GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

ÁKK

DEBT MANAGEMENT OUTLOOK

2024

Budapest, December 2023

Contents

- **Net financing requirements in 2024**

The **deficit of the central government calculated on cash flow basis is planned at HUF 2,515 billion**. The total cash-flow based net financing requirement for the year 2024 is equal to the deficit of the central government and other items, such as the balance of EU transfers. These other financing needs are considered items that are to be managed by liquidity management (e.g. with discount T-bills issuance).

- **Government debt redemptions**

The total amount of government debt redemptions and pre-financing in 2024 is planned at **HUF 7,630 billion**, out of which HUF 742 billion is the pre-financing of the coming years (planned domestic bond switches and buybacks). The maturity of government debt – excluding pre-financing – will amount to HUF 6,888 billion.[1]

	2024 plan (HUF bn)	2024 plan (EUR bn)
HUF debt maturities	6,097	15.7
Hungarian Government Bonds (HGB)	2,031	5.2
Retail securities	2,170	5.6
Discount T-bills	1,825	4.7
HUF loans	72	0.2
FX debt redemptions	792	2.04
International bonds and ECP	704	1.82
IFI and other loans	62	0.16
Domestic bonds	26	0.07
Total maturities	6,888	17.8
Switch auctions	442	1.1
FX bond buybacks	300	0.8
Total pre-financing	742	1.9
Total redemptions including pre-financing	7,630	19.7

The redemptions of HUF debt will amount to HUF 6,097 billion, less than is 2023 due to the smaller retail government security redemption. FX debt maturities will amount to HUF 792 billion (EUR 2.0 billion). ÁKK will maintain active debt management, therefore switch auctions with a HUF 442 billion volume and domestic bond buybacks with HUF 300 billion are planned in 2024.

Hungarian Government Bond redemptions will amount to HUF 2,031 billion (including the redemptions of the Hungarian Government Bond for local authorities), discount T-bill redemptions will amount to HUF 1,825 billion. The high maturities of discount T-bills is a result of purchases by households in 2023 exceeding the plan. Large part of the domestic debt redemptions, HUF 2,170 billion is the redemption of retail securities, but the retail sector usually reinvests its maturing holdings and even increases the outstanding stock of retail securities. The redemption of HUF denominated IFIs loans will amount to HUF 72 billion.
FX debt redemptions will total **EUR 2.0 billion** (HUF 792 billion), out of which international bond redemptions and ECP maturities will amount to EUR 1.8 billion, domestic bond

[1] ÁKK provides gross issuance and redemption data according to the methodology recommended by OECD, which takes redemptions of short-term securities - typically Treasury bills - only once into account to avoid multiple counting.

redemptions will amount to EUR 0.07 billion, while the redemption of IFIs loans will amount to EUR 0.16 billion.

