

Winter Forecast Update

All eyes on investment as geopolitical pressures mount

Economic Forecasts for Eastern Europe for 2026-28



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Executive summary

Economic growth in Central, East and Southeast Europe (CESEE) remains relatively resilient, despite the turbulent global environment. We expect the region to grow by 2.6% on average in 2026-2028, significantly outperforming Western Europe. Southeast Europe continues to lead the pack, while Kazakhstan and Poland are other notable bright spots. Most EU-CEE countries face weaker momentum, reflecting tighter fiscal policy, greater exposure to global trade risks and lingering competitiveness pressures. Russia and Belarus will see another subdued year.

Private consumption growth will slow in many places compared with recent years. After several years of exceptional real wage growth, household demand is slowing as wage increases normalise and inflation remains structurally higher than pre-2020 levels. At the same time, fiscal policy is turning restrictive in much of the region, as governments confront rising debt and limited fiscal space. Exports are unlikely to compensate: manufacturing remains weak, closely tied as it is to Germany's prolonged industrial slowdown, while the traditional cost-competitiveness model is under strain.

Sustaining growth now depends increasingly on investment, both public and private. Public investment will be supported in the near term by EU funds, particularly the accelerated drawdown of RRF resources before the August 2026 deadline, and by defence-related spending. However, the critical uncertainty is private investment. Labour shortages, rising unit labour costs and stagnant productivity have all eroded competitiveness and weigh on FDI. To remain viable, firms must invest in automation, digitalisation and AI-driven productivity gains. If that happens, growth will strengthen. Where monetary policy is easing, conditions are supportive; where it remains tight (notably in Russia), constraints persist.

Russia's full-scale invasion of Ukraine has once and for all ended the peace dividend in much of CESEE. Defence spending will remain structurally higher, affecting fiscal choices and investment priorities. The end of the war (when it comes) will not automatically deliver a boom. A credible security guarantee for Ukraine could provide a powerful regional fillip, unlocking reconstruction, FDI and supply-chain investment across neighbouring countries. But a fragile peace, without such guarantees, would imply slower, uneven recovery, sustained risk premia and higher long-term costs for the region.

Looking ahead to the next EU Multiannual Financial Framework, funding will be less about convergence and more about strategic alignment, governance and security priorities. Countries that have strong institutions and are closely aligned with EU objectives are those that will be best placed to benefit. Defence-related spending will rise, but the economic payoff will depend on execution, particularly the share devoted to equipment and domestic production (rather than to personnel costs and imports).

Key downside risks include the escalating US-EU trade tensions, rising fiscal stress in highly indebted countries, increased Chinese import penetration and persistent geopolitical uncertainty. For businesses, the message is clear: the era of cheap labour-led growth is over; competitiveness will hinge on productivity-enhancing investment. For policy makers, the priority is to

crowd in private capital, safeguard fiscal credibility and ensure that defence and EU funds support long-term growth, rather than crowd it out.

Over the medium term, CESEE's economic outlook remains favourable relative to Western Europe, but success is no longer automatically guaranteed. The next growth phase will be investment led, productivity driven and far more sensitive to policy choices and geopolitical outcomes.

Keywords: CESEE, economic forecast, Central and Eastern Europe, Western Balkans, EU, euro area, CIS, economic growth, inflation, monetary policy, fiscal policy, GDP, wages, fiscal balance, policy rate, political risk

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Cut-off date for historical data and forecasts: 19 January 2026. Most data are taken from the wiiw Databases. Direct access is available at: <https://data.wiiw.ac.at/>.

wiiw COUNTRY GROUPS

CESEE23 Central, East and Southeast Europe

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

EU-CEE11 Central and East European EU members

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

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-European Union CESEE countries

AL	Albania	MK	North Macedonia
BA	Bosnia and Herzegovina	RS	Serbia
BY	Belarus	RU	Russia
KZ	Kazakhstan	TR	Turkey
MD	Moldova	UA	Ukraine
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

1 Global assumptions

BY BILJANA JOVANOVIKJ AND OLGA PINDYUK

FORECAST CHANGES SINCE PREVIOUS UPDATE

- › We have revised upwards our GDP growth estimate for the euro area in 2025 by 0.5 percentage points (pp), compared to our previous forecast in autumn 2025.
- › We now expect a slightly bigger current account deficit and fiscal deficit in the euro area throughout the forecast period – by 0.1pp apiece in 2026 and 2027.
- › Public debt in the euro area is also forecast to be higher – by 0.9pp in 2025, 0.6pp in 2026 and 0.2pp in 2027.
- › We expect the euro to strengthen against the US dollar even more than we did in autumn 2025 – we have raised the forecast for the USD/EUR exchange rate by 0.04 USD/EUR in 2026 and by 0.05 USD/EUR in 2027.
- › We have reduced our forecast for the Brent crude oil price for the whole forecast period – by USD 5 per barrel in 2026 and by USD 7 per barrel in 2027.

Table 1 / wiiw winter 2026 global assumptions

	Winter 2026				Changes since autumn		
	2025	2026	2027	2028	2025	2026	2027
Euro area real GDP growth, %	1.4	1.4	1.5	1.5	0.5	0.0	0.0
Euro area HICP, %	2.1	1.9	1.9	1.9	0.0	0.0	0.0
Euro area unemployment rate, %	6.3	6.2	6.2	6.2	0.0	-0.1	-0.1
Euro area current account, % of GDP	2.5	2.4	2.3	2.3	0.0	-0.1	-0.1
Euro area fiscal balance, % of GDP	-3.0	-3.2	-3.3	-3.2	-0.1	-0.1	-0.1
Euro area public debt, % of GDP	88.0	88.5	89.0	89.2	-0.9	-0.6	-0.2
Euro area gross external debt, % of GDP	225.0	225.0	225.0	225.0	0.0	0.0	0.0
ECB deposit facility rate, %, eop	2.00	2.00	2.00	2.00	0.00	0.00	0.00
USD/EUR exchange rate, average	1.13	1.20	1.20	1.20	0.00	0.04	0.05
Brent crude oil, USD per barrel, average	69.1	60.0	58.0	58.0	-1.9	-5.0	-7.0

Note: Current account data include transactions within the region (sum over individual countries). Gross external debt includes debt within the region (sum over individual countries).

Source: wiiw forecasts. Cut-off date: 19 January 2026.

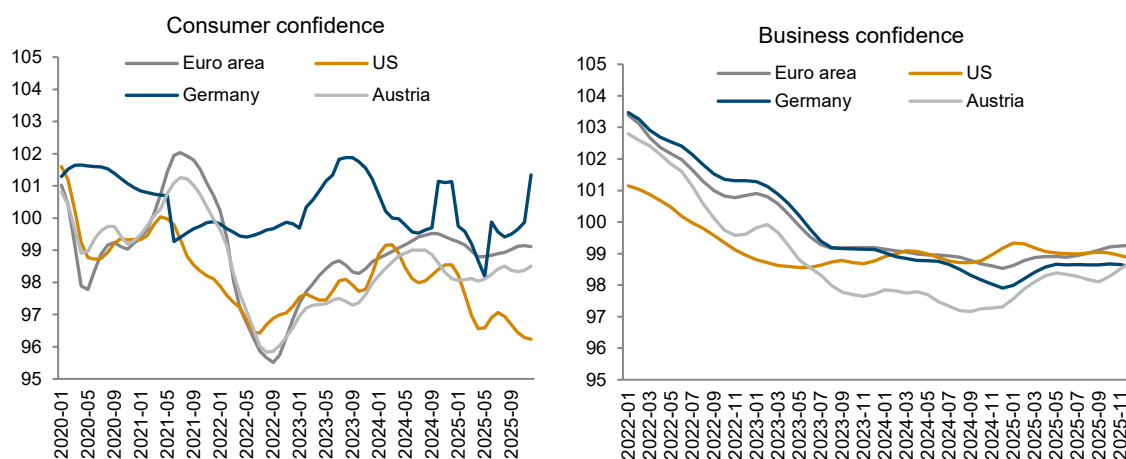
Economic activity in the euro area put in a robust performance in Q3 2025. GDP rose by 1.4% year on year in Q3 2025, only 1pp slower than in the previous quarter. Although the volatility in the Irish data has continued to impact the overall numbers, economic performance in the other countries points to broad-based growth. GDP contracted only in Finland, while all other euro area members registered positive economic growth. Germany – the main economic partner for most of the CESEE countries – saw its

economy expand for the third quarter in a row (by 0.3% year on year in Q3 2025), allowing for cautious optimism about the prospects for the coming years. Economic performance in Austria, another important CESEE partner, has been recovering as well, having been in recession for two years – GDP growth in Q3 2025 achieved 1.0% year on year, having accelerated by 0.5pp compared to the previous quarter.

Across sectors, services have contributed the most to growth in the euro area, especially in the digital services sector and tourism. Activity in industry has mostly been flat, hampered by higher tariffs, a stronger euro and still elevated uncertainty. The November data, though, point to a possible strengthening of the performance of industry: industrial production in the euro area increased by 2.5% year on year, driven primarily by the production of non-durable consumer goods and capital goods. The former has been supported by robust consumer demand on the back of strong growth in wages and employment, while capital goods production has been backed by increased public investment in defence and infrastructure.

The recovery in business and consumer confidence is a positive sign for future economic developments in Europe. Confidence index values for the euro area (as well as for Austria and Germany individually) have continued to recover slowly following the slump at the beginning of 2025 (Figure 1). Business confidence in the US, on the other hand, has been sliding in recent months, lagging behind the performance of the euro area. The contrast between the euro area and the US is even more striking when one looks at the dynamics of the consumer confidence index: consumers in the US have been growing increasingly pessimistic, so that in December 2025 the value of the consumer confidence index reached its lowest level for 18 years. In the euro area, by contrast, consumer sentiment has been improving of late, with the boost in confidence especially pronounced in Germany. These developments in the euro area are welcome news for CESEE economies, which are predominantly export oriented and tightly integrated within intra-EU (mostly German and Austrian) supply chains.

Figure 1 / Consumer and business confidence indices



Note: Harmonised, amplitude-adjusted indices. Numbers above 100 suggest an increased confidence in near-future business performance or the future economic situation; numbers below 100 indicate pessimism with regard to future performance / economic situation.

Source: OECD.

The Flash Eurozone Purchasing Managers' Index (PMI) also supports a relatively positive outlook. The results, published on 23 January,¹ show business activity in the euro area increasing on the back of more new orders, while optimism about a rise in output in the coming year reached a 20-month high. Optimism strengthened across both manufacturing and services, with the former sector posting the highest sentiment in almost four years. In Germany, the growth in business activity – although weaker than the average for the euro area – also appears to be regaining some of its momentum, according to the latest Flash HCOB PMI survey.² In January 2026, the country's Composite PMI Output Index reached 52.5, a three-month high; the Manufacturing PMI rose to 48.7 in January, up from 47.0 in December. The upturn was supported by a renewed increase in new orders.

In 2026-2028, economic growth in the euro area is expected to remain stable, albeit subdued. We forecast that GDP will grow by around 1.5% each year, mostly driven by private consumption and increased investment in defence and infrastructure, supported by fiscal stimulus. Exports are expected to remain rather weak, once the effect of frontloading in response to the anticipated rise in US tariffs wears off; moreover, the stronger euro is having an adverse impact on exporters' competitiveness. This will lead to a slight weakening of the current account balance over the forecast horizon.

Headline inflation will be close to the European Central Bank (ECB) target over the forecast period. Disinflationary factors that are helping to keep inflation at bay include the strong euro, lower prices for imported goods (as China tries to compensate for its lost US markets by ramping up its exports to Europe) and falling global oil prices. This last factor will be driven by global oversupply, largely due to high production by the US and other non-OPEC countries, combined with weakening demand from major consumers like China and Europe. Still, the risk of higher inflation is expected to linger, stemming largely from notably persistent pressure on the price of services and wage dynamics.

We expect the ECB to keep its policy interest rates unchanged over the forecasting horizon. With inflation close to the ECB's medium-term target and growth prospects remaining positive, the case for further monetary easing has weakened substantially. Recent developments suggest that the current policy stance is broadly appropriate to support the continued return of inflation to target without constraining growth.

The euro is expected to strengthen further, compared with our previous forecast. In early January 2026, the EUR/USD exchange rate was around USD 1.17 to the euro, and over 2025 the euro appreciated by more than 13% against the dollar. Even though US consumer prices remain above the Federal Reserve (Fed) target, the Fed is expected to ease its monetary policy in the short term, driven primarily by political pressure. Narrowing interest rate differentials with other advanced economies and expectations of slower US growth are reducing the relative attractiveness of USD-denominated assets. A large fiscal deficit and rising national debt remain longer-term macro concerns and could influence risk premia on US assets. Currency markets are pricing a softer dollar ahead, reflecting these broader monetary, macroeconomic and geopolitical expectations.

¹ <https://www.pmi.spglobal.com/Public/Home/PressRelease/e480e4ae5a6d4d868783ff29be27f816>

² <https://www.pmi.spglobal.com/Public/Home/PressRelease/b5761a60910547bbb46842abf8f96176>

Fiscal policy in the euro area will move towards a looser stance, leading to a rise in the fiscal deficit and public debt levels. It will largely be driven by increased investment in defence and infrastructure as part of the ReArm Europe initiative and other security priorities. Thus, the German budget deficit is set to widen from 3.1% of GDP in 2025 to 4% in 2026, according to European Commission projections. Fiscal loosening will not be uniform, though: while Germany pursues a more expansionary fiscal policy, other countries such as Austria, France and Italy are expected to continue with fiscal consolidation and deficit reduction.³ But given Germany's importance for CESEE, its fiscal policy will play the biggest role for the region.

Downside risks to the forecast are increasing, as geopolitical and geoeconomic tensions deepen. US foreign policy is becoming increasingly unhinged and unpredictable, leading to a 'rupture in the world order', in the words of Canada's Prime Minister Mark Carney.⁴ The 2025 US National Security Strategy signalled a major shift in the transatlantic relationship, by treating Europe as a competitor rather than as a partner and by setting the task of weakening the EU as one of its goals.⁵ The US military strikes on Venezuela, the US president's threats of military attacks on other countries (including Denmark, a NATO member) and the continuing use of import tariffs as an economic weapon – all these actions increase economic uncertainty and could potentially trigger a global chain reaction, leading to an economic downturn. Even though in 2025 global trade showed impressive resilience in response to the US 'Liberation Day' import tariffs, any further rise in trade barriers – including hikes in tariff rates or stricter controls on the export of critical products – would weaken growth, add to policy uncertainty and generate significant disruptions to global supply chains.

The willingness of the US administration to side with Russia poses a risk to Ukraine's defence capabilities and reduces the chances of a favourable resolution to the war in the near future. As the Kremlin, encouraged by the US position, is showing no sign of any willingness to end the war, a peace deal between Russia and Ukraine remains only a remote possibility. The situation is becoming ever more dire, as Russia continues to destroy Ukraine's energy infrastructure. The EU has proved unable to equip Ukraine to win the war: the bloc ultimately failed to agree on a plan to use frozen Russian Central Bank assets to aid the country.⁶ Brussels did manage to come up with a last-minute alternative solution to provide a EUR 90bn loan, with the frozen assets serving as collateral; but overall, the aid to Ukraine and the sanctions against Russia have not been of a magnitude sufficient to shift the balance significantly in favour of the former in the war. If the US forces Ukraine to capitulate to Russia,⁷ that may have an adverse impact on the security of the EU and could damage investor sentiment in the region.

The US presidential administration's attacks on the Fed carry with them a significant risk to the central bank's independence. The pressure and attacks on the Fed governors – and especially the recent decision by the Department of Justice to open a criminal investigation into Jerome Powell, the Fed's chair – have been used to undermine the central bank's authority. If the next head of the Fed – due to replace Powell in spring 2026 – tries to cut interest rates too fast out of loyalty to President Trump, that could trigger significant negative shocks on the global financial markets, with risks including

³ https://economy-finance.ec.europa.eu/document/download/a0a12bd1-2d85-43f2-a49f-03e8bf58f2b2_en?filename=eb085_en_0.pdf

⁴ <https://www.weforum.org/stories/2026/01/davos-2026-special-address-by-mark-carney-prime-minister-of-canada/>

⁵ <https://www.atlanticcouncil.org/dispatches/us-strategy-is-leading-to-a-europe-squeezed-from-the-east-and-the-west/>

⁶ <https://www.bbc.com/news/articles/c3e025vyppeo>

⁷ <https://wiiw.ac.at/three-years-of-full-scale-war-in-ukraine-what-would-a-dictated-peace-mean-n-669.html>

a sustained rise in global inflation, severe bond market volatility and a potential decline in the US dollar's status as the world's primary reserve currency.

