HUNGARY
Investor Presentation

January 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 (2018): 270.33 HUF = 1.00 USD[1]

Nominal GDP (2018): HUF 42,662bn

Real GDP growth (2019e): 4.9%

Public debt (2018): HUF 28,688bn

Public debt in foreign currency (2018): HUF 5,725bn

Sovereign ratings: BBB/Baa3/BBB with stable outlooks

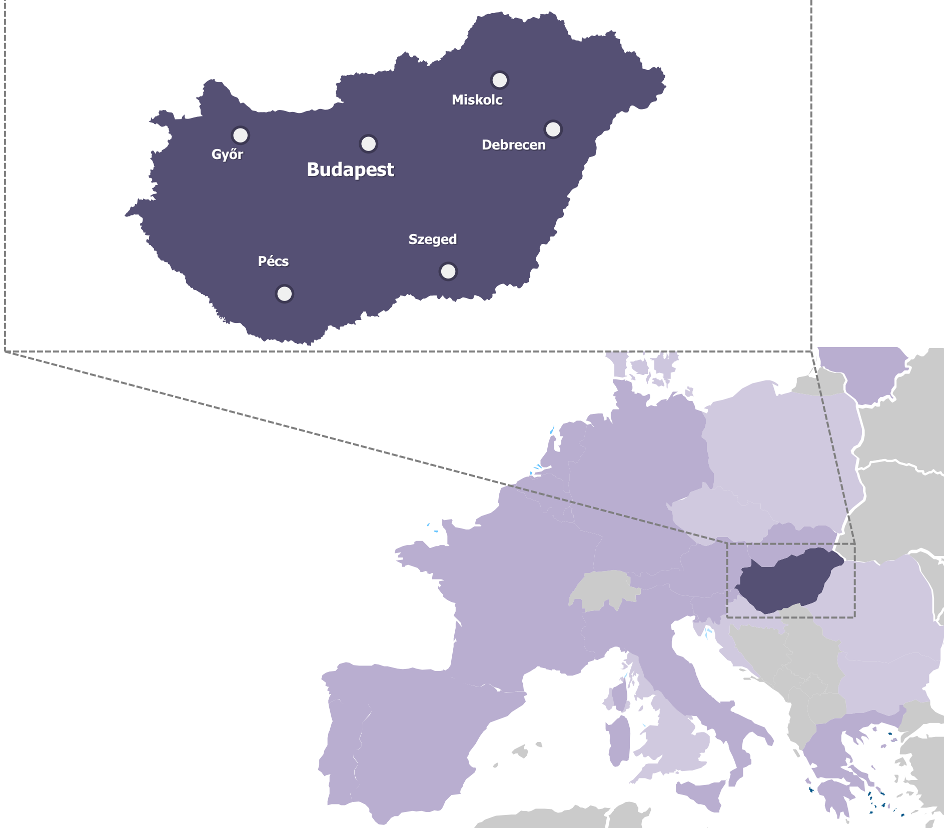
Government: parliamentary republic

EU member country since: 2004

Schengen area member since: 2007

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

An open economy with a strategic location at the center of Europe and memberships in key international organizations



Note: 1. Average exchange rate in 2018
Sources: AKK, HCSO, HIPA, NBH, World Bank, Bloomberg, European Commission

KEY CREDIT HIGHLIGHTS

Strong economic momentum

- **Hungary is one of the fastest growing economies in Europe with real GDP growth of 4.8% in Q3 2019** (3.4x times higher than the EU average)
- **The economy benefits from strong investment dynamics,** enjoying the third highest investment rate in Europe in 2018
- **The level of unemployment is very low,** at 3.5% in Q3 2019
- **The sovereign's economic environment is stable:** inflation has been within the targeted band since 2017 and the banking sector is healthy and adequately capitalized

Sound fiscal policies

- **The fiscal deficit has been constantly below the Maastricht threshold since 2012** and the objective is to achieve a fiscal balance by 2023
- **Counter-cyclical fiscal policies have allowed the public debt to decline steadily since 2011** – i.e. by (10.6)pps over 2011-2018, and in contrast to most peer experience, to reach 70.2% of GDP at year end 2018

Effective debt management

- **Hungary is an Investment Grade country that benefits from increasingly supportive financing conditions**
- **The structure of public debt is favorable** with a very low share of FX and floating rate debt, and a highly diversified, deep and liquid domestic market
- **The development of the retail market has been a key driver of the expansion of the domestic investor base**

Favorable external position

- **Hungary enjoys a net international lender position since 2009**
- **This positive external position is largely explained by the sovereign's trade surplus** which has been supported by the rise in services exports in recent years
- **External debt indicators are at historical lows** with a gross external debt level of 56% of GDP in Q2 2019
- **International reserves are high and adequate**, representing over 1.5x the level of short-term external debt of the sovereign

Attractive business environment

- **Hungary implemented key macro-fiscal reforms over the last decade.** It reformed its tax system with a view to boost employment while government policy helped achieve a fast recovery from the European sovereign debt crises
- **This reform effort have proven successful,** supporting growth, Hungary's attractiveness (+22 places in the WEF's Global Competitiveness Index since 2016) and FDI with Hungary enjoying one of the largest stocks of inward FDI of the region
- **The government intends to preserve this positive dynamic** including through the implementation of the Program for a More Competitive Hungary and the Economy Protection Action Plan that aim at bolstering growth and competitiveness

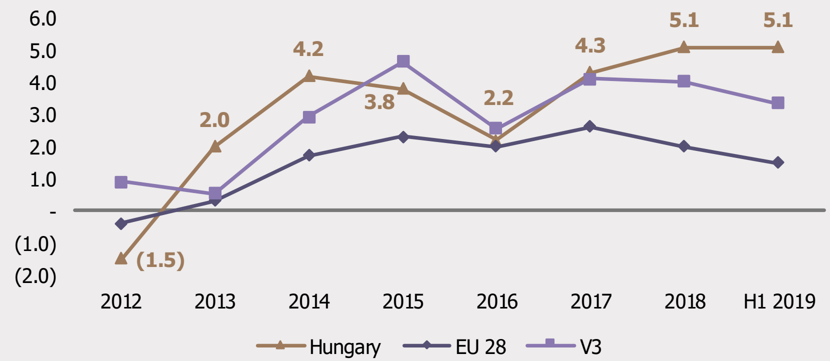
I. STRONG ECONOMIC MOMENTUM

HUNGARY BENEFITS FROM SOLID ECONOMIC GROWTH SINCE 2013

Key highlights

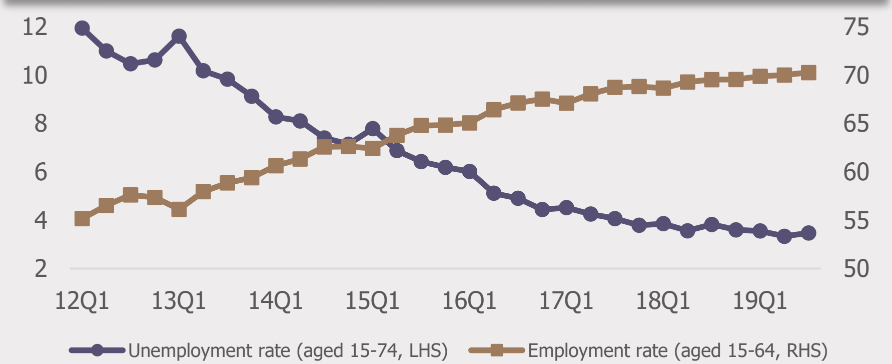
- **Since 2013, Hungary's economic growth has been among the fastest in Europe**
- **Growth has been in particular driven by the turnaround in employment** that happened in the wake of the structural reforms implemented after the economic crisis, including the tax regime
  - The number of people employed rose by over 785,000 between 2012 and Q3 2019
  - Near-full employment has been achieved in recent years
  - **This has allowed the Hungarian economy to grow by 3.6% on average between 2013 and 2018, while the EU average has been 1.8%**
- **In H1 2019, real GDP grew by 5.1%, the second highest level in Europe** and 3.4x times faster than the EU average
- **This pace was maintained in Q3 2019 with a real GDP growth rate of 5.1% in Hungary over the first nine months of 2019**

Real GDP Growth (YoY, %)



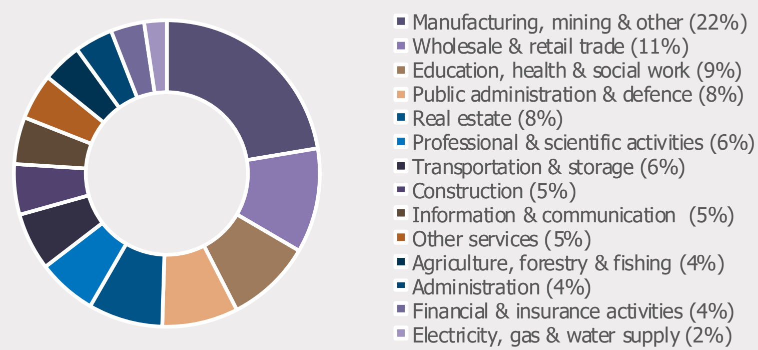
Sources: HCSO, Eurostat Note: Unadjusted data

Employment and unemployment rates (%)



