Executive summary

The global economy will suffer from the new US tariffs – both directly and via rising uncertainty and the blow to confidence. While the tariffs may be scaled back somewhat, they are expected to remain well above pre-2025 levels, fuelling trade disruptions and financial market volatility. They have led to a 0.5 percentage point downgrade in the euro area GDP growth forecast for 2025, on account of weaker exports and lower economic confidence. However, the euro area's medium-term outlook will be buoyed up from 2026 by Germany's EUR 500bn fiscal expansion, which targets infrastructure and defence investment and which is expected to deliver a significant boost to GDP.

The Central, East and Southeast Europe (CESEE) region faces a more challenging economic landscape in 2025, due primarily to the fallout from the new US tariffs. Although the CESEE economies remain resilient, regional GDP growth will slow to 2.6%, down from 3.3% in 2024. Growth has been revised downward for 19 of the region's 23 countries. The sharpest slowdowns are expected in the CIS sub-region (due to monetary tightening) and the Western Balkans (due to weakened external demand). While CESEE's direct trade exposure to the US is limited, its heavy dependence on the EU – particularly on Germany – renders the region vulnerable to indirect shocks, thus amplifying the negative effects of the trade war and the related financial market volatility.

Inflation pressures remain high in much of CESEE, owing to rising food prices, energy price deregulation and wage growth, though trends vary significantly from country to country. Central banks are cautiously easing policy, with many expected to cut interest rates in 2025 in support of growth, though risks remain on account of currency pressures and global uncertainty. Meanwhile, private consumption continues as the key growth driver, underpinned by tight labour markets, rising wages and expanding consumer credit. Investment is also set to contribute positively to growth, though EU-CEE countries face headwinds from weak foreign direct investment. Germany's fiscal stimulus and Europe's massive new defence spending programme may provide a boost to industrial activity and investment across CESEE, particularly in countries with established defence sectors.

Fiscal policy across the region reflects a balancing act between consolidation pressures and the need for increased public and defence investment. Under the updated EU fiscal rules, many EU-CEE governments must reduce their debt and deficits, with some opting to use escape clauses to accommodate their rising defence budgets. Medium-term fiscal-structural plans (MTPs) reveal varied paths to compliance, though many still lack clarity on future defence spending. Outside the EU, fiscal strains persist, especially in Ukraine, Moldova and parts of the Western Balkans. Across CESEE, political instability – ranging from domestic unrest to unresolved conflicts – poses a further risk to economic growth.

Despite the efforts of the Trump administration, we do not expect a quick peace settlement in Ukraine. CESEE remains particularly vulnerable to both the direct impacts of the war and indirect threats such as Russian hybrid operations and internal political instability. A US-imposed settlement favourable to Russia or a Ukrainian collapse would allow Moscow to regroup and pose a greater conventional threat to CESEE in the next 2-5 years, with negative spillovers for the region's economic growth prospects.

COUNTRY SUMMARIES

ALBANIA

The economy grew by 4% in 2024, driven by robust domestic and external demand, particularly for export services. Foreign direct investment remained buoyant, and a high level of reinvestment of earnings indicates continued interest from foreign investors. The fiscal stance improved, while public debt fell to 55% of GDP, marking its lowest point since 2007. The inflation rate halved in 2024, but is unlikely to remain immune to the unfolding trade war. Tourism will continue to thrive, and consumption is expected to carry on supporting economic activity. The parliamentary elections scheduled for 11 May 2025 will mark a historic moment, as the diaspora will get the vote for the first time.

BELARUS

In 2024, Belarusian GDP grew by 4.0%, driven by strong domestic demand, particularly household consumption, amid labour shortages and rising wages. However, growth began to slow in the second half of the year, due to weakening foreign demand, the financial strain on firms and increasing inflationary pressures. In 2025, growth is expected to decelerate further, with external demand stagnating and inflation rising as policy trade-offs emerge. The government may resort to fiscal stimuli, but these are unlikely to fully offset the downturn, leading to economic growth of below 2% and inflation in the 6-10% range.

BOSNIA AND HERZEGOVINA

Economic activity picked up by 2.5% last year, driven largely by stronger consumer spending on the back of declining inflation and higher real wages. Growth is expected to reach 2.4% in 2025 and 2.8% in 2026, bolstered by increased private and government spending and a slight improvement in net exports. However, our growth forecast has been downgraded somewhat on account of the high level of global and local uncertainty and the associated downside risks. Inflation is expected to rise to 2.2% in 2025, reflecting a recent increase in the minimum wage. The local uncertainty stems from the heightened separatist actions in Republika Srpska over the past few months.

BULGARIA

A fragile minority government, still grappling with contested election results, must implement key reforms if it is to unlock EU funding and advance the adoption of the euro. Meanwhile, the economy is growing steadily on the back of robust domestic demand; but fiscal vulnerabilities, labour shortages and external risks (such as the new US tariffs) pose serious threats to the country’s medium-term prospects.

