

# Economic trends in CESEE EU member states

## Stable growth amid a turbulent external environment

In the first half of 2025, the economies of the EU member states of Central, Eastern and Southeastern Europe (CESEE) navigated a period of cautious recovery amid a turbulent external environment. Average real GDP growth in CESEE held up reasonably well; the growth performance, however, remained uneven across the region. Average inflation in CESEE has been hovering steadily at about 4% for over a year. Yet, the aggregate again masks different trends across individual countries, with inflation rates ranging between 2% in Czechia and 8.6% in Romania in September 2025.

### Authors

Compiled by Josef Schreiner  
Oesterreichische Nationalbank  
Central, Eastern and Southeastern  
Europe Section  
josef.schreiner@oenb.at

With input from Katharina Allinger,  
Mathias Lahnsteiner, Thomas Reiningger,  
Thomas Scheiber, Tomáš Slačik and  
Zoltan Walko  
Oesterreichische Nationalbank  
Central, Eastern and Southeastern  
Europe Section



### Growth composition unchanged

Private consumption remained the main driver of growth, while the external sector continued to weigh on the economy.



### Some tentatively positive signs for the future

Investments appear to be picking up, and the industrial sector seems to be slowly gaining ground too.



### Monetary policy mostly on hold

All CESEE central banks, except for Poland's central bank, have kept their policy rates unchanged over the previous months – given stubbornly high inflation or strong wage growth.

# 1 Regional overview

In the first half of 2025, the economies of the EU member states of Central, Eastern and Southeastern Europe (CESEE) navigated a period of cautious recovery amid a turbulent external environment.<sup>1,2</sup> The escalation of trade tensions between the United States and most of its trading partners introduced new uncertainties into the global economy, unsettling export expectations and investor confidence. This friction came at a time when the industrial core of Europe – particularly Germany – was struggling with weak output, reduced orders and investment hesitancy. For the CESEE region, whose economies are deeply integrated into Western European supply chains, this slowdown translated into weaker external demand and disrupted production flows. The trade deal struck between the EU and the US in July 2025 brought some clarity for trading relations but hiked effective tariffs to levels last seen decades ago.

Large wage increases and services price growth kept inflation elevated and while energy and commodity markets remained calmer than in previous years, residual price volatility and supply concerns reinforced a sense of fragility.

Fiscal and monetary policies across the region reflected this delicate balance between supporting growth and safeguarding stability. Governments continued to unwind emergency support and subsidies as they had to bring down elevated budget deficits, but structural pressures – especially high public wage bills and social transfers – limited fiscal consolidation. Central banks, for their part, largely paused rate changes, preferring stability over policy reversals. The general policy mix was therefore characterized by restraint: Growth was positive but vulnerable; inflation had come down substantially from its exceptional peaks but often still stood above comfort levels; and the external environment remained clouded by geoeconomic uncertainty and the industrial malaise of the European core. Taken together, these dynamics defined a cautious, uneven recovery that underscored both the resilience and the exposure of the CESEE region within the wider European and global economy.

## Regional growth held up reasonably well...

Against the backdrop of complex challenges, regional growth in CESEE held up reasonably well. Average real GDP growth reached 2.2% in the first quarter and 2.4% in the second quarter of 2025 and was thus largely in line with the readings of the previous year (see chart 1). Quarter-on-quarter growth accelerated from 0.4% in the first to 0.8% in the second quarter and – measured over the first six months of 2025 – was also on par with the second half of 2024.

At the country level, Poland, Bulgaria and Croatia managed to sustain a solid momentum, expanding by just over 3% in the first half of 2025, thanks to strong household consumption and recovering investment. Czechia's economy also gathered pace as wage growth supported domestic demand, even as weaker foreign orders from Germany constrained manufacturing exports. The economies of Slovakia, Slovenia and Hungary, on the other hand, merely stagnated as stubborn inflation and policy uncertainty dampened confidence and net exports dipped into the reds. In Southeastern Europe, Romania saw a modest recovery partly supported by EU funds, though external demand remained soft and public spending pressures persisted.

---

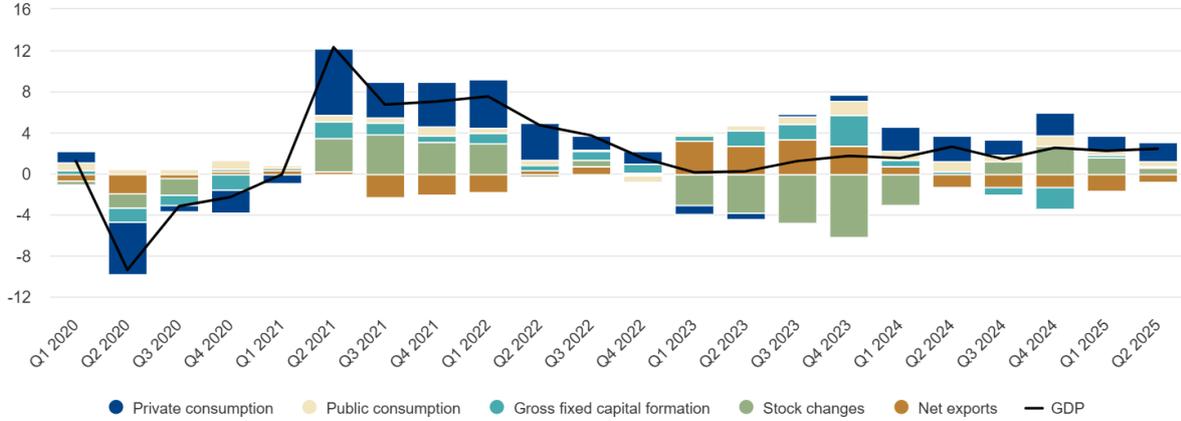
<sup>1</sup> Cut-off date: October 17, 2025. This chapter focuses primarily on data releases and developments from April 2025 up to the cut-off date and covers Croatia, Slovakia, Slovenia, Bulgaria, Czechia, Hungary, Poland and Romania. The countries are ordered according to their level of EU integration (euro area countries and EU member states).

<sup>2</sup> All growth rates in the text refer to year-on-year changes unless otherwise stated.

Chart 1

GDP growth and its main components in CESEE EU

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



Source: Eurostat.

...as strong domestic demand offsets setbacks from external demand

The country developments outlined above show that output growth in the CESEE region was driven by domestic demand and constrained by external demand. Within domestic demand, private consumption was by far the most important contributor to growth, buoyed by resilient labor markets, steady wage growth and the gradual recovery of real incomes following earlier inflation shocks. Moreover, saving rates have been trending down at least somewhat.

Tight labor markets boost private consumption and keep wage growth elevated

Labor markets recovered quickly from their pandemic-induced dent and have performed very dynamically since. The average unemployment rate in the region has been hovering at about 4% for more than two years (4.1% in August 2025). This was largely in line with pre-pandemic figures and probably close to a lower bound set by structural impediments in CESEE labor markets. A broader measure of labor market slack – i.e. the share of persons with an unmet need for employment in the extended labor force – has even been consistently below pre-pandemic levels since 2022. Moreover, companies continued to report labor shortages throughout the economy in the first nine months of 2025. In construction, even half of the respondents found labor to be a limiting factor for production.

Tight labor markets kept wage growth elevated. Nominal wages grew by about 10% on average annually and real wages advanced by about 6.5% annually in the first half of 2025. Both figures, however, were 2 percentage points lower than in the corresponding period of the previous year, marking a gradual return to more sustainable wage developments. This might point toward an incipient cooling of CESEE labor markets. This conclusion is also supported by a marginally declining number of employed persons in the first half of 2025. It needs to be noted, however, that people who exited employment often left the labor force altogether, which possibly aggravated existing and/or future labor shortages.

Consumer sentiment remained somewhat depressed on average. It was mainly weighed down by an expected worsening of the future financial and general economic situation of households, even though assessments of the current economic situation have actually improved slightly. This includes a more favorable assessment of the current financial situation (including the ability to make major purchases and to save) and a stabilization of inflation and unemployment expectations.

### **Public consumption remains a relevant factor for growth even as several countries face consolidation needs**

Another factor supporting growth – besides labor market buoyancy – was fiscal policy. Public consumption contributed 0.5 percentage points to growth in CESEE in the first half of 2025. Government expenditure outgrew government revenue 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 defense spending by some 0.7 percentage points of GDP since 2022, with the by far highest increases in Poland (+2.3 percentage points). At the same time, subsidies were notably lower after the last remaining measures to control inflation expired. The growth contribution of public consumption was notably lower in the review period than in 2024, as several CESEE countries faced consolidation needs. Hungary, Slovakia, Poland and Romania are currently undergoing excessive deficit procedures and should correct their excessive deficits by 2026, 2027, 2028 and 2030, respectively.

### **Investments appear to be picking up...**

Investment spending turned marginally positive in the first half of 2025 after having reduced output growth quite substantially in the second half of 2024. The uptick was based particularly on higher spending on machinery and equipment (including weapons systems). Surveys show that both demand and financing conditions are currently more supportive for capital spending. They moreover indicate that companies plan to up their investment somewhat further this year and next year and that investment will be channeled more strongly into new machinery rather than replacements or buildings and infrastructure. Public investment also provided an additional impulse. However, the absorption of new EU funds was limited in a number of CESEE countries, as procedural lags and delays in implementing reforms and in reaching commitments have slowed disbursement. Funds under the Recovery and Resilience Facility (RRF) can be drawn until the end of 2026, but so far, only Croatia and Slovakia have had more than 50% of the grants disbursed. All other CESEE countries still have at least half of the grants available and an even higher share of loans to be utilized. The insufficient use of EU funds – coupled with weakening corporate profitability and a below-average capacity utilization – can explain why some countries have not yet returned to a stable growth path for fixed capital formation.

### **...and industry seems to be slowly gaining ground too**

CESEE's industrial sector on average still reduced GDP growth in the first half of 2025, but some indicators are pointing toward a tentative recovery. Industrial sentiment has become somewhat less gloomy and industrial production has stabilized recently after more than two years of continuous contraction. Over the summer months, positive output developments were reported for machinery, electrical equipment and cars, while mainly more energy-intensive sectors (e.g. chemicals and metals) remained in recession. Industrial sales recovered somewhat too and after sales growth in domestic markets entered positive territory in January 2025, the more important sales in export markets also returned to an upward path in April. Moreover, order books might have reached a trough in the second quarter of 2025 and the assessment of orders has started to slowly improve over the past months. It needs to be borne in mind, however, that all indicators are coming from exceptionally low levels.

### **Exports still lack momentum**

The lacking momentum of the industrial sector is reflected in the lacking momentum of exports. Real exports have not really grown since mid-2023. At the same time, robust domestic demand drove up real

imports (by an average of about 4% in the first half of 2025), rendering net exports' contribution to GDP growth strongly negative in the review period. The export performance is impacted by high energy prices, weaker demand in important export markets and labor shortages, but also by some structural issues in key exporting industries. The newly introduced tariffs will certainly not help either. Moreover, CESEE companies are struggling with price competitiveness. Given high wage growth and stagnating productivity, unit labor costs (ULC) in manufacturing have increased strongly over the past years, far outpacing the dynamics in most trading partner countries, especially in the euro area. This translated into a strong real appreciation of most CESEE currencies against the euro. Over the past three years, real exchange rates strengthened by about 10% in Poland, Slovakia and Bulgaria, 20% in Hungary, 30% in Croatia and 40% in Romania.

