# How Central and Eastern Europe Is Becoming Increasingly Important for Germany

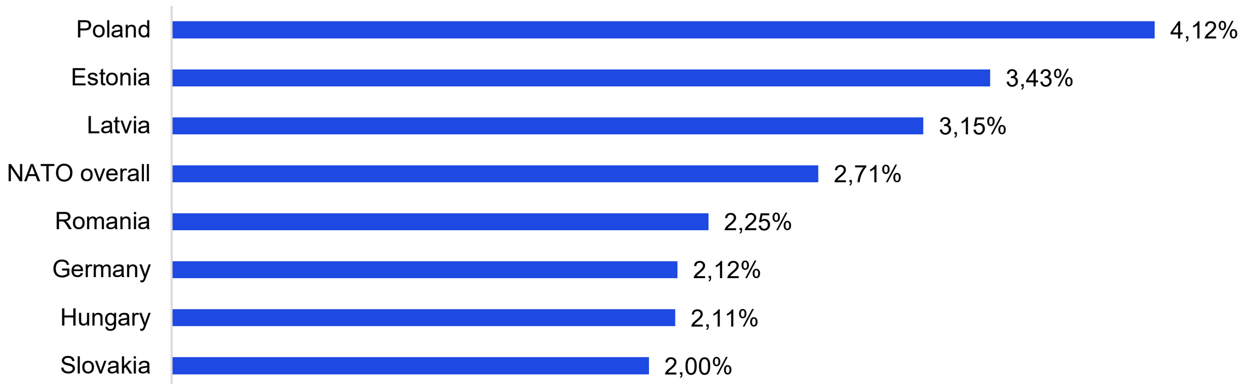
**Germany is often regarded as a bridge between Western and Eastern Europe - economically, politically, and culturally. In this context, the Central and Eastern European (CEE) region plays an increasingly pivotal role. One example is the strong economic cooperation between Germany, Poland, and other CEE countries. This collaboration not only strengthens Europe's economy but also contributes to the geopolitical stability of the entire region. Poland, in particular, has established itself as a key hub between East and West, taking on an ever more central role within Europe.**

## The Importance of Central and Eastern Europe for Germany and the EU

The economic and political integration of Central and Eastern European countries is a major driver for strengthening cooperation within the EU. At the same time, it supports democratic progress, promotes the rule of law, and highlights the protection of human rights. Countries that aspire to EU membership or have already achieved candidate status are required to intensify efforts to combat corruption, anti-democratic tendencies, and human rights violations. A notable example is Ukraine, which, despite the ongoing war, is implementing extensive judicial and anti-corruption reforms to advance its EU accession process.

The economic and political alignment of the CEE region also has direct implications for European security, especially amid ongoing tensions with Russia. A strong Polish NATO eastern flank is vital for Germany's security policy. Poland has made massive investments in defense (4.12% of GDP in 2024), thereby strengthening NATO's eastern border. Furthermore, its close cooperation with the Baltic States plays a key role in deterring Russian aggression.

**Defense spending of selected NATO countries as a share of GDP (2024; in %)**




*Source: NATO*

Strategic infrastructure also represents an important opportunity arising from stronger partnerships with the CEE region. It serves as a major transit corridor for European transport routes. One prominent example is the development of the "Via Carpatia" corridor, connecting the Baltic States with Southeastern Europe and significantly improving regional economic connectivity. The region is also essential for Europe's energy security. Pipelines running through Ukraine and Poland, once key transit routes for Russian gas, remain vital infrastructure assets that could regain importance in the future. The expansion of the LNG terminal in Świnoujście, Poland, is a prime example of how the country is reducing its dependence on Russian energy – and, from an infrastructure standpoint, could even supply Germany.

### Growing Political and Economic Significance of Central and Eastern Europe

Over the past four decades, the CEE region has undergone a profound transformation that reshaped its political, social, and economic landscape. While foreign investors played a critical role, local companies have also achieved remarkable success and established themselves in global markets. The Polish IT sector illustrates this evolution. Companies such as Asseco (banking and public sector software) and Comarch (ERP and cloud solutions) have gained international recognition. Similarly, the Czech automotive industry, particularly Škoda, has evolved from a Western-controlled production facility into a globally recognized brand.

