Monthly Report

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wiiw winter forecast update

# Growth mostly firming, despite major external headwinds and uncertainty

## Economic forecasts for Eastern Europe for 2025-27

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

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## Economic forecasts for Eastern Europe for 2025-27

RICHARD GRIEVESON
VASILY ASTROV
MERYEM GÖKTEN
MACIEJ J. GRODZICKI
BRANIMIR JOVANOVIĆ
OLGA PINDYUK

et al. (including Alexandra Bykova, Selena Duraković, Doris Hanzl-Weiss, Gábor Hunya, Niko Korpar, Dzmitry Kruk, Sebastian Leitner, Isilda Mara, Emilia Penkova-Pearson, Sándor Richter, Marko Sošić, Bernd Christoph Ströhm and Maryna Tverdostup)

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# Executive summary

**The economic outlook for the Central, East and Southeast Europe (CESEE) region in 2025 presents a mixed picture, with overall growth projected to slow to 2.7%, down from 3.1% in 2024.** This deceleration is primarily driven by a significant slowdown in Russia, where growth is expected to decline sharply to 1.8%, from 3.8% last year, on account of stringent monetary tightening measures in response to high inflation. Similarly, Ukraine is projected to experience slower growth, at 3%, down from an estimated 3.3% last year, due to higher inflation, monetary tightening, destruction of energy infrastructure and labour shortages.

**However, most of the region's economies are expected to perform better in 2025 than in 2024.** The EU member states within the region are forecast to expand by 2.8%, up from 1.9% the previous year. It is anticipated that the Western Balkans will maintain a healthy growth rate of 3.5%, while Turkey's economy is projected to grow at a similar rate, 0.5 percentage points (pp) higher than last year. Looking ahead, the CESEE region is expected to grow by 2.8% in 2026 and 2.9% in 2027. While these growth rates are not particularly impressive in the historical context, they are significantly higher than the projected growth rates for the euro area (1.4% and 1.5% for 2026 and 2027, respectively). The top performers in the CESEE region for the period 2025-2027 are expected to be Kazakhstan, Turkey, Ukraine, Albania and Kosovo.

**Consumption is likely to remain the primary driver of growth across the region.** Real incomes still have room to grow, as tight labour markets push nominal wages above price growth. Investment is also expected to contribute positively to growth, supported by monetary easing and inflows of EU funds. However, net exports are likely to continue to act as a drag on growth, owing to weak external demand. Inflation remains a concern, with consumer price growth expected to be higher in 2025 than in 2024 in several sub-regions, including EU-CEE and the CIS3. As a result, monetary easing is likely to proceed cautiously, with central banks wary of FX weakness and the impact of a strong dollar on capital flows.

**External factors pose a significant challenge to economic growth in the CESEE region.** These include the persistent weakness of German industry and increased geopolitical uncertainty following Donald Trump's return to the US presidency. For EU-CEE, projected new US tariffs on EU imports could adversely affect trade, particularly in the automotive sector, while higher treasury bond yields could tighten financial conditions, increasing borrowing costs and potentially raising balance-of-payments outflows.

**In the non-EU parts of CESEE, Trump's presidency is likely to have significant implications.** In the Western Balkans, Trump's return could lead to greater US political and economic engagement, potentially accelerating EU accession and movement on Serbia-Kosovo issues. The region may see increased US investment, particularly in Serbia and Albania, driven by individuals close to Trump. However, potential tariffs and retaliatory measures could dampen global trade, harming the small, open economies of the Western Balkans. Ukraine faces significant uncertainty, with the new US administration likely to reconsider its support for the country and its policy on the Russia-Ukraine conflict. This could have an impact on the level and type of assistance that Ukraine receives, with a potential shift on the issues of military aid and sanctions against Russia. As far as Turkey is concerned, it could potentially suffer economic instability resulting from US tariffs and higher borrowing costs. Relations with the US may also be strained by the country's developing ties with China and by its involvement in / proximity to regional conflicts. Despite improvements in Turkey's macroeconomic situation, the economy remains vulnerable to policy shocks from a second Trump administration.

**For Russia, Trump's second term in office may represent a 'window of opportunity' to improve US-Russia relations, but there could be economic repercussions.** Trump's protectionist trade policy will not have any huge impact on Russia, given the very limited trade between the two countries. However, the US and Russia are major competitors on the global energy markets, and Trump's plans to expand domestic energy production will put prices – and Russia's energy exports – under pressure. Besides, a potential ceasefire in Ukraine may sharply reduce the need for domestically produced armaments, which would prove a major adverse demand shock for the economy.

Keywords: CESEE, economic forecast, Central and Eastern Europe, Western Balkans, EU, euro area, CIS, war in Ukraine, energy dependence, EU accession, EU Recovery and Resilience Facility, economic growth, labour markets, inflation, monetary policy, fiscal policy, GDP, consumer prices, unemployment, current account, fiscal balance, policy rate, exchange rate, political risk, FDI, exports, imports

JEL classification: E20, E21, E22, E23, E24, E31, E32, E5, E62, F21, F31, H60, I18, J20, J30, O47, O52, O57, P24, P27, P33, P52

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**Cut-off date for historical data and forecasts: 17 January 2025.
Most data are taken from the wiiw Databases. Direct access is available at: https://data.wiiw.ac.at/.**

# ABBREVIATIONS

| | |
|---|---|
| EUR | euro |
| USD | US dollar |
| | |
| BMF | Austrian Federal Ministry of Finance |
| CIS | Commonwealth of Independent States |
| CPI | consumer price index |
| ECB | European Central Bank |
| ENTSO-G | The European Network of Transmission System Operators for Gas |
| EU | European Union |
| FDI | foreign direct investment |
| GDP | gross domestic product |
| HICP | harmonized index of consumer prices |
| ICT | information and communication technologies |
| IMF | International Monetary Fund |
| LFS | labour force survey |
| LNG | liquified natural gas |
| MFF | Multiannual Financial Framework |
| NATO | North Atlantic Treaty Organisation |
| PMI | purchasing managers' index |
| pp | percentage points |
| RRF | Recovery and Resilience Facility |
| VAT | value-added tax |
| WIFO | Austrian Institute of Economic Research |
| wiiw | The Vienna Institute for International Economic Studies |
| | |
| . | not available (in tables) |
| bn | billion |
| eop | end of period |
| m | million |
| p.a. | per annum |
| Q1 2021 | first quarter of 2021 |
| y-o-y | year on year |

## wiiw COUNTRY GROUPS

### CESEE23 Central, East and Southeast Europe

| | |
|---|---|
| AL | Albania |
| BA | Bosnia and Herzegovina |
| BG | Bulgaria |
| BY | Belarus |
| CZ | Czechia |
| EE | Estonia |
| HR | Croatia |
| HU | Hungary |
| KZ | Kazakhstan |
| LT | Lithuania |
| LV | Latvia |
| MD | Moldova |
| ME | Montenegro |
| MK | North Macedonia |
| PL | Poland |
| RO | Romania |
| RS | Serbia |
| RU | Russia |
| SI | Slovenia |
| SK | Slovakia |
| TR | Turkey |
| UA | Ukraine |
| XK | Kosovo |

### EU-CEE11 Central and Eastern European EU members

| | |
|---|---|
| BG | Bulgaria |
| CZ | Czechia |
| EE | Estonia |
| HR | Croatia |
| HU | Hungary |
| LT | Lithuania |
| LV | Latvia |
| PL | Poland |
| RO | Romania |
| SI | Slovenia |
| SK | Slovakia |

### V4 Visegrád countries

| | |
|---|---|
| CZ | Czechia |
| HU | Hungary |
| PL | Poland |
| SK | Slovakia |

### V4+SI Visegrád countries and Slovenia

| | |
|---|---|
| CZ | Czechia |
| HU | Hungary |
| PL | Poland |
| SI | Slovenia |
| SK | Slovakia |

### BALT3 Baltic countries

| | |
|---|---|
| EE | Estonia |
| LT | Lithuania |
| LV | Latvia |

### EU-SEE3 Southeast European EU members

| | |
|---|---|
| BG | Bulgaria |
| HR | Croatia |
| RO | Romania |

### non-EU12 Non-EU CESEE countries

| | |
|---|---|
| AL | Albania |
| BA | Bosnia and Herzegovina |
| BY | Belarus |
| KZ | Kazakhstan |
| MD | Moldova |
| ME | Montenegro |
| MK | North Macedonia |
| RS | Serbia |
| RU | Russia |
| TR | Turkey |
| UA | Ukraine |
| XK | Kosovo |

**WB6 Western Balkans**

| | | | |
|---|---|---|---|
| AL | Albania | MK | North Macedonia |
| BA | Bosnia and Herzegovina | RS | Serbia |
| ME | Montenegro | XK | Kosovo |

**WB6+MD+UA EU accession 8**

| | | | |
|---|---|---|---|
| AL | Albania | MK | North Macedonia |
| BA | Bosnia and Herzegovina | RS | Serbia |
| MD | Moldova | UA | Ukraine |
| ME | Montenegro | XK | Kosovo |

**MD+UA New EU accession 2**

| | |
|---|---|
| MD | Moldova |
| UA | Ukraine |

**CIS3 Commonwealth of Independent States-3**

| | |
|---|---|
| BY | Belarus |
| KZ | Kazakhstan |
| RU | Russia |

**EU27 European Union**

| | | | |
|---|---|---|---|
| AT | Austria | IE | Ireland |
| BE | Belgium | IT | Italy |
| BG | Bulgaria | LT | Lithuania |
| CY | Cyprus | LU | Luxembourg |
| CZ | Czechia | LV | Latvia |
| DE | Germany | MT | Malta |
| DK | Denmark | NL | Netherlands |
| EE | Estonia | PL | Poland |
| EL | Greece | PT | Portugal |
| ES | Spain | RO | Romania |
| FI | Finland | SE | Sweden |
| FR | France | SI | Slovenia |
| HR | Croatia | SK | Slovakia |
| HU | Hungary | | |

**EA20 Euro area**

| | | | |
|---|---|---|---|
| AT | Austria | IE | Ireland |
| BE | Belgium | IT | Italy |
| CY | Cyprus | LT | Lithuania |
| DE | Germany | LU | Luxembourg |
| EE | Estonia | LV | Latvia |
| EL | Greece | MT | Malta |
| ES | Spain | NL | Netherlands |
| FI | Finland | PT | Portugal |
| FR | France | SI | Slovenia |
| HR | Croatia | SK | Slovakia |

# Winter 2024/2025 interim forecast update

**Table 1 / OVERVIEW 2023-2024 AND OUTLOOK 2025-2027**

| | | GDP real change in % against prev. year | | | | | Consumer prices average change in % against prev. year | | | | | Unemployment (LFS) rate in %, annual average | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Forecast | | | | | Forecast | | | | | Forecast | | |
| | | 2023 | 2024 1) | 2025 | 2026 | 2027 | 2023 | 2024 | 2025 | 2026 | 2027 | 2023 | 2024 1) | 2025 | 2026 | 2027 |
| BG | Bulgaria | 1.9 | 2.2 | 2.4 | 2.8 | 3.0 | 8.6 | 2.6 | 2.8 | 2.6 | 2.3 | 4.3 | 4.5 | 4.3 | 4.2 | 4.1 |
| CZ | Czechia | -0.1 | 1.0 | 2.5 | 2.7 | 2.7 | 12.0 | 2.7 | 2.3 | 2.2 | 2.2 | 2.6 | 2.8 | 2.7 | 2.6 | 2.6 |
| EE | Estonia | -3.0 | 0.2 | 2.3 | 3.0 | 2.8 | 9.1 | 3.7 | 3.8 | 3.2 | 2.9 | 6.4 | 7.5 | 7.2 | 6.8 | 6.2 |
| HR | Croatia | 3.3 | 3.5 | 3.1 | 3.0 | 2.9 | 8.4 | 4.0 | 3.0 | 2.5 | 2.4 | 6.1 | 5.0 | 4.9 | 4.9 | 4.8 |
| HU | Hungary | -0.9 | 0.5 | 2.2 | 2.5 | 2.8 | 17.0 | 3.7 | 4.0 | 3.5 | 3.3 | 4.1 | 4.6 | 4.5 | 4.2 | 4.2 |
| LT | Lithuania | 0.3 | 2.4 | 3.0 | 2.7 | 2.7 | 8.7 | 0.9 | 2.0 | 2.5 | 3.0 | 6.9 | 7.2 | 7.0 | 6.5 | 6.0 |
| LV | Latvia | 1.7 | -0.2 | 2.1 | 2.4 | 2.6 | 9.1 | 1.3 | 2.0 | 2.5 | 2.7 | 6.5 | 7.0 | 6.8 | 6.5 | 6.1 |
| PL | Poland | 0.1 | 2.8 | 3.5 | 3.0 | 3.0 | 10.9 | 3.7 | 4.7 | 2.8 | 2.5 | 2.8 | 3.0 | 3.1 | 3.2 | 3.2 |
| RO | Romania | 2.4 | 1.2 | 2.2 | 2.5 | 3.0 | 9.7 | 5.8 | 5.0 | 4.0 | 4.0 | 5.6 | 5.4 | 5.4 | 5.4 | 5.2 |
| SI | Slovenia | 2.1 | 1.9 | 2.4 | 2.5 | 2.6 | 7.2 | 2.0 | 2.1 | 2.2 | 2.1 | 3.7 | 3.6 | 3.6 | 3.6 | 3.5 |
| SK | Slovakia | 1.4 | 2.0 | 2.0 | 2.2 | 2.4 | 11.0 | 3.2 | 3.9 | 2.8 | 3.4 | 5.8 | 5.4 | 5.5 | 5.5 | 5.3 |
| | *EU-CEE11 1)2)* | *0.8* | *1.9* | *2.8* | *2.7* | *2.9* | *11.0* | *3.7* | *4.0* | *3.0* | *2.9* | *4.1* | *4.2* | *4.2* | *4.1* | *4.0* |
| AL | Albania | 3.9 | 4.0 | 3.8 | 3.9 | 4.0 | 5.3 | 2.6 | 2.5 | 2.4 | 2.3 | 10.7 | 10.4 | 10.0 | 9.7 | 9.5 |
| BA | Bosnia and Herzegovina | 2.1 | 2.4 | 2.7 | 2.9 | 3.0 | 6.1 | 1.8 | 2.0 | 2.0 | 2.0 | 13.2 | 13.4 | 13.0 | 12.8 | 12.6 |
| ME | Montenegro | 6.3 | 3.5 | 3.7 | 3.5 | 3.1 | 8.7 | 3.6 | 3.6 | 3.3 | 3.0 | 13.1 | 11.3 | 10.8 | 10.0 | 10.0 |
| MK | North Macedonia | 2.1 | 2.6 | 2.8 | 3.0 | 3.2 | 9.0 | 4.2 | 3.0 | 2.5 | 2.3 | 13.1 | 12.5 | 12.0 | 11.5 | 11.0 |
| RS | Serbia | 3.8 | 3.8 | 3.7 | 3.7 | 3.7 | 12.1 | 4.8 | 3.5 | 3.0 | 2.5 | 9.4 | 8.4 | 8.2 | 8.0 | 7.8 |
| XK | Kosovo | 4.1 | 4.3 | 4.0 | 3.9 | 4.1 | 4.9 | 1.6 | 1.9 | 2.0 | 1.9 | 10.9 | 10.8 | 10.7 | 10.6 | 10.2 |
| | *WB6 1)2)* | *3.5* | *3.5* | *3.5* | *3.5* | *3.6* | *9.1* | *3.6* | *2.9* | *2.6* | *2.3* | *11.0* | *10.4* | *10.1* | *9.8* | *9.6* |
| MD | Moldova | 0.7 | 1.0 | 2.5 | 3.5 | 4.0 | 13.4 | 4.7 | 8.0 | 5.0 | 5.0 | 4.6 | 3.8 | 3.6 | 3.5 | 3.5 |
| UA | Ukraine | 5.5 | 3.3 | 3.0 | 5.0 | 5.0 | 12.9 | 6.5 | 9.5 | 7.0 | 5.5 | 20.0 | 15.0 | 12.0 | 10.5 | 9.5 |
| | *New EU accession 2 1)2)* | *5.2* | *3.2* | *3.0* | *4.9* | *4.9* | *12.9* | *6.4* | *9.4* | *6.9* | *5.5* | *19.2* | *14.4* | *11.6* | *10.1* | *9.2* |
| TR | Turkey | 5.1 | 3.0 | 3.5 | 4.5 | 5.0 | 54.0 | 58.5 | 31.0 | 24.0 | 13.0 | 9.4 | 8.8 | 9.0 | 9.0 | 8.8 |
| BY | Belarus | 4.1 | 4.0 | 2.0 | 1.3 | 0.7 | 5.1 | 5.8 | 8.0 | 6.0 | 5.5 | 3.5 | 3.0 | 3.0 | 3.1 | 3.2 |
| KZ | Kazakhstan | 5.1 | 4.6 | 4.9 | 4.5 | 4.5 | 14.7 | 8.7 | 7.5 | 6.5 | 6.0 | 4.7 | 4.7 | 4.6 | 4.5 | 4.5 |
| RU | Russia | 3.6 | 3.8 | 1.8 | 1.6 | 1.5 | 5.9 | 8.4 | 9.5 | 4.6 | 3.9 | 3.2 | 2.5 | 2.3 | 2.2 | 2.1 |
| | *CIS3 1)2)* | *3.8* | *3.9* | *2.1* | *1.9* | *1.8* | *6.8* | *8.3* | *9.2* | *4.9* | *4.2* | *3.3* | *2.8* | *2.6* | *2.5* | *2.4* |
| | *V4+SI 1)2)* | *0.1* | *2.1* | *3.0* | *2.8* | *2.9* | *11.8* | *3.4* | *4.0* | *2.8* | *2.6* | *3.3* | *3.4* | *3.5* | *3.5* | *3.4* |
| | *BALT3 1)2)* | *0.0* | *1.2* | *2.6* | *2.7* | *2.7* | *8.9* | *1.6* | *2.4* | *2.7* | *2.9* | *6.6* | *7.2* | *7.0* | *6.6* | *6.1* |
| | *EU-SEE3 1)2)* | *2.4* | *1.7* | *2.4* | *2.6* | *3.0* | *9.3* | *5.0* | *4.3* | *3.5* | *3.5* | *5.4* | *5.1* | *5.1* | *5.1* | *4.9* |
| | *EU accession 8 1)2)* | *4.5* | *3.3* | *3.2* | *4.4* | *4.4* | *11.5* | *5.3* | *7.0* | *5.3* | *4.3* | *16.8* | *13.2* | *11.1* | *10.0* | *9.3* |
| | *non-EU12 1)2)* | *4.3* | *3.6* | *2.6* | *2.9* | *3.0* | *21.1* | *22.9* | *15.5* | *10.5* | *6.8* | *7.0* | *5.9* | *5.5* | *5.3* | *5.1* |
| | *CESEE23 1)2)* | *3.3* | *3.1* | *2.7* | *2.8* | *2.9* | *18.3* | *17.6* | *12.3* | *8.5* | *5.7* | *6.3* | *5.5* | *5.2* | *5.0* | *4.8* |
| | *EA20 3)* | *0.4* | *0.7* | *1.2* | *1.4* | *1.5* | *5.4* | *2.4* | *2.2* | *2.0* | *2.0* | *6.6* | *6.4* | *6.5* | *6.5* | *6.5* |
| | *EU27 3)* | *0.4* | *0.9* | *1.4* | *1.6* | *1.7* | *6.4* | *2.6* | *2.4* | *2.2* | *2.2* | *6.1* | *5.8* | *5.9* | *5.9* | *5.9* |

