GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

ÁKK

GOVERNMENT DEBT MANAGEMENT REPORT

2020

Foreword

The year 2020 was mainly characterized by the COVID pandemic which affected Hungarian public debt management in many ways. During the first few weeks of the outbreak of the pandemic in Q1 2020 the secondary market of Hungarian government securities was characterized by turbulences only seen back during the Global Financial Crisis, due to global risk avoidance and switching to home office by market participants. Another important change was in fiscal policy: managing the consequences of the pandemic and economic decline meant a much higher budget deficit and public debt. Not only fiscal policy changed but also monetary policy: Magyar Nemzeti Bank, the Hungarian central bank like international central banks started monetary expansion including government bond purchase programs resulting in steep declining government bond yields in 2020.

The market volatility in Q1 2020 was managed by ÁKK, the Hungarian Government Debt Management Agency: the suspension and then the gradual restart of obligatory price quotation and the increased frequency of bond auctions resulted in the efficient working of the primary and secondary markets of Hungarian domestic government securities. Government security issuances increased due to the higher net financing requirements, which was not only executed at lower yields but also at longer tenors. ÁKK introduced a new 20-year long benchmark bond with a maturity in 2041. As a result of these developments the ATM of the domestic debt increased from 4.15 years to 4.7 years while the share of non-resident investors declined. The main instruments of debt financing became the long tenor institutional bonds in 2020.

The financing of the higher deficit and the partial pre-financing of foreign currency maturities in 2021 was achieved by substantial foreign currency issuances in 2020. Green bond issuances played an important role in that financing operations: Hungary issued its first EUR Green bond and the first ever sovereign Green bond in Japan. The foreign currency bond transactions were successful and these were acknowledged by several international professional awards. Hungary would go on issuing Green bonds and ÁKK announced that it would issue 30-year Hungarian forint denominated Green bonds in 2021.

A very important part of the Hungarian public debt management is the retail debt program. While the first reaction to the pandemic was a halt in retail sales after that ÁKK noticed a substantial development of the program. After the successful online sales channel of the Hungarian State Treasury more and more banks started to offer retail government securities online. As a result the retail products in HUF and EUR held by households increased by HUF 1,058 billion (13 per cent) in 2020. Another development was the increasing tenor of retail debt, since the share of the 5-year Hungarian Government Security Plus increased and that meant a 0.4 year longer tenor increasing to 3.1 years. ÁKK also increased the effectiveness of the retail program by buying back non-retail owned securities, which together with maturities resulted in a decline of non-retail owned stock of HUF 919 billion, which meant that 96 per cent of retail debt was in the hands of households by the end of 2020.

As a result of issuing long-term wholesale bonds, the lengthening of the retail portfolio and issuing long-term foreign currency bonds ÁKK was able to lengthen the maturity of the total debt portfolio in line with the debt management strategy at historically low yields. Total maturity increased by more than a year from 4.3 years to 5.4 years, reducing annual refinancing requirements and lowering interest rate risk of the public debt portfolio.

Zoltán Kurali
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)).

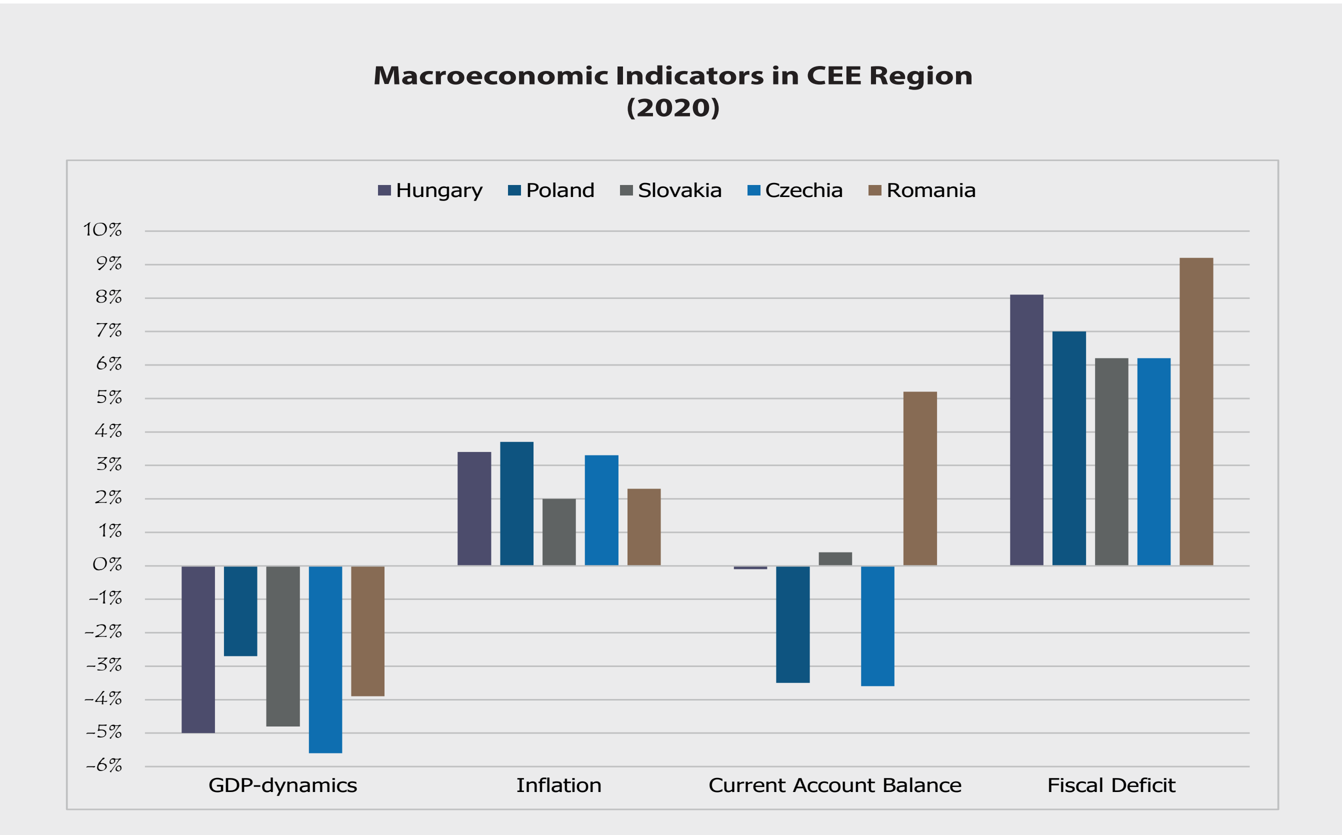
The debt data published by ÁKK in accordance with Hungarian and international accounting standards differs from the debt data used by Eurostat (the European Union's institute of statistics), which is calculated according to different principles and is essentially the result of statistical calculations.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

I. Macroeconomic developments in 2020

In 2020 global economic developments were determined by the corona virus pandemic. Economic activity declined both in the European Union and CEE countries. However, after the recession in Q2 2020 a rapid but partial recovery followed already in Q3. Governments and central banks reacted globally to the recession with fiscal and monetary measures. The Magyar Nemzeti Bank, the central bank of Hungary also introduced new monetary easing measures providing a favourable environment for public debt management in need of financing a much higher net borrowing requirement.

Hungarian macroeconomic figures – especially budget deficit – worsened substantially in 2020, however several data (e.g unemployment, current account balance) even improved in international or regional comparisons.

Regional Comparison



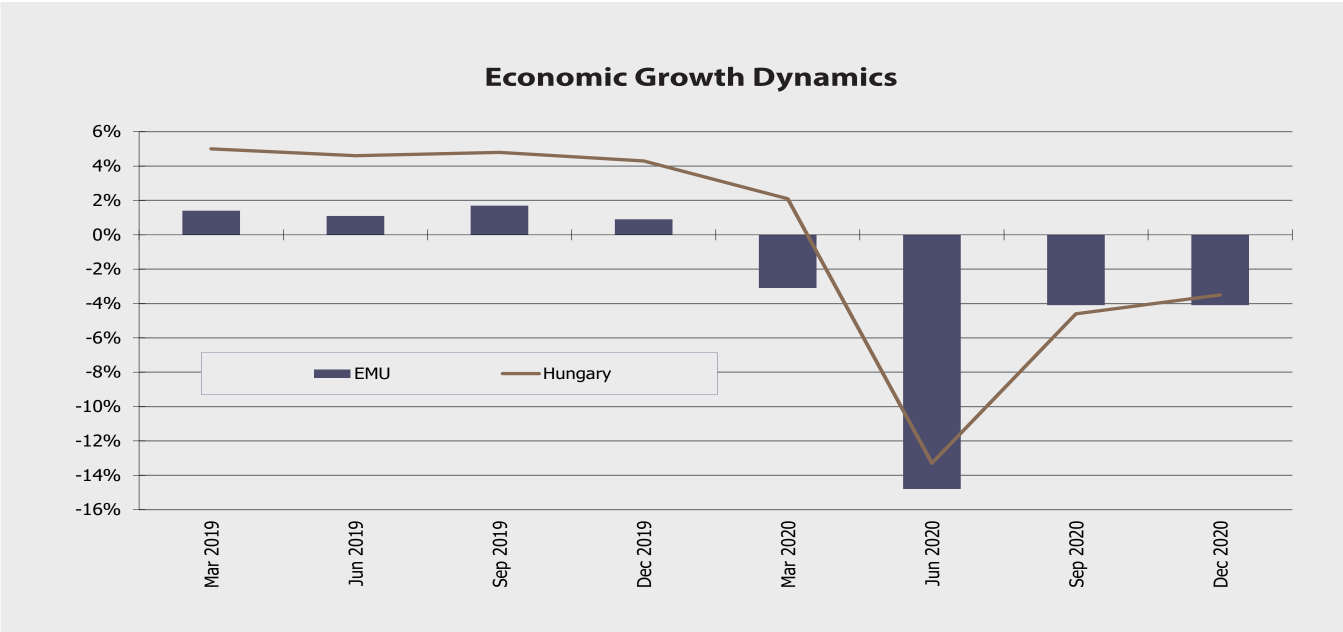
Source: Eurostat

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

I. Macroeconomic developments in 2020

During 2020 economies in the Central and Eastern European region showed a decreasing economic activity due to the COVID pandemic. Economic decline was the highest in the Czech Republic (5.6%), in Hungary (5.0%) and the Slovak Republic (4.8%). The size of decline was lower in Romania (3.9%) and Poland (2.7%). Inflation stayed moderate as a result of different factors, while fiscal policy increased the demand, the pandemic and economic recession did not let inflation rise: inflation in Hungary was 3.4%, in the Czech Republic 3.3%, in Romania 2.3% and in the Slovak Republic 2.0%. Current account posted a large surplus in the Czech Republic (3.6%) and Poland (3.5%), a small surplus in Hungary (0.1%), a modest deficit in Slovakia (0.4%) and a higher one in Romania (5.2%). Fiscal deficit soared as fiscal policy reacted to the pandemic: it was 9.2% in Romania; 8.1% in Hungary, 7.0% in Poland, 6.2% in both the Czech and the Slovak Republic. In the European Union all but Denmark had a higher than 3% budget deficit due to the pandemic.

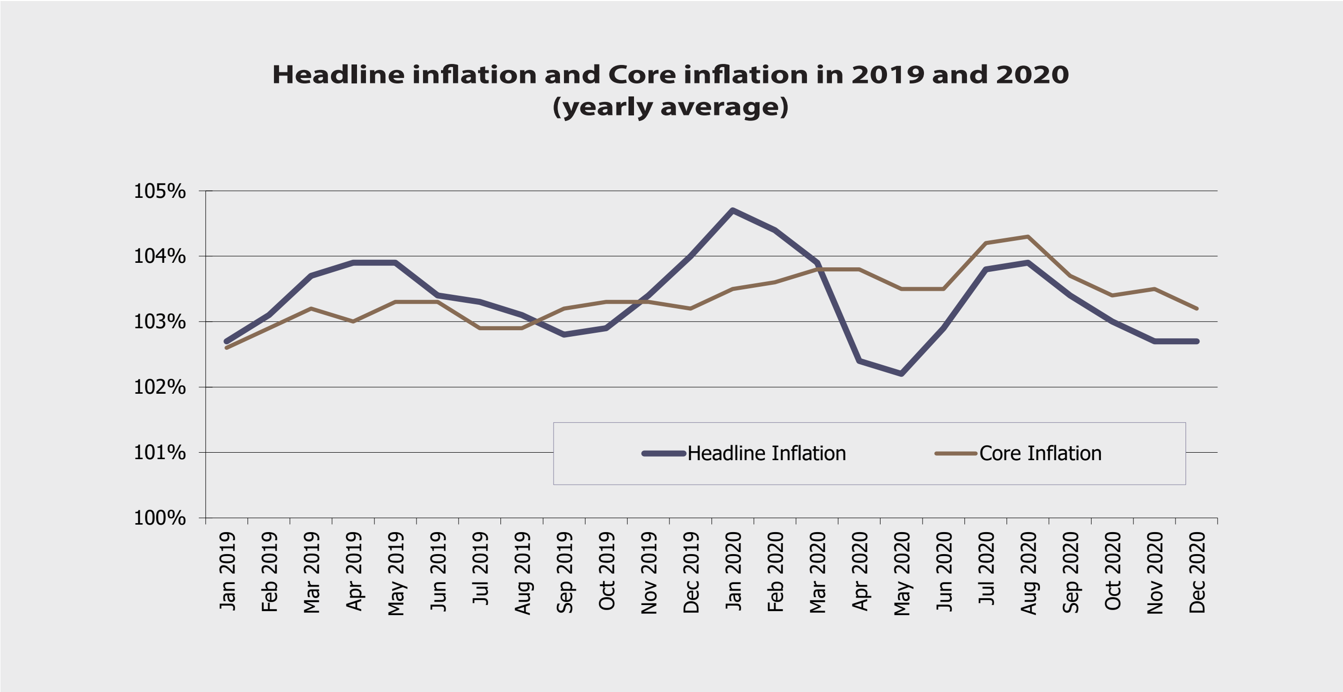
Economic Growth



Source: Central Statistical Office (CSO), Eurostat

While economic growth was 4.6% in 2019, it turned into a 5.0% decline in 2020, but it was still better than the average growth rate of the EU (and the Eurozone). Economic activity shrank in all economic sectors except information and communication, finance and insurance in 2020. The most important sectors, the industry and services sectors both decreased significantly (by -4.9% and -4.7%). The construction sector posted a high (9.4) decline, as it was particularly hit by the pandemic and its decline was due to basis effects as well. Due to relatively unfavourable weather conditions in 2020 activity in agriculture decreased by 6.8%. The sector worst hit by the pandemic was tourism and catering with a decline of 32.2%. Regarding final use of GDP, consumption declined by 2.0% and investments by 5.5%. Exports and imports both declined (by -6.8% vs. -4.4%) relative to the previous year, so net exports detracted the GDP growth rate to -5.0%.

Inflation



Source: CSO

Inflation decelerated from 4.0% in December 2019 to 2.7% in December 2020 approaching the inflation target of the central bank, while core inflation remained at 3.2%. The price level of two main groups of consumption increased above average: food products by 4.9% and alcoholic beverages and tobacco by 8.8%, the latter partly because of higher indirect taxes. Inflation was low in durable goods (2.8%), households energy and heating (0.2%) and services (1.7%).

