2026/1

CBAM Quarterly report

29 April 2026

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Introduction

What is the function of this report?

The Energy Community supports its Contracting Parties in their accelerated integration with the European Union's energy markets by promoting the transposition and implementation of the relevant EU energy and climate acquis, alignment with EU energy and climate policies, strong regulatory foundations, cross-border energy trade, and progress on renewables, energy efficiency, environmental protection and consumer protection.

The parallel and comprehensive achievement of these objectives requires that energy market integration and decarbonisation go hand in hand in the Contracting Parties, supported by mutually reinforcing policies and a stable regulatory framework. Starting from 1 January 2026, the European Union's Carbon Border Adjustment Mechanism (CBAM) entered its definitive period. All electricity imports into the Union from non-EU countries – including Energy Community Contracting Parties – have since then been subject to a financial adjustment, aiming to create a level playing field between EU and non-EU producers, and charging carbon costs similar to that of the EU Emissions Trading System (EU ETS) on imports.

By invoking additional and administratively set costs on the electricity imports from Contracting Parties to EU Member States, CBAM has the potential to inflict structural changes in the cross-border electricity trade by transforming arbitration opportunities and thus slowing or even rolling back the level of market integration between Contracting Parties and EU Member States.

The uniform application of carbon costs on all electricity imports, regardless of origin, combined with the assumption that the said electricity stems from fossil fuel-based generation, has the potential to significantly slow down investments in renewable energy projects in Contracting Parties.

It is important that such unintended impacts, which run counter to the policy objectives of CBAM, are identified and monitored at an early stage so that appropriate solutions are developed and implemented to mitigate those impacts.

The Secretariat has thus prepared and intends to publish updates of this report at a quarterly frequency, with the aim to provide an overview of the main trends and movements in electricity markets in Contracting Parties and neighbouring Member States.

Scope of assessment

The analysis focuses on the six Western Balkans Energy Community Contracting Parties (WB6, i.e. Albania, Bosnia and Herzegovina, Kosovo*[1], Montenegro, North Macedonia, and Serbia) and their neighbouring EU Member States (Bulgaria, Croatia, Greece, Hungary, Italy, and Romania). Ukraine and Moldova – also Contracting Parties – are not included due to limited data availability.

The assessment covers developments in electricity generation (with a focus on hydro and coal), day-ahead prices, cross-border price spreads, price correlations, and scheduled and physical electricity flows.

Given the limited time horizon (Q1 2026), **the findings should be interpreted as preliminary observations of emerging patterns rather than definitive conclusions**. While these developments coincide with the introduction of CBAM, they are also influenced by other factors, most notably significant hydro generation, and should therefore not be attributed to CBAM alone.

[1] Throughout this report, this designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo* declaration of independence.

Highlights

01. An abrupt change took place in price dynamics, with growing price spreads and a loss of price correlation between the electricity markets of WB6 Contracting Parties and EU Member States in the first two months of 2026, with some indicators showing signs of slow recovery towards the end of Q1 2026.

02. The quarter was characterised by an extraordinary high, carbon-free, hydro electricity generation in the WB6 Contracting Parties, and day-ahead electricity prices on average were € 30/MWh lower than in neighbouring EU markets (except Greece).That price difference was 2 to 3 times higher than in the same period of 2025.

03. Despite widening spread, the potential to fully arbitrage price difference in imports from the WB6 (except from Albania), to EU dropped due to CBAM-related costs, suggesting that higher-priced EU markets including Italy, Romania, Bulgaria and Croatia have not been able to fully benefit from lower-cost electricity available in neighbouring WB6 systems.

04. A reconfiguration of regional trading patterns along CBAM-free routes could be observed as intra-WB6 exchanges intensified, as well as specific, CBAM-free WB6-EU and EU-EU cross-border routes also gained importance.

05. Hydro-dominated systems such as Albania, associated with a zero CBAM default emission factor, appeared to be in a structurally more competitive position compared to coal-dependent markets, suggesting that CBAM default emission factors have begun to play a pronounced role in price formation and cross-border arbitrage.

06. If persistent, these dynamics may increase the risk of intra-regional market fragmentation and contribute to uneven regional market development, particularly with regard to investment in new renewable generation and system flexibility. Markets with already low-carbon generation mixes may send stronger investment signals, while more carbon-intensive systems may face increasing structural disadvantages.

07. Commercially scheduled cross-border exchanges fell by 25% across borders with EU Member States however physical flows through the WB6 were largely maintained, pointing into an increased divergence between trading patterns and system physics. This poses a risk for operational security in Southeast Europe and increased costs of system operation, ultimately leading to higher network tariffs in both Contracting Parties and neighbouring EU Member States.

08. The EU ETS price and thus the price of CBAM certificates for Q1 2026 electricity imports decreased sharply after an initial uptake.

Detailed observations and potential implications of CBAM on EU Member States' and Energy Community Contracting Parties' electricity markets in Q1 2026

1. *Emerging price divergence between EU and non-EU bidding zones*

Preliminary data indicate estimated electricity price spreads in Q1 2026 between EU Member States and neighbouring Energy Community Contracting Parties to be two to three times higher than in the same period of 2025.

This divergence appears particularly pronounced where relevant EU Member States experienced comparatively high price levels, while neighbouring WB6 markets recorded significantly lower prices largely driven by strong hydro generation in the region.

Under typical market conditions, such price differentials would trigger increased cross-border electricity flows from lower-price to higher-price areas, contributing to price convergence. However, the persistence of elevated price spreads suggests that this price adjustment mechanism was only partially effective during the observed period.

The introduction of CBAM-related costs and regulatory uncertainty most likely affected the economic attractiveness of electricity imports from the WB6 into EU. It may have reduced the incentives or even the ability of market participants to fully arbitrage price differences. Cross-border capacity auction data also underpins this. Although capacity along the WB6–EU border was fully allocated throughout the quarter, the economic value of the capacity rights for export into the EU did not increase reflecting the widened day-ahead spreads, which suggests that the expected arbitrage was not fully priced into auction bids. As a result, higher-price EU markets including Italy, Romania, Bulgaria, and Croatia have not been able to fully benefit from lower-cost electricity available in neighbouring WB6 systems.

2. *Weakening of price stability and price signal*

Uncertainty surrounding the practical implementation of CBAM appears to have played an important role in shaping market outcomes during the first quarter of 2026. Market data show that it may have contributed to more cautious cross-border trading behaviour, thereby reducing market stability and weakening price signals in the region.

Evidence from annual cross-border capacity auction prices suggests that market participants adopted more cautious trading strategies, including a reduction in forward contracting. Daily day-ahead prices in the WB6 zones moved widely over the quarter (between approximately €40 and €150/MWh) and, more tellingly, diverged sharply from the Hungarian benchmark, which remained in the €120–180/MWh range throughout Q1 2026. This divergence, which was not observed in 2025, is one of the clearest signals in the daily data of the structural change that occurred with CBAM implementation.