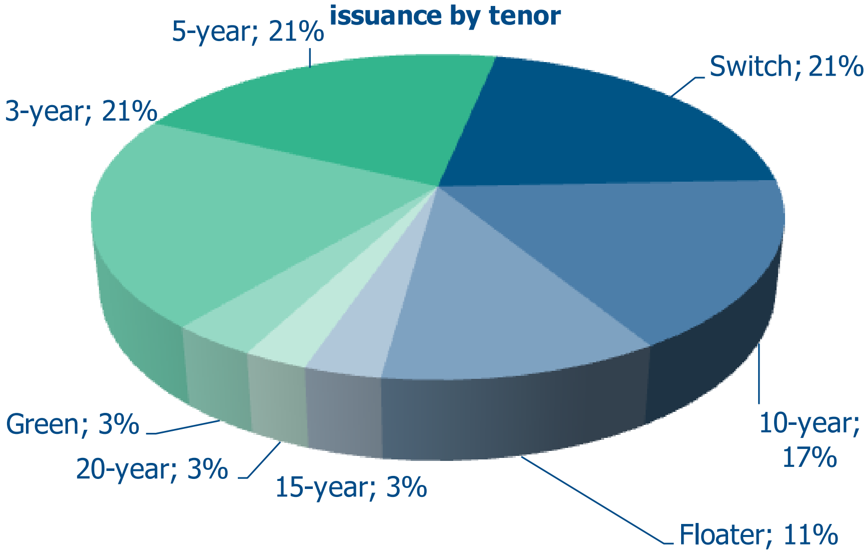
- **Gross issuance**

Total gross issuance is planned at **HUF 10,273 billion** in 2024, out of which 75 per cent (**HUF 7,694 billion**) in HUF and 25 per cent (**HUF 2,579 billion** or EUR 6.7 billion) in FX.

	2024 plan (HUF bn)	2024 plan (EUR bn)
Domestic issuance	7,694	19.9
T-bonds	1,872	4.8
Switch auction	500	1.3
T-bonds for local authorities	100	0.3
Retail securities	4,298	11.1
Discount T-bills	924	2.4
HUF loans	0	0.0
FX issuance	2,579	6.7
International bonds and ECP	1,489	3.8
IFIs and other loans	961	2.5
Other FX borrowing (e.g. domestic Bonds)	130	0.3
Grand total	10,273	26.5

HUF 1,872 billion worth of domestic currency government bonds will be offered at auctions (including non-competitive sales and the issuance of green bonds) and the plan contains HUF 100 billion issuance of Municipal HGBs. In addition HUF 500 billion of bonds is expected to be sold at switch auctions. Hungary's Green Bond Programme is going to continue in 2024 with a planned volume of HUF 80 billion of the 10- and 30-year tenors.

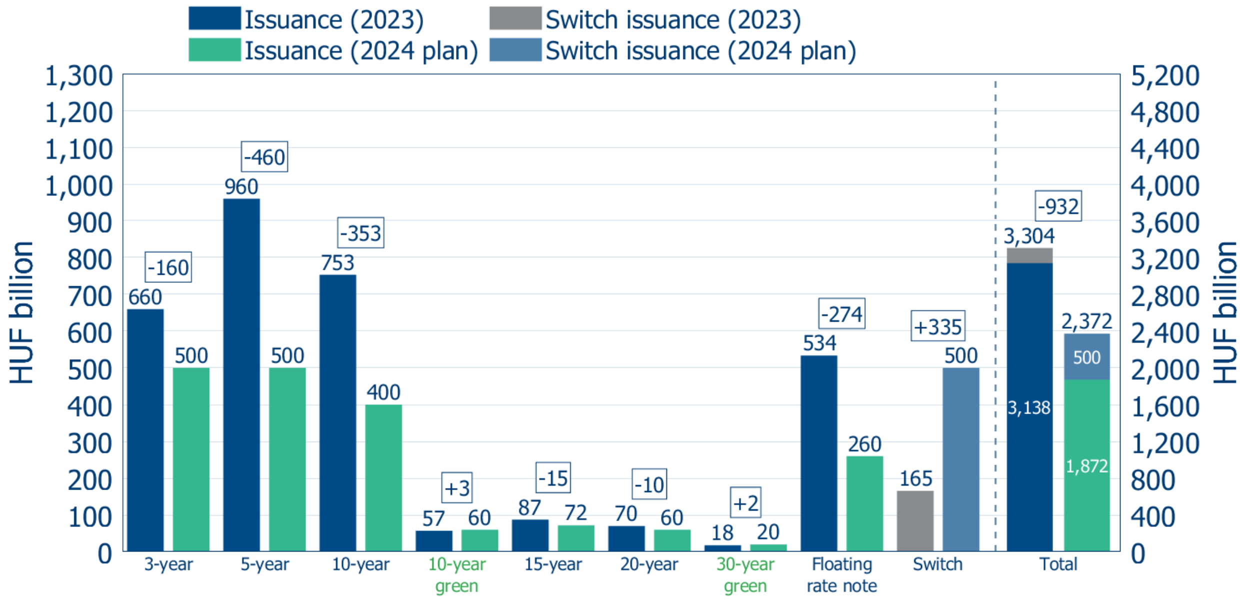
Breakdown of the gross domestic government bond issuance by tenor



