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Muni Credit Improves With Upgrades Outpacing Downgrades in 2021.

- **Fitch Ratings recognizes slow but continued recovery**
- **Rates most muni sectors as stable heading into the new year**

More municipal bond borrowers were upgraded than downgraded last year, a shift from 2020 when state and local government credit took a hit in the early stages of the coronavirus pandemic.

In 2021, Fitch Ratings upgraded 95 U.S. public finance ratings and downgraded 91, compared to 101 and 181, respectively, in 2020, the company said in a report published Tuesday.

Last year was marked by "slow but continued recovery" after Covid-19 vaccines became widely available and many pandemic-related restrictions were lifted, wrote Arlene Bohner, head of U.S. public finance ratings, and her colleagues in the report. "Economic and fiscal recovery continued to out-pace projections in most locations, in some cases by considerable margins."

In the coming year, the company expects slower but above average U.S. economic growth with inflation and supply chain disruptions posing headwinds. In addition, the recent spike in virus infections poses risks to the leisure and travel industry; college and university enrollment; and staffing for hospitals and life plan communities, the group said.

The company is "stable" on most sectors of the $4 trillion municipal bond market with improving trends most evident in U.S. states, not-for-profit hospitals and higher education sectors. Fitch didn't downgrade any states in 2021, compared to cutting four ratings at the height of the pandemic in 2020. Four states — New Jersey, Ohio, Illinois and Michigan — had a positive outlook as of the end of the fourth quarter, as bottom lines were bolstered by strong tax collections and the White House's American Rescue Plan.

"States and local governments will benefit from their share of the hundreds of billions of dollars in direct aid provided under ARPA," the report said. "Fitch anticipates this aid, the vast majority of which remains unspent and even unallocated, will provide cushion in the event of unexpected economic or public health setbacks."

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