



Regional Economy at the Crossroads? Recipes for a sustainable rebound and the next leg of convergence

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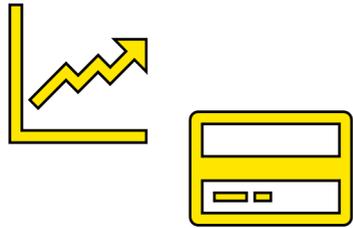
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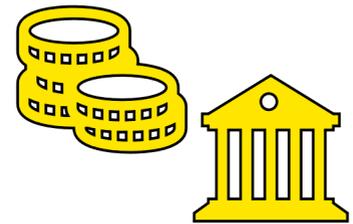
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Elements of a sustainable rebound and next leg of convergence



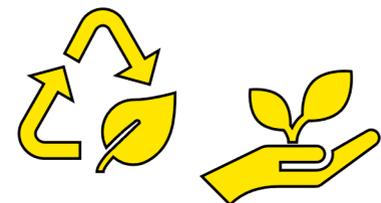
Regional banking sector in CEE well prepared to contribute to crisis management, recovery & digital transformation



Substantial hit in public finances likely to be manageable in most cases, international financing opportunities are there



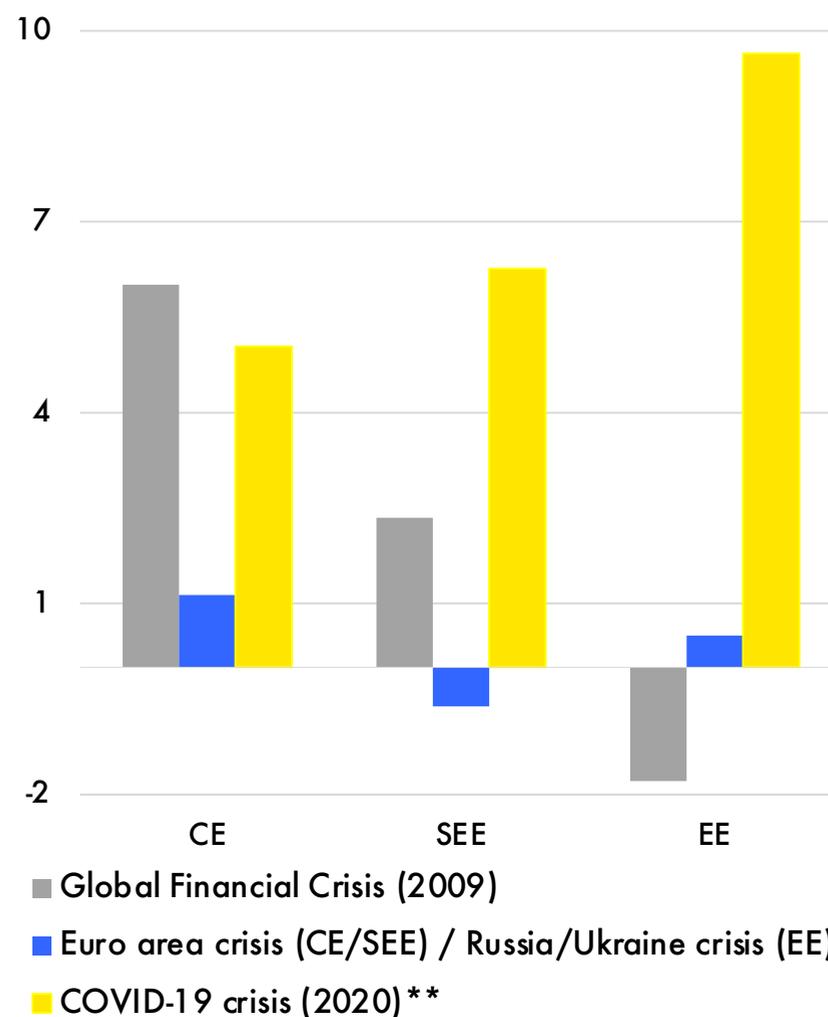
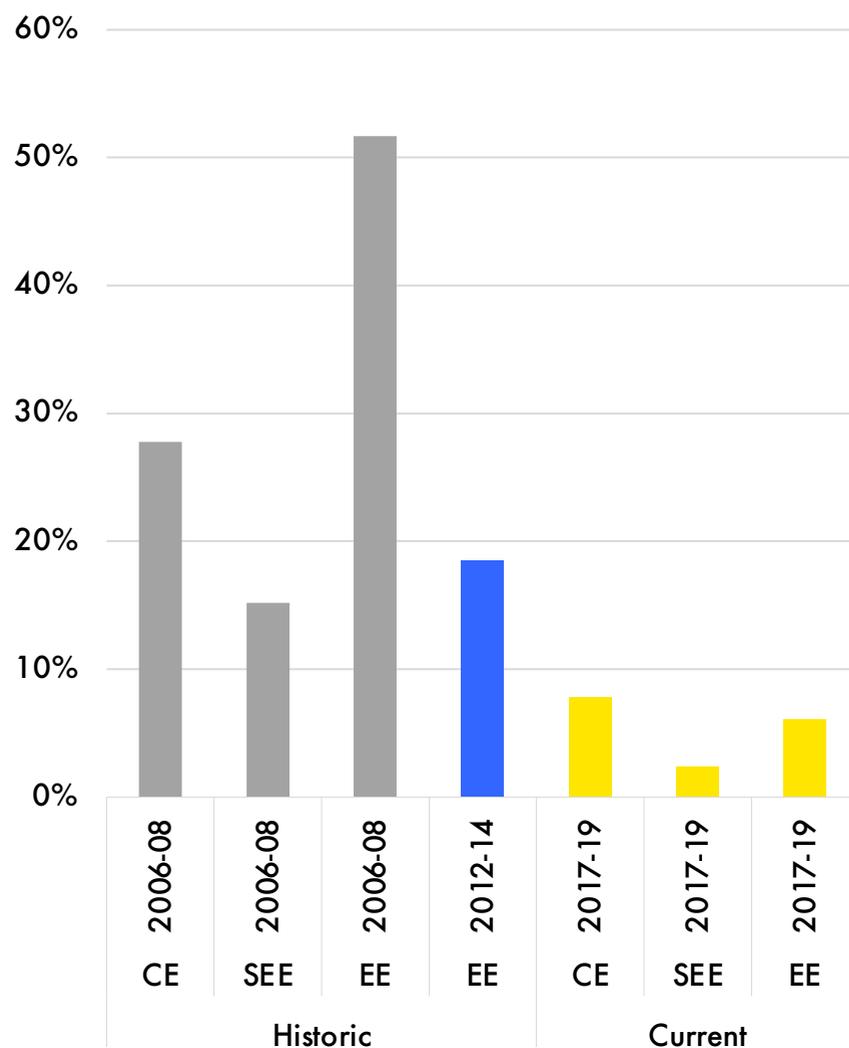
Tourism sector in the CE/SEE region and some countries requires close attention and possibly coordinated policy responses



