

wiiw Spring Seminar, Vienna, 3 June 2025

Resilient Again: Outlook, challenges and opportunities for CESEE amid the fallout from great power politics

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How do we understand the world and CESEE now?



Rising power vs
established hegemon.
Conflict is normal.



More fragmented, costly,
unpredictable global
trading system



As things move, the
„middle powers“ also try
their luck



Doing business with/near
revisionist power (e.g.
Russia) is more risky



Western European panic is
producing a reaction



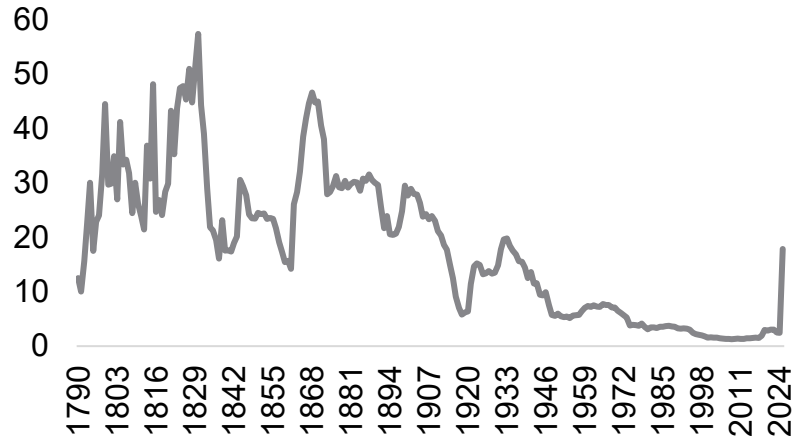
A different German
economy with major
positive spillovers

What does the trade war mean for CESEE?

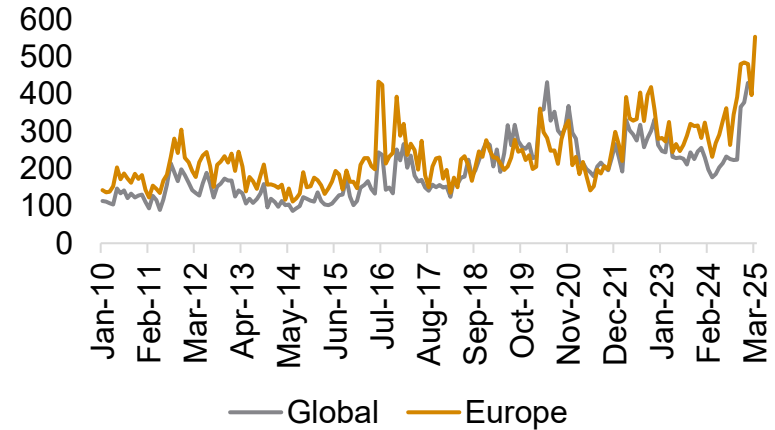


Much higher tariffs US tariffs (+ reactions), prolonged uncertainty, negative for global economic growth

US effective tariff on imports, %

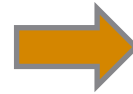


Economic policy uncertainty index, long-term average = 100



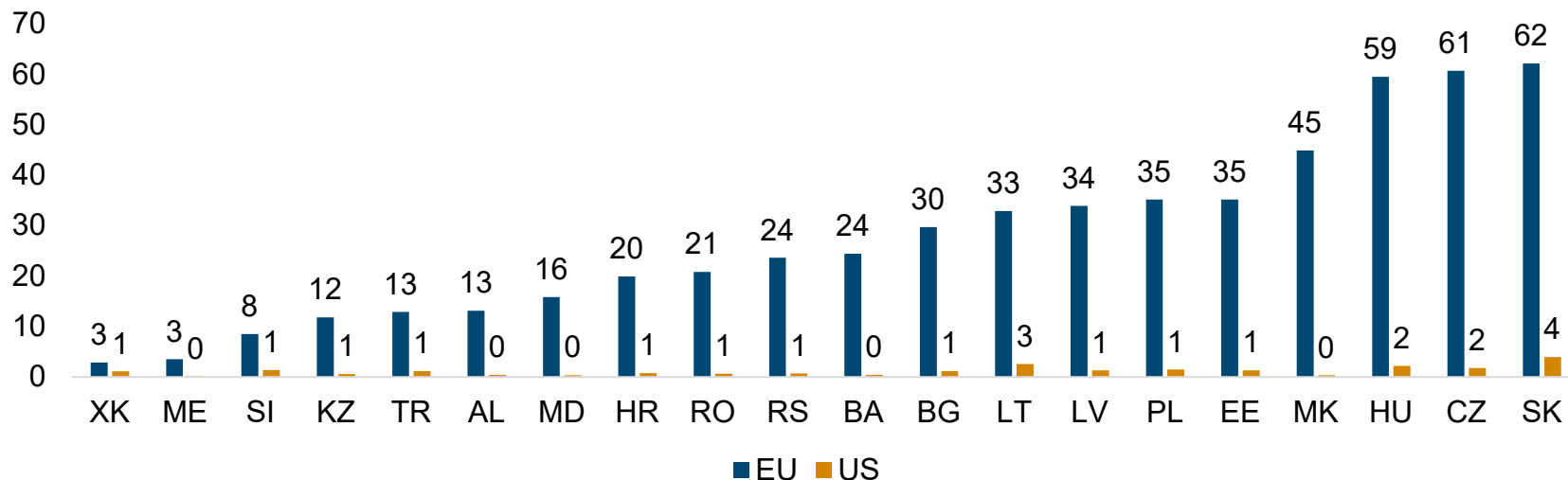
Even if Europe is not the main target, we are going to be impacted

1. More volatility in input prices.
2. Geopolitical fragmentation = higher prices.
3. European firms might increasingly have to choose between US and China (as ASML can confirm).



