inflation and trade disruptions. These developments have resulted in elevated levels of global uncertainty, affecting macroeconomic conditions and financial stability considerations.

1.1 A snapshot of the financial sector in the Western Balkans

In the Western Balkans, the financial landscape is dominated by banks rather than nonbank financial institutions. Banks account for approximately 90% of total assets in most of the economies in the region (OECD, 2025). The banking sector primarily comprises foreign banks headquartered in the European Union. The number of licensed banks ranges from 11 in Albania, Kosovo and Montenegro to 13 in North Macedonia and 19 in Bosnia and Herzegovina, and Serbia, respectively.³

Overall, banking systems in the Western Balkans have remained stable over the last ten years, with adequate capital and liquidity buffers. Bank capitalization is high and has improved in all Western Balkan countries since 2020. Serbia reached the highest Tier 1 capital ratio of above 20%, Albania ranked lowest at below 18% in Q2 25. Regarding banking sector profitability, key indicators – return on assets and return on equity – highlight that bank profitability has improved significantly over the last years. Recent data, however, indicate some slight deterioration in the Western Balkan countries with the exception of Serbia. The share of nonperforming loans in total loans declined significantly from 2014 to 2024, most pronouncedly in Serbia, Albania, and Bosnia and Herzegovina. In the first half of 2025, nonperforming loan ratios in the region continued to be low, ranging from 2% in Kosovo to 4% in Albania (table 1).

¹ The Western Balkan countries comprise: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The designation “Kosovo” is used without prejudice to positions on status and in line with UN Security Council Resolution 1244 and the International Court of Justice Opinion on Kosovo’s declaration of independence.

² In order to successfully conclude EU membership negotiations, candidate countries must align their national policies with the EU’s financial stability framework and comply with macroprudential policies to foster financial stability. The conditions are outlined in Chapter 17 (Economic and Monetary Policy) of the negotiation framework.

³ According to the latest data provided by national central banks.

Table 1

Banking sector performance

Tier 1	2014	2019	2024	Q1 25	Q2 25
%					
Albania	13.8	17.1	18.2	17.9	17.7
Bosnia and Herzegovina	14.3	17.5	18.7	18.9	19.2
Kosovo	14.6	..	16.2*	15.6**	16.5***
Montenegro	14.4	18.1	18.6	19.3	18.8
North Macedonia	13.7	14.8	18.3	18.2	19.0
Serbia	17.6	22.4	19.6	21.6	21.8
Return on assets					
%					
Albania	0.9	1.4	1.9	1.6	1.7
Bosnia and Herzegovina	0.6	1.2	2.1	1.9	2.1
Kosovo	1.9	2.0	2.3	2.5**	2.3***
Montenegro	0.8	1.1	2.4	1.9	1.9
North Macedonia	0.8	1.3	2.3	2.2	2.2
Serbia	0.1	1.6	2.8	3.1	2.9
Return on equity					
%					
Albania	10.5	13.3	18.3	15.6	16.5
Bosnia and Herzegovina	4.4	9.1	16.0	14.5	15.5
Kosovo	20.2	16.9	19.7	19.1**	17.9***
Montenegro	5.6	9.0	19.0	15.0	15.1
North Macedonia	7.4	11.4	17.4	16.6	16.8
Serbia	0.4	9.3	20.3	21.8	21.5
Nonperforming loans					
% of total loans					
Albania	22.8	8.4	4.2	4.0	4.0
Bosnia and Herzegovina	14.2	7.4	3.2	3.0	2.9
Kosovo	8.3	2.0	1.8	1.8	2.0
Montenegro	15.9	4.7	3.5	3.2	2.9
North Macedonia	10.9	4.6	2.6	2.5	2.4
Serbia	21.5	4.1	2.5	2.3	2.3

Note: * as of December 2024, ** as of March 2025, *** as of June 2025,

Source: National central banks, national statistical offices, wiiw.

Bank lending to households and businesses is closely related to financial stability considerations. Excessive credit expansion can generate systemic risks in an economy such as (over)indebtedness or housing bubbles. To mitigate such risks, countries can implement a set of macroprudential tools. The aim of these tools is to influence lending dynamics and indebtedness, and they predominantly include borrower-based measures (such as limits on loan-to-value and debt-service-to-income ratios).

The extent of indebtedness is well reflected in the ratio of a country's total bank loans to the (domestic nonbank) private sector to its GDP (also, this ratio gives a good approximation of the level of financial inclusion in a certain country). In early Q2 25 in the Western Balkans, this ratio ranged from 35.1% in Albania to above 60% in Kosovo. Over the past decade, its development across the region presents a mixed picture: While it has shrunk moderately in Albania, Bosnia and Herzegovina, Montenegro, and Serbia, it has grown moderately in North Macedonia and almost doubled in Kosovo.

Lending dynamics have accelerated in recent years, and loans to households, in particular, have expanded over the past decade. Recently, we have witnessed a double-digit growth of loan volume in all six Western Balkan economies under review. Also, lending for housing purposes has gained speed over this time. The annual growth of corporate lending has picked up as well, ranging from 7.6% in Serbia to above 20% in Montenegro in Q2 25.

Table 2

Bank loans to households and corporates

Bank loans to the domestic nonbank private sector	2014	2019	2024	Q1 25	Q2 25
% of GDP, end of period					
Albania	39.9	33.3	33.2	34.1	35.1
Bosnia and Herzegovina	56.2	55.0	47.9	48.8	50.4
Kosovo	35.3	43.0	56.0	58.4	60.9
Montenegro	52.2	50.6	48.8	49.5	50.8
North Macedonia	49.1	49.2	52.0	52.3	53.2
Serbia	43.4	42.9	36.1	35.9	37.0
Bank loans to households					
% of GDP, end of period					
Albania	10.8	11.5	12.9	13.3	14.0
Bosnia and Herzegovina	27.3	27.9	25.2	25.7	26.6
Kosovo	11.7	15.6	22.6	23.8	25.0
Montenegro	25.8	27.9	25.8	27.5	27.8
North Macedonia	20.3	24.9	26.4	26.5	26.8
Serbia	16.7	19.6	16.9	17.0	17.7
Bank loans to the household sector					
Annual change in %					
Albania	1.3	6.7	13.7	14.4	17.0
Bosnia and Herzegovina	5.1	7.8	8.9	9.4	10.0
Kosovo	10.1	10.4	22.1	24.3	22.8
Montenegro	1.6	8.5	16.4	18.6	20.5
North Macedonia	11.8	11.0	8.2	9.9	10.4
Serbia	7.6	9.3	10.2	11.6	14.0
Housing loans to the household sector					
Annual change in %					
Albania	-0.1	6.7	13.2	15.6	17.3
Bosnia and Herzegovina	-4.4	14.5	14.0	15.2	16.1
Kosovo	..	..	..	..	..
Montenegro	..	..	..	..	..
North Macedonia	14.9	12.7	12.5	13.9	15.0
Serbia	6.9	4.3	7.7	9.7	12.7
Bank loans to the corporate sector					
Annual change in %					
Albania	2.7	7.2	11.5	13.0	9.3
Bosnia and Herzegovina	-0.9	5.3	9.7	9.0	8.5
Kosovo	3.2	9.8	15.7	17.5	16.9
Montenegro	-3.5	4.8	17.8	18.8	21.1
North Macedonia	8.6	1.9	14.0	15.5	16.4
Serbia	0.9	8.5	7.1	8.3	7.6

Source: National central banks, national statistical offices, wiiw.

Foreign currency lending is considered another source of risk to financial stability. Kosovo and Montenegro are, however, exempt from this risk as they use the euro as their national currency, while other currencies only play a minor role. In the remaining Western Balkan countries, the share of foreign currency lending in total lending is high, ranging from more than 60% in Serbia to slightly below 30% in Bosnia and Herzegovina in the second quarter of 2025. While still at elevated levels, it is worth noting that the share of foreign currency lending is on a downward path in all four countries under review in this respect. Between 2014 and 2024, this ratio declined, with the decrease ranging from 6 percentage points in Serbia to 40 percentage points in Bosnia and Herzegovina. At the same time, the development of foreign currency deposits showed a more mixed picture: While the share of foreign currency deposits in total deposits decreased in Bosnia and Herzegovina and in Serbia and remained almost unchanged in North Macedonia, it increased in Albania. The coverage of foreign currency loans by foreign currency deposits has developed positively and was below 100% in Q2 25.