Green Finance and ESG in CEE can be the next “Convergence” and “Investment Story”

CEE Banking Sector: Part of a sustainable rebound

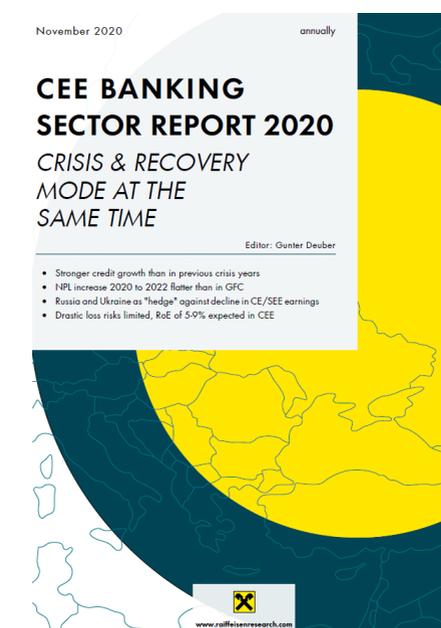
Key balance sheet and risk characteristics: Pre-crisis and crisis loan growth*



* Average LCY loan growth 2012/13 (euro area crisis), 2015/2016 (Russia/Ukraine crisis); ** Latest available data; Source: national sources, RBI/Raiffeisen RESEARCH

