GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

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GOVERNMENT DEBT MANAGEMENT REPORT **2019**

Foreword

The objective of this Government Debt Management Report 2019 of the Government Debt Management Agency Pte. Ltd. (ÁKK) is to inform investors and other stakeholders in the government securities market about the financing of the central government, to analyse the characteristics of public debt and to describe the developments in the Hungarian government securities market in 2019.

One of the most important objectives of the Hungarian government is to reduce the public debt and foreign currency debt, increase domestic financing and improve debt metrics. 2019 was a very successful year in these aspects: according to Eurostat the public debt ratio continued to decrease from 69.1 per cent to 65.4 per cent. Not only did indebtedness decline, but the share of foreign currency debt also declined from 20.0 per cent to 17.7 per cent (90-day moving average). Due to several measures taken by the government and ÁKK the retail debt program boosted in 2019. Besides the simplification of the retail program ÁKK introduced a new, 5-year retail instrument called Hungarian Government Security Plus, which is more attractive for investors and more favourable for debt management. The introduction of the dematerialized and printed Hungarian Government Security Plus was very successful; the outstanding amount of the new instrument reached HUF 3,196 billion becoming the most popular retail debt product and contributing to increasing domestic financing and the average term-to-maturity of the debt portfolio. The share of retail debt held by households within the total debt reached 27 per cent, while due to the lengthening the average term-to-maturity of the retail portfolio, moving towards longer terms at auctions and reducing short term Discount T-bill issuance the average term-to-maturity of the domestic debt increased by 0.6 year to 4.15 years.

All in all, it is clear that the most important objectives for the last year were achieved in a stable government securities market with ample demand for government securities. The domestic ownership of public debt increased further due to the successful retail debt program – now 66 per cent of the public debt is in the hand of domestic investors. While the share of longer term retail securities with higher coupon increased in 2019 the cost of the new issuances was below the cost of maturing debt, thus the average cost of the outstanding debt continued to decrease in 2019. These achievements were also acknowledged by credit rating agencies, since two of the three major CRAs (Standard&Poors and Fitch) raised Hungary's credit rating in 2019.

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.
- 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 (NBH) 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)).

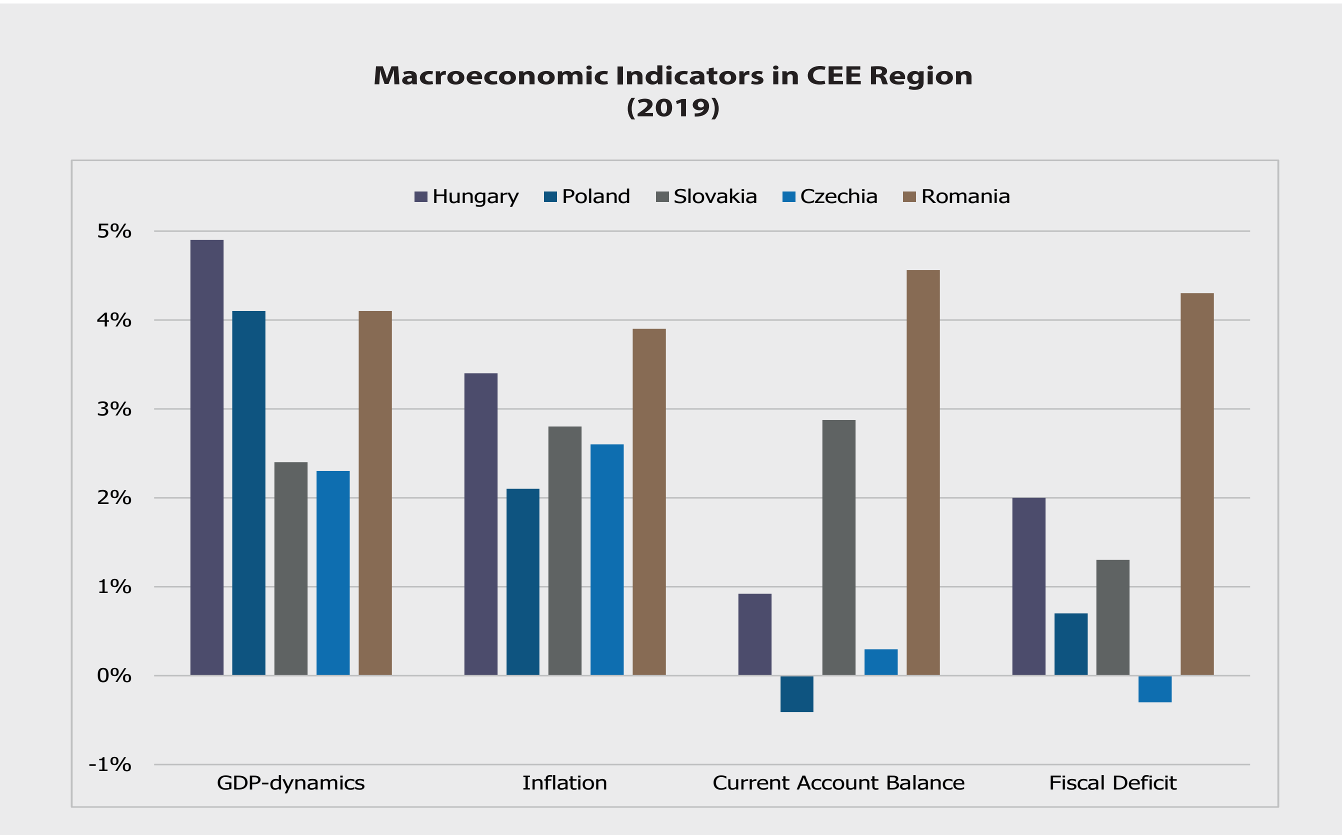
The debt data published by ÁKK in accordance with Hungarian and international accounting standards differs from the debt data used by Eurostat (the European Union's institute of statistics), which is calculated according to different principles and is essentially the result of statistical calculations.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

I. Macroeconomic developments in 2019

In 2019 Hungarian economic growth was outstanding relative to EU countries and regional peers, whilst other macroeconomic indicators were also favourable. Due to recession concerns the US and EU central banks loosened monetary conditions enabling the MNB to maintain loose monetary conditions creating a favourable situation for the Hungarian government debt management.

During 2019 monetary policy on developed markets became looser due to growing recession concerns. In the US, the Fed decreased the base rate three times. In Europe, the ECB decided to re-launch the asset purchasing programmes without a cap in addition to lowering the deposit rate. Uncertainty related to growth prospects and recession concerns were strong through the course of the year. The contracted British EU-exit process, the Sino-American trade war and the economic slowdown in China were all important risk factors. Besides fragile growth prospects and subdued inflation pressure loosened monetary policy was the main factor driving foreign exchange rates, yields and the performance of stocks.

Regional Comparison



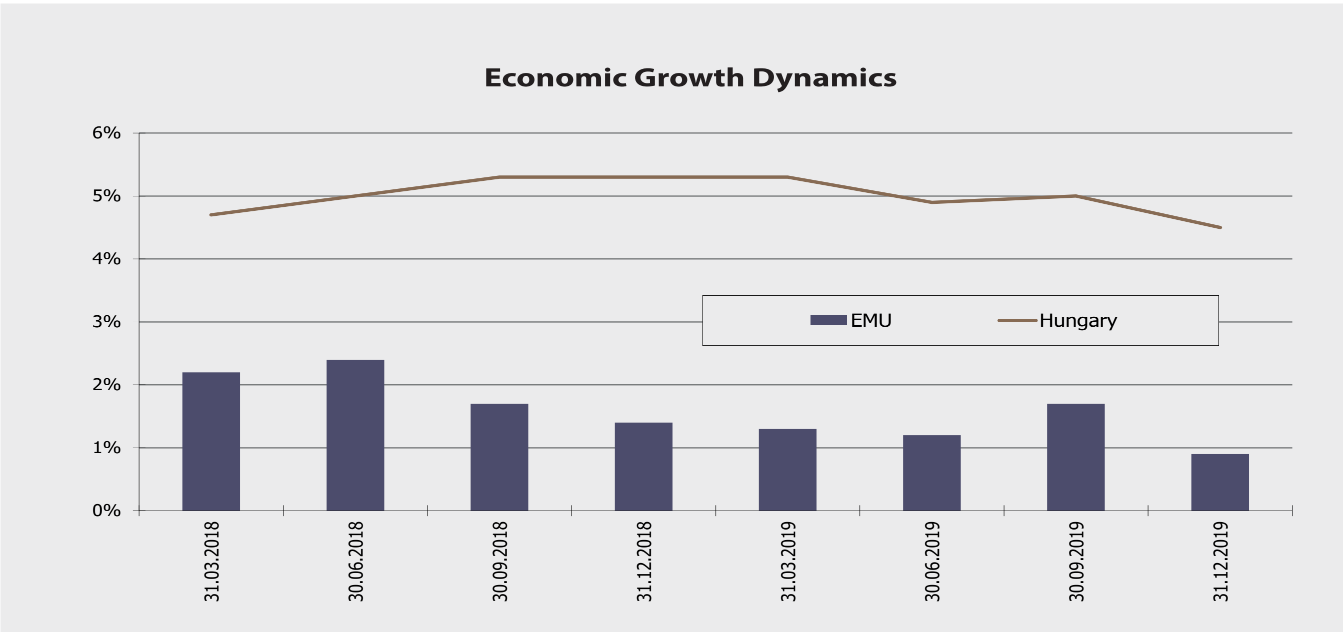
Source: Eurostat

* In case of current account, negative figure means a surplus.

I. Macroeconomic developments in 2019

In 2019 Hungarian macroeconomic indicators were very favourable in regional comparison. In 2019 Central-Eastern European economies grew dynamically. Amongst V4 countries and Romania, the Hungarian economic growth of 4.9% was salient, Polish and Romanian growth rates were high reaching 4.1%; the Czech growth rate of 2.3% and the Slovakian growth rate of 2.4% lagged behind regional peers. Compared to the previous year, GDP dynamics decelerated in all countries of the region driven by the slowing down (from 1.9% to 1.3%) growth rate of the Eurozone. Inflation accelerated in all Visegrad countries but still considered moderate: price level grew by 3.4% in Hungary; price dynamics in Poland (2.1%) and Czech Republic (2.6%) was lower but there was no apparent deflationary pressure. Inflation rate in Romania was slightly higher (3.9%) relative to the Visegrad countries but slightly lower than the previous year's rate (4.1%). High government deficit and strong wage dynamics contributed to the relatively high Romanian inflation rate. The current account posted a low surplus in case of Poland and a low deficit in case of the Czech Republic (0.3%) and Hungary (0.9%). The deficit was significant in Slovakia (2.9%) and Romania (4.6%). Fiscal deficit is manageable in Visegrad countries: Czech Republic posted a surplus (0.3%) in 2019; deficit rate was well below the Maastricht threshold in Poland (0.7%), Slovakia (1.3%) and Hungary (2.0%). Romania however posted a deficit rate of 4.3%.

Economic Growth

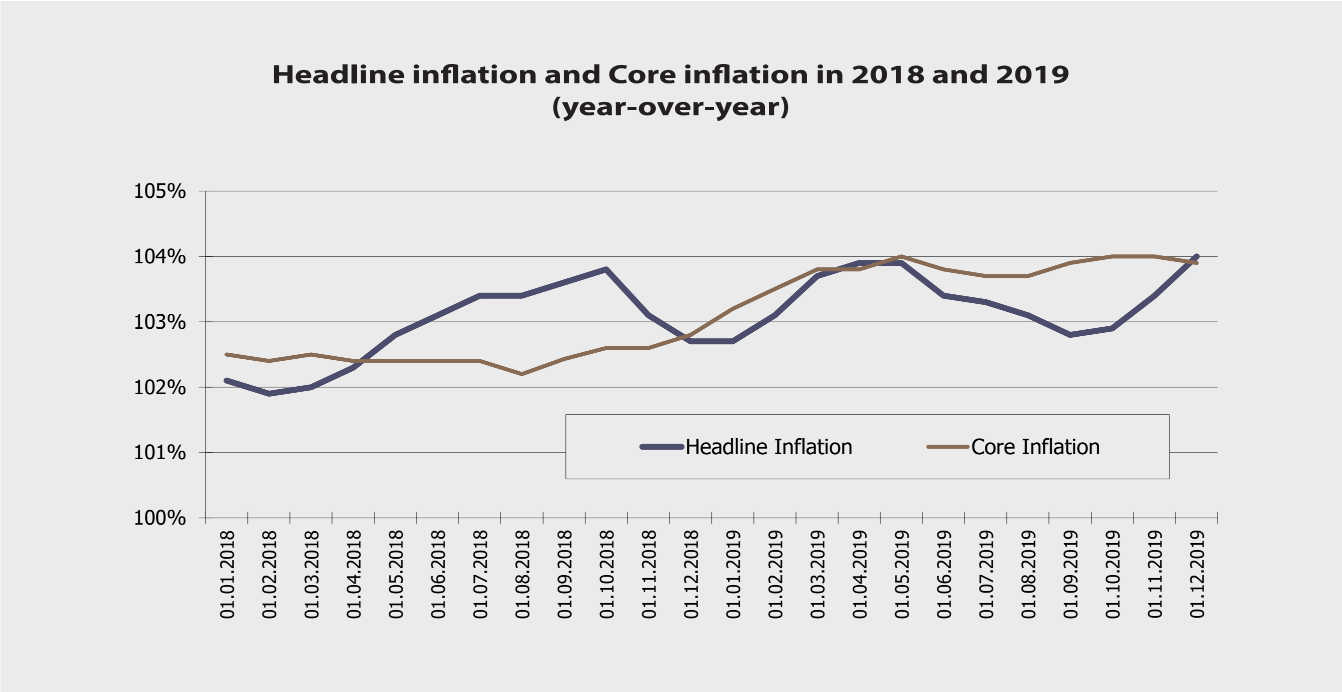


Source: Central Statistical Office (CSO), Eurostat

Economic growth was 5.1% in 2018, and decreased to 4.9% in 2019 outpacing significantly the average growth rate of the EU (and the Eurozone). In 2019 all economic sector except for agriculture contributed materially to growth. Industry and services sector both increased significantly (by 5.0% and 4.2%). Construction sector posted a high (21.4) growth rate driven by home building activities, government projects and EU subsidies. Due to relatively favourable weather conditions in 2018 activity in agriculture decreased by 0.3% due to high base of the previous year. Regarding final use of GDP, consumption and investments contributed to growth. The (4.1%) dynamics of consumption exceeded that of the previous year (3.8%). Investments grew by 9.5% in spite of high base following a growth of 18.3% in 2018. The dynamics of exports and imports both increased from 4.3% to 6.0% in case of exports and from 6.8% to 6.9% in case of imports, but net exports detracted 1.7 percentage points off the GDP growth rate in 2019 because imports growth rate outpaced that of exports.

