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wiiw Forecast for CEE, Prague, Q2 2026

A new era for CEE:
How geopolitics and higher costs are creating opportunities for business

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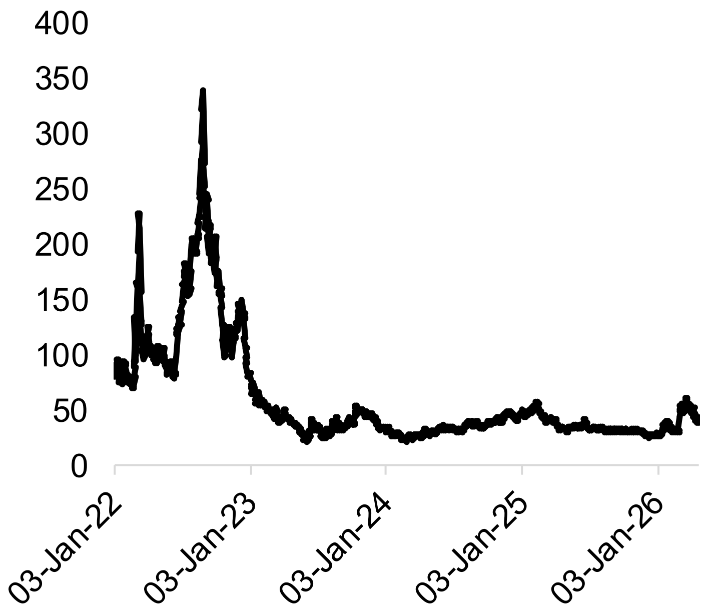
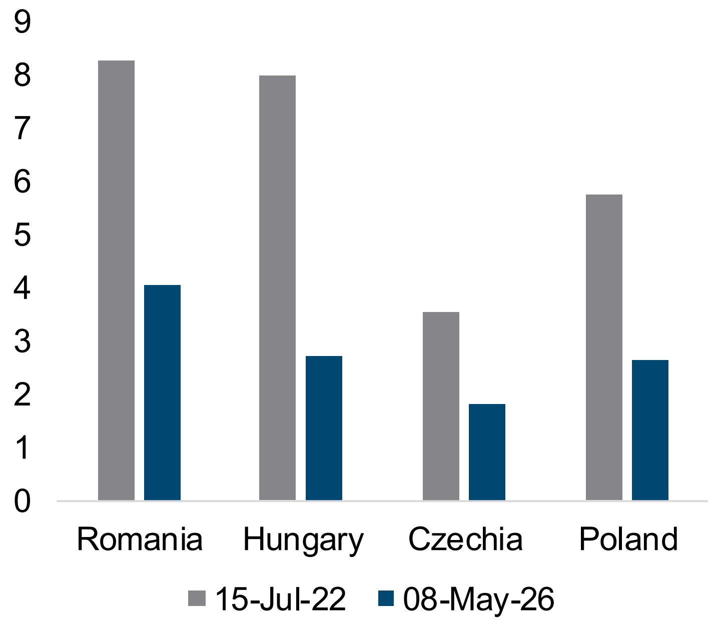
Middle East War: Some upward pressure on on prices, risks of supply problems, hit to confidence. But far from 2022.

- European markets (gas, bonds) very calm.
- EU energy diversification.
- No large-scale supply shortages, smaller fiscal stimulus.
- TACO.

ICE Dutch TTF Gas Base Load Futures, Euros/ MWh)

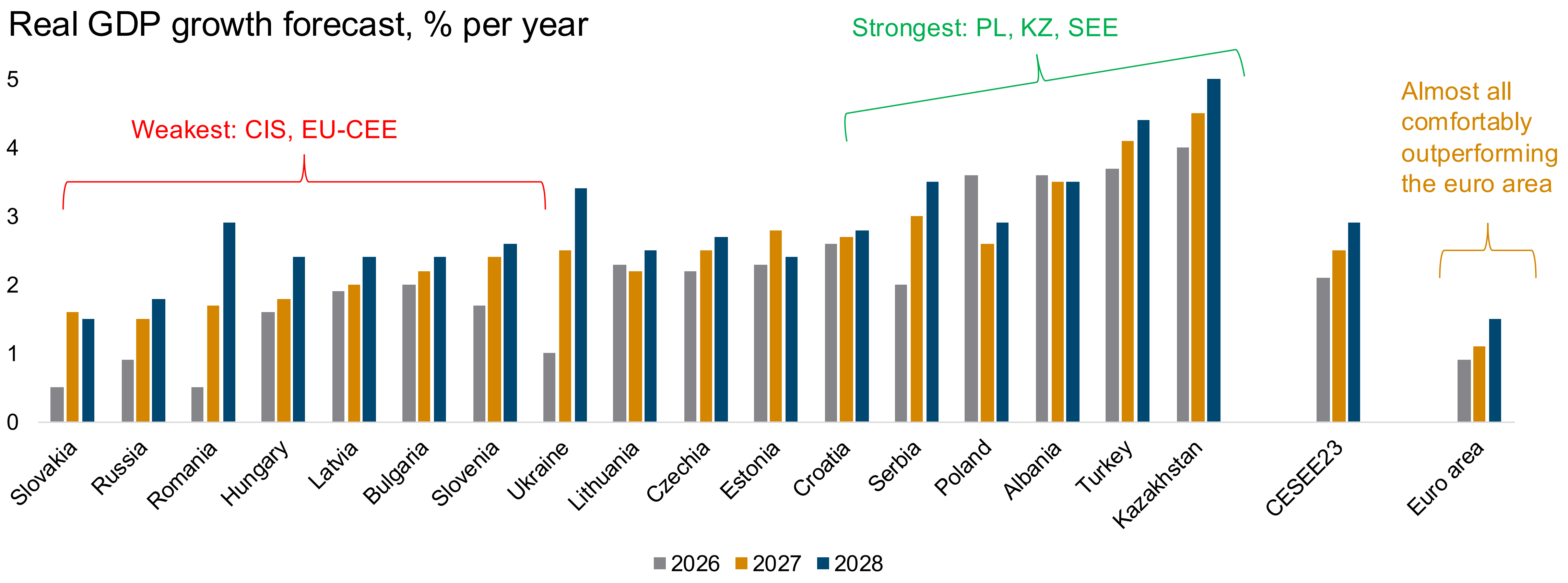


10-year bond yield, premium over German equivalent, pp



Sources: ICE, national central banks, Haver Analytics, wiiw.

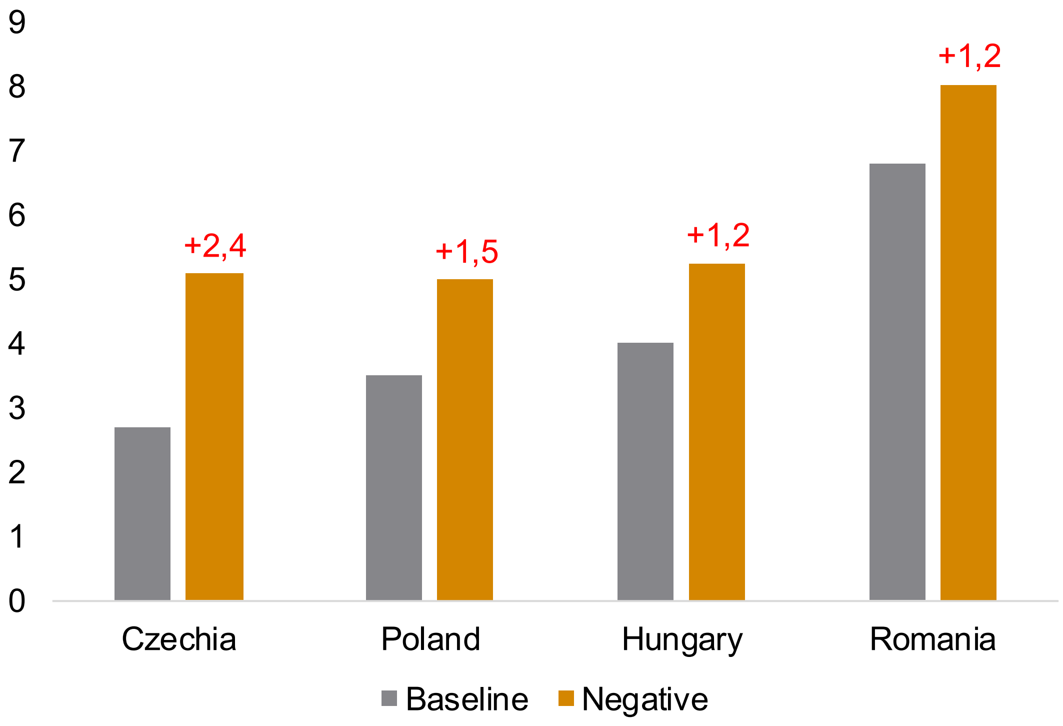
Inflation higher, growth lower. Delayed monetary easing. But not a game-changer. Resilience + convergence intact.



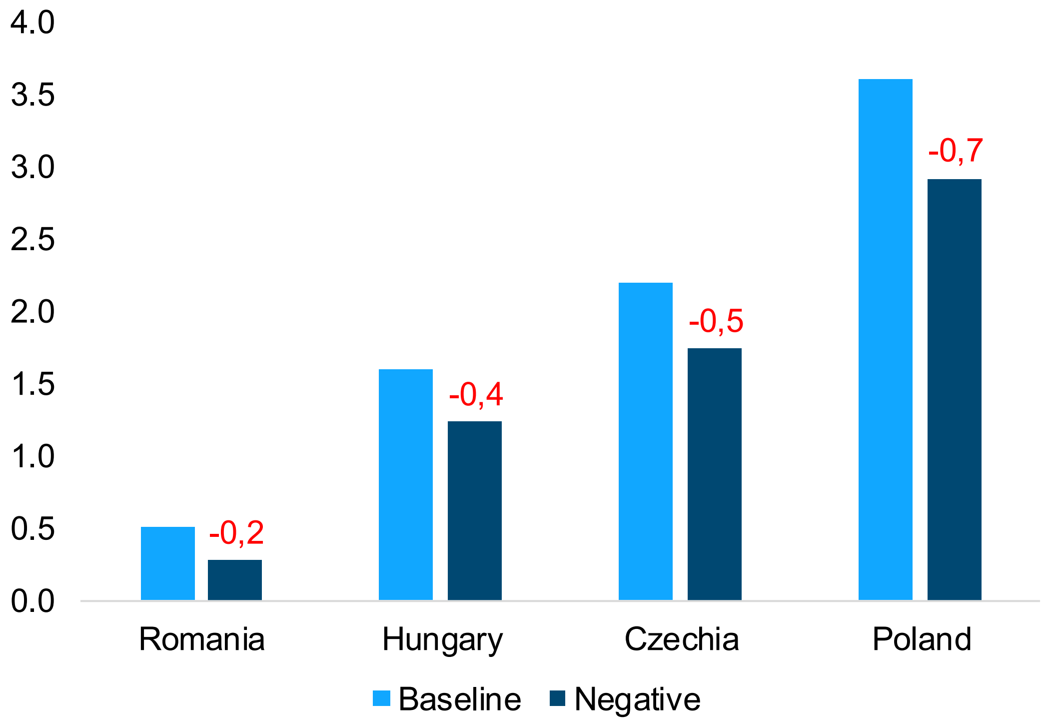
Source: wiiw Q2 2026 forecasts.

