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NOTE

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

Delegations will find attached the text of the Joint Conclusions of the Economic and Financial Dialogue with Regional Partners as approved by the participants of the Dialogue on 5 May 2026.

JOINT CONCLUSIONS OF THE ECONOMIC AND FINANCIAL DIALOGUE WITH REGIONAL PARTNERS

The Economic and Financial Dialogue with Regional Partners[1]

Brussels, 5 May 2026

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 trade fragmentation, the recent military escalation of the conflict in the Middle East clouds the global outlook. Its scope and duration will determine the severity of the energy supply shock and the impact on economic growth, inflation and external balances in the EU and in regional partners. Therefore, growth and inflation projections are subject to heightened uncertainty and related developments require close monitoring. 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. All regional partners were invited at the meeting of 5 May 2026. Türkiye participated in the process and endorsed the conclusions, but was not represented at the meeting on 5 May 2026. 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 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.

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

ALBANIA

Albania submitted its Economic Reform Programme (ERP) 2026–2028 on 15 January 2026. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been partial.

Albania's economic growth remained robust at an estimated 3.7% in 2025, supported by strong domestic demand. The latter was driven by increased public spending, steady investment growth and robust private consumption, bolstered by continued strong real wage growth and rising employment, particularly in the services sector. Albeit slowing down, tourism continued supporting services exports while goods exports declined, partly reflecting the continued appreciation of the lek. Nevertheless, net exports contributed positively to growth as imports expanded at a more moderate pace. The ERP projects real GDP growth to remain stable at around 4% over 2026–2028, driven primarily by domestic demand, especially private consumption and investment, with a modest positive contribution from net exports. The current account deficit is expected to widen to above 3% of GDP over 2026–2028, but would remain below its historical average and would continue to be fully financed by net foreign direct investment inflows. The ERP's baseline growth outlook is broadly in line with recent economic developments but faces some downside risks, including those stemming from a challenging external environment. Domestically, demographic pressures such as emigration and an ageing population could exacerbate labour shortages, further tighten labour market conditions, push inflation higher and dampen growth prospects.

The fiscal deficit widened to 1.8% of GDP in 2025 but remained below the budget target of 2.4%. The better-than-planned outcome was mainly due to the under-execution of capital spending, while revenues were supported by robust economic activity, measures to curb informality and the continued implementation of the Medium-Term Revenue Strategy (MTRS). On the expenditure side, spending increased notably on wages and social insurance. The ERP projects the budget deficit to widen to 2.3% of GDP in 2026 before narrowing gradually to 1.6% in 2027 and 1.3% in 2028. The public debt ratio fell more than expected to 53% of GDP in 2025 and is projected to continue declining over 2026-2028, supported by non-negative primary balances and favourable nominal growth dynamics. Despite some improvements, the short maturity structure of public debt and high gross financing needs continue to pose challenges.

Despite some increase in recent years, Albania's government revenue-to-GDP ratio remains low compared to peers, reaching 28.6% of GDP in 2025. Sustaining revenue mobilisation and reducing tax evasion therefore requires the continued implementation of the MTRS, alongside progress with tax policy reforms, notably the adoption of the property tax law and the finalisation of the fiscal cadastre. Temporary measures, such as the forgiveness of old tax and customs debt, might generate short-term gains but create potential long-term risks for tax compliance. Despite some preparatory steps, there is still no independent fiscal institution in place. Fiscal risks continue to stem from loans and guarantees to state-owned enterprises (SOEs) and public-private partnerships (PPPs), although the stock of guarantees slightly decreased in 2025. Fiscal risk monitoring and reporting should be further strengthened, including through the systematic assessment of risks related to ageing and climate change. Enhancing the operationalisation of the National Single Project Pipeline, including the need to improve project preparation, prioritisation and the integration of PPPs, remains important in view of plans to increase capital spending. In this regard, swift implementation of capital projects remains essential, while continuing ongoing work to ensure sound governance through active anti-corruption policies. Any pension reform initiative should be based on a thorough assessment of the long-term sustainability of the pension system. Additional risks arise from the establishment of the National Development Bank, which requires strong governance and oversight to mitigate fiscal and financial risks stemming from its planned deposit-taking role without falling under the supervisory remit of the Bank of Albania or the deposit insurance scheme.

Inflation remained low in 2025, averaging 2.2%, and the ERP projects it to converge to the 3% target in 2026 and remain stable thereafter. Core inflation was hovering around 3% last year, as a tight labour market fed through to wage growth, while overall inflationary pressures remained contained. Imported inflation remained weak, reflecting low global commodity prices and the continued appreciation of the lek, which prompted non-regular foreign-exchange interventions by the Bank of Albania. In response to below-target inflation, the Bank of Albania lowered the policy rate by 25 basis points to 2.5% in July 2025 and has kept it unchanged thereafter. Favourable financing conditions and strong demand supported robust credit growth to the private sector, particularly in household lending and lek-denominated loans. Given the rapid growth in mortgage lending and rising residential real-estate prices, borrower-based measures were introduced in 2025, while the countercyclical capital buffer was doubled to 0.5% in December. The banking sector remained sound, well-capitalised and liquid, with the non-performing loan ratio declining further to below 4% in 2025.

Albania's structural challenges relate to improving the business environment, tackling the informal economy, advancing the green transition and developing human capital. The business environment remains affected by a weak rule of law, high informality leading to 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. 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 addressed through key structural reforms identified in the country's reform agenda under the Growth Plan for the Western Balkans.

Regarding statistics, Albania completed a benchmark revision of national accounts started in 2024, and improved its coverage of some accounts, but still needs to close significant data gaps and improve both timeliness and the length of time series in several areas of the accounts. Albania has continued to improve the application of the accrual principle in the excessive deficit procedure and in government finance statistics. The coverage of short-term business statistics has also improved. Albania started providing monthly balance-of-payments data and successfully implemented the new European business statistics data transmission format for international trade in goods statistics by invoicing currency. Albania does neither provide labour market statistics, nor harmonised indices of consumer prices at constant tax rates, nor statistics on international trade in goods by enterprise characteristics for any reference period. Outstanding issues include data confidentiality, and data gaps in the areas of research and development statistics, foreign direct investment statistics, international trade in goods statistics and the international investment position.

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

1. Ensure compliance with fiscal rules by implementing the fiscal path set out in the ERP, adopt additional fiscal measures if needed, and advance the implementation of the Medium-Term Revenue Strategy (MTRS) to increase tax revenue structurally and fight tax evasion while avoiding reliance on temporary measures that might create unintended incentives. Finalise the fiscal cadastre and accelerate the adoption of the property tax law, including by considering shorter transition periods. Finalise and adopt the legislation for establishing a fiscal council, taking account of the European Commission's comments.

