

CEE bond technicals: Foreign interest remains selective

Despite a global EM inflow rebound, CEE local debt still lags, with foreign demand limited to idiosyncratic stories such as Hungary and Turkey. Elsewhere, foreign holdings have stabilised or edged lower as liquid local banks dominate demand. High deficits, weak fiscal consolidation and rating risks continue to cap upside across the region

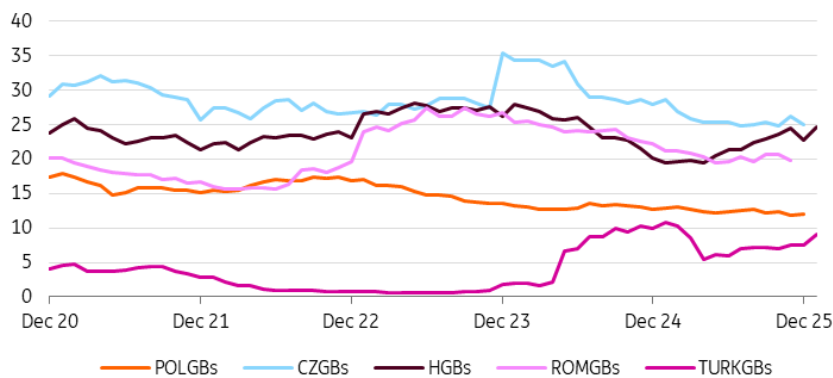


Turkey is the only clearly positive story in the CEE region when it comes to ratings – although most of its potential improvement is probably behind us

Foreign bondholders: On the sidelines of the EM inflow wave

While EM debt is experiencing a strong return of capital inflows globally, CEE local debt remains on the sidelines unless it has a strong idiosyncratic story like Hungary and Turkey. In the rest of the region, we have seen a stabilisation of the current level of foreign bondholders which, in relative terms, has led to stagnation or a slight decline. The main buyers in the region remain the local banking sector with a high level of liquidity.

Foreign bondholders (%)

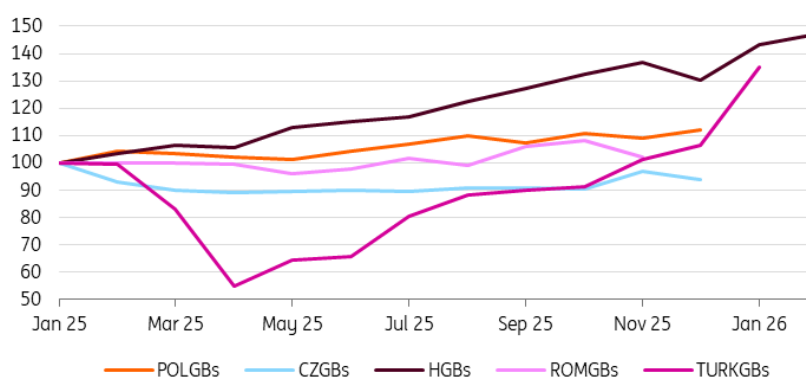


Source: Macrobond, ING estimates

In Poland, the share of foreign bondholders fell to 12% at the end of last year despite a strong market rally. In the Czech Republic, the share fell to 25% from the highest levels within the CEE region and was the only country in the region to see outflows. In Romania, despite an attractive story of fiscal consolidation, the share fell slightly to around 20% with only marginal inflows from abroad last year.

On the other hand, countries with a strong idiosyncratic story like the general elections in Hungary and the normalisation of inflation and policies in Turkey are making headway. Hungary saw foreign holders increase from 20% to around 25% and almost 50% in nominal terms, well above all its peers. Turkey saw strong outflows after the March market turbulence, but the market has since recovered and ended the year where it started after strong inflows in recent months. Likewise, in relative terms, the ratio returned to its original 10%.

Foreign inflow/outflow (Jan-25 = 100)



Source: Macrobond, ING estimates

Sovereign ratings: Lack of positive stories

Given that the CEE region leads the EU in terms of public deficit, it is difficult to expect a positive story overall this year. Last year we saw several outlooks worsening and this year we will probably only see their confirmation due to the lack of signs of fiscal consolidation, albeit without expecting full rating downgrades.

Poland saw two negative outlook changes last year. Visible fiscal consolidation is not in the pipeline, but fiscal metrics are improving with strong GDP growth, which remains a condition for avoiding further rating worsening. In the Czech Republic, rating agencies do not see much change in fiscal policy after the general election and for now, the scope for a rating change seems very limited. Hungary remains on the edge of investment grade with negative outlooks all round (although only S&P is on BBB-, with Fitch and Moody's still having an extra notch cushion). However, the key for the agencies will be the direction of fiscal policy after the general election in April and access to EU funds. Romania survived the fiscal turbulence last year without a rating downgrade and the announced fiscal consolidation indicates a change in direction, but we believe that an improvement in the outlook may come only at the end of the year or next year. Turkey remains the only positive story, with several rating upgrades in the past year. However, further improvements will be more difficult in an environment of slowing disinflation, despite a positive outlook shift at Fitch.

