APRIL 2026

Monthly Report

Editorial insight: CESEE's hydrocarbon vulnerabilities

Chart of the month: Withdrawal of foreign capital from Russia

Macro snapshot: The current inflationary shock in CESEE

Focus of the month: Serbia between Russia and the West

Research in brief: Scaling up CESEE innovation; Minimum-wage increases in North Macedonia

Country in focus: Slovenia - A subtle shift to the right

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

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Editorial insight

FROM CRISIS SPILLOVER TO ENERGY RESILIENCE: CESEE'S HYDROCARBON VULNERABILITIES AND POLICY PATHWAYS

by Mario Holzner, wiiw Executive Director

Persistent hydrocarbon-import dependence exposes CESEE to external shocks. Despite recent progress on diversification, resilience remains uneven. To achieve strategic autonomy, governments and businesses must prioritise energy efficiency, regional integration and supply diversification.

Crisis spillover: How the Middle East war tests CESEE's limits

The war in Iran, launched by Israel and the US on 28 February 2026, has evolved from a Middle Eastern conflict into a multi-dimensional shock that is reshaping the security, energy and economic landscape of Central, East and Southeast Europe (CESEE). Even as the main fighting remains distant, it tests the region's resilience, cohesion and strategic autonomy, amid overlapping crises like the war in Ukraine.

Strikes on production facilities in the Persian Gulf and the near-closure of the Strait of Hormuz have driven global oil and gas prices sharply higher. In CESEE, where fiscal and corporate budgets are still recovering from previous energy price shocks, this fuels inflation, widens current account deficits and erodes the momentum behind the green transition (since, with government budgets having to address the high energy costs, green investments are being postponed). Governments face a stark trade-off between immediate affordability and long-term climate and energy security goals.

Iranian missiles and drones have reached the Eastern Mediterranean, striking NATO-linked sites like Britain's Cyprus military bases and Turkish territory. This brings European soil within range of Iran, especially NATO's southern flank. Black Sea and Balkan states – Turkey, Greece, Bulgaria, Romania and Cyprus – face a dual risk: direct spillover plus pressure to shore up the deterrent effect of the alliance amid the ongoing Ukraine war, often without guaranteed burden-sharing.

The conflict risks new migration pressures. No mass exodus from the zone of conflict has yet hit the EU, but Balkan-route states must prepare for future migration flows. This would intensify demographic strains and social tension, and would overload the asylum system, embedding Middle Eastern conflicts in Europe's domestic security framework.

The military campaign by Washington and Israel against Iran has marginalised the EU by demoting the bloc from a major player at the nuclear negotiating table[1] to the role of bystander, and has exposed its internal rifts. Eastern EU members balance security reflex actions against energy vulnerabilities and the fear of conflict escalation destabilising the wider Black Sea and Balkans region. CESEE finds itself squeezed between US-led disorder, a revisionist Russia and a rising China, with scant leverage available. The Gulf–Eastern Mediterranean–Black Sea corridor is now subject to higher insurance costs, delays and risks.

CESEE's hydrocarbon dependence: persistent vulnerabilities and uneven progress

Among the few measures available to oil- and gas-importing economies to partially shield themselves from the fallout of the Iran war and other conflicts in hydrocarbon-exporting regions is a determined reduction in their dependence on imports of mineral products. Yet the CESEE economies continue to exhibit a fairly strong reliance on the import of mineral products.[2] Examination of the period 2006-2025 reveals the following picture. The trade deficit in mineral products averaged around 5% of GDP across 20 of the CESEE countries (the exceptions being Russia, Belarus and Kazakhstan), indicating substantial net imports, particularly of mineral fuels. Moldova stands out as having the greatest dependence, at roughly 11% of GDP, followed by Kosovo (about 8%), and then Ukraine, North Macedonia and Bulgaria (around 7%). At the other end of the spectrum, Estonia, Albania and Romania have comparatively low exposure of about 2% of GDP.

At the same time, most countries of the region made notable progress over the period 2006-2025 in reducing their dependence on the import of mineral products in real terms (i.e. once changes in the price of oil are stripped out). Excluding outliers, the median average dependence-reduction effort was in the order of -4 percentage points (pp) of GDP, with strong performances from Slovenia (around -8pp), and Moldova, Romania, Serbia and Ukraine (about -7pp). Weaker performers like Croatia (roughly -0.2pp) and Hungary (about -1.1pp) show only limited improvement.

High-dependence economies such as Moldova, Ukraine and Bulgaria frequently combine pronounced vulnerability with ambitious reduction efforts (-6pp to -7pp of GDP), suggesting deliberate diversification strategies in the wake of recent energy crises. EU members like Poland, Czechia and Slovakia display moderate average dependence (3-5% of GDP) coupled with a solid reduction (-4pp to -5pp), reflecting both market integration and regulatory pressure, whereas non-EU Balkan countries show a much more heterogeneous pattern. Overall, the region has reduced its import dependence in real terms faster than oil prices have risen, bringing average dependence down to roughly 3% of GDP by 2024-2025. However, continued elevated dependence in countries such as Moldova and Kosovo (8% of GDP) reveals highly uneven resilience, just as the Iran war adds another major external shock.

[1] The UK, France and Germany played an important role in negotiating the Joint Comprehensive Plan of Action (JCPOA) agreement signed back in 2015, whereby Iran agreed to scale down its nuclear programme in return for an easing of sanctions.

[2] Mineral products include first and foremost mineral fuels and oils and their derivatives, as well as other oil-price-sensitive and energy-intensive mineral products.

CESEE has entered the Iran shock with sizeable but uneven hydrocarbon exposure – where each percentage point of GDP in the mineral-products trade deficit amplifies the macro-fiscal fragility in the face of price surges. Yet the data also reveal promise: high-dependence states like Moldova and Ukraine have driven the strongest reductions, proving that deliberate policy can accelerate diversification, though there is still a lag in terms of convergence.

Pathways to resilience: policy and business action for energy security

Governments must act decisively, by channelling EU funds into efficiency upgrades, sector electrification and diversification of the energy mix, with priority given to those countries that are particularly energy-vulnerable, like Moldova and Kosovo. They should also advance regional integration through interconnectors, joint procurement, shared storage capacity and coordinated crisis-response protocols, while embedding price-adjusted dependence metrics into macro-surveillance frameworks – in much the same way and to the same extent as fiscal rules are embedded.

Businesses hold parallel levers: they can audit their operations for immediate efficiency gains via process controls and heat recovery; they can diversify suppliers and contracts to end up with stable sources, such as Norwegian production, US LNG and Caspian gas with strategic buffer stocks; they can deploy on-site renewables by tapping subsidies and green taxonomy incentives; and they can integrate energy volatility into risk models, using hedging instruments and geopolitical scenario planning. Public-private alignment can convert this crisis into enduring energy security and strategic autonomy.