High asset valuations, based on optimistic expectations of AI-driven corporate earnings, pose a risk of potentially abrupt price corrections. As AI-related borrowing now accounts for about 30% of net investment-grade issuance, according to Goldman Sachs,⁸ investors in the AI sector appear to be starting to question the gap between the very high valuations of companies in the sector and their actual returns. The volume of so-called credit default swaps tied to the main US tech companies has been growing rapidly – by about 90% in the period September-December 2025.⁹ If US tech companies fail to monetise AI, investment in the sector could fall abruptly; that would deliver a powerfully negative shock to the US economy and cause ripple effects on the global financial markets.

Recent corporate defaults and the growing prominence of non-bank financial intermediaries point to possible excessive risk-taking. Although investors have viewed the bankruptcies of Tricolor Holdings¹⁰ and First Brands¹¹ as isolated incidents, the defaults of these two companies have exposed the lack of transparency and weak governance on the credit markets. Vulnerabilities in this sector could become more pronounced if market conditions tighten or investors start losing their appetite for risk.

⁸ <https://www.ft.com/content/faa3d747-9a32-4219-93eb-a93c10502f06>

⁹ <https://www.ft.com/content/c5f9380e-df86-42a9-a387-a0d5e04ad45f>

¹⁰ <https://www.ft.com/content/1f8dbc28-77d7-48b3-8e58-5ca73388b787>

¹¹ <https://www.ft.com/content/36582d44-2592-4de7-a252-c2797fa65a48>

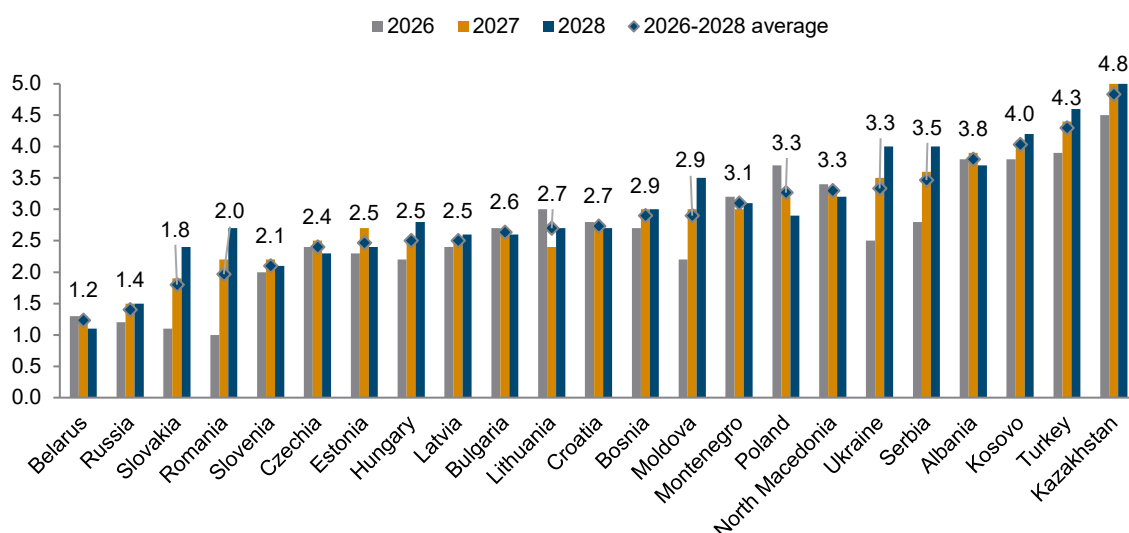
2 CESEE Overview: All eyes on investment as geopolitical pressures mount

BY RICHARD GRIEVESON

2.1 GENERAL OUTLOOK AND FORECAST REVISIONS

Despite the turbulent global environment, 2026 begins with an outlook that is quite similar to 2025's: fairly positive, especially in relation to Western Europe, and with Southeast Europe – plus a couple of other countries – performing better than expected. Growth across CESEE looks solid, with the region set to expand by 2.6% on average in 2026-2028 – hardly a stellar rate, but significantly better than Western Europe. As with last year, Southeast Europe will be the area of strongest growth, with Kazakhstan, Poland and (later in the forecast period) Ukraine being the other notable bright spots. Most of the region's weakest performers will be in EU-CEE – due in part to country-specific factors, but also to the region's generally greater exposure to adverse global trade developments and the need for tighter fiscal policy. In addition, Russia and Belarus will have another very subdued year, owing to still very tight (albeit gradually less so) monetary conditions, less impetus from already high military spending, limited further support from import substitution and low oil prices.

Figure 2 / Real GDP growth, % per year, forecasts



Note: Ordered by average of the three years.

Source: wiiw winter 2025/2026 forecasts.

Across the region as a whole, we have made a modest downward revision of the growth forecast for 2026 compared to the autumn, while it remains as it was for 2027, although these limited changes mask more significant alterations at the country level. For 2026 we have revised our

growth projection for Serbia downward by 0.7 percentage points (pp) (the impact of protests on the economy and very weak FDI inflows) and for Ukraine by 0.5pp (a bad harvest, the damage done to the country's infrastructure by Russia's recent missile attacks, and labour and electricity shortages); meanwhile Bulgaria, Hungary, Lithuania, Romania, Montenegro, Moldova, Belarus and Russia have all been downgraded by 0.2pp or more. At the same time we have become more upbeat about Poland (+0.2pp), North Macedonia (+0.4pp) and Slovenia (+0.2pp) in 2026.

Table 2 / OVERVIEW 2024-2025 AND OUTLOOK 2026-2028

	GDP					Consumer prices					Unemployment (LFS)				
	real change in % against prev. year					average change in % against prev. year					rate in %, annual average				
	2024	2025 ¹⁾	Forecast			2024	2025	Forecast			2024	2025 ¹⁾	Forecast		
BG Bulgaria	3.4	3.1	2.7	2.6	2.6	2.6	3.5	3.3	3.2	3.0	4.2	3.5	3.6	3.7	3.7
CZ Czechia	1.3	2.3	2.4	2.5	2.3	2.7	2.3	2.2	2.2	2.3	2.6	2.8	3.0	3.1	3.0
EE Estonia	-0.1	1.4	2.3	2.7	2.4	3.7	4.8	3.9	3.2	2.9	7.6	7.6	7.1	6.8	6.5
HR Croatia	3.8	3.0	2.8	2.7	2.7	4.0	4.4	3.3	2.9	2.7	5.0	4.9	4.9	5.0	4.9
HU Hungary	0.6	0.3	2.2	2.5	2.8	3.7	4.4	3.8	3.6	3.1	4.5	4.4	4.3	4.2	4.1
LT Lithuania	3.0	2.8	3.0	2.4	2.7	0.9	3.4	3.0	2.5	2.2	7.1	7.0	6.5	6.3	6.1
LV Latvia	0.0	1.2	2.4	2.5	2.6	1.3	3.8	3.0	2.5	2.3	6.9	6.9	6.8	6.5	6.2
PL Poland	3.0	3.5	3.7	3.2	2.9	3.7	3.3	3.0	2.7	2.5	2.9	3.1	3.0	3.0	3.0
RO Romania	0.9	1.2	1.0	2.2	2.7	5.8	6.8	6.5	4.0	4.0	5.4	6.1	6.2	6.0	5.6
SI Slovenia	1.7	0.8	2.0	2.2	2.1	2.0	2.5	2.3	2.1	2.1	3.7	3.7	3.6	3.5	3.5
SK Slovakia	1.9	0.7	1.1	1.9	2.4	3.2	4.2	3.5	2.5	2.5	5.3	5.5	5.7	5.5	5.4
<i>EU-CEE11¹⁾²⁾</i>	<i>2.1</i>	<i>2.3</i>	<i>2.6</i>	<i>2.7</i>	<i>2.7</i>	<i>3.7</i>	<i>4.0</i>	<i>3.7</i>	<i>3.0</i>	<i>2.8</i>	<i>4.1</i>	<i>4.2</i>	<i>4.2</i>	<i>4.2</i>	<i>4.0</i>
AL Albania	4.0	3.7	3.8	3.9	3.7	2.6	2.3	2.5	2.4	2.3	8.5	8.4	8.3	8.2	8.1
BA Bosnia and Herzegovina	3.2	2.2	2.7	3.0	3.0	1.7	3.8	2.8	2.2	1.8	12.6	13.1	12.7	12.2	12.1
ME Montenegro	3.2	3.3	3.2	3.0	3.1	3.6	4.1	3.6	3.4	2.7	11.5	9.5	9.5	9.4	9.3
MK North Macedonia	3.0	3.4	3.4	3.3	3.2	4.2	4.3	3.8	3.5	3.2	12.4	11.5	11.0	10.5	10.0
RS Serbia	3.9	2.0	2.8	3.6	4.0	4.8	4.1	3.5	3.2	3.0	8.6	8.5	8.3	8.0	7.7
XK Kosovo	4.6	3.6	3.8	4.1	4.2	1.6	3.9	2.8	2.0	2.0	10.8	10.7	10.6	10.5	10.3
<i>WB6¹⁾²⁾</i>	<i>3.7</i>	<i>2.6</i>	<i>3.1</i>	<i>3.5</i>	<i>3.7</i>	<i>3.6</i>	<i>3.8</i>	<i>3.2</i>	<i>2.9</i>	<i>2.6</i>	<i>10.0</i>	<i>9.8</i>	<i>9.6</i>	<i>9.3</i>	<i>9.1</i>
MD Moldova	0.1	2.0	2.2	3.0	3.5	4.7	7.8	4.8	4.5	4.5	4.0	4.0	3.8	3.6	3.5
UA Ukraine	3.2	2.0	2.5	3.5	4.0	6.5	12.7	8.0	7.0	6.0	14.0	12.0	10.0	9.0	7.0
<i>New EU accession 2¹⁾²⁾</i>	<i>3.0</i>	<i>2.0</i>	<i>2.5</i>	<i>3.5</i>	<i>4.0</i>	<i>6.4</i>	<i>12.4</i>	<i>7.8</i>	<i>6.8</i>	<i>5.9</i>	<i>13.5</i>	<i>11.7</i>	<i>9.7</i>	<i>8.7</i>	<i>6.8</i>
TR Turkey	3.3	3.4	3.9	4.4	4.6	58.5	34.9	24.0	16.0	11.0	8.7	8.5	8.5	8.3	8.3
BY Belarus	4.3	1.3	1.3	1.3	1.1	5.7	6.6	6.9	6.2	5.8	3.0	2.7	2.8	3.0	3.0
KZ Kazakhstan	5.0	6.5	4.5	5.0	5.0	8.7	11.4	10.0	8.0	6.0	4.7	4.6	4.6	4.5	4.5
RU Russia	4.3	0.7	1.2	1.5	1.5	8.4	8.7	6.1	4.4	3.9	2.5	2.2	2.4	2.6	2.7
<i>CIS3¹⁾²⁾</i>	<i>4.4</i>	<i>1.3</i>	<i>1.6</i>	<i>1.9</i>	<i>1.9</i>	<i>8.4</i>	<i>8.9</i>	<i>6.5</i>	<i>4.8</i>	<i>4.2</i>	<i>2.8</i>	<i>2.5</i>	<i>2.7</i>	<i>2.8</i>	<i>2.9</i>
<i>V4+SJ¹⁾²⁾</i>	<i>2.2</i>	<i>2.5</i>	<i>3.0</i>	<i>2.8</i>	<i>2.7</i>	<i>3.4</i>	<i>3.3</i>	<i>3.0</i>	<i>2.7</i>	<i>2.5</i>	<i>3.3</i>	<i>3.4</i>	<i>3.5</i>	<i>3.4</i>	<i>3.4</i>
<i>BALT3¹⁾²⁾</i>	<i>1.5</i>	<i>2.1</i>	<i>2.7</i>	<i>2.5</i>	<i>2.6</i>	<i>1.6</i>	<i>3.8</i>	<i>3.2</i>	<i>2.7</i>	<i>2.4</i>	<i>7.1</i>	<i>7.1</i>	<i>6.7</i>	<i>6.5</i>	<i>6.2</i>
<i>EU-SEE3¹⁾²⁾</i>	<i>1.8</i>	<i>1.8</i>	<i>1.6</i>	<i>2.3</i>	<i>2.7</i>	<i>4.9</i>	<i>5.8</i>	<i>5.4</i>	<i>3.7</i>	<i>3.6</i>	<i>5.1</i>	<i>5.5</i>	<i>5.4</i>	<i>5.3</i>	<i>5.1</i>
<i>EU accession 8¹⁾²⁾</i>	<i>3.3</i>	<i>2.2</i>	<i>2.7</i>	<i>3.5</i>	<i>3.9</i>	<i>5.3</i>	<i>9.0</i>	<i>6.0</i>	<i>5.3</i>	<i>4.6</i>	<i>12.4</i>	<i>11.1</i>	<i>9.7</i>	<i>8.9</i>	<i>7.5</i>
<i>non-EU12¹⁾²⁾</i>	<i>4.0</i>	<i>2.0</i>	<i>2.3</i>	<i>2.7</i>	<i>2.8</i>	<i>22.8</i>	<i>16.5</i>	<i>11.6</i>	<i>8.2</i>	<i>6.2</i>	<i>5.8</i>	<i>5.3</i>	<i>5.2</i>	<i>5.1</i>	<i>5.0</i>
<i>CESEE23¹⁾²⁾</i>	<i>3.4</i>	<i>2.1</i>	<i>2.4</i>	<i>2.7</i>	<i>2.8</i>	<i>17.5</i>	<i>13.1</i>	<i>9.4</i>	<i>6.7</i>	<i>5.3</i>	<i>5.3</i>	<i>5.1</i>	<i>4.9</i>	<i>4.9</i>	<i>4.7</i>
<i>EA²⁾³⁾</i>	<i>0.9</i>	<i>1.4</i>	<i>1.4</i>	<i>1.5</i>	<i>1.5</i>	<i>2.4</i>	<i>2.1</i>	<i>1.9</i>	<i>1.9</i>	<i>1.9</i>	<i>6.4</i>	<i>6.3</i>	<i>6.2</i>	<i>6.1</i>	<i>6.1</i>
<i>EU27²⁾³⁾</i>	<i>1.1</i>	<i>1.6</i>	<i>1.6</i>	<i>1.7</i>	<i>1.7</i>	<i>2.6</i>	<i>2.5</i>	<i>2.1</i>	<i>2.1</i>	<i>2.1</i>	<i>5.9</i>	<i>5.7</i>	<i>5.6</i>	<i>5.5</i>	<i>5.5</i>

contd.

