GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

ÁKK

GOVERNMENT DEBT MANAGEMENT REPORT **2018**

Foreword

The objective of this Government Debt Management Report 2018 of the Government Debt Management Agency Pte. Ltd. (ÁKK) is to inform investors and other stakeholders in the government securities market about the financing of the central government, to analyse the characteristics of public debt and to describe the developments in the Hungarian government securities market in 2018.

One of the most important objectives of the Hungarian government is to reduce the public debt, and foreign currency debt, increase domestic financing and improve debt metrics. 2018 was a very successful year in these respects: according to EUROSTAT the public debt ratio continued to decrease from 73.4 per cent to 70.8 per cent. Not only did indebtedness decline, but the share of foreign currency debt also declined from 21.6 per cent to 20.0 per cent. The increasing retail debt program continued in 2018 as well, the share of retail debt within the total debt reached 26 per cent. To improve the maturity profile of the debt, ÁKK increased the longest benchmark bond's tenor to 20-year, the demand for this 20-year bond was adequate, thus the Hungarian yield curve was extended to 2038 in 2018.

All in all, it is clear that the most important objectives for the last year were achieved in a stable government securities market with ample demand for government securities. The domestic ownership of public debt increased further due to the successful retail debt program – now 64 per cent of the public debt is in the hand of domestic investors. However the long term yield increased in 2018 the cost of the new issuances was below the cost of maturing debt, thus the average cost of the outstanding debt continued to decrease in 2018.

György Barcza
Chief Executive Officer

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General information

Both deficit and debt data are preliminary until the Act on Final Accounts for the relevant year is approved by Parliament, which is usually during the second half of the following year. Therefore fiscal data used in this report were still preliminary when this report was compiled.

Some of the data in this report are cash-flow based and some are accrual-based. When using the cash-flow approach, expenditures and revenues are accounted for the very period in which they are actually paid or received, regardless of the periods to which their economic content relates. Under the accrual approach on the other hand, the amount of an expenditure or revenue item related to several periods is divided up on a pro rata basis and allocated to the relevant periods.

ÁKK publishes data about government debt in accordance with Hungarian accounting standards, the principles of which are summarised as follows:

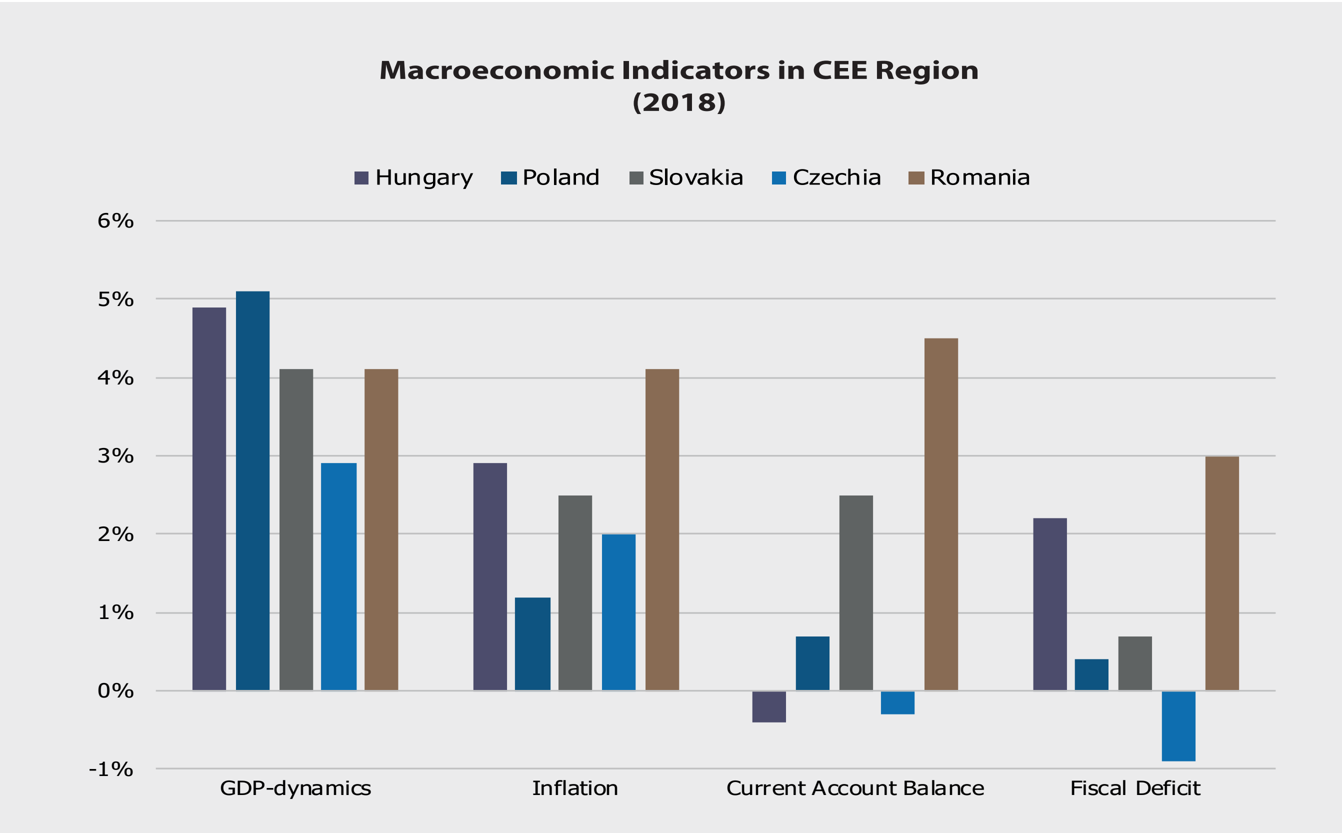
- Government bonds and retail government securities are recorded at nominal value.
- Discount treasury bills are recorded at the average sale price (at discount value), which is recalculated after every transaction involving the security concerned.
- Repo and reverse repo transactions actually increase or reduce outstanding government debt.
- Foreign currency debt is taken into account after swaps and is converted into HUF at the official exchange rate published by the National Bank of Hungary (NBH) at the end of the month or year in question.
- The debt published by ÁKK is the central government gross debt managed by ÁKK according to the Act No. CXCIV of 2011 on the Economic Stability of Hungary (i.e. it does not include either local government debt or the debt of state-owned enterprises and does not include debt under section 3 paragraph (1) c, d, and f, of the Stability Act and it is not a consolidated indicator (debt between various public sector subsystems is not netted)).

The debt data published by ÁKK in accordance with Hungarian and international accounting standards differs from the debt data used by EUROSTAT (the European Union's institute of statistics), which is calculated according to different principles and is essentially the result of statistical calculations. Public debt data is calculated and published in accordance with ESA '2010 principles by the National Bank of Hungary.

I. Macroeconomic developments in 2018

During 2018, monetary policy divergence in developed economies came to a halt. In the US the rate hiking cycle that started in 2015 proceeded but the continuation became less likely by the end of the year. At the same time the ECB terminated the quantitative easing program in the Eurozone. Besides the lacklustre inflationary pressure and fragile growth prospects time lags in monetary policies were mainly driving exchange and interest rates and the performance of stocks.

Regional Comparison



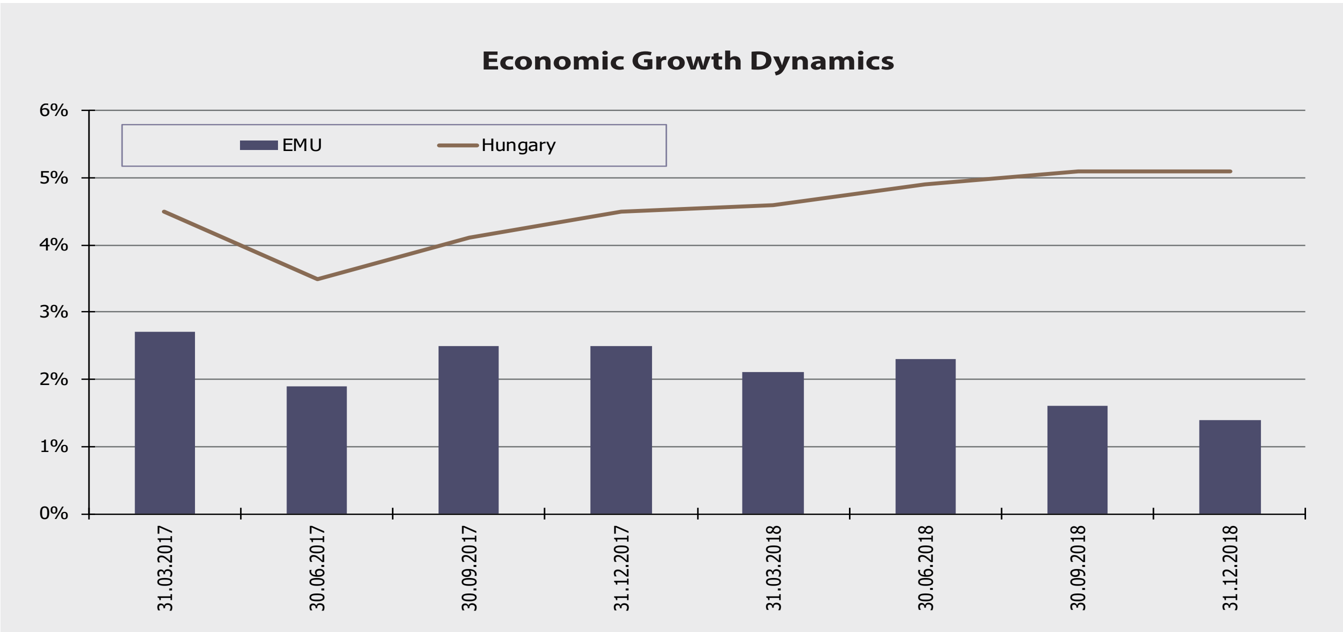
Source: Eurostat

* In case of current account, negative a figure means a surplus.

I. Macroeconomic developments in 2018

During 2018 economies in the Central and Eastern European region showed a dynamic growth. Out of the V4 countries Polish growth rate of 5.1% and Hungarian growth rate of 4.9% stood out, the Czech growth rate of 2.9% lagged behind the regions partly as a result of labour shortages. Inflation in Romania reached 4.1% in 2018 due to demand (wages increasing at a fast pace) and supply side (energy prices) pressure. In Hungary and Slovakia tight labour market and energy prices were heating inflation but the Hungarian rate of 2.9% and the Slovakian rate of 2.5% were moderate. In the Czech Republic that started monetary tightening in 2017, inflation rate amounted to 2.0% in spite of tight labour market conditions, in Poland consumer prices only increased by 1.2% due to strengthening competition on the supply side. Current account posted a small surplus in Hungary and the Czech Republic, but a sizeable deficit in Slovakia and Romania. Fiscal deficit was close to the Maastricht criterion of 3% in Romania; the deficit was 2.2% in Hungary, 0.7% in Slovakia and 0.4% in Poland, whilst there was a 0.9% surplus in the Czech Republic.

Economic Growth

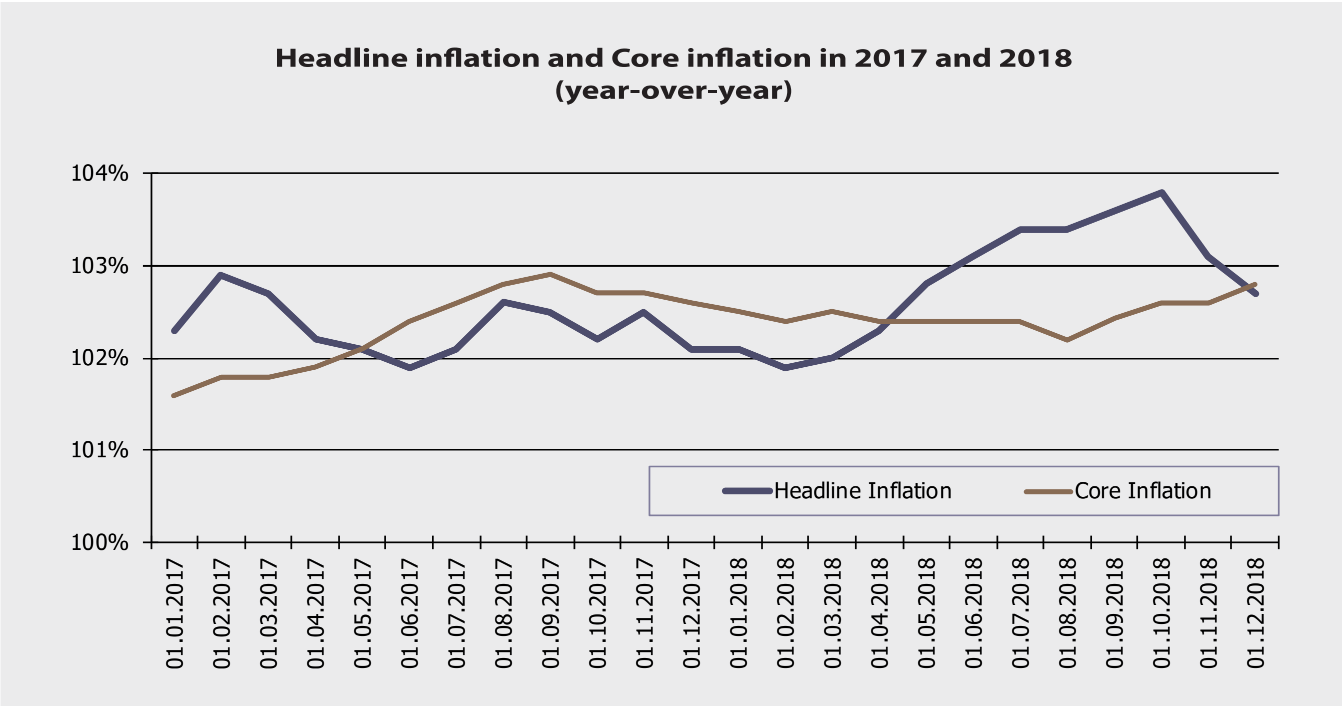


Source: Central Statistical Office (CSO), Eurostat

Economic growth was 4.4% in 2017, and increased to 4.9% in 2018 outpacing significantly the average growth rate of the EU (and the Eurozone). In 2018 all economic sector contributed materially to growth. Industry and services sector both increased significantly (by 3.2% and 4.4%). Construction sector posted a high (22.9) growth rate driven by home building activities, government projects and EU subsidies. Due to relatively favourable weather conditions in 2018 activity in agriculture increased by 5.3%. Regarding final use of GDP, consumption and investments contributed to growth. The 3.7% dynamics of consumption was similar to that of the previous year (3.8%). In case of investments the high growth rate remained (17.2% in 2018 versus 17.1% in 2017) in spite of the high base. The dynamics of exports remained unchanged (4.7%) relative to the previous year, while that of imports decelerated (from 7.7% to 7.1%), but net exports detracted 2.1 percentage points off the GDP growth rate in 2018 because imports growth rate outpaced that of exports.

I. Macroeconomic developments in 2018

Inflation



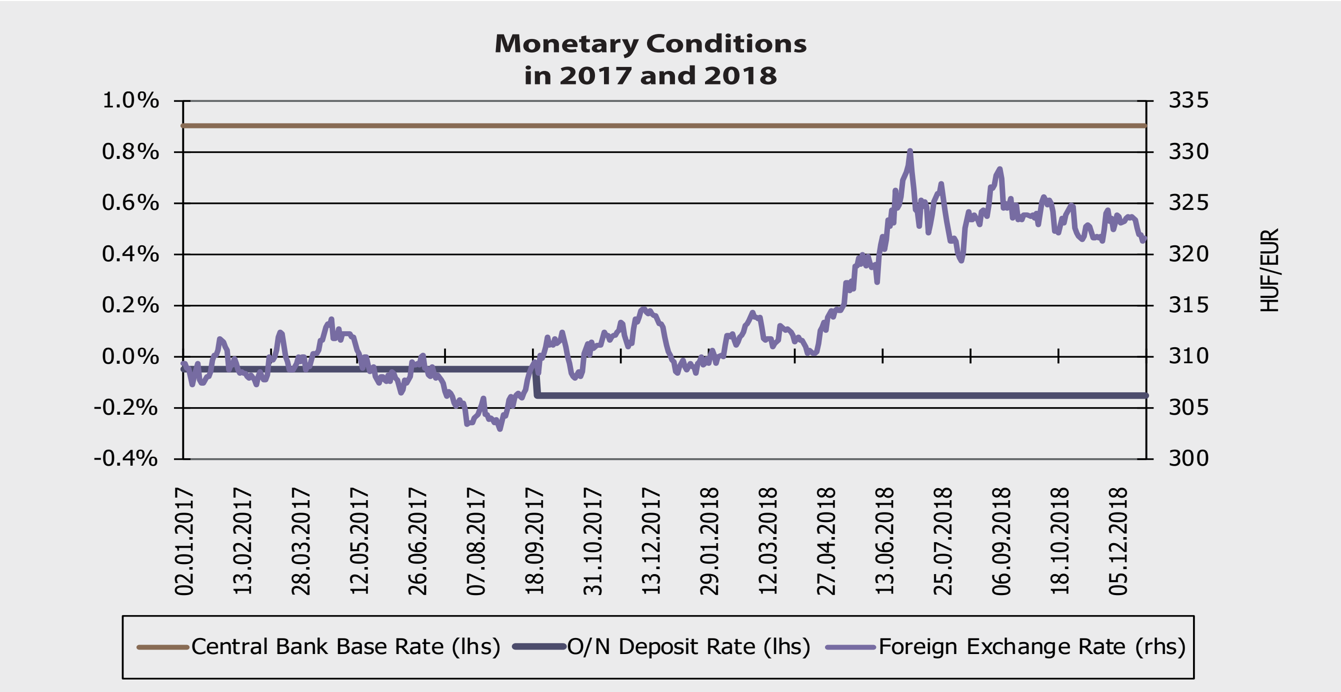
Source: CSO

Inflation accelerated from 2.1% in December 2017 to 2.7% in December 2018 coming close to the inflation target of the central bank. The price level of all main group of consumption increased. 12-months inflation rate amounted to 0.5% in case of durable goods, 0.7% in case of clothes, 1.2% in case of energy and heating, and 1.5% in case of fuel and other goods. Price level of services increased by 2.3%. Price level grew by 4.7% in case of food products and by 5.2% in case of alcoholic beverages and tobacco; indirect tax hikes contributed to the latter. In case of most groups of consumption inflationary pressure was contained, yearly average inflation was 2.8% in 2018. Core inflation amounted to 2.5% a bit lower than CPI inflation.