ÁKK will hold fixed rate bond auctions biweekly, the 3-, 5- and 10-year tenor bonds will be offered at the biweekly auctions. The floating rate bond will be offered every four weeks, while the 15- and 20-year bonds as well as the 10-year green bond will be offered every four weeks alternately. ÁKK intends to issue the 30-year green bond only twice in 2024. The average term-to-maturity of HGB issuances is expected to increase slightly to 7 years.

With the aim of improving HGB market and easing the price quoting for Primary Dealers ÁKK intends to decrease the number of outstanding government bond series. Taking this into consideration ÁKK will continue to issue the bond series sold already in 2023 at auctions in almost every tenor. In case of the 10-year tenor ÁKK will offer the bond series (2035/A) introduced and sold through switch auctions in 2023. ÁKK will continue to sell 3-, 6- and 12-month discount T-bills in 2024, but the aim of ÁKK is to develop the T-Bill market adapting more flexibly to market demand to improve market liquidity.

In order to reduce the maturity peaks of 2025 and 2026, ÁKK will continue its switch auction programme re-launched in 2023 with a volume of HUF 500 billion and with flexible conditions.



Source: ÁKK; Note: Expected 2023 and planned 2024 values

ÁKK plans to issue an international USD bond with a volume of up-to USD 2 billion and a benchmark-sized green EUR bond in case of favourable market conditions in the first half of 2024. In addition with the aim of further strengthening market participation in Asian markets ÁKK intends to issue in the Samurai and Panda market in the second half of 2024, while issuance within the ECP program is possible for 2024 as well. The financing plan contains a drawdown of EUR 2.5 billion foreign currency denominated project loans, but ÁKK will decide the denomination (domestic currency or foreign currency) before the drawdown taking relative costs and benchmarks into consideration. Other foreign currency denominated borrowing (e.g. retail bonds) will amount to EUR 0.3 billion.

- **Net issuance**

Net government debt issuance is planned in an amount of **HUF 2,643 billion**, out of which net domestic debt issuance will reach **HUF 856 billion** and net foreign currency borrowing will amount to **HUF 1,787 billion** (EUR 4.6 billion).

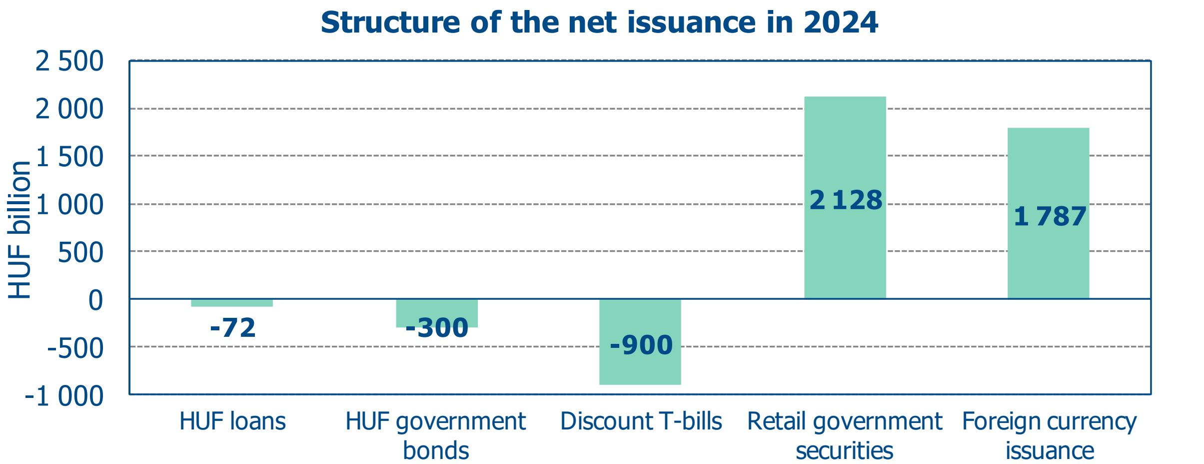
Out of the net domestic debt issuance **net government bond issuance will be HUF -300 billion.** In order to reduce the refinancing risk and to increase the average maturity of the debt ÁKK plans to continue the switch auction programme with a planned volume of HUF 500 billion, and ÁKK intends to buy back HUF 300 billion domestic bond maturing in 2025 and 2026 from the market in 2024.

