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Monthly Report

Summer Forecast Update

A hotter summer: inflation complicating the CESEE outlook

Economic Forecasts for Eastern Europe for 2026-28



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Executive summary

The main CESEE growth story remains intact, but the outlook for inflation has deteriorated. Since our Spring Forecast, the energy price shock triggered by the conflict in the Middle East has pushed inflation forecasts significantly higher across much of the region and has prompted central banks to pause or slow monetary easing. Inflation is now expected to be around 1 percentage point (pp) higher in 2026 and 1.4pp higher in 2027 than previously forecast.

Despite this, growth has proved remarkably resilient. We have reduced our CESEE growth forecast for 2026 by only 0.2pp. Southeast Europe, Poland and Kazakhstan remain the region's strongest performers, while Romania, Slovakia and Russia continue to lag behind. The biggest upgrades have been made for Kazakhstan and Bulgaria, while Romania, Turkey and Russia have seen the largest downgrades.

The energy shock has reinforced a broader shift towards a higher-for-longer interest-rate environment. Monetary policy is now expected to remain tighter than previously anticipated in most major CESEE economies, which will weigh on investment and consumption.

Looking beyond the immediate shock, the region is entering a new phase of development. Security spending, AI-driven productivity upgrading, China Shock 2.0, EU enlargement, Ukraine's reconstruction, fiscal pressures and slowing greenfield FDI are all increasingly shaping the outlook. For businesses, the key challenge is how to adapt to a world where productivity must increase in order to offset higher labour costs. For policy makers, the priority is to balance fiscal pressures against the need to ensure that investment, innovation and institutional quality support the next stage of CESEE convergence.

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: 11 June 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

Compared to April 2026, we have made the following adjustments to the baseline scenario:

- › the average price of crude Brent oil has been increased to USD 95, USD 80 and USD 65 per barrel in 2026, 2027 and 2028, respectively
- › our forecast for the euro area's GDP growth in 2026 and 2027 has been revised further downwards – by 0.2 percentage points (pp) each year
- › consumer price inflation in the euro area is now forecast to be 0.9pp higher in 2026 and 0.5pp higher in 2027
- › the European Central Bank (ECB) deposit facility rate will be 0.25pp higher in both 2026 and 2027
- › in 2026 and 2027, the euro will strengthen less against the US dollar than previously expected.

We expect the conflict in the Middle East to drag on and the ceasefire agreement that is being negotiated between the US and Iran not to hold for long, on account of Israel's opposition to its proposed conditions. Israel's continued missile attacks on Lebanon show how difficult it is to end this war. Under these conditions, it is not very likely that the Strait of Hormuz will be reopened for good in the near future. Additionally, the following factors will cause the supply of crude oil, liquefied natural gas (LNG) and many refined products to remain tight until late in the year:

- › Even if the strait reopens permanently, it will take months for energy flows to normalise, since the resumption of supplies through the strait is not simply a matter of pressing a button. With no export ability, many oilfields have been fully 'shut in'; S&P Global estimates that some could take seven months to restart.¹ On top of that, missile attacks have wiped out 17% of Qatar's LNG capacity for up to five years.²
- › About 800 ships stranded in the Gulf will have to reposition themselves and offload their cargoes, and will need to have the accumulated barnacles removed.³ It will take at least four months for traffic volumes through the strait to recover to 80% of prewar levels, and full normalisation may be possible only in 2027.⁴

¹ <https://www.ft.com/content/36345a2b-e7bc-4077-8e88-5874cf9a723d?syn-25a6b1a6=1> , <https://www.spglobal.com/energy/en/news-research/latest-news/crude-oil/041726-middle-east-oil-recovery-to-require-months-once-strait-of-hormuz-remains-open>

² <https://www.reuters.com/business/energy/iran-attack-damage-wipes-out-17-qatars-lng-capacity-three-five-years-qatarenergy-2026-03-19/>

³ <https://www.ft.com/content/28c8ca92-0c98-46c8-8d51-7c90c68821b7?syn-25a6b1a6=1>

⁴ <https://www.ft.com/content/36345a2b-e7bc-4077-8e88-5874cf9a723d?syn-25a6b1a6=1>

› Demining of the strait will take months.⁵

Next year the demand for oil will be pushed up by the need to replenish (and in the case of some countries, to increase) the strategic oil reserves and corporate oil inventories.

Therefore, we expect oil and gas prices to stay high for longer than was assumed in the previous baseline projections. We forecast an average oil price of USD 95 per barrel for 2026 and USD 80 per barrel in 2027.

Higher energy prices will push the euro area's average annual consumer price inflation (CPI) in 2026 to 3.2% – higher than we projected in spring; annual inflation will slow in 2027, but at 2.5% will still be higher than previously expected. This will force the European Central Bank to raise its policy rate in 2026 to higher than previously forecast – by 50 basis points (bp) in total (an initial hike of 25 bp came in June, and a second 25 bp rise is expected in H2 2026).

Table 1.1 / Global assumptions and direction of revisions since wiiw spring 2026 forecast

	Spring 2026			Changes since Spring 2026		
	2026	2027	2028	2026	2027	2028
Euro area real GDP growth, %	0.7	1.0	1.5	-0.2	-0.1	0.0
Euro area HICP, %	3.2	2.5	1.9	0.6	0.3	0.0
Euro area unemployment rate, %	6.3	6.2	6.1	0.1	0.1	0.1
Euro area current account, % of GDP	1.9	2.0	2.1	-0.1	0.0	0.0
Euro area fiscal balance, % of GDP	-3.6	-3.5	-3.3	0.0	0.0	0.0
Euro area public debt, % of GDP	89.0	89.2	89.4	0.0	0.0	0.0
Euro area gross external debt, % of GDP	225.0	225.0	225.0	0.0	0.0	0.0
ECB deposit facility rate, %, eop	2.50	2.25	2.00	0.25	0.25	0.00
USD/EUR exchange rate, average	1.17	1.19	1.20	0.00	0.00	0.00
Brent crude oil, US\$ per barrel, average	95.0	80.0	65.0	10.0	9.0	2.0

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: 11 June 2026.

Higher inflation will weigh on consumer confidence, while tighter monetary policy and growing uncertainty will hamper investment – and all this will constrain economic growth. Germany's manufacturing sector stalled in May, according to the latest S&P Purchasing Managers' Index (PMI) data, as uncertainty and soaring costs associated with the war in the Middle East acted as a headwind to demand. The overall euro-area manufacturing sector grew again in May, according to S&P Global Eurozone Manufacturing PMI; however the upturn lost momentum as the Manufacturing PMI – a measure of the overall health of the euro area's manufacturing sector – fell from April's 52.2 to 51.6 in May, amid stagnating demand. The survey signalled a further intensification of inflationary pressures, as input costs rose at their fastest pace since May 2022. Therefore, we have revised downwards our forecast for GDP growth in 2026 to 0.7% year on year. In 2027, the economy will bounce back to a healthier growth rate, but economic activity will be less dynamic than we projected back in April: GDP growth will reach 1% year on year.

⁵ <https://www.washingtonpost.com/national-security/2026/04/22/iran-hormuz-mines/>

We consider the possibility of a lasting ceasefire between Iran, Israel and the US in the coming weeks to be an upside risk to our forecast. The interim agreement signed by the US and Iran on 17 June – which extends the ceasefire for 60 days and offers concessions to the Islamic republic in exchange for its reopening of the Strait of Hormuz – is far from a done deal, however. The agreement's fragility became obvious on 19 June, when Iran postponed talks with the US due to Israeli strikes on Lebanon and fired warning shots at ships in the Strait of Hormuz,⁶ eventually closing the strait to navigation. Further obstacles to a finalisation of the agreement stem from the sharp criticism levelled at the agreed terms by influential Republicans.⁷

⁶ <https://www.ft.com/content/9cd814af-6144-4646-ad1c-a6292391e613?syn-25a6b1a6=1>

⁷ <https://www.reuters.com/world/replicans-blast-trumps-iran-agreement-details-emerge-2026-06-18/>

2 A hotter summer: inflation complicating the CESEE outlook

BY RICHARD GRIEVESON

2.1 INFLATION IS BACK, AT LEAST FOR A WHILE

The longer-than-expected energy price shock driven by the US and Israeli attacks on Iran and the closure of the Strait of Hormuz has prompted a sharp upward revision of wiiw's inflation forecasts for CESEE in 2026 and 2027. Although the war had already started at the time of our previous forecast, we expected it to be over fairly quickly, and did not foresee such a prolonged disruption to shipping in the Strait of Hormuz and the consequent impact on energy markets. We now expect inflation to be 1pp higher across CESEE this year and 1.4pp higher in 2027 than envisaged in our Spring Forecast. The price shock reflects above all the increase in global energy prices, especially oil, which has had a knock-on effect across most CESEE economies, owing to higher import costs, which then translate into more expensive fuel prices.

The extent of the inflation shock varies across the region, and is influenced by a number of country-specific factors. Domestic price controls, exchange-rate volatility, the share of energy imports and the starting level of inflation all play a role. Our sharpest upgrades are for countries where several of these factors are present. It is in Turkey (+5pp) Bosnia and Herzegovina (+2.1pp), Kosovo (+2pp), Moldova (+1.7pp), Croatia (+1.1pp) and Romania (+1pp) that we have made the sharpest upward revisions to the inflation forecasts for 2026.

Despite this, in several countries we have revised our inflation forecast downward. In part, this has occurred in energy-exporting countries, which obviously do not face higher import costs: in both Russia and Kazakhstan we have revised inflation down by 0.5pp for 2026. Both benefit from a stronger exchange rate, linked to the higher oil price, which also pushes down the cost of other imports. In the case of Russia, the very high real interest rates and the consequent weakness in domestic demand also play a role in pushing down inflation. However, we have also made a 0.3pp revision downwards for Hungary, an energy importer, reflecting the sharp appreciation in the exchange rate following the recent election, which will make imports cheaper in local-currency terms.

The duration and extent of the inflation shock is difficult to predict, given the continued volatility on the energy markets (see Global Assumptions), but across much of the region we do not expect the shock to dissipate any time soon. In Turkey (+7pp), Bosnia and Herzegovina (+1.3pp), Kosovo (+1pp), Moldova (+1pp) and Czechia (+0.5pp) we have also made fairly substantial upward revisions to price growth for 2027. Even if the initial oil price shock is fading (uncertain at the time of writing), we expect there to be at least some second-round effects. Domestic energy prices have already risen, and the spike in fertiliser prices is likely to feed through to higher food prices next year (in some countries food costs are already ticking up). As of May (latest available data), core inflation was trending

down in Czechia and Hungary, but up in Poland and Romania, underlining the fact that it is too early to say how durable the non-energy part of the current inflation uptick will be.