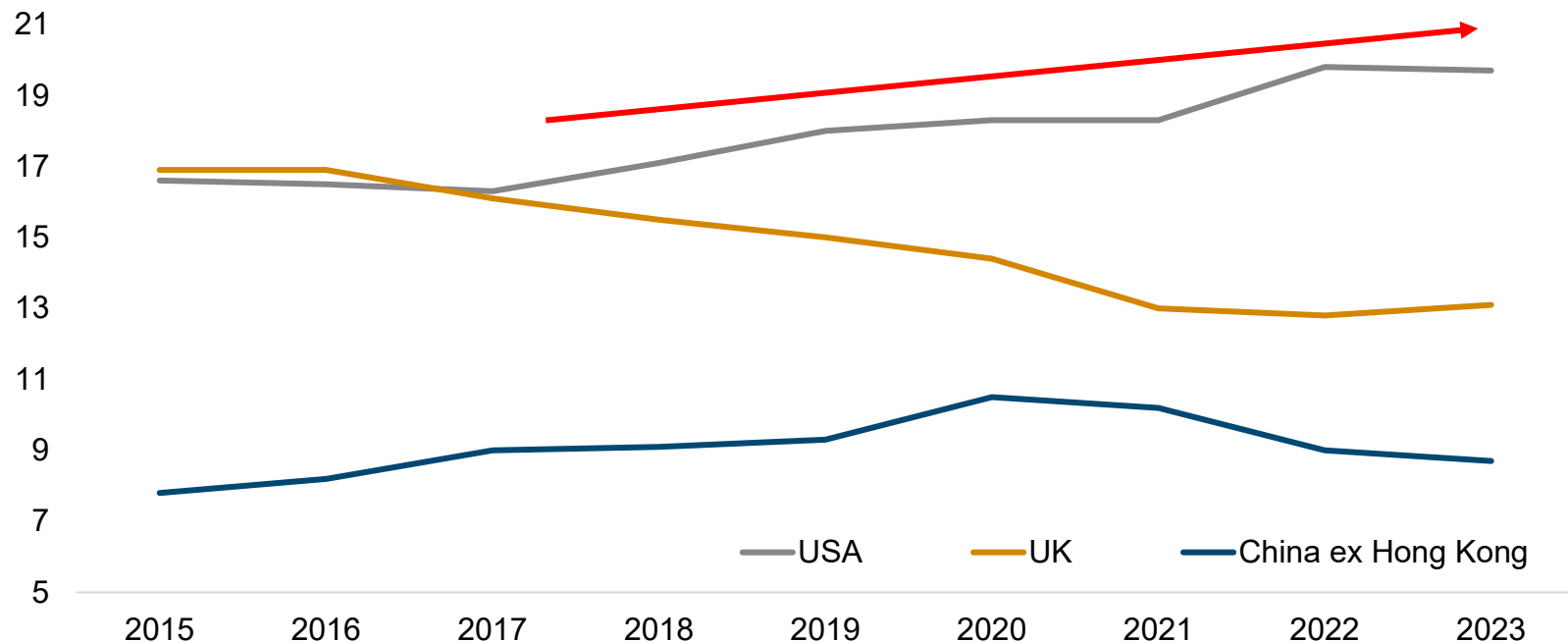
Direct CESEE sales to US are very limited...but more negative impact on CESEE exports via EU

Exports to EU and US, % of GDP, 2023



EU reliance on the US for export demand is especially high

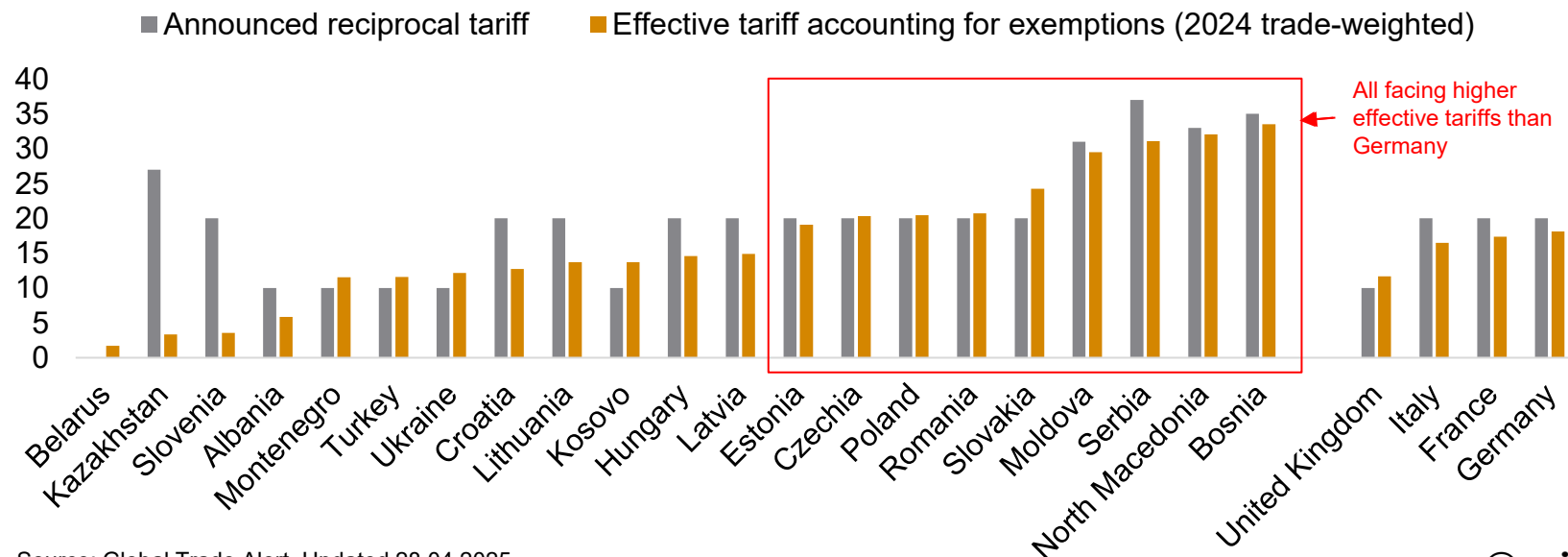
EU exports, % of total by value



Sources: US Census Bureau, Eurostat.

Some countries in CESEE face much higher tariffs if Trump really follows through on April 2nd threats

Announced and effective tariffs on exports to the US, %



Source: Global Trade Alert. Updated 28.04.2025.

