# ENERGY SHOCK: THE FOUR KEYS TO CENTRAL EUROPE'S RESILIENCE

**The economies of Central Europe have weathered several shocks since 2020, demonstrating remarkable resilience. In 2025, the US tariff shock had a limited impact on economic activity. In fact, regional growth even accelerated, driven by strong consumer spending. In 2026, the war in the Middle East is once again putting the region to the test, while its fiscal flexibility has been considerably reduced. Uncertainties over the duration of the war are casting a shadow over the economic outlook. In any case, Central Europe can count on four key strengths to weather this shock. Firstly, its direct exposure to risks associated with disruptions in energy and industrial material supplies remains limited. Secondly, and most importantly, the European 'Recovery and Resilience' funds, a significant portion of which will be deployed in 2026, offer significant support. Furthermore, monetary authorities still have some room for manoeuvre and, finally, external liquidity positions, alongside public accounts, are fairly robust. Romania appears to be the most exposed country in the region, yet it is demonstrating resilience.**

## THE ENERGY SHOCK: INITIAL IMPACTS ARE MODERATE

The initial data for March is largely reassuring. Inflation, driven by fuel prices, has indeed picked up in Central Europe but has remained modest. The deterioration in confidence indicators, such as the European Commission's index and household purchasing intentions, has been limited. In fact, manufacturing PMI indices even saw an uptick in March in Poland, the Czech Republic and Romania.

In the short term, several risks loom large over the region's economy. All Central European countries are net energy importers, with their energy balance deficits ranging from -1.4% of GDP for Romania to -3.6% of GDP for Slovakia. The rising energy bill will therefore have a negative impact on their trade balances. In addition, inflation could rise further. The increase in logistics and input costs (fertilisers, plastics, aluminium, etc.) is likely to be reflected in the prices of food and durable goods. Furthermore, industrial activity, which has been sluggish since 2020, may be slow to recover, held back by rising production costs across all sectors. However, the region, which is highly industrialised, is home to several energy-intensive industries such as the chemical industry, which has contributed between 2.3% in Slovakia to 6.1% in the Czech Republic to manufacturing value added on average between 2022 and 2023[1]. These industries are particularly exposed to the increasing prices of raw materials and energy. The automotive sector, which is particularly significant in the region, accounting between 8.5% of the manufacturing sector's value added in Poland to 23.7% in Slovakia, could suffer from a decline in vehicle sales if the rise in production costs were passed on, in part or in full, to retail prices.

In response, governments in the region have introduced support measures for both households and businesses. These measures remain targeted in order to minimise their impact on public finances. They encompass various initiatives, including caps on the profit margins of energy companies and fuel prices, as well as reductions in excise duties. Poland, Slovakia, Hungary and Romania are currently subject to an excessive deficit procedure, which restricts their fiscal flexibility.

## THE FOUR KEYS TO RESILIENCE

### Economies relatively shielded from the risk of supply disruptions

Central Europe (excluding Poland) is not heavily reliant on the Middle East for its energy. Poland, which is more exposed, imports 50% of its oil from Saudi Arabia and around 10% of its gas from Qatar. Hungary, Slovakia and, to a lesser extent, the Czech Republic source most of their supplies from Russia[2]. Romania, meanwhile, relies mainly on Kazakhstan and Azerbaijan for its crude oil, while its gas is largely produced domestically. Furthermore, the region's strategic oil reserves, which stood at nearly 90 days' worth in January 2026, are at a satisfactory level. In March 2026, gas stock levels, estimated at one-third of storage capacity, are slightly lower than those recorded during the same period in 2025. At the end of winter, these levels generally fall short of the European target of 90% of storage capacity by late autumn. Countries will need to bring forward their procurement to meet this target against a backdrop of reduced global supply.

Furthermore, the immediate risks of a shortage of key industrial materials are currently limited. In the automotive sector, aluminium derivatives and plastics are sourced mainly from EU member states[3]. The same holds true for the agri-food sector where fertilisers are predominantly supplied from Europe[4].