## Table 1 / OVERVIEW 2021-2022 AND OUTLOOK 2023-2025

| | | Current account in % of GDP | | | | | Fiscal balance in % of GDP | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Forecast | | | | | Forecast | | |
| | | 2023 | 2024 1) | 2025 | 2026 | 2027 | 2023 | 2024 1) | 2025 | 2026 | 2027 |
| BG | Bulgaria | 0.9 | -0.8 | -1.0 | -1.1 | -0.7 | -2.0 | -3.0 | -3.0 | -3.0 | -3.0 |
| CZ | Czechia | 0.3 | 1.0 | 1.0 | 1.0 | 1.2 | -3.8 | -2.5 | -2.3 | -2.2 | -2.0 |
| EE | Estonia | -1.7 | -1.9 | -1.8 | -1.6 | -1.2 | -2.8 | -3.2 | -3.4 | -3.0 | -2.7 |
| HR | Croatia | 0.7 | 0.0 | 0.8 | 1.1 | 1.0 | -0.9 | -2.3 | -1.2 | -1.2 | -1.1 |
| HU | Hungary | 0.7 | 2.1 | 2.3 | 2.5 | 2.3 | -6.7 | -4.9 | -4.5 | -4.0 | -3.5 |
| LT | Lithuania | 1.1 | 3.7 | 3.2 | 2.8 | 2.7 | -0.7 | -1.8 | -2.5 | -2.3 | -2.0 |
| LV | Latvia | -3.9 | -3.3 | -3.6 | -3.2 | -3.5 | -2.4 | -3.0 | -2.9 | -2.5 | -2.2 |
| PL | Poland | 1.8 | 0.0 | -1.0 | -0.4 | 0.0 | -5.3 | -5.8 | -5.6 | -4.6 | -3.7 |
| RO | Romania | -6.6 | -8.3 | -7.8 | -7.0 | -6.0 | -6.5 | -8.2 | -7.2 | -6.0 | -5.0 |
| SI | Slovenia | 4.5 | 2.9 | 2.6 | 2.7 | 2.8 | -2.6 | -2.4 | -2.2 | -1.7 | -1.5 |
| SK | Slovakia | -1.7 | -1.7 | -1.5 | -1.5 | -1.2 | -5.2 | -5.8 | -5.0 | -4.2 | -3.2 |
| | *EU-CEE11 1)2)* | *-0.2* | *-1.0* | *-1.3* | *-0.9* | *-0.6* | *-4.7* | *-5.1* | *-4.7* | *-4.0* | *-3.3* |
| AL | Albania | -1.2 | -2.9 | -3.1 | -2.5 | -3.0 | -1.3 | -1.5 | -1.5 | -1.0 | -1.0 |
| BA | Bosnia and Herzegovina | -2.3 | -3.7 | -3.1 | -3.0 | -2.7 | -1.2 | -0.7 | -0.7 | -1.0 | -0.5 |
| ME | Montenegro | -11.4 | -10.7 | -11.0 | -11.4 | -11.5 | 0.6 | 0.6 | -2.5 | -2.7 | -2.3 |
| MK | North Macedonia | 0.4 | -1.2 | -1.9 | -2.2 | -2.4 | -4.3 | -4.0 | -3.5 | -3.0 | -3.0 |
| RS | Serbia | -2.4 | -4.0 | -3.8 | -3.6 | -3.4 | -2.1 | -1.0 | -1.5 | -1.7 | -2.0 |
| XK | Kosovo | -7.5 | -7.8 | -7.8 | -7.6 | -8.0 | -0.3 | -0.5 | -1.0 | -0.5 | -0.5 |
| | *WB6 1)2)* | *-2.7* | *-4.1* | *-4.0* | *-3.8* | *-3.8* | *-1.8* | *-1.2* | *-1.6* | *-1.6* | *-1.6* |
| MD | Moldova | -11.4 | -12.8 | -12.0 | -12.0 | -11.0 | -5.2 | -4.8 | -4.8 | -4.5 | -4.0 |
| UA | Ukraine | -5.3 | -9.0 | -9.0 | -8.0 | -7.0 | -20.1 | -19.0 | -16.0 | -10.0 | -10.0 |
| | *New EU accession 2 1)2)* | *-5.8* | *-9.3* | *-9.3* | *-8.4* | *-7.4* | *-18.8* | *-17.7* | *-15.0* | *-9.5* | *-9.4* |
| TR | Turkey | -3.6 | -1.2 | -2.4 | -3.4 | -4.0 | -5.2 | -4.8 | -3.8 | -3.5 | -2.6 |
| BY | Belarus | -1.5 | -1.3 | -1.7 | -1.8 | -2.0 | 1.2 | 0.3 | -0.3 | -0.5 | -0.8 |
| KZ | Kazakhstan | -3.4 | -1.2 | -1.5 | -1.3 | -1.0 | -2.4 | -2.7 | -2.4 | -2.3 | -2.0 |
| RU | Russia | 2.5 | 3.4 | 3.5 | 3.4 | 3.4 | -2.3 | -1.5 | -1.0 | -0.8 | -0.8 |
| | *CIS3 1)2)* | *1.7* | *2.7* | *2.8* | *2.7* | *2.7* | *-2.2* | *-1.6* | *-1.1* | *-1.0* | *-0.9* |
| | *V4+SI 1)2)* | *1.2* | *0.5* | *-0.1* | *0.3* | *0.5* | *-5.0* | *-4.9* | *-4.6* | *-3.9* | *-3.2* |
| | *BALT3 1)2)* | *-0.9* | *0.5* | *0.2* | *0.1* | *0.1* | *-1.7* | *-2.5* | *-2.8* | *-2.5* | *-2.2* |
| | *EU-SEE3 1)2)* | *-4.0* | *-5.7* | *-5.2* | *-4.7* | *-4.0* | *-4.8* | *-6.3* | *-5.5* | *-4.7* | *-4.0* |
| | *EU accession 8 1)2)* | *-4.4* | *-6.8* | *-6.7* | *-6.1* | *-5.6* | *-11.1* | *-9.8* | *-8.5* | *-5.6* | *-5.6* |
| | *non-EU12 1)2)* | *-0.4* | *0.7* | *0.2* | *-0.2* | *-0.4* | *-3.9* | *-3.3* | *-2.7* | *-2.3* | *-1.9* |
| | *CESEE23 1)2)* | *-0.4* | *0.1* | *-0.3* | *-0.5* | *-0.4* | *-4.2* | *-3.9* | *-3.4* | *-2.9* | *-2.4* |
| | *EA20 3)* | *2.7* | *2.7* | *2.5* | *2.5* | *2.5* | *-3.6* | *-3.1* | *-2.9* | *-2.7* | *-2.3* |
| | *EU27 3)* | *2.7* | *2.7* | *2.5* | *2.5* | *2.5* | *-3.5* | *-3.1* | *-2.5* | *-2.3* | *-1.9* |

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). -
3) Forecasts estimated by wiiw.
Note: Consumer prices refer to HICP for EU-CEE countries, Turkey and WB6 countries except for Bosnia and Herzegovina.
Source: wiiw, Eurostat. Forecasts by wiiw. Cut-off date for historical data and forecasts: 17 January 2025.

# 1. Global assumptions: Bracing for impact

BY RICHARD GRIEVESON

**This year, 2025, begins with an unusually high degree of uncertainty about the economic outlook, primarily on account of political factors.** Above all else stands the return to power of Donald Trump as US president, and the extent to which he follows through on some of the most extreme pledges he made during the election campaign with regard to the global economy.

**There are two main lines of thought on what Trump will do in his first months in office.** Some argue that his threats to hugely increase tariffs on other economies and to end the war in Ukraine 'in a day' are the opening gambit in what will become prolonged negotiations. These negotiations – with China and the EU on tariffs, and with Russia on the war in Ukraine – will eventually yield outcomes not radically different from those that would otherwise have been witnessed. After all, Trump's predecessor, Joe Biden, also took a hard economic line on China especially; and Trump is not the only person who would like to bring the war in Ukraine to an end fairly soon.

**The second line of thought is that Trump means what he says.** That he is willing to risk a fairly significant hit to global economic growth in order to protect American manufacturing. Or that he is willing to give Russian President Vladimir Putin an easy win by swiftly withdrawing military support from Ukraine.

**What is clear is that all this matters a lot for CESEE and will have a major bearing on how the region's economies perform in the coming years.** If Trump does increase tariffs to the level that he has sometimes pledged, that would have a very adverse impact on the global economy – not least because it would spark a chain reaction of retaliation from China, the EU and others. Over the past decade, the US has become by far the euro area's most important export market and the negative impact of steep tariff increases on the single currency area would be felt keenly. This would filter through to CESEE very quicky, given the region's major exposure to the euro area – and especially Germany – via trade, financial flows, migration and other linkages.

**Meanwhile, if Trump withdraws military aid to Ukraine, there would be severe repercussions for the CESEE economies.** If the Ukrainian forces are overrun and quickly defeated, that would badly tarnish the Western image internationally, leave NATO demoralised and discredited, encourage Putin to test Article 5, increase the likelihood of nuclear proliferation, cause further significant migration from Ukraine to the rest of Europe, and drive a sharp spike in global food prices (with the potential for social and political unrest across the globe).

**Our winter Forecast relies on the baseline assumptions listed below, which presume that the worst-case scenarios will not materialise.** Yet we acknowledge that there is huge uncertainty surrounding this, and that this uncertainty alone acts as a drag on the global economy. The recent sharp rise in bond yields in the developed markets is one example of the contracting policy space.

**Our forecast is based on the following assumptions:**

- New US President Donald Trump will not take any drastic or immediate action either to significantly increase tariffs on the EU or to swiftly cut off US military aid to Ukraine.
- He will, however, increase tariffs on Europe, but only after negotiations and not to the extent that he has sometimes claimed. This will nevertheless have repercussions for Europe and the CESEE economies.
- Trump will push Ukraine towards negotiations with Russia more quickly than would otherwise have been the case. But he will not want to hand Russia an easy win, and so there will be no quick end to the war. We see this year as one when negotiations will start; but the path to a ceasefire and eventual peace will be a long one. Russia will want a lot more territory before it stops, and that can only be achieved either through a lot more fighting or through a lot of negotiations.

**Table 2 / wiiw winter 2025 global assumptions**

| | Winter 2025 | | | Changes since autumn | | |
|---|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 2025 | 2026 | 2027 |
| Euro area real GDP growth, % | 1.2 | 1.4 | 1.5 | -0.2 | -0.2 | |
| Euro area HICP, % | 2.2 | 2.0 | 2.0 | 0.0 | 0.0 | |
| Euro area unemployment rate, % | 6.5 | 6.5 | 6.5 | -0.1 | -0.1 | |
| Euro area current account, % of GDP | 2.5 | 2.5 | 2.5 | 0.0 | 0.0 | |
| USD/EUR exchange rate, average | 1.03 | 1.05 | 1.05 | -0.05 | -0.03 | |
| ECB refinancing rate, %, eop | 2.25 | 2.00 | 2.00 | -0.3 | 0.0 | |
| Brent crude oil, US$ per barrel, average | 75.0 | 75.0 | 75.0 | -5.0 | -2.0 | |

Source: wiiw forecasts. Cut-off date: 17 January 2025.

**Despite the political noise, the global economy is continuing to tick over.** Recent global sentiment indicators and major GDP releases point to a continued steady momentum, with services doing well and industry struggling.

**In the euro area, the gradual recovery is also continuing.** Real GDP grew in Q3 2024 by 0.4% quarter on quarter, driven by private consumption and investment. With German industry in particular continuing to struggle, we have made a slight downward revision to our 2025 forecast, but still see the bloc's economy doing substantially better this year than last.