Chart of the month

WITHDRAWAL OF FOREIGN CAPITAL FROM RUSSIA LOSING PACE

by Vasily Astrov, wiiw Economist

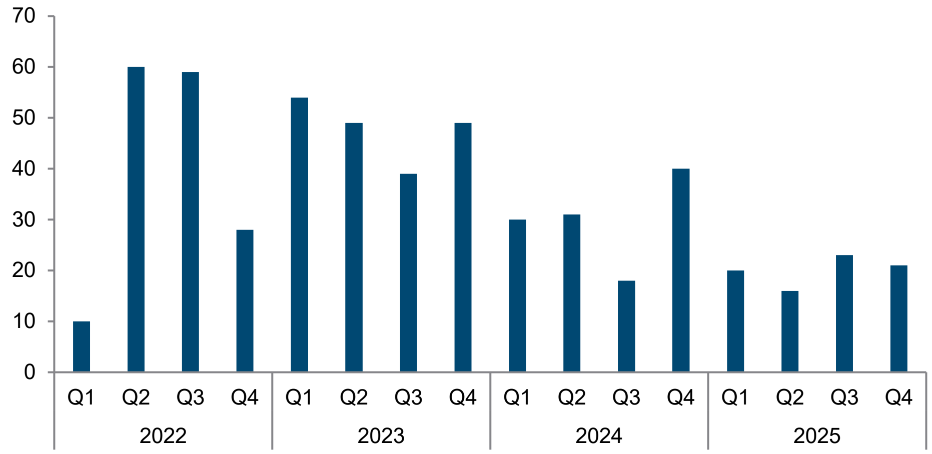
The active withdrawal of foreign capital from Russia, which started with the war and sanctions, has more recently lost momentum. This should come as no surprise, because in the current circumstances withdrawal effectively entails writing off the bulk of the investment.

The active withdrawal of foreign capital from Russia, which started with the war and sanctions, has more recently lost momentum. The Kyiv School of Economics estimates that, of the 547 foreign companies that have left Russia, 64% did so during the first two years (Figure 1). This should come as no surprise, as the exit restrictions on investors from 'unfriendly countries' (countries that have imposed sanctions on Russia) have been progressively tightened over time. Since October 2024, Russian regulations have stipulated a mandatory price discount of at least 60% from the market value, as determined by a qualified Russian independent assessor,[1] as well as a 'voluntary contribution' to the federal budget of at least 35% of market value. Besides, sales transactions are subject to approval by a government sub-commission, which may take several months; and all deals in excess of RUB 50bn (some EUR 550m at the current exchange rate) require the personal consent of the Russian president. Finally, there are hurdles on the Western side, too, as asset sales to a Russian entity that is under sanctions are prohibited.

In these circumstances, withdrawal effectively entails writing off the bulk of the investment. On top of that, it is conceivable that many companies are playing for time, waiting for a geopolitical thaw, which would allow them to reap 'first-come' advantage in a promising market. Others have even already benefited from sanctions and the withdrawal of competitors: Western banks active in Russia, such as Raiffeisen, UniCredit and OTP, which – unlike some of their Russian counterparts – have not been subject to Western sanctions, are a case in point. The strategy of staying is, however, fraught with risk. In the event of any further escalation of the sanctions war between Russia and the West, the assets of foreign investors in Russia could potentially be seized.

1 In practice, such an assessment itself is often an underestimate.

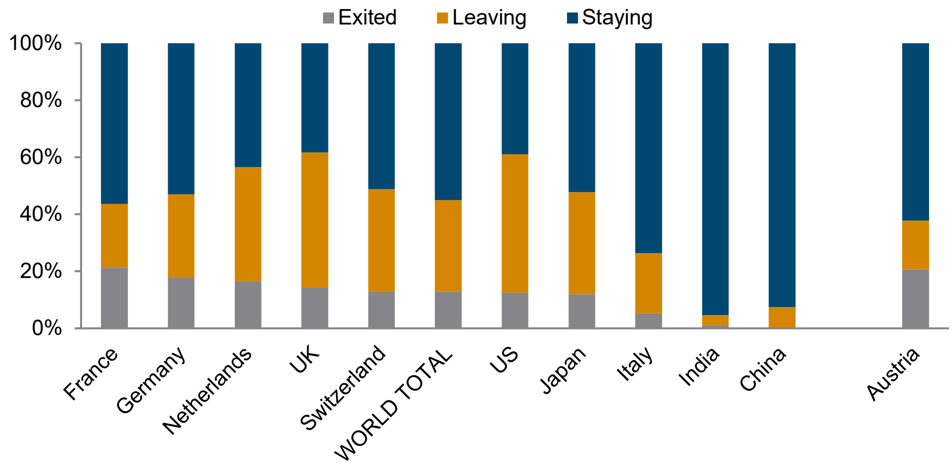
Figure 1 / Number of foreign firms that have fully withdrawn from Russia



Source: Kyiv School of Economics.

All in all, by the end of last year only 13% of foreign firms had completely left the Russian market, while another 32% had reduced their exposure (Figure 2). The extent of withdrawal varies a lot by country and generally correlates with the extent of that country's 'hawkishness' towards Russia. While, for instance, more than 60% of US and British companies have either fully exited or reduced their exposure, the corresponding share for Italy is below 30%. Having said that, the true extent of capital withdrawal from Russia has been greater than the above figures would suggest: the 13% of foreign firms that have left accounted for 36% of the revenue and 42% of the labour force employed by foreign-owned companies back in 2021. This implies that it is primarily large companies that have left, while smaller ones have generally stayed.

Figure 2 / Status of foreign companies in Russia, by country of origin as of end 2025, in % of total



Note: Top ten investing countries (by the number of companies), arranged by the share of companies that have exited Russia since the beginning of the war. **Exited:** Companies that have completed withdrawal from Russia **Leaving:** Companies that have curtailed their Russian operations. **Staying:** Companies that are continuing their Russian operations.
Source: SelfSanctions database, Kyiv School of Economics

Macro snapshot

HOW DOES THE CURRENT INFLATIONARY SHOCK IN CESEE COMPARE SO FAR WITH THAT OF 2022?

