

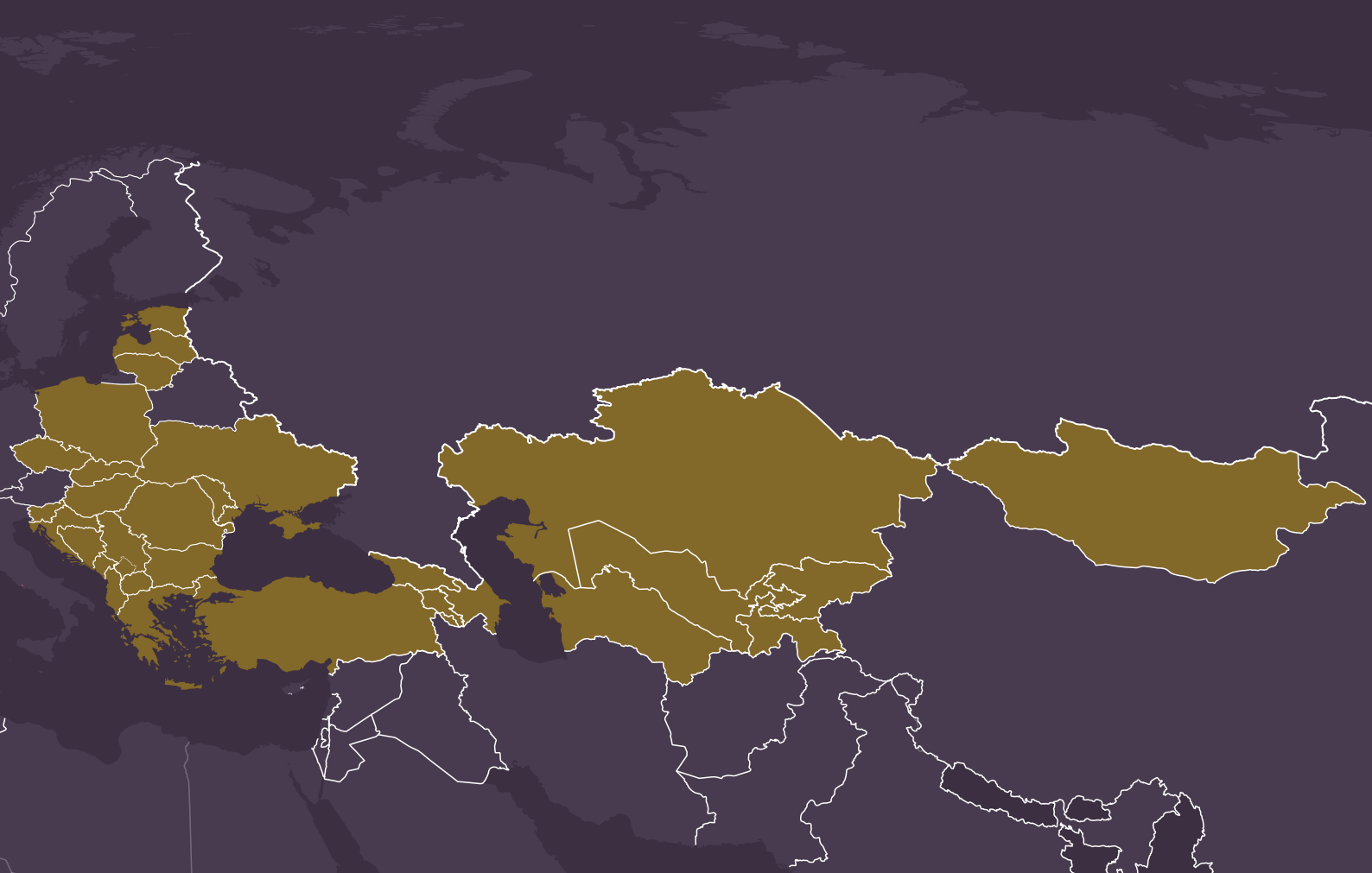


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Key Political Risks Facing Central & Eastern Europe, Southeast Europe and Central Asia in 2025

Implications for Investors



FOREWORD



2025 will be a year of substantial challenges for international businesses globally. Investors in Central & Eastern Europe, Southeast Europe, Türkiye, Central Asia, the South Caucasus & Mongolia will face a combination of political and regulatory challenges amidst an increasingly complex geopolitical environment, likely accompanied by political instability and an uneasy economic climate.

Aretera's 2025 Annual Forecast is an attempt to summarize the likely impact of this instability across our regions, hopefully delivering greater insight and understanding to those tasked with preparing for what lies ahead. Our third annual report draws on the local expertise and insight of Aretera consultants in no fewer than 30 countries, and takes an extensive look at the political and geopolitical risks in CEE, the Western Balkans, Türkiye, Central Asia and the South Caucasus. It also attempts to give an initial, succinct projection on how this year's elections may unfold and the consequences for the business environment of potential political changeovers.

I would like to personally thank all our contributors to the report and express our hope that you find the content useful in your planning for the year ahead. As always, we are open to feedback and also available to discuss these complex individual markets and themes in detail, if further questions arise.

Wishing everyone a peaceful and productive 2025.

Chris Dobson
Managing Partner

NOTE FROM THE EDITOR



This year promises to be a year like no other: international businesses in CEE/SEE, Türkiye, Central Asia, the South Caucasus & Mongolia should be bracing themselves for a range of uncertainties, challenges and risks.

In 2025, Donald Trump's return to the White House tops Aretera's Annual Risk Forecast. His return is expected to introduce new dynamics to the geopolitical landscape, with significant implications for Ukraine.

Progressing into 2025, geopolitical risks will continue to overshadow Aretera's 2025 forecast, especially in the case of Central & Eastern Europe as Russia is likely to continue with its interference and election meddling attempts as we head into the new year.

As in 2024, domestic political instability will remain a key risk to monitor throughout 2025 for a vast number of countries in CEE and SEE. This will come at a time when key political changes, as well as policy and regulatory developments, are expected at not only the national but also the EU level, with a range of implications for businesses.

Following a mega election year in 2024, this year will bring a series of high-stakes parliamentary, presidential, local and other elections. Investors are advised to manage their government relations accordingly as 2025 is likely to bring a series of new public stakeholders across key regional markets.

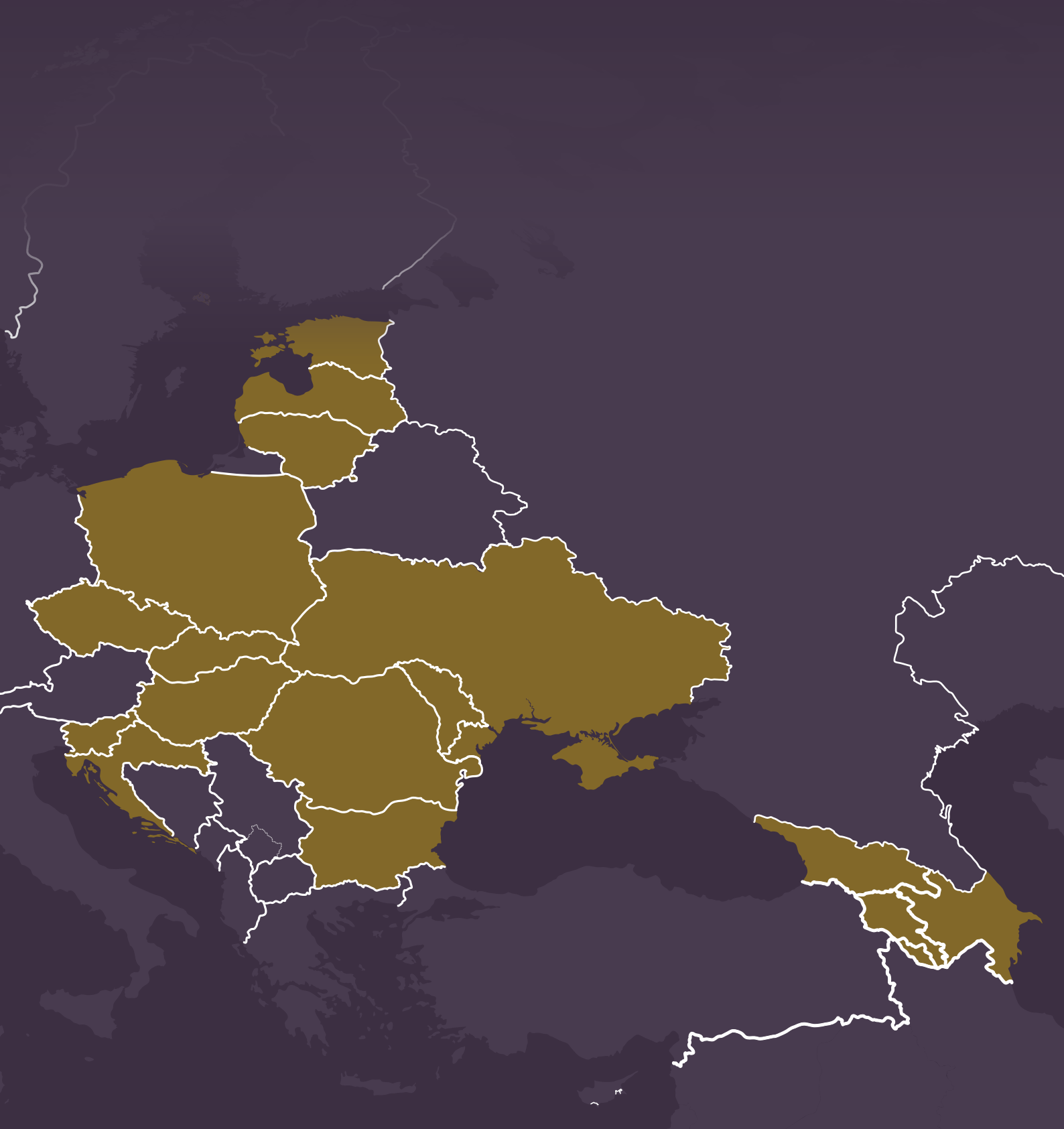
Dominik Istrate
Research Director

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Central & Eastern Europe and the South Caucasus





EXECUTIVE SUMMARY

Donald Trump's return to the White House leads Aretera's 2025 Annual Risk Forecast for Central & Eastern Europe. His return as US President could potentially unleash a wave of uncertainty across the region, particularly regarding Ukraine and the future of US engagement in Europe. With Ukraine's allies now braced for a US-led push to secure a ceasefire, Kyiv may face the prospect of losing a share of its Russian-occupied territories. As for a prospective ceasefire deal, it remains to be seen what meaningful security guarantees the West can provide if Ukraine is not invited to join NATO. Furthermore, a renewed conflict remains a possibility even if a ceasefire or peace deal is established, considering Russia's long disregard to the treaties that were put in place to protect Ukraine's sovereignty.

While a Trump-led US is unlikely to leave NATO as a whole, he looks all but certain to scale down US engagement, potentially shifting responsibilities to regional actors. This will prompt regional economies to increase their defence spending, but it will also push Poland to claim a more influential and leading role with regard to regional security, particularly in view of ongoing political instability in both France and Germany. Bolstering EU defence capabilities is also one of the key priorities of Poland's Presidency of the Council of the EU.

