

Snap | 17 August 2018

HUNGARY

# Hungary: S&P not ready to pull trigger on credit rating

Standard and Poor's affirmed Hungary's 'BBB-' rating and the outlook remains positive. It's not a huge surprise though we were optimistic about an upgrade



## The decision

Standard and Poor's (S&P) affirmed Hungary's sovereign debt rating at 'BBB-' and confirmed its positive outlook. As we noted in our [S&P preview](#), we felt there was enough evidence to support an upgrade but we didn't rule out a simple affirmation of the credit rating either.

S&P could have cited a string of obvious excuses for keeping its rating on hold including geopolitical risks, emerging market turmoil and fiscal issues. The fact it didn't mention these could be considered a good sign. However, the agency clearly highlighted its dissatisfaction with net general government debt over the past 12 months. The rationale for its decision to keep the rating on hold was that the **"relatively weak checks and balances between government branches, moderate wealth levels, and high public debt are key constraints"**.

**The government has made only modest progress in reducing net general government debt to GDP**

The agency also issued a new warning about monetary policy. It noted that Hungary's economy has already seen some signs of overheating and economic policy has not reacted accordingly, which “**could weaken Hungary's external competitiveness and balance of payments performance**”. This seems like a shot at the National Bank of Hungary's prolonged loose monetary policy. The rating agency also worries about the lack of structural reforms, which is keeping potential growth around 2-2.5%. This low rate reflects “**poor demographics exacerbated by net emigration (...), a large public sector, a challenging business environment, low productivity and a chronic skill shortage**”.

### The silver lining

Despite strong demand-driven growth, Hungary's external position continues to be in surplus, with substantial net foreign direct investment. “**Hungary's strong external profile, its resilient export-driven economy, low private sector debt levels, and the flexible exchange rate regime support the sovereign rating,**” according to S&P. “**The outlook remains positive, reflecting strong growth and external performance and the improved health of the financial sector.**”

### **The outlook remains positive with a chance for an upgrade within 12 months**

S&P emphasised that it could raise its rating in the next 12 months if economic performance remains strong and the banking sector strengthens. Maintaining the current account surplus, keeping the fiscal deficit contained and faster income convergence with EU averages could also drive an upgrade. We think there could be other positive developments, too, given that the government appears ready to tackle demographic issues and low productivity and is planning to downsize the public sector.

### What's next?

Hungary has missed out on its best chance for an upgrade this year. Next in line is Fitch Ratings on 31 August, but this review [comes less than six months](#) after the agency reiterated its positive outlook. Moody's will review its rating on 23 November when we can expect an upgrade to the outlook, at best.

### Author

**Peter Virovacz**

Chief Economist, Hungary

[peter.virovacz@ing.com](mailto: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 [www.ing.com](http://www.ing.com).