

HUNGARY

Investor Presentation

Winter 2021



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KEY FACTS AND FIGURES ON HUNGARY

Area: 93,023 sq. kilometres

Capital: Budapest

Population: 9.8m

Life expectancy: 76.2 years

Currency: Forint (HUF)

Exchange rate (2020):

351.17 HUF = 1.00 EUR¹ 307.93 HUF = 1.00 USD¹

Nominal GDP (2019): HUF 47,514 billion (EUR 146.0 billion)

Real GDP growth (2019): 4.6%

Public debt (2020): HUF 36,684 billion (EUR 100 billion)

Public debt in foreign currency (2020): HUF 7,318 billion
(EUR 20 billion)

Sovereign ratings: BBB / Baa3 / BBB
Positive outlook in case of Moody's

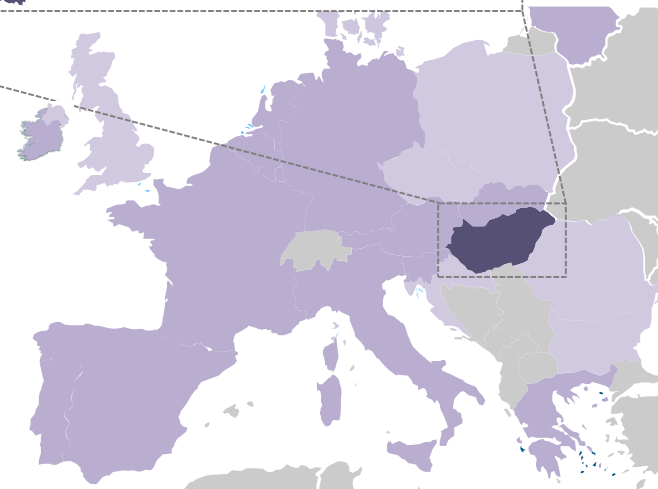
Government: parliamentary republic

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



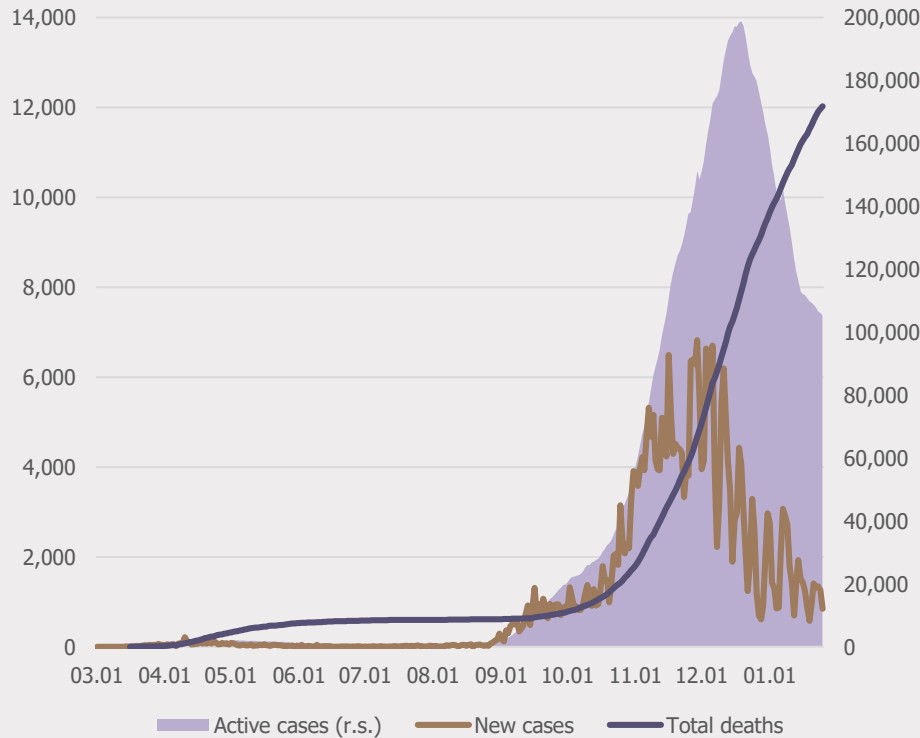
Note: 1. Average exchange rate in 2020

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

I. MEASURES TO FACE CORONAVIRUS PANDEMIC



COVID-19 SITUATION IN HUNGARY



NO. OF HOSPITAL BEDS

Hungary is among the top 5 countries in the EU (more than 700 beds per 100,000 inhabitants)

MEASURES TO CONTROL THE SPREAD – 1ST WAVE

- Students in **all levels of education** were **not allowed to visit** educational institutions.
- Hungary **closed its borders**.
- Introduction of a state of emergency and **official home quarantine**.
- **Construction** of an **emergency epidemiology hospital** started. Hospital commanders operated at hospitals for the protection of healthcare supplies.
- A Government decree on **restricting movement** was issued and was effective from 28 March.
- **Restaurants were closed**, only takeaway was permitted.
- Between 9 a.m.-12 noon shops were accessible only **for persons of age of 65 and above exclusively**.

MEASURES TO CONTROL THE SPREAD – 2ND WAVE

- **Students of secondary education and of universities** are not allowed to visit educational institutions (online education).
- Hungary **keeps its borders closed**.
- Re-implementation of **state of emergency**.
- **Restriction of movement** between 8 p.m. and 5 a.m.
- **Restaurants are closed**, only takeaway is permitted.
- **Hotels** can only have business travellers.
- **Shops have to close at 7 p.m. at latest**; museums, theatres etc. are completely closed.
- **Non-life-saving surgeries** are postponed.

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 & 8 - 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 on slide 14 - Fiscal policy measures result in a total stimulus of HUF 13,970 billion equalling 30.0% of GDP, as illustrated on slide 10
	Strong and resilient economy	Hungary was one of the fastest growing economies in Europe with real GDP growth of 4.6% in 2019 (3 times higher than the EU average) and is facing the Covid-19 crisis from a resilient position, as illustrated on slide 16 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 4.2% in Q4 2020 Hungary's economic environment is stable: yearly average inflation has been within the targeted band since 2017 and the banking sector is characterised by low non-performing loan ratio and adequate capitalisation, as illustrated on slide 23
	Sound fiscal policies	The fiscal deficit was constantly below the EU ceiling of 3% since 2012, however the expected ESA deficit for 2020 is 8.6% of GDP (compared to the original 1.0% target and 3.8% target set in Spring) in response to Covid-19 (see slide 25) Domestic fiscal rules and counter-cyclical fiscal policies have allowed the public debt to decline steadily since 2011 – i.e. by 15 percentage points over 2011-2019, reaching 65.5% of GDP at year end 2019, as illustrated on slide 26 Fiscal policy will be supportive in 2020 in response to Covid-19, however in the medium term the government remains committed to fiscal consolidation and reduction of public debt
	Favourable external position	Hungary enjoys a positive net international lending position since 2009, as illustrated on slide 29 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 on slide 29 External debt indicators are at historical lows with a gross external debt (including intercompany loans) level of 84% of GDP in Q3 2020 compared to 129% in 2012, as illustrated on slide 30 International reserves are adequate, representing 1.5x the level of short-term external debt of the sovereign, as illustrated in slide 30
	Effective debt management	Hungary is an Investment Grade country that benefits from highly supportive financing conditions, as illustrated on slide 27 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 on slide 36 & 37 The development of the retail market has been a key driver of the expansion of the domestic investor base, as illustrated on slide 33 & 34

FIRST WAVE – ECONOMY PROTECTION ACTION PLAN: IMMEDIATE AND MEDIUM-TERM MEASURES

The announced measures including programmes launched by the central bank will regroup 30.0% of GDP in total.

1

Preserving jobs: Wage support during both the first and second wave, more flexible work organisation, online trainings, tax reliefs, and administrative burden reduction.

2

Creating jobs: Support of employment costs, job creation by supporting corporate investments, training and education support. More support for business development.

3

Restarting the priority sectors: Sectors including tourism, health industry, food industry, agriculture, construction industry, logistics, transport, film industry and creative industry benefit from significant state support.

4

Provision of subsidised credit facilities: Interest- and guarantee-subsidised credit facilities to Hungarian businesses in the total value of more than HUF 2,000 billion; payment moratorium on corporate loan instalments.

5

Family and pensioner protection: Reintroducing the 13th month pension, facilitations for family allowances, launching Hungary's biggest home creation scheme ever, payment moratorium on household loan instalments, significant wage increase in the health sector.

SECOND WAVE – SAVING JOBS, SIMPLIFYING TAXES AND ENHANCING INVESTMENTS

1

Hotels can only accommodate business guests, not tourists. Reservations made until 8 November will be compensated for up to 80% of their value. This applies for the first 30 days and only if the workforce is kept intact. 50% wage subsidy until the end of emergency.

2

Restaurants, leisure and entertainment facilities, tour operators, bus operators active in field of tourism: tax and contribution reductions will be maintained, (e.g. businesses will be exempt from paying employer taxes), 50% wage subsidy until the end of emergency. For the transitional period of closing the restaurants, the VAT on delivered food was reduced from 27% to 5%.

3

Tax and administrative easing: intermediaries are exempt from tourism contribution, preliminary VAT return forms are completed by the Government, the upper limit of HUF 10 billion for long-term development reserve of the companies is erased, the income upper limit for small companies taxation is doubled, the cost of more than 1.5 million administrative burdens are erased, easing for companies with multiple premises, public procurement system is simplified. The local business tax for small and medium-sized enterprises and self-employed (whose annual net sales or balance sheet total do not reach HUF 4 billion) has been halved from 1 January, 2021.

4

Increasing employment: HUF 12 billion programme to support labour market demand for young, uneducated job seekers, supporting the education of parents with dependent children, scholarship programme. Support of employment of people with disabilities with HUF 48.6 billion. Training support scheme for companies. Support for six thousand young people to become entrepreneurs. Wage support in the research, development and innovation (RDI) sector.

5

Support for construction and home creation: VAT is reduced for newly built houses from 1 January, 2021 to 31 December, 2022 to 5%, VAT is refundable and exempt from housing tax, if the apartment is bought via CSOK (Family Housing Programme), home renovation support for families with children, multi-generational housing is encouraged. Builder-5 (Építő-5) program HUF 12 billion support for construction businesses.

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**
 - 2020 budget reserves of 1% of GDP mobilized
 - Creation of the Disease Control Fund and Economy Protection Fund, mainly with budgetary rearrangements
 - The Parliament modified the 2020 Budget Act in June and made the Economy Protection Fund uncapped
 - Most recent ESA budget deficit target for 2020 was set to 8-9% of GDP up from 1.0% initially budgeted and 3.8% targeted in the April Convergence Programme
 - Total measures worth HUF 13,970 billion (30.0% of GDP) for 2020 to mitigate the impact of the crisis
- **The government was committed to mitigating the economic downturn with economic protection, job creation, tax and financing measures. The increased deficit related to these measures resulted in a higher debt vis-a-vis the original plans; but at the same time alleviated the size of the downturn**