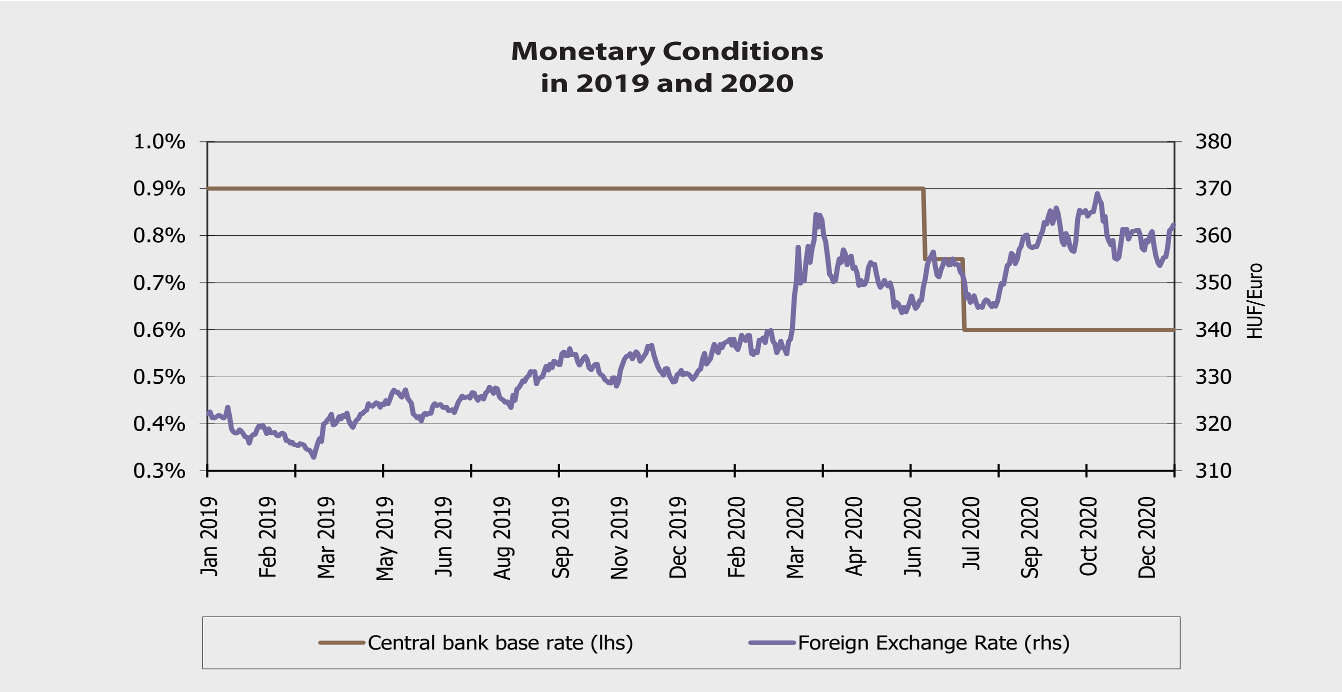
Monetary Conditions

During 2020 Hungarian monetary policy relied mostly on non-conventional measures. In March 2020 the central bank introduced 1-week FX swap tenders to provide HUF liquidity and a long term (up to 5-year) collateralized lending facility to support banks' liquidity management and to strengthen the government securities market at the outbreak of the pandemic. Later the central bank also started a so-called 'Funding for Growth Go!' program to support enterprises and in May it started a Government Security Purchase Program, which was relaunched and increased in size in the summer of 2020.

The Monetary Policy Council decreased the base interest rate twice from 0.9% to 0.6% in June and July, however, as a reaction to the volatile money market the central bank also introduced several measures to manage money market liquidity: it introduced a short-term 1-week deposit facility at a higher (0.75%) interest rate and increased the short-term lending rate to 1.85%.

The foreign exchange rate of the forint weakened by 10.5% during 2020 from 330.52 HUF/EUR to 365.13 HUF/EUR.

I. Macroeconomic developments in 2020



Source: NBH

During the first quarter of the year the Hungarian Forint depreciated to 340 HUF/EUR due to mainly external causes. As a result of the pandemic and falling economic expectations the HUF exchange rate declined – similarly to regional currencies – rapidly to between 350 and 360 HUF/EUR in Q2 2020.

In summer a correction took place. International economic environment improved substantially as after the severe economic downturn in Q2 a fast recovery looked likely. Hungarian management of the pandemic was effective, which was also helped by the accommodative US and European monetary and fiscal policies. The Hungarian currency appreciated to HUF 345 HUF/EUR during the summer.

During the fall, the Hungarian Forint again depreciated to HUF 370 HUF/EUR as a result of new waves of the pandemic, worse economic activity data and international events (pre US election fears and slow developments in the process of Brexit).

For the rest of the year the forint appreciated as better Hungarian macroeconomic news came out and international factors improved (US elections were over and Brexit problems looked solved).

Fiscal Policy

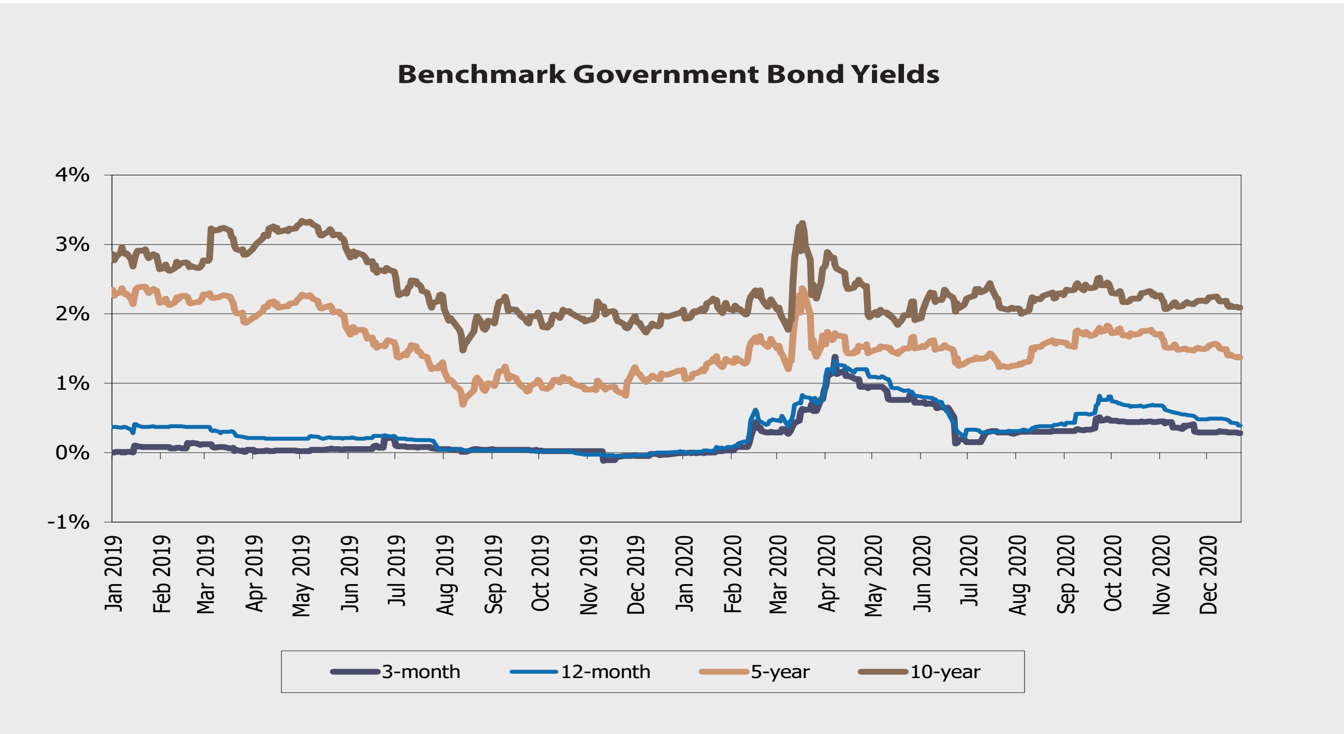
The deficit of the public sector was 8.1% of GDP based on the financial accounts methodology, the cash-flow based (GFS) central government deficit amounted to HUF 5,548.6 billion (equalling 11.6% of GDP for the year 2020). In 2020, the accrual based (ESA) general government deficit (including local governments) amounted to HUF 3,869.6 billion (equalling 8.1% of GDP for the year 2020). The financing need of the state for the year 2020 increased substantially in comparison to the previous year as a reaction to the pandemic and due to needed fiscal policy measures.[1]

Financing Position of the Economy

The households' savings to GDP ratio was stable and amounted to 6.1%. The net financing need of the corporate sector reached 1.0%. The economy of Hungary as a whole towards the rest of the world was in a close to zero position. The current account posted a small deficit of EUR 0.1 billion or 0.1% of GDP.

Developments of Government Securities Markets and Yields

During the course of the year forint yields for all tenors fluctuated significantly and increased (except the 15-year tenor) taking into account the whole twelve-month period. During the course of the year forint yields for all tenors fluctuated significantly and increased (except the 15-year tenor) taking into account the whole twelve-month period.

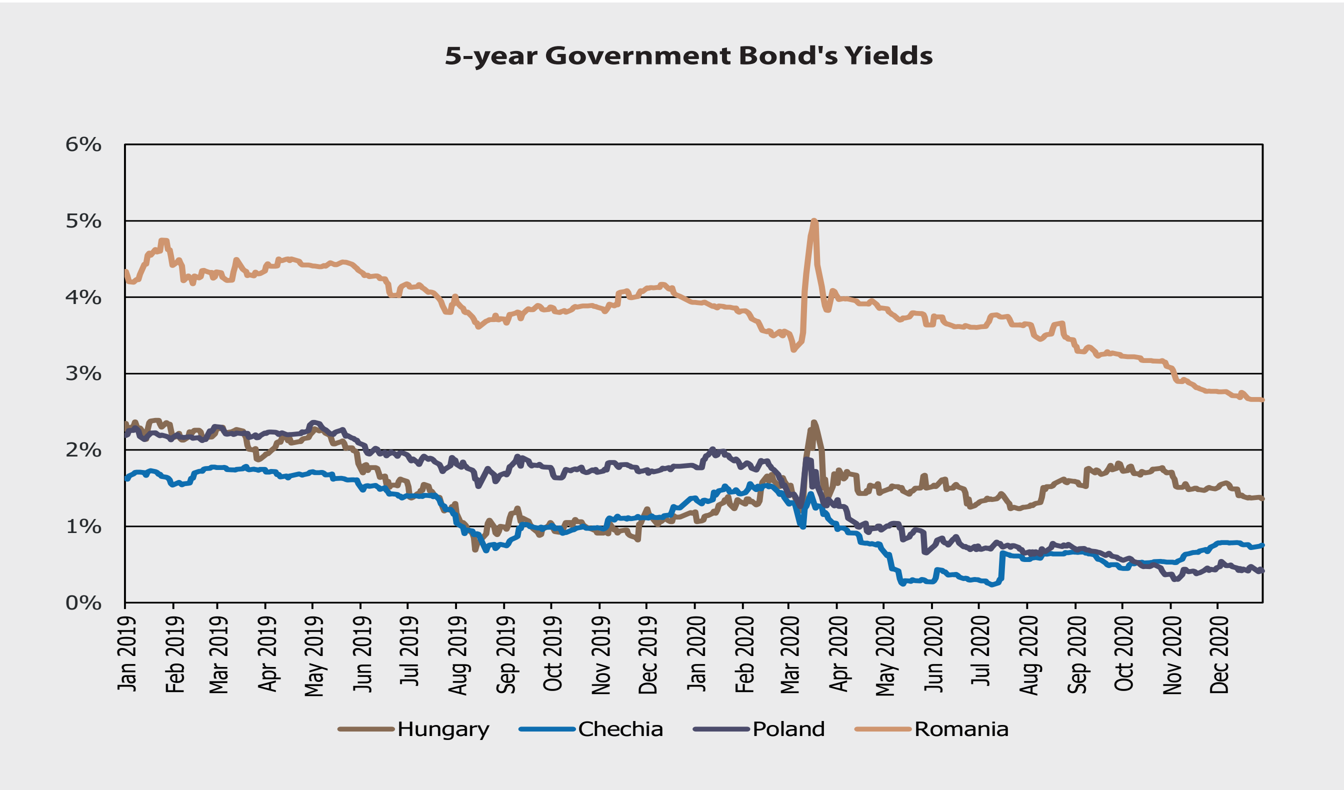


Source: ÁKK

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

In early 2020 short-term government bond yields fluctuated around zero. In March, with the global spread of the corona virus, short-term yields jumped to over the base rate of 0.90% of the central bank. Thereafter between March and June Treasury bill yields stabilized below the base rate. After a period of worsening due to the second wave of the pandemic in September short-term yields decreased again until the end of the year because of improving economic expectations, the successful management of the pandemic and the monetary easing of the Magyar Nemzeti Bank, the central bank of Hungary.

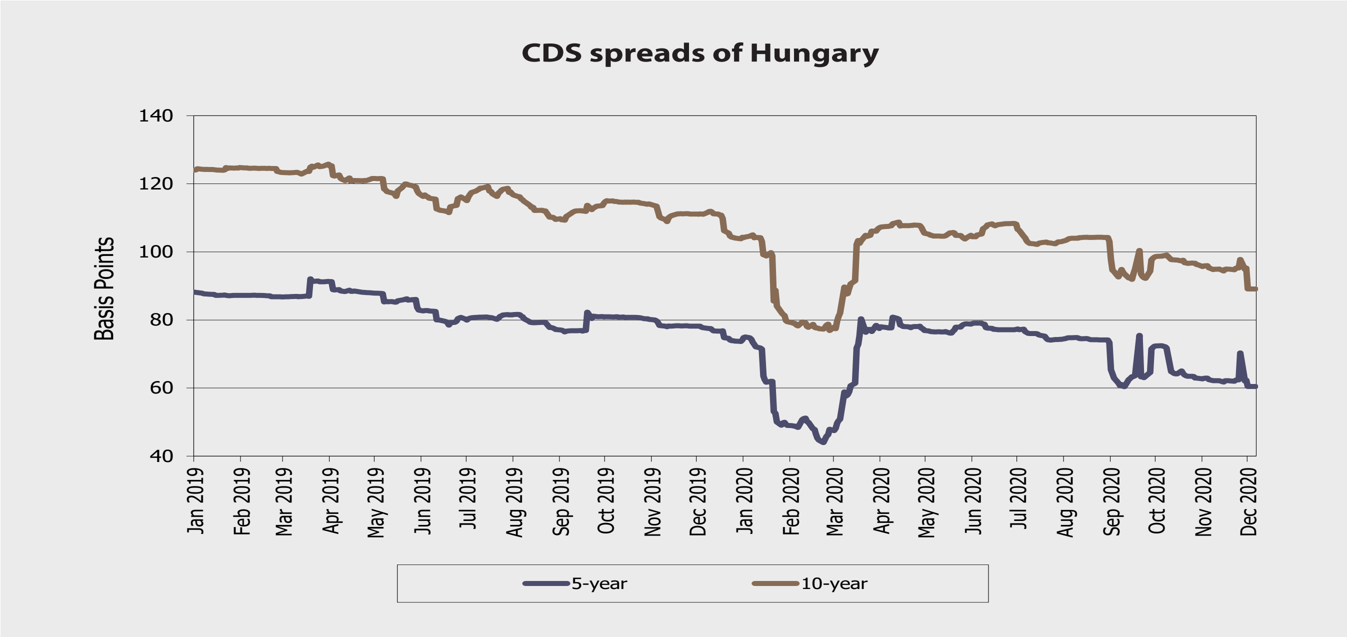
Long-term bond yields increased slowly in the first two months of 2020 and then rapidly in March with the outbreak of the pandemic. Fast fiscal, monetary and debt management policy reactions stabilized the markets. These policy changes ensured that the effects of the second wave of the pandemic were moderate on the domestic bond market and long-term yields declined during the end of the year, helped by the QE of the Magyar Nemzeti Bank in the secondary bond market.



Source: Bloomberg

At the end of 2020 the 3-month yield declined to 0.28%, the 12-month yield increased to 0.39%, the 5-year yield amounted to 1.36% and the 10-year yield stood at 2.08%.