One very concrete implication is that central banks across the region have paused the easing cycle, and some have even started to lean towards tightening, which will keep borrowing more expensive than previously anticipated and weigh on investment and consumption. We now expect tighter policy than at the time of our Spring Forecast in Poland, Czechia, Romania, Serbia, Moldova and Turkey. The only countries where we expect any meaningful loosening this year are Hungary, Russia, Belarus and Kazakhstan. In Hungary, this reflects the adjustment to the post-election fundamentals, with a much stronger currency and substantially lower risk premia, allowing for a more accommodative monetary policy. For the others, it is about being on the positive side of the oil price shock (indirectly so in the case of Belarus, due to its strong integration with Russia).

Table 2.1 / CPI forecast and direction of revisions since wiiw spring 2026 forecast

Region		2026		2027		2028	
EU-CEE							
BG	Bulgaria	5.2	▲	3.5	▼	3.0	
CZ	Czechia	2.6	▼	2.9	▲	2.5	▲
EE	Estonia	3.8	▼	2.8	▼	2.3	▼
HR	Croatia	4.6	▲	2.9	▲	2.6	
HU	Hungary	3.7	▼	3.3	▼	3.1	
LT	Lithuania	3.4	▼	2.7		2.3	
LV	Latvia	3.4		3.1		2.8	
PL	Poland	3.5		3.7		3.0	
RO	Romania	7.8	▲	4.0	▼	4.0	
SI	Slovenia	3.0		2.3		2.1	
SK	Slovakia	4.0		3.5		2.5	
Western Balkans							
AL	Albania	2.8		2.9		3.0	
BA	Bosnia and Herzegovina	5.5	▲	4.0	▲	2.5	▲
ME	Montenegro	4.3	▲	3.5		3.0	
MK	North Macedonia	5.0		4.5		4.0	
RS	Serbia	4.5		4.0		3.5	
XK	Kosovo	7.0	▲	4.5	▲	3.2	▲
New EU accession 2							
MD	Moldova	7.5	▲	5.5	▲	4.5	
UA	Ukraine	10.0		8.0		6.0	
Turkey							
TR	Turkey	35.0	▲	28.0	▲	18.0	▲
CIS3							
BY	Belarus	5.9	▼	5.7	▼	5.5	▼
KZ	Kazakhstan	10.0	▼	8.0		6.0	
RU	Russia	5.7	▼	4.0	▼	3.9	

Source: wiiw forecasts as of 11 June 2026.

2.2 THE GROWTH OUTLOOK REMAINS SURPRISINGLY STABLE

Despite a more challenging global environment, higher inflation and tighter monetary policy than previously expected, the broad growth picture for CESEE remains intact. We have cut our regional growth forecast for 2026 by just 0.2pp – a relatively minor revision, considering the challenges thrown up by higher inflation. Growth continues to be strongest in parts of Southeast Europe, Poland and Kazakhstan, while several economies in EU-CEE remain constrained by weak industrial activity and fiscal adjustment, and Russia is hamstrung by the economic consequences of its invasion of Ukraine. Our relative optimism in terms of the outlook for growth is due to an expectation that the inflation shock will remain much smaller than in 2022-2023, and that consumer and business confidence will not be fundamentally knocked off course.

The drivers of growth remain broadly unchanged, with private consumption and investment the main positive stories. Across the region we see private consumption continuing to be the key driver, reflecting its high share in GDP, even if real wage growth has slowed in many places due to higher inflation and as consumers become more cautious about spending, in light of the energy shock and general global geopolitical and economic volatility. Investment should also continue to be a driver and in some places will become even more important, as labour shortages stimulate productivity-upgrading investment and EU funds continue to support fixed capital formation in EU member states and candidate countries of the region. While FDI has declined in general (see our May FDI report)¹ it remains an important factor in the Western Balkans. Nevertheless, with the tighter-than-expected monetary policy and the general uncertainty driven by geopolitics, the investment outlook is not as upbeat as at the time of our previous forecast.

By contrast, we see more challenges for government spending and exports. In the case of the former, an increasing number of countries are being forced into consolidation (or soon will be), as markets and ratings agencies become less tolerant of the big deficits that emerged in the wake of the pandemic. Exports meanwhile face a 'perfect storm' of a loss of external competitiveness driven by rising labour costs and real exchange-rate appreciation (see Spring Forecast),² combined with German industrial stagnation and the ever more visible China 2.0 shock (see June Monthly Report).³

The main growth upgrades vis-à-vis the Spring Forecast are for Kazakhstan, Bulgaria and Hungary, in each case reflecting country-specific factors. Kazakhstan is one of the main beneficiaries of higher oil prices, and is also seeing a surge in investment. In Bulgaria, the upgrade is linked to greater inflows of EU funds. In the case of Hungary, the upgrade to the growth forecast is strongest in 2027, reflecting our view that the new government is good news for the economy, but that the benefits will not materialise immediately.

On the flipside, we have made the biggest downward revisions to our growth forecasts for Romania, Turkey and Russia, three of the region's biggest economies. In Romania, the outbreak of a political crisis reflects the harsh fiscal austerity that the country is undergoing in an attempt to bring its deficit under control, which is weighing heavily on overall growth performance. Turkey has been especially badly hit by the oil shock, reflecting the typically strong pass-through from higher global

¹ <https://wiiw.ac.at/monthly-report-no-05-2026-fdi-in-central-east-and-southeast-europe-p-7614.html>

² <https://wiiw.ac.at/growth-model-adapting-under-pressure-p-7565.html>

³ <https://wiiw.ac.at/monthly-report-no-06-2026-p-7642.html>

energy prices to domestic inflation (our inflation forecast increases for Turkey dwarf those of other countries). Meanwhile in Russia, tight monetary policy is weighing heavily on investment and consumption, while Ukraine has been very successful at targeting Russian energy infrastructure with its drone strikes, which has had wider effects for the economy.

The energy shock is also having an impact on the macroeconomic stability of the region, although we see no great cause for concern. Current account balances across the region have generally deteriorated, owing to higher import costs and potentially also lower tourism inflows (due to the higher cost of jet fuel) increasing external financing needs. We have made no major changes to our fiscal forecasts, reflecting our assumption that the scale of the current shock will not be comparable to that of 2022, and thus will not lead to massive new increases in government spending; however, the possibility of that does still remain a risk.

Table 2.2 / Real GDP growth forecast and direction of revisions since wiiw spring 2026 forecast

Region		2026		2027		2028	
EU-CEE							
BG	Bulgaria	2.5	▲	2.6	▲	2.8	▲
CZ	Czechia	2.2		2.3	▼	2.7	
EE	Estonia	2.4	▲	2.8		2.4	
HR	Croatia	2.6		2.7		2.8	
HU	Hungary	1.7	▲	2.6	▲	2.8	▲
LT	Lithuania	2.2	▼	1.8	▼	2.5	
LV	Latvia	1.8	▼	1.9	▼	2.4	
PL	Poland	3.7	▲	2.9	▲	3.0	▲
RO	Romania	-0.1	▼	1.6	▼	2.3	▼
SI	Slovenia	1.9	▲	2.2	▼	2.3	▼
SK	Slovakia	0.5		1.6		1.5	
Western Balkans							
AL	Albania	3.6		3.5		3.5	
BA	Bosnia and Herzegovina	2.3		2.8		3.0	
ME	Montenegro	2.8		2.9		3.0	
MK	North Macedonia	2.9		2.9		3.0	
RS	Serbia	2.0		3.0		3.5	
XK	Kosovo	3.3	▼	3.4	▼	3.6	
New EU accession 2							
MD	Moldova	1.9	▲	2.7	▼	3.3	▼
UA	Ukraine	1.0		2.5		3.4	
Turkey							
TR	Turkey	3.3	▼	3.9	▼	4.2	▼
CIS3							
BY	Belarus	1.0	▲	1.5	▲	1.3	
KZ	Kazakhstan	4.5	▲	4.7	▲	5.0	
RU	Russia	0.6	▼	1.3	▼	1.7	▼

Source: wiiw forecasts as of 11 June 2026.