Key highlights of central bank support

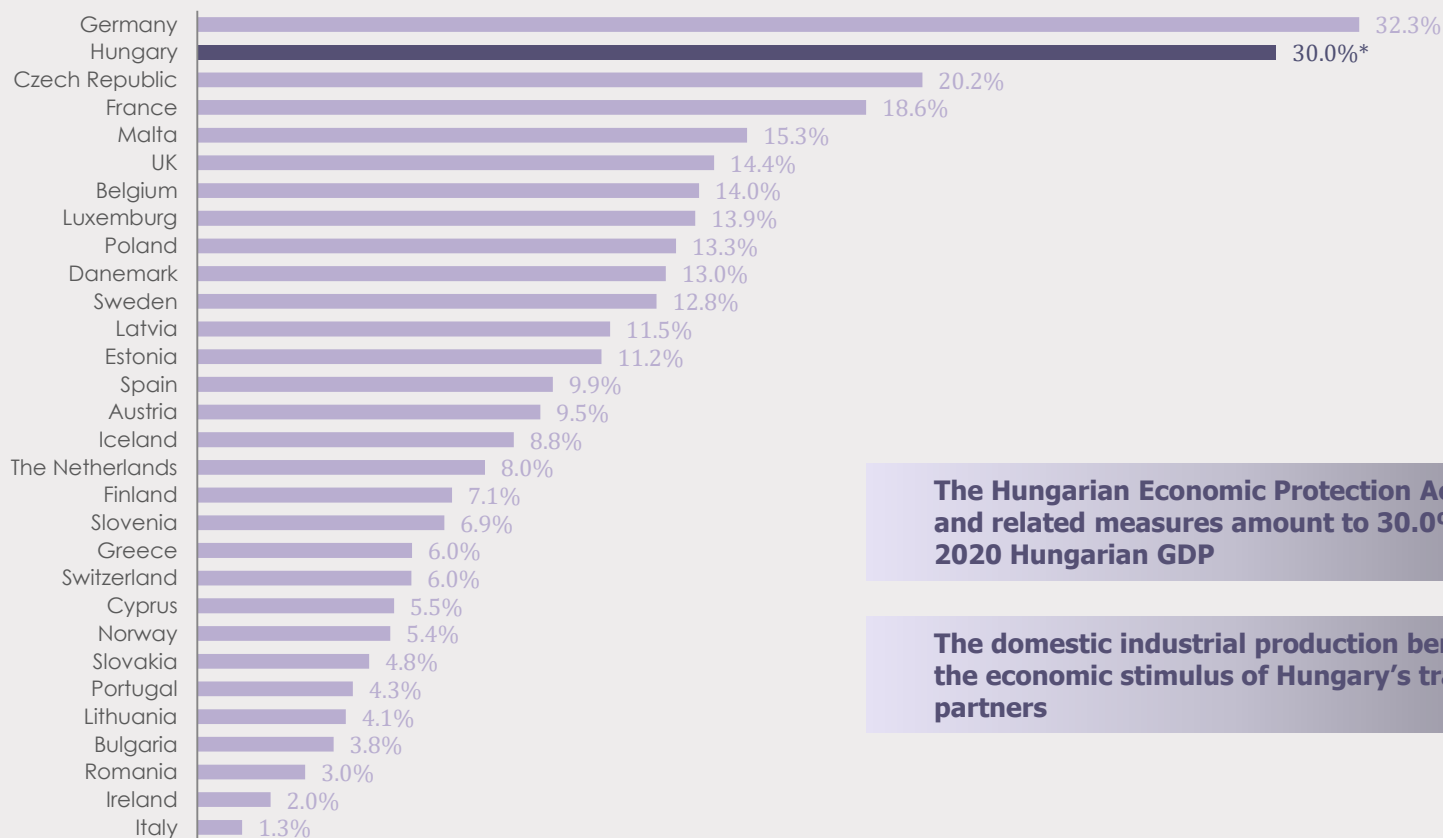
- **Key policy rates remaining highly accommodative and sufficient policy space** following increase in one-week collateralized lending rate to 1.85% following the monetary council decision dated 7 April, 2020
- **Central bank base rate cut by 15 basis points** effective as of 24 June, 2020
- **Central bank base rate cut by an additional 15 basis points** effective as of 22 July, 2020
- **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
- **Balanced approach to maintain rates at low levels, ensure ample liquidity and achieve low long term rates**

GOVERNMENT MEASURES TO ALLEVIATE ECONOMIC IMPACT OF THE PANDEMIC AS OF 20 JANUARY, 2021

Area of action	Sum of measures for 2020	
	HUF billion	% of GDP ¹
Total measures = 1) + 2) + 3)	13,970	30.0%
1) Pandemic measures	1,027	2.2%
2) Economic policy measures = A) + B)	4,740	10.2%
A) Discretionary tax and social measures	426	0.9%
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	69	0.2%
Other tax measures	185	0.4%
Lengthened eligibility for maternity related social transfers	11	0.02%
B) Expenditure measures	4,314	9.3%
To be financed from reallocated domestic budgetary sources	943	2.0%
To be financed from overrun of domestic appropriation	3,088	6.6%
To be financed from reallocated EU-co-financed expenditures	219	0.5%
Other expenditure measures	64	0.1%
3) Financing measures	8,203	17.6%
Payment moratorium (total size of the measure)	3,600	7.7%
Total amount of new capital, guarantee and loan programs (up to Aug 24)	2,103	4.5%
Central Bank's Funding for Growth Scheme	2,500	5.4%

THE VOLUME OF THE HUNGARIAN MONETARY AND FISCAL MEASURES COMPARED TO THE LARGEST EUROPEAN MITIGATION PACKAGES

Size of the assistance packages (percent of GDP for 2019)

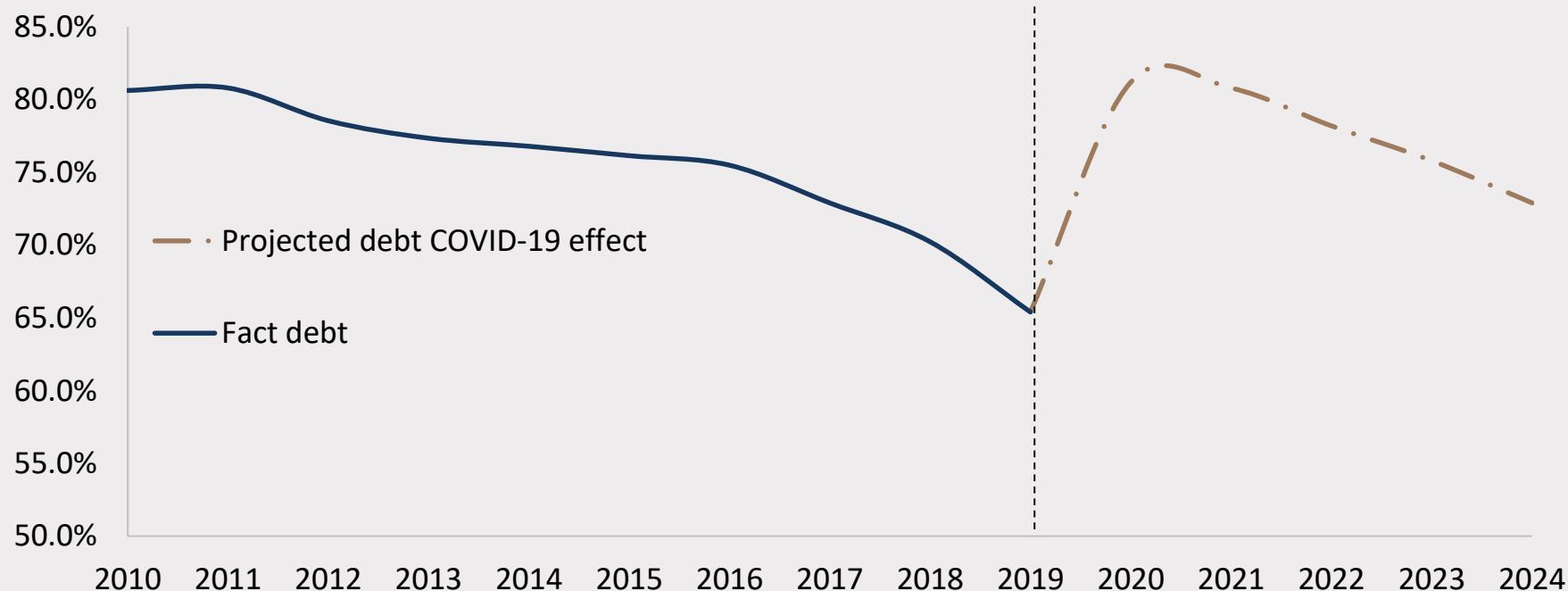


The Hungarian Economic Protection Action Plan and related measures amount to 30.0% of the 2020 Hungarian GDP

The domestic industrial production benefits from the economic stimulus of Hungary's trading partners

DESPITE THE INCREASE OF THE DEBT RATIO THIS YEAR, THE GOVERNMENT IS COMMITTED TO THE REDUCTION OF THE PUBLIC DEBT

Evolution of the public debt ratio (% of GDP)



By setting an 8-9% ESA deficit target for 2020 the government wanted to deliver more direct budgetary support in order to alleviate the size of the downturn – this lead to an upward shift in the public debt ratio.

Looking ahead, domestic fiscal rules stipulate the reduction of the public debt.

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 took over 70% of the lost salary for 3 months. After the second wave of the pandemic, the government reopened the scheme for certain sectors.	  
2	Maintaining household income	Expiring benefits for persons currently on maternity leave were 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 were reduced to level equivalent to the basic health insurance contribution (HUF 7,710) payable in sectors severely affected by the epidemic.	      
3	Payment moratorium for companies and households	Payment moratorium was introduced and prolonged for debtors of households and company credit, loan and financial lease contracts.	 
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.	 

OVERVIEW OF KEY MONETARY POLICY MEASURES

Rates

- **Following the monetary council meeting on 7 April, 2020:**
 - Base rate and overnight deposit rate remains unchanged at 0.90% and at -0.05%, respectively
 - Overnight and one-week collateralized lending rate have been raised to 1.85%
 - 1-week deposit rate remains equal to the base rate
- **On 23 June, 2020, the central bank base rate was decreased to 0.75%** (effective as of 24 June, 2020)
- **On 21 July, 2020, the central bank base rate was decreased to 0.60%** (effective as of 22 July, 2020)

Liquidity / new facilities

- **Introduction of 1-week FX-swap tenders** providing forint liquidity daily for counterparties on 17 March, 2020
- **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 24 March, 2020:
 - 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 central bank base rate on 1 April, 2020 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 – tick: HUF 1 million
 - Lifespan: as warranted by liquidity developments
 - On 2 April, 2020, MNB accepted all of the submitted bids in worth of HUF 655 billion
 - Since 24 September, 2020 the yield of the 1-week deposit facility exceeds the central bank base rate by 15 basis points
- **Suspension of sanctions on reserve deficiency**
- **Release of capital buffers of systemically important credit institutions** on 1 April, 2020
- **Introduction of a new Funding for Growth Go! scheme (FGS Go!), worth HUF 1,500 billion¹**
 - 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 2020 in the amount of HUF 1,000 billion
- **Easing of Bond Funding For Growth Scheme conditions¹**
- Relaunch of the **Mortgage Bond Purchase Program** in May 2020 in the amount of HUF 300 billion
- Doubling the size of Government Security Purchase Program to HUF 2,000 billion in November 2020

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

II. STRONG AND RESILIENT ECONOMY



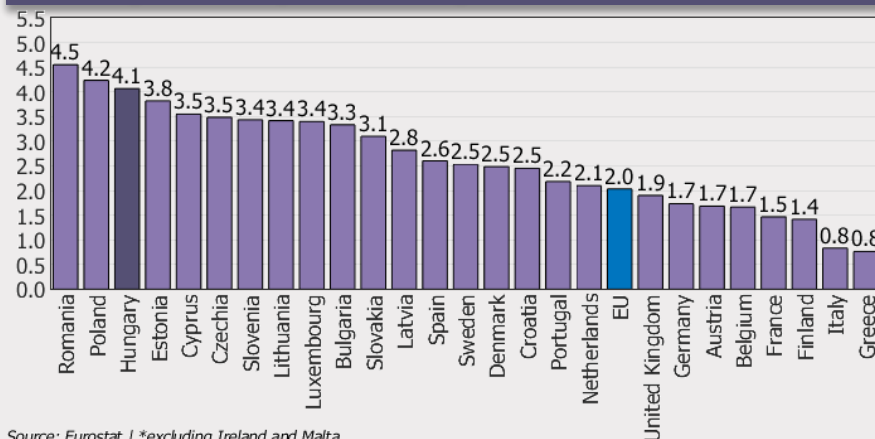
HUNGARY CONTINUES TO BUILD ON SOLID ECONOMIC GROWTH SINCE 2013

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 4.6%, the fourth highest level in Europe** and three 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 and to 4.6% in Q2 2020, but decreased to 4.4% in Q3 2020 and to 4.2% in Q4 2020
 - GDP grew by 2.2% in Q1 2020 and decreased by 13.6% in Q2 2020 and 4.6% in Q3 2020, compared to the corresponding quarter of the previous year
- **Hungarian economy has been addressing the crisis better than the EU on average and is expected to recover faster**

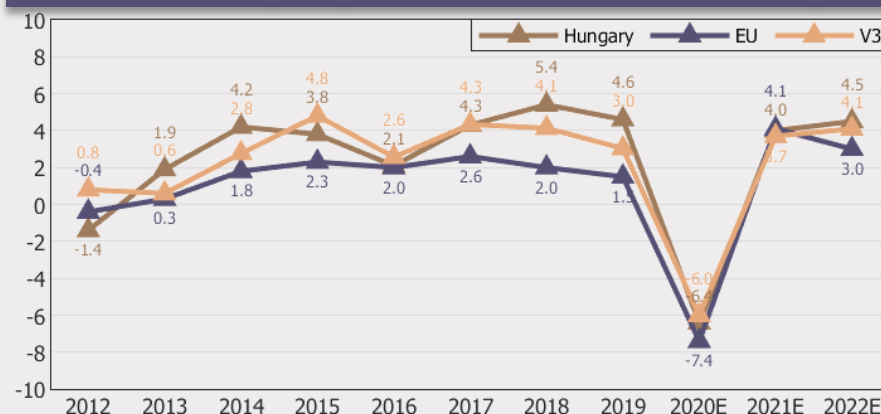
Sources: HCSO, Eurostat

Third highest GDP growth among EU countries 2014-2019*



Source: Eurostat | *excluding Ireland and Malta

Real GDP Growth (European Commission Forecast; YoY, %)