What if things get worse? If Brent crude price averages $110 this year, inflation +2.6pp across CESEE, growth -0.7pp. Recession for some.

Consumer price inflation in 2026, %



Real GDP growth in 2026, %

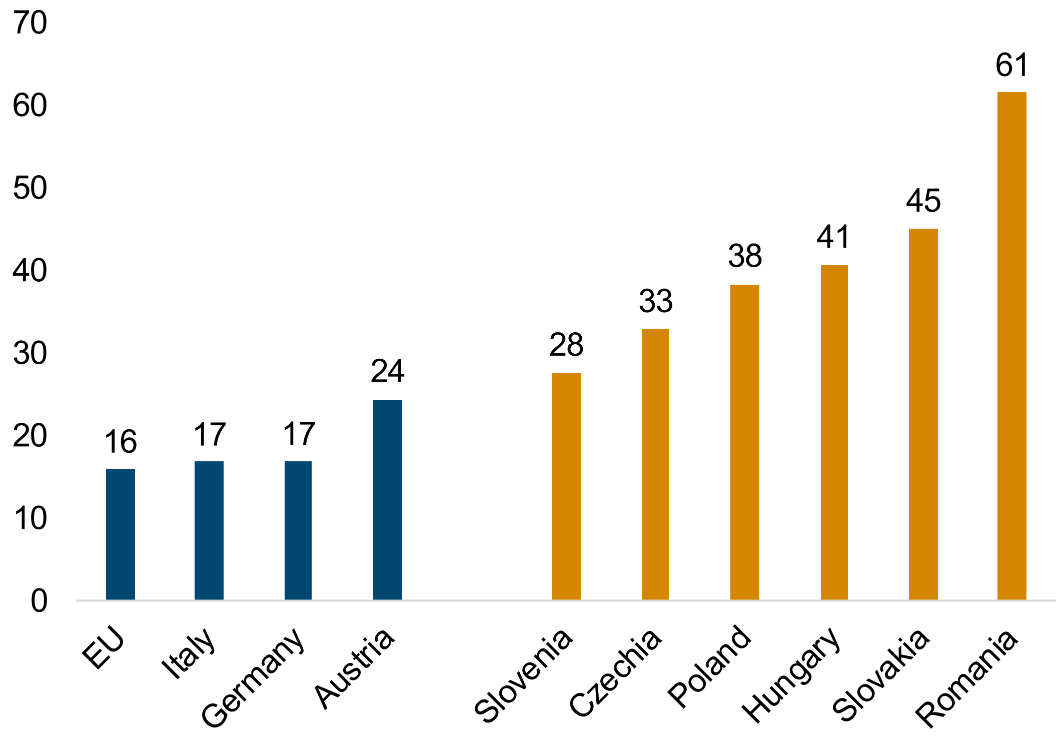


Source: wiiw Q2 2026 forecasts, baseline and negative scenarios.

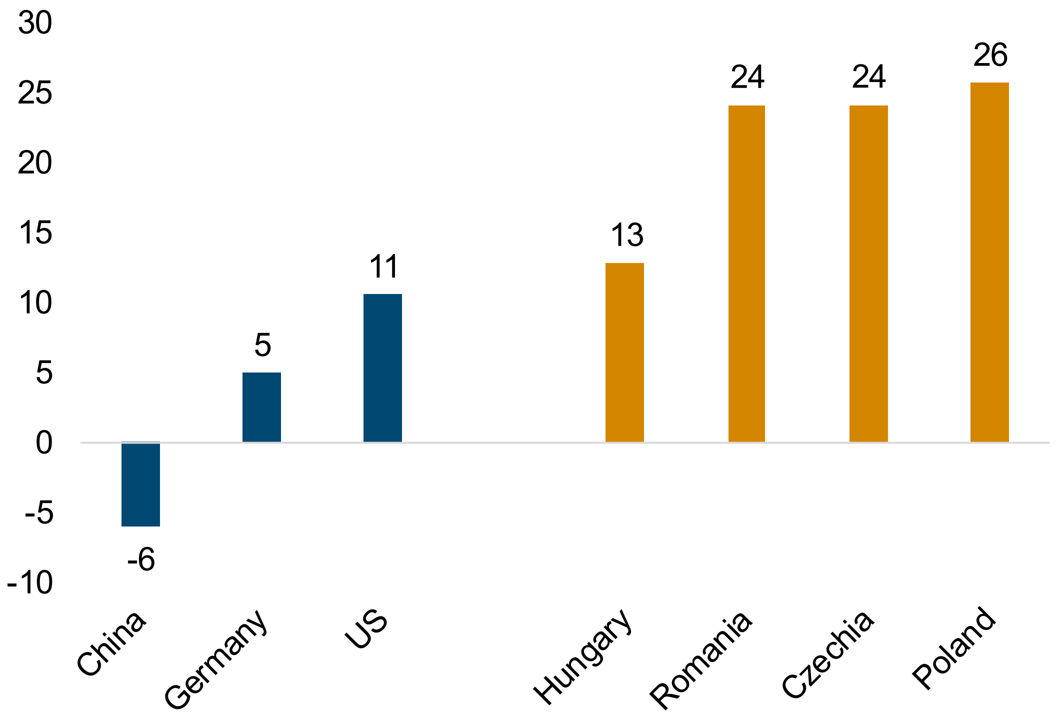
New inflation shock will accelerate major structural change underway in the region…

Main message: CEE's cost advantage has narrowed sharply since 2019.

Change in manufacturing unit labour cost, %, 2019-2024



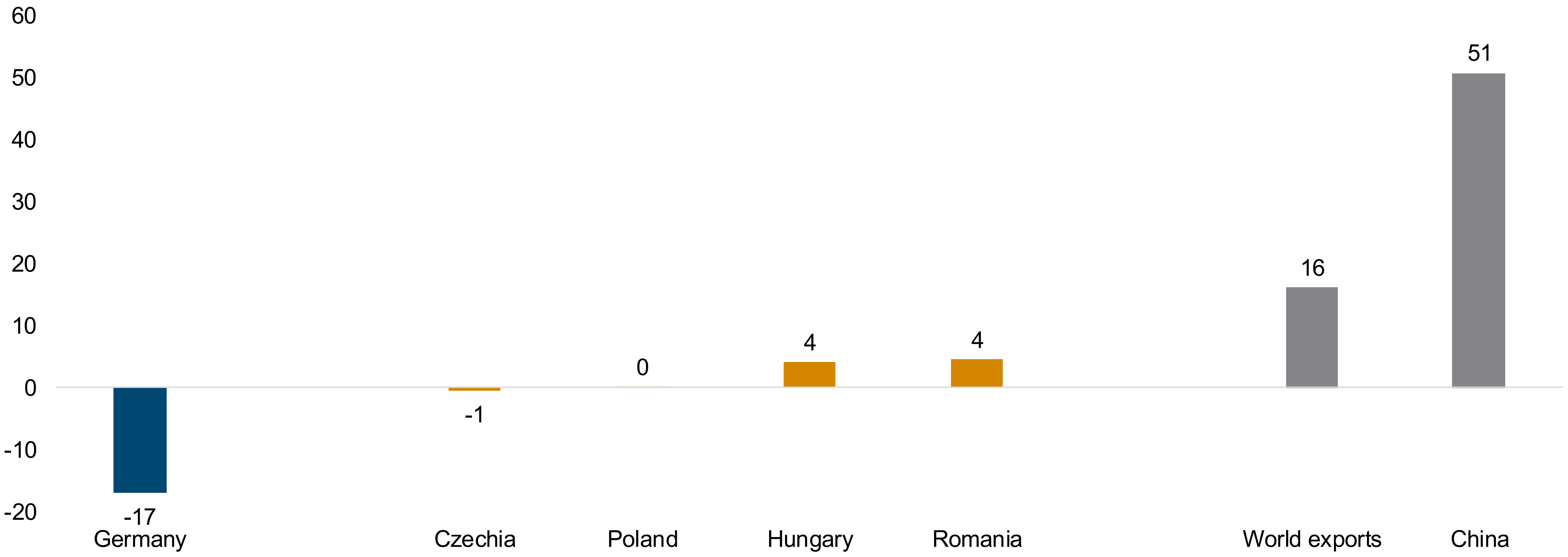
Real effective exchange rate, % change, 2019-2025



Note: Change in unit labour cost = change in productivity minus change in compensation. Sources: Eurostat, wiiw.

CEE exports still been (much) more resilient than Western Europe, but CEE fallen a long way behind China and other EMs.

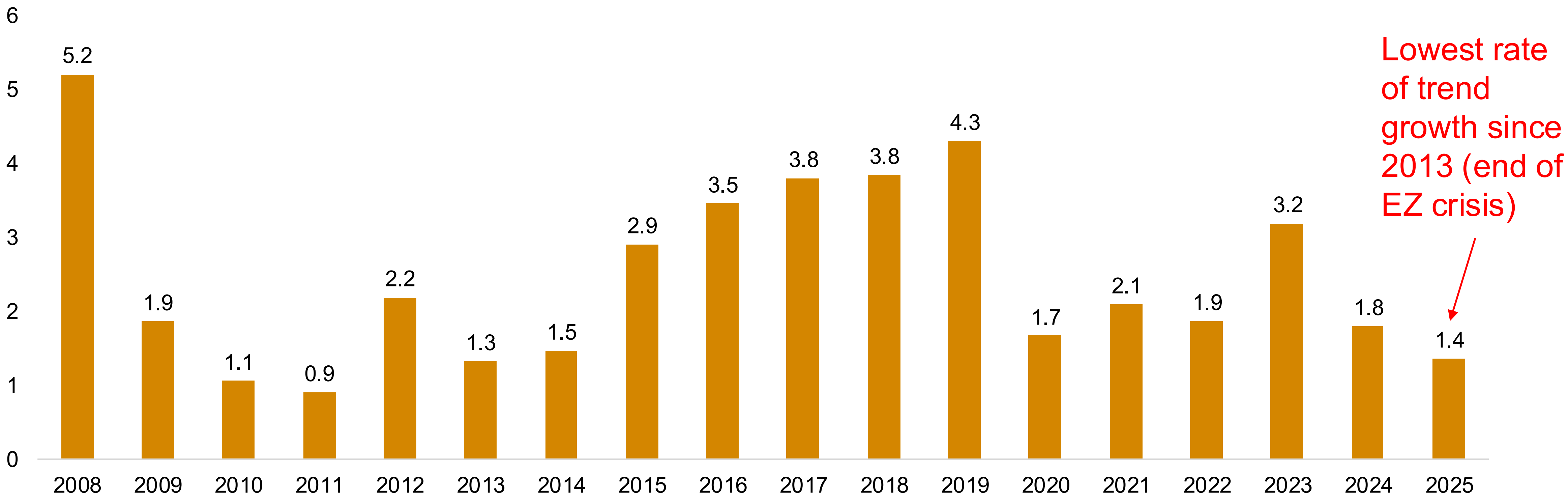
Change in real export volume, %, 2019-2025



Sources: CPB World Trade Monitor, Eurostat, wiiw.

