

## Hungary: A two-in-one rating preview

Both Fitch and S&P have the opportunity to review Hungary's sovereign debt rating on 16 August. Despite some improvements in macro data, there is only a theoretical chance of a rating upgrade



# BBB

Hungary's sovereign debt rating (Fitch, S&P)

Outlook: Stable

### The background

The rating agencies S&P and Fitch upgraded Hungary's sovereign debt rating in February 2019. With this, the country's rating has been set at 'BBB', two categories above non-investment grade. The outlook is stable in both cases, referring to the balanced positive and negative macro risks.

### Pros and cons

In its report after the last rating upgrade, Fitch highlighted two fields that need to improve for a further notch higher. The first, the budgetary deficit, has made significant improvements since then. The Hungarian government aims for a 1.8% deficit-to-GDP ratio in 2019, but according to our

estimates, it could easily be well below 1%, as opposed to the 2% estimated by Fitch in February. Second, the government has called off its plan to establish special administrative courts that, according to Fitch, would have triggered “concerns about the independence of the judiciary”. So overall it seems there has been an improvement in both cases, but will it be enough for an upgrade so close to the previous one? We hardly see it coming.

As for S&P, its main concerns regarding Hungary are economic performance and public debt, as it wrote in February. GDP was higher in 2018 than S&P expected; also 2019 and 2020 growths are likely to be higher than 3.3% and 2.5%, accordingly. Taking into account the 5.1% YoY average growth in 2H19, we expect 4.5% YoY in 2019 overall, with more positive risks. Apart from the strong expansion, the economy seems to remain balanced. The sustained current account surplus, healthy financial measures and relatively good relation with Brussels theoretically support the idea of an upward revision in ratings. At the same time, public debt might decrease faster than expected in 2019, arising from the lower deficit, which is also a good reason for an upgrade. On the other hand, S&P marked a 24-month period for the revision only 6 months ago, so they won't be in a hurry.

### Our expectation

All things considered, we see only a theoretical chance that any of the agencies will change the rating for Hungary, while we see a higher, but small shot at a change in the outlook from stable to positive. The scenario of not releasing any report is the most probable one as only a short time has passed since the last reviews and upgrades and global uncertainties have mounted since then.

## Review calendar for Hungary in 2019

Fitch Ratings	Moody's	S&P
22 February	3 May	15 February
16 August	25 October	16 August

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