GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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DEBT MANAGEMENT OUTLOOK 2022

Budapest, December 2021

Contents

1. Net financing requirements in 2022

The deficit of the central government calculated on **cash flow basis is** planned at **HUF 3153 billion.** The total cash-flow based net financing requirement for the year 2022 is equal to the deficit of the central government and other items, such as the balance of EU transfers. These other financing needs are considered items that are to be handled by liquidity management (e.g. with discount T-bills issuance).

2. Government debt redemptions

The total amount of government debt redemptions and pre-financing in 2022 is planned at **HUF 6,336 billion,** 10.8% of GDP, out of which 2.5% of GDP is the pre-financing of the coming years (planned domestic and international bond switches). The maturities of government debt – excluding pre-financing – is 8.3% of GDP.[1]

	2022 plan (HUF bn)	2022 plan (EUR bn)
HUF debt maturities	4,388	12.0
T-bonds	1,275	3.5
Retail securities	2,432	6.7
Discount T-bills	563	1.5
HUF loans	118	0.3
FX debt redemptions	491	1.3
International bonds	0	0.0
Domestic bonds	289	0.8
IFI and other loans	202	0.6
Total maturities	4,880	13.4
FX and HGB buybacks	921	2.5
Switch auctions	536	1.5
Total pre-financing	1,457	4.0
Total redemptions including pre-financing	6,336	17.4

The redemptions of domestic currency debt will amount to HUF 4,388 billion. Foreign currency debt maturities will amount to HUF 491 billion (EUR 1.3 billion). ÁKK will maintain active debt management, therefore HUF 921 billion domestic bond exchanges and at least USD 2 billion (HUF 536 billion with swaps) foreign currency denominated bond switches are planned in 2022.
Domestic currency bond redemptions will amount to HUF 1,275 billion (including the redemptions of the Hungarian Government Bond for local authorities), discount T-bill redemptions will amount to HUF 563 billion.

[1] ÁKK provides gross issuance and redemption data according to the methodology recommended by OECD, which takes redemptions of short-term securities - typically Treasury bills - only once into account to avoid multiple counting.

Large part of the domestic debt redemptions, HUF 2,432 billion is the redemption of retail securities, but the retail sector usually reinvests its maturing holdings and even increases the outstanding stock of retail securities.
Foreign currency debt redemptions will total **EUR 1.3 billion** (HUF 491 billion), out of which domestic bond redemptions will amount to EUR 0.8 billion, while the redemption and early redemption of IFI and other loans will amount to EUR 0.6 billion.
In order to reduce future refinancing risk and to increase the average term-to-maturity of the debt, ÁKK plans to exchange domestic bonds (HUF 921 billion) maturing in later years (pre-financing) and USD bonds (at least USD 2 billion) maturing is 2023 and 2024.

3. Gross issuance

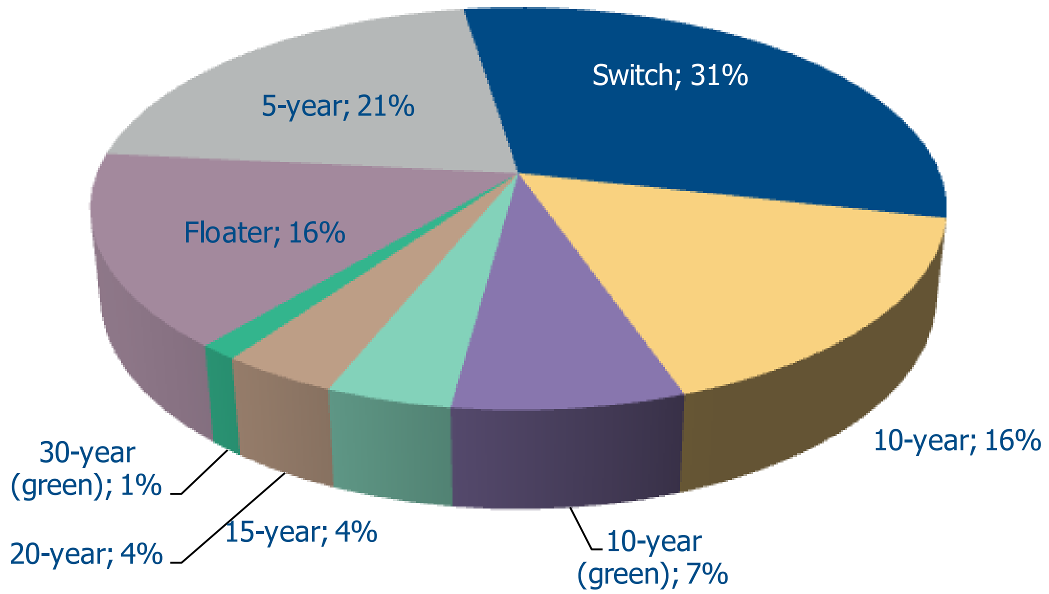
Total gross issuance is planned at **HUF 9,000 billion** in 2022, 83 per cent of the total gross issuance (**HUF 7,449 billion**) will be in domestic currency and only 17 per cent (**HUF 1,551 billion** or EUR 4.3 billion) will be in foreign currencies.

