



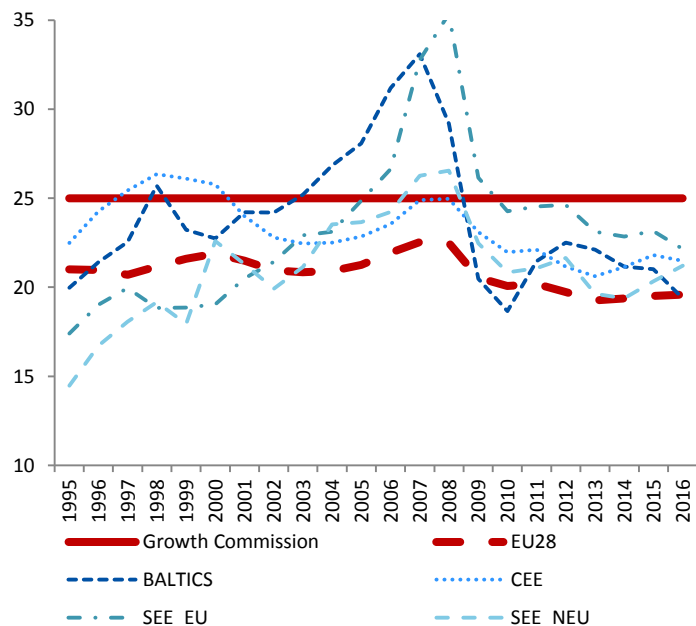
Investment and lending landscape in CESEE region

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CESEE Countries
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Investment in CESEE exceeded the EU, but stayed below the recommended levels for transition to high income

Total investment to GDP, per cent

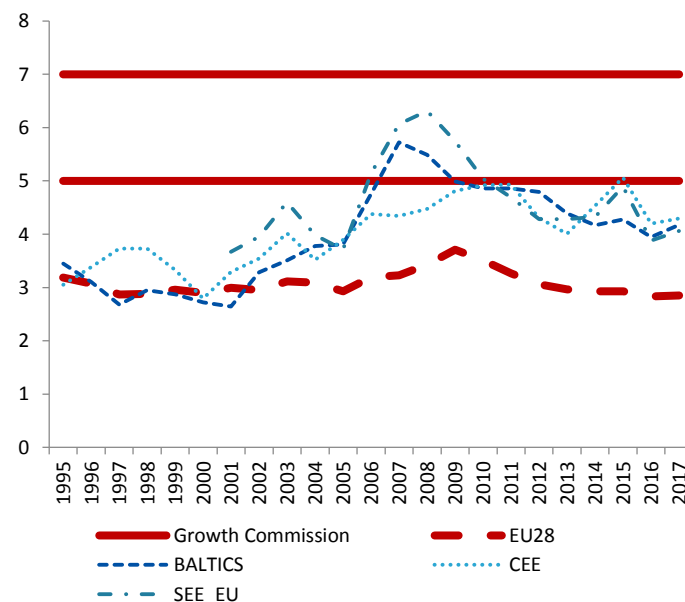


Source: Eurostat and IHS

Note: BALTICS: Estonia, Latvia, Lithuania. CEE: Czech Republic, Hungary, Poland, Slovakia, Slovenia. SEE_EU: Bulgaria, Croatia, Romania. SEE_NEU: Albania, BiH, Kosovo, Macedonia, Montenegro, Serbia.