Foreign direct investment in the CEE region continues to rise, particularly in sectors such as automotive, renewable energy, and high-tech manufacturing. Hungary has positioned itself as a key production hub for electric mobility through major investments from BMW, BYD, and Chinese battery giant CATL.

In many CEE countries, real economic growth now outpaces that of Western Europe. For instance, Poland's GDP grew by around 2.9% in 2024, while Germany's economy contracted by 0.2%.

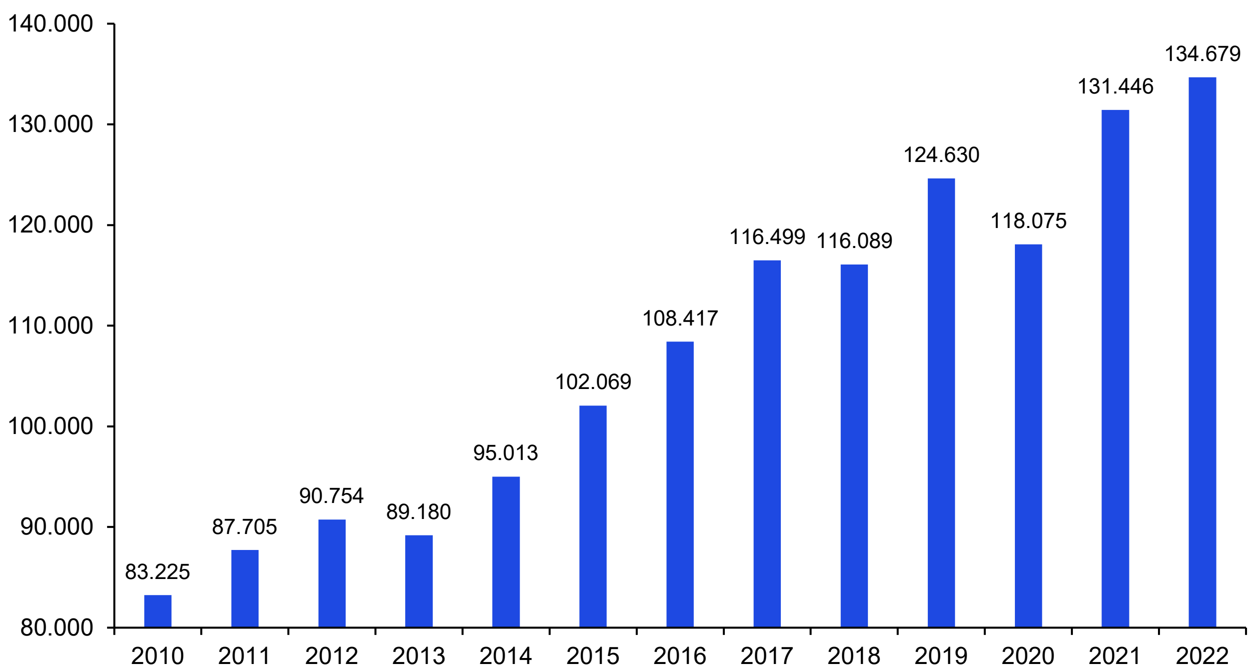
This dynamic is driven by a mix of EU-funded development programs, significant infrastructure and logistics investments, and a strong focus on renewable energy. One example is the Rail Baltica project, connecting Estonia, Latvia, and Lithuania to the European high-speed rail network. The region has also made substantial progress in digitalization. Estonia is a pioneer in e-government, while Poland's mobile payment system BLIK is now one of the most advanced in Europe.

For Germany and other Western European countries, these developments are key factors in investment and location strategies. German companies such as Bosch, Siemens, and Volkswagen have steadily expanded their production capacities in Eastern Europe.

At the same time, companies in the CEE region face the challenge of developing independent end products rather than remaining suppliers to Western corporations. Romania's Dacia, which evolved from a low-cost car brand into a company with in-house R&D, is a notable example.