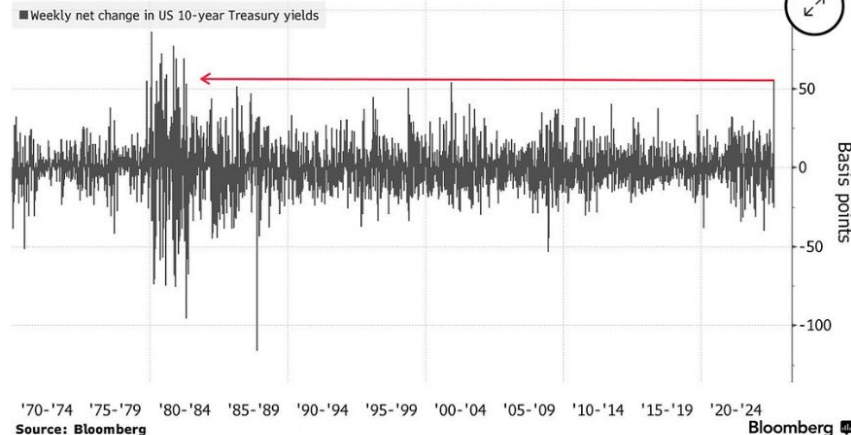
But don't panic. Even a major tariff war will not dramatically hurt GDP in CESEE...

Our modelling results show manageable impact on Southeast Europe even if full April 2nd tariffs enacted

- Short-term hit ~0.5pp of GDP.
- Medium-term much less than that (generally ~0.1-0.2pp).
- Main impact via Germany rather than direct.
- Impact of uncertainty on confidence likely to be much more important than tariffs themselves.

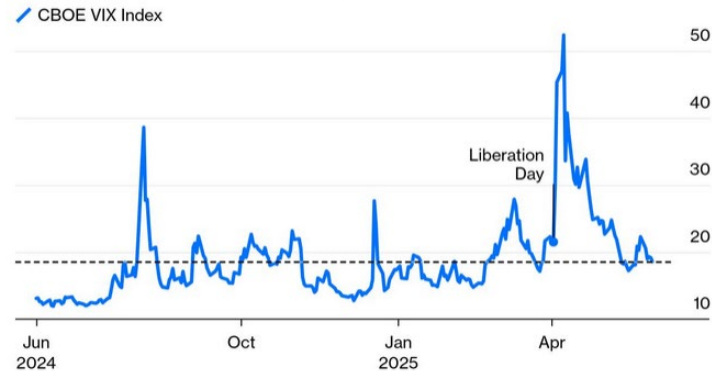
Plus Trump Always Chickens Out (TACO) – for now...

Surge in US 10-Year Yields Is Biggest Since 1982



Crisis? What Crisis?

Equity volatility suggests uncertainty has dissipated



Bloomberg Opinion

And some CESEE countries are coming up with quite „inventive“ ways to deal with Trump

Reuters World Business Markets Sustainability Legal Breakingviews Technology Investigati

Albania approves luxury resort project linked to Jared Kushner's company

By Reuters

January 16, 2025 2:22 PM GMT+1 · Updated 4 months ago



The New York Times

ministration Updates The First 100 Days Lawsuits Tracker Tracking the Layoffs Appro

New Luxury Hotel in Serbia Will Be a Trump-Kushner Joint Project

The plan illustrates the continued ambitions of the Trump family to forge new international deals even as President Trump has returned to the White House.

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Macro trends in CESEE: What is driving growth?



wiiw Spring 2025 Forecasts: Downward revisions in 2025 for most countries...

Real GDP growth forecast, % per year

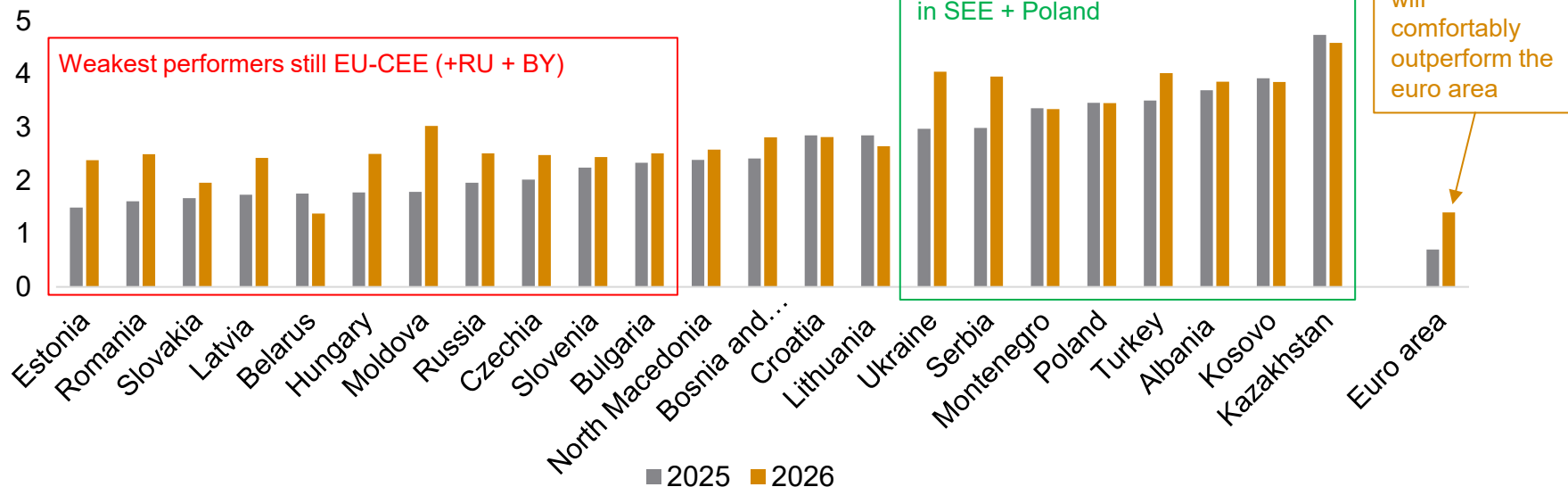
Region		2025	2026	2027
EU-CEE				
BG	Bulgaria	2.3 ▼	2.5 ▼	2.7 ▼
CZ	Czechia	2.0 ▼	2.5 ▼	2.7 ▼
EE	Estonia	1.5 ▼	2.4 ▼	2.5 ▼
HR	Croatia	2.8 ▼	2.8 ▼	2.7 ▼
HU	Hungary	1.8 ▼	2.5 ▼	2.0 ▼
LT	Lithuania	2.8 ▼	2.6 ▼	2.4 ▼
LV	Latvia	1.7 ▼	2.4 ▼	2.3 ▼
PL	Poland	3.5 ▼	3.5 ▲	3.0 ▼
RO	Romania	1.6 ▼	2.5 ▼	3.3 ▲
SI	Slovenia	2.2 ▼	2.4 ▼	2.4 ▼
SK	Slovakia	1.7 ▼	2.0 ▼	2.4 ▼

