

Monthly Report

Editorial insight: CESEE's changing growth model

Chart of the month: Gradual EU integration is a must

Macro snapshot: EU-CEE's industrial resilience continues

Focus of the month: Using Russian foreign reserves for Ukraine

Research in brief: Geo-economic competition in the EU neighbourhood, tracking Western Balkan convergence, the must-haves for EU accession

Country in focus: Bulgaria heading for yet another election



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Dear valued members,

You are reading the first edition of our relaunched Monthly Report, redesigned to be more timely, focused and directly useful for decision-makers. In a more volatile geopolitical and economic environment, our aim is to provide sharper analysis of the developments that matter most for Central, East and Southeast Europe (CESEE), with clear messages, strong data and explicit business and policy implications. The report also serves as a bridge between our in-depth Forecast Reports and the fast-moving developments shaping the region.

The new Monthly Report is more selective and more responsive. Each issue focuses on a small number of high-priority topics, from industrial competitiveness and labour shortages to fiscal risks, trade shifts and geopolitical spillovers, combining wiiw's analytical strength with concise interpretation. The emphasis is on insight over volume: what has changed, why it matters and what to watch next.

In addition, the report keeps you informed about key developments within our membership offering, including upcoming events, publications and recent analyses you may have missed. As our network grows, we want to ensure that you fully benefit from the expertise and exchange that membership provides.

We see this relaunch as part of our broader effort to modernise and strengthen our membership services. As always, we welcome your feedback and look forward to continuing the exchange with you in this new format.

Happy reading,

Richard Grieveson
Deputy Director, wiiw

Editorial insight



WHY CESEE'S CHANGING GROWTH MODEL MATTERS FOR EUROPE

by Richard Grieveson, wiiw Deputy Director and Economist

For much of the past three decades, Central, East and Southeast Europe (CESEE) followed a relatively clear growth script: cheap labour, strong demand from Germany and generous EU funding supported rapid convergence with Western Europe. That model delivered impressive results. But it is now coming to an end, and what replaces it will matter not just for the region itself, but for Europe as a whole.

The shift is already visible in the data. Labour markets across CESEE are tight, in many cases historically so. Natural population decline and outward migration have sharply reduced labour supply, while real wages have risen rapidly in the post-pandemic years. As a result, labour shortages have become structural rather than cyclical, and wages have increased (much) faster than productivity across most of the region. At the same time, higher energy prices and growing regulatory and security costs have pushed up input prices across the board.

These changes mean that the old growth model, based on expanding employment and cost competitiveness, has reached its limit. Consumption growth, which was buoyed in recent years by strong real wage gains, is now normalising. Fiscal policy is turning more restrictive as governments grapple with higher debt, higher defence spending and EU fiscal rules. Exports, long anchored to German industrial demand, remain constrained by weak manufacturing momentum in Western Europe.

Against this backdrop, investment has become the decisive variable in CESEE's medium-term growth. The fundamental case for investment is strong. Labour scarcity creates a powerful incentive for automation and capital deepening. Losses in cost competitiveness since 2019 render upgrading production processes unavoidable, rather than merely optional. EU funds, though increasingly conditional and strategically targeted, still provide support for infrastructure, energy and digital investment, and continue to account for a large share of overall public investment in much of the region. Defence-related spending is rising structurally, not temporarily, creating spill-overs into manufacturing, logistics and technology.

But this transition is not guaranteed to succeed everywhere. CESEE is entering a phase of much greater differentiation. Countries and firms that respond to labour shortages and higher costs with productivity-enhancing investment and institutional upgrading can sustain relatively strong growth. Those that fail to

adapt risk becoming stuck in a kind of CESEE-specific middle-income trap, with permanently lower growth. CESEE is still likely to remain a convergence story, but in a more differentiated way.

This matters far beyond the region itself. Europe is entering a harsher geopolitical and geoeconomic environment, in which trade, technology and energy have become instruments of power. The rivalry between the US and China is structural and will persist regardless of political cycles. Russia is a long-term security disruptor, not a temporary shock. Defence spending, supply-chain security and energy resilience are now core economic issues.

In this environment, CESEE has become a front-line region, economically as well as strategically. It sits at the intersection of Europe's security concerns, industrial supply chains and energy networks. The end of the peace dividend has already raised costs and demands on public spending across the region. The outcome of the war in Ukraine and the evolution of EU enlargement will shape investment incentives and risk perceptions for years to come.

For Europe as a whole, the implications are clear. Western Europe's economic growth is weak, and the next election cycle may only make the challenges of restoring momentum there more difficult. If Europe is to remain economically resilient, it cannot rely solely on its traditional core. CESEE has shown itself again to be more resilient, and has adapted quicker to the challenges that the whole of Europe is facing, not least its rapid increases in defence spending. Therefore CESEE's ability to shift successfully to a growth model driven by investment, productivity and security will be a crucial part of Europe's adjustment to a more fragmented world.

In that sense, what happens in CESEE over the next five years will tell us a great deal about Europe's future. If the region manages the transition well, it could support Europe's competitiveness, resilience and strategic autonomy. If it does not, Europe's economic and geopolitical challenges will become harder still. CESEE is no longer just catching up: it is becoming a test case and, in many ways, a leader in Europe's adaptation to a rapidly changing, harsher and more dangerous world.

Chart of the month



GRADUAL EU INTEGRATION IS A MUST, AND NOT ONLY FOR UKRAINE

by Richard Grieveson, wiiw Deputy Director and Economist

The *Financial Times* [broke the story in January](#) that Brussels is once again debating phased or partial EU accession. While this story focused on Ukraine, it speaks to a deeper truth about EU enlargement. The accession process now takes much longer than in the past. And the huge delays, including the blocking of accession for reasons that have nothing to do with entry criteria, have had a badly corrosive impact on sentiment in the Western Balkans in particular.

