June 2021 Central and Eastern Europe Interim Sovereign Outlook

Sustained recovery to pre-crisis levels by 2022, but at varying speeds

Sovereign and Public Sector, Scope Ratings GmbH, 30 June 2021

EU CEE-11: Poland I Czech Republic I Hungary I Slovakia I Romania I Bulgaria I Croatia I Slovenia I Lithuania I Latvia I Estonia
Non-EU CEE: Russia I Turkey I Georgia

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Executive summary

We expect output across the CEE region to recover to pre-crisis levels by 2022, but at varying speeds. The recovery will be advanced by export growth as global and European value chains recover, domestic consumption is raised by pent-up household demand, investment recovers and foreign direct investment (FDI) inflows resume, supported by the front-loading of EU funds to the EU CEE (CEE-11) countries.

Our forecast assumes that vaccine accessibility gradually increases in countries of the region over 2021-22 and that most Scope-rated CEE countries remain on track to inoculate 70% of populations by the end of this year. Government fiscal policies will continue to supply adequate support this year in guiding economies through the recovery, also triggering, nonetheless, significant increases in government debt. While higher debt levels are credit negative, interventions by central banks have supported low rates. Increasing inflationary pressure could result in continued faster-than-expected rates tightening, leading to higher debt financing costs. Further development of regional capital markets will prove important in allowing the extra debt to be smoothly rolled over in the future.

The crisis has highlighted structural labour market challenges, exacerbating existing societal inequalities. Reforms that address tight labour markets, skilled labour shortages and increase longer-term labour supply will prove pivotal for sustaining economic rebounds and for the outlook for sovereign ratings. The main risks to the short-term economic recovery relate to developments surrounding the public-health crisis, delays in vaccination, as well as risk around an abrupt tightening of global financial conditions.

Key themes in CEE entering the second half of 2021

Divergent recovery paths

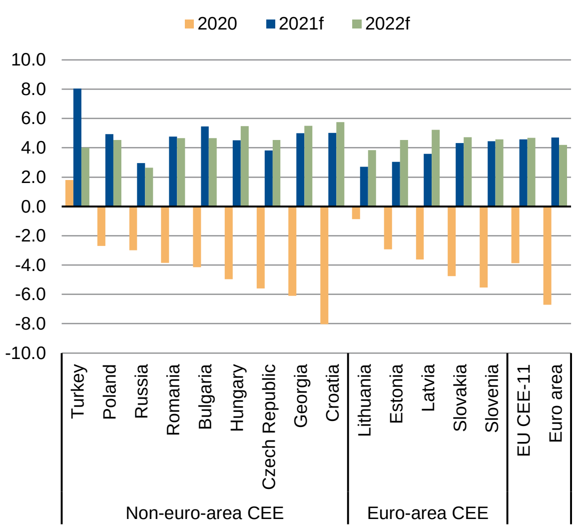
Emergence from recession will prove uneven across the CEE region (**Figure 1**). Manufacturing production is running at near pre-pandemic levels, but services sectors have not bounced back as fully, with recovery hinging on vaccination roll-out that impacts sustainability of economic re-openings. Those countries that rely more upon tourism, such as Croatia, are lagging behind on recovery, while countries with more diversified economies, such as Poland, are leading the way forward. Tourism is only expected to recover over time as European countries lift travel restrictions gradually – with further reversals of border re-openings possible as virus variants spread.

EU CEE-11

We project sturdy recovery in the CEE-11 of 4.6% growth this year before 4.7% growth in 2022. This recovery is supported by improved economic resilience of economies of the region, remaining a supporting factor for the credit ratings. Private consumption and recovering investment are growth drivers, supported by more robust financial systems. We expect FDI inflows, supported by the well-anchored price competitiveness of economies relative to western European peers.

We expect Poland to grow 4.9% this year before 4.5% next year, leading the CEE-11 recovery, underpinned by its large and well-diversified economy. Hungary and Romania are expected to grow 4.5% and 4.8% this year, before 5.5% and 4.7% next year. Both countries will benefit from solid underlying growth potential, despite larger contractions in 2020 (-5% and -3.9% respectively) than in Poland (-2.7%). We expect the Czech Republic and Slovakia to grow 3.8% and 4.3% this year, before 4.5% and 4.7% next year, helped by recovery of external demand. Slovenia is seen growing around 4.5% in both years after contracting 5.5% last year; Bulgaria is expected to grow a robust 5.4% in 2021 before 4.7% in 2022 and Croatia is seen recovering 5% this year before 5.8% growth next year, after the deepest contraction of countries of the region with -8% growth in 2020. After fairly soft economic contraction last year in the Baltic states, we expect the three Baltic nations to grow 3.1% on average this year and 4.5% next year.

