GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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DEBT MANAGEMENT OUTLOOK 2021

BUDAPEST, December 2020

Contents

1. Net financing requirements in 2021

The deficit of the central government calculated on **cash flow basis is** planned at **HUF 3332 billion**, equaling to 6,8% of GDP, which is equivalent to 6,5% of GDP with ESA method.

The total cash-flow based net financing requirement for the year 2021 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 handled by liquidity management (e.g. with discount T-bills).

2. Government debt redemptions

The total amount of government debt redemptions and pre-financing in 2021 is planned at **HUF 7,053 billion,** 14.4% of GDP, out of which 4.1% of GDP is the pre-financing of the next years (planned buybacks and switch auctions). The maturities of the government debt – excluding pre-financing – is 10.3% of GDP.[1]

	2021 plan (HUF bn)	2021 plan (EUR bn)	2021 plan (% of GDP)
HUF debt maturities	4,101	11.2	8.4
T-bonds	1,112	3.0	2.3
Retail securities	2,355	6.5	4.8
Discount T-bills	633	1.7	1.3
HUF loans	0	0.0	0.0
FX debt redemptions	935	2.6	1.9
International bonds	571	1.6	1.2
Domestic bonds	218	0.6	0.4
IFI and other loans	146	0.4	0.3
Total maturities	5,036	13.8	10.3
FX and HGB buybacks	556	1.5	1.1
Switch auctions	1,461	4.0	3.0
Total pre-financing	2,017	5.5	4.1
Total redemptions including pre-financing	7,053	19.3	14.4

The redemptions of domestic currency debt will amount to HUF 4,101 billion. Foreign currency debt maturities will amount to HUF 935 billion (EUR 2.6 billion). ÁKK will increase its activity in active debt management, therefore HUF 1461 billion domestic bond exchanges and HUF 556 billion foreign and

[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.

domestic currency denominated bond buybacks are planned in 2021 (the size of foreign and domestic currency bonds may vary flexibly within the total buybacks).

Domestic currency bond redemptions will amount to HUF 1,112 billion, discount T-bill redemptions will amount to HUF 633 billion; the sum of these marketable domestic debt redemptions of HUF 1,745 billion corresponds to 3.6% of GDP. Large part of the domestic debt redemptions is the redemption of retail securities, but the retail sector usually reinvests its maturing holdings and even increases the outstanding stock of retail securities.

Foreign currency debt redemptions will total **EUR 2.6 billion** (HUF 935 billion), out of which international bond redemptions will amount to EUR 1.6 billion, domestic bond redemptions will amount to EUR 0.6, while the redemption of IFI and other loans will amount to EUR 0.4 billion. Large part of the foreign currency debt redemptions is covered by the foreign currency deposits accumulated from the international bond issuances in November 2020 (pre-financing).

In order to reduce future refinancing risk and to increase the average term-to-maturity of the debt, ÁKK plans to buy back foreign and domestic currency denominated bonds (HUF 556 billion) and exchange domestic bonds (HUF 1,461 billion) maturing in later years (pre-financing).

