Wiener Institut für Internationale Wirtschaftsvergleiche

The Vienna Institute for International Economic Studies

wiiw.ac.at

wiiw Forecast for CESEE, February 2026

All eyes on investment as geopolitical pressures mount:

Strategic opportunities as CESEE’s growth model changes in an age of fragmentation

Richard Grieveson, wiiw Deputy Director

Corinna Covi, wiiw Head of Project Management

Why CESEE matters more than ever

- CESEE still growing (much) faster than Western Europe
- But the old growth model is over
- Region will be central to Europe's ability to cope (or not) in much harsher global environment
- What happens in CESEE tells us a lot about Europe's future

How our member stay ahead in CESEE:

Three ways to access wiiw analysis

Academic membership

- ✓ Full access to wiiw Forecast Reports and databases
- ✓ Ideal for universities, researchers

Standard membership

- ✓ Full access to all wiiw reports, data and forecasts
- ✓ Visual data explorer
- ✓ Access to economists
- ✓ Ideal for regional monitoring, desk research, policy analysts and financial institutions

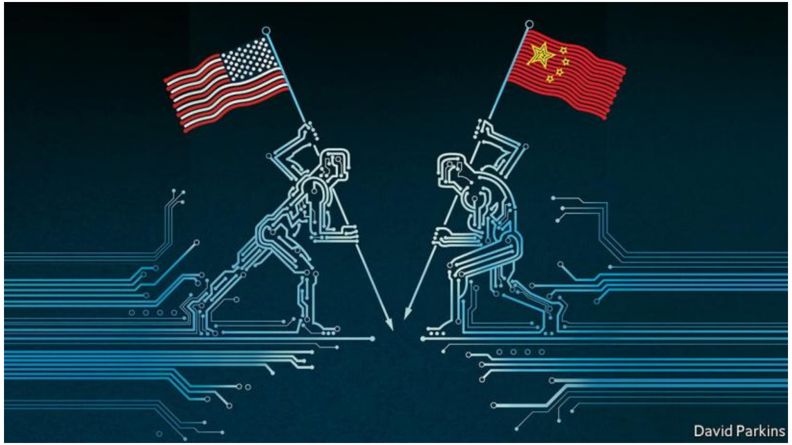
Executive Network

- ✓ Everything in standard
- ✓ Access for executive board level delegates to attend network presentation events in Vienna, Prague and Warsaw
- ✓ Quarterly country slide decks and benchmarketing surveys
- ✓ Ideal for strategy, risk, budgeting and investment decisions

Find out more and get in touch: https://wiiw.ac.at/subscriptions-and-membership.html

How do we understand the world now? (1) Global fault lines

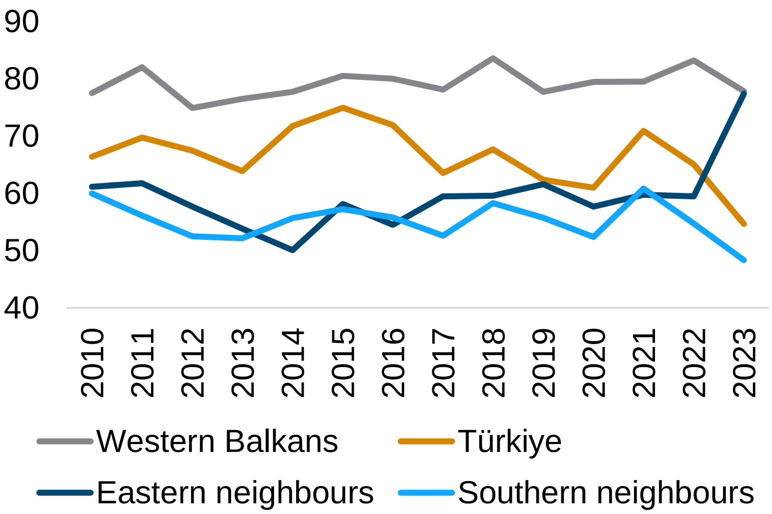
- US-China rivalry is structural and permanent
- Russia is a long-term security disruptor, not a cyclical shock
- Trade, technology and energy are now instruments of power



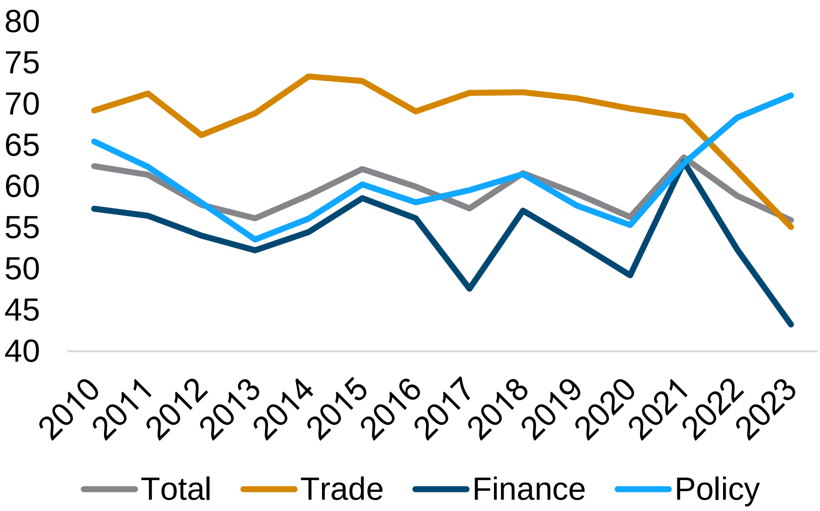
<u>CESEE bottom line: Front-line region (on either side) with big economic implications</u>

