

EXECUTIVE SUMMARY

The *Transition Report 2025-26* looks at the implications of demographic change for rapidly ageing economies, as well as economies with young, fast-growing populations. It outlines recent demographic trends, including declining fertility rates, and presents strategies that policymakers could deploy in response. These centre on prolonging productive working lives, boosting automation and facilitating labour mobility. The analysis focuses on artificial intelligence (AI) and migration policies in the EBRD regions and beyond, as well as ways in which demographic change shapes policy preferences and societal beliefs.

In emerging Europe, low fertility, ageing populations and shrinking workforces are increasingly weighing on economic growth. Combining greater migration, the use of technology to boost productivity growth and higher labour-force participation among older adults and women could offset some of these pressures. Parts of Central Asia and the southern and eastern Mediterranean (SEMED) region benefit from younger populations that can support near-term growth, yet they will soon experience similar ageing-related headwinds. While fertility rates in sub-Saharan Africa (SSA) are also declining rapidly, its young populations position its economies well to capture a demographic dividend over the next generation, provided they can absorb a rapidly growing labour force.

Fertility rates have fallen across EBRD economies, with many now well below the replacement rate of 2.1 children per woman, though the pace of decline and its underlying drivers vary. Delayed childbearing, shifting marriage patterns and economic circumstances combine to influence fertility outcomes, often resulting in families having fewer children than they would ideally like. Policies aimed at raising fertility range from cash

transfers to enhanced childcare provision; however, their impact has been limited.

Demographic change is reshaping labour markets across the EBRD regions. In economies with ageing populations, work is gradually shifting towards more “age-friendly” jobs that reduce physical strain on the body and help older workers to stay active for longer, with such employment being especially attractive to women. As AI technology has advanced, younger, talent-rich companies have tended to be at the forefront of its adoption, expanding their workforces. While workers in some occupations are set to benefit from higher productivity thanks to AI, others face more pressure to reskill. In ageing economies, migration can help to mitigate labour shortages. In younger regions, supporting high-growth entrepreneurship is vital to creating enough good jobs for labour-market entrants.

As populations age and fertility rates decline, governments will need to respond with reforms that increase immigration, extend working lives, restructure pensions and harness technological innovation to boost productivity. Public support for these measures varies from economy to economy and is often weak – particularly among older individuals, who increasingly dominate both electorates and leadership positions. As societies age, they tend to become more conservative and less accepting of pension reforms and risk-taking in pursuit of economic growth. While cohort turnover has helped to offset some of ageing’s effects on public opinion to date, views have become more polarised. Addressing these challenges will require early, inclusive and well-communicated reforms that consider economy-specific circumstances, as well as generational and geographical divides.



DEMOGRAPHIC TRENDS AND THE FUTURE OF GROWTH

For most of human history, population growth has been low and stable. Between 1800 and 1900, for example, annual growth rates were below 0.5 per cent. However, this changed in the early 20th century, when falling mortality and sustained high fertility led to a sharp acceleration in annual population growth, which peaked at over 2 per cent in the 1960s. The 1960s and 1970s were marked by fears that rapid population growth would outpace the growth of food supplies and infrastructure, depleting natural resources.

Today, while some economies are still experiencing the pressures of high population growth, fertility is falling fast in both high- and low-income countries, while global life expectancy has continued to rise, improving from 48 to 73 years between 1960 and 2023. When fertility rates fall and life expectancy rises, populations age rapidly. Consequently, policymakers are increasingly concerned about shrinking workforces, ageing societies, slower growth and mounting fiscal pressures.

In emerging Europe, declines in the share of the working-age population are projected to reduce annual gross domestic product (GDP) per capita growth by an average of almost 0.4 percentage point between 2024 and 2050. A combination of increased migration, the use of technology to boost productivity growth and higher labour-force participation among older adults and women could offset some of the ageing-related pressures, with no single policy tool likely to be sufficient on its own.

Younger economies in Central Asia and SEMED will, on average, benefit from a small growth premium in the near term, but they are expected to face an annual demographic headwind averaging 0.15 percentage point over the second half of the century as labour forces stop growing and populations age.