3. Gross issuance

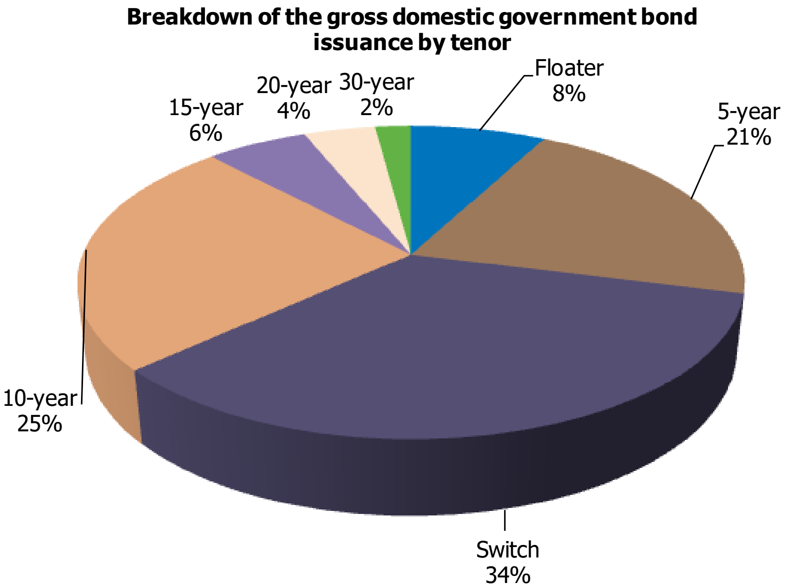
Total gross issuance is planned at **HUF 8,965 billion** in 2021, 94 per cent of the total gross issuance (**HUF 8,421 billion**) will be in domestic currency and only 6 per cent (**HUF 544 billion** or EUR 1.5 billion) will be in foreign currencies.

	2021 plan (HUF bn)	2021 plan (EUR bn)	2021 plan (% of GDP)
Domestic issuance	8,421	23.1	17.2
T-bonds	2,933	8.0	6.0
Switch auction	1,500	4.1	3.1
Retail securities	3,355	9.2	6.9
Discount T-bills	633	1.7	1.3
HUF loans	0	0.0	0.0
FX issuance	544	1.5	1.1
IFIs and other loans	365	1.0	0.7
International bonds	0	0.0	0.0
Other FX borrowing (e.g. domestic Bonds)	179	0.5	0.4
Grand total	8,965	24.6	18.4

HUF 2,870 billion worth of domestic currency government bonds will be offered at auctions (including non-competitive sales) and the plan contains HUF 63 billion issuance of government bond for local authorities. In addition

HUF 1,500 billion of bonds is expected to be sold at switch auctions (a significantly higher volume than executed in the previous years).

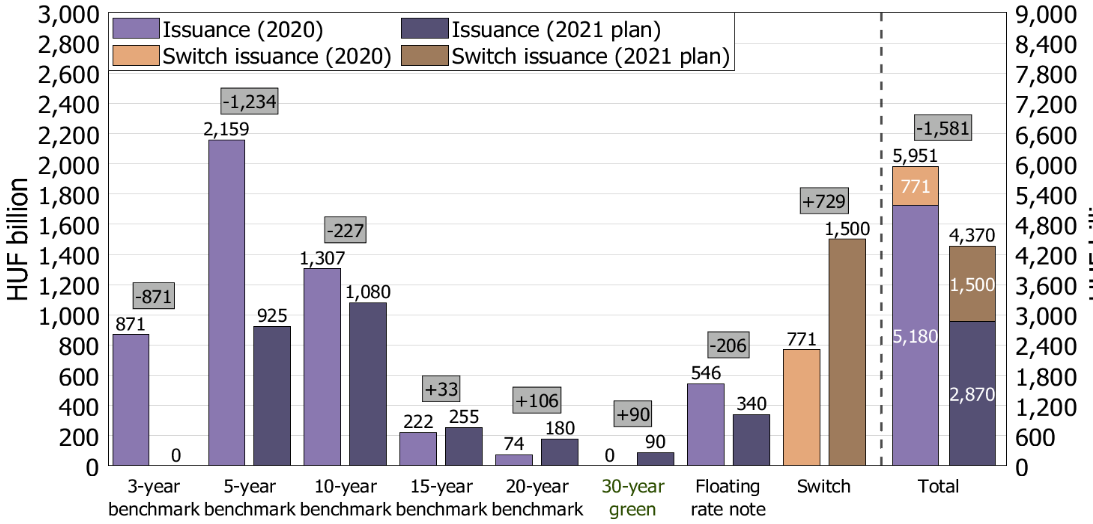
In 2021, ÁKK will change the issuance calendar of auctions with the aim of increasing the average term-to-maturity of the domestic debt portfolio. The breakdown by tenor is expected to move towards longer terms as ÁKK does not intend to issue 3-year T-bond at auction in 2021. Only 5 year and longer bonds will be offered at auctions, including a new, 30-years, HUF denominated green bond as a result of the extension of Hungary's Green Bond program to the domestic government bond market. Domestic and international investors will be entitled to buy the new, 30-year green bond.



