D&B Country Insight Snapshot: Hungary

January 2015

Overview

Overall Country Risk Rating : DB4c

A

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Rating Outlook: Stable ➜

Core Outlook

+ The government is dispersing the risk of stagnation in the euro zone by opening up to emerging markets in the East such as Russia, Turkey and China.

+ Expect light manufacturing and services to provide the best long-term commercial opportunities.

- There are limitations in the labour market, which is shrinking in size, ageing and subject to a brain drain.

- Hungary is poor in natural resources and offers few opportunities in mining, extraction or forestry.

Key Development

The government limits the issue of new FX-denominated bonds in an effort to minimise exposure to foreign exchange risk and avoid a repeat of the 2009 currency devaluation.

Credit Environment Outlook

A

Key Development has had a neutral impact on the outlook.

Supply Environment Outlook

G

Key Development has had a neutral impact on the outlook.

Market Environment Outlook

A

Key Development has had anegative impact on the outlook.

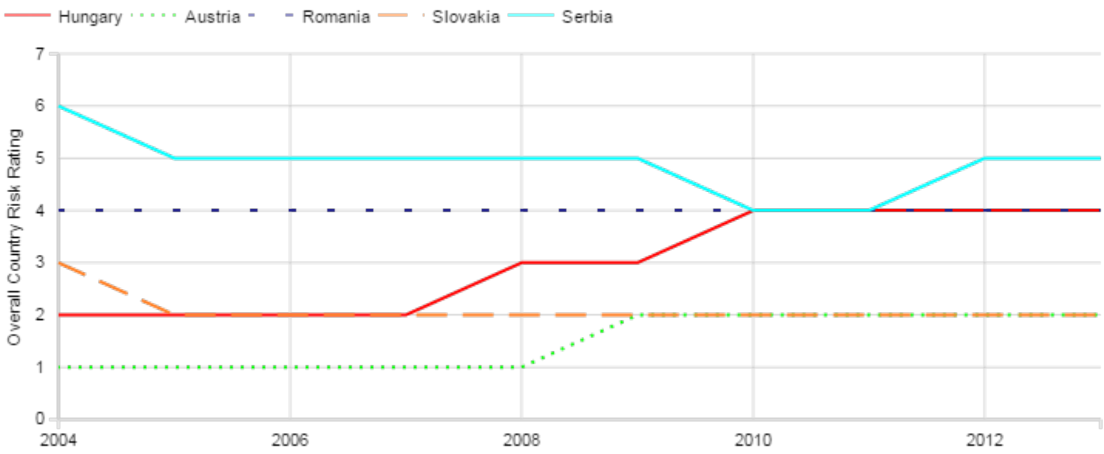
Political Environment Outlook

A

Key Development has had a neutral impact on the outlook.