I. Macroeconomic developments in 2019

Inflation



Source: CSO

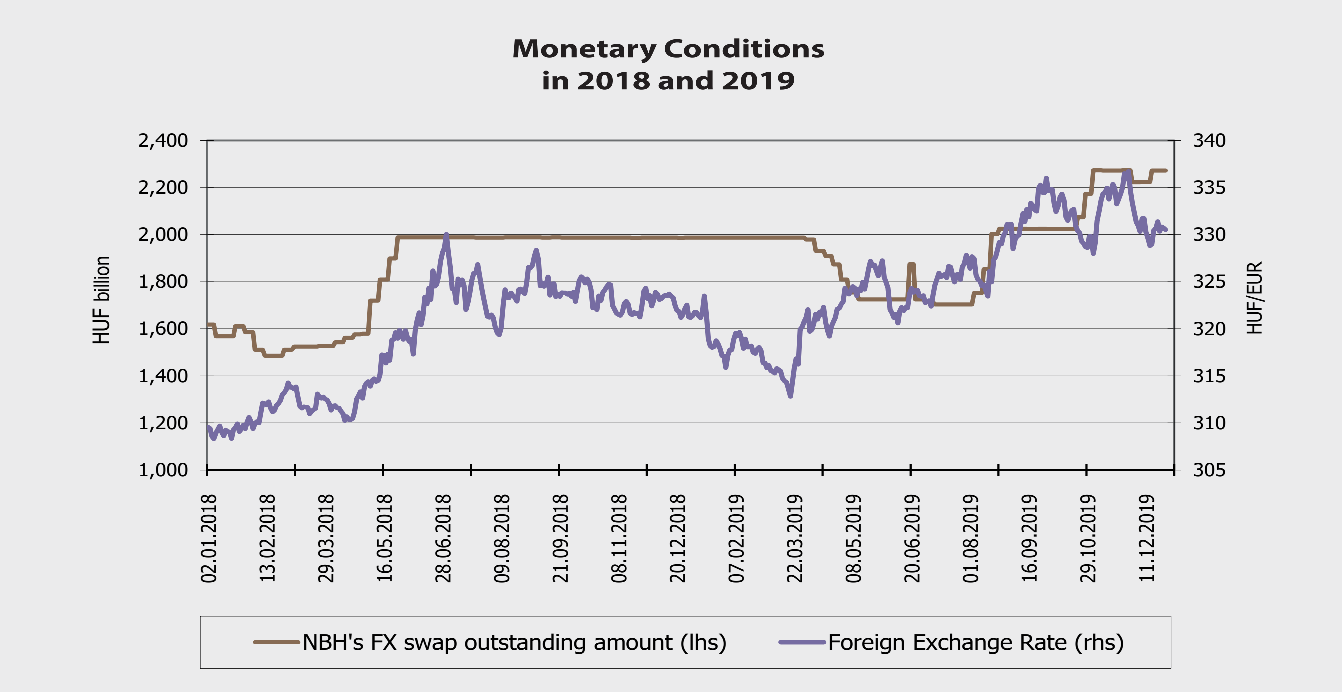
Inflation accelerated from 2.7% in December 2018 to 4.0% in December 2019 approaching the upper limit of the inflation target range of the central bank. Durable goods was the only one of the main groups of consumption where price level decreased (by 0.9%). 12-months inflation rate amounted to 0.4% in case of clothes, 0.6% in case of energy and heating, and 4.2% in case of fuel and other goods. Price level of services increased by 3.2%. Price level grew by 5.9% in case of food products and by 8.4% in case of alcoholic beverages and tobacco; indirect tax hikes contributed to the latter. In case of most groups of consumption inflationary pressure was contained, yearly average inflation was 3.4% in 2019. Core inflation amounted to 3.8% exceeding CPI inflation.

Monetary Conditions

During 2019 Hungarian monetary policy still relied primarily on non-conventional measures. The Monetary Policy Council maintained the central bank base rate at 0.90% throughout the year but hiked the overnight deposit rate – constituting the lower bound of the interest rate corridor – by 10 basis points to -0.05% in March. The central bank announced the Bond Funding for Growth Scheme in March (with a start date of July 1) in the amount of HUF 300 billion; the amount was raised to HUF 450 billion in December. FX swap tenders were amongst the most important instruments of the central bank. The outstanding amount of FX swap tenders amounted to HUF 2,000 billion as of the start of the year; the central bank decreased the amount to close to HUF 1,700 billion during the second quarter. During the second half of the year, the central bank increased the amount in two phases (mid-August and late October) first above HUF 2,000 billion and then in the vicinity of HUF 2,300 billion.

The foreign exchange rate of the forint weakened by 2.8% during 2019 from 321.5 HUF/EUR by the end of 2018 to 332.5 HUF/EUR by the end of 2019.

I. Macroeconomic developments in 2019



Source: NBH

During the first third of the year, the forint strengthened from 321.5 HUF/EUR by the end of 2018 to the vicinity of 313 HUF/EUR – the strongest exchange rate of the year. The local currency was supported by the announcement of the Monetary Policy Council of the previous year's December indicating that the central bank is prepared for the gradual and careful normalisation of monetary policy and the January statement of central bank vice president Márton Nagy indicating stricter monetary policy than previously expected according to market participants. Risks related to brexit, Sino-American trade war and worsening global growth prospects weakened regional currencies. On the other hand regional and Hungarian growth indicators were favourable in this period. In addition, market participants expected looser monetary policy – based on dim growth prospects – than before in Europe and overseas. Upgrading the ratings of Hungarian government debt by one notch by Standard&Poor's and Fitch also supported the forint. Accelerating core inflation – potentially implying stricter Hungarian monetary policy – also strengthened the foreign exchange rate.

Between the end of March and the end of August, the foreign exchange rate of the forint weakened to 330 HUF/EUR. Hungarian macroeconomic news – mainly the strong growth data – were mostly favourable in this period. The Monetary Policy Council of the central bank increased the overnight deposit rate and indicated to be data driven. The planned fiscal deficit for the next year (1.0% of GDP) is well below the Maastricht threshold and improves the room for manoeuvre of the fiscal policy. However, external environment was unfavourable in this period. Uncertainties regarding brexit was significant, in addition to Sino-American trade war, tensions increased between the US and Iran and tariffs were announced against Mexico. Risks to global growth increased, primarily the worse than expected German business sentiment indicators implied an economic slowdown. The adverse effect of this was not fully offset by US and European monetary policy getting more dovish.

In the last third of the year band trading was prevalent in case of the foreign exchange rate of the forint, the currency fluctuated between 330 HUF/EUR and 335HUF/EUR without a marked trend. During this period Hungarian growth data were favourable but the external environment was markedly unfavourable. Monetary loosening of the ECB and the Fed in addition to mounting signs of economic slowdown in Western Europe (especially Germany) were the key drivers of the external environment. The first factor strengthened the forint and regional currencies, the second factor had the opposite effect. The fact that the Hungarian central bank base rate was the lowest in the region and the MNB's commitment to markedly loose monetary policy contributed to the weakness of the forint according to market participants.

I. Macroeconomic developments in 2019

By the end of the year the forint strengthened driven by a break-through in the Sino-American trade war and the outcome of the British vote decreasing significantly the chance of a non-deal brexit. In addition, the MNB announced in the December Inflation Report, that risks to inflation that were deemed asymmetric and downward sloping in September became symmetric; according to market participants' assessment, the communication of the central bank tightened cautiously.

Fiscal Policy

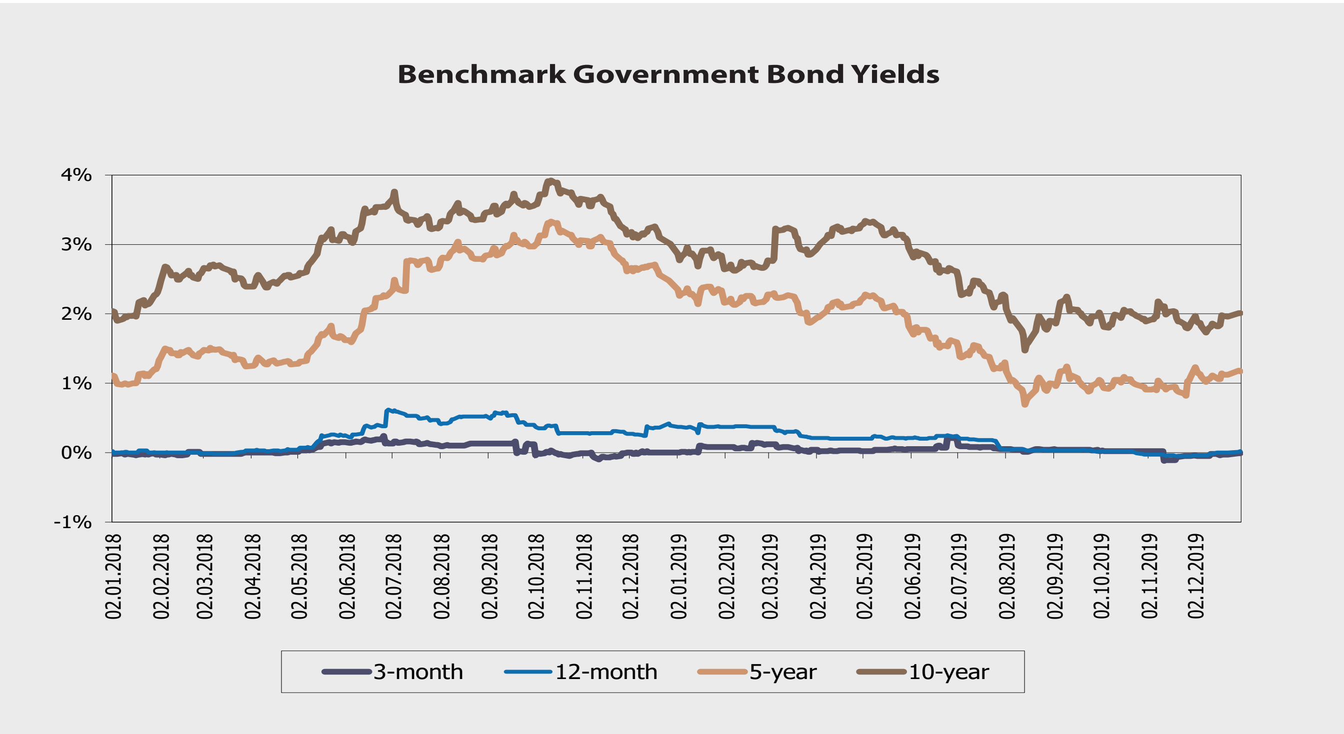
The deficit of the public sector was 2.1% of GDP based on the financial accounts methodology, the cash-flow based (GFS) central government deficit amounted to HUF 1,219.0 billion (equalling 2.6% of GDP for the year 2019). In 2019, the accrual based (ESA) general government deficit (including local governments) amounted to HUF 958.1 billion (equalling 2.0% of GDP for the year 2019) according to preliminary data. The financing need of the state for the year 2019 decreased compared to the previous year.[1]

Financing Position of the Economy

The households' savings to GDP ratio amounted to 4.9%. The net financing need of the corporate sector reached 2.9%. The economy of Hungary as a whole was a net borrower towards the rest of the world in the amount of 0.4% of GDP. The current account posted a deficit of EUR 1.2 billion or 0.9% of GDP.

Developments of Government Securities Markets and Yields

During the course of the year forint yields for all tenors decreased taking into account the whole twelve-month period.



Source: ÁKK

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

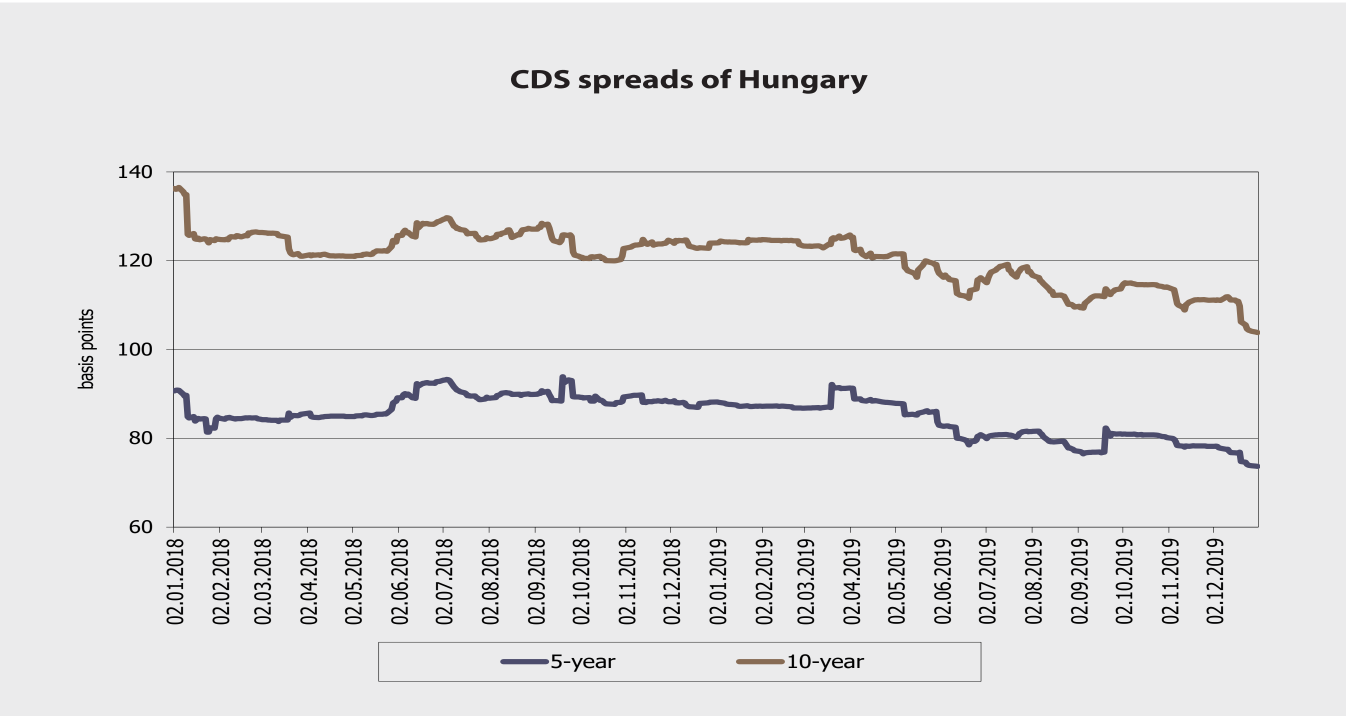
During the first four months of 2019 short-term government bond yields fluctuated well below the 0.90 % central bank base rate. However during the first seven months of the year, short-term yields exceeded zero and the slope of the yield curve was positive in the segment shorter than one year. During this period, cautious strictness was characteristic for the central bank communication, as a result, market participants expected stricter than previously anticipated monetary policy. Since August – after the Fed and the ECB committed themselves to loose monetary policy – short-term rates congested in the vicinity of zero and dived temporarily into negative territory.