Figure 1: Real GDP growth rates, %



Sorted by scale of 2020 economic losses/gains by region
Source: European Commission, IMF, national statistical offices, Scope Ratings forecasts

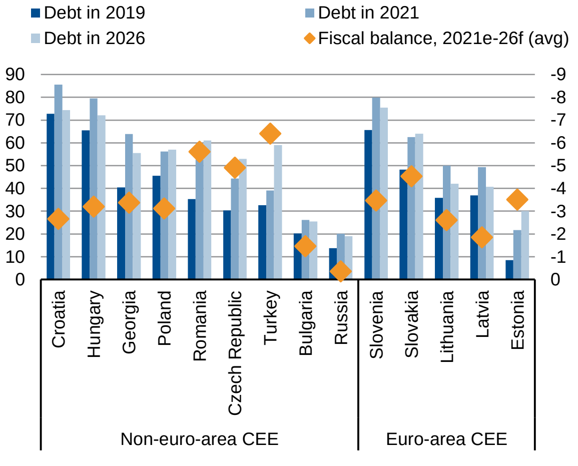
Non-EU CEE

Among non-EU CEE countries rated by Scope, we expect the Russian economy to grow 3% in 2021 and 2.7% next year, before converging to a potential growth rate of 1.5-2% medium term. Higher oil prices and oil production near term should translate to greater public investment and support recovery. Oil market volatility remains a risk for sustained recovery. The Russian central bank's tightening of its policy stance will support the rouble. In Turkey, due to stronger-than-anticipated economic data and expectation of future monetary loosening, we revised up growth expectations to 8.0% for 2021 (from an already above-consensus estimate per our December 2020 projections of 6.2%). We foresee more moderate Turkish growth of 4.0% in 2022. In Georgia, we project partial recovery from crisis this year with growth of 5%, before 5.5% growth next year.

Debt accrued in this crisis raises fiscal vulnerabilities

Fiscal deficits are seen remaining elevated around 6% of GDP on average among EU CEE countries this year (compared with 7.1% of GDP in 2020), with fiscal policies continuing to support recoveries. We expect meaningful reduction in EU CEE countries' fiscal deficits, however, by 2022 (with a weighted average deficit of 4.3% of GDP next year), as economic recovery progresses and government support measures are withdrawn. Russia should be able to bring down its budget deficits to 2.5% this year and further to 1.5% in 2022 with the help from higher oil prices. In Turkey, an increasing frequency of economic crises in recent years has led to the repeated counter-cyclical use of fiscal resources and elevated fiscal deficits, raising the medium-run debt burden. We see the general government deficit remaining at 6.5% of GDP in 2021 before 6% in 2022.

Figure 2: Public debt trends (LHS) and average fiscal balances (RHS), % of GDP



Source: IMFWEO April 2021 and Scope Ratings GmbH forecasts

Elevated public debt accrued during this crisis has increased longer-run fiscal vulnerabilities (**Figure 2**), with a higher volume of debt needing to be rolled over. Gross government financing needs amount to around 10% of GDP for the region's governments – with the exception of those of Russia and Bulgaria, which display lesser debt and lower financing requirements – but reaching 18% of GDP in case of Hungary, in 2021. This situation demands a resumed commitment to fiscal consolidation after the Covid-19 crisis, which will prove important to the trajectory of credit ratings. For the CEE region as a whole, future roll-over of higher levels of government debt requires further development of domestic capital markets to ease potential financing stresses. As an example, relative to GDP, the average size of CEE-11 capital markets is only around a third of the EU average. Furthermore, the market capitalisation to GDP of the most developed CEE capital market, that of Poland, is only around a half the EU average. National savings as a ratio to GDP in Poland, Romania and Slovakia remain low, at close to 20% of GDP (the EU average being 25%), which impedes capital market development and increases reliance upon foreign savings. In Russia and Turkey, state-owned banks hold adequate liquidity to help finance government deficits over the immediate future.