Table 3

Foreign currency loans and deposits

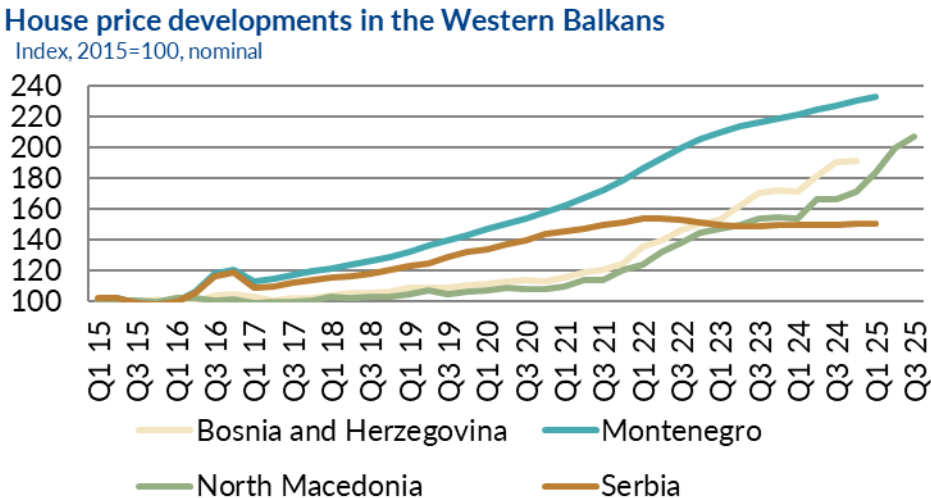
Foreign currency loans to the private sector	2014	2019	2024	Q1 25	Q2 25
% of total loans, end of period					
Albania	58.4	47.7	42.1	42.1	42.0
Bosnia and Herzegovina	70.5	52.6	30.1	29.3	28.9
Kosovo	0.3	0.1	0.0	0.0	0.0
Montenegro	1.5	0.2	0.3	0.3	0.2
North Macedonia	47.5	41.5	38.5	38.0	37.6
Serbia	68.8	66.9	62.9	62.6	62.2
Foreign currency deposits of the private sector					
% of total deposits, end of period					
Albania	48.2	51.3	52.3	52.0	52.1
Bosnia and Herzegovina	47.3	48.4	39.1	38.6	38.2
Kosovo	4.4	4.1	3.2	3.1	3.2
Montenegro	6.9	4.5	4.6	5.1	4.5
North Macedonia	40.9	38.5	40.6	41.2	39.8
Serbia	74.6	63.9	52.8	54.6	54.4
Ratio of foreign currency loans to foreign currency deposits of the private sector					
%, end of period					
Albania	65.8	60.5	39.9	40.9	41.9
Bosnia and Herzegovina	164.9	160.8	63.7	64.4	64.6
Kosovo	..	..	..	..	..
Montenegro	..	..	..	..	..
North Macedonia	105.2	102.1	77.9	77.7	79.4
Serbia	104.2	107.3	88.3	87.4	89.4

Source: National central banks, national statistical offices.

Developments on the housing market can also impact financial stability. On the one hand, this is due to banks' exposure: A large part of lending to the household sector is related to housing. On the other hand, real estate tends to be among households' largest assets and, as such, it vastly contributes to their indebtedness, resulting in a significant exposure on the borrower side as well. Consequently, housing markets are important targets of macroprudential policy, whereas risks are typically mitigated via

borrower-based measures, such as limits to loan-to-value (LTV), debt-to-income (DTI) or debt service-to-income (DSTI) ratios (see also BIS, 2023). As in all of emerging Europe, real estate prices have seen sharp rises in all Western Balkans countries.^{4, 5} In more extreme cases (e.g. in Montenegro and North Macedonia) nominal real estate prices have more than doubled in the past ten years. According to data provided by the Bank of Albania, house price growth in Albania has sped up since 2023 and house prices continued to increase in the second quarter of 2025, surpassing an annual growth rate of 40% (Bank of Albania, 2025). The rapid growth of housing prices coincided with a similarly dynamic expansion of housing loans to the household sector: In the past years, the volume of such loans grew by a rate of over 10% in several Western Balkans countries (table 2). There has thus emerged room for macroprudential measures that address the risk of rapid housing loan expansion (as observed e.g. in Albania).

Chart 1



Source: BIS, national central banks.

1.2 Overview of macroprudential policies per country

Overall, all Western Balkan countries have progressed in setting up their legal and regulatory macroprudential policy framework. Moreover, the countries have advanced in building up analytical capacities, improving data availability and operationalizing macroprudential policy and its instruments.

The following section provides an overview of country-specific developments of macroprudential frameworks, tools and measures, as well as – where possible – the rationale behind certain actions Western Balkan macroprudential authorities have taken over the past five years. We try to capture the most important events. Our overview does not claim to be exhaustive.

1.2.1 Albania

The Bank of Albania (BoA) adopted its macroeconomic framework in 2017 and has since been actively operationalizing its macroprudential policy toolkit. According to the European Commission (2025),

⁴ Note that house prices are not completely comparable across countries, e.g. due to different regional coverage (e.g. whole country or only capital city) property types or the methodology used to determine house prices.

⁵ As far as we know, there are no comparable house price data for Kosovo, but the Central Bank of Kosovo is working on developing a real estate price index (European Commission, 2025).

moreover, Albania has substantially improved the reporting system of banks and its data collection – particularly regarding house price data and financial data of borrowers – which is the basis of macroprudential measures. Key risks to financial stability in Albania include rising house prices, rapid growth in housing-related lending and a significant share of unhedged foreign currency borrowing. To mitigate these risks, the BoA has implemented several measures to address potential systemic vulnerabilities.

Regarding macroprudential capital tools, the BoA has adjusted capital buffers to enhance resilience. For instance, the countercyclical capital buffer (CCyB) was raised to 0.25% in June 2024 and increased further to 0.50% in response to strong credit growth. This measure will take effect in December 2025.

In May 2025, the BoA introduced borrower-based measures to mitigate risks of default and bank losses in adverse real estate or macroeconomic conditions. The new rules distinguish between primary and secondary residences as well as between local currency (Albanian lek) and foreign currency loans. Accordingly, loan-to-value limits for primary residences (secondary residences) are at 85% (80%) for local currency loans and at 75% (70%) for foreign currency-denominated loans. The debt-service-to-income limits for primary residences (secondary residences) are at 40% (35%) for local currency-denominated loans and at 35% (30%) for foreign currency-denominated loans.

1.2.2 Bosnia and Herzegovina

In line with the complex federal structure of public administration in Bosnia and Herzegovina, macroprudential policy remains highly fragmented. It is jointly conducted by a federal institution, the Central Bank of Bosnia and Herzegovina (CBBH) and entity-level institutions (the Federal Banking Agency and the Banking Agency of Republika Srpska) and is not explicitly and specifically delegated by law to any of these institutions. Nevertheless, certain macroprudential policy instruments are assigned to the federal and the entity levels, respectively. The main macroprudential tool used by the CBBH are minimum reserve requirements (which have been set at 10% since 2016, albeit certain modifications have been made on the exact determination of reserves, partly due to harmonization with the respective ECB policy), while entity-level agencies are entitled to apply capital leverage ratios as well as capital conservation buffers.

Certain macroprudential policy measures were introduced as a response to the financial effects of the COVID-19 pandemic and the related restrictions. On the one hand, banks in both entities were allowed to use the capital conservation buffer if they retained earnings from 2019 and postponed the payout of dividends and bonuses. This decision was effective from Q3 20 to Q2 22 (exact dates subject to the decisions of the respective entity-level authorities). Similarly (and within the same period), banks in both entities had to pay special attention to monitoring changes in their own business models, liquidity and risk profiles. Accordingly, banks also had to maintain an adequate level and structure of capital to cover all risks they are or might be exposed to under present conditions of their operations, including postponing and/or canceling the disbursement of dividends.

A notable change in macroprudential policy in Bosnia and Herzegovina was the introduction, in 2024, of capital buffers for systemically important banks (introduced separately, but with identical conditions, by both entity-level supervision agencies). The decision defines the methods of identifying systemically important banks (criteria include banks' size, interconnectedness with other financial sector participants,

substitutability in the financial sector and complexity of operations). Based on a bank's systemic importance coefficient, the buffer can range between 0% and 3%.