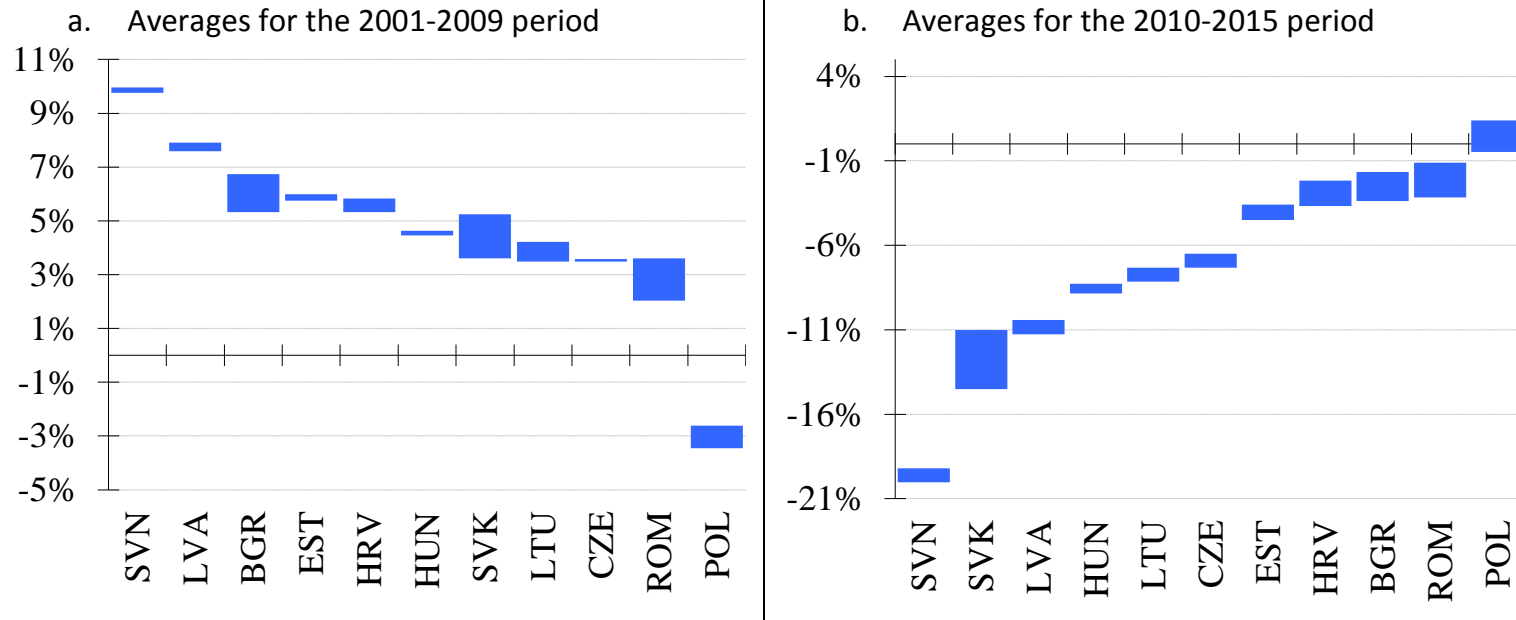
The Growth Commission was an independent body sponsored by various governments and the World Bank. Among other criteria, it identified sustained total investment above 25% and public investment above 5-7% as a common factor in successful transitions from middle to high income.

Public investment to GDP, per cent



Source: Eurostat.

Investment gaps - pre crisis and post crisis estimates – min-max ranges

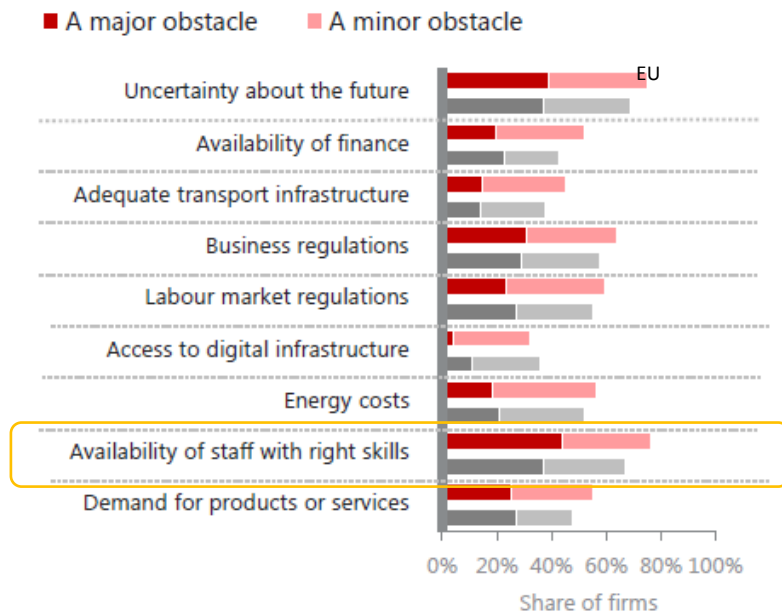


Source: Authors' calculations

Note: vertical bars report the minimum and maximum values derived from four models (technical details in the Annex)

Lack of skilled staff and uncertainty are the key barriers to firm investment & aging and outward migration critical for municipalities