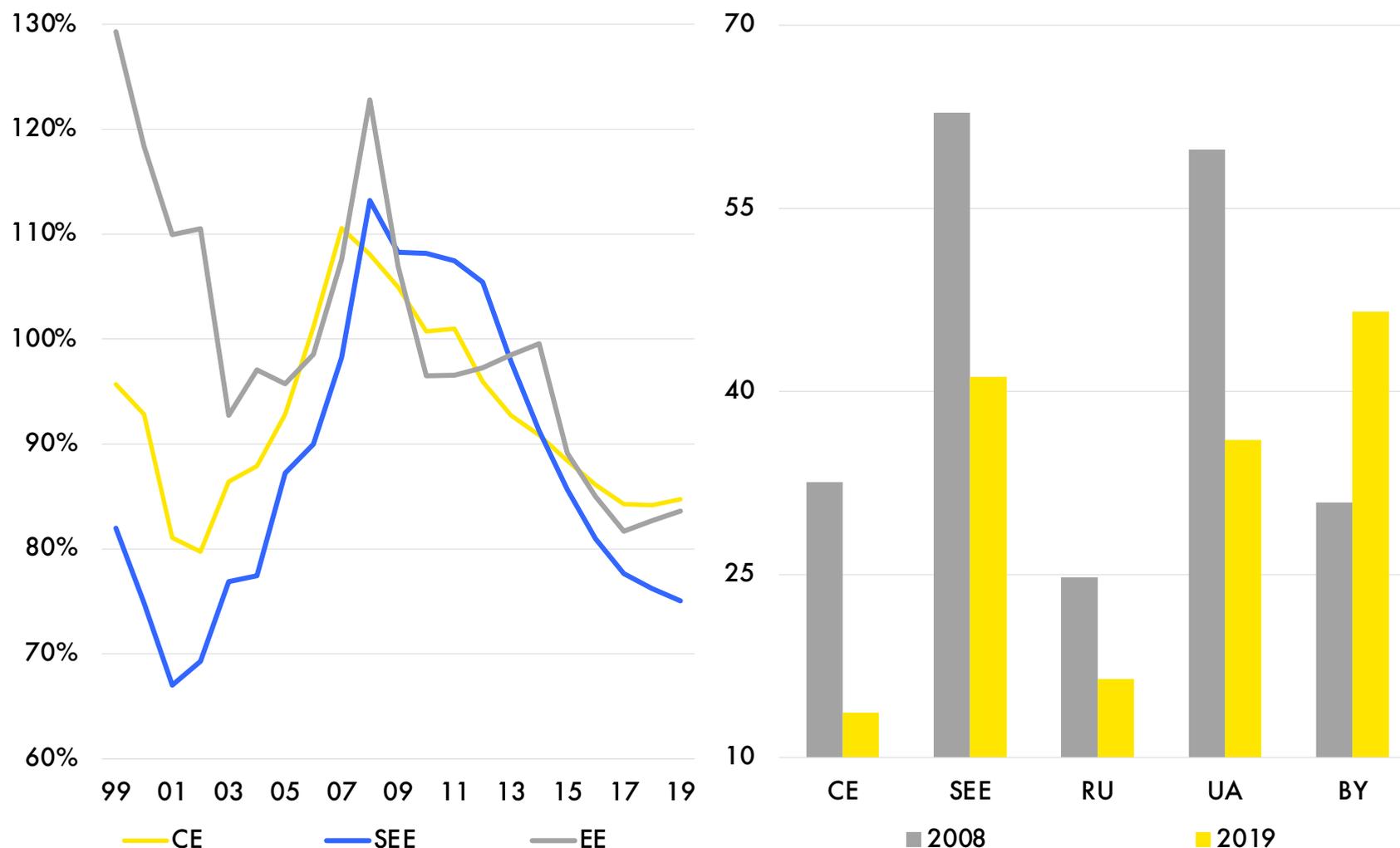
- Disciplined credit growth pre-COVID-19, no excessive risk-taking; currently credit growth higher than in “traditional” macro-financial crises
- Western banks strong force in CE/SEE region with market shares of 60-70%, in Ukraine ~17% of total assets; AT banks with market share of ~40% of exposures at leading Western CEE banks

For more details see also the RBI CEE Banking Sector Report 2020 and a recent Blogpost here at [Raiffeisen Insights](#) or the [full report](#)



CEE Banking Sector: A balancing act ahead of all of us

Loan-to-deposit ratios (left) and Foreign Currency Loans (% of total, right)