Monetary Conditions

During 2018 Hungarian monetary policy relied primarily on non-conventional measures. The central bank held forint-liquidity providing FX-swap tenders during the course of the year regularly. The Monetary Policy Council decreased long-term yields using monetary policy interest rate swaps (MIRS) and mortgage backed securities purchases during the course of the year. In September the NBH announced that the central bank is prepared for the cautious and gradual normalisation of the monetary policy. The toolbox driving short-term yields would be simplified and the measures driving long-term yields fine-tuned. The central bank would set monetary conditions using forint-liquidity providing swaps and the interest rate corridor. The three-month deposit facility was terminated by the end of the year. Regarding the non-conventional instruments affecting long-term yields MIRS and the mortgage-backed securities purchase program were terminated by the end of 2018.

The foreign exchange rate of the forint weakened by 3.7% during 2018 from 310.14 HUF/EUR by the end of 2017 to 321.5 HUF/EUR by the end of 2018.



Source: NBH

During the first third of the year the exchange rate fluctuated between 308 HUF/EUR and 314 HUF/EUR. In this period mostly favourable Hungarian macroeconomic data (better than expected GDP-dynamics, industrial output growing at a fast rate, declining unemployment rate, external trade surplus) were published. Inflationary pressure was contained enabling the central bank to conduct loose monetary policy for a prolonged period. Cash-flow based fiscal deficit was high mainly due to pre-financing of EU subsidies (neutral for accrual-based deficit). Favourable global investor sentiment also supported the forint. The US posted buoyant growth whilst growth rate decelerated in the Eurozone after a multi-year peak in 2017. Although the rate hike cycle started in the US, its effect on Hungary was neutralised by strong growth in the US and the loose monetary policy of the ECB.

During May and June the forint depreciated quickly, hitting the 330 HUF/EUR mark in early July, driven mainly by global factors. Domestic political situation in Italy and Germany, the ongoing interest rate hiking cycle in the US, crises in Argentina and Turkey and the escalation of trade war weighed on global investor sentiment. Hungarian economic data still reported strong economic growth, sizeable external trade surplus, contained inflationary pressure, low unemployment rate and high fiscal deficit due to pre-financing of EU subsidies.

In July a correction took place forint hitting the 320 HUF/EUR mark. External environment improved because tensions in German internal policy declined and trade relations seemed to get better although the crisis in Turkey and the trade tensions between the US and China escalated. Hungarian economic data were mixed mainly because of accelerating inflation. The market participants' perceived change in the communication of the central bank interpreted as a sign of cautious tightening was an important factor in the strengthening of forint.

For the rest of the year forint stagnated fluctuating mostly between 320 HUF/EUR and 325 HUF/EUR rates. Hungarian macroeconomic news kept on indicating strong economic growth, tight labour market, high cash-flow based fiscal deficit (driven by pre-financing of EU subsidies), substantial – albeit declining – external trade surplus, and accelerating inflationary pressure. During the second half of the year mainly external effects weakened the forint. The currency crises of Turkey and Argentina in August and the free-fall of stocks in developed markets in December indicated the end of unprecedented abundance of liquidity by the rate hikes in the US and the termination of quantitative easing in the Eurozone, and the worsening investors' sentiment towards risky assets. Against this negative market sentiment Hungarian (and regional) assets performed relatively well. The worsening of global investor sentiment in December is not caused by one single event.

I. Macroeconomic developments in 2018

US rate hikes, uncertainty regarding brexit, escalation of Sino-American trade war, political tensions related to fiscal loosening in Italy, announcing the termination of quantitative easing in the Eurozone, weakening growth prospects in China and Europe came as no surprise to market participants. But all the above events were considered as materialisation of negative scenarios and their combined effect worsened significantly the global investor sentiment.

Fiscal Policy

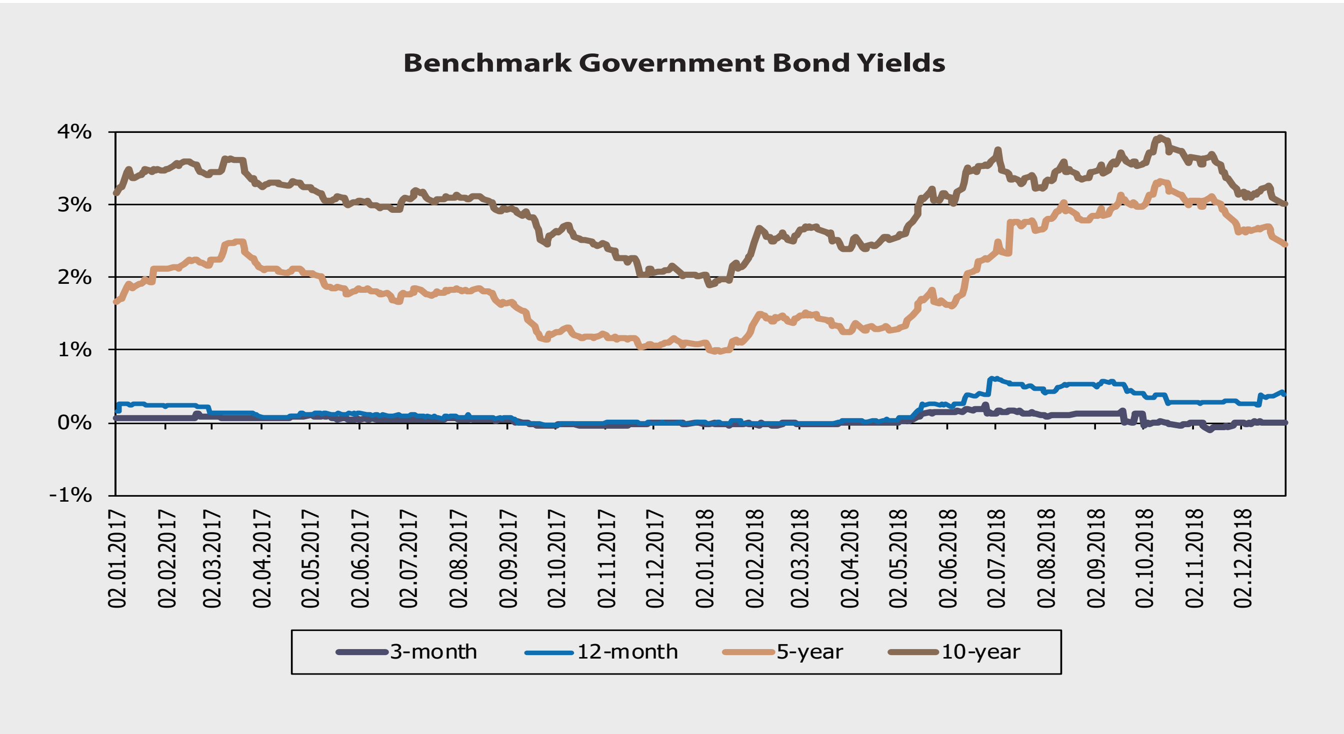
The deficit of the public sector was 2.3% of GDP based on the financial accounts methodology, the cash-flow based (GFS) central government deficit amounted to HUF 1,445.1 billion (equalling 3.4% of GDP for the year 2018). In 2018, the accrual based (ESA) general government deficit (including local governments) amounted to HUF 934.3 billion (equalling 2.2% of GDP for the year 2018) according to preliminary data. The financing need of the state for the year 2017 increased compared to the previous year.[1]

Financing Position of the Economy

The households' savings to GDP ratio amounted to 6.0%. The net financing need of the corporate sector reached 4.0%. The economy of Hungary as a whole was a net lender towards the rest of the world in the amount of 0.1% of GDP. The current account posted a surplus of EUR 0.6 billion or 0.5% of GDP.

Developments of Government Securities Markets and Yields

During the course of the year forint yields for all tenors fluctuated significantly and increased taking into account the whole twelve-month period.



Source: ÁKK

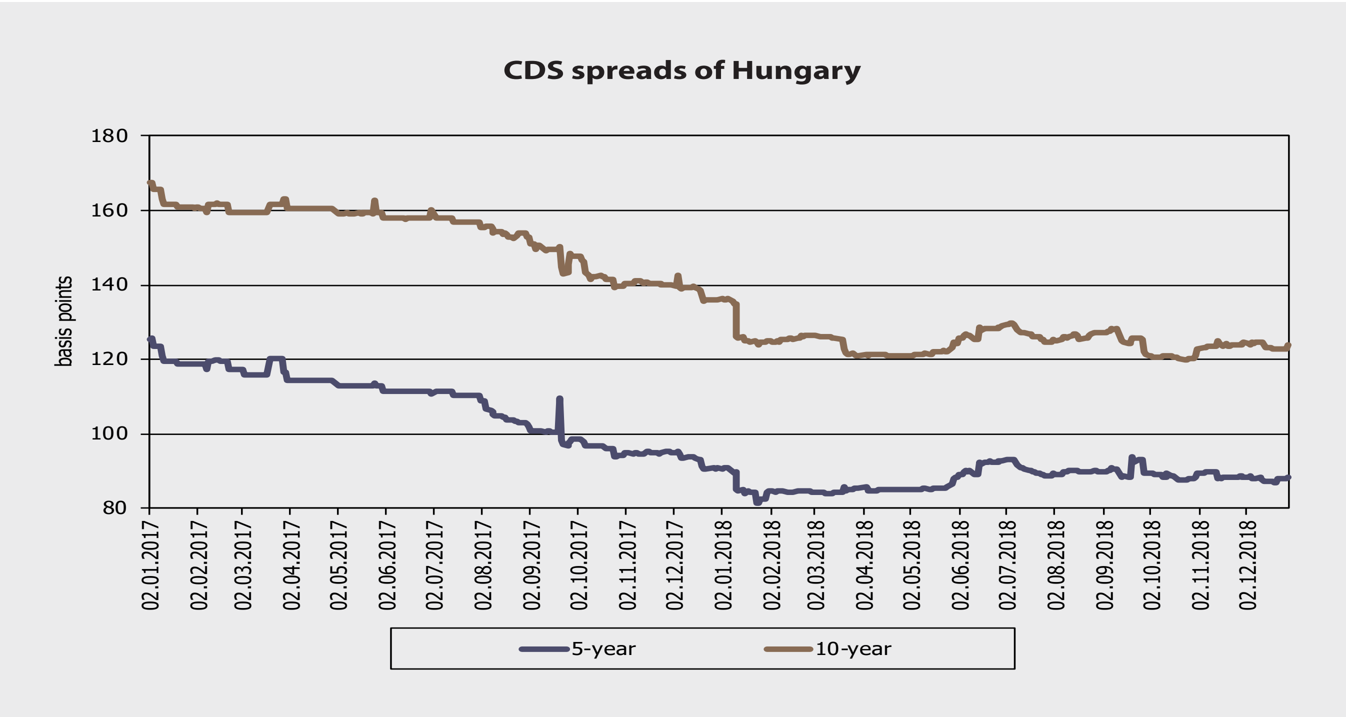
[1] The components of the net financing need are described in detail in Chapter III.

During the first four months of 2018 short-term government bond yields fluctuated around zero, increased in May mainly as a result of significant worsening external environment and the short end of the yield curve became steeper. In summer a correction took place: by autumn the 3-months and 6-months yield bot declined to close to zero but the 12-months yield remained well above the beginning of the year level. In December the external environment worsened again significantly and market participants' expectations regarding monetary policy change strengthened pushing short-term forint yields upwards.

Long-term bond yields increased in the first third of 2018 mainly as a result of tightening monetary policy in the developed markets (American rate hikes, termination of quantitative easing in the Eurozone). Long-term yields increased in May parallel to the increase of short-term yields driven by external factors including political situation in Western Europe, trade war, Argentine and Turkish crises. During summer a correction took place in case of long-term yields, too. Long-term bond yields mostly increased from the end of July to the middle of October then mainly decreased. The currency crises of Argentina and turkey contributed to the yield increases.

By the end of 2018 3-months yield changed to 0.00%, 12-months yield increased to 0.39%, 5-year yield amounted to 2.46% and 10-year yield stood at 3.01%.

CDS Spreads

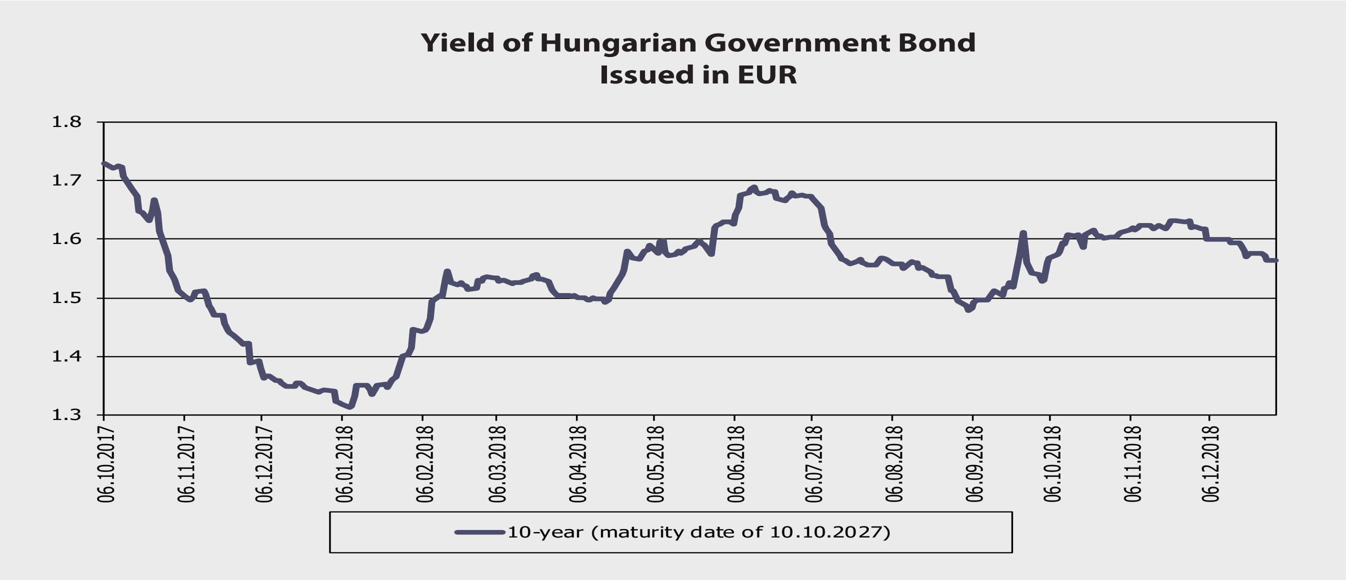


Source: Reuters

During the course of the year 5-year CDS spread declined from 91 basis points to 88 basis points. The favourable macroeconomic indicators of Hungary (dynamic growth and benign macroeconomic balance indicators) compensated for the worsening international investor environment. At the beginning of the year CDS spread declined but in May the spread increased to the level of the start of year followed by a gradual decline interrupted by temporary increases during the rest of the year.

Yields of Foreign Currency Denominated Bonds

In 2018, the yields of government bonds denominated in euro issued by Hungary increased slightly.