Traded volumes on the four Western Balkan power exchanges, taken together, grew by approximately 11% in Q1 2026 compared with Q1 2025 (from 2.16 TWh to 2.39 TWh), but the picture across individual exchanges was divergent. Volumes on ALPEX (Albania) approximately doubled, MEPX (Montenegro) grew by 49%, and MEMO (North Macedonia) by 19%, while SEEPEX (Serbia), the largest WB6 exchange, saw volumes decline by 11%. Diverging developments across power exchanges reflect their exposure to two distinct drivers. Exchanges benefiting from strong regional hydro generation, either through domestic production or imports from surplus zones, recorded increases in day-ahead market volumes (e.g. ALPEX, MEPX, MEMO). In contrast, exchanges more reliant on transit-based trading, particularly where CBAM reduced the attractiveness of such strategies, experienced declining volumes (e.g. SEEPEX). This suggests that hydro-driven trading activity supported market liquidity, while CBAM-related disincentives led to a reduction of transit-oriented trading.

3. *Reduction of WB6–EU commercial trade, combined with the circumvention of WB6 along CBAM-free routes*

The data indicate a significant reduction in scheduled commercial exchanges between the WB6 and EU markets in Q1 2026, with total cross-border volumes declining by approximately 25% compared to the same period of 2025. The reduction was driven by a sharp decline in EU exports to the WB6 (−40.7%). The pattern of simultaneous declines also on other intra-EU corridors using WB6 as transit (such as HU→RS→BG and HR→RS→BG chains) is consistent with the expected avoidance of transit-based trading, which due to the uncertainties in the proof of transit within CBAM would make such strategies commercially unattractive.[2]

At the same time, a reconfiguration of regional trading patterns along "CBAM-free" routes can be observed. Intra-WB6 exchanges intensified, while specific WB6-EU and EU-EU cross-border routes gained importance. In particular, export from Albania to Greece (AL→GR), as well as from Greece towards Bulgaria (GR→BG) and Italy (GR→IT-S), gained prominence. While increased exports from Albania and Greece are attributed to increased Greek and Albanian hydro production (the latter with a zero emission factor), the emergence of alternative trading routes with a decline in using transit through the WB6, suggests a shift in market behaviour. Trading through corridors without the involvement of CBAM seems to have become more attractive.

Under typical market conditions, cross-border electricity trade is expected to follow economically efficient and relatively stable pathways, reflecting market price difference and available interconnection capacity. However, CBAM-related costs and regulatory uncertainty over the treatment of transit have altered the attractiveness of WB6 markets and incentivised usage of alternative routing through CBAM-free corridors.

[2] N.b. Transit flows cannot be separately quantified from aggregate scheduled exchanges in the available data

4. *Growing difference between commercial exchanges and physical flows*

Preliminary observations point to an increasing divergence between commercially scheduled cross-border exchanges and actual physical electricity flows during the first quarter of 2026.

Under normal market conditions, commercial exchanges are expected to broadly align with physical flows. However, the analysis indicates that increased commercial trade along certain corridors was not matched by corresponding changes in physical flows. This is showcased via significantly increased scheduled exports from Albania to Greece (AL→GR), which were not followed by a proportional increase in physical flows on that route. Instead, electricity continued to flow according to the physical characteristics of the transmission network, for instance from Albania towards Montenegro and Bosnia and Herzegovina, and further onward to EU border countries such as Croatia, Hungary, and Romania.

This divergence reduces the predictability of cross-border flows for transmission system operators (TSOs) and increases the risk of unscheduled or loop flows. It may also lead to less efficient utilisation of transmission capacity and additional challenges in maintaining system balance and security. If persistent, these effects could increase system operation costs and, ultimately, be reflected in higher network tariffs in both EU Member States and WB6 Contracting Parties.

5. *Increased relevance of CBAM default emission factors in the competitiveness of individual WB6 markets*

Preliminary observations suggest that CBAM default emission factors played a pronounced role in price formation and cross-border arbitrage under Q1 of CBAM's definitive period. Hydro-dominated systems such as Albania, associated with a zero CBAM default emission factor, appeared to be in a structurally more favourable position compared to coal-dependent markets such as Montenegro, which also had significant hydro production. In these cases, the application of default emission factors increased

the effective cost of electricity exports, thereby reducing their competitiveness even in relation to higher-priced neighbouring markets such as Italy.

The analysis of market outcomes during the first three months of CBAM implementation suggests that the mechanism may be introducing a structural divergence between EU and non-EU bidding zones in Southeast Europe, and while CBAM was designed to promote a level playing field and support decarbonisation, its early implementation appears to have introduced short-term frictions in market functioning, affecting both EU Member States and Western Balkans Contracting Parties. While many of these effects are likely transitional, the fact that they had impacts on market efficiency and system operation already in the examined short-term period warrants caution and vigilance regarding possible longer-term effects (such as on investment signals and the ongoing process of market integration with the EU).

Improved clarity in the implementation of the electricity-related rules of the CBAM Regulation and enhanced coordination between market participants and system operators, as well as continued efforts to align carbon pricing frameworks and market design across the region will all be key to keeping the WB6 on the right track of accelerated integration.

The financial impact of using national emission factors in CBAM

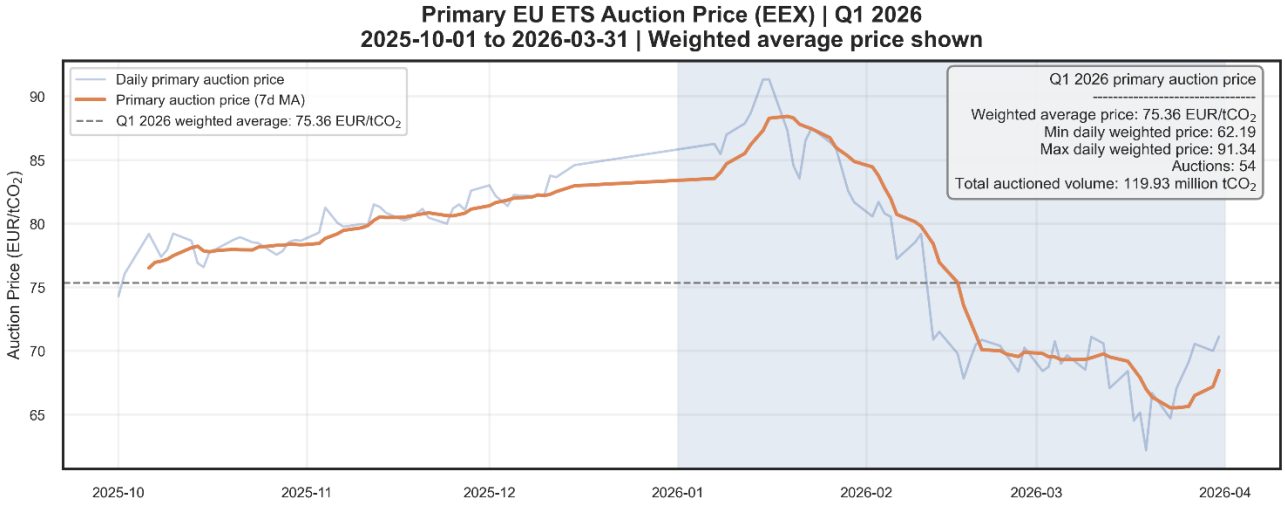
As a temporary rule applicable for electricity imports only in 2026, the price of CBAM certificates – which will need to be purchased and surrendered by EU importers, i.e. CBAM declarants in 2027 to compensate for the embedded emissions in their imported goods – will be set on the basis of a **quarterly weighted average** of the EU ETS allowance auctions.

