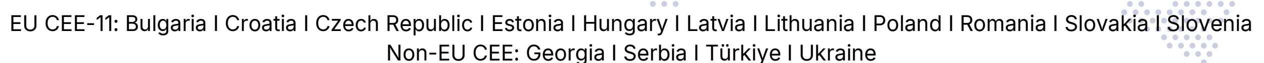
Central and Eastern Europe

Sovereign & Public Sector Outlook 2025

Growth rebound and structural pressures amid fiscal and geopolitical challenges balance outlook for CEE sovereigns



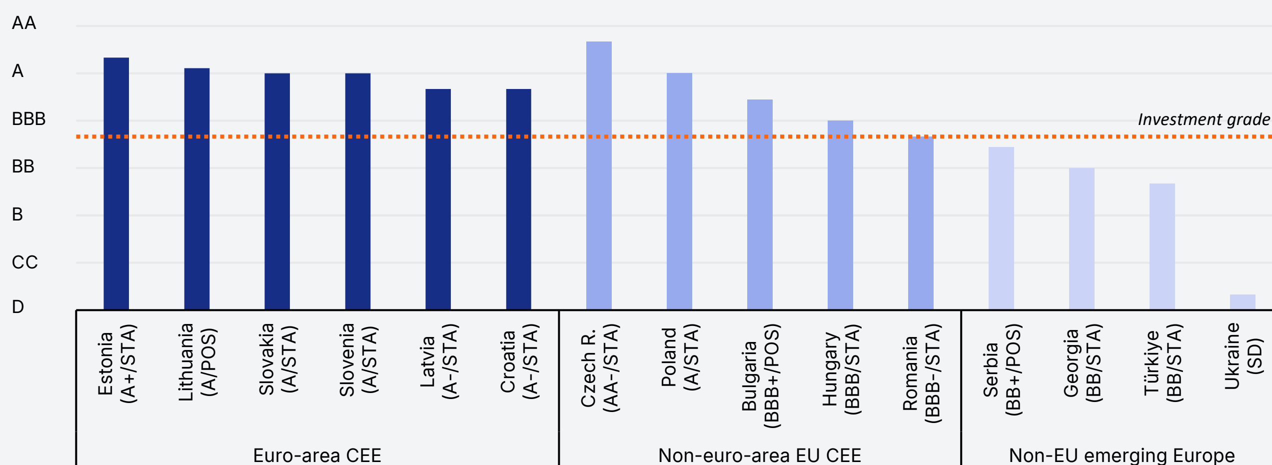
12 December 2024

Executive summary

Risk balance to ratings and Outlooks broadly neutral for 2025

The credit Outlook for Central and Eastern European (CEE) sovereigns is broadly balanced, reflecting three Positive, 12 Stable and zero Negative Outlooks on our 15 rated sovereigns in the region entering 2025. This follows several rating adjustments in 2024, which have resulted in a convergence of ratings for CEE sovereigns in the euro area, which are now all rated in the A+ to A- range. We see greater rating divergence among non-euro area EU sovereigns, led by the Czech Republic (AA-/Stable) with Romania setting the rating floor at BBB-/Stable. All of our non-EU sovereigns in the region are rated non-investment grade, although we assigned a Positive Outlook on Serbia's BB+ rating and upgraded Türkiye to BB-/Stable this year. Ukraine remains in Selective Default given ongoing Eurobond debt restructurings. For all 2024 rating actions, please see **Table 1**.

Figure 1: Scope's sovereign ratings in the CEE region



Projected recovery prospects and structural challenges for CEE-EU 11 growth trajectories

Looking ahead, the CEE region is set for a rebound in growth, driven by stronger domestic demand, easing inflation, and rising real wages, although external demand and fiscal tightening present challenges. Geopolitical risks from the Ukraine war and long-term demographic shifts, including population decline and an ageing workforce, pose challenges to long-term growth prospects.

Gradual disinflation and monetary policy adjustments across CEE

We expect inflation in the CEE-11 to ease through 2025, driven by external shocks subsiding and disinflationary pressures. Euro-area countries are converging toward the 2% target, though challenges persist. Non-euro EU countries like Poland and Hungary face elevated inflation due to fiscal imbalances, while non-EU sovereigns face continued geopolitical risks.

Lacklustre foreign demand, increasing domestic investment delay external recovery

The CEE-11 region faces weak foreign demand, particularly from Germany, impacting exports and current account balances. While trade weakness may hinder foreign direct investment (FDI) inflows, robust EU funding and resilient services exports provide support. Trade linkages remain concentrated on Germany, with generally contained direct exposures to the US.

Pressures from social and defence spending slow pace of fiscal consolidation

The fiscal outlook for the CEE-11 remains challenging, with deficits staying above pre-pandemic levels due to social, climate, and defence spending. Fiscal tightening will be slow, with several countries under extended excessive deficit procedures. While most debt ratios are set to rise, moderate debt levels and EU support provide stability amid long-term risks like rising interest costs.

EU funding, governance risks, and balancing resilience with environmental sustainability

EU funding drives growth in CEE EU countries, but its effective use depends on governance and administrative capacity. The region also struggles with balancing energy efficiency and renewable adoption, requiring sustained policy efforts to ensure fiscal and environmental resilience.

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Key Themes for 2025

1. Risks remain balanced for CEE sovereigns

The credit outlook for Central and Eastern European (CEE) sovereigns remains broadly balanced. Euro area CEE countries face fiscal and demographic pressures alongside economic risks, mitigated by institutional stability and EU funding. EU non-euro area countries balance strong growth potential with fiscal and political risks, though they remain more exposed to currency and external shocks. Non-EU CEE countries face heightened geopolitical and institutional risks.

Table 1: Ratings and latest rating actions

	Country	Rating*	Latest action
Euro area	Croatia	A-/Sta	Upgrade, 18 Oct 2024
	Estonia	A+/Sta	Downgrade, 19 Apr 2024
	Latvia	A-/Sta	Affirmation, 20 Sep 2024
	Lithuania	A/Pos	Outlook Change, 20 Sep 2024
	Slovakia	A/Sta	Downgrade, 9 Feb 2024
	Slovenia	A/Sta	Affirmation, 5 July 2024
EU: Non-euro-area	Bulgaria	BBB+/Pos	Affirmation, 2 Aug 2024
	Czech R.	AA-/Sta	Affirmation, 26 Apr 2024
	Hungary	BBB/Sta	Affirmation, 8 Nov 2024
	Poland	A/Sta	Affirmation, 26 July 2024
	Romania	BBB-/Sta	Affirmation, 1 Mar 2024
Non-EU	Georgia	BB/Sta	Affirmation, 2 Feb 2024
	Serbia	BB+/Pos	Outlook Change, 26 July 2024
	Türkiye	BB-/Sta	Upgrade, 6 Dec 2024
	Ukraine	SD	Affirmation, 30 Aug 2024

*Foreign-currency issuer ratings and rating Outlooks.