Reflecting the above, the region's combined current and capital account balance also deteriorated over the review period. The aggregated deficit increased from -0.3% of GDP by the end of 2024 to -1% of GDP in the second quarter of 2025 (on a four-quarter moving sum basis), with the trade balance bearing the brunt of the deterioration. The deficit, however, was comfortably covered by FDI inflows, which mitigated external sector risks to a great extent. There were, however, countries where the deterioration was deeper (Croatia, Slovakia, Bulgaria) and where the external deficit was far higher than for CESEE on average (Romania). Especially in Romania, there was a notable gap between the combined current and capital account shortfall and the inflow of stable external financing in the form of FDI.

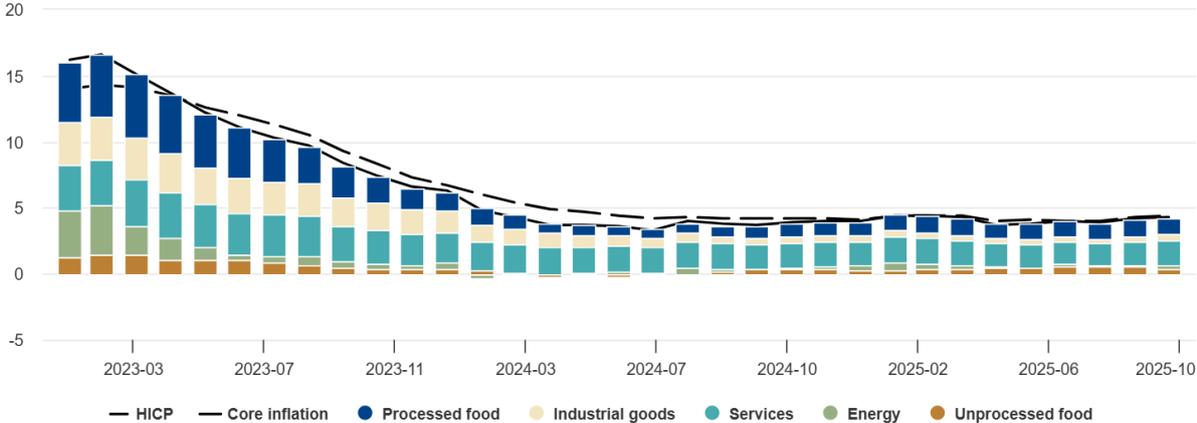
**CESEE inflation remains steady at an elevated level...**

Inflation in the CESEE EU member states has been hovering steadily at about 4% for over a year already. In September 2025, it came in at an average of 4.3% (see chart 2). The most important contributors to price growth were services (+1.9 percentage points) and processed food (+1.2 percentage points), while industrial goods and energy impacted on HICP inflation only to a very limited extent. Core inflation has remained virtually unchanged in recent months too and stood at an average of 4.4% in August 2025. Headline inflation as well as core inflation were notably higher than euro area figures.

Chart 2

**Inflation in CESEE EU**

Percentage points; HICP and core inflation in % (year on year)



Source: Eurostat.

**...but underlying country dynamics differ**

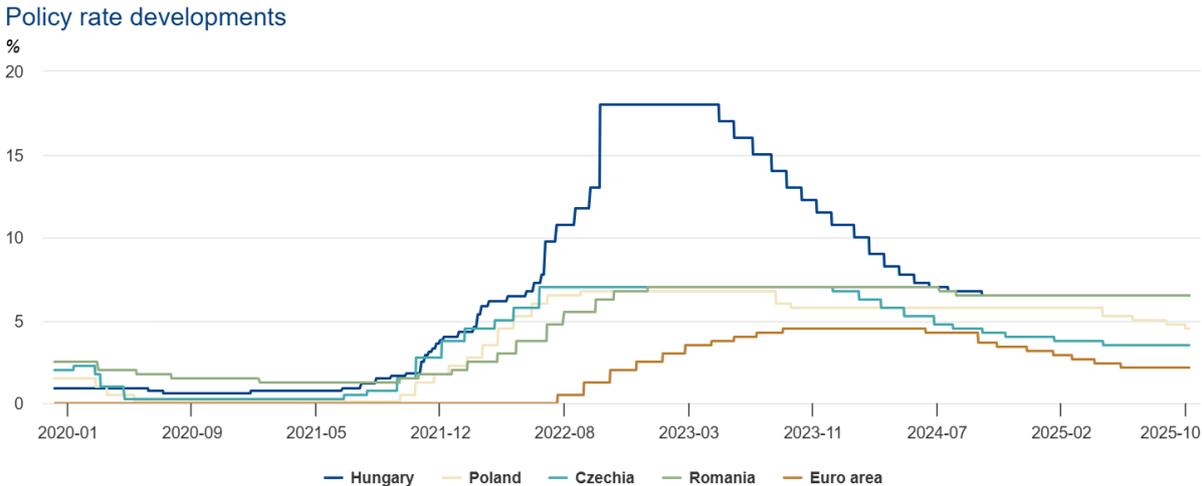
Lacking momentum at the regional level masks vastly different trends at the country level. Inflation decreased moderately in Czechia and Hungary and quite substantially in Poland. In the former two countries, disinflation was based mostly on core components, while disinflation in Poland was broad-based across all parts of the consumption basket. Concerning the inflation targets of these countries, CPI inflation was within the range in Czechia (at 2.3% in September 2025 with a target of 2% ± 1 percentage point) and Poland (at 2.9% in September with a target of 2.5% ± 1 percentage point) and somewhat outside the range in Hungary (at 4.3% in September with a target of 3% ± 1 percentage point).

Contrary to that, inflation increased strongly in Romania. Since the start of the year, CPI inflation nearly doubled and reached 9.9% in September 2025 (compared to an inflation target of 2.5% ± 1 percentage point). Those dynamics were driven by higher energy prices after the removal of a cap on electricity prices in July and tax rises (VAT, excise taxes) in August. With that, Romania currently reports the highest price growth by far in CESEE and in fact in all the EU.

**Monetary policy mostly on hold**

Of course, the development of inflation shaped monetary policy (see chart 3). The Czech central bank (CNB) lowered its policy rate twice this year (in February and May by 25 basis points respectively to 3.5%). The bank argued that inflation had been inside the tolerance band since January 2024, that lower global commodity prices reduced upside risks to inflation and that inflation has in parts been softer than expected. However, it also explicitly stated that domestic inflation pressures – especially in services, wage growth and property markets – constrain monetary policy and has not adjusted rates any further since May.

Chart 3



Source: Macrobond.

The Polish central bank eased more significantly, lowering rates in three steps from 5.75% in May to 4.5% in October 2025. It cited slower current and forecasted inflation as well as easing pressure on core inflation. Fiscal policy, recovery of consumption demand and – despite some deceleration – elevated wage growth were flagged as inflationary risks.

Romania’s central bank (BNR) has kept its key interest rate steady at 6.5% throughout 2025 amid renewed inflation pressures. In August, the BNR substantially hiked its inflation forecast for the rest of 2025. It currently expects CPI growth of 8.8% in the fourth quarter of 2025 (up from 4.6% in the previous forecast) and relatively slow disinflation over the next quarters, on a fluctuating path considerably higher than that in the previous projection and well above the upper bound of the variation band of the target.

Despite some disinflation recently, Hungary’s central bank (MNB) also held its key interest rate steady at 6.5%. In its monetary policy decisions, the MNB mentioned upside risks from wage growth, volatile commodity prices and domestic demand. Moreover, inflation is projected to remain above its tolerance band for the rest of 2025, decline to the tolerance band in early 2026 and reach the 3% inflation target in early 2027.

The Hungarian forint and the Czech koruna have appreciated vis-à-vis the euro in the review period. The forint has been supported by the high interest rate differential and market expectations that the MNB would hold rates constant. The koruna was aided by strengthening growth, restrained inflation and the CNB’s suspension of further rate cuts. The Polish zloty fluctuated against the euro in a relatively tight range, supported by Poland’s relatively strong growth outlook but weighed by cautious monetary easing from the central bank. The Romanian leu has depreciated around the May 2025 election, when political uncertainty spiked, and has traded at the lower level since.

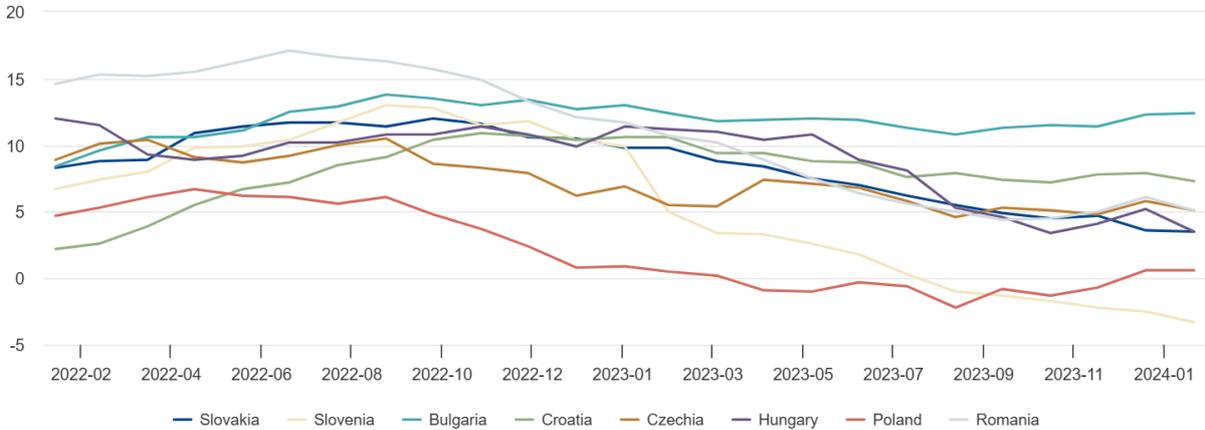
**Credit dynamics pick up and banking sectors are generally in good shape**

Monetary easing since mid-2023 has stimulated credit markets. The growth of credit to the private sector accelerated by about 1 percentage point since the start of 2025 and reached on average 8.5% in August (see chart 4). Credit demand, which had been strong already in 2024, strengthened further in the first half of 2025. This has been driven by both corporate demand (broadening from working capital needs to investments) and retail segments (especially demand for mortgages). In contrast, credit supply lacked dynamics in the first half of 2025, leaving a noticeable supply-demand gap. Surveys suggest that credit demand will remain favorable in the second half of 2025 and that credit supply should ease on banks’ increased willingness to finance the corporate segment, especially small and medium-sized enterprises.

Chart 4

**Growth of credit to the private sector**

Year-on-year change in %, adjusted for exchange rate changes



Source: ECB.

Banking sectors are generally in good shape, as improving asset quality and high interest margins bolstered profitability. At 1.6% in the second quarter of 2025, the average return on assets (ROA) was just as high as in 2024 and stood at an elevated level in historical perspective. In mid-2025, nonperforming loans were largely unchanged compared to 2024 and mostly at about 2% of total loans or even below. Only Romania witnessed a moderate uptick by 0.3 percentage points to 2.8% in the second quarter of 2025. Tier 1 capital ratios remained above euro area averages in all countries of the region.

