

Economic trends in CESEE EU member states

War in the Middle East casts shadow over otherwise largely solid CESEE economy

Central, Eastern and Southeastern Europe (CESEE) got off to a solid start in 2026. Growth in the region had largely remained stable in the second half of 2025 and sentiment had recovered as well. But the war in the Middle East changed the situation abruptly and led to a return to crisis mode in CESEE. Some effects became visible very quickly: several currencies of the region depreciated against the US dollar, and ten-year government bond yields increased notably in the first phase of the war. Foreign exchange markets have since stabilised and bond yields recovered some of their losses, but the situation has remained volatile and price pressures have already increased.

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Crisis mode after solid start in 2026

Some effects of the war in the Middle East became visible very quickly: The Hungarian forint, the Czech koruna and the Polish zloti lost about 4% to 6% of their value against the dollar and ten-year government bond yields increased by between 60 to 110 basis points in the first phase of the war.



High energy prices will fuel inflation

High oil and gas prices will fuel inflation over the course of the year. The extent of the price shock will depend on how the war unfolds, where and when energy prices eventually settle down and how higher energy input costs will affect other parts of the consumption basket.



Promising trends prior to the war

Despite all the turbulence in the world economy, the second half of 2025 was a period of stability marked by some promising trends in CESEE. Average annual growth stood at 2.3%. The composition of growth shifted in a positive direction, with investment activity picking up significantly.

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1 Regional overview

Central, Eastern and Southeastern Europe (CESEE) got off to a solid start in 2026^{1, 2, 3}. Despite some heterogeneity, growth in the region remained stable in the second half of 2025; investment activity had gained momentum and inflation had come back to target levels in several countries. Sentiment had recovered as well. In February 2026, manufacturing purchasing managers' indices in Czechia and Germany (a focal point for CESEE value chains) reached the threshold of 50, indicating an expansion. The international environment had also become somewhat more benign. Following court rulings and executive actions in early 2026, the effective US tariff rate had fallen and the global economy was gradually adjusting to the shock caused by the shift in US trade policy. Although the geopolitical environment remained risky, economic policy uncertainty had declined and the global outlook had brightened compared to expectations from 2025.

However, the war in the Middle East once again changed the situation abruptly and led to a return to crisis mode in CESEE. Some effects became visible very quickly: The Hungarian forint, the Czech koruna and the Polish zloti lost about 4% to 6% of their value against the US dollar and ten-year government bond yields increased by between 60 to 110 basis points in the first phase of the war. This reflected a flight to safety amid higher international risks and the expectation of higher inflation and less monetary easing in the months to come as commodity prices soared. By mid-April, foreign exchange markets had stabilised and bond yields recovered some of their losses, but the situation has remained volatile.

At the time of writing, Brent crude oil stood at about USD 100 per barrel, while Dutch TTF gas futures were trading at about EUR 50 per MWh. Both figures are high by historical standards, but the price of gas has so far remained well below the extreme levels seen in 2022 (when TTF futures briefly reached EUR 322 per MWh).

High energy prices will fuel inflation over the course of the year

The question now is whether we will see inflation spikes similar to those of 2022–2023, and if so, how countries can deal with them. As for the extent of the price shock, much will depend on how the war unfolds, where and when energy prices eventually settle down and how higher energy input costs will affect other parts of the consumption basket.

In any case, a swift return of energy prices to pre-war levels is not to be expected, not least because of the already lasting damage done to the physical energy infrastructure in the Persian Gulf. Future contracts currently see Brent crude at about USD 80–85 per barrel at the end of the year, with some

¹ Compiled by Josef Schreiner with input from Katharina Allinger, Mathias Lahnsteiner, Thomas Reininger, Thomas Scheiber, Tomáš Slačik and Zoltan Walko.

² Cut-off date: 16 April 2026. This chapter focuses primarily on data releases and developments from October 2025 up to the cut-off date and covers Croatia, Slovakia, Slovenia, Bulgaria, Czechia, Hungary, Poland and Romania. The countries are ordered according to their level of EU integration (euro area countries and EU member states).

³ All growth rates in the text refer to year-on-year changes unless otherwise stated.

analysts predicting substantially higher prices. Even if Brent crude would return to USD 80 a barrel by end-2026, the average oil price in 2026 would still be about 30% higher than in 2025, exerting significant upward pressure on inflation throughout the year. As far as gas prices are concerned, the situation has been less dramatic so far. It should be noted, however, that gas and electricity prices – due to the merit-order system – often move in tandem. Gas prices therefore influence larger parts of an economy's energy mix.

Higher energy prices can trigger second-round effects across many categories of the consumption basket. After the full-scale invasion of Ukraine in February 2022 and the resulting energy price spike, the share of items with rising inflation rates in the Harmonised Index of Consumer Prices (HICP) quickly climbed to over 80% within a few months. The situation at that time, however, was not entirely comparable to today's. The recovery from the pandemic lockdowns and supply chain bottlenecks had led to rising inflationary pressures starting in mid-2021. At the same time, labour market conditions tightened and wage growth had accelerated. Today, growth is significantly slower and labour market conditions and price pressures have eased somewhat recently.

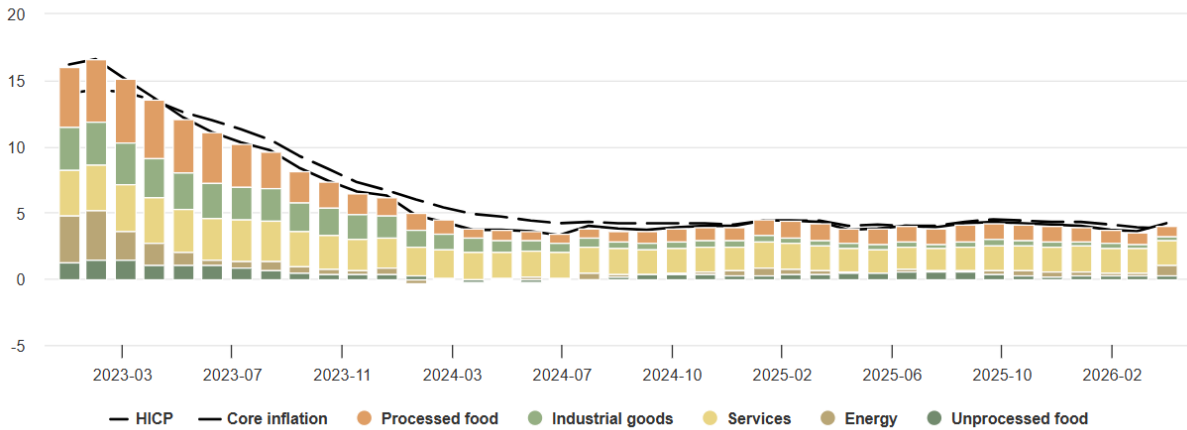
March inflation already came in higher and the outlook was revised

Nevertheless, price growth already accelerated notably in March 2026 (see chart 1). Driven by the energy component, the average inflation rate in the CESEE region increased from 3.6% in February to 4.2% in March 2026 and higher inflation was observed in all countries but Slovakia and Slovenia. Some central banks have already begun to revise their inflation forecasts upward. The Slovak central bank raised its forecast for 2026 from 3.4% to 3.9% but did not yet adjust its 2027 forecast (2.5%). The Hungarian central bank increased its 2026 inflation forecast from 3.2% to 3.8% and its 2027 forecast from 3.3% to 3.7%. The Croatian central bank increased its inflation forecast for 2026 by a full 1.1 percentage points to 4.6% and raised its 2027 projection by 0.4 percentage points to 2.8%. The IMF, in its recent regional economic outlook, expects inflation in CESEE to reach 4.3% in 2026. This is 0.9 percentage points more than expected before the war. Moreover, the fund adjusted its 2026 growth forecast for the CESEE region down to 2.4% from 2.8% before the start of the war. Depending on the country, this corresponds to a downward revision of 0.2 to 0.7 percentage points.

Chart 1

Inflation in CESEE EU

Percentage points; HICP and core inflation in %, year on year



Source: Eurostat.

CESEE countries have less fiscal space to combat rising prices than in 2022

Another question is how countries can cope with the energy price shock. There is a clear political will to shield the economy from higher energy prices and many countries plan measures to this end or have already implemented them (e.g. in Hungary, Croatia, Slovakia, Romania and Poland). Crucially, however, the fiscal space that allowed many governments to subsidise energy and/or to introduce price caps back in 2022 has narrowed since. High dependence on energy imports amid weakening currencies, rising government funding costs amid significantly higher public debt compared to pre-2020 levels, and a possible slowdown of economic activity aggravate the situation.

Hungary, from a debt level perspective, and Poland, Romania and Slovakia, in terms of debt dynamics, have the most limited fiscal leeway. In 2025, Hungary's debt stood at 73.7% of GDP, by far the highest level in the CESEE region. In Slovakia and Poland, debt has risen by about 14 percentage points of GDP since the start of the pandemic. In Romania, debt even rose by 24 percentage points of GDP over the same period. All three countries reported general government deficits of 5% of GDP or above in 2025. Czechia, by contrast, seems best positioned in CESEE, with its sound fiscal conditions (budget deficit of 1.8% of GDP and debt of 43.4% of GDP in 2025) and low inflation.

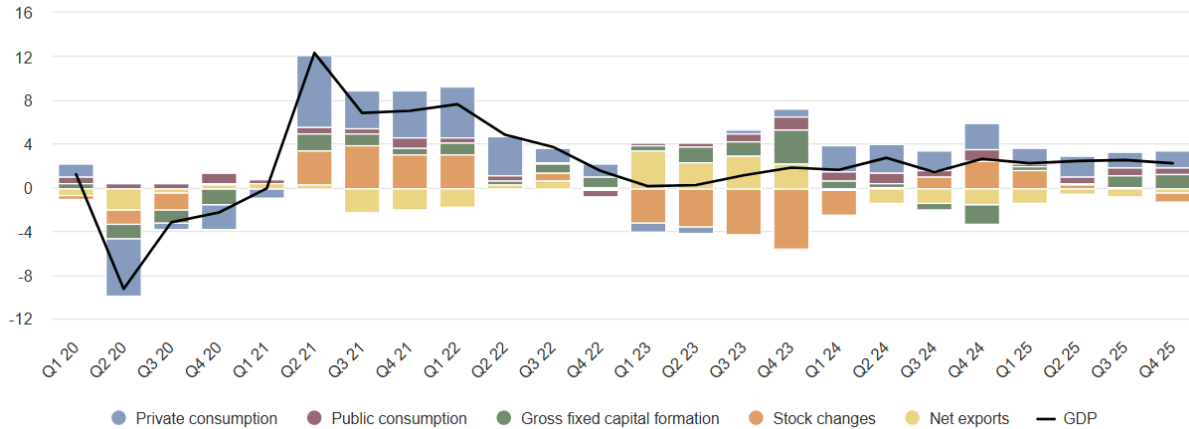
Silver lining: several positive economic developments in the run-up to the war

Looking at key macroeconomic indicators, the second half of 2025 was – despite all the turbulence in the world economy – a period of stability marked by some promising trends. Average annual growth stood at 2.3% in the second half of 2025, unchanged from the growth rate recorded in the first half of 2025 (see chart 2). Growth exceeded 3% in Bulgaria, Croatia and Poland and accelerated (albeit in some cases from a low base) in all other countries of the region except for Romania.