Key Indicators

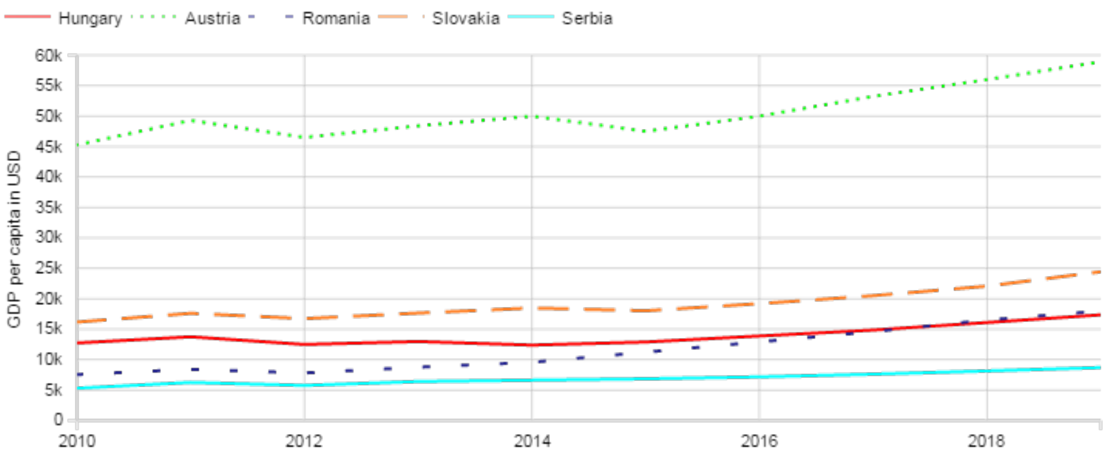
Rating History and Comparison



Source : D&B

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Chart of the Month

Source : National Statistical Offices / Haver Analytics

Economic Indicators

Indicator	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
C/A balance % GDP	1.5	-0.6	-2.6	-2.7	-3.0	-4.2	-5.6	-6.5
Govt balance, % GDP	-2.1	-4.0	-2.4	-3.0	-2.8	-2.7	-2.7	-2.6
Inflation, annual avge %	3.9	5.7	1.9	2.2	2.4	2.5	2.5	2.6
Real GDP Growth, %	1.6	-1.7	1.1	3.0	2.7	2.8	3.0	3.2
Unemployment, %	10.9	10.6	9.6	8.5	8.2	8.0	7.9	7.7

Source : Haver Analytics/D&B

Trade and Commercial Environment

The risk of expropriation is moderate in general and high in certain sectors. The government has a policy of restoring so-called ‘strategic assets’ to Hungarian ownership, either public or private. It has adopted tax and legislative changes which have made life uncomfortable for some foreign investors and is actively bringing some formerly state-owned assets back under state control. Usually this is happening legitimately through the purchase of shares on the stock market, although changes in regulation often serve to devalue the company before its transfer of ownership. An additional risk for investors is expropriation of land for the purposes of building infrastructure without following the correct process and without due compensation.

Trade Terms and Transfer Situation

Minimum Terms: LC

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CLC

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

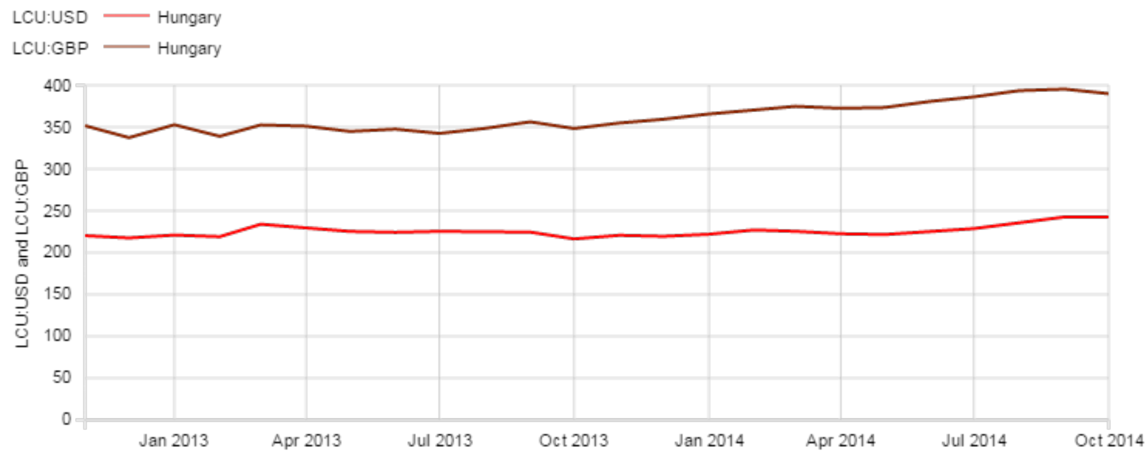
Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

