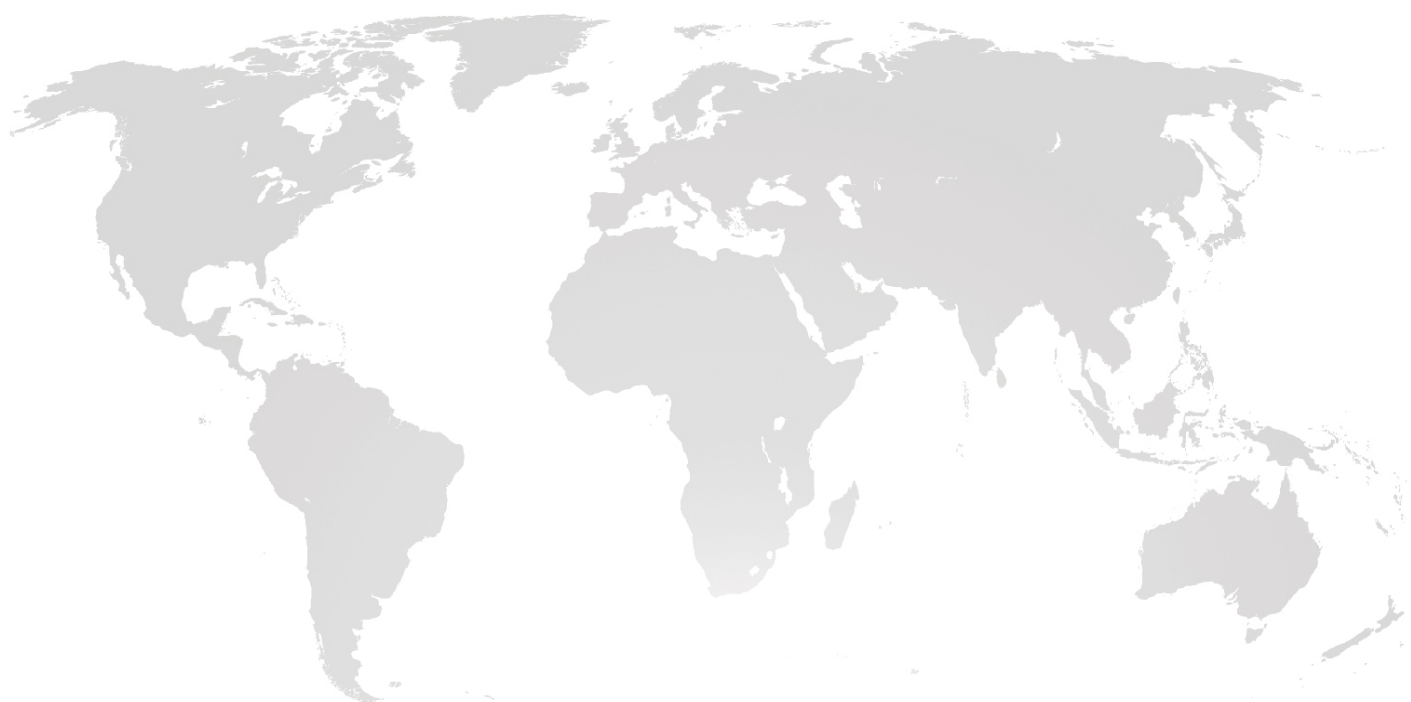




# D&B Country Insight Snapshot: Hungary

*December 2014*





## Overview

**Overall Country Risk Rating : DB4c**



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

**Rating Outlook:** Deteriorating

## 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

Pressure mounts on the governing coalition after new measures relating to early retirement and strike regulations prompt a trade union confederation to threaten a nationwide roadblock.

Credit Environment Outlook

Key Development has had a neutral impact on the outlook.

Supply Environment Outlook

Key Development has had a negativel impact on the outlook.

Market Environment Outlook

Key Development has had aneutral impact on the outlook.