Growth has slowed to its weakest trend level for over a decade. Firms must adapt to this changing environment to continue to prosper.

Real GDP growth, V4 average, % per year, 3-year moving average



Sources: Eurostat, national sources, wiiw.

To understand how to adapt and thrive, you first have to understand why this is happening…

What exactly has changed since 2019?

1. Pandemic + Russian invasion = highest inflation since 1990s.
2. Structural crisis of German industry: Output has declined by 14% over last decade.
3. CEE running out of workers. Fastest peacetime population decline on record.
4. Russian threat (broader than just Ukraine) has changed security landscape in region. FDI down, defence spending up.
5. China shock 2.0: Taking market share in global economy and CEE at alarming rate.

<u>This is a formidable set of challenges for your business to deal with. In this context CEE resilience highly impressive.</u>

<u>The good news: You can still thrive in this environment.</u>

How can CEE executives win in this new environment?

- Low cost export model is running out of road.
- But CEE is much richer, creates new opportunities.
- Investment needs are high and changing (defence, energy independence, digitalisation).
- Governments cannot keep throwing money at the economy as they did in the wake of the pandemic. But they have to direct resources to defence, energy and digitalisation.

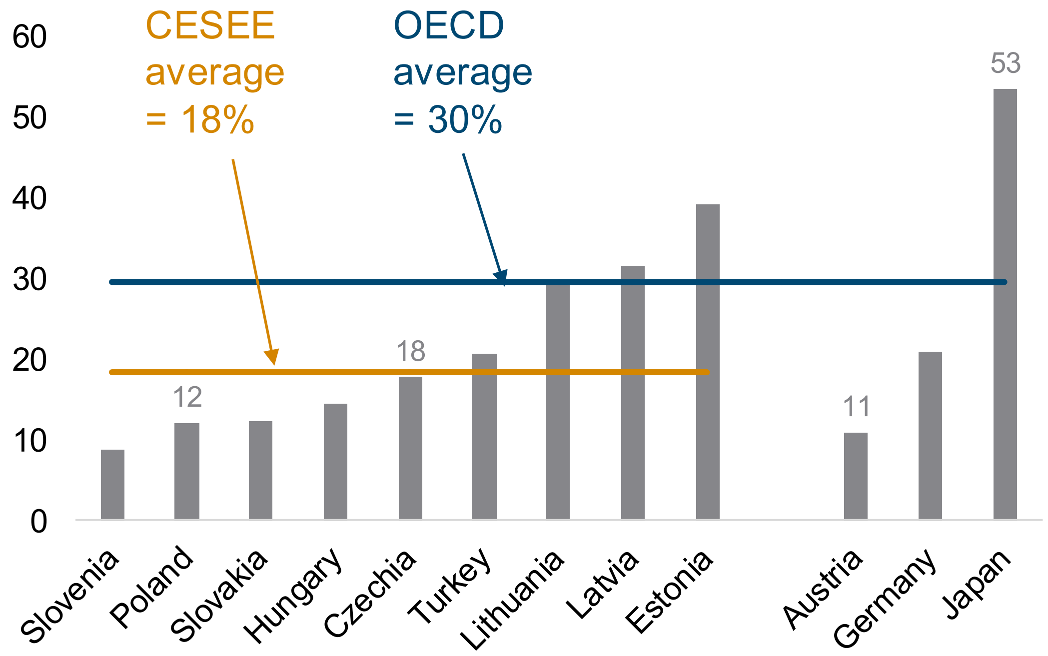
Business as usual is not an option. Firms in CEE must react. But there are major opportunities for those who do. This is a different growth model but not necessarily a worse one.

In the face of labour shortages and spiralling costs, firms in CEE have two main options:

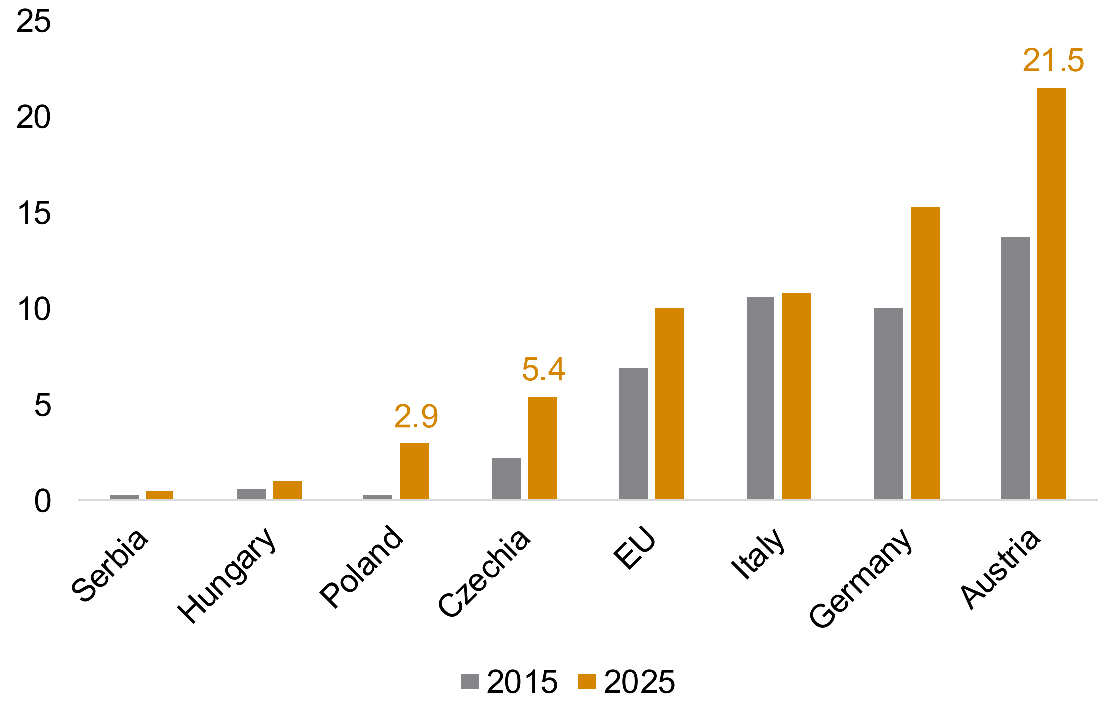
1. Find more workers
2. Increase productivity to offset labour decline

CEE *could* increase foreign share of workforce and get more older workers into labour market. But this is hard and upside might be limited.

Labour force participation rate of 65-69 year olds, %



Foreign citizens, % of total employment



Note: Ukrainian refugees not included. Sources: OECD, Eurostat.

More feasible way out of this trap = automation, strategic specialisation, domestic demand. This is (positive) future of CEE.

The challenges today

- Geopolitical disruption
- Labour shortages
- Rising wages
- Chinese competition
- Loss of cost competitiveness
- German industrial stagnation

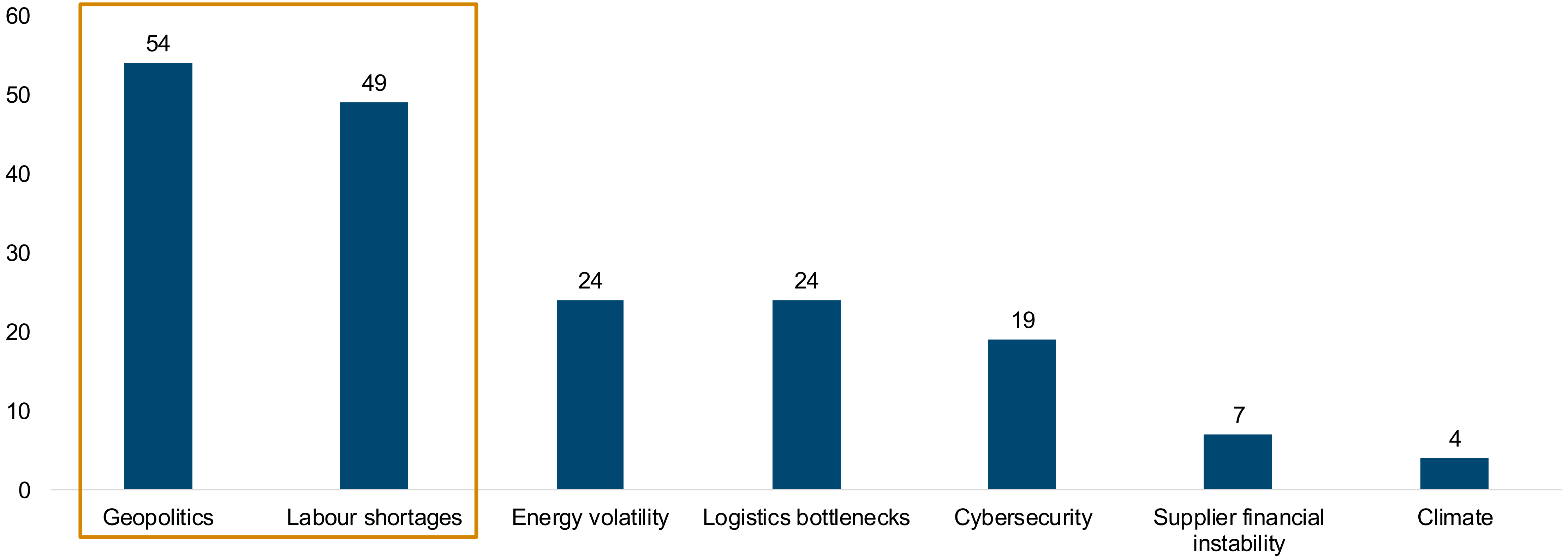
The way forward

- ✓ Automation/AI
- ✓ Investment in productivity upgrading
- ✓ Specialisation in higher value segments
- ✓ Relying more on expanding domestic markets

CESEE growth model will be less about low costs and more about higher productivity

