GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

ÁKK

GOVERNMENT DEBT MANAGEMENT REPORT

2021

Foreword

The year 2021 was again an extraordinary year, mainly characterized by the COVID pandemic which made necessary the revision of budget deficit and the annual financing plan on several occasions. During the year government securities' yields increased substantially in all maturities. Long term yields went up due to increasing inflation rates and expectations in developed economies and phasing out the government bond purchase program of the National Bank of Hungary (MNB), while short term yields increased following the policy rate hikes of MNB from June 2021.

The financing plan of 2021 was based on the medium term debt management strategy. Main objectives are reduction of the public debt ratio, maintaining the foreign currency debt ratio at a low level, increasing participation of retail investors and lengthening the average life of public debt. Due to the pandemic ÁKK could only partially reach those objectives: the share of foreign currency debt was over the benchmark band of 10-20 pc due to deficit financing and prefinancing for 2022 by international bond issuances in a favourable market and the depreciation of the Hungarian currency. In spite of the high deficit and adverse macroeconomic conditions overall public debt declined, the retail debt program developed further and average life of public debt also increased. Maastricht debt declined by 3 pc to 76.6 pc and central government debt managed by ÁKK by 2.3 pc to 73.7pc.

The stock of retail government securities increased almost as planned by HUF 939 billion, however since the also large issuance of wholesale issuance the share of the retail debt declined by 0.5 pc to 24.5 in the total public debt. It is clear that retail financing played an important part of financing in 2021. It also worths mentioning that the share of long term retail bonds (MÁP Plus, Babybond and P€MAP) increased during 2021.

Government security issuances increased due to the higher net financing requirements, which was executed at longer tenors by issuing more long term bonds. ÁKK beside issuing 5, 10, 15 and 20 year benchmark bonds also introduced a new 30-year long green bond with a maturity in 2051. As a result of these developments the ATM of the domestic debt increased from 4.69 years to 5.14 years while the share of non-resident investors declined. The main instruments of debt financing became the long tenor institutional bonds in 2021.

Foreword

The financing of the higher deficit due to the pandemic and the partial pre-financing of deficit in 2022 ÁKK was very active in the international bond markets make use of the relative cost advantage of foreign financing and favourable market conditions. As a part of this international financing operations Hungary issued the first ever sovereign Panda Green bond of RMB 1 billion in China. As a result of the substantial foreign currency debt issuance and the larger than forecast depreciation of HUF the share of foreign currency debt increased to 20.9 percent by the end of 2021. A favourable result however the increasing average life and lower refinancing risk of the public debt. The ATM of foreign currency debt increased by 1.8 years to 9.8 years, while that of the total public debt went up by 0.7 year to 6.1 years meaning lower annual maturities and interest rate risk as well.

In addition to these ÁKK has new achievements in the field of sustainability and digitalisation. Having issued green bonds in EUR and JPY back in 2020, ÁKK issued green bonds in RMB and in HUF (30 year-tenor) in 2021. ÁKK also published the Allocation Report 2020 and External Review of Green Bonds in its homepage (www.akk.hu), developed the on-line access to retail securities and also made its internal auction procedure paperless. percentpercent

Zoltán Kurali
Chief Executive Officer

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General information

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

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

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

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

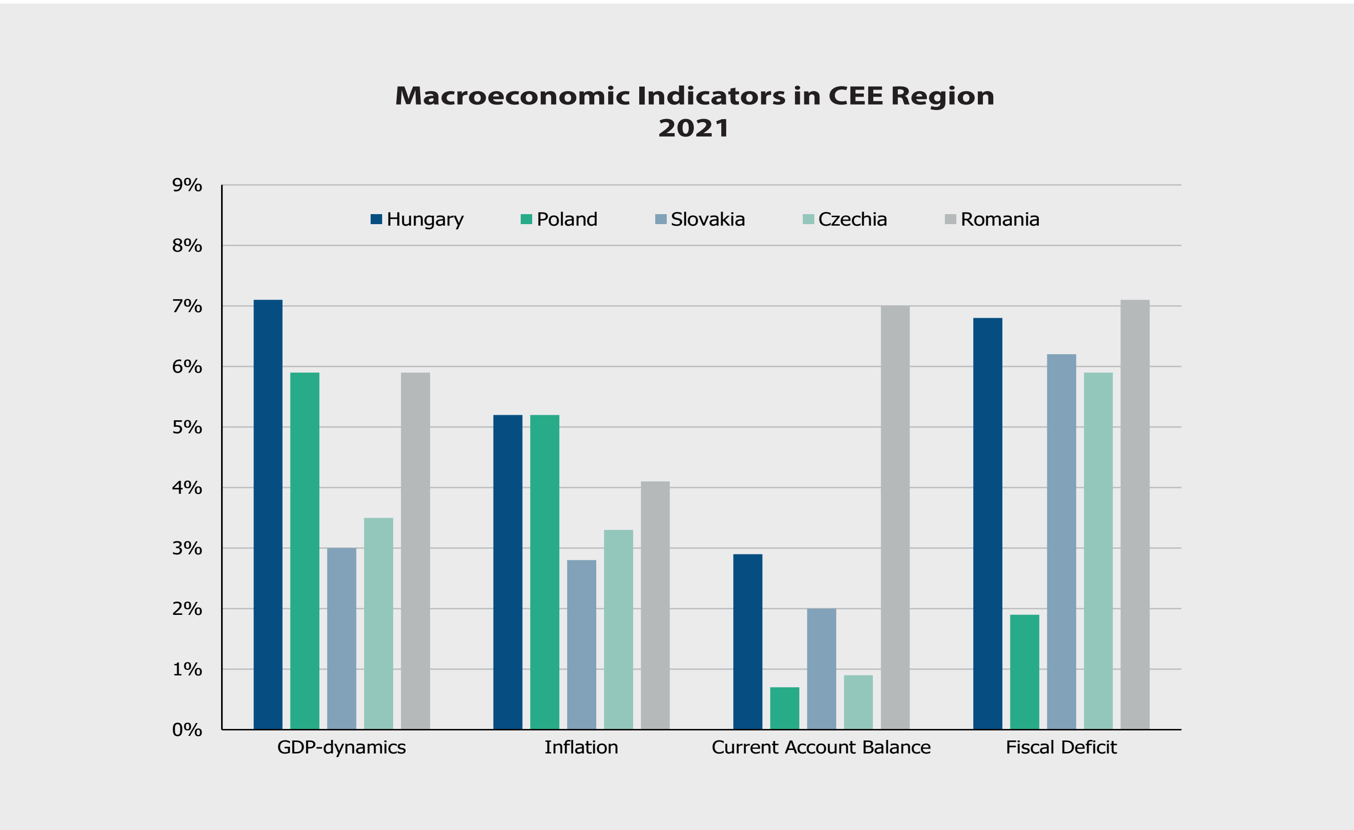
The debt data published by ÁKK in accordance with Hungarian and international accounting standards differs from the debt data used by Eurostat (the European Union's institute of statistics), which is calculated according to different principles and is essentially the result of statistical calculations.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

I. Macroeconomic developments in 2021

In 2021 global economic developments were determined by rising inflation and monetary reaction to that beside the corona virus pandemic. The economic effects of the corona virus were managed by monetary easing and fiscal stimulus. While inflation was held at bay by low economic activity in 2020, strong economic growth resulted also in rapidly increasing inflation in 2021. Monetary reaction to growing inflation was usually slow and gradual only, however after global central banks the Magyar Nemzeti Bank also introduced stricter monetary conditions which affected public debt management as well.

Hungarian macroeconomic figures – especially current account deficit – worsened substantially in 2021, budget deficit improved slightly but remained elevated, however GDP dynamics improved in international comparisons.

Regional Comparison

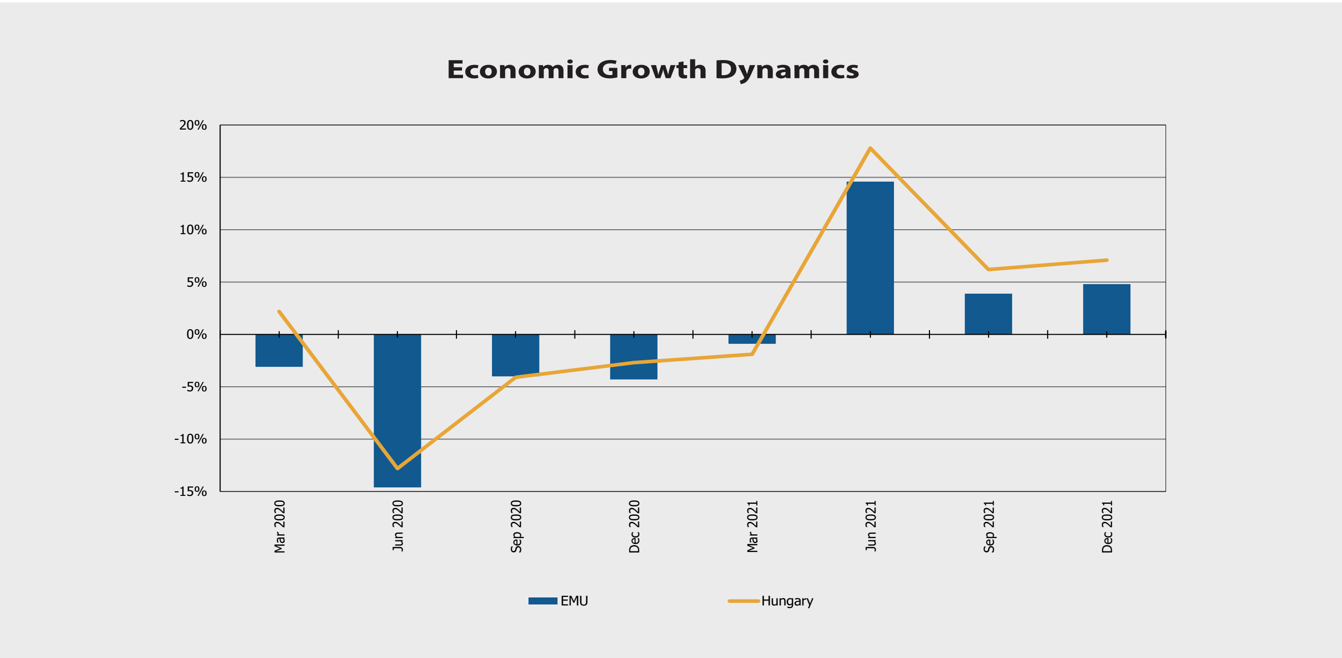


Source:: Eurostat

I. Macroeconomic developments in 2021

During 2021 economies in the Central and Eastern European region showed an improving economic activity after correction of the effects of the COVID pandemic. Inflation however also increased (except the Czech Republic) and overshoot the inflationary targets of the Central Banks. Current account balance turned into deficit in the Czech Republic and Poland, while current account deficits increased in other countries. Fiscal deficits remained high except Poland, which resulted in a high net financing requirements for debt managers.

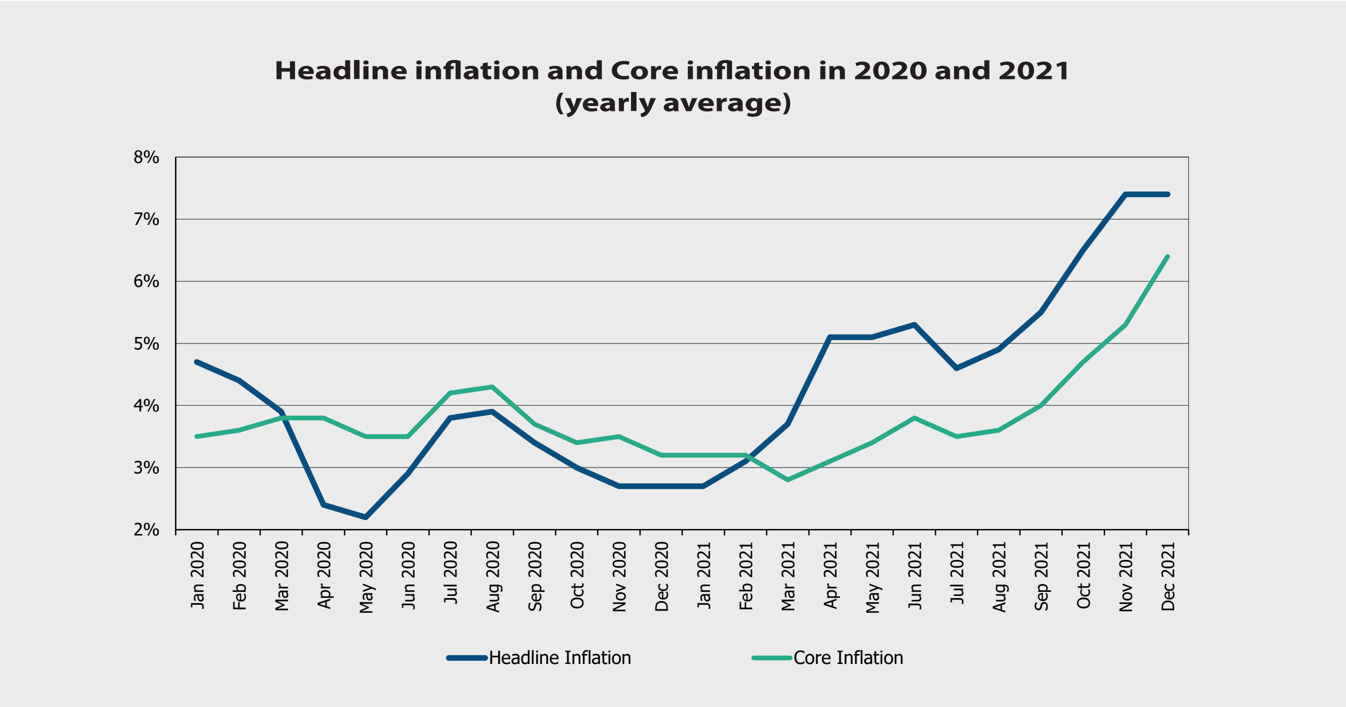
Economic Growth



Source: Central Statistical Office (CSO), Eurostat

After an economic decline of 4.7% in 2020, it turned into a robust 7.1% growth in 2021, exceeding EU average. Economic activity increased in all economic sectors except agriculture in 2021. The most important sectors, the industry and services sectors both increased significantly (by 9.8% and 6.2%). The construction sector posted a very high (15.7) growth, as it was coming out the consequences of the pandemics. Due to relatively unfavourable weather conditions in 2021 activity in agriculture decreased by 3.0%. Regarding final use of GDP, consumption increased by 4.3% and investments by 9.6%. Exports and imports both increased (by 10.3% and 8.7%) relative to the previous year, so net exports had a positive effect to the GDP growth rate to 7.1%.

Inflation



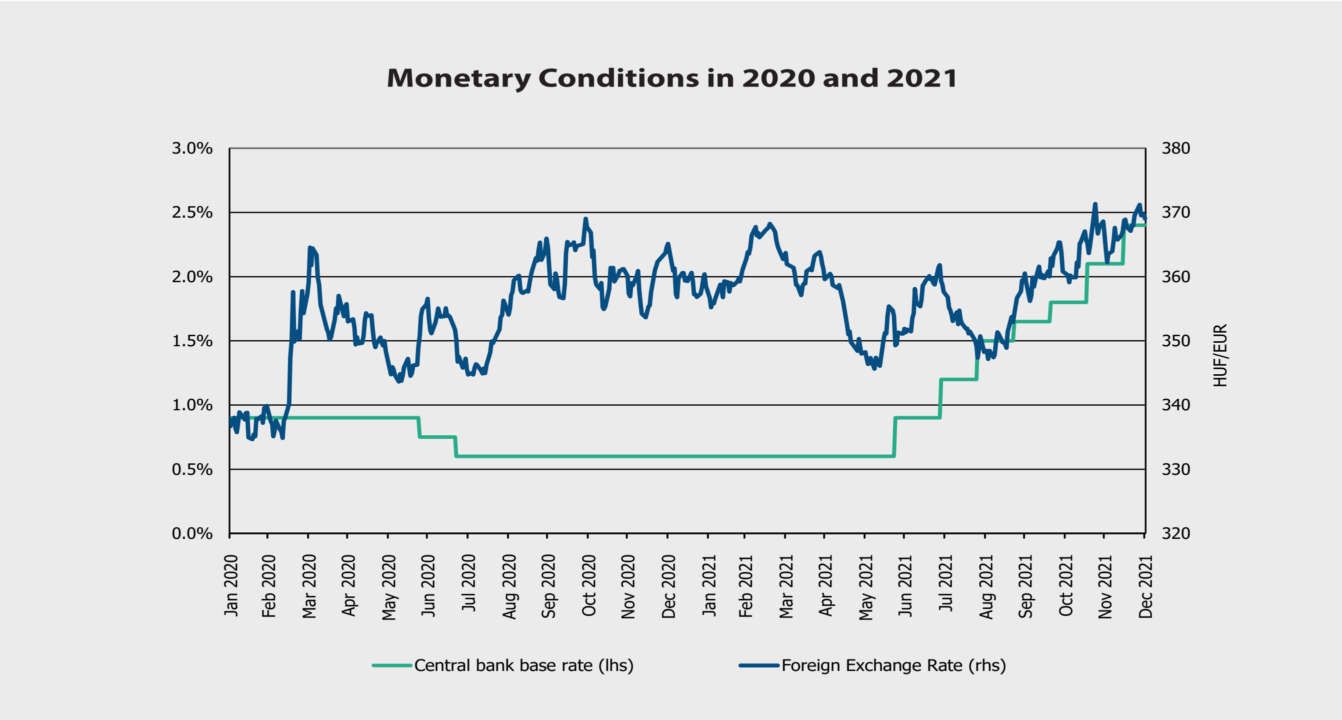
Source: CSO

Inflation accelerated from 2.7% in December 2020 to 7.4% in December 2021 well over the inflation target (maximum 4%) of the central bank, while core inflation also increased from 3.2% to 6.4%. The price level of four main groups of consumption increased above average: food products by 8.0%, durable goods by 7.5%, alcoholic beverages and tobacco by 8.9% and other commodities and fuels by 25.9%. Inflation was low in households energy and heating (1.2%), clothes (2.8%) and services (5.0%).

