



Navigating the Challenges of CEE: Adapting to New EU Fund Rules and Beyond

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Overview

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- Sovereign ratings: ESG as an independent ratings pillar
- Central, Eastern Europe: sovereign ratings & macro-economic outlook
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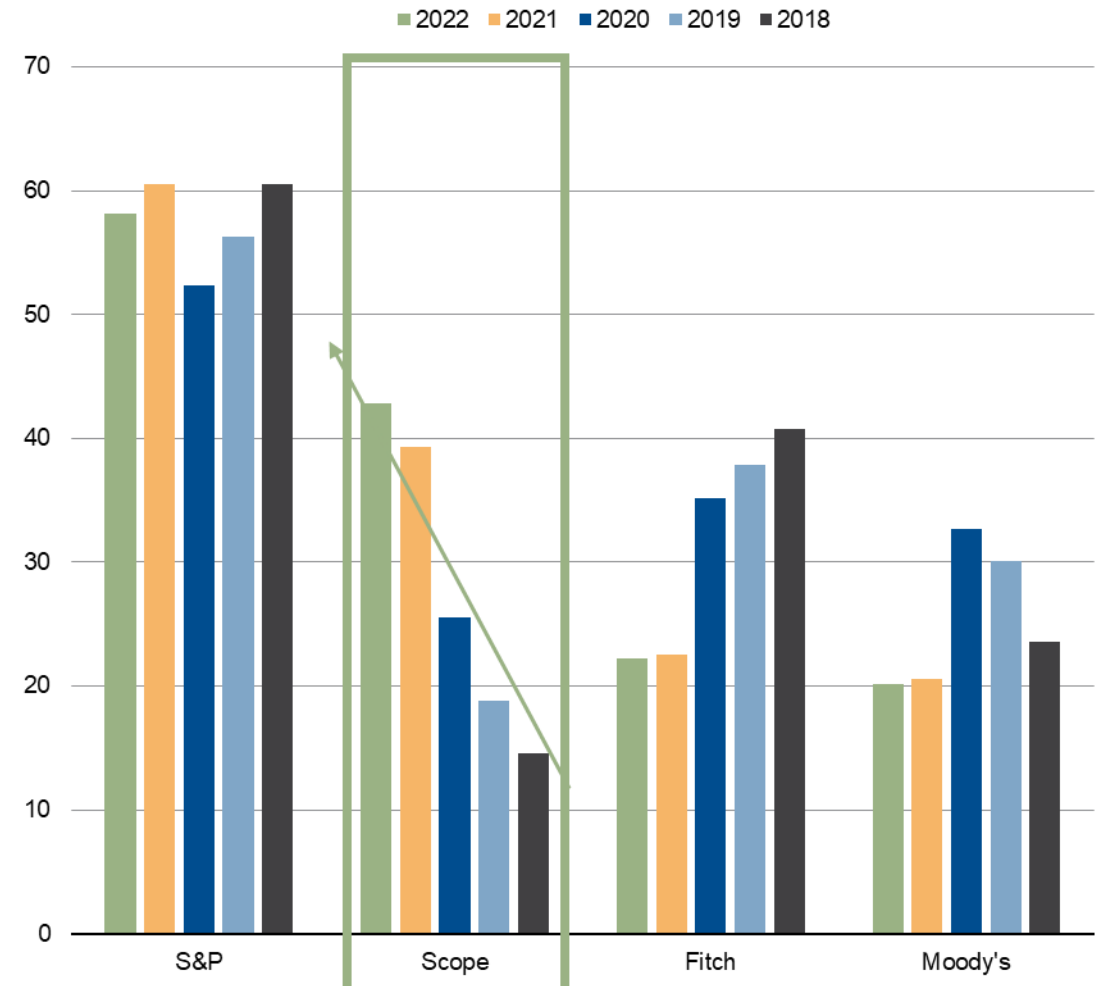


Sovereign and Public Sector ratings

Strengthening of coverage ratio of EU sovereigns/public entities against that of the US-3 agencies – reaching 2nd of the European Union

- Coverage of EU sovereigns and public-finance issuances, top 4 CRAs, % of total number of outstanding issuances

Source: ESMA, "[Report on CRA Market Share Calculation](#)", 15 December 2022 (% of the total number of EU sovereign and public entity instruments (ISINs) that have at least one rating assigned by a CRA registered in the EU rated by each CRA), ESMA supervisory data as of 30 September 2022.





Overview: Sovereign and Public Sector ratings

➤ Sovereign ratings and research

- 39 sovereigns rated publicly, covering 100% of EU debt issuers, and ~75% of world's sovereign debt (at issuer level)
- First major agency to include [ESG as stand-alone sovereign ratings methodological pillar](#), [first agency to withdraw Russia credit rating](#)
- Presents alternative ratings conclusions: US (AA), Italy (BBB+), Ukraine (CC); releases market-leading research

➤ Supranational ratings

- Public ratings on seven major European supranationals; only European credit rating agency [mandated](#) by the European Union

➤ Sub-sovereigns, government-related entities (GRE), and U.K. university ratings

- Four sub-sovereigns rated publicly; additional German, Italian, Spanish and Swiss sub-sovereign ratings available on subscription
- Inaugural GRE methodology introduced in 2018; published [methodology for rating of UK social housing associations](#) (2021)