Source: Bloomberg

The yield of the Hungarian government bond issued in October 2017 with a maturity in October 2027 increased from 1.34% to 1.56% during the course of the year 2018. During the first half of the year the yield increased to 1.69% in several waves (in spring and early summer). A correction took place in late summer amidst improving global investor sentiment but yields increased again in the autumn. The movements of yields during the course of the year were mainly driven by weakening and improving global investor sentiment towards emerging markets.

Government Securities Holdings of Foreign Investors

The value of forint-denominated government securities held by non-residents increased during 2018. During the course of the year non-resident holding increased save for a decline in June and July, reached HUF 4,218 billion in mid-December, and decreased significantly in the second half of December. During 2018, non-resident holdings increased by HUF 575 billion reaching HUF 3,961 billion. At the same time average term to maturity of foreign investors' portfolio decreased from 5.38 to 5.08.

The share of foreign holdings in forint denominated debt grew from 21% to 22%. Including foreign holdings in foreign exchange denominated debt, the share of foreign holdings in total debt amounts to 36%.

II. DEBT MANAGEMENT STRATEGY IN 2018

ÁKK plans and performs its financing transactions in accordance with the Debt Management Strategy approved each year by the Minister of Finance.

ÁKK's main objective is to finance the central government at the lowest costs in the long run, taking account of risks. Taking the economic policy as a framework, the strategy must focus on the best possible achievement of this objective.

In accordance with the economic policy of the government ÁKK set three secondary objectives:

1. According to the fundamental law of Hungary if the debt to GDP ratio is higher than 50 percent, only such 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 debt reduction accordingly.
2. One of the main factors that led to the vulnerability of Hungary in recent years was that the higher part of the government debt had been financed by non-resident investors. Increasing domestic savings and the domestic financing of the debt reduce the risks of public debt and support macroeconomic stability in the long term. Thus the second objective of ÁKK is to develop further the domestic investor base, and especially to increase the retail debt program.
3. Decreasing debt ratio and increasing domestic financing enable to further reduce the share of foreign currency debt within the total debt, which is the third objective of ÁKK.

In the trade-off between costs and risks, the aim is to develop a debt structure with the most favourable long-term cost-risk characteristics. The emphasis is on the long term: no transaction should be done to achieve lower costs in the short term at the expense of higher costs or greater risks in the future.

The most important risk factors are as follows:

- Refinancing risk consists of the risk of renewing maturing debt and the risk associated with meeting net financing requirements. In extreme cases, refinancing risk may become liquidity risk, but in general it is interest rate risk.
- Interest rate risk relates to fluctuations in the yields and interest rates of government debt.
- Liquidity risk is the result of fluctuations in the cash-flows of the central government and the capital market operations of debt management.
- Foreign exchange rate risk arises out of fluctuations of the exchange rates of the forint versus the euro, as well as other foreign currencies.
- Credit risk (counterparty risk) is an important risk factor in the case of hedging transactions concluded directly with partners in the international capital markets and in the case of repo operations in the domestic money market.

ÁKK has developed various benchmarks reflecting its strategic objectives which consider risks and costs simultaneously. In order to filter out short-term effects, these benchmarks are monitored as 90-day moving averages. The benchmarks approved by the Minister of Finance are also used to quantify strategic objectives and to set intermediate targets. During the course of 2018 the composition of the central government debt was in line with the benchmarks.

Public debt management benchmarks in 2018

Benchmarks	Tolerance band	End 2017	End 2018
1. Foreign currency debt ratio	15-25%	22.3%	20.0%
2. Foreign currency debt composition	95-105% EUR	99.7%	100.0%
3. Fixed coupon part of foreign currency debt	60.0-70.0%	67.6%	68.9%
4. Fixed coupon part of domestic debt	56-66%	58.9%	59.7%
5. Duration of domestic debt	2.5-3.5 years	2.9	2.75

Benchmark No. 6. is to maintain a secure level of funds on the Single Treasury Account (STA). For a detailed description of liquidity management see Chapter VI.

Strategic Principles

ÁKK executes its financing policy governed by the three main principles of simplicity, transparency and liquidity. In ensuring simplicity and transparency, ÁKK only issues a limited number of plain vanilla instruments in a transparent manner, i.e. it sells fixed coupon and floating rate forint bonds and zero-coupon discount treasury bills according to a fixed annual issuance calendar published in advance.

As regards liquidity, ÁKK aims to ensure that wholesale government securities have a sufficiently liquid secondary market. A liquid secondary market can be supported by the debt manager by two ways. The first measure is the continuous two-way price quotation by Primary dealers that reflects real market prices; the second is to consolidate domestic bonds into sufficiently large government securities series (benchmarks). In order to achieve this latter goal, ÁKK reopens individual series – i.e. it issues additional bonds that are fully fungible with previously issued series. The targeted volume of bond series was around HUF 650-1000 billion (approximately EUR 2-3 billion) in 2018. Smaller size of HUF 2-300 billion is targeted in the 20-year tenor (replacing the 15-year tenor from 2018) reflecting lower investors' demand. Secondary market operations were also enhanced by regular bond buy-back and bond exchange programs.

After the international financial crisis, based on the experiences, ÁKK raised the flexibility of its operations. This way it can react to changes in market demand to a greater extent as regards the announcement of auctions, and the accepted amounts at auctions. The purpose of the non-competitive top-up phase of bond auctions is similar, to be able to react to a stronger than expected demand.

III. The financing requirements in 2018

The components of the financing requirements

The most important part of the net financing requirements is the deficit of the central government. ÁKK is responsible for financing the central government and maintaining its liquidity, while local authorities (the other subsystem of the public sector) manage their own budgets, financing and debt.

The total annual net financing requirement financed by ÁKK is the sum of the central government deficit and other, extra-budgetary transfers (net transfers from the EU, special transfers to the NBH etc.). The gross financing requirement, in addition, also includes debt redemptions, the majority of which is contributed by short-term debt, which may be renewed several times a year.

The net financing requirement

In 2018 the total cash-flow based deficit of the central government was HUF 1,445.1 billion (or 3.4 per cent of GDP according to preliminary data), while the total net financing requirement amounted to HUF 862.9 billion (or 2.1 per cent of GDP) including net EU transfers and other funding sources.

Borrowing requirements in 2018:

	Outturn 2017 (HUF billion)	Plan December 2017 (HUF billion)	Outturn 2018 (HUF billion)	Outturn/Plan
Net financing need of the central government	**-1,833.4**	**-1,360.7**	**-1,445.1**	**1.06**
Capital transfers to NBH / NBH dividend	-	-	-	-
Net EU transfers and other	66.8	-	582.2	-
Total net financing requirements	**-1,766.6**	**-1,360.7**	**-862.9**	**0.63**
Short term debt redemptions	-4,312.6	-4,829.6	-4,855.2	1.01
Long term debt redemptions	-3,563.8	-2,567.6	-3,387.7	1.32
Gross financing requirements	**-9,643.0**	**-8,757.8**	**-9,105.8**	**1.04**

Source: Hungarian State Treasury, Ministry of Finance, ÁKK

Redemptions

Redemptions in any given year are largely the function of debt financing operations in previous periods and of the sales of short-term instruments renewed within the year. Prepayments of loans, buy-backs of bonds and the early repurchasing/redemption of retail securities and other securities in the Treasury network may also influence the final sum.

The total debt redemption was HUF 8,243 billion in 2018, 11 per cent higher than planned. In the case of domestic debt redemptions the excess was the result of bond buy-backs and switch auctions, which significantly reduce the refinancing risk. Moreover ÁKK bought back retail securities from non-household investors. In the case of foreign currency denominated debt the redemption was also higher than planned due to foreign currency bond buybacks and due to loan repayments.

III. The financing requirements in 2018

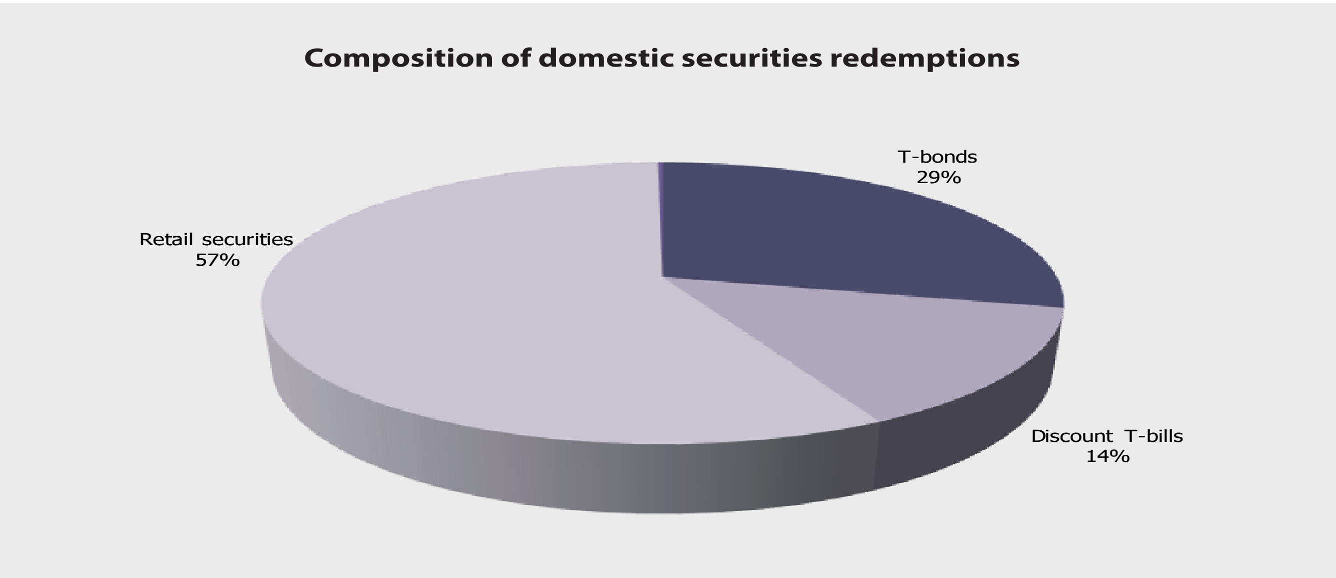
Government debt redemptions: [2]

HUF billion

	2017	2018 plan	2018 outcome
Domestic debt	**6,828.8**	**6,697.9**	**7,461.0**
T-bonds	2,219.2	1,528.6	2,123.9
Discount T-bills	896.4	1,052.2	1,039.2
Retail securities	3,713.2	4,117.2	4,280.9
Loans	0.0	0.0	17.0
Foreign currency debt	**1,047.6**	**699.3**	**781.8**
Bonds	853.4	567.5	613.3
Loans	194.1	131.7	168.6
Total	**7,876.3**	**7,397.2**	**8,242.9**

Source: ÁKK

Total domestic debt redemptions exceeded the plan by HUF 763 billion due to higher bond redemptions as a result of the bond buy back and exchange auctions, due to retail securities buy-back from non-household sector and due to loan repayment. Within the HUF debt portfolio discount treasury bills contributed to 14 per cent of the total forint redemptions of HUF 7.461 billion, while redemption of domestic retail debt was 57 per cent.



Source: ÁKK

2 In this publication the redemption and gross issuance of short-term debt is reported according to the OECD methodology. The amount of redemption of T-bills equals the outstanding volume of the short-term debt at the beginning of the year and gross issuance equals the sum of the redemption figure and the net issuance in the given year.

Bond buy-backs and exchanges

A large bond series maturing at a given time creates refinancing risk. This risk can be reduced by repurchasing a proportion of the bonds before maturity. ÁKK's normal financing plan includes a regular bi-weekly bond buy-back program, and the actual repurchase amount depends on the quantity and quality of bids. In 2018 ÁKK bought back a total of HUF 314 billion (by HUF 114 billion more than planned) bonds before their maturity on 9 occasions. All of the repurchased bonds had a maturity after 2018, i.e. these buy-backs also helped to smooth maturities from one year to another.

In order to decrease refinancing risk ÁKK has been holding bond exchange (or switch) auctions on a regular basis. In these switch auctions the investors can exchange their bonds with short remaining term-to-maturity for longer term bonds. This improves the investment possibilities of investors and at the same time lengthens the average term-to-maturity (ATM) of the government debt. In 2018 21 exchange auctions were held at which ÁKK exchanged a total of HUF 597 billion short-term bonds for long-term ones.

Foreign currency debt redemptions

In 2018 one Eurobond (originally EUR 1.5 billion) and one USD bond (USD 1.25 billion) matured. Due to FX bond buy-backs in previous years the actually matured amounts of the bonds were smaller than the originally issued, and amounted to EUR 1.29 billion and USD 369 million respectively. The fifth series of Premium Euro Hungarian Government Bond totalling EUR 114 million and the first series of the Residency bond totalling EUR 107.5 million matured in 2018. Moreover, in order to reduce the share of foreign currency debt within the total debt ÁKK bought back a total of EUR 94 million FX bonds from the market. Larger redemptions and smaller early repayments totalling EUR 530 million took place in the case of IFI project financing and other loans in 2018.

IV. Financing

In 2018 the HUF denominated issuance (including switch auctions) amounted to HUF 9,504 billion (95%), while foreign currency issuance was HUF 516 billion (5%).

Gross debt issuance:

HUF Billion

	2017	2018 plan	2018 outcome
Domestic debt	**9,141.4**	**8,410.0**	**9,503.9**
T-bonds	2,478.0	2,400.0	3,129.1
Discount T-bills	1,039.2	1,155.7	1,237.3
Retail securities	5,448.2	4,699.7	4,993.8
Loans	176.1	154.7	143.7
Foreign currency debt	**588.6**	**429.9**	**516.5**
Bonds	564.2	371.2	516.5
Loans	24.4	58.7	0.0
Total	**9,730.0**	**8,839.9**	**10,020.3**

Source: ÁKK

Net HUF denominated financing totalled HUF 2,043 billion, while net foreign currency financing amounted to HUF -265 billion, so the total net issuance was HUF 1,777 billion in 2018.

Net issuance:

HUF Billion

	2017	2018 plan	2018 outcome
Domestic debt	**2,312.7**	**1,712.1**	**2,042.8**
T-bonds	258.9	871.4	1,005.2
Discount T-bills	142.8	103.4	198.1
Retail securities	1,734.9	582.5	712.9
Loans	176.1	154.7	126.6
Foreign currency debt	**-459.0**	**-269.4**	**-265.4**
Bonds	-289.2	-196.4	-96.8
Loans	-169.7	-73.0	-168.6
Total	**1,853.7**	**1,442.7**	**1,777.4**

Source: ÁKK

Within the net HUF issuance, the role of long term bonds increased, while due to the reduction of the investor base the share of retail securities decreased from 2017, but remained high. Total net T-bond issuance was HUF 1005 billion (by HUF 134 billion higher than planned instead of the buy-backs also exceeding the plan), while the net sales of retail securities totalled HUF 713 billion. In order to reduce the share of non-household investors (banks, institutions) within the retail debt ÁKK made several arrangements (delimitations of the investors base, buy backs of retail securities from non-household investors, setting option clause on new retail issuances). As a result of these arrangements the net retail security issuance was lower than in the previous years, but still higher (by HUF 130 billion) than planned and consisted of only household investments. The net issuance of discount T-bill exceeded the plan but still remained low, while the HUF loan drawdown was realized below the plan.

In 2018 the net foreign currency redemption was according to the plan and amounted to HUF 265 billion. However the gross FX issuance was higher to a small extent, it was compensated by early repayments of foreign currency denominated loans and the FX bond buy back.

Domestic financing

Gross domestic issuance was eventually 13% higher than planned originally. The structure of the gross issuance did not change considerably, however the share of wholesale bonds increased, while the share of retail securities decreased to a small extent. The share of discount T-bill exceeded the plan, but due to the substantial bond issuance (exceeded the plan by 30 per cent), still decreased by 1 per cent compared to previous year. The share of retail issuance within the total domestic currency denominated issuance decreased similarly by 3 per cent, however the retail issuance exceeded the plan by 6 per cent. Project financing loans of HUF 144 billion were drawn in HUF, which was less than planned by 7 per cent.

Following the decreasing trend of previous years the average cost of financing (the weighted average yield to maturity – including sales commissions – of debt instruments issued in 2018) decreased from 2.6 per cent to 2.5 per cent.

Government bonds

Treasury bond auctions were held every two weeks. Three bond series were sold at each bond auction. Usually the 3, 5 and 10-year tenors were offered, but on 6 occasions the 10-year bond was replaced by the new, longest bond with 20-year tenor. The floating rate bonds were offered 25 times during the year. ÁKK actively used its right to modify the accepted amount as a reaction to bids (¬+/- 34 per cent or +/- 50 per cent if the announced amount was not more than HUF 20 billion). Another way to react to changes in market demand was the use of the non-competitive top-up phase in the afternoon of the auctions when successful bidders at the auction could buy additionally up to 40 per cent of their winning bids at the average price of the auction.

