Hungary: S&P lowers rating outlook

The rating agency downgraded Hungary's sovereign credit rating outlook to 'stable' from 'positive', affirming its 'BBB' status. In our view, this is not the end of the world, but it just means we're unlikely to see an upgrade in the next 12- 24 months

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'BBB' Outlook: Stable

Standard & Poor's rating on Hungary

S&P giveth and S&P taketh away

The credit rating agency, Standard and Poor's upgraded Hungary's rating with a positive outlook in February 2020. It was a clear sign that economic activity and fiscal stance will translate into a rating upgrade soon.

Then Covid-19 happened and S&P decided to downgrade Hungary's outlook to stable. The silver lining is that it affirmed the 'BBB' sovereign rating.

The rationale

S&P expects the Hungarian economy to contract by 4% year on year in 2020 as a result of the economic fallout from the coronavirus. This call is more-or-less in line with our 'base' case, as we expect Hungarian GDP to contract by 3.2% this year. Despite this move being a negative one, S&P highlighted it considers macroeconomic fundamentals to be sound and the ongoing policy stimulus will help the country to absorb the shock, supporting a quick recovery in 2021.

Due to the temporary contraction of economic activity and fiscal measures, S&P sees the budget balance and public debt metrics to worsen. However, as the rating agency sees this increase in the debt-to-GDP ratio as a temporary one, it did not warrant an immediate rating cut, but just a downgrade in the rating outlook.

What can trigger a change?

If the Hungarian economy sees a stronger and longer downturn while the public debt remains elevated, it can trigger a downgrade. On the other hand, if following the temporary shock, Hungary's economy rebounds strongly with improving external and fiscal balances, the country can see an upside scenario.

What's next?

In our view, this outlook downgrade from positive to stable is not the end of the world. This move doesn't equal and won't translate into a swift sovereign credit rating downgrade.

We see this as a signal that we can forget the upgrade in the next 12-24 months which was in sight after the positive outlook in February 2020. Albeit S&P highlighted that checks and balances remain limited (pointing to the new "Emergency Law"), it did not sound that it played a major role in the decision.

In our view, the jury is still out on that topic and the rating agency doesn't want to make an inconsiderate judgment about that, which is a good sign. Against this backdrop, we don't expect S&P (or any other rating agency) to downgrade Hungary if our 'base case' remains the reality.

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