Region		2025	2026	2027
Western Balkans				
AL	Albania	3.7 ▼	3.9 ▼	4.0 ▼
BA	Bosnia and Herzegovina	2.4 ▼	2.8 ▼	3.2 ▲
ME	Montenegro	3.4 ▼	3.3 ▼	3.2 ▲
MK	North Macedonia	2.4 ▼	2.6 ▼	2.8 ▼
RS	Serbia	3.0 ▼	4.0 ▲	4.0 ▲
XK	Kosovo	3.9 ▼	3.9 ▼	4.1 ▼
New EU accession 2				
MD	Moldova	1.8 ▼	3.0 ▼	3.5 ▼
UA	Ukraine	3.0 ▼	4.0 ▼	5.0 ▼
Turkey				
TR	Turkey	3.5 ▼	4.0 ▼	4.5 ▼
CIS3				
BY	Belarus	1.8 ▼	1.4 ▲	1.4 ▲
KZ	Kazakhstan	4.7 ▼	4.6 ▲	4.5 ▼
RU	Russia	2.0 ▲	2.5 ▲	2.5 ▲

Source: wiiw April 2025 forecasts.

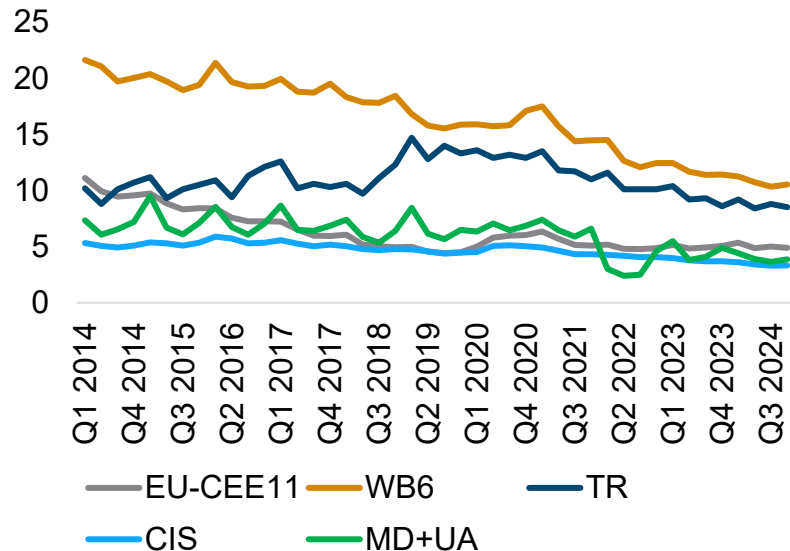
...but still a robust rate of growth, especially compared with the euro area. Region is resilient.

