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.

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