Table 2 / Continued

	Current account					Fiscal balance				
	in % of GDP					in % of GDP				
	2024	2025 ¹⁾	Forecast			2024	2025 ¹⁾	Forecast		
		2026	2027	2028			2026	2027	2028	
BG Bulgaria	-1.4	-2.0	-1.7	-1.5	-1.3	-3.0	-3.0	-3.1	-4.2	-3.0
CZ Czechia	1.7	1.3	1.2	1.2	1.2	-2.0	-1.7	-2.1	-2.3	-2.4
EE Estonia	-1.2	-1.2	-2.0	-2.1	-2.0	-1.7	-2.3	-3.2	-3.8	-3.7
HR Croatia	-2.2	-3.0	-3.0	-2.0	-1.0	-1.9	-2.8	-2.0	-1.9	-1.9
HU Hungary	1.5	1.6	1.4	2.0	2.5	-5.0	-5.3	-5.0	-4.0	-3.5
LT Lithuania	3.2	2.0	1.5	1.0	0.9	-1.3	-2.6	-2.8	-2.7	-2.5
LV Latvia	-1.6	-2.6	-3.0	-3.2	-3.5	-1.8	-2.9	-2.6	-2.3	-2.5
PL Poland	0.3	-0.8	-1.0	-0.8	-0.6	-6.5	-6.9	-6.2	-6.0	-5.7
RO Romania	-8.2	-8.0	-6.8	-6.5	-6.0	-9.3	-8.5	-6.5	-5.5	-4.8
SI Slovenia	4.5	3.5	4.1	4.5	4.8	-0.9	-2.3	-2.3	-2.1	-2.1
SK Slovakia	-4.6	-4.3	-4.0	-2.8	-2.3	-5.5	-5.0	-4.5	-4.8	-4.3
<i>EU-CEE11 ¹⁾²⁾</i>	<i>-1.0</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-5.3</i>	<i>-5.4</i>	<i>-4.8</i>	<i>-4.6</i>	<i>-4.3</i>
AL Albania	-2.4	-3.0	-3.1	-3.2	-3.5	-0.7	-0.5	-1.3	-1.0	-1.0
BA Bosnia and Herzegovina	-3.5	-4.4	-4.3	-4.2	-3.8	-1.8	-2.0	-1.3	-1.0	-1.0
ME Montenegro	-17.1	-17.8	-17.1	-16.0	-15.0	-3.1	-3.4	-3.7	-3.8	-4.0
MK North Macedonia	-2.2	-3.5	-3.4	-3.3	-3.2	-4.5	-4.0	-4.0	-3.0	-3.0
RS Serbia	-4.7	-4.1	-4.0	-4.2	-4.5	-2.0	-1.0	-2.0	-3.0	-2.0
XK Kosovo	-8.4	-10.0	-9.0	-8.5	-8.5	-0.3	-0.3	-0.5	-0.5	-0.2
<i>WB6 ¹⁾²⁾</i>	<i>-4.7</i>	<i>-5.0</i>	<i>-4.8</i>	<i>-4.8</i>	<i>-4.8</i>	<i>-1.9</i>	<i>-1.4</i>	<i>-2.0</i>	<i>-2.3</i>	<i>-1.8</i>
MD Moldova	-16.6	-21.0	-18.0	-17.0	-16.0	-3.9	-4.2	-4.5	-4.5	-4.0
UA Ukraine	-8.0	-16.0	-16.0	-14.0	-13.0	-17.6	-20.0	-18.0	-15.0	-12.0
<i>New EU accession 2 ¹⁾²⁾</i>	<i>-8.7</i>	<i>-14.0</i>	<i>-16.2</i>	<i>-14.3</i>	<i>-13.3</i>	<i>-16.4</i>	<i>-18.6</i>	<i>-16.8</i>	<i>-14.1</i>	<i>-11.3</i>
TR Turkey	-0.8	-1.8	-2.1	-2.8	-3.0	-4.8	-3.6	-3.3	-3.7	-3.6
BY Belarus	-2.5	-2.9	-4.3	-3.4	-3.2	1.3	0.1	-0.5	-0.5	-0.8
KZ Kazakhstan	-2.7	-4.0	-4.3	-4.5	-4.5	-2.6	-2.5	-2.5	-2.0	-1.5
RU Russia	2.9	1.6	1.1	1.2	1.5	-1.6	-2.7	-2.2	-1.5	-1.5
<i>CIS3 ¹⁾²⁾</i>	<i>2.1</i>	<i>0.7</i>	<i>0.4</i>	<i>0.4</i>	<i>0.7</i>	<i>-1.6</i>	<i>-2.6</i>	<i>-2.2</i>	<i>-1.5</i>	<i>-1.5</i>
<i>V4+SI ¹⁾²⁾</i>	<i>0.5</i>	<i>-0.2</i>	<i>-0.3</i>	<i>0.0</i>	<i>0.2</i>	<i>-5.1</i>	<i>-5.3</i>	<i>-4.9</i>	<i>-4.7</i>	<i>-4.5</i>
<i>BALT3 ¹⁾²⁾</i>	<i>0.9</i>	<i>0.6</i>	<i>-0.5</i>	<i>-0.8</i>	<i>-0.9</i>	<i>-1.5</i>	<i>-2.6</i>	<i>-2.9</i>	<i>-2.9</i>	<i>-2.8</i>
<i>EU-SEE3 ¹⁾²⁾</i>	<i>-5.9</i>	<i>-6.0</i>	<i>-5.2</i>	<i>-4.8</i>	<i>-4.3</i>	<i>-7.0</i>	<i>-6.6</i>	<i>-5.2</i>	<i>-4.7</i>	<i>-4.0</i>
<i>EU accession 8 ¹⁾²⁾</i>	<i>-6.8</i>	<i>-9.7</i>	<i>-10.7</i>	<i>-9.7</i>	<i>-9.2</i>	<i>-9.7</i>	<i>-10.5</i>	<i>-9.7</i>	<i>-8.4</i>	<i>-6.7</i>
<i>non-EU12 ¹⁾²⁾</i>	<i>0.4</i>	<i>-1.2</i>	<i>-1.5</i>	<i>-1.7</i>	<i>-1.5</i>	<i>-3.4</i>	<i>-3.6</i>	<i>-3.2</i>	<i>-2.9</i>	<i>-2.8</i>
<i>CESEE23 ¹⁾²⁾</i>	<i>-0.1</i>	<i>-1.3</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.3</i>	<i>-4.1</i>	<i>-4.2</i>	<i>-3.8</i>	<i>-3.5</i>	<i>-3.3</i>
<i>EA ²⁾³⁾</i>	<i>3.4</i>	<i>2.5</i>	<i>2.4</i>	<i>2.3</i>	<i>2.3</i>	<i>-3.1</i>	<i>-3.0</i>	<i>-3.2</i>	<i>-3.3</i>	<i>-3.2</i>
<i>EU27 ²⁾³⁾</i>	<i>3.2</i>	<i>2.5</i>	<i>2.4</i>	<i>2.3</i>	<i>2.3</i>	<i>-3.1</i>	<i>-2.6</i>	<i>-2.8</i>	<i>-2.9</i>	<i>-2.8</i>

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: 19 January 2026.

Table 3 / Policy rate and exchange rate for selected CESEE countries: overview 2024-2025 and outlook 2026-2028

		Policy rate eop, p.a.					Exchange rate NCU/EUR average				
		2024	2025	Forecast			2024	2025	Forecast		
				2026	2027	2028			2026	2027	2028
AL	Albania	2.75	2.50	2.50	2.75	2.75	100.7	97.8	97.5	97.0	97.0
BY	Belarus	9.50	9.75	9.25	8.75	8.50	3.51	3.46	3.98	4.45	4.68
CZ	Czechia	4.00	3.50	3.00	3.00	3.00	25.1	24.7	24.6	24.6	24.6
HU	Hungary	6.50	6.50	5.50	5.00	4.25	395.3	397.8	402.0	405.0	405.0
KZ	Kazakhstan	15.25	18.00	15.00	12.00	10.00	507.9	590.2	650.0	660.0	670.0
MD	Moldova	3.60	5.00	4.00	3.50	3.00	19.25	19.59	19.70	19.80	20.00
MK	North Macedonia	5.55	4.00	3.75	3.50	3.25	61.52	61.59	61.50	61.50	61.50
PL	Poland	5.75	4.00	3.50	3.00	3.00	4.31	4.24	4.26	4.28	4.28
RO	Romania	6.50	6.50	4.00	3.00	2.50	4.97	5.04	5.15	5.20	5.25
RS	Serbia	5.75	5.75	5.25	4.75	4.25	117.1	117.2	117.2	117.0	116.8
RU	Russia	21.00	16.00	11.00	8.00	7.00	100.2	94.3	104.0	110.0	115.0
TR	Turkey	47.50	38.00	22.00	12.00	10.00	35.57	44.82	53.00	59.00	65.00
UA	Ukraine	13.50	15.50	13.50	11.50	9.00	43.46	47.06	52.00	54.00	56.00

Source: wiiw, forecasts by wiiw. Cut-off date for historical data and forecasts: 19 January 2026.

Table 4 / Real GDP growth forecast and direction of revisions since wiiw autumn forecast 2025

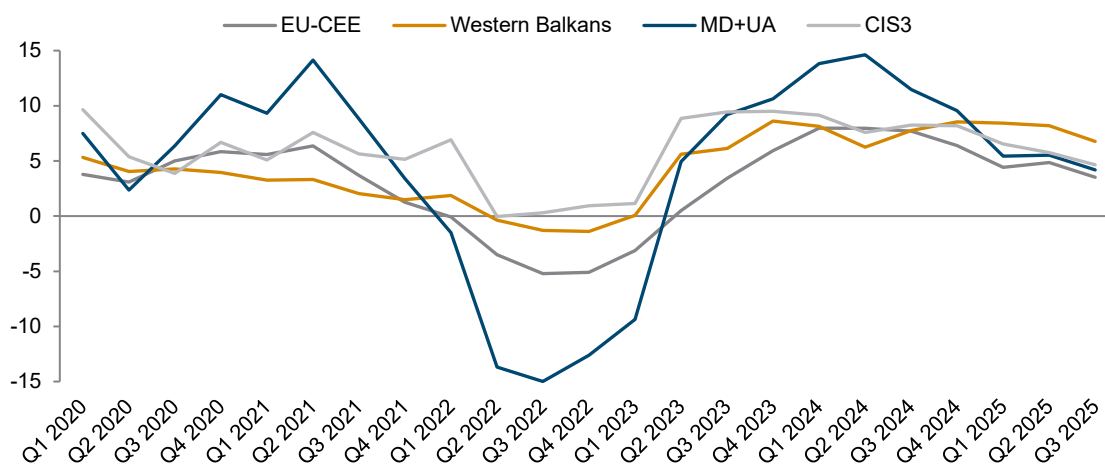
Region		2025	2026	2027
EU-CEE				
BG	Bulgaria	3.1	2.7	2.6
CZ	Czechia	2.3	2.4	2.5
EE	Estonia	1.4	2.3	2.7
HR	Croatia	3.0	2.8	2.7
HU	Hungary	0.3	2.2	2.5
LT	Lithuania	2.8	3.0	2.4
LV	Latvia	1.2	2.4	2.5
PL	Poland	3.5	3.7	3.2
RO	Romania	1.2	1.0	2.2
SI	Slovenia	0.8	2.0	2.2
SK	Slovakia	0.7	1.1	1.9
Western Balkans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

Source: wiiw forecasts as of 19 January 2026.

2.2 GROWTH MODEL TRANSITION UNDER WAY

Underlying this rather familiar-looking picture of steady convergence, with Southeast Europe mostly outperforming Western Europe, in terms of growth drivers in CESEE a major transition is under way, with the role of private consumption declining. Private consumption, which has been the key driver of growth almost everywhere in recent years, will still make a contribution, but less than in 2024-2025. This is because, after several very strong years, real wage growth is slowing markedly across most of the region; that said, this is less the case in the Western Balkans than elsewhere (Figure 3).

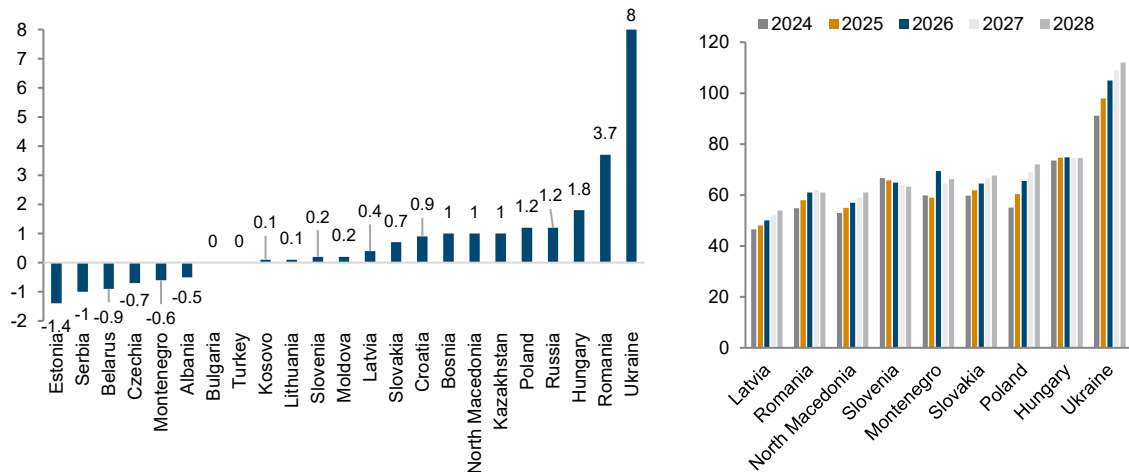
Figure 3 / Real wages, % change, year on year



Sources: Eurostat, national sources, wiiw.

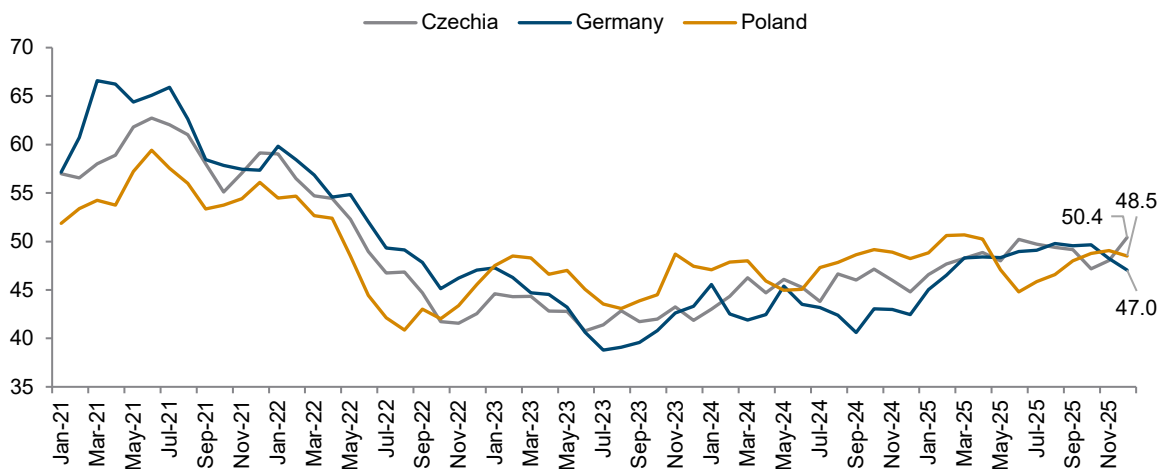
In order to maintain (or even increase) growth rates, as we generally expect to happen, other drivers will have to pick up the slack. Government consumption is unlikely to be up to the job, owing to increasing fiscal pressures and the need for austerity. Much of CESEE will undertake considerable cumulative reduction in the fiscal deficit over the forecast period, equivalent to 8pp of GDP in Ukraine, 3.7pp in Romania, 1.8pp in Hungary and 1.2pp in Poland and Russia (Figure 4, left). Several countries, especially those with the highest (and rising) public debt/GDP ratios (Ukraine, Poland, Romania, Slovakia) may well be forced to cut even more than currently expected (Figure 4, right). Exports may help, especially those tied to the strong construction rebound in Germany or to tourism. However, manufacturing exports, the core of many CESEE economies, show little sign of improvement, with German industry still struggling. Germany's manufacturing Purchasing Managers' Index (PMI), with which the PMIs of the region are highly correlated, fell to a ten-month low in December and has signalled contraction every month since June 2022 (Figure 5). In Russia, exports are expected to decline on the back of lower oil prices and the further decoupling from the EU gas market, following the bloc's nineteenth sanctions package adopted in October.

Figure 4 / Projected cumulative change in fiscal balance, 2025-2028, percentage points of GDP (positive = tighter, left) and CESEE countries with highest public debt/GDP ratios (right)



Sources: Eurostat, national sources, wiiw winter 2025/2026 projections.

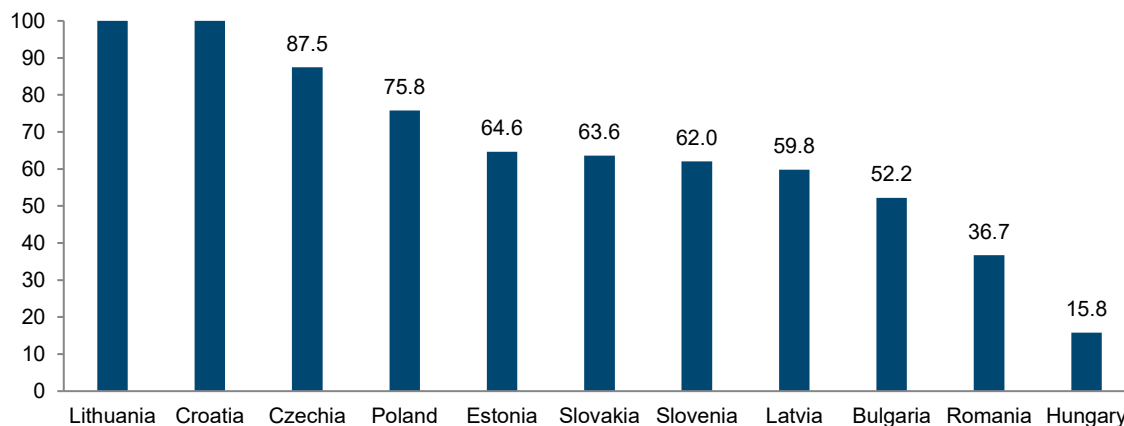
Figure 5 / Manufacturing Purchasing Managers' Index (PMI); 50 = no change



Sources: HSBC, S&P Global, Haver Analytics, wiiw.