ÁKK will launch a new 5-year bond series in Q1 2021, while in the case of 10-year tenor we will offer the government bond series first issued in 2020 via switch auction and maturing in 2033. In the case of the 15-year and 20-year tenor, and the floating rate bond ÁKK will offer the same bond series as in 2020, while ÁKK intends to extend Hungary's Green Bond Program to the domestic government bond market via the issuance of a 30-year green government bond. The regular sale of the 30 year green bond will start from Q2 2021, depending on investors' demand. ÁKK will continue the weekly fixed bond auction schedule in the first quarter of 2021, while from the second quarter fixed rate government bond auctions will be hold biweekly.

	First quarter	Second quarter onwards
3-month T-bill	weekly	weekly
12-month T-bill	biweekly (on Wednesday)	biweekly (on Thursday)
5- and 10-year bond	weekly	biweekly
15- and 20-year bond	biweekly	every four weeks
30-year green bond	-	upon investor demand
Floating rate bond	biweekly (on Wednesday)	biweekly (on Thursday)
Switch auction	biweekly	weekly

ÁKK will hold both bond exchange (switch) and bond-buyback auctions in order to support a balanced government bond issuance pattern as well as to manage the maturity profile and to reduce the refinancing risk of the bond portfolio by extending its average term-to-maturity. In 2021 ÁKK intends to increase its switch auction program to HUF 1,500 billion, therefore from the second quarter switch auctions will be held in every week (more frequently compared to the biweekly switch auction schedule of Q1 2021).



Source: AKK; Note: Expeced 2020 and planned 2021 values

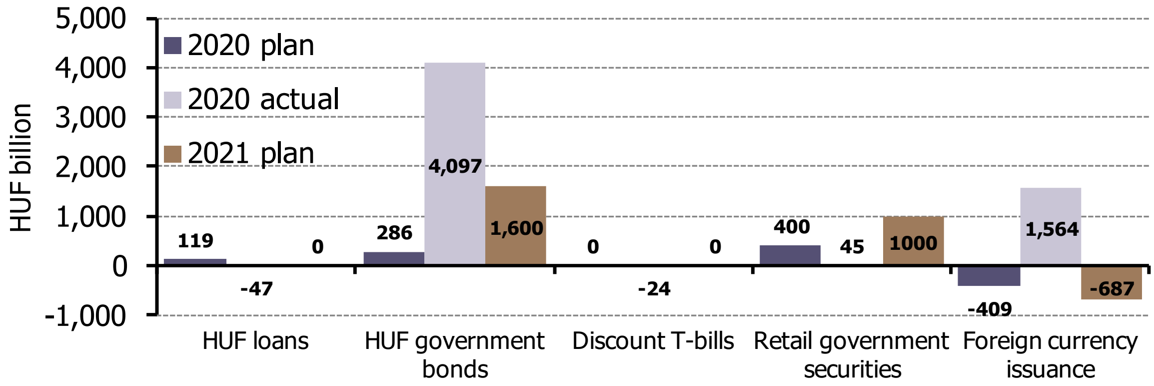
ÁKK pre-financed the international foreign currency bond maturities and a large part of other foreign currency denominated bond redemptions in 2020. The financing plan contains only EUR 1.5 billion equivalent of foreign currency debt issuance in 2021, out of which EUR 1 billion will be foreign currency loans to be drawdown from international financial institutions (e.g. EIB, SURE) and other foreign currency denominated borrowing (e.g. retail bond) will amount to EUR 0.5 billion. Depending on the budget's liquidity position and market conditions ÁKK may continue to follow past years' strategies to actively manage the FX debt stock.

