Wide Angle Shot: 20 years EU membership CE - Successes, reversals and twist

Raiffeisen Research

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EU's expansion into Central Europe (CE, 2004) has been an economic success story at the macroeconomic level. This holds true despite certain twists and tweaks. Ballooning foreign trade and FDI have led to a sustained economic and income catch-up vis-a-vis Western Europe. In banking, catch-up trends are somewhat more complex. Overall, THE "Convergence Winners", if macroeconomics and banking are taken as a benchmark, are presumably Czechia and Slovakia. On an interesting note both countries pursued very differing strategies, paired with a few underlying similarities. Austrian banks remain a dominating force in CE (market share 25%). Going forward the CE region can benefit from the successes achieved and current geo-economic trends — if it can avoid being in its very own corner.

Central Europe: From less than Netherlands to a close to Italy in 20 years

Since 2000 and 2004 (EU accession date), **all** new **Central European** (CE) **EU members** have achieved a **remarkable macroeconomic** and **income convergence**. During this time, their **share** in the **overall EU GDP** (in nominal terms) has risen from just **4-5%** to **8.6%-9.2%** respectively. This means that the GDP share of these five catch-up economies in the EU's economic weight has almost doubled. On aggregate, the economic catch-up vis-a-vis Western Europe had been rather smooth over the last two decades, albeit characterized by a certain **slowdown** from **2009** to **2014** and partly until **2016**. This was followed by **another strong second convergence leg** over the last 5-7 years but again slowed in selected countries in the recent crises, most notably in **Czechia**. The outlined regional slowdown in economic catch-up compared to Western Europe is an indication that there had been **certain twists** and **realignments** in the convergence phase in selected CE EU member states.

Nevertheless, **EU's eastward enlargement** to CE was a recognizable **economic success story**. In a direct **comparison** with **larger Western EU countries**, this means that the **CE-5 countries** (Poland, Hungary, Slovakia, Slovenia, Czechia) or CE-8 respectively (CE-5 plus Baltics) have increased their **relative GDP weight** of **28-30% Italy's GDP** (2000) to almost **80%** of Italy's GDP (2024). Compared to the **Netherlands**, this performance means that the aggregated GDP of the **CE region** in nominal terms is now **significantly larger** than this **fifth-largest EU economy**. Today, the economic strength (GDP) of the CE region stands at **145-160%** of that of the **Dutch economy** (vs 77-80% back in 2000).

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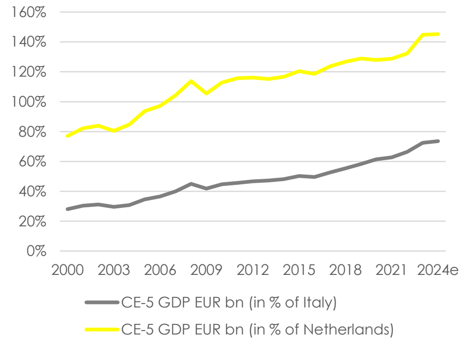
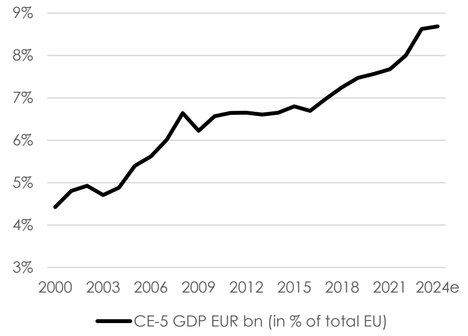
Catch-up CE vs. IT & NL



Source: IMF, national sources, RBI/Raiffeisen Research

Catch-up: CE vs. EU

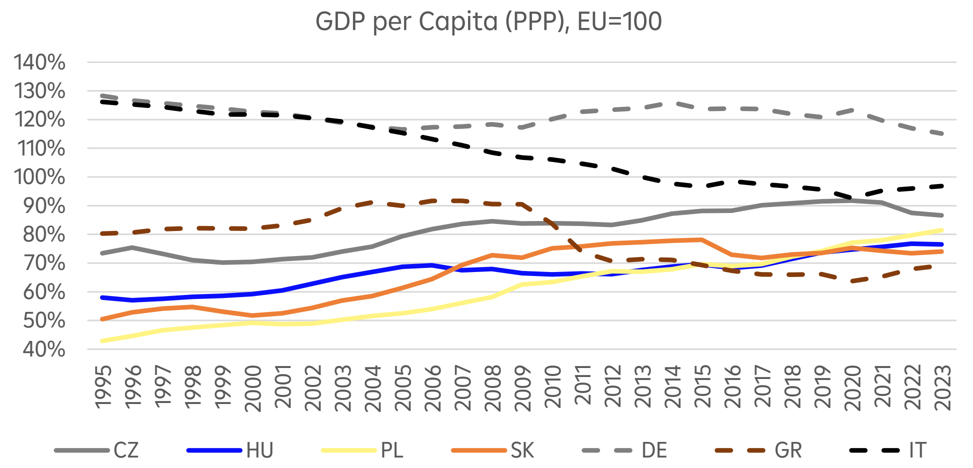


Source: IMF, national sources, RBI/Raiffeisen Research

The comparison of **GDP per capita levels** (based on purchasing power parity, PPP) **also reveals an ongoing** and **rapid** (especially in the first decade) **increase** towards the EU averages. Here the largest jump occurred in the case of **Poland** which lagged most in 2004 and its GDP per capita increased from 43% of the EU average in 2004 to 81%. In the case of **Czechia**, it has been (now and then) the highest: 76% in 2004 and 87% in 2023 (for **Hungary** and **Slovakia** the respective ratios are currently at 76% and 74% respectively). However, already fairly high income levels vs EU averages also imply that the **space** for **further "easy" economic convergence** will become much thinner from now on. The last 10 percentage points of the income gap to EU averages are possibly much more difficult to catch up, or only with more complex investments and reforms.