Surging inflation resulting in earlier-than-expected monetary tightening

Strong economic recoveries, persistent supply chain bottlenecks alongside pent-up household demand and higher commodity prices are pushing prices up globally, including in CEE. Inflation is expected to remain above target across many CEE economies this year and in entering 2022 before current supply-side limitations redress as the economic environment normalises and inflationary government discretionary support is tapered. Most non-euro-area CEE central banks, including those of the Czech Republic, Hungary and Poland, are likely to embark upon or resume gradual rates normalisation to undercut increasing inflationary expectations, given solid economy recovery prospects and tightening labour markets. In Romania, developments affecting the Romanian leu will prove critical for the National Bank of Romania's policy stance. Increasing inflationary pressure is likely to result in further rate increases by the Central Bank of Russia, reflecting the central bank's commitment to inflation targeting. Conversely, in Turkey, expected *easing* of a currently significant positive real benchmark interest rate of 2.1% could make the economy more vulnerable to capital outflow, Turkish lira depreciation and higher inflation – we foresee policy rate cuts to 16% before end-2021 before reaching 14% by end-2022, influenced by a dovish central-bank policy bias and ongoing political interference ahead of presidential and legislative elections by 2023.

Potential increase of policy rates across much of the CEE region from unprecedented crisis lows due to rising inflation expectations has already been, to an extent, priced in by markets. Surging inflation could, nevertheless, result in, at minimum, earlier- and larger-in-scale policy tightening, increasing debt financing costs at the short end of the curve. A more favourable economic outlook, even acknowledging an uneven recovery especially outside of the EU, mitigates risks related to higher debt financing costs.

Adequate external-sector buffers in most nations, elevated external risks in other economies

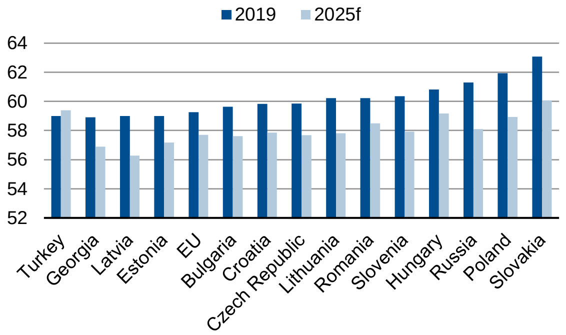
The solid economic fundamentals of most CEE-11 countries, with curtailed net external debt positions and a high share of FDI in external liabilities, make economies less exposed to periods of sharp capital outflows, supporting the outlook for the credit ratings. The currencies of non-euro EU countries that hike rates above and beyond current market expectations will observe greater support in markets amid possible risk-off conditions as G4 central banks address inflation. The foreign exchange reserves of the central banks of Poland, the Czech Republic, and Hungary should represent adequate defences in countering possible exchange rate pressures. Higher reliance on domestic capital markets for debt refinancing and current account surpluses in cases of Poland and the Czech Republic mitigate sovereign risks associated with any exchange rate pressure. The Romanian leu, held back by the economy's structural current account deficits, is supported by a euro liquidity line agreed between the European and Romanian central banks of up to EUR 4.5bn (equivalent to around 12% of Romania's foreign-exchange reserves) and currently extended until March 2022. Croatia and Bulgaria benefit from their July 2020 entries to the EU's Exchange Rate Mechanism II. The external sector sustainability of euro area CEE countries is, meanwhile, underpinned by the euro's reserve currency status.

Outside of the EU, the reduction in budget revenues' sensitivity to commodity-price volatility and a floating exchange rate regime help preserve Russia's high foreign exchange reserve adequacy and a strong government balance sheet, serving as buffers under rainy day scenarios. However, geopolitical risk and the possibility of further tightening of international sanctions against Russian institutions continue to weigh on the rouble and capital flow dynamics. In Turkey, structural depreciation of lira – averaging 17% annual losses against the dollar since 2015 – and increased state intervention to slow currency devaluation, alongside the proliferation of cryptocurrencies as investors seek protection from lira, are signs of growing currency crisis. Unless authorities reverse policy missteps including as regards overt easing bias in monetary policy and too high credit growth, growing domestic loss of confidence in the lira risks structurally higher inflation and balance of payment problems longer term. In Georgia, the Covid-19 crisis has reduced the economy's ability to generate forex revenues near term, partially compensated for by strong access to concessional multilateral financing even after conclusion of an IMF Extended Fund Facility.