4. Net issuance

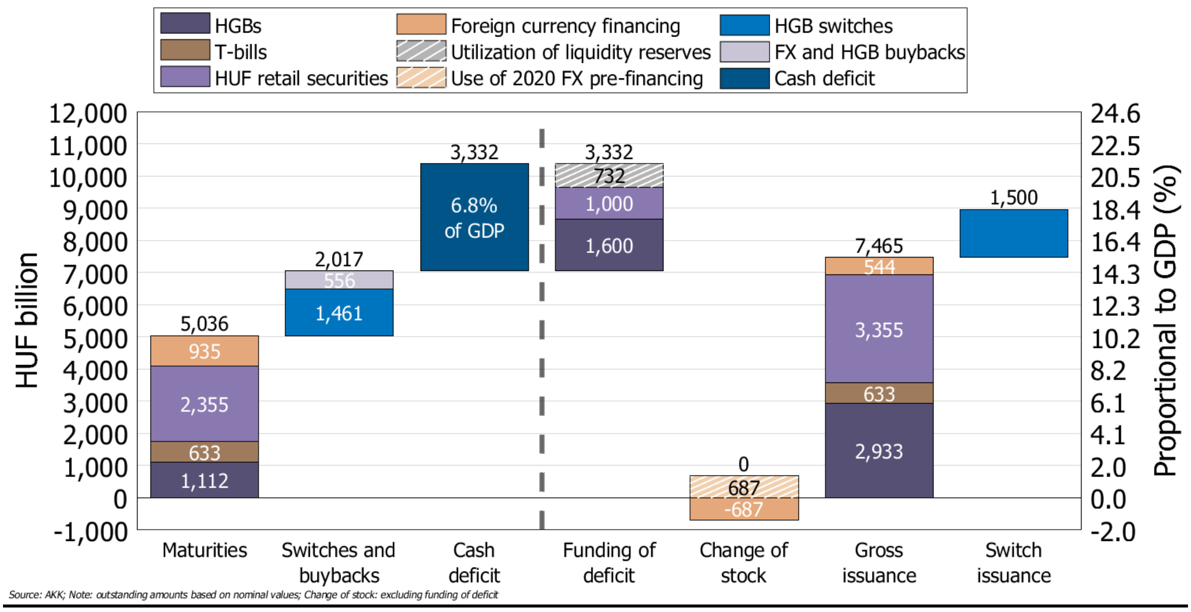
Net government debt issuance is planned in an amount of **HUF 1,913 billion**, out of which net domestic debt issuance will reach **HUF 2,600 billion** and net foreign currency borrowing will amount to **HUF -687 billion** (EUR -1.9 billion). The net financing requirement will be covered via the net domestic issuance and via the utilization of the materially increased liquidity reserves (TSA level), while the negative net foreign currency issuance is covered via the international bonds issued with the aim of pre-financing in November 2020.

Out of the net domestic government securities issuance (HUF 2,600 billion) **net bond issuance will be HUF 1,600 billion**. The **stock of retail government securities is expected to increase by HUF 1,000 billion** as a result of the increase of the outstanding stock of households and the decrease of non-household ownership of retail securities. The dynamic growth of households' demand is supported by the successful Hungarian Government Security Plus bond. ÁKK intends to further extend the average term-to-maturity of the retail portfolio and increase the digital sales of retail debt to the extent possible. According to the plan the stock of discount T-bills will not change in 2021, however, their outstanding volume can be increased rapidly if needed for liquidity management purposes. Net issuance of HUF loans will be zero as there is not any maturing HUF loan in 2021 and ÁKK intends to draw down IFIs and other loans in foreign currency.