This year, a majority of CEE countries is likely to be at the risk of political instability. Regional countries likely to be among those most impacted include Romania, the Czech Republic, Ukraine, Bulgaria, Georgia, Lithuania and Slovakia. Romania is facing stability risks on two fronts: the aftermath of the upcoming re-run presidential election may further divide an already polarized society, while the country's new pro-EU coalition government could also prove fragile. In the Czech Republic, which has been governed by a centre-right multi-party coalition since 2021, the underlying question is whether the next parliamentary election, expected for the second half of 2025, will bring political stability or rather the opposite. Ukraine's stability widely depends on how the country reacts to any future ceasefire or peace deal brokered by Trump, while Bulgaria's unwanted snap election cycle and consecutive hung parliaments may further increase public support for pro-Russian formations and/or a potential switch to a presidential republic. With the Georgian opposition refusing to accept the results of last October's parliamentary election and the government denouncing the opposition as instigators of unrest, the country is sinking deeper into yet another post-election crisis. Lithuania's experimental coalition between the centre-left and the radical right may prove short-lived even in the short term, while Slovakia may also head for snap parliamentary elections in 2025.

Hungary tops Aretera's list of CEE countries with a more stable political outlook this year, however the ruling Fidesz-KDNP alliance is facing the biggest challenge yet to its 14-year rule, with the emergence of the Respect and Freedom Party (TISZA). Poland's diverse ruling coalition has so far proved stable despite their massive ideological divides and recurring policy disagreements, as the ruling parties remain united in their opposition to the former ruling Law and Justice party (PiS). As for the region's largest economy, the upcoming presidential election, expected for mid-2025, will be a crucial event for the ruling bloc, as it will either further complicate or significantly ease the government's political and legislative agenda.

In 2024, the CEE region became an increased target of Russian interference and election meddling, and this trend is highly likely to continue in 2025. Last year, Russia was accused of conducting interference campaigns to swing Moldova's presidential election and EU referendum, Georgia's parliamentary election and (allegedly) Romania's presidential election. While its Moldovan operations were largely unsuccessful and allegations of interference in Romania remain disputed, Georgia was plunged into a political crisis after the pro-EU opposition rejected the election results over widespread allegations of voter fraud and interference. In addition to Romania's re-run presidential election, Poland's presidential election and the upcoming parliamentary elections in the Czech Republic and Moldova, these efforts this year may also target a potential snap parliamentary election in Bulgaria and any potential election in Ukraine should a ceasefire be secured.



1

DONALD TRUMP'S RETURN TO THE WHITE HOUSE

Donald Trump's return to the White House tops Aretera's political risks for Central & Eastern Europe in 2025 for a number of reasons. His return is expected to introduce new dynamics to the geopolitical landscape, with significant implications for Ukraine, the wider CEE region, the European Union as a whole and the countries on NATO's eastern flank.

Trump is committed to ending Russia's war against Ukraine with a peace agreement or – more likely – a permanent ceasefire. Accordingly, Trump's second administration will likely prioritize forcing Kyiv and Moscow to the negotiating table at some point during 2025. While it remains to be seen exactly how Trump will approach ceasefire negotiations, the former President's return has shifted the mood across Western capitals, with Ukraine's allies now bracing themselves for a US-led attempt to achieve peace. At the same time, it also remains to be seen whether a ceasefire can be achieved at all.
































Taking the current realities on the Ukrainian fronts into account, any potential ceasefire could see Ukraine losing a share of its occupied territories (& population) in the country's east and south, while potentially undermining its efforts to reclaim the Russian-occupied Crimean peninsula. For Ukraine, an additional risk is that any conflict settlement would likely push the country further from its dedicated objective of securing NATO membership, while it remains uncertain what other and meaningful security guarantees the West can provide to defend Ukraine against Russia. Considering Russia's long-term disregard for several agreements in place to safeguard Ukraine's sovereignty and territorial integrity, a renewed conflict remains a possibility in the long run if the ceasefire or peace deal lacks consequential Western security guarantees for Kyiv.

From a domestic perspective, Ukraine may also see adverse political consequences post-settlement, particularly increased polarization between those supporting a prospective deal (and the territorial loss that comes with it) and those standing firmly against it. This polarization may manifest in presidential and/or parliamentary elections that could only be held if a permanent ceasefire is established since elections are currently prohibited under martial law. Ukraine is already believed to be preparing for this scenario. However, it has been nearly six years since the last national electoral contest, while it remains to be seen what new domestic political environment could be produced after a potential conflict settlement.

Under a negative scenario, Kyiv may experience growing domestic political instability between rival political groups in a polarized society, which Russia would certainly exploit through interference and election meddling and may even instigate armed confrontation or unrest within Ukraine. See the [Russian Interference & Election Meddling](#) section on page 12 for further risks facing the wider CEE region.

Trump's return will likely bring a number of challenges for the Transatlantic alliance. While Aretera does not expect the returning US President to pull the US out of NATO, Trump looks all but certain to scale down US global engagement. For most of Central & Eastern Europe, this will mean regional governments will have to step up national defence spending to ensure the US remains engaged in Europe and the region. With the exception of Croatia, Slovakia and Slovenia, all regional NATO member states have met the Alliance's target of spending an annual 2% of their GDP on defence. However, most EU countries – to pre-empt a US push for them to do so – will likely aim for a higher figure, while Trump himself also wants considerably more. In this regard, Poland, the region's largest economy, has already taken the lead, with Warsaw already spending more than 4%, while the Baltic countries are also planning significant increases.

As the largest NATO member state in the region, Poland – under Prime Minister Donald Tusk's leadership and with potential support from the Baltic and Scandinavian states – is also set to take the lead in representing regional security and defense interests. The returning US President will have limited appetite for deepening military engagement, while the current political turmoil in France and Germany means Poland's role will be pivotal. Bolstering EU defence capabilities is one of the key priorities of Poland's Presidency of the Council of the EU, with Warsaw heavily focused on keeping European defence and Ukraine on the agenda. Going into 2025, Poland may also look more to the Baltic and Scandinavian states when discussing aid to Ukraine and regional security challenges rather than the Visegrád Group.

| COUNTRY | DEFENCE EXPENDITURE AS A SHARE OF GDP | SPENDING MILLIONS (USD) | GDP (BILLION USD) |
|--|---------------------------------------|-------------------------|-------------------|
|  POLAND* | 4.12% | 34,975 | 848.86 |
|  ESTONIA* | 3.43% | 1,437 | 41.89 |
|  UNITED STATES | 3.37% | 967,707 | 28,719.94 |
|  LATVIA* | 3.15% | 1,421 | 45.15 |
|  GREECE | 3.08% | 7,684 | 249.81 |
|  LITHUANIA* | 2.85% | 2,300 | 80.72 |
|  FINLAND | 2.41% | 7,308 | 302.72 |
|  DENMARK | 2.37% | 9,940 | 418.58 |
|  UNITED KINGDOM | 2.33% | 82,107 | 3,520.50 |
|  ROMANIA* | 2.25% | 8,644 | 383.92 |
|  NORTH MACEDONIA | 2.22% | 353,000 | 15.87 |
|  NORWAY | 2.2% | 10,606 | 482.58 |
|  BULGARIA | 2.18% | 2,325 | 106.72 |
|  SWEDEN | 2.14% | 13,428 | 626.54 |
|  GERMANY | 2.12% | 97,686 | 4,610.04 |
|  HUNGARY | 2.11% | 4,889 | 231.61 |
|  CZECH REPUBLIC | 2.1% | 6,834 | 326.13 |
|  TURKEY | 2.09% | 22,776 | 1,090.29 |
|  FRANCE | 2.06% | 64,271 | 3,120.35 |
|  ALBANIA | 2.03% | 516,000 | 25.43 |
|  MONTENEGRO | 2.02% | 162,000 | 8.02 |
|  SLOVAKIA | 1.99% | 2,841 | 142.81 |
|  NETHERLANDS | 1.85% | 21,460 | 1,162.88 |
|  CROATIA | 1.81% | 1,624 | 89.90 |
|  PORTUGAL | 1.55% | 4,627 | 298.98 |
|  ITALY | 1.49% | 34,462 | 2,311.17 |
|  CANADA | 1.37% | 30,495 | 2,233.83 |
|  BELGIUM | 1.3% | 8,519 | 655.74 |
|  LUXEMBOURG | 1.29% | 785,000 | 60.69 |
|  SLOVENIA | 1.29% | 949,000 | 73.52 |
|  SPAIN | 1.28% | 21,269 | 1,658.36 |

* These Allies have national laws or political agreements which call for 2% of GDP or more to be spent on defence annually
Source: NATO | 2024



2

POLITICAL INSTABILITY ACROSS THE REGION

For the vast majority of CEE countries, politics has become increasingly dominated by often fragile multi-party alliances. Domestic political conflict, ideological divides between political parties, the cost-of-living crisis and tension over the political, security and economic impacts of Russia's war against Ukraine could all lead to unstable governments and fractures within governing coalitions. Accordingly, domestic political (in)stability is likely to be among the most pressing issues this year for international companies present in the region.



MOST COUNTRIES LIKELY TO FACE POLITICAL INSTABILITY

Regional countries likely to be among those most impacted by potential political instability in 2025 include Romania, the Czech Republic, Ukraine, Bulgaria, Georgia, Lithuania and Slovakia. Romania is heading into 2025 with increased political uncertainty after the country's parliamentary election (held last December) drastically changed the political landscape. Although pro-EU establishment parties – the centre-left Social Democratic Party (PSD), the centre-right National Liberal Party (PNL), the centrist-liberal Save Romania Union (USR) and the Democratic Alliance of Hungarians in Romania (UDMR) – scored a combined victory, support for nationalist and far-right formations have tripled since the last election in 2020, amounting to 32% of the popular vote. The better-than-expected performance of the far-right has pushed pro-EU parties to join coalition talks to form a pro-EU unity government. Following tense coalition talks, pro-EU parties eventually formed a governing coalition, although excluding the centrist-liberal USR. This means a return to the 2021-2022 grand coalition between the PSD, the PNL and the UDMR. The new cabinet will likely face challenges in terms of stability, particularly in view of Romania's history of short-lived governments. At the same time, the far-right threat could be a factor that keeps the returning ruling bloc together. In addition, Bucharest is also facing a re-run presidential election after the Constitutional Court (CCR) – in a highly controversial decision – annulled the results of the first round (held on November 24, 2024) over alleged Russian interference. [See the Key Elections Ahead section on page 14 for our expectations about the re-run presidential election.](#)

The outlook for the ruling coalition of the Czech Republic, which includes the three parties of Prime Minister Petr Fiala's SPOLU (Together) coalition and the Mayors and Independents (STAN) is foreseeably stable as the country heads towards parliamentary elections during the second half of 2025. In the case of Prague, the underlying question is whether the next election will bring political stability or rather the opposite. The potential return of current opposition leader and former populist Prime Minister Andrej Babiš to government could mean an experimental governing coalition with other populist formations, similar to the government of Robert Fico in Slovakia. Based on the experience of Babiš' previous two governments (2017-2021), coalition disputes could very well undermine the functioning of the government.

Ukraine's political stability in 2025 will heavily depend on the outcome of potential ceasefire talks and the domestic response towards any ceasefire. Despite the many differences between the country's political formations, Kyiv has stood remarkably united against the ongoing Russian aggression. Under the scenario of a potential ceasefire, the country is likely to hold either presidential or parliamentary elections or both. If held, these elections will likely bring several new faces to the fore of Ukrainian politics. The future of Ukrainian political landscape will also largely depend on whether active or retired military officials will be allowed to run for public office. In addition to the risk of potential Russian interference into Ukraine's democratic processes, Kyiv could also face domestic political tension and polarization if forced into an unwanted and unjust ceasefire deal. [See Donald Trump's Return to the White House on page 6 to learn more about the risks facing Ukraine.](#)

With seven consecutive electoral contests since April 2021, all of which were inconclusive, Bulgaria is facing the challenge of a protracted and unwanted snap election cycle. This could mean Sofia will continue to be governed by caretaker governments with limited mandates, and will rely on occasional alliances in a fractured and ideologically diverse parliament. Although the country has met most requirements to introduce the EU's common currency, continued political instability could hurt, or at least delay, Bulgaria's objective of introducing the Euro. In the long run, a failure by the pro-EU establishment parties to agree on a stable coalition could also pave the way for pro-Russian and nationalist formations to get into government, further polarizing an already divided society. In addition, the ongoing failure of Parliament to elect a regular cabinet is eroding public trust in the parliamentary system and fueling a growing chorus of voices advocating for a shift to a presidential republic, on the grounds that it could offer stronger leadership and greater stability in governance.

