


Eastern Europe : Rise and Recovery

Straddling the geographic, cultural and political crossroads between Europe and Asia, Eastern Europe is an ambiguous and historically dynamic collection of countries. Reaching Russia's Ural mountains in the east, by a broad definition Eastern Europe contains 21 countries including ex-yugoslav, ussr and eastern bloc states.

After a decade of economic stagnation, on December 8th 1991, Russia, Ukraine, and Belarus signed the Belavezha Accords, declaring the USSR dissolved and when Mikhail Gorbachev resigned on Christmas day, the Soviet flag was lowered from the Kremlin for the last time. Yugoslavia's breakup was much more violent. Strong nationalism between ethnic groups and rising economic inequality led to multiple wars and persistent tensions which still exist today.

As Soviet influence waned, many countries embarked on sweeping economic reforms, lifting citizens out of poverty and creating new opportunities. However, behind rising GDP figures, rural towns in the east have often been left behind, as Soviet-era industry faded and people moved in search of better opportunities.

Reform and Convergence with the West.

In the early 1990s, Eastern European governments embarked on ambitious “shock therapy” reforms aimed at dismantling state monopolies and introducing market economies. These reforms were initially met with rising poverty and inflation, but as countries integrated into the European model, growth did emerge. Poland’s transformation is perhaps the most striking: its GDP per capita surged from around $6,200 in 1990 to nearly $48,000 by 2023. Similar reforms were implemented in Czechia and Slovakia, with structural changes rapidly modernising industry and finance. Estonia, too, capitalised by embracing digital technology and deregulation. Now, the capital, Tallinn, is a hub for tech startups and financial services, boasting many notable examples such as Skype. Slovenia diversified its manufacturing industry into machinery and pharmaceuticals, which along with a thriving tourism sector have enabled it to become a high income country. Even Belarus, although still under strong state control and subject to sanctions, has managed to post modest growth figures. Integration into the European Union played a crucial role in driving these countries convergences with the rich nations of western europe. Membership opened access to the single market, reducing procurement costs to drive investment in infrastructure and technology, ultimately raising living standards. These reforms have helped reshape many of these countries, though the benefits have been skewed towards urban hubs, leaving some rural areas and old industrial centers behind.

Recent Economic Performance and Trends in Eastern Europe.

In recent years, economic performance across Eastern Europe has been as varied as its history. While the average GDP growth in the region moderated to around 0.7% in 2023, there was a modest rebound to approximately 1.9% in 2024.

Poland continues to be a regional powerhouse with growth forecasts nearing 3.5% in 2025, supported by robust domestic consumer demand and strong export performance. Hungary, on the other hand, has been grappling with inflationary pressures; early 2025 figures show an inflation rate of about 5.6%, which has prompted government interventions such as price controls on basic food items. Czechia has maintained steady recovery, driven by improvements in industrial output and consumer demand, while Slovakia is forecast to grow by 2.6% in 2025.

Energy remains a critical factor in the region's economic performance. Recent data show that wholesale electricity prices have stabilized, influenced by significant investments in renewable energy. Poland, for instance, has expanded its solar photovoltaic capacity, which has helped to moderate electricity costs in its urban centers. Estonia continues to invest in wind power and digital infrastructure, ensuring a competitive energy market despite occasional volatility. In Ukraine, the conflict has taken a heavy toll; after a dramatic contraction of 36% in 2022, the country managed a rebound with 5.3% growth in 2023. Yet, persistent conflict continues to disrupt its energy infrastructure, forcing Ukraine to import electricity in volumes that have surged dramatically, while inflation remains stubbornly high at 8.6% year-on-year.

Future Outlook and Targets.

Looking forward, the future of Eastern Europe hinges on several key factors.

Energy transition and security will be paramount. With renewable energy installations on the rise—driven by aggressive investment in solar and wind power—Eastern European countries are gradually reducing their dependence on imported fossil fuels. However, disruptions remain, as seen in Hungary and Slovakia's challenges with high-cost LNG imports following the termination of Russian gas transit through Ukraine. The EU's ambitious plan to invest €584 billion in electricity grids by 2030 is expected to improve cross-border connectivity and stabilise energy prices, further enhancing regional resilience.

Fiscal discipline is another critical priority. Many Eastern European nations have undertaken significant fiscal consolidation efforts to reduce deficits and stabilize public debt. Poland, for instance, is on track to lower its budget deficit to meet EU standards by 2028, while similar efforts in the Czech Republic and Slovakia continue to yield positive results. However, challenges remain as governments work to extend the benefits of reform to less-developed rural regions, ensuring that modern industries and urban centers do not leave behind traditional areas.

Geopolitical risks will continue to influence the region's economic landscape. The ongoing conflict in Ukraine, along with the broader repercussions of Russian actions and Western sanctions, creates uncertainty. Ukraine's reconstruction needs remain vast, with estimates suggesting that over $500 billion in aid may be required to rebuild its infrastructure post-conflict. Meanwhile, Belarus continues to face economic sanctions that dampen its growth prospects due to its strategic position with Russia. The resolution of these geopolitical issues, along with strengthened EU cooperation, are crucial for a stable and prosperous outlook.

Forecasts from organizations such as the IMF and OECD, suggest modest and steady improvements. While average GDP growth in Central and Eastern Europe is projected to rise to 2.8% for EU members, individual country forecasts vary widely. Poland is expected to remain a leader, while Hungary and Ukraine face more challenges with inflation.

Overall, Eastern Europe's economic transformation since the Soviet collapse poses a remarkable narrative of reform. The region has achieved substantial progress in modernising its economies and central urban hubs, however challenges remain. Rural areas still lag behind these centers, and energy dependencies, especially amid geopolitical turbulence, continue to pose risks.