Labour market challenges to become more pronounced post-Covid-19

Productivity growth across most CEE economies is expected to remain moderate under a context of skilled labour shortages and longer-term sectoral labour supply shortages, which represent challenges to the sovereign rating outlooks. Improvements in productivity will be needed to anchor sustained income convergence with western European standards whilst preserving external-sector competitiveness. The share of the working age population (20-64 years) in the total population is projected to continue sharply declining across all CEE countries rated by Scope apart from Turkey over the next five years (**Figure 3**). This is due to demographic ageing, and net emigration in some cases, the latter including as regards Romania, Croatia, Latvia, Bulgaria and Georgia.

Figure 3: Working age population (20-64 years) as % of total population



Source: European Commission, UN, national statistical offices

In addition, the Covid-19 crisis is likely to have accentuated pre-existing societal inequalities, especially in countries where higher levels of the population were at risk of poverty or social exclusion entering this crisis. This is due to, in these countries, greater risk of low-skilled labour transitioning into long-term unemployed.

Further improvements of infrastructure, education and health-care systems will prove important for ensuring inclusive recoveries and raising the attractiveness of remaining inside domestic labour markets, enabling countries to retain skilled labour and address labour-market segmentation. Preserving stable and efficient public sector institutions is also essential.

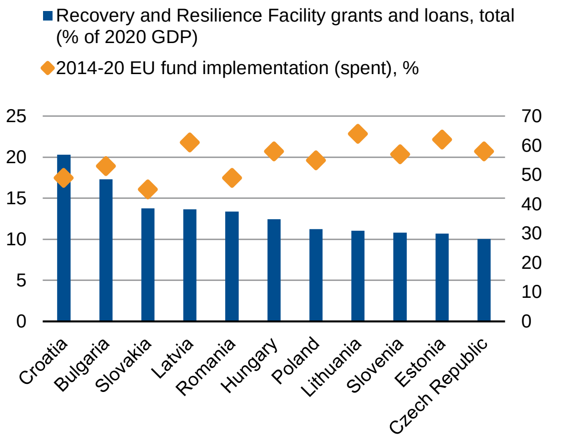
EU funds to boost CEE-11 medium-term growth, but exact impact hinges on absorption capacities

EU fund inflows are an important growth trigger for CEE-11 countries, anchoring a robust medium-run growth outlook via supporting parallel FDI inflows and reducing risks as associated with countries' reliance on foreign capital due to limited domestic savings. CEE-11 countries are among the largest beneficiaries of the

EU's Recovery and Resilience Facility. This will provide these economies with opportunities to mitigate the long-run economic and social impacts of the coronavirus crisis. Large-scale financial support for investment and reforms holds the potential to facilitate decarbonisation of economic structures and digitalisation of public and private sectors, improve education and health-care services while further protecting the climate via renovation of buildings and cleaner transport.

The degree to which CEE-11 economies benefit from EU funds depends on individual capacities to absorb such funds effectively. The absorption rates of EU funds vary (**Figure 4**), reflecting differences in states' fiscal and institutional capacities. By end-2020, Romania spent only around 50% of 2014-2020 EU multiannual structural funds, while Hungary, the Czech Republic and the Baltic member countries spent around 60%. It is critical to improve absorption rates of EU funding by strengthening long-term planning capacities and control of corruption.

Figure 4: Maximum financial allocations under the Recovery and Resilience Facility (LHS) and implementation progress of 2014-20 EU multiannual funds (RHS)



Source: European Commission, Scope Ratings GmbH

Country outlooks

Visegrád countries

Poland (A+/Stable): Poland's credit ratings benefit from a large and diversified economy, with lesser exposure to the Covid-19 crisis's disruptions to global supply chains, plus the economic support delivered from substantial monetary and fiscal policy measures. Sizeable EU funds via grants and a good track record of EU fund absorption enhance medium-run growth potential and support further declines of external debt. However, the economy's low savings rate and shortages of skilled workers remain restraints on long-run economic growth, exacerbated by the gradual erosion of institutional strengths and ongoing strained relations with the European Union, which, nonetheless, are unlikely to disrupt inflows of EU funds. Poland's longer-term transition away from carbon-intensive economic activities is especially challenging, given an economic reliance on coal.