**There have been recent signs of an uptick in inflation in the euro area; but this is primarily due to energy price inflation becoming less negative in year-on-year terms, rather than an indication that core inflation is strengthening.** There are, however, some upside risks to the inflation outlook, with strong real wage growth, a certain upward pressure on food prices and the inflationary impact of any new tariffs imposed by Donald Trump's administration on the European economy.

**However, for now we still see a benign inflationary outlook for the euro area, with price growth averaging 2.2% this year and 2% thereafter, leaving ample room for the European Central Bank (ECB) to continue cutting rates to support the economy.** One reason for this is the subdued outlook for oil prices because of oversupply (not least thanks to Trump's 'drill baby drill' plans), and we have made quite substantial downward revisions to our 2025 and 2026 oil price forecasts. With the ECB expected to cut rates by more than the Fed (the latter will have to contend with upward inflationary pressures as a consequence of Trump's expansionary plans), and various other factors supporting the dollar at the moment, the euro has weakened, and we have revised downward our forecasts for the euro versus the dollar for 2025 and 2026.

# 2. CESEE outlook: Growth mostly firming, despite major external headwinds and uncertainty

BY RICHARD GRIEVESON, VASILY ASTROV, MERYEM GÖKTEN, MACIEJ J. GRODZICKI, BRANIMIR JOVANOVIĆ AND OLGA PINDYUK

## 2.1 WHAT WILL TRUMP MEAN FOR ECONOMIC GROWTH IN CESEE?

**There is a lot of uncertainty about what Trump will do (see global assumptions).** Here there are two things that need to be said. First, our baseline scenario already assumes that the Trump presidency will have a certain negative impact on the region. The new president will increase tariffs on the global economy; though this will not hit CESEE much directly, it will have an indirect impact on the region, especially via Germany. And these tariffs, plus the (already visible) strength of the dollar, will keep inflationary pressures in CESEE higher than would otherwise have been the case.

**The second thing is that the Trump presidency creates a number of downside risks for CESEE (as well as a couple of potential upsides for certain countries).** By the time of our Spring Forecast we should have a better idea of these things, but for now we highlight them as risk factors to watch (Table 3).

**However, while all this is concerning, there is reason not to get too gloomy.** The region has shown remarkable resilience in its response to external crises, such as the 2008 financial crisis, the 2020 pandemic and, more recently, the Russian invasion of Ukraine. CESEE significantly outperformed the euro area in 2024, and should do so again this year and during the rest of the forecast period. Additionally, many CESEE countries are better placed than Western Europe to manage a Trump presidency. Poland's strong defence spending and Trump's positive relationships with leaders like Hungary's Viktor Orbán could prove advantageous. Furthermore, during Trump's previous presidency, some CESEE economies – including Romania, Poland and Hungary – experienced strong growth, suggesting that his policies did not fundamentally harm the region. As outlined above, the threats do seem to be more serious this time; yet in the end they may simply represent the opening bids in a bargaining process that will ultimately lead to pragmatic solutions. While challenges do persist, the overall outlook for CESEE under a Trump administration may not be as bleak as some pessimists suggest.

**Table 3 / Key risks for CESEE under the new Trump presidency**

| Risk | What to watch | Impact on CESEE |
|---|---|---|
| Much more significant new tariffs than we assume in the baseline | Negotiations between Trump's team and the EU, as well as talks with other countries, mostly notably China | Even if Trump hikes tariffs dramatically, the direct impact on CESEE will be limited. But the indirect impact via an already struggling Germany would be much more significant. |
| Ukrainian defeat | How quickly Trump moves to force Ukraine into negotiations and on what terms; also his stance on further military and financial aid to Ukraine | This would leave NATO demoralised and discredited, encourage Putin to test Article 5, increase the likelihood of nuclear proliferation, cause further significant migration from Ukraine to the rest of Europe, and drive a sharp spike in food prices. Foreign investor sentiment towards neighbouring countries, and conceivably the whole of CESEE, would suffer. |
| Higher inflation | Extent of tariffs, strength of dollar and weakness of euro/CESEE currencies | Higher price growth would oblige central banks to reduce monetary loosening plans – or even start hiking again. This would weigh on private consumption and investment, which in most places are currently the main growth drivers. |
| Rush of capital back to the US | The speed of portfolio outflows from CESEE economies | Most countries have quite healthy external positions, which will insulate them somewhat. Ukraine, Moldova, Romania and Montenegro are most at risk of running into difficulty if it becomes more challenging to attract non-FDI external financing (see section 2.6 below). That said, especially in Ukraine's case the risk comes mostly from political decisions, rather than market forces. |

In this section, we also reflect on how Trump's presidency could impact on some of the region's 'hot spots' or areas where we think Trump and his team are most likely to create meaningful change.

### 2.1.1 POLAND: A MIXED PICTURE

**The Trump presidency is likely to have mixed macroeconomic effects for Poland.** On the one hand, projected tariffs on EU imports could adversely impact trade, particularly in the automotive sector, a key part of Poland's export base. However, Poland's diversified industrial structure and stronger domestic demand make it less vulnerable to these disruptions than other Visegrád countries. Higher treasury bond yields may tighten financial conditions, increasing borrowing costs for both the public and the private sector and potentially raising balance-of-payments outflows. On the other hand, Trump's 'drill, baby drill' stance could lower global oil and gas prices, benefiting Poland's energy mix. Moreover, his focus on sustaining US economic growth may generate positive spill-overs, driving new orders and capital flows globally.

**There is more uncertainty regarding other areas of US foreign policy.** Although Poland is formally a political and military ally of the US, and although its political elites have long been pro-American, bilateral relations have been strained. This is evidenced by recent semiconductor trade restrictions that place Poland and other CESEE countries in a second tier, with limits on American-made chip imports. In turn, the future of the partnership in critical sectors like technology and energy remains unclear. Additional uncertainty stems from the ongoing Russia-Ukraine conflict, which has led to significant defence spending in Poland. Notably, Trump's inaugural address made no mention of the war or of its resolution. Lastly, Trump (and his adviser Elon Musk) may take a more direct interest in Poland's internal politics, where the opposition Law and Justice party is hoping for US support in its bid to return to power.

### 2.1.2 WESTERN BALKANS: POTENTIAL FOR GREATER US POLITICAL AND ECONOMIC ENGAGEMENT

**Most politicians in the Western Balkans appear to be pleased (or at least content) with Trump's return to power.** There is a prevailing sentiment that Republicans engage more with the Balkans and that Trump understands the region better – possibly due to personal considerations, including his wife's origins and his family's business interests. There are two main directions that the increased political involvement of the new administration could take: the first would involve speeding up the region's EU accession; the second would see greater efforts being made to resolve the issues between Serbia and Kosovo.

**Regarding the first, exerting direct influence on the EU accession process would seem unlikely, since the whole issue depends largely on the EU.** Moreover, the nature of Trump's relations with the EU is unclear, and it seems improbable that this issue would be high on his agenda. But even if no direct influence is brought to bear, the burgeoning far-right forces in Europe could become more dominant because of Trump and could perhaps even lead the European Commission at some point. That could well herald the more rapid accession of the Western Balkans, a region they regard as a potential ally. This would, of course, take some time to materialise.

**Regarding the second point, there is every likelihood of renewed efforts to mediate in Serbia-Kosovo relations.** In recent years, the dialogue on normalising relations – as envisaged under the Brussels Agreement – has stalled, with the very idea of normalisation being increasingly questioned. The appointment of Richard Grenell as an envoy for special missions signals a strong focus on this issue, given his previous role as special envoy for negotiations between Serbia and Kosovo during Trump's first term. Grenell is perceived as being close to Serbia, having been awarded the Order of the Serbian Flag by President Vučić in 2023, but is viewed less favourably by Kosovo's current prime minister, Albin Kurti, whom he allegedly helped topple in 2020.

**There is speculation that Grenell may revive the idea of a territorial exchange between Serbia and Kosovo, whereby the northern (predominantly Serb-populated) part of Kosovo would join Serbia, while parts of Serbia with a predominantly ethnic Albanian population would join Kosovo.** However, this idea faces significant obstacles. First, Grenell has officially distanced himself from the proposal. Second, Kurti remains the dominant political force in Kosovo and he strongly opposes it. Third, for such a plan to succeed, it would require widespread support from all major regional actors, including in Republika Srpska, Sandžak, North Macedonia and Albania – something that appears unrealistic.

**Given these challenges, it seems more plausible that the new American administration will continue with the current format of dialogue between Serbia and Kosovo, but apply greater pressure, particularly on the Kosovo side.** At the same time, Grenell and his associates have repeatedly emphasised their vision of fostering economic empowerment in the region, aiming for economic prosperity to drive cooperation and reconciliation. This suggests the possibility of increased US investment in the Western Balkans.

**This could align with investment projects announced in the region by people close to Trump.** Jared Kushner, Trump's son-in-law, who has not been mentioned for any political role in the new administration, has been linked to major investment announcements in Serbia and Albania. In Serbia, Kushner plans to develop the Trump Tower Belgrade luxury residential complex on the site of the former Yugoslav Ministry of Defence building, which was damaged during the 1999 NATO bombing – a project laden with symbolism. Kushner's company has reportedly secured a 99-year permit for the project, which will be developed in collaboration with the Emirati businessmen behind the Belgrade Waterfront project. In Albania, a company linked to Kushner has been granted strategic investor status to build a luxury resort on Sazan, an uninhabited Mediterranean island that was formerly a military outpost.

**Beyond these direct influences, Trump's return to power is likely to have indirect economic consequences for the Western Balkans.** First, his expected introduction of tariffs (and the retaliatory measures no doubt subsequently adopted by countries affected) could dampen global trade. This would inevitably hit the small, open economies of the Western Balkans by reducing exports and economic activity.

**Second, the region may be affected by near-shoring and a reduction in FDI, though the mechanisms are complex and could produce opposing effects.** On the one hand, rising geopolitical uncertainty and global polarisation could accelerate near-shoring, as recent trends in the region demonstrate. Similarly, trade wars and tariffs could incentivise Chinese and other Asian companies to establish operations in the region in an effort to bypass EU tariffs. On the other hand, a potential rollback of environmental policies could weaken the regulatory and partner-driven incentives that have recently encouraged near-shoring. Furthermore, Trump's threats to withdraw the US from NATO could increase political instability in the region and thus deter foreign investment.

### 2.1.3 UKRAINE: HUGE UNCERTAINTY

**Ukraine watched the US presidential election very anxiously, as American support is crucial to the country's ability to mount a successful defence against Russia's military aggression, so the outcome of the election could be of existential consequence for its future.** The first immediate effect of Trump becoming US president has been an increase in the level of uncertainty regarding the amount and type of assistance Ukraine will receive from the US. Donald Trump had famously claimed that he would end Russia's war in Ukraine in one day – and the most plausible way of achieving that would have meant the de facto surrender of Ukraine. His most recent public statements indicate that he and his team have realised the complexity of the conflict and have revised the timeline for achieving a peace deal, prolonging it to six months. This is a reassuring sign for Ukraine, but it is too early to claim that Trump will adhere to a pro-Ukraine approach in his foreign policy.

**For once, he has nominated people with diametrically opposed views on Russia's war against Ukraine.** Tulsi Gabbard, nominee for director of national intelligence, has opposed US support for Ukraine; Peter Hegseth, Trump's pick as defence secretary, is an isolationist, who has called for a reduction in the US commitment to NATO. Michael Waltz, Trump's national security advisor, Marco Rubio, secretary of state, and Keith Kellog, special envoy for Ukraine and Russia, are regarded as more pro-Ukrainian and hawkish toward Russia.

**A draft future peace plan, co-authored by Kellog, envisages freezing the front line in Ukraine, taking Ukraine's NATO accession off the table for an extended period, and partially lifting the sanctions imposed on Russia.** According to the proposal, the US would continue to send military aid to Ukraine and would provide Kyiv with security guarantees to prevent further Russian aggression, possibly by sending British and other European troops to enforce a buffer zone. It was reported that Trump's advisors are also developing a comprehensive strategy to impose sanctions on Russia, to pressure it towards a peace deal.

**However, as Putin has shown no sign of willingness to agree on a compromise and keeps demanding essentially Ukraine's surrender as a condition of any ceasefire, Trump may need to threaten a major expansion of US support for Ukraine, in order to increase his leverage; that could be problematic, given the anti-Ukrainian sentiment of his base.** Additionally, Trump's own recent imperialistic rhetoric disrespecting territorial integrity and sovereignty, his transactional approach to policy and his admiration of Putin could prevent him from becoming more hawkish toward Russia.

**What can be said with relative certainty at this stage is that the US policy with respect to Ukraine will change significantly from the Biden administration's approach.** However, it remains to be seen in what direction that change will occur.

### 2.1.4 TURKEY: RISK OF RENEWED TENSION

**During Trump's first term, US policies had a significant impact on Turkey's economy, triggering a currency crisis in 2018.** Sanctions (and the threat of further sanctions) over Syria, the S-400 purchase and Pastor Brunson's detention all unsettled the country's financial markets. This led to capital outflows, a sharp lira depreciation, greater external debt and increased import costs. Persistent uncertainty discouraged investment, raising borrowing costs and financial risks. Therefore, a second Trump term is not something Turkey will view with much optimism, despite the changed circumstances. On the plus side, Turkey's macroeconomic situation has improved since the time of the previous Trump administration. A new economic team took charge after the 2023 presidential election and has implemented a more disciplined and orthodox programme. Measures have been introduced to reduce inflation, the current account deficit has decreased, foreign investor confidence has started to return, and reserves have improved. However, lasting price and macroeconomic stability remains a work in progress, leaving the economy vulnerable to potential policy shocks from a second Trump term.

**The main sources of Trump's second-term impact on the global and Turkish economy include potential US tariffs, higher US bond yields and tighter external financing conditions.** While Turkey may be less likely to face additional tariffs, due to its trade deficit with the US and existing customs duties, the indirect effects of tariff hikes could be more significant. The broader disruption to international trade could weaken Turkey's export sector by triggering protectionist policies worldwide and suppressing external demand for Turkish exports. The main direct impact, however, would likely be felt on the financial markets. Higher US yields and tighter external financing conditions will restrict capital flows, raise borrowing costs and put pressure on the Turkish lira, prolonging the disinflation process and complicating the central bank's soft-landing efforts. A stronger dollar would further add to this, increasing import costs and fuelling inflation again. Together, these factors would make it harder for Turkey to stabilise its economy, curb inflation and sustain growth.

**On top of the economic risks, significant policy disagreements remain between Turkey and the Trump administration, particularly over the Israel-Palestine conflict, the Eastern Mediterranean and Syria.** Additionally, Turkey's growing economic ties with China (China's BYD is building a USD 1bn electric vehicle production plant in Turkey; Huawei is collaborating on 5G development; and cooperation with China on critical minerals has been increasing) could further strain relations and result in tensions similar to those experienced during Trump's first term.

### 2.1.5 RUSSIA: ECONOMIC RISKS DESPITE POSSIBLE RAPPROCHEMENT WITH THE US

**Trump's second term in office is being viewed by some on both sides as a 'window of opportunity' to improve US-Russia relations, but big question marks remain.** On the one hand, Trump is indeed known for his relatively Putin-friendly rhetoric. Besides, his seemingly more balanced approach to the conflict in Ukraine and his readiness to downscale US security guarantees to Europe play into Russia's hands. But on the other hand, looking back, the first Trump presidency (2017-2021) was marked by a further deterioration in bilateral relations and by the unilateral US withdrawal from the remaining arms control treaties with Russia – his Russia-friendly rhetoric notwithstanding.