During the last 20 years economic convergence continued despite disruptions and watershed events in the form of the Global Financial Crisis (GFC), the euro area sovereign debt crisis, the more recent energy crisis or the pandemic. Despite a partial standstill in economic convergence, **no secular decline** or **reversal** of **convergence** was discernible like in **other parts** of the **EU**. Therefore, it can be thus assumed that the CE countries enjoyed the anticipated benefits of EU membership even if it created some delicate path dependencies (e.h. over-reliance on cheap labour as a competitive edge, low diversification of industry amid a high share of automotive among others).

(Almost) Uninterrupted convergence in CE



Source: IMF, RBI/Raiffeisen Research

CE: EU entry and foreign trade developments - rise of intra-regional trade

The EU entry of the CE countries, including pre-accession dynamics, has been a catalyst for sweeping changes that occurred in their economies following the transition period in the 90s. The EU entry facilitated access to **new markets** and **investors** and led to reduced transaction costs therefore fostering further rapid development. This is the best visible

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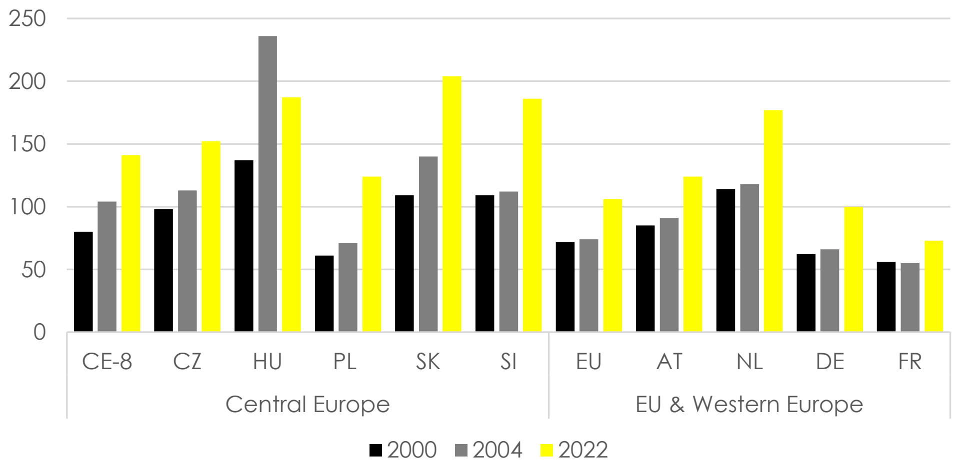
in **trade flows** which continued to **rise rapidly** in the **first years** of **EU membership**, disrupted temporarily by the GFC and euro area debt crises. Nevertheless, from 2004 until 2023 **exports** increased **3.9 times** in **Hungary** and as much as **7.4** in **Poland.** Respective ratios are at **5.5** in the case of **Czechia** and **5.6** for **Slovakia**. Moreover, exports intensified not only with Western European EU members. EU membership also supported expansion to new markets beyond the EU and more importantly led to an **increased intra-regional trade** (within CE or even CE/SEE) – a trend which gathered pace in recent years. Currently (2022 data), the aggregated intra-regional CE (plus Southeastern Europe, SEE) trade stands almost at the level of foreign trade with the economic powerhouse Germany (**26% intra-regional CE/SEE trade vs 28%** trade with **DE** for exports), up from some **20% vs 30% respectively** back in 2005. Those numbers reveal a trend decrease in the share of Germany as a dominating trading partner and a rise of CE/SEE between 2005 and 2022. Not to forget that deep current account deficit positions with the German economy have (partially) corrected since the time of the EU entry.

Trade Openness (foreign trade in goods, % of GDP)



Source: World Bank, RBI/Raiffeisen Research

The strong foreign trade performance led to a **secular increase** in **trade-openness** ratios in the CE region. On average foreign trade amounted to some **80%** of **GDP** some twenty years ago (2000). Up until the EU entry this ratio increased to 104% of GDP, hovering around **141%** recently. Peak foreign trade dependencies can be spotted in **Hungary** and **Slovakia** with **190-200%** of GDP. Even the larger **Polish economy** is as open to trade as Austria. Therefore, the CE region is even somewhat **more reliant** on **foreign trade** than other well-established small and trade-open EU economies like the **Netherlands** or **Austria**. Here foreign-trade-ratios are coming in at 120-170% of GDP. The high level of trade openness is a reflection of the region's solid international competitiveness position. However, CE's openness to trade increases its **direct** and **indirect exposure** to **global economic shocks** and **setbacks**, which is a risk factor. This is particularly true with regard to geopolitical risks. Not to forget that the still existing robust integration with Germany as an economic partner means that the CE countries are particularly exposed to cyclical and global economic risks (especially in the industry sector).