For firms in CEE, geopolitics and labour shortages dominate as sources of worry

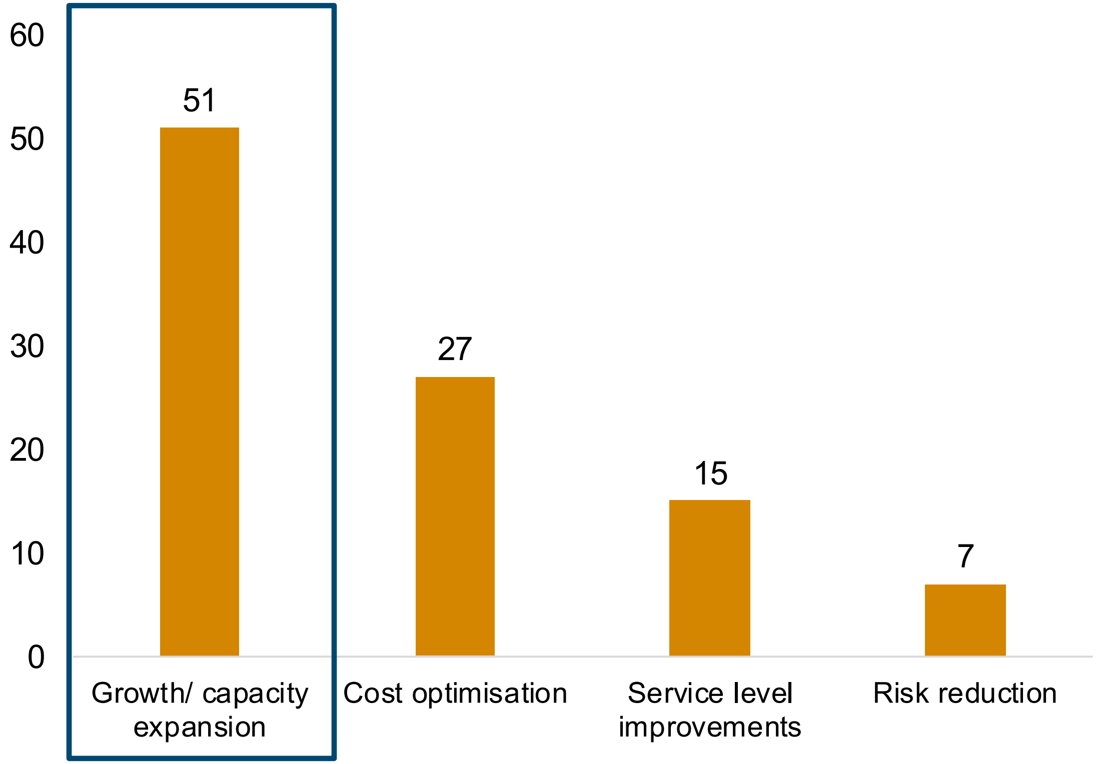
Main threat to supply chain continuity in CEE (pick two), % of respondents



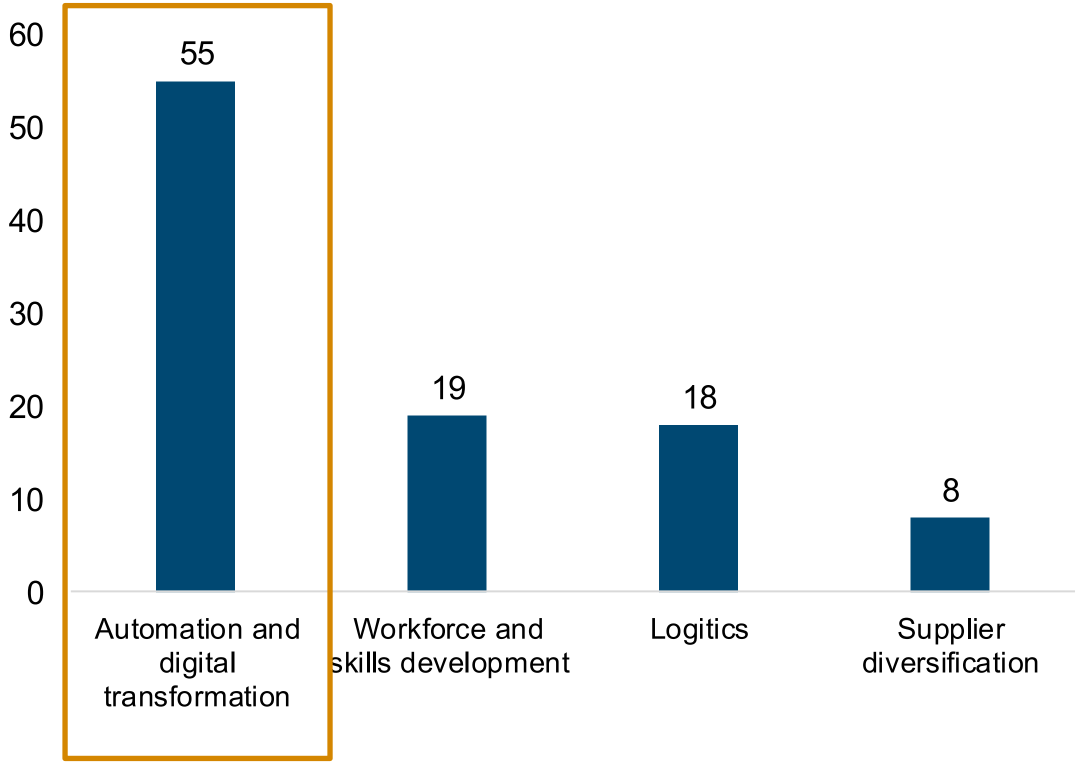
Source: wiiw Executive Network Supply Chain Strategy in CEE survey, February 2026.

Firms in CEE are not waiting around. 51% are prioritising growth; 55% are targeting investment at automation and digital transformation.

Top strategic priority in CEE, % of respondents



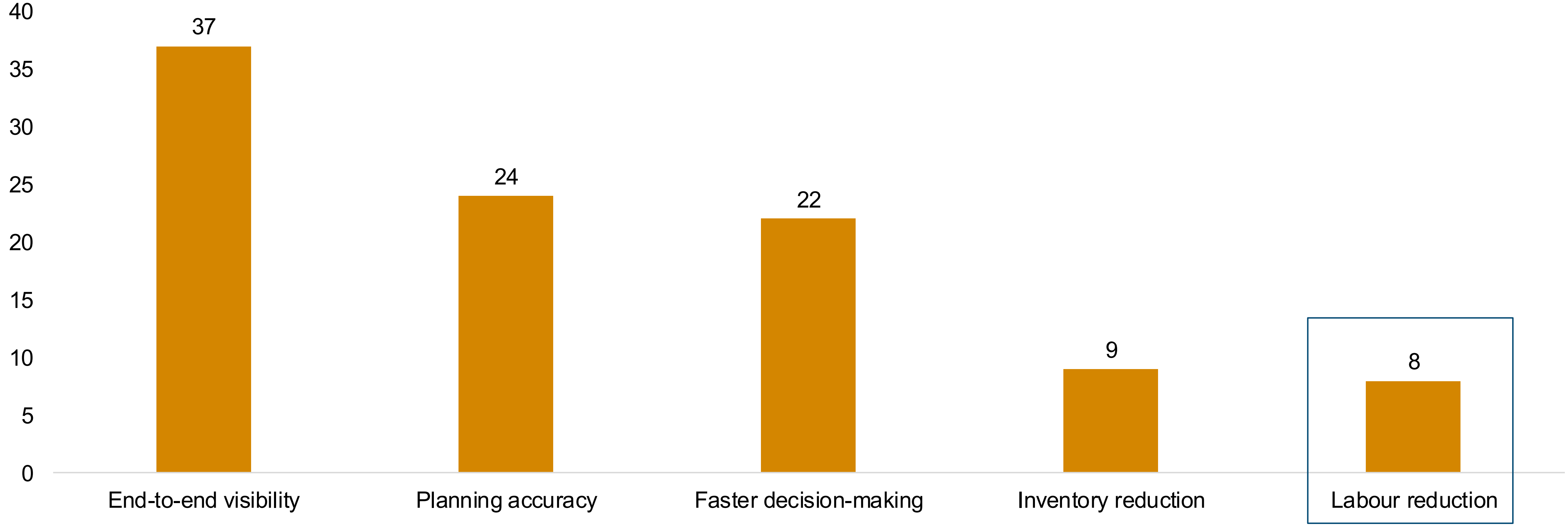
Top investment priority in CEE, % of respondents



Source: wiiw Executive Network Supply Chain Strategy in CEE survey, February 2026.

What AI means in CEE: Visibility, planning, decision-making. *Not* primarily about replacing workers, about making them more productive.

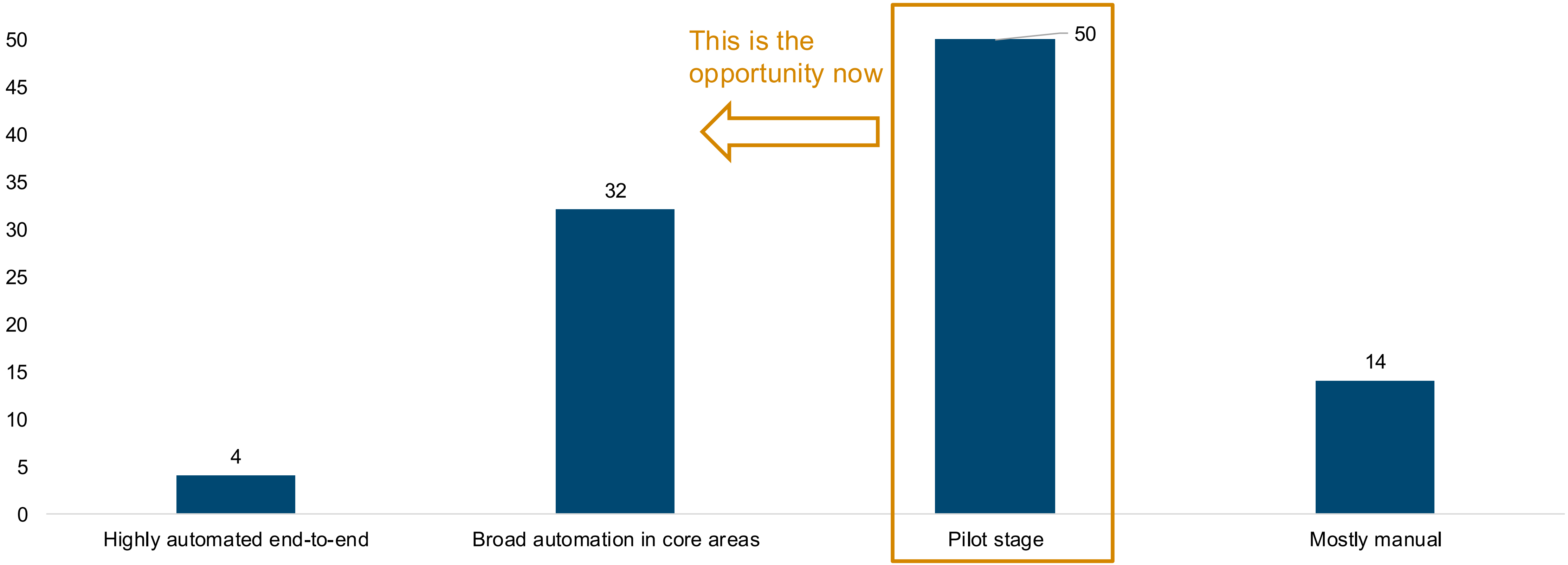
Strongest benefits of digital integration, % of respondents



Source: wiiw Executive Network Supply Chain Strategy in CEE survey, February 2026.

The execution gap: Firms need help turning ideas and pilots into operations and scalable solutions. Varied sources of resistance.