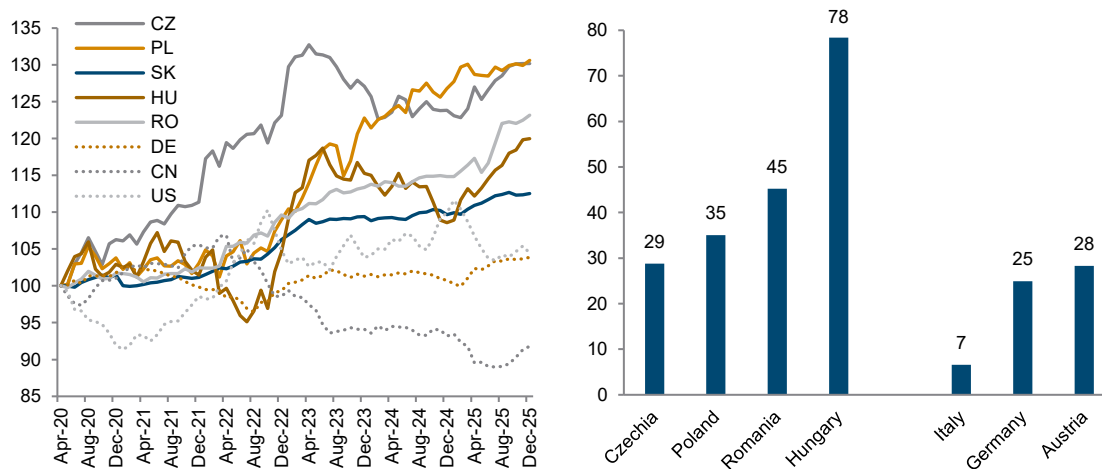
On a positive note, public investment is projected to fare well in most countries. In EU-CEE, countries will scramble to draw down as much of the EU Recovery and Resilience Facility (RRF) funding as possible before it runs out. Countries must draw down the money – or lose it – by the end of August 2026. While some (Lithuania, Croatia) have effectively drawn down their full available allocation, many others in theory have a lot left to absorb between now and August (Figure 6). Hungary (so far less than 16% drawn down) and Romania (37%) stand out in particular, although in the former it would take some serious legal and political gymnastics to release the funds before the deadline, even in the event that there is a change of government. Meanwhile in the Western Balkans, public investment will be supported by the New Growth Plan. However, in Russia public investment will be sacrificed first in the wake of planned fiscal consolidation.

Figure 6 / Disbursements made under RRF to EU-CEE countries by 15 January 2026, % of total allocation



Source: European Commission.

Figure 7 / Real effective exchange rate, April 2020 = 100 (left) and labour cost misalignment index, percentage points (right)



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

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

The main area of uncertainty is private investment; but as we have been highlighting in recent months, there is a fundamental case for stronger private investment. Over the past five years, the long-term trend of demographic decline and shortage of labour has driven a huge increase in unit labour costs, while at the same time the post-pandemic supply shortages and the energy price shock have led to an appreciation of real effective exchange rates. As Figure 7 shows, these increases have been very steep in parts of CESEE – far more so than in Western Europe in many cases. At the same time, labour productivity has mostly stagnated or has increased only marginally. This makes the traditional growth model of most CESEE countries – exporting up to 90% of GDP based on cost competitiveness – much

harder to sustain. This may be part of the reason why FDI inflows into the region have fallen so much in the last few years. In order to remain competitive, firms in the region will have to invest in labour-saving technological upgrading – be that automation or AI (or both). Throughout most of the region, accommodative monetary conditions should be supportive of such investment, but much less so in countries where monetary policy is very tight (such as in Russia).

Some of this is already happening, but a lot more needs to be done to achieve enough productivity growth to offset the increase in unit labour costs since 2020. Further cuts to interest rates will help, as will the general optimism that firms in the region have about most CESEE markets, according to our Executive Network surveys. The most recent survey on investment intentions has Romania right at the top of the list, showing that even in markets that are currently struggling, firms are willing to overlook a couple of bad years and still believe in the fundamental growth story.

While the growth model transition towards greater investment is being driven primarily by domestic factors, the turbulent geoeconomic environment and shifts are also contributing. As we outlined more extensively last autumn,¹ the tectonic shifts in the global economy are driving significant changes in CESEE's economies. Russia's 2022 full-scale invasion of Ukraine effectively brought an end to the peace dividend across much of CESEE, necessitating a sharp increase in defence spending, with implications for both investment and fiscal policy. It has also made foreign investors less willing to commit long-term capital to the region and has increased the operational risks, due to Russia's hybrid warfare waged against many CESEE countries. Meanwhile the global trade war has pushed up prices, feeding into the above-mentioned trend of higher wages, and thereby further underpinning the need to invest in productivity upgrades to offset higher costs.

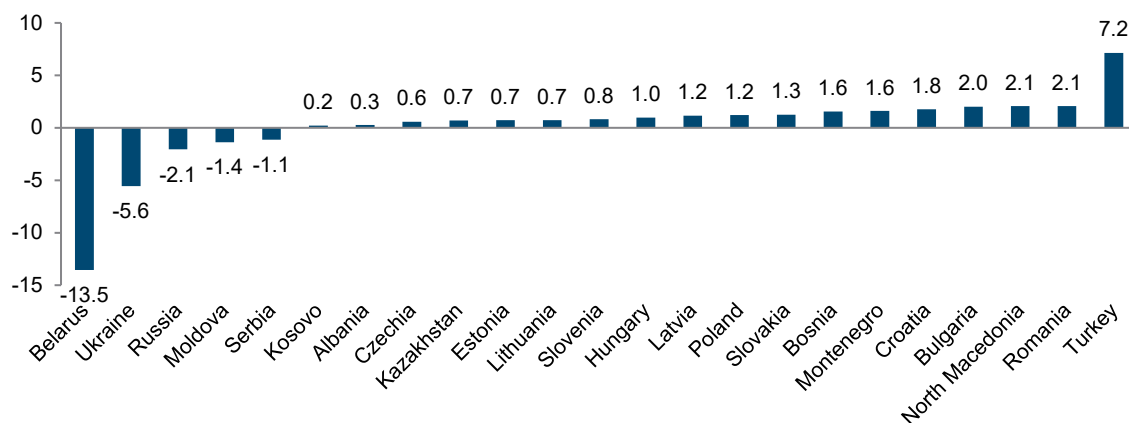
If this transition is managed, CESEE will move up the value chain, and a new era of economic growth will dawn. Wealthier consumers will demand more and better goods and services, thereby giving rise to a virtuous cycle of rising wages and productivity. However, if it is not managed properly, CESEE growth rates will slow and eventually stagnate, with firms unable to compete on either cost or quality. We are optimistic, but nothing is guaranteed.

2.3 OUTLOOK FOR INFLATION, INTEREST RATES AND FX

Following the spike in certain parts of the region in 2025, inflation will moderate across all sub-regions this year, but will remain generally quite high by historical standards. This is in line with our long-held view that, in most cases, price growth will not return to pre-2020 levels over the forecast period. This is due to many factors, including structurally tighter labour markets and an inflationary global environment caused by tariffs and supply friction (Figure 8). With inflation falling, central banks in much of the region will continue to loosen policy; this will mean that for around half of the countries, monetary policy in real terms will become substantially looser by 2028, supporting investment (Figure 9). However, euro area members, in particular, are set to face substantially tighter policy in real terms by 2028, compared with 2025, unless the European Central Bank (ECB) makes further cuts (not currently our core scenario). Currencies in EU-CEE and the Western Balkans will be mostly stable, but we expect further depreciation in the CIS, Ukraine and Turkey.

¹ See <https://wiiw.ac.at/hardening-fault-lines-cesee-in-the-age-of-fragmentation-p-7425.html>

Figure 8 / Consumer price inflation, % per year, projected average 2026-2028 minus average 2010-2019, percentage points



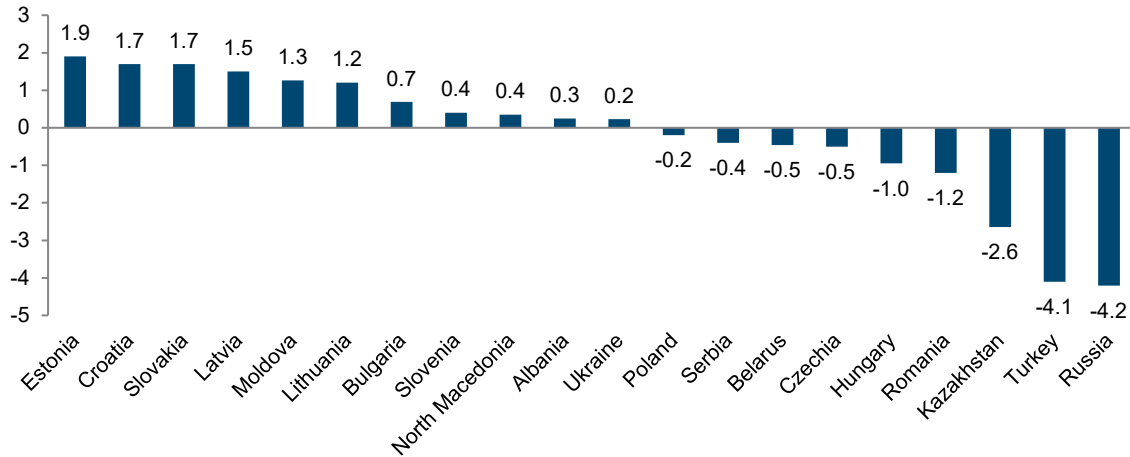
Sources: Eurostat, national sources, wiiw.

Table 5 / CPI growth forecasts and direction of revisions since wiiw autumn forecast 2025

Region	2025	2026	2027
EU-CEE			
BG Bulgaria	3.5 ▲	3.3 ▲	3.2 ▲
CZ Czechia	2.3 ▼	2.2	2.2 ▲
EE Estonia	4.8 ▼	3.9 ▲	3.2 ▲
HR Croatia	4.4 ▲	3.3 ▲	2.9 ▲
HU Hungary	4.4 ▼	3.8 ▼	3.6 ▲
LT Lithuania	3.4 ▲	3.0 ▲	2.5
LV Latvia	3.8 ▲	3.0 ▲	2.5
PL Poland	3.3 ▼	3.0	2.7
RO Romania	6.8 ▼	6.5	4.0 ▼
SI Slovenia	2.5 ▼	2.3 ▲	2.1 ▲
SK Slovakia	4.2	3.5 ▲	2.5 ▼
Western Balkans			
AL Albania	2.3 ▼	2.5	2.4
BA Bosnia and Herzegovina	3.8 ▲	2.8 ▲	2.2 ▲
ME Montenegro	4.1 ▲	3.6	3.4 ▲
MK North Macedonia	4.3 ▲	3.8 ▲	3.5 ▲
RS Serbia	4.1 ▼	3.5 ▼	3.2 ▼
XK Kosovo	3.9 ▲	2.8 ▲	2.0
New EU accession 2			
MD Moldova	7.8 ▲	4.8 ▼	4.5 ▼
UA Ukraine	12.7 ▼	8.0	7.0
Turkey			
TR Turkey	34.9 ▼	24.0	16.0 ▲
CIS3			
BY Belarus	6.6 ▼	6.9 ▼	6.2
KZ Kazakhstan	11.4 ▼	10.0 ▲	8.0 ▲
RU Russia	8.7	6.1 ▲	4.4

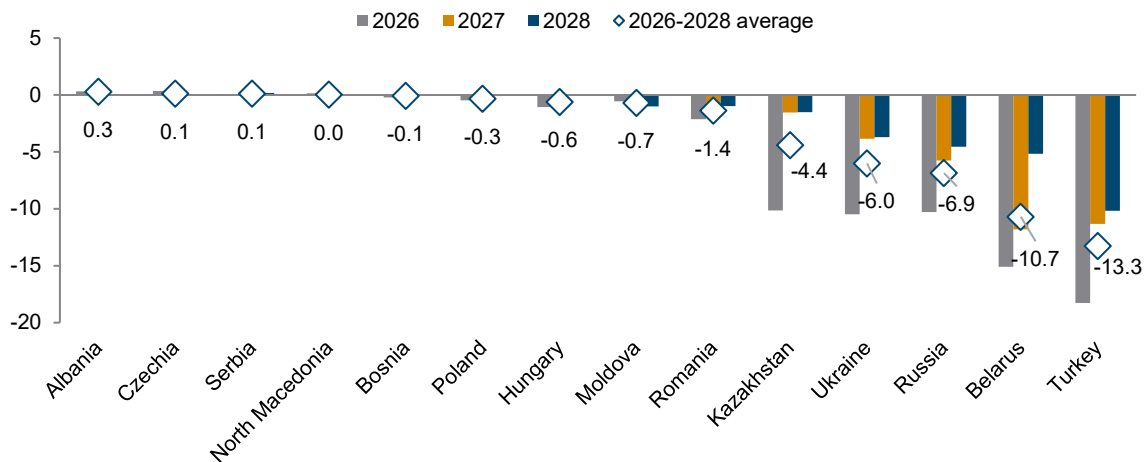
Source: wiiw forecasts as of 19 January 2026.

Figure 9 / Projected cumulative change in real policy rate, 2025-2028, percentage points



Sources: wiiw winter 2025/2026 forecasts.

Figure 10 / Projected nominal change in value of exchange rate versus euro, % per year



Note: Positive value = appreciation.

Source: wiiw winter 2025/2026 forecasts.

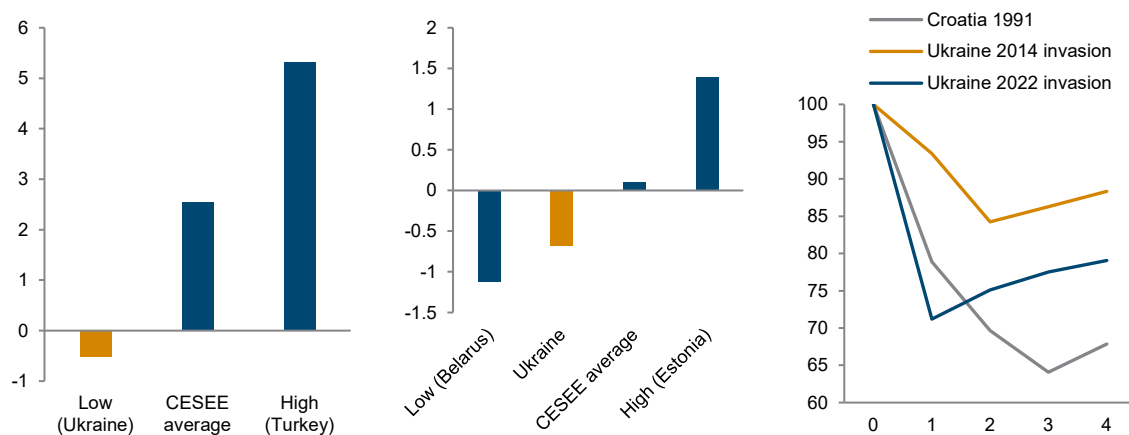
2.4 END OF THE WAR IN UKRAINE: ‘PEACE’ IS NOT ENOUGH

Our core scenario is that the war in Ukraine will continue over the forecast period; but even if it does end sooner than expected, that will not automatically result in an economic boom. History shows that the end of a war can bring about strong recovery, both for the belligerent countries and their neighbours – but only under certain conditions.

If the war does end this year or next, Ukraine’s recovery will depend both on the impact that the war has had and on the security and policy conditions that are likely to follow it. In almost half of

cases looked at by the European Bank for Reconstruction and Development (EBRD),² even 25 years after the end of a war GDP per capita had failed to return to trend level. A country is most likely to recover quickly if a) it had reasonably strong per capita GDP growth and fairly high-quality democratic institutions before the war; b) the war was relatively short; c) the wartime drop in its GDP was relatively small; and d) there is no return to hostilities after the war. In the main, this does not bode well for Ukraine: in the years before the war it had the lowest rate of real GDP growth in CESEE; it had among the weakest institutions; the full-scale war has been going on for almost four years now (and it is more than a decade since Russia's initial invasion in 2014); and the drop in GDP has been sizeable (though granted, it has rebounded more quickly than in the case of Croatia during the 1990s). This means that the last point – no return to hostilities after the war – will be especially crucial. The EBRD found that reconstruction is more difficult if peace is fragile.³

Figure 11 / Ukraine's real GDP growth rate, %, 2012-2021 average (left); World Bank Worldwide Governance Indicators Rule of Law estimate for 2021 (middle); real GDP, year before war = 100 (right)



Note: World Bank Worldwide Governance Indicators range from -2.5 (low) to 2.5 (high).
Sources: Eurostat, national sources, World Bank, wiiw.

There is a non-negligible risk that the US will force Ukraine into accepting most of Russia's conditions and that formal hostilities will cease. It is true that even if the US stops selling weapons and providing intelligence to Ukraine, the country could feasibly fight on with EU support.⁴ But if it cannot, and if it is indeed forced into a ceasefire, we see two possible scenarios, both of which will have quite important implications for Ukraine and CESEE.

