HUNGARY
Investor Presentation

May 2020

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KEY FACTS AND FIGURES ON HUNGARY

Area: 93,023 sq. kilometres

Capital: Budapest

Population: 9.8m

Life expectancy: 76.1 years

Currency: Forint (HUF)

Exchange rate (2019): 290.65 HUF = 1.00 USD[1]

Nominal GDP (2019): HUF 46,787 billion

Real GDP growth (2019): 4.9%

Public debt (2019): HUF 29,682 billion

Public debt in foreign currency (2019): HUF 5,121bn (EUR 15 billion)

Sovereign ratings: BBB / Baa3 / BBB

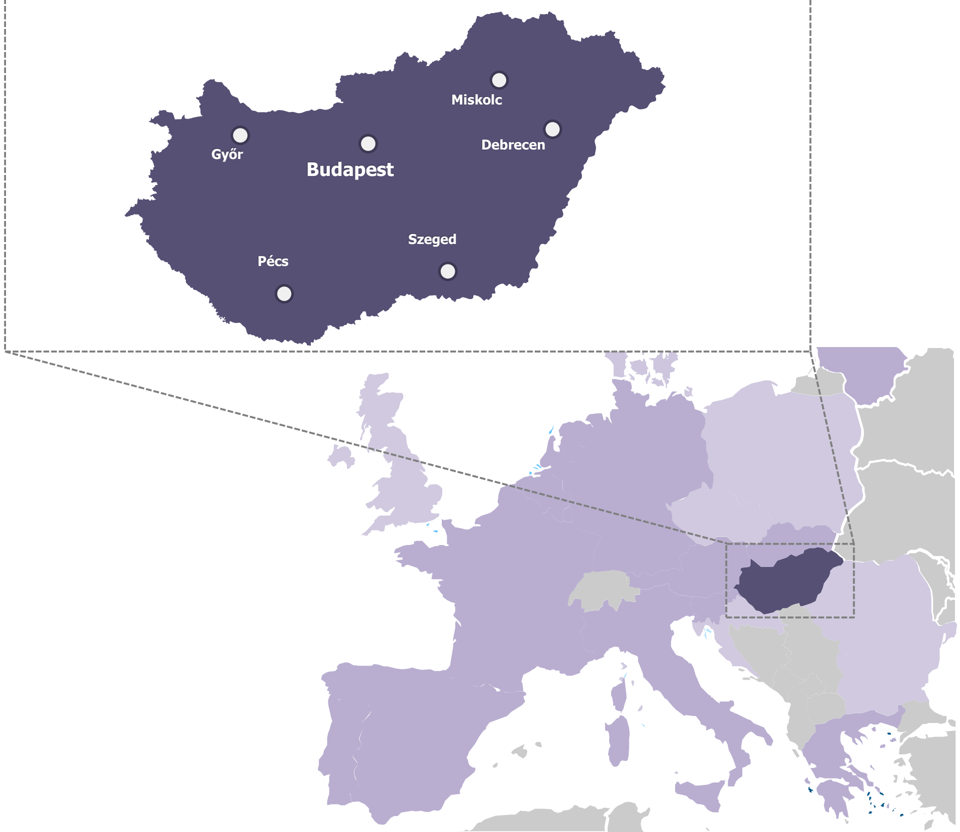
Government: parliamentary republic

EU member country since: 2004

Schengen area member since: 2007

Key economic sectors: manufacturing; wholesale and retail trade; automotive; education and health

A high income economy with a strategic location at the centre of Europe and memberships in key international organizations



Note: 1. Average exchange rate in 2019

Sources: Government Debt Management Agency of Hungary (AKK), Hungarian Central Statistics Office (HCSO), HIPA, Magyar Nemzeti Bank (the central bank of Hungary) (MNB), World Bank, Bloomberg, European Commission

HUNGARY IS IN STRONG POSITION TO FACE THE IMPACT OF COVID-19

Measures to face coronavirus pandemic	• The Government is taking **extraordinary measures to contain mass infections and mitigate the economic impact of Covid-19** as illustrated in slide 7 • The **MNB took a series of coordinated measures** including adjustment of policy rates, introduction of new liquidity enhancing facilities and executing asset purchases as illustrated in slide 12 • Fiscal policy measures result in a **total stimulus of HUF 9,200 billion** equalling 20% of GDP as illustrated in slide 9
Strong and resilient economy	• **Hungary is one of the fastest growing economies in Europe with real GDP growth of 4.9% in 2019** (3.3 times higher than the EU average) and **is facing the Covid-19 crisis from a resilient position**, as illustrated on slide 14 • **The economy benefits from strong investment dynamics,** enjoying the second highest investment rate in Europe in 2019 • **The level of unemployment is low,** amounting to 3.3% in Q4 2019 and 3.7% in Q1 2020 • **The sovereign's economic environment is stable:** inflation has been within the targeted band since 2017 and the banking sector is characterised by decreasing non-performing loan ratio and adequate capitalisation as illustrated in slide 18
Sound fiscal policies	• **The fiscal deficit had been constantly below the Maastricht threshold since 2012, however the expected 2020 ESA deficit has been revised to 3.8% of GDP (compared to the original 1.0% target) in response to Covid-19** as illustrated in slide 20 • **Counter-cyclical fiscal policies have allowed the public debt to decline steadily since 2011** – i.e. by 14.5 percentage points over 2011-2019, reaching 66.3% of GDP at year end 2019 as illustrated in slide 21 • **Fiscal policy will be supportive in 2020 in response to Covid-19, however the government remains committed to fiscal consolidation**
Favourable external position	• **Hungary enjoys a positive net international lending position since 2009** as illustrated in slide 24 • **This positive external position is largely explained by the country's trade surplus** which has been supported by the rise in services exports in recent years as illustrated in slide 24 • **External debt indicators are at historical lows** with a gross external debt level of 53% of GDP in 2019 compared to 107% in 2012 as illustrated in slide 25 • **International reserves are adequate**, representing over 1.6x the level of short-term external debt of the sovereign as illustrated in slide 25
Effective debt management	• **Hungary is an Investment Grade country that benefits from highly supportive financing conditions** as illustrated in slide 22. • **The structure of public debt is favourable** with a decreasing share of FX debt, increasing average term to maturity and a highly diversified, deep and liquid domestic market as illustrated in slide 27 & 28 • **The development of the retail market has been a key driver of the expansion of the domestic investor base** as illustrated in slide 27 & 28

I. MEASURES TO FACE CORONAVIRUS PANDEMIC

HUNGARY FACES THE COVID-19 CRISIS WITH A STRONG POLICY TRACK RECORD

Key highlights of government support

- **The Hungarian government is implementing a wide range of measures to support the economy in response to Covid-19**
  - Revised ESA budget deficit estimate of 3.8% of GDP in the Convergence Programme from 1.0% initially budgeted
  - Total measures announced worth HUF 9,200 billion for 2020 to mitigate the impact of the crisis
  - 2020 budget reserves of 1% of GDP mobilized
  - Creation of the Disease Control Fund and Economy Protection Fund
- The **revised ESA deficit target will limit the impact of the crisis on public finances**

Key highlights of central bank support

- **Key policy rates remaining highly accommodative and sufficient policy space** following increase in one-week collateralized lending rate to 1.85 percent following the last monetary council of April 7
- **Enhanced liquidity** thanks to the introduction of 1-week FX swap tender, a 5-year long-term collateralized lending facility and the release of capital buffers of systemically important credit institutions
- **Introduction of asset purchase programs** with the Government Security Purchase Programme and the Mortgage Bond Purchase Programme
- **Introduction of a new and enlarged Funding for Growth Scheme** to ensure access to required and affordable funding for domestic SMEs

➢ **<u>Balanced approach to maintain rates at low levels, ensure ample liquidity and achieve low long term rates</u>**

KEY GOVERNMENT PRIORITIES IN RESPECT OF CORONAVIRUS

Protect lives, workplaces and decelerate the epidemic	Introduction of an official quarantine, boarder closing for foreigners and restricted social contact
	Besides health care delivery from abroad, the Government creates new capacities and increases existing ones in order to **produce health care products in Hungary**
	Deploy measures related to employment in order to **minimize human contacts**: employers may alter work schedule more easily, employers may order employees to work at home or remotely, employers may provide for checking the health of their employees
Mitigate the impact on the economy	**Maintain liquidity in the economy.** This requires redesigning fiscal and economic policy (budget reserves of up to 1% of GDP are being mobilized); The redesigning of budget "at all levels" is coordinated by the Minister of Finance, involvement of central bank and monetary policy tools.
	Allocate emergency defence expenditure: Until May 19, the Government already allocated a total of HUF 1,436 billion (EUR 4.1 billion) for pandemic and economy protection expenditures and further HUF 350 billion (EUR 1 billion) on tax measures.
	The tourist tax is suspended until December 31, the social contribution tax rate of the SZÉP Card will be reduced by June 30, and its limits will be raised. HUF 600 billion will be provided for the **tourism protection** program.
	In order to allow for a faster and more **flexible use of budgetary reserves** to mitigate effects of pandemic, the reserve rules which were laid down in the Budget Act are now suspended for 2020 on the basis of the 69/2020. Government Order. The reserves are now being spent on pandemic related expenditures.
	The Government created 2 new domestic funds to finance the costs related the financing of the Pandemic: (i) **Disease control fund** (HUF 634 billion) and (ii) **Economy protection fund** (HUF 1,345 billion)
Continuously monitor the situation	**Hold continuous consultation** with the representatives of the most troubled industries (such as tourism, catering industry and service sector) and representatives of the SME sector in order to introduce quick measures to help them.
	11 high-level task forces have been established in order to manage the situation

Source: MoF

ADDITIONAL FUNDS HAVE BEEN SET ASIDE TO HELP WITH THE COSTS OF THE CORONAVIRUS PANDEMIC

- After redesigning the budget law for 2020, two separate domestic funds were created for financing the costs related to the pandemic and for government's additional expenditures

Budget Law 2020

Total expenditures HUF 21,991 billion	Total revenues HUF 21,506 billion

Disease Control Fund

Expenditures	Sources (HUF 634 billion)
Purchase of goods, fixed assets * One off wage for health care workers (HUF 71 billion)	Budget reserve (HUF 378 billion)* Reallocation of other expenditures (HUF 130 billion) New tax – Retail sector (HUF 36 billion) New tax – Banking sector (HUF 55 billion) Existing tax – reallocated from local governments (HUF 34 billion)

Economy Protection Fund

Expenditures	Sources
Crisis related expenditures (HUF 1,345 billion)	Reallocation of expenditures from ministries (HUF 923 billion) Reallocation of sources from national Employment Fund (HUF 423 billion)

*The source of the asset purchase is the budget reserve which is an uncapped appropriation.