**Unlike many other CESEE countries, Trump's protectionist trade policy will not have a major impact on the Russian economy.** Trade links between the two countries were never particularly strong and have suffered further with the wide-ranging US sanctions on Russia. As a result, since 2021 Russia's exports of goods to the US have plunged by some 90% and account now for only around 1% of total Russian exports. In addition, the remaining Russian exports to the US consist largely of critical raw materials, such as palladium, rhodium and uranium (e.g. 25% of the uranium used in US nuclear power stations is still of Russian origin), where the rationale for protectionist trade policy is questionable, to say the least.

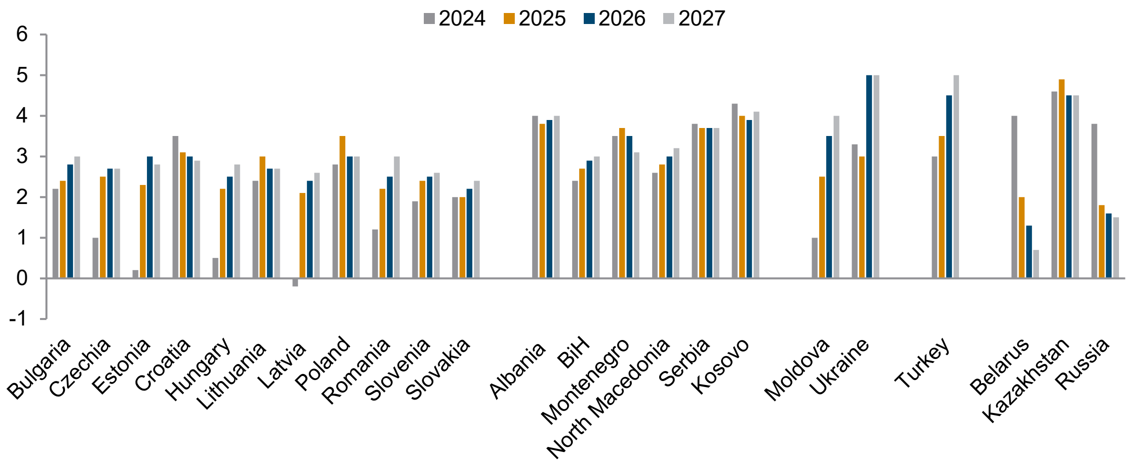
**However, Trump's plans to partly reverse the green agenda of former President Biden and expand domestic production of fossil fuels carry with them an economic risk for Russia.** The US and Russia are (along with Saudi Arabia) the world's top oil producers and competitors, and they also compete fiercely on the European liquefied natural gas (LNG) market. Rising US energy production may push global prices further downward than is assumed in our baseline scenario – even if the USD 50/barrel targeted by Trump during the election campaign proves overly ambitious. This would hit Russia's energy exports, with repercussions for the country's public finances: despite the decline over the past two years, 30% of Russian federal budget revenue still comes from the energy sector.

**Besides, should the Trump administration succeed in bringing about a ceasefire in Ukraine (even in the scenario where the latter effectively surrenders to Russia), the economic implications for Russia may not be that rosy.** Over the past two years, the Russian economic model has essentially been based on 'military Keynesianism', whereby increased defence spending has acted as a major growth driver both directly (via increased government purchases of military goods, benefiting many other sectors through backward linkages) and indirectly (via the steep rise in competition for scarce labour, driving up wages and consumption). Should defence spending, officially set at over 6% of GDP this year, be cut in the event of a ceasefire, the aggregate demand shock to the economy could be huge and could potentially propel it – in tandem with other factors, such as very tight monetary policy – into recession.

## 2.2 GROWTH AND DRIVERS IN 2025-2027

**The overall outlook for CESEE is positive, compared to the recent past.** Although the region as a whole will grow less robustly this year than last (2.7% versus 3.1%), this is almost entirely on account of a sharp slowdown in Russia. Especially in EU-CEE, 2025 will be much better than 2024; but we also forecast clear improvements in Moldova, Turkey, parts of the Western Balkans and Kazakhstan (Figure 1).

**Figure 1 / Real GDP growth, % per year**




Sources: Eurostat, national sources, wiiw forecasts January 2025.

**Last year, 2024, was another tough year for much of CESEE, including some traditional top performers.** Turkey entered a technical recession in Q3, and Romania also had a very bad year by its own high standards. Those in the region that performed better than expected were again mostly concentrated in Southeast Europe, while CIS3 also enjoyed a very good year, thanks to buoyant production in war-related industries in Russia (with positive spill-overs for other areas of the economy, including retail trade on the back of rising real wages) and new projects related to the Middle Corridor trade route in Kazakhstan.

**Table 4 / Real GDP growth forecast and direction of revisions since wiiw autumn forecast 2024**

| Region | | 2025 | | 2026 | |
|---|---|---|---|---|---|
| **EU-CEE** | | | | | |
| BG | Bulgaria | 2.4 | | 2.8 | |
| CZ | Czechia | 2.5 | | 2.7 | |
| EE | Estonia | 2.3 | ▼ | 3.0 | |
| HR | Croatia | 3.1 | ▲ | 3.0 | |
| HU | Hungary | 2.2 | | 2.5 | ▼ |
| LT | Lithuania | 3.0 | ▲ | 2.7 | ▼ |
| LV | Latvia | 2.1 | | 2.4 | |
| PL | Poland | 3.5 | ▼ | 3.0 | ▼ |
| RO | Romania | 2.2 | ▼ | 2.5 | ▼ |
| SI | Slovenia | 2.4 | ▲ | 2.5 | |
| SK | Slovakia | 2.0 | ▼ | 2.2 | ▼ |
| **Western Balkans** | | | | | |
| AL | Albania | 3.8 | | 3.9 | |
| BA | Bosnia and Herzegovina | 2.7 | ▼ | 2.9 | ▼ |
| ME | Montenegro | 3.7 | | 3.5 | |
| MK | North Macedonia | 2.8 | ▲ | 3.0 | ▲ |
| RS | Serbia | 3.7 | | 3.7 | |
| XK | Kosovo | 4.0 | ▲ | 3.9 | |
| **New EU accession 2** | | | | | |
| MD | Moldova | 2.5 | ▼ | 3.5 | ▼ |
| UA | Ukraine | 3.0 | ▼ | 5.0 | ▲ |
| **Turkey** | | | | | |
| TR | Turkey | 3.5 | ▼ | 4.5 | |
| **CIS3** | | | | | |
| BY | Belarus | 2.0 | ▼ | 1.3 | |
| KZ | Kazakhstan | 4.9 | ▲ | 4.5 | |
| RU | Russia | 1.8 | ▼ | 1.6 | ▼ |

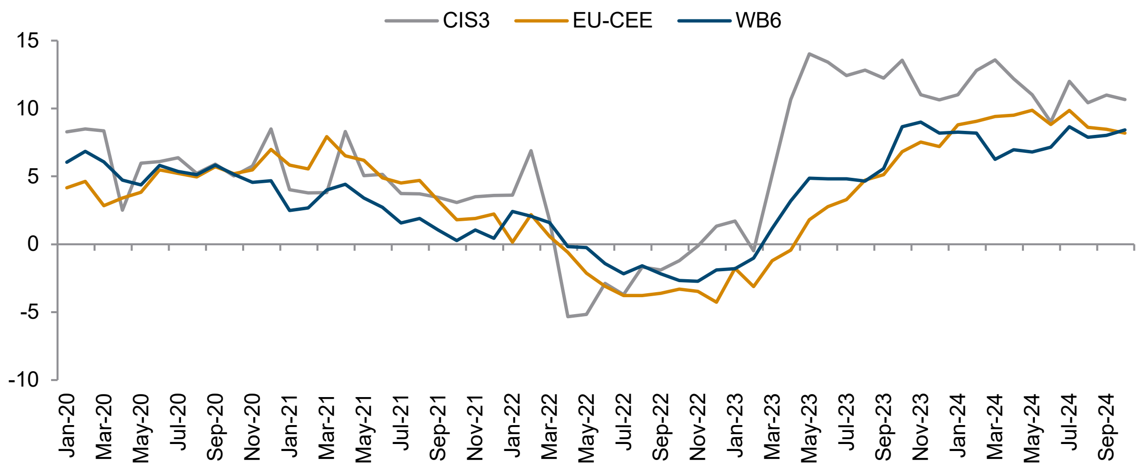
Source: wiiw forecasts.

**Although we see growth in most countries picking up in 2025, we have made a number of downward revisions, indicating that we are not as optimistic on the economic outlook as we were in autumn 2024** (Table 4). There are three main reasons for this. First, the external picture continues to be gloomy, and since our last forecast we have made a further downward revision to our real GDP growth forecast for the euro area and have also learned that Donald Trump will be the next US president, with all the attendant risk (and uncertainty) outlined above. Second, in some countries inflation has proved more persistent than we had expected (see section 4 below for more details and

Table 5 for the direction of our inflation forecast revisions). Third, there are also some country-specific factors that have led to a downgrading of our growth forecasts, linked to political risk or domestic policy choices (see country paragraphs for more details).

**We still see domestic demand, and especially private consumption, as the main driver of growth.** Private consumption is still being underpinned by strong real wage growth and (in most cases) a willingness on the part of consumers to spend the extra they have in their pockets. Real wage growth across the main sub-regions for which data are available indicates still very healthy trends, even if momentum is slackening somewhat in the CIS3 and EU-CEE (Figure 2). Falling interest rates are also supporting consumer credit. Investment presents a more mixed picture across the region, but in many countries one or more of private investment, EU funds and FDI inflows are supported gross fixed capital formation. However, the willingness to invest specifically in new manufacturing capacity is being significantly curtailed by the continued industrial recession in Central Europe. Government spending is, in general, not a big driver of growth across the region, but it is notable that EU-CEE countries are still able to run large deficits, without which overall economic growth would certainly be lower. The main drag on growth remains net exports, which are being held back by weak external demand, especially from Germany.

**Figure 2 / Real wages, CPI-adjusted, % change year on year**




Note: Simple averages include only countries for which monthly wage data are available. CIS: Russia and Belarus. EU-CEE: Bulgaria, Croatia, Hungary, Latvia, Poland, Romania, Slovenia. WB6: Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia.
Sources: Eurostat, national sources, wiiw.

## 2.3 INFLATION, MONETARY POLICY, FOREIGN EXCHANGE

**One of the most striking results of our January forecast is that, in much of the region, inflation will actually be higher this year than last, despite the dominant regional (and global) narrative that the inflationary shock is over.** While we broadly agree with this narrative, we have long cautioned that CESEE would not be going back to comfortable sub-2% inflation anytime soon. We expect inflation to be higher this year than last on average in all sub-regions, except the Western Balkans and Turkey, and accordingly have made a number of upward revisions for this forecast round, relative to autumn 2024 (Table 5).

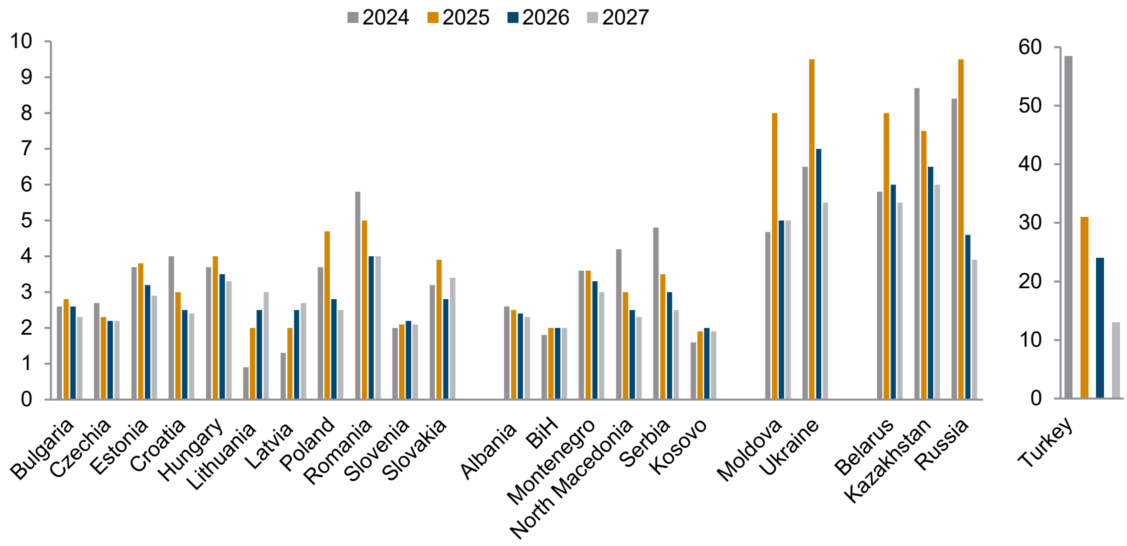
**Table 5 / CPI growth forecasts and direction of revisions since wiiw autumn forecast 2024**

| Region | | 2025 | | 2026 | |
|---|---|---|---|---|---|
| **EU-CEE** | | | | | |
| BG | Bulgaria | 2.8 | ▼ | 2.6 | ▼ |
| CZ | Czechia | 2.3 | ▲ | 2.2 | |
| EE | Estonia | 3.8 | ▲ | 3.2 | ▲ |
| HR | Croatia | 3.0 | ▲ | 2.5 | |
| HU | Hungary | 4.0 | ▲ | 3.5 | |
| LT | Lithuania | 2.0 | | 2.5 | |
| LV | Latvia | 2.0 | | 2.5 | |
| PL | Poland | 4.7 | ▼ | 2.8 | |
| RO | Romania | 5.0 | ▲ | 4.0 | ▲ |
| SI | Slovenia | 2.1 | ▼ | 2.2 | |
| SK | Slovakia | 3.9 | ▼ | 2.8 | ▼ |
| **Western Balkans** | | | | | |
| AL | Albania | 2.5 | | 2.4 | |
| BA | Bosnia and Herzegovina | 2.0 | ▲ | 2.0 | ▲ |
| ME | Montenegro | 3.6 | ▲ | 3.3 | ▲ |
| MK | North Macedonia | 3.0 | | 2.5 | |
| RS | Serbia | 3.5 | | 3.0 | ▲ |
| XK | Kosovo | 1.9 | ▼ | 2.0 | |
| **New EU accession 2** | | | | | |
| MD | Moldova | 8.0 | ▲ | 5.0 | |
| UA | Ukraine | 9.5 | ▲ | 7.0 | ▲ |
| **Turkey** | | | | | |
| TR | Turkey | 31.0 | | 24.0 | ▼ |
| **CIS3** | | | | | |
| BY | Belarus | 8.0 | | 6.0 | |
| KZ | Kazakhstan | 7.5 | ▲ | 6.5 | ▲ |
| RU | Russia | 9.5 | ▲ | 4.6 | ▲ |

Source: wiiw forecasts.