Scope's coverage	Geography		Type		# of issuers
	EU	Global/ Other	Public	Subscription/ Private	
Sovereigns	27	18	39	6	45
Supranationals	6	1	7	0	7
Sub-sovereigns	31	0	4	27	31
Government-related entities*	13	0	4	9	13
Social-housing providers	0	3	0	3	3
U.K. universities	0	15	0	15	15
Total	77	37	54	60	114



Sovereign ratings

➤ Scope's public sovereign ratings*, as of 17 April 2023

Europe						Other Countries	
EU				Other western Europe			
Euro area		Non-euro area					
Austria	AAA/Stable	Bulgaria	BBB+/Stable	Norway	AAA/Stable	China	A+/Negative
Belgium	AA-/Stable	Czech Rep.	AA/Negative	Switzerland	AAA/Stable	Egypt	B/Negative
Croatia	BBB+/Stable	Denmark	AAA/Stable	UK	AA/Stable	Georgia	BB/Stable
Cyprus	BBB/Stable	Hungary	BBB/Stable			Japan	A/Negative
Estonia	AA-/Stable	Poland	A+/Negative			Serbia	BB+/Stable
Finland	AA+/Stable	Romania	BBB-/Stable			South Africa	BB+/Stable
France	AA/Stable	Sweden	AAA/Stable			Turkey	B-/Negative
Germany	AAA/Stable					Ukraine	CC/Negative
Greece	BB+/Positive					United States	AA/Stable
Ireland	AA-/Positive						
Italy	BBB+/Stable						
Latvia	A-/Pos.						
Lithuania	A/Pos.						
Luxembourg	AAA/Stable						
Malta	A+/Stable						
Netherlands	AAA/Stable						
Portugal	A-/Stable						
Slovakia	A+/Negative						
Slovenia	A/Stable						
Spain	A-/Stable						

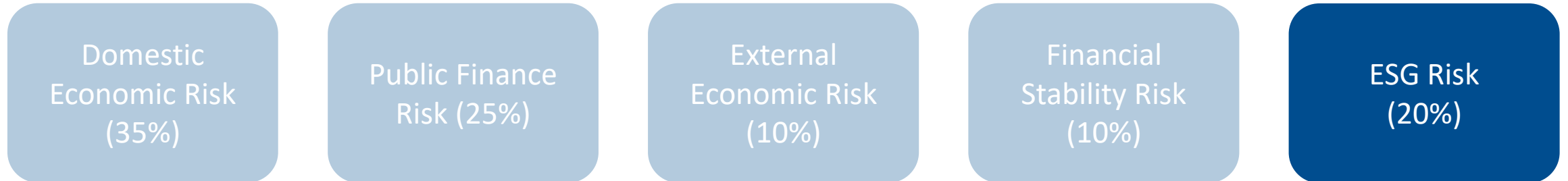
✓ Public coverage of 39 sovereigns

✓ Covering 100% of EU issuers



Sovereign ratings: ESG as an independent ratings pillar

➤ Scope's 5 sovereign risk categories



➤ Explicit and transparent assessment of ESG-related sovereign credit risk

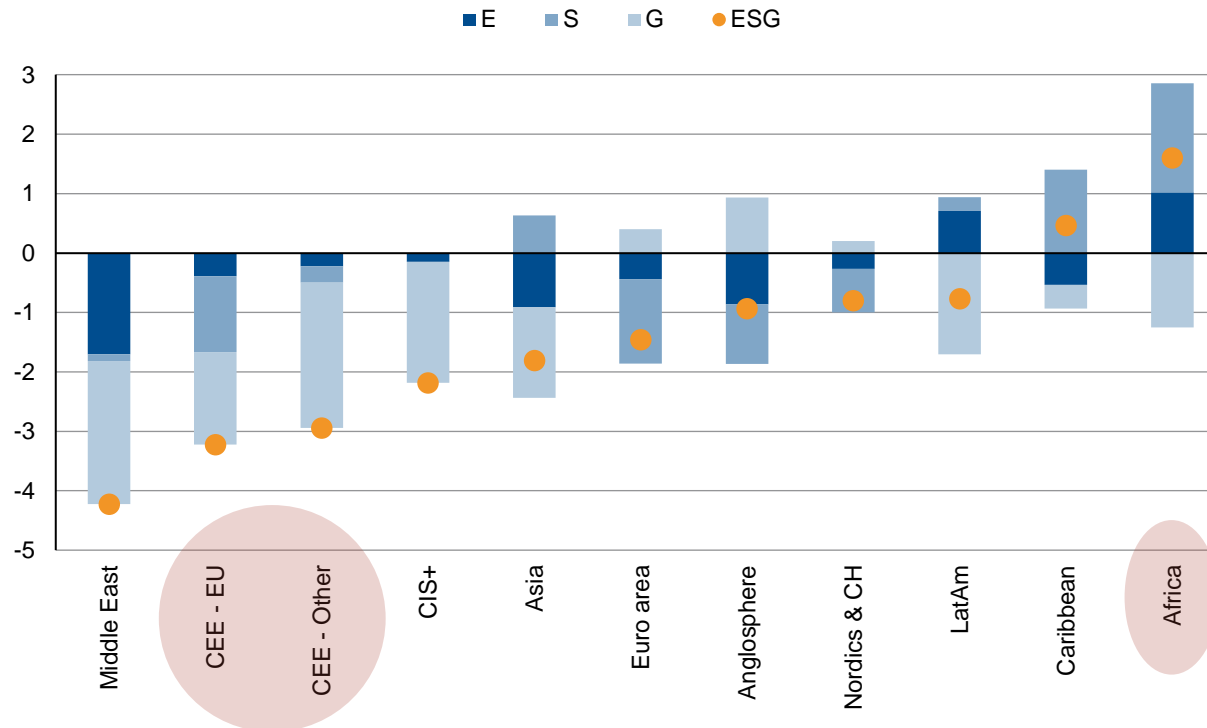




Sovereign ratings vs ESG drivers: long-term rating implications?