2. Strengthen the Fiscal Risk Directorate to improve monitoring and reporting of SOEs and PPPs, and enhance the Fiscal Risk Statement as a key fiscal transparency and policy tool by progressively integrating quantified fiscal risks, including long-term pension and climate-related risks, into the medium-term fiscal framework and fiscal decision-making. Ensure the effective functioning of the National Single Project Pipeline, including the integration of PPPs, and reinforce project appraisal and prioritisation to ensure that projects entering the Medium-Term Budget Programme are mature and viable, in order to avoid under-execution of public investments. Review options for pension reforms based on a forthcoming report, also drawing on pension modelling analysis to assess their implications for the long-term sustainability of public finances.

3. Calibrate the monetary policy stance appropriately to sustainably anchor inflation expectations at levels consistent with the target and maintain price stability, and ensure that foreign-exchange market interventions are aimed at limiting excessive volatility. Continue strengthening reporting requirements across the banking sector and further enhance risk-based supervision, in particular by improving data reporting frameworks, including for borrower-based measures and risks arising from the real-estate sector, and by enhancing macroprudential measures, including through the finalisation of the systemic risk buffer framework. Ensure that the National Development Bank operates under a transparent operational framework that mitigates fiscal and financial risks and moral hazard, applies robust governance standards and is subject to appropriate regulation and supervision to ensure sound lending practices and a level playing field in the banking sector.

BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina submitted its Economic Reform Programme 2026–2028 on 15 January 2026, thereby meeting the deadline as an improvement on previous years. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been limited.

Real GDP growth decelerated to about 2% in 2025 due to weaker external demand, while the growth of imports was robust, driven by private consumption and investment growth.
For 2026–2028, the programme expects GDP growth to accelerate and reach 3.1% in 2028, based on solid growth in private consumption, (benefitting from robust wage growth), expanding investment, and a rebound in export growth. A continued outflow of qualified labour helps to reduce unemployment, but also leads to labour shortages and wage pressures in certain sectors. Overall, the macroeconomic baseline scenario appears to be on the optimistic side, in particular in view of the country's existing and upcoming challenges, such as above-productivity wage increases.

Preliminary estimates point to a below-target fiscal deficit at 0.3% of GDP in 2025, which is set to rise to 2.1% of GDP in 2026. This is largely the result of maintaining spending levels unchanged as a percentage of GDP combined with an expected drop of revenues, as revenue-increasing one-off effects are not expected to materialise again in 2026. The headline deficit is expected to decline to 1.2% of GDP by 2028, based on contained spending on public consumption, which is not supported by concrete measures, and on investment, (which is not in line with previous recommendations and the large need to upgrade the capital stock). In terms of expenditure composition, the programme envisages a further shift towards social transfers at the expense of public consumption and investment. Interest payments are expected to remain broadly stable at about 1% of GDP. On the revenue side, the reliance on indirect taxes is projected to increase significantly. The public debt-to-GDP ratio is projected to decrease from 27.7% of GDP in 2026 to 26.3% in 2028, driven by low deficits and solid output growth.

The main macro-fiscal challenges relate to the need to improve medium-term economic and fiscal planning and coordination, strengthen the timeliness and 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.

Headline inflation accelerated during 2025, reaching a peak of 4.8% in July, largely driven by high food prices, but coming down to 3.6% in January 2026. For 2026–2028, the programme counts on declining import prices to help lower inflationary pressures. Despite some progress in preparing a more timely publication of consumer basket weights, the assessment of underlying price trends is still impeded by the lack of official data on the harmonised consumer price indicator and on core inflation. 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 banking sector continued to have robust capital and liquidity buffers and its profitability remained stable in 2025. The non-performing-loans ratio decreased further. The country's two supervisory agencies maintained good cooperation and continued to perform regular stress tests. Supervisory agencies extended measures until September 2026 to contain the increase in lending rates, aiming at preserving households' repayment capacity. Such measures should be phased out to avoid the risk of distorting market pricing and credit allocation. The country struggles to effectively mitigate the risks of money laundering and terrorist financing. Improving the framework for resolving non-performing loans, enhancing out-of-court settlements and establishing a countrywide financial safety net, such as a single banking resolution fund, would be important to strengthen the financial sector's shock resilience.

Important structural challenges exist in the areas of: i) rule of law, ii) business environment and public enterprises, iii) green and digital transition and iv) human capital. A difficult business environment is a contributing factor driving poor labour market outcomes. There is a need to tackle the high regulatory burden and step up the fight against corruption. Environmental standards are low compared to the EU. Growth-enhancing reforms would benefit from better coordination across entities and government levels. Some of 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 ratification.

Bosnia and Herzegovina implemented a benchmark revision in national accounts. However, data for annual and quarterly national accounts main aggregates were transmitted with significant delays and data gaps remain. Bosnia and Herzegovina transmitted the Structure of Earnings Survey 2022, the EU Labour Force Survey and monthly unemployment data on a timely basis and the full set of statistics on international trade in goods by enterprise characteristics for the first time. However, data for many statistical domains were not transmitted, including regional accounts data, supply, use, and input-output tables, research and development, job vacancy statistics, harmonised indices of consumer prices and monthly balance-of-payments data. Bosnia and Herzegovina suspended the transmission of excessive deficit procedure and government finance statistics data to Eurostat in 2025; it will be important to implement the commitment to resume dissemination to ensure the continuity and reliability of the statistical framework for economic surveillance. Further data gaps exist in the fields of national accounts, foreign direct investment, international trade in services statistics and short-term business statistics.

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

1. Adopt the Global Fiscal Framework in time to provide effective guidance for the preparation and timely adoption of the budgets of all budget entities and enhance interinstitutional coordination and economic planning at all levels, in order to ensure consistent, harmonised and effective implementation of reforms and ERP obligations. Improve the quality of public finance by increasing the share of government capital spending in GDP and by better targeting of social spending. Clarify with the Constitutional Court the constitutional competence for establishing a central (i.e. country-wide) registry of bank accounts of private beneficiaries, in line with the EU acquis.

2. Include in the forthcoming ERP 2027–2029 (1) a comprehensive assessment of fiscal risks and contingent liabilities, including those related to publicly-owned enterprises; and (2) concrete policy measures to mitigate such risks and contain the emergence of new contingent liabilities. Strengthen the analytical capacities of government institutions responsible for fiscal accounting and planning, specifically in the Bosnia and Herzegovina Ministry of Finance and Treasury, and improve compliance with the ERP requirements, in particular with respect to data aggregation and reporting. In order to improve country-level fiscal surveillance and reporting, improve the coverage of the published quarterly country-level budget execution data and agree on the national account sectorisation of the general government sector.

3. Continue to thoroughly assess price developments, and improve price statistics, including a fully timely publication of CPI weights and the development and an official publication of core-inflation series by the statistical office. Continue to safeguard the integrity of the currency-board arrangement and maintain the independence of the central bank. Enhance risk-based supervision in line with best practices, including by (1) phasing out temporary measures that may distort market pricing and credit allocation; (2) initiating the set-up of a single resolution fund; and (3) improving data collection, including on real estate prices and private debt developments, to enable a comprehensive assessment of financial sector risks.

KOSOVO[*]

Kosovo submitted its Economic Reform Programme 2026–2028 on 15 January 2026. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been partial.