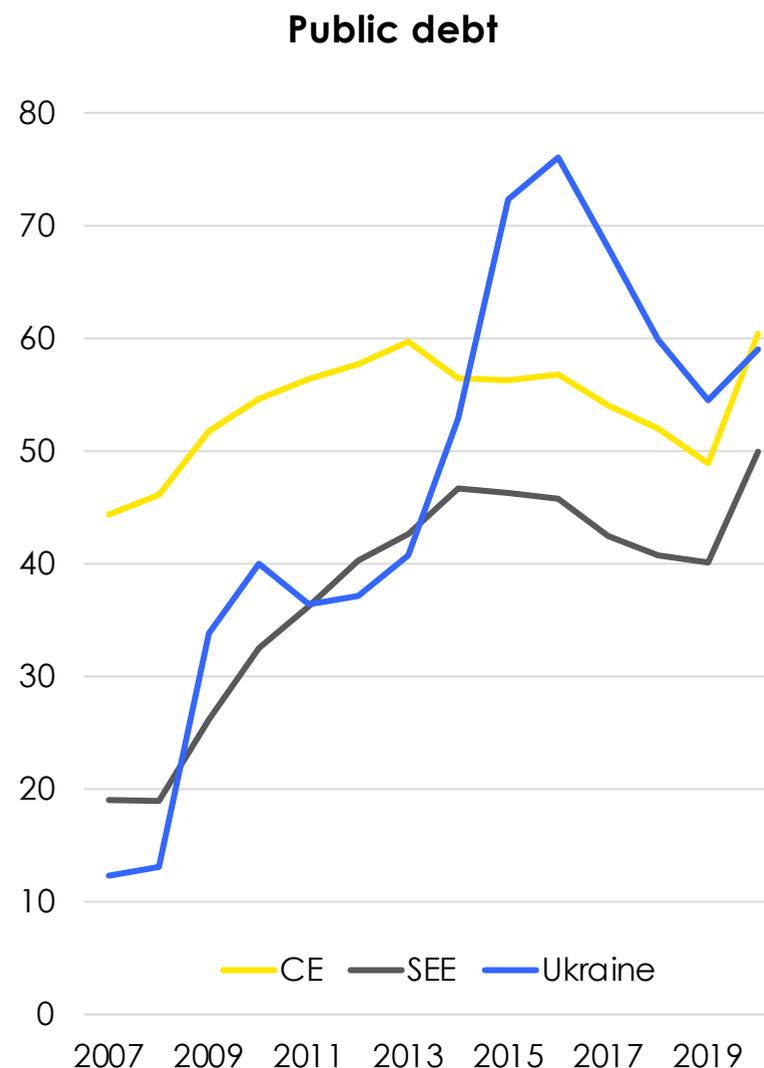
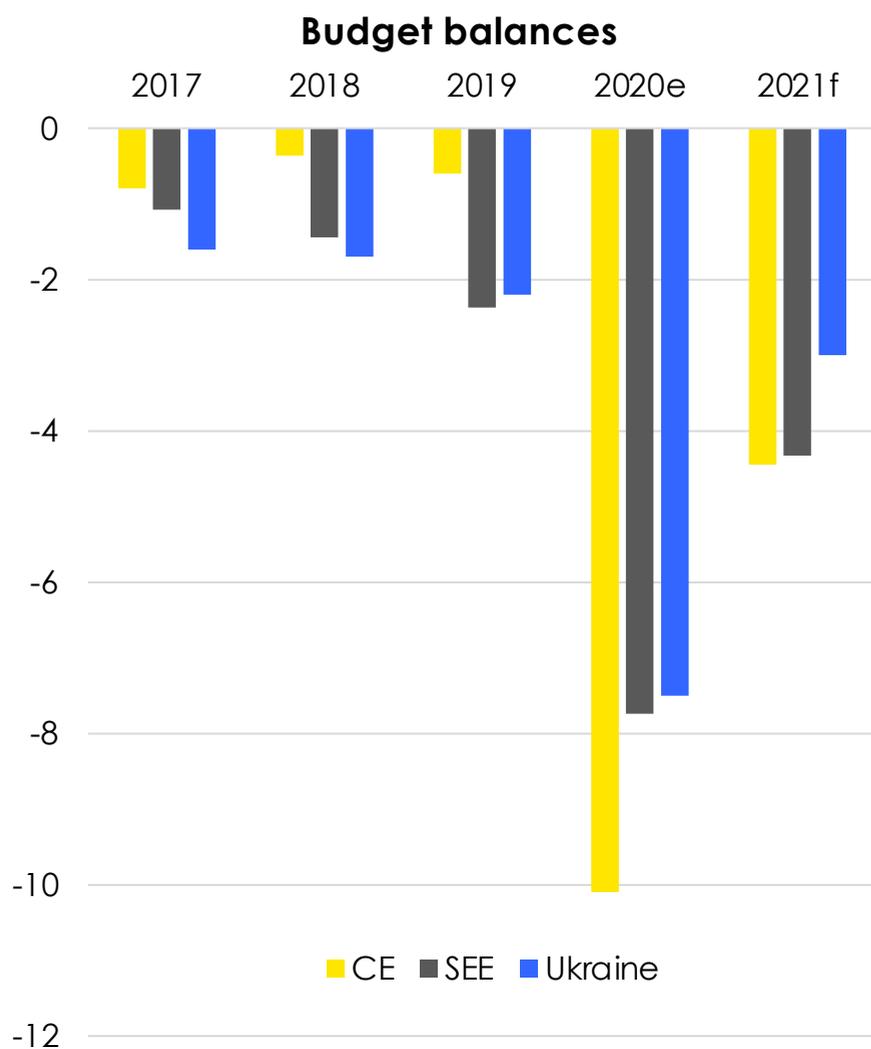