Potential rating challenges and opportunities from ESG trends

Notches



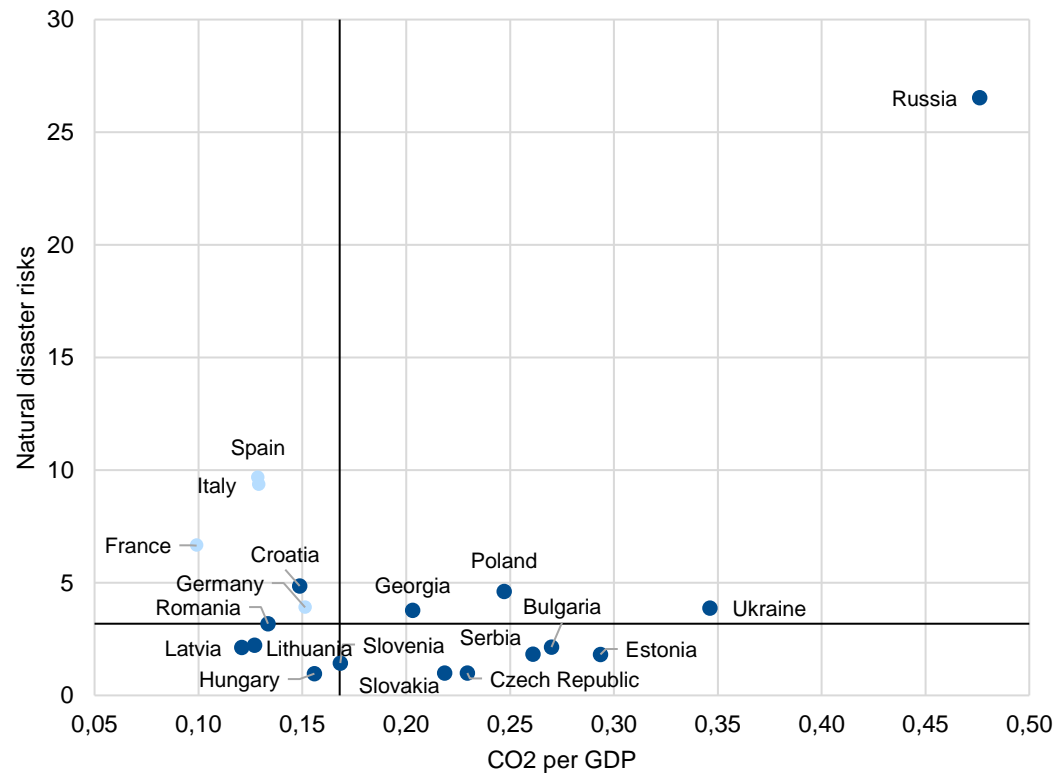
- **Implied ratings:** African sovereigns could benefit from demographic and environmental opportunities, while the Middle East and CEE are most exposed to ESG-risks.
- **Environment:** transition risks represent a big challenge for the Middle East. Anglosphere countries face greater environmental challenges than the euro area.
- **Social:** ageing populations could be a drag on the long-term credit outlooks of the euro area, Anglosphere and CEE.
- **Governance:** governance risks represent a big challenge for all regions of emerging economies, underscoring the need to strengthen institutions.

Source: Scope Ratings GmbH. Scores are based on Scope's core variable scorecard, which is the first step for determining an indicative sovereign rating. For more details, please visit www.scooperatings.com.



