BEST'S COUNTRY RISK REPORT

Hungary

CRT-3

August 22, 2018

Region: Europe

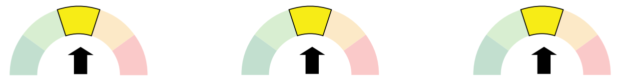
Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Hungary, a CRT-3 country, has a moderate level of economic, political, and financial system risk. The government implemented free market initiatives in the 1990s but has become more involved in the economy in recent years. GDP growth has been strong, driven by robust private consumption and EU-supported related investments.
- GDP expanded 4.0% in 2017 and is forecast at 3.8% for 2018. Medium-term growth is projected to be 2.5%.
- The majority of countries below are CRT-1 and CRT-2. Notable exceptions are many of the Eastern European countries such as Belarus, Romania, and Ukraine.

Vital Statistics 2017		
Nominal GDP	USD bn	152.28
Population	mil	9.8
GDP Per Capita	USD	15,531
Real GDP Growth	%	4.0
Inflation Rate	%	2.4
United Nations Estimates		
Literacy Rate	%	99.1
Urbanization	%	72.1
Dependency Ratio	%	46.9
Life Expectancy	Years	76.1
Median Age	Years	42.3
Insurance Statistics		
Insurance Regulator	Hungarian Financial Supervisory Authority	
Premiums Written (Life)	USD mil	1,670
Premiums Written (Non-Life)	USD mil	1,741
Premiums Growth (2016 - 2017)	%	4.5
Regional Comparison		
	Country Risk Tier	
Hungary	CRT-3	
Romania	CRT-3	
Austria	CRT-1	
Poland	CRT-2	
Slovenia	CRT-2	
Ukraine	CRT-5	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



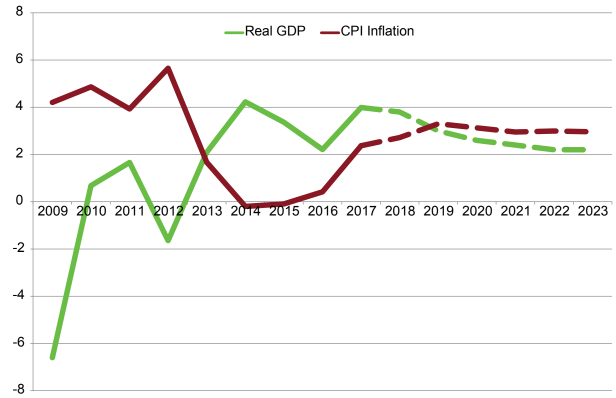
Economic Risk | Political Risk | Financial System Risk

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

Regional Summary: Eastern Europe

- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

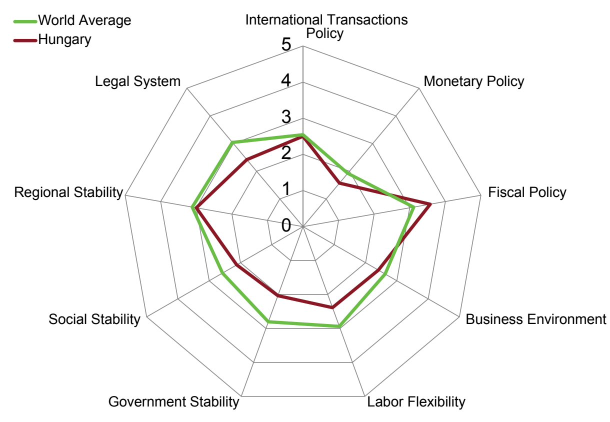
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

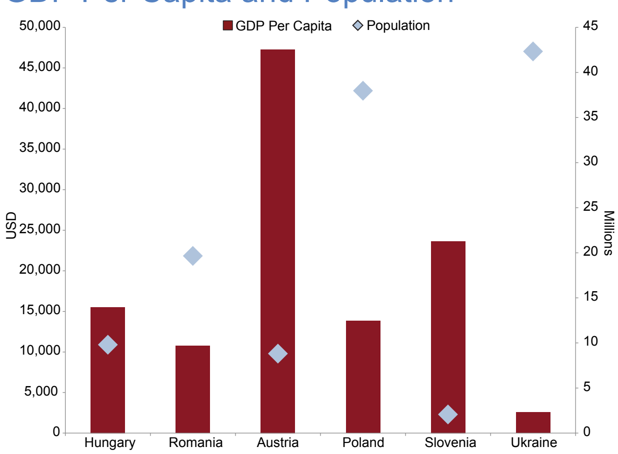
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- The Hungarian economy is characterized as an industrial processing economy that supplies exports to European Union markets. As a result, the economy is vulnerable to changes in both global trade conditions and protectionist trade policies.
- Growth has been driven by growing consumption as a result of wage gains and rising employment opportunities. However, negative demographic trends will require that the government implement structural reforms for future growth.
- The government intervenes in the economy through regulations, legislation, and public procurement, and nationalized private pension plans.

Political Risk: Moderate

- The president is the head of state, but the role is largely ceremonial. The current prime minister is Viktor Orbán, who leads the conservative Hungarian Civic Alliance (Fidesz). Fidesz has established a ruling political coalition with the Christian Democrats. The most recent general election was in April of 2018.
- Government policy will likely focus on maintaining economic growth, reducing corruption, and continuing fiscal consolidation efforts. However, thus far little progress has been made on tackling corruption and the bureaucratic red tape to improve the business operating environment.
- There are concerns about the government's involvement in various state institutions, such as the judicial system and the central bank, diminishing their independence and impartiality. Additional concerns surround the restrictive actions undertaken against independent media sources.
- Growing populist sentiment and the treatment of refugees have been somewhat controversial. Water cannons and tear gas have been used to maintain order at the borders. The growing number of refugees has increased national concerns regarding potential for terrorist attacks.

Financial System Risk: Moderate

- The Hungarian Financial Supervisory Authority, under the MNB (Magyar Nemzeti Bank), supervises the insurance sector. The entities covered by the MNB include financial and capital market institutions, insurance companies and institutions of the financial infrastructure.
- On average, the banking sector is well-capitalized, profitable, and liquid. Bank lending to the private sector has increased in recent years, which has facilitated growth.
- Non-performing loans have been declining owing to better debt servicing, as well as the sale of distressed debt off bank balance sheets.