Monetary Conditions

As a reaction to rising inflation MNB, the Hungarian central bank tightened monetary conditions and phased out previously used non-conventional measures in 2021. The Monetary Policy Council of MNB increased the base interest rate in several steps from 0.6% to 2.4% in 2021. From June to August the central bank increased the base rate at a pace of 30 basis points monthly. In September and October, however the MNB only increased the base rate by 15 basis points, but in the last 2 months of the year it again increased the base rate by 30 basis points and increased the interest rate of the one-week deposit facility to 4%.

The foreign exchange rate of the forint weakened during 2021 from 365.13 HUF/EUR to 369.00 HUF/EUR.



Source: National Bank of Hungary (NBH)

Fiscal Policy

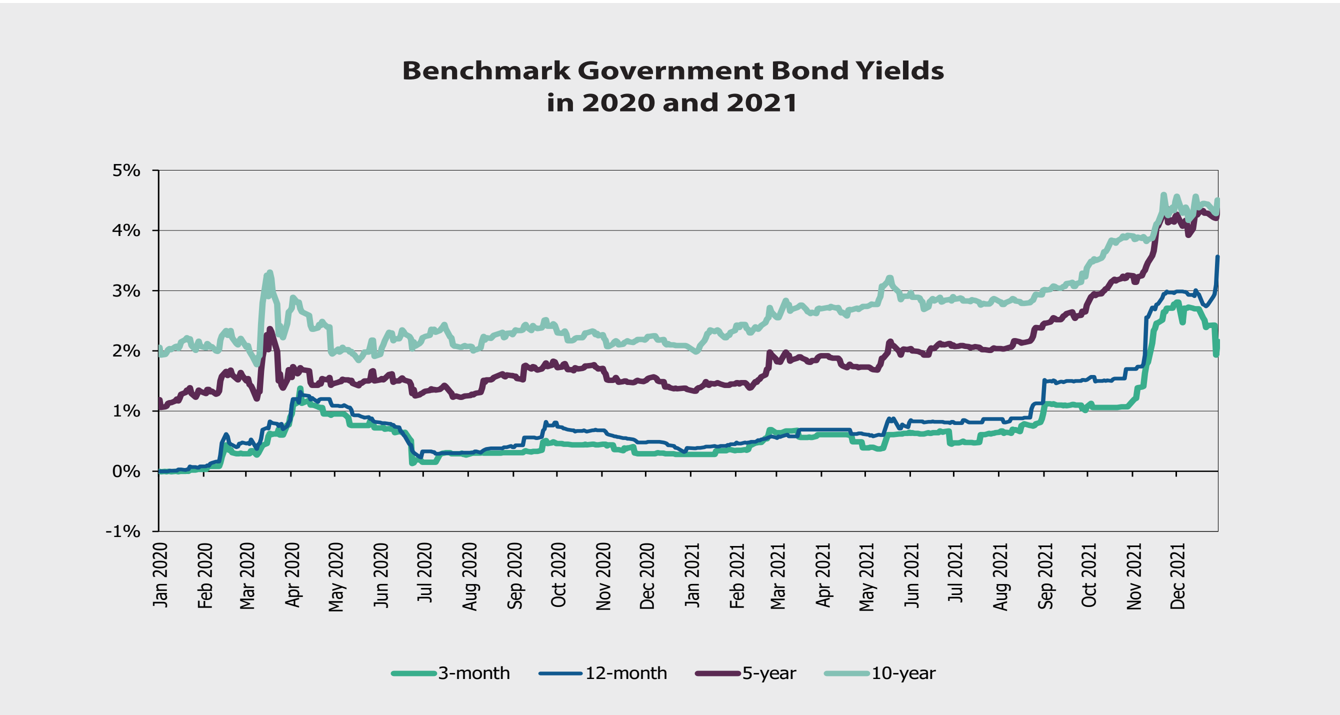
The deficit of the public sector was 6.7% of GDP based on the financial accounts methodology, the cash-flow based (GFS) central government deficit amounted to HUF 5,102 billion (equalling 9.2% of GDP for the year 2021). In 2021, the accrual based (ESA) general government deficit (including local governments) amounted to HUF 3,736 billion (equalling 6.8% of GDP for the year 2021). The financing need of the state for the year 2021 decreased in comparison to the previous year as a result of stabilisation from the pandemic. [1]

Financing Position of the Economy

The households' savings to GDP ratio increased slightly and amounted to 6.5%. The net financing need of the corporate sector increased to 4.2%. The balance of the economy of Hungary as a whole towards the rest of the world deteriorated, the current account posted a deficit of EUR 4.9 billion or 3.2% of GDP.

Developments of Government Securities Markets and Yields

During the course of the year forint yields for all tenors increased significantly.



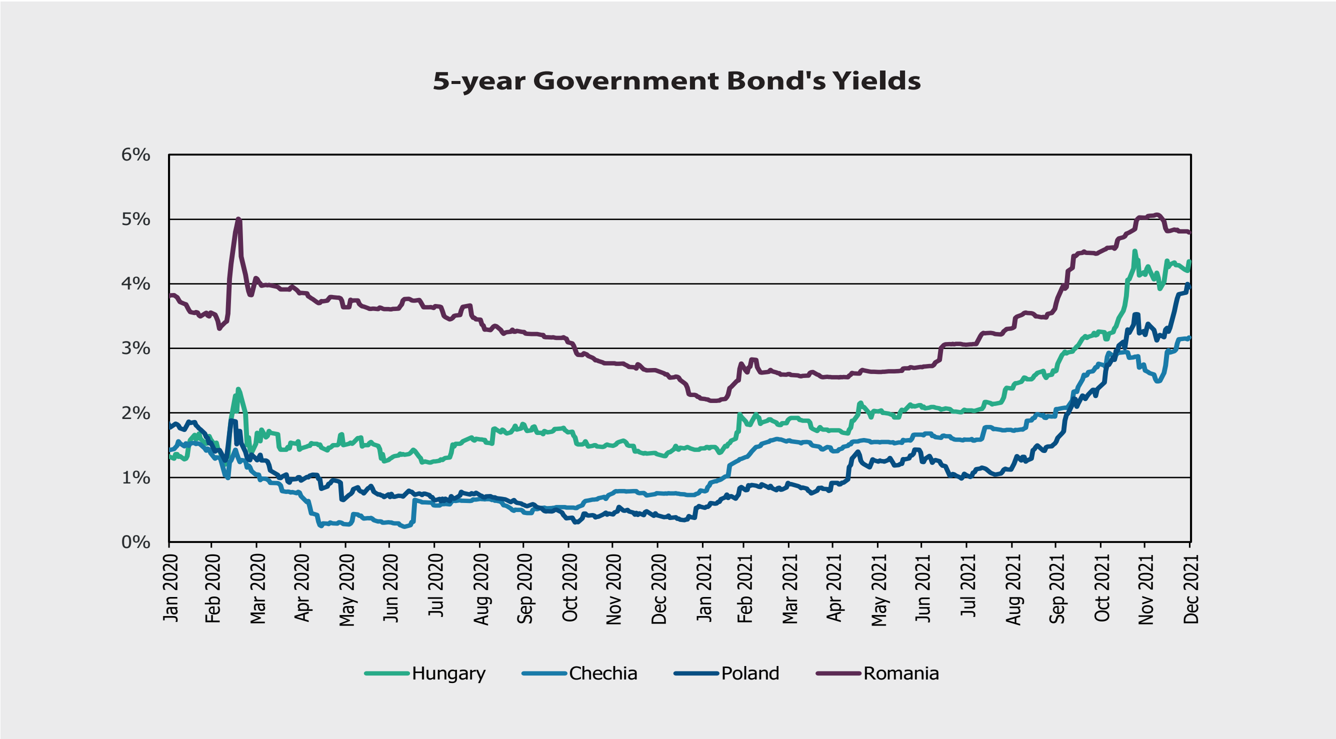
Source: ÁKK

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

In early 2021 short-term government securities yields remained below the central bank base rate of 0.6%. The MNB announced to start rising interest rates as a reaction to higher inflationary risks in May, short term yields increased in line with the base rate level at 0.9% in June and 1.8% in October. From November however short term yields increased significantly: inflation increased globally and market participants expected stricter monetary policies by central banks and MNB also had to increase rates further.

Long-term bond yields increased slowly in the first months of 2021. From May however bond yields also increased rapidly with higher inflationary expectations. Bond yields increased until November and the spread diminished between the 5 and 10 year term by the end of the year.

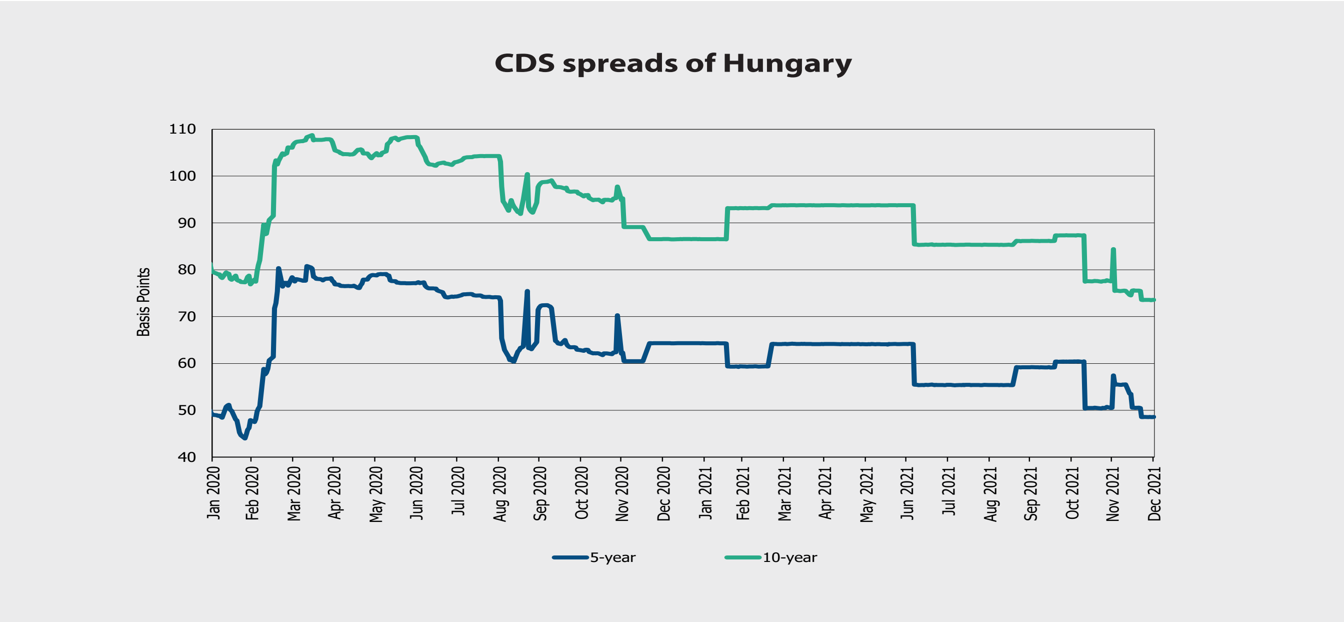
At the end of 2021 the 3-month yield reached 2.16%, the 12-month yield increased to 3.57%, the 5-year yield amounted to 4.35% and the 10-year yield stood at 4.51%.



Source: Bloomberg

5-year yields increased in CEE countries in 2021, following rising inflation and central bank rate rises. The Hungarian 5-year yield level was higher than in Chechia and in Poland but below the level in Romania.

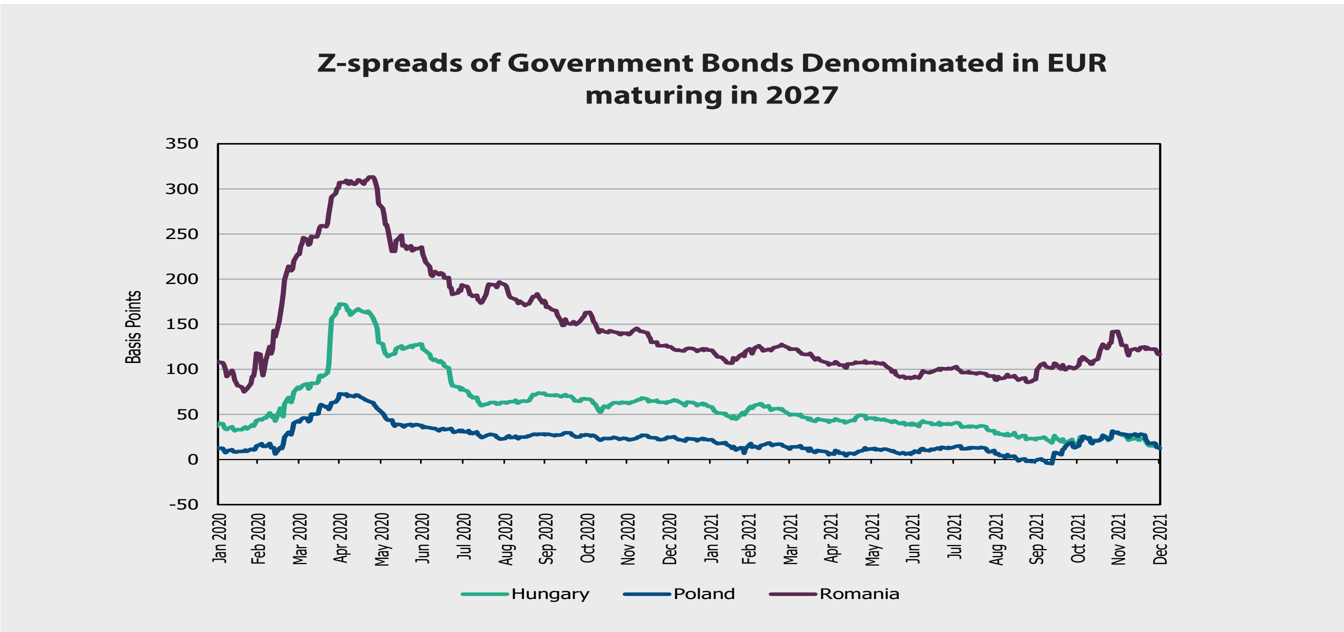
CDS Spreads



Source: Refinitiv

During the course of the year the 5-year CDS spread declined from 64 basis points to 49 basis points.

Spreads of the Foreign Currency Denominated Bonds in the CEE Region

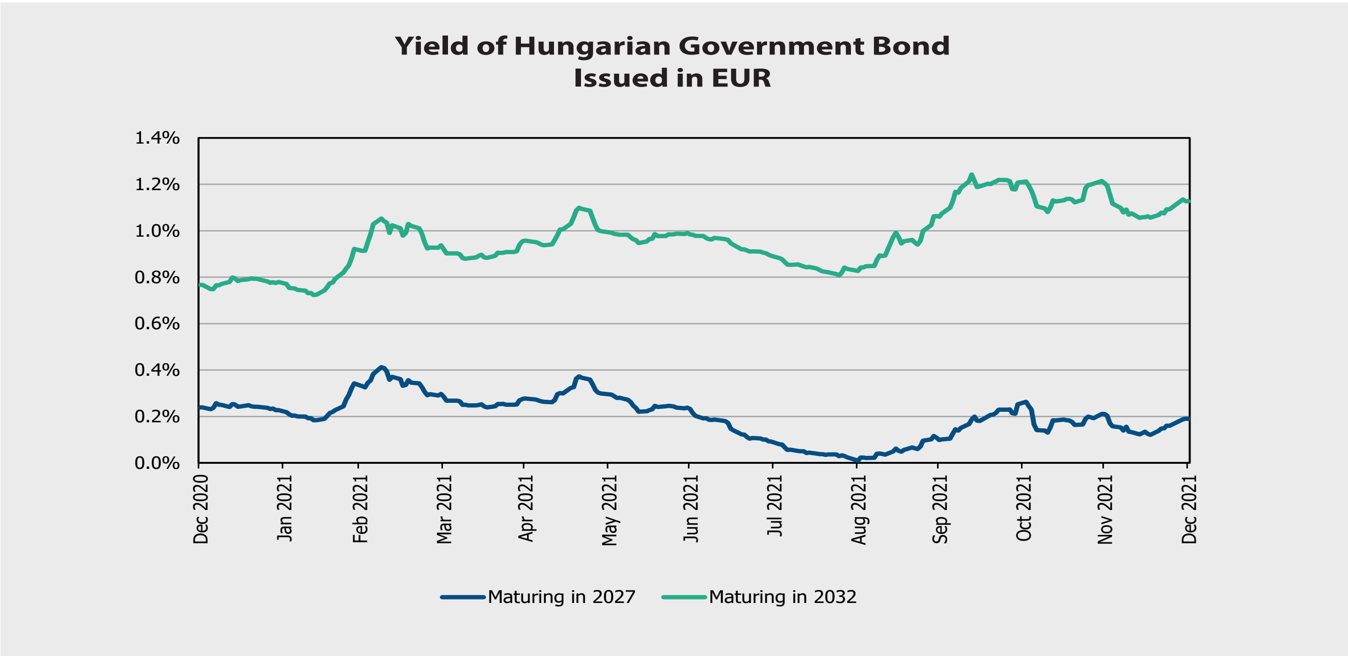


Source: Bloomberg

The Z-spread of EUR bond of CEE countries maturing in 2027 decreased, the largest decline was in Hungary by 51 basis points to 13 basis points during 2021. The development of spreads was explained mostly by favourable investors sentiment towards CEE countries, however, by the end of the year Z-spreads started to increase due to monetary policy changes and rising inflation.

Yields of Foreign Currency Denominated Bonds

The development of yields of government bonds denominated in euro issued by Hungary were mixed in 2021.