Firms: Long term barriers to investment

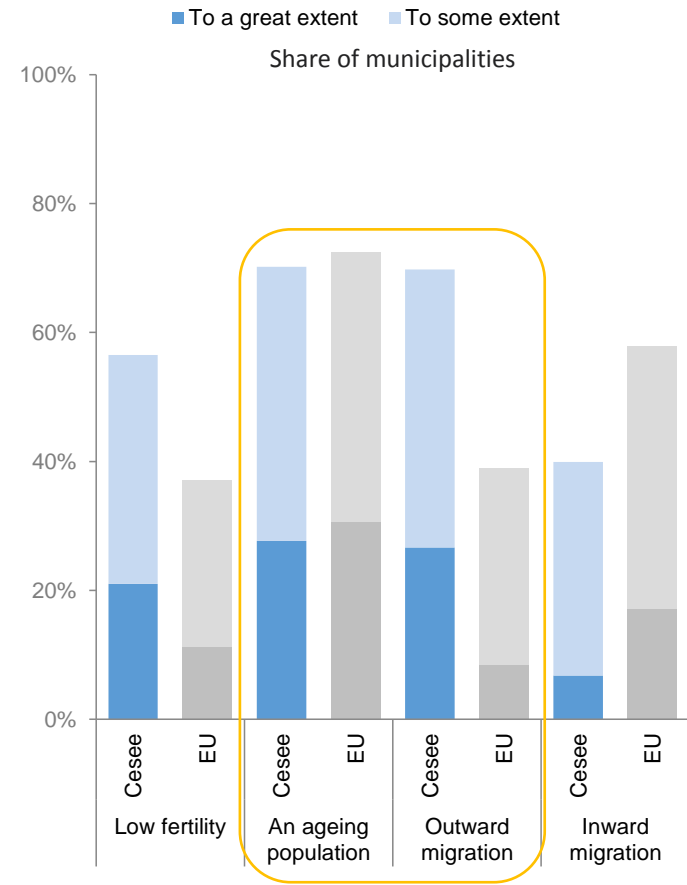


Base: CESEE average of all firms (data not shown for those who said not an obstacle at all/don't know/refused)

Q. Thinking about your investment activities in #country#, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: EIB/ECON calculations based on EI BIS and EIB Municipality Survey

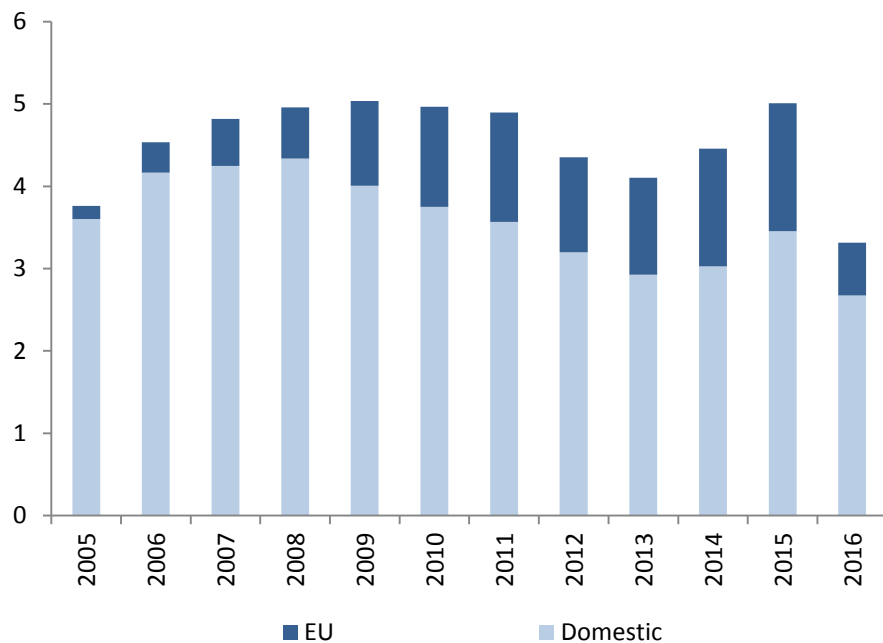
Municipalities: Drivers of demographics



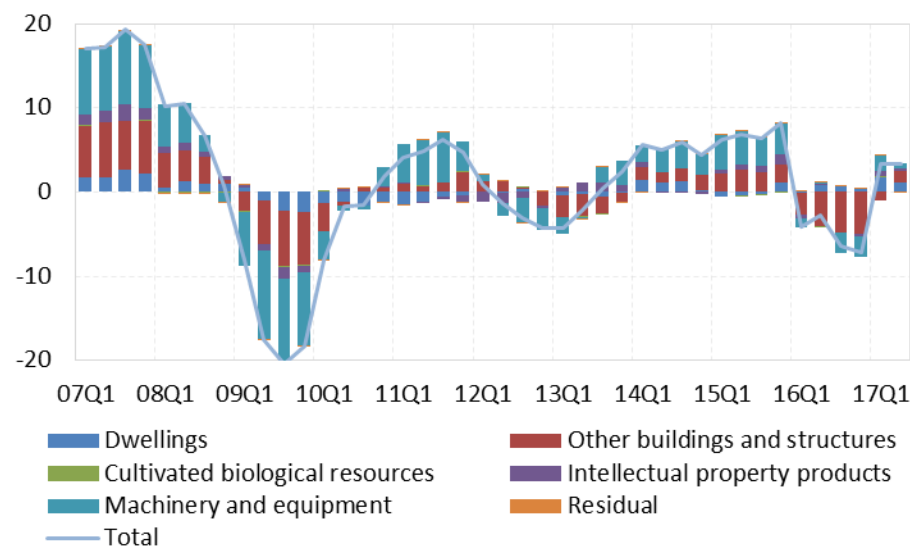
Base: All municipalities. Sectors are aggregated by the corresponding sub-national share in public investment.