Structure of the net issuance in 2021



As the total foreign currency redemption will amount to EUR 2.6 billion (pre-financed to a large extend in 2020), the planned pre-financing (buybacks) of coming years is expected to EUR 0.8 billion, and the gross foreign currency issuance is planned at only EUR 1.5 billion, thus **the net foreign currency issuance is expected to amount to EUR -1.9billion in 2021**.



5. 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. One of the main factors that led to the vulnerability of Hungary in the past was the higher share of the government debt financed from abroad. Domestic savings and the domestic financing of the debt can support macroeconomic stability in the long term. Thus one of the main objectives of ÁKK is to broaden the domestic investor base by funding large part of the deficit via **retail financing**. During the COVID-19 pandemic, however, the retail program slowed down temporary in spring, it picked up again and based on this development ÁKK expects that the outstanding amount of retail government securities held by individuals will increase significantly. Thus, the medium term objective of retail debt (held by households) reaching HUF 11,000 billion by 2023 is maintained.

2. The decreasing debt ratio and the increasing domestic financing enable to **maintain at a low level the share of foreign currency debt** within the total debt.

3. From 2020 ÁKK introduces the objective to **increase the average term-to-maturity (ATM) of the debt**. In international comparison the average term-to-maturity of the Hungarian debt is low, but increasing, and the share of maturing debt within one year is relatively high. ÁKK makes efforts to improve the maturity structure of the debt, reduce the refinancing risk by increasing the ATM of primarily the domestic currency debt.

In recent years the debt to GDP ratio and the share of FX debt decreased significantly due to the prudent fiscal policy and the pursued debt management strategy, however the decrease stopped in 2020 due to the COVID-19 pandemic. The share of FX debt is still favorable in regional comparison, acknowledged also by the major credit rating agencies, which upgraded Hungary to the investment-grade category in 2016 and upgraded Hungary's sovereign debt rating later.

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 determined the following benchmark targets for government debt management in 2021:

- ***Share of foreign currency debt:*** The share of the foreign currency denominated debt within the total central government debt should be in the 10-20% range. The decreasing share of foreign currency debt is achieved by covering the net financing needs in domestic currency.

- ***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 **HUF debt**, the share of the fixed rate elements should be in the range of 70-90%, and that of the floating rate debt, which includes all short-term debt, between 10% and 30%. Within the **foreign currency denominated debt**, the share of the fixed rate elements should be in the same range of 70-90%, and that of floating rate debt between 10% and 30%. This means increase in the case of fixed rate debt compared to 2020.

- ***Average Time to Re-fixing (ATR):*** ÁKK measures the re-pricing (interest rate) risk with the common ATR indicator. ÁKK managed to increase the issuance of long term, fixed rate securities in 2020. In order to keep an acceptable level of refinancing risk, the ATR of the HUF debt portfolio is targeted to be above 4 years (increased from 2020). In case of adequate demand, ÁKK can increase the ATR, without an upper limit.

- ***Average Term to Maturity (ATM):***. To reduce the refinancing risk the average term to maturity of the domestic debt should be above 4.5 years (increase from 2020). In case of adequate demand, ÁKK can increase the ATM of the domestic currency debt portfolio.

- ***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 the case of the first six benchmark values ÁKK takes into account their 3-month moving average values, to avoid unnecessary reaction to one-off or temporary market movements that actually would not need a response in the medium or longer term.

To maintain a safe level of liquidity reserves and access to several financing channels also remain the emphasized goals of financing in 2021. In response to higher risks ÁKK increased the liquidity buffer, and FX deposits will be also important for liquidity management. In 2021 ÁKK also plan restarting the repo activity. This ensures that financing is secured even in the case of a few uncovered auctions. Successful bond buy-backs and switch auctions also increase financing safety by substantially decreasing the volume of debt maturities.