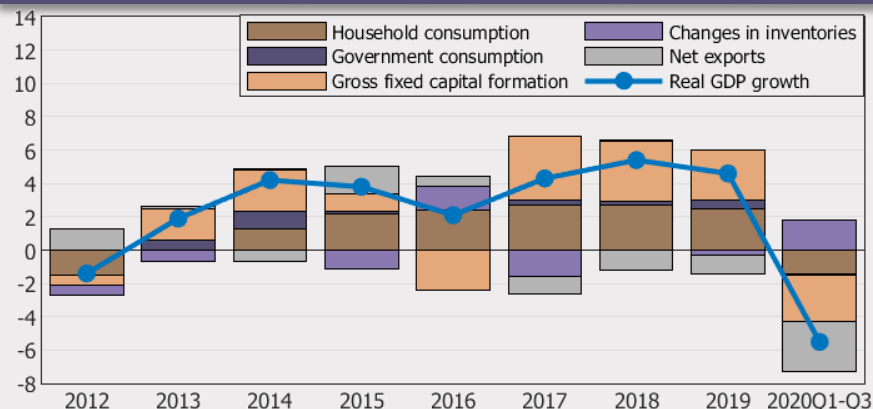
Sources: Eurostat, European Commission 2020 Autumn Economic Forecast; Note: Unadjusted data

GROWTH IS DRIVEN BY BOTH CONSUMPTION AND INVESTMENT

Key highlights

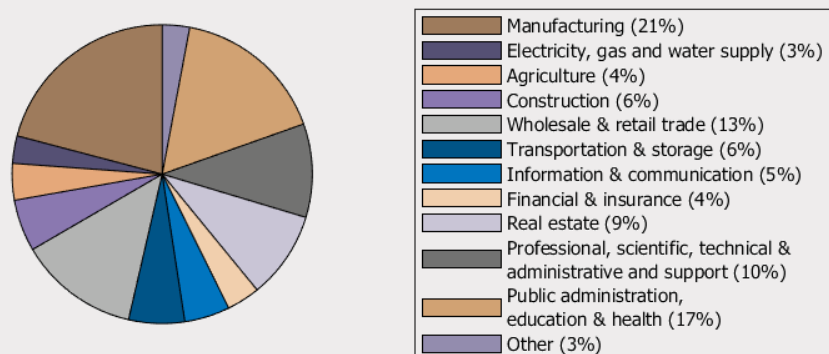
- **Growth in Hungary has been consistently supported by strong household consumption since 2014**
- **Household consumption has been supported by increasing household wealth and a low unemployment rate**
- **This has contributed to the development of the services industry**
 - Although all key sectors 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)



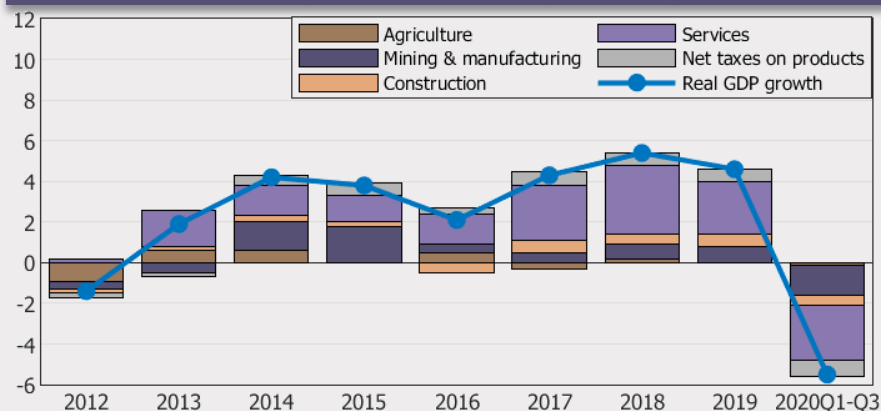
Source: HCSO; Note: Calculated from indices compared to the previous year

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

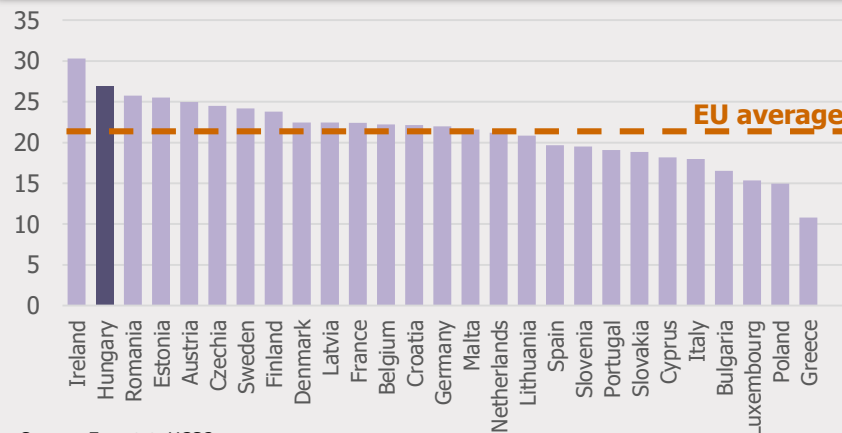
INVESTMENT DYNAMICS ARE SUPPORTIVE FOR THE BROADER ECONOMIC OUTLOOK

Key highlights

- **Hungary benefited from the second highest investment rate in Europe in 2019**, with investment representing 28.2% of GDP (compared to an average of 21.8% among EU-28)
- **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 had been spent

Sources: Eurostat, HCSO, MoF

Q1-Q3 2020 investment rate in EU countries (% of GDP)



Source: Eurostat, HCSO

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

101
PROJECTS

13,500
NEW JOBS

EUR 1,705bn
INVESTMENT DECISIONS

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

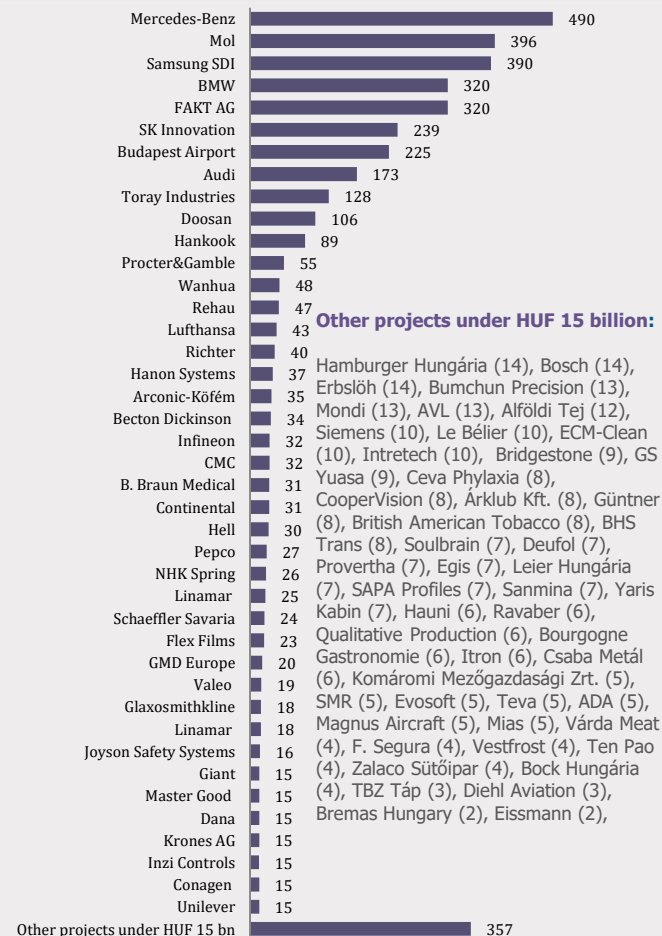
9% corporate income tax rate: the lowest rate in the EU, which substantially reduces capital costs and strengthens Hungary's ability to attract capital

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 automatization

Source: MoF

PRODUCTION INVESTMENT DECISIONS KEEP ON COMING

Flagship investment projects announced before 2020 (HUF billion)



HUF 6,406 billion
TOTAL INVESTMENT PROJECTS
~13% OF ANNUAL GDP

HUF 17-29,000 billion
ADDITIONAL EXPORT
PERFORMANCE PER YEAR

17-23 percentage points
TOTAL GDP GROWTH
INVESTMENT & EXPORT EFFECTS

Despite the pandemic, several new investment projects have been announced since early 2020 with a total amount of HUF 2,400 billion

Flagship investment projects announced since early 2020 (HUF billion)

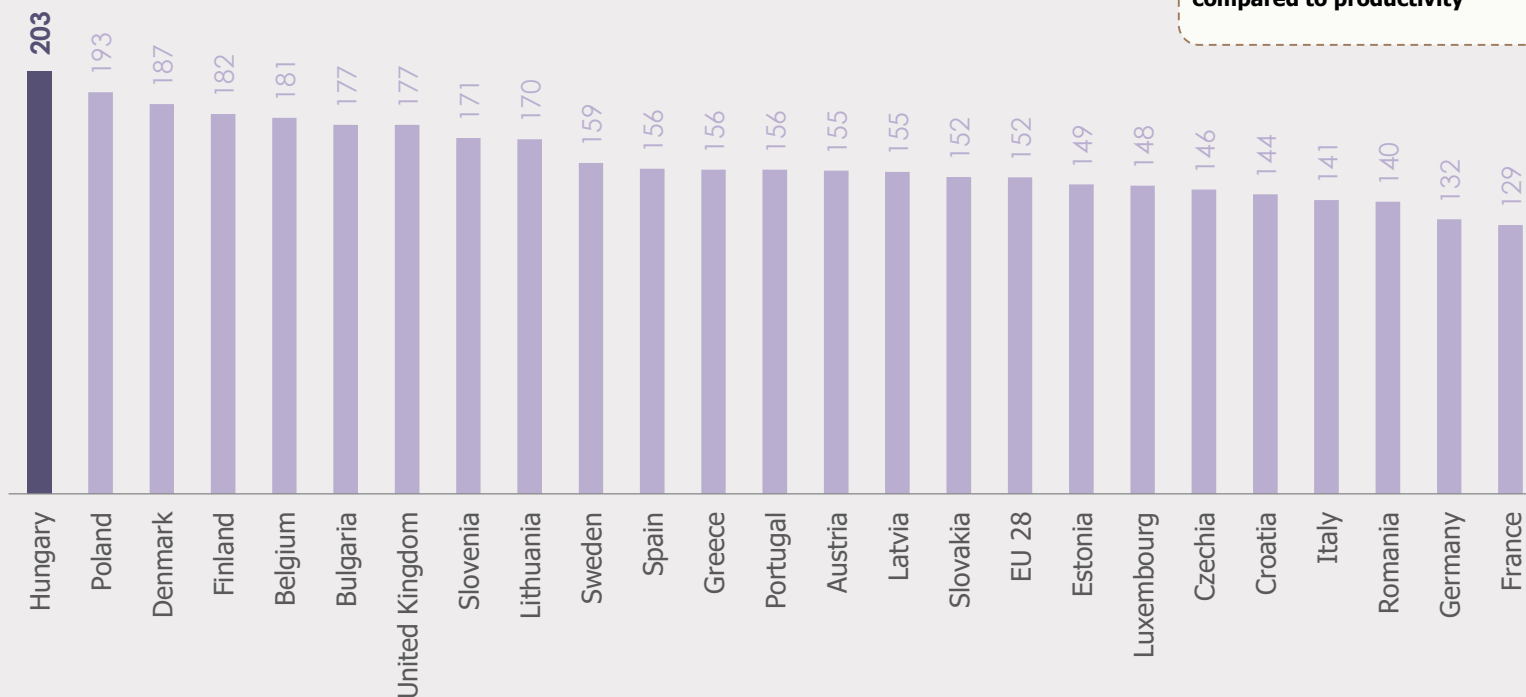


Other projects under HUF 5 billion:

