Japan Credit Rating Agency, Ltd.

June 12, 2025

12038
Hungary

Long-term Rating	A-
Outlook*	Stable
Short-term Rating	–

*Long-term Rating refers to Long-term Issuer Rating in principle.

▼ Overview

Hungary is a medium-sized economy in Central and Eastern Europe (CEE) with a population of 9.5 million in January 2025. Its nominal GDP and per capita GDP (in ppp terms) were approximately USD 213.9 billion and USD 46,284, respectively, in 2023. Following its economic transition in the early 1990s, the country joined NATO in 1999 and the EU in 2004. It gained access to the EU's single market and used EU subsidies to improve its social infrastructure and establish itself as a manufacturing center within the EU. In recent years, massive greenfield investments, particularly in electric vehicles (EVs), have contributed to the country's economic growth. In terms of public finances, the government had worked to reduce the budget deficit by increasing revenues, and the deficit was kept at less than 3% of GDP from 2012 to 2019. However, the deficit widened due to economic measures taken in response to the spread of the COVID-19 pandemic, and the country is currently working to restore fiscal soundness under the EU's Excessive Deficit Procedure (EDP).

▼ Socio-political condition and economic policy

Hungary’s socio-political condition is stable, with political, economic, and financial systems largely compliant with the EU standards. The Orbán administration has maintained a solid political base for many years. In the April 2010 general elections, a coalition of the conservative right-wing Hungarian Civic Union (Fidesz) and the Christian Democratic National Party (KNDP) won two thirds of all parliamentary seats, inaugurating the second Orbán government after first one in 1998. In the general elections held in 2014, 2018, and 2022, the alliance retained its two-third majority, allowing Prime Minister Orbán to remain in power for four consecutive terms. In the European Parliament election held in June 2024, the ruling coalition retained the majority while the center-right Tisza (Respect and Freedom) party gained a significant number of seats. With the next general elections scheduled in 2026, Tisza’s future support ratio should be closely watched.

Despite occasional political confrontations with the EU, Hungary has maintained cooperative relations with the EU, which has expressed concerns about Hungary's democracy and rule of law in relation to the new constitution (Hungarian Basic Law), electoral reform, and judicial reform that the country has been implementing since 2010. At present, access to EU funds is partially restricted in relation to the "rule of law" conditions, and there are also frictions over immigration policy and support measures for Ukraine. JCR believes that EU funds are important for the country’s further economic development and follows how the government will find a way out of the current situation.

On the economic front, Hungary is currently highly dependent on exports to the EU, but Prime Minister Orbán is working to establish strategic relationships with Russia and China to achieve economic neutrality without excessive dependence on any single country. The country is stepping up its efforts to attract investment in the automotive, battery, information and telecommunications sectors, and investment from China and South Korea, is increasing in addition to those from Germany and other EU countries. Investment related to EV batteries has been continuing and the operation of those new facilities is expected to promote economic growth. In terms of energy strategy, the country is working to expand its energy sources, diversifying its natural gas procurement routes and increasing renewable energy capacity, particularly solar power generation.

▼ Economic base

Factors such as access to the EU market, a high level of education, a skilled workforce and relatively low labor costs as well as the development of infrastructure and logistics have attracted foreign companies to set up production facilities in Hungary. Manufacturing accounts for about 16% of GDP, and the automotive industry is one of the main industries. The economy is highly export-oriented, with 76% of goods exports bound for other EU countries. It has strong ties with the German economy, which accounts for 25% of Hungarian exports. Investments in EV battery-related industries have been progressing in recent years, with an increasing number of new factories being built by companies from South Korea and China in addition to European companies. While concerns persist over the impact of the economic downturn in Germany and the U.S. tariff policy, Hungary has already established its solid foundation as a manufacturing base within the EU.

In terms of energy policy, the country's National Energy Strategy 2030 aims to improve the security, sustainability and competitiveness of its energy supply by 2030 and achieve climate neutrality by 2050. The country's energy import dependency rate is over 60%, and fossil fuels account for about 65% of its energy consumption, with natural gas imports from Russia accounting for about 75% of the total gas use. As a result, consumer prices and the trade balance can be easily affected by energy prices. As consumer prices spiked and the trade balance deteriorated after Russia's invasion of Ukraine, the country is reducing its dependence on the route through Ukraine by transporting Russian gas through Serbia and is also working to diversify its natural gas supply sources by expanding supplies from other countries such as Croatia and Azerbaijan. Nuclear power is the largest source of electricity at 45%. The country plans to increase the share of renewable energy in final energy consumption to at least 21% and is rapidly expanding its solar power generation capacity.