However, there are risks as well. Increasing competition from South Korea and China, particularly in electric mobility and battery technology, puts pressure on local manufacturers. The dependency on Russian oil and gas remains a structural challenge, although countries like Poland and Lithuania are actively reducing it through LNG terminals and new pipeline projects.

**Direct and Indirect Investment Holdings of German Companies in CEE (net, in million EUR)**




*Source: Deutsche Bundesbank*

## Germany as a Key Partner for CEE Countries

Germany remains Europe's largest economy, even as it faces challenges such as high interest rates, inflation, and global economic headwinds. Foreign investment levels have declined, weighing on growth prospects. Nonetheless, stronger political and economic partnerships with CEE countries could provide new growth momentum.

In recent years, the partnership with Poland has deepened, driven by a desire to reduce dependence on China. In 2024, Poland ranked as Germany's fifth-largest trading partner, with a trade volume of €172 billion.

Many German companies prefer familiar and stable markets, and Poland's large, skilled workforce makes it an attractive partner, particularly for the automotive, chemical, and technology sectors. Volkswagen has established several production sites in Poland, benefiting from a highly trained labor force. BASF has also made substantial investments to leverage Poland's competitive conditions and geographic proximity to Western Europe.

According to a KPMG study, one in two companies expects the economic importance of the 20 CEE countries to increase by 2030. Poland, Romania, and Ukraine are seen as key investment destinations, with roughly 50% of surveyed firms planning to invest there. Hungary and the Czech Republic also play key roles in expanding regional economic ties. Around 45% of companies surveyed by KPMG rated their business performance in the CEE region positively, while only 16% held a negative view.

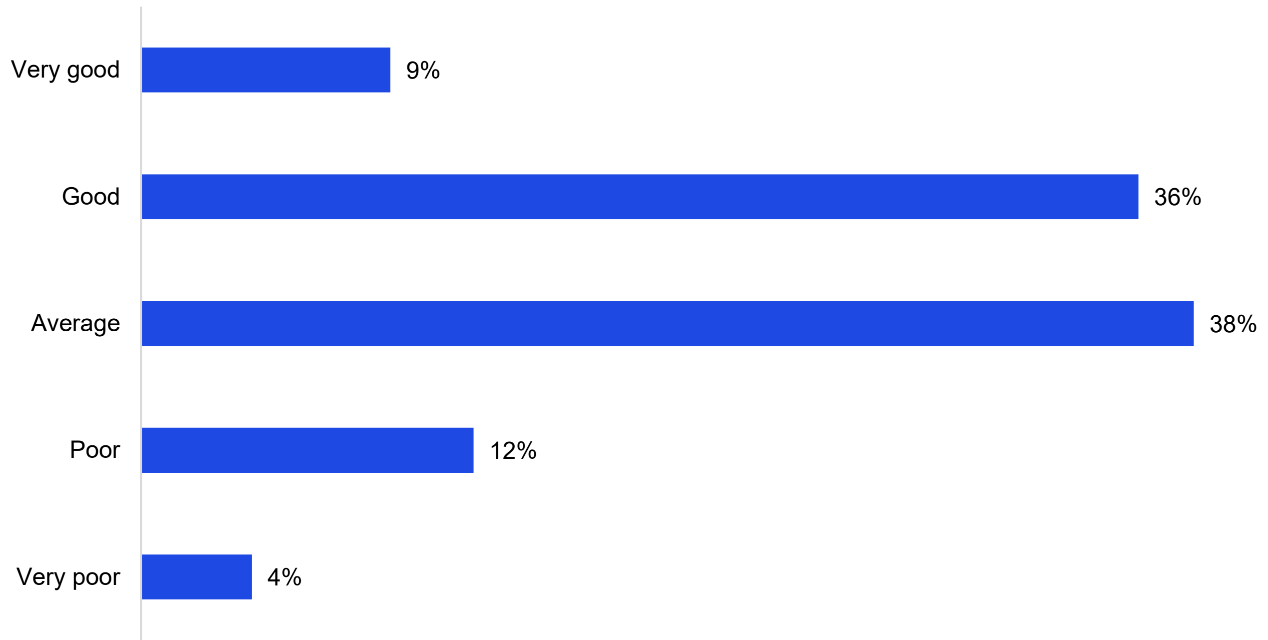
The region offers strong business opportunities and attractive returns despite regulatory and political challenges. It is now up to policymakers to intensify cooperation, simplify but enforce EU regulations, and advance enlargement in the eastern and southeastern regions. Improving economic accessibility for candidate countries remains crucial for the EU's future growth.