Chart 2

GDP growth and its main components in CESEE EU

Percentage points, GDP growth in % (year on year)



Source: Eurostat.

The composition of growth also broadened and shifted in a positive direction. While private consumption remained the main driver of output growth, investment activity picked up significantly. At the same time, the dampening effect of the external sector on economic dynamics eased somewhat, as manufacturing regained footing.

Private consumption remains strong, but softer labour markets are somewhat reducing wage growth

Private consumption continued to be supported by a robust labour market and rising wages. Labour market conditions, however, have cooled off somewhat. The average unemployment rate edged up marginally to 4.4% in the fourth quarter of 2025 from 4.2% a year earlier. A broader measure of labour market slack – i.e. the share of persons with an unmet need for employment in the extended labour force – also deteriorated from 6.3% in the fourth quarter of 2024 to 6.5% at the end of 2025. Job creation slowed down a bit too, but the employment rate has remained above 70% on average in recent years (exceeding the employment rate reported for the euro area). Labour market tightness has eased in manufacturing and construction, but firms continued to report significant labour shortages in services during the reporting period.

Softer labour markets were reflected in slower wage growth. Nominal wage growth averaged about 8.5% in the fourth quarter of 2025, down from about 10% in the first half of that year. Disinflation in many countries ensured stable purchasing power. Real wage growth declined only slightly, from 6.6% in the first half of 2025 to 6.1% in the fourth quarter of 2025.

Consumer sentiment remained broadly unchanged in the review period and no significant decline has yet been observed since the outbreak of the war in the Middle East. However, while households view their current economic and financial situation quite positively, they expect inflation and unemployment to rise over the next twelve months. They are also less inclined to save or make major purchases in the immediate future.

Public consumption is supporting growth

Fiscal policy also continued to have a positive impact on the economy. Public consumption contributed 0.7 percentage points to growth in CESEE in the second half of 2025 (up from 0.4 percentage points in the first half of 2025). Government expenditure increased on the back of higher spending on social

benefits and public wages, reflecting the electoral cycle to some extent. The region, on average, has also upped its defence spending by some 0.7 percentage points of GDP since 2022, with Poland recording by far the largest increase (+2.3 percentage points of GDP). Some countries, however, also faced fiscal consolidation needs. Hungary, Slovakia, Poland and Romania are currently undergoing excessive deficit procedures and are expected to correct their excessive deficits by 2026, 2027, 2028 and 2030, respectively.

Investment spending improved significantly compared to the previous year

Investment spending rose by an average 6.6% in the fourth quarter of 2025, after having declined by 5.7% a year earlier. As a result, it made a significant positive contribution to growth (1.2 percentage points in the fourth quarter of 2025). The uptick was driven in particular by higher spending on machinery, equipment and weapons systems (+12.1% in the fourth quarter). Construction investment also rose by an average of 3% in the fourth quarter of 2025. Surveys indicate that both demand and financing conditions are currently supporting capital spending and that companies plan to further increase their investments this year.

Capital formation benefited from rising disbursements under the Multiannual Financial Framework (MFF) 2021–2027, as the MFF has entered its later phase. In addition, disbursements from the Recovery and Resilience Facility (RRF) have also risen significantly (to about EUR 10 billion in the fourth quarter of 2025), as the facility nears its expiration at the end of 2026. However, the implementation of the RRF is proceeding more slowly than planned and several countries still have ample funds available. The implementation of the RRF is constrained by several factors: (1) Absorption capacity is often weak, as countries struggle with administrative bottlenecks, project pipeline shortages and weak local government capacity. (2) Some countries also face difficulties with the conditionality and the rule-of-law requirements of the RRF and some cohesion funds. (3) Strained public budgets are also putting pressure on co- and pre-financing requirements. Countries therefore risk losing RRF funds permanently, as there is no automatic extension of the RRF beyond the end of 2026 unless EU regulations are formally amended.

Looking forward, investment is also expected to benefit from the Security Action for Europe (SAFE), which provides up to EUR 150 billion in long-maturity, low-cost loans to EU member states for common defence procurement and defence-industrial investment. In early 2026, the European Commission approved the plans submitted by Bulgaria, Croatia, Romania, Poland and Slovakia in this regard. In total, these plans amount to approximately EUR 69 billion.

Industrial recovery bolsters export performance

Another positive development is that the industrial sector in the CESEE region appears to have regained its footing. In the second half of 2025, following a prolonged industrial recession, the sector once again made a positive contribution to gross value added. Production grew particularly strongly in the machinery and electrical equipment sectors, and the situation in the automotive sector has also recovered recently. Order books bottomed out in late 2024 and sales have grown moderately since spring 2025 in the domestic markets and, more importantly, in the foreign markets.

This was reflected in real export growth, which accelerated slowly but steadily throughout 2025. At an average of 2% in the second half of 2025, exports recorded their strongest increase in two and a half years. At the same time, robust domestic demand drove up real imports (by an average of about 4% in the second half of 2025), resulting in a negative contribution of net exports to GDP growth during the

period under review. At 0.6 percentage points in the second half of 2025, however, this drag on growth was substantially smaller than a year earlier (-1.5 percentage points of GDP).

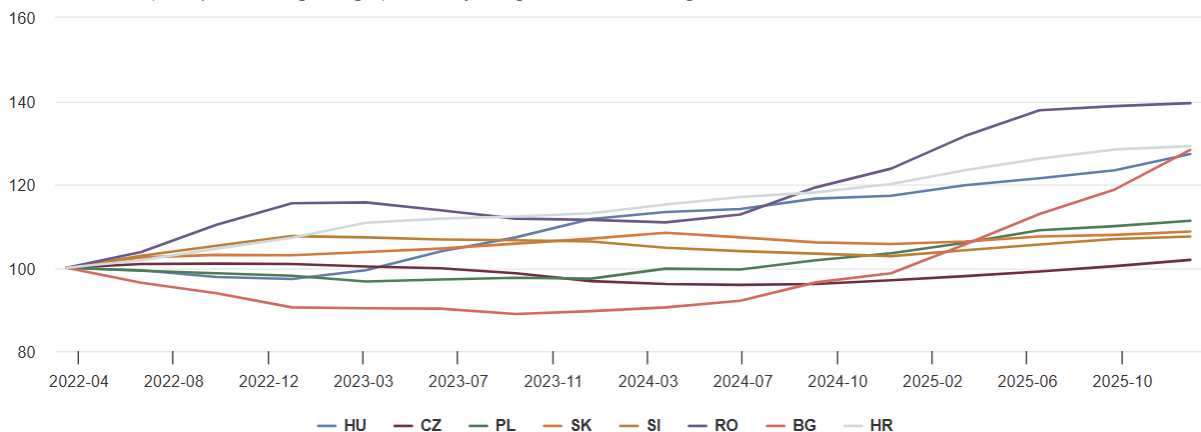
But CESEE is still struggling with its price competitiveness

While the external sector is weighing less and less on growth, export performance continues to be hampered by competitiveness issues. CESEE companies are struggling with their price competitiveness. This is due, on the one hand, to high energy prices and US tariffs. On the other hand, high wage growth throughout the region and weak productivity trends in many countries have driven up unit labour costs (ULC) in manufacturing sharply in recent years. In this regard, the pace of growth in the CESEE countries far exceeded that in most trading partner countries, particularly in the euro area. This has led to a strong real appreciation of most CESEE currencies against the euro. Over the past four years, real exchange rates strengthened by about 10% in Poland, Slovakia and Slovenia, by nearly 30% in Hungary, Bulgaria and Croatia and by 40% in Romania. Czechia was the only country that managed to keep its real exchange rate largely stable (see chart 3).

Chart 3

Real exchange rate against the euro

Index: Q1 22 = 100, four-quarter moving averages, deflated by ULC growth in manufacturing



Source: Eurostat, author's calculation.

The region's combined current and capital account balance remained in a moderate deficit of 0.8% of GDP in the fourth quarter of 2025 (on a four-quarter moving sum basis), unchanged from the level recorded in mid-2025. The deficit was fully covered by FDI inflows. On the country level, (strong) surpluses were reported for Slovenia, Czechia and Hungary. Poland's combined current and capital account was largely in balance. Slovakia significantly reduced its deficit (from -4.8% of GDP to -3.5% of GDP between mid- and end-2025), as its trade balances turned into a surplus. A substantial deterioration, however, was reported for Bulgaria. Here the deficit widened from 1% of GDP to 3.3% of GDP between mid-2025 and the end of 2025 on account of a deterioration of the trade balance. As a result, Bulgaria's deficit is currently only second to Romania's. In Romania, the shortfall in the external accounts declined marginally during the review period but remained larger than 6% of GDP. Only about one third of Romania's deficit was covered by FDI inflows.

Broad-based disinflation before the energy price shock hit in March

Inflation increased quite a bit when the region was hit by the war-induced energy price shock in March 2026. Before this event, however, inflation in the CESEE EU member states fell quite notably from an average of 4.3% in September 2025 to 3.6% in February 2026. Disinflation in that period was broadly

based and encompassed non-core as well as core components of the consumption basket. Inflation remained virtually unchanged only for labour-intensive services, and this sector continued to account for more than half of total HICP inflation.

Disinflation was broadly based not only across components but also across individual countries. All CESEE countries saw at least some easing of price pressures during the review period. This is true also for Romania (the inflation rate decreased from 8.6% in September 2025 to 8.3% in February 2026), where inflation nearly doubled in the second half of 2025 due to higher energy prices after the removal of a cap on electricity prices and tax rises (VAT, excise taxes) in the summer of 2025. However, at 9% in March 2026, Romania still recorded by far the highest price increase in the CESEE region and even in the entire EU.

Disinflation led to rate cuts in Poland and Hungary

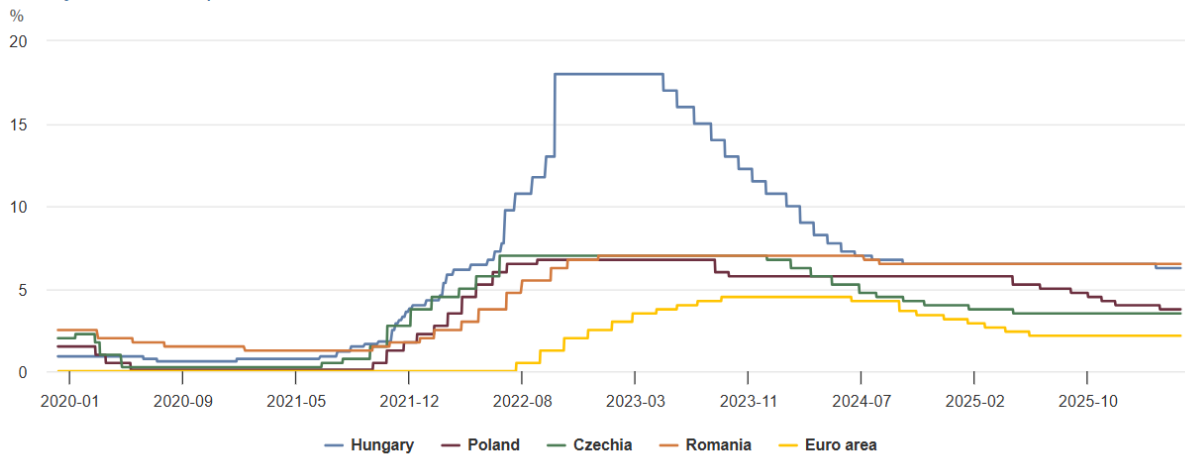
Hungary recently undershot its inflation target ($3\% \pm 1$ percentage point), with consumer price inflation (CPI) of 1.8% in March 2026. In Poland, inflation has been within target ranges since July 2025 and stood at 3% in March 2026 (with the target set at $2.5\% \pm 1$ percentage point). The benign inflation environment up until March therefore prompted central banks to adjust their policy rates. The Polish central bank (NBP) cut its policy rate in four steps from 4.75% in October 2025 to 3.75% in April 2026. The Hungarian central bank (MNB) cut its policy rate from 6.5% to 6.25% in February 2026, after keeping it constant for one and a half years (see chart 4). Analysts had generally expected another rate cut in March, but the MNB decided to leave rates unchanged for the time being. In their most recent sittings, both the MNB and the NBP cited increased risks to inflation and growth due to rising global commodity prices and heightened geopolitical risks.