For Georgia, 2024 ended with complete political uncertainty. Following widespread allegations of large-scale voter fraud, voter intimidation and Russian interference in last October's parliamentary election, in which the ruling Georgian Dream (GD) scored a disputed victory, the pro-EU opposition unanimously rejected the results, decided not take up their seats in parliament and refused to recognize the results of the indirect presidential election last December, with a series of mass protests having followed. In parallel, the ruling GD has denounced the opposition's actions as illegal, aimed at overthrowing the government with foreign support, while the disputed accession of Mikheil Kavelashvili as President has deepened the crisis further as her predecessor, Salome Zurbishvili, also the informal leader of the opposition, has refused to step down until new elections are held. With no clear end to the crisis in sight, multiple scenarios are possible at the time of writing. These include GD adopting a more authoritarian and pro-Kremlin path, further polarization between the government and the opposition, potential civil unrest or – under a more positive scenario that may resemble the EU's resolving of the country's 2020-2021 post-election crisis – international mediation between the two sides.

Political instability in Lithuania became an outright risk shortly after the latest parliamentary election, held last October. Led by centre-left Prime Minister Gintautas Paluckas, Lithuania's new government is supported by the Social Democratic Party of Lithuania (LSDP), the centre-left For Lithuania (DSVL) and the populist-nationalist Dawn of Nemunas (PPNA). Despite pledging to keep the far-right out of government on the campaign trail, Paluckas broke away from this promise by deciding to include the Dawn of Nemunas in the new cabinet. Political and ideological divides between the ruling bloc will likely mean that political instability will be a key risk to monitor. This may happen even in the short term, since controversial PPNA leader Remigijus Žemaitaitis has already threatened to leave the coalition.

For Slovakia, 2025 may be the year of yet another snap parliamentary election. Prime Minister Robert Fico's centre-left-turned-populist Smer-SD returned to power in October 2023 after winning a snap election and joining forces with Peter Pellegrini's centre-left Hlas-SD and the nationalist Slovak National Party (SNS). Since Pellegrini's election as Slovakia's President in mid-2024, tensions have emerged about the distribution of power within the ruling bloc, particularly after his rise to the Presidency left the position of speaker of parliament vacant. Simultaneously, political and policy differences between Fico and Pellegrini became even more visible in the last months of 2024, with the President arguing that Slovakia is heading towards becoming an autocracy. This came as the three-party coalition commands only a razor-thin majority in parliament after three SNS MPs left the ruling bloc. If the ruling parties are unable to resolve their differences, Hlas-SD or individual MPs may leave the coalition, prompting the fall of the Fico Government and a snap parliamentary election later in 2025.

Slovenia enters 2025 with calls from a part of the opposition to organize snap parliamentary elections over shrinking support for Prime Minister Robert Golob's centre-left coalition government. Meanwhile, the lead opposition Slovenian Democratic Party (SDS) of former PM Janez Janša has consolidated its lead over Golob's Freedom Movement (GS), and is eager to return to government. However, the erosion of support for the centre-left coalition has not significantly boosted the support of potential centre-right coalition partners. More than a third of the electorate remains undecided at the start of the year, presenting a potential opening for new entrants to the political landscape. Several new parties have been announced or are already in formation, with the Democrats of former Foreign Minister Anže Logar leading the charge. The next elections are scheduled for April 2026.

HUNGARY & POLAND AMONG COUNTRIES WITH A MORE STABLE OUTLOOK

As in previous years, Hungary tops Aretera's list of CEE countries with a more stable political outlook this year. At the same time, the ruling Fidesz-KDNP alliance of Prime Minister Viktor Orbán is facing the biggest challenge yet to its 14-year rule, given the emergence of an increasingly popular and a more united opposition force: the centre-right Respect and Freedom Party (TISZA) of ex-ruling party insider and former SOE executive Péter Magyar. With Magyar's leadership, TISZA secured 29% in Hungary's EU elections last June only three months after entering national politics, while support for the party is now estimated at 35-45%. Since Fidesz returned to power in 2010, no individual party was able to get anywhere near its level of popular support. Given the discrepancies between pro-government and independent pollsters, it is difficult to estimate accurately if Fidesz or TISZA is in the lead. What remains clear is that the 2025 performance of these two parties will define the results of Hungary's April 2026 parliamentary election, with both parties expected to engage in permanent campaigning throughout the year. Recently, Magyar has also called for snap parliamentary elections over Fidesz's allegedly shrinking popularity, however the ruling bloc was quick to dismiss the idea.

Led by Prime Minister Donald Tusk, Poland's ruling coalition, which consists of the Tusk-led Civic Coalition (KO), the centrist-agrarian Third Way alliance and the left-wing Lewica bloc, has so far proved stable despite their massive ideological divides and recurring policy disagreements. The Tusk Government entered into office in December 2023 after the three blocs scored a combined victory against the national-conservative Law and Justice Party (PiS), ending eight years of PiS rule in October 2023.

Following years of rivalry at the polls, KO slightly overtook the national-conservative PiS in last June's EU elections in terms of popular support, securing 37.1% against 36.2% for PiS. While the general outlook on the government is stable, coalition fractures may emerge along ideological issues or following Poland's upcoming presidential elections in May/June. At the same time, their opposition to PiS' return to power will likely keep (most of) the coalition together for the legislative term.

While political instability remains a central theme, economic challenges such as inflation, energy security concerns, and regulatory shifts will also significantly impact businesses operating in the region. The interplay between political uncertainties and economic pressures will shape the operational landscape for businesses. Accordingly, investors across the wider CEE region must prepare for a volatile environment marked by fluctuating markets, evolving fiscal policies, and global supply chain disruptions.

3 **RUSSIAN INTERFERENCE & POSSIBLE ELECTION MEDDLING**

According to reports, Central & Eastern Europe became an increased target of malign Russian influencing efforts in 2024. These efforts allegedly targeted Romania's presidential election last November, Moldova's presidential election and referendum on EU membership last October/November and Georgia's parliamentary election last October.

On December 6, 2024, the Constitutional Court of Romania (CCR) unanimously decided to annul the results of the first round of the presidential election over suspected election fraud and Russian interference, cancelling the second round scheduled for December 8. The CCR's decision came after declassified secret service files alleging that ultranationalist presidential candidate Călin Georgescu, a previously almost unknown political figure who scored a shock victory in the first round with 23%, was aided by a large-scale online interference campaign on social media, most likely with Russian involvement. The decision, which remains widely debated, meant that the country's presidential election will be entirely repeated in early 2025. The situation is an historic first for Romania, which has brought massive political uncertainty and has the potential to plunge the country into a political crisis amidst increasing polarization, with the allegations of interference still under investigation. Furthermore, it also came as support for nationalist and Eurosceptic formations more than tripled during last December's parliamentary election.

Moldova's pro-European President Maia Sandu comfortably won the second round of the presidential elections, securing 55.3% of the popular vote against 44.7% for her main challenger, Alexandr Stoianoglo, the candidate of the Russia-friendly Party of Socialists. Despite an initially close race, Sandu's victory was eventually confirmed. However, as in the case of the first round of the presidential election, the second was also overshadowed by alleged Russian interference aimed at tipping the result in favour of Stoianoglo.

Moldovan security officials said the country was targeted by a large-scale election interference campaign from Russia – also the continuation of a meddling attempt seen during the first round of the vote. In addition to a series of cyberattacks against the electoral system, Moldovans were illegally transported from the country's breakaway and Russian-controlled Transnistria region to cast their votes in government-controlled territory.

This comes after pro-Kremlin operatives and Ilan Şor, a fugitive pro-Russian Moldovan billionaire, were accused of orchestrating a \$15 million vote-buying scheme, targeting hundreds of thousands of Moldovans. Previous allegations against the Kremlin also included financial support to pro-Russian political actors, launching disinformation campaigns and meddling in the vote at the local level.

Held last October, Georgia's parliamentary election was also marred by allegations of Russian interference (in addition to widespread election fraud). Officially, the ruling Georgian Dream party (GD) of billionaire ex-Prime Minister Bidzina Ivanishvili won the elections, securing more than 54% of the popular vote, while four other predominantly pro-EU formations, which aimed to put an end to 12 years of GD rule, scored a combined 37.6%. This was well below what was predicted by independent pollsters and exit polls.

Following widespread allegations of large-scale voter fraud, voter intimidation and Russian interference, the pro-EU opposition unanimously rejected the results of the parliamentary election, decided not to take up their seats in parliament and refused to recognize the results of the country's indirect presidential election last December, with a series of mass protests that have followed. Supported by Georgian President Salome Zurbishvili, who has since become the informal leader of the pro-EU opposition, protesters have been demanding a re-run parliamentary election and investigations against voter fraud. Zurbishvili's tenure expired at the end of 2024, however she refused to step down until new elections are held. Mass protests have accelerated after the ruling GD announced that it will "suspend" the country's EU integration until 2028. Meanwhile, GD founder Bidzina Ivanishvili has been sanctioned by the US for the violent repression of protesters and the opposition. At the time of writing, Georgia's political future remains widely uncertain.

Though Russia denies the allegations of election interference, several upcoming electoral contests throughout CEE could prove to be further targets for outside influence, given their capacity to shape the region. In addition to Romania's re-run presidential election, Poland's presidential election, as well as the upcoming parliamentary elections in the Czech Republic and Moldova, these include the next snap parliamentary election in Bulgaria and any upcoming electoral contest in Ukraine. Most countries are expected to step up national security efforts, including Poland, which recently moved to classify two private national broadcasters as companies of strategic importance to prevent them from Russian-linked takeover attempts. Furthermore, Russia will also put pressure on Moldova on the energy front (to derail the country's EU trajectory) after Russian gas exports through Soviet-era pipelines stopped on January 1 following Ukraine's decision not to renew the transit agreement.

To safeguard operations, businesses are advised to invest in robust cybersecurity measures and collaborate with trusted local partners to identify and mitigate risks of disinformation campaigns or regulatory hurdles influenced by interference. Proactively engaging with government and civil society can also help build resilience against these threats.



KEY ELECTIONS AHEAD

The 2025 election year in Central & Eastern Europe will kick off with the second round of Croatia's presidential elections and an unscheduled presidential election in Romania after the country's Constitutional Court (CCR) annulled the results of the first round of last November's presidential election over alleged Russian interference.

After winning the first round with nearly 50% of the popular vote, incumbent left-wing populist President Zoran Milanović is poised to be re-elected for a second term. Accordingly, the country's domestic politics will continue to be defined by the rivalry between the populist Milanović and the centre-right Croatian Democratic Union (HDZ) of Prime Minister Andrej Plenković. Despite winning last year's parliamentary elections with nearly 35% support, support for HDZ has been dropping and is likely to continue to fall in 2025, with Croatian voters likely to look for new political alternatives.

Expected to be held in the first half of 2025, Romania's re-run presidential election will likely see a clash between ultranationalist candidate Călin Georgescu (or another far-right candidate if he is prevented from running over the multiple investigations he is facing) and the pro-EU unity candidate of the establishment parties. At the time of writing, the outcome of the race is widely uncertain: the CCR's decision to annul the November 2024 election results remains widely debated, allowing the far-right to claim that the election was "stolen". In turn, a re-run election could further unite the country's ideologically diverse but pro-EU ruling (and opposition) parties that may be able to tackle the far-right challenge.