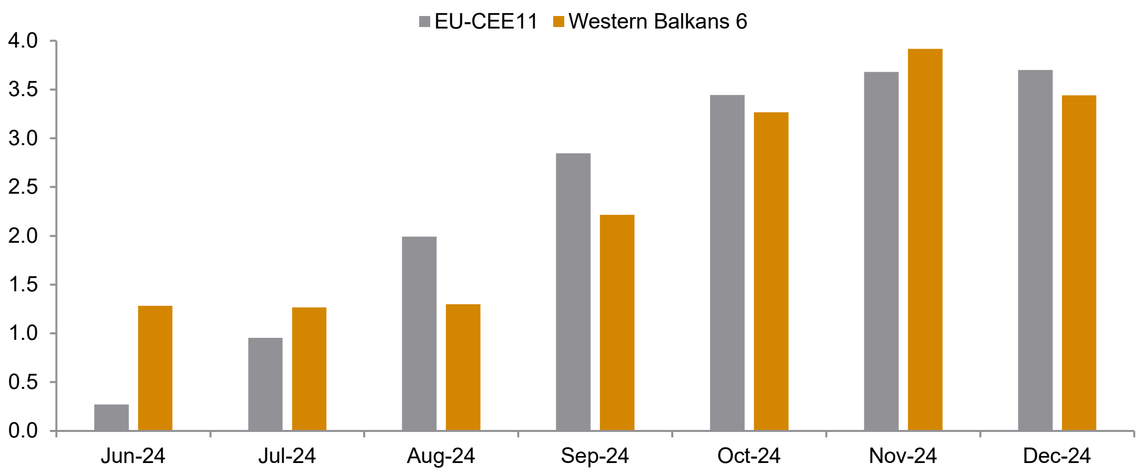
This is largely on account of one or both of the following factors: the removal of price controls introduced during the pandemic or inflation shock; and an uptick in food prices due to weather-related factors over summer 2024. While the services component remains the main contributor to inflation across the region, reflecting strong consumer demand for services on the back of rising real wages, the key positive *change* in the contribution to headline inflation since summer 2024 has tended to be in food prices in many countries (Figure 4).

**Figure 3 / Consumer price inflation, % per year**




Sources: Eurostat, national sources, wiiw forecasts January 2025.

**Figure 4 / Harmonised index of consumer prices (HICP), food and non-alcoholic beverages component, % change year on year**

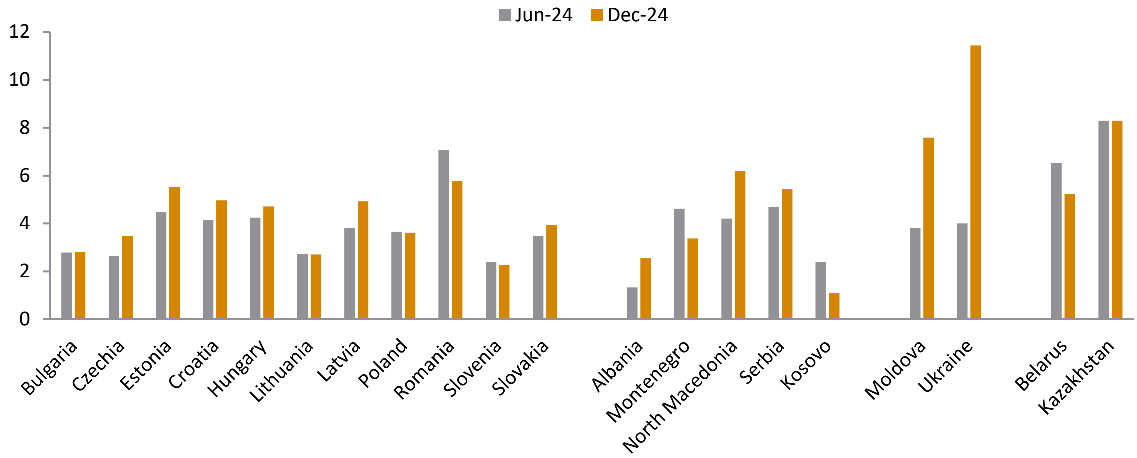



Note: Simple averages for sub-regions. No data available for Bosnia and Herzegovina for December 2024.
Sources: Eurostat, national sources, wiiw.

**This remains therefore a difficult environment for monetary policy makers.** On the one hand, inflation is falling and economic growth is mostly underwhelming. This supports the case for monetary easing. However, on the other hand the weakness is due primarily to external factors: domestic growth is robust, real wages are rising and services inflation is mostly strong, which removes some of the case for monetary easing. Particularly in Moldova and Ukraine, but also in parts of the Western Balkans and

EU-CEE, core inflation – excluding energy and unprocessed food – strengthened markedly in the second half of last year (Figure 5). Weak external demand means that there is little incentive to invest in export-oriented capacity, and lower rates will not help that. In this context we do still expect easing, but we expect it to be quite moderate in most places (Table 6).

### Figure 5 / Core inflation, % change year on year




Note: Core inflation is headline inflation excluding energy and unprocessed food.
Sources: Eurostat, national sources, wiiw.

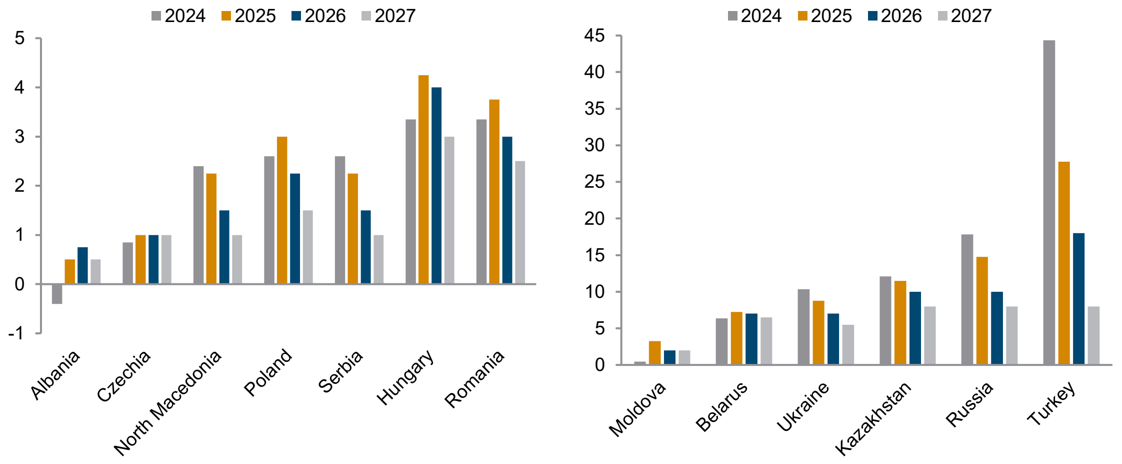
### Table 6 / Policy rate and exchange rate for selected CESEE countries

| | Policy rate eop, p.a. | | | | | Exchange rate NCU/EUR average | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Forecast | | | | | Forecast | | |
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2023 | 2024 | 2025 | 2026 | 2027 |
| Albania | 3.25 | 2.75 | 2.75 | 2.75 | 2.50 | 108.8 | 100.7 | 99.0 | 100.0 | 101.0 |
| Belarus | 9.50 | 9.50 | 9.50 | 9.00 | 8.50 | 3.25 | 3.51 | 3.75 | 3.95 | 4.10 |
| Czechia | 6.75 | 4.00 | 3.25 | 3.00 | 3.00 | 24.0 | 25.1 | 25.0 | 25.2 | 25.5 |
| Hungary | 10.75 | 6.50 | 6.50 | 6.00 | 5.00 | 381.9 | 395.3 | 417.0 | 422.0 | 428.0 |
| Kazakhstan | 15.75 | 15.25 | 13.75 | 12.00 | 10.00 | 493.3 | 507.4 | 550.0 | 560.0 | 570.0 |
| Moldova | 4.75 | 3.60 | 5.50 | 4.00 | 4.00 | 19.64 | 19.25 | 19.40 | 19.60 | 20.00 |
| North Macedonia | 6.30 | 5.55 | 4.50 | 3.50 | 3.00 | 61.56 | 61.52 | 61.50 | 61.50 | 61.50 |
| Poland | 5.75 | 5.75 | 5.25 | 4.25 | 3.50 | 4.54 | 4.31 | 4.36 | 4.35 | 4.30 |
| Romania | 7.00 | 6.50 | 6.00 | 5.00 | 4.50 | 4.95 | 4.97 | 5.05 | 5.12 | 5.20 |
| Serbia | 6.50 | 5.75 | 4.50 | 3.50 | 3.00 | 117.3 | 117.1 | 116.5 | 116.0 | 115.5 |
| Russia | 16.00 | 21.00 | 17.00 | 12.00 | 10.00 | 92.1 | 100.2 | 107.0 | 112.0 | 114.0 |
| Turkey | 42.50 | 47.50 | 30.00 | 20.00 | 10.00 | 25.76 | 35.57 | 40.50 | 46.00 | 49.00 |
| Ukraine | 15.00 | 13.50 | 11.00 | 9.00 | 7.50 | 39.56 | 43.45 | 46.50 | 50.00 | 50.00 |

Sources: National sources, wiiw, forecasts by wiiw. Cut-off date for historical data and forecasts: 17 January 2025.

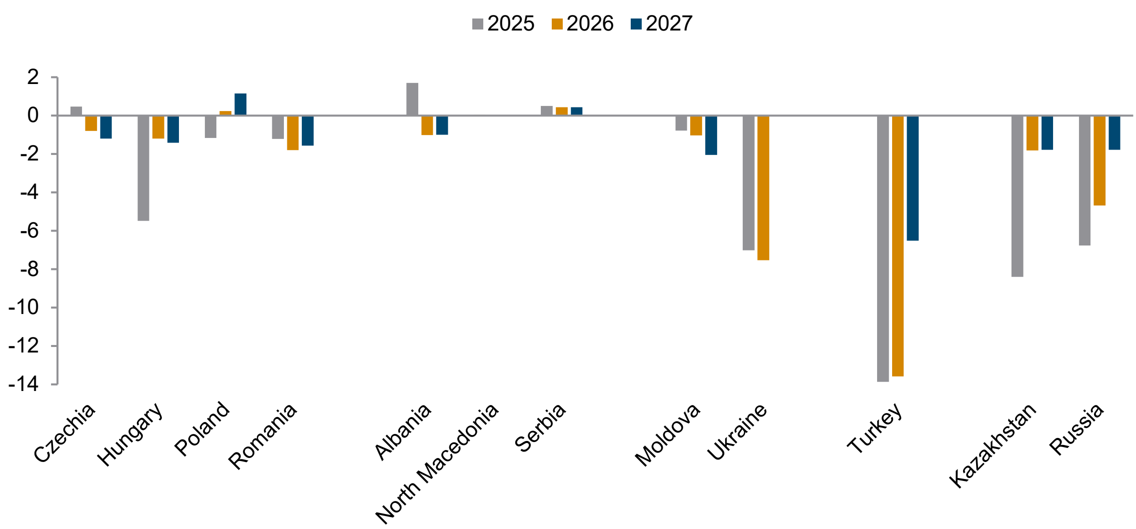
**The gradual pace of monetary easing (or in some cases monetary tightening) will mean that, in some countries, policy will actually become relatively *tighter* versus the euro** (Figure 6). Domestic policy rates will rise relative to the euro this year in Albania, Czechia, Poland, Hungary, Romania, Moldova and Belarus. By contrast, policy will become looser relative to the ECB in North Macedonia, Serbia, Ukraine, Kazakhstan, Russia and especially Turkey, adding to depreciatory pressures on their currencies (see below).

**Figure 6 / Difference between main domestic monetary policy rate and ECB refinancing rate, percentage points**




Note: Data represent the change per year in the difference between the local interest rate and the ECB refinancing rate, in percentage points.
Source: wiiw forecasts January 2025.

**Figure 7 / Percentage change in value of currency versus euro, annual average, %**



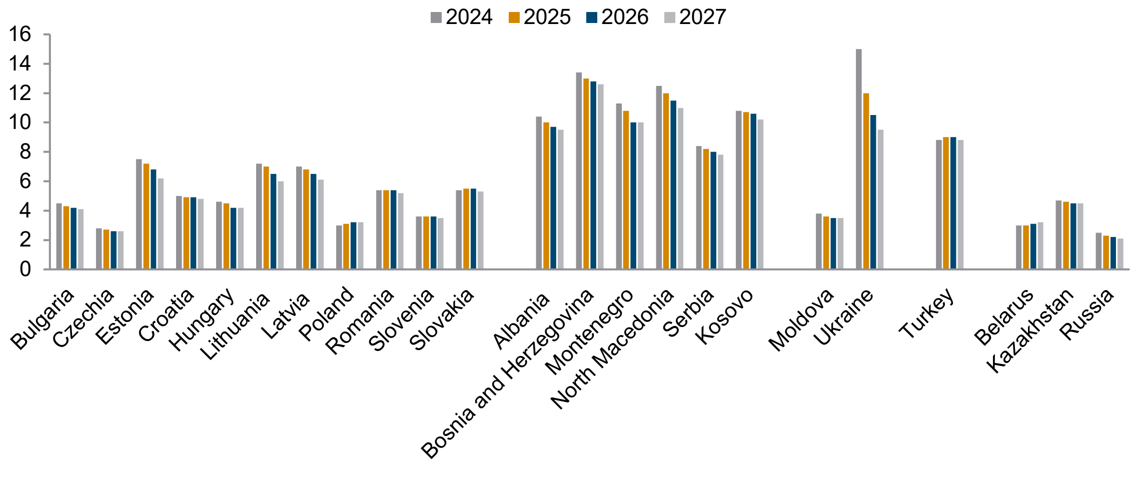

Source: wiiw forecasts January 2025.

**On the FX side, in general we expect depreciation in CESEE this year, but to varying degrees, depending on the country** (Table 6). Across the region there are essentially three stories. First, there are countries (Czechia, Poland, Albania, Serbia) where we have a fairly mixed outlook, with years of minor appreciation or depreciation during the forecast period. Overall, over the next three years, we do not expect the value of the domestic currency versus the euro to change in a meaningful way in those economies. Second, there are countries (Romania, Moldova) where we see depreciation throughout the forecast period, but only in the range of 1-3% per year. Finally, there are countries (Hungary, Ukraine, Turkey, Kazakhstan, Russia) where we see much more substantial depreciation in at least 2025, and in some cases (Ukraine, Turkey, Russia) even beyond that.

## 2.4 LABOUR MARKETS AND WAGES

**Labour markets across the region remain tight, and this will not change during the forecast period.** For most countries where the unemployment rate remains above around 6%, we expect a further decline in unemployment rates during the forecast period (most clearly in Ukraine, the Western Balkans and the Baltic states). For those countries with already low unemployment rates (mostly in EU-CEE) we see limited scope for any further decline. Competition for labour is driving up wages, which in turn is supporting consumption, the main driver of real GDP growth almost everywhere. In that sense, the growth story remains as it has been for so much of the post-2008 period: labour shortages are, to an extent, driving growth. As the situation continues, however, labour is likely to act as a constraint on economies' growth potential (in some cases this is probably already the case). Yet we maintain that the situation is far from hopeless. First, because labour shortages can continue to be a driver of per capita GDP growth – and therefore living standards – in the region. Second, because there is still a great deal that governments and businesses in the region can do, including via automation, immigration and retraining schemes. There are positive examples of all three working successfully in CESEE, as we have covered more extensively in previous reports.

**Figure 8 / Unemployment rate, %**

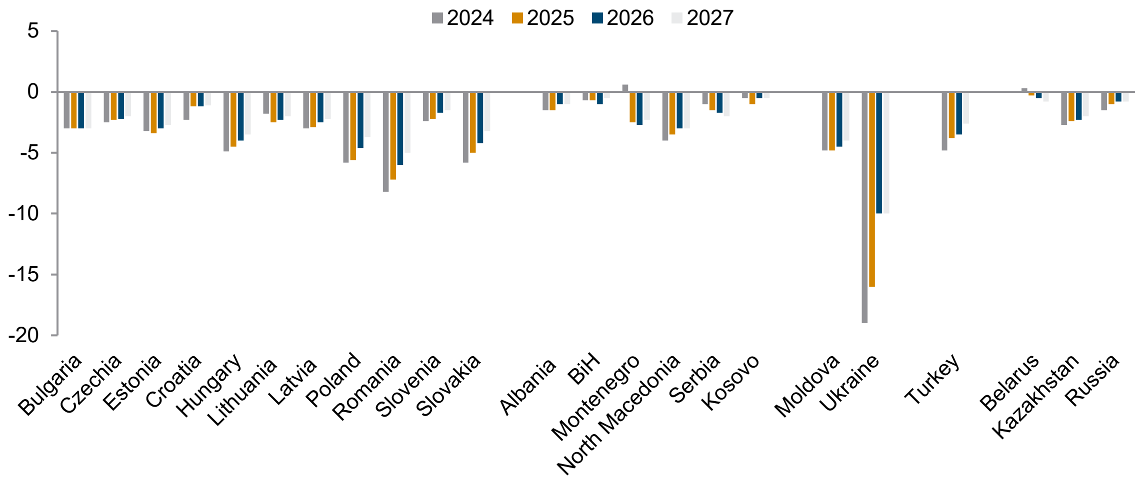



Sources: Eurostat, national sources, wiiw forecasts January 2025.