Real GDP growth forecast, % per year

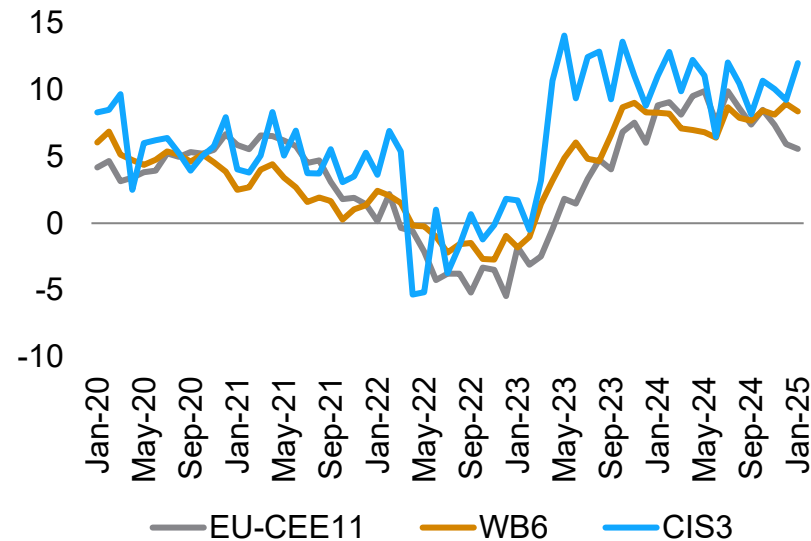


Real wages mostly still rising strongly propelled by ever-tighter labour markets

Unemployment rate, %

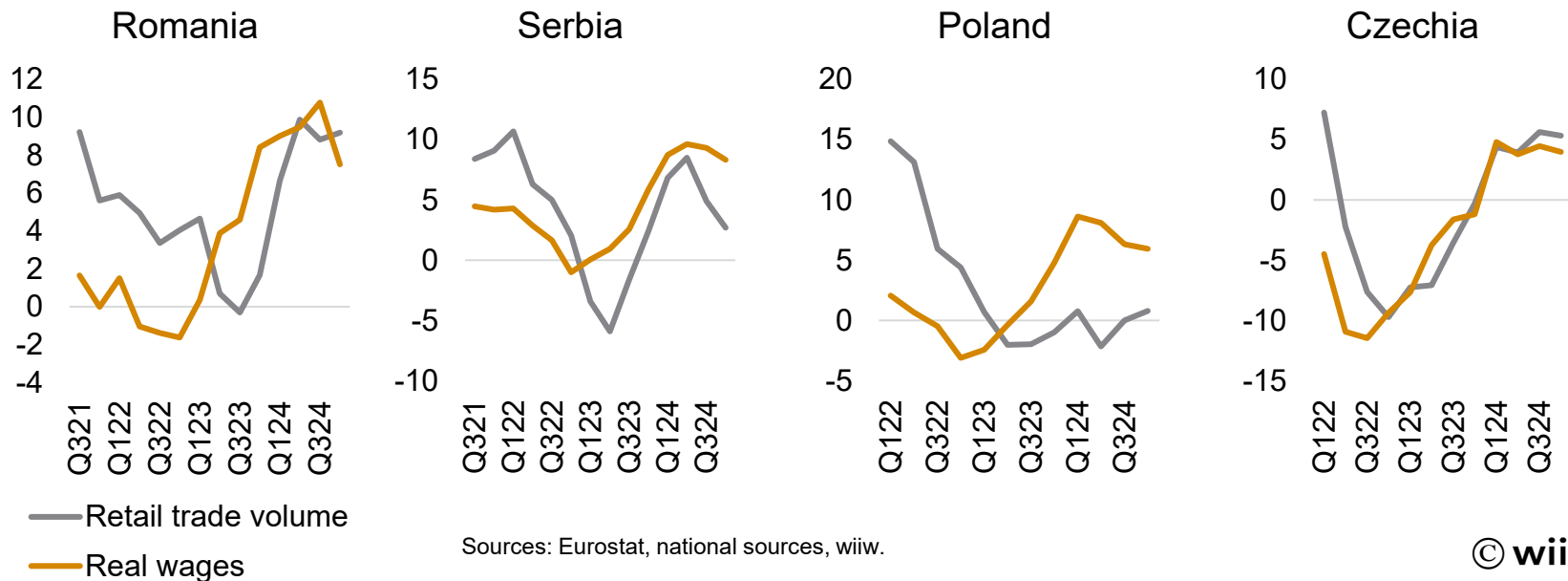


Real wage growth, % year on year



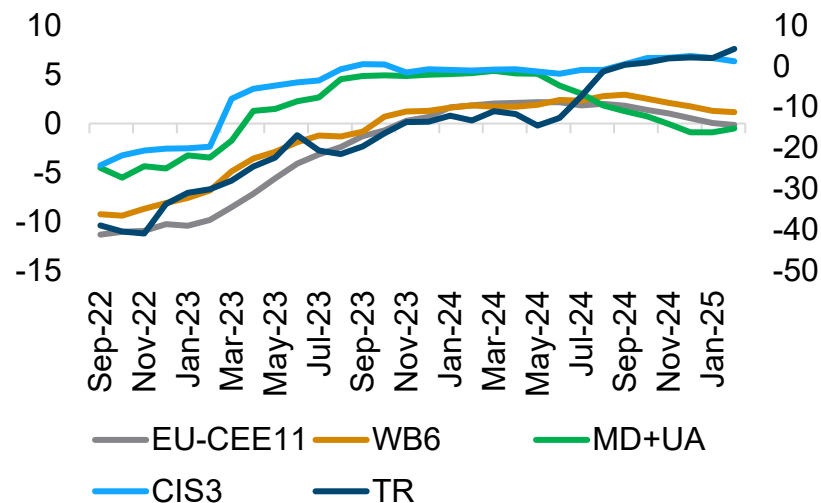
Extra real income is not all being spent, although we also do not see too many signs of “fear saving”

Retail trade volumes and real wages, % change year on year

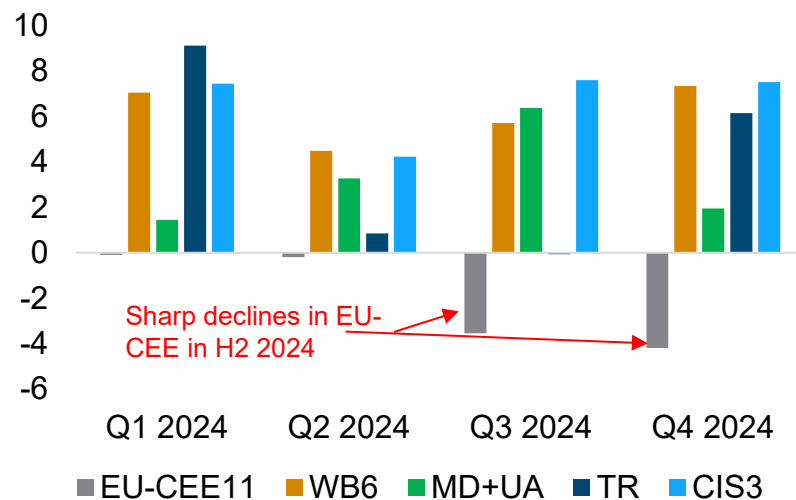


Real financial conditions are (mostly) getting looser, but investment not always responding

Real interest rates, CPI-adjusted, %



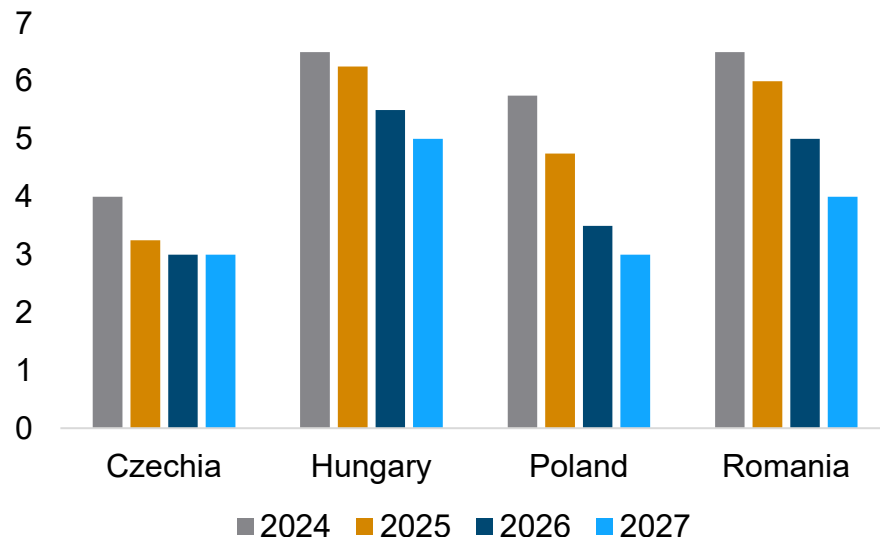
Real gross fixed capital formation, % change year on year



