Sovereign rating review note: Hungary has dodged Moody's downgrade bullet

Moody's move comes as a mild positive surprise. Despite maintaining a negative outlook for a year, Hungary's credit rating has remained 'Baa2'. This could pave the way for the Hungarian forint to strengthen further

Moody's has left Hungary's sovereign credit rating unchanged

On 28 November, Moody's maintained Hungary's sovereign credit rating at 'Baa2', despite assigning the country a negative outlook in November 2024, which was also upheld last Friday. This decision came as a mildly positive surprise, as although the markets had not fully priced in a downgrade, there were signs that it might be imminent. Fitch will decide on the country's rating later this week (5 December), but we do not expect an outright downgrade. Moody's review has eliminated Hungary's key event-related risk. An outlook downgrade to negative from stable by Fitch next Friday would not cause any major market distortion. This allows the market to focus on fundamentals for both bonds and FX. As for the latter, the carry trade narrative will remain in the spotlight.

As Moody's decision-making structure is complex, we will only highlight some of the key factors here. Since the previous rating review, Hungary's budget deficit targets have increased and significant fiscal easing measures have been introduced. However, Moody's expects fiscal

consolidation after the election and does not anticipate any further fiscal easing in the short term. The rating agency has revised Hungary's GDP outlook downwards, predicting 0.5% and 2.3% GDP growth in 2025 and 2026, respectively, which is in line with our own forecast. In its assessment, this moderate economic activity is still a positive factor, supporting the country's 'Baa2' rating.

The strengthening forint may also have contributed to Hungary's stable reputation, as it reduces public debt by repricing foreign currency debt. This could explain why Moody's anticipates only a modest increase in the debt-to-GDP ratio this year. Further down the line, the expected fiscal consolidation will help prevent the public debt ratio from rising further, which also supported the recent decision on grading.

In our view, the bottom line is that the peer review found that Hungary's structural economic outlook and fiscal trajectory are not bad or unsustainable, nor are they the worst in the region or among other 'Baa2' countries. However, a permanent loss of EU funds due to unresolved rule-of-law issues would trigger a downgrade. This, therefore, remains a major hurdle for whoever wins the next general election in 2026.

From a market perspective, we cannot emphasise enough that the fact Moody's did not downgrade means the greatest risk to the credit rating scene has now been eliminated for the next five to six months. Although the prospect of a downgrade was very real, the consequences would not have been catastrophic. Nevertheless, it is positive that this did not happen. We don't think this decision will make the Hungarian government less cautious about the fiscal situation. After all, it should be aware that further fiscal easing could prompt an unscheduled review of its credit rating. The fact that the government refrained from cutting the social contribution tax, despite having considered it, shows that even politicians have a red line.

Against this backdrop, we expect the market to continue to favour Hungarian assets. The next significant event from a rating perspective may not occur until after the general election, when S&P releases its next report.

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