Government bond yields stagnated in the first third of 2019, then decreased until the middle of August at a fast pace. By the beginning of the year, tightening Hungarian monetary policy, gloomy global growth prospects, brexit and risks emanating from Sino-American trade war negated the effect of favourable Hungarian growth and good macro stability indicators. The gradual commitment of the Fed and the ECB to monetary loosening decreasing yields on developed markets and long-term yields on regional – including Hungarian – markets might have contributed to the decrease of Hungarian yields during summer.

During the last third of the year, long-term yields stagnated. Although Hungarian growth data were still favourable, and market participants considered the commitment of the MNB to low yield levels strong, these factors were countered by the gradually worsening global growth prospects and consequently worsening investor sentiment.

By the end of 2019, 3-months yield changed to -0.01%, 12-months yield decreased to 0.02%, 5-year yield amounted to 1.17% and 10-year yield stood at 2.01%.

CDS Spreads



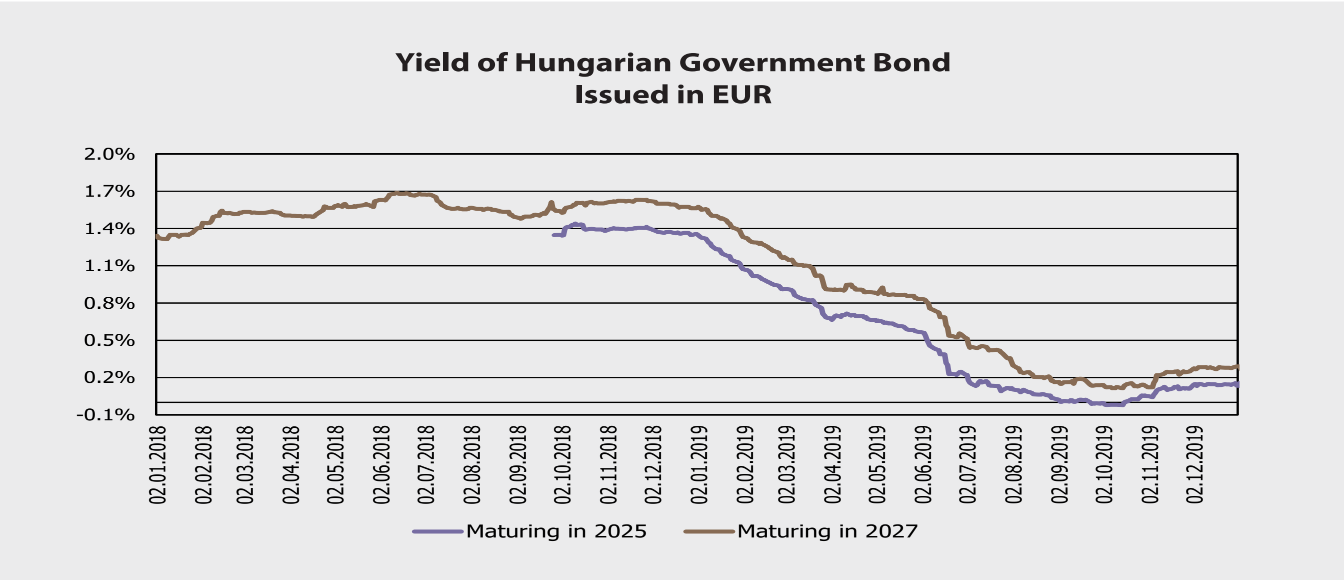
Source: Bloomberg

I. Macroeconomic developments in 2019

During the course of the year, the 5-year CDS spread declined from 88 basis points to 74 basis points. The favourable macroeconomic indicators of Hungary (strong growth alongside favourable macro balance indicators) counterbalanced the effects of worsening global growth prospects. During the course of the year, CDS spread declined steadily interrupted by temporary hikes.

Yields of Foreign Currency Denominated Bonds

In 2019, the yields of government bonds denominated in euro issued by Hungary decreased significantly.



Source: Bloomberg

The yield of the Hungarian government bond issued in October 2017 with a maturity in October 2027 decreased from 1.56% to 0.29% during the course of the year 2019. The decrease of the yield of the Hungarian government bond issued in EUR was mainly driven by the strengthening investor sentiment towards the region and Hungary at the beginning the year, then by the expected monetary loosening in Western Europe and America along with decreasing developed market yields in the middle of the year. During the second half of the year, the yield stagnated, because the global growth concerns and global risk factors (chiefly the uncertainty regarding brexit and escalating Sino-American trade war) counterbalanced the effect of strong Hungarian growth data and favourable macro balance indicators.

Government Securities Holdings of Foreign Investors

The value of forint-denominated government securities held by non-residents increased during 2019. During the course of the year non-resident holding increased until end-July reaching HUF 4,517 billion then decreased significantly during the second half of the year. During 2019, non-resident holdings increased by HUF 207 billion reaching HUF 4,168 billion.

The share of foreign holdings in forint denominated debt stagnated at 22%. Including foreign holdings in foreign exchange denominated debt, the share of foreign holdings in total debt amounted to 34%. It is a favourable development that the average term to maturity of foreign investors' portfolio increased from 5.08 to 5.81 years.

II. DEBT MANAGEMENT STRATEGY IN 2019

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 set three 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.
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.
3. Decreasing debt ratio and increasing domestic financing enable to further reduce the share of foreign currency debt within the total debt, which is the third objective of ÁKK.

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 used to quantify strategic objectives and to set intermediate targets. During the course of 2018 the composition of the central government debt was in line with the benchmarks.

Public debt management benchmarks in 2019

Benchmarks	Tolerance band	End 2018	End 2019
1. Foreign currency debt ratio	10-20%	20.0%	17.7%
2. Foreign currency debt composition	95-105% EUR	100.0%	100.0%
3. Fixed coupon part of foreign currency debt	60-80%	68.9%	71.8%
4. Fixed coupon part of domestic debt	60-80%	59.7%	68.8%
5. Average time to refixing of domestic debt	2.75-3.75 years	3.1	3.7

Benchmark No. 6. is to maintain a secure level of funds on the Single Treasury Account (STA). For a detailed description of liquidity management see Chapter VI.

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.

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 2019. Smaller size of HUF 2-300 billion is targeted in the longest tenor, maturing in 2038, reflecting lower investors' demand. Secondary market operations were also enhanced by regular bond buy-back and bond exchange programs.

After the international financial crisis, based on the experiences, ÁKK raised the flexibility of its 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 2019

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.

The net financing requirement

In 2019 the total cash-flow based deficit of the central government was HUF 1,219 billion (or 2.6 per cent of GDP according to preliminary data), while the total net financing requirement amounted to HUF 1,277 billion (or 2.7 per cent of GDP) including net EU transfers and other funding sources.

Borrowing requirements in 2019:

	Outturn 2018 (HUF billion)	Plan December 2018 (HUF billion)	Outturn 2019 (HUF billion)	Outturn/Plan
Net financing need of the central government	**-1,445.1**	**-998.4**	**-1,219.0**	**1.22**
Capital transfers to NBH / NBH dividend	-	-	-	-
Net EU transfers and other	582.2	-	-58.2	-
Total net financing requirements	**-862.9**	**-998.4**	**-1,277.2**	**1.28**
Short term debt redemptions	-4,855.2	-5,011.7	-5,026.9	1.00
Long term debt redemptions	-3,387.7	-2,977.6	-5,138.5	1.73
Gross financing requirements	**-9,105.8**	**-8,987.7**	**-11,442.6**	**1.27**

Source: Hungarian State Treasury, Ministry of Finance, ÁKK

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.

The total debt redemption was HUF 10,165 billion in 2019, 27 per cent higher than planned. While in the case of short term discount T-bills and loans the redemptions were as planned, the redemption of foreign currency and domestic bonds and the redemption of retail securities exceeded the original plan.

III. The financing requirements in 2019

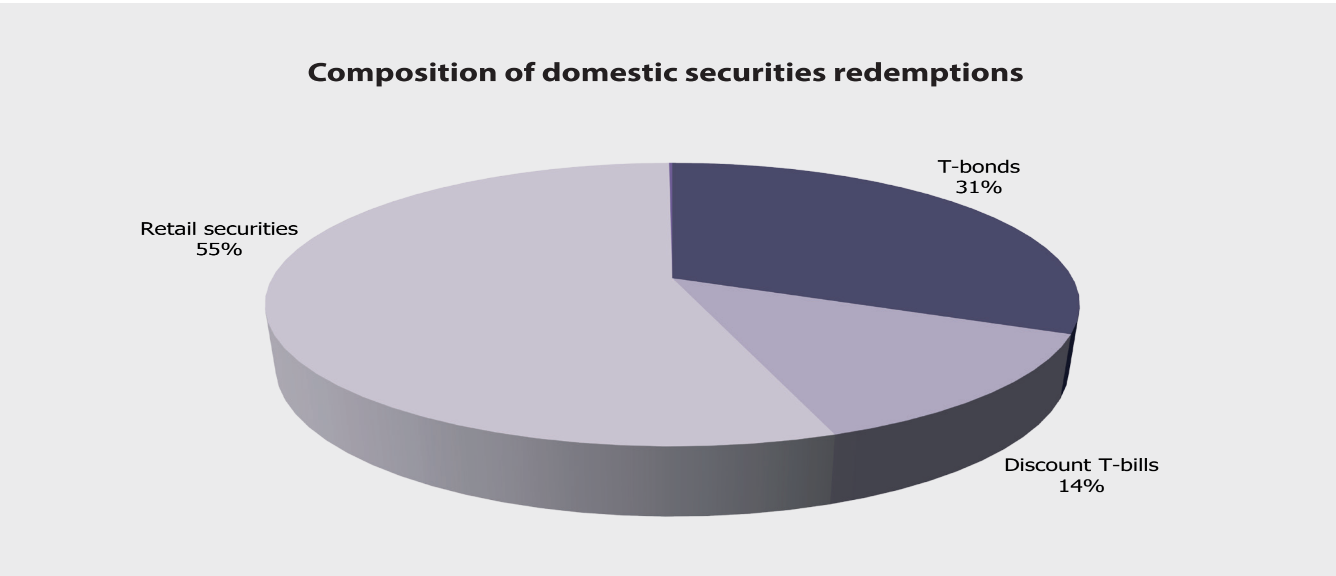
Government debt redemptions: [2]

HUF billion

	2018	2019 plan	2019 outcome
Domestic debt	**7,461.0**	**7,323.0**	**9,269.8**
T-bonds	2,123.9	1,703.3	2,893.9
Discount T-bills	1,039.2	1,250.5	1,237.3
Retail securities	4,280.9	4,354.9	5,124.4
Loans	17.0	14.3	14.3
Foreign currency debt	**781.8**	**666.3**	**895.6**
Bonds	613.3	630.3	850.4
Loans	168.6	36.0	45.1
Total	**8,242.9**	**7,989.3**	**10,165.4**

Source: ÁKK

Total domestic debt redemptions exceeded the plan by HUF 1,947 billion due to higher bond redemptions as a result of the bond buy back (HUF +494 billion) and exchange auctions (HUF +591 billion) and due to retail securities buy-backs from non-household sector. Both the buy back and switch auctions decrease the refinancing risk of the debt, while retail buy-backs contribute to making the retail program more efficient. Within the HUF debt portfolio discount treasury bills contributed to 13 per cent of the total forint redemptions of HUF 9,270 billion, while redemption of domestic retail debt was 55 per cent.



Source: ÁKK

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.

III. The financing requirements in 2019

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 normal financing plan includes a regular bi-weekly bond buy-back program, and the actual repurchase amount depends on the quantity and quality of bids. In 2019 ÁKK bought back a total of HUF 908 billion bonds before their maturity on 24 occasions. HUF 744 billion of repurchased bonds had a maturity after 2019, i.e. these buy-backs (by HUF 494 billion more than planned) also helped to smooth maturities from one year to another.

In order to decrease refinancing risk ÁKK has been holding bond exchange (or 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 2019 23 exchange auctions were held at which ÁKK exchanged a total of HUF 841 billion (by HUF 597 billion more than planned) short-term bonds for long-term ones.

Foreign currency debt redemptions

In 2019 one Eurobond (originally EUR 1 billion), one USD bond (originally USD 1 billion) and one CNY bond (CNY 1 billion) matured. Due to FX bond buy-backs in previous years the actually matured amounts of the bonds were smaller than the originally issued, and amounted to EUR 811 million and USD 508 million respectively. The sixth series of Premium Euro Hungarian Government Bond totalling EUR 189 million and the second series of the Residency bond totalling EUR 445.5 million matured in 2019. Moreover, in order to reduce the share of foreign currency debt within the total debt ÁKK bought back a total of USD 845 million and EUR 63 million FX bonds from the market. Smaller redemptions and smaller early repayments totalling HUF 45 billion took place in the case of IFI project financing and other loans in 2019.

IV. Financing

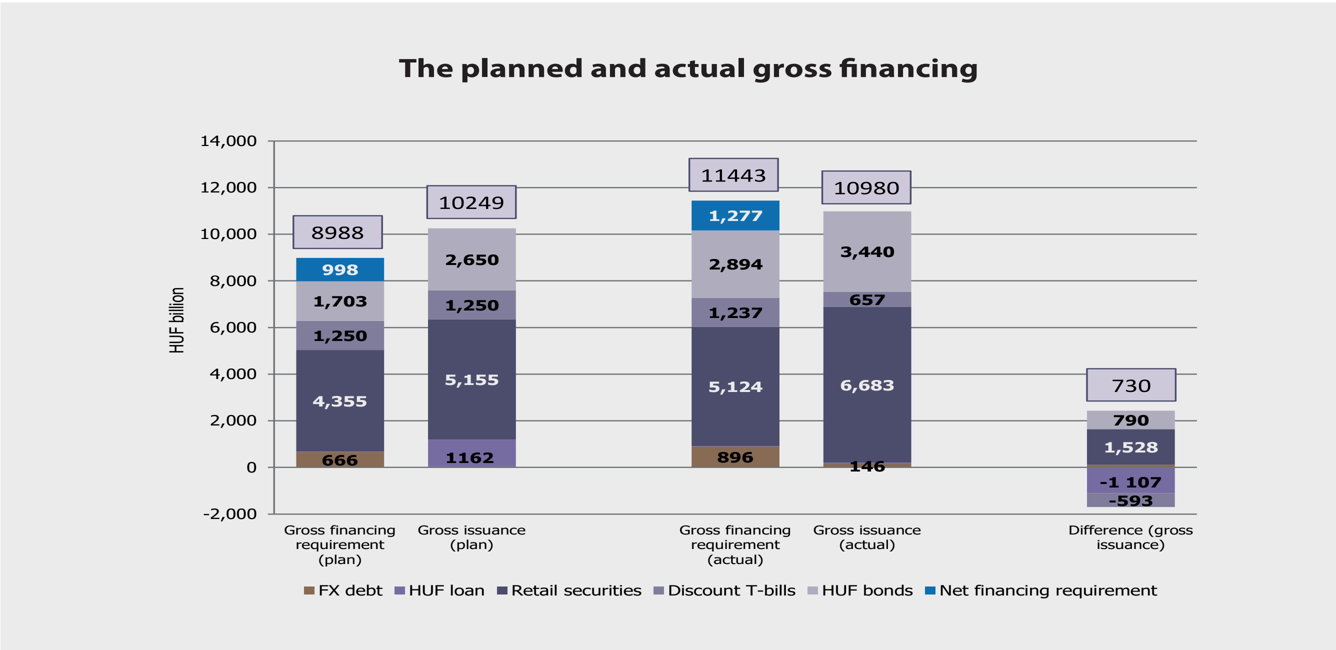
In 2019 the HUF denominated issuance (including switch auctions) amounted to HUF 10,834 billion (99%), while foreign currency issuance was HUF 146 billion (1%).