The stock of HUF denominated retail government securities is expected to increase by HUF 2128 billion. Reacting to the increased yields retail investors bought large amount of short term discount T-bills in 2023. ÁKK expects that they will renew a large part of their maturing discount T-bill investments in retail government securities in 2024. Taking into account the increase of outstanding stock of retail securities held by households and the expected decrease of discount T-bills held by households (totaling HUF 600 billion), the HUF financing of the household sector is expected to amount to HUF 1528 billion. Together with the planned foreign currency denominated retail security issuance of HUF 104 billion, **the total financing of the household sector will amount to HUF 1632 billion (2 percent of the GDP)**, slightly above the interest revenue of households receiving from government securities in 2024. In order to achieve this, ÁKK plans the following measures based on the adopted Retail Government Securities Strategy:

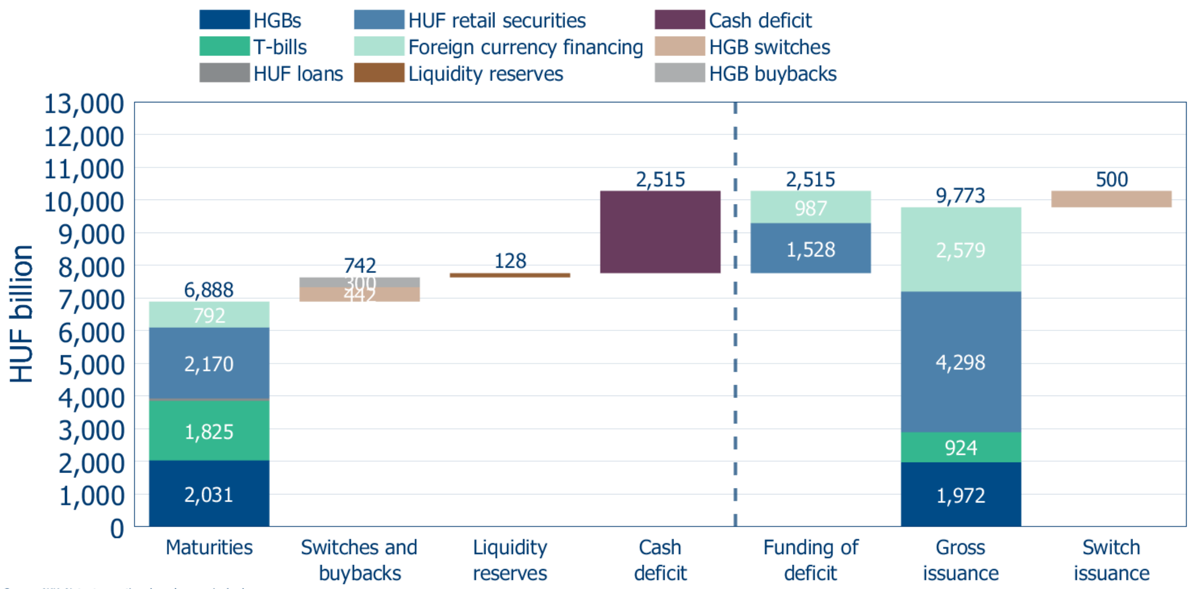
- Increasing the number of active customers with securities accounts and the share of digital sales channels by the Hungarian State Treasury.
- The introduction of a new 3-year fixed interest rate 'Fix Hungarian Government Security' as well as a 5-year Bonus Hungarian Government Security with a loyalty premium. Re-pricing of the Hungarian Government Security Plus from June and the discontinuation of the 1-year Hungarian Government Security.
- Use of sales caps for every retail security in order to further mitigate wealth concentration risk.