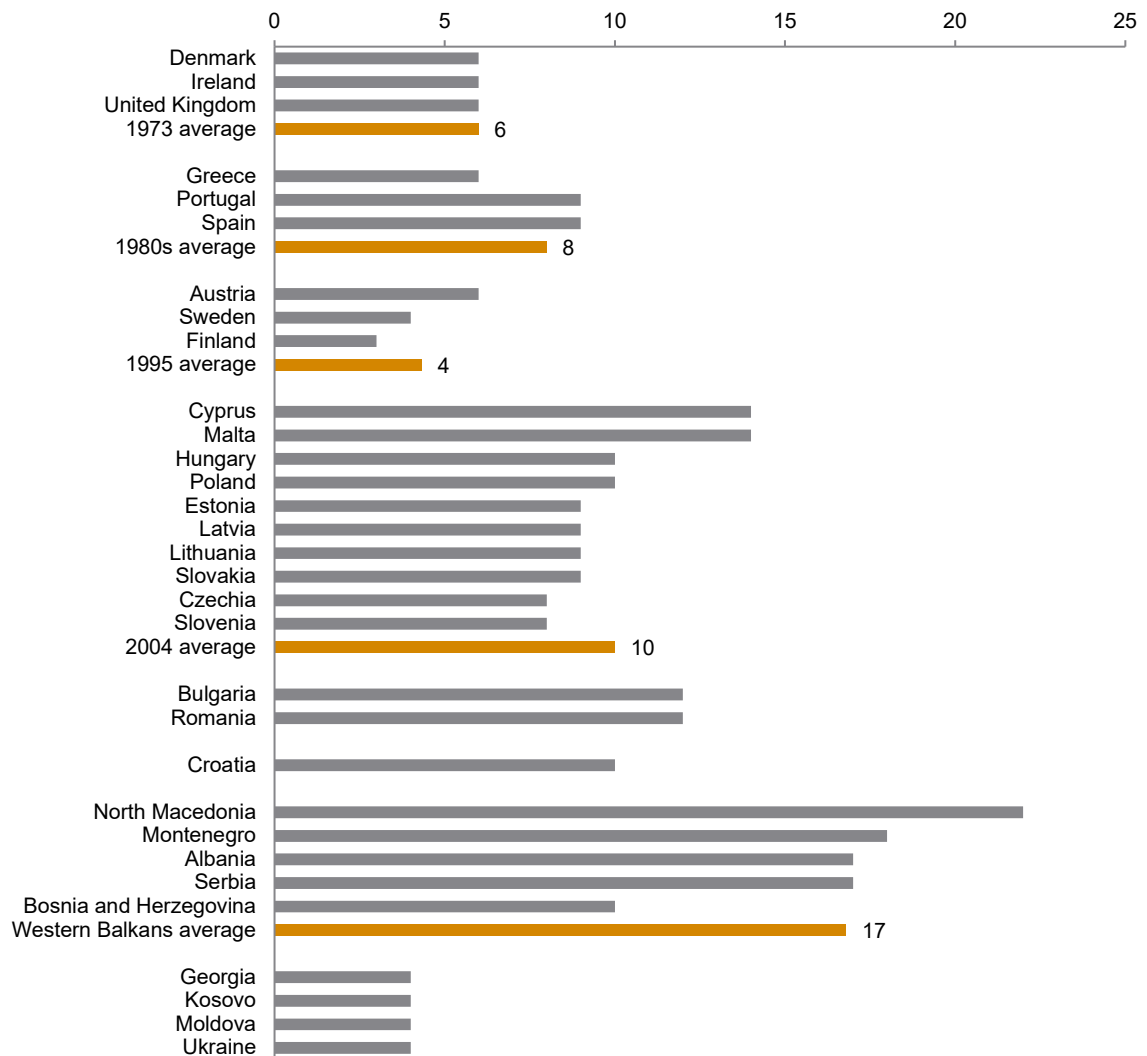
As Figure 1 shows, in the early decades of European integration, accession was a relatively short, credible journey: applicants in the 1960s, 1980s and 1990s typically joined within 4-8 years. Although the 2004 enlargement required roughly a decade on average, in the current context that looks like the blink of an eye. As of 2026, some candidates have been waiting more than 20 years. North Macedonia's case is emblematic: having formally applied in 2004, more than decades on it is still outside the EU. When accession takes a generation rather than a political cycle, the traditional 'all-or-nothing' model starts to lose credibility, both for candidates and for the EU itself.

This is why gradual or phased integration is increasingly being discussed not as a shortcut, but as a pragmatic response to institutional reality. If full EU membership is politically and procedurally distant for most, interim steps can anchor reforms, deliver tangible benefits and reduce the risk of drift. In a [policy brief](#) I recently co-authored for the Carnegie Endowment for International Peace, we argue for 'access before accession': deeper participation in the single market, EU programmes, funding instruments and policy-making structures well before formal entry. The logic is simple: EU integration should be driven by readiness and performance, not stalled indefinitely by unanimity constraints or enlargement fatigue inside the EU, and certainly not by whims arising from local political disputes within individual member states. For countries facing 15-25-year waits, these intermediate steps are a way to keep reform coalitions alive and pro-European orientation economically and politically meaningful.

At the same time, fears in candidate countries are understandable. Many worry that 'gradual integration' could harden into permanent second-class EU membership. This risk is real, and it is precisely why any phased approach must be rule based, time bound and reversible, with clear pathways to full membership, rather than vague promises. But the alternative – pretending that full accession is imminent, when the data clearly say otherwise – may be worse. Although EU accession has gained fresh momentum since 2022, there is a clear risk that some are now banking on imminent membership

that may not happen. If it does not, the EU must have a Plan B that includes a firm, concrete offer of tangible benefits as an interim step. Without that, there is a risk of deepening the despondency that many in the Western Balkans, in particular, feel after decades in the waiting room.

Figure 1 / Years between EU membership application and accession



Note: Countries from North Macedonia onwards have yet to join, number of years as of 2026.

Source: European Commission.

Macro snapshot



EU-CEE'S INDUSTRIAL RESILIENCE VIS-À-VIS GERMANY CONTINUES

by Alexandra Bykova, wiiw Head of Statistics and Economist

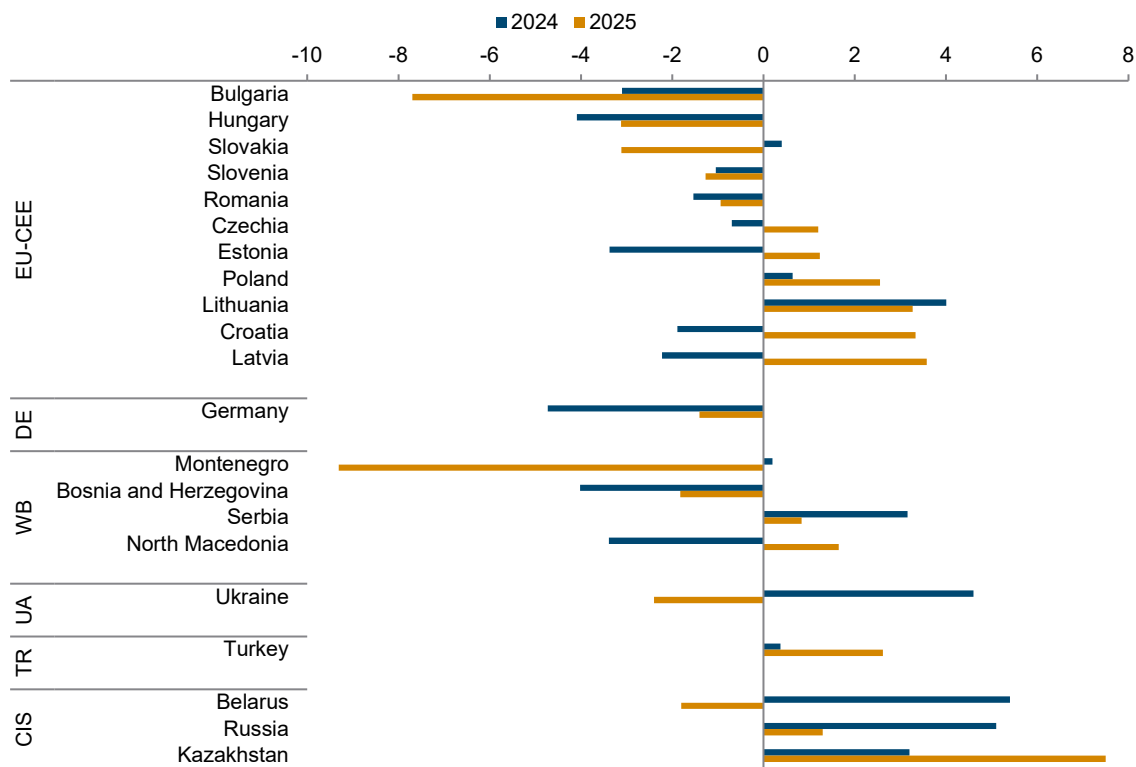
With the exception of Bulgaria, Hungary and Slovakia, in 2025 the industrial sector of most EU-CEE economies outperformed that of Germany (where it contracted by 1.4%), despite those economies' deep integration into German-led value chains, particularly in the automotive sector. Some possible explanations, which warrants further empirical investigation, are that Germany's industrial sector has stronger direct exposure to Russian energy supplies, a larger share of energy-intensive core industries (e.g. chemicals and metals) and greater exposure to global demand fluctuations and external shocks. Besides, unlike Germany, several EU-CEE countries, especially Poland and Czechia, experienced robust domestic demand last year, thanks partly to large inflows of EU funds and FDI, as well as to public-sector investment.