In Poland (A2/A-/A-), the sovereign rating remains unchanged across the main agencies, but the outlook split widened last year as fiscal metrics deteriorated. S&P kept Poland at A with a stable outlook and explicitly balanced resilient growth against rapidly rising debt, highlighting persistent deficits and stock flow adjustments linked to defence spending and EU facilities. Moody's affirmed an A2 rating but shifted the outlook to negative after the presidential election, pointing to a weaker fiscal trajectory and political constraints that could complicate consolidation. Fitch has affirmed an A rating but also changed its outlook to negative last September. Overall, we do not expect further changes in the rating unless economic growth surprises significantly downward, further worsening fiscal metrics.

In the Czech Republic (Aa3/AA-/AA-), the sovereign rating remains the highest in CEE, with stable outlooks maintained across agencies. Fitch affirmed an AA /Stable rating, citing credible policy frameworks, moderate deficits and low debt, while noting election risk as contained and not expecting major reversals in fiscal prudence. Moody's affirmed an Aa3/Stable rating, underlining strong institutions and debt affordability, with gradual debt increases seen as manageable even amid higher defence spending. S&P also affirmed the AA /Stable rating, stressing a strong government and external balance sheets that offset weaker European demand and trade uncertainty. Overall, we do not expect any changes here in the near future once rating agencies see minimal fiscal risk following the general election and the change in government in October.

Sovereign rating review calendar

	S&P	Moody's	Fitch
Poland	08-May 06-Nov	20-Mar 18-Sep	27-Feb 21-Aug
Czech Republic	27-Mar 25-Sep	23-Jan 24-Jul	06-Feb 31-Jul
Hungary	29-May 27-Nov	22-May 20-Nov	05-Jun 04-Dec
Romania	03-Apr 02-Oct	06-Mar 07-Aug	13-Feb 31-Jul
Turkey	17-Apr 16-Oct	23-Jan 24-Jul	23-Jan 17-Jul

Source: Rating agencies

In Hungary (Baa2/BBB-/BBB), the sovereign rating remains investment grade, but the risk balance is more fragile than most peers due to fiscal uncertainty, weaker growth and EU fund constraints. S&P revised the outlook to negative while affirming a BBB rating in April last year, citing rising risks to fiscal and external stability from weaker demand, higher interest costs and narrowing EU inflows ahead of the 2026 election period. Moody's affirmed a Baa2 rating and moved the outlook to negative (December 2024), with EU fund access and governance seen as key downside catalysts. Fitch affirmed BBB but moved the outlook back to negative last December (after an upgrade in 2024), highlighting limited policy flexibility amid weak growth and sticky inflation. Overall, at this point, no immediate improvement in the rating or outlook can be expected, and further steps are closely tied to fiscal policy after the general election in April and access to EU funds.

In Romania (Baa3/BBB-/BBB-), ratings remain at the lowest investment grade with negative outlooks reflecting fiscal and external vulnerabilities. S&P revised the outlook to negative while affirming a BBB rating, citing persistent large deficits, rising interest burden and political fragmentation that could delay consolidation. Fitch affirmed its BBB rating with a negative outlook and emphasised the scale of fiscal deterioration, while welcoming an initial consolidation package but stressing implementation and growth risks. Moody's maintains its Baa3 rating with a negative outlook and has repeatedly highlighted execution risk and the need for a detailed medium term plan, even as it recognises that legislated measures can bend the deficit path if delivered. Overall, Romania's rating path is increasingly a policy execution story. We believe that outlook improvements are on the table if the deficit improves more than expected this year, but the rating agencies will wait until the end of this year or rather next year.

In Turkey (Ba3/BB-/BB-), the sovereign remains sub investment grade, but the rating trajectory has improved as policy normalisation gained credibility. Moody's upgraded Turkey to Ba3 and moved the outlook to stable in June last year, citing a strengthening track record of effective policymaking and reduced risk of policy reversal, alongside expectations of disinflation and rebalancing. Fitch affirmed Turkey at BB and moved its outlook to positive in January, noting improved policy consistency and stronger external buffers, while still flagging high inflation and policy credibility constraints as rating caps. S&P affirmed its BB rating with a stable outlook in October, anchoring the outlook on expectations that the economic team sustains tight policy to manage inflation. Overall, Turkey is the only clearly positive story in the region – but the main part of its rating improvement is likely behind us. Further progress will be more difficult, especially amid slowing disinflation.

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