▼ Current economic condition and outlook

The Hungarian economy slipped into a 0.8% contraction in real GDP terms in 2023. The Russian invasion of Ukraine led to a sharp rise in energy and food prices, with the inflation rate turning one of the highest among European countries from 2022 to the first half of 2023. Investment slowed as the Hungarian National Bank (MNB) raised its policy interest rate to curb inflation, with consumer spending slumping as real wages fell due to inflation.

The economy was estimated to grow a modest 0.5% in real GDP terms in 2024. Consumer spending recovered on a rise in real wages as inflation subsided. However, capital investment was sluggish due to uncertain external environment and to the government's efforts to improve public finances, which led to a postponement of public investment to curb spending, and a delay in the disbursement of part of EU funds. Exports were also bleak due to the economic slowdown in export destinations, particularly Germany.

The economy is expected to stay on a moderate growth path in 2025, led by private consumption. However, uncertainties over consumer price trends, economic conditions in export destinations and the impact of the U.S. tariff policy need to be watched. There have been signs of rising energy and food prices in early 2025, and private consumption can be adversely affected depending on future price trends. While Hungary's direct trade with the U.S. is limited, it is an important export destination for Hungary’s trade partners such as Germany, and an indirect impact of the U.S. tariff policy is considered significant. Automobiles are one of Hungary's major industries. On the other hand, an improvement on the situation in Ukraine is highly likely to be positive for the Hungarian economy.

▼ Financial system

The country’s financial system remains stable, and banks have sufficient risk reserves. As of December 2024, the banking sector’s capital adequacy ratio and Tier 1 capital ratio stood highly sound at 20.1% and 18.2%, respectively. Its liquidity coverage ratio as of the same date was 209%, indicating that banks kept sufficient liquidity, and ROA was 2.1%, showing that their profitability was also at a high level. The ratio of Stage 2 loans was relatively high at 15.3%, but the nonperforming loan ratio continued to be kept lower at 2.3%. While there are concerns about rising vacancy rates in the commercial real estate business, the ratio of commercial real estate projects to equity capital has fallen significantly compared to the previous financial crisis. The NPL ratio in commercial real estate projects is not particularly high.

▼ Resilience to external shocks

Hungary's current account balance stayed in surplus from 2010 to 2018 on increased exports of automobiles and other products. The balance turned into deficit from 2019 to 2022. The spread of the COVID-19 pandemic had an impact on the services balance such as the travel account, and the trade balance deteriorated due mainly to a sharp rise in the price of energy, which is highly dependent on imports. The current account balance has recovered surplus since 2023 as the trade balance improved on fallen energy prices. At present, goods exports stay bleak due to the impact of the economic slowdown in export destinations. However, the current account surplus is expected to be maintained in the future, supported by a surplus in the services balance.

The country's external position on an IIP basis has been improving over the long term. Looking at the trend of the net external debt by sector, a decline in the private sector is particularly notable. Access to some EU funds is limited due to the lack of recognition of Hungary's conformity to meet some of the "rule of law" conditions required for disbursement. Although economic growth can be deterred by delays in projects that utilize these funds, the country's foreign exchange reserves and external debt-GDP ratio stay stable, showing no significant changes in its resilience to external shocks. The Hungarian forint has continued to fall against the euro. The Hungarian economy has been significantly affected by the rapid changes in the economic environment since Russia's invasion of Ukraine. Most recently, concerns about resurgence of inflation and the impact of the U.S. tariff policy are thought to be putting pressure on the currency to fall. While the weakening of the currency is positive for the export industry, the fact that it is pushing up the amount of foreign currency-denominated borrowing is a cause for concern.

▼ Fiscal base

The general government fiscal deficit (ESA 2010) was kept below 3% of GDP and the government debt-GDP ratio was reduced from FY2012 to FY2019. The debt structure also improved as the government ramped up funding in local currency from households and banks, sharply reducing the ratios of debt owed to nonresidents and foreign currency-denominated debt to the total. However, the fiscal deficit widened to 7.5% in FY2020, and the debt rose to 78.7% at the end of the year due to the large-scale economic stimulus measures implemented after the spread of the pandemic and a slower growth of tax revenues. The government has been working to improve the primary balance through fiscal tightening since 2021. As a result, the fiscal deficit in FY2024 is seen to have narrowed to 4.9% of GDP (6.7% in FY2023), with the government debt at the end of the year 73.5% (73.0% in FY2023). The tax system changes and the postponement of public investment implemented in the summer of 2024 contributed to the improvement. On the other hand, the upper limit on the foreign currency-denominated borrowing ratio was raised from 25% to 30% in 2023 and the depreciation of the forint pushed up the amount of foreign currency-denominated borrowing. Hungary holds on to its commitment to aim for fiscal consolidation and is also subject to the EU's EDP. JCR holds that its debt-to-GDP ratio will decline over the medium term as the country gradually reduces its budget deficit in line with the EU fiscal rules.

