

## Hungary: Fitch affirms Hungary's rating

Fitch Ratings affirmed Hungary's sovereign debt rating, leaving it at BBB- (outlook: Positive). It is not a surprise as general elections are too close for a change



Source: Shutterstock

**BBB-** Sovereign credit rating

Outlook: Positive

It hardly came as a surprise when Fitch Ratings decided to affirm the Hungarian sovereign debt rating on 9 March. Hungary remained at the BBB- with Positive outlook. The affirmation was driven by the fact that Hungary has strong structural indicators, but the high level of debt and policy unpredictability undermine the positives. However, as Fitch highlighted, the recent improving trend (both in economic activity and debt reduction) warrant a Positive outlook.

Despite the strong fundamentals Fitch emphasised that there is higher economic volatility than the 'BBB' median and unorthodox policy. Growth potential has thus far been constrained by unfavourable demographics, labour shortages and a high dependency on EU funds.

On the positive side Fitch mentioned the public finances, which improved significantly. Not just the debt or deficit ratio, but the external vulnerabilities also decreased. Sustained current account surpluses have helped to reduce net external debt. The banking sector also strengthened and the development and doing business indicators are broadly better than 'BBB' medians.

Fitch highlighted three key areas, where the continued improvement might lead to an upgrade:

- External indebtedness, external liquidity based on current account surpluses
- Economic policy framework and business environment boosting potential growth
- Sustained decline in debt-to-GDP

However, should Hungary face a rise in net external debt and/or in debt-to-GDP ratio and a deterioration in the economic policy framework leading to imbalances, the outlook would worsen to Stable.

## Maybe next time

Fitch scheduled its next review regarding Hungary on 31 August. It might be too early to get an upgrade as Fitch rewarded Hungary with a Positive outlook in November 2017. However, if economic activity and good fiscal trends prevail, we might get an early gift as Fitch has no more reviews scheduled in 2018.

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