**Dear Governor Žigman,**
**Dear Deputy Governor Kightley,**
**Dear Colleagues from the Narodowy Bank Polski [národovi bank polszki],**
**Dear Directors, Ambassadors,**
**Distinguished Guests,**[1]

Szanowni Państwo, serdecznie witam wszystkich Państwa na dzisiejszej konferencji [sánovnyi pánysztvo, szerdecsnye vitám vsisztkih pánysztvá ná gyisejsej konferencji].[2] It is my great pleasure to welcome you all to today's conference.

I am particularly delighted to grab the opportunity and congratulate to Marta Kightley for her new appointment as First Deputy Governor of the Narodowy Bank Polski.

**Ladies and Gentlemen,**

This year marks the eighth edition of the joint conference organised by Magyar Nemzeti Bank and Narodowy Bank Polski [národovi bank polszki], a tradition that also reflects the historical friendship between our two nations. While our countries have followed similar historical paths in many respects, at this conference we find each year that there is still much we can learn from one another.

This year, our conference is entitled „*The End of Easy Convergence? The Future of Growth in Central and Eastern Europe*". On this occasion we intend to focus on the challenges facing the current economic model of Central and Eastern Europe. However, in order to ensure a successful discussion on how our region should develop, we first need to understand the broader global economic environment of the transformations we witness today.

[1] Jelen vannak többek között: **Ante Žigman** Governor, Croatian National Bank; **Marta Kightley** First Deputy Governor, Narodowy Bank Polski; **Witold Grostal** Deputy Director, Narodowy Bank Polski; **Dušan Keketi** Deputy Governor, National Bank of Slovakia; **Palotai Dániel** Alelnök, Magyar Nemzeti Bank; **Petr Sklenář** Executive Director, Czech National Bank; **Milan Damjanović** Assistant Director, Banka Slovenije; **Mihályi Dávid** Helyettes Államtitkár, Gazdasági és Energetikai Minisztérium; Nagykövetek: **Eva Dvořáková** (Cseh Köztársaság), **Mladen Andrlić** (Horvátország), **Luis Ángel Redondo** (Spanyolország); **Ragnar Almqvist** (Írország); **Mindaugas Rukštelė** (Litvánia), **Homer A. Mavrommatis** (Ciprus).

[2] „Szeretettel üdvözlök mindenkit a mai konferencián."

In the recent years the world economy is marked by tectonic geopolitical shifts. Geopolitical and security considerations are increasingly overriding the economic logic of free trade.

In Europe, this is particularly apparent in the field of energetics. For decades, the foundations of Europe's economic success lay in the combination of Western technology and industrial know-how with relatively cheap energy from the East. After the eruption of the war in Ukraine in 2022, Europe embarked on a radical restructuring of its energy relations. With this change, one of the key mechanisms behind the European economic engine suddenly ceased to function in the way it had before.

At the same time, Europe's technological and economic position is also facing growing pressures. Intensifying global competition, particularly from emerging technological powers such as China, is challenging Europe in a number of strategic industries and value chains. Beyond specific sectors, a broader question is increasingly coming into focus: how Europe can sustain productivity growth while preserving the prosperity and social models that have long been among its greatest strengths. Furthermore, maintaining and enhancing competitiveness in critical technologies and industries has become an equally important challenge.

These developments have profound implications for Central and Eastern Europe, as the region's growth model has been deeply integrated into the broader European production networks and value chains. As Europe adapts to the new economic and technological landscape, Central and Eastern Europe will need to adapt alongside it, finding new sources of growth while preserving the advantages that have underpinned its successful convergence thus far.

All in all, the Central and Eastern European growth model is being squeezed from several directions at once. There are global pressures, such as the declining competitiveness of parts of European industry, geoeconomic fragmentation, technological disruption and the wider restructuring of global power. And there are also challenges closer to home.

Foreign direct investment inflows into the region have visibly slowed, in some cases, even declining below pre-pandemic levels. These trends have questioned the future of the growth model that has been essential to Central and Eastern Europe's development since EU accession. So far, foreign capital and the transfer of technology provided for a solid ground for productivity growth and convergence. This development is not independent of a rise in labour costs in the past decades. While wage growth has been a major social and economic achievement, it also poses a new challenge by eroding existing cost advantages.

So, what can Central and Eastern Europe do to preserve its competitiveness? And what could a new growth model look like, putting our region back on the fast track? This is a core topic that is worth discussing in a conference, and I hope that today our panellists will bring us closer to a more comprehensive answer.

First of all, we shall be mindful that Central and Eastern Europe is a diverse region, there is no single story of convergence that applies equally to all of its countries. Nevertheless, I will try to take a step back and offer a broader perspective on the region, highlighting some of the key factors we need to consider when thinking about the foundations of a new growth model.