On average, however, industrial performance in the CESEE region continued to be weak (Figure 1). While more than half of the economies recorded positive growth in industrial production last year, in only six did it exceed 2% – Poland, Lithuania, Croatia and Latvia in EU-CEE, plus Turkey and Kazakhstan. The last mentioned posted an impressive 7.5% increase, driven both by the one-off effect of the double-digit expansion in the oil sector, as the Tengiz oil field ramped up production, and also by the strong growth in many manufacturing industries supported by state-led diversification programmes.

By contrast, Montenegro and Bulgaria recorded a decline in industrial output of 9.3% and 7.7%, respectively. In both countries this was largely due to a sharp drop in electricity production. The industrial downturn in Bulgaria and Slovenia continued and was even steeper than in 2024, whereas in Hungary and Romania it was less pronounced. In Czechia, Estonia, Croatia, Latvia and North Macedonia, industry recovered after a decline the previous year.

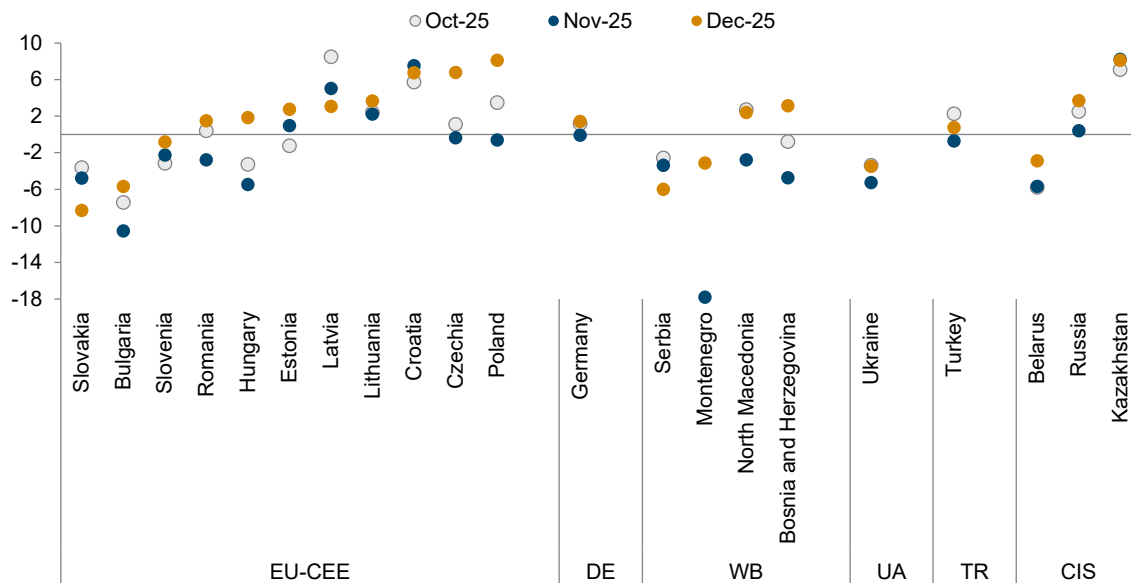
The latest data from December 2025 demonstrate that in most EU-CEE countries, industrial production continued to outperform Germany's showing of 1.4% year on year (Figure 2). Moreover, annual growth improved in almost all CESEE countries compared to November, with the exception of Slovakia and Serbia, where the decline became even more pronounced (-8.3% and -6%, respectively), and Latvia, Croatia and Kazakhstan, where growth slowed but remained robust at 3.1%, 6.7% and 8.1%, respectively. However, seven CESEE countries continued to record a decline in industrial production on an annual basis.

Figure 1 / Real growth in gross industrial output in CESEE and Germany, in %



Note: data for Albania, Moldova and Kosovo are not yet available for 2025.
Source: wiiw Annual Database incorporating national statistics and Eurostat.

Figure 2 / Real growth in gross industrial output in CESEE and Germany in October-December 2025, in % year on year



Note: data for Albania, Moldova and Kosovo are not yet available for December 2025.
Source: wiiw Monthly Database incorporating national statistics and Eurostat.

Focus of the month



USING RUSSIAN FOREIGN RESERVES FOR UKRAINE: THE LIKELY CONSEQUENCES

by Vasily Astrov, wiiw Economist

Hungary's recent veto has cast doubt on the future of the EUR 90bn loan to Ukraine agreed by the EU last December. This new development potentially paves the way for alternative sources to be used to provide financing for Ukraine, including the use of frozen Russian reserves. Although such a step would obviously reduce the EU's borrowing needs now, it would also expose it to legal risks and a potential nationalisation of the assets of EU investors in Russia. Ukraine, in turn, would receive funds to continue defending itself now, but in the longer run would likely be deprived of an important financial source for post-war reconstruction.

Hungary has blocked the EU loan to Ukraine – what now?

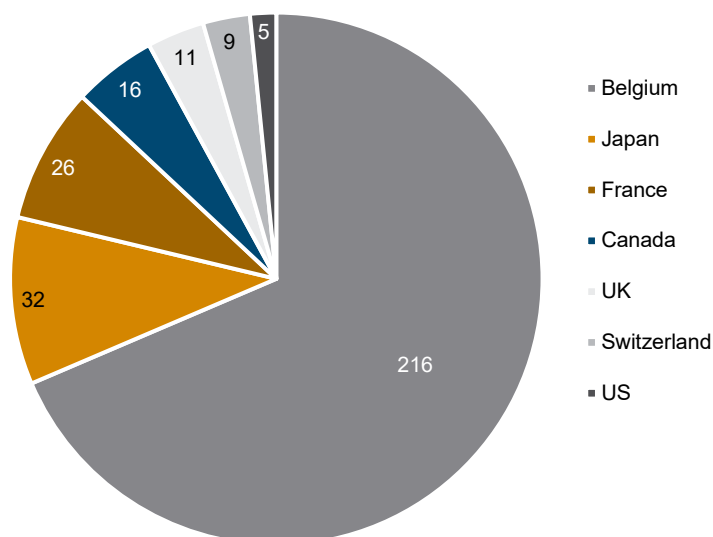
On 23 February, Hungary [blocked](#) final approval of a EUR 90bn EU loan to Ukraine. The interest-free loan, [agreed at an EU summit](#) on 18-19 December 2025, is supposed to cover two thirds of Ukraine's estimated financing needs in 2026-2027, with EUR 60bn to be allocated to defence and EUR 30bn to macroeconomic assistance/budget support. The loan is to be repaid only if the country receives war reparations from Russia (which appears unlikely from today's perspective). On the EU side, it is to be financed by taking on new debt. On 11 February, the European Parliament [ratified the decision](#), but it was subject to approval by the European Council, which requires unanimity of all EU member states.

Back in December, Hungary agreed to the EU loan, although – along with Czechia and Slovakia – it opted out of taking on additional debt obligations. The official pretext for the sudden change of heart by the Orbán government is the recent (since 27 January) interruption to the supply of oil via the Druzhba pipeline, which crosses Ukrainian territory (although Ukraine claims that this is the result of damage inflicted by Russian drones). But more generally, Hungary's about-turn is to be seen in the context of approaching parliamentary elections in April, with Orbán's [ruling Fidesz party trailing](#) the opposition Tisza party in the opinion polls, and is likely aimed at demonstrating the government's firmness in its dealings with both Kyiv and Brussels. The Hungarian government has threatened on multiple occasions in the past to veto EU decisions, notably on Russia and Ukraine, but it has almost always backed down in the end, after securing concessions from Brussels. This time, though, things may be different, as its current strategy is arguably more about consolidating its pre-election image than deriving economic benefit.