Table 2.3 / 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	Forecast			2024	2025	Forecast			2024	2025	Forecast		
			2026	2027	2028			2026	2027	2028			2026	2027	2028
BG Bulgaria	3.4	3.1	2.5	2.6	2.8	2.6	3.5	5.2	3.5	3.0	4.2	3.5	3.6	3.7	3.7
CZ Czechia	1.3	2.6	2.2	2.3	2.7	2.7	2.3	2.6	2.9	2.5	2.6	2.8	3.3	3.2	3.0
EE Estonia	-0.1	0.6	2.4	2.8	2.4	3.7	4.8	3.8	2.8	2.3	7.6	7.5	6.8	6.6	6.4
HR Croatia	3.8	3.4	2.6	2.7	2.8	4.0	4.4	4.6	2.9	2.6	5.0	4.9	4.8	4.8	4.9
HU Hungary	0.7	0.5	1.7	2.6	2.8	3.7	4.4	3.7	3.3	3.1	4.5	4.4	4.4	4.3	4.2
LT Lithuania	3.0	2.9	2.2	1.8	2.5	0.9	3.4	3.4	2.7	2.3	7.1	6.9	6.9	6.6	6.3
LV Latvia	0.0	2.1	1.8	1.9	2.4	1.3	3.8	3.4	3.1	2.8	6.9	6.9	7.0	6.9	6.4
PL Poland	3.2	3.6	3.7	2.9	3.0	3.7	3.3	3.5	3.7	3.0	2.9	3.1	3.1	3.0	3.0
RO Romania	0.9	0.7	-0.1	1.6	2.3	5.8	6.8	7.8	4.0	4.0	5.4	6.1	6.4	6.3	6.0
SI Slovenia	1.7	1.1	1.9	2.2	2.3	2.0	2.5	3.0	2.3	2.1	3.7	3.9	3.8	3.6	3.5
SK Slovakia	1.9	0.8	0.5	1.6	1.5	3.2	4.2	4.0	3.5	2.5	5.3	5.4	5.8	5.8	5.6
EU-CEE11 ¹⁾²⁾	2.2	2.3	2.2	2.4	2.7	3.7	4.0	4.3	3.5	3.0	4.1	4.2	4.3	4.2	4.1
AL Albania	4.0	3.8	3.6	3.5	3.5	2.6	2.3	2.8	2.9	3.0	8.5	8.4	8.3	8.2	8.1
BA Bosnia and Herzegovina	3.2	2.1	2.3	2.8	3.0	1.7	4.0	5.5	4.0	2.5	12.6	12.2	12.6	12.5	12.0
ME Montenegro	3.2	2.7	2.8	2.9	3.0	3.6	4.1	4.3	3.5	3.0	11.5	10.7	9.3	9.4	9.3
MK North Macedonia	3.0	3.5	2.9	2.9	3.0	4.2	4.3	5.0	4.5	4.0	12.4	11.5	11.0	10.5	10.0
RS Serbia	3.9	2.0	2.0	3.0	3.5	4.8	4.1	4.5	4.0	3.5	8.6	8.7	8.5	8.2	7.9
XK Kosovo	4.6	3.6	3.3	3.4	3.6	1.6	3.9	7.0	4.5	3.2	10.8	10.7	10.5	10.3	10.3
WB6 ¹⁾²⁾	3.7	2.6	2.5	3.0	3.3	3.6	3.8	4.6	3.9	3.3	10.0	9.8	9.7	9.5	9.2
MD Moldova	0.3	2.4	1.9	2.7	3.3	4.7	7.8	7.5	5.5	4.5	4.0	3.8	3.8	3.6	3.5
UA Ukraine	3.2	1.8	1.0	2.5	3.4	6.5	12.7	10.0	8.0	6.0	14.0	12.0	11.0	9.0	7.0
New EU accession 2 ¹⁾²⁾	3.0	1.8	1.1	2.5	3.4	6.4	12.4	9.8	7.8	5.9	13.5	11.6	10.7	8.7	6.8
TR Turkey	3.3	3.6	3.3	3.9	4.2	58.5	34.9	35.0	28.0	18.0	8.7	8.4	8.3	8.3	8.0
BY Belarus	4.3	1.3	1.0	1.5	1.3	5.7	6.7	5.9	5.7	5.5	3.0	2.5	2.5	2.6	2.7
KZ Kazakhstan	5.0	6.5	4.5	4.7	5.0	8.7	11.4	10.0	8.0	6.0	4.7	4.6	4.5	4.5	4.4
RU Russia	4.9	1.0	0.6	1.3	1.7	8.4	8.7	5.7	4.0	3.9	2.5	2.2	2.4	2.6	2.7
CIS3 ¹⁾²⁾	4.9	1.6	1.0	1.7	2.0	8.4	8.9	6.2	4.5	4.2	2.8	2.5	2.6	2.8	2.9
V4+SI ¹⁾²⁾	2.4	2.7	2.8	2.6	2.8	3.4	3.3	3.4	3.4	2.8	3.3	3.5	3.6	3.5	3.4
BALT3 ¹⁾²⁾	1.5	2.2	2.1	2.0	2.5	1.6	3.8	3.5	2.8	2.4	7.1	7.0	6.9	6.7	6.4
EU-SEE3 ¹⁾²⁾	1.8	1.5	0.8	1.9	2.5	4.9	5.8	6.9	3.8	3.6	5.1	5.3	5.5	5.5	5.3
EU accession 8 ¹⁾²⁾	3.3	2.1	1.6	2.7	3.4	5.3	9.0	7.8	6.3	4.9	12.4	11.1	10.4	9.0	7.6
non-EU12 ¹⁾²⁾	4.3	2.3	1.8	2.4	2.8	22.8	16.6	14.9	11.6	8.3	5.8	5.2	5.2	5.1	4.9
CESEE23 ¹⁾²⁾	3.7	2.3	1.9	2.4	2.8	17.5	13.1	12.0	9.4	6.9	5.3	5.0	5.0	4.9	4.7
EA ²⁾³⁾	1.0	1.4	0.7	1.0	1.5	2.4	2.1	3.2	2.5	1.9	6.3	6.3	6.3	6.2	6.1
EU27 ²⁾³⁾	1.2	1.5	0.9	1.2	1.7	2.6	2.5	3.4	2.7	2.1	5.9	6.0	5.7	5.6	5.5

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: 11 June 2026.

Table 2 / Continued

	Current account					Fiscal balance				
	in % of GDP					in % of GDP				
	2024	2025	Forecast			2024	2025	Forecast		
			2026	2027	2028			2026	2027	2028
BG Bulgaria	-0.5	-5.7	-4.9	-3.6	-2.7	-3.0	-3.5	-3.0	-3.0	-3.0
CZ Czechia	1.7	0.7	0.8	0.7	1.3	-2.0	-2.1	-2.9	-2.9	-2.5
EE Estonia	-1.2	-0.2	-1.4	-0.9	0.1	-1.1	-2.0	-4.4	-4.0	-3.5
HR Croatia	-2.2	-3.5	-3.5	-3.4	-3.3	-2.3	-3.0	-3.2	-2.9	-2.5
HU Hungary	1.7	1.6	1.1	1.2	1.7	-5.1	-4.7	-6.6	-4.7	-3.7
LT Lithuania	3.2	0.9	-0.3	-1.1	-1.7	-1.3	-1.8	-2.4	-2.3	-2.5
LV Latvia	-1.5	-3.4	-3.8	-3.6	-3.6	-1.8	-2.5	-3.3	-3.0	-2.5
PL Poland	0.3	-0.9	-1.3	-1.1	-0.5	-6.4	-7.3	-6.5	-6.2	-6.0
RO Romania	-8.2	-7.9	-7.1	-6.8	-6.5	-9.3	-7.9	-6.2	-5.8	-5.2
SI Slovenia	4.5	3.5	3.3	3.9	4.0	-0.9	-2.5	-2.3	-2.1	-2.1
SK Slovakia	-4.6	-3.6	-4.0	-3.4	-3.0	-5.3	-4.5	-4.5	-4.8	-4.3
EU-CEE11 ¹⁾²⁾	-0.9	-1.8	-1.9	-1.7	-1.3	-5.2	-5.4	-5.2	-4.8	-4.5
AL Albania	-2.4	-0.7	-1.9	-2.2	-2.0	-0.7	-1.8	-1.3	-1.5	-1.8
BA Bosnia and Herzegovina	-3.5	-3.2	-3.2	-3.0	-3.8	-1.8	-2.0	-2.1	-2.0	-1.5
ME Montenegro	-17.1	-20.5	-19.4	-19.2	-20.9	-3.3	-4.3	-3.7	-3.8	-4.0
MK North Macedonia	-2.2	-4.4	-5.5	-5.3	-4.4	-4.5	-4.0	-5.0	-4.0	-4.0
RS Serbia	-4.5	-4.9	-4.9	-4.7	-4.2	-2.0	-2.4	-3.0	-3.5	-2.5
XK Kosovo	-8.4	-8.2	-9.1	-8.8	-8.4	-0.3	-0.8	-0.5	-1.0	-1.0
WB6 ¹⁾²⁾	-4.6	-4.8	-5.2	-5.0	-4.8	-1.9	-2.4	-2.7	-2.9	-2.3
MD Moldova	-16.5	-19.7	-18.0	-17.1	-16.1	-3.9	-4.0	-4.5	-4.5	-4.0
UA Ukraine	-8.9	-16.0	-17.6	-18.9	-20.2	-17.6	-18.6	-18.0	-15.0	-14.0
New EU accession 2 ¹⁾²⁾	-9.5	-16.3	-17.6	-18.8	-19.8	-16.4	-17.3	-16.8	-14.1	-13.1
TR Turkey	-1.0	-2.0	-2.4	-2.5	-2.9	-4.8	-2.6	-3.3	-3.4	-4.0
BY Belarus	-2.1	-1.9	-1.5	-1.3	-1.0	1.3	0.1	0.2	-0.3	-0.5
KZ Kazakhstan	-2.3	-4.1	-0.9	-3.1	-4.2	-2.6	-2.7	-1.7	-2.0	-1.8
RU Russia	2.9	1.7	4.1	2.4	2.3	-1.6	-3.9	-2.2	-1.9	-1.6
CIS3 ¹⁾²⁾	2.1	1.0	3.4	1.6	1.4	-1.6	-3.6	-2.1	-1.9	-1.6
V4+SI ¹⁾²⁾	0.5	-0.3	-0.6	-0.4	0.2	-5.0	-5.5	-5.5	-5.1	-4.7
BALT3 ¹⁾²⁾	0.9	-0.4	-1.5	-1.7	-1.8	-1.4	-2.0	-3.1	-2.9	-2.7
EU-SEE3 ¹⁾²⁾	-5.8	-6.8	-6.1	-5.6	-5.2	-7.0	-6.3	-5.1	-4.8	-4.3
EU accession 8 ¹⁾²⁾	-7.2	-11.0	-11.7	-12.2	-12.6	-9.7	-10.4	-10.1	-8.7	-7.9
non-EU12 ¹⁾²⁾	0.3	-1.0	0.2	-1.1	-1.4	-3.4	-3.9	-3.1	-3.0	-3.1
CESEE23 ¹⁾²⁾	-0.2	-1.3	-0.5	-1.3	-1.4	-4.0	-4.4	-3.9	-3.7	-3.6
EA ²⁾³⁾	3.4	2.5	1.9	2.0	2.1	-3.0	-3.0	-3.6	-3.5	-3.3
EU27 ²⁾³⁾	3.3	2.4	1.9	2.0	2.1	-3.1	-2.6	-3.2	-3.1	-2.9

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: 11 June 2026.

Table 2.4 / 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	96.0	97.0	97.0
BY	Belarus	9.50	9.75	9.00	8.50	8.00	3.51	3.46	3.51	3.87	4.08
CZ	Czechia	4.00	3.50	3.75	3.00	3.00	25.1	24.7	24.2	24.3	24.5
HU	Hungary	6.50	6.50	5.75	5.00	4.00	395.3	397.8	360.0	365.0	365.0
KZ	Kazakhstan	15.25	18.00	16.00	14.00	12.00	507.9	590.2	571.0	630.7	684.0
MD	Moldova	3.60	5.00	7.00	4.75	4.00	19.25	19.59	20.24	20.59	20.76
MK	North Macedonia	5.55	4.00	4.00	4.00	4.00	61.52	61.59	61.50	61.50	61.50
PL	Poland	5.75	4.00	3.75	3.50	3.25	4.31	4.24	4.26	4.28	4.28
RO	Romania	6.50	6.50	6.50	4.50	3.50	4.97	5.04	5.20	5.24	5.27
RS	Serbia	5.75	5.75	5.75	5.25	4.75	117.1	117.2	117.4	117.0	116.8
RU	Russia	21.00	16.00	12.00	9.00	7.00	100.2	94.3	92.4	101.2	106.8
TR	Turkey	47.50	38.00	39.00	25.00	10.00	35.57	44.82	54.40	63.00	69.00
UA	Ukraine	13.50	15.50	15.00	13.00	9.00	43.46	47.06	51.48	54.74	57.60

Source: wiiw, forecasts by wiiw. Cut-off date for historical data and forecasts: 11 June 2026.