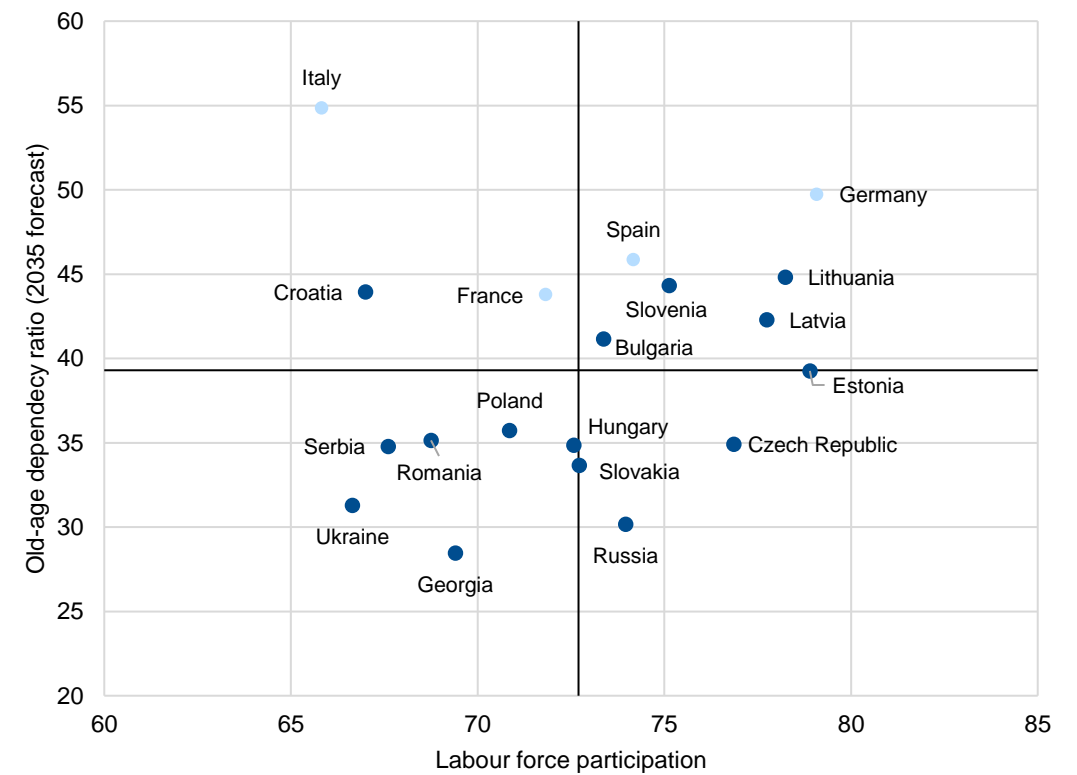
CEE: Environmental and Social risks

Physical and transition risks



Note: Axes cross at the sample median for each indicator.
Source: European Commission DG EDGAR, World Risk Report, Scope Rating.

Social factors



Note: Axes cross at the sample median for each indicator.
Source: World Bank, United Nations, Scope Rating.



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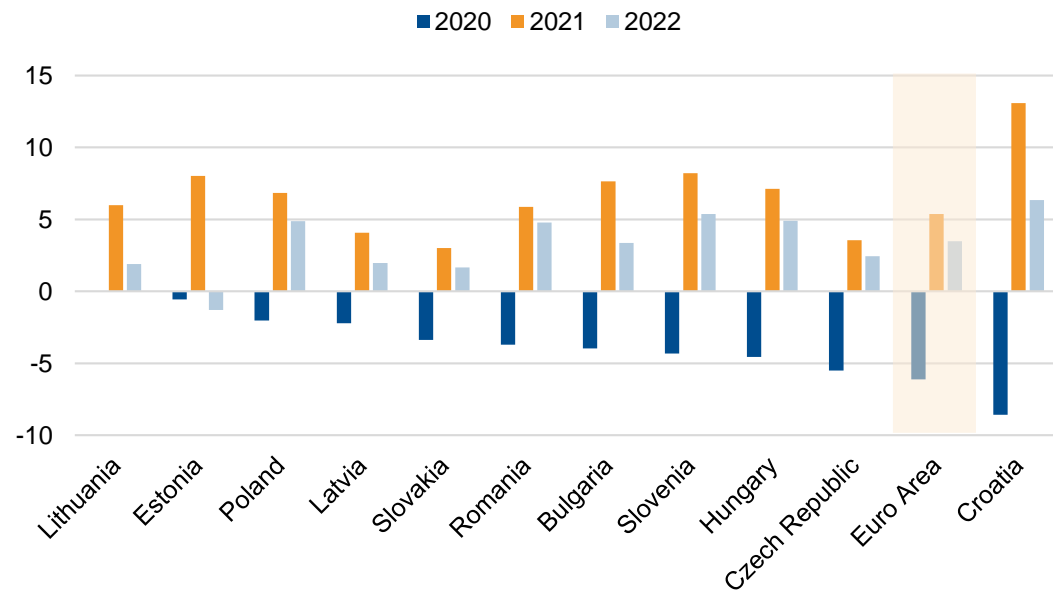
- Central, Eastern Europe: governance risks

- Q & A



Growth Outlook

Real GDP growth rates, %



Source: IMF WEO, Scope Ratings GmbH.

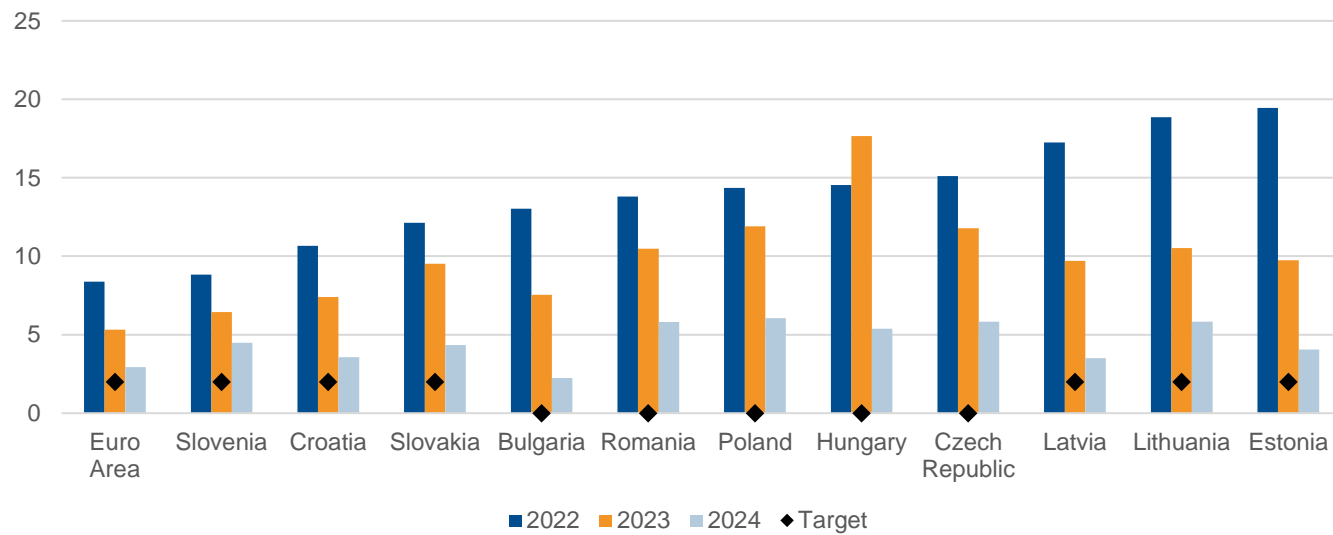
- Growth Outlook to remain challenging in 2023 and 2024