Source: MoF

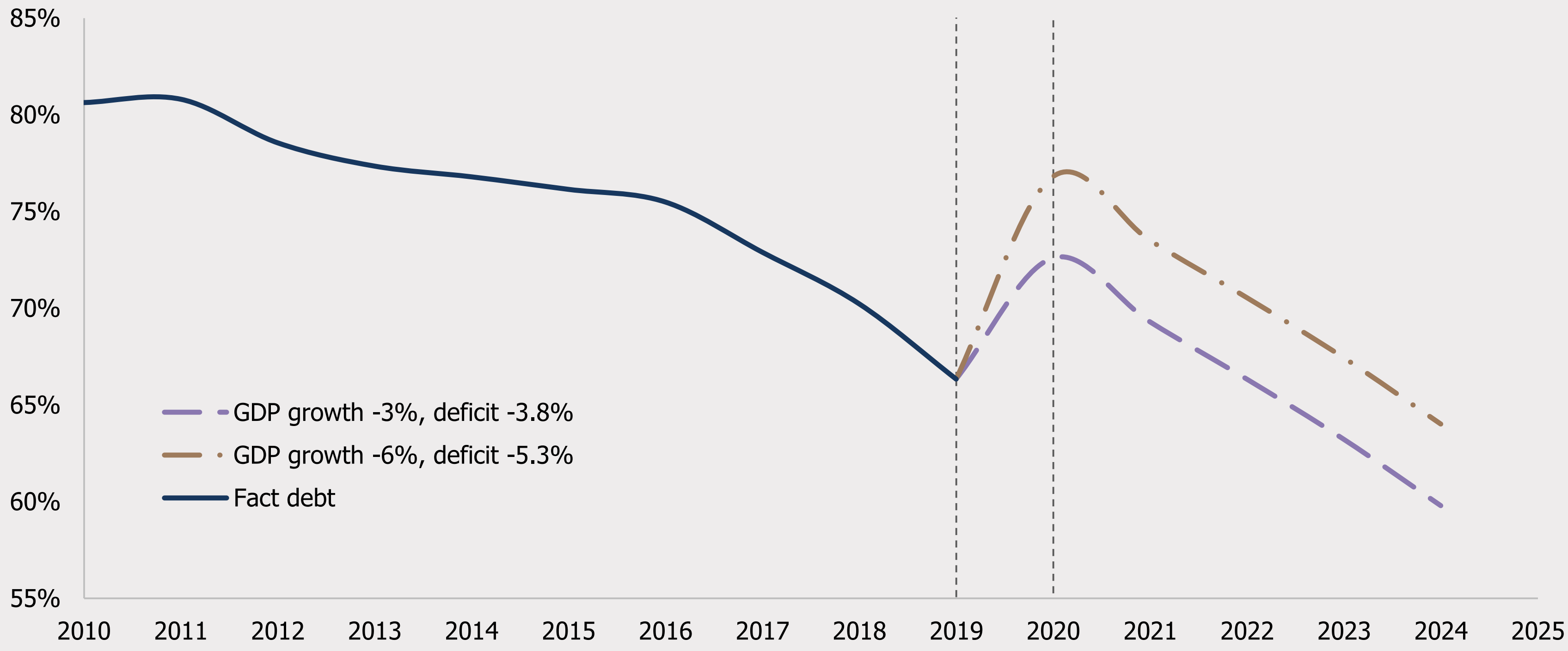
GOVERNMENT MEASURES TO ALLEVIATE ECONOMIC IMPACT OF THE PANDEMIC

Area of action	Sum of measures for 2020	
	HUF billion	**% of GDP**
Total measures = 1) + 2) + 3)	**9,191**	**19.5%**
1) Pandemic measures	774	1.6%
2) Economic policy measures = A) + B)	1,623	3.4%
A) Discretionary tax and social measures	360	0.8%
Further 2%-points cut of the social security tax	160	0.3%
Temporary cuts of certain employer's and employee's taxes until June 30	108	0.2%
Other tax measures	81	0.2%
Lengthened eligibility for maternity related social transfers	11	0.02%
B) Expenditure measures	1,262	2.7%
To be financed from reallocated domestic expenditures	923	2.0%
Domestic programmes not related to financing measures	*878*	*1.9%*
Budgetary effect of capital, guarantee and loan programs for 2020	*45*	*0.1%*
To be financed from reallocated EU-co-financed expenditures	340	0.7%
3) Financing measures	6,794	14.4%
Payment moratorium	3,600	7.7%
Total amount of new capital, guarantee and loan programs (up to May 19)	1,694	3.6%
Central Bank's Funding for Growth Scheme	1,500	3.2%

Source: MoF Note: 1 Calculated with expected GDP for the year 2020 of HUF 47,036.1 billion; figures are rounded for the first digit and consequently subject to rounding error

THE 3.8% ESA DEFICIT TARGET DENOTES THE GOVERNMENT'S INTENTION NOT TO INCREASE DEBT IN AN UNCONTROLLED WAY

Various debt scenarios depending on GDP and deficit (% of GDP)



By setting a 3.8% ESA deficit target for 2020, the Government wants to send a clear message that it will not tolerate an uncontrolled increase in debt

Source: MoF

HUNGARY, SIMILARLY TO OTHER COUNTRIES, IS FOCUSED ON THE ECONOMIC RECOVERY AND KEEPING PEOPLE EMPLOYED

	Hungarian focus measures	Note	Some countries that also apply
1	**Hungarian "Kurzarbeit"**	Government support for short-term work for the period of the lockdown. The Hungarian government will take over 70% of the lost salary for 3 months.	
2	**Maintaining household income**	Expiring benefits for persons currently on maternity leave will be extended until the end of state of danger. Parents raising a chronically ill or disabled child do not cease to be eligible until the last day of the 2nd month after the end of the emergency. Employees' contributions are reduced to level equivalent to the basic health insurance contribution (HUF 7,710 Ft) payable in sectors severely affected by the epidemic.	
3	**Payment moratorium for companies and households**	Payment moratorium is introduced for debtors of households and company credit, loan and financial lease contracts until 31 December 2020.	
4	**Deferred tax payment**	Tax holiday in accommodation, food, arts, entertainment and recreation services on employers' social security contributions. Tax holiday for small businesses under the simplified, small business oriented tax regimes.	
5	**State guarantee**	Measures offer interest- and guarantee-subsidised credit facilities to Hungarian businesses.	

Source: Hungarian Government, MoF, MoJ

OVERVIEW OF KEY MONETARY POLICY MEASURES

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Rates

- **Following the latest (unusual) monetary council meeting on 7 April:**
  - Base rate and overnight deposit rate remains unchanged at 0.9 percent and at -0.05 percent, respectively
  - Overnight and one-week collateralized lending rate have been raised to 1.85 percent
  - 1-week deposit rate remains equal to the base rate, with a +/- deviation allowed within interest rate corridor. Each week the actual rate will be set in the tender's announcement

Liquidity / new facilities

- **Introduction of 1-week FX-swap tenders** providing forint liquidity daily for counterparties on March 17
- **Introduction of a long-term collateralized lending facility with maximum 5-year maturity** to support banks' liquidity management on longer-term maturities and strengthen the functioning of the government securities market on March 24:
  - Amount: unlimited (each tender follows market conditions)
  - Interest rate: fixed during the whole period
  - Unconditional: it may be used for loans to private sector, FX and interest rate swaps, for buying treasury bonds or for interbank transactions
- **Introduction of a new 1-week deposit facility paying the 0.9% base rate on April 1 aiming at addressing uneven liquidity distribution**
  - Available for MNB's monetary policy counterparty institutions (domestic financial institutions with VIBER or BKR membership)
  - Minimum bid: HUF 10 million HUF – tick: HUF 1 million
  - Lifespan: as warranted by liquidity developments
  - On 2 April MNB accepted all of the submitted bids in worth of HUF 655 billion
- **Suspension of sanctions on reserve deficiency**
- **Release of capital buffers of systemically important credit institutions** on April 1
- **Introduction of a new Funding for Growth Go! scheme (FGS Go!), worth HUF 1,500 billion**[1]
  - Refinancing rate: 0%, maximum interest rate for SMEs: 2.5%
  - Investment loans: 20-year duration, working capital loans: 3-year duration, max. loan amount HUF 20 billion/company

Asset purchases

- Launch of a **Government Security Purchase Program** in May in the amount of HUF 1,000 billion
- **Easing of Bond Funding For Growth Scheme conditions** (maximum amount of exposure to a given group of corporations increased from HUF 20 billion to HUF 50 billion and maturity of eligible securities increased from 10 to 20 years)[1]
- Relaunch of the **Mortgage Bond Purchase Program** in May in the amount of HUF 300 billion

Balanced approach to maintain rates at low levels and ensure ample liquidity

Note: 1. Sterilization of excess liquidity supply created under the FGS Go! and BGS and preferential deposit facility rate of 4% for additions to stocks of loans/bonds under FGS Go! and BGS
Source: MNB measures enacted by the decisions of the Monetary Policy Council of the MNB

II. STRONG AND RESILIENT ECONOMY

HUNGARY CONTINUES TO BUILD ON SOLID ECONOMIC GROWTH SINCE 2013

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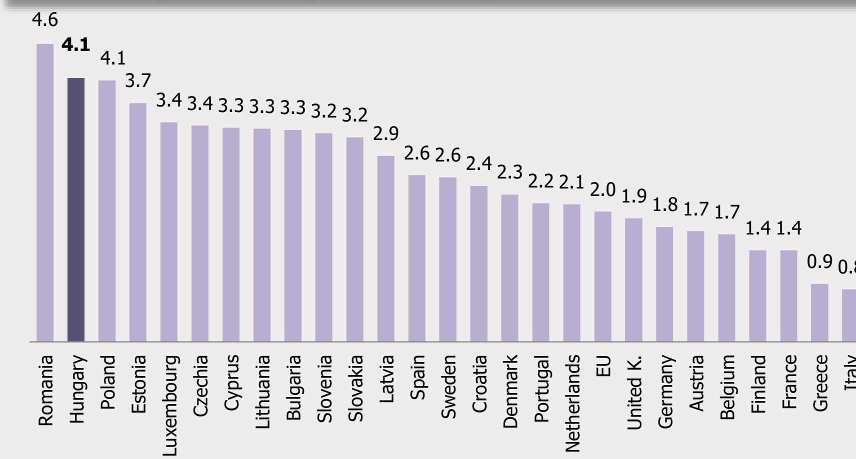
Key highlights

- **Since 2013, Hungary's GDP growth has been among the fastest in Europe as evidenced in the chart on the right**
- **Growth has been partly driven by the turnaround in employment** that happened in the wake of the structural reforms implemented after the economic crisis, including the tax regime
  - The number of people employed rose by over 784,400 between 2012 and Q4 2019
  - Unemployment decreased to a historic low of 3.3% in Q4 2019
  - **This has allowed the Hungarian economy to grow by 4.1% on average between 2014 and 2019, while the EU average has been 2.0%**
- **In 2019, real GDP grew by 4.9%, the second highest level in Europe** and 3.3x times faster than the EU average according to data compiled by Eurostat
- The strong momentum in Hungarian economic activity entering the Covid-19 crisis is supportive of the outlook compared to peers
  - Unemployment rate increased to 3.7% in Q1 2020
  - GDP growth rate amounted to 2.0% in Q1 2020, the fourth highest in the EU according to the flash estimate compiled by Eurostat

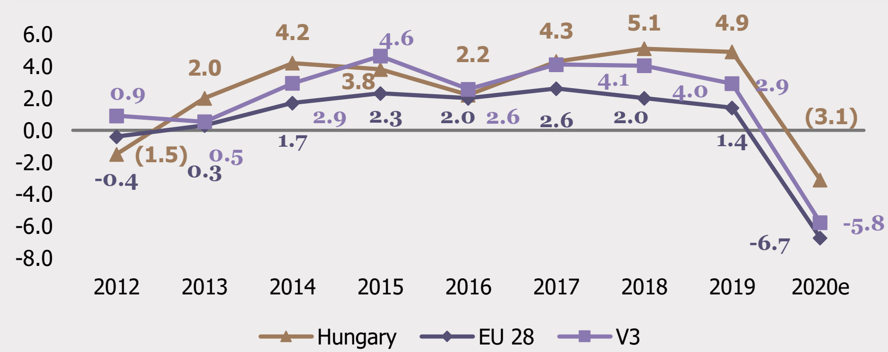
Sources: HCSO, Eurostat

Second highest GDP growth among EU countries 2014-2019*



Source: Eurostat | *excluding Ireland and Malta

Real GDP Growth (YoY, %)



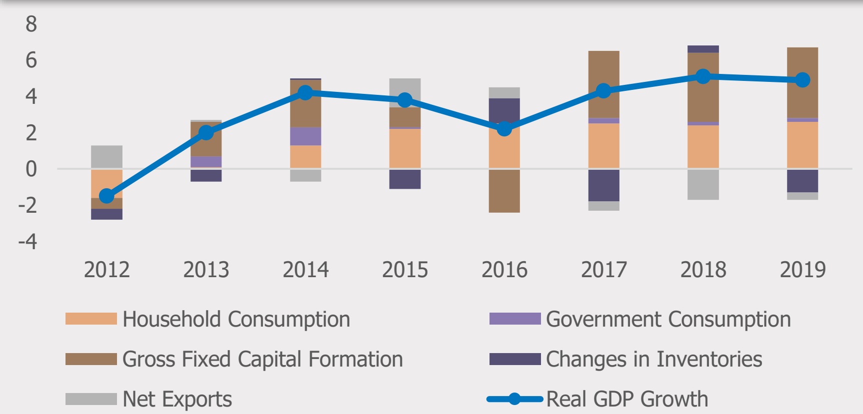
Sources: HCSO, Eurostat, IMF WEO Note: Unadjusted data

