# Government of Hungary

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## Introduction

The Government of Hungary issued two green bonds in April 2021 and January 2022 (collectively the "Hungary Green Bonds") and subsequently had additional issuances on the same bonds. Between June 2023 and December 2023, Government of Hungary raised HUF 46,283 million with the Hungary Green Bonds to refinance projects related to clean transportation, land use and living natural resources, and pollution prevention and control from the budgeted year 2022. In November 2024, the Government of Hungary engaged Sustainalytics to review the projects refinanced with proceeds from the Hungary Green Bonds (the "Nominated Expenditures") and provide an assessment as to whether they meet the use of proceeds criteria and whether the Government of Hungary complied with the reporting commitments in the Hungary Green Bond Framework 2023 (the "Framework"), which is an update to the Hungary Green Bond Framework 2020.[1,2,3] Sustainalytics provided a Second Party Opinion on the Framework in July 2023.[4]

## Evaluation Criteria

Sustainalytics evaluated the Nominated Expenditures and the Government of Hungary's reporting based on whether they:

1. Meet the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

**Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs**

| Use of Proceeds Category | Eligibility Criteria | Key Performance Indicators |
|---|---|---|
| **Clean Transportation** | Eligible expenditures aimed at reducing dependence on fossil fuel transport.<br><br>Note that the expenditures financed under this category also need to meet the EU Taxonomy substantial contribution criteria for relevant economic activities are in line with ICMA Green Bond Principles version '2021 (with June 2022 Appendix 1).[5]<br><br>- Railway and road passenger transportation, including one of the following:<br>- Trains and passenger coaches that have direct zero tailpipe $CO_2$ emissions.<br>- Tram-trains that have zero direct tailpipe $CO_2$ emissions when operated on a track with necessary infrastructure, and use a | - Accumulated amount of electrified rail infrastructure (kilometres)<br>- Passenger-kilometres (i.e. the transport of one passenger over one kilometre) and/or passengers; or tonne-kilometres (i.e. the transport of one tonne over one kilometre) and/or tonnes<br>- Number of electric vehicle charging stations installed<br>- Number of environmentally friendly vehicles deployed |

[1] The Government of Hungary issued the inaugural Hungary Green Bonds in 2020. The Hungary Green Bond Framework 2023 applies to the issuance or reopening of the Hungary Green Bonds.
[2] Hungary, "Hungary Green Bond Framework", (2020), at: https://www.akk.hu/download?path=2f0f8982-980b-42f0-9030-0556da1222c7.pdf
[3] Hungary, "Hungary Green Bond Framework", (2023), at: https://www.akk.hu/download?path=63822961-69ee-4de0-b786-ad45df71f3ee.pdf
[4] Sustainalytics, "Second-Party Opinion, Hungary Green Bond Framework", (2023), at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/hungary-green-bond-framework-second-party-opinion-2023.pdf?sfvrsn=308cfcf4_1
[5] ICMA, Green Bond Principles June 2021 (with June 2022 Appendix 1), at: https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf

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| | conventional engine where such infrastructure is not available (bimode).<br>- Buses with direct zero tailpipe $CO_2$ emissions or until 2025, belong to the categories M2 & M3 with bodywork classified as CA, CB, CC and CD and comply with the latest EURO VI standard.<br>- Light duty vehicles, including one of the following:<br>o Zero tailpipe $CO_2$ emission vehicles (e.g. hydrogen, fuel cell, and electric).<br>o Until 2025, vehicles with tailpipe emission intensity below 50 $gCO_2$/km.<br>- Infrastructure dedicated to one of the following:<br>o Rail transport.<br>o Public and low-carbon road transport.<br>o Active mobility.<br>- Infrastructures dedicated to the transport of fossil fuel are excluded. | - Annual energy savings (in MWh)<br>- Annual GHG emission avoidance (in $CO_2$ equivalent)<br>- Annual passenger train kilometres |
| **Land Use and Living Natural Resources** | Eligible expenditures for sustainable land use and protection, as well as promotion of biological diversity.<br>- Sustainable agriculture according to national legislation or EU legislation.<br>- Sustainable forest management according to national legislation.<br>- Protection and restoration of biodiversity and ecosystems. | - Hectares of sustainable agriculture<br>- Hectares of sustainable forest<br>- Hectares and share of protected areas<br>- Number of Natura 2000 sites<br>- Number of species at risk benefitting from conservation action<br>- Annual GHG emissions avoidance (in $CO_2$ equivalent) |
| **Pollution Prevention and Control** | Eligible expenditures related to fostering of pollution reduction and the development of a circular economy.<br>- Waste management, including one of the following:<br>o Infrastructure and technologies for material recovery of recyclables including waste collection and sorting.<br>o Infrastructure and technologies for waste processing and recycling (for non-hazardous waste only).<br>- Remediation and restoration of contaminated land. | - Amount of waste diverted from landfill<br>- Amount of waste that is prevented, minimized, reused or recycled<br>- Number/percentage of communities undertaking solid waste management improvement projects<br>- Area of land remediated / rehabilitated (for polluted sites)<br>- Annual GHG emission avoidance (in $CO_2$ equivalent) |

## Issuer’s Responsibility

The Government of Hungary is responsible for providing accurate information and documentation relating to the details of the projects, including descriptions, amounts allocated and impact.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from the Hungary Green Bonds. The work undertaken as part of this engagement included collection of documentation from the Issuer and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by the Government of Hungary. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by the Issuer.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

## Conclusion

Based on the limited assurance procedures conducted,[6] nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the Nominated Expenditures do not conform with the use of proceeds criteria and reporting commitments in the Framework. The Government of Hungary has disclosed to Sustainalytics that the proceeds from the Hungary Green Bonds were fully allocated as of December 2022.

## Detailed Findings

**Table 2: Detailed Findings**

| Framework Requirements | Procedure Performed | Factual Findings | Error or Exceptions Identified |
|---|---|---|---|
| **Use of Proceeds Criteria** | Verification of projects to determine alignment with the use of proceeds criteria outlined in the Framework. | The Nominated Expenditures comply with the use of proceeds criteria. | None |
| **Reporting Criteria** | Verification of projects or assets to determine if impact was reported in line with the KPIs outlined in the Framework. | The Government of Hungary reported on at least one KPI per use of proceeds category. | None |

[6] Sustainalytics' limited assurance process includes reviewing documentation relating to details of projects, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions of projects, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits to projects.

# Appendices

## Appendix 1: Allocation of Proceeds

**Table 3: Allocation of Proceeds from the Hungary Green Bonds**

| Use of Proceeds Category | Project | Project Description | Allocated Amount (HUF million) |
|---|---|---|---|
| **Clean Transportation** | Reimbursement of uncovered costs of railway passenger traffic | The programme aims to refinance the costs of railway passenger transport not covered by revenue, following Regulation (EU) 2021/782.[7] | 31,746 |
| | Reimbursement of the operation of the railway network | The programme includes costs related to the reimbursement of the operation and maintenance of the railway network, such as expenditures to enhance the comfort level of wagons, or operating expenses such as procurement of special services. | 11,842 |
| | Modernization of urban public transport | Finance for projects related to the upgrade of the M3 metro line in Budapest to increase service and comfort levels and encourage the modal shift to environmentally friendly transport modes. | 1,619 |
| | Modernization of rail transport | The programme aims to promote safe and efficient operation of the railway transport system (e.g. ETCS2 installation, bridge reconstruction, traffic safety programmes) and to upgrade the quality of services to improve customer experience (modernization of railway stations). | 150 |
| | Electrification of railway lines | Finance for the electrification of railway lines and traction supply development. | 10 |
| | Rolling stock development | Finance for the procurement of modern and environmentally friendly railway rolling stock, reducing energy consumption and associated GHG emissions, improving the comfort of passengers. | 2 |
| | Tax exemptions for environmentally friendly vehicles | The programme aims to promote the adoption of electric vehicles through tax exemptions on registration, motor vehicles, company cars, and motor vehicle duties introduced by the Jedlik Ányos Plan.[8] Only vehicles with zero tailpipe emissions were refinanced with the green bond proceeds (hybrid vehicles were subtracted). | 815 |
| **Land Use and Living Natural Resources** | Sustainable agriculture and forestry[9,10] | Allocation under the programme supports measure M15,[11] which targets focus areas such as forestry gene preservation and compensation. | 37 |