Also in early 2025, Bulgaria may hold its seventh snap election since the inconclusive April 2021 parliamentary election, with none of the subsequent elections producing a stable coalition government. Held in October 2024, the latest election resulted in yet another hung parliament (with eight parties), followed by a failure between the country's establishment parties to agree on a government due to political disagreements. Unless an agreement is reached between former Prime Minister Boyko Borissov's centre-right GERB-SDS and the rest of the establishment parties, the country will continue to be governed by caretaker governments, relying on occasional majorities in parliament. Aretera also assumes that the longer this unwanted snap election cycle lasts, the more likely it is that support for pro-Russian and nationalist parties will grow.

Expected in mid-2025, Poland's upcoming presidential election is one of the most anticipated national electoral contests in Europe this year. The country's two main political formations – Prime Minister Donald Tusk's senior ruling Civic Coalition (KO) and the lead opposition Law and Justice party (PiS) – have already confirmed their candidates for the presidential race.

Following a primary election among KO members, Warsaw Mayor Rafał Trzaskowski defeated Foreign Minister Radosław Sikorski by securing an overwhelming 74.5%. The lead opposition PiS was quick to react, announcing their support for Karol Nawrocki, a state institute historian, a political newcomer, and (nominally) an independent. Additional candidates in the race so far include Szymon Hołownia, the speaker of the lower house, Magdalena Biejat, Deputy Marshal of the Senate (upper house) from the junior coalition Lewica, and Sławomir Mentzen, leader of the right-wing opposition and economic libertarian Confederation, as well as Marek Jakubiak, a former PiS-linked MP.

The upcoming presidential election comes more than a year after three electoral alliances (the Tusk-led KO, the centrist-liberal Third Way and the left-wing Lewica) scored a combined victory against the PiS-led United Right alliance. Accordingly, the contest holds huge significance as the President – in addition to representing Poland abroad and holding the right to initiate legislation – has extensive veto powers. Poland's outgoing President Andrzej Duda – a key PiS ally – has vetoed several pieces of legislation endorsed by the incumbent ruling coalition, including a proposed judicial reform, which remains a central part of the Tusk Government's agenda for the current legislative term.

Accordingly, a PiS victory in the presidential elections could extend the protracted battles between parliament and the presidential office, with Nawrocki likely to extensively exercise his presidential veto powers if elected as head of state. Conversely, a KO win could ensure a smoother legislative process until the end of the current parliamentary term. Overall, the future of several policy proposals depends on the outcome of this crucial electoral contest.

2025 will see two additional and similarly crucial electoral contests in the region with parliamentary elections in the Czech Republic and Moldova, both of which are expected in the second half of the year. While the Czech parliamentary election is widely seen as a contest between Prime Minister Petr Fiala's centre-right SPOLU coalition and the liberal-turned-populist ANO movement of opposition leader and former Prime Minister Andrej Babiš, the contest will feature several other political formations that could decide the outcome of the race as both SPOLU and ANO will likely be in the need of coalition partners. While ANO is currently leading in the polls, much will depend on the performance of smaller parties, particular that of ANO's potential allies.

Held in 2021, the last (snap) parliamentary election in Moldova resulted in a decisive victory for the pro-EU and centrist Party of Action and Solidarity (PAS), which now has a nearly two-thirds majority in the Moldovan parliament. However, popular support for PAS has likely decreased in recent years due to rising inflation, a cost-of-living crisis, the aftermath of the COVID-19 crisis and the economic impact of Russia's war against Ukraine. While Moldova's pro-EU President Maia Sandu and the ruling PAS have secured major victories in bringing the country closer to the EU in recent years, the outcome of the parliamentary election will likely come down to domestic issues.

For the 2025 election calendar, the main question is whether Ukraine, which has been prevented from holding presidential and parliamentary elections due to Russia's ongoing invasion, will hold any election this year. With incoming US President Donald Trump expected to push for a ceasefire between Moscow and Kyiv, chances for organizing parliamentary or presidential elections have somewhat increased. However, Ukraine is highly unlikely to accept a ceasefire deal that compromises its sovereignty, and no election can be held under the country's martial law that has been in place due to Russia's ongoing aggression. [See Page 34 for our full Election Calendar for 2025.](#)

With the upcoming elections likely to result in leadership changes, businesses should prepare to adapt to shifting policy priorities. Early engagement with new public stakeholders and alignment with evolving regulatory requirements will be crucial to maintaining stability and influence.



Southeast Europe & Türkiye





EXECUTIVE SUMMARY

For Türkiye, 2025 will bring a combination of challenges and opportunities. Under a second Trump Presidency, bilateral relations may come under strain over the US-Israel alliance, Türkiye's role in reshaping Syria, as well as its trade with Russia and China. Ankara's interest in becoming a partner country to BRICS may be interpreted by the West as a signal of Türkiye's pivot towards alternative alliances, to which the West may respond by offering incentives for recommitment to the Transatlantic community. Regional migration will present key challenges, particularly in view of the recent regime change in Syria. Domestically, inflation will remain a significant issue, while domestic politics will be dominated by efforts of the ruling Justice and Development Party (AKP) to amend the constitution and the possibility of a renewed peace process with the Kurdish community.

Greece moves into 2025 with a high degree of confidence and a reassuring level of political stability. Following the straightforward passing of the state budget through parliament at the end of 2024, the government of Prime Minister Kyriakos Mitsotakis seems to be well on the way to achieving the majority of its key objectives on crucial fronts such as inflation and unemployment. Despite a relative degree of loss in popularity since the 2023 snap parliamentary election, the ruling New Democracy party still enjoys a comfortable lead over opposition parties. In 2025, Greece is expected to have the fourth highest primary surplus of the entire EU, an overall deficit approaching zero and the fastest rate of public debt reduction among the 27 EU member states. Projections on foreign investments and tourism are equally optimistic, especially after the latter achieved a new record in 2024.

For the Western Balkans, 2025 is shaping up as a year of high stakes and transformative potential. As described in Aretera's 2024 forecast, the region continues to grapple with political volatility, as well as economic opportunities and challenges to the EU integration process. Bosnia and Herzegovina faces increased international attention, with Republika Srpska's leadership under mounting pressure from growing sanctions and domestic tensions. In Serbia, a year defined by tragedy, widespread student protests and increased polarization has pushed the country into a political crisis, heightening the possibility of snap elections. In North Macedonia, further progress in EU accession remains dependent on resolving the bilateral dispute with Bulgaria. Kosovo's position remains unique in the region, shaped by the complex interplay between international support and regional security dynamics. Meanwhile, Montenegro and Albania lead the EU accession race, achieving milestones that demonstrate their commitment to reform and regional stability, all the while navigating internal political challenges.

Adding to these dynamics, Donald Trump's return as US President introduces fresh geopolitical considerations. Early signals suggest his administration may take a more active role in the Balkans than the Biden administration, intensifying US involvement in resolving disputes and reshaping regional alignments. European Commission President Ursula von der Leyen has also reaffirmed her commitment to the region's EU integration, emphasizing the importance of structural reforms and deeper economic connectivity with the European bloc.

Overall, 2025 represents a critical juncture for the Western Balkans. Political transitions, economic projects and international dynamics converge to shape a region at a crossroads.

Albania's and Montenegro's EU-oriented focus exemplify the opportunities for transformation, while Bosnia's fragmentation and North Macedonia's EU-related frustrations underscore persistent risks. Political tensions in Serbia and security concerns in Kosovo further demonstrate how fragile regional stability remains. The interplay of US and EU strategies, alongside domestic developments, will determine whether the region can navigate these challenges to achieve long-term stability and prosperity.

Looking ahead, the Western Balkans face both opportunities and risks. The EU's enhanced engagement through its Growth Plan for the region provides new tools for supporting reforms, though implementation challenges persist. Political tensions continue to shape regional dynamics against the backdrop of intersecting international influences. Managing these developments while advancing strategic objectives will define the region's development path through 2025 and beyond.

4 A COMBINATION OF CHALLENGES FACING TÜRKIYE

In 2025, Türkiye will have to navigate a challenging international political and security environment. Donald Trump's return to the White House is expected to bring a nuanced shift in US-Türkiye relations, offering both opportunities and challenges. While Turkish President Recep Tayyip Erdoğan has often shown an adeptness at leveraging personal diplomacy, fundamental differences in strategic priorities will likely persist. Issues surrounding the US-Israel alliance, Türkiye's role in reshaping Syria, as well as its trade with Russia and China will come to the forefront depending on Türkiye's national interests and the positions it takes in international diplomacy. Washington's unwavering support for Israel could lead to bilateral tension, especially if Türkiye continues to assert its influence in regional conflicts or supports initiatives to counter US and Israeli positions. Similarly, Türkiye's trade relations with Russia and China—key pillars of its diversified foreign policy—could become points of contention as the US pushes for stricter alignment with Western economic frameworks and sanctions regimes.

Türkiye's increasing engagement with BRICS and its potential partner country status in the bloc mark significant developments in its global positioning. While full membership remains a question mark for Türkiye as a NATO ally, attaining partner country status could enhance access to BRICS-driven initiatives such as development financing, trade partnerships and collaborative efforts in technology and energy. This status would serve as a strategic stepping stone, allowing Türkiye to strengthen its ties with emerging economies while maintaining a degree of flexibility in its relationship with the West. Western nations, particularly the US, are likely to closely monitor Türkiye's growing involvement with BRICS, interpreting it as a signal of Ankara's pivot towards alternative global alliances.

In response, the US and its allies may intensify their efforts to incentivize Türkiye to reaffirm its commitment to NATO and the Transatlantic alliance, potentially offering enhanced economic cooperation, defence support or compromises on contentious regional issues. For Türkiye, this partnership presents an opportunity to showcase its commitment to a multipolar foreign policy without fully severing its historical ties with the West.

In parallel, the BRICS partnership could also boost Türkiye's global standing, but it may strain ties with NATO allies, forcing President Erdoğan into a delicate balancing act. To sustain this, Türkiye's leadership will likely tread cautiously, ensuring that its engagement with BRICS does not undermine its strategic goals with Western partners or exacerbate domestic political challenges.

For Ankara, regional migration will present further challenges. During recent discussions between President Erdoğan and European Commission President Ursula von der Leyen, the sides emphasized Türkiye's crucial role in managing migration flows to Europe and the EU's commitment to providing financial support to sustain these efforts. As part of the talks, the EU proposed a revised financial package for Türkiye, aimed at supporting refugee integration programs and strengthening border security infrastructure. This outcome highlights Ankara's strategic importance as a key partner in addressing migration challenges and its ability to collaborate effectively with the EU on shared priorities. Additional EU funding has the potential to alleviate some of the economic pressures associated with hosting millions of refugees, creating opportunities for further investment in social and infrastructure projects. Domestically, ensuring that this agreement is seen as a step towards enhancing national stability and economic resilience will be crucial. Balancing the expectations of international partners with the concerns of local communities will require careful communication and alignment with broader policy objectives.

Adding another layer to this dynamic is the situation in Syria, where the rapid emergence of a new regime has sparked fresh discussions on the future of refugees. Following this development, President Erdoğan reiterated his commitment to voluntary returns, emphasizing Türkiye's support for creating safe and stable conditions in Syria to facilitate this process. Erdoğan's statements have reinforced the government's stance that voluntary repatriation must align with international norms while addressing the security and humanitarian needs of those returning. This approach not only underscores Türkiye's proactive role in the region but also positions it as a key player in shaping the post-conflict reconstruction of Syria. In the broader context, Türkiye's approach to managing migration and fostering constructive engagement with the EU will remain significant factors in its international relations in 2025, reinforcing Türkiye's role as a vital actor in regional and global diplomacy.