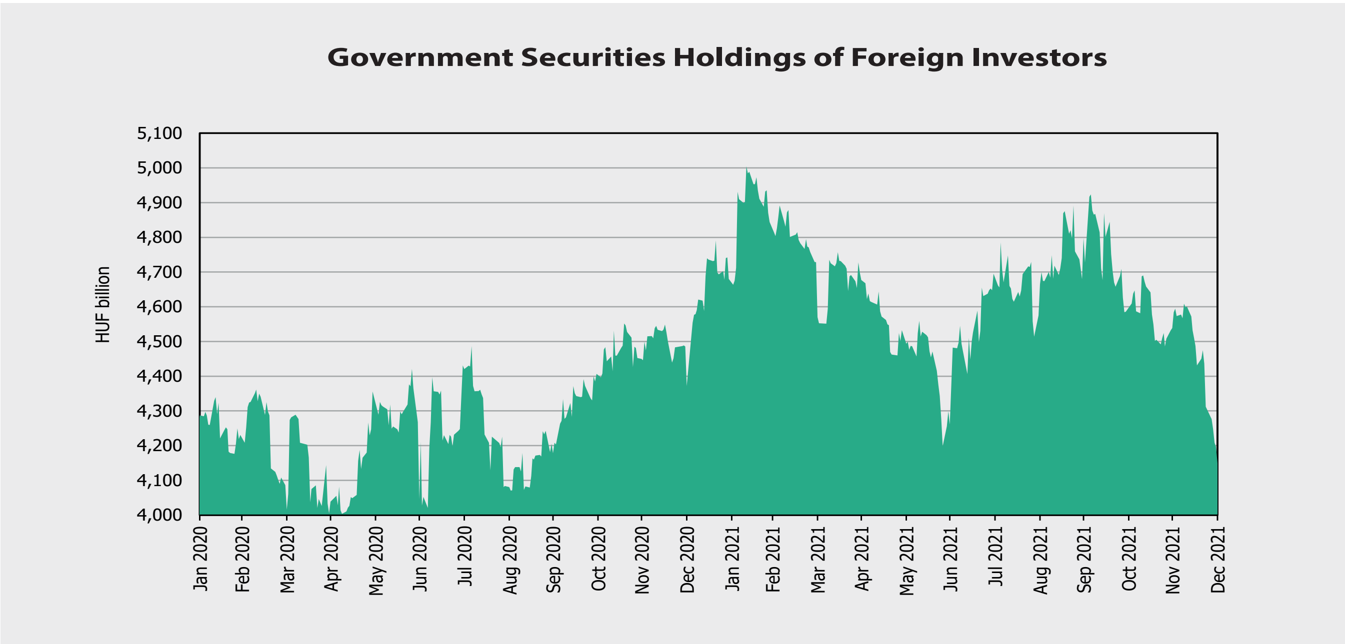
Source: Bloomberg

The yield of the Hungarian government bond issued in October 2017 with a maturity in October 2027 decreased from 0.24% to 0.19% during the course of the year, while the yield of the bond maturing in 2032 increased from 0,77% to 1,13%. Until August bond yields decreased due to lower spreads and benchmark yields were also low since central banks indicated low rates. Then benchmark yields started to increase rapidly with rising inflationary expectations made central banks more hawkish which was only partly counter-balanced with lower spreads.

Government Securities Holdings of Foreign Investors

The value of forint-denominated government securities held by non-residents decreased from HUF 4,371 by HUF 222 billion to HUF 4,150 billion in 2021. After an increase in the first months of the year to HUF 4,989 billion, non-residents' portfolio declined to HUF 4,199 billion around mid June. After a fast increase again by October to HUF 4,924 billion, the non-resident portfolio declined back to a level below that of the beginning of the year.

The share of foreign holdings in forint denominated debt declined from 19% to 17%. The ATM of non-resident owned domestic debt increased substantially from 5.83 year to 6.3 years. Including foreign holdings in foreign exchange denominated debt, the share of foreign holdings in total debt amounted to 33%.



Source: KELER

II. Debt management strategy in 2021

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

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

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

1. According to the fundamental law of Hungary if the debt to GDP ratio is higher than 50 percent, only such budget can be approved, which leads to the reduction of the debt ratio year by year. **The primary objective of debt management is to support the debt reduction** accordingly. During 2021 the public debt ratio decreased from 79.6pc to 76.6pc.

2. One of the main factors that led to the vulnerability of Hungary in recent years was that the higher part of the government debt had been financed by non-resident investors. Increasing domestic savings and the domestic financing of the debt reduce the risks of public debt and support macroeconomic stability in the long term. Thus the second objective of ÁKK is to develop further the domestic investor base, and especially to **increase the retail debt program**. An important source of domestic funding is the retail program having a medium term objective of the retail portfolio reaching HUF 11 trillion by 2023. In 2021 the portfolio of retail securities of households increased by HUF 939 billion to HUF 9,913 billion.

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

4. A new, 4th objective is to **increase the average maturity** of the public debt portfolio. The average life of the Hungarian public debt is relatively short and the annual refinancing requirement is high in international comparison, therefore this objective intends to reduce risks associated with the short maturity of Hungarian public debt, which could be fulfilled in 2021 since investors' demand was in favor of long term debt. években.

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

The most important risk factors are as follows:

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

ÁKK has developed various benchmarks reflecting its strategic objectives which consider risks and costs simultaneously. In order to filter out short-term effects, these benchmarks are monitored as 90-day moving averages. The benchmarks approved by the Minister of Finance are also use to quantify strategic objectives and to set intermediate targets. During the course of 2021 the composition of the central government debt was in line with the benchmarks (with the exception of the foreign currency debt ratio).

Public debt management benchmarks in 2021

Benchmarks	Tolerance band	End 2020	End 2021
1. Foreign currency debt ratio	10-20%	19.4%	20.9%
2. Foreign currency debt composition	95-105% EUR	100.0%	100.0%
3. Fixed coupon part of foreign currency debt	70-90%	80.6%	87.0%
4. Fixed coupon part of domestic debt	70-90%	78.4%	80.2%
5. Average time to refixing of domestic debt	minimum 4 years	4.2	4.5
6. Average term to maturity of domestic debt	minimum 4 .5years	4.6	5.1

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

II. Debt management strategy in 2021

Strategic principles

ÁKK executes its financing policy governed by the three main principles of simplicity, transparency and liquidity. In ensuring simplicity and transparency, ÁKK only issues a limited number of plain vanilla instruments in a transparent manner, i.e. it sells fixed coupon and floating rate forint bonds and zero-coupon discount treasury bills according to a fixed annual issuance calendar published in advance. However, because of the corona virus fiscal policy had to be more active to manage the pandemic and mitigate its economic effects. The higher net financing need required that the issuance policy be more flexible, therefore ÁKK had to change the issuance calendar during the year.

As regards liquidity, ÁKK aims to ensure that wholesale government securities have a sufficiently liquid secondary market. A liquid secondary market can be supported by the debt manager by two ways. The first measure is the continuous two-way price quotation by Primary dealers that reflects real market prices; the second is to consolidate domestic bonds into sufficiently large government securities series (benchmarks). In order to achieve this latter goal, ÁKK reopens individual series – i.e. it issues additional bonds that are fully fungible with previously issued series. The targeted volume of bond series was around HUF 600-1200 billion (approximately EUR 2-3 billion) in 2021. Smaller size is targeted in the longest tenor, the green bond maturing in 2051, reflecting lower investors' demand. Secondary market operations were also enhanced by bond buy-backs and a much more intensive bond exchange program than before.

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

III. The financing requirements in 2021

The components of the financing requirements

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

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

In 2021 the Hungarian Ministry of Finance has modified the deficit target of the 2021 budget twice, as a result of fiscal policy measures aimed at mitigating the adverse economic effects of the third wave of the COVID-19 epidemic and the restarting of the economy:

- In April the annual ESA deficit target was raised from 6.5% to 7.5% and the cashflow based deficit was increased from HUF 3,332 billion to HUF 3,990 billion.
- In September the annual, cashflow based net financing requirement target was raised to HUF 4,550 billion as a result of the potentially delayed EU RRF transfers and other discretionary government expenditures, while the ESA deficit target remained 7.5%.

The net financing requirement

In 2021 the total cash-flow based deficit of the central government was HUF 5,102 billion (or 9.2 percent of GDP according to preliminary data), while the total net financing requirement amounted to HUF 4,661 billion (or 8.4 percent of GDP) including net EU transfers and other funding sources.

Borrowing requirements in 2021:

	Outturn 2021 (HUF billion)
Net financing need of the central government	**-5,101.5**
Net EU transfers and other	190.5
Capital transfers to NBH / NBH dividend	250.0
Total net financing requirements	**-4,661.0**
Short term debt redemptions	-2,152.3
Long term debt redemptions	-5,678.4
Gross financing requirements	**-12,491.6**

Source: Hungarian State Treasury, Ministry of Finance, ÁKK

III. The financing requirements in 2021

Redemptions

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

Government debt redemptions: [2]

HUF billion

	2021 plan	2021 outcome
Domestic debt redemptions	**4,101**	**5,232**
T-bonds	1,112	1,546
Retail securities	2,355	3,024
Discount T-bills	633	658
Loans	0	5
Foreign currency debt redemptions	**935**	**948**
International bonds	571	584
Domestic FX bonds	218	219
FX loan	146	145
Total	**5,036**	**6,180**
T-bond exchange auctions	1,461	1,536
T-bond buy-back auctions	260	0
FX bond buy-backs	296	115
Prefinancing in total	**2,017**	**1,651**
Redemptions in total, incl. prefinancing	**7,053**	**7,831**

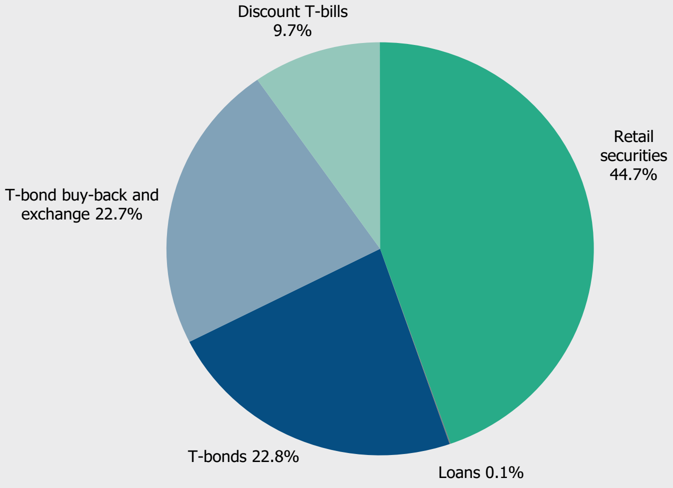
Source: ÁKK

The total debt redemption –including prefinancing - was HUF 7,831 billion in 2021, 11 percent higher than planned. While in the case of short term discount T-bills, loans and foreign currency debt redemptions were as planned, the redemption of retail securities and domestic bonds exceeded the original plan by 28-39 percent due to higher buy-backs during the pandemic in the Hungarian State Treasury and retail banks. ÁKK bought back retail securities purchased by retail banks from households during the year.

The total redemption includes HUF 1,536 billion prefinancing via switch auctions (by 5 percent higher than planned) and USD 431 million (HUF 115 billion) FX bond buybacks (less than planned), while ÁKK did not hold any domestic bond buyback auction in 2021 (contrary to plans). The total prefinancing totalled HUF 1,651 billion, 18 percent less than the plan.

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

Composition of domestic debt redemption in 2021



Source: ÁKK

Bond buy-backs and exchanges

Large bond series maturing at a given time creates refinancing risk. This risk can be reduced by repurchasing a part of the bonds before maturity. ÁKK's financing plan includes a regular bond buy-back program, and the actual repurchase amount depends on the quantity and quality of bids. In 2021 ÁKK preferred switches to buyback and as a result did not hold any domestic bond buyback auction during the year.

In order to decrease refinancing risk ÁKK has been holding bond switch auctions on a regular basis. In these switch auctions the investors can exchange their bonds with short remaining term-to-maturity for longer term bonds. This improves the investment possibilities of investors and at the same time lengthens the average term-to-maturity (ATM) of the government debt. In the first quarter of 2021 ÁKK held switch auction biweekly, while from the second quarter switch auction were in every week. In 2021 44 exchange auctions were held at which ÁKK exchanged a total of HUF 1,536 billion (more than planned) short-term bonds for long-term ones. The switch auctions significantly contributed to the increase of the average term to maturity of the debt portfolio and to the reduction of the refinancing risk.

Foreign currency debt redemptions

In 2021 one USD bond (originally USD 3 billion), one Samurai Bond (JPY 30 billion) one CNY bond (CNY 2 billion) matured. Due to FX bond buy-backs and switches in previous years the actually matured amounts of the USD bond was smaller than the originally issued, and amounted to USD 1532 million.

The 8th and 9th series of Premium Euro Hungarian Government Bond totalling EUR 186 million and the Residency Bonds totalling EUR 407 million matured in 2021. Moreover, in order to reduce the share of foreign currency debt within the total debt ÁKK bought back a total of USD 431 million FX bonds from the market. Smaller redemptions and smaller early repayments totalling EUR 400 million (HUF 145 billion) took place in the case of IFI project financing and other loans in 2021.

IV. Financing

In 2021 the HUF denominated issuance (including switch auctions) amounted to HUF 10,187 billion (84%), while foreign currency issuance was HUF 1,980 billion (16%).

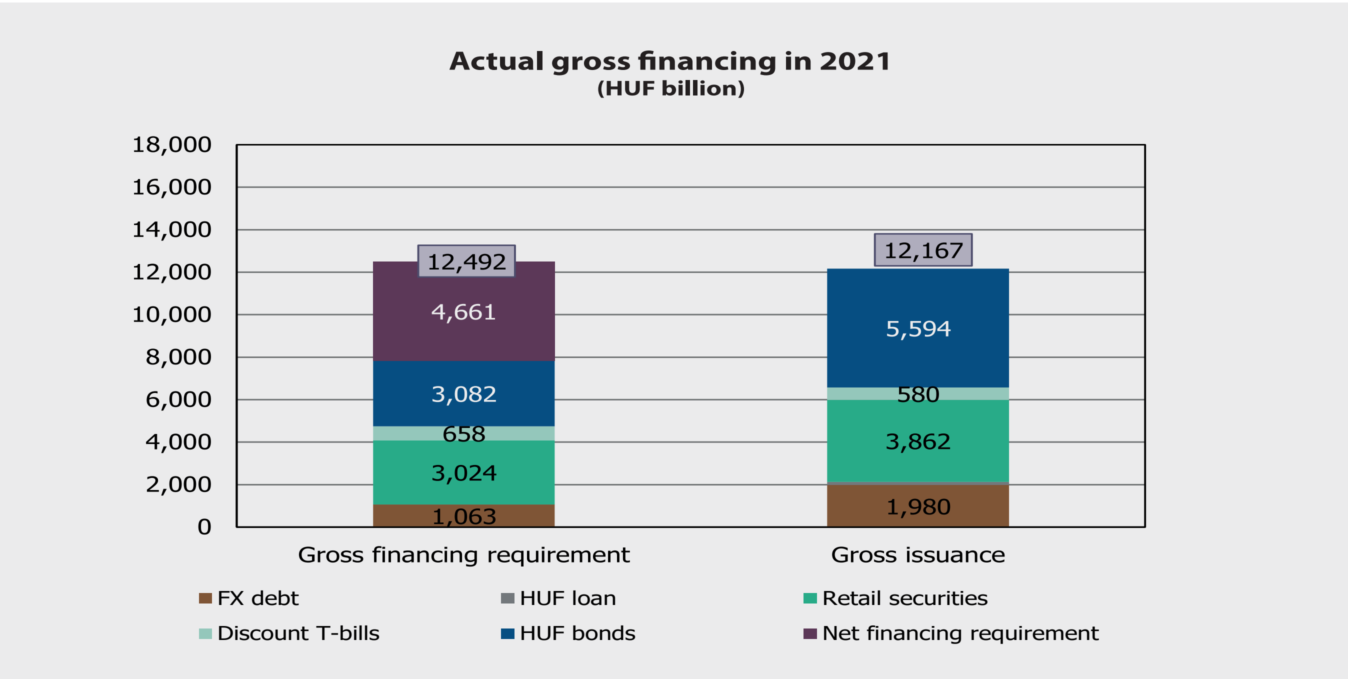
Gross debt issuance:

HUF billion

	2021 outcome
Domestic debt issuance	**10,187**
T-bonds	5,594
of which exchange auctions	*1,626*
Retail securities	3,862
Discount T-bills	580
Loans	151
Foreign currency debt issuance	**1,980**
International bonds	1,672
Domestic FX bonds	125
FX loans	183
Issuance in total	**12,167**

Source: ÁKK

The largest part of the total gross issuance was the domestic bond issuance totalling HUF 5,594 billion, out of which HUF 3,683 billion was the issuance via auction, HUF 1,626 billion the issuance through switch auction and HUF 284 billion the issuance of the Municipal bond, OTC operations and other sales of the branch network of the Hungarian State Treasury. Due to the high net financing requirement caused by the COVID pandemic ÁKK increased the domestic bond issuance in 2021, as a result it significantly exceeded the plan.



Source: ÁKK

Net HUF denominated financing totalled HUF 3,420 billion, while net foreign currency financing amounted to HUF 917 billion, so the total net issuance was HUF 4,336 billion in 2021 that covered the increased net financing need caused by COVID pandemic and partly prefinanced the deficit of the next year (a part of the maturing FX debt was prefinanced at the end of 2020).

