

JULY-AUGUST 2025

## Monthly Report

### Summer Forecast Update

## Resilience tested by yet another external shock

### Economic Forecasts for Eastern Europe for 2025-27





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## Executive summary

**The CESEE region enters the summer of 2025 amid yet another potential crisis – military conflict between Israel/the US and Iran.** Although the immediate fallout has been limited and oil prices have spiked only moderately, the risk of escalation remains. A broader regional conflict involving major powers could cause serious disruption to oil flows and global economic growth, which would in turn affect CESEE through the region's profound industrial linkages and export dependence.

**Despite the external uncertainty, the CESEE economies are continuing to outperform Western Europe.** For 2025, regional GDP is forecast to grow by 2.6%, compared to 0.7% for the euro area. Growth is expected to rise to 2.8% in 2026, again well ahead of the euro area. This resilience is driven by strong domestic fundamentals: tight labour markets, rising real wages, robust investment supported by EU funds and FDI, and steady government spending. However, exports remain vulnerable to weak German demand and further global slowdowns.

**The outlook for growth is increasingly divergent across the region.** In EU-CEE, Poland, Lithuania, Croatia and Bulgaria are the leading performers, benefiting from stable consumption and strong investment. By contrast, Hungary, Romania and Slovakia are struggling with fiscal tightening and sluggish domestic demand. Ukraine and Moldova face severe external and internal shocks – energy crises, war-related destruction and inflation – which drag their growth prospects down significantly. The Western Balkan economies are doing quite well, but several face significant political risks that could impact growth. Turkey is looking at slower growth amid the political turmoil and high interest rates. Within the CIS3, Kazakhstan remains a bright spot, with economic growth driven by energy and construction. Russia's economic momentum is weakening, with growth down to 1.6% in the early months of 2025, largely due to tight monetary policy and declining oil revenues. Belarus continues to defy expectations with fiscal and wage-driven growth, but rising deficits and inflation may weigh on its prospects.

**An emerging concern is the difficult fiscal position in some EU-CEE countries.** Many are now entering multi-year consolidation phases following years of high deficits, especially in Romania, Poland and Slovakia. While the financial markets remain calm for now, sustained deficits could challenge stability if growth falters. Public spending remains elevated due to post-COVID expansion, defence commitments and an ageing population, while high interest rates are increasing debt-servicing costs.

**Despite these pressures, the financial markets and ratings agencies remain relatively calm, thanks to the region's continued growth.** However, structural challenges – especially in German industry – and political uncertainty across CESEE could jeopardise the recovery. Concern over what might be expected of the second Donald Trump presidency is generating volatility, though direct trade effects on CESEE are expected to be limited. Political developments in countries like Romania, Poland and Serbia could reshape economic policy quickly, adding to the already high degree of uncertainty.

**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

**JEL classification:** E20, E21, E23, E24, E31, E5, E62, H60, J20, J30, O47, O52, O57, P24, P27, P52

# CONTENTS

Executive summary .....	V
Summer 2025 interim forecast update .....	11
1. Global outlook: War in the Middle East will have limited fallout for CESEE .....	14
2. Regional outlook: Downward revisions, but still resilient; fiscal challenges looming .....	16
3. Country updates.....	24
Albania: FDI inflows and tourism remain key to sustaining growth momentum .....	25
Belarus: Authorities struggle to counter slowdown in growth .....	25
Bosnia and Herzegovina: Modest economic growth amidst sticky inflation .....	26
Bulgaria: Euro adoption now well on track.....	26
Croatia: Growth momentum slows amid global and domestic headwinds .....	27
Czechia: Guarded optimism in uncertain times .....	27
Estonia: Acceleration in growth ahead, amid challenges.....	28
Hungary: So far from a ‘flying start’ – the stumbling continues .....	28
Kazakhstan: Resilient to external and domestic headwinds .....	29
Kosovo: Solid growth, despite delayed government formation .....	29
Latvia: Revival in a time of rising insecurity .....	30
Lithuania: Defence expenditure helping to maintain a high rate of growth.....	30
Moldova: Stagnation ahead .....	31
Montenegro: Downturn in tourism threatens fragile growth .....	31
North Macedonia: Better than expected, but still far from good .....	32
Poland: Growth holds steady .....	32
Romania: New government to implement austerity measures.....	33
Russia: Tight monetary policy taking its toll on the real economy.....	33
Serbia: The slow turn of the tide .....	34
Slovakia: Uncertainty weighing on growth prospects.....	34
Slovenia: Early signs point to a year of lacklustre growth .....	35
Turkey: Weakening economic activity and deepening political unrest .....	35
Ukraine: Facing increasing headwinds .....	36
4. Index of subjects – July-August 2024 to July-August 2025 .....	37

## TABLES AND FIGURES

Table 1 / OVERVIEW 2023-2024 AND OUTLOOK 2025-2027 .....	11
Table 2 / Policy rate and exchange rate for selected CESEE countries: overview 2023-2024 and outlook 2025-2027 .....	13
Table 3 / wiiw summer 2025 global assumptions.....	15
Table 4 / Real GDP growth forecasts and direction of revisions since wiiw Spring 2025 Forecast Report .....	17
Table 5 / CPI growth forecasts and direction of revisions since wiiw Spring 2025 Forecast Report.....	18
Figure 1 / Real GDP growth, %.....	16
Figure 2 / Fiscal balance, % of GDP (left-hand side) and public debt, % of GDP (right-hand side) .....	21
Figure 3 / 10-year bond yield, difference versus German, percentage points .....	22

Cut-off date for historical data and forecasts: 13 June 2025. 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

# Summer 2025 interim forecast update

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

		GDP					Consumer prices					Unemployment (LFS)				
		real change in % against prev. year					average change in % against prev. year					rate in %, annual average				
		2023	2024	Forecast			2023	2024	Forecast			2023	2024	Forecast		
				2025	2026	2027			2025	2026	2027			2025	2026	2027
BG	Bulgaria	1.9	2.8	2.3	2.5	2.7	8.6	2.6	3.3	2.4	2.2	4.3	4.2	4.3	4.2	3.9
CZ	Czechia	-0.1	1.1	2.0	2.4	2.7	12.0	2.7	2.1	2.0	1.6	2.6	2.6	2.6	2.6	2.6
EE	Estonia	-3.0	-0.3	1.5	2.0	2.5	9.1	3.7	5.5	4.6	3.2	6.4	7.6	7.2	6.4	5.8
HR	Croatia	3.3	3.9	2.9	2.8	2.7	8.4	4.0	3.5	2.9	2.8	6.1	5.0	4.9	4.9	4.8
HU	Hungary	-0.8	0.5	0.7	2.2	2.0	17.0	3.7	5.0	4.5	3.5	4.1	4.5	4.2	4.0	4.5
LT	Lithuania	0.3	2.8	2.8	2.6	2.4	8.7	0.9	3.5	2.5	2.5	6.9	7.1	6.9	6.6	6.3
LV	Latvia	2.9	-0.4	1.5	2.1	2.3	9.1	1.3	3.4	2.7	2.5	6.5	6.9	6.9	6.5	6.1
PL	Poland	0.2	2.9	3.5	3.5	3.0	10.9	3.7	4.2	3.0	2.5	2.8	2.9	2.9	2.7	2.7
RO	Romania	2.4	0.8	1.2	2.3	3.0	9.7	5.8	5.1	4.5	3.8	5.6	5.4	5.5	5.4	5.0
SI	Slovenia	2.1	1.6	1.6	2.3	2.4	7.2	2.0	2.1	2.0	2.0	3.7	3.7	3.6	3.5	3.5
SK	Slovakia	2.2	2.1	1.4	2.0	2.4	11.0	3.2	3.9	2.8	2.5	5.8	5.3	5.6	5.5	5.4
EU-CEE11 <sup>1/2)</sup>		0.9	1.9	2.3	2.8	2.8	11.0	3.7	4.0	3.2	2.7	4.1	4.1	4.1	3.9	3.8
AL	Albania	3.9	4.0	3.7	3.9	4.0	5.3	2.6	2.7	2.5	2.4	9.5	8.6	8.4	8.3	8.2
BA	Bosnia and Herzegovina	2.0	2.5	2.4	2.8	3.2	6.1	1.7	2.5	2.0	1.8	13.2	12.6	12.3	11.9	11.5
ME	Montenegro	6.3	3.0	3.2	3.3	3.2	8.7	3.6	3.3	2.5	2.8	13.1	11.5	11.0	10.6	10.2
MK	North Macedonia	2.1	2.8	2.6	2.8	3.0	9.0	4.2	3.8	3.3	2.8	13.1	12.4	11.6	10.8	10.0
RS	Serbia	3.8	3.9	3.0	4.0	4.0	12.1	4.8	4.2	3.5	3.0	9.5	8.6	8.3	7.9	7.5
XK	Kosovo	4.1	4.4	3.9	3.9	4.1	4.9	1.6	2.2	2.0	2.0	10.9	10.8	10.7	10.6	10.5
WB6 <sup>1/2)</sup>		3.5	3.5	3.0	3.6	3.7	9.1	3.6	3.5	2.9	2.6	11.0	10.0	9.7	9.3	8.9
MD	Moldova	1.2	0.1	0.9	3.0	3.5	13.4	4.7	8.0	5.0	4.0	4.6	4.0	4.0	3.5	3.5
UA	Ukraine	5.5	2.9	2.5	4.0	5.0	12.9	6.5	12.5	8.0	7.0	20.0	14.0	12.0	10.0	9.0
New EU accession 2 <sup>1/2)</sup>		5.2	2.7	2.4	3.9	4.9	12.9	6.4	12.2	7.8	6.8	19.2	13.5	11.6	9.7	8.7
TR	Turkey	5.1	3.2	3.4	4.0	4.5	54.0	58.5	35.0	24.0	14.0	9.4	8.7	9.0	9.0	8.8
BY	Belarus	4.1	4.0	2.3	1.4	1.4	5.1	5.7	8.0	6.0	6.0	3.5	3.0	3.0	3.1	3.1
KZ	Kazakhstan	5.1	4.8	5.0	4.5	4.5	14.5	8.7	11.0	9.0	7.0	4.7	4.7	4.6	4.6	4.6
RU	Russia	4.1	4.3	2.0	1.8	1.7	5.9	8.4	8.9	5.1	4.4	3.2	2.5	2.3	2.2	2.2
CIS3 <sup>1/2)</sup>		4.2	4.3	2.3	2.1	2.0	6.7	8.3	9.1	5.5	4.7	3.3	2.8	2.6	2.5	2.5
V4+SI <sup>1/2)</sup>		0.3	2.1	2.6	3.0	2.7	11.8	3.4	3.8	3.0	2.5	3.3	3.3	3.3	3.2	3.2
BALT3 <sup>1/2)</sup>		0.3	1.2	2.2	2.3	2.4	8.9	1.6	3.9	3.0	2.7	6.6	7.1	7.0	6.5	6.1
EU-SEE3 <sup>1/2)</sup>		2.4	1.6	1.6	2.4	2.9	9.3	4.9	4.5	3.9	3.4	5.4	5.1	5.1	5.1	4.7
EU accession 8 <sup>1/2)</sup>		4.6	3.0	2.6	3.8	4.5	11.5	5.3	8.9	6.0	5.2	16.8	12.4	11.0	9.6	8.8
non-EU12 <sup>1/2)</sup>		4.5	3.9	2.7	2.8	2.9	20.9	22.6	16.6	10.9	7.4	7.0	5.8	5.5	5.2	5.1
CESEE23 <sup>1/2)</sup>		3.5	3.4	2.6	2.8	2.9	18.2	17.5	13.2	8.8	6.2	6.3	5.3	5.1	4.9	4.8
EA20 <sup>3)</sup>		0.5	0.9	0.7	1.4	1.5	5.4	2.4	2.2	2.0	2.0	6.6	6.4	6.5	6.5	6.5
EU27 <sup>3)</sup>		0.5	1.0	0.9	1.6	1.7	6.4	2.6	2.4	2.2	2.2	6.1	5.9	5.9	5.9	5.9