## 2.5 FISCAL POLICY

**Although pressure to consolidate is rising, many countries in CESEE – especially EU member states – will continue to run quite large deficits this year, without which overall economic growth would be much lower.** Commentators on CESEE are devoting quite a bit of attention to fiscal policy at the moment: there is a widespread expectation that a combination of EU rules, local fiscal rules and market pressure will this year require taxes to be raised and spending to be cut, with adverse knock-on effects on economic growth. While we do not completely reject this, we think that the actual extent of fiscal tightening in 2025 will be quite limited for most countries. The exceptions to this are Croatia, Romania, Slovakia, Turkey and Ukraine, all of which will see 1pp of GDP or more of fiscal tightening in 2025 (Figure 9). Otherwise, we foresee only limited cuts in the size of the deficit relative to GDP this year, and in some cases even an expansion. The EU is only likely to continue to call for moderate tightening, meaning that the risk in terms of increased pressure comes from the market. This is a risk and is something to watch for this year. If market pressure intensifies – for example, because of fears that the deficit is unsustainable, or because foreign buyers of government debt move en masse towards the US – governments could be forced into austerity, which would be very damaging from a growth perspective.

**Figure 9 / Fiscal balance, % of GDP**

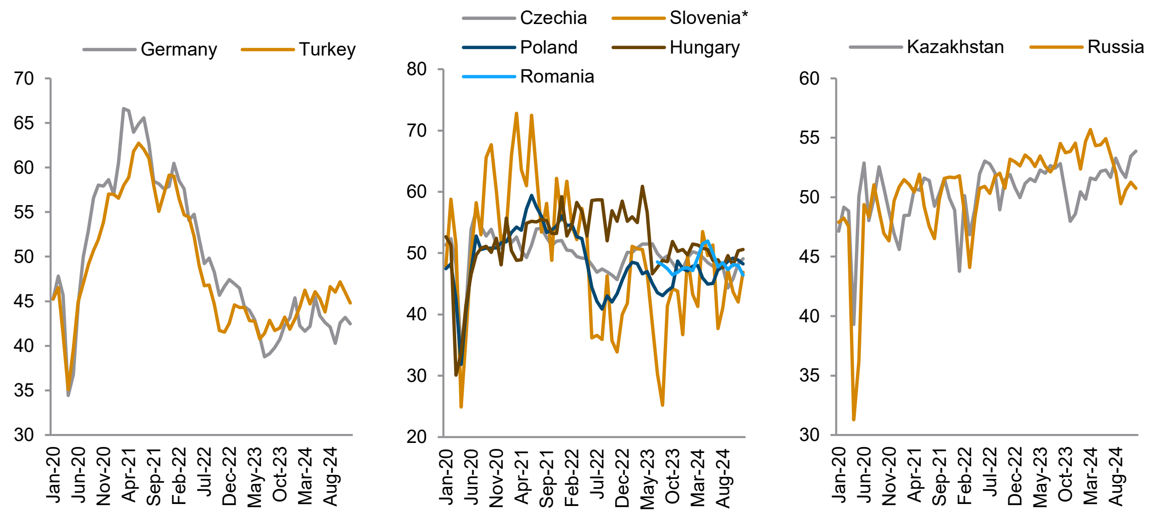



Sources: Eurostat, national sources, wiiw forecasts January 2025.

## 2.6 EXTERNAL SECTOR

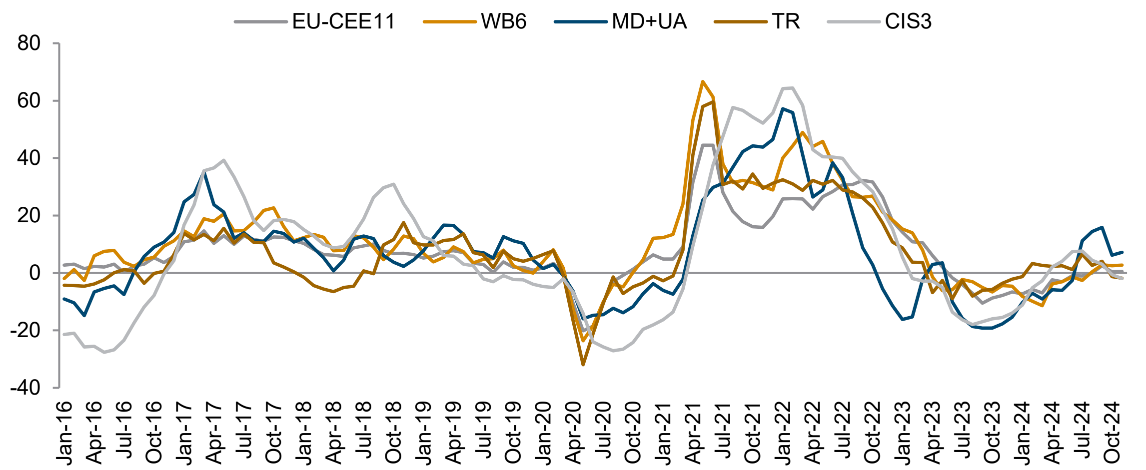
**The external sector remains the weakest link in CESEE growth. This is due to low demand from Germany in particular, and from the euro area in general, and the situation is unlikely to change fundamentally over the forecast period.** Sentiment indicators suggest no early end to the manufacturing recession in most of CESEE, which has been hit by a perfect storm of factors, with higher energy prices, a widening gap in innovation in key sectors such as electric cars, and geo-economic tensions (Figure 10). Exceptions to this are Russia and Kazakhstan, where war-related production and success in profiting from geo-economic competition, respectively, have created a somewhat rosier situation in industry than that witnessed in the rest of the region. However, the most recent data for Russia also suggest a deterioration in the situation there.

**Figure 10 / Manufacturing PMIs, seasonally adjusted, 50 = no change**




Note: Data for Slovenia are not seasonally adjusted.
Sources: HSBC/SPG, FRHC, SPG, ZNS, HALPIM, BCR/SPG/Haver.

**Figure 11 / Nominal exports, percentage change year on year, three-month moving average**

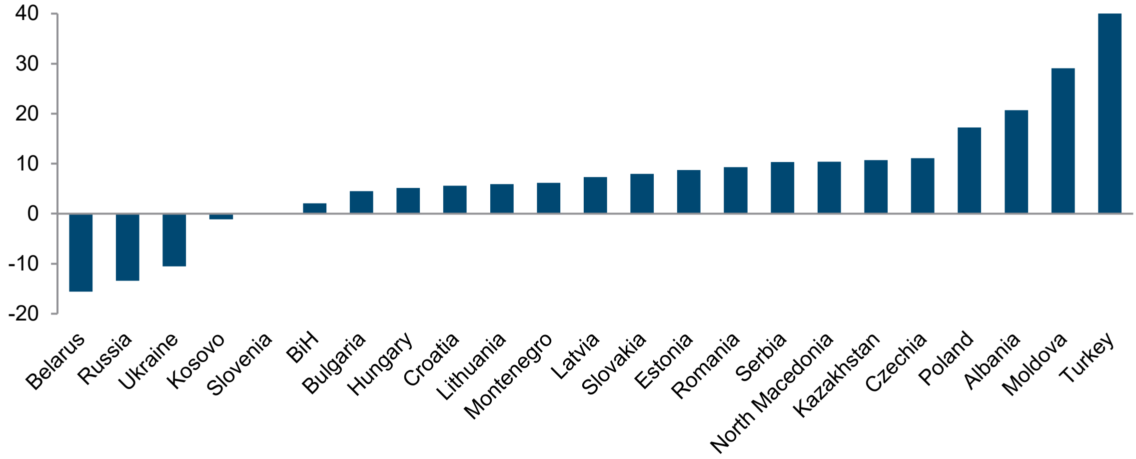



Sources: Eurostat, national sources, wiiw.

**The latest data show that exports are continuing to struggle.** Despite supportive base effects and rising prices, nominal export growth was flat or negative across most of the region up to November 2024 (Figure 11), as has been the case for most of the last two years. Many countries in the region have recorded quite substantial real exchange rate appreciation (Figure 12) since the end of 2021 (i.e. around the time that inflation started to spike), which has damaged their external competitiveness and contributed to the weakness in their exports.[1] However, the weakness of external demand – especially, but not exclusively, from Germany – is likely to be at least as important.

[1] This was also found to be the case for the euro area as a whole, see: https://www.ecb.europa.eu/press/economic-bulletin/articles/2024/html/ecb.ebart202406_01~3639959dc2.en.html

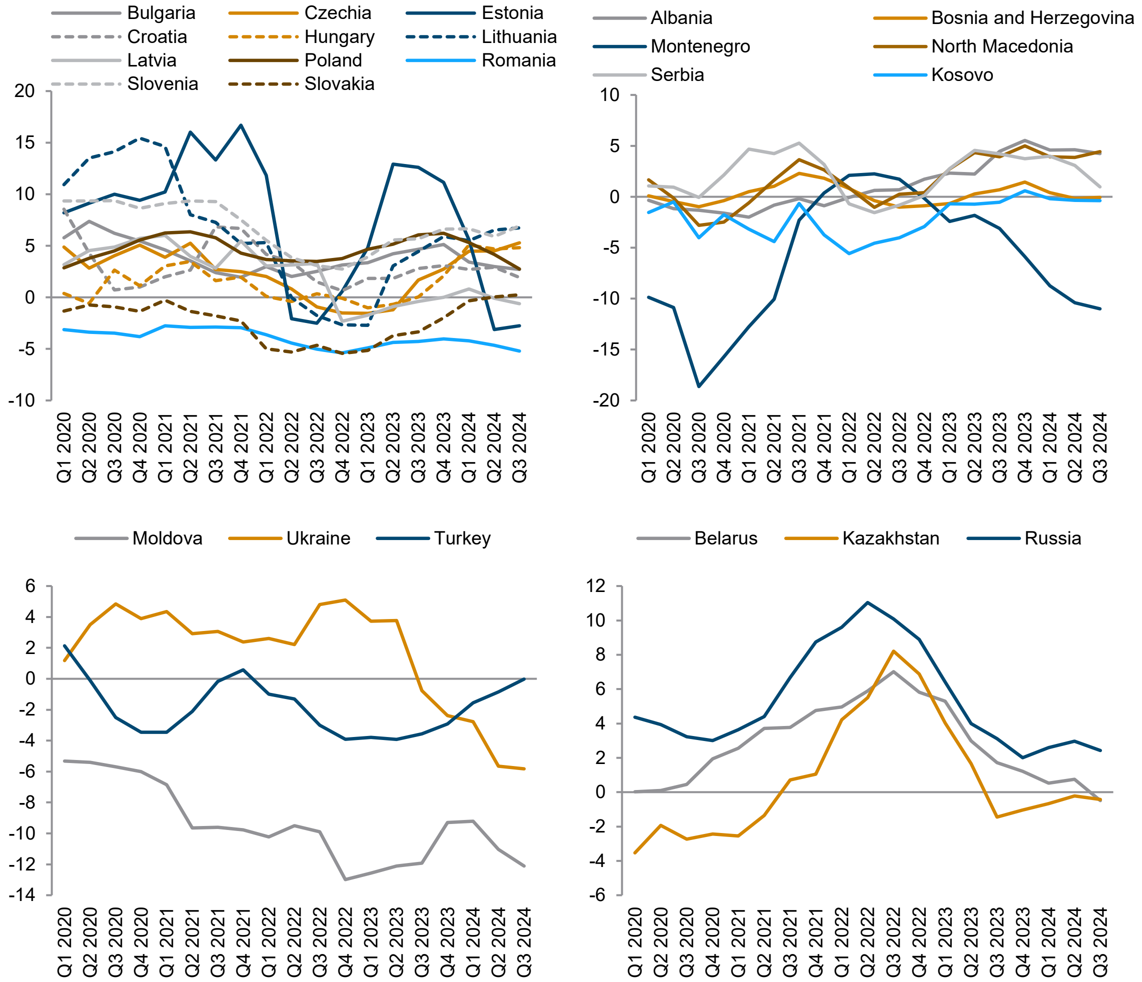
**Figure 12 / Change in real exchange rate, CPI-adjusted, December 2021-December 2024, %**




Note: Positive value = appreciation.
Sources: Eurostat, national sources, wiiw.

**While the region is entering an ever more challenging – in some ways a riskier – international economic and financial environment, external positions are mostly sound.** Market expectations of faster growth and a strong dollar in the US are already causing portfolio money to flow back there, which could put pressure on CESEE countries' external positions, cause currency depreciation and higher inflation and, in extreme cases, lead to external financing difficulties. These fears should not be dismissed out of hand. Yet the current external positions of CESEE countries provide grounds for some confidence. Based on an analysis of current account balances adjusted for FDI inflows, we find that most countries have been able to consistently fund any external shortfall with 'stable' FDI inflows, meaning that the reliance on other forms of financing (such as portfolio inflows) to maintain external balances is quite limited (Figure 13). Ukraine and Moldova (where external political decisions on official funding are likely to be more important than those of private portfolio investors), Montenegro, Romania and Estonia are the only real exceptions to this.

**Figure 13 / Current account balances adjusted for net FDI inflows, % of GDP, four-quarter moving average**




Sources: Eurostat, national sources, wiiw.

# 3. Country updates

## ALBANIA: TOURISM MOMENTUM AND ECONOMIC GROWTH CONTINUE

***by Isilda Mara***

Economic growth is estimated to have reached 4% in 2024. Tourism recorded another positive year, as did FDI and remittances. A strong rise in nominal wages (of 9.4% for the first three quarters of 2024, year on year) bolstered consumption, while the current account benefited from buoyant exports of services and from remittances. However, the domestic currency continued to appreciate (by more than 5% in 2024) and remained overvalued, thereby hampering goods exports and export-oriented firms. The currency appreciation, the low fiscal deficit and the solid economic growth all contributed to a further marked reduction in public debt – down to 56% of GDP, compared to 64% in 2022. Inflation remained low and stable, at 2.6%, and is expected to stay below the central bank's target of 3%, as imported inflation continues to be subdued. In November 2024, the Central Bank cut interest rates further, indicating that monetary policy will remain loose; this will support the demand for credit. However, the expansion of credit for real estate purchases developed rapidly: up to November 2024, household mortgages denominated in the domestic currency rose by 26% year on year, while real estate loans to private non-financial corporations in EUR increased by 30%, raising concern and generating calls for a tightening of the lending criteria. In November 2024, Albania became a member of the Single Euro Payments Area (SEPA), marking a further step towards EU integration and enhancing the country's investment potential. The economic outlook remains positive. In the medium term, growth is expected to stay close to 4%, though there are downside risks stemming from the possible weakening of foreign demand.