We think investment will pick up

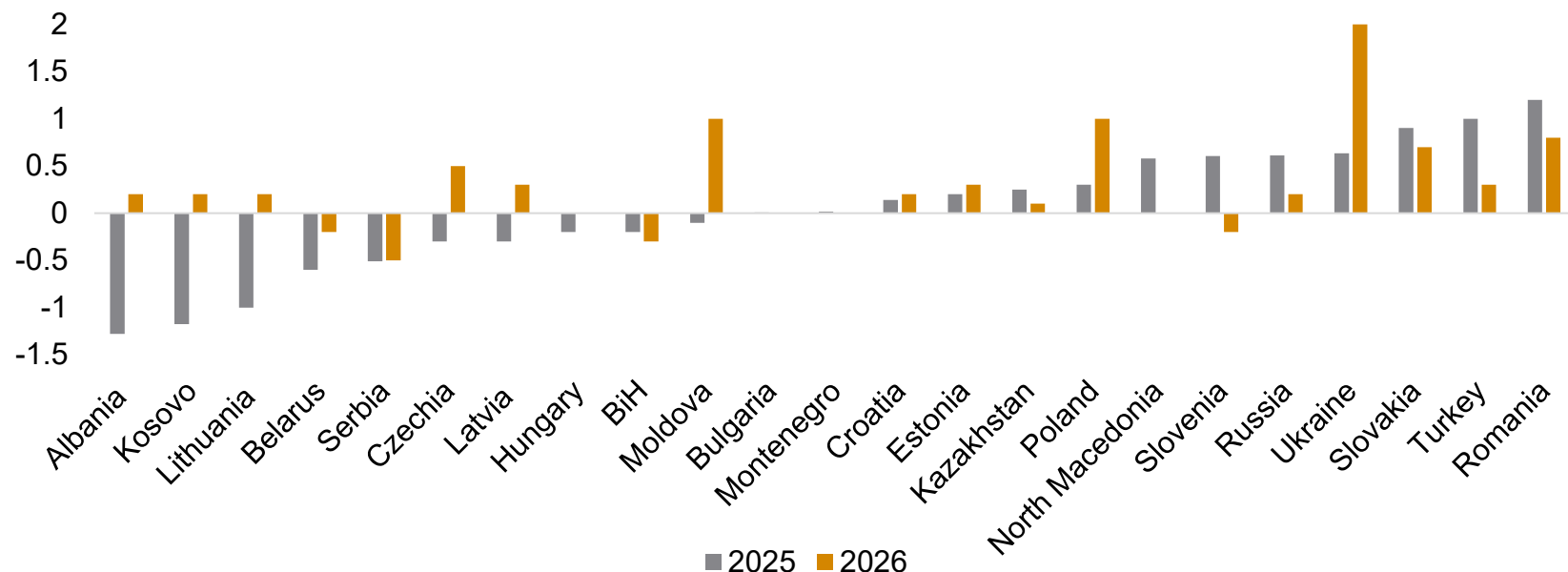
- ✓ Monetary easing
- ✓ EU funds
- ✓ Still big FDI interest in the region, especially in the Western Balkans
- ✓ But: major Trump-driven uncertainty

Central bank policy rate, %, end of period



In almost half of region we expect fiscal deficits to widen this year

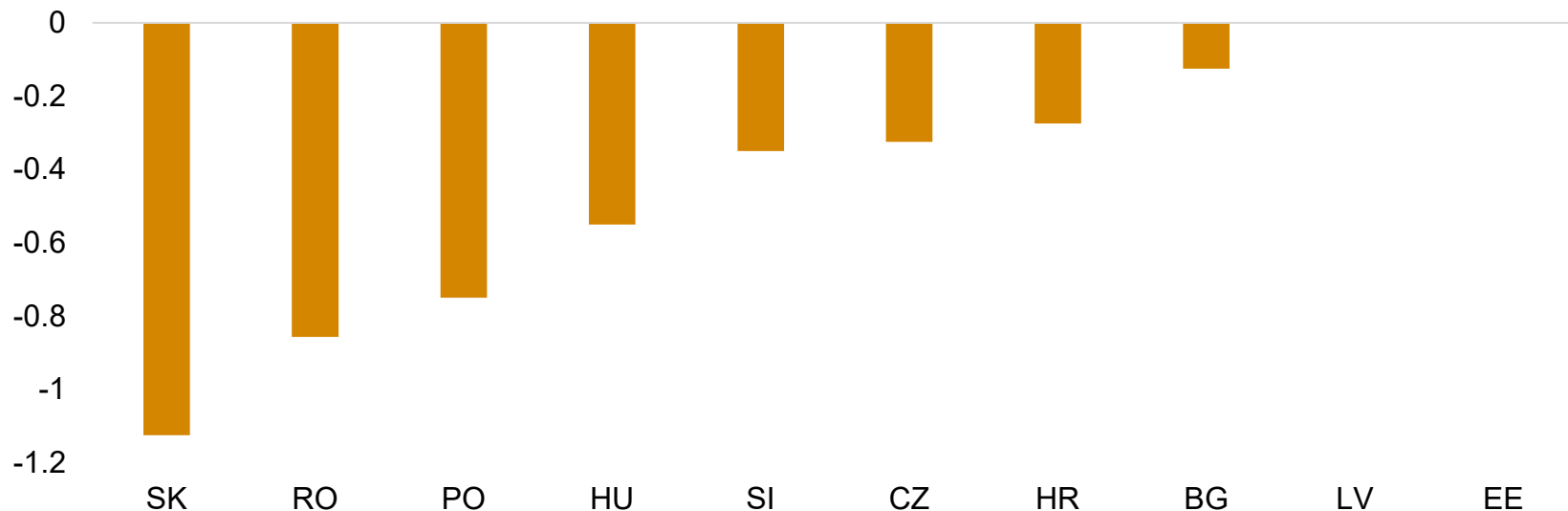
Projected change in fiscal balance versus previous year, percentage points of GDP



Note: Negative value = increase in deficit. Sources: Eurostat, national sources, wiiw estimates and forecasts.