▼ Overall assessment and outlook

The ratings on Hungary are mainly supported by the country's well developed and export-led economic structure, and resilient banking system. On the other hand, they remain constrained by its susceptibility to external factors such as economic trends in its export destinations.

The outlook for the ratings is stable. While there are negative factors such as concerns about rising prices, the impact of tariff policy under the Trump administration, and economic stagnation in major export destinations, there are also positive factors such as expectations of a ceasefire in the Ukraine conflict. JCR will continue to monitor future developments.

If the government debt and budget deficit, which have deteriorated since the spread of the pandemic, are significantly improved and if prices and economic growth are appropriately controlled, that will be a positive factor for future ratings.

On the other hand, if the resurgence of inflation and the U.S. tariff policy have a negative impact on the economy and public finances in the medium to long term, that will put downward pressure on the ratings.

Atsushi Masuda・ Masato Hotta

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Selected Economic and Fiscal indicators

		2019	2020	2021	2022	2023
Nominal GDP	USD billion	164.9	158.5	183.2	177.3	213.9
Population (1 Jan)	million	9.7	9.7	9.7	9.6	9.6
Per capita GDP(PPP)	USD	35,627	35,584	39,216	43,881	46,284
Real GDP growth rate	%	5.1	-4.3	7.2	4.3	-0.8
CPI inflation	%	3.4	3.3	5.1	14.5	17.6
Unemployment rate	%	3.3	4.1	4.0	3.6	4.1
General government revenues/GDP	%	43.8	43.5	41.0	42.5	42.4
General government expenditures/GDP	%	45.8	51.0	48.1	48.7	49.2
General government balance/GDP	%	-2.0	-7.5	-7.1	-6.2	-6.7
General government debts/GDP	%	65.0	78.7	76.2	73.9	73.0
Current account balance/GDP	%	-0.6	-0.9	-4.1	-8.5	0.3
External debts/GDP	%	73.0	80.7	86.4	91.9	86.3
External debts/Export G&S	%	90.0	103.3	108.8	102.9	106.1
International reserves/Monthly import G&S	Times	2.9	3.8	3.7	2.9	3.3
International reserves/Short-term external debts	Times	2.2	1.9	1.5	1.3	1.5

* Figures for the most recent period could be indicators based on preliminary figures.

(Source) Hungarian Statistical Office, National Bank of Hungary, and Eurostat

Ratings

	Rating	Outlook*	Amount	Currency	Rate (%)	Issue Date	Maturity Date	Release
Foreign Currency Long-term Issuer Rating	A-	Stable	-	-	-	-	-	2025.03.26
Local Currency Long-term Issuer Rating	A	Stable	-	-	-	-	-	2025.03.26
Japanese Yen Bonds-Eighth Series(2020)	A-	-	20,000	JPY	0.74	2020.09.18	2025.09.18	2025.03.26
Japanese Yen Bonds-Third Series(2022)(Green Bonds)	A-	-	46,800	JPY	0.73	2022.02.25	2027.02.25	2025.03.26
Japanese Yen Bonds-Tenth Series(2024)	A-	-	38,300	JPY	1.6	2024.09.12	2027.09.10	2025.03.26
Japanese Yen Bonds-First Series(2020)(Green Bonds)	A-	-	15,500	JPY	1.03	2020.09.18	2027.09.17	2025.03.26
Japanese Yen Bonds-Fourth Series(2022)(Green Bonds)	A-	-	4,700	JPY	0.91	2022.02.25	2029.02.22	2025.03.26
Japanese Yen Bonds-Second Series(2020)(Green Bonds)	A-	-	4,500	JPY	1.29	2020.09.18	2030.09.18	2025.03.26
Japanese Yen Bonds-Fifth Series(2022)(Green Bonds)	A-	-	7,800	JPY	1.15	2022.02.25	2032.02.25	2025.03.26
Japanese Yen Bonds-Sixth Series(2024)(Green Bonds)	A-	-	1,300	JPY	2.35	2024.09.12	2034.09.12	2025.03.26

History of Long-term Issuer Rating (Long-term Issuer Rating or its equivalent)

Date	Rating	Outlook*	Issuer
1996.08.02	BBB+	-	Hungary
1999.11.25	A-	-	Hungary
2003.05.16	A	Stable	Hungary
2006.10.04	A-	Stable	Hungary
2008.10.21	#A-	Negative	Hungary
2008.12.18	BBB+	Negative	Hungary
2010.03.05	BBB+	Stable	Hungary
2011.03.31	BBB+	Negative	Hungary
2012.04.03	BBB	Negative	Hungary
2014.03.18	BBB	Stable	Hungary
2016.02.17	BBB	Positive	Hungary
2017.02.21	BBB+	Stable	Hungary
2019.03.27	BBB+	Positive	Hungary
2020.02.21	A-	Stable	Hungary

*Outlook for long-term issuer rating, or direction in case of Credit Monitor

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