Net issuance:

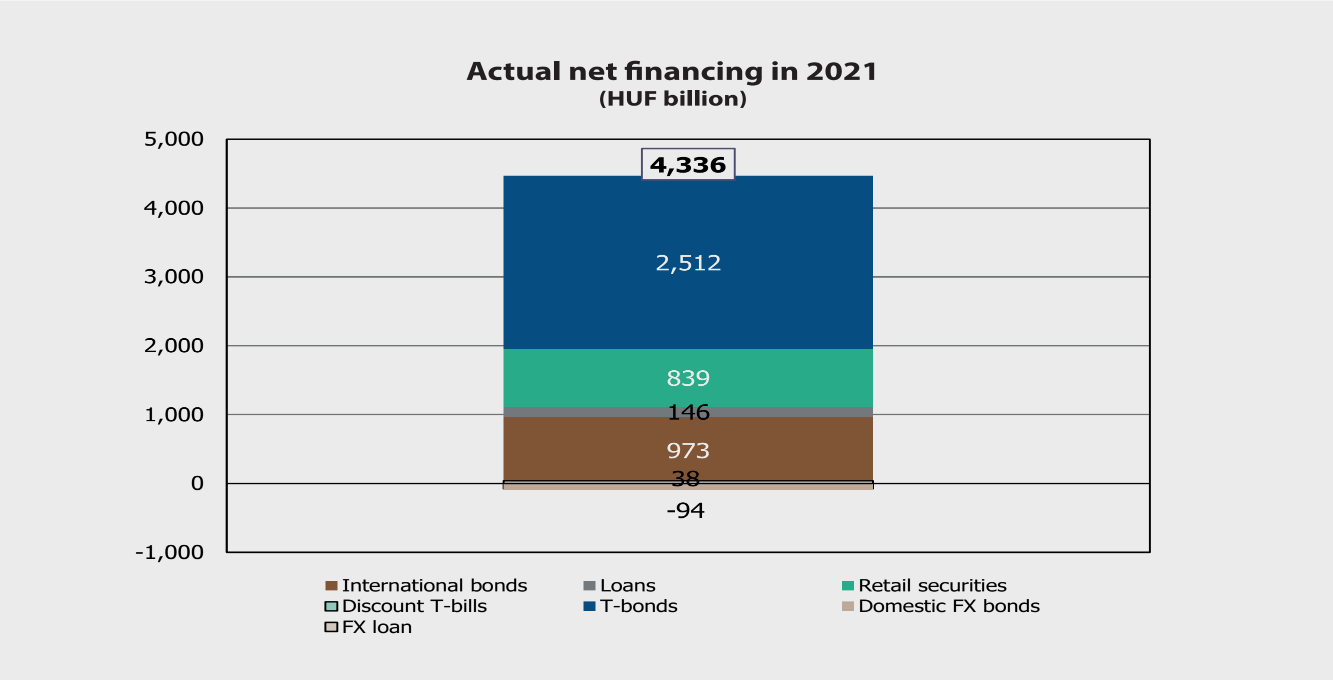
HUF billion

	2021 outcome
Domestic debt issuance	**3,420**
T-bonds	2,512
Retail securities	*839*
Discount T-bills	-77
Loans	146
Foreign currency debt issuance	**917**
International bonds	973
Domestic FX bonds	-94
FX loans	38
Issuance in total	**4,336**

Source: ÁKK

Within the net HUF issuance the domestic bond issuance had the highest share, supported by the QE program of the National Bank of Hungary. The significant issuance of long term bonds contributed to the increase of the average term-to-maturity of the debt portfolio and financed the increased deficit of the central budget. ÁKK originally intended to issue net HUF 1600 billion domestic bond in 2021, but as the deficit target had been increasing during the year, ÁKK revised its financing plan accordingly, thus ÁKK increased the net issuance plan of domestic bonds in May to HUF 2,200 billion and in September to HUF 2,323 billion. In the end net domestic bond issuance was HUF 2,512 billion in 2021.

The net issuance of HUF denominated retail securities totalled HUF 839 billion in 2021 as a result of households' net purchase of HUF 883 billion (slightly below the plan) and net maturities of non-retail investors' holdings of HUF 45 billion who were not able to re-invest their maturing securities in the retail program. The net issuance of discount T-bill was HUF -77 billion (the plan was zero), while the net HUF loan drawdown was HUF 146 billion.



Source: ÁKK

ÁKK did not intended to issue FX bonds in the international market in 2021 taking into account the early refinancing of a part of the maturing debt in 2020. In order to bridge-finance potentially delayed EU RRF transfers and to finance other discretionary government expenditures in 2021 as well as to pre-finance some 2022 budgetary expenditures and taking advantage of favourable market conditions ÁKK acting on behalf of Hungary issued 2.25 billion USD 10-year, a 2 billion USD 30-year and a 1 billion EUR 7-year FX bond in September and further CNY 1 billion in December. As a result the net FX issuance significantly exceeded the plan and amounted to EUR 2.7 billion (HUF 917 billion) in 2021. Out of the net FX issuance and borrowing the net issuance of international bonds was EUR 2.9 billion (HUF 973 billion), the net issuance of domestic FX bonds was EUR -0.26 billion (HUF -94 billion) while net foreign currency loan draw-downs amounted to EUR 0,1 billion (HUF 38 billion).

The average cost of financing (the weighted average yield to maturity – including sales commissions – of new debt instruments issued in 2021) increased to 2.9 percent. The increase was the result of the higher yields of wholesale domestic bonds and bills.

Domestic Government bonds

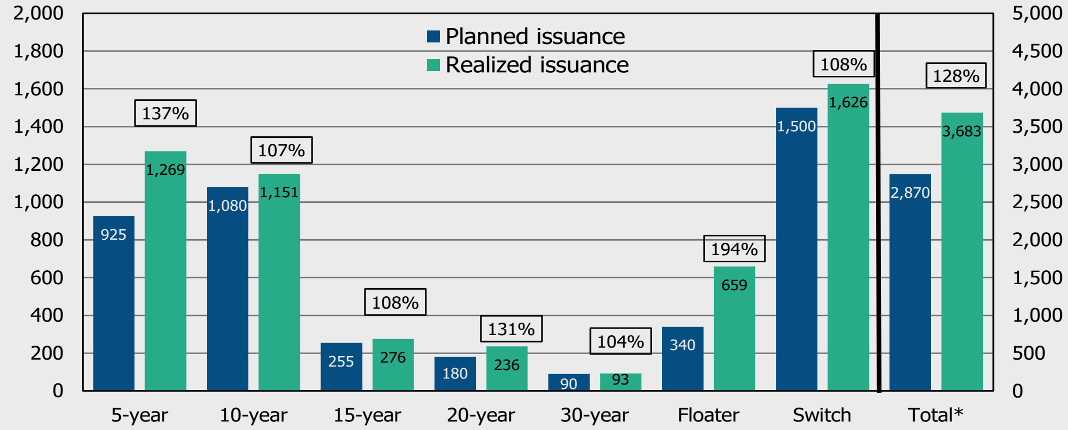
Domestic financing was mostly provided by wholesale domestic bonds and retail instruments. ÁKK successfully extended its Green Bond Framework Programme to the HUF institutional market, issuing a 30-year green forint bond of HUF 93 billion in its first year.

Taking potential risks into account ÁKK planned the financing of 2021 in such a way that most of the domestic bond issuance planned for the whole year is realized in the first quarter. To achieve that, in the first quarter, auctions were held according to the weekly fixed bond auction system temporarily introduced in 2020, and then from the second quarter, ÁKK returned to the bi-week fixed bond auctions. However, due to the forecasts for the constantly rising net financing need, it was not possible to reduce HUF bond issuances starting from the second quarter according to plans, so the actual realized auction bond issuance exceeded the plan by HUF 813 billion and amounted to HUF 3,683 billion in 2021. Due to the significant demand for longer-term bonds, the ÁKK did not announce a 3-year bond auction in 2021. During the year, among the fixed bonds, the 5- and 10-year benchmark bonds were issued at every auction, while the 15- and 20-year bonds were issued alternately (ÁKK auctioned other 10-year bonds instead of longer-term bonds twice). In addition to the benchmark bonds, the newly introduced 30-year green bond was auctioned a total of four times, first on April 22, on Earth Day, and then three more times on the day of the floating rate bond auction. Floating rate bond auctions were held every other Wednesday in the first quarter, and every other Thursday thereafter (in the week when there was no fixed bond auction).

As a result, there were a total of 31 5-year and 33 10-year fixed bond auctions in 2021. Auctions were held 14 times for the 15-year term, 15 for the 20-year term, and 4 times for the 30-year green bond. A total of 23 floating rate bond auctions took place in 2021, at which auctions the series maturing in 2027 was issued 13 times in the first half, and the series maturing in 2029 was issued 10 times in the second half. ÁKK actively used its right to modify the accepted amount as a reaction to bids. Another way to react to changes in market demand was the use of the non-competitive top-up phase in the afternoon of the auctions when successful bidders at the auction could buy additionally up to 40 percent of their winning bids at the average price of the auction.

In 2021, the demand for domestic bonds was significant in general, which was materially supported by the government bond purchase program of the Magyar Nemzeti Bank, exceeding the 2020 level. The average bid-to-cover ratio was 2.63. A total of HUF 3,067 billion worth of government bonds were issued at the auctions, and an additional HUF 616 billion worth of bonds were sold in the non-competitive tenders that followed the auctions. Thus, the total auction bond issuance reached HUF 3,683 billion in 2021, which significantly exceeded the planned by 28%.

Domestic bond issuance (HUF billion) and the fulfilment of the annual plan (%)



Source: ÁKK

* without switch auctions

Total bond issuance – together with switch auctions, the retail sales of the Hungarian State Treasury, the bonds issued for local authorities and secondary market operations – was HUF 5,594 billion, versus total bond maturities of HUF 3,082 billion, which resulted in a net issuance of HUF 2,512 billion exceeding the plan by HUF 912 billion.

In the case of the 5-year fixed bond and the floating rate bond, new series were issued in 2021, and in addition, the longest 30-year green bond maturing in 2051 was also introduced in 2021 with the issuance of a new bond series. In the 10-year term, the ÁKK auctioned the series maturing in 2033, which was issued at the end of 2020 and was then only sold at switch auctions, while in the 15-year and 20-year segments, series that were also auctioned in the previous year were issued throughout 2021.

On-the-run bond series in 2021:

HUF billion

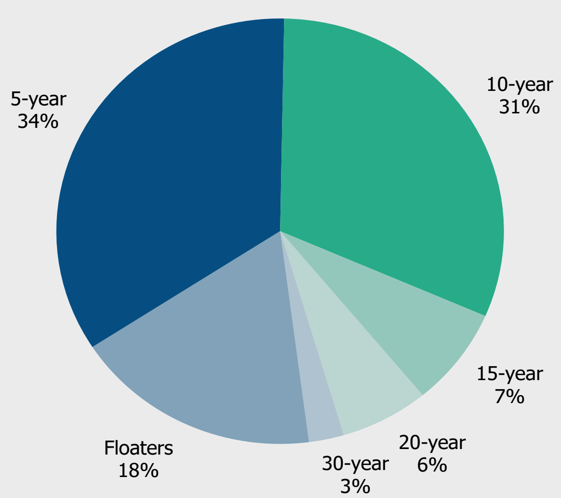
	Tenor	No. of auctions	Auction sales in 2021	Non-competitive sales in 2021	Size (end of 2021)
2026/E	5	6	263	80	1,252
2026/F	5	25	768	159	768
2027/B*	6	13	372	115	922
2029/A	10	1	42	11	882
2029/B*	8	10	153	20	561
2031/A	10	1	43	4	1,473
2033/A	10	31	904	147	1,182
2038/A	15	14	241	35	785
2041/A	20	15	204	32	415
2051/G	30	4	80	13	94

Source: ÁKK

* Floating rate bond

ÁKK adjusted the accepted amounts at the auctions according to demand, and the results show that investors' demand changed towards longer term bonds. The share of the 3-year bond reduced to zero and the share of the 5-year fix bond reduced from 41% to 34%. At the same time, the share of longer-term bonds and floaters within the gross issue increased: the share of the 10-year fixed-rate bond rose from 25% to 31%, while the share of 15- and 20-year bonds rose from 4% and 1% to 7% and 6% respectively. The share of the floating rate bond increased from 11% to 18%, while the newly issued 30-year green bond represented 3% of the total auction issuance. The increased bond issuance and the shift towards longer-term bonds contributed materially to the increase in the average term-to-maturity of the debt.

HGB issuance composition by tenor in 2021



Source: ÁKK

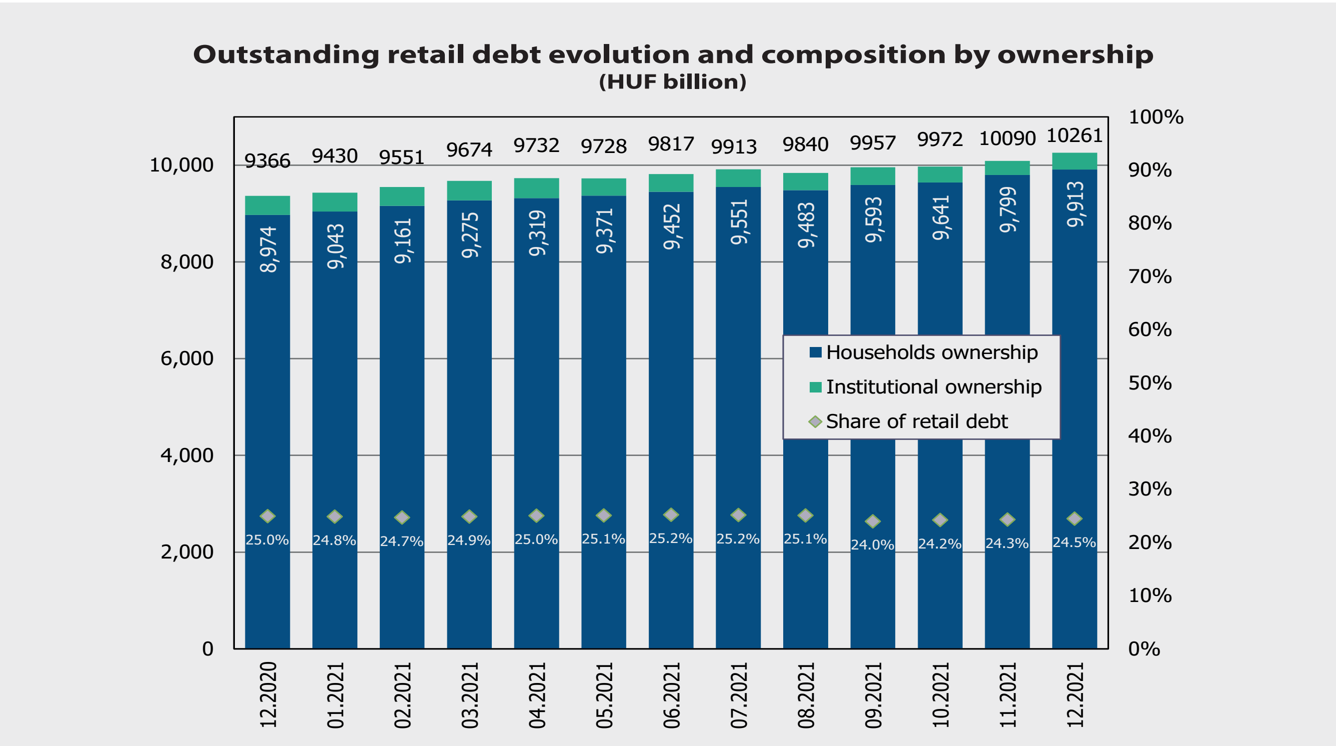
Discount treasury bills

The 3 and 12-month discount treasury bills are short-term instruments mainly used for liquidity management, i.e. for smoothening the fluctuations in liquidity caused by the varying financing requirements over the year. They may also play a role in financing, if needed, by maintaining a higher stock for a particular term. In 2021 ÁKK sold discount treasury bills in a total of HUF 580 billion, by HUF 78 billion less than in 2020. Since extending maturities was an important objective in 2021, ÁKK did not increase the volume of short-term instruments.

Retail securities

One of the strategic objectives of ÁKK is to develop further its retail debt programme, which constitutes an important source of domestic financing. The retail program amounted to a quarter of the public debt in 2021. With continuously growing domestic savings it is natural for the Government to tap this secure source of funds directly. The medium term objective of public debt management is to reach HUF 11 trillion of retail debt owned by households by 2023.

The issuance of retail government securities gained new momentum is 2019 with the introduction of the Hungarian Government Security Plus. As a consequence of its attractive yields, flexibility and automatic reinvestment of the interest payments (on the day of the interest allocation government securities of the same series will be credited to the securities account of the holder at the face value identical to the amount of interest) the newly issued retail security became the most popular products in 2019 and 2020, while because of the long, 5-year tenor and reliable investor base it is also favourable for debt management. Retail sales were also supported by the new measure that from June 2019 the interest income from government securities is free from tax for households. This momentum continued throughout 2020 and 2021, although due to the appearance of the COVID pandemic in the spring of 2020, residential demand temporarily decreased and early redemptions increased in the spring. The outstanding amount of retail government securities held by households (denominated in HUF and EUR) increased by HUF 939 billion compared to the increase of HUF 1,058 billion in 2020.



Source: NBH, ÁKK

Major component of the gross issuance was the Hungarian Government Security Plus (MÁP Plusz) issuance with 44%, out of which HUF 1,572 billion was the issue of dematerialized Hungarian Government Security Plus issuance (HUF 1,379 billion sales and HUF 193 billion interest payment automatically reinvested in the same series), while HUF 195 billion was the printed Hungarian Government Security Plus gross issuance. Thus, after 2019 and 2020, the Hungarian Government Security Plus was the most successful retail government security with the largest portfolio in 2021, too.

ÁKK achieved the second highest gross issuance of HUF 1,200 billion in the case of the 1-year Hungarian Government Security (1MÁP), while the gross issuance of the still popular, inflation linked Premium Hungarian Government Security (PMÁP) was HUF 660 billion. Despite the significant gross issuance the outstanding stock of both the 1-year and the Premium Hungarian Government Securities decreased by HUF 87 billion and by HUF 107 billion respectively during the year as a result of maturing series held by institutions and as a result of buy-backs. The outstanding amount of the Babybond increased by 35 percent and amounted to HUF 149 billion as a result of the gross issuance totalling HUF 39 billion. The issuance of the 1 and 2-year, printed Treasury Saving Bills declined as a result of the introduction of the printed Hungarian Government Security Plus.