Within EU-CEE, Slovakia plans the largest fiscal consolidation, followed by Romania and Poland – this will hurt growth

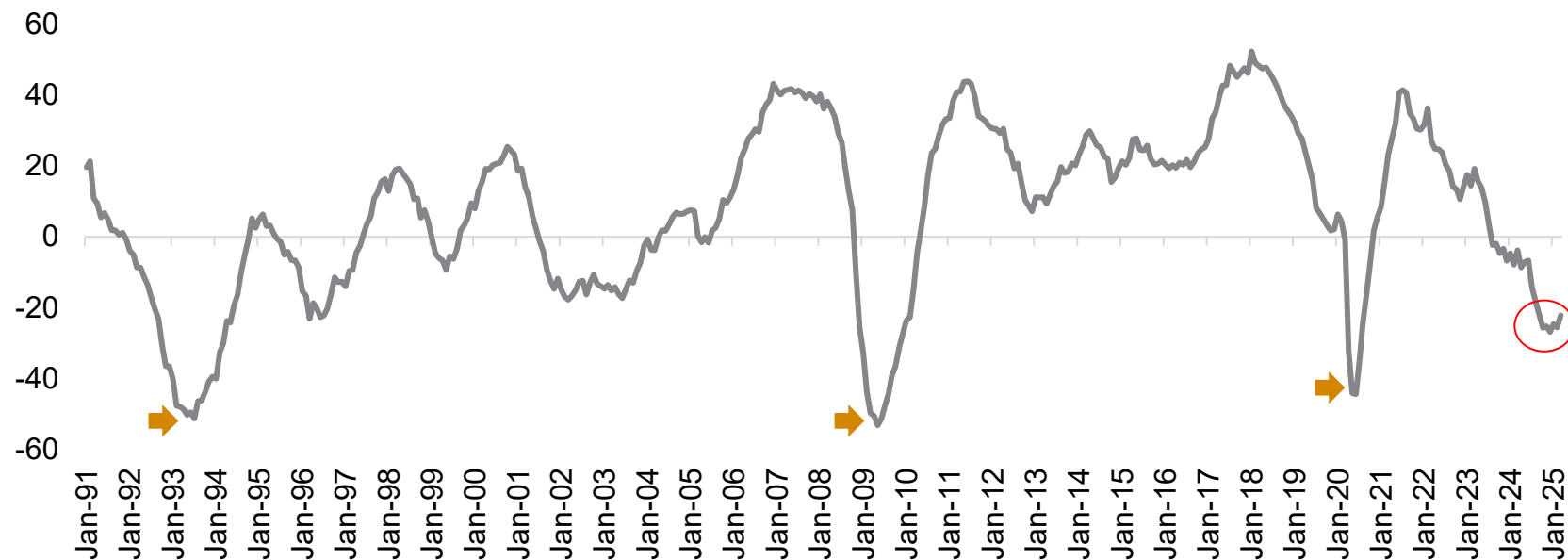
Annual adjustment of structural primary balance, % of GDP



Note: Adjustment period 4-7 years. Sources: MTPs, wiiw.

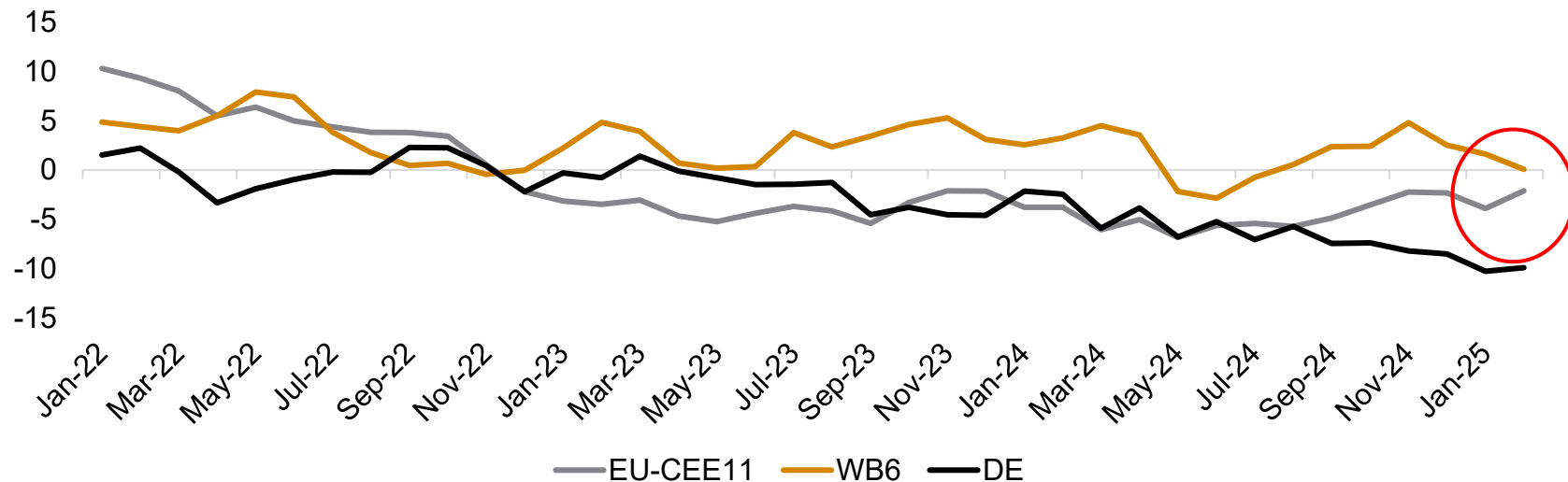
The main challenge across CESEE: German industry is in big trouble

Ifo Business situation in manufacturing; balance of positive and negative responses



But partly some industrial resilience in EU-CEE + WB...