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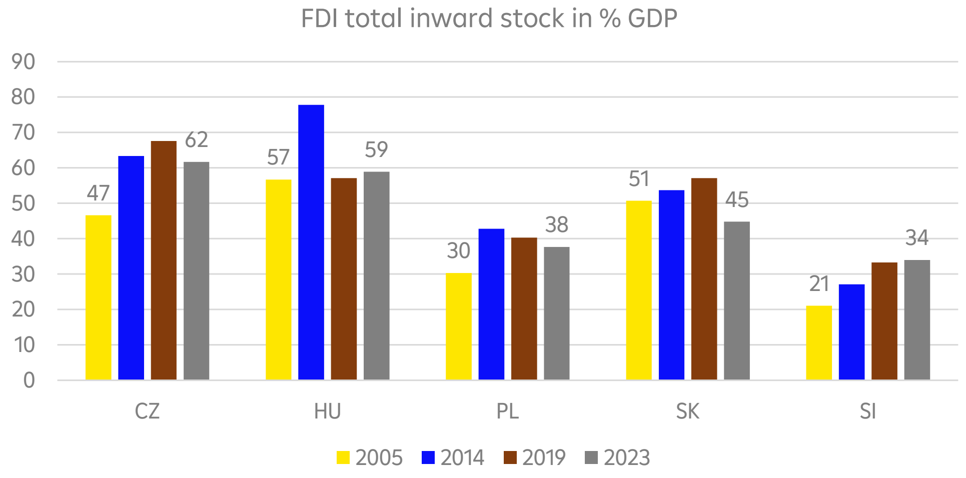
EU entry boosted FDI/foreign capital inflows



Source: WIIW, RBI/Raiffeisen Research

CE: EU entry and Foreign Direct Investment hotspot

With relatively **lower labour costs**, reforms and regulations fostered by **EU membership** plus ever-increasing **infrastructural connections** to Western Europe (also on the footing of EU funds) the CE countries became also a highly attractive FDI market. This resulted in an **increase** of **FDI stocks** since **2004,** e.g. by over **130%** in the case of **Czechia** and almost **300%** in **Poland** (to 62% of GDP in Czechia and 38% of GDP in Poland in 2022, reflecting here the difference in the size of the economies). The dynamic between 2004 and 2021/2022 in the case of other countries in the region was: 146% in **Hungary** and 226% in **Slovakia**. From a broader European and EU perspective the CE region is characterized by fairly elevated FDI inward stocks.

Trade and FDI expansion - just a Goldilocks scenario?

Both openness to trade and high penetration in terms of inward FDI do speak for the **competitiveness** of the **CE region**. Here we are referring to the international price competitiveness plus other qualitative competitiveness factors (e.g. access to EU markets, qualification of labour force, digital readiness). It is therefore not surprising that **advantages** could also arise here from the **current geopolitical reconfiguration** of the global economy into **economic blocs**, incl. the EU and its individual markets. The region can be seen as an attractive springboard into the EU, which is partly reflected in the reallocation of production by Western companies to the region and in Chinese FDI activities ("nearshoring", "friendshoring"). The greatest effects could still lie ahead of us here, given the lead time for re-allocation investments plus the only slowly emerging need for real new investments or capacities at many major international companies.

The **high FDI penetration** and **openness to trade** compared to other countries have also given rise to **some more critical local debates** about excessive foreign dependency. This is particularly true in the case of (perceived) high dividend outflows or (perceived) too little local reinvestment resulting from FDI commitments. This has led in part to **nationalization** or **nationalization tendencies**, as in Hungary and in part in Poland (mainly in the banking sector).

National and local ambitions to promote so-called "local champions" with regional or EU-wide expansion ambitions are a sensible result of the sketched trends. After all, excessive dependence on foreign companies and capital inflows does not always lead to optimal results. The **somewhat asymmetrical integration** of the region into value creation in Europe is also shown by the high differences between **incoming FDI** and **outgoing FDI** (i.e. low outward FDI stocks). However, FDI from Germany and Austria in particular has usually had high positive local and social effects, as a high level of reinvestment activity

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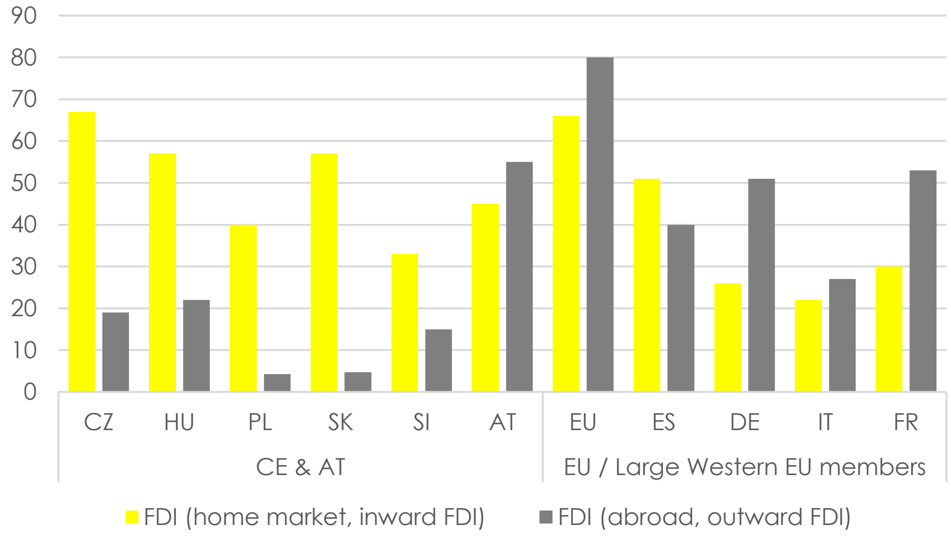
has mostly taken place here (for a relevant wiiw-study see here: Economic and Social Impacts of FDI in Central, East and Southeast Europe).