2.3 REFLECTIONS FOR THE SUMMER

For business executives and policy makers heading for the beach, the inflation shock and its implications will likely be at the forefront of their minds; but the slower pace of summer also provides an opportunity for them to think about some of the big strategic questions facing the region. At the mid-point of 2026, and looking ahead to 2027, we see six key themes shaping the regional agenda.

Theme	Core question
1. Security economy	How will spending on defence, energy security and overall economic resilience reshape investment and growth?
2. Productivity upgrading	Can AI, automation, industrial policy and better management offset labour shortages and higher wages?
3. China Shock 2.0	Can European and CESEE industry survive and adapt to the strong wave of Chinese exports driven by overcapacity?
4. Enlargement & reconstruction	Will Ukraine's reconstruction and EU enlargement create Europe's next investment cycle?
5. Fiscal divergence	Which countries can still spend and invest, and which will be forced by markets and ratings agencies to consolidate?
6. FDI model transition	What will replace the old FDI-led convergence model as greenfield investment slows?

CESEE is entering a new phase of development, with the traditional model of low-cost manufacturing, abundant FDI and rapid convergence becoming less reliable. The next growth cycle is likely to be shaped by defence spending, energy security, AI adoption, EU enlargement and reconstruction, while intensifying competition from China and tighter public finances will create fresh challenges.

For businesses in the B2C space, that means adapting to a world where consumption may not grow as rapidly as in the past, but consumers are fundamentally better off and want to consume a more expensive and diversified range of goods and services. Consumer markets remain attractive in Poland, much of Southeast Europe and Kazakhstan in particular, while other parts of EU-CEE remain solid; meanwhile Hungary offers an interesting opportunity as the economic situation improves. Higher inflation and fiscal tightening may create even more price-sensitive consumers in some markets, particularly Romania, although even here we expect a decent recovery by 2028.

For B2B firms, productivity is becoming the central competitive advantage, with the region's traditional low-cost model rapidly running out of road. Labour shortages, slower FDI inflows and rising wage costs mean that it no longer makes sense for CESEE to try to compete with truly low-cost markets further south and east. AI, automation and digitalisation are increasingly becoming necessities, rather than optional investments, and this is likely to drive fresh demands for investment and expertise across CESEE. Meanwhile the China Shock 2.0 is intensifying competition in manufacturing, machinery, batteries, EVs and industrial technology. Encouragingly, the highest-value parts of CESEE manufacturing seem to be the most resilient to Chinese competition, which indicates that this is where the future of the region's productivity base lies. Businesses that position CESEE as a productivity and innovation hub, rather than simply as a cost base, are likely to perform particularly well.

For B2G firms, the overall outlook is challenging, as more countries are forced into fiscal consolidation; but for those involved in strategic spending areas, demand is likely to grow. Defence, energy security, digital infrastructure and industrial policy are increasingly becoming priority spending areas, at both the national and the EU level. EU enlargement, reconstruction and strategic autonomy initiatives could generate significant procurement and investment opportunities. Here, outcomes will depend increasingly on alignment with government and EU strategic priorities. The EU has shown in recent years with both Hungary and Poland that it is now more willing than in the past to withhold funds. Therefore governance standards and EU alignment will become a more important determinant of B2G opportunities at the country level than in the pre-pandemic years.

For policy makers, the implications of all this are manifold, but several key strategic implications of the evolving CESEE model stand out:

- › **Defence spending will only become a meaningful growth driver if more value is created domestically, rather than through imports:** There are positive signs in this respect, but at present a large share of the increased CESEE defence spending flows out of the region, limiting the positive economic spillovers.
- › **The energy transition is increasingly just as much about resilience and security, as it is about decarbonisation:** Although the green transition remains central, the second major energy price shock in four years has again underscored Europe's vulnerability to unreliable energy import sources. The

priority now is energy resilience, which is a combination of the green transition (with more flexibility on the use of fossil fuels, provided they are sourced from within the EU or from reliable allies) and greater openness to nuclear energy.

- › **Governance and institutional quality matter more than before in a world of more selective investment and a more political EU budget:** This does not mean the end of populism in CESEE (or in Western Europe), but it does mean that populists are likely to restrain themselves somewhat. The Orbán warning is now there for all would-be imitators to see: going too far risks crashing the economy and being thrown out by voters.
- › **With greenfield FDI slowing, future growth will depend more on productivity gains, innovation, domestic investment and AI adoption:** Governments are likely to be under increased pressure to adapt educational institutions and vocational training to meet these new needs. Mismatches in the labour market are already apparent, and this is only likely to grow over time.
- › **Enlargement and Ukraine's reconstruction could become the biggest growth opportunity for Europe over the next decade:** There is a great deal of concern about Ukraine's further EU integration, even if this is not generally publicly expressed. Yet the issue seems to have acquired an unstoppable momentum that will only intensify when the war ends. It is probably more sensible for sceptical governments to accept the geopolitical inevitability of Ukraine's absorption and to start planning for how to make what will undoubtedly be a very challenging situation work as well as possible. If Ukraine is successfully absorbed into the EU and reconstruction proceeds well, the economic upside is significant, not least for neighbouring countries such as Poland.

3 Country updates

ALBANIA: EU INTEGRATION PROCESS ON TRACK

by Isilda Mara

The economic outlook is stable. Economic growth in 2025 remained steady, at 3.8%, driven primarily by domestic demand. Government consumption and investment provided the strongest impulse, while household consumption contributed more modestly. In 2026, economic growth is expected to slow slightly, reflecting external shocks and heightened global uncertainty.

Private consumption is expected to continue to be the main engine of growth. After an increase of 8.4% last year, nominal wages will continue to rise and, in combination with robust inflows of remittances, will bolster private consumption. Besides, in January 2026 the monthly minimum wage was raised from EUR 400 to EUR 500. More generally, the wage increases seen in the country reflect a combination of both supply and demand factors: booming sectors (e.g. tourism) create strong labour demand, while the emigration of highly skilled young professionals is constraining the labour supply. The persistent labour-market tightness, particularly in tourism, is an ongoing challenge for the economy.

The war in Iran is expected to weigh on the Albanian economy mainly through higher energy prices and increased external uncertainty. While direct exposure is limited, rising fuel costs are already feeding into inflation and raising production costs. Still, inflation remains comparatively low compared to other countries in the Western Balkans and is projected to be 2.8% in 2026. This is due to several factors, such as the appreciation of the lek, which has reduced imported inflationary pressures; reliance on domestic hydropower and other renewable energy; and government intervention through price boards that limit price increases on selected essential goods.

The EU integration process remains a central priority for the Albanian government. In May 2026, the EU confirmed that Albania had fulfilled the interim benchmarks under cluster 1 (Fundamentals), allowing it to begin preparations for closing individual negotiating chapters. This makes Albania the second-most-advanced accession candidate after Montenegro.

The summer started hot in Albania, in terms of both temperature and protests. What began as opposition to a large-scale development project in a protected area of southern Albania has evolved into a broader anti-government demonstration. The mobilisation reflects mounting public dissatisfaction, which in previous years has often been expressed through emigration rather than collective action. Notably, many foreign visitors have joined the peaceful protests, amplifying their visibility and attracting wider international attention.

BELARUS: NAVIGATING A LOW-GROWTH ENVIRONMENT*by Dzmitry Kruk*

After 4.3% in 2024, GDP growth slowed markedly to 1.3% in 2025 and a mere 0.2% in Jan-April 2026. The key reason behind this is poor export performance amid weak demand from Russia and continued constraints on non-CIS markets due to sanctions. Although a rebound in exports of oil products to Russia since Q4 2025 has provided some relief, it has only partially offset the earlier losses. Domestic demand remains supportive of growth, but has lost momentum as well. On the supply side, manufacturing (previously the main growth driver) contracted by 2.5% in Jan-April 2026, reflecting both weak demand and large inventories, which had reached abnormally high levels by early 2026. ICT and transport have become the main contributors to GDP growth.

We expect GDP growth to reach a mere 1% this year and around 1.3-1.5% in 2027-2028. Export volumes are projected to increase by 2.1% in 2026 (after a decline of 4.7% last year) on the back of slightly positive GDP growth in Russia, increased exports of oil products and the partial easing of US sanctions on potash since early 2026. The increase in domestic demand is going to slow due to the weak financial health of businesses, which will rein in the growth of wages and capital investment. Inflation is expected to remain elevated, at around 5.9%, reflecting persistent domestic price pressures and, to some extent, the global commodity price shock. Risks remain tilted to the downside: a prolonged external shock could trigger a more profound contraction and exacerbate financial vulnerabilities in the corporate sector.

The Belarusian rouble is likely to continue largely to follow the Russian rouble, as was already the case in H2 2025 and early 2026. This reflects the preferred strategy of the Belarusian central bank, which 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 remain fairly constant this year, the Belarusian rouble is likely to follow a similar path, i.e. avoiding severe fluctuations.

BOSNIA AND HERZEGOVINA: DELAYED RECOVERY AND POLITICAL STAGNATION

by Selen Duraković

Following modest growth in 2025, the recovery is expected to be delayed somewhat by the war in the Middle East. For 2026, GDP growth is now projected to be 2.3%, driven mainly by household consumption. This is supported by rising real incomes, thanks in part to January's substantial increase in the minimum wage. High-frequency data for early 2026 point to continued momentum in private consumption and tourism, with strong retail sales and stable remittance inflows. However, external imbalances are expected to persist, as weak external demand and higher energy import costs exert additional downward pressure on the trade balance.

Inflation picked up to 6.8% in April. This brought the average figure for the first four months of the year to 4.7%. It is still being driven mainly by energy costs, with electricity and transport prices rising at double-digit rates, while food inflation remains at around 3%. But with energy inflation this high, spillovers to other prices are likely to be only a matter of time. We have therefore revised our inflation forecast for 2026 upwards, to 5.5%, from the previous 3.6%.

There have been no reforms and no progress on the EU accession path recently. Implementation of the Reform Agenda under the EU Growth Plan remains blocked, and the country has still not signed and ratified the key agreements needed to access the available funds. As a result, it has already lost EUR 108m from the Growth Plan allocation and it risks losing a further EUR 373m by the end of 2026 (out of the total EUR 977m available). The EU has made it clear that there will be no further extension of the deadline.