Source: HCSO Note: Unadjusted data

2018 Nominal GDP breakdown by sector (% of total)



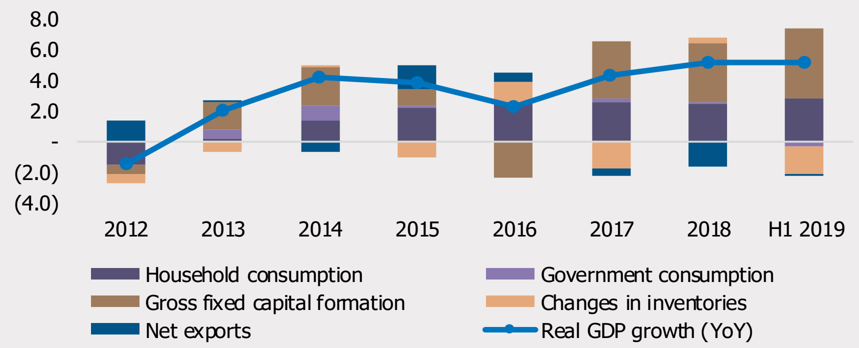
Source: HCSO

GROWTH IS DRIVEN BY BOTH CONSUMPTION AND INVESTMENT

Key highlights

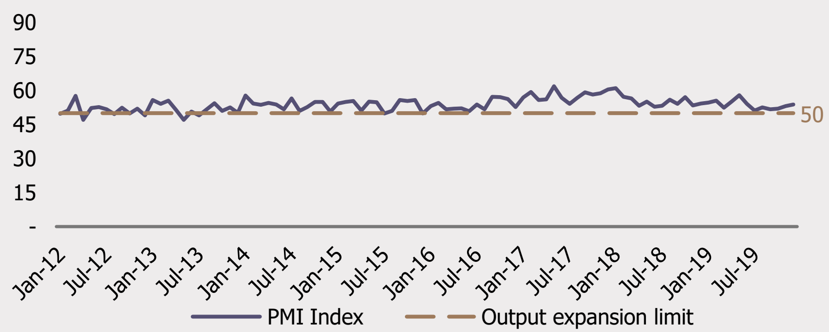
- **Growth in Hungary has been consistently supported by household consumption since 2014, with economic momentum becoming even more broad-based from 2017 onwards**
- **Household consumption has been supported by**
  - The increase in household income and wealth, given the dynamism of the labor market
  - A supportive credit market, with low interest rates and access to credit
  - A relatively high and increasing level of consumer confidence
- **This has contributed to the development of the service industry**
  - Although all key sectors grew in Hungary in 2018 and H1 2019, the service sector has been the main driver of real GDP growth
- **Investment activity has picked up since 2017, supported by the capacity expansions of corporations, government investments and real estate projects**

Contribution to GDP growth by expenditure (pps)



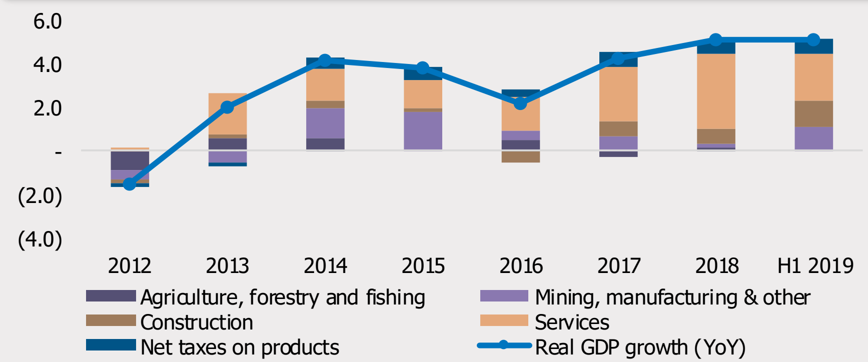
Source: HCSO Note: Calculated from indices compared to the previous year

PMI Index evolution



Source: Bloomberg Note: Figures above 50 indicate an output expansion

Contribution to GDP growth by sector (pps)



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

INVESTMENT DYNAMICS ARE SUPPORTIVE OF THE BROADER ECONOMIC OUTLOOK

GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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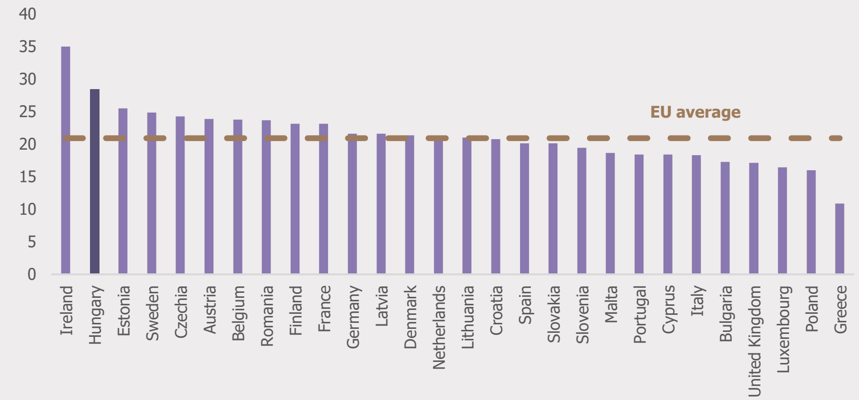
Key highlights

- **Hungary benefited from the third highest investment rate in Europe in 2018,** with investment representing 28.4% of GDP
- **Investment has been particularly dynamic in the corporate sector due to:**
  - Corporations expanding capacity productions, which also contributed to the increase in industrial production
  - Effective incentives such as the flat corporate income tax rate or the large corporation investment subsidy program
- **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

2019 Q1-Q3 investment rate in EU countries (% of GDP)



Sources: Eurostat Note: Data not adjusted

Effective investment incentives and 2018 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 centers and R&D projects

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

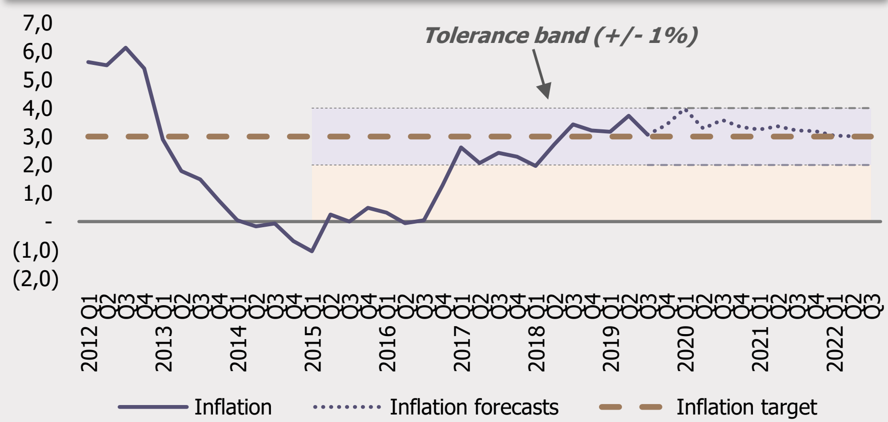
Subsidy based on individual government decision: focusing on the creation of high value-added jobs, the maintenance of existing jobs and the improvement of the corporate productivity and automatization

THE ECONOMIC ENVIRONMENT IS STABLE AND THE BANKING SECTOR IS STRONG

Key highlights

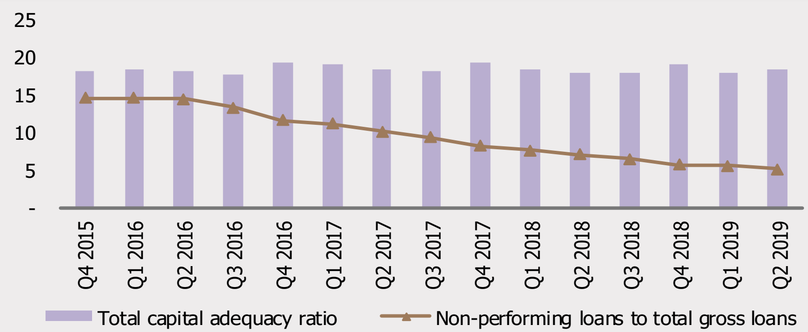
- **The NBH's primary statutory objective is to maintain price stability**
  - The Bank adjusts the policy rate to ensure inflation remains anchored at 3%, with a tolerance range of +/- **1%**
  - **Baseline inflation has remained within the defined tolerance band since the beginning of 2017 and is expected to stabilize around the inflation target by 2022**
- **The banking sector is well capitalized and the quality of loans is continuously improving**
  - Non-performing loans (NPL) have significantly decreased over the last decade
  - The National Bank has developed a comprehensive macroprudential framework to ensure financial stability and the Basel III regulation is implemented
- **The expansion in corporate lending is expected to be supported by the cyclical developments in the real economy**

Inflation vs inflation targets (%)



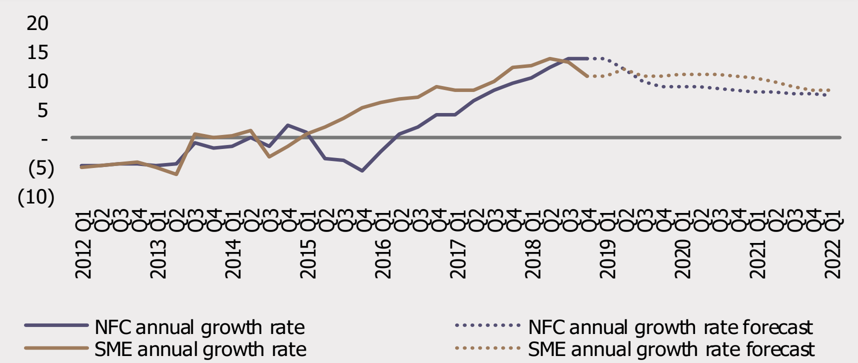
Sources: HCSO, NBH Note: Based on seasonally unadjusted data, compared to the corresponding period of the previous year; forecasts as of December 2019 from Q4 2019 onwards

Total capital ratio and NPL ratios (%)



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

Lending to non-financial corporations (NFCs) and SMEs (%)