Kosovo's economic growth slowed from 4.6% in 2024 to a still solid 3.6% in 2025, due to a weaker expansion of household consumption and a stronger negative contribution of net exports to growth. Private consumption and investment were the key growth drivers. The ERP optimistically projects average annual GDP growth to pick up to 5.4% in 2026–2028, driven by private consumption and investment. The latter would require effectively addressing remaining obstacles to an acceleration of public and private investment. Major downside risks to this outlook are notably linked to geopolitical and trade tensions, domestic political uncertainty, lower-than-expected financial inflows from the diaspora and sluggish economic activity in the main trading partners. The current account deficit rose to 9.2% of GDP in 2025 and the ERP expects it to decrease substantially by 2028, which seems optimistic considering expected robust domestic demand growth and high energy prices.

The 2025 headline fiscal deficit was much lower than planned but rose slightly compared to 2024, to 0.8% of GDP, as spending outpaced strong revenue growth. Despite its robust growth, public capital spending fell short of budget plans and was the main reason for the lower-than-planned deficit. The programme projects the headline deficit to widen to 2.7% of GDP in 2026, mainly due to a further surge in public investment, which would nonetheless keep the deficit according to the fiscal rule definition (which excludes certain investment categories) under the prescribed ceiling of 2% of GDP. Compliance with the deficit rule is also envisaged for 2027–2028. The low public debt ratio is set to increase but remain slightly below 25% in 2028. The domestic public debt investor base remains narrow, while foreign borrowing relies on official creditors.

[*] 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.

Structural fiscal reforms on the budget revenue and expenditure sides should underpin the envisaged fiscal path. Tax revenue has been increasing robustly, partly due to improved tax compliance and some formalisation gains. However, Kosovo's narrow tax base should be broadened, including by a clear identification and gradual removal of tax expenditure. Fiscal risks related to publicly-owned enterprises (POEs) could be mitigated by strengthening risk monitoring, financial oversight and accountability. Comprehensive reforms to address remaining weaknesses in project planning and implementation would help to boost public investment. The efficiency of public spending would benefit from better targeting social transfers and reforming the social security system.

Annual consumer price inflation rose to an average of 3.9% in 2025, up from 1.6% in 2024, driven by higher prices for food, fuel and energy-related products. Core inflation remained more moderate in 2025 but edged up at the start of this year, reflecting some spillovers to services prices. The ERP projects average annual inflation to decrease to 2.8% in 2026 and further to 2% in 2027–2028, mainly on the back of lower import prices. Upside risks to this outlook are mainly linked to further energy price increases due to the war in the Middle East. The banking sector remained sound and resilient. Banks' liquidity and capital buffers are well above regulatory minima and profitability has remained solid, but slightly lower than a year earlier. Annual average bank lending growth further accelerated in 2025, driven by household loans mainly for housing purposes. Credit growth to non-financial corporations also picked up, mainly on the back of a stronger increase in investment loans. The non-performing loans ratio rose slightly and stood at 2.1% at end-2025, while loan provisioning remained adequate. In the context of persistently strong credit expansion there is a need to strengthen supervisory capacity. Data gaps, in particular on private sector indebtedness, need to be addressed, notably for the use of borrower-based macroprudential measures and credit risk management. 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. Legislation on the central bank is currently being reviewed to strengthen its governance.

Key structural bottlenecks impede Kosovo's competitiveness and inclusive growth. Despite further progress on administrative burden reduction, barriers to private sector development remain. Some progress has been made with various financing options available through the Kosovo Credit Guarantee Fund, but access to finance is overall still limited, affecting mostly smaller businesses. This, combined with a large backlog in commercial litigation, create significant challenges for businesses and investors, undermining fair competition. Despite some progress, the informal sector remains large, reducing budget revenues, discouraging investment and hindering business development, thereby constraining economic growth. The insufficient and unreliable energy supply gives rise to significant costs for businesses, hinders productivity and competitiveness and strains public finances. The education system is not adequately aligned with labour market needs. Despite notable progress in recent years, the labour market is characterised by low participation and still high unemployment rates, in particular for women and vulnerable groups. These challenges are expected to be addressed through key structural reforms outlined in Kosovo's Reform Agenda under the Growth Plan for the Western Balkans.

Regarding statistics, Kosovo continued to transmit limited data for annual and quarterly national accounts. Significant data gaps remain, with extensive application of confidentiality flags preventing publication of the data. These issues limit the usability of statistics for policy purposes and may hinder transparency and evidence-based decision-making. In 2025, Kosovo transmitted historical statistics on international trade in goods by enterprise characteristics for 2021 and 2022 but did not provide the required international trade in goods by enterprise characteristics data for 2024. Large data gaps remain in supply, use, and input-output tables and in foreign direct investment statistics for Special Purpose Entities. Data are missing for many statistical domains such as short-term business statistics, labour market statistics, monthly balance of payments and business register, Structure of Earnings Survey data as well as quarterly Labour Cost Index and job vacancy statistics and research and development statistics. No progress has been made in reporting excessive deficit procedure notification tables and government finance statistics, with no data transmitted to Eurostat during 2024–2025.

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

1. Implement the 2026 budget as planned and contain current spending on wages and social transfers while ensuring compliance with the fiscal rules. Update the tax expenditure review and on that basis develop concrete proposals for the reduction of tax exemptions, loopholes and preferential tax rates. Enhance fiscal risk analysis to better inform policy decisions on risk mitigation and improve financial oversight and accountability of Publicly-Owned Enterprises (POEs) by approving and publishing the annual performance reports.

2. Further enhance the institutional capacity of the Tax Administration of Kosovo (TAK) by promoting digital transformation and strengthening human resources capacity and the use of third-party data to raise compliance levels and revenues. To improve the execution rate of capital spending, ensure that projects are subject to proper feasibility studies and unified appraisal and selection procedures and operationalize all the linkages between the e-procurement and Kosovo Financial Management Information System (KFMIS) systems. Advance the reform of the social assistance scheme, including by completing the pilot phase of testing a new eligibility model and adopting relevant legislation.

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 for the use of borrower-based macroprudential measures. Improve financial crisis preparedness by completing the review of the Emergency Liquidity Assistance (ELA) framework.

MOLDOVA

Moldova submitted its Economic Reform Programme 2026–2028 (ERP) on 27 January 2026. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been partial.

Following economic stagnation in 2024, real GDP reached 2.4% in 2025 and became increasingly broad-based towards the end of the year. While, initially, growth was mainly driven by a recovery of agricultural output following the 2024 drought and construction, the last quarter outturn was marked by a strong pick up of the IT sector as well as manufacturing. Domestic demand has been strong, underpinned by policy measures stimulating investment and access to finance as well as looser financing conditions. Broad-based energy support measures have helped to mitigate the impact of higher energy prices on household consumption. The ERP projects growth to gradually strengthen to 3.6% by 2028 with investment remaining the key growth driver. The outlook reflects the impact of the Moldova Growth Plan (Growth Plan). Net exports are expected to remain a drag on growth, due to Moldova's high import intensity and only a gradual increase in exports. The outlook is subject to significant uncertainty, including the government's capacity to absorb the Growth Plan, Russia's ongoing war against neighbouring Ukraine, the war in the Middle East, and the effects of climate change, particularly on agriculture.

