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From:	General Secretariat of the Council
To:	Delegations
Subject:	Draft Joint Conclusions of the Economic and Financial Dialogue with Regional Partners

In view of the Economic and Financial Dialogue between the EU and Regional Partners on 13 May 2025, delegations will find attached the draft Joint Conclusions as endorsed by the members of the Economic and Financial Committee and representatives of regional partners (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo[*], Montenegro, Serbia, Türkiye, Republic of Moldova and Ukraine) on 6 May 2025.

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[*] This designation is without prejudice to positions on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

DRAFT

JOINT CONCLUSIONS OF THE ECONOMIC AND FINANCIAL DIALOGUE WITH REGIONAL PARTNERS

The Economic and Financial Dialogue with Regional Partners[1]

Brussels, 13 May 2025

Representatives of the EU Member States, the regional partners, the European Commission and the European Central Bank, as well as representatives of the central banks of the regional partners met for their annual economic policy dialogue.

The overall economic outlook has become even more uncertain, where beyond Russia's protracted war of aggression against Ukraine and the conflict in the Middle East, a sharp increase in trade fragmentation following protectionist measures taken by trading partners cloud the global outlook. Participants welcomed that the economies of the regional partners continued to show resilience and shared a common interest in defining appropriate policy responses to the recent adverse shocks and future economic and social challenges. In this context, and as part of the broader goals of enhancing regional stability and prosperity, participants agreed that the economic and financial dialogue is of continued high importance.

1 "Regional Partners" include the Western Balkan partners, Türkiye, the Republic of Moldova and Ukraine. Within the context of the Ukraine Facility, where its implementation is monitored, Ukraine has adopted an overarching Ukraine Plan, which outlines its broad-based structural reforms agenda including reforms reinforcing its macroeconomic and financial stability. To avoid duplications and with a view to reducing the administrative burden on Ukraine in the extraordinary circumstances, the country participates in the economic policy dialogue as an observer only. Georgia did not participate in this year's Dialogue and therefore it is not included in the Joint Conclusions.

Participants underlined that the economic and financial dialogue also contributes to the wider goals of good governance and economic prosperity. Looking beyond the current challenges, Participants agreed that the dialogue should continue to play a central role in providing jointly agreed policy guidance, where appropriate, to support a sustainable medium-term growth path and gradual compliance with the economic criteria for EU accession. Participants emphasised that ownership remains key to a more impactful implementation of the jointly agreed policy guidance and the Economic Reform Programmes. Participants encouraged the Western Balkans and Moldova to make full use of the Growth Plan, including by implementing socio-economic reforms set out in their respective Reform Agendas[2], to accelerate economic convergence with the EU. Participants welcomed the Progress report on the action plan on economic, monetary, and financial statistics for the regional partners.

[2] Resulting in streamlined Policy Guidance with fewer numbered recommendations in these cases.

Albania

Albania submitted its Economic Reform Programme (ERP) 2025–2027 on 17 January 2025. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 14 May 2024 has been partial.

Albania's economic growth continued to be strong at close to 4% in 2024, driven by robust domestic demand, strong tourism performance and sustained construction activity. The rise in household consumption was supported by increasing real wages amid slowing inflation, and by accelerating credit growth. Job creation in the services sector supported employment growth. Exports of services expanded, while goods exports declined due to an unfavourable external environment and the appreciation of the lek. After falling to a historic low in 2023, the current account deficit widened in 2024. Albania's ERP projects real GDP growth to maintain the same robust pace of around 4% over 2025–2027 on the back of surging investments and growing private consumption. Continuing growth in services exports, particularly tourism, is expected to offset the impact of rising imports. The current account deficit is projected to average around 3% of GDP over 2025–2027, much below its long-term average, pointing to structural improvements. A higher labour force participation rate is expected to remain the main driver of labour supply, given the projected decline in population. The ERP's baseline growth forecast is in line with recent economic performance but faces some downside risks, including recurring underspending on public investments and a challenging external environment.

Fiscal consolidation accelerated in 2024 with the general government budget deficit narrowing to 0.7% of GDP, overperforming the 2.3% target. Revenues performed well in line with the budget target, while expenditures were lower than planned, marked by under-execution of capital spending. The ERP projects the budget deficit to widen to 2.6% of GDP in 2025 on the back of higher expenditure, in particular on investment. Revenue growth is set to be supported by the implementation of the recently approved medium-term revenue strategy. A falling expenditure-to-GDP ratio is projected to help decrease the budget deficit to 1.9% of GDP in 2026 and further to 1.6% of GDP in 2027. The public debt ratio fell more than expected to below 55% of GDP in 2024, reflecting a positive primary balance, a favourable snowball effect and the appreciation of the exchange rate. It is projected to continue its downward path over 2025–27, but at a more moderate pace than in recent years.

Despite some increase in recent years, Albania's government revenue-to-GDP ratio remains low compared to peer countries. Revenues could be boosted further by comprehensively reviewing tax expenditures and revising tax policies. Fiscal risks continue to stem from loans and guarantees to state-owned enterprises (SOEs), public-private partnerships and the build-up of arrears. Additional risks come from potentially large state guarantees for the National Development Bank, which will be a deposit-taking institution according to the recently adopted law on its establishment. Against this background and in view of high gross financing needs and the short maturity structure of public debt, it remains crucial to continue strengthening fiscal risks monitoring. Any pension reform initiative should be built on a proper assessment of the long-term cost of ageing and the sustainability of the pension system. Despite some preparatory steps there is no independent fiscal institution in place yet. Enhancing the operationalisation of the recent public investment management (PIM) legislation is important in view of plans to increase capital spending.

Inflation fell steadily throughout 2024, dropping from 3.4% in January to 2.1% in December, below the 3% target. Disinflation was mainly driven by lower food and oil prices and the appreciation of the lek. The latter was driven by capital inflows from tourism, remittances and FDI, prompting the Bank of Albania to intervene in the foreign-exchange market to counter the strong appreciation pressures. Despite a tight labour market and rising wages, domestic inflationary pressures remained contained. The ERP projects average annual inflation to converge to the target by 2025. The Bank of Albania cut the policy rate twice in 2024, lowering it from 3.25% to 2.75%, and keeping it unchanged since November 2024. Favourable financing conditions and strong demand supported a significant acceleration in lending to the private sector, with mortgages and real estate loans registering robust growth. In June 2024, the Bank of Albania raised the countercyclical capital buffer from 0% to 0.25%, marking the first such increase since its introduction, followed by a second hike to 0.5% in December 2024. The banking sector remained stable, well-capitalised and liquid, while banks' profitability continued to improve. The non-performing loan (NPL) ratio stood at 4.6% in October 2024, down from 5.1% a year ago; the reduction was driven by sustained credit growth while credit risks remain. Banks' exposure to sovereign debt together with unhedged foreign loans are sources of risks. Good progress has been made in collecting data on banks' exposures to the real estate sector and in monitoring credit standards for real estate loans. Albania joined the Single Euro Payments Area (SEPA) in November 2024. Once operational, SEPA will reduce settlement time and cost for euro payments, and facilitate trade, remittances, and other cross-border activity.

Albania's structural challenges relate to improving the business environment and developing further the private sector, including tackling the informal economy, advancing the digital transformation and green transition and developing human capital. The business environment remains affected by a weak rule of law, limited access to finance, and shortcomings in the oversight and governance of state-owned enterprises. The energy sector is volatile, with hydro-electricity production heavily dependent on rainfall. Ensuring the diversification of renewable sources of electricity production and the market integration of the energy sector into the EU single market remains a challenge. Infrastructure gaps, including low digital connectivity are obstacles to economic growth. Albania has a very high rate of low-skilled adults, high rates of early school leaving and low digital literacy. Overall, the education system needs to be modernised, with improvements in the labour-market relevance of acquired skills. These challenges are expected to be mainly addressed through key structural reforms identified in the country's reform agenda under the Growth Plan for the Western Balkans.