## 2 Croatia: widening gap between domestic and external performance

Between 2019 and 2024, Croatia's GDP per capita increased from 67% of the EU average to 77%. The catching-up has been accompanied by a deterioration in competitiveness and the current account balance. This has become more pronounced in recent quarters, even though Croatia's economy has continued to perform well overall.

In the first half of 2025, GDP growth decelerated but remained strong at 3.2% year on year (euro area: 1.5%). On the output side, all sectors expanded. The strongest growth drivers were construction, manufacturing, public administration and wholesale and retail trade. The latter plunged in the first quarter as consumers boycotted several major retail chains due to price increases. On the expenditure side, there was a broad-based slowdown of growth across all domestic components. Nonetheless, domestic demand remained strong overall, and labor markets continued to do well.

Net exports made a substantial negative contribution to growth. Exports grew by 3.8% in the first half of the year, but imports expanded even more, by 6.1%. High wage growth and inflation weigh on Croatia's competitiveness – also in the tourist sector. Growth of service imports has outpaced that of service exports in the past quarters. Moreover, developments in the tourist sector are mixed and slightly worse than for the EU overall. Annual tourist arrivals up to May 2025 increased by 1.6% in Croatia compared to the same period a year earlier (EU-27: +2.3%). Nights spent decreased by 1% in Croatia (EU-27: +2.1%). Preliminary data from the Croatian tourism ministry suggest that arrivals and nights spent during July and August 2025 declined mildly year on year.

In line with this, the four-quarter moving average of the current account balance showed a deficit of 4.6% of GDP in the second quarter of 2025 (-1.6% in the corresponding period of the previous year). The capital account surplus shrank to 1.5% of GDP (versus 2.0% of GDP).

While these developments are not yet concerning, the potential emergence of external imbalances should be monitored jointly with price and wage dynamics. HICP inflation remains elevated and at similar levels as a year ago. Both the overall index and the core index stood at 4.6% and 4.4% respectively in September 2025 (euro area: 2.2% and 2.4%, respectively).

Croatia's fiscal deficit was 2.4% of GDP in 2024 and is expected to rise to 2.7% of GDP in 2025 according to the spring forecast by the European Commission. In mid-September 2025, the government presented a ninth support package for the economy, mostly focused on affordable energy. Jointly with 14 other member states, Croatia has preemptively requested an escape clause for additional defense spending under the EU's Stability and Growth Pact. Croatia plans to raise its defense spending from 1.8% of GDP in 2024 to 3% of GDP by 2030. In the first quarter of 2025, consolidated gross debt of the government was moderate at 58.4% of GDP.

Regarding the financial sector, the Croatian central bank assesses financial stability risks to be medium overall – similar to a year ago. Both the tier 1 capital ratio and banks' ROA declined mildly but remained strong in mid-2025 (21.7% and 1.9%, respectively). There is no sign of a deterioration in asset quality, but there are elevated cyclical risks related to high house price and household loan growth. In July 2025, tighter household lending standards came into effect.

Table 1

## Main economic indicators: Croatia

	2022	2023	2024	Q3 24	Q4 24	Q1 25	Q2 25
<b>Year-on-year change of the period total in %</b>							
GDP at constant prices	7.3	3.3	3.9	4.0	3.9	2.9	3.4
Private consumption	6.9	3.0	5.6	5.2	6.2	1.6	3.9
Public consumption	2.2	7.1	7.0	7.9	8.9	5.8	2.4
Gross fixed capital formation	10.4	10.1	9.9	9.2	9.5	4.5	5.2
Exports of goods and services	27.0	-2.9	0.9	1.5	4.7	6.0	1.6
Imports of goods and services	26.5	-5.3	5.3	4.1	9.9	8.8	3.3
<b>Contribution to GDP growth in percentage points</b>							
Domestic demand	7.8	1.6	6.4	6.5	6.8	5.1	4.3
Net exports of goods and services	-0.5	1.7	-2.5	-2.6	-2.8	-2.2	-0.9
Exports of goods and services	13.4	-1.7	0.5	0.1	2.6	2.7	0.8
Imports of goods and services	-13.9	3.5	-2.9	-2.7	-5.4	-4.9	-1.7
<b>Year-on-year change of the period average in %</b>							
Unit labor costs in the whole economy (nominal, per person)	6.7	14.3	13.5	13.8	13.3	12.9	8.6
Unit labor costs in manufacturing (nominal, per hour)	6.9	10.8	18.5	15.2	17.2	5.9	6.6
Labor productivity in manufacturing (real, per hour)	1.1	2.9	-4.1	-2.4	-2.7	7.4	4.3
Labor costs in manufacturing (nominal, per hour)	8.1	13.9	13.6	12.4	14.1	13.7	11.2
Producer price index (PPI) in industry	18.2	3.7	-1.8	-2.6	-1.6	0.9	0.4
Consumer price index (here: CPI)	10.7	8.4	4.0	3.1	4.0	4.7	4.2
EUR per 1 HRK, + = HRK appreciation	-0.1	..	..	..	..	..	..
<b>Period average levels</b>							
Unemployment rate (ILO definition, %, 15-64 years)	6.9	6.2	5.1	5.0	5.1	5.6	4.9
Employment rate (%, 15-64 years)	65.3	65.7	68.3	68.5	67.8	68.3	68.8
Key interest rate per annum (%)	..	..	..	..	..	..	..
HRK per 1 EUR	7.5	..	..	..	..	..	..
<b>Nominal year-on-year change in period-end stock in %</b>							
Loans to the domestic nonbank private sector <sup>1</sup> of which:	10.4	7.9	9.4	7.7	9.4	11.9	13.1
loans to households	5.3	9.4	11.7	10.6	11.7	12.1	13.5
loans to nonbank corporations	18.6	5.9	6.0	3.5	6.0	11.6	12.4
<b>%</b>							
Share of foreign currency loans in total loans to the nonbank private sector	58.1	0.4	0.6	0.2	0.6	0.2	0.2
Return on assets (banking sector)	1.0	1.8	1.9	2.0	1.9	1.8	1.9
Tier 1 capital ratio (banking sector)	24.2	23.3	22.5	22.2	22.5	22.7	21.7
NPL ratio (banking sector)	3.0	2.6	2.4	2.5	2.4	2.5	2.4
<b>% of GDP</b>							
General government revenues	45.1	46.0	45.6				
General government expenditures	45.0	46.8	48.0				
General government balance	0.1	-0.8	-2.4				
Primary balance	1.5	0.9	-0.9				
Gross public debt	68.5	61.8	57.6				
<b>% of GDP</b>							
Debt of nonfinancial corporations (nonconsolidated)	60.7	56.4	56.7				
Debt of households and NPISHs <sup>2</sup> (nonconsolidated)	31.7	30.0	30.3				
<b>% of GDP (based on EUR), period total</b>							
Goods balance	-27.2	-22.4	-22.2	-18.6	-21.3	-25.7	-23.6
Services balance	20.8	20.3	17.5	36.6	7.9	3.4	14.3
Primary income	-0.4	-0.1	0.3	-1.6	2.3	1.4	-1.5
Secondary income	3.2	2.4	2.2	2.4	1.0	2.3	2.3
Current account balance	-3.5	0.1	-2.2	18.8	-10.1	-18.7	-8.5
Capital account balance	2.5	2.9	1.4	1.4	1.7	1.1	1.9
Foreign direct investment (net) <sup>3</sup>	-6.0	-2.4	-1.9	-2.5	-0.5	-3.4	-1.7
<b>% of GDP (rolling four-quarter GDP, based on EUR), end of period</b>							
Gross external debt	73.8	78.0	65.6	76.0	65.6	67.9	70.4
Gross official reserves (excluding gold)	41.1	3.7	3.8	3.5	3.8	4.0	3.6
<b>Months of imports of goods and services</b>							
Gross official reserves (excluding gold)	7.5	0.8	0.8	0.8	0.8	0.9	0.8
<b>EUR million, period total</b>							
GDP at current prices	67,621	78,061	85,610	24,677	21,246	19,475	22,998

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

<sup>1</sup>) Foreign currency component at constant exchange rates.<sup>2</sup>) Nonprofit institutions serving households.<sup>3</sup>) + = 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).

### 3 Slovakia: domestic demand cushions slowdown amid dire fiscal straits

Slovakia's economy has been losing momentum. While real GDP grew by 2.1% in 2024, the pace of expansion slowed markedly in the second half of 2024 and remained subdued in the first half of 2025, with growth averaging just 0.7%. Slumping retail sales, shrinking industrial activity, falling new orders and broad pessimistic sentiment across industry, services and consumers point to the fragility and vulnerability of Slovakia's economic growth. The prevailing gloom is fueled, inter alia, by weak foreign demand amplified by US tariffs, the financial transaction tax<sup>3</sup> and both current and anticipated fiscal austerity measures.

Disentangling growth components reveals that economic growth continued to be driven solely by strong domestic demand in the first half of 2025. In contrast, net exports remained a drag amid weak foreign demand, heightened uncertainty and a rebound in imports. Fiscal consolidation measures alongside persistent inflation, weakened real wage growth and subdued consumer sentiment have not derailed private consumption to the extent expected. As a result, it has remained the main driver of domestic demand in 2025, albeit with a notable slowdown early in the year. Fixed investment has been under pressure for some time, weighed down by fiscal tightening, political uncertainty, sluggish external demand and broader geopolitical risks. Its contribution to GDP growth turned negative in the first half of 2025. Meanwhile, looser financing conditions and increased government investment – supported by improved EU fund absorption – have provided some counterbalance to the overall sluggish investment environment.

The labor market, long characterized by tightness, has begun to show mixed signals. While the unemployment rate has hovered somewhat above 5% in 2025 (ending a downward trend that began in 2013), employment has fallen slightly. As labor market conditions no longer tightened, firms have become increasingly concerned about weak demand rather than (skilled) labor shortages. Real wage growth, which dropped to near zero in the first quarter of 2025 from over 5% a year earlier, recovered somewhat in the second quarter. Inflation, which had fallen to 2.4% in June 2024, has gradually risen, reaching 4.6% in June 2025 and staying broadly at that level since. Price increases have been driven primarily by services, processed food and a broad-based VAT hike at the start of the year. In contrast, prices for unprocessed food and energy have remained broadly stable so that core inflation accelerated to above 5% in the summer of 2025.

Slovakia's public finances remain under considerable strain. After general government deficits had exceeded 5% of GDP in 2023 and 2024, pushing public debt to nearly 60% of GDP by end-2024, a second consolidation package was implemented in 2025. While it aimed to lower the deficit to 4.7% of GDP in 2025, Slovakia's fiscal watchdog (RRZ) projects a deficit of 5.2% of GDP in 2025 and an adverse future fiscal path if no further measures are taken. To address the dismal fiscal trajectory, the government unveiled a third consolidation package in September 2025, aiming to cut the deficit to about 4.2% of GDP in 2026. The package has faced strong opposition, with fast-tracked parliamentary procedures prompting constitutional challenges, public protests and factual critique for various reasons: The bundle again relies particularly on tax and levies hikes that are likely to throttle the already feeble economy. Moreover, while large uncertainty remains over the specifics of planned state savings, most measures are temporary, putting the sustainability of the consolidation into question.