Gross retail issuance:

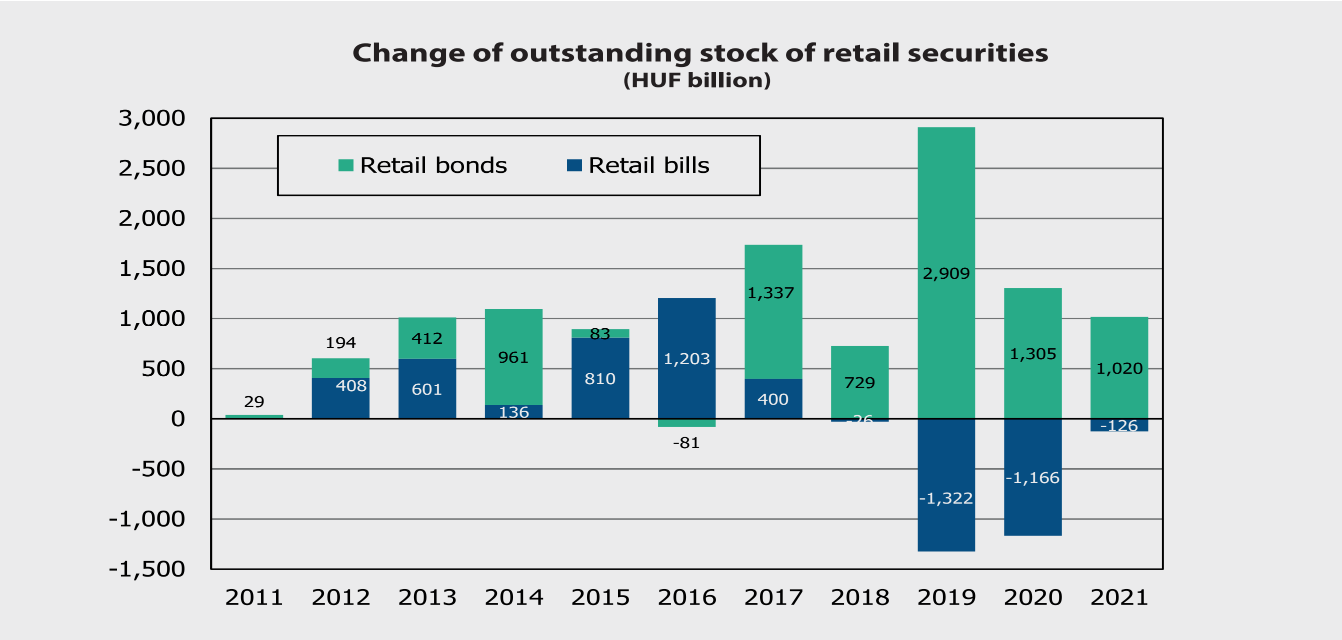
HUF billion

	2018	2019	2020	2021
Hungarian Government Security Plus (dematerialised)	**0**	**3,179**	**2,272**	**1,572**
Hungarian Government Security Plus (printed)	0	60	212	195
Premium Hungarian Government Security	861	759	556	660
Premium Euro Hungarian Government Security	39	90	50	125
Babybonds	17	25	31	39
Treasury Savings Bills (2-year)	**78**	**106**	**36**	**169**
Treasury Savings Bills (1-year)	269	329	207	27
1-year Hungarian Government security	3,181	2,246	1,275	1,200
Retail securities whose sale ceased in 2019	621	117	0	0
Retail securities total	**5,066**	**6,911**	**4,639**	**3,987**

Source: ÁKK

The total gross issuance of HUF and foreign currency retail government securities was HUF 3,987 billion, resulting in a net issuance of HUF 892. The lower gross issuance compared to previous years is due to the decrease in the redemptions of short-term retail government securities, which is the consequence of the extension of the maturity profile. Out of the net issuance, HUF 839 billion was the net issuance of retail government securities denominated in HUF, while HUF 54 billion was the net issuance of P€MÁP (denominated in EUR).

The structure of retail financing continued to improve during 2021, within the total forint and foreign currency retail government securities debt, the share of other institutional investors continued to decrease, so that at the end of 2021, 97% of the total retail government securities debt was owned by households. The stock of short-term retail treasury bills decreased by HUF 126 billion, while the stock of retail government securities with a maturity of more than one year increased by HUF 1,020 billion in 2021.



Source: ÁKK

Hungarian government bond for local authorities

ÁKK continued the issuance of fixed government bonds that can be purchased by local governments in 2021. For most of the year, the series maturing in 2023 was available for the investors, while in December, following the rise in market yields, ÁKK issued a new series maturing in 2025. The Hungarian Government Bond for Local Authorities (ÖMÁK) offers an attractive investment alternative for this group of investors due to its favourable redemption before maturity and its flexibility. During 2021, investors bought a total of HUF 160 billion from the third and fourth series of ÖMÁK. In addition, the buybacks of ÖMÁK totalled HUF 176 billion and HUF 30 billion was due in 2021, so the total stock of ÖMÁK 4 series decreased by HUF 46 billion to HUF 108 billion by the end of 2021.

Foreign currency financing

ÁKK did not intend to issue foreign currency bonds in the international market, while the other foreign currency denominated borrowing (e.g. retail bond) was planned at EUR 0.5 billion. Part of the maturing foreign currency debt was financed by foreign currency bonds issued for pre-financing in 2020. However, due to the high net financing need as a consequence of the pandemic and the delayed EU RRF transfers as well as to pre-finance some 2022 budgetary it was necessary, due to the favourable market environment and the better-than-expected performance of the Hungarian economy it was possible to issue international bonds in September and December, taking advantage of the relative cost advantage of foreign currency bonds.

In September 2022, ÁKK issued 10- and 30-year dollar bonds in the amount of USD 2.25 and 2 billion, respectively, and a 7-year euro bond in the amount of EUR 1 billion.

In December, Hungary executed the world's first sovereign Green Panda Bond issuance of CNY 1 billion in China.

Currency	Amount	Date of issuance	Maturity	Tenor (years)	Coupon
USD	2,250,000,000	21.09.2021	22.09.2031	10	2.125%
USD	2,000,000,000	21.09.2021	21.09.2051	30	3.125%
EUR	1,000,000,000	21.09.2021	21.09.2028	7	0.125%
CNY	**1,000,000,000**	**16.12.2021**	**16.12.2024**	**3**	**3.280%**

Source: ÁKK

The domestic FX bond issuance (P€MAP) was EUR 346 million. During the year, the ÁKK sold the 3- and 5-year series already sold in 2020, and then a new 3- and 5-year series were issued, and in December ÁKK also issued a 4- and a 6-year P€MÁP series instead of the previous ones in order to further increase its term-to-maturity.

Series	Currency	Date of issuance	Maturity	Tenor (years)	Coupon
2024/X	EUR	08.06.2021	20.11.2024	3	Floater (Premi-um)
2025/Y	EUR	14.12.2021	15.12.2025	4	Floater (Premi-um)
2026/X	EUR	08.06.2021	27.11.2026	5	Floater (Premi-um)
2027/X	EUR	14.12.2021	17.09.2027	6	Floater (Premi-um)

Source: ÁKK

In order to reduce the foreign exchange ratio and to reduce the refinancing risk of later years, ÁKK continuously bought back dollar bonds with high coupon from the market in 2021 in the total amount of USD 431 million. Despite the significant repurchase and redemptions of foreign currency bonds, the foreign exchange rate calculated as a 90-day moving average rose to 20.9% in 2021, as a consequence of the COVID-19 crisis, the weaker than expected exchange rate and the pre-financing of 2022 expenses, and thus exceeded the upper limit of the 10-20% benchmark range set as a target for debt management.

ÁKK drew project financing loans and COVID-19 related loans mostly in HUF considering market conditions and the corresponding benchmark target. Some loans however – namely the COVID-19 related SURE loans, a military procurement loan and Paks 2 nuclear power plant project financing loan and some smaller loans - were disbursed in EUR in a total value of EUR 510 million, half the planned amount. Since redemptions of loans and partial prepayment of Paks2 loan were EUR 400 million, net disbursement was EUR 110 million (HUF 38 billion).

The net FX issuance amounted to HUF 917 billion in 2021, meaning that the nominal value of foreign currency debt actually increased in 2021, resulting that together with the effect of the depreciation of the Hungarian currency the share of foreign currency debt increased and reached a value over the benchmark band between 10-20 per cent.

V. The government debt in 2021

During 2021 the central government debt increased by HUF 4,013 billion (by 11 percent) to HUF 40,697 billion. The growth of the debt was determined by four factors.

Funding the net financing requirement of the budget that consisted of the budget balance totalling HUF -5,101 billion (deficit) which was partially offset by other financing requirement (e.g. EU transfers at the end of the year) totalling HUF 440 billion (sufficit) was the most important factor. The increase of the HUF value of the foreign currency debt because of the depreciation of the Hungarian currency also increased the debt by HUF 160 billion in 2021. The third – temporary - increasing factor was the pre-financing for 2022: ÁKK issued foreign currency bonds in 2021 to pre-finance budget deficit of 2022. The stock of marked-to-market deposits placed at ÁKK (so-called 'other obligations') increased by HUF 52 billion in 2021.

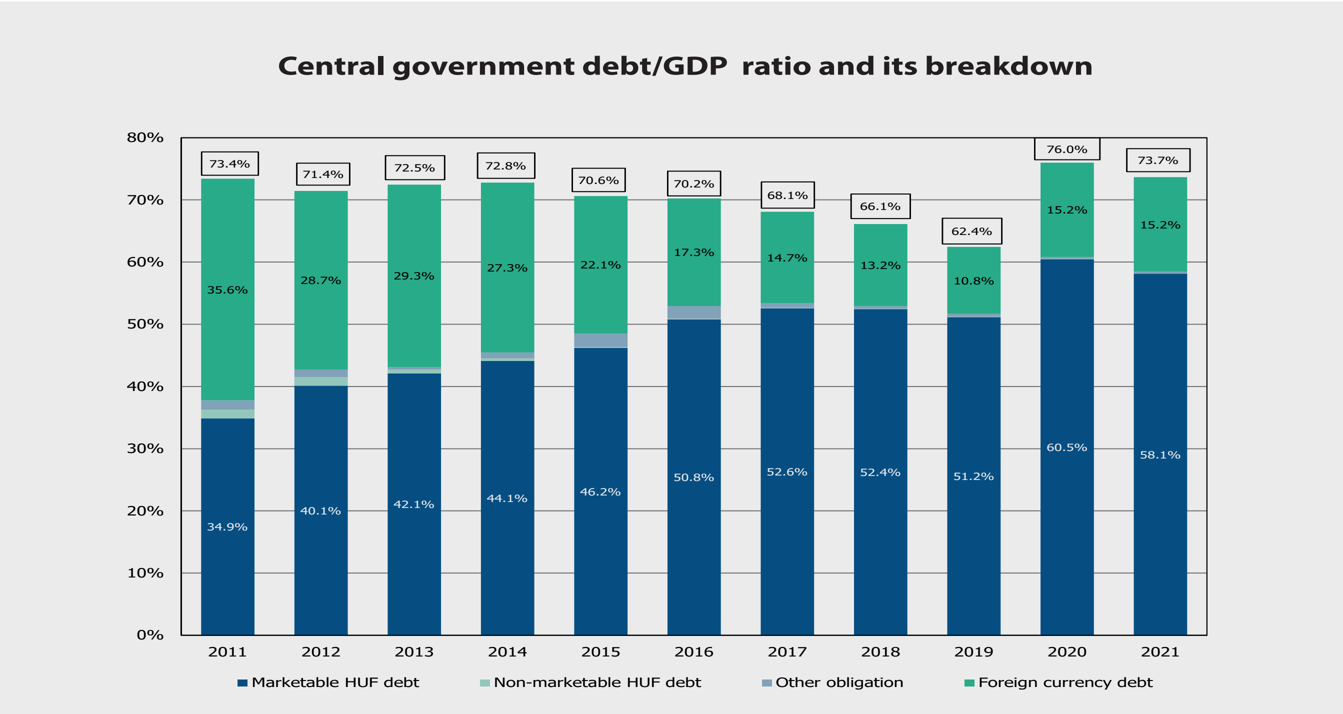
Central government debt

HUF billion

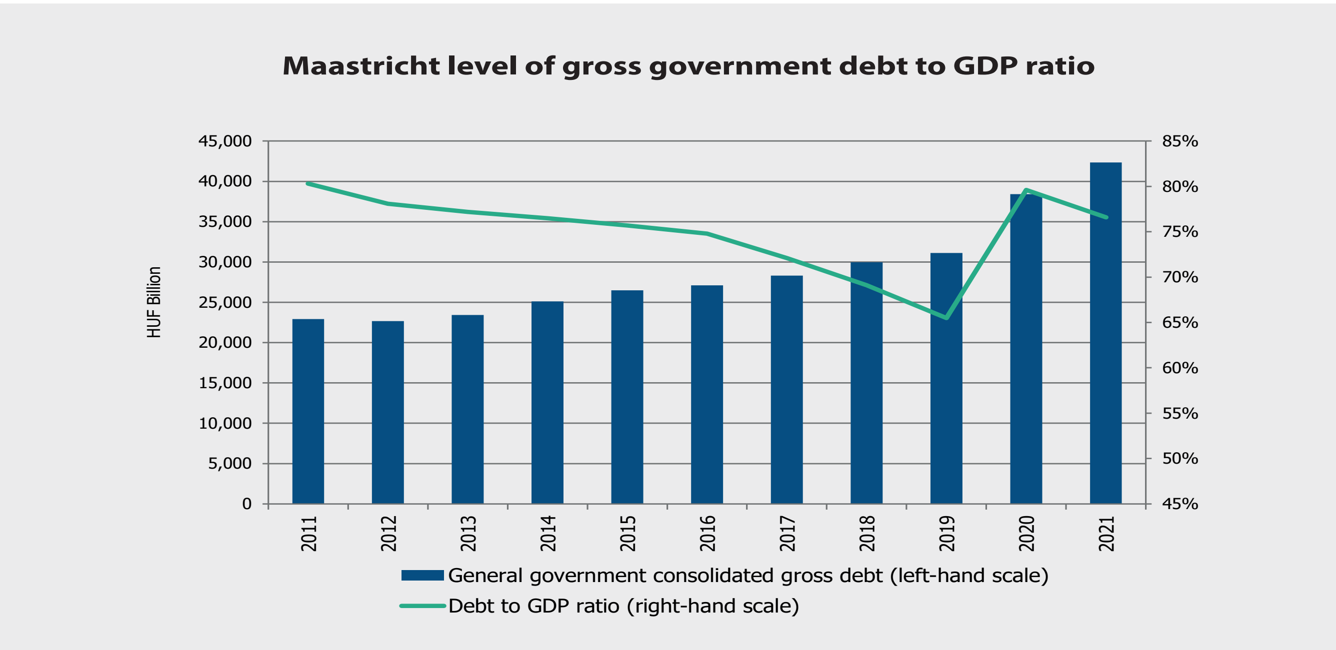
	2020		2021		Change
	debt stock	breakdown	debt stock	breakdown	
Domestic debt	**29,237**	**80%**	**32,121**	**79%**	**2,884**
Loans	1,162	3%	1,308	3%	146
Government bonds	18,246	50%	20,220	50%	1,974
Retail securities	9,172	25%	10,010	25%	839
Discount T-bills	658	2%	583	1%	-75
Foreign currency denominated debt	**7,318**	**20%**	**8,395**	**21%**	**1,077**
FX Loans	1,291	4%	1,345	3%	54
FX Bonds	6,027	16%	7,050	17%	1,023
Total debt	**36,555**	**100%**	**40,516**	**100%**	**3,961**
Other obligations	129	0%	181	0%	52
Grand total debt	**36,684**	**100%**	**40,697**	**100%**	**4,013**

Source: ÁKK

According to preliminary data, the central government debt managed by ÁKK decreased from 76 to 73.7 percent of GDP, while the ESA2010 general government gross debt to GDP ratio decreased by 3 percent to 76.6 percent in 2021.



Source: ÁKK



Source: Eurostat (including debt of EXIM Bank)

Characteristics of the HUF debt portfolio

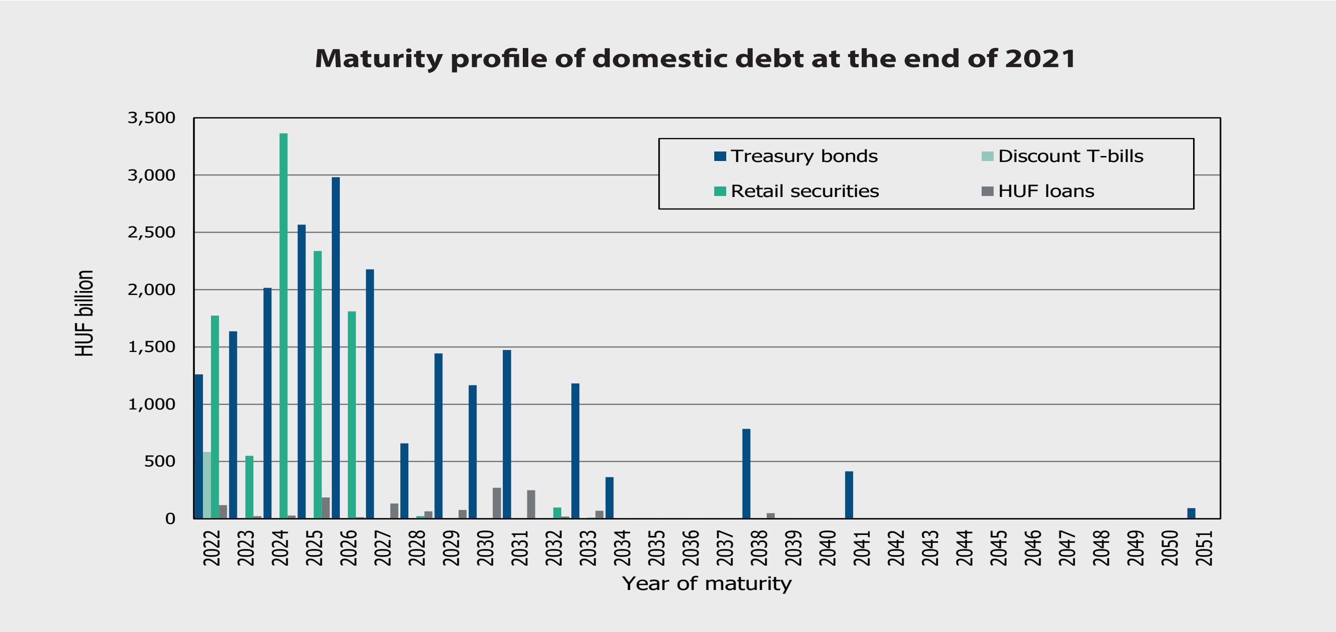
In 2021 the HUF denominated debt – which accounts for 79 percent of the total debt – increased by HUF 2,884 billion (10 percent) to HUF 32,121 billion.