GROWTH IS DRIVEN BY BOTH CONSUMPTION AND INVESTMENT

Key highlights

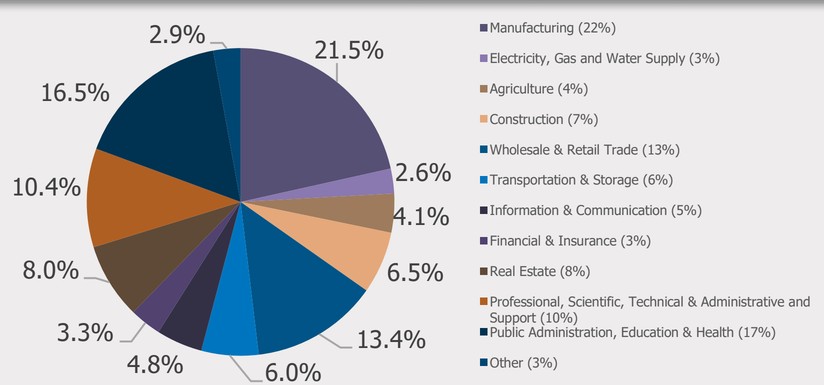
- **Growth in Hungary has been consistently supported by household consumption since 2014**
- **Household consumption has been supported by increasing household wealth and a low unemployment rate**
- **This has contributed to the development of the services industry**
  - Although all key sectors grew in Hungary in 2019, the service sector has been a key driver of real GDP growth as evidenced in the right bottom chart
- **Investment activity has picked up significantly since 2017 with high contributions to GDP growth** as evidenced by the graph to the right

Contribution to GDP growth by expenditure (percentage points)



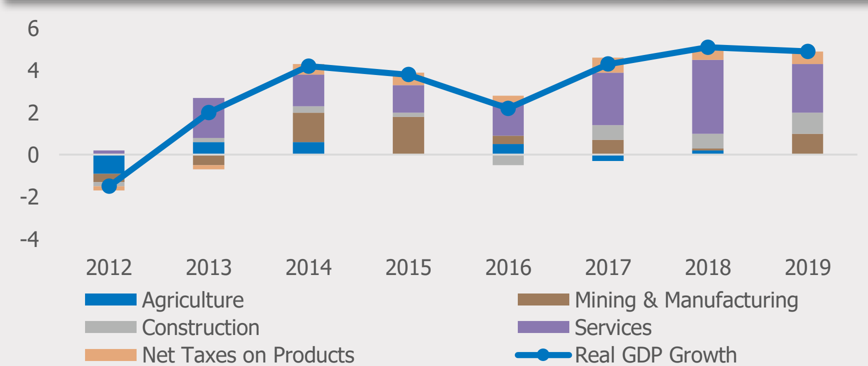
Source: HCSO Note: Calculated from indices compared to the previous year

2019 Nominal GDP breakdown by sector (% of total)



Source: HCSO

Contribution to GDP growth by sector (percentage points)



Source: HCSO Note: Calculated from indices compared to the previous year

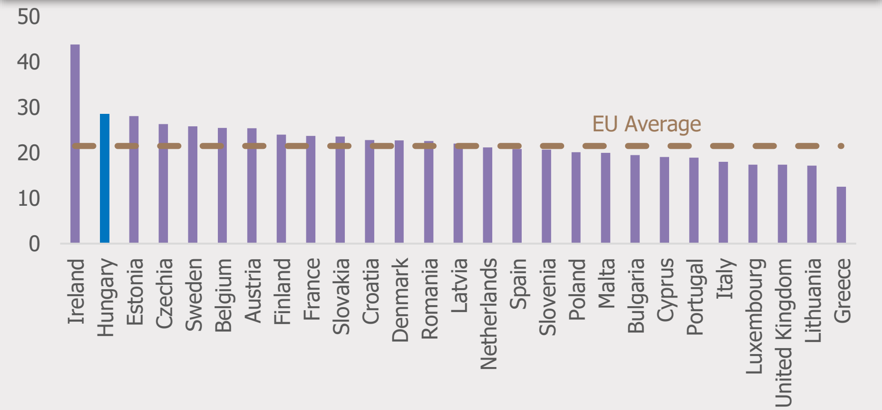
INVESTMENT DYNAMICS ARE SUPPORTIVE OF THE BROADER ECONOMIC OUTLOOK

Key highlights

- **Hungary benefited from the second highest investment rate in Europe in 2019,** with investment representing 28.6% of GDP (compared to an average of 22% among EU-27)
- **Investment has been particularly dynamic in the corporate sector partly due to** incentives including flat corporate income tax rate and investment subsidy program for large corporations
- **The effective absorption of EU funds has also contributed to the positive trend and is expected to keep generating important benefits in the coming years**
    - As of 2019, only 43% of the total EU budget allocated to Hungary for the 2014-2020 period has been spent

Sources: Eurostat, HCSO, Ministry of Finance (MoF)

2019 investment rate in EU countries (% of GDP)



Source: Eurostat Note: Data not adjusted

Effective investment incentives and 2019 achievements

Large corporation investment subsidy program: for companies active in the manufacturing sector that contribute to growth through the modernization of economy and expansion of employment

Training Subsidy: available to investors creating at least 50 new jobs. This subsidy is provided for trainings with maximum aid intensity of 50%

VIP Cash Subsidy: for asset investments, business service centres and R&D projects

Source: MoF

Development tax incentives: tax allowance for post-investment period, exemption for up to 80% of the corporate tax payable for 13 years following installation

9% corporate income tax rate: the lowest rate in the EU, which substantially reduces capital costs and strengthens Hungary's ability to attract capital

Subsidy based on individual government decision: focusing on the creation of high value-added jobs, the maintenance of existing jobs and the improvement of the corporate productivity and automatisation

HUNGARY HOUSEHOLDS ARE BETTER POSITIONED TO FACE AN INCOME SHOCK

Key highlights

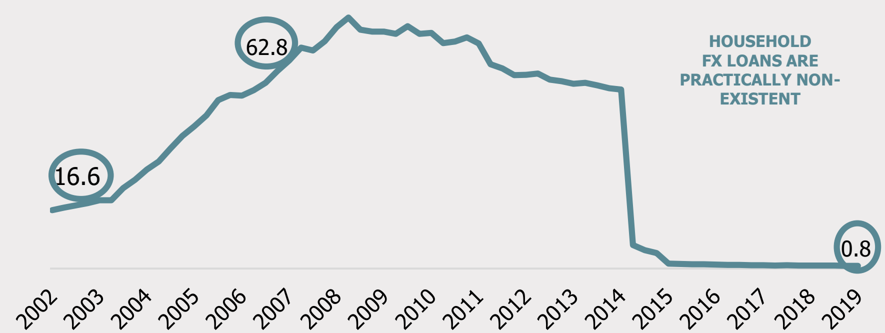
Hungary households are better positioned relative to the 2008 crisis to face an income shock as illustrated by :

- The saving rate which has increased by 10% during the period 2008-2018 to reach 12% which is the highest rate among the EU countries
- Household debt is less vulnerable and has evolved favourably since 2008 as illustrated by the share of FX loans (relative to total household loans) decreasing to almost 0%.

Sources: Eurostat, MNB

Household debt is much less vulnerable than before last crisis hit

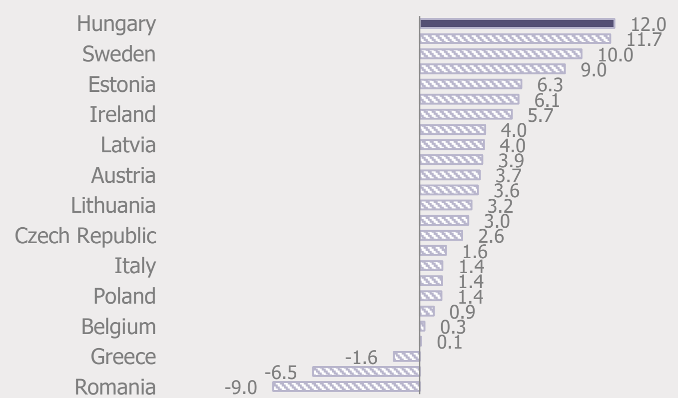
Share of FX loans (% of total household loans)



Source: MNB

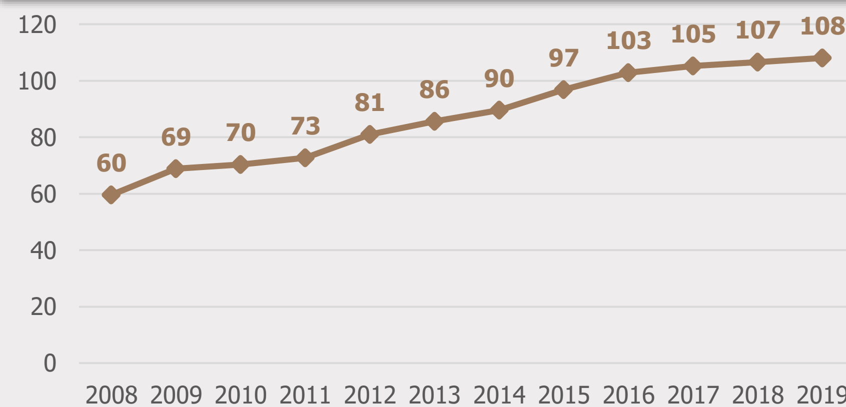
Households have a strong financial position that can cushion income shock

Households' saving rate in 2018 (% of personal disposable income)



Source: Eurostat

Net financial wealth of households relative to GDP (%)



Source: MNB, HCSO

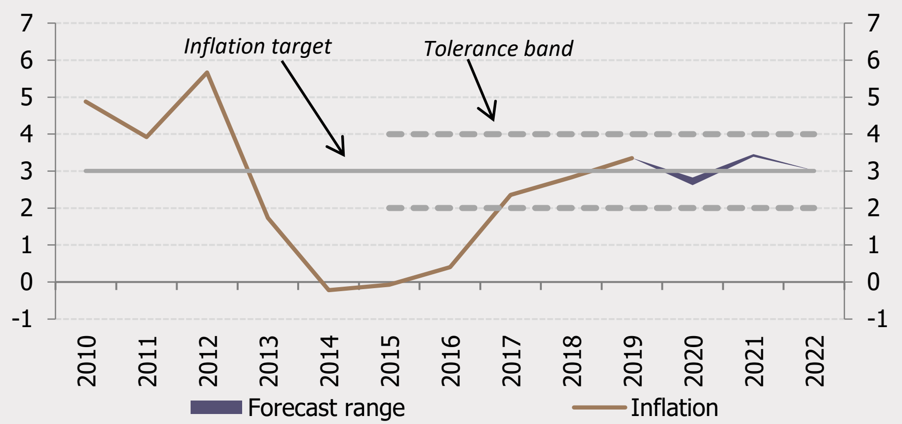
THE MACRO ENVIRONMENT IS STABLE AND THE BANKING SECTOR IS STRONG

Key highlights

- **The MNB's primary statutory objective is to maintain price stability**
  - Policy rate is adjusted to ensure inflation remains anchored at 3%, with a tolerance range of +/- 1%
  - **Baseline yearly average inflation has remained within the defined tolerance band since the beginning of 2017 and is expected by MNB to stabilize around the inflation target by 2022**
- **The banking sector is well capitalized and the quality of loans has been improving since the end of 2015** as evidenced on the graph to the right
  - Non-performing loans (NPL) ratio has significantly decreased over the last decade amounting to 4.0% as of the end of 2019
  - Capital adequacy ratio amounted to 16.9% as of the end of 2019
  - The MNB has developed a comprehensive macro-prudential framework to ensure financial stability and the Basel III regulation is implemented
- **The Central Bank has adopted a package of measures to mitigate the impact of the Covid-19 crisis on the economy and banking sector as highlighted on slide 12**