Domestically, Türkiye is expected to maintain tight monetary policies in 2025, aiming to reduce inflation, ensure fiscal discipline and implement structural reforms. However, inflation is likely to remain in double digits due to global economic conditions, domestic demand dynamics and policy challenges. In addition, the potential economic impact of the departure of Syrian immigrants from Türkiye may potentially add another layer of complexity. Balancing the impacts of monetary policies and migration dynamics will be essential to fostering economic resilience and stability.

In 2025, the country's political landscape is likely to be dominated by efforts to amend the constitution and the possibility of a renewed peace process. The ruling Justice and Development Party (AKP) is working to resolve ambiguities around presidential term limits to allow President Erdoğan to run for reelection, arguing that the current restriction does not apply under the Presidential Government System introduced in 2017. However, passing such an amendment requires 400 parliamentary votes, a threshold the AKP and its coalition partner, the Nationalist Movement Party (MHP), cannot meet on their own.

Accordingly, the Turkish government will face a series of challenges within the Kurdish peace process, advancing constitutional amendments and peace initiatives while avoiding the alienation of its core voter base or exacerbating political divisions.

Despite corresponding calls from the main opposition CHP, President Erdoğan is unlikely to consider early elections until achieving economic and political stability. In line with his recent statements, the President is expected to strengthen his political standing by positioning himself as a pivotal actor in shaping regional dynamics.

5 GREECE HEADS INTO 2025 WITH CONFIDENCE

Greece is going into 2025 with a high degree of confidence and a reassuring level of political stability. Following the straightforward passing of the state budget through parliament at the end of 2024, the government of Prime Minister Kyriakos Mitsotakis seems to be well on the way to achieving the majority of its key objectives on crucial fronts such as inflation and unemployment. Despite a relative degree of loss in popularity since the 2023 snap parliamentary election, the ruling New Democracy party still enjoys a comfortable lead over the country's opposition parties. In 2025, Greece is expected to have the fourth highest primary surplus of the entire EU, an overall deficit approaching zero and the fastest rate of public debt reduction among the 27 EU member states. Projections on foreign investments and tourism are equally optimistic, especially after the latter achieved a new record in 2024.

6 SERBIA'S DOMESTIC LANDSCAPE BECOMES INCREASINGLY VOLATILE

Serbia's domestic political landscape has become increasingly volatile, shaped by the convergence of infrastructure failures, environmental concerns, and strategic economic initiatives. The country is entering 2025 amid an ongoing political crisis, initiated by the November 1 collapse of the Novi Sad train station canopy, which left 15 dead and two heavily injured. The event has since evolved into a broader challenge to the ruling party's legitimacy, following mass student protests and widespread public support. Despite two ministerial resignations, the government has struggled to adequately address concerns raised by protesters, which has led to an increase in violent incidents, detainment of activists and rising social unrest. Looking ahead, these developments raise the possibility of snap elections in 2025, though the likelihood of this happening will heavily depend on the outcome of ongoing protests as well as tactics employed both by ruling and opposition parties.

These developments occur against the backdrop of Serbia's strategically significant but contentious lithium project, which embodies broader regional tensions between EU strategic partnership and domestic sovereignty concerns. The Jadar project, while potentially positioning Serbia as a crucial partner in EU autonomy efforts, has generated significant domestic resistance. Environmental concerns have merged with questions of resource sovereignty and development models, creating a complex political challenge that transcends simple economic considerations.

Expo 2027 preparations have become another focal point where domestic development priorities intersect with international ambitions. While the government presents this initiative as key to Serbia's modernization narrative and its flagship project, questions persist about resource allocation and governance transparency. The concurrent student protests and infrastructure challenges have complicated the government's ability to maintain public confidence in these large-scale projects.

7 A SERIES OF CHALLENGES TO TACKLE IN BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina enters 2025 facing significant political challenges, manifesting primarily through institutional dysfunction and government instability, with sanctions imposed by the US Department of Treasury, adding to the mounting pressures on Republika Srpska. Sanctions specifically targeting Republika Srpska President Milorad Dodik and his family have resulted in license-revoking by Western IT companies, leading to a turn towards Chinese players. This includes a contract for maintenance of the entire government IT infrastructure, raising concerns around security and data protection. Meanwhile, Dodik continues to test the boundaries of the Dayton framework through legislative and rhetorical challenges to state-level institutions. While this behavior has drawn expanded international sanctions and domestic criticism, it represents a continuation of long-standing patterns rather than an immediate threat to territorial integrity.

The situation in Banja Luka, where opposition leader Draško Stanivuković has emerged as a significant voice despite sharing some of Dodik's positions on entity autonomy, illustrates the complex dynamics within RS politics. The October 2024 local elections revealed growing support for nationalist parties across ethnic lines, complicating prospects for constitutional reform and state-level governance.

International actors, particularly the EU and US, maintain active engagement through both punitive measures and dialogue, working to preserve state functionality while pursuing gradual reforms. Germany's earlier suspension of infrastructure projects in RS and expanded US Treasury sanctions on Dodik's networks demonstrate the international community's willingness to apply targeted pressure. Looking ahead, wider geopolitical factors such as Donald Trump's new administration might lead to a less coherent Western presence and influence in 2025, given his appointments for Secretary of State (Marco Rubio) and Presidential Envoy for Special Missions (Richard Grenell).

8 NORTH MACEDONIA BALANCES BETWEEN SOVEREIGNTY & EU INTEGRATION

North Macedonia's political dynamics in 2025 reflect the broader regional challenge of balancing national sovereignty with international integration imperatives. Prime Minister Hristijan Mickoski's government has adopted a more nuanced approach to EU accession conditions, exemplified by the "French Proposal Plus" initiative. This strategy attempts to reconcile domestic political sensitivities with EU membership requirements, particularly regarding the recognition of the Bulgarian minority in the constitution.

The reconfiguration of ethnic Albanian political representation, marked by the unprecedented exclusion of the Albanian minority DUI party from government in favour of VLEN, another Albanian minority formation, has introduced a new dynamic into both domestic politics and regional ethnic relations. This shift occurs as international attention to potential destabilization risks increases, evidenced by enhanced US diplomatic engagement and monitoring of ethnic relations. The government's changes to national security institutions, while aimed at improving effectiveness, have raised questions about the balance between reform implementation and institutional independence. These developments mirror broader regional patterns where technical governance reforms intersect with sensitive questions of political control and accountability.

9 MONTENEGRO FACES SLOWING REFORM MOMENTUM

Montenegro's political landscape in 2025 presents a study in the limitations of technocratic governance models in the Western Balkans context. The Europe Now movement, despite initial success in economic reform, faces growing implementation challenges and declining popular support. Prime Minister Spajić's government must navigate between maintaining reform momentum and addressing emerging public scepticism about the pace and direction of changes. One of the most pressing issues related to political stability will be the resolution of the October 2024 local elections which resulted in none of the key coalition groups being able to form the local government in Podgorica. Since current President Jakov Milatović formally left Europe Now, the movement's support has been fragmented, and at the time of writing, it is unclear whether the ruling coalition will maintain control in the capital or will face re-election early in 2025. If the political crisis unfolds further, there are strong possibilities that the country could head to snap elections that will be an ultimate test to Spajić's popularity.

10 A DELICATE SECURITY SITUATION IN KOSOVO

Kosovo's political environment in 2025 continues to be shaped by the complex interplay between domestic governance challenges and regional security dynamics. Prime Minister Albin Kurti's government faces mounting pressure to deliver on the EU-mediated Ohrid Agreement commitments, particularly regarding the Association of Serb-majority Municipalities (ASM). The successful implementation of visa liberalization has introduced new socioeconomic dynamics, though early indicators suggest significant workforce mobility impacts. The security situation, particularly in northern Kosovo, remains delicate following the aftermath of the Banjska incident.

Enhanced international security presence and heightened scrutiny of cross-border movements have stabilized immediate tensions, though fundamental challenges persist. The Central Bank of Kosovo's directive on currency usage has introduced additional complexity to Serbian-Kosovar relations, particularly affecting the economic status of northern Kosovo's Serbian population. Looking ahead, the upcoming parliamentary elections scheduled for February 9, 2025 will be a major test for Kurti's leadership, further challenged by declining international support - especially in light of Trump's new term.



11

ALBANIAN GOVERNMENT TO FACE MAJOR TEST AT THE POLLS

Albania maintains its position as a relative bright spot in regional EU integration efforts, though domestic political tensions persist. Prime Minister Edi Rama's government has leveraged its reform momentum to advance accession negotiations, particularly in justice sector reform and anti-corruption measures. As an example, the prosecution of former high-ranking officials, including former Prime Minister Berisha, has intensified political polarization, though Berisha's house arrest has recently been lifted. Parliamentary elections to be held on May 11, 2025 will be a key test for the government's reform agenda. Parliamentary boycotts and opposition protests present challenges to this election cycle and governance stability overall, reflecting broader regional patterns where technical reform achievements collide with deeply entrenched political dynamics.

Another important development will be the continued realization of the Italy-Albania migration agreement, which would see up to 3,000 men intercepted in international waters while crossing from Africa to Europe accommodated in facilities in Albania. Though supported by the European Commission, the agreement has faced stiff resistance and is currently being assessed by Italian courts and the European Court of Justice.



EU INTEGRATION IN THE WESTERN BALKANS: STATE-OF-PLAY

The European Union's enlargement agenda continues to drive transformative developments across the Western Balkans, though progress varies significantly by country. European Commissioner for Enlargement Marta Kos and EU Commission President Ursula von der Leyen have placed renewed focus on the region, aligning their priorities with the EU Growth Plan's €6 billion framework aimed at fostering institutional capacity, governance reforms, and economic convergence with EU standards.

Montenegro retains its position as the frontrunner in EU accession, despite domestic challenges under the Europe Now-led government. Prime Minister Milojkó Spajić's ambitious reform agenda has shown mixed results, with success in financial sector modernization offset by implementation challenges in other areas. The successful implementation of SEPA and progress in closing additional negotiation chapters have solidified Montenegro's trajectory, even as questions emerge about the sustainability of its reform momentum. Albania has also made remarkable progress, building on its successful opening of the first EU accession cluster. Prime Minister Rama's government has demonstrated commitment to anti-corruption measures and judicial reform, though opposition protests and parliamentary boycotts present ongoing challenges to governance stability.

Bosnia and Herzegovina's EU accession path exemplifies the complex interplay between formal progress and practical implementation challenges. While the European Council's decision to open accession negotiations marked a significant milestone, the country's internal dynamics continue to impede meaningful advancement. The EU's €6 billion Western Balkans Growth Plan has become a telling indicator of these challenges: Bosnia stands as the only Western Balkans state likely to miss the first tranche of funding, due to challenges in achieving internal consensus on reform priorities.

This situation points to a pattern, observed across the region in different aspects, where formal advancement in EU integration collides with domestic political realities.

Serbia's EU trajectory has become increasingly entangled with broader geopolitical considerations, particularly regarding strategic resources and economic sovereignty. The Jadar lithium project represents more than simple economic modernization - it positions Serbia as a potential key player in the EU's strategic autonomy initiatives, particularly in reducing critical mineral dependence on China. However, this geopolitical opportunity has generated significant domestic resistance, with environmental concerns and questions of resource sovereignty galvanizing public opposition. The government's handling of this tension between strategic opportunity and domestic legitimacy will likely influence both Serbia's EU integration path and its broader international positioning. At the turn of the year, the failure to reach a consensus on opening Cluster 3 within the accession negotiations further complicated the country's accession path, with repeated calls for Serbia to align with the EU's Common Foreign and Security Policy. Additionally, rule of law and relations with Kosovo remain among primary concerns in this regard.