Inflation

Inflation rates, 22, 23 and 24

F%



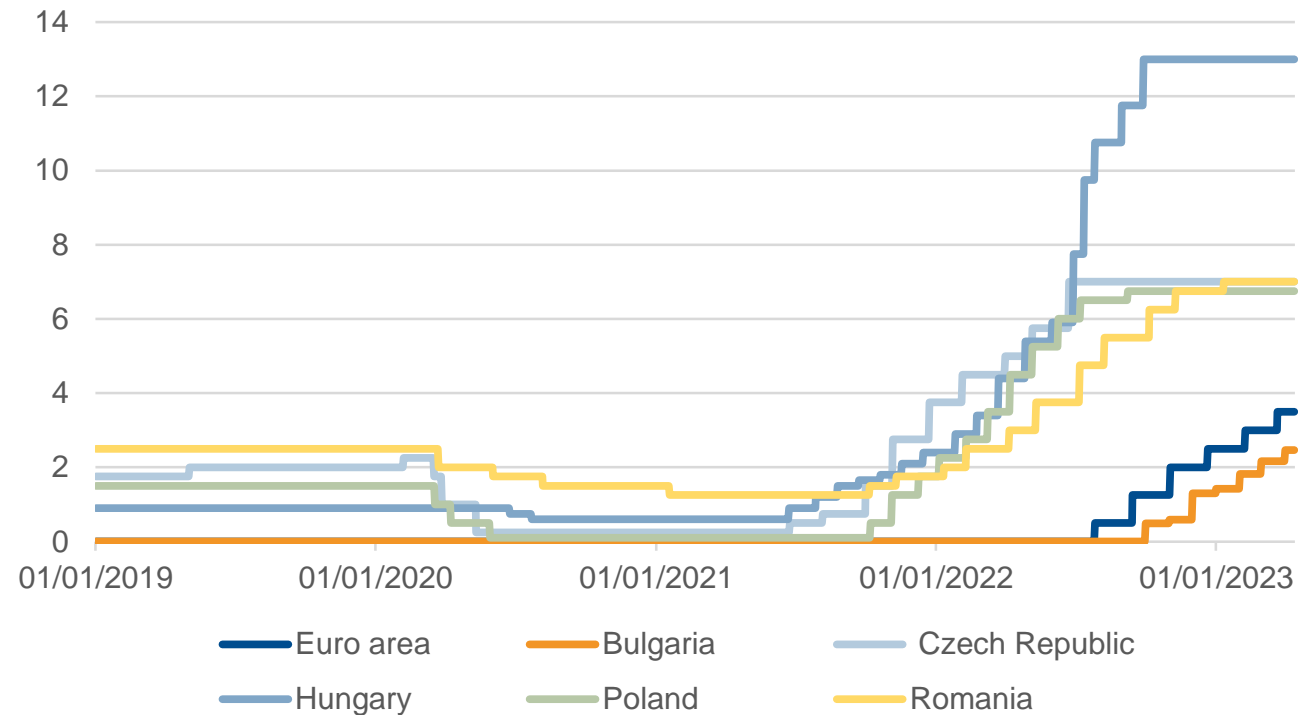
- Inflation set to decelerate in 2023 but likely to miss targets in 2023-24

Source: IMF, Scope Ratings GmbH.



Monetary policy remains tight

Monetary Policy rates, %



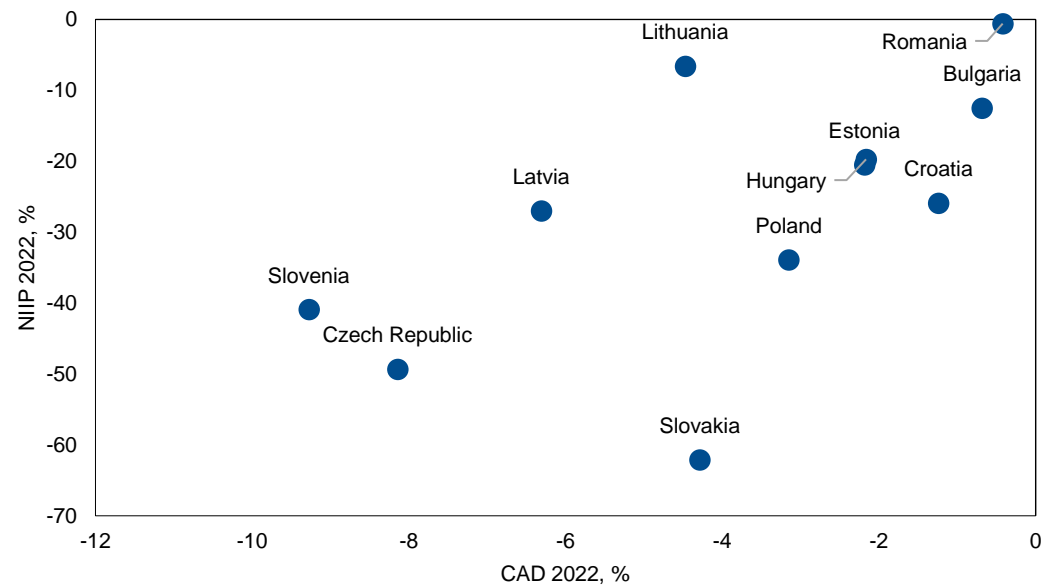
- Tight monetary policy since 2022

Source: Macrobond, National Central Banks, Scope Ratings GmbH.