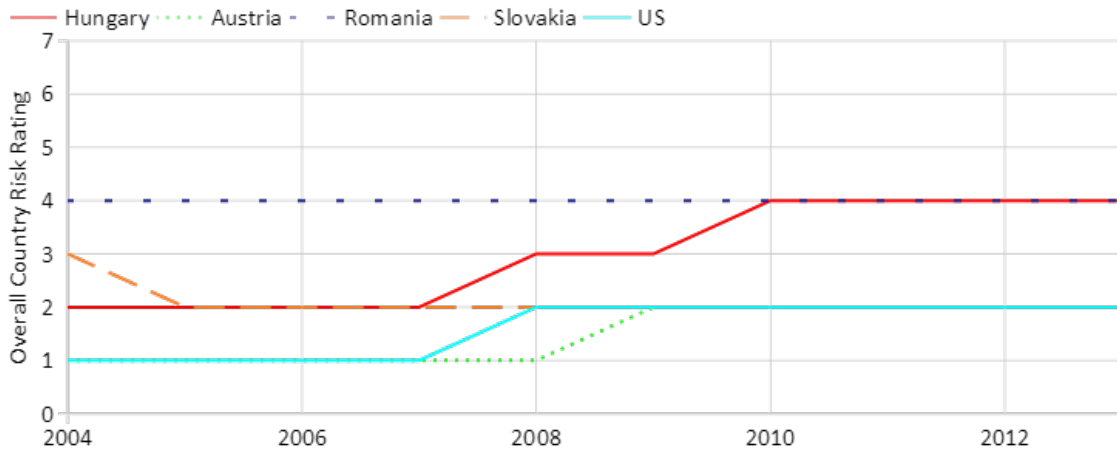
Political Environment Outlook

Key Development has had a negative impact on the outlook.



## Key Indicators

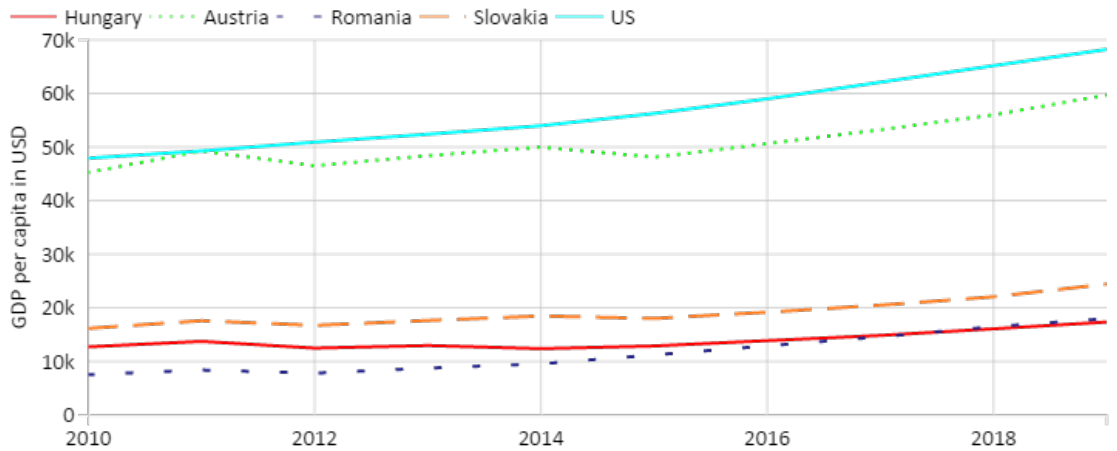
### Rating History and Comparison



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	8.9	8.5	8.3	8.1	7.9

Source : Haver Analytics/D&B

## Trade and Commercial Environment

Hungary's business environment is becoming more hostile due to the government's shift from a free market economy to a form of hybrid state capitalism. Since coming to power in 2010, the Fidesz party has taken an increasingly intrusive role in the market, fixing prices on public goods, imposing ad hoc taxes and introducing punitive regulatory changes, often without warning or prior consultation. Foreign companies are frequently the targets of such actions given the government's focus on sectors such as banking and utilities in which foreigners predominate. Unsurprisingly, Hungary's attractiveness as an investment destination is in relative decline, falling to 54th place in the World Bank's 2015 *Doing Business* report, from 41st place in 2009, before Fidesz came to power.

## 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

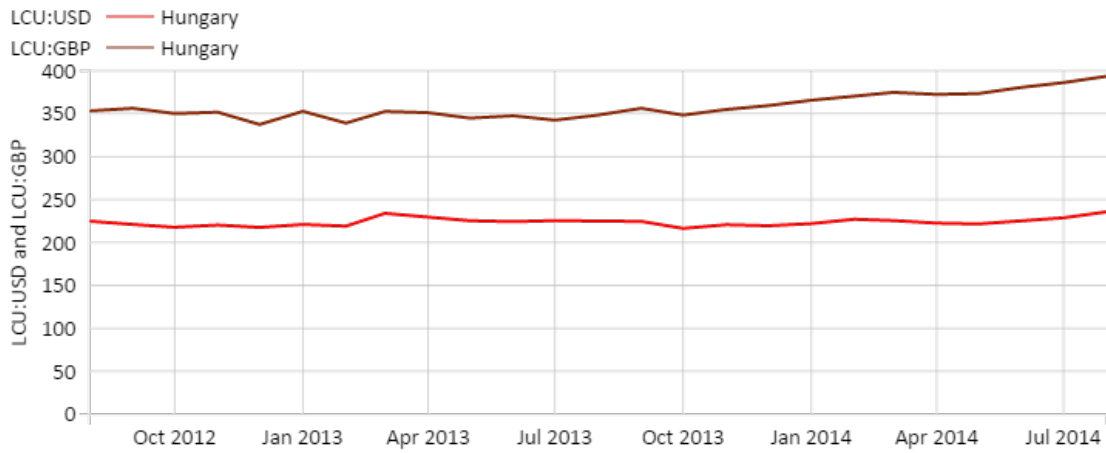
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