The European Commission published the Q1 2026 weighted average EU ETS price relevant for CBAM, which amounts to **€75.36/tCO_{2eq}**. Using the default values published in the European Commission's relevant implementing regulation, the specific CBAM-related costs for having imported electricity from Contracting Parties to the EU in Q1 2026 are the following.

Origin of imported electricity	Default value (tCO_{2eq}/MWh)	CBAM cost per imported MWh (€)
Albania	0	0
Bosnia and Herzegovina	1.148	86.513
Kosovo*	0.984	74.154
Moldova	0.530	39.941
Montenegro	0.979	73.777
North Macedonia	0.887	66.844
Serbia	1.041	78.450
Ukraine	0.907	68.352

The price link to the EU ETS makes it essential for CBAM-related financial planning to closely follow and anticipate the changes in the Union's emissions trading market fundamentals. Following an increasing trend in EU ETS allowance prices, prices

declined sharply between mid-January and end of March amid increased political discussion on possible avenues for reforming the EU ETS. Such a volatility has profound impacts on the arbitrage potential for electricity imports from Contracting Parties as well.



Source: European Energy Exchange (EEX) primary auction benchmark
Method: Quarter average shown as volume-weighted mean of primary EU ETS auction clearing prices (weighted by auctioned volume, tCO_2)
Aggregation: Data aggregated and plotted by the Energy Community Secretariat

Looking ahead

Q1 2026 provides the first observations of the market behaviour under the definitive period of CBAM. While they establish a baseline, a single quarter, especially one shaped by exceptional hydro conditions, is not sufficient to draw firm conclusions about lasting structural effects of CBAM implementation. Multiple factors have simultaneously shaped the data, and isolating the specific contribution of CBAM requires a longer observation period.

The hydrological and seasonal conditions that shaped Q1 2026 are not expected to persist. In periods of weaker hydrology, which are common in the second half of the year, the WB6 typically imports electricity from the EU, and the observed patterns may reverse. At the same time, growing solar capacity across the region is expected to produce significant output during spring and summer, potentially generating renewed

surplus conditions even as hydro availability declines. Subsequent quarters will reveal how these different supply configurations interact with CBAM.

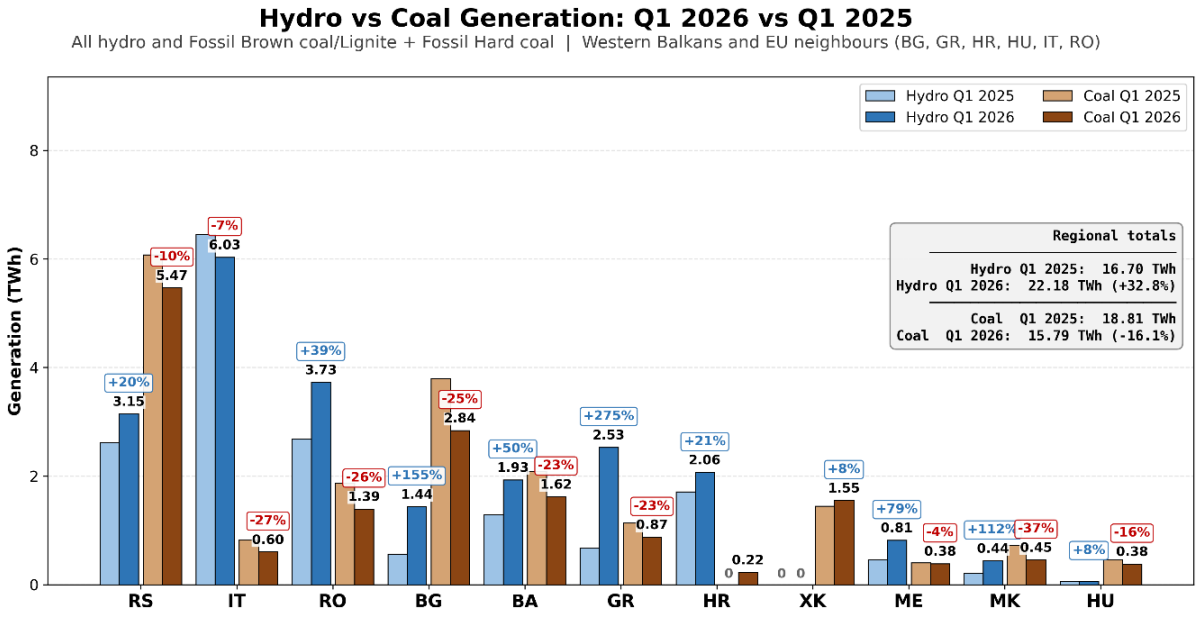
Key questions for subsequent quarters include whether the partial recovery in price correlations and WB6–EU trade volumes continues, whether the rerouting patterns observed in Q1 solidify, and how the picture evolves as hydrological conditions normalise and solar output rises. The Energy Community Secretariat will continue to monitor these developments and report on them in subsequent editions of this quarterly series.

Electricity generation and market prices in Q1 2026

Generation mix

The electricity generation mix in the Western Balkans Contracting Parties and neighbouring EU Member States in Q1 2026 was characterised by exceptionally favourable hydrological conditions, resulting in increased hydroelectric output across the region, **while coal[3]-fired generation declined in most countries** covered by the analysis, as depicted in the graph below.

[3] Gas-fired generation, which plays only a minor role in the Western Balkans mix and typically contributes during peak hours, was largely displaced by the exceptionally strong hydro output in Q1 2026 and is therefore not separately analysed.



Source: ENTSO-E Transparency Platform generation data (API via entsoe-pandas), https://newtransparency.entsoe.eu/
Aggregation: all hydro categories (excl. pumped storage consumption) and Fossil Brown coal/Lignite + Fossil Hard coal per country, by the Energy Community Secretariat
Italy aggregated across 7 bidding zones (NORD, CNOR, CSUD, SUD, SICI, SARD, CALA)
Generation converted from native resolution (1h for WB/GR/BG; 15min for HR/HU/RO/IT) to energy using step × mean power
Albania excluded (no ENTSO-E generation data); Kosovo* shown for coal only

Regional hydro generation, aggregated across the Western Balkans Contracting Parties (BA, ME, MK, RS) and neighbouring EU Member States (BG, GR, HR, HU, IT, RO), increased from 16.70 TWh in Q1 2025 to 22.18 TWh in Q1 2026, a difference of 5.48 TWh (+33%). Hydro production increased in all observed markets except Italy.
Among the neighbouring EU Member States, Greece contributed most to the regional increase in absolute terms (+1.86 TWh, from 0.67 to 2.53 TWh), followed by Romania (+1.04 TWh, from 2.69 to 3.73 TWh), Bulgaria (+0.87 TWh, from 0.56 to 1.44 TWh), and Croatia (+0.36 TWh, from 1.71 to 2.07 TWh). Greece and Bulgaria started from unusually low 2025 bases, producing particularly pronounced relative changes (+275% and +155% respectively). Italy remained the largest single hydro producer in the region at 6.03 TWh, despite a 0.42 TWh decline compared to Q1 2025.