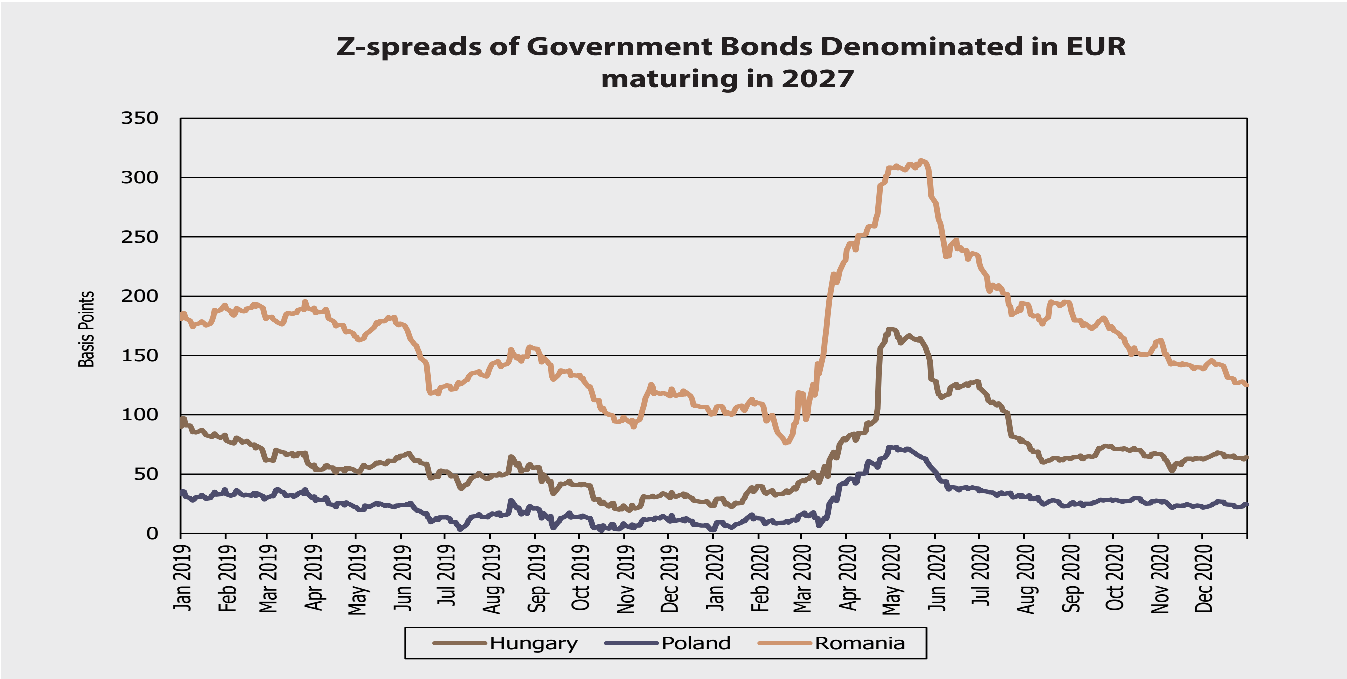
CDS Spreads



Source: Refinitiv

During the course of the year the 5-year CDS spread declined from 74 basis points to 64 basis points.

Spreads of the Foreign Currency Denominated Bonds in the CEE Region

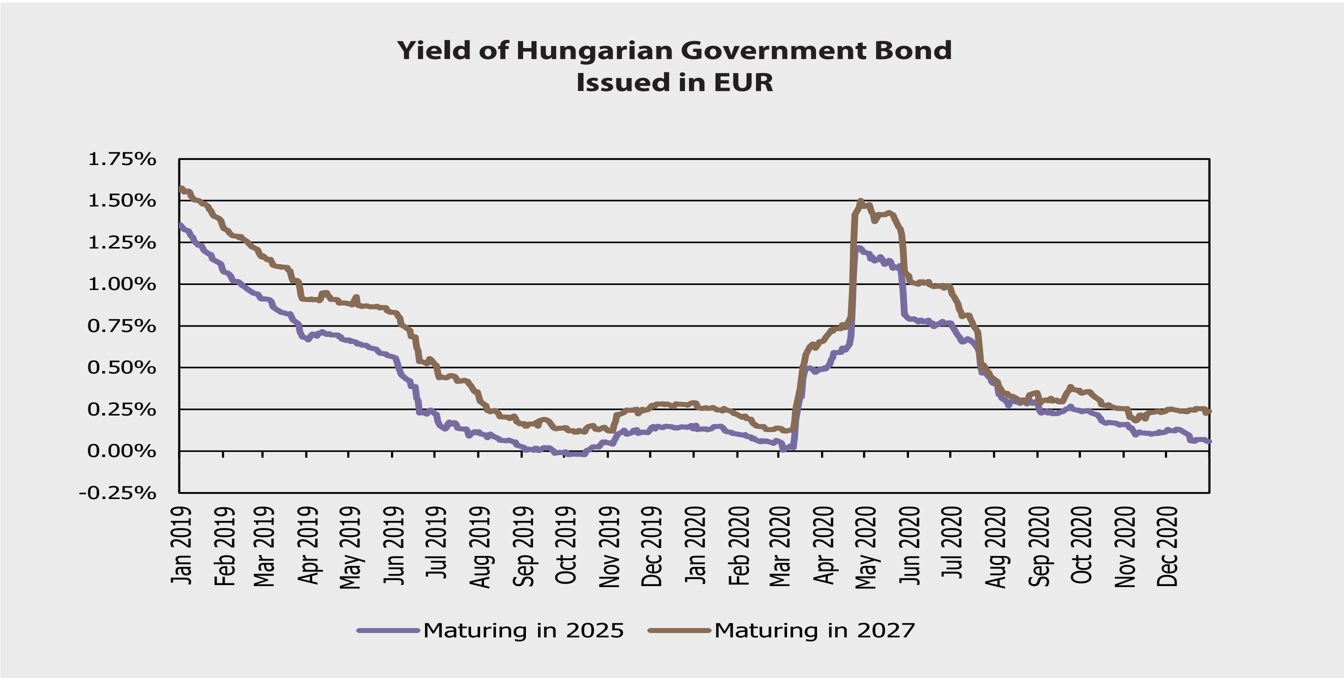


Source: Bloomberg

The Z-spread of Hungary's EUR bond maturing in 2027 increased by 41 basis points to 64 basis points during 2020. The development of spreads was explained mostly by the pandemic: until May spreads increased rapidly and then started a slower paced decline caused by positive developments in the capital markets supported by monetary policy, however, by the end of the year Z-spreads were still above the level seen at the beginning of the year.

Yields of Foreign Currency Denominated Bonds

The yields of government bonds denominated in euro issued by Hungary decreased in 2020. During the first wave of the corona pandemic yields went up from near zero levels to 1.25-1.5 per cent by May and then gradually went below the opening level by the end of the year.



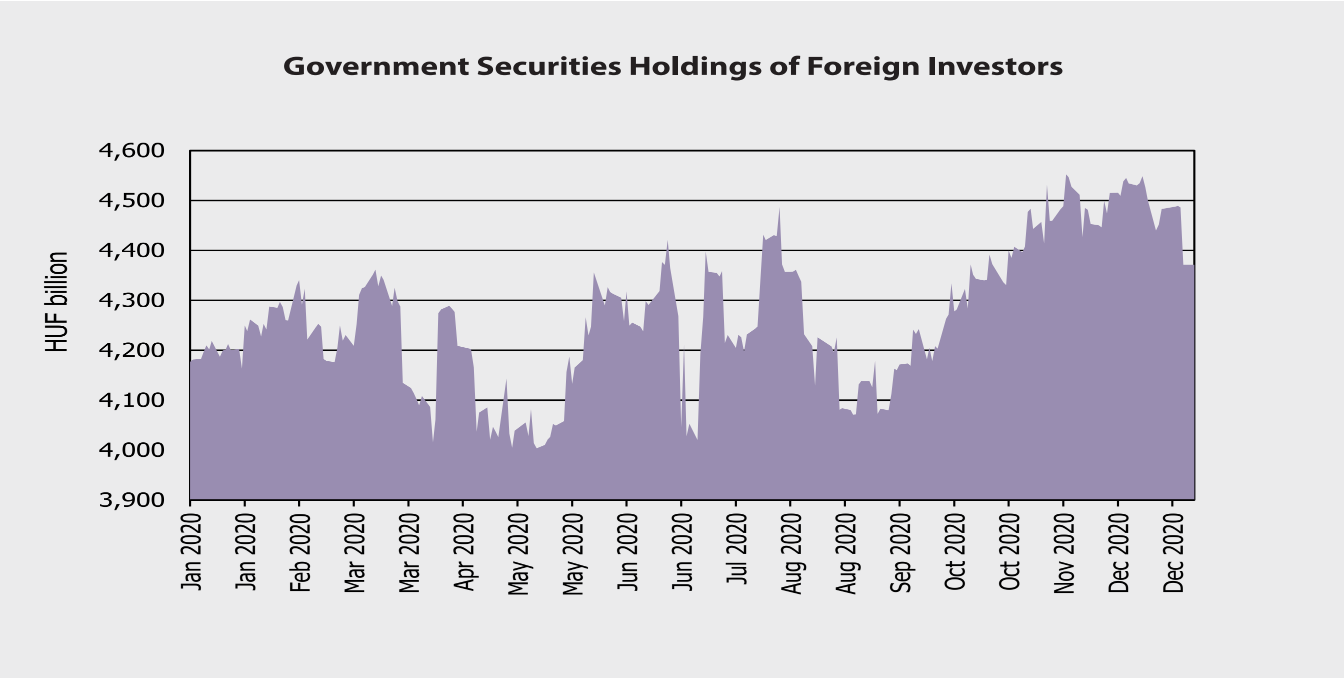
Source: Bloomberg

The yield of the Hungarian government bond issued in October 2017 with a maturity in October 2027 decreased from 0.29% to 0.24% during the course of the year 2020. During the first months of the year the yield decreased due to improving global investor sentiment. From March, however, as a result of the outbreak of the pandemic and worsening growth expectations yields increased rapidly. From May yields started to decline with the less severe phase of the pandemic and in an improving international capital markets helped by global monetary easing resulting in lower benchmark bond yields and spreads.

Government Securities Holdings of Foreign Investors

The value of forint-denominated government securities held by non-residents increased by HUF 203 billion to HUF 4,371 billion in 2020. After an increase in the first months of the year, non-residents' portfolio declined to HUF 4,004 billion around mid May. After a volatile period non-resident holdings started a stable increasing trend in mid September until early December.

The share of foreign holdings in forint denominated debt declined from 22% to 19%. The ATM of non-resident owned domestic debt increased slightly by 0.02 year to 5.83 years. Including foreign holdings in foreign exchange denominated debt, the share of foreign holdings in total debt amounted to 34%.



Source: KELER

II. DEBT MANAGEMENT STRATEGY IN 2020

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 four 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.** The year 2020 was characterized by the COVID pandemic. In a State of Danger, as it was in this year, a special rule allows for a temporary debt increase. During 2020 the public debt ratio increased from 65.4pc to 80.4pc.

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.** An important source of domestic funding is the retail program having a medium term objective of the retail portfolio reaching HUF 11 trillion by 2023. In spite of the temporary halt in Q1 2020, the development of retail sales recovered, so ÁKK maintains the target date.

3. Decreasing debt ratio and increasing domestic financing enable to **maintain the share of foreign currency debt at a low level** within the total debt, which is the third objective of ÁKK..

4. A new, 4th objective from 2020 is to **increase the average maturity** of the public debt portfolio. The average life of the Hungarian public debt is relatively short and the annual refinancing requirement is high in international comparison, therefore this new objective intends to reduce risks associated with the short maturity of Hungarian public debt.

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 2020

Benchmarks	Tolerance band	End 2019	End 2020
1. Foreign currency debt ratio	10-20%	17.7%	19.4%
2. Foreign currency debt composition	95-105% EUR	100.0%	100.0%
3. Fixed coupon part of foreign currency debt	65-85%	71.8%	80.6%
4. Fixed coupon part of domestic debt	60-80%	68.8%	78.4%
5. Average time to refixing of domestic debt	minimum 3.5 years	3.7	4.2
6. Average term to maturity of domestic debt	minimum 4 years	4.1	4.6

Benchmark No. 7. is to maintain a secure level of funds on the Single Treasury Account (STA). For a detailed description of liquidity management see Chapter VI.

II. DEBT MANAGEMENT STRATEGY IN 2020

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. However, because of the corona virus fiscal policy had to be more active to manage the pandemic and mitigate its economic effects. The higher net financing need required that the issuance policy be more flexible, therefore ÁKK had to change the issuance calendar during the year.

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 600-1200 billion (approximately EUR 2-3 billion) in 2020. Smaller size of HUF 2-300 billion is targeted in the longest tenor, maturing in 2038-41, reflecting lower investors' demand. Secondary market operations were also enhanced by bond buy-backs and a much more intensive bond exchange program than before.

ÁKK also maintains the flexibility of its financing 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 2020

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 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 2020 the total cash-flow based deficit of the central government was HUF 5,549 billion (or 11.6 per cent of GDP according to preliminary data), while the total net financing requirement amounted to HUF 4,763.2 billion (or 10.0 per cent of GDP) including net EU transfers and other funding sources. Because of the COVID pandemic the Government of Hungary revised the budget deficit target three times: the original central budget deficit was HUF 367 billion (0.8 per cent of GDP), which was revised to HUF 1,601 billion in April, HUF 1,890 billion in May and HUF 3,600 billion in August.

Borrowing requirements in 2020:

	Outturn 2020 (HUF billion)
Net financing need of the central government	**-5,548.6**
Net EU transfers and other	535.3
Capital transfers to NBH / NBH dividend	250.0
Total net financing requirements	**-4,763.3**
Short term debt redemptions	-3,304.5
Long term debt redemptions	-5,153.5
Gross financing requirements	**-13,221.3**

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 8,458 billion in 2020, 22 per cent higher than planned. While in the case of short term discount T-bills, loans and foreign currency debt redemptions were as planned, the redemption of retail securities and domestic bonds exceeded the original plan.

III. The financing requirements in 2020

Government debt redemptions: [2]

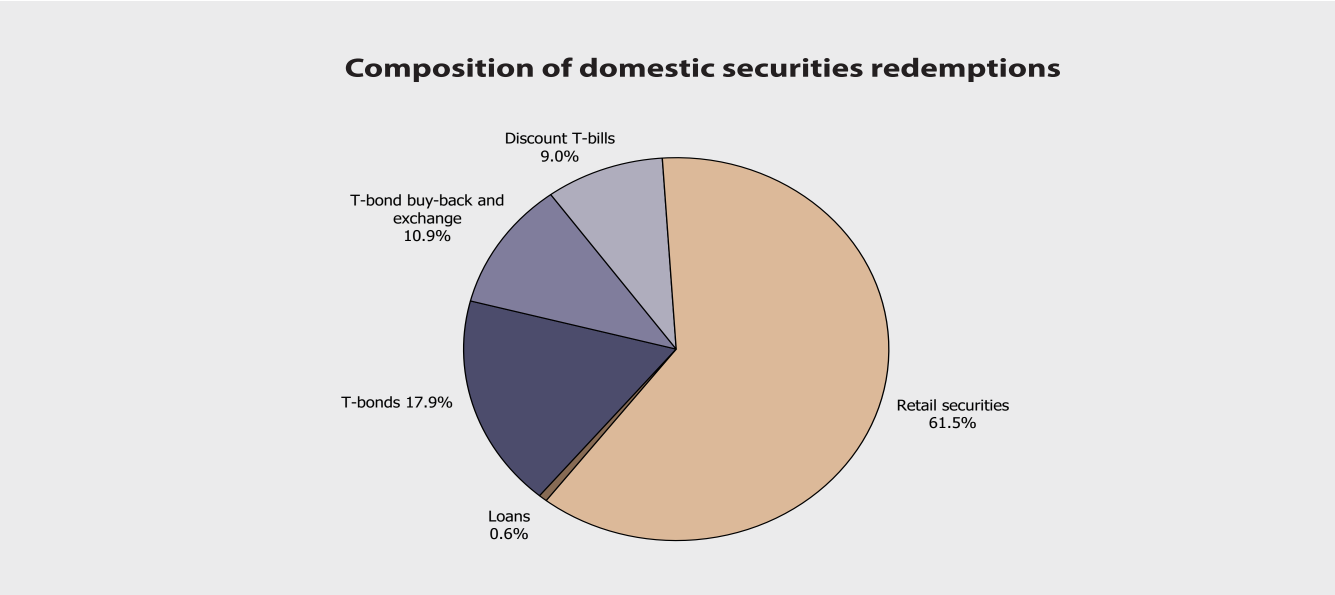
HUF billion

	2020 plan	2020 outcome
Domestic debt redemptions	**5,524**	**6,504**
T-bonds	1,058	1,309
Retail securities	3,768	4,491
Discount T-bills	651	657
Loans	47	47
Foreign currency debt redemptions	**741**	**778**
International bonds	534	546
Domestic FX bonds	131	146
FX loan	76	86
Total	**6,265**	**7,282**
T-bond exchange auctions	423	764
T-bond buy-back auctions	250	32
FX bond buy-backs	0	380
Prefinancing in total	**673**	**1,176**
Redemptions in total, incl. prefinancing	**6,938**	**8,458**

Source: ÁKK

Redemptions of retail debt exceeded the original plan by 19 per cent, due to higher buy-backs during the pandemic in the Hungarian State Treasury and retail banks. ÁKK bought back retail securities purchased by retail banks from households during the year. Total debt redemptions also exceeded the original target due to higher bond exchange auctions (+HUF 341 billion) and bond buy-backs (domestic bond buy-backs with the remaining maturity of more than one year were only HUF 32 billion, however, HUF 380 billion worth of FX bonds were bought back instead). Both the switch and buy-back auctions decrease the refinancing risk of the debt, while retail buy-backs contribute to making the retail program more efficient. Within the HUF debt portfolio discount treasury bills contributed to 9 per cent of the total redemptions, while redemption of domestic retail debt was 62 per cent.