BULGARIA: NEW GOVERNMENT ENDING YEARS OF POLITICAL DEADLOCK*by Emilia Penkova-Pearson*

Bulgaria's economic growth in Q1 was 3.1%, driven by strong domestic demand. In particular, gross fixed capital formation grew significantly – by 18.7% on an annual basis-thanks to the absorption of EU recovery and resilience funds. As a result of higher wages and pensions, real disposable income has increased, thereby supporting robust household consumption. That should be further boosted by the planned increase in the minimum pension of 7.8% from 1 July 2026. The above factors have led us to revise our GDP growth forecast for 2026 upwards, to 2.5% – 0.5pp higher than before. However, declining net exports continue to weigh on overall growth performance.

Annual consumer price inflation (HICP) rose to 6.0% in April 2026, one of the highest rates in the EU. This was largely driven by recent increases in global oil prices and persistent domestic wage pressures. Against this background, we have revised our inflation forecast for 2026 upwards, by 0.7pp, to 5.2%.

The new alliance Progressive Bulgaria has formed a government that does not need coalition partners, ending years of political deadlock, with the former president, Rumen Radev, now serving as prime minister. Determined to implement anti-corruption measures, the government has also adopted a more assertive 'Bulgaria first' approach to EU energy and climate policies, and has signalled a more cautious stance on military aid to Ukraine.

The new government is committed to the reforms required to secure the remaining EUR 2.8bn under the Recovery and Resilience Plan. These reforms relate to two pending payments: the fourth and the fifth. Meanwhile, on 3 June 2026, the European Commission initiated an Excessive Deficit Procedure against Bulgaria, following a 2025 budget deficit of 3.5% of GDP (Eurostat, on an accruals basis), which is projected to exceed 4% by 2027. In response, the new government is aiming to reduce the deficit to 3% over the next couple of years by curbing and rationalizing spending, which will weigh on the country's growth prospects.

CROATIA: RESILIENT BUT SLOWING ECONOMY

by Bernd Christoph Ströhm

Economic growth is expected to moderate to below 3% over the forecast horizon but will stay above the euro-area average. GDP growth has slowed markedly: from 3.9% year on year in Q4 2025 to 2.2% in Q1 2026 – the most lackadaisical growth seen since Q4 2020. The slowdown was primarily driven by weaker export growth and slower fixed investment growth. By contrast, private consumption has remained steady. Growth momentum is likely to firm up somewhat from Q2 onwards, supported by measures to cap the price of fuel, the absorption of EU funds and a potential redirection of tourism flows toward Croatia, amid instability in the Middle East.

Inflation has picked up more strongly than previously anticipated, largely due to rising energy prices linked to the US–Iran conflict. Harmonised consumer price inflation surged to 5.4% year on year in April, up from 4.6% in March, with particularly strong increases in transport and housing. In response, we have revised our annual inflation forecast for 2026 upward, with average inflation now expected to be 4.6%. However, government-driven measures, including fuel price caps, should allow inflation to fall to below 3.0% in 2027.

EU financing will continue to play a central role in supporting investment activity, despite the recent moderation in fixed capital formation. Investment growth showed a significant slowdown in Q1 2026, but planned EU-funded projects under the NextGeneration EU framework should support it in the future. Nevertheless, labour-market constraints and increased caution among private investors may weigh on project execution. In addition, uncertainty surrounding EU funding beyond 2027 could also begin to influence investment decisions.

The political situation remains stable. Croatia is expected to benefit from strong tourism demand, due to improved airline connectivity and the fact that it is geopolitically safe. The current HDZ government's policy priorities include improving living standards through higher wages and pensions, and addressing demographic challenges, while pursuing OECD membership.

CZECHIA: RESILIENT GROWTH, INCREASING RISKS

by Ioannis Gutzianas

Economic activity remains resilient, despite a more uncertain outlook. Following solid growth of 2.6% in 2025, supported by stronger household spending and a rebound in investment, the Czech economy entered 2026 on a firm footing. Real GDP increased by 2.2% year on year in the first quarter, indicating that domestic demand continues to underpin expansion. Nevertheless, the growth dynamics differ across sectors, while subdued demand from key trading partners, most notably Germany, continues to constrain export performance.

The short-term outlook remains favourable, but downside risks are growing. Economic activity is expected to increase by 2.2% in 2026, supported by domestic demand and a gradual strengthening of investment. However, heightened geopolitical uncertainty and rising energy prices could dampen growth by eroding household purchasing power and adding to inflationary pressures. In addition, the Czech economy's close integration with European manufacturing makes it vulnerable to a prolonged weakness in external demand.

The macroeconomic policy environment is becoming less balanced. With inflation risks still present, the Czech National Bank has paused its easing cycle and hiked the policy rate to 3.75% in June, signalling a cautious approach. At the same time, fiscal policy is becoming more supportive of growth, as the government plans higher public expenditure and a budget deficit of around 3.5% of GDP in 2026. This combination of steady monetary policy and looser fiscal settings may support demand in the short term, but could complicate efforts to reduce fiscal imbalances in the years ahead.

Defence spending has emerged as a growing policy challenge. The government faces increased scrutiny after NATO indicated that Czechia is unlikely to meet the alliance's 2026 defence-spending target of 2% of GDP. The shortfall follows revisions to the 2026 budget that reduced core defence expenditure and relied on spending items that NATO does not fully recognise as military outlays. While the government argues that infrastructure and other security-related investments contribute to national defence, critics warn that failing to meet its NATO commitments could undermine Czechia's credibility among allies and increase pressure for higher defence spending in the coming years.

ESTONIA: HOUSEHOLDS LEADING THE RECOVERY, ENERGY CLOUDING IT

by Marina Tverdostup

Estonia's economy is emerging from a prolonged downturn. Real GDP growth is projected to firm to 2.4% in 2026, broadly hold at 2.8% in 2027, and then ease to 2.4% in 2028 once the fiscal impulse unwinds. Activity is likely to remain at below its pre-war trajectory throughout, restrained by cautious business sentiment and unresolved competitiveness pressures.

In the short term, the upturn rests mainly on domestic demand. Higher net wages following the income tax reform are expected to revive household spending, and the composition of growth remains tilted towards services, where ICT and business services set the pace. Goods exporters are regaining ground only slowly, and external trade is projected to act as a drag on growth in 2026, as defence-related imports run ahead of a still-tentative export recovery. Capital spending should build over the period, helped by EU funds, defence procurement and looser financing conditions, although private investment may stay subdued while uncertainty persists.

On the external side, the balance of risk is skewed to the downside, with energy the main concern. The rise in fuel and commodity prices triggered by the conflict in the Middle East is likely to keep inflation at about 3.8% in 2026, before it settles at a little above 2% in 2028, eroding some of the improvement in purchasing power.

On the fiscal side, the budget remains the dominant influence on the outlook. Defence commitments are set to stay at above 5% of GDP, and with consolidation still to be delivered, the deficit is projected to reach around 4.4% of GDP in 2026 and to remain wide through 2028. While the level of public debt continues to be low by European standards, the speed of the increase makes preserving fiscal credibility the central challenge.

HUNGARY: GROWTH OUTLOOK IMPROVED

by Sándor Richter

In Q1 2026, Hungary's GDP increased by 1.7% year on year, a remarkable acceleration by comparison with any quarter of the previous year. This is due to robust expansion in both household and government consumption – a consequence of the previous Orbán administration's pre-election handouts. The new Tisza government has inherited an unsustainable fiscal position, and consolidation will necessitate the setting of strict priorities in its ambitious election promises. The markets' response to the election results has been positive, attested by the strengthening of the currency and lower yields on government bonds. The GKI Research consumer confidence index has climbed to a 49-month high. Over the forecast horizon, economic growth is expected to take off gradually, driven by the recovery in investment, thanks to the anticipated resumption of EU transfers.

The election winner – the Tisza party – has a constitutional majority in parliament, which is a huge advantage as it sets about quickly and efficiently dismantling the autocratic Orbán regime.

The most urgent tasks facing the new government include eradicating systemic corruption, recovering misappropriated public funds, reforming public procurement procedures and initiating measures to restore fair economic competition. The government has already agreed terms with the EU on the mobilisation of Hungary's suspended funds, altogether amounting to EUR 16.4bn (about 6.5% of the expected 2026 GDP). That will be of considerable assistance both in easing the pain of fiscal consolidation and in restarting modernisation of the economy through an upturn in investment. Nevertheless, the increased inflow of EU funds will commence only in the final quarter of this year, at the earliest, with most of the positive effects on demand emerging in 2027, 2028 and later.

After Tisza's election victory, the forint appreciated by 9-10% compared to the average for 2025, a sign of increased confidence. It is expected to remain strong over the forecast horizon, helping to curb inflation. This will enable a cautious resumption of the cutting cycle for the policy interest rate, which will help reduce the cost of financing public debt. These changes will also help in meeting the criteria for Hungary's accession to the euro area, a declared goal of the new government in about five years' time. Lasting tension in the Middle East may lead to 0.5-1pp higher inflation and to 0.2-0.5pp lower GDP growth compared to the main scenario for 2026.

KAZAKHSTAN: HIGHER OIL PRICES AND STRONGER INVESTMENT BOLSTER GROWTH

by Alexandra Bykova

In Q1 2026, the economy grew by a mere 3% year on year, largely due to oil production disruptions; however, over the remainder of the year growth is set to pick up more strongly than previously expected. As oil production gradually recovered, output in manufacturing, transportation and storage accelerated to double-digit rates in January-April. Robust investment in these sectors, alongside the state-supported modernisation of utilities, resulted in an overall 6.7% increase in investment in the first four months. By contrast, softening consumer credit growth and still declining real wages (down 2.4% in Q1 year on year) are dampening private consumption. In 2027-2028, growth is likely to pick up to around 5%, driven mostly by domestic demand. Easing inflation will support real wage growth and private consumption, while FDI inflows into recently announced large projects in the chemical, mining and energy sectors will boost investment.

Higher global oil prices and increased demand for Kazakhstan's oil during the closure of the Strait of Hormuz will boost export revenues and shrink the current account deficit in 2026.

However, any increase in export volumes will be constrained by production capacity, OPEC+ restrictions and the limitations of the transportation infrastructure. In addition, downside risks stem from potential disruptions to oil exports via Russian territory.

Following recent constitutional reform, parliamentary elections are scheduled for August. The emergence of new parties has diversified Kazakhstan's political landscape, but according to independent observers it remains tightly state controlled. Foreign policy continues to balance relations among the major powers – the EU, the US, China and Russia – with the priority being to attract FDI and expand trade. However, geopolitical tensions are increasing the downside risks.