Source: NBH

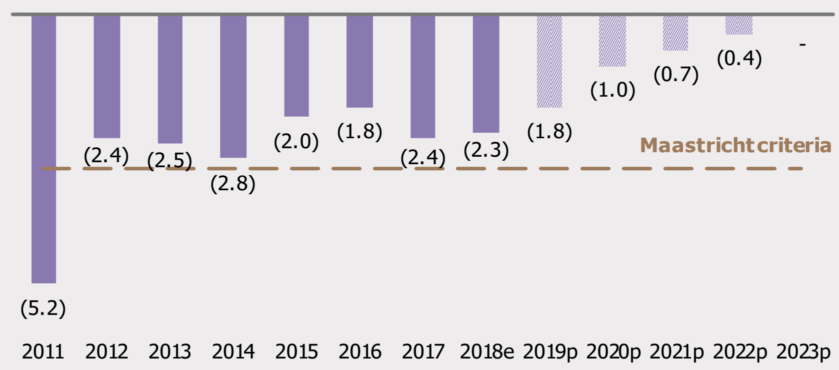
II. SOUND FISCAL POLICIES

PUBLIC FINANCES ARE STRONG AND SUPPORT DEBT SUSTAINABILITY

Key highlights

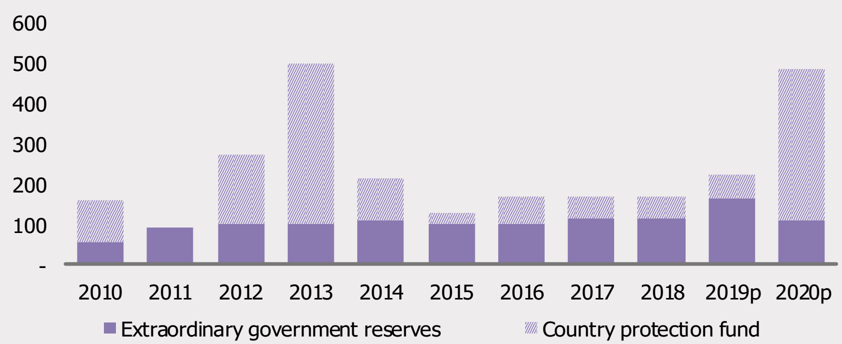
- **The budget deficit has remained below the 3% Maastricht threshold since 2012,** demonstrating the authorities' commitment to fiscal consolidation
- **The government's currently forecasts it will achieve fiscal balance by 2023**
  - The authorities set the 2020 budget deficit target to a historic low of 1.0% of GDP (vs the 1.5% initially planned in the 2019-23 Convergence Program)
- **The fiscal reserves of the government are also expected to increase in 2020 to represent c. 1% of GDP,** with the Country Protection Fund representing HUF378bn and extraordinary government reserves HUF110bn
  - The Country Protection Fund serves as an efficient fiscal buffer, ensuring the achievement of the deficit target if revenues fail to reach appropriations
  - It can only be used if the resulting fiscal deficit does not exceed 1% of GDP

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



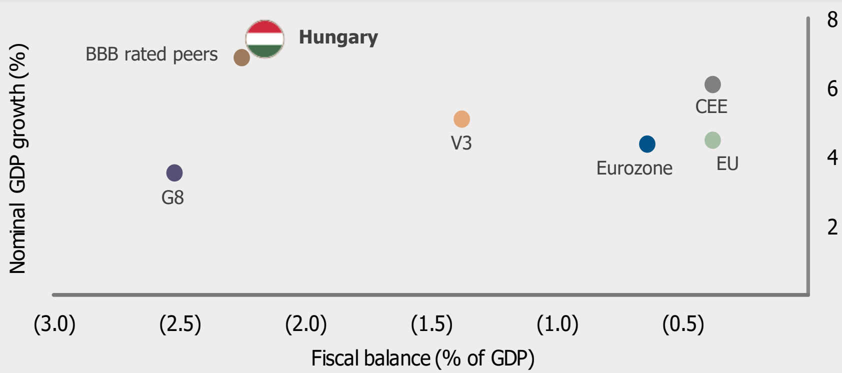
Source: Ministry of Finance

Evolution of Hungary's fiscal reserves (HUFbn)



Sources: 2010-2019 Budget Acts and 2020 budget bill

Rapid nominal GDP growth – contained fiscal deficit



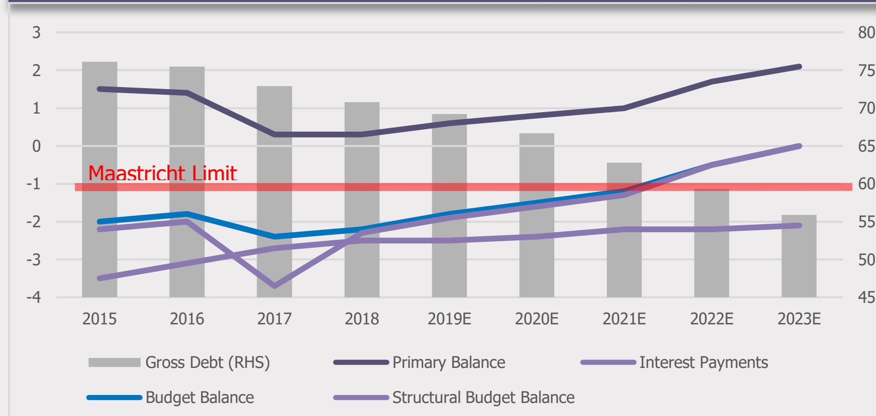
Sources: HCSO, Eurostat, IMF Notes: BBB rated peers are countries with at least two BBB ratings; average 2016-18 growth and fiscal balance for countries; median for peer groups

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

Key highlights

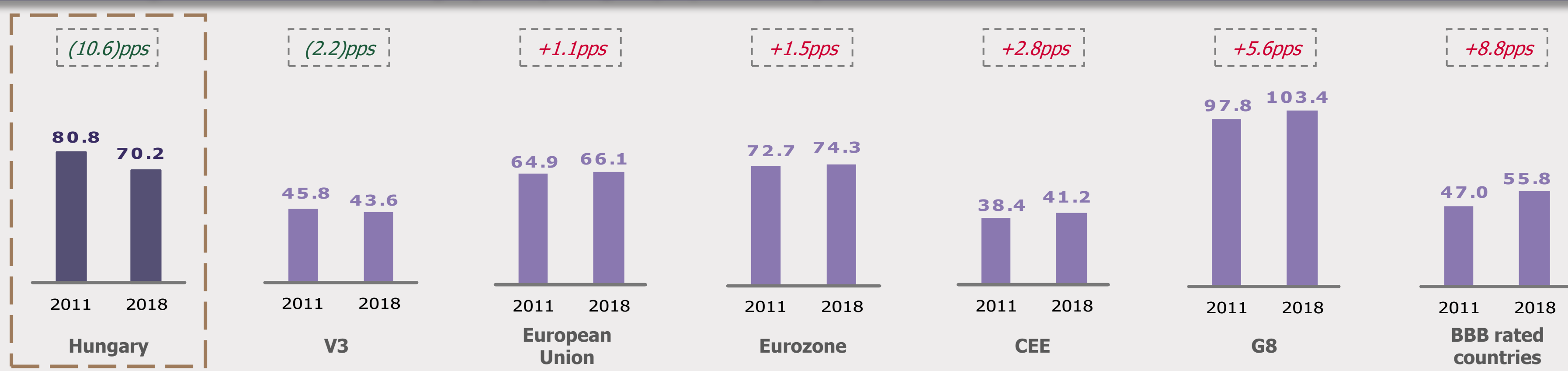
- **Under Hungary's Fundamental Law, reducing state debt is one of the main objectives of the government**
  - As long as the debt of the government exceeds 50% of GDP, only budgets which provide for a reduction of the government debt-to-GDP ratio can be adopted
- **The authorities strictly comply with 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 of (10.6%) of GDP since 2011, whereas debt has increased by +1.1% of GDP on average in the European Union
- **Hungary's government debt is expected to cross the Maastricht threshold of 60% of GDP by 2022**

General Government Debt and Deficit (% of GDP)



Sources: European Commission and Convergence Programme of Hungary

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



Sources: Ministry of Finance, Eurostat, IMF Note: average for peer groups

FINANCING CONDITIONS ARE ALSO HIGHLY SUPPORTIVE

GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.
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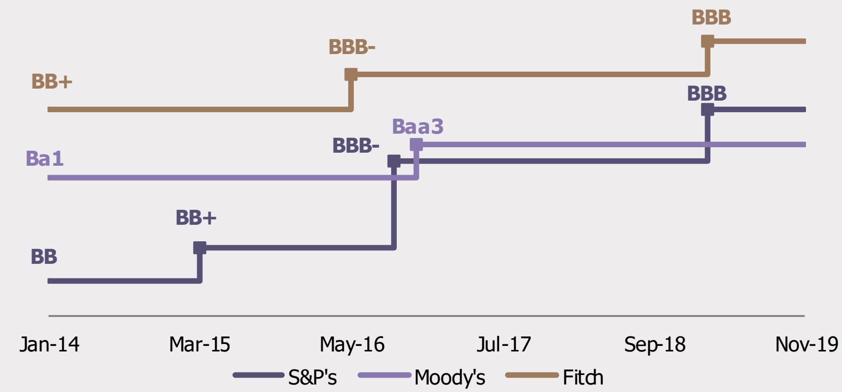
Key highlights