In Czechia, inflation has been close to the $2\% (\pm 1$ percentage point) target since January 2024 and the central bank has held its policy rate constant since May 2025. CPI inflation in the country fell to 1.4% in February 2026, reaching its lowest level in ten years, before going up to 1.9% in March 2026.

Forward rate agreements have risen since late February 2026 and are currently above policy rates in Poland, Czechia and Hungary. This implies that financial markets currently expect some monetary tightening in 2026.

Chart 4

Policy rate developments



Source: Macrobond.

Higher energy prices add to already existing inflation risks

Throughout CESEE, higher commodity prices pose a significant risk to inflation with potential negative repercussions on economic activity and financial conditions in the months ahead. Moreover, risks to price stability were already present before the war in Iran. Household consumption had been strong for some time and the prolonged period of above-average wage growth contributed to domestic inflationary pressures. These are reflected primarily in persistently elevated services inflation and a significant rise in property prices. A potential further increase in total public sector spending could lead to fiscal policy having a stronger inflationary effect. Gradually accelerating credit growth contributed to an increase in the quantity of money in the economy.

Increasing lending amid high banking sector profitability

Monetary easing since mid-2023 has stimulated credit markets. The growth of credit to the private sector has doubled since then, reaching an average of 9.1% in January 2026, with household credit dynamics notably outpacing corporate credit dynamics. Credit demand, which had been strong already for some time, strengthened further in the past six months, driven by retail segments such as mortgages and consumer credit. In contrast, credit supply lacked momentum, leaving a noticeable supply-demand gap. Surveys conducted before the war suggest that credit demand, particularly from businesses, will remain favourable and that credit supply is likely to ease as banks become increasingly willing to finance small and medium-sized enterprises and consumers.

Banking sectors are generally in good shape. The average return on assets stood at 1.5% in the final quarter of 2025, only slightly below the record levels seen in 2024 and 2023. Interest margins remained high and asset quality continued to improve in most countries, bringing the average ratio of non-performing loans (NPL ratio) down to a historical low of 2.1% in the fourth quarter of 2025. In addition, there was a broad-based decline across the region in stage 2 loans – that is, loans for which credit risk has risen significantly since initial recognition but which have not yet been impaired. Tier 1 capital ratios remained above euro area averages in all countries of the region.

2 Bulgaria: entering the euro area with robust growth

Real GDP growth continued in the second half of 2025, reaching 3.1% year on year for the full year and remaining above potential. Rising wages and pensions, as well as falling unemployment, led to a significant increase in consumer spending, which contributed 4.5 percentage points to real GDP growth. Other significant growth impulses came from gross fixed capital formation and government spending, which contributed 2.1 and 1.4 percentage points, respectively.

Net exports had a negative impact on economic activity, reducing real GDP growth by 4.4 percentage points. The decline in exports to EU countries was largely due to maintenance work at major metal and oil processing plants. Strong domestic demand and inventory accumulation, both of which have a high import content, contributed to increased imports of goods, reducing GDP growth by 3.2 percentage points. Consequently, the trade deficit deteriorated to 8.0% of GDP in 2025.

Given the increasing likelihood of weaker demand and severe disruptions in global supply chains due to the war in the Middle East, it seems doubtful that Bulgaria will continue to grow as robustly as in 2025.

The housing boom continued into 2025 with relatively high growth rates in residential property prices. At 27.8%, the annual growth rate of housing loans remained close to that reported at the end of 2024. Meanwhile, consumer credit growth followed a downward trend reaching 12.8%.

Disinflation continued in the second half of 2025. Headline HICP inflation fell to 3.5% in December, while core inflation dropped to 2.5%, with service price inflation remaining persistent. In February, headline inflation stood at 2.1%. The end of the base effect from the restoration of the VAT tax dampened the rise in inflation from January 2026. However, the Bulgarian National Bank estimates that rounding effects during the transition to the euro increased inflation by between 0.3 and 0.4 percentage points. Following the outbreak of war in the Middle East and the subsequent rise in oil prices, inflation accelerated to 2.8% in March 2026.

Bulgaria joined the euro area on 1 January 2026. The transition to the new currency was smooth and well organised. As expected, non-financial corporations and households deposited substantial amounts of their free cash holdings in the banking system during the fourth quarter of 2025, to take advantage of the automatic conversion of deposits into euro.

Public outrage over corruption scandals, stagnating reforms and authoritarian tendencies led to mass protests that forced the government to resign in December 2025. President Radev resigned after nine years in office and entered general elections challenging the established order. His new party won a majority of seats in parliament on widespread dissatisfaction with the long-standing power structure dominated by the GERB party under Borisov and the controversial oligarch Peevski, who is subject of US sanctions under the Magnitsky Act. Radev's majority has ended the parliamentary fragmentation of the last five years. However, whether he can implement the much-anticipated reforms remains uncertain, as Bulgaria's structural challenges run deep. The challenge lies in Radev's dual positioning as both an anti-corruption reformer and a Russian-friendly politician, which may undermine genuine anti-corruption efforts given the interconnected nature of corruption and Russian influence in Bulgarian politics.

Regarding the Next Generation EU funds, the outlook appears uncertain. The European Commission already withheld around EUR 200 million from Bulgaria's post-pandemic recovery funds for failing to comply with anti-corruption commitments. Bulgaria also risks losing part of the fourth payment under the Recovery and Resilience Plan, worth around EUR 900 million, as the previous government failed to pass bills linked to reforms in the Bulgarian energy sector and the water supply and sewerage sector.

Table 1: Main economic indicators: Bulgaria**Main economic indicators: Bulgaria**

	2023	2024	2025	Q1 25	Q2 25	Q3 25	Q4 25
Year-on-year change of the period total in %							
GDP at constant prices	1.7	3.4	3.1		2.8	3.5	3.0
Private consumption	1.1	4.9	7.8		7.9	5.4	8.1
Public consumption	1.1	3.6	7.0		5.9	14.7	5.1
Gross fixed capital formation	10.2	1.5	11.4		12.5	8.7	9.2
Exports of goods and services	0.0	1.8	-2.1		-0.9	-3.1	-4.3
Imports of goods and services	-5.5	3.9	5.9		7.4	1.2	3.9
Contribution to GDP growth in percentage points							
Domestic demand	-2.1	4.6	7.5		8.0	6.2	7.7
Net exports of goods and services	3.8	-1.2	-4.4		-5.2	-2.7	-4.7
Exports of goods and services	0.0	1.1	-1.2		-1.3	-2.4	-2.4
Imports of goods and services	3.8	-2.3	-3.2		-4.0	-0.4	-2.3
Year-on-year change of the period average in %							
Unit labour costs in the whole economy (nominal, per person)	13.1	12.2	9.3		5.9	14.0	7.3
Unit labour costs in manufacturing (nominal, per hour)	18.9	13.3	15.5		13.6	18.0	15.1
Labour productivity in manufacturing (real, per hour)	-1.9	-0.6	-1.5		1.2	-2.8	-1.8
Labour costs in manufacturing (nominal, per hour)	16.6	12.5	13.9		14.9	14.7	13.0
Producer price index (PPI) in industry	-9.7	-3.7	15.1		20.0	13.0	11.6
Consumer price index (here: HICP)	8.6	2.6	3.5		3.9	2.9	3.7
EUR per 1 BGN, + = BGN appreciation	0.0	0.0	0.0		0.0	0.0	0.0
Period average levels							
Unemployment rate (ILO definition, %, 15–64 years)	4.4	4.3	3.6		3.9	3.7	3.5
Employment rate (%, 15–64 years)	70.7	70.9	70.9		70.4	71.0	71.4
Key interest rate per annum (%) ¹	..	..	..		..	..	..
BGN per 1 EUR	2.0	2.0	2.0		2.0	2.0	2.0
Nominal year-on-year change in period-end stock in %							
Loans to the domestic non-bank private sector ²	12.3	14.7	14.7		14.7	14.2	14.9
of which:							
loans to households	15.9	20.8	20.8		20.7	20.8	20.9
loans to non-bank corporations	9.9	10.2	10.2		10.2	9.1	10.1
%							
Share of foreign currency loans in total loans to the non-bank private sector	23.8	20.9	20.5		20.3	19.8	19.4
Return on assets (banking sector)	2.1	2.1	1.8		1.8	2.0	1.9
Tier 1 capital ratio (banking sector)	20.5	21.3	25.1		21.6	22.1	21.9
NPL ratio (banking sector)	2.1	1.8	1.5		1.7	1.8	1.8
% of GDP							
General government revenues	36.9	36.1	38.1				
General government expenditures	38.9	39.2	41.7				
General government balance	-2.0	-3.0	-3.5				
Primary balance	-1.5	-2.6	-2.8				
Gross public debt	22.9	23.8	29.9				
% of GDP							
Debt of non-financial corporations (non-consolidated)	56.3	52.8	51.2				
Debt of households and NPISHs ³ (non-consolidated)	23.6	25.6	28.0				
% of GDP (based on EUR), period total							
Goods balance	-4.2	-4.8	-8.0		-8.9	-6.3	-6.4
Services balance	8.9	7.8	7.0		7.6	8.2	8.0
Primary income	-7.5	-5.3	-5.9		-3.5	-5.7	-6.7
Secondary income	1.6	0.9	1.1		0.4	1.3	1.5
Current account balance	-1.2	-1.4	-5.7		-4.4	-2.5	-3.5
Capital account balance	1.6	1.7	2.4		1.9	-0.0	0.8
Foreign direct investment (net) ⁴	-3.9	-2.1	-2.5		-1.9	1.0	-5.0
% of GDP (rolling four-quarter GDP, based on EUR), end of period							
Gross external debt	47.6	46.9	50.5		48.2	50.4	50.9
Gross official reserves (excluding gold)	41.8	37.0	30.1		33.7	34.4	35.7
Months of imports of goods and services							
Gross official reserves (excluding gold)	8.7	8.2	7.0		7.4	7.7	8.2
EUR million, period total							
GDP at current prices	94,525	104,767	116,018		23,289	27,221	32,037

¹ Not available in a currency board regime.² Foreign currency component at constant exchange rates.³ Non-profit institutions serving households.⁴ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

3 Croatia: above-average growth but looming headwinds

Croatia's economy continues to grow faster than the euro area average but also reports higher inflation. Cyclical risks have led to a tightening of macroprudential policy.