Gross debt issuance:

HUF Billion

	2018	2019 plan	2019 outcome
Domestic debt	**9,503.9**	**9,217.0**	**10,834.2**
T-bonds	3,129.1	2,650.0	3,439.6
Discount T-bills	1,237.3	1,250.5	657.3
Retail securities	4,993.8	5,154.6	6,682.7
Loans	143.7	161.9	54.7
Foreign currency debt	**516.5**	**32.4**	**145.5**
Bonds	516.5	32.4	92.0
Loans	0.0	0.0	53.6
Total	**10,020.3**	**9,249.4**	**10,979.8**

Source: ÁKK



Source: ÁKK

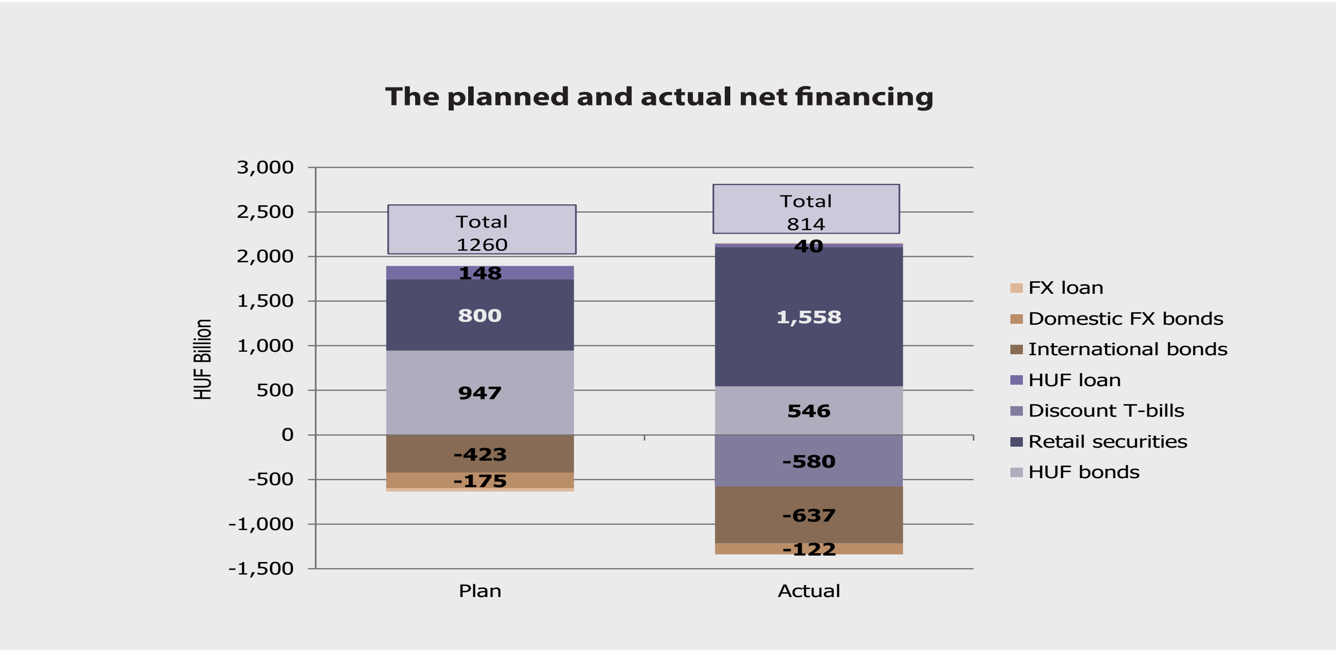
Net HUF denominated financing totalled HUF 1,564 billion, while net foreign currency financing amounted to HUF -750 billion, so the total net issuance was HUF 814 billion in 2019.

Net issuance:

HUF Billion

	2018	2019 plan	2019 outcome
Domestic debt	**2,042.8**	**1,894.0**	**1,564.4**
T-bonds	1,005.2	946.7	545.7
Discount T-bills	198.1	0.0	-580.0
Retail securities	712.9	799.7	1,558.3
Loans	126.6	147.6	40.4
Foreign currency debt	**-265.4**	**-633.9**	**-750.0**
Bonds	-96.8	-597.9	-758.5
Loans	-168.6	-36.0	8.5
Total	**1,777.4**	**1,260.1**	**814.4**

Source: ÁKK



Source: ÁKK

Within the net HUF issuance, the role of retail securities increased due to the successful introduction of the Hungarian Government Security Plus in 2019, while long term bonds also contributed to financing. The net issuance of HUF denominated retail securities totalled HUF 1,558 billion, while total net T-bond issuance was HUF 546 billion (by HUF 401 billion lower than planned due to the buy-backs significantly exceeding the plan). In the case of short term discount T-bills ÁKK planned zero net issuance but as a consequence of the favourable liquidity position and the retail issuance exceeding the plan ÁKK was able to reduce the outstanding amount of discount T-bills contributing to increasing the average term-to-maturity of the debt. The net issuance of discount T-bill was HUH -580 billion, while the net HUF loan drawdown was also realized below the plan.

In 2019 the net foreign currency redemption was higher than planned (thus the share of FX debt decreased to a greater extent) and amounted to HUF 750 billion. However the gross FX issuance was higher due to higher P€MAP sales and loan drawdown, it was compensated by FX bond buy backs.

Domestic financing

Gross domestic issuance was eventually 18% higher than planned originally. The structure of the gross issuance also changed considerably, the share of retail securities and wholesale bonds exceeded the plan by 30 per cent, while the share of discount T-bill was 47 per cent lower than planned. Project financing loans of HUF 55 billion were drawn in HUF, which was less than planned by 66 per cent.

In contrast to the decreasing trend of previous years the average cost of financing (the weighted average yield to maturity – including sales commissions – of new debt instruments issued in 2019) increased to 3.4 per cent. The higher cost was the result of increasing the share of long term retail securities (the newly introduced Hungarian Government Security Plus), while the cost of long term bonds decreased in 2019. As the cost of new issuance exceeded the cost of the maturing debt, the average cost of the outstanding debt decreased in 2019 too.

Government bonds

Treasury bond auctions were held every two weeks. Three bond series were sold at each bond auction. Usually the 3, 5 and 10-year tenors were offered, but on 9 occasions the 3 or the 10-year bond was replaced by the longest bond maturing in 2038. The floating rate bonds were offered 16 times during the year. 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 per cent of their winning bids at the average price of the auction.

The bid-to-cover ratio at the bond auctions on average was higher than 2.75 in 2019. ÁKK sold a total of HUF 2,309 billion of bonds via auctions (including HUF 413 billion in the additional non-competitive phase). Total bond issuance – together with bond exchange auctions, the retail sales of the Hungarian State Treasury, the bonds issued for local authorities and secondary market operations – was HUF 3,440 billion, versus total bond maturities of HUF 2,894 billion, which resulted in a net issuance of HUF 546 billion, which felt behind the planned HUF 947 billion due to the higher than planned buybacks.

On-the-run bond series in 2019:

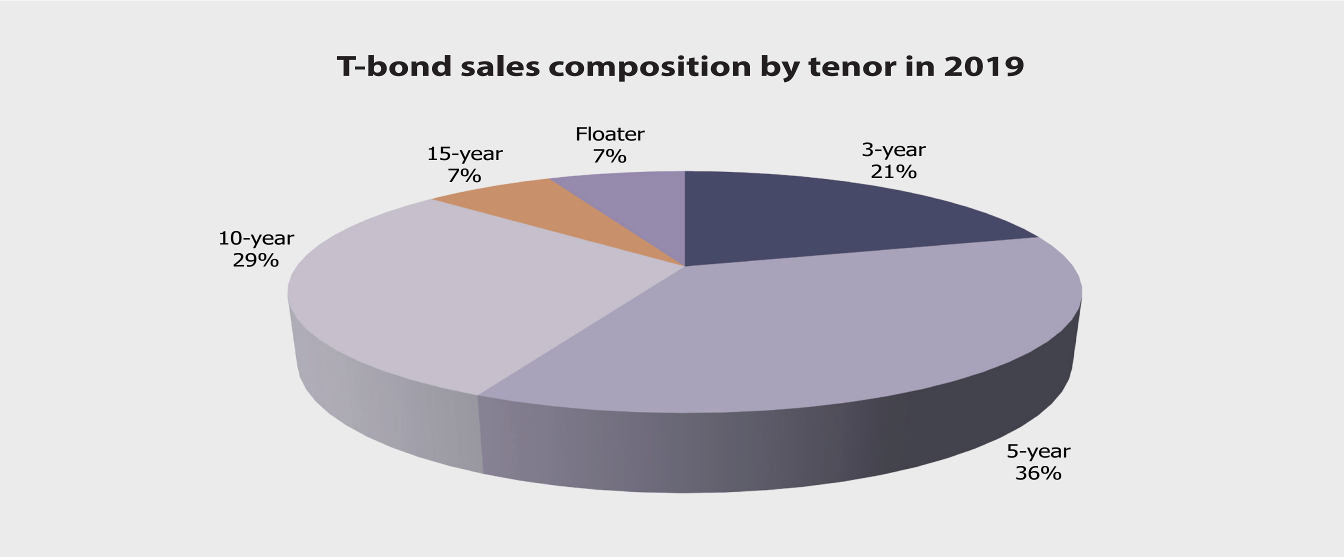
HUF Billion

	Tenor	Number of auctions	Competitive sales in 2019	Non-competitive sales in 2019	Outstanding (end of 2019)
2021/C	3-years	4	97	16	270
2022/C	3-years	15	309	56	378
2023/B*	4-years	16	131	27	484
2024/C	5-years	22	622	140	1,132
2025/C	5-years	3	65	13	82
2027/A	10-years	2	50	15	1,202
2030/A	10-years	20	500	116	618
2038/A	15-years	8	120	30	192

Source: ÁKK

*Floating rate bonds

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 fixed bond decreased by 10 per cent, the share of the 4-year floating rate bond decreased by 4 per cent, while the share of the 10-year and the longest bonds (maturing in 2038) increased by 10 and 5 per cent respectively. The share of the 5-year fixed bond did not change significantly.



Source: ÁKK

Discount treasury bills

The 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. For this purpose ÁKK may also use the so-called liquidity discount treasury bills of even shorter tenor (usually 6 weeks) in an ad hoc manner.

In 2019 ÁKK sold discount treasury bills in a total of HUF 657 billion, by HUF 580 billion less than in 2018. Excess liquidity and the retail issuance exceeding the plan enabled to reduce the outstanding stock of short term discount T-bills to HUF 657 billion that is considered as small amount that increase the potential security role of discount T-bills and contributes to lengthening the average term-to-maturity of the debt.

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. With growing domestic savings it is natural for the Government to tap this secure source of funds directly.

The issuance of retail government securities gained new momentum is 2019 with the introduction of the Hungarian Government Security Plus (dematerialized security in June, printed version in November). 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, while because of the long, 5-year tenor and reliable investor base it is also favourable for debt management. From June 2019 the interest income from government securities is free from tax for households that contributed to the record retail sales in 2019. At the same time ÁKK simplified the retail product range and finished selling four less popular retail securities.

The sales of the newly introduced dematerialized Hungarian Government Security Plus amounted to HUF 3,163 billion, while another HUF 15 billion interest payment was automatically reinvested in the same series. In addition the printed Hungarian Government Security Plus (introduced in November 2019) was issued in an amount of HUF 60 billion thus the total Hungarian Government Security Plus gross issuance was HUF 3239 billion in 2019. The outstanding stock of Hungarian Government Security Plus was HUF 3196 billion at the end of 2019, the highest within the retail securities that means the newly introduced Hungarian Government Security Plus became the most popular retail product in 7 months.

The gross issuance of the 1-year Hungarian Government Security was HUF 2,158 billion, the second highest within the retail instruments, while the gross issuance of the long term, inflation linked Premium Hungarian Government Security totalled HUF 759 billion in 2019. Despite the significant gross issuance the outstanding stock of both the 1-year and the Premium Hungarian Government Securities decreased by HUF 1,012 billion and by HUF 58 billion respectively during the year as a result of maturing series held by institutions and due to buy-backs. The outstanding amount of the Babybond increased by 80 per cent and amounted to HUF 80 billion as a result of the gross issuance totalling HUF 25 billion. The gross issuance of the 1 and 2-year, printed Treasury Saving Bills was HUF 407 billion exceeded the maturities, therefore its outstanding amount increased by HUF 51 billion.

Out of the four phased-out retail securities the gross issuance of the Bonus Hungarian Government Security was only HUF 1 billion, while the gross issuance of the 2-year Hungarian Government Security was HUF 85 billion. The gross issuance of the short term Half-year Hungarian Government Security and Treasury Saving Bills Plus was HUF 8 billion. As a result of the small gross issuance, the redemptions and buybacks the outstanding stock of the terminated retail securities decreased by HUF 645 billion and amounted to HUF 675 billion at the end of 2019.