(Example: EU is losing ground in the geo-economic game in its neighbourhood, including much of CESEE)

GEOII scores for EU over time, by sub-region



GEOII scores for EU over time, by sub-index



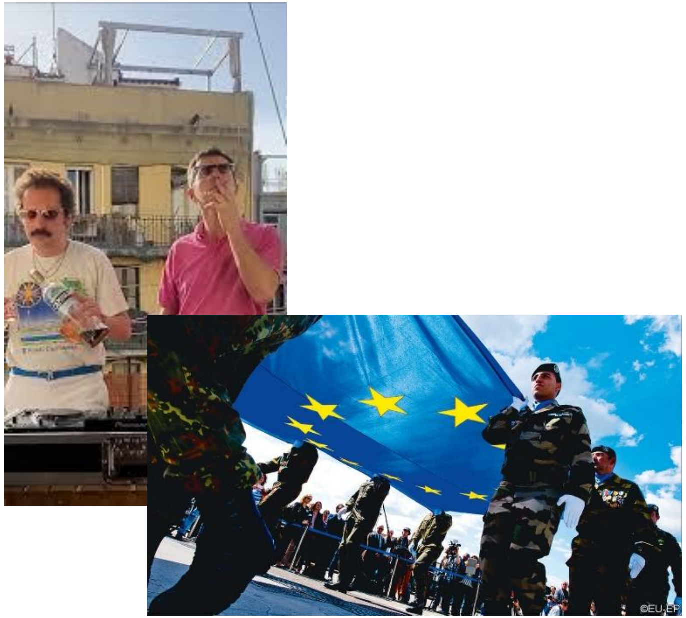
Source: Bertelsmann Geoeconomic Interconnectivity Index (GEOII). Full details: https://bst-europe.eu/de/wirtschaftssicherheit-handel/the-geoeconomic-interconnectivity-index-mapping-europes-interconnections-in-an-age-of-geopolitics/

How do we understand the world now? (2) Trump in perspective

- Trump creates/amplifies tensions but underlying structural issues are real
- US strategic priorities (China containment, Arctic/Greenland, defence burden-sharing) are by no means limited to him
- NATO taken for granted by Europe for too long
- The post-Trump world will not revert to 2015

Europe between the giants: an uncomfortable position and a choice between action and stagnation (or worse)

- Squeezed between US and China on trade, technology and energy.
- Forced to become more geopolitical, whether it wants to or not.
- Likely outcome: More defence, more industrial policy, more protected market, energy transition. CESEE will play decisive role in this.

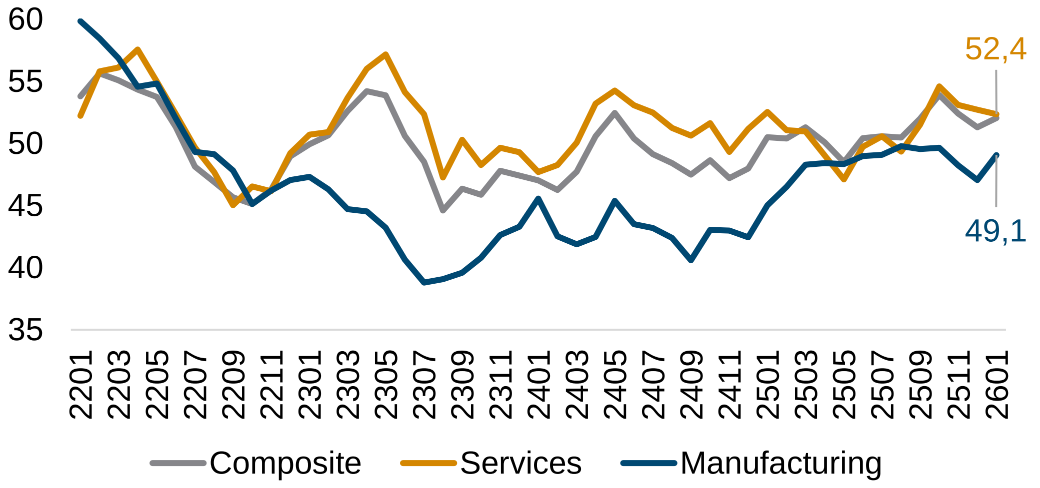


Germany and the euro area now: Stable but subdued growth, structurally higher inflation, rates on hold. Key changes: Stronger euro, weaker oil.

	Winter 2026					*Changes since Autumn*	
	2025	**2026**	**2027**	**2028**		***2026***	***2027***
Euro area real GDP growth, %	1.4	1.4	1.5	1.5		*0*	*0*
Euro area HICP, %	2.1	1.9	1.9	1.9		*0*	*0*
ECB deposit facility rate, %, eop	2.00	2.00	2.00	2.00		*0*	*0*
USD/EUR exchange rate, average	1.13	1.20	1.20	1.20		*0.04*	*0.05*
Brent crude oil, USD per barrel, average	69.1	60.0	58.0	58.0		*-5.0*	*-7.0*

Germany: Consumer and construction doing fine, but industry is still struggling. Matters for CESEE.