Investment recovery, but strong dependency from the EU Funds cycle

Domestic and EU funded public investment in CESEE-EU (% GDP)



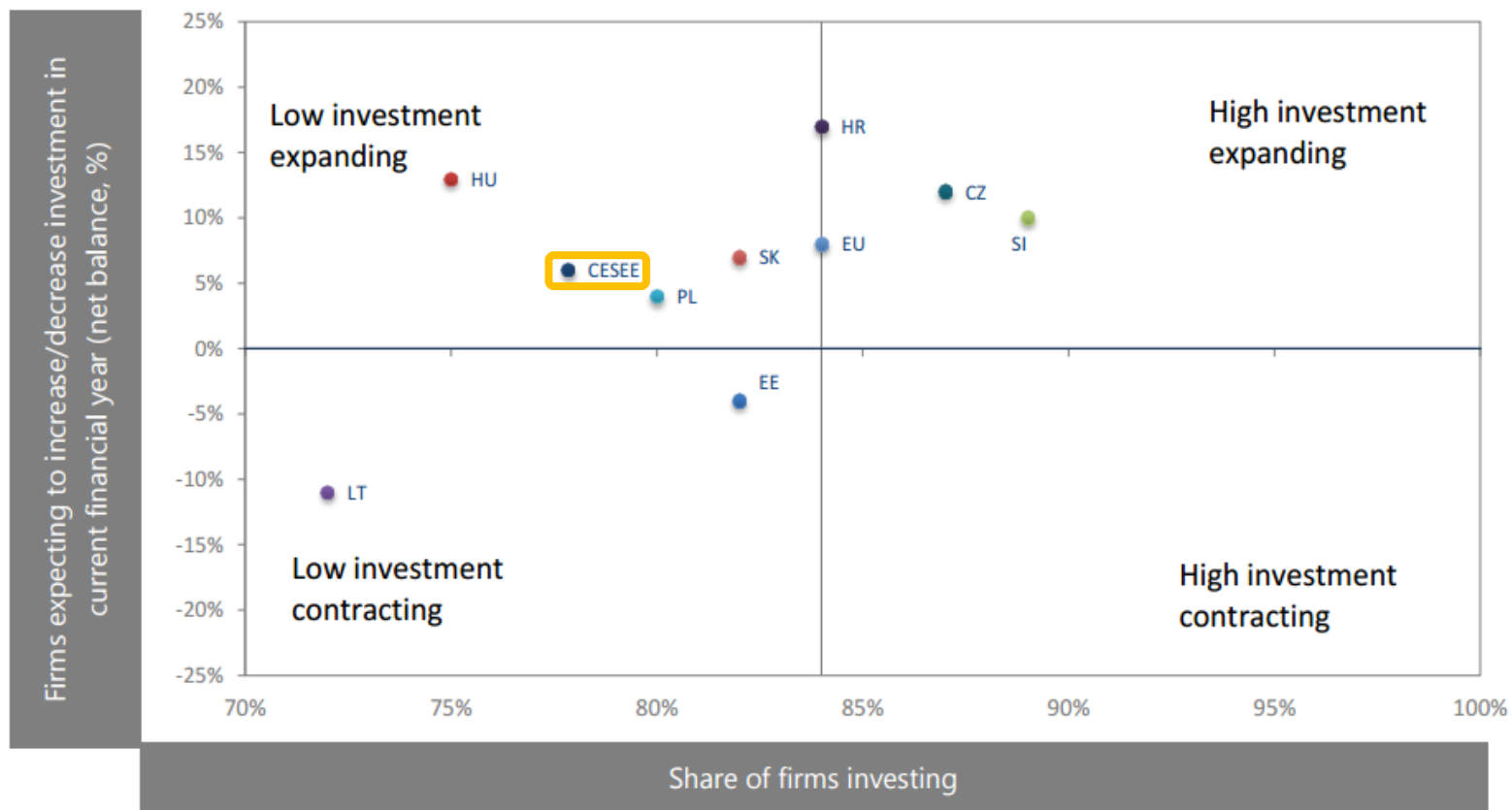
Real gross fixed capital formation contributions by asset type, (% yoy)



Note: CESEE-EU: Estonia, Latvia, Lithuania, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria, Croatia, Romania.