- Loan-to-deposit ratios below 100% in all key markets, no balance sheet adjustment & deleveraging required
- Loans in foreign currencies (FCY) not a major macro-financial point of concern this time around
- There is leeway to support private and public sector borrowings, while mutually beneficial agreements are key to phase-out exceptional and pragmatic banking sector support
- On top of lending business banking sectors a key element in the digital transformation in CEE, see also the RBI [CEE Fintech Atlas](#)

Source: national sources, RBI/Raiffeisen RESEARCH

CEE Public finances: Still manageable, markets financing is there

Fiscal positions and public debt (% of GDP)

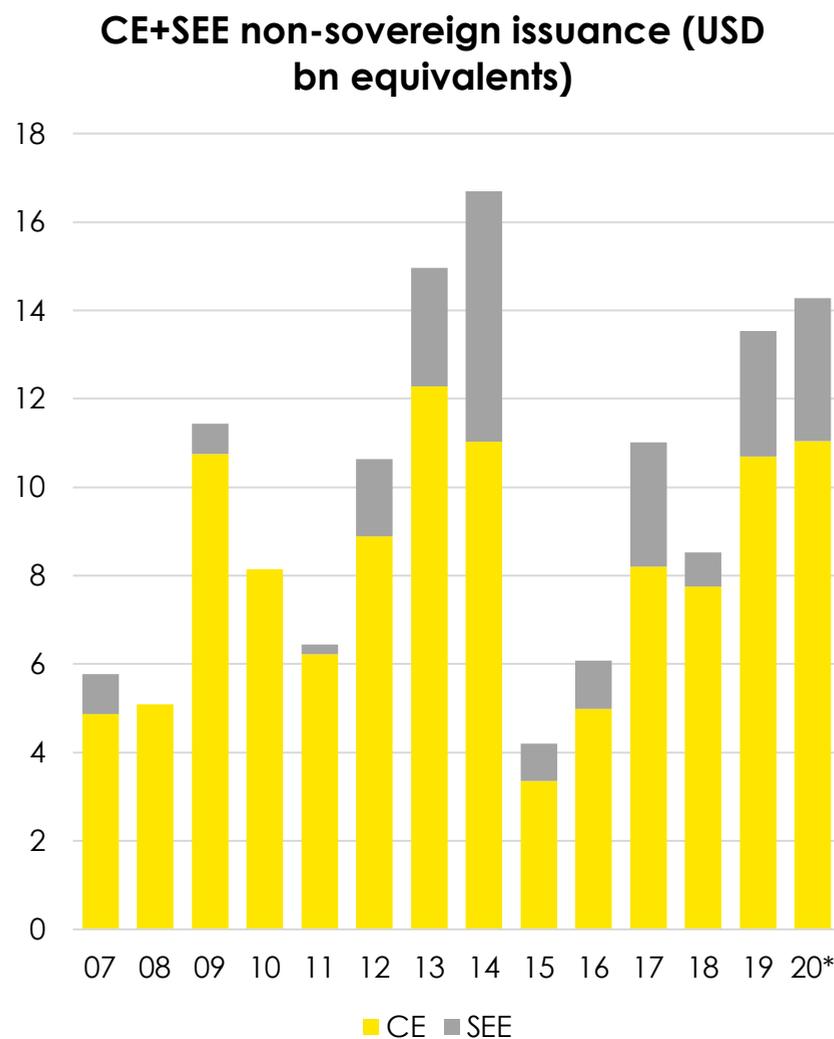
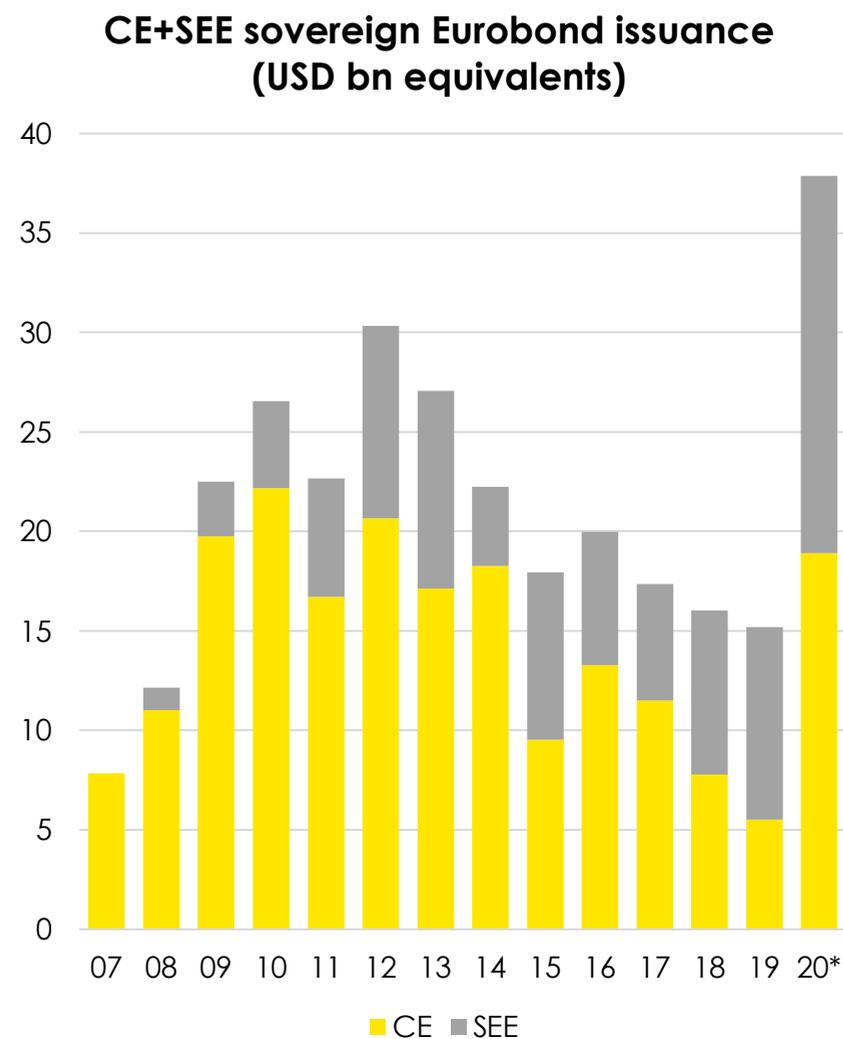


- **Fiscal policy as a first line of defence, substantial increase in public debt levels, but overall public debt positions manageable in most CEE countries from various perspectives, e.g.**
 - Levels (e.g. prudential thresholds of 60-70% for EMs)
 - Past consolidation track-record
 - Growth/reflation perspectives
 - EU/IFI financing available
- **Experiments with QE in selected CE/SEE countries, but QE in Emerging Markets a delicate balancing act**

Source: national sources, RBI/Raiffeisen RESEARCH

CE/SEE: Capital markets financing is there ... especially for sovereigns

International market placements out of CE/SEE (USD bn)