North Macedonia's EU accession trajectory exemplifies the growing complexity of the enlargement process in 2025. The country's integration challenges have evolved beyond purely technical criteria, as bilateral demands increasingly dominate the accession agenda. Having already made significant concessions through the Prespa Agreement with Greece and facing continued pressure over Bulgarian cultural and historical claims, North Macedonia's experience has become emblematic of how bilateral issues can overtake the standard integration process. The country's proposal to implement constitutional changes with delayed legal effect - taking force only upon EU accession - reflects this complex dynamic. Prime Minister Hristijan Mickoski's characterization of certain EU demands as "humiliating" resonates with growing regional concern about how bilateral requirements, rather than standard accession criteria, have come to define the integration pathway.

Kosovo's European path in 2025 represents a distinct case within the region's integration landscape. While visa liberalization implementation since January 2024 marks a significant milestone in Kosovo-EU relations, the country's broader integration prospects remain constrained by both internal challenges and external obstacles. The EU's Growth Plan has provided new opportunities for economic alignment, though Kosovo's ability to fully capitalize on these initiatives continues to be affected by its complex status dynamics. The country's unique position - recognized by most but not all EU member states - continues to create practical complications for the integration process. While Kosovo participates in the Berlin Process and benefits from EU financial instruments, the absence of formal candidate status requires creative approaches to advancement along the European path.

GEOPOLITICAL CONSIDERATIONS IN THE WESTERN BALKANS

The Western Balkans in 2025 faces a complex international environment characterized by evolving great power dynamics. The return of the Trump administration has introduced new variables into regional security calculations, particularly regarding NATO enlargement and Kosovo-Serbia dialogue. This shift occurs as the EU seeks to strengthen its regional presence through enhanced economic engagement and strategic partnerships.

Russia's influence, while diminished by sanctions and regional realignment toward the EU, maintains relevance through energy dependencies and political relationships, particularly in Serbia and Republika Srpska. However, the effectiveness of these relationships has been constrained by broader international isolation and the region's gradual economic reorientation toward EU markets. Chinese engagement continues primarily through infrastructure financing and technology partnerships, though with increasing scrutiny from both EU institutions and domestic stakeholders. The EU's strategic autonomy agenda, exemplified by critical minerals initiatives like Serbia's lithium project, represents a direct attempt to reduce Chinese economic influence in strategic sectors.

EU GROWTH PLAN FOR THE WESTERN BALKANS

The EU Growth Plan for the Western Balkans, a comprehensive initiative designed to accelerate socio-economic convergence with the European Union, opens access to select EU membership benefits prior to full accession. This initiative is implemented through the Reform and Growth Facility for the Western Balkans, a €6 billion financing mechanism dependent on implementing specific reforms outlined in the governments' respective Reform Agendas.

The Growth Plan is based on 4 pillars:

- **Enhancing economic integration with the EU's Single Market**
- **Boosting economic integration within the Western Balkans through the Common Regional Market**
- **Accelerating fundamental reforms**
- **Increased financial assistance**

APRIL 4, 2024

The European Parliament and the Council of the EU agree to set up the Reform and Growth Facility for the Western Balkans.

OCTOBER 23, 2024

The European Commission approves Reform Agendas of Albania, Kosovo, Montenegro, North Macedonia and Serbia; Bosnia and Herzegovina remains the only country not to have the first tranche of the designated funds approved, but is still invited by the European Commission to submit its Reform Agenda.

LOOKING AHEAD

Western Balkans governments will receive payments twice a year until 2027, following their requests and the European Commission's verification across three sets of conditions (democratic, macro-financial, payment).

NOVEMBER 8, 2023

The European Commission adopts the Growth Plan for the Western Balkans.

MAY 25, 2024

The Reform and Growth Facility for the Western Balkans enters into force, covering the period from 2024 to 2027 and making €6 billion available to the region: €2 billion in grants and €4 billion in loans.

NEXT STEPS

The European Commission will establish loan and facility agreements with each beneficiary with an approved Reform Agenda, after which they can request pre-financing of up to 7% of their total Facility allocation.

If a government does not progress on agreed reforms, it has one year (two during the first year) to make up for the delay, after which funds are transferred to other beneficiaries, providing additional incentives to ensure timely progress.



KEY FIGURES TO FOLLOW IN CEE/SEE

Below is a non-exclusive list of public figures in CEE/SEE with the potential to shape national or regional politics in 2025 and beyond.



Donald Tusk, Prime Minister, Poland

- With Donald Trump in the White House and political turmoil in France and Germany, Tusk will likely emerge as a leading European figure, with a focus on Ukraine and regional security.



Călin Georgescu, ultranationalist candidate for President, Romania

- Georgescu won 23% in the first round of the presidential election last November but the vote was cancelled by the Constitutional Court over alleged foreign interference and election fraud.
- George Simion, the leader of the main opposition AUR endorsed Georgescu and said he will only run for President if Georgescu is prevented from entering the re-run election.



Andrej Babiš, opposition leader, Czech Republic

- Babiš aims to return as Prime Minister in the next Czech parliamentary elections.
- His opposition ANO movement is leading in the polls but will likely need coalition partners.



Viktor Orbán, Prime Minister, Hungary

- The Hungarian PM is likely to be the top EU beneficiary of Donald Trump's re-election.
- Trump seeks advice from Orbán as he aims for ceasefire talks between Kyiv and Moscow.



Péter Magyar, opposition leader, Hungary

- Magyar drastically reshaped Hungarian public life only a few months after entering politics.
- His TISZA party has emerged as a strong competitor of the ruling Fidesz-KDNP alliance.



Kaja Kallas, High Representative for Foreign Affairs and Security Policy, EU

- The former Estonian PM recently became the EU's new foreign policy chief.
- She will play a key role in shaping the EU foreign policy and security agenda in the Trump era.



Miloško Spajić, Prime Minister, Montenegro

- Spajić became Montenegro's PM following a three-decade long rule by Milo Đukanović.
- Now, he is facing a slowing reform momentum and growing public distrust.

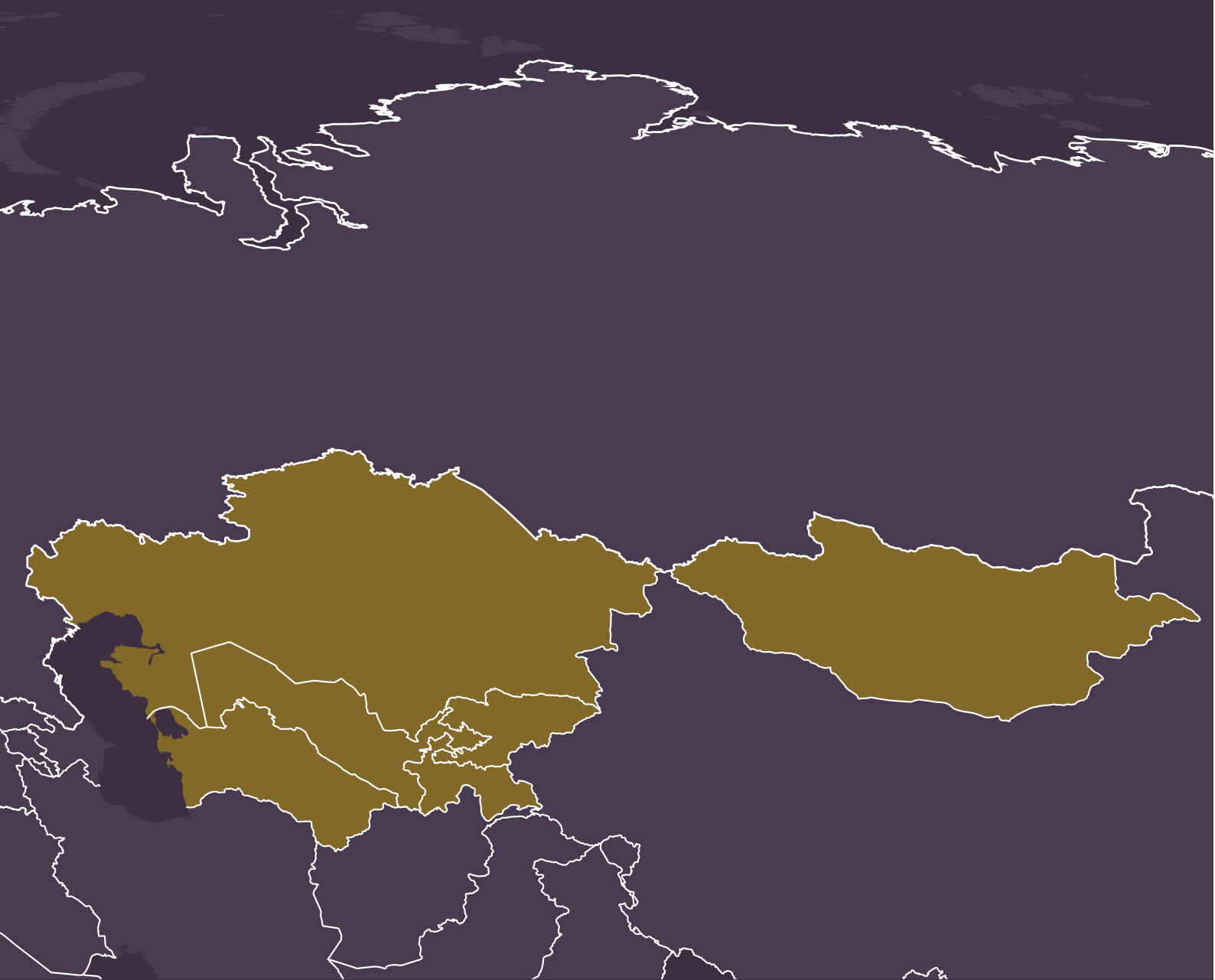


Robert Fico, Prime Minister, Slovakia

- The Slovak PM has become another prominent populist-nationalist voice in EU politics.
- His governing coalition is increasingly unstable, with Slovakia at the risk of snap elections.



Central Asia & Mongolia





EXECUTIVE SUMMARY

Central Asian countries are striving to maintain balanced relations with the West, China and Russia simultaneously. While these nations have not openly condemned Russia's invasion of Ukraine, some leaders have expressed respect for Ukraine's territorial integrity.

In recent years, Central Asia has increasingly attracted attention from China, Russia, Europe and the United States. In July 2024, the G7 countries expressed their intention to invest \$200 billion in infrastructure development in the region. Furthermore, meetings in the C5+1 format have become more frequent, reflecting the growing interest of global powers in Central Asia. Over ten joint statements have been issued between the US and Central Asian nations within this framework, which signals growing interest, although both sides are yet to follow up with exact steps to strengthen bilateral ties.

Geopolitical tensions between the West, Russia and China have the potential to disrupt global supply chains, financial markets, security dynamics and political stability in Central Asia. In particular, new geopolitical shocks could cause resource supply difficulties, drive up inflation, and hinder the region's economic growth. In this context of uncertainty, the recent election of Donald Trump has added to the unpredictability of US foreign policy towards Central Asia. The resignation of US Ambassador to Kazakhstan David Rosenblum further underscores the lack of clarity regarding the future direction of US strategy in the region and raises questions about who will shape and implement that policy.

The economic crisis has amplified calls for political change in Kazakhstan. Observers predict a complete government reshuffle in early 2025 as the current administration struggles to address growing socio-economic grievances. To mitigate the escalating political crisis, there is widespread anticipation of a constitutional reform that may lead to the merger of the lower and upper houses of parliament, as well as transitioning from a super-presidential system to a semi-presidential or parliamentary-presidential model. Such reforms would likely be accompanied by new parliamentary elections, aimed at restoring public confidence and addressing the demands for systemic change. In addition, Astana – in an attempt to democratize the local governance system – is also preparing for local elections, while Tajikistan is scheduled to hold parliamentary elections in March.