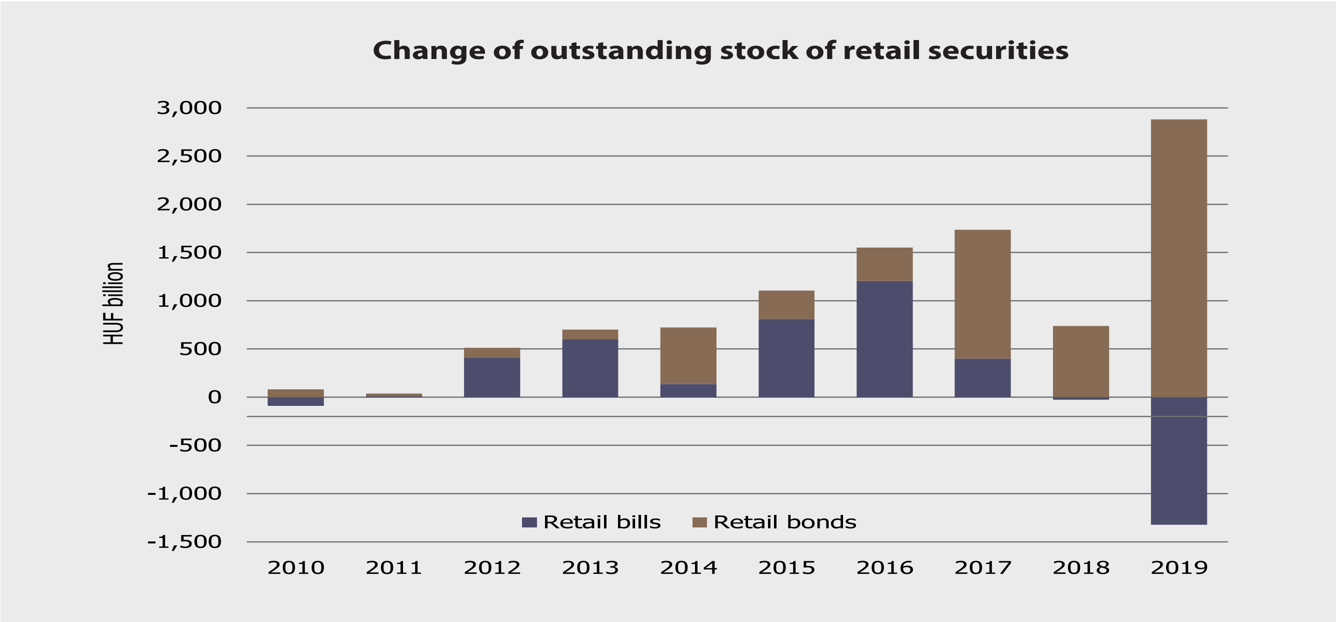
Gross retail issuance:

HUF Billion

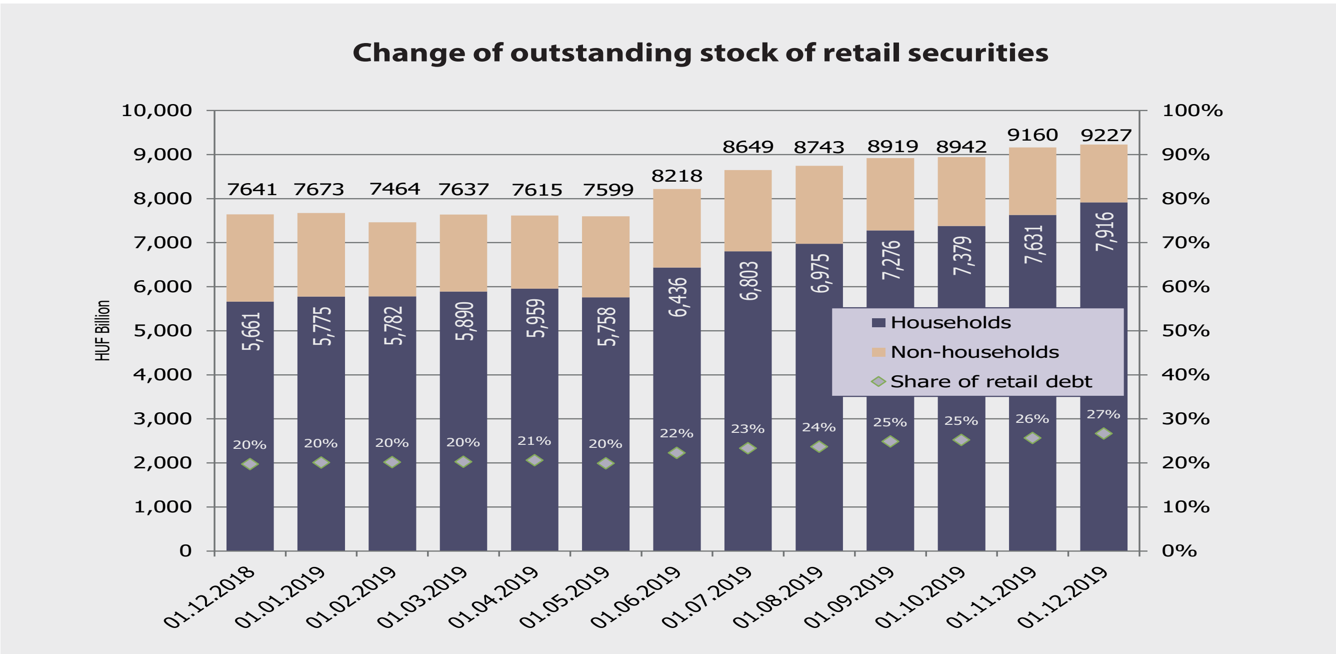
	2016	2017	2018	2019
Retail bills	**3,416**	**3,816**	**3,790**	**2,467**
1-year Hungarian Government Security	2,637	3 110	3,170	2,158
Half-year Hungarian Government Security	429	352	254	0
Treasury Savings Bills (1-year)	230	251	266	301
Treasury Savings Bills Plus	120	103	100	8
Retail bonds	**459**	**, 632**	**1,204**	**4,216**
2-year Hungarian Government Security	-	377	222	85
Premium Hungarian Government Security	367	1 172	861	759
Hungarian Government Security Plus (dematerialized)	-	-	-	3,179
Hungarian Government Security Plus (printed)	-	-	-	60
Bonus Hungarian Government Security	26	11	26	1
Babybonds	9	11	17	25
Treasury Savings Bills (2-year)	57	61	78	106
Retail securities total	**3,875**	**5,448**	**4,994**	**6,683**

Source: ÁKK

The total domestic currency denominated retail debt stock grew by HUF 1,558 billion over the year, which exceeded the plan by HUF 759 billion, which is the second highest increase ever. Nevertheless the ownership structure and the maturity profile of the net retail issuance improved: the increase of the outstanding stock of retail securities owned by households exceeded the net retail issuance to a large extent, while non-household (institutions) ownership decreased within the retail debt due to redemptions and buy-backs. The net issuance of long term retail securities amounted to HUF 2,881 billion, while the outstanding stock of short term retail securities decreased by HUF 1,322 billion, therefore the average term-to-maturity of the domestic retail debt increased by 1 year to 2.6 years during 2019.



Source: ÁKK



Source: NBH, ÁKK

Hungarian government bond for local authorities

ÁKK introduced a new, fixed, 3-year government bond in September 2018, which is available only for local authorities. Due to the flexible and favourable buy-back option this bond became an attractive investment opportunity for the targeted investors. The total offered amount of the second series was bought by investors in 5 months. As a result of the total gross issuance of HUF 170 billion and the buybacks of HUF 83 billion, the outstanding amount of the Hungarian Government Bond for Local Authorities increased by HUF 87 billion to HUF 168 billion at the end of 2019.

Foreign currency financing

ÁKK did not plan any international bond issuance and foreign currency loan drawdown for 2019, the total planned foreign financing of EUR 100 million consisted of only Premium Euro Hungarian Government Security issuance (a retail security) for 2019. The favourable liquidity position and the large retail issuance exceeding the plan enabled to fulfil the plan, thus the ÁKK did not issued in the international market in 2019. The domestic FX bond issuance (P€MAP) exceeded the plan and amounted to EUR 280 million. To speed up the pace of foreign currency debt reduction and to reduce the refinancing risk ÁKK bought back USD 845 million and EUR 63 million foreign currency bonds in 2019. As a result the net foreign currency bond issuance (international and retail) felt behind the plan and amounted to HUF -758 billion, therefore the foreign currency debt decreased to a larger extent than planned.

Series	Currency	Date of issuance	Maturity	Tenor (years)	Coupon
2022/X	EUR	04.06.2019	21.12.2022	3	Floater (Premium)

Source: ÁKK

According to the plan ÁKK did not draw any project financing loans in foreign currency but contrary to the plan drew down from the Paks 2 nuclear power plant project (EUR 161 million). The original and early redemptions of foreign currency denominated loans amounted to HUF 45 billion, thus the net redemption totalled HUF -8 billion, higher than planned by HUF 44 billion.

The net FX issuance amounted to HUF -750 billion (lower than planned) in 2019. The negative net FX issuance contributed to the reduction of the foreign currency debt.

V. The government debt in 2019

During 2019 the central government debt increased by HUF 994 billion (or by 3.5 per cent) to HUF 29,682 billion. The size of the debt was determined by several factors.

Funding the net financing requirement of the budget that consisted of the budget balance totalling HUF -1,219 billion (deficit) and other financing requirement (e.g. EU transfers at the end of the year) totalling HUF -58 billion (deficit) increased the debt, as well as the increase of marked-to-market deposits placed at ÁKK (so-called 'other obligations') by HUF 36 billion. The depreciation of the Hungarian Forint against other currencies also increased the HUF value of the debt by HUF 146 billion. As a consequence of the significant revenues from the EU at the end of 2018, the level of liquidity reserves was high enough that enabled to issue less than the financing requirement during the year that decreased the debt.

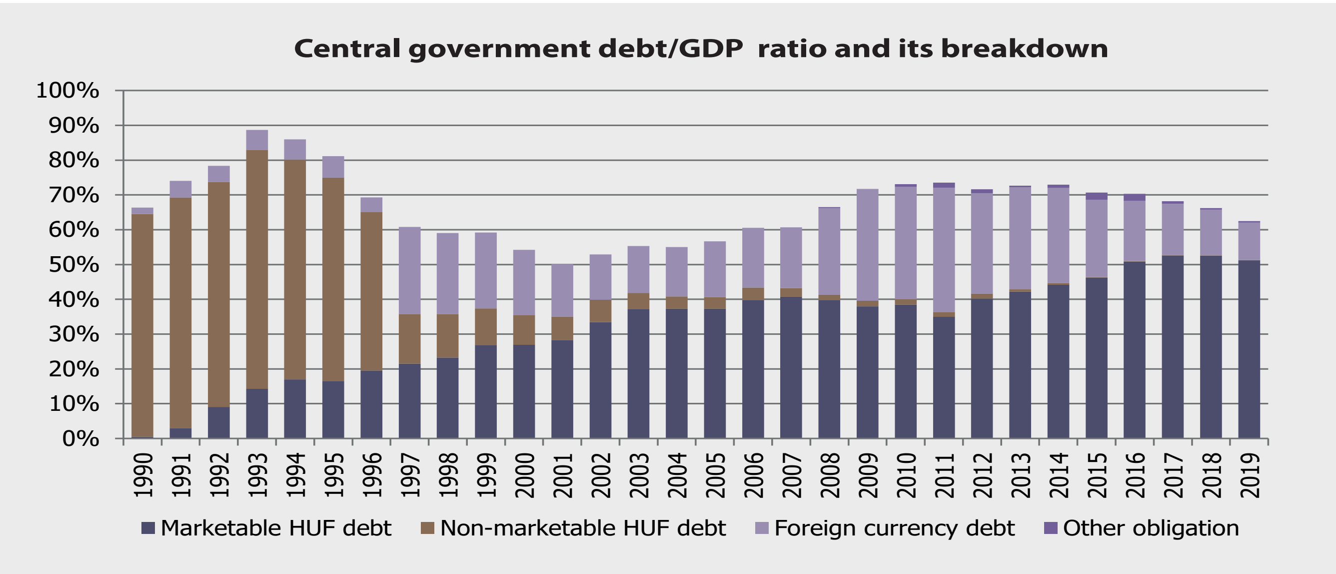
Central government debt

HUF Billion

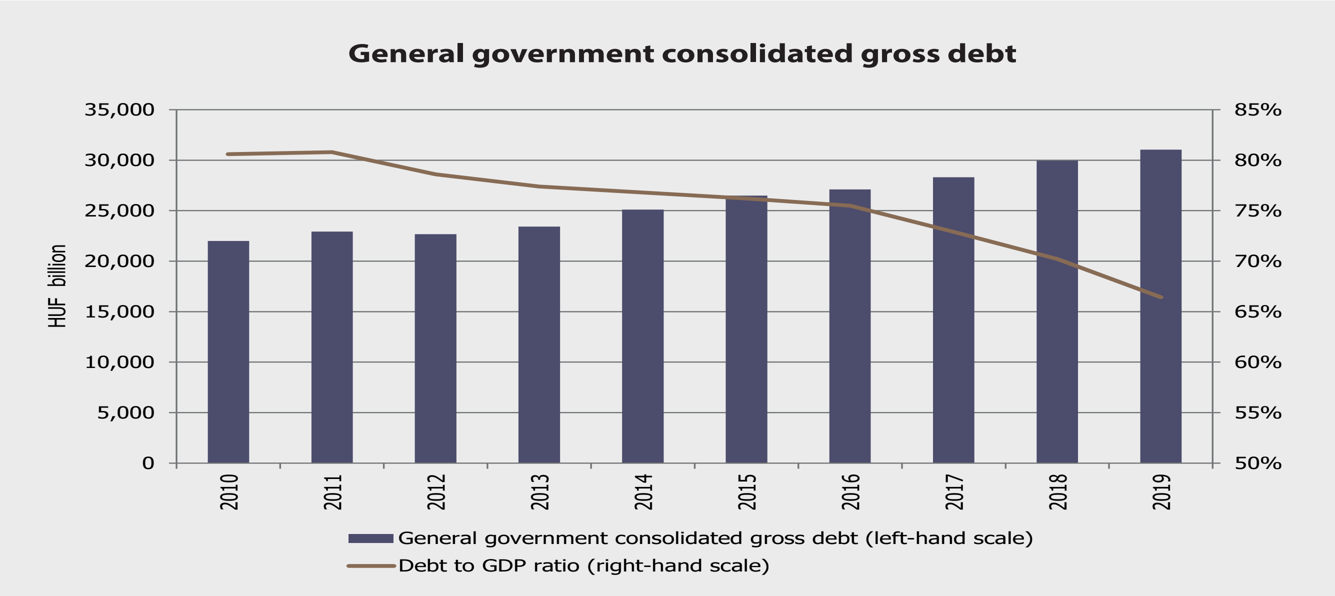
	2018		2019		Change
Domestic debt	**22,796**	**79%**	**24,357**	**82%**	**1,561**
Loans	1,168	4%	1,208	4%	40
Government bonds	12,875	45%	13,418	45%	542
Retail securities	7,516	26%	9,074	31%	1,558
Discount T-bills	1,237	4%	657	2%	-580
Foreign currency denominated debt	**5,725**	**20%**	**5,121**	**17%**	**-604**
Loans	795	3%	825	3%	30
Bonds	4,930	17%	4,296	14%	-634
Total debt	**28,521**	**99%**	**29,478**	**99%**	**958**
Other obligations	167	1%	204	1%	36
Grand total debt	**28,688**	**100%**	**29,682**	**100%**	**994**

Source: ÁKK

According to preliminary data, the central government debt (without marked-to-market deposits) managed by ÁKK decreased from 66.2 to 62.5 per cent of GDP, while the general government gross debt to GDP ratio decreased by 3.8 per cent to 66.4 per cent in 2019.



Source: ÁKK



Source: Eurostat (including debt of EXIM Bank)

Characteristics of the HUF debt portfolio

During 2019 the HUF denominated debt – which accounts for 82 per cent of the total debt – increased by HUF 1,561 billion (6.8 per cent) to HUF 24,357 billion. The net HUF issuance was higher than the net financing requirement and covered a large part of the FX redemption.

