

PRESS RELEASE

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Summer Forecast:

Iran conflict to have little impact on growth in Eastern Europe

- *Region continues to grow much faster than the euro area*
- *Iran, Trump's tariffs and the war in Ukraine are downside risks*
- *Ukraine's outlook is deteriorating*
- *Russia's growth will halve to around 2%*

Even though the conflict between Israel and Iran and US President Trump's trade policy are creating great uncertainty and the international environment remains difficult, growth in most economies of Central, East and Southeast Europe will remain robust in 2025 and 2026 – including in the EU member states. This is the message of the new summer forecast by the Vienna Institute for International Economic Studies (wiiw), which covers 23 countries of the region. *'However, this is conditional on the conflict over Iran's nuclear programme not escalating further and spreading into a regional war that would cause oil prices to skyrocket,'* says Richard Grieveson, Deputy Director of wiiw and lead author of the summer forecast. *'Fundamentally, the region has repeatedly proved to be very resilient to external shocks,'* says Grieveson.

For 2025, wiiw forecasts average growth of 2.3% for EU members in the region, a slight downward revision of 0.2 percentage points over the spring forecast. In 2026, growth should pick up further to 2.8% (as was forecast in the spring). *'However, developments are mixed. While Poland, Bulgaria, Croatia and Lithuania continue to grow strongly, Hungary, Romania and Slovakia are having to cut spending to bring their high budget deficits under control. That – among other factors – is dampening growth there,'* comments Grieveson. Nevertheless, EU members in Central, East and Southeast Europe are expected to see their economies grow at three times the rate of the euro area (0.7%) in 2025, and at twice the rate (1.4%) in 2026, with projected growth of 2.8%. This will enable them to continue their economic catch-up process with Western Europe.

Although industry in key countries of the region – such as Poland, Czechia, Slovakia, Hungary and Romania, which have strong ties to Germany – continues to struggle with the weakness of German manufacturing, growth in those countries is still being driven by strong private consumption, thanks to robust real wage increases and tight labour markets. *'People in many countries of the region are still spending their additional disposable income, which is boosting the economy,'* explains Grieveson. In terms of growth among the eastern EU member states, Poland will be the frontrunner both this year (3.5%) and next (3.5%); it will be closely followed by Croatia (2025: 2.9%; 2026: 2.8%). The six countries of the Western Balkans will expand by an average of 3% in 2025 and 3.6% in 2026, while Turkey will grow by 3.4% in 2025 and 4% in 2026.

The outlook for war-torn Ukraine has recently deteriorated. For 2025, wiiw forecasts growth of only 2.5% for the country, a downward revision of 0.5 percentage points. The damage caused by the war and the effects of what looks likely to be a poor harvest are leaving their mark. In the case of aggressor Russia, the strong growth of the past two years is likely to halve to 2% this year and to slow further to 1.8% next year. Kazakhstan is an outlier, growing by 5% this year and 4.5% in 2026, thanks to buoyant oil revenues and a flourishing construction sector.

Iran, Trump's tariffs and the war in Ukraine are downside risks

The greatest downside risk is a renewed escalation of the conflict between Israel and Iran. *'If Tehran were to close the Strait of Hormuz to shipping, that could cause oil prices to skyrocket, which would fuel inflation and hit growth hard,'* explains Grieveson. But US President Donald Trump's tariff policy and a possible trade war between the US and the EU could also jeopardise economic development in Central, East and Southeast Europe. *'Direct trade flows between the region and America are negligible. However, the region is likely to suffer from lower US demand for European industrial products and less investment in Central Eastern Europe in the event of high US tariffs being laid against the EU,'* says Grieveson.

Another risk is the adverse effect of a possible withdrawal of US support for Ukraine in its defensive war against Russia. *'If Trump abandons Ukraine, that could create a security vacuum in Eastern Europe, weaken NATO and deter investors,'* says Grieveson.

Ukraine's outlook is deteriorating

Although wiiw is still not assuming such a negative scenario, the outlook for Ukraine's economy is becoming increasingly bleak. In the first quarter of 2025, the country's annualised growth is estimated to have slowed to just 1%, down from 2.9% last year. For 2025, wiiw forecasts growth of 2.5% for the country, a downward revision of 0.5 percentage points on the spring. The positive impulses from strong consumer demand and robust industrial production – especially in the defence industry – cannot compensate for the damage caused by Russia's war of aggression. *'Ukraine is suffering from a shortage of air defence missiles, which is leading to enormous destruction of critical infrastructure by Russian drone and missile attacks. The worsening labour shortage due to mobilisation for the war is also weighing heavily on the economy,'* says Olga Pindyuk, Ukraine expert at wiiw.