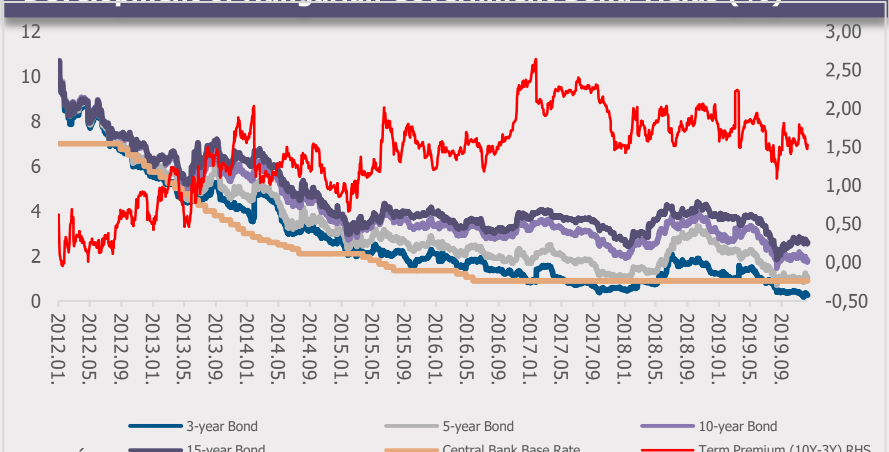
- **Market perceptions of the Hungarian economy have positively evolved,** in line with the improvement in the macro-economic fundamentals
  - Hungary has benefitted from multiple rating upgrades since 2014 driven by the country's strong growth and improvements in its external position
  - It is currently rated [BBB/Baa3/BBB] and benefits from stable outlooks
  - The marked decrease in Hungary's CDS premia – c. (530)bps between 2011 and November 2019 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
  - The evolution of Hungary's 5Y and 10Y yields illustrates this trend
  - Hungary risk premium has decreased to be in line with high rated peers

Evolution of Hungary's ratings



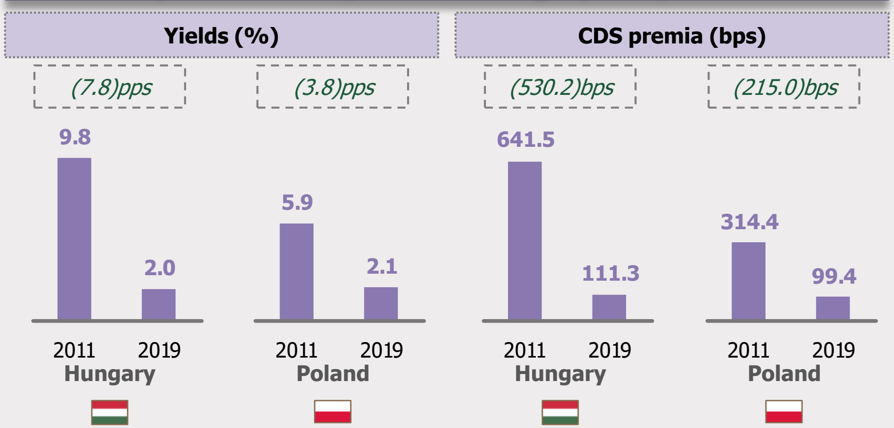
Sources: S&P, Moody's, Fitch

Development of Hungarian Government Bond Yields (%)



Source: ÁKK

10Y local yield and CDS premia in Hungary and peers



Source: Bloomberg Note: As of 30.12.2011 and 13.11.2019

III. EFFECTIVE DEBT MANAGEMENT

HUNGARY BENEFITS FROM A FAVORABLE DEBT PROFILE

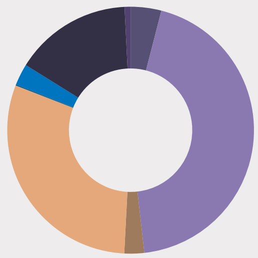
Key highlights

- **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 objectives have been achieved in recent years**
  - **The self-financing policy has led to a material decrease in the FX share of government debt in Hungary,** with a level materially below Hungary's peer median as of year-end 2018 (20% vs 28% for peers)[1]
  - **The active cross-currency swap strategy further mitigates FX risks**
  - **Hungary enjoys in addition a large share of debt with a fixed coupon**

Note: 1. Non-euro countries peers (Czech Republic, Poland, Romania, Bulgaria, Israel, Chile)

Hungary's government debt breakdown (Q3 2019, % of total)

Total debt: HUF 29,223bn



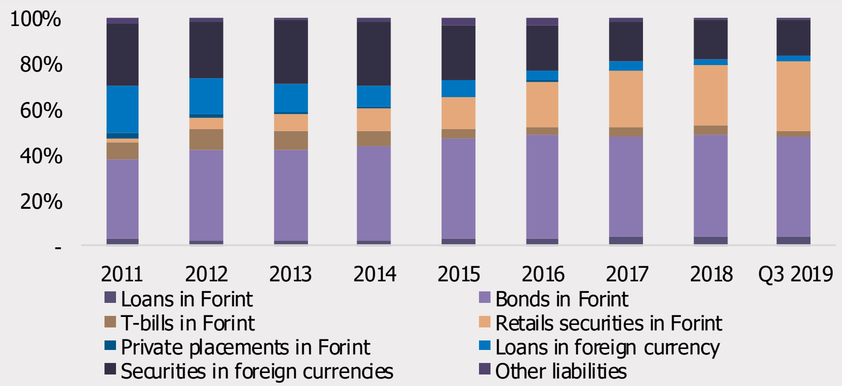
Source: AKK Note: Central government debt

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

	2019 benchmark targets		Q3 2019 figures[2]
Share of FX debt	Between 10% and 20%	✓	18.1%
Currency mix of the FX debt (after swaps)	100% in EUR (with a 5% deviation allowed)	✓	100% in euro
Share of FX debt with a fixed coupon	Between 60% and 80%	✓	71.3%
Share of local debt with a fixed coupon	Between 56% and 66%	✓	65.2%
Average time to refixing of the local debt	Between 2.75 and 3.75 years	✓	3.5 years

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

Hungary's government debt composition evolution (% of total)



Source: AKK Note: Central government debt

FOCUS ON KEY DEBT MANAGEMENT OBJECTIVES

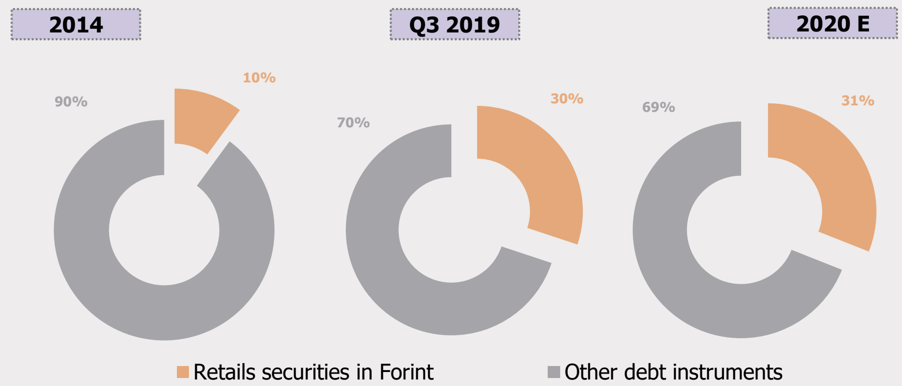
Key highlights

- **AKK's mission is to finance the central government debt at the lowest costs in the long run taking account of risks.** As such, it aims to support debt reduction. **Other key debt management objectives are:**

  1. **The development of the retail market to** benefit from growing domestic savings, a secure source of funding and **broaden the domestic investor base**. The share of retail securities in the government debt portfolio increased to 30% in Q3 2019 from 10% in 2014
  2. **Decreasing the share of foreign currency to ensure that the government debt is shielded against exchange rate risks.** FX debt represented 20% of total debt as of end 2018 vs c.38% in 2014
  3. **Limit refinancing risk** by controlling the level of duration of the debt portfolio[1]

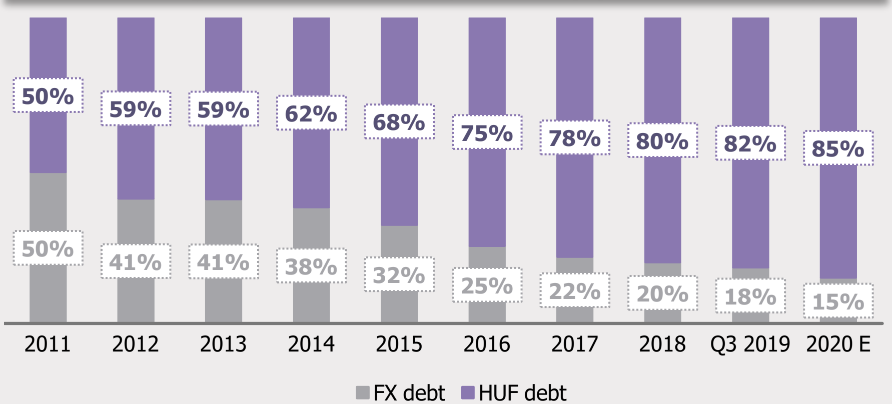
Note: 1. Since 2019, AKK refers to a more common indicator: average time to re-fixing, since 2020 ÁKK refers to average term to maturity

Share of retail securities in government debt (% of total debt)



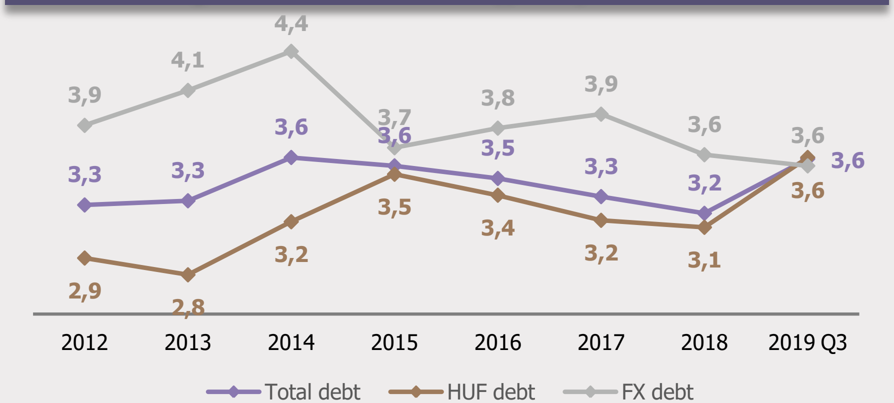
Source: AKK Note: Central government debt

Evolution of government debt by currency (% of total debt)



Source: AKK Note: Central government debt

Evolution of government debt ATR (years)



