

Hungary

Rating Report



Credit strengths

- Strong record of robust growth performance, backed by high investment
- Robust structure of external and public liabilities

Credit challenges

- High public debt stock
- Weak governance indicators, lingering uncertainty regarding the inflow of substantial EU funds

Rating rationale:

Strong record of robust growth dynamics: The Hungarian economy has a strong record of robust growth supported by large foreign investments and significant EU funding – creating high value-added jobs and supporting economic development. Despite Hungary's vulnerability linked to energy-intensive businesses and expectations of subdued economic activity among key external trading partners in 2024, major capacity-expanding foreign direct investment projects are projected to sustain Hungary's growth. The prospect of receiving EU Cohesion Funds for the 2021-2027 period further enhances the economic recovery. We expect real output will recover robustly, with forecasted real growth rates of 2.4% this year and 3.1% in 2025.

Robust structure of external and public liabilities: Hungary's public debt profile demonstrates resilience to external shocks due to its emphasis on domestic financing, including a robust domestic retail programme, thereby reducing dependency on external sources. The country's external liabilities mostly consist of direct investment, supporting Hungary's resilience to external shocks.

Rating challenges include: i) an elevated public debt burden with heightened borrowing costs; and ii) weak governance metrics, limited policy predictability and lingering uncertainty regarding the inflow of substantial EU funds.

Hungary's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	bbb	HUF [+0]	0	BBB	
Public Finance Risk	20%	a-		0		
External Economic Risk	10%	ccc		0		
Financial Stability Risk	10%	aa		0		
ESG Risk	Environmental Factors	5%		aa+		0
	Social Factors	7.5%		bbb-		0
	Governance Factors	12.5%		bb-		-1/3
Indicative outcome		bbb		0		
Additional considerations				0		

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative-scorecard 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.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers

- Improvement of medium-term growth prospects supported by improving external metrics
- Improvement in public finances, resulting in a significant reduction in public debt above Scope's expectations
- Governance and/or political risks eased, improving the quality and predictability of policymaking

Negative rating-change drivers

- Material worsening of growth prospects and/or external metrics
- The fiscal outlook deteriorated, for example, due to elevated fiscal deficits
- Governance and/or political risks increased affecting the quality and predictability of policymaking

Ratings and Outlook

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

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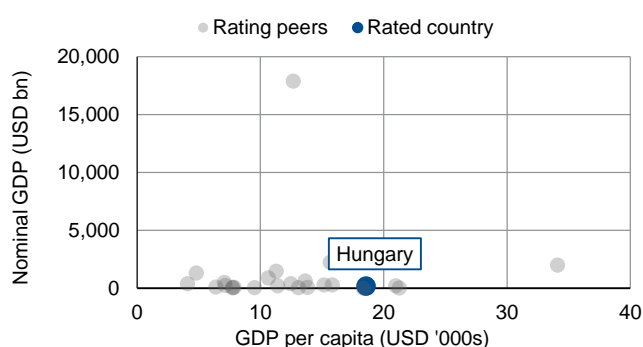
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Hungary's *Domestic Economic Risk*

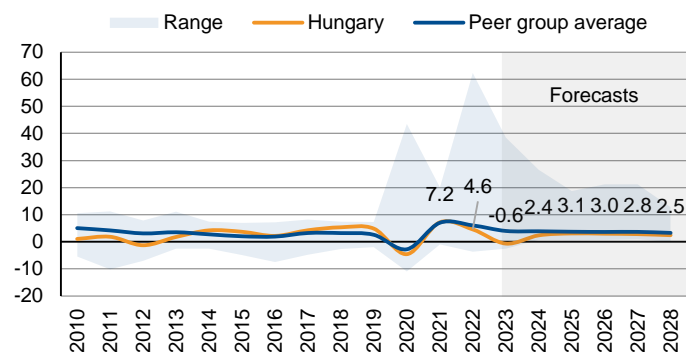
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential of the economy	Neutral	0	Robust growth dynamics supported by high investments; low savings
	Monetary policy framework	Neutral	0	Credible central bank; previous discrepancies in the policy mix have limited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