Regarding statistics, Albania took part in the 2024 coordinated benchmark revisions of national accounts and carried out a partial benchmark revision, which resulted in the completion of annual and quarterly time series data for GDP by production and expenditure approaches, covering the period from 1995 onward. Albania made progress in excessive deficit procedure notifications, government finance statistics, short-term business statistics, and supply, use and input-output tables (including in balancing the three approaches to GDP), and made significant progress in international trade in goods statistics. Albania transmitted data on GBARD for the reference years 2022 and 2023, respectively in January 2024 and in December 2024. Albania does not provide labour market statistics, harmonised indices of consumer prices at constant tax rates and administered prices, monthly balance of payments and regional accounts. Data gaps still remain in the areas of national accounts, excessive deficit procedure and government finance statistics, foreign direct investment statistics, research and development statistics, short-term business statistics, international trade in goods statistics and the international investment positions. Albania still needs to align with the new requirements in short-term business statistics and improve the methodology, coverage and timeliness of excessive deficit procedure and government finance statistics.

In light of this assessment, Participants hereby invite Albania to:

1. Implement the Medium-Term Budget Plan (MTBP) and use any savings from capital expenditure under-execution to reduce the budget deficit. Implement the Medium-Term Revenue Strategy, adopt the property tax law, and based on the tax expenditure review prepare proposals to reduce tax expenditure, prioritising the elimination of exemptions lacking sound policy justification. Prepare the draft legislation for establishing a fiscal council, incorporating the European Commission's comments.

2. Strengthen capacity in the Fiscal Risk Directorate in the Ministry of Finance to enhance fiscal risk assessment, including monitoring of SOEs, and publish the annual Fiscal Risk Statement based on 2024 data, covering a wide range of risks as well as mitigation measures. To strengthen long-term sustainability of public finances and underpin any pension reform, enhance evidence-based analysis and long-term projections using a pension modelling framework. Enhance the operationalisation of the public investment management framework, including the National Single Project Pipeline, and ensure that the projects entering the MTBP are mature and of good quality, in order to avoid under-execution of public investments.

3. Continue to calibrate monetary policy appropriately to sustainably anchor inflation expectations at levels consistent with the target and ensure price stability. Strengthen further the reporting across the banking system, inter alia by consistently applying IFRS9 standards, and enhance risk-based supervision in line with best international and European practices, including by assessing and addressing eventual risks arising from exposures in the real-estate sector. Ensure that the national development bank has an operational framework that mitigates moral hazard and fiscal risks, and complies with best practices in terms of governance as well as appropriate supervision and regulation applicable to other deposit-taking institutions to ensure transparency, sound lending practices, adequate deposit protection and a level playing field in the banking sector.

Bosnia and Herzegovina

Bosnia and Herzegovina submitted its Economic Reform Programme 2025–2027 on 18 March 2025, i.e. for the fourth year in a row with a very significant delay of more than 2 months. The late submission has strongly impeded the assessment of the programme and the formulation of the policy guidance. Participants invite Bosnia and Herzegovina to redouble efforts to comply with commitments under the ERP process. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 14 May 2024 has been limited. Participants call for a quick resolution of the current political crisis which impedes the necessary reforms and delays the accession process, and for the finalisation of the country's reform agenda under the Growth Plan.

Real GDP growth accelerated from 1.9% in 2023 to 2.5% in 2024, benefitting from strong domestic demand and tourism. High wage growth, strong remittances and decelerating inflation supported real disposable income. Employment growth decelerated, while unemployment continued to fall, partly reflecting the continued outflow of labour. This has contributed to further wage pressures above productivity growth, impeding price competitiveness. The ERP expects a further pick-up in output growth, reaching 3.3% in 2027. Risks stem from an uncertain international environment, persistent political stalemates impeding structural reforms, and high domestic political tensions.

In 2024, the consolidated fiscal deficit was moderate at 1.3% of national GDP,but this masks a sizeable gap between the Federation, where the fiscal deficit stood in line with the plan (0.8% of Federation GDP), and Republika Srpska (RS), where the deficit was higher than planned (2.4% of RS GDP). For 2025–2027 the programme envisages a largely revenue-driven fiscal consolidation, resulting in a budget surplus of 0.7% of GDP in 2027. The revenue-to-GDP ratio is projected to increase by 1.8 pps, mainly as a result of higher social contributions, while expenditure is projected to remain largely stable as a percentage of GDP. However, on the spending side, the programme prioritises social transfers and subsidies, while capital spending is set to decline as a share in GDP. Interest payments are expected to remain broadly stable at 1% of GDP, benefiting from the relatively low debt level and the high share of concessional lending. The envisaged fiscal consolidation would drive the fall in the debt-to-GDP ratio, to 22.8% in 2027. In view of the low debt level and a low implicit interest rate, debt sustainability does not appear to be at risk. The projected low capital spending is not in line with the country's challenges and also conflicts with the policy guidance jointly agreed since 2015.

The main macro-fiscal challenges relate to the need to improve medium-term economic and fiscal planning and coordination, strengthen the reliability of country-wide fiscal data and their alignment with EU accounting standards, and substantially raise the level of public investment to move the economy onto a higher growth trajectory. Furthermore, revenue collection is negatively affected by a sizeable informal economy and insufficient transparency of taxable income.

Inflation fell from 6.1% in 2023 to 1.7% in 2024. However, inflationary pressures have started to increase recently, mainly driven by domestic prices. Despite the central bank's efforts to monitor price developments, the timely assessment of underlying price trends is impeded by the lack of official data on core inflation and the unusually long delays in publishing data on consumer basket weights. Monetary policy has continued to be anchored by the currency board arrangement, which enjoys a high level of credibility and is a key pillar of monetary stability.

The financial sector remained stable and asset quality indicators favourable, while the share of underperforming (stage 2) loans rose slightly, calling for a continued close monitoring of asset quality. The entity banking supervisory authorities have extended measures to contain the increase in domestic lending rates with the aim of safeguarding households' repayment capacity and discouraging higher-risk lending. Such measures should be temporary and well-targeted. Despite good cooperation among supervisory authorities, a comprehensive assessment of financial sector risks is hampered by gaps in data availability, particularly in the real estate sector and private debt, and the overall fragmentation of the domestic financial market. Therefore, a countrywide financial safety net, such as a single resolution framework, would strengthen the country's shock resilience.

Structural challenges continue in the areas of rule of law, the business environment and inefficient public enterprises, the green and digital transitions and human capital. A difficult business environment is a key factor driving poor labour market outcomes. Weaknesses in the regulatory framework and in the fight against corruption persist. Environmental standards are low. These challenges are expected to be addressed through key structural reforms identified in the country's reform agenda under the Growth Plan for the Western Balkans, which however still awaits finalisation and adoption.

Bosnia and Herzegovina started transmitting data for labour market statistics and made progress on the timeliness of balance of payments. Bosnia and Herzegovina has still not provided harmonised indices of consumer prices, supply, use and input-output tables, foreign direct investment statistics and monthly data on balance of payments. Further data gaps exist in the field of national accounts, excessive deficit procedure and government finance statistics, short-term business statistics and international trade in goods statistics. Bosnia and Herzegovina needs to make further alignment with the new requirements in short-term business statistics, as well as progress in the field of monetary and financial statistics, for which Bosnia and Herzegovina is invited to start data transmission on a voluntary basis. Efforts should be pursued to improve the coverage and timeliness of all relevant statistics, with special emphasis given to national accounts, excessive deficit procedure and government finance statistics.