Czech Republic (AA/Stable): A competitive and industrialised economy with high FDI inflows, comparatively high employment rates and a healthy banking sector support smooth economic recovery. The policy response in support of the economy has been predominantly on the fiscal side. The government's proven ability to consolidate its budget should keep rising debt at still-moderate outstanding levels over the next years. Uncertainty surrounding the outcome of October 2021 general elections should not affect strong governance after the elections.

Hungary (BBB+/Stable): Hungary's sizeable fiscal measures activated in addressing the crisis elevated public debt to 80% of GDP in 2020. This ratio is among the highest in the CEE-11, which reduces the government's fiscal space. Fiscal risks are, however, partially mitigated by improved liquidity in domestic capital markets and an improved government debt profile, even if the government must nonetheless confront relatively high annual financing requirements. We project a robust economic recovery over years ahead, which should facilitate gradual decrease in the public debt ratio over the medium term.

Slovakia (A+/Negative): The sovereign's fiscal fundamentals have been significantly weakened by the crisis alongside by an absence of past measures entering this crisis correcting structural budget deficits. The economy is expected to reach pre-crisis levels of output by H1 2022. We expect resumption of FDI inflows, underpinned by a competitive and export-oriented industrial base plus EU and euro-area memberships. These credit strengths should mitigate risks going forward associated with a concentrated economic structure due to high dependence on automobile manufacturing and rising demand for electric automobiles, the latter which remains a longer-term challenge for the economic model.

Southeast Europe

Romania (BBB-/Stable): A reduction of near-term fiscal risk due to government freezing of state pensions and wages together with enhanced political stability support the fiscal consolidation outlook, reflected in our decision to revise the Outlook of Romania's long-term credit ratings to Stable, from Negative, in May 2021. Fiscal consolidation is furthermore helped by sizeable allocations of EU funds and solid economic recovery potential. However, significant credit challenges, such as a lack of meaningful structural reform, continue to place pressure on Romania's longer-term fiscal performance and constrain the medium-run growth outlook, constrained furthermore by structural budget deficits and adverse demographic developments.

Bulgaria (BBB+/Stable): The policy framework and stability of the next government in Bulgaria will be key for the medium-run growth and fiscal outlooks as well as the outlook for the timetable prior to euro-area accession. The planned euro accession by 1 January 2024 could see possible delay, including due to some interruption to reform momentum during the Covid-19 crisis and amid current shortage of a governing majority. The next Bulgarian government, after July re-run elections, will need to concentrate on passing reform to tackle institutional flaws and ensuring fulfilment of lingering areas of required economic convergence, such as in the financial system framework. The country's low level of government debt and prudent fiscal policies remain credit strengths underpinning BBB+ investment-grade ratings, which were affirmed on 18 June 2021.

Croatia (BBB-/Stable): Croatia's reliance on its tourism sector, which accounts for around a quarter of GDP, will delay the economy's recovery (to pre-crisis levels of output) to H2 2022. The government needs to undertake reform aimed at sustainable economic and institutional convergence to ensure further progress towards adopting the euro, such as consolidating the budget to reduce an elevated debt burden and raising weak medium-term growth potential.

Slovenia (A/Stable): Structural improvement in its potential growth, via reform of the labour market and privatisations in the financial system before the crisis, support recovery prospects. External risks to recovery are underscored by a highly open economic structure and dependence on western European markets. An important medium-run reform challenge will be increasing labour productivity, given adverse demographic projections. We expect stabilisation and a gradual decrease of the public debt burden medium term, following the sharp debt increase due to the crisis.

Baltic states

Lithuania (A/Stable): Lithuania's enhanced economic and financial resilience support recovery. The recovery will be advanced by ongoing public infrastructure investment within the Baltic region co-financed by the EU, including connection of Baltic states with continental Europe's rail, gas and electricity networks planned by 2026, 2022 and 2025. Lithuania's track record of fiscal discipline provides the government with extra fiscal space to support recovery in exiting the crisis. We upgraded Lithuania's ratings one notch to A in January. Nonetheless, improving tax collections will be important for medium-run fiscal dynamics, considering a comparatively restricted tax base. An ageing population and skilled labour shortages remain constraints on growth and the public-finance outlook.