According to the plan the stock of discount T-bills will decrease by HUF 600 billion as a result of re-investing maturing stock held by households into retail government bonds. The net issuance of discount T-bills held by institutional investors is expected to decrease by HUF 300 billion, thus the outstanding stock of discount T-bills will amount to HUF 924 billion at the end of 2024. The reduced Discount T-bill stock, however provides room for liquidity management purposes.

Net issuance of HUF loans will be HUF -72 billion as a result of redemptions. ÁKK would take the relative costs of foreign and domestic currency denominated financing and the benchmarks into consideration when deciding on the actual currency denomination before the drawdowns.



As the total foreign currency redemption will amount to EUR 2.0 billion (including ECP) and the gross foreign currency issuance is planned at EUR 6.7 billion, thus **the net foreign currency issuance is expected to amount to EUR 4.6 billion (HUF 1787 billion) in 2024**. Out of the net foreign currency issuance EUR 0.3 billion (HUF 104 billion) is the net issuance of retail government securities. Out of the HUF 1787 billion net FX issuance and borrowing HUF 987 billion covers the funding need of the budget (the other part of the deficit is covered by the domestic currency denominated retail issuance of HUF 1528 billion), while the other part of net FX issuance finances the redemptions of HUF loans and the negative net issuance of government securities held by institutional investors.



Source: AKK; Note: transactions based on nominal values

• Debt management strategy and benchmarks

ÁKK's mission is to finance the central government at the lowest costs in the long run, taking account of risks. In accordance with the economic policy of the government ÁKK has set the following main objectives:

1. According to the fundamental law of Hungary if the public debt to GDP ratio is higher than 50 percent, only such a budget can be approved, which leads to the reduction of the debt ratio year by year. **The primary objective of debt management is to support the reduction of the debt ratio** accordingly.

2. The second objective of ÁKK is to broaden the investor base to improve its stability. The possible measures:

    a. **Enhance the wholesale government bond market** via flexible issuance policy, transparent primary dealer system and improving the institutional domestic investor base.

    b. **Broaden the domestic investor base** by increasing the customer base and supporting retail sales in line with the Retail Government Securities Strategy.

    c. **Actively manage the FX debt ratio** within defined limits, maintaining the necessary market presence.

3. The third objective of debt management is to gradually **increase the average term-to-maturity (ATM) of the public debt** in line with the prevailing market conditions in the long term. In international comparison the average term-to-maturity of the Hungarian debt is still low, (however increasing). ÁKK makes efforts to improve the maturity structure of the public debt, reduce the refinancing risk by increasing the ATM of the debt portfolio in the long term. Considering the decreasing yields it is possible to continue the lengthening of the maturity of the debt.

4. The fourth objective is to **maintain and improve the market presence in ESG market and to diversify the funding sources**.

The mission of Hungary's government debt management is quantified by setting portfolio benchmarks, which are mainly based on a general optimal portfolio model taking into account both costs and risks. ÁKK has changed not only the limits, but also the methodology in some case. The following benchmark targets are determined for government debt management in 2024:

- ***Share of foreign currency debt:*** The share of the foreign currency denominated debt within the total central government debt should be below 30%. The **single upper bound of 30%** allows the debt management to increase the optionality and room for maneuver of financing strategy.

- ***Currency mix of the foreign currency denominated debt:*** In order to mitigate cross-currency exchange rate risk, foreign currency obligations after swaps should be 100% in EUR, allowing for a 5% deviation from this target.

- ***Fixed / floater composition:*** Within the total debt, the share of the fixed rate elements should be in the range of 60-80%, and that of the floating rate debt, which includes all short-term debt, between 20% and 40%.