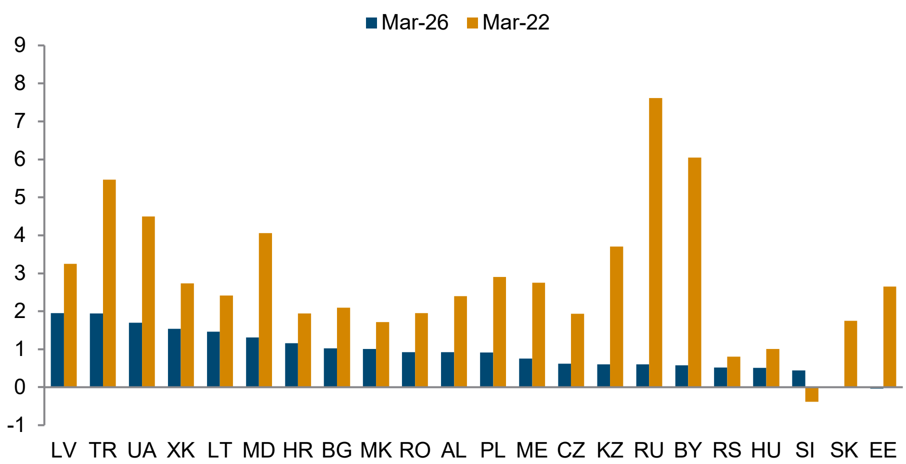
by Branimir Jovanović, wiiw Economist

The main reason why inflationary pressures in CESEE driven by the war in the Middle East have been weaker than in March 2022, following Russia's invasion of Ukraine, is that food price increases have remained muted, whereas back in 2022 they were immediate and sharp.

The US–Israeli attack on Iran has pushed oil prices up and threatens to trigger an inflationary shock similar to that seen in 2022, when Russia attacked Ukraine. But what do initial inflation data for the CESEE countries show, and how does this episode compare with the one from four years ago?

We juxtapose headline inflation in March 2026 with headline inflation in March 2022 – the first months after the respective attacks – for those CESEE countries for which data are available. We look at the month-on-month inflation rates, as these are the first to reflect inflationary pressures (year-on-year data are often blurred by base effects). Since both episodes refer to the same month of the year, seasonal effects should not pose a major problem.

Figure 1 / Headline inflation, month-on-month rates, in %

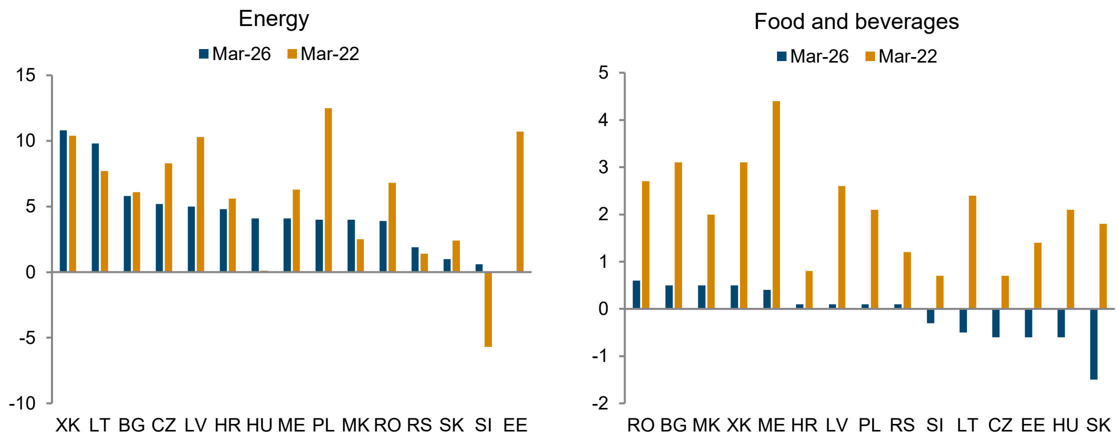


Source: wiiw Monthly Database.

As can be seen from Figure 1, the uptick in inflation in March 2026 was significant, but still far from what we saw in 2022. The simple average for the 22 CESEE countries that have published data is 0.9%; once annualised, this corresponds to annual inflation of around 11%, which is substantial. In 2022, however, the corresponding simple average was much higher, at 2.9%. Only one country – Slovenia – has recorded higher inflation now than in March 2022. All the others have lower inflation now – in some cases substantially lower. This suggests that, at least for now, the inflationary pressures stemming from the new conflict in the Middle East are much less severe than those observed in 2022. This may come as no surprise, since in 2022 – unlike now – war erupted *within* the CESEE region.

To understand the difference between the current inflationary episode and that in 2022, we compare the month-on-month inflation rates for the two main components that drove inflation in 2022: food and energy (Figure 2). As can be seen from the left-hand panel of the figure, the increase in domestic energy prices now has been slightly lower, but is still comparable to that seen in 2022. The simple average for those countries for which data are available is 4.3% in March 2026, compared with 5.7% in March 2022. Of the 15 countries with available data, six recorded a higher uptick in energy inflation now than in 2022.

Figure 2 / Energy and food inflation, month-on-month rates, in %



Source: Eurostat.

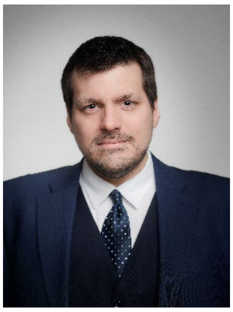
However, the picture is totally different for food prices. The simple average for the 15 countries with data available for March 2026 shows month-on-month deflation of 0.1%. In March 2022, by contrast, the simple average for the same 15 countries stood at 2.1%. Not a single country has recorded higher food inflation now than then. The highest food inflation now – 0.6% in Romania – is lower than the lowest food inflation rate in 2022 (0.7% in Czechia).

The same pattern can be observed in global food prices. The Food and Agriculture Organization's (FAO) food price index increased by 2.4% in March 2026 compared with February. This was the highest monthly increase in almost two years; and yet it remained well below the rise recorded in March 2022, when the FAO food price index jumped by 13% in a single month.

Hence, the main reason why price pressures are weaker now than after Russia's invasion of Ukraine is that food price increases remain muted, whereas in 2022 they were immediate and sharp. Again, this is not surprising: while Russia and Ukraine back in 2022 were both important producers and exporters of food (e.g. together they accounted for around a third of global cereals production), the same cannot be said of the Persian Gulf countries. This does not mean that food prices will not rise this time as well. That may well happen if the crisis continues, given the importance of the Persian Gulf countries in fertiliser production, the potential for higher energy costs to feed through into food prices, and the possibility that businesses may use the situation to raise prices and increase margins. But for now, the current inflationary episode appears likely to be milder than in 2022.

This, however, does not mean that policy makers should not take it seriously. Even a milder inflationary episode than the one seen in 2022 could push millions of people into poverty and slow economic activity, unless policy makers take the necessary steps.

Focus of the month



SANCTIONS, ENERGY AND GEOPOLITICAL BALANCING: SERBIA BETWEEN RUSSIA AND THE WEST

by Bernd Christoph Ströhm, wiiw Senior Research Associate

Since 2008, following the acquisition by Russia's Gazprom Neft of a majority stake in NIS, the Serbian business has evolved from being just the national oil company into a strategically significant asset. The US sanctions imposed in 2025 against the company, however, forced a realignment of Serbia's energy policy, with NIS ownership being transferred to Hungary's MOL. Although the loss of a strategic energy asset reduces Russia's leverage over Serbia, the cooperative manner of Russia's approach in handling the takeover suggests that close political relations between Moscow and Belgrade are here to stay.