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). -

3) Forecasts estimated by wiiw.

Note: Consumer prices refer to HICP for EU-CEE countries, Turkey and WB6 countries except for Bosnia and Herzegovina.

Source: wiiw, Eurostat. Forecasts by wiiw. Cut-off date for historical data and forecasts: 13 June 2025.

Table 1 / OVERVIEW 2023-2024 AND OUTLOOK 2025-2027 (contd.)

		Current account					Fiscal balance				
		in % of GDP					in % of GDP				
				Forecast					Forecast		
		2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
BG	Bulgaria	-0.9	-1.8	-2.1	-1.1	-0.5	-2.0	-3.0	-3.0	-3.0	-3.0
CZ	Czechia	-0.1	1.8	1.8	1.6	1.5	-3.8	-2.2	-2.4	-1.9	-1.8
EE	Estonia	-1.7	-1.1	-0.9	-0.5	0.3	-3.1	-1.5	-3.6	-3.0	-2.5
HR	Croatia	0.7	-1.2	-0.5	-0.4	0.2	-0.8	-2.4	-2.2	-2.0	-1.9
HU	Hungary	0.3	2.2	1.5	1.7	1.8	-6.7	-4.9	-5.3	-5.3	-4.0
LT	Lithuania	1.1	2.5	2.7	2.2	1.9	-0.7	-1.3	-2.7	-2.6	-2.5
LV	Latvia	-3.9	-2.1	-2.9	-3.6	-4.5	-2.4	-1.8	-3.2	-2.9	-2.6
PL	Poland	1.8	0.2	-1.0	0.1	1.0	-5.3	-6.6	-5.9	-4.6	-4.3
RO	Romania	-6.6	-8.4	-8.2	-7.5	-6.5	-6.6	-9.3	-7.5	-6.4	-5.5
SI	Slovenia	4.5	4.4	3.5	4.1	4.9	-2.6	-0.9	-2.1	-2.0	-1.9
SK	Slovakia	-0.9	-2.8	-3.5	-2.8	-2.3	-5.2	-5.3	-4.9	-4.2	-4.0
EU-CEE11 <sup>1)2)</sup>		-0.4	-0.9	-1.5	-0.9	-0.3	-4.7	-5.3	-5.0	-4.2	-3.8
AL	Albania	-1.2	-2.4	-2.6	-2.7	-2.7	-1.3	-0.7	-2.0	-1.8	-1.5
BA	Bosnia and Herzegovina	-2.3	-4.2	-4.8	-4.9	-4.9	-1.2	-0.5	-0.7	-1.0	-1.0
ME	Montenegro	-11.4	-17.3	-16.0	-15.0	-14.0	0.6	-3.1	-2.5	-2.7	-2.3
MK	North Macedonia	0.4	-2.3	-3.0	-2.5	-2.0	-4.3	-4.6	-4.0	-4.0	-3.0
RS	Serbia	-2.4	-6.3	-6.0	-5.7	-5.6	-2.1	-2.0	-2.5	-3.0	-3.5
XK	Kosovo	-7.5	-8.9	-8.9	-8.6	-8.1	-0.3	-0.3	-1.1	-0.9	-0.8
WB6 <sup>1)2)</sup>		-2.7	-5.7	-5.6	-5.4	-5.2	-1.8	-1.7	-2.2	-2.5	-2.6
MD	Moldova	-11.3	-16.0	-20.0	-18.0	-16.0	-5.1	-3.9	-5.0	-4.5	-4.0
UA	Ukraine	-5.3	-7.2	-11.0	-11.0	-9.0	-20.1	-17.6	-18.0	-16.0	-11.0
New EU accession 2 <sup>1)2)</sup>		-5.8	-8.0	-11.8	-11.6	-9.6	-18.8	-16.4	-16.9	-15.0	-10.4
TR	Turkey	-3.6	-0.8	-2.0	-3.0	-3.5	-5.2	-4.9	-3.8	-3.5	-2.6
BY	Belarus	-1.5	-2.5	-3.0	-3.1	-2.2	1.2	0.3	-0.3	-0.5	-0.5
KZ	Kazakhstan	-3.6	-1.3	-3.0	-2.5	-2.1	-2.4	-2.7	-2.4	-2.3	-2.0
RU	Russia	2.4	2.9	2.3	2.6	2.8	-2.2	-1.6	-1.8	-1.5	-1.2
CIS3 <sup>1)2)</sup>		1.6	2.2	1.6	1.9	2.1	-2.1	-1.7	-1.8	-1.6	-1.3
V4+SI <sup>1)2)</sup>		1.1	0.7	-0.1	0.5	1.1	-5.0	-5.1	-4.9	-4.0	-3.6
BALT3 <sup>1)2)</sup>		-0.9	0.4	0.4	0.1	-0.1	-1.7	-1.5	-3.1	-2.8	-2.5
EU-SEE3 <sup>1)2)</sup>		-4.4	-6.0	-5.8	-5.2	-4.3	-4.8	-7.0	-5.8	-5.1	-4.5
EU accession 8 <sup>1)2)</sup>		-4.4	-6.9	-9.0	-8.8	-7.6	-11.0	-9.6	-10.1	-9.2	-6.8
non-EU12 <sup>1)2)</sup>		-0.4	0.5	-0.5	-0.8	-0.8	-3.8	-3.4	-3.2	-2.9	-2.2
CESEE23 <sup>1)2)</sup>		-0.4	0.0	-0.9	-0.8	-0.6	-4.2	-4.1	-3.8	-3.3	-2.8
EA20 <sup>3)</sup>		2.7	3.6	2.5	2.5	2.5	-3.5	-3.1	-2.9	-2.7	-2.3
EU27 <sup>3)</sup>		2.7	3.4	2.5	2.5	2.5	-3.5	-3.2	-2.5	-2.3	-1.9

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). -

3) Forecasts estimated by wiiw.

Note: Consumer prices refer to HICP for EU-CEE countries, Turkey and WB6 countries except for Bosnia and Herzegovina.

Source: wiiw, Eurostat. Forecasts by wiiw. Cut-off date for historical data and forecasts: 13 June 2025.

**Table 2 / Policy rate and exchange rate for selected CESEE countries: overview 2023-2024 and outlook 2025-2027**

		Policy rate eop, p.a.					Exchange rate NCU/EUR average				
		2023	2024	Forecast			2023	2024	Forecast		
				2025	2026	2027			2025	2026	2027
AL	Albania	3.25	2.75	2.75	2.75	2.50	108.8	100.7	98.0	100.0	101.0
BY	Belarus	9.50	9.50	9.50	9.00	8.80	3.25	3.51	3.70	4.00	4.25
CZ	Czechia	6.75	4.00	3.25	3.00	3.00	24.0	25.1	25.0	24.9	25.5
HU	Hungary	10.75	6.50	6.25	5.75	5.00	381.9	395.3	415.0	425.0	430.0
KZ	Kazakhstan	15.75	15.25	16.50	15.00	12.00	493.3	507.9	570.0	590.0	600.0
MD	Moldova	4.75	3.60	6.00	4.00	4.00	19.64	19.25	19.60	19.80	20.00
MK	North Macedonia	6.30	5.55	5.00	4.50	4.00	61.56	61.52	61.50	61.50	61.50
PL	Poland	5.75	5.75	4.75	3.50	3.00	4.54	4.31	4.27	4.30	4.30
RO	Romania	7.00	6.50	6.50	5.50	4.50	4.95	4.97	5.06	5.18	5.25
RS	Serbia	6.50	5.75	5.00	4.00	3.00	117.3	117.1	117.5	117.0	116.0
RU	Russia	16.00	21.00	17.00	12.00	10.00	92.1	100.2	100.0	104.0	108.0
TR	Turkey	42.50	47.50	32.00	20.00	10.00	25.76	35.57	44.00	51.00	57.00
UA	Ukraine	15.00	13.50	15.50	13.50	10.00	39.56	43.46	45.00	48.50	50.50

Source: wiiw, forecasts by wiiw. Cut-off date for historical data and forecasts: 13 June 2025.

# 1. Global outlook: War in the Middle East will have limited fallout for CESEE

BY RICHARD GRIEVESON<sup>1</sup>

**As summer approaches, the economies of CESEE are faced with yet another potentially severe external shock in the form of open warfare between Iran and Israel/the US, which threatens to push up the oil price significantly and weigh on global economic growth.** Coming just a little over five years since the full onset of the COVID-19 pandemic in Europe, the Israel-Iran hostilities are the latest in a rolling series of crises that have buffeted the global economy and CESEE; the conflict threatens yet again to impact regional economic activity.

