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