Köröstej (4.6), Marso (4.6), Mould Tech (4.5), Apollo Tyres (4.4), Ilijn Materials (3.8), Denso (3.5), IBM (3.5), Autoliv (3.3), General Electric (3.3), Arm (3.0), SBS (2.8), SEWS Komponens (2.8), Florin (2.5), 3DHISTECH (2.3), Thyssenkrupp (2.2), EU-FIRE (1.9), Patec (1.7), Sanatmetal (1.5), Sensirion (1.5), Haldex (1.5), Medicor Elektronika (1.3), Knaus Tabbert (1.3), Dometic (1.0), Mateco (1.0), Jabil (1), ExtractumPharma (0.9), Re-Glass (0.7), Florin (0.7), Medicontur (0.6), Bock (0.6), Valeo Siemens (0.6), Masterplast (0.6), Ferro-Press (0.6), S.E.G.A (0.6), Bálint (0.6), Heineken (0.5), FF Fémfeldolgozó (0.5), Thermotechnika-Crown Cool (0.5), Dana (0.4), Synlab (0.3)

REALLOCATING PRODUCTION TO HUNGARY IS AN OPPORTUNITY FOR INTERNATIONAL COMPANIES TO MAINTAIN THEIR PROFITABILITY

Wage adjusted labour productivity in manufacturing (% , 2019)



Source: Eurostat, MoF calculation

MORE EMPLOYED IN THE LAST YEAR THAN IN 2019

Employment in the domestic primary labour market (3-month moving average, thousand persons, unadjusted data)



Source: HCSO

HUNGARIAN HOUSEHOLDS ARE BETTER POSITIONED TO FACE AN INCOME SHOCK

Key highlights

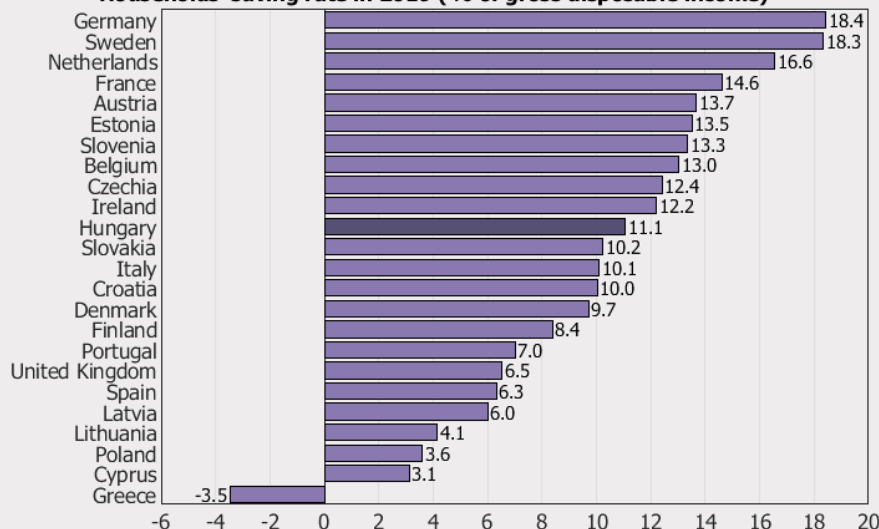
Hungary households are better positioned relative to the 2008 crisis to face an income shock, as illustrated by:

- The saving rate, which has increased by 2 percentage points during the period 2008-2019 to reach 11%
- 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

Households have a strong financial position that can cushion income shock

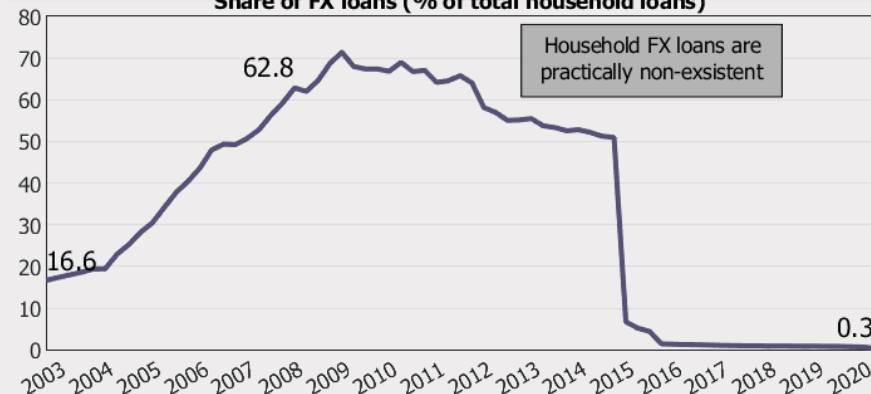
Households' saving rate in 2019 (% of gross disposable income)



Source: Eurostat

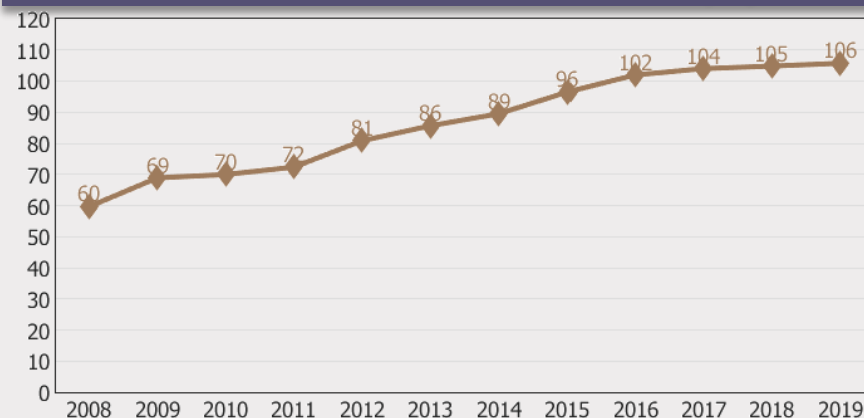
Household debt is much less vulnerable than before last crisis hit

Share of FX loans (% of total household loans)



Source: MNB

Net financial wealth of households relative to GDP (%)



Sources: MNB, HCSO

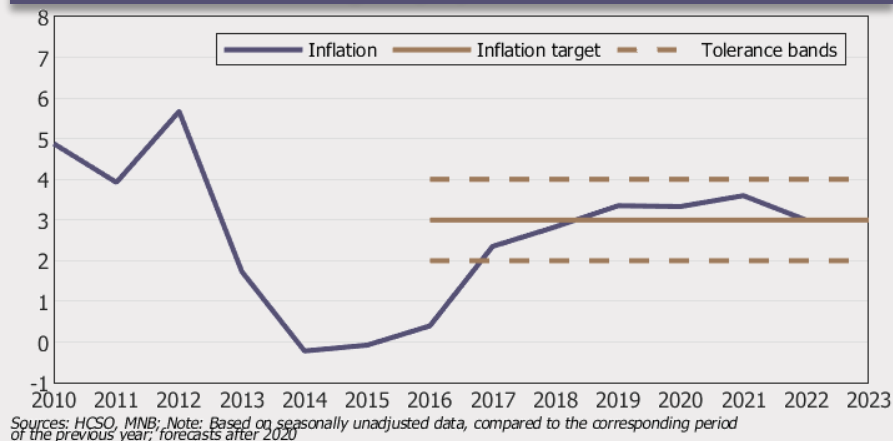
THE MACRO ENVIRONMENT IS STABLE AND THE BANKING SECTOR IS STRONG

Key highlights

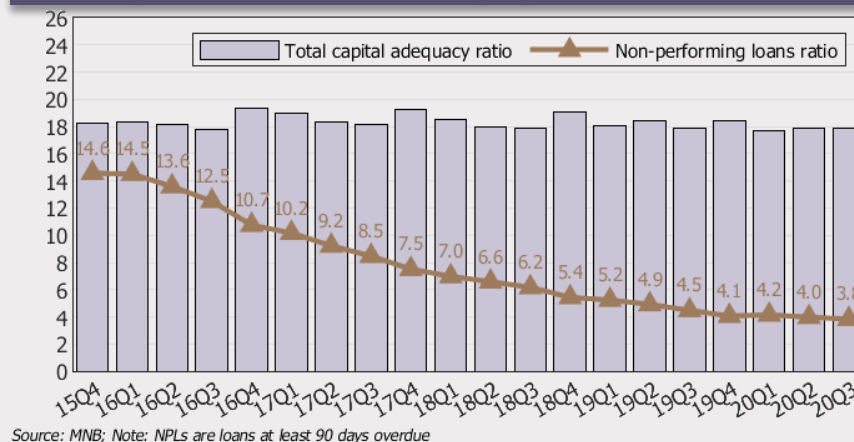
- **The MNB's primary statutory objective is to maintain price stability**
 - Policy rate is adjusted to ensure inflation remains anchored at 3%, with a tolerance range of +/- 1%
 - **Baseline yearly average inflation has remained within the defined tolerance band since the beginning of 2017 and is expected by MNB to stabilize around the inflation target by 2022**
- **The banking sector is well capitalized and the quality of loans improved 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 3.8% as of the end of September 2020
 - Capital adequacy ratio amounted to 17.9% as of the end of September 2020
 - 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 14**

Source: MNB

Inflation vs inflation targets (%)



Total capital ratio and NPL ratios (%)



III. SOUND FISCAL POLICIES



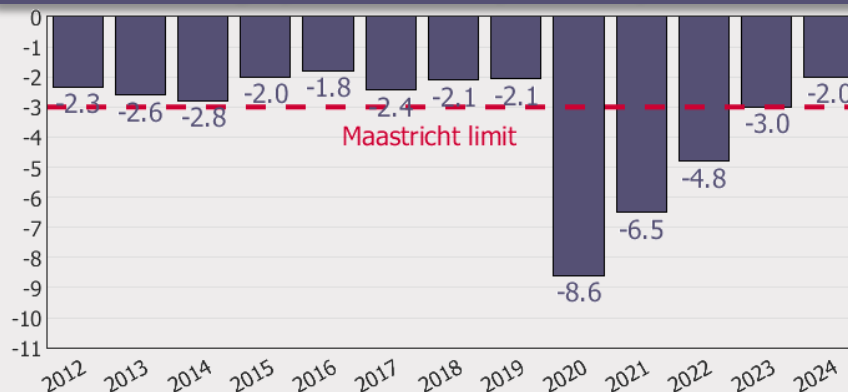
PUBLIC FINANCES ARE STRONG AND SUPPORT DEBT SUSTAINABILITY

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 2020**
 - The authorities originally set the 2020 ESA budget deficit target to a historic low of 1.0% of GDP
 - In the middle of April, the Ministry of Finance 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 Convergence Programme
 - In October, the Ministry of Finance estimated ESA deficit would amount to 8%-9% of GDP in 2020
 - In December, the Ministry of Finance estimated ESA deficit would amount to 8.6% of GDP in 2020
- **The fiscal reserves of the government were planned to increase in 2020 to represent approximately 1% of GDP.** After the Covid-19 outbreak in mid-March, reserves were spent for pandemic related purchases

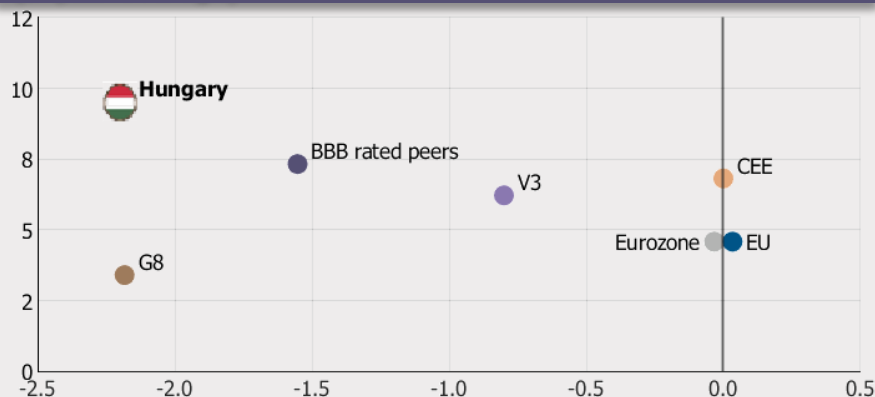
Source: HCSO, MoF

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



Source: HCSO, MoF; Note: Latest (December) forecast for 2020

Rapid nominal GDP growth – contained fiscal deficit (3-year average)



Sources: HCSO, Eurostat, IMF, Bloomberg; Notes: BBB rated peers are countries with at least two BBB ratings; average 2016-2019 growth and fiscal balance for countries; median for peer groups

