

Hungary: Two rating reviews, two changes?

Both Fitch and S&P are having the opportunity in hand to review Hungary's sovereign debt rating on 14 August. One can act, the other can remain silent



Hungary's parliament building in Budapest

Intro

Hungary's sovereign debt rating was reviewed by both Fitch and S&P earlier this year with a lot of action. Actually, it was only S&P that provided some action with an outlook change from Stable to Positive in February, only to reverse this move two months later due to the Covid-19 developments (ING Snap: [S&P giveth and S&P taketh away](#)). Long story short, we are now back at the same level of February 2019: 'BBB' with Stable outlook.

Pros and cons

Usually, here we used to argue about the drivers of a possible upgrade, but this time such an argument would be meaningless. The coronavirus is re-writing the history books of economics and statistics and in such a volatile environment, we hardly see any valid reason to talk about upgrades. The best possible outcome right here, right now is an untouched and/or affirmed rating and outlook combination.

Both Fitch and S&P argued last time when they have a regular review, that worsening fiscal metrics that leads to adverse debt dynamics could trigger a negative rating action. Both rating agencies argued that a weakening of the institutional framework and the escalation of tensions between the Hungarian government and EU institutions could be seen as a negative event risk. Maintained macroeconomic stability used to be also a key point to at least keeping the recent credit rating level. Now all of this means nothing due to Covid-19.

Since Covid-19 rules our lives, rating agencies have shied away from making painful decisions

Since the outbreak, S&P's extraordinary review is the only one which contains a handrail as to what is ahead of us in rating action. If the Hungarian economy sees a stronger and longer downturn while the public debt remains elevated, it can trigger a downgrade. On the other hand, if following the temporary shock, Hungary's economy rebounds strongly with improving external and fiscal balances, the country can see an upside scenario. Other than that, we can check the latest rating decisions in the CEE.

The only downgrade was made by Fitch on Slovakia (May), while Romania and Bulgaria saw an outlook downgrade by Fitch (April). S&P cut the Hungarian and Slovakian outlooks, leaving ratings unchanged everywhere in the region. Against this backdrop, it is quite clear, that so far – due to significant uncertainties – credit rating agencies have shied away from making painful decisions in such a short timespan since Covid-19 rules our lives. It's simply too early to judge.

Verdict

We see three realistic scenarios this time:

1. Skipping the scheduled review
2. Updating the rating analysis with an affirmation of rating and outlook
3. Changing the rating and/or the outlook

We expect S&P to go along on Route 1 as the rating agency has already reacted to the Covid-related developments in April. Since then uncertainty has just increased, so the wait-and-see approach would make perfect sense here.

Moving on to the other decision maker, a lot has changed since Fitch reviewed Hungary in February, so we see an updated rating analysis affirming Hungary's 'BBB' (Stable) grade.

With that, Moody's remains the lone wolf having a scheduled review in the remainder of 2020, taking place on 25 September.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.