### European funds: a strong driver of growth

European funding designated 'for recovery and resilience', which is primarily earmarked for public investment, provides a significant safety net amid the ongoing energy shock. The economic convergence of Central European countries has been largely supported by European grants. From 2004 to 2024, these countries received EUR 430 billion, equivalent to 20.4% of regional GDP. In 2026, the remaining EUR 56 billion from the Recovery and Resilience Facility (equivalent to 3% of regional GDP) will be available for disbursement. The Czech Republic and Slovakia have already used the majority of this funding. Romania and Poland, meanwhile, are expecting a relatively large share (2.5% and 3.9% of their GDP respectively). In Hungary, the imminent arrival of a pro-European government committed to fighting corruption should quickly pave the way for the release of funds that have been on hold since 2022 (totalling approximately EUR 19 billion, or 8.8% of GDP). However, access to the full amount of the Recovery and Resilience Facility (around 4.6% of GDP)

1 It is the latest data is available

2 The Druzhba pipeline, the Ukrainian section of which has been damaged since late January, is central to the tensions between Ukraine, on the one hand, and Slovakia and Hungary, on the other. It has been repaired, allaying fears of a disruption to hydrocarbon supplies for Hungary and Slovakia.

3 Central European countries source their supplies mainly from Germany, and for its part, Germany has little direct exposure to the Middle East for its imports of aluminium and plastics.

4 Central European countries source their supplies mainly from EU countries and Russia.

**Energy shock: Moderate risk in Central Europe**

| | Energy exposure to the Middle East | Energy trade balance (% of GDP) | Current account balance (% of GDP) | External liquidity | Fiscal deficit (% of GDP) | Under Excessive Deficit Procedure | Average inflation in Q1 2026, % | Currency movements vs EUR since end February, % |
|---|---|---|---|---|---|---|---|---|
| Czech Republic | low | -2.7 | 0.7 | Robust | -2.1 | No | 1.6 | -0.5 |
| Hungary | Low | -2.7 | 1.6 | Robust | -4.7 | Yes | 1.8 | 2.4 |
| Poland | Medium | -2.4 | -0.9 | Robust | -7.3 | Yes | 2.4 | -0.5 |
| Romania | Low | -1.4 | -7.9 | Robust | -7.9 | Yes | 9.6 | 0 |
| Slovakia | Low | -3.6 | -3.6 | Robust | -4.5 | Yes | 3.7 | non applicable |

- Energy exposure to the Middle East: green if energy imports are < 20% of the total; orange between 20–60%; red if >60%.
- Energy trade balance: green if the country is a net exporter; orange if the deficit is between 0 and -4% of GDP; red if >-4% of GDP.
- Current account balance as a % of GDP (2025): green = current account surplus; orange = -0.5% to -5%; red = -5% to -10%.
- External liquidity: all EU member states have an external liquidity position considered to be robust; Slovakia, being a member of the eurozone, has access to liquidity facilities should the need arise. Furthermore, these countries have comfortable foreign exchange reserves.
- Budget deficit as a percentage of GDP (2025): green = <-3% of GDP; orange = -3 to -5%; red = >-5%.
- Countries subject to the excessive deficit procedure: orange; green = not subject to the excessive deficit procedure.
- Average inflation in Q1 2026: green = inflation within the Central Bank's target range; orange = inflation slightly above the target range; red = inflation significantly above the target range.
- Fluctuations against the euro since late February: green = stable or appreciation; orange = depreciation between -0.1% and -5%; red = depreciation greater than -5%. Not applicable to Slovakia, which is a member of the eurozone.

HEATMAP

SOURCE: NATIONAL STATISTICS, CENTRAL BANKS, EUROSTAT, ITC, BNPPARIBAS

is not guaranteed. It continues to be contingent on the EU's validation of the necessary reforms by the end of August 2026; otherwise, these funds may be permanently forfeited.