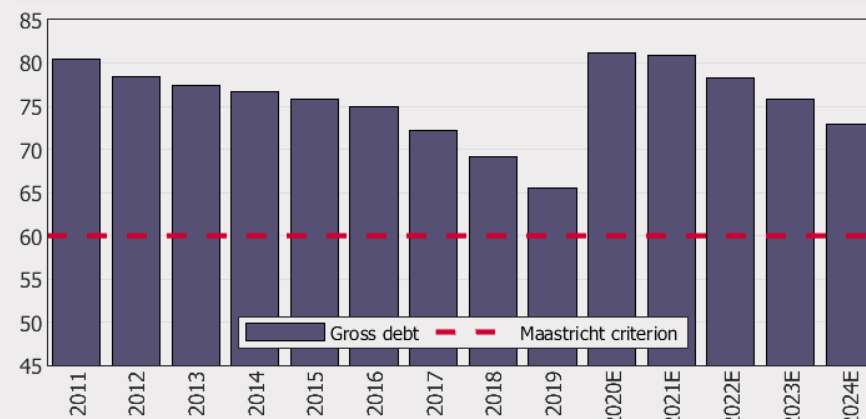
THE GOVERNMENT DEBT-TO-GDP RATIO HAS BEEN STEADILY DECLINING

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 14.9 percentage points between 2011 and 2019, whereas debt to GDP ratio has decreased by 0.9 percentage points on average in the EU
 - In 2019, the debt rate declined to 65.5% according to data compiled by Eurostat
 - In a State of Danger, such as COVID-19 pandemic, a special rule allows for a temporary debt increase

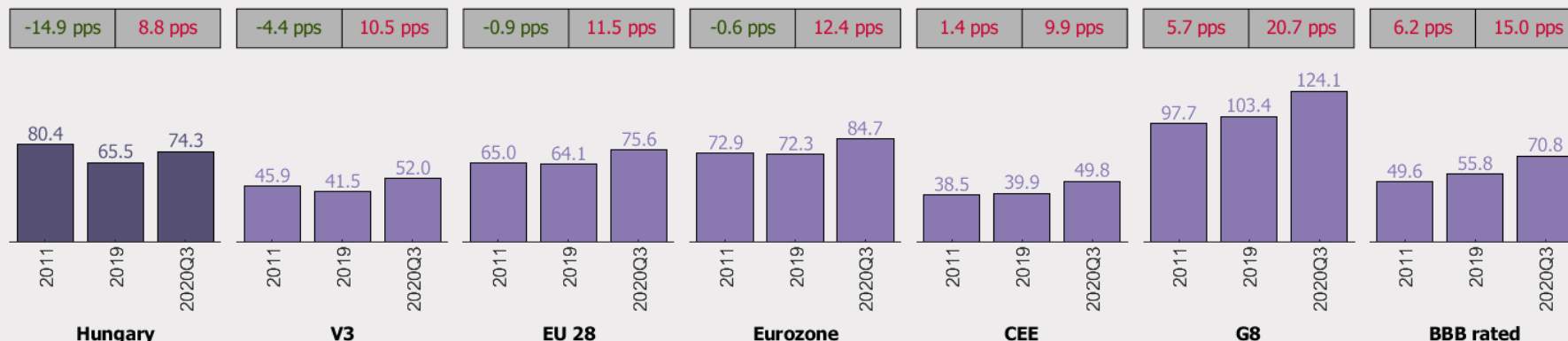
Sources: Eurostat, MNB, HCSO, MoF

General Government Debt (% of GDP)



Source: MNB, MoF; Note: Expected data based on the latest forecast (December 2020)

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



Sources: Eurostat, IMF, Bloomberg; Note: average for peer groups; IMF forecast in case of G8 and BBB rated countries

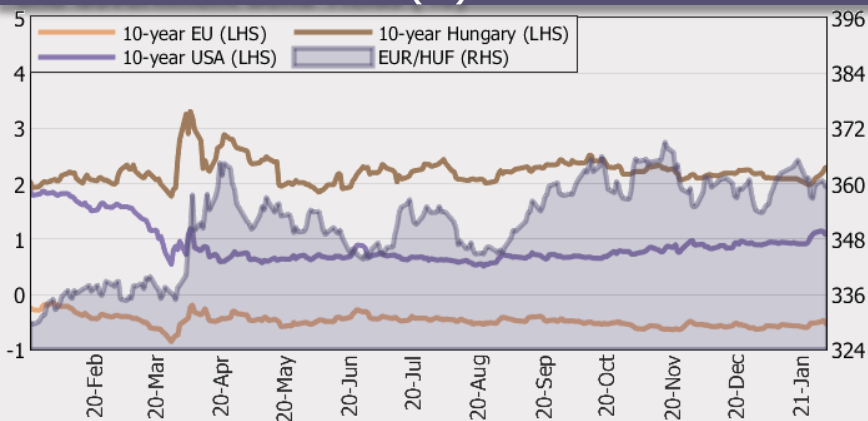
IMPROVING FUNDAMENTALS LEADING TO REDUCED HUNGARY RISK PREMIUM AND LOW COST OF FINANCING

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 with a positive outlook in case of Moody's
 - The marked decrease in Hungary's CDS premia – approximately 555 basis points between 2011 and December 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 December 2020

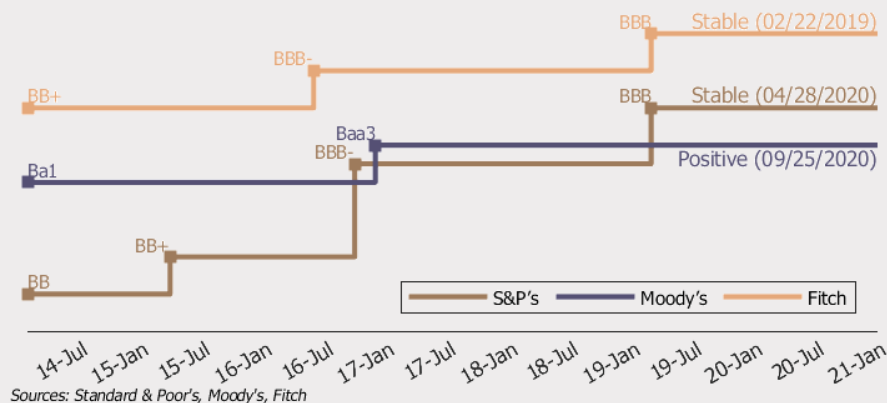
Source: MNB, Reuters, Standard & Poor's, Moody's, Fitch

Development of the Foreign Exchange Rate (EUR/HUF) and Government Bond Yields (%)



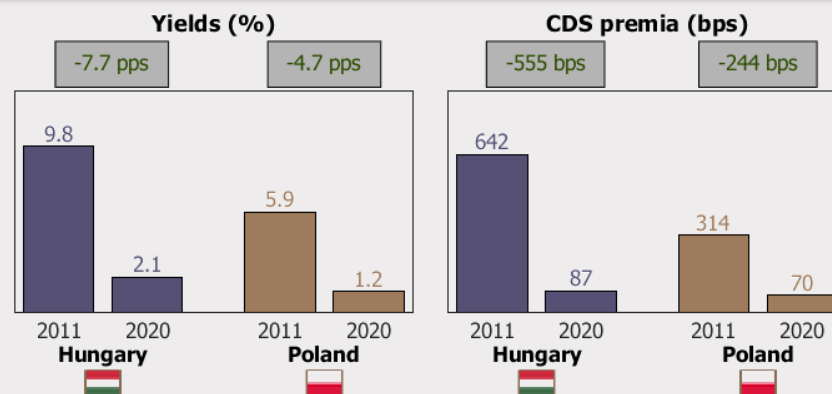
Source: AKK

Evolution of Hungary's ratings



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

10Y local yield and 10Y CDS premia in Hungary and peers



Source: Bloomberg; Note: As of Dec. 31, 2011 and Dec. 31, 2020

IV. FAVOURABLE EXTERNAL POSITION



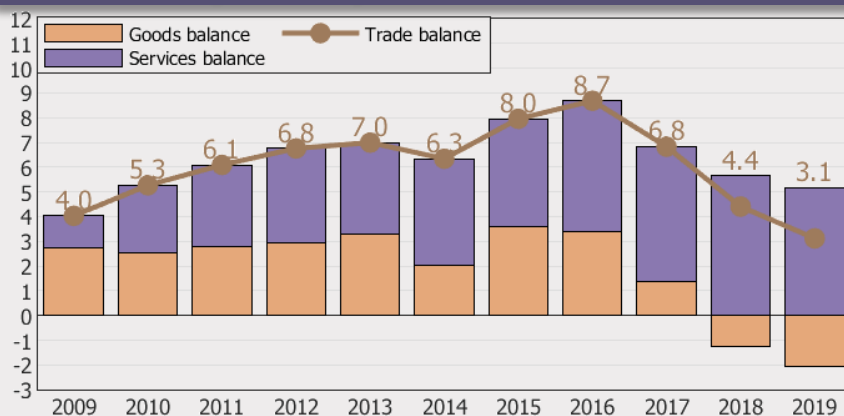
HUNGARY ENJOYS HEALTHY EXTERNAL ACCOUNTS AND A NET LENDING POSITION

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 3-9% of GDP between 2009 and 2019
 - The trade surplus increase has been driven by a rise in net services exports that represented 5% of GDP in 2019
 - Hungary also benefits from a positive capital account, partly driven 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 5.3% in 2019)

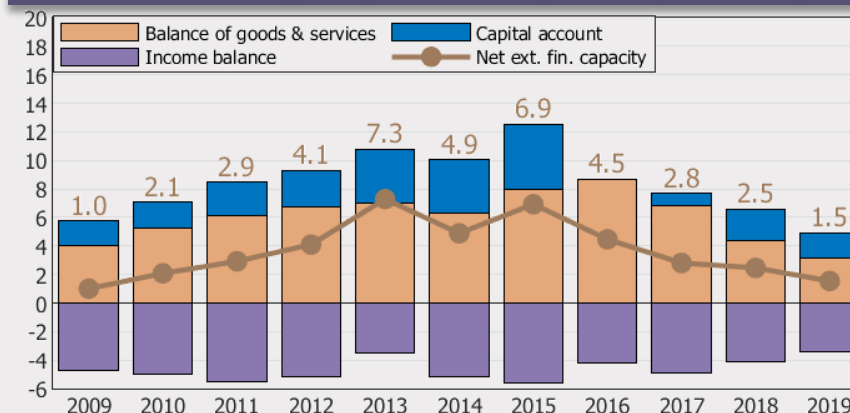
Source: MNB, HCSO

Trade balance (% of GDP)



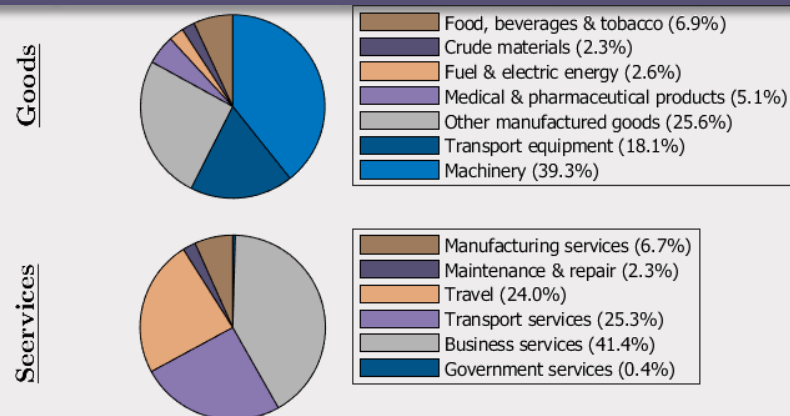
Source: MNB

Net external lending components and position (% of GDP)



Source: MNB

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



Source: HCSO

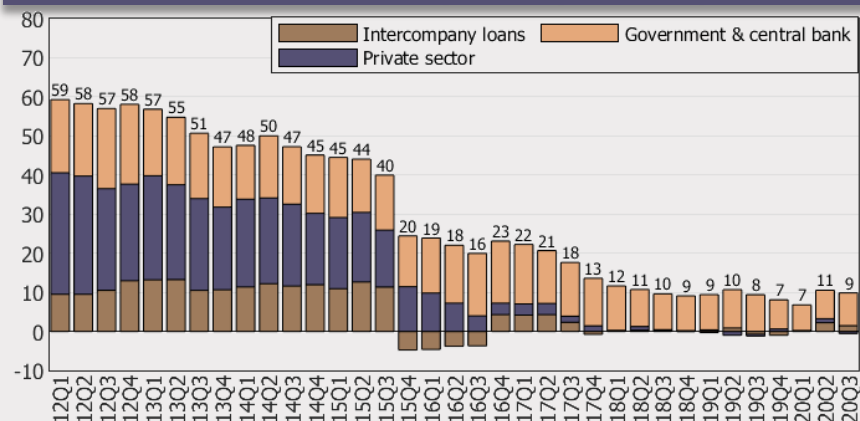
EXTERNAL DEBT HAS STEADILY DECLINED WHILE FX RESERVES REMAIN HIGH

Key highlights

- **External debt indicators have been improving since 2012**
 - Hungary's gross external debt (excluding intercompany loans) has substantially decreased since 2012, notably on the back of active public debt management. It stood at 60% of GDP as of Q3 2020
 - 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 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 amounted to EUR 33.7 billion on December 31, 2020