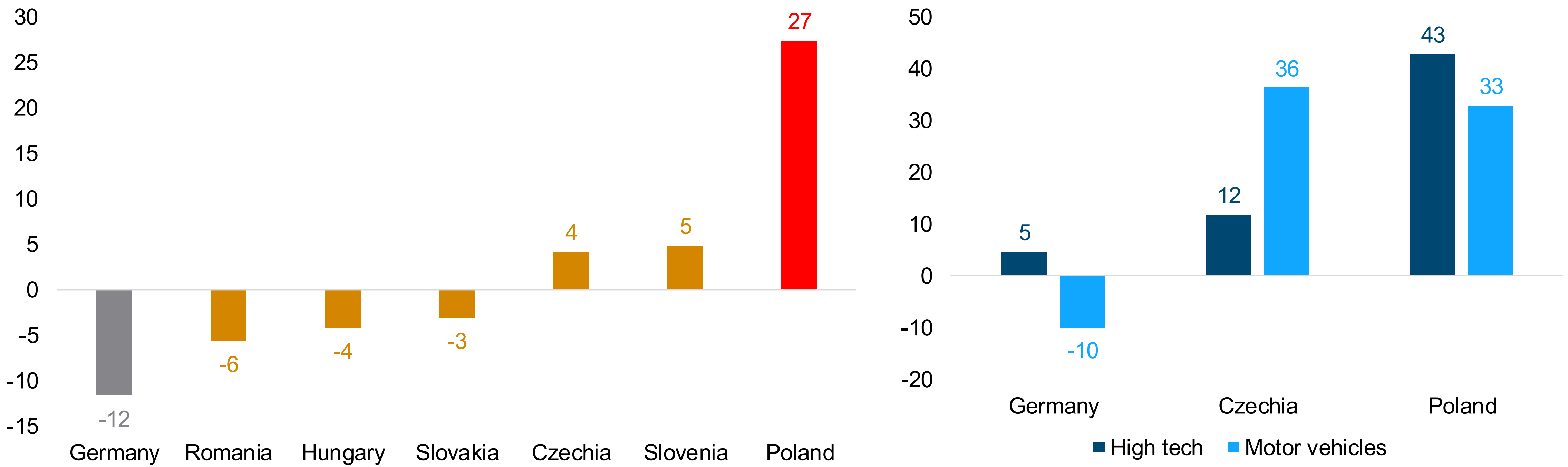
Current level of automation in operations, % of respondents



Source: wiiw Executive Network Supply Chain Strategy in CEE survey, February 2026.

In some countries and sectors in CEE, industry is holding up well despite German decline and China shock. This shows who is already winning in this new world (and why).

Change in real industrial production volume, %, 2019-2025, total (left) and selected breakdown (right)



Source: Eurostat.

What is working in Poland and some sectors across CEE?

- ✓ Poland strengths/advantages: Large domestic market, stronger fiscal stimulus, higher defence spending, broader industrial base.
- ✓ If you have those things, a loss of external competitiveness and volatility in the global economy simply do not matter as much.
- ✓ But across Europe, specialisation in high tech goods is what is holding up best: hardest for Chinese to undercut.
  - ➢ Shows continued European strength in R&D, industrial clusters, smart specialisation etc.
  - ➢ And it is *higher* wage work that is performing best.
- ✓ **Bottom line: Success in CEE increasingly depends on higher-tech and higher wage production, and quality specialisation, not cost competitiveness.**

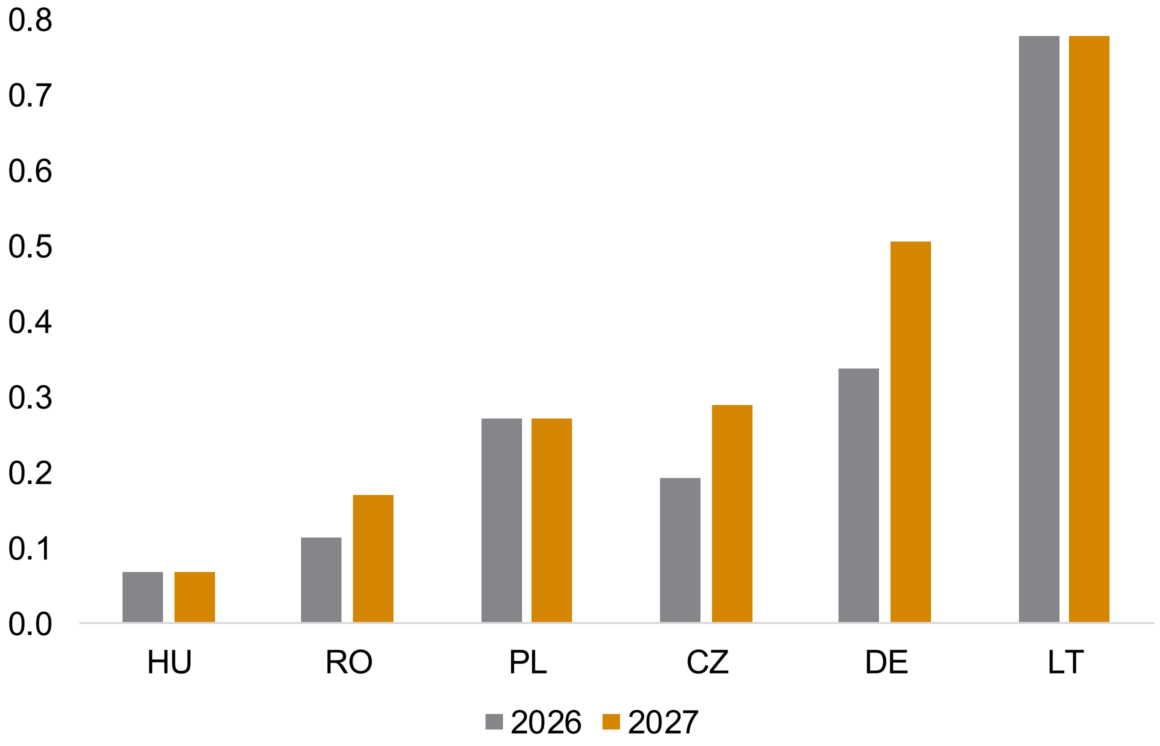
1. Becoming the Baltics: Leveraging higher defence spending. B2B + B2G opportunities but currently limited macro impact.

For CEE, higher spending does not automatically = higher growth.

- Currently large imported component and high crowding out risks.
- Needs maximum EU money and domestic production to capture growth benefits.

Europe needs to get better at making sure this defence spending becomes a bigger growth driver.

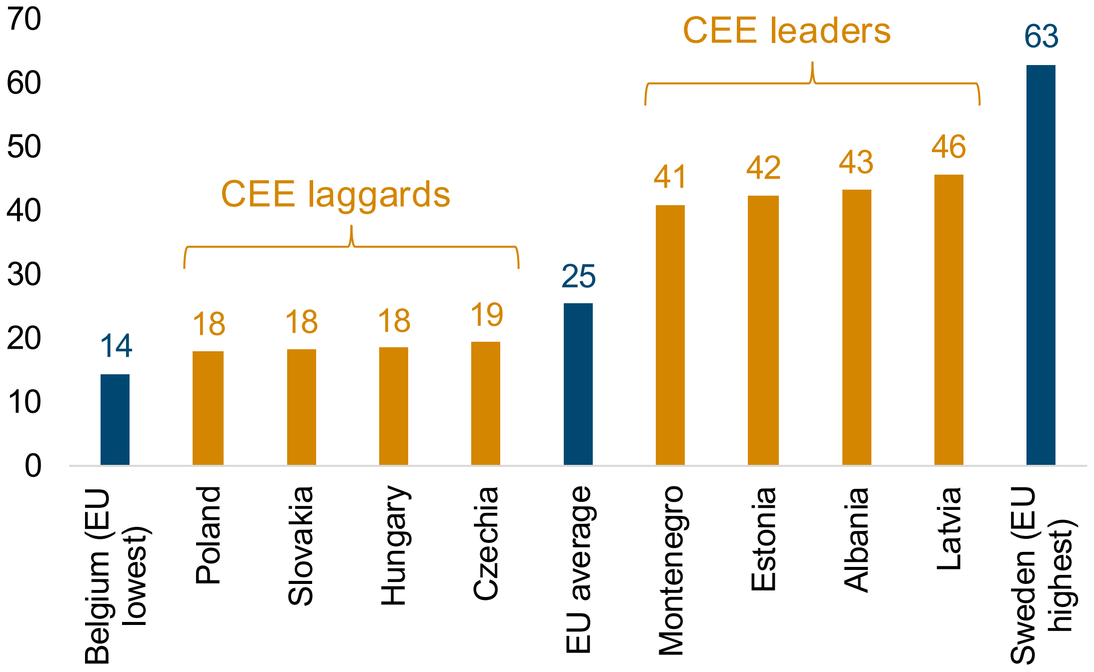
Projected impact on GDP of defence spending, pp



Sources: NATO, Eurostat, national sources, wiiw.

2. Becoming Latvia or Albania: Opportunities in the energy transition that will now accelerate

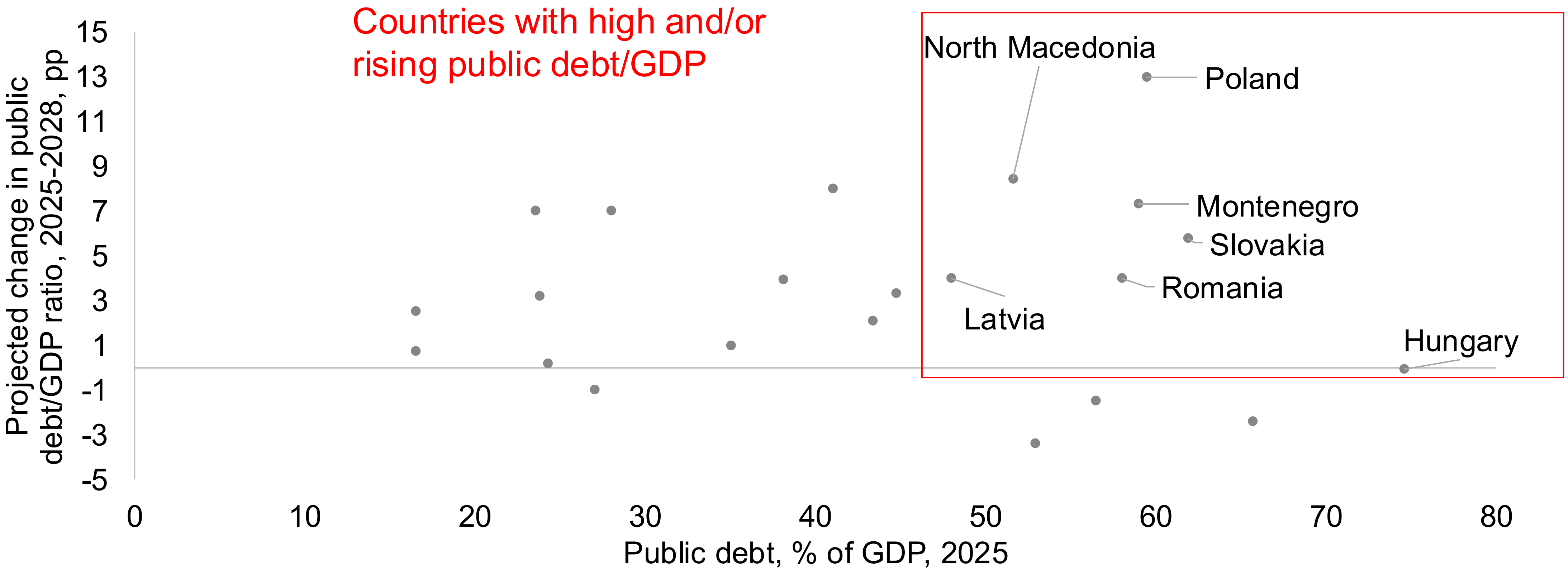
Share of energy from renewable sources, %



- Energy transition within CEE at different stages: Some leaders, some laggards.
- But transition not only about renewables. Driven now by hard geopolitical considerations.
- Sourcing fossil fuels from allies and developing nuclear also central to the transition.
- Goal is now also resilience, predictability and cost. Expect more flexibility on this from EU now.