The 2025 fiscal deficit amounted to 4% of GDP, below the 5% of GDP target and broadly unchanged to previous year's outturn, mainly due to a persistent under-execution of capital expenditure. Despite the Growth Plan support of 1.6% of GDP received in 2025, capital spending fell short of plans, rising by less than 0.1 pps as a share of GDP compared to 2024. The deficit is set to widen to 5.7% of GDP in 2026 before gradually narrowing to 4.2% of GDP in 2028. While revenues are expected to remain broadly constant as a share of GDP, the ERP factors in spending funded from the Growth Plan which leads to a significant increase in expenditure compared to last-year's ERP. Between 2025 and 2028, capital spending and interest expenditure are set to account for a larger share in total expenditure, while the shares of social transfers, expenditure on goods and services and the wage bill are set to decrease, provided that the moderate growth rates projected in

the ERP for these items materialise. The medium-term fiscal outlook does not capture the quantitative impact of several major measures announced and qualitatively described in the ERP, notably a comprehensive tax reform, a public salary reform, and the effects of the inclusion of extra-budgetary public institutions in the general government sector. The debt ratio is set to remain stable at 38.1% of GDP in 2025. Due to the sizeable fiscal deficits, public debt is set to increase to 46% of GDP by 2028, and while still relatively low, it is subject to risks notably from foreign exchange developments and contingent liabilities stemming from government guarantees.

The high fiscal deficits and the rising public debt ratio call for prudent fiscal management, further revenue mobilisation and prioritisation of high-quality expenditure. On the revenue side, the large number of tax expenditures contributes to the complexity and low transparency of the tax system, with potential adverse distributional implications. The upcoming tax reform is an opportunity to address the narrow tax base, limited incentives for formal employment and the high tax-compliance burden. On the expenditure side, there is scope to increase the efficiency and effectiveness of public spending, notably through enhancing the conduct and use of spending reviews which encountered significant implementation challenges in recent years. The recently adopted regulation linking the results of spending reviews to the budget process is a step in the right direction, where a timely adoption of the implementation methodology could already make a difference for the 2027 budget. Moldova also allocates significant resources on programmes supporting access to finance. While these programmes deliver results, when considered jointly with the generous tax support available to SMEs, they represent a significant cost for public finances, and their overall effectiveness has not been assessed yet. Loss making state-owned enterprises and rising age-related spending on pension or health care in the context of a declining working-age population, pose notable fiscal risks that have not yet been comprehensively assessed. Finally, in light of rising interest expenditures, largely driven by short-term domestic issuances and increased external financing, there is scope to further develop the government securities market, including by broadening the investor base.

Inflation in 2025 remained above the central bank's target range of 5% ± 1.5 pps. It rose sharply to 9.1% at the beginning of 2025, mainly driven by higher energy prices, before declining over the course of the year supported by a better harvest and declining energy costs. Inflation returned to the target range in January 2026 in the absence of a renewed energy shock at the beginning of the year. Inflation is expected to remain within the target range in 2026, averaging 5.0%, but inflationary risks remain elevated in view of the uncertainties related to the agricultural output, energy prices' volatility particularly due to the war in the Middle East, and the fiscal stimulus provided by the Growth Plan. Monetary policy tightening in early 2025 was followed by a gradual easing cycle as inflationary pressures subsided, with the main policy rate gradually reduced from 6.5% to 5% by December 2025, alongside a reduction in the reserves ratio. Moldova's mainly foreign-owned banking sector remained stable in 2025, with strong capital adequacy, liquidity, and profitability. Lending to households and businesses increased strongly in 2025 and reached 28.2% of GDP in 2025, supported by favourable financing conditions and broad-based investment promotion policies. Going forward, the credit growth is set to ease as persistently elevated real-estate prices are set to weigh on housing market activity and thus on the volume of new mortgage loans. Potential risks related to loans under the Prima Casă PLUS programme warrant closer monitoring. The non-performing loan (NPL) ratio has steadily declined from its peak of 18.4% in 2017 to 4.1% (national prudential definition) in 2025[3].

Amendments to the central bank law aimed at strengthening the dismissal and appointment procedures and reforming its governance and decision-making structure were adopted by Parliament on 2 April 2026. To further harmonise regulatory standards across financial institutions following the move of the responsibility over the supervision of the non-bank financial sector to the National Bank of Moldova (NBM) on 12 March 2026, the NBM adopted a regulation on responsible consumer lending.

[3] The share of NPLs calculated in accordance with IFRS standards decreased from 18.2% as of 31 December 2017 to 1.4% as of 31 December 2025.

Volatile GDP growth in recent years and a widening current account deficit illustrate Moldova's persistent vulnerability to external shocks, largely reflecting its weak export base, high dependence on agriculture and imports, and limited preparedness for climate change. The current account deficit reached 19.7% of GDP in 2025 and is expected to improve only marginally thereafter, to 19.6% of GDP by 2028, highlighting the need to address persistent structural weaknesses, including low public investment. A large informal economy, slow progress on the state-owned enterprise reform, and shortages of skilled labour continue to weigh on the business dynamism and competitiveness, while the benefits of ongoing reforms are yet to materialise. Investment needs, particularly in quality infrastructure, remain substantial despite considerable efforts to strengthen energy security. Foreign direct investment also remains subdued, with industry and an export base still dominated by low-value-added production, alongside persistent geopolitical risks. The Growth Plan is a key opportunity to address structural challenges and boost much needed public investments. Ensuring it is spent on high-quality expenditure will be key.

Moldova continues the process of setting up collaboration at expert level with Eurostat and the European Central Bank (ECB) in the fields of economic, monetary and financial statistics. Data transmissions have been received with partially compliant data for monthly detailed data on international trade in goods statistics. In 2025, Moldova transmitted annual data for national accounts. Moldova also started providing quarterly balance-of-payments and international-investment-position data to Eurostat, although it still needs to improve both the timeliness and the length of those time series. Moldova does not yet compile the HICP. The development of Moldovan monetary and financial statistics has started, with first contacts being made.

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

1. Pursue fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability and present the fiscal strategy in the 2027–2029 Medium Term Budgetary Framework. Increase public investments to boost the growth potential, including through the Growth Plan, notably by strengthening project preparation and implementation capacities in line ministries and limiting budget inclusion to fully- appraised projects. Strengthen public revenues by broadening the tax bases, reducing the tax compliance burden and incentivising formal employment, while finalising and implementing the findings of the tax exemptions review and phasing out, as planned, or improving the targeting of the zero-tax rate on SME reinvested earnings.