**After some very good years for the region during the second half of the 2010s, the period since the outbreak of COVID-19 has been exceptionally challenging for CESEE.** The list of shocks that have hit in the space of just a few years is a lengthy one: the fallout from the pandemic, Russia's 2022 full-scale invasion of Ukraine, the highest inflation for decades, a multi-year industrial recession in Germany and Donald Trump's trade war. Either because of its proximity to the war in Ukraine or because of the region's heavy reliance on manufacturing and its high share of exports in GDP, these crises have often proved particularly problematic for CESEE. Nevertheless, the region has shown hugely impressive resilience, consistently outperforming Western Europe.

**At the time of writing, there is much about the Israel/US-Iran conflict that remains uncertain, and the war could yet draw in other regional powers, with severe economic consequences.** This could lead to further major disruptions to global oil supplies and potentially to the closure of the Strait of Hormuz. Were that to happen, a Brent crude price of well above USD 100 would be on the cards, with far more severe knock-on effects for global growth and the economies of CESEE.

**However, for now we are wary of making any major revisions to our forecasts.** Although the oil price has spiked, at the time of writing it is not at the sort of level that would indicate huge panic. In any case, initial market reactions are a very poor predictor of lasting impact: historically, such developments do not provoke any huge reaction.<sup>2</sup> Naturally it is impossible to predict now with any certainty, but history suggests that by and large a geopolitically driven spike in the oil price does not last long.

**More broadly, the initial Israeli decision to attack highlights an important trend that we have long been emphasising: America has abdicated its global leadership role, as it increasingly concentrates on the threat of the rise of China – and that is important for the CESEE economies.** With the US either focusing its attention elsewhere or simply not caring anymore, the temptation for revisionist powers to chance their arm is all the greater. While Donald Trump's isolationist rhetoric is particularly striking, in fact the US has been distancing itself from both Europe and the Middle East ever since the Obama presidency. In this context, revisionist powers that would like to redraw the map – such

<sup>1</sup> Thanks to Mario Holzner for useful comments and edits.

<sup>2</sup> <https://www.ft.com/content/83bf1257-6553-4b9f-80f9-5717eb92f435>

as Russia and Israel – are trying their luck. This goes some way to explain both Russia's decision to invade Ukraine in 2022 and Israel's recent strikes against Iran. There are plenty of other actors, including in CESEE, who would also like to redraw the borders. It is therefore perfectly possible that Russia and Israel will not be the last countries to seize upon American distraction (or lack of interest) and take a punt.

**There are three main geopolitical trends that we believe are quite structural and will continue to matter for the economies of CESEE:**

1. US abdication of global leadership, as it focuses increasingly on stymying the rise of China.
2. A security vacuum in regions such as CESEE and the Middle East, which will encourage revisionist powers to engage in open warfare to redraw maps or force regime change.
3. Panic in Europe about point 2, leading to much greater unity among the bigger countries (Germany, France, the UK and Poland, in particular) and a ramping up in defence spending, with material and positive economic spill-overs.

**We expect all three factors to remain in play during our forecast period.** On the one hand, this will mean more conflict, more political risk and a higher security premium for parts of the region. This may already be reflected in what looks like a sharp decline in FDI in many EU-CEE countries since 2022.<sup>3</sup> However, as we outlined in more detail in the spring, the Western European reaction – especially the abrupt change in German fiscal policy and the higher defence spending generally – will have significant positive economic spill-overs for CESEE.

**Our global forecast is largely unchanged from the spring, with the main difference being that we now expect the euro to be significantly stronger against the dollar than previously forecast.** This reflects Donald Trump's success (so far) in his quest for a weaker dollar. A stronger euro means – all else being equal – stronger CESEE currencies as well, which could create concern about export performance, but will also help damp down any renewed imported inflationary pressures. Starting from next year, we also see lower oil prices than previously forecast, although this naturally now comes with big risks attached. Against this background, we expect the euro area to post subdued growth this year, but to pick up from 2026, not least because of the previously mentioned German fiscal U-turn and increased defence spending.

**Table 3 / wiiw summer 2025 global assumptions**

	Summer 2025			Changes since spring		
	2025	2026	2027	2025	2026	2027
Euro area real GDP growth, %	0.7	1.4	1.5	0.0	0.0	0.0
Euro area HICP, %	2.2	2.0	2.0	0.0	0.0	0.0
Euro area unemployment rate, %	6.6	6.6	6.5	0.0	0.0	0.0
Euro area current account, % of GDP	2.5	2.5	2.5	0.0	0.0	0.0
USD/EUR exchange rate, average	1.12	1.10	1.10	0.1	0.1	0.1
ECB refinancing rate, %, eop	2.00	2.00	2.00	0.0	0.0	0.0
Brent crude oil, US\$ per barrel, average	71.0	65.0	65.0	0.0	-5.0	-5.0

Source: wiiw forecasts. Cut-off date: 13 June 2025.

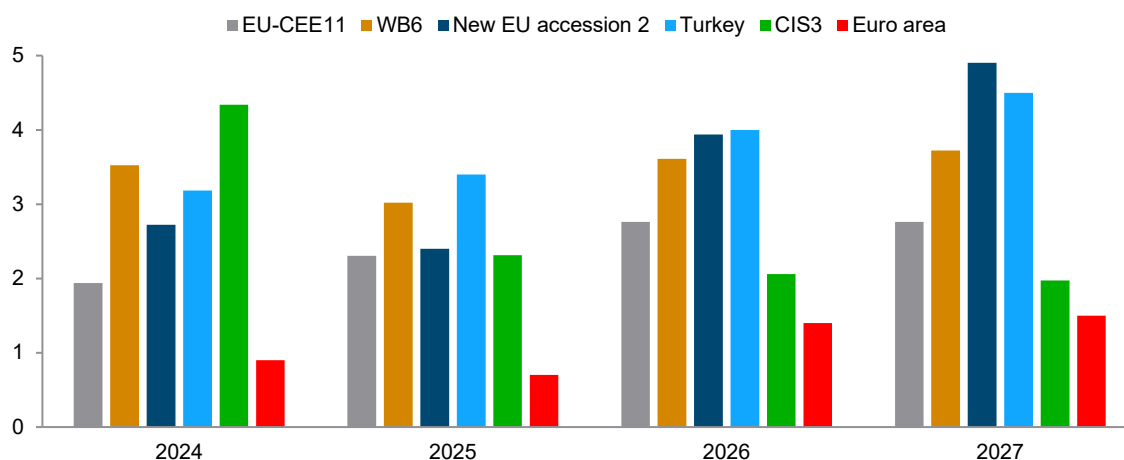
<sup>3</sup> <https://wiiw.ac.at/monthly-report-no-5-2025-fdi-in-central-east-and-southeast-europe-p-7333.html>

## 2. Regional outlook: Downward revisions, but still resilient; fiscal challenges looming

BY RICHARD GRIEVESON<sup>1</sup>

**Despite the latest external challenge to regional growth, we expect CESEE to continue to prove resilient: our new forecasts predict growth of 2.6% for the region in 2025 and 2.8% in 2026 – well above the euro area's 0.7% and 1.4% over the same period.** As before, CESEE's resilience will be primarily domestic, with tight labour markets pushing up real wages, investment performing well amid monetary loosening and the inflow of FDI and EU funds, and government spending also generally supportive of growth (at least outside EU-CEE). Exports will come under renewed pressure, especially if the oil price stays high and starts to weigh on global growth, and amid the existing weakness of Germany industry and the fallout from Trump's trade war.

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



Sources: National sources, Eurostat, wiiw summer 2025 forecasts.

**However, our current 2025 growth forecasts are mostly lower than in spring, largely reflecting either very weak Q1 GDP figures in parts of EU-CEE (Hungary, Slovenia, Romania) or the bad harvest and war-related fallout in Moldova and Ukraine.** As none of the downgrades include the region's three biggest economies, the impact on the aggregate is small. For CESEE as a whole, we expect growth to be only 0.1 percentage points (pp) lower this year than at the time of our Spring forecasts. For 2026, we have made a more substantial downward revision, of 0.3 pp, largely on account of a 0.7 pp downgrade for growth in Russia that year: the economy there is slowing sharply due to high real interest rates.

<sup>1</sup> Thanks to Mario Holzner for useful comments and edits.



**Table 4 / Real GDP growth forecasts and direction of revisions since wiiw Spring 2025**  
**Forecast Report**

Region		2025	2026	2027
<b>EU-CEE</b>				
BG	Bulgaria	2.3	2.5	2.7
CZ	Czechia	2.0	2.4 ▼	2.7
EE	Estonia	1.5	2.0 ▼	2.5
HR	Croatia	2.9 ▲	2.8	2.7
HU	Hungary	0.7 ▼	2.2 ▼	2.0
LT	Lithuania	2.8	2.6	2.4
LV	Latvia	1.5 ▼	2.1 ▼	2.3
PL	Poland	3.5	3.5	3.0
RO	Romania	1.2 ▼	2.3 ▼	3.0 ▼
SI	Slovenia	1.6 ▼	2.3 ▼	2.4
SK	Slovakia	1.4 ▼	2.0	2.4
<b>Western Balkans</b>				
AL	Albania	3.7	3.9	4.0
BA	Bosnia and Herzegovina	2.4	2.8	3.2
ME	Montenegro	3.2 ▼	3.3	3.2
MK	North Macedonia	2.6 ▲	2.8 ▲	3.0 ▲
RS	Serbia	3.0	4.0	4.0
XK	Kosovo	3.9	3.9	4.1
<b>New EU accession 2</b>				
MD	Moldova	0.9 ▼	3.0	3.5
UA	Ukraine	2.5 ▼	4.0	5.0
<b>Turkey</b>				
TR	Turkey	3.4 ▼	4.0	4.5
<b>CIS3</b>				
BY	Belarus	2.3 ▲	1.4	1.4
KZ	Kazakhstan	5.0 ▲	4.5 ▼	4.5
RU	Russia	2.0	1.8 ▼	1.7 ▼

Source: wiiw forecasts as of 13 June 2025.