## BELARUS: GROWTH SLOWDOWN AHEAD

***by Dzmitry Kruk***

In 2024, GDP grew by nearly 4.0%, despite expectations at the beginning of the year of stagnation caused by Western sanctions and worsening macroeconomic imbalances. A surge in domestic demand, supported by a fresh wave of export expansion, outweighed these growth-restricting factors. Household consumption was the primary driver of the growth in domestic demand, fuelled by rising real wages amid labour shortages and upbeat consumer sentiment. Export growth was bolstered by increased demand in Russia – and presumably some gains in the export of potash fertilisers elsewhere. On the supply side, manufacturing, trade and construction were the main contributors to GDP growth last year. However, by the end of 2024, GDP growth had weakened, while macroeconomic imbalances had deepened. Export expansion slowed due to the lack of available production capacities, sanctions-related logistical obstacles and slacker demand in Russia. Meanwhile, imports rose considerably, driven by overheated domestic demand. Although inflation stood at a mere 5.2% in 2024, inflationary pressures had intensified by the end of the year, as it became increasingly difficult to maintain price controls because of the associated financial problems facing firms. An expanding trade deficit and inflationary pressures limit the potential for further growth in domestic demand in 2025. Additionally, an anticipated slowdown in Russia's growth is expected to further constrain economic activity, resulting in GDP growth of only around 2.0% this year. Russia's high inflation will increasingly be imported into Belarus, prompting the government to relax price controls. In such a scenario, inflation could climb to approximately 8% in 2025.

## BOSNIA AND HERZEGOVINA: HISTORIC INCREASE IN THE MINIMUM WAGE TO BOOST THE ECONOMY

***by Selena Duraković***

GDP growth for the first three quarters of 2024 reached 2.5%, and we estimate a figure of 2.4% for the whole year; that is 0.2 percentage points lower than our previous forecast, owing to the adverse effects of the floods in Q4. While consumption and investments have been steadily increasing, industrial production and exports have declined, leading to a widening of the current account deficit. We expect a somewhat better 2025, with 2.7% GDP growth, as private consumption is likely to benefit from higher real wages and government spending is projected to grow on the back of loans arranged with the European Bank for Reconstruction and Development (EUR 115m) for infrastructure projects and the European Investment Bank (EUR 103m) for a wind farm and the energy transition. Also, thanks to Bosnia and Herzegovina's close ties with the EU, the anticipated slight economic recovery in the bloc will benefit the country through exports and investment. Inflation was low during 2024, averaging an estimated 1.8%. However, the recent floods could lead to an increase in transport prices, which will put upward pressure on inflation this year. Accordingly, we have revised our inflation forecast for 2025 upwards by 0.2 percentage points, to 2%. In January 2025, the gross minimum wage in one country´s entity, Federation of Bosnia and Herzegovina, was raised by 61.5% – the biggest increase in its history. Other entity, Republika Srpska, also announced increase in minimum wage in 2025. The government has announced that it will subsidise small enterprises that have trouble paying the higher wage and will reduce certain taxes (although these measures have not yet been adopted). On the EU front, the European Commission announced in late October that the reforms needed to advance the country's EU integration had ground to a halt in recent months.

## BULGARIA: SCHENGEN AREA MEMBERSHIP EXPECTED TO BOOST THE ECONOMY

***by Emilia Penkova-Pearson***

Economic growth remained moderate in H2 2024, with private consumption continuing as the key driver, boosted by higher real disposable incomes. On the other hand, exports faced significant challenges due to unfavourable external demand and made a negative contribution to GDP growth. The absence of reform and the lack of a conducive political environment led to Bulgaria failing to receive any payments under the Recovery and Resilience Plan in 2024. In October, the country held its seventh snap election in three years, with GERB-SDS once again receiving the greatest share of the votes (25.5%). A minority GERB-SDS-led government was subsequently formed, although it will probably prove unstable and is unlikely to remain in power for four years. It is estimated that the budget deficit last year again reached around 3% of GDP. As of 1 January 2025, the interim government hiked the minimum wage by a further 15.4%, continuing the lax income policy pursued over the last couple of years, which have seen salaries and pensions rising. However, the 2025 Fiscal Budget Draft prepared by the interim government is unlikely to secure parliamentary approval: at 46%, the envisaged share of fiscal expenditure in GDP is very high, and some revenue is questionable. This reveals a need for urgent fiscal reform to ensure a sustainable fiscal position. As in our 2024 autumn forecast, we anticipate GDP growth of around 2.4% in 2025 and slightly above in subsequent years, driven mainly by domestic demand. Bulgaria's full membership of the Schengen Area from January 2025 will have a positive impact on the economies of both Bulgaria and the EU, by boosting trade and tourism.

## CROATIA: AMONG THE EURO AREA'S TOP PERFORMERS

***by Bernd Christoph Ströhm***

We estimate that Croatia's GDP growth reached 3.5% in 2024, driven by the country's accession to the EU's border-free Schengen zone and the euro area – a move that has particularly supported tourism. According to the Croatian Ministry of Tourism, the country witnessed a 4% rise in tourist arrivals in 2024 (to over 21m people) and a 1% increase in overnight stays (to around 109m). EU funds also boosted investment activity in 2024. So far, Croatia has received EUR 4.5bn of Recovery and Resilience Facility funds, comprising five grants and one loan instalment. More than EUR 5.5bn have yet to be disbursed by the end of 2026. All this will continue to stimulate investment in the coming years. Nevertheless, we anticipate a slight deceleration in growth – to 3.1% in 2025 and 3% in 2026 – as domestic demand moderates and real income growth slackens (both nominal and real wages are expected to grow more slowly than in the past two years). Inflation averaged 4% in 2024 and will gradually decline to 3% in 2025, due to an easing of the pressure on energy and commodity prices; nevertheless, it will remain above the euro area target, owing to the more heated economy. Overall, Croatia will continue to have one of the euro area's top-performing economies in 2025. However, weak growth across the euro area, combined with a shortage of skilled workers (partly due to migration to other EU member states), poses a downside risk and an obstacle to higher GDP growth.

## CZECHIA: DOMESTIC STRENGTH OFFSETTING EXTERNAL WEAKNESS

***by Richard Grieveson***

While German weakness will remain a major headwind for Czech growth, the economy should still be able to expand by 2.5% or more per year over the forecast period. Growth in 2025 will again be driven by rising real wages, as well as by the pass-through of monetary loosening. The latter factor will support an improvement in private investment this year, which will also be underpinned by flood repairs. Moreover, unlike many of its EU-CEE peers, Czechia faces no large fiscal consolidation this year. Inflation ticked up towards the end of 2024, but we do not see any major risk at present, and expect the central bank to continue to cut its policy rate in 2025, especially considering the persistently negative outlook for external demand. Beyond 2025, we see a further mild acceleration in growth as external conditions gradually improve, with inflation settling at just above 2%, allowing for further moderate monetary loosening. The frailty of the German economy remains the main downside risk, and that is already reflected in weak manufacturing sentiment and job losses in industry. The longer the external weakness continues, the greater the chances that it will pass through to domestic sentiment and household spending. Polls indicate that the upcoming parliamentary elections in late 2025 will see a return to power of the populist ANO party, but that is unlikely to have a significant impact on the economic outlook.

## ESTONIA: ECONOMIC RECOVERY FIRMING

***by Maryna Tverdostup***

The Estonian economy returned to growth in H2 2024, driven primarily by strengthening foreign demand; meanwhile domestic demand was supported by declining interest rates and rising household purchasing power. Growth in the coming years will be reinforced by making better use of production resources that have lain idle since the recession and by improved export opportunities. However, the pace of growth will be constrained by sharp fiscal consolidation, including significant tax hikes and reduced government investment. A higher indirect tax burden will keep inflation above 3.5% in 2025 and 2026, with a gradual decline anticipated from 2027 onward. The budget deficit is projected to narrow, reaching 2.7% by the end of the forecast period, supported by an improved economic outlook and lower government spending. All in all, GDP is expected to grow by 2.3% in 2025 and around 3% in 2026 and 2027. However, with the Estonian standard of living approaching the EU average, it will be increasingly challenging for the country to sustain high economic growth in the long term.

## HUNGARY: BUDGET CONSOLIDATION OR A NEW ATTEMPT TO ACCELERATE GROWTH?

***by Sándor Richter***

With an estimated GDP growth rate of 0.5%, Hungary's 2024 economic performance remained well below the government's planned 4% expansion. Only the services sector showed an improvement over 2023. Investment suffered a heavy fall. Inflation declined to a tolerable level, though the budget deficit may have remained at about 5% of GDP. While PM Orbán promises a 'fantastically good' 2025 for the economy, the budget was planned based on 3.4% growth – and even that seems overambitious. The prerequisites for the high-pressure economy pushed by Mr Nagy, the prime minister's economic 'right-hand man', are lacking. The considerable cost of financing the budget deficit severely constrains government intervention (the interest on public debt in 2024 is estimated to have been 4.8% of GDP). Reduced transfers from the EU also present an obstacle. Uncertainty and the fear of renewed inflation are holding back the expansion of household consumption, envisaged as one of the main drivers of growth. From a very low basis, investment is expected to take off gradually, thanks largely to the completion of a few big FDI projects in the automotive industry. Most domestic enterprises, however, will probably remain in a semi-dormant state, paralysed by inadequate domestic and foreign demand and by unforeseeable changes in the regulatory environment. The elections scheduled for early 2026 and the robust rise of the new opposition party TISZA, headed by Péter Magyar, may induce the government to indulge in populist pre-election spending. Should a runaway budget deficit be permitted and substantial preferential credit lines opened to foster consumption and output growth, the effect will be a surge in inflation and further weakening of the forint. Our main scenario for 2025 is an 'in-between' one: moderate GDP growth of 2.2%, only a slight improvement in the fiscal stance, close to 4% inflation and a highly volatile exchange rate, with continued devaluation. 2026 would see a slight acceleration of growth and a modest improvement in macroeconomic equilibrium.

## KAZAKHSTAN: GROWTH ACCELERATION AMID ANTICIPATED OIL SECTOR RECOVERY

***by Alexandra Bykova***

Economic growth accelerated in H2 2024, driven by private consumption, with retail trade gaining momentum. Strong domestic demand, numerous new investment projects stimulated by targeted state policy and progress in the development of the Middle Corridor trade route led to a solid result in several sectors of the economy. Construction, transport and logistics, and manufacturing are likely to maintain their momentum in 2025, as the main factors driving growth will remain. We expect a recovery in the oil sector to provide an additional fillip to economic growth, as production in the Tengiz oil field expands in Q2. As the 2% decline in the oil sector last year impacted exports and investments in the oil sector, these are also likely to recover. The economy's weakness at the start of 2024 and the resultant shortfall in budget revenue meant that the budget deficit was larger than expected and had to be partly covered by additional transfers from the National Oil Fund. In line with fiscal consolidation, the pension fund contributions of companies will be gradually raised in the coming years. Consumer inflation picked up again in October, as utilities tariff hikes impacted on the services component. This development, additional fiscal stimulus and speculative attacks on the tenge (coinciding with fresh sanctions on Russian banks) forced the central bank to end monetary easing and led to a hike in the policy rate back to the January 2024 level of 15.25%. However, we expect inflation to slow and monetary easing to resume later in 2025. In sum, we project that real GDP growth will accelerate to 4.9% in 2025, before falling back to 4.5% in 2026-2027. Kazakhstan is likely to remain one of the best-performing economies in CESEE. Downside risks stem from stubborn inflation and prolonged tight monetary policy, new OPEC+ production cuts and possible disruptions on the Caspian Pipeline Consortium oil pipeline on Russian territory.

## KOSOVO: RESILIENT AND STEADY GROWTH

***by Isilda Mara***

We estimate that in 2024, GDP grew by 4.3%, fuelled by strong investment, robust FDI inflows (reaching 13% of GDP for the first three quarters of 2024) and solid household consumption, which was supported by an easing of inflation from 4.5% in 2023 to 1.6% in 2024. Data for the first three quarters of 2024 indicate that the government maintained fiscal discipline, with further improvements in revenue (increasing to 31% of GDP in 2024, compared to 29% in 2023). Together with the restrained government spending, this helped maintain a modest budget deficit of around 0.5% to 1% of GDP. Exports of both goods and services grew strongly in 2024, the former reflecting increased demand for Kosovo's goods – especially in the EU and neighbouring countries – and improved domestic production (up 3.4% for the first three quarters of 2024, year on year). However, the current account deficit deteriorated further, as imports still grew faster than exports. The unemployment rate continued to drop, but remains above 10%. As of October 2024, the minimum monthly wage in Kosovo was doubled, to EUR 350. Still, this is one of the lowest in the in the EU and neighbouring countries. Low earning levels and limited job prospects are the main reasons behind the high youth migration. The parliamentary elections are set for 9 February 2025, and the strong position of Prime Minister Kurti suggests that he will win. However, geopolitical risks and the difficult dialogue with Serbia remain issues of concern. Overall, the economy has shown remarkable resilience, and growth is expected to hover at above 4% in the medium term, driven primarily by private consumption.

## LATVIA: SLOWER-THAN-EXPECTED RECOVERY AHEAD

***by Sebastian Leitner***

Shrinking external demand and (particularly) a fall in investment resulted in GDP continuing to decline in Q3 2024. Over the whole of 2024, the economy is estimated to have shrunk by 0.2%. For 2025, the ongoing upswing in business and consumer sentiment indicates a recovery; this will, however, be slower than previously thought. A major growth driver will be planned investment, financed from the NextGenerationEU programme. Meanwhile, exports will revive only gradually, as EU (and particularly German) industrial developments remain subdued, while rising prices have resulted in Latvian producers losing some competitiveness on the world markets. Consumer price inflation will increase only slightly, to 2% on average this year; however, a gradual rise is to be expected in the coming years. Real incomes are projected to increase quite strongly this year, too (albeit at a slower pace than before, particularly in the public sector). Thus, we will see household demand revive much more briskly in 2025 than last year. Given the economic stagnation, the public deficit probably reached 3% of GDP in 2024, but it is expected to decline in the coming years. The unemployment rate increased only slightly in 2024, to 7%, and is likely to fall again in the coming years, given the rather tight labour market. In the medium to long term, GDP growth is projected to revive to 2.1% in 2025, 2.4% in 2026 and 2.6% in 2027.

## LITHUANIA: DOMESTIC AND FOREIGN DEMAND DRIVING ECONOMIC RECOVERY

***by Sebastian Leitner***

In H2 2024, GDP growth continued to accelerate and probably reached 2.4%, year on year. Household consumption was again the biggest driver of growth – something that is also suggested by the retail trade data for the last months of 2024. As expected, external demand from the country's main trading partners revived and enterprises replenished their stocks. Despite that, gross fixed capital formation in the private sector declined slightly, while public investment rose. In 2024 as a whole, consumer prices continued to fall (although that trend has recently gone into reverse). For 2025, we expect inflation to pick up to 2%, driven by strong growth in wages. Following a budget deficit of only 1.8% of GDP in 2024, we are likely to see a rise to 2.5% this year, driven particularly by the hike in defence expenditure to 3% of GDP. Although GDP picked up considerably in 2024, the unemployment rate increased slightly, to 7.2%. However, in 2025 and beyond we will again see a gradual decline. We expect GDP growth to accelerate to 3% in 2025, followed by 2.7% in 2026 as well as in 2027.