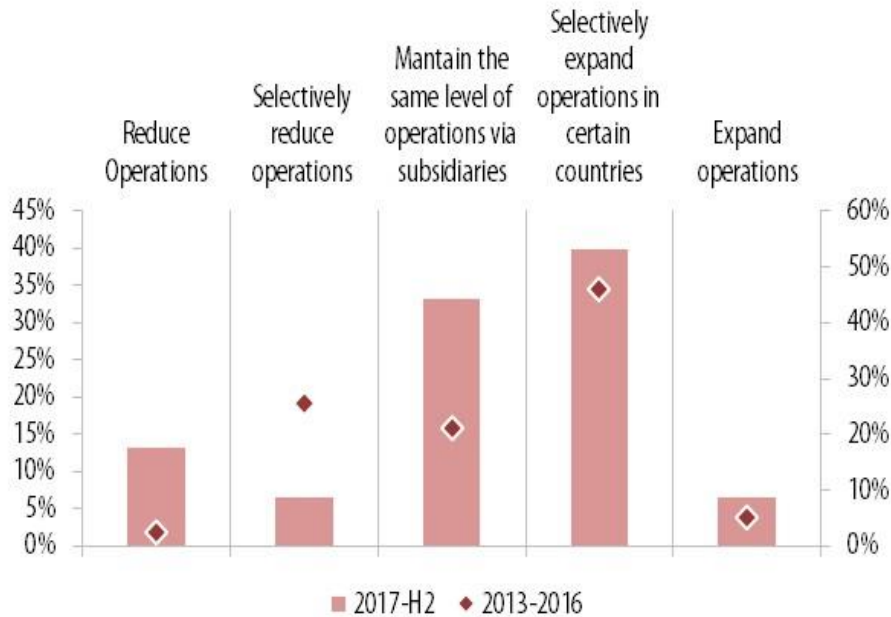
The majority of the CESEE is in the « low investment, expanding » quadrant

Investment cycle by country

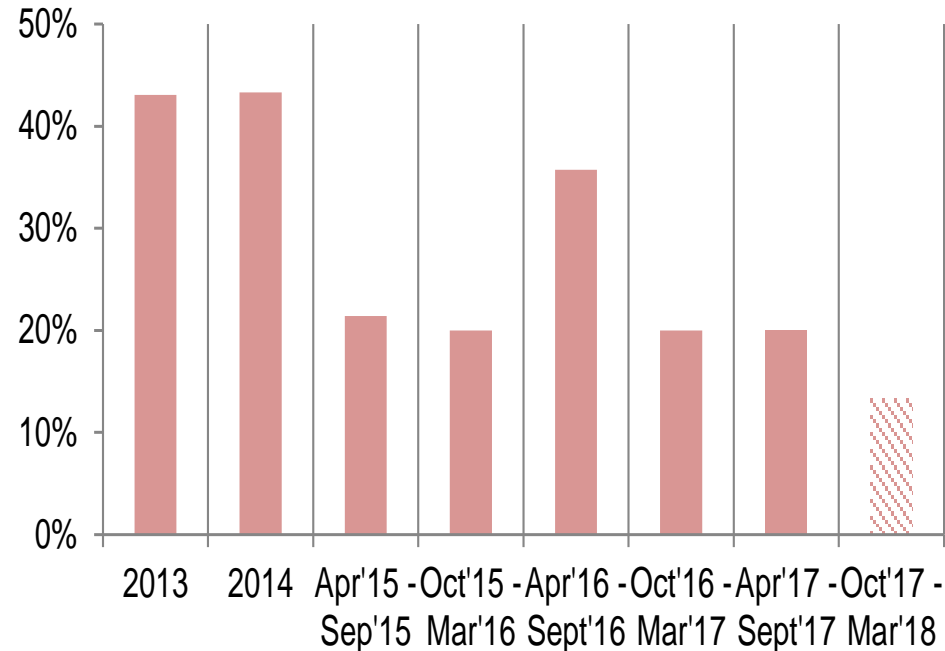


Group commitment to the region: CESEE strategy pays off in terms of profitability