[7] European Parliament, "Regulation (EU) 2021/782", at: https://eur-lex.europa.eu/eli/reg/2021/782/oj
[8] Government of Hungary, Ministry of Agriculture, "Jedlik Ányos Plan", (2017), at: https://eionet.kormany.hu/download/1/46/c1000/03_Bibok_Jedlik_Anyos_Terv.pdf
[9] European Network for Rural Development, "Hungary", at: https://ec.europa.eu/enrd/country/hungary_en.html
[10] Ibid.
[11] Rural Development Programme measure M15: Forest-environmental and climate services and forest conservation.

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| | | It also supports activities such as permanent forestry, maintenance of forests by manual labour, sustainable material handling and in situ maintenance and preservation of forest genetic reserves. | |
| **Pollution Prevention and Control** | Support for waste management tasks[12,13,] | The programme aims to support projects related to the development of a circular economy, such as purchase of equipment (e.g. optical waste separators, quality testing tools), process development and capacity increase. | 62 |
| **Total Allocated Proceeds** | | | 46,283 |
| **Total Unallocated Proceeds** | | | 0 |
| **Total Net Proceeds Raised** | | | 46,283 |

[12] EMI, "Tájékoztató a 2022", (2022), at: https://www.emi.hu/EMI/web.nsf/Pub/6MTH65/$FILE/m%C3%B3dos%C3%ADtott%20T%C3%A1j%C3%A9koztat%C3%B3_2022_TDIJ_%C3%89MI_2022.03.07.pdf
[13] EMI, "Támogatási program a 2022", at: https://www.emi.hu/EMI/web.nsf/Pub/ZO7T6X.html

## Appendix 2: Reported Impact

**Table 4: Reported Impact from the Green Bonds**

| Use of Proceeds Category | Project | Key Performance Indicator | | Reported Impact[14] |
|---|---|---|---|---|
| Clean Transportation | Reimbursement of uncovered costs of railway passenger traffic | GHG emissions avoided by railway transport (2022) | | 61,051 $tCO_2e$ |
| | Reimbursement of the operation of the railway network | | | |
| | Modernization of rail transport | | | |
| | Electrification of railway lines | | | |
| | Rolling stock development | | | |
| | Modernization of urban public transport | Number of passengers (daily) | | 230,000 |
| | | Length of renovated metro line (2022-2023) | | 17.3 km |
| | Modernization of rail transport | Length of renovated or new railway line (2022-2023) | | 49.3 km |
| | | Length of railway lines affected by railway safety improvements (2022-2023) | | 119.4 km |
| | Tax exemptions of environmentally friendly vehicles | GHG emissions avoided by environmentally friendly vehicles (2022) | GHG avoided | 6,088 $tCO_2e$ |
| | | | CO avoided | 39.2 t |
| | | | $NO_x$ avoided | 2.4 t |
| | | Number of vehicles with tax exemptions (2022) | | 3,281 |
| Land Use and Living Natural Resources | Sustainable agriculture and forestry | Number of projects (2022) | | 243 |
| | | Number of beneficiaries (2022) | | 243 |
| Pollution Prevention and Control | Supporting the waste management tasks | Number of supported projects (2022) | | 7 |

[14] The Hungary Green Bond Framework 2023 allows proceeds to be allocated to the year of issuance or up to two preceding or succeeding budget years. Proceeds raised between June 2023 and December 2023 have been earmarked for the 2022 budget year, in alignment with the Framework. The reported impact reflects data from 2022.

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