## MOLDOVA: UPSWING HELD BACK BY ENERGY CRISIS

***by Gábor Hunya***

Economic growth slowed in H2 2024, driven by a poor harvest. This resulted in modest GDP growth of about 1% for the year overall. While investment activity was robust and household consumption rose as inflation subsided, the external balance deteriorated. The outlook for 2025 remains bleak. The year began with a fresh crisis, as Ukraine stopped the transit of Russian gas to Transnistria, while Gazprom also refused to deliver through Romania. While the rest of Moldova imports gas from Western sources, much of the country's electricity depends on a power plant located in Transnistria, which can only partially switch from gas to coal. Although Romania has stepped in to increase the export of electricity to Moldova, it is much more expensive. As a result, electricity tariffs have surged by 80%, which will likely lead to an acceleration of inflation to 8% in 2025, up from 4.7% in 2024. In response, in January the National Bank of Moldova introduced a 2 percentage point increase in the policy rate (to 5.6%), and further hikes will follow. Wide current account and fiscal deficits will persist in 2025, to be financed by international donors and creditors. This assistance is critical, especially as the country's EU-oriented path relies on a fragile parliamentary majority that will face a crucial test during the elections expected mid-year. Resolving the energy crisis and improving living standards are vital to keep the pro-EU government in place. While the severe crisis in Transnistria could push the region into seeking compromise with the rest of Moldova, Russia's interference in the matter may make the situation worse.

## MONTENEGRO: HINTS OF GROWTH AMIDST EU ACCESSION HOPES

***by Marko Sošić***

GDP growth in 2024 is estimated to have been 3.2% – down from 6.3% in 2023, due mainly to a weaker tourist season and reduced exports. However, for 2025 we project growth to accelerate to 3.7%, as major infrastructure projects get under way – despite increased energy imports, as the country's sole coal-fired power plant is closed for reconstruction. Inflation slowed significantly last year to an average of 3.4%, but rising wages, pensions and energy costs are likely to prevent further disinflation in 2025; we anticipate average inflation this year to be 3.6%. The unemployment rate dropped to a record low of 11.3% last year, continuing its positive trend – albeit at a slower pace than anticipated by the government. In 2025, Montenegro faces over EUR 1bn in debt repayments and the challenge of building up fiscal reserves amid high external financing costs. Inefficient management and defaulting state-owned enterprises, an expanding public sector and rising wages are all placing a strain on the budget. The government's policy of boosting net salaries by reducing contributions to health insurance and pension funds is putting further pressure on public finances. On the political front, EU membership remains a top priority, with three negotiating chapters provisionally closed in December 2024 and an ambitious plan to conclude the remaining 27 chapters by 2026. However, political instability surged at the end of 2024, when the opposition blocked adoption of the 2025 budget in protest at what it regards as unconstitutional changes to the composition of the Constitutional Court. Additionally, the country has been shocked (and mass protests sparked) by the repeated mass shootings, which has served to highlight severe shortcomings in the security sector.

## NORTH MACEDONIA: STILL SEARCHING FOR DIRECTION

***by Branimir Jovanović***

Despite the upward revision of GDP figures for 2023 and 2024 by the Statistical Office, little has changed for the country from our previous forecast. The new government, in office for nearly six months, has yet to make an impression. Its main economic initiative thus far – a EUR 500m loan from Hungary – remains undisbursed, despite having been announced half a year ago. Even once disbursed, the amount will be too small to act as a game changer, and concerns persist over whether the money will be used either efficiently or productively. Another troubling development is the new government's first budget, which violates the recently adopted fiscal rules. The projected deficit stands at around 4% of GDP, while public debt is set to exceed 60%. Although this may not jeopardise fiscal stability in the short term, it does signal reckless fiscal management. Inflation has flared up again, exceeding 4% at the end of 2024, largely due to inconsistent government price controls: periodic caps on food prices – lasting for a month and imposed every three months – keep prices down during the cap period, but cause them to rebound to an even higher level afterwards. Real wage growth – the primary driver of economic activity in 2024 – has slowed markedly. With the government showing little willingness to implement measures in support of wage growth, this risks turning negative, depressing consumption and overall economic activity. Despite these challenges, we forecast GDP growth of 2.8% in 2025, slightly above the 2024 rate, due to the expected recovery in the European economy. This is also higher than our October forecast, reflecting the revised GDP figures. Inflation is expected to ease somewhat, but will remain elevated, probably at around 3%.

## POLAND: STRONG GROWTH DRIVEN BY DOMESTIC DEMAND

***by Maciej J. Grodzicki***

Poland's GDP grew by 2.7% year on year in Q3 2024 – slightly below expectations, owing to stagnation in private consumption and exports. High-frequency data on business confidence and the balance of payments point to a continued slowdown in manufacturing in Q4, accompanied by rising inflation following the deregulation of energy prices. We estimate that in 2024 GDP grew by 2.8%, driven by private consumption and public spending, though this was accompanied by a large budget deficit and a deteriorating current account. In 2025, we expect GDP growth to accelerate to 3.5%, bolstered by domestic expansion, which will offset weak demand from abroad. Investment will grow dynamically, supported by unlocked EU recovery funds. Low unemployment (around 3%) and a big increase in the official minimum wage will be conducive to real wage growth and private consumption. With presidential elections due in May 2025, Poland's ruling coalition will maintain the current expansive fiscal policy. Coupled with significant defence spending, this will push the budget deficit to 5.6% of GDP this year (and will contribute to a moderate current account deficit), which should be comfortably financed thanks to the substantial liquidity in the domestic banking sector. Fiscal adjustments under the EU's excessive deficit procedure are expected to commence only in 2026, but thereafter will constrain the policy space. Elevated inflation and a slightly weakened exchange rate mean that any reduction in the monetary policy rate is likely to be postponed to H2 2025 at the earliest.

## ROMANIA: MODEST RECOVERY FROM NEAR-STAGNATION

***by Gábor Hunya***

Romania's economic growth has declined over the past few quarters, resulting in a modest expansion of 1.2% for 2024 as a whole. This slowdown has occurred despite robust wage growth and significant fiscal spending – which bolstered household consumption, but also exacerbated external deficits. The fiscal strategy for 2025 seeks to reduce the general budget deficit to 7% of GDP (from about 8.2% in 2024). However, it will be a challenge to achieve this target, as the proposed measures – such as freezing public-sector wages – focus primarily on curbing expenditure. Romania's recent history of inconsistent adherence to fiscal rules raises further concerns. The higher cost of deficit financing on international markets and the conditions linked to accessing EU funds may necessitate tax rises in H2 2025. Nevertheless, domestic consumption is expected to remain strong, driven by a hike in the minimum wage and the ongoing impact of the pension reform introduced in September 2024. If export markets recover, if agriculture is not faced with extreme weather conditions and if EU funds are disbursed in a timely manner to support investment, GDP growth could reach 2.2% in 2025. Romania's accession to the Schengen Area in 2025 is expected to enhance its competitiveness by reducing cross-border transaction costs. However, inflationary pressure remains a challenge. After stabilising at an average annual rate of 5.8% in 2024, inflation is projected to decline only modestly in 2025, to 5%. This would create room for moderate cuts to the policy interest rate, which is likely to remain positive in real terms. The domestic currency is expected to depreciate only very slowly, continuing to serve as a tool for anchoring anti-inflationary policies. Political risks remain elevated, due to the fragile support for the new coalition government and the looming swing to the extreme right in the postponed presidential elections in May.

## RUSSIA: STUBBORN INFLATIONARY PRESSURES POSE A POLICY DILEMMA

***by Vasily Astrov***

Despite sharp monetary policy tightening in H2 2024, inflation climbed to 9.5% by year end, fuelled by a tight labour market (unemployment had plunged to 2.3% by November) and the threat of US secondary sanctions on banks from third countries, making import payment schemes more elaborate and imported goods more expensive. On top of that, the US sanctions on Russia's Gazprombank imposed in November triggered rouble depreciation of about 10%, further adding to inflation via higher import costs. However, with the policy rate already standing at 21%, the central bank had been facing increased criticism and, at its latest meeting in December, opted to put the tightening cycle on hold. Indeed, the latest high-frequency data suggest that the earlier policy tightening had in fact been effective in terms of curbing demand for credit and boosting household saving propensity, resulting in near-stagnation of consumer demand (on a monthly basis) by year end, with investments likely to follow suit. These trends are likely to persist into 2025 – even if no further policy tightening takes place. On the external front, near-term export prospects appear bleak. Gas transit via Ukraine ceased on 1 January, and on 10 January the outgoing US administration imposed the toughest sanctions yet on the Russian energy sector, including oil producers Surgutneftegaz and Gazpromneft and 183 vessels believed to be part of the Russian 'shadow fleet'. All in all, an imminent growth slowdown looks unavoidable: from an estimated 3.8% in 2024 to 1.5-2% in 2025-2027. This should contribute to gradual disinflation, thereby allowing monetary policy relaxation – although in real terms, interest rates will likely stay robustly positive until the end of the forecast horizon.

## SERBIA: MOMENT OF TRUTH

***by Branimir Jovanović***

Last year saw inflation stabilise at around 4.5%, the growth in real wages remain at 9% and unemployment drop to 8%. FDI inflows stayed solid at around 6% of GDP, while public investment, at nearly 7% of GDP, was among the highest in Europe. Yet, despite these rosy figures, GDP growth in 2024 is estimated to have been a relatively low 3.8% – far removed from what the country needs for more rapid convergence with EU standards of living. There was also a marked slowdown in the second half of the year. This raises concerns about the ability of the country's current growth model – based as it is on FDI attraction and public investment – to deliver higher and more sustained growth. As we have argued repeatedly, stronger domestic private investment is needed for this; but the current government has shown little willingness to implement proper industrial and innovation policies to this end. That is why we do not see growth in the coming years exceeding 4%. Indeed, we believe it could even slow a little on account of more sluggish growth in real wages and reduced FDI inflows. On the political front, the country is witnessing its biggest protests since the fall of President Milošević back in 2000. These are being led by students, who have been demonstrating for two months against government corruption and negligence – though the spark was provided by the collapse of a concrete canopy at the Novi Sad railway station in November 2024, which resulted in 15 fatalities. While protests have long been a fixture of Serbia's political landscape and are unlikely to destabilise the country in the short term, they could very well signal the beginning of the end for President Vučić.

## SLOVAKIA: START OF FISCAL CONSOLIDATION

***by Doris Hanzl-Weiss***

Slovakia experienced decent growth of around 2% in 2024, with a strong start to the year, but a steady downward trend thereafter. Household consumption was the main driver of growth, supported by a big rise in real wages. By contrast, investment fell – although there was a major replenishment of inventories. Meanwhile, net exports made a negative contribution to GDP growth, as the growth of imports outstripped that of exports. The important automobile industry proved volatile during 2024, although it ended the year on a strong note. We expect growth again to reach 2% in 2025, improving to 2.2% in 2026 and 2.4% in 2027. That said, the figures for 2025 and 2026 have been revised downward, on account of the anticipated impact of fiscal consolidation. Starting in 2025, this includes a VAT increase, a rise in corporate income tax and a new financial transaction tax. The higher VAT will further push up inflation, which had anyway started to edge up toward the end of 2024, due to rising food prices. This trend will be moderated somewhat by the energy subsidies, which – against all expectations – were extended in mid-December and will keep energy prices low. The higher inflation means that households will become more cautious. Investors will also be careful, on account of the financial transaction tax, which will mean higher costs for companies. Public investment, on the other hand, should be supported by the more rapid inflow of EU funds. Risks remain skewed to the downside. Domestically, political developments remain of concern, and the ongoing destruction of the cultural sphere has sparked protest. Externally, Germany – Slovakia's main trading partner – is not doing well economically, trade protectionism is on the rise and higher US tariffs could hurt Slovakia's important car exports to the US.

## SLOVENIA: DESPITE INDUSTRY WORRIES, A YEAR OF SOLID GROWTH AHEAD

***by Niko Korpar***

The economic prospect for Slovenia in 2025 is one of stable and positive growth, despite the ongoing challenges within the European manufacturing sector – particularly in the automotive industry – which are affecting economic sentiment. Real GDP is projected to increase by 2.4%, well above the forecast average for the EU. An uptick in private consumption is anticipated, driven by declining inflation and the wage increases implemented over the past two years. Government expenditure, supported by EU funding, will contribute significantly to economic growth through investment in infrastructure. Whereas in 2024, the muted sentiment of businesses was reflected in reduced investment, 2025 should see an improvement. With greater foreign demand, exports are projected to recover, and the current account surplus is expected to reach 2.6% of GDP. High-tech industries and the service sector are forecast to perform well, while energy-intensive industries will probably continue to face challenges. Employment levels reached record highs toward the end of 2024. While there are signs of reduced labour demand within the manufacturing sector, unemployment rates are expected to stay at 3.6% in 2025 and beyond. Following the successful reform of public salary structures, which has resulted in modest wage increases, political discourse in the coming year will likely focus on healthcare reform and the introduction of a new tax on real estate.

## TURKEY: NAVIGATING A SOFT LANDING AMID GLOBAL UNCERTAINTY

***by Meryem Gökten***

Due to tight financial conditions, growth weakened further in Q3 2024, with GDP rising by only 2.1% year on year. The Turkish Statistical Institute revised Q2 growth downwards to -0.2% quarter on quarter and a similar outturn was recorded in Q3, so that Turkey found itself in a technical recession. Net exports remained the main positive contributor to growth, owing to a sharp contraction in imports. However, recent high-frequency indicators – such as the Purchasing Managers' Index, manufacturing capacity utilisation and consumer confidence – have shown a slight uptick, suggesting that Q4 did not see a further growth slowdown. Meanwhile, the unemployment rate remained stable in 2024, keeping below pre-pandemic levels. Annual inflation fell to 44.4% in December 2024, while monthly inflation stood at 1.03%, marking the lowest level since May 2023. In the same month, the central bank cut its policy rate for the first time in nearly two years, from 50% to 47.5%. It also announced that it would hold only eight meetings in 2025 (instead of 12), signalling a slower rate-cut cycle. The uncertainties surrounding the new Trump administration pose a risk to Turkey's soft-landing efforts. Tighter external financial conditions (slower rate cuts by the Fed and a strong US dollar), combined with weak external demand due to potential high tariffs, could extend the period of tighter domestic financial conditions and prolong the disinflation process. Given all these factors, growth is expected to remain subdued in 2025: we have revised our forecast downward, to 3.5%. However, with the easing of inflation and financial conditions expected in 2026, we expect growth to pick up and reach 4%, unchanged from our autumn forecast.

## UKRAINE: WEAK GROWTH AMID HUGE UNCERTAINTY

***by Richard Grieveson***

A summer drought plus large-scale Russian attacks on energy infrastructure provided significant economic headwinds in 2024, but the economy continued to show impressive resilience. The European Council agreed a EUR 50bn Ukraine Facility in February 2024, and in October the G7 finally agreed a USD 50bn loan to Ukraine, backed by frozen Russian assets. External financing pressures eased substantially as a result. Moreover, in its final weeks in office, the Biden administration released a further USD 6bn in budgetary and military aid for Ukraine, providing at least a short-term economic and security boost. For 2025 we expect meagre growth of 3%, held back by the continued impact of the war and a pause in monetary loosening (and even potentially further small hikes in the coming months), due to higher inflation riding on the back of food price rises. US President Donald Trump will force negotiations with Russia to start sooner than would otherwise have been the case, but this is unlikely to lead to a quick end to the war (and consequently more rapid economic recovery). In 2026-2027 we see growth accelerating to around 5%, as monetary policy is loosened and as the war moves closer to at least a ceasefire. However, if Donald Trump sharply curtails financial and/or military aid to Ukraine, or forces Ukraine into a ‘peace’ on terms favourable to Russia and without watertight security guarantees for Ukraine, this will have a further negative impact on the economic outlook.

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**multi-country articles and statistical overviews**

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Economics editors: Vasily Astrov and Richard Grieveson

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Internet Homepage: www.wiiw.ac.at



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