In 2025, the key risks facing Central Asia and Mongolia include Russia's push to strengthen influence through energy and logistics in Central Asian countries, declining energy production, a regional struggle in Central Asia for water resources, as well as Mongolia's energy and transport dependence on Russia. Kazakhstan and Uzbekistan are already experiencing an acute shortage of electricity and are taking steps to diversify energy sources and modernize existing facilities. The situation is similarly challenging in two other republics of the region, Kyrgyzstan and Tajikistan. Central Asian countries are also considering a return to a common energy market, while a decline in regional energy production is an additional risk. Kazakhstan's oil production has decreased from 95.4 million tons to 90.3 million tons due to the postponement of the Tengiz field expansion project until 2025, while Uzbekistan, the third-largest producer of natural gas in Eurasia after Russia and Turkmenistan, has been forced to reduce gas exports due to growing domestic consumption and declining production.

The region faces a serious water crisis that threatens not only economic development but also the lives of millions. Water use in Central Asia is characterized by alarmingly low efficiency, with a significant portion of the region's water allocated to agriculture. Given the region consumes more water per capita and for every dollar of GDP than any other part of the world, the inefficiency continues to stifle progress. In addition, low air quality continues to be another serious ecological issue to tackle, with Kazakhstan and Kyrgyzstan still actively using coal.

As for Mongolia, the country's engineering and transport infrastructure remains underdeveloped and in poor condition, leading to significant economic dependence on its two neighboring countries, China and Russia. Given the growing economic influence of Russia and China on Mongolia, the country's foreign policy concept is to seek a "third neighbor". However, relations with countries such as South Korea, the United States, Japan and others will likely face limitations.

12 **RUSSIA'S PUSH TO STRENGTHEN INFLUENCE THROUGH ENERGY AND LOGISTICS**

The two largest economies of Central Asia, Kazakhstan and Uzbekistan, are beginning to experience an acute shortage of electricity. In response, both countries are taking steps to diversify energy sources and modernize existing facilities. The situation is similarly challenging in two other republics of the region, Kyrgyzstan and Tajikistan. Despite their significant hydropower potential, much of it remains untapped, primarily due to outdated infrastructure and the adverse effects of climate change. On top of these challenges, electricity consumption in the region is forecasted to rise sharply by 2030. In Kazakhstan, consumption is projected to reach 136 billion kWh, a 21% increase from 2020. Uzbekistan's consumption is forecasted to reach 120.8 billion kWh, a 100% increase, while Kyrgyzstan's is expected to exceed 20 billion kWh, representing a 50% rise.

In the spring of 2024, the governments of Russia and Kazakhstan signed an agreement to build three thermal power plants (CHPs) in the Kazakh cities of Kokshetau, Semey, and Ust-Kamenogorsk. The preliminary cost of these three projects is estimated at \$2.8 billion. Simultaneously, Kazakhstan is working to reduce its dependence on electricity supplies from Russia and exploring opportunities to develop alternative energy sources. As part of this effort, Kazakhstan has secured loans totaling more than \$200 million from the European Bank for Reconstruction and Development, to connect the Western regions of the country to the Unified Energy System.

In response to declining hydrocarbon reserves and water shortages affecting hydroelectric power plants, Kazakhstan has been exploring the construction of nuclear power plants as part of its broader energy strategy. This initiative gained further momentum following a referendum held in October, in which over 70% of citizens voted in favour of building a nuclear power plant. Kazakhstan is now in talks with several international companies regarding plant construction, but Russia may be a preferred partner for the project due to historic ties.

Uzbekistan has also been actively studying the possibility of building a nuclear power plant since 2017. The plant would be located in the Jizzakh region and is expected to be commissioned by 2029. Originally, the plan called for a large-capacity plant ranging from 2,400 MW to 4,800 MW. However, in 2024, a contract was signed for the construction of a smaller, low-capacity plant (330 MW); the Russian company Rosatom is the main contractor for the project.

In addition, Russia has plans to sell natural gas to Central Asia, with Gazprom currently developing infrastructure to transport natural gas to Kyrgyzstan and Uzbekistan through Kazakhstan.

In 2023, at the Atomexpo forum in Sochi, representatives of Kyrgyzstan and Russia signed a technical specification for a preliminary justification of a low-power NPP construction project in Kyrgyzstan. As for Tajikistan, there are plans to build warehouse complexes with Class A and B+ facilities to store and distribute goods as its trade with Russia expands. Notably, over 94% of the trade turnover between the two countries consists of imports from Russia.

In the context of the growing energy crisis, the countries of the region are currently considering the possibility of returning to a common energy market, which would allow the stabilizing of local energy crises. To develop alternative energy sources, Uzbekistan, Kazakhstan and Azerbaijan plan to launch the Green Corridor project. The objective of this ambitious initiative is to produce green energy and export it to Europe, which is seeking to reduce its dependence on oil and gas (especially from Russia) by transitioning to renewable energy sources by 2050.

13 RISKS OF DECLINING ENERGY PRODUCTION

Central Asian markets are rich in various energy resources. Kazakhstan has significant oil reserves, while Turkmenistan and Uzbekistan are abundant in natural gas. However, in recent years, geopolitical tensions have led to transportation issues, reduced sales, and production cuts across the region.

Kazakhstan's oil production has decreased from 95.4 million tons to 90.3 million tons due to the postponement of the Tengiz field expansion project until 2025. As a result, the country has received less than \$2.7 billion in government revenue, which presents additional financial risks alongside ongoing budget deficits. The planned expansion of the Tengiz field in 2025 faces opposition from OPEC+, which is attempting to delay an increase in production quotas. If Kazakhstan is unable to meet the additional oil production target, it will have to cut output elsewhere to offset the growth at Tengiz. This is a crucial issue since Tengiz has the lowest production costs, making it highly profitable for the government.

Meanwhile, Uzbekistan, the third-largest producer of natural gas in Eurasia after Russia and Turkmenistan, is forced to reduce gas exports due to growing domestic consumption and declining production. Currently, Uzbekistan produces around 47 billion cubic meters of natural gas annually, with domestic consumption at around 42 billion cubic meters, leaving only about 10% available for export. This high level of domestic consumption is reducing the amount of gas available for export. In 2022, gas exports contributed \$1 billion to the national budget, or 12% of GDP, but this figure dropped to \$563 million, or 6.2% of GDP, in 2023. By 2025-2026, Uzbekistan may be forced to cease gas exports entirely, resulting in a significant decline in the country's foreign exchange earnings.

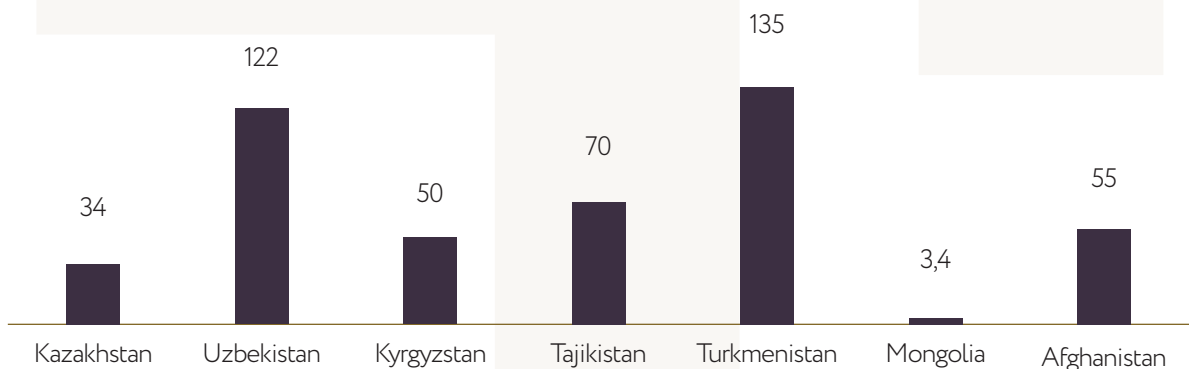
The challenge of gas shortage is acute for Uzbekistan, since 80% of electricity generation takes place at gas-fired thermal power plants and the development of the republic's gas chemical industry is in dire need of stable supplies of natural gas. Among its neighbors, only Russia and Turkmenistan can meet Uzbekistan's growing needs. At the same time, Turkmenistan's capabilities are limited due to high domestic consumption and commitments to supply raw materials to China.

14 A REGIONAL STRUGGLE FOR WATER RESOURCES

Central Asia is facing a serious water crisis which threatens not only economic development but also the lives of millions of people. A lack of fresh water, exacerbated by the impact of climate change and inefficient water management, presents significant challenges for the region's countries. Experts predict that Central Asia will enter a phase of chronic water scarcity by 2028. According to the World Bank, the level of water stress in Kazakhstan and Kyrgyzstan could exceed 80% by 2040. The consequences of this water scarcity will impact all sectors of the economy, with agriculture, manufacturing and housing among the most affected.

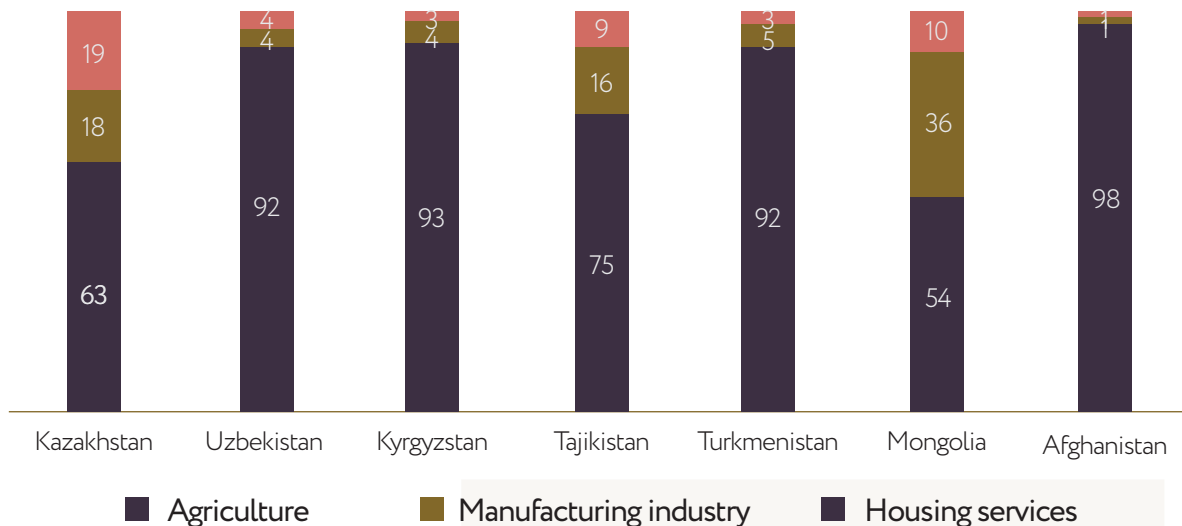
Water use in Central Asia is characterized by alarmingly low efficiency, with a significant portion of the region's water allocated to agriculture. This inefficiency is particularly striking as the region consumes more water per capita and for every dollar of GDP than any other part of the world. According to the UN, Central Asian countries are ranked among the highest in terms of water consumption, yet this consumption remains poorly managed, which continues to stifle progress.

In particular, a high level of water withdrawal is noted in Turkmenistan (135%) and Uzbekistan (122%). Turkmenistan also faces severe desertification, exacerbated by the dramatic shrinkage of the Aral Sea, which has declined by 90%. The situation is further worsened by the country's already limited vegetation. For comparison, Turkmenistan uses 43 times more water per dollar of GDP earned than Spain. Meanwhile, in Kazakhstan, losses during water transportation amount to over 3.4 billion cubic meters, representing 40% of transported water.



