

Report on ,The Central & Eastern European Forum 2024' conference

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The Central & Eastern European Forum 2024, organised by Euromoney, took place in Vienna from 16-17 January 2024. In this report, we shed light on the economic trends and challenges in the region, based on the panel discussions at the two-day Euromoney conference. The conference highlighted a number of key issues and featured a number of leading speakers from government and business.

The Forum was one of the largest events organised by Euromoney, with more than 1,500 participants, indicating its growing importance in the CEE region.

Main challenges in the CEE region

Among the main topics discussed in panel discussions and presentations at the conference, the following were highlighted: inflation, fiscal and sovereign debt financing trends in the CEE region, the recovery in Ukraine and the situation of the banking sector.

The conference began with interviews with finance ministers and fiscal policy representatives from the region. The first speaker was *Mirza Gelashvili*, Deputy Finance Minister of Georgia, followed by *Yuriy Butsa*, Ukraine's Government Commissioner for Public Debt. The situation in Ukraine was also a major topic at the CEE Forum, reflecting the wider economic and geopolitical challenges facing the region. The situation in Ukraine highlights how the country's banking sector is adapting to the challenges posed by the ongoing conflict and attacks on infrastructure, in particular the attacks on the civilian electricity grid. The National Bank of Ukraine has implemented a „Power Banking” initiative to ensure continuity of banking services during power outages. This initiative required a significant proportion of bank branches to be equipped with backup generators and satellite internet access, making it a unique project that provides valuable lessons for the global banking system in preparing for emergencies, including cyber-attacks on

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power grids. Overall, the discussions at the Forum underlined the resilience and adaptability required by financial institutions and central banks in the face of geopolitical tensions and economic uncertainties.

Based on the panel discussions, the following picture of macroeconomic developments in the region emerged. Inflation in the region has moderated perhaps faster than expected, whilst inflation reaching levels not seen in decades last year mainly due to soaring energy and food prices. However, the second half of 2023 was all about disinflation. Also contrary to expectations, inflation in the region slowed more rapidly, with some central banks, including first the Bank of Armenia, starting to cut interest rates as early as summer 2023, as highlighted by the Governor of the Bank of Armenia, *Martin Galstyan*. By the end of 2023, average inflation in the Central and Eastern European region fell to approximately 6 percent. In Moldova, the central bank has reached its inflation target, which is around 5 percent. At the same time, consumer behaviour is also important in relation to inflation. Regardless of the specific figures, people perceive inflation and adjust their consumption accordingly, although there have been declines, consumption has remained stable in most of the CEE region. But consumer confidence is undermined by inflation, so this is also a confidence issue that central banks need to address. Inflation can therefore also be interpreted as a lack of confidence, as noted in the central bank panel discussion.

The central banks in the region also stopped raising interest rates last year, and even started gradually cutting them. However, after disinflation in 2023, new challenges have appeared in 2024. On the one hand, inflation has not yet reached the central bank's tolerance band in many countries, so despite a sharper deceleration, this is not the time to „sit back“. In central bank communication, it is important to be honest with market participants and to maintain positive real interest rates. The Magyar Nemzeti Bank has also started to cut interest rates, so the question in Hungary is not the direction of interest rate decisions, but the pace (of rate cuts).

The labour market has also remained stable, with unemployment not rising despite a temporary recession, which in turn has also meant that the pace of wage growth has been maintained, which continues to pose upside risks to inflation. However, the labour market is also important for the competitiveness of the CEE region.

The role of central banks in navigating the current economic situation was a key topic, with panel discussions focusing on how these institutions are managing inflationary spikes and how they are managing monetary policy in the face of global supply shocks, including those arising from the war in Ukraine. At the conference, central bank governors from several countries, including Albania, North Macedonia, Georgia, Lithuania and Poland, shared their views on these issues. The challenges facing the economies of the region, the importance of regaining central bank credibility, the use of new communication tools and the impact of new technologies on monetary policy were discussed.

An important point regarding the central bank's communication was the diminishing role of forward guidance as a tool. In the communications of the leading central banks, „data-driven“ decision-making, which in practice means that central bankers assess the situation on the basis of the latest macroeconomic data

and formulate monetary policy accordingly, is increasingly relevant. In the current system, forward guidance appears to be less effective, and market participants need to understand that, unlike in the previous decade, the current macroeconomic environment does not allow for accurate forecasts.

The accuracy of the forecasts was also raised during the Fed panel discussion. In this regard, it was suggested that currently all forecasts can be considered as a baseline (but presumably their accuracy is low) and that banks can react to deviations from this baseline. There is currently no textbook to provide guidance on this situation, and books will probably be written on this period, drawing lessons on what tools have been effective or less effective in the central banks' toolbox. Risks of this kind, such as geopolitical risk, are much harder to predict and therefore the effects are also harder to estimate.

Public debt financing issues

In the context of sovereign debt financing, green bonds were a central theme of the conference panel discussions. Green bond issuance is growing slowly in the region, but foreign investors are showing increasing interest in green bond issuance. At the same time, questions for clarification on green bond issuance were raised. An important issue here is ESG rating, including the ESG profile of Hungary. ÁKK, the Hungarian central debt management agency, has issued HUF 1709 billion of green bonds by December 2023, making it the largest green bond issuer in the region.³

According to the Forum's participants, they are optimistic about 2024, with improved economic indicators, reduced impact of the energy crisis, lower inflation risks and lower interest rates. Although economic growth in Western Europe is low, it is the CEE region that could maintain its higher economic growth rate. However, while there is optimism, it is also worth discussing the risks.

Concerns have been raised about the continuing labour shortages and the consequences of lax fiscal policy across the region. These debates underlined the complex interplay of factors shaping the economic environment in Central and Eastern Europe and the importance of strategic responses to these challenges.

The insights shared by the leaders of the region's central banks and the innovative responses to crises, as illustrated by the case of Ukraine, highlight the need for continued cooperation and preparedness within the financial sector to address the complex challenges of today and tomorrow.

In the panel discussions, for example, Raiffeisen Bank was represented by *Lukasz Januszewski*, Member of the Management Board responsible for Markets and Investment Banking, and *Martin Blum*, Head of Capital Markets Strategy, who discussed the outlook for banks in 2024 and the development of sustainable capital markets.

3 <https://www.akk.hu/download?path=ed186504-7312-47f8-8238-f02fb-7963ce4.pdf>

On the second day of the conference, 17 January 2024, *The CEE Securitisation Summit* was a side event of the CEE Forum, where *Sabine Abfalter*, CFO of the RBI Group, spoke about the securitisation activities of the RBI Group since 2006, demonstrating its wide range of different financial mechanisms and innovations. In conclusion, the conference participants were able to present an optimistic picture of the CEE region's economies and banking sector. However, the region still faces a number of challenges due to geopolitical risks, inflation caused by the energy crisis, slower economic growth in the eurozone, all of which could pose risks. However, the CEE region looks set to recover from the external shocks of the past period, with the labour market remaining stable and economic growth rates likely to remain higher than in Western Europe. The green transition could also play a key role in the future, as well as technological progress. All these topics were presented to the participants of the CEE Forum 2024. ■