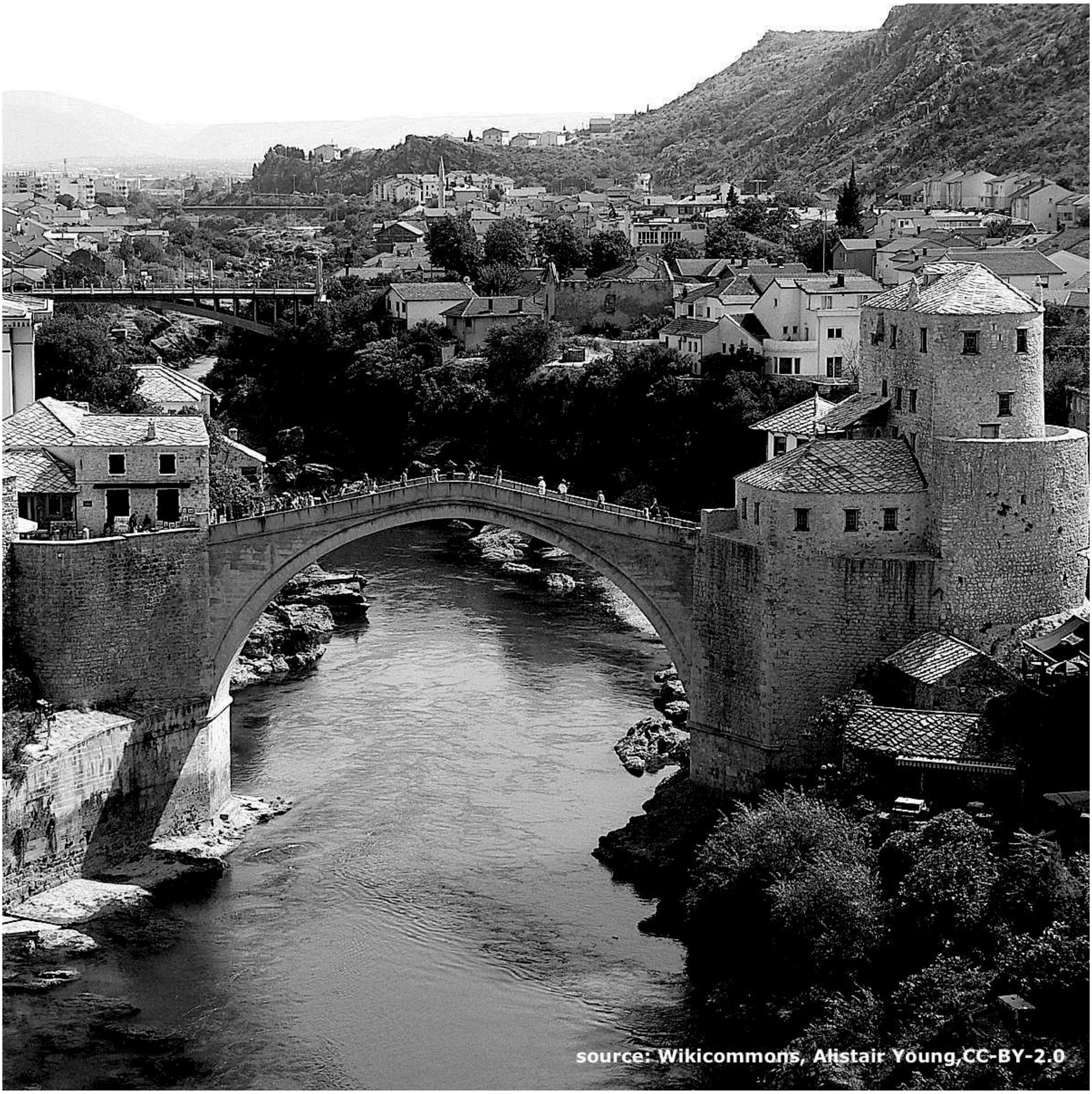


Southeast Europe

Outlook 2026

www.intellinews.com

To subscribe to this report contact our sales team: tel: +1-617-648-0190 Email: sales@intellinews.com

A complete list of all our reports can be found at http://pro.intellinews.com/reports/

Table of contents

Southeast Europe
Outlook 2026
Table of contents

Executive summary

Economic growth across Southeast Europe is expected to remain moderate but resilient in 2026, supported by a gradual recovery in key trading partners. The four EU member states in the region will also benefit from the final year of disbursements from the Recovery and Resilience Facility, which should help sustain investment and consumption.

That said, growth remains uneven. In the region's largest economy, Romania, recovery is set to be delayed until 2027, constrained by fiscal consolidation after years of large deficits. Growth in the Western Balkans countries is stronger, but Serbia is expected to lag following a sharp slowdown in 2025.

Downside risks remain significant. Weak external demand, tighter fiscal policy in several countries, and renewed geopolitical shocks could easily derail the region's fragile momentum.

If the economic picture is mixed, the political outlook is unequivocally fraught. Civil unrest risks across the broader Emerging Europe region have increased over the past year, according to analysis by Verisk Maplecroft, and Southeast Europe is no exception, with waves of protests in several countries ongoing at the end of 2025.

Bulgaria enters 2026 amid entrenched political paralysis. After the collapse of Prime Minister Rosen Zhelyazkov's minority government following mass protests over corruption and budget mismanagement, the country faces the prospect of an eighth election in five years. Fragmented parliaments, low public trust and the continued influence of entrenched private interests are likely to constrain policymaking regardless of the electoral outcome.

Serbia also stands out as one of the most volatile cases. Triggered by the fatal collapse of a canopy at Novi Sad railway station in late 2024, protests have evolved into the largest anti-government movement in more than two decades. While President Aleksandar Vučić's Serbian Progressive Party is still expected to retain power in 2026, public trust has eroded sharply, foreign investment has slumped, and the risk of "regional contagion" across the Western Balkans is rising.

In Romania, the cancellation of the 2024 presidential election has left lasting scars. Despite an outward return to institutional normality, tensions within the ruling coalition, the politicisation of the intelligence services, and the growing influence of the far-right Alliance for the Union of Romanians (AUR) point to continued instability through 2026-27. A dysfunctional judiciary further amplifies both internal and external vulnerabilities.

Slovenia, often viewed as a regional outlier, is not immune. Polls suggest a tight race between Prime Minister Robert Golob's centre-left Freedom Movement and the centre-right Democratic Party in the 2026 general election, while a fatal incident involving a member of Slovenia's Roma minority in 2025 led to protests and an increase in policing powers.

The region's political volatility is unfolding against a complex geopolitical backdrop. The war in Ukraine, uncertainty over future US foreign policy, and growing fragmentation within Europe over defence and fiscal priorities continue to shape Southeast Europe's strategic environment.

EU enlargement is formally regaining momentum, with the European Commission signalling that negotiations with Montenegro, Albania, Moldova and Ukraine could conclude within two years. However, meeting ambitious accession timelines will require far deeper reforms in competitiveness, labour markets and fiscal governance. Meanwhile, the EU's influence in its neighbourhood is being challenged by rival powers, not only China and Russia, but also economic actors such as the United Arab Emirates (UAE).

Beyond short-term growth and political cycles, Southeast Europe continues to face deep structural challenges. The Western Balkans are grappling with a labour market paradox: persistent unemployment above 10% alongside growing labour shortages, driven by emigration, demographic decline and low participation among women, youth and older workers.

In sum, Southeast Europe in 2026 is likely to deliver steady but unspectacular economic growth. However, political instability, civil unrest and governance failures now pose the most significant risks to the region's medium-term prospects, both for investors, and for the EU's enlargement to its southeastern neighbourhood.

1.0 Political outlook

1.1 Politics - Albania

Albania enters 2026 with Prime Minister Edi Rama's Socialist Party dominating the political scene — as it has done since 2013. The party secured another majority in the May 2025 general election, delivering Rama an unprecedented fourth term as prime minister.

Under Rama, Albania has moved forward toward EU accession, gaining momentum from 2022 when Russia's invasion of Ukraine prompted Brussels to take a more active stance towards enlarging the bloc. A candidate country since 2014,Albania is now seen as having the potential to join the EU by the end of this decade, overtaking longer-standing EU accession candidates such as Serbia and North Macedonia. As of November 2025, Albania had opened all 25 of its accession chapters, the last of them being cluster 5 on resources, agriculture and cohesion. Rama, who has forged strong connections with key European players, has been a critical actor in ensuring the country's advance toward membership.

However, there are concerns that Albania's rapid progress risks masking deepening structural and democratic weaknesses. A recent paper by experts from Clingendael, Carnegie Europe, Germany's DGAP and the Jacques Delors Institute warns that "insufficient EU due diligence on key reforms risks weakening the EU's transformative power," and argue that sustaining momentum will require "stronger domestic ownership and more rigorous and sincere EU assessments".

Domestically, the Socialists start 2026 under pressure due to the scandal concerning Deputy Prime Minister and Infrastructure Minister Belinda Balluku. The Special Prosecution Against Corruption and Organised Crime (SPAK) has requested that Balluku's parliamentary immunity be lifted. The minister, along with several public officials and private companies, is suspected of misusing state funds to benefit certain firms involved in large infrastructure projects. As infrastructure minister, Balluku oversees hundreds of millions of euros in public works, including roads, bridges and tunnels. Rama has so far backed Balluku, a high-profile member of the Socialist Party.

The allegations have added to tensions between the Socialist government and Albania's main opposition Democratic Party. After over 12 years in opposition and four consecutive election wins, the Democrats have increasingly resorted to street protests and disruptive actions within the parliament — such as letting off flares — to pressure the government. Protesters in Albania's capital hurled petrol bombs at police guarding the prime minister's office on December 22 as they demanded the resignations of both Rama and Balluku.

The day after the protest, Democratic Party leader Sali Berisha called for intensified action against the government. Speaking at a press conference alongside four opposition lawmakers, Berisha urged supporters to prepare for what he described as a decisive struggle with the objectives of removing the government, installing a technical government and holding free elections.

Internationally, Albania is a member of Nato and a staunch supporter of Ukraine in the ongoing war against Russia. Albania is fully aligned with EU foreign policy and sanctions.

Rama has cultivated a 'special relationship' with Italy, a near neighbour and key trading partner, forging a strong relationship with Prime Minister Giorgia Meloni. The two countries held their first-ever joint government meeting in November, marking a new stage in bilateral cooperation.

Under a deal struck between the two prime ministers, Italy has been allowed to set up two migrant centres in Albania. However, there have been multiple delays in making the centres fully operational.

Albania has a less harmonious relationship with the UK, and Rama has clashed several times with British politicians over migration, claiming that migration by Albanians has become a "scapegoat" for deeper political problems in the UK.

1.2 Politics - Bosnia

Bosnia & Herzegovina experienced its deepest political crisis since the end of the 1992-95 war in 2025, with its European Union aspirations stalled and inter-ethnic tensions once again dominating the national agenda. What was meant to be a year of symbolic renewal — marking three decades since both the Dayton Peace Agreement — instead highlighted how fragile the country's post-war settlement has become.

As the October 2026 general elections draw closer, political competition is likely to intensify further, testing the resilience of Bosnia's institutions and the patience of its international partners.

At the start of 2025 there had been cautious optimism that Bosnia would finally move from political approval to the formal opening of EU accession negotiations, following a green light from the European Council in March 2024. That momentum quickly evaporated. Deepening political disputes paralysed decision-making, leaving Sarajevo unable to pass even the limited set of reforms required to convene its first intergovernmental conference with Brussels.

The crisis was catalysed by the conviction of Milorad Dodik, then president of Republika Srpska, for defying rulings by international High Representative Christian Schmidt, the figure tasked with overseeing the implementation of Dayton. The court's decision in February — later upheld on appeal — barred Dodik from public office and triggered a sharp backlash in the Serb-run entity. Republika Srpska's parliament adopted laws seeking to block the operation of Bosnia's state-level judiciary and police, prompting prosecutors to open a criminal investigation into Dodik and his allies for undermining the constitutional order.

Although the legislation was eventually repealed under pressure from

Washington and Brussels, the episode exposed how close Bosnia came to institutional collapse. Even after being formally removed from office, Dodik remained the dominant political actor in Republika Srpska, shaping the narrative of victimhood and external interference that continues to resonate with many voters.

That dynamic was reflected in November's snap election for the presidency of Republika Srpska, triggered by Dodik's disqualification. His chosen successor, Sinisa Karan, narrowly defeated opposition candidate Branko Blanusa amid allegations of irregularities that forced partial reruns in dozens of polling stations. With the new president set to serve for less than a year, the contest is widely seen as a dry run for the full general elections scheduled for October 2026, a vote likely to be even more polarised.

While Bosnia's domestic politics have been increasingly combustible, the EU has tried to keep the door to integration ajar. In December, the European Commission approved the country's Reform Agenda, a prerequisite for accessing up to €976.6mn under the bloc's Reform and Growth Facility. The package, which focuses on green and digital investment, labour-market reform and governance, offers a rare positive incentive in an otherwise bleak political landscape. But disbursement of funds depends on Sarajevo signing and ratifying the necessary agreements and delivering concrete reforms, something Bosnia has struggled to do consistently.

European officials have made clear that time is running out. With enlargement back near the top of the EU's strategic agenda, Bosnia risks falling behind its Western Balkan neighbours just as others prepare to take decisive steps toward membership. Without the adoption of key judicial laws and the appointment of a chief negotiator, 2026 could become another lost year.

The deeper problem, however, lies in the constitutional architecture created by Dayton. Designed to freeze a war rather than build a functional state, Bosnia's system of ethnic and entity vetoes has evolved into a mechanism that rewards obstruction and nationalist mobilisation. Policy experts warn that unless this framework is reformed — or at least implemented more coherently — political paralysis will remain the norm, fuelling emigration and economic stagnation.

1.1 Politics - Bulgaria

Bulgaria enters 2026 amid deep political instability after years of repeated elections and fragile coalitions. The October 2024 general election — the seventh since 2021 — produced another fragmented parliament with no clear majority. GERB, led by former prime minister Boyko Borissov, won 69 of 240 seats and remained reliant on support from sanctioned oligarch Delyan Peevski and his DPS-New Beginning party.

Prime Minister Rosen Zhelyazkov's minority government, formed in January 2025, survived five no-confidence votes before resigning on December 11, ahead of a sixth vote. The resignation followed weeks of mass protests over corruption, economic mismanagement and entrenched private interests. Triggered by the government's mishandling of the 2026 budget, demonstrations tapped into broader public frustration with corruption.

Bulgaria now faces the prospect of an eighth election in five years. Previous polls and government changes have failed to deliver meaningful reform, suggesting new elections are unlikely to break the political deadlock. Parliamentary fragmentation, entrenched influence of private actors and low public trust will continue to constrain governance in 2026.

In November 2025, the European Commission withheld €215mn from Bulgaria's Recovery and Resilience Plan over concerns about the independence of the Anti-Corruption Commission, though a separate €439mn tranche was released for other milestones. The July 2025 arrest of Varna Mayor Blagomir Kotsev on dubious corruption charges highlighted concerns over judicial independence. Kotsev, a member of the opposition Change Continues (CC) party, was released in November after supporters crowdfunded his BGN200,000 (€102,262) bail.

Despite the political turmoil, Bulgaria adopted the euro in January 2026, marking a long-sought political milestone. While this should bolster stability and investor confidence, it will not address structural weaknesses that undermine governance and reform. Without stronger institutions and convincing leaders, Bulgaria will remain trapped in a cycle of political volatility, contested policymaking and periodic crises throughout 2026.

1.4 Politics - Croatia

Croatia closes 2025 with its political system under strain, caught between a dominant centre-right government, a resurgent nationalist right and a president in sporadic open conflict with the executive. Although the country is one of the European Union's newer members and enjoys relative economic stability, the tone of public life has hardened, with disputes over identity, security and Croatia's wartime past increasingly shaping the run-up to 2026.

Prime Minister Andrej Plenković's Croatian Democratic Union (HDZ), emerged from early parliamentary elections in April 2024 as the largest party in parliament but weaker than before. The HDZ won 61 of the 150 seats in the Sabor, five fewer than in 2020, forcing Plenković to turn to the nationalist Homeland Movement (Domovinski pokret, DP) to retain power. The resulting coalition has proven workable in legislative terms but politically uncomfortable, binding a pro-European, centre-right leadership to a partner that campaigns against immigration, LGBT rights and, at times, liberal democratic norms.

This internal tension is compounded by Croatia's institutional rivalry. President Zoran Milanović, backed by the opposition Social Democratic Party, has used his largely ceremonial office to challenge the government on both foreign and domestic policy. His clashes with Plenković over Croatia's stance on the war in Ukraine — with the prime minister a staunch supporter of Kyiv and Milanović taking a more sceptical line — have turned into a proxy battle over Croatia's geopolitical orientation. After Milanović secured re-election in January 2025, the rivalry showed little sign of easing, leaving Croatia with a divided executive just as regional and global security risks were rising.

The HDZ's dominance was nevertheless reinforced in May's local elections, when the party swept most counties and municipalities. The result confirmed the strength of its territorial organisation, though it also revealed important limits. Zagreb remains firmly in the hands of Tomislav Tomašević and the green-left Možemo! movement, while the loss of Rijeka — a long-time Social Democratic stronghold — to an independent candidate underlined the volatility of urban voters..

Security concerns have also moved closer to the centre of Croatian politics. In October, parliament voted to restore compulsory military service for men born from 2007 onwards, reversing a 17-year suspension. The government framed the move as a response to a more dangerous strategic environment, pointing both to Russia's war against Ukraine and to renewed rearmament across the Balkans.

The cultural and ideological fault lines in Croatia were thrown into sharp relief in the summer of 2025, when nationalist singer Marko Perković Thompson staged a vast concert at Zagreb's Hippodrome. The event, which drew hundreds of thousands of fans, became a lightning rod for controversy after footage showed sections of the crowd using the "Za dom spremni" salute, a slogan associated with Croatia's wartime fascist movement. Although courts have allowed Thompson to use the phrase in a song about the 1990s independence war, human rights groups accused the authorities of failing to distance the state from historical revisionism. For critics, the government’s muted response signalled how far nationalist symbolism has crept into the mainstream.

In November, the United Against Fascism initiative organised marches in several cities, denouncing the normalisation of extremist imagery and the targeting of minorities. Violent incidents involving masked counter-protesters in Zadar and Rijeka highlighted how combustible the atmosphere has become.

Looking ahead to 2026, Croatia appears set for a period of intensified polarisation. Despite being shaken by a series of corruption scandals, the HDZ is likely to remain the anchor of government, but its reliance on the Homeland Movement will continue to blur the boundary between conservative governance and far-right activism. Milanović, meanwhile, shows no sign of abandoning his confrontational style, ensuring that institutional clashes will remain a fixture of political life.

1.5 Politics - Kosovo

Kosovo enters 2026 with cautious optimism after a year marked by political paralysis and institutional uncertainty. Throughout most of 2025, the country operated without a fully functioning government or an approved state budget for 2026, following the failure of Prime Minister Albin Kurti’s Vetëvendosje Movement to form a cabinet despite winning the February parliamentary elections. The refusal of the two largest opposition parties, the Democratic Party of Kosovo (PDK) and the Democratic League of Kosovo (LDK), to join a coalition left Kosovo in prolonged caretaker mode and ultimately triggered snap elections on December 28.

Those snap elections reshaped the political landscape. Vetëvendosje emerged with a convincing mandate, winning 49.3% of the vote and securing 56 seats in the 120-member Assembly, eight more than in February. While still short of an outright majority, the party is now well positioned to form a government with the backing of non-Serb minority representatives, avoiding dependence on the main opposition parties. Kurti has pledged that institutions will be formed swiftly once results are certified, a key prerequisite for restoring political stability and passing a long-delayed budget for 2026.

If a government is formed early in the year, 2026 is likely to focus on consolidation rather than electoral manoeuvring. Vetëvendosje’s stronger parliamentary position should allow it to pursue its reform agenda with fewer internal blockages, although relations with the opposition are expected to remain tense. Cooperation may nonetheless be unavoidable on certain issues, particularly international agreements and legislation requiring broader consensus.

Relations with the European Union are set to be a central theme. Brussels has signalled a more positive stance after an improvement in stability in northern Kosovo, following peaceful local elections held in October and November 2025.

The EU has announced plans to lift restrictive measures and unlock long-frozen financial assistance, including around €216mn in funding, most of which is expected to be released in early 2026. Access to these funds, alongside ratification of agreements under the EU Growth Plan, will be crucial for economic recovery and public investment.

Another major political test will be the presidential election due in 2026. President Vjosa Osmani has confirmed she is seeking a second term and has already announced plans to hold talks once new institutions are in place. While opinion polls suggest strong public support for her re-election, the outcome will ultimately depend on parliamentary arithmetic, adding another layer of negotiation to an already complex political environment.

Overall, 2026 offers Kosovo a chance to move beyond crisis management towards institutional normalisation. Whether that opportunity is fully realised will depend on the speed of government formation, the durability of parliamentary support, and the ability of political leaders to translate electoral victories into effective governance.

Meanwhile, relations with Serbia remain highly strained, following a series of incidents over the last two years, including an armed siege by ethnic-Serb militants in September 2023, restrictions on the use of the Serbian dinar in 2024, and further closure of parallel institutions such as post offices in the north of Kosovo early in 2025. “We see little prospect of a legally binding agreement that leads to full normalisation of relations between the two countries, but view the risk of outright military conflict as low, given costs to EU finance and accession prospects, and the ongoing Nato presence in Kosovo,” a statement from rating agency Fitch said.

1.6 Politics - Moldova

After receiving public support in three consecutive elections in less than a year, Moldova's pro-EU authorities are planning one of the fastest EU accession processes — only a few years — matching the pace previously achieved only by Sweden, Finland and Austria. Moldova's newly formed government has pledged to sign the Accession Treaty in 2028 or step down (one year before the end of its term). The second mandate of President Maia Sandu, the key internal driver of EU accession, also ends in 2028. Moldova is thus setting an accession deadline shorter than the time that has passed since Russia's invasion of Ukraine in February 2022. Meeting it would mark the greatest achievement in Moldova's modern history since its emergence as an independent state in 1918.

Within less than a year, Moldova gave Sandu a second mandate in November 2024, endorsed the country's pro-EU orientation in a public referendum held the same day, and renewed the pro-EU Party of Action and Solidarity's (PAS') parliamentary majority in elections nearly a year later, on September 28, 2025.

The SWOT analysis of Moldova's EU accession process is dominated by negatives: multiple external threats and weak institutions, offset by a rare geographic opportunity created by its position in the context of the war in Ukraine. Of the other Trio countries that expressed their intention to join the EU in May 2021, Georgia lost the hybrid war and its new pro-Russian authorities abandoned the accession process. Ukraine suffered another Russian invasion, and the war has complicated its accession path. Both Georgia and Ukraine have around 20% of their territories occupied by Russia due to their immediate proximity. More fortunate, Moldova hosts only a pro-Russian enclave, which could nevertheless become a fatal threat if Russia were to take Odesa and extend its dominance — militarily or through an agreement — to the Danube.

Moldova's pro-EU forces have received robust support from Brussels. In December 2023, ahead of the electoral year 2024, the EU approved accession negotiations with Moldova and actively supported the pro-EU authorities, including by formally opening negotiations in June 2024 before the presidential elections, and beginning specific negotiations one year later, in June 2025, ahead of the parliamentary elections. The EU has approved a €1.9bn Growth Plan for Moldova, accompanied by robust political support throughout recent years.

The threats to Moldova's planned rapid EU accession are manifold: Russia's hybrid war (suspended only after the parliamentary elections but likely to resume in new forms) and potential geopolitical shifts stemming from a peace agreement in Ukraine. The structures developed by Moscow-based oligarch Ilan Shor to influence the presidential and parliamentary elections remain a key asset in the ongoing hybrid war — currently frozen following the victories of pro-EU forces but likely to be reactivated when circumstances allow. Internal vulnerabilities are significant as well: the autocratic regime in separatist Transnistria and resistance from existing institutions to the reforms required for EU integration.

1.7 Politics - Montenegro

Montenegro is steadily consolidating its position as the Western Balkan frontrunner for EU accession. The country has intensified reform efforts and advanced negotiations with the bloc, with European officials repeatedly signalling that it is on track to complete negotiations in 2026 and join the union in 2028.

Enlargement Commissioner Marta Kos stated in November 2025 that Montenegro currently shows the highest level of overall readiness among candidate states. She also confirmed that work on the EU-Montenegro accession agreement will begin soon.

According to the European Commission’s enlargement progress report published on November 4, Montenegro has made “significant progress” over the past year, provisionally closing four negotiation chapters and committing to close further chapters by the end of 2025.

All 33 chapters have now been opened, and seven have been provisionally closed. A particularly important breakthrough came in June 2024, when closing benchmarks were set for Chapters 23 and 24 — covering judiciary, fundamental rights, justice, freedom and security — long seen as the core of the accession process.

Subsequent intergovernmental conferences in December 2024 and June 2025 enabled the provisional closure of four more chapters.

Brussels has emphasised that maintaining reform momentum and securing broad political consensus will be essential if Montenegro is to meet its goal of completing negotiations by end-2026.

European Commission President Ursula von der Leyen reiterated the EU’s commitment to enlargement, describing it as crucial for Europe’s stability and global influence. She stressed, however, that the process remains strictly merit-based and depends on sustained political will.

Prime Minister Milojko Spajić has welcomed the Commission’s latest findings, arguing that they validate the government’s reform drive and Montenegro’s accelerated progress toward EU membership. The European Council will next assess the Commission’s recommendations and determine the following steps in the accession process.

Domestically, Montenegro continues to navigate a shifting political landscape following the snap parliamentary elections of June 2023.

The polls were triggered when then-president Milo Djukanović dissolved parliament shortly before losing the presidential race to Jakov Milatović of the Europe Now movement.

Djukanović, who dominated the country's politics for more than three decades, was sidelined following his 2023 electoral defeat. He has long been associated with a number of high-profile scandals and allegations, including claims of corruption, abuse of power, cigarette smuggling during the 1990s, and unexplained personal wealth — accusations he has consistently denied and that have never resulted in a conviction.

In 2023, Europe Now!, led by now PM Spajic, also went on to win the parliamentary vote with 24 of 81 seats, while the Together alliance led by Democratic Party of Socialist (DPS) took 21 seats, the first time since 1990 that the DPS failed to emerge as the largest party.

The next regular parliamentary elections are scheduled for 2027.

Montenegro has begun preparations for one of its most significant foreign-policy roles in 2026, taking the chairmanship of the Berlin Process, officials announced following a meeting of the Working Team coordinating related activities.

For the first time in its history, Montenegro will host the forum, which brings together governments from the Western Balkans, nine EU member states, and the United Kingdom. Established over a decade ago by Germany, the Berlin Process has guided political, economic, and security cooperation in the region, with strong backing from regional organizations.

1.8 Politics - North Macedonia

North Macedonia enters 2026 with a complex political landscape shaped by stalled EU integration, shifting domestic power dynamics and the government's overwhelming dominance at the local level.

The year 2025 brought no breakthroughs on the country's long-delayed EU accession process. The ruling right-wing VMRO-DPMNE — in power since June 2024 — continues to reject constitutional amendments that would add Bulgarians as a recognised minority, a key requirement for advancing accession talks.

Prime Minister Hristijan Mickoski insists that the issue is not the amendment itself but concerns that Bulgaria could raise additional demands once negotiations progress. As a result, the European path remains effectively frozen, with little sign that the deadlock will ease early in 2026.

Domestically, VMRO-DPMNE reinforced its political strength through a sweeping victory in the 2025 local elections. The party won 54 out of 81 municipalities, including Skopje, sharply expanding its already substantial influence.

The scale of the win overshadowed two significant signals of public discontent: historically low turnout of just 46.6%, and a record number of invalid ballots — roughly one in every 16 cast nationwide. Analysts widely interpret these invalid ballots as deliberate protest votes, reflecting frustration with both the government and the broader political system, according to Erste Group Research.

The magnitude of VMRO-DPMNE’s success has sparked debate over whether the ruling party will seek early parliamentary elections in 2026 to capitalise on its momentum. Mickoski, however, currently dismisses the idea, arguing that there is no need to deviate from the regular 2028 electoral schedule.

Still, the decision remains a strategic dilemma for the party: call early elections to exploit the weakened opposition, or continue governing with the risk that economic or political challenges might erode support over time.

The main opposition force, the Social Democratic Union of Macedonia (SDSM), entered 2026 in a state of organisational crisis. Following its poor performance in the local polls, the party’s entire executive leadership resigned in December.

Only the leader, Venko Filipče, has stayed on to oversee an internal reform process aimed at rebuilding credibility and clarifying the party’s direction. Whether the SDSM can re-emerge as a viable alternative will be one of the key questions shaping the political atmosphere this year.

North Macedonia’s foreign relations will also feature prominently in 2026. The Strategic Partnership with the United Kingdom — formalised in July 2025 and expanded through a government-to-government agreement worth up to GBP5bn (€6bn) — is expected to drive major infrastructure projects and economic cooperation.

At the same time, the country has entered official discussions with the UK over hosting a “return hub” for failed asylum seekers, as reported by Western media. Public reaction to the proposal has been overwhelmingly negative, highlighting broader societal anxieties about migration and international agreements.

Taken together, 2026 is set to be a year in which North Macedonia’s political trajectory will hinge on three interlinked questions: whether the EU stalemate deepens, whether VMRO-DPMNE opts for a strategic electoral gamble, and whether the opposition can rebuild enough strength to reintroduce political balance.

VMRO-DPMNE re-elected Mickoski as party leader at its congress on December 6, while also adopting an ambitious national development strategy that outlines the party's priorities through 2030.

In a statement, VMRO-DPMNE said it remains committed to policies grounded in state and national interests, presenting its new platform — A New Chapter: Strategy Macedonia 2030 — as a blueprint for long-term, stable governance. The document positions the party as a force "ready to take on the role of state leadership".

The strategy argues that North Macedonia must move beyond short-term decisions and instead build strong institutions, a competitive economy and a society supported by "values, order and self-confidence".

It introduces several forward-looking policy areas, including a national AI strategy, a cybersecurity framework, geo-economic diplomacy and a state-backed "Fund for the Future" to support innovation and research.

The plan sets out six priority pillars for the 2025–2030 period. The first focuses on state security, including a modernised army, national cyber defence and mechanisms for countering hybrid threats. Economic competitiveness follows, centred on shifting from low-cost labour to an economy based on knowledge, technology and green energy.

The strategy also targets rule-of-law reforms, calling for an independent judiciary, depoliticised administration and stronger anti-corruption tools through digitalisation. Demographic policy priorities include housing support for young people, incentives for diaspora return and improved care for the elderly.

On foreign policy, the party reiterates support for EU integration, but with "clear red lines" that exclude conditions affecting national identity. A final pillar centres on education, culture and identity, emphasising investment in digital campuses, modern curricula and protection of the Macedonian language and cultural heritage.

VMRO-DPMNE describes the programme as a roadmap for a stable, modern and European-oriented North Macedonia entering a "new chapter" of development.

1.9 Politics - Romania

One year after the presidential elections were cancelled in December 2024, in an extreme move blamed on alleged Russian interference, Romania's political landscape appears at first glance to have returned to normal. It has not. Rising tensions within the fragile ruling coalition, unreformed intelligence services deeply embedded in politics and business, the opaque links between the Social Democrats (PSD) and the far-right Alliance for the Union of Romanians (AUR), as well as external actors exploiting internal vulnerabilities, all point to continued political tensions in 2026-2027 and an uncertain political outlook. A dysfunctional judiciary amplifies both internal and external risks.

Independent candidate Nicușor Dan, seen as firmly committed to democratic principles, won the presidential rerun in May, paving the way for the stabilisation of the existing "pro-Western" and heterogeneous ruling coalition formed after the December 2024 parliamentary elections. This coalition is composed mainly of the former PSD-PNL "grand coalition" forged by former president Klaus Iohannis in 2021, alongside the ostensibly reformist Union Save Romania (USR), which increasingly resembles the two mainstream parties, and the Democratic Union of Hungarians in Romania (UDMR), a habitual component of Romanian ruling coalitions, meant to broaden parliamentary support and provide expertise and stability at key junctures. The prime ministership is held by Ilie Bolojan (PNL), who is expected to drive reforms, and is scheduled to be handed over to the Social Democrats in April 2027.

The pro-Western ruling coalition succeeded in mitigating sovereign risks, convincing both the European Commission and rating agencies through swift austerity measures significant enough to secure reasonable fiscal consolidation in 2026 without further action. However, deeper, genuine reforms that could have built public support after austerity have not been implemented. Momentum for such reforms has gradually faded amid pressure from dominant factions in the mainstream parties that rely on populism. The risks of the ruling coalition collapsing or undergoing structural changes are high, with February 2026 set to be the first critical moment.

A power-sharing agreement and the Resilience funds keep the coalition together, but tensions are rising. The benefits of remaining in government and the promise of the prime ministership keep the Social Democrats in the coalition, despite their conservative faction arguing that the party would fare better in opposition. Opposition is viewed as a temporary phase before regaining control of state institutions, potentially with support from conservative factions in the National Liberal Party (as in 2021-2024) or, if necessary, with help from AUR.

The rivalry between the PSD and AUR is superficial and largely a strategy to extract electoral benefits. At deeper — though less visible — levels, both parties share a common goal: to keep control over virtually all key state institutions to preserve their rents.

The annulled 2024 presidential elections indicate active involvement of unreformed intelligence services, through active and retired officers. Revealing the full circumstances behind the annulment has reportedly been complicated by the alleged involvement of the then-senior ruling PSD, factions within the intelligence services and former officers. According to these accounts, PSD structures helped promote the rise of AUR, portrayed as a possible Russia-backed destabilising force, in order to steer voters towards PSD-PNL candidates. Senior PSD officials admitted that regional branches supported AUR candidate George Simion.

Separate indications — though still lacking official confirmation, which is fundamentally unlikely — suggest that Russia-backed entities and active or retired Romanian intelligence officers may have run a multi-year operation to promote presidential candidate Călin Georgescu as an alternative to the PSD-PNL coalition. Georgescu won the first round of the November 2024 elections after a campaign aimed at voters susceptible to conspiracy narratives.

It would be naïve to ignore future actions of Russia-backed structures. For a fuller picture, it is worth noting that while nationalist sentiment is partly inherited from the Ceaușescu era, pro-Russian leanings are more common within unreformed military structures and among the many retired officers who left official institutions during Romania's preparations for Nato and EU accession.

A non-functioning judiciary facilitates widespread corruption, the modus operandi of the public administration and state-controlled companies. A wave of statute-of-limitations rulings in high-profile corruption cases has hit the country over recent years. The civil-law tradition (as opposed to common law) and the High Court's resistance to implementing European legal procedures have resulted in a particularly inefficient and corruption-prone judicial ecosystem in which corruption has thrived. Informal procedures — unenacted in legislation — have been developed to bypass the standards set under the Cooperation and Verification Mechanism, which was intended to produce a functional judiciary.

Geopolitics no longer favour domestic reforms. Romania's official stance in support of Ukraine — despite modest material contributions due to limited capacity — has secured a preferential or at least benevolent attitude from European institutions. But this also means a lack of external pressure for economic and political reforms. Separately, the country's geopolitical orientation could shift in an extreme scenario in which Russia's influence expands in the region following a broader settlement of the war in Ukraine.

1.10 Politics - Serbia

Serbia heads into 2026 following a year of political unrest. The collapse of a canopy roof at the renovated Novi Sad railway station in November

2024, which killed 16 people, triggered the largest protest movement in more than two decades. A year on, protests continue, exposing public frustration with corruption, deteriorating governance standards and the gradual erosion of democratic norms under the ruling Serbian Progressive Party (SNS).

bne IntelliNews expects the conservative-nationalist SNS, in power since 2012, to retain control of the government in 2026. However, President Aleksandar Vucic's once-dominant position has weakened, reflected in large protest turnouts, slipping poll numbers and declining trust in state institutions. Although the government responded to the Novi Sad tragedy by releasing classified documents, arresting officials and prompting several senior resignations, these steps have done little to restore public confidence in government.

The opposition remains fragmented, unpopular and unable to mount an electoral challenge. While single-issue movements have drawn tens of thousands to the streets, they have not coalesced into a unified political force. Student activists have avoided aligning with the opposition parties, whose lack of ideas and organisational weakness limit their ability to translate protest momentum into electoral gains. The movement's core demands — rule of law, transparency and accountability — are elusive, and its political direction uncertain.

Institutional fragility and entrenched corruption mean Serbia will remain prone to periodic unrest. *bne IntelliNews* expects further demonstrations through 2026, contributing to policy uncertainty, delaying infrastructure projects and weighing on investor sentiment. However, without a viable alternative to the SNS, the likelihood of major political upheaval or regime change remains low.

Vucic cannot constitutionally remain president after 2027, and speculation about early elections has and will continue to grow. Vucic has historically used snap polls to consolidate power but is now reluctant to risk one amid signs of weakening support. Snap elections are unlikely before the scheduled polls in 2027 unless public pressure becomes overwhelming or the government suffers a further loss of legitimacy.

Externally, Serbia will remain buffered by cautious Western engagement. The EU continues to view Vucic as a stabilising actor in a volatile region, limiting pressure for substantive reform. Although Serbia has made some progress under Chapter 23 of the EU acquis, reforms related to the judiciary, rule of law and fundamental rights remain incomplete and will advance slowly.

In 2026, Serbia will continue to exhibit the traits of a flawed democracy. Government control of the media, tolerance of corruption and politicisation of state institutions are eroding the economic gains that underpin SNS support. We expect a year of political stalemate, intermittent protests and public frustration, with limited prospects for meaningful improvement before the scheduled 2027 elections.

1.11 Politics - Slovenia

Slovenia is set to hold regular parliamentary elections in March 2026, with political dynamics shaped by shifting public sentiment, a tightened security debate and a weakened ruling coalition.

The vote will largely pit Prime Minister Robert Golob's Freedom Movement, a social-liberal party, against Janez Janša's right-wing Slovenian Democratic Party (SDS), which currently leads national polling.

The Freedom Movement, which won a record 41 seats in the 90-seat parliament in the 2022 general election, went on to form a coalition with the Social Democrats (SD) and The Left, establishing a broad centre-left government.

Since then, the Freedom Movement's representation has declined to 39 seats following resignations and internal changes, while the SDS — which secured 27 seats in the last election — now holds 24, remaining the largest opposition party.

According to the latest Mediana poll from late November, the SDS leads with 20.5% support, followed by the Freedom Movement at 14.9%, signalling a difficult path ahead for Golob, even though he managed to complete his term after opposition calls for early elections in 2025 failed to materialise.

The year's second most significant political milestone will be the local elections on November 15, when the mandates of mayors and municipal councils across all 212 municipalities come to an end.

The political environment at the end of 2025 was influenced by the fallout from the Novo Mesto attack, in which 48-year-old Aleš Šutar was killed in October 2025. The incident, involving a member of the Roma community, sparked protests, sharpened debate on security and minority integration, and triggered the resignations of justice minister Andreja Katič and interior minister Boštjan Poklukar.

Their replacements — Andreja Kokalj and Branko Zlobek — were swiftly confirmed, but the episode highlighted the government's vulnerability and the rising weight of public order issues ahead of the election.

The rapid adoption of the Šutar Act, granting police wider surveillance and operational powers in high-risk areas, has become one of the defining political questions of late 2025.

While the government argues the law is necessary to restore public safety, it faces scrutiny at home and abroad. The European Commission has urged Ljubljana to ensure the measures do not disproportionately affect the Roma community, echoing concerns voiced by rights groups. How the government addresses these warnings may influence both coalition cohesion and voter perceptions in early 2026.

Another source of political strain was the defeat of the assisted-dying proposal in the November referendum, which Golob described as one of the most profound social choices facing the country. The outcome highlighted the limits of the coalition's agenda and illustrated that voters may be less aligned with the government's reform ambitions than in 2022.

As Slovenia heads into a pivotal election year, the ruling coalition must contend with declining approval ratings, heightened public anxiety over security and a reinvigorated opposition. The coming months will determine whether the Freedom Movement can regain momentum or whether the SDS will enter 2026 as the frontrunner in a shifting political landscape.

2.0 Macroeconomic outlook

2.1 Macroeconomy - Albania

Albania key economic figures and forecasts							
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Nominal GDP (EUR bn)	13.8	14.3	13.9	17.2	17.3	22.2	23.2
Real GDP (% yoy)	4.0	2.1	-3.5	8.9	4.8	3.9	4.0
Unemployment rate (avg, %)	12.3	11.5	11.7	11.4	11.8	11.6	9.4

Consumer prices (avg, % yoy)	2.0	1.4	1.6	2.0	6.7	5.3	2.2
Consumer prices (eop, % yoy)	1.8	1.1	1.1	3.7	7.4	4.5	2.1
General budget balance (% of GDP)	-1.4	-2.0	-6.7	-6.7	-3.7	-1.4	-0.7
Public debt (% of GDP)	67.7	66.2	77.9	84.1	64.6	52.4	56
Current account balance (% of GDP)	-6.7	-7.9	-8.8	-7.5	-5.9	-0.9	-2.4
Official FX reserves (EUR bn)	3.2	3.1	3.6	4.6	4.4	5.6	6.2
EUR/LC (avg)	128	123	123	122	119	108	99

Source: Instat, World Bank, finance ministry, Bank of Albania

2.1.1 GDP growth

Albania remains one of Europe's fastest-growing economies, supported by buoyant tourism, rising wages and firm private consumption, while public debt continues to edge down. Yet despite this strong headline performance, international institutions warn that structural weaknesses, labour shortages and external risks could weigh on the country's medium-term prospects as it aims to secure EU membership by 2030.

According to the IMF's latest Article IV concluding statement, Albania is at a "pivotal juncture": growth remains solid, inflation is contained and public debt is declining, but productivity is weak and reform gaps with EU norms remain significant. The Fund expects real GDP growth of 3.5% in 2025 and 3.6% in 2026, slightly below the rapid post-pandemic pace but still among the region's strongest. Headline inflation, currently subdued, is forecast to rise gradually to the Bank of Albania's 3% target in the second half of 2026, pushed by tight labour markets and wage increases. The current account deficit is projected at 2.8% of GDP in 2025, widening toward 3.5% in the medium term as rising incomes and public investment lift imports.

The IMF warns that risks have tilted to the downside: global geopolitical tensions, commodity-price volatility and potential financial-market instability could all undermine growth. Domestically, skills shortages and emigration threaten to fuel inflation and constrain output. Public debt is expected to decline from 54% of GDP in 2025 to roughly 50% by 2030, assuming sustained fiscal discipline, but ageing demographics and pressures from pensions, health, and defence pose future fiscal risks.

The Fund urges comprehensive tax reform—phasing out exemptions, improving compliance and accelerating a value-based property tax—and cautions that the planned "Fiscal Peace Agreement", involving tax-debt cancellation and audit suspensions, could damage compliance gains. It also maintains that the central bank's 2.5% policy rate is appropriate but should remain flexible as wage dynamics evolve.

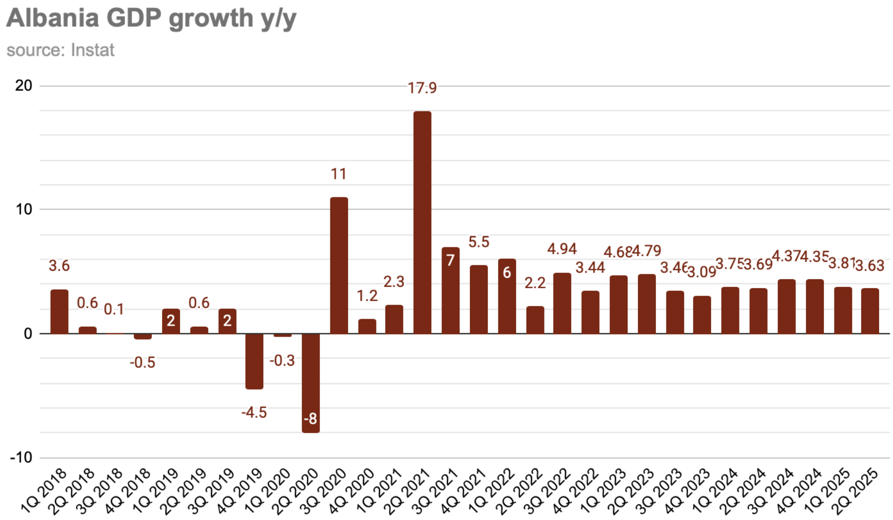
Other institutions offer broadly similar projections. The European Commission forecasts real GDP growth of 3.6% in 2025, moderating to 3.5% in both 2026 and 2027, as Albania moves into a more mature growth phase after two years of around 4% expansion. Domestic demand remains the main driver: private consumption is buoyed by strong wage growth—public-sector pay rose nearly 16% year-on-year—while public consumption surged more than 10%. Employment is expected to continue rising through 2027, though emigration will remain a constraint. Inflation, averaging 2.2% in 2024, should drift toward the central bank's 3% target by 2026–27. The deficit is set to widen to 2.2% of GDP in 2025, before narrowing to 1.7% in 2027, while government debt is projected to keep falling from below 55% in 2024.

The Bank of Albania remains optimistic, expecting growth to remain close to 2025 levels in the medium term and inflation to return to target in early 2026. The World Bank, meanwhile, sees 3.3% growth in 2024 and 3.4% in 2025, driven by consumption, tourism and construction, with further poverty reduction helped by rising labour income.

The EBRD's outlook is similar, forecasting 3.5% growth in both 2025 and 2026, underpinned by government spending and services, but warning of risks from weaker Eurozone demand, falling remittances and climate vulnerabilities.

S&P affirmed its BB/B sovereign rating in September, citing solid growth, fiscal discipline and rising FX reserves, while projecting 3.4% growth in 2025.

State statistics agency Instat reported Albania grew 3.63% year-on-year in the second quarter of 2025 (the latest available data), driven by strong government-related services, real estate and construction, though agriculture and industry contracted.