50 percent of the total public debt was in the form of long-term HUF government bonds (excluding retail bonds). The total domestic wholesale bond portfolio of HUF 20,160 billion consisted of 28 bond series, the average size of a series was HUF 720 billion (ca. EUR 2 billion). 8 series had a volume in excess of HUF 1,000 billion (ca. EUR 2.7 billion), and the largest bond series reached a volume of HUF 1,473 billion (ca. EUR 4 billion). The average size of bond series increased substantially in 2021.

The outstanding stock of discount T-bills amounted to HUF 583 billion. The discount T-bill stock consisted of 18 series with an average outstanding amount of HUF 32 billion (some decline in comparison with 2020).

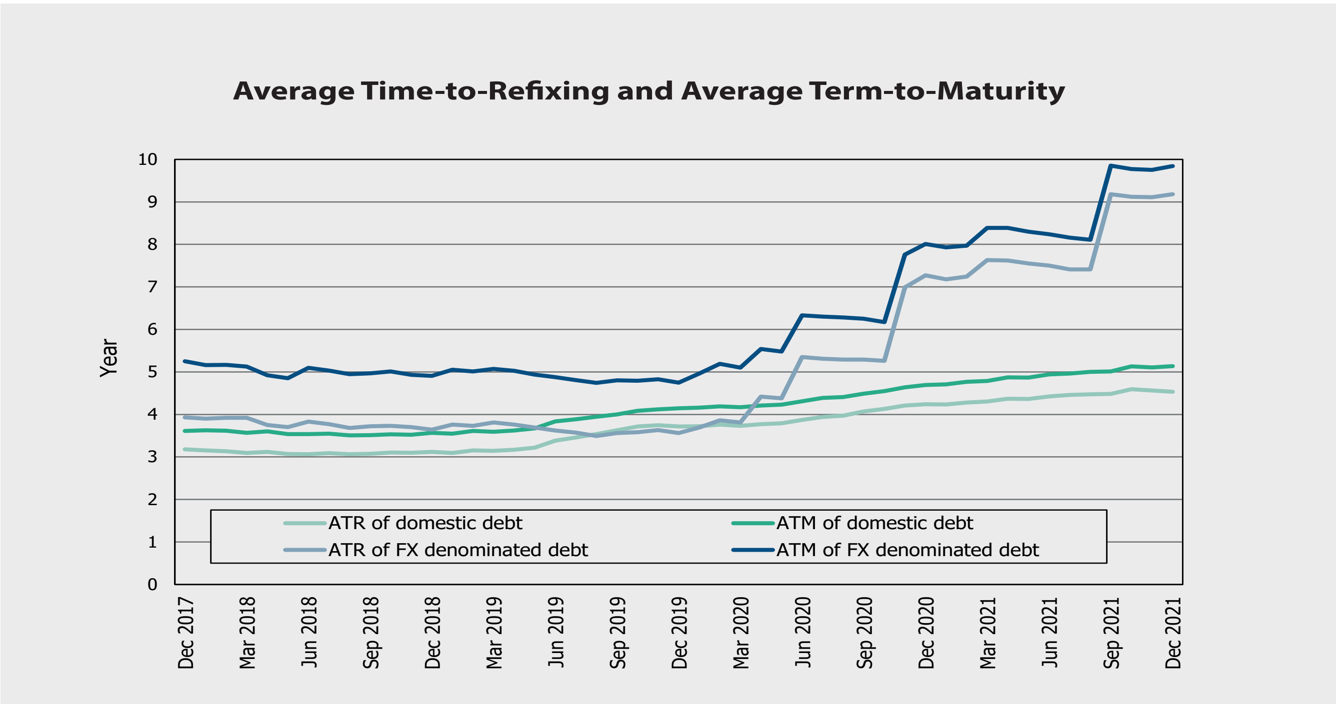
In 2021 the portfolio of domestic retail government securities increased rapidly to HUF 10,010 billion. The stock of retail securities held by households increased by an even larger extent, since non-retail investors decreased their holdings due to the redemptions and buy-backs. The outstanding stock of the newly issued dematerialized Hungarian Government Security Plus amounted to HUF 5,946 billion, while the outstanding amount of the printed Hungarian Government Security Plus totalled HUF 415 billion at the end of 2021; thereby the 5-year Hungarian Government Security Plus remained the most popular retail product with a 64% share of total domestic retail debt. The also long-term Premium Hungarian Government Security (3 and 5-year tenor) had the second highest outstanding amount totalling HUF 2,203 billion at end-2021, while the stock of the short term 1-year Hungarian Government Security decreased modestly to HUF 1,002 billion. The outstanding amount of the 1 and 2-years Treasury Saving Bills also decreased to HUF 235 billion, while the stock of the very long-term Babybond increased by HUF 38 billion and totalled HUF 149 billion at the end of 2021. The outstanding stock of two types of retail securities sold until mid-2019 decreased by together 60 billion to HUF 61 billion. The share of domestic retail securities remained 31 per cent within the total domestic debt since both the retail portfolio and total domestic debt increased.

The non-marketable HUF bond portfolio decreased to zero due to buy-back at the end of the year. The volume of loans denominated in Hungarian forint increased by HUF 146 billion to HUF 1,308 billion in 2021 as a result of HUF 151 drawdowns and HUF 5 billion pre-payments.



Source: ÁKK

As a result of the lengthening the average term-to-maturity of the retail portfolio (increasing role of the new retail securities with 5-year tenor), moving towards longer terms at auctions and switch operations and maintaining low stock of Discount T-bills the refinancing risk of the debt decreased. The average time-to-refixing (ATR) of the domestic debt increased from 4.2 years to 4.5 years, while the average term-to-maturity (ATM) also increased by 0.4 year to 5.1 years during 2021.



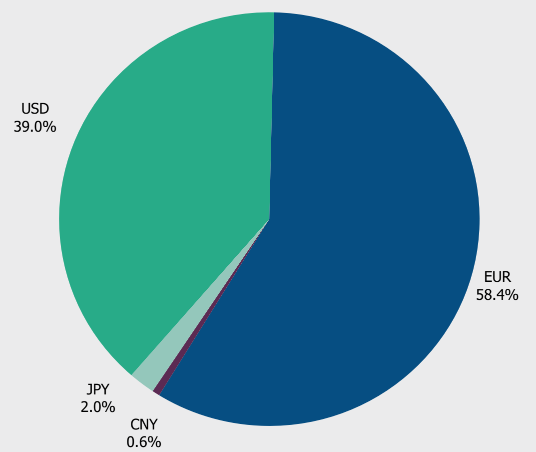
Source: ÁKK

Characteristics of the foreign currency debt portfolio

The gross foreign currency government debt increased by HUF 1,077 billion in 2021, reaching HUF 8,395 billion (EUR 23 billion) by the end of the year. The share of foreign currency debt within the total gross government debt increased to 20.6 percent in 2021 (end-of-year data, not moving average), partly due to pre-financing in 2021.

The volume of outstanding foreign currency bonds (after swaps) reached HUF 7,050 billion by the end of the year, increasing from HUF 6,027 billion at the end of 2020. Bonds accounted for 84% of the total foreign currency debt portfolio. On 31 December 2021 there were 29 series of foreign currency bonds outstanding, 18 of which had been issued in euro (including the domestic euro bonds as well), 6 in US dollars, 4 in Japanese Yen and 1 in Chinese Yuan. In accordance with the strategy and benchmarks, all non-euro bonds had been converted into euro liabilities through swap transactions.

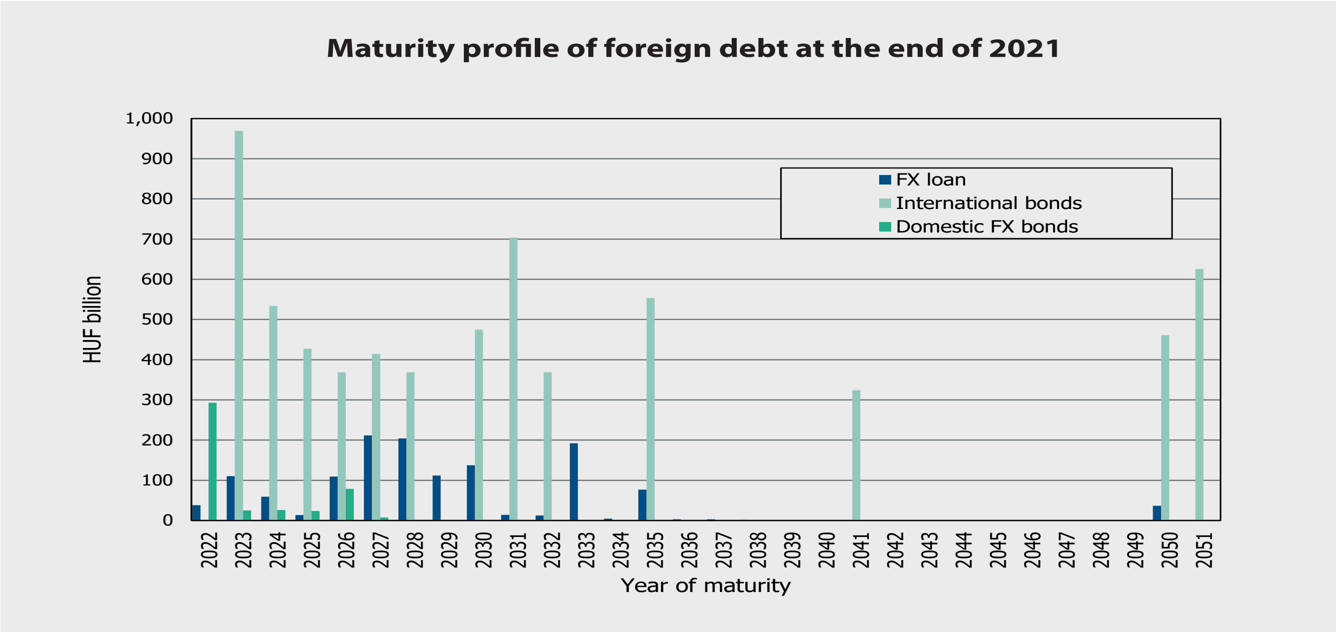
Breakdown of foreign currency debt before swaps by currencies at the end of 2021



Source: ÁKK

At the end of 2021 100% of the foreign currency debt was denominated in euro (after swaps).

The foreign currency loan portfolio consisted of long-term project financing loans from international financing institutions (e.g. EIB, CEB and loans from the European Union) and loans from the Paks 2 nuclear power plant project. The share of loans within total foreign currency debt was 16% at the end of 2021.



Source: ÁKK

As a result of new and large international bond issuances and loan drawdowns the average term-to-maturity of the foreign currency portfolio increased substantially from 8.0 years to 9.8 years and the average time-to-refixing also increased from 7.3 years to 9.2 years during 2021.

Other obligations

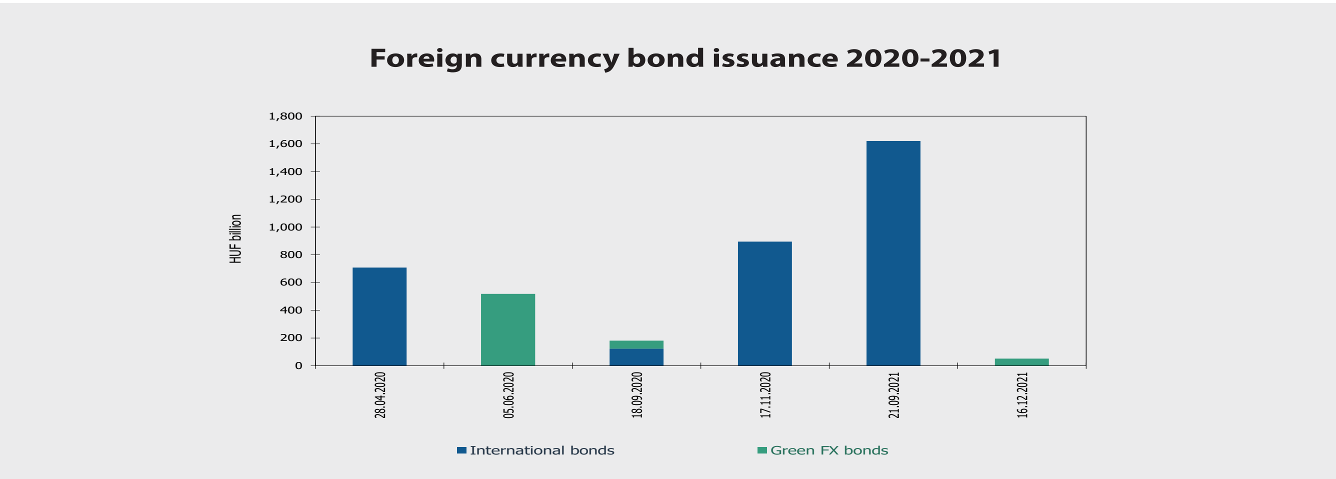
In order to reduce counterparty risk associated with the swap transactions concluded by ÁKK, so-called marked-to-market deposits are being placed as collateral covering the net value of their swap positions. Such deposits placed with ÁKK are shown as part of the government debt among 'other obligations'. Due to the appreciation of the euro against other currencies, the maturity of FX debt denominated in USD and other operations ÁKK had to pay back a significant part of the deposits placed at ÁKK to its swap partners. As of 31 December 2021 marked-to-market deposits placed with ÁKK totalled HUF 181 billion (EUR 0.49 billion), by HUF 52 billion higher than at the end of 2020.

Green bonds

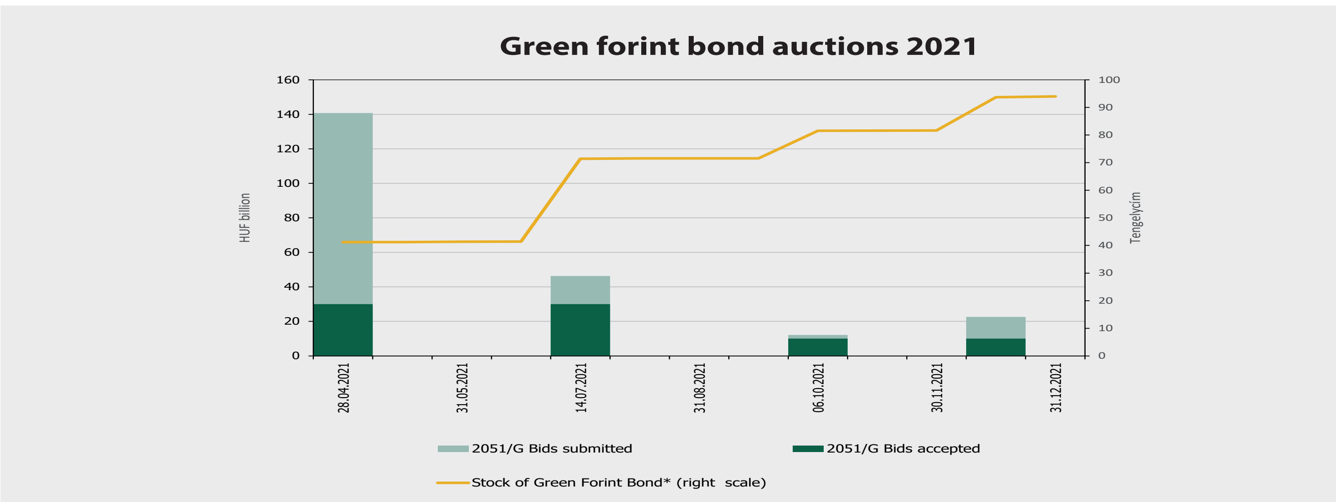
In line with international efforts, Hungary, through ÁKK Zrt., intends to actively contribute to sustainable financing internationally as well as on the Hungarian domestic capital market by issuing green bonds. Within the ESG (Environmental, Social, and Governance) system, a green bond is an innovative financial product that specifically targets resources to support green investment. Green bond is issued to finance and refinance environmentally friendly projects that also take sustainability into account.

Hungary's first international euro Green Bond was issued on 2 June 2020 in the amount of EUR 1.5 billion (HUF 518.4 billion). The next green bond issue was in September 2020 denominated in Japanese yen. It was a Samurai bond in the amount of JPY 20.0 billion (HUF 57.5 billion), making Hungary the first foreign state to issue green bond in Japan. In December 2021, the first green Panda bond was also issued in the amount of CNY 1.0 billion (HUF 50 billion). The investors' interest was strong in the Chinese yuan-denominated green bond. The interest rate on the euro was below 0% (-0.013%) through the conversion to the euro in a fixed rate foreign exchange swap, making it the cheapest foreign currency bond issuance ever.

The Green Bond Framework Program was expanded to the HUF government bond market too. In April 2021 a 30-year green bond was issued and by the end of December 2021, via the auctions, the green HUF bond portfolio reached HUF 94.0 billion (EUR 0.3 billion).



