

Hungary

Rating report

Rating rationale

Strong record of robust growth dynamics and solid medium-term growth prospects, driven by substantial investments: The Hungarian economy has a strong record of robust growth driven by large foreign investments and significant EU funding, supporting economic development. Despite Hungary's vulnerability linked to energy-intensive businesses and subdued economic activity among key external trading partners in 2024, major capacity-expanding foreign direct investment projects are projected to sustain Hungary's growth. We expect modest growth of 0.7% in 2024 and a further recovery of real output with growth of 2.8% in 2025.

Robust structure of external and public liabilities and an improving external position: Hungary's public debt profile demonstrates resilience to external shocks due to its elevated share of domestic financing, facilitated by its domestic retail programme, reducing dependency on external sources. The country's external liabilities mostly consist of direct investment, supporting Hungary's resilience to external shocks. Hungary's external position showed an improvement in 2023, with gradual improvement of reserve adequacy projected over the medium term as exports expand.

Rating challenges include: i) elevated public debt with a high interest-payment burden; ii) sustained fiscal deficits reflecting limited fiscal flexibility; iii) weak governance indicators and lingering uncertainty regarding the inflow of substantial EU funds; and iv) heightened vulnerability to external shocks.

Figure 1: Hungary's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	a-	HUF	Hungary	0	BBB
Public finance risk	20%	a-			0	
External economic risk	10%	b+			- 1/3	
Financial stability risk	10%	aa+			0	
ESG risk	Environmental factors	5%	[+0]	[-0]	0	
	Social factors	7.5%			0	
	Governance factors	12.5%	bbb			
Sovereign Quantitative Model		bbb+			-1	
Additional considerations					0	

The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket. **The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index. ***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating

BBB/Stable

Senior unsecured debt

BBB/Stable

Short-term issuer rating

S-2/Stable

Local currency

Long-term issuer rating

BBB/Stable

Senior unsecured debt

BBB/Stable

Short-term issuer rating

S-2/Stable

Lead Analyst

Jakob Suwalski

+34 919491 663

j.suwalski@scoperatings.com

Team Leader

Alvise Lennkh-Yunus

+49 69 6677389-85

a.lennkh@scoperatings.com

Credit strengths and challenges

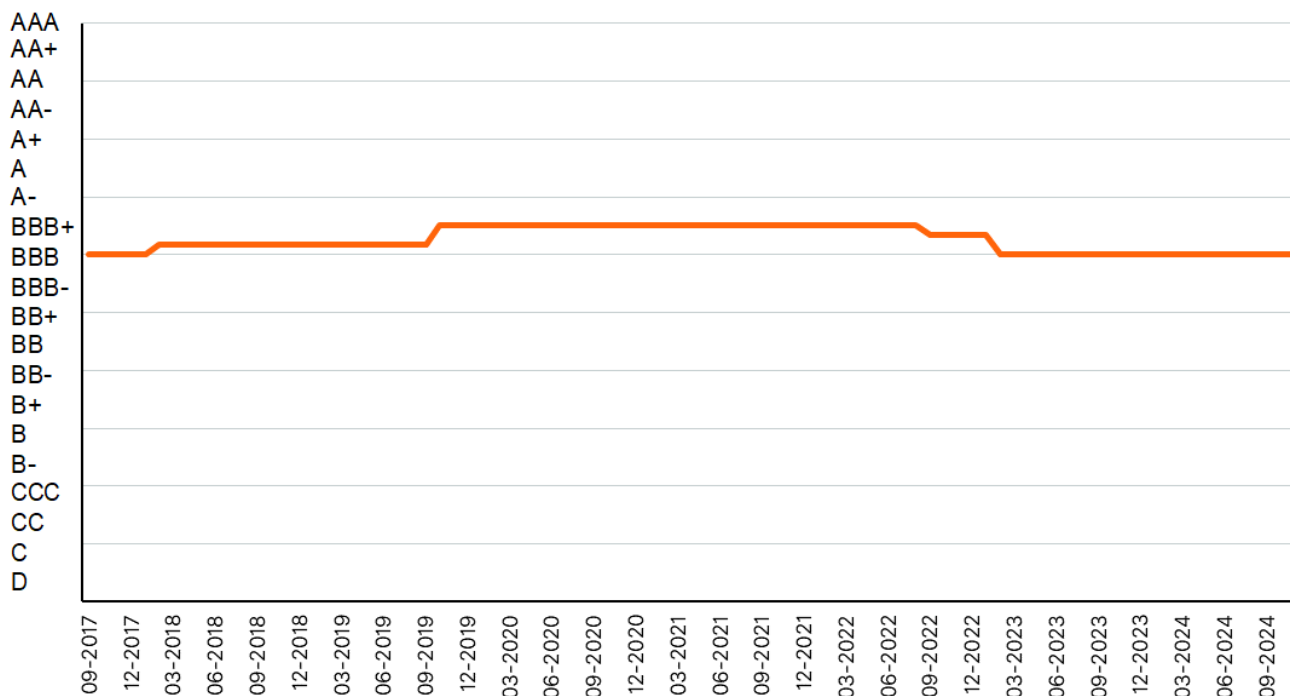
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Strong record of robust growth performance and solid medium-term growth prospects, backed by high investment Robust structure of external and public liabilities and an improving external position, enhancing the country's resilience to shocks 	<ul style="list-style-type: none"> High public debt stock with heightened borrowing costs Continuous fiscal deficits, reflecting limited fiscal flexibility Weak governance indicators, lingering uncertainty regarding the inflow of substantial EU funds Heightened vulnerability to external shocks

Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Improvement in public finances, resulting in a significant reduction in public debt in the medium term Materially improving external metrics and strengthened reserve adequacy 	<ul style="list-style-type: none"> Protracted fiscal deterioration, materially weakening debt sustainability Significant worsening of external metrics, weighing on reserve adequacy

Figure 2: Rating history¹



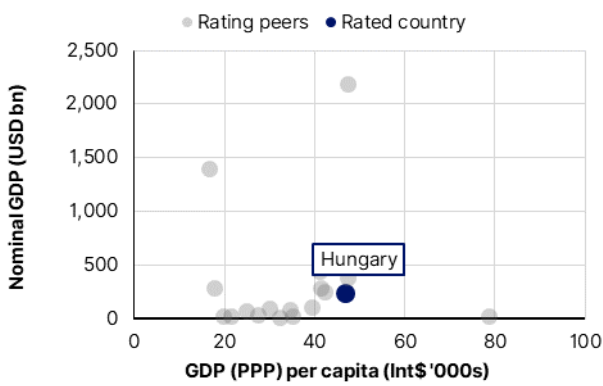
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment
Source: Scope Ratings

Domestic economic risk

Overview of Scope's assessments of Hungary's Domestic Economic Risk

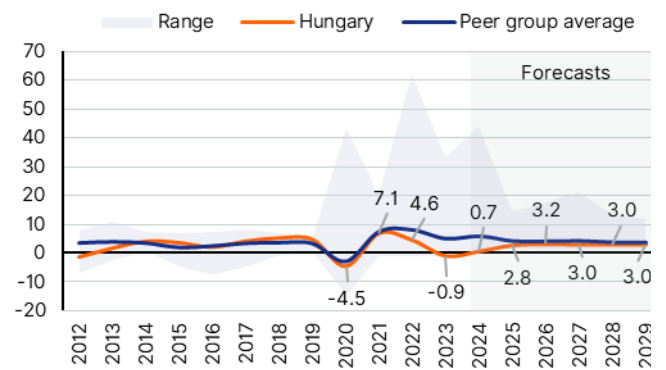
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Growth potential and outlook	Neutral	0	Robust growth dynamics supported by high investments; low savings
	Monetary policy framework	Neutral	0	Credible central bank; previous discrepancies in the policy mix have limited effectiveness of monetary policy
	Macroeconomic stability and sustainability	Neutral	0	High reliance on external markets; economic structure dominated by energy-intensive businesses with complex value chains; large-scale foreign direct investments in key industries support recovery

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



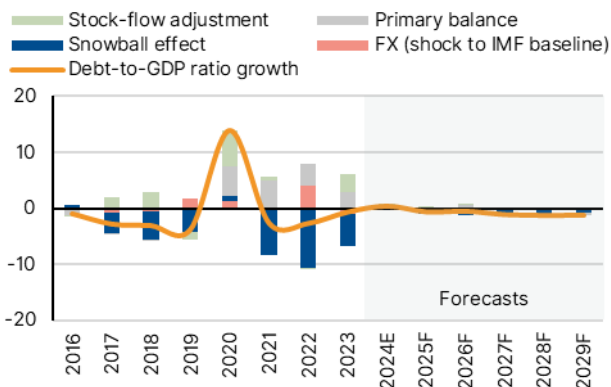
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's assessments of Hungary's Public Finance Risk