Source: Eurostat.

3. Becoming Romania: Adapting to tighter government budgets. Consolidation is inevitable. Challenges for B2G.

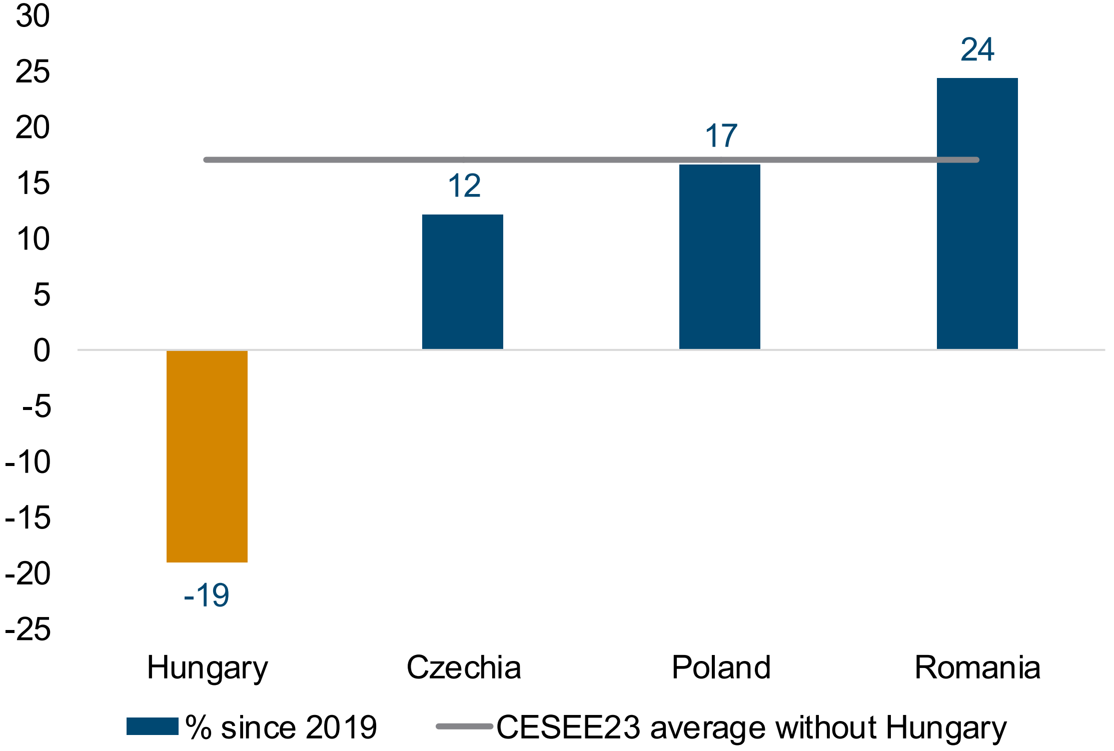


Note: Dots represent CESEE countries. Only selected countries labelled.

Sources: Eurostat, national sources, wiiw spring 2026 forecasts.

4. (Not) becoming Hungary: Governance affects growth now. Hungary so far missed the investment boom due to politics.

Real change in gross fixed capital formation, %, 2019-2025



- Orban‘s defeat is not the end of political „noise“ in CEE.
- Illiberal parties will continue to negatively impact capacity/quality of institutions
- Major governance divergence in CEE. Economic implications due to more political EU budget. Winners + losers.

Sources: Eurostat, national sources, wiiw.

5. Becoming EU-CEE: EU enlargement and Ukraine reconstruction

What is happening?	Why this matters for business	Likely winners
➢ EU enlargement acceleration (phased/new money) ➢ Defence industry expansion ➢ Energy diversification ➢ Potentially Ukraine reconstruction	❖ Potentially major new CAPEX cycle in Europe ❖ Demand for logistics, construction, industrial equipment, energy, digital services, automation, physical and digital security ❖ CEE central to this	Countries: ✓ Ukraine ✓ Ukraine‘s neighbours ✓ Western Balkans Sectors: ✓ Defence ✓ Rail/logistics ✓ Energy grids/ storage/ nuclear ✓ Industrial automation ✓ Construction materials ✓ Cybersecurity ✓ Advanced manufacturing

Putting it all together: The big strategic themes for CEE business executives in the next 2-3 years.

	Sectors	Countries
✓ Growth champions	All	Southeast Europe, Poland, Kazakhstan
✓ Wealthier consumers	B2C	EU-CEE
✓ Industrial upgrading	B2B	Visegrad, Romania, Slovenia
✓ Automation/AI	B2B	Most of region
✓ New government/EU spending (defence, energy transition)	B2G	EU members + candidates with good fiscal fundamentals + strategic alignment
✓ Political risk premium	All	Ukraine, Moldova, Western Balkans, Baltics, some other EU-CEE
✓ Big risks, big upside	All	Ukraine + other EU candidates

Strategic implications for CEE firms:

B2C:

- ✓ Opportunities in more premium offerings, focus on deeper penetration of selected markets.

B2B:

- ✓ Prioritise automation, digitalisation and energy resilience.
- ✓ Opportunity for those who invest in automation/AI at scale now to get ahead.
- ✓ Position CEE is a productivity upgrade hub, not just a cost base.

B2G:

- ✓ Plan for lower-priority projects to be squeezed; but strategically aligned projects will be protected/grow.

Exporters:

- ✓ Low cost model under huge pressure, but still high-tech niches where CEE strong and can expand further.

18-month outlook: What we are watching

Three biggest risks:

- Prolonged Middle East War, higher energy prices for longer, lower CEE growth.
- Bonds markets/ratings agencies force fiscal cuts in Poland and other CEE markets.
- China shock 2.0 and US tariffs further squeeze German/European industry.

Three biggest opportunities:

- ✓ End of war in Ukraine, new investment boom in CEE (but depends on security situation).
- ✓ Positive spillovers from higher defence spending to other sectors.
- ✓ New EU funds cycle drives investment higher in CEE, especially in defence, energy and digital sectors.

Conclusions

1. The CESEE convergence story is intact. Region again showing its resilience. But major divergence.
2. Inflation is back, and much of the impact will only come with a lag, even if energy prices stabilise now.
3. Iran shock is a negative hit for the region‘s economies, but also accelerates existing structural changes.
4. Growth model is changing due to demographics, geopolitics + German industrial decline: Wealthier consumers, new/higher investment needs, fiscal constraints, export challenges.
5. Politics and governance matter a lot for growth.
6. CEE region still has huge potential. But the *way* the region grows is different, and firms have to adapt to that.

Thank you for your attention!

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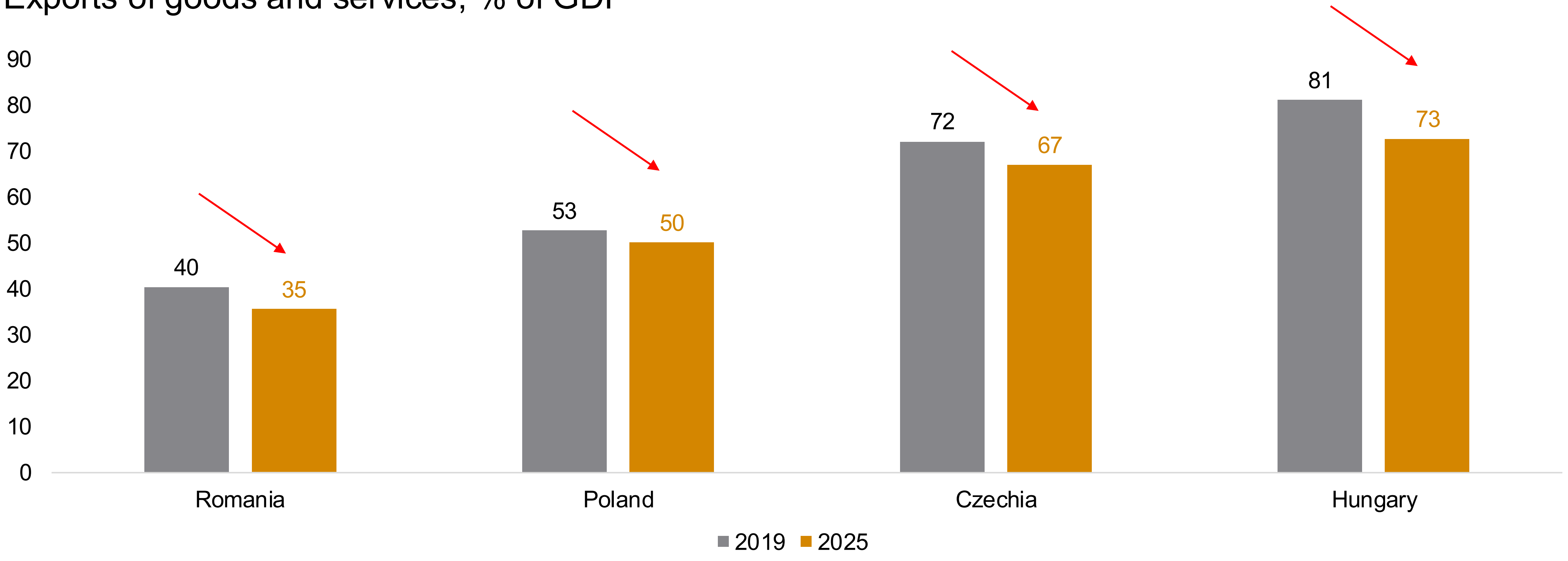
Structurally, the CEE region is already in transition. We are five years in. But this will go further.

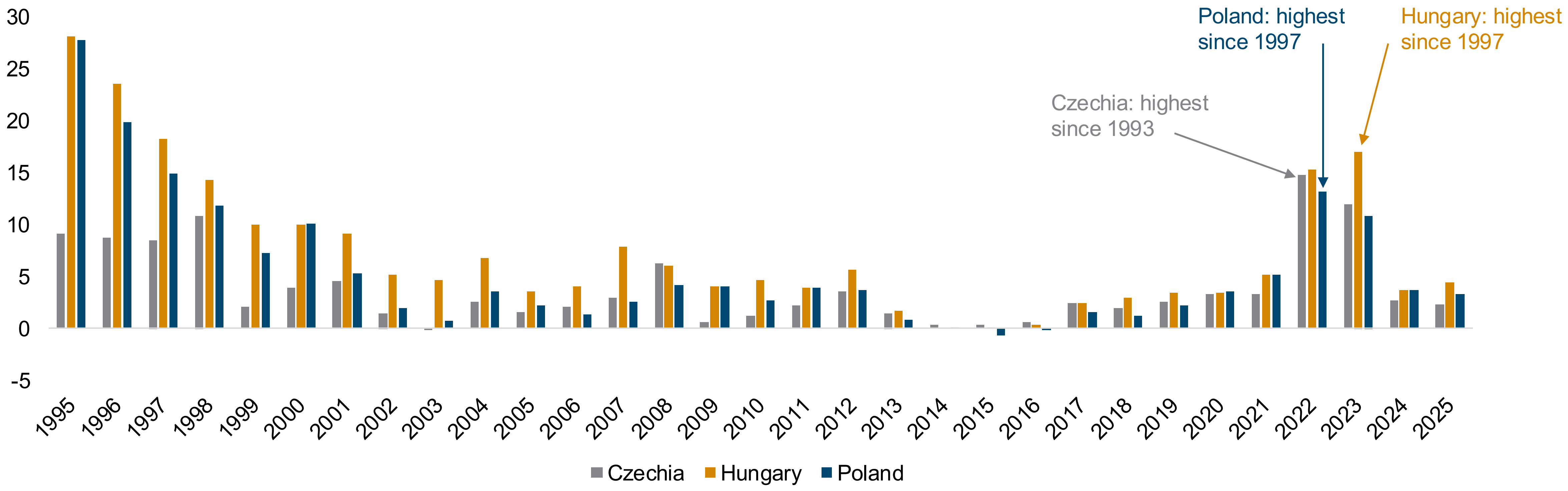
Exports of goods and services, % of GDP



Sources: Eurostat, wiiw.