Purchasing managers' indices (PMI), 50 = no change



Reasons for cautious optimism in 2026-2028:

- Further improvement in terms of trade
- Less uncertainty
- Fiscal loosening
- Pass-through from monetary loosening

Sources: S&P Global, Haver Analytics.

wiiw CESEE Q1 2025 forecasts: In this context, quite good. Resilience again. But also clear (and major) differentiation.

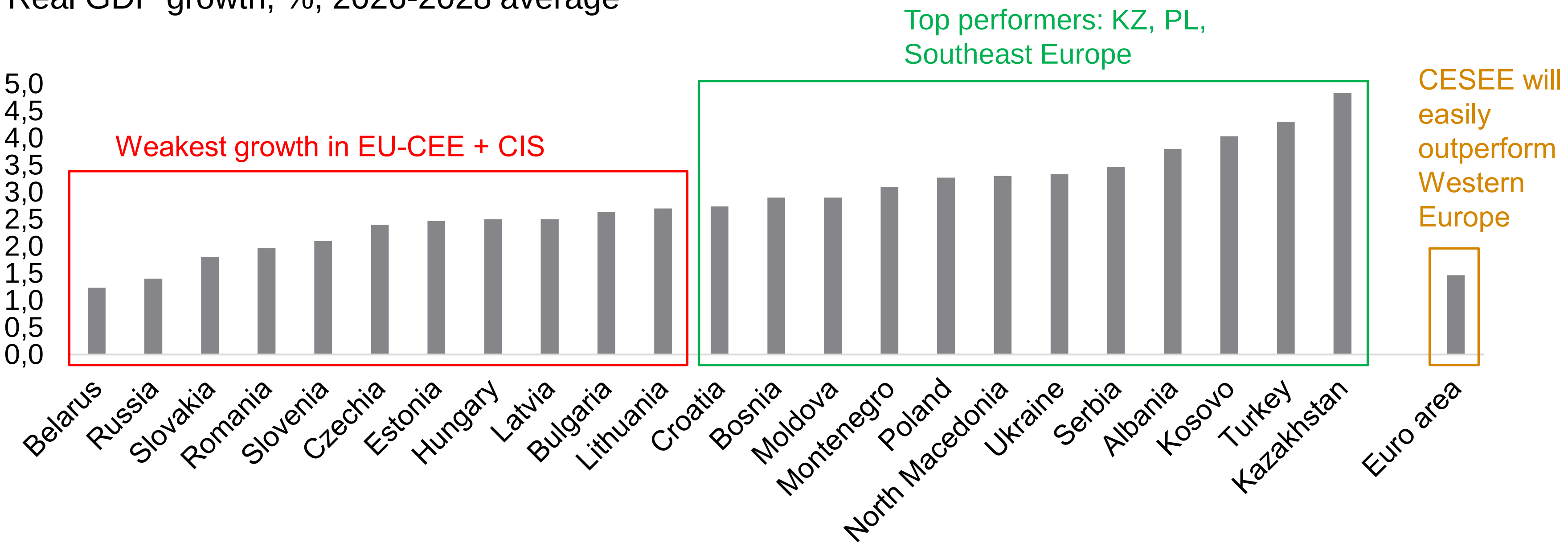
Real GDP growth forecast, % per year

Region		2025		2026		2027	
EU-CEE							
BG	Bulgaria	3.1	▲	2.7	▼	2.6	▼
CZ	Czechia	2.3	▲	2.4		2.5	▼
EE	Estonia	1.4		2.3		2.7	
HR	Croatia	3.0		2.8		2.7	
HU	Hungary	0.3	▼	2.2	▼	2.5	▲
LT	Lithuania	2.8	▲	3.0	▼	2.4	
LV	Latvia	1.2	▲	2.4		2.5	▲
PL	Poland	3.5		3.7	▲	3.2	▲
RO	Romania	1.2	▲	1.0	▼	2.2	▲
SI	Slovenia	0.8	▲	2.0	▲	2.2	
SK	Slovakia	0.7		1.1		1.9	▼
Western Balkans							
AL	Albania	3.7	▲	3.8	▼	3.9	▼
BA	Bosnia and Herzegovina	2.2		2.7		3.0	
ME	Montenegro	3.3	▼	3.2	▼	3.0	▼
MK	North Macedonia	3.4	▲	3.4	▲	3.3	▲
RS	Serbia	2.0		2.8	▼	3.6	▼
XK	Kosovo	3.6	▼	3.8		4.1	
New EU accession 2							
MD	Moldova	2.0	▲	2.2	▼	3.0	
UA	Ukraine	2.0		2.5	▼	3.5	
Turkey							
TR	Turkey	3.4		3.9		4.4	
CIS3							
BY	Belarus	1.3	▼	1.3	▼	1.3	▼
KZ	Kazakhstan	6.5	▲	4.5		5.0	▲
RU	Russia	0.7	▼	1.2	▼	1.5	

Note: Orange = highest/upward revisions, grey = lowest/downward revision. Source: wiiw Winter 2026 forecasts.