GDP grew by 3.2% year on year in 2025 – less than in 2024 (3.8%) but still above the euro area average (1.5%). Annual growth was driven by domestic demand, with strong contributions from both private consumption and gross fixed capital formation. In terms of sectors, manufacturing, construction, and wholesale and retail trade made the largest contributions. Looking at the second half of the year, growth was weak in the third quarter but recovered in the fourth. Taking both quarters together, consumption growth slowed relative to the first half of the year, while investment growth picked up. Export and import growth both decelerated, making the negative contribution of net exports smaller.

Domestic demand was supported by several factors. Unemployment remained low (4.3% in February 2026) and gross real wages went up 6% year on year in December 2025. Two additional payments under the Recovery and Resilience Fund were disbursed in the second half of the year, bringing total receipts to 82% of allocated grants and 40% of loans.

Bank lending to the private sector remained in double digits, despite a slowdown in the growth of general-purpose loans following mid-year macroprudential tightening. In December 2025, the Croatian National Bank (CNB) raised the countercyclical capital buffer from 1.5% to 2%, effective 1 January 2027, due to cyclical risks. Overall, the CNB assesses risks to financial stability as moderate and stable. The banking sector's resilience is supported by strong profitability and high capitalisation.

On the fiscal side, the budget deficit came in at 3% of GDP in 2025. General government debt fell further to 56.3% of GDP in 2025.

In 2025, the current account deficit was 3.5% of GDP and the capital account surplus 1.9% of GDP, resulting in a combined deficit of 1.6% of GDP (2024: -0.8%). The combined current and capital account balance has deteriorated over the last years from a peak surplus of 4.2% in 2017, driven by a weaker current account. With high price and wage growth in recent years, Croatia's real effective exchange rate has appreciated. Concerns have been voiced regarding the price competitiveness of the tourist sector. In 2025, tourist arrivals and nights spent continued to grow, albeit more slowly than for the EU average, and data for the first nine months of the year show a mild decline in tourist revenues.

HICP inflation decelerated towards the end of 2025, reaching 3.8% in December, and remaining higher than the euro area average (1.9%). After announcing an exit from its 2022 energy subsidies last autumn, the government responded to the war in the Middle East by again capping energy prices in March 2026 and reducing diesel excise duties. Croatia's energy supply does not directly depend on the Strait of Hormuz, with liquefied natural gas mainly imported from the US, Nigeria, Trinidad and Tobago, and Algeria, and crude oil from Azerbaijan and Kazakhstan. However, this does not insulate it from the global shock. In its March projections, the CNB has lowered Croatia's growth outlook and raised its inflation forecast for 2026.

Table 2: Main economic indicators: Croatia**Main economic indicators: Croatia**

	2023	2024	2025	Q1 25	Q2 25	Q3 25	Q4 25
Year-on-year change of the period total in %							
GDP at constant prices	3.8	3.8	3.2	3.3	3.6	2.3	3.6
Private consumption	3.3	6.0	2.5	1.5	4.1	1.9	2.5
Public consumption	6.6	7.3	4.2	5.2	3.3	3.8	4.7
Gross fixed capital formation	22.7	5.3	6.1	5.2	4.9	7.5	6.9
Exports of goods and services	-1.4	1.6	0.9	5.1	0.7	-1.1	1.5
Imports of goods and services	-4.2	8.4	2.8	8.9	0.1	2.4	0.3
Contribution to GDP growth in percentage points							
Domestic demand	1.9	7.6	4.2	6.1	3.1	4.9	2.9
Net exports of goods and services	1.9	-3.8	-1.1	-2.8	0.4	-2.6	0.7
Exports of goods and services	-0.9	0.8	0.5	2.3	0.4	-1.1	0.8
Imports of goods and services	2.8	-4.6	-1.5	-5.1	0.0	-1.5	-0.1
Year-on-year change of the period average in %							
Unit labour costs in the whole economy (nominal, per person)	11.0	10.7	9.3	12.0	7.9	8.2	8.8
Unit labour costs in manufacturing (nominal, per hour)	11.1	18.1	5.2	6.9	7.2	6.7	0.4
Labour productivity in manufacturing (real, per hour)	2.5	-4.0	6.1	6.7	3.8	3.9	10.3
Labour costs in manufacturing (nominal, per hour)	13.9	13.4	11.7	14.1	11.3	10.8	10.7
Producer price index (PPI) in industry	3.7	-1.8	0.7	0.9	0.4	0.9	0.8
Consumer price index (here: CPI)	8.4	4.0	4.4	4.7	4.2	4.6	4.0
EUR per 1 HRK, + = HRK appreciation	..	..	..	..	..	..	..
Period average levels							
Unemployment rate (ILO definition, %, 15-64 years)	6.2	5.1	4.9	5.6	4.9	4.2	5.0
Employment rate (%, 15-64 years)	65.7	68.3	68.8	68.3	68.8	69.4	68.7
Key interest rate per annum (%)	..	..	..	..	..	..	..
HRK per 1 EUR	..	..	..	..	..	..	..
Nominal year-on-year change in period-end stock in %							
Loans to the domestic non-bank private sector ¹	7.9	9.4	9.4	11.9	13.1	13.3	13.0
of which:							
loans to households	9.4	11.7	11.7	12.1	13.5	13.6	12.8
loans to non-bank corporations	5.9	6.0	6.0	11.6	12.4	12.8	13.2
%							
Share of foreign currency loans in total loans to the non-bank private sector	0.4	0.6	0.2	0.2	0.2	0.2	0.2
Return on assets (banking sector)	1.8	1.9	1.6	1.8	1.9	1.7	1.6
Tier 1 capital ratio (banking sector)	23.3	22.5	21.0	22.7	21.7	21.6	21.0
NPL ratio (banking sector)	2.6	2.4	2.3	2.5	2.4	2.3	2.3
% of GDP							
General government revenues	45.5	46.1	47.1				
General government expenditures	46.6	48.4	50.1				
General government balance	-1.1	-2.3	-3.0				
Primary balance	0.5	-0.7	-1.6				
Gross public debt	60.9	57.4	56.3				
% of GDP							
Debt of non-financial corporations (non-consolidated)	55.5	55.1	54.0				
Debt of households and NPISHs ² (non-consolidated)	29.6	30.2	31.3				
% of GDP (based on EUR), period total							
Goods balance	-22.1	-22.1	-21.0	-24.7	-23.3	-18.0	-18.9
Services balance	20.0	17.5	16.0	4.3	14.7	33.2	7.4
Primary income	-0.1	0.3	-1.1	1.4	-1.4	-3.1	-0.5
Secondary income	2.4	2.1	2.5	2.3	2.5	2.7	2.5
Current account balance	0.1	-2.2	-3.5	-16.8	-7.5	14.7	-9.5
Capital account balance	2.8	1.4	1.9	1.1	2.0	1.7	2.9
Foreign direct investment (net) ³	-2.4	-1.9	-3.2	-3.4	-1.6	-6.5	-0.9
% of GDP (rolling four-quarter GDP, based on EUR), end of period							
Gross external debt	76.9	65.4	67.2	68.1	71.1	67.2	67.2
Gross official reserves (excluding gold)	3.6	3.7	3.9	4.0	3.6	3.6	3.9
Months of imports of goods and services							
Gross official reserves (excluding gold)	0.8	0.8	0.9	0.9	0.8	0.8	0.9
EUR million, period total							
GDP at current prices	79,186	85,905	92,671	19,530	23,096	26,746	23,298

¹ Foreign currency component at constant exchange rates.² Non-profit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).
- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

4 Slovakia: growth falters as fiscal tightening and inflation begin to bite

The Slovak economy lost considerable momentum in 2025, expanding by 0.8%, down from 1.9% in 2024 and the weakest result in three years. Growth dynamics also shifted over the year. In the first half of 2025, a pattern similar to 2024 persisted, with GDP supported mainly by domestic demand, particularly household consumption and a positive contribution from inventories, while net exports remained a drag. The picture changed in the second half of 2025, when fixed investment emerged as the main driver of growth, offsetting a negative but moderating impact of inventory adjustment. The renewed strength in investment likely reflects accelerated absorption of EU funds – especially under the Recovery and Resilience Facility – while private investment has been constrained by rising real wages, uncertain demand outlook and fiscal consolidation measures. Household consumption – increasingly affected by tighter fiscal policy, persistent inflation and softening sentiment – lost steam in the second half of 2025 and put a significant damper on growth in the last quarter. Government consumption also slowed towards year-end, adding to the moderation in domestic demand. Net exports, which weighed on GDP early in the year, improved markedly later on. This occurred despite softening export growth amid weak external demand and US tariffs, as import growth weakened even more in response to sluggish domestic activity. Hence, after a significant drag in 2024, net exports made a small positive contribution in 2025 as a whole, partially cushioning the otherwise weak domestic economy. Looking beyond 2025, economic sentiment remains subdued, dampened by austerity measures, political tensions, weak foreign demand and rising prices linked to war in the Middle East.

In line with subdued economic activity, Slovakia's persistently tight labour market has begun to cool. The unemployment rate – though still comparatively low – ended its downward trend, rising from 5.2% in January 2025 to about 5.6% in February 2026. Employment edged down early in 2025 and has been broadly stable since. Reflecting this moderation, nominal and real wage growth slowed in 2025, mostly in the second half, though increases remained significant, particularly in the public sector and the services sector. As a result – and amplified by the VAT hike – inflation rose from 3.2% at end-2024 to 4.6% in September 2025. Although it has eased since then, reaching 3.7% in March 2026, both headline and core inflation remain well above the euro area target and median. Inflation has been driven mainly by strong price increases in services and processed food, while energy and unprocessed food made broadly neutral contributions. After oil prices surged in the wake of the war in the Middle East, Slovakia kept fuel prices comparatively low, introducing restrictions and dual pricing for foreign-plated vehicles – a move the European Commission deemed discriminatory and against EU law.

Even though the government reduced the general government deficit from 5.3% of GDP in 2024 to 4.5% last year and projected 4.3% of GDP in 2026, public finances remain under significant strain. Slovakia's Council for Budget Responsibility (RRZ) has warned that the latest consolidation package is poorly designed (relying heavily on higher taxes while generating too few permanent savings), less efficient than alternative approaches and imposes a substantial burden on the economy. RRZ estimates that roughly one third of the planned effort merely offsets this inefficiency, implying that additional measures of about 1% of GDP will be needed to meet fiscal targets by 2028 and prevent a sharp rise in public debt.