	2022 plan (HUF bn)	2022 plan (EUR bn)
Domestic issuance	7,449	20.5
T-bonds	2,225	6.1
Switch auction	1,000	2.7
T-bonds for local authorities	100	0.3
Retail securities	3,302	9.1
Discount T-bills	822	2.3
HUF loans	0	0.0
FX issuance	1,551	4.3
International bonds	182	0.5
International bond switch	578	1.6
IFIs and other loans	703	2.0
Other FX borrowing (e.g. domestic Bonds)	87	0.2
Grand total	9,000	24.7

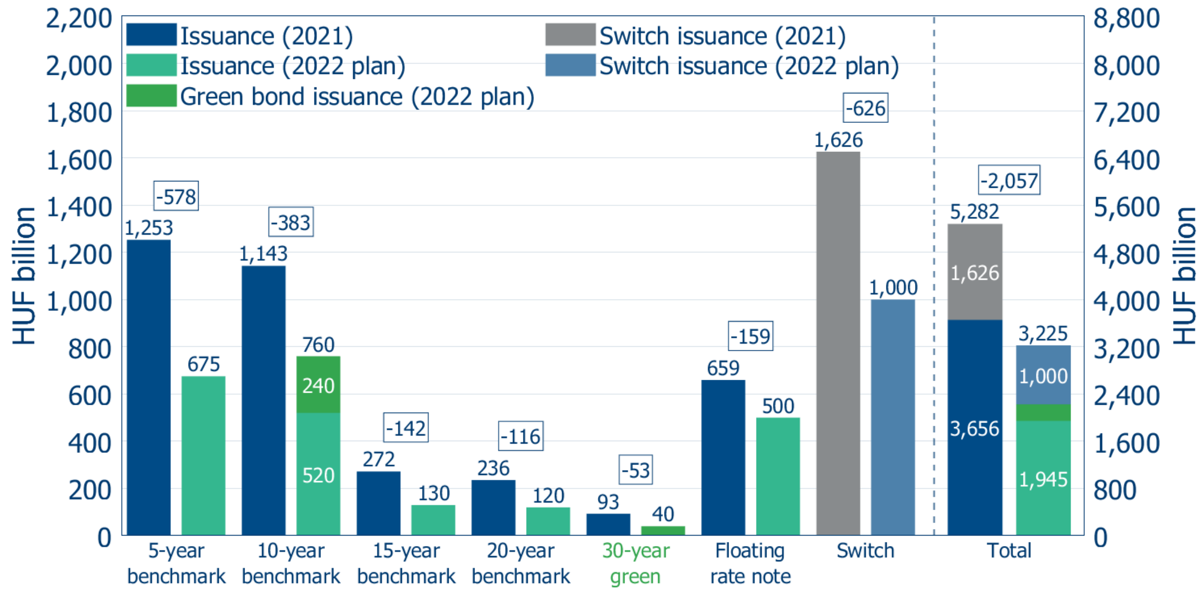
HUF 2,225 billion worth of domestic currency government bonds will be offered at auctions (including non-competitive sales) and the plan contains HUF 100 billion issuance of government bond for local authorities. In addition HUF 1,000 billion of bonds is expected to be sold at switch auctions.