When one observes the multifaceted relations between Russia and Serbia, it becomes clear that they have been influenced by energy, geopolitics and strategic ambiguity. Close energy ties, in particular, shaped this bilateral relationship and were further consolidated when Serbia's national oil company and operator of the country's only refinery, Naftna Industrija Srbije (NIS) was sold to Russia's Gazprom Neft in 2008. Since then, NIS has functioned not only as a commercial enterprise, but also as a structural channel for Russian influence in Serbia. The arrangement from 2008 indeed embedded long-term dependencies in Serbia's energy system, while giving Moscow leverage that extended beyond classical market logic. NIS itself has considerable standing within Serbia, contributing 5% to Serbia's GDP, while employing around 13,000 people. It also produces 70% of Serbia's diesel and 85% of its petrol at the NIS Pančevo refinery.

The strategic origins of Russian control over NIS

If we look back at the 2008 privatisation of NIS, it occurred during a moment of acute geopolitical realignment for Serbia, driven by the aftermath of Kosovo's declaration of independence the same year. It is no surprise that Belgrade should have sought strategic support from Moscow over the Kosovo issue, while for its part Russia was aiming to gain a strategic foothold in the Western Balkans through energy assets. The stars aligned perfectly – Serbia wanted to sell and Russia wanted to buy. The outcome was that Gazprom Neft purchased a 51% stake in NIS for EUR 400m. The agreement also included a EUR 550m investment commitment to modernise the NIS Pančevo refinery.

That the Serbian government was more than willing to sell a majority stake to Gazprom Neft is evident when the circumstances of the sale are investigated more closely. The sale went ahead without an international tender even being announced. The price tag of EUR 400m that Serbia set for the majority stake was also very generous, given that international consultants had valued the company at EUR 2.2bn. It can be argued that Serbia indeed chose Gazprom as a strategic decision, in view of Russia's support for Serbia over Kosovo.

Gazprom Neft raised its stake further, to 56.15%, in 2011, giving Russian state-controlled entities decisive control over NIS. The company became economically critical to Serbia, accounting for a substantial share of the country's state revenue through taxes and excise duties, which in turn allowed Russia to anchor itself economically in Serbia, while reinforcing its diplomatic alignment with the country.

For Serbia, the benefits of Russia's involvement in NIS were clear cut – the arrangement enabled access first to investment to the tune of EUR 550m, second to refinery modernisation and third to a relatively stable fuel supply. The arrangement also noticeably reduced the pressure on Serbia to integrate fully with EU energy governance structures. Nevertheless, over time it became clear that Russia's ownership of NIS created far-reaching exposure to geopolitical risks that manifested themselves after Russia's annexation of Crimea in 2014 and then – even more so – following Russia's military invasion of Ukraine in February 2022.

The legal foundations for US sanctions against NIS

In tracing the 'legal roots' of the US sanctions regime that would eventually reshape the NIS ownership structure, it is necessary to go back to 2017. That was the year in which US President Trump enacted the Countering America's Adversaries Through Sanctions Act (CAATSA), which aimed at substantially expanding US authority to target Russian energy companies and any foreign entities that are significantly owned or controlled by them. Of course, it was not only Russia that the sanctions act targeted: it also included North Korea and Iran – and certain elements of CAATSA even allow sanctions against third parties engaging in transactions with those countries. While initially applied selectively, the legislation created long-term uncertainty for Russian overseas assets.

In view of the CAATSA regulations, NIS very quickly fell into a category of companies that were commercially viable, yet structurally exposed. Owing to the fact that Gazprom Neft was a major sanctioned Russian oil producer, its majority-owned subsidiaries became subject to the risk of sanctions, even when they were operating outside Russia. Despite this risk, the legal framework allowing sanctions to be imposed against NIS remained dormant for several years. It became operationally significant in January 2025 – still under the Biden administration – when the US authorities began intensifying enforcement against the Russian energy sector.

NIS sanctions enforcement and their potential economic effects

In January 2025, the US Treasury's Office of Foreign Assets Control (OFAC) formally declared NIS to be subject to the US sanctions regime. Nevertheless, the enforcement of sanctions was repeatedly postponed by the US through 'temporary licences'. The full sanctions regime did not come into force until October 2025, whereupon the operational effects were felt almost immediately in various ways, including through the imposition of restrictions on international banking transactions and the suspension of card payments at NIS petrol stations.

Closure of the NIS company would have had a major effect on the Serbian economy. NIS contributes between 7% and 13% of budget revenue, with OFAC sanctions likely to push fuel prices sharply higher, elevating transport costs and fuelling broader inflation. Prior to sanctions NIS was contributing over EUR 2bn annually to the state budget through taxes, excise duties and fees, making its uninterrupted functioning macroeconomically significant. The aftermath of the imposition of the US sanctions regime was indeed directly noticeable at the Pančevo NIS refinery, which had to cease operations in December 2025 (it was only able to resume operations because it obtained a temporary licence from OFAC).

The importance for Serbia of the continued operation of NIS is clear: it ensures fuel availability, protects employment and preserves fiscal revenue streams. In general, the effects of the US sanctions regime against NIS can be summed up in three major points:

1. **Refinery shutdown**: After October 2025 international partners began refusing to cooperate with NIS, and Croatia's pipeline operator JANAF halted crude oil deliveries for 100 days at the end of 2025, bringing the Pančevo refinery to the brink of shutdown.
2. **Security of supply**: Serbia covers approximately 80% of its petrol and diesel needs, as well as some 90% of its kerosene requirements through NIS. A prolonged disruption would threaten the fuel supply for transport logistics and for the national airline, Air Serbia.
3. **Inflationary pressure:** Sanctions-induced fuel shortages would push domestic fuel prices sharply higher. Elevated transport and logistics costs would quickly pass through to food, manufactured goods and services, accelerating inflation economy-wide.

The Serbian government considered expropriating the Russian majority shareholder Gazprom Neft. In response, Russia threatened to cut off gas supplies to Serbia, while also delaying the conclusion of a new long-term gas supply contract (the previous ten-year supply contract expired in May 2025). In light of those developments, the US sanctions transformed NIS from being a stable pillar of Serbia's energy system into a vulnerability, whose resolution required structural change, rather than temporary exemptions.

The strategic turn toward Hungary's MOL Group

Against this backdrop, Serbia commenced negotiations in late 2025 with a view to transferring the majority stake owned by Gazprom Neft to Hungary's MOL Group. In January 2026, MOL signed a binding agreement to acquire 56.15% of NIS, giving it a controlling interest in the company, while Gazprom Neft's stake was to be reduced to just under 45%.

The US Treasury extended a special licence until May 2026, permitting negotiations to proceed. This signalled conditional acceptance of the transaction as a means of removing sanctioned Russian ownership. The move to transfer the NIS majority stake to MOL can be regarded as a strategic decision by the Serbian government, as it aligns NIS with a regional EU-based energy company that already operates major refineries in Hungary and Slovakia. The transition itself is thus institutionally compatible with European energy markets.