2. In order to improve efficiency of public expenditure, conduct targeted spending reviews in priority areas in line with the recently adopted regulatory framework and complete a comprehensive review of all Entrepreneurship Agency (ODA) programmes supporting access to finance, notably the '373' programme and financial guarantees issued by ODA. With a view to managing risks to public finances, complete the identification of major publicly- controlled non-market producers to be classified within the general government, and start preparing an analysis of the fiscal impact of including them in the general government sector, and start developing long-term expenditure projections required for debt sustainability analysis, including the prospective impact of population ageing and ongoing emigration. Strengthen the domestic government securities market and broaden the investor base, notably by better planning long-term liquidity needs and expanding benchmark issuances across long-term maturities.

3. Ensure a sufficiently tight monetary policy stance to sustainably maintain inflation within the target band and improve the reliability of the results of the inflation expectations survey. Enhance the underlying assessment of published forecasts of selected key macroeconomic indicators underpinning monetary policy decisions. Calibrate macroprudential measures carefully amid robust credit growth.

MONTENEGRO

Montenegro submitted its Economic Reform Programme 2026–2028 on 14 January 2026. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been partial.

Montenegro's real GDP decelerated somewhat to 2.7% in 2025. Economic growth was supported by strong private consumption and investment, while the contribution of net exports was negative due to a temporary closure of a thermal power plant and muted tourism performance. The ERP projects real GDP growth to remain stable at around 3% in 2026–2028. Domestic demand is set to decelerate while the contribution of net exports is projected to improve markedly and turn slightly positive in 2028, with a tourism pick-up supported by the opening of new accommodation facilities and low-cost flights to Montenegro. While uncertainty is high, with downside risks related to high wage growth hindering price competitiveness, the ERP's GDP growth projections overall look plausible. Montenegro's small production base and consumption-led growth model has fuelled a very large external deficit, which is a key macroeconomic vulnerability. The ERP expects the current account deficit to narrow in line with the projected pick-up in service exports.

According to preliminary data, in 2025 the fiscal deficit overshot the 3.5% of GDP target by nearly 0.8 pps, despite strong tax revenues. This outcome was driven by lower-than-expected pension contributions and a delay in grants, which are transferred into 2026, while budget spending, especially on social security, health and subsidies, exceeded the target. The 2026 budget implements some limited tax policy measures and targets a 3.3% of GDP deficit, which seems optimistic given the 2025 budget outcome and heightened external risks. Budgetary adjustment plans for 2027–2028 assume a gradual drop in the deficit to below the 3% of GDP cap, mainly relying on GDP growth and a deceleration in current spending, with major savings coming from a decrease in the public wage bill and in transfers to the health fund as a share of GDP. The public debt ratio is projected to rise to 69.4% of GDP in 2026 and decline gradually to 63.8% in 2028, thereby staying above the fiscal rule's limit.

High mandatory spending, a limited revenue base and high debt repayments remain a challenge for fiscal policy. Spending pressures stemming from mandatory and age-related spending and from defence commitments call for careful management of public finances, given also the country's unilateral euroisation, which makes fiscal policy the main macroeconomic stabilisation tool. Debt repayment needs are set to increase sharply, first in 2027 and later in 2029. Moving towards a primary surplus and bringing the debt ratio below 60% of GDP as prescribed by the fiscal rule would help address these challenges. Fiscal space could be gained by broadening the tax base and by reviewing and reforming mandatory spending on social transfers and health. A better adherence to fiscal rules, which could also include additional rules and an adequate enforcement mechanism, would underpin stability-oriented fiscal policies. Setting up the long-overdue independent fiscal institution by appointing its members would also be an important step in improving fiscal governance. The Ministry of Finance has established a system for assessing and monitoring SOE-related fiscal risks. There is a need to further strengthen this system and address fiscal risks, including by improving SOE governance. This could provide extra fiscal space for implementing ambitious investment projects.

Average inflation increased to 3.9% in 2025 due to a combination of external and domestic factors. While import prices, in particular of food, have a significant influence on inflation in Montenegro's very small and open economy, domestic inflationary pressures came from high wage growth, also reflected in core inflation averaging around 5% last year. After peaking at 4.9% in September, monthly inflation moderated to 2.6% in February 2026. The ERP projects inflation to moderate from 2.9% in 2026 to 2% in 2028. Upside risks to this benign outlook stem from the energy price shock and domestically, from rapid credit growth and increasing real estate prices. The banking system remained stable, profitable and well capitalised, while the low non-performing loan ratio decreased further. Given increasing real estate prices and rapid growth of cash loans to physical persons, the central bank tightened macroprudential measures and extended restrictions on unsecured cash loans. In addition, the central bank is closely monitoring the indebtedness of natural persons with a view to a possible introduction of borrower-based macroprudential measures. An upcoming Constitutional Court ruling may impact the central bank's income from percentage-based fees for executing transactions, which are an important source of its revenues.

Montenegro's structural challenges include the need to improve the overall business environment, strengthen private sector development, accelerate the green and digital transitions, and enhance human capital. The business environment is still affected by weaknesses in the regulatory framework, a large informal economy, limited access to finance, and deficiencies in SOE oversight and governance. Montenegro's energy transition strategy focuses on investments in renewable energy and decarbonisation, in line with EU energy policy. Efforts to advance digitalisation concentrate on expanding digital public services and strengthening cybersecurity systems. Despite some improvements, including the fall in the unemployment rate to historically low levels, structural issues of the labour market, such as regional disparities and high unemployment among women, young people, and low-skilled workers, continue to weigh on potential growth and limit improvements in living standards. 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.

Montenegro improved timeliness for quarterly national accounts data and implemented a benchmark revision in September 2025. Montenegro significantly improved the timeliness of international investment position data transmissions. In 2025, Montenegro did not provide supply and use tables, and substantial data gaps remain for previously transmitted data. It started to provide information for the excessive deficit procedure and government finance statistics; however, the coverage remains insufficient and prevents a meaningful assessment. Montenegro did not provide the Structure of Earnings Survey 2022 data, the quarterly Labour Cost Index, job vacancy statistics, statistics on international trade in goods by enterprise characteristics and monthly balance of payments. Partial improvements were made in the compliance of several indicators in short-term business statistics. In research and development statistics, for the first time Montenegro transmitted preliminary research and development data for the reference year 2024 and government budget allocations for research and development preliminary data for the reference year 2024. However, timeliness needs to be improved and the research and development final data and government budget allocations for research and development datasets were not transmitted. Data gaps and timeliness issues remained in national accounts, labour market statistics and short-term business statistics.

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

1. Contain current spending while saving any revenue overperformance and one-off revenue for deficit reduction and accumulation of government deposits to accelerate compliance with the fiscal rules. Set up and operationalise the fiscal council in time for it to be able to review the 2027 budget proposal. Review the functioning of the existing fiscal rules and prepare and share with the Commission an options paper on their possible strengthening, taking into account the EU fiscal framework where appropriate.

2. Based on the tax expenditure report for 2025, prepare and share with the Commission concrete proposals to reduce tax expenditure. Based on the Law on the Governance of State-Owned Enterprises, fully implement centralised monitoring of SOEs and improve their governance and financial performance. To strengthen long-term fiscal sustainability, enhance the capacity for long-term projections using a pension modelling framework.