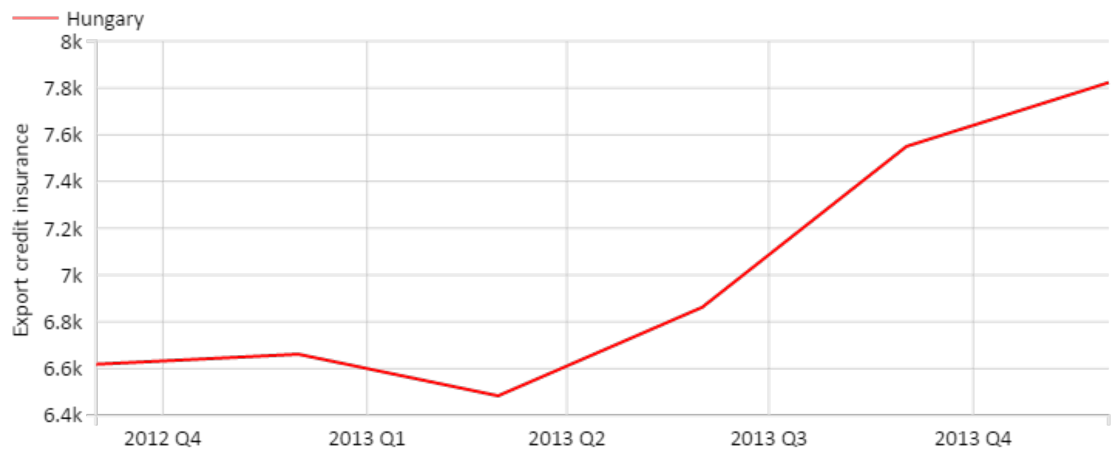
Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

LCU = Local Currency Unit

Credit Conditions



Source : Haver

Insured export credit exposures, USDm

Risks and Opportunities

Market Potential

Government issue of FX bonds limited

The opportunity to purchase government paper is rapidly declining following an announcement by the Government Debt Management Agency (AAK) in December that it plans to issue almost no new FX-denominated bonds in 2015. Moreover, yields on existing government bonds are declining, limiting profits on what paper does exist. According to the AAK, the government will issue FX bonds worth just HUF160bn (EUR500m) in 2015, in the form of 'residency' bonds to foreigners and so-called PEMAK bonds targeted at Hungarian retail investors. The rationale behind this is to reduce the government's exposure to FX risk while demand for forint-denominated debt is strong. The government was badly affected after the 2009 financial crisis when the value of the forint plummeted, forcing the government to service an ever growing FX-denominated debt in devalued forint. Unsurprisingly, it is keen to avoid any repetition of this and is aiming to reduce the share of FX-denominate debt in its debt portfolio from around 38% at present to 34% by the end of 2015, and to reduce the proportion of foreign holders of government debt from 70% to 50%. In the meantime, sound economic performance, a rise in tax revenues and a strong commitment to contain the budget deficit to within 3% of GDP have reduced yields on 10-year bonds to a record low of just 3.7%, compared to over 10% at the height of the economic crisis in 2011-12.

FX Risk

FX reserves are healthy

FX reserves remain very healthy (EUR34.1bn as of November) not least because of the government's policy of not issuing fresh FX-denominated debt. At the same time, the country's external performance is increasingly positive, with large surpluses on both the current and capital accounts. In Q1-Q3, the net external financing capacity amounted to EUR5.6bn, up 4.9% y/y, mainly on account on healthy exports and sizeable inflows of EU funds, providing a significant uplift to FX reserves. As a result, foreign investors in Hungary can be confident of continued access to hard currency over the forecast period.

Business Environment Quality

New restrictions on Sunday trading

From March, Hungary will enforce new restrictions on commerce on Sundays following the passage of new legislation in December. With only a few exceptions, shops will be prevented from trading, and online traders from delivering. This policy is consistent with the government's preference for a return to Hungarian social traditions. Unfortunately, promoting traditional values is not always to the benefit of business, which thrives in conditions of freedom. In recent years, the business environment has become increasingly difficult for investors, marked by administered prices, ad hoc taxes and unforeseen regulatory changes as a consequence of which Hungary's attractiveness as an investment destination is in relative decline. In the World Bank's *Doing Business 2015* report, Hungary was ranked just 54 in the world compared to 41st place in 2009.