The bid-to-cover ratio at the bond auctions on average was almost 2.5. ÁKK sold a total of HUF 2,408 billion of bonds via auctions (including HUF 382 billion in the additional non-competitive phase). Total bond issuance – together with bond exchange auctions, the retail sales of the Hungarian State Treasury, the bonds issued for local authorities and secondary market operations – was HUF 3,129 billion, versus total bond maturities of HUF 2,124 billion, which resulted in a net issuance of HUF 1.005 billion, which exceeded the planned HUF 871 billion.

On-the-run bond series in 2018:

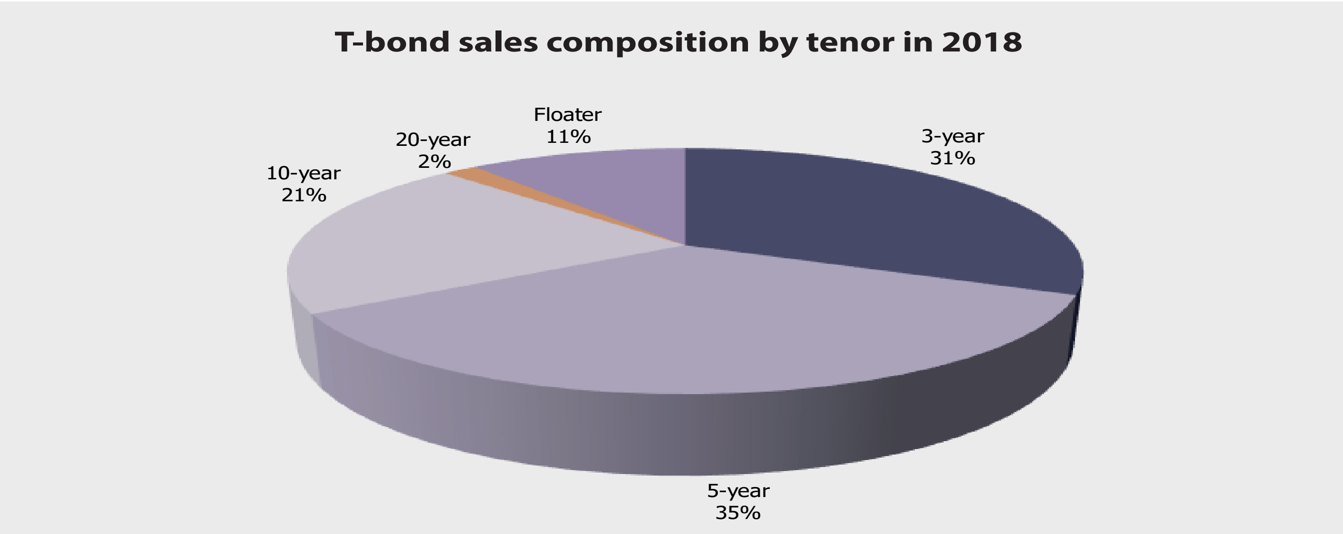
HUF Billion

	Tenor	Number of auctions	Competitive sales in 2018	Non-competitive sales in 2018	Outstanding (end of 2018)
2020/C	3-years	2	52	6	386
2021/A*	3-years	1	11	3	409
2021/C	3-years	23	604	94	700
2022/B	5-years	12	381	97	1,091
2023/B*	5-years	24	200	46	247
2024/C	5-years	13	316	45	360
2027/A	10-years	19	419	91	1,137
2038/A	20-years	6	40	0	41

Source: ÁKK

*Floating rate bonds

ÁKK adjusted the accepted amounts at the auctions according to demand, but the results show that investors' demand did not changed significantly. The demand for the 20-year bond first time issued in 2018 was smaller than for the previously issued, thus more liquid 15-year bond, while the share of the 3- and 10-year bonds increased to a small extent (by 2 per cent) in 2018.



Source: ÁKK

Discount treasury bills

The 3 and 12-month discount treasury bills are short-term instruments mainly used for liquidity management, i.e. for smoothening the fluctuations in liquidity caused by the varying financing requirements over the year. For this purpose ÁKK may also use the so-called liquidity discount treasury bills of even shorter tenor (usually 6 weeks) in an ad hoc manner.

In 2018 ÁKK sold discount treasury bills in a total of HUF 1,237 billion, by HUF 198 billion more than in 2017. Due to the uncertainty of the EU transfers at the end of the year the net issuance of discount T-bills exceeded the plan by HUF 95 billion, but the outstanding stock of discount T-bills totalling HUF 1237 billion is considered as small amount that increase the potential security role of discount T-bills.

Retail securities

One of the strategic objectives of ÁKK is to develop further its retail debt programme, which constitutes an important source of domestic financing. With growing domestic savings it is natural for the Government to tap this secure source of funds directly.

The issuance of retail government securities continued to increase in 2018 as well, but the slow-down of the increase and the decrease of some short term retail securities' outstanding amount reflected ÁKK's intention to reduce the non-household ownership of retail securities and increase the average time to maturity of the retail debt. The stock of the 1-year Hungarian Government Security grew by HUF 60 billion, the outstanding amount of Treasury Savings Bills (securities available in the post office network) grew by HUF 27 billion, while the stock of the half-year Hungarian Government Security decreased by HUF 98 billion.

In line with the objectives of public debt management, medium to long term bonds continued to play an important role in the retail scheme in 2018. The inflation-linked Premium Hungarian Government Security and the floating rate Bonus Hungarian Government Security had a total net sale of HUF 584 billion. The net issuance of the 2-year Hungarian Government Security was HUF 123 billion, while the very long term Babybond (with a maturity of 19 years) added an additional HUF 17 billion to funding.

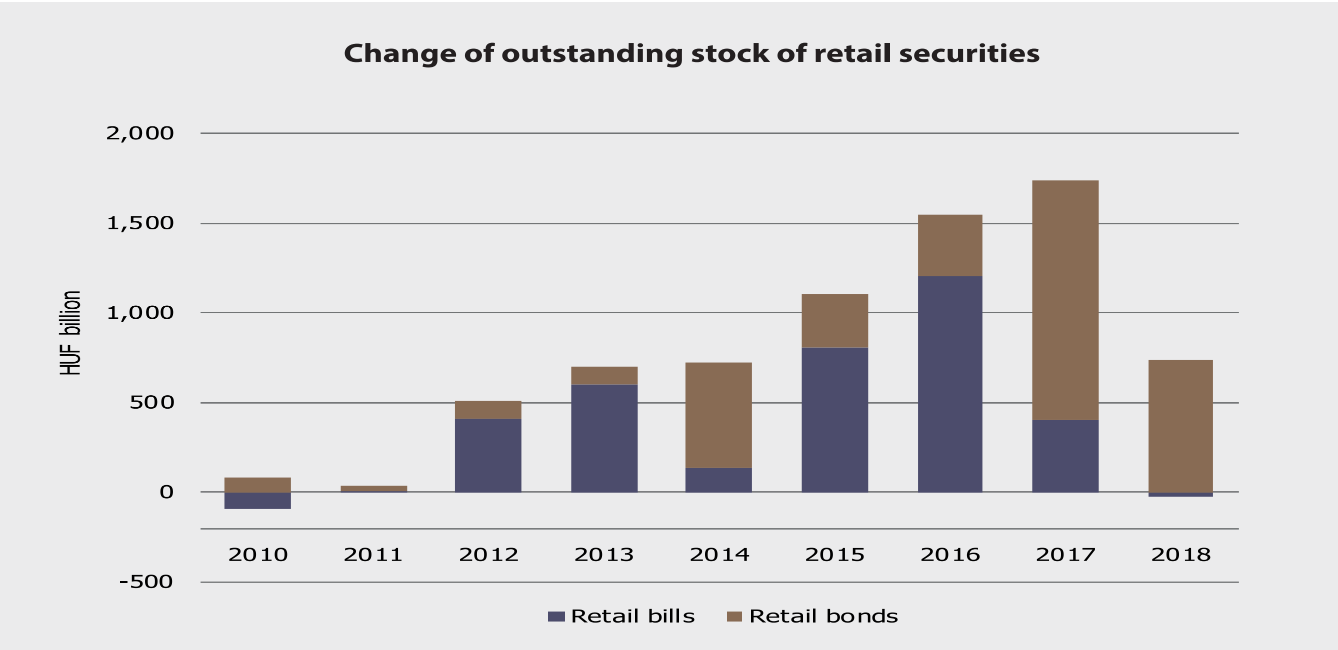
The total retail debt stock grew by HUF 713 billion over the year, which exceeded the plan by HUF 130 billion, but is much below the average net retail issuance of the previous years. Nevertheless the ownership structure and the maturity profile of the net retail issuance were better than before: the increase of the outstanding stock of retail securities owned by households exceeded the net retail issuance, while non-household ownership decreased within the retail debt. The net issuance of long term (3- and 5-year) Premium Hungarian Government Security was 84 per cent of total net retail issuance, while the outstanding stock of short term retail securities decreased in 2018.

Gross retail issuance:

HUF Billion

	2015	2016	2017	2018
Retail bills	**2,213**	**3,416**	**3,816**	**3,790**
1-year Hungarian Government Security	1,816	2,637	3,110	3,170
Half-year Hungarian Government Security	81	429	352	254
Treasury Savings Bills (1-year)	236	230	251	266
Treasury Savings Bills Plus	80	120	103	100
Retail bonds	**537**	**459**	**1,632**	**1,204**
2-year Hungarian Government Security	-	-	377	222
Premium Hungarian Government Security	396	367	1,172	861
Bonus Hungarian Government Security	83	26	11	26
Babybonds	8	9	11	17
Treasury Savings Bills (2-year)	49	57	61	78
Retail securities total	**2,749**	**3,875**	**5,448**	**4,994**

Source: ÁKK



Source: ÁKK

Hungarian government bond for local authorities

ÁKK introduced a new, fixed, 3-year government bond in September 2018, which is available only for local authorities. Due to the flexible and favourable buy-back option this bond became an attractive investment opportunity for the targeted investors. The total offered amount of the first series was bought by investors in 3 months. As a result of the total gross issuance of HUF 100 billion and the buybacks of HUF 19 billion, the outstanding amount of the Hungarian Government Bond for Local Authorities totalled HUF 81 billion at the end of 2018.

Foreign currency financing

ÁKK planned to issue a total of EUR 1.2 billion of foreign currency denominated bonds in 2018, out of which EUR 1 billion was planned to be issued in the international market. Due to the ample demand for domestic securities, ÁKK issued only small amounts in the international FX bond market: a 3-year samurai bond totalling JPY 30 billion (EUR 228 million) and a 3-year Panda bond in the domestic Chinese market totalling CNY 2 billion (EUR 255 million). In addition to ensure funding of repurchase bond exchangeable for shares in Richter Plc. (pharmaceutical company) before expiry ÁKK issued EUR 1 billion Eurobond in 2018. The issuance of the Eurobond increased the debt of the central government managed by ÁKK, but due to the repurchase it did not increased the debt of the general government.

Foreign currency international bond issued by Hungary in 2018:

Currency	Amount	Date of issuance	Maturity	Tenor (years)	Coupon
JPY	30,000,000,000	22.03.2018	22.03.2021	3	0.370%
EUR	1,000,000,000	02.10.2018	22.10.2025	7	1.250%
CNY	2,000,000,000	19.12.2018	19.12.2021	3	4.30%

Source: ÁKK

New series of the domestic Premium Euro Hungarian Government Security was issued in 2018. The gross issuance of this domestic security was HUF 39 billion (EUR 121 million). Considering repurchases, the maturity of the P€MÁP totalling HUF 37 billion (EUR 114 million) and the maturity of the first series of the Residency bond totalling HUF 35 billion (EUR 107,5 million) the net issuance of these bonds was HUF -50 billion, less than planned as a result of less demand.

Series	Currency	Date of issuance	Maturity	Tenor (years)	Coupon
2021/Y	EUR	26.01.2018	22.09.2021	3	Floater (Premium)

Source: ÁKK

According to the plan ÁKK did not draw any project financing loans in foreign currency and contrary to the plan did not draw down from the Paks 2 nuclear power plant project. The original and early redemptions of foreign currency denominated loans amounted to HUF 169 billion, thus the net redemption totalled HUF -169 billion, less than planned by HUF 96 billion.

The net FX issuance amounted to HUF -265 billion (in accordance with the plan) in 2018. The negative net FX issuance contributed to the reduction of the foreign currency debt.

V. The government debt in 2018

During 2018 the central government debt increased by HUF 1,942 billion (or by 7.3 per cent) to HUF 28,688 billion. The size of the debt was influenced by several factors.

Funding the net financing requirement of the budget that consisted of the budget balance totalling HUF -1,445 billion (deficit) and other sources (e.g. EU transfers at the end of the year) totalling HUF 582 billion (surplus) increased the debt, while the decline of marked-to-market deposits placed at ÁKK (so-called 'other obligations') decreased the debt by HUF 107 billion. The depreciation of the Hungarian Forint against other currencies also increased the HUF value of the debt by HUF 209 billion. As a consequence of the significant revenues from the EU at the end of the year that decreased the net financing need of the budget, the safety reserves of the central government increased by HUF 750 billion in 2018.

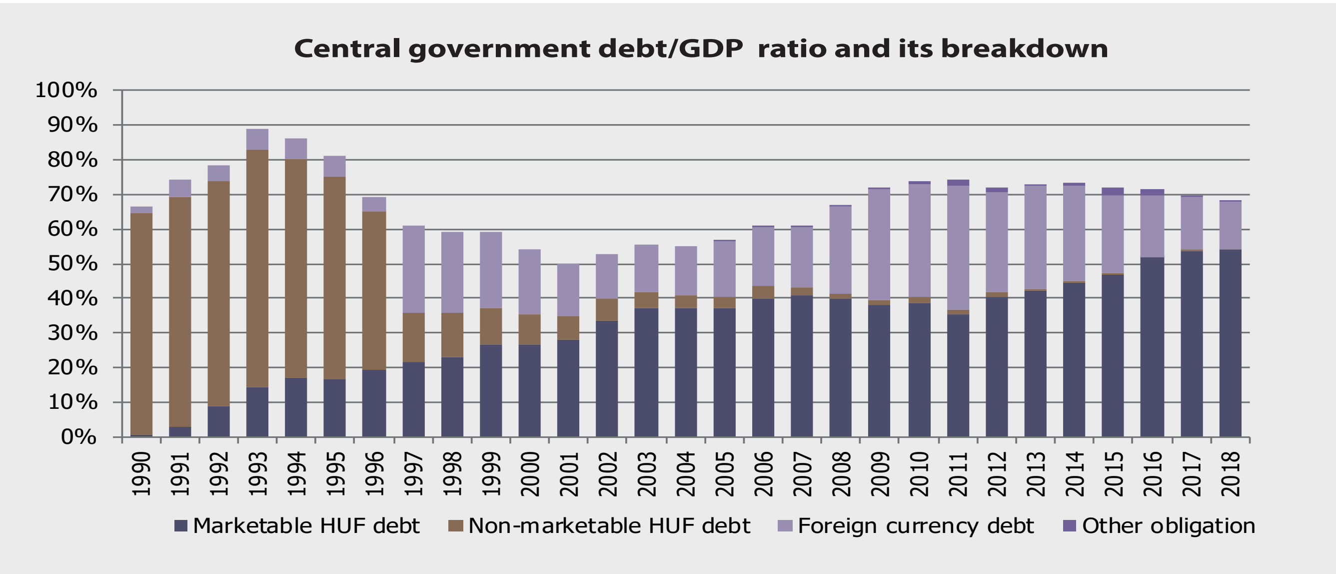
Central government debt

HUF Billion

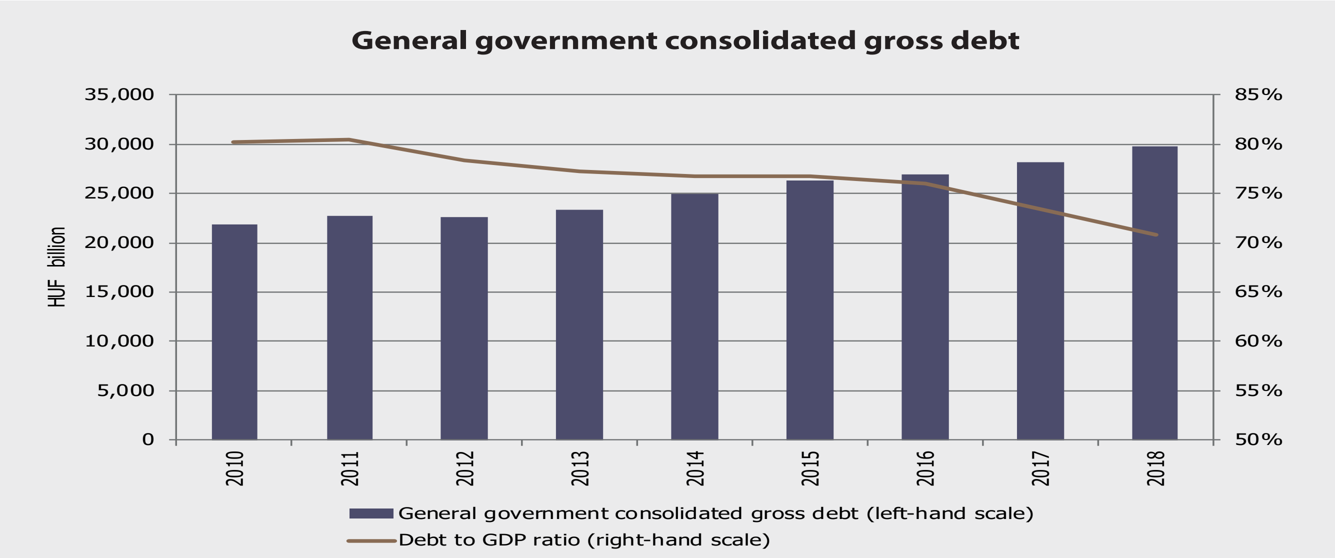
	2017		2018		Change
Domestic debt	**20,689**	**77%**	**22,796**	**79%**	**2,107**
Loans	1,041	4%	1,168	4%	127
Government bonds	11,806	44%	12,875	45%	1,069
Discount T-bills	6,803	25%	7,516	26%	713
Retail securities	1,039	4%	1,237	4%	198
Foreign currency denominated debt	**5,783**	**22%**	**5,725**	**20%**	**-58**
Loans	929	3%	795	3%	-134
Bonds	4,853	18%	4,930	17%	76
Total debt	**26,472**	**99%**	**28,521**	**99%**	**2,049**
Other obligations	274	1%	167	1%	-107
Grand total debt	**26,746**	**100%**	**28,688**	**100%**	**1,942**

Source: ÁKK

According to preliminary data, the central government debt (without marked-to-market deposits) managed by ÁKK decreased from 69.7 to 68.2 per cent of GDP, while the general government gross debt to GDP ratio decreased by 2.6 per cent to 70.8 per cent in 2018.