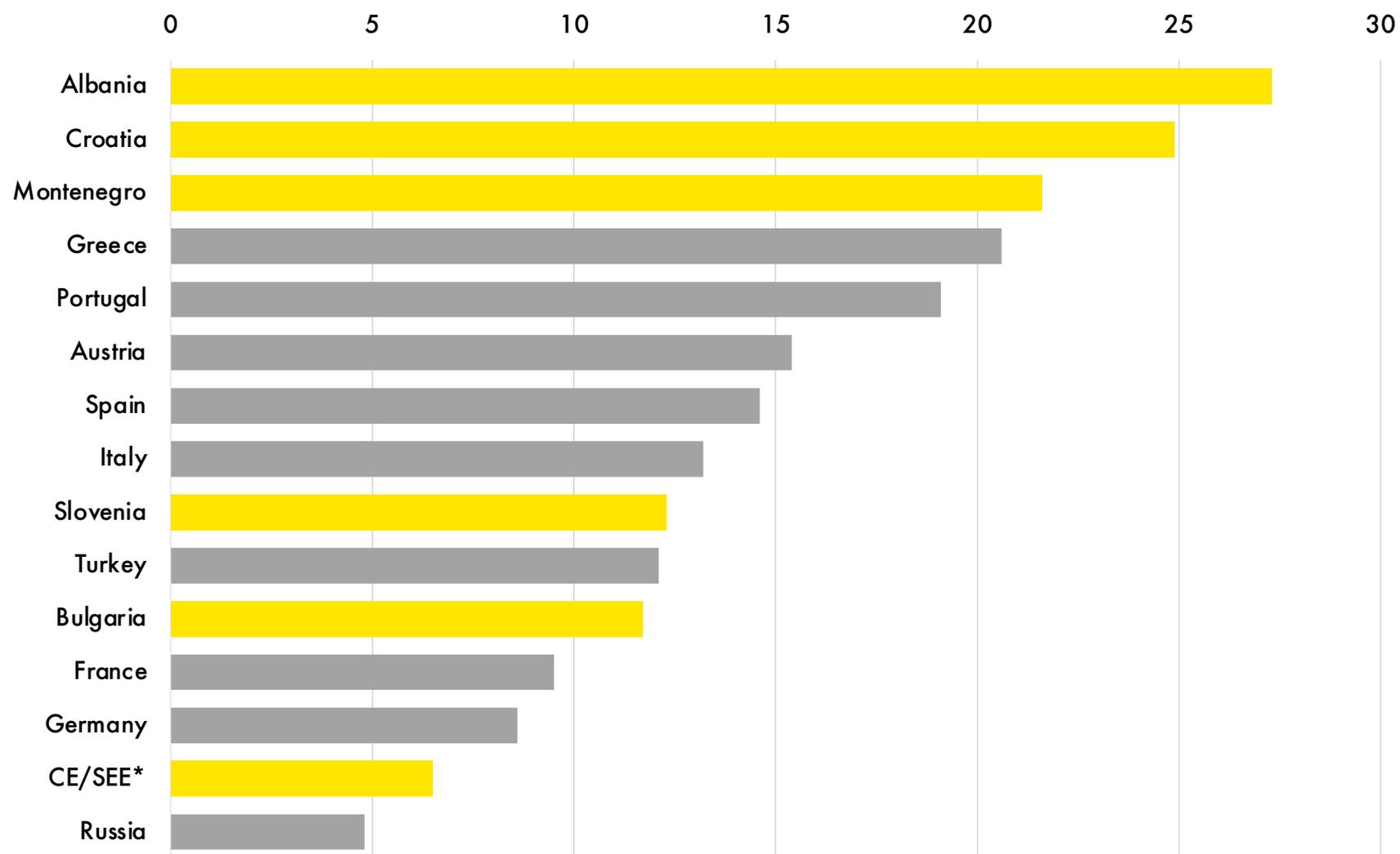


- **Strong sovereign issuance out of CE and especially SEE region in 2020 year-to-date**, especially strong in SEE (incl. Romania)
- **International investors ready to absorb sovereign issuance from CE/SEE countries up to now in 2020**; EUR regained in importance as issuance currency
- **International issuance a key element to keep domestic absorption capacity and support credit growth locally**
- **Issuance of Green & Social bonds out of CEE likely to face bumper demand**

* 2020 year-to-date values; Source: BondRadar, Bloomberg, RBI/Raiffeisen RESEARCH