Table 3: Main economic indicators: Slovakia**Main economic indicators: Slovakia**

	2023	2024	2025	Q1 25	Q2 25	Q3 25	Q4 25
Year-on-year change of the period total in %							
GDP at constant prices	2.1	1.9	0.8	0.8	0.5	0.9	1.0
Private consumption	-2.9	3.5	0.2	0.3	1.8	0.2	-1.3
Public consumption	-2.5	4.0	1.1	0.8	1.9	1.6	0.3
Gross fixed capital formation	4.0	1.6	2.2	-8.2	3.9	4.5	6.1
Exports of goods and services	-0.7	0.0	4.0	7.3	3.8	1.3	3.6
Imports of goods and services	-7.7	2.6	3.7	9.6	2.8	0.2	2.7
Contribution to GDP growth in percentage points							
Domestic demand	-5.3	4.3	0.6	2.8	-0.3	-0.0	0.2
Net exports of goods and services	7.4	-2.3	0.2	-2.0	0.9	0.9	0.9
Exports of goods and services	-0.7	0.0	3.4	6.3	3.2	1.3	3.1
Imports of goods and services	8.1	-2.3	-3.2	-8.3	-2.4	-0.4	-2.2
Year-on-year change of the period average in %							
Unit labour costs in the whole economy (nominal, per person)	8.4	5.5	5.2	3.5	8.3	4.4	4.7
Unit labour costs in manufacturing (nominal, per hour)	7.2	5.7	7.0	2.9	9.4	6.5	8.9
Labour productivity in manufacturing (real, per hour)	0.4	1.4	-0.3	2.5	-0.5	-0.7	-2.4
Labour costs in manufacturing (nominal, per hour)	7.7	7.3	6.6	5.5	8.9	5.8	6.3
Producer price index (PPI) in industry	8.4	-7.8	0.7	0.8	0.4	0.9	0.7
Consumer price index (here: HICP)	11.0	3.2	4.2	4.2	4.3	4.5	4.0
EUR per 1 SKK, + = SKK appreciation	..	..	..	..	..	..	..
Period average levels							
Unemployment rate (ILO definition, %, 15-64 years)	6.0	5.5	5.5	5.4	5.3	5.6	5.7
Employment rate (%, 15-64 years)	72.0	72.4	72.3	72.3	72.2	72.2	72.6
Key interest rate per annum (%)	3.8	4.1	2.4	2.9	2.4	2.2	2.2
SKK per 1 EUR	..	..	..	..	..	..	..
Nominal year-on-year change in period-end stock in %							
Loans to the domestic non-bank private sector ¹	3.6	2.7	2.7	4.2	5.6	6.7	7.0
of which:							
loans to households	4.1	4.1	4.1	4.4	5.4	6.5	7.0
loans to non-bank corporations	2.5	-0.5	-0.5	3.9	6.2	7.3	7.0
%							
Share of foreign currency loans in total loans to the non-bank private sector	0.0	0.1	0.0	0.1	0.1	0.1	0.0
Return on assets (banking sector)	1.0	0.9	0.8	0.9	0.9	0.9	0.8
Tier 1 capital ratio (banking sector)	19.0	19.0	19.9	20.1	19.8	19.8	19.9
NPL ratio (banking sector)	1.8	1.8	1.8	1.9	1.9	1.9	1.8
% of GDP							
General government revenues	43.1	42.1	43.5				
General government expenditures	48.4	47.4	47.9				
General government balance	-5.3	-5.3	-4.5				
Primary balance	-4.1	-3.9	-2.9				
Gross public debt	55.8	59.7	61.4				
% of GDP							
Debt of non-financial corporations (non-consolidated)	47.2	45.0	45.4				
Debt of households and NPISHs ² (non-consolidated)	43.8	43.3	44.1				
% of GDP (based on EUR), period total							
Goods balance	0.7	-0.8	-0.2	-1.1	0.3	-0.1	0.0
Services balance	0.8	0.5	0.2	0.3	0.4	0.3	0.1
Primary income	-3.9	-3.5	-2.8	-3.3	-2.9	-2.3	-2.9
Secondary income	-0.6	-0.8	-0.9	-0.9	-1.0	-1.0	-0.6
Current account balance	-3.0	-4.6	-3.6	-5.1	-3.3	-3.0	-3.4
Capital account balance	0.4	1.0	0.2	0.0	-0.1	0.5	0.3
Foreign direct investment (net) ³	-1.1	-2.0	-0.1	2.4	-1.5	-0.1	-0.8
% of GDP (rolling four-quarter GDP, based on EUR), end of period							
Gross external debt	98.1	101.4	100.8	105.5	106.2	103.7	100.8
Gross official reserves (excluding gold)	6.7	8.7	11.3	10.8	10.9	11.3	11.3
Months of imports of goods and services							
Gross official reserves (excluding gold)	0.9	1.2	1.6	1.5	1.5	1.6	1.6
EUR million, period total							
GDP at current prices	123,539	130,208	136,754	30,911	34,244	35,721	35,878

¹ Foreign currency component at constant exchange rates.² Non-profit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

5 Slovenia: higher fiscal imbalance amid heightened domestic and global political uncertainties

Parliamentary elections in mid-April 2026 led to a tight result as the ruling coalition fell short of securing the necessary majority of 46 seats. In order to form a stable government, the two main blocs in parliament would now need the support of additional parties. This may complicate the process of government formation and may result in an unstable coalition.

GDP growth accelerated during the second half of 2025, reaching 1.9%, up from stagnation during the first six months of 2025. This brought full-year GDP growth to 1.1% (compared to 1.7% in 2024). The biggest impulse during the second half of 2025 came from investments, which accelerated sharply into double-digit territory. Investment activity recovered, in particular for non-dwelling construction, but it intensified in machinery and transport equipment as well, while housing investment became a much smaller drag on the overall investment growth rate than during the first half of 2025. Increased investment activity was supported by the improvement in economic sentiment, slowly increasing capacity utilisation in industry and by government investment activity in infrastructure and defence (in part financed by EU funds). Private consumption growth accelerated during the second half despite declining employment and slowing real wage growth. It was supported by slightly improved consumer confidence, somewhat stronger credit growth and the payment of a mandatory Christmas bonus in 2025. Government consumption growth picked up even more, mostly due to the smaller contraction in collective consumption expenditure. Exports stagnated in the second half of 2025, which – in combination with strengthened import growth on the back of strong domestic demand – led to a worsening of the negative contribution of net real exports to GDP growth.

The deficit of the general government amounted to 2.5% of GDP in 2025. The deficit thus turned out higher than forecast in Slovenia's 2025 Annual Progress Report in April 2025 (1.9% of GDP), but was broadly in line with the original budgetary plan of October 2024 (2.6% of GDP). The actual 2025 figure represented a substantial increase in the deficit compared to 2024 (0.9% of GDP). The increase was mainly attributable to higher labour costs, increased government investment (with half of the increase spent on defence spending) and bigger transfers to the health and pension insurance institutes. At the same time, corporate income tax revenues fell short of their 2024 level. For 2026, the government plans a general government budget deficit of 2.8% of GDP. The increase in the deficit compared to 2025 is expected to be driven by the additional costs of the continued phasing-in of the public sector wage reform and the full implementation of the new long-term care system, increased pension expenditure (winter bonus for pensioners) and higher investment spending (including a further rise in defence expenditure).

Inflation remained volatile during the reporting period, hovering between 2.4% and 3.1%. The price dynamics of processed food and non-energy industrial goods moderated, while services price inflation remained broadly stable at close to 4%. Energy price developments were rather volatile throughout the reference period but accelerated notably in February and March 2026, caused by a base effect and the war in the middle East, while unprocessed food prices accelerated towards the end of 2025 and early 2026.

Table 4: Main economic indicators: Slovenia**Main economic indicators: Slovenia**

	2023	2024	2025	Q1 25	Q2 25	Q3 25	Q4 25
Year-on-year change of the period total in %							
GDP at constant prices	2.4	1.7	1.1	-0.6	0.8	1.9	2.0
Private consumption	-0.0	3.8	1.7	0.2	2.3	1.3	3.0
Public consumption	2.1	7.3	1.6	2.1	-0.7	1.2	3.8
Gross fixed capital formation	5.5	-0.3	4.1	-5.3	-0.1	10.0	11.9
Exports of goods and services	-1.9	2.3	0.3	0.9	0.3	-0.4	0.5
Imports of goods and services	-4.5	4.3	2.1	2.9	-0.9	1.7	4.8
Contribution to GDP growth in percentage points							
Domestic demand	-0.0	3.1	2.4	0.8	-0.1	3.5	5.1
Net exports of goods and services	2.4	-1.3	-1.3	-1.4	0.9	-1.7	-3.1
Exports of goods and services	-1.8	1.9	0.2	0.7	0.2	-0.4	0.5
Imports of goods and services	4.2	-3.3	-1.6	-2.1	0.7	-1.3	-3.6
Year-on-year change of the period average in %							
Unit labour costs in the whole economy (nominal, per person)	8.7	4.9	6.4	8.6	7.3	6.2	3.4
Unit labour costs in manufacturing (nominal, per hour)	14.5	7.3	8.3	7.0	7.1	3.2	14.7
Labour productivity in manufacturing (real, per hour)	-4.4	-0.5	-0.4	3.2	-1.6	-2.7	-0.5
Labour costs in manufacturing (nominal, per hour)	9.5	6.9	7.9	10.4	5.4	0.4	14.1
Producer price index (PPI) in industry	6.3	-1.8	0.8	0.2	1.1	0.9	1.1
Consumer price index (here: HICP)	7.2	2.0	2.5	2.1	2.2	2.9	2.7
EUR per 1 SIT, += SIT appreciation	..	..	..	..	..	..	..
Period average levels							
Unemployment rate (ILO definition, % 15-64 years)	3.6	3.6	3.8	3.9	3.1	4.2	4.0
Employment rate (% 15-64 years)	72.5	73.2	72.9	72.7	72.5	73.4	73.0
Key interest rate per annum (%)	3.8	4.1	2.4	2.9	2.4	2.2	2.2
SIT per 1 EUR	..	..	..	..	..	..	..
Nominal year-on-year change in period-end stock in %							
Loans to the domestic non-bank private sector ¹	-2.5	5.9	5.9	7.3	7.1	5.1	6.5
of which:							
loans to households	3.5	6.2	6.2	6.4	6.8	7.4	7.5
loans to non-bank corporations	-8.5	5.6	5.6	8.3	7.4	2.5	5.4
%							
Share of foreign currency loans in total loans to the non-bank private sector	0.7	0.6	0.4	0.5	0.5	0.5	0.4
Return on assets (banking sector)	2.1	2.0	1.6	1.3	2.0	1.8	1.6
Tier 1 capital ratio (banking sector, consolidated)	18.0	17.8	18.1	18.2	18.1	17.7	18.1
NPL ratio (banking sector)	0.6	0.7	0.7	0.8	0.8	0.8	0.7
% of GDP							
General government revenues	44.0	45.6	47.1				
General government expenditures	46.5	46.5	49.6				
General government balance	-2.6	-0.9	-2.5				
Primary balance	-1.3	0.4	-1.2				
Gross public debt	68.3	66.4	65.7				
% of GDP							
Debt of non-financial corporations (non-consolidated)	39.8	37.4	37.6				
Debt of households and NPISHs ² (non-consolidated)	23.9	24.2	24.8				
% of GDP (based on EUR), period total							
Goods balance	0.7	0.6	-0.2	-0.0	0.7	0.7	-2.2
Services balance	5.6	5.5	5.6	4.3	5.7	6.7	5.7
Primary income	-1.0	-1.1	-0.6	0.2	-0.3	-1.2	-0.9
Secondary income	-0.8	-0.5	-1.3	-1.7	-1.2	-1.0	-1.3
Current account balance	4.5	4.5	3.5	2.7	4.9	5.2	1.3
Capital account balance	0.0	0.0	-0.3	-0.9	-0.5	-0.1	0.4
Foreign direct investment (net) ³	-0.9	-0.5	-1.0	-2.3	-1.1	-0.3	-0.3
% of GDP (rolling four-quarter GDP, based on EUR), end of period							
Gross external debt	90.3	87.9	88.9	91.8	91.9	91.6	88.9
Gross official reserves (excluding gold)	3.1	3.7	3.6	3.7	3.6	3.6	3.6
Months of imports of goods and services							
Gross official reserves (excluding gold)	0.5	0.6	0.6	0.6	0.6	0.6	0.6
EUR million, period total							
GDP at current prices	64,050	67,418	70,486	16,248	17,775	18,132	18,332