The CEE region faces diverse risks influencing its macro-fiscal outlook. Inflationary pressures, though easing, continue to weigh on consumption, and still-high interest rates challenge fiscal management. Fiscal pressures are a key concern, with rising public debt in countries like Slovakia and Estonia, persistent deficits in Romania, and high interest costs in Hungary. Reliance on EU funding poses risks, as delays or lower absorption could further hinder growth. Energy-import dependence leaves most countries vulnerable to price shocks. Demographic pressures strain fiscal resources and reduce economic vitality. Structural challenges, such as Slovakia's reliance on the automotive sector and Romania's weak competitiveness, highlight vulnerabilities to external demand shifts and productivity constraints.

Despite these challenges, the region benefits from mitigating factors, including EU funds, resilient private consumption, and robust growth potential. Countries with euro-area membership benefit from institutional stability and strong access to liquidity.

2. Projected recovery prospects and structural challenges for CEE-EU 11 growth trajectories

The CEE-11 countries are projected to see improving growth, with average GDP growth of 1.4% in 2024, rising to 2.4% in 2025, and 2.6% in 2026. Key risks to 2025 growth include uneven EU fund absorption, demographic pressures, external demand weaknesses, and potential geopolitical risks Addressing structural challenges will be critical to sustaining momentum.

Subdued growth in the CEE-11 region in 2024 resulted from elevated inflation, tight credit conditions, and weak external demand. For 2025, we expect private consumption to drive growth, supported by declining inflation, rising real wages, and improving financial conditions, though weak investment and fiscal tightening may pose challenges.

Sluggish external demand, such as from the euro area and key trading partner Germany, remains a headwind. The region's reliance on industrial sectors, especially automotive, underscores vulnerabilities to supply-chain disruptions, though Slovakia and Hungary are well positioned in the EV market with strategic investments in battery production. Net exports are unlikely to significantly support growth, highlighting the need for balanced domestic and external contributions. **Table 2** summarises our country-level growth projections.

Table 2: Real GDP forecasts, year-on-year change, %

		2024 (E)	2025 (F)	2026 (F)
Euro area	Slovakia	2.3	2.3	2.4
	Lithuania	2.3	2.9	2.7
	Slovenia	1.5	2.2	2.3
	Latvia	-0.2	1.5	2.8
	Estonia	-0.9	1.6	2.8
	Croatia	3.4	2.8	2.8
EU: Non-euro-area	Poland	2.5	3.2	3.0
	Romania	1.2	2.3	3.5
	Czech R.	1.1	2.3	2.2
	Hungary	0.7	2.8	3.2
	Bulgaria	2.4	3.0	2.7
Non-EU	Türkiye	3.0	3.0	3.2
	Ukraine	4.1	3.5	3.5
	Serbia	3.7	4.1	4.0
	Georgia	9.5	6.8	5.7

Source: Scope Ratings forecasts

Euro area CEE: Real GDP growth forecasts for euro-area CEE countries show a mixed trajectory, reflecting varying paths of recovery. **Croatia** maintains the strongest economic momentum within the group, with GDP growth decelerating slightly but consistently outperforming the euro area average, driven by its reliance on tourism and EU-funded investments. **Lithuania** follows with robust growth, supported by resilient consumption and expanding services exports. **Slovakia** displays moderate yet stable growth, reflecting a steady recovery path, though structural constraints such as reliance on external demand and slow EU fund absorption limit acceleration.

Slovenia shows solid but modest growth, indicative of a mature economy with stable industrial and export performance. Its gradual improvement aligns with economic diversification and fiscal discipline, though long-term risks remain tied to demographics and competitiveness.

Latvia, by contrast, has experienced a sluggish recovery in 2024 due to geopolitical and external pressures, with stronger growth in 2025-2026 reflecting improving private consumption and EU fund absorption. **Estonia** faces the weakest growth performance in 2024, marked by a contraction driven by fiscal challenges and external vulnerabilities, though a rebound is expected in 2025-2026 as EU funding and domestic conditions improve.

EU: Non-euro-area: The non-euro area CEE-EU countries show varied growth dynamics, with **Poland** leading the recovery due to robust private consumption, labour market strength, and steady EU fund absorption. **Hungary** follows, benefiting from strategic investments in green technologies and automotive sectors alongside gradual fiscal and monetary improvements.

Bulgaria maintains solid growth prospects, supported by EU funding and private consumption, with its anticipated euro area entry providing further stability. **Romania**'s growth should accelerate by 2026, driven by reforms and EU recovery funds.

The **Czech Republic**, with a more modest outlook, is leveraging its strong industrial base and EU funding but faces constraints from demographic pressures and reliance on external demand.

Overall, effective structural reforms, fiscal discipline, and efficient EU fund absorption will be key to sustaining and maximising growth potential across these countries.

Non-EU: Georgia leads the group with exceptionally strong growth prospects, driven by robust private sector activity, reforms, and foreign investment, though sustainability hinges on managing external vulnerabilities. **Serbia** demonstrates steady and consistent growth, supported by rising investment in strategic industries like green technologies and electric vehicles, alongside EU-aligned reforms that bolster economic stability and resilience. **Türkiye** shows moderate growth, reflecting tighter fiscal and monetary policies squeezing domestic demand, while external factors like geopolitical risks and trade dependencies weigh on its growth outlook.

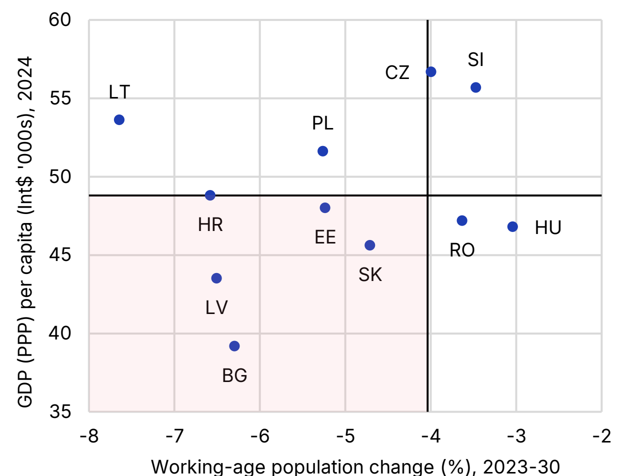
Ukraine, amid ongoing geopolitical and economic rebuilding efforts, is projected to achieve a moderate recovery, underpinned by reconstruction initiatives and international financial support.

Sustained reforms, investments, and geopolitical stability will be critical for these countries to maintain their growth trajectories and address medium-term risks.