(1) Of course the pandemic. Exploding energy prices, supply shortages, fiscal stimulus = highest inflation for decades.

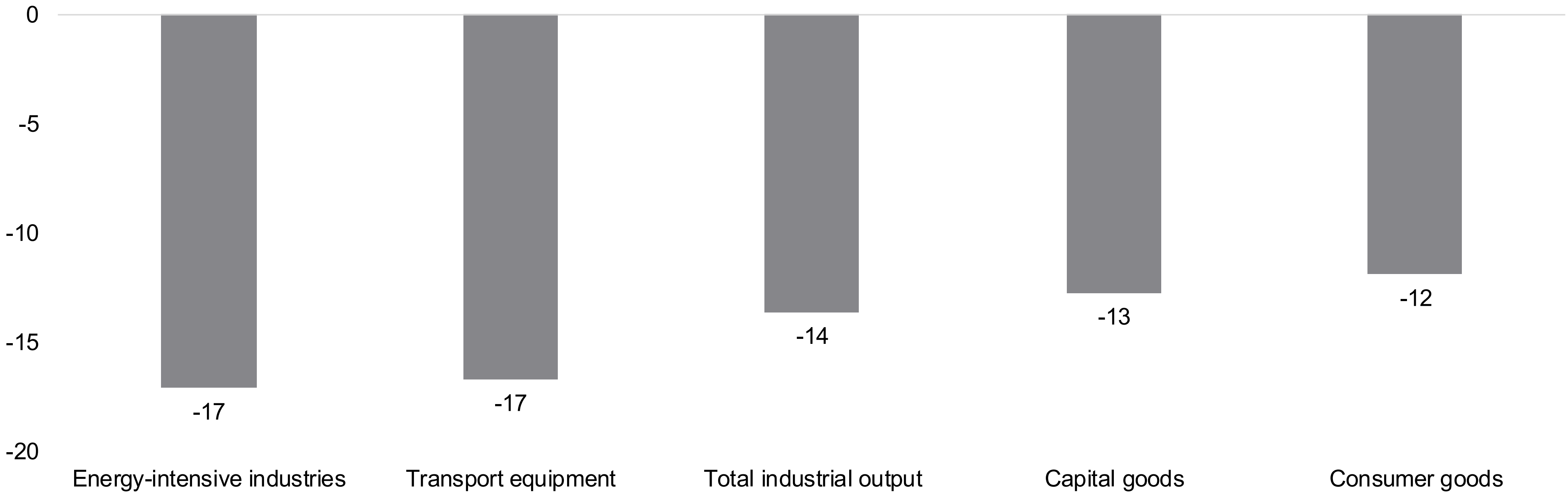
Consumer price inflation, % per year



Sources: Eurosat, national sources, wiiw.

(2) The particular challenges of German industry (not just China/energy), which is still of central importance for CEE economies.

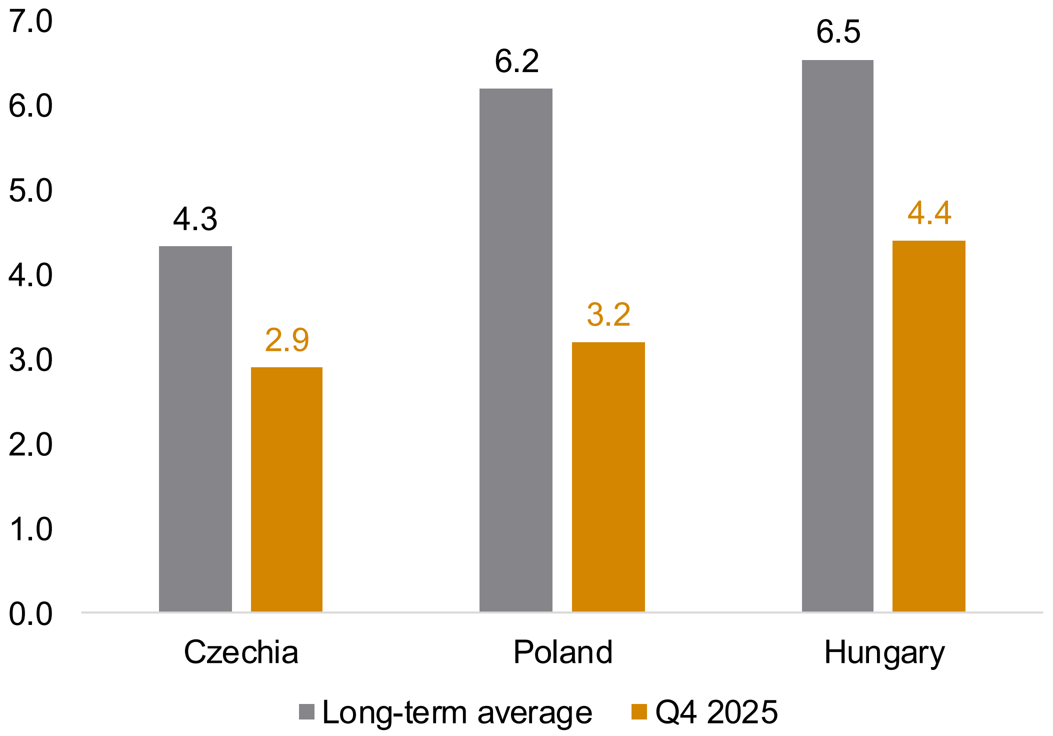
German industrial production volume (real), % change, January 2016-March 2026



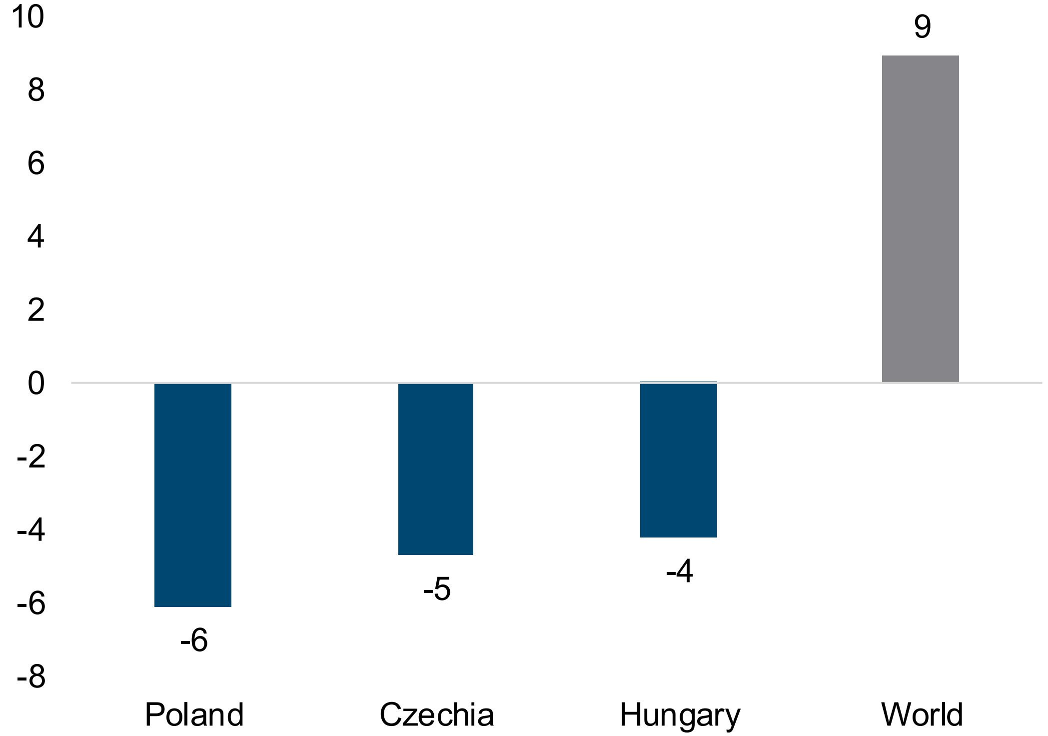
Sources: German statistical office, Eurostat, Haver Analytics, wiiw.

(3) Demographics: CEE running out of workers, companies having to compete for talent and increase wages.

Unemployment rate, %



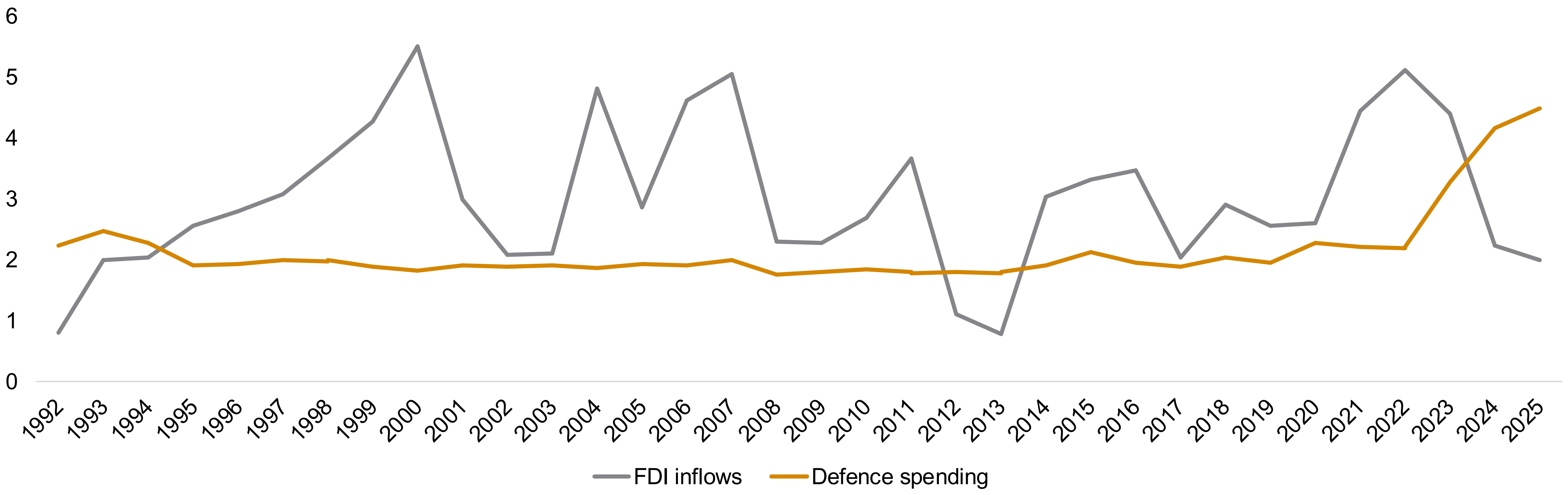
Projected population change, 2024-2035, %



Sources: UN, Eurostat, national sources, wiiw.