In light of this assessment, Participants hereby invite Bosnia and Herzegovina to:

1. Adopt the Global Fiscal Framework in time for it to provide effective guidance for the budget preparations of all budgetary entities and ensure the timely adoption of the budgets of all entities. Increase the share of government capital spending in GDP by adopting measures improving public investment management and allowing for an accelerated implementation of those investment projects that have been subject to a clear positive cost-benefit assessment. Clarify the constitutional competence for establishing a central (i.e. country-wide) registry of bank accounts of private individuals, in line with the EU acquis.

2. Include in the forthcoming ERP 2026–2028 (1) a comprehensive assessment of fiscal risks and contingent liabilities at all levels of government, including those related to publicly owned enterprises, and (2) concrete policy measures to manage such risks and contain the emergence of new contingent liabilities. With a view to improving the quality of data aggregation and reporting, strengthen the analytical capacities of institutions at all levels of government responsible for fiscal accounting and planning, specifically in the Ministry of Finance and Treasury of BiH, and improve the procedures for preparing the ERP in order to ensure a timely submission and compliance with the requirements. Continue to strengthen capacities at all levels of government in the areas of macroeconomic statistics, regional accounts, labour force survey and government finance statistics, in particular by agreeing on the national account sectorisation, and increase efforts to improve the coverage and timeliness of all statistics.

3. Continue to thoroughly assess price developments, and improve price statistics, including a timely publication of CPI weights and developing and publishing the official core inflation series. Continue to safeguard the integrity of the currency board arrangement and the independence of the central bank. Enhance risk-based supervision in line with best practices, including by monitoring the temporary measures affecting the setting of interest rates to ensure that they do not impede market mechanisms, by initiating the set-up of a single resolution fund, and by improving data collection, in particular as regards the real estate sector and private debt developments, to enable a comprehensive assessment of financial sector risks.

Kosovo*

Kosovo submitted its Economic Reform Programme 2025–2027 on 15 January 2025. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 14 May 2024 has been partial.

Kosovo's economic growth picked up to 4.4% in 2024 up from 4.1% in 2023. A strong expansion of household consumption and public investment were the key growth drivers. The ERP's baseline scenario optimistically projects average annual GDP growth to accelerate to 6.3% in 2025–2027, based on robust increases in private consumption and investment. To realise this ambition, remaining obstacles to public and private investment need to be effectively addressed. There are additional sizeable downside risks to this outlook notably linked to geopolitical and trade tensions, sluggish economic activity in the main trading partners and lower-than-expected financial inflows from the diaspora.

The headline budget deficit marginally rose to 0.4% of GDP in 2024, as the strong increase in public capital spending outpaced high revenue growth. The programme projects the headline deficit to widen significantly to 2.8% of GDP in 2025, mainly due to a further surge in public investment. However, the deficit according to the fiscal rule's definition (which excludes certain investment categories) would not exceed the prescribed ceiling of 2% of GDP. Compliance with the deficit rule is also envisaged for 2026–2027. The public debt ratio is set to increase but remain below 25% by 2027. The domestic public debt investor base remains narrow, but Kosovo obtained a sovereign credit rating for the first time in April 2024, which could help it access international debt markets in the near future.

The envisaged compliance with the 2% deficit ceiling in 2025–2027 is welcome but would need to be underpinned by structural fiscal reforms on the budget revenue and expenditure sides. Tax revenue has been increasing by double digits partly due to improved tax compliance and some formalisation gains. However, budget revenue relies on a narrow tax base, which is weakened by tax exemptions, preferential tax rates and special regimes. Public finance would benefit from further tax base broadening and a clear identification of tax expenditure. A further reduction in blanket allocations would enhance budgetary transparency and accountability. Comprehensive reforms to improve project planning and implementation would strengthen public investment management. Fiscal risks related to publicly owned enterprises (POEs) could be mitigated by improving their financial oversight and accountability.

[*] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Annual consumer price inflation averaged 1.6% in 2024, well below the 4.9% rate registered in 2023. The key driver of disinflation was lower commodity prices in international markets. Core inflation remained somewhat higher at an annual average of around 3%. The ERP projects average annual inflation to inch up to 1.8% in 2025, before falling again to 1.6% in 2026 and 2027. The banking sector remained sound and resilient. Banks' profitability has slightly improved while liquidity and capital buffers are well above regulatory minima. Annual average bank lending growth slightly accelerated in 2024, driven by both household and corporate lending. Household credit growth, including for consumption purposes, was more pronounced in the first half of the year, followed by a strong increase in investment loans. Interest rates on new loans decreased only slightly. The non-performing loan (NPL) ratio remained stable at a historically low level and loan provisioning is adequate. In the context of lower interest rates and strong credit growth there is a need to strengthen supervisory capacity. Efforts are ongoing to adequately staff and enhance the central bank's analytical and modelling capacities. Data gaps, in particular in the area of private sector indebtedness and the real estate sector, need to be addressed to underpin a comprehensive analysis and strengthen supervision of the financial sector. Rapid credit growth also requires improved financial crisis preparedness. To this end, and given Kosovo's euroisation, the ongoing review of the Emergency Liquidity Assistance (ELA) arrangement will be useful.

Key structural obstacles hinder Kosovo's competitiveness and inclusive growth. Despite further progress on administrative burden reduction, barriers still remain to private sector development. Some progress was made with various financing options available through the Kosovo Credit Guarantee Fund, but access to finance is overall still limited. This, together with a large backlog in commercial litigation, create significant challenges for businesses and investors, undermining fair competition and economic growth. Despite some progress, the informal sector is still sizeable reducing budget revenues, discouraging investment and hindering business development. The supply of energy remains unreliable and insufficient to meet rapidly growing demand, leading to significant costs for businesses while straining public finances. The education system does not adequately equip students with the skills demanded by the labour market despite efforts to improve vocational education and training programs. Notwithstanding significant employment gains, the labour market is characterised by low participation and still high unemployment rates, in particular among women and young people. These challenges are expected to be mainly addressed through key structural reforms outlined in Kosovo's Reform Agenda under the Growth Plan for the Western Balkans.

Regarding statistics, Kosovo successfully implemented the new European business statistics requirements for international trade in goods statistics. However, Kosovo does not transmit data for regional accounts, short-term business statistics, labour market statistics, research and development statistics, business registers statistics, harmonised indices of consumer prices at constant tax rates and administered prices and monthly balance of payments. Improvement efforts should continue in national accounts, excessive deficit procedure notification tables and government finance statistics. Data gaps also remain in supply, use and input-output tables and Special Purpose Entities in foreign direct investment statistics.

In light of this assessment, Participants hereby invite Kosovo to:

1. Implement the planned shift in the 2025 budget spending structure from current to capital expenditure while ensuring compliance with the fiscal rules. Increase budgetary transparency by further reducing blanket allocations. Based on the results of the tax expenditure review, reduce loopholes and exemptions through amendments to tax legislation, including personal income tax, corporate income tax and value added tax.

2. Bolster the functioning of the Tax Administration of Kosovo (TAK) by further promoting digital transformation, strengthening human resources capacity and enhancing the use of third-party data to raise compliance levels and revenues. To improve the execution rate of capital spending, establish the linkages between the e-procurement and Kosovo Financial Management Information System (KFMIS) systems. Improve financial oversight and accountability of Publicly Owned Enterprises (POEs) by approving and publishing their annual performance report and adopt amendments to the POE Law to improve their corporate governance.