Among Contracting Parties, Bosnia and Herzegovina contributed most in absolute terms (+0.64 TWh, from 1.29 to 1.93 TWh), followed by Serbia (+0.53 TWh, from 2.61 to

3.15 TWh), Montenegro (+0.36 TWh, from 0.45 to 0.81 TWh), and North Macedonia (+0.23 TWh, from 0.21 to 0.44 TWh). North Macedonia and Montenegro registered the largest relative increases (+112% and +79% respectively), both starting from low absolute bases.

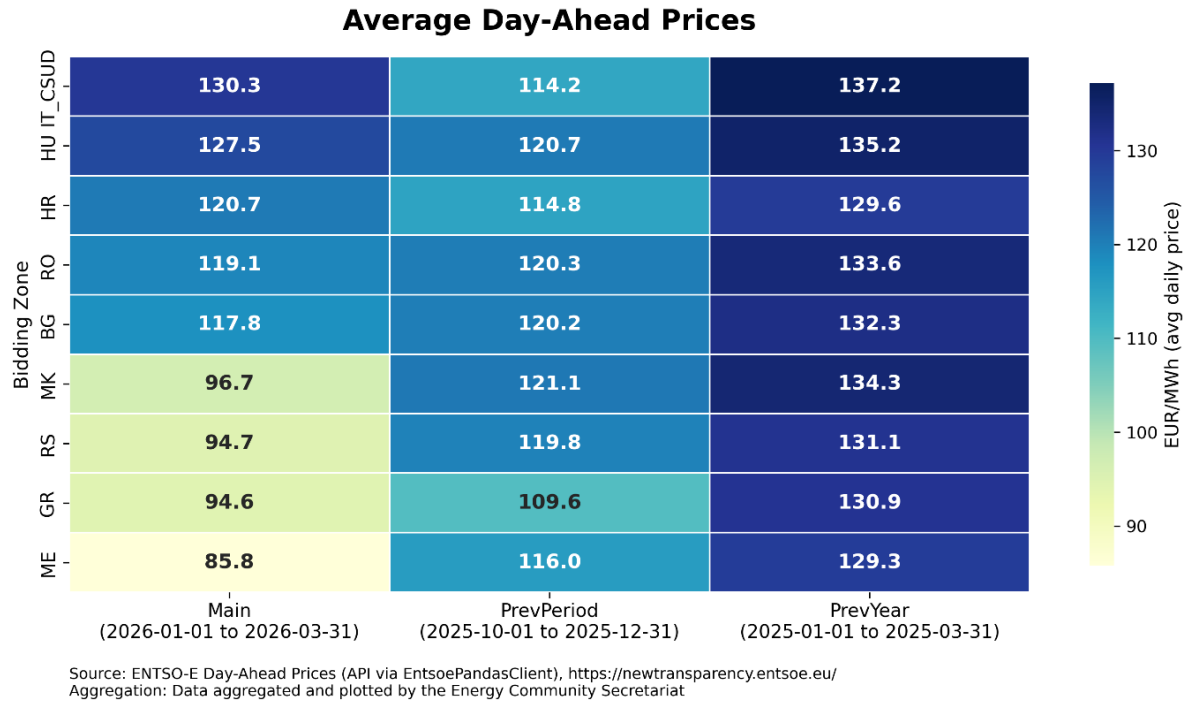
Data provided by OST, the Albanian transmission system operator, indicate that hydro generation in Albania increased by 1.34 TWh (+70%) in Q1 2026 compared to Q1 2025, from 1.93 TWh to 3.27 TWh. The increase was concentrated in January (+72%) and February (+84%), with a smaller rise in March (+52%), reinforcing the regional picture of exceptionally strong hydrological conditions front-loaded in the first two months of the quarter.

Coal-fired generation declined in most observed markets, from 18.81 TWh to 15.79 TWh, a reduction of 3.02 TWh (−16%). Among the neighbouring EU Member States, Bulgaria recorded the largest absolute reduction (−0.96 TWh, from 3.80 to 2.84 TWh), followed by Romania (−0.48 TWh, from 1.87 to 1.39 TWh), Greece (−0.26 TWh, from 1.13 to 0.87 TWh), Italy (−0.23 TWh, from 0.83 to 0.60 TWh), and Hungary (−0.07 TWh, from 0.45 to 0.38 TWh). In relative terms, the reductions were broadly similar across these markets, ranging from −16% in Hungary to −27% in Italy. In Croatia, the sole remaining coal unit (Plomin 2) did not operate in Q1 2025 and returned to part-load service in Q1 2026, generating 0.22 TWh.

In Contracting Parties, Serbia remained by far the largest coal producer in the region, with output falling by 0.61 TWh (from 6.08 to 5.47 TWh). Bosnia and Herzegovina declined by 0.47 TWh (from 2.09 to 1.62 TWh), Montenegro by 0.02 TWh (from 0.40 to 0.38 TWh), and North Macedonia by 0.26 TWh (from 0.72 to 0.45 TWh), with North Macedonia registering the sharpest relative reduction across the region (−37%). As an exception, Kosovo* was the only market with recorded coal generation *increase*, up by 0.11 TWh (+8%, from 1.44 to 1.55 TWh).