1.2.3 Kosovo

In 2020, Kosovo was at an early stage of operationalizing its macroprudential framework. Since then, significant progress has been made, and the ongoing review of the Central Bank of the Republic of Kosovo (CBK) law should clarify the central bank's macroprudential mandate and powers to enhance financial stability (IMF, 2025).

The CBK has been continuously improving the availability of data needed to implement macroprudential measures effectively. For example, since July 2025, banks have faced enhanced reporting requirements to strengthen systemic risk monitoring and assessment. These include disclosures of real estate exposures and borrower indebtedness (IMF, 2025).

Currently, authorities are developing a house price index, which is critical for tracking the booming housing market and assessing risks arising from high housing-related lending. Access to house price data and better insights into the banking sector's linkages with the real estate market would enable policymakers to more effectively address financial stability risks stemming from the real estate sector.

Beyond this preparatory work, the CBK has a range of macroprudential tools at its disposal and introduced new macroprudential measures in September 2024, which took full effect in July 2025. Key measures include a 2% countercyclical capital buffer (CCyB) and additional capital requirements for other systemically important institutions (O-SIIs), ranging from 0.5% to 1.5%.

1.2.4 Montenegro

The Central Bank of Montenegro (CBCG) has implemented a range of macroprudential measures to enhance financial stability, aligning its framework with Basel III standards and EU regulations. The Law on Credit Institutions has been in effect since 2022. It serves as the cornerstone of the CBCG's macroprudential policy by outlining key capital buffers (capital conservation buffer, countercyclical capital buffer, structural systemic risk buffer and the buffer for systemically important credit institutions). Regarding buffer implementation, the capital conservation buffer has been phased in since 2022 and reached 2.5% in 2025. The countercyclical capital buffer was raised from 0% to 0.5% in March 2024, has been effective since April 2025 and will be increased to 1% as of January 2026. Since 2022, a structural systemic risk buffer of 1.5% of the total exposure as well as buffers for eight systemically important credit institutions have been in place (Centralna Banka Crne Gore, 2024). Additionally, the CBCG has introduced maturity limits on unsecured retail cash loans in 2022 to mitigate lending risks.

Like other Western Balkan countries, Montenegro faces data gaps, particularly with respect to residential property prices. Data on the latter, however, are crucial for monitoring and implementing further measures, for instance to address borrower indebtedness (European Commission, 2025; IMF, 2024).

1.2.5 North Macedonia

The first main challenge for macroprudential policy during the period under review was the COVID-19 pandemic. Certain measures were taken in response to the pandemic; for instance, banks were not allowed to implement higher risk weights for consumer loans with maturities that were prolonged between March and September 2020, resulting in a contractual maturity of more than eight years. To

support companies suffering from the unfavorable economic implications of the pandemic, between Q2 20 and Q4 22, the central bank allowed banks to reduce the reserve requirement base in domestic currency for the amount of newly approved and restructured loans. Following IMF and ECB recommendations, between February and August 2021, the central bank temporarily restricted dividend distributions and payments to bank shareholders with the aim of enhancing the resilience and stability of the country's banking system.

Following the pandemic, North Macedonia made several advancements in the domain of macroprudential policy. In 2022, the (previously missing) legal background was established by passing the Law on Financial Stability, which primarily invests the central bank with the responsibility of conducting macroprudential policy. Shortly afterward, in 2023, the central bank of North Macedonia adopted a macroprudential strategy defining objectives and tools of macroprudential policy. The intermediate objectives are highly in line with ESRB recommendations (see section 1), complementing those with the objectives of strengthening the resilience of the country's financial system and financial market infrastructure and reducing the euroization rate. In North Macedonia's macroprudential strategy, as in that of other Western Balkan countries, a broad set of macroprudential tools is assigned to each of the macroprudential policy goals.

Based on this new legal background, borrower-based measures (limits to DSTI, LTV, DTI and loan-to-maturity ratios) were introduced for household lending as early as in 2023; caps on the above ratios differ for local currency and foreign currency loans. Furthermore, in August 2022, the central bank introduced the measure of a positive countercyclical capital buffer rate of 0.5%. As domestic credit conditions improved and inflationary pressures rose, the buffer rate was raised several times, reaching 2.0% by the second quarter of 2025.

1.2.6 Serbia

The Serbian central bank (NBS) has long held the mandate for conducting macroprudential policy on the basis of its Macroprudential Framework, which defines policy objectives and instruments. Policy objectives are aligned with those of the ESRB, with the addition of a dinarization strategy (which aims at limiting euroization risk and at promoting the use of the domestic currency).

Serbian macroprudential policy operates with a bundle of capital buffer instruments. A capital conservation buffer (CCoB) of 2.5% (relative to a bank's risk-weighted assets) applies, with domestic regulation aligned with Basel III regulatory standards. Between Q3 20 and Q4 23, banks were allowed to exclude certain credit risk-weighted exposures from their risk-weighted assets when determining the CCoB: The measure was intended to mitigate pandemic-related negative effects and facilitate housing loans and thus, the construction industry. Furthermore, systemic risk buffers (3% of foreign currency and foreign currency-indexed domestic bank exposures) and capital buffers for systemically important banks (1% to 2% of risk-weighted assets) apply. These have, however, remained unchanged throughout the period under review. Also, the CCyB durably remains at 0% with the aim of supporting lending activity amid tightened global financing conditions.

On the other hand, the NBS applies a set of dinarization measures. An LTV limit of 80% applies to all foreign currency-denominated and foreign currency-indexed mortgage loans (albeit this ratio was relaxed to 90% for primary residence buyers in early 2020 in response to the pandemic) and banks are obliged to require down payments or deposits of at least 30% of the loan amount if foreign currency

loans are granted to natural persons. Also, foreign currency lending has been limited since 2019. However, the application of this limit had been postponed several times and has in fact been applicable only since 2025. The reason for postponement was the uncertainty of the epidemiological, and later geopolitical, situation during which the NBS aimed not to discourage lending activities.

1.3 Concluding remarks

In this contribution, we took stock of macroprudential policy instruments and their recent development in six Western Balkan economies. We focused on developments over the past five years in continuation of Hildebrandt and Barisitz (2020), who summarized Western Balkan macroprudential policy between 2015 and 2020. Policy developments between 2020 to 2025 have been shaped by a multitude of global crises (including the COVID-19 pandemic and heightened levels of uncertainty induced by geopolitical changes) to which the Western Balkan financial systems needed to adapt. For example, macroprudential measures were relaxed in several countries during the COVID-19 pandemic but tightened afterward. Overall, we find that banks in the Western Balkans are generally in good shape, profitable and well capitalized; the banking landscape remains dominated by foreign-owned and EU-headquartered credit institutions. Credit growth has been mixed throughout the region in the past five years, while the share of foreign currency loans in total loans has markedly decreased in all non-euroized Western Balkan economies (deposit euroization remains elevated, however).

Despite a highly challenging global economic environment, the Western Balkan countries have made visible progress in their macroprudential frameworks since 2020. When it comes to establishing the necessary legal background for macroprudential policy, notable endeavors could be seen in North Macedonia and Kosovo (with the respective laws being in force in the North Macedonia and under revision in Kosovo). A major obstacle to conducting efficient macroprudential policy in the Western Balkans is the lack of sufficient data (e.g. on house prices and indebtedness). These data gaps should be closed to improve the assessment of systemic financial stability risks.

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2 Economic trends in Georgia, Moldova, Türkiye, Ukraine and Russia

2.1 Georgia: resilient growth amid rising headwinds

The Georgian economy continued to expand robustly in 2025, though growth began to moderate from the extraordinary post-pandemic pace. Real GDP grew by 7.3% year on year in Q2 25, slowing from 9.8% in Q1 25. Expansion in the first half of 2025 was broad based but increasingly driven by transport and storage (+15% year on year), information and communication technology (ICT) (+14%) and wholesale and retail trade (+11%), reflecting Georgia's evolving role as a regional logistics and services hub along the Middle Corridor. The IMF projects growth to come to 7.2% in 2025 and to gradually converge toward the 5% medium-term potential as domestic demand normalizes.

After remaining below target in 2024, inflation in Georgia accelerated modestly during 2025, reaching 4.8% in September, mainly on the back of higher food prices. Core inflation, however, remains near the 3% target, reflecting contained demand pressures. The National Bank of Georgia (NBG) has maintained its policy rate at 8% since May 2024, balancing the need to control inflation while avoiding excess tightening amid strong domestic activity. Money-market conditions have stabilized after increased volatility in late 2024 and early 2025, and deposit dollarization declined from 56.7% at the end of 2024 to 54.9% in Q2 25. The implementation of IMF and EU reform recommendations to strengthen NBG governance and legal independence remains outstanding, and preserving policy autonomy will be crucial amid growing external and political uncertainty.

