

## CEE countries could be more resilient to the tariff threat than you might think

No country escapes the tariff threat, and some Central and Eastern European countries are more exposed than others. But our key message is this: the region may be more resilient than many believe



Looking for new markets: CEE countries were well represented at Tokyo's FoodEx last month

### Trade instability: A test of strength in the CEE

A brief look at countries across Central and Eastern Europe which are more exposed to the US tariff story through their vulnerability, and what the mitigating factors could be. Our key message for Central and Eastern Europe: the region might be more resilient to the US tariff threat than you might think

US-EU tariff tensions pose a threat to the export-driven economies of Central and Eastern Europe, but we believe growing Chinese investment and the waning of US exceptionalism present opportunities. EU trade agreements and cash transfers should also help mitigate the impact. If managed effectively, the trade war could ultimately lead to long-term benefits for the region.

Below is a snapshot of our thinking. There's far more detail here: [Directional Economics CEEMEA: Trade instability – a test of strength](#) for a summary on the topic.

## In theory, the CEE bloc is very exposed

The global trade landscape has been significantly altered by US President Donald Trump's tariff threats and trade actions. Central and Eastern Europe, despite limited direct trade with the US, appears vulnerable due to its export-led growth, strong manufacturing base and close ties with Germany and the EU. The region needs to find new growth drivers beyond exports and cheap labour.

CEE countries still face long-term challenges such as competitiveness, demographics and energy transition, which complicate their response to external shocks. Despite the uncertainties, the region may be more resilient than expected.

## Identifying the relative exposures

Trade openness suggests vulnerability to external shocks, but integration in the global value chain is a more accurate measure. Surprisingly, Germany is the least integrated, so claims of high vulnerability due to EU and German exposure should be viewed sceptically. The CEE region mainly trades with the EU and has limited direct and indirect exposure to the US, which reduces the macroeconomic impact of new tariffs, while the data suggests that vulnerability isn't straightforward.

There are various estimates of how much tariffs could reduce growth in the euro area. In a worst-case scenario, real GDP could be 3% lower by 2027, reducing annual growth from 3% to 2%. This is significant, but it isn't catastrophic, as economies have shown resilience following shocks such as the Covid pandemic and the war in Ukraine.

## Diving into the sectors

The CEE region isn't particularly vulnerable, with sufficient diversification apart from a few outliers. Hungary and the Czech Republic are the most exposed to US demand, while Croatia's pharmaceutical industry is also concentrated on external demand.

Some sectors – such as automobiles and electronics – are sensitive to real business cycles, which makes them less resilient. Hungary could be the most exposed to tariffs in the electrical equipment sector, as it has become a leading industrial producer in recent years. Asian investors dominate this sector, so further tariffs could pose a high risk.

Other channels, such as imported inflation, could be significant. Perceived inflation could rise, reducing consumer confidence and consumption growth. If European companies move production to the US, Western European FDI inflows might decrease. Chinese investors could step in, boosting the economy but also posing challenges for the European Commission and increasing EU-China trade tensions.

## Mitigating factors

While the tariff war isn't seen as an existential threat, it will challenge decision-makers at all levels. Let's explore some unique mitigating factors specific to the region.

- **New trade agreements:** Uncertainty is the biggest risk, as it negatively affects companies' investment decisions. However, there are some positive developments. The EU is actively pursuing new trade agreements and renewing old ones. The European Commission has also

launched partnerships on critical raw materials to support green and digital transitions, which could help mitigate risks from the US and China.

- **The Chinese FDI story:** Central and Eastern Europe is increasingly attractive to Chinese investors as a gateway to the European market. Chinese FDI in the CEE countries is still low compared to the rest of Europe, indicating growth potential and is likely to remain strategically important, with tier one and two suppliers following upstream companies. Beyond Asian FDI, the flow of capital between the US and Europe should soon become clearer, with the potential for capital to return to Europe due to increased investment opportunities.
- **Side hustles:** CEE countries are negotiating individual deals with the US to mitigate the impact of tariffs, through energy and defence deals, including LNG, nuclear power, F-35 jets, and R&D centers.
- **The EU fund story:** EU funds have helped the CEE region remain resilient during past crises. The Recovery and Resilience Facility (RRF) and REPowerEU have increased available funds, supporting investment and offsetting export losses. However, less than 50% of the planned RRF funds for the CEE-4 countries have been disbursed ahead of the 2026 deadline, although we can see this as an opportunity. The ReArm Europe plan proposes new sources of defence funding.
- **An opportunity for structural changes:** All the above-mentioned factors could provide short-term relief for CEE countries, but long-term resilience requires boosting Europe's competitiveness, productivity and green transition. Investment in security and defence is key, unlocking potential across sectors. The 2024 Draghi report emphasises closing the innovation gap between the US and China, boosting competitiveness, supporting decarbonisation, and enhancing security. If it reacts quickly enough, this tariff war could serve as a long-overdue wake-up call for Europe and lead to long-term benefits.

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