Day-ahead price developments

An analysis of average day-ahead prices across the bidding zones of the relevant Contracting Parties and neighbouring EU Member States for three periods – Q1 2026, Q4 2025, and Q1 2025 – presented in the heatmap[4] below, **shows a considerable decrease in day-ahead market prices in Q1 2026 in several bidding zones, namely in Greece, Montenegro, North Macedonia, and Serbia.**

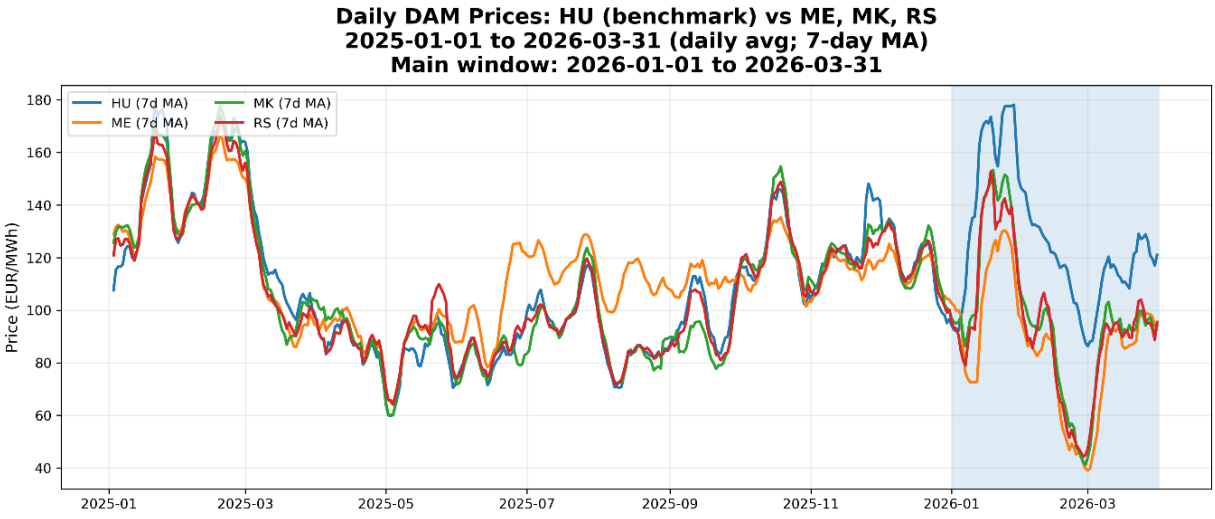


At the same time, EU benchmark zones for the Western Balkan region, i.e., Hungary with €127.5/MWh and IT-CSUD with €130.3/MWh on average in Q1 2026, maintained price levels largely comparable to Q1 2025. The other EU neighbours (Croatia €120.7, Bulgaria €119.1, Romania €117.8) clustered at similar levels around €120/MWh.

With substantially lower averages recorded in Montenegro (€85.8), Serbia (€94.7) and North Macedonia (€96.7/MWh), **the resulting price spread between EU and relevant WB6 zones in Q1 2026 was over €30/MWh and considerably wider than in either of the two observed periods, where prices across all zones showed high level of convergence.** Greece (€94.6/MWh) was an exception, with prices more closely aligned to the WB6 range, reflecting its strong hydro output during the quarter.

The daily day-ahead price chart below reveals a timeline of the price spread emergence. Throughout 2025, day-ahead prices in Hungary (HU), Serbia (RS), Montenegro (ME), and North Macedonia (MK) were largely converging, with the spread between Hungary and the three WB6 zones floating between €5–15/MWh on average across the year. From

January 2026, this alignment broke down sharply. Hungarian prices rose towards €170/MWh by mid-January, while prices in the three Western Balkans zones, after plummeting at the beginning of the year, recovered by mid-January, yet to a notably lower level than in Hungary. **On average, in Q1 2026, the price spread widened to over €30/MWh, approximately two to three times the level observed in 2025.** This widening of the price spread is one of the most significant developments observed in regional markets in Q1 2026.



Source: ENTSO-E Day-Ahead Prices (API via EntsoePandasClient), https://newtransparency.entsoe.eu/
Aggregation: Data aggregated and plotted by the Energy Community Secretariat

Cross-border capacity allocation

Cross-border capacity allocation data show a mixed picture. Forward (yearly) auction prices for 2026, cleared in December 2025, showed declines of 24–67% versus 2025 on most EU–WB6 corridors (e.g. RS–HU: −24%) and on EU–EU corridors in Southeast Europe (e.g. HU–RO, BG–GR), indicating that market participants factored in CBAM expectations into longer-term commitments even before the mechanism entered into force. On EnC→EU daily auctions along the WB6-EU border, allocation rates (the share of offered capacity actually allocated) remained high in Q1 2026, typically above 95%

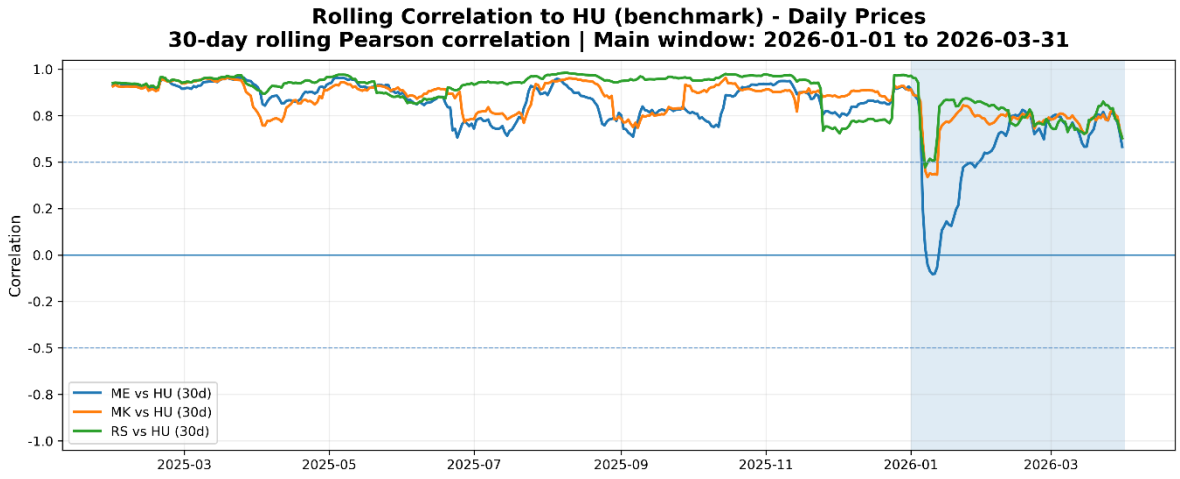
on RS-HU, RS-BG, RS-HR, ME-IT, and MK-BG. However, **the economic value of the capacity rights in the EnC→EU direction, as reflected in auction clearing prices, did not coincide with the widening day-ahead spreads,** a pattern examined in detail at corridor level in the scheduled flow patterns section below.

Market analysis

Price correlation[5]

The rolling 30-day Pearson correlation between three observed Western Balkan bidding zones and the Hungarian benchmark consistently exceeded 0.80 throughout 2025, frequently approaching 0.95. In the first half of January 2026, the correlation between Montenegro and Hungary fell to near zero and briefly turned negative. North Macedonian and Serbian correlations with Hungary also declined, though less sharply.

By late Q1 2026, correlations partially recovered to the 0.70–0.80 range but remained below their 2025 baseline. This pattern, the plummeting of correlation since the beginning of 2026, followed by partial recovery by the end of Q1 2026, may be explained by the weakening of hydro production from its peak in January. However, the fact that the price spread remained wide throughout Q1 2026 indicates structural changes in the market, with the partial recovery also attributed to market participants' adaptation to the new market conditions.