The EU's December decision to finance the Ukraine loan by taking on new debt was a last-minute compromise. Prior to that, there had been heated debate about using Russian foreign reserves – frozen by EU countries ever since February 2022 – as collateral for the loan. Ultimately, the idea was dropped, though, at least for the time being. Belgium, in whose securities depository Euroclear the bulk of the frozen Russian reserves is held (Figure 1), had been steadfastly opposed to the idea from the very beginning, fearful of legal consequences for the country itself (as the other EU countries [refused to provide the extensive guarantees demanded by Belgium](#)), and it was [joined by EU heavyweights France and Italy](#) at the last moment.

Figure 1 / Frozen Russian reserves in USD billion, by country*

Total: at least USD 315bn**



*The figure for Japan is the average of available estimates (USD 29-35bn). The figure for Canada is the minimum estimate.

**Frozen Russian currency reserves are also likely to be held in Germany, Australia, Sweden and Cyprus, but the amount is unknown.

Source: <https://www.rbc.ru/politics/08/12/2025/6936f1e49a7947101341d100>

With Hungary's recent U-turn, though, the cards have been reshuffled, potentially opening up all sorts of possibilities for financing Ukraine, including using Russian reserves as collateral. That such an option has never been completely off the table is also confirmed by remarks made by [President of the European Council António Costa](#) following the December EU summit.¹ Besides, even if the EUR 90bn were eventually to reach Ukraine, the country would likely need fresh financing soon: the International Monetary Fund (IMF), for example, has [estimated](#) Ukraine's total needs for 2026-2027 at EUR 130bn. Although resorting to Russian reserves is still not the most likely option (for reasons outlined below), it cannot be ruled out completely. Should this happen, what may be the economic consequences of such a move?

¹ At the press conference following the December 2025 EU summit, Mr Costa said: 'The Union reserves its right to make use of the immobilised assets to repay this loan. At the same time, we gave a mandate to the Commission to continue working on the Reparation Loan based on Russian immobilised assets.'

For the EU, using frozen Russian reserves as collateral for the Ukraine loan (rather than its own budget) would have the obvious welcome effect of reducing its own debt burden. However, that advantage may be offset by the negative consequences, which can broadly be grouped into two main areas: (i) legal risks, and potential repercussions for financial stability in the EU and (ii) the possibility of Russian retaliation against private EU investors.

Legal risks and potential repercussions for financial stability in the EU

International law stipulates that an aggressor country is required to pay compensation for the aggression. However, this does not automatically entitle a third party to seize the assets of a sovereign state. Ever since the war started, there has indeed been heated debate about whether seizing Russian assets would be justifiable under international law. For instance, Tribe and Lewin [argued](#) (in the US context, where relatively few Russian reserves are held) that since the reserves in question are Russian state property, they are not shielded by the usual protections that the US legal system affords to private property. Similar arguments have been [put forward](#) by Zelikow and Johnson.

There have not been many precedents in recent history for the seizure of foreign reserves, though, and all of them have had at least some legal basis.

- › The US [seized Iraqi reserves](#) in 2003, but Iraq was the US's direct military adversary at the time, and in such a case the US [International Emergency Economic Powers Act](#) (IEEPA) explicitly permits such a move.
- › The US [transfer of Venezuela's frozen reserves](#) to the country's opposition in 2019 was justified by the fact that the latter was recognised by the US as the only legitimate government of Venezuela.
- › The disposal of part of the Afghan reserves frozen in 2021 was justified by [an earlier ruling](#) that held the Taliban liable for the victims of the 9/11 attacks.

Paul Stephan [argues](#) that none of these cases seems relevant to the case of Russia: the EU is not at war with Russia; the Russian government is officially recognised by the EU as legitimate; and Russia is not liable for any EU casualties. The dubious legality of seizing Russian assets is indirectly confirmed by [proposals setting out various schemes that would avoid any legal risks](#). For instance, Martin Sandbu [proposed](#) that the European Central Bank (ECB) should establish a 'bad bank', to which Euroclear and other financial institutions would transfer their liabilities and assets affected by sanctions.

Already in response to the [indefinite freezing of Russian reserves](#) by the EU in early December 2025 (which was supposed to be a necessary step before the decision to use them as loan collateral),² the Russian central bank [filed a lawsuit against Euroclear](#) with the Moscow Arbitration Court. If successful, this would open up the possibility of further legal action in international arbitration courts, with Russia standing a good chance of winning, according to [Ralph Jannik](#). Against the backdrop of these risks, Fitch, for example, [has downgraded Euroclear's rating outlook to 'negative'](#).

² Prior to that, the freezing of Russian reserves had to be prolonged every six months by unanimous decision of all EU member states.

The ECB has also repeatedly expressed [scepticism](#) about the legality of using frozen Russian reserves as collateral for the Ukraine loan. When the European Commission approached it with a proposal to act as a 'lender of last resort' to Euroclear to avoid a liquidity crisis (resulting from legal risks materialising), the ECB concluded that that would violate its mandate. [It said](#) that 'such a proposal is not under consideration as it would likely violate EU treaty law prohibiting monetary financing'.

Separately, [the ECB has also warned](#) that the de facto seizure of frozen Russian assets could undermine the stability of the international financial system, since countries such as China and the Gulf states may reduce their reliance on the euro. It is debatable, however, whether there are any grounds for such concerns – one could argue that if there were, they should have materialised by now. However, as [argued](#) by Havrylchuk, for example, 'neither the immobilisation of the CBR's assets in February 2022, nor the recent loan scheme backed by future interest income, nor the partial seizure of Russian assets to compensate Western clients has so far led to an increase in EU sovereign bond yields'.

The possibility of Russian retaliation: private EU investors at risk

On top of that, Russia would have considerable scope for retaliatory measures in other areas. In addition to [the EUR 17bn reportedly held by Euroclear in Russia](#), the assets of EU investors could be particularly at risk. For instance, according to data from the Kyiv School of Economics, only around 20% of French, 17% of German and 5% of Italian companies have withdrawn completely from Russia since the start of the war. Those that have remained are often quite profitable, but their Russia profits have effectively been frozen since 2022³ and would be the first to be seized in the event of retaliation. While anecdotal evidence suggests that some of these assets may have been written off, many have not been. The physical assets of EU investors could also be at risk. German direct investment alone [is loosely estimated to be over EUR 100bn](#) (precise valuation is hardly possible, given the severe restrictions – both on the Russian and the EU side – on selling foreign assets in Russia).

And what about Ukraine?

With a new loan backed by frozen Russian assets, Ukraine would receive funds now to continue defending itself against Russian aggression. However, in the longer run, this may paradoxically jeopardise the country's post-war reconstruction effort.

Ukraine's war-related reconstruction needs are obviously enormous. A year ago, for example, [the World Bank estimated them at USD 524bn](#), which exceeds the value of Russia's frozen reserves by nearly 70%. And with the war continuing, these needs continue to grow day by day. As an aggressor country, Russia could and should contribute to the costs, and it would only be natural to draw on its frozen reserves in this respect. Incidentally, this is exactly what [Donald Trump's original draft peace plan](#) envisaged, with USD 100bn of the Russian reserves to be invested by US companies in the reconstruction of Ukraine, and the remaining USD 200bn going into a joint US-Russian investment fund. Russia has signalled its readiness to negotiate on this point, which apparently does not represent a 'red line' for its leadership – unlike, say, Ukraine's NATO membership or Russia's control over Donbass.