(4) The Russian threat has significantly changed the security reality in the region. FDI in export capacity is down, defence spending is up.

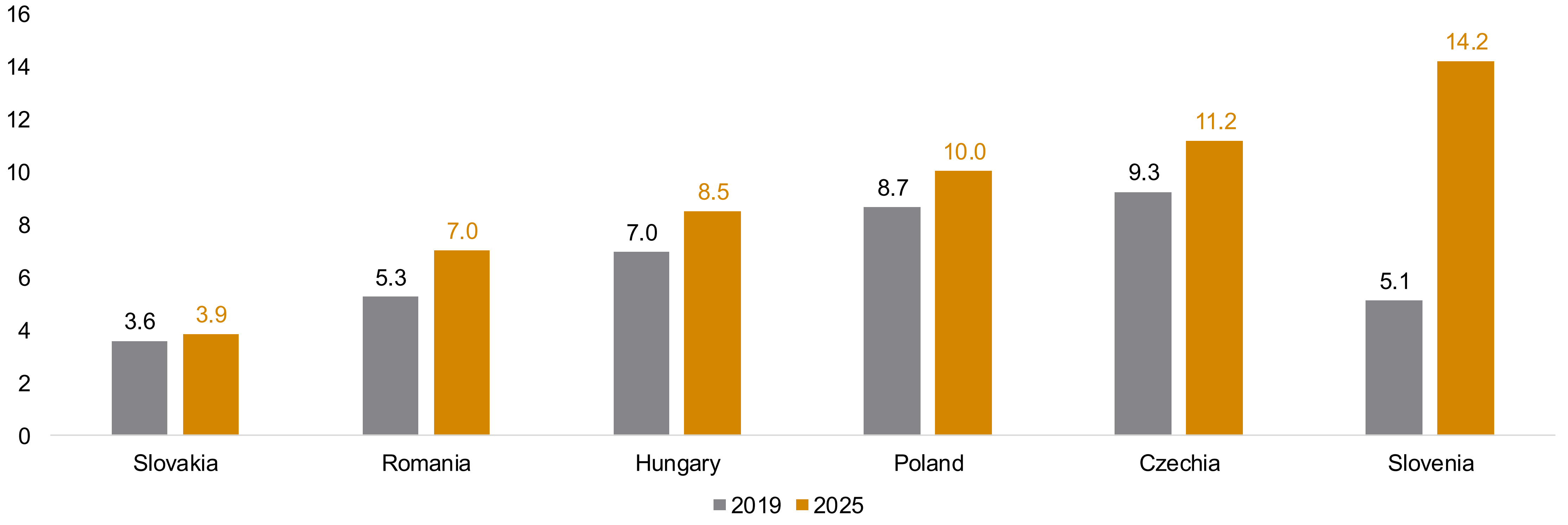
Polish FDI inflows and defence spending, % of GDP



Sources: SIPRI Military Expenditure Database, Eurostat, national sources, wiiw.

(5) China 2.0 shock: China is taking market share in CESEE at a rapid rate.

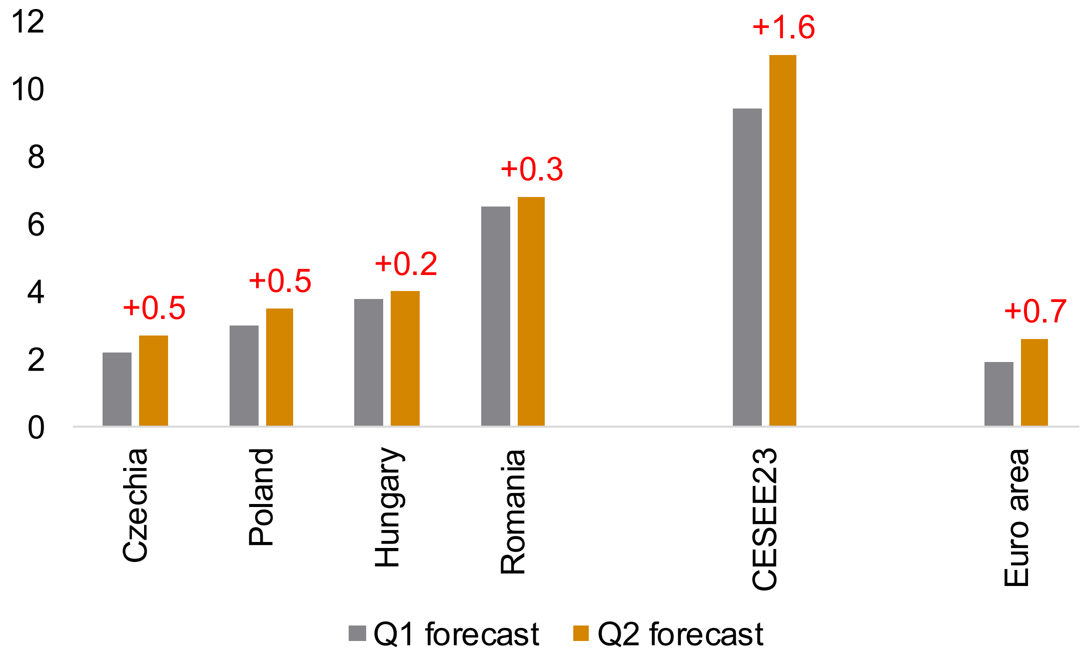
Merchandise imports from China, % of total



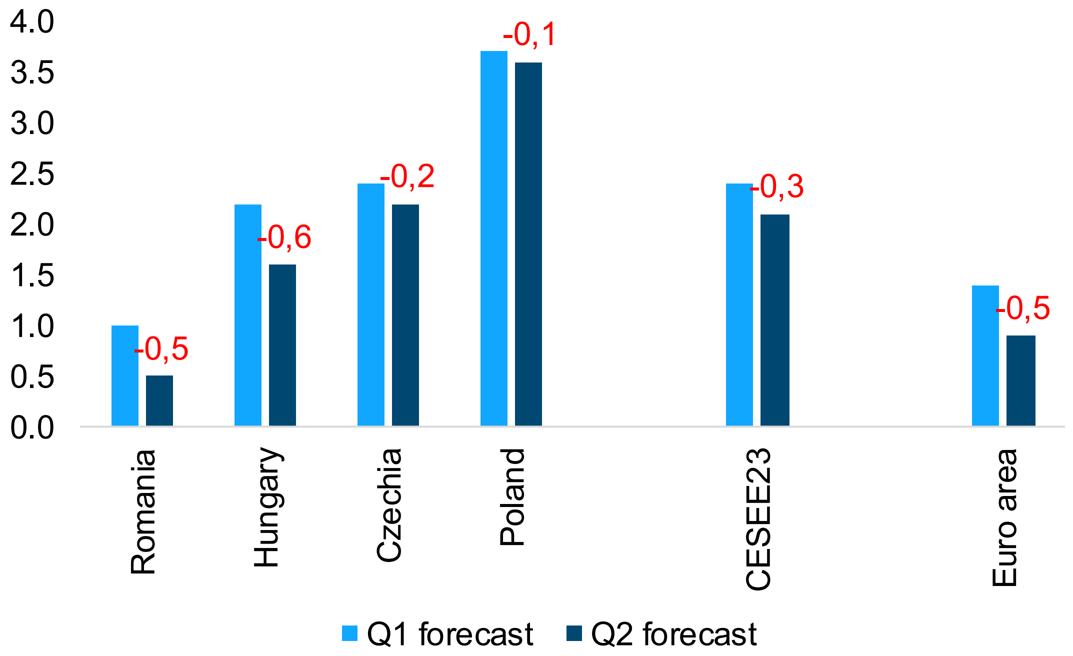
Sources: Eurostat, national sources, wiiw.

Main implications for you: Inflation higher, growth lower. Delayed monetary easing. But not a game-changer.

Consumer price inflation in 2026, %



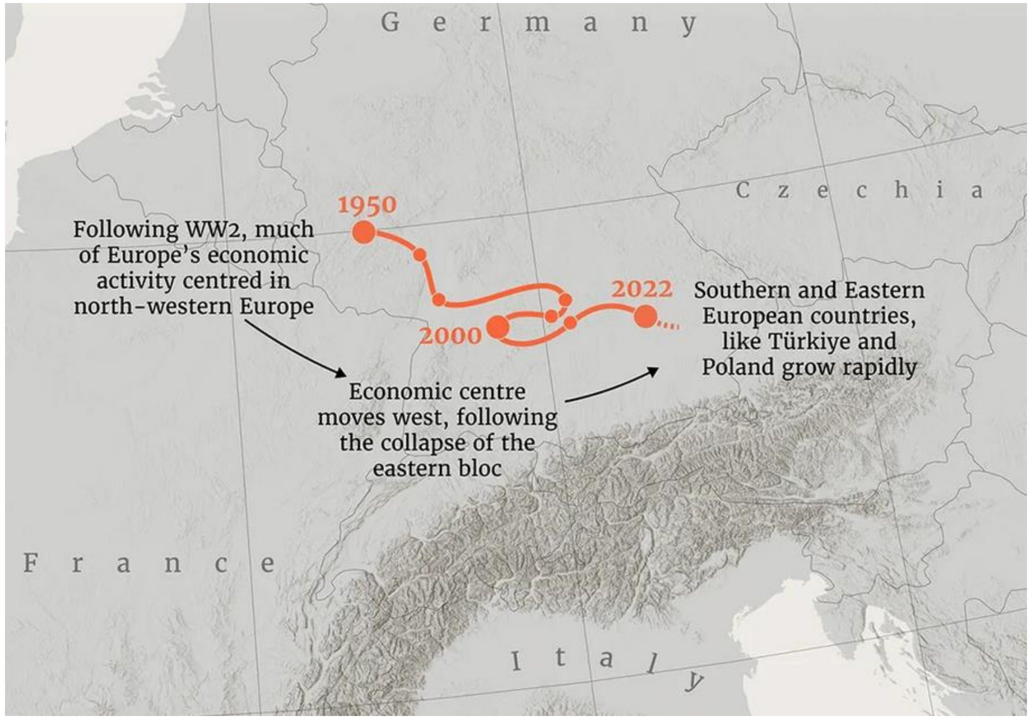
Real GDP growth in 2026, %



Source: wiiw Q1 and Q2 2026 forecasts.

Convergence, security and enlargement: CEE will become less eastern and more central to Europe

- CEE outperforming Western Europe economically
- Defence spending increase is structural
- EU enlargement becomes more geopolitical but also more realistic
- **Result:** CEE is moving closer to the EU core strategically and just economically



Source: Visual Capitalist, https://www.visualcapitalist.com/cp/europes-economic-center-of-gravity/