Country Profile and Statistics

Overview

Located in Central Europe, landlocked Hungary borders Austria and Slovenia to the west, Ukraine and Romania to the east, Slovakia to the north, and Croatia and Serbia to the south.

Hungary was part of the Austro-Hungarian Empire until it collapsed in 1918, and fell under communist rule following the Second World War. Soviet forces brutally quashed a nationwide uprising against the communist regime in 1956. After the demise of the communist regime in 1989, Hungary immediately began developing closer ties with Western Europe, joining NATO in 1999 and the EU in 2004.

Hungary operated the most liberal economic policies of all communist regimes, giving it a head start in the post-1989 transformation. It has been one of the most successful countries in the region in attracting foreign investment. Machinery and transport equipment dominate Hungary's exports, while Germany is its main trade partner. The key policy challenge facing the authorities is reform of the oversized public sector.

Key Facts

Key Fact	Detail
head of government	Prime Minister Viktor ORBAN
Capital	Budapest
Timezone	GMT +01-00
Official language	Hungarian
Population (millions)	9.9
GDP (USD billions)	123
GDP per capita (USD)	12,387
Life expectancy (years)	74
Literacy (% of adult pop.)	99.4
Surface area (sq km)	93,030

Source : UN / Haver Analytics / D&B

Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	1.05	1.57	-1.66	1.1	3
Nominal GDP in USDbn	127.5	137.45	124.6	129.15	123.04
Nominal GDP in local currency (bn)	26,513	27,635	28,048	28,889	30,392
GDP per Capita in USD	12,731	13,751	12,490	12,973	12,387
Population (year-end, m)	10.02	10	9.98	9.96	9.93
Exchange rate (yr avge, USD-LCU)	207.94	201.06	225.1	223.7	247
Current Account in USDbn	1.52	2.05	-0.74	-3.34	-3.28
Current Account (% of GDP)	1.19	1.49	-0.59	-2.59	-2.66
FX reserves (year-end, USDbn)	44.85	48.68	44.51	46.39	42.9
Import Cover (months)	5.24	4.92	4.25	4.23	3.9
Inflation (annual avge, %)	4.7	3.9	5.7	1.9	2.2
Govt Balance (% GDP)	-4.2	-2.1	-4	-2.4	-3

Source : D&B

Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	2.7	2.8	3	3.2	3.2
Nominal GDP in USDbn	127.8	137.3	146.6	158.4	170.5
Nominal GDP in local currency (bn)	31,941.57	33,634.47	35,484.36	37,542.46	39,719.92
GDP per Capita in USD	12,891	13,881	14,859	16,090	17,354
Population (year-end, m)	9.9	9.9	9.9	9.8	9.8
Exchange rate (yr avge, USD-LCU)	250	245	242	237	233
Current Account in USDbn	-3.8	-5.8	-8.2	-10.4	-12.8
Current Account (% of GDP)	-3	-4.24	-5.58	-6.54	-7.5
FX reserves (year-end, USDbn)	44.4	45.6	46.4	47.5	48
Import Cover (months)	4	4.1	4.2	4.1	4
Inflation (annual avge, %)	2.4	2.5	2.5	2.6	2.6
Govt Balance (% GDP)	-2.8	-2.7	-2.7	-2.6	-2.5

Source : D&B

Comparative Market Indicators

Indicator	Hungary	Austria	Romania	Slovakia	US
Income per Capita (USD)	12,387	49,988	9,568	18,478	53,975
Country Population (m)	9.9	8.5	21.5	5.5	322.6
Internet users (% of population)	72.6	80.6	49.8	77.9	84.2
Real GDP Growth (% p.a., 2014 - 2023)	0.9 - 3	1.5 - 2.5	2.3 - 4.5	2.7 - 4.5	1.5 - 3

Source : D&B

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