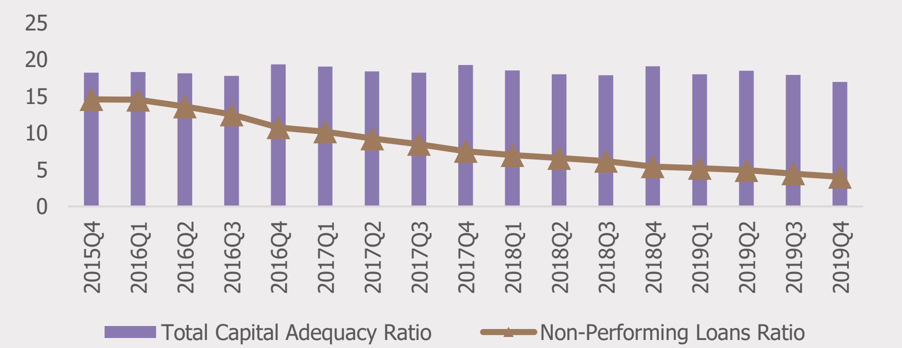
Source: MNB

Inflation vs inflation targets (%)



Sources: HCSO, MNB Note: Based on seasonally unadjusted data, compared to the corresponding period of the previous year; forecasts as of March 2020 from 2020 onwards

Total capital ratio and NPL ratios (%)



Source: MNB Note: NPL are loans overdue at least 90 days

III. SOUND FISCAL POLICIES

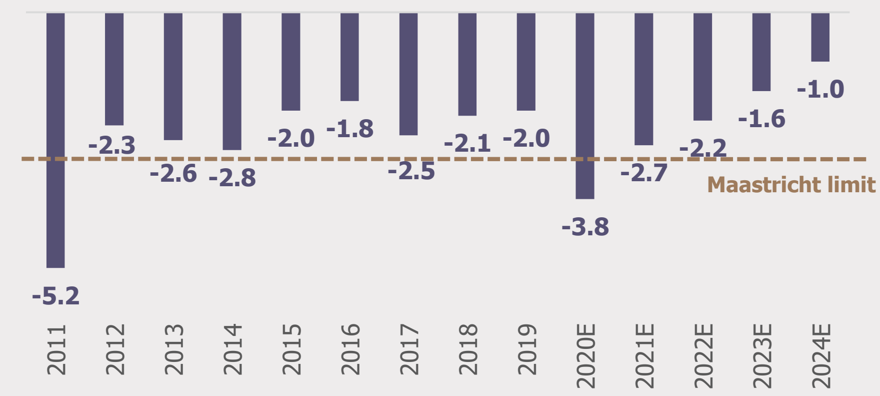
PUBLIC FINANCES ARE STRONG AND SUPPORT DEBT SUSTAINABILITY

Key highlights

- **The budget deficit has remained below the 3% Maastricht threshold since 2012,** demonstrating the authorities' commitment to fiscal consolidation
- **The government originally aimed to achieve fiscal balance by 2023**
  - The authorities originally set the 2020 ESA budget deficit target to a historic low of 1.0% of GDP
  - In the latest EDP notification dated April 1, 2020 the Government estimated ESA deficit for the year 2020 to reach 2.9% of GDP due to the ongoing pandemic
  - In the middle of April, MoF set an ESA deficit target of 2.7% of GDP for the year 2020
  - Subsequently, late April, the ESA deficit estimate was revised to 3.8% of GDP in the latest Convergence Programme
- **The Government intends to decrease the fiscal deficit below the 3% Maastricht threshold as soon as next year**
- **The fiscal reserves of the government were planned to increase in 2020 to represent approximately 1% of GDP.** Since the Covid-19 outbreak in mid-March, reserves are being spent for pandemic related purchases.

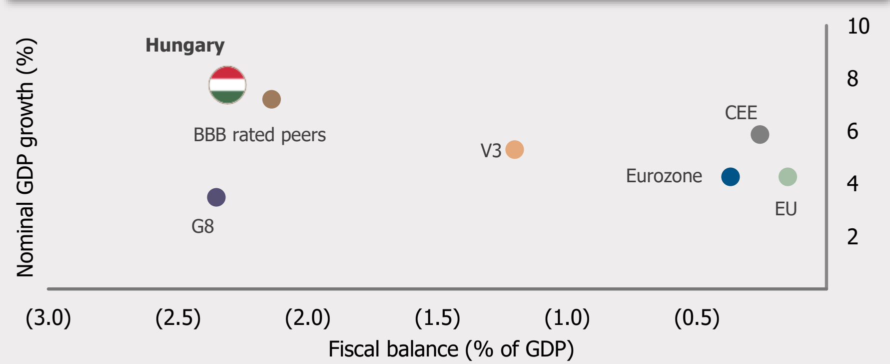
Source: HCSO, MoF

Evolution of Hungary's fiscal deficit (% of GDP)



Source: HCSO, MoF Note: Expected data based on the latest Convergence Programme of Hungary dated May 2020

Rapid nominal GDP growth – contained fiscal deficit



Sources: HCSO, Eurostat, IMF, Fitch Data Comparator (March 2020) Notes: BBB rated peers are countries with at least two BBB ratings; average 2016-19 growth and fiscal balance for countries; median for peer groups

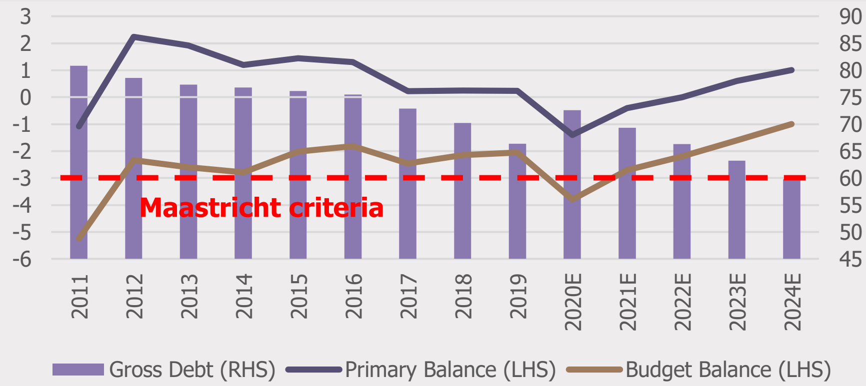
THE GOVERNMENT DEBT-TO-GDP RATIO HAS BEEN STEADILY DECLINING

Key highlights

- **Under Hungary's Fundamental Law, reducing state debt is one of the main objectives of the government**
  - As long as the debt of the government exceeds 50% of GDP, only budgets which provide for a reduction of the government debt-to-GDP ratio can be adopted
- **The authorities strictly comply with this rule**
  - Fiscal consolidation and a prudent debt management have supported a reduction in Hungary's debt-to-GDP ratio
  - The country has enjoyed a rapid decrease in government debt to GDP ratio of 14.5 percentage points between 2011 and 2019, whereas debt to GDP ratio has decreased by 0.6 percentage points on average in the EU
  - In 2019, the debt rate declined to 66.3%
  - In a State of Danger a special rule allows for a temporary debt increase

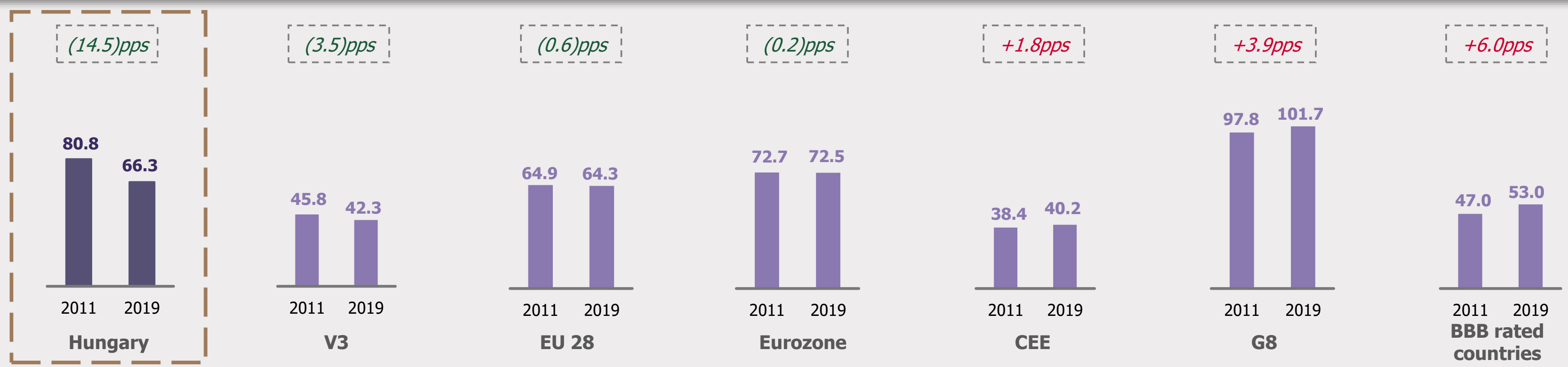
Sources: Eurostat, MNB, HCSO, MoF

General Government Debt and Deficit (% of GDP)



Sources: MNB, HCSO,
Note: Expected data based on the latest Convergence Programme of Hungary dated May 2020

Evolution of government debt in Hungary and peer groups (% of GDP)



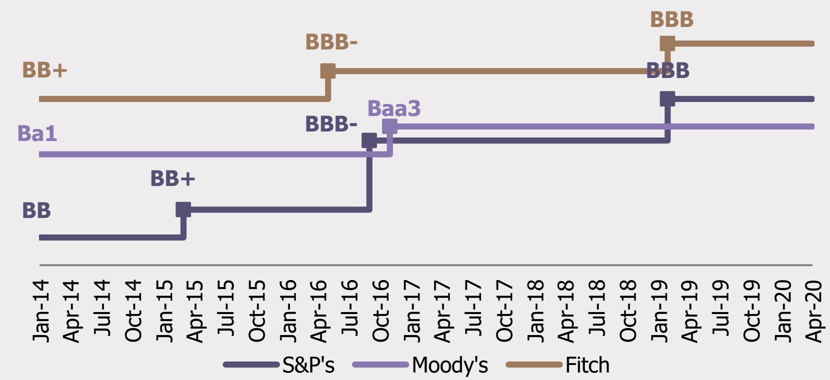
Sources: MoF, Eurostat, IMF, Fitch Data Comparator (March 2020) Note: average for peer groups

Key highlights

- **Hungary's credit ratings have improved since 2014,** in line with the improvement in the macro-economic fundamentals
  - Hungary has benefitted from multiple rating upgrades since 2014
  - It is currently rated BBB/Baa3/BBB
  - The marked decrease in Hungary's CDS premia – approximately 535 basis points between 2011 and April 2020 on the 10Y CDS – also illustrates the increase in market confidence
- **Financing conditions have thus become increasingly supportive,** with Hungary also benefitting from the global context of low rates
  - They remain supportive despite the Covid-19 outbreak as illustrated by the level of yields and CDS as of end of March 2020

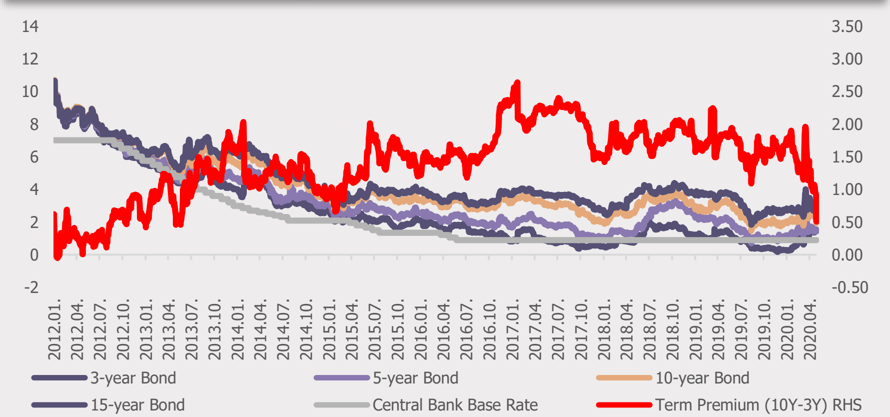
Source: MNB, Reuters, Standard&Poor's, Moody's, Fitch