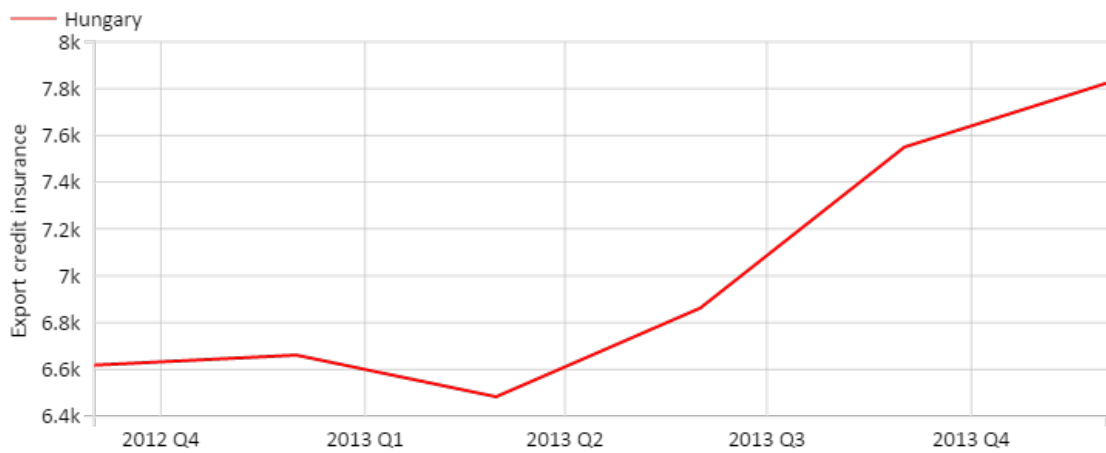
## Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

*LCU = Local Currency Unit*

## Credit Conditions



Source : Haver

*Insured export credit exposures, USDm*

## Risks and Opportunities

### Insecurity/Civil Disorder Risk

#### *Pressure mounts on governing coalition*

Political stability is declining as pressure mounts on the governing coalition, led by the Fidesz party. At home, the LIGA trade union confederation has threatened a nationwide road blockade in December in protest against new government measures relating to early retirement and strike regulations. And part of the public have shown their hostility towards the government by staging mass demonstrations in Budapest and other cities, first against government plans to introduce a so-called 'internet tax' and later at general corruption and abuse of power. The immediate significance of this is the risk that the government could lose its supermajority in parliament, compelling Fidesz to consult the opposition on changes to Hungary's basic law and ending its 'anti-communist' revolution. Following the recent appointment of one Fidesz Member of Parliament to the European Commission, Hungary will hold a by-election in Veszprem in February. Consistent with the outbreak of popular hostility, opinion polls in November indicate a sharp decline in the government's popularity, of 5-12 percentage points over the previous month. Some parts of the opposition also seem willing to rally behind a single candidate in Veszprem in order not to split the anti-Fidesz vote. But nothing is guaranteed. Despite its losses, Fidesz still remains the most popular party in Hungary and the opposition is still divided in ways will play to Fidesz's advantage.

Meanwhile, the government is also under pressure internationally, most significantly from the US, which has just blacklisted six senior Hungarian officials and identified Hungary as a country which suppresses civil society. One senator also described Prime Minister Viktor Orban as a neo-fascist. Government officials are seeking to downplay the incident while making some conciliatory noises. However, rumours have circulated that the government is preparing its own blacklist against the US, a move that would undoubtedly cause Hungary to come to grief. In parallel, Hungary's attempts to deepen relations with Russia as part of its policy of 'Opening to the East' are being frustrated by Western isolation of Moscow. In December, under pressure from the EU and the US, Russia was finally forced to cancel the South Stream gas pipeline in a major setback for Hungary's energy security and long-term economic prospects.

### Business Environment Quality

#### *Corporation tax remains competitive*

The Hungarian parliament has passed its tax law for 2015, which reflects its broad policy of taxing consumption rather than income. Outside of a few specific sectors, most businesses will be unaffected and continue to enjoy a corporate tax rate of just 19%. However, the government has tightened rules on the declaration of VAT to include all invoices over HUF1m and the Minister for National Economy indicated that corporate tax on small businesses would rise from 10% to 19% at some point in the future.

## 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&amp;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&amp;B



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