**Table 5 / CPI growth forecasts and direction of revisions since wiiw Spring 2025 Forecast Report**

Region		2025		2026		2027	
<b>EU-CEE</b>							
BG	Bulgaria	3.3	▲	2.4	▼	2.2	▼
CZ	Czechia	2.1	▼	2.0	▼	1.6	
EE	Estonia	5.5	▲	4.6	▲	3.2	▲
HR	Croatia	3.5	▲	2.9		2.8	
HU	Hungary	5.0		4.5	▲	3.5	
LT	Lithuania	3.5	▲	2.5		2.5	
LV	Latvia	3.4	▲	2.7		2.5	
PL	Poland	4.2	▼	3.0		2.5	
RO	Romania	5.1	▲	4.5	▲	3.8	▲
SI	Slovenia	2.1	▼	2.0		2.0	
SK	Slovakia	3.9		2.8		2.5	
<b>Western Balkans</b>							
AL	Albania	2.7		2.5		2.4	
BA	Bosnia and Herzegovina	2.5	▲	2.0	▲	1.8	
ME	Montenegro	3.3	▲	2.5		2.8	
MK	North Macedonia	3.8	▼	3.3	▼	2.8	▼
RS	Serbia	4.2		3.5		3.0	
XK	Kosovo	2.2		2.0		2.0	
<b>New EU accession 2</b>							
MD	Moldova	8.0		5.0		4.0	
UA	Ukraine	12.5	▲	8.0	▲	7.0	▲
<b>Turkey</b>							
TR	Turkey	35.0	▼	24.0	▼	14.0	
<b>CIS3</b>							
BY	Belarus	8.0		6.0		6.0	
KZ	Kazakhstan	11.0	▲	9.0	▲	7.0	
RU	Russia	8.9	▼	5.1	▼	4.4	

Source: wiiw forecasts as of 13 June 2025.

**The economic outlook for EU member states in EU-CEE is highly diverse: Poland, Lithuania and Bulgaria are out in front in terms of economic resilience and growth momentum, while Hungary, Romania and Slovakia are experiencing more pronounced challenges.** Poland continues to perform strongly, with 3.2% GDP growth in Q1, driven mainly by a rebound in investment and stable private consumption, despite weak external demand. Lithuania also maintains high growth of 3.4%, fuelled by robust public investment and defence spending, though household caution is slowing consumption. Bulgaria shows steady progress, with 3.1% Q1 growth and the milestone of euro adoption planned for 2026, underpinned by strong domestic demand.

**Conversely, Hungary stands out as the region's weakest performer, with a 0.4% contraction in Q1, due to a slump in industry and construction, and with the persistent challenge of inflation, despite subdued investment and fiscal stress.** The outlook for Romania has deteriorated, owing to fiscal austerity, slow wage growth and inflationary pressures: its projected GDP growth has been cut to 1.2% for 2025. Slovakia's growth has been revised downward to 1.4%, hampered as the economy is by fiscal tightening, weak household sentiment and global trade tensions, though the country's automotive sector remains a relative bright spot on the horizon. Slovenia, similarly, is on a lacklustre path, with growth forecast to be 1.6%; it has been hit by weak private consumption, poor export performance and construction underperformance.

**Czechia, Croatia, Estonia and Latvia sit in the middle: there are grounds for cautious optimism, but they face both internal and external headwinds.** Czechia is benefiting from solid domestic demand and easing inflation, with growth this year projected to be 2%. Croatia's growth is slowing to 2.9%, but tourism and EU funding continue to provide support. Estonia and Latvia are gradually recovering, driven by public investment and improving private consumption, though both countries face inflationary pressures and trade-related uncertainties. Overall, public and EU-funded investment, defence spending and domestic demand are the main engines of growth across the region, while geopolitical instability, weak external demand and fiscal tightening are weighing on the less resilient economies.

**The economic outlook for the Western Balkans over the forecast period is generally positive, albeit with some risks.** Overall, while domestic demand, remittances and infrastructure projects are key drivers of growth across the region, political uncertainty, weak governance and external shocks continue to undermine economic stability in several countries. Albania remains a top performer, with growth projected to be around 4% over the forecast period, driven by robust FDI inflows, strong tourism and stable public finances. Consumer confidence is supported by improving employment and real wages. Meanwhile Montenegro will grow by 3.2% this year, though tourism faces challenges from infrastructure issues and regional competition. Inflationary pressures are rising again there, and political gridlock is stalling EU accession. North Macedonia has also exceeded expectations, with 3% GDP growth in Q1, largely thanks to construction projects and a surge in exports. Although its infrastructure funding announcements appear optimistic, the tangible impact remains uncertain. We project growth of 2.6% this year.

**Kosovo, Serbia, and Bosnia and Herzegovina all face risks to growth, mostly stemming from political factors.** Kosovo's growth, while still positive at a projected 3.9%, is under threat from a prolonged delay in the formation of a government, which is affecting investor confidence, widening the fiscal deficit and exacerbating trade imbalances. Meanwhile, Serbia's growth slowed to 2% year on year in Q1, as both public and private investment contracted amid a drop in FDI inflows and widespread political unrest. The economic impact of the student-led protests and the likelihood of early elections are both adding to the uncertainty. Still, export performance has provided a temporary cushion, though it is unlikely to be sustained. Bosnia and Herzegovina maintains a modest 2.4% growth forecast, supported by rising real wages and an expected recovery in private consumption; but the country faces elevated inflation and rising political tensions, particularly due to Republika Srpska's conflict with central institutions.

**Both Moldova and Ukraine are grappling with severe economic challenges in 2025, with deteriorating outlooks driven by external shocks and domestic constraints.** Moldova faces near-stagnation, owing to a sharp spike in energy prices following a forced break from Gazprom. This caused electricity tariffs to jump by 80%, triggering inflation and undermining industry, trade and real wages. The economy's only potential bright spot is an expected rebound in agriculture, while the country remains heavily reliant on external financing amid widening fiscal and current account deficits. Political uncertainty ahead of the parliamentary elections in September adds further risk. Ukraine, meanwhile, continues to suffer from the prolonged effects of its war with Russia, with infrastructure destruction, worsening labour shortages and a recent EU rollback on agri-food trade preferences all affecting growth. While military and manufacturing output offers some support, GDP growth has slowed markedly, and inflation has surged past 15%, forcing the central bank to maintain high interest rates. The country's medium-term outlook depends on potential de-escalation of the war, but risks remain high amid tense relations with the US and ongoing geopolitical instability.

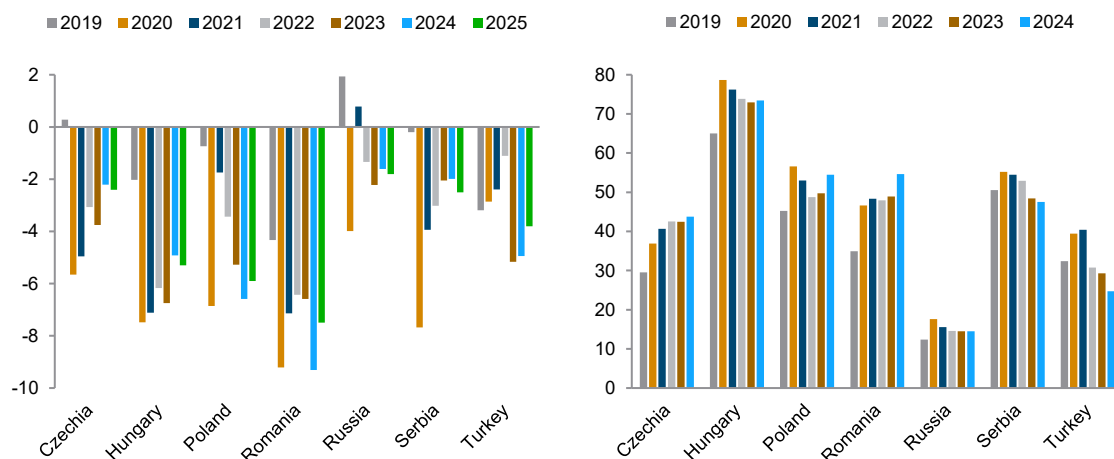
**Turkey's economic outlook is weakening, as growth slows and political unrest deepens.** GDP grew by 2% year on year in Q1 2025, mainly supported by household and government consumption, while industry and agriculture contracted. High interest rates, falling real wages and rising unemployment are dragging down private consumption, and forward-looking indicators point to further deceleration in Q2. Inflation has eased somewhat but remains elevated, and monetary policy is expected to remain tight until at least September. Politically, the arrest of Istanbul's mayor and an intensification of the crackdowns on the opposition have heightened uncertainty. Although the financial markets have stabilised in recent months, these developments have led to a slight downward revision of the 2025 growth forecast, to 3.4%.

**Among the CIS3 economies, Kazakhstan is outperforming its peers with robust 5.6% GDP growth in Q1, underpinned by strong construction, transport and oil output – thanks to the Tengiz oil field expansion and investment in infrastructure.** Despite accelerating inflation, tight monetary and fiscal policy is helping to manage the risks, keeping Kazakhstan's outlook positive (albeit cautiously so, due to falling oil prices). By contrast, Belarus is seeing growth that is slowing, having been hit by falling exports and a decline in oil prices, though aggressive domestic stimulus and strong wage growth are temporarily propping up demand. However, the resulting surge in the trade and current account deficits and rising inflation pose medium-term risks. Russia faces the most pronounced slowdown, with only 1.6% growth in early 2025 – almost entirely driven by military production. Tight monetary policy has stalled credit expansion and suppressed consumer demand. Although inflation has eased, continued

rouble appreciation and lower oil revenues have forced a budget revision and led to a reduction in the country's medium-term growth outlook to below 2%, with risks tilted downward.

**After years of big deficits, the long-threatened fiscal reckoning appears to be here, at least for some EU-CEE countries.** Many are now embarking on multi-year consolidation programmes, which will act as a drag on growth for some time. Fiscal positions have clearly deteriorated since the pandemic, and many countries of the region have much higher public debt than previously. Among the bigger markets in CESEE, in 2019 only Romania was running a deficit greater than 2% of GDP. Since then, persistent deficits of 6-7% of GDP have become normal – and even more in the case of Romania (Figure 2). In most cases this has contributed to a significant increase in public debt/GDP levels, though most countries still have very low levels compared to Western Europe.