First, if the war ends with hard, credible security guarantees for Ukraine, that would set off a major economic boom for the region. This is not just in theory: the pace of the recovery in Bosnia and Herzegovina after the war ended there in 1995 was staggering (Figure 12). Reconstruction will initially be donor financed, but if security guarantees are credible, then private capital will be quick to arrive. There will be an uptick in FDI, infrastructure financing and residential construction. The Ukrainian state

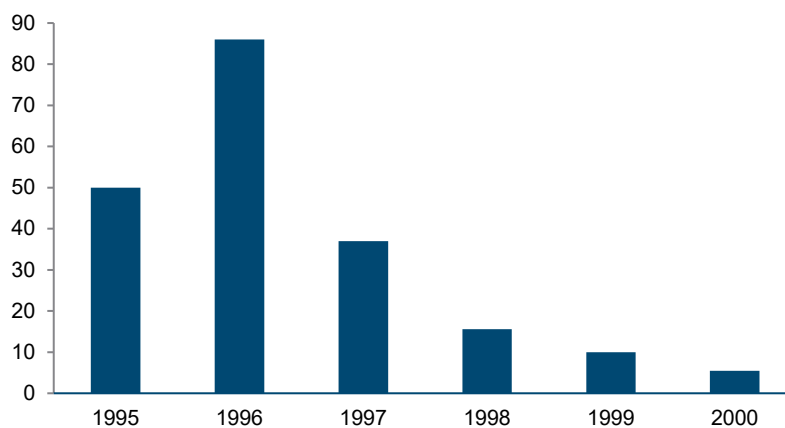
² See <https://www.ebrd.com/transition-report-2022-23#>

³ See <https://www.ebrd.com/transition-report-2022-23#>

⁴ For a highly informative discussion of whether or not this might be true (with different opinions), see here: <https://timothygartonash.substack.com/p/fighting-europes-good-fight-ii>

will also be able to plan, expand the tax base, improve institutions to support growth and achieve debt sustainability more quickly. Although Ukraine would need to maintain a big army even under this scenario, the distortions of the war economy would be significantly reduced (and the need to fend off Russia's undoubted continued hybrid war would be an important driver of research into cyber defence, with spillovers for the rest of the economy). Ukraine's EU accession would continue and even gather pace, delivering significant benefits via greater integration into the EU market. Here, the potential is huge, thanks to Ukraine's highly qualified labour force, very low wage levels and geographical proximity to EU markets.⁵

Figure 12 / Real GDP growth in Bosnia and Herzegovina in the aftermath of the war during the 1990s, % per year



Sources: IMF, national sources, wiiw.

The second scenario, which is probably more realistic, is that Ukraine will not receive cast-iron security guarantees when the war ends, and therefore the recovery and reconstruction will be much more uneven and weak. Here, Ukraine will have to adopt the so-called 'steel porcupine' strategy to defend itself, and reconstruction will be quite narrow and skewed towards defence, logistics, a robust energy supply and basic housing. Private capital will be much more cautious, demanding higher returns, with shorter maturities and significant risk guarantees. The state will continue to have to devote a large share of resources to defence, and a less-than-watertight security situation will prevent proper planning and any increase in the tax base.

It matters a lot for the rest of CESEE which of these scenarios comes to pass. A credible, external security backstop would trigger a broad repricing of assets across CESEE, with the biggest gains felt in countries closest to Ukraine. Improved confidence would support corporate issuance and FDI, especially along supply chains linked to Ukraine's reconstruction, such as construction, materials, engineering, logistics and defence-adjacent manufacturing in Poland, Romania and Slovakia. Defence spending would remain structurally higher than pre-2020, but would stop accelerating, thus freeing up fiscal and political space for more productive public investment. In this scenario, EU enlargement would become economically meaningful.

⁵ See <https://wiiw.ac.at/outlier-or-not-the-ukrainian-economy-s-preparedness-for-eu-accession-p-6704.html>

However, if there is no hard-and-fast security guarantee from the US (or something equivalent from the EU) and security risks remain elevated, CESEE faces a structurally higher-risk environment. Investors would demand stronger fiscal credibility, as the debt dynamics would become more exposed to shocks, reinforcing dispersion within the region. Defence would become a permanent first claim on public budgets in frontline states, raising crowding-out risks (where fiscal space is limited) and turning the end of the peace dividend into a lasting condition, rather than a transition. EU enlargement would stay politically driven but economically constrained, with the EU prioritising security alignment over deep integration and moving cautiously to avoid importing risk. Energy and supply chains would be treated as permanent national-security assets, embedding higher system costs through redundancy, duplication and sustained security premia.

2.5 EU BUDGET: A WORRY FOR CESEE?

Although very little has yet been agreed on the new EU Multiannual Financial Framework (MFF) for 2028-2034, it seems safe to assume that EU financing in the future will be geared less to broad convergence support, and will be more political, strategic and conditional. Typically, most EU money has gone to the poorest countries and regions, with the aim of offsetting the agglomeration effects of EU integration. The poorest countries tend to be those least able to compete in the single market, which leads them to lose a disproportionate share of their populations to the West. As a result, they have required more funds to offset this. Even the RRF, officially a pandemic recovery fund, clearly directed the greatest resources towards the EU's least developed regions, rather than those most affected by the pandemic itself. This is now changing.

One important development is that the EU is getting tougher over conditionality in the case of those that do not meet rule-of-law standards. For instance, before 2020, relative to its GDP, Hungary was one of the main recipients of EU funds, and that was an important growth driver. However, in recent years it has been unable to draw down much of its entitlement, due to rule-of-law violations. As the EU accession process develops, and because of large joint borrowing (and the need to repay this during the next MFF), the big net contributors to the EU budget are more focused on how the money is spent.

The second way in which the budget is becoming more political is in the way funds are directed towards those countries and sectors that are in tune with the EU's strategic priorities. The return of a pro-EU government in Poland saw a rapid increase in the drawdown of EU funds, with Brussels willing to bend the rules in support of an administration with a pro-EU agenda. With so many countries in the region on a knife edge politically between pro- and more anti-EU forces, this use of the budget to support allies is likely to continue. As the cases of Poland and Hungary show, reducing or increasing access to the EU budget can have a material impact on the economic growth rate of a country. During the next MFF, it is also likely that a greater share of the budget will be allocated to strategic autonomy and associated sectors, notably defence.

This shift creates opportunities and risks for CESEE, with those countries that enjoy good governance and that are in broad political and strategic alignment with the core EU set to benefit most. Most countries in CESEE have managed to continue to improve governance standards, which will increase their chances of maximising their access to EU funds and boosting economic growth. Romania and Croatia are two that have notably improved in this respect in recent years. By contrast, those that

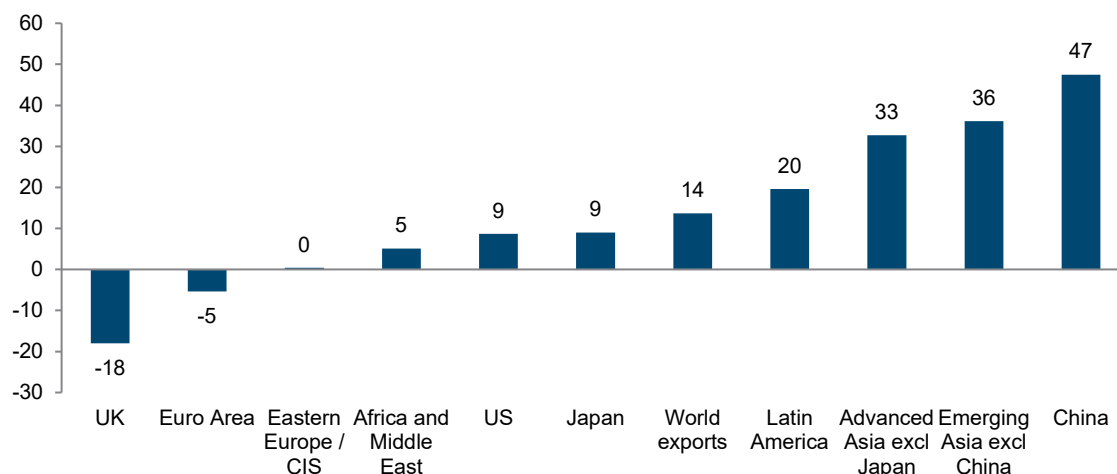
are falling behind risk not being able to take advantage of all that has been allocated to them. Similarly, those countries best aligned with the EU's strategic autonomy priorities – Poland, the Baltic states, Romania, Bulgaria – may well benefit most from a more defence-focused EU budget from 2028.

What seems certain is that higher defence spending is here to stay; but the economic benefit depends on how this is directed. The extent to which increased defence spending crowds out other investment, the share that is spent on equipment rather than personnel, and the share that is spent on domestic production appear to be the key determinants of positive economic spillovers. On these points, so far CESEE is only really doing well on the first metric: a large part of the defence spending is not being reallocated from other priorities, but instead is being financed via flexibility in the Stability and Growth Pact, through EUR 150bn of loans within the framework of Security Action for Europe (SAFE) and by the European Investment Bank (EIB). However, it is still a relatively minor share of defence spending that is going on equipment, and too much is being spent on foreign production. If this should change, the economic spillovers will be much greater; but for now we expect only a fairly limited boost for most countries.⁶

2.6 FURTHER CHALLENGES FOR TRADE AHEAD

The relative trade weakness of CESEE since the pandemic is evident; the region has been hit much worse than most of the rest of the world in trade terms (Figure 13). Among the major countries or regions covered by the Dutch CPB institute, only the UK and the euro area have performed worse than the Eastern Europe/CIS group, where exports were essentially flat over the whole period in real terms. This is in stark contrast to China (+47%), emerging Asia (+36%), advanced Asia (+33%) and the global average (+14%). It seems evident that Europe as a whole, including CESEE, has lost a great deal of global export market share to Asia since the start of the pandemic.

Figure 13 / Real merchandise exports, % change, Q4 2019-Q3 2025



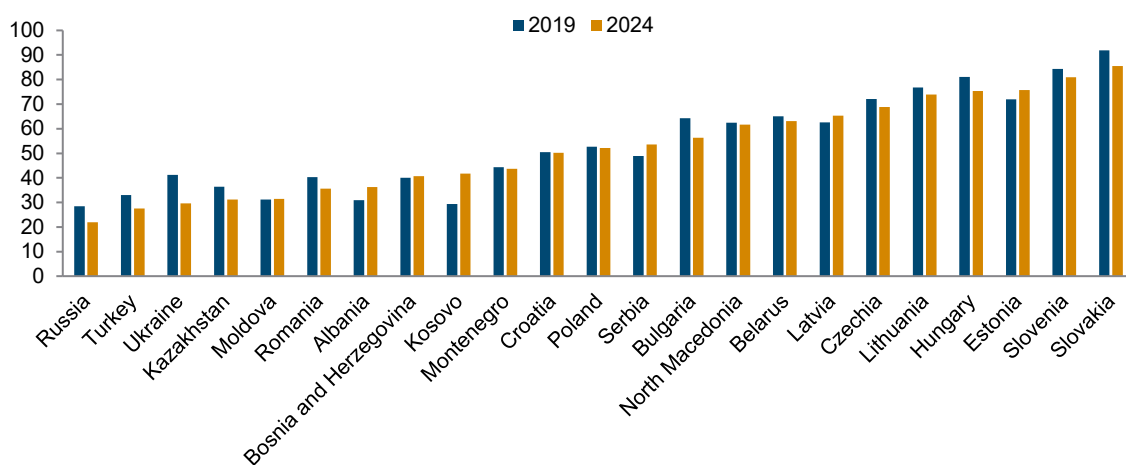
Source: CPB World Trade Monitor.

⁶ See <https://wiiw.ac.at/hardening-fault-lines-cesee-in-the-age-of-fragmentation-p-7425.html>

The reasons for the trade weakness are likely to be a combination of the particular problems faced by Germany, CESEE's erosion of external competitiveness and the impact of the war in Ukraine. They also likely reflect a mixture of weak demand and smaller increases in production, in line with the general decline of FDI in the region. What is clear is that the export model is now under severe pressure, and is unlikely to play such an outsized role in the economy in CESEE in the future, adding further impetus to the growth model transition outlined above.

Even if CESEE businesses and governments manage to increase investment to boost productivity, over the forecast period exporters in the region still face substantial risks emanating from external sources. First, a new exchange of trade barriers with the US seems quite a serious risk. It now looks likely that for as long as Donald Trump remains in office, Europe is going to be under threat of new tariffs for every perceived slight against the US, and this will remain a permanent source of concern for CESEE's open economies. President Trump's leadership style appears to rely on continually generating headlines, and tariff announcements (in both directions) seem to be among his favourite ways of doing that, with Europe very often in his sights. Although exports generally make up a lower share of GDP than before the pandemic, they still play an outsized role in the CESEE growth model (Figure 14).

Figure 14 / Exports of goods and services, % of GDP



Sources: Eurostat, national sources, wiiw.

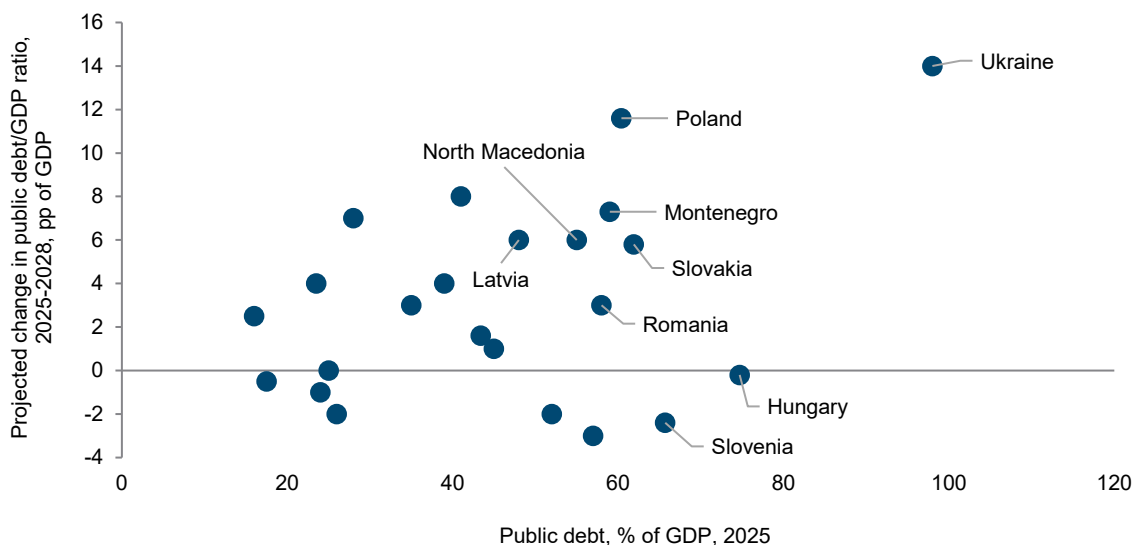
Meanwhile, as the global trading system digests the existing tariffs, it seems likely that surplus Chinese production will increasingly find its way to Europe, presenting another challenge for producers. If the US does indeed succeed in reducing the size of its current account deficit, this will remove the main absorber of surplus Chinese and European production in the global economy. ECB research has shown that during previous increases in protectionism vis-à-vis China by the US, China's share in euro area imports increased.⁷

⁷ <https://www.ecb.europa.eu/press/economic-bulletin/html/eb202503.en.html>

2.7 SHOULD WE BE WORRIED ABOUT FISCAL RISKS IN THE REGION?

So far, the fiscal risks facing the region are the dog that has not yet barked; but we are not convinced that this will continue. Many CESEE countries, especially the EU member states, have for years now been running very high deficits by historical standards. In the context of a global pandemic, and then with the support of very high inflation (and therefore nominal GDP growth) to prevent a big increase in public debt/GDP ratios, there was some justification for this. But now, with the pandemic long past and inflation at much lower levels, it is harder to justify, even if security risks do create the need for higher spending than before. On current trends, the public debt/GDP ratio of several CESEE countries is rising at an alarming rate. The countries where public debt is already at a high level – and is projected to increase further – are marked on Figure 15. Ukraine, Poland, Montenegro, Slovakia, Romania, North Macedonia and Latvia have the highest public debt/GDP ratios in the region, and these are set to increase still further up to 2028. Although at the moment bond markets, ratings agencies and (where relevant) the European Commission are not exerting a huge amount of pressure on those countries to get public finances under control (with the partial exception of Romania), if that changes then those countries will face the most immediate pressure (Ukraine would probably be an exception), with likely sharp and sizeable austerity measures as a result.

Figure 15 / Public debt/GDP, %



Note: wiiw estimates for 2025 data on public debt. Data show all CESEE countries covered by wiiw. Countries labelled are those with highest and/or rising public debt/GDP ratios.

Sources: Eurostat, national sources, wiiw forecasts.