CROATIA

Croatia’s GDP growth reached 3.8% in 2024, helped along by the inflow of EU funds, its 2023 accession to the euro area and its membership of the EU’s border-free Schengen zone. Tourism will again remain the main driver in 2025. Nevertheless, growth is projected to slow to 2.8% in 2025 and 2026, owing to a moderation of domestic demand and real income growth. Inflation reached 4% in 2024 and will gradually decline to below 3% in 2026, but will still remain above the euro area target over the forecast horizon.

CZECHIA

Czechia's economy grew by 1.1% in 2024, driven by private and public consumption; meanwhile investment and industry remained weak. Inflation stabilised at 2.7%, and the central bank cut the policy rate to 4%. Fiscal consolidation in 2025 may retard growth, though a potential post-election spending boost and German defence spending could offer support. The external risks, including a potential US-EU trade war, have led us to reduce the 2025 growth forecast to 2%.

ESTONIA

Estonia's economy is gradually recovering, thanks to improving exports, enhanced competitiveness, a revival of the manufacturing sector and a recovery in FDI inflows, particularly in defence and green technologies. While growth remains slower than was initially expected (on account of stringent fiscal consolidation measures), the overall economic outlook remains positive. However, the adverse economic effects of the US tariffs – if those materialise – may lead to a downgrading of the economic forecast, though they are unlikely to cause a recession in the coming years.

HUNGARY

Hungary achieved modest GDP growth last year, driven by household consumption; meanwhile there was a steep decline in investment. The data for early 2025 are not encouraging; however the start-up of new production capacities in the automotive industry and 'campaign handouts' ahead of the general election in April 2026 may boost growth in the second half of the year. It will remain a considerable challenge over the forecast horizon to foster growth, while at the same time trying to keep inflation and the fiscal deficit under control.

KAZAKHSTAN

With projected growth of above 4.5% over the forecast period, Kazakhstan is likely to maintain its leading position in CESEE. Investment growth will be backed by state support measures for manufacturing and by development of the Middle Corridor. The lifting of OPEC+ production restrictions and the expansion of the Tengiz oil field in the second half of 2025 will drive oil production and exports, although a fall in the price of oil is likely to undermine nominal export growth. However, private consumption is projected to slow, due to the pro-inflationary effects of the fiscal stimulus, tariff hikes, imported inflation from Russia and the hike in value added tax envisaged for 2026. Monetary policy tightening in Q1 2025 is likely to stop only when inflation is tamed.

KOSOVO

The economy expanded by 4.5% last year, but growth may slow in response to the downside risks arising from both the domestic and the international political climate. Political stability under the government led by Kurti has supported steady growth thus far; but that could change, as the formation of a new government is proving challenging. Inflationary pressures eased significantly in 2024 and early 2025, but this trend may go into reverse if the global trade war escalates. For 2025, the government budget is expected to enter into deficit; meanwhile exports of goods will continue their positive trajectory. We anticipate that growth will ease to 3.9% in 2025, before accelerating to 4.1% in 2026-2027.

LATVIA

A slump in investment and export activity resulted in a recession of 0.4% last year. We expect a better showing in 2025, with growth of 1.7%. We anticipate a slight recovery in external demand, although the danger of a trade war is a downside risk. The resurgence of inflation is reducing wage growth; however, at about 6% in net terms, it will still push household consumption considerably. The government has shifted some public investment planned for 2024 to this year, while private investment activity remains sluggish. Owing to the relatively tight labour market, the unemployment rate is expected to decline again slightly in 2025 and in the following two years. In the medium term, we forecast that the economy will grow by 2.4% in 2026 and 2.3% in 2027.

LITHUANIA

The economy performed better than expected in Q4 2024, resulting in GDP ultimately increasing by 2.7% in 2004. Thanks to a fall in inflation last year, real incomes picked up considerably; and they will continue to do so (though to a somewhat lesser extent) over the next two years, which will support household consumption. In line with the economic recovery, employment is expanding significantly, and unemployment remains almost unchanged. The government plans to raise defence spending and infrastructure investment this year; the latter will also benefit private investment activity, while the further upswing in external demand may be dampened by the US import tariff hikes. We expect real GDP to grow by 2.8% in 2025, but then to cool to 2.6% in 2026 and 2.4% in 2027.

MOLDOVA

Owing to a severe drought, Moldova's economy stagnated in 2024, though investment and household consumption remained strong. An energy crisis in early 2025, following the cessation of Russian gas supplies to Transnistria, has led to an 80% surge in electricity tariffs, fuelling inflation. The current account deficit is expected to rise, while key USAID projects have been suspended. The EU has pledged EUR 1.9bn in support, conditional on reforms. With elections looming, political instability threatens economic recovery. Growth could reach 1.8% in 2025, but risks persist from weather conditions, external shocks and geopolitical tensions.

MONTENEGRO

Montenegro enters 2025 facing a complex economic landscape. GDP growth is projected to remain at 3%, driven by domestic demand and a rebound in industrial output and investment. However, a widening trade deficit, weakening employment growth and sluggish tourism all pose downside risks to this outlook. Inflation is expected to stabilise at around 3%, while real wages will continue to rise, though more moderately. Key reforms tied to EU funds remain delayed, while fiscal vulnerabilities are mounting. While the record EUR 850m eurobond issue in March will provide short-term relief, the political instability and opaque investment deals – such as the EUR 30bn agreement with the UAE – pose immediate challenges.