3. Continue to thoroughly assess price developments and possible second-round effects. Continue strengthening the macroprudential framework, including calibrating and introducing borrower-based measures. Ensure that the legal framework of the Development bank complies with the EU acquis for financial institutions and that it complies with best practices in terms of governance and appropriate supervision.

NORTH MACEDONIA

North Macedonia submitted its Economic Reform Programme 2026-2028 on 15 January 2026. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been limited.

Real output increased by an estimated 3.5% in 2025. Investment growth accelerated on account of public road projects as well as government-subsidised corporate loans boosting private investment. Modest household consumption growth was supported by rising real disposable incomes due to strong pension and wage growth, easing inflation, and robust credit expansion. The contribution of public consumption has also increased, mainly reflecting strong public sector wage hikes. External trade strengthened in the first half of 2025, but the full-year contribution of net exports to GDP growth remained negative. The ERP projects GDP growth to average 4% a year in 2026–2028 with a declining contribution of domestic demand, while the negative contribution from the external sector would gradually turn neutral by 2028. Further energy price increases due to the war in the Middle East represent significant downside risks.

The 2025 fiscal deficit target of 4% of GDP was met as a substantial revenue shortfall was offset by a large under-execution of capital expenditure. The programme projects a gradual lowering of the deficit and compliance with the 3% of GDP deficit rule from 2027. The revenue ratio is expected to decline, and fiscal consolidation is projected to derive entirely from expenditure restraint, in particular government consumption, transfers and subsidies. Public debt has been elevated since the pandemic and is projected to peak in 2027 at 62.1% of GDP. Financing needs average 9.7% of GDP in 2026–2028.

Consolidation plans need to be underpinned by concrete measures whose fiscal impact is clearly assessed. Reigning in spending on wages and pensions would avoid further increasing the already high share of rigid current expenditure and help rebuild fiscal space. Improving revenue projections and strengthening revenue collection are also key, including by improving tax compliance, such as through enhanced capacities of the tax administration, and by broadening the tax base through the reduction of tax expenditures. Public investment management needs to be improved to achieve a better execution of the capital budget, including by setting up a new IT platform (Integrated Financial Management and Information System), which would also support the monitoring of fiscal risks. The work of the Fiscal Council, set up in 2024, remains impeded by a lack of staff and financial resources.

Sticky core inflation and rising food prices hampered the disinflation process. Average annual consumer price inflation accelerated to 4.1% in 2025 from 3.5% in 2024. Core components of inflation, in particular prices in the hospitality sector, fuelled by rising labour costs, and prices of tobacco, due to a regular administrative increase of the excise duty, remained key drivers of overall inflation in 2025. Bank lending to the private sector increased further in 2025. Throughout 2025 the central bank kept the key policy rate practically on hold. It adjusted its monetary policy framework in December 2025, with the aim of improving policy transmission to the money market and increasing transparency of its policy. To this end it has set the main policy rate at 4%, the level of the effective policy rate. It also raised reserve requirements to withdraw liquidity and strengthened the macroprudential toolkit, including by raising countercyclical buffers and by tightening borrower-based criteria for housing loans amid rising mortgage loans and real estate prices.
The 2023 Bank Resolution Law, which sets up a bank resolution fund and guidelines for the process of bank resolution, has yet to enter into force. It remains important to safeguard the financial independence of the central bank following the adoption in January 2025 of a new mechanism for distributing the central bank's profits.

Key structural challenges hold back productivity growth and need to be addressed. In particular, shortcomings in education curricula contribute to the large skills mismatch between the qualifications of graduates and the needs of employers, which drive emigration and wage growth, in particular in low-skilled sectors. The large informal economy distorts competition for domestic companies and formalisation would boost public revenue. Productivity growth is held back by the low level of digitalisation and of innovation, as well as by deficient public road and rail infrastructure. Moreover, the economy relies heavily on fossil fuels and capacity to produce energy from renewable sources needs to be expanded. 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.

North Macedonia updated and improved annual and quarterly national accounts series and the timelines of their transmission in 2025. It made progress in the compilation of regional accounts supply and use tables and the reporting on government deficit and debt statistics. North Macedonia started providing monthly unemployment data, and quarterly and annual EU Labour Force Survey data for North Macedonia were published by Eurostat only in December 2025. In research and development statistics, North Macedonia started to transmit the final research and development data for the reference year 2023; however, further completeness issues remain. Gaps still remain in the areas of supply, use, and input-output tables, international trade in services statistics, foreign direct investment statistics, labour market statistics (e.g. seasonally adjusted data for job vacancy statistics, quarterly Labour Cost Index), short-term business statistics and in statistics on international trade in goods by enterprise characteristics for 2024; these gaps may limit the ability to fully assess structural developments, including labour market dynamics and external competitiveness.

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

1. Implement the fiscal consolidation path as outlined in the ERP by adopting concrete revenue and expenditure measures, by containing wage and pensions spending as a share of GDP as planned and save unused allocations for capital expenditure for further deficit reduction and the creation of fiscal space in 2026. Finalise the tax expenditure report, develop concrete proposals for reducing tax expenditure and continue with the digitalisation of the Public Revenue Office (PRO). Make the pension system more sustainable by moving back to a regular rules-based indexation of pensions instead of ad hoc pension increases and by developing proposals for parametric reforms.

2. Eliminate all legal inconsistencies which constrain the Fiscal Council's independence and operational effectiveness and improve its access to data. Adopt the Law on Public Private Partnership to enhance private financing of public infrastructure projects based on a sound regulatory framework. Set up an integrated financial management information system, for, among others, monitoring and controlling fiscal risks, including those emanating from public infrastructure projects, arrears, and guaranteed loans to state-owned enterprises.

3. Calibrate monetary policy appropriately to support the disinflation process and to sustainably achieve price stability, and, in line with the financial independence of the central bank, agree on profit retention rules that ensure the sufficient accumulation of central bank reserves as coverage of monetary liabilities. Ensure supervisory vigilance amid strong credit growth, in particular in the housing market, and expand macroprudential measures to this effect, if required. Further strengthen the banking regulatory framework by further alignment of the Banking Law with CRD6 and operationalise the bank resolution fund through appropriate amendments to the Deposit Insurance Law to ensure alignment with the Bank Resolution Law.

SERBIA

Serbia submitted its Economic Reform Programme 2026–2028 on 9 January 2026. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been partial.

Serbia's real GDP growth decelerated sharply from 3.9% in 2024 to a lower-than-expected rate, estimated at 2% in 2025. Domestic political instability and global uncertainties concerning tariffs and trade have affected consumer and business confidence and spending. In a rather optimistic scenario, the ERP projects GDP growth to accelerate from 3% in 2026 to 5% in 2027 thanks to capital investments and tourism inflows related to the specialised EXPO27 event in Belgrade, before moderating to 3.5% in 2028. Robust income growth, supported by hikes in minimum wages and pensions, is projected to boost private consumption in the short term. The labour market is expected to gradually improve, with rising employment and unemployment declining to 8.2% by 2028. The current account deficit is projected to remain elevated at around 5% of GDP and will not be fully covered by net foreign direct investment (FDI) inflows, which fell by half in 2025.