---

<sup>3</sup> The tax was introduced in 2025 and primarily affects businesses, while consumer payments are generally exempt from it.

Table 2

## Main economic indicators: Slovakia

	2022	2023	2024	Q3 24	Q4 24	Q1 25	Q2 25
<b>Year-on-year change of the period total in %</b>							
GDP at constant prices	0.4	2.2	2.1	1.4	1.7	0.9	0.6
Private consumption	5.1	-3.1	2.9	1.9	3.0	0.4	1.8
Public consumption	-2.9	-2.5	3.7	1.1	2.3	1.2	2.2
Gross fixed capital formation	4.3	4.0	1.8	-6.6	-11.4	-8.0	4.2
Exports of goods and services	2.8	-0.7	0.3	0.2	-0.5	6.2	3.0
Imports of goods and services	4.2	-7.6	2.3	0.3	-1.1	8.9	2.9
<b>Contribution to GDP growth in percentage points</b>							
Domestic demand	1.7	-5.2	3.8	1.4	0.8	3.1	0.5
Net exports of goods and services	-1.3	7.3	-1.8	-0.0	0.9	-2.3	0.0
Exports of goods and services	2.5	-0.7	0.3	0.5	-0.5	5.3	2.5
Imports of goods and services	-3.8	8.0	-2.0	-0.5	1.4	-7.6	-2.5
<b>Year-on-year change of the period average in %</b>							
Unit labor costs in the whole economy (nominal, per person)	7.3	8.3	5.0	5.0	3.4	3.7	7.6
Unit labor costs in manufacturing (nominal, per hour)	12.0	6.1	6.2	4.2	3.8	1.5	10.0
Labor productivity in manufacturing (real, per hour)	-1.7	1.3	1.0	1.9	1.6	3.8	-1.2
Labor costs in manufacturing (nominal, per hour)	9.9	7.7	7.3	6.2	5.4	5.4	8.8
Producer price index (PPI) in industry	26.3	8.4	-7.8	-6.6	-6.6	0.8	0.4
Consumer price index (here: HICP)	12.1	11.0	3.2	3.1	3.5	4.2	4.3
EUR per 1 SKK, + = SKK appreciation	..	..	..	..	..	..	..
<b>Period average levels</b>							
Unemployment rate (ILO definition, %, 15-64 years)	6.2	6.0	5.5	5.5	5.3	5.4	5.3
Employment rate (%, 15-64 years)	71.4	72.0	72.4	72.2	73.1	72.3	72.2
Key interest rate per annum (%)	0.6	3.8	4.1	4.2	3.4	2.9	2.4
SKK per 1 EUR	..	..	..	..	..	..	..
<b>Nominal year-on-year change in period-end stock in %</b>							
Loans to the domestic nonbank private sector <sup>1</sup> of which:	10.5	3.6	2.7	1.6	2.7	4.2	5.6
loans to households	10.3	4.1	4.1	3.9	4.1	4.4	5.4
loans to nonbank corporations	10.8	2.5	-0.5	-3.0	-0.5	3.9	6.2
<b>%</b>							
Share of foreign currency loans in total loans to the nonbank private sector	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Return on assets (banking sector)	0.8	1.0	0.9	0.9	0.9	0.9	0.9
Tier 1 capital ratio (banking sector)	18.1	19.0	19.0	19.4	19.0	20.1	19.8
NPL ratio (banking sector)	1.7	1.8	1.8	1.8	1.8	1.9	1.9
<b>% of GDP</b>							
General government revenues	41.3	42.8	41.8				
General government expenditures	43.0	48.0	47.1				
General government balance	-1.7	-5.2	-5.3				
Primary balance	-0.7	-4.0	-3.9				
Gross public debt	57.7	55.6	59.3				
<b>% of GDP</b>							
Debt of nonfinancial corporations (nonconsolidated)	53.0	45.6	44.4				
Debt of households and NPISHs <sup>2</sup> (nonconsolidated)	47.0	43.7	43.1				
<b>% of GDP (based on EUR), period total</b>							
Goods balance	-6.6	1.0	-0.3	-0.9	-2.5	-1.8	0.5
Services balance	0.6	0.8	0.4	0.5	0.2	0.3	0.4
Primary income	-2.9	-2.0	-2.1	-1.7	-2.2	-3.3	-2.8
Secondary income	-0.7	-0.6	-0.7	-0.8	-0.4	-0.9	-1.0
Current account balance	-9.6	-0.9	-2.8	-3.0	-4.9	-5.7	-3.0
Capital account balance	1.2	0.5	0.8	0.3	0.1	0.0	-0.1
Foreign direct investment (net) <sup>3</sup>	-2.4	-0.1	-0.9	-2.4	-1.7	2.0	-1.1
<b>% of GDP (rolling four-quarter GDP, based on EUR), end of period</b>							
Gross external debt	105.5	95.3	100.3	100.7	100.3	104.7	105.3
Gross official reserves (excluding gold)	7.2	6.7	8.7	8.4	8.7	10.8	10.9
<b>Months of imports of goods and services</b>							
Gross official reserves (excluding gold)	0.8	0.9	1.2	1.2	1.2	1.5	1.5
<b>EUR million, period total</b>							
GDP at current prices	110,047	123,833	130,985	33,987	34,021	31,133	34,488

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

<sup>1</sup>) Foreign currency component at constant exchange rates.

<sup>2</sup>) Nonprofit institutions serving households.

<sup>3</sup>) + = 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).

## 4 Slovenia: slowing economic growth and public sector wage hikes contribute to higher budget deficit

GDP grew by a meager 0.1% during the first half of 2025 compared to the same period of the previous year. Adjusted for seasonal factors and the number of working days, GDP even decreased slightly between the second half of 2024 and the first half of 2025. Economic performance was particularly weak in the first quarter, when GDP contracted both in the year-on-year comparison and (according to seasonally and calendar-adjusted data) compared to the final quarter of 2024. The single largest contribution (1.9 percentage points) to the annual GDP growth rate came from the accumulation of inventories. The growth rate of private consumption strengthened compared to 2024, despite continued weakness in consumer sentiment and contracting employment. Private consumption was supported by robust growth in real average wages (in part due to public sector wage increases) and the ongoing expansion of credit to households. Public consumption rose modestly, yet significantly slower than in 2024, when it was boosted by post-flood reconstruction and when supplementary health insurance was converted into a compulsory contribution (suppressing private and boosting public expenditure on healthcare goods and services). Investments continued to decline, but less than in 2024 (and even expanded compared to the second half of 2024). Investments in dwelling construction were still sharply down on the year, while investments in nontransport equipment and weapon systems posted the first positive growth rate since late 2023. Exports of goods and services stagnated compared to the first half of 2024 amid weak external demand, whereas growing consumption and inventories continued to support import growth. As a result, net real exports shaved 2 percentage points off the year-on-year GDP growth rate.

In its 2025 spring forecast, the European Commission forecasted a budget deficit of 1.3% of GDP for 2025 (up from 0.9% in 2024), below the government's target of 1.9% of GDP. This reflects a broadly neutral fiscal stance. While revenues are expected to be lifted by a new long-term care contribution and higher CO<sub>2</sub> taxation in 2025, this will be offset by lower property income revenues and higher expenses on long-term care and public sector wage hikes (under the reform of the public sector wage system). At the end of September 2025, the government presented its budgetary plans for 2026–2027. The draft budget foresees a deficit of 2.9% of GDP in 2026 and 2.8% of GDP in 2027. The new targets are substantially higher than the deficit path projected in Slovenia's medium-term fiscal-structural plan of October 2024 (1.9% of GDP in 2026 and 1.6% of GDP in 2027). The target for 2026 is also much above the European Commission's spring forecast (1.5% of GDP). According to the government, the budget accounts for reforms in the public sector wage system, long-term care, healthcare, pensions and defense. Slovenia's Fiscal Council, meanwhile, repeatedly warned about risks associated with misguided expenditures which had been observed during the past few years.

HICP inflation accelerated to 2.7% in September 2025 from about 2% in February. Hence, the difference between HICP inflation in Slovenia and that in the euro area as a whole widened to around 0.5 percentage points, while the former had undershot euro area inflation during May 2024 and February 2025. The acceleration was mainly driven by rising food prices, both unprocessed and processed (including alcohol and tobacco). Price pressure for energy and nonenergy industrial goods remained subdued during the reference period, while services price inflation remained elevated despite a modest decrease.

Table 3

## Main economic indicators: Slovenia

	2022	2023	2024	Q3 24	Q4 24	Q1 25	Q2 25
<b>Year-on-year change of the period total in %</b>							
GDP at constant prices	2.7	2.1	1.6	1.6	1.5	-0.6	0.7
Private consumption	5.3	0.1	1.6	1.7	1.2	0.4	3.6
Public consumption	-0.7	2.4	8.5	9.2	5.7	2.3	-0.5
Gross fixed capital formation	4.2	3.9	-3.7	-8.1	-5.2	-5.6	-0.2
Exports of goods and services	6.8	-2.0	3.2	9.5	3.9	0.8	-0.8
Imports of goods and services	9.2	-4.5	3.9	8.0	2.3	3.8	2.7
<b>Contribution to GDP growth in percentage points</b>							
Domestic demand	4.2	-0.2	1.9	-0.1	0.0	1.7	3.4
Net exports of goods and services	-1.5	2.3	-0.4	0.5	0.7	-2.0	-2.1
Exports of goods and services	5.7	-1.9	2.6	6.9	3.3	0.7	-0.4
Imports of goods and services	-7.2	4.1	-3.0	-6.4	-2.6	-2.7	-1.8
<b>Year-on-year change of the period average in %</b>							
Unit labor costs in the whole economy (nominal, per person)	5.1	9.1	4.7	4.9	3.7	7.0	5.7
Unit labor costs in manufacturing (nominal, per hour)	1.4	14.5	7.3	6.5	8.4	7.0	7.3
Labor productivity in manufacturing (real, per hour)	6.0	-4.4	-0.5	-0.9	-0.1	3.2	-1.7
Labor costs in manufacturing (nominal, per hour)	7.4	9.5	6.9	5.6	8.4	10.4	5.5
Producer price index (PPI) in industry	19.6	6.3	-1.8	-1.3	-0.6	0.2	1.1
Consumer price index (here: HICP)	9.3	7.2	2.0	1.1	1.2	2.1	2.2
EUR per 1 SIT, + = SIT appreciation	..	..	..	..	..	..	..
<b>Period average levels</b>							
Unemployment rate (ILO definition, %, 15-64 years)	4.0	3.6	3.6	4.4	3.4	3.9	3.1
Employment rate (%, 15-64 years)	73.1	72.5	73.2	72.6	72.9	72.7	72.5
Key interest rate per annum (%)	0.6	3.8	4.1	4.2	3.4	2.9	2.4
SIT per 1 EUR	..	..	..	..	..	..	..
<b>Nominal year-on-year change in period-end stock in %</b>							
Loans to the domestic nonbank private sector <sup>1</sup> of which:	10.4	-2.5	5.9	5.0	5.9	7.3	7.1
loans to households	7.5	3.5	6.2	5.9	6.2	6.4	6.8
loans to nonbank corporations	13.4	-8.5	5.6	4.0	5.6	8.3	7.4
<b>%</b>							
Share of foreign currency loans in total loans to the nonbank private sector	0.8	0.7	0.6	0.6	0.6	0.5	0.5
Return on assets (banking sector)	1.0	2.1	2.0	2.1	2.0	1.3	2.0
Tier 1 capital ratio (banking sector, consolidated)	16.2	18.0	17.8	17.6	17.8	18.2	18.1
NPL ratio (banking sector)	0.7	0.6	0.7	0.7	0.7	0.8	0.8
<b>% of GDP</b>							
General government revenues	44.6	43.9	45.8				
General government expenditures	47.7	46.5	46.8				
General government balance	-3.0	-2.6	-0.9				
Primary balance	-2.0	-1.4	0.3				
Gross public debt	72.7	68.4	67.0				
<b>% of GDP</b>							
Debt of nonfinancial corporations (nonconsolidated)	44.9	39.8	37.6				
Debt of households and NPISHs <sup>2</sup> (nonconsolidated)	25.9	23.9	24.3				
<b>% of GDP (based on EUR), period total</b>							
Goods balance	-3.8	0.7	0.9	2.2	0.1	-0.6	-1.8
Services balance	6.1	5.6	5.4	6.5	5.3	4.2	5.3
Primary income	-2.2	-1.0	-1.2	-1.8	-1.4	0.2	-0.7
Secondary income	-1.2	-0.8	-0.7	-0.7	-0.8	-1.7	-0.9
Current account balance	-1.0	4.5	4.4	6.2	3.2	2.1	1.8
Capital account balance	-0.4	0.0	-0.1	-0.1	-0.3	-0.9	-0.4
Foreign direct investment (net) <sup>3</sup>	-2.3	-0.9	-0.8	-2.4	0.4	-2.3	-1.2
<b>% of GDP (rolling four-quarter GDP, based on EUR), end of period</b>							
Gross external debt	91.0	90.4	88.5	89.5	88.5	92.5	92.6
Gross official reserves (excluding gold)	3.4	3.1	3.7	3.5	3.7	3.7	3.6
<b>Months of imports of goods and services</b>							
Gross official reserves (excluding gold)	0.4	0.5	0.6	0.6	0.6	0.6	0.6
<b>EUR million, period total</b>							
GDP at current prices	56,909	63,951	66,968	17,173	17,339	16,225	17,730