Source: ÁKK

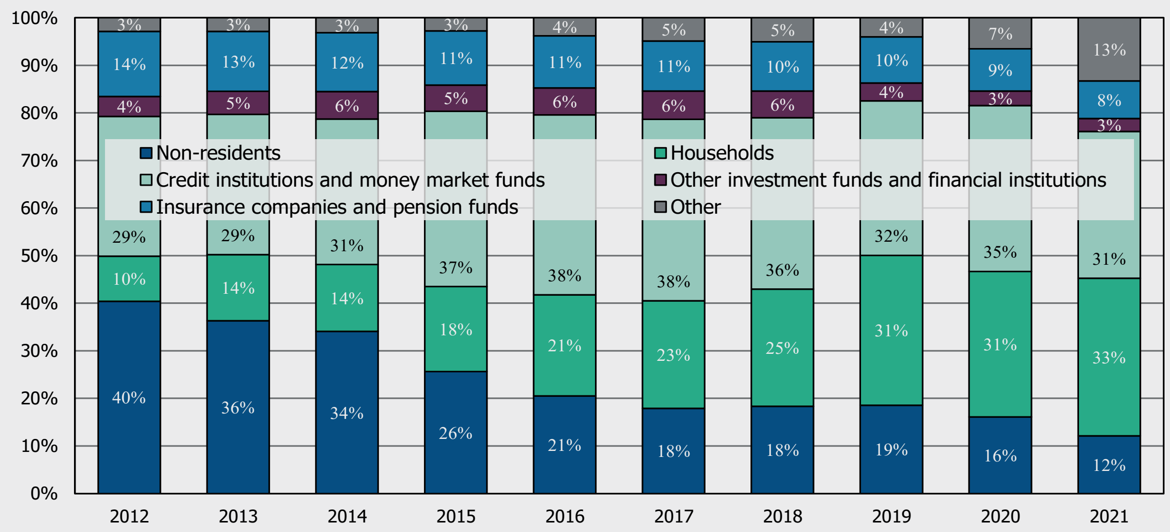


Source: ÁKK

The ownership structure of government debt

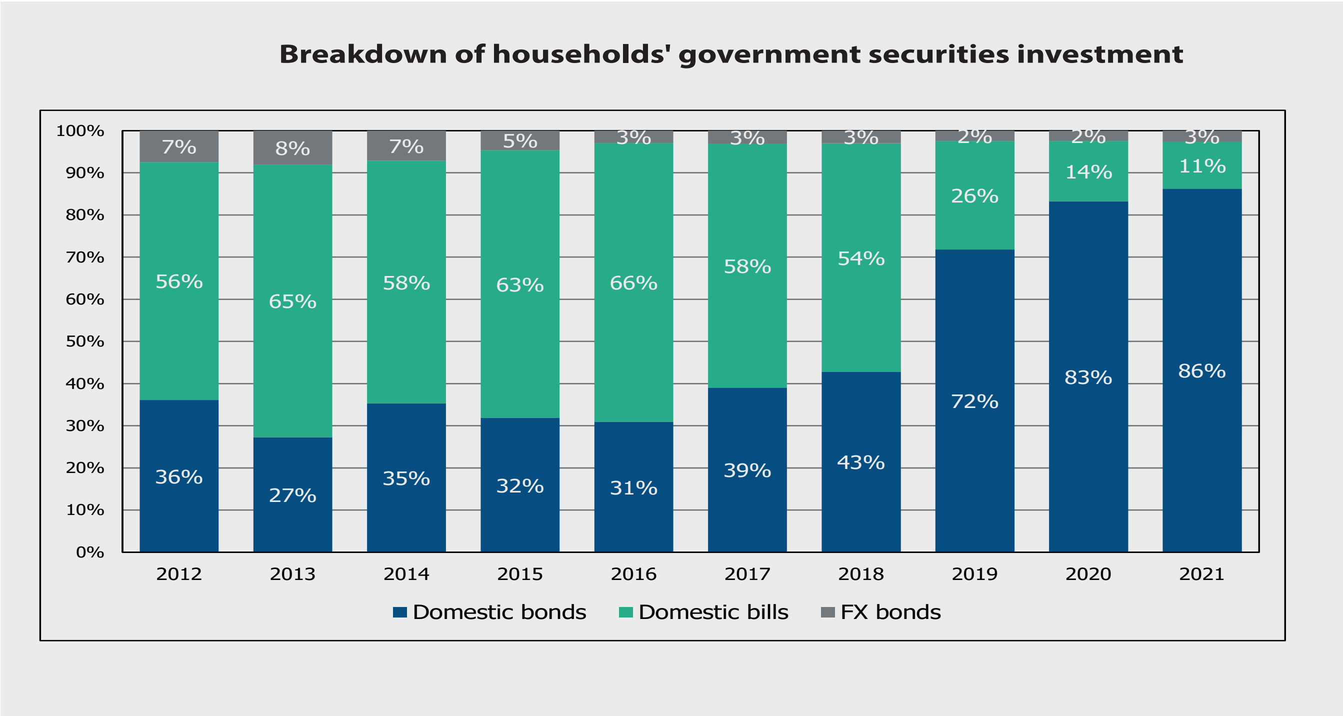
According to statistics published by the Magyar Nemzeti Bank, the central bank of Hungary, as a result of the financing of higher net financing needs from the wholesale market and the QE of the Magyar Nemzeti Bank ownership of other investors grew by 6.8pc to 13%. The share of households (wholesale and retail debt) also increased by 2.6pc to 33 percent. Non-resident's and banks' ownership declined by 4 per cent.

Ownership structure of domestic public debt by investors



Source NBH

In 2021 non-residents decreased their share in the domestic market in nominal terms. Non-resident holdings of HUF denominated government securities decreased by HUF 222 billion to HUF 4,150 billion. At the same time the duration of their holdings remained at 5.2 years, while the ATM of their holdings increased to 6.3 years in 2021. Foreign investors keep holding primarily longer dated bonds, and both the duration and the ATM of the non-resident holdings are longer than that of the total outstanding stock of HUF government securities.



Source NBH

The maturity of the retail program continued to increase in 2021. After the introduction of the 5-year Hungarian Government Security Plus in May 2019, the previously T-bill dominated retail portfolio changed for longer term: by the end of 2021 86 percent of the portfolio was in domestic bonds, most of it in 5-year securities.

VI. Liquidity management

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

In 2021 ÁKK used the following instruments to manage the end-of-day balance of the TSA:

- repo and reverse repo transactions with government securities;
- active adjustment of the volume of 3 and 12 months discount treasury bills at auctions;
- bond buy-backs;
- temporary use of FX deposits.

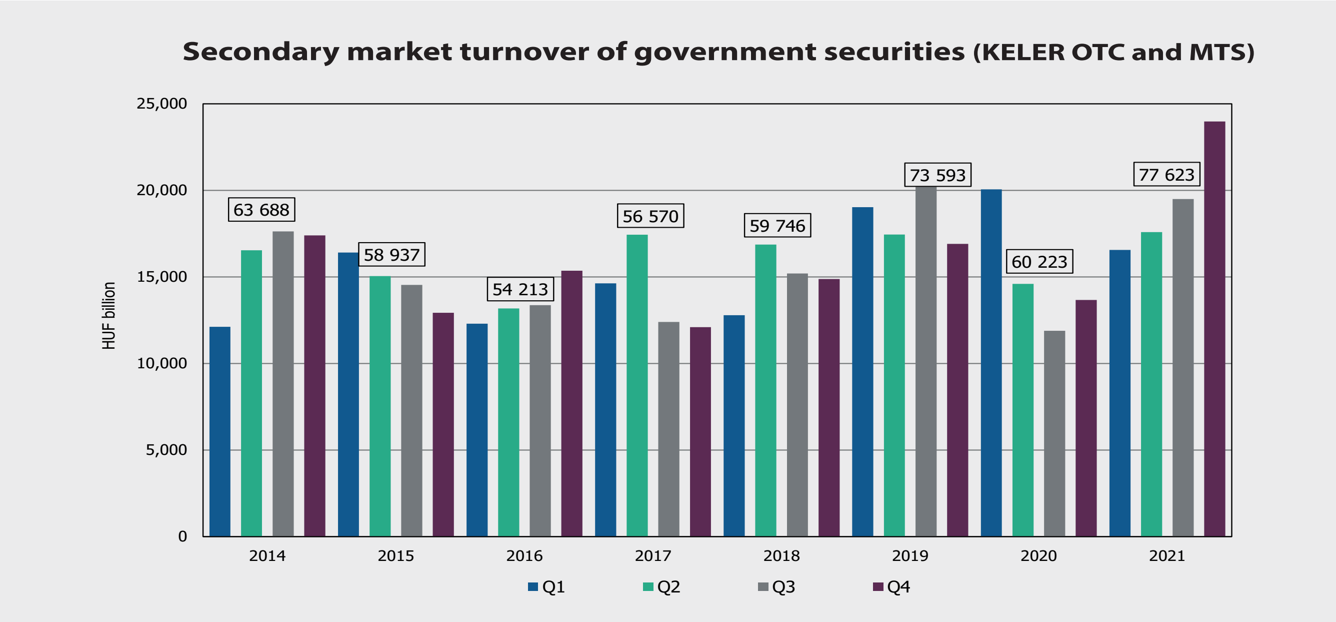
The adequate instruments are chosen mainly as a function of the duration of the required liquidity adjustment; repos are very short term instruments, while discount T-bills and buy-backs have longer term liquidity effects.

Liquidity repo transactions are ÁKK's main tool for fine-tuning the end-of-day balance of the Treasury Single Account. In 2021 the use of repo transactions increased significantly to HUF 24,272 billion after normalisation of money market operations since during the COVID pandemic ÁKK temporarily suspended its repo activity. Due to excess liquidity the end-of-day TSA balance was always higher than the minimum target level in 2021.

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

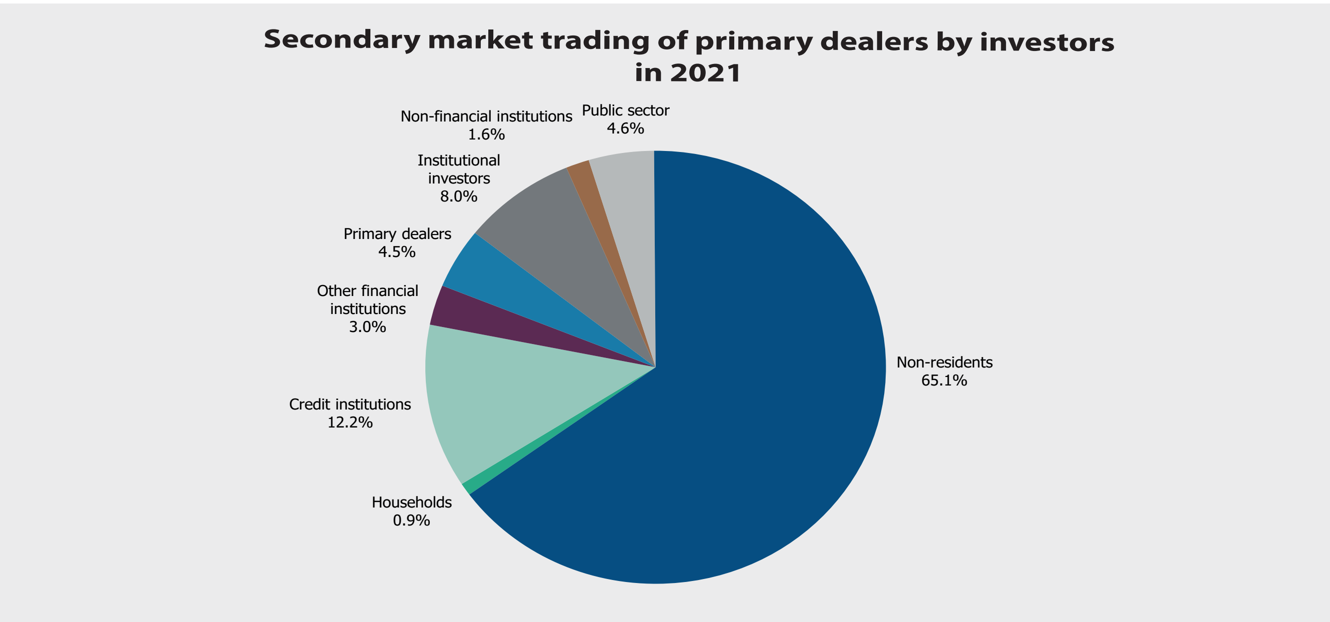
VII. The secondary market of Hungarian government securities

MTS Hungary is the main electronic platform of trading government securities and Primary dealers fulfil their price quotation obligations on this platform, however, more than 99% of all secondary trade is executed in the over-the-counter (OTC) market. According to data from the KELER Central Depository Ltd., the total volume of OTC trading in government securities was HUF 76,936 billion in 2021 (up 29% from 2020, about 4 times the size of the total outstanding marketable debt), out of which 97 percent was in government bonds and 3 percent in discount treasury bills.



Source: KELER, MTS

The average size of deals with Primary dealers (excluding retail transactions) was HUF 807 million, which is HUF 59 million higher than in the previous year. Over the year, the 2026/E government bond with a 5-year term-to-maturity had the largest turnover (HUF 7,949 billion), followed by the 12-year 2033/A and the 4-year (remaining term-to-maturity) 2025/C bonds.

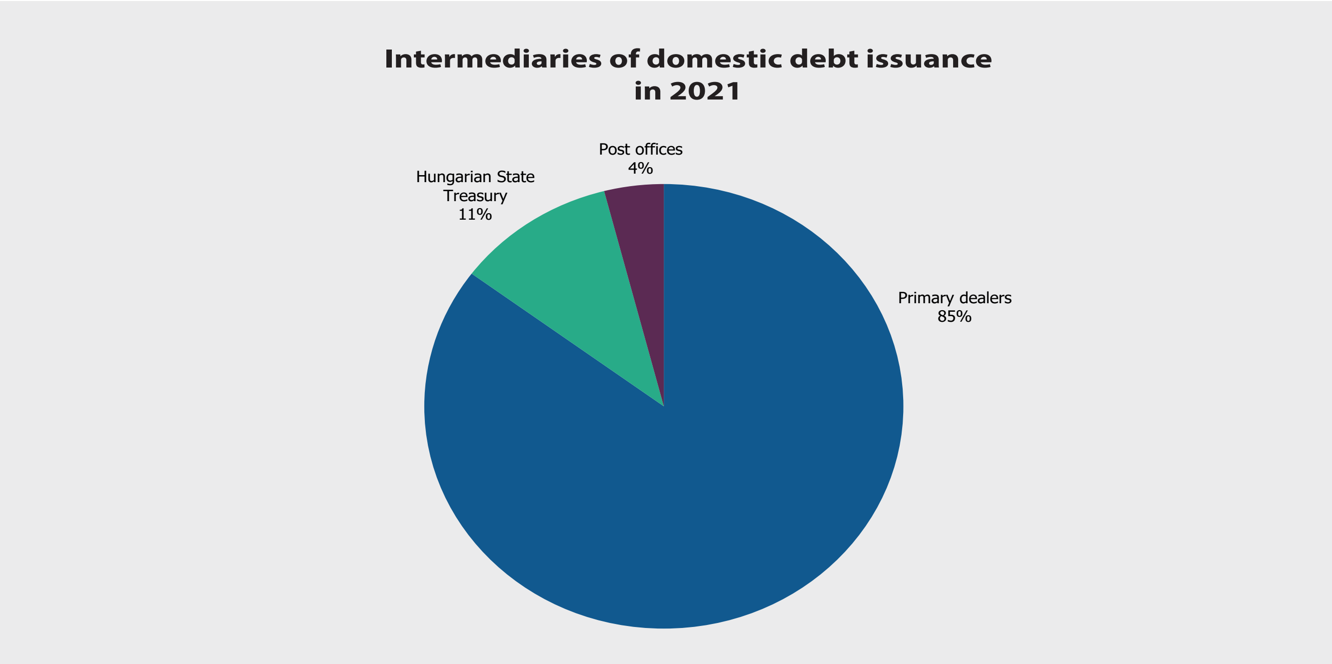


Source: Primary dealers, ÁKK

The most active Primary dealer and the winner of the title 'Primary dealer of the Year' for 2021 was OTP Bank Nyrt., while in the retail program the winner was the State Treasury.

VIII. The institutional framework for the issuance of government securities

ÁKK sells government securities through intermediaries to investors. In the domestic market, 85 percent of HUF-denominated government securities were sold through the Primary dealers in 2021, the rest through dedicated retail channels.



Forrás: ÁKK

The primary dealer system

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

Since May 2004, any investment firm or bank registered in any European Union or an OECD Member State may become a Primary dealer in Hungarian government securities if it meets the contractual requirements and signs a Primary dealer contract with ÁKK. Along with a number of obligations in the primary and secondary market, the Primary dealer status also guarantees exclusive rights. In 2021 4 out of the 14 Primary dealers were non-resident institutions.

VIII. The institutional framework for the issuance of government securities

Primary dealers at the end of 2021:

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

Only Primary dealers may:

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

In addition to their exclusive rights, primary dealers are also ÁKK's main partners for international capital market transactions and liquidity management (repo) and other transactions.

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

VIII. The institutional framework for the issuance of government securities

Retail debt programmes

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

The Hungarian Post Office participates in the sale of three retail government securities. The Hungarian Government Securities Plus are sold in printed and dematerialised forms, and the 1 and 2-year Treasury Savings Bills are government securities available only in printed form, designed specifically for retail investors.

Retail government securities are also sold through the network of retail primary dealers, banks and brokerage firms who signed a contract with ÁKK to sell retail government securities directly to households.

The dealers of foreign currency bond issues

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

Lead managers in 2021:

Bonds in EUR and USD:	BNP Paribas, Citigroup, Goldman Sachs Bank SE, J.P. Morgan
Green CNY Bond:	Bank of China

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

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

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

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

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

[4] The most important provisions concerning the financing of the deficit and government debt management, effective as of December 2020, are provided in Section 4 of the Appendix.