45 per cent 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 13,399 billion consisted of 24 bond series, the average size of a series was HUF 558 billion (ca. EUR 1.7 billion). 5 series had a volume in excess of HUF 1,000 billion (ca. EUR 3 billion), and the largest bond series reached a volume of HUF 1,202 billion (or EUR 3.6 billion). The average size of bond series increased in 2019.

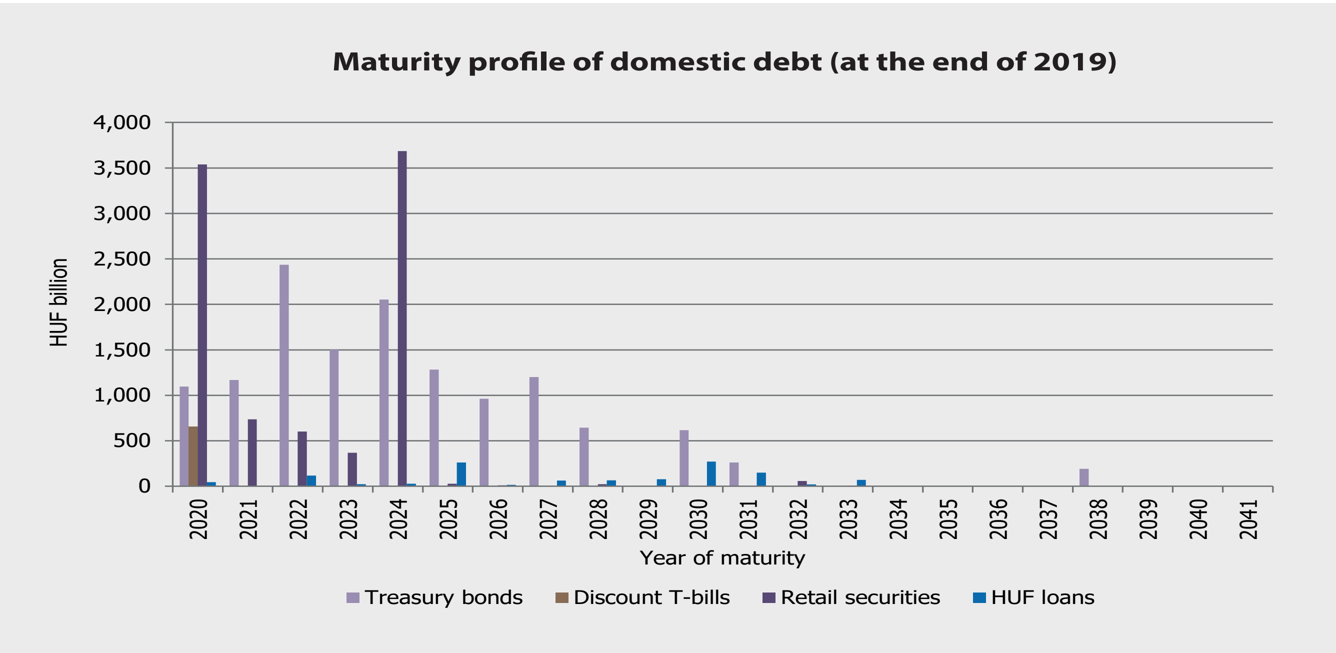
The outstanding stock of discount T-bills decreased by HUF 580 billion and amounted to HUF 657 billion. The discount T-bill stock consisted of 17 series with an average outstanding amount of HUF 39 billion (significantly smaller than in 2018).

In 2019 the portfolio of domestic retail government securities increased to much larger extent than planned and amounted to 9,074 billion. The stock of retail securities held by households increased to even larger extent, the redemptions and buybacks of retail securities held by institutions decreased the outstanding of retail debt. The outstanding stock of the newly issued dematerialized Hungarian Government Security Plus amounted to HUF 3,136 billion, while the outstanding amount of the printed Hungarian Government Security Plus totalled HUF 60 billion at the end of 2019; thereby the 5-year Hungarian Government Security Plus became the most popular retail product in the first year (7 months). The also long term Premium Hungarian Government Security (3-5 year tenor) had the second highest outstanding amount totalling HUF 2,518 billion at end-2019, while the stock of the short term 1-year Hungarian Government Security decreased by HUF 1,012 billion to 2,158 billion. The outstanding amount of the 1 and 2-years Treasury Saving Bills increased in 2019 and amounted to HUF 447 billion, while the stock of the very long term Babybond also increased and totalled HUF 80 billion at the end of 2019.

The outstanding stock of the four retail securities terminated in mid-2019 decreased by altogether 644 billion to HUF 675 billion out of which the Bonus Hungarian Government Security stood at HUF 451 billion, the stock of the 2-year Hungarian Government Security totalled HUF 215 billion, the outstanding amount of the dematerialized Treasury Saving Bills Plus was HUF 8 billion, while the outstanding amount of the Half-year Hungarian Government Security was zero at end-2019. The total amount of domestic retail securities increased by HUF 1,558 billion and as a consequence of this the share of domestic retail debt within the domestic debt increased by 4 per cent to 37 per cent.

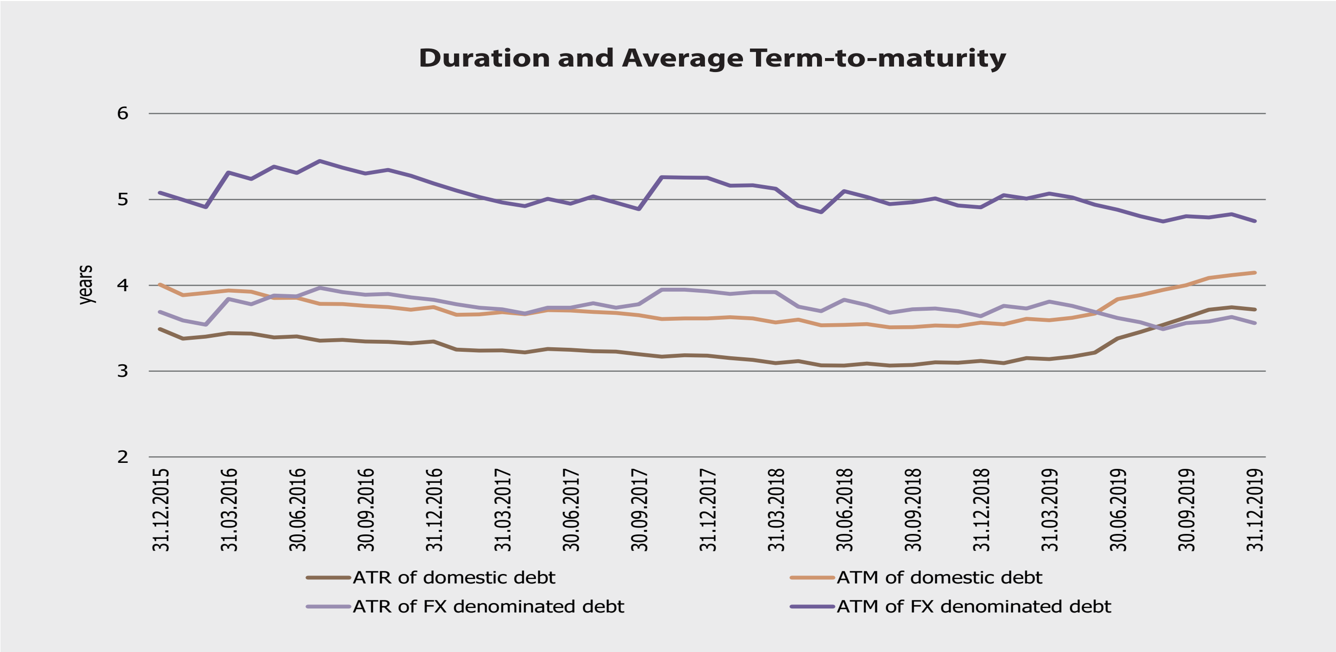
The non-marketable component of the HUF bond portfolio did not change in amount, but its proportion continued to decrease in 2019 as well, as there are no new issuances of such government bonds and the existing portfolio matures gradually (but there were not any maturities in 2019). The end-of-year volume of non-marketable government bonds was HUF 39 billion, almost 0.1 per cent of the total debt.

The volume of loans denominated in Hungarian forint increased in 2019 (as a result of new draw downs totalling HUF 55 billion and repayment of HUF 14 billion) by HUF 40 billion to HUF 1,208 billion.



Source: ÁKK

As a result of buyback and switch auctions, lengthening the average term-to-maturity of the retail portfolio (introduction of the new retail securities with 5-year tenor), moving towards longer terms at auctions and reducing short term Discount T-bill issuance the refinancing risk of the debt decreased. The average time-to-refixing (ATR) of the domestic debt increased from 3.1 years to 3.7 years, while the average term-to-maturity (ATM) also increased by 0.6 year to 4.15 years during 2019.

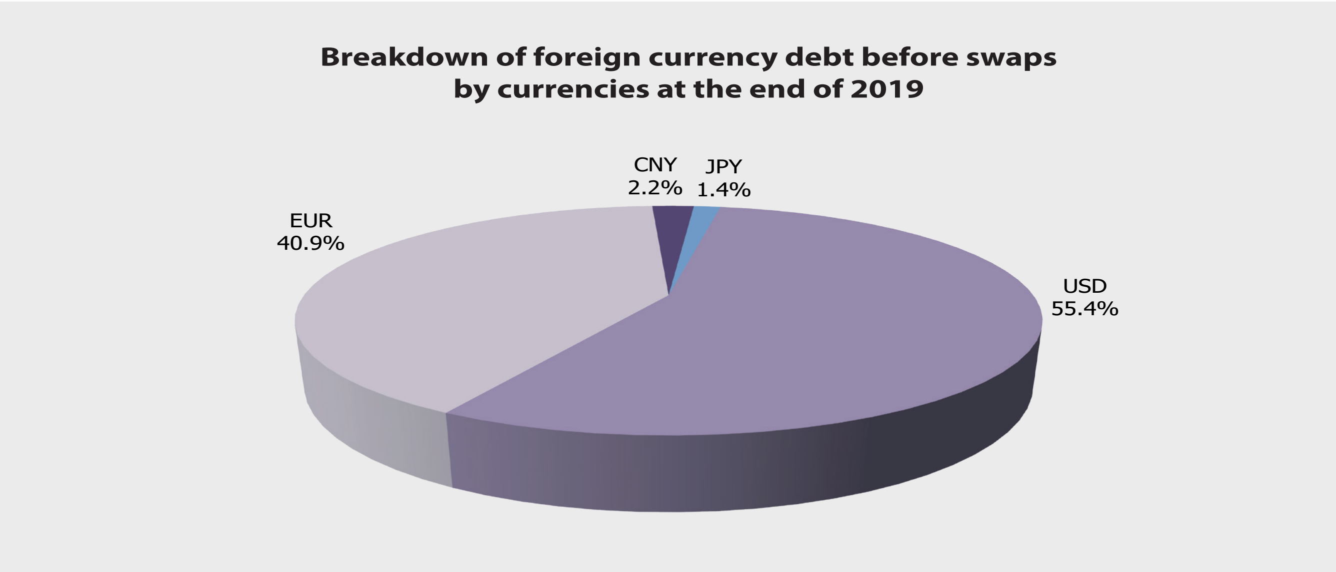


Source: ÁKK

Characteristics of the foreign currency debt portfolio

The gross foreign currency government debt decreased by HUF 604 billion in 2019, reaching HUF 5,121 billion (EUR 15.5 billion) by the end of the year. The share of foreign currency debt within the total gross government debt (excluding marked-to-market deposits) declined from 20.0 to 17.3 per cent during 2019 (end-of-year data, not moving average).

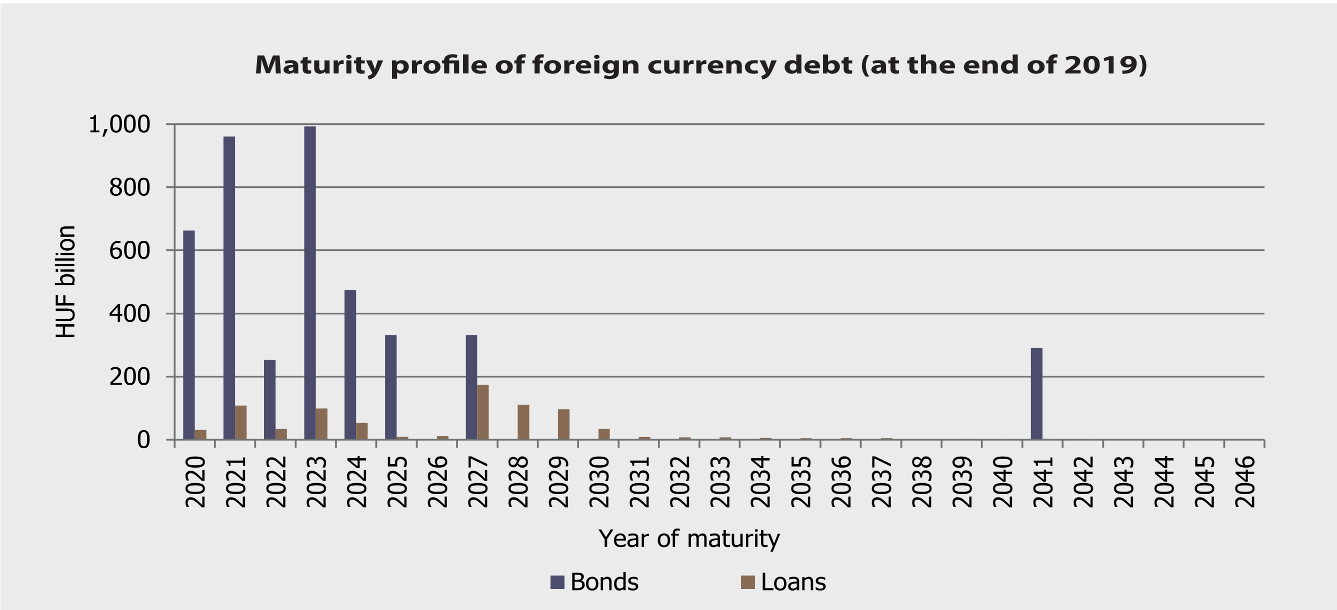
The volume of outstanding foreign currency bonds (after swaps) reached HUF 4,296 billion by the end of the year, decreasing from the end of 2018 (HUF 4,930 billion), as a result of negative net international FX bond issuance (ÁKK did not issued in the international bond market and bought back large amount of FX bond maturing in coming years). On 31 December 2019 there were 25 series of foreign currency bonds outstanding. 16 of which had been issued in euro (including the domestic euro bonds as well), 6 in US dollars, 2 in Chinese Yuan Renminbi and 1 in Japanese Yen. In accordance with the strategy and benchmarks, all non-euro bonds had been converted into euro liabilities through swap transactions. Bonds accounted for 84% of the total foreign currency debt portfolio.