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.



Source: ÁKK

Bond buy-backs and exchanges

Large bond series maturing at a given time creates refinancing risk. This risk can be reduced by repurchasing a part of the bonds before maturity. ÁKK's financing plan includes a regular bond buy-back program, and the actual repurchase amount depends on the quantity and quality of bids. In 2020, however, ÁKK reduced its domestic bond buy-backs in order to increase liquidity, ÁKK bought back a total of HUF 35 billion bonds (HUF 3 billion had a maturity in 2020) before their maturity on 3 occasions.

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 2020 23 exchange auctions were held at which ÁKK exchanged a total of HUF 764 billion (more than planned by HUF 341 billion) short-term bonds for long-term ones.

Foreign currency debt redemptions

In 2020 one Eurobond (originally EUR 1 billion), one USD bond (originally USD 2 billion) and one CNY bond (CNY 1 billion) matured. Due to FX bond buy-backs in previous years the actually matured amounts of the EUR and USD bonds were smaller than the originally issued, and amounted to EUR 798 million and USD 964 million respectively.

The seventh series of Premium Euro Hungarian Government Bond totalling EUR 59 million and the third series of the Residency Bond totalling EUR 336 million matured in 2020. Moreover, in order to reduce the share of foreign currency debt within the total debt ÁKK bought back a total of USD 1.55 billion FX bonds from the market. Smaller redemptions and smaller early repayments totalling HUF 86 billion took place in the case of IFI project financing and other loans in 2020.

IV. Financing

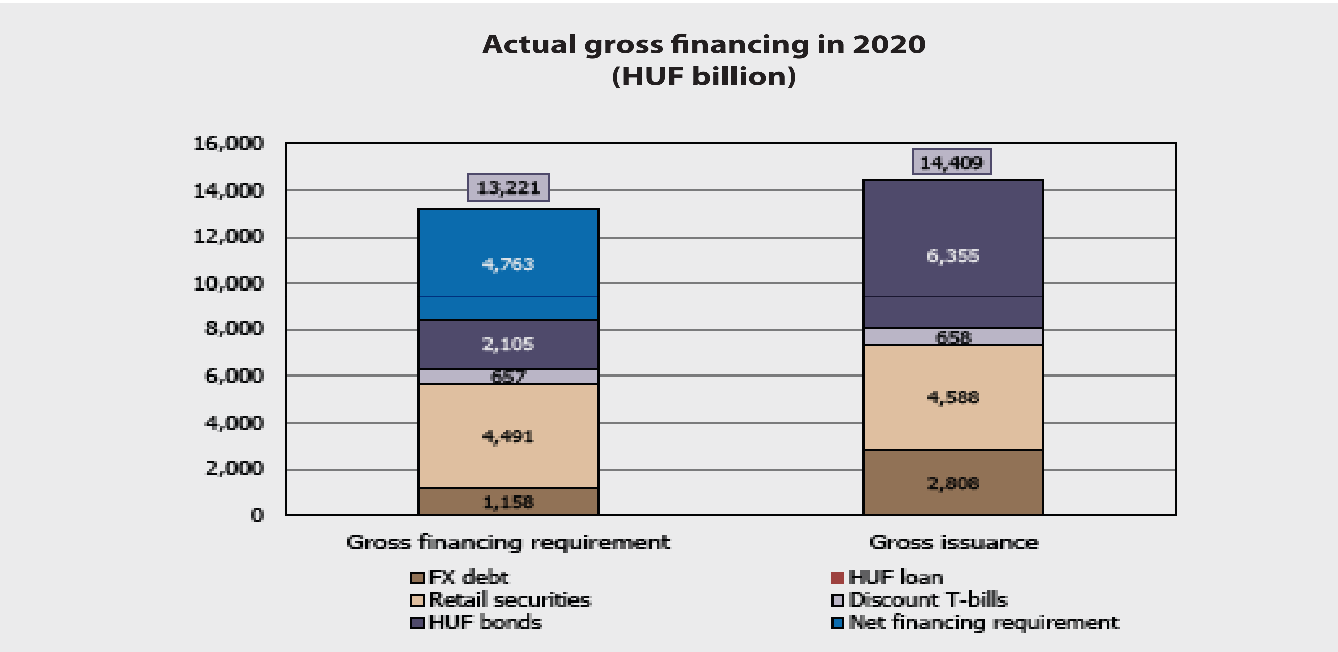
In 2020 the HUF denominated issuance (including switch auctions) amounted to HUF 11,601 billion (81%), while foreign currency issuance was HUF 2,808 billion (19%).

Gross debt issuance:

HUF Billion

	2020 outcome
Domestic debt	**11,601**
T-bonds	6,355
of which exchange auctions	781
Retail securities	4,588
Discount T-bills	658
Loans	0
Foreign currency debt	**2,808**
International bonds	2,301
Domestic FX bonds	50
FX loans	456
Issuance in total	**14,409**

Source: ÁKK



Source: ÁKK

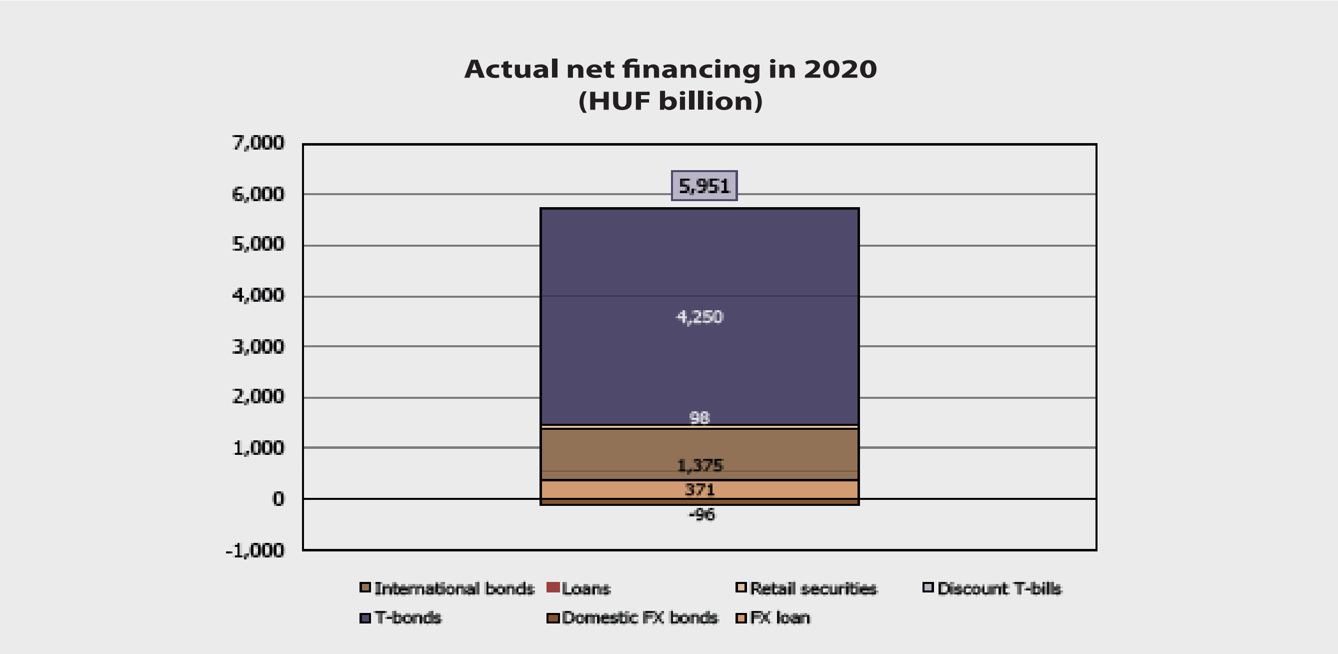
Net HUF denominated financing totalled HUF 4,301 billion, while net foreign currency financing amounted to HUF 1,650 billion, so the total net issuance was HUF 5,951 billion in 2020. The substantially higher net financing need could only be covered with more foreign currency issuance which also included pre-financing foreign currency debt redemptions in early 2021.

Net issuance:

HUF Billion

	2020 outcome
Domestic debt	**4,301**
T-bonds	4,250
of which exchange auctions	749
Retail securities	98
Discount T-bills	0
Loans	-47
Foreign currency debt	**1,650**
International bonds	1,375
Domestic FX bonds	-96
FX loans	371
Issuance in total	**5,951**

Source: ÁKK



Source: ÁKK

Within the net HUF issuance, due to the higher net financing need coming from more active fiscal policy during the pandemic, the role of wholesale securities increased, which was supported by the QE program of the Magyar Nemzeti Bank. While the original plan of net wholesale bond issuance was only HUF 286 billion, the net issuance plan was increased gradually during the year to HUF 1,867 billion in April, then to HUF 2,118 billion in May and to HUF 3,191 billion in August, whereas the actual net wholesale issuance reached HUF 4,250 billion in 2020.

The net issuance of HUF denominated retail securities totalled HUF 98 billion in 2020 as a result of households' net purchase of HUF 1,017 billion (slightly below the plan due to higher sales before maturity during the outbreak of the pandemic) and net maturities of non-retail investors' holdings of HUF 920 billion who were not able to re-invest their maturing securities in the retail program. The net issuance of discount T-bill was zero as planned, while the net HUF loan drawdown was HUF -47 billion equalling maturities (loans were drawn only in EUR).

In 2020 the net foreign currency issuance was another important source of funding besides the domestic wholesale T-bond issuance: net international bond issuance was EUR 3.8 billion (HUF 1,375 billion), net foreign currency loan draw-downs amounted to EUR 1 billion (HUF 371 billion) and net domestic FX bond issuance to EUR -0.3 billion (HUF -96 billion).

The average cost of financing (the weighted average yield to maturity – including sales commissions – of new debt instruments issued in 2020) decreased to 2.2 per cent. The cost reduction was the result of the lower yields of wholesale domestic and international bonds and their higher share in debt financing.

Domestic Government bonds

Domestic financing was mostly provided by wholesale domestic bonds and retail instruments. In 2020 a new strategic benchmark was included in the public debt management strategy, the average term to maturity (ATM) of domestic debt. In line with more emphasis on lengthening maturity ÁKK introduced a new 20-year benchmark bond and a new long bond index, HMAX, which includes only domestic bonds with a more than 3-year tenor and a bias of weightings preferring longer term bonds.

Fixed coupon Treasury bond auctions are normally held every two weeks. As a reaction to the COVID pandemic and increasing net financing requirements ÁKK increased the frequency of fixed rate T-bond auctions to weekly from April 2020. Three bond series were sold at each bond auction. Usually the 3 and 5-year tenors were offered, together with one of the 10, 15 or 20-year bonds. The 7-year floating rate bonds were offered every second week and altogether 20 times during the year. ÁKK actively used its right to modify the accepted amount as a reaction to bids. 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 a bit lower than in 2019, but still at a comfortable ratio of 2.65. ÁKK sold a total of HUF 5,278 billion of bonds via auctions (including HUF 1,039 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 6,355 billion, versus total bond maturities of HUF 2,105 billion, which resulted in a net issuance of HUF 4,250 billion.

On-the-run bond series in 2020:

HUF Billion

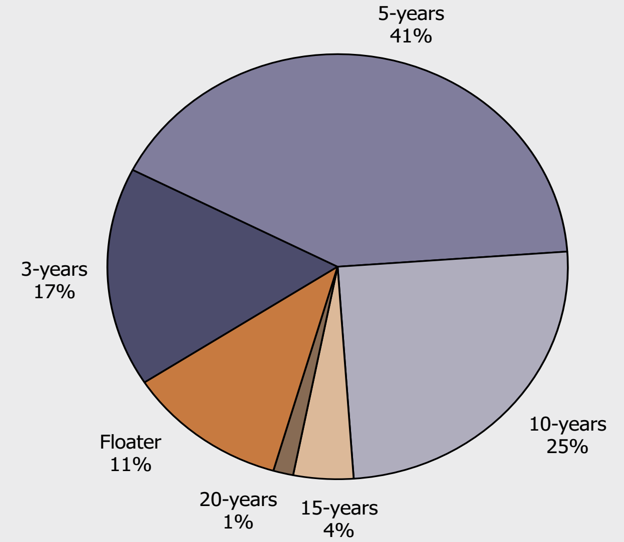
	Tenor	Number of auctions	Competitive sales in 2020	Non-competitive sales in 2020	Outstanding (end of 2020)
2022/C	3-years	4	87	18	237
2023/C	3-years	30	633	143	784
2025/C	5-years	27	1,004	249	1,345
2026/E	5-years	17	709	191	904
2027/A	5-years	1	28	0	1,237
2027/B*	7-years	20	443	155	598
2030/A	10-years	16	386	78	1,083
2031/A	10-years	17	694	163	1,332
2038/A	15-years	10	188	34	436
2041/A	20-years	6	65	9	109

Source: ÁKK

*Floating rate bonds

ÁKK adjusted the accepted amounts at the auctions according to demand, and the results show that investors' demand changed towards longer term bonds. The share of the 5-year fixed and 7-year floating rate bond increased by 5 and 4 per cent respectively, the new 20-year bond provided 1 per cent, while the share of the 3, 10 and 15-year bonds decreased. Since the ATM of newly issued bonds exceeded the ATM of the overall domestic portfolio, the average life of domestic debt increased in 2020.

T-bond sales composition by tenor in 2020



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. They may also play a role in financing, if needed, by maintaining a higher stock for a particular term. In 2020 ÁKK sold discount treasury bills in a total of HUF 658 billion, a volume similar to 2019. Since extending maturities was an important objective in 2020, ÁKK did not increase the volume of short-term instruments.

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. The retail program amounted to a quarter of the public debt in 2020. With continuously growing domestic savings it is natural for the Government to tap this secure source of funds directly. The medium term objective of public debt management is to reach HUF 11 trillion of retail debt owned by households by 2023.

The issuance of retail government securities gained new momentum is 2019 with the introduction of the Hungarian Government Security Plus. As a consequence of its attractive yields, flexibility and automatic reinvestment of the interest payments (on the day of the interest allocation government securities of the same series will be credited to the securities account of the holder at the face value identical to the amount of interest) the newly issued retail security became the most popular products in 2019 and 2020, while because of the long, 5-year tenor and reliable investor base it is also favourable for debt management. Retail sales were also supported by the new measure that from June 2019 the interest income from government securities is free from tax for households. As a result in spite of the early negative effects of the pandemic on investments the stock of retail securities owned by households increased by HUF 1,058 billion in 2020.

The sales of the newly introduced dematerialized Hungarian Government Security Plus amounted to HUF 2,272 billion or 54% of total gross sale (including HUF 117 billion interest payment automatically reinvested in the same series). In addition the printed Hungarian Government Security Plus was issued in an amount of HUF 212 billion.

The second most important product by gross issuance was the 1-year Hungarian Government Security with gross sales of HUF 1,275 billion, while the gross issuance of the long term, inflation linked Premium Hungarian Government Security totalled HUF 556 billion in 2020. Despite the significant gross issuance the outstanding stock of both the 1-year and the Premium Hungarian Government Securities decreased by HUF 1,070 billion and by HUF 208 billion respectively during the year as a result of maturing series held by institutions and as a result of buy-backs. The outstanding amount of the Babybond increased by 38 per cent and amounted to HUF 110 billion as a result of the gross issuance totalling HUF 31 billion. The issuance of the 1 and 2-year, printed Treasury Saving Bills declined as a result of the introduction of the printed Hungarian Government Security Plus.