**Some room for manoeuvre for the monetary authorities**

The appreciation of the region's currencies over the past two weeks, coupled with the so far moderate rise in inflation, gives monetary authorities some room for manoeuvre. The losses incurred by the currencies against the US dollar and the euro from late February to mid-March (ranging from -0.8% for EUR/CZK and -4.2% for EUR/HUF to -2.8% for USD/RON and -7% for USD/HUF) have now largely been recouped. The Hungarian forint has notably appreciated (+2.4% against the euro and 1.5% against the dollar since the start of the conflict), driven by the election on 12 April of a two-thirds pro-European majority in Parliament.

A wait-and-see approach by the region's central banks is likely in the coming months. For now, the scenario of moderate easing, which prevailed before the start of the conflict, is no longer on the cards. However, central banks may revisit this option if inflation and exchange rate movements remain manageable. Monetary tightening does not appear to be on the agenda in Central Europe, contrary to market expectations for the ECB.

**Public and external accounts strong enough to absorb the shock**

The external financial position of countries in the region is sound, enabling them to withstand shocks. Foreign exchange reserves, which have been rising steadily for several years, have reached very comfortable levels (EUR 572 billion in March 2026). They cover approximately 7 to 8 months' worth of goods imports in most countries[5]. Over the year as a whole, reserves could even continue to grow due to capital inflows, bolstered by European fund transfers, attractive bond yields and the ongoing development of nearshoring activities.

Furthermore, the trade balance of Central European countries, which was either slightly in deficit or in surplus (except in Romania) prior to the conflict in the Middle East, also contributes to the region's resilience. Even in a scenario of a moderate rise in energy costs (our forecasts predict an average 32% increase in the price of a barrel of oil in 2026 and a 30% rise in gas prices), Central European countries would be able to absorb the shock with relative ease. According to our estimates, the impact on the current account ranges from -0.5% of GDP for Romania to -1.1% of GDP for Slovakia.

As for public finances, they have deteriorated since 2020. However, sovereign risk remains limited. Yields on government bonds, which have seen a moderate increase since the start of the conflict, remain well below 2022 levels (the increase stands at between 0.6 and 0.9 percentage points for 5-year bonds since 27 February 2026). In Hungary, yields have even returned to the levels seen at the end of February 2026. The increase in the debt burden is therefore limited.

In summary, Central European countries should prove resilient on the whole despite varying degrees of exposure to the current energy shock. Within the region, Romania stands out as the most vulnerable to the energy shock due to the size of its twin deficits (budget deficit: -7.9% of GDP in 2025; current account deficit: -7.9% of GDP). However, it has a managed floating exchange rate mechanism against the euro, which mitigates exchange rate volatility, and its external accounts are not expected to deteriorate significantly. In March, although the monetary authorities spent around EUR 1 billion to support the currency, Romania managed to increase its foreign exchange reserves, most probably due to the resilience of capital flows. Its energy trade deficit is lower compared with other countries in the region, hence a limited impact on the current account.

Poland, Hungary and Slovakia are among the countries with moderate exposure. Poland, which is reliant on energy imports from the Middle East, could face difficulties in terms of supply and consequently would hamper its industrial activity. Nevertheless, its economy remains robust. Meanwhile, Hungary has low energy exposure and a current account surplus; however, it is relying on a prompt disbursement of European funds. Furthermore, inflation may rise relatively quickly. As for Slovakia, the impact of the shock on its current account is expected to be greater due to its larger energy trade balance compared with other countries in the region. Finally, the Czech Republic is relatively less exposed as it has a current account surplus and significant fiscal room for manoeuvre (it is not subject to an excessive deficit procedure). The country is also less dependent on hydrocarbons from the Middle East.

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5 For Hungary, this ratio is lower but remains comfortable (4.3 months' worth of goods imports). Similarly, countries can access liquidity if needed by virtue of their status as EU member states.