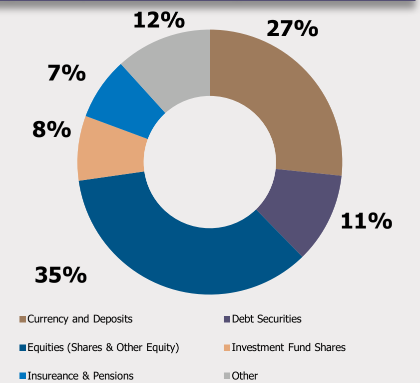
Source: AKK Note: Central government debt

SIGNIFICANT CONTRIBUTION FROM THE HUF RETAIL MARKET

Key highlights

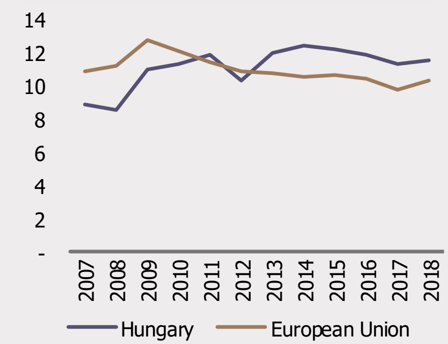
- **The retail sale market constitutes an important financing channel for the government,** in addition to local and international wholesale/institutional markets
  - The outstanding amount of government retail securities has significantly increased since 2011. It represents HUF 8,793bn as of Q3 2019
- **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**
- **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%)

Households asset structure (2018, % of total)



Source: Eurostat

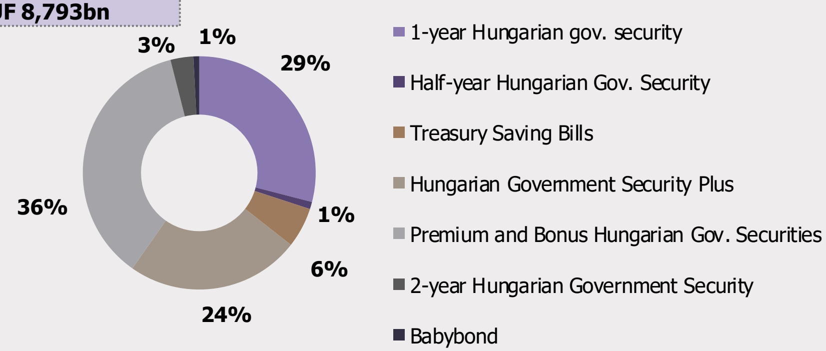
Households savings rate (% of disposable income)



Source: Eurostat

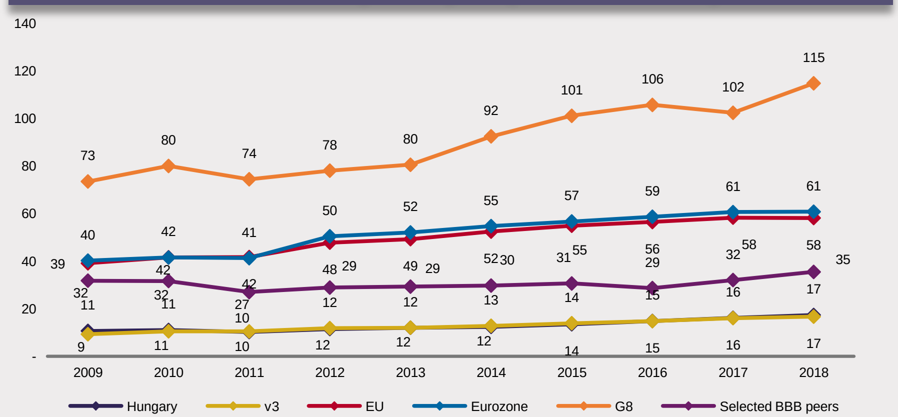
Retail portfolio by instrument (Q3 2019, % of total)

Total retail debt: HUF 8,793bn



Source: AKK Note: Central government debt

Households Total Assets per Capita (Thousand EUR)



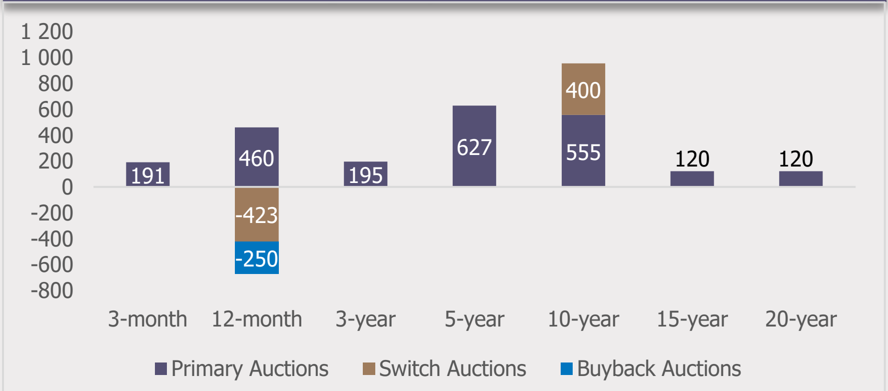
Source: Eurostat

PERFORMANCE ON THE LOCAL WHOLESALE MARKET IS SATISFACTORY

Key highlights

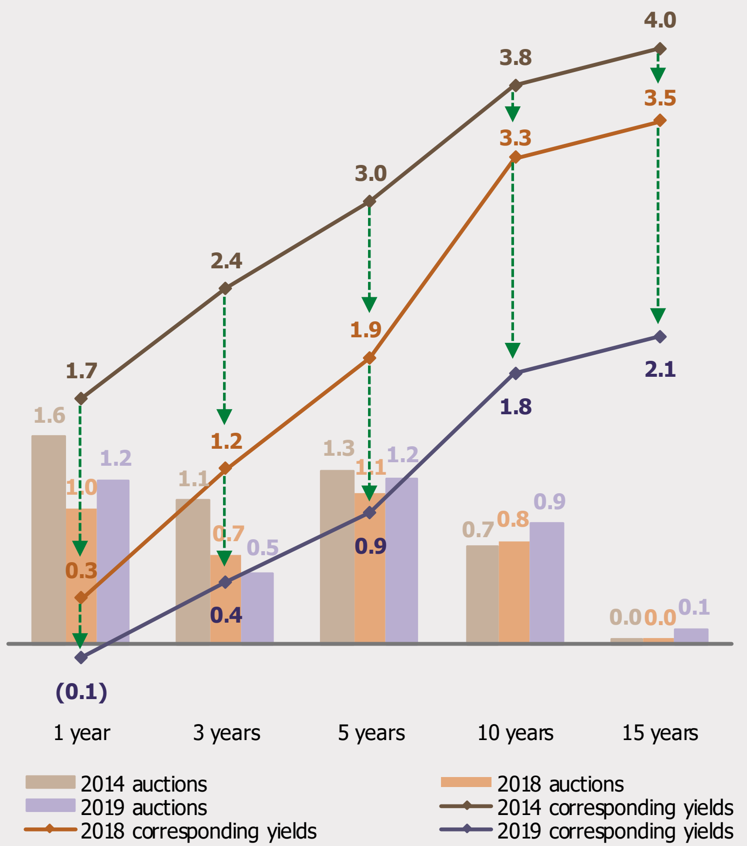
- **To ensure simplicity and transparency, AKK issues standard debt instruments according to a fixed annual calendar published in advance**
- **Primary auctions are implemented as well as buyback and switch operations** to support a balanced government bond issuance pattern, manage the maturity profile 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

Gross volumes issued by tenor (Planned amounts for 2020, HUFbn)



Source: AKK Notes: Treasury Bills are accounted for according to OECD methodology

Primary auctions by tenor and corresponding yields (HUFtn, %)



Sources: AKK, Bloomberg Note: Yields as of 13.11.2019 and 31.12.2014, calculated through polynomial interpolations for the first 10 years (a term premium of 5bps p.a. is assumed thereafter)

HUNGARY'S EXPOSURE TO INTERNATIONAL MARKETS IS CAREFULLY MANAGED

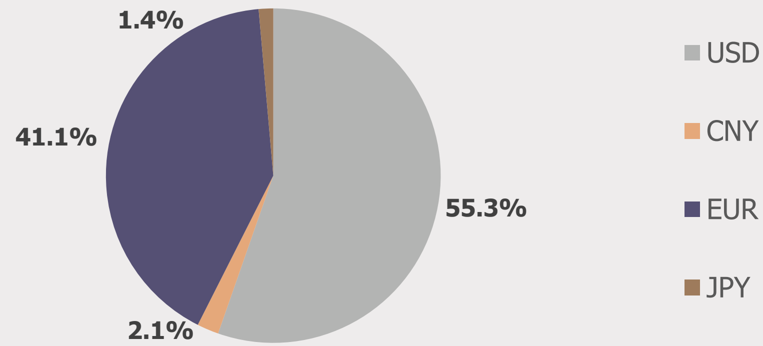
ÁKK

Key highlights

- **The share of Hungary's government debt in foreign currency has materially decreased**
  - Net foreign currency issuance has been negative since 2012
  - Buybacks implemented by AKK, both on public and OTC markets, have also contributed to this positive trend
- **The FX debt is mainly in 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 Q2 2019, 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 Q2 2019, the interest rate swap portfolio amounted to 1.9 billion EUR and the fix rate share of the FX portfolio was 71.4%