Source: ÁKK



Source: EUROSTAT (including debt of EXIM Bank)

Characteristics of the HUF debt portfolio

During 2018 the HUF denominated debt – which accounts for 79 per cent of the total debt – increased by HUF 2,107 billion (10.2 per cent) to HUF 22,796 billion. The net HUF issuance was higher than the net financing requirement and covered a large part of the FX redemption.

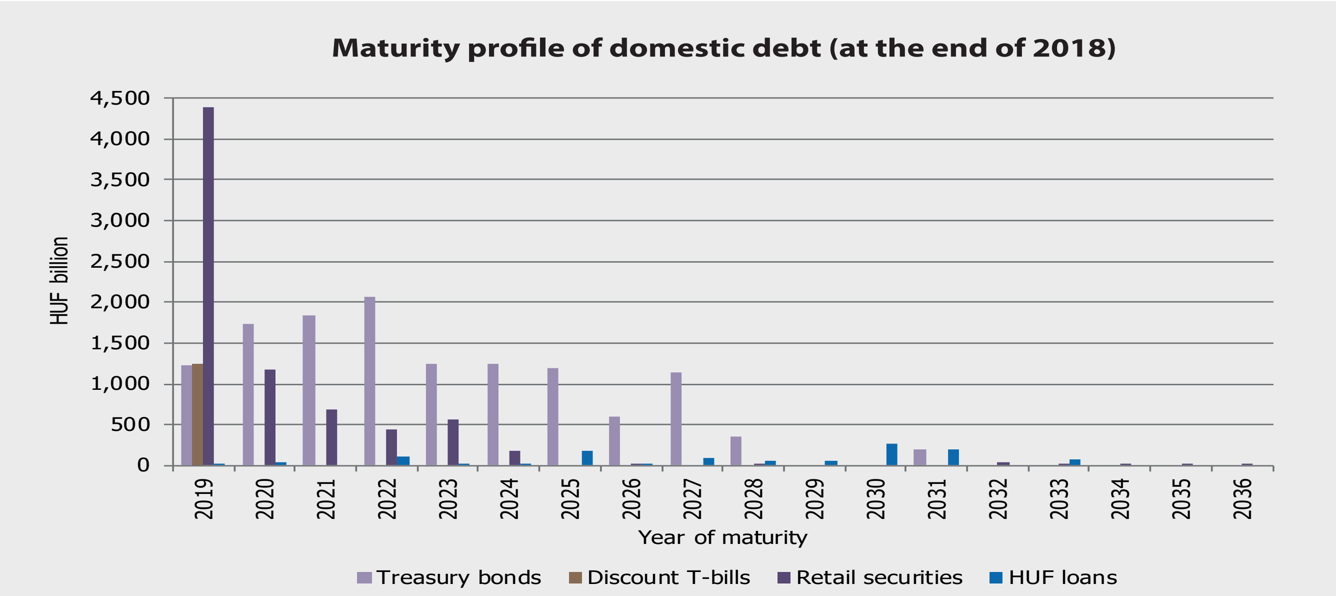
45 per cent of the total public debt was in the form of long-term HUF government bonds (excluding retail bonds). The total domestic wholesale bond portfolio of HUF 12,875 billion consisted of 24 bond series, the average size of a series was HUF 536 billion (ca. EUR 1.7 billion). 11 series had a volume in excess of HUF 600 billion (ca. EUR 2 billion), and the largest bond series reached a volume of HUF 1,194 billion (or EUR 3.7 billion). The average size of bond series increased in 2018.

The outstanding stock of discount T-bills increased by HUF 198 billion and amounted to HUF 1,237 billion. The discount T-bill stock consisted of 18 series with an average outstanding amount of HUF 69 billion.

In 2018 the portfolio of retail government securities increased to larger extent than planned, but the increase was much less than in the previous years (But contrary to previous years the total increase was driven by only the household sector.). The outstanding stock of retail securities increased from HUF 6,803 billion to HUF 7,516 billion. Retail securities accounted for 33.0% of the total domestic debt in comparison to their 32.9 per cent share at the end of 2017. Within the retail securities the stock of Treasury Savings Bills (securities available in the post office network) grew by HUF 27 billion and amounted to HUF 496 billion. The stock of inflation-linked Premium Hungarian Government Security and the floating rate Bonus Hungarian Government Security increased by HUF 584 billion and amounted to HUF 3,041 billion, while the outstanding amount of the Baby-bond (with a maturity of 19 years) totalled HUF 55 billion at the end of 2018. The outstanding stock of the fixed rate 2-year Hungarian Government Security grew up to HUF 500 billion in 2018. The outstanding amount of the 1-year Hungarian Government Security grew by HUF 60 billion and amounted to HUF 3,170 billion, while the stock of the Half-year Hungarian Government Security decreased by HUF 98 billion and amounted to HUF 254 billion.

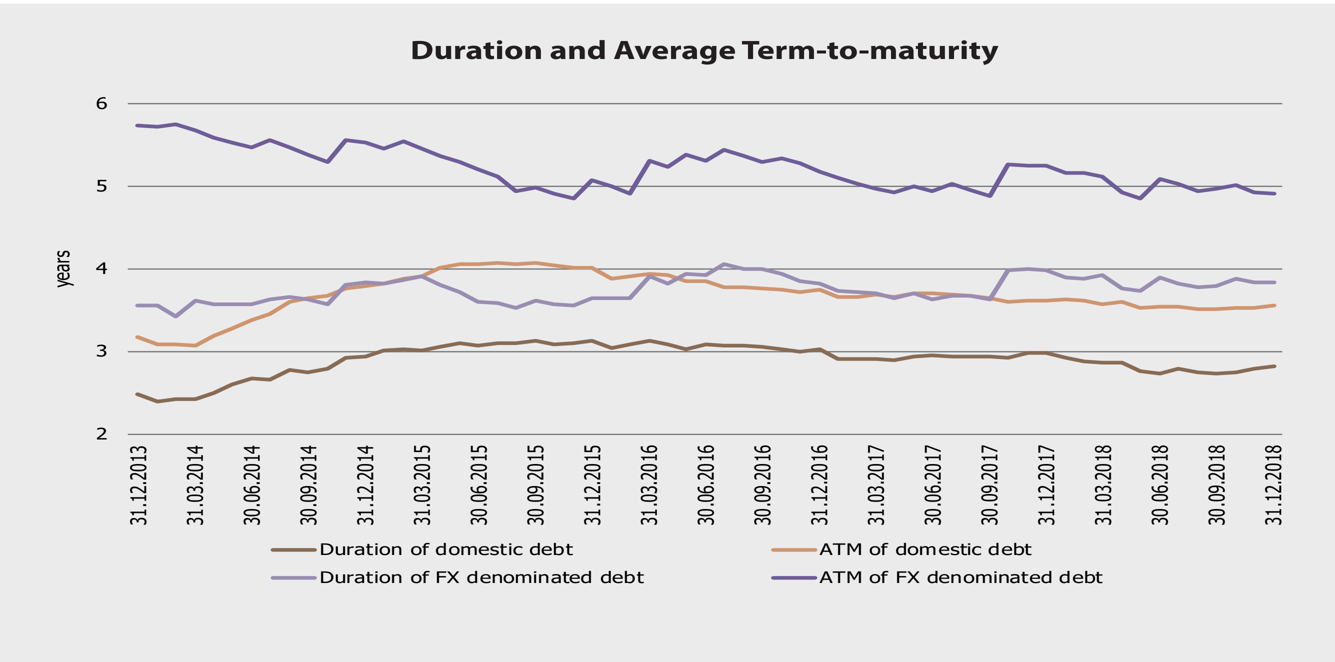
The non-marketable component of the HUF bond portfolio did not change in amount, but its proportion continued to decrease in 2018 as well, as there are no new issuances of such government bonds and the existing portfolio matures gradually (but there was not any maturities in 2018). The end-of-year volume of non-marketable government bonds was HUF 39 billion, less than 0.2 per cent of the total debt.

The volume of loans denominated in Hungarian forint increased in 2018 (as a result of new draw downs totalling HUF 144 billion and early repayment of HUF 17 billion) by HUF 127 billion to HUF 1,168 billion.



Source: ÁKK

As a result of the normal shortening and the increasing share of retail securities the duration and average term-to-maturity characteristics of the domestic debt decreased to a small extent. The duration of the HUF denominated debt portfolio decreased from 3.0 years to 2.8 and the average term-to-maturity was 3.6 years in 2018.



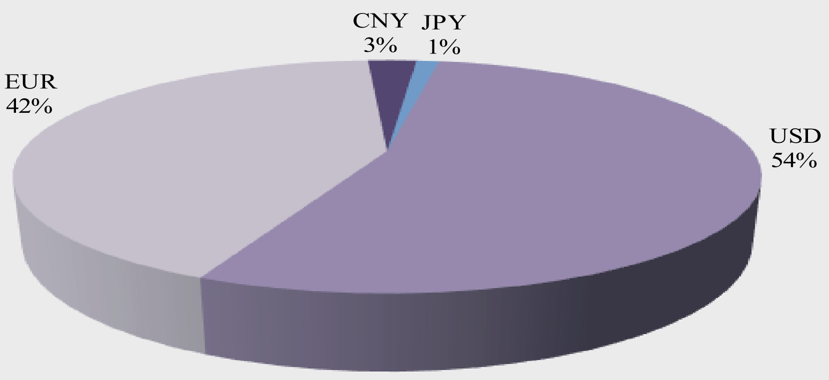
Source: ÁKK

Characteristics of the foreign currency debt portfolio

The gross foreign currency government debt decreased by HUF 58 billion in 2018, reaching HUF 5,725 billion (EUR 18 billion) by the end of the year. The share of foreign currency debt within the total gross government debt (excluding marked-to-market deposits) declined from 21.6 to 20.0 per cent during 2018.

The volume of outstanding foreign currency bonds (after swaps) reached HUF 4,930 billion by the end of the year, increasing from the end of 2017 (HUF 4,853 billion), mainly as a result of the higher than planned international foreign currency denominated bond issuance (due to the repurchase of the bond exchangeable for Richter shares) and also due to the depreciation of the forint. On 31 December 2018 there were 29 series of foreign currency bonds outstanding. 18 of which had been issued in euro (including the domestic euro bonds as well), 7 in US dollars, 3 in Chinese Yuan Renminbi and 1 in Japanese Yen. In accordance with the strategy and benchmarks, all non-euro bonds had been converted into euro liabilities through swap transactions. Bonds accounted for 84% of the total foreign currency debt portfolio.

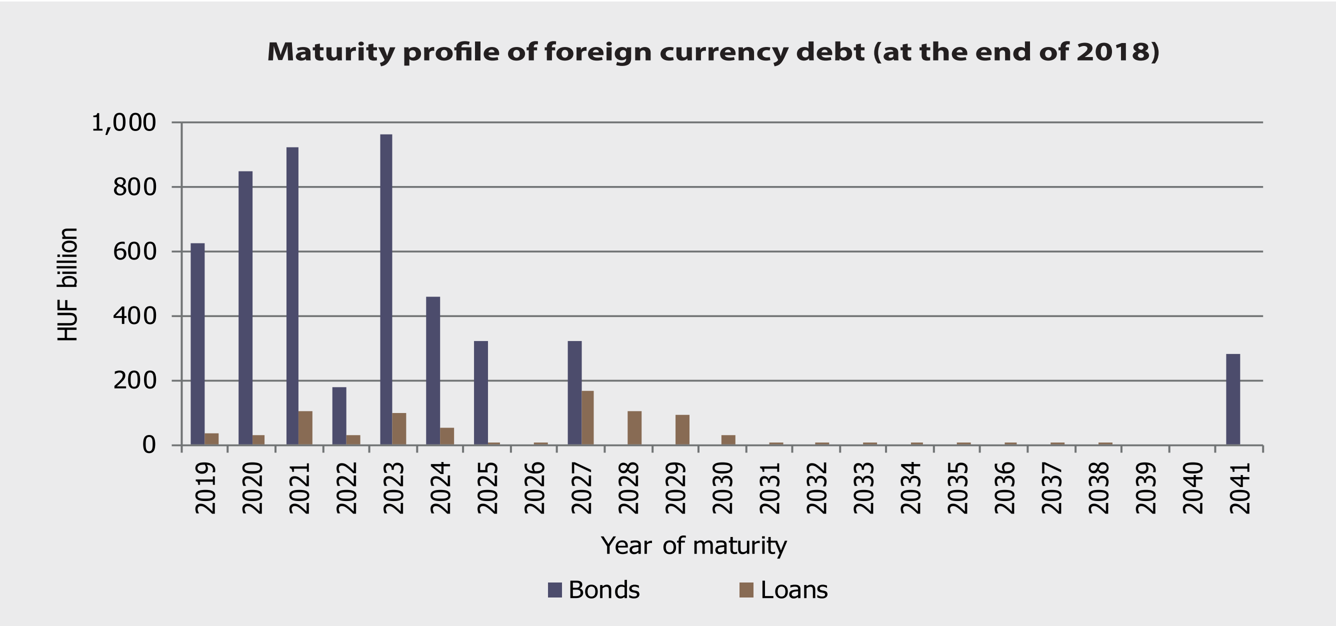
Breakdown of foreign currency debt before swaps by currencies at the end of 2018



Source: ÁKK

At the end of 2018 100% of the foreign currency debt was denominated in euro (after swaps).

The foreign currency loan portfolio consisted of long-term project financing loans from international financing institutions (e.g. EIB and CEB). As there was no new foreign currency loan draw downs in 2018, but large redemptions took place, the share of loans within the total foreign currency debt declined from 16 to 14 per cent in 2018.