Freshwater withdrawal as a proportion of available freshwater resources in Central Asia, Afghanistan and Mongolia (in %). Source: UN

Given the risks of water scarcity and the need for agricultural development, Central Asian countries and Afghanistan are forming large water reserves, thereby deteriorating the ecosystem of the region. On average, Central Asian countries allocate more than 83% of their water to agriculture, compared to 98% in Afghanistan and 54% in Mongolia.



Water withdrawal by sector in Central Asia, Afghanistan and Mongolia (in %).

Source: UN

The construction of the Koshtepa Canal in Afghanistan, which began in March 2022, further exacerbates the water crisis in Central Asia. The canal is intended to irrigate 555,000 hectares of arid land in northern Afghanistan to grow wheat and sunflower. According to experts, the Koshtepa Canal will worsen the environmental disaster of the Aral Sea by diverting water from the Amu Darya River.

The water level in the Caspian Sea has been decreasing since 2006 and reached a critical level in 2022. Over the past 15 years, the water area of the Kazakh sector of the Caspian Sea has significantly decreased by 7.1 %. As a result, oil tankers are only loaded to 70% capacity. Since Kazakhstan transports about 2 million tons of oil per year, this underutilization of tankers significantly reduces the country's oil revenue.

Additionally, due to climate change, there is a growing threat to the operation of seaports in the Kazakh part of the Caspian Sea. In total, the sea is expected to shrink by another meter by 2030, complicating the process of transporting goods from China to Europe. This could therefore result in the failure to meet the target of increasing the capacity of the Trans-Caspian International Transport Route (TMTM) to 10 million tons annually by 2025, up from the current 6 million tons.

15 MONGOLIA'S ENERGY AND TRANSPORT DEPENDENCE ON RUSSIA

Mongolia's engineering and transport infrastructure is underdeveloped and in poor condition, creating significant economic dependence on its two neighboring countries, China and Russia. Mongolia's only railway is owned by Russia, which serves as a tool for increasing Russian imports to Mongolia. Currently, Russia is Mongolia's second-largest trading partner after China, but there is a significant trade imbalance between the two countries. Imports from Russia account for 95% of trade turnover, while only 5% consists of exports, primarily agricultural goods. High import dependence can be traced in the supply of electric energy, oil, refined products and other goods from Russia.

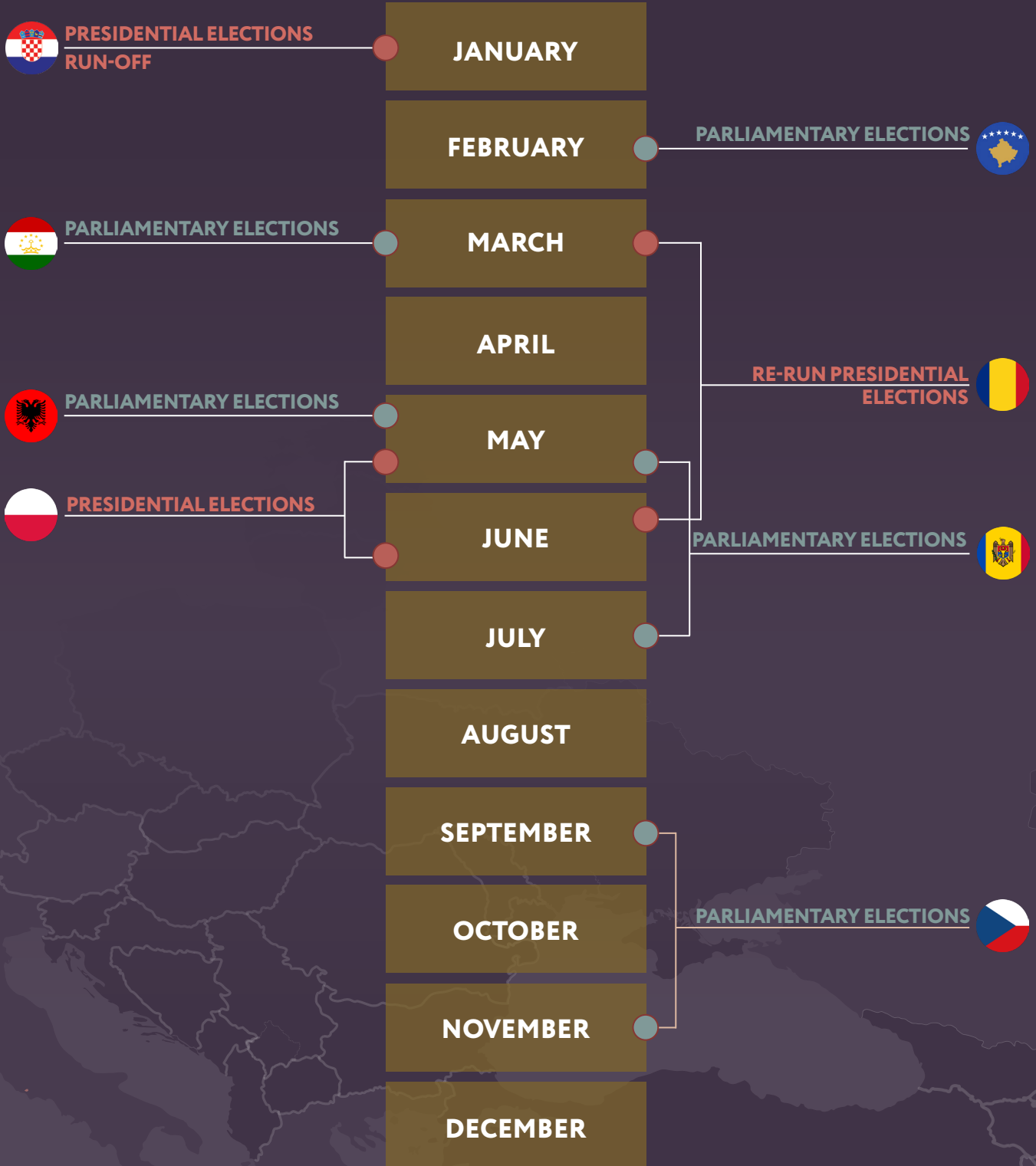
An additional challenge is the heavy depreciation of Mongolia's Central Energy System (CES), prompting the country to seek opportunities to develop its energy infrastructure. Negotiations are underway for the construction of a low-capacity nuclear power plant near New Karakorum, with an agreement to be potentially signed in 2025. Mongolia and Russia are also considering the construction of new facilities in the southern regions of the country, where mining activity is concentrated. These include two thermal power plants (Tavan-Tolgoi and Tsagaan-Tolgoi) with a combined capacity of over 1 GW, as well as the reconstruction of the capital's CHP-3.

Meanwhile, in March 2024, the Mongolian government announced an international tender for the layout of the new capital. They intend to move the capital of the country from Ulaanbaatar to the city of Kharkhorin – the ancient capital of Karakorum where Genghis Khan's headquarters were located. The new capital, designed for half a million people, will require a robust energy supply, for which there is currently no source suitable to meet the growing demand.

Regarding transport, Russia's ambitious plan for 2030 involves the construction of the Russia–Mongolia–China–Kazakhstan railway, which would enhance export potential between the key trading partners. Given the growing economic influence of Russia and China on Mongolia, the country's foreign policy concept requires a "third neighbor". However, relations with countries such as South Korea, the United States, Japan, and others will likely face limitations.



ELECTION CALENDAR FOR 2025



* Bulgaria, Kazakhstan, Kyrgyzstan, Lithuania, Montenegro, Serbia and Slovakia may hold snap parliamentary elections.

* Croatia, Estonia, Georgia, Latvia and North Macedonia will hold local elections, as well.

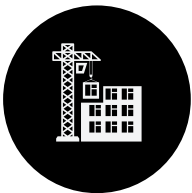


OPPORTUNITIES FOR INVESTORS



Poland's Presidency in the Council of the EU

Bolstering EU defence capabilities, resetting ties with the Trump White House and supporting war-torn Ukraine will be the top priorities for Warsaw, which also aims to prioritize the security dimension of several EU policy discussions in the first half of 2025. Expectations are high for Warsaw to deliver in a number of different policy areas, especially as its Council Presidency will coincide with the launch of the EU's new institutional cycle, providing Poland with a unique opportunity to deliver.



Ukraine's Recovery and Reconstruction

Economic development in Ukraine will directly depend on the outcome of potential peace/ceasefire talks. Although it remains to be seen whether it can be achieved, a ceasefire may provide impetus for starting reconstruction projects in sectors such as housing and social infrastructure (hospitals, schools), transport infrastructure (roads, ports, airports), industry and logistics. Ukraine will also focus on rebuilding its energy infrastructure towards a more decentralized one, which provides broad opportunities for suppliers of equipment and technologies, as well as on developing the domestic defence industry to decrease the country's dependence on external supplies.



Two New Countries in the EU's Schengen Area

The inclusion of Bulgaria and Romania in the EU's Schengen Area is an historically important development for the EU integration of these two countries, as well as for the EU as a whole. Although the decision was widely anticipated after checks at air and sea borders were dropped in early 2024, it comes with the condition of introducing checks at land borders between Hungary and Romania and between Romania and Bulgaria for at least six months to prevent any serious threat to public policy and internal security. The decision is expected to save Bulgarian and Romanian businesses and citizens hundreds of millions of Euros annually.



Potential New EU Markets in the Western Balkans

International investors should be on the lookout for opportunities in two key markets in the Western Balkans: Montenegro and Albania. Both are regional frontrunners for EU accession, with credible estimates that negotiations could be completed as early as 2026 for Montenegro and 2027 for Albania. In addition, both countries have strong reform agendas focused around digitalization and business climates favourable for international investment.



The Western Balkans & The EU's Digital Europe Program

The Western Balkans' association with the EU's Digital Europe Program and the planned establishment of six European Digital Innovation Hubs by 2025 presents strategic opportunities in the region's twin green and digital transition. The anticipated alignment with key EU frameworks, coupled with initiatives like the "Balkan Digital Identity Wallet", is creating entry points for investors in digital infrastructure modernization, cybersecurity solutions, and regulatory compliance technologies across all regional economies.



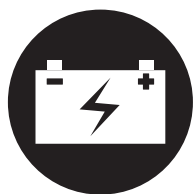
Armenian-Azerbaijani Peace Talks

While both sides claim they managed to agree on the majority of issues that would be included in a prospective peace agreement, talks between Baku and Yerevan have been stalled in the past few months. If signed, the treaty could end one of the former Soviet Union's longest-running territorial conflicts. However, securing peace remains a formidable challenge in view of long-running disagreements, and it remains to be seen whether it can be achieved in 2025.



International Transport Corridors in Central Asia

International transport corridors such as the Trans-Caspian International Transport Route (TMTM) and the China-Kyrgyzstan-Uzbekistan railway, which is currently under construction, are becoming increasingly important. In addition, China has begun the construction of a large Manas trade and logistics center in the village of Leninskoye, near the capital of Kyrgyzstan. The first phase of the project alone is expected to cost about \$700 million, with the total cost potentially reaching \$4 billion.



Development of Critical Resource Channels in Central Asia

Central Asian countries, particularly Kazakhstan and Uzbekistan, have the potential to ensure the uninterrupted supply of critical minerals, meeting the growing global demand driven by the energy transition and the development of the electric vehicle market. Notably, these countries possess significant reserves of lithium, nickel, gold and rare earth metals, which are expected to attract additional investments.



Developing Mongolia's Mining Industry

Mongolia's mining sector presents significant opportunities to enhance the country's economic value by moving beyond the export of raw materials. With 70% of the country's mineral resources still unexplored, there is vast potential to attract investment in exploration and development, particularly in the case of coal, copper and rare earth elements, with Mongolia also holding substantial copper reserves. The country's economic growth in 2025 is expected to be powered by the expansion of the mining sector.



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January 6, 2025