Long-term growth in the CEE region is constrained by population decline given low birth rates and high emigration, shrinking the workforce and straining social welfare systems, posing challenges to economic growth and fiscal sustainability.

Demographic pressures are increasingly a key bottleneck on potential economic growth, with all CEE-11 countries expected to experience a decline in their working-age population over the present decade. This will exacerbate already important labour shortage challenges, with job vacancies remaining at historically elevated levels, despite moderating from recent highs.

Figure 2: Demographic pressures and adaptability in CEE-11



Note: GDP per capita measured in PPP terms (international dollars). Axes cross at EU averages. Sources : UN, IMF WEO, Scope Ratings

Adverse demographic trends are likely to hinder the economic convergence paths of countries that maintain significant wealth gaps relative to EU averages. These countries are also in a comparatively less favourable position to face fiscal pressures stemming from population ageing due to their more restricted tax bases (**Figure 2**).

Given growing demand for healthcare and long-term care services, CEE countries face challenges in securing accessible, adequate, and sustainable long-term care, traditionally provided by families but now requiring more formal systems.

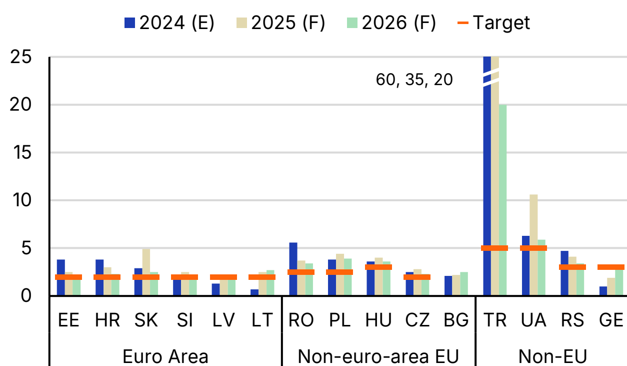
Positively, we note that most countries in the CEE-11 region have seen net migration flows improve in recent years, reflecting large arrivals of Ukrainian refugees alongside lower emigration. Countries able to sustain these improvements, such as via policies encouraging the return of nationals living abroad and facilitating the integration of foreigners in the workforce, should be better positioned to soften the upcoming demographic shock.

Finally, policies aiming to maintain older workers in the workforce constitute another potential mitigant. Croatia, Poland, Hungary and Slovenia continue to trail EU averages on the employment of senior workers. Conversely, the Baltic countries and the Czech Republic compare favourably to regional peers.

3. Gradual disinflation and monetary policy adjustments across CEE

We forecast the CEE-11 will see an average headline inflation rate of 5.6% in 2025, down from an expected 6.9% this year (**Figure 3)**. Disinflation, supported largely by external factors, was robust throughout 2023 and 2024.

Figure 3: Headline inflation, annual average, %



Sources: Eurostat, National statistical offices, Scope Ratings

Euro Area CEE. Inflation trends in the euro-area CEE countries show a gradual convergence toward the 2% target, though disparities remain. Estonia and Croatia have demonstrated relatively elevated inflation rates in 2024, with Croatia's inflation reduction slowed by structural factors tied to its reliance on tourism and external demand, while tax changes in Estonia limited the deceleration in consumer prices. Slovakia faces a unique trajectory, with inflation temporarily rising in 2025 before aligning with the target in 2026, driven by external and domestic price pressures tied to energy and industrial sectors. Slovenia, Latvia, and Lithuania achieve lower inflation levels sooner, reflecting effective monetary policy transmission, and a more stable alignment with euro area dynamics, which have mitigated price pressures compared to regional peers.

EU: Non-euro-area. Inflation in non-euro area EU countries remains elevated compared to the euro-area group, with challenges in anchoring inflation close to targets.

Romania records persistently high inflation, reflecting structural fiscal imbalances and external vulnerabilities, though gradual moderation is expected. Poland and Hungary face similar issues with inflation staying above their respective targets through 2026.

Poland's headline inflation is expected to decline to 3.9% by end-2026 but peak above 4.0% in 2025 due to regulated price increases and excise duties. Core inflation will remain elevated through 2025, driven by wage growth and a tight labour market. The National Bank of Poland (NBP) is expected to lower its key policy rate by 50bp to 5.25% in 2025, with loose fiscal policy in 2025 tempering the pace of monetary adjustments.

Hungary's inflation is expected to gradually decline, with headline inflation averaging 4% in 2025. Hungary's slower decline reflects energy market sensitivities. The National Bank of Hungary is likely to focus on FX stability in early 2025 to counter pro-inflationary risks from recent currency depreciation. Monetary easing is expected with a 75bp cut by mid-2025 and another in late 2025, bringing the policy rate to 5.25% by year end. Additional easing in early 2026 is expected to reduce the rate to 4.50%, where it is projected to remain for the rest of the year.

Non-EU Countries demonstrate more varied inflation trajectories, reflecting differing structural and geopolitical contexts.

Ukraine is experiencing significant inflation, driven by the war impacting food prices, FX pass-through from hryvnia depreciation, and rising energy and labour costs, with temporary pressures expected to persist. The uncertain military conflict adds to inflationary challenges.

While Türkiye's inflation remains well above target, the continuation of the current monetary policy stance coupled with a contractionary fiscal policy in 2025 should sustain a gradual decline throughout 2025-26. Serbia demonstrates steady progress toward its 3% target, supported by moderate monetary policy adjustments and controlled wage growth. Georgia maintains low inflation, closely aligning with its target by 2026, reflecting disciplined fiscal and monetary frameworks despite regional pressures.

4. Lacklustre foreign demand, increasing domestic investment delay external recovery

Current account balances weakened across most CEE-11 economies over the past year, primarily reflecting weak goods exports growth due to weak demand from key trading partners (especially from Germany). At the same time, slowing imports, sluggish weak domestic demand and normalising energy prices, allowed for improvements in the Czech Republic, Hungary, Latvia and Estonia. Lithuania is expected to have significantly outperformed peers, with a current account surplus estimated at 2.7% of GDP this year driven by buoyant services exports.

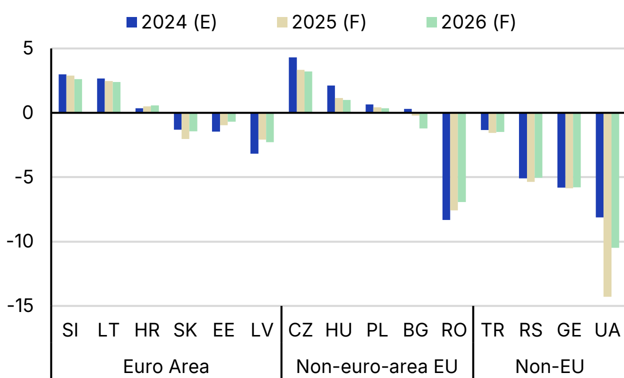
Looking ahead, we expect a pick-up in consumption and domestic investment, amid robust public sector investments and loosening financing conditions to support import growth and add pressure to external balances. Moreover, a muted economic recovery in

Western Europe points to only moderate improvement in external demand for the CEE-11 region, especially countries most integrated in euro-area manufacturing supply chains.