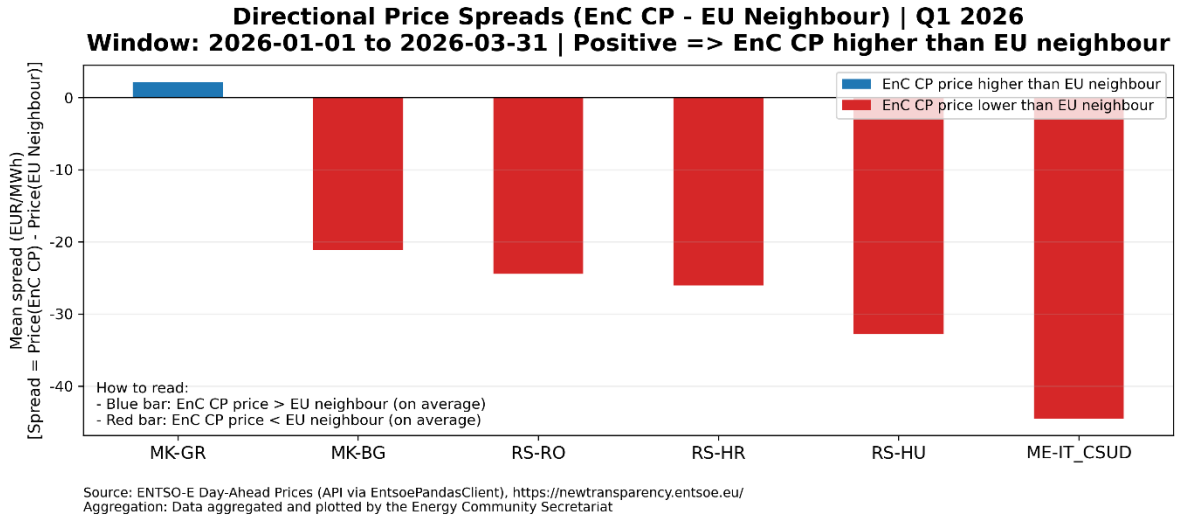


Source: ENTSO-E Day-Ahead Prices (API via EntsoePandasClient), https://newtransparency.entsoe.eu/
Aggregation: Data aggregated and plotted by the Energy Community Secretariat

[5] Pearson correlation measures how closely two data series move together. A value of 1 means the two series move in perfect lockstep; a value of 0 means no systematic relationship; a negative value means they tend to move in opposite directions. In well-integrated electricity markets, day-ahead prices in neighbouring zones typically show correlations above 0.80

Directional price spreads

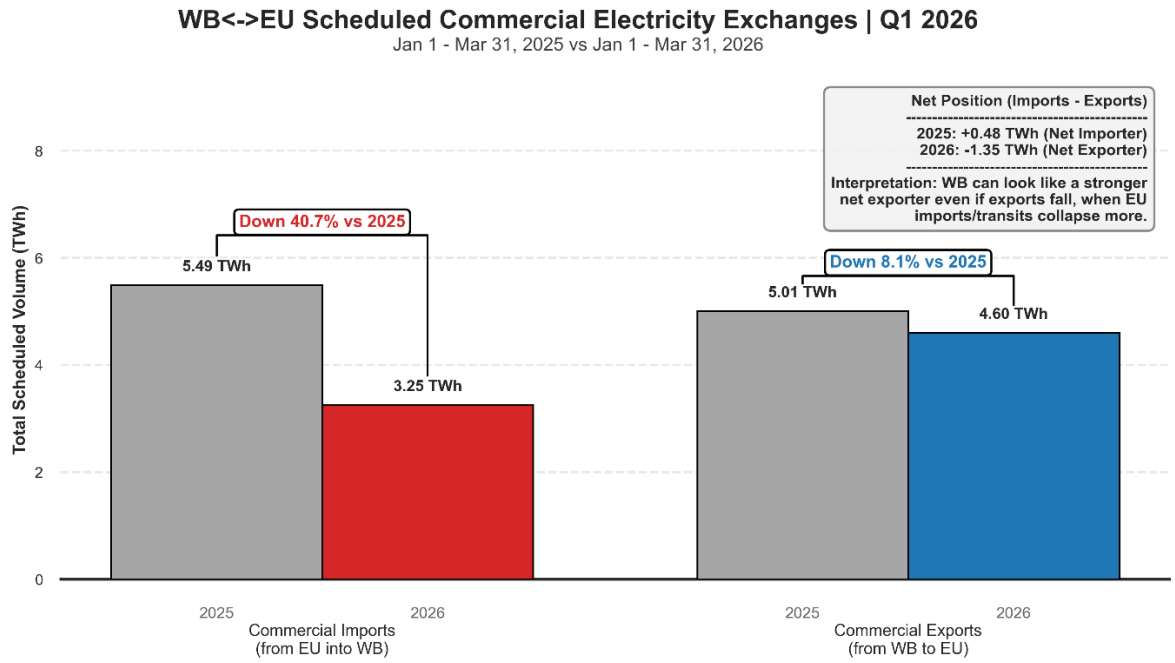
In Q1 2026, day-ahead prices in three observed markets of the Western Balkans were well below those of neighbouring EU zones on all borders except for North Macedonia-Greece. **The widest spread was between Montenegro and Italy (IT-CSUD), roughly €43/MWh**. The Serbia–Hungary difference stood at approximately €31/MWh, while the Serbia-Croatia, Serbia-Romania, and North Macedonia–Bulgaria spreads ranged from €20 to €25/MWh. The sole exception was the North Macedonia-Greece border, where prices in North Macedonia marginally exceeded those in Greece, reflecting Greece's strong hydro output.



These price spreads indicate that, in principle, cheaper electricity in the WB6 could have been sold competitively into neighbouring EU markets. That this potential was not utilised to the full extent, despite available cross-border capacity, clearly points to the CBAM surcharge applied to imports from the WB6 into the EU, which narrowed or even eliminated the commercial incentive to trade across the border.

Scheduled commercial exchanges and net trade position

Scheduled commercial exchanges between the Western Balkans and the EU reduced significantly in Q1 2026 compared with Q1 2025. Commercial electricity exchanges that include both genuine domestic export and transit flows from the Western Balkans to the EU declined by 8.1%, from 5.01 TWh to 4.60 TWh, while commercial flows from the EU to the Western Balkans fell by 40.7%, from 5.49 TWh to 3.25 TWh.