The tenge has strengthened this year amid elevated oil prices, and this has contributed to the easing of inflation. However, the anticipated decline in global oil prices in 2027-2028 is likely to exert downward pressure on the tenge. Monetary policy easing began earlier than expected, in June, with the policy rate cut from 18% to 17%, following a slowdown in annual inflation to 10.5% in May.

KOSOVO: SOLID GROWTH AMIDST POLITICAL UNCERTAINTY*by Isilda Mara*

In Q1 2026, the economy grew by a very solid 5.4% year on year. Growth was driven primarily by government consumption, which increased by 16.5%, alongside strong exports (+17.3%) and rising gross fixed capital formation (+3%). In contrast, household consumption fell slightly (by 1%), reflecting the impact of rapidly rising prices.

Growth has been broad-based across sectors. Particularly strong contributions have come from public administration, manufacturing, trade, services and construction – the latter supported by diaspora-linked housing demand, foreign investment and public infrastructure projects.

Inflationary pressures have intensified, driven largely by energy and food prices. The economy remains heavily dependent on imports. This, together with the global energy price shock caused by the conflict in Iran, is expected to sustain inflationary pressures and affect external balances. In January-May, consumer prices grew by 6.6% on an annual basis, and elevated inflation will constrain household consumption for the rest of the year.

Political uncertainty remains high. Prime Minister Albin Kurti's party won the elections on 7 June 2026, but his position is now weaker than it was before. He will need coalition partners both to form the new government and to secure the parliamentary support required to elect the president. Given the difficulties of building a coalition, negotiations will be challenging. If political parties fail to reach agreement, Kosovo should hold fresh parliamentary elections. The ongoing deadlock is creating an unprecedented political vacuum in Kosovo, with increasing economic costs.

LATVIA: INVESTMENT SUSTAINING MOMENTUM

by Ioannis Gutzianas

Growth in Latvia is being led primarily by capital spending and public demand. The economy expanded by 2.5% in Q1 2026, driven mainly by strong investment and higher government consumption. Public investment is expected to remain elevated, supported by EU funds and increased defence spending, while improving financing conditions should gradually help to revive private-sector investment.

Weak external demand remains a drag on the outlook. Export performance is still muted, even though some improvement can be discerned in the country's major trading partners. Structural frictions in transport and logistics, driven by the ongoing reorientation of trade routes, continue to limit competitiveness abroad, while key manufacturing segments, particularly wood processing, remain under pressure.

Private consumption is gradually regaining momentum, despite inflation having picked up in recent months. Inflation rose from 2.3% in February to 3.5% in May. Household spending is set to increase modestly, underpinned by improving real incomes; but it remains constrained by lingering uncertainty and what is only a slow recovery in confidence. Inflation is expected to remain relatively elevated in the near term, supported by robust wage growth, continued price pressures in the services sector and, above all, by the recent rise in oil prices.

Growth projections have been revised downward in the face of rising external headwinds. GDP growth for 2026 is now expected to be 1.8% (down 0.1pp on our previous forecast), reflecting weaker external demand and heightened global uncertainty, including spillovers from the conflict in Iran. Investment continues to provide some support, but risks remain skewed to the downside.

LITHUANIA: GROWTH FACING EXTERNAL HEADWINDS*by Ioannis Gutzianas*

Economic growth stood at 2.6% in Q1 2026, supported primarily by domestic demand. That said, a significant part of the momentum stems from one-off or temporary factors. Investment remains the main support, boosted by EU-funded projects and public spending, with private investment slowly regaining its vigour. At the same time, household consumption is relatively soft and is only expected to receive a short-lived lift from pension-fund withdrawals linked to the reform in 2026, pointing to some fragility in underlying demand.

External conditions are becoming more and more of a drag on economic performance. Weak demand across key European partners and muted export growth are limiting overall expansion. Industrial production is increasingly uneven across sectors, underscoring the exposure of export-oriented industries to a sustained external slowdown.

Inflation has been on an upward trajectory since the beginning of the year, rising from 3.1% in January to 5.5% currently. The acceleration has been driven primarily by higher energy prices, reflecting both elevated wholesale costs and their pass-through to retail prices.

The growth outlook has been revised 0.1 percentage points downward for both 2026 and 2027, reflecting weaker external demand and elevated geopolitical uncertainty. This includes spillovers from the war in Iran. GDP growth in 2026 is now projected to be 2.2%, supported by domestic demand. Overall risks to the projection remain skewed to the downside.

MOLDOVA: GROWTH SLOWER, BUT STEADFAST EU ORIENTATION

by Gábor Hunya

Assuming average meteorological conditions, GDP growth in 2026 is projected to slow to 1.9%, from 2.4% last year. While investment in infrastructure and equipment remains robust, Q1 data indicate a contraction in residential construction. Industrial production rebounded in March, following winter contractions caused by energy bottlenecks; future expansion will be supported by investment in equipment, but will remain constrained by labour shortages. Inflationary pressures have intensified owing to rising global fuel and commodity prices. To cushion these macroeconomic shocks, the government has increased fiscal expenditure through targeted subsidies covering household energy consumption and the agricultural sector. Consequently, the fiscal and current account deficits remain elevated, though they continue to be sustainably financed via external capital inflows.

Political stability persists, anchored by a pro-European integration trajectory. A new administration assumed office in November 2025, introducing a policy agenda aimed at EU accession by 2030. While this timeline appears ambitious, it functions as a catalyst for structural reform. Accession negotiations are imminent and will encompass complex regulatory chapters, i.e. agricultural policy and judicial reform. There are security risks posed by spillovers from the conflict in Ukraine and Russian subversion – despite the prosecution of several high-profile actors. Indeed, a military strike on a hydroelectric facility on the Dniester River in March caused drinking water contamination and power cuts.

The resurgent inflation is driven by international commodity prices and domestic electricity shortages. In January 2026, inflation slowed to 4.8%, from 9.1% the previous year. However, subsequent energy cost shocks then drove it up to 6.8% through April and May. The National Bank of Moldova (BNM) projects that inflation will peak at 8.6% in Q4. In response, the central bank has reversed its monetary easing cycle – which had seen the policy rate lowered to 5.0% in December 2025 – by raising the benchmark rate to 6.5% in May, with further tightening anticipated. The nominal exchange rate remained stable until early March, and thereafter the currency experienced only marginal depreciation; these movements are moderate due to ongoing interventions by the BNM.

MONTENEGRO: EU ACCESSION MOMENTUM AMID FISCAL STRAIN

by Marko Sošić

In 2026, the economy is projected to expand by 2.8%, largely driven by household consumption and investment. Consumer price inflation averaged 4.1% in 2025 and is forecast to rise to 4.3% in 2026, with the energy price shock. An agreement with France has now been translated into concrete infrastructure projects, including a new clinical centre in Podgorica and a section of the Adriatic-Ionian Highway. While this may support growth in the short run, such government-to-government arrangements also raise concerns, as they can bypass ordinary procurement procedures and weaken transparency and oversight.

The labour market is continuing to improve. The unemployment rate fell to a historic low of 10.7% in 2025 and is forecast to decline even further this year, to 9.3%. On the other hand, the growth in wages and pensions is slowing. The government has rejected calls for wage increases, arguing that the budget cannot absorb additional commitments. Meanwhile, the Pension and Disability Insurance Fund remains in deficit, and criticism is mounting that pension increases over the past two years have been merely symbolic.

External and fiscal balances remain Montenegro's main vulnerabilities. The current account deficit is projected to remain very high, at 19.4% of GDP in 2026, due partly to weaker energy exports while the coal-fired power plant undergoes environmental reconstruction. Fiscal pressures are also mounting, with the deficit forecast to reach 4% of GDP by 2028. Politically sensitive reforms and spending reviews that would cut into entrenched privileges and abuses of the system (such as the overhaul of the Public-Sector Wages Law) have been put on hold, as the country moves towards general and local elections in spring 2027.

EU membership remains a strategic mainstay for the government. The recent EU–Western Balkans summit in Tivat reaffirmed support for Montenegro's accession, provided reform momentum continues. The pace is now frantic: the government still hopes to close the remaining 19 chapters by year-end, but legislative scrutiny, public consultations and meaningful participation are increasingly being sacrificed. Political instability in Podgorica could also spill over nationally ahead of the 2027 elections.

NORTH MACEDONIA: INFLATION BEGINS TO BITE

by Branimir Jovanović

The economy slowed visibly in Q1 2026, in line with our expectations. Year-on-year growth was 3.1%, but that relatively solid reading is misleading, as seasonally adjusted quarter-on-quarter growth was just 0.3%, consistent with annualised growth of only 1.2%. Consumption has been the only sound component, while both investment and exports have slowed markedly. Given the uptick in inflation and its impact on real incomes, consumption is also likely to lose momentum in the coming period. The only positive signal is that industrial production recorded robust growth of 7.6% year on year in April, but this may well be short lived, as in Q1 it was negative.

Inflation is rising again, as expected. The average annual rate for the first five months of the year stood at 4.3%, but the monthly rate in May was 0.6%, consistent with an annualised rate of above 7%. This indicates that the peak has not yet been reached, despite the government's decision to reduce VAT and excise duty on oil products. The initial uptick in energy prices has lately spilled over to food, again suggesting that inflation will rise further in the coming months.

We are thus keeping our GDP growth and inflation forecasts for 2026 unchanged. GDP growth is projected to be 2.9% and inflation 5.0%. The risks are overwhelmingly negative, i.e. towards higher inflation and lower growth.

There is nothing new on the political front. There has been no progress on EU accession, as the government remains comfortable with the status quo. There has been an intensification of talks with the new Bulgarian leadership, but the messages that have been received remain discordant and no steps forward seem likely. The only minor positive change is the adoption of the reform package required for the new Growth Plan and the release of EUR 66m by the EU; however, that is too little to make any meaningful difference.

POLAND: STABLE OUTLOOK DESPITE A MODERATE RISE IN INFLATION*by Michał Możdżeń*

Poland's economy continues to grow at a solid pace. In Q1 2026, GDP expanded by 3.5% year on year, driven mostly by domestic demand. Lower interest rates, resilient household spending and EU-funded investment should support activity. Because of the expected acceleration in EU funds absorption and higher growth in government consumption, we have revised our GDP growth forecast for 2026 upwards, by 0.1pp, to 3.7%. However, the risks are primarily on the downside.

The inflationary impact of the conflict in the Middle East has so far remained modest. Headline consumer price inflation rose by 3.2% year on year in April and 3.1% in May, while the current account deficit narrowed markedly in Q1 2026 year on year, despite the higher oil prices already felt in March. Even so, there is a risk that inflation may exceed the upper bound of the central bank's target band (2,5+/-1pp) this year. As an energy-importing economy that is profoundly integrated into European supply chains, Poland is exposed to the Middle East shock not only through fuel and utility prices, but also through transport costs, imported intermediates and food processing. If higher oil and gas prices persist, the shock could gradually become more broad-based and weigh on real incomes.