Nominal GDP and GDP per capita



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

Real GDP growth, %



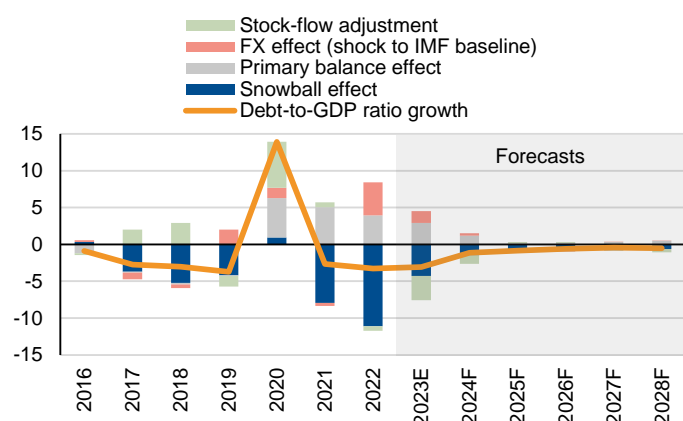
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Hungary's *Public Finance Risk*

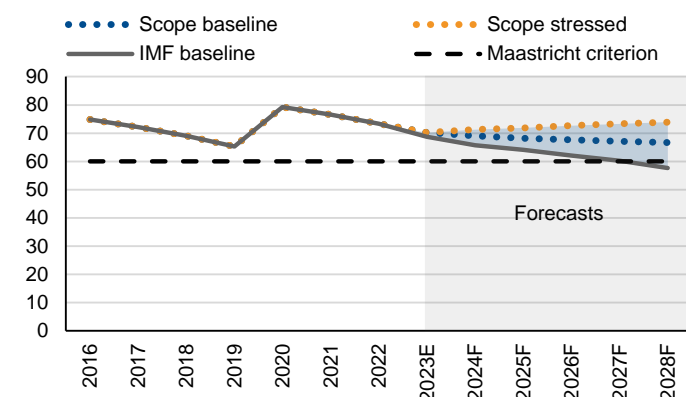
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Fiscal policy framework	Neutral	0	Good record of primary surpluses; limited fiscal space, elevated budget deficits over the medium-term compared to peers
	Debt sustainability	Neutral	0	Elevated debt burden and growing 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

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



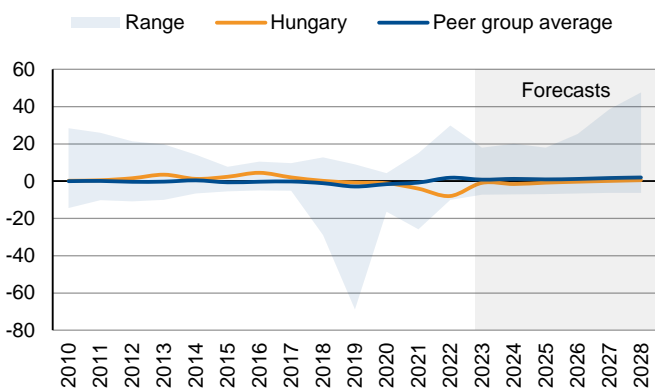
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Hungary's *External Economic Risk*

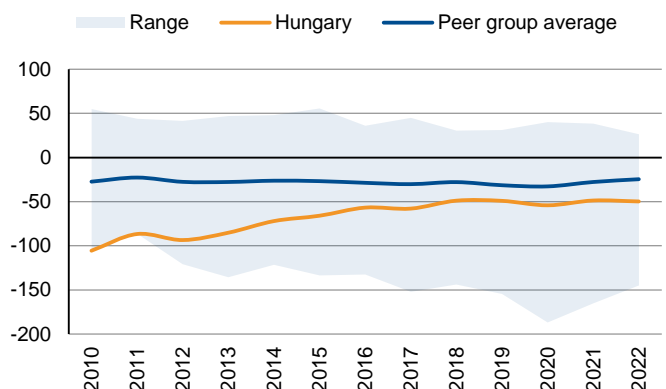
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Current account resilience	Neutral	0	Pre-pandemic track record of stable current account receipts with a manufacturing sector highly integrated in global supply chains
	External debt structure	Strong	+1/3	External liabilities 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