Young economies in SSA, in contrast, are projected to see a large demographic dividend over the next generation. As many young people enter the labour force while fertility declines, annual GDP per capita growth is expected to be lifted by nearly 0.4 percentage point, provided these economies are able to effectively absorb a rapidly growing labour force.



FERTILITY IN TRANSITION

Globally, the average number of children born per woman has more than halved since the 1960s, from around 5 to 2.25 today. Mirroring this trend, fertility rates have fallen across the EBRD regions, with many economies now at or below the replacement rate of 2.1 children per woman (the level needed to maintain a stable population over time in the absence of migration). This reflects both fewer women having children and a decline in the number of births per woman.

Declining fertility partly reflects shifts in social norms and cultural attitudes around family formation. A growing share of young adults are delaying starting a family, and marriage and childbearing are happening later in life. In the post-communist economies of the EBRD regions, the share of the population aged 31-35 who are married has fallen to around 65 per cent for Millennials, down from about 80 per cent for Baby Boomers. Higher educational attainment, changing gender roles and greater career aspirations have all underpinned this shift. Many people still say they would like to have two children, but as people start families later, it is increasingly common for couples to end up with fewer children than they would consider ideal.

Fertility decisions also reflect economic constraints (such as high cost of living and lack of affordable housing), as well as the fact that women tend to experience a sizeable “motherhood penalty” – a reduction in career earnings associated with having a baby. In addition, a growing share of adults continue to live with their parents, making them less likely to start a family.

By 2019, the majority of governments in the EBRD regions had adopted policies to encourage childbearing, up from just 5 per cent of economies in 1980. These measures range from direct allowances, bonuses and extended parental leave provisions to subsidised childcare and assisted reproductive technologies. Their impact on fertility has been limited, however. While some generous benefit packages have produced short-lived upticks in births, sustaining higher fertility has proved difficult once incentives have ended. As more couples have children later in life, the share of births using assisted reproductive technologies (such as in vitro fertilisation) has increased, though it remains modest in the EBRD regions.

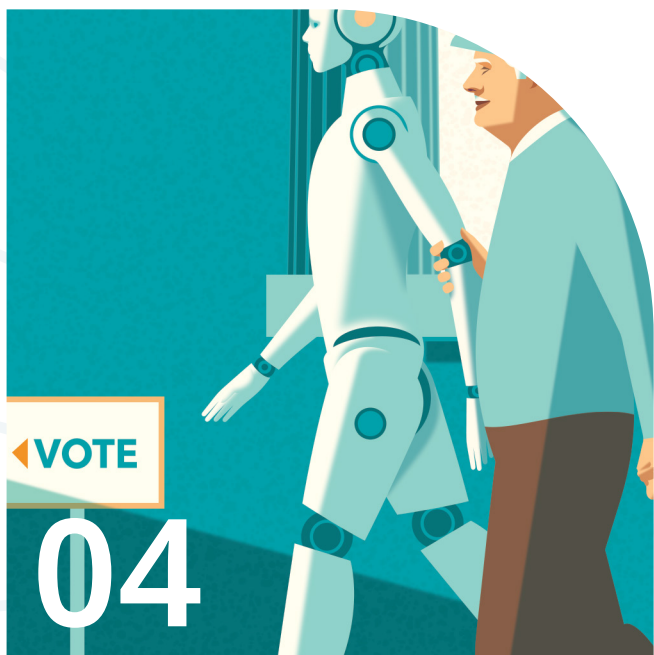


DEMOGRAPHIC CHANGE AND THE QUEST FOR TALENT

Demography is a primary driver of labour supply and productivity growth. As workforces have aged in advanced economies and many economies in the EBRD regions, employment has shifted towards more age-friendly jobs – jobs that have a more flexible schedule or involve less physical effort. Across the EBRD economies in the EU, older workers and highly educated women have benefited most from the availability of age-friendly jobs. As a result, countries with more age-friendly job structures exhibit higher employment rates among older workers. The shift towards age-friendly jobs has been less pronounced in EBRD economies in the EU than in advanced European economies, however.