Higher inflation could also reduce the scope for further monetary easing. A reduction in the policy rate in 2026 appears unlikely at this point. At the same time, the communications from the central bank remain dovish, based on current inflation assessment and a conviction that the supply shock will not affect the general inflation trend.

Political tension continues between the government and the president. The direct impact of the conflict on short-term growth prospects, however, remains limited. More importantly, the political gridlock makes it harder to address Poland's internal imbalances (especially the record-high savings rate of households, driven, at least in part, by growing inequalities), an increasingly regressive tax system and high borrowing needs, even as there is broad cross-party consensus on further increases in defence spending.

ROMANIA: STAGFLATION AMID POLITICAL IMPASSE

by Gábor Hunya

The Romanian economy is suffering from recession and elevated political risk. Compared to last year, domestic and international conditions have deteriorated, leading to recession, declining confidence and rising unemployment. In Q1 2026, GDP contracted for the second quarter in a row, by 1.5%. Households reined in their consumption in the new high-tax, high-inflation environment, while the government also trimmed current spending in the wake of fiscal consolidation. Industrial production shrank in the absence of demand and low competitiveness, though construction has shown some growth. Energy costs have surged, inflation has accelerated and the currency has depreciated following global commodity price hikes and a government crisis. Gross fixed capital formation fuelled by EU funds remained a bright spot, while net exports improved, owing to the reduced demand for imports.

However, in H2 2026 the recession is expected to end, inflation to subside and the disbursement of EU funds to accelerate – always provided the political impasse is resolved. The fiscal deficit target of 6.2% of GDP set in the excessive deficit procedure remains within reach, and the current account deficit is also projected to shrink. Romania secured its fourth payment of Recovery and Resilience Facility (RRF) money in June, but still faces challenges in deploying the remaining 40% of the funds allocated. For 2026 as a whole, GDP is projected to contract marginally, given the very weak H1.

The four-party Bolojan government was toppled on 5 May, forcing the administration to function as a three-party caretaker cabinet, with severely restricted legislative authority. As of mid-June, no new government is in sight. Without a fully functioning administration, the fiscal consolidation programme risks being derailed, and access to EU funds could cease. Furthermore, the rising popularity of far-right parties means that early elections are not a desirable alternative for the mainstream political factions.

Monetary policy is being challenged by rising inflation and currency depreciation. Annual inflation was already elevated following last year's VAT hike, and averaged around 8.5% between August 2025 and February 2026. Global price shocks subsequently pushed it up to 9.5% in April and 10.7% in May. Inflation is expected to subside once these transitory effects fade, which explains the current inaction of the National Bank of Romania (BNR). The BNR has held its policy rate steady at 6.5% and will likely maintain this stance until the end of the year. Meanwhile, the leu has depreciated by 2% in response to the political crisis and negative economic outlook, despite ongoing BNR market interventions.

RUSSIA: END OF THE TUNNEL NOT YET IN SIGHT*by Vasily Astrov*

In Q1 2026, real GDP shrank by 0.2% year on year, marking a contraction for the first time in three years. The main reason for this was the 14.3% drop in investment activity, in the wake of high borrowing costs and the fact that import substitution has arguably reached its limits. Manufacturing output picked up by 0.3% in the first four months, with only six industries – three of them with a major share of military production – recording positive dynamics, largely thanks to an ongoing boom in the production of drones. By contrast, household consumption has held up reasonably well: retail trade turnover increased by 4.3%.

Economic stagnation is primarily the result of very tight monetary conditions, although policy will gradually be loosened this year. Since mid-2025, the policy rate has been cut from 21% to 14.25%, but inflation has declined markedly as well (to 5.3% in May on an annual basis), reflecting weak aggregate demand and the strong rouble. In real terms, the policy rate is still very high, at 8-9%. However, the pace of further rate cuts will likely be constrained by the new risks of higher inflation stemming from larger-than-expected fiscal stimulus and the fuel crisis caused by Ukrainian drone attacks on refineries.

The war in the Middle East has provided the government with only a short-lived windfall. Thanks to higher oil prices, the energy revenue of the federal government soared in April and May. However, cumulative energy revenue in the first five months was still down 30%, and the budget closed with a deficit of 2.6% of GDP. With the ceasefire deal in Iran having exerted downward pressure on oil prices and with Russia's defence spending rising further, the fiscal deficit this year will markedly exceed the target of 1.6% of GDP.

Economic stagnation and recent internet blocks have exposed cracks within the ruling elite and have resulted in President Putin's popularity plunging to a multi-year low, although the outcome of the parliamentary election in September is not in doubt. Also, Ukraine appears to have gained the upper hand in the war of the drones: it has targeted primarily Russian energy infrastructure, which has resulted in marked fuel shortages that will partly be covered by increased imports. Business sentiment has suffered further, the headline MOEX stock index has plunged to its lowest level since February 2023, and the yields on government bonds have shot up. Against the background of these developments, compared to April we have revised our GDP growth forecast for 2026 downward by 0.3pp, to 0.6%.

SERBIA: STALLING WHILE WAITING FOR ELECTIONS

by Branimir Jovanović

Economic growth remains weak. Year-on-year growth in Q1 2026 was 3.2%, the highest rate since the end of 2024; but that reading is misleading, as it owes much to the low base from last year. Seasonally adjusted quarter-on-quarter growth was just 0.2%, which is less than 1% in annualised terms. Consumption was the only solid component, growing by around 5% year on year, while exports and investment were much weaker. The first data for Q2 point in a similar direction. Industrial production in April was up 3.4%, a slight improvement on the start of the year, but that was driven almost entirely by the resumption of activity by NIS (the country's only oil refinery), which was not operating at the beginning of the year. We have therefore kept our GDP growth forecast unchanged, at 2% in 2026 – the lowest in the Western Balkans.

Inflation has increased somewhat, but by far less than in most of the neighbourhood. In April, the annual rate was 3.3%, lower than in most of the surrounding countries. This may be explained by the early decision to cap oil product prices, which has kept the increase in the cost of diesel since the attack on Iran close to 10%. Still, monthly inflation in April was quite high, at 0.8% – the highest in almost a year and close to 10% in annualised terms. This suggests that even annual inflation is likely to accelerate in the coming months. Hence, we have kept our previous inflation forecast for 2026 unchanged, at 4.5%.

Not much new has happened on the political scene. Everybody is in waiting mode, expecting the president to call parliamentary elections in the second half of the year. The student list appears to be an even clearer favourite after the mass gathering on 23 May. Although the candidates and the programme of the student list are still not public, some general contours are emerging. The focus is likely to be more on political issues, especially the rule of law; on economic matters there are signs of a potentially greater focus on domestic companies. Any future government is likely to be more pro-EU and could unlock the accession process, but one should not expect a break with China and Russia.

SLOVAKIA: STILL STRUGGLING, BUT GLIMMER OF HOPE FOR 2027*by Richard Grieveson*

Constrained by fiscal consolidation, weak investment and a challenging external environment, the Slovak economy continues to underperform relative to its historical growth rates. Following growth of just 0.9% year on year in Q1 2026, the economy appears set for another year of subdued expansion. Higher energy prices linked to the conflict in the Middle East, elevated inflation and rising trade frictions are weighing on both household spending and business sentiment.

Economic sentiment remains weak. The headline sentiment indicator fell further in May and remains well below its long-term average, pointing to a muted short-term outlook. Consumer confidence continues to be negative, reflecting the impact of inflation and fiscal tightening on real incomes. Industrial activity also remains sluggish. Industrial production contracted again in March, although at a slower pace than in previous months, while manufacturing continues to struggle with weak external demand and uncertainty in key export markets.

Inflationary pressures have re-emerged. Harmonised inflation picked up to 4.1% in April, driven in part by higher energy prices and the tax measures introduced as part of fiscal consolidation. Inflation is therefore likely to remain well above the European Central Bank (ECB) target throughout 2026, limiting the scope for any significant recovery in household consumption. The National Bank of Slovakia has also highlighted growing vulnerabilities linked to weak economic growth, fiscal imbalances and external geopolitical risks.

The outlook should improve somewhat in 2027. Fiscal consolidation is expected to ease, inflation should gradually moderate, and extra export capacity, including from the new Volvo plant, will support industrial production and exports. Nevertheless, medium-term growth prospects remain weaker than in the pre-pandemic period. Demographic pressures, a difficult external environment and the likelihood of further fiscal tightening later in the forecast period will continue to constrain growth.

The risks to the outlook remain firmly on the downside. A prolonged conflict in the Middle East could result in persistently higher energy prices, weaker growth and stronger inflationary pressures. In addition, Slovakia remains politically exposed owing to tensions with EU institutions and the government's increasingly confrontational stance towards Brussels. Prime Minister Fico's close ties with Russia, particularly in the area of energy policy, also risk further straining relations with key European partners.

SLOVENIA: NEW GOVERNMENT SIGNALS SHARP SHIFT TO THE RIGHT

by Niko Korpar

In Q1 2026, the economy picked up by 3% year on year. In part this is thanks to the low statistical basis (in Q1 2025 growth was negative), as well as to lower-than-expected inflation (2.7% on an annual basis). However, this pace of expansion will not be sustained. For the full year, GDP growth is expected to reach 1.9%, driven mostly by private consumption and government spending, reflecting investment in infrastructure, post-flood reconstruction and EU-funded projects. A modest recovery of 3.7% is projected in private investment, though energy price volatility and rising labour costs are weighing on business confidence. By contrast, exports are likely to grow by only 2.2% – more slowly than imports. Due to export-related headwinds, we have also revised our GDP growth forecast for 2027 slightly downwards, to 2.3%.

Janez Janša's new right-wing government is set to break with the policies of its predecessor. The minority government, supported by protest party Resni.ca, will feature several known political operatives. It has signalled a strong pro-business direction, including lowering taxes for high earners, removing red tape, and encouraging foreign and domestic investment. Explicit support for cooperation between private and public healthcare providers also represents an abrupt change from previous reform efforts. In foreign policy, support for Ukraine will continue; however, the previous government's strong pro-Palestine stance will not.

Demand for credit has recently been facing headwinds, despite modest growth at the beginning of 2026. Companies, fearing price hikes, have once again delayed investment due to the uncertainty. This augments the long-term trend of cautious demand for credit in the corporate sector. Demand growth will likely continue to be skewed towards industries that have witnessed growth in recent years (such as pharmaceuticals), rather than towards energy-intensive sectors and SMEs. It is likely that caution will also be exercised in household demand for credit, which continues to be affected by high real estate prices.