Table 6 / Public debt and gross external debt: overview 2024-2025 and outlook 2026-2028

		Public debt in % of GDP					Gross external debt in % of GDP				
		2024	2025 ¹⁾	Forecast			2024	2025 ¹⁾	Forecast		
				2026	2027	2028			2026	2027	2028
BG	Bulgaria	23.8	28.0	31.0	33.0	35.0	48.2	49.0	48.0	48.0	48.0
CZ	Czechia	43.3	43.4	44.2	44.9	45.0	65.2	66.1	66.2	65.8	66.0
EE	Estonia	23.5	23.5	25.1	26.7	27.5	97.8	99.5	101.0	101.8	102.2
HR	Croatia	57.4	57.0	56.0	55.0	54.0	66.4	71.0	67.0	66.0	66.0
HU	Hungary	73.5	74.7	74.8	74.7	74.5	85.4	86.0	86.5	85.5	84.5
LT	Lithuania	38.0	41.0	44.0	46.0	49.0	77.4	83.0	88.0	92.0	92.0
LV	Latvia	46.6	48.0	50.0	52.0	54.0	98.4	102.0	106.0	110.0	112.0
PL	Poland	55.1	60.4	65.5	69.0	72.0	52.2	53.5	55.0	56.5	58.0
RO	Romania	54.8	58.0	61.0	62.0	61.0	57.5	60.0	63.0	64.0	65.0
SI	Slovenia	66.6	65.7	64.9	64.0	63.3	87.9	88.3	89.0	88.8	88.5
SK	Slovakia	59.7	61.9	64.5	66.7	67.7	101.4	101.8	101.9	103.1	103.0
	<i>EU-CEE11 ¹⁾²⁾</i>	<i>52.9</i>	<i>56.1</i>	<i>59.0</i>	<i>60.8</i>	<i>62.0</i>	<i>64.6</i>	<i>66.1</i>	<i>67.2</i>	<i>68.0</i>	<i>68.7</i>
AL	Albania	54.2	52.0	51.0	50.0	50.0	40.7	40.0	39.5	39.0	38.0
BA	Bosnia and Herzegovina	26.1	26.0	25.0	24.5	24.0	47.3	45.3	45.3	44.0	44.0
ME	Montenegro	59.8	59.0	69.4	64.5	66.3	126.6	133.0	145.0	150.0	155.0
MK	North Macedonia	52.9	55.0	57.0	59.0	61.0	77.9	79.0	80.0	81.0	82.0
RS	Serbia	46.9	45.0	45.0	46.0	46.0	58.6	59.0	60.0	61.0	62.0
XK	Kosovo	16.8	17.5	17.5	17.2	17.0	40.7	39.0	38.0	37.0	36.0
	<i>WB6 ¹⁾²⁾</i>	<i>44.2</i>	<i>42.9</i>	<i>43.3</i>	<i>43.6</i>	<i>43.7</i>	<i>57.9</i>	<i>57.9</i>	<i>58.9</i>	<i>59.5</i>	<i>60.1</i>
MD	Moldova	38.1	39.0	41.0	42.0	43.0	58.7	59.0	60.0	62.0	63.0
UA	Ukraine	91.1	98.0	105.0	109.0	112.0	98.1	102.0	106.0	111.0	115.0
	<i>New EU accession 2 ¹⁾²⁾</i>	<i>85.6</i>	<i>92.9</i>	<i>99.3</i>	<i>103.0</i>	<i>105.8</i>	<i>94.6</i>	<i>98.3</i>	<i>101.9</i>	<i>106.6</i>	<i>110.3</i>
TR	Turkey	23.6	25.0	25.0	25.0	25.0	39.7	36.0	35.0	35.0	34.0
BY	Belarus	38.6	35.0	36.0	37.0	38.0	46.1	42.5	44.2	44.5	45.0
KZ	Kazakhstan	24.7	24.0	24.0	23.0	23.0	58.6	54.0	54.0	53.0	50.0
RU	Russia	14.4	16.0	17.5	18.0	18.5	13.8	11.0	11.0	10.5	10.5
	<i>CIS3 ¹⁾²⁾</i>	<i>15.4</i>	<i>17.4</i>	<i>18.7</i>	<i>19.1</i>	<i>19.6</i>	<i>20.0</i>	<i>16.4</i>	<i>16.6</i>	<i>16.3</i>	<i>16.0</i>
	<i>V4+SJ ¹⁾²⁾</i>	<i>55.8</i>	<i>59.2</i>	<i>62.3</i>	<i>64.5</i>	<i>66.2</i>	<i>64.8</i>	<i>65.7</i>	<i>66.6</i>	<i>67.3</i>	<i>68.0</i>
	<i>BALT3 ¹⁾²⁾</i>	<i>36.5</i>	<i>38.3</i>	<i>40.7</i>	<i>42.6</i>	<i>44.7</i>	<i>87.8</i>	<i>91.9</i>	<i>95.8</i>	<i>99.0</i>	<i>99.6</i>
	<i>EU-SEE3 ¹⁾²⁾</i>	<i>49.3</i>	<i>52.1</i>	<i>54.5</i>	<i>55.3</i>	<i>54.9</i>	<i>57.1</i>	<i>59.6</i>	<i>60.8</i>	<i>61.2</i>	<i>61.9</i>
	<i>EU accession 8 ¹⁾²⁾</i>	<i>66.2</i>	<i>69.3</i>	<i>72.5</i>	<i>74.6</i>	<i>76.1</i>	<i>77.5</i>	<i>79.2</i>	<i>81.3</i>	<i>84.1</i>	<i>86.3</i>
	<i>non-EU12 ¹⁾²⁾</i>	<i>22.4</i>	<i>24.3</i>	<i>25.7</i>	<i>26.3</i>	<i>26.7</i>	<i>31.5</i>	<i>28.1</i>	<i>28.8</i>	<i>29.2</i>	<i>28.8</i>
	<i>CESEE23 ¹⁾²⁾</i>	<i>33.5</i>	<i>35.7</i>	<i>37.8</i>	<i>38.9</i>	<i>39.6</i>	<i>43.5</i>	<i>41.6</i>	<i>42.8</i>	<i>43.3</i>	<i>43.4</i>
	<i>EA ²⁾³⁾</i>	<i>87.1</i>	<i>88.0</i>	<i>88.5</i>	<i>89.0</i>	<i>89.2</i>	<i>224.1</i>	<i>225.0</i>	<i>225.0</i>	<i>225.0</i>	<i>225.0</i>
	<i>EU27 ²⁾³⁾</i>	<i>80.7</i>	<i>81.5</i>	<i>82.0</i>	<i>82.5</i>	<i>82.7</i>	<i>203.8</i>	<i>205.0</i>	<i>205.0</i>	<i>205.0</i>	<i>205.0</i>

1) wiiw estimates. - 2) Gross external debt data include debt within the region (sum over individual countries). -

3) Forecasts estimated by wiiw.

Source: wiiw, Eurostat. Forecasts by wiiw. Cut-off date for historical data and forecasts: 19 January 2026.

3 CESEE risk and opportunities matrices

3.1 RISK MATRIX

	Likelihood			
Impact		High	Medium	Low
High		<ul style="list-style-type: none"> › Fiscal pressures cause budget cuts › Strong increase in Chinese imports re-routed from US › New US tariffs on Europe 	<ul style="list-style-type: none"> › Increased Russian hybrid warfare › Energy price volatility 	<ul style="list-style-type: none"> › AI bubble bursting
Medium		<ul style="list-style-type: none"> › Labour-market friction › Local political volatility 	<ul style="list-style-type: none"> › Political fragmentation/polarisation in Western Europe › Climate/weather shocks 	
Low				

3.2 OPPORTUNITIES MATRIX

		Likelihood		
Timeline		High	Medium	Low
	Short-term	› Positive spillovers from increased defence spending		
	Medium-term	› EU funds	› Positive spillovers from AI investment › Further tourism growth	› Near-shoring
	Long-term	› Ukraine reconstruction spillovers	› Green transition and energy diversification › Capital market deepening › Improved regional infrastructure and connectivity › Further institutional convergence	

4 Country updates

ALBANIA: CONTINUITY OF REFORM AND ROBUST GROWTH

by Isilda Mara

The economic outlook is stable. Economic growth has been stable and solid, averaging 3.7% for the first three quarters of 2025. It has been driven by domestic demand, especially strong government consumption and investment, while household consumption has provided a moderate contribution. For 2025 as a whole, we estimate that growth reached 3.7% and will likely accelerate to around 4% in the medium term, supported by domestic demand, FDI and tourism.

Domestic demand is expected to sustain growth momentum. The rise in nominal wages (of 10% in Q1-Q3 2025) combined with moderate inflation (2.2% in 2025) and robust remittances will continue to bolster private consumption. The wage increase reflects a combination of both supply and demand factors: booming sectors (e.g. tourism) are experiencing an acute labour shortage, while the emigration of highly skilled young professionals is constraining labour supply. The persistent labour-market tightness, particularly in tourism, presents an ongoing challenge for the economy. Looking ahead, the additional rise in the monthly minimum wage from EUR 400 to EUR 500 in January 2026 will further boost real incomes and consumption and will reinforce growth momentum.

Political stability has been confirmed, with a fourth term for prime minister Edi Rama and his party. The new administration, in office since September 2025 and again led by the Socialist party, has provided reassurance that reforms will continue and that EU integration is its top priority. By the end of 2025, Albania had opened 28 of the 33 negotiation chapters with the EU, and the official government target for joining the EU is 2030. Public support for EU accession has thus far remained strong, but a protracted delay could undermine that support.

In November 2025, the Central Bank of Albania joined the Single Euro Payment Area (SEPA), marking a decisive step towards integration with the European financial markets. The banking sector is stable and sound. The domestic currency has continued to appreciate further, as tourism, remittances and FDI inflows have expanded. Policy interest rates have been easing gradually and will stay at around the current level in 2026. As such, monetary policy will continue to support domestic demand, which will be an important driver of growth.

BELARUS: ONGOING SLOWDOWN IN GROWTH AMID POLICY RISKS

by Dzmitry Kruk

Declining exports were the main reason for the sharp slowdown in GDP growth to 1.3% in 2025, after 4.3% in 2024. The physical volume of exports was roughly 10% lower than in 2024: approximately two thirds of the decline was due to reduced exports to Russia, and one third to other countries. Moreover, the deterioration in foreign trade left less room to stimulate domestic demand. While the latter remained the main driver of GDP growth, its growth was noticeably lower than in 2023-2024. On the supply side, construction, ICT and transportation were the key contributors to GDP growth. By contrast, manufacturing – which had boomed in 2023-2024 on the back of strong demand from Russia – contracted by roughly 2% in 2025.

For 2026, the government plans to boost GDP growth to 2.8%, mainly by stimulating investment. Although quantitatively the government target appears less ambitious than last year's (4.1%), qualitatively the policy approach remains largely unchanged. The authorities continue to rely on the assumptions of export growth and persistent labour shortages, which are expected to drive wage and household income growth. Within this framework, the government plans to secure further growth in capital investment of 3.1% (following a 10.5% increase in 2025). This is to be achieved through administrative pressure on state-owned enterprises, combined with easier access to long-term bank loans.

Notwithstanding the government plans, we expect the sluggish GDP growth to persist: around 1.3% in 2026-2027, easing further to 1.1% in 2028. Weak growth in Russia could result in continued stagnation of exports. The fragile financial position of firms is likely to constrain their capacity to expand investment and to sustain rapid wage growth, even amid ongoing labour shortages. Moreover, a deteriorating external position may gradually compel the authorities to adopt a less expansionary stance in both monetary and fiscal policy. Some upside risks exist in the event of a further easing of US sanctions, while a relaxation of EU sanctions appears less likely. At the same time, the authorities are signalling their readiness to accept higher inflation. For 2026, the official inflation target has been set at no more than 7%, deviating from earlier medium-term commitments of below 5%; but even that may prove overly optimistic. In 2027-2028, however, inflation is projected to decline gradually towards 5.8%.

The Belarusian rouble is likely largely to continue to follow the Russian rouble, as was already the case in H2 2025. During that period, the Belarusian rouble remained broadly stable against the Russian rouble in both nominal and real terms. This reflects the preferred strategy of the Belarusian central bank, unless there are large swings in the exchange rate of the Russian rouble against the US dollar or other major currencies. This policy choice takes account of the fact that any BYN/RUB depreciation would have only a limited impact on reducing the current account deficit, which is largely driven by trade with countries other than Russia. Consequently, as the Russian rouble is expected to depreciate gradually (with any major shocks appearing unlikely), the Belarusian rouble is likely to follow a similar path.

BOSNIA AND HERZEGOVINA: GROWTH MOMENTUM BUILDS, THOUGH RISKS REMAIN

by Selena Duraković

Economic activity in 2025 showed moderate growth, with variable performance across the different sectors. Real GDP expanded by 2.1% in Q3 2025 (year on year), faster than in both Q1 and Q2, driven by services, trade, transport and hospitality; meanwhile manufacturing contracted, putting something of a damper on overall growth. In Q4, growth was probably even stronger, given the robust increase in industrial production and retail sales in October and November. All in all, we estimate GDP growth for 2025 as a whole at 2.2%.

The 2026 outlook points to a gradual strengthening of growth momentum. Our projection is that growth will pick up to 2.7% in 2026, buoyed by stronger private spending, investment activity and solid export performance, though growth will still be below the Western Balkan average. The main downside risks are the slow progress of reform, geopolitical uncertainty and structural constraints, such as labour shortages.

Inflation peaked in late 2025, reaching 4.4% in November, but is expected to ease to 2.8% this year. Price pressures were driven largely by food, beverages, restaurant and hotel prices. Although inflation is expected to slow in 2026, supported by favourable base effects, it is likely to stay above pre-pandemic levels, with energy and food prices posing the main risks.

The implementation of EU accession reforms approved in December 2025 could boost economic growth. If reform conditions are met, nearly EUR 1bn in EU funds could provide a meaningful fillip to investment and medium-term growth. However, the political deadlock in Bosnia and Herzegovina could delay their disbursement.

BULGARIA: EURO ADOPTED, AMID POLITICAL TURMOIL

by Emilia Penkova-Pearson

Domestic demand remains the main growth driver. During H2 2025, the economy continued to grow robustly, at slightly above 3%, driven by strong domestic demand. Rising wages and pensions increased real disposable income, promoting a substantial increase in household consumption. However, external challenges led to a significant drop in real exports. Meanwhile, the strong consumption boosted real imports, which adversely affected GDP growth. The labour market remained tight, with the unemployment rate at 3.4%. By December 2025, inflation had risen to 3.5%, up from 2.1% a year earlier, due primarily to higher service prices and utility costs.

Moderate growth is expected in the short term. The main factors weighing on the country's short-term growth prospects are political instability and unfavourable external demand, including the impact of US tariffs. The latter creates uncertainty and adversely affects EU exports, including those from Bulgaria. Although the direct impact of US tariffs on Bulgaria's exports has been limited, the indirect impact is substantial, as weaker EU exports to the US spill over to Bulgaria.

Bulgaria adopted the euro on 1 January 2026 amid political turmoil. The minority government, in power for less than a year, resigned in December 2025 after mass protests triggered by the proposed 2026 budget, which included higher social contributions. Young protesters were at the forefront of the demonstrations, opposing the current governance model and demanding anti-corruption measures and greater transparency. As no new government can be formed under the current parliament, the president will appoint an interim government. An election is expected in the spring, marking the eighth snap election since 2021. Meanwhile, the budget law for 2025 will be extended to 2026. We expect the budget deficit to be slightly above 3% of GDP in 2026 due to political instability and wage pressures, and to reach 4.2% in 2027, driven by high defence spending.

CROATIA: SLIGHT GROWTH SLOWDOWN AHEAD

by Bernd Christoph Ströhm

After around 3% in 2025, economic growth is expected to moderate this year, though it will remain above the euro area average. Last year, growth was driven by domestic demand, while the contribution of net exports was negative. Household consumption continued to be supported by a tight labour market, rising wages and low unemployment. In 2026, growth is projected to slow only slightly, to 2.8%, primarily reflecting elevated inflation (estimated to reach 3.3% in 2026), stabilisation of domestic demand, softer export performance and ongoing global uncertainties. Looking ahead, real GDP is projected to expand by 2.7% in 2027 and 2028, supported by domestic demand, while net exports are likely to act as a drag on growth.

Inflation remains elevated but is expected to decline gradually. In 2025, inflation remained relatively high – above the euro area average – at around 4.4%. Food and services were major drivers of inflation earlier in the year, but by late 2025 energy prices and seasonal effects were playing a larger role. Looking ahead, inflation will remain elevated but is expected to decline gradually over the 2026-2028 forecast horizon.

EU funding will continue to be an important pillar of GDP growth in 2026. By end-2025, the country had already received around EUR 4.5bn from the Recovery and Resilience Facility (about 5.2% of GDP), with over EUR 5.5bn still to be disbursed before the end of 2026. These inflows are expected to sustain public and private investment, supporting infrastructure projects, digitalisation and green transition initiatives. However, while EU funds will remain a key growth driver in 2026, uncertainty about the scale of Cohesion Funds in the next EU budget period (post-2027) could begin to affect investor sentiment toward the latter part of the year.

The current political situation in Croatia is generally stable. The next parliamentary elections are scheduled to take place by 30 April 2028. The current HDZ government's policy priorities include strengthening the economy, improving living standards through higher wages and pensions, and addressing demographic challenges, while pursuing OECD membership.