Economies with strong ties to German manufacturing (such as the Czech Republic, Poland, Hungary) and/or significant exposures to the Chinese automotive market (Slovakia) are most exposed to ongoing pressures. Trade in services is expected to remain more resilient and to support the external performances of countries with large export-oriented services sectors, including the Baltic countries and Croatia.

Romania's current account deficit, which is estimated to have widened to more than 8% of GDP in 2024, is forecast to moderate only slightly over coming years given persistent fiscal imbalances. Conversely, the Czech Republic, Slovenia and Lithuania are expected to maintain robust current account surpluses of around 3% of GDP over 2025-26.

Figure 4: Current account balances, % of GDP



Sources: IMF World Economic Outlook forecasts for Ukraine and Georgia, European Commission AMECO forecasts for others, Scope Ratings

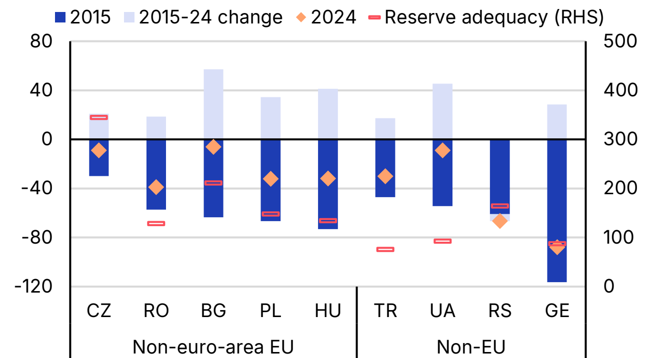
Over the medium-term, the uncertain geopolitical environment adds downside risks to the CEE-11 external outlook. Similarly, competitiveness pressures from the recent acceleration in wage growth may weigh on trade balances, with all countries in the region facing real effective exchange rate appreciations relative to pre-pandemic levels, except Türkiye, Ukraine and Slovenia. Conversely, early elections in Germany may lead to some fiscal impulse during H2 2025 and provide uplift to external demand.

Resilience to external shocks

Euro area members' resilience to externals shocks is anchored by the euro's status as a global reserve currency. The external position of **non-euro area CEE countries**, as measured by their Net International Investment Position (NIIP) as a share of GDP, has improved across our rated countries in the past decade, with the exception of Serbia, whose net debtor position has widened slightly (**Figure 5**).

While negative NIIPs signal persistent reliance on foreign capital, we expect comfortable FDI inflows and sizeable EU fund allocations to member states to continue supporting the sustainability of the external position of these countries in the coming years.

Figure 5: Net international investment positions (NIIP) and reserve adequacy, % of GDP (LHS), x (RHS)



Note: Reserve adequacy as measured by the IMF ARA metric for 2024.
Sources: IMF, Scope Ratings

The IMF ARA indicator – which assess the adequacy of international reserve holdings relative to monetary and foreign debt and trade metrics – highlights varying levels of resilience to external shocks, ranging from strong liquidity buffers to vulnerable positions that could be destabilised by adverse economic conditions (**Figure 5**).

Countries like Bulgaria and Serbia demonstrate exceptionally high reserve coverage, particularly relative to short term external debt (respectively at 455% and 805%), signaling robust external liquidity and significant capacity to withstand shocks such as a sudden stop in capital inflows or currency depreciation pressures.

Czech Republic, Romania, and Hungary maintain healthy but moderate reserve coverage. However, these ratios exceed the standard 100% benchmark, indicating sufficient reserves to meet short-term external debt obligations. These countries remain moderately exposed to risks like external demand shocks or delays in EU fund inflows, which could strain liquidity over time.

For Poland (101% of short-term external debt), Georgia (103%), and Ukraine (105%), reserve coverage is at the threshold of adequacy. While they currently have the capacity to manage short-term external debt, any significant economic or geopolitical disruptions – such as energy price volatility or reduced capital inflows – could pressure their external positions.

Ukraine in particular faces heightened risks due to the ongoing war and the associated fiscal challenges. Ukraine's current account balance remains under pressure, with reserves improving modestly following the debt restructuring, and supported by IMF programmes and international financing, though still insufficient to mitigate external vulnerabilities and refinancing risks.

Lastly, Türkiye (63%) stands out for its low reserve-to-external debt ratio, indicating vulnerability to external shocks. This low coverage highlights its heavy reliance on external financing, making it more susceptible to capital flight, exchange rate volatility, and tightening global financial conditions. However, Türkiye's external metrics, including its reserve adequacy, have

improved since the monetary policy pivot operated in 2023, which supports external resilience.

5. Defence, social, and interest expenditure slow pace of fiscal consolidation

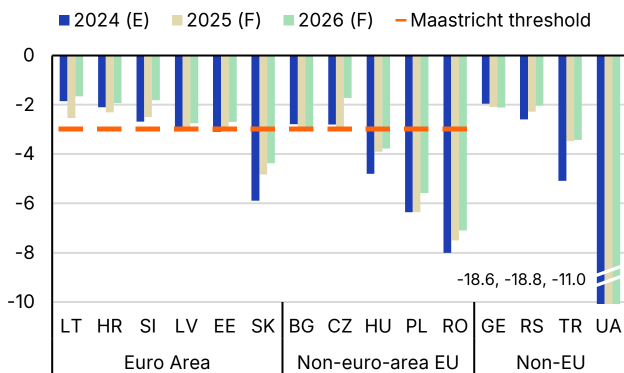
Fiscal deficits worsened across most of the CEE-11 region, amid a busy electoral calendar, persistent inflation-related pressures and despite the phaseout of energy subsidies. Only the Czech Republic, Hungary and Bulgaria are expected to have achieved deficit reductions (**Figure 6**).

Fiscal policy will tighten gradually across the region, though deficits are forecast to remain durably above pre-pandemic averages, reflecting expenditure pressures from defence and social policy as well as interest payments.

Increased military spending is key driver of increased deficits, particularly in Poland (4.1% of GDP in 2024) and in the Baltic countries. The outcome of the US elections will raise demands for NATO members to increase allocations to defence. As of 2024, Slovenia and Croatia did not meet the alliance's 2% of GDP target, despite significant increases in military expenditures.