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

<sup>1</sup>) Foreign currency component at constant exchange rates.<sup>2</sup>) Nonprofit institutions serving households.<sup>3</sup>) + = 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).

## 5 Bulgaria: euro adoption achieved, but rising macro imbalances

Bulgaria will join the euro area as its 21st member on January 1, 2026. The Bulgarian government took advantage of the favorable conditions created by declining inflation and passed the convergence assessment. Membership in the euro area will reduce foreign currency risks in the economy and may contribute to long-run economic stability, if managed correctly. The decision to adopt the euro improved Bulgaria's credit rating in July and is expected to increase trade, investment, job creation and access to finance.

Although Bulgaria has had a currency board with respect to the euro since 1997, adopting the euro may still trigger some short-term price pressures. Authorities have introduced dual-price displays and active price surveillance to prevent the "rounding-up effect." However, government efforts to manage inflation expectations are undermined by massive disinformation campaigns. Moreover, there was a brief domestic political showdown in May when President Radev called for a referendum on the introduction of the euro, which was decisively rejected by Bulgaria's Constitutional Court.

Despite political turbulences, real GDP continued to grow by 3.2% in the first half of 2025, after 2.8% in 2024. Domestic demand proved more resilient than expected. Rising wages, higher government transfers and strong credit growth lifted household consumption by 8% and contributed 4.7 percentage points to GDP growth. After weak numbers in 2024, gross capital formation rebounded on higher public spending and some optimism that a greater share of EU funds can be absorbed.

Imports also recovered more strongly than expected, while exports fell in annual terms, as the external demand for Bulgarian energy products and raw materials contracted alongside with planned maintenance work in oil refinery and steel production. Moreover, unfavorable external demand from the EU and in particular Germany put a drag on manufacturing output. Consequently, net exports shaved off 4.3 percentage points of GDP growth in the first half of 2025 and the current account deficit widened to 5% of GDP.

Forecasts for 2025 expect GDP growth to reach 2.9% to 3.2%, and to moderate to 2.6% to 2.8% in 2026. Domestic demand is expected to remain the main driver of growth. Contingent on sustained public investment, euro adoption could boost trade and FDI. US tariffs will negatively affect Bulgaria mainly indirectly through weaker EU demand, as direct trade linkages with the US are relatively weak.

Following disinflation in 2024, inflation rose significantly over the review period and reached 4.1% in September 2025. Inflation was driven in part by the restoration of higher VAT on bread and restaurants, and higher excise duties on tobacco. As a result, food prices rose by an average of 6% in the first nine months of the year. Higher minimum wages combined with persistent labor shortages kept wage pressure high. Together with rising administered prices, services inflation remained at the 2024 level in the first half of 2025.

Generous indexation of public sector salaries not only risks persistent inflation, but also contributes to rising fiscal deficits. In September 2025, the Fiscal Council of Bulgaria warned that the government was overspending particularly on salaries, which could push the deficit over 5% of GDP in 2025.

Furthermore, credit dynamics already indicate an increasing risk of overheating in the Bulgarian economy. Despite the introduction of new macroprudential requirements by the Bulgarian central bank, credit to households has grown by about 20% recently. Housing loans were the main contributing factor, with favorable interest rates, strong income growth and the prospect of rising property prices inducing many households to purchase their first home.

Table 4

## Main economic indicators: Bulgaria

	2022	2023	2024	Q3 24	Q4 24	Q1 25	Q2 25
<b>Year-on-year change of the period total in %</b>							
GDP at constant prices	4.0	1.9	2.8	2.6	4.1	2.9	3.5
Private consumption	3.9	1.4	4.2	2.9	5.1	9.0	6.9
Public consumption	8.0	1.1	4.6	11.0	3.5	7.4	16.3
Gross fixed capital formation	6.5	10.2	-1.1	1.6	0.1	13.4	9.5
Exports of goods and services	12.1	0.0	-0.8	0.1	-1.6	-3.9	-4.9
Imports of goods and services	15.3	-5.5	1.3	3.0	2.2	4.8	0.1
<b>Contribution to GDP growth in percentage points</b>							
Domestic demand	5.7	-1.9	4.1	4.7	5.5	8.3	6.6
Net exports of goods and services	-1.6	3.8	-1.3	-2.0	-1.4	-5.4	-3.1
Exports of goods and services	7.5	0.0	-0.5	0.1	0.2	-3.0	-3.4
Imports of goods and services	-9.1	3.8	-0.8	-2.2	-1.6	-2.5	0.2
<b>Year-on-year change of the period average in %</b>							
Unit labor costs in the whole economy (nominal, per person)	10.5	12.9	9.1	9.7	0.8	9.0	18.7
Unit labor costs in manufacturing (nominal, per hour)	3.8	18.9	13.3	12.0	8.8	13.6	18.0
Labor productivity in manufacturing (real, per hour)	13.8	-1.9	-0.6	0.0	3.2	1.2	-2.8
Labor costs in manufacturing (nominal, per hour)	18.1	16.6	12.5	12.0	12.3	14.9	14.7
Producer price index (PPI) in industry	40.8	-9.7	-3.7	0.7	1.1	20.0	13.0
Consumer price index (here: HICP)	13.0	8.6	2.6	2.2	2.0	3.9	2.9
EUR per 1 BGN, + = BGN appreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Period average levels</b>							
Unemployment rate (ILO definition, %, 15-64 years)	4.2	4.4	4.3	3.7	3.9	3.9	3.7
Employment rate (%, 15-64 years)	70.7	70.7	70.9	71.7	70.7	70.4	71.0
Key interest rate per annum (%) <sup>1</sup>	..	..	..	..	..	..	..
BGN per 1 EUR	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Nominal year-on-year change in period-end stock in %</b>							
Loans to the domestic nonbank private sector <sup>2</sup>	12.7	12.3	14.7	13.7	14.7	14.7	14.2
of which:							
loans to households	14.6	15.9	20.8	20.2	20.8	20.7	20.8
loans to nonbank corporations	11.4	9.9	10.2	8.9	10.2	10.2	9.1
<b>%</b>							
Share of foreign currency loans in total loans to the nonbank private sector	26.2	23.8	20.9	21.4	20.9	20.3	19.8
Return on assets (banking sector)	1.4	2.1	2.1	2.0	2.1	1.8	2.0
Tier 1 capital ratio (banking sector)	20.5	20.5	21.3	22.0	21.3	21.6	22.1
NPL ratio (banking sector)	2.8	2.1	1.8	2.0	1.8	1.7	1.8
<b>% of GDP</b>							
General government revenues	38.3	36.8	36.7				
General government expenditures	41.3	38.8	39.8				
General government balance	-3.0	-2.0	-3.0				
Primary balance	-2.6	-1.5	-2.6				
Gross public debt	22.5	22.9	24.1				
<b>% of GDP</b>							
Debt of nonfinancial corporations (nonconsolidated)	57.8	56.2	54.0				
Debt of households and NPISHs <sup>3</sup> (nonconsolidated)	22.4	23.5	25.9				
<b>% of GDP (based on EUR), period total</b>							
Goods balance	-5.9	-4.2	-5.2	-3.5	-7.8	-9.0	-6.6
Services balance	7.0	8.3	7.5	10.3	5.4	7.0	7.7
Primary income	-5.6	-6.6	-5.1	-4.2	-4.7	-5.3	-5.5
Secondary income	1.8	1.6	1.0	0.8	0.9	0.4	1.4
Current account balance	-2.6	-0.9	-1.8	3.4	-6.2	-6.9	-3.0
Capital account balance	1.0	1.6	1.7	1.2	1.8	1.9	-0.0
Foreign direct investment (net) <sup>4</sup>	-4.2	-4.2	-2.2	-4.0	-2.8	-5.1	1.8
<b>% of GDP (rolling four-quarter GDP, based on EUR), end of period</b>							
Gross external debt	50.3	47.5	47.4	47.6	47.4	47.8	49.6
Gross official reserves (excluding gold)	42.1	41.7	37.4	38.1	37.4	34.0	34.6
<b>Months of imports of goods and services</b>							
Gross official reserves (excluding gold)	7.3	8.7	8.4	8.4	8.4	7.5	7.8
<b>EUR million, period total</b>							
GDP at current prices	86,082	94,709	103,723	27,493	29,444	23,324	26,774

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

<sup>1</sup>) Not available in a currency board regime.

<sup>2</sup>) Foreign currency component at constant exchange rates.

<sup>3</sup>) Nonprofit institutions serving households.