CZECHIA: STRONG PERFORMANCE, LINGERING UNCERTAINTY

by Ioannis Gutzianas

Domestic demand remains the main driver of growth. The Czech economy maintained a strong growth trajectory through late 2025, with Q3 GDP increasing by 0.8% quarter on quarter and 2.8% year on year. This performance consolidated Czechia's position as one of the EU's strongest-performing economies in 2025, consistently outperforming the euro area average. Growth was broadly supported by both domestic and external demand, though household consumption remained the primary driver.

Looking ahead, the robust growth is expected to continue into 2026 and 2027, reaching 2.3% and 2.5%, respectively. This positive trajectory will be supported by sustained investment and a continued recovery in consumer spending. However, reducing the fiscal deficit in the current environment will be a challenge. Although both the previous and the incoming administration have identified the deficit as a critical problem (despite its comparatively low level), the new coalition's strategy of cutting corporate taxes to 19% while simultaneously increasing social and infrastructure spending is fundamentally at odds with fiscal consolidation. This creates a policy contradiction that could lead to a growth in the budget deficit rather than the promised reduction, potentially causing internal strife in the coalition.

Political friction surrounds government formation. The formation of the new government – a coalition of ANO (right-wing), SPD (far-right) and the Motorists (far-right) – has been marked by significant institutional tension. A major flashpoint occurred in early January 2026, when President Petr Pavel vetoed the appointment of Filip Turek, the honorary chair of the Motorists party, as Minister of Environment, citing Turek's past controversial rhetoric and a perceived lack of respect for the legal order. In a move to circumvent the veto, Prime Minister Andrej Babiš appointed Turek as Government Commissioner for Climate Policy and the Green Deal, a role that allows him to influence the ministry's agenda, despite the lack of a formal ministerial mandate.

A likely end to the Czech green agenda. Despite the executive standoff, the incoming government is almost certain to eviscerate existing environmental policies. The Ministry of Environment has already begun a process of 'de-ideologisation', which includes scrapping its specialised climate protection sections. This pivot suggests that Czechia will present a significant hurdle to the EU Green Deal, as the coalition views current environmental regulations as a threat to industrial competitiveness. Investors should anticipate a period of regulatory friction between Prague and Brussels, as the government moves to prioritise energy-intensive industries over decarbonisation targets.

ESTONIA: PATCHY RECOVERY IN PROSPECT

by Maryna Tverdostup

Following a prolonged period of recession and stagnation, Estonia is set to return to growth.

After an estimated 1.4% in 2025, real GDP growth is projected to strengthen to 2.3% in 2026 and 2.7% in 2027, before moderating to 2.4% in 2028 as the recovery matures. However, growth is expected to remain below the pre-war trend, reflecting the still-weak business confidence and persistent competitiveness constraints.

The recovery is expected to be driven primarily by a gradual improvement in external demand and export performance, with growth led by ICT and business services. Manufacturing and overall goods exports are projected to pick up more slowly, owing to cost pressures and structural competitiveness challenges. Investment should strengthen over the forecast horizon, supported by EU-funded projects and gradually easing financing conditions.

The downside risks remain substantial. Inflation could prove more persistent than expected in the short term, due to tax hikes and regulated price adjustments, which will limit purchasing power and slow the recovery in domestic demand. Geopolitical tensions, weaker-than-anticipated growth in key export markets and renewed trade frictions could also constrain export growth and delay investment decisions.

Over the forecast horizon, fiscal priorities are likely to focus on elevated defence spending and gradual budget consolidation. Defence outlays are expected to remain exceptionally high (above 5% of GDP), reflecting the security environment and regional risks. While the overall direction of economic policy is likely to remain stable, there could be adjustments –depending on coalition dynamics and the government's implementation capacity.

HUNGARY: PRE-ELECTION HAND-OUTS RUINING THE BUDGET

by Sándor Richter

The spectacular take-off envisaged by the government for 2025 did not come about. Data on Q4 suggest that annual GDP growth may have amounted to only 0.3%. Weak foreign demand for vehicles and batteries – flagship sectors of the Hungarian industry – resulted in a contraction of their output. The inauguration of large FDI projects in these sectors has been subject to delay, and initial output in 2026 may turn out to be substantially lower than originally planned. On the production side, growth has been driven by services, and on the demand side by private consumption and inventory accumulation. In the first 11 months of 2025, exports declined while imports increased, despite a considerable improvement in the terms of trade. In 2026 we will witness a year of two halves, with the surge in pre-election handouts fuelling private consumption in H1, followed in H2 by the start of consolidation of the runaway fiscal deficit, which will suppress demand. All in all, real GDP is projected to expand by 2.2% this year.

The result of the general election in April will be decisive for the economy in the coming years.

Our baseline scenario assumes a change of government following the election: the latest opinion polls suggest that the opposition Tisza party has a clear lead over the incumbent Fidesz party of Prime Minister Viktor Orbán. A victory by the opposition may lead to improved relations with the EU, a mobilisation of suspended EU funds and an end to ‘crony capitalism’. These steps are expected gradually to restore the confidence of domestic and foreign investors, resulting in the cheaper financing of public debt and a recovery in investment. By contrast, should Fidesz win the elections, that would mean a continuation of the previous economic course, which has been responsible for stagnation over the past three years.

No matter the election outcome, the runaway deficit will have to be addressed after the election.

So far, fiscal policy has been extremely loose, and the three large credit rating agencies take a negative view of Hungary’s sovereign debt outlook. In the event of an opposition victory, fiscal consolidation could occur as part of a medium-term programme to join the euro area. This would require painful measures; fiscal consolidation under another Fidesz government would be no less uncomfortable but would hold out no prospect of a new growth path. Monetary policy has been tight, which has helped curb inflation and decrease the volatility of the exchange rate, and any easing seems unlikely in H1 2026.

KAZAKHSTAN: FROM OIL-FUELLED BOOM TO SOFTER GROWTH

by Alexandra Bykova

After decade-high economic growth of 6.5% in 2025, the economy is expected to slow this year to 4.5%. The boost from the Tengiz oil field expansion, which lifted oil output by 13.5% in 2025, will be over, while the projected decline in oil prices will reduce exports and budget revenues. The drone damage to the Russian Black Sea oil loading terminal in December led to a significant decline in oil production in January, amidst a shortage of storage capacity and a lack of any real alternative to the current transportation route, which handles 80% of Kazakh oil exports. Besides, recent drone attacks on international tankers waiting for Kazakh oil loading have raised concerns about further disruptions and losses.

The challenges faced by the oil sector mean that investment in the economy as a whole is expected to pick up only moderately this year. However, investment in construction, transport, utilities and manufacturing will grow robustly, thanks to the Middle Corridor development and infrastructure modernisation. It is estimated that state support for diversification of the economy through the national investment company will reach 4.4% of GDP in 2026. Business sentiment in services and manufacturing improved in December but may be affected by January's VAT hike from 12% to 16%. Credit-driven growth in private consumption is likely to soften in 2026 in the face of high interest rates. Over the past three months, inflation has moderated only slightly, reaching 12.5% in December and causing us to revise the CPI forecast upwards. However, the projected gradual easing of inflation should revive consumption and boost GDP growth to 5% in 2027-2028.

The ruling elite is maintaining its hold on power and constitutional reform beckons. President Tokayev's proposal to abolish the Senate and introduce a unicameral parliament and to reinstate the office of vice-president, appointed by the president, is to be voted on in a referendum. Foreign policy remains a balancing act between the major powers. The long-term strategy is to move beyond raw material extraction and attract FDI from the EU, the US, China and Russia into the higher-value-added manufacturing sector, leveraging the competition to access critical raw materials and green energy. However, recent disruptions at the oil terminal and the new sanctions imposed on some Russian oil companies that also operate and invest in Kazakhstan point to increasing downside risks.

The tenge is likely to weaken, given the projected decline in global oil prices and the large current account deficit. The tenge depreciated by 11% against the US dollar in 2025. There was a short-term appreciation in Q3 2025 thanks to portfolio investment inflows. However, since then the tenge had lost 1.7% of its value by mid-January. Due to the recent VAT increase and the expected lifting of price controls on fuel and utilities tariffs in Q2 2026, the policy rate is expected to be cut from the current 18% only by the end of the year.

KOSOVO: STRONG GROWTH MOMENTUM AND RENEWED STABILITY

by Isilda Mara

There has been solid growth amidst the political uncertainty. The economy expanded by 3.5% in Q1-Q3 2025, driven by investment and consumption. Overall growth in 2025 is estimated to have been around 3.8%, which is still lower than in 2024, owing to headwinds arising from both the domestic and the international political climate. Economic activity is expected to accelerate to 4.1% in 2026-2027, owing to strong domestic demand and the end of the political deadlock.

Consumption and investment are driving economic growth. Private and public consumption increased by 5% and 11%, respectively, in Q1-Q3 2025, supported by rising wages and remittances. Besides that, gross fixed capital formation, up 10% in Q1-Q3 2025, will continue to support growth, thanks to rising FDI inflows and public investment projects.

Last year was a politically difficult one, but the parliamentary elections in December marked a turning point. In that round of elections, the Vetëvendosje Movement of Albin Kurti secured more than 51% of the vote. This outcome will restore political stability and policy continuity, ending the political deadlock over the formation of a government.

There is good news concerning the EU stance on Kosovo. The EU sanctions imposed on the country since 2023 started to be lifted in January 2026. This further strengthens the outlook for Kosovo and, together with the restoration of political stability, is expected to have a positive impact on economic performance, which remains among the strongest in the Western Balkan region.

LATVIA: SOLID UPSWING LIES AHEAD

by Sebastian Leitner

More rapid growth lies ahead. Following a period of recession and stagnation in 2023-2024, the Latvian economy started to recover last year, and economic activity is set to pick up pace in 2026. For the medium to long term, we expect further stable growth of about 2.5%.

The main growth drivers in 2026 will be household consumption and investment. Real incomes will continue to rise this year, albeit more slowly than previously, dampened by relatively high inflation, which we expect to average 3%. Household demand will nevertheless recover more quickly both in 2026 and over the medium term, reflecting more positive household sentiment. Following a strong upswing in public investment last year, funded in significant part by the NextGenerationEU programme, investment growth will slow this year and in 2027. A further expansion in loans to businesses and households will also support private-sector investment and residential construction. At the same time, export growth will remain quite weak as external demand will gain momentum only gradually, following the ongoing industrial recovery in the EU.

The political landscape is so far proving stable. The policy priorities of the coalition of the centre-left and the centre-right that has been governing since September 2023 are straightforward: to finance additional defence expenditure and return to a stable growth path, despite the increased economic costs of further decoupling from Russia, particularly in the field of energy. In addition, the integration of Ukrainian refugees and of the large Russian-speaking minority in Latvia is of major importance. Parliamentary elections scheduled for autumn 2026 could result in the political landscape shifting further to the populist right.

LITHUANIA: ECONOMIC RECOVERY CONTINUING AT A DECENT PACE

by Sebastian Leitner

Economic recovery is continuing at a decent pace. Following a recovery in 2024, the Lithuanian economy grew satisfactorily last year, with the wind set fair for 2026. Lithuanian firms have started to replenish their stocks, which will result in increased gross capital formation. For the medium to long term, we expect stable GDP growth of about 2.5%.

Both household consumption and investment are gaining momentum. Over the past two years, household consumption has returned to growth, increasing by more than 3% a year. Retail trade figures in recent months suggest that we will see an even stronger upswing throughout 2026, thanks to increasing real household income. Investment growth will mainly be driven by public investment, although credit demand from the private sector has also risen considerably in recent quarters. At the same time, after strong export growth last year, demand from Lithuania's main trading partners has weakened of late.

The political landscape has changed lately, with a coalition led by the Social Democrats coming to power. Parliamentary elections in October 2024 brought the expected swing from centre-right to centre-left. However, the new government lasted for less than a year, with Prime Minister Paluckas having to resign over corruption scandals. In September 2025, another coalition administration led by the Social Democrats was formed, with both the centrist Lithuanian Farmers and Greens Union and the right-wing nationalist Dawn of Nemunas. The new coalition must tackle the issues of how to finance substantially increased defence spending (more than 5% of GDP both this year and next) and further decouple the country's economy from Russia.

MOLDOVA: A RETURN TO GROWTH

by Gábor Hunya

Growth has resumed, thanks to the good weather. After stagnating in H1 2025, GDP grew by 5.2% in Q3 year on year; that makes 2% for Q1-Q3. Value added in agriculture grew by 15% in Q3 year on year, contributing 2.1 percentage point (pp) to GDP growth, and construction grew by 8.3%, which contributed 0.8pp. Good weather allowed for abundant crop yields, which boosted food production and exports. An inflow of foreign financing, both aid and credit, fuelled investment. The energy supply stabilised after the supply shock of January 2025. Meanwhile, the country has gained independence from Russian gas imports. It is investing heavily in new interconnections with the EU, as well as in renewable energy. Economic growth is set to strengthen in 2026. Investment will increase, financed by cheap credit and donations, including the EU's EUR 1.9bn Reform and Growth Facility (3.5% of GDP annually for three years). The performance of agriculture – which is heavily dependent on the weather – is a downside risk to the forecast.

Voters confirmed Moldova's pro-EU path in the parliamentary elections of 28 September 2025.

The pro-EU Party of Action and Solidarity (PAS) will be in power for another four years and will be tasked with steering the country toward EU accession. Reform may speed up, and the absorption of EU funds could accelerate. However, Russia will continue to try to erode the legitimacy of institutions, deepen social division and undermine pro-EU reforms. EU membership by 2030 seems overambitious, given the cumbersome accession process and the fact that Moldova's membership is officially tied to Ukraine's. Accession negotiations are only about to start and will include difficult chapters, such as agriculture and rule of law.

The National Bank of Moldova (BNM) responded promptly to the inflation cycle. The policy rate peaked at 6.5% in February 2025, before being trimmed in several steps to 5% in December. Although the policy rate has been negative in real terms all this time, the overnight lending rate – which is 2pp higher – has mostly been above consumer price inflation. As inflation is set to decline further, rate cuts should follow in H1 2026. The relative stability of the local currency, which is driven by strong foreign exchange inflows, has had an anti-inflationary effect.

MONTENEGRO: FISCAL RISKS AHEAD AS EU NEGOTIATIONS NEAR COMPLETION

by Marko Sošić

Economic growth is set to stay moderate rather than accelerate. After an estimated 3.3% in 2025, we expect a continuation of steady growth of slightly above 3% over 2026-2028. Growth is mainly driven by private consumption, helped by solid wage rises and a still-strong labour market. Investment and infrastructure development should contribute as well, although slow procedures render them unreliable for planning. Exports are weak, tourism is stagnating, and public spending is on an upward trajectory, with the health and pension funds requiring significant subsidies to remain operational.

Labour-market conditions remain supportive. However, employment growth – including the formalisation of previously informal jobs – is not as strong as in the previous four years. Unemployment is forecast to be 9.5% in 2026 and is projected to stabilise at around that level thereafter. Wage and pension gains linked to redistribution measures (Europe Now in 2021 and 2024) are still underpinning private consumption. As there is no fiscal space for new major redistribution programmes, inflation is projected to ease gradually, from 4.1% in 2025 to 3.6% in 2026, 3.4% in 2027 and 2.7% in 2028.

External and fiscal balances continue to be the key vulnerability. The current account deficit is projected to remain wide in 2026-2028, consistent with an import-heavy demand model and ongoing reliance on external financing. On the fiscal side, the deficit is expected to persist and to widen slightly, which is reflected in the projected growth of public debt. Numerous large infrastructure intergovernmental memorandums of understanding that were signed in 2025 and announced for 2026 (most outside standard procurement) continue to raise concerns about transparency, value for money and potential fiscal risks.

EU membership remains the strategic anchor of the government. Its plan is to complete the negotiating phase in 2026 (with 12 out of the 33 acquis chapters closed already), an ambition the European Commission publicly supports, while stressing that ‘the most difficult part’ still lies ahead, particularly in terms of meeting the rule-of-law benchmarks. The government’s stability at the central level and in the capital is continuously challenged, but it persists nonetheless.

NORTH MACEDONIA: HEADLINE GROWTH IMPROVES, BUT QUALITY DOES NOT

by Branimir Jovanović

Growth has turned out to be stronger than we had expected. Real GDP increased by 3.8% in Q3 2025, and we now estimate full-year growth at 3.4%. This is still not enough to close the gap on EU living standards, but it is clearly above our earlier forecast of 3% for 2025. As a result, we are revising our growth projections for 2026-2028 upwards, to around 3.3%.

Despite the solid headline growth, its composition has been much less encouraging. Construction has been the main driver, rising 21% year on year in Q3, lifting real gross investment growth to 31%. With weak FDI inflows and limited government capital spending, this has largely come from residential construction projects, which have hardly any societal benefits, given the large stock of empty dwellings and the high pollution in the major cities. The performance of other sectors and final demand components has been much less impressive.