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Non-profit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

6 Czechia: running strong against the wind

Supported mainly by firm domestic demand, the Czech economy continued to expand in 2025, doubling its pace of growth compared to 2024. Momentum softened slightly towards the end of last year, largely because a steady rebound in investment was accompanied by a pronounced rundown of inventories. Manufacturers – facing weak global trade and higher input costs – drew down their stock levels, causing inventories' contribution to swing from significantly positive in the first three quarters of 2025 to a drag in the final one. The acceleration of investment was driven primarily by manufacturing, with the automotive industry playing a particularly prominent role – led above all by Škoda, which, unlike many other European carmakers, including those in the Volkswagen Group, recorded an exceptionally strong performance in 2025. As a result, capital formation accounted for nearly half of last year's economic expansion.

The automotive industry also helped lift goods exports, despite global uncertainties weighing on external demand. Yet imports grew robustly as well, supported by persistent private consumption fuelled by solid income growth in the context of a tight labour market, as well as strong public spending. Consequently, net exports weighed on full-year growth in 2025, even though their contribution turned broadly neutral in the second half of 2025. So far, consumer and business confidence – particularly in industry – has held up despite heightened geopolitical tensions. Yet, it remains uncertain how resilient this confidence will be if the shocks persist.

Although pressures have eased somewhat, the labour market remains strained, mainly due to skilled-labour shortages. According to the CNB's labour utilisation composite index (LUCI), labour-market conditions are now less than half as tight as at their peak at end-2019 and early-2020. This is reflected in the roughly 0.5 percentage point rise in unemployment over 2025. Although still among the lowest in the EU, the jobless rate now stands just above 3%, about 1 percentage point higher than its 2020 trough. By contrast, employment has edged up, allowing nominal wage growth to remain buoyant.

Headline inflation averaged 2.3% in 2025, broadly in line with the CNB's target. It has eased steadily – especially since July last year – and stood at just 1% in February. This moderation reflected a sharp slowdown in food price growth and a continued disinflationary contribution from energy. Core inflation declined in parallel, falling slightly below 2% in February 2026. However, it has proven more persistent than headline inflation, mainly due to strong wage growth and rising service prices, including housing costs. These pro-inflationary pressures, together with expected price shocks following the war in the Middle East, have reinforced the CNB Board's caution. As a result, the CNB has refrained from further monetary easing since its last rate cut in May 2025.

The general government deficit stood at 2.1% of GDP in 2025, slightly above the official target of 2% of GDP. The new government revised the 2026 budget towards moderate fiscal expansion, targeting a deficit of 2.2% of GDP. The revision provides for higher spending on social benefits and transport infrastructure. Yet even before considering the potential fiscal effects of the war in the Middle East, the Czech Fiscal Council expressed doubts that the target would be met and instead expects the deficit to reach around 2.6% of GDP.

Table 5: Main economic indicators: Czechia**Main economic indicators: Czechia**

	2023	2024	2025	Q1 25	Q2 25	Q3 25	Q4 25
Year-on-year change of the period total in %							
GDP at constant prices	0.0	1.3	2.6	2.5	2.3	3.0	2.5
Private consumption	-2.6	2.4	3.0	2.3	3.4	3.0	3.1
Public consumption	3.2	3.1	2.1	2.1	2.5	2.4	1.7
Gross fixed capital formation	4.2	-2.7	2.4	-0.2	1.3	3.1	4.9
Exports of goods and services	2.3	1.5	3.9	4.1	3.4	4.1	4.1
Imports of goods and services	-1.2	0.5	5.0	5.3	5.7	4.5	4.6
Contribution to GDP growth in percentage points							
Domestic demand	-2.5	0.5	3.0	2.8	3.5	3.2	2.6
Net exports of goods and services	2.6	0.7	-0.4	-0.4	-1.2	-0.1	-0.1
Exports of goods and services	1.7	1.0	2.7	3.0	2.3	2.7	2.8
Imports of goods and services	0.9	-0.3	-3.1	-3.4	-3.5	-2.8	-2.9
Year-on-year change of the period average in %							
Unit labour costs in the whole economy (nominal, per person)	8.7	5.5	4.9	4.1	5.1	4.2	6.1
Unit labour costs in manufacturing (nominal, per hour)	5.7	6.2	3.4	4.9	3.6	3.4	1.8
Labour productivity in manufacturing (real, per hour)	1.6	0.7	2.7	2.5	2.9	1.0	4.2
Labour costs in manufacturing (nominal, per hour)	7.3	7.0	6.1	7.5	6.6	4.4	6.1
Producer price index (PPI) in industry	4.5	0.8	-1.1	0.9	-0.6	-1.7	-2.8
Consumer price index (here: HICP)	12.0	2.7	2.3	2.8	2.2	2.3	1.9
EUR per 1 CZK, + = CZK appreciation	2.3	-4.4	1.7	-0.0	0.2	2.8	4.0
Period average levels							
Unemployment rate (ILO definition, %, 15-64 years)	2.7	2.7	2.9	2.7	2.8	3.0	3.0
Employment rate (%, 15-64 years)	75.1	75.4	75.7	75.5	75.7	76.0	75.7
Key interest rate per annum (%)	7.0	5.1	3.6	3.9	3.6	3.5	3.5
CZK per 1 EUR	24.0	25.1	24.7	25.1	24.9	24.5	24.3
Nominal year-on-year change in period-end stock in %							
Loans to the domestic non-bank private sector ¹	5.8	5.3	5.3	5.9	6.9	6.9	8.1
of which:							
loans to households	4.7	5.9	5.9	6.4	6.9	7.9	8.5
loans to non-bank corporations	7.4	4.4	4.4	5.3	6.9	5.6	7.7
%							
Share of foreign currency loans in total loans to the non-bank private sector	22.2	22.5	20.4	22.1	21.7	20.7	20.4
Return on assets (banking sector)	1.1	1.2	1.1	1.0	1.2	1.2	1.1
Tier 1 capital ratio (banking sector)	21.6	21.4	21.5	21.4	21.6	21.7	21.5
NPL ratio (banking sector)	1.6	1.6	1.5	1.6	1.6	1.5	1.5
% of GDP							
General government revenues	40.3	41.2	41.0				
General government expenditures	44.0	43.2	43.2				
General government balance	-3.7	-2.0	-2.1				
Primary balance	-2.4	-0.7	-0.9				
Gross public debt	42.2	43.3	44.3				
% of GDP							
Debt of non-financial corporations (non-consolidated)	51.2	53.7	54.8				
Debt of households and NPISHs ² (non-consolidated)	29.6	30.6	32.0				
% of GDP (based on EUR), period total							
Goods balance	3.8	5.2	4.6	6.5	4.8	3.2	4.3
Services balance	1.1	1.3	1.2	1.8	1.2	1.4	0.5
Primary income	-4.4	-4.3	-4.6	-2.3	-8.1	-4.2	-3.6
Secondary income	-0.7	-0.5	-0.5	-0.2	-0.5	-0.9	-0.5
Current account balance	-0.1	1.7	0.7	5.8	-2.6	-0.4	0.6
Capital account balance	1.2	1.7	1.5	1.0	0.6	3.6	0.7
Foreign direct investment (net) ³	-1.0	-0.5	-0.5	-3.4	-1.7	-0.6	3.0
% of GDP (rolling four-quarter GDP, based on EUR), end of period							
Gross external debt	61.0	65.3	67.6	65.2	65.7	67.6	67.6
Gross official reserves (excluding gold)	41.5	42.6	40.8	41.4	40.2	41.0	40.8
Months of imports of goods and services							
Gross official reserves (excluding gold)	7.8	8.2	8.0	7.9	7.7	7.9	8.0
EUR million, period total							
GDP at current prices	319,070	320,784	346,775	78,218	86,329	89,573	92,655

¹ Foreign currency component at constant exchange rates.² Non-profit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

7 Hungary: big hopes and big challenges after the elections

Following the victory of the opposition Tisza party in parliamentary elections, substantial changes in the country's legal and institutional framework and sweeping economic policy changes are being expected. The new government intends – inter alia – to fight corruption, get EU funds unblocked, set out a credible euro adoption path and put fiscal policy on a sound footing.

Economic dynamics strengthened modestly during H2 2025, with GDP growth accelerating to 0.8% from 0.1% in the H1 2025. The improvement was mainly attributable to strengthening government consumption, slower contraction of investments and the accumulation of inventories. Strengthened government consumption was related to public sector wage hikes, pension increases, and increased housing, energy and transport subsidies. The contraction of investments in machinery and non-transport equipment came to an end in Q3 2025 as economic sentiment started to recover, while investments in transport equipment accelerated during H2 2025. While the decline in housing investments moderated in part due to increased housing subsidies, the decline in non-dwelling construction gathered pace. The growth rate of private consumption eased modestly compared to the first half of 2025 but still remained strong, underpinned by the implementation of various government measures. Export growth remained sluggish during the reference period amid weak demand in trading partners, while import growth picked up markedly, pushing the contribution of net real exports to its deepest level since the COVID-19 crisis.

Hungary posted a general government budget deficit of 4.7% of GDP in 2025. Similar to 2024 this was substantially above the original deficit target (3.7% of GDP), the revised target set in June 2025 (4.1% of GDP) and the government's forecast notified to Eurostat at the end of September 2025 (4.3% of GDP). Substantially weaker economic growth than expected and unplanned expenditure were behind the overshooting. Parliament adopted the budget for 2026 in June 2025 with a deficit target of 3.7% of GDP, assuming GDP growth of 4.1%. The growth projection appeared optimistic at that time, with expectations of independent forecasters then at around 1% to 2%. While first signals of the incoming government about economic policy plans have been favourable, it will likely take time until better policies translate into additional growth. Moreover, election promises continue to cast uncertainty over the near-term fiscal outlook. Against the background of worsening economic and fiscal developments during H2 2025 and additional fiscal measures which had not been incorporated in the original budget law, the deficit target for 2026 was raised to 5% of GDP in November 2025. To achieve the new target, the government froze the general budgetary reserve and doubled the bank tax, but as of late April 2026 the new target already looks optimistic. In December 2025, the Fiscal Council warned that the announced fiscal measures would lead to a smaller than expected improvement in the primary balance in 2026–2027 and estimated that the primary balance would have to be improved by around 1.7 percentage points of GDP in 2027 to comply with Hungary's obligations under the excessive deficit procedure.