³ They are held in special so-called S-accounts.

In today's prices, that USD 100bn is roughly equivalent to the amount [Germany had to pay in reparations under the Treaty of Versailles](#) after the First World War. Ukraine could certainly use the money. However, if Russian reserves were de facto seized by the EU and largely handed over to the Ukrainian military, post-war Ukrainian reconstruction would have to rely on other sources, such as international financial institutions and Western governments. It is likely that in the latter case, the burden of Ukraine's post-war reconstruction would end up squarely on the shoulders of European taxpayers – in addition to the [EUR 187bn already made available to Ukraine by the EU since the start of the war](#). It seems rather unfair that the EU should have to bear this burden – rather than Russia, which started the war and which is responsible for the enormous damage it has inflicted on Ukraine over the past four years.

Research in brief



RISING GEOPOLITICAL RIVALRIES AND GLOBAL ECONOMIC SHIFTS THREATEN THE EU'S INFLUENCE IN ITS BACKYARD

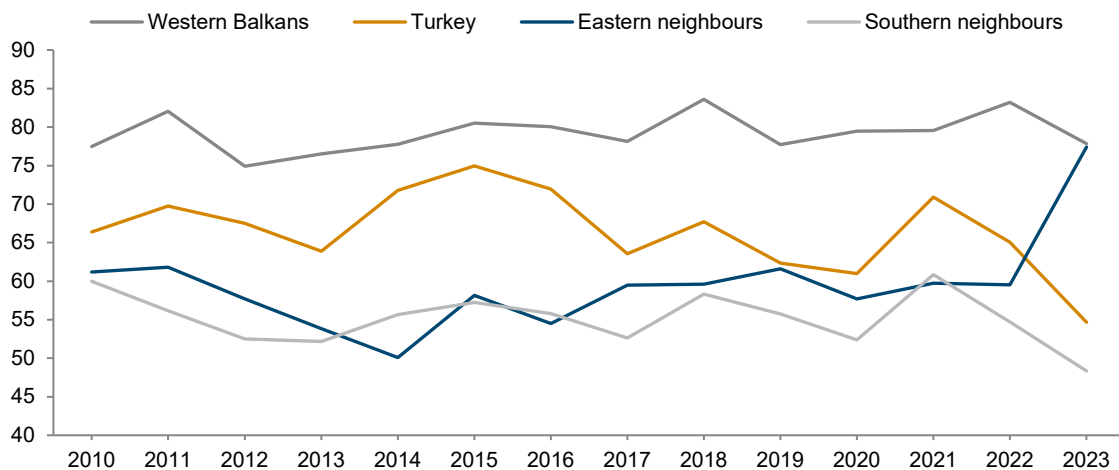
Client: Bertelsmann Stiftung

by Olga Pindyuk, wiiw Economist

A recently published [joint study](#) by wiiw, Bertelsmann Stiftung and the European Centre for International Political Economy (ECIPE) elaborates a brand-new Geoeconomic Interconnectivity Index (GEOII). On the basis of 43 indicators that cover trade, financial and policy links, it measures for the first time how closely the EU is interconnected with its neighbourhood, which includes the Western Balkans, the EU's Eastern neighbours, Turkey and the bloc's Southern neighbours. It also compares these results with the EU's regional interconnectivity with its main global rivals – the US, China and Russia.

GEOII shows that the EU remains the global power that is most interconnected with its neighbours overall, leading as it does in trade, finance and policy links. However, this strong position must not lead to a sense of complacency, as recent trends suggest that the competition from other global powers has been increasing. As a result, although in 2023 the EU maintained a high level of engagement with the Western Balkans and saw a sharp increase in ties with its Eastern neighbours, its influence has been declining in Turkey and across its Southern neighbours, where other global powers are making inroads (Figure 1).

Figure 1 / GEOII scores for the EU over time, by sub-region



Note: The maximum GEOII score is 100, indicating the highest possible level of geoeconomic interconnectivity.

Source: Bertelsmann Stiftung GEOII.

China, in particular, is becoming a serious rival to the EU in the region, creating critical dependencies in energy, security and the digital economy, and gaining influence through infrastructure projects and expanding trade relations. Although the country's overall level of interconnectivity with the EU's neighbours is still considerably lower than that of the EU itself, the gap between the two has been narrowing.

For policy makers, this highlights the need to strengthen the EU's economic engagement and strategic investment instruments. For businesses, it underscores both rising competition and new opportunities in regional supply chains.

Download the study [here](#).



HOW CLOSE ARE THE WESTERN BALKANS TO EU LIVING STANDARDS, AND WHERE IS CONVERGENCE STALLING?

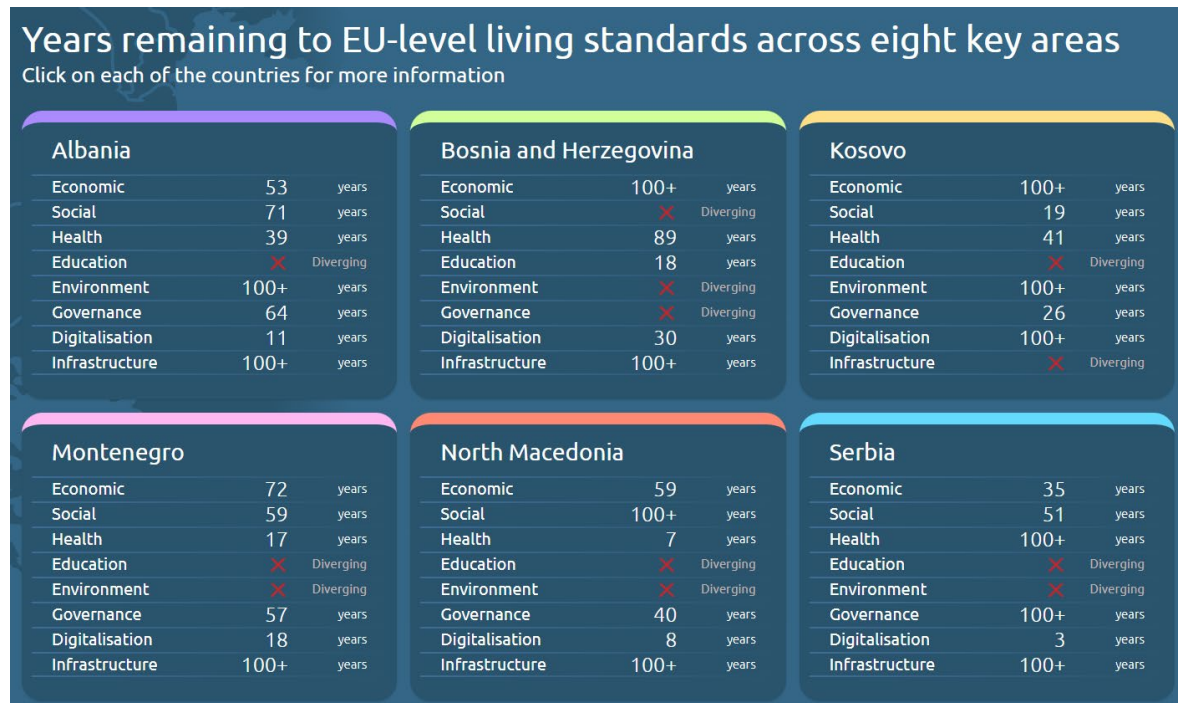
Client: Open Society Foundations – Western Balkans

by Branimir Jovanović, wiiw Economist

How far are the Western Balkan countries from the EU?