2.1.4 Industrial production

Albania's statistics office INSTAT reported solid output across key industrial segments in 2024 (the latest available data), based on its annual PRODCOM survey. Crude petroleum production reached 716,435 tonnes, while pig iron and steel output totalled 343,925 tonnes. Chromium ore and concentrate production amounted to 588,047 tonnes, and cement producers delivered 1.94mn tonnes. Output of soft drinks and mineral and carbonated water rose to 6.2mn hectolitres.

Crude petroleum generated sales of ALL 29.9bn in 2024, followed by pig iron and steel at ALL 20.2bn. Cement sales reached ALL 19.2bn, and chromium ores brought in ALL 14.9bn. Sales of non-alcoholic beverages and bottled waters totalled ALL 15.7bn.

Food manufacturing strengthened its position, accounting for 14% of total industrial sales, up from 12.4% in 2023. Non-metallic mineral products represented 13.2% of sales, slightly higher than a year earlier, while basic metals' share edged down to 12.4% from 13.4%.

2.2 Macroeconomy - Bosnia & Herzegovina

Bosnia key economic figures and forecasts							
	2018	2019	2020	2021	2022	2023	2024

Nominal GDP (EUR bn)	17.0	18.0	17.4	18.8	19.7	35.5	25.2
Real GDP (% yoy)	3.7	2.8	-3.1	7.5	2.4	2.2	3.0
Industrial output (% yoy)	1.6	-5.5	-6.2	10.7	1.7	-3.8	-4.0
Unemployment rate (avg, %)	34.7	32.6	33.7	31	29.5	13.2	12.6
Consumer prices (avg, % yoy)	1.4	0.6	-1.1	2.0	10.5	6.1	1.7
Consumer prices (eop, % yoy)	1.6	-0.1	-3	7.4	4.2	2.2	2.9
General budget balance (% of GDP)	2.2	1.9	-5.3	-0.3	-0.4	-1.2	-1.9
Public debt (% of GDP)	24.2	22.7	25.1	24.1	20.3	17.9	26.3
Current account balance (% of GDP)	-3.2	-2.6	-2.8	-1.5	-4.4	-2.3	-3.5

Source: Agency for statistics of Bosnia & Herzegovina, IMF, CBBH

2.1.1 GDP growth

Bosnia and Herzegovina’s economy is entering a period of subdued and uneven growth as the country grapples with slowing external demand, persistent inflationary pressures and deep-rooted structural and political challenges. Although activity continues to expand, momentum has weakened significantly from previous years, and the outlook remains highly uncertain across all major forecasts.

GDP grew 1.8% year on year in the second quarter of 2025, according to the statistics office, with output rising 0.6% quarter on quarter. Growth was driven largely by a 16.1% surge in accommodation and food services, reflecting a strong tourism rebound and rising inflows of foreign visitors. Nonetheless, the broader recovery remains fragile, shaped by labour-market constraints, weak investment and exposure to fluctuations in European demand.

The European Bank for Reconstruction and Development (EBRD) expects Bosnia’s economy to expand by 2.2% in 2025 and 2.7% in 2026, noting that growth is being held back by subdued external demand and persistent political instability. Downside risks include declining industrial production, trade uncertainty and volatile commodity prices. For the wider Western Balkans, the EBRD cut its 2025 regional forecast to 2.7%, underscoring the broader weakness in EU-linked economies.

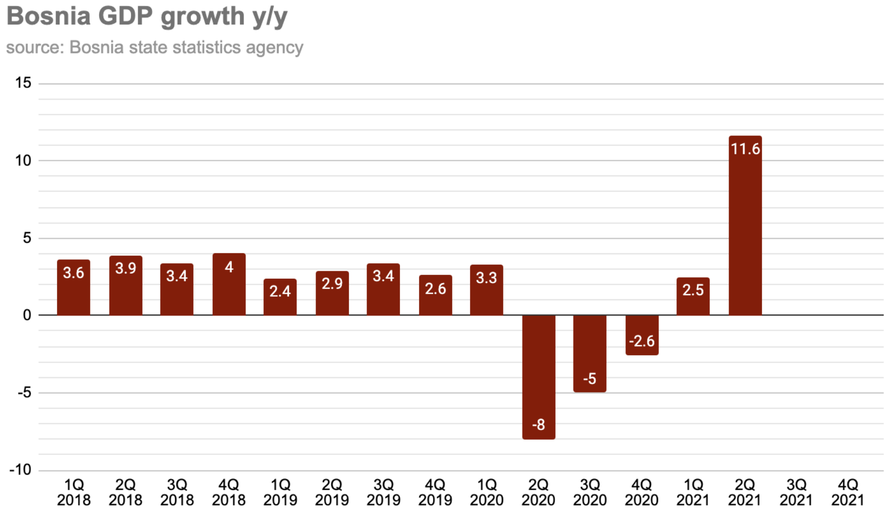
Bosnia’s central bank is even more cautious, having cut its 2025 growth projection to 2.0%, citing weaker domestic and external demand. Personal consumption remains the key driver, but investment and trade are struggling as base effects from 2024 and softening momentum weigh on activity. Inflation is now forecast to average 4.1% in 2025, up 0.6 percentage points from earlier projections, reflecting firm domestic price pressures. While the bank expects inflation to ease gradually, it warns of significant downside risks stemming from developments in major trading partners and domestic political conditions. It also highlights uncertainties related to labour-market shifts that could undermine price competitiveness.

A similarly cautious tone comes from the European Commission, which says Bosnia's economy "decelerated" in early 2025 as weak exports and rising domestic inflation curbed growth. The Commission expects only modest growth in 2026 and 2027, following an expected 1.8% expansion in 2025. It warns that Bosnia's export growth will remain weak due to high domestic wage growth, which reached 13.8% in the first eight months of 2025—far above productivity gains. The introduction of the EU's Carbon Border Adjustment Mechanism (CBAM) in January 2026 is expected to place additional pressure on Bosnia's carbon-intensive exports.

Imports continue to grow faster than exports, widening the current account deficit, while foreign direct investment remains low at under 3% of GDP. Remittances, by contrast, remain stable at around 10% of GDP, providing a crucial buffer for household consumption. Inflation accelerated to 3.9% in the first nine months of 2025, driven by rising prices for food, hospitality and health services. Employment fell 0.3% between January and August, with continued outflows of skilled labour tightening the market and pushing wages higher. These pressures are expected to keep inflation close to 4%in 2025 before easing in subsequent years.

The World Bank revised its growth projection for 2025 slightly down to 2.6%, with expectations of 3.0% growth in 2026 and 3.2% in 2027. It notes that Bosnia continues to face major challenges, from political instability to rising prices and global uncertainty. Real income growth has averaged just 3% annually since 2015, leaving per capita GDP at roughly one-third of the EU average in 2024. Economic vulnerability remains high, with 40% of adults unable to cover expenses for more than a month without their primary income.

Credit-rating agency S&P Global maintains Bosnia's 'B+/B' sovereign rating with a stable outlook, reflecting balanced risks. Despite political volatility—particularly tensions involving Republika Srpska—it expects state institutions to remain functional. Importantly, S&P highlights Bosnia's strong fiscal fundamentals, projecting the general government deficit to stay below 1% of GDP through 2028, with net debt stable at around 21% of GDP, supported by concessional borrowing from multilateral and bilateral lenders.



2.1.4 Industrial production

Bosnia & Herzegovina's industrial production rebounded in October (latest figures available), rising 3.2% month-on-month on a seasonally adjusted basis after a weak September, though output remained 0.7% below October 2024 levels. The monthly increase was driven by an 8.1% jump in energy production, with additional gains in consumer non-durables (2.6%), intermediate goods (0.8%) and capital goods (0.4%). Consumer durables slipped 0.5%.

By sector, electricity and gas supply rose 10.4% month-on-month and manufacturing grew 2.0%, while mining and quarrying fell 2.5%. The strongest monthly gains by activity were in beverages (16.3%), paper products (15.1%) and motor vehicles (10.6%).

Year-on-year, energy output surged 12.9% and capital goods rose 8.3%, but steep declines in consumer non-durables (-26.4%), consumer durables (-7.2%) and intermediate goods (-5.4%) pulled the index down. Tobacco production recorded a 100% drop both monthly and annually.

2.3 Macroeconomy - Bulgaria

Bulgaria key economic figures and forecasts

	2017	2018	2019	2020	2021	2022	2023	2024
Nominal GDP (BGN bn)	102.7	110.0	120.4	120.9	139.5	168.4	184.9	204.9
Real GDP (% y/y)	2.9	2.8	3.7	-3.1	7.8	4.1	1.7	3.4
Industrial production (% y/y)	3.1	1.6	-5.5	-5.9	9.8	12.7	-8.4	-3.1
Unemployment rate (avg, %)	6.2	5.2	4.2	6.7	4.8	5.4	5.6	5.2

Consumer prices (avg, % y/y)	2.1	2.8	3.1	1.7	3.3	15.3	9.5	2.4
General budget balance (% GDP)	0.8	0.2	-1.0	-5.2	-3.0	-2.9	-2.2	-3.0
Current account (% of GDP)	3.2	0.7	1.7	-0.4	-1.1	-2.7	-0.9	-1.6
BNB FX reserves (EUR bn)	23.66	25.08	24.83	30.85	34.6	38.4	41.9	42.06
Gross external debt (% of GDP)	71.8	66.4	61.6	62.7	57.7	50.3	47.6	47.6

Source: Bulgarian National Bank (BNB), National Statistical Institute (NSI)

2.1.1 GDP growth

Bulgaria continues to record steady growth despite political instability and a challenging external environment. GDP grew 3.4% in 2024 and maintained a firm pace in 2025, with Q3 2025 output up 3.2% year-on-year, driven by household spending and an uptick in investment.

Economic growth in 2026 will be led by domestic demand. Rising wages, higher pensions and continued remittances will keep consumption strong. Investment will benefit from the final tranche of EU recovery funds, though this effect will weaken later in the year. Export growth will stay subdued amid weak external demand.

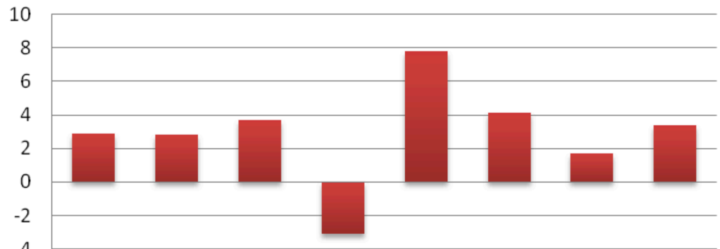
The finance ministry expects GDP growth of 3% in 2025 and 2.7% in 2026. It flags volatile global trade, geopolitical tensions and potential disruptions from changes to US customs policy as the main risks to demand in 2025-26.

External institutions broadly align with the government’s view. The OECD projects growth of 3% in 2025, slowing to 2.6% in 2026, while the European Commission expects 3% in 2025 and 2.7% in 2026. The World Bank is slightly more optimistic, forecasting 3% growth in 2025 and 2.9% in 2026, with a modest acceleration in 2027.

The main risks are external: a deterioration in global demand, further geopolitical shocks and energy-market volatility. A slowdown in EU-funded investment after 2026 could weigh on medium-term growth. At home, political instability continues to hinder policy predictability.

Bulgaria GDP growth y/y

Source: Bulgarian National Bank



	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP (% y/y)	2.9	2.8	3.7	-3.1	7.8	4.1	1.7	3.4

2.1.4 Industrial production

Bulgaria's industrial sector will face continued pressure in 2026, weighed down by the lingering effects of the global slowdown triggered by the Russia-Ukraine war, conflict in the Middle East and global trade tensions. Industrial output contracted throughout 2025, and weak external demand is expected to persist into next year.

Industrial production fell 7.6% year-on-year in the third quarter of 2025, following declines of 6.5% and 8.6% in the first and second quarters. Eurostat data show Bulgaria recorded the steepest annual drop in industrial output among EU member states for several consecutive months. The contraction reflects a combination of sluggish domestic and external demand, structural weaknesses in energy and manufacturing and volatility in global markets.

Energy-intensive industries continue to drag overall output, with utilities falling 30.5% year-on-year in Q3 2025 and mining and quarrying down 9.1%. Energy-related goods production was 27% lower in September, standing at just two-thirds of its 2021 average. In contrast, manufacturing of investment and durable consumer goods has shown resilience, with production rising 5.3% and 5.6% respectively. Overall, manufacturing output declined 2.7% in the third quarter.

Looking forward, industrial growth in 2026 will be constrained by weak external demand and persistent energy supply challenges. However, targeted investments may provide some support. A notable example is Bulgaria's October 2025 agreement with Germany's Rheinmetall to build a gunpowder and 155-millimetre ammunition plant at the VMZ industrial complex in Sopot. Scheduled to become operational within two years, the facility will create around 1,000 skilled jobs, restore part of Bulgaria's defence production capacity and deepen integration into Europe's defence supply chain.

2.4 Macroeconomy - Croatia

Croatia key economic figures and forecasts							
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Nominal GDP (EUR bn)	52.2	54.9	50.7	58.3	67.6	78.0	78.8
Real GDP (% yoy)	2.9	3.1	-8.3	12.6	7.3	3.3	3.8
Unemployment rate (avg, %)	8.5	6.6	7.5	7.6	7.0	6.1	5.2
Consumer prices (avg, % yoy)	2.0	2.0	0.8	2.1	8.6	8.4	4.5
Consumer prices (eop, % yoy)	1.2	0.8	-0.7	5.5	13.1	4.5	3.4
General budget balance (% of GDP)	0.4	0.7	-7.2	-7.4	0.1	-0.7	-1.9
Public debt (% of GDP)	72.6	70.4	86.1	77.5	67.9	61.8	57.7
Current account balance (% of GDP)	1.1	2.5	-1.3	0.5	-2.8	1.1	-1.1
Gross foreign debt (% of GDP)	80.8	72.7	79.8	77.9	73.9	84.4	66.4
Source: DZS, IMF, HNB, World Bank, EBRD							

2.1.1 GDP growth

Croatia is emerging as one of the European Union's fastest-growing economies, consistently outperforming most of its Central and Eastern European peers thanks to robust domestic consumption, strong tourism inflows and effective absorption of EU funds. While growth is expected to moderate in the coming years, the country's economic momentum remains solid, supported by resilient labour-market conditions and expanding investment across both traditional and new industries.

Following a 3.8% expansion in 2024, Croatia's growth is set to remain among the highest in the EU. The European Commission projects GDP growth of 3.2% in 2025, easing to 2.9% in 2026 and 2.5% in 2027, driven largely by private consumption, rising real wages and continued investment backed by the EU Recovery and Resilience Facility (RRF). Government spending is also expected to contribute as public-sector salaries increase. Goods exports should maintain momentum—despite a challenging external environment—while services exports are forecast to dip slightly due to higher prices. Imports will expand faster than exports as rising incomes fuel international travel, though the negative contribution of net trade will be smaller than in 2024.

International institutions broadly share this view. The IMF expects GDP to grow 3.1% in 2025 before slowing to 2.7% in 2026, warning that the current account deficit will be larger than previously anticipated. The EBRD is slightly more optimistic, upgrading its September outlook to 3.2% growth in 2025 and 2.8% in 2026 on the back of resilient industrial production and strong tourism. Meanwhile the OECD forecasts expansion of 3.2% in 2025, moderating to 2.7% in 2026and 2.4% in 2027 as household spending cools and RRF-funded investment begins to taper off.

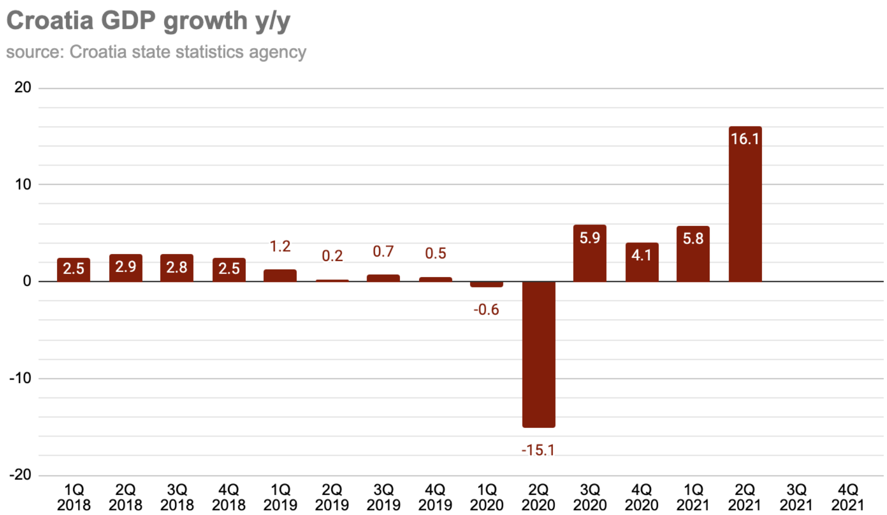
The Croatian government's own projections fall within the same range. The Draft Budget Plan for 2026 forecasts GDP growth of 2.7%, easing from an expected 3.2% in 2025. Inflation is seen slowing from 3.7% in 2025 to 2.8% in 2026, while the unemployment rate is set to remain around 5%. Wage growth will moderate sharply—from 10.4% in 2024 to 5.8% in 2025—reflecting easing price pressures but persistent labour shortages. Finance Minister Marko Primorac has emphasised that growth in 2026 will be driven entirely by domestic demand—primarily private and government consumption and investment—with net exports continuing to weigh on expansion, albeit less than in 2025.

Fiscal policy is expected to remain supportive. Revenues will grow in line with economic activity, while expenditure will focus on maintaining living standards, supporting families and assisting vulnerable groups. Investment momentum will continue to be anchored by EU funds from both the RRF and the 2021–2027 multiannual financial framework, targeting education, healthcare, transport, utilities, and digital and energy infrastructure. The deficit is projected to narrow to 2.9% of GDP in 2026, with public debt falling gradually to 56% of GDP, confirming steady post-pandemic consolidation.

Economic activity in 2025 indicates resilience even as momentum cools. GDP grew 3.2% year on year in the first half of the year, down from 3.9% in 2024, as private consumption and investment softened. Industrial production outperformed most regional peers and goods exports remained firm. Tourism once again delivered record results: Prime Minister Andrej Plenković announced that summer 2025 produced 21 million tourist arrivals and 110 million overnight stays, among the strongest seasons to date.

Beyond tourism, Croatia is broadening its economic base. IPO activity has strengthened, with Zagreb listings from ING-GRAD, Zito and auto-parts manufacturer Tokic. The defence sector is emerging as a new growth driver, capitalising on rising European demand. Deputy Prime Minister and Defence Minister Ivan Anušić has highlighted Croatian manufacturers—including HS Produkt, Končar, Đuro Đaković, Šestan-Busch, Orqa and DOK-ING—as increasingly competitive globally, producing high-tech equipment and robotic systems.

Despite its strong performance, Croatia faces clear medium-term risks. The OECD warns of headwinds from potential global trade tensions, while bottlenecks in the construction sector could delay EU-funded projects. The Croatian Employers' Association cautions that sustaining current growth rates will require deeper structural reforms, improved business conditions and renewed fiscal discipline if Croatia is to converge with EU development levels by 2035.



2.1.4 Industrial production

Croatia's industrial turnover rose in September (the latest available data), supported by stronger domestic and foreign demand, signalling continued resilience in manufacturing despite uneven performance across categories. Seasonally and working-day adjusted turnover increased 2.7% from August, with domestic sales up 3.5% and foreign turnover jumping 7.5%.

Year-on-year, industrial turnover grew 6.6%, driven by an 8.9% rise in domestic sales and a 6.3% increase abroad. Monthly data showed sharp gains in energy (13.5%), non-durable consumer goods (9.3%), durable consumer goods (6.9%) and intermediate goods (4.2%), while capital goods edged down 0.2%.

Compared with September 2024, intermediate goods turnover rose 11.1%, non-durable consumer goods 10.8%, and capital goods 10.2%. However, durable consumer goods plunged 28% and energy turnover fell 5.1%.

The seasonally and working-day adjusted industrial turnover index reached 119.2 (2021=100), while the working-day adjusted index stood at 116.2.

2.5 Macroeconomy - Kosovo

Key economic figures and forecasts

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP (% y/y)	5.6	4.8	3.4	4.8	-5.3	10.7	4.3	4.1	4.4
Unemployment rate (avg, %)	27.5	30.5	29.6	25.7	25.9	20.7	12.6	10.9	10.8
Consumer prices (avg, % y/y)	0.2	1.5	1.1	2.7	0.2	3.3	11.6	4.9	1.6
Consumer prices (eop, % y/y)	1.3	0.5	2.9	1.2	0.1	6.7	12.1	2.3	1.1
General budget balance (% of GDP)	-1.0	-0.9	-2.5	-2.6	-7.6	-0.9	-0.2	-0.2	-0.3
Public debt (% of GDP)	14.46	16.37	17.04	17.63	22.44	21.53	20.	175%	16.9
Current account balance (% of GDP)	-8.0	-5.5	-7.6	-5.7	-7.0	-8.7	-10.3	-7.6	-9.0
Official FX reserves (€ bn)	0.605	0.683	0.769	0.864	0.900	1.1	1.17	1.13	1.26
Gross foreign debt (% of GDP)	33.38	32.77	30.31	30.96	36.95	37.14	38.6	39.8	41.1

Source: World Bank, statistics office, central bank, Thomson Reuters, RBI/Raiffeisen RESEARCH

2.1.1 GDP growth

Kosovo's government forecasts a GDP of €12bn for 2026, according to the draft budget approved in October 2025, but was not yet endorsed by the parliament. The government expects economic growth of 3.8%, in line with projections from institutions such as the World Bank.

The World Bank expects Kosovo's economy to maintain a steady pace of expansion, projecting growth of 3.8% in 2026, unchanged from the previous forecast in June 2025. In 2027, growth is expected to edge up slightly to 3.9%, an increase of 0.1 percentage point from earlier projections.

Kosovo is forecast to record the fastest growth among the six Western Balkan economies in 2025.

The International Monetary Fund (IMF) expects Kosovo's GDP growth to stabilise at 4% in 2026 and 3.9% by 2030, indicating a gradual moderation in economic expansion over the medium term.

Fitch expects GDP growth to ease from 4.4% in 2024 to 3.8% in 2025, before edging up to 3.9% in both 2026 and 2027, aligning with Kosovo's potential rate. The agency says growth will continue to stem mainly from domestic demand, supported by strong remittances. It notes that Kosovo's young average age of 35 and a projected increase in female labour-force participation will help counterbalance the impact of skilled-worker emigration and a low capital stock. The recent 2024 census also revised the population estimate down by nearly 10%, to 1.6mn.

Kosovo's economy expanded by a real 3.08% year on year in the third quarter of 2025, slowing from growth of 4.58% in the previous quarter, the statistics office said on December 15.

In nominal terms, gross domestic product totalled €3.13bn in the July–September period.

Economic growth in the quarter was broad-based, with the strongest increase recorded in financial and insurance activities, which rose by an annual 8.13%. Construction expanded by 7.19%, while scientific, professional and technical activities, together with administrative and support services, increased by 4.76%.

Agriculture, forestry and fishing grew by 3.42%, manufacturing by 3.16% and information and communication by 2.95%.

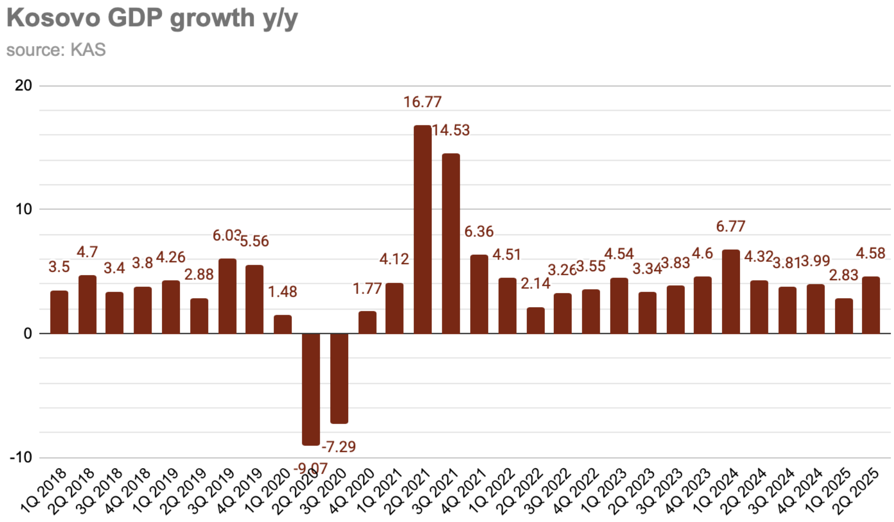
Further growth was recorded in arts, entertainment and recreation and other personal services, up 2.66%, as well as wholesale and retail trade, transport, accommodation and food services, which together rose by 2.28%.

Public administration, defence, education, health and social work activities increased by 1.85%, while extractive industries, utilities and waste management grew by 1.32%. Real estate activities posted more modest growth of 0.54%.

From the expenditure side, gross capital formation increased by 13.1%, reflecting strong investment activity.

Imports of goods and services rose by 7.39%, while household consumption, including that of non-profit institutions serving households, grew by 4.16%.

Exports of goods and services increased by 2.48%. By contrast, government final consumption expenditure declined by 1.7% during the quarter.



2.1.4 Industrial production

In 2024, industry accounted for 18.5% of Kosovo's gross value added (GVA), although the country's manufacturing sector remains limited, largely focused on mineral extraction and processed metal products, according to a European Commission document published in November 2025.

The share of agriculture in GVA remained stable at around 7%, unchanged from five years earlier. Meanwhile, real estate activities saw a decline, dropping 1.3 percentage points to 5.6% compared with 2019.

Producer prices in Kosovo rose by 5.5% in the third quarter of 2025 compared to the same period in 2024, according to data of the statistics agency.

The strongest annual increases were recorded in the production of motor vehicles, trailers and semi-trailers, which jumped 23.0%, followed by electricity, gas, steam and air conditioning supply, up 20.8%.

Textile production increased by 14.2%, pharmaceutical products by 8.1%, clothing by 7.9%, furniture by 7.8% and printing activities by 7.0%. Machinery and equipment rose 5.1%, electrical equipment and water supply both 5.0%, food processing 3.1% and paper and paper products 2.9%.

Kosovo's private sector is largely made up of small firms, which continue to face challenges in accessing finance. Small and medium-sized enterprises (SMEs) and family-run businesses employ 81.3% of the workforce in non-financial sectors and contribute 81% of the country's total value added.

2.6 Macroeconomy - Moldova

MOLDOVA key economic figures and forecasts							
	2019	2020	2021	2022	2023	2024	2025 (*,E)
Nominal GDP (EUR bn)	10.5	10.1	11.6	13.7	15.3	16.7	18.3*
Real GDP (% y/y)	3.6	-8.3	13.9	-4.6	1.2	0.1	1.1*
Industrial output (% y/y)	2.1	-5.7	12.4	-5.0	-3.8	1.0	0.9*
Unemployment rate (avg, %)	5.1	3.8	3.2	3.1	4.6	4.0	4.1*
Nominal wages (% y/y)	14.1	10.2	12.4	15.5	17.3	14.1	10.6*
Producer prices (avg, % y/y)	1.8	2.6	8.5	26.7	12.6	-1.6	3.3*
Consumer prices (avg, % y/y)	4.8	3.8	5.1	28.7	13.4	4.7	7.5*
Consumer prices (eop, % y/y)	7.5	0.4	13.9	30.2	4.2	5.9	6.9
General budget balance (% of GDP)	-1.5	-5.3	-2.6	-5.1	-5.2	-3.9	-5.2 (E)
Public debt (% of GDP)	28.1	35.6	34.6	36.6	38.6	37.8	36.2***
Current account balance (% of GDP)	-9.5	-7.8	-12.4	-17.2	-11.9	-14.9	-19.5**
Official FX reserves (EUR bn)	2.73	3.08	3.44	4.20	4.89	5.24	5.12***
Gross foreign debt (% of GDP)	63.5	70.2	64.0	66.6	61.2	57.1	57.2**
EUR/LC (avg)	19.63	19.62	20.86	19.86	19.58	19.25	19.58
USD/LC (avg)	17.52	17.25	17.64	18.88	18.1	17.79	17.40
Source: Statistics Bureau, National Bank of Moldova, IMF							

*12 months to Sep-25 **12 months to June 2025 ***end-Oct 2025

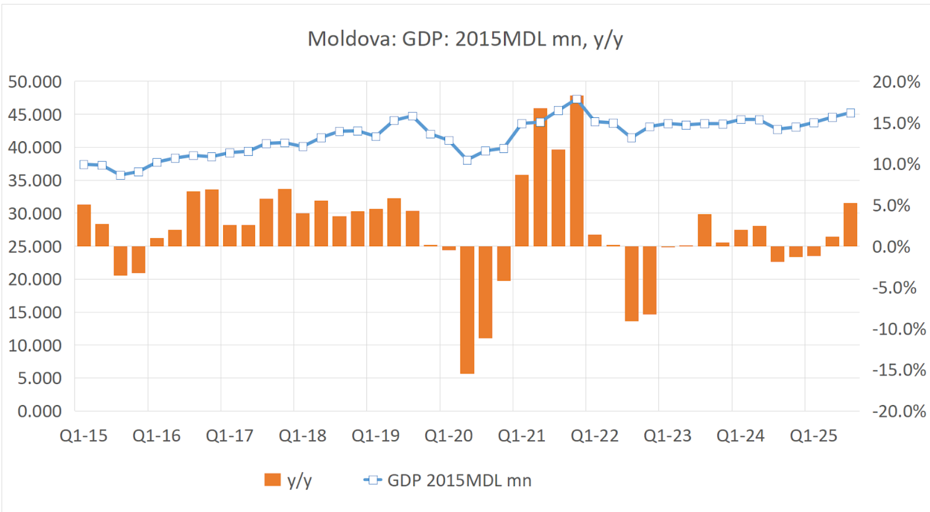
2.1.1 GDP growth

Moldova's economy has stagnated over the past five years and the country's GDP is currently not far from where it was before the Covid-19 crisis, despite a 1.1% y/y advance in the four quarters to September 2025. The growth rate may have strengthened in Q4, but overall growth will not exceed 2%. The post-covid economic stagnation is largely attributable to switching from cheap Russian gas, before 2022 to the market prices paid on European markets after Russia invaded Ukraine and resorted to energy as a means to undermine the pro-EU regime. Higher energy costs have depressed both the overall economic performance and the external balance, exerting at the same time pressures on the public budget as well due to the subsidies paid to households.

The financial support extended by the EU helped the authorities weather the financial difficulties and maintain public support to low-income households. The pre-accession support package of €1.9 billion (some 10% of the country's annual GDP) to be extended in 2026-2027, partly as grants, is intended to stimulate growth in Moldova over the coming years. But private investors, local and foreign, are likely to remain reluctant to large projects until the end of the war in Ukraine. This makes the potential economic recovery to above 3% per annum, as expected by the government and foreign development partners, contingent on the settlement of the war in Ukraine.

Under a prolonged conflict scenario, the pro-accession support will result in marginal growth while the quick settlement and timely EU accession in 2028-2029 would bring in the country a volume of foreign investment in excess to the financing provided by the EU, strengthening the local currency and thus pushing up the real GDP.

The European Commission outlined an optimistic outlook for Moldova's economy in its Autumn Forecast published on November 17, projecting growth to accelerate from near stagnation in 2024 to 1.6% in 2025, 2.6% in 2026 and 3.7% in 2027. Such growth rates are visibly consolidated for significant convergence, given the country's weak starting point in terms of GDP per capita at comparable purchasing parity prices (PPP): some 40% of Romania's level, which in turn is at around 79% of the EU average.



The European Commission expects the expansion in Moldova to be driven primarily by double-digit increases in gross fixed capital formation over the three-year period. Moldova is set to receive up to €1.9bn in grants and loans under the Reform and Growth Facility, much of it in 2026-2027.

Real GDP growth is set to strengthen as the facility stimulates consumption and investment. Private investment is projected to remain the main contributor to overall investment in 2025, while public investment is forecast to pick up pace through 2027, supported by the facility's funding envelope.

Domestic demand is forecast to remain the main engine of economic activity, contributing 5.9 percentage points to GDP growth in 2025, 6.2 percentage points in 2026 and 6.7 percentage points in 2027. Net exports are expected to continue acting as a drag on growth, though the negative contribution should diminish gradually.

The negative contribution of net exports is projected to ease from -4.3 percentage points in 2025 to -3.0 percentage points in 2027, allowing domestic activity to take a larger role.

Despite the expected rebound in investment, the Commission said Moldova's structurally large external imbalance will persist. The current account deficit is projected to remain close to 20% of GDP, reflecting the country's high trade deficit, which stood at around 34% of GDP and is not expected to narrow significantly over the forecast horizon.

The fiscal outlook remains constrained by Moldova's reliance on external financing, as the domestic market is shallow and the Government has yet to issue its planned foreign-currency bonds on external markets. EU financing under the Reform and Growth Facility is likely to widen the public deficit moderately, with the shortfall estimated at 3.8% of GDP in 2025 and between 4% and 5% in 2026 and 2027. Public debt is expected to rise slightly and exceed 40% of GDP over the period, according to the forecast.

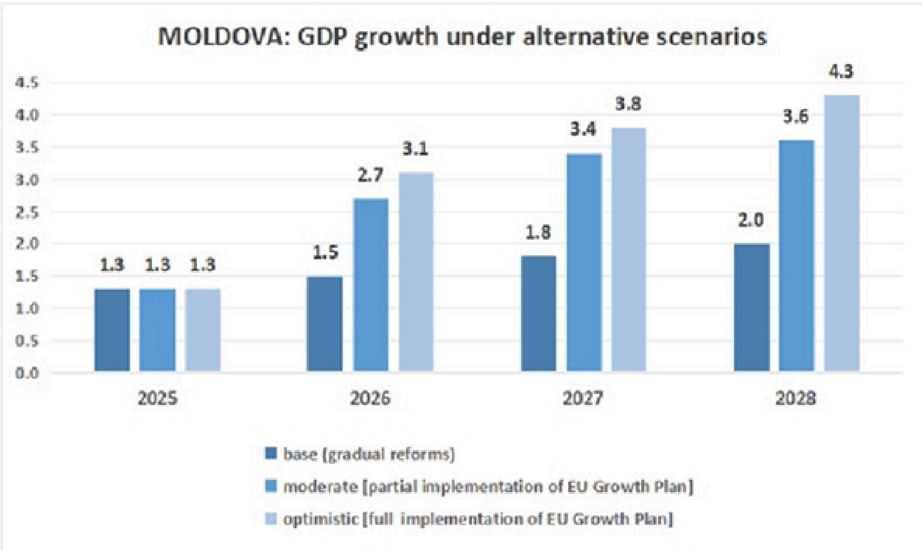
Moldova	**2025**	**2026**	**2027**
GDP growth (%, yoy)	1.6	2.6	3.7
Inflation (%, yoy)	7.3	4.7	5
Unemployment (%)	3.9	3.7	3.5
General government balance (% of GDP)	-3.8	-4.6	-4.9
Gross public debt (% of GDP)	38.9	40	41.1
Current account balance (% of GDP)	-19.2	-20.4	-19.9
Source: European Commission			

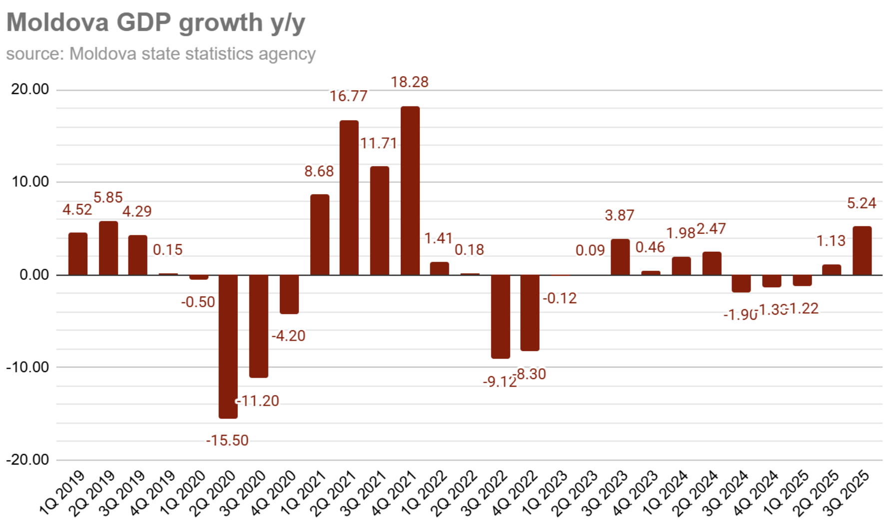
The Ministry of Economic Development and Digitalisation (MDED) has lowered its forecast for Moldova's economic growth in 2025 to 1.3%, down from the previously estimated 2%, citing weaker external demand.

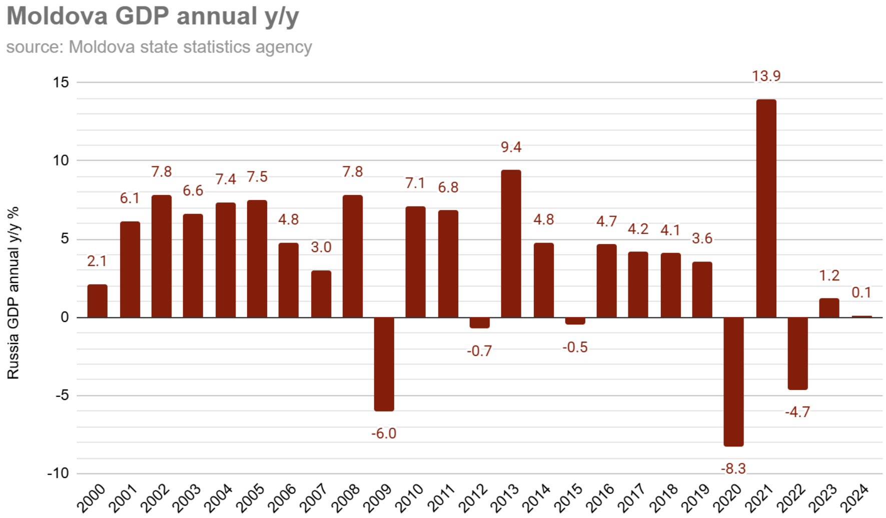
However, the ministry also estimates that the consistent implementation of investments under the EU accession programme could more than double the country's growth rate to 4.3% in 2028, compared to the 2.0% growth expected under the baseline scenario of gradual reforms and a stable international context.

Looking ahead, the ministry outlined three scenarios for medium-term growth based on the EU's Growth Plan for Moldova. The baseline scenario foresees growth of 1.5-2.0% annually, assuming gradual reforms and stable international conditions. The moderate scenario projects 3.6% growth by 2028 under partial implementation of reforms and investment projects, while the optimistic scenario anticipates up to 4.3% growth if the plan is fully executed.

MDED warned that risks could derail these projections, including escalation of the war in Ukraine, global geopolitical tensions, potential recessions in Moldova's main trading partners, renewed energy shocks, domestic political instability and adverse weather. "The evolution of these factors will play an essential role in shaping economic dynamics in the coming period," the ministry noted.





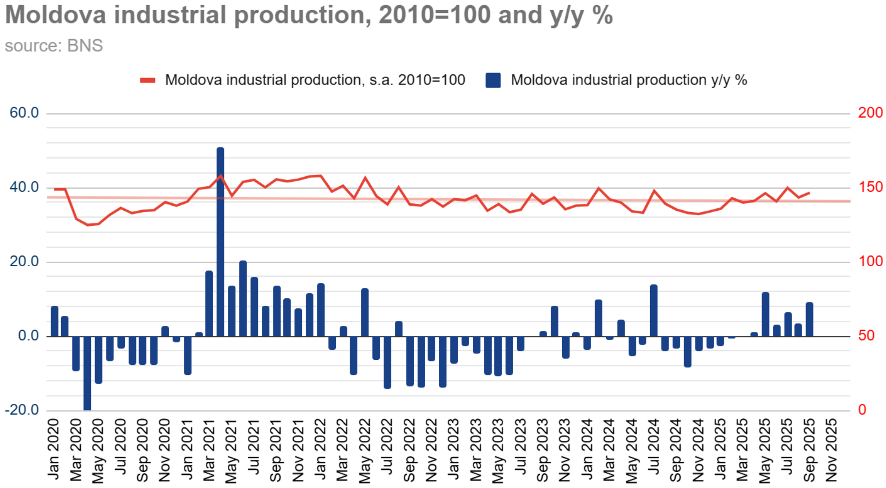


2.1.4 Industrial production

The value added generated by Moldova's manufacturing sector has decreased by a rate of 3.5% per year over the period 2019-2024 and posted a more moderate (-1.1% y/y) decline in January-September, 2025.

Over the same five-year period, the country's GDP increased slightly by 0.2% per annum, which resulted in a lower share of manufacturing in total value added: 9.0% in 2024 down from 11.4% in 2019. The rise in the energy prices and lack of new foreign investments contributed to the negative performance.

	2019	2024	Jan-Sep 2025 y/y
Gross Value Added - total	100%	100%	1.5%
A Agriculture, forestry and fishing	11.7%	8.2%	8.6%
C Manufacturing	**11.4%**	**9.0%**	**-1.1%**
F Construction	10.1%	8.2%	8.1%
G Wholesale and retail trade; repair of motor vehicles and motorcycles	18.0%	17.5%	0.7%
H Transportation and storage	4.8%	5.1%	0.5%
J Information and communication	5.9%	8.2%	1.4%
L Real estate activities	8.9%	9.6%	-2.0%
P Education	5.2%	6.9%	1.0%
Q Human health and social work activities	4.8%	6.9%	1.2%



2.7 Macroeconomy - Montenegro

Montenegro key economic figures and forecasts	2017	2018	2019	2020	2021	2022	2023	2024
Nominal GDP (EUR bn)	4.3	4.7	5.0	4.1	4.9	5.9	7.1	7.6
Real GDP (% y/y)	4.7	5.1	4.1	-15.0	13	7.7	6.5	3.2
Industrial output (% y/y)	-4.2	22.4	-6.3	-0.9	4.9	-3.3	6.4	0.2
Unemployment rate (avg, %)	16.1	15.2	15.1	17.9	16.6	14.7	13.1	11.5
Real wages (% y/y)	-0.2	-2.3	0.4	2.1	-0.9	18.4	2.4	7.1
Producer prices (avg, % y/y)	0.4	1.7	2.4	-0.1	1.3	11.2	6.2	2.7
Consumer prices (avg, % y/y)	2.4	2.6	0.4	-0.3	2.4	13	8.6	3.3
General budget balance (% of GDP)	-6.8	-6.2	-1.8	-10.9	-1.9	-4.9	0.2	-2.8
Current account balance (% of GDP)	-16.0	-17.0	-14.3	-26.3	-9.3	-12.9	-11.2	-17.1
Source: central bank, statistics office, IMF								

2.1.1 GDP growth

The Montenegrin government is drafting the Economic Reform Programme (ERP) for 2026-2028, which envisages average annual economic growth of 3.2% over the medium term, with growth projected at 3.2% in 2026, 3.1% in 2027 and 3.2% in 2028.

The European Commission said in November that it expects Montenegro's GDP to expand by 3% in 2025 and 3.1% in both 2026 and 2027, supported by resilient domestic demand and ongoing investment.

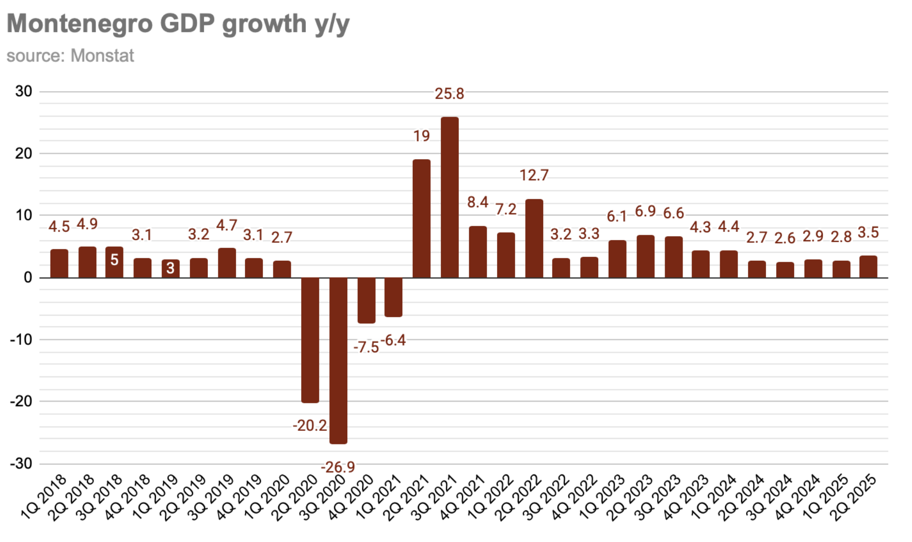
Montenegro's economy grew by around 3% in the first half of 2025, fuelled by higher disposable income and credit expansion, which bolstered private consumption but also added to inflationary pressures. External imbalances widened due to a temporary drop in electricity exports, muted tourism activity and strong import demand.

Growth is expected to remain moderate over 2025-27 as exports gradually recover. Private consumption, however, is projected to slow after the initial impact of the Europe Now 2.0 programme fades. Investment growth is set to remain solid, driven by large road and railway projects and further public infrastructure spending.

Montenegro's GDP grew by 3.1% year-on-year in real terms in the third quarter of 2025, after expanding by 3.5% in the previous quarter, the statistics office reported. In nominal terms, the economy grew by 7.7%.

GDP in Q3 reached €2.571bn in current prices, up from €2.387bn in the same period of 2024.

Household consumption accounted for the bulk of economic activity at almost €1.7bn, reflecting continued robust domestic demand. Gross fixed capital formation rose to €584.7mn, while the balance of exports and imports of goods and services remained negative at €66mn.



2.1.4 Industrial production

Montenegro's industrial production fell sharply in the first ten months of 2025, contracting by an annual 8.9%, the national statistics office said.