Latvia (A-/Stable): We expect solid recovery from the crisis, underpinned by increased fiscal stimulus for 2021, the rebound in private consumption and ongoing large-scale public infrastructure works in the Baltic states. Latvia's track record of effective fiscal policies and prudent debt management ought to ensure that the debt burden gradually converges to around pre-crisis levels over the medium run. However, moderate productivity growth and net emigration, the latter having improved somewhat recently, remain challenges to long-term growth. Latvian banks have further decreased reliance on non-resident deposits, achieved without materially impacting banking system liquidity.

Estonia (AA-/Stable): Prudent fiscal management and significant declines in net external liabilities pre-crisis, alongside digital economic transformations, support recovery. Ongoing public infrastructure projects in the Baltic region anchor medium-run growth. Near-term fiscal easing will, nonetheless, increase public debt to a still low 25% of GDP by 2022. Limited economic diversification together with a small, open economy expose recovery to external risk. The transition required to meet EU carbon-neutrality objectives will prove a challenge, given the economic relevance of the highly carbon-intensive oil shale industry.

Non-EU

Russia (BBB/Stable): The risk for further international sanctions against Russia remains high and partly depends on any escalation in tensions with Ukraine. Sanctions risk longer term feeds into a weak medium-run growth and investment outlook. Russia's macroeconomic policy reorientation of recent years has, however, resulted in sustainably higher government liquid assets and foreign-exchange reserves, which strengthen resilience against western sanctions. Government financing needs are increasingly met via domestic sources, helped by liquidity as provided by state-owned banks. However, Russia's longer-term economic outlook remains subdued in the absence of considerable structural reform that addresses the government's dominant role in the economy, low levels of economic competition, weak governance and sanctions risks that link to underinvestment. These areas constitute critical credit ratings constraints.

Turkey (B/Negative): Political interference at the central bank, institutional risk before elections by 2023 and a confidence crisis in the lira continue to present risks to government and external balance sheets. Underlying economic distortions are being made worse as President Recep Tayyip Erdoğan gives priority to supporting higher short-run growth, rather than seeking to correct existing economic imbalances. Credit-fuelled economic growth raises likelihood of adverse side-effects such as a weakening exchange rate, structurally higher inflation and risk of deepening balance of payment crisis in future years. Turkey's external vulnerabilities, including net FX reserves of USD -51.1bn as of May 2021 alongside weakening in the current account, increase vulnerabilities under any scenario of renewed "risk-off" in market sentiment. These remain constraints on Turkey's B/Negative foreign-currency ratings. We next review Turkey's ratings on 10 September 2021.

Georgia (BB/Negative): Prolonged political instability should not derail Georgia's credible and consistent macroeconomic policy framework, underpinned by its continued engagement with the IMF even after conclusion of a four-year Extended Fund Facility, and commitment to economic and political integration with the European Union, as reflected in the recent EU-brokered political agreement between the government and opposition, which foresees implementation of further electoral and judicial reforms. A key post-pandemic reform challenge for the government will be to facilitate improvement in the labour market, raise economic productivity, and enhance the domestic capital market such as to reduce structural external deficits and cut reliance upon foreign financing over time.