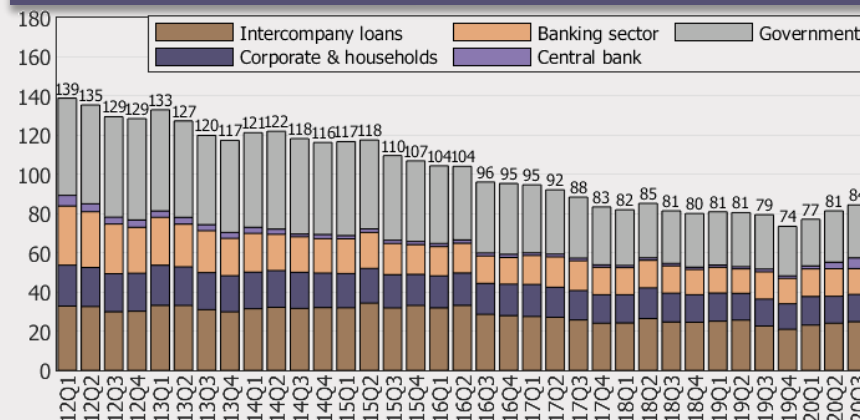
Source: MNB

Net external debt breakdown by sector (% of GDP)



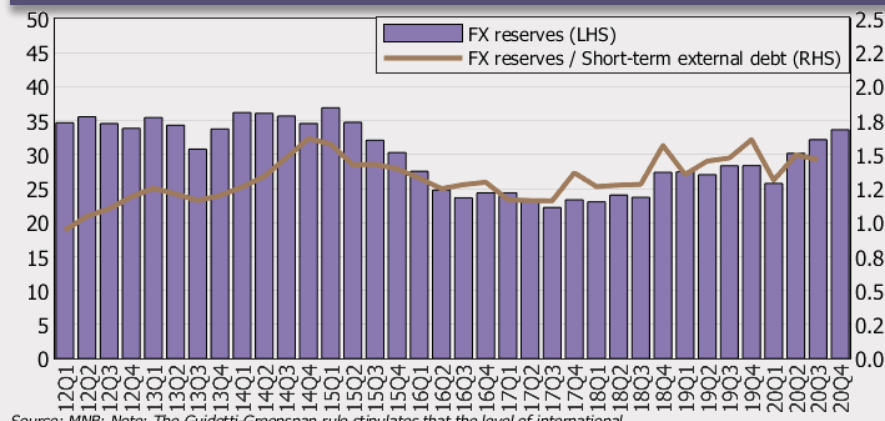
Source: MNB

Gross external debt including intercompany loans (% of GDP)



Source: MNB

International reserves level and adequacy (EUR billion)



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

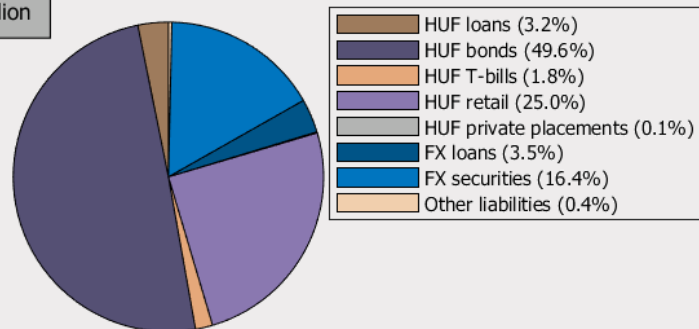
V. EFFECTIVE DEBT MANAGEMENT



HUNGARY BENEFITS FROM A FAVOURABLE DEBT PROFILE

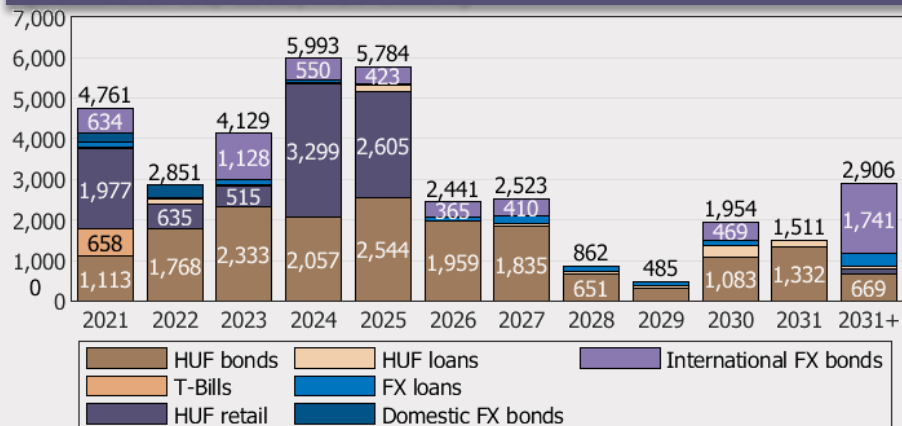
Hungary's government debt breakdown (December 31, 2020, % of total)

Total debt:
HUF 36,684 billion



Source: AKK; Note: central government debt

Hungary's government redemption profile (December 31, 2020, HUF billion)



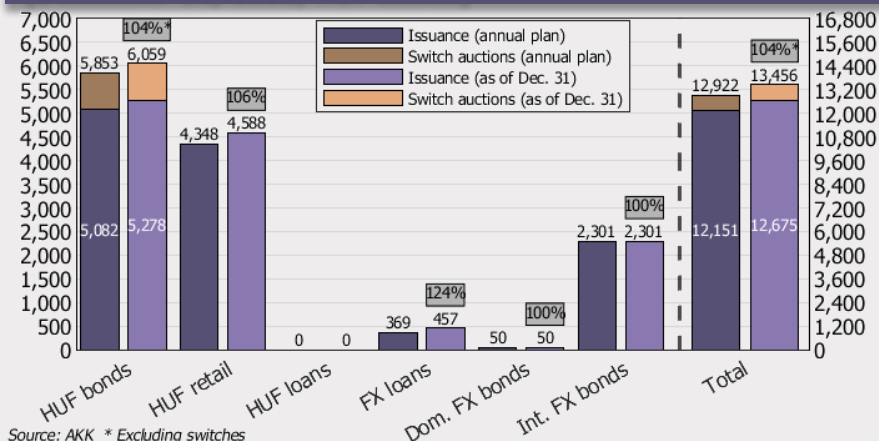
Source: AKK; Note: Central government debt, excluding MtM and Repo deals

Key targets and characteristics of Hungary's government debt¹

	2021 benchmark targets	2020 December 31 figures ²
Share of FX debt	Between 10% and 20%	✓ 19.4%
Currency mix of the FX debt (after swaps)	100% in EUR (with a 5% deviation allowed)	✓ 100% in EUR
Share of domestic and FX debt with a fixed coupon	Domestic: 70%-90% FX: 70%-90%	✓ Domestic: 78% FX: 81%
Average time to re-fixing of domestic debt	Minimum 4.0 years	✓ 4.2 years
Average time to maturity of domestic debt	Minimum 4.5 years	✓ 4.6 years

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

2020 issuance vs December 2020 financing plan (December 31, 2020, HUF billion)



Source: AKK * Excluding switches

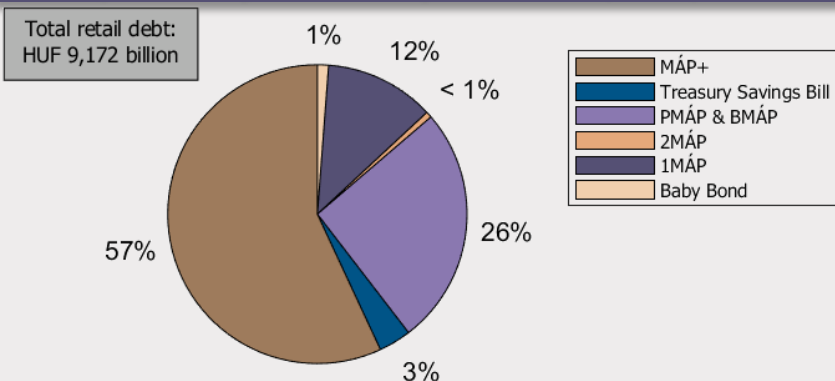
SIGNIFICANT CONTRIBUTION FROM THE HUF RETAIL MARKET

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 9,172 billion as of December 31, 2020
- **Hungary issues retail instruments with different characteristics, which attract diverse retail investors**
 - Maturities range from 1 to 19 years, securities have step-up, fixed or inflation-linked coupon and besides dematerialized 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**
- **Using retail government bonds as collateral is not permitted in Hungary**
- Main distribution channels for retail securities are the Hungarian State Treasury (16%), post offices (7%) and banks / investment companies (77%)

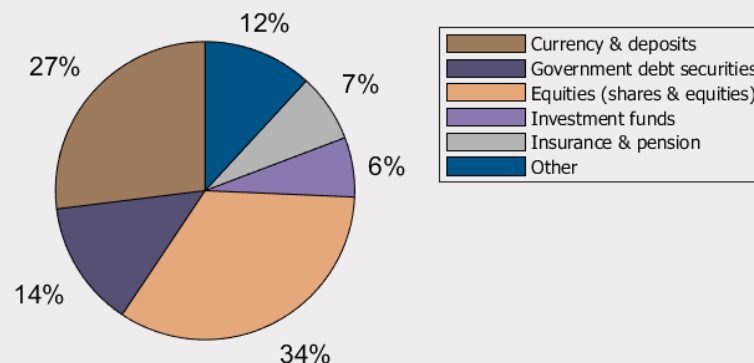
Source: AKK

Retail portfolio by instrument (December 31, 2020, % of total)



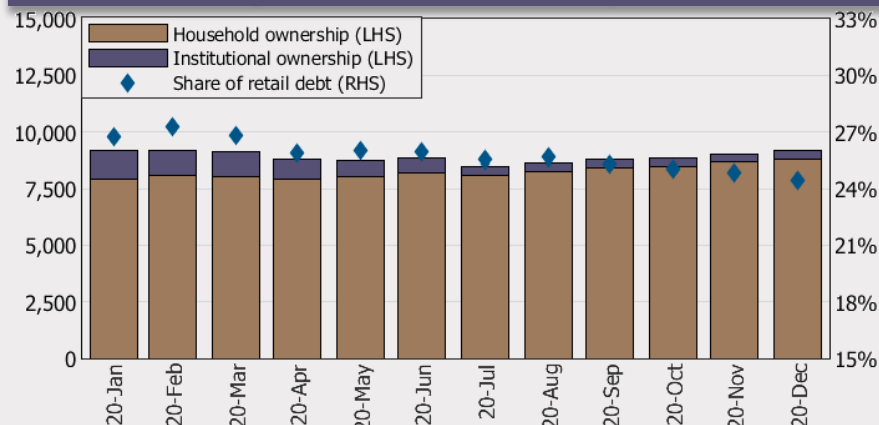
Source: AKK; Note: central government debt

Households asset structure (Q3, 2020, % of total)



Source: MNB

Retail securities (HUF billion and % of total)



Source: AKK

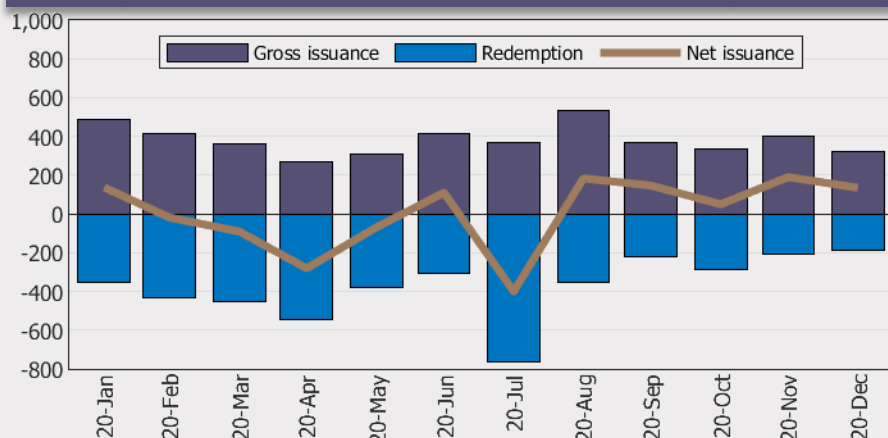
RETAIL MARKET OVERVIEW

Key highlights

- Since 2012, AKK developed 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+** has been the most popular product and currently accounts for 57% of total retail debt
- In several months of 2020 net issuance was negative, partly driven by seasonality and partly by the global epidemic affecting Hungary
- In recent months, net issuance turned positive again