FDI penetration (% of GDP, 2022)



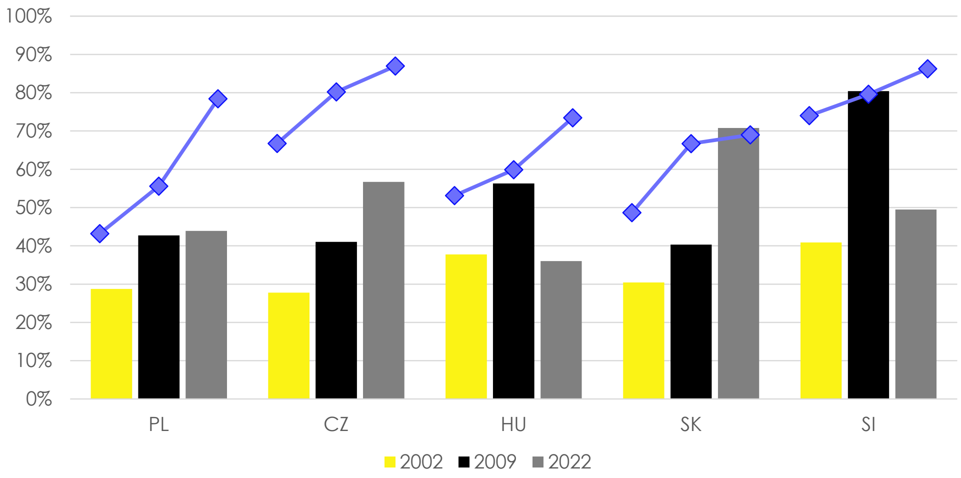
Source: OECD, RBI/Raiffeisen Research

(Gunter Deuber, Dorota Strauch)

One-way convergence in economic strength - not in banking

In comparison to **economic convergence** the **picture** is **anything but homogenous** when it comes to **CE banking** and the **pace** of (catch-up) **financial deepening**. Interestingly, although the GDP convergence towards euro area averages has proved more or less uninterrupted, financial intermediation levels (i.e. loan-to-GDP ratios) ran at times astray and hence appeared to be more uneven, with partial reversals. In terms of financing provided to the real economy **Czechia** and **Slovakia** stand out in a positive way, whereas in case of **Hungary** or **Slovenia** the financial intermediation ratio vis-a-vis the euro area remains much lower than back in 2009 or even 2002 respectively; in case of **Poland** the financial sector catch-up has stalled since 2009 — in stark contrast to the overall economic catch-up.

Bank loans/GDP (bar) vs. GDP per capita at PPP (line)
% of euro area average



Source: WB, ECB, national sources, RBI/Raiffeisen Research

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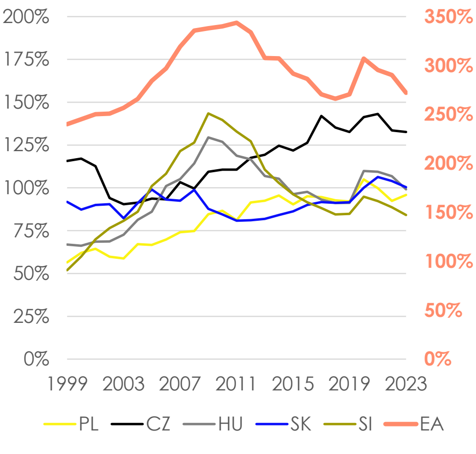
Financial deepening – how much convergence potential is left, where are the newly emerging business opportunities?

Just as in the case of economic integration, the **prospect** of **EU accession** had generated optimism about **banking business prospects** in Poland, Czechia, Hungary, Slovakia and Slovenia (or CE-5 for short) well before their actual EU entry in 2004. Looking at the sectors' total assets-to-GDP ratio (the prime measure of banking sector development), a **pickup** in **financial penetration** levels can be **discerned** already in the **beginning of 2000s**. This trend was lasting uninterrupted through 2009, which was not least underpinned by **active involvement** of **foreign (including Austrian) banking groups**. Those players had been betting big on the region since early 1990s, while European industry (and corporate Germany) was also rushing into the region as indicated by strong FDI flows well ahead of the final EU entry. On a fair note, one should mind the **wider European "super-credit-cycle"** from 1999/2000 (foundation of the euro area) lasting until 2008/2009 (GFC). Pretty much all markets in Europe, and "underpenetrated" markets in particular, saw their financial intermediation and leverage moving up in that period. This concerns the euro area in aggregate (and so-called euro "Peripheral countries") but also other fellow CEE countries that were not part of the first Eastern EU enlargement round in question (e.g. Romania, Bulgaria or Croatia). In this respect, global, European and regional economic and capital market trends were closely intertwined at the time.