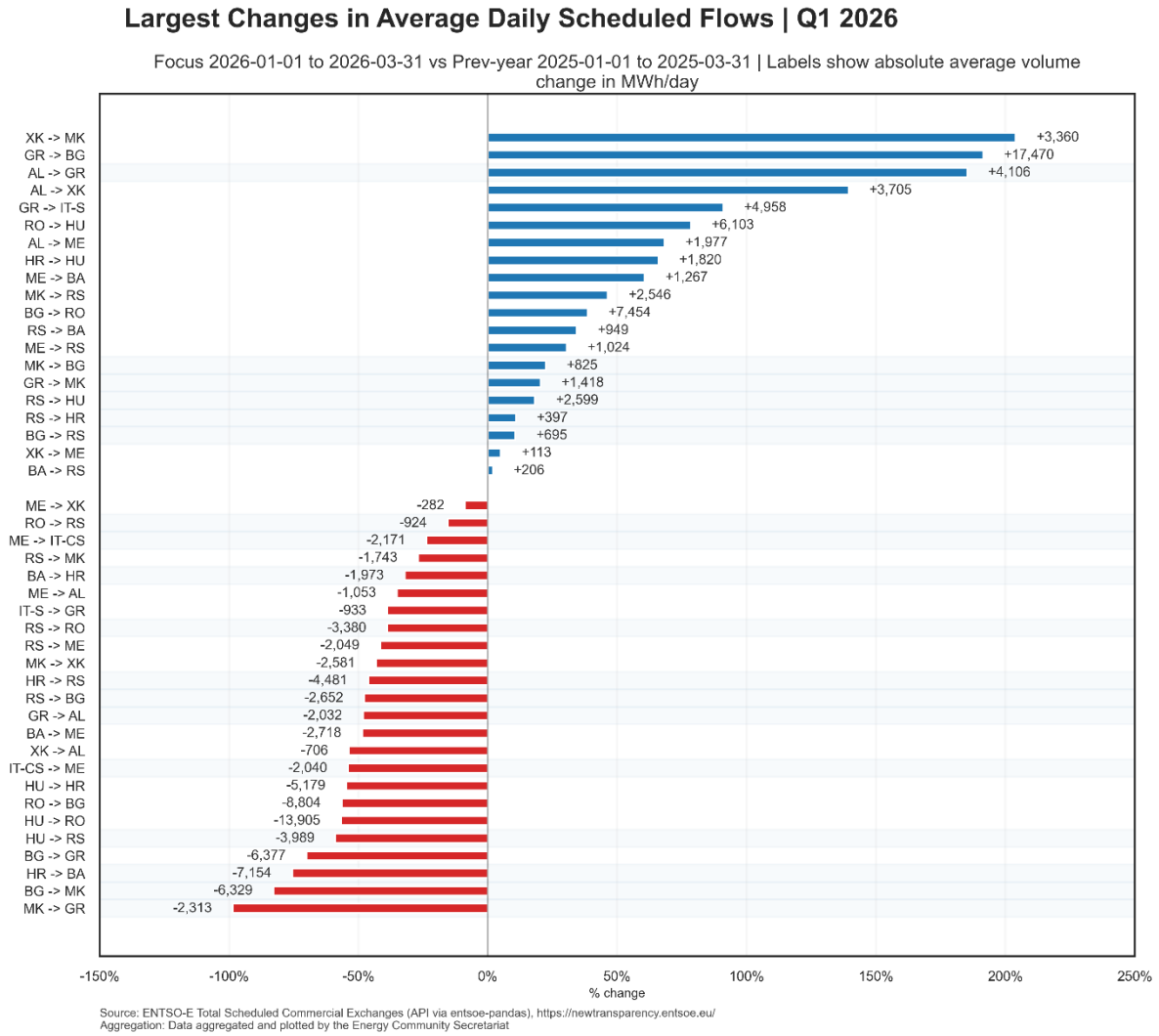
Source: ENTSO-E Total Scheduled Commercial Exchanges (API via entsoe-pandas), https://newtransparency.entsoe.eu/
Aggregation: Data aggregated and plotted by the Energy Community Secretariat | Only WB <-> EU borders included
Sign convention: Net Position = Imports - Exports (Positive=Net Importer, Negative=Net Exporter)

As a result, the Western Balkans' aggregate net position shifted from net importer (by 0.48 TWh) in Q1 2025 to net exporter (by 1.35 TWh) in Q1 2026. This shift was driven overwhelmingly by the reduction of EU-to-Western Balkans flows, not by an increase in Western Balkans exports. **The total volume of electricity traded commercially across the EU–WB6 border contracted by roughly 25% in Q1 2026 compared to the same quarter last year,** which points to reduced utilisation of interconnection capacity and less cross-border exchange.

Changes in scheduled and physical flow patterns

The comparison of data on scheduled commercial exchanges in Q1 2026 with the same period in 2025 also reveals a **broad redirection of electricity trade across the region.**

The **decline of scheduled commercial exchanges** most notably occurred on corridors **crossing the EU–WB6 border**, while their **increase was mainly observed on WB6-WB6 and EU-EU borders**, clearly indicating the shift in the trading pattern from strong usage of WB6 as a corridor between EU markets, as was the dominant trading strategy before 2026, towards **concentrating trades along the corridors within the EU, while bypassing WB6 markets.** While this shift could partially be attributed to the hydrological conditions in the region, at the same time, the impact of CBAM is also identified, as elaborated further.



The 70% increase in Albanian hydro generation reported by OST (see Generation mix section) is reflected in a substantial increase in Albanian net commercial exports across all three of its borders. Scheduled exports increased on AL→GR (+4,100 MWh/day), AL→XK (+3,700 MWh/day), and AL→ME (+2,000 MWh/day), while scheduled imports into Albania simultaneously declined on GR→AL, XK→AL, and ME→AL. Taken together, these commercial flow changes represent a net swing of approximately **1.2 TWh of Albanian electricity moving out of the country in Q1 2026 compared with Q1 2025**,

broadly consistent with the 1.34 TWh increase in Albanian hydro generation reported by OST.

