

## Executive summary

**The main CESEE growth story remains intact, but the outlook for inflation has deteriorated.** Since our Spring Forecast, the energy price shock triggered by the conflict in the Middle East has pushed inflation forecasts significantly higher across much of the region and has prompted central banks to pause or slow monetary easing. Inflation is now expected to be around 1 percentage point (pp) higher in 2026 and 1.4pp higher in 2027 than previously forecast.

**Despite this, growth has proved remarkably resilient.** We have reduced our CESEE growth forecast for 2026 by only 0.2pp. Southeast Europe, Poland and Kazakhstan remain the region's strongest performers, while Romania, Slovakia and Russia continue to lag behind. The biggest upgrades have been made for Kazakhstan and Bulgaria, while Romania, Turkey and Russia have seen the largest downgrades.

**The energy shock has reinforced a broader shift towards a higher-for-longer interest-rate environment.** Monetary policy is now expected to remain tighter than previously anticipated in most major CESEE economies, which will weigh on investment and consumption.

**Looking beyond the immediate shock, the region is entering a new phase of development.** Security spending, AI-driven productivity upgrading, China Shock 2.0, EU enlargement, Ukraine's reconstruction, fiscal pressures and slowing greenfield FDI are all increasingly shaping the outlook. For businesses, the key challenge is how to adapt to a world where productivity must increase in order to offset higher labour costs. For policy makers, the priority is to balance fiscal pressures against the need to ensure that investment, innovation and institutional quality support the next stage of CESEE convergence.

**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

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