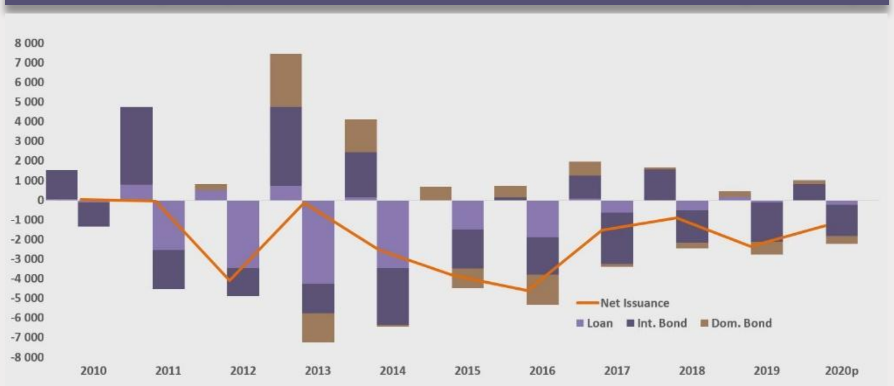
FX debt composition by currency (Q3 2019, % of total)

Total FX debt: EUR 15.9 bn



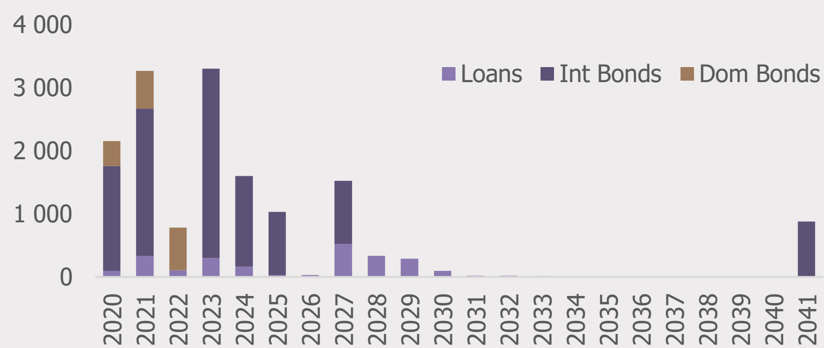
Source: AKK; Note: composition of the FX central government debt portfolio before swaps

FX Redemption, Issuance & Net Issuance 2010-2020 (EURmn)



Source: AKK; Note: Central government debt

Redemption profile of FX debt as of Q3 2019 (EURmn)



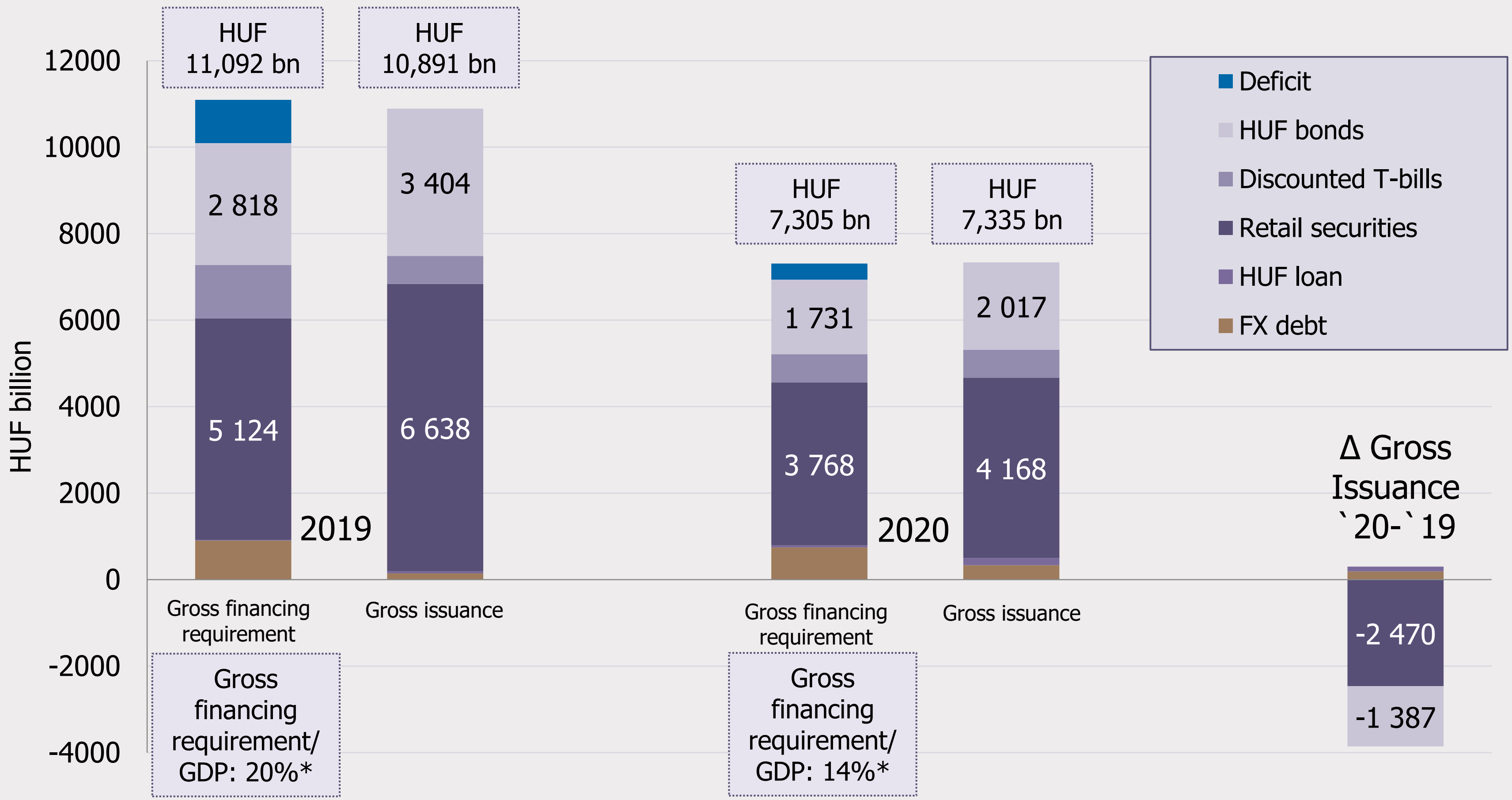
Source: AKK; Note: Central government debt

IV. 2020 FINANCING PLAN

PLANNED VOLUME AND STRUCTURE OF GROSS FINANCING NEED IN 2020

	HUF billion	Percentage of GDP
Redemption of HUF government bonds	1,058	2.2%
Redemption of retail securities	3,768	7.7%
Redemption of discount T-bills (OECD method)	651	1.3%
Redemption of HUF loans	47	0.1%
Redemption of FX debt	741	1.5%
Total redemptions	**6,265**	**12.8%**
Planned bond buy-backs	250	0.5%
Planned buy-backs via switch auctions	423	0.9%
Total redemptions with prefinacing	**6,938**	**14.2%**
Net financing requirement (budget deficit)	**367**	**0.8%**
Gross financing requirement with prefinancing	**7,305**	**15.0%**

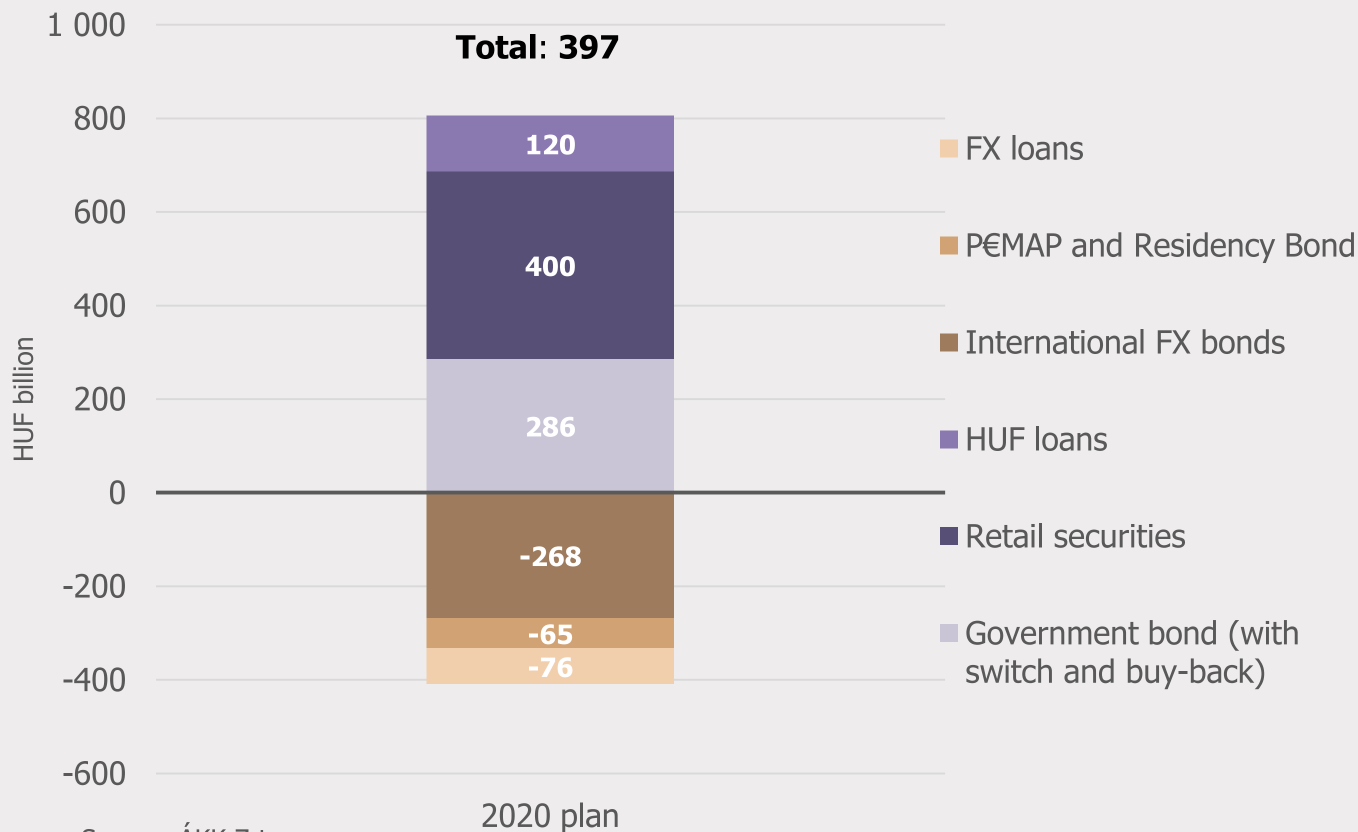
PLANNED FINANCING COMPARED TO 2019



** Without buy-backs and switches*

Significantly lower financing requirement and lower domestic bond issuance

PLANNED VOLUME AND STRUCTURE OF NET ISSUANCE IN 2020



Source: ÁKK Zrt.