<sup>4</sup>) + = 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: domestic demand drives growth amid external headwinds

The Czech economy has been gaining momentum and expanded by 2.4% year on year in the first half of 2025 – twice the pace recorded for 2024 as a whole. The main driver of growth remains domestic demand. In particular, household consumption has benefited from continued growth in real disposable income, supported by solid real wage increases and monetary policy easing. Leading indicators, such as steadily rising retail sales and improved consumer sentiment, also point to sustained growth in household consumption. While government consumption also contributed noticeably to economic expansion, changes in inventories emerged as the second most significant growth factor after private consumption. On the one hand, this is because firms have resumed building up inventories in response to strengthening domestic demand, following significant stock reductions over the past two years. On the other hand, the previous negative inventory dynamics have created a favorable base effect in 2025. Yet, despite some recovery in the first half of the year, private fixed investment remained subdued due to weak external demand and elevated geopolitical uncertainty. Government investment, however, provided a counterbalance, supported in part by increased absorption of EU funds. As a result, the overall contribution of fixed capital formation to GDP growth was broadly neutral, compared to a significantly negative impact last year. While net exports played a key role in driving economic expansion throughout 2024, their positive impact gradually diminished and turned negative in the first half of 2025. Exports recorded robust growth, as sluggish demand from euro area trading partners was increasingly replaced by demand from non-euro area markets, but the surge in imports – driven by strengthening domestic demand – outpaced export growth.

The labor market remains tight and broadly stable, with both employment and unemployment slightly increasing – though unemployment figures still rank among the lowest in the EU. While weak foreign demand has affected employment particularly in the manufacturing sector, rising labor demand in services and construction has counteracted. Nominal wage growth has thus remained buoyant, despite some slowdown in industry.

Headline inflation has fluctuated within the upper half of the CNB's tolerance band ( $2\% \pm 1$  percentage point) this year. It declined from 3.3% in December 2024 to 1.7% in April 2025, then rebounded to 2.8% in June, before easing again and recently settling slightly above the target midpoint. These swings have largely been driven by food and beverage prices, while energy has exercised a strong disinflationary effect. Despite some volatility, core inflation has hovered around or just below 3% for most of 2025. This reflects pressures from the domestic economy – particularly from strong wage growth and rising service prices, including housing costs. Following a 25-basis point cut in February, the CNB took one more such step in May, but has kept rates unchanged since, adopting a vigilant stance in light of persistent inflation risks.

After the general government deficit was reduced to 2.2% of GDP in 2024, it is expected to come in at around 2% of GDP this year. While the outgoing government prepared a budget for 2026, it is largely a placeholder and unlikely to be approved by the new parliament following the early October elections. The possible incoming government, which is currently being formed under the leadership of the election winner Andrej Babiš, is expected to pursue a somewhat – yet not dramatically – looser fiscal policy.

Table 5

## Main economic indicators: Czechia

	2022	2023	2024	Q3 24	Q4 24	Q1 25	Q2 25	
<b>Year-on-year change of the period total in %</b>								
GDP at constant prices	2.8	0.0	1.2		2.1	1.9	2.4	2.3
Private consumption	0.5	-2.6	2.4		3.1	3.1	2.4	3.3
Public consumption	0.4	3.2	3.2		3.5	3.1	1.9	2.2
Gross fixed capital formation	6.3	4.2	-2.8		-1.1	-4.5	-0.8	0.0
Exports of goods and services	5.1	2.3	1.5		6.5	1.0	3.9	3.3
Imports of goods and services	5.9	-1.2	0.5		5.2	2.7	4.8	5.2
<b>Contribution to GDP growth in percentage points</b>								
Domestic demand	3.2	-2.5	0.5		1.1	3.0	2.6	3.3
Net exports of goods and services	-0.3	2.6	0.7		1.0	-1.1	-0.2	-1.0
Exports of goods and services	3.6	1.7	1.0		4.6	0.7	2.9	2.3
Imports of goods and services	-4.0	0.9	-0.3		-3.5	-1.8	-3.1	-3.2
<b>Year-on-year change of the period average in %</b>								
Unit labor costs in the whole economy (nominal, per person)	5.0	8.7	5.5		4.7	4.5	4.1	5.3
Unit labor costs in manufacturing (nominal, per hour)	3.1	5.6	6.2		4.8	7.0	5.4	4.8
Labor productivity in manufacturing (real, per hour)	1.8	1.6	0.7		1.0	-0.3	2.0	1.8
Labor costs in manufacturing (nominal, per hour)	4.9	7.3	7.0		5.9	6.6	7.5	6.7
Producer price index (PPI) in industry	18.5	4.5	0.8		-1.7	1.3	0.9	-0.6
Consumer price index (here: HICP)	14.8	12.0	2.7		2.6	3.1	2.8	2.3
EUR per 1 CZK, + = CZK appreciation	4.4	2.3	-4.4		-4.2	-2.9	-0.0	0.2
<b>Period average levels</b>								
Unemployment rate (ILO definition, %, 15-64 years)	2.3	2.7	2.7		2.7	2.6	2.7	2.8
Employment rate (%, 15-64 years)	75.5	75.1	75.4		75.7	75.8	75.5	75.7
Key interest rate per annum (%)	5.9	7.0	5.1		4.6	4.1	3.9	3.6
CZK per 1 EUR	24.6	24.0	25.1		25.2	25.2	25.1	24.9
<b>Nominal year-on-year change in period-end stock in %</b>								
Loans to the domestic nonbank private sector <sup>1</sup> of which:	6.2	5.8	5.3		4.8	5.3	5.9	6.9
loans to households	4.8	4.7	5.9		5.0	5.9	6.4	6.9
loans to nonbank corporations	8.3	7.4	4.4		4.4	4.4	5.3	6.9
%								
Share of foreign currency loans in total loans to the nonbank private sector	19.4	22.2	22.5		22.6	22.5	22.1	21.7
Return on assets (banking sector)	1.1	1.1	1.2		1.2	1.2	1.0	1.2
Tier 1 capital ratio (banking sector)	21.5	21.6	21.4		21.3	21.4	21.4	21.6
NPL ratio (banking sector)	1.9	1.6	1.6		1.6	1.6	1.6	1.6
<b>% of GDP</b>								
General government revenues	39.9	40.2	40.8					
General government expenditures	43.0	43.9	43.0					
General government balance	-3.1	-3.8	-2.2					
Primary balance	-2.0	-2.4	-0.9					
Gross public debt	42.5	42.5	43.6					
<b>% of GDP</b>								
Debt of nonfinancial corporations (nonconsolidated)	56.7	50.1	53.7					
Debt of households and NPISHs <sup>2</sup> (nonconsolidated)	32.1	29.6	30.6					
<b>% of GDP (based on EUR), period total</b>								
Goods balance	-0.3	3.8	5.2		3.5	4.6	5.8	4.4
Services balance	1.4	1.1	1.3		1.2	0.6	1.7	1.1
Primary income	-5.3	-4.4	-4.3		-4.2	-2.6	-2.4	-8.0
Secondary income	-0.5	-0.7	-0.5		-0.7	-0.9	-0.2	-0.5
Current account balance	-4.7	-0.1	1.7		-0.1	1.7	4.9	-3.1
Capital account balance	0.6	1.2	1.7		1.1	3.3	1.0	0.6
Foreign direct investment (net) <sup>3</sup>	-1.2	-1.0	-0.5		-1.2	0.2	-3.1	-1.4
<b>% of GDP (rolling four-quarter GDP, based on EUR), end of period</b>								
Gross external debt	67.3	61.0	65.3		64.5	65.3	65.2	65.6
Gross official reserves (excluding gold)	45.5	41.5	42.6		42.2	42.6	41.4	40.2
<b>Months of imports of goods and services</b>								
Gross official reserves (excluding gold)	7.6	7.8	8.2		8.1	8.2	7.9	7.7
<b>EUR million, period total</b>								
GDP at current prices	287,034	319,070	320,739		81,743	83,428	78,195	86,248

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

<sup>1</sup>) Foreign currency component at constant exchange rates.<sup>2</sup>) Nonprofit institutions serving households.<sup>3</sup>) + = 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).

## 7 Hungary: disappointing growth slows fiscal consolidation

GDP stagnated during the first half of 2025 year on year but grew by 0.4% compared to the second half of 2024. Economic growth was fueled by private consumption, which was supported by strong real average wage growth (despite a significant deceleration from the dynamics seen in 2024) and accelerating consumption credits. At the same time, consumer confidence deteriorated compared to 2024 and households' savings rate remained elevated. Public consumption also grew strongly, particularly during the second quarter. By contrast, gross fixed capital formation continued to slide amid weak external demand conditions, worsening economic sentiment, continued corporate cautiousness and subdued corporate credit growth. The biggest decline in investment was observed in dwelling construction despite the continued rapid expansion of housing loans to households. Investments in nontransport equipment (including weapons systems) and nondwelling construction declined strongly as well, in part reflecting elevated commercial property vacancy rates in 2024 and relatively low levels of industrial capacity utilization. The accumulation of inventories (in part reflecting unfinished investments) contributed positively to growth. Net real exports contributed strongly negatively to GDP. Although the decline in exports moderated compared to previous quarters, import growth picked up mainly on the back of accelerating consumption.

In June 2025, the government modified the 2025 budget deficit target to 4.1% of GDP instead of the originally targeted 3.7% of GDP. More recently, however, Hungary's economic minister was talking about a likely deficit of 4–4.5% of GDP, still slightly less than that expected in the European Commission's spring forecast (4.6% of GDP). At the same time, the government's forecast for GDP growth in the current year has been revised down at the beginning of 2025 from 3.4% to 2.5%, and further down to 1% in summer 2025. The 2025 fiscal performance augurs badly for the 2026 outlook as well. In mid-June 2025, the parliament adopted the budget law for 2026 with a targeted deficit of 3.7% of GDP. This target is higher than previous official plans, but still substantially lower than that of the European Commission's 2025 spring forecast (4.7% of GDP). Similar to 2025, also the 2026 budget is based on a rather optimistic expectation of GDP growth of 4.1%. In addition to its early adoption and optimistic assumptions, the 2026 budget faces further uncertainties. So far, no major progress has been made to access substantial amounts of EU funds. Moreover, the government announced additional measures (e.g. new preferential schemes for home purchases, public sector wage hikes) on top of the already scheduled expansion of personal income tax benefits aimed at lifting consumer sentiment (and consumption) ahead of the parliamentary elections in spring 2026. Stubborn inflation may not only lead to higher-than-expected expenditure on goods, services and pensions, but may also slow the decrease in interest costs for state debt.

HICP inflation moderated during the reference period, standing at 4.3% in September 2025. The deceleration was, to a large extent, supported by declining energy prices and slowing inflation for services and processed food (including alcohol and tobacco). The latter was, amongst other things, due to various obligatory and "voluntary" price measures affecting nearly 16% of the CPI basket, with which the MNB expects to shave off around 1 percentage point from annual average inflation in 2025.

Monetary policy remained unchanged during the reference period, with the MNB keeping its base rate at 6.5% (unchanged since September 2024). Meanwhile, in mid-2025, the government prolonged the mandatory cap on banks' mortgage loans to households (originally introduced in January 2022) until end-2025 and extended various subsidized lending schemes for both households and corporates, which may impede monetary transmission and lead to a misallocation of resources.