HICP inflation started to decline in the final months of 2025 and the process gathered pace at the beginning of 2026, with the inflation rate falling to 1.6% in February 2026, before rising back to 2.1% in March. This was attributable to base effects, i.e. the acceleration of inflation at the start of 2025, falling global food prices, the appreciation of the forint since early 2025 and comparably weak repricing activity by companies at the start of 2026. In addition to extending caps on retail price margins till end-May 2026, the government introduced an additional cap on energy costs for January 2026. Moreover, households' inflation expectations started to ease in September 2025. Given the improved inflationary environment, MNB, at the end of February 2026, cut its interest rates by 25 basis points to 6.25% but left its rates unchanged in March given increased inflationary risks in connection with the war in the Middle East.

Table 6: Main economic indicators: Hungary**Main economic indicators: Hungary**

	2023	2024	2025	Q1 25	Q2 25	Q3 25	Q4 25
Year-on-year change of the period total in %							
GDP at constant prices	-0.8	0.7	0.5	0.0	0.3	0.8	0.8
Private consumption	-2.2	7.3	3.1	3.4	3.8	2.1	3.2
Public consumption	3.9	-2.8	2.4	-0.9	3.9	0.8	5.6
Gross fixed capital formation	-5.9	-8.6	-2.8	-4.2	-4.9	-2.4	-0.2
Exports of goods and services	1.8	-0.5	-1.1	-0.9	-1.0	-0.7	-1.7
Imports of goods and services	-3.4	-1.4	1.2	1.1	0.4	1.7	1.6
Contribution to GDP growth in percentage points							
Domestic demand	-5.7	0.0	2.2	1.8	1.4	2.4	3.1
Net exports of goods and services	4.8	0.7	-1.7	-1.8	-1.1	-1.6	-2.3
Exports of goods and services	1.6	-0.4	-0.8	-1.2	-0.7	-0.4	-1.1
Imports of goods and services	3.2	1.1	-0.9	-0.6	-0.4	-1.3	-1.2
Year-on-year change of the period average in %							
Unit labour costs in the whole economy (nominal, per person)	16.7	12.0	8.9	9.4	8.7	8.7	9.0
Unit labour costs in manufacturing (nominal, per hour)	20.7	17.0	9.5	10.8	8.9	8.7	9.3
Labour productivity in manufacturing (real, per hour)	-1.9	-5.4	-1.4	-2.2	-0.1	-1.5	-1.7
Labour costs in manufacturing (nominal, per hour)	18.3	10.7	7.9	8.5	8.8	7.1	7.5
Producer price index (PPI) in industry	7.2	0.9	4.1	8.1	6.6	3.0	-1.5
Consumer price index (here: HICP)	17.0	3.7	4.4	5.4	4.4	4.2	3.7
EUR per 1 HUF, + = HUF appreciation	2.5	-3.4	-0.6	-4.2	-3.2	-0.4	5.4
Period average levels							
Unemployment rate (ILO definition, %, 15-64 years)	4.2	4.5	4.5	4.4	4.6	4.6	4.4
Employment rate (%, 15-64 years)	74.9	75.1	75.1	75.2	74.9	75.4	74.8
Key interest rate per annum (%)	12.8	7.7	6.5	6.5	6.5	6.5	6.5
HUF per 1 EUR	381.9	395.3	397.8	405.0	404.1	395.8	386.5
Nominal year-on-year change in period-end stock in %							
Loans to the domestic non-bank private sector ¹	5.1	4.8	4.8	5.6	5.9	7.5	10.8
of which:							
loans to households	2.3	9.3	9.3	10.6	11.3	11.4	14.4
loans to non-bank corporations	7.2	1.7	1.7	2.2	2.1	4.7	8.2
%							
Share of foreign currency loans in total loans to the non-bank private sector	25.9	28.6	26.9	27.6	27.6	26.5	26.9
Return on assets (banking sector)	2.0	2.1	1.9	1.0	2.0	2.0	1.9
Tier 1 capital ratio (banking sector)	18.0	19.2	18.7	19.0	18.7	19.6	18.7
NPL ratio (banking sector)	1.8	1.6	1.5	1.6	1.6	1.6	1.5
% of GDP							
General government revenues	42.8	42.2	42.6				
General government expenditures	49.7	47.3	47.3				
General government balance	-7.0	-5.1	-4.7				
Primary balance	-2.2	-0.2	-0.9				
Gross public debt	73.3	73.5	74.6				
% of GDP							
Debt of non-financial corporations (non-consolidated)	75.2	74.9	74.6				
Debt of households and NPISHs ² (non-consolidated)	16.9	16.5	18.9				
% of GDP (based on EUR), period total							
Goods balance	-0.6	-0.5	-0.9	1.8	-0.7	-1.6	-2.3
Services balance	4.7	5.0	5.3	4.7	5.4	6.6	4.5
Primary income	-3.2	-2.1	-2.4	-2.7	-3.3	-2.2	-1.8
Secondary income	-1.1	-0.6	-0.4	-1.3	0.5	-0.9	0.0
Current account balance	-0.0	1.7	1.6	2.5	1.9	1.9	0.5
Capital account balance	1.2	0.4	0.5	1.0	0.2	0.7	0.2
Foreign direct investment (net) ³	-0.3	-0.0	-0.5	3.0	1.3	-4.4	-1.1
% of GDP (rolling four-quarter GDP, based on EUR), end of period							
Gross external debt	86.1	85.8	88.0	86.9	87.9	87.6	88.0
Gross official reserves (excluding gold)	18.1	17.3	17.0	17.1	17.7	17.0	17.0
Months of imports of goods and services							
Gross official reserves (excluding gold)	2.8	2.9	3.0	2.9	3.0	3.0	3.0
EUR million, period total							
GDP at current prices	197,208	205,888	219,231	44,441	54,349	57,186	63,256

¹ Foreign currency component at constant exchange rates.² Non-profit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

8 Poland: efforts to lower the sizeable fiscal deficit

Annual GDP growth reached 3.6% in 2025, as it accelerated from about 3% in the second quarter to almost 4% in the fourth quarter of 2025. Quarter-on-quarter growth was stable at about 1%. The growth structure was balanced, as both domestic demand (excluding inventory) and foreign demand rendered large contributions, with the latter gaining weight during the year. Growth of real imports exceeded that of real exports to a moderate extent, likely reflecting the zloty's real appreciation against the euro.

Private and public consumption as well as gross fixed capital formation showed almost equally strong dynamism in the full-year 2025, with investment growth outpacing consumption growth in the second half of the year. Private consumption grew on the back of a robust rise in real gross retirement pensions and a growing real wage sum despite stagnating employment. Gross fixed investment growth accelerated to about 6% in the second half of the year, supported by higher volumes of available EU funds, robust profitability of non-financial companies and continued recovery of residential investment on the back of the government's (new) mortgage programme.

The surplus of the goods and services balance in the balance of payments was lower than in the previous year in 2025, in line with the moderately negative growth contribution of the external balance. At 2.8% of GDP, it was insufficient to cover the deficit in primary income, while secondary income was balanced. The current account deficit of 0.9% of GDP was covered by the capital account surplus so that the economy's net lending was close to zero. Net FDI inflows were stable at about 1% of GDP.

The manufacturing sector's external price competitiveness deteriorated. The strong rise of nominal hourly compensation exceeded the advance of labour productivity (that resulted from growth of gross value added in line with GDP growth and a slight increase in the volume of hours worked). Hence, nominal ULC in manufacturing rose by about 4% in 2025, while it was almost unchanged in the euro area. In addition, the zloty's nominal value in euro was somewhat stronger than a year ago. Taking both factors together, the zloty's real (ULC-deflated) value was almost 8% higher than a year earlier.

According to HICP (and national CPI) definition, annual headline inflation declined continuously from 3.4% (4.1%) in June 2025 to 2.5% (2.1%) in February 2026. In March, inflation edged back to 3.2% (3%). Core inflation declined in parallel from 3.3% (3.4%) to 2.6% (2.5%) in February 2026. Drivers were prices of processed food and services, while non-energy industrial goods prices declined during this time span (-1.1% in February). The NBP, pursuing a CPI inflation target of 2.5% \pm 1 percentage point, cut its policy rate from 5.25% in June in six steps of 25 basis points to 3.75% in March 2026, pointing to disinflation. In March 2026, the Financial Stability Committee upheld its past recommendation to raise the countercyclical buffer rate from 1% to 2% at end-September 2026. This recommendation was accepted by the Polish Minister of Finance.

The government deficit rose from 6.4% of GDP in 2024 to 7.3% in 2025 but is forecast by the European Commission to decline to 6.3% in 2026, while general government debt rose from 54.8% of GDP at end-2024 to 59.7% at end-2025 and is projected to further rise to almost 65% at end-2026. For 2025, expenditure was projected to rise stronger than revenue, while for 2026 the opposite was expected. In 2025, the expenditure rise stemmed primarily from higher defence investments, higher social benefits (new widow pension payments and new active parent programme), higher healthcare spending, higher public sector salaries and higher interest payments. For 2026, discretionary revenue-raising measures comprise a temporary hike in corporate income tax rates on banks, hikes in product-specific excise duties and VAT rates as well as the introduction of obligatory electronic invoicing.