Advances in AI technology are likely to raise workers' productivity in some occupations, but displace workers in others. In the EBRD economies in the EU, fewer workers have the types of job that can benefit most from AI-driven productivity gains relative to advanced Europe. Younger people and women are more likely to have jobs that could be displaced by AI. Evidence from a new six-country survey shows that younger firms with younger managers, better access to talent and complementary software investments are more likely to be early adopters of AI. These firms report employment growth following AI adoption, particularly where AI complements roles requiring strong science, technology, engineering and maths (STEM) skills.

Targeted migration policies can help alleviate bottlenecks in occupations where skilled labour is scarce – for example, by streamlining the recognition of foreign qualifications in healthcare and construction, matching migrants more effectively to labour shortages and ensuring sufficient support for the integration of migrants (including adequate language training and access to childcare). Younger economies face the opposite challenge of creating a sufficient number of high-quality jobs for the many entrants to the labour market. Here, policies that improve entrepreneurs' access to finance, skills and product markets can help young economies to reap the demographic dividend associated with young labour forces, which tend to have higher levels of education than in the past.



THE POLITICAL ECONOMY OF DEMOGRAPHIC CHANGE

Demographic change presents major policy challenges across the EBRD regions. As populations age and fertility rates decline, governments will need to mitigate those effects – for example, by increasing immigration, extending working lives, restructuring pensions and harnessing technological innovation to boost productivity. Yet public support for such reform measures is often weak, particularly among older individuals, who increasingly dominate both electorates and leadership positions.

While younger people favour spending on education, housing and climate action, older individuals tend to prioritise healthcare, pensions and military spending. They are also more sceptical of immigration, environmental protection and economic risk-taking. Because older individuals vote at higher rates, their preferences exert a disproportionate influence on policy outcomes. In contrast, younger cohorts are becoming both numerically smaller and less politically engaged.

Spatial divides exacerbate generational imbalances. Many electoral systems over-represent depopulating and ageing rural regions, which are often more socially conservative and economically stagnant. This amplifies political preferences that favour the status quo. The global median voter is now approaching the age of 44, and political leaders are becoming older as well, particularly in autocracies.

Cohort turnover has so far helped to offset some of ageing's effects on public opinion. These patterns are, for instance, reflected in votes cast in European elections between 1999 and 2021. Younger generations remain more open to change, leading to only modest shifts in average views on immigration, pension reform and growth. However, whether this pattern of generational change will extend into the future is hard to predict. And polarisation is increasing: the gap between the 20th and 80th percentiles in economic and cultural attitudes is widening.

Addressing these challenges will require early, inclusive and well-communicated reforms that take into account national circumstances and both generational and geographical divides. For instance, some societies may be more open to immigration, while others may prefer to work longer or rely more on technological advances. Gradual implementation, paired with compensation mechanisms, may improve political feasibility and support long-term economic and fiscal resilience.



STRUCTURAL REFORM

This chapter presents the latest assessment of transition challenges in the EBRD regions and selected comparator economies, tracking progress in the area of structural reform. The assessment focuses on six key qualities of a sustainable market economy, looking at whether economies are competitive, well governed, green, inclusive, resilient and integrated. For each quality, progress is assessed on a scale of 1 to 10, where 10 corresponds to the standards of a sustainable market economy. These ATQ scores are based on a wide range of external and internal data sources.

This year's assessment has been extended to incorporate Iraq as a new investee economy, as well as Algeria and Libya as comparators. Iraq's scores tend to be lower, on average, than those of the other economies covered by the assessment, reflecting the general weakness of its economic and political institutions. The resulting low scores contrast sharply with Iraq's income per capita at market exchange rates, whereas for most economies, ATQ assessments and income per capita are closely aligned. Indeed, the lower ATQ scores of the SSA economies are generally in line with their lower income levels. Underpinned by oil export revenues, Iraq's average per capita income is higher than that of many economies in Central Asia, SEMED and SSA.

Since 2016, the year when the ATQ scores were first published, average scores in the EBRD regions have improved most in the areas of economic integration and the green economy, with the least progress being observed in the areas of economic competitiveness and governance.

This chapter also introduces a detailed analysis of economic integration across nine distinct areas: road infrastructure, rail infrastructure, air transport, port operations, waste management, water and wastewater, energy, telecoms, and trade and investment. While an economy's scores across the various areas of integration tend to be closely aligned, in some instances, assessments in specific areas of integration may be significantly more positive or negative than the overall assessment.