Top performers: Kazakhstan, Poland, Southeast Europe. Convergence slower than pre-2020 but still on track.

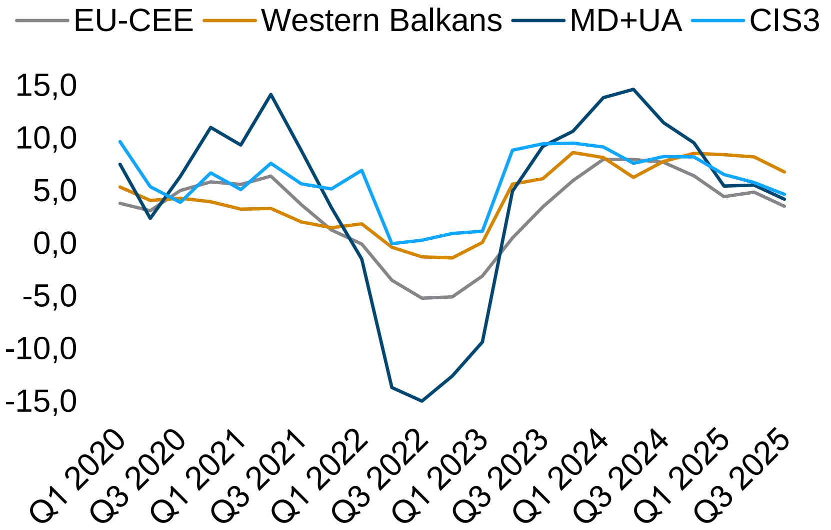
Real GDP growth, %, 2026-2028 average



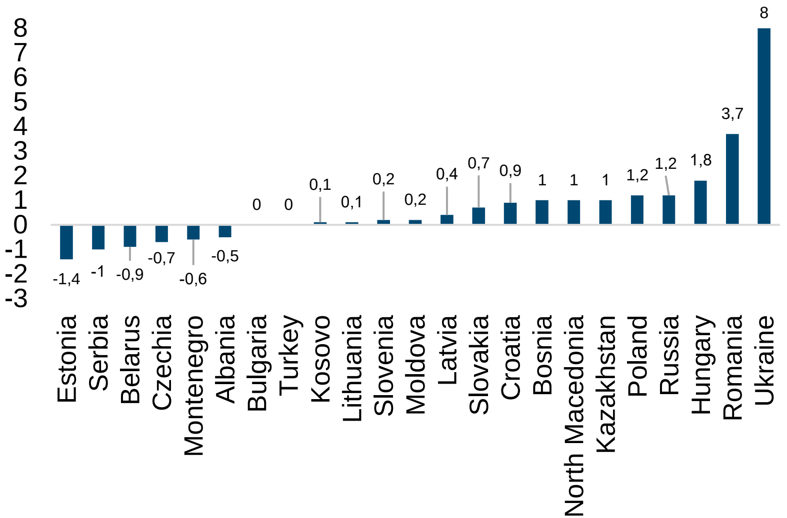
Source: wiiw Q1 2026 forecasts.

Significant growth model shift underway (1): Consumption normalising at high level, fiscal drag

Real wages, % change, year on year



Projected cumulative change in fiscal balance, 2025-2028, percentage points of GDP

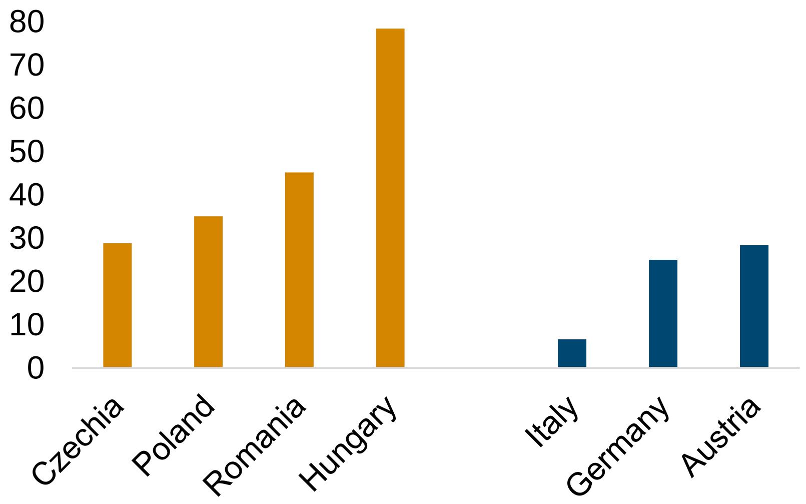


Sources: Eurostat, national sources, wiiw projections.

Significant growth model shift underway (2): Investment to the rescue? Fundamental case is there.

- ✓ Monetary loosening
- ✓ EU funds
- ✓ Optimism in many markets
- ✓ Major incentive to invest due to drastic loss of competitiveness since 2019.