6. Further information

This Debt Management Outlook publication was compiled based on information available in the middle of December 2020. Thus the projected figures for 2021 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 behavior 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 15^{th} 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 2021

Fixed rate government bonds

Date of auction	Date of settlement
07.01.2021	13.01.2021
14.01.2021	20.01.2021
21.01.2021	27.01.2021
28.01.2021	03.02.2021
04.02.2021	10.02.2021
11.02.2021	17.02.2021
18.02.2021	24.02.2021
25.02.2021	03.03.2021
04.03.2021	10.03.2021
11.03.2021	17.03.2021
18.03.2021	24.03.2021
25.03.2021	31.03.2021
08.04.2021	14.04.2021
22.04.2021	28.04.2021
06.05.2021	12.05.2021
20.05.2021	26.05.2021
03.06.2021	09.06.2021
17.06.2021	23.06.2021
01.07.2021	07.07.2021
15.07.2021	21.07.2021
29.07.2021	04.08.2021
12.08.2021	18.08.2021
26.08.2021	01.09.2021
09.09.2021	15.09.2021
23.09.2021	29.09.2021
07.10.2021	13.10.2021
21.10.2021	27.10.2021
04.11.2021	10.11.2021
18.11.2021	24.11.2021
02.12.2021	08.12.2021

Floating rate government bonds

Date of auction	Date of settlement
06.01.2021	13.01.2021
20.01.2021	27.01.2021
03.02.2021	10.02.2021
17.02.2021	24.02.2021
03.03.2021	10.03.2021
17.03.2021	24.03.2021
01.04.2021	07.04.2021
15.04.2021	21.04.2021
29.04.2021	05.05.2021
13.05.2021	19.05.2021
27.05.2021	02.06.2021
10.06.2021	16.06.2021
24.06.2021	30.06.2021
08.07.2021	14.07.2021
22.07.2021	28.07.2021
05.08.2021	11.08.2021
19.08.2021	25.08.2021
02.09.2021	08.09.2021
16.09.2021	22.09.2021
30.09.2021	06.10.2021
14.10.2021	20.10.2021
28.10.2021	03.11.2021
11.11.2021	17.11.2021
25.11.2021	01.12.2021
09.12.2021	15.12.2021

Issuance calendar of discount treasury bills in 2020

12-month discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D211229	06.01.2021	13.01.2021	29.12.2021
D211229	20.01.2021	27.01.2021	29.12.2021
D211229	03.02.2021	10.02.2021	29.12.2021
D211229	17.02.2021	24.02.2021	29.12.2021
D220309	03.03.2021	10.03.2021	09.03.2022
D220309	17.03.2021	24.03.2021	09.03.2022
D220309	01.04.2021	07.04.2021	09.03.2022
D220309	15.04.2021	21.04.2021	09.03.2022
D220504	29.04.2021	05.05.2021	04.05.2022
D220504	13.05.2021	19.05.2021	04.05.2022
D220504	27.05.2021	02.06.2021	04.05.2022
D220504	10.06.2021	16.06.2021	04.05.2022
D220629	24.06.2021	30.06.2021	29.06.2022
D220629	08.07.2021	14.07.2021	29.06.2022
D220629	22.07.2021	28.07.2021	29.06.2022
D220629	05.08.2021	11.08.2021	29.06.2022
D220824	19.08.2021	25.08.2021	24.08.2022
D220824	02.09.2021	08.09.2021	24.08.2022
D220824	16.09.2021	22.09.2021	24.08.2022
D220824	30.09.2021	06.10.2021	24.08.2022
D221019	14.10.2021	20.10.2021	19.10.2022
D221019	28.10.2021	03.11.2021	19.10.2022
D221019	11.11.2021	17.11.2021	19.10.2022
D221019	25.11.2021	01.12.2021	19.10.2022
D221019	09.12.2021	15.12.2021	19.10.2022
D221228	23.12.2021	29.12.2021	28.12.2022

3-month discount T-bills are auctioned every Tuesday, settlement is on the Wednesday of the following week, while the 12-month T-bills are auctioned every Wednesday in the first quarter and every Thursday from the second quarter onwards.