Groups' intentions on aggregate operations in CESEE

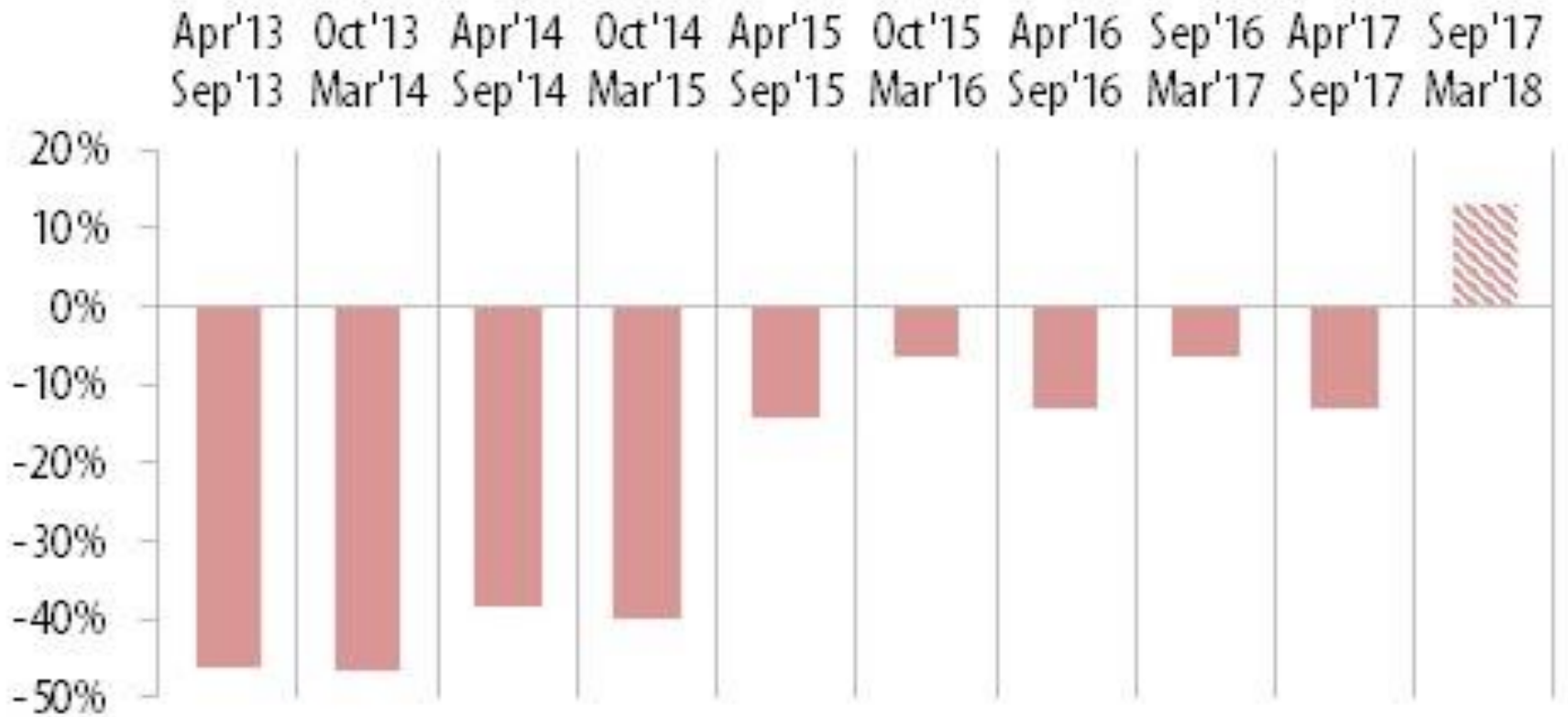


ROA of your CESEE operations - % of responses with ROA lower of overall group ROA



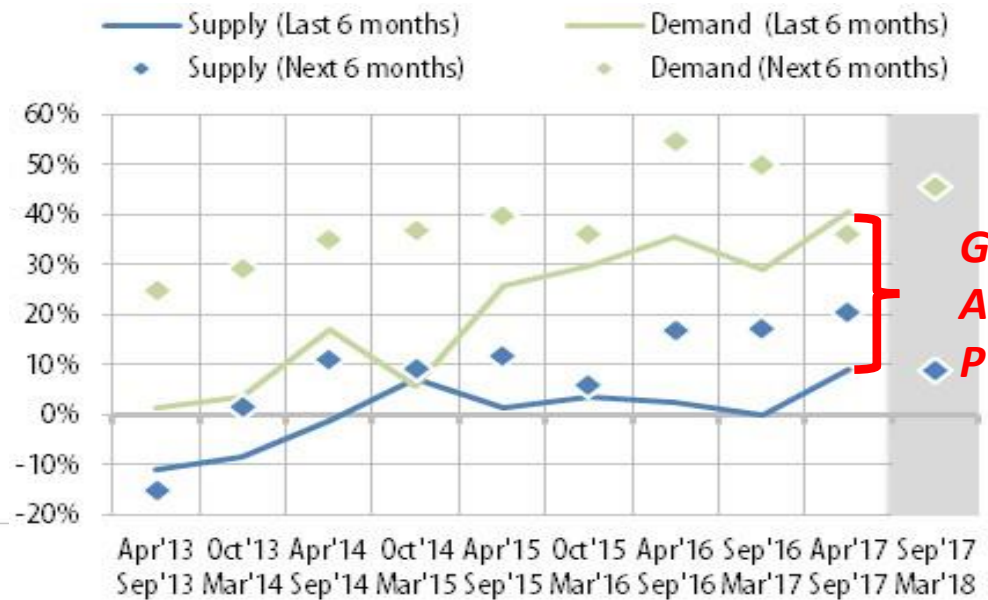
Group: Exposure to CESEE – still re-balancing