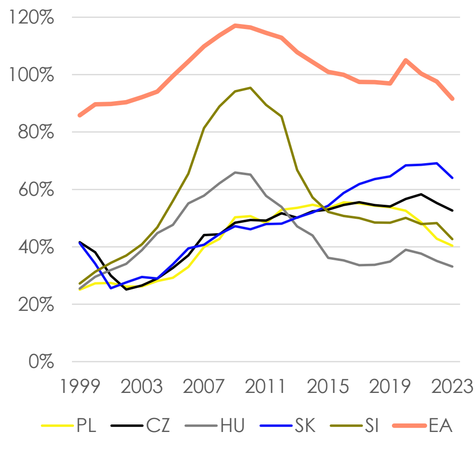
Having enjoyed their early heyday side by side, the **CE-5 banking markets** entered much **more challenging waters** in **2010-2015** which basically **broke** the **initial uniform growth pattern** amid more divergent economic robustness and crisis policies. An extended credit downturn in the euro area in the aftermath of the GFC weighed on the region, while some individual markets were also confronted with **pockets** of **country** and/or **banking sector-specific risks** accumulated during the initial active growth phase. This holds especially true for **Hungary** and **Slovenia**, where financial penetration levels have potentially overshot fundamentally backed or sound levels, or the speed of credit expansion was possibly too extreme. Moreover, in case of Hungary **large-scale FX loan extension** to retail clients caused substantive banking sector repercussions, while Slovenia suffered from an extreme externally (wholesale) financed leverage cycle on the back of the swift euro area entry. The last eight years up to 2023 in CE-banking can be characterized by greater inertia in high-level banking penetration levels (bar a splash of counter-cyclical lending during COVID-19), which further cemented the "seasoned" disposition among CE-5 countries. At present **Czechia** plus **Slovakia** are defining the **upper bounds** of **financial intermediation rates** in the region, while **Hungary** and **Slovenia** are characterized by low financial intermediation levels.

Banks' total assets (% GDP)



Source: National banks, ECB, RBI/Raiffeisen Research

Banks' loans (% GDP)*



** Excluding loans to MFIs and central government*

Source: National banks, ECB, RBI/Raiffeisen Research

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A retrospective view may shed light on why some CE countries proved to be more steadfast and resilient in their banking convergence. Looking 25 years back, all CE-5 banking markets approached the millennium with total assets/GDP ratios below 50% of the euro area average while still carrying legacies of post-communism economic transition on the balance sheets. **Czechia** and **Slovakia** started from nominally higher financial intermediation levels (total assets/GDP above 90% in 1999), but they also went through a **substantial (corporate) loan portfolios clean-up** post their 1998/99 transformation calamities, which was conducted in parallel with **privatization** of **major banks to strategic foreign investors**. One may argue that the resulting dominance of Western European banks added stability to the sectors and, in case of Slovakia, also helped a smoother adoption of the euro later on – of note, only these two countries in the sample could boast a **steady rise** in **bank loans/GDP rates** from about **25%** in **2001/2002** to **50-70%** in **2023**, including **stellar growth** of the **socially important** and **locally impactful residential housing loan market**.

In Hungary, Poland and Slovenia (total assets/GDP at 50-70% in 1999) foreign banks were also gaining local market weight quickly (perhaps to a smaller extent in Slovenia). However, in the beginning of 2000s the largest players were still in state hands (majority owned or through a "golden share"). Although a more active role of the government in these markets had been no bar to active credit expansion up until late 2009, some wider external shareholder support was possibly missing there in the aftermath of the GFC followed by the euro area (sovereign) debt crisis. For example, the double dip recession in Slovenia in 2009-2012 with an ensued credit crunch have undone a big part of the financial deepening achieved by the country in the first decade of the century. However, it has to be stressed that **foreign banks** also played a major role in **shielding** the **CE-5 countries** from **wider spillovers** of the banking sector repercussions following the GFC in the context of the **"Vienna Initative" (1.0).** The latter proved to be an innovative and successful private-public sector coordination format (for an assessment, where we contributed see here: EIB, Ten years of the Vienna Initiative 2009-2019).

In fact Slovenia experienced an excessive and externally financed credit expansion as part of the **wider European "super-credit-cycle"** up until the **GFC.** Ironically, the country entered the euro area at exactly the most inopportune moment, i.e. at a time of excessive cross-border capital flows. Not only in Slovenia (or in parts of the so-called euro area "Periphery") has the GFC and European (sovereign) debt crisis **corrected** for an **"unhealthy" part** of the **pre-GFC credit euphoria**. The wave of foreign currency lending to retail clients in Poland and Hungary (in some cases financed by banks' external borrowings rather than domestic deposits) should be mentioned in this context. While it may have been apt for exporting corporate borrowers, the bold increase of FX loans to households amid underestimated vulnerability of exchange rates for EU newcomers eventually backfired on banks heavily with repercussions felt up to these days in case of Polish banks' CHF mortgage loans. Possibly **overoptimistic euro area entry** and **convergence expectations** also supported the widespread FX lending in some CE markets.

On the other hand, where managed more conservatively, **EU membership** (in Slovakia paired with Euro membership) proved instrumental to unlock significant potential of the **housing loan market**. Here, **Slovakia** is the main "poster child" that has reached the **penetration levels** of **wealthier Western economies** over the last twenty years (housing loans/GDP >30%), leveraging improvements in the **institutional** and **legal frameworks** and enjoying the access to a broader **EUR-based investor pool** through covered bond issues. The same is now also conceivable for non-EUR EU countries thanks to unification of basic rules for covered bonds in 2022. Such instruments do bring stable long-term refinancing options to banks, a cornerstone of the structural mortgage market development. Among peers, Polish banks have also established their (limited) presence on the European covered bond market, while for Czechia and Hungary it is still more