Labour cost misalignment index, percentage points

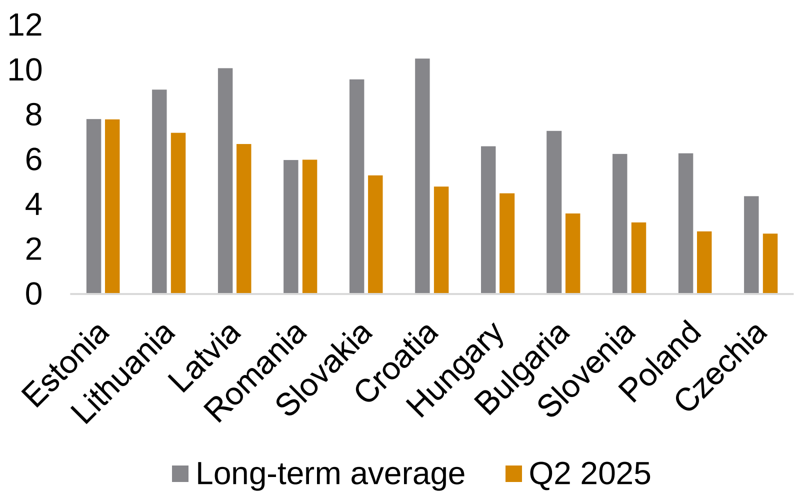


Note: Labour cost misalignment index measures the change in nominal unit labour costs per person employed between Q1 2020 and Q3 2025 minus the change in real labour productivity per person employed over the same period.

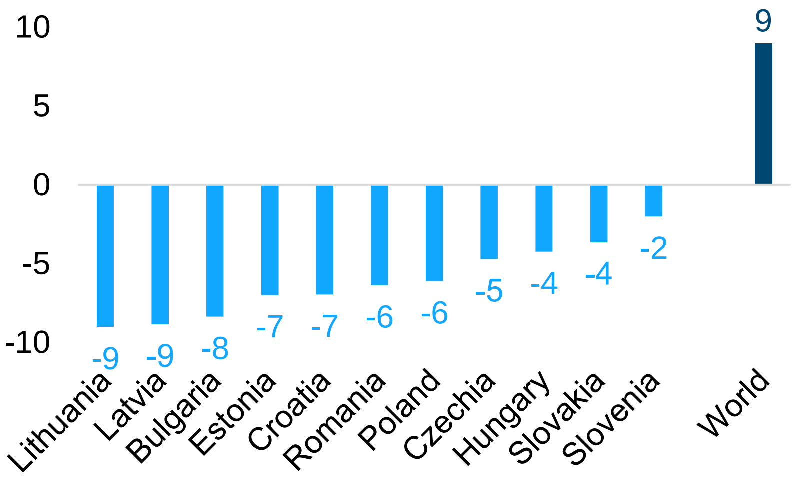
Sources: Bruegel, European Commission, Haver Analytics, wiiw.

Decisive moment for CESEE growth model. Positive scenario: Demographic pressures/inflation shock > automation/capital deepening + shift up value chain. Negative scenario = permanently lower growth.

Unemployment rate, %



Projected population change, 2024-2035, %



Sources: UN, Eurostat, national sources, wiiw.

By 2030 likely to be a different CESEE economy

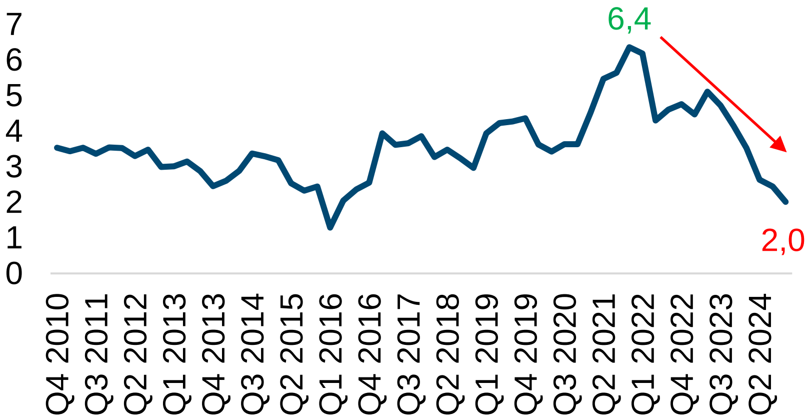
- Less open, less trade dependent
- Higher share of investment in GDP (labour shortages, defence, energy transition)
- Consumption growing more slowly but at a higher wealth level
- EU funds still major growth driver, but not for all

