

Hungary: Fitch affirms sovereign debt rating

Fitch Ratings affirmed Hungary's 'BBB-' rating and the outlook remains positive. As S&P took the same action two weeks ago, this doesn't qualify as a surprise



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The decision

Fitch Ratings affirmed Hungary's sovereign debt rating at 'BBB-' and confirmed its positive outlook, [in line with our expectations](#). Despite a number of positive developments, Fitch found enough worrying reasons to leave Hungary's rating intact. As the agency only awarded Hungary a positive outlook in November 2017, this decision is less surprising than S&P's two weeks ago, which also just [affirmed its rating](#) with a positive outlook.

In its review, Fitch pointed to the strong structural indicators, such as the sustained current account surpluses and net equity FDI and EU capital inflows, which have helped to improve the external position. It also highlighted the improving structure of public debt, emphasising the decreasing share of FX debt and non-resident holdings of debt securities.

But Fitch also fell back on a traditional excuse for not issuing an upgrade: general government debt

levels, which are nearly double the current 'BBB' median. This factor counteracted the positives. Despite the decreasing debt-to-GDP ratio (which qualifies as a pro), the improvement is clearly not strong enough. Fitch also highlighted that "some commentators have expressed concerns that checks and balances on the government and the independence of key institutions (such as judiciary) are being eroded"- a similar remark to that made by S&P two weeks ago.

Rating sensitivities

According to Fitch's analysis, a continued reduction in external indebtedness and sustained current account surpluses could lead to an upgrade. The need to reduce the debt-to-GDP ratio was also highlighted as a prerequisite to reach the 'BBB' category. Potential growth along with the economic policy framework was cited (S&P mentioned this, too) as an area which needs further improvement. Obviously, if any of the above mentioned indicators show a significant deterioration, a negative rating action could follow.

What's next?

Hungary has now missed out on its chance for an upgrade this year, as S&P and Fitch won't review their ratings again in 2018. We expect improvements to continue both in the fiscal and macro indicators and we think an upgrade to 'BBB' could come next year. There is just one rating review remaining for this year: Moody's will close out its reviews on 23 November, when we can expect an upgrade to the outlook, at best.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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