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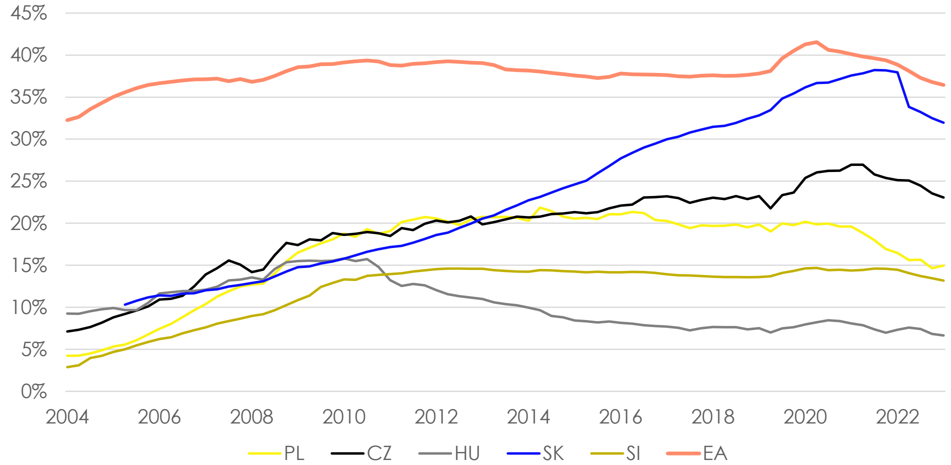
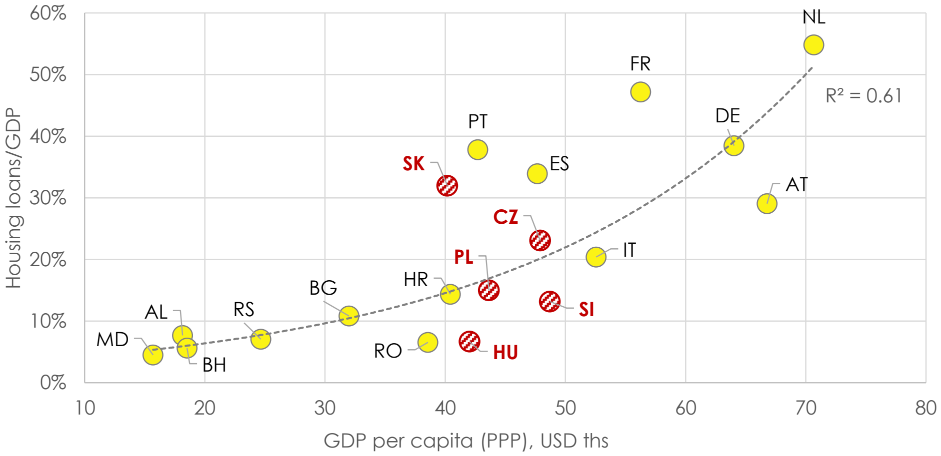
of a domestic marketplace characterized by large interbank cross-holdings though with prospects to open up to broader foreign investors. Slovenian banks have the covered bond legislative basis in place but are yet to tap into this market funding source. As a result, **Slovakia's sturdy growth** in 2004-2022 sits in **stark contrast** to **Poland, Slovenia** and above all **Hungary** where the housing loans/GDP momentum waned after the GFC. In case of **Hungary**, the market penetration rate retreated below 10% as of 2023, highlighting its **bottommost position** among **peers** of a similar wealth level — European countries with GDP per capita (PPP) at USD 40-50k, where also all CE-5 markets belong. On a positive note, here we should also find the catch-up potential which is additionally supported by government initiatives. Thus, non-EUR CE countries' leading positioning in the current monetary easing cycle in concert with dedicated state support schemes makes for their head-start recovery in mortgage lending in 2024.

Housing loans outstanding (% GDP)



Source: ECB, RBI/Raiffeisen Research

Housing loan markets (2023)



Source: National banks, ECB, IMF, RBI/Raiffeisen Research

Speaking of the **corporate segment**, the more turbulent times of 2010-2015 have illuminated a **diminishing role** of **local bank loans** for companies as they were turning more eagerly to alternative (cross-border) financing. Part of this can be ascribed to FDI flows and respective financing from parent entities, however an increased propensity to borrow from foreign financial institutes can be also assumed to a certain extent. Indeed, as of **2022/2023** the **CE-5 countries** show around **historically lowest share** of **local bank loans** in companies' total debt funding (loans and debt securities outstanding) featuring a sub-50% ratio. Likewise, in the last years the region has mostly trod water when we juxtapose CE banks' corporate loans-to-GDP rates (~20% or lower) with the euro area average (35-40%). From these reduced levels, we again see a certain growth potential

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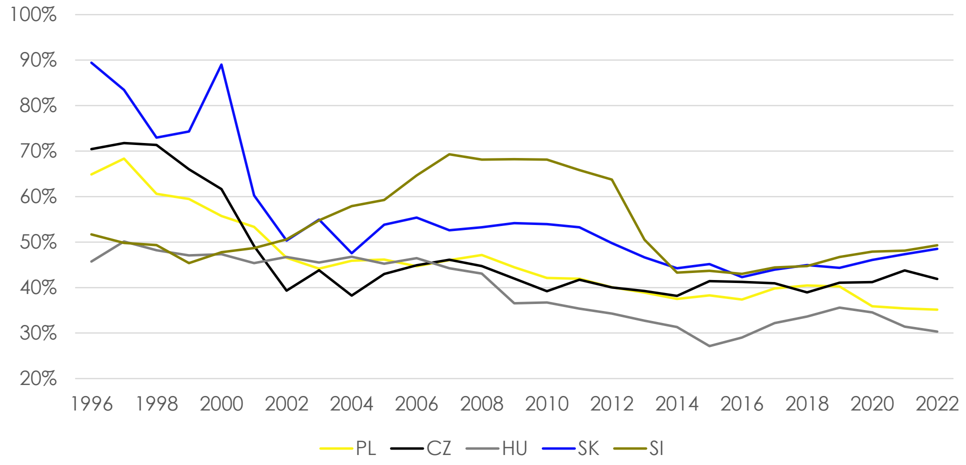
in light of current economic trends in the region and geo-economic developments (e.g. increasing economic integration among the CE-5 countries or with SEE, rediscovery of the CE countries in the process of global near- and friendshoring reallocation).