Ukraine after the war: It depends

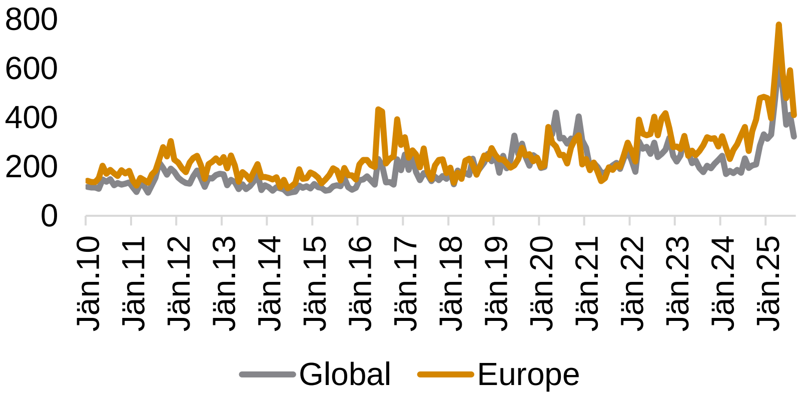
Channel	Baseline: Just peace	Dictated/unstable peace
Reconstruction funding	Strong EU, US, international donor inflows	Less, slower, partial Western disengagement
Security/political risk	Basics secured, improving	Perceived high risk of renewed war
Project pipeline	Confidence to invest in big, multi-year projects	Delays, focus on smaller and short-term projects
Private investment	Interest in energy, housing, logistics, CRMs	Weak interest, selective, high risk premia
Regulatory environment	Challenges but improving, increasing EU alignment	Much less improvement, territorial and legal uncertainty
Regional spillovers	Big positive spillovers especially for neighbours	Neighbours do not see big spillovers, continued Russian hybrid attacks deter FDI

Already clear cost for CESEE: End of peace dividend, higher risk premia, higher costs (tariffs), more US pressure, Russian hybrid attacks, greater uncertainty in general

FDI inflows to EU-CEE, % of GDP



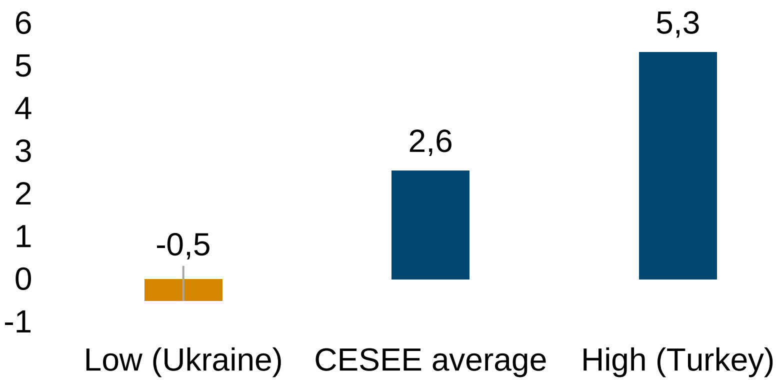
Economic policy uncertainty index, long-term average = 100



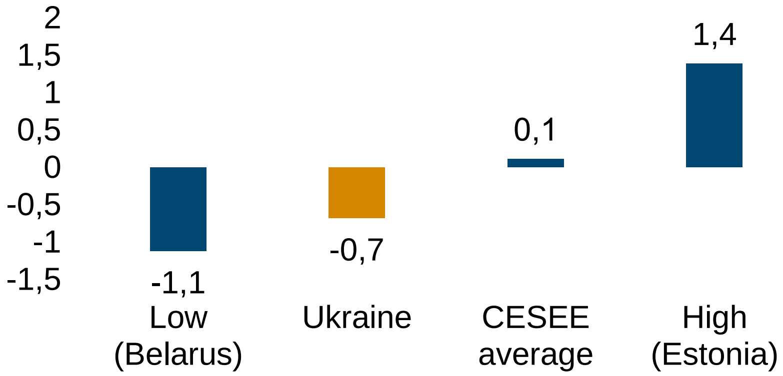
Sources: Eurostat, national sources, wiiw.

Ukraine's postwar growth likely to be disappointing without firm security guarantees

CESEE real GDP growth rate, 2012-21 average, %



World Bank Worldwide Governance Indicators Rule of Law estimate for 2021



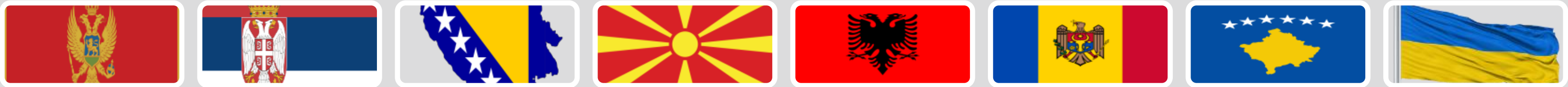
Note: World Bank Worldwide Governance Indicators range from -2.5 (low) to 2.5 (high).

Sources: Eurostat, national sources, World Bank, wiiw.

Ukraine, security and enlargement: CESEE will become less eastern and more central to Europe

- Defence spending increase is structural
- CESEE will move closer to the EU core strategically, not just economically
- EU enlargement becomes more geopolitical but also more realistic
- Western Balkans: Sceptical on near-term full enlargement, hopeful on deeper integration (and opportunities). Watch Serbia.