At the time of writing, the transaction has not yet been finalised, but information in the public domain confirms that NIS is in the process of moving out of Russian majority control. Russia's willingness to cede control of Serbia's NIS and to participate in the negotiations also indicates a managed exit, rather than a forced divestment.

The transfer of NIS ownership to the Hungarian MOL company will likely stabilise Serbia's energy outlook. With sanctions pressure eased through the ownership change, financial transactions are expected to normalise gradually, allowing NIS to regain access to international credit, insurance and logistics. For NIS itself, integration into MOL's regional refining network is likely to support operational continuity, as MOL is publicly committed to maintaining production at the NIS Pančevo refinery.

Serbia between Russia and the EU: Policy lessons and market implications

The loss of majority ownership in NIS can be seen as a structural shift in Russia–Serbia relations. Russian influence is expected to become less embedded in fixed assets and more dependent on diplomacy, historical ties and political cooperation. This will reduce Moscow's ability to exert leverage through energy supply disruptions or corporate governance mechanisms. However, the cooperative manner in which the divestment is unfolding suggests that Russia is indeed prioritising the preservation of long-term political relations with Serbia. By consenting to an orderly exit, Russia is directly avoiding an escalation that could further alienate Serbia or push it closer to Western alignment.

When viewed from a European policy perspective, the NIS case reveals several broader lessons. First, it clearly demonstrates that Western sanctions can indeed be effective instruments of exerting geoeconomic influence, but only when those sanctions are applied with a certain degree of flexibility and sequencing. In the case of Serbia, the repeated use of temporary licences and an actual willingness to accommodate a structured, negotiated ownership transfer were vital in avoiding economic disruption, while still achieving the strategic objective of removing the NIS company from Russian control.

Second, the case of Serbia and NIS underscores one vital fact: that ownership of critical energy infrastructure remains a decisive arena of geopolitical competition in the EU's direct neighbourhood. The transfer of Serbia's key refining asset from a Russian to an EU-based owner represents a clear strategic gain for the EU. This decision, supported by the Serbian government, also strengthens regional energy security and regulatory alignment.

Finally, faced with a genuine constraint that forced a choice, Serbia remained pragmatic and opted for alignment with the EU, rather than with Russia. That said, Serbia's decision should not be overinterpreted: the country remains a rather reluctant and pragmatic partner that seeks close ties with non-EU actors, not an enthusiastic EU accession frontrunner.

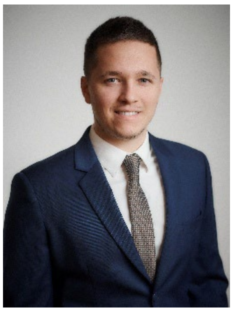
For businesses operating in Serbia, the implications of the transfer of NIS to MOL have a largely stabilising character. Most immediately, the risk of sanctions in this critical sector will be effectively removed if the transfer of ownership is successful. This in turn will reduce uncertainty for firms with direct exposure to the Serbian market and for those companies dependent on local energy supply and financial intermediation. More broadly, the case suggests that opportunities may arise to acquire

Russian-owned assets at discounted valuations – both in Serbia and elsewhere in the Western Balkan region – as the pressure of sanctions mounts and compliance costs reshape ownership structures.

At the same time, companies should not expect Serbia to immediately converge smoothly or quietly with EU norms. Political signalling will very likely remain rather noisy and policy communication inconsistent, particularly compared with some other Western Balkan countries. Nevertheless, the NIS episode sends a clear signal about the direction of Serbia's long-term economic, financial and energy integration. For investors, this provides a firmer basis for long-term strategic planning, even if short-term volatility remains a structural feature of the operating environment within Serbia.

Taken together, the evidence suggests that Serbia will very likely retain close relations with Russia, while simultaneously embedding its most critical energy asset in a framework compatible with Western sanctions policy and regional energy security. Serbia is thus likely to maintain a dual posture: cooperative with EU and US regulatory frameworks where necessary, while continuing political alignment with Russia on selected international issues. The NIS case itself illustrates how Serbia is navigating geopolitical competition by selectively adjusting structural dependencies without actually altering its declared policy of military and foreign-policy neutrality.

Research in brief



SCALING UP CESEE INNOVATION: ECOSYSTEM DYNAMICS AND STRATEGIC RELOCATION OPPORTUNITIES

Client: Vienna Business Agency/*Wirtschaftsagentur Wien*

by Ioannis Gutzianas, wiiw Economist

Despite strong growth in startup activity across Central, East and Southeast Europe (CESEE), many promising firms struggle to scale into globally competitive companies, often relocating abroad in search of deeper capital markets and more developed innovation ecosystems.

Our recently published policy note examines the structure and dynamics of CESEE innovation systems over the period 2021-2024, focusing on small enterprises (10-49 employees) across six macro-sectors: Digital Economy, Life Sciences, Media, Creative Economy, Production and the Neighbourhood Economy. Combining company-level data, patent indicators (2016-2020) and international ecosystem rankings, the analysis assesses both the scale and the technological orientation of regional innovation. The aim is to identify the key bottlenecks to scaling and to explore strategies for retaining high-growth firms within the European innovation system.

The findings reveal a highly uneven but dynamic innovation landscape. While Production and the Neighbourhood Economy dominate in terms of company numbers, accounting for the bulk of small enterprises, the Digital Economy emerges as the clear growth leader, outperforming all other sectors in both the short and the medium term. By contrast, Media remains small and largely stagnant, while Life Sciences shows niche specialisation and renewed short-term dynamism, despite its limited size.

Innovation activity is also heavily concentrated geographically. A small number of urban hubs, such as Tallinn, Warsaw and Vienna – the last of which was included as a benchmark – dominate national ecosystems, often accounting for the majority of startup activity, venture capital and high-growth firms. This reflects both the concentration of research institutions and financial resources, as well as the limited depth of broader national innovation systems.

A central challenge identified by the report is the region’s limited capacity to scale firms domestically. Fragmented markets, weaker venture-capital ecosystems and regulatory barriers constrain growth, pushing many successful startups to relocate their headquarters, frequently outside the EU. This is particularly evident among ‘unicorn’ firms, where smaller CESEE economies achieve high per capita success rates, but struggle to retain companies as they mature.

The policy note argues that strategic intra-EU relocation offers a pragmatic solution. Rather than relocating to global hubs such as the US or the United Kingdom, firms could adopt dual-hub models within Europe, leveraging cities like Vienna that provide access to capital, infrastructure and international markets, while maintaining operational links to their home countries.

Strengthening such cross-border innovation linkages could help retain value creation within the EU, support the scaling of CESEE firms and partially compensate for the slow progress in deeper structural reforms, such as the completion of the Capital Markets Union.

The policy note is available here.