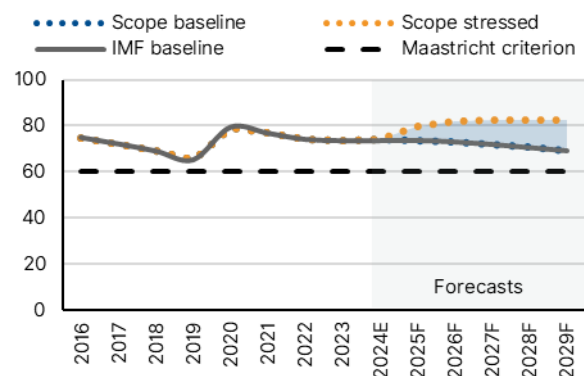
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Fiscal policy framework	Neutral	0	Good record of primary surpluses pre-Covid; limited fiscal space, elevated budget deficits over the medium-term compared to peers
	Long-term debt trajectory	Neutral	0	Elevated debt burden and growing interest payments; long-term debt trajectory supported by robust nominal growth prospects
	Debt profile and market access	Neutral	0	Resilient debt profile and solid domestic investor base; still elevated foreign-currency denominated share of debt (25-30%)

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

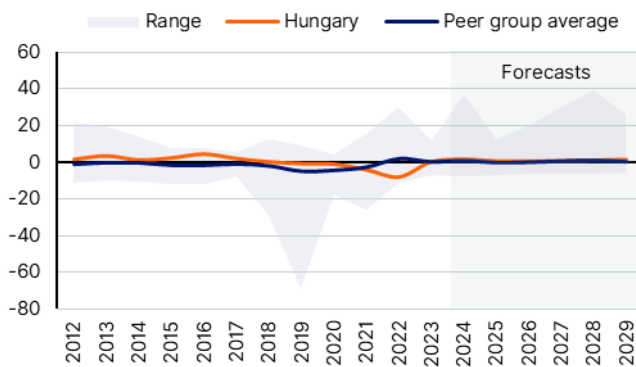
*Sovereign Quantitative Model

External economic risk

Overview of Scope's assessments of Hungary's External Economic Risk

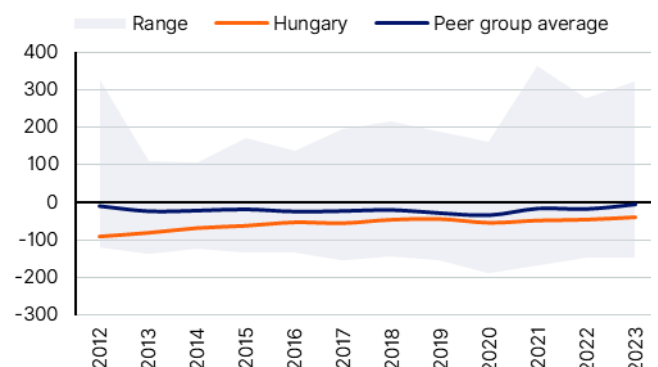
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Current account resilience	Neutral	0	Current account balance registered an annual surplus in 2023, supported by rising private sector financial savings.
	External debt structure	Neutral	0	External liabilities mostly consist of direct investment and equity rather than debt-creating flows
	Resilience to short-term external shocks	Weak	-1/3	High refinancing needs; reliance on external demand and foreign capital

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



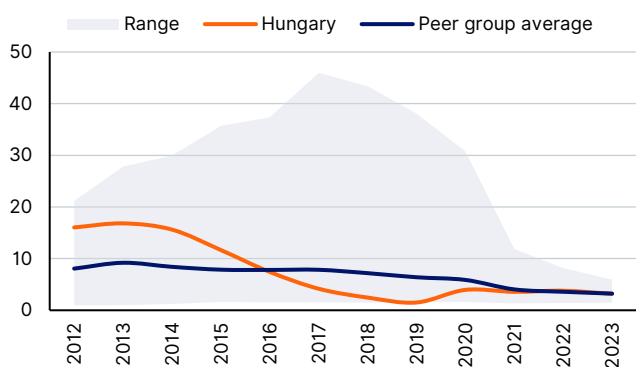
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Hungary's Financial Stability Risk

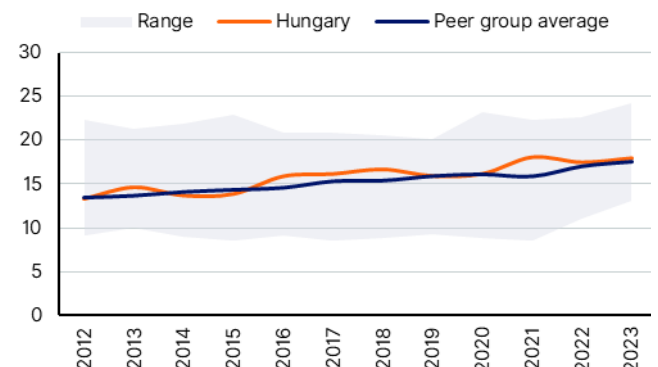
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Banking sector performance	Neutral	0	High capitalisation and liquidity levels; resilient profitability
	Financial sector oversight and governance	Neutral	0	Effective supervisory control; timely and comprehensive regulatory measures
	Financial imbalances	Neutral	0	Macroprudential measures underpin financial stability; moderate private sector debt