Inflation remains stubborn. Since June it has stayed at above 4%, following the government's decision to end the price controls that had earlier been in place. Inflation averaged 4.1% in 2025, and we expect it to remain elevated in 2026 as well, at around 3.8% on average.

There is nothing new on the political scene. The ruling coalition won the local elections in November convincingly, consolidating its position and likely emboldening it to maintain the current course – implying no major changes either domestically or in terms of EU accession.

POLAND: DOMESTIC DEMAND SUPPORTING SOLID GROWTH

by Maciej Grodzicki

Economic growth remains robust, supported by disinflation and resilient domestic demand. In Q3 2025, real GDP expanded by 3.8% year on year, and full-year growth is estimated to have been 3.5%. Growth was driven by domestic demand, in particular public investment and household consumption. Retail sales grew by around 4%, supported by improved consumer confidence that reached its highest level since 2019. This good showing compensated for slower growth in export-oriented manufacturing. In 2026, the expected normalisation of the household saving ratio (after last year's record-high level) in the wake of lower interest rates should further boost private consumption. We expect a mild acceleration in GDP growth to 3.7% in 2026, driven by private consumption and investment related to large infrastructure projects.

Political tension between the president and the government continues, but the impact on the economy is only limited. It largely affects areas other than economic policy. More relevant for the economy is the current uncertainty over the inflow of EU funding. The government has stepped back from certain commitments made to the European Commission, notably regarding a milestone of the country's Recovery and Resilience Plan that would expand the State Labour Inspection's authority to convert civil-law contracts into standard employment contracts. This has led to renewed negotiations, both within the governing coalition and with the European Commission.

Disinflation has enabled a cautious easing of monetary policy. The policy rate was reduced from 5.75% in early 2025 to 4.0% in December, and further modest cuts remain possible in H1 2026. Later in the year, inflation is projected to pick up slightly, resulting in a more stable monetary policy stance. A balanced current account, together with Poland's continued attractiveness to portfolio investors (as evidenced by strong demand at recent government bond auctions), should bring further stability to the exchange rate.

ROMANIA: OUTLOOK DEPRESSED BY FISCAL AUSTERITY

by Gábor Hunya

Delays to fiscal consolidation allowed for a temporary improvement in 2025. Economic growth picked up in Q3, so that GDP was 1.5% higher in Q1-Q3 2025 than a year before. The main driver of growth was investment, especially in roads and buildings. A recovery in agricultural production, a slight improvement in manufacturing and better access to EU funds acted on the positive side. The tax hikes and subsidy cuts introduced as of August 2025 and the subsequent jump in inflation depressed household consumption but have improved the foreign trade balance. Real wages fell below the level of the previous year in Q3, not least due to a freeze of public-sector wages.

Economic growth will subside in 2026. Fiscal consolidation measures will bite deeper; household consumption will decline. Hikes in excise taxes and cuts in energy subsidies will prolong the period of high inflation. The annual adjustment to the minimum wage will take place only in mid-2026, thus real wages are set to decline. The current economic confidence index is negative, except for in manufacturing, where it is stable. Meanwhile the government is delaying the streamlining of public administration and the passage of the government budget for the current year.

There is political stability, albeit fragile. The delays to the reforms signal major disagreements within the four-party coalition government. While all partners are pro-EU, aligned against the extreme right, each is striving to maintain the support of its electorate – a tough job at a time of shrinking household income. The commitment to reform by the Social Democratic Party (PSD), the largest member of the coalition, is faltering. At the same time, the austerity measures implemented thus far could prove insufficient to reduce the fiscal deficit to 6% of GDP in 2026 – a commitment made to the EU. A significant deviation from the fiscal stabilisation path would constitute a major challenge to financial stability and could threaten the availability of EU funds.

Monetary policy has hardly reacted to inflation. This averaged close to 10% in H2 2025, after energy subsidies were reduced and VAT rates increased. Given the elevated short-term outlook for inflation, the National Bank of Romania (BNR) has kept the policy rate stable; cuts are expected only in H2 2026. The exchange rate is fluctuating more than before, with a depreciating trend.

RUSSIA: ANOTHER YEAR OF NEAR-STAGNATION IN PROSPECT

by Vasily Astrov

After two years of economic boom in 2023-2024, in 2025 the economy cooled steadily to reach stagnation by the end of last year. After 1.2% in H1 2025 (year on year), real GDP picked up by a mere 0.6% in Q3 and was probably stagnant in Q4. All in all, growth for the full year slowed to an estimated 0.7%, mostly due to the weakening of domestic demand. In the first 11 months, retail trade turnover increased by 2.5% and the volume of paid services by 2.7% (compared to 8% and 4.3%, respectively, in the same period of 2024), while gross fixed investment rose by only 0.5% in the first nine months (compared to 9% in the same period of 2024). Economic stagnation was also reflected in last year's downturn in such key sectors as electricity production (-1.1%), rail freight transport (-5.6%) and steel output (-4.6%). Overall industrial production grew by 0.8% in the first 11 months, but that was mostly thanks to the production of weapons and ammunition. The three manufacturing industries with a large share of military production – 'computers, electronic and optical products', 'fabricated metal products except machinery and equipment' and 'other transport vehicles and equipment' – expanded by 13%, 13.9% and 29.5%, respectively, the last of these thanks to a boom in the production of drones.

Economic stagnation has primarily been the result of very tight monetary conditions aimed at taming inflation, but policy will gradually be loosened this year. Up until June 2025, the policy rate was held at as much as 21%, providing a strong incentive to save rather than spend, while high borrowing costs curbed credit expansion. The annual growth of corporate lending slowed sharply, while that of retail credit turned negative, affecting demand for housing and consumer durables, notably cars (-15% in 2025). On a positive note, by the end of 2025 inflation had slowed to 5.6% (from over 10% at the beginning of the year), allowing cautious rate cuts, to 16% by December. Although disinflation will continue this year (allowing further policy loosening), its pace will initially be hampered by the recent increase in VAT from 20% to 22% as of 1 January.

The rouble has been very strong so far, but will likely weaken this year. Over the course of 2025, the rouble appreciated by 31% against the US dollar and by 28% against the Chinese yuan (in nominal terms), hampering export competitiveness and suppressing the value of government energy revenues in rouble terms. However, this year gradual monetary loosening and a further decline in oil prices will likely exert downward pressure on the rouble in the baseline scenario (which assumes a continuation of the war in Ukraine). Having said that, the exchange rate – and the financial market more generally – have lately been extremely sensitive to geopolitical news. Should the Trump-mediated peace deal in Ukraine finally materialise and US-Russia relations improve as a result, the rouble will most probably remain strong or may even appreciate further.

In the baseline scenario, growth is expected to accelerate only slightly, to 1-1.5% a year, mostly due to the marginally positive effects of monetary easing. However, with real interest rates still strongly positive, military spending plateauing and import substitution arguably approaching its limits, a marked growth acceleration is not in sight. Besides, oil prices will likely remain subdued, owing to both the global supply glut and the effects of Western sanctions. Although the huge price discount on Russian oil – \$20-25 per barrel in the wake of new US sanctions last October – has since narrowed considerably, the risks related to the capture of 'shadow fleet' vessels have arguably risen. The main risk to the baseline scenario is the conclusion of a peace deal in Ukraine. In the short run, this would represent a

negative shock to the economy, as military spending (particularly payments to mercenaries) would be cut, affecting private consumption and investment. However, it would also open up the possibility of having the US sanctions lifted, which would ease Russia's access to badly needed US technologies and improve its outlook for modernisation in the medium and long run.

SERBIA: STILL WAITING FOR THE RESET

by *Branimir Jovanović*

Economic growth remains anaemic, largely due to weak FDI inflows. Real GDP is estimated to have grown by 2% in 2025, in line with our forecast and well below the 3.9% recorded a year earlier. The slowdown reflects, above all, a sharp fall in FDI inflows – down by roughly a third on the previous year. This decline has been visible across much of the Western Balkans and is likely linked to heightened global uncertainty and erratic policies across the ocean. However, it affects Serbia more than other countries of the region due to its heavy reliance on FDI as the main engine of growth.

The political crisis is continuing, although there is finally some light at the end of the tunnel. The president has announced that elections will be held at some point in 2026, and we expect these to be in September or October. While the student-led protests have lost some of their intensity, the struggle has shifted to the institutional arena. The students plan to have their own list in the next election, and most independent polls currently put them ahead of the ruling coalition. We therefore expect political change in late 2026, with shifts in economic policy starting to materialise in 2027.

Even though a new government is still some way off, certain contours of its economic agenda can be sensed. The drive to attract FDI, strong public infrastructure investment and pragmatic ties with China are likely to remain. At the same time, policy may become more supportive of domestic firms, take a more EU-oriented stance and place greater emphasis on pro-social measures.

Against this backdrop, we now forecast GDP growth of around 2.8% in 2026. This is a clear downward revision from our previous projection of 3.5%, reflecting the continuation of the political crisis and the fact that any policy reset – and the 'fresh air' from political change – is unlikely to be felt before 2027. After that, we expect growth to strengthen to 3.6% in 2027 and 4% in 2028.

SLOVAKIA: FISCAL CONSOLIDATION CONTINUING TO DAMPEN GROWTH PROSPECTS

by Doris Hanzl-Weiss

In 2025 GDP growth in Slovakia was rather subdued. The latest growth data show a slightly better result for Q3 2025 (0.9% year on year) than for Q1 and Q2 (0.8% and 0.5%, respectively). Overall, slowing household demand, public expenditure and investment provided a modest stimulus to growth during the first three quarters of the year, while exports and imports grew at the same pace, resulting in a neutral contribution of net exports to GDP growth. Towards the end of the year, industrial production declined further, partly due to a downturn in the important automotive industry, and retail sales dropped substantially.

The outlook for 2026 remains modest and is affected by ongoing fiscal consolidation. The new year began with an improvement in economic sentiment across the board, except in the services sector. In December 2025, industry already recorded a marked improvement in business confidence, including in the automotive sector. Growth prospects for this year, however, continue to be affected by ongoing fiscal consolidation. Household consumption will grow only modestly, although the inflow of EU funds will have a positive effect. Regarding external factors, uncertainties surrounding global trade developments persist, although Germany's recovery could provide some support. Prospects are expected to improve significantly from 2027 onwards, when the new Volvo plant is expected to reach full production capacity and boost exports. In addition, the 2027 parliamentary elections will put a brake on fiscal consolidation and household consumption will recover.

Politics is a key risk factor. Political developments remain a major cause for concern. Recent trends under the government of Prime Minister Fico have raised concerns over the rule of law and freedom of the press. The latest incidents include the signing of controversial amendments to the Criminal Code by President Pellegrini and the government's plan to abolish the office responsible for protecting whistleblowers.

SLOVENIA: ECONOMIC RECOVERY BUT MOUNTING PRE-ELECTION SPENDING RISKS

by Niko Korpar

After a slowdown in 2025, GDP growth is expected to accelerate to 2% in 2026, partly supported by favourable base effects. The acceleration will be predominantly domestic driven. Government spending will rise, marking the peak of the infrastructure investment cycle and reflecting strong absorption of EU Recovery and Resilience Facility funds. Private consumption is expected to rise moderately after what was a very sluggish 2025, despite higher earnings. Private investment is projected to resume, albeit at modest rates. Exports will again contribute positively to growth as foreign demand recovers gradually. Industrial production is forecast to increase by 2.3%. While the cyclical trough has likely been reached, energy-intensive industries will recover only slowly due to competitiveness losses linked to rising labour costs. Continued labour-market tightness will act as a constraint on growth in the services sector. In 2027, growth is expected to edge up to 2.2% on the back of a further recovery in the euro area.

Parliamentary elections are scheduled for late March 2026 and are likely to be tightly contested. The business community and small business owners have turned against the government following increases in taxes and social contributions. A late proposal for a significant minimum wage increase has further escalated the standoff. However, voters may yet reward the current government for rising earnings and improved social care for the elderly. A rightwards shift, again led by the far-right figure Janez Janša, remains a possibility and could once more push Slovenia into the Trump–Orbán–Meloni orbit. Ultimately, the formation of any new coalition will hinge on smaller parties, whose support is currently hovering near the parliamentary threshold.

Interest-rate stability and an improvement in business confidence will lead to a modest expansion of credit and investment. In 2026–2027, the interest-rate outlook is expected to improve gradually. Demand for credit will recover in 2026, but investment activity will remain subdued, as foreign demand is likely to recover only slowly. Private investment is projected to pick up only gradually, as elevated cost pressures, lingering geopolitical uncertainty and vulnerable corporate balance sheets will constrain the appetite for risk.

TURKEY: GROWTH RESILIENT DESPITE HIGH INFLATION

by Meryem Gökten

Economic activity has so far remained resilient, despite high inflation, tight monetary policy and weak external demand. In 2025, the main drivers of growth were household consumption and investment. Despite some loss of momentum, in Q3 real GDP grew by 3.7% year on year and 1.1% quarter on quarter. Household consumption increased by 4.8% year on year and investment rose by 11.7%, while net exports weighed on growth, as exports fell by 0.7% and imports rose by 4.3%. High-frequency indicators, including the PMI, consumer confidence, retail sales and industrial production, improved, suggesting that solid growth will have been sustained into Q4 as well. Over the forecast horizon, a loosening of monetary policy, combined with increased fiscal spending ahead of the likely 2027 general election and improved external demand, particularly from the EU, is likely to boost economic activity significantly. We expect GDP growth to accelerate over the forecast period, rising from 3.9% in 2026 to 4.4% in 2027 and 4.6% in 2028.

The geopolitical risks in Turkey's neighbourhood are rising, with popular unrest in Iran, renewed internal conflict in Syria and increased tension with Israel. On the defence side, Turkey is distancing itself from Russia by requesting the return of the S-400 systems, taking the lead in the Black Sea mission under Ukraine's security guarantees, and receiving an EU defence attaché for the first time. On the other hand, the risk of losing President Trump's goodwill is rising, as recent developments place Turkey in a politically awkward position – not least President Erdoğan's close ties with Venezuela's Nicolás Maduro and Ankara's recent stance on Iran. The country will most likely hold an early vote in 2027, either a general election or a referendum to allow President Erdoğan to run again (under the current constitution, he is limited to two full terms), with rising geopolitical tensions in the region likely to shape the electoral narrative in his favour.

Inflation remains stubbornly high. In 2025, disinflation proceeded more slowly than expected due to the domestic turmoil, deteriorating inflation expectations and strong household demand. As a result, inflation reached 30.9% in December and is likely to remain stubbornly high over the forecast horizon, as the pre-election cycle is expected to prompt more rapid rate cuts and increased fiscal spending. The central bank has already cut the rate by 800 basis points since June, bringing it to 38%. The exchange rate is expected to weaken amid high inflation and lower interest rates over the forecast horizon.

UKRAINE: WORSENING OUTLOOK AMID MASSIVE MISSILE ATTACKS BY RUSSIA

by Olga Pindyuk

The outlook is worsening. In 2025 the growth of Ukraine's economy slowed to about 2%, compared to 3.2% in 2024. The main factors behind the sluggish dynamics were the country's poor export performance following the bad harvest of 2024, massive missile attacks by Russia (which led to the destruction of infrastructure and production facilities) and a severe electricity shortage at the end of the year, as well as the continued labour shortage. The key growth factors were fiscal stimulus and robust consumer demand on the back of strong wage growth amidst a slowdown in inflation. As the chances of a ceasefire or armistice in the near future are very low, we expect the war with Russia to drag on throughout 2026-2028. Therefore, we have downgraded our GDP growth forecast for 2026 to 2.5% and forecast only a slight acceleration in 2027-2028 to 3.5% and 4%, respectively. Economic growth will be further supported by private consumption and government spending on infrastructure, public and private investment in arms production, and additionally by recovering exports.

Ukraine will continue to require extensive military and macro-financial assistance from its allies in the next three years. The EU agreed in December 2025 to jointly raise EUR 90bn of debt to lend to Kyiv, after a plan to use frozen Russian assets to fund a 'reparations loan' fell apart at the last moment. EUR 60bn is earmarked for military spending, with the remaining EUR 30bn allocated to budget support. The loan will cover roughly two thirds of Ukraine's financing needs for 2026-2027, and the country will not have to pay it back – except in the improbable event that Russia pays reparations to Ukraine after the war. Japan and Canada pledged new financial support worth USD 6bn and USD 1.8bn, respectively.

Inflation decelerated significantly in H2 2025 and is expected to continue to slow. Inflation concluded 2025 at 8.0% year on year, significantly better than forecast. A fall in food prices after 2025's good harvest was one of the main reasons behind the slowdown. However, inflation risks remain high due to the war, and so in December the National Bank of Ukraine decided to maintain the policy rate at 15.5%.

Additional risks to the economy are linked to the possibility of a weakening of institutions and to the progress of reform. In 2025, Kyiv failed to implement more than ten conditions required by the EU's Ukraine Facility, including changes to the court system and reform in the energy sector. If these conditions are not met soon, the country could forfeit EUR 4bn in EU funds.

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