TURKEY: HIGHER OIL PRICES WEIGHING ON GROWTH

by Meryem Gökten

Economic activity is losing momentum as the Middle East conflict takes its toll on exports. In Q1 2026, Turkey's economy grew by 2.5% year on year and 0.1% quarter on quarter. Economic activity moderated, driven mainly by a negative contribution from net exports: exports contracted by 12.7% and imports by 2% year on year. Government consumption (2.1% year on year) and household consumption (4.8% year on year) provided a partial buffer to growth. The most recent high-frequency indicators paint a mixed picture: the manufacturing PMI rebounded to 49.8 in May, its highest value since March 2024, while consumer confidence and capacity utilisation remained flat. The conflict in the Middle East will continue to exert downward pressure on growth through higher energy prices and lower external demand. We have thus revised our 2026 growth forecast down to 3.3% (from 3.8%), and our 2027 forecast down to 3.9% (from 4.1%).

The domestic political environment has deteriorated sharply. In May, a court annulled the main opposition party CHP's 2023 congress and suspended the party leadership, reinstating former leader Kemal Kılıçdaroğlu (who had lost the leadership in 2023 to Özgür Özel, a close associate of jailed Istanbul Mayor Ekrem İmamoğlu). The move marks a further escalation in the government's campaign against the main opposition ahead of the 2028 presidential election, and has deepened the internal power conflict within the CHP. While the Middle East conflict continues to weigh on the economy, Turkey is attempting to lure companies and capital displaced by Gulf instability through a new incentive package, halving corporate tax rates for exporters and introducing a 20-year foreign income tax exemption. However, the effectiveness of these measures remains questionable, given the country's political instability and uncertain macroeconomic outlook.

Monetary policy is set to tighten further as energy-driven inflation is proving more persistent than anticipated. Inflation increased to 32.6% in May, with sustained energy price pressures from the Middle East conflict posing the risk of a further rise. The policy rate was held at 37% for a second consecutive meeting, but we expect the central bank to resume tightening as inflation remains elevated. The lira has continued its gradual depreciation, with reserves being sold, particularly in the aftermath of the CHP congress annulment, to prevent a sharper decline. We have revised our end-2026 policy rate forecast upward to 39% and our end-2027 forecast to 25%.

UKRAINE: GRINDING THROUGH THE WAR

by Olga Pindyuk

Economic growth will slow down in 2026 but is expected to accelerate in 2027-2028. Economic growth will slow in 2026 but is expected to pick up again in 2027-2028. In Q1 2026, the Ukrainian economy contracted by 0.5% year on year, mainly due to the significant destruction of energy-sector infrastructure by Russia's missile attacks and the resultant electricity shortages during what was a harsh winter. A rapid growth in imports due to the higher energy prices caused by the blockade of the Strait of Hormuz has also dragged the economy down. However, growth is expected to pick up during H2 2026 and to reach 1% for the whole year – supported by a better performance by the agricultural sector, stronger exports and fiscal support channelled to reconstruction projects and defence investment. In 2027-2028, growth is expected to accelerate to 2.5% and 3.5% respectively, on the back of stronger investment in reconstruction and robust consumption dynamics supported by the tight labour market. This forecast is, of course, dependent on the de-escalation of Russia's war in Ukraine in the coming years and progress toward a resolution of the conflict that is favourable to Ukraine.

Approval of the EU's EUR 90bn loan in April will allow Ukraine to finance its military efforts and fiscal programmes, as well as to support macro-financial stability. EUR 60bn of this loan 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 unlikely event that Russia pays reparations to Ukraine after the war. The loan is also important to support stability of the national currency, as the current account deficit is in excess of 15% of GDP, primarily due to the high demand for imports.

Inflation will not slow down in 2026 as much as previously expected, owing to the higher global energy prices. The conflict in the Middle East has had a big effect on the country's inflation dynamics, with the CPI reaching 8.2% year on year in May – up 0.8pp on January's figure. We expect inflation to accelerate further in H2 2026 and to average 10% for the full year; but in 2027 it will return to a sustainable downward trajectory as pro-inflationary factors fade. By 2028, average inflation is expected to have slowed to 6%.

The downside risks to the forecast are mounting. If the war in Iran is not resolved shortly, there could be a much greater knock-on effect on the Ukrainian economy. Complicating matters still further, there has been a delay in adopting the necessary reforms in Ukraine, which could lead to the country losing part of its financial aid (about EUR 680m from the fourth and fifth tranches of the Ukraine Facility programme).

Recent activities/looking back

Recent member events

- › Executive Network Event, Warsaw, May 2026
- › Executive Network Event, Prague, May 2026
- › Executive Network Event, Vienna, May 2026
- › Executive Network Webinar, June 2026

Recent publications

- › The future financing of the European Union: An analysis of options for new own resources in the EU budget 2028-2034, Philipp Heimberger and Bernhard Schütz, wiiw Policy Note/Policy Report No. 108, June 2026
- › Monthly Report No. 06/2026, Javier Flórez Mendoza, Gentian Gashi, Meryem Gökten, Richard Grieveson, Gabor Hunya, Juliane Unger and David Zenz, wiiw Monthly Report No. 06, June 2026
- › Ageing costs, public debt sustainability and EU fiscal rules, Meryem Gökten and Philipp Heimberger, wiiw Working Paper No. 276, June 2026

Recent presentations and public events

- › University of Vienna, Presentation of the paper: Endogenous money and inflation: An introductory post-Keynesian/Kaleckian conflict inflation model, Cara Dabrowski, Vienna, 2 June 2026
- › Advocacy Visit Western Balkans, MFF and EU Enlargement, Presentation of findings from convereg2eu project, Branimir Jovanovic, Brussels, 2-4 June 2026
- › Energy Forum 2026: Time for Energy Reset in Central and South-East Europe?, Panel participation: The future of energy independence and regional cooperation in Central and Southeast Europe, Mario Holzner, 10 June 2026
- › Hidden Risks: Russian Fossil Fuels, Climate, and Europe's Sanctions Blind Spots, Panel discussion, Olga Pindyuk, Dialogbüro Vienna, 10 June 2026
- › 26th Summer Seminar for Young Public Policy Professionals, Speech: The CEE Economies between a Structural Transition and External Shocks, Branimir Jovanovic, Albena, Bulgaria, 11-12 June 2026
- › Waiting for Europe: EU Enlargement in an Era of Uncertainty, Panelist, Olga Pindyuk, IIP, oip, Karl-Renner-Institut, Vienna, 16 June 2026
- › Labour Relations in the Danube Region, Speech: The Future of Work in the Danube Region, Branimir Jovanović, Austrian Trade Union Federation (ÖGB), Vienna, 18 June 2026

- › Tobacco Taxation in Kosovo and the Western Balkans: Evidence, Policy, and EU Perspectives, Speech: Regional and international perspectives on tobacco taxation policies, Nóra Kungl, Biljana Jovanovikj, Prishtina, 23-24 June 2026
- › Bruno Kreisky Forum: China and the EU, Panel discussion: China and the EU: Economic and Political Perspectives on Central and Eastern Europe and the Western Balkans - Multilateralism contested?, Branimir Jovanović, Vienna, 25 June 2026
- › 32nd IIOA & 11th SHAIO Conference, Robert Stehrer, Seville, Spain 22-26 June 2026
- › IAAE Annual Conference 2026, Presentation: Distributional and macroeconomic implications of carbon taxation: Regional variation in revenue recycling, Anna Matzner, Carcavelos, Portugal, 23-25 June 2026
- › Annual Conference, Presentation: Progressive Pronatalism: Rationale, Challenges, and Opportunities, Kristijan Fidanovski, CEU Democracy Institute, Budapest, 25 June 2026

Looking ahead

Upcoming member events

- › Executive Network Event, Warsaw, September 2026
- › Executive Network Event, Prague, September 2026
- › Executive Network Event, Vienna, October 2026
- › Executive Network Webinar, October 2026

Upcoming publications

- › Working Paper, Welfare, optimal tariffs, and trade balance in a Ricardian general equilibrium framework, Robert Stehrer
- › Working Paper, Offshoring, destination regions and working conditions in Europe, Sandra M. Leitner and Roman Stöllinger
- › Working Paper, The structural interdependencies of industries: An agent-based model, Reiter, Schütz, Lichtenberger
- › Statistical Report, Offshoring, reshoring, and the location of production: What can we measure in a cross-country industry-level setting?, Hylke Dijkstra, Erik Dietzenbacher and Konstantin M. Wacker
- › Policy Notes and Reports, The sectoral impact of public investment in the Western Balkans, Alexandra Bykova, Mario Holzner and Branimir Jovanović
- › Monthly Report 09/2026
- › Executive Network Podcast Episode VII, Where AI actually fits, July 2026

Upcoming presentations and public events

- › 38th Annual SASE Conference, Presentation: Stereotypes and gender segregation at the task-level: a cross-country comparison using PIAAC and the Eurobarometer, Stella Zilian, Bordeaux, 1-4 July 2026
- › Enlargement policy through the post 2027 EU budget, Presentation of the converge2eu project Branimir Jovanovic, IAI Rome, Italy, 7 July 2026
- › 8th International Conference on European Economics and Politics, Presentation: Fiscal consolidation and political instability, Anna Matzner, KOF Swiss Economic Institute (KOF), Zurich, Switzerland, 14-15 July 2026
- › 19th Pan-European Conference on International Relations, Presentation: Brain Drain and Economic Convergence in the Western Balkans and Eastern Partnership, based on findings from the Horizon GEOPOWER project, Kristijan Fidanovski, ISCTE- University Institute of Lisbon, 1-4 September 2026

- › VolkswagenStiftung - Transforming Demographic Anxieties - Final Project Conference, Presentation: Demographic trends and policy responses in Central and Eastern Europe, Kristijan Fidanovski, Sofia, 9-11 September 2026
- › Jahrestagung 2026, Presentation: Distributional and macroeconomic implications of carbon taxation: Regional variation in revenue recycling, Verein für Socialpolitik, Innsbruck, 13-16 September 2026
- › Tobacco Taxation in Central and Eastern Europe: Successes and Challenges, Panel moderator, Kristijan Fidanovski, Warsaw, 22-24 September 2026

New Members 2026: Welcome!

- › Biscuit International
- › Cummins
- › University of Zagreb
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- › Transcom
- › Nova Ljubljanska banka (NLB)
- › Regional Cooperation Council (RCC)
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- › Mainfreight – **June 2026**
- › Merck Poland – **June 2026**

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