That is the question we address in our recent [converge2eu](#) project. The project assesses how close the Western Balkan economies are to EU living standards – and how rapidly they are catching up. It measures more than 40 indicators, grouped into eight areas of life, and compares each economy against the EU average. It also tracks recent progress and estimates how long it will take to reach EU benchmarks if the present trends continue. The aim is neither to rank countries nor to praise or criticise them, but to hold up a mirror – to show clearly where the region is doing relatively well, where it is lagging behind, and what could be done to accelerate convergence.

Figure 1 / Dashboard of the [converge2eu](#) website



The data paint a nuanced picture of the Western Balkans. In several areas, the region is closer to the EU than is often assumed. Digitalisation, health outcomes and education levels stand at around 70-75% of the EU average, making those the region's relative strengths. In health and education, this is largely a legacy of the socialist period, when the state invested heavily in these public goods. In digitalisation, by

contrast, it reflects rapid progress in recent years – including growth in ICT employment, value added and exports – driven largely by private investment. Overall, digitalisation has been the best-performing area, with the gap to the EU closing at a pace of roughly 1-1.5 percentage points a year. This rapid progress shows that well-targeted reform and investment can deliver quick and visible gains.

At the same time, significant weaknesses remain. Infrastructure, the environment and the economy lag far behind the EU, often standing at only 30-40% of EU levels. While the economy has improved somewhat in recent years – reflecting faster GDP growth than in the EU – the environment has deteriorated and infrastructure has largely stagnated. As a result, if current trends persist, the region will not converge towards EU environmental standards, while catching up in infrastructure will take more than a century in most countries. This makes these two areas particularly worrying: they are both weak and show little sign of improvement.

Education has also been losing ground. Despite a relatively solid current level – largely a legacy of the past, as noted above – performance has been deteriorating in most countries, implying divergence from the EU, rather than convergence with it. Persistent underinvestment and low enrolment rates are increasingly eroding the region's skills base, threatening long-term competitiveness.

converge2eu also models a set of EU accession and integration scenarios. Drawing on the post-accession experiences of Bulgaria, Romania and Croatia, five stylised scenarios are analysed: continuation of the status quo, full EU accession, access to the EU budget, access to the EU single market, and institutional reforms. Full accession and access to EU funds are estimated to have the largest effects, significantly reducing the time needed to catch up in terms of income levels, poverty reduction and energy efficiency. A key channel through which EU integration improves outcomes is higher EU transfers.

For EU policy makers, these findings underline the fact that enlargement remains one of the most powerful tools for fostering convergence and stability in the region. For national policy makers in the Western Balkans, the results point to the need to prioritise reforms in areas that are both weak and stagnant – notably the environment, infrastructure and education. This implies a decisive reallocation of resources towards green investment, education and connectivity. For businesses, faster convergence implies growing markets, greater purchasing power and a more predictable investment environment, whereas slow progress in skills, infrastructure and environmental standards continues to act as a constraint. At the same time, rapid digitalisation, together with large gaps in environmental performance and infrastructure, is creating new investment opportunities, particularly in ICT, clean energy and connectivity.

The tool also allows a more granular analysis of strengths, weaknesses and reform priorities. For example, in the economic area it shows that the region is performing relatively well in productivity, standing at around 50% of the EU average, while wages remain much lower, at around 30% of the EU average.

All results, including interactive dashboards, a data explorer and country-specific convergence reports, are available at converge2.eu.



EU ENLARGEMENT AND MARKET STABILITY: THE ECONOMIC MUST-HAVES FOR A CREDIBLE EXPANSION

Client: European Commission, DG ECFIN

by Richard Grieveson, wiw Deputy Director and Economist

In early 2026, discussion surrounding EU enlargement has regained its momentum, with renewed speculation that the bloc could move towards accelerated accession, particularly in the case of Ukraine. While such signals have generated optimism in Kyiv, they have also prompted debate within parts of the EU about the economic, institutional and fiscal implications of admitting a country that does not yet fully meet established membership criteria.

The recently published [wiw study 'Another Round of EU Enlargement'](#) tackles this issue head on, identifying the critical economic and institutional conditions that candidate countries must meet for an accelerated EU accession process to be credible and stable. It argues that maintaining macroeconomic stability and sustainable growth in new members is essential if post-accession imbalances are to be avoided. In practice, this means financing current-account deficits through inflows of foreign direct investment (FDI) into tradable sectors rather than non-tradables, preventing exchange-rate misalignments, aligning wages with labour productivity, and avoiding excessively high public debt levels that would force prolonged austerity after accession. These macroeconomic preconditions would be aimed at reducing the risk of contagion and financial stress, which could affect existing EU markets and international investors.

For labour markets, trade and investment, and structural resilience, the study highlights shared challenges among candidate countries – including depopulation, low productivity, high poverty and weak institutions – all of which may inhibit growth and EU integration. Effective employment policies, migration strategies and regional equity measures, as well as stronger education–labour-market alignment – are flagged as vital. It is equally important to direct FDI towards sectors that can integrate with EU value chains: that matters directly to multinational corporations and to asset managers who evaluate expansion or investment opportunities in the markets of EU candidate countries. Without these foundations, EU enlargement could exacerbate disparities, rather than strengthen the EU's single market.

On institutional quality, the paper stresses that rule of law, governance and corruption control are non-negotiable 'must-haves' ahead of accession. However, EU enlargement has never been a purely technocratic exercise in conditionality: it has always involved a balance between economic and institutional readiness and geopolitical strategy. While Ukraine's candidacy is often described as unprecedented, history suggests that enlargement has repeatedly involved political judgement alongside institutional benchmarks. Romania's accession in 2007 is a useful example. At the time, many observers argued that institutional reform, particularly in governance and rule of law, was incomplete and that accession was premature. Yet, both economically and geopolitically, Romania's membership has proved a success: convergence has been substantial, FDI inflows have accelerated, macroeconomic policy frameworks have strengthened and the country has become firmly anchored within the EU and NATO.

This experience suggests that while conditionality remains essential, enlargement decisions have always reflected strategic considerations, and that integration itself can accelerate institutional and economic upgrading, rather than merely reward its prior completion.

The study is available [here](#).

Country in focus: Bulgaria



WILL A NEW PLAYER BREAK THE DEADLOCK IN BULGARIAN POLITICS?

by Rumen Dobrinsky, Senior wiiw Associate

For the first time in 15 years, there has been a major political upheaval in Bulgaria. This has been brought about by the resignation of Rumen Radev from the presidential post that he had held for nine years and his declared intention of entering the race in the upcoming early parliamentary elections. The expected entry of a strong new political player is likely to lead to a shake-up in the fragmented political spectrum and could bring about important change in policy.

On 16 January, a full year before his term in office was due to expire, Bulgarian President Rumen Radev announced his resignation after nine years as head of state. This became effective a week later, once Mr Radev had formally submitted his resignation to the Constitutional Court and the latter had rubber-stamped it. The rationale for Mr Radev's move was his declared intention of entering politics in a different capacity – by joining the race in the next parliamentary elections. Although this step was not unexpected and had indeed been rumoured for months – if not years – when the news actually broke it came as a political bombshell, sending shock waves through Bulgarian politics.

Boyko Borisov, the waning heavyweight of Bulgarian politics

For more than 15 years, Bulgaria's political scene has largely been dominated by one big player – the centre-right party GERB (Citizens for European Development of Bulgaria), led by Boyko Borisov, a populist with a shady business past. From the time of the 2009 election, when Mr Borisov's party won the popular vote, right up until the most recent parliamentary elections, held in October 2024, GERB was the leading political formation in the country. However, its dominance has waned over time: from 48.3% of seats in the National Assembly in 2009 to 27.5% in the last election.