Georgia's current account deficit stood at 8% of GDP in Q1 25, and indicators for Q2 25 suggest the imbalance persisted amid strong import demand and weaker remittances from Russia. Imports increased by 9.7% year on year in the first three quarters of 2025, outpacing the 7.7% year-on-year rise in exports. Export growth was driven by re-exports of used vehicles, which accounted for about 38% of total goods exports. Shipments of cars to Kyrgyzstan and Kazakhstan reached nearly USD 1 billion in the first half of 2025, more than half of Georgia's total re-exports of used vehicles, with average unit values more than tripling since 2021. While this trade highlights Georgia's role as a regional distribution hub, it also heightens the country's exposure to regulatory or sanctions-related changes that could disrupt transit flows. The Georgian lari remained broadly stable through Q3 25, supported by foreign exchange earnings and NBG interventions, though international reserves remain below the levels recommended by the IMF.

Fiscal consolidation continued, with the 2025 deficit projected at 2.4% of GDP and public debt stable around 36%, according to the IMF. Higher tax revenues enabled the government to sustain social programs and infrastructure investment without loosening fiscal discipline. The banking sector remains well capitalized and profitable, with nonperforming loans at 2.5% and real credit growth of 14.1% year-on-year in Q2 25, driven by household and mortgage lending. During Q2 25, the NBG tightened macroprudential rules on foreign currency and consumer lending to contain leverage and preserve balance sheet resilience. Overall financial stability risks remain contained.

Political polarization and institutional frictions persist, and tensions with Western partners deepened, prompting the EU to suspend accession talks until at least 2028. While macroeconomic stability remains intact, heightened policy uncertainty and governance concerns could weigh on investor confidence. Preserving central bank independence, transparency and an open investment climate will be key to maintaining market trust.

Table 4

Main economic indicators: Georgia

	2022	2023	2024	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
Year-on-year change of the period total in %									
GDP at constant prices	11.0	7.8	9.4	8.7	9.7	11.0	8.3	9.8	7.3
Private consumption	-2.8	4.7	11.0	16.1	23.6	6.1	2.6	6.3	4.0
Public consumption	-0.8	7.5	24.7	25.8	20.0	19.2	32.6	18.7	15.9
Gross fixed capital formation	9.9	29.4	15.0	21.5	37.3	-0.1	8.5	13.9	-6.3
Exports of goods and services	37.4	9.5	5.9	-3.3	2.7	13.8	8.4	6.8	9.3
Imports of goods and services	16.9	10.0	8.5	-0.8	12.9	13.3	8.2	11.3	3.1
Contribution to GDP growth in percentage points									
Domestic demand	4.2	8.7	11.4	9.5	16.0	11.4	8.9	13.6	5.0
Net exports of goods and services	5.7	-1.1	-2.1	-1.3	-6.3	-0.2	-0.8	-3.8	2.5
Exports of goods and services	15.1	4.7	3.0	-1.8	1.4	7.4	3.7	3.3	4.4
Imports of goods and services	-9.4	-5.8	-5.1	0.6	-7.7	-7.6	-4.5	-7.1	-1.9
Year-on-year change of the period average in %									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in industry (nominal, per person)	..	..	..	..	..	..	..	..	..
Labor productivity in industry (real, per person)	..	..	..	..	..	..	..	..	..
Average gross earnings in industry (nominal, per person)	..	..	..	..	..	..	..	..	..
Producer price index (PPI) in industry	11.4	-2.9	6.2	1.8	7.3	8.6	7.1	6.3	4.3
Consumer price index (here: CPI)	11.9	2.5	1.1	0.3	1.9	1.1	1.1	2.6	3.6
EUR per 1 GEL, + = GEL appreciation	23.9	8.4	-3.5	-3.9	-2.5	-5.5	-4.2	-1.6	-2.0
Period average levels									
Unemployment rate (ILO definition, %, 15-64 year-olds)	17.3	16.4	13.9	14.0	13.7	13.8	14.2	14.7	14.3
Employment rate (%, 15-64 year-olds)	43.0	44.5	47.1	47.3	47.0	47.1	47.1	46.8	46.4
Key interest rate per annum (%)	10.9	10.5	8.3	9.0	8.1	8.0	8.0	8.0	8.0
GEL per 1 EUR	3.1	2.8	2.9	2.9	2.9	3.0	3.0	2.9	3.0
Nominal year-on-year change in period-end stock in %									
Loans to the domestic nonbank private sector	3.5	16.1	18.2	18.3	20.5	20.6	18.2	18.3	15.3
of which:									
loans to households	10.0	15.1	16.6	15.9	17.2	17.8	16.6	16.3	14.9
loans to nonbank corporations	-3.5	17.4	20.1	21.5	24.7	24.0	20.1	20.8	15.8
%									
Share of foreign currency loans in total loans to the nonbank private sector	45.1	44.4	42.4	43.9	44.3	43.0	42.4	42.2	42.3
Return on assets (banking sector)	3.1	3.5	3.6	3.5	3.5	3.6	3.6	3.1	3.2
Tier 1 capital ratio (banking sector)	17.1	19.7	20.2	19.1	21.2	20.5	20.2	19.7	19.9
NPL ratio (banking sector)	1.5	2.5	2.5	2.6	2.5	2.4	2.5	2.6	2.5
% of GDP									
General government revenues	..	..	..	..	..	..	..	..	..
General government expenditures	..	..	..	..	..	..	..	..	..
General government balance	-2.2	-1.9	-2.1	..	..	..	..	..	..
Primary balance	..	..	..	..	..	..	..	..	..
Gross public debt	39.2	38.9	36.1	..	..	..	..	..	..
% of GDP									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..	..	..	..	..	..	..
Debt of households and NPISHs ¹ (nonconsolidated)	..	..	..	..	..	..	..	..	..
% of GDP (based on EUR), period total									
Goods balance	-21.5	-19.6	-19.1	-21.0	-21.7	-16.3	-18.1	-22.2	-16.6
Services balance	11.5	11.0	11.4	9.9	11.3	15.4	8.7	10.6	11.1
Primary income	-7.3	-7.7	-6.5	-5.5	-7.1	-7.4	-6.0	-7.2	-6.3
Secondary income	12.9	10.7	9.8	12.2	10.1	8.7	8.6	10.8	8.9
Current account balance	-4.5	-5.5	-4.4	-4.4	-7.3	0.5	-6.8	-8.0	-2.8
Capital account balance	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Foreign direct investment (net) ²	-8.1	-5.2	-2.7	-0.8	-5.8	-0.9	-3.1	-1.0	-5.2
% of GDP (rolling four-quarter GDP, based on EUR), end of period									
Gross external debt	99.1	77.0	77.4	77.7	77.6	74.9	77.4	73.4	68.9
Gross official reserves (excluding gold)	20.3	15.8	11.8	14.1	12.6	12.0	11.8	10.4	10.2
Months of imports of goods and services									
Gross official reserves (excluding gold)	3.7	3.3	2.5	3.0	2.7	2.6	2.5	2.2	2.3
EUR million, period total									
GDP at current prices	22,652	28,728	31,302	6,622	7,766	8,424	8,491	7,400	8,563

¹) Nonprofit institutions serving households.

²) + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, national statistical offices, national central banks, wiiw, OeNB.

2.2 Moldova: improved economic growth and favorable election outcome inject fresh energy

In the second quarter of 2025, annual GDP in Moldova grew by 1.1%, thereby ending three consecutive quarters of contraction. This recovery followed a period of severe economic strain, which had been caused, in particular, by the country's energy crisis. During the first half of 2025, gross fixed capital formation surged, partly supported by financial assistance from international institutions. Private consumption also strengthened, bolstered by higher social benefits, wage growth and robust lending activity. By contrast, net exports detracted from growth, as accelerating imports – linked to rising investment activity – outpaced exports.

Moldova's unemployment rate rose to 5% in Q1 25 from 3.9% in Q4 24, reflecting the impact of the energy crisis. This trend moderated in Q2 25. Concurrently, the employment rate declined to levels below 50% in Q1 25, indicating a contraction in the workforce, though partial recovery was observed later. This very low employment rate is partly driven by the high emigration rate among Moldovan citizens, as many seek better economic opportunities abroad, thereby reducing domestic labor supply. The combination of rising unemployment and declining employment points to structural challenges.