NORTH MACEDONIA

With the spectre of a global trade war looming, domestic policy makers appear to be taking all the wrong turns. Their refusal to support wage growth risks undermining household consumption, the main engine of last year's economic expansion. Reckless fiscal management is placing additional strain on public finances, without meaningfully supporting the economy. And their failed experiment with price controls has only served to reignite inflation. For all these reasons, we are revising our GDP growth forecasts for 2025 and the following two years downward by 0.4 percentage points.

POLAND

Poland's economy has demonstrated solid growth, with GDP growing by 2.9% in 2024. This performance was largely driven by robust public and private consumption, alongside an accumulation of inventories by businesses. In 2025, we expect growth to pick up moderately, to 3.5%, accompanied by low unemployment and a decline in inflation. This acceleration will be driven primarily by a strong expansion in domestic demand, as a surge in investment will further reinforce consumption-driven growth. However, foreign demand is likely to remain stagnant, continuing to undermine the external balances slightly.

ROMANIA

Economic growth is expected to reach 1.6% in 2025 – up from 0.9% in 2024. Improving external balance and better agricultural output may help, but geopolitical risks, trade conflicts and volatile weather continue to pose challenges. Fiscal austerity looms, though EU fund absorption and investments are set to rise. Inflation will ease only to 5%, delaying policy rate cuts until Q4. Political tensions are running high ahead of the May presidential election, fuelled by a low level of trust in the government and polarisation in society. Nevertheless, a centrist, pro-EU candidate will likely win the run-off.

RUSSIA

After two years of overheating, the economy is set to cool markedly this year, reflecting primarily the very tight monetary conditions. The abrupt rapprochement with the US initially triggered a wave of euphoria on the financial markets, though more recently this has subsided somewhat. Relative to our winter forecast, our growth projections for 2025 and 2026 have improved, on account of the solid performance so far and the expected easing of US sanctions, respectively. Inflation is likely nearing its peak, which should allow gradual monetary policy relaxation from mid-2025.

SERBIA

Everything in Serbia this year revolves around the massive student protests, now in their fifth month. While they are currently weighing on economic activity, they are also likely to bring about changes that should improve medium-term growth prospects. Another source of risk is the unfolding global trade war, which is expected to affect Serbia indirectly – primarily through reduced exports to the EU, especially in the automotive sector. A potential offsetting factor is the German fiscal stimulus package, though it remains unclear to what extent it will benefit industries that import from Serbia. For these reasons, we are revising our growth forecast for 2025 downward, to 3%, and at the same time adjusting our projections for the following two years upward, to 4%.

SLOVAKIA

Domestic and external factors alike will constrain Slovakia's growth over the next two years: it is expected to slow from 2% in 2024 to 1.7% in 2025, before returning to 2% in 2026. Fiscal consolidation is under way, impacting both households and businesses, while geopolitical tensions add uncertainty to trade. A more noticeable recovery is expected only in 2027.

SLOVENIA

Slovenia's economy is projected to grow by 2.2% in 2025, mainly due to strong private consumption and government spending on infrastructure, supported by EU funds. Low inflation and unemployment, rising wages and a sound fiscal situation point to another year of relative stability, although the chronic labour shortage remains an issue. Exports are recovering, but will remain under strain due to weak foreign demand, and they could be further hampered by the US tariffs. Slightly higher growth of 2.4% is expected in 2026.

TURKEY

The economy emerged from its technical recession in Q4 2024, with GDP growing by 1.7% quarter on quarter. This recovery was largely driven by a surge in household consumption, supported by stronger investment. Looking ahead, we anticipate no significant improvement, given the ongoing domestic and global uncertainty, and we have maintained our 2025 growth forecast at 3.5%. Turning to the political landscape, the Turkish authorities have arrested Istanbul Mayor Ekrem İmamoğlu, the leading opposition candidate for the 2028 presidential election. Initial market reaction suggests that, while the central bank's disinflation programme is likely to continue, the pace of disinflation and interest rate cuts will be slower than initially expected.

UKRAINE

Ukraine's GDP growth in 2024 slowed to about 3.5% year on year – mainly due to Russia's missile attacks on its infrastructure and the labour shortages in the country. High (and rising) consumer price inflation has forced the National Bank of Ukraine to hike its policy rate in three stages from December 2024, to 15.5% in March 2025. We expect the country's economy to grow by about 3% in 2025 and that growth to accelerate from 2026, provided the country continues to receive sufficient macro-financial and military aid from its allies. The downside risks to our forecast have increased greatly owing to the erratic behaviour of the new US administration.

Keywords: CESEE Central and Eastern Europe, economic forecast, Western Balkans, CIS, Ukraine, Russia, Turkey, EU, business cycle, economic sentiment, euro area, convergence, labour markets, unemployment, Russia-Ukraine war, commodity prices, inflation, price controls, trade disruptions, renewable energy, gas, electricity, monetary policy, fiscal policy, impact on Austria

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