3. Continue to thoroughly assess price developments and possible second-round effects and further enhance the monitoring of inflation expectations. Enhance risk-based supervision in line with best international and European practices, including by improving data collection, in particular as regards the real estate sector, to enable a comprehensive assessment of financial sector risks. Improve financial crisis preparedness by completing the review of the Emergency Liquidity Assistance (ELA) arrangement.

Moldova

Moldova submitted its Economic Reform Programme 2025–2027 on 17 January 2025. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 14 May 2024 has been partial.

The economic recovery which began in the second half of 2023 came to a halt in 2024, with real GDP growing by 0.1%. Stronger private consumption, supported by low inflation and an increase in real wages, has been the key driver of growth during the first half of 2024, along with a moderate rebound in investment. However, net exports remained a drag on growth, particularly in the second half of the year, notably due to a drop in net re-exports of mineral products to Ukraine, lower exports of agricultural products largely due to the 2024 summer drought, while imports kept growing. The ERP projects a slow but strengthening economic recovery until 2027 with real GDP growth of 3% in 2025, gradually increasing to 3.7% in 2027. The outlook relies in large part on robust private consumption, which is subject to significant downside risks related to inflationary pressures and ongoing outward migration. The baseline scenario does not account for the Growth Plan or the energy price increase of the winter 2024/2025. However, it presents an alternative scenario considering the electricity price increase in which GDP growth would remain below 2% in 2025, although additional financial assistance could help mitigate the economic impact. Other downside risks include the impact of Russia's war against Ukraine and climate related risks.

The fiscal deficit in 2024 is estimated at 3.9% of GDP, an improvement of more than 1 pp. compared to 2023 on account of stronger revenue collection, lower capital expenditure and the phase out of support measures to mitigate the impact of high energy prices on households. The ERP, which was submitted before finalisation of the Reform and Growth Facility for Moldova, envisaged a reduction in the deficit to 3.2% of GDP until 2027 alongside an increase in public investment to support the recovery. The share of revenues was projected to slightly decline due to lower excise duties and reduced grants from international donors, while VAT revenue was expected to rise slightly. The share of public expenditure was set to decrease more strongly with spending on wages, goods, and social benefits to grow slower than nominal GDP while much-needed capital investments as share of GDP was set to increase modestly, supported by the ongoing public investment reform. The public debt ratio was expected to remain relatively low – although elevated compared to the pre-energy crisis situation in 2023 – at around 40% of GDP in 2026 and 2027. Moldova's government debt remains largely denominated in foreign currency suggesting high risks related to exchange rate fluctuations. The 2025 supplementary budget, adopted on 17 April and taking into account increased expenditure arising in conjunction with the Growth Plan, projects a higher fiscal deficit (5.1% in 2025).

Given the limited fiscal space, the authorities took steps to broaden the tax base and improve tax compliance, notably through a dedicated programme increasing the number of tax inspections and improving the exchange between tax services and taxpayers. To enhance public spending efficiency, the government has conducted several spending reviews, including in the health and social protection sectors. However, the effective implementation of their findings is hindered by the absence of a framework to guide the process. The assessment of access-to-finance programmes, agreed in the 2024 Joint Policy Guidance, has not yet been conducted. In light of the planned expansion of those programmes and a relatively low credit-to-GDP ratio, a review should focus on the efficiency and effectiveness of support programmes so far. Lastly, Moldova's economy remains dominated by a large state-owned enterprises (SOEs) sector with productivity levels well below those in private companies. Progress made on the SOEs reform, particularly related to the implementation of the 'triage' exercise that identified which SOEs to retain, restructure, or privatise and improving corporate governance, has been slow, while fiscal risks related to SOEs remain relatively high.

Following a successful disinflation period, inflation averaged 3.9% in the first half of 2024 but rebounded again in the second half of the year on account of higher food prices partly attributed to the drought in summer 2024 and an increase in energy prices. Annual inflation reached 8.6% in February 2025 exceeding the National Bank of Moldova's (NBM) target range of 5% ±1.5%. Average annual inflation is expected to remain above the central bank's target range in 2025 but to decline towards the end of the year. In response to rising inflation, the NBM shifted to monetary tightening increasing the base rate to 6.5% in February 2025. Moldova's mainly foreign-owned banking sector remained stable in 2024, with strong capital adequacy, liquidity, and profitability. Lending to households and corporates expanded fast from a relatively low level of financial intermediation. The non-performing loan (NPL) ratio has steadily declined from its peak of 18.4% in 2017 to 4.2%[3] (2.1% based on IFRS (stage 3)) in February 2025. Moldova continues to align financial sector regulations with the EU acquis. On 6 March 2025 the European Payments Council approved the inclusion of the Republic of Moldova in the geographical scope of the Single Euro Payments Area (SEPA) schemes. Moldova took steps to strengthen central bank independence through legislative amendments. Additional amendments to the central bank law, including strengthening the dismissal and appointment procedures and reforming its governance and decision-making structure remain to be adopted. The NBM took over the supervision of the non-bank financial sector in July 2023 and has made substantial efforts to harmonise the regulatory and supervisory landscape with the banking sector. To further harmonise regulatory standards across financial institutions, the central bank has launched a review of responsible lending practices and conducts regular risk assessments.

[3] Based on Moldovan prudential definition.

Moldova faces significant structural challenges despite ongoing reforms. The authorities remain committed to macroeconomic stability, but the current account deficit continues to be high, while low-value-added exports dominate the economic landscape and efforts to attract foreign direct investment face headwinds due to weak investor confidence. State-owned enterprises and enterprises with partial state ownership continue to play a significant role in the economy. Shortage of skilled labour remains a key issue across the private and public sectors alike while labour market participation remains low. These issues are compounded by high informal employment and still low yet increasing female employment. Public investments declined in 2024 and remain insufficient to meet the country's substantial infrastructure needs. Moldova has just communicated its Reform Agenda, to be implemented under the Reform and Growth Facility, which aims to support the implementation of socio-economic and fundamental reforms and contribute to triggering investments.

Contacts between Eurostat-and Moldova have been established, and they are jointly in the process of setting up workplans to initiate transmissions of economic statistics. Transmissions have so far commenced in the field of monthly detailed international trade in goods statistics. However, the transmitted data were only partially compliant with the requirements in terms of format and content requested from enlargement countries. Moldova has been invited to send delegates to Eurostat Expert Group meetings since the beginning of 2023, as well as to the Committee of Monetary, Financial and Balance of Payments Statistics since June 2024. Cooperation in the field of monetary and financial statistics with Moldova is also still in its infancy.

In light of this assessment, Participants hereby invite the Republic of Moldova to:

1. Pursue fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while increasing public investments to boost the growth potential, notably through the Growth Plan while applying the new single project pipeline to all new investment projects. Mitigate risks to the public finances and to that end, prepare an analysis on the fiscal impact of including major publicly controlled non-market producers in the general government sector. Further strengthen the capacity to produce macroeconomic and fiscal forecasts, particularly in the areas of the labour market and the external sector.

2. Continue to broaden the tax base through phasing out of tax expenditures and increasing tax compliance in line with the Public Finance Management Strategy 2023–2030. Continue the implementation of the results of the health sector's spending review, complete and publish the review of social protection and start implementing its results and review all Entrepreneurship Agency (ODA)'s programmes supporting businesses' access to finance with a view to improving their efficiency and effectiveness. Implement the results of the state-owned enterprise 'triage' exercise based on the recently approved programme and implement recent governance reforms related to the professionalisation of boards and the publication of annual audit reports of state-owned enterprises.