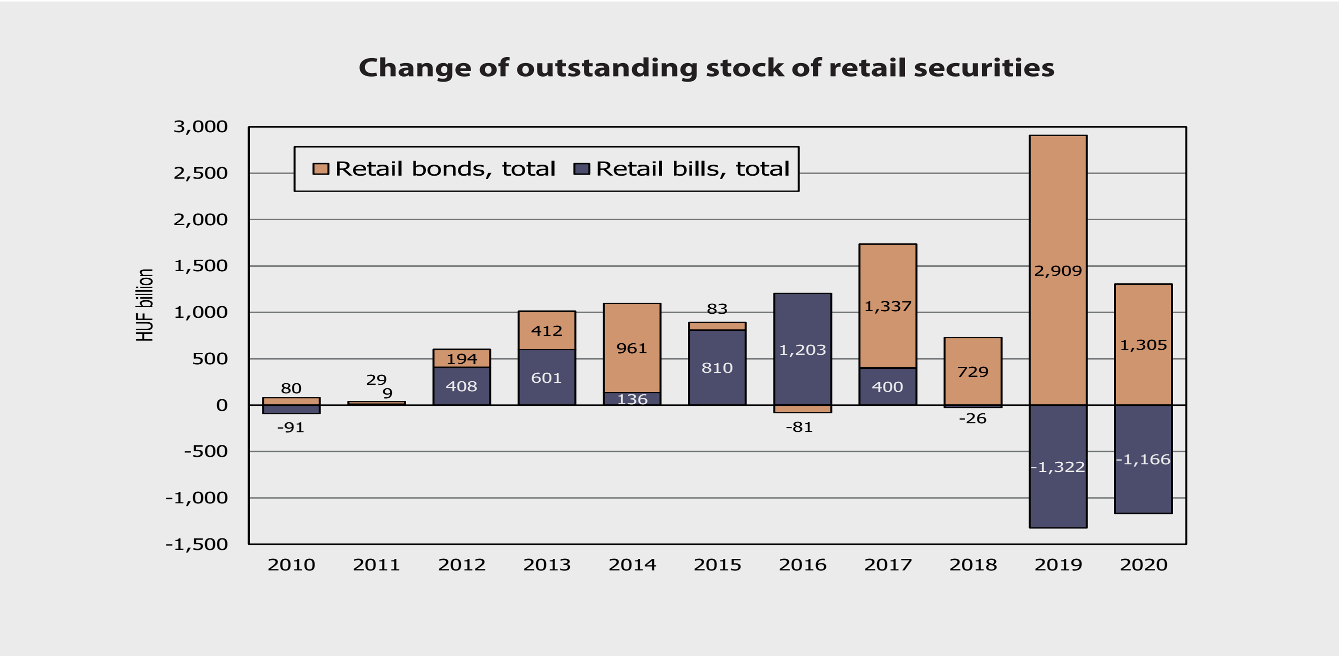
Gross retail issuance:

HUF Billion

	2018	2019	2020
Hungarian Government Security Plus (dematerialised)	**0**	**3,179**	**2,272**
Hungarian Government Security Plus (printed)	0	60	212
Premium Hungarian Government Security	861	759	556
Premium Euro Hungarian Government Security	39	90	50
Babybonds	17	25	31
Treasury Savings Bills (2-year)	**78**	**106**	**36**
Treasury Savings Bills (1-year)	269	329	207
1-year Hungarian Government security	3,181	2,246	1,275
Retail securities whose sale ceased in 2019	621	117	0
Retail securities total	**5,066**	**6,911**	**4,639**

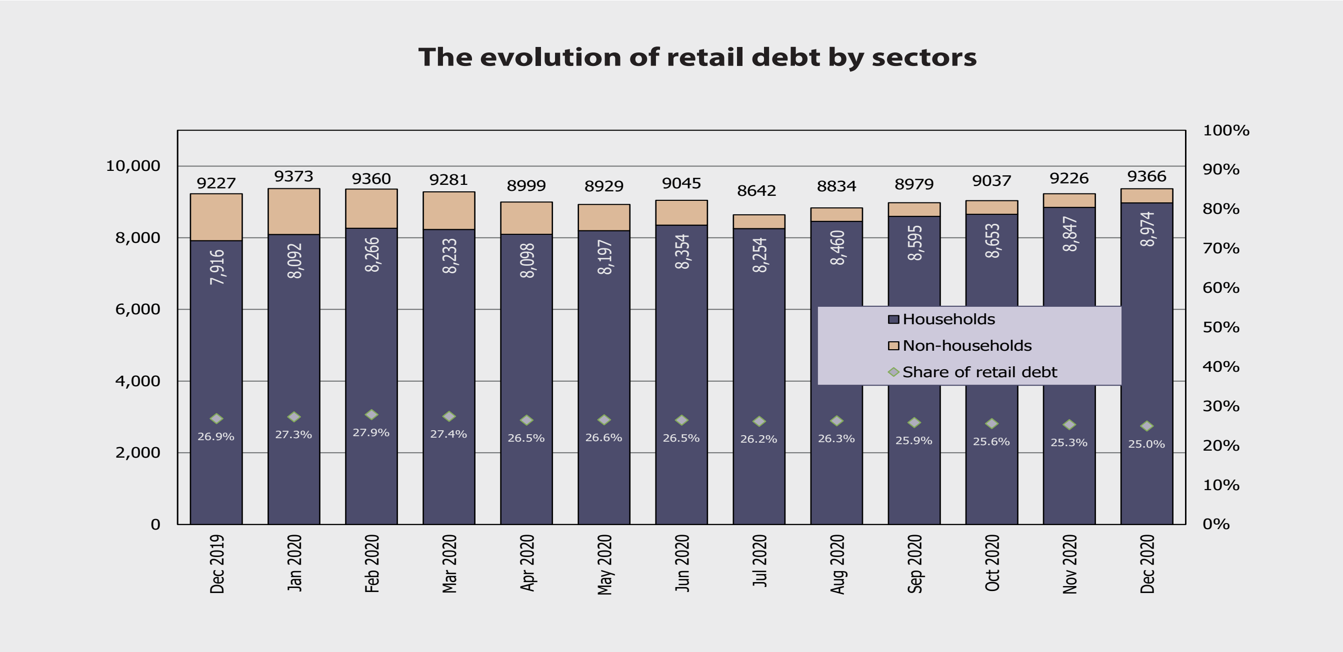
Source: ÁKK

The total domestic currency denominated retail debt stock grew by HUF 98 billion over the year, which was below the plan, because of higher buy-backs during the pandemic. The net issuance of long term HUF denominated retail securities amounted to HUF 1,305 billion, while the outstanding stock of short term retail securities decreased by HUF 1,166 billion.



Source: ÁKK

Nevertheless the ownership structure and the maturity profile of the net retail issuance improved: the increase of the outstanding stock of retail securities owned by households exceeded the net retail issuance to a large extent, while non-household (institutions) ownership decreased within the retail debt due to redemptions and buy-backs.



Source: NBH, 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 was attractive for the targeted investors. Total gross issuance of the third series in 2020 was HUF 193 billion and the buybacks of HUF 208 billion, the outstanding amount of the Hungarian Government Bond for Local Authorities decreased by HUF 15 billion to HUF 153 billion at the end of 2020.

Foreign currency financing

According to the original financing plan ÁKK planned EUR 1 billion total gross issuance including EUR 200 million domestic bond issuance and EUR 800 million international Green bond issuance in 2020. The outbreak of the COVID pandemic and increasing fiscal deficit and pre-financing of 2021 required higher net issuance, a part of it in foreign currencies. After several revisions of the financing plan, ÁKK issued the following international bonds in 2020, including the first Green bond of Hungary (in euro) and the first Samurai Green bonds by a sovereign:

Currency	Amount	Date of issuance	Maturity	Tenor (years)	Coupon
EUR	1,000,000,000	28.04.2020	28.04.2026	6	1.125%
EUR	1,000,000,000	28.04.2020	28.04.2032	12	1.625%
EUR	1,500,000,000	05.06.2020	05.06.2035	15	1.75%
JPY	22,700,000,000	18.09.2020	15.09.2023	3	0.52%
JPY	20,000,000,000	18.09.2020	18.09.2025	5	0.74%
JPY	15,500,000,000	18.09.2020	17.09.2027	7	1.03%
JPY	4,500,000,000	18.09.2020	18.09.2030	10	1.29%
EUR	1,250,000,000	17.11.2020	18.11.2030	10	0.50%
EUR	1,250,000,000	17.11.2020	17.11.2050	30	1.50%

Source: ÁKK

The domestic FX bond issuance (P€MAP) was EUR 142 million, behind the planned EUR 200 million. ÁKK as a part of lengthening maturities issued a new bond with 5-year tenor beside the usual 3-year line.

Series	Currency	Date of issuance	Maturity	Tenor (years)	Coupon
2023/X	EUR	05.06.2020	20.09.2023	3	Floater (Premium)
2025/X	EUR	05.06.2020	21.08.2025	5	Floater (Premium)

Source: ÁKK

ÁKK drew EUR 1.28 billion loans in foreign currency in 2020, out of that EUR 658 million project financing loans, EUR 338 million COVID related loans, EUR 200 million SURE loans and EUR 81 million Paks 2 nuclear power plant project financing loan. The original and early redemptions of foreign currency denominated loans amounted to HUF 238 billion, thus the net loan drawdown totalled HUF 1.04 billion.

The net FX issuance amounted to HUF 1,650 billion in 2020, therefore the nominal value of foreign currency debt increased substantially in 2020, but still remained below the 20% maximum value allowed for the share of foreign currency debt.

V. The government debt in 2020

During 2020 the central government debt increased by HUF 7,002 billion (by 23.6 per cent) to HUF 36,684 billion. The growth of the debt was determined by four factors.

Funding the net financing requirement of the budget that consisted of the budget balance totalling HUF -5,549 billion (deficit) and other financing requirement (e.g. EU transfers at the end of the year) totalling HUF 785 billion (deficit) was the most important factor. The increase of the HUF value of the foreign currency debt because of the depreciation of the Hungarian currency increased the debt by HUF 547 billion in 2020. The third – temporary - increasing factor was the pre-financing for 2021: ÁKK issued foreign currency bonds of EUR 2.5 billion in November 2020 to pre-finance FX debt maturing in early 2021 and increased the balance of the TSA, which increased FX and HUF deposits by HUF 1,799 billion. The stock of marked-to-market deposits placed at ÁKK (so-called 'other obligations') decreased by HUF 75 billion in 2020.

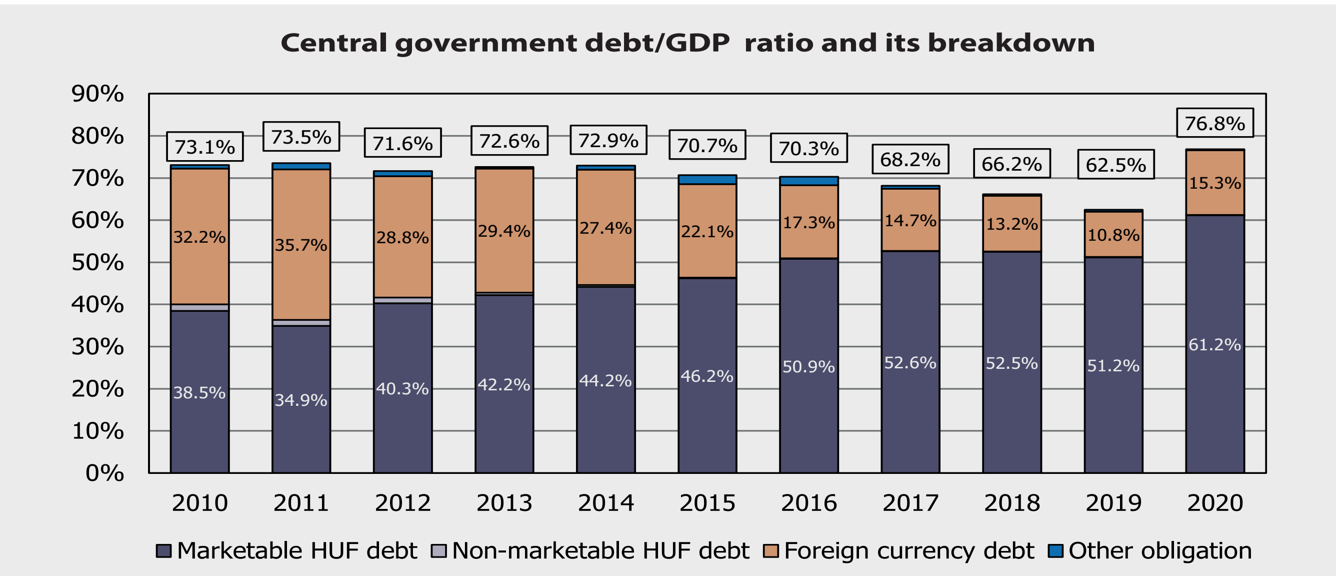
Central government debt

HUF Billion

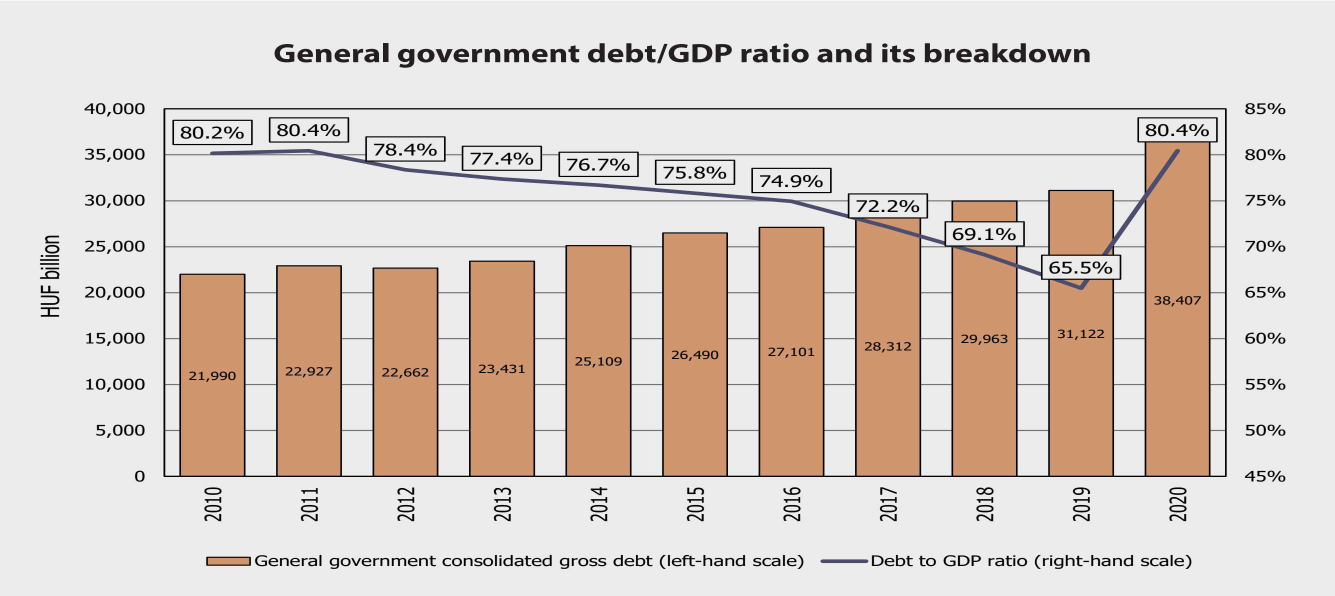
	2019		2020		Change
Domestic debt	**24,357**	**82%**	**29,237**	**80%**	**4,880**
Loans	1,208	4%	1,162	3%	-47
Government bonds	13,418	45%	18,246	50%	4,828
Retail securities	9,074	31%	9,172	25%	98
Discount T-bills	657	2%	658	2%	1
Foreign currency denominated debt	**5,121**	**17%**	**7,318**	**20%**	**2,197**
Loans	825	3%	1,291	4%	466
Bonds	4,296	14%	6,027	16%	1,731
Total debt	**29,478**	**99%**	**36,555**	**100%**	**7,077**
Other obligations	204	1%	129	0%	-75
Grand total debt	**29,682**	**100%**	**36,684**	**100%**	**7,002**

Source: ÁKK

According to preliminary data, the central government debt (without marked-to-market deposits) managed by ÁKK increased from 62.5 to 76.8 per cent of GDP, while the general government gross debt to GDP ratio increased by 15 per cent to 80.4 per cent in 2020. That substantial increase was mainly due to the fiscal policy reactions to the Corona pandemic.