Due to cca. HUF 800 billion redemptions of retail securities held by non-household sectors, the stock of retail securities is expected to grow only by HUF 400 billion, including net household demand totaling HUF 1200 billion in 2020. Negative net FX issuance. Net issuance of discount T-bills planned to be 0, actual outstanding amount depends on liquidity management.

RETAIL MARKET

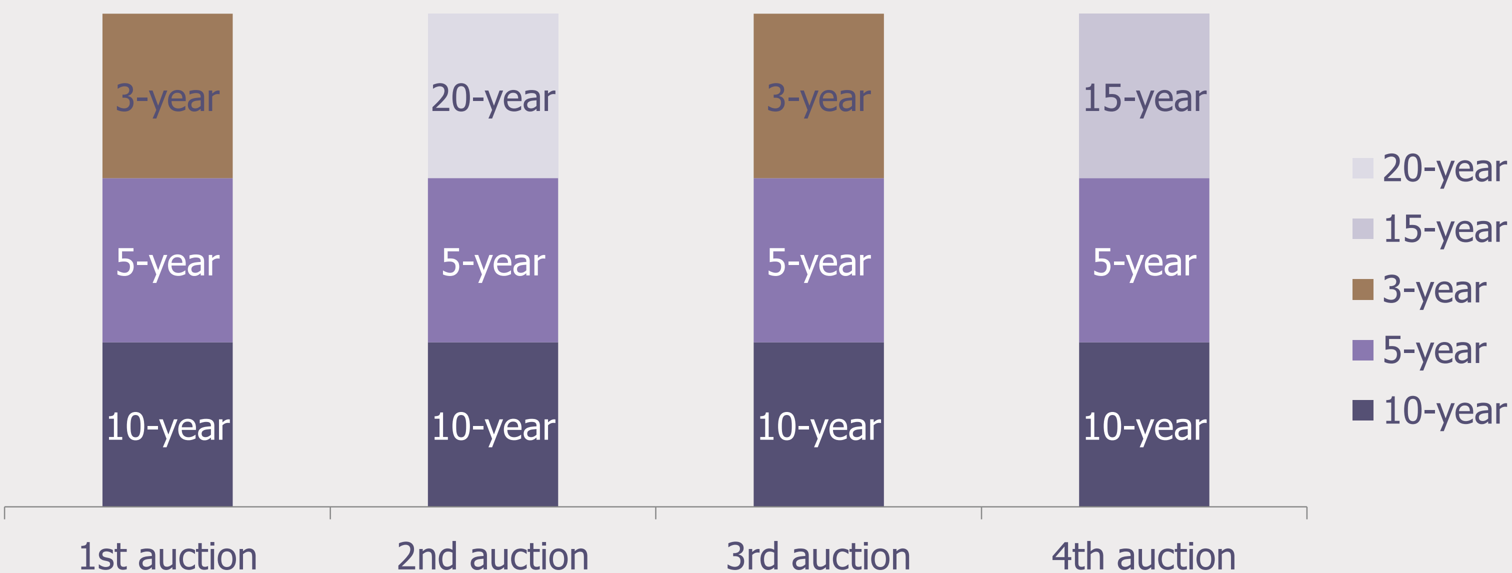
1. Grow the retail securities stock held by households, towards the medium term goal
2. Maintain the positive real interest rate
3. Increase of the average term to maturity of retail debt, planned introduction of a new, longer term retail security during 2020
4. Reduction of the distribution fee as already announced, introduction of General Terms and Conditions framework for retail distribution during Q1 2020
5. Retail Sales Department to be established within the ÁKK

DOMESTIC WHOLESALE MARKET

1. Issuance of a new, 20-year benchmark bond
   - 2041 maturity
   - first issuance in January
2. Introduction of a new, long bond index : HMAX
   - Includes only bonds with more than 3-year tenor
   - To support demand for longer term bonds by index-tracking investors (pension funds, life insurance companies)
   - ÁKK would support portfolio realignment via switch auctions, in case market requires

1. Bond auctions to be held every second week, however ÁKK will amend the schedule: 5-year and 10-year bond series will be offered in every auction and the frequency of 3-year bond auction will be halved. In every second auction the 15-year bond or the new, 20-year bond will be offered,
2. Floating rate bond auction once a month,
3. The frequency of bond buyback, switch and discount T-bill auctions will not change.

Biweekly Fixed bond auctions in 2020



1. Further decrease in the share of foreign currency debt to 15 percent or below (17 percent is estimated for end-2019)

2. AKK will explore Green bond issuance in Japanese Yen and/or Chinese Renminbi subject to market conditions and appropriate approvals

3. Depending on the budget's liquidity position and market conditions ÁKK may continue to follow past years' strategies to actively manage the FX debt stock

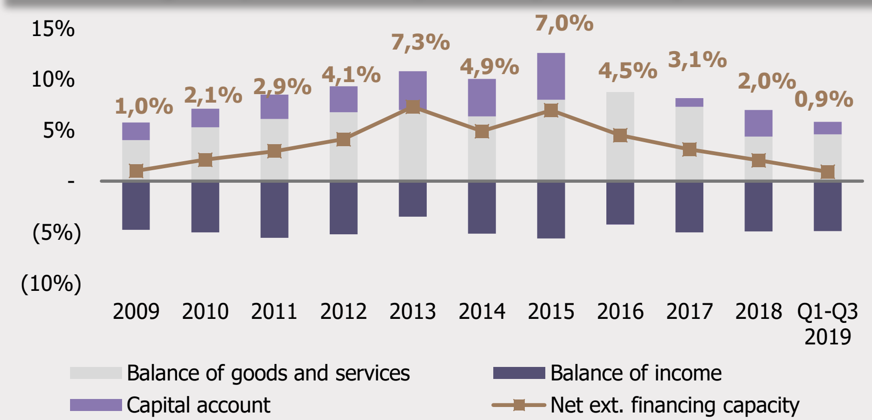
V. APPENDIX

HUNGARY ENJOYS HEALTHY EXTERNAL ACCOUNTS AND A NET LENDING POSITION

Key highlights

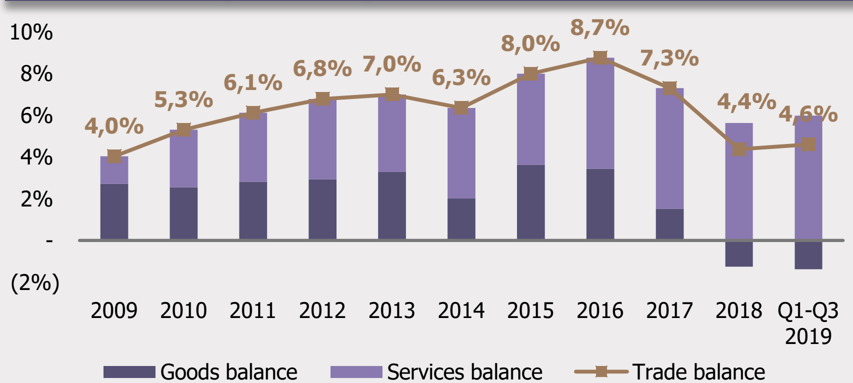
- **Hungary's external position is resilient**
  - **The country has been enjoying a net international lender position since 2009**, largely explained by the country's trade surplus that has shown massive surplus amounting to 4-9% of GDP between 2009 and 2018
  - The trade surplus increase has been driven by a rise in net services exports that represented 6% of GDP in 2018 and Q1-Q3 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 although European countries remain Hungary's main trading partners

Net lending components and position (% of GDP)



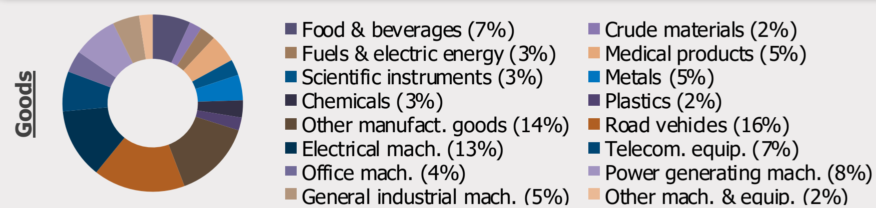
Source: NBH

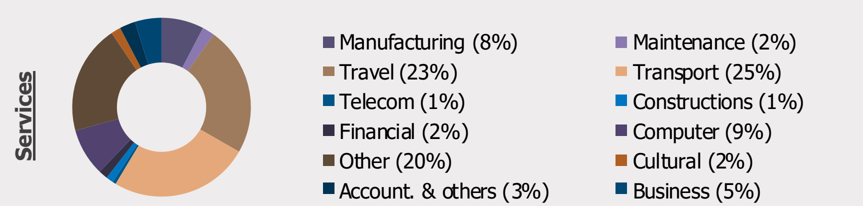
Trade balance (% of GDP)



Source: NBH

2018 goods and services exports by sector (% of total)