MINIMUM-WAGE INCREASES DO NOT HARM FIRMS: EVIDENCE FROM NORTH MACEDONIA

Client: Austrian Agency for International Cooperation in Education and Research

by Branimir Jovanović, wiiw Economist

The 27% hike in the statutory minimum wage in North Macedonia in 2017 had no adverse effect on businesses. Those companies that were more exposed did not experience lower profitability than those that were less exposed, and nor is there any evidence of a decline in employment. Meanwhile, productivity rose more in firms that were more strongly affected by the reform.

In our recently published working paper, co-authored with a number of researchers from North Macedonia and supported by the Austrian Agency for International Cooperation in Education and Research, we examine the company-level effects of the 2017 minimum-wage increase in North Macedonia, when the statutory minimum wage was raised by 27%. This was the largest increase in the country's history and prompted concerns that such a policy could lead to job losses and weaker performance by business. In the paper, we assess whether this was indeed the case.

The analysis is based on matched employer–employee administrative data covering virtually the entire population of formal companies and workers. This allows for a comprehensive assessment of the behaviour of businesses across multiple dimensions, including employment, profits, costs and productivity. The empirical approach relies on a difference-in-differences framework, exploiting variation in the exposure of firms to the reform, defined as the proportion of low-wage workers employed in each prior to the increase.

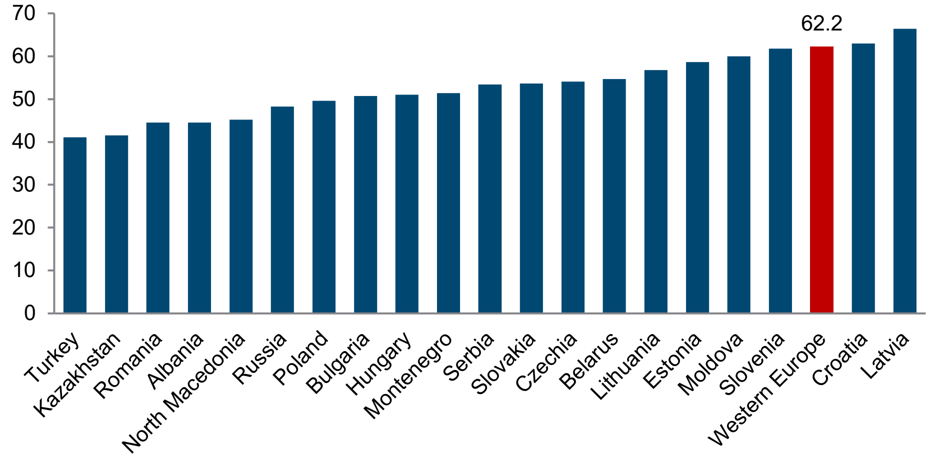
The results indicate that the minimum-wage increase did not have any adverse effect on businesses. Those companies that were more exposed did not experience lower profitability than those that were less exposed, and nor is there any evidence of a decline in employment. At the same time, certain perhaps surprising findings emerge: productivity increased more in businesses that were more strongly affected by the reform, and those firms also reduced their non-wage operating costs to a greater extent.

The explanation for these findings lies in the relatively low level of the minimum wage and of salaries in general, which implies that the share of wages in the total expenditure of a business is modest. Consequently, even a sizeable increase translates into only a limited rise in total costs. At the same time, higher wages improve worker motivation and effort, contributing to greater productivity and the more efficient organisation of production.

The broader applicability of these findings extends beyond North Macedonia. Most economies in the CESEE region are characterised by a relatively low labour share, compared to Western Europe. Only three countries – Latvia, Croatia and Slovenia – have a labour share comparable to that of Western Europe. In seven countries, the share remains below 50% (Figure 1).

The results are particularly relevant in the current context of rising (energy price-driven) inflation, which affects low-income households disproportionately. Increasing the minimum wage can help mitigate these pressures without imposing any significant cost on businesses.

Figure 1 / Labour income share as % of GDP



Source: ILO.

Country in focus: Slovenia

A SUBTLE SHIFT TO THE RIGHT

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and

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Following the parliamentary election on 22 March, which resulted in a hung parliament, a populist right-wing party has emerged as kingmaker. The three-time prime minister Janez Janša of the centre-right Slovenian Democratic Party, trying to keep his balance while gingerly stretching further to the right, is poised to return for a fourth term in office, this time with a minority government, an unreliable ally in parliament and a strong opposition.

On 22 March 2026, Slovenia went to the polls in a general election. The outgoing centre-left administration of Prime Minister Robert Golob, leader of the Freedom Movement (*Gibanje Svoboda*, GS) and a member of the Renew group in the European Parliament, together with his coalition partners – the Social Democrats (*Socialni demokrati*, SD) and the Left (*Levica*) – faced a deeply divided country. Public grievances over long-overdue structural reforms and slow progress on issues such as affordable housing intersected with the broader global rise of ideological populism, creating fertile ground for parties that promised quick solutions.

Setting the stage for the election: disillusionment with the Golob government

Prime Minister Golob came to power with a landslide victory in the 2022 election, which was largely shaped by strong anti-Janša sentiment. Janez Janša had returned to office in 2020 not through elections, but following the collapse of the previous government after roughly 18 months. Widespread dissatisfaction with Janša's pandemic-era administration – openly castigated for its controversial and populist policies – propelled Golob (a relative novice in politics, but well known in the business community) into the premiership.

His Freedom Movement, in coalition with the Social Democrats and the Left, started out by making ambitious promises of reform, but soon encountered the realities of government and the need to manage expectations. Efforts to advance major structural reforms faced political resistance, administrative constraints and tension within the coalition. Attempts to introduce a comprehensive property tax proved unsuccessful, reflecting both public sensitivity and limited political consensus. While the government did achieve some progress in areas such as energy policy and post-pandemic economic stabilisation, several reforms came in for criticism from various stakeholder groups: reform of salaries in the public sector, important increases in the minimum wage and the transformation of the (private) voluntary supplementary health insurance into a direct payroll deduction, collected by the public health fund.

At the same time, the slow progress on housing reform, a scaled-down tax reform and failure to deliver on a number of other promises left a blot on the government's term in office. In particular, the abandonment of the property tax – which would have introduced higher taxes on real estate other than an individual's primary residence – contributed to a perception of government ineptitude. Over time, the shortfall between initial expectations and tangible outcomes became a key source of voter dissatisfaction.

The dirty election campaign and the inconclusive result

The campaign race itself began well before the starting pistol was officially fired. Initially things remained relatively calm, although some billboard posters were notably aggressive or in poor taste. A particularly controversial incident – a dead dog attached to a Freedom Movement poster – signalled a clear escalation in campaign rhetoric.

