Hungary
CRT-3
August 22, 2019
Region: Europe
Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers
• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.
• Hungary, a CRT-3 country, has moderate levels 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 driven by robust private consumption and EU-supported related investments. GDP expanded 4.9% in 2018 and is forecast at 3.6% for 2019. Medium-term growth is projected to be between 2.0% and 2.5%.
• AM Best categorizes the majority of countries in Eastern Europe as CRT-1 and CRT-2. Notable exceptions are Belarus, Romania, and Ukraine.

Regional Summary: Eastern Europe
• Economic growth in Eastern Europe is likely to expand in 2019 driven by strong domestic demand supported by higher wages and low unemployment. However, the region will be challenged by labor shortages, lower global growth, and high levels of corruption. Additional risks include currency volatility, an increase in government influence on state-run institutions (potentially undermining their independence), and unfavorable demographic trends.
• The Eastern European countries are at different stages of bringing their legal, economic, and political frameworks to be in more line with EU standards. Eastern Europe 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.
• Although many Eastern European countries are classified as emerging or frontier markets, reforms have enhanced economic stability and regional political power. However, the region’s standards of living vary greatly by country and are usually generally lower than Western Europe.
Economic Risk: Moderate

- The Hungarian economy is characterized as an industrial processing economy that supplies exports to EU markets. As a result, the economy is vulnerable to changes in global trade conditions, particularly in the EU, as well as protectionist trade policies.

- Growth has been driven by rising consumption as a result of wage gains and expanding employment opportunities. However, negative demographic trends will require that the government implement structural reforms for future growth. The unemployment rate, as of June 2019, was 3.3%.

- The government intervenes in the economy through regulation, legislation, 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 2018.

- The ruling party enjoys popular support and a two-thirds majority in parliament, which ensures policy continuity and government stability.

- Government policy will likely focus on maintaining economic growth, reducing corruption, and continuing fiscal consolidation efforts. Thus far, however, little progress has been made in tackling corruption and minimizing bureaucratic red tape to improve the business operating environment.

- There are concerns about the government’s involvement in state institutions such as the judicial system and the central bank, which diminishes their independence and impartiality. Additional concerns include restrictive actions undertaken against independent media sources.

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 financial infrastructure institutions.

- In general, the banking sector is well capitalized, profitable, and liquid. Bank lending to the private sector has increased in recent years, which has facilitated growth. According to the IMF, credit growth is expected to remain strong.

- Non-performing loans have been declining owing to better debt servicing, as well as the sale of distressed debt off bank balance sheets.