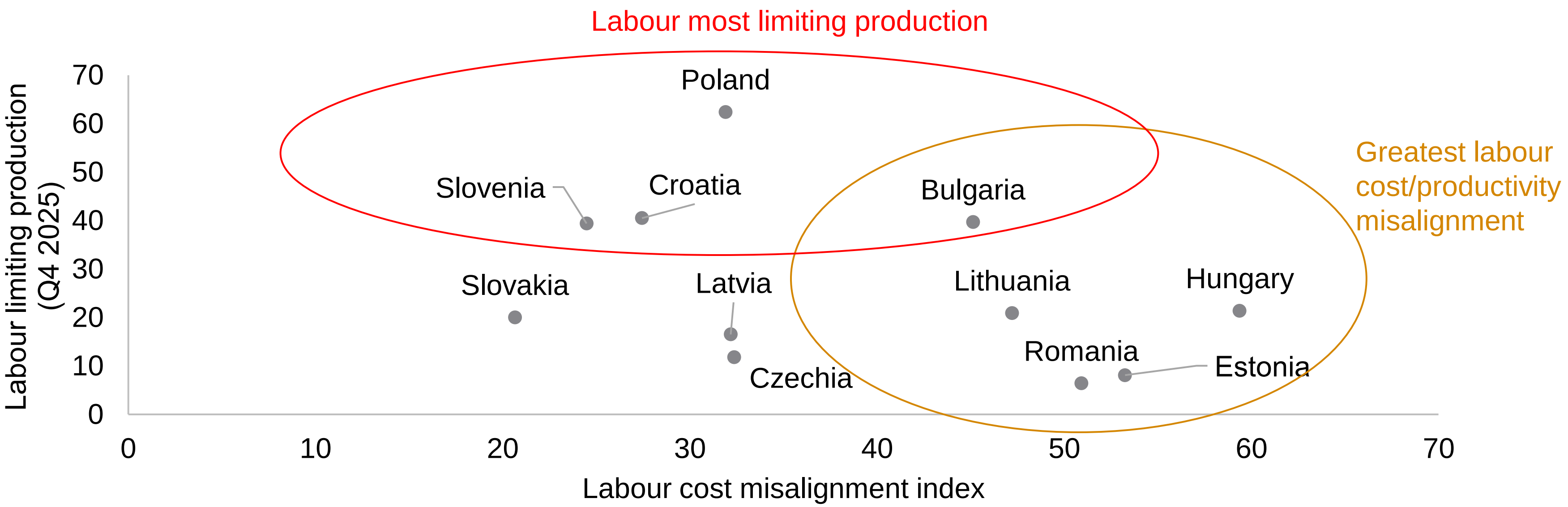
If accession hopefuls get to Romania per capita GDP level (imperfect conditions), huge market growth…



+25%	+50%	+115%	+120%	+165%	+200%	+200%	+280%

✓ Would lift total EU GDP by ~4%.

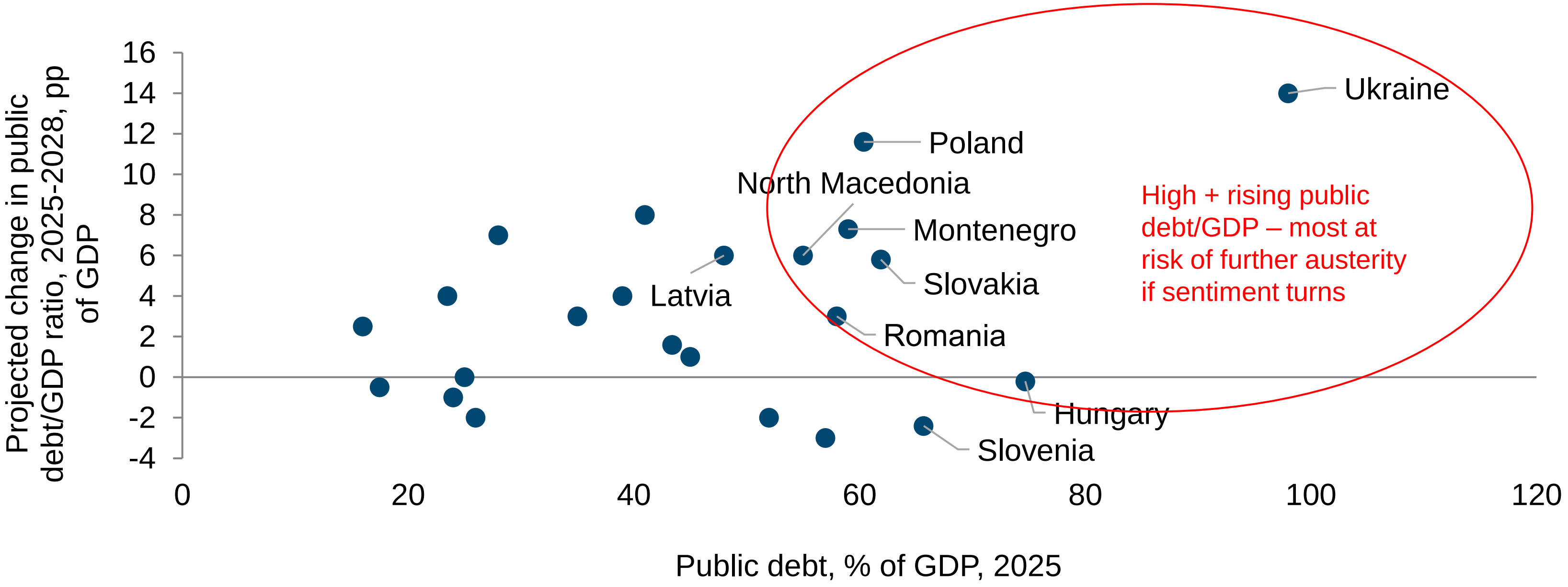
What to watch in 2026-2028 (1): Investment response to higher wages and labour scarcity



Note: Labour cost misalignment index measures the change in nominal unit labour costs per person employed between Q1 2020 and Q3 2025 minus the change in real labour productivity per person employed over the same period.