Source: ÁKK

At the end of 2019 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 and CEB) and loans from Paks 2 nuclear power plant project to a small extent. The outstanding amount of foreign currency loans did not change significantly, but due to the reduction of foreign currency bond debt the share of loans within the total foreign currency debt increased to 16 per cent in 2019.



Source: ÁKK

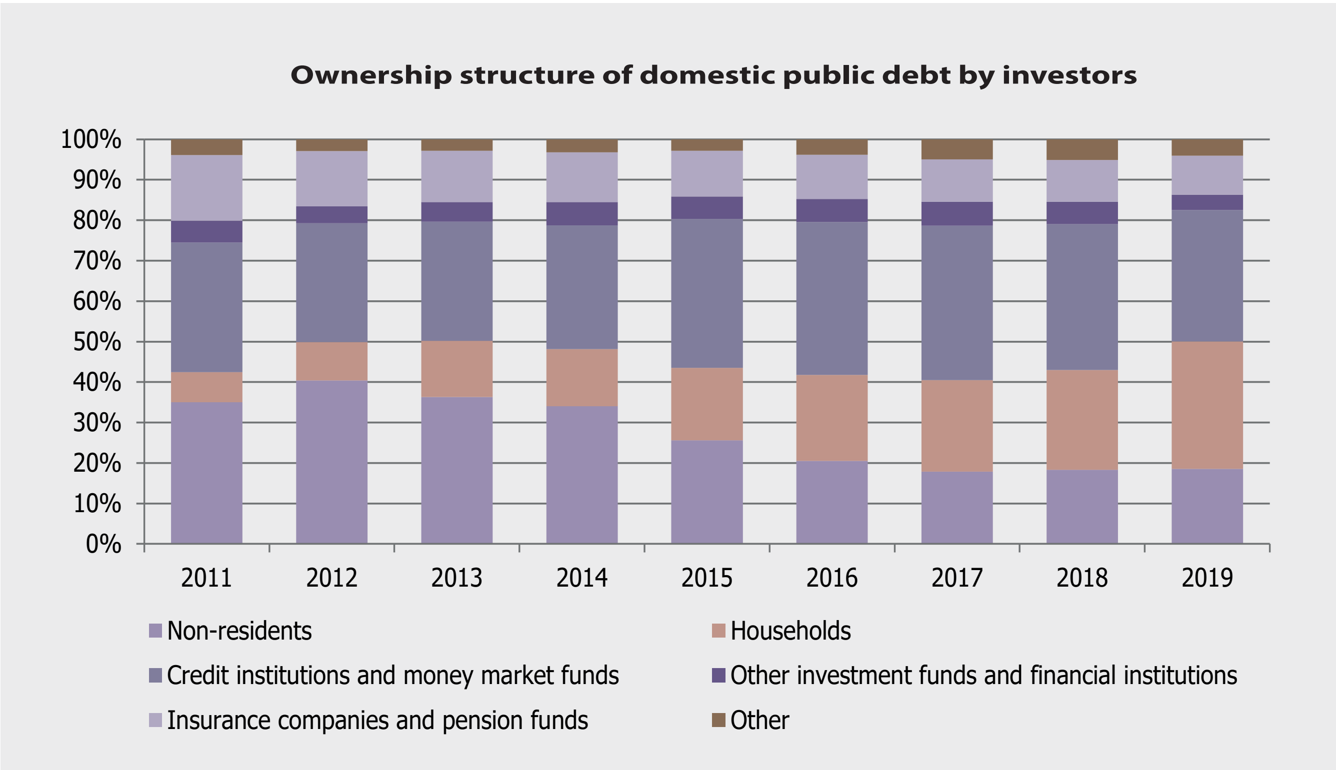
Without new international foreign currency bond issuance the average term to maturity of the foreign currency portfolio decreased from 4.9 years to 4.7 years and the average time-to-refixing also decreased from 3.64 years to 3.56 years during 2019.

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 2019 marked-to-market deposits placed with ÁKK totalled HUF 204 billion (EUR 0.6 billion), by HUF 36 billion higher than at the end of 2019.

The ownership structure of government debt

According to statistics published by the National Bank of Hungary, the share of households (wholesale and retail debt) continued to increase in 2019 and achieved 31 per cent of domestic public debt as a result of the measures taken by the government and ÁKK in the retail securities market. After the dynamic drop of non-resident's ownership in the previous years, the share of the non-resident sector did not change significantly in 2019 and stood at 19 per cent. The share of credit institutions and other investment funds decreased altogether by 6 per cent, while the share of insurance companies and pension funds did not change.



Source: NBH

In 2019 non-residents increased their share in the domestic market in nominal term. Non-resident holdings of HUF denominated government securities increased by HUF 207 billion to HUF 4,168 billion. At the same time the duration of their holdings increased from 4.5 years to 5.2 years, while the ATM of their holdings increased by 0.7 year to 5.8 years in 2019. 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 government 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 2019 ÁKK used the following instruments to manage the end-of-day balance of the TSA:

- repo and reverse repo transactions with government securities;
- regular bond buy-backs;
- active adjustment of the volume of discount treasury bills at auctions;
- 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 liquidity discount T-bills, regular T-bills and buy-backs have longer term liquidity effects.

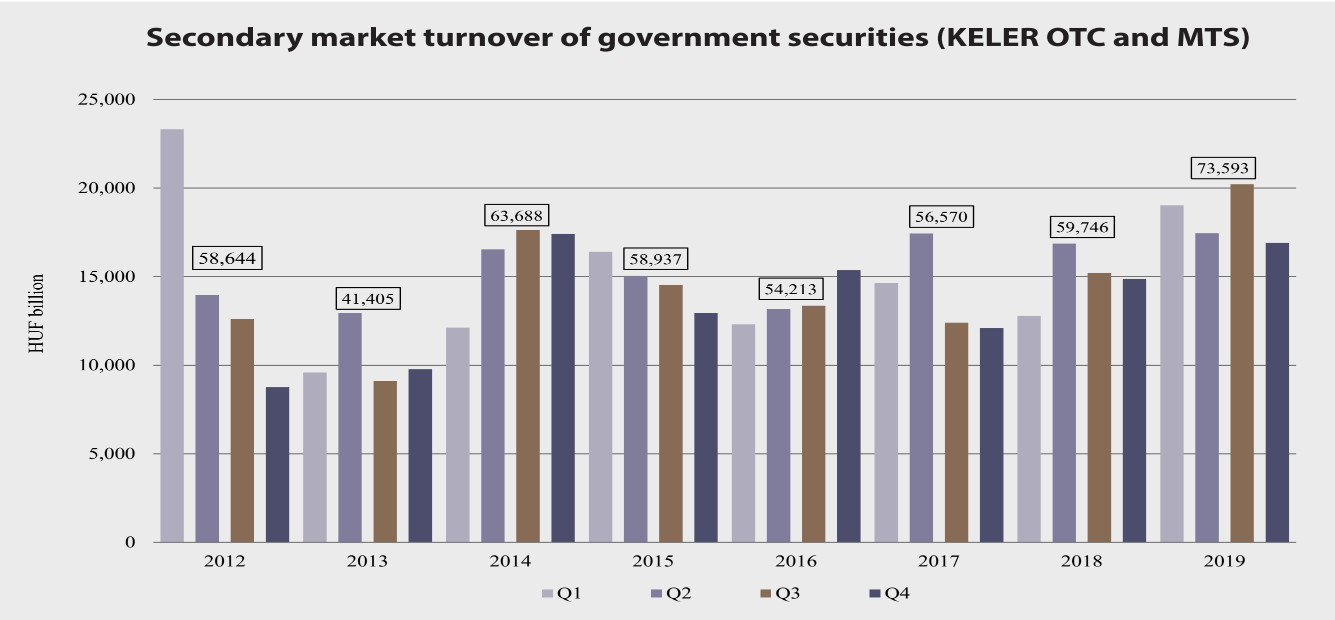
As a result of excess liquidity ÁKK did not need to issue very short term liquidity discount treasury bills in contrast to 2018, when liquidity discount treasury bills took place 11 times.

Liquidity repo transactions are ÁKK's main tool for fine-tuning the end-of-day balance of the Treasury Single Account. In 2019 the use of repo transactions increased significantly and totalled of HUF 42,398 billion. Due to excess liquidity the end-of-day TSA balance was always higher than the minimum target level in 2019.

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, but it 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.

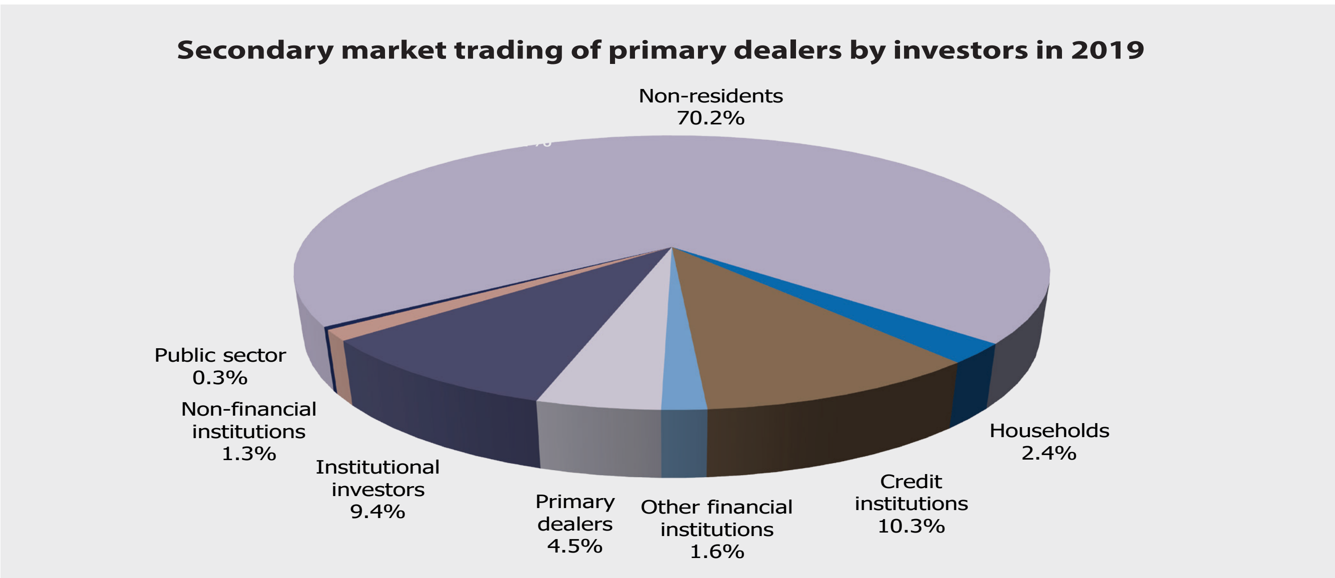
VII.The secondary market of Hungarian government securities

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 73,239 billion in 2019 (more than 5 times the size of the total outstanding marketable debt), out of which 96 per cent was in government bonds and 4 per cent in discount treasury bills.



Source: KELER, Busapest Stock Exchange

The average size of deals with Primary dealers (excluding retail transactions) was HUF 816 million, which is smaller by HUF 8 million than in the previous year. Over the year, the 2026/D government bond with a 7-year remaining term-to-maturity had the largest turnover (HUF 6,607 billion), followed by the 5-year 2024/C and the 8-year 2027/A bond.



Source: Primary dealers, ÁKK

The most active Primary dealer and the winner of the title 'Primary dealer of the Year' for 2019 was ING Bank N.V., while in the retail program the winner was OTP Bank.

VIII.The institutional framework for the issuance of government securities

ÁKK sells government securities through intermediaries to investors. In the domestic market, 82 per cent of HUF-denominated government securities were sold through the Primary dealers in 2019, the rest through retail channels.

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 2019 4 out of the 14 Primary dealers were non-resident institutions.

Primary dealers at the end of 2019:

BNP Paribas SA
CIB Bank Zrt.
Citibank Europe Plc.
Deutsche Bank AG
Erste Befektetési Zrt.
Goldman Sachs International
ING Bank N.V.
J. P. Morgan Securities Plc.
K&H Bank Zrt.
MTB Magyar Takarékszövetkezeti Bank Zrt.
MKB 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'.

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

VIII.The institutional framework for the issuance of government securities

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. Primary dealers with broad distribution networks may also conclude a separate agreement with ÁKK for the trading of some of its retail government securities, the 1-year Hungarian Government Securities, the Premium Hungarian Government Securities and the new Hungarian Government Securities Plus.

Retail debt programmes

The State Treasury's branch network provides direct access to government securities for retail investors. Supervised by ÁKK, the 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- and Bonus Hungarian Government Securities, Baby-bonds, discount treasury bills, the 1- and 2-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 the only government securities available only in printed form, designed specifically for retail investors.

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.

In 2019 ÁKK did not issue foreign currency bonds in the international bond market.

In 2012, the sale of a new 3-year inflation linked domestic bond denominated in EUR ('Premium Euro Government Bond', P€MÁK) started, which became a success among investors. The bond is available in the Hungarian State Treasury network and was the only foreign currency bond sold in 2019 by ÁKK.

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 2012, are provided in Section 4 of the Appendix.