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



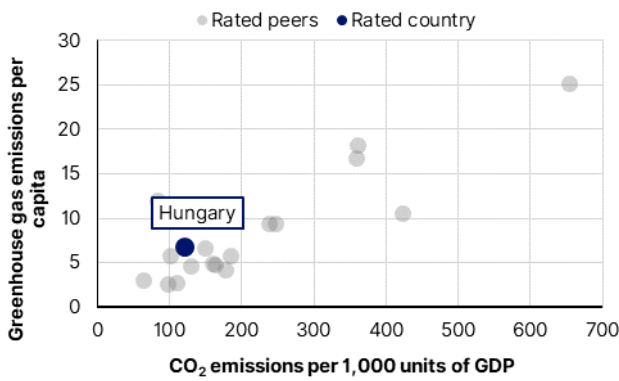
Source: IMF, Scope Ratings

ESG risk

Overview of Scope's assessments of Hungary's ESG risk

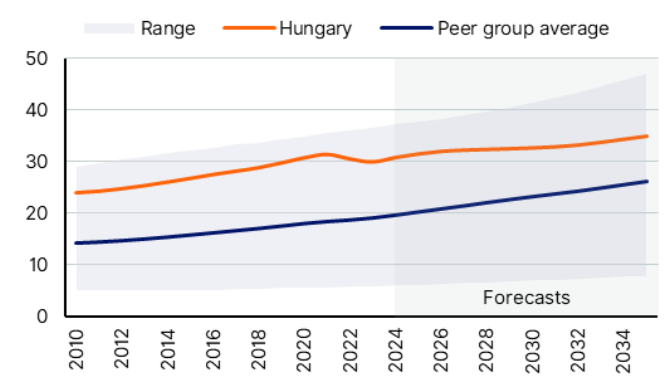
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Environmental factors	Neutral	0	Low natural disasters risk; elevated reliance on fossil fuel imports
	Social factors	Neutral	0	Significant employment gaps and high regional inequalities, mirroring those observed among peers; declining working age population
	Governance factors	Weak	-1/3	Ongoing institutional challenges; limited policy predictability and lingering uncertainty regarding the inflow of substantial EU funds

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

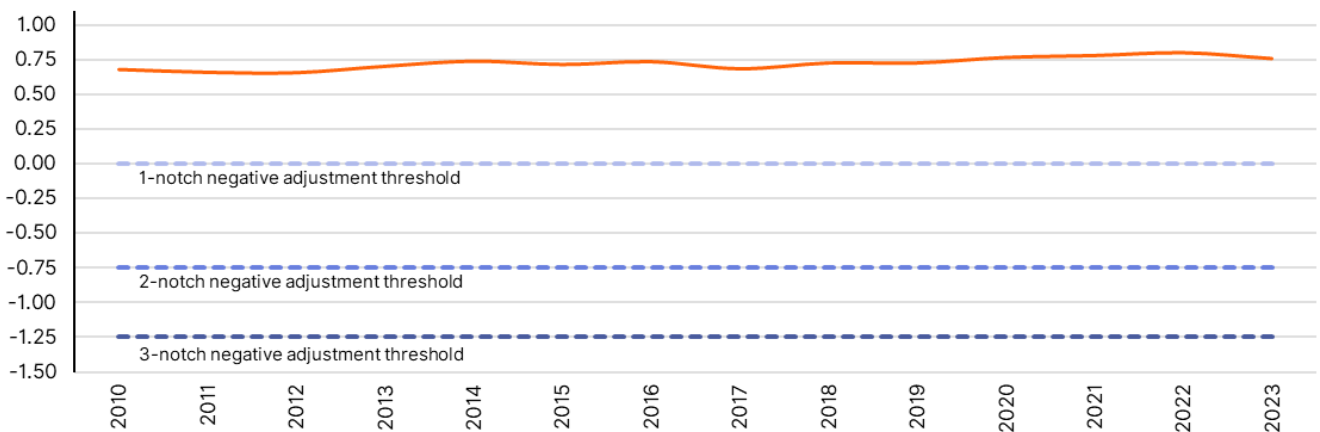
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Hungary, 3-year moving average