Throughout most of the period since 2009 (with the exception of a short spell in 2021-2022), GERB has either ruled on its own or has been part of a governing coalition. Boyko Borisov himself served as prime minister on three separate occasions between 2009 and 2021, for a total of nine years. In more recent times, as its popular support has faded, GERB has been compelled to govern in coalition with various smaller parties. Nevertheless, it is widely believed that, even without a formal position, behind the scenes Borisov remained the dominant figure in Bulgarian politics.

GERB's success on the political scene was based on the skilful establishment of a structure and network of regional offices. This began during Borisov's term as mayor of Sofia, when he set up his new party and as early as 2007 succeeded in winning the local elections. This was followed by a sweeping national victory in 2009. The process allegedly involved murky deals and corruption, first at the local level and later, once in government, within the national institutions.

Throughout this time, Borisov has faced another problem in the eyes of society: namely, his lack of any clear ideology, vision and policy agenda. Economic policy has never been at the centre of public debate; rather, important policy decisions have been taken in response to something or other, 'on the hoof' and sometimes under populist pressure. People have basically viewed GERB as the 'party of power' – one that strives for dominance purely for the sake of exercising power and extracting private benefit from it. Boyko Borisov was even briefly arrested on corruption charges in 2021, while the coalition led by the We Continue the Change party was in office (though the charges were subsequently dropped).

Protracted political turbulence and seven snap elections

The summer of 2020 brought to the surface signs of an emerging disconnect between the political elite and the public. This took the form of prolonged mass street protests that demanded the resignation of the GERB administration and that reflected public frustration with the dire situation after ten years of rule by the party. However, the protest rallies failed to bring about any marked change on the political scene.

In the years that followed, the country was caught up in a protracted political stalemate and vicious cycle. With the waning of GERB's dominance, a series of elections resulted in fragmented parliaments that were unable to produce a stable governing coalition. Between 2021 and 2024, Bulgaria saw seven parliamentary elections (three in 2021, two in 2024 and one apiece in 2022 and 2023), but none of them resulted in a stable administration.

The reasons for this desperate situation were complex and manifold. One was related to the deep political fissures within society, which time and again translated into fragmented electoral results. Also, the political spectrum was changing, as some traditional parties wilted, while other new – generally short-lived – movements were born. This period was also marked by a continuous deterioration in Bulgaria's social and political fabric, as the constitutional separation of powers was undermined and corrupt autocratic schemes emerged.

In light of all this, there has been growing frustration within the population over the political class in general and its inability to agree on how to tackle the protracted crisis. This has led to fewer and fewer people going to the polls: voter turnout declined from 49.1% in the April 2021 parliamentary election to 33.4% in the June 2024 election and 34.4% in that year's October poll. This translated into parliamentary outcomes that were largely shaped by the diehard supporters of the main political parties.

The emergence of Delyan Peevski from the wings to centre stage

The year 2024 was marked by the rise of a once notorious name as a new leading figure on the political stage. This was Delyan Peevski, a shadowy oligarch and once the protégé and financier of Ahmed Dogan, the founder and historic leader of the mostly Turkish-minority Movement for Rights and Freedoms (MRF). Though he held an MRF parliamentary seat for many years, up until 2024 Mr Peevski preferred to remain in the wings, rather than seek the limelight. He has been involved in several dubious business dealings and was even the subject of US sanctions under the Magnitsky Act.

Things changed in the run-up to the October 2024 election, when Mr Peevski outmanoeuvred his former mentor and basically engineered a hostile takeover of the MRF. He used tactics similar to those employed by Borisov in the early days of GERB, gradually taking over the key local structures of the MRF by bribing local leaders and pledging future kickbacks. Eventually the party split in two, but in the October 2024 elections Peevski's faction, which preserved the name MRF, won 12.1% of the parliamentary seats (almost twice as many as Dogan's party) to become the fourth-largest caucus in the National Assembly.

Peevski's personal reputation in the eyes of the public at large is even worse than that of Borisov, as it is widely believed that his business empire is built on crime and corruption. Behind the scenes he has gained enormous institutional leverage, especially in the judicial system, by gradually infiltrating his cronies into many key positions. Also, like GERB and Borisov, Peevski has no ideology, vision or policy agenda: he seeks power for power's sake and for the associated unlawful private benefits that accrue from it. Over the course of 2025 – when a heterogeneous government that combined parties from across the political spectrum was in office – it became clear that behind the scenes, in an act of political symbiosis, Borisov and Peevski were pulling the strings. Public indignation over a situation in which two allegedly corrupt politicians could exercise disproportionate control over Bulgarian politics grew as the year wore on, and the dam finally burst in December, when the country was engulfed in a wave of mass protests on a scale not seen for 30 years. Remarkably, these attracted participants from all points on the political spectrum and included many young people. The upshot was that the government was forced to resign, with a snap election expected in spring 2026. This was the moment that (then) President Rumen Radev chose to make his move.

Rumen Radev: a glimmer of hope

Rumen Radev, a former air force general, was first elected president in 2016, following his nomination by the Bulgarian Socialist Party (although he had never actually been a member of that party). In time, though he generally leant to the left, Mr Radev distanced himself from the party that had nominated him. He was then re-elected in 2021 for a second five-year term, backed by a multi-party initiative group.

Under the Bulgarian constitution, the president, though elected by a popular vote, is largely a figurehead, with all the main levers of power concentrated in the hands of the government and prime minister. Nevertheless, presidents are prominent figures and have considerable influence over political and social life through their public statements. The president can also take a political stance by vetoing proposed legislation and sending it back for further parliamentary consideration. One of the president's important functions is to appoint a caretaker government in the wake of resignation or parliamentary deadlock. Mr Radev availed himself of this opportunity on a number of occasions.

During his terms in office, Rumen Radev frequently found himself in opposition to the government of the day. In particular, he was always openly critical of both Borisov and Peevski, voicing his disapproval of their policies and often adopting a radically different political stance. He supported the protests in 2020-2021 and in 2025. Throughout his two terms in office, Mr Radev was consistently the Bulgarian politician with the highest public approval rating.

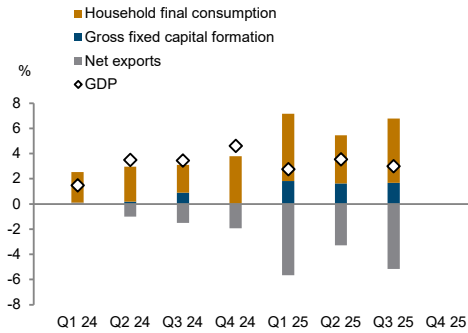
Therefore, his announced entry into the parliamentary race has been cheered by the public. Hopes are high that a new and strong political player, untainted by corruption allegations, could bring about positive change on the political scene by addressing some of the most acute problems of the day. First and foremost, there is the issue of corruption and the widespread perception that the country is run by a coterie of oligarchs in pursuit of their own vested interests. Another hope is that the government agenda will be based on clear directions and transparent policies – something that has been missing over the past 15 years – and that there will be open public debate among the political parties on important policy issues.

In principle, Mr Radev has an ample pool of potential voters – largely those disillusioned by the experience of recent years, and particularly (though not exclusively) those who have abstained from voting. Given that only a third of Bulgarian voters went to the polls in 2024, some sociologists claim that Mr Radev's party could amass a million or so votes in the upcoming elections, which would enable it to form the largest parliamentary caucus.