Approximately ten days before the election, the campaign flared up. At its heart was a dual scandal. First, prominent Slovenian public figures were secretly filmed discussing how the current government could be influenced, reinforcing allegations of corruption and political vulnerability. Shortly thereafter, the magazine *Mladina* reported that the recordings could have been the result of external interference, allegedly involving the private Israeli intelligence firm Black Cube. These claims significantly altered the dynamics of the campaign. On 18 March, Golob formally reported the alleged interference in a letter to European Commission President Ursula von der Leyen. Additional criticism was directed at the government's decision to cap fuel price increases in the wake of the Iran war – a move that led to temporary supply shortages, as foreign drivers crossed en masse into Slovenia to refuel.

The very high voter turnout of 70.25% produced no clear winner, resulting in a hung parliament that will make it particularly challenging both to form a government and then actually to govern.

The Slovenian parliament has 90 seats. The Freedom Movement of the outgoing prime minister Robert Golob won 29 seats (12 fewer than in the previous parliament), one seat more than the Slovenian Democratic Party (SDS, led by Golob's main rival and three-time prime minister Janez Janša), which gained 28 seats. The Christian Democratic alliance comprising New Slovenia (NSi), Fokus and the Slovenian People's Party (SLS) secured nine seats, while the Social Democrats (SD) and the Democrats won six seats apiece. The Left and Resni.ca (a right-wing populist party that entered parliament for the first time) each secured five seats. Two seats are reserved for representatives of the Italian and Hungarian minorities. The former governing coalition fell six seats short of an absolute majority, making it hard for the Golob administration to soldier on. On the other side, the SDS and its natural partners – the Democrats and the NSi–Fokus–SLS alliance – obtained only 43 seats. The balance of power thus lies with Resni.ca.

The election outcome reflects several interconnected factors. As well as economic grievances, dissatisfaction with the progress of reform and ideological polarisation, key influences included the high voter turnout, the dynamics of the final ten days of the campaign and the dual scandal shortly before polling day.

The difficulties of building a government, surrounded by scandal

The crucial question since election day has been how the incumbent prime minister, Robert Golob – leader of the Freedom Movement, the party that won the most seats in the National Assembly – can form a new coalition. The only feasible option would be for the Freedom Movement to join with at least one, but more likely two, right-wing parties. The Freedom Movement initially invited all parties – bar one – to talks and negotiations on forming a future government. The sole exception was the SDS of former prime minister Janez Janša: it was excluded on the grounds that it had been labelled a non-democratic party by the Freedom Movement itself. However, it soon became clear that forming a new administration would be extremely difficult, given the profound animosity of some of the potential coalition members. Mathematically, only one option remained open: for Robert Golob to persuade the Social Democrats, the Democrats and Resni.ca to form a coalition government.

Shortly after the election, however, an informal political grouping emerged. Made up of New Slovenia, the SLS, Fokus, the Democrats and Resni.ca, this grouping began to refer to itself as a 'third bloc', although it consists entirely of right-wing parties. While these parties differ in the degree to which they are populist or anti-democratic, they do share broadly similar positions on taxation, migration, the green transition and social policy. These parties agreed to maintain close coordination in all coalition talks, emphasising the similarities of their manifestos. This development signalled that it would be very difficult for the Freedom Movement to form a government, as it would require the fragmentation of this emerging bloc.

In a further development, Zoran Stevanović, the leader of Resni.ca, publicly stated immediately after the election that his party would not join any government led by either Robert Golob or Janez Janša. However, he left open the possibility of supporting selected policies from the sidelines. This raises the possibility that Golob could – at a pinch – form a minority government together with the Social Democrats and the Democrats, while drawing (sometimes) on external support from Resni.ca.

By the third week following the election, the negotiations led by the Freedom Movement had made little progress, while the uncertainty was increasing ahead of the constitutive session of the National Assembly on 10 April. The key question was which political camp could, in a secret ballot, secure the absolute majority (46 votes) required to elect the president of the National Assembly, a vote widely seen as indicative of a future governing coalition. The same absolute majority is required to elect the prime minister.

With speculation rife about possible candidates, the former coalition parties did not initially nominate a candidate. With a view to future coalition building, the Freedom Movement was inclined to lend tactical support to a candidate from the Democrats. But events took an unexpected turn. The only candidate nominated for president of the National Assembly was Zoran Stevanović of Resni.ca. His candidacy was endorsed by several members of the SDS, signalling the possible formation of a new right-wing coalition. In the end, Stevanović was elected with 48 votes in favour.

There was a subsequent scandal when it emerged that several ballots had been marked in identifiable ways. This raised serious concerns, as the vote was meant to be secret. The markings suggested coordinated behaviour that could allow votes to be traced. In response, the Freedom Movement announced on 21 April that in view of this procedural violation it would initiate constitutional impeachment proceedings.

Despite the controversy, the events strongly indicate that a new right-wing coalition – likely led by Janez Janša – is taking shape behind the scenes.

Outlook: Janez Janša set to become the next prime minister – once again

What follows is likely to be a lengthy phase of waiting, signalling and careful vote-counting. While the election of the president of the National Assembly suggests a degree of rapprochement with Janez Janša, previous statements by Zoran Stevanović and repeated assurances by the Democrat Anže Logar to the effect that they will not enter a coalition with Janez Janša dictate the next steps of both men. Maintaining credibility with their respective electorates will require careful positioning, encouraging both leaders to delay any firm commitment, while exploring coalition options behind the scenes.

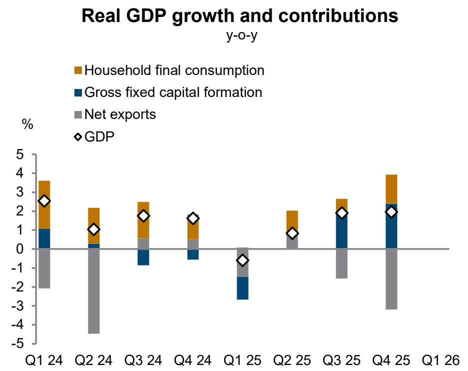
Slovenia’s institutional procedures create ample space for such manoeuvring. While the first two rounds of voting for the prime minister require an *absolute* majority, in the third round a simple majority suffices. This opens up the theoretical possibility that a prime minister could be elected only in the third round. However, that does seem an unlikely scenario – as does the prospect of early elections (given that most of the small parties would face significant risk in such an event). Finally, Janez Janša has a powerful incentive to secure a clear majority of at least 46 votes and avoid reliance on procedural minimalism to become Slovenia’s prime minister for a fourth time.

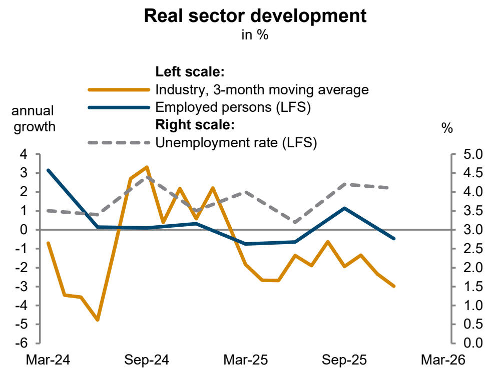
A government led by Janez Janša and supported by the Democrats and the NSi–Fokus–SLS alliance would likely pursue a broadly conservative, pro-market and sovereignty-focused policy agenda. In terms of economic policy, it would probably prioritise competitiveness, decentralisation and incentives for investment, while limiting expansive welfare policies. On social policy, a Janša-led coalition would emphasise traditional values, placing family at the centre of its social agenda. It would defend stricter migration controls and introduce stronger internal security measures. Institutionally, attacks on the judiciary, media and state institutions might be expected, with the smaller coalition partners moderating the more extreme SDS position.