Source: ÁKK

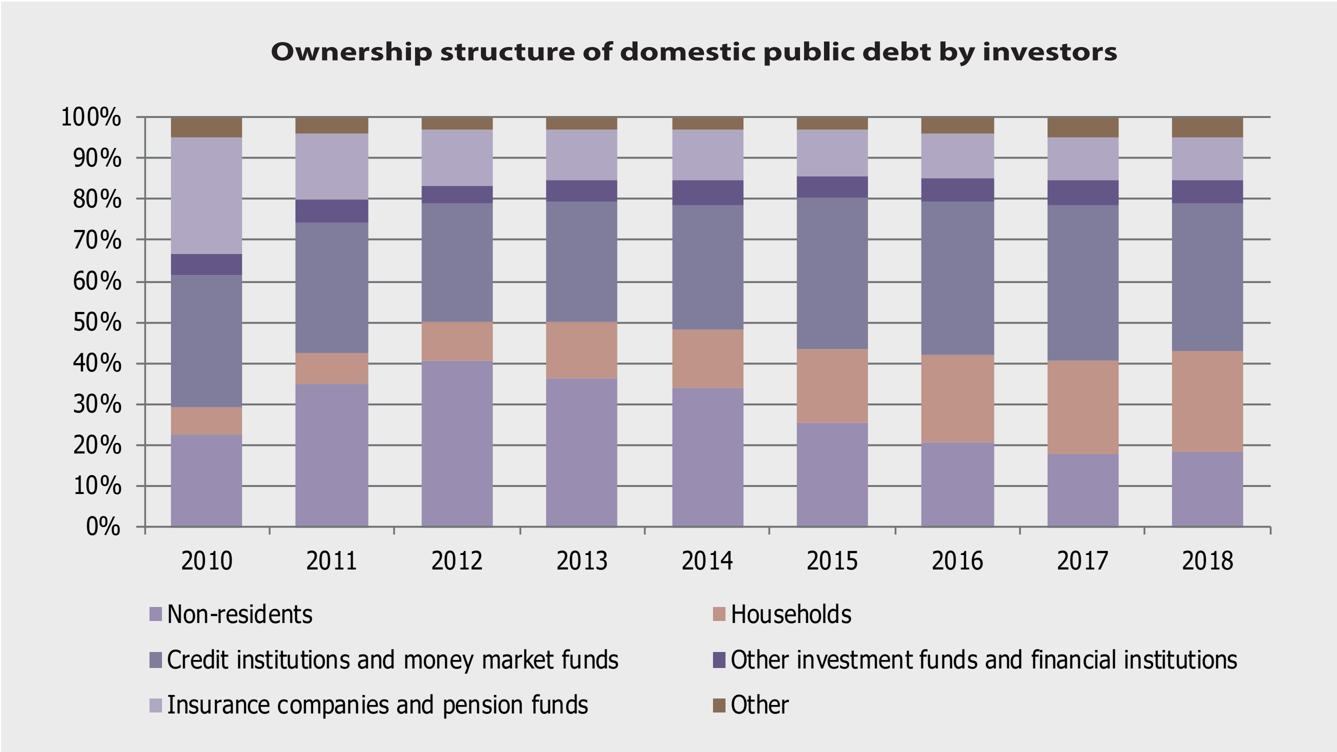
During 2018 the average term to maturity of the foreign currency portfolio decreased from 5.3 years to 4.9 years and the duration also decreased from 4.0 years to 3.8 years.

Other obligations

In order to reduce counterparty risk associated with the swap transactions concluded by ÁKK, so-called marked-to-market deposits are being placed as collateral covering the net value of their swap positions. Such deposits placed with ÁKK are shown as part of the government debt among 'other obligations'. Due to the appreciation of the euro against other currencies, the maturity of FX debt denominated in USD and other operations ÁKK had to pay back a significant part of the deposits placed at ÁKK to its swap partners. As of 31 December 2018 marked-to-market deposits placed with ÁKK totalled HUF 167 billion (EUR 0.5 billion), by HUF 107 billion less than at the end of 2017.

The ownership structure of government debt

According to statistics published by the National Bank of Hungary, the share of households continued to increase in 2018 and achieved 25 per cent of domestic public debt. After the dynamic drop of non-resident's ownership in the previous years, the share of the non-resident sector did not change in 2018 and remain 18 per cent. The share of insurance companies, pension funds and other investment funds did not change either, while the ownership of credit institutions decreased from 38 per cent to 36 per cent in 2018.



Source: NBH, KELER*, ÁKK

*Central Clearing House and Depository

In 2018 non-residents increased their share in the domestic market in nominal term. Non-resident holdings of HUF denominated government securities increased by HUF 575 billion to HUF 3,961 billion. At the same time the duration of their holdings decreased from 4.8 years to 4.5 years, while the ATM of their holdings decreased by 0.3 year to 5.1 years in 2018. Foreign investors keep holding primarily longer dated bonds, and both the duration and the ATM of the non-resident holdings are longer than that of the total outstanding stock of government securities.

VI. Liquidity management

According to the Act on the Economic Stability of Hungary, liquidity management of the central government is also the responsibility of ÁKK. The goal of ÁKK is to maintain the balance of the Treasury Single Account (TSA) which serves as a financing reserve at a targeted level and the excessive volatility of the cash balance is managed with liquidity management operations. These operations may be active (placement of funds) or passive (fund-raising) transactions, however, ÁKK only invests temporary excess liquid funds from the TSA if repo partners show adequate demand, otherwise it keeps the extra cash on the TSA.

In 2018 ÁKK used the following instruments to manage the end-of-day balance of the TSA:

- repo and reverse repo transactions with government securities;
- the issuance of liquidity discount treasury bills, usually with a 6-week tenor;
- regular bond buy-backs;
- active adjustment of the volume of discount treasury bills at auctions;
- temporary use of FX deposits.

The adequate instruments are chosen mainly as a function of the duration of the required liquidity adjustment; repos are very short term instruments, while liquidity discount T-bills, regular T-bills and buy-backs have longer term liquidity effects.

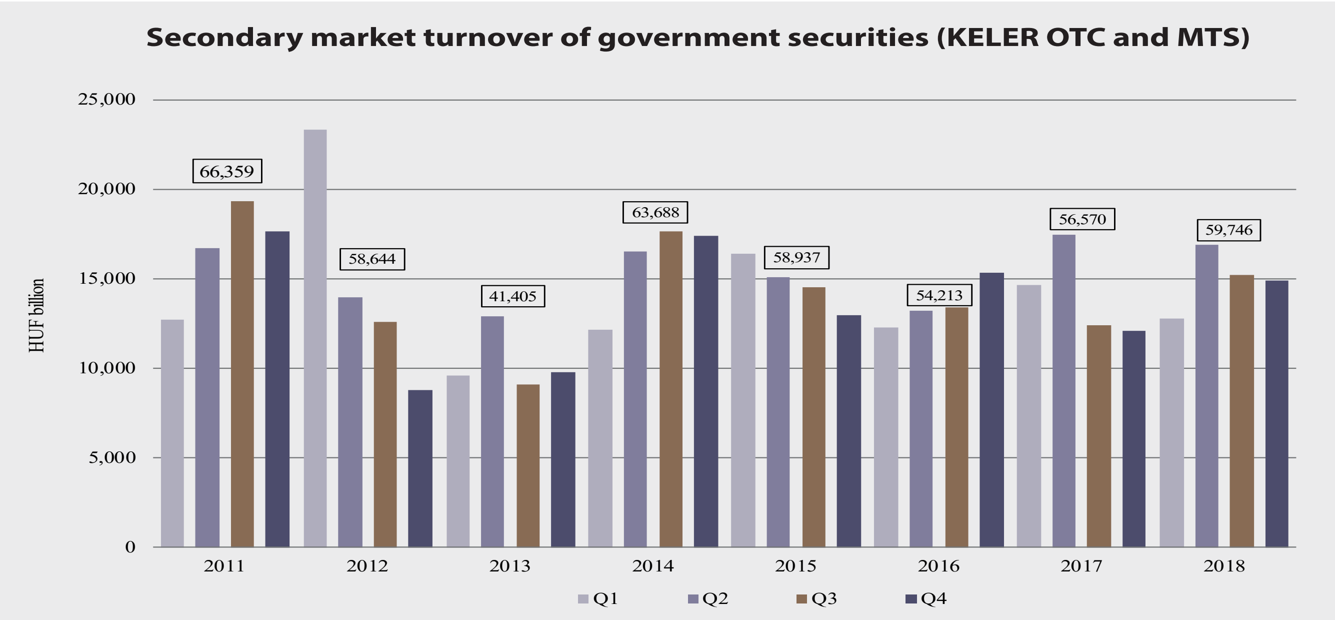
Sales of liquidity discount treasury bills took place 11 times in 2018 – mostly in the first half of the year and before the large bond maturity in summer - with a total volume of HUF 561 billion.

Liquidity repo transactions are ÁKK's main tool for fine-tuning the end-of-day balance of the Treasury Single Account. In 2018 the use of repo transactions increased slightly and totalled of HUF 24,564 billion. Liquidity management was effective and the end-of-day TSA balance was always higher than the minimum target level in 2018.

ÁKK concludes repo transactions not only for liquidity management purposes. The objective of the so-called stand-by repo facility is to support the price quotation of Primary dealers and to promote trading in government securities. If a Primary dealer needs temporary access to a quoted government security, but it is unable to obtain it in the market, that dealer may turn to ÁKK to provide the required security in a one-week repo transaction.

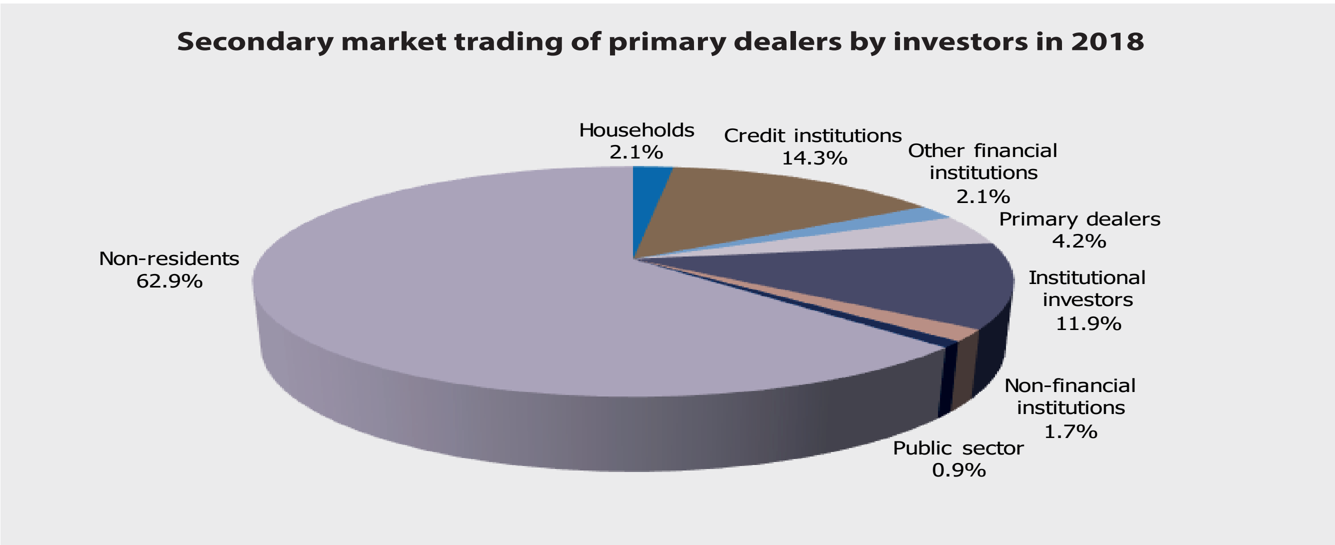
VII.The secondary market of Hungarian government securities

MTS Hungary is the main electronic platform of trading government securities and Primary dealers fulfil their price quotation obligations on this platform, however more than 99% of all secondary trade is executed in the over-the-counter (OTC) market. According to data from the KELER Central Depository Ltd., the total volume of OTC trading in government securities was HUF 59,349 billion in 2018 (more than 4 times the size of the total outstanding marketable debt), out of which 92 per cent was in government bonds and 8 per cent in discount treasury bills.



Source: KELER, Busapest Stock Exchange

The average size of deals with Primary dealers (excluding retail transactions) was HUF 824 million, which is higher by HUF 26 million than in the previous year. Over the year, the 2027/A government bond with a 9-year remaining term-to-maturity had the largest turnover (HUF 5,478 billion), followed by the 4-year 2022/B and the 7-year 2025/B bond.



Source: Primary dealers, ÁKK

The most active Primary dealer and the winner of the title 'Primary dealer of the Year' for 2018 was ING Bank N.V., while in the retail program the winner was OTP Bank.

VIII. The institutional framework for the issuance of government securities

ÁKK sells government securities through intermediaries to investors. In the domestic market, 89 per cent of HUF-denominated government securities were sold through the Primary dealers in 2018, the rest through retail channels.

The primary dealer system

The Primary dealer system for government securities was set up in 1996 in order to establish a more secure institutional base for the financing of government debt, to reduce the costs of debt management and to improve the transparency and liquidity of the secondary market in government securities.

Since May 2004, any investment firm or bank registered in any European Union or an OECD Member State may become a Primary dealer in Hungarian government securities if it meets the contractual requirements and signs a Primary dealer contract with ÁKK. Along with a number of obligations in the primary and secondary market, the Primary dealer status also guarantees exclusive rights. In 2018 6 out of the 14 Primary dealers were non-resident institutions.

Primary dealers at the end of 2018:

BNP Paribas SA
CIB Bank Zrt.
Citibank Europe Plc.
Deutsche Bank AG
Erste Befektetési Zrt.
Goldman Sachs International
ING Bank N.V.
J. P. Morgan Securities Plc.
K&H Bank Zrt.
Magyar Takarékszövetkezeti Bank Zrt.
MKB Bank Zrt.
OTP Bank Nyrt.
Raiffeisen Bank Zrt.
UniCredit Bank Hungary Zrt.

Only Primary dealers may:

1. directly submit bids at government bond and discount treasury bill auctions and submit offers at bond buy-back and exchange auctions;[3]
2. directly submit non-competitive bids at auctions and submit bids at the non-competitive phase after bond auctions;
3. use the stand-by repo facility provided to Primary dealers by ÁKK to support their secondary market trading and price quotation;
4. participate at the consultations organised by ÁKK;
5. use the title 'Primary dealer'.

[3] Other investors may submit bids at an auction indirectly, through a Primary dealer.

VIII.The institutional framework for the issuance of government securities

In addition to their exclusive rights, primary dealers are also ÁKK's main partners for international capital market transactions and liquidity management (repo) and other transactions. Primary dealers with broad distribution networks may also conclude a separate agreement with ÁKK for the trading of some of its retail government securities, the Half-year Hungarian Government Securities, the 1-year Hungarian Government Securities, the new 2-year Hungarian Government Securities, the Premium Hungarian Government Securities and the Bonus Hungarian Government Securities.

Retail debt programmes

The State Treasury's branch network provides direct access to government securities for retail investors. Supervised by ÁKK, the Treasury branch offices in Budapest and the county seats and other major cities quote two-way prices for retail investors for publicly issued bonds, Premium- and Bonus Hungarian Government Securities, Baby-bonds, discount treasury bills, the Half-, 1- and 2-year Hungarian Government Securities. Government securities may also be purchased and sold through the Hungarian State Treasury's online banking service, mobile application or by phone.

The Hungarian Post Office participates in the sale of three retail government securities. The 1 and 2-year Treasury Savings Bills are the only printed government securities, designed specifically for retail investors. Post Office also sells Treasury Savings Bill Plus, a dematerialised 1-year treasury bill.

The dealers of foreign currency bond issues

Lead managers of international EUR and USD bond issuances are selected from among the primary dealers (or its bank groups) individually for each transaction.

Lead managers in 2018:

Panda bond (CNY):	Bank of China Limited, HSBC Bank (China)
Samurai bond (JPY):	Daiwa Securities, SMBC Securities
Eurobond (EUR):	Deutsche Bank, Erste Bank Group, J.P.Morgan

On 20 November 2012, the sale of a new 3-year inflation linked domestic bond denominated in EUR ('Premium Euro Government Bond', P€MÁK) started, which became a success among investors. The bond is available in the Hungarian State Treasury network.

IX.The institutional framework and the objectives of government debt management

The government debt management is regulated by Act no. CXCIV. of 2011 on the Economic Stability of Hungary (the Stability Act). Among other provisions, this law and the Act no. CXCV of 2011 on the Public Finances authorises the minister responsible for the public finances (the Minister of Finance) to provide for the implementation of the central budget, financing of the deficit, continuous solvency of the budget, the repayment of debt and the management of temporarily free state funds. Annual budget acts make this authorisation more specific by stipulating the annual financing requirement. According to the provisions of the Stability Act, the minister responsible for public finances performs these tasks through the Government Debt Management Agency Pte. Ltd. (ÁKK). [4]

Pursuant to an amendment of the Public Finances Act, the Government Debt Management Agency Pte. Ltd. was established on 1 March 2001 as the legal successor of a government agency that had performed the same tasks. The organisation, which operates as an independent corporate entity, is a single-member corporation limited by shares registered at the Court of Registration. Its shares may not be traded, the Hungarian State is their sole and permanent owner, and these ownership rights are exercised by the minister responsible for the public finances (the Minister of Finance). The rules governing the operations of ÁKK as a company are stipulated by general legislation on the operation of companies. Accordingly, the management's activities are controlled by the Board of Directors, while ÁKK's operation is under the supervision of a Supervisory Board and an auditor pursuant to the corporate status. In addition to these internal management and audit mechanisms, the debt management activity is regularly audited by the State Audit Office. The operation of ÁKK is closely linked to the Ministry of Finance and the Hungarian State Treasury. The co-ordination of the professional activity of these organisations is carried out by the Minister of Finance.

According to the decision-making mechanism in place, the government debt management strategy, the annual financing plan and the benchmarks are approved by the Board of Directors, followed by approval from the Minister of Finance. All responsibilities of ÁKK, which are not the responsibilities of the Board are carried out by the Management of ÁKK.