Inflation accelerated further between April and May and now stands at around 16%. *'This has forced the central bank to leave the key interest rate at a high 15.5%, which is of course acting as a brake on growth,'* says Pindyuk. Added to this are the effects of what is expected to be a poor harvest this year (a consequence of the drought) and the temporary end to tariff-free access for Ukrainian agricultural products to the EU. This is bad news for a country that is heavily dependent on agricultural exports. *'However, ultimately Ukraine's economic development stands or falls with financial and military support from the West. If Trump were to withdraw this support and the Europeans were unable or unwilling to make up the US shortfall, that would have dire consequences,'* warns Pindyuk.

Russia's growth will halve

Growth prospects are also cloudier for aggressor Russia. After two strong years thanks to high spending on the war, growth in 2025 is likely to halve to 2%, compared with the previous year

(4.3%). For 2026, wiiw expects a further slowdown to 1.8%, a downward revision of 0.7 percentage points since the spring. In the first four months of this year, the economy grew by only 1.6% on an annual basis and industrial production by 1.2%. *'The growth in industrial production is largely attributable to the arms industry, while many other industrial sectors are stagnating or even shrinking,'* says Vasily Astrov, Russia expert at wiiw.

The main reason for the slump in growth is the sharp tightening of monetary policy by the central bank to bring inflation under control. Inflation has now fallen to around 6% on an annualised basis. Although, as a first step, the central bank has already reduced the high interest rates by 1 percentage point, they still stand at an exorbitant 20%. *'High interest rates are stifling the economy because they make loans unaffordable and also create a powerful incentive to hoard money in bank accounts,'* says Astrov. *'Unsurprisingly, there is also the threat of a wave of bankruptcies among companies, some of which could affect large corporations and leading firms.'*

While in the spring it seemed that US sanctions might soon be eased or lifted in the wake of the rapprochement between Trump and Putin over the war in Ukraine, this hope has vanished into thin air for Russia for the time being. *'This is another key reason why Russia is likely to grow more slowly in 2026 than was recently assumed,'* explains Astrov. Added to this are lower oil revenues due to falling prices and the fact that the opportunity to replace imports from the West with domestic production is increasingly reaching its limits.

Declining energy and tax revenues will also cause the budget deficit to rise to 1.8% of GDP in 2025 (instead of the 0.5% that the government originally reckoned with). *'But that's not really a problem. The Russian government still has sufficient financial leeway, thanks to its remaining fiscal reserves and the possibility of borrowing from domestic banks,'* says Astrov.

About the wiiw Forecast Report for Central, East and Southeast Europe

The report analyses the economies of 23 countries in Central, East and Southeast Europe (CESEE) and provides a detailed forecast of the macroeconomic indicators of the following countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Kazakhstan, Kosovo, Latvia, Lithuania, Moldova, Montenegro, Northern Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.

The full Summer Forecast 2025 is available upon request.

About the Vienna Institute for International Economic Studies (wiiw)

Founded in 1972, the Vienna Institute for International Economic Studies (wiiw) is an economic think tank that produces economic analyses and forecasts on 23 countries in Central, East and Southeast Europe. In addition, wiiw conducts research in the areas of European integration, macroeconomics, international economics, industrial studies, labour markets and regional development. www.wiiw.ac.at

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OVERVIEW 2023-2024 AND OUTLOOK 2025-2027