## Enlargement Policy as the Foundation for Growth

EU Commissioner for Enlargement and Neighbourhood Policy Marta Kos emphasizes that peace, freedom, and prosperity in Europe depend on the Union's strength, unity, and inclusiveness. The European Commission's Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) oversees discussions and negotiations with candidate and potential candidate countries, monitors progress, manages bilateral relations, and provides advisory support.

A positive example is Croatia's accession to the Eurozone in 2023, which enhanced its access to a stable currency area and the European single market. Ongoing reforms in the areas of rule of law, economic governance, and public administration are key milestones toward full membership.

**KPMG Study: Assessment of the Business Situation in CEE**




*Source: KPMG in Deutschland und Ost-Ausschuss der Deutschen Wirtschaft e.V., 2025 (n=99); Rundungsdifferenzen möglich*

Negotiations with Serbia and North Macedonia, as well as the opening of talks with Bosnia and Herzegovina in 2024, have the potential to further stabilize the region and stimulate economic growth. Beyond economic and trade ties, this integration also strengthens security cooperation. The EU membership of Bulgaria and Romania has, for instance, deepened defense coordination in the Black Sea region and improved regional trade and investment flows.

Promoting democracy, the rule of law, and political integration within the EU are essential to fostering long-term stability. Albania's comprehensive reform program serves as a positive example, reinforcing political stability and paving the way for sustainable economic growth.

### Strategic Initiatives of CEE Countries to Strengthen Their Relevance for Western Europe

Central and Eastern European countries are focusing on deepening economic cooperation to enhance their importance for the EU – and for Germany in particular. Poland, Hungary, and the Czech Republic are attracting German companies with well-developed technology parks and competitive tax systems. The Czech Republic stands out as a hub for Industry 4.0 R&D, while industrial partnerships – especially in the automotive and mechanical engineering sectors – continue to expand. Volkswagen's partnership with Czech manufacturer Škoda has not only boosted production capacity but also created jobs across the region. The IT sector and the promotion of new technologies are also at the forefront: Poland has invested heavily in IT incubators, making it a hotspot for startups and tech firms.

Energy security is another strategic priority. Poland and Croatia are expanding LNG terminals to strengthen regional and European energy independence from Russia – a development that also enhances trade relations with the U.S. and Qatar.

Hungary, meanwhile, is emerging as a hub for battery production. Chinese manufacturers such as CATL and EVE are building large-scale plants there to supply major automakers, including BMW. Hungary aims to triple its domestic battery output and become the world's third-largest producer by 2030.

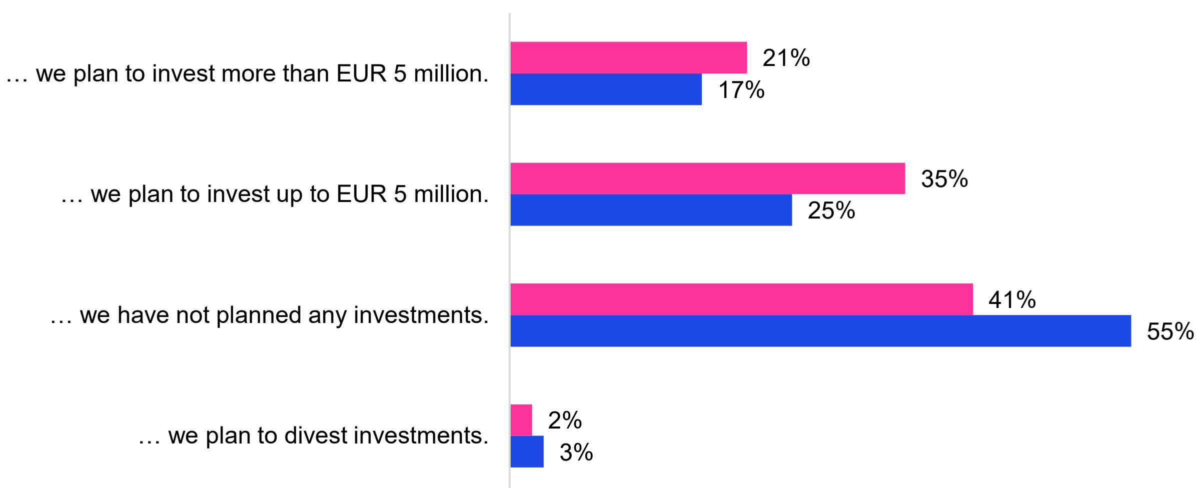
CEE countries are also becoming increasingly important for Europe's labor market. Skilled workers remain in short supply across Western Europe, while Poland and others are training a growing number of engineers and IT graduates who can help fill these gaps. Romania, for example, supports vocational training and language courses that prepare young professionals for careers in Germany and other EU states. Infrastructure projects such as the newly opened high-speed rail link between Warsaw and Berlin (2024) further facilitate cross-border commuting and trade.