The National Bank of Moldova (BNM) has an inflation target of 5% \pm 1.5 percentage points. In 2024, the average price increase was well below target. At the start of 2025, an energy crisis struck, and annual inflation accelerated to above 9% in January 2025. In the following months, inflation moderated, reaching 7.3% in August and 6.9% in September 2025, which was still above target. Against the background of declining inflation, the BNM lowered its base rate by a total of 50 basis points to 6% in August and September 2025. Regarding credit activity, lending to the private sector (both to households and corporates) evolved dynamically. A large share of household lending was directed toward the housing sector, contributing to rising property prices. In Q2 25 house prices in Moldova continued to increase by more than 30% year-on-year (Q1 25: +35%). This upward trend was fueled by the government's Prima Casă Plus program, which offers subsidies for housing loans. However, with private sector lending remaining well below 30% of GDP, financial intermediation is still at a comparably low level.

Moldova's current account balance stood at -16% of GDP in 2024 and deteriorated to -23.1% in the first half of 2025 because of adverse developments in the trade balance. The export base is still rather weak, dominated by agricultural products and limited industrial diversification. Moreover, the export sector struggles with rising production costs. The deficit of the trade balance of goods reached almost 40% of GDP in the first half of 2025. Remittances remained sizable at 10% of GDP, and FDI inflows as a share of GDP increased against the comparable period of 2024.

The September 2025, parliamentary elections marked a turning point for Moldova as the pro-EU Party of Action and Solidarity (PAS), led by President Maia Sandu, won an absolute majority. The successful election outcome and subsequent reforms demonstrated Moldova's strong commitment to European institutions and accelerated its progress as an EU candidate country. A key milestone in this process was Moldova's accession to the Single Euro Payments Area (SEPA) in early October 2025. Additionally, Moldova completed the European Commission's screening process in September 2025, an important step toward opening accession negotiations. Beyond advancing EU negotiations, Moldova continues to benefit from the European Commission's Growth Plan for Moldova, with the latest EUR 18.9 million disbursement in September 2025 reflecting the country's reform momentum.

Table 5

Main economic indicators: Moldova

	2022	2023	2024	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
Year-on-year change of the period total in %									
GDP at constant prices	-4.6	1.2	0.1	2.0	2.5	-1.9	-1.3	-1.2	1.1
Private consumption	-5.3	0.4	3.3	1.1	3.2	5.0	3.3	5.8	2.3
Public consumption	10.7	-4.0	-3.6	-7.5	-0.9	-0.7	-5.0	-0.6	0.4
Gross fixed capital formation	-10.5	-0.0	8.2	47.0	11.9	-2.3	-2.6	24.4	26.0
Exports of goods and services	29.7	4.8	-5.0	0.9	-3.4	-5.8	-10.8	-6.8	-5.5
Imports of goods and services	18.2	-5.1	5.2	-4.0	7.7	12.1	5.0	19.6	12.9
Contribution to GDP growth in percentage points									
Domestic demand	-3.2	-4.4	4.9	-1.1	8.4	6.9	6.8	12.6	10.2
Net exports of goods and services	-1.4	5.6	-4.8	3.2	-6.2	-7.9	-7.0	-14.0	-9.2
Exports of goods and services	9.1	2.0	-1.8	-0.4	-1.6	-0.8	-4.1	-2.7	-1.8
Imports of goods and services	-10.5	3.6	-3.1	3.6	-4.6	-7.2	-2.9	-11.3	-7.4
Year-on-year change of the period average in %									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in industry (nominal, per person)	20.0	17.2	14.2	12.6	15.5	10.5	18.2	9.0	3.2
Labor productivity in industry (real, per person)	-3.6	-0.6	1.0	4.3	0.2	3.2	-3.4	2.4	8.1
Average gross earnings in industry (nominal, per person)	15.8	16.2	15.3	17.4	15.8	14.1	14.2	11.6	11.6
Producer price index (PPI) in industry	26.4	13.0	-1.6	-2.5	-1.8	-0.8	-1.1	3.6	5.3
Consumer price index (here: CPI)	28.6	14.0	4.7	4.3	3.5	5.0	5.9	8.8	7.9
EUR per 1 MDL, + = MDL appreciation	5.1	1.3	2.0	2.2	4.6	1.9	0.6	0.1	-1.0
Period average levels									
Unemployment rate (ILO definition, %, 15-64 year-olds)	3.2	4.7	4.1	4.6	4.0	3.8	3.9	5.0	4.1
Employment rate (%, 15-64 year-olds)	48.4	51.8	52.3	52.3	52.9	53.9	50.3	46.7	50.0
Key interest rate per annum (%)	16.6	10.0	3.8	4.4	3.7	3.6	3.6	5.9	6.5
MDL per 1 EUR	19.9	19.6	19.3	19.3	19.2	19.1	19.3	19.3	19.4
Nominal year-on-year change in period-end stock in %									
Loans to the domestic nonbank private sector	8.8	2.9	25.1	5.6	10.8	17.5	25.1	31.3	31.6
of which:									
loans to households	4.4	8.1	32.9	13.2	18.1	23.9	32.9	37.8	39.5
loans to nonbank corporations	12.0	-0.4	19.5	0.7	6.0	13.0	19.5	26.5	25.6
%									
Share of foreign currency loans in total loans to the nonbank private sector	35.2	29.9	24.8	28.2	26.6	24.9	24.8	24.2	23.2
Return on assets (banking sector)	3.0	2.8	2.4	2.1	2.2	2.4	2.4	2.4	2.4
Tier 1 capital ratio (banking sector)	28.5	29.1	25.0	27.6	28.1	26.3	25.0	23.3	24.4
NPL ratio (banking sector)	6.4	5.6	4.2	5.5	4.8	4.8	4.2	4.3	4.5
% of GDP									
General government revenues	33.3	33.7	34.1						
General government expenditures	36.6	38.8	38.0						
General government balance	-3.2	-5.8	-3.7						
Primary balance	..	..	..			
Gross public debt	35.0	34.9	38.2						
% of GDP									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..			
Debt of households and NPISHs ¹ (nonconsolidated)	..	..	..			
% of GDP (based on EUR), period total									
Goods balance	-36.1	-29.2	-30.8	-28.2	-32.5	-30.2	-32.1	-40.8	-36.1
Services balance	6.3	5.4	5.0	5.5	5.7	4.4	4.9	4.8	5.0
Primary income	0.4	1.6	0.9	2.0	1.0	0.1	0.8	0.9	-0.5
Secondary income	12.2	10.9	8.9	9.1	9.0	9.2	8.4	9.5	10.7
Current account balance	-17.2	-11.3	-16.0	-11.7	-16.8	-16.6	-18.1	-25.6	-21.0
Capital account balance	0.3	0.5	0.4	0.4	0.4	0.4	0.6	0.0	0.0
Foreign direct investment (net) ²	-3.7	-2.0	-1.3	-0.7	-0.9	-2.6	-0.8	-2.5	-2.4
% of GDP (rolling four-quarter GDP, based on EUR), end of period									
Gross external debt	65.1	59.4	59.0	59.1	57.9	56.1	59.0	57.6	56.0
Gross official reserves (excluding gold)	30.4	31.9	31.3	31.8	30.8	30.5	31.3	29.4	29.1
Months of imports of goods and services									
Gross official reserves (excluding gold)	5.1	6.5	6.6	6.7	6.5	6.5	6.6	5.9	5.8
EUR million, period total									
GDP at current prices	13,781	15,436	16,836	3,537	3,928	4,806	4,566	3,789	4,234

¹) Nonprofit institutions serving households.

²) + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, national statistical offices, national central banks, wiw, OeNB.

2.3 Türkiye: moderate decline of high inflation led to cautious interest rate cuts

Annual GDP growth in Türkiye accelerated to about 4.5% in Q2 25, from about 3% both in the fourth quarter and the full year of 2024. Fixed investment and private consumption were major growth drivers. By contrast, real exports increased only marginally in the first half of 2025. As real imports were lifted by strong domestic demand growth, the contribution of net exports to GDP growth was clearly negative.