3. Ensure a sufficiently tight monetary policy stance to bring inflation back to the target band, underpinned by a thorough assessment of potential second-round effects and improve the reliability of the results of the inflation expectations survey. Continue to strengthen central bank independence, notably through strengthening the dismissal and appointment procedures and reforming its governance and decision-making structure by adopting the respective amendments to the central bank law. Complete the review of responsible lending practices and implement its results.

Montenegro

The government of Montenegro submitted its 2025–2027 Economic Reform Programme to the Commission on 13 January 2025. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 14 May 2024 has been partial.

Strong private consumption and recovering investment were the key drivers of economic growth in 2024, which moderated to an estimated 3%. Export performance was weighed down by a contraction in goods exports, while the growth in tourism-related services decelerated. Montenegro's ERP projects real GDP growth to accelerate to 4.8% in 2025 on the back of surging private consumption and investment, supported by lowering payroll taxes and increasing minimum wages as part of the 'Europe Now 2.0' programme. Demand stimulus and GDP growth are projected to moderate in 2026–2027. Despite the expansion of tourism services, net exports are projected to subtract from GDP growth over this period amid a challenging and highly uncertain global outlook. Overall, the risks to the outlook, are mostly negative. Tourism's muted growth might continue beyond 2024. The temporary closure of a major power plant could drag down GDP growth more than expected in the ERP.

The 2024 general government budget performed close to the revised target and recorded a 3.2% of GDP deficit, following a small surplus in the previous year. The 2025 budget targets a 3.5% deficit due to the full-year effects of 'Europe Now 2.0' implementation including a large cut in pension contributions, accelerated capital investment, and some offsetting measures such as raising indirect taxes. Budgetary adjustment plans for 2026–2027 rely on a deceleration in current spending that is projected to lead to a 2.5 pps. drop in the spending ratio. The envisaged spending restraint appears overly optimistic and is not sufficiently underpinned by concrete measures in the programme. The public debt ratio, which has fallen very substantially in recent years mainly due to strong nominal GDP growth, is projected to decline to 60.2% of GDP in 2025 and increase to 64.6% in 2027, thereby staying above the fiscal rule's limit. The rule on current spending surplus is expected to be met as the deficits will be driven by borrowing for infrastructure and development projects, partly financed by the EU Growth Plan. Debt refinancing needs remain large at close to 14% of GDP in 2025 and 2027.

High mandatory spending and a limited revenue base, together with high debt repayment needs call for prudent fiscal policies. Recent measures, including a substantial reduction in the labour tax wedge and permanent increases in social transfers, widened the structural gap between revenue and spending. Given Montenegro's monetary framework, fiscal policy is the main tool for ensuring macroeconomic stability. This calls for more ambitious consolidation measures, ideally aimed at achieving a primary surplus and bringing the debt ratio below 60% of GDP as prescribed by the fiscal rule. This could be underpinned by broadening the tax base, further streamlining tax exemptions, adopt new revenue measures as part of country's new Fiscal Strategy 2024–2027 and by reviewing and reforming mandatory spending on public sector wages as well as on social transfers. Addressing fiscal risks, including those stemming from state-owned enterprises (SOEs), could provide extra fiscal space for implementing ambitious capital projects. In addition to international credit markets, tapping the domestic market with retail bonds would help to diversify financing sources and gradually smoothen the repayment profile of public debt.

Consumer price inflation continued its downward trend throughout 2024 with the average annual inflation rate falling to 3.3%, below the government forecast. Domestic inflationary pressures are likely to persist in the short term due to expansionary fiscal policies and high wage growth. The ERP projects stabilisation of inflation rate to below 3% in the medium term. The banking system remains stable, liquid and profitable while the central bank requires banks to keep sizeable capital buffers as a precautionary measure to ensure financial stability. Banks continued to fund themselves mainly through domestic deposits, although deposit growth (3.4%) was well below credit growth (13.4%) in 2024. Following the adoption of the relevant law in October, a new development bank was established in December. It is key that the development bank complies with best practices in terms of governance as well as appropriate supervision and regulation applicable to other deposit-taking institutions to ensure transparency, sound lending practices, adequate deposit protection and a level playing field in the banking sector. Ensuring a transparent selection of council members based on candidates' competence in line with the principles of central bank independence remains crucial. Montenegro joined the Single Euro Payments Area (SEPA) in November 2024. Once operational, SEPA will reduce settlement time and cost for euro payments, and facilitate trade, remittances, and other cross-border activity.

Montenegro's structural challenges relate to the need to improve the business environment, foster private sector development, advance the green and digital transitions, and develop human capital. The business environment remains affected by weaknesses in the regulatory framework, a declining but still sizeable informal economy, limited access to finance, and shortcomings in the oversight and governance of state-owned enterprises. Montenegro should continue implementing its energy transition plans aligned with EU energy policy, aiming to further develop the energy sector through investments in green energy and decarbonisation. Digitalisation efforts focus on expanding digital services and enhancing cybersecurity. Structural labour market challenges, such as regional disparities and high unemployment among women, youth, and low-skilled workers, continue to hinder potential growth and improvements in living standards. These challenges are expected to be mainly addressed through key structural reforms identified in the country's reform agenda under the Growth Plan for the Western Balkans.

Regarding statistics, Montenegro provided data for supply, use and input-output tables and Labour Cost Survey 2020 datasets. Montenegro also made improvements in national accounts and the international investment positions. Montenegro does not provide excessive deficit procedure and government finance statistics, Structure of Earnings Survey 2022 data, harmonised indices of consumer prices at constant tax rates, trade by enterprise characteristics data and monthly balance of payments. Montenegro made significant efforts to start producing government finance statistics in accordance with the ESA 2010 methodology and adopted amendments to the systemic Law which transfers this responsibility to the Statistical office. Montenegro needs to make further improvements in short-term business statistics, national accounts, research and development statistics, labour market statistics, short-term business statistics, international trade in services statistics and foreign direct investment statistics. Montenegro should also give further attention to monetary and financial statistics, starting data transmissions on a voluntary basis.

In light of this assessment, participants hereby invite Montenegro to:

1. Contain current spending while using any revenue overperformance and savings from under-execution of capital spending for deficit reduction and accumulation of government deposits. Set up and operationalise the fiscal council in time for it to be able to review the 2026 budget proposal. Review the functioning of the existing fiscal rules and prepare and share with the Commission an options paper on their possible strengthening.

2. Based on the analysis of the economic and fiscal impact of all tax expenditures, implement budgetary measures to raise public revenue. Prepare and share with the Commission a comprehensive fiscal risk statement and strengthen further the analysis of SOE-related fiscal risks. Implement the public investment management assessment (PIMA) recommendations, prioritising key public infrastructure works within the available fiscal space and ensuring cost-benefit analysis of investment projects, including PPPs.

3. Continue to thoroughly assess price developments and possible second-round effects and stand ready to use the limited tools available under the chosen monetary framework to ensure price stability. In line with the principles of central bank independence, ensure a transparent selection of council members, including vice governors, based on candidates' competence and following the process in compliance with the central bank law. Ensure that the development bank complies with best practices in terms of governance as well as appropriate supervision and regulation applicable to other deposit-taking institutions to ensure transparency, sound lending practices, adequate deposit protection and a level playing field in the banking sector.

North Macedonia

North Macedonia submitted its Economic Reform Programme 2025–2027 on 15 January 2025. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 14 May 2024 has been limited.