### Production Shifts as an Economic and Political Anchor

Innovation in Central and Eastern Europe continues to accelerate and will play an even greater role in the years ahead. According to the latest KPMG study, 42% of surveyed companies plan to invest in the region, with 17% of them considering investments exceeding €5 million. This trend is expected to grow further as CEE countries offer attractive and cost-efficient production conditions.

**KPMG Study: Investment Plans in CEE**

Over the next 12 Months/5 Years…




*Source: KPMG in Deutschland und Ost-Ausschuss der Deutschen Wirtschaft e.V., 2025 (n=96); Rundungsdifferenzen möglich*

Once established, companies rarely relocate their production. This is particularly evident in Poland and the Czech Republic, where German automotive suppliers, engineering firms, and IT service providers have made long-term investments. Companies such as Bosch, Siemens, and Continental have built not only production sites but also R&D centers that contribute to the region's innovation capacity.

In an era of geopolitical uncertainty, investors increasingly seek resilient and diversified supply chains. The CEE region offers a compelling alternative to Asia – especially China – where political tensions and rising costs are seen as growing risks. Production thus becomes a form of "economic glue," binding companies closely to their chosen locations.

The KPMG study also found that 22% of surveyed companies plan to relocate production activities partially or entirely from Germany to CEE countries, citing high taxes, energy costs, and labor shortages as primary reasons. However, only 3% have made firm relocation plans so far.

CEE countries benefit from these investments not only economically but also socially. Governments are actively improving business conditions to retain investors – through infrastructure modernization, better labor standards, higher minimum wages, and stronger anti-corruption measures. Romania's efforts to curb corruption in public administration and Poland's large-scale transport and logistics investments exemplify these trends.

The close interconnection between Western and Eastern European economies not only diversifies production sites but also strengthens the overall economic resilience of both regions.

### Addressing Challenges

Companies investing in Central and Eastern Europe view strong domestic demand as a key advantage. In addition to skilled labor, relatively low labor costs continue to attract Western European firms to establish production and service centers in the region.

However, investors must also be aware of significant challenges. Security concerns remain paramount, with the ongoing war in Ukraine perceived as the most serious regional risk. Businesses with long-term investment strategies are cautious amid geopolitical uncertainty, potential supply chain disruptions, and market volatility.

Bureaucratic complexity and corruption risks present further obstacles. According to KPMG's survey, 31% of respondents consider bureaucracy a significant barrier to investment, while 38% cite corruption concerns. Despite progress, countries like Romania and Bulgaria continue to face issues in these areas.

Investment activity is increasingly focused on energy transition and digitalization. Poland is investing heavily in renewable energy and modern power grids to reduce its dependence on fossil fuels – particularly from Russia. German companies such as E.ON, Siemens, and RWE are already heavily engaged in this transformation, seeing substantial growth potential despite political and economic headwinds.

Ultimately, economic and political strategies in the CEE region are closely intertwined. Companies operating there over the long term must not only leverage economic advantages but also actively address structural challenges to achieve sustainable success.

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