- ***Average Time to Re-fixing (ATR):*** ÁKK measures the re-pricing (interest rate) risk with the common ATR indicator. In order to keep an acceptable level of refinancing risk, the ATR of the total debt portfolio is targeted to be above 4 years. In case of adequate demand, ÁKK can increase the ATR.

- ***Average Term to Maturity (ATM):*** To reduce the refinancing risk the average term to maturity of total debt should be above 5.5 years. In case of adequate demand, ÁKK can increase the ATM of the public debt portfolio.

- ***Share of retail government securities held by households:*** The share of retail government securities held by households within the total debt should be between 20% and 25% in 2024.

- ***Liquidity:*** In order to maintain the continuously safe financing of the budget, a minimum target balance of the Treasury Single Account has been determined and ÁKK's objective is to keep the end-of-day actual balance over this level.

In case of the first six benchmark values that determine the structure of the debt ÁKK takes into account their 3-month moving average values, to avoid unnecessary reactions to one-off or temporary market movements that actually would not need a response in the medium or longer term. The benchmark targets do not change from 2023 to 2024.

To maintain a safe level of liquidity reserves and access to several financing channels also remain the emphasized goals of financing in 2024. The ESG strategy aims to broaden the investor base, to strengthen market presence with green bond issuances in 2024 and to consider new ESG-themed issuances based on the market environment and best market practices.

6. Further information

This Debt Management Outlook publication was compiled based on information available in the end of November 2023. Thus the projected figures for 2024 may change according to the outturn of the financing needs and debt issuances. Even though the structure of financing may change compared to the plans, ÁKK will not change its strategic objectives and its strategic behaviour in the markets either.

ÁKK's website (www.akk.hu, www.gdma.hu) and its regular publications and reports (monthly and quarterly publications; monthly report on debt transactions) provide regularly updated information on the financing needs, the debt transactions and the government debt. ÁKK also discloses until the 15th of each month the detailed domestic market issuance plan for the next 3 months, which shows the amounts to be issued for each tenor.

7. Issuance calendar

Issuance calendar of government bonds in 2024

Fixed rate government bonds

Tenor	Date of auction	Date of settlement
3,5,10-year	11.01.2024	17.01.2024
	18.01.2024	24.01.2024
3,5,10-year	25.01.2024	31.01.2024
3,5,10-year	08.02.2024	14.02.2024
	15.02.2024	21.02.2024
3,5,10-year	22.02.2024	28.02.2024
3,5,10-year	07.03.2024	13.03.2024
	14.03.2024	20.03.2024
3,5,10-year	21.03.2024	27.03.2024
3,5,10-year	04.04.2024	10.04.2024
	11.04.2024	17.04.2024
3,5,10-year	18.04.2024	24.04.2024
3,5,10-year	02.05.2024	08.05.2024
	09.05.2024	15.05.2024
3,5,10-year	16.05.2024	22.05.2024
3,5,10-year	30.05.2024	05.06.2024
	06.06.2024	12.06.2024
3,5,10-year	13.06.2024	19.06.2024
3,5,10-year	27.06.2024	03.07.2024
	04.07.2024	10.07.2024
3,5,10-year	11.07.2024	17.07.2024
3,5,10-year	25.07.2024	31.07.2024
	01.08.2024	07.08.2024
3,5,10-year	08.08.2024	14.08.2024
3,5,10-year	22.08.2024	28.08.2024
	29.08.2024	04.09.2024
3,5,10-year	05.09.2024	11.09.2024
3,5,10-year	19.09.2024	25.09.2024
	26.09.2024	02.10.2024
3,5,10-year	03.10.2024	09.10.2024
3,5,10-year	17.10.2024	24.10.2024
	24.10.2024	30.10.2024
3,5,10-year	31.10.2024	06.11.2024
3,5,10-year	14.11.2024	20.11.2024
	21.11.2024	27.11.2024
3,5,10-year	28.11.2024	04.12.2024
3,5,10-year	12.12.2024	18.12.2024

