

Flash Comment

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Lars Christensen, Chief Analyst, + 45 4512 8530, larch@danskebank.dk

EM: Fitch downgrades four CEE countries

The bad news continues on the rating front for Central and Eastern Europe. This morning the rating agency Fitch downgraded four CEE countries: Romania, Bulgaria, Hungary and Kazakhstan. Bulgaria and Kazakhstan were each downgraded by one notch to BBB-. Hungary was lowered from BBB- to BBB. Romania was lowered by two notches to BB+. Hence, Fitch no longer rates Romania as 'investment'. Now both S&P and Fitch have downgraded Romania to 'junk' status.

The downgrades are bad news for the entire region and we expect CEE markets to come under further selling pressure this week. The markets are especially likely to focus on the countries with large external funding needs: the Baltic States, Bulgaria, Romania, Hungary, Ukraine and Kazakhstan.

On Friday Hungary and Latvia were both downgraded by Moody's (cf. "[Flash Comment – Baltic: Negative rating action from Moody's](#)", 7 November 2008). On Friday we also got bad news in the form of Q3 GDP numbers in Latvia. Latvian GDP dropped by 4.2% y/y in Q3 ("[Flash Comment – Latvia: sharp drop in GDP](#)", 7 November). Over the weekend it was announced that Latvia's second-largest bank Parex had been nationalised.

It is fair to say that the past couple of days have brought a lot of bad news for the CEE markets and we expect the CEE currencies to come under further pressure during the week on the back of increasing concerns about the funding of the large external imbalances in most CEE countries. Last week, however, we also got a bit of good news when it was announced that Poland had reached a deal with the Swiss central bank (SNB) on a CHF loan facility (Cf. "[Flash Comment – Poland: A helping hand from SNB](#)", 7 November 2008).

Fitch not only downgraded Romania, Bulgaria, Hungary and Kazakhstan, but it also changed its outlook on South Korea, Mexico, Russia and South Africa from 'stable' to 'negative', while the outlook for Malaysia and Chile was revised from 'positive' to 'stable'.

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