Countries subject to excessive deficit procedures – Slovakia, Poland, Hungary and Romania – will need to initiate the consolidation process from 2025 to remain compliant with EU guidelines. We expect only moderate fiscal tightening in Poland, ahead of the Spring 2025 presidential elections.

Figure 6: General government budget balances, % of GDP



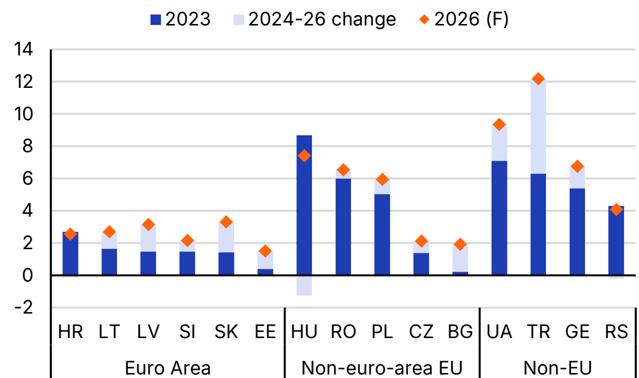
Note: Central government balance for Türkiye and Ukraine. Sources: IMF, Eurostat, Scope Ratings forecasts

Within the euro area, we only expect Slovakia's fiscal deficit to remain significantly above the 3% of GDP Maastricht threshold over coming years, at around 4.4% of GDP by 2026, down from 5.9% in 2024. **Among non-euro EU CEE countries**, deficits in Romania, Poland and Hungary are expected to remain above the Maastricht benchmark, despite declining steadily over the medium term to 7.1% of GDP in 2026 in Romania (from 8.0% of GDP in 2024), 5.6% of GDP in Poland (from 6.4%) and 3.8% of GDP in Hungary (from 4.8%).

The net interest payment burden should increase gradually across most of the CEE-11 region despite the loosening of central bank policy rates, rising from an average of 3.6% of government revenue in 2023 to 4.4% this year and 4.8% by 2026 (**Figure 7**).

Hungary is the only sovereign expected to benefit from a significant decline in interest payments, driven by declining coupon payments on indexed bonds. Still, at 7.4% of government revenue in 2026, its interest burden is set to remain the highest in the region, followed by Romania (6.5%) and Poland (6.0%). Further declines in yields on government benchmarks are expected throughout 2025, in line with the deceleration of inflationary pressures.

Figure 7: Net interest payments, % of GG revenue, 2024-26



Sources: IMF, Scope Ratings

USD-denominated exposures

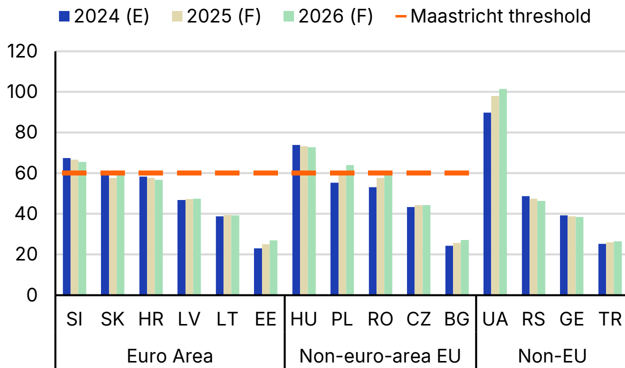
Looking ahead, the appreciation of the US dollar may cause some fiscal pressures on CEE sovereigns, through adverse liability revaluations and increased debt-servicing burdens.

Euro area sovereigns' and the Czech Republic's exposure to USD-denominated debt is negligible. Hungary's (16% of government debt) and Bulgaria's (6%) USD exposures are converted into euro through derivative instruments. Exposures to USD (net of hedging arrangements) in Poland (3% of general government debt) and Romania (8%) are manageable.

Non-EU CEE sovereign's government balance sheets are more vulnerable to foreign currency risk, with around 13% of public debt denominated in USD in Serbia, 28% in Georgia and 38% in Türkiye's. Georgia's government debt structure is largely foreign currency denominated (more than 70% of total), though associated vulnerabilities are partly mitigated by a favourable debt structure, dominated by official sector lending on concessional terms. At the same time, we see some risks that ongoing political turmoil and deterioration of the authorities' relationship with Western partners weaken their ability to secure funding on preferential terms moving forward.

Türkiye remains exposed to adverse currency movements, but the government's exposure to USD-denominated liabilities is contained as a share of GDP (around 10%), which limit external vulnerabilities, especially as external buffers have improved.

Figure 8: General government debt, % of GDP



Sources: IMF, Scope Ratings

Debt ratios are expected to remain on a gradual increasing trend over the medium term, as recovering GDP growth only partly offsets persistent primary deficits (**Figure 8**). Amongst CEE-11 sovereigns, only Slovenia, Hungary and Croatia are expected to achieve a reduction in their debt-to-GDP ratios by 2026, with Croatia's expected to edge below the 60%-benchmark by end-2024. Conversely, we forecast debt ratios to increase significantly in Poland (to 64.1% in 2026, up 8.8pp from 2024), Romania (to 61.3%, up 8.1pp) and Estonia (to 27.0%, up 4.0pp).

Still, credit ratings of CEE-11 sovereigns remain supported by moderate government debt stocks, with only Hungary and Poland set to exceed the Maastricht threshold by end-2026.

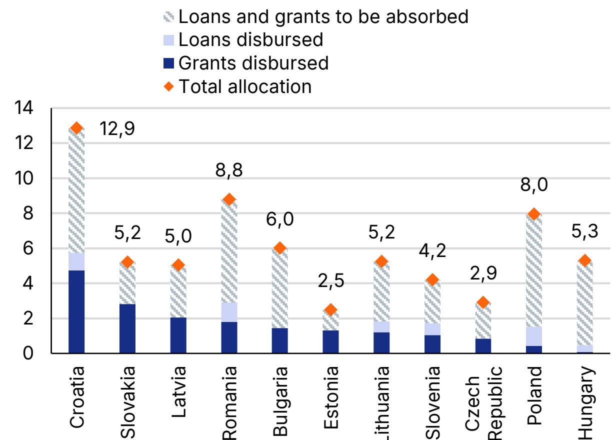
6. EU funding, governance risks, and balancing resilience with environmental sustainability

EU funds have been a key driver of investment and growth for CEE EU countries, with the 2021-2027 Multiannual Financial Framework, Recovery and Resilience Facility (RRF), and REPowerEU plan providing substantial financial support for the region. Effective implementation of national Recovery and Resilience Plans (RRPs) is essential to foster growth and advance the green transition. However, disparity in RRF implementation across CEE countries (**Figure 9**) highlights the importance of governance and administrative capacity.

Croatia, Romania, and Slovakia demonstrate effective use of EU funds, leveraging grants and loans to support economic recovery and development. In contrast, Hungary faces delays, with governance challenges hindering progress.