Bank loans in NFC debt funding*



** Local banks' loans to resident NFCs as % of NFCs' total loans and debt securities outstanding (consolidated annual sector accounts)*

NFC - Non-Financial Corporates

Source: National banks, Eurostat, RBI/Raiffeisen Research

CZ & SK: Most solid convergence stories - same, same but different

Overall, one can speak of a **smoother financial deepening** and **economic convergence** toward the EU and euro area banking intermediation levels in **Czechia**, **Slovakia** and, to a **smaller extent**, **Poland**, whereas **Hungary** and **Slovenia** had some painful "boom-and-bust" episodes on the way. In part this is owed to overly aggressive market growth strategies, while macro- and microprudential regulations that were not always targeted or a lack of instruments and understanding at that time played a role as well. Repositioning of major investing foreign banks driven by reassessment of their risks in the region and also tough competition from national champions which have also shown strong pan-European growth ambition in the last years added to divergent banking market developments within CE. Thus, we see **Western banking groups** consistently **adding exposure** to their **Czech** and **Slovak portfolios**, while they stay less active when it comes to other CE-5 markets. At present, the repositioning of Western banks in the region is evidently also being determined by geopolitical issues and/or issues associated with EU integration. Western banks are currently tending to return to the more stable and predictable CE markets. The **relative share** of the **CE region** in the total exposure of Western banks in the CEE region is almost back to the **2004 level** of **70%** of all CEE assets (only approx. 56% in 2008), while the share of Eastern European countries (Russia, Ukraine, Belarus) has fallen in the long term and structurally.

In terms of macroeconomic and banking sector convergence, the **Czech Republic** and **Slovakia** can be regarded as the **most successful EU accession countries** from **CE** in the long term. Interestingly, both countries have pursued **very different development strategies** and **paths**. In the banking sector in particular, both countries have experienced a constant process of financial deepening that is conducive to prosperity; the increase in sustainable penetration of residential real estate loans, which is directly perceptible to the population, is highest here. The **elevated foreign ownership ratio** in both local banking sectors, **hovering around 85-90%,** has obviously not stood in the way of this performance (incl. a strong market share position of Austrian banks at around 25% in case of Czechia and close to 40% in case of Slovakia).

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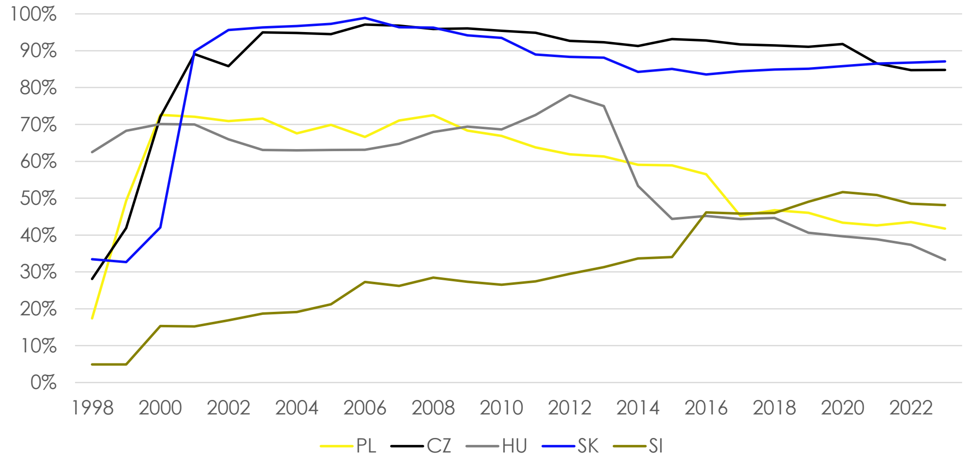
Foreign banks' market share (total assets)



Source: National banks, ECB, RBI/Raiffeisen Research

Ultimately, both countries have become **deeply integrated** into the **EU economic structures**. In the Czech Republic, this happened on the basis of **credible monetary** and **currency policy autonomy**, also on the basis of a **stability-oriented economic policy**. In the case of **Slovakia**, the **stability-oriented approach** led to **fairly rapid accession** to the **euro** in 2009, while — compared to Slovenia — no excessive external debt has been accumulated. The euro area entry has presumably somewhat weakened real economic convergence. However, joining the euro area has massively accelerated banking sector convergence and euro market integration. The latter has also promoted the high increase in convergence in the area of residential real estate loans, based on long-term refinancing and euro interest rate convergence. In this respect, **Czechia** is currently also **partially reassessing** its **euro opportunities**. Especially as de facto euroization is increasing here in many areas, while the macroeconomic performance of recent years does not per se indicate significant advantages of monetary and currency policy flexibility.

