Hungary: Double 'BBB'

Just one week after S&P, Fitch Ratings also upgraded Hungary to 'BBB' (Outlook: Stable). After 16 months with a positive outlook it was well expected

Source: Shutterstock

'BBB' Sovereign credit rating by Fitch

Outlook: Stable

The decision

As we suggested in our preview, Fitch Ratings followed S&P's move and became the second in line to upgrade Hungary's sovereign rating to 'BBB' with a stable outlook. With this move, the most interesting part of the year is already done when it comes to rating reviews.

The rationale

Fitch Ratings highlighted in its press release that "Hungary has undergone rapid deleveraging", especially when it comes to net external debt. The current account surplus also helped Hungary to earn a 'BBB' rating, despite the fact that Fitch sees further deterioration in the current account balance in the short term, but sees a recovery in 2020. The rating agency also pointed out to the downward trend in the general government debt-to-GDP ratio, forecasting further improvement in the coming years. Despite Hungary's still unfavourably high public indebtedness, the debt service is lower than the 'BBB' median.

Despite the positive rating decision, Fitch did not miss the chance to highlight some of the problems, specifically mentioning one of its previous remarks: its concerns about the independence of the judiciary is increasing. When it comes to the Budapest-Brussels relationship, Fitch highlighted, that it "does not expect the ongoing Article 7 disciplinary proceedings by the EU to make much headway in the short term".

What can trigger a change?

To reach the 'BBB+' level, Hungary needs to maintain the downward trend in the public debt-to-GDP ratio. Moreover, increased confidence in the economic policy framework and further improvement in the business environment (translating into higher potential growth) could also be seen as a positive trigger. On the other hand, a worsening of the fiscal metrics, elevating macroeconomic instability and weakening institutional framework could (even individually) lead to a negative rating action.

What's next?

The latest decisions by S&P and Fitch lead Hungary to a position where it has three rating agencies keeping the sovereign rating with a stable outlook. We see one possibility to have a change for good: Moody's is in line for a scheduled review on 3 May. This review is the hardest to predict, but after the rating updates, we see Hungary having a realistic shot for an outlook upgrade by the agency.

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