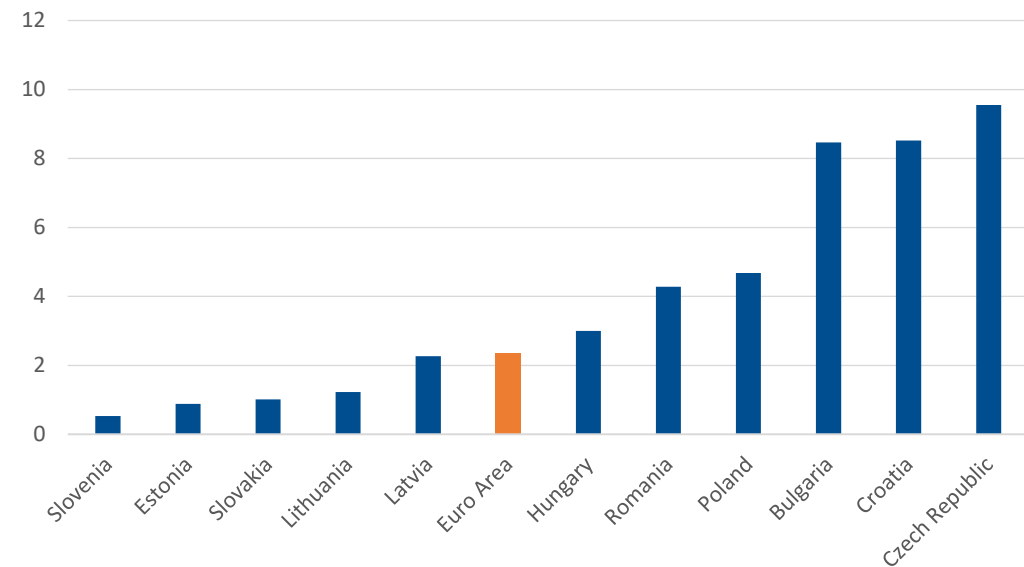
External borrowing will cover the current account deficit

Current account and NIIP 2022, %



Source: IMF WEO, Scope Ratings GmbH.

Reserves in months of imports



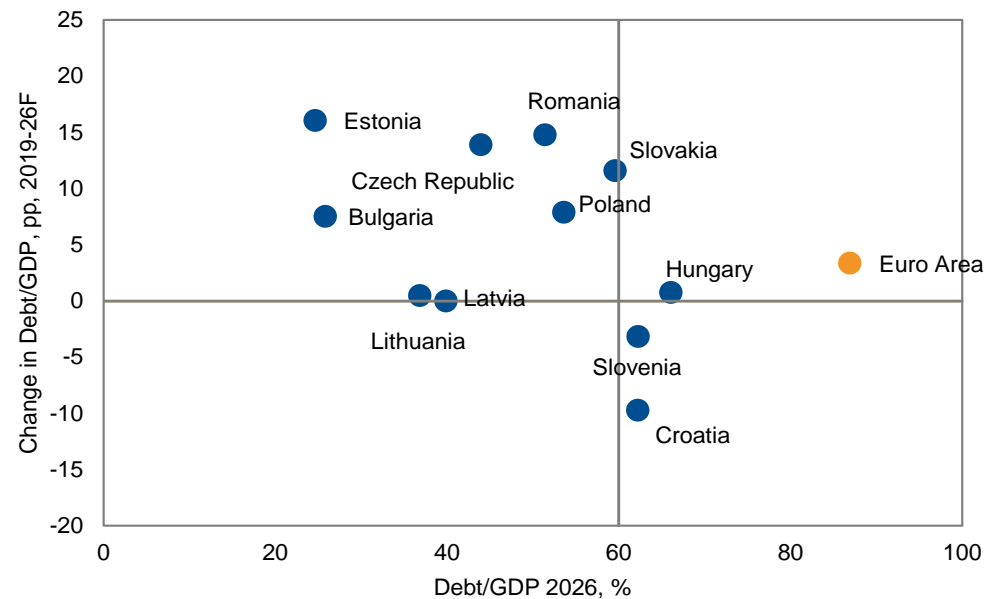
Source: IMF WEO, Scope Ratings GmbH.