[4] The most important provisions concerning the financing of the deficit and government debt management, effective as of December 2012, are provided in Section 4 of the Appendix.

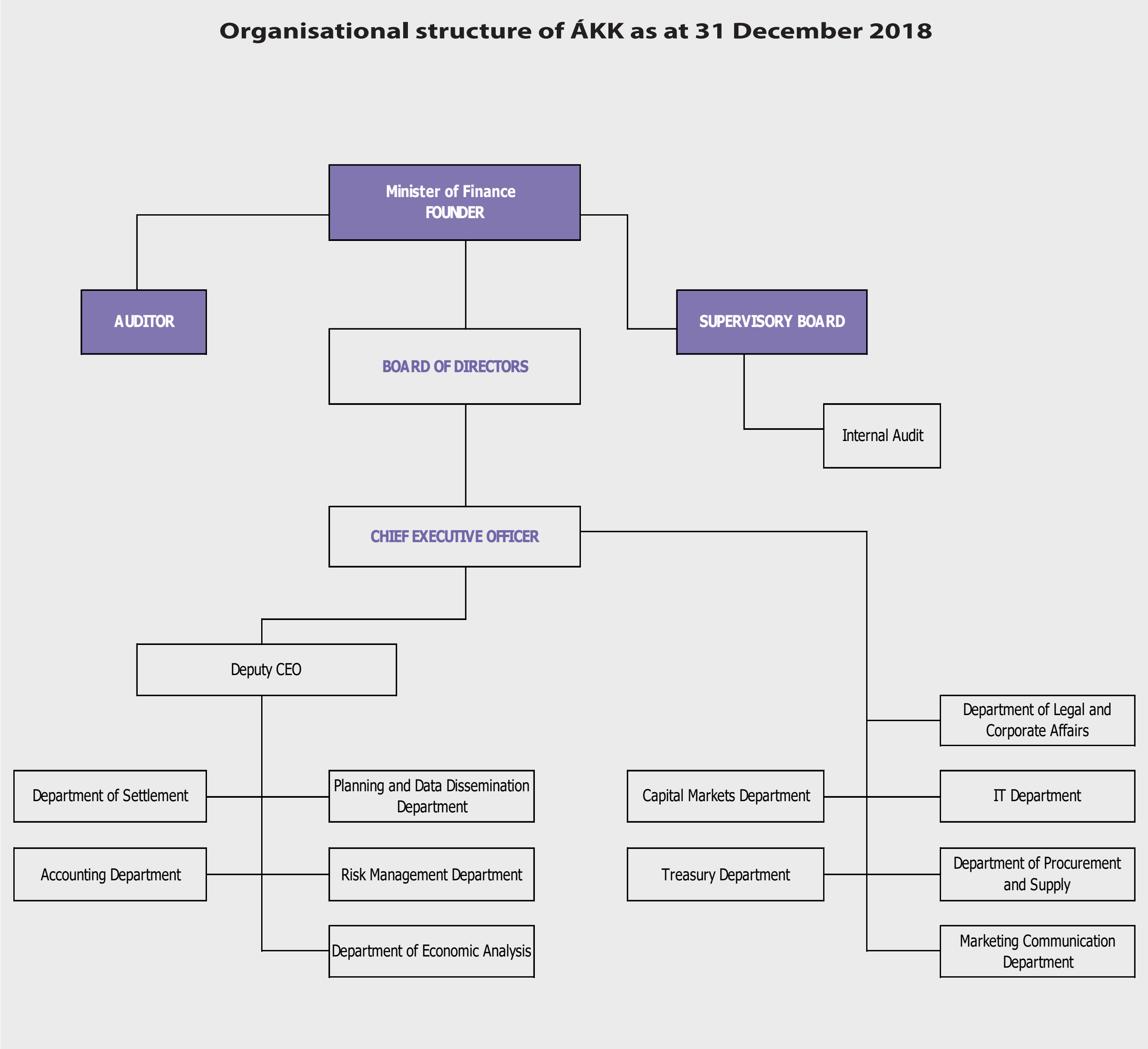
IX.The institutional framework and the objectives of government debt management

The responsibilities of ÁKK

According to the provisions of Article 13 of the Act on the Economic Stability of Hungary, the responsibilities of ÁKK include the following major tasks:

- developing a long-term financing strategy in line with economic policy, which determines the objectives of debt management and the means of their implementation;
- preparing the annual and medium-term financing plans and planning the annual interest expenditure based on the annual Budget Act and in line with the strategy;
- performing the required financing operations, i.e. organising and implementing both domestic and international government securities issuance and raising of loans;
- ensuring the payment obligations burdening the central government debt;
- managing the temporarily free cash funds of the state (liquidity management);
- effecting debt redemptions and interest payments;
- organising and continuously developing the government securities market (the primary dealer system, sales channels, secondary market etc.);
- expressing its opinion on the financial terms and conditions of borrowings with a state guarantee; on request, organising transactions with individual guarantees (with a lesser role for guarantees prescribed by legislation).
- may participate in the management of the free cash funds of the National Deposit Insurance Fund and the Reorganization Fund;
- may participate in management of cash funds of the Investor Protection Fund;
- may participate in financing related to MVM Paks II. Nuclear Power Plant Development.

IX.The institutional framework and the objectives of government debt management



X.The information services of ÁKK

ÁKK provides information to the general public about the central government debt and the developments in the government securities market. It fulfils these tasks using several media: its website, other electronic communications systems and its publications.

The website at www.akk.hu[5] provides a wide range of information about the government securities market and the government debt. Already the homepage shows the most important data, such as the latest news, the current volume of government debt, upcoming auctions, the latest auction results and daily market yields (benchmark fixings).

Other pages of the website provide information on ÁKK as a company, the goals, activities, legal framework and the organisational structure of ÁKK.

The "Statistics' menu provides access to main features of the government securities, the results of the auctions and subscriptions, yields, government security indices and statistics related to the secondary market, government debt and financing.

The 'Government securities issuance and trading' menu includes the description of types of government securities, rules of procedure and information about the sales system of government securities (Primary dealers, retail sale).

The 'Publications' menu provides access to the publications of ÁKK in electronic (pdf) format. The menu also contains the public analyses prepared by ÁKK.

The 'Releases' menu contains the press releases of the ÁKK.

A newsletter service is offered to registered users of the website free of charge. Subscribers receive newly uploaded data by e-mail or an e-mail notification about newly added contents.

For retail investors ÁKK set up another website, www.allampapir.hu, where they can find all relevant information about retail instruments (types, list of retail security dealers, descriptions etc.), but it is available only in Hungarian.

In addition to its website, ÁKK publishes auction and secondary market price quotation data on the information pages of Bloomberg and Thomson Reuters.

ÁKK holds regular press conferences on annual financing, the ranking of primary dealers and on other special topics. The press conference materials can also be found on ÁKK's website.

ÁKK also regularly informs interested readers in free publications. The following publications are available on the website:

- Annual reports (released in the third quarter of the year following the actual year);
- Debt Management Outlook publications (at the beginning of the actual year);
- Quarterly reports (the second month after the actual quarter);
- Monthly reports (at the end of the next month);
- Issuance calendar (in December of the year preceding the actual year).

[5] The site is also available at www.gdma.hu

1. The central government gross debt as at 31.12.2018 (HUF million)

HUF denominated debt			
Hungarian Government Bonds	Maturity	Coupon	Outstanding amount
2019/A	24.06.2019	6.50%	604,477.85
2019/B	20.05.2019	Floating rate	189,472.96
2019/C	30.10.2019	2.00%	282,117.31
2019/D	28.08.2019	Floating rate	127,716.46
2019/H1	22.04.2019	2.50%	185,735.59
2019/H2	22.07.2019	2.50%	49,467.14
2019/H3	22.10.2019	2.50%	63,870.68
2019/I	03.02.2019	Floating rate (retail)	4,896.47
2019/J	03.02.2019	Floating rate (retail)	13,636.49
2019/K	03.02.2019	Floating rate (retail)	32,227.34
2019/L	21.10.2019	Floating rate (retail)	180,632.15
2020/A	12.11.2020	7.50%	641,406.74
2020/B	24.06.2020	3.50%	701,560.07
2020/C	23.09.2020	1.00%	386,354.61
2020/H1	22.01.2020	2.50%	50,802.90
2020/H2	22.04.2020	2.50%	38,541.55
2020/H3	22.07.2020	2.50%	16,865.01
2020/H4	31.07.2020	3.00%	37,419.00
2020/H5	22.10.2020	3.00%	57,487.62
2020/I	24.04.2020	Floating rate (retail)	108,634.47
2020/J	26.08.2020	Floating rate (retail)	160,046.83
2020/K	29.07.2020	Floating rate (retail)	364,090.61
2020/N	20.05.2020	Floating rate (retail)	31,511.88
2020/O	20.05.2020	Floating rate (retail)	112,185.12
2020/P	22.07.2020	Floating rate (retail)	85,461.47
2020/Q	22.09.2020	Floating rate (retail)	8,835.30
2020/R	23.07.2020	Floating rate (retail)	40,629.54
2021/A	23.06.2021	Floating rate	408,805.34
2021/B	27.10.2021	2.50%	650,540.46
2021/C	21.04.2021	0.50%	700,054.49
2021/I	20.10.2021	Floating rate (retail)	257,925.43
2021/J	26.05.2021	Floating rate (retail)	98,674.23
2021/K	26.08.2021	Floating rate (retail)	334,983.71
2021/Z	22.09.2021	1.25%	80,932.63
2022/A	24.06.2022	7.00%	969,659.09
2022/B	26.10.2022	1.75%	1,090,936.15
2022/I	29.07.2022	Floating rate (retail)	225,363.16
2022/J	22.11.2022	Floating rate (retail)	204,541.88
2022/N	20.09.2022	Floating rate (retail)	9,188.66

2022/O	27.04.2022	Floating rate (retail)	2,314.58
2022/P	27.04.2022	Floating rate (retail)	1,911.80
2023/A	24.11.2023	6.00%	995,988.28
2023/B	26.07.2023	Floating rate	246,678.75
2023/I	22.03.2023	Floating rate (retail)	204,910.89
2023/J	28.09.2023	Floating rate (retail)	351,174.96
2024/B	26.06.2024	3.00%	885,843.21
2024/C	24.10.2024	2.50%	360,396.84
2024/I	21.02.2024	Floating rate (retail)	34,364.91
2024/N	26.08.2024	Floating rate (retail)	136,675.13
2024/O	24.04.2024	Floating rate (retail)	442.12
2024/P	24.04.2024	Floating rate (retail)	1,392.54
2025/B	24.06.2025	5.50%	1,194,604.66
2026/B	24.04.2026	Floating rate	39,177.72
2026/D	22.12.2026	2.75%	556,757.30
2026/N	22.09.2026	Floating rate (retail)	11,529.45
2027/A	27.10.2027	3.00%	1,136,894.34
2028/A	22.10.2028	6.75%	360,351.99
2028/N	22.03.2028	Floating rate (retail)	20,852.92
2028/O	22.03.2028	Floating rate (retail)	2,068.76
2031/A	22.10.2031	3.25%	201,048.26
2032/S	02.12.2032	Floating rate, Babybond	41,098.75
2033/S	01.02.2033	Floating rate, Babybond	4,618.34
2034/S	01.02.2034	Floating rate, Babybond	3,304.24
2035/S	01.02.2035	Floating rate, Babybond	2,875.00
2036/S	01.02.2036	Floating rate, Babybond	2,069.31
2037/S	01.02.2037	Floating rate, Babybond	853.53
2038/A	27.10.2038	3.00%	41,175.59
Matured, but unclaimed government bonds			83.21
Total			**16,449,145.75**
Repos with government bonds (repos actually increase or decrease the total amount)			22,205.82
Discount Treasury Bills			**1,237,307.46**
Repos with discount Treasury bills (repos actually increase or decrease the total amount)			0.00
1-year Hungarian Government Security			**3,169,833.92**
Out of which matured, but unclaimed			37.30
Half-year Hungarian Government Security			**253,782.89**
Treasury Savings Bills (Plus)			**100,403.94**
Treasury Savings Bills (1-year)			**265,536.91**
Treasury Savings Bills (2-year)			**129,993.67**
HUF loans			**1,167,690.99**
Matured, but unclaimed other retail government securities			52.80
Total HUF debt			22,795,954.15

Foreign currency debt					Outstanding amount (HUF million)	Outstanding amount (EUR million)
Syndicated loan and loans drawn down from revolving credit facilities*					**0.00**	**0.00**
Loans granted by International Financial Institutions*					**662,739.06**	**2,061.33**
Loans assumed from the market*					**132,236.31**	**411.30**
Government bond						
Maturity date	Currency	Amount in original currency	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
24.02.2020	EUR	860,300,000	15	3.88%	276,595.05	860.30
29.01.2020	USD	1,764,754,000	10	6.25%	495,789.99	1,542.07
29.03.2021	USD	2,628,222,000	10	6.38%	738,372.69	2,296.58
29.03.2041	USD	1,250,000,000	30	7.625%	351,175.00	1,092.27
11.01.2019	EUR	811,000,000	7	6.00%	260,744.61	811.00
21.02.2023	USD	1,923,938,000	10.0	5.38%	540,511.14	1,681.16
22.11.2023	USD	2,000,000,000	10	5.75%	561,880.00	1,747.63
25.03.2024	USD	2,000,000,000	10	5.375%	561,880.00	1,747.63
25.03.2019	USD	507,652,000	5	4.00%	142,619.75	443.59
25.04.2019	CNY	1,000,000,000	3	6.25%	40,810.00	126.93
27.07.2020	CNY	1,000,000,000	3	4.850%	40,810.00	126.93
10.10.2027	EUR	1,000,000,000	10	1.75%	321,510.00	1,000.00
22.03.2021	JPY	30,000,000,000	3	0.370%	76,362.00	237.51
22.10.2025	EUR	1,000,000,000	7	1.250%	321,510.00	1,000.00
19.12.2021	CNY	2,000,000,000	3	4.30%	81,620.00	253.86
Total					**4,812,190.24**	**14,967.47**
Cross-currency swaps					**-565,990.78**	
Premium Euro Hungarian Government Bond						
Code	Currency	Maturity date	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2019/X	EUR	20.09.2019	3	Floating rate, Premium	62,027.17	192.92
2020/X	EUR	22.09.2020	3	Floating rate, Premium	19,491.99	60.63
2021/X	EUR	22.09.2021	3	Floating rate, Premium	6,192.22	19.26
2021/Y	EUR	22.09.2021	3	Floating rate, Premium	37,580.18	116.89
Total					**125,291.56**	**389.70**

* Including swaps

Residence Bond						
Code	Currency	Maturity date	Maturity (years)	Yield Zero coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2019/T	EUR	20.12.2019	5	2.24%	143,232.71	445.50
2020/T	EUR	20.12.2020	5	2.00%	108,059.51	336.10
2021/T	EUR	20.12.2021	5	2.00%	2,893.59	9.00
2021/T1	EUR	27.03.2021	5	2.00%	5,594.27	17.40
2021/T2	EUR	27.06.2021	5	2.00%	19,387.05	60.30
2021/T3	EUR	27.09.2021	5	2.00%	31,636.58	98.40
2021/T4	EUR	27.12.2021	5	2.00%	70,121.33	218.10
2022/T1	EUR	27.03.2022	5	2.00%	37,520.22	116.70
2022/T2	EUR	27.06.2022	5	2.00%	112,271.29	349.20
2022/T3	EUR	27.09.2022	5	2.00%	27,585.56	85.80
Total					**558,302.12**	**1,736.50**
Total foreign currency debt					**5,724,768.49**	
Total central government debt					**28,520,722.64**	
Other obligations of ÁKK (marked-to-market deposits placed at ÁKK)					**167,443.93**	
Grand total					**28,688,166.57**	

2. The credit rating history of the long-term debt of Hungary

Foreign currency denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
20.04.1992	-	BB+	-
27.12.1993	Ba1	BB+	-
25.04.1996	Ba1	BB+	BBB-
28.10.1996	Ba1	BBB-	BBB-
19.12.1996	Baa3	BBB-	BBB-
24.06.1997	Baa3	BBB-	BBB
08.05.1998	Baa2	BBB-	BBB
11.12.1998	Baa2	BBB	BBB
25.06.1999	Baa1	BBB	BBB
29.10.1999	Baa1	BBB	BBB+
02.02.2000	Baa1	BBB+	BBB+
14.11.2000	A3	BBB+	BBB+
29.11.2000	A3	BBB+	A-
19.12.2000	A3	A-	A-
12.11.2002	A1	A-	A-
06.12.2005	A1	A-	BBB+
22.01.2006	A1	A-	BBB+
26.01.2006	A1	A-	BBB+
15.06.2006	A1	BBB+	BBB+
22.12.2006	A2	BBB+	BBB+
05.11.2007	A2	BBB+	BBB+
17.03.2008	A2	BBB+	BBB+
17.10.2008	A2	BBB+	BBB+
07.11.2008	A3	BBB+	BBB+
10.11.2008	A3	BBB+	BBB
17.11.2008	A3	BBB	BBB
02.03.2009	A3	BBB	BBB
30.03.2009	A3	BBB-	BBB
31.03.2009	Baa1	BBB-	BBB
02.10.2009	Baa1	BBB-	BBB
23.07.2010	Baa1	BBB-	BBB
06.12.2010	Baa3	BBB-	BBB
23.12.2010	Baa3	BBB-	BBB-
06.06.2011	Baa3	BBB-	BBB-
11.11.2011	Baa3	BBB-	BBB-

Foreign currency denominated debt			
Változás dátuma	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
24.11.2011	Ba1	BBB-	BBB-
21.12.2011	Ba1	BB+	BBB-
06.01.2012	Ba1	BB+	BB+
23.11.2012	Ba1	BB	BB+
20.12.2012	Ba1	BB	BB+
20.03.2015	Ba1	BB+	BB+
20.05.2016	Ba1	BB+	BBB-
16.09.2016	Ba1	BBB-	BBB-
04.11.2016	Baa3	BBB-	BBB-

Standard and Poor's and Fitch Ratings assigned a 'positive' rating outlook, while Moody's assigned a 'stable' rating outlook to the long-term foreign currency debt of Hungary at the end of 2018.