Evolution of Hungary's ratings



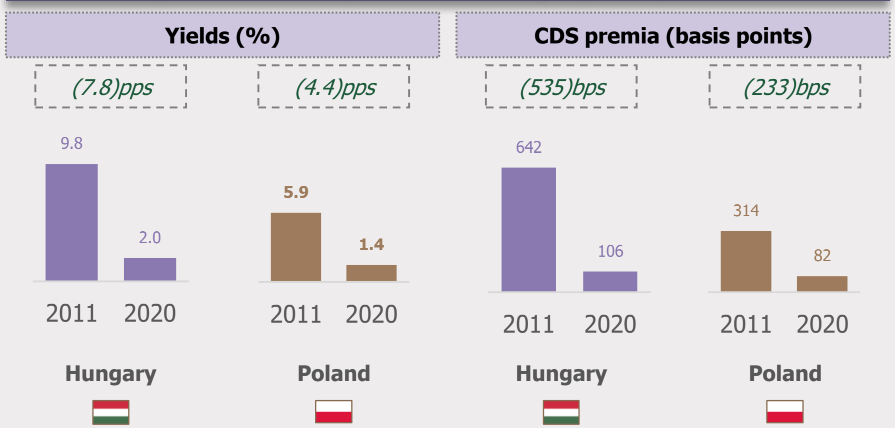
Sources: Standard&Poor's, Moody's, Fitch

Development of Hungarian Government Bond Yields (%)



Source: AKK

10Y local yield and CDS premia in Hungary and peers



Source: Bloomberg Note: As of 30.12.2011 and 30.04.2020

IV. FAVOURABLE EXTERNAL POSITION

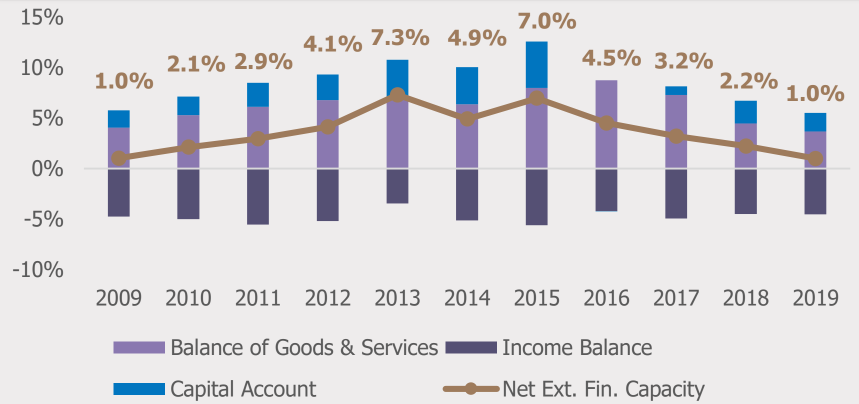
HUNGARY ENJOYS HEALTHY EXTERNAL ACCOUNTS AND A NET LENDING POSITION

Key highlights

- **Hungary's net external lending position is resilient**
  - **The country has been enjoying a net international lender position since 2009**, largely explained by the country's trade surplus that has shown significant surplus amounting to 4-9% of GDP between 2009 and 2019
  - The trade surplus increase has been driven by a rise in net services exports that represented 6% of GDP in 2019
  - Hungary also benefits from a positive capital account, partly explained by EU transfers
- **The goods and services export bases are diversified,** both in terms of sector and geography (with the exception of Germany, no country had a share in Hungarian exports over 5.2% in 2019)

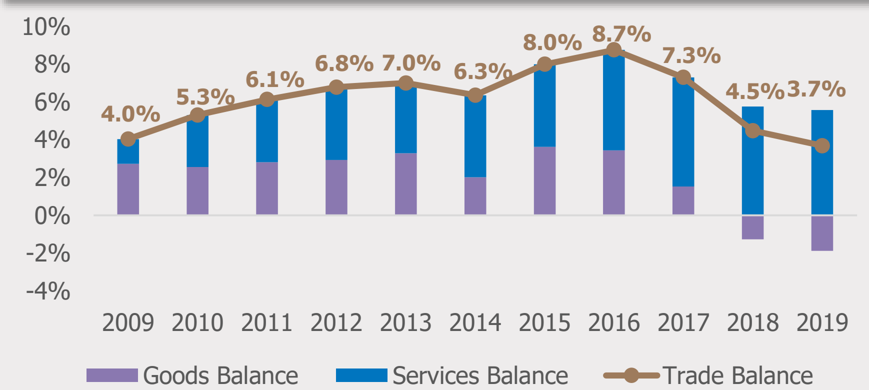
Source: MNB, HCSO

Net external lending components and position (% of GDP)



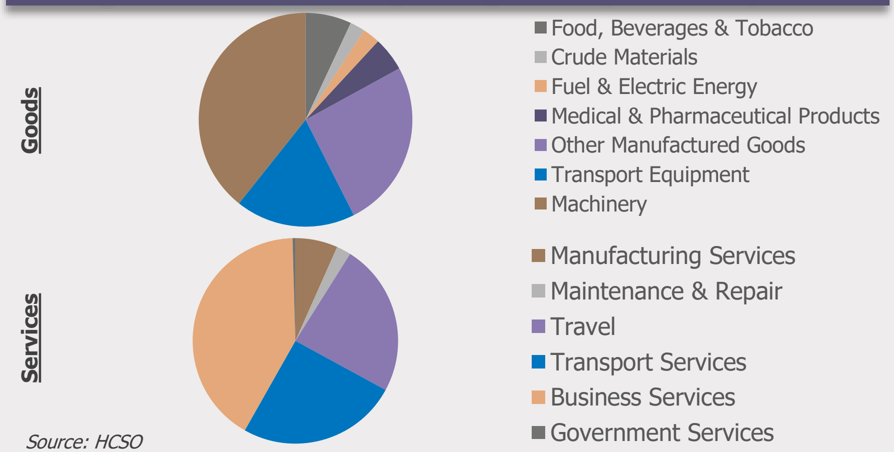
Source: MNB

Trade balance (% of GDP)



Source: MNB

2019 goods and services exports by sector (% of total)



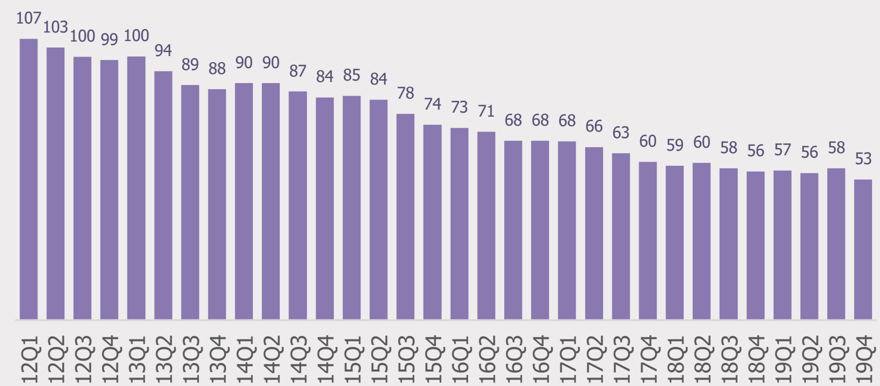
Source: HCSO

EXTERNAL DEBT HAS STEADILY DECLINED WHILE FX RESERVES REMAIN HIGH

Key highlights

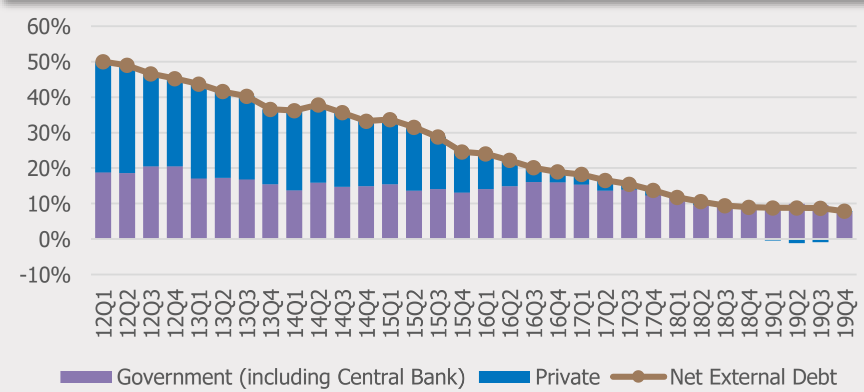
- **External debt indicators have been improving since 2012**
  - Hungary's gross external debt has substantially decreased since 2012, notably on the back of active public debt management. It stands at 53% of GDP as of end-2019
  - The net external debt of Hungary has also consistently decreased, in line with the significant net lending of the recent years
- **International reserves remain high and continue to considerably exceed the level considered as safe by the Guidotti-Greenspan rule** (see footnote 1 of the chart to the right)
  - Hungary's FX reserves to short-term debt ratio has been above 1.0x since Q2 2012
  - This ratio has improved since 2017, driven by the decline in government short-term debt: FX reserves exceed short-term external debt by over EUR 10.7 billion as of end-2019 according to data compiled by MNB

Gross external debt (% of GDP)



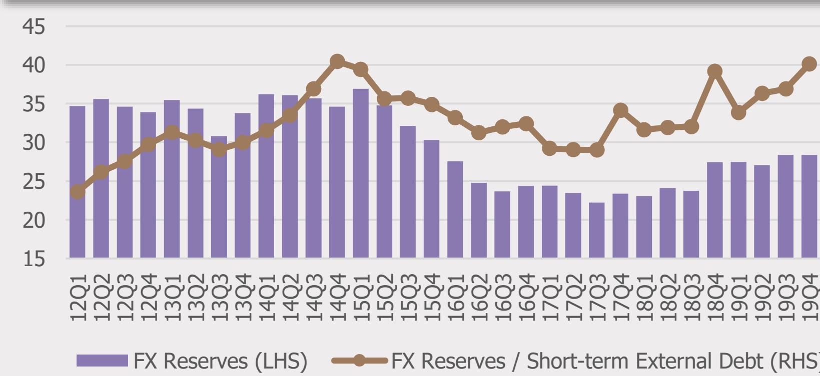
Source: MNB Note: Excluding intercompany loans

Net external debt breakdown by sector (% of GDP)



Source: MNB Note: 1. Excluding intercompany loans

International reserves level and adequacy (EUR billion)



Source: MNB Note: 1. The Guidotti-Greenspan rule stipulates that the level of international reserves should exceed the level of short-term external debt

Source: MNB

V. EFFECTIVE DEBT MANAGEMENT

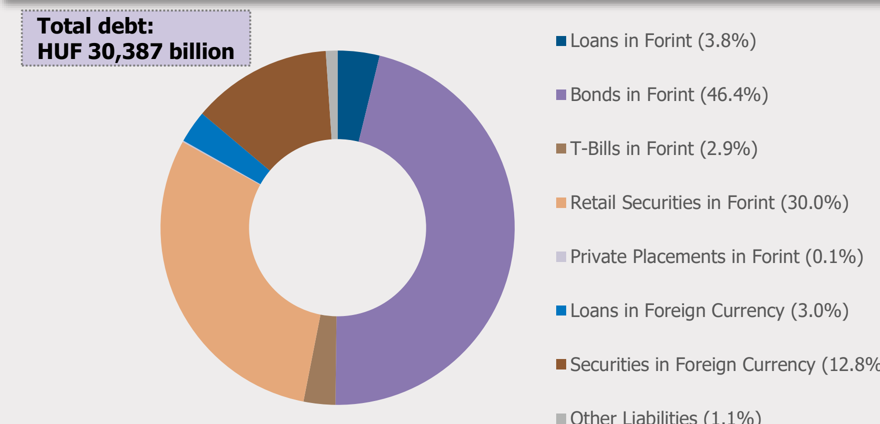
HUNGARY BENEFITS FROM A FAVOURABLE DEBT PROFILE

Key highlights

- **Each year, AKK defines key benchmark targets with the objective of optimizing Hungary's government debt portfolio**
  - The aim is to shield Hungary's government debt against exchange rate, interest rate and refinancing risks
- **All targets have been achieved in 2019**
  - **The self-financing policy has led to a material decrease in the FX share of government debt in Hungary**
  - **The active cross-currency swap strategy further mitigates FX risks** (risks emanating from adverse foreign exchange rate movements)
  - **Hungary enjoys in addition a large share of debt with a fixed coupon**
- **In 2020 AKK introduced a new benchmark of average term to maturity (ATM) exceeding 4 years in case of domestic debt**