Despite economic successes, **populist politics**, sometimes coupled with EU skepticism, also existed and still exists - to varying degrees - in these two examples of economic success. This indicates that there must be deeper **underlying factors** that **overshadow** the **economic tangent**.

Watch out: Austrian banks strengthened their leading role!

What remains stable, though, is the **leading role** of **Austrian banks** in the region which has been maintained since early entries in mid-1980s. As of 2023, we estimate **Austrian banks** accounted for **25%** of all **Western banks' exposures** to **CE-5 residents**, hence by a wide margin ahead of Belgian (14%), French (14%), Italian (11%) and German (10%) rivals. This active engagement has notably contributed to coordination of cross-border banking agendas in the region. For instance, the Vienna Initiative framework, first launched at the height of the GFC, helped establish more efficient home-host supervisory cooperation and also promote IFIs support to the region (e.g. guarantees, SME lending programmes). In some ways, the forum served as a forerunner of broader post-GFC EU initiatives to enhance financial stability and regulatory integration, while it still remains an important platform (Vienna Initative 2.0) for CEE banking actors (e.g. to coordinate pressing local banking sector topics in terms of regulatory and/or market refinancing topics, e.g. MREL financing). Along the same line, **harmonization** of **regulatory rules** in **CE** has been a major step forward in the deep and multi-layered EU integration that one should consider on top of simply quantitative convergence indicators. Concerning this facet of the topic the introduction of the **Single Rulebook** (capital requirements regulation, deposit guarantee schemes, resolution matters) and construction of the **Banking Union** represent some key milestones in pursuit of a level playing field for banks in the bloc, although there might still be certain national discrepancies (e.g. in

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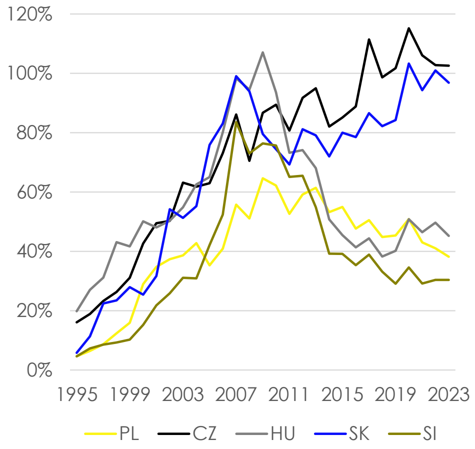
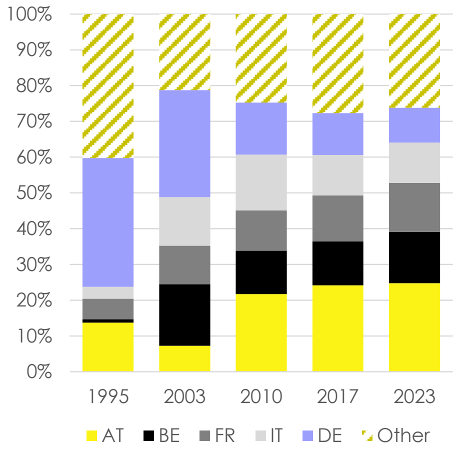
MREL calibration) and this generally remains a work in progress. The deep integration into international and EU-wide banking regulatory practice also ensures that **modern macro-** and **microprudential regulatory measures** can be implemented in a targeted manner and that CE banking markets and players are regularly part of EU-wide stress testing exercises, etc. In addition, stricter consumer protection rights for retail clients also have an impact. This **interplay** of **EU frameworks** and **local regulation** plus **legislation** can contribute to greater resilience in local banking markets today.

Western banks' claims on country residents (% GDP)



Source: BIS (Consolidated Banking Statistics), Eurostat, RBI/ Raiffeisen Research

Western banks' claims on CE-5 residents*



** % total western banks' claims on CE-5 residents*

CE-5: PL,CZ,HU,SK,SI

Source: BIS (Consolidated Banking Statistics), RBI/Raiffeisen Research

Overall, looking at 20 years of EU membership history of the CE-5 banking markets, some growth/convergence bets may indeed not have lived up to initial expectations and the pathway itself has been bumpy at times. In this respect, the last 20 years have also shown that **sustainable convergence development**, even in the **EU context** — for example in the banking sector — is **neither a self-evident development** nor a **one-way street**. Naive and over-optimistic market approaches are something that should be avoided. Having said that, we keep our **constructive view** on the **prospects of the region** as an **integral part** of the **European banking market**. In this context, we see strong potential for regional (cross-border) banks to cater the **increasing local interconnectedness within** the **region** (i.e. intra-regional trade within the CE-5 region, with SEE countries) and to support the **international ambitions** of the **growing local banking players** or and **local champions** in the real economy. Moreover, well established **cross-border banks** may assist in the **recalibration** of **Global Value Chains**, where the CE-5 countries are getting more and more attention by international investors. This may help **corporate lending** to get its second wind and eventually transcend limitations of the firms' present borrowing pattern. Here, the region in aggregate is still (only) half of the euro area average regarding non-financial corporate (NFC) loans-to-GDP, with Poland falling even more behind (around 33% of euro area average). In the medium term, we additionally count on the copious **inflow** of **EU funds** that should provide an extra leg of growth on the **macroeconomic level** and **corporate lending** side through a financial multiple. On top of that, further development of local capital markets and integration into EU capital markets may finally unlock the **remaining potential** in **mortgage lending** in certain CE markets, first and foremost considering the lagging countries (Poland, Hungary, Slovenia). (Gunter Deuber, Ruslan Gadeev)

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