Sources: Eurostat, national sources, wiiw.

What to watch in 2026-2028 (2): Fiscal stress points in countries with high and rising public debt

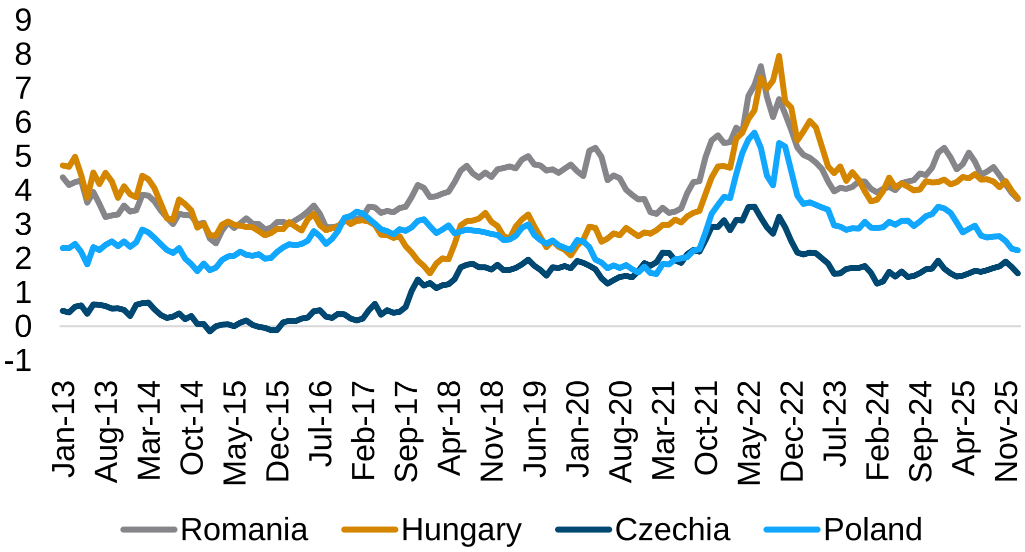


Note: Dots show CESEE countries. Those labelled have highest/fastest rising debt.

Sources: Eurostat, national sources, wiiw forecasts.

(Really no sign of this at the moment: bond markets seem very „calm“ across CESEE – but ratings agencies are starting to get worried)

10-year bond yield, spread over Germany, percentage points



Poland Risks Credit Downgrade at Fitch on Spiraling Public Debt

Fitch Revises Poland's Outlook to Negative; Affirms at 'A-'

Fri 05 Sep, 2025 - 17:03 ET

Rating Action: Moody's Ratings changes Poland's outlook to negative from stable, affirms A2 ratings

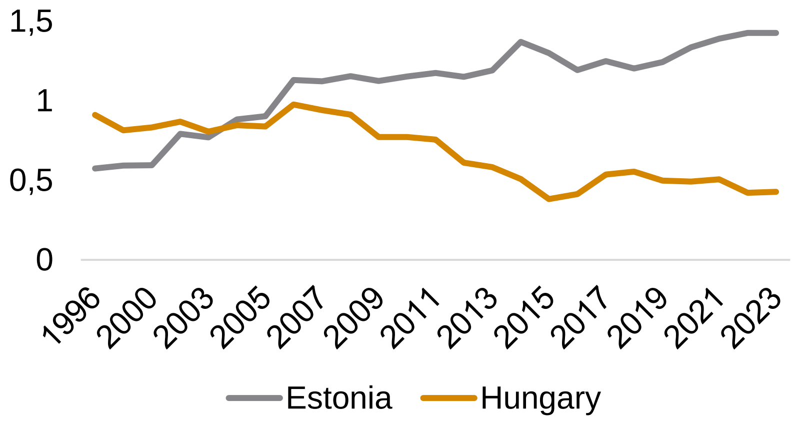
Sources: National central banks, Tullett Prebon, Haver Analytics, wiiw.

What to watch in 2026-2028 (3): New escalation in trade frictions

What to watch in 2026-2028 (4): „Noisy“ local politics: But illiberal forces constrained by institutions, coalitions and EU conditionality

- No clear drift away from European integration
- But political volatility will not go away
- Illiberal parties will continue to negatively impact capacity/quality of institutions
- Negative economic effects (weak governance, loss of EU funds etc)

World Bank Worldwide Governance Indicators, Rule of Law estimate



Note: Max = 2.5, min = -2.5. Source: World Bank.

Conclusion: CESEE is no longer about catching up, it’s about how Europe adapts to a harder world.

- CESEE continues to outperform Western Europe, but the easy convergence era is over
- The old growth model has run its course: wage costs too high for a cheap labour growth model
- Richer consumers create new opportunities, but investment, productivity and security now determine outcomes
- Geopolitics central economic force shaping growth, costs and incentives
- What happens in CESEE over the next five years will tell us whether Europe can adapt to a harder world

Thank you for your attention!

Rahlgasse 3, 1060 Vienna, Austria

(+43-1) 533 66 10

(+43-1) 533 66 10-50

The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche