

Country Insight Snapshot

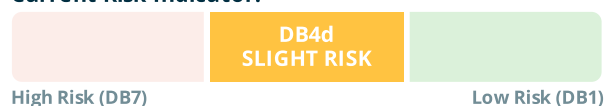
Hungary

May 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: September 2022 (DB4c → DB4d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

WorldWatch Headline

The overall risk outlook is 'stable' as indicators for Q2 imply a return to steady growth in H2, but the external political risks to Hungary are mounting.

Recent Changes

- Indicators for Q2 imply a return to steady growth in H2.
- The FX Risk outlook has been upgraded from DB5a to DB4d as the forint has strengthened to HUF372:EUR, from a nadir of HUF429:EUR in October 2022.
- The business continuity outlook has been upgraded from 'stable' to 'improving', as gas reserves remain high, following a mild winter and as Hungary has agreed future deliveries of oil and gas with Russia.
- The outlook for political/insecurity risk has been downgraded from 'stable' to 'deteriorating', as Hungary faces potential US sanctions and as Russia has placed the country on its list of unfriendly states.

Events to Watch

- The war in Ukraine is having and will have adverse consequences for trade, investment and financial flows into Hungary.
- Growth in China will affect the price and availability of energy and commodities on the world market.
- Keep an eye on the stability of the European financial sector, given Hungary's high exposure to developments in the eurozone.

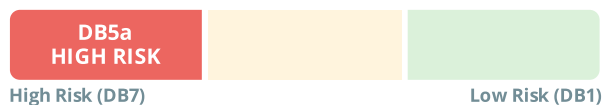
Call to Action

- Expect steady growth from H2 and into 2024.
- Monitor international developments, which strongly influence the performance of Hungary's open economy.
- Keep an eye on developments in Russia and Ukraine, and the various secondary effects, including abrupt policy changes and disruption to supply chains.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: March 2023 (DB5b → DB5a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

- The credit environment outlook is 'stable', as the central bank has held interest rates at 13.0%, for seventh consecutive month in April, in expectation of inflation falling through 2023.
- The central bank has ended its euro-swap instrument for energy imports, citing a significant decline in energy-importing companies' need for FX hedging.
- The government has extended its interest rate cap on business loans to SMEs and retail mortgages to households, until July 2023.
- The government has established a HUF700bn re-industrialisation credit programme, which gives businesses access to cheap investment and working capital loans; it has also extended the Szechenyi Card business credit programme, allowing SMEs to borrow funds at concessional rates, up to HUF400m.
- The banking sector is stable and profitable, but the central bank has raised the reserve requirement from 5% to 10%, amid signs of stress in the European banking sector.
- However, external debt is on a sharp upwards trajectory, mainly because the government's borrowing reached EUR149.8bn in Q4 2022.
- The stock market has rallied since March, as the economy returns to steady growth and the forint strengthens.

Trade Terms

Description	Terms
Minimum Terms	SD
Recommended Terms	LC
Usual Terms	30-60 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

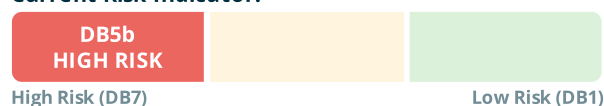
Source: Export Credit Agencies

Call to Action

- **Monitor counterparty risk** closely, as spillover from the war, including sanctions on Russia, creates new financial pressures.
- Urge firms to consider diversifying their customer base, to mitigate the risk of non-payment or delayed payment.
- Investigate alternative funding options, while waiting for debtors to settle outstanding amounts, which may be more suitable than traditional lending options.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: January 2023 (DB5c → DB5b)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

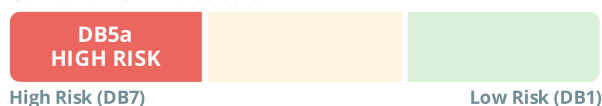
- The supply environment outlook is 'stable', as Hungary has avoided any shortfall in energy supplies by importing gas and oil from Russia.
- Hungary is actively seeking to diversify energy sources away from Russia, including upgrades to its nuclear sector and an electricity interconnector to Azerbaijan.
- The government is seeking to diversify supplies by importing energy via Croatia and Serbia, and has embarked on expanding its nuclear sector.
- Hungary has begun receiving its first deliveries of LNG via Croatia; the government has estimated imports to reach 1.5bn cubic metres a year.
- The cost of gas remains far above its long-term average, raising production and transport costs across the economy and threatening the viability of some energy-intensive business operations.
- Germany is blocking the expansion of Hungary's nuclear capacity, by refusing to allow Siemens Energy to export the control system for the new reactor blocks of the Paks power plant.
- Some sectors are facing serious problems finding staff and must raise wages and prices to remain in operation; half of the restaurants and a quarter of the hotels could go bankrupt.
- Hungary faces a long-term energy challenge caused by growth in energy-intensive sectors, such as EV batteries, which will raise consumption from 44TWh to a forecast 68TWh a year, by 2030.

Call to Action

- Take steps to conserve energy and be prepared for continuing high prices.
- Factor into short-term business planning the risk of delayed deliveries.
- Monitor **supplier risk** continually, given the difficulties some parts of the economy are experiencing.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: March 2023 (DB4d → DB5a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

- Hungary's market environment outlook is 'stable', as the cost of energy has fallen, inflation is easing through the course of 2023 and the economy is returning to growth.
- Growth in new orders in the manufacturing sector is strong, with the purchasing managers index (PMI) coming in at 55.3 in March.
- The EU has belatedly agreed to release EUR23.0bn worth development funds, EUR5.8bn from its recovery and resilience fund, and EUR15.2bn in cohesion funds.
- The government is continuing to cap the electricity cost for small- and medium-sized firms with energy-intensive operations.
- China Construction Bank has opened a branch in Budapest, potentially increasing Chinese investment in the Hungarian economy.
- The US has confirmed its decision to terminate the double tax treaty with Hungary, with effect from the start of 2024.
- Hungary has fallen thirteen places in Transparency International's 2022 *Corruption Perceptions Index*, ranking 77th in the world and last in the EU.
- The government is steadily opening the labour market to foreign workers, as the domestic market shrinks, with 70,000 registered in 2022, up by a fifth on 2021.

Call to Action

- Plan for a rise in sales in H2 2023 and into 2024.
- Take advantage of a change in law that allows firms to pay their corporate tax in euros or dollars.
- Take steps to **improve connectivity** with other agencies and trading partners, if you are a customs agency.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: May 2023 (DB5a → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- The US has sanctioned the Budapest-based International Investment Bank and the bank's Hungarian vice president, forcing Hungary to withdraw and the bank to relocate to Russia.
- Broadly, the government's relation with the US is sharply deteriorating, as the leaked Pentagon files suggest that it sees the Biden administration as one of its major adversaries.
- The government is reaching out to the Republicans, including a visit by Hungary's president to Ron DeSantis, Florida, in March, in expectation of their return to the White House in 2025.
- The president of the central bank is in open dispute with the government about its expansive fiscal policy, undermining confidence in the stability of the macroeconomic policy.
- Ukraine has mounted an unofficial boycott of several Hungarian companies, including MOL, Richter and Egis, citing their continued presence in the Russian market.
- Positively, the government has submitted a bill to the parliament about reforms to the judiciary, intended to unlock EUR5.8bn worth of EU grants and a further EUR9.6bn worth of concessionary loans.
- The government has indicated that it will back down in a dispute with the EU over political appointments to university boards, after Hungary was barred from receiving Erasmus+ funds.

Call to Action

- Monitor the sanctions regime between the EU and Russia.
- Keep up to date with current information on **entities and individuals** that threaten national security or bypass lawful trade and commerce.
- Urge investors in strategic sectors, especially those from countries without bilateral investment treaties, to take out insurance against forcible expropriation.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	5.4	4.6	-4.7	7.3	4.9	0.9	2.6	3.4	3.7	4.1
Nominal GDP in USDbn	160	164	157	181	178	206	226	241	254	268
Nominal GDP in local currency	43.3tn	47.6tn	48.4tn	55.0tn	66.2tn	77.9tn	84.8tn	91.4tn	97.5tn	103.5tn
GDP per Capita in USD	16,385	16,750	16,105	18,676	17,836	20,280	22,636	24,373	25,996	27,548
Population (year-end, m)	9.8	9.8	9.8	9.7	10	10.2	10	9.9	9.8	9.7
Exchange rate (yr avge, USD-LCU)	270.2	290.7	308	303.1	372.6	378.2	374.9	380.1	383	385.8
Current Account in USDbn	0.4	-1.2	-1.6	-7	-14.2	-9.5	-7.4	-3.9	2.2	4.3
Current Account (% of GDP)	0.3	-0.8	-1	-3.8	-8	-4.6	-3.3	-1.6	0.9	1.6
FX reserves (year-end, USDbn)	30.1	30.3	39.4	38	35.7	45.5	47	49	52	55
Import Cover (months)	2.8	2.8	3.9	3.1	2.5	3.1	3.2	3.2	3.3	3.4
Inflation (annual avge, %)	2.8	3.3	3.3	5.1	14.6	16.7	6.3	4.4	2.9	2.1
Govt Balance (% GDP)	-3.2	-2.2	-10.2	-8.5	-7	-4.2	-3.3	-2.6	-2.1	-1.7

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Hungary	Austria	Romania	Slovakia	Czech Republic
Income per Capita (USD)	20,280	58,675	17,119	22,651	32,525
Country Population (m)	10.2	9	21	5.8	10.5
Internet users (% of population)	88.6	92.5	83.6	88.9	82.7

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	No delays reported

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Hungary	Western & Central Europe	OECD Average
Restrictions on non-Residents' Accounts	0	0	0.06
Restrictions on Payments for Imports	0	0.12	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.36	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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