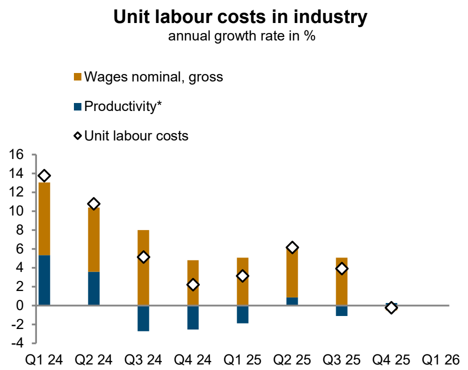
In terms of EU policy, such a government would remain broadly pro-European, but would be more cautious about further integration, favouring national sovereignty. On foreign policy, the pro-Palestinian course of the current government would give way to a firm pro-Israeli stance.

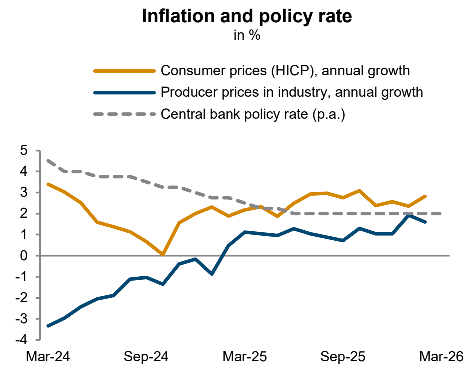
At a more profound level, the election results suggest a subtle but meaningful shift to the right within the electorate. The shift is not clearly reflected in opinion polls or long-term attitudinal surveys, but it is visible in actual voting behaviour. While less pronounced than similar developments elsewhere in Europe, the fact that right-leaning parties secured more than half of the parliamentary seats in the context of high voter turnout points to a gradual reconfiguration of Slovenia’s political landscape.

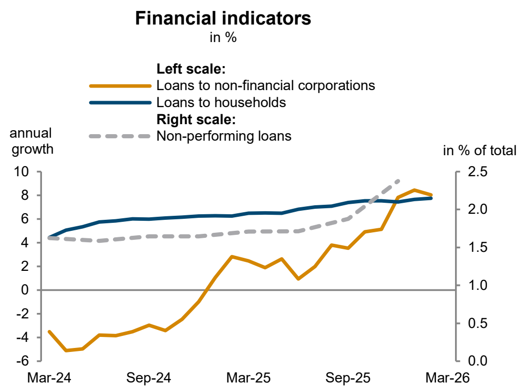
Slovenia

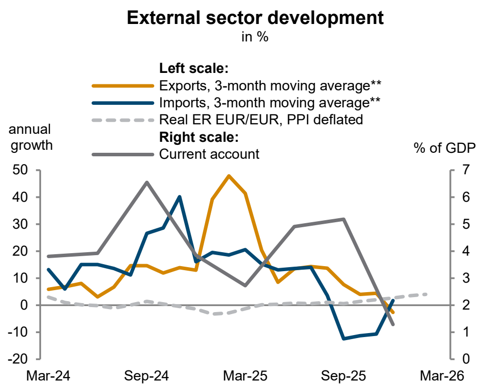












*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

*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

Recent member events

- SAP CEE Partner Kick-off Meeting, Keynote Speech Richard Grieveson, Warsaw, 25-26 March 2026

Recent publications

- The illiberal economy: The long-term development of the Hungarian economy under Viktor Orbán, Mario Holzner, Policy Note, April 2026
- Executive Network CEE Exchange Podcast, Energy in Poland, the Cost of Transition and the Price of Standing Still

Recent Presentations and Public Events

- Geoeconomic and geopolitical consequences of the war in Iran, Joint oiip and wiiw Seminar, 13 April 2026.
- How does industrial policy create growth in the cross-pressure of public finances?, Presentation, Francesca Guadagno, 16 April 2026
- Feasibility of a 28th tax regime in supporting EU competitiveness, Study presentation, Kristijan Fidanovski, European Parliament Fiscal Committee Public Hearing, Brussels, 16 April 2026
- Role of mining in the Western Balkans, Study presentation, Branimir Jovanovic, Belgrade, 17 April 2026
- Role of mining in the Western Balkans, Study presentation, Branimir Jovanovic and Kristijan Fidanovski, Brussels, 23 April 2026
- Q2 Forecast Report, Experts Breakfast, 28 April 2026

Looking ahead

Upcoming member events

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

Upcoming publications

- Q2 Forecast Report, April 2026
- FDI Report 01/26, May 2026
- Monthly Report 06/26, June 2026
- wiiw Q3 Forecast Update, July 2026
- Working Paper, Fiscal consolidation and political instability, May 2026
- Working Paper, Ageing costs, public debt sustainability, and EU fiscal rules, May 2026

Upcoming presentations and public events

- Fiscal multipliers of public investment, Paper presentation, Cara Dabrowski, MIE-IPE Research Seminar, Berlin, 29 April 2026
- Economic expectations from the EU-Armenia trade agreement (CEPA), Presentation, Vasily Astrov, Economic Forum Armenia, Austrian Economic Chamber, 29 April 2026
- Q2 Forecast Report, Webinar, 30 April 2026
- Role of mining in the Western Balkans, Presentation, Kristijan Fidanovski, Berlin, May 2026
- Demography conference, Government of Republic of Serbia, Panelist Kristijan Fidanovski, Belgrade, May 2026
- Nicotine free spaces for healthier cities, European Tobacco or Health Conference, Presentation, Kristijan Fidanovski, Milan, 20-22 May 2026
- ‘Infrastructure in the Western Balkans’, Presentation, Mario Holzner, EFC Alternates Meeting at OeNB, 27 May 2026
- Workshop "Advances in Spatial and network Modelling for Policy Making, Presentation, Chiara Castelli, JRC Seville, 28-29 May 2026
- J.P. Morgan CEE Macro & Fixed Income Conference, Panelist Richard Grieveson, Vienna, June 2026

- Raiffeisen Bank CEE Analyst Meeting, Presentation, Richard Grieveson, Krems, June 2026
- Wiiw Q3 Forecast Update Webinar, July 2026

New Members 2026: Welcome!

- Biscuit International
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- MERO
- TMF Group
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- Warner Bros. Discovery
- Cushman & Wakefield (Bratislava) – **April 2026**
- Soy Austria – **April 2026**
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