Croatia demonstrates strong performance across key metrics, disbursing EUR 3.7bn in grants, which represents 63.8% of its total allocation—the highest proportion among the CEE-11 countries, significantly outperforming the regional average of 40% disbursement. It also leads in RRP allocation as a share of GDP at 13.1%, underscoring the significant role of EU funds in its economic framework. Slovakia has also achieved notable success, with the disbursement of around EUR 3.5bn in grants, or 54.2% of its total allocation. While its RRP allocation as a share of GDP is moderate at 5.2%, Slovakia's controversial government policies could weigh on disbursements by 2026. Romania's reforms, including pension system adjustments, have progressed, but many of the delivery commitments await the outcome of the December 2024 general elections, which remain uncertain following the cancellation of the first round of the presidential ballot. Similarly, Bulgaria's frequent government changes and limited administrative capacity have slowed implementation.

Figure 9: CEE-11 RRF implementation progress, % of GDP



Sources: EC Recovery and Resilience Scoreboard, Eurostat, Scope Ratings

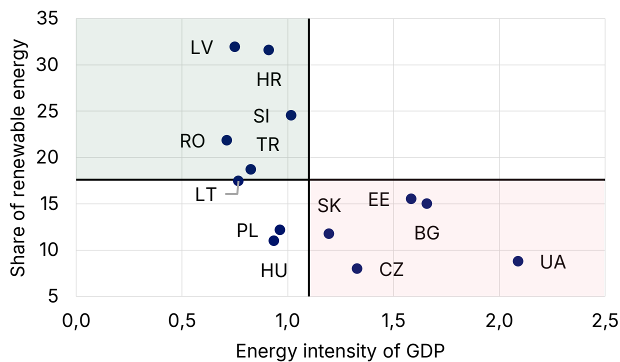
Hungary and Poland illustrate the impact of governance on EU funding. Poland has secured European Commission approval for its updated RRF plan after addressing rule-of-law concerns, yet institutional tensions could create further delays. Hungary's access to RRP funding remains partially suspended under the EU's conditionality mechanism. Such delays threaten medium-term fiscal stability and growth prospects. Hungary has made the least progress among the CEE-11 countries, disbursing EUR 140m in grants, equivalent to 2.1% of its total allocation. Despite substantial funding availability, challenges related to governance and administrative capacity have limited its implementation.

Additionally, countries under the Excessive Deficit Procedure – Hungary, Poland, Romania, and Slovakia – may experience delays in EU fund disbursements. This is likely because compliance with fiscal and governance criteria is often a prerequisite for timely disbursement of EU funds. Countries under an Excessive Defict Procedure (EDP) might face stricter scrutiny or conditionalities, which could slow the funding process.

Challenges to the green transition

The CEE region faces an equally pressing challenge in transitioning toward energy efficiency and renewable energy adoption. No CEE country simultaneously achieves high renewable adoption and low energy intensity, underscoring the region's structural gaps in aligning energy efficiency and renewable expansion (**Figure 10**).

Figure 10: Progress and urgency of green transition



Note: Energy intensity measured as energy consumption per unit of GDP in kWh per international dollar. Share of renewable energy as a percentage of primary energy consumption. Axes cross at each metric's average.
Sources: Our World in Data, Scope Ratings

Progress is uneven across the region, reflecting varying investment priorities and structural constraints. Latvia (31.9%) and Croatia (31.6%) lead in renewable energy shares, while Slovenia and Romania demonstrate balanced progress. Bulgaria's high energy intensity signals inefficiency, exposing it to price shocks. Meanwhile, the Czech Republic (8.0%) and Hungary (11.0%) lag in renewable energy adoption, despite moderate energy intensity levels.

Governance and energy policies are critical to shaping economic resilience and fiscal stability in the region. Strengthened administrative capacity and policy coherence are essential for optimising EU fund utilisation and mitigating delays. Simultaneously, proactive investments in renewable energy, grid modernisation, and energy efficiency are pivotal to aligning energy systems with sustainability goals, enhancing competitiveness, and mitigating inflationary pressures.

Achieving balanced progress will require sustained policy commitment and international support to address structural constraints, ensuring that the CEE region can leverage EU funding effectively while transitioning to a greener, more resilient economic model.

Country-specific views for 2025

1. Euro area CEE

Croatia's credit rating was upgraded to A-/Stable, reflecting solid fiscal improvements, strong growth prospects, and deeper EU integration. The debt-to-GDP ratio has significantly declined since its 2020 peak, driven by fiscal discipline, euro adoption, and robust nominal GDP growth. Economic growth is supported by private consumption, tourism, and substantial EU-funded investments, despite external demand challenges. Reliance on tourism and adverse demographic trends remain medium-term vulnerabilities, alongside governance and labour market issues. Structural reforms, high employment levels, and EU funding bolster economic resilience and foster convergence with euro area income levels. Sustained reforms and diversification are crucial for maintaining credit strength.

Estonia's credit rating was downgraded to A+/Stable due to structural fiscal challenges and economic headwinds from the Russia-Ukraine war. Persistent deficits, driven by higher defence and social transfers, have eroded fiscal buffers, with public debt rising significantly from pre-pandemic levels alongside growing financing needs. The Stable Outlook is supported by Estonia's strong institutional framework, still low public debt, robust growth potential, and EU funding driving income convergence. However, the economy remains vulnerable to external shocks, geopolitical tensions, and adverse demographics. Sustained reforms and fiscal rebalancing will be crucial for resilience.

Latvia's A-/Stable rating was maintained, reflecting solid growth prospects, sound fiscal management, and strong EU and euro area support. Economic recovery is driven by improving consumption, wage growth, and EU-funded investments, with moderate public debt expected to remain stable. Key challenges include vulnerability to external shocks and demographic pressures, impacting labour supply and fiscal pressures.

The Outlook on Lithuania's A rating was revised to Positive, highlighting robust growth prospects, structural reforms, and a strong fiscal trajectory. The recovery is driven by resilient private consumption, strong export performance, and progress in high-value-added services and renewable energy. Structural reforms and EU funding have bolstered Lithuania's resilience to external shocks, with low public debt reflecting fiscal prudence. The Positive Outlook underscores expectations of sustained growth, supported by reforms and effective use of EU funds. However, challenges remain from external vulnerabilities, demographic pressures, and labour shortages. Continued reforms and efficient EU fund utilisation will be key to maintaining growth.

