Press Release

# *The Investment Institute by UniCredit:* Domestic Demand to Steer CEE Growth Amid Tariff and Political Uncertainty

**Milan, 18 June 2025** – The latest *Quarterly Update* from **The Investment Institute by UniCredit** reveals that Central and Eastern Europe's economic outlook is increasingly reliant on domestic demand, as trade tensions and weakness in the European automotive sector weigh on external demand. In EU-CEE, UniCredit expects GDP growth to increase from 2.0% in 2024 to 2.2% in 2025, and to 2.5% in 2026.

Titled **"Navigating the Tariff Tide,"** the Q2 2025 report outlines how household consumption and EU-funded investments remain the main pillars of economic resilience across the CEE region. Tight labor markets with relatively low unemployment rates support real wage growth and therefore consumption. At the same time, uncertainty regarding U.S. tariffs, and in some countries risk of fiscal slippage, continue to challenge macroeconomic stability.

"*While trade tensions and weak global demand create headwinds, we see CEE economies adapting by shifting their growth engines inward,"* said **Mauro Giorgio Marrano, Senior CEE Economist** and one of the lead authors of the CEE section of the report. "*This shift is powered by strong real wage growth and accelerated disbursements from the EU's Recovery and Resilience Facility*."

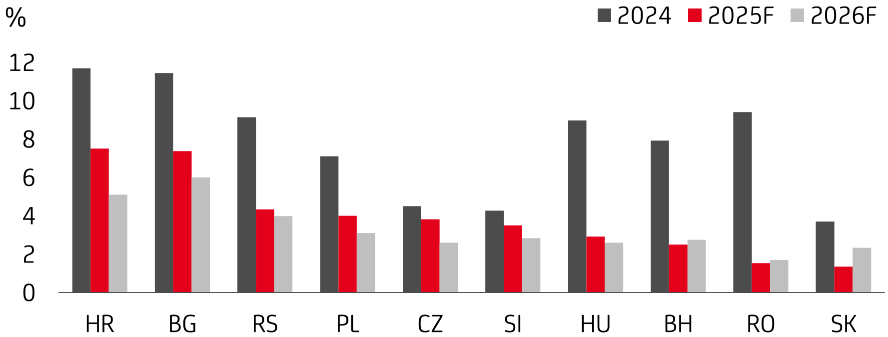
"*Countries that align reforms with EU funding timelines stand to benefit most."* added **Eszter Gárgyán, FX Strategist – CEE** and a co-author of the report.

According to the Quarterly Update, the use of the EU's Recovery and Resilience Fund (RRF) should pick up in most countries, except Hungary.

**Key Highlights from the Report:**

- **Growth Model Shifts Inward:** External demand, especially in sectors like automotive and pharma, is dampened by U.S. tariffs. However, domestic consumption remains robust, supported by tight labor markets and wage convergence. Average real wage growth in CEE is likely to approach 4% in 2025 and to slow to 3.3% in 2026 as a busy election cycle in the region adds to wage growth in 2024-25. In some countries, election cycles and minimum-wage hikes will contribute to wage dynamics.

**REAL WAGES**



- Fixed investment is expected to pick up in 2026 with the help of EU funds and lower interest rates:

**RRF**
DISBURSEMENTS,
EUR BN

| | Total 2021-24 | % of allotment | Expected in 2025 | % GDP | Expected in 2026 | % GDP |
|---|---|---|---|---|---|---|
| Bulgaria | 1.4 | 24.1 | 1.2 | 1.1 | 1.3 | 1.1 |
| Croatia | 4.5 | 44.9 | 2.8 | 3.1 | 2.7 | 2.8 |
| Czechia | 4.4 | 47.7 | 2.0 | 0.6 | 1.7 | 0.5 |
| Hungary | 0.9 | 9.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Poland | 20.8 | 34.8 | 6.4 | 0.7 | 27.0 | 2.9 |
| Romania | 10.7 | 37.5 | 2.4 | 0.6 | 4.2 | 1.1 |
| Slovakia | 3.5 | 54.7 | 0.5 | 0.4 | 1.7 | 1.2 |
| Slovenia | 1.1 | 42.0 | 0.5 | 0.7 | 1.1 | 1.5 |
| **Total** | **47.3** | **35.8** | **25.1** | | **30.2** | |

- **Fiscal and Political Risks Under Watch:** Romania, Poland, Hungary, and Slovakia face mounting pressure to implement fiscal adjustments. Romania, in particular, risks a credit downgrade without a clear parliamentary commitment to consolidation.
- **Inflation and Monetary Policy:** Inflation is nearing target in countries like Czechia and Serbia, but tax hikes and price controls complicate the picture elsewhere. UniCredit forecasts cautious rate cuts of 25-50 basis points in selected markets through 2025, with limited room for further easing in 2026.

**Looking Ahead**

The report also outlines downside risks, including geopolitical tensions, elevated fiscal deficits in some countries, and uncertainty regarding US tariffs. **While the outlook remains cautious, the region is well-positioned to capitalize on structural reforms and EU support.**

For further information and access to the full report, visit:
[https://www.the-investment-institute.unicredit.eu](https://www.the-investment-institute.unicredit.eu)