Source: AKK

Hungary's government debt breakdown (Q1 2020, % of total)



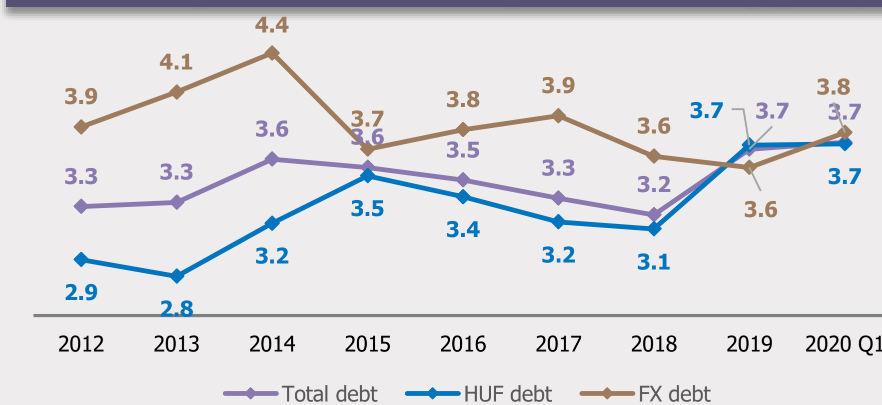
Source: AKK Note: Central government debt

Key targets and characteristics of Hungary's government debt[1]

	2021 benchmark targets		Q1 2020 figures[2]
Share of FX debt	Between 10% and 20%	✓	16%
Currency mix of the FX debt (after swaps)	100% in EUR (with a 5% deviation allowed)	✓	100% in euro
Share of local and FX debt with a fixed coupon	Between 60% and 80%	✓	71% and 74%
Average time to re-fixing of the local debt	Minimum 3.5 years	✓	3.7 years
Average time to maturity of the local debt	Minimum 4 years	✓	4.2 years

Source: AKK Note: 1. Central government debt 2. 90-day moving average

Evolution of government debt average time to re-fixing (years)



Source: AKK Note: Central government debt

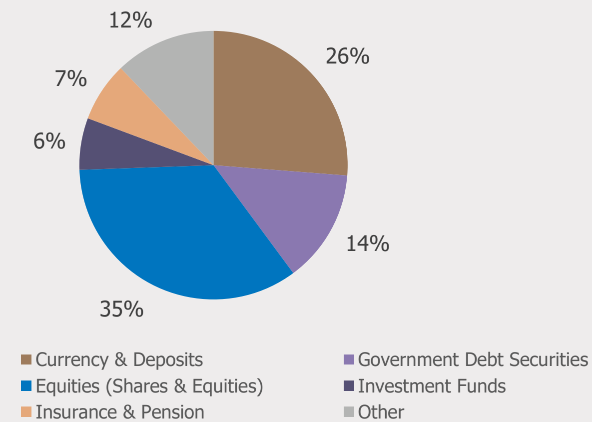
SIGNIFICANT CONTRIBUTION FROM THE HUF RETAIL MARKET

Key highlights

- **The retail sale market constitutes an important financing channel for the government,** in addition to local and international wholesale/institutional markets
  - The outstanding amount of government retail securities has significantly increased since 2011. It represents HUF 9,104 billion as of March 31, 2020
- **Hungary issues retail instruments with different characteristics, which allow to attract diverse retail investors**
  - Maturities range from 1 to 19 years, securities have step-up, fixed or inflation-linked coupon and besides dematerialised securities there are physical securities
- **AKK is regularly buying back retail securities from market makers to reduce the ownership of retail debt by non-household investors only**
- **Using retail government bonds as collateral is not permitted in Hungary**
- Main distribution channels for retail securities are post offices (7%), the Hungarian State Treasury (16%) and banks / investment companies (77%)

Source: AKK

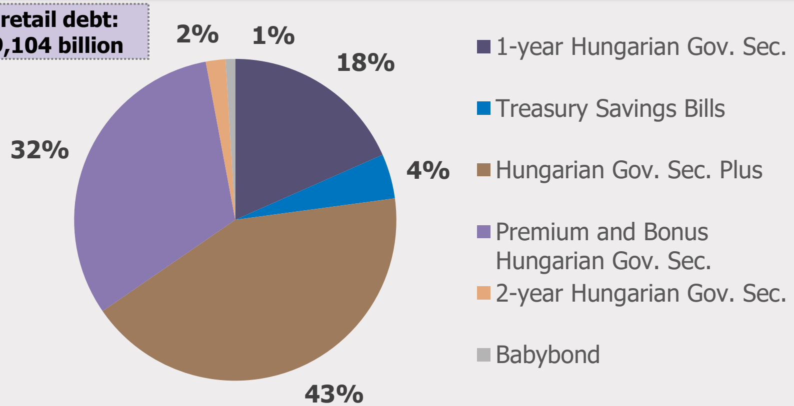
Households asset structure (Q1, 2020, % of total)



Source: MNB

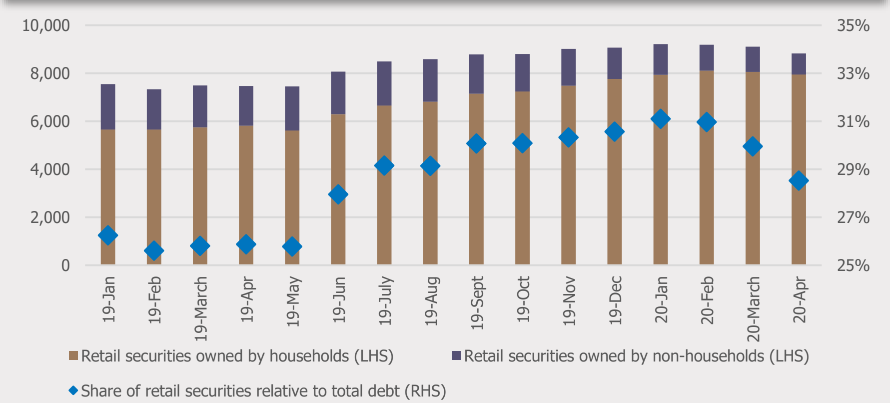
Retail portfolio by instrument (Q1, 2020, % of total)

Total retail debt: HUF 9,104 billion



Source: AKK Note: Central government debt

Retail securities (HUF Billions and % of total)



Source: AKK

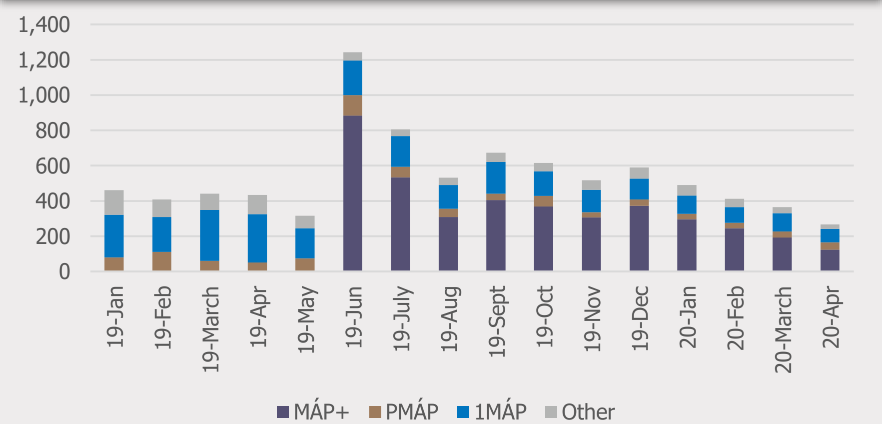
RETAIL MARKET OVERVIEW

Key highlights

- **Since 2012, AKK concentrated on the retail market**, initially using a wide range of instruments each tailored to different investor demand
- **In 2019 AKK introduced a new instrument MÁP+** and reduced the product range. Flagship instruments are:
  - **MÁP+** a bond with 5-year tenor and step-up interest rate (close to an average of 5% when held until maturity)
  - **PMÁP** an inflation-linked bond granting a positive real yield (inflation protection)
  - **1MÁP** a product with a tenor of 1 year (short-term product)
- **Since its introduction, MÁP+ was the most popular product** and currently accounts for 41% of total retail debt
- In February and March 2020 net issuance was negative, partly driven by seasonality and partly by the global epidemic affecting Hungary

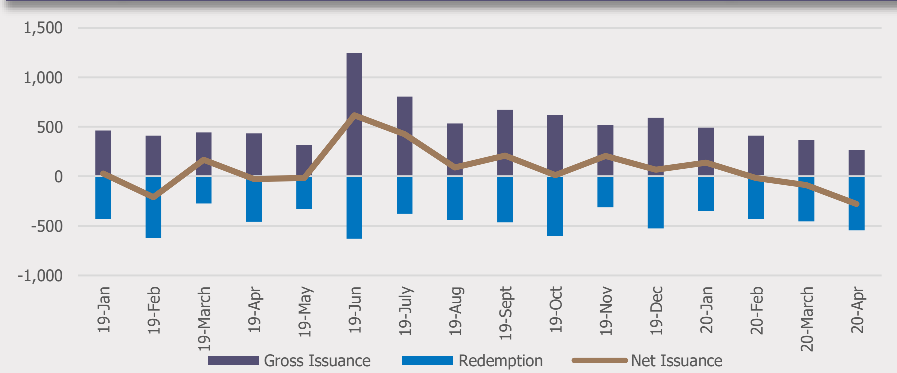
Source: AKK

Monthly Gross Sales of Retail Securities (HUF Billions)



Sources: AKK

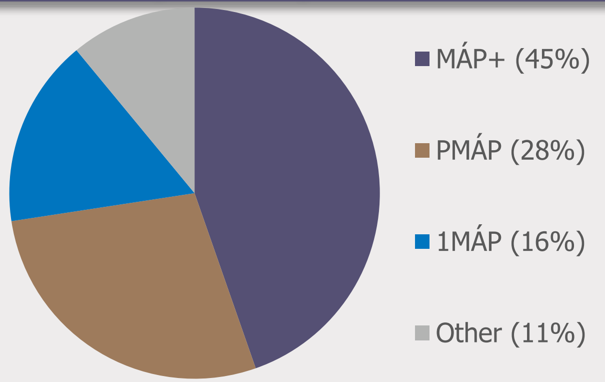
Monthly Gross and Net Issuance of Retail Securities (HUF Billions)



Source: AKK Note: Including executed buy-back options

Breakdown by Instrument (% of total)

Total Amount:
HUF 8,823 billion*



*Source: AKK, Note: * As of April 30, 2020*

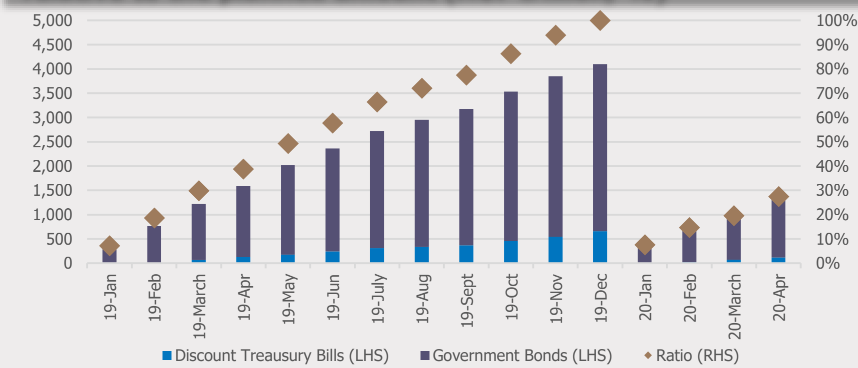
PERFORMANCE ON THE LOCAL WHOLESALE MARKET IS POSITIVE

Key highlights

- **To ensure simplicity and transparency, AKK issues standard debt instruments according to a fixed annual calendar published in advance**
- **Primary auctions are implemented as well as buyback and switch operations** to support a balanced government bond issuance pattern, manage the maturity profile and reduce refinancing risk
- **Hungary's local yields have significantly decreased since 2014**
  - Yields have decreased across the entire yield curve and have entered negative territory in the short-term end of the curve