		GDP					Consumer prices					Unemployment (LFS)					Current account					Fiscal balance				
		real change in % against prev. year					average change in % against prev. year					rate in %, annual average					in % of GDP					in % of GDP				
		2023	2024	Forecast		2027	2023	2024	Forecast		2027	2023	2024	Forecast		2027	2023	2024	Forecast		2027	2023	2024	Forecast		2027
		2025	2026				2025	2026				2025	2026				2025	2026				2025	2026			
BG	Bulgaria	1.9	2.8	2.3	2.5	2.7	8.6	2.6	3.3	2.4	2.2	4.3	4.2	4.3	4.2	3.9	-0.9	-1.8	-2.1	-1.1	-0.5	-2.0	-3.0	-3.0	-3.0	-3.0
CZ	Czechia	-0.1	1.1	2.0	2.4	2.7	12.0	2.7	2.1	2.0	1.6	2.6	2.6	2.6	2.6	2.6	-0.1	1.8	1.8	1.6	1.5	-3.8	-2.2	-2.4	-1.9	-1.8
EE	Estonia	-3.0	-0.3	1.5	2.0	2.5	9.1	3.7	5.5	4.6	3.2	6.4	7.6	7.2	6.4	5.8	-1.7	-1.1	-0.9	-0.5	0.3	-3.1	-1.5	-3.6	-3.0	-2.5
HR	Croatia	3.3	3.9	2.9	2.8	2.7	8.4	4.0	3.5	2.9	2.8	6.1	5.0	4.9	4.9	4.8	0.7	-1.2	-0.5	-0.4	0.2	-0.8	-2.4	-2.2	-2.0	-1.9
HU	Hungary	-0.8	0.5	0.7	2.2	2.0	17.0	3.7	5.0	4.5	3.5	4.1	4.5	4.2	4.0	4.5	0.3	2.2	1.5	1.7	1.8	-6.7	-4.9	-5.3	-5.3	-4.0
LT	Lithuania	0.3	2.8	2.8	2.6	2.4	8.7	0.9	3.5	2.5	2.5	6.9	7.1	6.9	6.6	6.3	1.1	2.5	2.7	2.2	1.9	-0.7	-1.3	-2.7	-2.6	-2.5
LV	Latvia	2.9	-0.4	1.5	2.1	2.3	9.1	1.3	3.4	2.7	2.5	6.5	6.9	6.9	6.5	6.1	-3.9	-2.1	-2.9	-3.6	-4.5	-2.4	-1.8	-3.2	-2.9	-2.6
PL	Poland	0.2	2.9	3.5	3.5	3.0	10.9	3.7	4.2	3.0	2.5	2.8	2.9	2.9	2.7	2.7	1.8	0.2	-1.0	0.1	1.0	-5.3	-6.6	-5.9	-4.6	-4.3
RO	Romania	2.4	0.8	1.2	2.3	3.0	9.7	5.8	5.1	4.5	3.8	5.6	5.4	5.5	5.4	5.0	-6.6	-8.4	-8.2	-7.5	-6.5	-6.6	-9.3	-7.5	-6.4	-5.5
SI	Slovenia	2.1	1.6	1.6	2.3	2.4	7.2	2.0	2.1	2.0	2.0	3.7	3.7	3.6	3.5	3.5	4.5	4.4	3.5	4.1	4.9	-2.6	-0.9	-2.1	-2.0	-1.9
SK	Slovakia	2.2	2.1	1.4	2.0	2.4	11.0	3.2	3.9	2.8	2.5	5.8	5.3	5.6	5.5	5.4	-0.9	-2.8	-3.5	-2.8	-2.3	-5.2	-5.3	-4.9	-4.2	-4.0
EU-CEE11 ¹⁽²⁾		0.9	1.9	2.3	2.8	2.8	11.0	3.7	4.0	3.2	2.7	4.1	4.1	4.1	3.9	3.8	-0.4	-0.9	-1.5	-0.9	-0.3	-4.7	-5.3	-5.0	-4.2	-3.8
AL	Albania	3.9	4.0	3.7	3.9	4.0	5.3	2.6	2.7	2.5	2.4	9.5	8.6	8.4	8.3	8.2	-1.2	-2.4	-2.6	-2.7	-2.7	-1.3	-0.7	-2.0	-1.8	-1.5
BA	Bosnia and Herzegovina	2.0	2.5	2.4	2.8	3.2	6.1	1.7	2.5	2.0	1.8	13.2	12.6	12.3	11.9	11.5	-2.3	-4.2	-4.8	-4.9	-4.9	-1.2	-0.5	-0.7	-1.0	-1.0
ME	Montenegro	6.3	3.0	3.2	3.3	3.2	8.7	3.6	3.3	2.5	2.8	13.1	11.5	11.0	10.6	10.2	-11.4	-17.3	-16.0	-15.0	-14.0	0.6	-3.1	-2.5	-2.7	-2.3
MK	North Macedonia	2.1	2.8	2.6	2.8	3.0	9.0	4.2	3.8	3.3	2.8	13.1	12.4	11.6	10.8	10.0	0.4	-2.3	-3.0	-2.5	-2.0	-4.3	-4.6	-4.0	-4.0	-3.0
RS	Serbia	3.8	3.9	3.0	4.0	4.0	12.1	4.8	4.2	3.5	3.0	9.5	8.6	8.3	7.9	7.5	-2.4	-6.3	-6.0	-5.7	-5.6	-2.1	-2.0	-2.5	-3.0	-3.5