Parent banks cross border total exposures to CESEE – (net percentages)



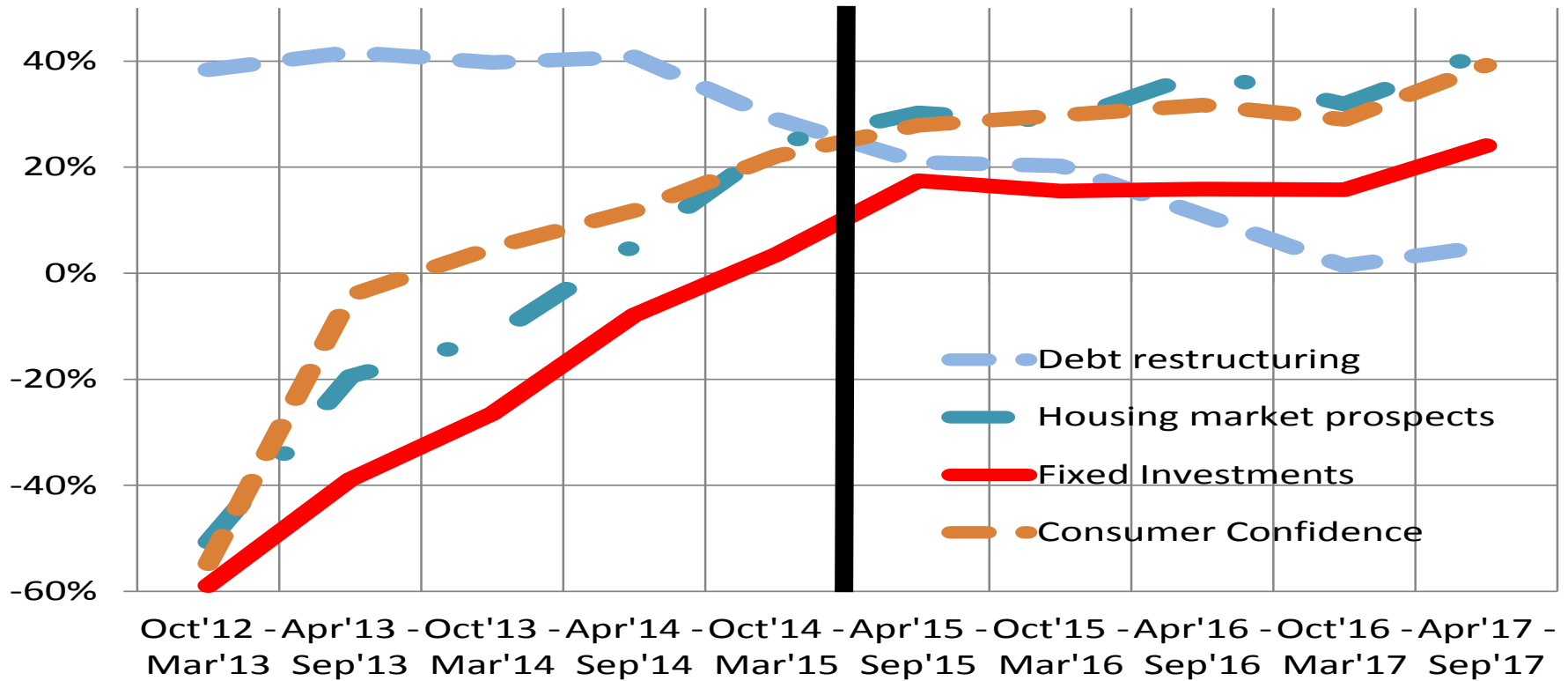
Demand and supply improving...