The decline was driven largely by steep drops in mining and energy-related sectors, which offset gains recorded in manufacturing.

Output in mining and quarrying slumped 22.3% in January-October, reflecting a particularly heavy decline in coal and lignite production, which plunged 55.3%.

The downturn in energy-related activity was even more pronounced: production in electricity, gas, steam and air conditioning supply contracted by 35.7%, highlighting ongoing challenges in Montenegro's energy sector.

Despite the overall decline, manufacturing provided a bright spot, expanding by 10.9% in the same period. The strongest growth was recorded in the manufacture of furniture, which surged 154.3%, followed by the production of other non-metallic mineral products, up 40.4%, and printing and reproduction of recorded media, which increased 32.6%.

However, not all manufacturing segments fared well — output of food products edged down 1.2%.

The contrasting trends underline the uneven performance across Montenegro's industrial sectors, with energy and mining continuing to weigh on overall output despite robust manufacturing growth.

2.8 Macroeconomy - North Macedonia

Key economic figures and forecasts									
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Nominal GDP (EUR bn)	9.7	10.0	10.7	11.3	10.85	11.84	13.3	13.24	14.58
Real GDP (% y/y)	2.9	0.2	2.9	3.9	-4.7	4.5	2.8	2.1	2.8
Industrial output (% y/y)	3.4	0.2	5.4	3.7	-9.5	1.4	-0.3	0.7	-3.6
Unemployment rate (avg, %)	23.7	22.4	20.7	17.3	16.4	15.4	14.4	13.1	12.4
Producer prices (avg, % y/y)	-2.4	3.5	0.9	2.1	0.6	11.1	17.3	1.1	1.5
Consumer prices (avg, % y/y)	-0.2	1.4	1.5	0.8	1.2	3.2	14.2	9.4	3.5
Consumer prices (eop, % y/y)	-0.2	2.4	0.9	0.4	2.3	4.9	18.7	3.6	4.3

General budget balance (% of GDP)	-2.6	-2.7	-1.8	-2.1	-8.0	-5.3	-5.2	-4.6	-4.4
Public debt (% of GDP)	48.8	47.7	48.4	49.1	59.4	61.3	58.4	58.7	63
Current account balance (% of GDP)	-2.6	-0.8	0.2	-3.0	-2.9	-2.8	-6.1	0.4	-2.3
Official FX reserves (EUR bn)	2.613	2.336	2.867	3.263	3.360	3.643	3.863	4.538	5.029
Gross foreign debt (% of GDP)	74.7	73.4	73.0	72.4	78.7	80.9	81.5	77.9	79.9
EUR/MKD (avg)	61.593	61.6046	61.5684	61.5437	61.6404	61.7300	61.6041	61.6	61.6

Source: statistics office, IMF, Thomson Reuters, RBI/Raiffeisen RESEARCH, Erste Research

2.1.1 GDP growth

North Macedonia's government expects real GDP growth of 3.8% in 2026, driven by domestic demand and increased investment in infrastructure, energy, railways, agriculture, education, and healthcare. Private consumption is projected to rise 2.6%, while public consumption will grow moderately at 1.4%.

North Macedonia's Prime Minister Hristijan Mickoski said he expects the country's GDP to reach $20.5bn-20.6bn in 2026.

The country's central bank said on November 5 that it expects the country's economy to grow by 3.5% in 2025, up from 3% projected in April, with growth accelerating to 4% in 2026-2027 and remaining at that level in 2028.

Domestic demand, particularly through gross investments, will be the main driver of growth, while net exports will have a negative contribution, the bank stated. The improved outlook reflects stronger investment activity and more favourable external conditions.

According to the IMF, North Macedonia's economic growth is seen at 3.2% in 2026 following a projected growth of 3.4% in 2025, before easing slightly to 3% by 2030, suggesting a steady but moderate medium-term trajectory.

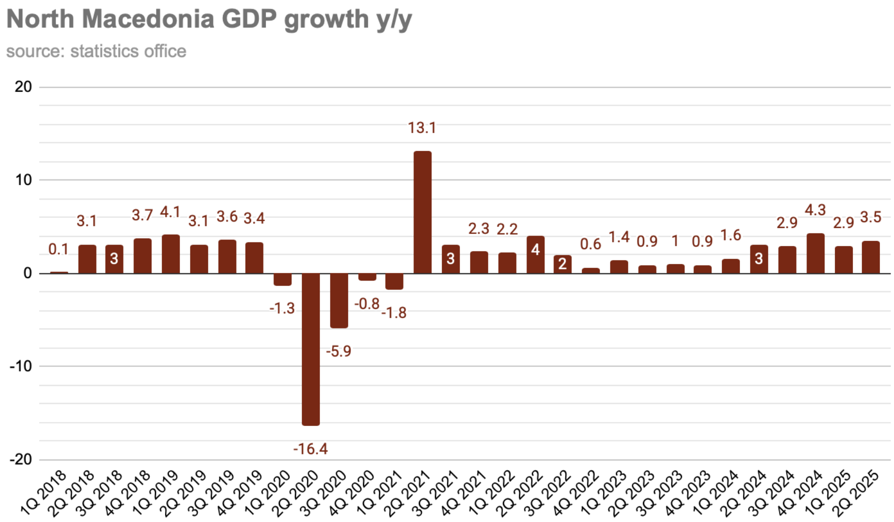
The European Commission said on November 17 it expects North Macedonia's GDP to grow by 3.2% in 2025 and 3.3% in both 2026 and 2027, supported by robust domestic demand and rising investment.

Economic growth averaged 3.2% in the first half of 2025, driven mainly by household consumption and investment. Rising real disposable incomes — boosted by strong wage and pension growth, household credit expansion and easing inflation — helped revive consumption after a sluggish 2024.

Looking ahead, the Commission expects private consumption to remain solid, while gross investment becomes the main growth driver. Major public works on Road Corridors VIII and Xd, launched in 2025, are set to peak in economic contribution in 2027. Private investment is also benefiting from improved sentiment and subsidised financing from Hungary and EIB credit lines.

North Macedonia's economy expanded by 3.8% year-on-year in real terms in the third quarter of 2025, quickening from 3.4% growth in the previous quarter, preliminary data from the state statistical office showed on December 5.

Construction posted the strongest performance with a robust 21% increase, followed by the information technology sector with 7.4% growth. Specialised professional and technical services, along with administrative and support services, rose by 6.1%. Manufacturing, one of the country's key economic pillars, recorded a more moderate increase of 2.5%.



2.1.4 Industrial production

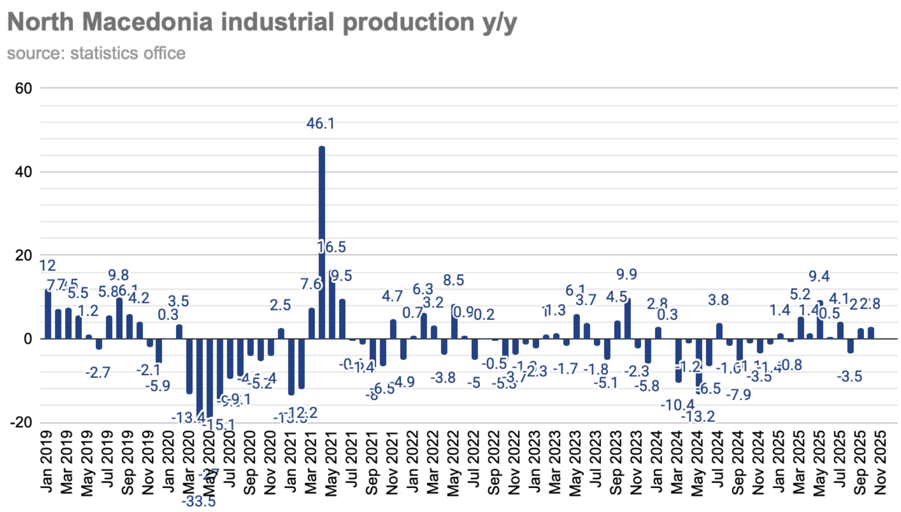
In the first ten months of 2025, industrial production in North Macedonia increased by 2.4%, official statistics show.

Output in mining and quarrying inched up by 0.5%, manufacturing expanded by 3.3%, while production in the utilities sector fell by 7.2% in the first ten months. Within manufacturing, the strongest growth was recorded in the production of rubber and plastics, which surged by 80.5%, followed by tobacco products, up 48.3%.

According to statistics office data, the number of workers employed in industry fell by 3.6% in January-October 2025 compared to the same period in 2024.

In the first eleven months of 2025 the PPI rose by an annual 5.8%, with prices in the key manufacturing industry increasing by 5.4%, according to statistics office data.

Industrial sales rose by 6.6% year on year in the first eleven months of 2025. Sales in the manufacturing industry increased by 6.8%, while sales in the utilities sector rose by 0.9%.



2.9 Macroeconomy Romania

ROMANIA key economic figures and forecasts							
	2019	2020	2021	2022	2023	2024	2025E
Nominal GDP (EUR bn)	224.7	220.9	242.1	281.9	324.2	353.6	377.0
Real GDP (% y/y)	3.9	-3.7	5.5	4.0	2.4	0.9	1.3*
Industrial output (% y/y)	-2.3	-9.3	7.1	0.4	-3.0	-1.6	-0.7*
Unemployment rate (avg, %)	3.9	5.0	5.6	5.6	5.6	5.6	6.0
Nominal industrial wages (% y/y)	12.5	1.0	10.0	15.1	17.4	11.3	9.7*
Producer prices (avg, % y/y)	3.9	0.0	14.9	43.6	4.7	-2.2	1.4*
Consumer prices (avg, % y/y)	3.8	2.6	5.0	13.8	10.4	5.5	5.9*
Consumer prices (eop, % y/y)	4.0	2.1	8.2	16.4	6.6	5.1	9.5
General budget balance (% of GDP)	-4.3	-9.2	-7.1	-6.4	-6.5	8.2	-8.4
Public debt (% of GDP)	35.0	46.6	48.3	47.9	48.9	54.0	58.3**
Current account balance (% of GDP)	-4.9	-4.9	-7.2	-9.2	-7.0	-8.2	-8.3*

Official FX reserves (EUR bn)	31.7	36.2	37.1	43.2	56.4	58.7	62.2***
Gross foreign debt (% of GDP)	51.2	60.0	59.2	54.7	56.9	57.5	-59.7
RON/EURO (avg)	4.75	4.84	4.92	4.93	4.95	4.97	5.04***
RONUSD (avg)	4.24	4.24	4.16	4.69	4.57	4.74	4.48***
Source: BNR, INS, Eurostat							

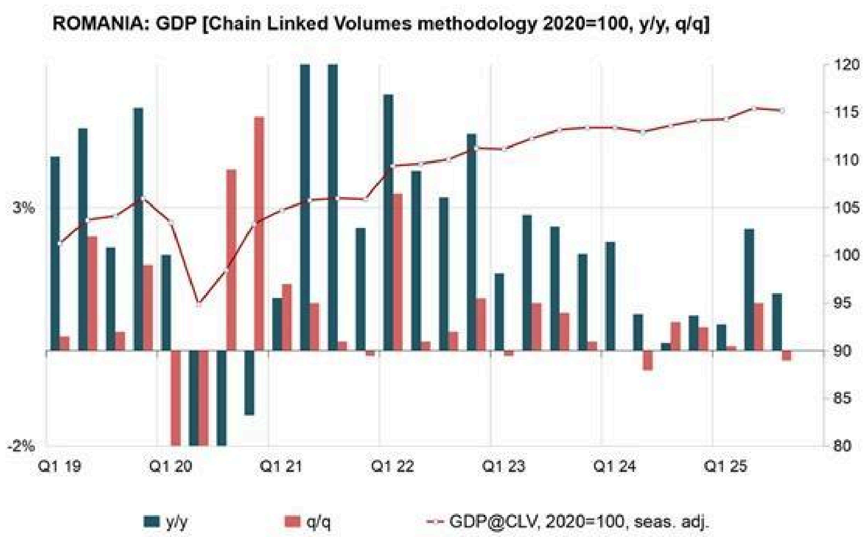
*12 months to September 2025 ** end-Aug ***end-Nov

2.1.1 GDP growth

After a decade-long ample convergence, Romania's economy posted growth rates of around 1% in 2024-2025 and expects visible recovery no sooner than 2027

The modest growth rates in 2024 and 2025 were recorded despite the massive fiscal stimulus (8.4%-8.6% of GDP cash public deficit in each of the two years) that boosted imports rather than local production, eventually resulting in wide twin deficits.

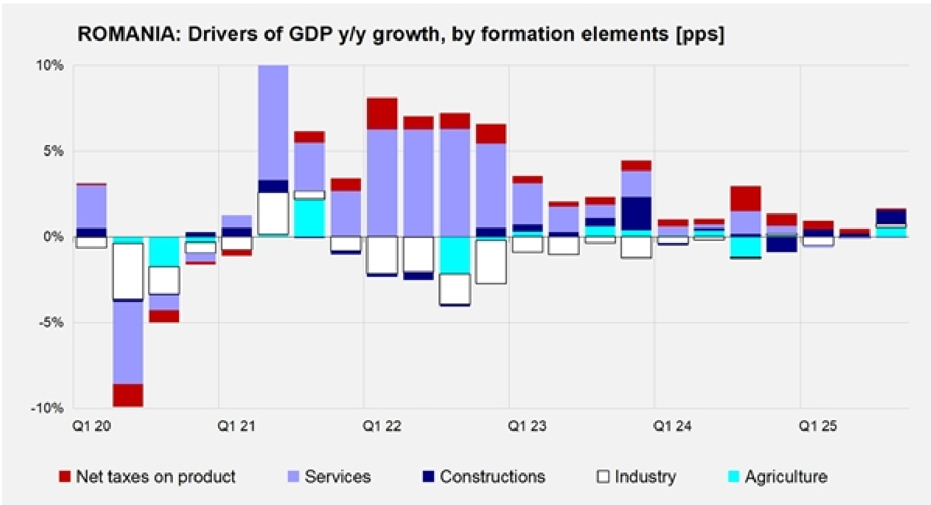
Sizeable fiscal consolidation in 2026 (6.5% of GDP planned deficit) to continue at a smaller rate during the subsequent years, is likely to have a negative impact on growth. But the expected inflow of Resilience Facility money (some 2.5% of GDP in 2026) and Cohesion Policy disbursements in the coming years should alleviate the negative impact while supporting economic recovery. In 2026, the GDP growth is still not expected to reach the 2% threshold – which will predictably be surpassed in the coming years. The National Strategy and Forecasting Commission (CNP) expects growth rates of over 2% per year starting 2027.



At 78% of the European Union's GDP calculated at PPP (2024), Romania achieved remarkable progress after years of convergence – but further progress is questionable under the current economic model, without investments in higher value added industries. The reconstruction of Ukraine, under a normalisation process expected in the medium term, may provide a boost to Romania's economy, but this remains contingent on the settlement of the conflict. Adversely, domestic political frictions and malfunctioning of the incumbent ruling coalition, deferring or hindering reforms in the public administration, may weaken creditors' support and force the government to implement costly austerity measures with a deep negative impact on growth. Risks for the economic recovery trajectory envisaged by the CNP are on the downside.

Romania's economy grew by 1.6% year on year (y/y) in the third quarter of 2025, or by 1.2% y/y under the chain-linked volume methodology used by Eurostat, with construction activity accounting for half of the expansion. Positive base effects in agriculture and marginal improvement in industry also supported growth.

Construction and agriculture are expected to boast higher growth rates in 2026 (+3.9% and 3.1% respectively), when the state forecasting body CNP projects 1.2% growth. The CNP expects small but positive expansion (+0.7%) for industry in 2026, which would mark the bottom-out of the sector after prolonged decline over the past years.

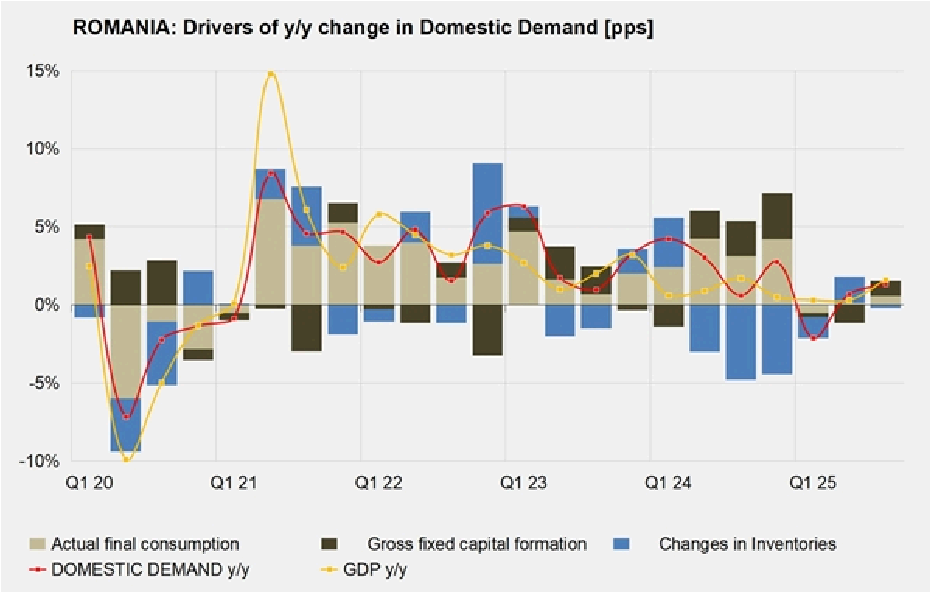


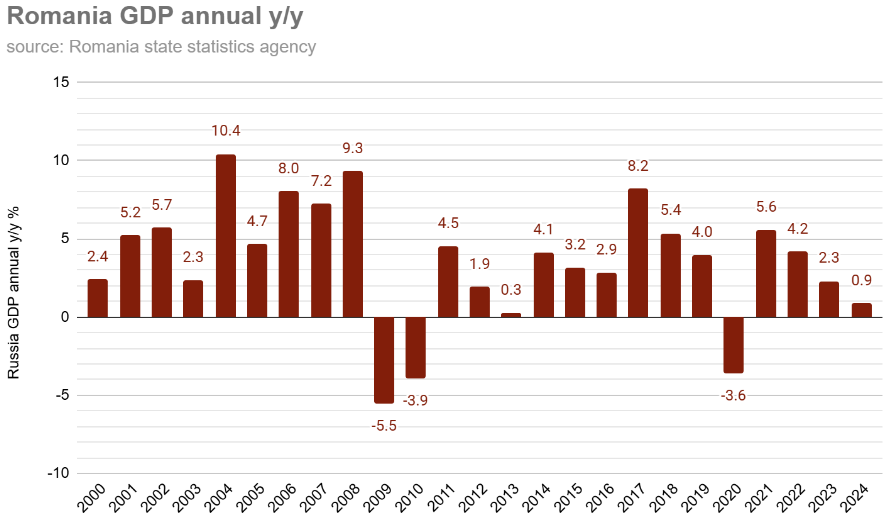
The detailed Q3 2025 GDP data indicated a gradual recovery in domestic demand after two quarters marked by uncertainty. Consumption and investment both strengthened, while the share of domestic demand covered by net imports of goods and services fell to its lowest level since 2020. Industry, which has been subdued for several quarters, delivered a rare positive contribution on the production side.

For the January to September period, GDP rose by 0.8% y/y, or by 1.5% y/y in chain-linked volume terms, which are more relevant for full-year projections. Even under an assumed 2% quarter-on-quarter (q/q) contraction in the final quarter, compared with a 0.2% q/q decline in the third quarter, full-year GDP would remain at 1% in 2025.

The pace is close to the previous year's 0.9% expansion, one of the weakest in the region, with limited prospects for improvement in 2026.

In nominal terms,the four-quarter rolling GDP reached RON1.86tn (€371bn).





The European Commission halved its growth projections for Romania to 0.7% in 2025 and 1.1% in 2026, according to the Autumn Forecast published on November 17 2025, which *bne IntelliNews* finds rather conservative. The Commission expects economic growth to recover to 2.1% in 2027.

Romania	**2025**	**2026**	**2027**
GDP growth (%, yoy)	0.7	1.1	2.1
Inflation (%, yoy)	6.7	5.9	3.8
Unemployment (%)	6.1	5.8	5.6
General government balance (% of GDP)	-8.4	-6.2	-5.9
Gross public debt (% of GDP)	59.1	61.1	62.7
Current account balance (% of GDP)	-7.9	-6.4	-6
Source: European Commission			

The revision reflects Romania's fiscal slippage in 2024-2025 and the subsequent shift to a more contractionary fiscal stance.

The Commission said the fiscal stance will be contractionary in 2025 and 2026 before turning neutral in 2027. Its composite fiscal index, which signals contractionary effects when positive and is considered neutral between +/-0.25%, is forecast for Romania at 1.7% in 2025, up from 1.4% estimated in May, and at 3.0% in 2026, compared with a previously expected neutral -0.1%.

This fiscal consolidation is expected to reshape both Romania's pace and structure of economic growth.

In 2026, the full impact of consolidation measures — including the freeze of public wages and pensions and tax increases — combined with still elevated inflation, is expected to generate a 0.8% drop in private consumption, following modest 0.7% growth in 2025 and strong 5.7% expansion in 2024. Public consumption is projected to fall 1.7% in 2026, after a 0.6% decline in 2025.

Gross fixed capital formation, in contrast, is forecast to accelerate from 2.7% in 2025 to 5.4% in 2026, supported by improved business confidence and the completion of Recovery and Resilience Plan investments. Investment growth is expected to remain solid at 2.6% in 2027 as Romania increases its use of cohesion funds.

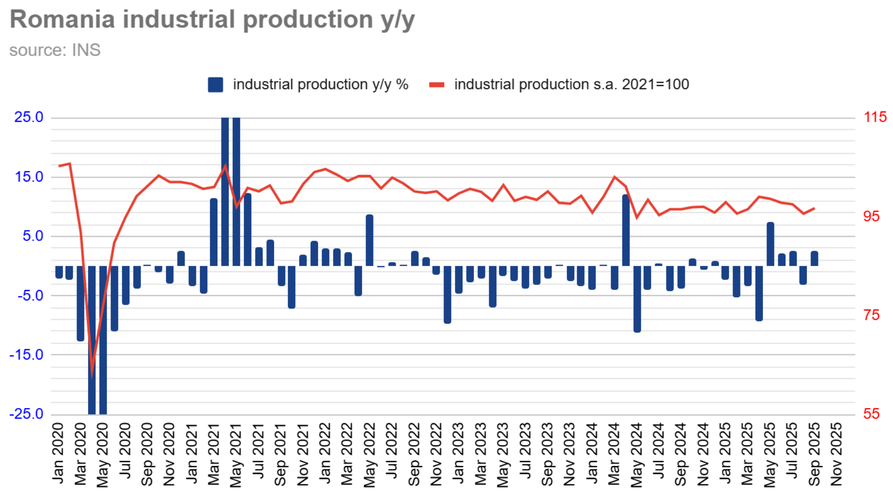
Lower private consumption is projected to curb import growth, while slowing wage dynamics should support export performance. Net exports are therefore expected to contribute positively to growth. The current account deficit is forecast to narrow to 6.4% of GDP in 2026, from an estimated 7.9% this year, before easing further to 6% in 2027.

2.1.4 Industrial production

The value added generated by Romania's industry has decreased by an average rate of 4.4% per year over the past five years (2024 compared to 2021) and by 0.5% y/y in January-September 2025.

This compares to an average economic growth of 1.8% per annum over the same period (+1.5% y/y in January-September 2025). The share of the total industry (mining, manufacturing, utilities) in total gross value added decreased from 23.7% in 2019 to 19.1% in 2024.

	2019	2024	Jan-Sep 2025 y/y
Gross Value Added - total	100.0%	100.0%	1.0%
Agriculture, forestry and fishing	4.8%	3.1%	6.0%
Industry	**23.7%**	**19.1%**	**-0.5%**
Construction	7.0%	8.8%	12.0%
Wholesale and retail; other services to households	19.3%	22.7%	0.9%
Information and communication	6.3%	7.6%	4.1%
Financial intermediation and insurance	2.5%	3.8%	-0.5%
Real estate activities	8.8%	8.0%	0.2%
Services to companies	8.6%	9.1%	-4.3%
Public administration other public services	15.4%	14.3%	0.5%



2.10 Macroeconomy - Serbia

Key economic figures and forecasts

	2018	2019	2020	2021	2022	2023	2024
Nominal GDP (EUR bn)	44.7	48.1	49.0	55.9	63.5	63.51	75.2
Real GDP (% yoy)	4.6	4.8	-1.0	7.9	2.6	3.7	3.9
Industrial output (% yoy)	1.2	0.1	-0.2	6.6	1.9	2.7	3.1
Unemployment rate (avg, %)	13.7	11.3	9.7	11.1	9.5	9.4	8.6
Nominal industrial wages (% yoy)	6.5	10.6	9.4	9.6	13.8	14.8	14.2
Consumer prices (avg, % yoy)	2.0	1.9	1.3	7.9	15.1	7.6	4.3
Budget deficit/surplus (% of GDP)	0.6	0.2	-8.3	-4.6	-3.3	-2.2	-2.2
Public debt (% of GDP)	51.4	49.7	54.4%	53.9	52.4	48.0	46.7
Current account balance (% of GDP)	-4.6	-6.6	-3.9	-4.1	-6.6	-2.4	-4.5
Official FX reserves (EUR bn)	11.3	13.4	13.5	16.5	19.4	24.9	29.3
External debt (% of GDP)	59.5	58.4	62.4	64.8	65.5	58.7	58.6
RSD/EUR (avg)	118.3	117.9	117.6	117.6	117.5	117.25	117.09
RSD/USD (avg)	100.3	105.3	103.0	99.5	111.9	108.4	108.2

Source: Statistical Office of the Republic of Serbia (RZS), National Bank of Serbia (NBS)
*Revised data from RZS published in 2024

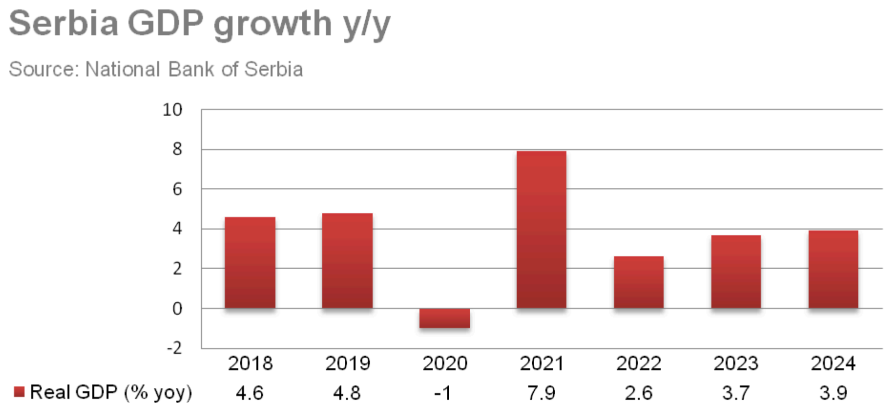
2.1.1 GDP growth

Serbia's economy slowed in 2025 after one of Europe's strongest growth years in 2024, when GDP expanded 3.9%. Output rose just 2% in the first half of 2025 as construction faltered, agriculture suffered from a poor harvest, and foreign direct investment (FDI) fell by more than half amid political unrest and global uncertainty. Household consumption increased 2.4% in H1 2025, lagging behind wage and pension growth, while investment declined 2.5%.

The National Bank of Serbia has cut its 2025 growth forecast to 2.1%, citing weak services recovery, construction weakness and a poor agricultural season. The IMF projects 2.4% growth in 2025, while the EBRD estimates 2.5%. Investor confidence has been dampened by political instability following the Novi Sad train station collapse, regulatory unpredictability and governance concerns. Geopolitical risks, including US sanctions on oil company NIS and potential EU steel import restrictions, weigh on industry and exports.

Looking ahead, Serbia's medium-term outlook is more positive. The IMF expects growth to recover to 3.6% in 2026 and 4% in 2027, supported by rising household incomes, improved credit conditions and expanding manufacturing exports. The National Bank anticipates 3.5% growth in 2026, underpinned by disposable income gains and investment linked to Expo 2027, which the European Commission expects will boost services exports and tourism, alongside public investment under the Leap into the Future – Serbia 2027 programme. Strong fiscal buffers, a primary surplus, moderate public debt at 43% of GDP, and a narrowing current account deficit support resilience to external shocks.

Inflation remains elevated, driven by energy costs, wage pressures and currency volatility, while FDI continues below pre-crisis levels. Short-term risks are concentrated in the energy sector, with the NIS sanctions crisis affecting industrial output, and regional geopolitical tensions, including potential conflict in Kosovo or Bosnia & Herzegovina. Despite these challenges, Serbia's economy is expected to recover gradually in 2026, supported by domestic demand, fiscal prudence and ongoing structural reforms.



2.1.4 Industrial production

Serbia's industrial sector showed modest growth in 2025. Industrial production rose 2.1% year-on-year for the January-October period, with Q3 output up 2.9%. The information and communications industry grew 6%, while construction fell 11.7% and agriculture slipped 0.2%.

The biggest short-term risk to industry is sanctions on the Oil Industry of Serbia (NIS). US sanctions have blocked crude supplies via the JANAF pipeline, forcing the Pančevo refinery — Serbia's only oil-processing plant — to halt production in December 2025. The sanctions will undermine the wider processing sector and industrial results into 2026.

2.11 Macroeconomy - Slovenia

Key economic figures and forecasts

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Nominal GDP (EUR bn)	40	43	46	48	47	52	57	63.9	67.4
Real GDP (% y/y)	3.0	5.2	4.4	3.5	-4.1	8.4	2.7	2.1	1.7
Industrial output (% y/y)	6.6	8.0	4.6	3.0	-6.2	10.2	1.7	5.3	-1.2
Unemployment rate (avg, %)	8.0	6.6	5.1	4.5	5.0	4.7	4.0	3.7	3.7
Producer prices (avg, % y/y)	0.5	2.2	2.1	0.0	-0.2	5.5	19.6	6.1	-1.7
Consumer prices (avg, % y/y)	-0.1	1.4	1.7	1.6	-0.1	1.9	8.8	7.4	2.0
Consumer prices (eop, % y/y)	0.5	1.5	1.4	1.9	-1.1	4.9	10.3	4.2	1.9
General budget balance (% of GDP)	-1.9	0.1	0.9	0.7	-7.7	-4.6	-3.0	-2.6	-0.9

Public debt (% of GDP)	78.5	74.2	70.3	65.4	79.6	74.4	72.5	72.1	70.8?
Current account balance (% of GDP)	5.3	6.8	6.5	6.4	7.7	3.8	-1.1	4.8	4.5
Official FX reserves (EUR bn)	0.232	0.294	0.329	0.384	0.507	0.646	0.757	0.797	1.264
Gross foreign debt (% of GDP)	110.8	101.9	91.8	90.1	101.6	97.2	90.9	90.5	87.9

Source: statistics office, IMF, World Bank, Thomson Reuters, RBI/Raiffeisen RESEARCH, Erste

2.1.1 GDP growth

Slovenia's GDP is expected to grow by 2.4% in 2026, supported by a rebound in exports, solid private consumption and ongoing public investment financed through EU funds. The forecast points to a pickup from 2025, with growth projected to edge up further to 2.6% in 2027.

The International Monetary Fund (IMF) said that while Slovenia's economy slowed in 2025, it is expected to strengthen in 2026-27, supported by improved investor confidence, stronger export demand and solid public investment.

Rising incomes should also help sustain private consumption. However, high global uncertainty is likely to continue weighing on sentiment and investment decisions.

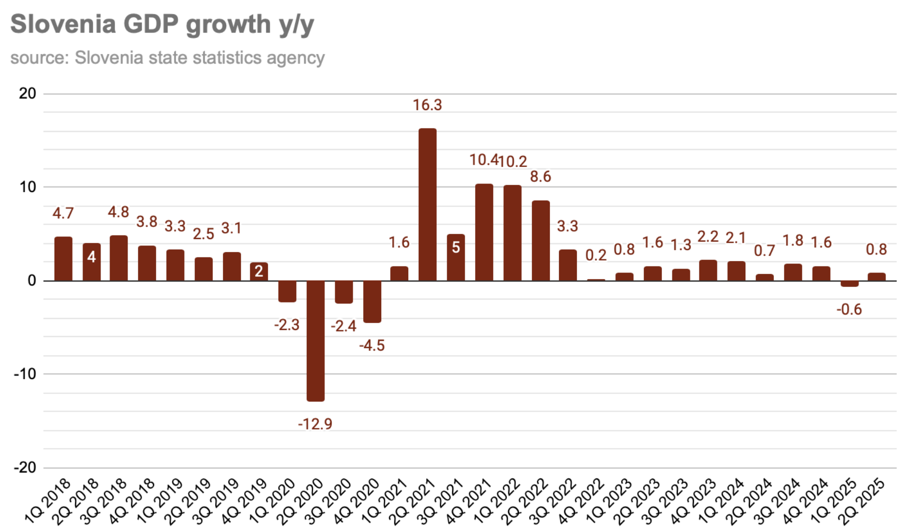
Growth is forecast at 2.2% in 2026 and 2.3% in 2027, before stabilising at around 2.1% in the medium term. Inflation is projected to ease gradually toward 2% by 2030 as food and energy prices settle.

Slovenia's economy expanded by 1.7% in the third quarter of 2025, up from a 0.8% increase in the previous quarter, according to the national statistics office. For the first nine months of the year, GDP rose by 0.7% compared with the same period in 2024.

S&P forecasts average real GDP growth slightly below 2% in the coming years, driven primarily by robust domestic demand. It expects household consumption to benefit from a flexible labour market and strong real wage growth, while public investment will stay high due to flood reconstruction efforts and projects financed under the Recovery and Resilience Plan.

The OECD revised down Slovenia's economic outlook in December, lowering its GDP growth forecast for 2025 to 0.9%, down from its previous projection of 1.6%. Growth for 2026 was trimmed by 0.1pp to 2.3%, while the forecast for 2027 was also set at 2.3%.

According to the OECD, economic expansion in 2026 and 2027 will be driven primarily by domestic demand. Private consumption is expected to grow on the back of strong real wage increases supported by a tight labour market, though this is likely to keep inflation elevated. Investment is projected to strengthen, supported by improving foreign demand, post-flood reconstruction, and the continued inflow of EU funds.



2.1.4 Industrial production

Slovenia’s industrial production was down 1.5% in the first ten months of 2025, compared with the same period in 2024. In the key manufacturing sector, industrial production decreased by 1.1%, while the utilities sector recorded a 2.3% decline. In contrast, production in mining and quarrying increased by 0.4%.

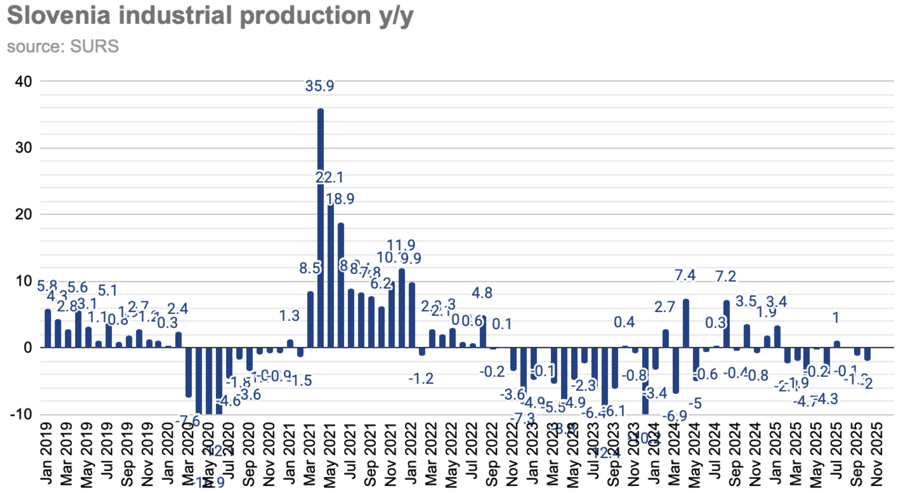
For the first ten months, Slovenia's producer price index (PPI) registered an increase of 0.8%. In 2024, the index declined by 1.7% y/y. Slovenia's PPI increased by 1.3% year-on-year (y/y) in October 2025, accelerating from a 0.7% growth in September, data from the country’s statistics office indicated.

The Purchasing Managers’ Index (PMI) dropped to 31.5 points in August (the latest available data), down from 33.4 in July and the lowest reading in the past two years, according to the latest data from the Slovenian Buyers Union.

The manufacturing activity index fell to 25.6 points (from 28.7 in July), while the new orders index remained weak at 32.4 points, although up from 18.5 in July. Employment also declined, with the employment index at 30.3 points (38.5 in July).

Inventories of finished goods decreased to 36.0 points (43.3 in July), and the delivery lead time index shortened further to 32.3 points (44.1 in July). Meanwhile, purchase prices fell to 41.4 points (50.2 in July), signaling a renewed decline in raw material costs.

The new purchases index rose to 58.9 points (49.4 inn July), reflecting some rebound in procurement activity, while raw material inventories dropped to 44.6 points (64.0 in July), slipping below the 50-point mark for the first time in five months. However, inventories could rise again in the coming months depending on production needs.



3.0 External Environment

3.1 External Environment - Albania

Albania's trade deficit widened in October 2025 as imports grew faster than exports. The trade gap reached ALL 49bn (€507mn), up 5.4% year-on-year and 1.6% month-on-month. Imports rose to ALL 80bn, driven primarily by mineral fuels and electricity (+1.9pp), as well as chemical, plastic, and textile products (+0.9pp each). Exports reached ALL 31bn, increasing modestly by 1.0% y/y, supported by construction materials and metals (+4.8pp) and machinery and equipment (+1.4pp), partly offset by declines in mineral fuels and textiles.

Cumulative trade figures for January–October 2025 painted a more challenging picture. Exports fell 7.0% to ALL 291bn, largely due to lower shipments of construction materials, metals (-5.5pp) and mineral fuels (-1.3pp). Imports declined slightly by 0.8% to ALL 737bn, leaving the year-to-date trade deficit at ALL 445bn, up 3.8% y/y. Trade with the European Union accounted for 57.4% of total trade in the first ten months, with Italy remaining the largest partner at 27.8%, followed by China (11.0%), Greece (7.6%), and Germany (6.9%). Notably, exports to Greece, the US, and Spain increased sharply in October, while exports to Italy fell

13.2%.

Albania's foreign-exchange reserves strengthened significantly, rising 27% to $7.8bn by mid-2025, supported by central bank interventions and a €650mn Eurobond issuance. Gold reserves reached an all-time value of €313mn due to higher international prices, although physical holdings remained unchanged at 3.4 tonnes.

The Bank of Albania has actively intervened in the foreign exchange market to curb rapid appreciation of the lek, purchasing nearly €914mn in 2024 and maintaining similar efforts in 2025. These measures have helped stabilize the currency, reduce borrowing costs, and support credit growth, which rose 14% in Q3 2025. The central bank's strategy aims to balance price stability with financial stability and economic growth, sustaining low inflation and favorable financing conditions relative to the region.

3.2 External Environment - Bosnia

Bosnia and Herzegovina's external trade continued to expand in the first ten months of 2025, although the country's long-standing structural trade deficit remains pronounced. According to official data, exports in the January–October period reached BAM 14.16bn, up 5.7% year on year, while imports rose by 4.6% to BAM 24.96bn. The coverage of imports by exports stood at 56.7%, resulting in a goods trade deficit of BAM 10.80bn.

Trade with key partners showed mixed dynamics. Exports to CEFTA countries amounted to BAM 2.45bn, an increase of 7.7% compared with the same period of 2024, while imports from the region rose by a faster 9.1% to BAM 3.08bn. This left the export-import coverage ratio at a relatively high 79.5%. Trade with the European Union remained dominant: exports to EU markets increased by 5.9% to BAM 10.45bn, while imports grew more modestly, by 2.3%, to BAM 14.51bn, with coverage at 72.0%.

Despite this growth, Bosnia and Herzegovina continues to run a significant and persistent trade deficit. The deficit widened in 2024 to around BAM 12.58bn as imports outpaced exports, reflecting high dependence on imported goods. Although the country benefits from a services surplus, particularly from tourism, imports continued to grow faster than exports in the first half of 2025, contributing to a wider current account gap. Foreign direct investment remained subdued at below 3% of GDP, while remittances stayed stable at around 10% of GDP.

The government is seeking to diversify export markets, including outreach to North and Central Africa. Recent economic diplomacy efforts in Libya aimed to open opportunities across sectors such as metals, energy, construction, agriculture and technology.

Meanwhile, Bosnia's foreign exchange reserves strengthened. The central bank reported reserves of BAM 18.28bn at the end of October, up 7.3% year on year. Under the country's currency board arrangement, which pegs the mark to the euro, robust reserve levels remain a key pillar of monetary stability.

3.3 External Environment - Bulgaria

Bulgaria's external position will remain under pressure in 2026, as weak EU demand and rising imports weigh on the trade balance. The country's current account swung sharply into deficit in 2025, reaching €3.5bn (3.1% of GDP) in the first nine months, compared with a marginal surplus the year before.

Exports to the EU fell by 3.5% in the first half of 2025, led by a sharp decline to Germany, while imports rose 2.9%, reflecting strong domestic consumption. Trade with non-EU partners also weakened, though some gains in beverages and tobacco partially offset losses.

New US tariffs on EU goods are expected to further dent exports, with Bulgarian shipments to the United States projected to drop by around one-third, shaving an estimated 0.35% off GDP in 2025. Bulgaria is exploring offsetting measures through expanded trade diplomacy, including a potential office in South America and ongoing EU negotiations with Indonesia for a free trade agreement.

Foreign direct investment remains modest but stable. Net inflows of €2.5bn in the first nine months of 2025 were led by the Netherlands, Italy and Greece. Meanwhile, Bulgaria's gross external debt climbed to €54.9bn in September 2025 (49% of GDP), reflecting continued reliance on external financing.

Overall, Bulgaria enters 2026 with a challenging external environment: elevated current account and trade deficits, external debt growth and exposure to global trade shocks, particularly from the EU and US. Policy efforts to diversify export markets and attract FDI will be critical to stabilising the external position.

3.4 External Environment - Croatia

Croatia's foreign trade deficit widened in the first ten months of 2025, reflecting faster import growth amid resilient domestic demand. Provisional data from the National Bureau of Statistics (DZS) show that exports reached €21.0bn between January and October, while imports climbed to €37.3bn, resulting in a trade deficit of €16.3bn. Import coverage by exports improved marginally to 56.2%, compared with 55.4% in the January–September period. For the first nine months of the year, exports totalled €18.5bn and imports €33.4bn, producing a trade gap of €14.9bn.

Despite the widening deficit, policymakers and international institutions underline Croatia's relative resilience. Croatian National Bank (HNB) governor Boris Vujčić said in December that external risks remain limited, citing low exposure to potential US tariffs and only a modest impact from euro appreciation on export competitiveness. HNB growth projections were revised only slightly downward in September.

The European Commission expects goods exports to maintain momentum despite trade protectionism weighing on demand from some key partners, while real exports of services, including tourism, are forecast to edge down as rising prices curb volumes. Imports are projected to continue growing faster than exports, driven in part by increased international travel by Croatian residents, although the negative contribution of net exports is expected to be smaller than in 2024. The EBRD echoed this view, noting that while growth moderated to 3.2% year on year in the first half of 2025, Croatia has outperformed most regional peers, supported by strong industrial production and sustained goods exports. The OECD forecasts a gradual pickup in exports as foreign demand strengthens, while warning that geopolitical and trade tensions pose downside risks.

On the reserves side, the Croatian National Bank manages foreign assets not transferred to the ECB following euro adoption. As of June 30, 2025, CNB financial assets totalled €24.63bn, of which 90% were euro-denominated. Assets declined slightly in the first half of the year, largely due to the euro's appreciation against the US dollar, underscoring the impact of exchange-rate movements on reserve valuations even within the euro area.

3.5 External Environment - Kosovo

Kosovo's domestic market remains relatively small and its industrial base limited, resulting in imports consistently surpassing exports.

Kosovo's current account deficit is projected to widen to 9.2% of GDP in 2025, from 8.7% in 2024, reflecting strong import demand, before narrowing to 8.3% of GDP in 2026.

Fitch expects Kosovo's current account deficit to stay close to 9% of GDP in 2025, before gradually narrowing to 7.1% by 2027, supported by strong services exports and a slowdown in import growth. The agency notes that large financial inflows from the diaspora — which account for almost 70% of all foreign direct investment — have remained stable over a long period.

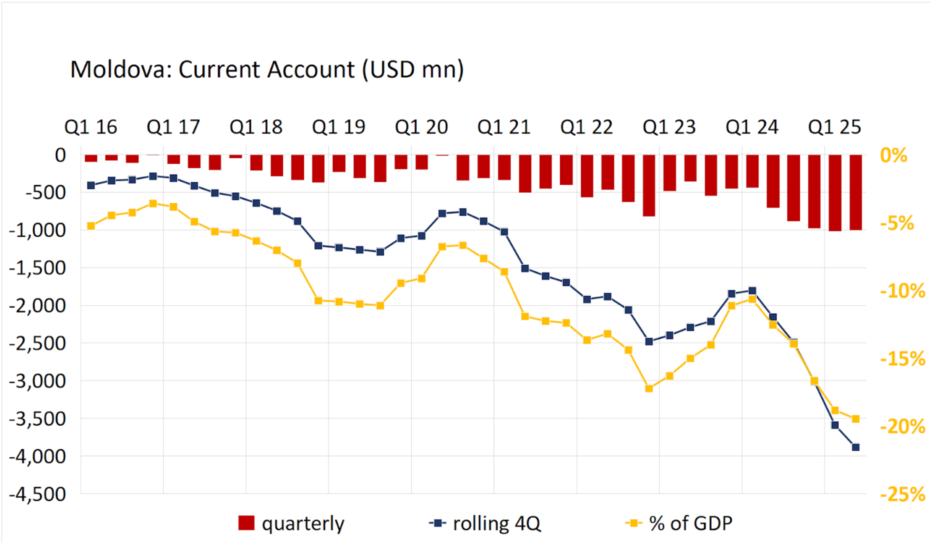
FX reserves are projected to edge up to 1.9 months of current external payments by end-2027, from 1.8 months at end-2024, although this remains well below the 'BB' median of 4.7 months. Liquidity risks are partly offset by the continued rollover of the €100mn repo line with the ECB. Fitch also forecasts that Kosovo will remain a net external creditor, at around 5% of GDP.

