

Hungary: S&P delivers the long-awaited 'BBB'

Standard and Poor's upgraded Hungary to 'BBB' (Outlook: Stable) after 18 months with a positive outlook. It can be the first but presumably not the last upgrade this year



Source: Shutterstock

'BBB' Sovereign credit rating by S&P

Outlook: Stable

The decision

It seems 18 months was enough for Standard and Poor's (S&P) to become convinced about Hungary's overall improvement. Against this backdrop, the rating agency upgraded the Hungarian sovereign credit rating to 'BBB' with a stable outlook. The decision hardly comes as a surprise, as we pointed out in our rating preview, the pros were outweighing the cons.

The rationale

S&P highlighted in its press release several points which led to the upgrade. First of all, "Hungary's sound growth prospects, supported by high private savings and real wage gains sustaining

domestic demand, as well as the ongoing expansion of export capacity in the automotive and services sectors.” The rating agency also pointed to the strong external positions of the country, combined with a low level of foreign currency funding. The recent improvements in the banking sector (both on the balance sheet and in profitability) was also an argument favouring the ‘BBB’ rating.

Despite the positive rating decision, S&P did not miss the chance to highlight some of the problems which can be a barrier to a further rating upgrade. The Hungarian government's “complicated” relations with its EU partners and the “relatively weak checks and balances between government branches, moderate wealth levels, and high public debt are key constraints on the ratings.”

What can trigger a change?

S&P decided to take a slow approach going forward, as it signalled the next rating action could happen within 24 months. To reach the ‘BBB+’ level, Hungary needs to maintain its strong economic activity combined with a stronger-than-expected debt reduction via budgetary surpluses. On the contrary, a significant external shock, an unexpected deterioration in external financing (like a suspension of EU transfers) or the weakening of the public finances could trigger a negative rating action.

What’s next?

S&P was the first rating agency to make Hungary a ‘BBB’-rated sovereign again, but might not remain alone for a long time. Fitch is in line for a scheduled review on 22 February and it also has a positive outlook on the Hungarian sovereign credit rating. After today's action, Fitch might be tempted to follow its peer, which would put us in a really good position for another upgrade before the spring arrives.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.