Source: ÁKK



Source: Eurostat (including debt of EXIM Bank)

Characteristics of the HUF debt portfolio

In 2020 the HUF denominated debt – which accounts for 80 per cent of the total debt – increased by HUF 4,880 billion (20 per cent) to HUF 29,237 billion.

50 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 17,648 billion consisted of 28 bond series, the average size of a series was HUF 630 billion (ca. EUR 1.7 billion). 8 series had a volume in excess of HUF 1,000 billion (ca. EUR 3 billion), and the largest bond series reached a volume of HUF 1,345 billion (ca. EUR 4 billion). The average size of bond series increased in 2020.

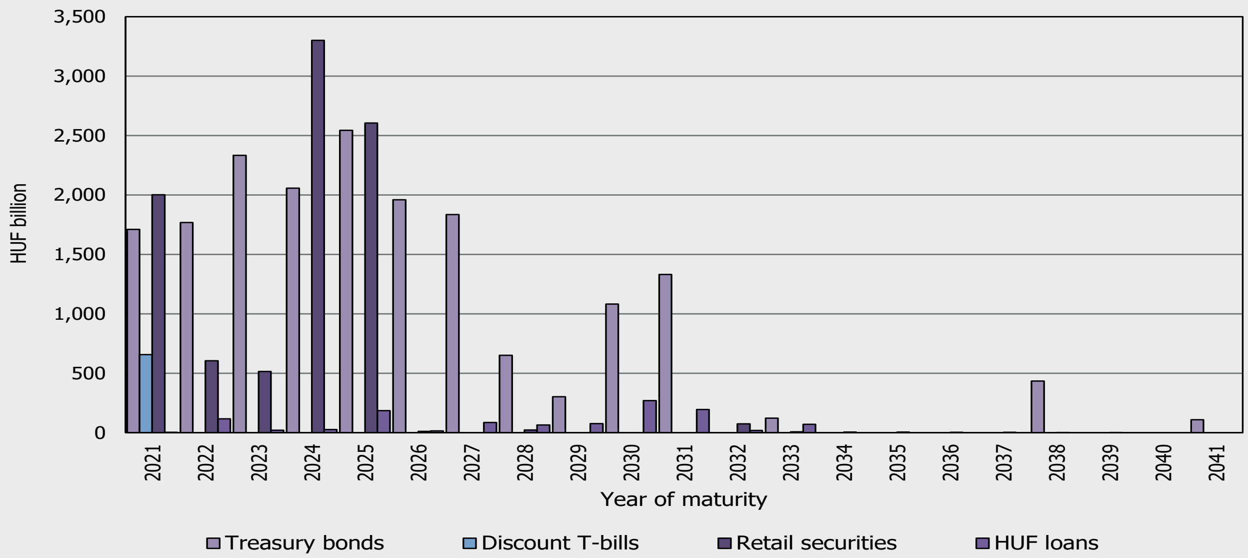
The outstanding stock of discount T-bills amounted to HUF 658 billion. The discount T-bill stock consisted of 18 series with an average outstanding amount of HUF 37 billion (figures similar to 2019).

In 2020 the portfolio of domestic retail government securities increased to HUF 9,172 billion. The stock of retail securities held by households increased by an even larger extent, since non-retail investors decreased their holdings due to the redemptions and buy-backs. The outstanding stock of the newly issued dematerialized Hungarian Government Security Plus amounted to HUF 4,962 billion, while the outstanding amount of the printed Hungarian Government Security Plus totalled HUF 259 billion at the end of 2020; thereby the 5-year Hungarian Government Security Plus remained the most popular retail product with a 57% share of total domestic retail debt. The also long-term Premium Hungarian Government Security (3 and 5-year tenor) had the second highest outstanding amount totalling HUF 2,310 billion at end-2020, while the stock of the short term 1-year Hungarian Government Security decreased to HUF 1,088 billion. The outstanding amount of the 1 and 2-years Treasury Saving Bills decreased to HUF 321 billion, while the stock of the very long-term Babybond increased by HUF 31 billion and totalled HUF 110 billion at the end of 2020. The outstanding stock of two types of retail securities sold until mid-2019 decreased by together 554 billion to HUF 121 billion. The total amount of domestic retail securities increased by HUF 98 billion and as a consequence of the much higher issuance of wholesale debt the share of domestic retail debt within the domestic debt decreased by 6 per cent to 31 per cent.

The non-marketable component of the HUF bond portfolio did not change in amount, but its proportion continued to decrease in 2020 as well, as there are no new issuances of such government bonds and the existing portfolio matures gradually (but there were no maturities in 2020). The end-of-year volume of non-marketable government bonds was HUF 39 billion, 0.1 per cent of the total debt.

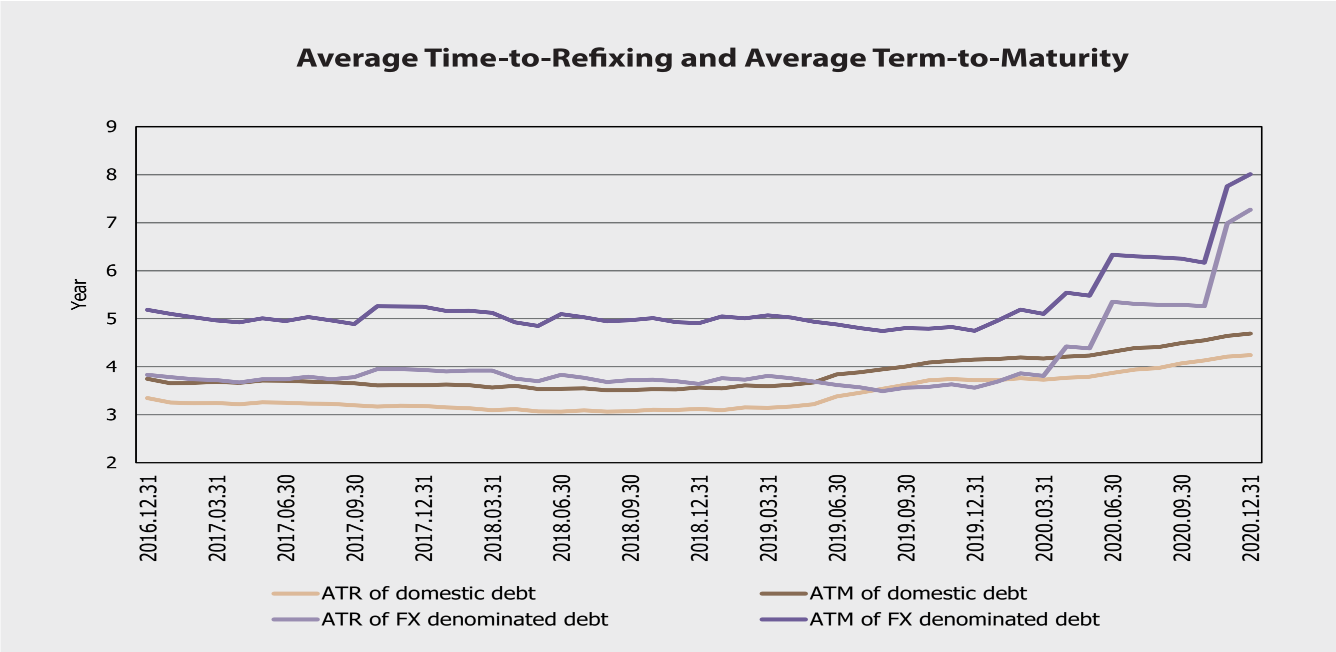
The volume of loans denominated in Hungarian forint decreased in 2020 as a result of no new drawdowns and repayments of HUF 47 billion to HUF 1,162 billion.

Maturity profile of domestic debt (at the end of 2020)



Source: ÁKK

As a result of switch auctions and buy-backs, lengthening the average term-to-maturity of the retail portfolio (increasing role of the new retail securities with 5-year tenor), moving towards longer terms at auctions and switch operations the refinancing risk of the debt decreased. The average time-to-refixing (ATR) of the domestic debt increased from 3.7 years to 4.2 years, while the average term-to-maturity (ATM) also increased by 0.5 year to 4.7 years during 2020.

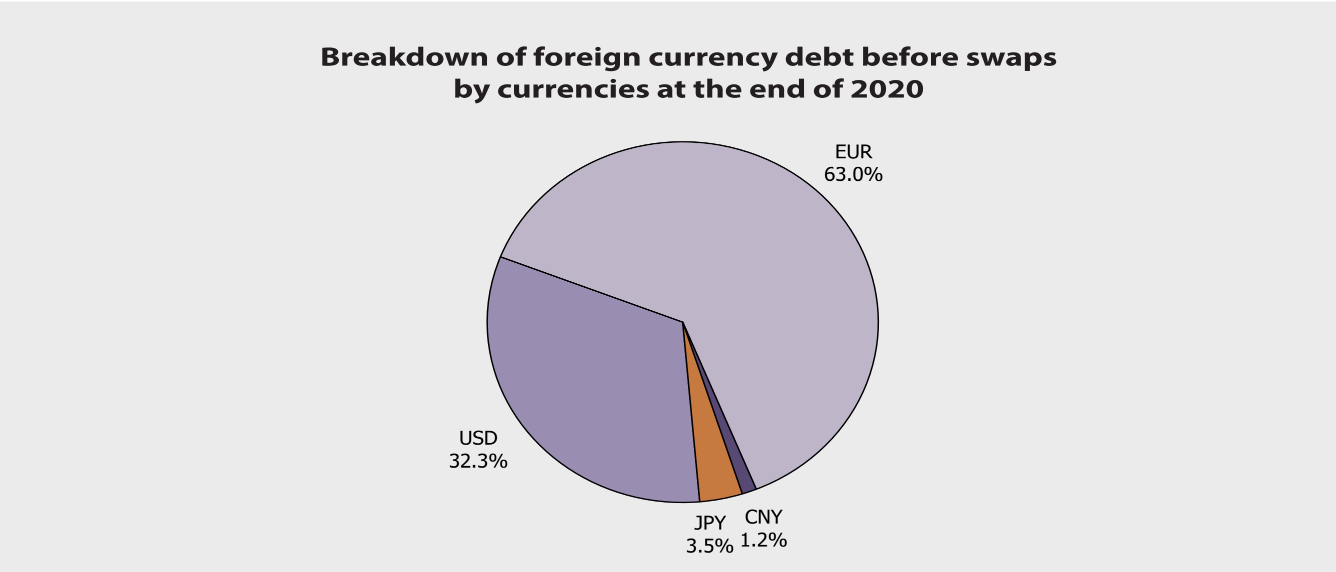


Source: ÁKK

Characteristics of the foreign currency debt portfolio

The gross foreign currency government debt increased by HUF 2,197 billion in 2020, reaching HUF 7,318 billion (EUR 20 billion) by the end of the year. The share of foreign currency debt within the total gross government debt increased from 17.3 to 19.9 per cent during 2020 (end-of-year data, not moving average), partly due to pre-financing maturities in 2021.

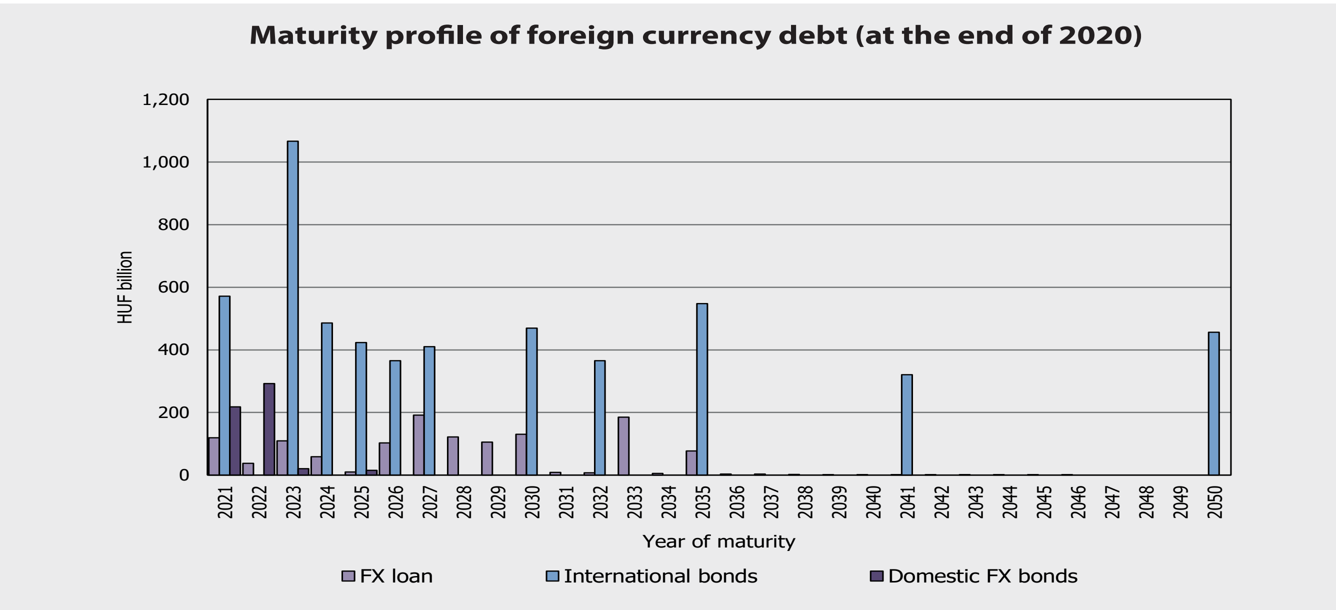
The volume of outstanding foreign currency bonds (after swaps) reached HUF 6,027 billion by the end of the year, increasing from HUF 4,296 billion at the end of 2019, as a result of much more active international financing in order to partly finance the higher net financing needs under the pandemic. On 31 December 2020 there were 31 series of foreign currency bonds outstanding, 20 of which had been issued in euro (including the domestic euro bonds as well), 5 in US dollars, 5 in Japanese Yen and 1 in Chinese Yuan. In accordance with the strategy and benchmarks, all non-euro bonds had been converted into euro liabilities through swap transactions. Bonds accounted for 82% of the total foreign currency debt portfolio.



Source: ÁKK

At the end of 2020 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, CEB and loans from the European Union) and loans from the Paks 2 nuclear power plant project. The share of loans within total foreign currency debt was 18% at the end of 2020.



Source: ÁKK

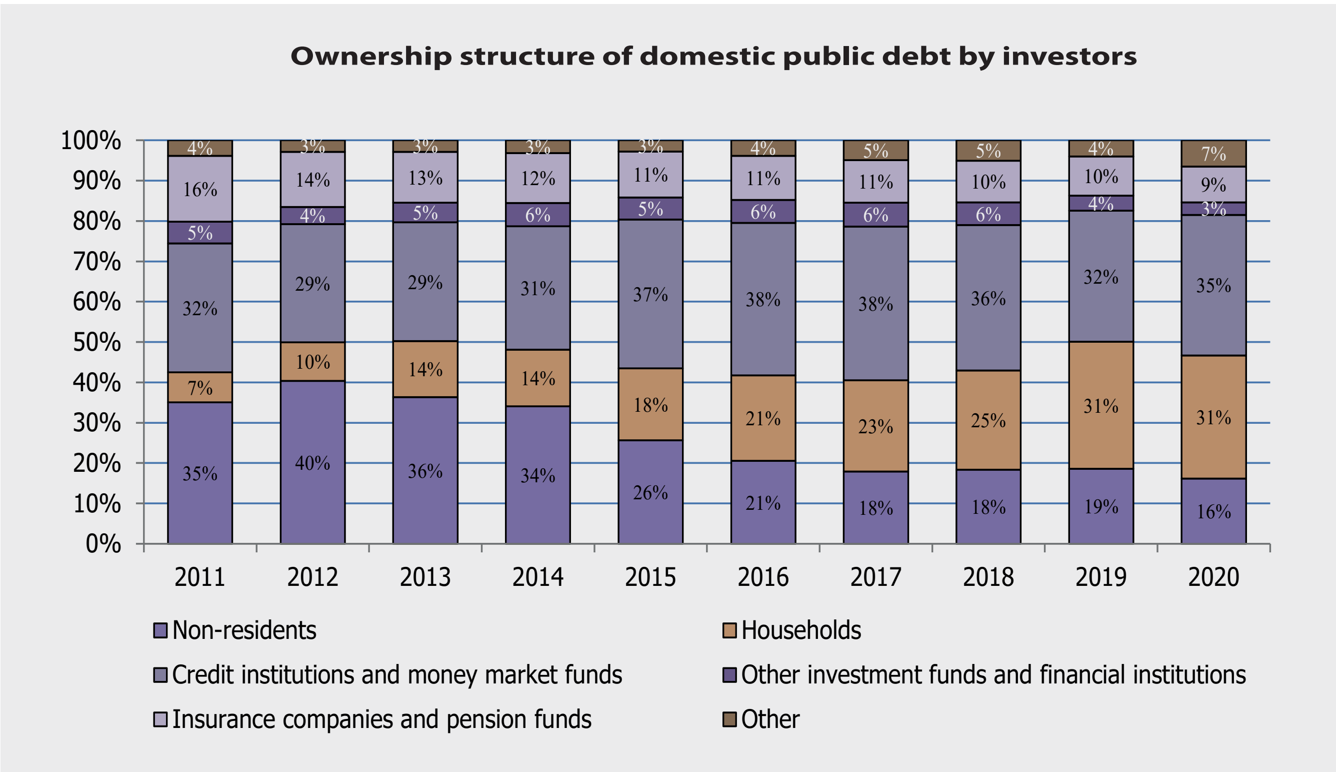
As a result of new and large international bond issuances the average term-to-maturity of the foreign currency portfolio increased substantially from 4.7 years to 8.0 years and the average time-to-refixing also increased from 3.6 years to 7.3 years during 2020.