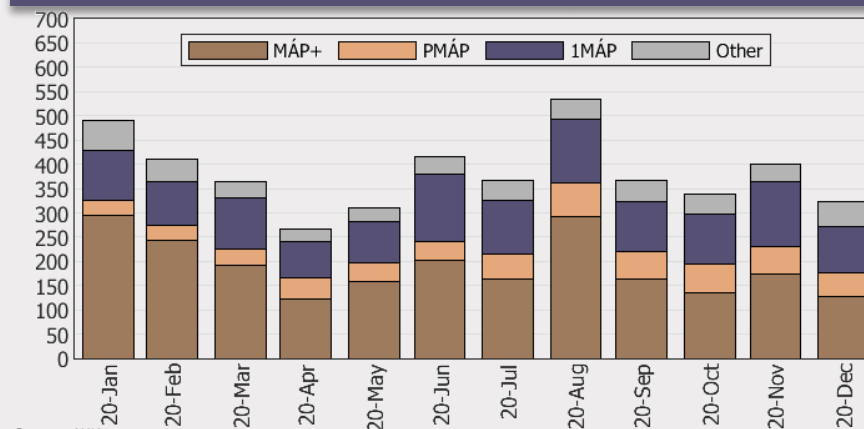
Source: AKK

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



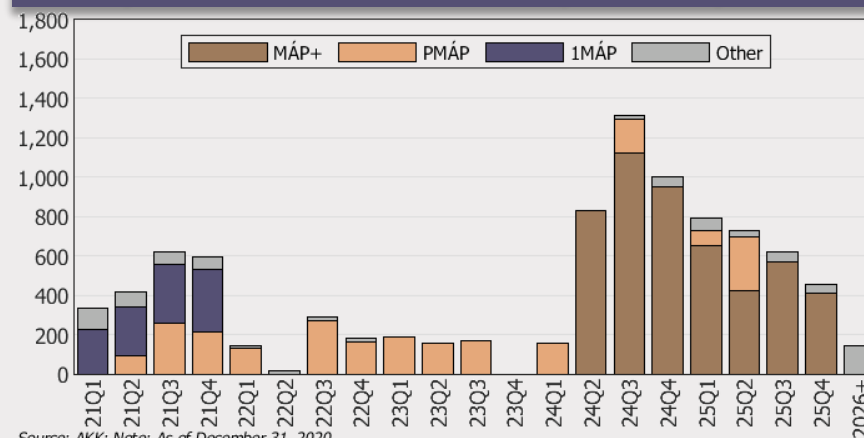
Source: AKK; Note: Including executed buyback options

Monthly Gross Sales of Retail Securities (HUF billion)



Source: AKK

Redemption Profile of Retail Securities (HUF billion)



Source: AKK; Note: As of December 31, 2020

STABILITY ON THE HUNGARIAN GOVERNMENT SECURITIES MARKET

Key highlights

- **The ongoing crisis affected financial markets worldwide, but the Hungarian government securities markets – similarly to regional peers – were moderately affected**
 - Spreads of euro denominated bonds increased significantly during the Spring of 2020 but retreated since then to levels seen in early 2019
- **ÁKK responded to the challenges of the ongoing crisis**
 - Successful foreign currency bond issuances in EUR and JPY (conventional and green euro denominated bonds) to enhance confidence in domestic markets
 - Changing the auction order to enhance flexibility and predictability simultaneously on the local currency market
- **ÁKK is closely monitoring the market and reacts to market demand with increased flexibility**

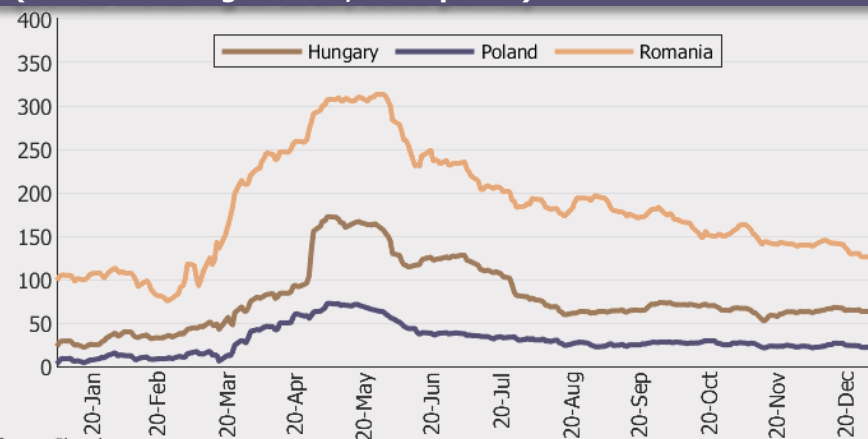
Source: ÁKK

Auction Order (Announced on December 30)

Source: ÁKK

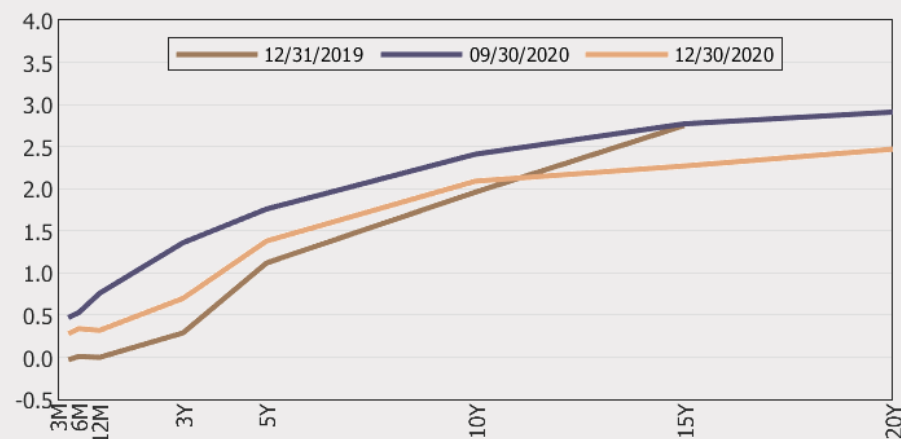
	First Quarter	Afterwards
3-month Treasury Bill	Weekly Basis	Weekly Basis
12-month Treasury Bill	Biweekly Basis	Biweekly Basis
5-year and 10-year Government Bonds	Weekly Basis	Biweekly Basis
15-year and 20-year Government Bonds	Biweekly Basis	Four-weekly Basis
30-year Green Government Bonds	-	Upon Demand
Floating Rate Note	Biweekly Basis	Biweekly Basis
Switch Auction	Biweekly Basis	Weekly Basis

Z-spreads of EUR Denominated Government Bonds (Bonds maturing in 2027; basis points)



Source: Bloomberg

Benchmark Yield Curve Development (percent)



Source: ÁKK

PERFORMANCE ON THE LOCAL WHOLESALE MARKET IS POSITIVE

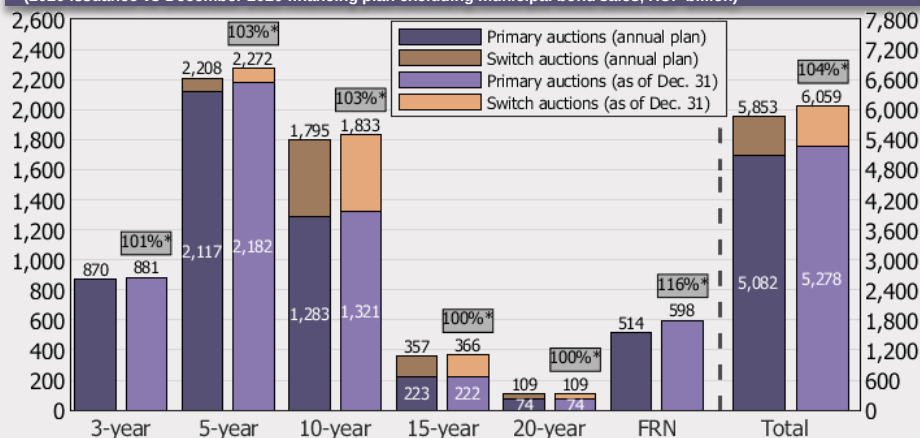
Key highlights

- **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 switch and buyback operations** to support a balanced government bond issuance pattern, manage the redemption profile and reduce refinancing risk
- **Hungary's local yields have significantly decreased since 2014**
 - Yields have decreased across the entire yield curve
 - Short-term yields decreased by approximately 1 percentage points, long-term yields decreased by close to 1.5 percentage points between December 2014 and December 2020
 - The steepness of the yield curve decreased

Source: AKK

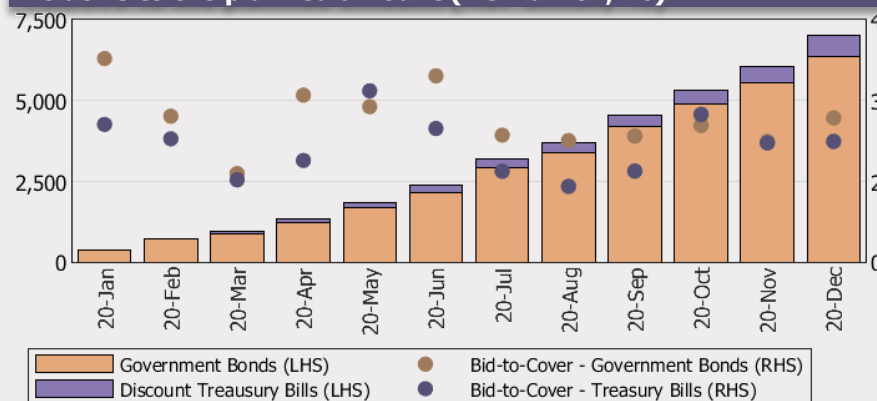
Government bond issuance on auctions by tenor during 2020

(2020 issuance vs December 2020 financing plan excluding municipal bond sales, HUF billion)



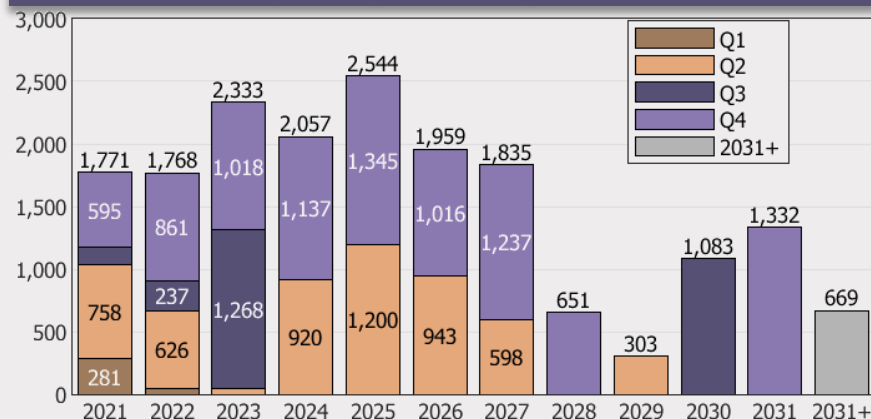
Source: AKK * Share of actual amount relative to plan (excluding switches)

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



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

Redemption profile of wholesale government securities as of December 31, 2020 (HUF billion)



Source: AKK; Government Bonds, excluding repo transactions

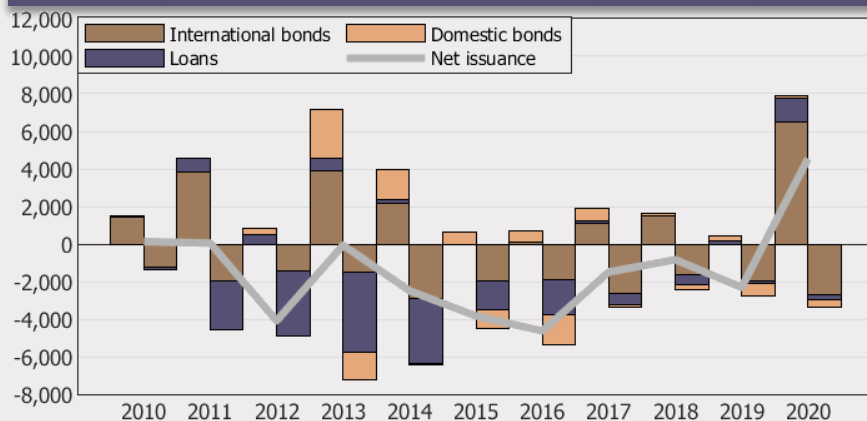
HUNGARY'S EXPOSURE TO INTERNATIONAL MARKETS IS CAREFULLY MANAGED

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 EUR and USD, 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 December 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 close-to-zero 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 December 2020, the interest rate swap portfolio amounted to 1.2 billion EUR and the fix rate share of the FX portfolio was 80.6%