Kosovo attracted €540.9mn in foreign direct investment (FDI) in the first seven months of 2025, marking a 24.2% increase compared with €435.4mn in the same period of 2024, according to data from the central bank.

Kosovo posted a current account deficit of €475mn in the first eight months of 2025, compared to a deficit of €318mn in the same period of 2024. For the whole 2024, the current account deficit was €873mn, according to central bank data.

3.6 External Environment - Moldova

Moldova's Current Account (CA) deficit increased by 80% y/y to 19.5% of GDP in 12 months to June 2025. The deficit increased by 42% y/y to just over $1bn in the second quarter of 2025, pushing the external gap in 12 months to June at $3.9bn, an 80% y/y advance and 19.5% of the GDP. The country's gross external debt and foreign direct investment (FDI) inflows increased significantly as well.



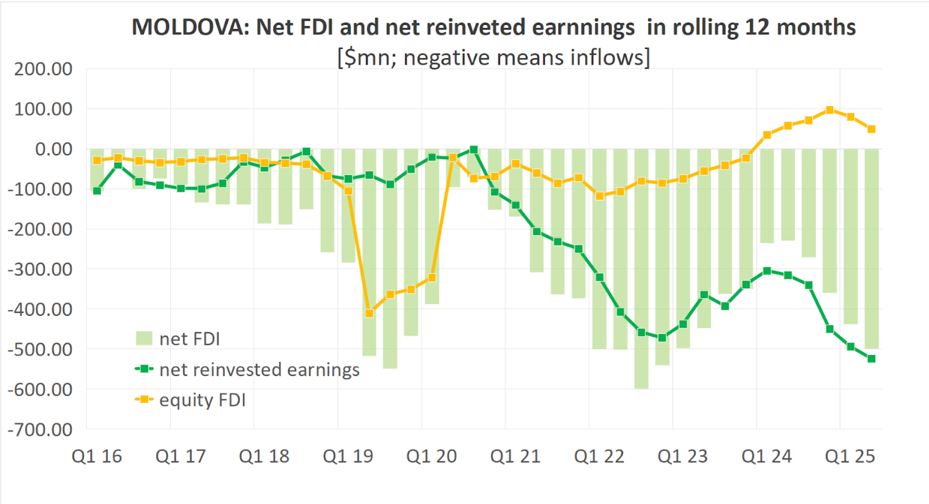
The deficit of the trade in goods and services, $5.6bn in 12 months to June (+36% y/y), was the main contributor to the deterioration of Moldova's CA balance. Out of a $1.7bn widening of the country's external deficit, the trade deficit contributed $1.5bn.

Another significant contributor to the country's CA deficit was the profits and interest derived by foreign investors: $792mn (+36% y/y) in 12months to June, or $0.2bn more compared to the previous 12-month period. Given the volume of FDI in Moldova ($4.7bn at the end of 2024), the profitability of the foreign investors in Moldova looks outstanding.

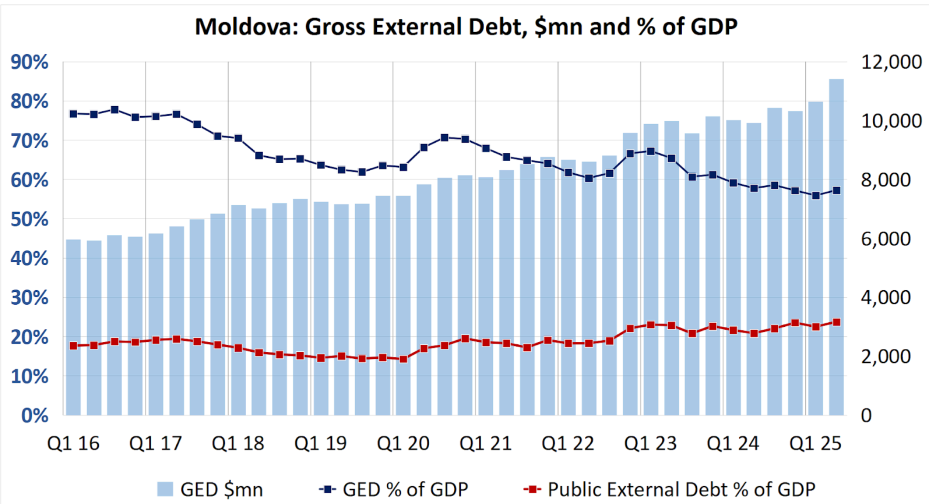
The net wage remittances officially registered as compensation of employees contracted by 66% y/y to $727mn in 12 months to June, adding $50mn to the overall advance of the CA deficit. Net personal transfers also diminished, by 4.9% y/y to $650mn in 12 months to June, adding another $33mn to the CA deficit compared to the previous 12-month period.

The total inflows of FDI to Moldova have more than doubled (+117% y/y) to nearly $500mn in 12 months to June 2025. The reinvested earnings were $524mn while the flow of equity FDI was negative (outflows) for each of the past six quarters. This is particularly meaningful for the investors' reluctance to develop new projects in Moldova while requiring high profits in order to maintain their existing investments.

The FDI to GDP ratio improved to 2.5% in the latest 12-month period from 1.3% in the previous 12-month period, but this was obviously far from covering a significant part of the CA deficit.



Moldova's gross external debt increased by 15% y/y to $11.4bn at the end of June 2025. The $1.5bn increase in the country's external debt accounts for 7.5% of GDP, which is three times more than the FDI-to-GDP ratio, indicating that the country's CA gap has been predominantly financed through debt.



In particular, the government's external debt rose by 32% y/y to $4.7bn at the end of June 2025, increasing by $1.15bn.

In its October 2025 update, S&P says it sees room for sovereign upgrade if the country's current account vulnerabilities diminish or per capita income and economic diversification improve. Officially, Moldova's current account deficit exceeded 16% of GDP in 2024 and 19% of GDP in 12 months to June 2025 – but S&P assumes that the transfers towards households from workers abroad are much stronger and incorrectly reported by the National Bank of Moldova (BNM) under the financial account.

"Fundamentally, we think that, despite the officially reported data, Moldova in effect is not running current account deficits averaging as high as 15% of GDP (equivalent to $3bn annually) because financing for deficits of this magnitude would not be available," the S&P statement reads. Indeed, the $3.9bn CA deficit in 12 months to June was predominantly financed ($2.4bn) by short-term transfers of the non-financial and household sectors. Loans and FDI accounted for the remaining $1.5bn, which S&P assumes to be the genuine CA deficit (some 7.5% of GDP).

3.7 External Environment - Montenegro

Montenegro's current account deficit remains one of the highest in the Western Balkans, reaching an estimated 18.1% of GDP in 2025, up from 17.1% in 2024. The gap is expected to narrow to 17.5% in 2026 and 15.6% by 2030, supported by improving export performance and a gradual slowdown in import demand.

According to central bank data, Montenegro recorded a current account deficit of €909mn in the first nine months of 2025, widening from €781.3mn in the same period of 2024.

The goods trade balance showed a deeper deficit of €2.8bn, compared with €2.5bn a year earlier. Meanwhile, the services sector generated a surplus of more than €1.4bn, a slight increase on the previous year.

Montenegro's trade deficit reached €3.2bn in January-October 2025, rising from €2.9bn in the same period of 2024, the statistics office reported.

Total foreign trade amounted to €4.1bn in the first ten months, an increase of 6.4% year on year, driven by continued growth in imports.

Exports fell by 4.5% to €458.1mn, while imports rose 7.9% to €3.68bn. As a result, export coverage of imports dropped to 12.5%, compared with 14.1% a year earlier, underlining the country's persistent trade imbalance.

Mineral fuels and lubricants were Montenegro's most significant export category, totalling €115.4mn. Electricity accounted for €79.9mn of that sum.

On the import side, machinery and transport equipment dominated, reaching €907mn. Road vehicles alone made up €346mn of this category, reflecting strong domestic demand for imported transport goods.

Serbia remained Montenegro's largest export market, with exports worth €122.2mn, followed by Bosnia & Herzegovina (€46.2mn) and Slovenia (€33.6mn). Serbia also topped the list of import partners, supplying €633.4mn worth of goods. China (€462.9mn) and Germany (€365mn) were the next largest import sources.

Foreign trade was highest with CEFTA members and the European Union, continuing established regional and European integration trends.

3.8 External Environment - North Macedonia

North Macedonia's current account deficit is projected to widen to 3.6% of GDP in 2025, from 2.3% in 2024, before narrowing to 3.1% in 2026, according to the IMF, reflecting improving external balances over time.

According to Erste, after posting a current account surplus in 2023, North Macedonia's external position began to weaken. The deficit widened from 2.2% of GDP last year to 3.5% of GDP in the first half of 2025 on a four-quarter moving average basis. Faster progress on major road construction projects drove a 2.8% y/y increase in goods imports, while a 1.4% y/y decline in remittances reduced the secondary income surplus.

Net foreign direct investment (FDI) inflows fell sharply, dropping by 2.5pp of GDP to just 4.2% after 1H25. Whereas FDI typically covers the full current account deficit, it is expected to finance only around three-quarters of the gap this year.

Looking ahead, gradual improvement is anticipated over the forecast period, supported by stronger economic growth in the EU — a key driver of remittances — and a projected narrowing of the trade deficit.

According to central bank data, North Macedonia recorded a current account deficit of €459mn in the first nine months of 2025, widening from a deficit of €58.6mn in the same period in 2024.

The current account deficit is largely the result of a goods trade gap of nearly €2.4bn in the first nine months, an 8.6% increase compared with the same period in 2024.

The services showed a surplus of €735.2mn in the first nine months, down from €913.8mn a year earlier.

In the third quarter of 2025, current transactions with non-residents generated a surplus of €60.4mn, driven by positive secondary income flows and a surplus in the trade of services.

Financial transactions with non-residents showed net outflows totalling €96.1mn. Outflows were recorded in currencies and deposits (€131.5mn), direct investments (€88mn), portfolio investments (€78.8mn) and loans (€8.8mn). The only category with net inflows was trade credits, amounting to €137.7mn.

FDI performance weakened in the first nine months of 2025, with total inflows standing at only €209.4mn, down 75% from €845.1mn in the corresponding period of 2024, central bank data showed

The downturn contrasts with last year's strong showing, when North Macedonia attracted €1.255bn in FDI — more than double the level recorded in 2023.

North Macedonia recorded a trade deficit of €2.8bn in the first ten months of 2025, according to preliminary data released by the state statistical office on December 5. In US dollar terms, the trade gap reached $3.2bn.

Exports increased by 2.2% year-on-year to €6.7bn, while imports rose by 4.1% to €9.6bn during the same period. The export-to-import ratio stood at 70.1%, indicating that the country's import needs continue to outpace its export performance.

In October alone, North Macedonia posted a monthly trade deficit of €338.6mn, the data showed.

Trade by products shows that exports are dominated by catalysts with precious-metal carriers, ignition wiring sets for vehicles, aircraft or ships, seat components and other precious-metal catalysts.

On the import side, the largest categories include refined petroleum oils, other platinum-group metals and their alloys in unwrought or powder form, platinum and platinum-alloy products in unwrought or powder form, as well as motor vehicles for passenger transport.

Germany remained North Macedonia's largest trading partner, followed by the UK, China, Greece and Serbia. These five countries together accounted for 47.6% of the country's total trade volume.

Trade with European Union member states made up 59.4% of the total foreign trade, underscoring the EU's continued importance as North Macedonia's main trading partner.

North Macedonia's gross international reserves fell by 1.2% year-on-year in November 2025, reaching €4.862bn, following a 2.7%

annual decrease in October, the central bank's data showed. Compared with the end of 2024, the total stock of FX reserves was 3.3% lower, suggesting moderate short-term fluctuations amid overall resilience in the reserve base, data indicated.

The composition of gross international reserves remained largely unchanged. Securities continued to account for the largest portion, representing 73.9% of the total, followed by monetary gold at 16.4% and currencies and deposits at 9.7%, the central bank stated.

3.9 External Environment - Romania

Romania's current account deficit widened by 7.5% y/y to €8.8bn in the third quarter, despite a modest improvement in the country's trade in goods position. Obscured by the investment-related outflows in Q3, the improvement in trade in goods is expected to continue and become more visible in the coming quarters, driven by the fiscal consolidation and economic slowdown.

The deficit in trade in goods contracted by 7.8% y/y to €7.9bn in the quarter, marking an unusual situation in which the goods deficit was smaller than the overall current account shortfall. The improvement was offset by a 25% y/y rise in net outflows generated by foreign direct and portfolio investors (profits and interest accrued), which reached €4.9bn in Q3.

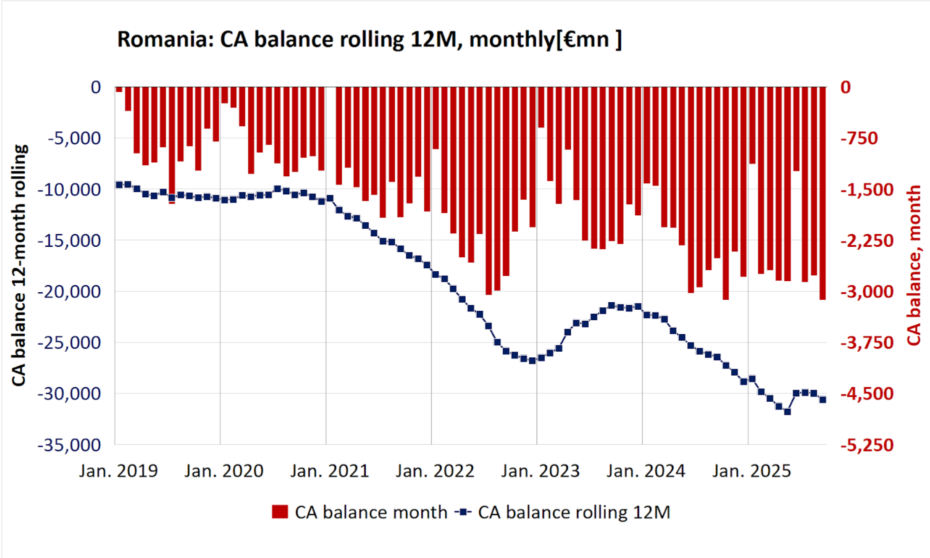
Of this total, €3.8bn represented profits of foreign direct investment companies (+22% y/y), while €1.2bn (+25% up y/y) reflected interest payments on external debt. Although €2.2bn of foreign direct investment (FDI) profits were reinvested as retained earnings, all profits are recorded as outflows under the Balance of Payments methodology.

In the 12 months to September 2025, the current account deficit increased by 15.8% y/y to €30.6bn.

Based on the latest available GDP data, the deficit equaled 8.4% of GDP, compared with 7.9% in the twelve months to September 2024. The ratio was 8.2% at the end of the second quarter of 2025. A slight downward adjustment from 8.4% is expected for the September 2025 CA to GDP ratio once the third-quarter GDP is published.

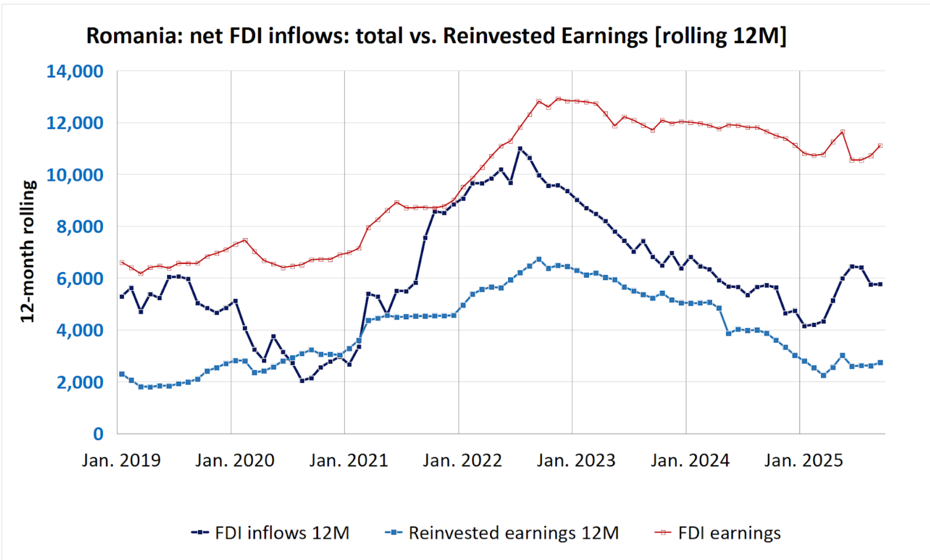
Over the same 12-month period to September 2025, the trade in goods deficit rose by 6.3% y/y to €33.8bn, while net outflows of FDI profits and external debt interest increased by 4.6% y/y to €15bn.

Wage remittances (inflows) declined to €3.5bn, down 2.3% y/y, while other personal transfers (also inflows) fell by 33% y/y to €1.5bn. Net exports of services increased by 3.5% y/y to nearly €12.5bn.



Net FDI inflows in Romania reached €5.76bn in the 12 months to September 2025, up 0.7% y/y. New equity investment more than doubled to €2.5bn, while reinvested earnings fell 29% y/y to €2.7bn.

Romania's stock of FDI stood at €129.7bn at the end of September, compared with €124.0bn one year earlier. Of the €5.6bn increase, €2.7bn came from reinvested earnings, while €8.4bn of earnings were repatriated, bringing total FDI profits to €11.1bn.



Romania's total external debt increased by €17.8bn (+8.7 ytd) in the first nine months of 2025, reaching €221bn at the end of September..

Long-term debt accounted for 79% of the total, amounting to €174bn as of September 31, up 11.3% year-to-date, while short-term debt reached €47bn, up 0.2% ytd.

Public administration debt totalled €122.4bn, up €15.4bn since December 2024, reflecting continued borrowing needs amid high fiscal deficits. The external debt of deposit-taking institutions, excluding the central bank, rose marginally by €0.4bn to €13.3bn at the end of September.

Intra-group loans contracted by FDI companies from parent entities amounted to €50.7bn.

The long-term external debt service ratio fell to 15.1% in January-September 2025, compared with 21.5% in 2024, suggesting a lower repayment burden despite higher total debt. Romania's foreign exchange reserves covered 6.0 months of imports at the end of September, slightly up from 5.7 months at the end of 2024.

The coverage ratio of short-term external debt by the BNR's foreign exchange reserves stood at 103.2%, broadly stable from 103.6% at the end of last year, indicating that the country continues to maintain an adequate external liquidity buffer despite rising indebtedness.

3.10 External Environment - Serbia

Serbia's external position will remain resilient in 2026, supported by its integration into European supply chains and ongoing foreign direct investment (FDI) in key sectors. In response to weaker EU demand, Serbia will continue diversifying its export markets, with trade growth driven by recently implemented free trade agreements with China, the United Arab Emirates and Egypt. China is set to remain a critical partner, with exports to the country having reached €1.4bn in the first nine months of 2025, and projected to maintain double-digit growth in 2026.

Total foreign trade is forecast to expand further in 2026, building on the €62.3bn recorded in the first ten months of 2025, up 8% year-on-year. Exports, led by motor vehicles, rubber, plastics and food, grew 8.9% to €24.64bn in the same period, slightly outpacing import growth of 8.2% to €31.03bn, which left the trade deficit at €6.39bn. The EU will continue to dominate Serbia's trade portfolio, accounting for 58.2% of total trade in the first ten months of 2025, though commerce with non-EU partners is projected to increase steadily.

FDI inflows are expected to stabilise in 2026 after moderating in 2025, when net FDI reached €1.5bn in the first nine months, with gross inflows of €2.5bn. Investment remained concentrated in manufacturing (23.9%), professional services (18.9%), construction (15.6%) and wholesale and retail trade (14.5%), with European investors accounting for nearly 70% of total inflows. FDI will continue supporting export-oriented growth in 2026.

External risks could weigh on the outlook. Global trade and energy uncertainty, the ongoing Russia-Ukraine war and US tariffs on EU goods will continue to unsettle markets. EU steel import measures could put pressure on the Smederevo steel plant, with potential knock-on effects for broader industrial competitiveness. Nevertheless, ongoing expansion of automotive and manufacturing exports, combined with stabilising FDI, is expected to bolster Serbia's external resilience, helping to sustain growth in 2026.

3.11 External Environment - Slovenia

Slovenia has a well-developed, export-driven economy with middle-income status, characterised by high human development, political stability, and comparatively low inequality. With a domestic market of just over 2mn people, the country depends heavily on foreign trade, making its economic performance closely tied to conditions in its key trading partners.

The country remained one of the EU's most globalised economies in 2024, with international trade and investment continuing to grow and the share of foreign value added in its exports staying high. In 2024, Slovenia's exports of goods and services reached 80.9% of GDP, while imports amounted to 74.7% of GDP, according to the statistics office.

By the end of 2024, foreign direct investment in the country totalled 34.2% of GDP, compared with 15.7% of GDP for Slovenia's direct investment abroad.

The goods trade integration indicator stood at 62.2%, and the services trade integration indicator at 15.6%.

For more than five consecutive years, the OECD measure of foreign value added in exports has placed Slovenia among the top ten countries globally.

In the first ten months of 2025, Slovenia's current account surplus reached €2.4bn, down €0.4bn from the same period last year, primarily reflecting a €0.4bn drop in the trade in goods balance. Service trade surplus rose by €0.1bn, while deficits in primary and secondary incomes increased by the same amount. Over the last 12 months, the current account surplus totalled €2.7bn, with a €3.9bn surplus in services offset by €1.2bn in primary and secondary income deficits.

In October, Slovenia's foreign trade in goods was balanced at €1mn. Exports fell 0.8% year-on-year, while imports rose 4.2%. In the first ten months, the trade balance showed a €0.2bn surplus, with exports up 0.1% and imports up 1.2%, resulting in a coverage ratio of 100.6%.

Trade with EU member states accounted for roughly three-quarters of total flows, with a €0.6bn deficit. Exports to Austria rose by €91mn, while exports to France fell by €150mn. Imports from Croatia and Austria increased, whereas imports from Italy and Germany declined.

Outside the EU, the surplus with Russia reached €1bn, up €0.1bn year-on-year, and the deficit with Switzerland decreased by €0.2bn.

According to the OECD, foreign demand remains a drag on growth. Slovenia's direct exposure to the US market is limited — exports to the US represented 1.2% of GDP in 2023 — but US tariffs are affecting Slovenia through European supply chains. Merchandise and services exports rose 0.4% q/q in Q3 2025 after declines earlier in the year, reflecting subdued industrial output in key partners including Austria, Germany and Italy.

Slovenia recorded a foreign trade surplus of €2.06bn in the first ten months of 2025, with the export-import ratio reaching 103.5%, the statistics office said on December 5.

External trade continued to grow compared with the same period in 2024. Exports rose by 18.9% to €61.1bn, while imports increased by 2.2% to €59.1bn.

Trade expanded with both EU and non-EU partners. Exports to EU member states were up 1.2% and imports rose 1.0%. Trade with non-EU countries was more dynamic, with exports jumping 37.3% and imports increasing 3.1%.

4.0 Inflation & Monetary Policy

4.1 Inflation & Monetary policy - Albania

Albania's inflation remained moderate in October, reinforcing the relatively benign price environment that has characterised 2025. According to the national statistics agency Instat, annual inflation stood at 2.3% in October, easing slightly from 2.4% in September but up from 1.9% a year earlier. Consumer prices rose 0.1% month on month. Inflation has stayed within the Bank of Albania's 2–4% target range throughout the year, having retreated substantially from its post-pandemic highs.

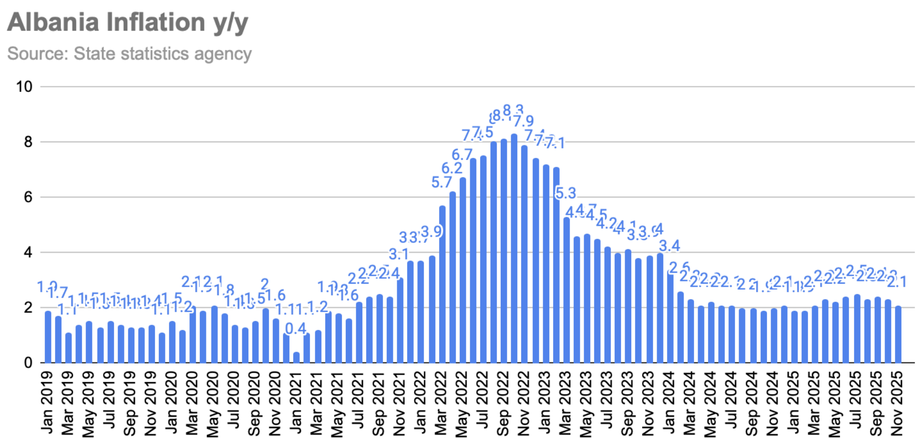
Housing, water, electricity and fuels were the strongest contributors to the annual rate, adding 0.87 percentage points, reflecting higher utility and rental costs. Food and non-alcoholic beverages contributed 0.55 points, while furniture and household goods added 0.21 points and alcoholic beverages and tobacco 0.15 points. HICP inflation also measured 2.3%, driven by higher leisure, alcohol and household goods costs, with monthly price growth almost flat at 0.01%.

Against this backdrop, the Bank of Albania maintained its accommodative pause. At its November 5 meeting, the Supervisory Council left the policy rate unchanged at 2.5%, along with the overnight deposit (1.5%) and lending (3.5%) facility rates. Policymakers noted that inflation remains broadly aligned with target, while economic conditions still warrant a supportive stance.

Governor Gent Sejko said on November 14 that the economy is expected to maintain steady growth at rates similar to 2025 over the medium term. He projected inflation returning to its 3% target in the first half of 2026 and stabilising thereafter. Sejko underscored the importance of a balanced macroeconomic framework, highlighting fiscal consolidation efforts and the free-floating exchange rate regime as key pillars enabling effective monetary policy. He reaffirmed the bank's primary focus on maintaining price stability while supporting financial stability and Albania's EU integration process.

International institutions broadly share this outlook. The IMF forecasts headline inflation rising toward the 3% target in the second half of 2026, driven by tight labour markets and rising wages. It warned that labour shortages linked to emigration could fuel wage-price pressures and urged the Bank of Albania to remain ready to tighten policy if needed. The Fund also recommended allowing greater currency flexibility and limiting foreign-exchange interventions to non-fundamental shocks.

The European Commission expects inflation to hover around 2.2–2.4% through 2025, rising gradually toward the 3% target in 2026 and stabilising in 2027, driven mainly by food and rental costs. Meanwhile, Sejko has acknowledged that the central bank intervened heavily in currency markets in 2024–2025 to curb the sharp appreciation of the lek, driven partly by strong tourism inflows. These interventions, he said, have helped maintain low inflation and favourable financing conditions relative to the region.



4.2 Inflation & Monetary Policy - Bosnia

Bosnia & Herzegovina's inflation edged higher in October, reflecting ongoing – though more moderate – price pressures compared with the peaks recorded during 2022–2023. According to the national statistics agency, consumer prices rose 0.4% month on month, driven primarily by higher housing and utilities, transport, and clothing costs. Housing and utilities registered the strongest monthly increase at 2.0%, while clothing and footwear rose 0.9% and transport costs 0.5%. Eight of the 12 COICOP spending categories recorded monthly growth, with only recreation and culture (-0.1%) and other goods and services (-0.2%) declining.

On an annual basis, inflation reached 4.3% in October. The steepest year-on-year gains were recorded in restaurants and hotels, up 7.8%, followed by food and non-alcoholic beverages at 6.9%. Health costs rose 5.5% and housing and utilities 5.2%, mirroring persistent upward pressure in service-related categories across the region. Alcohol and tobacco prices increased 3.8%, while recreation and culture rose 4.7%. Clothing and footwear was the only major category to record a substantial annual decline, falling 8.2%.

The Central Bank of Bosnia and Herzegovina (CBBH) reported on December 3 that core inflation averaged an estimated 4.32% in the first 10 months of 2025, only marginally lower than its September flash estimate, underscoring the persistence of underlying price pressures. Services-sector inflation averaged 4.83% during the same period. The bank noted that inflationary pressures picked up modestly in October in the categories included in its core inflation calculation, leaving broader trends largely unchanged from earlier in the year. By stripping out volatile food and energy prices, the CBBH aims to give policymakers a clearer view of domestic demand-driven inflation dynamics.

The European Commission highlighted similar concerns in its November forecast, noting that inflation accelerated to 3.9% in the first nine months of 2025, up sharply from 1.4% in 2024. It attributed the rise to surging prices in food, hospitality and health services, as well as exceptionally strong wage growth, which reached 13.8% in the first eight months of the year – well above productivity gains. This, the Commission warned, is contributing to persistent domestic inflation.

Looking ahead, the CBBH expects inflation to average 4.1% in 2025, 0.6 percentage points higher than projected in spring, reflecting strengthening domestic price pressures. It forecasts a gradual easing over the medium term. S&P, meanwhile, projects inflation at 3.3% this year, still far below its 2022 highs, but cautions that elevated inflation remains a drag on Bosnia's growth potential.

4.3 Inflation & Monetary Policy - Bulgaria

Inflation will moderate in 2026 but remain above the euro-area average. After easing through most of 2024, consumer price growth picked up again in 2025. By October 2025 inflation had reached 5.3%, up from 2.4% at the end of 2024, driven by rising wages, higher utilities, the restoration of standard VAT rates and indexation of pensions and minimum wages.

The government forecasts headline inflation just below 4% at end-2025, with average HICP inflation at 3.5% for the year. The European Commission expects HICP inflation to slow to 2.9% in 2026 — still higher than its earlier projections and above the eurozone average. Wage growth will be the main driver of inflation next year, supported by tight labour-market conditions and expected increases in the minimum wage.

Despite the upswing in 2025, Bulgaria met the Maastricht inflation criterion throughout the year, keeping the country on track for euro adoption in January 2026. The 12-month average HICP rate was 2.8% in July, below the reference value of 2.86%. The shift to the euro in 2026 will anchor inflation expectations and narrow interest-rate differentials with the single currency area.

Monetary policy will shadow the European Central Bank (ECB). The Bulgarian National Bank (BNB), operating under a currency-board arrangement, will follow the ECB's rate-cutting cycle but cannot independently tighten policy should domestic inflation remain elevated. Fiscal policy will therefore play a larger role in containing demand-side pressures. Government spending commitments — including higher public-sector wages and social transfers — pose an upside risk to inflation.

4.4 Inflation & Monetary Policy - Croatia

Croatia's inflation rate accelerated in November, the latest available data. According to preliminary data from the state statistics office (DZS), consumer prices measured by the national CPI rose 3.8% year on year, up from 3.6% in October. Monthly inflation reached 0.6%. The EU-harmonised index (HICP) showed an even stronger 4.3% increase, widening Croatia's inflation gap with the eurozone to 2.1 percentage points.

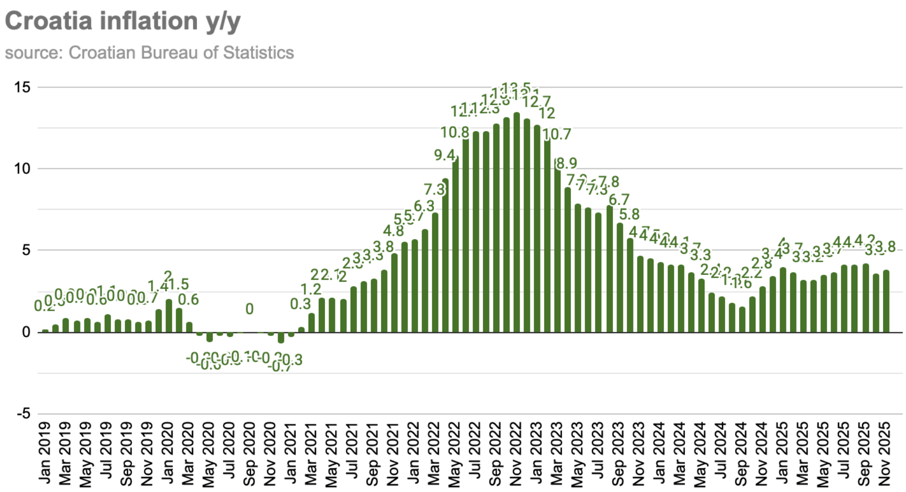
Energy costs were the main driver of the November upturn. Energy prices climbed 5.3% year on year and 3.6% month on month, reflecting higher fuel and electricity prices. Services inflation also remained elevated at 6.6%, supported by strong wage growth and robust domestic demand. Food, beverages and tobacco prices increased 4.1%, while non-food industrial goods excluding energy remained essentially flat. Core inflation, which strips out energy and food, rose to 4.1% from 3.8% the previous month, reinforcing the Croatian National Bank's (HNB's) warning that price pressures have strengthened across all key components.

The HNB highlighted that, unlike in the euro area where core inflation has stabilised at 2.4%, Croatia continues to face broader and more persistent pressures. The bank also noted that the gap between Croatia's CPI and HICP widened slightly to 0.5 percentage points, although this remains far lower than a year earlier.

The OECD said in early December that while headline harmonised inflation eased to 4% in October — helped by lower food and energy prices — core inflation stayed high at 3.8%, reflecting persistent services inflation. It noted that the labour market remains tight, with unemployment at 4.7%, though wage growth is beginning to slow. The OECD expects core inflation to gradually ease as productivity improves, but urged Croatia to adopt a tighter fiscal stance, phase out broad energy and food subsidies, and focus support on vulnerable households.

The government continues to rely on price regulation to shield low-income groups. In November, Prime Minister Andrej Plenković expanded the list of government-regulated retail prices to 100 essential products, adding 30 new items. Officials argue the measures are necessary to protect households and maintain social stability. Ministers emphasise that inflation control remains a core priority and point to past crisis management experience.

Looking ahead, Croatia's 2026 budget projects inflation easing to 2.8% that year. The IMF expects inflation to converge toward the ECB's target by late 2026 or early 2027, assuming continued fiscal consolidation and moderating domestic price pressures.



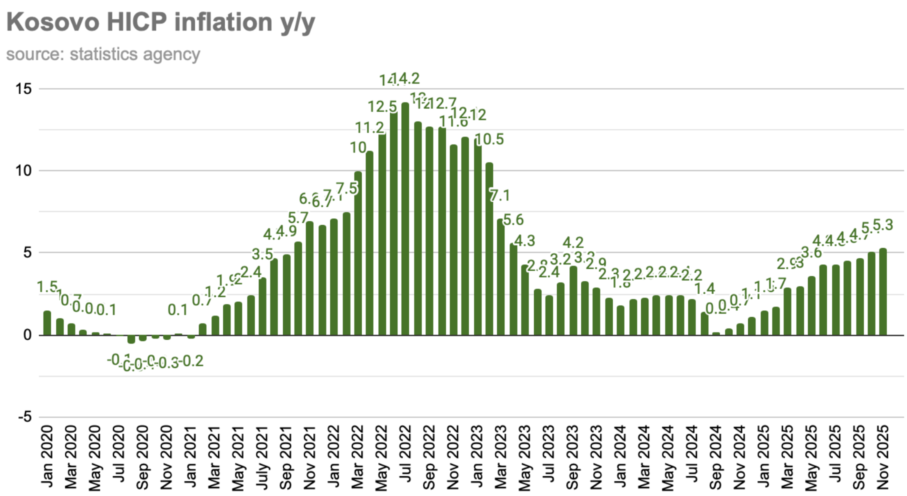
4.5 Inflation & Monetary Policy - Kosovo

The IMF has stated that Kosovo's inflation is forecast to accelerate to 3.5% in 2025, compared with 1.6% in 2024. Price pressures are expected to ease slightly to 2.7% in 2026 as energy and food costs stabilise.

According to Fitch, inflation in Kosovo is expected to average 3.5% in 2026, moderating thereafter. The economy is euroised, and most inflation is imported.

Kosovo’s harmonised consumer price index (HICP) rose by 5.3% in November 2025 compared with the same month in 2024, slightly above the 5.1% y/y increase recorded in October, the Statistics Agency said.

The strongest growth was recorded in prices for other services related to personal transport equipment (18.1%), fruit (16.1%), electricity (15.5%), air tickets (14.6%) and maintenance and repair of personal transport equipment (14.1%).

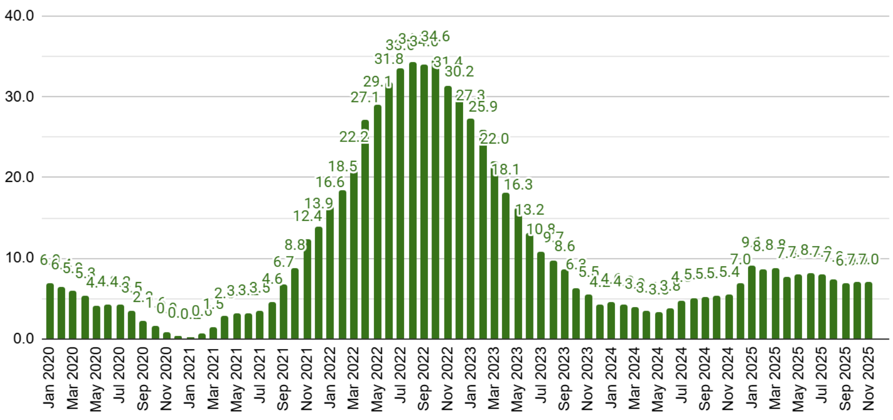


4.6 Inflation & Monetary Policy - Moldova

Moldova’s headline inflation rose slightly, against the short-term trend, to 7.0% year-on-year (y/y) in October 2025 from 6.9% y/y in September, driven by higher prices for food and utilities. It remained steady at 7.0% y/y in November.

Moldova inflation y/y

source: Central bank of Moldova



The National Bank of Moldova (BNM) cut its monetary policy rate by one percentage point to 5% at its December 2025 meeting, aiming to stimulate economic growth amid disinflationary pressures, the central bank said. The board also set the interest rate for repo operations at 5.25%.

The decision came as headline inflation remained broadly unchanged at 6.99% y/y in November, the same level recorded in October. Inflation remains above the upper bound of the target range of 5.0% +/-1.5 percentage points.

The National Bank said the rate cut was intended to stimulate aggregate demand, including by encouraging consumption and investment, while supporting macroeconomic balance and anchoring inflation expectations.

Recent macroeconomic data broadly confirm the assumptions set out in the Inflation Report published in November 2025, the central bank added. That forecast indicates inflation will return to within the target range in December and remain in the lower part of the range from the first quarter of 2026 until the end of the projection horizon.

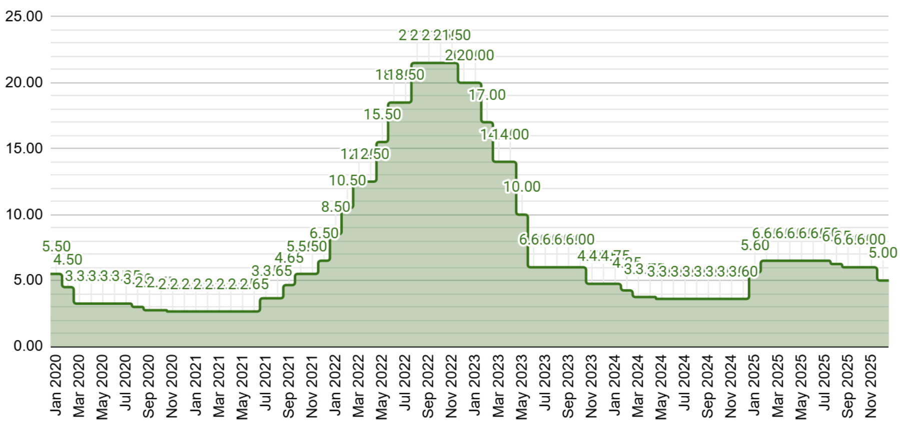
The BNM projects average annual inflation to drop from 7.7% in 2025 to 4.3% in 2026, maintaining its forecast for next year while raising the 2026 projection by 0.4 percentage points.

The outlook was revised upward for most of the forecast horizon, except for the fourth quarter of 2025 and the first quarter of 2026, where only minor downward adjustments were made.

The central bank attributed the upward revision to expectations of stronger aggregate demand beginning in early 2026 and higher food prices on global markets in the first half of 2027.

moldova monetary policy rate

source: Central bank of Moldova



4.7 Inflation & Monetary Policy - Montenegro

The Montenegrin government's 2026 budget anticipates inflation easing to below 3%.

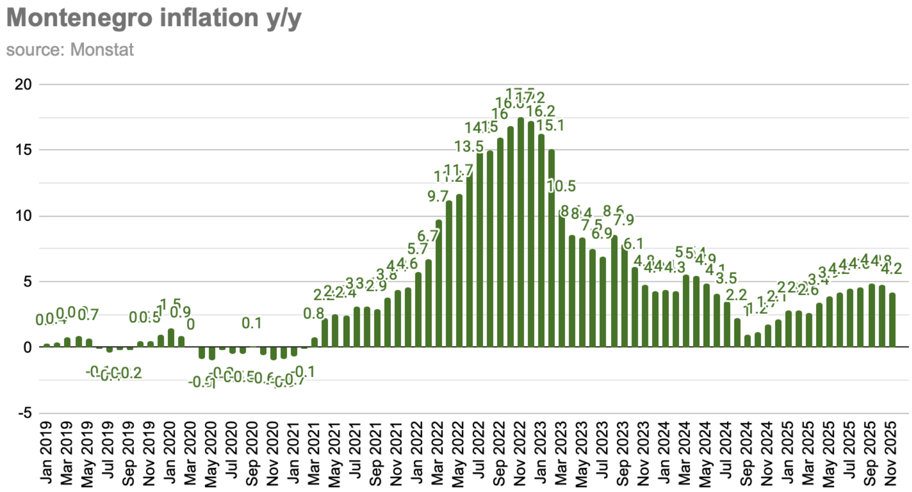
According to the government's Economic Reform Programme (ERP) for 2026-2028, Montenegro's inflation is expected to ease from an estimated 3.8% in 2025 to around 2.0% by the end of the period.

The European Commission said average inflation in Montenegro is forecast at 3.8% in 2025, easing to 3.2% in 2026 and 2.8% by 2027.

The IMF projects average inflation of around 4% in 2025, easing toward 2% in the medium term.

The central bank said at the end of November that tensions regarding a possible tariff/trade war between the US and the leading producer countries have eased compared to March/April 2025, although they are still present. Although Montenegro has a relatively low level of direct economic ties with countries that would be directly affected, indirect effects can have a significant impact on economic growth and the level of inflation in the country.

In the first eleven months of 2025, inflation in Montenegro averaged 3.9%, with food and non-alcoholic beverages remaining the main contributors, rising by 3.8% over the period.



4.8 Inflation & Monetary Policy - North Macedonia

North Macedonia's central bank said that the country's inflation is forecast to average 3.9% in 2025 before gradually declining to 2.5% in 2026 and 2.0% in the medium term. The slowdown will be supported by easing import prices, anchored inflation expectations, and reduced demand-side pressures. In 2025, inflation was still influenced by rising food prices and persistent core inflation, while energy prices stabilised.

North Macedonia's Prime Minister Hristijan Mickoski said on November 24 that overall inflation in 2026 is projected to settle between 2% and 3%, with core inflation expected to move within the same range.

Mickoski noted that core inflation — which excludes volatile food and energy prices and provides a clearer signal of domestic inflationary pressures — has been steadily declining in recent months. He described this trend as a positive indicator for both the short and medium term.

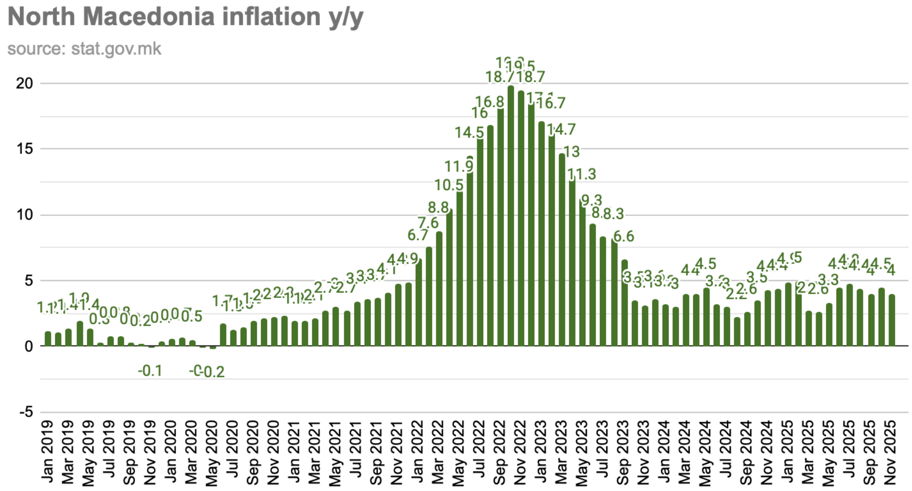
According to the statistical office, North Macedonia's annual inflation rate accelerated to 4.5% in October 2025, up from 4% in September, driven mainly by higher food and service prices.