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

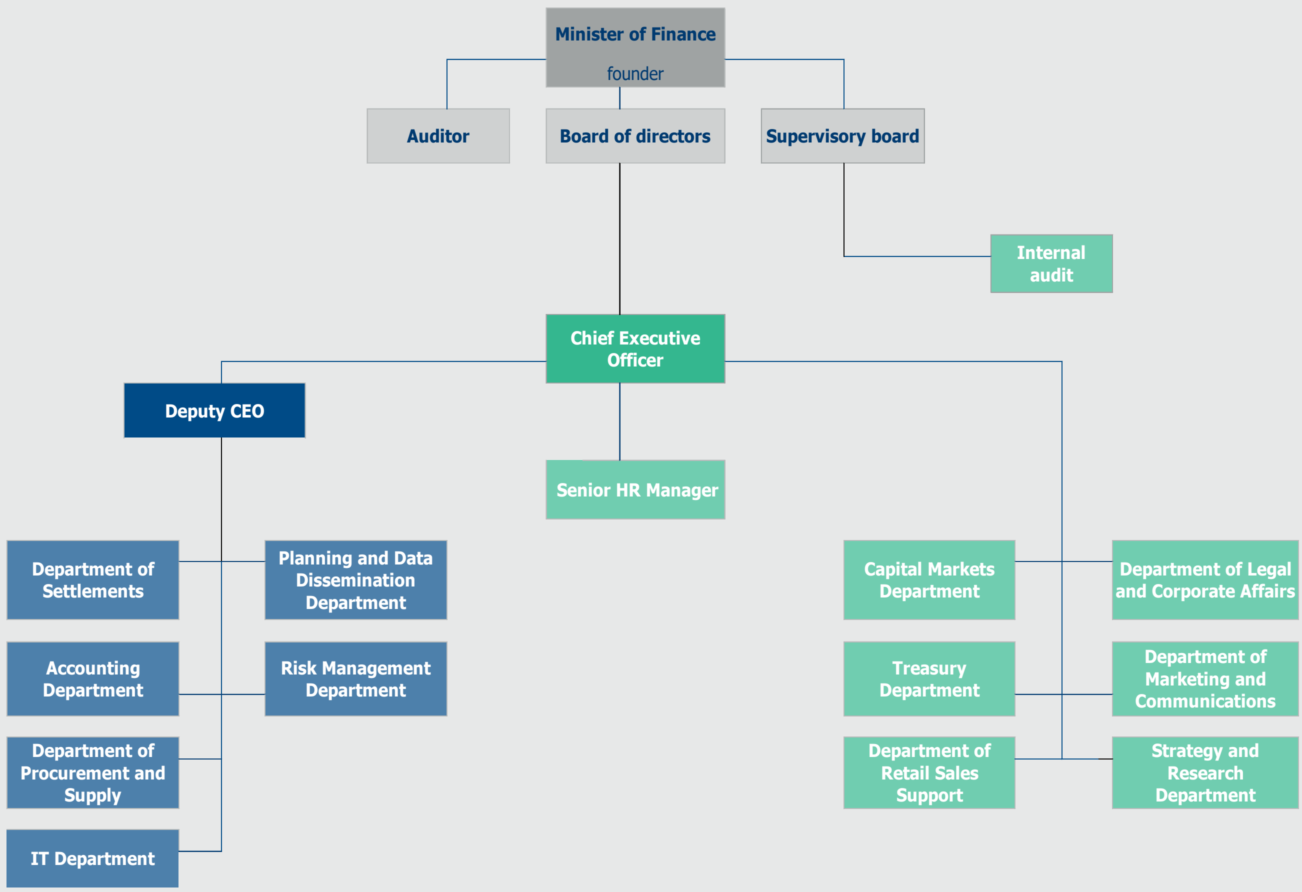
The responsibilities of ÁKK

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

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

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

Organisational structure of ÁKK as at 31 December 2021



X. The information services of ÁKK

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

The website at www.akk.hu[5] provides a wide range of information about the government securities market and the government debt. Already the homepage shows the most important data, such as the latest news, the current volume of government debt, upcoming auctions, the latest auction results and daily market yields (benchmark fixings). The website was renewed in August 2020, the description below is in accordance with the new website.

The 'Introduction' menu provides information on ÁKK as a company, the goals, activities, legal framework and the organisational structure of ÁKK.

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

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

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

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

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

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

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

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

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

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

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

Appendix

1. The central government gross debt as at 31.12.2021 (HUF million)

HUF denominated debt			
Hungarian Government Bonds	Maturity	Coupon	Outstanding amount
2022/A	24.06.2022	7.00%	485,215.13
2022/B	26.10.2022	1.75%	550,302.34
2022/C	24.08.2022	1.50%	142,807.95
2022/I	29.07.2022	Floating rate, Premium	163,564.32
2022/J	22.11.2022	Floating rate, Premium	162,488.42
2022/K	30.03.2022	Floating rate, Premium	123,865.89
2022/L	21.09.2022	Floating rate, Premium	98,497.82
2022/N	20.09.2022	Floating rate, Bonus	7,001.46
2022/O	27.04.2022	Floating rate, Bonus	2,218.67
2022/P	27.04.2022	Floating rate, Bonus	1,917.84
2022/Z	23.03.2022	1.10%	23,213.31
2023/A	24.11.2023	6.00%	960,992.96
2023/B	26.07.2023	Floating rate	268,304.57
2023/C	23.08.2023	1.50%	340,172.79
2023/I	22.03.2023	Floating rate, Premium	66,873.85
2023/J	28.09.2023	Floating rate, Premium	159,033.44
2023/K	15.02.2023	Floating rate, Premium	71,842.88
2023/L	31.05.2023	Floating rate, Premium	230,801.93
2023/Z	24.05.2023	1.00%	66,864.37
2024/B	26.06.2024	3.00%	877,953.19
2024/C	24.10.2024	2.50%	1,138,420.22
2024/I	21.02.2024	Floating rate, Premium	147,019.72
2024/J	25.09.2024	Floating rate, Premium	166,533.20
2024/K	20.12.2024	Floating rate, Premium	150,688.75
2024/N	26.08.2024	Floating rate, Bonus	17,220.46
2024/O	24.04.2024	Floating rate, Bonus	371.29
2024/P	24.04.2024	Floating rate, Bonus	1,494.67
2025/B	24.06.2025	5.50%	1,200,732.42
2025/C	26.11.2025	1.00%	1,349,125.54
2025/I	20.02.2025	Floating rate, Premium	68,695.82
2025/J	21.05.2025	Floating rate, Premium	250,119.63
2025/Z	24.04.2025	2.50%	17,435.17
2026/D	22.12.2026	2.75%	960,569.04
2026/E	22.04.2026	1.50%	1,251,941.46
2026/F	26.08.2026	1.50%	768,089.23
2026/I	20.07.2026	Floating rate, Premium	342,719.96
2026/N	22.09.2026	Floating rate, Bonus	8,001.61
2027/A	27.10.2027	3.00%	1,255,242.95
2027/B	22.04.2027	Floating rate	921,597.13

2028/A	22.10.2028	6.75%	659,237.27
2028/N	22.03.2028	Floating rate, Bonus	20,637.97
2028/O	22.03.2028	Floating rate, Bonus	1,968.03
2029/A	23.05.2029	2.00%	882,169.57
2029/B	22.08.2029	Floating rate	560,946.69
2030/A	21.08.2030	3.00%	1,165,558.63
2031/A	22.10.2031	3.25%	1,473,255.00
2032/S	02.12.2032	Floating rate, Babybond	98,259.35
2033/A	20.04.2033	2.25%	1,182,174.78
2033/S	01.02.2033	Floating rate, Babybond	10,012.31
2034/A	22.06.2034	2.25%	363,928.15
2034/S	01.02.2034	Floating rate, Babybond	8,122.41
2035/S	01.02.2035	Floating rate, Babybond	7,870.52
2036/S	01.02.2036	Floating rate, Babybond	7,163.50
2037/S	01.02.2037	Floating rate, Babybond	6,728.51
2038/A	27.10.2038	3.00%	784,836.20
2038/S	01.02.2038	Floating rate, Babybond	5,368.01
2039/S	01.02.2039	Floating rate, Babybond	3,885.56
2040/S	01.02.2040	Floating rate, Babybond	1,371.73
2041/A	25.04.2041	3.00%	415,236.42
2051/G	28.04.2051	4.00%	93,989.77
Matured, but unclaimed government bonds			83.37
Total			**22,572,755.14**
Repos with government bonds (repos actually increase or decrease the total amount)			59,635
Discount Treasury Bills			**580,318.86**
Repos with discount Treasury bills (repos actually increase or decrease the total amount)			2,889.45
Hungarian Government Security Plus (dematerialized)			**5,946,441.89**
Hungarian Government Security Plus (printed)			**415,081.59**
1-year Hungarian Government Security			**1,001,563.58**
Out of which matured, but unclaimed			36.09
Treasury Savings Bills (1-year)			**173,346.60**
Treasury Savings Bills (2-year)			**61,408.03**
HUF loans			**1,307,744.41**
Matured, but unclaimed other retail government securities			51.91
Total HUF debt			**32,121,236.46**

Foreign currency debt					Outstanding amount (HUF million)	Outstanding amount (EUR million)
Syndicated loan and loans drawn down from revolving credit facilities*					**0**	**0**
Loans granted by International Financial Institutions*					**1,222,821.03**	**3,313.88**
Foreign currency loans taken over*					**122,418.60**	**331.76**
Government bonds issued since 1999						
Maturity date	Currency	Outstanding amount (original currency)	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
29.03.2041	USD	1,250,000,000	30	7.625%	407,137.50	1,103.35
21.02.2023	USD	1,542,582,000	10	5.375%	502,434.38	1,361.61
22.11.2023	USD	1,631,160,000	10	5.750%	531,285.12	1,439.80
25.03.2024	USD	1,819,010,000	10	5.38%	592,469.75	1,605.61
10.10.2027	EUR	1,000,000,000	10	1.750%	369,000.00	1,000.00
22.10.2025	EUR	1,000,000,000	7	1.25%	369,000.00	1,000.00
28.04.2026	EUR	1,000,000,000	6	1.13%	369,000.00	1,000.00
28.04.2032	EUR	1,000,000,000	12	1.63%	369,000.00	1,000.00
05.06.2035	EUR	1,500,000,000	15	1.75%	553,500.00	1,500.00
15.09.2023	JPY	22,700,000,000	3	0.520%	64,225.11	174.05
18.09.2025	JPY	20,000,000,000	5	0.740%	56,586.00	153.35
17.09.2027	JPY	15,500,000,000	7	1.03%	43,854.15	118.85
18.09.2030	JPY	4,500,000,000	10	1.29%	12,731.85	34.50
18.11.2030	EUR	1,250,000,000	10	0.50%	461,250.00	1,250.00
17.11.2050	EUR	1,250,000,000	30	1.50%	461,250.00	1,250.00
22.09.2031	USD	2,250,000,000	10	2.13%	732,847.50	1,986.04
21.09.2051	USD	2,000,000,000	30	3.13%	651,420.00	1,765.37
21.09.2028	EUR	1,000,000,000	7	0.13%	369,000.00	1,000.00
16.12.2024	CNY	1,000,000,000	3	3.28%	51,280.00	138.97
Total					**6,967,271.36**	**18,881.49**
Cross-currency swaps					**-372,323.06**	
Premium Euro Hungarian Government Bond						
Code	Currency	Maturity date	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2022/X	EUR	21.12.2022	3	Floating rate, Premium	88,313.96	239.33
2023/X	EUR	20.09.2023	3	Floating rate, Premium	25,269.45	68.48
2024/X	EUR	20.11.2024	3	Floating rate, Premium	26,184.94	70.96
2025/X	EUR	21.08.2025	5	Floating rate, Premium	21,191.33	57.43
2025/Y	EUR	15.12.2025	4	Floating rate, Premium	2,642.60	7.16
2026/X	EUR	27.11.2026	5	Floating rate, Premium	79,019.95	214.15
2027/X	EUR	17.09.2027	6	Floating rate, Premium	7,662.14	20.76
Total					**250,284.37**	**678.28**

* Including swaps

Residence Bond						
Code	Currency	Maturity date	Maturity (years)	Yields	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2022/T1	EUR	27.03.2022	5	2.00%	44,169.30	119.70
2022/T2	EUR	27.06.2022	5	2.00%	128,854.80	349.20
2022/T3	EUR	27.09.2022	5	2.00%	31,660.20	85.80
Total					**204,684.30**	**554.70**
Total foreign currency debt					**8,395,156.60**	
Total central government debt					**40,516,393.06**	
Other obligations of ÁKK (marked-to-market deposits placed at ÁKK)					180,629.19	
Grand total					**40,697,022.25**	

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

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

Foreign currency denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
24.11.2011	Ba1	BBB-	BBB-
21.12.2011	Ba1	BB+	BBB-
06.01.2012	Ba1	BB+	BB+
23.11.2012	Ba1	BB	BB+
20.12.2012	Ba1	BB	BB+
20.03.2015	Ba1	BB+	BB+
20.05.2016	Ba1	BB+	BBB-
16.09.2016	Ba1	BBB-	BBB-
04.11.2016	Baa3	BBB-	BBB-
15.02.2019	Baa3	BBB	BBB-
22.02.2019	Baa3	BBB	BBB
24.09.2021	Baa2	BBB	BBB

All three major credit rating agencies assigned a 'stable' rating outlook to the long-term foreign currency debt of Hungary at the end of 2021.

HUF denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
25.04.1996	-	-	BBB+
28.10.1996	-	A-	BBB+
24.06.1997	-	A-	A-
22.06.1998	A1	A-	A-
02.07.1998	A1	A-	A
11.12.1998	A1	A	A
29.11.2000	A1	A	A+
19.12.2000	A1	A+	A+
19.11.2002	A1	A	A+
12.01.2005	A1	A	A
27.05.2005	A1	A-	A
06.12.2005	A1	A-	A-
22.01.2006	A1	A-	A-
26.01.2006	A1	A-	A-
15.06.2006	A1	BBB+	A-
22.12.2006	A2	BBB+	A-
05.11.2007	A2	BBB+	A-
17.03.2008	A2	BBB+	A-
17.10.2008	A2	BBB+	A-
07.11.2008	A3	BBB+	A-
10.11.2008	A3	BBB+	BBB+

HUF denominated debt			
Date of change	Moody's	Standard and Poor's	Fitch Ratings
17.11.2008	A3	BBB	BBB+
02.03.2009	A3	BBB	BBB+
30.03.2009	A3	BBB-	BBB+
31.03.2009	Baa1	BBB-	BBB+
02.10.2009	Baa1	BBB-	BBB+
23.07.2010	Baa1	BBB-	BBB+
06.12.2010	Baa3	BBB-	BBB+
23.12.2010	Baa3	BBB-	BBB
06.06.2011	Baa3	BBB-	BBB
11.11.2011	Baa3	BBB-	BBB
24.11.2011	Ba1	BBB-	BBB
21.12.2011	Ba1	BB+	BBB
06.01.2012	Ba1	BB+	BBB-
23.11.2012	Ba1	BB	BBB-
20.12.2012	Ba1	BB	BBB-
20.03.2015	Ba1	BB+	BBB-
16.09.2016	Ba1	BBB-	BBB-
04.11.2016	Baa3	BBB-	BBB-
15.02.2019	Baa3	BBB	BBB-
22.02.2019	Baa3	BBB	BBB
24.09.2021	Baa2	BBB	BBB

All three major credit rating agencies assigned a 'stable' rating outlook to the long-term domestic currency debt of Hungary at the end of 2021.

3. The addresses of primary dealers

Primary dealer	Address
BNP Paribas	16 Boulevard des Italiens, 75 009 Paris, France
CIB Bank Zrt.	Budapest, H-1027 Medve utca 4-14.
Citibank Europe Plc.	Budapest, H-1133 Váci u. 80. Promenade Garden
Deutsche Bank AG	Taunusanlage 12, 60325 Frankfurt am Main, Germany
ERSTE Befektetési Zrt.	Budapest, H-1138 Népfürdő u. 24-26.
Goldman Sachs Bank Eurpe SE	Marienturm, Taunusanlage 9-10, 60329 Frankfurt am Main, Germany
ING Bank N.V.	Budapest, H-1068 Dózsa György út 84/B. (Hungarian Branch)
J.P. Morgan AG	Taunustor 1, 60310 Frankfurt am Main, Germany
K&H Bank Zrt.	Budapest, H-1095 Lechner Ödön fasor 9.
MKB Bank Zrt.	Budapest, H-1056. Váci u. 38.
MTB Magyar Takarékszövetkezeti Bank Zrt.	Budapest, H-1122 Pethényi köz 10.
OTP Bank Nyrt.	Budapest, H-1131 Nádor utca 16.
Raiffeisen Bank Zrt.	Budapest, H-1054 Akadémia u. 6.
UniCredit Bank Hungary Zrt.	Budapest, H-1054 Szabadság tér 5-6.

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

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

CHAPTER II

Reduction of government debt

1. Definition and calculation of government debt

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(...)

Chapter III

The government debt management agency

4. Legal status of the Government Debt Management Agency

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

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

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

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

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

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

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

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

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

b) other revenues.

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

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

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

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

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

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

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

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

e) organises the secondary market of government securities,

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

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

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

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

j) executes credit and deposit operations,

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

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

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

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

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

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

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

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

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

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

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

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

(…)

ACT No. CXCV. of 2011 on the public finances

Authorisation of the Minister responsible for the public finances

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

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

I. Balance sheet

data in HUF thousand

	Assets	2020	2021
	A) Fixed assets	201,113	401,956
I	Intangible assets	85,623	173,698
II	Tangible assets	108,871	183,557
III	Invested financial assets	6,619	44,701
	B) Current assets	431,490	249,337
I	Inventories	24	15
II	Receivables	7,657	8,419
III	Securities	0	0
IV	Cash and cash equivalents	423,809	240,903
	C) Accrued and deferred assets	30,941	47,327
	Assets in total	663,544	698,620

data in HUF thousand

	Liabilities	2020	2021
	D) Capital and reserves	509,391	536,693
I	Subscribed capital	300,000	300,000
IV	Profit reserve	94,914	151,914
VII	Balance-sheet profit or loss	114,477	84,779
	E) Provisions	0	0
	F) Liabilities	143,420	150,254
I	Subordinated liabilities	0	0
II	Long-term liabilities	0	0
III	Short-term liabilities	143,420	150,254
	G) Accrued and deferred liabilities	10,733	11,673
	Liabilities in total	663,544	698,620

Budapest, 17 March 2022

Zoltán Kurali
CEO

II. Profit and loss account

data in HUF thousand

	Liabilities	2020	2021
I	Net sales revenue	1,379,584	1,552,890
III	Other revenue	3,162	2,410
IV	Material expenses	299,951	347,896
V	Personnel expenses	874,344	1,017,802
VI	Depreciation and amortisation	77,327	83,722
VII	Other expenses	7,826	14,319
A	Operating profit or loss	123,298	91,561
B	Profit or loss from financial transactions	2,406	2,056
C	Profit or loss on ordinary activities	125,704	93,617
XII	Tax payable	11,227	8,838
F	Profit or loss after taxation	114,477	84,779

Budapest, 17 March 2022

Zoltán Kurali
CEO

6. Senior officials of ÁKK in december of 2021

Members of the Board of Directors:

László Balogh, chairman

Péter Benő Banai, member

Viktor József Asztalos, member

Dr. Balázs Rákossy, member

Greinstetter Balázs, member from 01.12.2021

Members of the Supervisory Board:

Judit Gondos, chairman

Dr. Viktor Várpalotai, member

Dr. Ábel Berczik, member

The Company's auditor:

Club-Audit Számviteli és Pénzügyi Szolgáltató Kft.

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

Responsible auditor:

Fehérné Vikárius Éva, auditor