Executive summary

Economic growth in Central, East and Southeast Europe (CESEE) remains relatively resilient, despite the turbulent global environment. We expect the region to grow by 2.6% on average in 2026-2028, significantly outperforming Western Europe. Southeast Europe continues to lead the pack, while Kazakhstan and Poland are other notable bright spots. Most EU-CEE countries face weaker momentum, reflecting tighter fiscal policy, greater exposure to global trade risks and lingering competitiveness pressures. Russia and Belarus will see another subdued year.

Private consumption growth will slow in many places compared with recent years. After several years of exceptional real wage growth, household demand is slowing as wage increases normalise and inflation remains structurally higher than pre-2020 levels. At the same time, fiscal policy is turning restrictive in much of the region, as governments confront rising debt and limited fiscal space. Exports are unlikely to compensate: manufacturing remains weak, closely tied as it is to Germany's prolonged industrial slowdown, while the traditional cost-competitiveness model is under strain.

Sustaining growth now depends increasingly on investment, both public and private. Public investment will be supported in the near term by EU funds, particularly the accelerated drawdown of RRF resources before the August 2026 deadline, and by defence-related spending. However, the critical uncertainty is private investment. Labour shortages, rising unit labour costs and stagnant productivity have all eroded competitiveness and weigh on FDI. To remain viable, firms must invest in automation, digitalisation and AI-driven productivity gains. If that happens, growth will strengthen. Where monetary policy is easing, conditions are supportive; where it remains tight (notably in Russia), constraints persist.

Russia's full-scale invasion of Ukraine has once and for all ended the peace dividend in much of CESEE. Defence spending will remain structurally higher, affecting fiscal choices and investment priorities. The end of the war (when it comes) will not automatically deliver a boom. A credible security guarantee for Ukraine could provide a powerful regional fillip, unlocking reconstruction, FDI and supply-chain investment across neighbouring countries. But a fragile peace, without such guarantees, would imply slower, uneven recovery, sustained risk premia and higher long-term costs for the region.

Looking ahead to the next EU Multiannual Financial Framework, funding will be less about convergence and more about strategic alignment, governance and security priorities. Countries that have strong institutions and are closely aligned with EU objectives are those that will be best placed to benefit. Defence-related spending will rise, but the economic payoff will depend on execution, particularly the share devoted to equipment and domestic production (rather than to personnel costs and imports).

Key downside risks include the escalating US-EU trade tensions, rising fiscal stress in highly indebted countries, increased Chinese import penetration and persistent geopolitical uncertainty. For businesses, the message is clear: the era of cheap labour-led growth is over; competitiveness will hinge on productivity-enhancing investment. For policy makers, the priority is to crowd in private capital, safeguard fiscal credibility and ensure that defence and EU funds support long-term growth, rather than crowd it out.

Over the medium term, CESEE's economic outlook remains favourable relative to Western Europe, but success is no longer automatically guaranteed. The next growth phase will be investment led, productivity driven and far more sensitive to policy choices and geopolitical outcomes.

Keywords: CESEE, economic forecast, Central and Eastern Europe, Western Balkans, EU, euro area, CIS, economic growth, inflation, monetary policy, fiscal policy, GDP, wages, fiscal balance, policy rate, political risk

JEL classification: E20, E21, E23, E24, E31, E5, E62, H60, J20, J30, O47, O52, O57, P24, P27, P52