Source: AKK

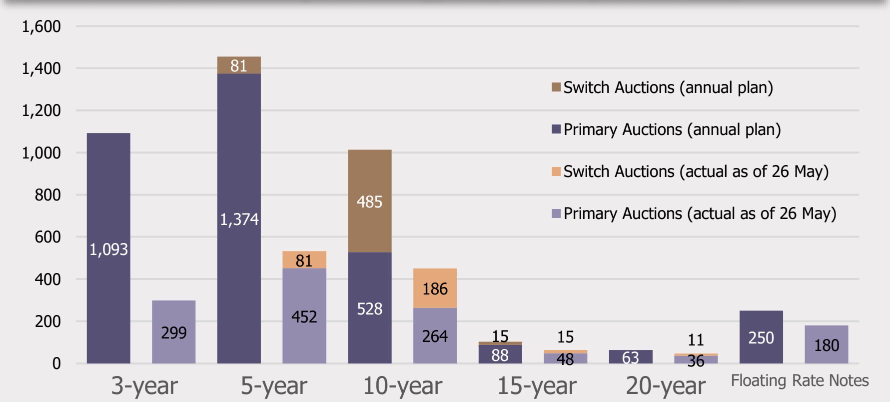
Cumulated monthly debt securities issuance and the ratio relative to the planned amount (HUF trillion, %)



Source: AKK Notes: Government Bonds excluding repo transactions; Discount Treasury Bills according to OECD methodology

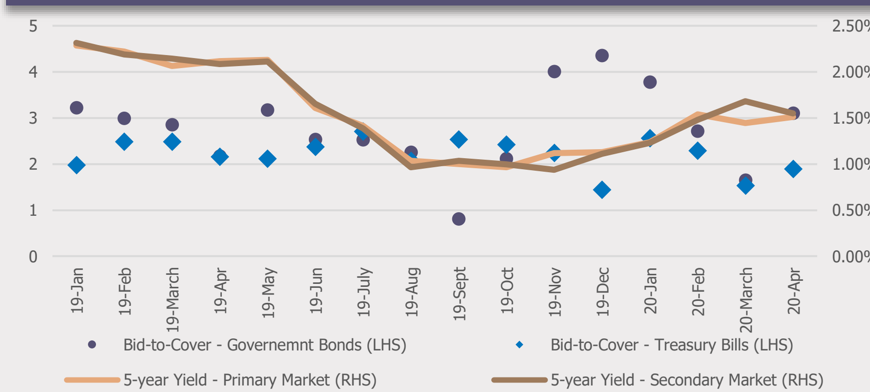
Government securities issuance by tenor in 2020

(planned amounts for 2020 according to the financing plan approved in May 2020, HUF billion)



Source: AKK

Auctions Statistics



Sources: AKK

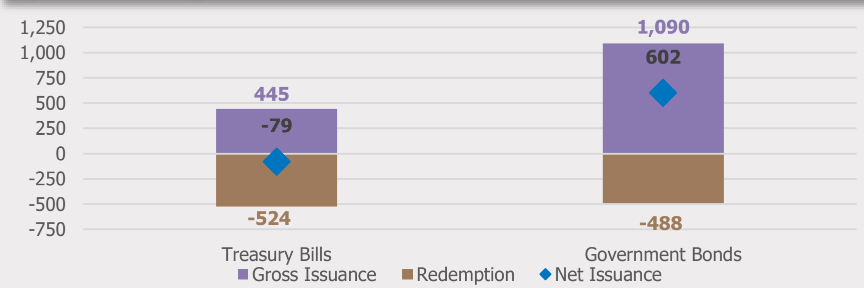
NEW AUCTION CALENDAR

Key highlights

- **On April 7, 2020 AKK announced the modification of the auction plan**
  - In the middle of every month, AKK publishes the auction plan for the next three months local currency issuance
- **The financing plan for the three-months period of June-August contemplates:**
  - A gross total issuance of HUF 1,535 billion against a redemption of HUF1,012 billion resulting in a net issuance of HUF 523 billion
  - Gross bond issuance will amount to HUF 1,090 billion against a redemption of HUF 488 billion resulting in a net issuance of HUF 602 billion
  - Gross treasury bill issuance will amount to HUF 445 billion against a redemption of HUF 524 billion resulting in a net issuance of HUF -79 billion
- **3-month treasury bill auctions will take place on a weekly basis, 12-month treasury bill auctions will take place on a bi-weekly basis**
- **Bond auctions will take place on a weekly basis.** Two out of three auctions will be held for conventional bonds but every third auction will be held for floating-rate notes
- **Bond switch auctions or buy-backs will take place on a bi-weekly basis**

Source: AKK

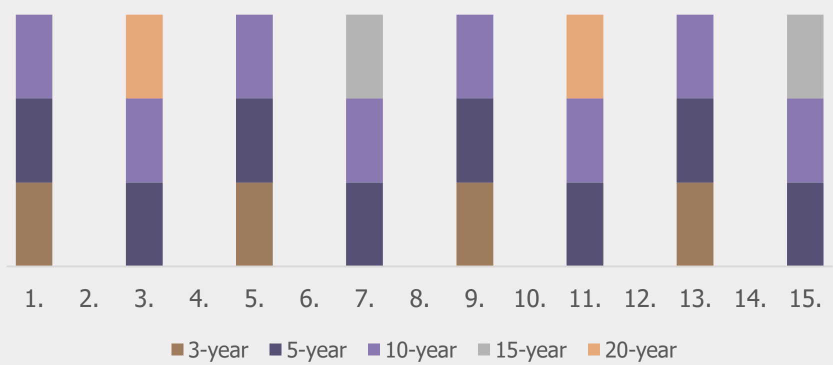
Gross and Net Issuance for the three-month period ending August 31, 2020 (HUF billions)



Source: AKK

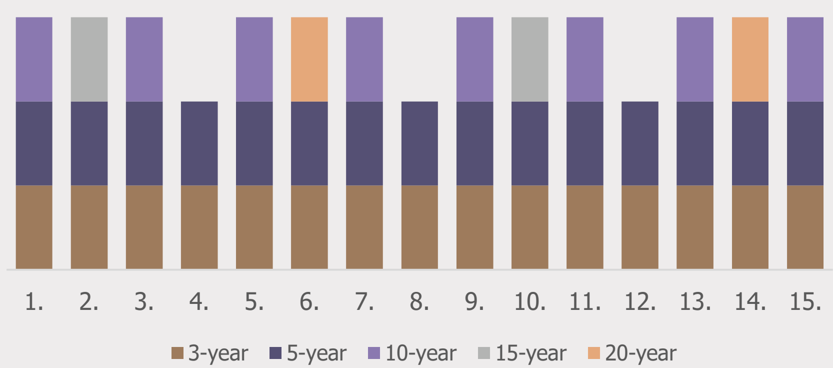
Auction Order of Fixed Rate Bonds (HUF billions)

Auction order of fixed-rate bonds - to April 6, 2020



Source: AKK

Auction order of fixed-rate bonds - from April 6, 2020



Source: AKK

HUNGARY'S EXPOSURE TO INTERNATIONAL MARKETS IS CAREFULLY MANAGED

ÁKK

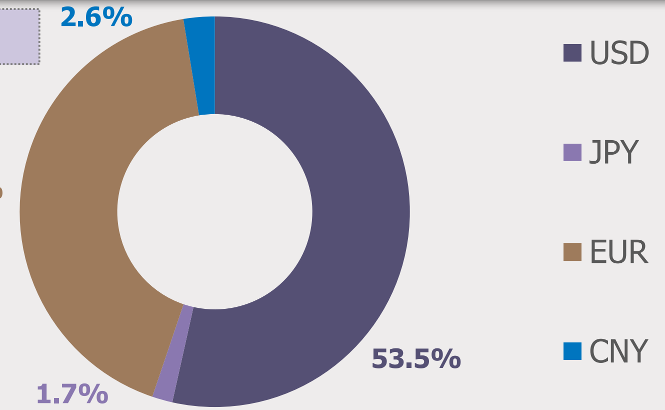
Key highlights

- **The share of Hungary's government debt in foreign currency has materially decreased**
  - Buybacks implemented by AKK, both on public and OTC markets, have also contributed to this positive trend
  - While containing the share of FX exposure between 10% and 20% of total debt, Hungary would also like to maintain its presence on the international capital markets to ensure diversification of funding sources
- **The FX debt is mainly denominated in USD and EUR but is fully converted into EUR using cross-currency swaps**
  - 100% of FX debt is denominated in EUR after swaps as of the end of Q1 2020, in line with AKK debt management target to mitigate exchange rate risk
- **Hungary's EUR yields have significantly decreased since 2014** and the country currently enjoys negative yields in short- to medium-term EUR market
- **AKK also relies on interest rate swaps to mitigate interest rate risk**
  - As of the end of Q1 2020, the interest rate swap portfolio amounted to 1.2 billion EUR and the fix rate share of the FX portfolio was 74%

Source: AKK

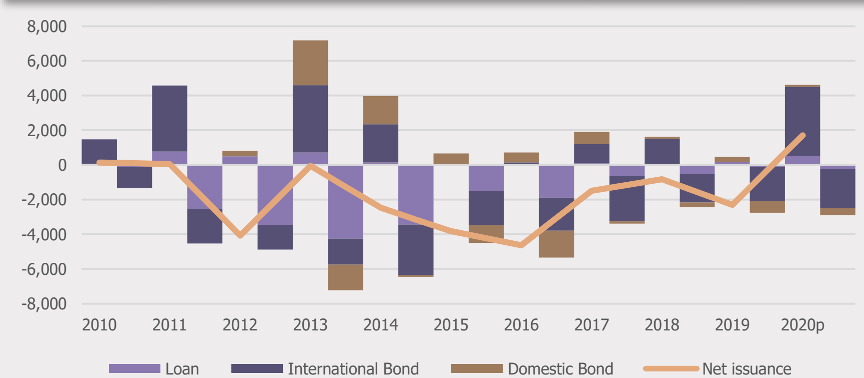
FX debt composition by currency (Q1 2020, % of total)

Total FX debt: EUR 13.3 billion



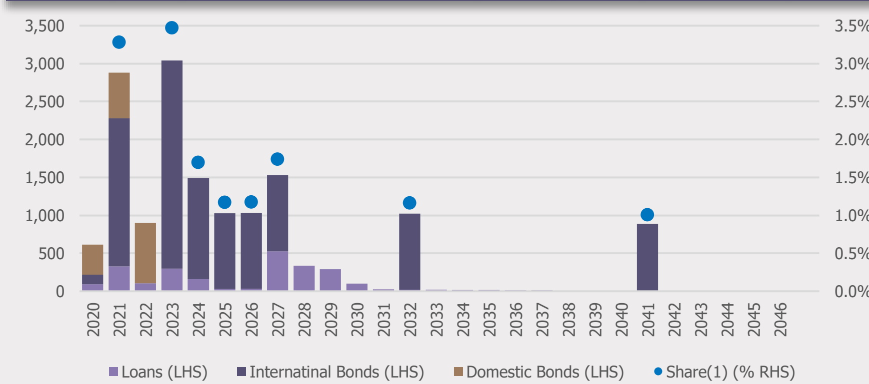
Source: AKK; Note: composition of the FX central government debt portfolio before swaps

FX Redemption, Issuance & Net Issuance (EUR million)