Annex I: 2021-22 macroeconomic outlook

	Country/region	Real GDP growth (%)			General government balance (% of GDP)			General government debt (% of GDP)			Yield, local currency, 10-year (%)	CDS spread, EUR, 1-year (bps)	Policy rate (%)*	Δ in EUR per local currency (%)	Reserves (% of short-term external debt)**
		2020	2021 (E)	2022 (F)	2020	2021 (E)	2022 (F)	2020	2021 (E)	2022 (F)	As of June 28, 2021			Since start-2021	2021 (F)
	EU CEE-11	-3.9	4.6	4.7	-7.1	-6.1	-4.3								
Euro-area CEE	Slovakia	-4.8	4.3	4.7	-6.2	-6.8	-4.7	60.6	62	63	0.2	11	-0.50	-	-
	Slovenia	-5.5	4.5	4.6	-8.4	-7.5	-4.7	80.8	80	79	0.1	26	-0.50	-	-
	Lithuania	-0.9	2.7	3.8	-7.4	-6.8	-3.5	47.3	50	49	0.2	18	-0.50	-	-
	Latvia	-3.6	3.6	5.2	-4.5	-6.7	-2.9	43.5	49	47	0.1	29	-0.50	-	-
	Estonia	-2.9	3.0	4.5	-4.9	-6.0	-3.5	18.2	22	25	0.1	34	-0.50	-	-
Non-euro-area EU CEE	Poland	-2.7	4.9	4.5	-7.0	-4.5	-3.4	57.5	56	56	1.8	10	0.10	1.0	110
	Romania	-3.9	4.8	4.7	-9.2	-7.5	-6.3	47.3	53	55	3.3	31	1.25	-1.2	94
	Czech Republic	-5.6	3.8	4.5	-6.2	-8.0	-5.5	38.1	44	47	1.7	11	0.50	3.0	130****
	Hungary	-5.0	4.5	5.5	-8.1	-7.0	-4.7	80.4	80	79	2.8	24	0.90	3.4	290
	Bulgaria	-4.2	5.4	4.7	-3.4	-5.3	-2.3	25.0	26	27	0.1	22	0.00	0.0	204
	Croatia	-8.0	5.0	5.8	-7.4	-4.4	-3.0	88.7	86	83	0.5	31	0.05	0.7	146
Non-EU emerging Europe	Russia	-3.0	3.0	2.7	-4.0	-2.5	-1.5	19.3	20	20	7.1	24	5.50	6.1	468
	Turkey	1.8	8.0	4.0	-5.4	-6.5	-6.0	36.8	39	41	16.5	306	19.00	-12.3	52
	Georgia	-6.1	5.0	5.5	-9.3	-7.0	-4.2	60.6	64	62	8.6***	-	9.50	7.0	102

Source: Scope Ratings GmbH, Macrobond, IMF, Eurostat, OECD, Bloomberg, national central banks and statistical offices; *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 displayed for the Czech Republic; interest rate on minimum reserves shown for Hungary; 1-week repo rate for Romania, Russia and Turkey; base rate for Bulgaria; rate on regular operations for Croatia; 1-week refinancing rate for Georgia; **coverage of (short-term external debt plus long-term external debt maturing in one year or less) (an IMF adequacy threshold for this ratio is above 100%), data are sourced from IMF Assessing Reserve Adequacy March 2021 update; ***as of 20 April (primary market); ****Scope estimate.

Annex II: Scope's CEE sovereign ratings & 2021 rating actions

Figure 5. CEE long-term foreign-currency issuer ratings, as of 30 June 2021

Central and Eastern European 11 (CEE 11)				Non-EU CEE	
Euro area		*Non-euro-area EU*			
Estonia	AA-/Stable	Bulgaria	BBB+/Stable	Georgia	BB/Negative
Latvia	A-/Stable	Croatia	BBB-/Stable	Russia	BBB/Stable
Lithuania	A/Stable	Czech Rep.	AA/Stable	Turkey	B/Negative
Slovakia	A+/Negative	Hungary	BBB+/Stable		
Slovenia	A/Stable	Poland	A+/Stable		
		Romania	BBB-/Stable		

Figure 6. Scope's CEE sovereign rating actions in 2021, as of 30 June 2021

Date	Sovereign	Rating action	Rating & Outlook*
29 January	Lithuania	Upgrade/Outlook change	A/Stable
14 May	Romania	Outlook change	BBB-/Stable
18 June	Bulgaria	Affirmation	BBB+/Stable

*Foreign-currency long-term ratings only.

Annex III: Additional relevant research (in 2021)

June 2021 Sovereign Interim Outlook: A robust yet uneven global recovery continues, with diverging sovereign ratings implications, 17 Jun

Turkey: political interference at central bank, weak lira risk policy mistakes ahead of elections, 2 Jun

Romania: government reduces near-term fiscal risk; longer-term sustainability, reform are challenges, 19 May

Poland: EU funds could help shift the economy towards a more sustainable growth path, 5 May

Sovereign ESG risk: Eastern Europe, CIS, Middle East most exposed to transition risks, 21 Apr

Russia: US sanctions on sovereign debt signal rising risk surrounding geopolitical tensions, 16 Apr

Covid-19 sovereign impact: lasting on debt, mixed for growth and mostly transitory on unemployment, 9 Apr

Turkey: persistent challenges in monetary governance increase risk to macroeconomic stability, 22 Mar

Greening central banks' mandates: Hungary leads Czech Republic, Poland in tackling climate challenge, 4 Mar

Romania: political stability bodes well for fiscal discipline; rising debt limits policy flexibility, 18 Feb

Baltic states: economic resilience improves; addressing structural bottlenecks vital for recovery, 12 Feb

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