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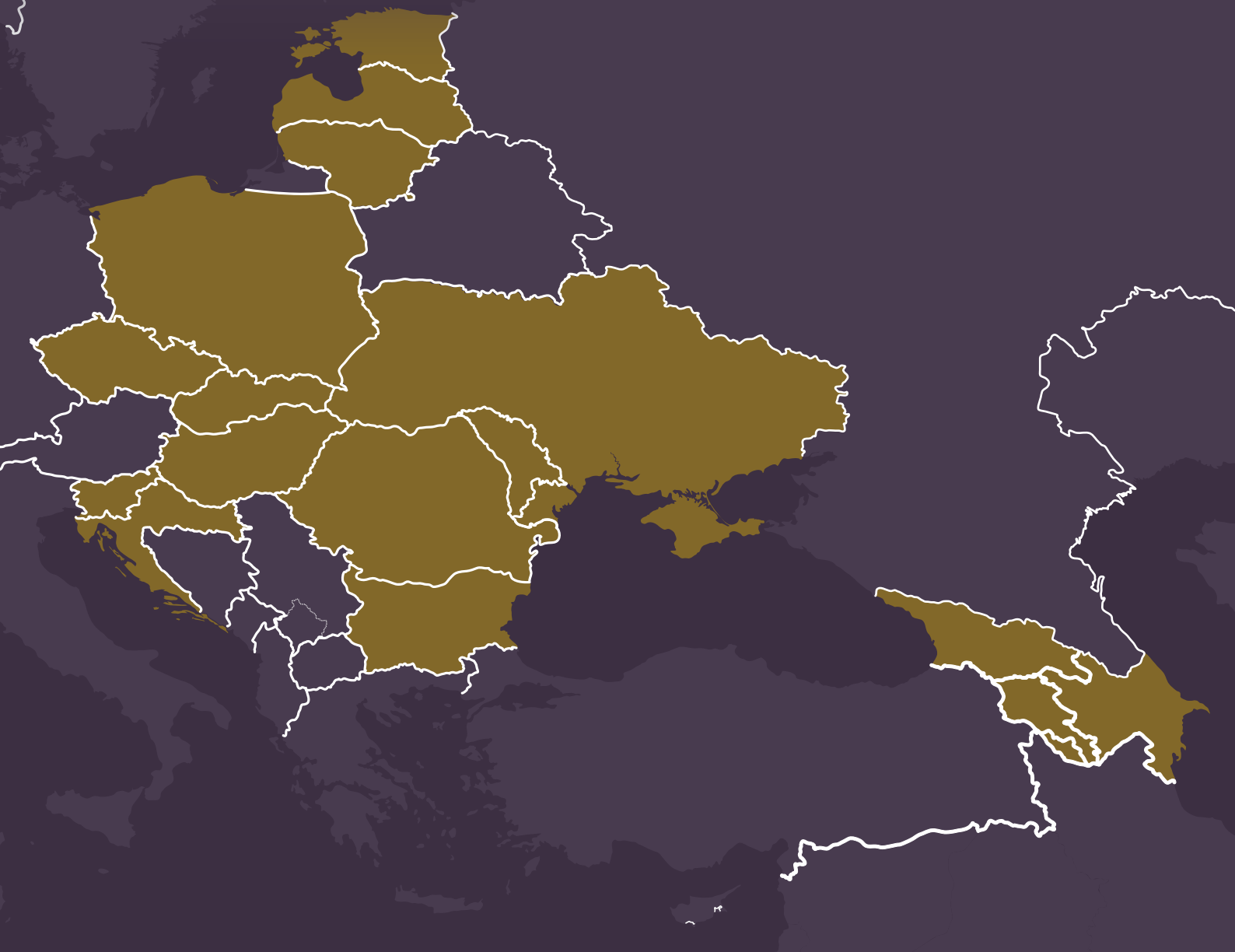
Key Political Risks Facing Central & Eastern Europe and the South Caucasus

Implications for Investors



FOREWORD

2025 will be a year of substantial challenges for international businesses globally. Investors in Central & Eastern Europe and the South Caucasus 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 Central & Eastern Europe and the South Caucasus 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 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. 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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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 11 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 EXENDITURE 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 I 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 13 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 5 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 Zurabishvili, 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 Șor, 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 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 Zurabishvili, 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. Zurabishvili'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 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 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 Radoslaw 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 16 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.

KEY FIGURES TO FOLLOW IN CEE

Below is a non-exclusive list of public figures in CEE 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.

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.

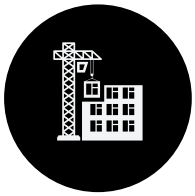
ELECTION CALENDAR FOR 2025

- Bulgaria, Lithuania and Slovakia may hold snap parliamentary elections.
- Croatia, Estonia, Georgia and Latvia 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.

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.

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If you would like to schedule a discussion of our Annual Forecast, please contact:

Dominik Istrate
Research Director
D.Istrate@AreteraPA.com

Chris Dobson
Managing Partner
C.Dobson@AreteraPA.com

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