- Current account deficits increased in 2022 due to higher energy bills and weak exports



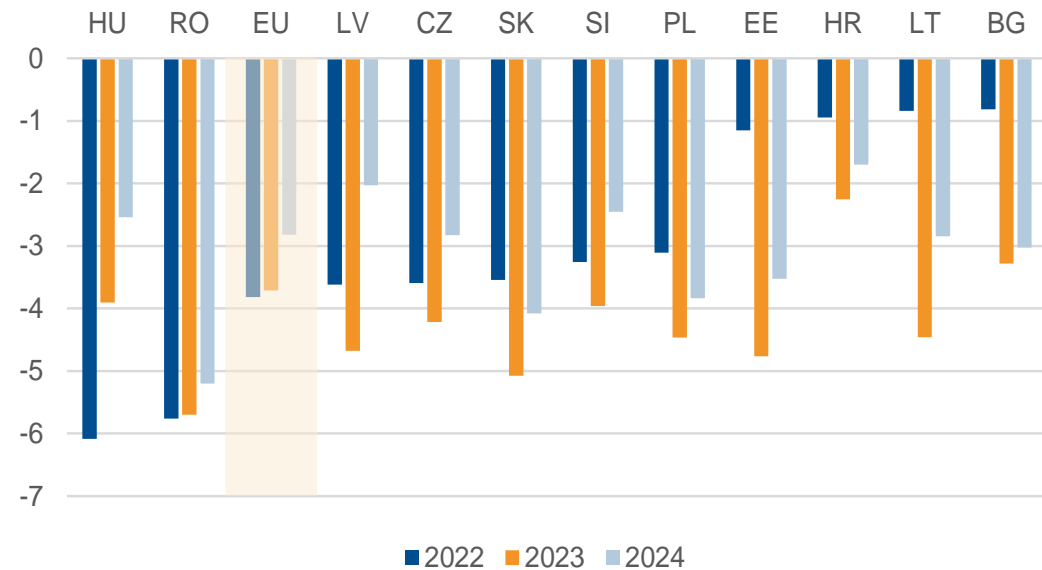
Public finances overview

Debt to GDP, %



Source: IMF, Scope Ratings GmbH.

Government budget deficit, % of GDP



Source: IMF, Scope Ratings GmbH.

- Fiscal policy turns expansionary again in 2023



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Enhanced EU fund absorption key for growth prospects

Estimated and requested grants & loans from Recovery and Resilience Facility, EUR bn

	Total grants allocated	Grants disbursed	Total loans allocated	Loans disbursed	Total allocation as share of 2021 GDP	Grants and loans disbursed, % of total
Bulgaria	6.3	1.4	0.0	0.0	9.2	22.2
Croatia	6.3	2.2	0.0	0.0	11.0	34.9
Czech Republic	7.0	1.8	0.0	0.0	3.0	25.7
Estonia	1.0	0.1	0.0	0.0	3.2	10.0
Hungary	5.8	0.0	0.0	0.0	3.8	0
Latvia	1.8	0.4	0.0	0.0	5.6	22.2
Lithuania	2.2	0.3	0.0	0.0	4.0	13.6
Poland	23.9	0.0	11.5	0.0	6.2	0
Romania	14.2	3.6	14.9	2.7	12.2	21.6
Slovakia	6.3	1.9	0.0	0.0	6.5	30.2
Slovenia	1.8	0.2	0.7	0.0	4.8	8.0

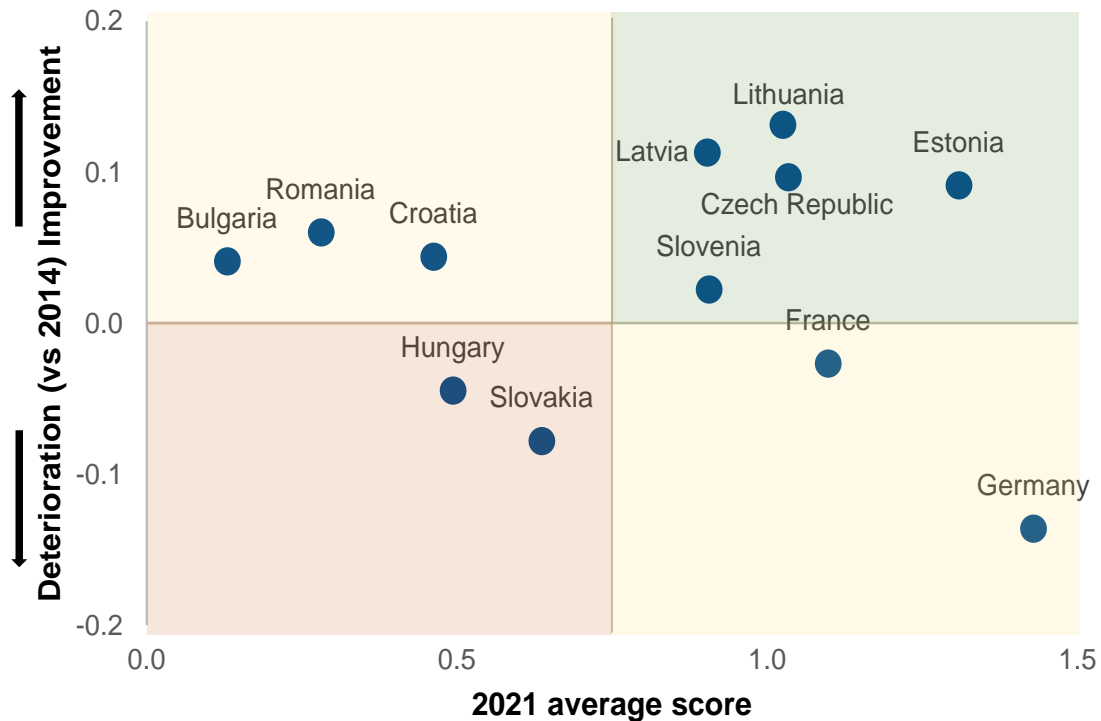
Source: European Commission, Recovery and Resilience Scoreboard



