

Short note – Fixed Income Research – Oct 02, 2009

Hungary: S&P revision

S&P revises the outlook of Hungary to stable from negative

This afternoon, S&P credit rating agency announced that they revised the outlook of Hungary to stable from negative. At the same time they affirmed Hungary's current rating at BBB-.

According to the agency, the outlook revision reflects their view that sustained consolidation efforts will contain the deterioration in the Hungarian government deficit, despite the downside pressures on the economy. The gradual normalization of domestic and international bond markets has lessened Hungary's dependence on the funding package from the IMF and the EU. They expect the fiscal deficit to increase to 4% of GDP in 2009 and 2010 and general government debt to rise to 80% of GDP in 2010. Although they still see risks that the deteriorating economy will continue to put pressure on the Hungary's financial sector, the stabilized exchange rate and the gradual improvement in the availability of external funding will provide some relief. In the end, they said that if strong political leadership emerges next year that is able to undertake needed public sector reform and improve Hungary's growth potential, building a sustained track record of fiscal prudence and setting the high government debt burden on a falling trajectory, this could eventually lead to an improvement in the ratings.

Assessment: The existing BBB- rating is in investment category, but this is just one notch away from non-investment grading. (The S&P downgraded Hungary from BBB to BBB-, with negative outlook on March 30). Improving the outlook of the current rating to stable from negative could mean that Hungary has managed to avoid slipping into the non-investment category, which can be seen as positive.

Market reaction: positive, the forint immediately strengthened below the level of 270 against the EUR.

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