HUF denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
25.04.1996	-	-	BBB+
28.10.1996	-	A-	BBB+
24.06.1997	-	A-	A-
22.06.1998	A1	A-	A-
02.07.1998	A1	A-	A
11.12.1998	A1	A	A
29.11.2000	A1	A	A+
19.12.2000	A1	A+	A+
19.11.2002	A1	A	A+
12.01.2005	A1	A	A
27.05.2005	A1	A-	A
06.12.2005	A1	A-	A-
22.01.2006	A1	A-	A-
26.01.2006	A1	A-	A-
15.06.2006	A1	BBB+	A-
22.12.2006	A2	BBB+	A-
05.11.2007	A2	BBB+	A-
17.03.2008	A2	BBB+	A-
17.10.2008	A2	BBB+	A-
07.11.2008	A3	BBB+	A-

HUF denominated debt			
Date of change	Moody's	Standard and Poor's	Fitch Ratings
10.11.2008	A3	BBB+	BBB+
17.11.2008	A3	BBB	BBB+
02.03.2009	A3	BBB	BBB+
30.03.2009	A3	BBB-	BBB+
31.03.2009	Baa1	BBB-	BBB+
02.10.2009	Baa1	BBB-	BBB+
23.07.2010	Baa1	BBB-	BBB+
06.12.2010	Baa3	BBB-	BBB+
23.12.2010	Baa3	BBB-	BBB
06.06.2011	Baa3	BBB-	BBB
11.11.2011	Baa3	BBB-	BBB
24.11.2011	Ba1	BBB-	BBB
21.12.2011	Ba1	BB+	BBB
06.01.2012	Ba1	BB+	BBB-
23.11.2012	Ba1	BB	BBB-
20.12.2012	Ba1	BB	BBB-
20.03.2015	Ba1	BB+	BBB-
16.09.2016	Ba1	BBB-	BBB-
04.11.2016	Baa3	BBB-	BBB-

Standard and Poor's and Fitch Ratings assigned a 'positive' rating outlook, while Moody's assigned a 'stable' rating outlook to the long-term foreign currency debt of Hungary at the end of 2018.

3. The addresses of primary dealers

Primary dealer	Address
BNP Paribas SA	16 Boulevard des Italiens 75009 Paris, France
CIB Bank Zrt.	Budapest, H-1027 Medve utca 4-14.
Citibank Europe Plc.	Budapest, H-1051 Szabadság tér 7. (Hungarian Branch)
Deutsche Bank AG	Winchester House, 1 Great Winchester Street, London, EC2N 2DB, United Kingdom (London Branch)
ERSTE Befektetési Zrt.	Budapest, H-1138 Népfürdő u. 24-26
Goldman Sachs International	Peterborough Court, 133, Fleet Street, London EC4A 2BB, United Kingdom
ING Bank N.V.	Budapest, H-1068 Dózsa György út 84/B. (Hungarian Branch)
J.P. Morgan Securities Plc.	25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom
K&H Bank Zrt.	Budapest, H-1095 Lechner Ödön fasor 9.
Magyar Takarékszövetkezeti Bank Zrt.	Budapest, H-1122 Pethényi köz 10.
MKB Bank Zrt.	Budapest, H-1056. Váci u. 38.
OTP Bank Nyrt.	Budapest, H-1051 Nádor u. 16.
Raiffeisen Bank Zrt.	Budapest, H-1054 Akadémia u. 6.
UniCredit Bank Hungary Zrt.	Budapest, H-1054 Szabadság tér 5-6.

4. Selected parts of legislation governing the legal status of ÁKK and government debt management*

Act no. CXCIV of 2011 on the economic stability of Hungary

CHAPTER II

Reduction of government debt

1. Definition and calculation of government debt

2.§ (1) The current government debt index that should be taken into consideration in the course of the execution of the provisions stipulated in paragraphs (4) and (5) of Article 36 and paragraphs (2) and (3) of Article 37 of the Fundamental Law (hereinafter: the government debt index) is a quotient rounded to one decimal digit where

a) the dividend includes the value of the consolidated debt (debts after setting off debts owed by the central subsystem of the public finances, the local government subsystem of the public finances, general government and other organisations classified in the governmental sector to each other) (hereinafter jointly: government debt);

b) the divisor includes the value of the gross domestic product - calculated in accordance with the Council Regulation on the European system of national and regional accounts in the Community - as specified in this Act.

(2) The debt of the central subsystem of the public finances shall be the consolidated value of all transactions resulting in debts undertaken by legal persons belonging to the central subsystem of the public finances, as at the date of recording.

(3) The debt of the local government subsystem of the public finances shall be the consolidated value of all transactions resulting in debts which were undertaken by local governments, self-governments of minorities, regional development councils as defined in the Act on regional development and regional planning, multi-purpose microregional associations and other associations with legal personality (hereinafter jointly: local government), as at the date of recording.

(4) The debt of other organisations classified in the governmental sector shall be the consolidated value of all transactions resulting in debts which were undertaken by them on their own behalf, as at the date of recording.

3.§ (1) Transaction resulting government debt and its value:

a) borrowing, assumption of credit and loan facility as from the date of disbursement or the date of assumption to date of repayment, and the actual principal amount,

b) issuance of debt securities according to Act on Accounting (hereinafter: Accounting Act) from the date of issuance to the date of redemption, in case of interest-bearing security its nominal value, in case of other security its purchase price,

c) issuance of bill of exchange as from the date of issuance to the date of redemption, and the value of such obligation - excluding the interest - exchanged by such bill of exchange,

d) pursuant to the Accounting Act, finance lease concluded as lessee during the term of the lease, and outstanding principal amount stipulated in the lease contract,

e) concluding sale and repurchase agreement (stipulating repurchase obligation) as seller – real reverse transactions and repo transactions combined with security deposit as defined in Act on Accounting are also included – until the date of repurchase and the stipulated repurchase price,

f) three hundred and sixty-five days of grace - at least - for deferred payment and/or payment by instalments granted in contract, and the unpaid consideration,

g) marked-to-market deposits and their sum, deposited as the difference of derivative transactions with Government Debt Management Agency Pte. Ltd. (hereinafter: 'GDMA Pte. Ltd.') by credit institutions.

*This translation of the selected legal provisions serves only information purposes and is not an official translation.

(...)

Chapter III

The government debt management agency

4. Legal status of the Government Debt Management Agency

11.§ (1) Through GDMA Pte. Ltd. the minister responsible for public finances ensures the fulfilment of funding requirement of the central subsystem of public finances and ensures the financial operations executed in order to management of the debt falling under point a) b) e) and g) of paragraph (1) of Section 3.

(2) GDMA Pte. Ltd. is a single shareholder company (limited by shares), the company's shares are registered and non-negotiable securities.

(3) GDMA Pte. Ltd. is owned by the state, and the minister responsible for public finances exercises the rights related to the establishment and the ownership by and on behalf of the state, however, not entitled to absorb the rights of the Board of Directors.

(4) The operation of GDMA Pte. Ltd. – unless otherwise provided by the present Act – are governed by the provisions of the Civil Code related to the business associations.

(5) Executives of the state - as specified in the Act on central administrative agencies and the legal status of the Members of the Government and Secretaries of State - may hold positions on the Board of Directors and on the Supervisory Board of GDMA Pte. Ltd.

(6) The scope of authority of the Supervisory Board of GDMA Pte. Ltd. does not include the report on the debt management strategy of the central subsystem of public finances, the associated performance indicators and financing plans.

12.§ (1) GDMA Pte. Ltd. manages its assets autonomously within the framework of laws and regulations, the decisions of the shareholder and the decisions of the Board of Directors.

(2) The revenues of GDMA Pte. Ltd. are:

a) the appropriation assigned for this purpose in the Annual Central Budget Act, in relation to debt management of the central subsystem of public finances arising out of debt transactions falling under point a) b) e) and g) of paragraph (1) of Section 3, which is to be placed at the disposal of the company in equal monthly instalments,

b) other revenues.

(3) The interest, cost, fee and other expenses associated with revenues according to point a) of paragraph (2) shall be booked and paid by GDMA Pte. Ltd. to the charge of the chapter of the Act on the Annual Central Budget including budgetary revenues and expenditures of debt management of the central subsystem of public finances.

(4) GDMA Pte. Ltd. holds a bank account at the National Bank of Hungary [(hereinafter: 'NBH')] for its operations.

(5) GDMA Pte. Ltd. holds a securities custody account and a securities account at the Central Clearing House and Depository PTE Ltd. [(hereinafter: 'KELER')], may open a foreign currency account at the NBH or at credit institutions for its operations.

13.§ (1) In order to finance the deficit of the central budget, the minister responsible for public finances, through GDMA Pte. Ltd.

a) upon the authorization of the Central Budget Act, organizes the issuance of government securities, borrowing of loans and debt assumptions which shall be settled as debt of the central subsystem of public finances arising out of debt transactions falling under point a) and b) of paragraph (1) of Section 3,

b) elaborates the annual and medium-term financing plan of the central budget, develops the financing strategy of debt falling under point a),

c) ensures the payment obligations burdening the debt of central subsystem of public finances arising out of debt transactions falling under point a) and b) of paragraph (1) of Section 3,

d) ensures the solvency of the central government budget upon the authorization of the Annual Central Budget Act and by taking into account the forecast rendered in point b) of paragraph (1) of Section 76 by Act on the Public Finance, and the management of the temporarily free cash-funds of the state,

e) organises the secondary market of government securities,

f) executes dealing on own account on the secondary market of government securities, concludes security lending, repo and reverse repo transactions, concludes prompt, forward, hedge, swap and derivative transactions, and executes custodial and deposit management tasks,

g) analyses the tendencies of the government debt service falling under point a) and the government securities market,

h) participates in the calculation of the government debt, provides information on developments of government debt of the central subsystem of public finances arising out of debt transactions falling under point a) b) e) and g) of paragraph (1) of Section 3, and on the tendencies in the government securities market,

i) opines the terms and conditions of loans and bonds secured by individual government suretyship or guarantee,

j) executes credit and deposit operations,

k) participates in performing duties related to borrowing loans and credits and issuance of debt securities guaranteed by government suretyship or guarantee,

(2) For participation specified in point i) of paragraph (1), GDMA Pte. Ltd. receives remuneration – burdening the central government budget – equalling to - 0.025 per cent of the principal amount of the underlying transaction as a maximum. The Government shall determine the detailed regulation of such duties and remuneration of GDMA Pte. Ltd. in a decree.

(3) GDMA Pte. Ltd. may create debt securities on the separated sub-accounts of the securities account specified in paragraph (5) of Section 12 - without outright issuance and underlying financial claims - which may become objects of transactions specified in point f) of paragraph (1).

(4) In addition to its duties specified in paragraph (1), GDMA Pte. Ltd:

a) upon authorisation by a separate law may organize issuance of debt securities secured by government suretyship or government guarantee, or may fulfil advisory tasks related thereto,

b) may participate in performing duties – advice related to business strategy also implied – related to borrowing loans and credits, or issuance of debt securities by the state, municipality and business organizations owned thereby through majority ownership, for a remuneration to such extent as determined in paragraph (2),

c) may participate in the management of the free cash funds of the National Deposit Insurance Fund and the Reorganization Fund, and performing duties – advice related to business strategy also implied - related to borrowing loans and credits, or issuance of debt securities of such Funds,

d) upon authorization of law may fulfill payment obligations related to the realisation of the capital increase provided on behalf of the state to MVM Paks II. Nuclear Power Plant Development Private Company Limited by Shares financing the investment as defined in Paragraph 1 of the Section 1. of Act No. VII. of 2015 on the investment related to the maintenance of the capacity of the Paks Nuclear Power Plant and the amendment of related Acts (including the payments set forth in Section 2. of Article 1 of the Agreement promulgated by the Act No. XXIV. of 2014 on the promulgation of the Agreement between the Government of the Russian Federation and the Government of Hungary on the extension of a state credit to the Government of Hungary for financing of the construction of nuclear power plant in Hungary), in accordance with the method, amount and timing defined by the instrumentality exercising the entirety of the ownership rights and obligations of the state

e) may participate in the management of cash funds of the Investor Protection Fund.

14.§ (1) The minister responsible for public finances ensures the management of the temporarily free cash-funds of the state through GDMA Pte. Ltd.. Within such duty, GDMA Pte. Ltd. is entitled to execute operations falling under paragraph (1) of Section 13. Interests arising out of such operations shall be settled in favour of the central budget.

(2) In government debt management related civil law legal relationships, the state shall be represented by the minister responsible for public finances, who may exercise such incumbency right through GDMA Pte. Ltd., or may delegate such incumbency right in writing to GDMA Pte. Ltd..

(3) Transactions concluded by GDMA Pte. Ltd. within the framework of government debt management shall be deemed as concluded in favour of and charged to the state.

(…)

ACT No. CXCV. of 2011 on the public finances

Authorisation of the Minister responsible for the public finances

5.§ (2) In the central subsystem of public finances the minister responsible for the public finances ensures the consumption of the central budget surplus, financing the deficit of the central budget and the government debt management – without the establishment of financing revenues and expenses in the Central Budget Act.

5. The balance sheet and the profit and loss account of ÁKK

I. Balance sheet

data in HUF thousand

	Assets	2017	2018
	A) Fixed assets	88,596	106,021
I	Intangible assets	26,537	20,385
II	Tangible assets	49,464	75,099
III	Invested financial assets	12,595	10,537
	B) Current assets	458,147	426,946
I	Inventories	0	37
II	Receivables	14,519	19,323
III	Securities	0	0
IV	Cash and cash equivalents	443,628	407,586
	C) Accrued and deferred assets	16,201	13,490
	Assets in total	562,944	546,457

data in HUF thousand

	Liabilities	2017	2018
	D) Capital and reserves	444,295	442,178
I	Subscribed capital	300,000	300,000
IV	Profit reserve	54,914	54,914
VII	Balance-sheet profit or loss	89,381	87,264
	E) Provisions	0	0
	F) Liabilities	91,588	68,029
I	Subordinated liabilities	0	0
II	Long-term liabilities	0	0
III	Short-term liabilities	91,588	68,029
	G) Accrued and deferred liabilities	27,061	36,250
	Liabilities in total	562,944	546,457

Budapest, 18 March 2019

György Barcza
CEO

II. Profit and loss account

data in HUF thousand

	Liabilities	2017	2018
I	Net sales revenue	1,185,231	1,215,166
III	Other revenue	3,533	1,664
IV	Material expenses	261,767	289,719
V	Personnel expenses	781,911	778,026
VI	Depreciation and amortisation	40,946	48,143
VII	Other expenses	6,072	5,312
A	Operating profit or loss	98,068	95,630
B	Profit or loss from financial transactions	170	305
C	Profit or loss on ordinary activities	98,238	95,935
D	Extraordinary profit or loss	0	0
E	Profit or loss before taxation	98,238	95,935
XII	Tax payable	8,857	8,671
F	Profit or loss after taxation	89,381	87,264
23	Approved dividends	89,381	87,264
G	Balance-sheet profit or loss	0	0

Budapest, 18 March 2019

György Barcza
CEO

6. Senior officials of ÁKK in december of 2018

Members of the Board of Directors:

László Balogh, chairman

Péter Benő Banai, member

Viktor József Asztalos, member

Dr. Balázs Rákossy, member

Members of the Supervisory Board:

Judit Gondos, chairman

Dr. Viktor Várpalotai, member

Gergely Földiák, member

The Company's auditor:

DIAMANT Könyvvizsgáló Kft.

1223 Budapest, Gyula vezér u. 72.

Responsible auditor:

Terézia Bárány Director