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 2020 marked-to-market deposits placed with ÁKK totalled HUF 123 billion (EUR 0.34 billion), by HUF 75 billion lower than at the end of 2019.

The ownership structure of government debt

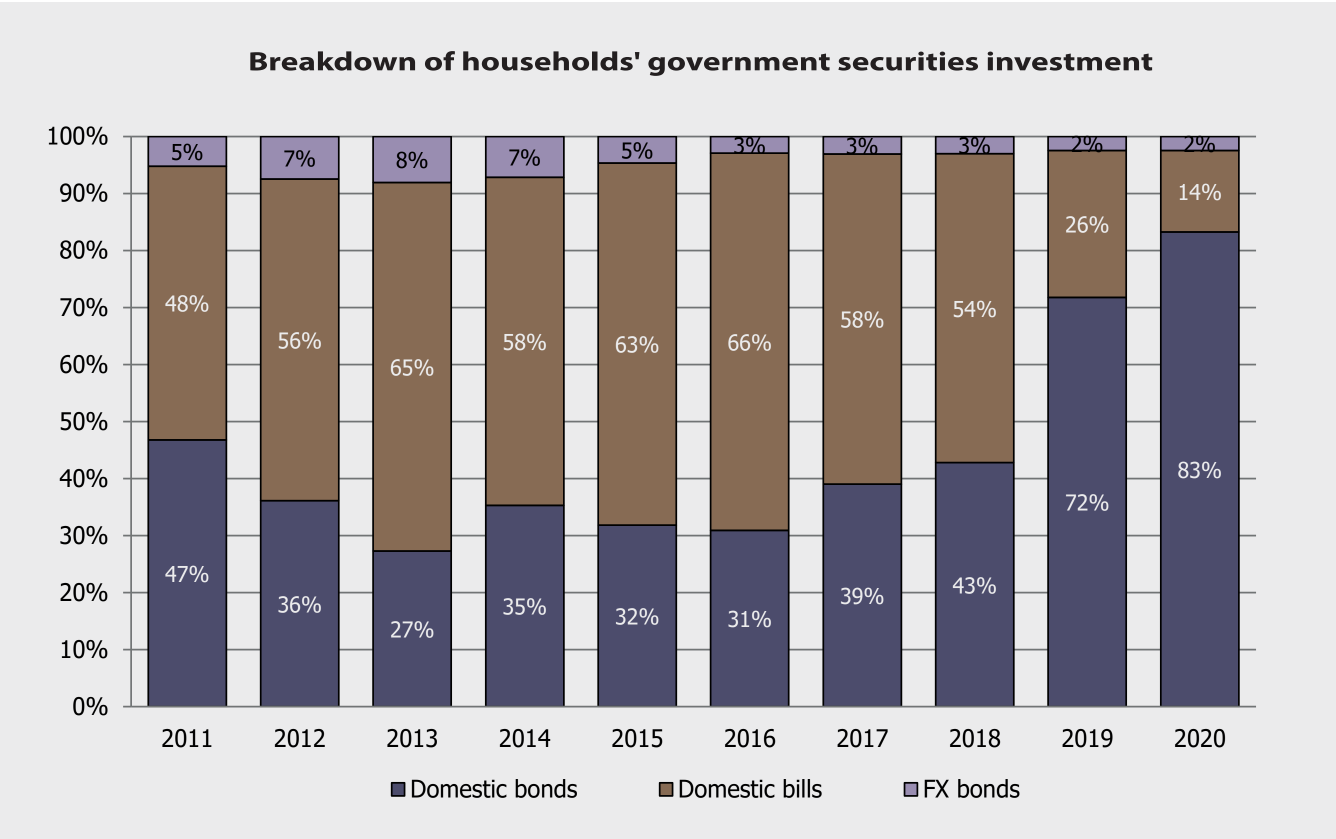
According to statistics published by the Magyar Nemzeti Bank, the central bank of Hungary, as a result of the financing of higher net financing needs from the wholesale market and the QE of the Magyar Nemzeti Bank ownership of credit institutions (+2.4pc) and central banks (+3.8pc) grew. The share of households (wholesale and retail debt) declined by 0.9pc to 31 per cent in spite of their substantial purchases. Non-resident's ownership continued to decline to 16 per cent.



Source: NBH

V. The government debt in 2020

In 2020 non-residents increased their share in the domestic market in nominal terms. Non-resident holdings of HUF denominated government securities increased by HUF 203 billion to HUF 4,371 billion. At the same time the duration of their holdings increased from 5.2 years to 5.3 years, while the ATM of their holdings also increased by 0.1 year to 5.9 years in 2020. 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 HUF government securities. The modest increase of the duration of their holdings may be explained by the long-term bias of the QE of the central bank.



Source: NBH

The maturity of the retail program continued to increase in 2020. After the introduction of the 5-year Hungarian Government Security Plus in May 2019, the previously T-bill dominated retail portfolio changed for longer term: by the end of 2020 83 per cent of the portfolio was in domestic bonds, most of it in 5-year 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 2020 ÁKK used the following instruments to manage the end-of-day balance of the TSA:

- repo and reverse repo transactions with government securities;
- active adjustment of the volume of 3 and 12 months discount treasury bills at auctions;
- bond buy-backs;
- 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 discount T-bills and buy-backs have longer term liquidity effects.

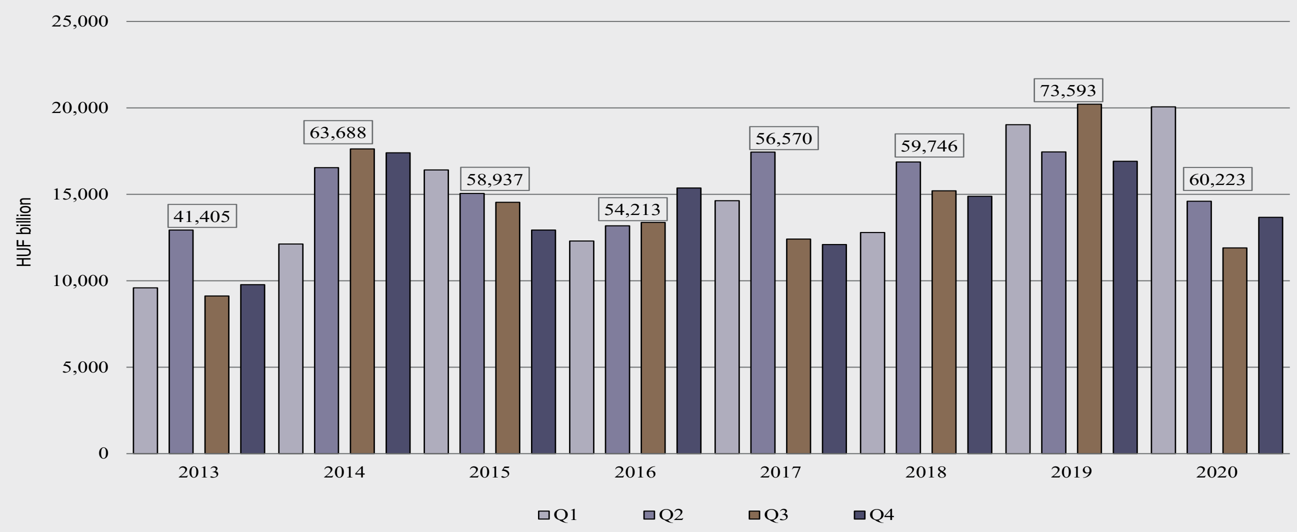
Liquidity repo transactions are ÁKK's main tool for fine-tuning the end-of-day balance of the Treasury Single Account. In 2020 the use of repo transactions decreased significantly since as a reaction to the pandemic ÁKK suspended its repo activity in April to increase the balance of the TSA and totalled only of HUF 8,702 billion. Due to excess liquidity the end-of-day TSA balance was always higher than the minimum target level in 2020.

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, and 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 59,476 billion in 2020 (more than 3 times the size of the total outstanding marketable debt), out of which 94 per cent was in government bonds and 6 per cent in discount treasury bills.

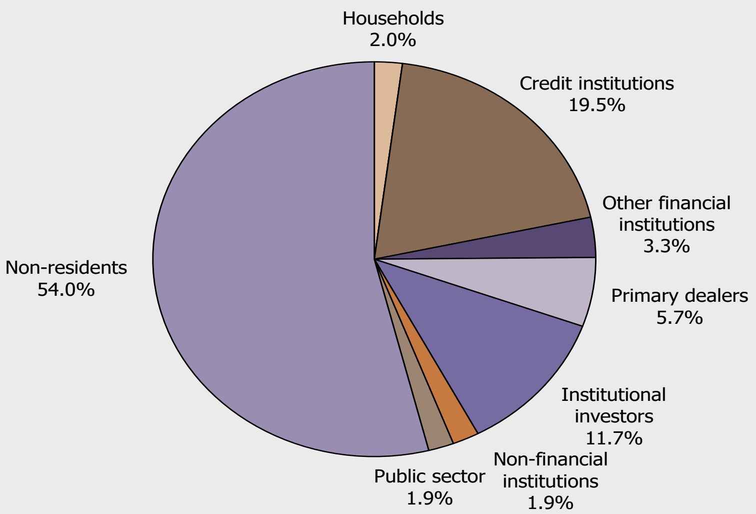
Secondary market turnover of government securities (KELER OTC and MTS)



Source: KELER, MTS

The average size of deals with Primary dealers (excluding retail transactions) was HUF 748 million, which is smaller by HUF 68 million than in the previous year. Over the year, the 2030/A government bond with a 10-year remaining term-to-maturity had the largest turnover (HUF 4,702 billion), followed by the 5-year 2025/C and the 11-year (remaining term-to-maturity) 2031/A bonds.

Secondary market trading of primary dealers by investors in 2020

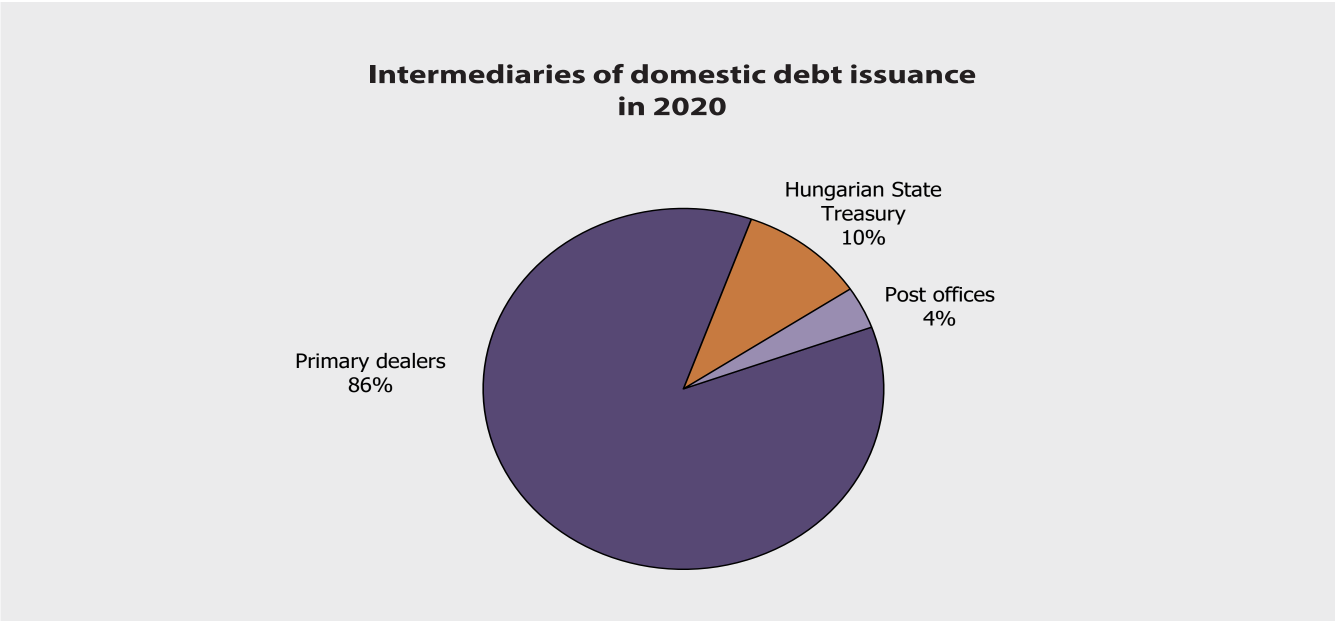


Source: Primary dealers, ÁKK

The most active Primary dealer and the winner of the title 'Primary dealer of the Year' for 2020 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, 82 per cent of HUF-denominated government securities were sold through the Primary dealers in 2019, the rest through retail channels.



Source: ÁKK

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 2020 6 out of the 14 Primary dealers were non-resident institutions.

Primary dealers at the end of 2020:

BNP Paribas SA
CIB Bank Zrt.
Citibank Europe Plc.
Deutsche Bank AG
Erste Befektetési Zrt.
Goldman Sachs Bank Europe SE
ING Bank N.V. Hungary Branch
J. P. Morgan AG
K&H Bank Zrt.
MTB Magyar Takarékszövetkezeti Bank Zrt.
MKB Bank Nyrt.
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'.

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.

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

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, Hungarian Government Securities Plus, Premium Hungarian Government Securities, Premium Euro Hungarian Government Securities, Babybonds, discount treasury bills and the 1-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 Hungarian Government Securities Plus are sold in printed and dematerialised forms, and the 1 and 2-year Treasury Savings Bills are government securities available only in printed form, designed specifically for retail investors.

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 2020:

Eurobond (EUR): Citigroup, ING Bank, JP Morgan Securities, BNP Paribas, Erste Group, Goldman Sachs International

Green EUR Bond: Credit Agricole CIB, ING Bank, JP Morgan Securities

Samurai bond (JPY) (including Green bonds): Daiwa Securities Co. Ltd., Nomura Securities Co. Ltd., SMBC Nikko Securities Inc.

ÁKK sells 3-year inflation linked domestic bond denominated in EUR ('Premium Euro Government Bond', P€MÁK) from 2012. In 2020 ÁKK added the same product with longer, 5-year tenor (with higher real yield). The bonds are available only 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 2020, are provided in Section 4 of the Appendix.