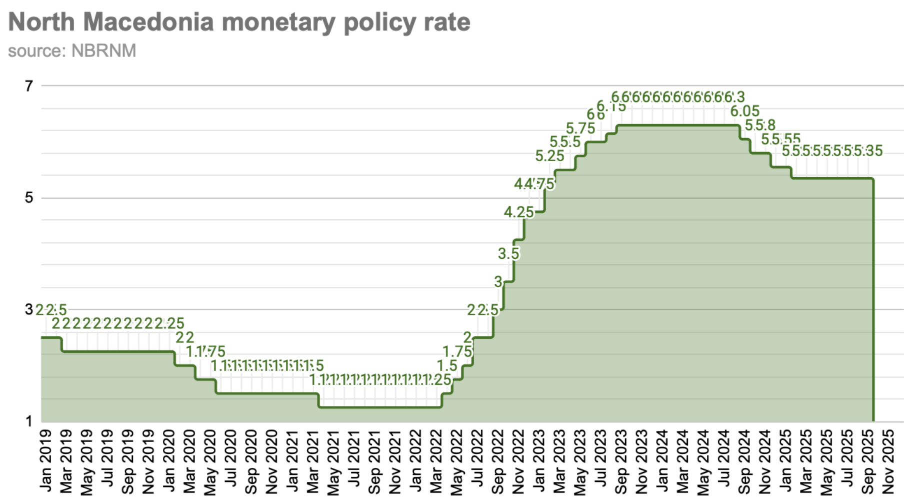
According to the IMF, inflationary pressures in North Macedonia are expected to remain elevated, with average inflation forecast at 3.9% in 2025, compared to 3.5% in 2024. The IMF anticipates inflation will ease gradually to 3% in 2026 and stabilise at 2% by 2030 as global price pressures subside.

The National Bank of North Macedonia cut its policy rate once in 2025, in February, reducing it to 5.35%, where it remains. The central bank continues to balance its inflation-control mandate with the need to sustain economic activity.

North Macedonia's central bank said in December that its monetary policy will continue prioritising price stability as a foundation for sustainable growth and a stable financial system. The bank plans to modernise monetary tools, improve macroeconomic forecasting, optimize liquidity management, and enhance foreign exchange market operations, while maintaining transparency to strengthen credibility.

According to statistics office data, in the January-November 2025 period, average inflation in North Macedonia reached 4.1%, slightly above the 3.5% full-year rate in 2024 but well below the 9.4% recorded in 2023. Food and beverages prices rose 5.2% in the same period.



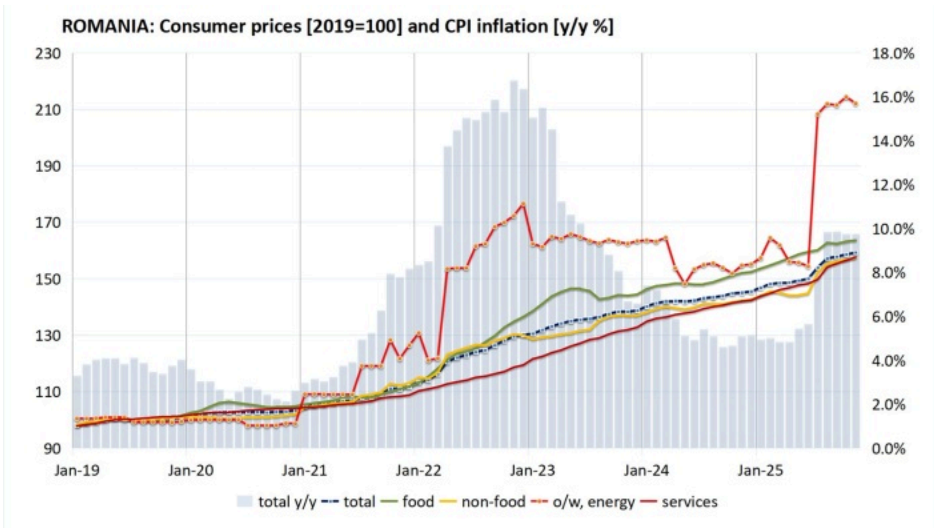


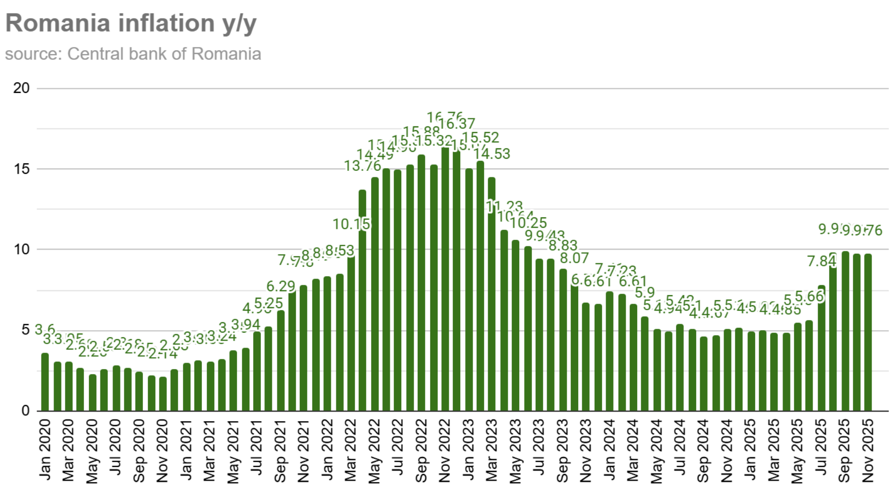
4.9 Inflation & Monetary Policy - Romania

Romania's inflation stood at 9.8% y/y in November 2025 amid a transitory episode prompted by a VAT rate hike and energy price liberalisation during the summer. Inflation had hovered between 5-6% over the previous year.

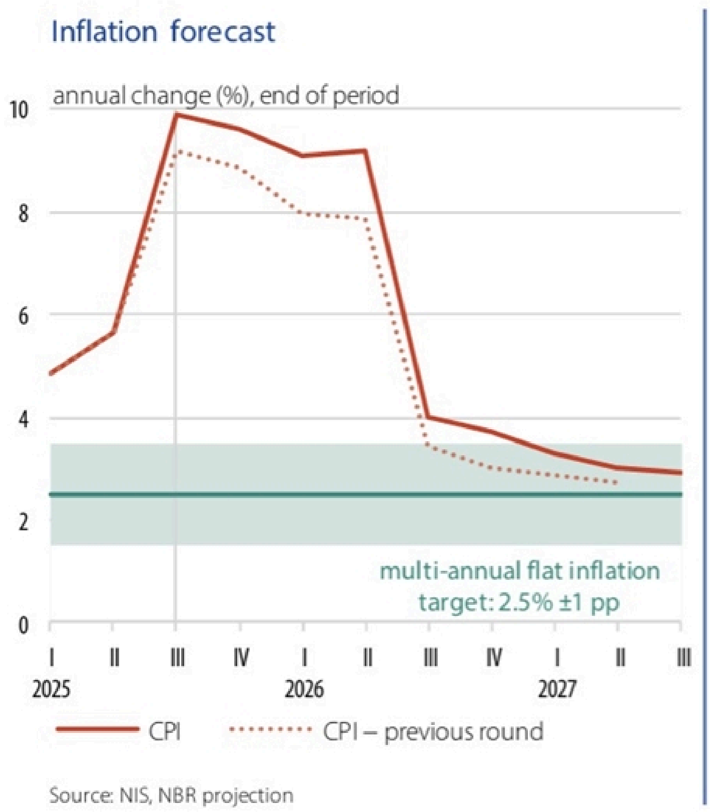
National Institute of Statistics (INS) data showed that core inflation edged higher to 8.3% y/y in November, from 8.1% y/y recorded in September and October, indicating persistent underlying price pressures across the economy.

The recent inflation profile reflects a temporary surge linked to the liberalisation of electricity prices in July 2025 and the broad VAT increase implemented in August 2025, factors that are expected to gradually fade from annual comparisons over the medium term.



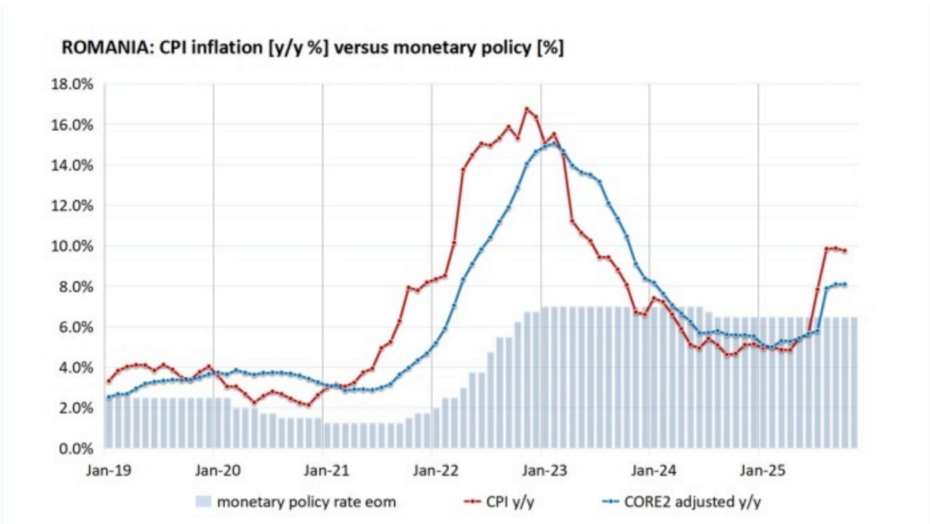


The National Bank of Romania (BNR) revised its inflation outlook upward in November 2025. The central bank raised its projection for end-2025 inflation by 0.8 percentage points to 9.6% y/y and increased its end-2026 forecast by 0.7 percentage points to 3.7% y/y.



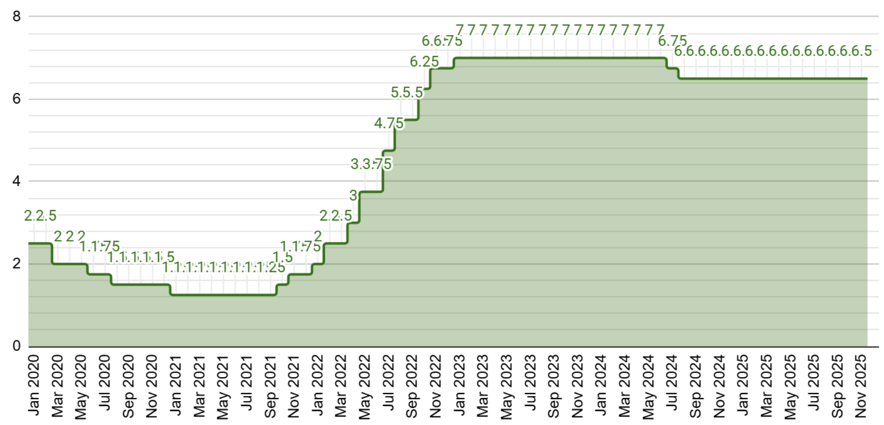
The BNR decided on November 12 to maintain its key policy rate at 6.5%, in line with market expectations. The country's policy rate has remained steady for more than a year and the monetary authority decided not to take a hawkish stance against the rising inf;ation in August-September given the transitory nature in the inflationary profile.

The BNR is expected to begin easing monetary policy in the first half of 2026.



Romania monetary policy rate

source: Central bank of Romania



4.10 Inflation & Monetary Policy - Serbia

Inflation will stay near the National Bank of Serbia's (NBS) 3% ±1.5 percentage-point target in early 2026. Consumer price growth eased to 2.8% in October and November 2025 — its lowest in four years — reflecting weaker global cost pressures, the end of a poor agricultural season and the government's cap on retail margins for essential goods.

The NBS has held its key policy rate at 5.75% since September 2024, maintaining a cautious stance amid geopolitical risks and uncertainty linked to US sanctions on the Russian-owned Oil Industry of Serbia (NIS). With inflation comfortably within target, the bank is wary of cutting rates before external risks subside.

Government regulation has helped to ease prices for basic food products. The cap on retail profit margins — 20% on roughly 3,000 essential products — introduced in September 2025 has helped suppress food prices but has strained retailers, who report losses and supply disruptions. The measure is expected to remain in place through mid-2026.

The NBS expects inflation to hover around target in the coming months, supported by government regulations on unfair trade practices and the arrival of the new agricultural season. Price pressures will remain well below the highs of 2022-23, although many households continue to report declining purchasing power, reflected in protests and retail boycotts earlier in 2025.

Monetary policy will remain cautious. Rate cuts are unlikely before the second half of 2026 and will depend on sustained low inflation, reduced geopolitical uncertainty and progress in resolving the NIS sanctions issue.

4.11 Inflation & Monetary Policy - Slovenia

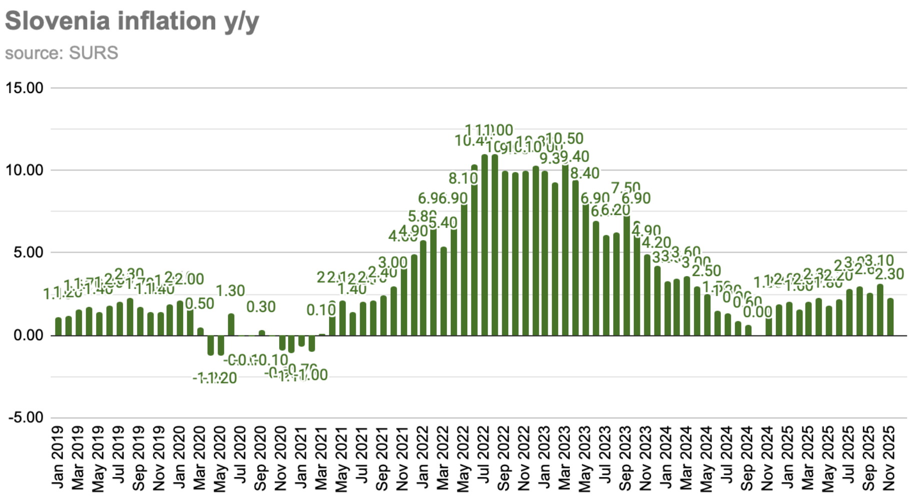
Slovenia’s inflation is projected to average about 2.4% in 2026 and 2.2% in 2027, slightly lower than in 2025, driven mainly by persistent food, services and energy price pressures, according to the European Commission.

According to the IMF, Slovenia’s inflation is projected to ease gradually toward 2% by 2030 as food and energy prices settle.

In the first eleven months of 2025, Slovenia recorded inflation of 2.3%. The strongest price growth was seen in food and non-alcoholic beverages (5.5%), hotels and restaurants (4.8%), health (4.2%), education (3.9%) and alcoholic beverages and tobacco (3.4%).

The only decline was in the housing, water, electricity, gas and other fuels category, where prices slipped by 0.1%.

According to the OECD, robust wage growth contributed to annual services inflation of 3.7% in October. Overall headline inflation reached 3.1%, influenced by rising food prices and higher energy costs, partly due to base effects.



5.0 Real economy outlook

5.1 Real economy - Albania

5.1.1 Retail

Albania's retail sector continued to expand in the second quarter of 2025, supported by solid consumer demand and renewed investment activity. Retail trade volume increased by 6.2% year on year, according to the latest data released by the national statistics office, Instat.

Growth remained broad-based. Excluding motor fuels, retail turnover rose 4.9% compared with a year earlier and 1.1% quarter on quarter. Motor fuel sales were a major driver of the annual expansion, jumping 10.1% and contributing 2.5 percentage points to the overall increase, although fuel purchases declined 1.9% from the first quarter after seasonal adjustment. Non-food products added 2.2 points to annual growth, while food, beverages and tobacco accounted for 1.5 points.

The improving demand backdrop comes as major international and regional retail groups deepen their presence in the Albanian market. Prime Minister Edi Rama announced in July that Germany's Schwarz Group — the operator of Lidl and Kaufland — is exploring investment opportunities in several sectors. Local media report that Lidl is preparing a €105mn logistics hub near the port of Durres.

Other global brands are also expanding via partnerships with Albania's Balfin Group, one of the region's largest investment conglomerates. Danish variety retailer Flying Tiger Copenhagen and Balfin plan to open 50 stores across five Western Balkan countries over the next four years, starting with outlets in North Macedonia, Albania and Kosovo. At home, Balfin has opened Albania's first Kiabi Kids store at Tirana East Gate as part of a wider collaboration with the French fashion group Mulliez.

Balfin continues to strengthen its retail portfolio, including through the expansion of Greek chain Jumbo, which opened its tenth Albanian store, and third in Tirana, in response to rising consumer demand.

Meanwhile, consolidation is reshaping the grocery segment. Kosovo's Viva Fresh Store has agreed to acquire SPAR Albania, the country's leading retail operator with ALL10.7bn (€111mn) in turnover in 2023.

Digitalisation is also advancing. Instat reported on September 22 that 28% of Albanian enterprises sold goods or services online in 2025, with e-commerce generating 10.1% of total business turnover, although

Albania continues to have among the lowest e-commerce penetration in Europe.

5.1.2 Banks

Albania's banking sector has entered 2025 in notably strong shape, supported by rising profitability, expanding credit, and a steady improvement in asset quality. Total sector assets reached ALL 2.2 trillion, against ALL 1.8 trillion in deposits, while the loan portfolio climbed to ALL 901.8bn, split between ALL 353bn in retail lending and ALL 547.7bn in loans to corporates. The system remains comfortably profitable, reporting a cumulative net financial profile of ALL 26.2bn, a return on equity of 15.58% and return on assets of 1.36%. Credit quality has continued to improve: the problem loan ratio declined to 4.37%, its lowest level since the global financial crisis.

As of March 2025, Banka Kombëtare Tregtare (BKT) remained the largest bank by assets, followed by Credins Bankand Raiffeisen Bank Albania. Their expansion has taken place against the backdrop of what the central bank describes as a broad strengthening of the sector's sustainability indicators, an enlarged deposit base and a "considerable" increase in lending. Governor Gent Sejko said these developments had boosted the banking system's capacity to provide the economy with stable, low-cost funding and supported the broader roll-out of modern payment instruments.

The sector's soundness metrics continued to move in a positive direction throughout 2024 and early 2025. Capitalisation remained high at around 20%, liquidity ratios were comfortably above regulatory requirements, and profitability stayed solid. Credit quality recovery has been sustained for several years, with the NPL ratio now close to 4%, its lowest reading since 2008. The Bank of Albania's stress tests indicate that systemic risks remain under control and that banks retain strong buffers to absorb macro-financial shocks.

Much of the central bank's effort during 2024–25 focused on strengthening the supervisory framework and further aligning it with international and EU standards. Consumer protection was tightened significantly through a sweeping revision of the regulations governing non-bank financial institutions—particularly micro-credit firms—which included new requirements for household financial analysis and a sharp reduction in the maximum effective interest rate on consumer loans. Penalty charges have also been capped at 30% of unpaid installments. In parallel, the authorities have been revising the credit-risk management framework to reflect international accounting standards and updating operational risk rules in line with Basel's revised principles.

The process of legislative and regulatory alignment with the EU acquis continued across multiple areas, including payment service providers, licensing practices, and risk management for non-bank institutions. In 2025, licensing and supervision requirements for foreign exchange bureaus were tightened, with a greater focus on owner integrity and AML/CFT compliance. Meanwhile, on-site examinations across banks and non-bank institutions concentrated on governance, credit-risk practices, client transparency and money-laundering risks.

Within its macroprudential mandate, the Bank of Albania maintained the capital conservation buffer at 2.5% for all banks and, for the first time, increased the countercyclical buffer in response to cyclical risk build-up. The rapid expansion of real-estate lending has been a particular concern; following several years of preparatory work, the central bank introduced standardised borrower-based measures for mortgage lending in June 2025—tools widely used in advanced economies to contain housing-related systemic risks. As the national resolution authority, the Bank of Albania also continued work on enhancing banks' resolution capabilities, strengthening methodological frameworks and ensuring institutions meet minimum capital and liability requirements.

Albania's integration into the Single Euro Payments Area (SEPA) in late 2024 marked a turning point for the financial sector. Sejko described the development as a "historic milestone", enabling faster and cheaper euro transactions with 40 member countries and confirming Albania's high degree of legal alignment with EU standards. From October 2025, individuals and businesses have been able to conduct cross-border euro payments under the SEPA framework. The central bank expects the move, combined with expanding digital payments, to generate around €20mn in savings in the first year alone, while its AIPS EURO settlement system has already saved the domestic market roughly €140mn since its launch in 2022.

In parallel, the IMF's latest assessment notes that systemic risks appear broadly contained, with the sector remaining well-capitalised, liquid and profitable. But the Fund also highlights several vulnerabilities, including large borrower concentrations, the still-high share of FX lending—about 17% of bank assets—and substantial sovereign exposure, at 28% of assets. With real-estate lending growing rapidly, the IMF argues that strong supervisory standards and strict adherence to capital requirements remain essential. It cautions against the recent relaxation of certain capital-adequacy and large-exposure rules for loans supporting strategic infrastructure, which it says are not fully aligned with international standards. The transition to IFRS 9 will also demand adequate staffing and technical capacity.

The Fund supports the central bank's activation of borrower-based measures for residential mortgages and its planned increase in the countercyclical buffer to 0.5% in December 2025. It sees merit in adopting a positive neutral rate regime and finalising the systemic risk buffer framework, while suggesting that additional tools—such as a sectoral SyRB or targeted risk-weight increases—may be warranted for commercial real-estate exposures. As Albania's financial sector becomes more complex, the IMF emphasises the need for close institutional cooperation and strengthened AML/CFT monitoring, particularly as new entities such as the Albanian Development Bank begin operating.

Meanwhile, BKT, the country's largest lender, received a long-term rating of 'BB-/B' with a stable outlook from S&P Global Ratings—Albania's first such rating for a non-sovereign entity. S&P cited the bank's consolidated market position, with a 25% share of the Albanian banking market and 17% in Kosovo, alongside consistently strong profitability. BKT's asset quality remains well above sector averages, with NPL ratios of 2.5% in Albania and 1.2% in Kosovo. The rating, aligned with Albania's sovereign score, reflects the bank's close interconnectedness with the domestic economy, strong deposit base and solid liquidity position.

5.1.3 Industry

Industry plays a significant, if secondary, role in Albania's economy, accounting for around 23% of GDP and employing just over one-fifth of the active population. While the service sector—particularly tourism—dominates national output, Albania's industrial landscape remains diverse and strategically important, spanning textiles, minerals, energy, food processing, and a growing base in technology and manufacturing.

Textiles and clothing have long been among Albania's most competitive industries, built on skilled labour and relatively low production costs. Much of the sector is closely tied to European supply chains, particularly in Italy's fashion industry. However, the sharp appreciation of the lek has eroded the country's cost advantage in recent years, dampening exports and putting pressure on operators reliant on contract manufacturing.

Mineral extraction remains another cornerstone of industrial activity. Albania possesses Europe's largest chromium reserves and continues to report solid annual output of chromium ores and concentrates—588,047 tonnes in 2024, according to Instat. The country also produced 716,435 tonnes of crude oil last year, alongside robust volumes of cement (1.94mn tonnes) and steel (343,925 tonnes). Food and beverage processing is expanding too, supported by agriculture and growing domestic demand, with production of non-alcoholic drinks and mineral water exceeding 6.2mn hectolitres.

Energy is a sector of both legacy strength and future potential. Albania relies heavily on hydropower and is increasingly attracting interest in solar investment as it seeks to diversify generation capacity. Manufacturing, meanwhile, is slowly broadening beyond traditional low-tech assembly into machinery, transport equipment, chemicals, and metallurgy, though value-added remains modest, contributing nearly 7% of GDP.

A notable new frontier is defence manufacturing. After decades of inactivity following the collapse of the communist regime, Albania is moving to revive domestic production in response to shifting geopolitical dynamics. The government has authorised the state-owned defence company KAYO to establish a joint venture to manufacture NATO-standard armoured vehicles, with export potential. International partners, including Czech firms, are exploring cooperation in ammunition production, airspace control, and AI-enabled surveillance systems. The initiative forms part of wider plans to invest in defence production and strategic infrastructure to support Albania's own security and NATO operations.

Yet the sector also faces governance challenges. In late 2024, Albanian prosecutors launched a major probe into Bankers Petroleum Albania—the country's largest oil producer—on suspicion of long-running tax evasion and money laundering. Authorities allege the company reported losses for 20 years despite exporting and selling €3.5bn worth of oil, inflating expenses to avoid tax and secure fraudulent VAT refunds. Several executives have been arrested or declared wanted, underscoring ongoing weaknesses in oversight within parts of the extractive industry.

5.1.6 Major Sectors & Companies

After three consecutive years of exceptional growth, Albania's tourism engine is beginning to lose momentum. Visitor arrivals remain high for a country of just 2.7mn people, but the frenetic pace that once made Albania one of Europe's rising destinations is clearly slowing. From January to August 2025, the country welcomed 8.34mn foreign visitors, only 2.49% more than the same period last year. That still marks a dramatic 79% increase compared to 2019 and almost double the number of arrivals in 2021, but the deceleration has sharpened concerns about Albania's heavy dependence on tourism to power economic expansion.

The cooling trend is visible across source markets. Although 94% of tourists still come from Europe, arrivals from Kosovo—traditionally Albania's largest market—have fallen sharply, with an estimated 150,000 fewer visitors so far this year. Flows from Western European countries, including Germany, France, Poland and the UK, remain strong, but analysts note that the era of explosive, low-cost tourism growth is ending.

The slowdown has exposed structural vulnerabilities long masked by record numbers. Industry experts point to inadequate infrastructure, poor waste management and rapidly rising prices—up 12–20% in parts of the south this summer—as key factors undermining Albania's competitiveness. Informal practices, overcharging and inconsistent service standards are also eroding the country's image, particularly as neighbouring destinations such as Montenegro and Greece continue to invest in higher-quality tourism offerings.

A broader debate is emerging about the long-term sustainability of mass tourism in a small country with limited capacity. Kliton Gërxhani, head of the Albanian Tour Operators Association, argues that Albania cannot compete with Mediterranean giants on volume. He warns that the surge driven by bargain prices, social-media fame and low-cost airlines has attracted large numbers of visitors who spend little, often bypassing hotels and local businesses in favour of short-term rentals and supermarkets. "Mass tourism is not good even for big countries," he said. "We should focus on the medium and upper market."

The government appears to have taken note. Prime Minister Edi Rama has shifted emphasis from quantity to quality under the Tourist Albania 2030 strategy, highlighting reforms in licensed operators, accommodation standards, beach management and environmental protection. Investments in new airports, road and rail upgrades, and designated “mountain economy” zones aim to disperse tourism inland and promote agritourism and sustainable development.

5.2 Real economy Bosnia & Herzegovina

5.2.1 Retail

Bosnia and Herzegovina’s retail sector is continuing its steady transformation in 2025, with expanding modern shopping formats, even while consumer behaviour is influenced by price pressure.

The grocery market remains dominated by domestic giant Bingo and regional chain Konzum. Bingo consolidated its position further with a new logistics centre in Tuzla, a €21.5mn investment intended to strengthen supply chains and support future expansion. Lidl is expected to open six stores in Bosnia by the end of 2026. Russian discount chain Mere is also reportedly planning to re-enter Bosnia.

Outside the food retail sector, new entrants include Albania-based Balfin, which plans to roll out Flying Tiger stores in Bosnia along with other Western Balkan markets

E-commerce is gaining ground, for products such as clothing, footwear, household goods and cosmetics. However, as elsewhere in the Western Balkans, the market continues to lag behind other parts of Europe, moreover, cash on delivery remains the preferred payment method for many users.

Recent retail sales figures have shown year-on-year growth, particularly in fuel and non-food categories, signalling robust activity despite fluctuations in food spending. Yet consumer sentiment across the Western Balkans is fragile. High inflation and political uncertainty are weighing heavily on household budgets, according to Valicon’s 2025 New Normal Study. Bosnia is part of a wider regional trend of rising anxiety over living costs, which helped fuel a series of supermarket boycotts in early 2025 aimed at pressuring retailers to lower prices.

5.2.2 Banks

Bosnia & Herzegovina’s banking sector sustained strong growth through 2025, with rising credit demand, expanding deposits and robust profitability, even as regulators in both entities pushed ahead with significant reforms aimed at strengthening resilience and aligning the system with EU standards.

Banks across the country posted a combined net profit of BAM697.5mn (€356.6mn) in the first nine months of the year, according to entity banking agency data cited by Indikator.ba. Growth, however, was uneven: lenders in Republika Srpska (RS) reported higher earnings, while profits edged lower in the Federation of Bosnia and Herzegovina (FBiH).

The RS Banking Agency said banks operating in the entity generated BAM210mn in profit, up 6.8% year on year. The balance sheet continued to expand steadily: gross assets rose 6.5% from end-2024 to BAM11.9bn, while deposits increased 7% to BAM8.9bn. Private companies accounted for nearly half of the BAM3.5bn held by legal entities, but households remained the core funding base, with BAM5.4bn in deposits—more than half classified as personal savings. Lending grew in parallel. Gross loans increased 6.3% to BAM7.1bn, with BAM3.5bn going to corporates and BAM3.6bn to individuals. Consumer loans made up 67% of household borrowing. The non-performing loan (NPL) ratio fell to 3%, while coverage strengthened to an ample 79%.

In the Federation, banks recorded BAM487.5mn in profit, slightly below last year's BAM494.85mn. But deposit growth remained strong, reaching BAM27.7bn, underpinned by BAM13.9bn from individuals, BAM6.7bn from private firms and BAM3.7bn from government entities. Lending also expanded, with total loans rising to BAM20.6bn, including BAM10.4bn to households and BAM8.7bn to private companies.

Demand pressures remain strong across the system. A quarterly survey by the Central Bank of Bosnia and Herzegovina (CBBH) showed banks expect loan demand to rise further in Q4, supported by both businesses and households. Firms are forecast to increase applications for short- and long-term credit, while households are set to drive growth in consumer lending. Housing loan demand, which surged earlier in the year due to soaring real estate prices, is expected to stabilise.

Credit standards for corporates are likely to remain unchanged, but banks signalled a willingness to loosen standards for households, reflecting confidence in labour market conditions and household incomes.

This momentum is reflected in the CBBH's Autumn 2025 Bulletin, which reported the strongest annual credit growth since 2009. Total loans jumped by KM 875mn in Q2 alone, with annual growth accelerating to 10.2%. Household loans—up 10.5% year on year—were a key driver, supported by higher employment, real wage growth and rising disposable incomes. Real estate lending has surged, particularly in urban centres, while consumer loans, making up 72% of household borrowing, contributed 2.4 percentage points to quarterly growth.

Deposit growth continues to reinforce banking stability. Total deposits reached KM 34.5bn in Q2, up 7.9% annually, driven mainly by household inflows. The currency structure has shifted further toward the domestic currency, and foreign-currency deposits among corporates have fallen below 30% for the first time since 2021. However, the maturity structure remains skewed toward short-term transaction deposits, limiting longer-term funding options.

Despite rapid credit expansion, interest rates have been broadly stable. Average rates on newly approved loans stood at 4.74% in Q2, with household housing loans priced at 3.81% and consumer loans at 5.68%. Corporate lending rates have edged down by around 40 basis points since late 2024.

The IMF has cautioned that strong credit growth and surging real estate prices warrant close monitoring. While banks remain well-capitalised, liquid and profitable, the Fund urged authorities to expand macroprudential tools—particularly by introducing a countercyclical capital buffer and borrower-based measures such as LTV and DSTI limits. It advised against the planned reduction of regulatory capital requirements from 12% to 10% and called for phasing out temporary regulatory measures designed to limit lending rate increases.

Significant legislative reforms in both entities in early 2025 marked the first major overhaul of banking laws since 2017. RS introduced sweeping fee reforms, digitalisation measures and changes to capital adequacy and resolution rules, while the Federation strengthened governance requirements, capital and liquidity assessment processes, and ESG oversight.

Meanwhile, the CBBH highlighted persistent concerns over financial literacy: a new survey showed that many young people still lack understanding of core economic concepts, underscoring the need for greater education as the financial system grows more complex.

5.2.3 Industry

Bosnia and Herzegovina's industrial landscape is shaped by a blend of long-standing heavy industry, a still-important mining sector and a gradual shift towards higher-value services. Manufacturing remains the backbone of the economy, drawing on the country's legacy in metalworking, machinery and automotive components. Production of electrical equipment, textiles, furniture and tobacco goods also contributes significantly to both employment and export revenues.

Mining continues to play a strategic role thanks to abundant deposits of coal, lignite, bauxite, lead, zinc and copper. Coal remains a key domestic energy source, underpinning Bosnia's power sector. The country's mineral wealth has attracted renewed international attention as demand rises for raw materials essential for green technologies.

The metals sector is undergoing a period of consolidation and ownership change. ArcelorMittal has completed the sale of its Bosnian steel and mining operations to H&P d.o.o. Zvornik, part of the Pavgord Group. The transaction covers the Zenica steelworks and the Prijedor iron ore mine, which have long been central pillars of the country's industrial system. All staff will remain in place under the new owner, which aims to maintain output while strengthening its presence in regional markets. ArcelorMittal said the decision followed a broad strategic review of its European footprint.

Bosnia's mining sector is also seeing fresh foreign interest. Dundee Precious Metals recently finalised the acquisition of Adriatic Metals, owner of the Vareš polymetallic mine. DPM Metals, backed by US investors, has signalled plans to expand production of critical minerals, with US diplomats emphasising that responsible investment could deepen economic ties and support local development.

However, new mining ventures are not universally welcomed. Proposed lithium exploration around Mount Majevica has sparked sustained opposition from civic groups concerned about the potential impact on fertile agricultural regions and nearby waterways. Environmental activists from Bosnia and neighbouring Serbia have forged cross-border alliances to resist the project, citing the proximity—just 13 kilometres—of the site to Tuzla as a particular risk.

Alongside extractives, Bosnia's industrial base is gaining momentum through fresh manufacturing investments. Turkish firm Shahi Steel has opened a new facility in Gradačac, reinforcing Tuzla Canton's position as a regional industrial hub. In Tešanj, Slovenian footwear brand Alpina has relocated its entire production process to an expanded plant employing more than 260 workers, following significant investment by its Czech majority owner.

Further projects are in the pipeline. Italy's PMP Industries aims to launch machinery-parts production in Laktaši by the end of 2025, while the US company Regulus Global has proposed a major upgrade of arms manufacturer Pretis. Domestic companies are also expanding, including explosives producer Tvek near Prijedor. These developments come amid a remarkable fourfold rise in defence-industry exports over the past decade.

5.2.6 Major Sectors & Companies

Bosnia and Herzegovina's automotive industry draws on a long manufacturing tradition and a highly skilled workforce. Before 1992, global producers such as Volkswagen assembled passenger and commercial vehicles near Sarajevo, while companies in Banja Luka and Mostar built buses. This legacy helped establish a strong supply chain anchored by existing assembly operations, auto-parts production, and supporting education and research institutions. Over the past decade, the sector has expanded rapidly and become strongly export-oriented, sending around 90% of its output to 30 markets worldwide. Today, Bosnian firms manufacture a wide array of components, including engines, gears, brake and steering systems, electrical parts, batteries, aluminum rims, and numerous metal, rubber and plastic precision products.

The service-driven economy now generates more than half of national GDP. Tourism has been steadily recovering as the country promotes its cultural heritage, dramatic mountain landscapes and striking rivers. A growing share of visitors comes from the Gulf states, attracted by Bosnia's cooler summers, natural scenery and easy access to halal food. Seasonal or year-round visa exemptions for some Gulf countries have supported this surge, prompting investment in resorts, shopping centres and other amenities tailored to these travellers.

Agriculture, while accounting for only around 6% of GDP, remains vital for rural livelihoods and national food security. Roughly one-fifth of the workforce is engaged in farming, and more than half of the population lives in rural communities where other employment options are limited. Despite fertile valleys well suited to cereals, fruit orchards and livestock, the sector is dominated by small family plots with low mechanisation and modest yields. Structural challenges—fragmented land ownership, weak infrastructure and slow alignment with EU standards—continue to limit competitiveness.

Even so, Bosnia's climate, undervalued farmland and improving transport links offer potential for higher-value production. Growing government and international support could help modernise the sector and unlock stronger long-term growth.

5.3 Real economy - Bulgaria

5.3.1 Retail

Bulgaria's retail sector starts 2026 in a strong position, supported by moderate inflation, rising wages and solid consumer demand. Retail turnover has grown steadily for the past three years, and this trend continued through 2025. In October 2025, retail sales rose by 7.4% year-on-year, led by strong growth in non-food items. Sales of non-food goods excluding fuel increased by 12.9%, and fuel sales rose by 7.8%. Strong growth in September (5.7% y/y) and August (4.9%) also points to a resilient sector.

In 2026, retail activity will keep expanding within new investments in the sector. Romania's 5 to go coffee chain plans a large expansion, aiming to open 150 outlets by 2029 after testing the Bulgarian market in 2025. However, the government's new state-owned retail chain, "Shop for People", adds some uncertainty. The chain opened its first store in late 2025 and aims to offer low-cost, locally produced goods. Its role in the market is still small, but retailers worry it could distort competition if it receives unfair political or financial support.

Preparations for euro adoption on January 1, 2026 have also shaped the retail environment. Since August 2025, all retailers have been required to display prices in both leva and euros. Inspections have increased, and fines are being issued for non-compliance. Larger retailers are well prepared, but smaller shops face higher administrative costs and system changes. Dual pricing may also make consumers more alert to price changes.

Business sentiment weakened in late 2025, with retailers reporting lower expectations for the next quarter despite strong sales in Q3. This reflects concerns about the euro transition, political uncertainty and weak external demand. Even so, the outlook for 2026 is broadly positive: incomes are rising, inflation is low compared to the highs of 2022-23 and new market entrants continue to invest.

Overall, Bulgaria’s retail sector is set for steady growth in 2026. Risks include political interference, euro-related regulatory pressures and a possible dip in consumer confidence, but underlying demand and continued investment should support the sector throughout the year.

5.3.2 Banks

Bulgaria’s banking sector enters 2026 in a stable position, supported by strong liquidity, solid profits and steady credit growth. Banks have remained resilient despite political uncertainty, aided by Bulgaria’s membership in the EU banking union since 2020.

Banks reported a profit of €1.6bn in October 2025, up 2.8% year on year. Net profit for the first nine months reached BGN2.8bn (€1.43bn), a 3.9% increase. This reflects higher income and controlled costs, despite a small fall in total assets.

Domestic credit rose 15% year on year in October, with loans to households and non-profits up 21%. Corporate lending also increased. Rapid household credit growth poses some risks, and the Bulgarian National Bank has raised reserve requirements and set borrower limits to contain overheating.

Asset quality is solid. Non-performing loans fell to BGN3.85bn in Q3 2025, reducing the NPL ratio to 2.87%. Liquidity is high, with a coverage ratio of 234% in October and large liquidity buffers supported by rising household and corporate deposits.

Banks continue to attract investment and issue debt. TBI Bank issued a €34mn bond in August 2025, its largest to date, while Eurobank Bulgaria (Postbank) issued a €500mn seven-year bond in Luxembourg.

Eurozone entry will be a key factor in 2026. S&P Global Ratings affirmed Bulgaria’s BBB/A-2 rating with a positive outlook in early 2025, noting that adopting the euro could improve confidence, reduce currency risk and lower funding costs. Banks will face additional compliance and reporting requirements during the transition.

Risks include rapid household credit growth, slower economic growth and political uncertainty. A downturn could affect asset quality, but strong capital, high liquidity and active regulation limit systemic risks.

Overall, Bulgaria's banking sector is well positioned for 2026, with stable profits, manageable risks and continued credit and investment growth.

5.3.3 Industry

Bulgaria's industrial sector faces a challenging 2026, shaped by weak demand in Europe and structural issues at home. Industrial production fell sharply through 2025, with output down 8.7% year-on-year in August, marking nine consecutive months of decline. The contraction was broad-based, hitting utilities (-30.8%), mining (-6.9%) and manufacturing (-4.6%).

The downturn reflects weak orders, high production costs and challenges in energy-intensive sectors. Utilities remain the main drag, while manufacturing of capital and durable consumer goods shows relative stability. In Q3 2025, overall industrial production fell 7.6% y/y, with manufacturing down 2.7%, mining and quarrying down 9.1% and utilities down 30.5%.

Business sentiment is low. The industrial confidence indicator fell to 15.5% in October, reflecting weaker order inflows and lower production expectations, despite a slight rise in capacity utilisation. Political instability, corruption, labour shortages and rising material costs continue to weigh on the sector.

The automotive supply industry came under pressure at the end of 2025. SE Bordnetze announced it was closing its remaining Bulgarian plant due to rising labour costs and declining competitiveness. Other players, such as Yazaki and Nursan Otomotiv, remain in operation but report declining revenues and smaller workforces.

Investment in high-tech and strategic industries offers a counterbalance. ZS Europe, a Chinese-owned firm, opened a €9.7mn automotive components plant, creating around 100 jobs. International Power Supply launched Bulgaria's first gigafactory for battery energy storage systems, recognised as an EU strategic project under the Net-Zero Industry Act.

The biggest industrial story of 2025 was the agreement between Bulgaria and Germany's Rheinmetall to build a €1bn ammunition plant at the VMZ industrial complex in Sopot. The facility, part of Europe's defence expansion following Russia's war in Ukraine, will produce gunpowder and 155mm shells and is expected to create around 1,000 skilled jobs.

5.3.6 Major Sectors & Companies

The IT sector has emerged as a key driver of Bulgaria's economy, with software industry revenues expected to reach BGN11bn in 2025 and projected to exceed BGN13bn by 2027. The sector, comprising over 6,100 companies and more than 80,000 ICT professionals, continues to grow through new business formation and job creation. Adoption of emerging technologies such as artificial intelligence, machine learning and automation is gradually increasing, supported by over €92mn in government programmes for SME digitalisation and Industry 4.0 implementation.

Tourism, which contributes around 10% of GDP, is set to maintain its post-pandemic recovery. Inbound arrivals reached nearly 1.2mn in August 2025, up 8% year-on-year, with Romanian tourists driving much of the growth and Western European visitors rising sharply. Improvements in connectivity, including direct flights from Sofia to New York and Chicago in April 2026 and new regional links under the Destination Balkans initiative, are expected to open new long-haul markets and support both leisure and business travel. Sofia Airport handled over 6.28mn passengers in the first nine months of 2025, with full-year traffic projected at 8.4mn.

Bulgaria’s oil sector faces heightened geopolitical and operational risks. Lukoil Neftohim Burgas, the country’s largest refinery, is operating under temporary US and UK licences following sanctions on its Russian parent in October 2025, which are set to take full effect in spring 2026. The sanctions prompted concerns over fuel security, given Lukoil’s vast refining, storage and retail network in Bulgaria. In response, the Bulgarian government appointed Rumen Spetsov, director of the National Revenue Agency, as special commercial administrator of Lukoil’s four Bulgarian entities, effectively taking control of the company and launching a divestment process required to conclude by 29 April 2026. This move aims to secure uninterrupted operations and reduce Moscow’s commercial leverage in Europe, but legal and diplomatic challenges remain, with Moscow denouncing the intervention as a “dangerous precedent.”

In metals, German copper producer Aurubis has completed a €115mn modernisation of its Bulgarian smelter, marking the largest overhaul at the site in three decades, and plans a €120mn expansion to increase output by 50% to 340,000 tonnes annually. The project, expected to be commissioned in fiscal 2025/26, is financed in part by a €200mn European Investment Bank loan, the first under the bank’s new strategy to secure Europe’s critical raw materials. The expansion will meet rising European copper demand, enhance Bulgaria’s industrial capacity and support additional employment.

5.4 Real economy - Croatia

5.4.1 Retail

Croatia’s retail sector continued to expand in the second half of 2025. The latest data show that domestic retail activity remained resilient heading into the final quarter of the year.

Retail turnover rose 4.1% year on year in October, marking the 31st consecutive month of annual growth, the national statistics bureau (DZS) reported. Seasonally and working-day adjusted retail sales increased 1.3% from September, driven by a 2.9% rise in food sales and a 1.7% increase in non-food products excluding automotive fuels. Annual growth was broad-based, with food, beverages and tobacco sales up 1.6% and non-food categories expanding 7.7%, reflecting particularly strong spending on textiles, footwear and health-related goods.

Over the first ten months of 2025, retail turnover increased 3.6% in real terms compared with the same period of 2024. Unadjusted data show all nine retail sectors recorded higher sales, led by non-specialised food stores, which added 2.3 percentage points to nominal turnover growth. Sales of textiles, clothing and footwear surged 12.6%, while pharmacies and medical and cosmetic product retailers saw a 10.3% rise. Overall nominal turnover grew 6.9% year on year in October.

The expansion comes amid a wave of investment, consolidation and modernisation in Croatia's retail landscape. Food retailer Studenac — the market leader by store numbers — secured a €70mn EBRD loan in August to support acquisitions, refurbishments and operational upgrades as part of a wider €352.5mn investment programme. The company also opened a €10mn logistics and distribution centre in Velika Gorica in October, its largest infrastructure project to date, and aims to grow its network to 3,400 stores by 2028.

The sector is attracting international players as well. Austria's SES Spar European Shopping Centers has committed more than €28mn to develop a new retail park in Varaždin, scheduled to open in 2027. Dutch discount chain Action plans to enter the Croatian market in 2026, intensifying competition in the low-cost non-food segment.

Consolidation continues in both food and non-food retail. Fortenova-owned distributor Roto dinamic acquired Varaždin-based wholesaler Hermo in October, while Poland's Inter Europol bought bakery group Pan-pek in July, strengthening its presence in Southern Europe. Regional footwear retailer Mass is set for rapid expansion after private equity group Advance Capital Partners agreed to acquire a 60% stake, with plans to triple revenue and open around 100 stores in the next five years.

Digitalisation is also advancing. Leading supermarket chain Konzum has partnered with Instaleap to scale up its e-grocery fulfilment capabilities as part of a broader technological upgrade across its 600-store network.

5.4.2 Banks

Croatia's banking sector continued to expand in the first nine months of 2025, driven by strong lending momentum to both households and companies, even as profitability softened compared with last year. The Croatian National Bank (HNB), in its December 2 report, said total assets of credit institutions rose by 7.4% from the end of 2024 to reach €90.3bn. The expansion was fuelled by sustained demand for credit: overall lending increased by 1.4%, with particularly rapid growth in household borrowing, which jumped by 10.1%. Lending to non-financial companies rose by 9.2%, supported by favourable financing conditions and banks' willingness to redirect liquidity into credit rather than holding it at the central bank. Highly liquid assets, including reserves at the HNB, fell by 15.4% as banks deployed funds more actively into their loan books.