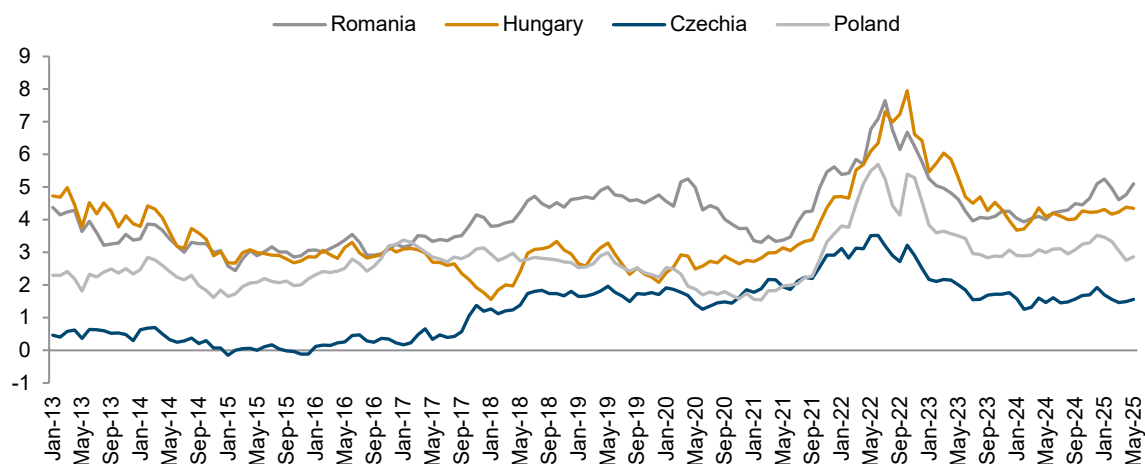
**Figure 2 / Fiscal balance, % of GDP (left-hand side) and public debt, % of GDP (right-hand side)**



Sources: National sources, Eurostat, wiiw summer 2025 forecasts.

**The main reason why deficits have remained so high is that the level of government spending as a share of GDP rose quite dramatically in 2020, and has not returned to where it was.** In Poland and Romania, government spending is 7-8 pp of GDP higher than it was in 2019. There are a number of reasons for this: the COVID-related spending increases were much easier to introduce than to withdraw; demographic decline is placing an ever heavier burden on health spending; defence spending commitments are now also much greater; and higher interest rates increase the cost of servicing public debt.

**Yet while the size of the fiscal deficits and their persistence has been striking, so too is their durability and the relative lack of reaction from financial markets and ratings agencies.** Credit spreads have risen, but remain quite anchored for most countries. Both Czechia and Poland, despite a sharp rise in public debt, pay roughly the same borrowing costs relative to Germany as they did on the eve of the pandemic (Figure 3). Meanwhile, of the CESEE countries, only Slovakia has suffered a notable credit ratings downgrade over this period.

**Figure 3 / 10-year bond yield, difference versus German, percentage points**

Sources: National sources, Tullett Prebon, Haver Analytics.

**The reasons for this are numerous, but again hark back to the persistent and impressive reliance of CESEE economies amid external shocks.** Regional growth has remained robust, and looks very impressive compared to the near-stagnation of large parts of Western Europe over this period. The bond market has remained willing to finance CESEE debt, and ratings agencies have not made major downgrades, primarily because the region has shown itself capable of continuing to deliver substantial economic growth. One of the reasons why Romania has suffered more is that it is not delivering anything like the rate of economic growth that it managed until recently. Its twin deficit model was fine so long as growth was strong. Now that that is no longer the case, the model has run out of road.

**Nevertheless, more serious fiscal consolidation now looks unavoidable for a large part of the region.** As we outlined in more detail in the spring, countries such as Romania, Poland and Slovakia are facing primary balance adjustments of 1 pp of GDP or more per year for the next few years. This will weigh on economic growth.

**Beyond that, the extent to which a bigger fiscal consolidation can be avoided will depend on the region's growth performance.** Returning to the growth rates of pre-2020 will require an improvement in external conditions – especially in Germany. We are optimistic about the German fiscal U-turn and higher defence spending, and think that it will add materially to CESEE growth from 2026. Yet the weaknesses of German industry – so important for CESEE – run deep, and are by no means related solely to energy prices. More broadly, as the risk of a more drastic disruption to global oil supplies hangs over the world economy due to the Israel-Iran hostilities, there is a legitimate question about whether CESEE can continue to demonstrate its resilience in the face of an apparently endless stream of external shocks.

**We continue to expect the fallout for CESEE from Donald Trump's trade war to be limited, but are concerned about the impact of the huge uncertainty it is generating.** CESEE's direct exposure to the US is small, so the greater impact will be via the EU. Yet our modelling suggests that even if Trump does enact swingeing new tariffs on the EU, the economic impact on CESEE will be quite limited (see our spring forecast for full details). Of greater concern is the uncertainty that the stream of

announcements, suspensions, threats and general noise is generating for consumers and businesses. This may well affect – or may already be affecting – consumer spending and investment in CESEE.

**One other factor that we are watching closely in the region is domestic politics: the present moment feels particularly momentous, given the number of countries where the outcome of an election is on a knife edge, yet where the result is of huge consequence for the economy.**

Romania, Poland, Hungary and Serbia all fit this description; meanwhile domestic politics is also affecting (or is soon likely to affect) the economy significantly in many other countries. Changes in power can have an important and rapid impact on the economy – including in a positive way, as Poland has shown in the last couple of years. But in general, the prospect of change contributes a particularly high level of political uncertainty to our economic forecasts at present.

### 3. Country updates



## ALBANIA: FDI INFLOWS AND TOURISM REMAIN KEY TO SUSTAINING GROWTH MOMENTUM

*by Isilda Mara*

The Albanian economy maintained its positive trajectory in the first half of 2025, with growth expected to hover at around 4% for the entire year, supported by stronger exports of goods and services and by the tourist season. The current account deficit narrowed further in Q1 2025, driven by rising remittances (up 4%), while FDI inflows (again up 4%, mainly on account of the reinvestment of earnings) remain key to sustaining growth momentum. The domestic currency continued to appreciate further, as tourism, remittances and FDI inflows all expanded. The rise in demand for credit coincided with increased inflation (already 2.2% in May 2025), while consumer confidence strengthened, reflecting better employment conditions and rising real wages. The central bank kept interest rates unchanged, ensuring credit accessibility, though the lending criteria for house purchases were tightened. Public finances remained stable, with revenue growth outpacing spending to maintain a positive fiscal balance in Q1 2025. Meanwhile, the May 2025 parliamentary elections resulted in a victory for the governing party, which will ensure policy continuity.

## BELARUS: AUTHORITIES STRUGGLE TO COUNTER SLOWDOWN IN GROWTH

*by Dzmitry Kruk*

In Q1 2025, economic growth continued to decelerate, dropping to 3.0% year on year (from 4.0% in 2024) – although on a quarterly basis it accelerated. The main drag on growth is shrinking exports, particularly oil products to non-CIS countries. This decline is driven by worsening price conditions amidst falling global oil prices and likely logistical challenges due to the ongoing sanctions. Exports to Russia also dipped, reflecting weakening demand in the Russian economy, especially for imports. The Belarusian government, however, is actively resisting the slowdown by stimulating domestic demand, particularly through capital investment. Several measures are in play here. Monetary policy remains loose – and much looser than in Russia – while fiscal stimulus has been deployed via increased consolidated budget expenditure. Additionally, state-owned enterprises are being directed to boost investment activity. These efforts drove notable growth in fixed capital investment in Q1 2025. Alongside this, household consumption continues to pick up on the back of strong real wage increases amidst labour shortages. Given the government's determination to promote economic activity despite the growing macroeconomic imbalances, we expect growth to reach 2.3% this year – significantly above our previous forecast. Nevertheless, the government's reluctance to accept a slowing growth environment does come at a cost: the trade deficit surged to 3.4% of GDP in Q1 2025 (compared to a surplus of 0.2% of GDP in Q1 2024 and prevailing surpluses in 2020-2023), and the current account deficit will probably be near 3% of GDP this year, potentially acting as a brake on growth in 2026-2027. Inflation also spiked – despite strict price controls – reaching 6.9% year on year as of May, with prices up 4.4% over the first five months of 2025. It will probably average around 8% for the full year.

## BOSNIA AND HERZEGOVINA: MODEST ECONOMIC GROWTH AMIDST STICKY INFLATION

*by Selena Duraković*

In the first half of 2025 the economic activity signals were mixed. Industrial output rose in the first four months, but retail sales declined. Meanwhile credit activity remained sluggish, reflecting the impact of higher interest rates. Nevertheless, over the course of the year private consumption is expected to strengthen, supported by rising real wages following an increase in the minimum wage. The widening trade deficit in the first four months points to stronger domestic demand, with higher imports reflecting improved economic activity. Despite weaker public spending and potentially softer investment, we are maintaining our GDP growth forecast for 2025 at 2.4%. This is underpinned by stronger EU demand than last year and a gradual recovery in household consumption. Inflation remains elevated, averaging above 3% in the first four months of 2025. As a result, we have revised our annual inflation forecast slightly upward, to 2.5%. Political tensions remain high following the Bosnian court's issuing of an arrest warrant for Republika Srpska President Milorad Dodik. This risks further destabilising the country, with potentially negative implications for economic development and progress towards EU accession.

## BULGARIA: EURO ADOPTION NOW WELL ON TRACK

*by Emilia Penkova-Pearson*

On 4 June 2025, Bulgaria took delivery of favourable convergence reports from the European Commission and the European Central Bank, indicating that the country had met the formal criteria necessary for its adoption of the euro. The government now plans to introduce the euro on 1 January 2026, making Bulgaria the twenty-first member state to join the euro area. This follows a brief domestic standoff in May, when President Radev called for a referendum on euro adoption – call which the speaker of the National Assembly rejected. There is now a legal dispute regarding the referendum, but it is unlikely to impede the process. The final decision now rests with the EU institutions. Approval from the European Council, European Parliament and ECOFIN must follow the convergence reports. The green light from ECOFIN is crucial and is expected to be given on 8 July 2025. In Q1 2025, economic growth reached 3.1%, driven by strong domestic demand. One key factor was private consumption, supported by an increase in real disposable income. In contrast, exports are facing significant challenges on account of the unfavourable external demand, resulting in a continued decline that is having a negative impact on GDP growth. We have kept our GDP growth forecast for 2025 unchanged at around 2.3%, with a slight increase projected for the following two years. Domestic demand is expected to remain the primary contributor to GDP growth during this period.

