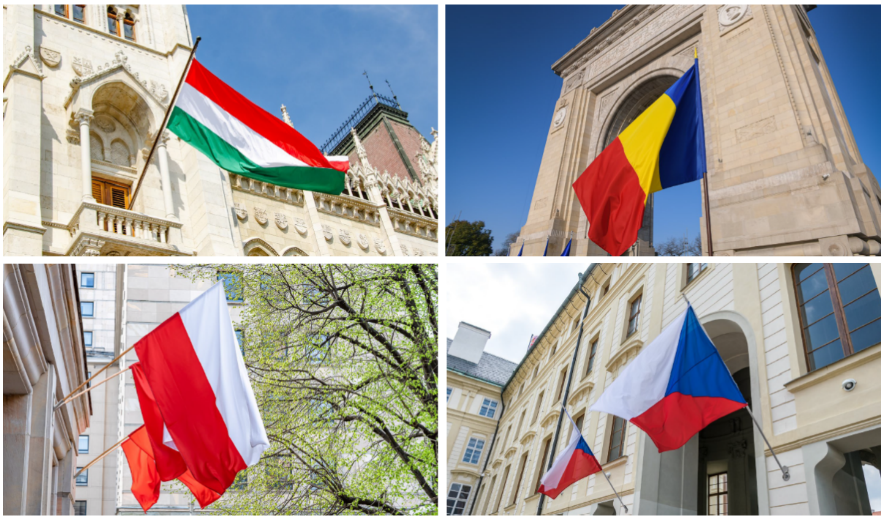
CEE bond technicals: Foreign bondholders, sovereign ratings and index changes

Market positioning favours Poland, while Romania seems overcrowded after last year's significant inflow. On the sovereign rating side, we do not expect much change this year given that the situation has only recently stabilised in the CEE region. India's inclusion in the bond index will mean outflows for the region

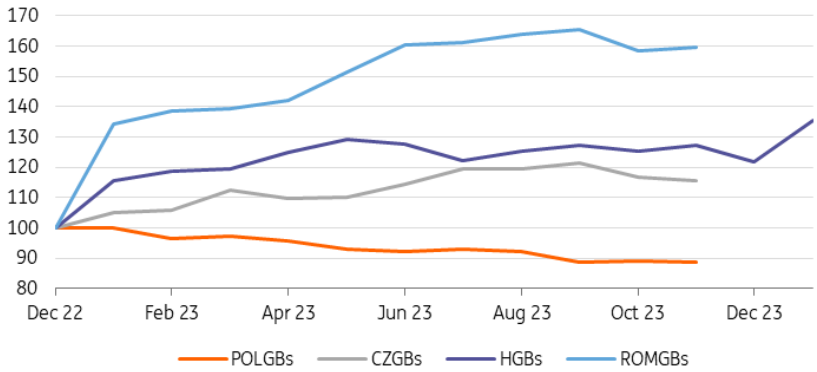


Foreign bondholders: Positioning favours POLGBs and undermines ROMGBs for this year

The headline numbers from the bondholder statistics have not changed much in the past year with a stable share of foreign holders of local bonds in the Czech Republic and Hungary at around 27%. Romania has seen a significant increase from levels below 20% to 26%. On the other hand, Poland fell from 17% to 13.5%. However, given the high issuance activity across the board, relative numbers do not always paint the right picture. If we look in detail, we see significant inflows from abroad into Romanian government bonds (ROMGBs), where foreign bondholders in nominal terms have increased by 60%, whereas Hungarian government bonds (HGBs) grew by 'only' 22% and Czech government bonds (CZGBs) by 16%. The outlier in this space remains Polish government bonds (POLGBs), where outflows continued for all of last year with a full-year decline of 11.5%.

From a positioning perspective, this may prove the ROMGBs market to be overcrowded this year after impressive momentum last year. On the other hand, in this sense, the POLGBs market is the most attractive with the largest share of underweight investors with significantly less room to sell off in the event of problems.

Foreign inflow/outflow to local currency sovereign bonds (Dec-22 = 100)



Ministry of Finance, ING estimates

Sovereign ratings: The situation has improved but too soon for any changes

Last year brought a couple of small changes to sovereign ratings in the CEE region and we don't expect much in the baseline scenario for this year.

In Poland, the sovereign rating and outlook seems most stable in the CEE region and so far there is no indication of any changes here. The latest reports point to fiscal risk and the National Bank of Poland political conflict. On the other hand, the unlocking of EU money and economic recovery are positive factors. Therefore, we do not expect any changes for this year. However, S&P maintains a rating that is one notch higher than other agencies here, which may be a sensitive spot in case of problems.

In the Czech Republic, Moody's upgraded the outlook from negative to stable in November following the approval of the consolidation package and the presentation of a brighter public finance profile. This makes Fitch the last agency to hold a negative outlook since May 2022. We see a good chance for improvement here this year as well.

In Hungary, S&P downgraded the rating last January. Also, Fitch downgraded the rating outlook from stable to negative last year. The situation has stabilised both on the domestic and foreign (EU funds story) side since then, but we think it is too early for a rating improvement. The budget deficit may pose some downside risk, but on the other hand, the other stories tend to point to improvement.

In Romania, Fitch upgraded the rating outlook from negative to stable in March last year. Otherwise, the situation remains stable and, as in Hungary, the main risk here is public finances.

However, given the European Commission's oversight, we do not expect a significant deviation from the roadmap despite the election year, which should imply a stable outlook for the rating agencies.

Sovereign rating review calendar

	S&P	Moody's	Fitch
Poland	10-May 08-Nov	22-May 20-Sep	10-May 08-Nov
Czech Republic	12-Apr 11-Oct	02-Feb 26-Jul	23-Feb 16-Aug
Hungary	26-Apr 25-Oct	31-May 29-Nov	14-Jun 06-Dec
Romania	12-Apr 11-Oct	29-Mar 27-Sep	01-Mar 30-Aug

Source: Rating agencies

GBI-EM changes: Inclusion of India triggers outflow in the region

CEE countries within the GBI-EM index increased their weighting by 1.92 percentage points to 21% at the end of the year, significantly more than in previous years. In January, the region got a small boost, with the exception of Hungary, by increasing its weight after Egypt was removed from the index (from 0.11pp to 0.18pp per country). In the first half of the year, the weighting of CEE countries can be expected to increase further, however, in the second half of the year, the inclusion of India will come into play, which means a reduction in weight for the other countries. The inclusion will be spread over 10 months from June 2024 to March 2025. Those with the largest weighting will see the largest reductions, which are Poland (-1.3ppt) and the Czech Republic (-1.0ppt). Hungary (-0.5ppt) and Romania (-0.7ppt) will be slightly less affected. However, in all cases, it does imply some outflows for these markets.

Estimated outflow spread over 10 months

	Current weight (%)	Estimated weight (%)	Change (pp)	Estimated outflow (USDbn)	Estimated outflow (LCYbn)
Poland	7.7	6.3	-1.3	-2.7	-11.1
Czech Republic	6.4	5.1	-1.0	-2.2	-51.3
Hungary	3.3	2.6	-0.5	-1.1	-398.0
Romania	4.1	3.2	-0.7	-1.4	-6.4

Source: ING estimates

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