In 2022 ÁKK does not intend to issue 3-year T-bond at auction. Only 5 year and longer bonds will be offered at auctions, including **a new, 10-years, HUF denominated green bond**. Domestic and international investors will be entitled to buy the new, 10-year green bond. ÁKK will hold fixed rate bond auction biweekly, the 5 and 10-year tenor bonds will be offered at every fixed rate bond auction, while the 10 and 20-year bonds will be offered alternately. The floating rate bond will also be offered biweekly. ÁKK intends to issue the new, 10-year green bond in every month, while the 30-year green bond will be offered quarterly.

Breakdown of the gross domestic government bond issuance by tenor



ÁKK will launch a new 5-year and 10-year bond series in 2022 and a new 10-year green bond. In the case of the 15-year, 20-year and 30-year tenor, and the floating rate bond ÁKK will offer the same bond series as in 2021.



Source: AKK; Note: Expected 2021 and planned 2022 values

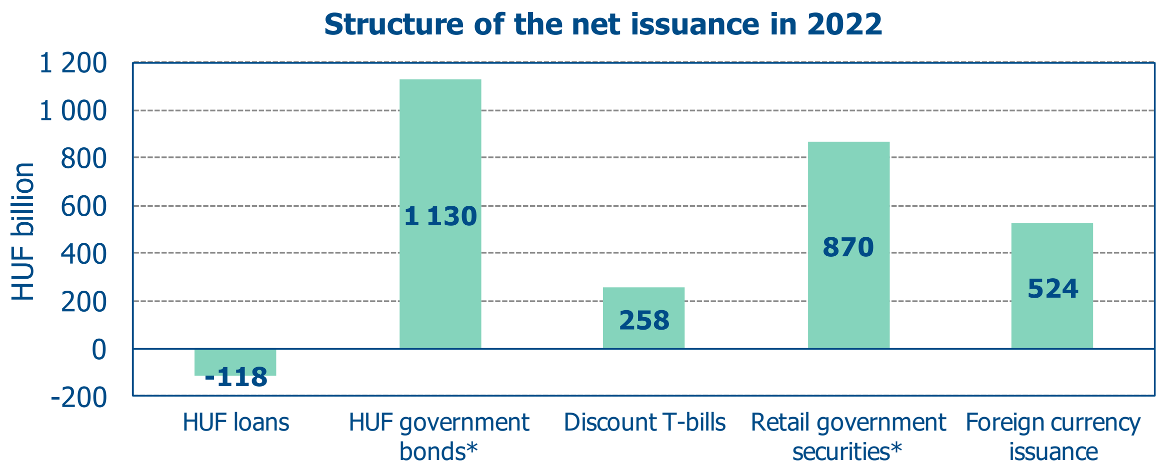
ÁKK will hold exchange (switch) auctions in order to support a balanced government bond issuance pattern as well as to manage the maturity profile and to reduce the refinancing risk of the bond portfolio by extending its average term-to-maturity. ÁKK will issue a new, long term bond dedicated to switch auctions.

The financing plan contains only EUR 0.5 billion equivalent of (partly green) international bond issuance in Japanese Yen Samurai market. In addition ÁKK will switch at least USD 2 billion US dollar denominated bonds maturing in 2023 and 2024 to longer term foreign currency bonds in order to reduce the refinancing risk and increase the average term to maturity of the debt portfolio. The financing plan contains maximum EUR 2 billion foreign currency denominated project (e.g. EIB, AIIB…) and syndicated loans to be drawdown, but ÁKK will decide the denomination (domestic currency or foreign currency) before the drawdown taking relative costs into consideration. Other foreign currency denominated borrowing (e.g. retail bond) will amount to EUR 0.2 billion.