Slovakia's credit rating was downgraded to A/Stable, reflecting worsening fiscal conditions and economic challenges. Large deficits drive a steady rise in public debt, while economic growth remains constrained by slow EU fund disbursements, weak external demand. Real GDP growth is expected to stagnate, despite robust FDI, particularly in the automotive sector. Structural challenges, including governance concerns, and reliance on external demand, continue to weigh on the country's credit profile. At the same time, the government unveiled a fiscal consolidation package in October to reduce the deficit and stabilise public debt, even though its implementation could be challenged by the narrow majority of the government coalition. Slovakia's EU and euro area memberships, along with a competitive industrial base, remain key credit strengths.

Slovenia's A/Stable rating was affirmed, reflecting a resilient economy, supported by diversification, euro area membership, and robust external performance. Slovenia's economic outlook is supported by steady growth prospects and a projected decline in public debt over the medium term, underpinned by fiscal discipline and substantial EU funding. Key challenges include an ageing population, rising age-related expenditures, and labour shortages, which could weigh on competitiveness and long-term growth. Structural reforms, including progress in pension reforms, along with investments in industries such as advanced manufacturing, would further support economic resilience.

2. EU: Non-euro-area

Bulgaria's BBB+/Positive rating was affirmed, reflecting expectations of euro area accession by 2026 despite delays due to inflationary pressures and political instability. We expect euro adoption to enhance Bulgaria's credit profile through the elimination of currency risk, improved market access, and increased monetary flexibility. The country has already met most convergence criteria, with inflation as the remaining hurdle expected to be addressed by late 2024 or early 2025. Bulgaria's robust growth outlook, underpinned by EU fund-supported investments and strong private consumption, and its low public debt levels further support its Positive Outlook. Challenges include political instability, demographic pressures, and risks related to the timely absorption of EU funds. The rating could be upgraded upon formal euro area entry, while delays in euro adoption or fiscal deterioration could pressure the outlook.

The Czech Republic's AA-/Stable rating was affirmed, supported by sound macroeconomic policies, a strong industrial base bolstered by FDI and EU funds, and a stable fiscal position with moderate deficits and debt levels. Challenges include reliance on global supply chains, demographic pressures from an aging population, and rising fiscal demands, including defence spending. The Stable Outlook reflects balanced risks, with potential upgrades tied to improved fiscal performance and resilience to external shocks, while risks of downgrades relate to unsuccessful consolidation or weaker growth.

Hungary's credit rating remained stable at BBB, supported by robust growth prospects driven by foreign investment, substantial EU fund allocations, and an improved external position that enhances resilience to shocks. Inflation has decelerated significantly, enabling gradual monetary easing, while a projected recovery in external demand and strategic investments in sectors like electric vehicles are expected to drive GDP in 2025. However, elevated public debt, a high fiscal deficit, and weak governance metrics constrain the rating, alongside uncertainty over the timely disbursement of EU funds. The stable outlook reflects a balance of risks, contingent on fiscal discipline, external demand recovery, and progress in EU fund absorption. We expect Hungary's fiscal consolidation to proceed gradually, supported by inflation-linked retail bond savings and targeted revenue measures, though fiscal challenges persist due to election-related spending pressures. While vulnerabilities to external shocks and reliance on energy imports remain significant, Hungary's strategic focus on diversifying energy sources and modernising infrastructure with EU support mitigates risks.

Poland's credit rating was affirmed at A/Stable, reflecting strong macroeconomic fundamentals, robust growth potential, and a well-capitalised financial system. The economy is recovering steadily from a period of subdued growth, supported by resilient private consumption, a strong labour market, and renewed EU fund inflows. The banking sector remains a key strength, displaying solid profitability, robust capital adequacy, and stable asset quality. Challenges persist, including elevated budget deficits, a rising debt trajectory, and governance concerns despite recent improvements in EU relations. Long-term risks stem from political polarisation. Restoring fiscal discipline and strengthening institutional governance will be critical to safeguarding Poland's credit stability.

Romania's BBB- rating remained Stable, supported by strong medium-term growth potential, EU membership with substantial structural and recovery fund inflows, and a moderate debt-to-GDP ratio. Challenges include high fiscal deficits, a rigid budget structure, rising debt-servicing costs, and elevated current-account deficits driven by fiscal imbalances and weak competitiveness. The EU framework provides a safety net, underpinning Romania's rating at the BBB- level. Romania's Stable Outlook largely depends on its ability to strengthen fiscal consolidation, reduce external vulnerabilities, and improve reform capacity, particularly in absorbing EU funds.

3. Non-EU.

Georgia's BB rating remained Stable, supported by moderate public debt levels, concessional borrowing terms, and robust medium-term growth potential estimated at 5% annually. Challenges include exposure to geopolitical risks, institutional weakening, the suspension of its IMF programme, and declining external reserves, which expose the economy to external vulnerabilities. The EU and IMF frameworks, though strained, have historically supported Georgia's resilience. The Stable Outlook reflects balanced risks, with potential pressure from governance or geopolitical deterioration.

Serbia's BB+ ratings were affirmed, and a Positive Outlook was assigned, driven by strong economic growth, robust FDI, and improved external resilience. The economy benefits from rising consumption, significant investments, and advancing integration into EU value chains, such as in EV production, with the reinstated lithium mine enhancing its role in the EU's energy transition. Fiscal consolidation, structural reforms are improving public finances, with public debt declining steadily, while higher reserves bolster external stability. However, institutional weaknesses, high external debt, and political challenges related to EU accession, including Kosovo relations, remain constraints. An upgrade to investment grade depends on sustained public debt reduction, stronger external resilience, and governance reforms, while setbacks in these areas could lead to a return to a Stable Outlook.

Türkiye's long-term foreign-currency rating was upgraded from B- in January 2024 to BB-/Stable , reflecting sustained progress in monetary policy normalisation, disinflation, and reserve accumulation. Recent policy measures, including tight monetary policy stance and regulatory adjustments, have improved inflation expectations, supported lira denominated savings, and strengthened the financial sector, enhancing resilience to external shocks. External vulnerabilities, such as the current account deficit and high external gross financing needs, have moderated, while international reserves and investor sentiment have improved. However, persistent challenges include inflation significantly exceeding the central bank's target, high dependence on external financing, and lingering geopolitical and institutional risks. The Stable Outlook balances the prospects of an appropriate policy stance with high inflation relative to peers and lingering external and financial stability risks.

Ukraine's foreign-currency issuer rating was downgraded to Selective Default (SD) in 2024, reflecting the country's Eurobond debt restructuring amidst severe economic and fiscal pressures due to the ongoing war. The restructuring resulted in a 36.1% face-value haircut, enabling Ukraine to save around USD 22.75bn in debt payments through 2033. This restructuring was endorsed by the IMF as compatible with debt-sustainability objectives under its Extended Fund Facility and included provisions for additional principal tied to Ukraine's economic performance. The unilateral suspension of debt service prior to the restructuring underscored the acute fiscal challenges, with public debt projected to peak at over 100% of GDP by 2027. Despite the restructuring, Ukraine's financial Outlook remains constrained by significant external vulnerabilities, ongoing geopolitical risks, and limited fiscal capacity.