CEE: improving institutional quality key for longer-run economic outlook

Worldwide Governance Indicators, averages

CEE-11 vs Germany, France



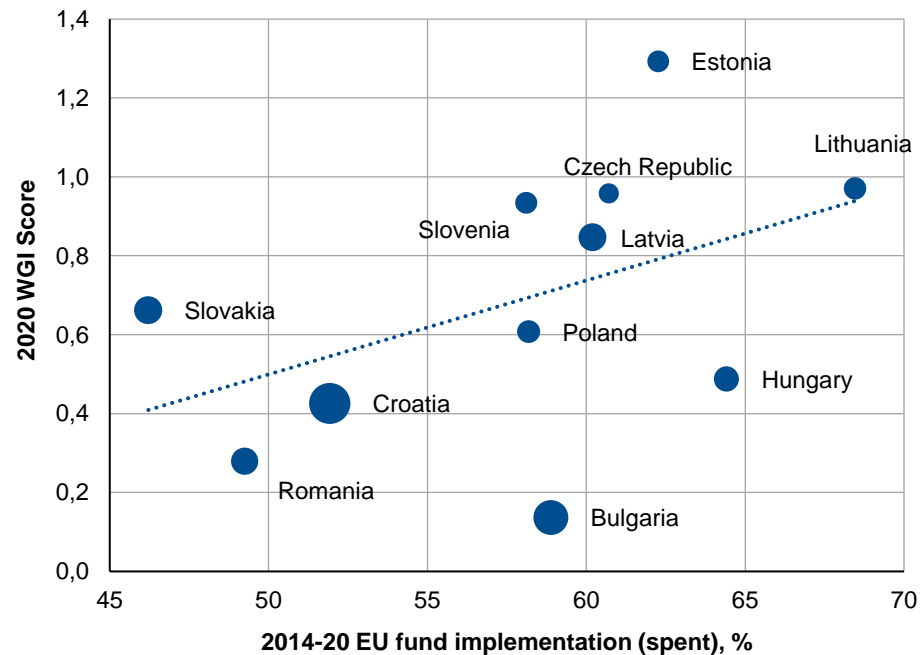
Source: World Bank, Scope Ratings GmbH; WGI scores range from around -2.5 (weakest) to 2.5 (strongest); dividing line for the x-axis relates to 2021 average score for CEE-11 among six WGI

- **Diverging institutional developments:** institutional quality has declined in Poland and Hungary since 2015 but improved in the Baltic states.
- **EU funds & 'Rule of Law Conditionality':** the disbursement of EU funds is tied to respect for rule-of-law standards. EU funds account for a crucial share of public investments in the CEE-11.
- **Importance of institutional robustness:** CEE governments' ability to enhance labour force participation, productivity and capital markets is the key to address structural challenges.



Enhanced EU fund absorption key for growth prospects

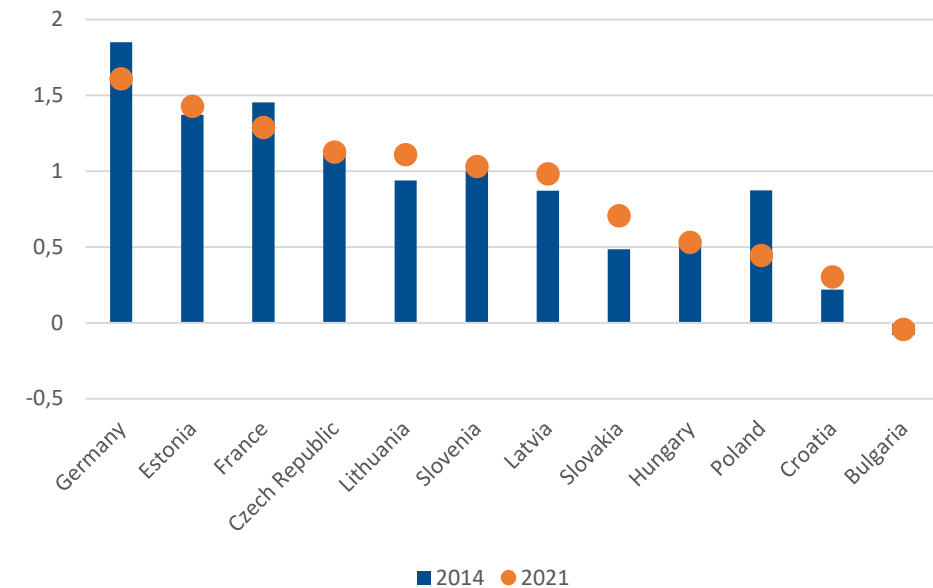
Institutional quality & EU fund implementation



Source: World Bank, European Commission, Scope Ratings GmbH; EU fund implementation as of 30/06/2021; WGI scores range from around -2.5 (weakest) to 2.5 (strongest); bubble size relative to RRF grants & loans, % of 2020 GDP.

- Weak progress of EU fund absorption may signal broader difficulties to invest public funds efficiently

Rule of law



Source: World Bank, Scope Ratings GmbH; scores range from around -2.5 (weakest) to 2.5 (strongest).

- The rule of law declined in Hungary and Poland to the levels of Romania



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- ✓ Central, Eastern Europe: governance risks
- Conclusion, Q & A



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Registered credit rating agency

ESMA accreditation in 2012

(European Securities and Markets Authority)

240+
employees

entrepreneurial culture

Pan-European

Berlin - London - Madrid -

Frankfurt - Milan - Paris - Oslo

serving

~350 institutional
investors

with total assets under
management of ~ € 49tn

ECB

Coverage requirements
for ECAF status met in

2018

The largest
European rating
agency



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