Despite the slowdown in economic activity, the 2025 fiscal deficit was 2.4% of GDP, below the 3% target. This was due to expenditure underperformance (especially investments) while revenues were in line with plans. The ERP projects the deficit to rise to 3% of GDP in 2026 and stay at this level in 2027, before moderating to 2.5% in 2028. Pensions and public wages are set to drive spending up in 2026, while capital investment is maintained at a high level as part of the 'Leap to the Future – Serbia 2027' programme and EXPO27. This relatively loose fiscal policy in 2026-2027 would coincide with an expected economic recovery and may contribute to inflationary pressures and an elevated current account deficit. Nevertheless, the public debt-to-GDP ratio is projected to gradually decline from 45% in 2025 to 44.1% by 2028, driven by strong nominal GDP growth.

As regards fiscal challenges facing the country, the policy stance should be appropriately tight to help disinflation. Serbia's relatively large SOEs, especially in the energy sector, continue to pose significant fiscal risks. Budgetary transparency needs to be improved, including in relation to risks and tax expenditures. Strengthening the analysis of the long-term sustainability of public finances and private-public partnerships (PPPs) should continue. Improving public investment management remains a key issue in view of sizeable planned capital expenditures and the large discretion for the government to exempt some investments from standard procedures. A public sector wage reform is essential to attract and retain highly qualified staff, as the current compressed wage structure threatens to hamper the implementation of ongoing reforms.

The central bank has kept the key policy rate unchanged at 5.75% since 2024, continuing a cautious monetary policy, while the average reverse repo rate, which de facto determines the monetary stance, remained at 4.5%. In 2025, average inflation stayed within the central bank's target band of 3%±1.5pps., but this was partly due to the government's temporary intervention in retail prices, which, however, may worsen the business environment and does not address underlying price pressures. Core inflation also declined over 2025, reaching about 4% in Q4 2025 and in January 2026. The ERP projects inflation to remain within the central bank's target range in 2026–2028. However, inflationary pressures might reemerge due to the envisaged fiscal path and rapid increases in average and minimum wages, particularly in the short run with the rises in global energy prices and partly due to phasing out of price controls. The central bank continued to keep the exchange rate stable. The banking system remains stable, with favourable indicators on solvency, liquidity, and profitability, and a non-performing loans ratio at a historic low. Amid easing credit standards, domestic loan growth has accelerated since 2023, driven by households and to a lesser extent corporate loans. The extension of temporary measures from 2024 to cap interest rates and make mortgages and consumer loans more affordable for lower-income households raises moral hazard concerns and might further boost demand for household borrowing. A large share of foreign-currency-denominated lending implies indirect credit risks, while the central bank's efforts to promote dinarisation have continued.

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, as well as in public procurement procedures, state aid and the transparency and predictability of business-related legislation. The energy sector, mostly dominated by large SOEs, faces challenges related to US-imposed operational restrictions on the oil company NIS, low efficiency and an outdated infrastructure, which is in the process of being renewed, major reliance on coal and dependency on Russia for gas. However, Serbia has speeded up work on gas, oil and electricity interconnections with multiple neighbouring countries, aiming to diversify supplies. Although labour market outcomes have improved over recent years, skills mismatches, youth unemployment and brain drain continue to pose challenges in a context of a shrinking labour force and continued wage pressures. 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. However, further efforts are needed to achieve the full implementation of the European system of national and regional accounts transmission programme, and improvements need to be made in the areas of government finance statistics and excessive deficit procedure notifications. There are missing or incomplete data series in the areas of international trade in services statistics, labour market statistics, short-term business statistics and foreign direct investment statistics. Further progress is needed in the alignment with the requirements in short-term business statistics for services. Job vacancy statistics are not yet transmitted to Eurostat.

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

1. Keep an appropriately tight fiscal stance in 2026 to counter inflationary pressures, including by containing current spending and by using any revenue overperformance for stronger-than-planned deficit reduction. Publish and share with the European Commission the final results of the work on tax expenditure review and start developing concrete proposals for cutting tax expenditures with weak economic justification. Based on the ISKRA database and related analysis, move forward with a public sector wage reform to support wage de-compression and establish a concrete multi-year plan for implementation.

2. Continue strengthening SOE governance including tariff setting to cost-recovery levels, with a view to reducing the associated fiscal risks, notably in the energy sector. Continue developing capacity for the assessment of the long-term sustainability of the pension system, publish the reports and extend the analysis to cover long-term healthcare costs. Based on the implementation of the fiscal-risk-monitoring methodology, continue to expand fiscal-risk reporting within the Fiscal Strategy and further improve forward-looking fiscal risk monitoring to systematically inform policy decisions, especially regarding local governments and PPPs.

3. Calibrate monetary policy appropriately to sustainably achieve price stability and anchor inflation expectations. Closely monitor the pace and quality of household lending growth, phase out measures that stimulate lending, such as the supervisory expectations on consumer-loan and mortgage interest rates by September 2026, and consider strengthening borrower-based macro-prudential measures. 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 2026-2028 on 15 January 2026. The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of 13 May 2025 has been partial.

Real GDP increased by 3.6% in 2025, slightly above the ERP projection and the previous year's growth rate. Domestic demand was the main growth driver, with robust household consumption and investment. The ERP projects economic growth to increase from 3.8% in 2026 to 5.0% in 2028. The projected pickup in domestic demand could pose risks to achieving the targeted rapid disinflation and the containment of the current account deficit. The external position is sound, while volatile external environment and capital flows require continued vigilance. Türkiye's exposure to geopolitical tensions in its neighbourhood and to energy price shocks is high, but the economy's resilience has increased over recent years, and the authorities have appropriately tightened their policy stance as a reaction to the intensification of the conflict in the Middle East.

At 2.9% of GDP, the 2025 central government budget deficit was lower than planned, underpinned by robust revenue growth and spending discipline. In view of the favourable 2025 fiscal outcome, the ERP's fiscal stance for 2026 is slightly expansionary and there is scope for fiscal policy to better support disinflation. On general government side, the headline primary surplus is envisaged to move slowly up and reach close to 1% of GDP in 2027, while the overall budget deficit is set to gradually fall to 2.6% of GDP in 2028. After increasing to 33.1% of GDP in 2026, the revenue ratio is expected to be stable thereafter. The structure of revenue is also expected to stay largely unchanged. Total expenditure is forecast to peak at 36.2% of GDP in 2026 before declining slightly to 35.7% in 2028, with a broadly stable level of primary expenditure. Interest payments, although declining somewhat, are expected to remain elevated above 3% of GDP throughout the entire period, despite moderate government indebtedness.