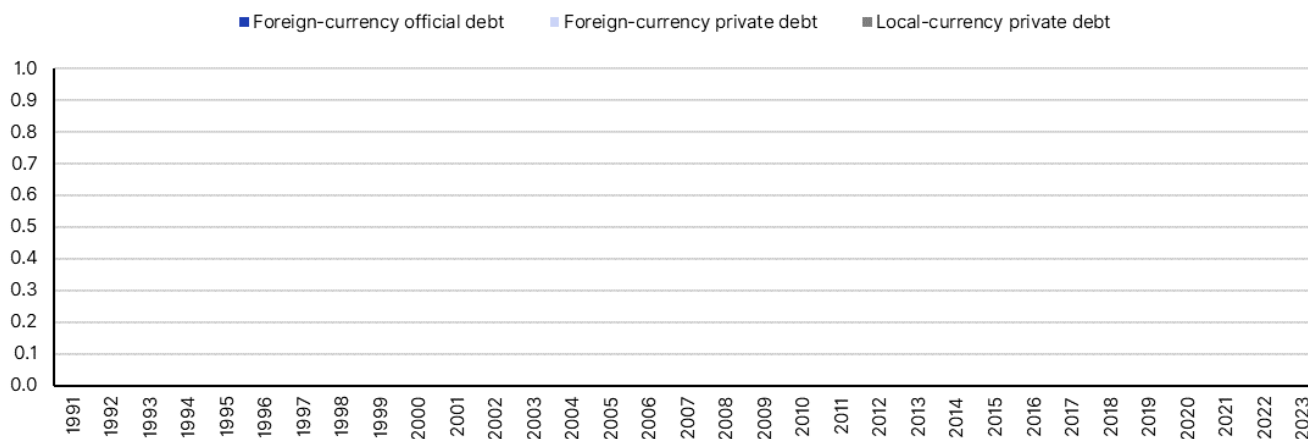
Source: WB, Scope Ratings

Additional consideration

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Bulgaria
Greece
Romania

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bp) as of 8 November 2024	125

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	31.9	35.1	35.0	38.6	43.4	45.0
	Nominal GDP, USD bn	IMF	160.6	164.0	157.3	182.1	177.8	212.5
	Real growth, %	IMF	5.4	4.9	-4.5	7.1	4.6	-0.9
	CPI inflation, %	IMF	2.8	3.4	3.3	5.1	14.6	17.1
	Unemployment rate, %	WB	3.7	3.4	4.3	4.0	3.6	4.1
Public Finance	Public debt, % of GDP	IMF	69.1	65.3	79.3	76.7	74.1	73.5
	Net interest payment, % of government revenue	IMF	5.1	4.9	5.0	5.1	5.3	8.7
	Primary balance, % of GDP	IMF	0.2	0.1	-5.4	-5.1	-4.0	-3.0
External Economic	Current-account balance, % of GDP	IMF	0.2	-0.8	-1.1	-4.3	-8.4	0.2
	Total reserves, months of imports	WB	2.5	2.5	3.6	3.0	2.5	2.8
	NIIP, % of GDP	IMF	-44.3	-42.5	-52.8	-46.5	-44.1	-
Financial Stability	NPL ratio, % of total loans	IMF	2.5	1.5	4.0	3.6	3.8	3.2
	Tier 1 ratio, % of risk-weighted assets	IMF	15.8	15.9	15.1	17.0	17.3	16.3
	Credit to the private sector, % of GDP	WB	32.4	33.4	37.9	38.7	36.0	33.0
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	145.5	138.4	139.8	133.9	121.3	112.7
	Income share of bottom 50%, %	WID	22.5	22.4	22.5	21.3	21.4	-
	Labour-force participation rate, %	WB	71.9	72.6	72.8	76.1	76.9	-
	Old-age dependency ratio, %	UN	28.9	29.8	30.8	31.4	30.5	30.0
	Composite governance indicators*	WB	0.4	0.4	0.4	0.4	0.3	-
	Political stability, index	WB	0.7	0.8	0.8	0.8	0.6	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

Analysts

Jakob Suwalski
+34 919491 663
j.suwalski@scoperatings.com

Alvise Lennkh-Yunus
+49 69 66773 89
a.lennkh@scoperatings.com

Applied methodologies

[Sovereign Rating Methodology](#), January 2024

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin
scoperatings.com

Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

in
Bloomberg: RESP SCOP
[Scope contacts](#)

Disclaimer

© 2024 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.