Let me start my argument from the foundations that we have so far achieved. Even if things have slowed in recent years, Central and Eastern European convergence is not a story of failure at all. On the contrary, in broad terms, the economic position of Central and Eastern Europe has become comparable with that of Southern Europe in a way that would have been unimaginable for much of the post-war period. Measured in GDP per capita relative to the EU average, the Czech Republic today finds itself broadly in the same league as Italy and Spain. Poland has approached the level of Portugal, and all countries of our region have surpassed Greece. In the past decade, Hungary converged by 7, while Poland converged by a remarkable 12 percentage points towards EU average, which is one of the greatest regional success stories.

Thus, the main focus of today's conference is not relevant because of a decline in the region's relative position. Quite the contrary, the discussions should focus on unlocking the full potential the region holds within itself.

I may similarly mention another important achievement: over recent decades, the region has attracted substantial foreign direct investment. This is a clear sign of growing investor confidence in the region's economic potential. It would be desirable to advance further along the Investment Development Path. Building on this foundation, we now need to raise productivity and strengthen a competitive domestic corporate sector with the capacity to expand internationally. Greater outward FDI by our firms should accompany this transformation, reflecting stronger capabilities and growing role in global value chains.

These are the foundations we have achieved before the great megatrends reshaping the global economy today have arrived. These megatrends include the demographic shifts, the emergence of new technologies including AI, the energy transition and the rearrangement of global cross-border flows. We need to develop a vision of what Central and Eastern Europe should look like after this transformation. Finding a new economic model for the region must be an integral part of that vision.

In short, our task is now to actively prepare for the moment when the current geopolitical restructuring has stabilised, when the contours of the new economic order have become clearer, and when stronger global growth once again creates new opportunities. By that point, Central and Eastern Europe should be ready to position itself on the fast track. An important part of this preparatory work is the development of thoughtful, flexible and forward-looking responses to the megatrends of today.

Although the current economic situation is unprecedented in many aspects, it is possible and worth looking for examples of spectacular convergence stories in modern economic history. Various countries such as Japan, South Korea or Finland emerged in the aftermath of profound geopolitical disruptions and systemic transformations. Today, we seem to be somewhere in the early stages of another such transformation, and the final shape of a new economic order is still far from clear.

These examples have one element in common. They all have shifted towards higher-value-added activities through reinforcing pillars behind the real economy, including education, research and development, which can structurally support such a progress.

**Dear participants,**

As a kind of summary of this whole topic, we often hear that Central and Eastern Europe simply needs to "move up the smile curve", shifting towards higher-value-added activities. Obviously, this is the next step to be achieved, but it is much easier said than done. Central and Eastern Europe may have the necessary talent, human capital and infrastructure, but the process itself is far from being automatic. Such a shift requires complex operations in our economies, including, but not limited to those I have just mentioned.

Finally, let me add one more remark linked to this. As global investment patterns evolve and competition for capital intensifies, Central and Eastern European countries often find themselves engaging with the same investors and value chains. While each country understandably seeks to maximise its own opportunities, closer cooperation and coordination in selected areas could enhance the region's overall attractiveness and visibility. Individually, our economies may be relatively small in global terms, but together, Central and Eastern Europe constitutes a significant economic and strategic space. Looking at the region through this broader lens may therefore help strengthen our collective position in an increasingly competitive world economy.

**Ladies and Gentlemen,**

This conference is justified by the fact that central banks have an important role to play in the outlined process. By safeguarding price and financial stability, identifying emerging vulnerabilities, and deepening our understanding of structural changes, central banks can provide the stable environment that investment, innovation and long-term economic adaptation require.

In an age marked by instability, constant changes and continuous inflationary pressures, fulfilling the central bank's core mandate becomes all the more important. Today we have gathered to discuss how our central banks can prepare for a new landscape in the world economy, and how we can safely identify inherent opportunities and risks ahead of us.

Following the opening remarks, we will have the opportunity to listen to two panel discussions, both focusing on the future of the Central and Eastern European economic outlook. The first panel will examine the challenges facing our region, exploring both the global and local obstacles that must be overcome if we are to secure a sustainable growth path in the years ahead. I am confident that, despite the uncertainties surrounding us, Central and Eastern Europe will not only navigate these challenges successfully but also emerge stronger, turning the lessons learned into a source of future competitiveness and resilience.

Our second panel will focus on an equally important question: how to finance the region's future growth. This topic is particularly timely. Many countries across the region continue to grapple with elevated public debt levels, while a wide range of challenges complicate fiscal consolidation efforts. At the same time, the upcoming negotiations on the next Multiannual Financial Framework will have important implications for the resources available to our economies. I am therefore convinced that today's discussion will provide valuable insights into one of the most consequential policy questions facing Central and Eastern Europe.

I very much hope that the discussions ahead of us will bring us closer to understanding both the challenges and the opportunities facing our region, and perhaps also closer to a shared vision of what the next Central and Eastern European growth model might look like. I wish you all a stimulating and productive conferencehave a fruitful stay in Budapest!

Thank you very much for your attention!