**CROATIA: GROWTH MOMENTUM SLOWS AMID GLOBAL AND DOMESTIC HEADWINDS***by Bernd Christoph Ströhm*

The economy is off to a plodding start in 2025, with GDP growth slowing to 2.9% year on year in Q1, down from 3.9% in Q4 2024. For 2025 as a whole, growth is projected to slow to 2.9%, on the back of weaker growth in domestic demand and real incomes, and sluggish demand in the euro area. Besides, wage growth has not fully offset the real income losses from previous inflation shocks. At the same time, tourism and the inflows of EU funds are expected to remain strong. According to EU estimates, Croatia's GDP could increase by up to 8% overall by 2030, thanks to its cohesion policy funds. The tourism industry has also continued to grow: commercial accommodation providers recorded 5.6 million overnight stays during January-April 2025 – a 4.7% increase over the same period last year. After 4% in 2024, inflation climbed to 4.7% in Q1 2025, but is expected to decline gradually to 3.5% in 2025 as a whole, and to below the 3% mark in 2026, as pressure eases on food and transportation prices and domestic demand cools. Nevertheless, it will remain at above the euro area target over the forecast horizon. The US import tariffs placed on the EU's automobile industry are expected to have an indirect effect on Croatia's exports and present a downside risk to growth in 2025. The significant exodus of the qualified workforce to other EU countries means that Croatia is also experiencing a severe labour shortage, which is especially noticeable in the country's crucial tourist and construction industries.

**CZECHIA: GUARDED OPTIMISM IN UNCERTAIN TIMES***by Ioannis Gutzianas*

The Czech economy continued its recovery in Q1 2025, with GDP expanding by 0.8% quarter on quarter and by 2.2% year on year. Growth was driven primarily by household consumption, as improving real incomes and low inflation supported spending. Gross capital formation also contributed positively, reflecting more optimistic business sentiment. By contrast, government consumption declined slightly, and net exports had a neutral impact on growth. Labour market conditions remained favourable. Employment rose by 0.7% compared to the previous quarter and by 1.1% year on year, supported by a pick-up in hiring in services and construction. The average gross wage increased by 6.7% annually in nominal terms, and by 3.9% in real terms, reinforcing the rebound in household purchasing power. Inflation continued to ease in early 2025, reflecting favourable trends in both domestic and external cost pressures. Headline inflation fell to 1.8% in April (the lowest level for seven years), while core inflation remained broadly stable. With price pressures receding, the central bank lowered the two-week repo rate by 25 basis points in May. While further rate cuts remain possible, the bank has signalled a cautious approach, given the global risks and energy market uncertainty. On the political front, former Prime Minister Andrej Babiš's ANO party maintains a strong lead in the opinion polls. Fragmentation within the ruling coalition has continued, raising the likelihood of an ANO-led government in the forthcoming October elections. Given the Q1 performance and underlying trends in domestic demand, we have maintained our 2025 GDP growth forecast at 2.0%.

## ESTONIA: ACCELERATION IN GROWTH AHEAD, AMID CHALLENGES

*by Maryna Tverdostup*

Estonia's economy has entered a phase of gradual recovery. Early 2025 has brought a modest rebound, supported by stabilising private consumption, improved business sentiment and a gradual revival in investment, particularly in infrastructure and the defence sector. Despite the challenges arising from trade tensions, geopolitical uncertainty and rising import costs, Estonia's economy is set to grow modestly – by 1.5% this year, 2% in 2026 and 2.5% in 2027. The recovery is supported by lower interest rates, cheaper energy and improved productivity, as underutilised resources are put to work. Foreign demand is gradually picking up, though the looming trade restrictions could possibly retard the revival. The manufacturing industry, though still weighed down by subdued external demand, is beginning to benefit from a slow but steady revival in the key European export markets. Inflation is projected to remain at around 5.5% in 2025, due to increases in VAT and excise duties, but is expected to ease gradually in the coming years, as these tax effects fade and supply-side pressures diminish. The labour market has shown resilience, with unemployment projected to hover at around 7.2% this year; it is likely to decline gradually thereafter, as production expands and firms regain confidence in hiring. Amid rising defence spending and significant public investment, including EU-funded projects, public debt will remain at below 25% of GDP, with the government strongly committed to restraining further debt accumulation and to maintaining fiscal stability.

## HUNGARY: SO FAR FROM A 'FLYING START' – THE STUMBLING CONTINUES

*by Sándor Richter*

In Q1 2025, GDP fell by 0.4% year on year. The performance of industry and construction declined considerably; that of agriculture marginally. A modest 1.1% expansion in the largest sector – services – saved the economy from an even bigger decline. Final consumption increased by 3%; gross fixed investment recorded a large fall of 10.1%, partly on account of reduced EU transfers. Both exports and imports virtually stagnated (net exports were marginally negative). Disinflation has not gone according to plan: in May, the consumer price index was 4.5% and core inflation 4.8%. By April, the economy had accumulated 71% of the fiscal deficit envisaged for the full year. There is no sign yet of a positive turnaround in the disappointing overall economic performance. Price caps to curb inflation only hide the inflationary pressure. The ruling Fidesz party's poor showing in public opinion polls ahead of the general election in less than a year makes it highly unlikely that there will be any improvement in the fiscal balance, as Prime Minister Orbán will most likely resort to his tried-and-tested strategy from previous election campaigns of issuing handouts at the expense of fiscal balance. Nevertheless, the second half of the year could bring some improvement to the economic performance, provided a few large foreign investments in the automotive and battery-manufacturing sectors come to fruition. The chaotic conditions currently prevailing in global trade – especially in the automotive industry – render the market prospects for goods produced in the new capacities highly uncertain. Overall, GDP growth for this year is expected to be around 0.7%; the years 2026 and 2027 could see a somewhat better growth performance in excess of 2%.

## KAZAKHSTAN: RESILIENT TO EXTERNAL AND DOMESTIC HEADWINDS

*by Alexandra Bykova*

Despite accelerating inflation and declining global oil prices, the economy remains resilient. Real GDP grew by 5.6% in Q1 and business sentiment in manufacturing and services continued to be positive in May. Moreover, the expected recovery in oil production on the back of the Tengiz oil field expansion is already under way: production increased by 8.8% year on year in the first four months of 2025. In construction, transport and logistics the double-digit annual growth seen in Q1 is likely to be maintained, supported by public investment in energy infrastructure, the construction of schools and hospitals, and continued development of the Middle Corridor. However, the economy is facing certain headwinds. The increase in the production of oil will not be sufficient to offset the loss of export and budget revenue following the anticipated drop in the price of oil in 2025. Consumption growth is likely to weaken as the accelerating inflation eats into real income, while consumer lending has been slowing down since last year. The recently observed weakening in manufacturing is likely to contribute to a cooling of the economy. As consumer inflation accelerated to 11.3% year on year in May (on the back of an increase in food prices and utilities tariffs), and as the expected value-added tax hike next year will have a pro-inflationary impact, monetary policy is likely to remain tight up until the end of 2025. Fiscal consolidation is set to continue. Despite all this, Kazakhstan's economy is likely to maintain its leading position in CESEE in 2025-2026 amid a recent economic performance that has been stronger than expected. The main risks to the forecast stem from the global uncertainty, which may lead to even lower oil prices and reduced global demand, and could undermine future foreign investment in the economy.

## KOSOVO: SOLID GROWTH, DESPITE DELAYED GOVERNMENT FORMATION

*by Isilda Mara*

Economic growth in 2025 could face several challenges, as the delayed formation of a government affects investor confidence and slows the inflow of FDI (despite a 4% year-on-year increase in Q1). Though parliamentary elections were held in February 2025, after more than four months parliament has still been unable to settle on a new government. The absence of a fully operational administration is reflected in the widening fiscal gap, with government expenditure surging by double digits, while revenue is barely growing. Inflation accelerated to 3.6% in May, driven by higher food and electricity prices, thus putting increased pressure on household budgets. The rate of unemployment is hovering at near to 11%, and joblessness is particularly affecting young people and women. Trade imbalances worsened in Q1: goods exports declined (for the first time since 2020), while imports surged at a double-digit rate, driving the current account deficit higher. Despite these challenges, services exports, remittances and primary income have supported growth: remittances rose by 4% to EUR 403m during the first four months of 2025, sustaining household incomes. If the deadlock surrounding the formation of a government persists, economic growth could ease to 3.9% in 2025 (slightly less than in 2024). Growth will mainly be driven by domestic demand, as downside risks from both domestic and global instability remain a concern.

## LATVIA: REVIVAL IN A TIME OF RISING INSECURITY

*by Sebastian Leitner*

Latvia's economy is emerging from stagnation this year; however, demand – both external and internal – is being curbed by the uncertainty caused by recent international developments. Direct exports to the US amount to less than 3% of total Latvian exports. However, given that all of Latvia's major trading partners are trimming their export forecasts, we expect Latvia's exporters also to be affected more than previously anticipated. Real incomes are rising quite sharply this year, too, albeit more slowly than in 2024, particularly in the public sector. Although the apparent insecurity is keeping people's propensity to save for a rainy day high, we will see an upswing in private household demand in 2025, compared to last year. A driver of growth will be the planned (and executed) investment financed by the NextGenerationEU programme. Consumer price inflation is set to increase stronger than expected this year, to an average of 3.4%, on account of rising prices for food and services, as well as higher electricity grid charges. However, a gradual decline in inflation is to be expected in the coming years. In particular the big jump in defence spending will increase the public deficit to 3.2% of GDP in 2025, before it narrows in subsequent years. The unemployment rate is likely to remain stagnant at 6.9% in 2025, but should then decline in the coming years, given the rather tight labour market. Owing to the smaller-than-expected increase in household consumption at the beginning of the year, we have cut our forecast for GDP growth in 2025 to 1.5%. In the medium to long term, GDP growth is projected to pick up again to 2.1% in 2026 and 2.3% in 2027.