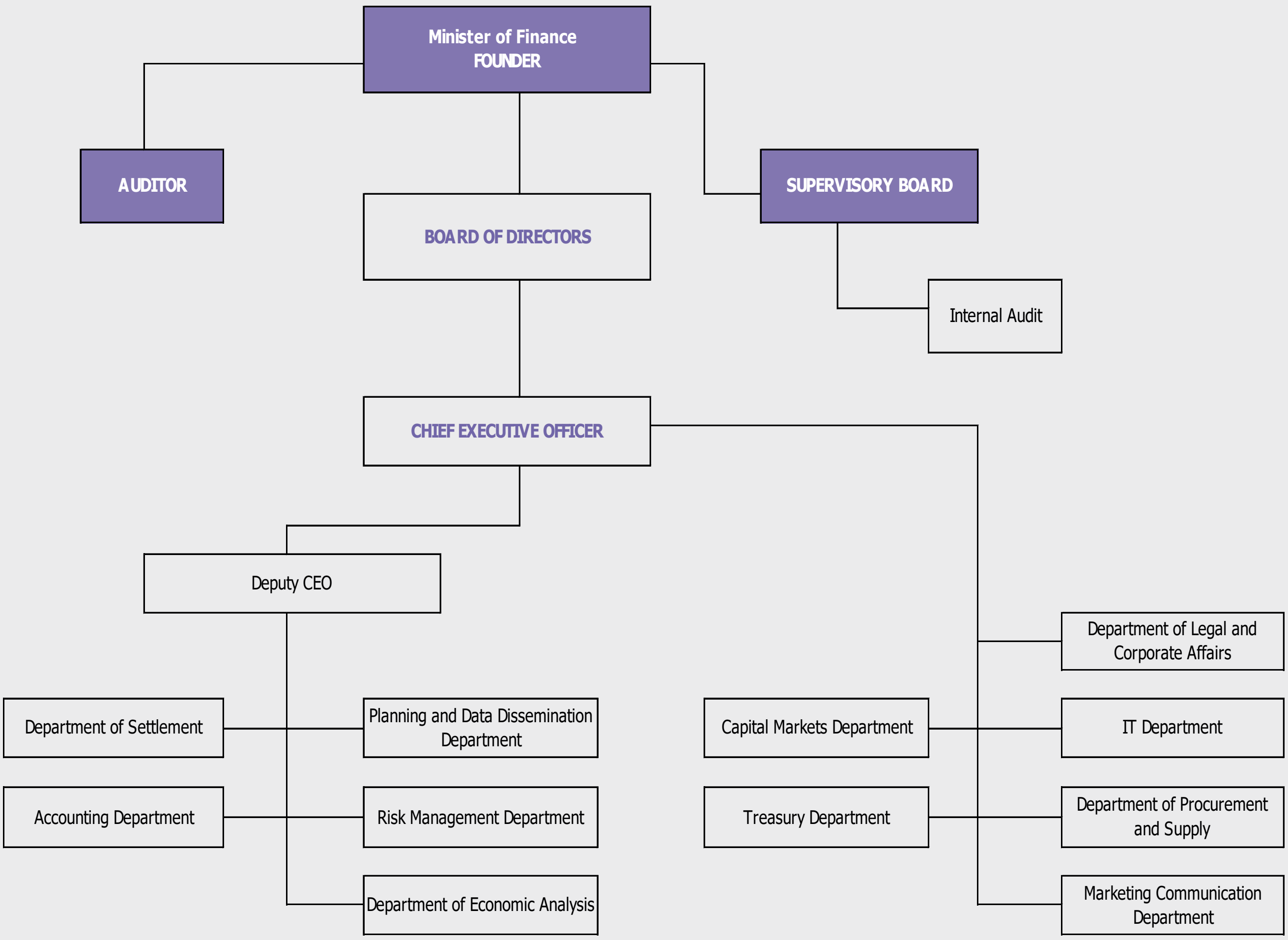
IX.The institutional framework and the objectives of government debt management

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.

Organisational structure of ÁKK as at 31 December 2020



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). The website was renewed in August 2020, the description below is in accordance with the new website.

The 'Introduction' menu provides 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. Historical figures are also available here.

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 'Publication and Press releases' menu provides access to the publications of ÁKK in electronic (pdf) format. The menu also contains the public analyses prepared by ÁKK and press releases of the ÁKK.

As a new feature, the "Green bond" menu provides information about Hungary's Green Bond Framework and its Green bond issuances.

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 has 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 Refinitiv.

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)
- Investor Presentation (from January 2020).

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

1. The central government gross debt as at 31.12.2020 (HUF million)

HUF denominated debt			
Hungarian Government Bonds	Maturity	Coupon	Outstanding amount
2021/A	23.06.2021	Floating rate	285,197.63
2021/B	27.10.2021	2.50%	491,466.11
2021/C	21.04.2021	0.50%	274,976.13
2021/H1	22.01.2021	3.25%	46,156.09
2021/H2	22.04.2021	3.25%	13,230.83
2021/I	20.10.2021	Floating rate, Retail	213,767.43
2021/J	26.05.2021	Floating rate, Retail	92,182.83
2021/K	26.08.2021	Floating rate, Retail	256,278.69
2021/Z	22.09.2021	1.25%	61,551.12
2022/A	24.06.2022	7.00%	625,795.91
2022/B	26.10.2022	1.75%	861,335.09
2022/C	24.08.2022	1.50%	237,082.45
2022/I	29.07.2022	Floating rate, Retail	165,447.40
2022/J	22.11.2022	Floating rate, Retail	164,532.84
2022/K	30.03.2022	Floating rate, Retail	130,721.02
2022/L	21.09.2022	Floating rate, Retail	104,730.92
2022/N	20.09.2022	Floating rate, Retail	7,180.94
2022/O	27.04.2022	Floating rate, Retail	2,230.48
2022/P	27.04.2022	Floating rate, Retail	1,940.33
2022/Z	23.03.2022	1.10%	44,108.84
2023/A	24.11.2023	6.00%	1,017,938.29
2023/B	26.07.2023	Floating rate	484,031.31
2023/C	23.08.2023	1.50%	784,032.56
2023/I	22.03.2023	Floating rate, Retail	114,693.43
2023/J	28.09.2023	Floating rate, Retail	168,996.36
2023/K	15.02.2023	Floating rate, Retail	76,182.93
2023/L	31.05.2023	Floating rate, Retail	155,586.06
2023/Z	24.05.2023	1.00%	47,448.33
2024/B	26.06.2024	3.00%	920,055.18
2024/C	24.10.2024	2.50%	1,136,655.36
2024/I	21.02.2024	Floating rate, Retail	153,684.45
2024/J	25.09.2024	Floating rate, Retail	172,448.10
2024/N	26.08.2024	Floating rate, Retail	17,368.59
2024/O	24.04.2024	Floating rate, Retail	377.58
2024/P	24.04.2024	Floating rate, Retail	1,520.67
2025/B	24.06.2025	5.50%	1,199,699.18
2025/C	26.11.2025	1.00%	1,344,629.48
2025/I	20.02.2025	Floating rate, Retail	73,661.19
2025/J	21.05.2025	Floating rate, Retail	267,074.88

2026/B	24.04.2026	Floating rate	39,177.72
2026/D	22.12.2026	2.75%	1,016,497.50
2026/E	22.04.2026	1.50%	903,544.20
2026/N	22.09.2026	Floating rate, Retail	8,165.93
2027/A	27.10.2027	3.00%	1,236,806.30
2027/B	22.04.2027	Floating rate	598,138.50
2028/A	22.10.2028	6.75%	651,303.99
2028/N	22.03.2028	Floating rate, Retail	20,667.71
2028/O	22.03.2028	Floating rate, Retail	2,011.99
2029/A	23.05.2029	2.00%	302,870.24
2030/A	21.08.2030	3.00%	1,083,145.82
2031/A	22.10.2031	3.25%	1,331,985.54
2032/S	02.12.2032	Floating rate, Retail	76,108.12
2033/A	20.04.2033	2.25%	123,993.38
2033/S	01.02.2033	Floating rate, Retail	7,782.52
2034/S	01.02.2034	Floating rate, Retail	6,201.73
2035/S	01.02.2035	Floating rate, Retail	5,995.58
2036/S	01.02.2036	Floating rate, Retail	5,237.56
2037/S	01.02.2037	Floating rate, Retail	4,550.94
2038/A	27.10.2038	3.00%	435,738.65
2038/S	01.02.2038	Floating rate, Retail	3,187.26
2039/S	01.02.2039	Floating rate, Retail	1,230.68
2041/A	25.04.2041	3.00%	108,970.88
Matured, but unclaimed government bonds			83.37
Total			**20,189,393.10**
Repos with government bonds (repos actually increase or decrease the total amount)			597,533
Discount Treasury Bills			**657,568.40**
Repos with discount Treasury bills (repos actually increase or decrease the total amount)			598.93
Hungarian Government Security Plus (dematerialized)			**4,962,202.52**
Hungarian Government Security Plus (printed)			**259,035.27**
1-year Hungarian Government Security			**1,088,375.17**
Out of which matured, but unclaimed			37.30
Treasury Savings Bills (1-year)			**212,556.94**
Treasury Savings Bills (2-year)			**108,336.73**
HUF loans			**1,161,614.12**
Matured, but unclaimed other retail government securities			52.36
Total HUF debt			**29,237,266.10**

Foreign currency debt					Outstanding amount (HUF million)	Outstanding amount (EUR million)
Loans granted by International Financial Institutions*					**1,159,728.12**	**3,176.21**
Foreign currency loans taken over*					**131,355.79**	**359.75**
Government bonds issued since 1999						
Maturity date	Currency	Amount in original currency	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
29.03.2021	USD	1,532,464,000	10	6.375%	455,693.50	1,248.03
29.03.2041	USD	1,250,000,000	30	7.625%	371,700.00	1,017.99
21.02.2023	USD	1,823,938,000	10	5.375%	542,366.20	1,485.41
22.11.2023	USD	1,748,990,000	10	5.75%	520,079.67	1,424.37
25.03.2024	USD	1,851,010,000	10	5.375%	550,416.33	1,507.45
10.10.2027	EUR	1,000,000,000	10	1.75%	365,130.00	1,000.00
22.03.2021	JPY	30,000,000,000	3	0.37%	86,592.00	237.15
22.10.2025	EUR	1,000,000,000	7	1.25%	365,130.00	1,000.00
19.12.2021	CNY	2,000,000,000	3	4.30%	91,340.00	250.16
28.04.2026	EUR	1,000,000,000	6	1.125%	365,130.00	1,000.00
28.04.2032	EUR	1,000,000,000	12	1.625%	365,130.00	1,000.00
05.06.2035	EUR	1,500,000,000	15	1.75%	547,695.00	1,500.00
15.09.2023	JPY	22,700,000,000	3	0.52%	65,521.28	179.45
18.09.2025	JPY	20,000,000,000	5	0.74%	57,728.00	158.10
17.09.2027	JPY	15,500,000,000	7	1.03%	44,739.20	122.53
18.09.2030	JPY	4,500,000,000	10	1.29%	12,988.80	35.57
18.11.2030	EUR	1,250,000,000	10	0.50%	456,412.50	1,250.00
17.11.2050	EUR	1,250,000,000	30	1.50%	456,412.50	1,250.00
Total					**5,720,204.98**	**15,666.21**
Cross-currency swaps					**-238,943.34**	

* Including swaps

Premium Euro Hungarian Government Bond						
Code	Currency	Maturity date	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2021/X	EUR	22.09.2021	3	Floating rate, Premium	6,691.09	18.33
2021/Y	EUR	22.09.2021	3	Floating rate, Premium	62,672.65	171.64
2022/X	EUR	21.12.2022	3	Floating rate, Premium	89,724.10	245.73
2023/X	EUR	20.09.2023	3	Floating rate, Premium	20,129.70	55.13
2025/X	EUR	21.08.2025	5	Floating rate, Premium	15,485.22	42.41
Total					**194,702.75**	**533.24**

Residence Bond						
Code	Currency	Maturity date	Maturity (years)	Yield Zero coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2021/T	EUR	20.12.2021	5	2.00%	4,052.94	11.10
2021/T1	EUR	27.03.2021	5	2.00%	7,010.50	19.20
2021/T2	EUR	27.06.2021	5	2.00%	22,017.34	60.30
2021/T3	EUR	27.09.2021	5	2.00%	35,928.79	98.40
2021/T4	EUR	27.12.2021	5	2.00%	79,634.85	218.10
2022/T1	EUR	27.03.2022	5	2.00%	43,706.06	119.70
2022/T2	EUR	27.06.2022	5	2.00%	127,503.40	349.20
2022/T3	EUR	27.09.2022	5	2.00%	31,328.15	85.80
Total					**351,182.03**	**961.80**
Total foreign currency debt					**7,318,230.33**	
Total central government debt					**36,555,496.43**	
Other obligations (marked-to-market deposits placed at ÁKK)					**128,839.77**	
Grand total					**36,684,336.20**	

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-
15.02.2019	Baa3	BBB	BBB-
22.02.2019	Baa3	BBB	BBB

S&P and Fitch Ratings assigned a 'stable' while Moody's a 'positive' rating outlook to the long-term foreign currency debt of Hungary at the end of 2020.

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-

HUF denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
05.11.2007	A2	BBB+	A-
17.03.2008	A2	BBB+	A-
17.10.2008	A2	BBB+	A-
07.11.2008	A3	BBB+	A-
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-
15.02.2019	Baa3	BBB	BBB-
22.02.2019	Baa3	BBB	BBB

S&P and Fitch Ratings assigned a 'stable' while Moody's a 'positive' rating outlook to the long-term domestic currency debt of Hungary at the end of 2020.

3. The addresses of primary dealers

Primary dealer	Address
BNP Paribas SA	Grzybowska 78, 00-844 Warszawa, Poland
CIB Bank Zrt.	Budapest, H-1027 Medve utca 4-14.
Citibank Europe Plc.	Budapest, H-1133 Váci u. 80. Promenade Garden
Deutsche Bank AG	Taunusanlage 12, 60325 Frankfurt am Main, Germany
ERSTE Befektetési Zrt.	Budapest, H-1138 Népfürdő u. 24-26.
Goldman Sachs International	Marienturm, Taunusanlage 9-10, 60329 Frankfurt am Main, Germany
ING Bank N.V.	Budapest, H-1068 Dózsa György út 84/B. (Hungarian Branch)
J.P. Morgan Securities Plc.	Taunustor 1, 60310 Frankfurt am Main, Germany
K&H Bank Zrt.	Budapest, H-1095 Lechner Ödön fasor 9.
MTB Magyar Takarékszövetkezeti Bank Zrt.	Budapest, H-1122 Pethényi köz 10.
MKB Bank Zrt.	Budapest, H-1056. Váci u. 38.
OTP Bank Nyrt.	Budapest, H-1131 Babér utca 9.
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	2019	2020
	A) Fixed assets	153,731	201,113
I	Intangible assets	56,418	85,623
II	Tangible assets	89,839	108,871
III	Invested financial assets	7,474	6,619
	B) Current assets	426,349	431,490
I	Inventories	28	24
II	Receivables	10,670	7,657
III	Securities	0	0
IV	Cash and cash equivalents	415,651	423,809
	C) Accrued and deferred assets	8,572	30,941
	Assets in total	588,652	663,544

data in HUF thousand

	Liabilities	2019	2019
	D) Capital and reserves	466,635	509,391
I	Subscribed capital	300,000	300,000
IV	Profit reserve	94,914	94,914
VII	Balance-sheet profit or loss	71,721	114,477
	E) Provisions	0	0
	F) Liabilities	98,600	143,420
I	Subordinated liabilities	0	0
II	Long-term liabilities	0	0
III	Short-term liabilities	98,600	143,420
	G) Accrued and deferred liabilities	23,417	10,733
	Liabilities in total	588,652	663,544

Budapest, 10 March 2021

Zoltán Kurali
CEO

II. Profit and loss account

data in HUF thousand

	Liabilities	2019	2020
I	Net sales revenue	1,238,082	1,379,584
III	Other revenue	6,889	3,162
IV	Material expenses	291,826	299,951
V	Personnel expenses	808,536	874,344
VI	Depreciation and amortisation	60,897	77,327
VII	Other expenses	4,858	7,826
A	Operating profit or loss	78,854	123,298
B	Profit or loss from financial transactions	-40	2,406
C	Profit or loss on ordinary activities	78,814	125,704
XII	Tax payable	7,093	11,227
F	Profit or loss after taxation	71,721	114,477

Budapest, 10 March 2021

Zoltán Kurali
CEO

6. Senior officials of ÁKK in december of 2020

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

Dr. Ábel Berczik, member

The Company's auditor:

Club-Audit Számviteli és Pénzügyi Szolgáltató Kft.

1136 Budapest, Hegedűs Gyula u. 49/51.4. em.1.

Responsible auditor:

Fehérné Vikárius Éva, auditor