Source: AKK; Note: Central government debt

Redemption profile of FX debt as of April 30, 2020 (EUR million)



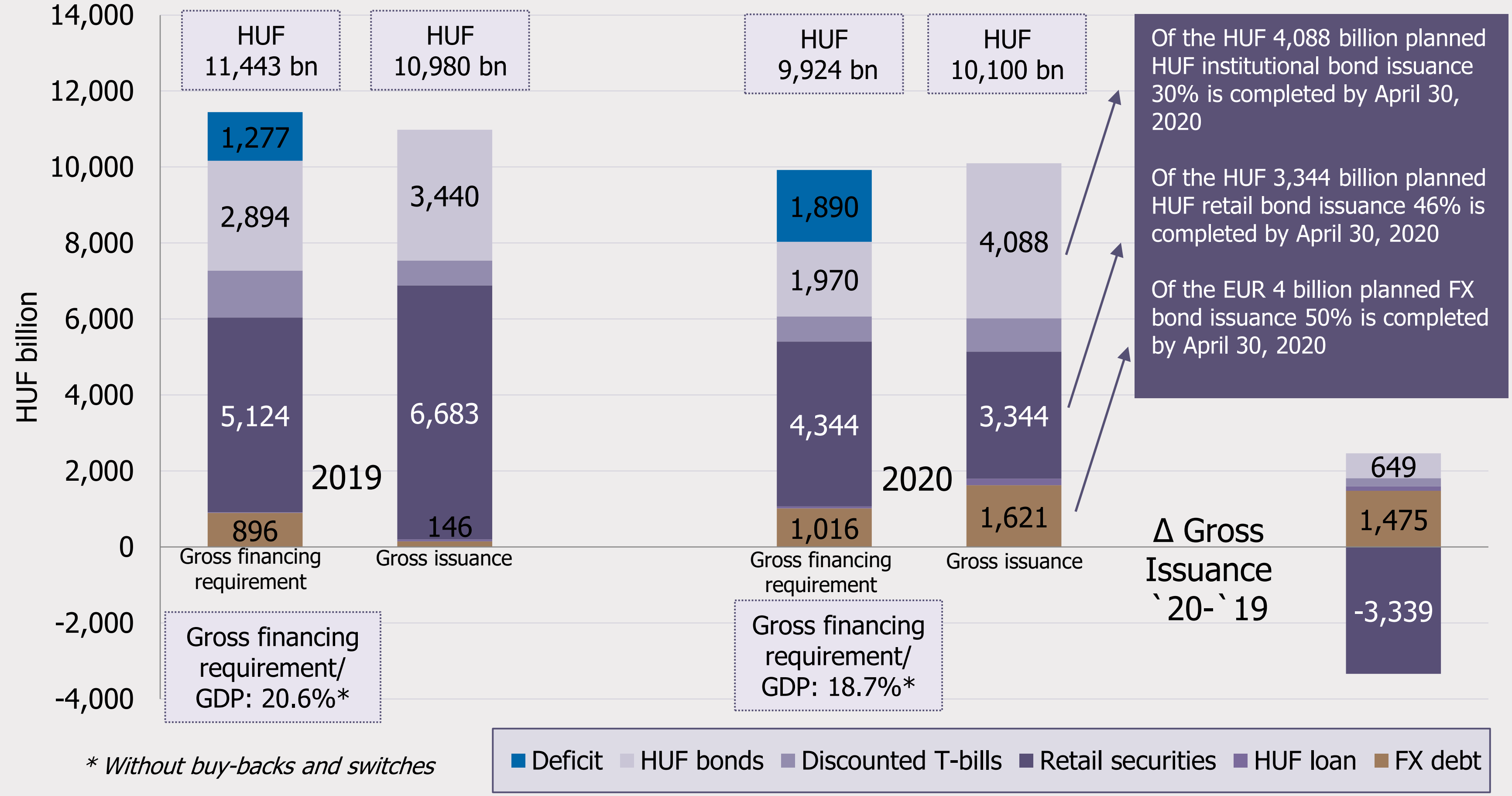
Source: AKK; Note: Central government debt,
Note: (1) Share relative to total central government debt

PLANNED VOLUME AND STRUCTURE OF GROSS FINANCING NEED IN 2020 (REVISED FINANCING PLAN COMPILED IN MAY 2020)

	HUF billion	Percentage of GDP
Redemption of HUF government bonds	1,086	2.3%
Redemption of retail securities (including retail buy-backs)	4,344	9.2%
Redemption of discount T-bills (OECD method)	657	1.4%
Redemption of HUF loans	47	0.1%
Redemption of FX debt	772	1.6%
Total redemptions	**6,906**	**14.7%**
Domestic bond buy-backs and OTC operations	285	0.6%
Buy-backs via switch auctions	600	1.3%
FX bond buy-backs	244	0.5%
Total redemptions with pre-financing	**8,034**	**17.1%**
Net financing requirement (CF budget deficit)	**1,890**	**4.0%** [1]
Gross financing requirement with pre-financing	**9,924**	**21.1%**

Source: AKK Note: 1 cash-flow based deficit figure in line with the accrual-based (ESA) deficit target of 3.8% of GDP

PLANNED FINANCING IN 2020 (REVISED FINANCING PLAN COMPILED IN MAY 2020) COMPARED TO 2019

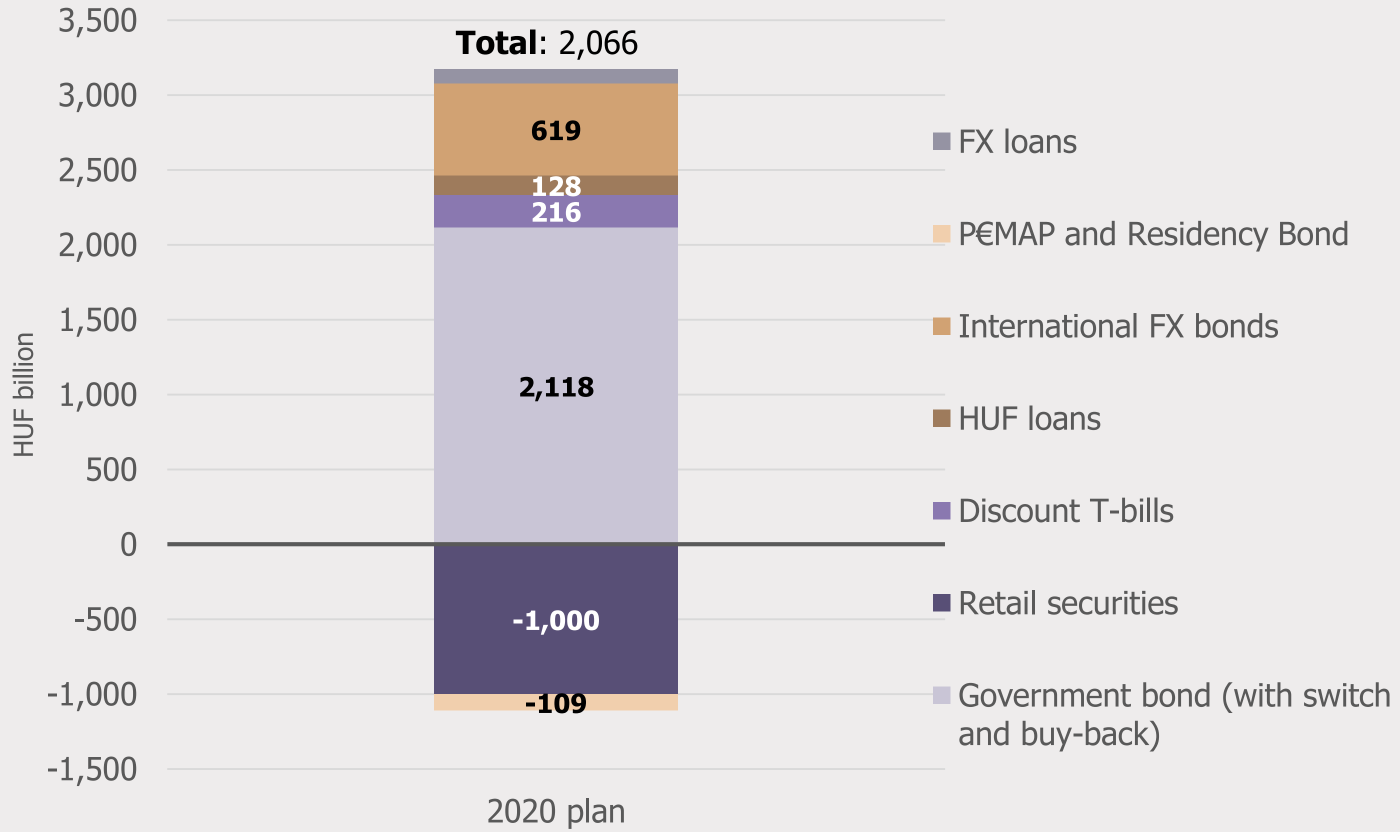


** Without buy-backs and switches*

Source: AKK

Planned 2020 gross issuance increased due to higher net financing requirement of the budget (by HUF 289 billion) and increased amount of HGB switch auctions for the purpose of ATM and ATR extension compared to Financing Plan published in April 2020. The increased financing requirement is largely covered by increased HGB issuance.

PLANNED VOLUME AND STRUCTURE OF NET ISSUANCE IN 2020 (REVISED FINANCING PLAN COMPILED IN 2020)



Source: AKK

Due to more than HUF 900 billion redemptions of retail securities held by non-household sectors and lower retail bond sales due to COVID-19's economic impact, the stock of retail securities is expected to decrease by HUF 1,000 billion in 2020. Positive net FX issuance and over HUF 2000 billion HGB issuance will cover the net financing requirement. Net issuance of discount T-bills planned to be HUF 216 billion, actual outstanding amount depends on liquidity management objectives.

RETAIL MARKET STRATEGIC OBJECTIVES FOR 2020

Due to impact of Covid-19, the retail securities stock may decrease this year

1. The medium term strategic goal to achieve HUF 11,000 billion retail debt stock owned by retail investors by 2023 is kept
2. Maintain the positive real interest rate of long term retail securities
3. Enhance online distribution channels to boost contactless sales and maintain business continuity
4. Introduction of General Terms and Conditions framework for retail distribution completed on May 1, 2020
5. Retail Sales Department established within the AKK

Source: AKK

DOMESTIC WHOLESALE MARKET STRATEGIC OBJECTIVES FOR 2020

Due to Covid-19 HGB volatility increased, demand shrank in March. By April yields consolidated and auction demand returned to pre-COVID levels and the HGB market continued to show resilience and liquidity during May

1. Aligned with the Central Bank's newly introduced up to 5-year tenor, weekly collateralised lending facility, AKK's weekly bond auctions have met strong demand in April and May. The new auction calendar allows to have maximum flexibility to address the financing requirements of the budget and manage liquidity

2. AKK sticks to the objective to increase both ATM and ATR (duration) targets by continuing with the issuance of 10, 15 and 20-year HGB's. The introduction of the new HMAX index also supports this objectives helping local real money managers to more effectively benchmark HGB portfolios

3. AKK will maintain its practice to efficiently manage Hungary's liability profile using switch and buyback auctions

Source: AKK

FX MARKET STRATEGIC OBJECTIVES FOR 2020

1. While keeping the benchmark of 10-20% share of FX denominated debt within total Central Government Debt, Hungary intends to maintain its presence in the international debt markets with the aim to achieve investor diversification and duration extension. This updated financing plan maintains up to EUR 3 billion foreign currency denominated bond issuance for 2020, of which EUR 2 billion has already been issued in April

2. In addition to the above mentioned EUR 3 billion equivalent foreign currency bond issuance in 2020, Hungary intends to issue Green Bonds in 2020 denominated in Euro, Japanese Yen and potentially Chinese Renminbi subject to market conditions

3. Depending on the budget's liquidity position and subject to market conditions AKK may continue to follow any of the strategies adopted and utilised during the past 3 years (namely Tender and New Issue, public Buyback Auction and secondary market purchases) to actively liability-manage its FX debt maturity profile

Source: AKK

THANK YOU FOR YOUR ATTENTION