## LITHUANIA: DEFENCE EXPENDITURE HELPING TO MAINTAIN A HIGH RATE OF GROWTH

*by Sebastian Leitner*

In Q1 2025, the Lithuanian economy remained in high gear, with real GDP increasing by 3.4% in real terms, year on year. Public investment is currently the strongest driver of growth. Projects financed from the NextGenerationEU programme, as well as some related to the defence industry are boosting both private and public investment. By contrast, growth in household consumption will likely slow this year compared to 2024. Although real wages are still rising steadily, households have become more cautious, which has resulted in a higher propensity for them to save. As expected, external demand from Latvia's main trading partners is improving, though more slowly than previously anticipated on account of the insecurity caused worldwide by the new US administration. Consumer prices will increase much more this year, driven in particular by higher excise duty, but also by rising prices for food and services. In the coming years, however, inflation will again decrease. Following a budget deficit of only 1.8% of GDP in 2024, we are likely to see an increase to 2.8% this year, particularly driven by the hike in defence spending to 3.9% of GDP – and thereafter a figure of 5-6% is envisaged. Despite solid GDP growth, we expect the unemployment rate this year to fall only slightly to 6.9%. However, the decline will likely be more pronounced in 2026 and beyond. We have not altered our recent forecast: we expect real GDP to continue to grow by 2.8% in 2025, followed by 2.6% in 2026 and 2.4% in 2027.

**MOLDOVA: STAGNATION AHEAD***by Gábor Hunya*

Moldova's only hope of avoiding stagnation in 2025 would seem to be a protracted spell of normal weather, leading to an upsurge in agricultural output. January's forced shift away from Gazprom to costlier suppliers of gas to Transnistria triggered an electricity price shock that derailed the earlier, more positive, growth trajectory. In Q1, industrial output contracted, the trade deficit widened and real wages remained virtually flat – all signs of a shrinking GDP, though investment and government spending probably did offset this trend in a modest way. Electricity imports surged, while agri-food exports slumped in the wake of the disastrous 2024 harvest. The 80% jump in electricity tariffs in January is expected to push inflation to about 8% in 2025, up from 4.7% last year. The National Bank of Moldova responded with a 2 percentage point hike in its policy rate, to 6.5% in Q1, and it may be able to avoid any further increases. Both the current account and the fiscal deficits have widened, and the country will continue to depend on institutional external financing. Some improvement may emerge in the second half of the year, as European donors take over from USAID – always assuming that the harvest is back to normal. The European Commission has pledged a multiannual EUR 1.9bn support programme to help steer Moldova toward EU accession, though only the EUR 300m pre-financing tranche will have reached the treasury by the time of the parliamentary elections scheduled for 28 September. Public sentiment has cooled toward the ruling, pro-EU Party of Action and Solidarity (PAS), which has struggled to deliver visible economic improvements against a headwind of Russian interference. A broader coalition – one that neither blocks nor aggressively promotes EU integration – could nevertheless continue the reform process after the vote.

**MONTENEGRO: DOWNTURN IN TOURISM THREATENS FRAGILE GROWTH***by Marko Sošić*

GDP growth in Q1 amounted to 2.5% – somewhat weaker than expected and almost half the figure for the same time last year. Overnight tourist stays are trending downwards, with fewer recorded in the first five months of 2025 than in the same period last year – an alarming development, as there was already a noticeable decline in 2024. The reasons could include the poor roads (some of which are currently being upgraded) and strong competition from neighbouring Croatia and Albania. We are revising our earlier forecast of 3.4% GDP growth in 2025 down to 3.2%. On a positive note, the unemployment rate fell to single digits for the first time since the indicator started to be measured, reaching 9.9% in May. Last year's trend of falling inflation has gone into reverse in 2025, with each month bringing a higher rate – 4.5% in May. We have thus revised our inflation forecast for 2025 upwards, to 3.3% (from our initial forecast of 3%). Parliament has ratified agreements with the United Arab Emirates (UAE) on cooperation in the fields of the economy, tourism and real estate. These pave the way to contracts with UAE investors that bypass laws governing public procurement and competition, and that enable contracts to be awarded directly, without tender. This threatens to weaken transparency and equal treatment. The pace of EU accession negotiations has slowed. Only one chapter (Chapter 5 on public procurement) has so far been recommended for provisional closure, rather than the four expected in the first half of the year. While disagreements with Croatia are playing a role in the slow pace of the accession talks, the administration actually appears overwhelmed by the workload facing it. Matters are not helped by the frequent tensions that arise within the ruling coalition.



## NORTH MACEDONIA: BETTER THAN EXPECTED, BUT STILL FAR FROM GOOD

*by Branimir Jovanović*

The economy performed better than expected in Q1 2025, with GDP growing by 3%. This was largely due to robust construction output on the highway projects initiated by the previous government. The surge in exports ahead of the US tariff increase also contributed – Q1 saw the first uptick in goods and service exports for two years. While household consumption remains somewhat sluggish, the regular uplift to the minimum wage in March is expected to stimulate spending in the coming quarters. Given all this, we are revising our GDP growth forecast for the whole year slightly upwards, to 2.8%. Inflation rounds off the improvements in the economic picture: it decelerated, following the government's imposition of price controls in March. Because of that, we are revising our inflation forecast for the whole year down to 3.8%. A big recent story in the country has been the strategic partnership agreement signed in May with the UK. This establishes a framework for up to EUR 6bn in infrastructure investment in North Macedonia, though it remains to be seen how the funds will actually be utilised. The most prominent project announced so far – a EUR 2bn railway connecting Greece and Serbia – has been knocking around for some time, but has yet to materialise. Moreover, little has been seen of the highly publicised EUR 1bn loan from Hungary secured last year – something that casts further doubt on the impact of the new British loan.

## POLAND: GROWTH HOLDS STEADY

*by Maciej Grodzicki*

Poland's economy made a solid start to 2025, with GDP growing by 3.2% year on year in Q1, continuing the trend seen in 2024. Growth was driven mainly by a rebound in fixed investment (which rose by 6.3%) and a build-up of inventories by firms. Other components of demand fell slightly short of expectations: private consumption grew by a modest 2.4%, while exports edged up just 1.1%, weighed down by weak demand from the country's EU trading partners. Public capital spending was also disappointing, as some of the planned investment projects were delayed. Even so, the labour market remains stable. Unemployment rose only slightly in Q1 to 3.4%, and wages increased by 10% year on year in nominal terms, or 5.1% in real terms – though their growth is slowing. Inflation continued to ease, with deflationary tendencies present both domestically and externally. Headline CPI fell to 4.3% in April (from 4.9% in Q1) and is expected to reach the central bank's target corridor (1.5-3.5%) in the second half of the year. This provided scope in May for the National Bank of Poland to cut the policy rate by 50 basis points. Further monetary policy easing may depend on political developments, following the victory of opposition candidate Karol Nawrocki in June's presidential election. This somewhat surprising result is unlikely to have any direct macroeconomic repercussions, though the ruling coalition of Prime Minister Donald Tusk may wish to rebuild public support. Its key economic challenge remains to accelerate public investment, especially in the face of weak foreign demand. While uncertainty persists, we expect investment to remain the key driver of growth; we therefore maintain our 2025 GDP forecast at 3.5%.



## ROMANIA: NEW GOVERNMENT TO IMPLEMENT AUSTERITY MEASURES

*by Gábor Hunya*

Economic growth is projected to be 1.2% in 2025, well below earlier forecasts. While investment is set to increase and agricultural conditions may improve, fiscal austerity and weak external demand remain major constraints. There was an uptick in investment in Q1, with EU fund disbursements surpassing the total for the whole of 2024. Even if some funds are lost, Romania still expects annual inflows of about 2% of GDP in Recovery and Resilience Facility funds in 2025 and 2026, plus around 3% of GDP under the Multiannual Financial Framework. Household consumption will remain a key driver of growth, but will slow due to weak gains in real wages. Wage freezes in the public sector, selective tax hikes and the rollback of price controls will all weigh on private spending. However, the recent pension reform and earlier increases in the minimum wage will continue to support disposable income. Inflation averaged about 5% in H1 2025 and is expected to rise in Q3, once energy subsidies are removed. Given the elevated outlook for inflation, the central bank is unlikely to cut the policy rate in 2025. The exchange rate, previously stable to support anti-inflation efforts, has recently weakened due to the political uncertainty. Confidence may return if the incoming government enacts credible fiscal consolidation measures from 1 July. These could include a hike in VAT, excise duties and income tax; a crackdown on tax evasion; and cuts in administrative spending. The government will need to commit itself to reducing the deficit from 9.3% of GDP to 7.5% in 2025 and then maintain a steady consolidation path in the following years. Also, the external deficit has been a drag on the economy. The Q1 trade deficit exceeded last year's high level, as imports outpaced exports. A hard landing is looming as a downside risk, given the absence of a resolute fiscal and current account consolidation.

## RUSSIA: TIGHT MONETARY POLICY TAKING ITS TOLL ON THE REAL ECONOMY

*by Vasily Astrov*

After two years of economic boom, growth momentum has weakened markedly. In the first four months of 2025, economic activity grew by a mere 1.6% and industrial production by 1.2% – and even that result is exclusively thanks to military production. With the war-related fiscal stimulus tapering off and sanctions-induced import substitution reaching its limits, a slowdown was only to be expected. However, the policy of double-digit real interest rates, motivated by a perceived need to bring inflation closer to the 4% target, has arguably made it much more pronounced. Overall credit expansion has stalled in real terms and the growth in household loans has turned negative, affecting demand for consumer durables and housing. With the cooling of demand, inflation had subsided to around 6% on an annualised basis by April (from double digits at the start of the year). In response, on 6 June the central bank cut the policy rate by 1 percentage point, to 20%, with further cuts likely to follow. Apart from supporting credit activity, monetary easing should also exert badly needed downward pressure on the rouble, which has appreciated by some 20% against the US dollar since the start of the year and – along with declining oil prices – has undermined government revenue. In the baseline scenario, we stick with our earlier forecast of 2% GDP growth for 2025. However, should further policy easing be delayed or proceed too slowly, growth may well end up being closer to 1-1.5% this year. For 2026-2027, our growth forecast has been revised downward, to below 2%, as the thaw in relations with the US – with the associated prospect of an easing of sanctions – looks increasingly unlikely to proceed much beyond its current stage.