Demand and supply conditions; *net percentages* - positive figures refer to increasing (easing) demand (supply)



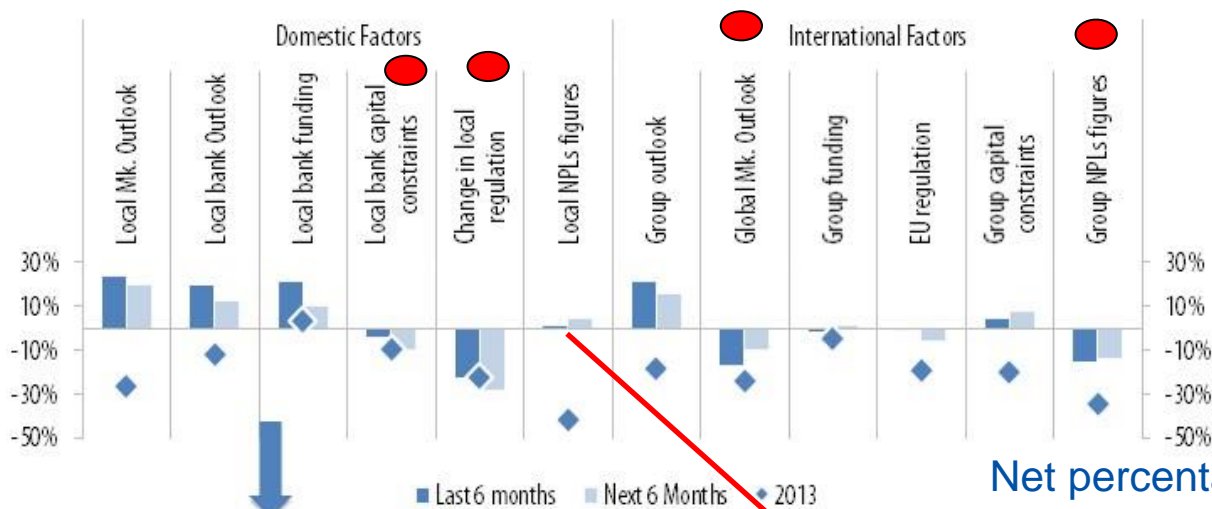
Demand of better quality as the cycle strenghtens

Net percentages; positive figures indicate a positive contribution to demand

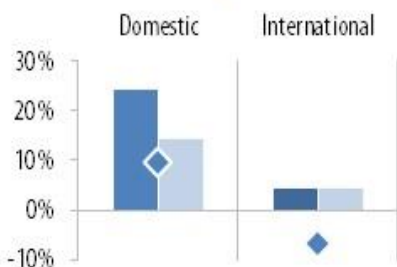


Only few constraints to supply compared to the past, NPL reduction continues

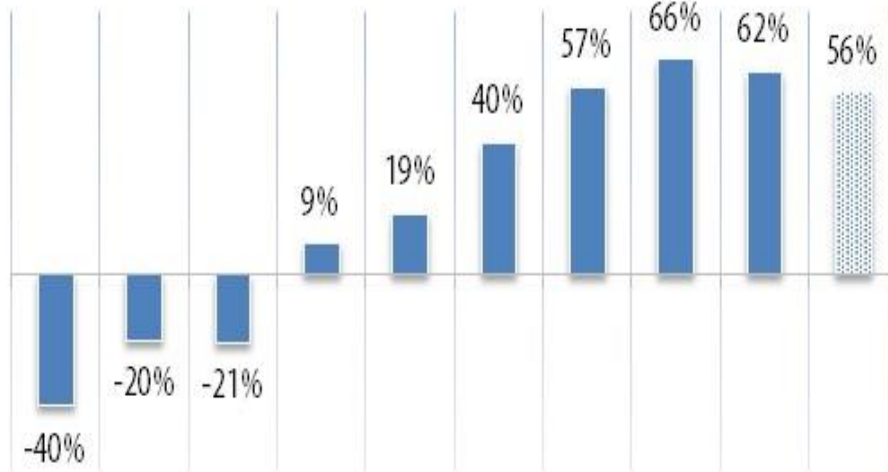
Net percentages; positive figures indicate a positive contribution to supply conditions



Net percentages – negative figures indicate an increasing NPLs ratio



Apr'13 Oct'13 Apr'14 Oct'14 Apr'15 Oct'15 Apr'16 Sep'16 Apr'17 Sep'17
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Key messages

- Strong convergence so far, but also strong correction
- Sustainable convergence calls for preserving competitiveness, full exploitation of the convergence opportunity and the single market
- Countries have proved strong dependency to the EU Funds cycle, sometimes not maximizing the returns from the opportunity offered (a challenge given the new MFF)
- Lack of skilled staff, business and labor market regulation key impediments
- Foreign bank exposures to the region still mildly decreasing
- Demand conditions continued to improve and credit standards (supply) eased. Better quality of credit demand. However a perceived gap remains
- Domestic capital constraints and regulation remain key impediments to supply. Global outlook and parents NPLs contribute negatively to local financial conditions