The current account deficit stood at 3.2% of GDP in the first half of 2025, up 0.8 percentage points against the previous year due to a smaller services surplus. Net nonmonetary gold imports of about 1.5% of GDP were only slightly higher than a year earlier. Net FDI inflows continued to be marginally positive. The official foreign currency reserves of the Turkish central bank (TCMB) amounted to 1.7 import months in mid-2025, down from 2.5 import months a year earlier and 2.8 import months at end-2024, given large foreign exchange sales after opposition politician Ekrem İmamoğlu's arrest in March. Foreign currency reserves net of principal and interest payments as well as swap liabilities falling due within one year were close to zero and thus also lower than the levels recorded both one year earlier and at end-2024.

Both year-on-year HICP headline and core inflation declined continuously from almost 40% in February to 33% in September 2025, with inflation of services prices declining most strongly but remaining above average. In August and September, the value of EUR 1 in Turkish lira was higher by 28% than one year ago and moderately lower than the inflation rate, hence implying some appreciation in real terms that supported disinflation. After the TCMB had reversed its previous monetary loosening in March 2025 to counter lira depreciation following İmamoğlu's arrest, it cut the one-week repo auction rate from 46% to 43% at end-July and further to 40.5% in early September – a level still clearly above the average annualized month-on-month inflation over the recent six months.

In parallel, the TCMB continued to pursue its liraization policy by adjusting the macroprudential framework. For banks with a share of lira-denominated deposits in natural persons' total deposit volume below the minimum level of 60% or between 60% and 65%, it increased the two respective monthly target values prescribed for raising their share. In May, the TCMB introduced such targets also for the deposits of legal persons. Moreover, the TCMB made foreign currency-protected ("KKM") deposits less attractive in several steps, until it terminated the opening of new and the renewal of existing KKM at end-August 2025. At the same time, to strengthen financial stability, it hiked the reserve requirement ratio for short-term lira-denominated funds resulting from funding from abroad (via repo transactions or loans) from 12% for maturities up to 12 months to 18% for maturities up to one months and 14% for maturities up to three months.

Banks' negative on-balance and positive off-balance net foreign currency position both increased moderately at a nonnegligible level from end-2024 to mid-2025 but remained substantially smaller than before mid-2024. While banks' total on-balance net foreign currency position became more negative, their on-balance net foreign currency position vis-à-vis the nonfinancial corporate (NFC) sector became more positive on the back of further foreign currency lending, which was likely driven by the interest rate differential and materialized despite banks' monthly credit growth limits. Conversely, NFCs' higher foreign currency borrowing from domestic banks contributed more than their enhanced foreign currency borrowing from abroad to both the further decline of their usually positive on-balance short-term net foreign currency position and the continued strong rise of their large negative on-balance overall net foreign currency position (to 14% of GDP) from end-2024 to mid-2025.

In November 2025, the European Commission projected a general government deficit for Türkiye of 3.1% of GDP for 2025, slightly below that of 3.2% in 2024. The general government debt-to-GDP ratio

was expected to come in at 24% at end-2025, thanks to inflation and the real appreciation of the Turkish lira, which remained almost unchanged against 2024 despite the deficit.

Table 6

Main economic indicators: Türkiye

	2022	2023	2024	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
Year-on-year change of the period total in %									
GDP at constant prices	5.4	5.0	3.3	5.3	2.3	2.8	3.2	2.3	4.8
Private consumption	16.2	10.5	4.3	7.8	1.6	3.3	4.7	1.6	5.1
Public consumption	4.5	2.3	-0.8	2.3	-2.9	-0.2	-1.9	1.9	-5.2
Gross fixed capital formation	4.4	7.3	2.7	8.2	-0.3	-1.7	5.2	1.8	8.8
Exports of goods and services	10.5	-2.3	0.1	3.6	-0.5	0.2	-2.4	0.1	1.7
Imports of goods and services	8.3	12.1	-4.4	-3.1	-6.7	-10.0	1.6	2.7	8.8
Contribution to GDP growth in percentage points									
Domestic demand	10.8	8.7	3.4	7.7	0.6	1.5	4.2	1.8	4.9
Net exports of goods and services	1.0	-4.3	1.4	2.0	2.0	3.2	-1.3	-0.7	-2.1
Exports of goods and services	3.4	-0.8	0.0	1.1	-0.2	0.1	-0.7	0.0	0.5
Imports of goods and services	-2.4	-3.6	1.4	0.9	2.1	3.1	-0.5	-0.7	-2.6
Year-on-year change of the period average in %									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit wage costs in manufacturing (nominal, per hour)	77.3	113.7	86.5	82.3	118.6	82.4	69.6	37.6	31.5
Labor productivity in manufacturing (real, per hour)	-1.7	1.7	3.1	6.5	-0.1	-0.1	6.4	1.3	10.2
Gross wages in manufacturing (nominal, per hour)	74.7	117.0	92.1	94.1	118.3	82.2	80.5	39.3	44.9
Producer price index (PPI) in industry	128.5	49.9	41.1	47.7	54.4	36.6	30.1	25.3	23.4
Consumer price index (here: HICP)	72.3	54.0	58.5	66.9	72.3	54.1	46.7	39.8	36.1
EUR per 1 TRY, + = TRY appreciation	-39.6	-32.4	-27.6	-39.7	-34.2	-20.8	-16.9	-12.1	-20.8
Period average levels									
Unemployment rate (ILO definition, %, 15-64 year-olds)	10.7	9.6	8.9	9.4	8.5	9.0	8.7	8.8	8.4
Employment rate (%, 15-64 year-olds)	52.8	53.8	55.2	54.3	55.3	55.8	55.2	54.0	55.0
Key interest rate per annum (%)	12.9	18.5	48.7	44.7	50.0	50.0	49.9	45.0	45.3
TRY per 1 EUR	17.4	25.8	35.6	33.6	34.9	36.8	36.9	38.2	44.0
Nominal year-on-year change in period-end stock in %									
Loans to the domestic nonbank private sector ¹	37.5	33.1	30.6	29.2	28.8	29.0	30.6	28.6	29.2
of which:									
loans to households	55.4	76.6	42.9	65.1	48.9	44.6	42.9	37.0	44.0
loans to nonbank corporations	39.6	30.5	16.1	26.0	26.3	15.1	16.1	14.7	15.4
%									
Share of foreign currency loans in total loans to the nonbank private sector	25.6	25.6	33.1	26.8	29.1	33.2	33.1	34.6	35.1
Return on assets (banking sector)	3.8	3.3	2.1	2.5	2.2	2.0	2.1	2.2	2.1
Tier 1 capital ratio (banking sector)	15.3	15.0	15.0	13.0	13.0	13.8	15.0	13.2	13.5
NPL ratio (banking sector)	2.2	1.7	1.9	1.6	1.6	1.9	1.9	2.1	2.3
% of GDP									
General government revenues	28.6	30.9	32.0						
General government expenditures	30.6	35.7	37.0						
General government balance	-2.1	-4.8	-4.9						
Primary balance	2.6	-0.9	-1.3						
Gross public debt	30.8	29.2	25.3						
% of GDP									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..			
Debt of households and NPISHs (nonconsolidated)	..	..	..			
% of GDP (based on EUR), period total									
Goods balance	-9.8	-7.7	-4.2	-4.8	-5.1	-3.0	-4.0	-4.6	-5.6
Services balance	5.8	5.1	4.6	2.8	4.9	6.7	3.7	2.3	4.2
Primary income	-1.0	-1.0	-1.2	-1.2	-1.3	-1.1	-1.1	-1.3	-1.3
Secondary income	-0.0	0.0	0.0	-0.2	0.1	0.0	0.0	-0.0	-0.0
Current account balance	-5.0	-3.6	-0.8	-3.3	-1.5	2.6	-1.4	-3.6	-2.8
Capital account balance	-0.0	-0.0	-0.0	0.0	-0.0	-0.0	-0.0	0.0	-0.0
Foreign direct investment (net) ²	-1.0	-0.4	-0.3	-0.0	-0.6	-0.4	-0.4	-0.2	-0.3
% of GDP (rolling four-quarter GDP, based on EUR), end of period									
Gross external debt	41.7	37.7	35.3	36.9	37.7	34.8	35.3	32.9	30.1
Gross official reserves (excluding gold)	8.9	8.1	7.0	5.9	7.1	6.7	7.0	5.7	4.2
Months of imports of goods and services									
Gross official reserves (excluding gold)	2.6	2.8	3.1	2.2	2.8	2.8	3.1	2.6	1.9
EUR million, period total									
GDP at current prices	870,697	1,039,364	1,249,014	270,086	290,864	334,049	354,016	326,974	331,183.3

¹) Foreign currency component at constant exchange rates.

²) + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

2.4 Ukraine: securing external financing for the next few years essential for macroeconomic stability

Economic activity in Ukraine grew by 0.8% year on year in the first half of 2025, which was below the annual GDP growth rate for 2024. So far, the main drivers of economic recovery have been private consumption, boosted by real wage growth, and gross fixed capital formation, which was partly related to reconstruction activity. Labor shortages due to migration and mobilization have continued to restrain economic activity. Electricity supply was relatively stable in the first half of 2025. After growing markedly in 2024, export growth turned negative in the first half of 2025. Depleted agricultural crop stocks, weaker exports of mining and metal products and the end of gas transit revenues weighed on exports. At the same time, import demand (in particular for machinery, natural gas, coal and defense equipment) has remained strong, also due to Russian occupation (loss of coal mines) and destruction caused by renewed waves of massive Russian air attacks (in particular on gas production infrastructure). As a result, the contribution of net exports became more negative in the first half of 2025. Given the widening trade deficit, Ukraine's current account deficit rose markedly in the first half of 2025. Yet, the country's foreign exchange market has remained under control due to external financing, which allowed central bank foreign exchange interventions to balance the market while keeping foreign currency reserves at a high level.

Extraordinary Revenue Acceleration (ERA) loans for Ukraine, which rely on the proceeds from immobilized Russian sovereign assets, are already playing a key role in financing Ukraine. The current IMF Extended Fund Facility (EFF) remained on track, with the eighth review having been concluded at end-June 2025. So far, USD 10.6 billion out of a total available amount of USD 15.5 billion have been disbursed. Although the IMF repeatedly highlighted Ukraine's strong performance under the EFF (also with respect to progress in structural reforms), questions related to Ukraine's reform commitment arose during the summer, as legislation that was considered harmful to the independence of anti-corruption institutions was passed (and later reversed by a new law under pressure from civil society and international partners). Under the EU's Ukraine Facility, Ukraine missed three out of 16 reform indicators and therefore received a smaller tranche than originally scheduled in August 2025 (EUR 3 billion instead of EUR 4.5 billion).

Ukraine and its international partners have engaged in scrutinizing ways to secure sufficient external financing for the coming years. In September, the Ukrainian authorities requested a new IMF program, after the baseline scenario under the current EFF (end of war in 2025) had become increasingly obsolete and the downside scenario (end of war by mid-2026) highly questionable. Moreover, at the EU level, discussions have recently intensified on whether and how the principal capital from immobilized Russian sovereign assets could be used.

According to the draft budget passed by the Ukrainian parliament in the first reading in October 2025, the budget deficit is planned to be reduced to 18.4% of GDP in 2026 (from 25.8% this year, as estimated by the Ukrainian Ministry of Finance). Meanwhile, the budget for 2025 has been amended to provide for increased military spending. The annual inflation rate started to decline in summer 2025 and came down to 11.9% in September, supported by a slowdown in food inflation on the back of the new harvest. Nevertheless, the Ukrainian central bank left its key policy rate unchanged at 15.5%, citing as motivation inflation expectations and inflationary risks related to higher energy shortages and larger budgetary needs.

Table 7

Main economic indicators: Ukraine

	2022	2023	2024	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
Year-on-year change of the period total in %									
GDP at constant prices	-28.8	5.5	2.9	6.8	4.0	2.2	-0.1	0.9	0.7
Private consumption	-27.5	4.3	6.7	6.5	7.7	8.6	4.2	1.6	8.8
Public consumption	31.4	9.2	-4.5	7.3	-7.3	-11.2	-2.8	6.6	-0.5
Gross fixed capital formation	-33.9	65.9	3.5	-1.9	-0.4	4.6	9.5	37.7	-2.5
Exports of goods and services	-42.0	-5.9	10.3	7.9	11.5	13.4	8.5	-17.8	-15.7
Imports of goods and services	-17.4	8.9	7.7	-1.2	16.4	7.9	8.9	8.7	4.5
Contribution to GDP growth in percentage points									
Domestic demand	-19.0	12.3	3.8	3.6	9.1	1.8	1.7	11.7	7.9
Net exports of goods and services	-9.8	-6.7	-0.9	3.6	-4.5	-0.2	-2.0	-11.1	-7.3
Exports of goods and services	-17.1	-2.1	2.9	2.9	3.5	3.2	2.1	-6.4	-5.0
Imports of goods and services	7.3	-4.6	-3.8	0.8	-8.0	-3.3	-4.1	-4.7	-2.3
Year-on-year change of the period average in %									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in industry (nominal, per person)	..	..	..	..	..	..	..	..	..
Labor productivity in industry (real, per person)	..	..	..	..	..	..	..	..	..
Average gross earnings in industry (nominal, per person)	1.7	21.3	25.9	23.3	26.0	25.1	28.7	..	..
Producer price index (PPI) in industry	48.1	24.5	19.4	6.0	15.6	30.6	25.4	40.3	27.7
Consumer price index (here: CPI)	20.0	13.4	6.5	4.0	3.8	7.2	11.0	13.6	15.1
EUR per 1 UAH, + = UAH appreciation	-4.9	-14.1	-9.0	-5.4	-7.2	-11.9	-11.1	-5.5	-8.7
Period average levels									
Unemployment rate (ILO definition, %, 15-64 year-olds)	..	..	..	..	..	..	..	..	..
Employment rate (%, 15-64 year-olds)	..	..	..	..	..	..	..	..	..
Key interest rate per annum (%)	18.6	22.4	13.7	14.9	13.7	13.0	13.1	14.5	15.5
UAH per 1 EUR	34.0	39.6	43.5	41.5	42.9	45.2	44.3	43.9	47.0
Nominal year-on-year change in period-end stock in %									
Loans to the domestic nonbank private sector ¹	-10.6	-1.4	9.4	3.0	8.9	10.6	9.4	12.4	13.6
of which:									
loans to households	-15.3	6.7	22.7	15.3	20.7	23.7	22.7	22.0	22.6
loans to nonbank corporations	-9.1	-3.8	5.2	-0.6	5.3	6.5	5.2	9.2	10.6
%									
Share of foreign currency loans in total loans to the nonbank private sector	27.0	25.8	24.1	24.9	24.1	23.7	24.1	22.3	21.8
Return on assets (banking sector)	1.0	3.2	2.9	5.4	5.2	5.1	2.9	4.6	4.5
Tier 1 capital ratio (banking sector)	13.1	12.2	16.9	12.0	11.6	15.7	16.9	15.8	15.2
NPL ratio (banking sector)	38.1	37.4	30.3	36.1	34.6	32.3	30.3	29.0	27.0
% of GDP									
General government revenues	41.9	46.8	46.9						
General government expenditures	58.1	66.9	64.5						
General government balance	-16.1	-20.1	-17.6						
Primary balance	..	..	..			
Gross public debt	77.8	83.3	89.4						
% of GDP									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..			
Debt of households and NPISHs ² (nonconsolidated)	..	..	..			
% of GDP (based on EUR), period total									
Goods balance	-9.3	-16.1	-17.4	-14.5	-18.4	-17.7	-18.5	-21.9	-24.0
Services balance	-7.0	-4.8	-3.0	-2.8	-3.2	-3.2	-2.6	-2.8	-3.0
Primary income	5.3	2.8	0.0	-0.1	0.6	0.3	-0.5	-0.8	-0.3
Secondary income	16.0	12.8	12.3	9.0	6.4	16.7	15.6	10.5	10.5
Current account balance	5.0	-5.3	-8.0	-8.4	-14.6	-3.9	-6.0	-15.0	-16.8
Capital account balance	0.1	0.1	2.7	0.1	0.2	9.7	0.1	0.2	0.1
Foreign direct investment (net) ³	-0.2	-2.4	-2.0	-4.5	-2.6	-0.3	-0.9	-1.4	-1.0
% of GDP (rolling four-quarter GDP, based on EUR), end of period									
Gross external debt	80.3	87.2	98.9	90.8	90.7	87.6	98.9	97.7	97.4
Gross official reserves (excluding gold)	16.5	20.9	22.7	22.6	19.2	18.6	22.7	20.3	19.7
Months of imports of goods and services									
Gross official reserves (excluding gold)	3.8	5.1	5.4	5.8	4.8	4.6	5.4	4.8	4.6
EUR million, period total									
GDP at current prices	152,925	167,573	175,764	39,281	40,603	46,313	49,568	43,806	42,984

¹) Foreign currency component at constant exchange rates.