## SERBIA: THE SLOW TURN OF THE TIDE

*by Branimir Jovanović*

In Q1 2025, GDP grew by 2% year on year – a clear slowdown compared to the previous two years, though broadly in line with expectations. The main reason for the slowdown was investment, which fell by 1% – the first such decline since the onset of the pandemic. This was largely due to a collapse in FDI inflows – down to half the level of a year earlier – reflecting global uncertainty in the wake of Donald Trump's return to power and the domestic political crisis. Public investment also dropped – by 8% in real terms – likely a result of the government's struggles to implement projects amidst mounting protests. On a more positive note, industrial production rose moderately, while exports of goods and services grew more robustly. However, this was probably due to an increase (ahead of the new tariffs) in EU exports to the US (in which Serbia plays a part through its supply chains) and is unlikely to last. Inflation has started to slow, but only gradually, reaching 4% in April. Since these trends are in line with our expectations, we are maintaining our forecast unchanged from spring. Politically, the student protests – which have been going on for over six months – have evolved into a wider movement calling for early elections. The waning support of the ruling coalition has led it to resist these calls so far, but it is unlikely to be able to hold out for much longer. Local elections held in June in two municipalities – Kosjerić and Zaječar – showed that support for the ruling party has weakened significantly: while it narrowly held onto both towns, its results were far weaker than in previous elections. We therefore expect early elections by year-end; recent announcements of wage and pension hikes provide a powerful signal that this is indeed likely.

## SLOVAKIA: UNCERTAINTY WEIGHING ON GROWTH PROSPECTS

*by Doris Hanzl-Weiss*

In Q1 2025, Slovakia recorded one of the lowest growth rates in the euro area: just 0.9% year on year. Household consumption provided only modest support for growth: with fiscal consolidation commencing at the start of the year, VAT increased from 20% to 23%, which undermined household sentiment. Investment declined sharply, while restocking lifted gross capital formation. Exports grew at a respectable pace, but imports increased even more strongly, so that net exports made a negative contribution to GDP growth. Although the industrial sector declined at the beginning of the year, Slovakia's key automotive industry performed well, expanding by 13% in the first four months of 2025. The growth forecast for this year has been revised downward to 1.4%, on the back of rising global uncertainty and trade tensions, which could have a particular impact on Slovakia's small, open economy and its vital automotive sector. As well as the transition towards electric mobility, stricter controls on rare earth exports from China will create fresh challenges for the automotive industry. Domestically, fiscal consolidation is weighing not only on household demand, but also on private-sector investment. The political situation only adds to the uncertainty, with recent trends under the government of Prime Minister Fico raising concerns over the rule of law and media independence.

**SLOVENIA: EARLY SIGNS POINT TO A YEAR OF LACKLUSTRE GROWTH***by Niko Korpar*

Following an unexpected contraction of 0.8% in Q1 2025, we have revised our growth forecast for 2025 down to 1.6%. The main drag on growth in the first quarter was subdued household consumption (despite recent wage increases and high employment), but in addition there was negligible export growth, due to the uncertainty surrounding potential US tariffs and the ongoing economic weakness in Germany. The construction sector also underperformed, and value added in manufacturing fell by 2.1% year on year. In 2025, growth will primarily be supported by government spending (forecast to rise by 1.8%), though there will be a more modest contribution from private consumption. Export growth is expected to reach only 1.7% (down from 2024), but the current account will remain in surplus. Given the sustained uncertainty in global trade, we do not anticipate any marked recovery in external demand before 2027. Inflation reached 1.8% in May, and we forecast that it will average 2.1% for the full year, driven by upward pressure from US trade policy and wage demands in the service sector. The labour market will remain tight, with unemployment at 3.6%. Any job growth will lead to by an influx of foreign workers. Weaker economic performance is likely to weigh on public finances, putting government revenue under pressure. The budget deficit this year is projected to widen to 2.2% of GDP, partly due to higher spending on social care – in particular, long-term social and medical assistance for the elderly – and defence. Ahead of the 2026 elections – and as right-wing parties continue to gain support in the polls – the government is expected to seek to push through previously proposed reforms on pensions, real estate tax and the media.

**TURKEY: WEAKENING ECONOMIC ACTIVITY AND DEEPENING POLITICAL UNREST***by Meryem Gökten*

The economy grew by 2% year on year in Q1, driven by household and government consumption, while net exports continued to weigh heavily on growth. Activity was supported by the construction and service sectors, whereas agriculture and industry contracted (by -2% and -1.8% year on year, respectively). Unemployment rose, partly due to the weakening in industry. While Q1 data point to a modest loss of momentum compared to the previous quarter, high-frequency indicators suggest a further slowdown in Q2. Higher borrowing costs, driven by the recent political turmoil, have put pressure on industrial output, while declining real wages and rising unemployment have continued to weigh on private consumption. The central bank has reaffirmed its hawkish stance amid persistent political uncertainty and elevated exchange-rate risks. Despite softer inflation in May (35.4% year on year; 1.5% month on month), we expect rate cuts to begin no earlier than September. On the political front, uncertainty persists following the arrest of Istanbul Mayor Ekrem İmamoğlu, though market reaction has now stabilised. Since May, the lira has been steady and the 10-year bond yield has started to decline. However, the legal crackdown against the main opposition party, the CHP, has intensified, extending beyond the Istanbul municipality. Prosecutors have challenged the results of the 2023 CHP congress, citing vote-buying and procedural irregularities. The annulment of the results and any resulting leadership change – either with a government-appointed trustee or through the return of former party leader Kemal Kılıçdaroğlu – would deepen internal divisions and risk undermining the party's recent electoral gains. Given the recent data, we have made a downward revision to our 2025 GDP growth forecast (to 3.4% – 0.1 percentage points lower) and our inflation forecasts (to 35% in 2025 and 24% in 2026 – in both cases, 1 percentage point lower).

## UKRAINE: FACING INCREASING HEADWINDS

*by Olga Pindyuk*

Ukraine's economic performance is continuing to decelerate – preliminary estimates put real GDP growth in Q1 2025 at about 1% year on year, a marked slowdown from the already rather modest figure of 2.9% in 2024. Robust consumer demand (supported by the strong growth of real wages) and a revival in manufacturing (especially in metallurgy and the production of military equipment) cannot offset the adverse effects of Russian military aggression. Ukraine's military is still experiencing a shortage of air-defence missiles, which is weakening its ability to withstand Russian drones and missile attacks that continue to destroy the country's infrastructure. A tight labour market remains one of the biggest bottlenecks for the economy; and the longer the war lasts, the greater the labour shortage will be. Consumer price inflation accelerated further in April and May to exceed 15% year on year; this has forced the National Bank of Ukraine to maintain the policy rate at 15.5%. We have revised our forecast for GDP growth in 2025 downwards, in the wake of a harvest that is projected to be poorer than expected (following adverse weather) and the EU's decision, under pressure from its farmers, to restore pre-war restrictions on Ukrainian agrifood exports. Assuming a significant de-escalation of the war with Russia next year, economic growth in 2026-2027 should pick up. However, the downside risks to the forecast have increased amid growing geopolitical uncertainty. Kyiv has so far managed to appease US President Donald Trump and avoid the worst-case outcome of a permanent block on American intelligence sharing and a halt to weapon deliveries, but tensions with the US could escalate again and put Ukraine's military capabilities at risk.

## 4. Index of subjects – July-August 2024 to July-August 2025

<b>Albania</b>	economic situation .....	2025/1, 2025/7-8
<b>Belarus</b>	economic situation .....	2025/1, 2025/7-8
<b>Bosnia and Herzegovina</b>	economic situation .....	2025/1, 2025/7-8
<b>Bulgaria</b>	economic situation .....	2025/1, 2025/7-8
<b>China</b>	regional development .....	2025/3
<b>Croatia</b>	economic situation .....	2025/1, 2025/7-8
<b>Czechia</b>	automotive industry .....	2025/3
	economic situation .....	2025/1, 2025/7-8
<b>Estonia</b>	economic situation .....	2025/1, 2024/7-8
<b>Germany</b>	macroeconomic policies .....	2025/3
<b>Hungary</b>	economic situation .....	2025/1, 2025/7-8
	political risk and FDI .....	2024/11
<b>Kazakhstan</b>	economic situation .....	2025/1, 2025/7-8
<b>Kosovo</b>	economic situation .....	2025/1, 2025/7-8
<b>Latvia</b>	economic situation .....	2025/1, 2025/7-8
<b>Lithuania</b>	economic situation .....	2025/1, 2025/7-8
<b>Moldova</b>	economic situation .....	2025/1, 2025/7-8
<b>Montenegro</b>	economic situation .....	2025/1, 2025/7-8
<b>North Macedonia</b>	economic situation .....	2025/1, 2025/7-8
<b>Poland</b>	economic situation .....	2025/1, 2025/7-8
	internal politics .....	2025/6
	lessons from economic transition .....	2025/2
<b>Romania</b>	economic situation .....	2025/1, 2025/7-8
<b>Russia</b>	economic situation .....	2025/1, 2025/7-8
	impact of sanctions .....	2025/3
	war with Ukraine .....	2024/10
<b>Serbia</b>	economic situation .....	2025/1, 2025/7-8
<b>Slovakia</b>	economic situation .....	2025/1, 2025/7-8
<b>Slovenia</b>	economic situation .....	2025/1, 2025/7-8
<b>Turkey</b>	economic situation .....	2025/1, 2025/7-8
<b>Ukraine</b>	economic situation .....	2025/1, 2025/7-8
	mineral resources agreement with the US .....	2025/6
	war with Russia .....	2024/10

(continued on the next page)

**multi-country articles  
and statistical overviews**

Bretton Woods and global stagnation .....	2024/9
CESEE: current developments .....	2025/1, 2025/7-8
COMECON economies: brand new dataset .....	2024/12
COMECON economies: digitising old wiiw publications.....	2024/12
COMECON economies: reasons for collapse .....	2024/12
digital transition at work in the EU .....	2024/10
Draghi Report on EU competitiveness .....	2025/2
employment in Europe: typical and atypical .....	2024/10
environmental problems and economics.....	2024/9
EU accession countries: environmental convergence.....	2025/3
FDI in CESEE: recent trends .....	2025/5, 2024/11
global monetary trends .....	2025/6
inflation and economic growth.....	2025/3
Trump and the impact on CESEE .....	2025/1
Trump's tariffs and the impact on selected countries.....	2025/2
Western Balkans: EU Global Gateway Initiative .....	2025/6
Western Balkans: labour taxation .....	2024/9

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