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



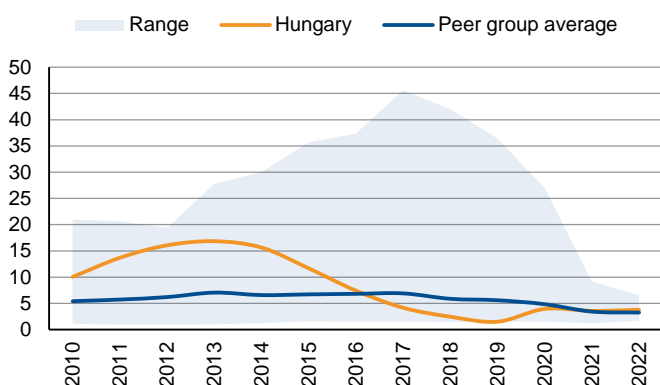
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Hungary's *Financial Stability Risk*

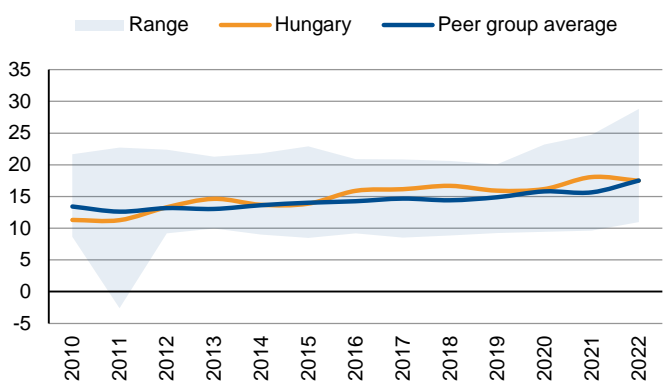
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Banking sector performance	Neutral	0	High capitalisation and liquidity levels; resilient profitability
	Banking sector oversight	Neutral	0	Effective supervisory control; timely and comprehensive regulatory measures
	Financial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

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



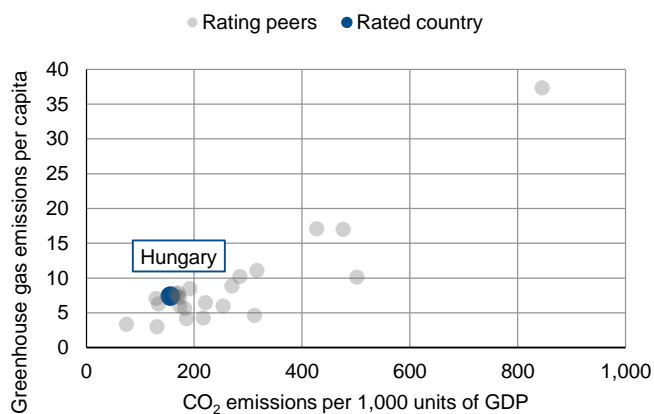
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for Hungary's ESG Risk

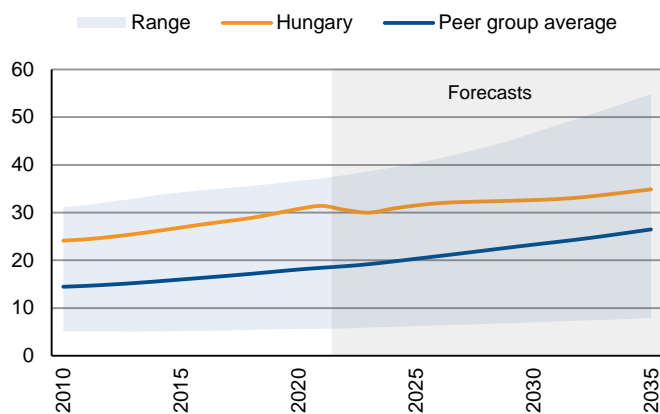
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Environmental factors	Neutral	0	Low vulnerability to transition risks and natural disasters risk; elevated reliance on fossil fuel imports
	Social factors	Neutral	0	Significant employment gaps and high regional inequalities,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