Table 6

## Main economic indicators: Hungary

	2022	2023	2024	Q3 24	Q4 24	Q1 25	Q2 25
<b>Year-on-year change of the period total in %</b>							
GDP at constant prices	4.3	-0.8	0.5	-0.8	0.4	-0.0	0.1
Private consumption	6.9	-1.0	5.1	5.1	5.5	3.8	5.0
Public consumption	3.2	3.3	-4.6	-2.8	-3.2	0.9	6.2
Gross fixed capital formation	0.7	-7.7	-11.1	-12.0	-10.5	-10.1	-7.0
Exports of goods and services	10.7	1.7	-3.0	-2.1	-3.3	-0.4	-0.9
Imports of goods and services	10.7	-3.4	-4.0	-0.8	-3.1	0.1	4.0
<b>Contribution to GDP growth in percentage points</b>							
Domestic demand	4.3	-5.6	-0.1	0.5	0.8	0.4	3.5
Net exports of goods and services	-0.0	4.8	0.6	0.8	0.9	-2.2	-0.2
Exports of goods and services	8.5	1.5	-2.4	-2.5	-4.2	-3.3	-0.8
Imports of goods and services	-8.5	3.3	3.0	3.3	5.0	1.1	0.6
<b>Year-on-year change of the period average in %</b>							
Unit labor costs in the whole economy (nominal, per person)	13.9	16.1	12.2	13.8	11.2	9.8	9.2
Unit labor costs in manufacturing (nominal, per hour)	7.8	21.0	14.3	17.7	11.1	9.8	12.6
Labor productivity in manufacturing (real, per hour)	4.3	-2.1	-2.5	-4.8	-0.6	-1.2	-3.1
Labor costs in manufacturing (nominal, per hour)	12.4	18.4	11.5	12.1	10.4	8.5	9.1
Producer price index (PPI) in industry	33.4	7.2	0.9	2.0	6.3	8.1	6.6
Consumer price index (here: HICP)	15.3	17.0	3.7	3.5	4.0	5.4	4.4
EUR per 1 HUF, + = HUF appreciation	-8.4	2.5	-3.4	-2.7	-6.2	-4.2	-3.2
<b>Period average levels</b>							
Unemployment rate (ILO definition, %, 15-64 years)	3.6	4.2	4.5	4.6	4.4	4.4	4.6
Employment rate (%, 15-64 years)	74.5	74.9	75.1	75.3	75.1	75.2	74.9
Key interest rate per annum (%)	8.0	12.8	7.7	6.8	6.5	6.5	6.5
HUF per 1 EUR	391.3	381.9	395.3	394.1	407.5	405.0	404.1
<b>Nominal year-on-year change in period-end stock in %</b>							
Loans to the domestic nonbank private sector <sup>1</sup> of which:	9.9	5.1	4.8	5.7	4.8	5.6	5.9
loans to households	6.3	2.3	9.3	7.5	9.3	10.6	11.3
loans to nonbank corporations	12.6	7.2	1.7	4.4	1.7	2.2	2.1
%							
Share of foreign currency loans in total loans to the nonbank private sector	23.3	25.9	28.6	27.9	28.6	27.6	27.6
Return on assets (banking sector)	0.7	2.0	2.1	2.5	2.1	1.0	2.0
Tier 1 capital ratio (banking sector)	17.5	18.0	19.2	19.1	19.2	19.0	18.7
NPL ratio (banking sector)	2.0	1.8	1.6	1.7	1.6	1.6	1.6
<b>% of GDP</b>							
General government revenues	42.5	42.4	42.0				
General government expenditures	48.7	49.2	46.9				
General government balance	-6.2	-6.7	-4.9				
Primary balance	-3.4	-2.1	0.1				
Gross public debt	73.9	73.0	73.5				
<b>% of GDP</b>							
Debt of nonfinancial corporations (nonconsolidated)	80.8	73.3	69.9				
Debt of households and NPISHs <sup>2</sup> (nonconsolidated)	18.2	16.7	16.4				
<b>% of GDP (based on EUR), period total</b>							
Goods balance	-9.4	-0.6	-0.6	-2.3	-0.5	2.4	0.2
Services balance	4.1	4.7	4.9	6.0	4.3	4.0	5.2
Primary income	-3.0	-3.2	-2.1	-2.0	-1.5	-2.5	-3.2
Secondary income	-0.8	-1.0	-0.6	-1.0	-0.7	-1.0	0.4
Current account balance	-9.1	-0.1	1.5	0.7	1.6	3.0	2.6
Capital account balance	1.8	1.2	0.4	0.6	-0.1	1.6	0.4
Foreign direct investment (net) <sup>3</sup>	-2.7	-0.4	-0.4	-2.5	-1.7	2.6	1.9
<b>% of GDP (rolling four-quarter GDP, based on EUR), end of period</b>							
Gross external debt	92.1	85.7	85.4	84.3	85.4	86.4	87.4
Gross official reserves (excluding gold)	19.9	18.0	17.3	18.4	17.4	17.1	17.8
<b>Months of imports of goods and services</b>							
Gross official reserves (excluding gold)	2.5	2.8	2.9	3.1	2.9	2.9	3.1
<b>EUR million, period total</b>							
GDP at current prices	168,602	198,126	205,991	53,826	56,452	44,237	54,078

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

<sup>1</sup>) Foreign currency component at constant exchange rates.<sup>2</sup>) Nonprofit institutions serving households.<sup>3</sup>) + = 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).

## 8 Poland: policy rate cuts following disinflation

Annual GDP growth declined from 4.1% in the fourth quarter of 2024 to 3.2% in the second quarter of 2025. Quarter-on-quarter growth declined from almost 1.5% in the fourth quarter of 2024 to 0.7% and 0.8%, respectively, in the first two quarters of 2025. Growth stemmed primarily from domestic demand excluding inventory. For year-on-year growth, restocking of inventory added an almost equally large contribution. The contribution of real exports was considerably smaller but in quarter-on-quarter terms equally large in the second quarter. Growth of real imports exceeded that of real exports in each quarter, on the back of domestic demand and the zloty's real appreciation.

Growth of domestic demand excluding inventory stemmed almost exclusively from consumption, with about three-fourth coming from private consumption. The latter grew on the back of strong, albeit declining, growth of real gross pensions as well as wage sums despite stagnating employment. Gross fixed capital formation had a strong start in the first quarter given a favorable base effect but contracted in the second one, even though several factors supported fixed investment. EU funds available for 2025 are higher than in previous years. Gross financial results of nonfinancial companies were higher on a year earlier. Business profitability indicators were also higher, albeit somewhat lower than in full-year 2024. The industrial confidence indicator showed slightly less pessimism. Residential investment continued its moderate recovery on the back of the government's new mortgage program.

In balance of payments terms, the surplus of the goods and services balance was lower on a year earlier in the first half of 2025, in line with the negative growth contribution of the external balance. It amounted to 3.2% of GDP and was insufficient to cover the deficits in primary income and secondary income, but thanks to the capital account surplus the economy's net lending remained positive (0.3% of GDP). Net FDI inflows rose to 2.1% of GDP.

The manufacturing sector continued to register a year-on-year decline in external price competitiveness. The large rise of nominal unit labor cost (ULC) was due to the almost double-digit year-on-year rise of nominal hourly compensation coupled with moderate gross value added and roughly stagnant volume of hours worked. By contrast, euro area nominal ULC of manufacturing slightly declined. With the zloty's nominal value in euro stronger than a year ago, the zloty's real (ULC-deflated) value was higher by more than 10% on a year earlier.

According to HICP (and national CPI) definition, annual headline inflation declined from 4.0% (4.8%) in the fourth quarter to 2.9% (2.9%) in September 2025. Core inflation declined in parallel from 3.7% (4.1%) to 3.2% (3.2%) in September 2025, when it stood above headline inflation. Drivers were prices of processed food and of services; prices of nonenergy industrial goods, by contrast, have been lower year on year since April. The Monetary Policy Council, pursuing a medium-term CPI inflation target of  $2.5\% \pm 1$  percentage point, had maintained its main policy rate at 5.75% since October 2023 but cut it to 5.25% in early May 2025 and then, in three steps, further to 4.5% in October, pointing to disinflation.

The European Commission staff forecasted in May that the government deficit would decline slightly from 6.6% of GDP in 2024 to 6.4% of GDP in 2025 and 6.1% of GDP in 2026, while general government debt would rise from 55.3% of GDP at end-2024 to 58.0% of GDP at end-2025. After the 2024 deficit was higher than expected partly due to stronger defense investments, 2025 expenditures have been driven by a further rise of public defense investments, by pension indexation and by some new social benefits. However, excise duty hikes and non-indexation of personal income tax brackets should help contain the deficit.

Table 7

## Main economic indicators: Poland

	2022	2023	2024	Q3 24	Q4 24	Q1 25	Q2 25
<b>Year-on-year change of the period total in %</b>							
GDP at constant prices	5.3	0.2	2.9		1.6	4.1	3.6
Private consumption	5.2	-0.3	3.0		0.7	3.4	2.6
Public consumption	0.6	4.5	8.2		5.1	8.2	2.1
Gross fixed capital formation	1.7	12.7	-2.2		-5.2	-7.5	6.4
Exports of goods and services	7.4	3.7	2.0		-1.5	0.5	1.1
Imports of goods and services	6.8	-1.5	4.2		4.4	2.9	3.1
<b>Contribution to GDP growth in percentage points</b>							
Domestic demand	4.7	-3.0	4.0		4.9	5.2	4.8
Net exports of goods and services	0.6	3.2	-1.1		-3.3	-1.1	-1.1
Exports of goods and services	4.2	2.3	1.1		-1.0	0.7	0.3
Imports of goods and services	-3.7	0.9	-2.2		-2.3	-1.8	-1.4
<b>Year-on-year change of the period average in %</b>							
Unit labor costs in the whole economy (nominal, per person)	7.7	14.3	8.4		8.9	6.1	5.7
Unit labor costs in manufacturing (nominal, per hour)	2.3	11.9	9.7		10.0	8.6	4.8
Labor productivity in manufacturing (real, per hour)	8.3	-0.7	1.8		1.6	2.1	4.2
Labor costs in manufacturing (nominal, per hour)	10.8	11.2	11.7		11.8	10.9	9.1
Producer price index (PPI) in industry	23.6	4.4	-7.0		-5.3	-4.1	-0.6
Consumer price index (here: HICP)	13.2	10.9	3.7		4.1	4.0	4.4
EUR per 1 PLN, + = PLN appreciation	-2.6	3.2	5.5		5.0	2.6	3.1
<b>Period average levels</b>							
Unemployment rate (ILO definition, %, 15-64 years)	2.9	2.9	2.9		3.0	2.8	3.5
Employment rate (%, 15-64 years)	71.5	72.4	72.5		72.7	72.8	72.0
Key interest rate per annum (%)	5.3	6.5	5.8		5.8	5.8	5.8
PLN per 1 EUR	4.7	4.5	4.3		4.3	4.3	4.2
<b>Nominal year-on-year change in period-end stock in %</b>							
Loans to the domestic nonbank private sector <sup>1</sup> of which:	0.8	0.5	5.2		3.8	5.2	5.2
loans to households	-4.7	-1.9	3.0		2.1	3.0	2.9
loans to nonbank corporations	10.8	4.3	8.4		6.4	8.4	8.7
<b>%</b>							
Share of foreign currency loans in total loans to the nonbank private sector	18.5	16.6	14.9		15.4	14.9	14.2
Return on assets (banking sector)	0.4	1.0	1.3		1.3	1.3	1.4
Tier 1 capital ratio (banking sector)	18.6	20.2	20.4		20.2	20.4	20.0
NPL ratio (banking sector)	5.5	5.4	5.0		5.3	5.0	5.0
<b>% of GDP</b>							
General government revenues	39.8	41.6	42.8				
General government expenditures	43.2	46.9	49.4				
General government balance	-3.4	-5.3	-6.6				
Primary balance	-1.9	-3.2	-4.4				
Gross public debt	48.8	49.5	55.3				
<b>% of GDP</b>							
Debt of nonfinancial corporations (nonconsolidated)	39.1	37.5	35.6				
Debt of households and NPISHs <sup>2</sup> (nonconsolidated)	26.3	24.7	22.9				
<b>% of GDP (based on EUR), period total</b>							
Goods balance	-3.3	0.6	-0.7		-1.8	-1.4	-1.4
Services balance	5.4	5.2	4.7		4.8	3.9	4.3
Primary income	-3.9	-4.1	-3.4		-4.1	-2.8	-2.9
Secondary income	-0.4	-0.3	-0.3		-0.4	-0.1	-0.5
Current account balance	-2.2	1.5	0.3		-1.4	-0.3	-0.5
Capital account balance	0.2	0.2	0.3		1.1	-0.5	0.7
Foreign direct investment (net) <sup>3</sup>	-4.1	-2.9	-1.1		-1.9	-0.1	-3.9
<b>% of GDP (rolling four-quarter GDP, based on EUR), end of period</b>							
Gross external debt	53.2	51.5	52.3		50.9	52.3	52.7
Gross official reserves (excluding gold)	21.7	20.4	21.1		19.9	21.1	20.0
<b>Months of imports of goods and services</b>							
Gross official reserves (excluding gold)	4.3	4.7	5.2		4.9	5.2	5.0
<b>EUR million, period total</b>							
GDP at current prices	661,326	753,492	845,707		212,724	238,435	212,528