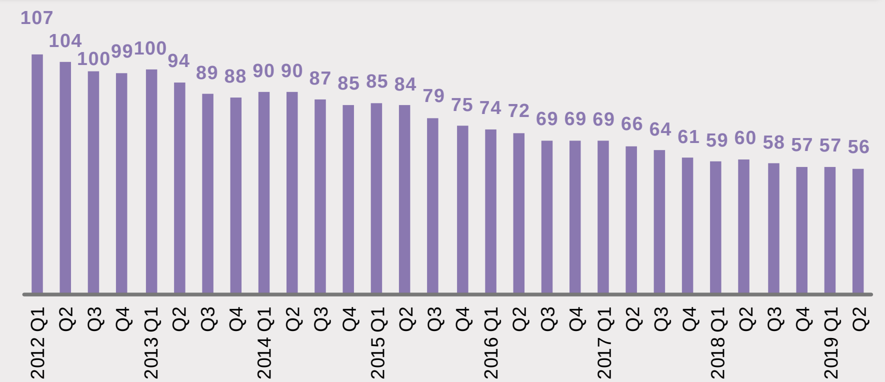
Source: HCSO

EXTERNAL DEBT HAS STEADILY DECLINED WHILE FX RESERVES REMAIN HIGH

Key highlights

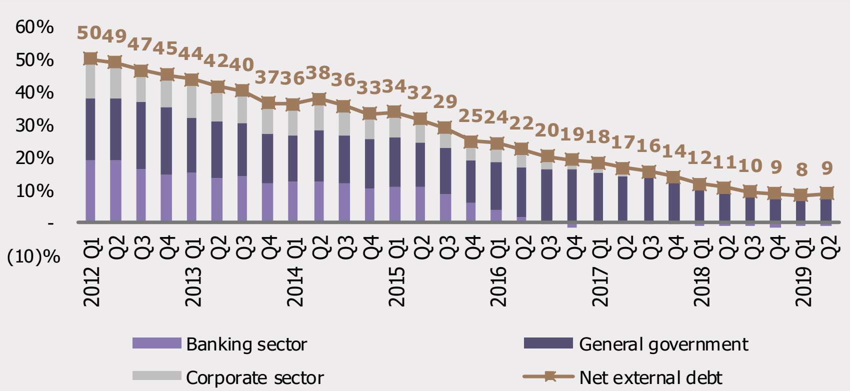
- **External debt indicators are at historical lows**
  - Hungary's gross external debt has substantially decreased since 2012, notably on the back of active public debt management. It stands at 56% of GDP as of Q2 2019
  - The net external debt of Hungary has also consistently decreased, in line with the significant net lending of the recent years
- **International reserves remain high and continue to considerably exceed the level considered as safe**
  - Hungary's FX reserves to short-term debt ratio has been materially above 1.0x since Q2 2012
  - This ratio has improved recently, driven by the decline in government short-term debt: FX reserves exceed short-term external debt by over €9bn as of Q2 2019

Gross external debt (% of GDP)



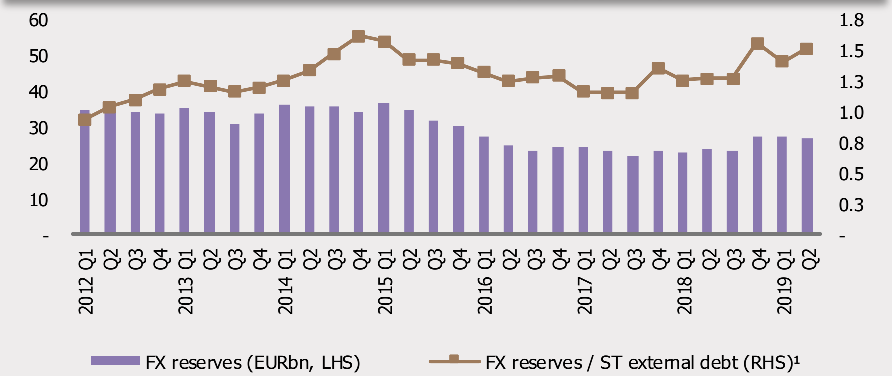
Source: NBH Note: Excluding intercompany loans

Net external debt breakdown by sector (% of GDP)



Source: NBH Note: 1. Excluding intercompany loans

International reserves level and adequacy (€bn)



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

A BROAD REFORM AGENDA TO BOLSTER GROWTH AND COMPETITIVENESS

Key highlights

- **An ambitious reform agenda has been designed to support growth and competitiveness**
  - The Program for a More Competitive Hungary and the Economy Protection Plan, respectively announced in February and May 2019, are both expected to have an important impact
- **Hungary also launched the Family Protection Action Plan in 2019**
  - This plan aims at improving demographic processes in Hungary through different measures such as prenatal baby support, etc.
  - It is expected to have a positive GDP impact of HUF 278bn over 2019-20

Economy Protection Action Plan

Program description	• **In May 2019, the government adopted the Economy Protection Action Plan that aims at preserving Hungary's strong economic momentum** • **It is expected to have a positive effect on GDP of +0.42% in 2020**
13+1 measures of the program	1) 2 percentage points reduction in social contributions tax 2) 1 percentage point reduction in small enterprise tax (KIVA) 3) Merging and abolition of taxes for the simplification of the tax system 4) Abolition of advance tax payments 5) Deferral of advertising tax 6) Decrease in the VAT on accommodation services 7) Up to HUF 5bn VAT refunds for housing projects in small settlements 8) Enterprises to receive funding for workers accommodations constructions 9) Expansion of the development tax discount 10) Increased capital for the development of a guarantee system that supports lending 11) Increased capital for the development of the agricultural guarantee system 12) Development of the agricultural irrigation system 13) Increase in research and development funding 14) Introduction of a new retail government bond (Hungarian Government Bond Plus)

Program for a More Competitive Hungary

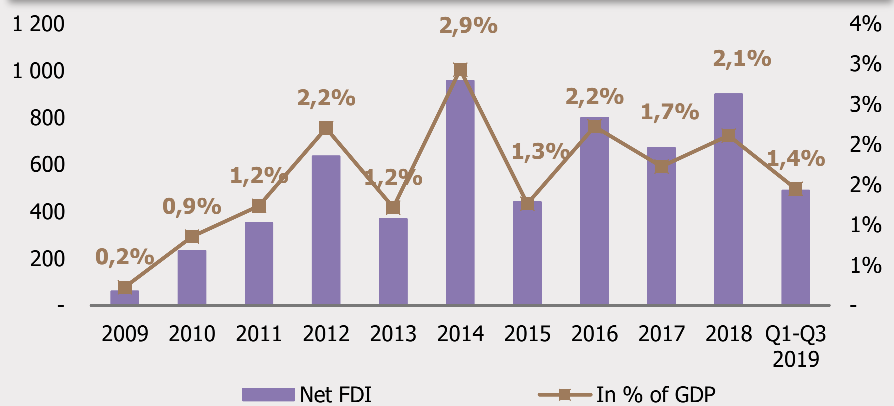
Program description	• **In February 2019, the Ministry of Finance published the Program for a More Competitive Hungary** • **This program,** which has been designed with the assistance of the National Competitiveness Council, **details measures aiming at boosting competitiveness in six key areas (see below)** • **It is expected to have a positive effect on GDP of +3.0% over 2019-23**
Employment	• Encourage the employment of young people • Support the employment of mothers with young children and introduce maternity benefit • Reduce training documentation obligations
Business environment	• Increase domestic companies' value-added, productivity • Development and implementation of a SME strategy • Modernization of vocational and adult training • Development of the construction industry and of transports in Hungary
Taxation	• Fully implement the 2016 wage & tax agreement • Further reforms taxes for small businesses • Reduce the fragmentation of the tax system • Digitalization of the tax system
Public sector	• Rationalization of the workforce • Performance-driven payroll • Digitalization of public administration processes • Systematic measurement of the quality and efficiency of public administration services
Education	• Develop the curriculum for education to be centered on skills • Improve the structure of the network of schools • Ensure equal access to education • Modernize higher education to match economic needs • Encourage foreign language learning
Healthcare	• Strengthen disease prevention to improve public health • Develop primary care • Enhance the public financing system • Improve healthcare quality through the introduction of quality measurement indicators

THE REFORM EFFORT ENHANCES THE COUNTRY'S ATTRACTIVENESS

Key highlights

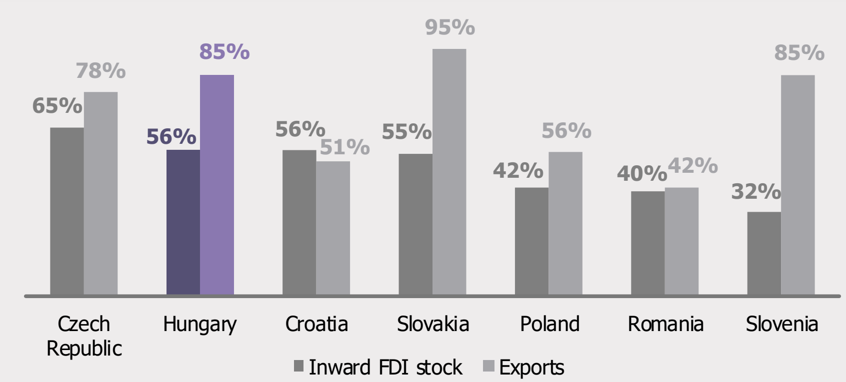
- **Hungary benefits from an attractive business environment**
  - The country ranks 47th out of 141 economies in the 2019 Global Competitiveness Index (+22 places since 2016)
  - 2018 World Bank's Worldwide Governance Indicators underline the country's regulatory quality (73th percentile), political stability (73th percentile), rule of law (72th percentile) and government effectiveness (70th percentile)
- **The favorable business environment translates into important FDI**
  - Hungary enjoys large net FDI inflows that have strongly increased since 2009 and one of the largest stocks of inward FDI in the region, in addition to important exports
  - Although a relatively important share of FDI goes into the automotive sector, this includes the electric car related sector (e.g. SK Innovation, GS Yuasa, Samsung) and FDI inflows remain overall diverse

Net FDI inflows (% of GDP)



Source: NBH

2018 inward FDI stock and exports (% of GDP)



Sources: HIPA, IMF

Selected recent foreign investments

Source: HIPA

GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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