Source: AKK

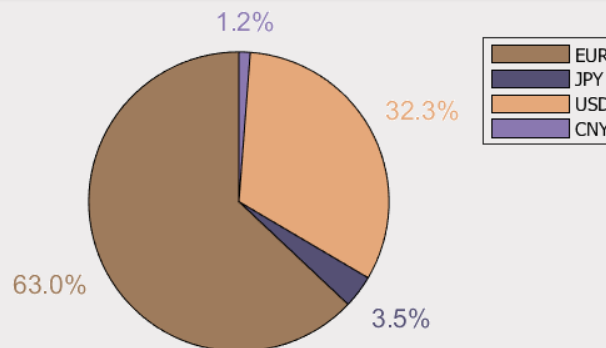
FX Redemption, Issuance & Net Issuance (EUR million)



Source: AKK; Note: Central government debt

FX debt composition by currency (December 31, 2020, % of total)

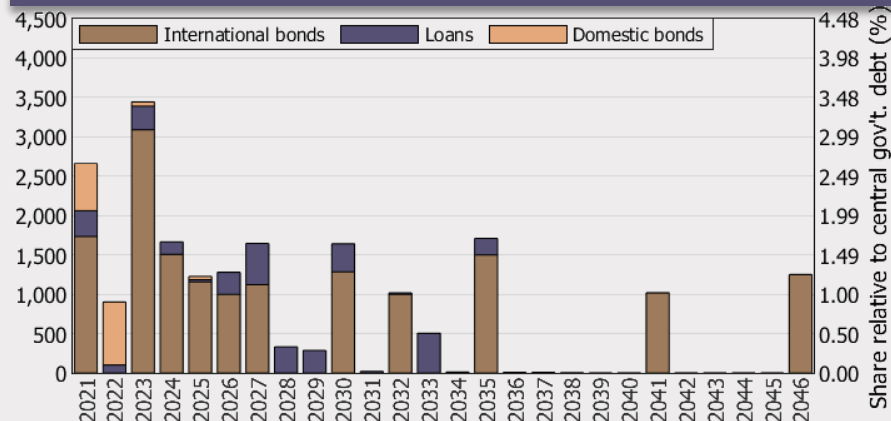
Total FX debt¹:
EUR 20.7 billion



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

¹ Excluding CCIR swaps; total FX debt including CCIR swaps amounted to EUR 20.0 billion

Redemption profile of FX debt as of December 31, 2020 (EUR million)



Source: AKK; Note: Central government debt

GOALS OF GOVERNMENT DEBT MANAGEMENT IN 2021

HUF 8,600 billion (18% of expected GDP) gross government security issuance (including switches) compared to the HUF 13,472 billion figure in 2020 and the HUF 10,264 billion average gross government security issuance volume in the last 5 years

Funding via wholesale HUF securities

- ▶ Further extension of the average term-to-maturity of debt, no planned 3-year fixed interest bond auctions in 2021
- ▶ Switch auction program significantly larger than in previous years
- ▶ Further strengthening investor diversification (e.g.: ESG and Asian investors)
- ▶ Extending the Hungary's Green Bond Program to the HUF government bond market, issuance of a 30-year green HUF bond

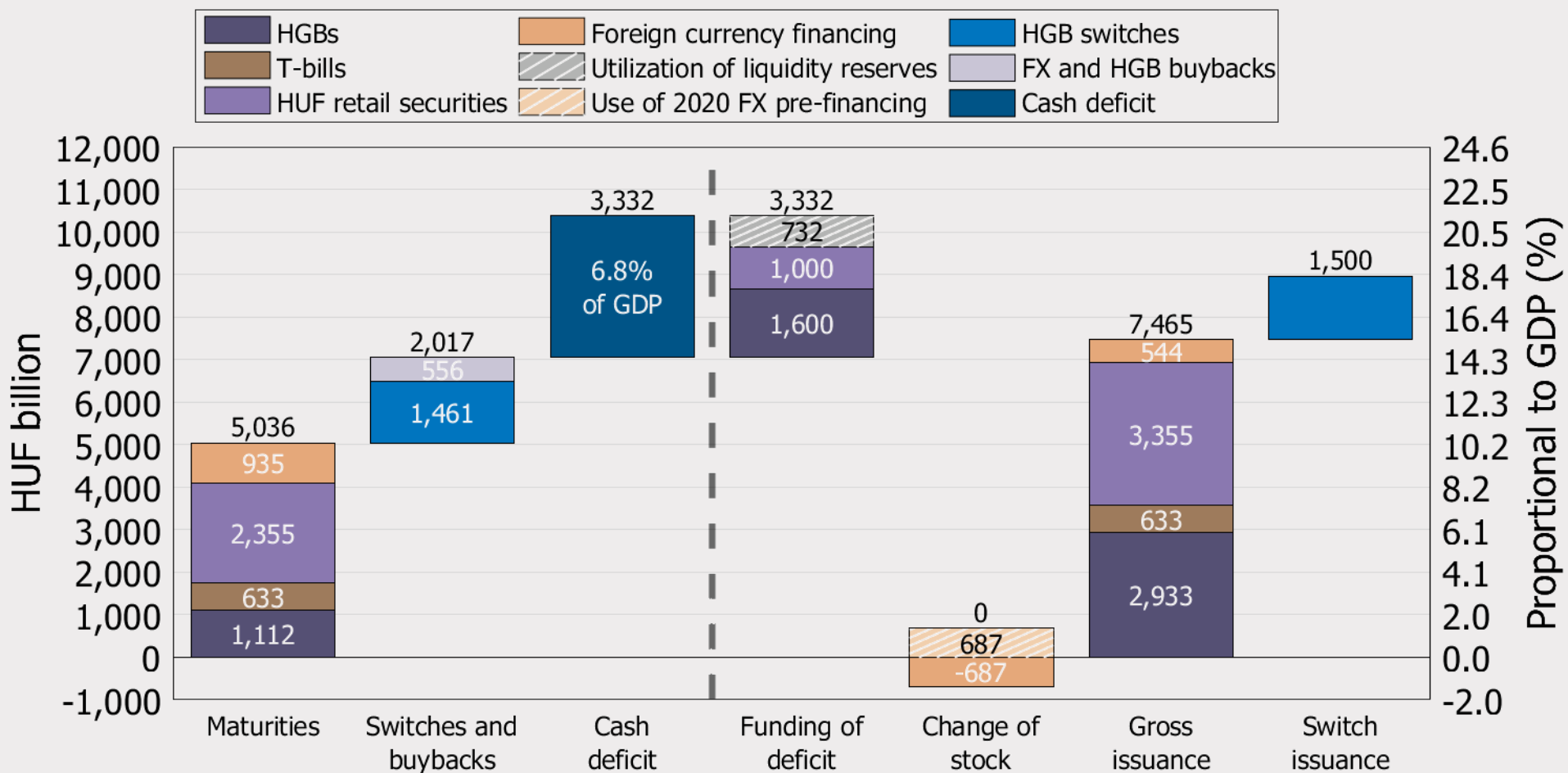
Funding via retail securities

- ▶ Reaching the goal of HUF 11 trillion in retail government securities owned by households until 2023, doubling the end-2018 amount
- ▶ Extending the average term-to-maturity and increasing digital sales of retail debt to the extent possible

Funding via FX instruments

- ▶ No need to issue international FX bonds in 2021 due to pre-financing conducted in 2020
- ▶ FX loans for certain projects (e.g.: EIB, SURE) and other FX funding supporting the goals of debt management (e.g.: PÉMÁP)
- ▶ Reduction of FX debt share through active management of FX maturity profile

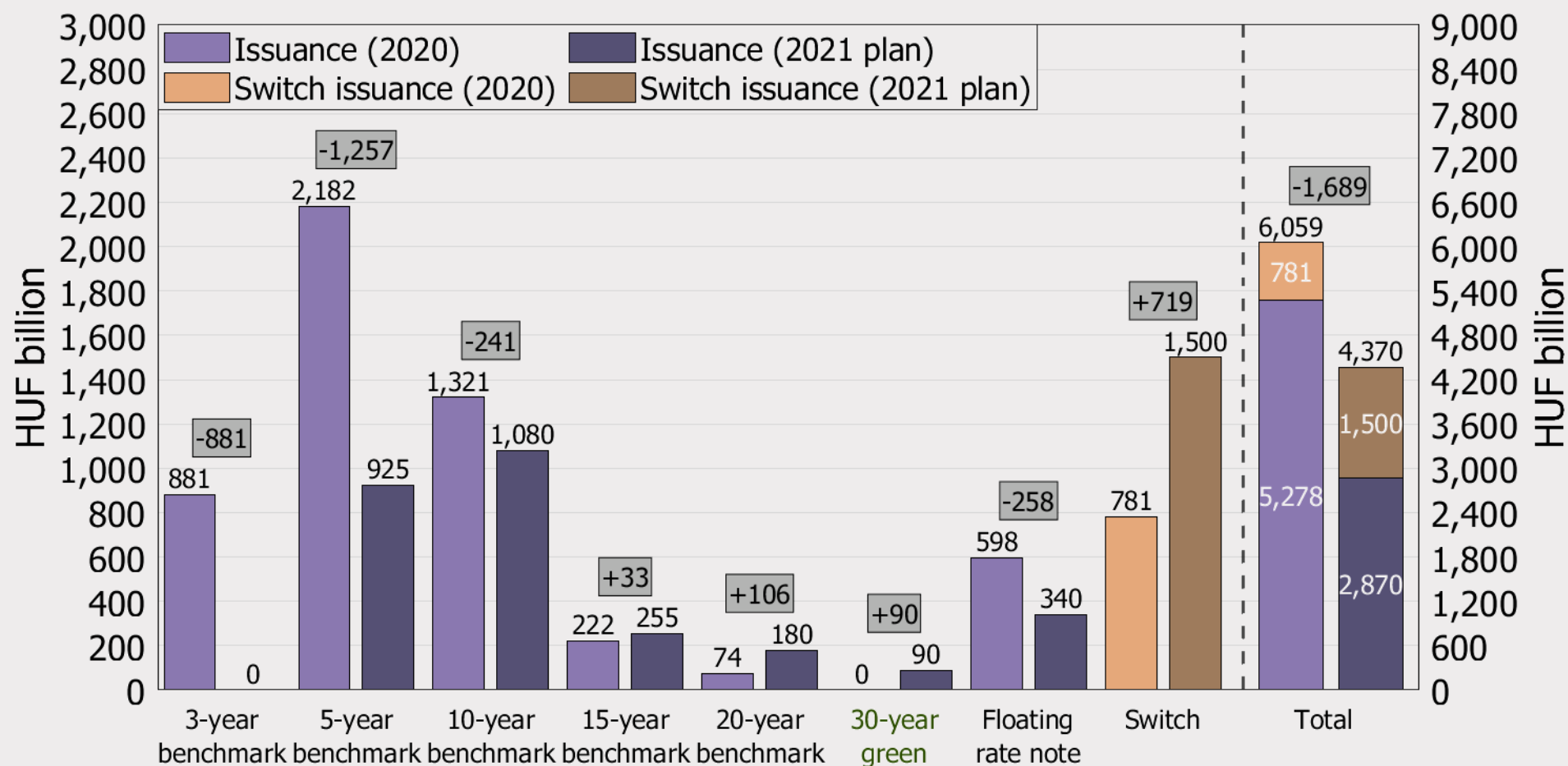
2021 FINANCING PLAN



Source: AKK; Note: outstanding amounts based on nominal values; Change of stock: excluding funding of deficit

The total net financing requirement for 2021 is HUF 3,332 billion, financed by a net issuance of HUF 1,913 billion. The financing requirement exceeded by the net issuance is financed by the utilization of liquidity reserves and the November 2020 FX bond issuance.

PLANNED VOLUME OF HUF WHOLESALE BOND ISSUANCES



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

THANK YOU FOR YOUR ATTENTION!