While the fiscal framework lacks strong anchors, fiscal outcomes have reflected the authorities' preference for fiscal discipline. Fiscal risks appear manageable. The authorities took steps to strengthen accounting and reporting structures. Efforts are under way to improve budget transparency and accountability by strengthening accounting and reporting structures, including the use of AI-supported accounting applications. Electronic payment and collection systems were also improved, providing taxpayers with an easy and fast way of settling tax obligations, and an AI-powered fraud analysis programme was introduced in 2026 to combat tax evasion. The authorities have continued broadening the tax base and implementing public expenditure reviews, but tax exemptions and reductions are still widespread. Increasing competition in public procurement and improving governance of state-owned enterprises remain necessary as reform implementation has not been completed yet. The consolidated framework for public private partnerships has yet to be adopted and needs to be fully integrated in the budget process, improving their management and monitoring.

Disinflation advanced, but inflation remains high and bringing it further down requires sustaining tight economic policies. Inflation fell to 30.9% in December 2025, while 2025 average inflation slowed to 34.9%. Inflationary pressures, including in service prices, moderated somewhat at the end of 2025 with a temporary pick-up in early 2026 largely driven by seasonal factors. Limited wage and administered price indexations in early 2026 contributed positively to the disinflation process, although widespread indexation continues to weigh on the disinflation path. The ERP forecasts that annual inflation will decline to 16.0% at the end of 2026, and further to 8% in 2028. However, this path is subject to uncertainties, reflecting still high inflation expectations and upward pressures associated with elevated energy prices amid geopolitical tensions.

The Central Bank of the Republic of Türkiye (CBRT) has kept monetary policy relatively tight, slowing down the pace of rate cuts since October 2025. The CBRT also reaffirmed that the tight monetary policy stance will be maintained until price stability is achieved, and continued to actively regulate credit, via caps on the growth of certain loan categories and selective changes in required reserves. In response to the intensification of the conflict in the Middle East, the CBRT appropriately tightened financial conditions in March 2026 and took measures to limit exchange rate volatility. The real appreciation of the lira has largely stalled, contributing less to disinflation but easing pressures on exporters. The FX-protected lira deposit scheme was terminated, removing a major contingent liability and a source of financial risk. Building on recent progress, safeguarding the independence of the central bank remains indispensable for lasting policy credibility. The banking sector remained stable, with strong capitalisation even after the removal of forbearance measures in early 2026. Profitability and capitalisation improved but remained generally lower in state-owned banks. The non-performing loan ratio increased from a low level, while provisioning remained adequate.

Several persistent structural challenges continue to burden the Turkish economy, limiting growth potential and undermining investor confidence. Therefore, tackling the following key structural weaknesses would help to foster inclusive and sustainable economic growth: (i) increasing the efficiency of the labour market, by raising the level of skills notably for women and young people, and by aligning workforce competencies with evolving needs of green and digital transitions; (ii) boosting competitiveness and foreign direct investments, in particular by improving transparency and predictability in the regulatory and institutional environment affecting businesses; and (iii) enhancing transport, energy and digital connectivity, both domestic and regional, while accelerating the economy's green and digital transformation. Furthermore, increased implementation of the reform measures and planned activities laid out in Türkiye's ERP would also help to boost competitiveness and maximise investments.

Considering the business environment dynamics, progress in strengthening the rule of law need to be advanced to support a more conducive investment climate. Particular attention is needed to enhance transparency and predictability, notably by improving the legal framework for state intervention, reinforcing cooperation with the private sector, and strengthening the independence of regulatory authorities and the judiciary good governance is required to effectively implement and ensure the sustainability of the reform measures, in particular to enhance competitiveness and reach climate neutrality. Türkiye should also accelerate ambitions to boost secure domestic and regional connectivity, as it would generate business opportunities, improve trade integration and help build competitive and resilient value chains. In addition, there is a need to increase the labour force participation of women and young people by increasing green and digital skills through training opportunities and lifelong learning, and the availability of quality and affordable care infrastructure. Policies aimed at enhancing women's participation in the labour market with an increased scope and budget would increase Türkiye's economic growth potential.

Türkiye implemented a benchmark revision in national accounts in September 2025, but data gaps persist as well as flags preventing the publication of data. Türkiye made improvements in transmission of excessive deficit procedure data and in international trade in services statistics, but transmission of excessive deficit procedure notifications and government finance statistics is still incomplete, and methodological issues remain to be addressed. It transmitted Structure of Earnings Survey 2022 data and the quarterly Labour Cost Index, but improvements are still needed in the areas of labour market statistics. New requirements in short-term business statistics have not yet been fully implemented, and there is scope for improvements in statistics on international trade in goods by enterprise characteristics, international trade in services statistics, the international investment position, foreign direct investment statistics and research and development statistics. Türkiye does not provide monthly balance of payments and the transmitted harmonised indices of consumer prices at constant tax rates and administered prices are currently under validation.

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

1. Keep the fiscal stance sufficiently tight to support the ongoing disinflation process and use any revenue overperformance in 2026 to reduce the budget deficit. Gradually increase the primary surplus towards the medium-term target of at least 1% of GDP as envisaged in the ERP. Support fiscal consolidation by further reducing tax exemptions, continuing strict control of current non-interest expenditure and implementing public spending reviews.

2. Take further steps to reduce consumption limits and subsidy rates on electricity and natural gas subsidies. Advance public procurement legislation to limit the use of exclusions and negotiated procedures. Take steps to strengthen the long-term sustainability of the social security system and enhance evidence-based analysis and long-term projections using a pension modelling framework.

3. Ensure a sufficiently tight monetary policy stance and safeguard and enhance confidence in the independence of the CBRT, to support disinflation and anchor inflation expectations. Further improve monetary policy transmission and increase reliance on central bank interest rates. Enhance risk-based supervision and its transparency in line with best international and European practices.

4. Further improve the investment climate by digitalising and setting clear timelines for business related procedures, with due regard to aid transparency and the aid governance framework. Enhance the effective functioning of the judiciary by reducing the duration of court proceedings in line with the fourth judicial reform strategy (2025-2029). Publish the progress made from the implementation of the action plan for the fight against the informal economy (2023-2025) and continue efforts to reduce the informal economy with a new action plan covering the upcoming period.

5. Accelerate investment in transport, energy and digital connectivity infrastructure, and progress with implementation of digital transport systems (eCMR, ePermits), and secure frameworks such as the 5G cybersecurity toolbox. Accelerate the establishment of an Emissions Trading System (ETS) with an effective domestic carbon price, notably by publishing the regulatory legislation, and work towards regulatory alignment with the EU ETS. Based on the 2053 Long-Term Strategy, address the energy-intensive and hard-to-abate sectors, through electrification, low- or zero-emission alternative fuels including renewable hydrogen.

6. Incentivise and increase participation in training opportunities, specifically vocational education and training, on-the-job training, as well as provision of paid intern- and traineeships to reduce youth unemployment and support smoother school-to-work transitions. Reduce the labour market gap between men and women through the enhanced provision of quality and affordable care infrastructure, especially beyond the big urban centres of Türkiye, expand the scope of the childminder system, and increasing employment incentives and work flexibility. Enhance access to green and digital skills development and reduce skills mismatches by implementing and monitoring the National Employment Strategy (2025–2028).