

Emerging Europe Sovereigns – Peer Review 2023

Bifurcation in Macroeconomic Performance Continues

The impact of the war in Ukraine continues to ripple through the economies of emerging Europe (EE). The divergence between those countries, primarily in central and eastern Europe (CEE), that were hit by surging energy prices, and those that benefitted from large flows of funds and people from Russia, primarily in the Caucasus and central Asia (CCA), remains.

High inflation and policy rates, and weakness in key export markets means growth will be sluggish (and in some cases contractionary) in CEE in 2023, and the 2024 rebound will be fairly subdued. While base effects are pulling inflation down, pressures are evident in still-high core readings, tight labour markets and elevated expectations, while fiscal adjustments are adding to inflation. Interest rates are likely to stay high for some time and premature easing risks an adverse market reaction.

In contrast, growth in CCA is generally above trend, reflecting both spending from the inflow of people together with greater logistics and tourism activity, while the supportive impact of associated financial flows is causing currency appreciation, which has significantly lowered inflation. Inflation in Turkiye remains an outlier for the region and while it is likely to stay well in double digits for the near term, the major turnaround in monetary policy and easing of distortionary bank regulation has reduced near-term macro-stability risks.

Rating Outlooks Unusually Dispersed

Rating Outlooks across the region remain unusually dispersed. Only around half of the region’s sovereigns have Stable Outlooks. This has happened only twice before (2009 and 2011). However, in both cases, the Outlooks were almost all in the same direction (Negative in 2009 and Positive in 2011). This time is different as they are fairly evenly split, although there is a sub-regional divergence with the Negative Outlooks in CEE and the Positive ones mainly in CCA.

Public finances remain the key determinant of rating trajectories in CEE. Weak revenues and still-high spending pressures to smooth the impact of high inflation are adding to deficits despite new consolidation packages. Avoiding a reversal of recent inflows and navigating a turbulent geopolitical environment are important for the ratings of CCA energy importers, while commodity prices and the policy response to sustained higher revenues are key drivers for the CCA energy exporters. Near-term prospects for Turkiye’s ratings depend on the durability of the policy adjustment.

Analysts: Emerging Europe Sovereigns






















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Emerging Europe: Sovereign Credit Ratings

	Sovereign	LT FC IDR	Outlook	LT LC IDR	Outlook
	Armenia	BB-	Stable	BB-	Stable
	Azerbaijan	BB+	Positive	BB+	Positive
	Bulgaria	BBB	Positive	BBB	Positive
	Croatia	BBB+	Positive	BBB+	Positive
	Czech Republic	AA-	Negative	AA-	Negative
	Estonia	A+	Stable	A+	Stable
	Georgia	BB	Positive	BB	Positive
	Hungary	BBB	Negative	BBB	Negative
	Kazakhstan	BBB	Stable	BBB	Stable
	Latvia	A-	Positive	A-	Positive
	Lithuania	A	Stable	A	Stable
	North Macedonia	BB+	Stable	BB+	Stable
	Poland	A-	Stable	A-	Stable
	Romania	BBB-	Stable	BBB-	Stable
	Serbia	BB+	Stable	BB+	Stable
	Slovakia	A	Negative	A	Negative
	Slovenia	A	Stable	A	Stable
	Turkiye	B	Stable	B	Stable
	Turkmenistan	B+	Positive	B+	Positive
	Ukraine	CC		CCC-	
	Uzbekistan	BB-	Stable	BB-	Stable

Source: Fitch Ratings

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