XK	Kosovo	4.1	4.4	3.9	3.9	4.1	4.9	1.6	2.2	2.0	2.0	10.9	10.8	10.7	10.6	10.5	-7.5	-8.9	-8.9	-8.6	-8.1	-0.3	-0.3	-1.1	-0.9	-0.8
WB6 ¹⁽²⁾		3.5	3.5	3.0	3.6	3.7	9.1	3.6	3.5	2.9	2.6	11.0	10.0	9.7	9.3	8.9	-2.7	-5.7	-5.6	-5.4	-5.2	-1.8	-1.7	-2.2	-2.5	-2.6
MD	Moldova	1.2	0.1	0.9	3.0	3.5	13.4	4.7	8.0	5.0	4.0	4.6	4.0	4.0	3.5	3.5	-11.3	-16.0	-20.0	-18.0	-16.0	-5.1	-3.9	-5.0	-4.5	-4.0
UA	Ukraine	5.5	2.9	2.5	4.0	5.0	12.9	6.5	12.5	8.0	7.0	20.0	14.0	12.0	10.0	9.0	-5.3	-7.2	-11.0	-11.0	-9.0	-20.1	-17.6	-18.0	-16.0	-11.0
New EU accession 2 ¹⁽²⁾		5.2	2.7	2.4	3.9	4.9	12.9	6.4	12.2	7.8	6.8	19.2	13.5	11.6	9.7	8.7	-5.8	-8.0	-11.8	-11.6	-9.6	-18.8	-16.4	-16.9	-15.0	-10.4
TR	Turkey	5.1	3.2	3.4	4.0	4.5	54.0	58.5	35.0	24.0	14.0	9.4	8.7	9.0	9.0	8.8	-3.6	-0.8	-2.0	-3.0	-3.5	-5.2	-4.9	-3.8	-3.5	-2.6
BY	Belarus	4.1	4.0	2.3	1.4	1.4	5.1	5.7	8.0	6.0	6.0	3.5	3.0	3.0	3.1	3.1	-1.5	-2.5	-3.0	-3.1	-2.2	1.2	0.3	-0.3	-0.5	-0.5
KZ	Kazakhstan	5.1	4.8	5.0	4.5	4.5	14.5	8.7	11.0	9.0	7.0	4.7	4.7	4.6	4.6	4.6	-3.6	-1.3	-3.0	-2.5	-2.1	-2.4	-2.7	-2.4	-2.3	-2.0
RU	Russia	4.1	4.3	2.0	1.8	1.7	5.9	8.4	8.9	5.1	4.4	3.2	2.5	2.3	2.2	2.2	2.4	2.9	2.3	2.6	2.8	-2.2	-1.6	-1.8	-1.5	-1.2
CIS3 ¹⁽²⁾		4.2	4.3	2.3	2.1	2.0	6.7	8.3	9.1	5.5	4.7	3.3	2.8	2.6	2.5	2.5	1.6	2.2	1.6	1.9	2.1	-2.1	-1.7	-1.8	-1.6	-1.3
V4+SI ¹⁽²⁾		0.3	2.1	2.6	3.0	2.7	11.8	3.4	3.8	3.0	2.5	3.3	3.3	3.3	3.2	3.2	1.1	0.7	-0.1	0.5	1.1	-5.0	-5.1	-4.9	-4.0	-3.6
BALT3 ¹⁽²⁾		0.3	1.2	2.2	2.3	2.4	8.9	1.6	3.9	3.0	2.7	6.6	7.1	7.0	6.5	6.1	-0.9	0.4	0.4	0.1	-0.1	-1.7	-1.5	-3.1	-2.8	-2.5
EU-SEE3 ¹⁽²⁾		2.4	1.6	1.6	2.4	2.9	9.3	4.9	4.5	3.9	3.4	5.4	5.1	5.1	5.1	4.7	-4.4	-6.0	-5.8	-5.2	-4.3	-4.8	-7.0	-5.8	-5.1	-4.5
EU accession 8 ¹⁽²⁾		4.6	3.0	2.6	3.8	4.5	11.5	5.3	8.9	6.0	5.2	16.8	12.4	11.0	9.6	8.8	-4.4	-6.9	-9.0	-8.8	-7.6	-11.0	-9.6	-10.1	-9.2	-6.8
non-EU12 ¹⁽²⁾		4.5	3.9	2.7	2.8	2.9	20.9	22.6	16.6	10.9	7.4	7.0	5.8	5.5	5.2	5.1	-0.4	0.5	-0.5	-0.8	-0.8	-3.8	-3.4	-3.2	-2.9	-2.2
CESEE23 ¹⁽²⁾		3.5	3.4	2.6	2.8	2.9	18.2	17.5	13.2	8.8	6.2	6.3	5.3	5.1	4.9	4.8	-0.4	0.0	-0.9	-0.8	-0.6	-4.2	-4.1	-3.8	-3.3	-2.8
EA20 ³⁾		0.5	0.9	0.7	1.4	1.5	5.4	2.4	2.2	2.0	2.0	6.6	6.4	6.5	6.5	6.5	2.7	3.6	2.5	2.5	2.5	-3.5	-3.1	-2.9	-2.7	-2.3
EU27 ³⁾		0.5	1.0	0.9	1.6	1.7	6.4	2.6	2.4	2.2	2.2	6.1	5.9	5.9	5.9	5.9	2.7	3.4	2.5	2.5	2.5	-3.5	-3.2	-2.5	-2.3	-1.9

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Forecasts estimated by wiiw.

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

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