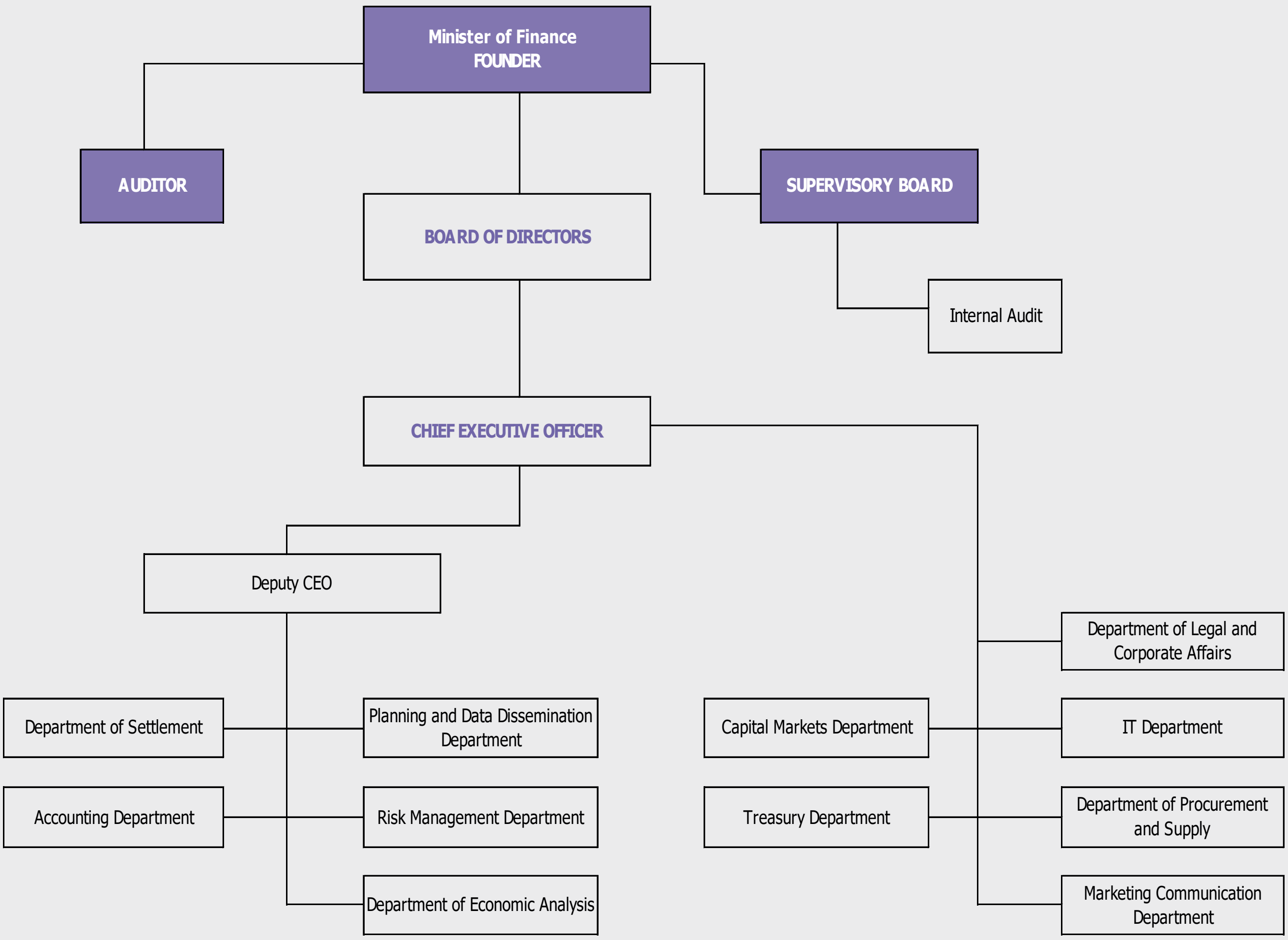
IX.The institutional framework and the objectives of government debt management

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.

Organisational structure of ÁKK as at 31 December 2019



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 releasess' 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 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 set up another website, www.allampapir.hu, where they can find all relevant information about retail instruments (types, list of retail security dealers, descriptions etc.), but it is 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 Thomson Reuters.

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);
- 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)
- Investor Presentation (from January 2020).

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

1. The central government gross debt as at 31.12.2019 (HUF million)

HUF denominated debt			
Hungarian Government Bonds	**Maturity**	**Coupon**	**Outstanding amount**
2020/A	12.11.2020	7.50%	426,725.43
2020/B	24.06.2020	3.50%	480,374.83
2020/C	23.09.2020	1.00%	170,362.68
2020/H1	22.01.2020	2.50%	30,049.30
2020/H2	22.04.2020	2.50%	27,769.28
2020/H3	22.07.2020	2.50%	13,060.95
2020/H4	31.07.2020	3.00%	30,102.66
2020/H5	22.10.2020	3.00%	48,237.69
2020/I	24.04.2020	Floating rate (retail)	105,502.84
2020/J	26.08.2020	Floating rate (retail)	154,766.70
2020/K	29.07.2020	Floating rate (retail)	333,469.20
2020/N	20.05.2020	Floating rate (retail)	29,814.88
2020/O	20.05.2020	Floating rate (retail)	111,648.46
2020/P	22.07.2020	Floating rate (retail)	85,194.93
2020/Q	22.09.2020	Floating rate (retail)	7,853.54
2020/R	23.07.2020	Floating rate (retail)	34,476.78
2021/A	23.06.2021	Floating rate	292,403.07
2021/B	27.10.2021	2.50%	535,632.16
2021/C	21.04.2021	0.50%	269,527.32
2021/H1	22.01.2021	3.25%	51,353.10
2021/H2	22.04.2021	3.25%	14,616.54
2021/I	20.10.2021	Floating rate (retail)	216,951.32
2021/J	26.05.2021	Floating rate (retail)	93,866.82
2021/K	26.08.2021	Floating rate (retail)	272,745.21
2021/Z	22.09.2021	1.25%	70,405.50
2022/A	24.06.2022	7.00%	821,231.80
2022/B	26.10.2022	1.75%	1,139,063.94
2022/C	24.08.2022	1.50%	378,163.83
2022/I	29.07.2022	Floating rate (retail)	171,001.19
2022/J	22.11.2022	Floating rate (retail)	167,521.79
2022/K	30.03.2022	Floating rate (retail)	140,552.90
2022/L	21.09.2022	Floating rate (retail)	111,319.41
2022/N	20.09.2022	Floating rate (retail)	7,844.82
2022/O	27.04.2022	Floating rate (retail)	2,270.20
2022/P	27.04.2022	Floating rate (retail)	2,236.88
2022/Z	23.03.2022	1.10%	97,580.94

2023/A	24.11.2023	6.00%	1,017,419.30
2023/B	26.07.2023	Floating rate	483,966.66
2023/I	22.03.2023	Floating rate (retail)	121,227.07
2023/J	28.09.2023	Floating rate (retail)	207,359.84
2023/K	15.02.2023	Floating rate (retail)	40,456.90
2024/B	26.06.2024	3.00%	920,070.70
2024/C	24.10.2024	2.50%	1,132,108.61
2024/I	21.02.2024	Floating rate (retail)	164,665.42
2024/J	25.09.2024	Floating rate (retail)	192,629.83
2024/N	26.08.2024	Floating rate (retail)	134,672.75
2024/O	24.04.2024	Floating rate (retail)	416.08
2024/P	24.04.2024	Floating rate (retail)	1,602.43
2025/B	24.06.2025	5.50%	1,199,766.56
2025/C	26.11.2025	1.00%	82,104.70
2025/I	20.02.2025	Floating rate (retail)	24,308.32
2026/B	24.04.2026	Floating rate	39,177.72
2026/D	22.12.2026	2.75%	923,047.48
2026/N	22.09.2026	Floating rate (retail)	10,513.52
2027/A	27.10.2027	3.00%	1,201,933.43
2028/A	22.10.2028	6.75%	645,399.18
2028/N	22.03.2028	Floating rate (retail)	20,716.39
2028/O	22.03.2028	Floating rate (retail)	2,154.16
2030/A	21.08.2030	3.00%	618,262.72
2031/A	22.10.2031	3.25%	261,730.12
2032/S	02.12.2032	Floating rate, Babybond	57,294.98
2033/S	01.02.2033	Floating rate, Babybond	6,065.81
2034/S	01.02.2034	Floating rate, Babybond	4,650.88
2035/S	01.02.2035	Floating rate, Babybond	4,303.79
2036/S	01.02.2036	Floating rate, Babybond	3,585.06
2037/S	01.02.2037	Floating rate, Babybond	2,777.99
2038/A	27.10.2038	3.00%	192,198.06
2038/S	01.02.2038	Floating rate, Babybond	998.84
Matured, but unclaimed government bonds			83.21
Total			**16,663,367.40**
Repos with government bonds (repos actually increase or decrease the total amount)			18,923.00
Discount Treasury Bills			**657,288.32**
Repos with discount Treasury bills (repos actually increase or decrease the total amount)			0.00

Hungarian Government Security Plus (dematerialized)	**3,136,011.57**
Hungarian Government Security Plus (printed)	**60,161.63**
Interest Bearing Treasury Bills	**2,158,036.05**
Out of which matured, but unclaimed	37.30
Semi-annual Interest Bearing Treasury Bills	**0.00**
Treasury Savings Bills (Plus)	**8,263.05**
Treasury Savings Bills (1-year).	**300,786.84**
Treasury Savings Bills (2-year)	**146,081.62**
HUF loans	**1,208,121.56**
Matured, but unclaimed other retail government securities	52.50
Total HUF debt	**24,357,093.55**

Foreign currency debt					Outstanding amount (HUF million)	Outstanding amount (EUR million)
Syndicated loan and loans drawn down from revolving credit facilities*					**0.00**	**0.00**
Loans granted by International Financial Institutions*					**697,281.61**	**2,109.65**
Loans assumed from the market*					**128,157.07**	**387.74**
Government bond						
Maturity date	Currency	Amount in original currency	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
24.02.2020	EUR	797,728,000	15	3.88%	263,665.06	797.73
29.01.2020	USD	964,489,000	10	6.25%	284,273.49	860.08
29.03.2021	USD	2,583,222,000	10	6.38%	761,378.85	2,303.58
29.03.2041	USD	1,250,000,000	30	7.625%	368,425.00	1,114.68
21.02.2023	USD	1,923,938,000	10	5.38%	567,061.49	1,715.66
22.11.2023	USD	2,000,000,000	10.0	5.75%	589,480.00	1,783.49
25.03.2024	USD	2,000,000,000	10	5.38%	589,480.00	1,783.49
27.07.2020	CNY	1,000,000,000	3	4.850%	42,350.00	128.13
10.10.2027	EUR	1,000,000,000	10	1.75%	330,520.00	1,000.00
22.03.2021	JPY	30,000,000,000	3	0.370%	81,411.00	246.31
22.10.2025	EUR	1,000,000,000	7	1.250%	330,520.00	1,000.00
19.12.2021	CNY	2,000,000,000	3	4.30%	84,700.00	256.26
Total					**4,293,264.88**	**12,989.43**
Cross-currency swaps					**-579,797.37**	
Premium Euro Hungarian Government Bond						
Code	Currency	Maturity date	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2020/X	EUR	22.09.2020	3	Floating rate, Premium	19,679.05	59.54
2021/X	EUR	22.09.2021	3	Floating rate, Premium	6,188.72	18.72
2021/Y	EUR	22.09.2021	3	Floating rate, Premium	58,125.73	175.86
2022/X	EUR	21.12.2022	3	Floating rate, Premium	69,391.21	209.95
Total					**153,384.72**	**464.07**

* Including swaps

Residence Bond						
Code	Currency	Maturity date	Maturity (years)	Yield Zero coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2020/T	EUR	20.12.2020	5	2.00%	111,005.14	335.85
2021/T	EUR	20.12.2021	5	2.00%	3,668.77	11.10
2021/T1	EUR	27.03.2021	5	2.00%	6,345.98	19.20
2021/T2	EUR	27.06.2021	5	2.00%	19,930.36	60.30
2021/T3	EUR	27.09.2021	5	2.00%	32,523.17	98.40
2021/T4	EUR	27.12.2021	5	2.00%	72,086.41	218.10
2022/T1	EUR	27.03.2022	5	2.00%	39,563.24	119.70
2022/T2	EUR	27.06.2022	5	2.00%	115,417.58	349.20
2022/T3	EUR	27.09.2022	5	2.00%	28,358.62	85.80
Total					**428,899.28**	**1,297.65**
Total foreign currency debt					**5,121,190.19**	
Total central government debt					**29,478,283.74**	
Other obligations (marked-to-market deposits placed at ÁKK)					**203,686.26**	
Grand total					**29,681,969.99**	

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			
Változás dátuma	**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

All three main rating agencies assigned a 'stable' rating outlook to the long-term foreign currency debt of Hungary at the end of 2019.

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-

HUF denominated debt			
Date of change	Moody's	Standard and Poor's	Fitch Ratings
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+
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

All three main rating agencies assigned a ‘stable' rating outlook to the long-term domestic currency debt of Hungary at the end of 2019.

3. The addresses of primary dealers

Primary dealer	Address
BNP Paribas SA	16 Boulevard des Italiens 75009 Paris, France
CIB Bank Zrt.	Budapest, H-1027 Medve utca 4-14.
Citibank Europe Plc.	Budapest, H-1133 Váci u. 80. (Hungarian Branch)
Deutsche Bank AG	Winchester House, 1 Great Winchester Street, London, EC2N 2DB, United Kingdom (London Branch)
ERSTE Befektetési Zrt.	Budapest, H-1138 Népfürdő u. 24-26
Goldman Sachs International	Plumtree Court, 25 Shoe Lane, London, EC4A 4AU, United Kingdom
ING Bank N.V.	Budapest, H-1068 Dózsa György út 84/B. (Hungarian Branch)
J.P. Morgan Securities Plc.	25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom
K&H Bank Zrt.	Budapest, H-1095 Lechner Ödön fasor 9.
MTB Magyar Takarékszövetkezeti Bank Zrt.	Budapest, H-1122 Pethényi köz 10.
MKB Bank Zrt.	Budapest, H-1056. Váci u. 38.
OTP Bank Nyrt.	Budapest, H-1051 Nádor u. 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.

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*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 per cent 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	2018	2019
	A) Fixed assets	106,021	153,731
I	Intangible assets	20,385	56,418
II	Tangible assets	75,099	89,839
III	Invested financial assets	10,537	7,474
	B) Current assets	426,946	426,349
I	Inventories	37	28
II	Receivables	19,323	10,670
III	Securities	0	0
IV	Cash and cash equivalents	407,586	415,651
	C) Accrued and deferred assets	13,490	8,572
	Assets in total	546,457	588,652

data in HUF thousand

	Liabilities	2018	2019
	D) Capital and reserves	442,178	466,635
I	Subscribed capital	300,000	300,000
IV	Profit reserve	54,914	94,914
VII	Balance-sheet profit or loss	87,264	71,721
	E) Provisions	0	0
	F) Liabilities	68,029	98,600
I	Subordinated liabilities	0	0
II	Long-term liabilities	0	0
III	Short-term liabilities	68,029	98,600
	G) Accrued and deferred liabilities	36,250	23,417
	Liabilities in total	546,457	588,652

Budapest, 3 March 2020

Zoltán Kurali
CEO

II. Profit and loss account

data in HUF thousand

	Liabilities	2018	2019
I	Net sales revenue	1,215,166	1,238,082
III	Other revenue	1,664	6,889
IV	Material expenses	289,719	291,826
V	Personnel expenses	778,026	808,536
VI	Depreciation and amortisation	48,143	60,897
VII	Other expenses	5,312	4,858
A	Operating profit or loss	95,630	95,630
B	Profit or loss from financial transactions	305	-40
C	Profit or loss on ordinary activities	95,935	78,814
D	Extraordinary profit or loss	0	0
E	Profit or loss before taxation	95,935	78,814
XII	Tax payable	8,671	7,093
F	Profit or loss after taxation	87,264	71,721
23	Approved dividends	87,264	71,721
G	Balance-sheet profit or loss	0	0

Budapest, 3 March 2020

Zoltán Kurali
CEO

6. Senior officials of ÁKK in december of 2019

Members of the Board of Directors:

László Balogh, chairman

Péter Benő Banai, member

Viktor József Asztalos, member

Dr. Balázs Rákossy, member

Members of the Supervisory Board:

Judit Gondos, chairman

Dr. Viktor Várpalotai, member

Gergely Földiák, 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