CO₂ emissions per GDP, mtCO₂e



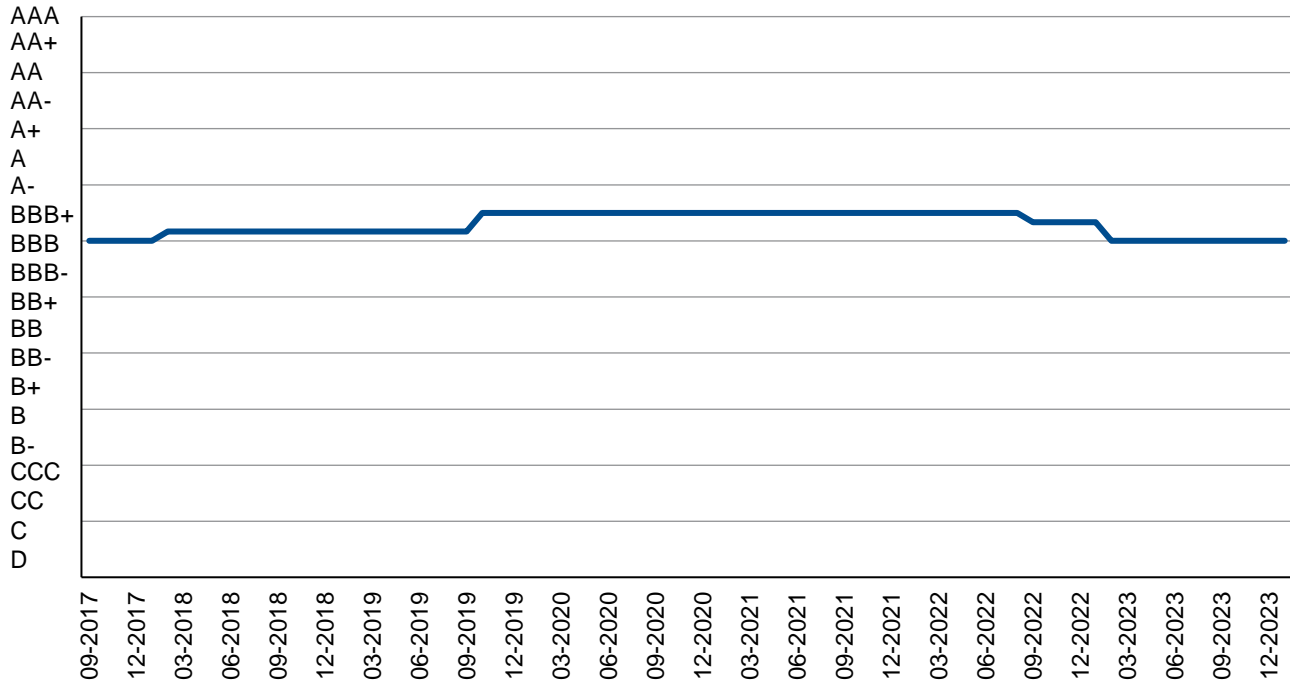
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

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 core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Bulgaria
China
Greece
Italy
Romania
Turkey

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

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, 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	2019	2020	2021	2022	2023E
Domestic Economic	GDP per capita, USD '000s	IMF	16.8	16.1	18.7	18.6	21.1
	Nominal GDP, USD bn	IMF	164.0	157.2	182.3	180.0	203.8
	Real growth, %	IMF	4.9	-4.5	7.2	4.6	-0.3
	CPI inflation, %	IMF	3.4	3.3	5.1	14.5	17.7
	Unemployment rate, %	WB	3.4	4.3	4.1	3.4	-
Public Finance	Public debt, % of GDP	IMF	65.3	79.3	76.6	73.3	68.7
	Net interest payment, % of revenue	IMF	4.9	5.0	5.1	5.5	6.2
	Primary balance, % of GDP	IMF	0.1	-5.3	-5.1	-3.9	-2.8
External Economic	Current-account balance, % of GDP	IMF	-0.8	-1.1	-4.1	-8.0	-0.9
	Total reserves, months of imports	WB	2.5	3.6	3.0	2.6	-
	NIIP, % of GDP	IMF	-48.9	-54.0	-48.6	-49.6	-
Financial Stability	NPL ratio, % of total loans	IMF	1.5	4.0	3.6	3.8	-
	Tier 1 ratio, % of risk-weighted assets	IMF	15.9	15.1	17.0	17.3	16.3
	Credit to the private sector, % of GDP	WB	33.4	37.9	38.6	-	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	160.1	162.6	155.8	-	-
	Income share of bottom 50%, %	WID	22.4	22.5	22.5	-	-
	Labour-force participation rate, %	WB	72.6	72.8	76.1	-	-
	Old-age dependency ratio, %	UN	29.8	30.8	31.4	30.5	30.0
	Composite governance indicators*	WB	0.4	0.5	0.5	0.4	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 22 January 2023

Emerging market and developing economy

130



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