Real output increased by 2.8% in 2024, boosted by investment and by public consumption, with the latter partly reflecting a strong rise in public sector wages. The external balance made a negative contribution to growth as demand from key export markets was weak. The ERP projects real GDP growth to accelerate to 4% on average between 2025 and 2027, driven by domestic demand. The main growth driver is projected to be public and private investment, with the former boosted by the implementation of a large road infrastructure project, and the latter benefiting from increased financial support to domestic companies. The negative contribution from the external sector is expected to gradually diminish and turn marginally positive in 2027. The ERP's growth scenario appears optimistic, partly because of deficiencies in public investment management and in the regulatory framework for attracting private co-financing. These add to downward risks surrounding external demand, stemming from uncertain growth prospects in key export markets and sectors.

The 2024 fiscal deficit turned out lower than projected, at 4.4% of GDP, on the back of capital spending under-execution. The programme's fiscal scenario projects a gradual reduction of the budget deficit in the medium term, to 3% in 2027, postponing compliance with the fiscal rules as stipulated in the 2022 Organic Budget Law (OBL). The ERP expects the revenue ratio to rise strongly on account of measures to address the informal economy and increase the efficiency of tax collection. This strong revenue increase appears optimistic in the absence of concrete tax policy measures. The expenditure ratio is also projected to rise, mainly due to higher capital spending and interest costs. The public debt ratio has posted a continuous climb over the past decade. It is projected to peak in 2025, at 62.8% of GDP, as the government envisages rising financing for road infrastructure projects that are carried out by public enterprises, before declining gradually as of 2026.

Realising the envisaged consolidation would require broadening the tax base and streamlining tax exemptions, as well as reforming the pension system and the public sector wage setting system. Fiscal consolidation needs to advance to ensure compliance with the fiscal rules as set by the Organic Budget Law, which needs to become operational in its entirety by the swift adoption of implementing legislation, and to restore fiscal space, which also requires that any unused funds for capital expenditure are saved, rather than reallocated to other spending items. It is important that the new Fiscal Council is adequately staffed to become fully operational. An increase in fiscal risks, partly stemming from projects carried out by state-owned enterprises, requires the centralisation and improvement of their monitoring. The fiscal authorities should take measures to avoid further accumulation of arrears by the central and local governments.

Inflation continued to decelerate in 2024, reaching 3.5% as an annual average, down from 9.4% in 2023. It has, however, been rising again since September 2024, partly reflecting base effects related to temporary price controls. Core inflation remained sticky at around 5%. The ERP expects inflation to decrease further in 2025–2027, to 2.5% in 2025, before reaching its long-term average of 2% in 2026 and 2027. The central bank started normalising its monetary stance by lowering the key policy rate in several steps as of September 2024, from 6.30% to 5.35% in February 2025. The deposit facility rate, which acts as de facto policy rate in a context of excess liquidity in the banking sector, was lowered only in December 2024. As a small and open economy with a de facto currency peg, North Macedonia's price level is largely determined by international price developments. However, monetary policy increasingly faces challenges also from domestic upside risks arising from, in particular, high wage, pension and credit growth, including the disbursement of government-subsidised corporate loans. Supported by macro-prudential measures, solvency was strengthened, and the banking sector remains well-capitalised and liquid. The share of foreign-currency-denominated loans in total loans has decreased gradually since spring 2023, though mainly in the corporate sector. Foreign reserves increased significantly in 2024, amidst high inflows of net FDI. The implementation of the 2023 Bank Resolution Law progressed with the adoption of all relevant bylaws, but the bank resolution fund still needs to be fully operationalised. The revised Law on Deposit Insurance has not yet been adopted by the government. North Macedonia's application to join the Single Euro Payments Area (SEPA) was accepted by the European Payments Council on 6 March 2025. Once operational, SEPA will reduce settlement time and cost for euro payments, and facilitate trade, remittances, and other cross-border activity.

Key structural challenges arise from the large size of the informal economy, the skills mismatch in the labour market and low labour market participation rates, as well as muted innovation activity and the low degree of digitalisation of the economy and public administration services. The transition to renewable energy sources and improvements in energy efficiency require large investments. These challenges impede productivity gains and economic growth. These challenges are expected to be mainly addressed through key structural reforms identified in the country's reform agenda under the Growth Plan for the Western Balkans.

Regarding statistics, North Macedonia complies with transmission requirements for harmonised indices of consumer prices and has achieved compliance for monthly balance of payments. It made progress in national and regional accounts and government deficit and debt statistics, but further progress is needed in all three areas. Gaps still remain in the areas of supply, use and input-output tables, international trade in services statistics, foreign direct investment statistics, research and development statistics, and labour market statistics. North Macedonia improved short term business statistics but still needs to align with the new requirements in this domain and to improve the timeliness of business registers statistics.

In light of this assessment, Participants hereby invite the Republic of North Macedonia to:

1. Implement prudent fiscal policy by adopting concrete consolidation measures, by controlling wage and pensions spending to ensure that their share of GDP does not exceed 2024 levels, and by saving unused allocations from capital expenditure to bring down the deficit and create fiscal space. Strengthen revenue collection by developing proposals for further reductions in tax expenditure; and by enhancing the operational capacities of the tax administration. Make the pension system more sustainable by moving back to a regular rules-based indexation instead of ad-hoc pension increases and by developing proposals for parametric reforms.

2. Ensure timely implementation of the new Organic Budget Law (OBL) in its entirety by January 2026 by adopting the remaining by-laws, and by ensuring that the Fiscal Council is fully staffed. To enhance private financing of public infrastructure projects based on a suitable regulatory framework, adopt the Law on Public Private Partnership. Set up an integrated financial management information system, among others for monitoring and controlling fiscal risks, including those emanating from public infrastructure projects, arrears and guaranteed loans to state-owned enterprises.

3. Continue to calibrate monetary policy appropriately to sustainably achieve price stability and safeguard the currency peg. Safeguard the financial independence of the central bank, including by amending profit retention rules to allow for the accumulation of sufficient reserves as coverage for monetary liabilities, and ensure that all relevant legislation safeguards the central bank's operational independence, including the setting of employment conditions. Further strengthen the regulatory framework by adopting the new law on deposit insurance and by making the bank resolution fund operational.

Serbia

Serbia submitted its Economic Reform Programme 2025–2027 on 15 January 2025. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 14 May 2024 has been partial.

The Serbian economy continued to grow at a robust pace in 2024 with real GDP growth estimated at 3.9%, driven entirely by strong domestic demand. For 2025, the ERP projects growth to pick up further to 4.2% and range between 4.0-5.0% in 2026–2027. The main growth drivers are expected to remain private consumption, due to higher real disposable income, as well as strong investment, with a slightly negative contribution from net exports, although exports showed resilience amid weak external demand. Higher investments and consumption translated into the current account deficit widening sharply in 2024 to 6.3% of GDP (more than the ERP projection of 4.7%). The ERP expects the current account deficit to be around 5% of GDP in 2025–2027 as domestic demand is set to remain strong, but the deficit is projected to remain fully or almost fully covered by FDI inflows. The ERP projections seemed overall plausible at the time of submission, but an underwhelming external environment, potential further inflationary pressures as well as recent domestic political turmoil present heightened downside risks to the growth outlook.

The fiscal performance in 2024 was ultimately better than projected with the budget deficit at 2.0% of GDP. The overperformance was the result of conservative budgeting, with lower-than-planned spending on goods and services, other current expenditures and interest payments as well as slightly higher than budgeted revenues. For 2025–2027, the revised fiscal strategy foresees an increase in the deficit target to 3.0% in every year; the application of the deficit component of the fiscal rules set to enter into force in 2025 has de facto been postponed until 2029. The surge in expenditures is intended to make room for the full implementation of an ambitious public investment programme in connection with the EXPO 2027, while also providing for further increases in wages and pensions. However, in the ERP the debt-to-GDP ratio is still projected to decrease gradually, from 47.5% in 2024 to 46.5% in 2027. While fiscal outcomes are set to be supported by the expected strong growth, fiscal risks such as those related to state-owned enterprises (SOEs) as well as to the ongoing political crisis due to months of nationwide protests are non-negligible.