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

<sup>1</sup>) Foreign currency component at constant exchange rates.<sup>2</sup>) Nonprofit institutions serving households.<sup>3</sup>) + = 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).

## 9 Romania: correction of very high budget deficit is taking shape

After feeble growth in 2024 and the first quarter of 2025, growth accelerated somewhat in the second quarter of 2025. Yet, it remains to be seen whether this is a transitory uptick, given the growing burden stemming from fiscal consolidation. The growth structure changed noticeably in the first half of 2025, particularly in the second quarter. The contribution of private consumption, the main growth driver in recent years, diminished markedly, as real wage growth decelerated after the freezing of public wages as of the beginning of the year. Meanwhile, the unemployment rate stabilized at somewhat higher levels than a year earlier. Moreover, consumer confidence worsened substantially during summer. Gross fixed capital formation grew again following a contraction in 2024, though the absorption of EU funds was still moderate. Yet, in June, the European Commission disbursed the third payment amounting to EUR 1.3 billion under NextGenEU – a partial tranche, as not all milestones and targets were fulfilled. Large-scale energy sector projects continued to be implemented. Domestic private sector credit growth remained relatively stable in the first half of 2025. Real export growth exceeded import growth in the second quarter of 2025, leading to a marginal positive GDP contribution of net exports. The rise of ULC in the manufacturing sector remained persistently high alongside an only small nominal depreciation of the leu vis-à-vis the euro.

Romania faces a large fiscal correction need. After some fiscal measures had already been taken earlier, the new government launched a substantial fiscal package in July 2025 and later agreed on a further set of measures. The corrective steps include raising VAT rates and excise duties, a health insurance contribution for pensions above EUR 600, a higher tax on banks, higher tax on gambling, wage and pension freezes in 2026 and a higher dividend tax as of 2026. In mid-September, Romania's finance minister stated that Romania will end up with a budget deficit exceeding 8% of GDP in 2025 (compared to 7% of GDP targeted in Romania's medium-term fiscal-structural plan) and that the government was in talks with the European Commission about this issue. Officials and Romania's Fiscal Council point out that the corrective measures will lower the budget deficit to about 6.5% of GDP in 2026. With respect to the ongoing excessive deficit procedure, Romania should put an end to the excessive deficit situation by 2030. In July 2025, the ECOFIN revised Romania's net expenditure path and progress in correcting the deficit will be reviewed in October 2025.

Increase in VAT rates and excise duties together with the expiry of the electricity price capping scheme (in July) strongly drove up CPI to 9.9% year on year in September. The National Bank of Romania markedly revised upward its end-2025 CPI forecast to 8.8%. Yet, it expects inflation to fall below the upper bound of the variation band of the target ( $2.5\% \pm 1$  percentage point) in the second half of 2026. The bank has left its key policy rate unchanged at 6.5% since August 2024.

In the first half of 2025, the net borrowing position from the current and capital account rose to 6.9% of GDP from 6.4% of GDP in the first half of 2024. A higher trade deficit and a lower surplus in the secondary income balance were not compensated by the rising capital account surplus. Net FDI inflows increased slightly but covered only 30% of this position. Net portfolio inflows (largely related to sovereign Eurobond issuances) have remained the main external financing source.

Table 8

## Main economic indicators: Romania

	2022	2023	2024	Q3 24	Q4 24	Q1 25	Q2 25
<b>Year-on-year change of the period total in %</b>							
GDP at constant prices	4.0	2.4	0.8	0.1	0.5	0.5	2.4
Private consumption	5.1	3.0	6.0	5.3	4.4	3.2	0.4
Public consumption	-1.4	6.3	0.7	0.3	4.7	-2.5	2.0
Gross fixed capital formation	5.4	14.5	-3.3	0.5	-16.1	5.9	1.7
Exports of goods and services	9.3	-0.8	-3.1	-4.3	-5.5	0.7	2.6
Imports of goods and services	9.3	-1.1	3.8	0.3	3.4	5.3	2.1
<b>Contribution to GDP growth in percentage points</b>							
Domestic demand	4.5	2.2	3.7	1.9	3.9	2.6	2.2
Net exports of goods and services	-0.5	0.2	-2.9	-1.8	-3.3	-2.2	0.2
Exports of goods and services	3.8	-0.3	-1.2	-1.4	-1.5	-0.2	0.9
Imports of goods and services	-4.3	0.6	-1.7	-0.4	-1.9	-1.9	-0.7
<b>Year-on-year change of the period average in %</b>							
Unit labor costs in the whole economy (nominal, per person)	9.8	13.4	18.0	18.3	14.1	8.2	4.0
Unit labor costs in manufacturing (nominal, per hour)	11.7	17.6	15.7	19.5	13.8	18.4	16.0
Labor productivity in manufacturing (real, per hour)	1.0	-1.7	-1.8	-3.7	-2.0	-0.5	-2.2
Labor costs in manufacturing (nominal, per hour)	12.7	15.7	13.6	15.1	11.5	17.9	13.4
Producer price index (PPI) in industry	43.6	4.6	-2.2	1.0	-1.4	2.2	0.8
Consumer price index (here: HICP)	12.0	9.7	5.8	5.3	5.3	5.2	5.4
EUR per 1 RON, + = RON appreciation	-0.2	-0.3	-0.6	-0.5	-0.1	-0.1	-1.1
<b>Period average levels</b>							
Unemployment rate (ILO definition, %, 15-64 years)	5.6	5.6	5.5	5.6	5.9	6.2	6.0
Employment rate (%, 15-64 years)	63.0	63.1	63.7	63.3	63.0	62.7	63.3
Key interest rate per annum (%)	4.3	7.0	6.8	6.6	6.5	6.5	6.5
RON per 1 EUR	4.9	4.9	5.0	5.0	5.0	5.0	5.0
<b>Nominal year-on-year change in period-end stock in %</b>							
Loans to the domestic nonbank private sector <sup>1</sup> of which:	12.1	6.0	9.1	8.2	9.1	9.0	8.4
loans to households	4.3	1.2	9.4	7.6	9.4	9.4	9.8
loans to nonbank corporations	20.0	10.4	8.8	8.6	8.8	8.6	7.3
<b>%</b>							
Share of foreign currency loans in total loans to the nonbank private sector	31.1	31.6	30.0	30.2	30.0	30.0	30.3
Return on assets (banking sector)	1.5	1.8	1.7	1.9	1.7	1.7	1.7
Tier 1 capital ratio (banking sector)	20.5	20.7	22.2	22.0	22.2	21.4	21.6
NPL ratio (banking sector)	2.7	2.4	2.5	2.5	2.5	2.5	2.8
<b>% of GDP</b>							
General government revenues	34.3	34.0	34.1				
General government expenditures	40.7	40.6	43.5				
General government balance	-6.4	-6.6	-9.3				
Primary balance	-5.0	-4.7	-7.1				
Gross public debt	47.9	48.9	54.8				
<b>% of GDP</b>							
Debt of nonfinancial corporations (nonconsolidated)	30.9	29.1	28.6				
Debt of households and NPISHs <sup>2</sup> (nonconsolidated)	14.0	12.5	12.5				
<b>% of GDP (based on EUR), period total</b>							
Goods balance	-11.4	-8.9	-9.3	-9.0	-9.3	-11.1	-9.3
Services balance	4.6	4.1	3.2	3.0	2.5	4.4	3.3
Primary income	-3.0	-2.7	-2.7	-2.9	-2.3	-2.2	-3.2
Secondary income	0.5	0.5	0.4	-0.0	0.1	-0.1	0.4
Current account balance	-9.2	-7.0	-8.4	-8.9	-9.0	-9.0	-8.8
Capital account balance	2.5	2.0	1.2	1.4	1.1	1.7	2.3
Foreign direct investment (net) <sup>3</sup>	-3.1	-2.0	-1.6	-2.7	-0.7	-2.4	-1.8
<b>% of GDP (rolling four-quarter GDP, based on EUR), end of period</b>							
Gross external debt	54.6	56.6	58.0	58.6	58.0	57.3	58.3
Gross official reserves (excluding gold)	16.6	18.5	17.6	19.0	17.6	17.2	16.0
<b>Months of imports of goods and services</b>							
Gross official reserves (excluding gold)	3.9	5.1	5.1	5.4	5.1	4.9	4.6
<b>EUR million, period total</b>							
GDP at current prices	281,863	324,189	353,813	95,160	104,719	75,513	89,534

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

<sup>1</sup>) Foreign currency component at constant exchange rates.<sup>2</sup>) Nonprofit institutions serving households.<sup>3</sup>) + = 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).

© Oesterreichische Nationalbank, 2025. All rights reserved.

Address: Otto-Wagner-Platz 3, 1090 Vienna

PO Box 61, 1011 Vienna, Austria

Website: [www.oenb.at](http://www.oenb.at)

May be reproduced for noncommercial, educational and scientific purposes provided that the source is acknowledged.

Opinions expressed by the authors do not necessarily reflect the official viewpoint of the Oesterreichische Nationalbank or the Eurosystem.

Data protection information [www.oenb.at/en/dataprotection](http://www.oenb.at/en/dataprotection)

ISSN 2960-5075 (online)