Industrial production, % change year on year, 3-month moving average



Outlook: Risks, challenges and opportunities



Main risks

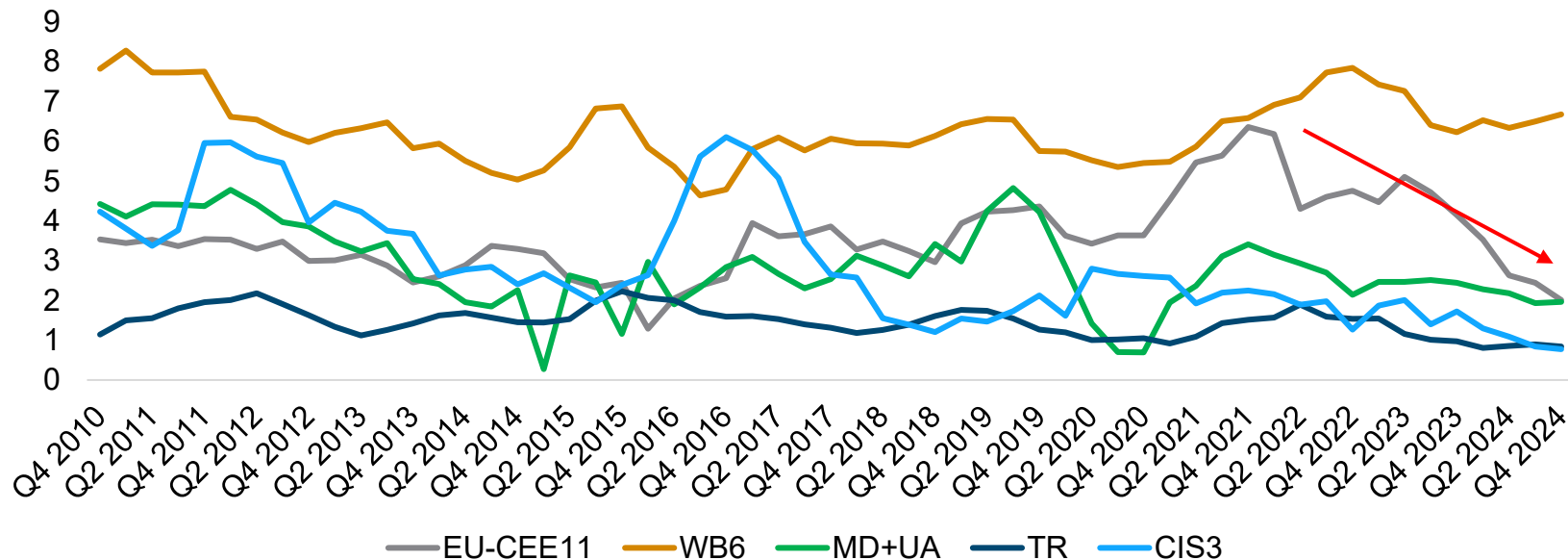
Event	#1: US economic policy chaos harms economy	#2: April 2nd level tariffs fully enacted	#3: „Bad“ peace deal for Ukraine	#4: Major political crisis in the region
Likelihood	High	Medium	Low	Low
Impact	Less investment + consumption Sharper fiscal cuts	Significant impact, especially via Germany	Decline in foreign investor interest in CESEE as a whole	Decline in consumer/invest or confidence

Opportunities (#1): Near-shoring potential to lift investment? CESEE has advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none">✓ Proximity to Western Europe✓ Western European firms know the markets✓ Increasing regulatory alignment✓ Renewed EU enlargement prospects	<ul style="list-style-type: none">❑ Doubt over US security guarantee❑ Labour shortages❑ Chinese presence in some countries❑ Institutional problems in some countries

Current trends are mixed, but in an increasingly fragmented global economy, CESEE could win

FDI inflows, % of GDP, four-quarter moving average



Sources: National sources, wiiw.

Opportunities (#2): German/EU fiscal U-turn is serious and will benefit CESEE, especially from 2026

Germany's Friedrich Merz strikes 'game-changing' deal to boost defence spending

Move to relax debt brake marks historic shift in country's conservative approach to borrowing



EU to ease fiscal rules to boost defence spending

Activation of 'escape clause' will help countries 'substantially increase' military spending, says Ursula von der Leyen



Guns and Growth: The Economic Consequences of Surging Defense Spending

14.02.2025



Increased defense spending could significantly boost Europe's economic growth and industrial base if outlays are targeted at high-tech, regionally made armaments. A new Kiel Report by the Kiel Institute shows that gross domestic product (GDP) could increase by 0.9 percent to 1.5 percent per year if governments raised annual defense spending from the NATO target of 2 percent to 3.5 percent of GDP and shifted from buying weapons designed and mainly made in the USA to home-grown innovations.

Sources: Financial Times, <https://www.ifw-kiel.de/publications/news/guns-and-growth-the-economic-consequences-of-surging-defense-spending/>

CESEE will feel the impact of change in German policy quite strongly and quickly (positive especially from 2026)

- Spillovers:
 - Higher German demand
 - Industry
 - Tourism
 - Remittances + other financial flows...
- Renewed opportunities for CESEE industry in the defence sector

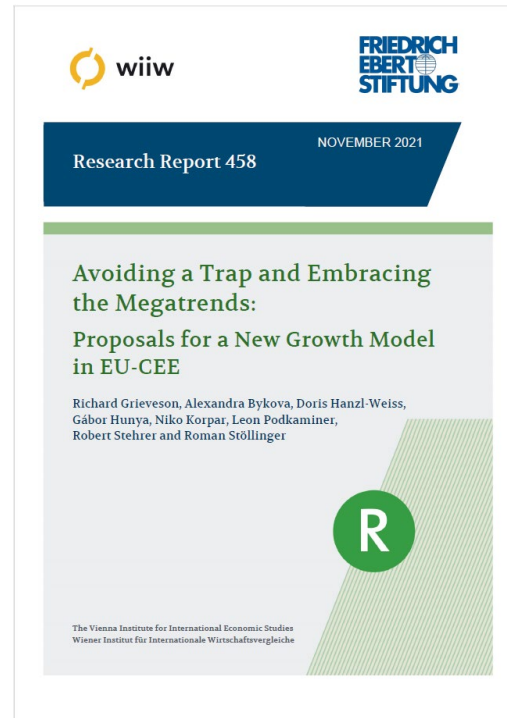
Opportunities (#3): A successful postwar Ukraine

- **Major spillovers from reconstruction** when it starts: will be huge demand for expertise, materials, workers from neighbouring countries.
- EU private sector can **outsource labour-intensive production**, and benefit from **big consumer market**.
- **Positive spillovers from EU accession**: workers, trade, energy supplies (traditional and new).
- **And Ukraine brings things EU needs**: defence (including cyber), green energy etc.

Opportunities (#4): An innovation-led growth model, moving up value chain

- CESEE still relies too much on price competitiveness.
- Focus should be innovation, high tech industries.
- Smart specialisation including higher R&D + more targeted FDI-attraction (inspiration from East Asia).
- Improving access to finance, especially for innovative SMEs.
- Digital and green transformation.
- Keep improving human capital.

Source: <https://wiiw.ac.at/a-new-growth-model-in-eu-cee-pj-253.html>



Summing up...

- ✓ Higher tariffs and general US policy uncertainty are bad for growth.
- ✓ CESEE will be hit, forecasts revised down for 2025, but overall resilient.
- ✓ Private consumption + investment main growth drivers. Fiscal austerity for many. German industrial weakness bad for exports.
- ✓ Risks are serious, especially US policy chaos and its impact on business and consumer confidence.
- ✓ But also major opportunities for this region: Near-shoring, German fiscal U-turn, Ukraine reconstruction + more innovative growth model.

Thank you for your attention!

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