Asset quality continued to strengthen despite the acceleration in lending. The sector's non-performing loan ratio remained stable at 2.3%, among the lowest levels in the region. NPL rates improved in both core portfolio categories, declining to 3.7% for corporate loans and 3.5% for household borrowing. The improvement reflects strong employment trends, resilient corporate performance, and active loan restructuring in previous years.

Despite the solid credit expansion, profitability weakened. Sector profits for the first three quarters amounted to €1.1bn, a 5.9% decline year on year. Returns moderated accordingly: return on assets slipped to 1.7% and return on equity to 15.5%. The HNB said capitalisation remained robust, with the total capital ratio standing at 23.1%, only slightly lower than at the end of 2024 as risk-weighted assets rose faster than capital. All banks remained well above the regulatory minimum of 8%. Liquidity also stayed ample, with all institutions meeting mandatory thresholds. The average liquidity coverage ratio was a high 217.9% at the end of September.

The International Monetary Fund (IMF) warned, however, that heightened risks call for continued vigilance. Cyclical systemic risks have increased, though they remain moderate and manageable given the sector's strong profitability, capital buffers and liquidity. Stress tests suggest the system would remain resilient under adverse scenarios. Nonetheless, vulnerabilities are building in the housing market and structural risks persist, including the relatively high sovereign-bank nexus and concentrated exposures to certain corporate sectors. The authorities have already tightened macroprudential tools, both capital-based and borrower-based, but the HNB said further tightening may be needed if cyclical pressures persist. Given the high share of property purchased with cash and rising foreign demand, complementary measures—such as boosting housing supply and adjusting taxation on property and short-term rentals—are recommended to curb speculative pressures.

Regulatory reforms have also advanced. After months of consultations, the government submitted its final proposal for the Law on Fee Comparability, Account Switching and Access to a Basic Payment Account to parliament in May. The legislation, passed later in the year, prohibits banks from charging fees for basic accounts and aims to ease the financial burden on vulnerable groups, including pensioners, carers, students and welfare recipients. It guarantees free or low-cost access to core services such as account opening and maintenance, digital banking, cash transactions and debit-card use.

From 9 October 2025, all banks will also be required to offer instant payments and a new recipient-name verification service under EU Regulation 2024/886. The new system will allow transfers within ten seconds, around the clock, for both domestic and cross-border euro payments.

The HNB has additionally confirmed that the digital euro could be introduced as early as 2028, though it emphasised that cash will continue to play an important role, supported by new EU rules protecting access to physical money.

Meanwhile, household financial conditions continue to improve. The number of Croatians with a positive account balance reached 3.42 million at the end of 2024, up by more than 68,000 from a year earlier. Deposits rose 4.6% to €38.12bn, alongside a gradual narrowing in financial inequality. According to the HNB, the increase reflects both new account openings and a sizable group of citizens moving out of persistent overdrafts into positive balances.

5.4.3 Industry

Croatia's industrial landscape is broad-based and increasingly innovation-driven, complementing an economy long dominated by services, particularly tourism, which accounts for nearly 60% of GDP. While the service sector remains central, Croatia retains strong industrial foundations and is pursuing a strategic shift toward higher-value manufacturing, advanced technologies, and export-oriented production.

Manufacturing remains diverse, spanning food and beverages, metal processing, machinery, chemicals, pharmaceuticals, wood products, and electrical equipment. Recent investments highlight continued confidence in the sector. Intersnack Adria has begun constructing a new potato chips factory, while Heineken's Croatian unit has completed a €25mn investment to expand production. German building materials producer Tece is also investing €25mn in a new plant in Novska. Meanwhile, Končar – Power Transformers, a joint venture with Siemens Energy, is undertaking a €260mn expansion of its Zagreb facilities, reinforcing Croatia's position in the regional energy equipment market.

Croatia's shipbuilding industry, once a national industrial pillar, is undergoing restructuring and repositioning. The sector is now focused on high-value products such as luxury yachts, defense vessels, and specialized ships. The government has launched the sale process for the 3. Maj shipyard, aiming to revive capacity and attract private investors, with Croatian shipbuilder Iskra submitting a bid. Industry leaders say the country is well prepared to contribute to Europe's defence-related shipbuilding needs.

Croatia sees significant economic potential in expanding its defence industry as European security concerns rise, Deputy Prime Minister and Defence Minister Ivan Anušić said at a Zagreb conference. Global demand for defence equipment has surged since Russia's invasion of Ukraine, creating openings for Croatian high-tech producers such as HS Produkt, Končar, Đuro Đaković, Šestan-Busch, Orqa and DOK-ING. Officials say the sector is becoming more integrated with NATO and EU partners, while new investment and EU funding are expected to support jobs, innovation and broader industrial growth.

5.4.6 Major Sectors & Companies

Croatia's tourism sector is on track for a strong 2025, with 15.5 million arrivals and over 79mn overnight stays recorded by late August — slightly above last year's levels. Spending has risen far more sharply, up more than 10% year-on-year, and the central bank expects foreign tourism revenues to reach €15.5bn. Tourism contributes about a fifth of national GDP, and officials continue efforts to attract visitors beyond the peak summer months.

Yet the season also exposed growing vulnerabilities. Sharp price increases — nearly 50% since 2020 — have made Croatia one of the costliest Mediterranean destinations, prompting some travellers to choose cheaper alternatives. July and August brought 745,000 fewer overnight stays, costing an estimated €140mn. Although hotels and campsites report higher turnover, rising labour and food costs are compressing margins. Industry leaders warn that pricing and service adjustments are essential to safeguard competitiveness.

Croatia's tech sector is expanding rapidly, fuelled by EU digitalisation funds, strong export growth and an increasingly dynamic startup scene. ICT services dominate the market, reflecting rising demand for digital transformation across telecoms, finance, healthcare and the public sector. Strategic growth areas include AI, cloud services, cybersecurity, enterprise software and IoT. Zagreb is emerging as a regional deep-tech hub, supported by flagship companies such as Infobip, Rimac, Orqa and Gideon. Croatia's small but tech-savvy market also attracts major global players, including Siemens, Microsoft and Ericsson Nikola Tesla. The sector now employs more than 65,000 people across over 13,600 firms, with average salaries above €2,500.

Automotive and mobility technologies represent one of the most dynamic segments in Croatia. The country is developing as a hub for advanced automotive manufacturing, led by Rimac, whose subsidiary Verne is building a factory for autonomous electric vehicles near Zagreb. Another major investment comes from IMS Gear, which will open its first European production facility outside Germany in Osijek. Porsche is also entering the market with a new plant to manufacture batteries for electric bikes in Sveta Nedelja.

5.5 Real economy - Kosovo

5.5.1 Retail

The International Finance Corporation (IFC) is investing up to €75mn in green and quality retail and office infrastructure at Prishtina Mall in Kosovo, aiming to strengthen regional economic integration, support private sector growth, preserve jobs, and promote energy efficiency, *Telegrafi* reported in November.

The financing is the IFC's largest private sector investment and the first syndicated loan in Kosovo, signalling growing international confidence in the country's economic potential.

A signing ceremony took place at Prishtina Mall, attended by senior government officials, World Bank Group representatives, IFC regional leaders, and the mall's investors and management.

"This investment supports IFC's goals of expanding formal employment in the private sector and strengthening environmental sustainability. It will create quality job opportunities, including for youth and women, while promoting renewable energy and energy efficiency to address the country's high-carbon energy mix," Visar Perani, IFC country manager for Kosovo and North Macedonia said.

Plans include the installation of 4.5 megawatt-hours of solar power capacity and other green measures designed to improve the mall's energy performance, reduce emissions, and contribute to Kosovo's broader transition toward a greener economy.

Danish retail brand Flying Tiger Copenhagen opened its first store in Kosovo in November.

Flying Tiger Copenhagen has partnered with Albania-based Balfin Group in a strategic plan to open 50 stores across five countries over the next four years with first in North Macedonia, Albania and Kosovo, it was reported in June 2025.

The expansion is expected to create around 400 new jobs, while introducing a new standard in retail experiences for the region. Flying Tiger in cooperation with Balfin also plans to open stores in Bosnia and Herzegovina and Montenegro.

5.5.2 Banks

In November 2025, the Central Bank of the Republic of Kosovo (CBK) welcomed the European Commission's positive assessment of the country's financial system in the 2025 Kosovo progress report, which notes that the sector remains highly stable, increasingly well-capitalised, and continues to advance toward alignment with EU standards.

According to the Commission, Kosovo's banking sector expanded at a steady pace while maintaining strong capital and liquidity buffers.

Regulatory capital remains well above the required minimum, and the non-performing loan ratio is at a historic low. The report also recognises the adoption of the Regulation on Macroprudential Capital Add-ons and the implementation plan for the Supervisory Review and Evaluation Process (SREP), both aligned with European Banking Authority (EBA) guidelines.

In the payments sector, the report highlights progress under the new Law on Payment Services and the CBK's membership in the European Association of Automated Clearing Houses (EACHA), which enables direct cooperation with EU central banks to improve payment systems. It also notes rising electronic payment volumes throughout 2024 and the broader availability of financial services in municipalities in northern Kosovo.

Commercial banks in Kosovo saw their total assets reach €9.1bn at the end of October 2025, according to central bank data.

Gross loans expanded to €6.5bn, up 16.2% year-on-year. Loans to households totaled €2.7bn, up 19.9% y/y, while corporate loans rose 13.1% to €3.7bn.

Total deposits of Kosovo's banks grew by 12% to €7.35bn at the end of October, reflecting persistent confidence in the banking system. The total capital of commercial banks was €1.1bn.

Banks posted a combined profit of €153mn in the first ten months of 2025.

According to Fitch, Kosovo's banking sector remains highly profitable, posting a return on equity of 17.6% in July 2025. Asset quality is strong, with non-performing loans at just 2.1%, all fully provisioned.

The system is well-capitalised, with Tier 1 capital at 15.5%. Authorities have also implemented macro-prudential measures to rein in rapid credit expansion, which surged to 20% in March. The sector is predominantly foreign-owned, with 84% of banks in foreign hands — more than half of them EU-owned — helping uphold robust prudential standards.10 banks operate in Kosovo of which seven are foreign owned.

5.5.3 Industry

According to a European Commission document, Kosovo's industry represented 18.5% of gross value added in 2024, but Kosovo's manufacturing base remains narrow, relying mainly on mineral mining and processed metal products. The share of agriculture in GVA remained virtually unchanged at around 7% in 2024, compared to 5 years before.

Kosovo's producer price index (PPI) went up by an annual 5.5% in the third quarter of 2025, statistics institute's data indicated.

The strongest price increases were recorded in motor vehicle production (23.01%), electricity and gas supply (20.8%), textiles (14.2%), pharmaceuticals (8.1%), clothing (7.9%), furniture (7.8%), printing (7.0%), machinery (5.1%), electrical equipment (5.0%), water supply (5.0%), food processing (3.1%), paper (2.9%) and wood products (0.9%).

According to the statistics office, the manufacturing industry remained the dominant segment of industrial production in 2024, accounting for 93.8% of total industrial products, unchanged from 2023, based on the results of the 2024 Industrial Products Survey.

The extractive industry recorded a modest increase of 1.23% in 2024 compared with the previous year.

At the same time, the water supply, sewerage and waste management sector continued to expand its share, rising from 0.05% in 2022 to 0.88% in recent years, pointing to gradual improvement in auxiliary industrial activities.

5.5.6 Major Sectors & Companies

Kosovo's key industrial sectors include mining and metals, construction materials and manufacturing. Agriculture and energy remain important pillars of the economy, while construction continues to expand and newer industries such as IT and outsourcing are gaining momentum.

In 2025, Kosovo, like many other European countries, began placing greater emphasis on developing its defence industry. On November 8, acting Prime Minister Albin Kurti inaugurated the country's first domestically produced combat drone, the *Skifteri* ("The Hawk"), built by Future Minds Academy in the eastern city of Gjilan.

Kurti highlighted that Kosovo has already made substantial investments in modernising its defence capabilities, including the acquisition of unmanned aerial vehicles from allied nations such as Turkey's Bayraktar TB2 and Skydagger drones, as well as the US-made Puma reconnaissance drones.

"We are building and developing the future of the defence industry and the advancement of combat drones in Kosovo," Kurti said, highlighting the growing importance of domestic production.

The prime minister pledged continued government support for innovation in the defence and technology sectors, both at central and local levels.

Kosovo will begin producing domestically made ammunition in late 2026, after the government approved the expropriation of property of the former agricultural industrial complex KBI Ereniku near Gjakova, to build the country's first Defence Industrial Zone.

Kurti said the approval "paves the way for the construction of the Ammunition Factory, the first of its kind in the independent Kosovo", adding that it will serve the Kosovo Security Force, boost national security and expand defence capacities.

Construction of the factory—covered by a signed contract with Turkish manufacturer MKE—is expected to be completed in 2026, with production scheduled to begin at the end of 2026.

The wider industrial zone is intended to host additional investors and will support the manufacture of various military products, including military and civilian drones made in Kosovo.

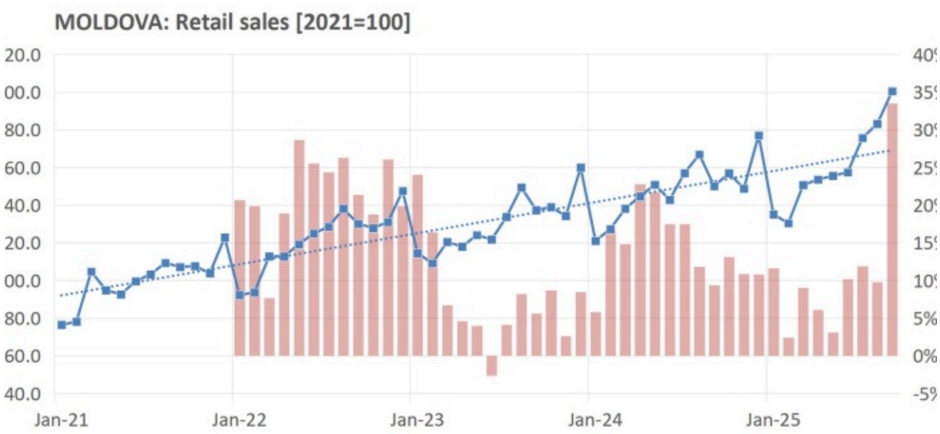
Kurti highlighted significant growth in defence spending during the current mandate, noting that the budget has quadrupled, the number of soldiers doubled, and more than €430mn worth of weapons and equipment purchased from Nato member states in the last four years.

He pledged over €1bn investments in defence if he secures another mandate following December 28 snap elections.

The KSF now fields Skydagger and TB-2 Bayraktar drones from Turkey, Puma systems and Javelin anti-tank weapons from the US, and is set to introduce an ammunition factory, a 'Made in Kosovo' drone production plant, and US-made Black Hawk helicopters.

5.7.1 Retail

The retail sales index in Moldova surged by 33.5% y/y in September 2025 bringing the average sales index in the 12 months before some 11% above the previous 12-month period.



Even though the unusually high preliminary September data may be revised downward, the growth rate remains significant and not backed by a similar advance of wages, employment, pensions or transfers from abroad.

In a report published in November 2025, Expert Grup think-tank attributes the rise in private demand, which generated modest economic growth in Q2 (+1.1% y/y), to the more abundant bank lending after the interest rates normalised. Separately, both the opposition and the authorities extended financial subsidies to the electorate ahead of the parliamentary elections in 2025.

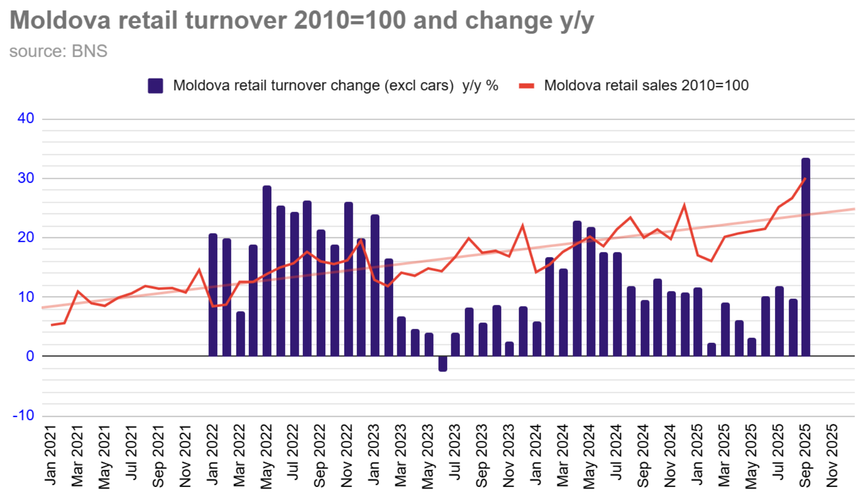
Moldova's average gross wage rose by 9.7% y/y to MDL15,488 (€786) in the third quarter of 2025. In real terms, gross wages increased by 2.1% y/y during the quarter. In January-September, the average gross wage advanced by a real 1.9% y/y.

The employment index increased by 1.4% y/y in the third quarter and by 1.3% y/y over the first three quarters, accelerating from the moderate but positive growth rates of 0.4% in 2024 and 0.3% in 2023.

Separately, the transfers from abroad decreased by 6.5% y/y to €1.5bn in 12 months to October.

Bank lending in Moldova, supporting Expert Grup's scenario, increased by 32% y/y in October, equivalent to 23% y/y in real terms, supported mainly by mortgage loans, consumer credit and lending to trade companies, according to data published by the National Bank of Moldova. The stock of loans exceeded MDL100bn (€5.05bn), or 27.5% of GDP, at the end of the month.

Mortgage loans, which accounted for 24.6% of the total portfolio, rose by 46.4% y/y and contributed 10.4 percentage points to the overall increase in lending. Consumer loans, representing 18.8% of the total, advanced by 32.5% y/y and added 5.1 percentage points. Loans to trade companies, with a share of 20.3%, grew by 26.7% y/y and contributed a further 5.6 percentage points.



5.7.2 Banks

Moldova's banking sector continues to demonstrate robust financial stability, reflecting the National Bank of Moldova's efforts to strengthen the system and reinforce public confidence, the central bank said in a report published on November 28. The aggregated profit of the ten commercial banks rose by 16% y/y to MDL3.40bn (€172mn), driven mainly by a 21.8% increase in interest income to MDL8.13bn.

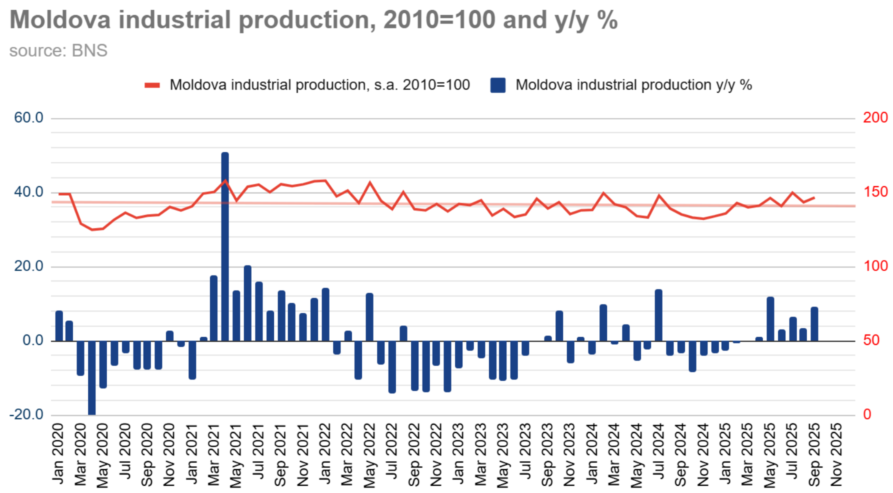
Return on assets reached 2.5% and return on capital 15.8%, with both indicators improving from the end of the previous year by 0.1pp and 1.0pp respectively. According to the central bank, these profitability levels reflect a stable, efficient banking sector with solid earnings and a strong capacity to capitalise on available resources.

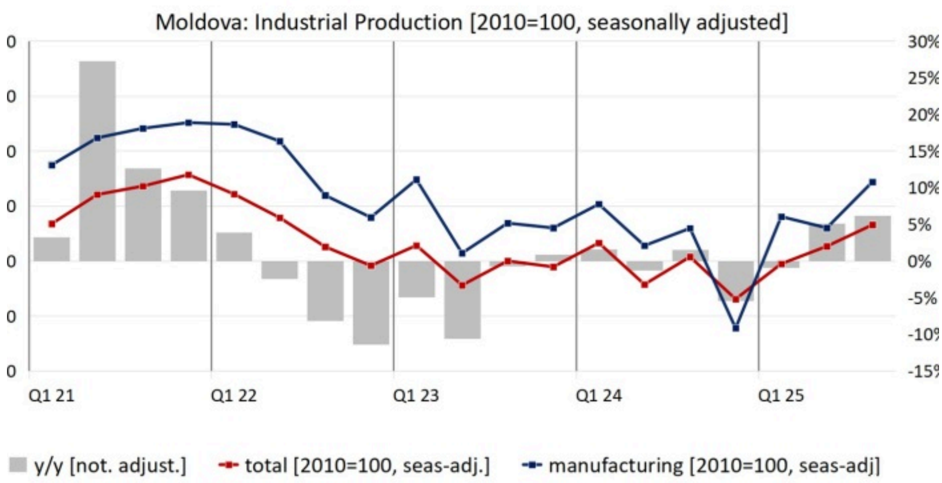
Total banking assets amounted to MDL181.0bn (around 50% of GDP) at the end of September, an increase of 6.3% year to date compared to 4.9% consumer price inflation over the same period of time. Loans and advances at amortised cost accounted for the largest share of assets at 54.5%, up 7.1pp compared with the end of 2024.

The gross prudential loan balance reached MDL99.2bn, representing 54.8% of total assets and marking a 22.8% rise year to date and witnessing robust lending activity.

The strongest growth was recorded in loans for the purchase or construction of real estate, which increased by 31.3% to MDL24.39bn. Lending to the trade sector rose by 20.1% to MDL20.2bn, while consumer loans grew by 25.1% to MDL18.5bn.

5.7.3 Industry





Moldova's industrial output rose 6.2% y/y in Q3 2025, marking the third consecutive quarter of strengthening activity. Manufacturing, the core component of industrial production, recorded a 6.7% y/y increase, while the more volatile utilities segment grew 2.1% y/y.

Across the first three quarters of the year, industrial output increased 3.4% y/y, with manufacturing advancing 2.5% y/y. The figures confirm a gradual recovery from the 5.4% y/y contraction registered in Q4 2024. The National Bureau of Statistics (BNS) noted that the strong Q2 and Q3 performances, both above 5% y/y, were achieved without favourable base effects, which are expected to support annual growth in Q4.

For January-September, food processing posted a 5.6% y/y decline, contrasting with a modest 1.0% y/y rise in beverage production.

Labour-intensive sectors remained the main drivers of industrial growth through 2025. Clothing production increased 14.8% y/y in Q3 and 18.9% y/y in the first nine months. Metal constructions also recorded substantial expansion, rising 43% y/y in Q1 and 27% y/y in January-September. The production of electronic and optical devices, largely linked to car parts manufacturing, delivered the most pronounced gains, up 73% y/y in Q3 and 59% y/y for January–September.

BNS data indicate that these labour-intensive export-oriented industries have played a central role in stabilising and expanding Moldova's industrial base this year. The sectors' strong performance has compensated for ongoing weakness in food processing, structurally a core industrial activity, and has supported broader economic resilience amid shifting regional conditions.

5.7.6 Major Sectors & Companies

Moldova has boosted the budget for the state aid scheme for investments to €200mn. The government approved on October 18 an amendment to the Regional State Aid Scheme for investment, doubling its total budget from MDL2bn to MDL4bn (over €200mn, or 1.2% of GDP). Under the revised framework, MDL1bn will be allocated as direct grants, while MDL3bn will take the form of 50% income tax reductions applied to profits generated from qualifying investments. A maximum ceiling of MDL20mn per grant has also been introduced for individual enterprises.

Romania is close to acquiring Moldova's main seaport, Giurgiulesti International Free Port (PILG), from the European Bank for Reconstruction and Development (EBRD). Danube Logistics, fully owned by the EBRD, operates Giurgiulesti under a 99-year concession granted in 2004. The special "international free port" regime, however, expires in 2030. Romania's offer reportedly totals about €88mn, including €60mn for the acquisition and €28mn for subsequent investments.

Moldova will receive investments worth €200mn over the next three years following its first public tender for large-scale renewable energy projects, IPN reported. The tender will result in the installation of 165

MW of new wind and solar capacity, marking a key milestone in the country's transition towards sustainable energy sources.

Moldova has attracted a €20mn investment from the Chinese company New Energy Technology for the construction of the country's first factory dedicated to electric vehicle (EV) charging station components. The agreement was formalised at Moldova Business Week 2025 through a memorandum of understanding signed by Zener Group (Moldova), New Energy Technology (China), and Horizon Auto.The size of the project is particularly relevant for Moldova's foreign investment landscape and pinpoints the political impact the political stability achieved after the latest parliamentary elections could have on the country's business climate negatively affected by the war in Ukraine.

5.7 Real economy - Montenegro

5.8.1 Retail

Montenegro's retail sales rose by 6.8% in nominal and by 2.4% in real prices in the third quarter of 2025 compared to the same period last year, the country's statistics office reported on October 28.

On a quarterly basis, retail turnover recorded a strong rise, increasing by 19.9% in nominal prices and 18.6% in real prices compared to the second quarter of 2025, reflecting higher consumer activity during the summer months.

Turnover in the retail trade of motor fuels declined by 1.6% year on year in the third quarter but jumped by 25.4% compared to the previous quarter. Retail trade in food products showed robust growth, up 6.6% year on year and 24.7% quarter on quarter.

Meanwhile, turnover in the retail trade of pharmaceutical and cosmetic products increased by 7% compared to the third quarter of 2024 and by 9.5% from the second quarter. Turnover of other non-food products rose by 8.2% year on year and by 15.9% compared to the previous quarter.

After opening stores in Albania, Kosovo and North Macedonia in October 2025, Flying Tiger in cooperation with Albania's Balfin also plans to open stores in Montenegro.

The European Bank for Reconstruction and Development (EBRD) said in December 2025 that it approved an equity investment of up to €25mn in Montenegro's leading retailer Voli Trade.

The funding will be used to build a new logistics and distribution centre (LDC) in Podgorica, a key infrastructure project intended to modernise the company's supply chain and support its long-term growth.

The investment comes as Voli embarks on an ambitious €80mn expansion plan over the next three years, developed in partnership with the EBRD, according to comments made by Voli Group president Dragan Bokan.

5.8.2 Banks

The Montenegrin central bank said at the end of November that the country's banking sector remains liquid, solvent and profitable, but warned that cyclical risks are building, driven by record real estate prices and strong credit growth.

In its review of the countercyclical capital buffer for the first two quarters of 2025, the central bank left the rate unchanged at 0.5%, with a planned increase to 1% from January 1, 2026.

Property prices have reached historical highs, with signs of overvaluation, while annual loan growth has climbed into double-digit territory, the bank noted.

The Council of the Central Bank of Montenegro (CBCG) adopted drafts of three laws on November 28, 2025, marking a major step toward fulfilling the final requirements for closing EU negotiation chapter 9 on financial services.

The draft law on digital operational resilience aligns Montenegro with the EU's DORA regulation, aiming to strengthen the financial sector's protection against cyber risks and ensure business continuity. It will take effect upon Montenegro's EU accession.

A second proposal amending the Law on Financial Conglomerates brings full compliance with Directive (EU) 2023/2864 on transparency and data exchange. The Council also adopted amendments to the Law on Financial Security to reflect recent changes in EU standards.

2025 saw Montenegro complete its first Single Euro Payments Area (SEPA) transactions, advance preparations for joining the European infrastructure for instant payments, and meet the final criteria for closing EU negotiation chapters 4 on Freedom of movement of capital and 9 on Financial services, governor of the central bank, Radoje Radović, said in December.

Radović highlighted that consistent supervision and the implementation of adequate macroprudential measures have strengthened stability, liquidity, and capitalisation in the banking sector, boosting public and business confidence.

Data for the first eleven months of 2025 show total bank assets at €7.7bn, nearly matching the projected GDP. Bank capital reached €1bn, up 10% year-on-year, while loans increased by 15%, almost four times the GDP growth rate. Deposits rose by nearly 5%.

The average solvency ratio stands at 19.39%, more than double the legal minimum, while non-performing loans fell to 2.78%, the lowest in 15 years. Effective interest rates on new household loans dropped to

6.93%, the lowest in a decade, and new business loans averaged 5.21%, declining over the past three years.

5.8.3 Industry

According to the World Bank, Montenegro's small, open and service-oriented economy remains highly exposed to external shocks, making fiscal discipline and structural reforms essential for preserving macroeconomic stability.

The World Bank notes that Montenegro's growth model has relied heavily on a handful of large investment projects in transport, energy and tourism.

These investment-driven construction booms generated short-term growth spurts but did little to boost productivity and were often followed by steep downturns, leaving the economy increasingly vulnerable. At the current pace, even if GDP per capita were to continue growing at its pre-pandemic average of around 3%, Montenegro would still not reach average EU income levels within the next four decades.

Montenegro's economy is driven primarily by tourism and energy, while manufacturing — particularly aluminium and steel production — along with agriculture and a growing technology sector also play important roles. Tourism remains the country's strongest economic engine, benefiting from its Adriatic coastline and extensive mountain landscapes. The energy sector is largely based on hydropower, complemented by an expanding wind power industry, and electricity has in recent years become one of Montenegro's leading export products.

5.8.6 Major Sectors & Companies

Montenegro's key industrial sectors include steel production, aluminium processing, food manufacturing and a range of consumer goods industries. The country also has a long tradition in mining and other energy-intensive manufacturing. In recent years, Montenegro has been shifting toward higher-value activities such as precision engineering and electronics assembly. Tourism remains a major pillar of the economy.

Montenegro's tourism sector features a blend of coastal and mountain attractions, from the historic walled cities of Kotor and Budva to its inland natural landscapes.

Tourism contributes roughly 25% of Montenegro's GDP, with the country attracting at least three times its population in visitors annually. The sector is boosted by new luxury tourism ventures, including ship and yacht tourism, which make significant economic contributions. Montenegro also prioritizes the development and expansion of its road, rail, and air transport networks to support the growing tourism industry.

Montenegro registered more than 4.4mn foreign overnight stays in collective accommodation in the first ten months of 2025, a slight 0.5%

decrease compared with the same period in 2024, according to statistics office data. Including domestic visitors, total overnight stays reached nearly 5mn.

The number of foreign guests rose to 1.2mn, up 2.1% year on year, while total guest arrivals exceeded 1.4mn.

Montenegro has received four bids for the construction of the second section of its northern motorway, spanning Mateševo to Andrijevica, with work scheduled to start by the end of the year and finish in five years. The total project is valued at €600mn, it was reported on November 13.

The project is a strategic infrastructure investment aimed at improving connectivity in northern Montenegro, enhancing regional mobility and supporting economic growth.

Among the bidders is China Communications Construction Company (CCCC), a state-owned Chinese firm blacklisted by the US since 2020 due to its links to the Chinese military.

Two additional Chinese consortia — Shandong Foreign Economic & Technical Cooperation with Shandong Luqiao Group, and Powerchina-Stecol — have also applied. The fourth contender is a Turkish-Azerbaijani consortium, Cengiz-Azvirt, which has been active in the region for over a decade through its subsidiaries.

5.8 Real economy - North Macedonia

5.6.1 Retail

North Macedonia's retail sales rose by 3% in real terms year-on-year in October 2025, reversing a 0.2% slim decrease a month before, the latest data from the country's statistics office indicated.

In nominal terms, retail sales (except motor vehicles and motorcycles) were up by 7.8% year-on-year in the tenth month of 2025. In October, retail trade in food, beverages and tobacco increased by 7.1% year-on-year in real terms, and jumped by 15.9% in nominal terms, data from the statistics office showed. Fuel sales went up 4.3% in real terms and went up 2.9% nominally.

Compared to 2021, the retail sales index surged 35.2% in nominal terms and grew by 5.2% in real terms.

Danish retail brand Flying Tiger Copenhagen opened its first stores in Skopje's East Gate Mall in October 2025.

Flying Tiger Copenhagen has partnered with Albania-based Balfin Group in a strategic plan to open 50 stores across five countries over the next four years with first in North Macedonia, Albania and Kosovo, it was reported in June 2025. The expansion is expected to create around 400 new jobs.

Lidl began its journey in North Macedonia in February 2021, establishing its corporate entity and signalling long-term growth ambitions in the region. The retailer plans to open a flagship store in Skopje in 2026, which will serve as a cornerstone of its operations in the capital.

North Macedonia laid the cornerstone for a new Lidl retail facility in the Aerodrom municipality of Skopje on September 3, 2025.

The store, one of several Lidl outlets planned in North Macedonia, will span 3,438 square metres, including a 1,200-square-metre showroom and 57 parking spaces.

Prime Minister Hristijan Mickoski welcomed Lidl’s commitment to stock more Macedonian products, noting that exports of domestic goods to Lidl markets abroad doubled to €10mn in 2025. The government said the investment will increase competition, improve consumer choice and boost confidence in local products.

Germany’s DM drogerie market has reported another successful business year in North Macedonia, recording a total turnover of MKD3.72bn (€60.5mn) for the business year 2024/25, a 21.2% increase compared with the previous year, Skopje-based unit said.

The strong performance further cements its position among the leading retail chains in the country’s fast-growing health and beauty market.

The largest shopping centre in the south of North Macedonia officially opened in Gevgelija on December 13, marking a significant investment in the town located near the Greek border, state news agency *MIA* reported.

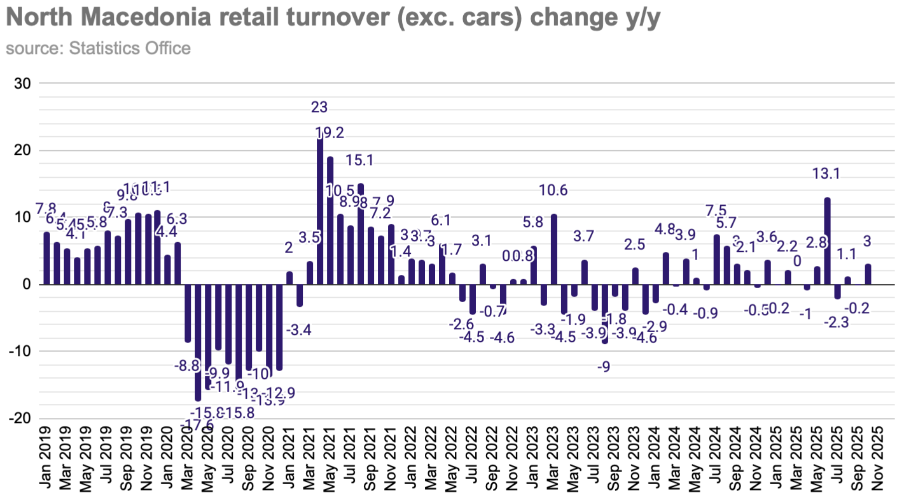
The project represents an investment of around €10mn by Monopolist Invest and is expected to contribute to local economic activity, employment and cross-border shopping tourism in the region.

Gevgelija Mall covers a total area of around 10,000 square metres and is strategically positioned just a few minutes from the Bogorodica border crossing and about 200 metres from the E-75 highway, making it easily accessible for both domestic visitors and travellers from neighbouring Greece.

The new shopping centre will host more than 25 international and regional brands, offering a wide range of retail options. In addition to fashion and lifestyle stores, the mall includes food outlets, a bookstore catering to all age groups, a pharmacy, a jewellery shop and a currency exchange office providing tax-free services.

Greek retail company JUMBO specializing in toys, home goods, and seasonal items, officially opened its new store in North Macedonia located at Gevgelija Mall, marking a significant investment that strengthens the brand’s presence in the southern region.

Spanning 3,000 square meters, the facility features over 20,000 products, including home goods, toys, decorations, and seasonal items.



5.6.2 Banks

North Macedonia's banking sector recorded a 2.9% annual decline in combined net profit, reaching MKD14.5bn (€235.8mn) at the end of September 2025, central bank data showed.

The five largest banks by assets generated the vast majority of sector profit, posting MKD13.4bn. Mid-sized banks reported a net profit of MKD858mn, while small banks earned MKD241mn.

Total net interest income slipped 0.6% y/y to nearly MKD21bn in the first nine months of the year. In contrast, net fee and commission income grew 1.4% y/y to MKD5.3bn.

Profitability, measured by return on average equity (RoAE), declined to 17.5% at the end of September from 20.2% a year earlier.

The sector's combined assets rose to MKD881.3bn as of end-September 2025, up from MKD765bn a year before, with the largest banks holding MKD715.4bn of the total.

Non-performing loans stood at 2.3% at the end of September, down from 3% a year earlier, reflecting the resilience of the banking sector and the soundness of the loan portfolio.

Thirteen banks operate in the country of about 1.8mn population, including the state-run Development Bank of North Macedonia.

Commercial bank loans in North Macedonia increased by an annual 12.1% to MKD535.5bn (€8.7bn) at the end of October, after rising by 13.5% in the previous month, central bank data showed on November 21.

The annual and monthly growth of total loans stems from increased lending in both household and corporate sectors, particularly in the household sector, the central bank said in a statement.

Deposits totalled MKD631.4bn at the end of October, marking an annual growth of 11.8% and a monthly increase of 0.4%.

Starting from October 7, citizens and companies in North Macedonia are able to make euro payments with countries in the Single Euro Payments Area (SEPA) faster, cheaper, and more efficiently.

SEPA enables euro-denominated payments across 41 participating countries under uniform conditions. The integration brings significant advantages for both citizens and businesses, including faster, cheaper and more efficient cross-border euro payments, enhancing economic connectivity with the EU.

According to Erste, as a result of stronger credit growth relative to deposits, the loan-to-deposit ratio in the first nine months climbed by 2.4pp compared with the end of 2024, reaching 84.7%.

5.6.3 Industry

North Macedonia's key industries span manufacturing — including textiles, automotive components and electro-metal production — agribusiness and food processing, ICT, and wine production. Industry accounts for around 23% of GDP, with the textile sector remaining one of the country's most significant export earners.

The economy also benefits from an abundance of minerals, which support and supply its manufacturing base.

According to the State Statistical Office, in 2024, nearly 69,000 market-oriented enterprises recorded a total turnover of MKD2,153bn (€35bn) and generated a gross value added (GVA) of MKD486.2bn.

The highest share of turnover, 40.2%, was achieved by companies in the wholesale and retail trade sector, followed by the manufacturing industry with 24.3%.

In terms of contribution to total GVA, the manufacturing industry led with 25.9%, followed by wholesale and retail trade (21.3%), construction (9.6%), and information and communication (9.2%).

5.6.6 Major Sectors & Companies

North Macedonia's key industrial sectors continue to attract investor interest, driven by foreign direct investment in Free Economic Zones and growing opportunities linked to the country's green transition, according to an energy industry report published in November 2024.

The automotive components sector remains one of the strongest pillars of the economy, with major international manufacturers operating inside the country's Technological Industrial Development Zones (TIDZs).

These 15 zones, including those in Skopje, Tetovo and Štip, offer tax incentives and host more than 90% of export-oriented enterprises.

Textiles and apparel also remain a significant sector, heavily focused on exports to the EU market.

Mining is another important industry, with key resources such as zinc, lead, copper, marble and limestone. Major operational sites include the Buchim copper mine and the Sasa lead-zinc mine.

The country's energy mix combines thermal and hydropower generation with a rapidly expanding portfolio of solar and wind projects. The report notes that energy intensity in the industrial and manufacturing sectors has been declining in recent years, indicating gradual improvements in efficiency.

Agri-food processing continues to support export growth, particularly in wine, dairy products and canned vegetables.

North Macedonia's strategic position as a logistics hub linking Europe and Asia offers further advantages for investors. However, the report also highlights several challenges, including continued dependence on imported fossil fuels and the need for modernisation in transport and digital infrastructure.

With government targets aimed at accelerating renewable energy development and strengthening industrial capacity, the country is expected to remain an attractive destination for investment in the coming years.

Global automotive supplier Kostal will launch a new €30mn investment cycle in its Ohrid factory in North Macedonia in 2026, creating 200 new jobs, the government announced in November 2025.

Kostal aims to turn the factory into one of North Macedonia's top three exporters by 2027, with total exports and turnover exceeding €300mn.

Investment in German pharmaceutical packaging company Gerresheimer's new facility in North Macedonia's free industrial zone Skopje 2 will rise to €140mn from the previously announced €126mn, the Technological Industrial Development Zones (TIDZ) said at the end of November.

North Macedonia signed a memorandum of understanding (MoU) with the American-British company Burstock, which plans to invest up to $150mn in the country's defence industry, Prime Minister Hristijan Mickoski announced in October.

"This investment will create 1,000 new high-paying jobs — and this is just the beginning," Mickoski said in a Facebook post, adding that total investments in the defence sector are expected to exceed $1bn in the coming years.

The European Union said in October it will establish an artificial intelligence development hub in North Macedonia, linked to the EU's wider computing infrastructure.

The centre is part of a growing EU network of innovation hubs where firms and startups can train and deploy next-generation AI models.

German technology company Heidelberg Postpress is evaluating a potential investment in North Macedonia, with plans to open a new production facility in one of the country's free industrial zones, the zones' operator announced on December 4.

Heidelberg Postpress is currently expanding in core segments such as packaging and digital printing, software solutions, and lifecycle services, while also moving into high-precision plant engineering, automation technologies, robotics, and emerging green technologies.

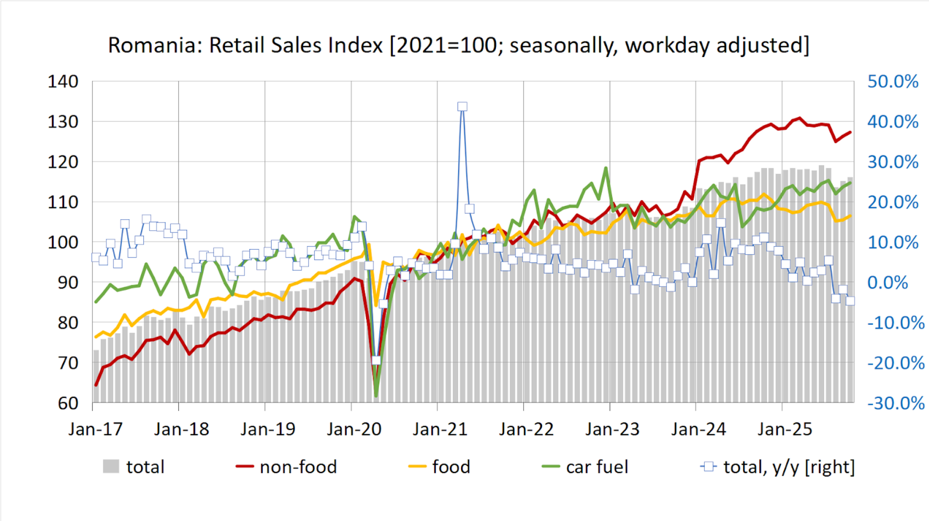
In 2025, the process of introducing a third mobile network operator began, with Hungary's 4iG entering the market under the name One Macedonia Telecommunications. The operator is expected to officially launch in early 2026.

The move is set to boost competition in the telecommunications market, addressing one of the European Commission's longstanding remarks in its progress reports on North Macedonia, the Agency for Electronic Communications (AEK) said.

5.9 Real economy - Romania

5.9.1 Retail

Romania's retail sales volume index declined by 4.7% year on year (y/y) in October 2025, the steepest drop since the coronavirus crisis. The fall came despite a second consecutive month of recovery, with sales rising 0.9% month on month (m/m) after a 1.3% m/m increase in September, following the sharp 4.0% m/m plunge recorded in August when higher VAT rates took effect amid already negative consumer sentiment.



The retail sector steadily lost momentum throughout 2025 and faced visible deceleration after the VAT rate hike in August. After expanding by 3.5% y/y in the first quarter, growth slowed to 1.9% y/y in the second quarter before turning negative at 0.2% y/y in the third quarter. This contrasts with the strong 8.6% annual increase reported in 2024, when government measures in an electoral year included pension increases, a higher minimum wage, energy price subsidies and price caps on basic food products.

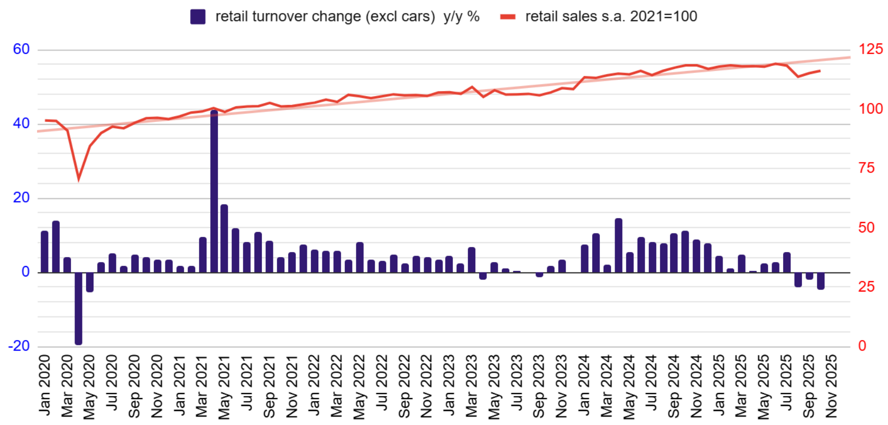
Private consumption, a key driver of domestic demand and economic growth in 2024, has not regained its role in 2025. The outlook for 2026 remains subdued as households face limited nominal income growth.

