Moody's could be Hungary's last chance

After disappointments and no upgrades from the rating agencies Fitch and S&P, an outlook upgrade from Moody's could be the last shot for Hungary this year

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The rating agency, Moody is due to review Hungarian sovereign debt rating on 23 November. In the last review in June, Moody's didn't even examine the country's sovereign debt. As Hungary is Baa3 rated with a stable outlook since November 2016 and the other two rating agencies both have a positive outlook on the Hungarian sovereign debt, an outlook upgrade won't come as a huge surprise.

Since Moody's refrained from saying anything about Hungary in its previous review, we can only assume the important factors which might influence the rating decision on Friday.

The pros

Despite the external tensions and domestic constraints, there are several positives on the data side. Like the increase in Hungarian GDP by 4.8% year on year in 3Q18, causing a huge upside surprise for the market. The government expects GDP to grow by 4.3% YoY in 2018 while the central bank expects it to grow by 4.4 %, respectively.

Given that 4Q18 GDP is surrounded by positive risks, we see this as a factor supporting our call to upgrade the sovereign debt. The government debt/GDP decreased by one percentage point to 72.8% in 3Q18 compared to the previous quarter. As the government debt to GDP ratio came in at 73.3% in 2017, we are optimistic that the final data in 2018 could be even lower.

In the light of all of this, it's possible that Moody's upgrades the outlook. Besides this, the government is still working on a competitiveness package, although it has not been published yet. We don't know if the announcement will be enough for Moody's or they would want to see specific measures about the reform.

The cons

We think the negatives are the same. The relatively weak checks and balances between government branches and the not favourable long-term growth prospects due to the demographic situation and labour market tightness could undermine the possibility of an outlook upgrade. Despite the debt to GDP ratio decreasing, it is still relatively high compared to regional peers, which could support the Moody's to maintain its current stable outlook.

Bottom line

A positive outlook upgrade from Moody's would be understandable, although maintaining the stable outlook can't be excluded. From a market moving perspective, we think that any scenario won't be a huge game changer.

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