CE/SEE: Tourism – a sector that requires special attention

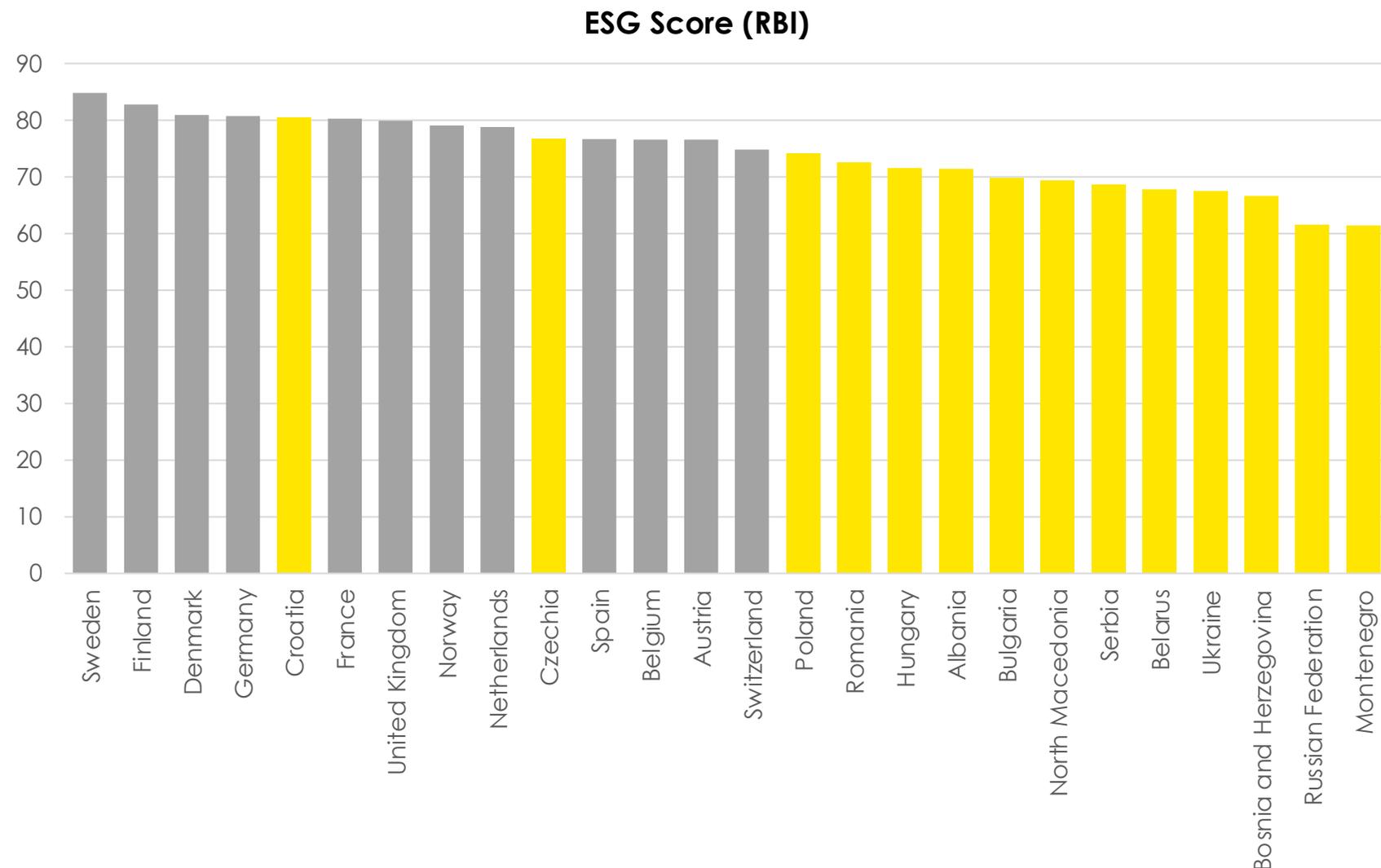
Travel and tourism as a share of GDP (% , latest available data)



- **Tourism a key economic sector in the region, while tourism sector one of the worst-hit economic sectors currently and possibly over the next years to come**
- **In the tourism sector internationally coordinated support measures would be definitely appreciated and helpful (incl. IFIs)**
- **However, potential in tourism not to be underrated from a mid-term perspective and looking at the Green Transformation in CEE (e.g. intra-European tourism, no mass tourism)**

* Average all CE/SEE countries; Source: WTTC, RBI/Raiffeisen RESEARCH

Greening starting position and upside potential – KPI-based improvements



Source: Vigeo Eiris, Bloomer, RBI/Raiffeisen RESEARCH

- Regarding some measures of Green Economy & Green Transition larger parts of CEE region seem to be laggards, e.g. within measures such as Global Green Economy Index (GGEI), see a blog post here [Discover CEE](#)
- However, there is a great potential in the Green Transformation in CEE, see also a blog post here [Discover CEE](#); while ESG ratings in CEE are OK (e.g. rank 8-60 out of 179 countries)
- **We just must change the narrative: The starting position is not that bad and progress in core ESG dimensions in CEE will certainly be much more effective in macroeconomic terms than in Western Europe**

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