4. Net issuance

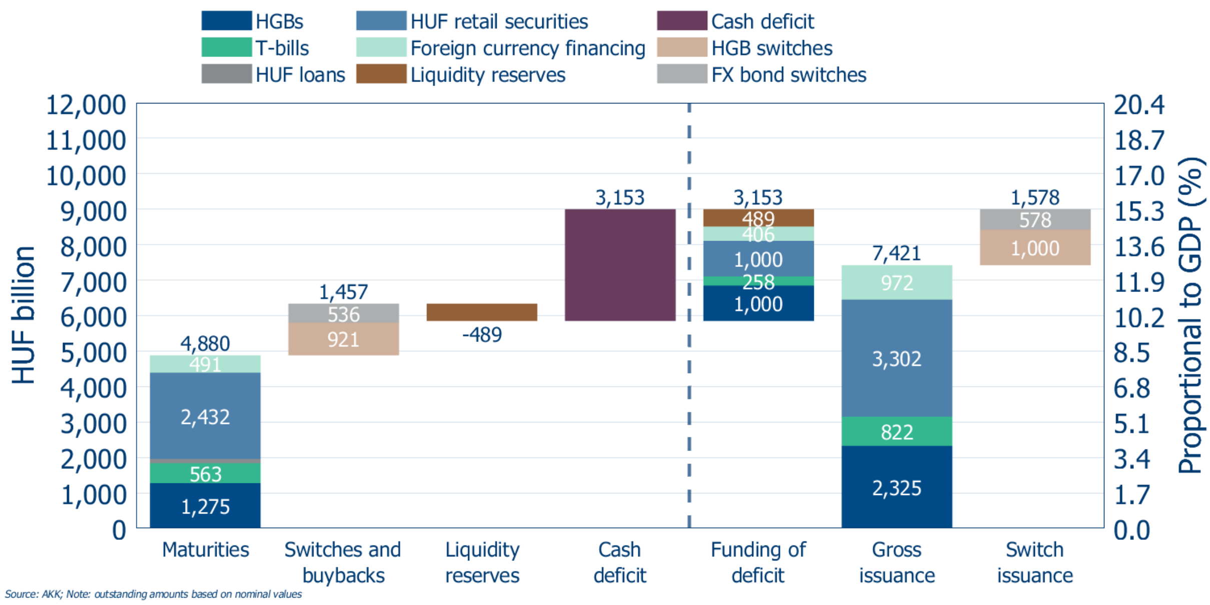
Net government debt issuance is planned in an amount of **HUF 2,663 billion**, out of which net domestic debt issuance will reach **HUF 2,140 billion** and net foreign currency borrowing will amount to **HUF 523 billion** (EUR 1.4 billion). The net financing requirement will be covered via the net government debt issuance and partly via the utilization of the liquidity reserves (TSA balance).

Out of the net domestic government securities issuance **net government bond issuance will be HUF 1,130 billion,** out of which **HUF 1,000 billion will finance the net financing need** of the central government, while HUF 130 billion will cover the maturing retail securities held by non-households. The stock of retail government securities is expected to increase by HUF 870 billion as a result of the **increase of the outstanding stock of retail securities held by households totaling HUF 1,000 billion** and the decrease of non-household ownership of retail securities totaling HUF 130 billion. ÁKK intends to further extend the average term-to-maturity of the retail portfolio and increase the digital sales of retail debt to the extent possible. According to the plan the stock of discount **T-bills will increase by HUF 258 billion**, however, their outstanding volume can be increased for liquidity management purposes. Net issuance of HUF loans will be HUF -118 billion as a result of the maturities. ÁKK intends to draw down IFIs and other loans in foreign currency, but ÁKK will take into consideration the relative costs of foreign and domestic currency denominated financing.



*Net issuance of retail government securities includes the maturing amount of retail securities held by institutional sectors totaling HUF 130 billion. Out of the net HUF government bond issuance HUF 1000 billion will finance the deficit of the central government, while HUF 130 billion will finance the maturing retail government securities held by non-household sectors.

As the total foreign currency redemption will amount to EUR 2.8 billion (including US bond switch and the early redemption of loans related to Paks 2 nuclear power plant financing) and the gross foreign currency issuance is planned at EUR 4.3 billion, thus **the net foreign currency issuance is expected to amount to EUR 1.4 billion in 2022**.



5. Debt management strategy and benchmarks

ÁKK's mission is to finance the central government at the lowest costs in the long run, taking account of risks. In accordance with the economic policy of the government ÁKK has set the following main objectives:

1. According to the fundamental law of Hungary if the debt to GDP ratio is higher than 50 percent, only such a 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 reduction of the debt ratio accordingly.