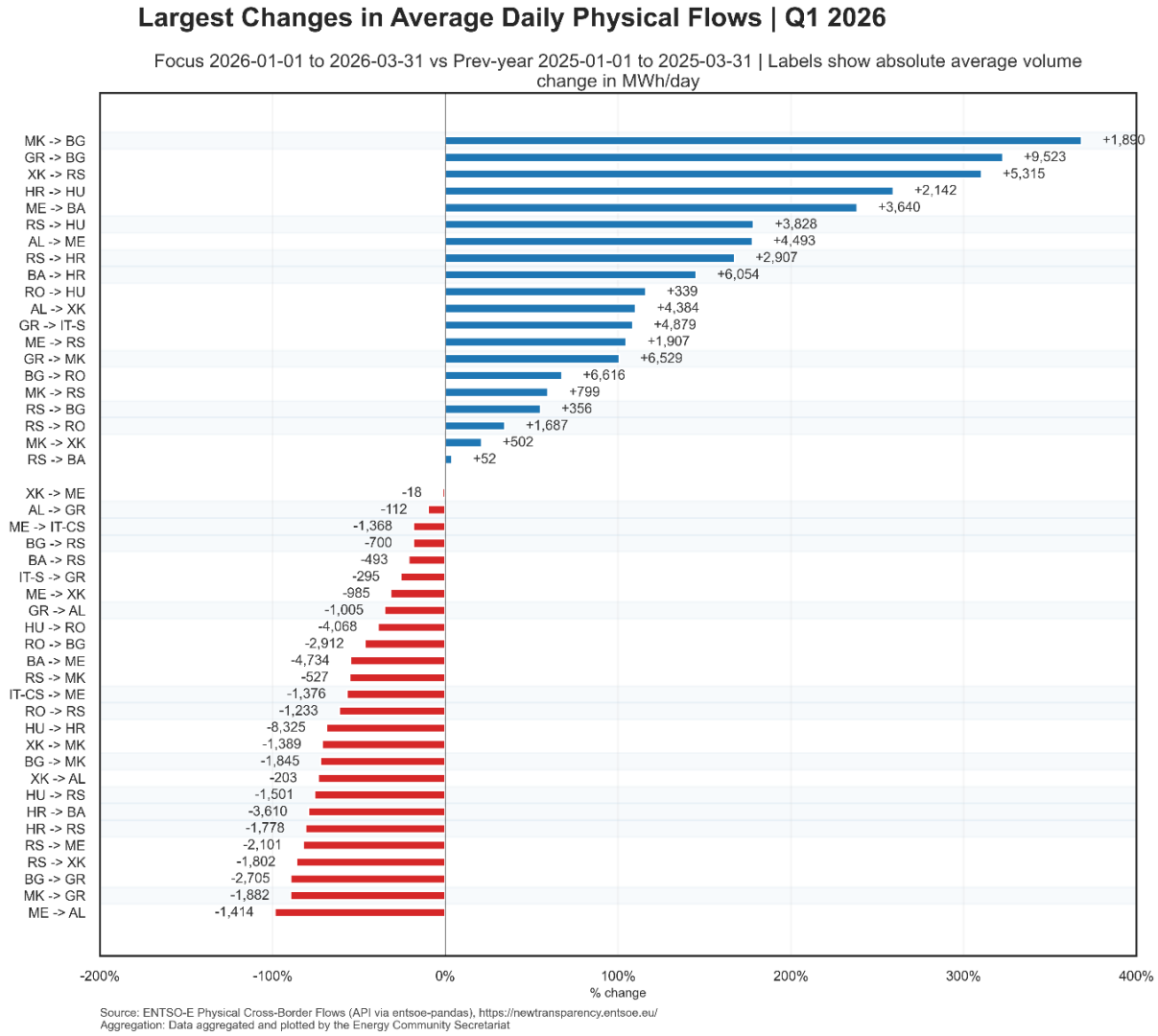
The Albanian surplus was redistributed across the region through several corridors. Combined with the extraordinary Greek hydro output, it was **exported from South to North through GR→BG** (+17,400 MWh/day) **and westward through GR→IT-S** (+5,000 MWh/day). Albanian surplus was also transferred via Kosovo* towards North Macedonia (XK→MK +3,400 MWh/day). Importantly, **Albania's default emission factor under CBAM is effectively zero**, meaning that electricity imported into the EU from Albania was financially not affected by CBAM, creating a commercial incentive for importing Albanian electricity into EU markets.

The Montenegro–Italy submarine interconnector provides arguably the clearest example of CBAM's effect on cross-border trade in Q1 2026. Although the price spread between the Montenegrin and Southern Italian market was the **widest price spread in the region** (€43/MWh, favouring export from Montenegro to southern Italy**), yet scheduled flows from ME to IT-CSUD declined** by over 2,100 MWh/day compared with Q1 2025, and physical flows fell by around 1,400 MWh/day. **Montenegro's default emission factor, reflecting the coal-fired share of its generation mix, implies CBAM costs that largely offset this price advantage.** The capacity auction data add an additional signal: ME–IT daily auction clearing prices averaged €7.6/MWh in Q1 2026, essentially unchanged from €8.1/MWh in Q1 2025, while the underlying day-ahead spread widened from €5–10/MWh to €43/MWh. In principle, the auction price should track the expected spread. **The persistence of low capacity prices alongside a wide day-ahead spread is economically consistent with CBAM surcharges absorbing the arbitrage margin.** The Italian market, meanwhile, recorded the highest day-ahead prices in the region in Q1 2026, averaging above €130/MWh and driven largely by natural gas costs. The €43/MWh differential with Montenegro would, under normal commercial logic, have supported sustained or increased scheduled flows on this interconnector. Instead, both scheduled and physical flows declined. **The combination of the widest price gap, and declining trade volumes points directly to the CBAM surcharge as the primary explanation for the suppressed commercial activity on this corridor.**

The contrast between Albania and Montenegro illustrates how the **country-level default emission factor shapes cross-border trade.** Electricity imports from predominantly low-carbon generation mixes incur lower or no CBAM charges, while imports from systems with significant fossil-fuel generation incur higher charges regardless of the actual source of the exported electricity.

Divergence between commercial schedules and physical flows

The regional electricity markets in Q1 2026 have also seen the notable divergence between commercial schedules and physical flows. HU→RO declined by nearly 14,000 MWh/day commercially but only 4,100 MWh/day physically; RO→BG fell by 8,800 MWh/day commercially but only 2,900 MWh/day in physical terms. Electricity continues to flow along these paths in accordance with network physics, even when it is no longer scheduled for commercial use.



Source: ENTSO-E Physical Cross-Border Flows (API via entsoe-pandas), https://newtransparency.entsoe.eu/
Aggregation: Data aggregated and plotted by the Energy Community Secretariat

Several physical corridors expanded without corresponding increases in commercial activity, with electricity mostly following the path of least electrical resistance rather than the commercially scheduled route. **The withdrawal of commercial transit from the Western Balkans has not eliminated these underlying physical flows. It has, instead, made them less predictable and less aligned with the schedules** on which transmission system operators on both sides of the border depend, potentially jeopardising the operational security of the interconnected system.

In the Western Balkans, the South-North corridor, from Greece through Albania and Montenegro to Bosnia and Herzegovina, **has been particularly critical in recent years**. This corridor has at times become heavily loaded, posing risks to the secure operation of power systems in Albania, Montenegro, Bosnia and Herzegovina, and potentially neighbouring countries such as Croatia.

A notable example is the system blackout on June 21, 2024, which was triggered by the near-simultaneous outage of 400 kV transmission lines in Montenegro and Albania. At the same time, the lack of coordinated cross-border capacity calculations, along with the absence of coordinated congestion management, has increased **WB6 system vulnerability, and the TSOs may face additional challenges** in controlling the power systems amid increased uncertainty in day-ahead and intraday flows.

During Q1 2026, substantial changes in physical flow patterns were observed. Increased flows occurred along the route from Greece, either directly or via North Macedonia, toward Bulgaria and further to Romania. Similarly, flows from Albania toward Montenegro and Bosnia and Herzegovina intensified, continuing further toward EU border countries such as Croatia, Hungary, and Romania. At the same time, transmission via the HVDC cable between Montenegro and Italy declined.

These **physical flows were strongly influenced by favourable hydrological conditions and tended to move toward EU markets regardless of the implementation of the CBAM**, resulting in a **growing divergence from commercial flows**. In the coming period, it will be essential to continue monitoring both physical and commercial flows, assess their deviations, and evaluate the ability of TSOs to maintain secure system operation under conditions of a significant mismatch between these flows.

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