Floating rate government bonds

Date of auction	Date of settlement
04.01.2024	10.01.2024
01.02.2024	07.02.2024
29.02.2024	06.03.2024
28.03.2024	03.04.2024
25.04.2024	02.05.2024
23.05.2024	29.05.2024
20.06.2024	26.06.2024
18.07.2024	24.07.2024
15.08.2024	21.08.2024
12.09.2024	18.09.2024
10.10.2024	16.10.2024
07.11.2024	13.11.2024
05.12.2024	11.12.2024

12-month discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D241227	04.01.2024	10.01.2024	27.12.2024
D241227	18.01.2024	24.01.2024	27.12.2024
D241227	01.02.2024	07.02.2024	27.12.2024
D250219	15.02.2024	21.02.2024	19.02.2025
D250219	29.02.2024	06.03.2024	19.02.2025
D250219	14.03.2024	20.03.2024	19.02.2025
D250219	28.03.2024	03.04.2024	19.02.2025
D250219	11.04.2024	17.04.2024	19.02.2025
D250430	25.04.2024	30.04.2024	30.04.2025
D250430	09.05.2024	15.05.2024	30.04.2025
D250430	23.05.2024	29.05.2024	30.04.2025
D250430	06.06.2024	12.06.2024	30.04.2025
D250625	20.06.2024	26.06.2024	25.06.2025
D250625	04.07.2024	10.07.2024	25.06.2025
D250625	18.07.2024	24.07.2024	25.06.2025
D250625	01.08.2024	07.08.2024	25.06.2025
D250821	15.08.2024	21.08.2024	21.08.2025
D250821	29.08.2024	04.09.2024	21.08.2025
D250821	12.09.2024	18.09.2024	21.08.2025
D250821	26.09.2024	02.10.2024	21.08.2025
D250821	10.10.2024	16.10.2024	21.08.2025
D251029	24.10.2024	30.10.2024	29.10.2025
D251029	07.11.2024	13.11.2024	29.10.2025
D251029	21.11.2024	27.11.2024	29.10.2025
D251029	05.12.2024	11.12.2024	29.10.2025
D251223	19.12.2024	27.12.2024	23.12.2025

6-month discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D240626	03.01.2024	10.01.2024	26.06.2024
D240821	17.01.2024	24.01.2024	21.08.2024
D240821	31.01.2024	07.02.2024	21.08.2024
D240821	14.02.2024	21.02.2024	21.08.2024
D240821	28.02.2024	06.03.2024	21.08.2024
D241030	13.03.2024	20.03.2024	30.10.2024
D241030	27.03.2024	03.04.2024	30.10.2024
D241030	10.04.2024	17.04.2024	30.10.2024
D241030	24.04.2024	30.04.2024	30.10.2024
D241227	08.05.2024	15.05.2024	27.12.2024
D241227	22.05.2024	29.05.2024	27.12.2024
D241227	05.06.2024	12.06.2024	27.12.2024
D241227	19.06.2024	26.06.2024	27.12.2024
D241227	03.07.2024	10.07.2024	27.12.2024
D250219	17.07.2024	24.07.2024	19.02.2025
D250219	31.07.2024	07.08.2024	19.02.2025
D250219	14.08.2024	21.08.2024	19.02.2025
D250219	28.08.2024	04.09.2024	19.02.2025
D250430	11.09.2024	18.09.2024	30.04.2025
D250430	25.09.2024	02.10.2024	30.04.2025
D250430	09.10.2024	16.10.2024	30.04.2025
D250430	22.10.2024	30.10.2024	30.04.2025
D250625	06.11.2024	13.11.2024	25.06.2025
D250625	20.11.2024	27.11.2024	25.06.2025
D250625	04.12.2024	11.12.2024	25.06.2025
D250625	18.12.2024	27.12.2024	25.06.2025

3-month discount T-bills are auctioned every week, while the 6 and 12-month T-bills are auctioned bi-weekly. Settlement is on the Wednesday of the following week.