Table 7: Main economic indicators: Poland**Main economic indicators: Poland**

	2023	2024	2025	Q1 25	Q2 25	Q3 25	Q4 25
Year-on-year change of the period total in %							
GDP at constant prices	0.2	3.0	3.6	3.6	3.1	3.6	3.9
Private consumption	-0.3	3.0	3.7	2.9	4.3	3.2	4.3
Public consumption	4.5	8.7	4.8	2.1	2.8	7.2	6.3
Gross fixed capital formation	12.7	-0.9	4.3	6.2	-0.9	7.7	4.6
Exports of goods and services	3.7	2.0	4.5	2.1	1.8	5.9	8.1
Imports of goods and services	-1.5	4.5	5.6	3.7	3.3	6.3	8.9
Contribution to GDP growth in percentage points							
Domestic demand	-3.0	4.2	3.9	4.5	3.9	3.6	3.9
Net exports of goods and services	3.2	-1.2	-0.4	-0.9	-0.8	0.1	-0.0
Exports of goods and services	2.3	1.2	2.3	0.8	0.7	3.1	4.3
Imports of goods and services	0.9	-2.3	-2.7	-1.7	-1.5	-3.0	-4.3
Year-on-year change of the period average in %							
Unit labour costs in the whole economy (nominal, per person)	14.3	6.4	6.8	6.6	7.7	6.5	6.2
Unit labour costs in manufacturing (nominal, per hour)	11.9	9.7	4.3	4.6	6.5	2.1	4.0
Labour productivity in manufacturing (real, per hour)	-0.6	1.8	4.2	4.4	2.8	4.4	5.2
Labour costs in manufacturing (nominal, per hour)	11.2	11.7	8.6	9.1	9.4	6.6	9.4
Producer price index (PPI) in industry	4.4	-7.0	-1.4	-0.6	-1.4	-1.6	-2.2
Consumer price index (here: HICP)	10.8	3.7	3.3	4.4	3.6	2.8	2.7
EUR per 1 PLN, + = PLN appreciation	3.2	5.5	1.6	3.1	0.9	0.6	1.7
Period average levels							
Unemployment rate (ILO definition, %, 15-64 years)	2.9	2.9	3.2	3.5	2.9	3.2	3.2
Employment rate (%, 15-64 years)	72.4	72.5	72.8	72.0	72.6	73.3	73.2
Key interest rate per annum (%)	6.5	5.8	5.1	5.8	5.5	4.9	4.3
PLN per 1 EUR	4.5	4.3	4.2	4.2	4.3	4.3	4.2
Nominal year-on-year change in period-end stock in %							
Loans to the domestic non-bank private sector ¹	0.5	5.2	5.2	5.2	4.7	4.7	5.6
of which:							
loans to households	-1.9	3.0	3.0	2.9	2.5	3.1	4.1
loans to non-bank corporations	4.3	8.4	8.4	8.7	7.8	7.0	7.6
%							
Share of foreign currency loans in total loans to the non-bank private sector	16.6	14.9	13.5	14.2	14.1	14.0	13.5
Return on assets (banking sector)	1.0	1.3	1.4	1.4	1.4	1.4	1.4
Tier 1 capital ratio (banking sector)	20.2	20.4	19.7	20.1	20.4	20.1	19.7
NPL ratio (banking sector)	5.4	5.0	4.6	5.0	4.9	4.8	4.6
% of GDP							
General government revenues	41.7	42.8	43.6				
General government expenditures	46.9	49.2	50.9				
General government balance	-5.2	-6.4	-7.3				
Primary balance	-3.1	-4.2	-4.8				
Gross public debt	49.5	54.8	59.7				
% of GDP							
Debt of non-financial corporations (non-consolidated)	37.6	35.7	34.8				
Debt of households and NPISHs ² (non-consolidated)	24.7	22.7	22.1				
% of GDP (based on EUR), period total							
Goods balance	0.6	-0.7	-1.5	-1.4	-1.5	-1.9	-1.1
Services balance	5.2	4.7	4.3	4.4	5.0	4.3	3.5
Primary income	-4.1	-3.4	-3.6	-2.9	-4.3	-4.9	-2.5
Secondary income	-0.3	-0.3	-0.0	-0.5	0.0	0.1	0.1
Current account balance	1.5	0.3	-0.9	-0.4	-0.9	-2.3	-0.0
Capital account balance	0.2	0.3	0.8	0.7	1.2	0.9	0.6
Foreign direct investment (net) ³	-2.9	-1.1	-1.2	-4.1	-0.4	-1.4	0.7
% of GDP (rolling four-quarter GDP, based on EUR), end of period							
Gross external debt	51.9	52.3	50.5	52.9	51.7	50.7	50.5
Gross official reserves (excluding gold)	20.4	21.0	18.1	20.0	18.7	18.9	18.1
Months of imports of goods and services							
Gross official reserves (excluding gold)	4.7	5.2	4.6	5.0	4.7	4.7	4.6
EUR million, period total							
GDP at current prices	753,492	848,545	918,435	212,587	217,835	227,946	260,068

¹ Foreign currency component at constant exchange rates.² Non-profit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

9 Romania: economy cools down, as fiscal consolidation shows first signs of progress

GDP growth amounted to 0.7% in 2025 with fiscal consolidation starting to increasingly affect economic growth in the second half of the year. After economic activity had still expanded in the third quarter in year-on-year terms, GDP contracted in the final quarter, as both public and private consumption shrank. Much needed fiscal consolidation measures contributed to a deceleration in public wage increases (freezing of public sector wages) and rising prices (VAT rate and excise duties), so that real wage growth turned negative in the second half of the year. Meanwhile, consumer sentiment declined markedly. Furthermore, the unemployment rate noticeably rose again in the final quarter.

Weaknesses in private consumption will likely go on, as witnessed by decreasing retail sales in early 2026. The economic downturn was attenuated somewhat by accelerating growth of gross fixed capital formation, largely driven by construction activity. It is worth noting that Romania's Neptun Deep gas project has been progressing on schedule and is expected to deliver first production in 2027. Net exports made a large negative contribution in the third quarter due to spiking imports, but contributed positively to GDP growth in the final quarter of the year, as import growth moderated considerably. Export growth was higher in the second half of 2025 than in the first half of the year, supported inter alia by vegetal commodities, energy products and motor vehicles.

After growing strongly in recent years, increases in unit labour costs (whole economy and manufacturing sector) started to come down in the course of 2025. The Romanian leu depreciated only slightly against the euro in year-on-year terms. According to market observers, the National Bank of Romania (NBR) intervened on the foreign exchange market to stabilise the leu amid heightened risk aversion linked to the war in the Middle East in March. Despite some decline, the net borrowing position from the current and capital account still stood at a relatively high level in 2025. The slight improvement was driven by a lower trade deficit and a higher capital account surplus (reflecting higher EU fund inflows), but the deficit in the primary income balance rose noticeably (inter alia due to interest payments on government securities and dividend payments). Net FDI inflows increased somewhat, but covered only a third of the combined current and capital account gap. Net portfolio inflows (largely related to sovereign Eurobond issuances) have remained the main external financing source.

Annual CPI peaked at 9.9% at the end of the third quarter of 2025 and slowly decreased to 9.3% in February 2026 before rising again to 9.9% in March 2026. The NBR has left its key policy rate unchanged at 6.5% since August 2024. It expects the inflation rate to drop abruptly in the third quarter of 2026, as the directed effects related to the expiry of the energy price capping scheme and VAT rate hike will fade out. The NBR's most recent projection, that was made ahead of the war in the Middle East, sees inflation to fall below the upper bound of the variation band of the target (2.5% ± 1 percentage point) in the second quarter of 2027.

Romania's fiscal correction efforts led to a decline of the general government budget deficit to the still high level of 7.9% of GDP compared to 9.3% of GDP in 2025. Yet, the public debt-to-GDP ratio rose considerably to 59.3%. After tense political debates, the budget plan for 2026 was adopted by the Romanian parliament in March 2026. The budget envisages a further deficit reduction to 6.2% of GDP. With respect to the ongoing excessive deficit procedure, Romania should put an end to the excessive deficit situation by 2030.

Table 8: Main economic indicators: Romania**Main economic indicators: Romania**

	2023	2024	2025	Q1 25	Q2 25	Q3 25	Q4 25
Year-on-year change of the period total in %							
GDP at constant prices	2.3	0.9	0.7	0.6	2.5	1.3	-1.2
Private consumption	2.5	5.7	0.5	1.3	0.9	0.9	-0.6
Public consumption	4.0	1.2	-2.6	-3.3	3.7	1.8	-10.6
Gross fixed capital formation	12.3	-2.5	3.4	1.3	0.7	4.1	6.2
Exports of goods and services	-1.3	-2.5	4.3	0.6	3.8	6.3	6.5
Imports of goods and services	-1.5	4.0	4.9	4.7	2.5	10.3	2.6
Contribution to GDP growth in percentage points							
Domestic demand	2.1	3.7	1.2	2.5	2.0	3.3	-2.2
Net exports of goods and services	0.2	-2.8	-0.5	-1.9	0.5	-2.0	0.9
Exports of goods and services	-0.6	-1.0	1.5	-0.4	1.3	2.2	2.3
Imports of goods and services	0.8	-1.8	-2.1	-1.6	-0.8	-4.2	-1.4
Year-on-year change of the period average in %							
Unit labour costs in the whole economy (nominal, per person)	16.1	18.1	4.1	8.6	3.6	1.1	1.8
Unit labour costs in manufacturing (nominal, per hour)	17.3	16.2	11.9	18.3	15.8	6.2	8.0
Labour productivity in manufacturing (real, per hour)	-1.7	-1.8	0.5	-0.5	-2.2	3.1	1.7
Labour costs in manufacturing (nominal, per hour)	15.5	14.2	12.4	17.7	13.3	9.5	9.9
Producer price index (PPI) in industry	4.6	-2.2	3.3	2.2	0.8	3.9	6.1
Consumer price index (here: HICP)	9.7	5.8	6.8	5.2	5.4	7.9	8.6
EUR per 1 RON, + = RON appreciation	-0.3	-0.6	-1.3	-0.1	-1.1	-1.9	-2.2
Period average levels							
Unemployment rate (ILO definition, %, 15-64 years)	5.6	5.5	6.1	6.2	6.0	6.0	6.3
Employment rate (%, 15-64 years)	63.1	63.7	63.0	62.7	63.3	63.4	62.6
Key interest rate per annum (%)	7.0	6.8	6.5	6.5	6.5	6.5	6.5
RON per 1 EUR	4.9	5.0	5.0	5.0	5.0	5.1	5.1
Nominal year-on-year change in period-end stock in %							
Loans to the domestic non-bank private sector ¹	6.0	9.1	9.1	9.0	8.4	6.9	5.3
of which:							
loans to households	1.2	9.4	9.4	9.4	9.8	9.0	7.9
loans to non-bank corporations	10.4	8.8	8.8	8.6	7.3	5.2	3.2
%							
Share of foreign currency loans in total loans to the non-bank private sector	31.6	30.0	31.8	30.0	30.3	30.9	31.8
Return on assets (banking sector)	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Tier 1 capital ratio (banking sector)	20.7	22.2	22.0	21.4	21.6	21.5	22.0
NPL ratio (banking sector)	2.4	2.5	2.7	2.5	2.8	2.9	2.7
% of GDP							
General government revenues	34.5	34.0	35.4				
General government expenditures	41.1	43.3	43.3				
General government balance	-6.6	-9.3	-7.9				
Primary balance	-4.6	-6.9	-5.1				
Gross public debt	49.3	54.8	59.3				
% of GDP							
Debt of non-financial corporations (non-consolidated)	29.4	29.0	28.4				
Debt of households and NPISHs ² (non-consolidated)	12.6	12.5	12.2				
% of GDP (based on EUR), period total							
Goods balance	-9.0	-9.3	-8.5	-11.0	-8.9	-7.8	-7.2
Services balance	4.1	3.3	3.2	4.6	3.5	2.9	2.3
Primary income	-2.7	-2.4	-2.7	-1.7	-2.8	-3.5	-2.5
Secondary income	0.5	0.2	0.1	-0.2	0.1	0.5	-0.2
Current account balance	-7.0	-8.2	-7.9	-8.3	-8.1	-7.9	-7.6
Capital account balance	2.1	1.5	1.9	1.7	2.9	1.4	1.6
Foreign direct investment (net) ³	-2.0	-1.3	-2.0	-2.0	-2.2	-2.9	-1.1
% of GDP (rolling four-quarter GDP, based on EUR), end of period							
Gross external debt	57.0	57.7	59.9	57.3	58.3	59.5	59.9
Gross official reserves (excluding gold)	18.6	17.6	17.1	17.3	16.0	17.5	17.1
Months of imports of goods and services							
Gross official reserves (excluding gold)	5.1	5.1	5.0	4.9	4.6	5.0	5.0
EUR million, period total							
GDP at current prices	321,399	353,625	379,631	75,625	88,703	102,571	112,733

¹ Foreign currency component at constant exchange rates.² Non-profit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

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