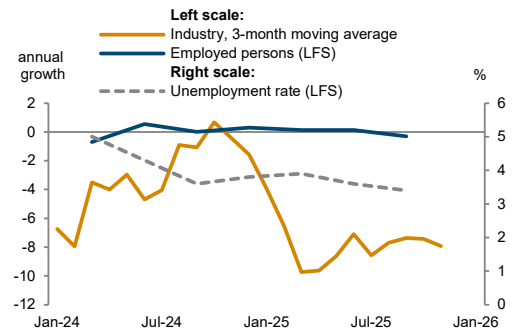
At this stage the hopes and expectations are high. But will Mr Radev succeed in harnessing this potential? And if he does, will he be capable of addressing the current daunting problems in a way that meets those expectations and delivers on the hopes of the public? That is something that remains to be seen.

Bulgaria

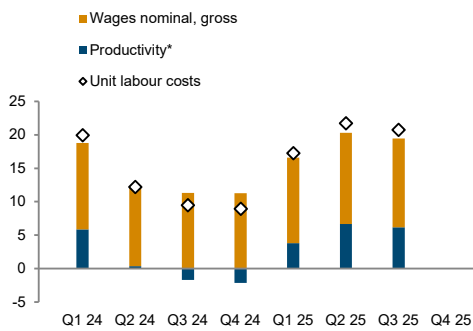
Real GDP growth and contributions
y-o-y



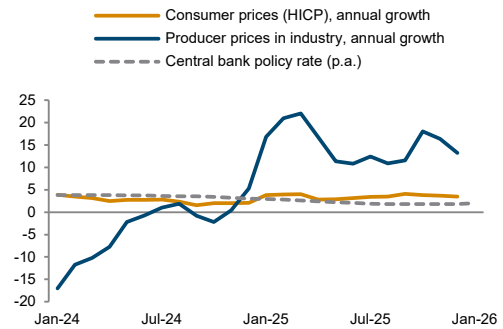
Real sector development
in %



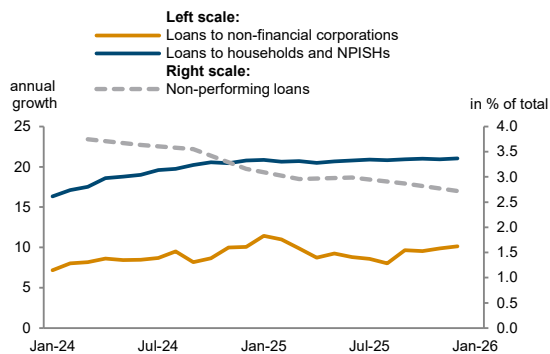
Unit labour costs in industry
annual growth rate in %



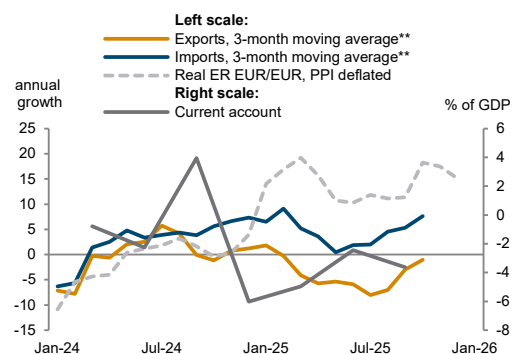
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



*Positive values of the productivity component reflect decline in productivity and vice versa.

**EUR based.

Note: HICP - Harmonised Index of Consumer Prices, NPISHs - Non-profit institutions serving households.

Source: wiiw Monthly Database incorporating Eurostat and national statistics. Baseline data, definitions and methodological breaks in time series are available under: <https://data.wiiw.ac.at/monthly-database.html>

Recent activities/looking back

- › ‘*Can CEE Stay Resilient? Growth and Competitiveness in a World of Trade Realignments*’, FT Live CEE Forum, Panel debate, Francesca Guadagno, 13-14 January 2026
- › ‘*The future of CEE: 5 key trends to watch for 2026*’, FT Live CEE Forum, Panel debate, Richard Grieveson, 13-14 January 2026
- › ‘*Excise taxes on disposable e-cigarettes in Poland*’, Global Tobacco Tax Meeting - OECD, Paris, Kristijan Fidanovski, 20-22 January 26
- › ‘*Joining the Core: Bulgaria’s Move into the Euro Area*’, 4th FIW Round Table: Focus Central, Eastern and South Eastern Europe, Mario Holzner, WKO, 29 January 26
- › ‘*CEE Outlook 2026: Making Decisions Amid Uncertainty*’, CEE Exchange Podcast, Richard Grieveson and Mario Holzner, 3 February 2026
- › ‘*All eyes on investment as geopolitical pressures mount: Strategic opportunities as CESEE’s growth model changes in an age of fragmentation*’, wiiw Executive Network, Warsaw, Keynote, Richard Grieveson, February 2026
- › ‘*Impact of geopolitics in the EU candidates and neighbourhood*’, VE Insight 10-year anniversary event, Panel debate, Richard Grieveson, February 2026
- › ‘*Pushing Eastern Europe Forward: Wirtschaftlicher Ausblick für 2026*’, Ost-Ausschuss der Deutschen Wirtschaft, Panel debate, Richard Grieveson, February 2026
- › ‘*All eyes on investment as geopolitical pressures mount: Strategic opportunities as CESEE’s growth model changes in an age of fragmentation*’, wiiw Executive Network, Prague, Keynote, Richard Grieveson, February 2026
- › ‘*All eyes on investment as geopolitical pressures mount: Strategic opportunities as CESEE’s growth model changes in an age of fragmentation*’, wiiw Executive Network, Vienna, Keynote, Richard Grieveson, February 2026
- › ‘*Technological Leaders and Regional Ties in the Geography of Firm Innovation*’, Winter School - Geography of Innovation (Uni. of Pavia, Uni. Milan-Bocconi), Lecture, Chiara Castelli, February 2026
- › ‘*The economic development of Hungary*’, IV CEE Focus Group, Presentation, Mario Holzner, 24 February 2026
- › ‘*Competitiveness, Growth and Crisis (CGC)*’, JVI Course, Francesca Guadagno (Course director), Ioannis Gutziannas, Branimir Jovanovic, Ambre Maucorps, Oliver Reiter, Joint Vienna Institute (JVI), Vienna, 23-27 February 2026
- › ‘*Migration, the role of the WP diaspora*’, Lead Balkans Conference, Panel debate, Sandra Leitner, 25-27 February 2026

Looking ahead

Upcoming member events

- › Executive Network Webinar, March 2026
- › Executive Network Event, Warsaw, May 2026
- › Executive Network Event, Prague, May 2026
- › Executive Network Event, Vienna, May 2026
- › Wiiw Spring Seminar, Vienna, May 2026

Upcoming publications

- › Executive Network CEE exchange podcast, Episode 3, March 2026
- › 'How Firms Respond to Minimum Wage Increases: Evidence from North Macedonia', Branimir Jovanović, Viktor Stojkoski, Dragan Tevdovski, Marija Trpkova-Nestorovska, wiiw Working Paper 272, March 2026
- › Monthly Report 03/26, March 2026
- › wiiw Q2 Forecast Report, April 2026
- › FDI Report 01/26, May 2026

Upcoming presentations and public events

- › Presentation of the converge2eu project at DG ENEST, Brussels, March 2026
- › Presentation of convergence2eu project to Croatian policy makers, Zagreb, March 2026

Membership news

- › New Executive Network Website: <https://wiiwexecutivenetwork.com/>

New Members 2026: Welcome!

- › IMF Office Warsaw
- › University of Ljubljana, Faculty of Arts
- › University of Tartu
- › Ferag
- › Herbalife
- › MEIKO

- › MERO
- › TMF Group
- › TPA Group
- › Warner Bros. Discovery

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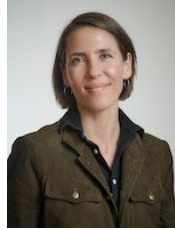
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