The main macro-fiscal challenges facing Serbia include strengthening the fiscal framework by complying with fiscal rules and improving fiscal transparency. Particularly in light of the latest revision of National Accounts, which provided a fiscal relief for Serbia through the denominator effect, containing wage and pension expenditures in line with the fiscal rules remains crucial. The sizeable contingency reserve, which has in recent years been used to facilitate ad hoc spending measures, lacks clearly defined restrictions for its usage and would benefit from improved regular reporting. The budget also continues to lack a detailed overview of tax expenditures as their presentation has been postponed until 2027 according to the Budget System Law. In view of the large capital expenditures planned for the medium-term and the large discretion for the government to designate investments of "particular importance", improving public investment management remains a key issue for Serbia. A public sector wage reform is also essential to attract and retain highly qualified staff, as the current compressed wage structure threatens to hamper the implementation of ongoing reforms. Notably the tax administration is currently facing urgent staffing issues. An analytical platform for analysing the structure of public employees and employee-related expenditures, developed by the Ministry of Finance, could serve as a basis for implementation of a public wage sector reform.

After annual inflation had returned to within the central bank's target band (3±1.5%) in May 2024, it has been hovering around its upper bound since mid-2024, surpassing it in January 2025. Following an initial period of monetary policy easing from June to September 2024, during which the National Bank of Serbia (NBS) lowered the key policy rate in three steps by 25 bps. each, it has maintained the key policy rate unchanged at 5.75%. As a result, the average reverse repo rate, which de facto determines the monetary stance, decreased from 5.6% to 4.5% (February 2025). The ERP projects inflation to approach the target mid-point by the end of 2025 and continue to move within the target band over the next two years. The slowdown is projected to be driven by a relatively tight monetary stance, lower imported inflation, and a slowdown in real wage growth. However, inflationary risks appear to be tilted upside in the short term because of increased uncertainty in the international environment, primary commodity prices and elevated services inflation, partly due to relatively high real wage growth in 2024, coupled with a looser fiscal stance. The dinar exchange rate has experienced appreciation pressures, with the NBS acting as a net buyer of EUR throughout 2024.

Since the beginning of the year, foreign exchange pressures have shifted to the downside pushing the NBS to step up foreign reserves sales. The banking system in Serbia remains stable, with favourable indicators on solvency, liquidity, and profitability, and a non-performing loan (NPL) ratio at a historic low of 2.5% in December 2024. Domestic loan growth accelerated amid eased credit standards, driven by both household and corporate loans. Following the NBS's efforts to promote dinar-denominated deposit and loan growth, the share of deposits in dinars reached a new record high by end-2024. The NBS has also submitted a formal application to the EU's Single Euro Payments Area (SEPA) in December. Once operational, SEPA would reduce settlement time and cost for euro payments, and facilitate trade, remittances, and other cross-border activity.

Serbia is facing several structural challenges as it seeks to boost competitiveness and achieve long-term, inclusive growth. Notably, challenges persist in fundamental areas such as rule of law, the justice system and the fight against corruption, with adverse impacts on Serbia's business environment. Further issues hampering the business environment and private sector development include public investment management, public procurement and state aid as well as large and inefficient SOEs. The energy sector, mostly dominated by SOEs, faces challenges of largely outdated infrastructure, which is partly in the process of being renewed, major reliance on coal and dependency on Russia as the main supplier of gas and the main shareholder of key oils assets. However, steps have been taken to diversify import sources. The digital transformation is well underway in Serbia, but some obstacles remain, such as underdeveloped digital connectivity infrastructure in rural areas. Additionally, although labour market outcomes have continued to improve, skills mismatches and brain drain continue to pose challenges for Serbia. These challenges are expected to be mainly addressed through key structural reforms identified in the country's Reform Agenda under the Growth Plan for the Western Balkans.

Regarding statistics, Serbia has reached a good level of compliance in many areas. It fully complies with transmission requirements in the areas of harmonised indices of consumer prices, research and development statistics, balance of payments and the international investment position. Serbia participated in the 2024 coordinated benchmark revision of national accounts, and achieved compliance with transmission requirements for supply, use and input-output tables. However, further improvement efforts are needed in the areas of government finance statistics and excessive deficit procedure notifications as well as efforts to provide information on the national accounts benchmark revision. Serbia transmitted Structure of Earnings Survey 2022 data and made progress in regional accounts but still needs to address data gaps in the areas of labour market statistics and regional accounts. There is a need to address missing data series in international trade in services statistics, short-term business statistics (including alignment with the new requirements in services) and foreign direct investment statistics.

In light of this assessment, Participants hereby invite Serbia to:

1. Keep an appropriately tight fiscal stance in 2025 to counter inflationary pressures, including by containing current spending and by using any budget overperformance for stronger than planned deficit reduction. Further strengthen public investment management, including by putting in place a unified, comprehensive, and transparent system for prioritisation and selection of all public investments, regardless of type and source of financing and in line with the best international standards. Develop capacity for the assessment of long-term financial sustainability of the pension system and conduct a comprehensive analysis of the Serbian pension system.

2. Launch technical work on the presentation of a comprehensive tax expenditure review and share a first draft of the report with the European Commission. Based on the implementation of the fiscal risk monitoring methodology, continue to expand fiscal risk reporting within the Fiscal Strategy, including by strengthening the capacity of the Fiscal Risks Monitoring Unit and by further improving forward-looking fiscal risk monitoring to support fiscal planning. Prepare a concept paper for a public sector wage reform, outlining its objectives, scope, features and a concrete time-bound plan for implementation.

3. Continue to calibrate monetary policy appropriately to sustainably achieve price stability and anchor inflation expectations. Implement a credit registry to harmonise bank loan information in line with the EU-standard format and ensure that measures affecting market pricing of risks, such as interest rate caps, are well-targeted and appropriately designed not to induce moral hazard. Continue efforts to promote the use of the domestic currency, including by enhancing long-term financing in domestic currency, further encouraging forex hedging and raising awareness of risks related to forex lending.

Türkiye

Türkiye submitted its Economic Reform Programme 2025–2027 on 15 January 2025. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 14 May 2024 has been partial.

The economy grew by 3.2% in 2024, a notable slowdown in comparison to the previous year and slightly below the ERP projection. The implementation of the tight economic policies played a key role in curbing domestic demand and rebalancing economic growth towards net exports. The unemployment rate decreased significantly and reached historically low levels, although the level of labour underutilisation remained elevated. Economic growth is projected to pick up from 4.0% in 2025 to 5.0% in 2027 on expectations for a gradual recovery of domestic demand. Amid a challenging and highly uncertain global environment and domestic outlook, lifting economic growth in the medium term without posing renewed challenges to domestic and external imbalances would depend crucially on the successful implementation of supply-side structural reforms. Maintaining investor confidence in the Turkish economy is also key in this respect. In response to the political and financial market turmoil and heightened global uncertainty at the end of the first quarter, the authorities took prompt and coordinated actions to preserve financial stability.