Annex I: 2024-26 macro-economic outlook

Country/region		Real GDP growth (annual average, %)			Headline inflation* (annual average, %)			Policy rates** (EOP, %)			Unemployment rate (annual average, %)			General government balance*** (% of GDP)			Public debt level (% of GDP)			EUR per local currency (% change)	Reserves (% of short-term external debt)
		2024E	2025F	2026F	2024E	2025F	2026F	End-2024	End-2025	End-2026	2024E	2025F	2026F	2024E	2025F	2026F	2024E	2025F	2026F	YTD	2024E
	EU CEE-11	1.5	2.4	2.8	2.9	3.1	2.6				5.1	5.0	4.9	-4.0	-3.8	-3.3	49.4	50.7	51.7		
Euro-area CEE	Slovakia	2.3	2.3	2.4	2.9	4.9	2.5	3.00	2.25	2.00	5.6	5.5	5.5	(5.9)	(4.8)	(4.4)	59	58	61		
	Lithuania	2.3	2.9	2.7	0.7	2.5	2.7				7.3	7.5	7.5	(1.9)	(2.5)	(2.0)	39	39	40		
	Slovenia	1.5	2.2	2.3	2.2	2.5	2.0				3.6	3.6	3.5	(2.7)	(2.5)	(1.8)	67	67	66		
	Latvia	-0.2	1.5	2.8	1.3	1.9	1.7				7.0	7.0	6.7	(3.1)	(3.0)	(2.8)	47	49	49		
	Estonia	-0.9	1.6	2.8	3.8	2.5	1.8				7.5	7.8	7.2	(3.1)	(2.9)	(2.7)	23	25	27		
	Croatia	3.4	2.8	2.8	3.8	3.0	2.3				5.0	4.8	4.7	(2.1)	(2.3)	(1.9)	58	58	57		
Non-euro-area EU CEE	Poland	2.5	3.2	3.0	3.8	4.4	3.9	5.75	5.25	5.00	2.9	2.9	2.9	(6.4)	(6.4)	(5.6)	55	61	64	2.1	101
	Romania	1.2	2.3	3.5	5.6	3.7	3.4	6.50	6.00	5.50	5.4	5.3	5.1	(8.0)	(7.5)	(7.1)	53	58	61	0.2	115
	Czech Republic	1.1	2.3	2.2	2.5	2.8	2.3	4.00	3.00	2.25	2.8	2.7	2.6	(2.8)	(3.0)	(1.7)	43	44	44	(1.5)	168
	Hungary	0.7	2.8	3.2	3.6	4.0	3.6	6.50	5.25	4.50	4.4	4.2	4.1	(4.8)	(3.9)	(3.8)	74	73	73	(8.0)	114
	Bulgaria	2.4	3.0	2.7	2.1	2.2	2.5	3.00	2.25	2.00	4.3	4.2	4.1	(2.8)	(2.9)	(2.9)	24	26	27	0.2	455
Non-EU emerging Europe	Türkiye	3.0	3.0	3.2	60.0	35.0	20.0	50.00	37.50	22.50	10.5	10.8	10.0	(5.2)	(3.6)	(3.5)	25	26	27	(12.8)	63
	Ukraine	4.1	3.5	3.5	6.1	9.4	5.6	13.00	13.00	11.00	n/a	n/a	n/a	(18.6)	(18.8)	(11.0)	90	98	101	(3.8)	105
	Serbia	3.7	4.1	4.0	4.7	4.1	3.4	5.75	4.50	4.00	9.1	9.0	8.9	(2.6)	(2.3)	(2.0)	49	47	46	0.2	805
	Georgia	9.5	6.8	5.7	1.0	1.9	3.0	8.00	7.50	7.50	13.5	12.5	12.0	(2.0)	(2.1)	(2.1)	39	39	38	1.3	103

Source: Scope Ratings, Macrobond, IMF, Eurostat, OECD, national central banks and statistical offices
* HICP headline inflation for euro-area member states; otherwise, CPI headline inflation.
** Deposit facility rate of the ECB for euro-area CEE economies; yield on the 7-day National Bank of Poland money market bills for Poland; 2-week repo rate for the Czech Republic; interest rate on minimum reserves shown for Hungary; 1-week repo rate for Romania and Türkiye; base rate for Bulgaria; 1-week refinancing rate for Georgia; key policy rate for Ukraine, Serbia.
*** Central government balance for Türkiye and Ukraine.

Annex II: Scope's CEE sovereign ratings and recent rating actions

Table 3. Scope's publicly issued long-term foreign-currency sovereign credit ratings, as of 12 December 2024

Central and Eastern Europe EU member states (CEE-11)				Non-EU CEE	
Euro area		*Non-euro-area EU*			
Croatia	A-/Stable	**Bulgaria**	BBB+/Positive	**Georgia**	BB/Stable
Estonia	A+/Stable	**Czech Rep.**	AA-/Stable	**Serbia**	BB+/Positive
Latvia	A-/Stable	**Hungary**	BBB/Stable	**Türkiye**	BB-/Stable
Lithuania	A/Positive	**Poland**	A/Stable	**Ukraine**	SD
Slovakia	A/Stable	**Romania**	BBB-/Stable		
Slovenia	A/Stable				

Annex III: Recent research

Global Economic Outlook – October 2024: Soft economic landing but elevated steady-state rates underscore balanced economic risk for the global economy
December 2024

Global economic update: soft landing reinforces prospect of higher-for-longer interest rates
June 2024

Central and Eastern Europe 2024 Sovereign Outlook: Recovering growth, diverging fiscal paths, and persistent geopolitical outlooks,
January 2024

2024 Sovereign Outlook: Soft economic landing and turn of the global rate cycle balance fiscal and geopolitical risks for sovereigns
December 2023

CEE Mid-Year Sovereign Outlook: inflation subsides but economic recovery remains fragile
July 2023

Sovereign Mid-Year 2023 Outlook: negative rating outlook framed by slowdown, high debt, rising rates
July 2023

Central and Eastern Europe Outlook 2023: growth falters, EU funding crucial as debt payments rise
December 2022

Sovereign Outlook 2023: Sovereign Outlook 2023: rating pressures rise due to war in Ukraine, slow growth, high inflation
December 2022

Country abbreviations

Slovakia (SK), Slovenia (SI), Estonia (EE), Latvia (LV), Lithuania (LT), Poland (PL), Romania (RO), Czech Republic (CZ), Hungary (HU), Bulgaria (BG), Croatia (HR), Türkiye (TR), Ukraine (UA), Serbia (RS), Georgia (GE).