²) Nonprofit institutions serving households.

³) + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, national statistical offices, national central banks, wiw, OeNB.

2.5 Russia: fiscal policy remains focused on war and solidity

Year-on-year real GDP growth in Russia slowed down markedly to 1.1% in H1 25, following 4.3% in 2024. Quarter-on-quarter figures even point to a stagnation of economic activity. In H1 25, private consumption was growing at a slower pace than in 2024. Real wage growth decelerated, while unemployment remained at a very low level reflecting tight labor market conditions. Gross fixed capital formation picked up temporarily in Q1 25 but weakened in Q2. Russia still does not publish real import and export figures, but according to our calculations net exports contributed negatively to growth in H1 25. Growth of gross value added in the manufacturing sector decelerated and became less broad based, i.e. even more centered around military-related industries. Major efforts have been undertaken to scale up drones production.

The IMF forecasts Russia's general government budget deficit to rise to 2.7% of GDP in 2025 from 1.6% in 2024, with military and security spending amounting to almost 8% of GDP. Oil and gas budgetary revenues have been declining so far this year, largely due to the lower oil price and the strength of the Russian ruble. To further increase non-oil and gas revenues, the 2026 draft budget includes a hike in the general VAT rate from currently 20% to 22% to cover broadly unchanged military and security spending. Russia's National Wealth Fund (NWF) was valued at about USD 167 billion (5.9% of GDP), of which USD 48 billion (1.8% of GDP) were reported as liquid assets as of September 1, 2025. After the NWF's depletion in recent years, the Russian government does not intend to draw it down further. Yet, with the public debt ratio standing at a low level, Russia has continued to finance its increasing budget deficit by internal sources in 2025, i.a. by stepping up the volume of funds raised on the domestic debt market.

Accordingly, banking sector claims on the general government have risen noticeably. The nominal growth of claims on nonfinancial corporations decelerated somewhat, while the year-on-year nominal growth of claims on households came to a standstill by mid-2025. Some signs of a revival in private sector lending were seen over the summer. Meanwhile, large state-owned corporates have been preparing to place bonds on the Chinese market.

This year, the Russian central bank cut its key policy rate in three steps from 21% to 17%, maintaining relatively high real interest rates. It said that the upward deviation of the economy was narrowing, but it also sensed that inflation expectations remained elevated. Consumer price inflation came down from about 10% in spring to 8% in September 2025 (compared to the central bank's 4% target). Recently, Ukrainian drone strikes on Russian oil refineries drove up gasoline prices and caused shortages in some regions. Against this background, the Russian authorities extended a gasoline export ban and implemented a partial ban on diesel exports.

Russia's current account surplus made up 2% of GDP in H1 25 and has thus halved H1 24. Exports declined, but despite lower oil prices and tightening sanctions, export revenues still exceeded growing spending for imports of goods and services. Trade figures for 2024 show China as the most important trading partner by far, receiving about one-quarter of Russian goods exports and delivering about half of Russian goods imports. In October 2025, the EU, UK and USA imposed further sanctions on Russia, targeting Russia's revenues from energy exports in particular.

Table 8

Main economic indicators: Russia

	2022	2023	2024	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
Year-on-year change of the period total in %									
GDP at constant prices	-1.4	4.1	4.3	5.4	4.3	3.3	4.5	1.4	1.1
Private consumption	-0.6	7.4	5.4	7.0	5.3	5.1	4.3	3.0	3.2
Public consumption	2.0	3.8	4.8	4.6	5.3	4.8	4.5	1.4	0.6
Gross fixed capital formation	7.4	7.8	6.0	9.4	3.9	7.9	4.5	8.5	1.0
Exports of goods and services	..	..	..	..	..	..	..	..	..
Imports of goods and services	..	..	..	..	..	..	..	..	..
Contribution to GDP growth in percentage points									
Domestic demand	0.4	9.1	4.3	3.3	3.5	6.0	4.0	2.3	1.8
Net exports of goods and services	-2.0	-5.2	0.2	2.5	1.1	-2.6	0.3	-0.9	-0.4
Exports of goods and services	..	..	..	..	..	..	..	..	..
Imports of goods and services	..	..	..	..	..	..	..	..	..
Year-on-year change of the period average in %									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in industry (nominal, per person)	15.1	13.3	16.6	18.6	15.2	16.7	16.0	15.6	16.1
Labor productivity in industry (real, per person)	-0.1	2.6	3.1	3.7	2.6	1.6	4.6	-2.3	-0.6
Average gross earnings in industry (nominal, per person)	15.2	16.3	20.3	23.2	18.2	18.5	21.5	12.7	15.4
Producer price index (PPI) in industry	12.8	4.7	12.2	18.5	15.5	9.6	5.0	8.5	0.6
Consumer price index (here: CPI)	13.7	5.9	8.4	7.6	8.2	8.9	9.0	10.1	9.8
EUR per 1 RUB, + = RUB appreciation	18.1	-20.1	-7.9	-20.4	-9.2	4.4	-6.6	0.3	6.4
Period average levels									
Unemployment rate (ILO definition, %, 15-64 year-olds)	4.0	3.2	2.5	2.8	2.5	2.4	2.3	2.4	2.2
Employment rate (%, 15-64 year-olds)	..	..	..	..	..	..	..	..	..
Key interest rate per annum (%)	10.7	9.9	17.5	16.0	16.0	17.6	20.4	21.0	20.8
RUB per 1 EUR	73.9	92.5	100.4	98.8	97.7	98.3	107.0	98.5	91.9
Nominal year-on-year change in period-end stock in %									
Loans to the domestic nonbank private sector ¹	14.0	21.8	15.5	21.7	23.0	20.0	15.5	12.5	8.2
of which:									
loans to households	9.4	23.0	9.7	23.0	23.3	16.9	9.7	5.7	0.0
loans to nonbank corporations	16.4	21.2	18.2	21.1	22.9	21.6	18.2	15.8	12.2
%									
Share of foreign currency loans in total loans to the nonbank private sector	7.5	8.4	7.6	8.9	8.1	8.0	7.6	6.5	6.3
Return on assets (banking sector)	0.1	2.1	2.0	1.8	1.6	1.7	2.0	1.6	2.1
Tier 1 capital ratio (banking sector)	10.4	9.6	10.3	10.3	10.0	10.2	10.3	11.2	11.1
NPL ratio (banking sector)	15.3	12.8	11.1	12.9	12.1	11.8	11.1	12.2	13.2
% of GDP									
General government revenues	33.8	33.5	35.3						
General government expenditures	35.2	35.7	36.9						
General government balance	-1.3	-2.2	-1.6						
Primary balance	..	..	..			
Gross public debt	18.5	19.5	20.3						
% of GDP									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..			
Debt of households and NPISHs ² (nonconsolidated)	..	..	..			
% of GDP (based on EUR), period total									
Goods balance	13.5	5.9	6.1	7.2	6.8	5.4	5.4	5.9	4.1
Services balance	-1.0	-1.8	-1.8	-1.5	-1.8	-2.2	-1.7	-1.5	-2.1
Primary income	-2.0	-1.3	-1.3	-0.5	-1.6	-1.8	-1.2	-0.7	-1.2
Secondary income	-0.4	-0.5	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2
Current account balance	10.1	2.4	2.9	4.9	3.3	1.4	2.3	3.5	0.7
Capital account balance	-0.2	-0.1	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Foreign direct investment (net) ³	1.2	1.0	0.4	1.1	0.2	0.0	0.3	-0.8	-1.2
% of GDP (rolling four-quarter GDP, based on EUR), end of period									
Gross external debt	16.3	15.0	13.8	15.0	15.3	13.7	13.8	14.0	13.0
Gross official reserves (excluding gold)	18.9	21.0	19.9	20.9	20.5	19.6	19.9	19.0	17.9
Months of imports of goods and services									
Gross official reserves (excluding gold)	15.2	13.7	13.5	13.7	13.9	13.6	13.5	13.1	12.6
EUR million, period total									
GDP at current prices	2,212,240	1,905,206	1,998,706	446,778	483,881	517,580	550,467	484,898	539,020

¹⁾ Foreign currency component at constant exchange rates.

²⁾ Nonprofit institutions serving households.

³⁾ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, national statistical offices, national central banks, wiw, OeNB.

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