The ERP targets a frontloaded, expenditure-based fiscal consolidation. In 2024, the central government deficit was 4.9% of GDP, in line with the revised target and well below the initial budget target of 6.4% of GDP. A revenue shortfall was outweighed by lower spending, with the fall in earthquake-related expenditure contributing most to the lower deficit outturn. The general government primary balance is forecast to improve substantially between 2024 and 2027, reaching a surplus of 0.8% of GDP by 2027. While the revenue ratio is expected to remain broadly stable, total spending is set to fall significantly, with most of the decline already taking place in 2025, helped by the winding down of earthquake reconstruction spending. The downside risks to the economic outlook may put pressure on the planned revenue execution, although the budget has some buffers to accommodate possible slippages. The general government debt ratio declined significantly to 24.7% in 2024, below the ERP projections, and it is expected to remain moderate.

The authorities have taken steps to improve the quality of public finance, but some challenges remain. The structure of the budget has changed in recent years, with increased social transfers, earthquake reconstruction expenditures that are winding down, and rather low shares of government spending on investment and public services. A one-off retirement arrangement granting limited exemption from the age condition to eligible insured persons has placed additional strain on the financial sustainability of the social security system. Numerous tax exemptions and reductions that undermine the tax base are being addressed as one of the priority reform areas. The use of negotiated procedure in procurement deals undermines the level playing field, though the authorities plan to establish control mechanisms for limiting its use only in urgent and unforeseen circumstances. The consolidated framework for all public private partnerships has yet to be adopted. Although there are no fiscal rules or independent fiscal institutions in place, the fiscal position is sustainable, serving as an economic policy anchor.

Inflation declined from over 75% in May 2024 to 44.4% in December 2024 and fell further in early 2025. Services inflation, although still elevated, has declined significantly since May 2024. The ERP forecasts that annual inflation will decline further to 17.5% at the end of 2025, an ambitious target that has already been revised upward by the central bank to 24%. The central bank kept its policy rate at 50% for most of 2024, before cutting it by 250 bps in December 2024, followed by two more cuts of equal size in January and March 2025. To stem market turmoil and reduce exchange rate volatility, in end-March the central bank increased its overnight lending rate by 200bps to 46% and took macroprudential measures to strengthen the monetary transmission mechanism, support the tight monetary stance, and manage lira and FX liquidity. In April, the bank tightened its policy further by increasing its one-week repo auction rate (the policy rate) to 46%, its overnight lending rate from 46% to 49%, and the overnight borrowing rate from 41% to 44.5%. The tight monetary policy has been instrumental in bringing down inflation and inflationary expectations, reducing the current account deficit, and increasing foreign exchange reserves. The Turkish lira strengthened in real terms, one of the main pillars in the disinflation process, although potentially weighing on price competitiveness for some sectors over time. The central bank reaffirmed that the tight monetary stance will be maintained until price stability is achieved via a sustained decline in inflation. Safeguarding the independence of the central bank remains indispensable for lasting policy credibility. The banking sector remained resilient despite tighter policies and relatively weaker credit activity, while the authorities took steps to simplify the regulatory environment.

Türkiye is still experiencing several structural challenges. Tackling the following key structural difficulties would foster inclusive and sustainable economic growth, and accelerate the green and digital transitions: (i) raising Türkiye's employment rate towards the EU average, in particular by bringing more women and young people to employment; (ii) boosting competitiveness and attracting investments, in particular by improving transparency and predictability in the regulatory and institutional environment affecting businesses; and (iii) pursuing climate neutrality, energy security and the economy's green transition, in particular by advancing energy efficiency, energy (natural gas) market liberalisation and decarbonising the economy. Furthermore, Türkiye should also enhance the use of renewable energy and transition away from coal in its energy mix. Increased implementation of the reform measures should play a pivotal role in boosting competitiveness and maximising investments. However, there is further untapped economic potential in addressing the structural challenges as outlined.

Considering the high geopolitical and global economic uncertainty, improving the business environment will require further improvements in the rule of law by enhancing transparency and predictability, strengthening the legal framework for state intervention and reinforcing cooperation with the private sector, and promoting the independence of regulatory authorities. Implementing structural reforms to enhance competitiveness and attract foreign investment, as well as reach climate neutrality, will require good governance alongside adequate institutional capacity and effective implementation mechanisms. The adoption and subsequent implementation of the climate change legislation is crucial for Türkiye to progress further in its green transition. Despite the progress made, policies aimed at the activation of women in the labour market remain limited and further action is needed. Overall, there is a need to facilitate the entrance of women and young people to the labour market through increasing the level of skills, availability of quality and affordable childcare infrastructure, training opportunities, and promotion of female employment in all sectors of the economy. Türkiye should also focus on increasing participation in lifelong learning, aimed at the development of a skilled labour force fit for the green and digital transitions in line with the National Employment Strategy and Action Plan (2025–2028).

Türkiye made progress in national accounts, excessive deficit procedure and government finance statistics and transmitted Structure of Earnings Survey 2022 data. Türkiye needs to make improvements in the areas of regional accounts, supply, use and input-output tables, excessive deficit procedure notifications and government finance statistics, international trade in services statistics and labour market statistics, and it needs to undertake further efforts to fully align with the new requirements in short-term business statistics. Data gaps still exist in international trade in goods statistics (regarding trade by enterprise characteristics), foreign direct investment statistics and the international investment positions and flags are preventing the publication of national and regional account data. Türkiye does not provide monthly balance of payments and did not provide in 2024 to Eurostat harmonised indices of consumer prices at constant tax rates and administered prices.

In light of this assessment, Participants hereby invite Türkiye to:

1. Maintain a sufficiently tight fiscal stance to support the ongoing disinflation process, and adopt additional measures, if needed, to achieve the deficit target. Expand the tax base by gradually removing tax exemptions and reductions. Define specific policy measures to support the gradual return to a primary surplus of close to 1% of GDP by 2027, as envisaged in the medium-term fiscal strategy.

2. Take steps to a gradual transition away from subsidies on fossil fuels. Revise the public procurement legislation to limit the use of exclusions and negotiated procedure. Increase accountability and strengthen corporate governance practices of public enterprises in line with OECD standards.

3. Ensure a sufficiently tight monetary policy stance and safeguard and enhance confidence in the independence of the central bank, to support disinflation and anchor inflation expectations. Continue the simplification of macro-prudential measures and the regulatory framework, while maintaining financial stability. Enhance risk-based supervision and its transparency in line with the best international and European practices.

4. Take steps to establish a transparent public inventory of all aid schemes and ensure the independence and functioning of the State aid institutional structure in compliance with the EU acquis. Implement contract enforcement and improve the availability and functioning of dispute settlement mechanisms in line with the 4th Judicial Reform Strategy for 2025–2029, monitor annual progress and analyse the need for specialised courts. Continue to implement the action plan for the fight against the informal economy (2023–2025) and monitor annual progress.

5. Adopt and implement the climate change legislation and swiftly establish an Emission Trading System (ETS) aligned with the EU ETS. Based on the 2053 Long-Term Strategy published in November 2024, address the energy-intensive and hard-to-abate sectors, including through increasing the use of renewables and alternative clean hydrogen. Continue to increase adaptation and resilience to climate change and disaster-related risks, including to ensure sustainable urban development.

6. Reduce the employment rate gap by bringing young people and the informally employed into formal jobs, in particular through stepping up vocational education and the provision of paid intern- and traineeships. Address the employment gap between men and women through further proliferation of quality and affordable childcare infrastructure beyond the big urban centres of Türkiye, and through raising the level of skills for women by facilitating their access to and participation in training and on-the-job training. Continue the roll-out of the self-reflection on effective learning by fostering the use of innovative educational technologies (SELFIE) tool to assess schools' digital education capabilities.