Public sector wages will remain unchanged for a second consecutive year, and pensions will not be indexed to inflation in January 2026. The government also plans to keep the minimum wage fixed next year. Although inflation is expected to ease, stagnant incomes are set to weigh heavily on consumption.

The government anticipates that strong investment spending financed through the EU budget and EU-guaranteed loans will support economic growth in 2026. However, the overall performance in 2025 is not expected to exceed a little over 1%, reflecting persistent weakness in household demand.

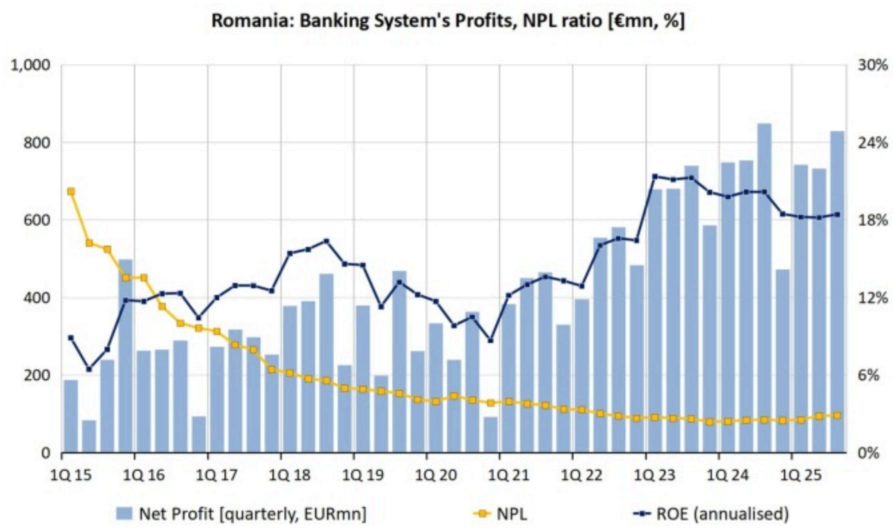
Romania retail turnover change y/y

source: INS



5.9.2 Banks

Romania’s banking sector reported almost unchanged aggregated net profits in January-September 2025, posting RON11.6bn (€2.3bn, -0.6% y/y) and RON6.2bn (-0.3% y/y) in the third quarter alone. The non-performing loan ratio rose slightly to 2.9% at the end of September from 2.8% at end-June, after reaching a decade low of 2.5% over the previous four quarters.



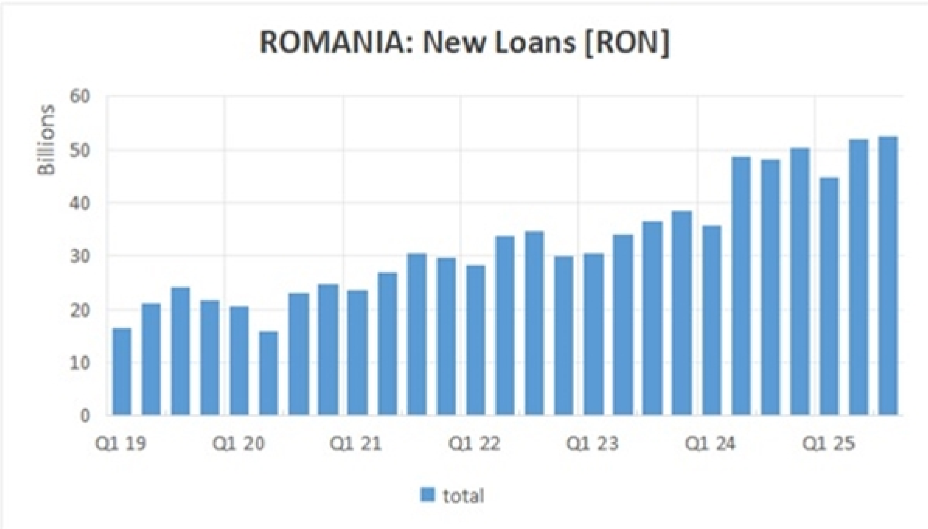
Profitability ratios improved modestly compared with the previous two quarters but remained below the highs recorded in 2023 and 2024. The return on equity reached 18.4% in January-September 2025, down from 20.2% a year earlier and 21.3% in the first quarter of 2023. The return on assets stood at 1.73%, compared with 1.78% in 2024 and 1.91% in 2023.

Total banking assets rose 7.9% y/y to RON907bn at the end of September. Because assets expanded slightly slower than nominal

GDP, their share eased to 50% of GDP. Loans accounted for RON444bn of total assets, rising 7.5% over the period.

Earlier National Bank of Romania (BNR) data show that new lending in 2025 accelerated mainly in the first quarter, when volumes increased 25.7% y/y to RON45bn. Growth remained positive but slowed to single-digit rates in the second and third quarters, when just over RON52bn in new loans was granted in each period. Despite almost RON200bn in new loans extended in the twelve months to September 2025, the loan stock increased by only RON31bn, reflecting the predominance of refinancing.

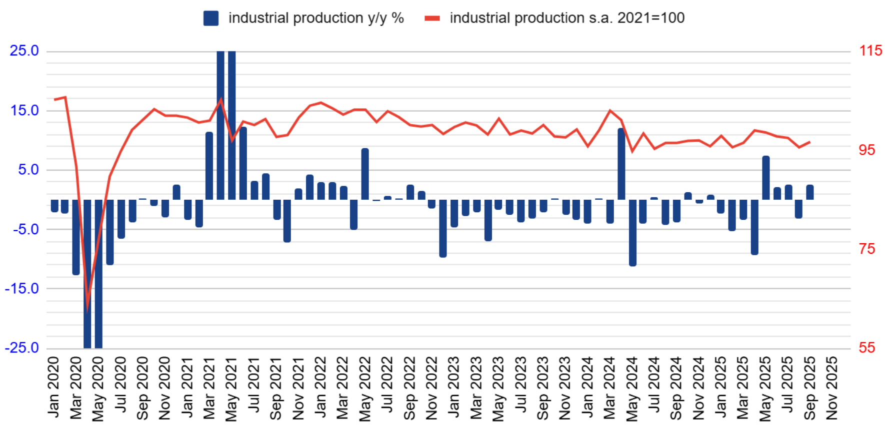
The data indicate that while loan origination remains active, the impact on balance-sheet growth is limited. The sector continues to operate with low levels of non-performing loans by historical standards.

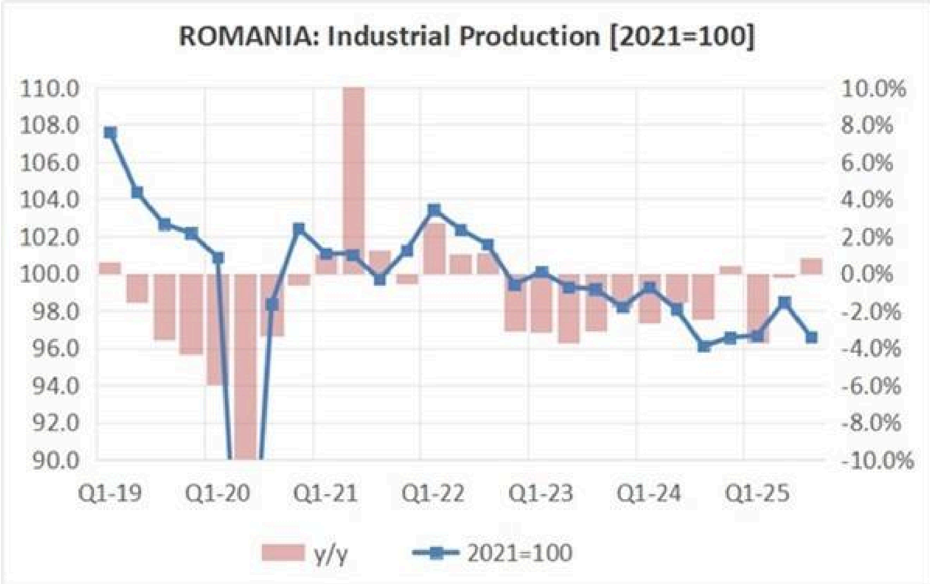


5.9.3 Industry

Romania industrial production y/y

source: INS





Romania's industrial output increased by 0.9% y/y in the third quarter of 2025, with the core manufacturing sector expanding by 1.1% y/y. The country's industrial activity has stabilised at a relatively low level, but the recovery is still uncertain.

For the first three quarters of the year, the industrial output still decreased by 1.0% y/y (-1.3% y/y for the manufacturing sector). The figures indicate that Romanian industry remains on course for a third consecutive annual contraction despite intermittent signs of recovery over the twelve months to September (-0.7% y/y, for both total industry and manufacturing). Structural weaknesses in key industrial segments continue to weigh on sustained output growth.

Expectations for a more durable rebound in 2026 are linked to rising defence expenditure across Europe. Industrial groups supplying defence-related components are expected to benefit once multi-year procurement contracts are finalised, though the impact will not be felt before late 2026 or even 2027, given the lead times required for production scaling and new industrial configurations.

5.9.6 Major Sectors & Companies

Romania's mergers and acquisitions (M&A) market remained broadly stable in the first nine months of 2025, with total deal value down 1.9% year on year to $5.4bn, even as the number of transactions increased by 8.5% to 216, according to an analysis by EY published on October 6. The period was marked by a rise in outbound transactions, which grew by 10% to 89 deals and included the two largest deals in the third quarter of the year.

EY reported that the total value of disclosed transactions rose sharply by 22.7% to $3.2bn, supported mainly by the $1.4bn acquisition of private healthcare network Regina Maria by Finland's Mehiläinen, backed by CVC Capital Partners.

The biggest transaction in the quarter was Paval Holding's $151mn purchase of Praktiker Hellas from Canadian investment group Fairfax Financial Holdings. The second-largest was Premier Energy's acquisition of a 51% stake in a 158 MW wind farm portfolio in Hungary from Spain's Iberdrola for $77mn. The third was FrieslandCampina's $76mn sale of dairy brand Napolact and two production facilities to Hungary's Bonafarm group.

Strategic investors continued to dominate the market, accounting for 86% of total transactions, while financial investors increased their activity by nearly 80% from 2024. Over one-third of all transactions involved multi-country acquisitions.

The most active sectors were Real Estate, Hospitality & Construction (45 deals), followed by Technology, Media & Telecommunications and Health & Life Sciences (32 deals each), Energy & Utilities (31), and Advanced Manufacturing & Mobility and Consumer Products & Retail (27 each). The Health & Life Sciences sector grew by 60% year on year, supported by consolidation in veterinary clinic networks.

By country of origin, the United States led with 15 transactions, followed by the United Kingdom with 14, Poland with 10, and Germany and France with seven each, EY said.

In the first 11 months of 2025, Romania produced 2.5% fewer automobiles compared to the same period last year. The country's automobile production stood at 505,859 units in the period. Out of this, 275,527 units were produced by Dacia and 230,332 by Ford Otosan.

5.10 Real economy - Serbia

5.10.1 Retail

Serbia's retail sector enters 2026 after a turbulent 2025, marked by consumer protests and regulatory interventions. Early in 2025, consumer boycotts targeted major chains, including Delhaize, Mercator, Lidl, DIS and Univerexport, in response to rising food prices, reflecting public frustration amid persistent inflation.

Despite these disruptions, retail trade remained a driver of domestic demand. Turnover grew 5.9% in nominal terms and 2.7% in real terms in the first nine months of 2025, supported by wage growth and government spending. September alone saw a 7% nominal and 4.7% real increase year-on-year.

Government intervention shaped the latter part of the year. Caps on retail margins for roughly 3,000 essential products limited profits to 20% from an average of 45%, prompting warnings of supply chain disruptions, store closures and layoffs. Delhaize Serbia threatened the closure of 25 stores and suspended planned investments.

Several retailers are entering or expanding in Serbia in 2026. Russian discount chain Fix Price plans its first store openings in Q1 and French Carrefour is exploring entry. Regional players, including Macedonian Stokomak and Greek VERO Holding, are also expanding operations. Growth in the discount sector is expected to continue, highlighted by METRO's Jutro franchise, which has already opened 100 stores.

Competition will intensify in 2026. Retailers able to adapt to regulatory constraints while offering value-driven propositions are likely to benefit, while high-margin strategies may face challenges. Price-sensitive consumers will sustain demand for discount and convenience offerings, with regulatory measures continuing to influence investment and operations.

5.10.2 Banks

Serbia's banking sector is well-capitalised, liquid and profitable. Non-performing loans are at historic lows — 3.2% of household loans and 1.6% of corporate lending — and stress tests by the National Bank of Serbia (NBS) confirm resilience to severe shocks. Foreign-owned banks dominate the sector, controlling roughly 75% of assets.

Bank profits rose modestly in H1 2025 to €775mn, with six major lenders — Banca Intesa, Raiffeisen, UniCredit, OTP Banka, NLB Komercijalna and AIK Bank — accounting for over 80% of sector earnings. Returns on equity and assets remain above European averages at 20% and 3%, respectively. Net interest income declined slightly, offset by fee and commission growth. Operating costs have risen 40% since 2020, reflecting investment in digitalisation and compliance.

Financing structures remain underdeveloped, limiting access to corporate finance. High shares of foreign-currency loans and deposits expose borrowers and banks to exchange-rate risk. Mini-bonds and other government initiatives are gradually broadening funding options for SMEs.

A major development in 2026 will be Serbia's full integration into the Single European Payments Area (SEPA), following its initial entry in May 2025. SEPA adoption will streamline euro-denominated payments, lower transaction costs and facilitate cross-border trade and remittances, improving connectivity with European financial systems.

Household savings remain robust, particularly in dinars, while gold and foreign-exchange reserves are rising, strengthening the central bank's buffer. Risks include exposure to US sanctions on Serbia's oil sector. Overall, the banking sector is expected to remain resilient and profitable, supported by regulatory reform, high capitalisation and household confidence.

5.10.3 Industry

The Oil Industry of Serbia (NIS) is the biggest short-term risk to industry in 2026. US sanctions, which came into force in October 2025, have disrupted crude supplies, forcing the country's only oil refinery in Pančevo to suspend production. The shutdown will affect processing and related sectors, and uncertainty around its operations will weigh on industrial output in 2026.

Total industrial output rose 2.1% year-on-year through October 2025, supported by mining and capital goods, which increased 5.9% and 16.2% respectively. Manufacturing, energy and consumer goods underperformed, with electricity generation down 17%, consumer durables falling 6.3% and chemicals and basic metals weighing on overall production.

Growth will be supported by mining, capital goods and ongoing foreign investment in key sectors such as the automotive industry. Meanwhile, energy supply constraints and US sanctions on NIS will limit expansion in other areas. Strategic projects and foreign-led investments will bolster medium-term resilience, but the NIS situation will be the key determinant of industrial performance.

Mining and manufacturing continue to offer growth opportunities. Serbia has substantial copper and gold deposits, with China's Zijin Mining expanding investment in the sector. The automotive industry remains a key driver of growth, with key investments including Linglong's $1bn tire plant in Zrenjanin, JFE Shoji's €50mn motor core factory in Inđija and EV production at the Stellantis plant in Kragujevac.

Sustainable industrial investment is gaining momentum. The EU-backed MIND Park in Kragujevac, launched in March 2025, is the Western Balkans' first brownfield eco-industrial park. Further green manufacturing zones are planned in Šabac and other regions, aimed at attracting environmentally sustainable investment.

Overall, Serbia's industrial output is expected to expand modestly in 2026. Growth will be supported by the mining and automotive sectors, but NIS sanctions and weak construction activity will weigh on the sector. Industrial expansion is likely to be uneven across sub-sectors, with energy-intensive industries remaining the most vulnerable.

5.10.6 Major Sectors & Companies

The automotive sector will continue to attract high-profile foreign investments in 2026, cementing Serbia's role as a regional manufacturing hub. Notable projects include Linglong's $1bn tire plant in Zrenjanin and JFE Shoji's €50mn motor core factory in Inđija. The electric vehicle (EV) segment is also expanding, led by the Stellantis plant in Kragujevac, which began exporting electric Fiat Grande Pandas to European markets in early 2025.

Chinese automotive parts manufacturer Shanghai Huizhong Automotive Manufacturing Co. (SHAC) inaugurated its first European production facility in Serbia in December 2025, at the CTPark Novi Sad East industrial zone, with trial production scheduled to begin in 2026. The Novi Sad plant marks SHAC's initial entry into Europe and reflects a broader strategy by Chinese firms to expand in the Balkans, drawn by the region's strategic location and growing industrial capabilities.

Japanese company JFE Shoji inaugurated its state-of-the-art plant in Inđija on April, 2025, its first manufacturing facility in Europe. Meanwhile, ToyoTires announced plans to relocate its European headquarters from Germany to Serbia, with a research centre scheduled to follow by 2027. Global auto parts maker Minth Holdings Limited is planning nearly €2bn in investment over the next few years, including €950mn for new manufacturing plants in Leskovac and Ćuprija and €870mn for an EV factory in Inđija.

Serbia's ICT sector will remain a major driver of economic growth in 2026. Exports of ICT services reached €3.333bn in the first nine months of 2025, up 12% year-on-year. Employment in the sector rose to 115,933 in Q3 2025, up 3.3% from a year earlier. The ICT industry is one of Serbia's fastest-growing sectors. In 2024, it generated over €4bn in export revenue—more than ten times the €375mn recorded in 2012—while salaries were more than double the national average.

Chinese-owned mining companies dominate Serbia's growing mining sector. Zijin Mining reported a net profit of nearly €715mn in 2024, while Zijin Copper earned over €250mn, a 54% increase year-on-year. Combined, the two firms generated almost €1bn in profit. Zijin Mining is consolidating its presence through strategic projects, including a $5mn investment in Strickland Metals to advance the promising Rogozna gold project.

5.11 Real economy - Slovenia

5.11.1 Retail

Slovenia’s retail trade volume increased by 2.2% in October compared with the same month in 2024, strengthening from the 0.4% year-on-year rise recorded in September, the national statistics office reported on November 27.

Growth was driven largely by higher sales of automotive fuel and non-food products. Automotive fuel turnover rose by 4.7% year on year, while non-food retail expanded by 4.3%. Food sales, however, fell by 1.1%, continuing a downward trend seen in recent months.

In January-October, retail trade volume was up 1.4% compared to the same period last year. Non-food retail rose by 2.2%, automotive fuel by 0.9%, and food retail by 0.5%.

The wider trade and repair sector for motor vehicles also recorded strong performance. Turnover increased by 4.2% on the month and by 9.4% compared with October 2024. Over the first ten months of 2025, the sector grew by 7% year on year.

Confidence in retail trade in November fell by 1 p.p. month-on-month and 8 p.p. year-on-year, matching the long-term average, according to the statistics office. Current sales dropped sharply by 15 p.p., although expected sales rose by 14 p.p., signalling optimism for the coming months.

Ljubljana is set to get its first modern mixed-use urban district, including retail and hospitality, together with residential and office space, with the opening of the 190,000-square-metre Emonika complex.

Mendota Invest, a member of Hungary's OTP Group and the developer behind the Emonika complex, has signed a contract with Strabag for the construction of the project’s southern section, Strabag announced in October. Valued at approximately €134mn, the contract covers the most architecturally and technically demanding part of the development.

Construction is expected to take just over two years to complete. The southern section, located next to Ljubljana’s main railway station, will feature a 100-metre office tower, a shopping centre, a 200-room hotel, and four underground parking levels with about 850 spaces.

Slovenian retailer Mass and private equity firm Advance Capital Partners (ACP) have reached an agreement to acquire Austrian footwear company Leder & Schuh, one of Europe’s oldest footwear retailers, ACP announced on October 27.

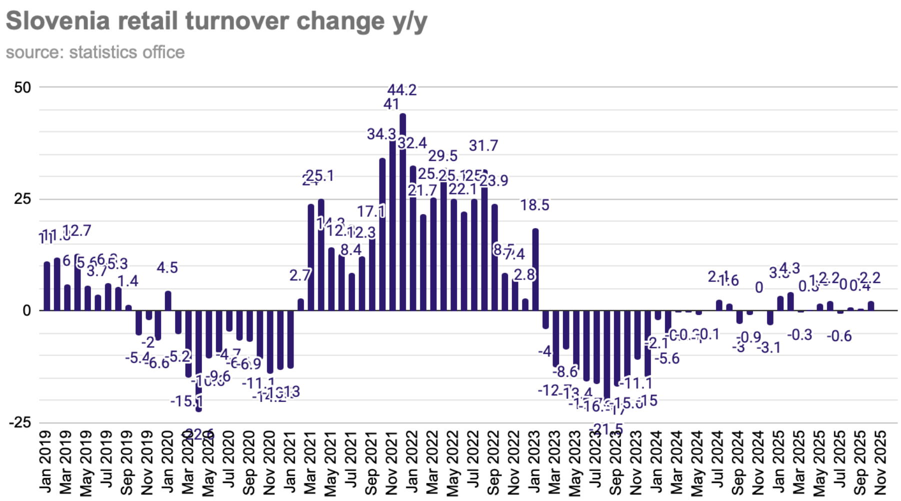
The deal, subject to regulatory approvals, will see Leder & Schuh integrated into the Mass Group while continuing to operate independently from its headquarters in Graz. The completion of the transaction is expected in the first half of 2026.

Leder & Schuh operates 210 HUMANIC and SHOE4YOU stores across nine countries, employs more than 1,700 people, and generates annual revenue exceeding €300mn.

JYSK Slovenia, part of the Danish retail chain, recorded strong financial and operational results in the 2024/25 financial year, driven by continued focus on competitive prices and attractive offers, the company said.

Turnover rose by 5.9% to €50.54mn, while EBIT increased by 8.9% year-on-year to €8.56mn. The retailer also attracted 74,173 new customers during the year, a 6.6% increase.

JYSK recently opened its 30th store in Slovenia and continues to invest in network expansion, store modernisation and strengthening its sleep and home décor range. The company said the steady rise in turnover and customer numbers demonstrates solid market demand and a strong position within Slovenia's retail sector.



5.11.2 Banks

Slovenian banks posted a combined net profit of €732mn in the first nine months of 2025, a 12.9% drop compared to the same period of 2024, the Bank of Slovenia said on November 25.

Despite the decline, profitability across the sector remains solid, with pre-tax earnings still above long-term averages.

Pre-tax profit for the January-September period reached €828mn, down 14.3% year on year, as banks continued to feel the impact of shrinking net interest margins. The central bank noted that although impairments and provisions increased further in September, they remain relatively modest compared with overall income.

Net interest income — the core driver of banking profitability — fell by 11.3% y/y to €1.05bn, reflecting a narrowing interest margin and the stabilisation of interest rates after the rapid monetary tightening cycle of previous years. By contrast, net non-interest income increased 6.8% to

€609mn, supported by higher fee and commission income and improved trading results.

Total banking sector assets stood at €56.3bn at the end of September, up from €54.2bn at the end of 2024.

The IMF said that Slovenia's banking system remains robust, though risks have edged up for some export-oriented firms. The IMF encouraged continued monitoring of asset quality and welcomed the central bank's macroprudential stance, including capital buffer adjustments.

Stress tests in August 2025 confirm that Slovenia's banking system remains stable and resilient to potential shocks. Regular micro stress tests, conducted for larger banks under the European Central Bank (ECB) and European Banking Authority (EBA), alongside macro stress tests by Banka Slovenije, show strong overall capital adequacy and system resilience.

While the results are positive, the central bank highlighted emerging risks, particularly stemming from the worsening geopolitical situation. These developments are beginning to impact the domestic economy, contributing to slower growth and reduced economic forecasts, which could affect the banking sector if adverse conditions persist.

5.11.3 Industry

Slovenia's business confidence indicators showed a mixed picture in November, with sentiment improving only in construction, remaining unchanged in manufacturing, and declining in retail trade and services, the Statistics Office reported.

Manufacturers continued to direct the largest share of their investment into replacing worn-out buildings and equipment, driven primarily by technical factors and demand.

The manufacturing confidence indicator was unchanged on the month, 4 percentage points (pp) higher year-on-year, but remained 5 pp below its long-term average. Expectations for future production improved by 2 pp, while order books and stocks of finished products were unchanged.

Nearly one-fifth of manufacturers reported higher investment in 2025, while 28% said it had declined. Looking ahead, 23% expect to increase investment in 2026.

Replacement investment dominated in 2025, cited by 72% of firms, followed by capacity expansion (29%), process rationalisation (26%) and other investments (11%). For 2026, firms plan a similar structure, with replacement investment again leading (68%).

Technical factors were the main driver of this year's investment, cited by 58% of firms, followed by demand (30%). In 2026, 61% expect technical needs to remain the dominant trigger.

5.11.6 Major Sectors & Companies

Slovenia has a strong industrial base centred on the automotive and mechanical industries, as well as chemicals, pharmaceuticals and electronics. Its services sector is also well developed, with tourism and ICT standing out as key contributors.

Economic activity in most sectors in Slovenia has shown month-on-month growth since mid-2025, with the strongest gains observed in construction, particularly in infrastructure and non-residential building investment. After contracting in the first half of the year, real goods exports and manufacturing output rebounded in the third quarter, while turnover in market services increased on average in July and August, the Institute of Macroeconomic Analysis and Development stated.

The economic sentiment indicator has been improving since mid-year. By October, confidence had risen across all sectors, though manufacturing sentiment remained modest, still below its long-term average. Consumer confidence also stayed below its historical average. Employment levels remained largely stable at the end of the third quarter, while unemployment edged up slightly at the start of the fourth quarter.

France's CMA CGM Group and Slovenia's Port of Koper will form a joint venture with CEVA Logistics, a CMA CGM subsidiary, to provide automotive logistics services for importing and exporting finished vehicles.

The partnership reinforces cooperation between the two entities and bolsters Koper's position as a strategic logistics hub for Central Europe.

US import tariffs have hit Slovenia's pharmaceutical sector, cutting hundreds of millions of dollars from exports and adding pressure to an already slowing economy, the European Bank for Reconstruction and Development (EBRD) said in its latest regional outlook on September 25.

"US imports from Slovenia fell by around $830mn – roughly 1.1% of Slovenia's annual GDP – largely due to medicines closely linked to Swiss supply chains," the EBRD noted in its *Regional Economic Prospects* report, highlighting that Swiss-branded drugs face some of the highest US tariffs.

Pharmaceuticals are a cornerstone of Slovenia's export economy, representing a significant portion of its high-tech output. Historically led by domestic firms Lek and Krka, the industry has also attracted substantial investment from Swiss companies Novartis and Sandoz over the past two decades, helping Slovenia become one of Europe's leading drug producers per capita and a key hub in Switzerland's global supply chains.

Swiss pharmaceutical giant Novartis inaugurated its first viral vector production facility in Europe, located in Menges, north of Ljubljana in February 2025.

The €40mn investment marks a significant milestone in the company's expansion of cell and gene therapy production capabilities. The new facility, named VIFA One, is the first specialised viral vector production site in Slovenia.

The government approved subsidies of up to €29mn in December for investment projects at Revoz, the Slovenian arm of French automaker Renault, ahead of the planned launch of Twingo E-Tech electric car production in 2026.

The government approved €41.9mn in budget funding for a biosimilars production facility being developed by pharmaceutical company Lek in Lendava. The new facility is expected to create 331 jobs, including 182 positions with high added value.

It also endorsed up to €7.6mn in support for Paloma, a tissue paper manufacturer and member of the Slovak SHP Group for the past decade, to expand its production capacity.

6.0 Budget and debt outlook

6.1 Budget and debt - Albania

Albania's parliament formally adopted the 2026 state budget in December, approving both the spending framework and the accompanying fiscal package following a detailed article-by-article review in plenary session.

Under the 2026 budget, government revenues are projected at ALL823.1bn, equivalent to 29.6% of GDP, representing an increase of ALL52.9bn compared with 2025. Total expenditures are set at ALL886.8bn, or 31.9% of GDP, around ALL55bn higher than the current year. Public investment spending is planned at ALL179.6bn, corresponding to 6.5% of GDP.

The budget maintains support for sectors identified as priorities by the government, including education, agriculture and infrastructure. Economic growth for 2025 is forecast at 3.9%, while growth is expected to average 4% annually over the 2026–2028 medium-term period.

Fiscal policy remains focused on reducing public debt. According to government projections, the debt-to-GDP ratio will decline to 53.6% in 2026, down from an expected 54.1% in 2025, in line with the requirements of Albania's organic budget law.

The accompanying fiscal package does not introduce any tax increases. Instead, it aims to streamline the tax framework, improve transparency and efficiency, and strengthen tax administration. The government says the measures are designed to promote further formalisation of the economy and ensure greater fiscal fairness, while supporting priority sectors and aligning Albania's economic governance more closely with European standards.

Social policy is a central feature of the 2026 budget, with pensions identified as a key focus. In addition to the routine annual indexation, pensions will receive a monthly increase from 2026, with a projected financial impact of around ALL10.4bn.

The budget also includes measures to raise incomes through higher wages. From 1 January 2026, the minimum wage used for social and health contributions will rise by ALL10,000 to ALL50,000 per month. The government estimates that approximately 308,000 workers in both the public and private sectors will benefit from the increase.

A further reform introduces periodic indexation of public administration salaries, linking pay adjustments more closely to inflation and increasing flexibility in the compensation system. Alongside this, differentiated pay rises are planned, with greater support for lower-paid staff and selected professional categories, with the aim of achieving a more balanced wage structure across the public sector.

The total cost of the salary measures, including the minimum wage increase and indexation, is estimated at around ALL10bn. More than 144,000 employees in the central and local government are expected to benefit from these changes.

Overall, the government says the 2026 budget is designed to support social welfare, fiscal consolidation and sustainable growth, while laying the groundwork for Albania's next stage of European integration.

6.2 Budget and debt - Bosnia & Herzegovina

Bosnia and Herzegovina is set to enter 2026 without an approved state-level budget, extending a pattern of delayed fiscal decision-making that has become increasingly familiar. With less than two weeks remaining before the start of the new fiscal year, it is clear that the budget for the institutions of Bosnia and Herzegovina and its international obligations will not be adopted in time, triggering a return to temporary financing.

Under Bosnian law, if the Parliamentary Assembly fails to approve the budget before the beginning of the fiscal year, state institutions continue to operate under provisional funding arrangements until the budget law enters into force. Given the current political deadlock, meeting the statutory deadline now appears highly unlikely.

This situation follows a similar episode earlier this year. On November 20, the House of Peoples adopted the Law on the Budget of Institutions and International Obligations for 2025, ending months of procedural delays. That budget, totalling BAM1.5bn, passed with 10 votes in favour and four abstentions, with no votes against. The text was identical to that previously approved by the House of Representatives, formally completing the adoption process after a prolonged and contentious debate.

While the state-level budget for 2026 remains unresolved, fiscal developments at entity level have moved ahead at different speeds.

In Republika Srpska, Bosnia's Serb-majority entity, the National Assembly approved the 2026 budget and a three-year Economic Reform Programme late on December 17. The package also included measures to increase salaries for employees in the education and culture sectors.

Republika Srpska's 2026 budget amounts to BAM7.409bn, representing an increase of BAM659mn, or 9.8%, compared with the second revised budget for 2025. Revenues and receipts from non-financial assets are projected at BAM5.589bn, a rise of 2.1% year on year, while tax revenues are expected to increase by 2.2% to BAM5.178bn.

The accompanying Economic Reform Programme for 2026–2028 sets out seven structural reform priorities and 23 supporting measures across key sectors. The programme aims to modernise the entity's economy and bring fiscal and structural policies closer into line with regional benchmarks.

In contrast, the Federation of Bosnia and Herzegovina, the country's larger entity, has yet to adopt its budget for 2026. The absence of an agreed financial framework at both state and Federation level underscores the continued fragmentation of Bosnia's fiscal governance as the new year approaches.

6.3 Budget and debt - Bulgaria

Bulgaria's fiscal policy will remain expansionary in early 2026, amid rising public debt and continued calls from international institutions for fiscal restraint. Persistent deficits, ongoing support for state-owned enterprises (SOEs) and social spending pressures continue to push debt higher, although Bulgaria's overall debt burden remains low by EU standards. The IMF has urged moderation in public-sector wage growth, careful control of social spending and improved governance in SOEs.

Fiscal management faces uncertainty following the resignation of Prime Minister Rosen Zhelyazkov on December 11, 2025, after mass protests over corruption and a failed 2026 budget proposal. In response, Bulgaria's parliament on December 17 approved a temporary extension of the 2025 budget to cover the first three months of 2026, ensuring government spending and revenue collection can continue until a full 2026 State Budget is adopted.

The 2026 Revenue Collection and Expenditures Bill, also known as the Budget Extension Bill, was passed in a single day at both first and second readings after nearly a day of political wrangling, ending months of uncertainty over the botched 2026 budget. The extension regulates spending and revenue collection under existing laws, including the Public Finance Act, the Social Security Code, and the Health Insurance Act, while incorporating rules for Bulgaria's euro adoption on January 1, 2026.

Under the extension, salaries for over 500,000 public-sector employees will increase from January 1 in line with annual inflation as of December 31, 2025. Minimum-wage employees will receive a larger increase, raising the minimum wage to €620.20. A one-off wage indexation for other public-sector workers, tied to annual inflation, was approved with broad parliamentary support. Priority payments under the extension include salaries, pensions and other social benefits.

The law also provides continuity for municipal budgets, the Social Security Budget and the National Health Insurance Fund. Capital expenditure projects from the 2025 budget will continue to be financed through the Bulgarian Development Bank, capped at BGN900mn, while provisions extend medico-social care homes for children, preserve municipal waste fees if local budgets are delayed, and make permanent capital gains tax exemptions for growth market transactions.

Public debt is projected to rise gradually due to ongoing borrowing and capital programmes. Gross external debt reached €54.9bn, or 48.9% of GDP, by September 2025, reflecting a sharp increase in government financing. Euro adoption is expected to strengthen market access and reduce currency risk, though it removes the exchange-rate anchor that has historically reinforced fiscal discipline. The IMF has warned that strong domestic demand, rapid credit growth and rising wages risk overheating unless fiscal policy tightens, while longer-term pressures from population aging and pension-system deficits remain.

6.4 Budget and debt - Croatia

Croatia enters 2026 with a fiscally expansionary but still consolidation-oriented budget framework, as the government balances strong economic performance with rising social commitments and EU fiscal constraints. The Draft Budget Plan for 2026, approved on October 30, forecasts GDP growth of 2.7%, inflation easing to 2.8%, and a general-government deficit of 2.9% of GDP. Public debt is expected to continue its gradual post-pandemic decline, falling to 56% of GDP by the end of 2026 from 57.4% in 2024.

Growth in 2026 is expected to moderate from 3.2% in 2025 amid weaker external demand, though robust domestic consumption and investment will keep activity steady. Finance Minister Marko Primorac said growth will be driven primarily by household and government spending, supported by labour-market strength and sizeable EU funds—including the Recovery and Resilience Facility and the 2021–27 multiannual budget—directed towards infrastructure, education, healthcare, energy and digitalisation. Wage growth is projected to slow, but labour shortages will keep unemployment near 5%.

The government's proposed 2026 budget, unveiled on November 13, reflects a significant increase in social spending. Revenues are forecast at €35.7bn—€2.7bn more than in 2025—while expenditures are set at €39.8bn. Pension spending will rise by €1bn to €10.2bn, with the introduction of a year-end pension supplement expected to push the average pension above €700. Public-sector wages will increase by €400mn to €8.8bn, and demographic policies such as expanded parental benefits and doubled newborn support will cost €804mn. Social and disability benefits will total €1.5bn. The government also emphasises defence modernisation, targeting defence spending of 3.5% of GDP by 2035.

Despite the consolidation narrative, the European Commission has warned that Croatia's spending plans risk breaching the EU's updated fiscal rules. Brussels projects that net expenditure will grow 9.6% in 2025 and 5.6% in 2026—above the recommended ceilings of 6.4% and 4.9%, respectively. Even after accounting for defence-spending exemptions, Croatia is close to the permitted deviation threshold, prompting calls for tighter control of spending growth.

Croatia's public-debt dynamics remain favourable. General-government debt stood at €50.9bn at end-June 2025, equivalent to 57.5% of GDP, down from 59.3% a year earlier, as strong growth offset modest increases in nominal debt. Long-term securities account for 65% of the debt stock. The government continues diversifying its funding base: a €2bn eurobond maturing in 2037 was issued in February, while retail investor participation has surged. By November, citizens had bought almost €960mn of one-year treasury bills in a new offering—part of a wider push that has seen retail investors come to hold more than 8.5% of public debt.

Looking ahead, Croatia's financing strategy for 2026 focuses on managing maturing obligations while preparing for a sharp decline in EU funds after 2026. The government has already begun pre-funding early 2026 needs, while increasing reliance on domestic investors to bolster financial resilience.

6.5 Budget and debt - Kosovo

The acting government of Kosovo on October 31 approved the draft law on budget allocations for 2026, setting total expenditures at around €3.97bn and a projected deficit of over €360mn. The proposal will now be sent to the Assembly for final approval. The budget was approved by the acting government ahead of the December general election, in which Albin Kurti's Vetevendosje emerged the winner, making it likely the draft will be approved by the new parliament.

Kurti said that the 2026 budget foresees about €1bn in capital investments and includes several major measures to support public sector employees and citizens.

"With this budget, there will be a 13th salary for all public sector workers. The implementation of an increase in the basic salary by 0.5% for each year of work experience in the public sector is also included," Kurti announced.

The new fiscal package also introduces a sharp rise in social benefits. The minimum pension will increase from €120 to €150 from November 2025, benefitting about 200,000 people across various pension schemes, including basic, disability and family pensions. Child allowances will rise by 50%, supporting around 400,000 children aged 0-16.

Meanwhile, the national minimum wage will increase from €350 to €500 in two stages — to €425 in January and €500 in July 2026 — benefitting roughly 150,000 private sector workers.

Fiscal reserves, including holdings by the Privatisation Agency, increased in the first half of 2025 following a drawdown of €96 million (0.9% of GDP) from the IMF standby arrangement (SBA). However, these reserves are projected to decline to 5.1% of GDP by 2027, down from 5.8% in 2025.

Fitch forecasts that the Kosovan general government debt-to-GDP ratio, which edged down by 0.6pp in 2024 to 16.8%, will gradually increase to 18.4% by 2027 — still far below the 'BB' median of 53.9%. The agency considers all of Kosovo's public debt to be effectively foreign-currency denominated due to the use of the euro since 2002, though 89% of the debt is actually in euros and the stable exchange-rate environment keeps currency risk limited. Fitch also expects debt interest-to-revenue to remain exceptionally low, at just 1.5% in 2027, compared with a projected 'BB' median of 10.4%.

6.6 Budget and debt - Moldova

The revised 2025 budget sets a 5.2% of GDP deficit, slightly above the previously planned 5.1%. The public deficit financing relies on concessionary financing from the International Monetary Fund (IMF), European Union and other external development partners while the domestic financial markets (including the retail segment) are being gradually developed.

Moldova's newly appointed government, led by Prime Minister Alexandru Munteanu, approved the draft State Budget Law for 2026 with a projected deficit of MDL21bn (just over €1bn), equivalent to 5.6% of the forecast MDL377bn GDP.

Public debt is expected to rise to 41% of GDP by the end of 2026.

Moldova's public deficit narrowed to 1.6% of GDP in the first nine months of 2025, but it is expected to widen significantly on a seasonal pattern in Q4.

Moldova's general government deficit decreased by 2.7% year on year to just under MDL5.5bn in January-September 2025. The deficit-to-GDP ratio improved to 1.57% from 1.74% in the same period of 2024.

Public debt increased by MDL5.88bn during the period, bringing the total to MDL127.3bn, equivalent to 36.2% of GDP.

Based on the government's GDP forecast of MDL351bn for 2025, the debt-to-GDP ratio fell by 1.3 percentage points compared to 37.5% at the end of 2024, reflecting robust nominal growth. The Ministry of Finance said Moldova's fiscal position remains sustainable, supported by rising revenues and prudent debt management.

6.7 Budget and debt - Montenegro

Montenegro's government presented on November 19 the final version of the draft budget bill for 2026 and the decision on borrowing, outlining a fiscal framework aimed at accelerating economic growth, safeguarding stability and advancing the country's path toward full EU membership.

The budget deficit remains at 3.2% of GDP, while a current surplus of €72.9mn (0.9% of GDP) ensures compliance with the "golden fiscal rule," meaning current spending is fully covered by current revenues.

The proposed budget expenditures amount to €3.79bn, built on projections of stable GDP growth, moderate inflation and strong domestic demand. Budget revenues are expected to reach €3.08bn, or 36% of GDP.

Capital spending is set at €305mn, €25mn more than in 2025, and includes 396 projects worth a total of €9.7bn. Key investments cover road infrastructure, the continuation of motorway construction, the Budva bypass, upgrades to hospitals and schools, digital development and major environmental projects.

The government plans responsible borrowing in 2026, mainly for development and debt repayment. Credit arrangements of up to €2bn are envisioned for infrastructure, healthcare, energy, railway modernisation, defence equipment and administrative reforms. Guarantees worth up to €171.95mn will support additional capital projects.

Major allocations include up to €300mn for a new Administrative and State Data Centre in Podgorica, €231mn for modernising the Bar–Golubovci railway, €120mn for a residential complex in Podgorica's Velje Brdo area, and €312mn for the University Clinical Centre. Up to €100mn is earmarked for military helicopters and a firefighting aircraft.

Montenegro will need €710mn in 2026 for debt servicing and capital spending, including €383.6mn in maturing obligations. Deposits from 2025 and up to €500mn in new borrowing will help secure stable financing.

Given that €1.17bn falls due in 2027 and €338.3mn in 2028, the draft budget also allows for additional borrowing of up to €1bn to create a fiscal reserve and ease future repayment pressures.

The government said the 2026 budget reflects strategic priorities aligned with EU accession goals, including strengthening the rule of law, improving the business climate, reducing tax burdens and combating the grey economy. It added that the plan supports investment momentum, economic expansion and the responsible management of public finances.

Montenegro's total public debt has stabilised and reached €4.8bn, or 60.8% of GDP, at the end of the second quarter of 2025, Minister of Finance Novica Vuković said, RTCG reported on November 10.

The net public debt amounted to €4.2bn, or 53.6% of GDP, Vuković told parliament in response to an MP's question regarding Montenegro's borrowing since January 2021.

Vuković noted that since January 2021, the government has repaid over €2.3bn of old debts, adding that almost the entire public debt will mature during the current government's mandate.

"We have a surplus in current spending, and none of the Ministry's debt has gone towards mandatory expenses," he was cited as saying. The minister added that the Treasury currently holds €450mn, and a fiscal reserve is being prepared for upcoming obligations, particularly for 2027, when €1.2bn in debt repayments will come due.

According to central bank's preliminary data, Montenegro's external debt rose to €9.9bn in the second quarter of 2025, up 3.9% from the previous quarter. A year earlier, the figure stood at €9.73bn.

The general government accounted for the largest share of liabilities, with debt increasing to €4.46bn at the end of June from €4.13bn three months earlier.

Montenegro's net public debt is set to rise by 25% over the next three years — an increase of almost €1.2bn — while gross domestic product is expected to expand by only 15% in the same period. This means public debt will grow faster than the economy, pushing the debt-to-GDP ratio from the current 56.95% to 61.67%, or from €4.62bn to €5.79bn.

The central bank said that the risks linked to the sustainability of public finances remain present, even though public debt is currently only slightly above 60% of GDP. This represents a moderate risk that requires careful monitoring, particularly given the possibility of global shocks.

Montenegro's Ministry of Finance announced on December 1 that it has successfully secured €450mn to create fiscal reserves for 2026 and 2027, in line with the country's budget law.

The ministry said the funding ensures stable and timely budget support for meeting all state obligations related to debt repayment.

Montenegro's total financing needs for 2026-2027 amount to around €2.2bn, of which approximately €1.6bn relates to maturing debt.

A further €600mn will be required to finance capital and strategic development projects. The ministry highlighted that 2027 will be particularly challenging, with debt repayment obligations reaching an estimated €1.2bn.

The €450mn credit arrangement was secured through several major international financial institutions, including Merrill Lynch International, MUFG Bank, Société Générale, OTP Bank, Erste Group, AKA Ausfuhrkredit-Gesellschaft and Eurobank Private Bank Luxembourg.

Montenegro has repaid roughly €3bn in previously assumed state liabilities between 2020 and 2025, according to new data published by the national statistics office, MNE Stat. Despite the substantial sum — unusually high for an economy of Montenegro's size — the country's nominal public debt still stands at around €4.7bn, as part of the repaid obligations had been replaced by new borrowing over recent years.

The year 2025 stands out in particular, with the government repaying more than €720mn from the state budget — one of the highest annual repayment levels in Montenegro's history. This large-scale repayment has eased the burden of upcoming maturities and helped improve the overall structure of the country's public debt.

6.8 Budget and debt - North Macedonia

North Macedonia plans a budget deficit at MKD39.2bn (€637.4mn) for 2026, or 3.5% of GDP, marking a reduction of 0.5 percentage points (pp) compared to 2025, the finance ministry said.

The proposal forecasts real GDP growth of 3.8% in 2026, driven by domestic demand and increased investment in infrastructure, energy, railways, agriculture, education, and healthcare. Private consumption is projected to rise 2.6%, while public consumption will grow moderately at 1.4%, with inflation stabilising around 2.5%. Employment is expected to increase, with the average net salary rising 6.5%.

Total revenues are planned at MKD374.9bn, with expenditures of MKD414.2bn. Capital investments of MKD40.2bn will target key projects in transport, energy, education, and healthcare.

Finance Minister Gordana Dimitrieska-Kočoska said the 2026 fiscal policy will focus on maintaining macroeconomic stability, realistic revenue planning, and targeted spending on strategic priorities.

Dimitrieska-Kočoska stated that North Macedonia expects to fully and promptly repay liabilities worth MKD74.8bn in 2026, stressing that the ministry remains committed to stable public debt management and maintaining sufficient liquidity throughout the year. The projected deficit will be covered through borrowing on both domestic and international markets.