2. The second objective of ÁKK is to broaden the investor base to improve its stability. The possible measures:

    a. **Enhance the wholesale government bond market** via flexible issuance policy, transparent primary dealer system and improving the institutional domestic investor base.

    b. Broaden the domestic investor base by funding large part of the deficit via **retail financing** (In 2022 ÁKK intends to prepare and present a new Retail Debt Strategy for the coming years (after reaching the current goals)).

    c. **Actively manage the FX debt ratio** within defined limits, maintaining the necessary market presence.

3. The third objective of debt management is to gradually **increase the average term-to-maturity (ATM) of the debt** in line with the prevailing market conditions. In international comparison the average term-to-maturity of the Hungarian debt is still low, (however increasing), and the share of maturing debt within one year is relatively high. ÁKK makes efforts to improve the maturity structure of the debt, reduce the refinancing risk by increasing the ATM of the debt portfolio.

4. The fourth objective is to implement **sustainability aspect (ESG)** into debt management framework.

In recent years the debt to GDP ratio and the share of FX debt decreased significantly due to the prudent fiscal policy and the pursued debt management strategy, however the decrease of public debt stopped in 2020 due to the COVID-19 pandemic. The share of FX debt is still favorable in regional comparison, acknowledged also by the major credit rating agencies, which upgraded Hungary to the investment-grade category in 2016 and upgraded Hungary's sovereign debt rating later.

The mission of Hungary's government debt management is quantified by setting portfolio benchmarks, which are mainly based on a general optimal portfolio model taking into account both costs and risks. ÁKK has determined the following benchmark targets for government debt management in 2022:

- ***Share of foreign currency debt:*** The share of the foreign currency denominated debt within the total central government debt should be in the 10-25% range. The widening of the FX debt ratio tolerance band allows the debt management to take advantage of the relative lower cost of foreign currency financing and to increase the optionality and room for maneuver of financing strategy.

- ***Currency mix of the foreign currency denominated debt:*** In order to mitigate cross-currency exchange rate risk, foreign currency obligations after swaps should be 100% in EUR, allowing for a 5% deviation from this target.

- ***Fixed / floater composition:*** Within the **HUF debt**, the share of the fixed rate elements should be in the range of 70-90%, and that of the floating rate debt, which includes all short-term debt, between 10% and 30%. Within the **foreign currency denominated debt**, the share of the fixed rate elements should be in the same range of 70-90%, and that of floating rate debt between 10% and 30%.

- ***Average Time to Re-fixing (ATR):*** ÁKK measures the re-pricing (interest rate) risk with the common ATR indicator. In order to keep an acceptable level of refinancing risk, the ATR of the HUF debt portfolio is targeted to be above 4 years. In case of adequate demand, ÁKK can increase the ATR, without an upper limit.

- ***Average Term to Maturity (ATM):***. To reduce the refinancing risk the average term to maturity of the domestic debt should be above 4.5 years. In case of adequate demand, ÁKK can increase the ATM of the domestic currency debt portfolio.

- ***Liquidity:*** In order to maintain the continuously safe financing of the budget, a minimum target balance of the Treasury Single Account has been determined and ÁKK's objective is to keep the end-of-day actual balance over this level.

In the case of the first six benchmark values ÁKK takes into account their 3-month moving average values, to avoid unnecessary reaction to one-off or temporary market movements that actually would not need a response in the medium or longer term.

To maintain a safe level of liquidity reserves and access to several financing channels also remain the emphasized goals of financing in 2022. For this purpose ÁKK intends to issue about 36 per cent of total gross bond issuance in the first quarter. In 2022 ÁKK the repo activity might be an important tool in liquidity management.

6. Further information

This Debt Management Outlook publication was compiled based on information available in the middle of December 2021. Thus the projected figures for 2022 may change according to the outturn of the financing needs and debt issuances. Even though the structure of financing may change compared to the plans, ÁKK will not change its strategic objectives and its strategic behavior in the markets either.