North Macedonia's public debt continued to decline in the third quarter of 2025, dropping to 57.6% of gross domestic product (GDP), the finance ministry said. This marks a decrease of 3.8 percentage points (pp) compared with the end of 2024, when the debt stood at 61.4% of GDP.

In absolute terms, the country's public debt amounted to €9.730bn at the end of September, up from the €9.619bn recorded at the end of last year. Quarter-on-quarter, public debt edged up slightly by 0.1

percentage point, rising from €9.714bn at the end of the second quarter.

The ministry's data also shows an increase in total state debt — which includes the central government, public funds and municipalities — reaching €8.498bn at the end of the third quarter, compared with €8.298bn at the end of 2024.

As a share of GDP, state debt stood at 50.3% in both the second and third quarters, down from 53% at the close of last year.

According to the ministry, a primary objective of the government remains strengthening public finance management while preserving strong levels of capital expenditure. Authorities argue that sustaining investment in infrastructure and long-term development priorities is essential for supporting economic growth and maintaining fiscal stability in the years ahead.

Erste Bank reported that, based on North Macedonia's adopted fiscal strategy for the first half of 2025, the government will need €1.1bn in 2026, €1.2bn in 2027, and €1.6bn in 2028 solely to cover principal debt repayments.

With an assumed average budget deficit of around €700mn, total gross refinancing requirements are expected to approach €2bn over the next two years and rise further in 2028. These substantial funding needs indicate that the government will rely heavily on both domestic and external financing sources, including the Western Balkans Growth Plan. Concessional loans from institutions such as the World Bank and the EBRD are also expected to continue. According to October statements, the Ministry of Finance plans to issue a eurobond in early 2026 targeting €950mn, with €700mn earmarked for repaying a eurobond maturing in June and the remaining €250mn intended to support budget financing.

North Macedonia plans to issue a Eurobond with a total value of €1bn on international markets in the first quarter of 2026, split into two tranches of €500mn each with different maturities, the finance minister said at the end of December. Analyses are currently under way to determine the maturity structure of the Eurobond planned for issuance in the first quarter of 2026.

6.9 Budget and debt - Romania

Romania's public deficit hit 8.65% of GDP under the cash methodology and 9.3% under the EU's ESA methodology in 2024, prompting emergency measures that were complicated by the repeated presidential elections deferring the formation of a stable ruling coalition.

Amid political turmoil, Romania managed to avoid sanctions envisaged by the European Commission by freezing pensions and wages in the budgetary sector for two years (2025-2026), hiking the VAT rate in August 2025 and increasing taxation in several other areas (property, dividends) or widening the taxation base by removing some exceptions. The supplementary inflation generated by the energy price liberalisation in July 2025 provided indirect taxation while putting supplementary pressures on the recipients of pensions, wages and other social allowances paid by the government.

Two packages of budgetary measures have been implemented – the first drafted in December 2024 (freezing wages and pensions) enforced in January 2025 and another one in July 2025 (VAT rate hike, a one-year extension on the freeze of wages and pensions) enforced mostly in August. Supplementary measures (dividend tax hike, higher property taxes) have been legislated in September-December 2025 to be enforced in January 2026.

The heavy reliance on measures with high social costs in the absence of visible streamlining of the public administration functioning generated public frustration. Some measures to cut the benefits of highly-paid positions in state owned enterprises or institutions, while reducing the number of such positions, have been enforced already – but a key law on public administration aimed at streamlining the functioning of the state apparatus has been repeatedly deferred and not yet agreed among the parties of the ruling coalition.

The public administration law is still on the agenda and the Social Democratic Party (PSD) is pressing for an "economic recovery" package broadly expected to partly reverse the impact of the measures already enacted and alleviate their second-round effect on economic growth.

The result of the budgetary measures was modest in 2025 when the deficit did not decrease significantly, only falling to an estimated 8.4% of GDP in cash terms. But the public deficit is expected to drag the public deficit down to 6-6.5% of GDP, bringing it back in line with the 7-year consolidation trajectory agreed by the European Commission in January 2025.

The 2026 budget is not expected until the end of January 2026, but the 6-6.5% of GDP deficit was committed to by both the Romanian government and the European Commission.

6.10 Budget and debt - Serbia

Fiscal policy will remain prudent in 2026, supported by IMF oversight under a three-year Policy Coordination Instrument (PCI). The PCI, which replaced a €2.4bn Stand-By Arrangement in late 2024, provides policy guidance without financing and continues to anchor fiscal discipline. Serbia's public finances remain relatively strong, underpinned by moderate debt levels, solid revenue collection and ample foreign-exchange reserves.

The consolidated budget recorded a deficit of RSD73.5bn (€626mn) in the first ten months, more than double the shortfall a year earlier. However, the state sector posted a primary surplus. Public debt stood at €38.2bn, or 43.1% of GDP, at end-October 2025, down from 46.7% a year earlier and well below the statutory 50% ceiling and the EU average.

Parliament approved the 2026 budget on December 3, targeting a fiscal deficit of around 3% of GDP and economic growth of 3%. Revenues are projected at RSD2,415bn, with VAT the main contributor, while expenditures will rise to RSD2,752bn. Public-sector wages will increase again in early 2026, keeping personnel costs the largest single spending item. Capital expenditure will remain high at RSD602bn (€4.5bn), focused on infrastructure under the Leap into the Future-Serbia 2027 programme and preparations for Expo 2027 in Belgrade.

The budget includes a sharp increase in allocations for energy security, reflecting risks linked to US sanctions on the Serbian Oil Industry (NIS). Funding of RSD164bn has been earmarked in case the state is forced to assume control of the company if Russian shareholders fail to divest by mid-January 2026.

Serbia plans to borrow RSD970bn in 2026, mostly to refinance maturing debt. Interest payments will rise but remain manageable. The government projects a debt-to-GDP ratio of about 44-45% in 2026, consistent with its commitment to keep the fiscal deficit capped at 3% of GDP through 2027.

A forced buyout of NIS could cost several billion euros, far exceeding available fiscal space and likely triggering concerns from the IMF and rating agencies. Absent such a shock, Serbia enters 2026 with a relatively strong fiscal position.

6.11 Budget and debt - Slovenia

Slovenia's parliament has adopted revised state budgets for 2026 and 2027, keeping large-scale public investment and major structural reforms at the centre of government policy.

Under the adopted plans, revenues in 2026 are expected to reach €15.6bn, with expenditures at €17.7bn, resulting in a deficit of €2.1bn, or 2.9% of GDP. In 2027, revenues are projected at €16bn, expenditures at €18.1bn, and the deficit at €2.1bn, or 2.8% of GDP.

The two-year financial framework prioritises science, affordable housing, investment promotion, the shift toward a high-productivity economy, and reforms in pensions, healthcare, long-term care, and public administration.

The government said these systemic changes required extensive coordination, given their impact on budget planning and execution.

Public investment will remain strong, with more than €2.3bn planned across 2026 and 2027, covering infrastructure, healthcare and other key sectors. Science funding will stay at around €600mn per year, while spatial planning and housing will receive €174mn and €190mn respectively across the two years.

Support for the pension system will rise to about €1.6bn in 2026 and €1.8bn in 2027. Funding for entrepreneurship and competitiveness is set at roughly €490mn next year and €660mn in 2027.

S&P stated in November that Slovenian budget deficit is projected to average 2.3% of GDP between 2025 and 2028, and a reduction in previously accumulated monetary reserves will help the government continue lowering gross public debt as a share of GDP.

Slovenia recorded a budget deficit of €976mn between January and November 2025, preliminary finance ministry data showed.

In the period, the state generated €13.5bn in revenue and €14.4bn in expenditure. Compared to last year, spending increased across several areas, including transfers to the pension system, labour costs, investment projects and public transport.

Total expenditure in the first 11 months was 8.3% higher year-on-year, reaching 84.5% of the amount planned in the adopted budget. Revenues rose 4.4%, representing 88.5% of the full-year target.

Slovenia's state budget deficit, excluding emergency measures, reached roughly €1bn in the first eleven months of 2025 — a little over half of the full-year shortfall of €1.8bn projected without emergency spending, the Fiscal Council reported.

December is expected to bring one of the largest monthly deficits on record. The Ministry of Finance forecasts a gap of €852mn for the month, comparable only to December 2023, when the deficit stood at €823mn. According to the Fiscal Council, the unusually high December figure is driven by expenditure growth that is projected to be almost four times higher year-on-year than the average recorded from January to November.

The spike will largely reflect higher spending on labour costs, including winter allowances, as well as increased outlays on investments, subsidies and transfers to the Health Insurance Institute (ZZZS).

Both the Fiscal Council and the European Commission have warned that Slovenia's projected net expenditure growth for 2025 significantly exceeds the limits set under the Medium-Term Fiscal and Structural Plan, with similar concerns flagged for 2026.

The Commission cautioned that the government faces a growing risk of breaching permitted expenditure growth over the plan period and urged the adoption of measures to restore alignment with fiscal rules and safeguard the medium-term sustainability of public finances.

According to OECD, general government gross debt is seen at 70.5% of GDP in 2025, 69.6% of GDP in 2026 and 69.6% of GDP in 2027

The OECD reported that Slovenian fiscal policy in 2025 was expansionary, as weak economic activity slowed revenue growth while government spending rose, driven by higher public wages and social expenditures.

Looking ahead to 2025-2027, fiscal policy is expected to be broadly neutral, despite increased outlays for defence, public wages, long-term care, and post-flood reconstruction. Reconstruction costs will be partly financed through a temporary rise in the corporate income tax rate and the introduction of a temporary bank levy. Defence spending is set to increase from 1.4% of GDP in 2025 to 1.8% in 2026, funded by borrowing.

Structural measures include a 0.5% of GDP increase in public wages in both 2025 and 2026 under public pay reforms, and higher long-term care spending, rising from 0.2% of GDP in 2025 to 1% in 2026, financed by a 2 percentage point rise in the social security contribution rate. A new tax- and contribution-exempt 14th salary (Christmas bonus) for workers and pensioners in 2025 will reduce the effective labour tax burden but, as it is not offset by other measures, it increases fiscal spending and reduces revenues.

7.0 Energy & Power

7.1 Energy & Power - Albania

Albania’s electricity sector continues to grapple with the challenges of heavy reliance on hydropower, which accounted for around 2,500 megawatts (MW) of installed capacity in 2025. Data from the national statistics office, Instat, show that net domestic electricity production fell sharply in the third quarter, declining 31.3% year-on-year to 1,075 gigawatt-hours (GWh) from 1,565 GWh in the same period of 2024. Overall electricity availability dropped by 1.1%, with public hydro plants supplying 54.5% of production, independent producers 16.5%, and other sources 29.0%. The decline was largely offset by increased imports, which surged

65.3% to 1,260 GWh, while exports rose 10.8% to 312 GWh.

The drop in hydro output highlights Albania's vulnerability to seasonal water variability, underscoring the need to diversify its energy mix. The government has embarked on an ambitious strategy to expand renewable capacity, aiming to add 1,500 MW of new renewables by 2030. Key projects include the 600 MW Tropoja wind farm, projected to be Albania's largest, and various solar initiatives such as the 50-MW plant financed by the European Bank for Reconstruction and Development (EBRD) and the Karavasta solar park, now the largest photovoltaic facility in the Western Balkans at 140 MW. Solar energy currently accounts for around 10% of Albania's electricity production, with the government targeting 30% by 2030.

Regional integration and energy security are central to Albania's strategy. The country is developing cross-border electricity interconnections with Greece, North Macedonia, and Kosovo, and plans an undersea cable to Italy to connect directly with the European energy market. Energy storage is also being expanded, with new facilities at hydro sites including Koman, Fierza, and the Devoll cascade, designed to ensure stable supply during variable renewable output. Improved grid management has already reduced electricity distribution losses from around 50% to 17%, with a target of 12% within four years.

Albania is also pursuing natural gas as a complementary, dispatchable energy source. Despite early ambitions outlined in the 2016 Gas Master Plan, domestic gas production and infrastructure remain minimal, and imported gas has yet to play a significant role. The Trans-Adriatic Pipeline (TAP) and the proposed Ionian-Adriatic Pipeline (IAP) offer opportunities to integrate Albanian demand into regional supply, while potential LNG imports via Vlore could provide additional flexibility. Underground storage options, including the Dumre salt dome, are being evaluated to create strategic reserves and support a future gas market. Pilot gasification projects in Korçë, led by SOCAR and Albgaz, are expected to become operational by 2027, contingent on the development of import infrastructure.

Private sector investment is increasingly shaping the sector. Swiss-based MET Group has entered the Albanian market to strengthen cross-border electricity trading, while CWP Europe is developing large-scale wind and solar projects in Albania and Montenegro, paired with battery storage and new high-voltage transmission lines. Turkish lender Aktif Bank has also extended financing for solar and wind projects, highlighting growing international interest in the region.

Looking ahead, Albania's energy transition depends on balancing hydropower, renewables, and gas, while expanding transmission and storage infrastructure. If successfully implemented, the country could move from a net electricity importer to a net exporter by 2030, strengthen regional energy integration, and support economic growth through industrialisation and increased energy security. Challenges remain, particularly in financing, regulatory coordination, and infrastructure development, but Albania's ambitious strategy positions it as a potential clean-energy hub in the Western Balkans.

7.2 Energy & Power - Bosnia

Bosnia & Herzegovina generated 1,061 gigawatt-hours (GWh) of electricity in September 2025, slightly higher than the same month last year but down from 1,122 GWh in August, according to the national statistics office. Coal-fired thermal power plants remain the backbone of the country's energy system, accounting for 71.6% of total generation with 760 GWh produced. Hydropower contributed 220 GWh, or 20.7% of total output, while wind and solar generation rose to 81 GWh, representing 7.7% of production and reflecting a gradual diversification of the energy mix.

State-owned Elektroprivreda BiH (EPBiH) is investing to maintain and modernize coal-fired assets while pursuing long-term decarbonization goals. The company recently completed a €15.3 million overhaul of Block 4 at its Tuzla coal plant, extending operational life, improving safety, and ensuring reliable heat supply for the industrial cities of Tuzla and Lukavac. This upgrade also supports coal procurement from local mines, stabilizing both electricity supply and domestic mining operations.

At the same time, EPBiH is actively pursuing renewable energy expansion. The utility aims to generate 50% of its electricity from renewables by 2030, with a target of full decarbonization by 2050, supported by the European Bank for Reconstruction and Development (EBRD). Several solar projects are under development, including a 50 MW plant on reclaimed land at the Gračanica coal mine and eight additional solar facilities at former mining sites in Tuzla, Breza, and Živinice. Biomass co-firing projects at Tuzla and Kakanj thermal plants are also planned to reduce emissions.

The country is experiencing a rapid growth in wind and solar capacity. Recent projects include Interenergo's 25 MW wind farm and major investments by POWERCHINA in the 84 MW Ivovik wind farm and the Ulog hydropower plant. In southern Herzegovina, large-scale photovoltaic plants at Zvizdan-Ljubuški, Bileća, and Hodovo-Stolac have increased solar production almost fifteenfold in 2024. The Republic of Srpska plans to add 250 MW of solar capacity over the next three years, while five new solar plants totaling 100 MW are expected in Herzegovina by the end of 2025.

Looking forward, Bosnia faces challenges in transmission and grid management. The Independent Operator of Electricity Transmission Systems (NOSBiH) warns that rapid renewable integration could strain the network and complicate regulatory oversight. Nonetheless, with ongoing modernization of thermal assets, strong EU-backed financing, and ambitious renewable targets, Bosnia is positioning itself for a more diversified and sustainable energy future.

7.3 Energy & Power - Bulgaria

Bulgaria is stepping up efforts to develop domestic oil and gas resources and diversify its imports. The country has increased LNG and pipeline connections with Greece, Turkey and Azerbaijan. Sofia holds a 25% stake in the Alexandroupolis LNG terminal and has contracts with Turkey's Botas for access to its LNG facilities. Azerbaijani gas via the Trans Adriatic Pipeline and LNG deliveries from Greece have reduced reliance on Russian pipeline gas since Moscow cut flows in 2022.

Bulgaria plans to complete its section of the Vertical Gas Corridor in 2026, linking Greece with Romania, Hungary, Slovakia, Moldova and potentially Ukraine. The corridor will allow larger LNG inflows from Greece and strengthen supply security across southeastern and central Europe. The government is aligning with EU efforts to phase out Russian energy, aiming to terminate Russian gas transit contracts from 2026, with flows to Hungary and Slovakia ending by 2027. Serbia, which receives Russian gas via Bulgaria through TurkStream, could face supply disruptions if transit is halted.

Sanctions on Russian energy firms are reshaping Bulgaria's oil sector. After US sanctions on Lukoil in October 2025, Sofia appointed a special manager to oversee the Burgas refinery, the Balkans' largest, effectively assuming state control. Lukoil, which has sought to divest its Bulgarian assets since late 2023 after Sofia banned Russian crude imports, has warned against unilateral measures. Retail changes, including the sale and rebranding of former Gazprom-affiliated NIS stations, are reducing Russian brand presence in the fuel market.

Renewables and energy storage are among Bulgaria's fastest-growing sectors. The government plans to expand wind and solar capacity. SUNOTEC has secured financing for multiple large-scale solar PV and battery storage projects to enhance grid flexibility. Bulgaria is also preparing its first major bioethanol plant, led by Insa Oil, aiming to start commercial operations in the second half of 2026. The €56mn facility will produce renewable fuel from biomass, supporting cleaner transport and EU renewable targets.

7.4 Energy & Power - Croatia

Croatia's Energy Sector: Current Trends and Future Outlook

Croatia's energy supply in October 2025 showed notable increases in electricity and natural gas availability, reflecting ongoing efforts to bolster domestic energy security. Electricity available for the inland market totaled 1,533 gigawatt-hours (GWh), up 4.1% from September and 4.8% higher than in October 2024, according to the Croatian Bureau of Statistics. Natural gas availability surged to 9,478 terajoules

(TJ), marking a 60.8% increase month-on-month and a 2.6% rise year-on-year, although gas stocks fell by 919 TJ. Petroleum product supplies remained broadly stable at 343,000 tonnes, with inventories down by 31,000 tonnes from the previous month but up 7.5% compared with a year earlier.

The October data provide an early snapshot ahead of the winter heating season, when demand for electricity and gas typically rises. Policymakers and utilities closely monitor such figures to anticipate consumption patterns, manage stock levels, and identify potential stress points in the energy system. Croatia has sought to strengthen its energy security through a combination of domestic production, liquefied natural gas (LNG) imports, and renewable energy development.

A cornerstone of Croatia's energy transition is the first large-scale battery energy storage system (BESS) and virtual power plant (VPP) being developed in Šibenik by IE-Energy Projekt. With €16.8 million in direct equity investment from the European Bank for Reconstruction and Development (EBRD) and matching contributions from Croatian pension funds, the project will provide up to 60 megawatts of flexible capacity. An additional €16.5 million grant from the EU Modernisation Fund will support real-time balancing of electricity supply and demand, helping integrate growing wind and solar capacity into the national grid.

Despite strong potential, Croatia's renewable energy expansion faces significant bottlenecks. Industry groups warn that delays in implementing zero-euro connection fees, a dysfunctional balancing market dominated by the state-owned HEP Proizvodnja, and inconsistent regulatory frameworks have stalled investment in more than 60 projects totaling 3.5 gigawatts (GW) and worth over €3 billion. If left unresolved, up to 2.5 GW of projects risk abandonment, threatening Croatia's 2030 renewable energy targets and undermining energy security, investor confidence, and local economic benefits.

Nonetheless, the country's renewable potential is significant. Greenpeace Croatia has projected that, with decisive investment and grid modernization, Croatia could meet 100% of its electricity needs from renewable sources by 2030, expanding solar capacity to 5 GW and wind capacity to 4.2 GW. Several large-scale projects are already underway, including acquisitions by Slovenian energy company Resalta of Statkraft's Croatian renewable platform, which is expected to accelerate project delivery.

Croatia's strategic role as a regional energy hub is also expanding. The LNG terminal on Krk, operational since 2021, is being upgraded from 3.1 to 6.1 billion cubic metres per year, enabling the country to supply gas not only domestically but also to neighbouring markets including Hungary, Slovenia, Austria, and potentially Bosnia & Herzegovina. The terminal has already ensured energy stability during geopolitical disruptions, such as the halt of Russian gas exports via Ukraine, and extreme weather events in summer 2024.

Looking forward, Croatia's energy trajectory hinges on overcoming regulatory and administrative hurdles, accelerating grid upgrades, and integrating energy storage solutions. If these measures are implemented, the country could simultaneously achieve decarbonization, strengthen energy independence, and attract significant private and public investment, positioning itself as a renewable energy leader and regional energy hub in Southeast Europe.

7.5 Energy & Power - Kosovo

Kosovo, rich in lignite coal reserves, relies on ageing power plants from the Yugoslav period, which struggle to meet rising energy demand. The 2023 National Energy Strategy sets ambitious targets, including boosting renewable energy to 35% of the national energy mix, cutting greenhouse gas emissions by 32%, and decommissioning a lignite-fired power unit by 2031. The strategy also envisages the introduction of carbon pricing, with preparatory steps planned by 2026.

Kosovo launched its electricity market liberalisation process in 2025, but on November 17 the Supreme Court Panel ruled that parts of the liberalisation framework were unlawful, siding with the Kosovo Chamber of Commerce (KCC) in its case against the Energy Regulatory Office (ERO).

The ruling follows a detailed judicial review, during which the court found that inconsistencies between the legislation and ERO's sub-legal acts had created "legal and economic uncertainty" for electricity consumers, making judicial intervention necessary to safeguard legal certainty and equal treatment in the market.

In its decision, the court stressed that Kosovo is bound by the Energy Community Treaty, signed in 2005, which obliges the country to align its laws with the EU's energy acquis. This includes implementing EU directives and regulations governing electricity markets — requirements that are legally binding on all contracting parties.

The court also rejected the argument that the challenged provisions were beyond review due to the principle of "consumed effect", noting that secondary legislation still producing legal consequences must remain subject to judicial scrutiny to preserve the right to an effective remedy guaranteed by Kosovo's Constitution and the European Convention on Human Rights.

The panel concluded that ambiguities created by ERO's guidelines, particularly in interpreting consumer rights under Kosovo's Law on Electricity and Directive 2009/72/EC, had left unclear which consumers are entitled to universal supply and which must shift to the free market.

The court ruled in favour of consumer protection, declaring the contested provisions illegal and repealing them.

In March 2025, ERO announced that from June 1, around 1,300 companies would be obliged to exit the regulated tariff system and sign contracts with licensed suppliers under the newly liberalised market framework.

The liberalisation of the electricity market was intended to align Kosovo with EU standards and stimulate competition in the energy sector. Instead, the reform has placed a significant strain on businesses, drawing strong criticism from business associations.

Kosovo's landmark 100 MW Solar4Kosovo I photovoltaic project, positioned on rehabilitated ash landfill area, has moved into the first phase of its international tendering process, power producer KEK announced in December 2025.

The project has now officially opened the pre-qualification stage for companies seeking to design, supply and install the solar plant.

Kosovo's gross available electricity reached 617 GWh in October 2025, an increase of 13.4% compared with the same month last year, the country's statistics institute said on December 15, reflecting stronger demand and a notable rise in renewable generation.

Electricity consumption climbed to 458.2 GWh in October, up 17% year on year, underlining growing energy needs in the country. Despite ongoing diversification efforts, Kosovo's power system remained largely dependent on coal-fired plants, which continue to form the backbone of domestic electricity production.

Gross generation from thermal power plants edged down by 0.7% on an annual basis to 504 GWh. Hydropower output showed a modest improvement, rising 1.6% to 8.8 GWh. In contrast, generation from solar and wind sources surged by 67.6% year on year to 39.8 GWh, lifting the share of alternative energy in total electricity consumption to 10.6%.

Electricity trade also remained active. Imports rose 19% year on year to 302.8 GWh in October, while exports, including transmitted volumes, fell 4.8% to 238.5 GWh.

Meanwhile, coal production totalled around 616,330 tonnes in October, marking a decline of 14.8% compared with the same month of 2024, highlighting ongoing challenges in the coal supply chain even as electricity demand continues to grow.

Kosovo's Ministry of Economy said on December 16 that it launched the Request for Proposals (RFP) for the country's first wind energy auction, seeking to secure up to 100 MW of new wind generation capacity under a 15-year support scheme.

The move follows the completion of the Request for Qualification phase, after which three bidders were pre-qualified and are now invited to submit technical and financial offers. The shortlisted bidders are Akuo Energy from France, a consortium comprising Notus Energy of Germany and Kosovo-based Stublla Energy, and Turkey's Guris Consortium.

The auction forms part of Kosovo's broader strategy to strengthen energy security and diversify its electricity mix by expanding renewable generation through competitive, market-based mechanisms.

Authorities say the process builds on the experience gained from Kosovo's first 100 MW solar auction, which was widely seen as a milestone in the country's clean energy transition.

The wind auction is being implemented with the support of international partners, notably the International Finance Corporation as transaction adviser, backed by the governments of Germany and Luxembourg through LuxDev.

Saving electricity has become a priority in Kosovo as power consumption rises sharply during the winter season, particularly during peak evening hours.

Electricity use has increased by 14.3% compared with 2024, while the system recorded a maximum load of 1,468 MW on December 17, 2025, despite relatively mild temperatures, transmission system operator KOSTT said.

KOSTT warned that demand could climb even higher on colder days, putting additional strain on the electricity system.

7.6 Energy & Power - Moldova

In 2025, Moldova spent the fourth year in a row trying to fix its energy problem, after abandoning the politically-conditioned Russian gas for imports of gas from the European market at significantly higher prices. Additionally, Gazprom ceased supplies to Moldova, which had been entirely distributed by the country's authorities to the separatist Transnistria region in exchange for affordable electricity. The electricity prices paid by Moldovan companies surged as suppliers resorted to more expensive electricity from Romania.

Investments in more reliable interconnectors with the EU electricity markets and the development of the internal market (the Day Ahead Market was inaugurated in December) are seen as part of the solution. In the meantime, significant investments are envisaged in renewable production capacities.

As a result of Gazprom's decision to cease regular supplies to Transnistria in January 2025, the price paid by Moldovan companies for electricity increased by 60-90% y/y in H1 2025 depending on their individual consumption (larger companies were paying a bonus to reflect the high marginal price). This compares to a 3.2% y/y advance of the average manufacturing prices on the country's domestic market over the same period of time. The wide differential represents the rising energy costs faced by companies that can not transfer them to the final prices they charge.

Compared to the first half of 2021, the electricity prices paid by Moldovan companies surged by 140-180% depending on individual consumption, compared to the 43% increase of the average manufacturing prices on the domestic market. This created a significant loss of competitiveness.

Renewables generate two thirds of Moldova's local electricity output in January-September 2025. Local electricity production in Moldova covered about 43% of the 3.153 TWh delivered to end consumers in the first nine months of this year, according to the Market Study on the Electricity Sector for 2025 published by the National Agency for Energy Regulation (ANRE). Of the 1.358 TWh total energy generated locally in the period, 68% came from renewable sources, while 32% was produced in cogeneration mode by urban combined heat and power plants. The study shows that solar generation accounted for 44% of total local output, followed by wind energy with 19%, the Costești Hydropower Node with 4%, and biogas with 1%.

Data from the Ministry of Energy show that by the end of October, installed renewable capacity reached 932.8 MW, an increase of 35.3 MW from September and 353.4 MW above the level recorded at the end of 2024. The ministry stated that the sector has grown rapidly over the past five years, with capacity rising from 77.4 MW in 2020 to the current level, a twelve-fold increase.

Moldova has unveiled a €43bn energy strategy to 2050 focused on renewables and storage. The Ministry of Energy has launched public consultations on a draft Energy Strategy 2050, described as the country's most ambitious in three decades, the ministry announced on September 12. The plan foresees a €43bn investment programme — equivalent to 2.5 times Moldova's GDP in 2024 but below the annual GDP projected for 2050 — to transform the national energy sector.

Key measures include eliminating coal consumption by 2030 and sharply reducing the use of natural gas and petroleum products. Installed power capacity is projected to exceed 5,000 MW in 2050, more than five times the current level, excluding Transnistrian facilities. Wind power, with a planned capacity of 2.6 GW — 12 times higher than today — would account for roughly half of production, followed by solar energy and storage facilities. Gas-fired plants would fall below 10% of installed capacity.

7.7 Energy & Power - Montenegro

Montenegro plans to produce 3,798 GWh of electricity in 2026, a 57.6% rise compared with the estimated realisation in 2025, according to the government's newly adopted energy balance for next year.

The government said on November 20, the growth will be driven mainly by the return to operation of the thermal power plant Plevlja after ecological reconstruction and a significant expansion of solar generation, creating a projected surplus of 398 GWh.

The energy balance, required under the Law on Energy, covers electricity, coal, oil and oil derivatives, biofuels, natural gas, thermal energy for heating and cooling, and wood fuels.

Data for the document were provided by Elektroprivreda Crne Gore (EPCG), the Montenegrin electricity distribution and transmission operators, domestic electricity producers, the Pljevlja coal mine, and oil companies' estimates of fuel placed on the national market.

The government said ensuring sufficient quantities of all energy sources is essential for Montenegro's economic and social activities in 2026, and called on energy entities and institutions to fully implement the planned measures.

In 2026, the 54 MW Gvozd wind farm is expected to enter operation, while EPCG plans the phased commissioning of commercial solar power plants with a combined capacity of around 84 MW.

The Solari 5000+ programme will also continue, and together with the earlier Solari 3000+ and 500+ schemes, rooftop solar capacity is expected to reach about 105 MW by the end of the year. Private investors are meanwhile developing additional solar plants totalling roughly 25 MW.

If all projects move ahead as planned, Montenegro's installed solar capacity will reach about 215 MW, and the total available power from all energy facilities will rise to around 1,320 MW by the end of 2026.

EPCG's electricity system is anchored in the generation capacities of the Perućica and Piva hydropower plants and the Pljevlja TPP.

The EPCG's total installed generation capacity stands at 874 MW, of which 649 MW, or 74.3%, comes from hydropower facilities, while 225 MW, or 25.7%, is provided by the thermal plant, according to EPCG's data.

Montenegro has adopted two major strategic documents that government officials say mark a decisive step forward in aligning the country with EU energy and climate policies. The National Energy and

Climate Plan (NECP) and the Law on Cross-Border Exchange of Electricity and Gas were approved at the government session held on December 10.

Energy Minister Admir Šahmanović said the two documents were long overdue and essential for meeting Montenegro's European obligations.

"We adopted the National Energy and Climate Plan, an umbrella strategy that clearly defines where Montenegro should be in 2030: 55% less emissions, at least 50% renewable energy sources and strong progress in energy efficiency. This is a plan that enables new investments, new renewable energy power plants, modern network infrastructure and a safe transition for Pljevlja," he said.

The second document, the Law on Cross-Border Exchange of Electricity and Gas, is described by the minister as one of the most important pieces of energy legislation in this government's mandate.

"This law opens the door to the single European market, directly affects the closure of Chapter 15 and gives full meaning to the connection with Italy and the EU market. This means greater security of supply, better competition, more stable prices and a better position of our economy," Šahmanović added.

He noted that the latest European Commission report confirmed progress, and that the government's adoption of the two documents reinforces that assessment. "These are the foundations of a more energy secure, modern and European Montenegro and we have reason to be satisfied with the progress we have achieved," he said.

The NECP, adopted for the first time in Montenegro, integrates energy, climate and development policies into a single framework and sets measurable goals for the country's long-term energy transition. Its implementation is expected to accelerate renewable energy development, modernise electricity infrastructure, improve energy efficiency and strengthen management of emissions and climate risks.

The new law on cross-border energy exchange represents the most comprehensive reform of Montenegro's energy legislation in a decade, moving the country closer to the EU's market, technical and safety standards.

It paves the way for participation in the European single energy market, strengthens supply security and supports the creation of a more competitive environment for investors.

Together, the two documents form one of the most significant energy reform packages in recent years, fully aligned with EU strategic priorities. The government said it will continue implementing energy and climate reforms with the goal of bringing Montenegro closer to EU membership and ensuring a more secure and sustainable energy future.

Montenegro's power utility EPCG submitted a formal request to the Ministry of Spatial Planning, Urbanism and State Property seeking government approval to begin preparatory works for the construction of the 41.81 MWp Krupac solar power plant in Nikšić.

The project, classified as an infrastructural facility of general interest, is among the largest new renewable energy investments in the state sector

EPCG said there is a possibility that the EU's planned Carbon Border Adjustment Mechanism (CBAM) — which introduces a levy on imported electricity produced from coal — may be delayed for non-EU countries, despite the mechanism being scheduled to take effect on January 1, 2026.

EPCG told *Pobjeda* that further clarification on the timeline, methodology and potential transitional exemptions is expected by the end of 2025, following the Ministerial Council of the Energy Community.

At that meeting, regional countries are expected to discuss requesting a one-year postponement of the mechanism's full implementation, provided they commit to gradually introducing their own emissions trading systems.

Currently, EPCG pays €24 per tonne of CO_2 emitted at the Pljevlja thermal power plant for emissions not covered by free allowances. Those allowances are set to disappear in 2026, making all emissions fully chargeable.

Italy and Montenegro in October 2025 signed a Memorandum of Understanding (MoU) on the integration of their electricity markets, marking a major step towards closer energy cooperation and Montenegro's stronger inclusion in Europe's power network, the government in Podgorica said.

Montenegro's Minister of Energy and Mining Admir Šahmanović said the agreement reaffirms Montenegro's role as a reliable energy bridge between the Balkans and the European Union, while also paving the way for the construction of a second submarine cable linking the two countries.

The first 423-kilometre, 400kV cable, completed in 2019, has already strengthened Montenegro's strategic energy position.

The procurement of Montenegro's mandatory state oil reserves will be completed in the first half of 2026, the Hydrocarbons Administration told the media.

The administration said preparations are under way to launch an open public procurement process for oil derivatives, with the start of storage depending on the outcome of that tender, in line with deadlines set by the Public Procurement Law.

7.8 Energy & Power - North Macedonia

In North Macedonia, renewable energy accounted for 21.8% of total energy consumption in 2024, marking an increase of 1.6 percentage points compared with 2023.

Investments in energy efficiency and renewable energy require predictable rules, digitalised procedures, and de-risking instruments that attract private capital through local banks, North Macedonia's Energy Minister Sanja Božinovska said in October.

Božinovska said that financial models must reflect the needs of households, SMEs and industry. "Clear criteria, transparent monitoring and stable regulation are key to investor confidence," she said, noting that the ministry of energy is updating the legal framework, simplifying procedures, and expanding access to blended financing with international partners.

North Macedonia's state-owned electricity company AD ESM said on November 5 that it would launch the third phase of its project for revitalisation of hydropower plants by the end of 2025, aiming to boost annual hydropower output by 50 GWh and extend the lifespan of the Globočica and Špilje HPPs by at least 30 years.

Prime Minister Hristijan Mickoski said on October 27 that the country is fully prepared to prevent any gas shortages despite the latest sanctions imposed by the US and the EU on Russia.

The prime minister's remarks were made amid growing concerns across Europe about energy security following new rounds of Western sanctions on Russia, which could affect the regional supply of natural gas.

He assured citizens that there is no risk of an energy crisis, stressing that the government has anticipated potential disruptions and implemented measures to ensure uninterrupted supply during the upcoming winter season.

North Macedonia's energy commission said on October 10 that it issued the first licences for battery systems to store electricity from renewable sources, marking a new step in the country's energy transition.

The licences were granted to the company Energo Solar Systems for two battery storage systems with a combined installed capacity of 2,600 kW, integrated into two existing photovoltaic power plants already in operation.

"The issuance of these licences, which include battery systems for storing electricity, actually marks the beginning of a new investment cycle in the energy sector," said Marko Bislimoski, president of the commission.

He explained that the introduction of battery storage represents a significant step towards creating a sustainable, efficient and environmentally friendly energy system in the country.

Božinovska said in November that the new Energy Law, expanding investment in renewable sources and strengthening cooperation with international partners are central to accelerating reforms and preparing the country for its energy future.

Božinovska added that preparations are under way for a new wave of investments in solar and wind capacities, the modernisation of network infrastructure, and the digitalisation of key processes to improve transparency and efficiency.

The 44-MW wind power plant in Demir Kapija has entered trial operation, marking another significant step in North Macedonia's rapid expansion of renewable energy capacity, *Večer* reported on December 8, citing the head of the energy regulatory commission.

The Dren wind park, operated by Turkey's Kaltun Energy, is already producing electricity and forms part of a broader surge in renewable projects that has added more than 616 MW of new capacity over the past two years.

According to the Energy Regulatory Commission (ERC), the new renewable installations are sufficient to meet the average electricity needs of around 194,000 households.

Authorities project that, if domestic photovoltaic installations continue at the current pace, renewable output could eventually replace the production capacity of the Bitola coal-fired power plant.

ERC president Marko Bislimoski said investment in renewables has accelerated sharply. "In the last four years, we have about 1,200 MW of new capacities from renewable sources," he noted.

A Macedonian delegation held talks in Belgrade on December 13 on accelerating the construction of the gas interconnector with Serbia, a project seen as crucial for regional energy security and connectivity.

The planned gas interconnector between North Macedonia and Serbia is advancing as a key infrastructure project aimed at strengthening regional energy security and connectivity.

The pipeline will have a total length of around 67 km, including 23 km on North Macedonian territory and 44 km in Serbia, linking the gas network near Klečovce with Serbia's national system close to Vranje. The project is designed to diversify gas supply sources and integrate the two countries more closely into the regional gas market.

Interest in financing the interconnector has been expressed by the World Bank and several commercial banks, highlighting its strategic importance. Construction is scheduled to be completed in 2027, with the first gas flows expected in 2028. The pipeline will also be technically prepared for the future transport of hydrogen, in line with long-term European energy and climate objectives.

Once completed, the interconnector is expected to enhance energy diversification, improve supply security and contribute to deeper regional integration.

7.9 Energy & Power - Romania

Romania has extended OMV Petrom's onshore licenses in exchange for higher royalties, as part of a broader agreement. The government of Romania said on December 10 that it had approved measures to "rebalance the cooperation" with OMV Petrom for the next fifteen years, following what it described as a principled agreement intended to support the country's energy independence.

The announcement came nearly twenty years after Romania signed the privatisation contract through which OMV took control of Petrom. According to the government, the package includes a 15-year extension of exploitation licences for offshore perimeters obtained during privatisation, as well as a two-year extension of the exploration licence for the Neptun Deep block. In return, OMV Petrom will accept a 40% increase in royalties on onshore gas, assume the costs of decommissioning unused wells — previously estimated at €600mn — and withdraw all litigation against the Romanian state.

Romanian natural gas producer Romgaz has issued a €500mn bond with a six-year maturity and a fixed coupon to finance its participation in the Neptun Deep offshore gas project. This is Romgaz's second eurobond placement on international markets, following its first €500mn issue in October 2024, which carried a five-year maturity. Both bond issues are aimed at supporting the Neptun Deep project, where Romgaz holds a 50% stake alongside OMV Petrom.

Romgaz has challenged the European Commission (EC)-imposed CO2 storage targets in the EU court. Romania's state-controlled gas producer Romgaz (BVB: SNG) has filed a direct action against the EC with the Court of Justice of the European Union, seeking the annulment of the decision obliging it to secure a CO_2 storage capacity of 4mn tonnes per year by 2030. The company estimates the cost of developing such capacity at several hundred million euros, according to the note sent by SNG to investors.

The obligation stems from Regulation (EU) 2024/1735 – the Net Zero Industry Act (NZIA) – and accompanying implementing acts that together require EU oil and gas producers to ensure a collective CO_2 storage capacity of 50mn tonnes per year by 2030. Romania's national quota amounts to 10.25mn tonnes, of which Romgaz is responsible for 4.12mn tonnes, with the remaining share allocated to OMV Petrom and Black Sea Oil and Gas (BSOG).

Romania added 2.5 GW in 2025 to its total solar power capacity, 45% more than last year and roughly one third of the total capacity expected at the end of the year (7.6 GW) according to Economica citing data from the latest report by Solar Power Europe, the European photovoltaic industry association. The performance, combined with the signs of fatigue in Europe in general propelled the country as the fastest growing market among Europe's ten largest. Based on an average scenario, Romania will reach 24 GW installed in photovoltaics – more than three times more than now – by 2030, becoming the sixth fastest-growing market out of the top 10.

7.10 Energy & Power - Serbia

Serbia is one of Europe's most energy-dependent countries, importing nearly all of its gas — around 3bn cubic metres (bcm) in 2024 — with domestic production covering just 10%. Efforts to secure a new long-term supply from Russia have stalled: in October 2025 Moscow declined a multi-year contract, extending only a temporary arrangement that guarantees access to relatively cheap Russian gas, leaving Belgrade reliant on short-term deals and Moscow's good will.

The government is seeking to diversify gas and electricity supplies, expand renewables and attract foreign investment in energy infrastructure. By the end of 2026, Belgrade aims to secure 1.3 GW of new renewable capacity through competitive bidding, including solar, wind and energy storage. Domestic coal reserves are at record levels, and Srbijagas plans to double gas storage capacity at Banatski Dvor. Planned gas pipelines with North Macedonia and Romania, and a joint oil pipeline with Hungary, are expected to come online in the next few years.

Sanctions on Gazprom-owned NIS are testing Serbia's energy resilience. Since October 2025, US sanctions have restricted NIS's crude imports and forced temporary suspension of production at its Pančevo refinery. Belgrade has given Russia a deadline to divest its 56% stake, with potential buyers including Abu Dhabi's ADNOC and Hungary's MOL. State takeover is considered a last resort due to costs and possible retaliation from Moscow.

Serbia's nuclear ambitions are advancing. Following a 2024 decision to lift a decades-old ban, Belgrade is exploring large-scale plants and small modular reactors. Technical studies are underway with France's EDF, and MoUs have been signed with South Korea's KHNP, while talks with Russia's Rosatom continue. Nuclear is seen as a long-term solution to meet projected quadrupling of electricity demand by 2050 and reduce reliance on oil and coal.

State-owned EPS is investing in hydropower and renewable projects. The Vlasina hydroelectric complex is undergoing a €110mn upgrade, financed by the EBRD, EU grants and EPS funds. EPS recently brought online Serbia's wind farm and 10 MW solar plant Petka, with 76 MW expected from the Kostolac green energy plant in 2026.

Serbia faces mounting energy security risks from the EU's planned ban on Russian gas transit through EU territory, set to take effect fully by 2028. While the EU insists deliveries to non-EU member states such as Serbia will not be affected, Finance Minister Sinisa Mali has warned that disruptions are possible if neighbouring countries, particularly Bulgaria, decide to halt flows.

7.11 Energy & Power - Slovenia

One of Slovenia's largest planned energy infrastructure projects is the construction of a second reactor at the country's only nuclear facility, the Krško power plant (JEK 2).

While the project faces significant challenges, preparatory work for its implementation continues. Krško 2 is intended to expand national energy capacity, strengthen long-term energy security and comply with modern safety and environmental standards.

The Krško plant is jointly owned by Slovenia's Gen Energija and Croatia's HEP. Following a month-long overhaul, the existing reactor was reconnected to the national grid on October 29 2025. The next scheduled overhaul is planned for spring 2027.

Gen Energija has been developing the JEK 2 project for nearly two decades. Construction is expected to take several years, with estimated costs ranging between €9.3bn and €15.4bn.

Officials at Krško Nuclear Power Plant (NEK) said in December that it is time to begin talks on extending the plant's operating life by a further 20 years. CEO Gorazd Pfeifer said NEK has already launched initial procedures, including approval by its supervisory board of an investment plan for studies on extending operations from 60 to 80 years. The studies are due to be completed by the end of 2026, after which discussions with the owners, state institutions and the interstate commission will begin.

Pfeifer said 2025 will end with all of NEK's targets met. The plant produced 5.5bn kilowatt hours of electricity this year and has been operating at full capacity following a successful overhaul. NEK also recently received the highest ratings from international IAEA and WANO missions.

With no overhaul planned for 2026, NEK expects to run at full capacity throughout 2026, producing more than 6bn kilowatt hours of electricity. The company is also planning €80mn in investments and continues preparations for waste disposal and the next overhaul in 2027.

In October, the Slovenian government completed a draft law aimed at boosting the use of renewable energy sources (RES) and will submit it to parliament for debate, the Ministry of the Environment, Climate and Energy said.

The proposal revises the existing Act on the Promotion of the Use of Renewable Energy Sources to bring it into line with the updated EU Directive and to introduce a modernised support scheme that reflects the European Commission's latest state aid rules for climate, environmental protection and energy.

Among its key provisions, the draft law raises Slovenia's RES target to a 33% share of final energy consumption by 2030, in accordance with the country's updated National Energy and Climate Plan.

Slovenia's transmission system operator ELES and Italy's Terna signed an agreement on November 11, 2025, to invest around €250mn in upgrading the cross-border electricity connection between the two countries. The project aims to increase transmission capacity by 600 MW and enhance regional market integration by 2031, ELES said.

The project, developed after more than a decade of coordination, involves three main upgrades on both sides of the border.

Average electricity prices in Slovenia rose in the third quarter, with household tariffs up 9% from the previous quarter to €0.215/kWh, while prices for non-household consumers increased by 2% to €0.141/kWh (excluding VAT), according to data from the statistics office.

Natural gas prices moved in opposite directions. The average price for households increased by 3% quarter-on-quarter to €0.089/kWh, whereas non-household consumers saw a 3% decline, with prices falling to €0.052/kWh (excluding VAT).

According to the first national Climate Vulnerability and Risk Assessment for the Energy Sector, co-prepared by the Ministry of the Environment, Climate and Energy the Slovenian energy sector is moderately vulnerable at the national level under current climate conditions, while also drawing attention to significant regional differences in exposure and level of vulnerability.

The greatest threat to the energy sector is flooding , which threatens fuel storage facilities, transformer stations, electricity distribution networks and other elements of supply chains. Other significant risks include fire, storms and windbreaks, sleet and wet snow , and heat waves , which affect the efficiency of equipment and increase energy consumption for cooling.