ÁKK's website (www.akk.hu, www.gdma.hu) and its regular publications and reports (monthly and quarterly publications; monthly report on debt transactions) provide regularly updated information on the financing needs, the debt transactions and the government debt. ÁKK also discloses until the 15th of each month the detailed domestic market issuance plan for the next 3 months, which shows the amounts to be issued for each tenor.

7. Issuance calendar

Issuance calendar of government bonds in 2022

Fixed rate government bonds

Date of auction	Date of settlement
13.01.2022	19.01.2022
27.01.2022	02.02.2022
10.02.2022	16.02.2022
24.02.2022	02.03.2022
10.03.2022	16.03.2022
24.03.2022	30.03.2022
07.04.2022	13.04.2022
21.04.2022	27.04.2022
05.05.2022	11.05.2022
19.05.2022	25.05.2022
02.06.2022	08.06.2022
16.06.2022	22.06.2022
30.06.2022	06.07.2022
14.07.2022	20.07.2022
28.07.2022	03.08.2022
11.08.2022	17.08.2022
25.08.2022	31.08.2022
08.09.2022	14.09.2022
22.09.2022	28.09.2022
06.10.2022	12.10.2022
20.10.2022	26.10.2022
03.11.2022	09.11.2022
17.11.2022	23.11.2022
01.12.2022	07.12.2022
15.12.2022	21.12.2022

Floating rate government bonds

Date of auction	Date of settlement
06.01.2022	12.01.2022
20.01.2022	26.01.2022
03.02.2022	09.02.2022
17.02.2022	23.02.2022
03.03.2022	09.03.2022
17.03.2022	23.03.2022
31.03.2022	06.04.2022
14.04.2022	20.04.2022
28.04.2022	04.05.2022
12.05.2022	18.05.2022
26.05.2022	01.06.2022
09.06.2022	15.06.2022
23.06.2022	29.06.2022
07.07.2022	13.07.2022
21.07.2022	27.07.2022
04.08.2022	10.08.2022
18.08.2022	24.08.2022
01.09.2022	07.09.2022
15.09.2022	21.09.2022
29.09.2022	05.10.2022
13.10.2022	19.10.2022
27.10.2022	02.11.2022
10.11.2022	16.11.2022
24.11.2022	30.11.2022
08.12.2022	14.12.2022

Issuance calendar of discount treasury bills in 2022

12-month discount T-bills

Code	Date of auction	Date of settlement	Date of maturity
D221228	06.01.2022	12.01.2022	28.12.2022
D221228	20.01.2022	26.01.2022	28.12.2022
D221228	03.02.2022	09.02.2022	28.12.2022
D230222	17.02.2022	23.02.2022	22.02.2023
D230222	03.03.2022	09.03.2022	22.02.2023
D230222	17.03.2022	23.03.2022	22.02.2023
D230222	31.03.2022	06.04.2022	22.02.2023
D230419	14.04.2022	20.04.2022	19.04.2023
D230419	28.04.2022	04.05.2022	19.04.2023
D230419	12.05.2022	18.05.2022	19.04.2023
D230419	26.05.2022	01.06.2022	19.04.2023
D230419	09.06.2022	15.06.2022	19.04.2023
D230628	23.06.2022	29.06.2022	28.06.2023
D230628	07.07.2022	13.07.2022	28.06.2023
D230628	21.07.2022	27.07.2022	28.06.2023
D230628	04.08.2022	10.08.2022	28.06.2023
D230823	18.08.2022	24.08.2022	23.08.2023
D230823	01.09.2022	07.09.2022	23.08.2023
D230823	15.09.2022	21.09.2022	23.08.2023
D230823	29.09.2022	05.10.2022	23.08.2023
D231018	13.10.2022	19.10.2022	18.10.2023
D231018	27.10.2022	02.11.2022	18.10.2023
D231018	10.11.2022	16.11.2022	18.10.2023
D231018	24.11.2022	30.11.2022	18.10.2023
D231018	08.12.2022	14.12.2022	18.10.2023
D231227	22.12.2022	28.12.2022	27.12.2023

3-month discount T-bills are auctioned every Tuesday, settlement is on the Wednesday of the following week, while the 12-month T-bills are auctioned every Thursday.